ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE FOURTH QUARTER OF 2014

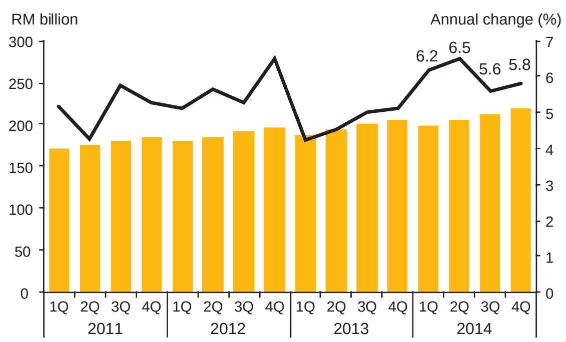
OVERVIEW

The Malaysian economy registered higher growth in the fourth quarter of 2014

Global economic activity continued to expand at a moderate pace in the fourth quarter of 2014. Nevertheless, the growth has remained uneven across economies. While the US economy continued to show broader signs of improvement, economic activity in the euro area and Japan remained subdued. In Asia, growth has been driven by domestic demand and exports. Lower inflation was recorded in most economies with the decline in energy prices reinforcing this trend.

The Malaysian economy registered a higher growth of 5.8% in the fourth quarter of 2014 (3Q 2014: 5.6%), driven mainly by stronger private sector spending. On the supply side, growth was sustained by the major economic sectors, supported by trade and domestic activities. On a quarter-on-quarter seasonally-adjusted basis, growth momentum increased to 2.0% (3Q 2014: 0.9%). For the year 2014, the Malaysian economy grew by 6.0%.

The economy registered higher growth in the fourth quarter
(at constant 2005 prices)



Source: Department of Statistics, Malaysia

Domestic demand remained the anchor of growth in the fourth quarter, mainly on account of the improvement in private sector activity. Private investment expanded at a faster pace of 11.2% (3Q 2014: 6.8%), driven by capital spending in the manufacturing and services sectors. Private consumption registered a stronger growth of 7.8% (3Q 2014: 6.7%), supported by stable labour market conditions and continued wage growth. Public consumption expanded at a more moderate pace of 2.7% in the fourth quarter (3Q 2014: 5.3%), due to slower growth in both emoluments and supplies and services. Public investment, however, continued to decline, albeit at a slower pace of 2.1% (3Q 2014: -8.9%), following a smaller contraction in spending on fixed assets by the Federal Government.

On the supply side, growth in the fourth quarter was supported by major economic sectors. Growth in the services sector was underpinned by expansion across all sub-sectors. The construction sector remained strong, driven mainly by non-residential and residential sub-sectors, while the mining sector registered a stronger growth due to higher crude oil production. The manufacturing sector continued to expand, supported mainly by the export-oriented industries. However, the agriculture sector recorded a contraction due to lower palm oil production caused by the floods in the eastern states of Peninsular Malaysia.

The inflation rate, as measured by the annual change in the Consumer Price Index (CPI), averaged lower at 2.8% in the fourth quarter (3Q 2014: 3.0%). This decline was mainly attributed to the lower inflation in the *food and non-alcoholic beverages* category (2.7%; 3Q 2014: 3.2%), reflecting the decline in the prices of fresh meat and fresh seafood during the quarter. For the year as a whole, inflation averaged 3.2% (2013: 2.1%).

The trade surplus was higher at RM21.5 billion (3Q 2014: RM16.8 billion). Gross exports moderated to 0.5% (3Q 2014: 1.5%), due mainly to a decline in commodity exports amid a more moderate expansion of manufactured exports. Gross imports grew at a faster pace of 4.6% in the fourth quarter (3Q 2014: 2.6%).

The international reserves of BNM amounted to RM405.5 billion (equivalent to USD116.0 billion) as at 31 December 2014. This reserve level has taken into account the quarterly adjustment for foreign exchange revaluation changes. As at 30 January 2015, the reserves position amounted to RM386.5 billion (equivalent to USD110.6 billion), sufficient to finance 7.9 months of retained imports and is 1.1 times the short-term external debt.

Interest rates remained stable

On 6 November 2014, the Monetary Policy Committee (MPC) decided to maintain the Overnight Policy Rate (OPR) at 3.25%. Reflecting the unchanged OPR since the September meeting, the average overnight interbank rate was relatively stable during the quarter, moving within a range of 3.04% to 3.27% between 1 October and 31 December 2014. Interbank rates of other short-term maturities (less than 1 month) were also relatively stable. Interbank rates of longer maturities, however, continued to trend higher during the quarter. This reflects the bidding up of interbank rates by banks amid intense competition for stable funding. The competition for stable funding is to comply with the phasing in of the new Basel III regulatory liquidity requirements, amid overall slower growth in deposits due to net external outflows. The average quoted fixed deposit (FD) rates of commercial banks for the tenures 1 to 12 months, remained relatively stable, ranging from 3.08% to 3.31%. The average base lending rate (BLR) of commercial banks remained unchanged at 6.79%, while the average lending rate (ALR) on outstanding loans was stable (5.51%; 3Q 2014: 5.52%). Overall lending rates continue to be below their long-run averages and remain supportive of economic activity.

The monetary aggregates continued to expand in the fourth quarter. M1, or narrow money, increased by RM16 billion during the quarter. On an annual basis, M1 expanded by 5.7% as at end-December (end-September 2014: 6.7%). M3, or broad money, increased by RM49.9 billion on a quarter-on-quarter basis to record an annual growth rate of 7.0% as at end-December (end-September 2014: 5.2%), driven mainly by the continued expansion in credit extended to the private sector by the banking system and higher net claims on the Government. The expansion in broad money, however, was moderated somewhat by the decline in net foreign assets. In the banking system, ample liquidity conditions prevailed at both the institutional and system-wide levels. The level of surplus liquidity placed with BNM remained high at RM270 billion as at end-December despite a reduction during the quarter following the release of liquidity to meet the greater demand for funds amidst external sector outflows.

Total gross financing raised by the private sector through the banking system and the capital market amounted to RM309.8 billion (3Q 2014: RM302.1 billion). On a net basis, outstanding banking system loans and PDS expanded by 8.8% as at end-December (end-September 2014: 8.9%). The growth in outstanding banking system loans to businesses continued to remain healthy with outstanding loans to SMEs increasing further by 13.4% as at end-December (end-September 2014: 12.5%). Household outstanding loans growth continued to moderate to 9.9% as at end-December (end-September 2014: 10.7%) reflecting policy effectiveness, following earlier measures to ensure prudent levels of household debt. Net funds raised in the capital market were higher at RM26.4 billion in the fourth quarter (3Q 2014: RM17.1 billion).

Movements of the ringgit and other regional currencies in the fourth quarter were mainly driven by external developments. Besides growing concerns on the prospects of global growth, regional currencies also faced depreciation pressure due to the strengthening of the US dollar, which was driven by the expectations of interest rate normalisation by the Fed amid the recovery in the US economy. The ringgit, however, depreciated more than other regional currencies, especially in December, following heightened market concerns on the impact of the sharp fall in oil prices on the Malaysian economy, particularly on the Government's fiscal position.

Overall, the ringgit depreciated by 6.4% against the US dollar during the quarter. The ringgit also depreciated against the Australian dollar (-0.1%), the pound sterling (-2.2%), the euro (-2.3%), and all regional currencies. The ringgit, however, appreciated by 2.3% against the Japanese yen.

Between 1 Jan and 10 February 2015, the ringgit depreciated against the US dollar by 2.4%. The ringgit also depreciated against the pound sterling (-0.3%) and Japanese yen (-3.2%), but appreciated against the euro (4.7%) and Australian dollar (2.2%). Against regional currencies, the ringgit broadly depreciated by between 0.1% and 3.3%.

Domestic financial stability continued to be preserved

The Malaysian financial system remained resilient throughout the quarter against the backdrop of significant decline in oil prices which had impacted the financial market and exchange rate movements. Financial intermediation remained well-supported by sound financial institutions, orderly financial market conditions and sustained confidence in the financial system. The outlook for domestic financial stability is expected to remain positive, albeit in the face of a more challenging operating environment.

The banking system remained well-capitalised with the common equity tier 1 (CET1) capital ratio, tier 1 capital ratio and total capital ratio well above the minimum regulatory levels at 12.6%, 13.3% and 15.2% respectively. The total capital buffer for banks which are in excess of the minimum regulatory capital requirement stood at more than RM90 billion. More than 80% of banks' total capital consists of high quality capital in the form of paid-up capital, retained earnings and reserves. Similarly, the capital adequacy ratio of the insurance sector remained strong at 253% (3Q 2014: 246.9%), with an excess capital buffer of RM30.2 billion.

Domestic demand will remain as the key driver of growth

Moving forward, the global economy is expected to remain on a moderate growth path, but with increasing divergence in the growth momentum among the major economies. The decline in energy prices is expected to provide some additional support to overall global growth, as higher disposable income and lower inflation will support consumer spending. Nevertheless, there remain considerable downside risks to global economic activity. This includes a prolonged weakness in demand and low inflation or the possibility of deflation in several major economies, uncertainty over monetary policy adjustments in key advanced economies, and rising concerns on the growth prospects of several net commodity-exporting emerging economies amid declining energy prices.

The Malaysian economy is expected to remain on a steady growth path. The gradual recovery in global growth will lend support to manufactured export performance, although overall export growth would likely remain modest amid lower commodity prices. Domestic demand is expected to remain favourable amidst the lower oil prices. Investment activity is projected to remain resilient, with broad-based capital spending by both the private and public sectors cushioning the lower oil and gas-related investment activity. While private consumption is expected to moderate, the steady rise in income and employment, and the additional disposable income from the lower oil prices would support household spending.

DEVELOPMENTS IN THE FOURTH QUARTER OF 2014

INTERNATIONAL ECONOMIC ENVIRONMENT

Moderate global economic expansion

Global economic activity continued to expand at a moderate pace in the fourth quarter of 2014. Nevertheless, the growth has remained uneven across economies. While the US economy continued to show broader signs of improvement, economic activity in the euro area and Japan remained subdued. In Asia, growth has been driven by domestic demand and exports. Lower inflation was recorded in most economies with the decline in energy prices reinforcing this trend.

Financial markets continued to experience considerable volatility during the quarter, amid concerns over the growth prospects of the euro area and Japan, uncertainty around the magnitude and persistence of lower energy prices, and increasing concerns on the growth prospects of several emerging economies given the decline in energy prices. Nevertheless, most major and regional equity markets ended the quarter higher, with investor confidence lifted by the stronger-than-expected economic data in the US, and the additional monetary stimulus undertaken by the Bank of Japan (BoJ). In Asia, further targeted policy measures by the Chinese Government and the unexpected policy rate cut by the People's Bank of China (PBoC) also raised market sentiments.

In the US, economic activity continued to expand, although at a more moderate pace, in the fourth quarter (2.5%; 3Q 2014: 2.7%). On a seasonally adjusted basis, the economy grew by 2.6% (3Q 2014: 5.0%). The expansion in economic activity was driven mainly by private consumption, amid further improvements in labour market conditions and some support from lower fuel prices. Growth of fixed investment was underpinned by the continued expansion in non-residential capital expenditure and the rebound in residential investment. Headline inflation moderated to 1.3% (3Q 2014: 1.8%), amid lower energy prices.

Economic activity in the euro area remained subdued in the fourth quarter. Business sentiments remained weak amid continued geopolitical developments in Eastern Europe and increasing concerns on the risk of deflation given the decline in energy prices. Overall demand conditions also continued to be affected by high unemployment, ongoing balance sheet adjustments by both the private and public sectors, and low capacity utilisation. Inflation moderated further to 0.2% during the quarter (3Q 2014: 0.3%), due mainly to lower energy prices.

The UK economy expanded at a slightly faster pace of 2.7% in the fourth quarter (3Q 2014: 2.6%). Growth was driven mainly by the services sector, particularly the distribution, hotels and catering sub-sectors. Inflation rate moderated to 0.9% during the quarter (3Q 2014: 1.5%), amid lower prices of motor fuels.

In Japan, despite some tentative signs of improvement in the fourth quarter, overall economic activity remained weak following two quarters of contraction. Private consumption continued to be weighed down by the consumption tax increase in April 2014 and slower wage growth. Nevertheless, exports expanded at a faster pace (9.2%; 3Q 2014: 3.2%), supported by higher shipments to Asia and the US. Inflation (excluding fresh food) continued to moderate (2.7%; 3Q 2014: 3.1%), due mainly to lower utilities, transport and recreation costs. Core inflation (excluding food and energy) also moderated (2.1%; 3Q 2014: 2.3%).

Advanced Economies: Real GDP Growth

	2013		2014		
	4Q	Year	3Q	4Q	Year
	Annual Change (%)				
US	3.1	2.2	2.7	2.5[a]	2.4[a]
UK	2.4	1.7	2.6	2.7[p]	2.6[p]

[a] Advance estimate
[p] Preliminary

Source: National authorities

The monetary policy stance in the advanced economies remained highly accommodative in the fourth quarter, despite continued divergence in monetary policy direction across economies. In the US, the Federal Reserve (Fed) ended the asset purchase programme in October 2014 amid lower labour market underutilisation. Nevertheless, following the declining energy prices, the Fed lowered its median inflation forecast for 2015 to 1.1%-1.2% in December 2014 (September 2014 forecast: 1.7%-1.8%), and suggested that “it can be patient in beginning to normalise the stance of monetary policy”. In contrast, the European Central Bank (ECB) introduced new purchase programmes for asset-backed securities and covered bonds in October 2014, to support economic growth and reduce the risk of deflation in the euro area. In January 2015, the asset purchase programme was expanded to EUR60 billion (approximately USD70.9 billion) per month between March 2015 until at least September 2016, to include the purchase of bonds issued by euro area central governments, agencies and European institutions. In Japan, the BoJ increased its annual asset purchases to JPY80 trillion (approximately USD669.8 billion) [previous target range: JPY60-70 trillion (approximately USD502.3-586.1 billion)], amid continued concerns on disinflation.

In PR China, economic growth was sustained at 7.3% in the fourth quarter. Growth was supported by improvements in the tertiary industry (which includes, among others, hotel and catering, wholesale and retail trade, and financial services), which offset the growth moderation in the primary (agriculture) and secondary industries (industry and construction). The acceleration of infrastructure investment by the Chinese Government and the policy rate cut by PBoC also provided some support to economic activity, particularly towards the latter half of the quarter. Inflation moderated to 1.5% (3Q 2014: 2.0%), amid lower transport and housing prices.

In Asia, growth continued to expand, albeit at a more moderate pace in several economies. In the Philippines, economic activity grew at a faster pace of 6.9% (3Q 2014: 5.3%), supported mainly by higher private and public consumption as well as exports. Growth in Indonesia was broadly sustained (5.0%; 3Q 2014: 4.9%), supported by the continued expansion in domestic demand. Nevertheless, the pace of economic expansion was more moderate in Chinese Taipei and Korea (3.2% and 2.7% respectively; 3Q 2014: 3.6% and 3.2% respectively), due mainly to lower growth of domestic demand. Chinese Taipei was also affected by slower export growth. In Singapore, growth also moderated (1.5%; 3Q 2014: 2.8%), amid slower economic activity in the manufacturing and construction sectors.

Regional Countries: Real GDP Growth

	2013		2014		
	4Q	Year	3Q	4Q	Year
	Annual Change (%)				
PR China	7.8	7.7	7.3	7.3	7.4
Philippines	6.3	7.2	5.3	6.9	6.1
Indonesia	5.6[r]	5.6[r]	4.9[r]	5.0	5.0
Singapore	4.9	3.9	2.8	1.5[a]	2.8[a]
Korea	3.7	3.0	3.2	2.7[a]	3.3[a]
Chinese Taipei	3.4	2.2	3.6	3.2[a]	3.5[a]

[r] Revised
[a] Advance estimate

Source: National authorities

Headline inflation moderated in most Asian economies, reflecting mainly lower fuel prices and its pass-through to lower food and transportation costs. However, inflation increased in Indonesia following the implementation of fuel subsidy rationalisation in November 2014.

Most regional central banks maintained an accommodative monetary policy stance in the fourth quarter. Of significance, PBoC reduced its interest rates in November 2014, the first time since July 2012, to support economic activity following some concerns on weakening growth momentum and lower inflationary pressures. In particular, the one-year lending rate was lowered by 40 basis points to 5.6%, and the one-year deposit rate was lowered by 25 basis points to 2.75%. In January 2015, the Reserve Bank of India (RBI) lowered the repo and the reverse repo rates by 25 basis points to 7.75% and 6.75% respectively, following easing of inflationary pressures. In contrast, Bank Indonesia (BI) increased its policy rate by 25 basis points to 7.75% in November 2014, to anchor inflation expectations following the implementation of fuel subsidy rationalisation.

Brent crude oil prices declined by approximately 25% to an average of USD77 per barrel in the fourth quarter (3Q 2014: USD103 per barrel), amid higher global supply and weaker-than-expected economic activity in several major economies. Of significance, crude oil prices declined rapidly when the Organisation of the Petroleum Exporting Countries (OPEC) announced its decision to maintain production levels despite prevailing oversupply on 27 November 2014. Market sentiments declined further amid the expectation for US shale oil production to be sustained in the first half of 2015. This resulted in crude oil prices reaching USD56 per barrel at the end of the quarter, and USD45 per barrel on 26 January 2015, the lowest level since April 2009.

Most major and regional currencies ended the quarter lower against the US dollar. The broad-based depreciation against the US dollar was attributed mainly to stronger-than-expected economic data in the US, which supported market expectations for an interest rate normalisation to begin in 2015. In the advanced economies, the depreciation of the euro and Japanese yen against the US dollar was also supported by the announcement of additional monetary stimulus by both the ECB and BoJ. Nevertheless, in Asia, the Philippine peso outperformed the other regional currencies due mainly to a seasonal increase in remittances.

Moving forward, the global economy is expected to remain on a moderate growth path, but with increasing divergence in the growth momentum among the major economies. The decline in energy prices is expected to provide some additional support to overall global growth, as higher disposable income and lower inflation will support consumer spending. Nevertheless, there remain considerable downside risks to global economic activity. This includes a prolonged weakness in demand and low inflation or the possibility of deflation in several major economies, uncertainty over monetary policy adjustments in key advanced economies, and rising concerns on the growth prospects of several net commodity-exporting emerging economies amid declining energy prices.

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

The Malaysian economy registered higher growth in the fourth quarter

The Malaysian economy expanded at a faster pace in the fourth quarter of 2014 (5.8%; 3Q 2014: 5.6%). Growth was driven by stronger private sector expenditure (8.5%; 3Q 2014: 6.8%), and a turnaround in public sector spending (0.6%; 3Q 2014: -1.2%). Meanwhile, real exports of goods and services registered a more moderate growth of 1.5% (3Q 2014: 2.8%). This moderation, coupled with higher growth in imports, led to a negative contribution of net exports to overall growth. On a quarter-on-quarter seasonally-adjusted basis, growth momentum increased to 2.0% (3Q 2014: 0.9%).

GDP by Expenditure Components
(at constant 2005 prices)

	2013		2014		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	6.7	7.4	4.9	5.9	6.0
Private Sector	9.1	8.6	6.8	8.5	8.0
Consumption	*7.4*	*7.2*	*6.7*	*7.8*	*7.1*
Investment	*16.6*	*13.1*	*6.8*	*11.2*	*11.0*
Public sector	2.1	4.4	-1.2	0.6	0.2
Consumption	*5.2*	*6.3*	*5.3*	*2.7*	*4.4*
Investment	*-1.4*	*2.2*	*-8.9*	*-2.1*	*-4.9*
Net Exports	-6.8	-12.6	11.4	-9.8	19.7
Exports of Goods and Services	*5.7*	*0.6*	*2.8*	*1.5*	*5.1*
Imports of Goods and Services	*7.1*	*2.0*	*2.2*	*2.6*	*3.9*
GDP	**5.1**	**4.7**	**5.6**	**5.8**	**6.0**
GDP (q-o-q growth, seasonally adjusted)	**1.9**	**-**	**0.9**	**2.0**	**-**

Source: Department of Statistics, Malaysia

Continued expansion in domestic demand

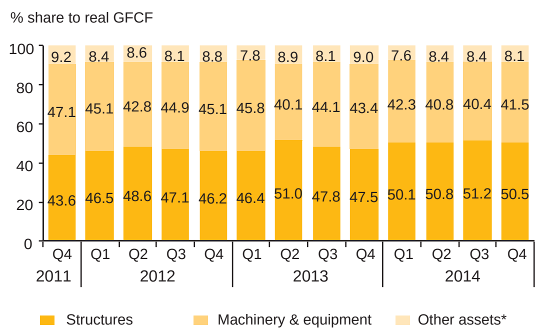
Domestic demand growth increased to 5.9% in the fourth quarter (3Q 2014: 4.9%), driven by the improvement in private sector expenditure and a turnaround in public sector spending.

Private sector activity grew by 8.5% (3Q 2014: 6.8%), on account of higher growth in both investment and consumption. **Private investment** expanded at a faster pace of 11.2% (3Q 2014: 6.8%), driven by capital spending in the manufacturing and services sectors, particularly in the transport and retail industries. **Private consumption** activity grew stronger by 7.8% (3Q 2014: 6.7%), supported by stable labour market conditions and continued wage growth.

Public sector expenditure registered a positive growth of 0.6% in the fourth quarter (3Q 2014: -1.2%) reflecting a slower decline in investment, amid the moderation in public consumption. **Public investment** registered a smaller decline of 2.1% (3Q 2014: -8.9%), following a slower pace of contraction in spending on fixed assets by the Federal Government. **Public consumption** expanded at a modest pace of 2.7% (3Q 2014: 5.3%), reflecting lower Government spending on both emoluments and supplies and services.

In terms of total investment, **gross fixed capital formation** grew by 4.3% (3Q 2014: 1.1%) reflecting the improvement in private investment and smaller decline in public investment. By type of assets, investment growth continued to be driven by spending on structures of 10.8% (3Q 2014: 8.3%). Spending on machinery and equipment declined at a slower pace of 0.4% (3Q 2014: -7.5%).

GFCF by Type of Assets



* Other assets include mineral exploration, research & development, etc

Source: Department of Statistics, Malaysia

Growth supported by major economic sectors

On the supply side, growth in the fourth quarter was supported by major economic sectors. Growth in the services sector was underpinned by expansion across all sub-sectors. The construction sector remained strong, driven mainly by non-residential and residential sub-sectors, while the mining sector registered a stronger growth due to higher crude oil production. The manufacturing sector continued to expand, supported mainly by the export-oriented industries. However, the agriculture sector recorded a contraction due to lower palm oil production caused by the floods in the eastern states of Peninsular Malaysia.

The **services sector** registered a stronger growth of 6.4% in the fourth quarter (3Q 2014: 6.2%) supported by expansion across all sub-sectors. In tandem with continued growth in household spending, the wholesale and retail trade sub-sector grew by 9.3% (3Q 2014: 8.2%). In the communication sub-sector, growth remained robust (9.8%; 3Q 2014: 9.7%), amid continued strong demand for data communication services. Growth in the real estate and business services sub-sector was higher (8.2%; 3Q 2014: 7.2%), underpinned mainly by the business services segment. The transport and storage sub-sector also registered a higher growth of 5.8% (3Q 2014: 4.9%) supported by trade-related activity. The finance and insurance sub-sector expanded further by 2.0% (3Q 2014: 2.6%) reflecting continued demand for financing from both households and businesses.

GDP by Economic Activity (at constant 2005 prices)

	Share in 2014 (%)	2013		2014		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Agriculture	6.9	0.2	2.1	4.0	-2.8	2.6
Mining	7.9	-1.2	0.7	1.4	9.6	3.1
Manufacturing	24.6	5.2	3.5	5.4	5.2	6.2
Construction	3.9	9.8	10.9	9.6	8.7	11.6
Services	55.3	6.4	5.9	6.2	6.4	6.3
Real GDP	**100.0[1]**	**5.1**	**4.7**	**5.6**	**5.8**	**6.0**
Real GDP (q-o-q seasonally adjusted)	**-**	**1.9**	**-**	**0.9**	**2.0**	**-**

[1] Numbers do not add up due to rounding and exclusion of import duties component

Source: Department of Statistics, Malaysia

Performance of the Services Sector (value added at constant 2005 prices)

	Share in 2014 (%)	2013		2014		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Intermediate Services	**40.4**	**4.9**	**5.1**	**5.4**	**5.6**	**5.4**
Finance & insurance	15.9	0.5	1.8	2.6	2.0	2.0
Real estate & business services	10.4	8.3	7.5	7.2	8.2	7.8
Transport & storage	6.5	5.4	4.6	4.9	5.8	5.0
Communication	7.6	10.3	10.0	9.7	9.8	9.9
Final Services	**59.6**	**7.5**	**6.4**	**6.7**	**7.0**	**7.0**
Wholesale & retail trade	26.7	8.4	6.4	8.2	9.3	8.8
Accommodation & restaurant	4.5	5.8	5.7	5.7	7.2	6.2
Utilities	4.4	4.4	4.1	4.4	3.7	3.5
Government services	15.0	8.6	8.3	6.2	4.8	6.5
Other services	9.0	5.1	5.1	5.0	5.1	4.9
Total Services	**100.0[1]**	**6.4**	**5.9**	**6.2**	**6.4**	**6.3**

[1] Numbers do not add up due to rounding

Source: Department of Statistics, Malaysia

The **manufacturing sector** recorded a sustained growth of 5.2% in the fourth quarter (3Q 2014: 5.4%), supported by stronger performance in the export-oriented industries, particularly the electronics and electrical (E&E) cluster. This mitigated the slower production in the domestic-oriented industries, particularly transport equipment, amid moderating car sales.

Overall capacity utilisation rate in the manufacturing sector improved in the fourth quarter (80%; 3Q 2014: 78%), due mainly to higher capacity utilisation in the export-oriented industries (82%, 3Q 2014: 80%).

Selected Quarterly Indicators in the Services Sector

	2013			2014		
	3Q	4Q	Year	3Q	4Q	Year
	Index					
MIER Consumer Sentiment Index	102.0	82.4	104.3	98.0	83.0	94.3
MIER Retail Trade Index	107.9	81.7	98.9	130.0	92.9	99.7
MIER Tourism Market Index	138.8	140.3	126.8	115.2	107.6	108.8
	Annual change (%)					
Tourist arrivals	-4.9	1.2	2.7	8.6	3.9[1]	8.8[2]
Total passenger traffic at all airports	23.0	24.1	19.0	-2.0	-0.9[1]	5.5[2]
Total consumption credit outstanding	6.9	5.9	5.9	2.9	2.7	2.7
Total loans outstanding	9.5	10.6	10.6	9.0	9.3	9.3
Loans outstanding to the wholesale & retail trade, hotels & restaurants	12.2	11.3	11.3	7.3	7.5	7.5
Imports of consumption goods	9.7	9.6	8.8	-1.0	2.9	5.7
Total sales of motor vehicles	11.0	-0.9	4.5	-8.8	3.8	1.6
Container cargo handled (Port Klang and PTP)	3.0	2.7	1.5	9.2	12.8[1]	7.9[2]

[1] Oct-Nov 2014
[2] Jan-Nov 2014

Source: MIER, Ministry of Tourism and Culture Malaysia, and other sources

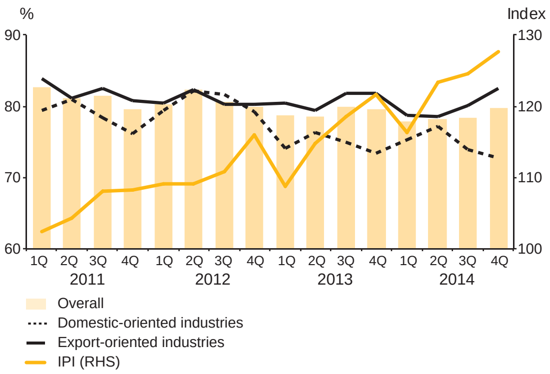
Performance of the Manufacturing Sector

	Share in 2014 (%)	2013		2014		
		4Q	Year	3Q	4Q	Year
		Annual Change (%)				
Value Added (at constant 2005 prices)	**100.0**	**5.2**	**3.5**	**5.4**	**5.2**	**6.2**
Export-oriented industries	61.4	4.7	2.3	4.8	6.8	5.9
Domestic-oriented industries	38.6	6.0	5.4	6.5	2.8	6.7
Overall Manufacturing Production[1]	**100.0**	**4.9**	**4.2**	**5.1**	**4.9**	**6.1**
Export-oriented industries	**74.8**	**3.8**	**3.3**	**4.4**	**5.4**	**5.4**
Electronics and electrical products cluster	**24.2**	**16.9**	**10.0**	**10.1**	**10.2**	**12.1**
Of which:						
Electronics	15.3	25.4	18.6	3.9	5.9	10.5
Electrical products	8.9	1.2	-5.1	24.3	20.1	15.4
Primary-related cluster	**50.7**	**-1.8**	**0.3**	**1.4**	**2.9**	**2.1**
Of which:						
Chemicals and chemical products	14.3	-1.1	-0.7	7.4	7.9	3.6
Petroleum products	21.0	-4.0	0.2	-5.4	1.8	0.6
Rubber products	2.5	6.8	8.2	-4.0	-0.8	-1.3
Off-estate processing	4.5	-1.5	1.7	4.3	-9.0	1.5
Domestic-oriented industries	**25.2**	**8.0**	**6.8**	**7.3**	**3.8**	**7.9**
Construction-related cluster	**11.3**	**3.5**	**4.9**	**5.7**	**3.5**	**4.2**
Of which:						
Construction-related products	8.2	2.2	1.3	7.0	5.2	5.0
Fabricated metal products	3.1	5.8	12.2	3.2	0.6	2.8
Consumer-related cluster	**13.8**	**11.6**	**8.5**	**8.6**	**4.0**	**10.9**
Of which:						
Transport equipment	5.5	23.4	13.8	11.4	1.1	14.4
Food, beverage & tobacco products	7.3	1.1	4.9	7.1	8.0	8.8

[1] Industrial Production Index (2010=100)

Source: Department of Statistics, Malaysia

Capacity Utilisation Rate in the Manufacturing Sector*



* Beginning 2012, the capacity utilisation rate in the manufacturing sector has been rebased from value-add in year 2006 to value-add in year 2009

Source: Bank Negara Malaysia & Department of Statistics, Malaysia

The **construction** sector grew by 8.7% in the fourth quarter (3Q 2014: 9.6%), underpinned by the non-residential and residential sub-sectors. The growth in the non-residential sub-sector was stronger amid higher construction activity for industrial and commercial buildings while the residential sub-sector was supported by activity of residential properties in the mass-market and affordable housing segments. Growth in the civil engineering sub-sector was weaker following the near-completion of large infrastructure projects. In the special trade sub-sector, growth was sustained following continued activity for piling, earthworks, electrical and system installation as well as building completion and finishing works.

The **agriculture sector** declined by 2.8% (3Q 2014: 4.0%), amid sharply lower production of palm oil caused by the floods in the eastern states of Peninsular Malaysia. Meanwhile, the **mining sector** expanded by 9.6% (3Q 2014: 1.4%) due to stronger crude oil production.

Indicators for the Construction Sector

	2013		2014		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value of construction work done	11.3	12.7	10.7	9.7	12.8
Residential	18.3	19.6	21.5	18.3	22.2
Non-residential	18.1	6.6	10.9	23.5	17.1
Civil engineering	1.9	14.5	2.2	-8.0	1.2
Special Trade[1]	9.4	4.7	7.4	7.7	16.7
Housing approvals	-31.2	-24.5	-3.6	-29.2[2]	-0.8[3]
Production[4] of construction-related materials	3.5	4.9	5.7	3.5	4.2
Hydraulic cement	6.2	4.2	7.8	9.7	6.6
Other articles of concrete, cement and plaster n.e.c	25.5	5.3	25.8	27.2	32.7
Other porcelain and ceramic products	3.1	-5.6	20.7	29.9	21.0
Prefabricated structural components for building or civil engineering of cement, concrete or artificial stone	6.5	1.7	2.6	-13.2	-3.8
Capital imports (excluding lumpy items)	-3.3	-1.1	-1.0	8.3	1.3
Loans for the construction sector					
Approval	0.6	-10.5	25.9	24.9	0.3
Disbursement	22.2	14.8	4.8	17.8	12.7

[1] Works such as site preparation, electrical installation and painting
[2] October 2014
[3] Jan-Oct 2014
[4] Industrial Production Index (2010=100)

Source: Department of Statistics, Malaysia, Ministry of Urban Wellbeing, Housing and Local Government and Bank Negara Malaysia

Performance of the Agriculture Sector

	Share in 2014 (%)	2013		2014		
		4Q	Year	3Q	4Q	Year
		Annual change (%)				
Value Added (at constant 2005 prices)	**100**	**0.2**	**2.1**	**4.0**	**-2.8**	**2.6**
Industrial Crops	**52.2**	**-2.5**	**-0.1**	**1.7**	**-8.4**	**0.2**
Of which:						
Oil palm	36.6	-1.2	2.6	5.2	-8.9	2.4
Rubber	5.5	-14.4	-10.1	-24.1	-25.5	-19.2
Food Crops	**47.8**	**4.8**	**6.5**	**7.5**	**5.3**	**6.0**
Of which:						
Fishing	14.6	-3.3	1.6	3.0	2.6	2.1
Livestock	13.0	10.6	9.4	7.7	8.9	7.7

Source: Department of Statistics, Malaysia

Performance of the Mining Sector

	2013		2014		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (at constant 2005 prices)	**-1.2**	**0.7**	**1.4**	**9.6**	**3.1**
Production					
Of which:					
Crude oil and Condensates	-5.5	-2.8	3.2	15.9	4.3
Natural gas	3.4	4.4	-0.8	3.1	1.6

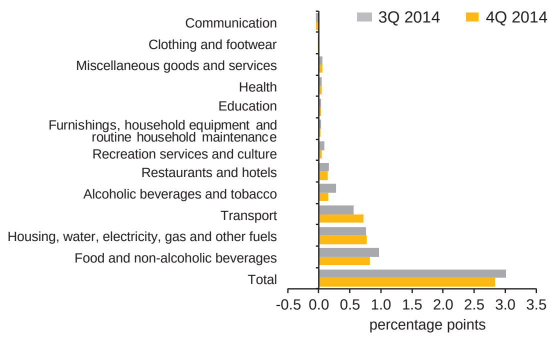
Source: Department of Statistics, Malaysia

Inflation continued to decline in the fourth quarter

The inflation rate, as measured by the annual change in the Consumer Price Index (CPI), averaged lower at 2.8% in the fourth quarter (3Q 2014: 3.0%). This decline was mainly attributed to the lower inflation in the *food and non-alcoholic beverages* category (2.7%, 3Q 2014: 3.2%), reflecting the decline in the prices of fresh meat and fresh seafood during the quarter. Inflation in the *alcoholic beverages and tobacco* category was also lower at 7.1% (3Q 2014: 12.7%) as the impact from the cigarette price adjustment in October 2013 lapsed before its price was increased again in November 2014. For the year as a whole, inflation averaged 3.2% (2013: 2.1%).

The Producer Price Index (PPI) declined by 2.1% on an annual basis in the fourth quarter (3Q 2014: 0.9%) driven mainly by the lower prices in the *inedible crude materials* and *mineral, fuels and lubricants* categories following the moderation in global oil prices. Correspondingly, prices of commodity-related components declined by 8.0% (3Q 2014: 0.9%). Prices of non-commodity related components increased at a relatively stable rate of 1.2% during the quarter (3Q 2014: 1.0%).

Contribution to Consumer Price Inflation



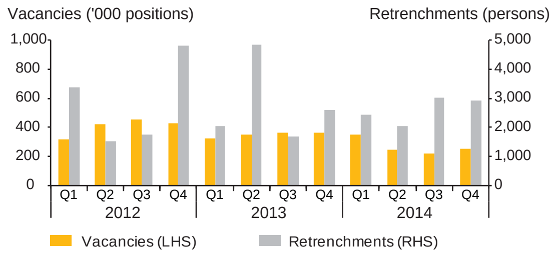
Source: Bank Negara Malaysia

Stable labour market conditions

Labour market conditions remained stable during the fourth quarter[1] as reflected by the low unemployment rate of 2.8% (3Q 2014: 2.7%) and sustained employment levels of 13.7 million persons (3Q 2014: 13.6 million).

Retrenchments reported to the Ministry of Human Resources moderated slightly to 2,915 persons (3Q 2014: 3,028 persons), mostly in the services and manufacturing sectors. Job vacancies posted in the JobsMalaysia Portal increased to 250,976 positions (3Q 2014: 223,128 positions). Aggregate real wages in the manufacturing sector grew by 0.3% (3Q 2014: 2.7%) due to slower wage growth in both the export- and domestic-oriented industries.

Labour Market Conditions



Source: Ministry of Human Resources

Balance of Payments[1]

	2013		2014		
	4Q	Year	3Q	4Q	Year
	RM billion				
Current Account	**14.8**	**39.9**	**7.6**	**6.1**	**49.5**
(% of GNI)	*5.8*	*4.2*	*2.9*	*2.3*	*4.8*
Goods	33.3	108.2	28.7	32.7	125.1
Services	-4.1	-16.7	-6.4	-7.9	-20.5
Primary income	-10.0	-34.1	-9.4	-13.8	-37.4
Secondary income	-4.4	-17.5	-5.3	-5.0	-17.6
Financial Account	**-9.7**	**-15.8**	**-2.8**	**-24.4**	**-76.5**
Direct investment	4.0	-5.5	2.1	-0.2	-17.1
Assets	*-6.5*	*-41.2*	*-6.2*	*-8.1*	*-51.3*
Liabilities	*10.4*	*35.7*	*8.3*	*7.9*	*34.2*
Portfolio investment	-0.8	-3.0	-11.0	-20.4	-37.9
Assets	*-5.4*	*-32.1*	*-10.3*	*0.2*	*-28.3*
Liabilities	*4.6*	*29.1*	*-0.7*	*-20.6*	*-9.6*
Financial derivatives	0.4	-0.3	0.1	0.2	-1.0
Other investment	-13.3	-7.1	6.1	-4.1	-20.6
Errors & omissions[2]	-7.8	-9.4	-11.5	6.7	-9.6
Overall Balance	**-2.7**	**14.6**	**-6.7**	**-11.4**	**-36.3**

Assets: (-) denotes outflows due to the acquisition of assets abroad by residents
Liabilities: (+) denotes inflows due to the incurrence of foreign liabilities
[1] In accordance with the Sixth Edition of Balance of Payments and International Investment Position Manual (BPM6) by the International Monetary Fund (IMF)
[2] Includes unrealised foreign exchange revaluation on gain/losses on international reserves

Source: Department of Statistics, Malaysia

External position remained resilient in the fourth quarter

The current account surplus stood at RM6.1 billion in the fourth quarter, equivalent to 2.3% of GNI (3Q 2014: RM7.6 billion or 2.9% of GNI). While the goods balance recorded a higher surplus, higher deficits in the services and primary income account contributed to the narrower current account surplus. For the year 2014, the current account registered a higher balance of RM49.5 billion or 4.8% of GNI (2013: RM39.9 billion or 4.2%).

[1] Based on preliminary data

Trade Account

	Share 2014 (%)	2013 4Q	2013 Year	2014 3Q	2014 4Q	2014 Year
		Annual change (%)				
Gross Exports	**100.0**	**10.4**	**2.5**	**1.5**	**0.5**	**6.4**
Manufactured	*76.7*	*12.9*	*5.1*	*1.9*	*1.8*	*7.1*
E&E	*33.4*	*13.2*	*2.5*	*2.7*	*5.5*	*8.1*
Non-E&E	*43.2*	*12.7*	*7.1*	*1.3*	*-0.9*	*6.4*
Resource based	*23.6*	*14.2*	*8.6*	*2.1*	*-4.4*	*4.9*
Non-resource based	*19.6*	*10.9*	*5.3*	*0.3*	*3.7*	*8.2*
Commodities	22.7	4.7	-4.6	0.4	-3.9	4.2
Minerals	*13.7*	*16.1*	*3.7*	*-2.5*	*-0.5*	*6.8*
Agriculture	*9.0*	*-8.3*	*-14.4*	*4.4*	*-8.8*	*0.6*
Gross Imports	**100.0**	**11.4**	**6.9**	**2.6**	**4.6**	**5.3**
Intermediate goods	59.8	10.4	4.3	11.0	12.5	7.6
Capital goods	14.1	-0.4	2.2	-9.9	0.2	-2.1
Consumption goods	7.4	9.6	8.8	-1.0	2.9	5.7
Re-exports and dual-use goods	18.8	26.1	19.7	-10.6	-12.7	3.8
Trade balance (RM billion)	**-**	**28.3**	**71.3**	**16.8**	**21.5**	**83.1**

Note: Refined petroleum products has been reclassified as manufactured goods from mining goods, effective May 2014.

Source: MATRADE and Department of Statistics, Malaysia

In the fourth quarter, the trade surplus was higher at RM21.5 billion (3Q 2014: RM16.8 billion). Gross exports moderated to 0.5% (3Q 2014: 1.5%), due mainly to a decline in commodity exports amid a more moderate expansion of manufactured exports. Gross imports grew at a faster pace of 4.6% in the fourth quarter (3Q 2014: 2.6%) following an improvement in intermediate import growth and a positive turnaround in capital and consumption imports.

Manufactured export growth slowed, due in part to a higher base from the fourth quarter of last year. E&E exports expanded at a faster pace, supported by continued demand for semiconductors. The decline in non-E&E exports was due to a contraction in exports of resource-based products, in particular petroleum products. Nevertheless, exports of non-resource based products improved, supported by the continued expansion in exports of iron and steel products as well as machinery and appliances. The contraction in commodity exports was attributable mainly to lower demand and prices for crude palm oil and rubber. Lower prices of LNG and crude oil also weighed on commodity export growth during the quarter, but the impact was partly offset by higher demand for these commodities. In terms of destination, exports to the US grew strongly following continued growth in business investment. Within the region, the continued decline in exports to China was partly offset by higher exports to the ASEAN economies during the quarter.

Gross imports grew at a faster pace in the fourth quarter supported by an improvement in imports across all categories, with the exception of imports for re-export. Intermediate imports expanded at a stronger pace amid a continued expansion in manufacturing activity. Capital imports rebounded during the quarter, supported by an improvement in private investment. Imports of consumption goods turned around to register positive growth, driven mainly by stronger imports of non-durable consumer products and processed food and beverages. Nevertheless, re-export activity was subdued amid lower commodity prices during the quarter.

Malaysia: Direction of Exports

	Share 2014 (%)	2013 4Q	2013 Year	2014 3Q	2014 4Q	2014 Year
		Annual change (%)				
United States	**8.4**	**-2.5**	**-4.5**	**9.0**	**16.9**	**11.0**
European Union (EU)	**9.5**	**14.7**	**5.0**	**5.5**	**7.9**	**11.5**
Japan	**10.8**	**6.0**	**-5.0**	**-4.4**	**1.9**	**4.4**
Selected ASEAN countries[1]	**27.4**	**7.4**	**7.2**	**2.1**	**5.1**	**5.8**
North East Asia	**23.8**	**24.0**	**6.1**	**-6.0**	**-8.7**	**3.4**
People's Republic of China	*12.1*	*30.9*	*9.3*	*-15.0*	*-15.7*	*-4.8*
Hong Kong SAR	*4.8*	*30.1*	*3.9*	*11.9*	*-3.9*	*18.5*
Korea	*3.7*	*17.0*	*3.3*	*0.6*	*2.5*	*7.1*
Chinese Taipei	*3.2*	*-3.0*	*-0.4*	*1.3*	*4.8*	*14.3*
West Asia[2]	**3.0**	**-1.2**	**0.3**	**-9.5**	**-2.7**	**-5.6**
India	**4.2**	**-17.7**	**-12.2**	**51.7**	**16.0**	**23.9**
Total exports	**100.0**	**10.4**	**2.5**	**1.5**	**0.5**	**6.4**

[1] Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam
[2] United Arab Emirates, Saudi Arabia, Oman, Iraq, Qatar, Kuwait, Jordan, Lebanon, Bahrain, Syria, Palestine, Yemen and Iran

Source: Department of Statistics, Malaysia

The deficit in the **services** account widened to RM7.9 billion in the fourth quarter (3Q 2014: -RM6.4 billion), driven primarily by higher payments for construction services, in particular for engaging foreign technical services for infrastructure projects. The net travel receipt was marginally lower compared to third quarter of 2014, as spending by outbound tourists continued to increase while spending by inbound tourists was sustained. Meanwhile, net payment for transport services was sustained, in line with the continued trade activity during the quarter.

The **primary income** deficit widened to RM13.8 billion in the fourth quarter (3Q 2014: -RM9.4 billion), reflecting mainly a lower investment income from Malaysian companies investing abroad, particularly in the agriculture and mining sectors. Investment income of foreign direct investors was, on the other hand, broadly sustained during the quarter, mainly supported by income accrued to foreign investors in the manufacturing and services sectors, in particular the finance and insurance sub-sector. Meanwhile, the lower deficit in the secondary income account (4Q 2014: -RM5.0 billion; 3Q 2014: -RM5.3 billion) was due to higher receipts amid a smaller outward remittances.

The **financial account** registered a higher net outflow of RM24.4 billion in the fourth quarter (3Q 2014: -RM2.8 billion), mainly accounted for by higher net portfolio investment outflows.

Direct investment recorded a small net outflow of RM0.2 billion (3Q 2014: +RM2.1 billion), as a larger outflow of direct investment assets offset a smaller inflow of direct investment liabilities.

On the assets side, **outward direct investment** increased, recording outflows of RM8.1 billion (3Q 2014: -RM6.2 billion). Of these, **Direct Investment Abroad (DIA)** recorded outflows of RM10.4 billion (3Q 2014: -RM5.6 billion). The increase in DIA was driven by higher investments by Malaysian companies in the oil and gas sector as well as in the services sector, in particular the financial and insurance services and information and communication sub-sectors.

On the liabilities side, **inward direct investment** registered smaller inflows of RM7.9 billion (3Q 2014: +RM8.3 billion). Of these, **Foreign Direct Investment (FDI)** registered a larger inflow of RM10.2 billion (3Q 2014: +RM7.7 billion), channelled primarily into the manufacturing sector, while investments into the oil and gas industry and the financial services sub-sector remained substantial.

Portfolio investment recorded a higher net outflow of RM20.4 billion in the fourth quarter (3Q 2014: -RM11 billion). This was mainly attributable to higher portfolio investment outflows by non-residents, particularly the liquidation of debt instruments amid a marginal outflow in equities. Meanwhile, residents' portfolio investment abroad registered a small inflow mainly on account of redemption of debt securities, while domestic institutional investors acquired lower foreign equity securities.

Other investments turned around to register a net outflow of RM4.1 billion (3Q 2014: +RM6.1 billion), as higher outflows from the non-bank sector offset the lower inflows into the banking sector. These outflows in the non-bank sector mainly reflected the larger extensions of trade credit by Malaysian exporters amid repayment of previously extended trade credits to importers. The decrease in inflows into the banking sector reflected lower placements of interbank deposits by non-resident financial institutions.

Following these developments, the **overall balance of payments** registered a deficit of RM11.4 billion in the fourth quarter (3Q 2014: -RM6.7 billion). Errors and Omissions (E&O) amounted to +RM6.7 billion, partly reflecting foreign exchange revaluation gains on international reserves, as the ringgit depreciated against selected major and regional currencies during the quarter.

Manageable external debt

Malaysia's external debt[2] stood at RM744.7 billion, equivalent to USD211 billion or 69.6% of GDP as at end-December 2014 (end-September: RM740.7 billion or USD223.9 billion, equivalent to 69.2% of GDP). In terms of the external debt profile, slightly more than half of it was in the form of medium- to long-term maturity. By currency, approximately half of the total external debt comprised non-resident holdings of ringgit-denominated debt securities and deposits. During the quarter, the rise in external debt was attributed mostly to the valuation effect from the depreciation of the ringgit.

Offshore borrowing increased to RM367.1 billion as at end-December 2014 (end-September: RM347.6 billion) due mainly to the valuation effect following the strengthening of selected regional and major currencies against ringgit during the quarter. Excluding foreign exchange revaluation changes, offshore borrowing increased at a more moderate pace, reflecting largely the net drawdown of offshore borrowing by private sector companies. A significant proportion of this borrowing is from non-resident related entities for better management of financial resources within the corporate groups and is mainly used to finance expansion of productive capacity. This net drawdown by the private sector was, however, partially offset by a small net repayment in the public sector, particularly by the public enterprises.

The non-resident deposits increased to RM87.7 billion as at end-December 2014 (end-September: RM80.5 billion). Non-resident holdings of ringgit-denominated debt securities, however, declined to RM223.3 billion (end-September: RM247 billion) amid heightened financial market volatility. The decline was largely attributed to the liquidation by non-residents of BNM bills and notes, which are instruments used by the Bank in its monetary policy operations to absorb excess liquidity from the banking system. The non-resident holdings of long-term ringgit-denominated debt securities, in particular the Malaysian Government Securities, remained relatively stable.

Overall, slightly more than half of the total external debt has a medium- to long-term maturity profile. The short-term external debt remained manageable with reserves coverage of 1.1 times.

Outstanding External Debt

	2013	2014	
	end-Dec	end-Sept	end-Dec
	RM billion		
Offshore borrowing[1]	324.1	347.6	367.1
Medium- and long-term	*196.0*	*199.0*	*210.9*
Public sector	98.9	89.1	93.1
Private sector	97.1	109.9	117.8
Short-term	*128.1*	*148.6*	*156.2*
NR holdings of dom. debt securities	229.7	247.0	223.3
Medium- and long-term	*151.1*	*167.6*	*162.4*
Short-term	*78.6*	*79.4*	*60.9*
NR deposits	77.3	80.5	87.7
Others[2]	65.5	65.6	66.7
Medium- and long-term	*10.7*	*10.2*	*10.6*
Short-term	*54.8*	*55.4*	*56.0*
Total external debt	**696.6**	**740.7**	**744.7**
USD billion equivalent	*209.8*	*223.9*	*211.0*
External Debt (Previous definition)			
Total debt/GDP (%)	32.8	32.5	34.3
Short-term debt[3]/Total debt (%)	39.5	42.8	42.6
Reserves/Short-term debt[3] (times)	3.4	2.8	2.5[5]
External Debt (Redefined)			
Total debt/GDP (%)	70.6	69.2	69.6
Short-term debt[4]/Total debt (%)	48.6	49.1	48.4
Reserves/Short-term debt[4] (times)	1.3	1.1	1.1[5]

[1] Equivalent to the external debt as previously defined, comprised mainly foreign currency loans raised, and bond and notes issued offshore.
[2] Comprise trade credits, IMF allocation of SDRs and miscellaneous.
[3] Equivalent to short-term offshore borrowing.
[4] Short-term offshore borrowing, NR holdings of short-term domestic debt securities, NR deposits and other short-term debt.
[5] Based on international reserves as at 30 January 2015.
Note: NR refers to non-residents

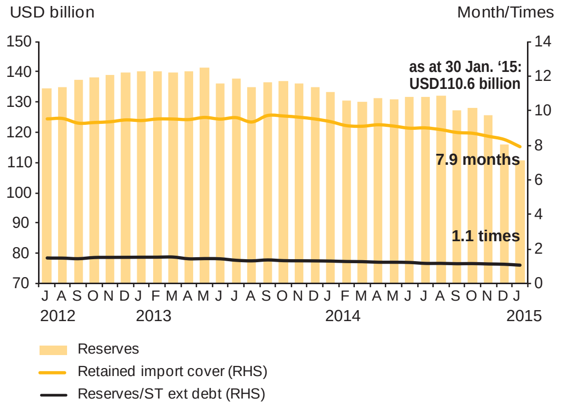
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

[2] This refers to the external debt as redefined, effective from the first quarter of 2014. Apart from the offshore borrowing covered under the previous definition, the redefined external debt also includes non-resident holdings of ringgit debt securities, non-resident deposits with the banking system and other debt liabilities to non-residents. For more information, please refer to the box article entitled 'The Redefinition of External Debt' in the Quarterly Bulletin on Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2014.

International reserves remained ample

The international reserves of BNM amounted to RM405.5 billion (equivalent to USD116.0 billion) as at 31 December 2014. This reserves level has taken into account the quarterly adjustment for foreign exchange revaluation changes. As at 30 January 2015, the reserves position amounted to RM386.5 billion (equivalent to USD110.6 billion), sufficient to finance 7.9 months of retained imports and is 1.1 times the short-term external debt.

Net International Reserves (as at end period)



Source: Bank Negara Malaysia

Lower fiscal deficit of 3.5% of GDP in 2014

Federal Government spending remained supportive of growth in the fourth quarter, with total net expenditure amounting to RM76.1 billion. In particular, operating expenditure increased due to higher grants and transfer to statutory bodies, and supplies and services. Development expenditure was disbursed mainly to the rural and community development and other economic services sectors. Despite the decline in oil prices, revenue was sustained at RM59.6 billion supported by higher collection from income tax. For the year as a whole, Federal Government achieved the fiscal deficit target of 3.5% of GDP (2013: 3.9% of GDP). As at end-December 2014, total outstanding debt of the Federal Government stood at RM582.8 billion or 54.5% of GDP.

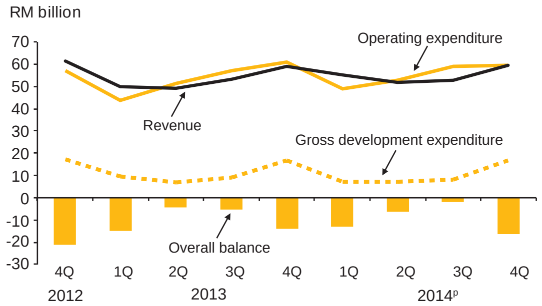
Federal Government Finance

	2013		2014p		
	4Q	Year	3Q	4Q	Year
	RM billion				
Revenue	61.1	213.4	59.1	59.6	220.6
% annual growth	*6.8*	*2.6*	*3.8*	*-2.3*	*3.4*
Operating expenditure	58.8	211.3	52.9	59.7	219.6
% annual growth	*-4.6*	*2.8*	*-0.9*	*1.6*	*3.9*
Current account	**2.3**	**2.1**	**6.2**	**-0.1**	**1.0**
% of GDP	***0.9***	***0.2***	***2.3***	***0.0***	***0.1***
Net development expenditure	16.0	40.7	8.1	16.4	38.4
% annual growth	*-3.4*	*-8.2*	*-10.3*	*2.1*	*-5.5*
Overall balance	**-13.8**	**-38.6**	**-1.9**	**-16.5**	**-37.4**
% of GDP	***-5.2***	***-3.9***	***-0.7***	***-5.9***	***-3.5***
Memo item:					
Total net expenditure	74.8	252.0	61.0	76.1	258.0
% annual growth	*-4.4*	*0.8*	*-2.2*	*1.7*	*2.4*
Total Federal Government debt (as at end-period)	539.9	539.9	569.3	582.8	582.8
% of GDP	*54.7*	*54.7*	*53.2*	*54.5*	*54.5*
Domestic debt	381.4	381.4	397.2	414.7	414.7
% of GDP	*38.7*	*38.7*	*37.1*	*38.8*	*38.8*
External debt[1]	158.4	158.4	172.1	168.2	168.2
% of GDP	*16.1*	*16.1*	*16.1*	*15.7*	*15.7*
Non-resident holdings of RM-denominated Federal Government debt[2]	*141.7*	*141.7*	*156.0*	*151.4*	*151.4*
% of GDP	*14.4*	*14.4*	*14.6*	*14.1*	*14.1*
Offshore borrowing	*16.8*	*16.8*	*16.1*	*16.8*	*16.8*
% of GDP	*1.7*	*1.7*	*1.5*	*1.6*	*1.6*

p Preliminary
[1] Refers to the redefined external debt
[2] Refers to non-resident holdings of ringgit-denominated Government debt (MGS, GII, T-bills and SPK), which was classified as domestic debt under the previous definition

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

Federal Government Finance



p Preliminary
Source: Ministry of Finance, Malaysia

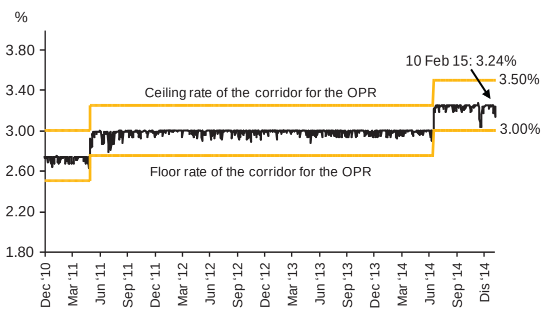
MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates remained stable

The Monetary Policy Committee (MPC) decided to maintain the Overnight Policy Rate (OPR) at 3.25% during the fourth quarter. At the prevailing level of the OPR, monetary conditions remained supportive of economic activity.

Reflecting the unchanged OPR, the average overnight interbank rate was relatively stable during the quarter, moving within a range of 3.04% to 3.27% between 1 October and 31 December 2014. Interbank rates of other short-term maturities (less than 1 month) were also relatively stable. Interbank rates of longer maturities, however, continued to trend higher during the quarter. Banks sought to increase their level of stable funding[3] to comply with the phasing in of the new Basel III regulatory liquidity requirements, namely, the Liquidity Coverage Ratio (LCR). The competition for more stable funding was, however, made more intense due to the overall slower growth in deposits due to net external outflows which partly reflects diversification of investments by corporate into overseas market and portfolio outflows. To increase their level of stable funding for compliance with the LCR, banks competed to attract large corporate deposits by offering higher wholesale deposit rates. The banks which experienced a withdrawal of corporate deposits turned to borrowing from the interbank market to replace the loss of funds, bidding up the cost of interbank borrowing. For the year as a whole, 3-month Kuala Lumpur Interbank Offered Rates (KLIBOR) increased from 3.31% to 3.86%.

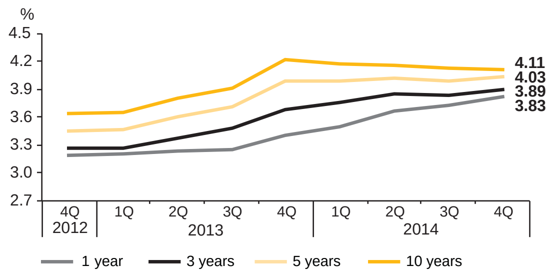
Daily Weighted Average Overnight Interbank Rate



Source: Bank Negara Malaysia

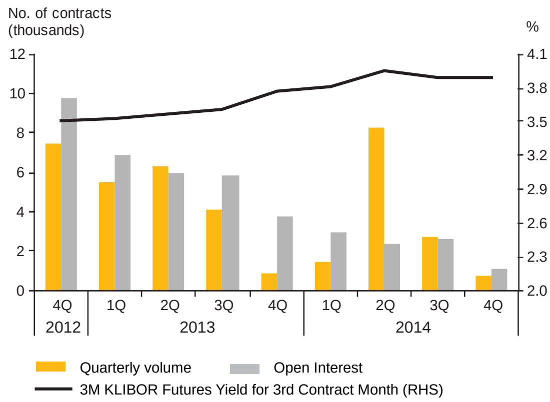
Rates on interest rate swaps and the 3-month KLIBOR futures were broadly stable in the fourth quarter, reflecting market participants' expectations for the OPR to remain unchanged.

Interest Rate Swap: Rates



Source: Bloomberg

3 Month KLIBOR Futures



Source: Bursa Malaysia

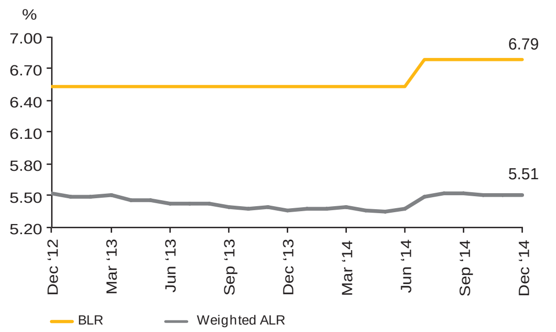
Interest Rates

	2013	2014	
	4Q	3Q	4Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.00	3.25	3.25
Interbank rates			
Overnight	2.99	3.20	3.23
1-month	3.20	3.41	3.38
Base lending rate (BLR)			
Commercial banks	6.53	6.79	6.79
Weighted average lending rate			
Commercial banks	5.36	5.52	5.51
Fixed deposit rates			
Commercial banks			
1-month	2.91	3.07	3.08
12-month	3.15	3.30	3.31

Source: Bank Negara Malaysia

[3] Under the LCR, stable forms of funding are those with a low likelihood of withdrawal during episodes of financial stress. Funding which is deemed the most stable are those sourced from retail deposits, followed by corporate deposits, while funding from other financial institutions are most at risk of being withdrawn.

Lending Rates of Commercial Banks (At end-period)



Source: Bank Negara Malaysia

Retail deposit rates were stable during the quarter. The average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. The average fixed deposit (FD) rates of commercial banks for the tenures 1 to 12 months ranged from 3.08% to 3.31%.

Borrowing costs to the economy were also broadly stable throughout the quarter. The average base lending rate (BLR) of commercial banks remained unchanged at 6.79%, while the average lending rate (ALR) on outstanding loans was stable (5.51%; 3Q 2014: 5.52%). Overall lending rates continue to be below their long-run averages and remain supportive of economic activity.

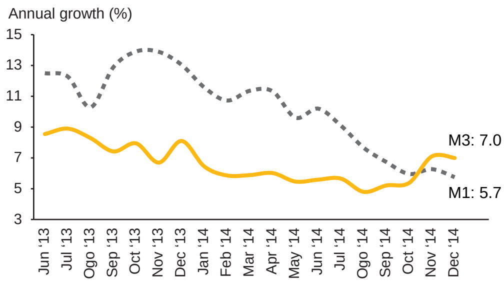
M3 continued to expand

The monetary aggregates continued to expand in the fourth quarter. M1, or narrow money, increased by RM16 billion during the quarter. On an annual basis, M1 expanded by 5.7% as at end-December (end-September 2014: 6.7%). M3, or broad money, increased by RM49.9 billion on a quarter-on-quarter basis to record an annual growth rate of 7.0% as at end-December (end-September 2014: 5.2%).

The increase in M3 during the quarter was driven mainly by the continued expansion in credit extended to the private sector by the banking system and higher net claims on the Government. The expansion in broad money, however, was moderated somewhat by the decline in net foreign assets.

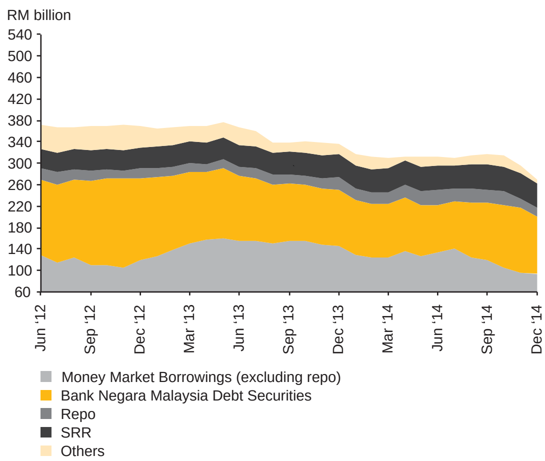
In the banking system, ample liquidity conditions prevailed at both the institutional and system-wide levels. The level of surplus liquidity placed with BNM remained high at RM270 billion as at end-December despite a reduction during the quarter following the release of liquidity to meet the greater demand for funds amidst external sector outflows.

Monetary Aggregates



Source: Bank Negara Malaysia

Outstanding Liquidity Placed with Bank Negara Malaysia (At end-period, RM billion)



Source: Bank Negara Malaysia

Determinants of Broad Money, M3

	Change during the period				
	2013		2014		
	4Q	Year	3Q	4Q	Year
	RM billion				
M3	**23.3**	**107.5**	**10.4**	**49.9**	**101.5**
Net claims on Government	-5.2	21.2	6.3	18.2	34.3
Claims on private sector	41.9	118.0	23.8	40.8	118.0
Loans	*33.5*	*107.9*	*21.9*	*38.4*	*111.4*
Securities	*8.4*	*10.1*	*1.9*	*2.4*	*6.6*
Net foreign assets[1]	2.7	-5.3	0.4	-28.0	-19.2
BNM	*-4.0*	*-4.4*	*-0.6*	*-28.4*	*-43.9*
Banking System	*6.7*	*-0.9*	*1.0*	*0.4*	*24.7*
Other influences	-16.1	-26.4	-20.0	18.9	-31.6

[1] Pre-revaluation
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

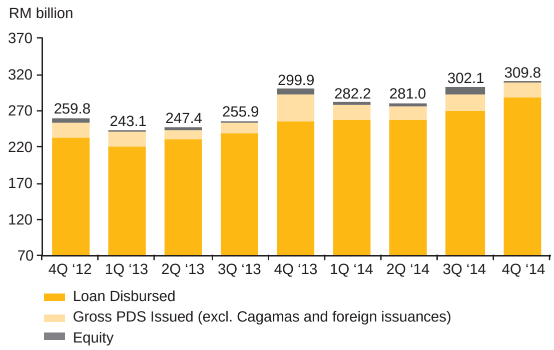
Private sector financing activity was sustained in the fourth quarter

In the fourth quarter, total gross financing raised by the private sector through the banking system and the capital market amounted to RM309.8 billion (3Q 2014: RM302.1 billion). On a net basis, outstanding banking system loans and PDS expanded by 8.8% as at end-December (end-September 2014: 8.9%).

Net lending to businesses by the banking system expanded by RM17.7 billion during the quarter (3Q 2014: RM5.3 billion) with the majority of the increase in disbursements channelled to finance working capital in the *wholesale and retail trade, and restaurants and hotels; construction; manufacturing* and *finance, insurance and business services* sectors. On an annual basis, outstanding business loans increased at a higher rate of 9.4% as at end-December (end- September 2014: 7.9%). In particular, the growth rate of outstanding loans to SMEs remained healthy, increasing further to 13.4% as at end-December (end-September 2014: 12.5%). Overall business loan applications and approvals were relatively stable during the quarter.

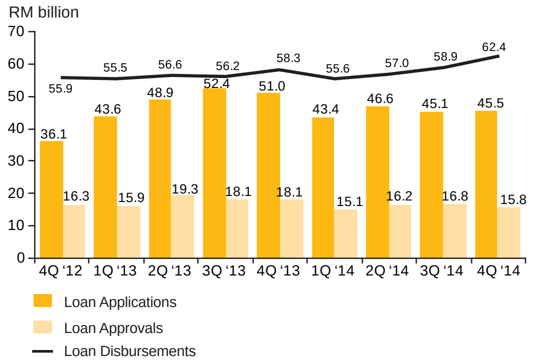
Net financing to the household sector expanded by RM17.9 billion during the quarter (3Q 2014: RM16.5 billion). On an annual basis, outstanding household loans growth moderated further to 9.9% as at end-December (end-September 2014: 10.7%).

Gross Private Sector Financing through the Banking System and Capital Market



Source: Bank Negara Malaysia

Bank Lending to SMEs



Source: Bank Negara Malaysia

Financing of the Private Sector through the Banking System and Capital Market

	During the period (RM billion)					Annual growth (%)				
	2013		2014			2013		2014		
	4Q	2013	3Q	4Q	2014	4Q	2013	3Q	4Q	2014
Gross total financing	**299.9**	**1,046.4**	**302.1**	**309.8**	**1,175.2**	15.4	**-2.7**	**18.1**	**3.3**	**12.3**
Loans disbursed*	256.5	948.3	269.7	287.7	1,073.9	9.7	1.5	12.3	12.2	13.2
Gross PDS[1]	36.0	82.1	23.6	21.2	82.1	81.9	-27.4	83.0	-41.2	0.0
Equity	7.4	16.0	8.8	1.0	19.2	21.3	-41.5	217.7	-87.1	19.6
Net total financing (A)+(B)	**49.0**	**146.7**	**30.8**	**52.4**	**144.2**	9.8	**9.8**	**8.9**	**8.8**	**8.8**
Banking system	38.6	121.0	27.2	44.3	121.3	10.1	10.1	9.0	9.2	9.2
Loans outstanding (A)	*34.3*	*117.7*	*25.7*	*41.6*	*114.1*	10.6	*10.6*	*9.0*	*9.3*	*9.3*
Holding of PDS	*4.3*	*3.4*	*1.5*	*2.7*	*7.3*	3.8	*3.8*	*10.0*	*7.9*	*7.9*
PDS outstanding (B)	14.7	29.0	5.1	10.8	30.1	7.6	7.6	8.6	7.3	7.3
Memorandum item										
Gross PDS[2]	36.0	83.9	24.9	21.6	85.5	55.9	-30.8	85.7	-40.1	2.0

* Banking system loans include loans sold to Cagamas
[1] Excluding Cagamas and foreign issuances
[2] Including Cagamas and foreign issuances
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)					Annual growth (%)				
	2013		2014			2013		2014		
	4Q	2013	3Q	4Q	2014	4Q	2013	3Q	4Q	2014
Total										
Loan applications	210.4	820.5	219.1	210.1	822.1	22.3	6.3	2.3	-0.2	0.2
Loan approvals	98.0	392.5	105.7	106.4	401.4	2.8	0.4	2.5	8.6	2.3
Loan disbursements	256.5	948.3	269.7	287.7	1,073.9	9.7	1.5	12.3	12.2	13.2
Loan repayments	229.2	862.4	252.4	258.5	996.5	2.4	1.4	15.8	12.8	15.6
Change in loans outstanding*	34.3	117.7	25.7	41.6	114.1	10.6	10.6	9.0	9.3	9.3
Of which:										
Business enterprises[1,2]										
Loan applications	89.1	358.9	108.3	100.4	386.2	26.8	-3.5	15.7	12.7	7.6
Loan approvals	37.0	154.8	44.0	46.1	160.0	-11.3	-16.9	8.8	24.5	3.4
Loan disbursements	178.5	649.5	195.5	209.9	770.3	9.3	-1.0	19.7	17.6	18.6
Loan repayments	164.9	607.4	187.8	192.3	735.5	1.4	-1.0	22.5	16.7	21.1
Change in loans outstanding*	10.0	33.2	5.3	17.7	42.3	7.9	7.9	7.9	9.4	9.4
SMEs[1]										
Loan applications	51.0	196.0	45.1	45.5	180.7	41.4	13.8	-13.9	-10.8	-7.8
Loan approvals	18.1	71.4	16.8	15.8	63.8	10.8	-7.9	-7.4	-12.8	-10.6
Loan disbursements	58.3	226.6	58.9	62.4	234.0	4.4	4.6	4.9	7.1	3.3
Loan repayments	53.4	210.0	58.4	57.6	222.6	-0.6	7.8	9.0	7.8	6.0
Change in loans outstanding*	6.1	22.5	5.3	8.8	26.6	12.8	12.8	12.5	13.4	13.4
Large corporations[2]										
Loan applications	38.1	162.9	63.2	54.9	205.5	11.4	-18.5	53.3	44.1	26.1
Loan approvals	19.0	83.4	27.2	30.4	96.2	-25.5	-23.3	22.0	60.2	15.3
Loan disbursements	120.2	422.9	136.6	147.5	536.3	11.9	-3.7	27.5	22.7	26.8
Loan repayments	111.5	397.4	129.4	134.7	512.9	2.4	-5.1	29.7	20.9	29.1
Change in loans outstanding*	3.9	10.7	0.0	8.8	15.7	4.4	4.4	4.3	6.2	6.2
Households										
Loan applications	121.3	461.6	110.8	109.7	435.9	19.1	15.5	-8.1	-9.6	-5.6
Loan approvals	60.9	237.7	61.8	60.3	241.4	13.8	16.1	-1.6	-1.1	1.6
Loan disbursements	78.0	298.8	74.2	77.8	303.6	10.4	7.3	-3.6	-0.3	1.6
Loan repayments	64.3	255.0	64.6	66.2	261.0	4.9	7.8	0.1	2.9	2.4
Change in loans outstanding*	21.2	74.0	16.5	17.9	68.9	12.0	12.0	10.7	9.9	9.9

* The annual growth is for end-period.
[1] Include loans to individual businesses.
[2] Include domestic financial institutions, government, domestic other entities and foreign entities, except for loan outstanding which refers to businesses only.
Note: Numbers do not add up due to rounding

Source: Bank Negara Malaysia

Loans by Sector

	Loans disbursed						Loans out-standing
	During the period (RM billion)					Share of total	Share of total
						(%)	
	4Q 13	2013	3Q 14	4Q 14	2014		
Business enterprises[1,*]	**178.5**	**649.5**	**195.5**	**209.9**	**770.3**	**71.7**	**43.1**
Large corporations[1]	*120.2*	*422.9*	*136.6*	*147.5*	*536.3*	*49.9*	*25.7*
*SMEs**	*58.3*	*226.6*	*58.9*	*62.4*	*234.0*	*21.8*	*17.5*
Selected sectors[1]							
Agriculture, hunting, forestry and fishing	6.9	31.8	7.0	8.4	31.3	2.9	2.4
Mining and quarrying	2.1	8.8	1.8	2.9	12.2	1.1	0.7
Manufacturing	52.8	195.4	51.5	54.7	213.4	19.9	7.5
Construction	16.3	58.2	15.0	19.2	65.5	6.1	4.3
Real estate	11.3	43.3	12.7	14.3	51.6	4.8	6.4
Electricity, gas and water supply	2.0	9.5	7.2	2.1	14.0	1.3	1.0
Wholesale, retail, restaurants and hotels	50.5	182.0	54.9	59.8	221.1	20.6	7.4
Transport, storage and communication	5.9	17.3	6.7	7.2	27.0	2.5	2.5
Finance, insurance and business services	23.4	77.5	27.1	29.0	96.2	9.0	7.0
Households	**78.0**	**298.8**	**74.2**	**77.8**	**303.6**	**28.3**	**56.9**
Purchase of residential properties	20.5	74.5	20.0	21.7	81.4	7.6	27.4
Consumption credit	43.4	171.3	41.4	43.9	167.7	15.6	17.7
Of which:							
Credit cards	*26.4*	*97.8*	*24.3*	*26.3*	*99.3*	*9.2*	*2.6*
Purchase of passenger cars	*9.3*	*41.4*	*9.4*	*9.8*	*37.8*	*3.5*	*10.5*
Others	14.0	52.9	12.8	12.1	54.6	5.1	11.8
Total	**256.5**	**948.3**	**269.7**	**287.7**	**1,073.9**	**100.0**	**100.0**

*Include loans to individual businesses.
[1] Include domestic financial institutions, government, domestic other entities and foreign entities.
Note: Numbers do not add up due to rounding

Source: Bank Negara Malaysia

Higher net funds raised in the capital market

Net funds raised in the capital market were higher at RM26.4 billion in the fourth quarter (3Q 2014: RM17.1 billion), due mainly to higher net funds raised by the public sector.

Gross funds raised by the public sector during the quarter increased to RM22.8 billion (3Q 2014: RM22.0 billion). Funds were raised mainly through the re-opening of 5-year, 7-year and 10-year Malaysian Government Securities (MGS), respectively, and the re-opening of 3-year and 10-year Government Investment Issues (GII), respectively. In addition, funds were also raised via a RM3.4 billion issuance of Sukuk Pinjaman Perumahan Kerajaan. During the quarter, redemptions of government securities were lower at RM7.5 billion (3Q 2014: RM19.9 billion). Overall, net funds raised by the public sector were higher at RM15.3 billion (3Q 2014: RM2.1 billion).

In the private sector, new issuances of private debt securities (PDS) were lower at RM21.6 billion (3Q 2014: RM24.9 billion). Funds raised were mainly driven by issuances in the *finance, insurance, real estate and business services* sector, for working capital and general corporate purposes. Funds raised from the equity market during the quarter amounted to RM1.0 billion (3Q 2014: RM8.8 billion). After adjusting for redemptions, net funds raised by the private sector amounted to RM11.2 billion (3Q 2014: RM15.0 billion).

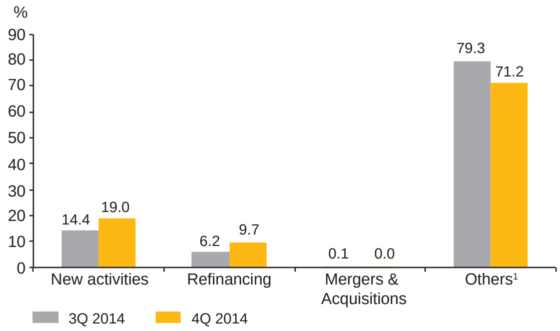
Net Funds Raised in the Capital Market

	2013		2014		
	4Q	Year	3Q	4Q	Year
	RM billion				
By Public Sector	**14.3**	**46.3**	**2.1**	**15.3**	**49.9**
Government Securities, *Gross*	20.4	96.9	22.0	22.8	96.8
Malaysian Government Securities	11.4	51.4	12.3	12.7	51.4
Government Investment Issues	9.0	41.0	8.2	6.6	33.9
Sukuk Pinjaman Perumahan Kerajaan	-	4.4	1.5	3.4	11.5
Less: Redemptions	6.1	50.6	19.9	7.5	46.9
Malaysian Government Securities	6.1	38.6	8.4	2.0	26.4
Government Investment Issues	-	12.0	11.5	5.5	20.5
Sukuk Pinjaman Perumahan Kerajaan	-	-	-	-	-
By Private Sector	**19.5**	**38.3**	**15.0**	**11.2**	**50.2**
Shares	7.4	16.0	8.8	1.0	19.2
Private Debt Securities, *Net*	12.0	22.2	6.2	10.2	31.0
Private Debt Securities, Gross	*36.0*	*83.9*	*24.9*	*21.6*	*85.5*
Less: Redemptions	*24.0*	*61.6*	*18.7*	*11.4*	*54.5*
Total	**33.7**	**84.5**	**17.1**	**26.4**	**100.1**

Note: Numbers may not add up to total due to rounding

Source: Bank Negara Malaysia and Bursa Malaysia

Private Debt Securities Issued by Purpose (% of total)



[1] Includes issuance by non-residents & Cagamas and for the purpose of working capital and general business activities

Source: Bank Negara Malaysia

Bond yields increased in the fourth quarter

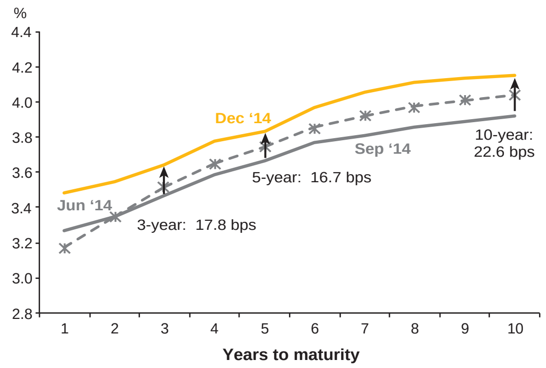
MGS yields trended upward slightly in the fourth quarter reflecting consolidation of investment position by investors towards the end of the year. Despite heightened financial market volatility, adjustments were orderly as reflected in the small increase in yields. For the quarter as a whole, yields on the 3-year, 5-year and 10-year MGS increased by 18, 17, 23 basis points respectively.

Higher rated corporate yields remained relatively stable on account of sustained demand by domestic investors. The yields on the 5-year AAA and AA-rated corporate bonds recorded a small increase of 6 and 2 basis points respectively during the period.

Higher secondary trading in the bond market

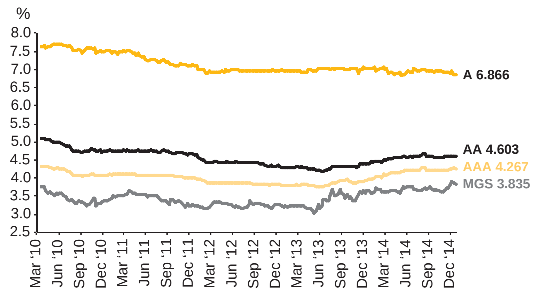
Total trading in the secondary market increased to RM181.2 billion during the quarter (3Q 2014: RM160.2 billion), reflecting portfolio rebalancing among investors amid heightened financial market uncertainties. The increase in turnover was mainly concentrated in the trading of MGS which registered a higher liquidity ratio of 0.33 (3Q 2014: 0.25). The GII and PDS segments, however, registered lower liquidity ratios of 0.24 and 0.06 (3Q 2014: 0.26, 0.07) respectively.

Trend in MGS Yields



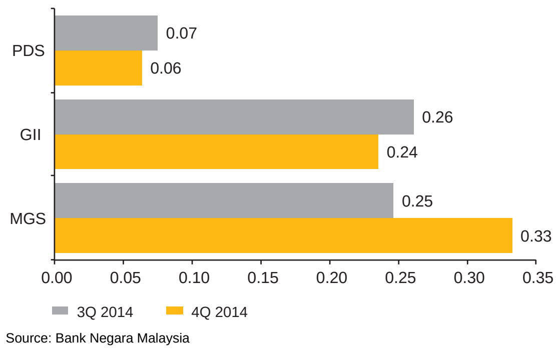
Source: Bank Negara Malaysia

5-year MGS and 5-year PDS Yields



Source: Bank Negara Malaysia

Liquidity Ratio: Value of Bond Traded / Outstanding

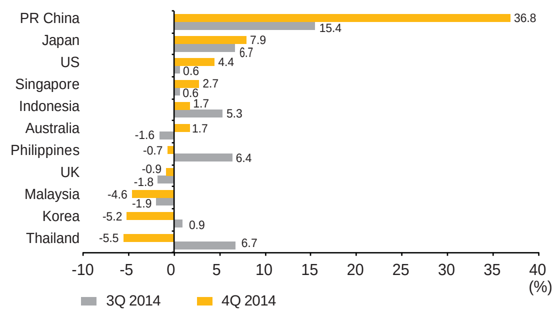


Source: Bank Negara Malaysia

FBM KLCI declined during the quarter, in tandem with regional markets

In the fourth quarter, the FBM (FTSE Bursa Malaysia) KLCI declined by 85.1 points or 4.6%, to close at 1,761.3 points at end-December (end-September 2014: 1,846.3 points). Sentiments in the market remained weak during the quarter, in line with most regional markets, amid concerns over the global growth outlook and the sharp decline in oil prices which led to the unwinding of portfolio investments by non-residents.

Performance of Selected Global and Regional Markets in 2014 (% growth QoQ)



Source: Bloomberg and Bank Negara Malaysia calculations

As a result, market capitalisation declined to RM1.65 trillion as at end-December 2014 (end-September 2014: RM1.77 trillion) while the daily average turnover declined to 1.94 billion units (3Q 14: 2.77 billion units) during the quarter.

On 10 February 2015, the KLCI ended lower at 1,811.1 points (since end-December 2014: +2.8%), with market capitalisation of RM1.71 trillion (since end-December 2014: +3.7%).

Bursa Malaysia: Selected Market Indicators

	2013		2014		
	As at end				
	Dec	Year	Sep	Dec	Year
Price indices					
Composite	1,867.0	1,867.0	1,846.3	1,761.3	1,761.3
FBMEMAS[1]	12,853.6	12,853.6	12,924.7	12,066.3	12,066.3
ACE Market[2]	5,675.8	5,675.8	7,278.9	5,653.4	5,653.4
Market capitalisation (RM billion)	1,702.2	1,702.2	1,774.1	1,651.2	1,651.2
No. of companies listed	911	911	906	906	906
	During the period				
	4Q	Year	3Q	4Q	Year
Average daily turnover					
Volume (million units)	1,704.7	1,567.3	2,773.9	1,944.4	2,157.1
Value (RM million)	2,330.2	2,157.2	2,300.3	1,999.9	2,161.8

[1] FBMEMAS stands for FTSE Bursa Malaysia EMAS Index
[2] From 3 August 2009, MESDAQ market was replaced with ACE Market

Source: Bursa Malaysia

Bursa Malaysia: Market Turnover

	2013				2014					
	4Q		Year		3Q		4Q		Year	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	107.4	146.8	386.9	527.8	169.2	140.3	122.5	126.0	530.7	531.8
Of which:										
Main Board	80.0	140.7	305.2	512.3	128.9	132.3	85.5	117.3	397.1	501.2
Of which										
Consumer Products	7.3	5.5	20.9	22.6	9.7	7.9	5.3	5.2	29.6	26.3
Industrial Products	9.6	9.7	51.5	40.4	23.6	15.4	13.3	11.2	72.0	52.2
Construction	2.8	4.6	15.1	25.0	6.5	7.7	3.4	5.7	19.0	26.3
Trading/Services	34.6	81.0	111.4	229.1	59.6	55.6	42.0	56.7	172.0	219.0
Finance	4.0	18.2	17.2	103.2	3.5	20.4	3.1	18.7	13.9	84.9
Properties	8.8	6.7	34.0	35.6	12.6	10.7	6.1	6.3	41.0	34.6
Plantations	1.7	5.6	5.5	19.6	1.9	5.3	1.2	3.6	6.3	19.8
Infrastructure	1.9	5.0	6.5	19.1	1.1	3.7	1.3	4.4	5.4	17.2
ACE Market[1]	24.4	5.5	69.7	13.5	35.5	7.2	30.3	7.3	115.6	27.1

[1] From 3 August 2009, MESDAQ market was replaced with ACE Market

Source: Bursa Malaysia

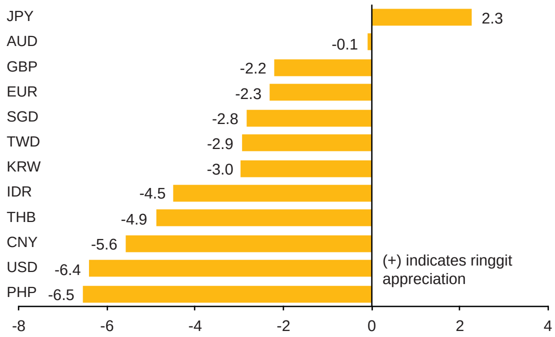
Ringgit depreciated against most major and regional currencies

Movements of the ringgit and other regional currencies in the fourth quarter were mainly driven by external developments. Besides growing concerns on the prospects of global growth, regional currencies also faced depreciation pressure due to the strengthening of the US dollar, which was driven by the expectations of interest rate normalisation by the Federal Reserve amid the recovery in the US economy. The ringgit, however, depreciated more than other regional currencies, especially in December, following heightened market concerns on the impact of the sharp fall in oil prices on the Malaysian economy, particularly on the Government's fiscal position.

Overall, the ringgit depreciated by 6.4% against the US dollar during the quarter. The ringgit also depreciated against the Australian dollar (-0.1%), the pound sterling (-2.2%), the euro (-2.3%), and all regional currencies. The ringgit, however, appreciated by 2.3% against the Japanese yen.

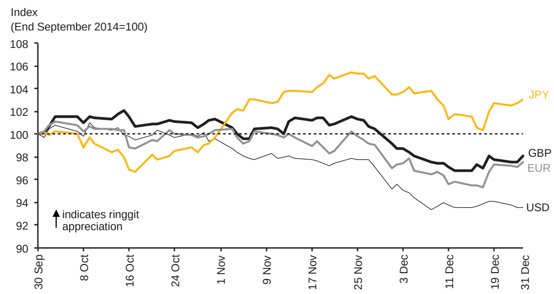
Between 1 Jan and 10 February 2015, the ringgit depreciated against the US dollar by 2.4%. The ringgit also depreciated against the pound sterling (-0.3%) and Japanese yen (-3.2%), but appreciated against the euro (4.7%) and Australian dollar (2.2%). Against regional currencies, the ringgit broadly depreciated by between 0.1% and 3.3%.

Summary of Ringgit Performance against Selected Currencies Percent Change (1 October - 31 December 2014)



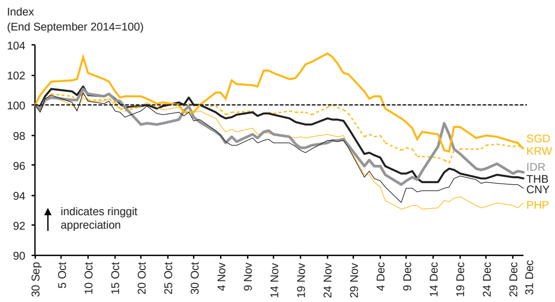
Source: Bank Negara Malaysia

Ringgit Performance against Major Currencies



Source: Bank Negara Malaysia

Ringgit Performance against Regional Currencies



Source: Bank Negara Malaysia

Activity in the foreign exchange derivatives market remained subdued due to anticipation of Federal Reserve's policy normalisation

In the fourth quarter, interbank market activity declined as players preferred to remain on the sidelines amidst anticipation that the Fed will increase interest rates in 2015. This, coupled with rising concerns on global growth prospects, saw foreign exchange derivatives activity declined by 9.0% compared to the previous quarter. The decrease was also driven by lower volume of local exporters' foreign exchange hedging activities, as they delay selling of foreign exchange in anticipation of further ringgit depreciation.

The 5-year USD/MYR cross-currency swap meanwhile narrowed towards the end of fourth quarter from 87 bps to 70 bps on tightening of ringgit liquidity following portfolio outflows by non-residents. In addition, there were also hedging activities of investors with ringgit asset exposures through forward buying of the US dollar, in anticipation of further US dollar appreciation.

Performance of Ringgit against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	4Q 13	3Q 14	4Q 14	21 Jul 05	4Q 13	3Q 14
US dollar	3.8000	3.2815	3.2715	3.4950	8.7	-6.1	-6.4
Euro	4.6212	4.5263	4.1527	4.2513	8.7	6.5	-2.3
Pound sterling	6.6270	5.4076	5.3193	5.4396	21.8	-0.6	-2.2
Australian dollar	2.8823	2.9299	2.8632	2.8664	0.6	2.2	-0.1
100 Japanese yen	3.3745	3.1281	2.9922	2.9255	15.3	6.9	2.3
Singapore dollar	2.2570	2.5943	2.5702	2.6449	-14.7	-1.9	-2.8
100 Thai baht	9.0681	9.9757	10.107	10.627	-14.7	-6.1	-4.9
100 Philippine peso	6.8131	7.3908	7.2959	7.8066	-12.7	-5.3	-6.5
100 Indonesian rupiah	0.0386	0.0269	0.0269	0.0281	37.4	-4.2	-4.5
100 Korean won	0.3665	0.3108	0.3106	0.3201	14.5	-2.9	-3.0
100 New Taiwan dollar	11.890	11.009	10.743	11.068	7.4	-0.5	-2.9
Chinese renminbi	0.4591	0.5422	0.5323	0.5637	-18.6	-3.8	-5.6

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

Source: Bank Negara Malaysia

MANAGING RISKS TO FINANCIAL STABILITY

Domestic financial stability continued to be preserved

The Malaysian financial system remained resilient throughout the quarter against the backdrop of significant decline in oil prices which had impacted the financial market and exchange rate movements. Financial intermediation remained well-supported by sound financial institutions, orderly financial market conditions and sustained confidence in the financial system. The outlook for domestic financial stability is expected to remain positive, albeit in the face of a more challenging operating environment.

Credit risk exposures remained manageable amid sustained debt servicing capacity

Credit risk exposures of the banking system remained stable throughout the fourth quarter, supported by sustained debt servicing capacity of borrowers. Impaired loans as a percentage of net loans and loans-in-arrears of between one and three months as a percentage of total loans were at 1.2% and 2.5% respectively (3Q 2014: 1.3% and 2.5% respectively). The size of credit risk exposures of the insurance industry, comprising largely holdings of private debt securities, remained stable at 3.7% of total capital base.

Risks to domestic financial stability arising from exposures to the household sector remained well-contained as the series of incremental measures to curb excessive debt accumulation continue to take effect. Aggregate household borrowings from banks and non-bank financial institutions (NBFIs) grew by 2.4% (3Q 2014: +2.3%) during the quarter to RM940.4 billion (3Q 2014: RM918.2 billion). This was attributed mainly to the sustained growth in financing for the purchase of residential properties (+3.3%, 3Q 2014: +3.2%) and credit card balances (+3.7%, 3Q 2014: +0.5%). The latter reflected seasonal trends of typically higher credit card usage at year end. On a year-on-year basis, growth in aggregate household debt (banks and non-banks financial institutions) continued to moderate over the past two years to 9.9% (3Q 2014: +10.4%) since the first macroprudential measures were introduced in 2010. This was attributed mainly to the significant moderation in the annual growth of personal financing by NBFIs, which more than halved to 5.3% (2013: +13.9%) during the year. Aggregate financial assets of households continued to account for more than two times of debts. The composition of financial assets was largely stable, although the value of investments in equities declined in tandem with changes in equity valuations. Banks continued to maintain credit underwriting standards and observe prudent debt service ratios for new financing to households. Impaired loans and loans-in-arrears of between one and three months remained low and stable at 1.2% and 1.8% of total household borrowings from banks respectively.

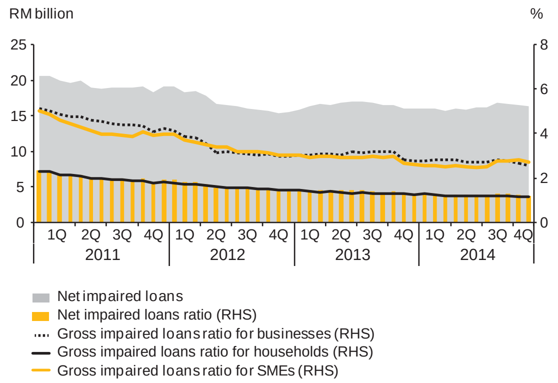
Domestic borrowings (loans, private debt securities and sukuk) by the business sector recorded a quarterly growth of 3.0% (3Q 2014: +1.6%), driven mainly by the property sector. External borrowings declined by 4% during the third quarter (2Q 2014: +0.1%) due mainly to maturing bonds. On a year-on-year basis, domestic borrowings recorded a growth of 8.5% (3Q 2014: 7.6%), while external borrowings declined by 0.5% (2Q 2014: +13.9%). Potential losses from banks' credit exposures to the business sector remained manageable. As at end of the third quarter, the leverage position of businesses[4], as measured by the median debt-to-equity ratio, improved further to 42.7% (2Q 2014: 43.6%). This leverage was supported by strong debt servicing capacity, as measured by the median interest coverage ratio of 6.2 times (2Q 2014: 6.5 times). This is despite the lower operating profits recorded by businesses in the agriculture, construction and engineering, and oil and gas related sectors. Overall liquidity also remained sound, as measured by the median ratio of current assets to current liabilities of 1.9 times (2Q 2014: 1.7 times). The sustained strong fundamentals of businesses were reinforced by the low and stable impaired loans and loans-in-arrears of between one and three months, which

[4] Based on financial data of 160 companies that are listed on the FBM KLCI, covering major economic sectors and 80% of market capitalisation

accounted for 2.5% and 0.3% of total business loans (3Q 2014: 2.8% and 0.3%) respectively. In addition, the risk of overall delinquency, as measured by the expected default frequency, remained low at 0.19% (3Q 2014: 0.12%). While developments in oil prices and volatile ringgit movements in the fourth quarter are expected to weigh on profitability of some businesses, these developments would also be positive for export-oriented manufacturing sectors. The net effects on banking system are therefore expected to remain manageable.

Aggregate house prices recorded three consecutive quarters of slower annual growth since end-2013, following the introduction of additional measures in July 2013. The annual growth of the Malaysian House Price Index (MHPI) slowed to 8.4% in the second quarter (1Q 2014: +9.6%). Preliminary MHPI data also indicated further moderation in the third quarter across most house types and major employment centres. In addition, borrowings for speculative purchases remained subdued. The number of borrowers with three or more outstanding housing loans continued to account for less than 3% of individuals with outstanding housing loans with banks.

Banking System: Loan Quality



Source: Bank Negara Malaysia

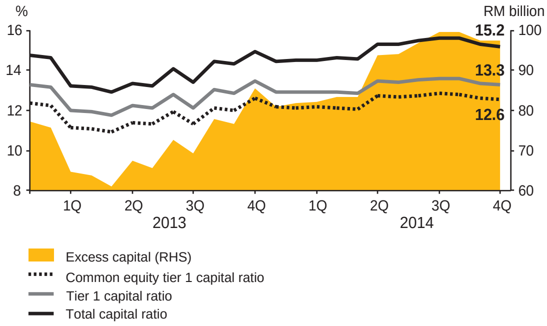
Domestic financial market conditions remained orderly

Domestic financial markets remained resilient despite heightened volatility following investors' reaction to the decline in oil prices and other external developments. Portfolio investments recorded a net outflow of RM20.4 billion in the fourth quarter (3Q 2014: net outflow of RM11 billion). The average volatility of the 10-year MGS yield rose to 6.7% (3Q 2014: 6.0%) as investors consolidated their investment positions towards the year-end. The average volatility of the FBM KLCI also increased to 7.7% (3Q 2014: 5.2%) as investors remained cautious over the potential downside risk of declining oil prices on the domestic economy. Yields for the 10-year MGS rose but only slightly to 4.15% (3Q 2014: 3.92%), while the FBM KLCI ended the year lower at 1,761.3 points (3Q 2014: 1,846.3 points). The price-to-earnings ratio of the FBM KLCI remained broadly stable at 15.8 times (3Q 2014: 16.7 times), underpinned by the strong economic fundamentals. Trading liquidity, both in terms of price and volume, remained intact. The bid-ask spreads of MGS and FBM KLCI were unchanged at 0.1% and 0.4% of the mid-price respectively (3Q 2014: 0.1% and 0.4% respectively). The turnover ratio for MGS and FBM KLCI was also relatively stable at 10.8% and 1.8% respectively (3Q 2014: 8.4% and 1.7% respectively) reflecting continued and steady trading activities by domestic institutional investors and financial institutions.

Market risk exposures were well-managed by financial institutions

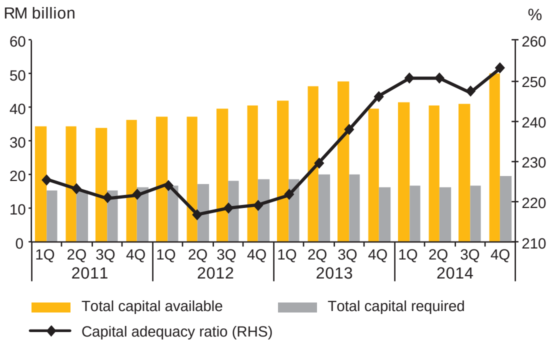
The continued active risk management and hedging by financial institutions kept market risk exposures within manageable levels. Bank exposures to interest rate risk in the trading book remained at 1.5% of total capital. Exposures to equity risk accounted for 1.3% (3Q 2014: 1.4%) of total capital, while the foreign exchange (FX) net open position of the banking system narrowed to 4.9% (3Q 2014: 5.7%) of total capital during the quarter. Market risk exposures of the insurance industry reduced to 12.2% of total capital (3Q 2014: 12.7%) due to lower investments in equities, in line with stock market movements in the final quarter. Equity risk continues to form the bulk of insurers' market risk exposures at 7.6% of total capital.

Banking System: Basel III Capitalisation



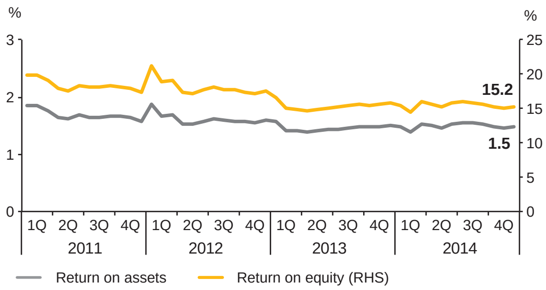
Source: Bank Negara Malaysia

Insurance Sector: Capitalisation



Source: Bank Negara Malaysia

Banking System: Profitability



Source: Bank Negara Malaysia

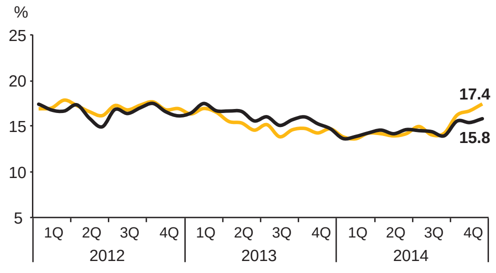
Financial institutions remain sound and resilient

The banking system remained well-capitalised with the common equity tier 1 (CET1) capital ratio, tier 1 capital ratio and total capital ratio well above the minimum regulatory levels at 12.6%, 13.3% and 15.2% respectively. The total capital buffer for banks which are in excess of the minimum regulatory capital requirement stood at more than RM90 billion. More than 80% of banks' total capital consists of high quality capital in the form of paid-up capital, retained earnings and reserves. Similarly, the capital adequacy ratio of the insurance sector remained strong at 253% (3Q 2014: 246.9%), with an excess capital buffer of RM30.2 billion.

The banking system recorded a lower pre-tax profit of RM7.8 billion (3Q 2014: RM8.1 billion) in the quarter, with returns on assets and equity of 1.5% and 15.2% respectively (3Q 2014: 1.5% and 15.6% respectively). This was attributed mainly to higher deposit expense and staff costs. For the general insurance and takaful businesses, the lower operating profit of RM661.1 million (3Q 2014: RM788 million) was driven mainly by lower premium volume and lower net profit from disposal of assets. The excess income over outgo of life insurers and family takaful operators was also lower at RM2.1 billion (3Q 2014: RM3.8 billion) due to net investment losses of RM924 million (3Q 2013: net investment gains of RM718.3 million) mainly from investment in equities.

Competition for deposits intensified during the quarter amid banks' strategies to increase the level of stable funding towards compliance with the Liquidity Coverage Ratio standards. Liquidity in the banking system remained ample with sufficient buffers to meet short-term liquidity needs, despite outflows of portfolio funds in the quarter. The liquidity buffers for maturities within the 1-week and 1-month horizons remained well above minimum regulatory requirements at 17.4% and 15.8% of total deposits respectively (3Q 2014: 14.2% and 13.9%, respectively). Net interbank placements by banks with Bank Negara Malaysia, which can be utilised to meet additional liquidity needs, amounted to RM91.1 billion. US dollar liquidity recorded surpluses of RM6.6 billion and RM5.1 billion in the less than 1-week maturity bucket and in the less than 1-month maturity bucket respectively (3Q 2014: shortfall of RM3.4 billion and surplus of RM1.2 billion respectively).

Banking System: Liquidity Buffer to Total Deposit Ratio



Source: Bank Negara Malaysia

Insurance and Takaful Sectors: Indicators

	2013		2014		
	4Q	Year	3Q	4Q	Year
	RM million				
Life insurance & family takaful					
Excess income over outgo	*3,345*	*13,188*	*3,834*	*2,117*	*13,757*
General insurance & general takaful					
Operating profit	*1,041*	*3,224*	*788*	*661*	*3,077*
Claims ratio (%)	*57.1*	*57.1*	*56.8*	*57.6*	*57.6*
	Annual Change (%)				
Life insurance & family takaful					
Excess income over outgo	*-26.3%*	*-27.7%*	*167.5%*	*-36.7%*	*4.3%*
General insurance & general takaful					
Operating profit	*21.9%*	*11.2%*	*17.3%*	*-36.5%*	*-4.6%*
Claims ratio (percentage points)	*-0.2*	*-0.2*	*-2.0*	*0.5*	*0.5*

Source: Bank Negara Malaysia

10th World Islamic Economic Forum (WIEF) - "Sukuk Development and Financial Stability" Dubai, 28 October 2014

Speech by

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

It is my great pleasure to be here in Dubai at this World Islamic Economic Forum 2014 to speak at this dialogue session on the potential of the sukuk market and its role in the economic development process and in contributing towards financial stability. This recent decade has witnessed the accelerated development of the global sukuk market. The global sukuk market which has now reached USD$270 billion outstanding is evolving to become a distinct platform for fostering greater international economic and financial linkages. The success of the sukuk market reflects its ability to meet the changing and differentiated demands of the mordern economy, to develop innovative and cutting edge structures and products, and to achieve such issuances at competitive pricing.

The sukuk market has drawn increasing interest from sovereigns, multilateral institutions, multinational and national corporations both from developed and emerging economies to finance investments in a wide range of economic activities and development projects. The geographical reach of the sukuk market has also become more extensive, with the global sukuk outstanding now being domiciled in more than 20 countries, while the investor base that spans from Asia, the Middle East and Europe. In addition to issuances in international reserve currencies that includes the US Dollar, the British Pound and Euro, more recently in Malaysia has been the issuance of sukuk in Renminbi.

For the investors, the sukuk offers the diversification into multiple asset classes and different techniques used to structure medium to long term instruments. Given that the sukuk is based on underlying assets, it discourages over-exposure of the financing beyond the value of the underlying assets. Issuers are thus discouraged from leveraging in excess of the asset value. The prospect of over-indebtedness and its consequences on financial stability are thus reduced. There is also potential for direct participation of investors in the project, thereby granting investors beneficial ownership in the underlying assets, with the rights to receive a share of profits or rental income from the underlying asset of the sukuk while taking the associated risk of such ownership.

The sovereign sukuk is generally the first inroad into Shariah compliant funding in the capital market, enabling the creation of reference prices over time, to which private sector entities can benchmark their fund raising activities. Governments have for the most part, remained the most active issuers in the history of the global sukuk market with sovereign issuances accounting for more than 80 percent of the global sukuk issuances. This recent few years has also seen a number of jurisdictions in developed economies strengthening their legal, regulatory and governance framework to facilitate such sukuk issuances.

Going forward, the financing requirements for economic development are envisaged to be massive, particularly for emerging and developing economies in the Asian and Middle Eastern regions that are seeking huge amounts of capital to fund new infrastructure and to support economic development. Given the sheer size of these projects, equity and government budgets cannot be the only source of financing for this next phase of economic growth and industrialisation in our regions. The sukuk market has become a potentially important new source of funding for such long term projects. In the recent decade, a total of US$95 billion of infrastructure sukuk has been issued by more than 10 different countries. In Asia, it is estimated that a funding of US$8.3 trillion is required until 2020 for infrastructure projects, while the funding requirements in the Middle East are estimated to be US$2 trillion over the same period. Developing economies in Africa have also already begun its entry into the sukuk market for such infrastructure financing with some having put in place the legal groundwork for such sukuk issuances.

However, low sovereign ratings have limited the ability of certain high-growth developing countries to source such funding, despite being rich in natural resources. Countries that are rich in natural resources may however, pledge these resources for such issuance. Funding may thus be secured arising from the securitisation of such assets. Given the recourse to the asset by investors, it provides the incentive for disciplined and appropriate governance of the management of the project. Additionally, multilateral development banks may also facilitate this process by providing credit guarantees to these countries to reduce the financing cost and improve the quality of the sukuk issuances. On this front, multilateral development banks such as The Islamic Development Bank (IDB) Group and The Asian Development Bank (ADB) commenced initiatives to support member countries to leverage on Islamic finance for sourcing of funds, through the provision of advisory services, capacity development and technical assistance.

Allow me to now share Malaysia's experience in the development of the sukuk market in our Islamic finance marketplace. The Islamic capital market in Malaysia has been systematically developed to ensure accessibility whilst ensuring the protection of investors and efficiency in the intermediation process. The initiatives to develop the market are also strongly backed by the legal and Shariah framework which is further supported by a robust financial infrastructure, including the settlement and bond information system that enables Malaysia to provide a complete sukuk issuance and trading platform.

Since the first sukuk issuance in 1990 by a multinational corporation in Malaysia, the sukuk outstanding in the Malaysian marketplace is now US$158 billion. In 2002, the Malaysian government issued its inaugural global sovereign sukuk, raising US$600 million, which became an international benchmark for the issuance of global sovereign sukuk. The marketplace has now been liberalised to allow for multilateral financial institutions, mutinational and national corporations from other jurisdictions to issue both ringgit and non-ringgit denominated sukuk in our sukuk market with increasing foreign investor participation in such issuances.

The sukuk market in Malaysia has seen wide ranging innovative structures and a greater diversity in the type and maturity of the sukuk. A landmark issuance is the US$750 million exchangeable sukuk *Musyarakah* in 2006 by Khazanah, the government's investment corporation for the purpose of selling a stake in Telekom Malaysia. It marked the first issuance of its kind, incorporating full convertibility features common to conventional equity-linked transactions. A further notable issuance was the pioneering retail exchange-traded sukuk to raise funds for a transportation project that allowed retail investors the opportunity to have direct access to the sukuk and thus a stake in a massive infrastructure development in the country, therefore broadening the range of low-risk investment products available to such investors. In terms of maturity, the ringgit sukuk market has seen issuances of maturities to 30 years which were well received by the financial market. Regular sukuk issuances with different maturities by the Malaysian government has also created a benchmark yield curve for market reference, of which is complimented by the establishment of a number of indices for non-ringgit and ringgit denominated sukuk that serve as benchmarks to track the performance of sukuk. These initiatives have progressively contributed towards creating a vibrant secondary sukuk market in Malaysia, with increased depth and liquidity.

In complementing the sukuk market as a source for fund raising, also being explored are other funding channels to assist small and medium enterprises, new growth industries and entrepreneurs that have limited access to the sukuk market. A multi-bank investment platform is now being developed for the effective matching of funds from potential investors with targeted industries and ventures in the real sector. Foreign Islamic financial institutions and investors also stand to benefit from this platform, with the offering of multi-currency financing options for foreign projects. The platform facilitates Islamic banks to perform investment intermediation functions. It enhances further the intermediation role of the Islamic banking institutions to also function as an investment intermediary.

In an increasingly internationalised global financial marketplace that has generated significant cross-border flows, one of the requirements as we advance forward is the need for more tradeable cross-border Islamic financial instruments that can cater to the different profiling of investors' risk appetites. The issuance of the short-term sukuk by the International Islamic Liquidity Management Corporation (IILM) is a breakthrough in innovation towards increasing cross-border liquidity flows that could potentially enhance financial stability and the efficient functioning of the Islamic financial markets.

Let me conclude my remarks. There is clear indication of the growing relevance and importance of the sukuk market, with the growing interest from both emerging and developed jurisdictions and the strategic approaches taken to diversify the funding sources through the sukuk market. The overall direction and potential of the global sukuk market are certainly well recognised, particularly in its role in contributing towards greater economic development. There is significant potential for the sukuk, in particular to fund infrastructure projects. This is particularly relevant for the GCC, African and Asian regions given the infrastructure needs going forward. This would contribute towards building deeper and more liquid, efficient and effective global sukuk market. The dynamism of the sukuk market also contributes towards strengthening financial stability and in facilitating the expansion of inter-regional investment flows. As we move towards increasing this internationalisation of Islamic finance, and thus towards greater global financial integration, it will contribute towards a global growth process and financial stability that will be mutually reinforcing.

Citi-FT Financial Education Summit 2014: "Financial Education for Meaningful Inclusion" Kuala Lumpur, 5 November 2014

Speech by

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

It is my great pleasure to be here this morning at the Citi-FT Financial Education Summit 2014. First of all, allow me to welcome the Citi-FT Summit back to Kuala Lumpur. It is my honour to once again address this Summit that has now become an important forum for advancing the financial literacy agenda. It was in 2004, at the inaugural Citi-INSEAD Financial Education Summit in Hong Kong that I spoke on financial education in the context of the demographic forces in Asia and their consequent implications for financial consumers, in particular for women in Asia. Today, another demographic shift – the "rapid urbanisation" – provides a new context to our discussion on the challenges in pursuing meaningful financial education strategies to achieve effective and responsible financial management in our communities. My remarks today will focus on the changing demographics and the role of financial education in enhancing the ability to cope with the realities of this new environment.

Asia has probably experienced the most rapid demographic change in the world. In these recent two decades, several Asian economies have had to deal with a number of new challenges including slower population growth, rapid aging, the intensification of urbanisation and the consequences of increasing life expectancy. Asia's urban population has risen from 33% of total population in 1990 to 43% in 2010. The United Nations projects that Asia's urbanisation rate would rise to 56% in 2030, and further to 64% in 2050. Accompanying this urbanisation has been the growth of mega-cities with populations exceeding 10 million. Twelve of the world's 21 mega-cities are in Asia, including Tokyo, Delhi, Mumbai and Shanghai to name a few.

Urbanisation has become particularly more pronounced in Malaysia during this period. The proportion of the Malaysian population living in urban areas has increased from less than 50 percent in 1990 to more than 70 percent in 2010, and is expected to rise further to 75 percent in 2020. The improved education and higher income levels that has come with urbanisation has enhanced opportunities for greater access to financial products and services. Indeed, financial institutions and markets have responded to the changing profile of financial consumers by offering a broader range of financial instruments and providing convenient access to meet the changing consumer preferences.

It is recognised however that economic growth and development, no matter how stellar, will begin to fade when inequality sets in and when income disparities widen. Balanced growth is therefore an important imperative if socio-economic progress is to be achieved and if conditions that limit opportunities for employment and which deepen inequalities of income and wealth are to be avoided. For several emerging economies, such conditions are reflective of the growing phenomenon of the urban poor, with significant implications for social stability and balanced growth. To address this, inclusive growth strategies have gained prominence in recent years among the policymakers in the region. This needs to be further reinforced by strategies targeted at preparing individuals at an early stage to be well equipped to adjust to the new economic, financial and social realities that confront them. This is where financial education has a fundamental role.

A key concern in this environment is to strengthen the capability of financial consumers, in particular household and small businesses, so as to avoid being marginalised by market forces and by the disproportionate impact of the changing financial and social landscape. Related to this is the need to reinforce socially responsible finance, and to address the new and growing risks of financial exclusion. Sophisticated risk-profiling methods employed by financial institutions can make it more difficult for deserving individuals and businesses to qualify for financial services. Among those that qualify, aggressive marketing practices and more complex financial products can also lead to poor financial decisions at a time when economic and financial reforms are also shifting greater responsibility to individuals to plan and provide for retirement and unexpected developments. Marketing practices that target select groups of consumers often further deprive the broader segments of society from new products that can better meet their financial needs.

The way in which financial services are delivered to consumers is also moving towards more cost-efficient channels that reduce the need for face-to-face contact. Enquiries and complaints are largely handled by phone or e-mail, and usually in a highly fragmented manner by different parts of a financial institution. This can mean less effective advisory support for the vulnerable groups of financial consumers. More recently, the wider adoption of electronic channels to make and receive payments has had enormous potential for greater financial inclusion. Key to this progress is the access to the relevant technology and safeguarding its security and thus gain the willingness to trust it. This will also involve the awareness of its benefits.

These developments can be overwhelming to consumers and businesses who are ill-equipped to make informed financial decisions due to their inadequate knowledge on financial matters, thus diminishing their effective participation in the financial system. Symptomatic of this has been the rapid growth in household debt and leverage in a number of countries. This has been particularly prevalent in an environment of ample liquidity and low interest rates. This is also being reinforced by changing social norms, such as social pressures to spend, which has further eroded financial discipline among households. Such pressures are further compounded by the rising cost of living in the urban areas. Financial capability levels have however generally lagged the socio-economic changes that are taking place, resulting in poor financial management. While financial products and services have become more complex, new delivery channels are also having the effect of increasing the distance between product providers and consumers. For example, more pervasive non face-to-face channels can make it more difficult for consumers to seek information. Financial education messages are also often overshadowed by competing commercially driven messages that dominate the delivery channels. While considerable attention has been directed at reforming the incentive structure to better align the interests of financial agents and consumers, such changes need to go further to improve outcomes for consumers.

In this environment, the financial education agenda needs to be addressed by the collective efforts of policymakers, non-government organisations, consumer advocacy groups and the financial industry to deliver a sustained education programme that will equip all segments of the population with the necessary financial knowledge to save, invest and to insure against adverse events. The financial education strategies and learning interventions need to be tailored to the consumers' conditions, culture and education levels, and to be responsive to their requirements, thereby enhancing their prospects for improving their economic well-being.

A well designed financial education strategy can encourage greater effective participation in the mainstream financial system, and keep individuals already in the mainstream from being financially excluded as a result of changes in the financial landscape. A recent report by the OECD has highlighted that a lack of awareness of different types of financial products, low level of confidence and poor knowledge of how products work are barriers to financial inclusion. These factors will become more acute in an increasingly complex and technology-driven financial system. Financial education has an important role in breaking such barriers. This will require more innovative approaches, broader partnerships and a deeper understanding of the social attitudes. Our own experience in Malaysia through the work of Bank Negara Malaysia and the Credit Counselling and Debt Management Agency (a subsidiary of the Bank) has shown that the impact of financial education strategies depends on the ability to effectively combine broad-based and targeted strategies, and having a well-coordinated approach that relies on multiple channels to reach different groups.

Financial education is also a lifelong endeavour, from encouraging children to save their pocket money to helping adults attain financial security and independence for their old age. In supporting the inclusion agenda, financial education initiatives in Malaysia are designed as an important life skill, where consumers are exposed to knowledge on financial management during the different periods in their life. An increasing trend is for financial capability to be promoted from an early age through the integration of financial education into the formal school curriculum that covers basic money management, spending and savings, credit and debts, e-payments, financial risk management and consumer responsibilities. For the youth and adult segments of the population, Malaysia has also adopted a life event approach to the development and delivery of financial capability programmes. This is reinforced by a dedicated focus on the vulnerable segments of the society, such as how to plan for retirement, the importance of living within one's means and behaviours that can lead one into high indebtedness. These programmes are delivered to consumers in the workplace and colleges.

Our collaboration with employers has proven to be particularly effective in delivering financial education on responsible financial management. Under this approach, strategic alliances have been forged by the Credit Counselling and Debt Management Agency with more than 200 organisations in Malaysia to deliver financial capability programs at the workplace. Equal emphasis is given to developing the enabling infrastructure to support the effective delivery of financial capability initiatives. In Malaysia, the meaningful access to financial education contents and tools, a rigorous assessment framework and an effective partnership that involves the Government, educators, non-Governmental organisations and the financial industry form the vital components of the enabling ecosystem to support the overall financial education strategies.

In many instances, changes in consumer behaviour are needed for the intended benefits to be realised. In Malaysia this is the case in the efforts to promote e-payment as a means of improving economic efficiency, productivity and competitiveness. Central to this agenda has been the implementation of various financial education initiatives to encourage changes in consumer behaviour and to inspire confidence in the use of e-payments. Financial education has had a critical role in equipping consumers with knowledge to utilise e-payments responsibly, and to help consumers protect themselves from risks of financial scams that exploit specific vulnerabilities associated with online payment platforms. Financial education has also been a lynchpin in our efforts to encourage retirement planning. As life expectancy increases, consumers are expected to effectively plan and manage their finances for their retirement. Specific financial education are being introduced, particularly for individuals at the early stages of entering the workforce to provide the relevant information and skills to save and manage funds for their retirement.

A further objective of financial education is to reinforce the consumer protection agenda including to be adequately protected against market failures and misaligned incentives. This has become more relevant in the recent period with increasing global pressures being exerted to significantly strengthen prudential and market conduct regulation following the global financial crisis. Emerging economies in particular continue to face practical challenges in embracing global standards in a manner that is also aligned with enhancing opportunities for inclusive finance. Financial education is an important link in the efforts to build a financial system that is resilient against crises and abuse, while limiting the adverse socio-economic implications that can arise. While the government has a key role in driving the financial education agenda, the private sector also needs to be actively engaged in the education of financial consumers. A commitment to financial education should be a natural extension of the financial industry's commitment to professional and ethical conduct in doing business. In Malaysia, a national network for financial education is being pursued involving the several key stakeholders to provide a platform to drive, prioritise and coordinate the financial education initiatives.

Financial education strategies also needs to be accompanied by a strong focus on developing a robust consumer protection regime with emphasis on fair treatment, transparency and effective recourse that promotes a culture of responsible conduct by financial service providers. The experience of the global financial crisis has clearly demonstrated that an effective consumer protection framework serves not only to protect individuals from excessive risk; it also has an important role in protecting the financial system from systemic risk. A particular focus on consumer protection policies, and one that is key to advancing the financial inclusion agenda, should be to protect vulnerable groups and ensure that financial innovation is pursued in a responsible manner. The board and senior management of financial service providers have a key role in setting the right policies and incentive systems that support fair and responsible business practices. Financial service providers that embrace fair dealings are likely to enhance their competitive advantage by building stronger and more lasting consumer relationships and enhancing their brand value. Fair dealings can also reduce exposures to reputational risk arising from poor business conduct, as evidenced by recent incidents of mis-selling and resulting sanctions by conduct authorities.

Going forward, the challenges imposed by the rising trend of urbanisation and other demographic changes are set to become more pronounced. The implications of this for financial education strategies are far-reaching. It will require a fundamental re-thinking of current approaches to delivering financial education that will have its optimal impact. The approach will need to be comprehensive and with all stakeholders in the financial ecosystem. We have a shared responsibility to develop effective channels for delivering financial education, build the necessary infrastructure and continuously evolve relevant financial capability programmes that will facilitate consumers to make sound financial decisions with confidence, and cope successfully with the new emerging economic and financial challenges. This Summit provides an excellent opportunity for stakeholders to come together to generate new knowledge and ideas in our journey towards achieving effective participation in the financial system through financial education. It is such concerted efforts that will strengthen the potential to create an enduring impact that will make the difference in achieving a more balanced and sustainable economic future.

ISI - Regional Statistics Conference: "Statistical Science for a Better Tomorrow" Kuala Lumpur, 18 November 2014

Keynote Address by

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

Introduction

It gives me great pleasure to welcome you to this inaugural International Statistical Institute Regional Statistics Conference. This conference takes place at a time of major transformative change in our region and in the world. The contribution of statistics in this new and rapidly changing environment has become of even greater importance. In this increasingly complex world, the availability of high quality statistics is vital in facilitating decision making for both the private and public sectors. The world is also seeing greater demands for higher levels of transparency. This has become key for building trust and confidence regardless of the line and nature of business. The statistics community has responded to these changes. Immense progress has been achieved in developing the methodology for generating consistent economic and financial statistical systems. In a world that has also become more globalised, such progress has brought great benefits to businesses and policymakers in terms of the availability, comparability, and broad consistency of economic data across countries. For any economic and financial community, detailed and comprehensive data are highly important to understand the implications of the developments taking place. This has prompted greater international collaboration across the world to contribute towards a greater understanding of the implications of this trend. Underpinning this is also the high level of professionalism and integrity of statisticians at national and international agencies.

It is in this recent two decades, that the global economic and financial environment has become more interconnected, more complex and more competitive. It has resulted in greater economic and financial integration and more intricate interconnectivities. At the same time, the world has also become more unstable and less predictable with frequent shocks and crises. This new and more challenging environment has significant implications for business and for public policy. Economic agents need to have an appreciation of the multi-faceted shifts in their environment in order to form the appropriate assessments and make informed decisions. For policy makers, it highlights the importance of having reliable, relevant and high-quality statistics to support and pave the way for sound policy decision making. For statisticians, the challenge is to continuously improve the statistical science towards facilitating the foundation to build a better future.

My remarks today will be from the perspective of a central banker. Timely and high quality statistics is one of the important prerequisites for central banks to effectively achieve our goals of monetary and financial stability, and of fostering the development of a sound and progressive financial sector. Based on my experience as a central banker for more than 30 years, it requires a deep understanding of the economy and the financial system to make the right policy decisions. Such policy formulations needs to be based on rigorous assessments that provides the insights that will guide the decision making process. This is aided by relevant statistics, and complemented by sound judgement.

Central banks are therefore not only major consumers of statistics, but also producers and disseminators of monetary and financial data. More importantly, central banks, have placed much importance on providing sufficient analysis and assessment in conjunction with the release of statistics. This aims to provide context, avoid misinterpretation and reduce uncertainty for the economic agents.

Key Global Trends Shaping the Universe of Statistics

As the world evolves, two key trends have emerged and in turn, created new and diverse demands, challenges, and opportunities in the field of statistics. First, the steady liberalisation and deregulation of economies and financial markets have resulted in intricate interlinkages within domestic financial systems and spanning across borders. While financial markets have become more interconnected globally, capital and labour mobility across borders have also intensified while trade and investment barriers have been dismantled. This has resulted in closer proximity to growing markets and facilitated the creation of globalised supply chains by corporations.

These developments have had wide ranging benefits, including better risk diversification, improved efficiency and greater economies of scale. However, it has also increased the risks for cross-border contagion and accelerated the transmission of external shocks. The rapid transmission of the financial crisis in the major advanced economies in 2008 to other parts of the world demonstrates the significance of these contagion effects.

These increasingly complex global networks have given rise to demand for new sets of data to enhance our understanding of the interlinkages and to assess the implications. While many global initiatives on enhancing statistics were the result of financial crises that happened in the 1990s, we now find ourselves recognising that far more needs to be done following the much worse and devastating global financial crisis that has resulted in significant costs around the world. The recent crisis has tested policymakers to the limit and has placed greater demands on the community of statisticians.

While the lack of data was not the root cause of the global financial crisis, it did reveal serious data and information gaps in key areas that might have helped the authorities to measure, understand and respond better to risks in the international financial system. Even for the most advanced statistical systems, such as in the US and Europe, the crisis highlighted “black holes” in data that now need to be addressed. Closing these information gaps involve an important and heavy work agenda for the years to come. More efforts are now underway to strengthen cross-country data collection and close these information gaps. The BIS international banking statistics is for example being expanded and refined to capture the entire balance sheet of internationally active banks on a consolidated basis, and with greater granularity. On-going initiatives by the Financial Stability Board (FSB) and the International Monetary Fund (IMF) to close these information gaps, particularly at the individual bank level for systemically important global banks, are also significant steps in this direction.

Another key global trend that has elevated statistical science to a new level is the rapid innovation and advances in information and communication technology. It is staggering that 90 percent of the world’s data was created in this recent two years alone[1]. With the rapid expansion of data storage capacity[2], growing global connectivity which includes almost 3 billion internet users worldwide and double-digit growth rates in the mobile broad-band market, there is no doubt that the swift pace of technological developments has not only facilitated the rapid collection of new statistics but also led to more effective measurement of information.

Improvements in technology have brought tremendous benefits to most segments of society. Amid the wider availability of information on financial planning products, households now have the potential to make better savings and investment choices. For businesses, the improved availability of timely and granular information has been a crucial enabling element for companies to anticipate new trends, gauge market viability and customise products and services to changes in market conditions.

Innovations in Statistical Science have Enhanced Social Welfare and Policy Formulation

From the central bank's perspective, it is clear that advancements in the statistical field have spurred an even more rigorous and scientific approach to surveillance and policy formulation. Given that policymakers are often faced with wide-ranging, difficult and significant trade-offs, sound statistical analysis has a fundamental role in managing both short- and long-term policy challenges. In the current environment, forward-looking macroeconomic and financial surveillance is more important than ever to detect potential risks early, so that pre-emptive policy action can be taken. Of importance, is the need to be aware of rapidly changing information sets amid increasing financial innovation and greater global interlinkages. Policymakers have therefore developed tool kits that have not only taken into consideration baseline forecasts, but crucially, on other plausible scenarios. In this aspect, larger and more diverse data sets that are complemented by more sophisticated analytical tools have allowed policymakers to improve the effectiveness of macroeconomic management. Through more rigorous scenario analysis exercises, authorities are better able to identify challenges, and form a more complete view of future conditions. This is well exemplified by the recent emphasis on the need for regular stress testing to understand the effects of shocks on the solvency of individual banks, the stability of the entire financial system, the broader economy and, more importantly, the feedback effects. The roles of granular statistics and sound stress testing methodologies have become vital.

While the recent global financial crisis has necessitated a substantial policy focus to address short-term challenges, policymakers also need to keep sight of the economy's long-term vision. Continuous structural reforms are needed to strengthen fundamentals and improve economic resilience. This involves measures to remove structural bottlenecks, improve productivity and promote innovation and enhance competitiveness. Formulating such structural policies to improve growth prospects hinges on rigorous empirical research in these areas. For Malaysia, the economy is currently undergoing a transition towards becoming a higher value added economy. This has involved setting clear, time-bound and measurable targets, to allow for the policy approach to be focused. This has depended heavily on the availability of good data and statistics that capture developments across all sectors. It also enables us for the monitoring of the progress and the effectiveness of the policies. It is also now widely recognised that economic growth can only be sustainable if it is inclusive. Growth will only slow as income disparities widen. It is also recognised that financial inclusion is an important contributor towards achieving such a more inclusive economic development. Bank Negara Malaysia has therefore over the decades implemented initiatives to extend and improve the access of quality financial services to all segments of society.

Advances in data collection and computation methodologies has been a crucial enabling factor in the progress made on financial inclusion not just in Malaysia, but also in many other countries. Unconventional information is now often used to assess a person's credit worthiness when there is insufficient traditional information to build a credit score. This can range from electronic records of past utilities bill payments and even reputations on social media[3]. This has led to vast improvements in access to credit for the previously excluded segment of population. Meanwhile, the compilation and analyses of detailed data on the financially underserved is a significant area that underpins international cooperative efforts to advance the global financial inclusion agenda. The Alliance for Financial Inclusion (AFI) comprising of more than 90 member countries established the need for measurable national goals based on a set of quantifiable and time bound common indicators among its membership. These results serve as an objective basis for the AFI members to share experiences on the effectiveness of their policies.

Statistical Enhancements for a Better Tomorrow

Great strides in the field of statistics have resulted in significant economic benefits. However, as the world further transforms, new challenges emerge and much more needs to be done going forward. The increase in availability of data and information is not without risks. While the wealth of new data has indeed made markets more efficient and has supported better decision making by the private and public sectors, it has also brought about new risks of fraud, theft and invasion of privacy. Therefore, existing confidentiality policies, regulation and data governance need to be reviewed and updated to account for these new risks, so that innovative activities can thrive without threats to individual safety and interests.

Additionally, in managing the increase in global interconnectedness, greater international collaboration and coordination in the field of statistics is needed to enhance cross-country data coverage, promote greater standardisation of data and, more importantly, to create a shared understanding of cross-border risks and transmission of shocks. The dynamic nature of the global economy and financial system implies that the relevant set of data needed is a constantly moving target. Therefore, continuous and concerted efforts by both the users and compilers of statistics to close data and information gaps are indeed crucial.

Finally is the need for the continued emphasis on capacity building of human capital. From researchers and academicians, to statistical compilers and policymakers, there is an urgent need to ensure that further enhancements in the field of statistical science continue to advance. Policymakers and statisticians today need to be at the forefront of the advances in statistics to identify new linkages and risks in order to calibrate effective policy responses. In a similar vein, economic and market participants must invest in the statistical systems and expertise required to generate the wealth of information inherent in their operations to allow for greater appreciation and understanding of their implications on the overall financial system and economy.

Conclusion

As we move forward, the changing contours of the global landscape will increase sharply the demand for higher quality and more comprehensive statistics from both the private and public sectors. This also needs to be accompanied by sound analysis in order to draw the implications. From the compilers of statistics, to the developers of statistical applications and the users of statistics, there will be many challenges, but also immense opportunities ahead.

On this note, I wish you a productive and successful conference. By sharing your ideas, knowledge and insights in statistics, we will together contribute to drive the statistical science for a better future.

[1] Source: IBM Watson Foundations: http://www-01.ibm.com/software/data/bigdata/
[2] According to IDC, between 2013 to 2020, the "digital universe" which measures all the digital data created, replicated, and consumed in a single year, will grow by a factor of 10– from 4.4 trillion gigabytes to 44 trillion.
[3] For example, Lenddo in the Philippines, Mexico an Colombia.

Asean Business Club Corporate Networking Lunch- "Roadmap of Financial Integration for Malaysia & ASEAN: What Can Business Expect?" Kuala Lumpur, 1 December 2014

Speech by

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

In this more challenging global economic and financial environment, ASEAN economies have demonstrated the ability to weather the turbulent storms experienced in this decade. The ASEAN economies have essentially benefitted from the payoffs from our earlier economic and financial restructuring and reforms. Our potential is now being further enhanced by steps to intensify our regional economic and financial integration. In particular, the region has taken the opportunity during our period of growth and stability within this decade to pursue regional financial integration.

It is my honour to be invited today to this distinguished gathering of corporate leaders organised by the ASEAN Business Club to speak on the subject of financial integration in ASEAN. My remarks today will touch on our motivation for pursuing regional financial integration, the benefits to be gained from advancing this agenda and the different approach that is being adopted by ASEAN in comparison to that which has been pursued by Europe. I will also discuss the progress and future direction of this integration process, its future direction and the opportunities that this integration process will provide to the business community.

For more than three decades, ASEAN has sustained high economic growth. ASEAN is currently one of the fastest-growing and most dynamic regions in the world. According to the International Monetary Fund (IMF), economic growth in the region is expected to be sustained at an average of 5.3% over the next five years to reach USD3.6 trillion by 2019, five times the size it was a decade ago. Additionally, is also the significant increase in the middle class population in ASEAN. With a population of more than 600 million people, this trend will create a significant final demand in the global economy. This is reinforced by rising income in the region. Per capita income in ASEAN has almost trebled in this recent decade. ASEAN is therefore becoming a thriving hub in consumer demand. By 2020, Asia is estimated to contribute to more than half of the total global middle class population, with ASEAN representing more than USD2 trillion of new consumption within the region.

Along with the development of more robust cross-border supply chains in the region, economic integration of ASEAN has occurred on several fronts. In particular, intra-regional trade and investment activity has increased significantly in this recent 15 years. Since 1990, ASEAN intra-regional trade has grown from 18% to 24% of total trade, and intra-regional investment has quadrupled since 2000, from 4% to 17% of total investment. While there has been a trend towards greater intra-regional trade and investment, financial integration in the region has lagged behind. This has raised questions on whether in fact regional financial integration is important, given that the lack of it has not been an inhibiting factor to economic integration. ASEAN economies, however, have now reached that stage of development in this decade whereby greater regional financial integration will raise further our growth potential. An important key to unlocking our full potential is to accelerate this integration and cooperation within the ASEAN region.

Main benefits of financial integration

An intensification of financial integration in ASEAN will not only serve to enhance growth at the national level, but also act as a catalyst to achieve a growth that is mutually reinforcing for the economies in the region. Regional financial integration will bring about the more effective intermediation of funds and thus the efficient allocation of resources in the region. Excess savings in one country can be channeled into productive investments in another country within the region, thereby promoting growth. The ASEAN region has one of the highest savings rate in the world, at approximately 30%, as well as international reserves amounting to USD800 billion. The bulk of ASEAN's surplus funds, however, are intermediated mainly through the international financial markets before being reinvested back into the region. In particular, more than 90% of cross-border portfolio investment flows are channeled to the advanced economies. Given the immense funding requirements that ASEAN has, particularly for large investment projects and infrastructure development, greater financial integration will facilitate channeling part of the region's surplus funds towards productive investment opportunities in the region.

Regional financial integration will also allow for more efficient risk diversification of assets to include foreign assets from within the region. This will not only reduce vulnerability to external developments but will contribute to achieving more stable conditions in the regional financial markets. Additionally, this trend has been reinforced by greater coordination and cooperation among the regional Central Banks and regulatory authorities to safeguard financial stability. The collective actions that have been taken have enhanced the ability to manage and respond to risks confronting the region. Greater financial integration has also created an enabling environment for businesses. It has facilitated improved access to financing investments in the region. In particular, the presence of larger and increasingly more viable financial institutions in the region along with more developed financial markets have generated greater cross-border funding possibilities in the region and has allowed for more funding options for businesses. Further work in this direction is underway and significant progress on this front is expected to occur in this next decade.

Key distinguishing features of ASEAN's model of integration

While ASEAN may draw on the experience from the European model of monetary and financial integration, the region has charted its own path towards greater financial integration. In the European Union, the formation of a monetary union has represented a major element in realising their economic integration. The adoption of a single currency was a critical step in fostering the regional European integration. In contrast, a monetary union with a single currency is not the step forward for the ASEAN region. A study by the ASEAN Central Banks in the early 2000s concluded that a common currency should not be the direction to be pursued by the region, given that, the ASEAN economies did not have the preconditions to achieve such a union. Indeed, such preconditions would require significant and high costs to the region. This would make it a non-viable proposition. The ASEAN region represents one of the most diverse regions in the world in terms of size, economic systems and structures, stages of development, financial systems and prevailing economic and financial conditions. It was therefore concluded that rather than pursuing a strategy towards achieving a single currency and a monetary union, the region would instead be better served by greater regional financial integration to achieve the very same objectives of a greater shared economic prosperity for the region.

Another key difference between the European and ASEAN model of integration lies in the governance structure. In Europe, the monetary union is governed by a centralised institution, while the approach in ASEAN is to build on institutional arrangements and mechanisms that would facilitate financial integration while leveraging on a network of committees for the governance process. This is supported by agreements that have been and are being entered into based on commitments made by the respective members of ASEAN. Financial integration in ASEAN has also adopted a more flexible approach that accords the member countries to participate in the process based on their state of readiness. This is to ensure that no countries will be adversely affected by the process. Additionally, significant efforts have focused on capacity building in a range of areas of banking and finance to promote an inclusive advancement of the integration process in the region. Regional cooperation among policy makers is as focused in regional surveillance and information sharing. This is to facilitate greater understanding of regional issues as well as the detection of risks and vulnerabilities. It is also to provide awareness of the implications and the experience of alternative the policy options to address the wide challenging developments confronting the region. This has improved capability in managing the implications of external developments and potential economic and financial crisis.

What Businesses Can Expect

In period following the Asian Financial Crisis, the region has made significant strides in strengthening our resilience, agility and capacity of the banking sector. We also now have the emergence of ASEAN financial institutions in the region. While ASEAN commercial banks predominantly mobilise funds at the national level, greater regional financial integration is now being paved for financial institutions in our region to participate in a regional banking network. The ASEAN Banking Integration Framework (ABIF), is now in its final stages of development. The ultimate objective of this initiative is to enable greater presence of ASEAN financial institutions to operate in the region to facilitate greater intra regional trade and investment activities. Businesses will thus stand to gain by having improved access to a larger and a more secure source of financing for such cross border trade and investment activities.

Headway has also been made in developing the capital markets in the region and to move towards greater financial integration of the markets. Over the recent decade, the ASEAN bond market has more than tripled in size to USD1.1 trillion. ASEAN Exchanges, a collaboration of seven stock exchanges within the region, was launched in 2011 to drive cross-border collaboration, streamline access, create ASEAN-centric products, and implement targeted promotional initiatives. In addition, the listing of ASEAN indices with the Financial Times and London Stock Exchange (FTSE) in 2005 has also enhanced the market visibility of the ASEAN exchanges, which represent close to 95% of the investable market capitalisation in the region and which has a combined market capitalisation of approximately USD2.9 trillion. This facilitates businesses in cross-listings between the exchanges and in raising funds given this common platform for ASEAN businesses.

Finally, ASEAN Central Banks and Monetary Authorities have long been involved in various regional cooperation initiatives to develop efficient, secure and reliable payment and settlement systems. For example, the inception of the Asian Payment Network (APN) seeks to create a new retail settlement mechanism for the participating states. It allows ATM cardholders to withdraw money in any of the other participating countries, thereby simplifying transactions. This could in due course contribute towards the growth of the tourism and the retail sector in our economies. With extensions being sought to include debit and credit cards, money transfers and mobile banking services, businesses will be able to leverage on these services to reduce transaction costs and improve efficiency for such transaction.

Conclusion

Let me conclude my remarks. Despite the distinct cultures, histories and languages that make each ASEAN nation unique, there is a common thread that runs through the region that keeps us cohesive - a unanimous and unwavering commitment to empower our people together. This solidarity will however also require the ASEAN business community to complement the efforts made by the regional authorities. Malaysia looks forward to being the chair of ASEAN in 2015 to build on the progress that has been achieved to further advance the regional financial and economic integration. This will also include the agenda of promoting ASEAN as a destination for global investments. ASEAN integration is a joint responsibility that has always been embraced. Let us demonstrate that in the case of ASEAN, the whole is greater than the sum of its parts.

CALENDAR OF EVENTS
October – December 2014

28 October 2014

At the 10th World Islamic Economic Forum, Governor in her speech highlighted that the sukuk market has become a potential source of funding for long term infrastructure projects. A total of USD95 billion of infrastructure sukuk has been issued by more than 10 countries in the last decade. As for Malaysia, the Islamic capital market has been systematically developed to ensure higher accessibility to investors and greater protection on their investment. These significant initiatives are strongly backed by legal and Shariah framework and are further supported by a robust financial infrastructure that enables Malaysia to provide a complete sukuk issuance and trading platform.

29 October 2014

The Bank issued three types of commemorative coins to commemorate the 75th Anniversary of Taman Negara, Malaysia's premier national park and a popular ecotourism destination. The types of coins issued were Gold Proof, Silver Proof and Nordic Gold Brilliant Uncirculated.

5 November 2014

In her speech at the Citi-FT Financial Education Summit 2014, Governor noted that challenges in financial education are set to be more pronounced due to the rising trend of urbanisation and other demographic changes. Therefore, current approaches to delivering financial education need to be revised to be more comprehensive and inclusive to ensure optimal impact. All stakeholders in the financial ecosystem have a shared responsibility to develop effective delivery channels for financial education, build the necessary infrastructure and continuously evolve relevant financial capability programmes to enable consumers to make sound financial decisions and cope with the new economic and financial challenges.

6 November 2014

At its final meeting for 2014, the Bank's Monetary Policy Committee (MPC) decided to maintain the Overnight Policy Rate at 3.25%. In its assessment, the MPC stated that global economic growth continued at a moderate pace. The global growth forecast was revised downwards due to weakening economic activity in a number of major economies and increased volatility in the international financial markets. While the domestic economy is projected to remain on a steady growth path, external developments could affect the overall growth prospects of the Malaysian economy. Moving forward, the MPC will continue to carefully assess the balance of risks surrounding the outlook for domestic growth and inflation. The committee also approved the schedule of MPC meetings for 2015.

7 November 2014

The Bank announced the appointment of two additional Assistant Governors, Encik Shaik Abdul Rasheed bin Abdul Ghaffour and Encik Ahmad Hizzad bin Baharuddin. Encik Shaik Abdul Rasheed will be responsible for the Strategic Management, Human Capital Development Centre and IT Services Departments, while Encik Ahmad Hizzad will continue as the Director General of the Labuan Financial Services Authority.

10 November 2014

The Bank signed a Memorandum of Understanding (MoU) with the People's Bank of China on the RMB clearing arrangements in Malaysia. Both central banks agreed to coordinate and cooperate on the supervision and oversight of the RMB business, exchange of information, and to facilitate the continuous improvement and development of the arrangement. The MoU signifies continuous joint efforts to build capabilities in the Malaysian financial system to better serve the ever rising bilateral trade, investment and financial flows between China and Malaysia.

14 November 2014

The Bank announced that the Malaysian economy expanded by 5.6% in the third quarter of 2014 (2Q 2014: 6.5%), supported by private sector demand and continued positive growth in net exports. On the supply side, growth in the major economic sectors was sustained, supported by trade and domestic activities. On a quarter-on-quarter seasonally adjusted basis, the economy grew by 0.9% (2Q 2014: 1.9%). The average inflation rate for the quarter moderated to 3.0% (2Q 2014: 3.3%) mainly due to the lower inflation in transport category, reflecting the lapse in the impact of fuel price adjustment made earlier.

18 November 2014

In her keynote address at the inaugural International Statistical Institute Regional Statistics Conference, Governor highlighted that the contribution of statistics is assuming greater importance at this time of major transformative change in the region and in the world. As such, greater international collaboration and coordination in the field of statistics is needed to enhance cross-country data coverage, promote standardisation of data and, more importantly, to create a shared understanding of cross-border risks and transmission of shocks. There is also a need to review and update existing confidentiality policies, regulation and data governance to mitigate new risks of fraud, theft and invasion of privacy following the increase of availability of data and information.

27 November 2014

The Bank and the National Cards Group organised the Payment System Forum and Exhibition 2014 at Sasana Kijang, Kuala Lumpur with the theme "Migration to E-payments: Payment Cards Acceptance". The forum aimed to create awareness and promote the acceptance of payment cards among businesses particularly the small and medium enterprises and microenterprises.

1 December 2014

At the ASEAN Business Club Corporate Networking Lunch, Governor in her speech highlighted that the ASEAN Banking Integration Framework, which will enable greater presence of ASEAN financial institutions to operate in the region, is now in its final stages of development. She noted that businesses would be able to gain from improved access to a larger and a more secure source of financing for cross-border trade and investment activities. She further noted that progress has also been made in developing the capital markets in the region and to move towards greater financial integration of the markets.

23 December 2014

The Bank issued a Payment Card Reform Framework as a standard under the Financial Services Act 2013 and the Islamic Financial Services Act 2013, with the objective of fostering an efficient, transparent and competitive payment card industry in Malaysia. The Framework seeks to ensure that the cost of accepting payment cards is fair and reasonable through the establishment of an objective and transparent mechanism for the reimbursement of fees among payment card network participants. Under the Framework, ceilings are imposed on interchange fees payable by the acquiring banks to the payment card issuing banks. The Framework also introduces a series of measures which are designed to address other distortions in the payment card market in order to promote greater usage and acceptance of cost-effective payment cards.

31 December 2014

The Bank, Bank Indonesia and Otoritas Jasa Keuangan signed a Heads of Agreement (HoA) which serves as a precursor to the conclusion of the ASEAN Banking Integration Framework (ABIF). The Agreement outlines the areas that would be bilaterally implemented between Malaysia and Indonesia under ABIF. It also sets out the definition of Qualified ASEAN Banks (QABs), which entails the presence of Malaysian and Indonesian banks in each other's jurisdiction. In addition, the Agreement also identified the market access and operational flexibilities that will be accorded to the banking institutions once conferred and established as a QAB in the respective jurisdiction. The conclusion of the HoA aims to pave the way for the finalisation of the ABIF Guidelines and the subsequent endorsement of ABIF under the ASEAN Framework Agreement on Services.