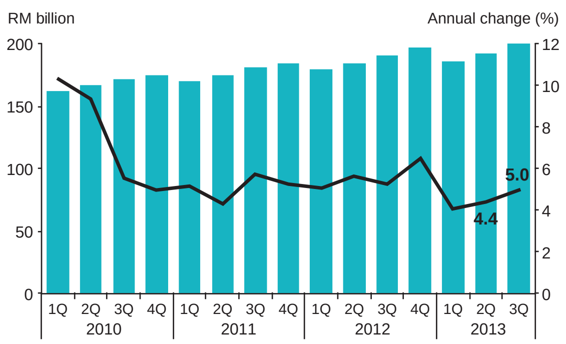
ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE THIRD QUARTER OF 2013

OVERVIEW

The Malaysian economy recorded a stronger growth of 5.0% in the third quarter

The Malaysian economy recorded a stronger growth of 5.0% in the third quarter (2Q 2013: 4.4%). Domestic demand remained the key driver of growth, expanding by 8.3% (2Q 2013: 7.4%), while exports turned around to grow by 1.7% (2Q 2013: -5.2%). On the supply side, most major sectors expanded further in the third quarter, supported by the continued strength in domestic demand and the improvement in trade activity. The moderate expansion in the global economy in the third quarter supported the recovery in exports. International financial markets, however, experienced increased volatility amid uncertainties over the fiscal and monetary policies of the advanced economies, particularly the US. On a quarter-on-quarter seasonally adjusted basis, the economy expanded by 1.7% (2Q 2013: 1.4%).

The economy expanded in the third quarter
(at constant year 2005 prices)



Source: Department of Statistics, Malaysia

Private consumption expanded by 8.2% (2Q 2013: 7.2%), supported by sustained employment conditions and wage growth. Growth in public consumption moderated in the third quarter to 7.8% (2Q 2013: 11.8%), reflecting mainly lower Government spending on supplies and services.

Growth in gross fixed capital formation improved to 8.6% (2Q 2013: 6.0%), underpinned by capital spending in the private sector. Private investment grew by 15.2% (2Q 2013: 12.7%), driven by capital spending in the services and manufacturing sectors as well as the on-going implementation of projects in the oil and gas sector. Meanwhile, public investment growth improved but remained weak at -1.3% (2Q 2013: -6.4%). Public investment was driven mainly by public enterprises investing in the transportation, oil and gas and utilities sectors.

On the supply side, growth in most economic sectors improved in the third quarter. The services and manufacturing sectors expanded further, supported by domestic demand and the improvement in trade activity. Growth of the agriculture sector was higher, supported mainly by the production of food crops, while the moderation in growth of the mining sector reflected the lower production of natural gas and crude oil. In the construction sector, growth was sustained, driven mainly by the residential sub-sector. Growth was further supported by the non-residential and civil engineering sub-sectors.

The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI), was higher at 2.2% in the third quarter (2Q 2013: 1.8%). The increase was mainly attributed to higher inflation in the *transport* and *food and non-alcoholic beverages* categories.

In the external sector, the current account surplus increased to RM9.8 billion in the third quarter, equivalent to 4.1% of GNI (2Q 2013: RM2.6 billion or 1.1% of GNI), due mainly to a higher surplus in the goods account. The financial account recorded a net outflow of RM11.5 billion (2Q 2013: inflow of RM5.2 billion), as net inflows of direct investment were offset by outflows from portfolio and other investments. The overall balance of payments registered a larger surplus of RM11.8 billion in the third quarter (2Q 2013: RM1.5 billion).

The international reserves of Bank Negara Malaysia amounted to RM444.6 billion (equivalent to USD136.5 billion) as at 30 September 2013. This reserve level has taken into account the quarterly adjustment for foreign exchange revaluation changes. As at 31 October 2013, the reserves position amounted to RM446.2 billion (equivalent to USD137.1 billion), sufficient to finance 9.7 months of retained imports and is 3.7 times the short-term external debt.

Interest rates remained stable

The Overnight Policy Rate (OPR) was maintained at 3.00% during the third quarter of 2013. At the prevailing level of the OPR, monetary conditions remain supportive of economic activity.

The average interbank rates for all maturities remained relatively stable. In terms of retail interest rates, the average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. The average base lending rate (BLR) of commercial banks also remained unchanged at 6.53%, while the weighted average lending rate (ALR) on loans outstanding continued its gradual moderating trend (end-September 2013: 5.40%; end-June 2013: 5.43%).

The monetary aggregates continued to experience positive growth during the third quarter. M1, or narrow money, increased by RM10.9 billion. On an annual basis, M1 expanded by 12.9% as at end-September (end-June 2013: 12.5%). M3, or broad money, increased by RM16.4 billion on a quarter-on-quarter basis to record an annual growth rate of 7.4% as at end-September (end-June 2013: 8.5%). M3 continued to expand during the quarter on account of credit extended to the private sector by the banking system and higher net claims on the Government.

Total gross financing raised by the private sector through the banking system and the capital market amounted to RM260.5 billion in the third quarter (2Q 2013: RM251.0 billion). Outstanding banking system loans expanded at an annual growth rate of 9.5% as at end-September (end-June 2013: 9.1%), while net funds raised in the capital market amounted to RM20.1 billion in the third quarter (2Q 2013: RM13.9 billion).

The foreign exchange market was volatile during the quarter. The ringgit depreciated against the major and most regional currencies. The ringgit, alongside most regional currencies, depreciated against the US dollar as expectations for a scale-back in the US Federal Reserve's asset purchase program prompted a reversal of capital flows from most regional financial markets. Overall, the ringgit depreciated by 2.4% against the US dollar during the quarter. The ringgit also depreciated against the pound sterling (7.8%), euro (5.6%) and Japanese yen (3.3%), as well as against most regional currencies, by between 1.7% and 8.5%. The ringgit, however, strengthened against the Indonesian rupiah by 14.6%.

Between 1 October and 13 November, the ringgit appreciated against the US dollar by 1.5%. The ringgit also appreciated against the pound sterling (3.3%), Japanese yen (3.1%) and euro (2.0%). Against regional currencies, the ringgit strengthened by between 0.9% and 2.2% during the period.

Financial stability continued to be preserved

The domestic financial system remained resilient throughout the third quarter, despite the increased volatility in global and domestic financial markets. Domestic financial intermediation continued to be well-supported by sound financial institutions, orderly financial market conditions and sustained confidence in the financial system.

The banking system remained well-capitalised, with the common equity tier 1 (CET1) capital ratio, tier 1 capital ratio and total capital ratio remaining well above the minimum regulatory levels, at 12.1%, 13.0% and 14.4%, respectively. Similarly, the capital adequacy ratio of the insurance sector remained strong at 236.7% (2Q 2013: 229.5%), with an excess capital buffer of RM27.4 billion.

Domestic demand will continue to be supportive of growth

Going forward, emerging signs of a recovery in the major advanced economies are expected to support overall global growth. Uncertainties surrounding the fiscal and monetary policy adjustments in these economies, however, may affect market sentiment and overall growth prospects in the global economy. While global policy spillovers may have some impact on Asia, growth will continue to be underpinned by domestic demand.

For the Malaysian economy, the gradual recovery in the external sector will support growth. Domestic demand from the private sector will remain supportive of economic activity amid the continued consolidation of the public sector. The economy is therefore expected to remain on its steady growth trajectory.

DEVELOPMENTS IN THE THIRD QUARTER OF 2013

INTERNATIONAL ECONOMIC ENVIRONMENT

Continued economic expansion amid increased volatility in financial markets

The global economy continued to expand in the third quarter. In the advanced economies, emerging signs of improvements in economic growth suggested that a modest recovery is underway. Growth in Asia was sustained, albeit with some variation across the region. However, rising external risks, which to some extent compounded domestic vulnerabilities, prompted some monetary authorities in the region to adopt a tighter monetary policy stance to ease inflation and stabilise domestic currencies.

Global financial markets experienced increased volatility amid uncertainties over the direction of fiscal and monetary policies in the advanced economies. At the beginning of the quarter, major equity markets in the advanced economies improved due to better economic data releases in Europe. However, financial markets in Asia remained volatile as weak Chinese economic data fuelled fears of a sharper-than-expected slowdown in PR China. In August, global financial market conditions deteriorated. Equity prices fell on uncertainty over the timing of the scale-back in the quantitative easing (QE) programme by the US Federal Reserve (the Fed) and concerns over the economic fundamentals of several Asian economies. There was also great anxiety amid the rising possibility of a US military strike against Syria. Market sentiment subsequently improved as developments in September lowered investors' risk aversion. These include the US Fed's decision to maintain asset purchases at the September Federal Open Market Committee (FOMC), the better growth outlook of most advanced economies and PR China, and the easing of geopolitical risks. However, towards the end of the quarter, market conditions deteriorated again due to uncertainties over an impending shutdown of the US government. Despite these challenging developments, most major equity markets ended the quarter higher.

Growth in the US economy was sustained in the third quarter of 2013 (1.6%, 2Q 2013: 1.6%). On a seasonally adjusted annualised basis, growth was higher at 2.8% (2Q 2013: 2.5%). The improvement was supported by higher private investment and a faster pace of private inventory accumulation. However, government spending declined further (-2.8%, 2Q 2013: -2.0%). Overall growth momentum faced headwinds from monetary and fiscal policy uncertainties. The housing and labour market recovery continued to progress, albeit at a more moderate pace. Residential construction and sales posted smaller growth following the increase in mortgage rates. Job creation moderated to 490,000 in 3Q 2013 (2Q 2013: 547,000) amid lower hiring in the services sector. On the inflation front, headline CPI rose to 1.6% (2Q 2013: 1.4%) due to an increase in energy prices.

In the euro area, mixed economic data in the third quarter suggest that the pace of recovery remained weak and uneven. Structural and fiscal concerns continued to constrain growth. These included the high indebtedness of the public and private sectors, high unemployment rate and sustained declines in bank lending. Inflation was subdued at 1.3% (2Q 2013: 1.4%) due to weak energy prices.

Economic activity in the UK economy grew by 1.5% (2Q 2013: 1.4%). On a seasonally adjusted basis, quarterly growth recorded an expansion of 0.8% (2Q 2013: 0.7%), driven by a broad-based expansion across all sectors. Inflation was steady at 2.7% (2Q 2013: 2.7%).

In Japan, economic activity benefitted from an improvement in external demand. Exports grew by 3.0% (2Q 2013: 0.0%) due mainly to increased shipments to Asia, the US and Western Europe. Investments rose amid better business sentiment. Consumption improved, supported by higher demand for durable goods. Headline inflation (excluding fresh food) turned positive (0.7%; 2Q 2013: 0.0%) following higher prices in energy as well as transportation and communication.

Advanced Economies: Real GDP Growth

	2012		2013		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
US[1]	2.8	0.1	1.1	2.5	2.8[a]
UK	0.0	-0.2	0.2	1.3	1.5[p]
Japan[1]	-3.7[r]	0.6[r]	4.3[r]	3.8	1.9[p]

[1] Annualised basis
[r] Revised
[a] Advance estimate
[p] Preliminary

Source: National authorities

Regional Countries: Real GDP Growth

	2012		2013		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
PR China	7.4	7.9	7.7	7.5	7.8
Indonesia	6.2	6.1	6.0	5.8	5.6
Singapore	0.0	1.5	0.3[r]	4.2[r]	5.1[a]
Chinese Taipei	0.7	4.0	1.6[r]	2.5	1.6[a]
Korea	1.6	1.5	1.5	2.3[p]	3.3[a]

[p] Preliminary
[a] Advance estimate
[r] Revised

Source: National authorities

Monetary policy in the advanced economies remained highly accommodative during the quarter. In the US, the Federal Open Market Committee (FOMC) maintained the federal funds rate at 0-0.25% and continued its asset purchase program of USD85 billion per month. During the September meeting, the FOMC stated it would “await more evidence of a sustained recovery” before reducing the current pace of asset purchases. To better reflect the current growth trajectory, the Fed’s official growth projections were revised lower to 2.0-2.3% and 2.9-3.1% in 2013 and 2014, respectively (Previous: 2.3-2.6%, 3.0-3.5%, respectively). In the euro area, the European Central Bank (ECB) lowered interest rates to 0.25% in Novermber. The decision was premised upon latest indications of a prolonged period of low inflation below the 2% target amid weaker-than-expected economic activity. The ECB also reaffirmed the forward guidance for monetary policy to remain accommodative for as long as necessary. The Bank of England (BoE) maintained its key policy rate at 0.5% and its asset purchase programme of £375 billion. BoE also adopted forward guidance for the first time in August, stating that the central bank will not raise the Bank Rate above its current level of 0.5% until the unemployment rate has at least fallen below 7%. The central bank indicated that it stands ready to undertake further asset purchases if additional stimulus is warranted. It added that the forward guidance will cease to apply if there are material risks to price or financial stability. In Japan, the Bank of Japan maintained its accommodative stance through the expansion of its monetary base by ¥60-70 trillion per year.

Economic activity in Asia continued to expand, albeit with some variation across countries. In most economies, domestic demand remained a key driver of growth, underpinned by higher income and fiscal stimulus measures. Exports growth also improved in tandem with the gradual recovery in external demand. In PR China, Korea and Singapore, economic activity expanded at a faster pace (7.8%, 3.3% and 5.1%, respectively; 2Q 2013: 7.5%, 2.3% and 4.2%, respectively). Growth in PR China and Korea was driven by domestic demand amid government stimulus measures while exports continued to expand. In Singapore, growth was mainly supported by improvements in the manufacturing sector, particularly the transport engineering and electronics clusters. In Chinese Taipei and Indonesia, however, growth moderated (1.6% and 5.6%, respectively; 2Q 2013: 2.5% and 5.8%, respectively), attributable mainly to lower net exports.

Headline inflation rose in several economies (PR China, India and Korea) amid higher costs of food, due in part to adverse weather conditions. In Indonesia, food prices increased during the fasting month of Ramadhan, while transport costs accelerated following the hike in subsidised fuel prices in June. Higher inflation in Hong Kong SAR was attributable to a sharp increase in public housing rent growth during the middle of the quarter. In Singapore, inflation rose mainly on account of an increase in private road transport cost after recording a contraction in the previous quarter. Inflation, however, moderated in Chinese Taipei and Thailand on account of lower costs of food, while in the Philippines, the moderation was due mainly to a slower expansion in prices of electricity, gas and other fuels.

As inflationary pressures generally remained modest across the region, most regional central banks maintained their accommodative monetary policy stance to support growth amid a challenging global environment. The only exceptions were Bank Indonesia (BI) and the Reserve Bank of India (RBI) which raised policy rates due to country-specific factors. BI raised its key policy rate by a total of 125 basis points to 7.25% during the quarter. In August, the central bank announced that it will issue Bank Indonesia Deposit Certificates (SDBI) and improve Loan-Deposit-Ratio (LDR)-Reserve Requirements provisions to strengthen lending and prudent fund raising, as well as increase the Secondary Reserve Requirement for banks to bolster liquidity management. In November, BI increased its benchmark rate by a further 25 basis points to 7.50%. The central bank highlighted that the hikes in the policy interest rates form part of the measures taken to reinforce its policy mix, which focuses on controlling inflation, stabilising the rupiah and ensuring that the current account deficit is managed to a sustainable level. During the quarter through October, the RBI hiked the repo rate by 50 basis points to 7.75% in an effort to anchor inflation expectations. To improve liquidity conditions in the economy, the central bank reduced the marginal standing facility (MSF) rate by a total of 150 basis points to 8.75% in September and October and provided additional liquidity through term repos.

Amid signs of slowing economic activity, Thailand and Indonesia announced fiscal measures to provide support to their economies. In August, the Thai cabinet approved a stimulus package with the aim of increasing growth by one percentage point. The plan focuses on boosting private consumption and investment, speeding up the government's budget disbursements and stimulating exports. Similarly, the Indonesian government also unveiled a fiscal package in August to promote foreign investment, reduce imports and support its currency. In an effort to strengthen its current account position, import taxes on luxury goods will be increased, along with measures to reduce oil imports and remove export quotas on mineral and metal ores. The government will also provide tax incentives for labour-intensive industries.

During the quarter, Brent crude oil prices rose, due mainly to geopolitical events in the Middle East. Oil prices began the quarter at USD103 per barrel amid lower demand from the weak global growth outlook. However, beginning in July, the conflict in Egypt led to market concerns over oil delivery through the Suez Canal. As a result, prices rose and stayed at around USD108 per barrel throughout July and August. By late August, the risk of an international military intervention in Syria caused oil prices to climb to a six-month high of USD117 per barrel. However, towards the end of the quarter, oil prices moderated to USD108 per barrel as the likelihood of military action in Syria receded. For the quarter as a whole, crude oil prices averaged USD110 per barrel (2Q 2013: USD103 per barrel).

In the foreign exchange market, most major currencies ended the quarter higher against the US dollar. The euro and the pound sterling started the quarter on a depreciating trend due to heightened concerns over the political instability in Portugal and S&P's downgrade of Italy's sovereign credit rating. Since mid-July, the currencies generally appreciated, supported by better-than-expected economic data in the UK, Germany and the euro area. Meanwhile, the yen appreciated against the US dollar in the first half of the quarter following better-than-expected inflation data and expectations that the Bank of Japan will refrain from embarking on more stimulus measures. Towards the second half of the quarter, however, the yen weakened against the US dollar, reflecting negative investor sentiment arising from the increased possibility of a consumption tax hike. In Asia, the currencies of most newly-industrialised economies (NIEs) also ended the quarter higher against the US dollar, underpinned by sustained capital inflows due to relatively better economic fundamentals. However, most ASEAN currencies were affected by a reversal of capital flows, reflecting market uncertainty surrounding the possibility of a scale-back of US QE. While the Fed's decision to delay the scale-back of US QE in September supported most ASEAN currencies, the pace of appreciation was limited by some increase in risk aversion from the ongoing uncertainty over the timing and pace of a scale-back in US QE.

Going forward, emerging signs of a recovery in the US and euro area will provide some support to overall global growth. However, uncertainties surrounding the fiscal and monetary policy adjustments in the advanced economies present downside risks to the global economy. While global policy spillovers may impact Asia, growth will continue to be supported by domestic demand, and underpinned by sound macroeconomic fundamentals and policy flexibility.

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Growth momentum strengthened

The Malaysian economy recorded a stronger growth of 5.0% in the third quarter of 2013 with domestic demand continuing to drive growth. Growth in private sector spending was higher, supported by both private consumption and investment. After four consecutive quarters of contraction, exports turned around to record a positive growth during the quarter. This resulted in a positive contribution of net exports to growth, despite higher import growth in the third quarter. On a quarter-on-quarter seasonally adjusted basis, the economy recorded a growth of 1.7% (2Q 2013: 1.4%).

Continued expansion in domestic demand

Domestic demand expanded by 8.3% (2Q 2013: 7.4%) due to continued growth in household and business spending, and public sector expenditure.

Private consumption expanded by 8.2% in the third quarter. Household spending was supported by favourable employment conditions and higher wage growth, especially in the domestic-oriented sectors. Growth in public consumption moderated in the third quarter (7.8%; 2Q 2013: 11.8%), reflecting more moderate Government spending on supplies and services.

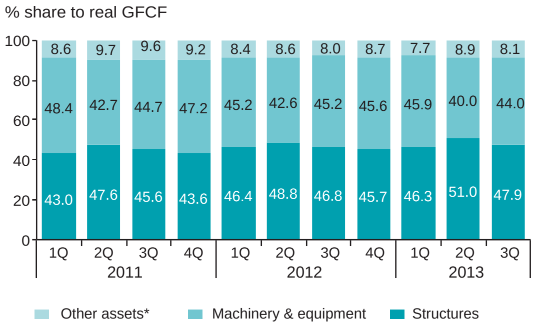
GDP by Expenditure Components
(at constant 2005 prices)

	2012		2013		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	11.4	7.8	8.2	7.4	8.3
Consumption	7.4	4.9	6.2	8.1	8.1
Private sector	*8.6*	*6.2*	*7.5*	*7.2*	*8.2*
Public sector	*2.4*	*1.2*	*0.6*	*11.8*	*7.8*
Gross Fixed Capital Formation	22.3	16.0	13.1	6.0	8.6
Private sector	*22.4*	*20.1*	*10.8*	*12.7*	*15.2*
Public sector	*22.2*	*12.9*	*17.3*	*-6.4*	*-1.3*
Net Exports	-47.6	-9.3	-36.4	-41.6	1.6
Exports of Goods and Services	*-2.5*	*-1.6*	*-0.6*	*-5.2*	*1.7*
Imports of Goods and Services	*4.5*	*-0.6*	*3.6*	*-2.0*	*1.8*
GDP	**5.3**	**6.5**	**4.1**	**4.4**	**5.0**
GDP (q-o-q growth, seasonally adjusted)	**1.0**	**2.2**	**-0.3**	**1.4**	**1.7**

Source: Department of Statistics, Malaysia

Gross fixed capital formation registered higher growth of 8.6% (2Q 2013: 6.0%), underpinned by capital spending in the private sector. Private sector investment grew by 15.2% (2Q 2013: 12.7%), supported by capital spending in the services and manufacturing sectors as well as the on-going implementation of projects in the oil and gas sector. By type of assets, investment activity was driven mainly by spending on structures (11.0%; 2Q 2013: 10.9%). Public investment, however, registered a marginal decline (-1.3%; 2Q 2013: -6.4%), as capital spending by public enterprises in the transportation, oil and gas and utilities sectors were offset by the decline in Federal Government development expenditure.

GFCF by Type of Assets



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

Source: Department of Statistics, Malaysia

GDP by Economic Activity (at constant 2005 prices)

	Share 2012 (%)	2012		2013		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Agriculture	7.3	0.6	5.6	6.0	0.4	2.1
Mining	8.4	-1.2	4.2	-1.9	4.1	1.7
Manufacturing	24.9	3.3	5.7	0.3	3.5	4.2
Construction	3.5	17.9	17.6	14.2	9.9	10.1
Services	54.6	7.0	6.4	6.1	5.0	5.9
Real GDP	**100.0[1]**	**5.3**	**6.5**	**4.1**	**4.4**	**5.0**
Real GDP (q-o-q seasonally adjusted)	**-**	**1.0**	**2.2**	**-0.3**	**1.4**	**1.7**

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

Source: Department of Statistics, Malaysia

Major economic sectors expanded amid continued strength in domestic demand and improving trade

On the supply side, growth in most economic sectors improved in the third quarter. The services and manufacturing sectors expanded further, supported by domestic demand and the improvement in trade activity. Growth of the agriculture sector was higher, supported mainly by production of food crops, while the moderation in growth of the mining sector reflected the lower production of natural gas and crude oil. In the construction sector, growth was sustained, driven mainly by the residential sub-sector. Growth was further supported by the non-residential and civil engineering sub-sectors.

The **services sector** expanded by 5.9% in the third quarter (2Q 2013: 5.0%), supported by domestic demand and an improvement in trade and manufacturing activities. Growth in the wholesale and retail trade sub-sector was higher at 5.9% (2Q 2013: 5.0%), driven mainly by the retail segment from higher household spending. Meanwhile, the wholesale segment improved, in tandem with higher trade activity. These factors also supported the higher growth in transportation and storage sub-sector (5.1%; 2Q 2013: 4.2%). The communication sub-sector expanded further to 10.8% (2Q 2013: 9.8%), driven by continued demand for data communication services. The finance and insurance sub-sector turned around to register a positive growth of 0.8% (2Q 2013: -0.1%), following an improvement in fee based income, and continued growth in net interest income arising from favourable bank lending activity.

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

	Share 2012 (%)	2012		2013		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Intermediate Services	**41.0**	**8.9**	**8.3**	**6.3**	**4.1**	**5.0**
Finance & insurance	17.2	11.7	10.8	6.2	-0.1	0.8
Real estate & business services	10.1	7.5	6.6	6.3	6.9	8.3
Transport & storage	6.7	3.7	4.4	3.8	4.2	5.1
Communication	7.0	9.2	8.6	9.0	9.8	10.8
Final Services	**59.0**	**5.7**	**5.1**	**5.9**	**5.6**	**6.5**
Wholesale & retail trade	26.1	4.5	2.4	5.9	5.0	5.9
Accommodation & restaurant	4.5	4.1	4.8	6.2	4.9	5.5
Utilities	4.6	3.8	4.1	3.9	4.1	4.0
Government services	14.7	10.9	11.3	7.0	7.7	9.5
Other services	9.2	3.4	4.1	5.2	5.3	5.1
Total Services	**100.0[1]**	**7.0**	**6.4**	**6.1**	**5.0**	**5.9**

[1] Numbers do not add up due to rounding

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2012		2013		
	3Q	4Q	1Q	2Q	3Q
	Index				
MIER Consumer Sentiments Index	118.3	118.7	122.9	109.7	102.0
MIER Retail Trade Index	130.2	94.8	101.0	104.9	107.9
MIER Tourism Market Index	129.9	129.8	115.5	112.6	138.8
	Annual change (%)				
Tourist arrivals	-2.2	2.9	15.9	0.6	n.a.
Total passenger traffic at all airports	2.9	8.6	9.1	18.9	22.7
Total consumption credit outstanding	7.6	7.1	7.7	7.0	7.3
Total loans outstanding	11.9	10.4	10.6	9.1	9.5
Loans outstanding to the wholesale & retail trade, hotels & restaurants	11.8	12.1	14.2	14.6	11.9
Imports of consumption goods	9.7	5.6	3.0	12.4	9.7
Total sales of motor vehicles	2.7	12.9	13.9	-4.3	11.0
Container cargo handled (Port Klang and PTP)	1.7	0.4	-0.4	0.5	3.0

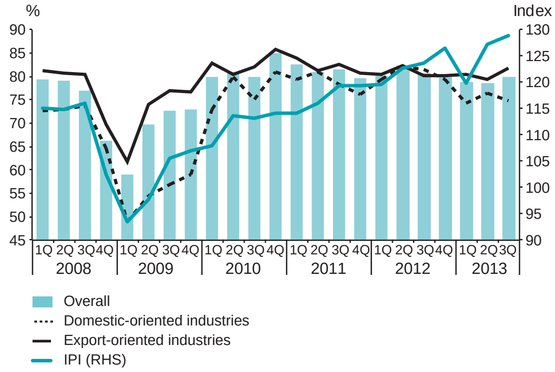
Source: Various sources

The **manufacturing sector** expanded further in the third quarter (4.2%; 2Q 2013: 3.5%), supported by an improvement in the export-oriented industries and sustained growth in the domestic-oriented industries. Growth in the export-oriented industries was higher during the quarter (4.2%; 2Q 2013: 1.8%) as demand for chemicals and chemical products, refined petroleum and electrical and electronic products continued to provide support to the sector. Domestic-oriented industries grew by 4.4% (2Q 2013: 9.1%), sustained by continued demand for transport equipment, food, beverage and tobacco products.

The overall capacity utilisation rate in the manufacturing sector was marginally higher in the third quarter (80%; 2Q 2013: 79%). Export- and domestic-oriented industries were operating at 82% and 75% of total capacity respectively (2Q 2013: 79% and 76% respectively).

The **construction sector** registered a stable growth during the quarter (10.1%; 2Q 2013: 9.9%). Growth was driven by expansion in the residential sub-sector, underpinned by construction activity for high-rise and high-end properties in the Klang Valley, Penang and Johor. Growth improved further in the non-residential sub-sector amidst a pick-up in retail and industrial projects. The civil engineering sub-sector continued to expand, albeit at a slower rate following the near completion of a few large infrastructure and oil and gas-related projects. This includes the Second Penang Bridge, Ipoh-Padang Besar double track, Pahang-Selangor raw water transfer project and the Sabah Oil and Gas Terminal.

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

Performance of the Manufacturing Sector

	Share 2012 (%)	2012 3Q	2012 4Q	2013 1Q	2013 2Q	2013 3Q
		Annual Change (%)				
Value Added (RM million at constant 2005 prices)		**3.3**	**5.7**	**0.3**	**3.5**	**4.2**
Overall Manufacturing Production[1]	**100.0**	**3.5**	**6.0**	**0.2**	**3.6**	**4.3**
Export-oriented industries	**80.2**	**2.5**	**5.3**	**-0.5**	**1.8**	**4.2**
Electronics and electrical products cluster	**32.3**	**1.9**	**3.9**	**1.1**	**1.3**	**4.0**
Of which:						
Electronics	21.4	5.1	12.7	8.1	8.6	10.1
Electrical products	10.9	-1.9	-5.8	-7.0	-7.9	-4.0
Primary-related cluster	**47.9**	**2.7**	**6.0**	**-1.3**	**2.1**	**4.4**
Of which:						
Chemicals and chemical products	17.4	5.9	7.8	3.5	5.0	9.1
Petroleum products	15.8	-0.2	4.2	-11.4	0.1	0.6
Rubber products	2.5	1.5	3.2	12.1	6.7	13.1
Off-estate processing	3.7	-2.5	11.1	11.9	0.2	-0.7
Domestic-oriented industries	**19.8**	**6.9**	**8.1**	**2.4**	**9.1**	**4.4**
Construction-related cluster	**8.3**	**10.5**	**10.5**	**2.7**	**7.9**	**0.8**
Of which:						
Construction-related products	5.5	1.6	-1.6	-3.7	-8.2	-3.5
Fabricated metal products	2.8	21.6	25.2	9.6	27.2	5.2
Consumer-related cluster	**11.5**	**3.9**	**6.2**	**2.1**	**10.2**	**7.5**
Of which:						
Transport equipment	4.3	11.9	19.1	8.5	23.9	12.0
Food, beverage & tobacco products	7.2	2.1	0.7	-1.0	1.2	2.5

[1] Industrial Production Index (2005=100)

Source: Department of Statistics, Malaysia

Indicators for the Construction Sector

	2012		2013		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Value of construction work done	27.2	25.6	16.3	11.6	12.0
Residential	21.1	25.0	10.8	25.6	23.6
Non-residential	16.1	7.9	-1.4	0.5	9.9
Civil engineering[1]	43.8	41.0	40.6	12.5	6.7
Housing approvals	3.2	12.3	-19.4	-37.8	-1.0
Production[2] of construction-related materials	10.5	10.5	2.7	7.9	0.8
Structural metal products	40.4	40.9	16.1	60.6	4.9
Iron and steel	-5.9	-3.6	6.6	-1.7	11.0
Structural non-refractory clay and ceramic products	6.0	3.4	-6.3	-8.2	-9.3
Ready-mix concrete	18.2	18.4	23.1	17.8	10.6
Loans for the construction sector					
Approval	5.3	-59.6	-28.9	-5.8	-1.4
Disbursement	48.8	4.2	23.5	25.8	-4.0

[1] Includes special trade works such as site preparation, electrical installation and painting
[2] Industrial Production Index (2005=100)

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

Performance of the Agriculture Sector

	Share 2012 (%)	2012		2013		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Value Added (at constant 2005 prices)	**100.0**	**0.6**	**5.6**	**6.0**	**0.4**	**2.1**
Industrial Crops	**55.7**	**-3.9**	**4.9**	**5.4**	**-5.5**	**-1.9**
Of which:						
Oil palm	36.5	1.6	11.6	14.6	1.2	-0.5
Rubber	8.2	-14.9	0.9	-2.2	-26.2	-2.2
Food Crops	**44.3**	**6.6**	**6.7**	**6.7**	**7.3**	**7.0**
Of which:						
Fishing	14.4	4.9	5.8	6.9	1.3	2.0
Livestock	11.7	6.7	11.6	6.7	8.1	11.8

Source: Department of Statistics, Malaysia

Performance of the Mining Sector

	Share 2012 (%)	2012		2013		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Value Added (at constant 2005 prices)	**100**	**-1.2**	**4.2**	**-1.9**	**4.1**	**1.7**
Production						
Of which:						
Crude oil and condensates	-	-0.6	5.8	-3.5	2.0	-1.0
Natural gas	-	-1.7	4.6	0.3	8.1	6.9

Source: PETRONAS
Department of Statistics, Malaysia

The **agriculture sector** grew by 2.1% in the third quarter (2Q 2013: 0.4%), supported mainly by growth in food crops. Production of industrial crops contracted, due primarily to the contraction in palm oil and rubber output. Growth in the **mining sector** moderated to 1.7% (2Q 2013: 4.1%), reflecting lower production of natural gas, while output of crude oil recorded a slight contraction due to maintenance works.

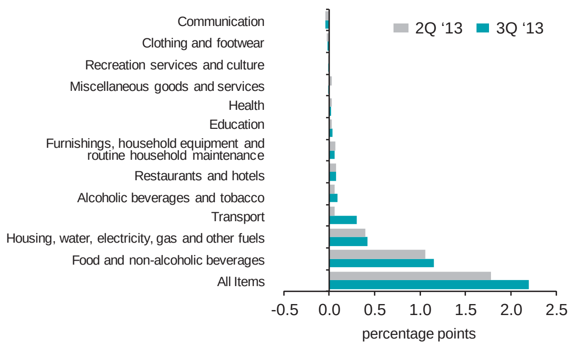
Inflation was higher in the third quarter

The headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI), was higher at 2.2% in the third quarter (2Q 2013: 1.8%). The increase was mainly attributed to higher inflation in the *transport* and *food and non-alcoholic beverages* categories.

Inflation in the *transport* category rose to 2.0% during the quarter (2Q 2013: 0.4%), due to the upward adjustments to prices of petroleum products in September 2013. Inflation in the *food and non-alcoholic beverages* category also rose to 3.8% (2Q 2013: 3.5%) due to stronger demand during Ramadhan.

The Producer Price Index (PPI) declined at a slower pace of 2.3% on an annual basis in the third quarter (2Q 2013: -4.1%). In terms of composition, prices of commodity related components declined at a slower rate of 6.0% (2Q 2013: -10.8%). Meanwhile, prices of non-commodity related components continued to decline further by 0.3% (2Q 2013: -0.2%). Prices of both local and imported components also declined at a slower pace by 2.9% and 1.1% respectively (2Q 2013: -5.2% and -1.6% respectively).

Contribution to Consumer Price Inflation



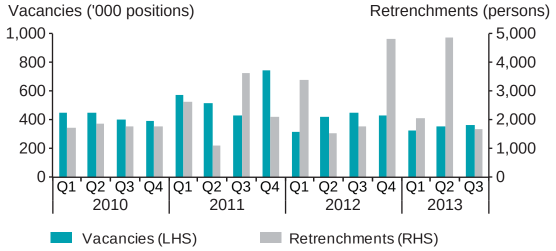
Source: Bank Negara Malaysia

Favourable labour market conditions in the third quarter

Employment conditions improved during the quarter, with total employment averaging 13.6 million persons during the first two months of the quarter, representing a net job gain of 381 thousand persons compared to the previous quarter. The unemployment rate remained low at 3.1% in July-August (2Q 2013: 3.0%). Labour demand was sustained in the third quarter, as reflected in the higher number of job vacancies posted in the JobsMalaysia Portal (361,080 positions; 2Q 2013: 353,261 positions).

Total retrenchments reported to the Ministry of Human Resources decreased significantly to 1,699 persons (2Q 2013: 4,854 persons), due to the marked improvement in the manufacturing sector. Meanwhile, aggregate real wages in the manufacturing sector increased by 8.1% (2Q 2013: 5.6%), attributed to higher wage growth in the export-oriented industries, while wage growth in the domestic-oriented industries was sustained.

Labour Market Conditions



Note: Vacancies data from 2012 onwards is not comparable to previous years due to a reclassification exercise

Source: Ministry of Human Resources

External position improved in 3Q

The current account surplus increased to RM9.8 billion in the third quarter, equivalent to 4.1% of GNI (2Q 2013: RM2.6 billion or 1.1% of GNI), due mainly to a higher surplus in the goods account.

The trade surplus increased to RM18.6 billion in the third quarter (2Q 2013: RM 8.2 billion), following an improvement in gross exports, amid a continued expansion in gross imports.

After four consecutive quarters of contraction, gross exports turned around to register a positive growth in the third quarter (7.6%; 2Q 2013: -5.4%), supported by an improvement in external demand and more favourable commodity prices. Exports to the region were higher, mainly in refined petroleum products, E&E, manufactures of metals and chemicals and chemical products. However, exports to the US and Japan remained weak.

Balance of Payments[1]

	2012		2013		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Current Account	**9.6**	**22.9**	**8.7**	**2.6**	**9.8**
(% of GNI)	*4.2*	*9.6*	*3.9*	*1.1*	*4.1*
Goods	25.6	34.3	24.7	18.7	25.8
Services	-2.3	-2.2	-3.4	-3.7	-4.3
Primary income	-8.9	-5.6	-8.8	-8.4	-8.1
Secondary income	-4.7	-3.5	-3.8	-4.1	-3.5
Financial Account	**-9.0**	**-10.3**	**1.0**	**5.2**	**-11.5**
Direct investment	1.5	-18.4	-2.2	-7.9	2.0
Assets	*-7.2*	*-16.5*	*-11.5*	*-15.4*	*-7.3*
Liabilities	*8.7*	*-1.9*	*9.4*	*7.4*	*9.3*
Portfolio investment	27.8	10.4	3.9	3.7	-9.7
Assets	*-6.0*	*-4.1*	*-5.3*	*-11.0*	*-10.3*
Liabilities	*33.8*	*14.5*	*9.2*	*14.7*	*0.6*
Financial derivatives	-0.1	0.1	0.2	-1.4	0.6
Other investment	-38.3	-2.3	-0.9	10.8	-4.4
Errors & omissions[2]	-8.1	-7.0	-5.6	-6.2	13.4
Overall Balance	**-7.5**	**5.9**	**4.0**	**1.5**	**11.8**

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 The Balance of Payments and International Investment Position Manual (BPM6) by the International Monetary Fund (IMF)
[2] Includes foreign exchange revaluation on gains/losses made on international reserves

Source: Department of Statistics, Malaysia

Trade Account

	Share 2012 (%)	2012		2013		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Gross Exports	**100.0**	**-1.9**	**-2.2**	**-2.6**	**-5.4**	**7.6**
Manufactured	66.9	-1.3	-2.4	-3.2	-2.5	6.5
E&E	*32.9*	*-1.7*	*-4.4*	*-4.9*	*-4.0*	*5.3*
Non-E&E	*34.0*	*-0.9*	*-0.6*	*-1.5*	*-1.1*	*7.7*
Petroleum & agri-related	*12.9*	*-5.1*	*-1.7*	*-3.5*	*-3.7*	*1.2*
Equipment & metals	*12.6*	*6.2*	*1.8*	*-0.7*	*-2.3*	*13.6*
Misc. manufacturing goods	*8.5*	*-3.7*	*-2.3*	*0.4*	*4.8*	*8.7*
Commodities	32.2	-4.0	-2.4	-1.8	-11.5	11.2
Minerals	*20.8*	*9.8*	*7.4*	*6.2*	*-5.9*	*23.8*
Agriculture	*11.4*	*-21.2*	*-16.8*	*-17.0*	*-21.2*	*-10.7*
Gross Imports	**100.0**	**6.9**	**0.9**	**6.4**	**2.5**	**7.5**
Intermediate goods	60.0	-3.8	-9.6	0.0	3.0	4.0
Capital goods	15.8	21.6	14.3	13.8	-6.2	3.6
Consumption goods	7.2	9.7	5.6	3.0	12.4	9.7
Re-exports and dual-use goods	17.0	44.1	31.3	26.6	5.0	21.8
Trade balance (RM billion)	**–**	**17.1**	**26.9**	**16.3**	**8.2**	**18.6**

Source: MATRADE and Department of Statistics, Malaysia

Gross imports expanded at a faster pace of 7.5% (2Q 2013: 2.5%), driven by higher growth in imports of products for re-export and a continued expansion in other import categories. The significant growth in imports for re-export activity reflected the continued expansion of storage facilities in southern Johor, which cater mainly to refined petroleum and copper. Intermediate imports and capital imports grew at a faster pace, in tandem with the higher manufactured exports and investments during the quarter. However, growth in consumption imports moderated, weighed down by imports of food and beverages and semi-durable consumer goods.

The services account recorded a larger deficit of RM4.3 billion in the third quarter (2Q 2013: -RM3.7 billion), due mainly to higher payments for transportation, in tandem with increased trade activity during the quarter. In addition, travel receipts were lower, reflecting lower spending by tourists in Malaysia relative to the previous quarter.

The deficit in the primary income balance decreased slightly to RM8.1 billion (2Q 2013: -RM8.4 billion), following higher investment income from Malaysian companies investing abroad, attributable mainly to companies in the oil and gas and services sectors.

The financial account recorded a net outflow of RM11.5 billion in the third quarter (2Q 2013: inflow of RM5.2 billion), as net inflows of direct investment were offset by outflows from portfolio and other investments.

Inward direct investment (or change in direct investment liabilities) was higher, registering an inflow of RM9.3 billion (2Q 2013: RM7.4 billion) due to higher retained earnings during the quarter, as MNCs registered higher profits and repatriated lower dividends to shareholders abroad. The direct investment was undertaken mainly by companies in the manufacturing and oil and gas sectors.

Outward direct investment (or change in direct investment assets) was smaller at RM7.3 billion (2Q 2013: RM15.4 billion outward direct investment). This was due to lower extensions of equity capital amid higher retained earnings abroad. The investments were undertaken primarily by Malaysian companies in the mining and services sectors.

Portfolio investments recorded a net outflow of RM9.7 billion during the quarter (2Q 2013: inflow of RM3.7 billion). This was attributable to continued portfolio investment abroad by resident institutional investors amidst small inflows of non-resident portfolio investment. In the beginning of the quarter, there were sizeable outflows of foreign portfolio funds in tandem with uncertainties in global financial markets arising from the possibility of a scaling down of the Federal Reserve Bank's asset purchase programme. However, towards the end of the quarter, Malaysia experienced a resumption of inflows following diminished expectations of an imminent Fed tapering. Inflows of portfolio funds also occurred due to the offshore issuance of foreign currency denominated bonds by a public enterprise (PE).

Malaysia: Direction of Exports

	Share 2012 (%)	2012		2013		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
United States	**8.7**	**8.3**	**4.1**	**-2.9**	**-4.7**	**-7.7**
European Union (EU)	**8.8**	**-19.2**	**-15.9**	**-6.4**	**-3.4**	**16.2**
Japan	**11.9**	**1.7**	**-13.7**	**-9.5**	**-9.5**	**-2.4**
Selected ASEAN countries[1]	**26.4**	**10.5**	**8.0**	**9.9**	**0.8**	**11.2**
North East Asia	**23.6**	**-8.4**	**-4.1**	**-5.3**	**10.1**	**14.4**
People's Republic of China	*12.6*	*-11.6*	*-4.8*	*-1.7*	*-9.6*	*17.6*
Hong Kong SAR	*4.3*	*0.2*	*-4.2*	*-9.0*	*-9.4*	*4.3*
Korea	*3.6*	*-9.2*	*2.9*	*-4.0*	*-9.2*	*9.9*
Chinese Taipei	*3.1*	*-5.5*	*-8.4*	*-16.7*	*-14.5*	*20.9*
West Asia[2]	**3.4**	**2.5**	**-8.8**	**-1.3**	**5.4**	**-2.0**
India	**4.2**	**0.7**	**12.9**	**-3.0**	**-10.2**	**-15.8**
Total exports	**100.0**	**-1.9**	**-2.2**	**-2.6**	**-5.4**	**7.6**

[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

Other investment recorded a net outflow of RM4.4 billion (2Q 2013: inflow of RM10.8 billion), as higher trade credits extended by Malaysian exporters more than offset the unwinding of assets abroad by the domestic banking sector.

The overall balance of payments registered a surplus of RM11.8 billion in the third quarter (2Q 2013: RM1.5 billion). Errors and omissions (E&O) amounted to +RM13.4 billion (4.1% of total trade). This partly reflects foreign exchange revaluation gains on international reserves, as the ringgit depreciated against major currencies during the quarter.

External debt

Total external debt increased to RM306.6 billion or USD93.2 billion as at end-September 2013 (end-June: RM284.7 billion or USD88.6 billion), equivalent to 32.1% of GNI.

Medium- and long-term external debt increased to RM186.3 billion, mainly reflecting net drawdown of external borrowings by NFPEs and the private sector. As at end-September 2013, the **short-term external debt** was also higher at RM120.3 billion due mainly to net drawdown of interbank borrowing. The higher total external debt during the quarter was also due to the weakening of the ringgit against regional and major currencies.

External Debt Outstanding

	2012	2013	
	end-Sep	end-June	end-Sep[p]
	RM billion		
Medium- and long-term debt	159.1	170.3	186.3
Public sector	84.8	82.2	92.8
Private sector	74.3	88.0	93.5
Short-term debt[1]	100.5	114.4	120.3
Total external debt	**259.6**	**284.7**	**306.6**
USD billion equivalent	83.9	88.6	93.2
External debt/GNI (%)	28.7	29.8	32.1
Reserves/Short-term external debt (times)	4.2	3.8	3.7[2]

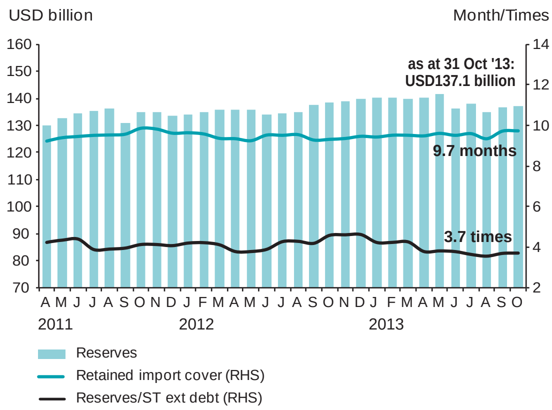
[1] Excludes currency and deposits held by non-residents with resident banking institutions
[2] Based on international reserves as at 31 October 2013
[p] Preliminary

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

International reserves remained high

The international reserves of Bank Negara Malaysia amounted to RM444.6 billion (equivalent to USD136.5 billion) as at 30 September 2013. This reserve level has taken into account the quarterly adjustment for foreign exchange revaluation changes. As at 31 October 2013, the reserves position amounted to RM446.2 billion (equivalent to USD137.1 billion), sufficient to finance 9.7 months of retained imports and is 3.7 times the short-term external debt.

Net International Reserves (as at end period)



Source: Bank Negara Malaysia

Government revenue continues to support expenditure

Federal Government revenue was higher by 9.4% on an annual basis at RM57 billion in the third quarter, driven mainly by income tax collection from individuals. The higher revenue supported the operating expenditure, which was mainly disbursed for emoluments, supplies and services, and subsidies. Development expenditure was lower compared to the same period in the previous year, with the bulk of the expenditure being directed to the transportation and education sectors. During the quarter, the Federal Government recorded a fiscal deficit of RM5.4 billion or -2.2% of GDP (2Q 2013: -1.9% of GDP). As at end-September 2013, total outstanding debt of the Federal Government amounted to RM529.2 billion or 53.6% of the estimated 2013 GDP.

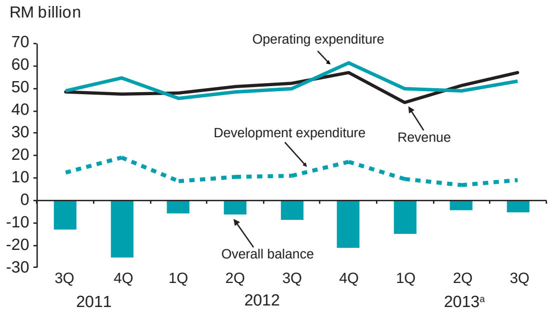
Federal Government Finance

	2012		2013p		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Revenue	52.1	57.2	43.8	51.6	57.0
% annual growth	*7.8*	*20.0*	*-8.6*	*1.7*	*9.4*
Operating expenditure	50.1	61.6	49.9	49.2	53.4
% annual growth	*2.5*	*13.1*	*9.4*	*2.0*	*6.7*
Current account	**2.0**	**-4.5**	**-6.1**	**2.4**	**3.6**
% of GDP	***0.9***	***-1.8***	***-2.6***	***1.0***	***1.4***
Net development expenditure	10.8	16.6	8.8	6.8	9.0
% annual growth	*-12.0*	*-10.2*	*8.3*	*-22.4*	*-16.5*
Overall balance	**-8.8**	**-21.1**	**-14.9**	**-4.4**	**-5.4**
% of GDP	***-3.7***	***-8.7***	***-6.4***	***-1.9***	***-2.2***
Memo item:					
Total net expenditure	60.9	78.3	58.7	56.0	62.4
% annual growth	*-0.4*	*7.2*	*9.3*	*-1.8*	*2.6*
Total Federal Government debt					
(as at end-period)	484.6	501.6	508.9	519.3	529.2
% of GDP	*51.5*	*53.3*	*51.5*	*52.6*	*53.6*
Domestic debt	467.4	484.8	492.8	502.9	512.3
% of GDP	*49.7*	*51.5*	*49.9*	*50.9*	*51.9*
External debt	17.3	16.8	16.1	16.5	16.9
% of GDP	*1.8*	*1.8*	*1.6*	*1.7*	*1.7*

p Preliminary

Source: Ministry of Finance, Malaysia

Federal Government Finance



p Preliminary

Source: Ministry of Finance, Malaysia

MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates remained stable

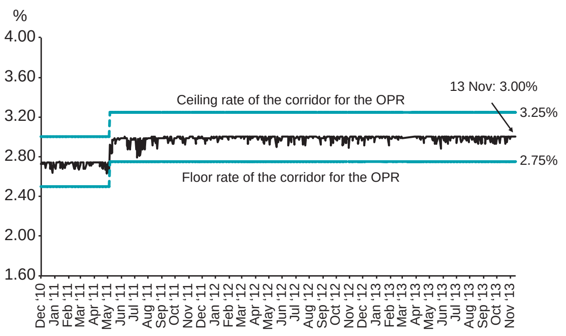
The Overnight Policy Rate (OPR) was maintained at 3.00% during the third quarter of 2013. At the prevailing level of the OPR, monetary conditions remain supportive of economic activity.

The average overnight interbank rate was stable during the quarter, moving within a range of 2.93% to 3.00% between 1 July and 30 September 2013. Interbank rates of other short-term maturities were also relatively stable. The 3-month Kuala Lumpur Interbank Offered Rate (KLIBOR) futures remained stable during the period, reflecting market expectations for the OPR to remain unchanged.

Retail deposit rates were stable during the quarter. The average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. As at end-September 2013, the average quoted FD rates of commercial banks for the tenures of 1 to 12 months ranged between 2.91% to 3.15% respectively.

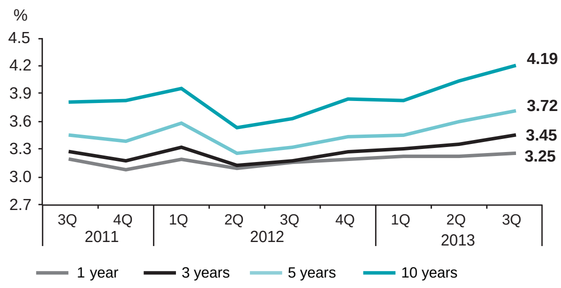
Borrowing costs remained broadly stable throughout the period. The average base lending rate (BLR) of commercial banks remained unchanged at 6.53%. The weighted average lending rate (ALR) on loans outstanding continued its gradual moderating trend (end-September 2013: 5.40%; end-June 2013: 5.43%), reflecting the maturity of loans that were contracted during the period of higher borrowing costs prior to the OPR reductions in 2008 and 2009, as well as the addition of new loans at relatively lower rates. Borrowing costs for businesses and households remained supportive of economic activity as lending rates continue to be below the levels prior to the global financial crisis.

Daily Weighted Average Overnight Interbank Rate



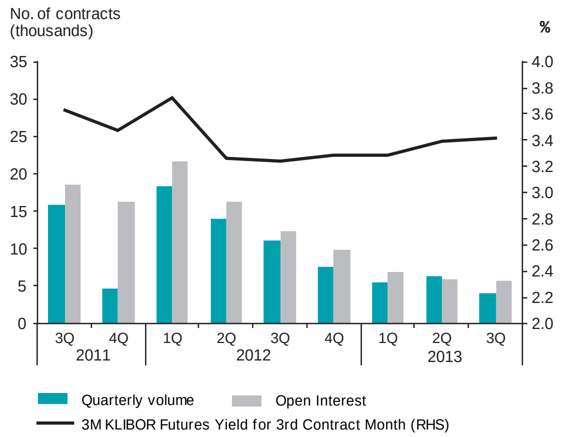
Source: Bank Negara Malaysia

Interest Rate Swap: Rates



Source: Bloomberg

3 Month KLIBOR Futures



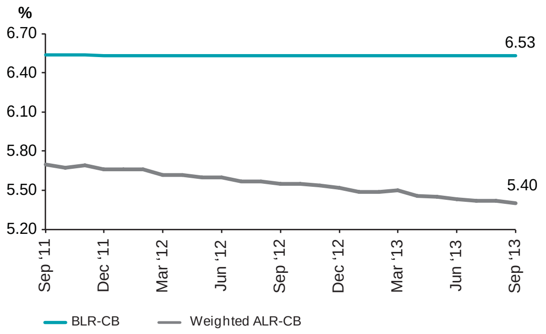
Source: Bursa Malaysia

Interest Rates

	2012	2013	
	3Q	2Q	3Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.00	3.00	3.00
Interbank rates			
Overnight	2.99	3.00	2.93
1-month	3.08	3.08	3.07
Base lending rate (BLR)			
Commercial banks	6.53	6.53	6.53
Weighted average lending rate			
Commercial banks	5.55	5.43	5.40
Fixed deposit rates			
Commercial banks			
1-month	2.92	2.91	2.91
12-month	3.16	3.15	3.15

Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (At end-period)



Source: Bank Negara Malaysia

Determinants of Broad Money, M3

	Change during the period				
	2012		2013		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
M3	**29.0**	**15.1**	**44.4**	**23.3**	**16.4**
Net claims on Govt	0.3	-5.0	8.4	2.3	15.7
Claims on private sector	27.2	25.3	24.1	30.2	23.7
Loans	*19.5*	*19.2*	*21.6*	*30.8*	*23.9*
Securities	*7.7*	*6.0*	*2.4*	*-0.6*	*-0.2*
Net foreign assets[1]	22.1	-6.6	7.9	2.7	-4.2
BNM	*0.6*	*6.0*	*6.3*	*-2.1*	*-4.6*
Banking System	*21.5*	*-12.6*	*1.7*	*4.8*	*0.4*
Other influences	-20.6	1.5	4.0	-12.0	-18.8

[1] Pre-revaluation

Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

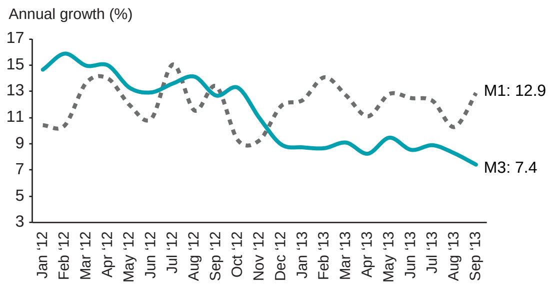
M3 continued to expand

The monetary aggregates continued to experience positive growth during the third quarter. M1, or narrow money, increased by RM10.9 billion. On an annual basis, M1 expanded by 12.9% as at end-September (end-June 2013: 12.5%). M3, or broad money, increased by RM16.4 billion on a quarter-on-quarter basis to record an annual growth rate of 7.4% as at end-September (end-June 2013: 8.5%).

On the domestic side, M3 continued to expand during the quarter on account of 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 by net outflows due to external developments.

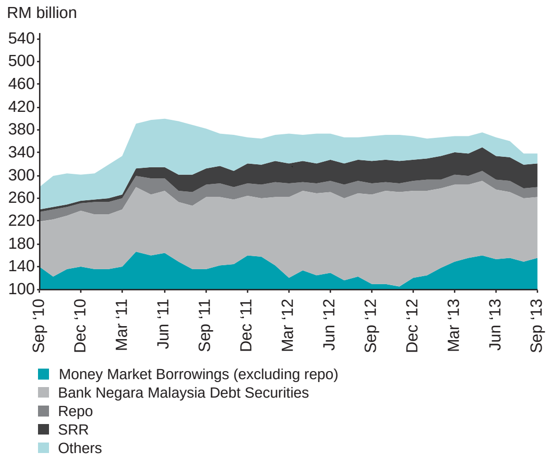
In the banking system, ample liquidity conditions prevailed at both the institutional and system-wide levels. The level of surplus liquidity placed with BNM was marginally lower during the quarter following some unwinding of liquidity to meet outflows.

Monetary Aggregates



Source: Bank Negara Malaysia

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

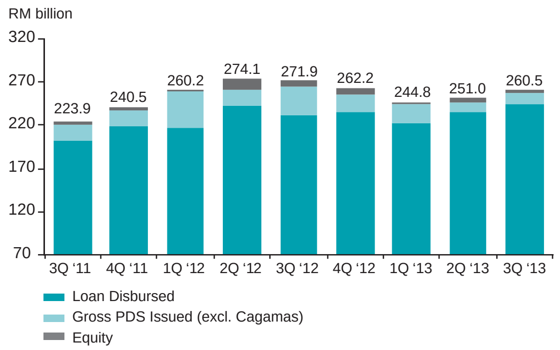


Source: Bank Negara Malaysia

Private sector financing activity was sustained in the third quarter

In the third quarter, total gross financing raised by the private sector through the banking system and the capital market amounted to RM260.5 billion (2Q 2013: RM251.0 billion). Banking system loans outstanding expanded at an annual growth rate of 9.5% as at end-September (end-June 2013: 9.1%).

Gross Private Sector Financing through the Banking System and Capital Market

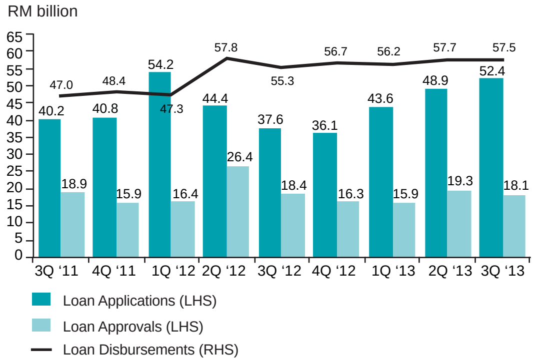


Source: Bank Negara Malaysia

In the business sector, outstanding banking system loans during the quarter expanded by a lower amount of RM3.8 billion compared to the previous quarter (2Q 2013: RM13.8 billion). This contributed to the slower growth of 7.2% on an annual basis (end-June 2013: 8.2%). Nevertheless, the level of loans disbursed to businesses remained high compared to previous periods with higher loans disbursed to the *finance, insurance and business services*, *real estate, construction* and *agriculture* sectors during the quarter. Demand for new financing by businesses also increased with higher loan applications recorded from most major sectors.

Financing to the household sector from the banking system expanded by RM19.7 billion during the quarter (2Q 2013: RM17.3 billion). On an annual basis, household loans outstanding grew at a stable pace of 11.9% as at end-September (end-June 2013: 11.8%). Household demand for loans during the quarter came mainly from the *purchase of residential property, passenger cars, securities* and for *personal use*.

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 (%)				
	2012		2013			2012		2013		
	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q
Gross total financing	**271.9**	**262.2**	**244.8**	**251.0**	**260.5**	**21.4**	**9.0**	**-5.9**	**-8.4**	**-4.2**
Loans disbursed*	232.2	236.2	221.7	235.1	244.8	14.9	7.6	2.2	-3.0	5.4
Gross PDS (excl. Cagamas)	31.8	19.8	22.1	11.1	12.9	76.4	16.2	-47.4	-43.5	-59.4
Equity	7.9	6.1	1.0	4.8	2.8	106.1	59.6	-24.9	-60.0	-64.9
Net total financing (A)+(B)	**33.3**	**31.1**	**32.5**	**32.1**	**31.7**	**12.8**	**12.4**	**11.0**	**9.1**	**8.7**
Banking system	28.5	26.0	24.7	31.2	26.5	12.9	12.0	11.7	9.7	9.3
Loans outstanding (A)	*20.9*	*19.8*	*23.4*	*32.8*	*27.2*	*11.9*	*10.4*	*10.6*	*9.1*	*9.5*
Holding of PDS	*7.6*	*6.2*	*1.4*	*-1.6*	*-0.7*	*28.0*	*36.6*	*28.2*	*18.1*	*6.4*
PDS outstanding (B)	12.4	11.4	9.1	-0.8	4.5	15.5	18.7	12.4	9.0	6.5
Memorandum item										
Gross PDS (incl. Cagamas)	32.6	23.1	22.6	11.8	13.4	71.0	33.1	-49.5	-42.6	-58.9

*Banking systems loans include loans sold to Cagamas

Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Loans by Sector

	Loans disbursed						Loans out-standing
	During the period					Share of total	Share of total
	3Q 12	4Q 12	1Q 13	2Q 13	3Q 13		
	During this period (RM billion)					(%)	
Business enterprises	**162.0**	**164.9**	**150.3**	**161.5**	**167.3**	**68.3**	**43.8**
Large corporations	*106.7*	*108.2*	*94.1*	*103.7*	*109.8*	*44.9*	*27.6*
*SMEs**	*55.3*	*56.7*	*56.2*	*57.7*	*57.5*	*23.5*	*16.2*
Selected sectors							
Agriculture, hunting, forestry and fishing	7.0	8.1	8.7	7.6	7.9	3.2	2.7
Mining and quarrying	1.7	1.9	2.1	2.3	2.1	0.9	0.7
Manufacturing	52.1	51.0	48.0	49.3	49.1	20.1	8.0
Construction	16.1	14.6	14.7	14.9	15.4	6.3	4.0
Real estate	7.8	9.5	8.4	10.6	11.7	4.8	5.8
Electricity, gas and water supply	2.2	3.1	1.9	3.5	2.1	0.9	0.8
Wholesale, retail, restaurants and hotels	42.5	46.1	43.5	45.2	45.2	18.5	7.5
Transport, storage and communication	4.5	3.7	3.1	3.8	4.3	1.8	2.3
Finance, insurance and business services	20.7	18.3	14.6	17.3	22.8	9.3	6.7
Households	**70.1**	**71.4**	**71.4**	**73.7**	**77.5**	**31.7**	**56.2**
Purchase of residential properties	16.2	16.9	16.8	18.4	18.7	7.7	26.4
Consumption credit	42.7	43.3	41.9	42.2	45.7	18.7	18.9
Of which:							
Credit cards	*23.0*	*24.2*	*23.2*	*23.8*	*25.8*	*10.5*	*2.8*
Purchase of passenger cars	*10.8*	*10.6*	*10.9*	*10.1*	*11.2*	*4.6*	*11.2*
Others	11.2	11.1	12.6	13.0	13.1	5.3	10.9
Total	**232.2**	**236.2**	**221.7**	**235.1**	**244.8**	**100.0**	**100.0**

*Include loans to individual businesses.

Note: Numbers do not add up due to rounding

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)					Annual growth (%)				
	2012		2013			2012		2013		
	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q
Total										
Loan applications	181.5	172.1	187.3	208.7	214.2	-2.8	-11.4	-4.7	-5.8	18.0
Loan approvals	94.3	95.3	87.4	103.9	103.2	-4.5	-8.5	-2.8	-6.8	9.4
Loan disbursements	232.2	236.2	221.7	235.1	244.8	14.9	7.6	2.2	-3.0	5.4
Loan repayments	223.2	227.1	210.4	212.3	224.2	18.6	15.8	2.3	0.6	0.4
Change in loans outstanding*	20.9	19.8	23.4	32.8	27.2	11.9	10.4	10.6	9.1	9.5
Of which:										
Business enterprises**										
Loan applications	81.4	70.3	84.6	91.6	93.6	-5.3	-26.5	-19.6	-20.5	15.0
Loan approvals	41.4	41.8	34.5	42.9	40.4	-10.9	-20.4	-23.8	-25.9	-2.5
Loan disbursements	162.0	164.9	150.3	161.5	167.3	19.2	9.4	-1.7	-9.1	3.3
Loan repayments	161.1	164.3	145.7	148.1	157.9	23.8	18.6	-0.3	-3.4	-2.0
Change in loans outstanding*	7.6	5.0	7.0	13.8	3.8	13.6	10.9	11.7	8.2	7.2
SMEs**										
Loan applications	37.6	36.1	43.6	48.9	52.4	-6.3	-11.4	-19.4	10.2	39.3
Loan approvals	18.4	16.3	15.9	19.3	18.1	-2.6	2.3	-2.8	-27.0	-1.5
Loan disbursements	55.3	56.7	56.2	57.7	57.5	17.6	17.2	18.8	-0.2	4.0
Loan repayments	51.5	54.7	52.5	52.6	55.0	23.0	25.0	14.3	12.4	6.8
Change in loans outstanding*	4.7	2.5	5.7	7.6	2.4	20.3	15.5	15.6	12.1	10.5
Large corporations										
Loan applications	43.8	34.2	41.0	42.7	41.2	-4.4	-37.7	-19.8	-39.7	-5.9
Loan approvals	23.0	25.5	18.6	23.6	22.3	-16.5	-30.3	-35.7	-24.9	-3.2
Loan disbursements	106.7	108.2	94.1	103.7	109.8	20.1	5.7	-10.9	-13.4	2.9
Loan repayments	109.6	109.6	93.2	95.5	102.9	24.2	15.7	-7.0	-10.3	-6.1
Change in loans outstanding*	2.9	2.5	1.3	6.2	1.4	9.1	7.8	8.9	5.4	4.7
Households										
Loan applications	100.1	101.8	102.6	117.1	120.6	-0.7	3.2	12.5	10.1	20.4
Loan approvals	52.9	53.5	52.9	61.0	62.8	1.1	3.5	18.6	13.8	18.7
Loan disbursements	70.1	71.4	71.4	73.7	77.5	6.0	3.6	11.6	13.8	10.5
Loan repayments	62.1	62.9	64.7	64.2	66.3	7.0	8.9	8.6	11.2	6.8
Change in loans outstanding*	17.2	18.2	16.2	17.3	19.7	11.9	11.6	12.1	11.8	11.9

* The annual growth is for end-period.
** Include loans to individual businesses.

Note: Numbers do not add up due to rounding

Source: Bank Negara Malaysia

Higher net financing from the capital market

Fund raising activity in the capital market remained robust, with total net funds raised amounting to RM20.1 billion in the third quarter (2Q 2013: RM13.9 billion).

In the private sector, issuances of private debt securities were higher at RM13.4 billion in the third quarter (2Q 2013: RM11.8 billion), while equity issuances amounted to RM2.8 billion (2Q 2013: RM4.8 billion). Funds raised were mainly used for working capital and general corporate purposes.

In the public sector, net funds raised increased by RM13.7 billion in the third quarter (2Q 2013: RM10.2 billion). Of significance, the third quarter saw the inaugural issuance of the 30-year Malaysian Government Securities (MGS), which reflected the continued development of the Malaysian bond market. As a sign of confidence in the fundamentals of the Malaysian economy, the RM2.5 billion issuance attracted RM6.1 billion of orders, or a bid-to-cover ratio of 2.44 times. Funds were also raised through new issuances of a 7-year MGS, a 3-year, 7.5-year and 20-year Government Investment Issue (GII) and a 7-year Housing Sukuk, as well as the re-opening of a 5-year and 10-year MGS.

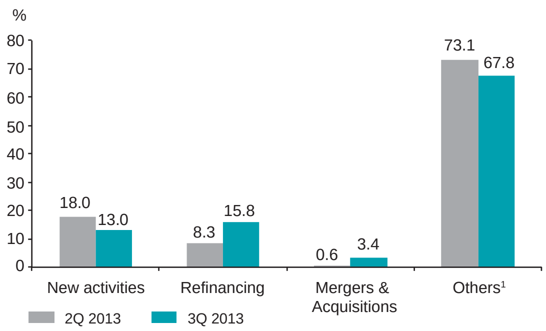
Net Funds Raised in the Capital Market

	2012		2013		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
By Public Sector	**10.4**	**17.6**	**8.0**	**10.2**	**13.7**
Government securities, *net*	7.8	15.7	6.3	12.6	11.0
Malaysian Government Securities	*14.2*	*11.6*	*13.5*	*12.6*	*16.3*
Government Investment Issues	*11.1*	*8.0*	*10.1*	*12.0*	*10.0*
Less: Redemptions	*17.5*	*4.0*	*17.2*	*12.0*	15.3
Savings Bonds, *net*	-	-	-	(2.4)	-
Government Housing Sukuk, *net*	2.6	1.9	1.7	-	2.7
By Private Sector	**18.3**	**20.1**	**8.7**	**3.7**	**6.4**
Shares	7.9	6.1	1.0	4.8	2.8
Debt securities, *net*	10.3	14.0	7.7	(1.1)	3.6
Private Debt Securities	*32.6*	*23.1*	*22.6*	*11.8*	*13.4*
Less: Redemptions	*22.3*	*9.1*	*14.9*	*12.9*	*9.7*
Total	**28.7**	**37.7**	**16.7**	**13.9**	**20.1**

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

Source: Bank Negara Malaysia and Bursa Malaysia

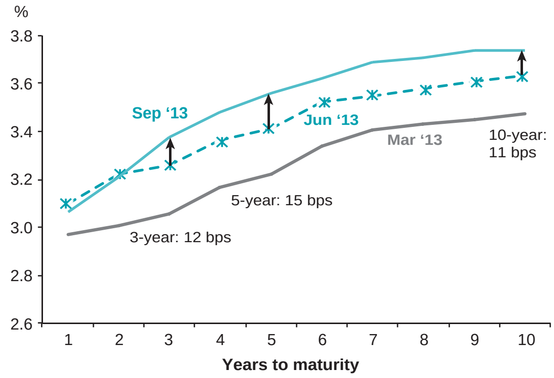
Private Debt Securities Issued by Purpose (% of total)



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

Source: Bank Negara Malaysia

Trend in MGS Yields



Source: Bank Negara Malaysia

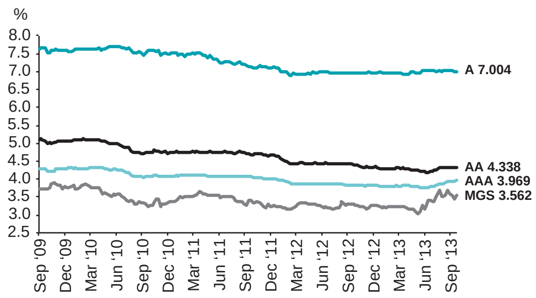
Bond yields increased marginally

MGS yields remained on an upward trend for most of the quarter. This mainly reflected market expectations for a scale-back in the US Federal Reserve's asset purchase program. The trend partially reversed when the US Federal Reserve decided to maintain its asset purchase program in September. Overall, yields on the 3-year, 5-year and 10-year MGS recorded increases of 12, 15 and 11 basis points respectively. Higher rated corporate bond yields also moved in tandem with the increase in MGS yields. The yields on the 5-year AAA and AA-rated corporate bonds recorded an increase of 18 and 12 basis points during the period. The interest rate swap (IRS) rates, particularly for the longer term maturity, also increased in July and August.

Secondary trading in the bond market declined

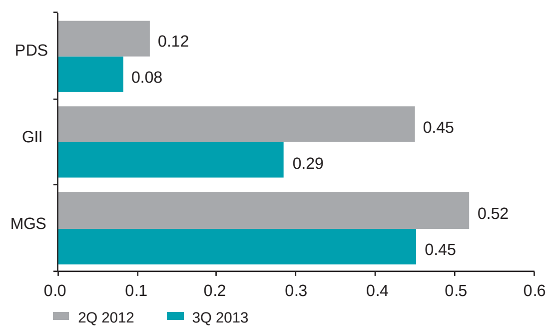
Total trading in the secondary market decreased to RM214 billion during the quarter (2Q 2013: RM270 billion). The decline in turnover was broad-based, with the MGS, GII and PDS segments registering lower liquidity ratios of 0.45, 0.29 and 0.08 respectively.

5 year MGS and 5 year Corporate Bond Yield



Source: Bank Negara Malaysia

Liquidity Ratio: Value of Bond Traded / Outstanding



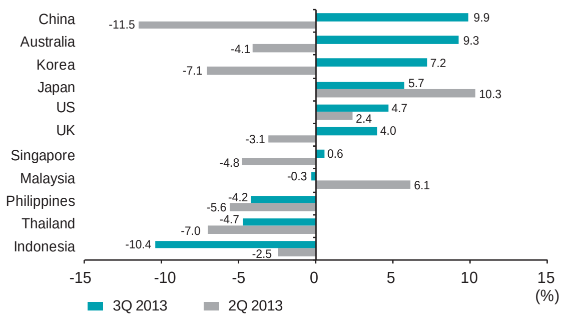
Source: Bank Negara Malaysia

FBM KLCI declined slightly during the quarter

In the third quarter, the FBM (FTSE Bursa Malaysia) KLCI declined slightly by 4.9 points to 1768.6 points at end-September (end-June 2013: 1773.5 points). Market sentiment during the quarter were driven mainly by expectations for a scale-back in the US Federal Reserve's asset purchase program. This exerted downward pressure on regional equities, including the FBM KLCI. The pressure was partially relieved in September when the US Federal Reserve decided to maintain its asset purchase program. Overall, market capitalisation remained at RM1.61 trillion as at end-September 2013 (end-June 2013: RM1.60 trillion) while the daily average turnover increased to 1.74 billion units (2Q 2013: 1.71 billion units) during the quarter.

On 13 November 2013, the FBM KLCI ended higher at 1,782.5 points (since end-September 2013: 0.8%), with market capitalisation of RM1.65 trillion (since end-September 2013: 2.6%).

Performance of Selected Global and Regional Markets in 2013 (% growth QoQ)



Source: Bloomberg and Bank Negara Malaysia calculations

Bursa Malaysia: Selected Market Indicators

	2012	2013			
	As at end				
	Sept	Dec	Mar	June	Sept
Price Indices					
Composite	1,636.7	1,689.0	1,671.6	1,773.5	1,768.6
FBMEMAS[1]	11,106.6	11,438.1	11,420.5	12,304.9	12,289.7
ACE Market[2]	4,304.7	4,214.2	4,008.3	4,684.5	5,537.2
Market capitalisation (RM billion)	1,417.3	1,465.7	1,472.5	1,598.8	1,611.2
No. of companies listed	931	921	915	910	910
	During the quarter				
	3Q	4Q	1Q	2Q	3Q
Average daily turnover					
Volume (million units)	1,197.8	1,053.6	1,070.6	1,714.8	1,739.8
Value (RM million)	1,683.8	1,509.0	1,716.1	2,464.4	2,083.1

[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

	2012				2013					
	3Q		4Q		1Q		2Q		3Q	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	73.1	102.7	65.3	93.6	62.1	99.5	108.0	150.3	109.4	131.2
Of which:										
Main Board	49.1	98.7	50.8	91.3	48.9	97.9	91.4	147.3	85.0	126.4
Of which										
Consumer Products	4.5	5.5	4.6	5.0	3.1	5.3	4.5	6.3	6.1	5.4
Industrial Products	10.0	8.9	10.6	8.5	8.7	7.0	19.6	13.3	13.6	10.3
Construction	1.9	3.4	2.1	3.1	2.4	3.9	5.0	9.3	4.9	7.2
Trading/Services	18.6	42.0	20.8	42.1	16.6	42.3	28.7	55.0	31.5	50.8
Finance	3.6	20.2	2.6	17.6	3.5	21.9	5.4	34.6	4.3	28.4
Properties	4.1	5.0	3.7	3.6	5.1	5.7	11.5	13.8	8.6	9.4
Plantations	1.8	7.8	1.1	4.7	1.2	4.8	1.2	4.9	1.4	4.4
Infrastructure	0.9	3.1	1.1	3.9	1.2	4.1	1.6	5.1	1.7	4.9
ACE Market[1]	18.5	3.3	10.0	1.8	10.5	1.3	13.7	2.4	21.2	4.4

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

Source: Bursa Malaysia

The foreign exchange market was volatile during the quarter

The ringgit weakened against major and most regional currencies in the third quarter. The ringgit, alongside most regional currencies, depreciated against the US dollar as market expectations for a scale-back in the US Federal Reserve's asset purchase program prompted a reversal of capital flows from most regional financial markets. This depreciation trend, however, was partially reversed from end-August to mid-September as the US Federal Reserve's decision to maintain its asset purchase program led to increased interest for regional financial assets.

Overall, the ringgit depreciated by 2.4% against the US dollar during the quarter. The ringgit also depreciated against the pound sterling (7.8%), euro (5.6%) and Japanese yen (3.3%), as well as against most regional currencies, by between 1.7% and 8.5%. The ringgit, however, strengthened against the Indonesian rupiah by 14.6%.

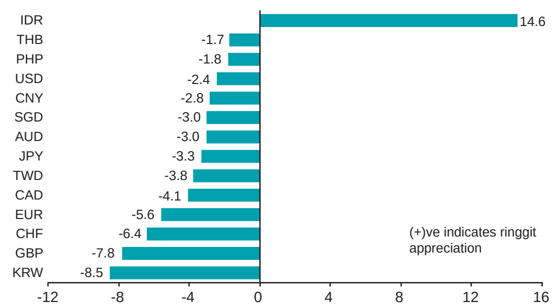
Between 1 October and 13 November, the ringgit appreciated against the US dollar by 1.5%. The ringgit also appreciated against the pound sterling (3.3%), Japanese yen (3.1%) and euro (2.0%). Against regional currencies, the ringgit strengthened by between 0.9% and 2.2% during the period.

Volume of foreign exchange derivatives rose moderately in the third quarter

The volume of foreign exchange derivatives grew by 4.3% in the third quarter (2Q 2013: 18.5%). The rise was primarily driven by foreign exchange swap activities, which expanded by almost 8% from the second quarter as interbank players facilitated increased trading and hedging activities in a more volatile market environment. There was also an increase in forward buying activities by non-residents, particularly in July and August 2013, to hedge their ringgit asset exposure following the strengthening of the US dollar against regional currencies.

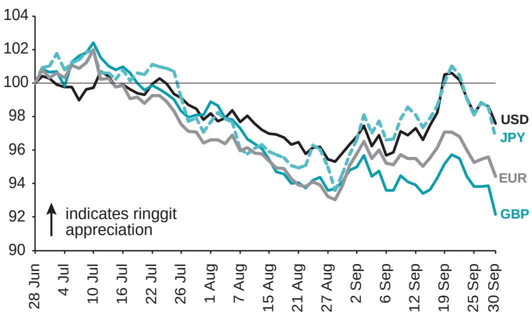
Meanwhile, the cost of borrowing US dollars through the cross-currency swap market declined substantially throughout the third quarter, with the 5-year USD/MYR cross-currency swaps narrowing from 140bps in July to 89bps in September. The decline was mainly due to easing concerns over the potential tapering of quantitative easing by the Federal Reserve following the September's FOMC meeting.

Summary of Ringgit Performance against Selected Currencies Percent Change (1 July - 30 September 2013)



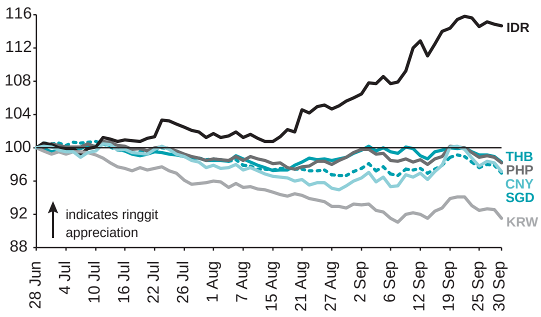
Source: Bank Negara Malaysia

Ringgit Performance against Major Currencies



Source: Bank Negara Malaysia

Ringgit Performance against Regional Currencies



Source: Bank Negara Malaysia

Performance of Ringgit against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	3Q 12	2Q 13	3Q 13	21 Jul 05	3Q 12	2Q 13
US dollar	3.8000	3.0660	3.1785	3.2575	16.7	-5.9	-2.4
Euro	4.6212	3.9639	4.1535	4.3988	5.1	-9.9	-5.6
Pound sterling	6.6270	4.9829	4.8537	5.2666	25.8	-5.4	-7.8
100 Japanese yen	3.3745	3.9536	3.2160	3.3255	1.5	18.9	-3.3
Singapore dollar	2.2570	2.5018	2.5130	2.5912	-12.9	-3.4	-3.0
100 Thai baht	9.0681	9.9481	10.197	10.378	-12.6	-4.1	-1.7
100 Philippine peso	6.8131	7.3402	7.3491	7.4825	-8.9	-1.9	-1.8
100 Indonesian rupiah	0.0386	0.0320	0.0320	0.0279	38.3	14.6	14.6
100 Korean won	0.3665	0.2754	0.2774	0.3031	20.9	-9.1	-8.5
Chinese renminbi	0.4591	0.4871	0.5172	0.5324	-13.8	-8.5	-2.8

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

Source: Bank Negara Malaysia

MANAGING RISKS TO FINANCIAL STABILITY

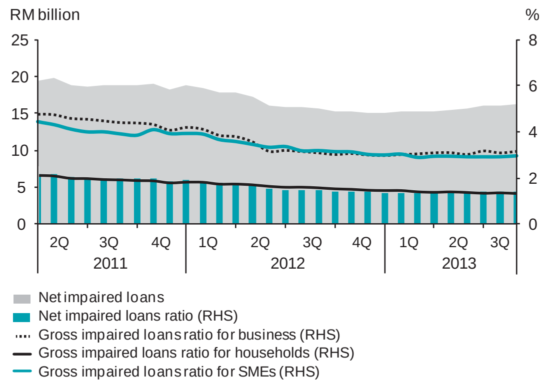
Financial stability continued to be preserved

The domestic financial system remained resilient throughout the third quarter, despite increased volatility in global and domestic financial markets. Financial intermediation continued to be well-supported by sound financial institutions, orderly financial market conditions and sustained confidence in the financial system.

Credit risk in the banking system remained stable throughout the quarter. Loans-in-arrears of between one and three months improved to 3.0% of total loans (2Q 2013: 3.1%), while the level of net impaired loans remained stable at 1.4% of net loans (2Q 2013: 1.4%). Credit risk exposures of the insurance industry, largely from holdings of private debt securities and reinsurance placements, declined slightly, accounting for 3.3% (2Q 2013: 3.4%) of capital base.

Growth in household debt via banks and selected non-bank financial institutions moderated to 2.5% during the quarter (2Q 2013: 3.2%). Compared to the third quarter in the previous year, financing to households also grew at a more moderate pace at 12.0% (2Q 2013: 13.0%). This was driven by a moderation in the expansion of personal financing (3Q 2013: 2.2%, 2Q 2013: 4.3%) and borrowings for the purchase of residential properties (3Q 2013: 1.9%, 2Q 2013: 3.2%). On an annual basis, borrowings for personal financing and purchase of residential properties expanded at a slower pace of 13.1% and 11.5% (2Q 2013: 17.2% and 12.8%) respectively. This development is an early indication of the effects of the macroprudential measures introduced by the Bank on 5 July 2013. At present, the overall debt servicing capacity of the household sector remained intact at the aggregate level, as reflected by the stable ratios of banks' impaired loans and loans-in-arrears of between one and three months of 1.3% and 2.2% of total household loans respectively. The level of impairment however varies across income groups, with those in the lower income category registering higher impairment levels and incidence, consistent with the higher leverage position of lower income individuals. At the aggregate level, household financial assets remained healthy at 2.2 times of household debt, although the strength of financial buffers is uneven across income levels. Household repayment capacity is expected to remain intact against the backdrop of sustained discipline in lending standards observed by banking institutions, improving employment conditions and sustained wage growth.

Banking System: Loan quality



Source: Bank Negara Malaysia

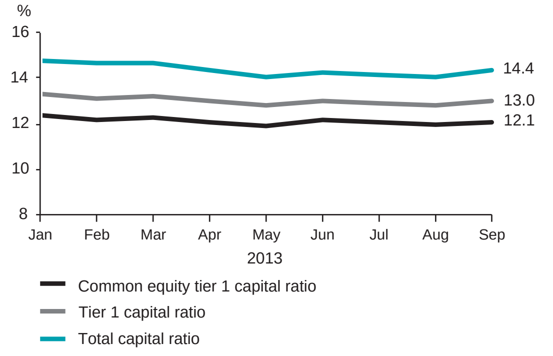
Financing to businesses expanded albeit at a slower pace of 0.9% during the quarter (2Q 2013: 3.2%). On an annual basis, financing to businesses grew moderately at 7.2% (2Q 2013: 8.2%). The debt servicing capacity of businesses generally remained intact despite a decline in the interest coverage ratio (2Q 2013: 5.0 times, 1Q 2013: 6.4 times) due to lower operating profits in several industries. Loans-in-arrears of between one and three months improved to 0.8% (2Q 2013: 1.0%), while the impaired loans ratio for the business portfolio stood at 3.1% (2Q 2013: 3.0%). Financial buffers accumulated by businesses continue to provide support against potential challenges in the operating environment, with liquid financial assets remaining stable at 1.8 times of current financial obligations. The risk of delinquency, as measured by the expected default frequency, remained low and stable at 0.33% (2Q 2013: 0.35%).

Market risk exposures of financial institutions were well-contained despite the increased financial market volatility amid uncertainties in the global environment. Volatility in short-term capital flows continued to be well-intermediated by the financial system. Average volatility for 10-year MGS yields and the FBM KLCI increased to 17.8% and 10.4% (2Q 2013: 8.0% and 9.3%) respectively. Trading activity, as measured by the turnover ratio for MGS and FBM KLCI, declined to 11.9% and 2.2% (2Q 2013: 17.5% and 2.6%) respectively. The bid-ask spreads for MGS and FBM KLCI remained tight, averaging at 0.2% and 0.4% of the mid price (2Q 2013: 0.1% and 0.4%) respectively. Banks' exposures to interest rate risks declined to 4.1% of total capital (2Q 2013: 4.4%), while exposures to equity risks remained stable at 0.6% of total capital (2Q 2013: 0.6%). Meanwhile, the FX net open position of the banking system declined slightly to 6.1% of total capital (2Q 2013: 7.2%). Similarly, the interest rate and equity risk exposures of insurers remained stable at 2.5% and 6.9% of total capital base (2Q 2013: 2.8% and 7.1%) respectively.

The financial sector continued to remain resilient

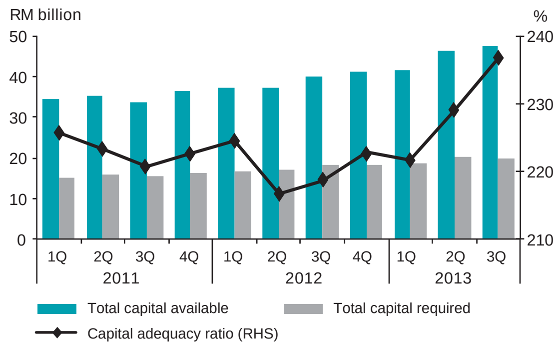
The banking system continued to be well-capitalised, with the common equity tier 1 (CET1) capital ratio, tier 1 capital ratio and total capital ratio remaining well above the minimum regulatory levels, at 12.1%, 13.0% and 14.4% respectively. Banks' capital buffers in excess of the minimum regulatory level stood at more than RM76.5 billion. In terms of capital quality, more than 84% of total capital consists of high quality CET1 capital, comprising paid-up capital, retained earnings and reserves. Similarly, the capital adequacy ratio of the insurance sector remained strong at 236.7% (2Q 2013: 229.5%), with an excess capital buffer of RM27.4 billion.

Banking System: Basel III Capitalisation



Source: Bank Negara Malaysia

Insurance Sector: Capitalisation

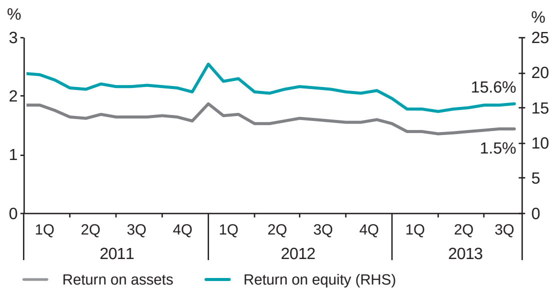


Source: Bank Negara Malaysia

Pre-tax profit of the banking system increased slightly to RM7.8 billion (2Q 2013: RM7.1 billion), attributable mainly to income from financing activities and higher gains from trading and investment activities. Profitability remained stable, with returns on assets and equity of 1.5% and 15.6% (2Q 2013: 1.4% and 15.1%) respectively. Life insurers and family takaful operators registered a lower profit (before surplus arising) of RM870.1 million (2Q 2013: RM4.6 billion profit), driven by unrealised valuation losses recorded by the large life insurers as a result of increased volatility in the financial markets which impacted valuation of insurers' investments in MGS and equities. Life insurers are one of the main players in the government security and equity markets, with investments totalling RM24.8 billion and RM33.0 billion respectively. However, the impact on the life funds was largely mitigated by lower valuations of the corresponding liabilities on life insurance contracts from higher MGS yields used to discount future liabilities. General insurers and takaful operators recorded a lower operating profit of RM663.8 million (2Q 2013: RM772.0 million), due to a marginal increase in overall claims experienced.

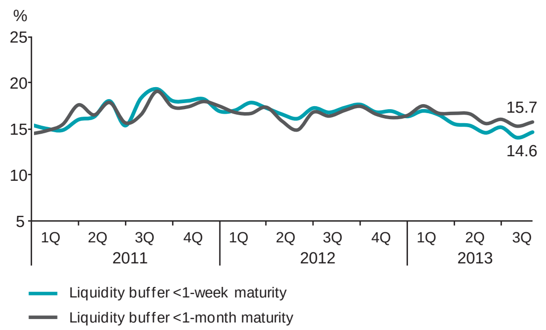
The resilience of the banking system is further supported by ample liquidity in the system. Buffers to meet short-term liquidity needs over the 1-week and 1-month horizons stood at 14.6% and 15.7% of total deposits (2Q 2013: 14.6% and 15.6%) respectively. Net placements by banking institutions with the Bank, which can be drawn to meet additional liquidity needs, stood at RM152.2 billion (2Q 2013: RM146.8 billion). US dollar mismatch positions in the less than 1-month maturity bucket registered a surplus of RM2.9 billion (2Q 2013: surplus of RM4.1 billion) while mismatch positions in the less than 1-week maturity bucket improved to register a shortfall of RM2.9 billion (2Q 2013: RM4.1 billion shortfall).

Banking System: Profitability



Source: Bank Negara Malaysia

Banking System: Liquidity Buffer to Total Deposit Ratio



Source: Bank Negara Malaysia

Insurance and Takaful Sectors: Indicators

	2012		2013		
	2Q	3Q	1Q	2Q	3Q
	RM million				
Life insurance & family takaful					
Excess of income over outgo	4,115.7	5,244.8	3,789.7	4,617.1	870.1
General insurance & general takaful					
Operating profit	703.0	688.5	738.7	772.0	663.8
Claims ratio (%)	59.2	59.1	58.3	57.9	58.8
	Annual Change				
Life insurance & family takaful					
Excess of income over outgo	8.9%	298.8%	-3.2%	12.1%	-83.4%
General insurance & general takaful					
Operating profit	26.2%	55.9%	13.2%	9.8%	-3.6%
Claims ratio (percentage points)	-2.2	-3.4	-2.3	-1.3	-0.3

Source: Bank Negara Malaysia

AIF International Symposium 2013
Changing Face of Talent
Kuala Lumpur, 28 August 2013

Opening Remarks by

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

It is with great pleasure that I welcome you to the AIF International Symposium on the Changing Face of Talent. In preparing for the future, a future that is going to be fundamentally different from the current environment, talent development and its management will need to be accorded with an even greater priority than previously. This is on account of two significant shifts in our environment that will fundamentally affect both the demand and supply of human capital. The first is the rapid and significant transformation of the economic, financial and business landscape which will have far reaching implications on the talent requirements. The second is the changes in the character and nature of the talent that is now coming on stream. These emerging changes have warranted new approaches to human capital development and management. To not recognise these changes and their implications will not only affect business performance but the overall economic progress of a country.

My remarks this morning will be to briefly discuss the fundamental changes that are affecting the financial and economic landscape and its implications for talent requirements and to proceed with some reflections on the changing nature and character of the talent that is coming on stream. I will then conclude with some thoughts on the implications of these developments on talent development and management, in particular, for the financial sector. The challenge for recruiting and retaining the right talent for the financial sector has also become increasingly more acute in this more competitive environment. Therein lies the urgency on the need to accord greater priority to this important agenda of human capital management and development.

The Transformation of the Economic and Financial Landscape

The economic, financial and business landscape is rapidly being transformed and will continue to evolve. Globalisation and internationalisation, accelerated by liberalisation and the rapid advancement in technology are increasing connectivity between economies and between financial markets across borders. As a result the world economy will become increasingly more integrated. In Asia, regional integration has created immense opportunities for economies of scale while paving the way for new and larger markets. This trend has prompted greater regional trade and cross border investment activity. This is the case for other emerging economies that are also becoming huge consumer markets thus resulting in the growing importance of emerging economies in the global economy. This is further being reinforced by the shift towards greater market orientation as markets are deregulated and liberalised, thereby producing a more competitive environment. This has resulted in an operating environment for businesses that has become more complex with increased uncertainties.

Structural shifts are also taking place at the national level in most of the emerging economies. These include the demographic shifts which are transforming the workforce. The demographic structure has an increasing component that comprises a young population and a growing middle income segment. This trend is exemplified by consumers that have become more discerning, with higher expectations. This is also being reinforced by increased longevity. The workforce is also progressively affected by the growing urbanisation which is becoming an important feature in most emerging economies.

The international, regional and national financial landscape is also being significantly transformed. At the international level a growing number of new financial centres will emerge. There may also be new international reserve currencies and a greater network of financial institutions that originate from an increasing number of emerging economies from different parts of the world. This will facilitate greater inter-linkages between financial systems, especially among the emerging economies. These evolving developments will result in an increased interconnectedness of financial markets with the consequence of increased contagion and interdependence. Increasingly financial systems have also become prone to crisis. The fundamental financial reforms prompted by the recent global financial crisis is also transforming the international financial system.

At the regional level, the Asian region has become more cohesive with regional financial integration intensifying to facilitate a more efficient allocation of financial resources in our region. At the national level, the greater market orientation, liberalisation, the increased adoption of new technologies and the more developed intermediaries and markets have generated financial systems that have become more complex, sophisticated and diversified. With the increased risks associated with these changes, equally significant has been the transformation of the regulatory and supervisory framework.

These structural shifts are reshaping the demand for talent. The success of businesses and the effectiveness of governments and policy makers in this environment will critically depend on having the right talent. Talent has increasingly become the most important asset of an organisation. As job complexities intensify, talent with new competencies and higher skill sets including technical skills with digital capabilities will be required. Developing skills for analytical and creative thinking skills will also be needed to promote innovation, solve complex problems, deal with the potential for multiple scenarios, including the ability to effectively manage wide ranging trade-offs. With the increased level of international business, it will also be important for talent to be able to deal with globalisation – an environment with a more diverse workforce with different cultures, generations and perspectives. Communication skills, the potential to work collaboratively and managing complex relationships are further new skills required in this environment. Equally important are the new leadership skills that are needed in this new more complex environment. This includes the ability to manage in crisis conditions. Talent with these new capabilities have tended to be short in supply.

The demand for such talent is also made even more challenging by the changing character and nature of the talent itself. Firstly, there is now greater mobility of the talent within industries, between industries and across borders. No longer can organisations rely on employment to retirement. The potential for retention has become challenging with the motivation of the workforce now becoming highly different. Among the factors that are important for the new generation is for the job to be interesting, challenging and fulfilling. They are drawn to greater engagement with the leadership, greater empowerment and being accorded greater exposure and potential for future development. A lack of recognition of the changes in the motivation of the new generation of the talent will not only present itself as a major challenge for human capital management but it is also likely to affect the harmonisation and cohesiveness of the organisation and thus its overall performance.

Talent in the financial sector

Let me say a few words about the specific talent challenges in the financial sector. The structural changes taking place in the financial system and the recent global financial crisis has and continues to drive dramatic change in the financial industry. Financial institutions are facing increased regulation, greater uncertainty in the operating environment, uneven competitive conditions and a severely damaged reputation in many parts of the world. These developments have important implications for the financial services workforce. The bar on professional competence demanded of talent in the industry has been raised significantly and is also changing in its emphasis. New political and regulatory pressures are also being brought directly to bear on talent management strategies. This includes, for example, the compensation reforms and greater regulatory scrutiny of new hires at the top levels of management. There has also been a growing focus on the role of talent in regaining confidence in the financial sector, in terms of the ethical standards and values embraced by the workforce in the industry, and on the strength and integrity of its leadership.

The financial sector has historically been and remains highly productive in relative terms. In Malaysia, the financial sector has had the highest total-factor productivity growth over the recent decade relative to other sectors of the economy. Employment in the financial sector has also been growing annually with a large proportion of the growth being in the higher skilled segment. This accounts for the higher level of average wages in the financial sector at about RM36,000 annually, compared to the national average of RM21,700 annually for the economy. Financial services employees are also generally educated to a higher level, with more institutions requiring post-graduate or professional qualifications, in addition to the relevant work experience for the key and senior-level positions. Given the more challenging future environment, generating the supply pipe line for talent and addressing the short supply of critical talent with the new skills needs to be given urgent priority.

There has been considerable attention to the shortage of new and higher technical competencies – in particular in the area of risk assessment and management that is required in this new operating environment. The growth in Islamic finance has also added important new dimensions to the talent requirements. Beyond these clear gaps however, sustainable business models in finance will require additional new skills which have not traditionally been areas of focus in financial institutions. This includes skills in change and crisis management, business recovery planning, the ability to develop and sustain long-term customer relationships, and skills to direct and manage operations in international and cross-cultural contexts. Also important is the ability to build, motivate and lead strong teams under significantly more challenging conditions.

Perhaps more than in any other sector, the response to the challenges facing the financial industry in managing talent will need to be much broader, forward looking and more strategic given the central role of the industry in the economy. Even in countries that are not contemplating new compensation regulations, financial institutions need to consider the higher expectations for compensation and incentive systems to be more closely aligned with prudent risk-taking. Talent strategies must also reinforce a strong and enduring ethical foundation of the organization, while developing the individual and organisational agility to deal with external forces of change, including changes induced by economic and financial cycles. There is also an increased emphasis on leadership effectiveness and succession planning to sustain the long-term value and confidence in financial institutions going forward.

The issue before us is then, how can the talent be prepared for this new environment? And how can the changing nature and character of the new generation of talent be effectively managed to produce the best results for the organisation. The best universities, in particular, the business schools from around the world have in fact come under great scrutiny regarding their ability to produce the right kind of talent that organisations now require in this changing environment.

The reviews have not only been on the curriculum to reflect the new demands of organisations but also on the balance between theory based education and the education that actually produce high performing practitioners. This has included not only the development of new skills and capabilities but also the values and attitudes. Among the conclusions of the reviews are that students that graduate need to have a greater understanding of globalisation so that they are able to have a global perspective. Also important is the appreciation of the external environment of businesses that not only includes international developments but also trends in legal, social, political and environmental developments so that students do not graduate with rigid mindsets and are able to contextualise their circumstances.

Given the highly diverse developments and perspectives that exist, thinking skills will require the ability for integrated thinking. This involves being able to effectively frame the issues that require solutions or decisions. Very often it involves the need to take into consideration multiple perspectives, some of which may be conflicting so that the judgements and conclusions need to balance multiple trade offs.

For emerging economies such as Malaysia, generating talent with these abilities are urgently needed for our current and future environment. While investment in education reform and investment in people through the education process is vital, this will require time before it will generate results. How then can graduates be prepared in the transition? How can the existing work force be strengthened to meet the new demands of businesses in this changed environment? This will involve continuous capacity building for every part of the career life-cycle, from the entry point to senior management and leadership. This highly dynamic environment requires priority to be accorded and the necessary resources to be committed for this agenda.

The changing face of talent, the new generation of talent coming on stream and its different nature and character also presents new challenges for human capital management. It calls for a transformation of human resource strategies. Given that human capital has become a key factor in driving results, it is therefore not only the investment in talent that has become key, but also their management.

Human capital management therefore needs to be accorded top priority. Certainly this is the case for financial institutions for which the demands and expectations are high. The new approaches and strategies for human capital management will need to be aligned with the strategic objectives of the organisation. A vital part of this will also need to be the capacity building of the human capital management team itself. There also has to be strong engagement between the leadership and the human capital management team. This is to ensure an acute awareness of how the forces of change and the new environment is reshaping the demand and supply of talent and how the existing talent needs to be transformed to meet the objectives of the organisation in a highly dynamic environment.

Human capital management is no longer about the efficient delivery of support services. It is now about the management of talent in the organisation that will strengthen and enhance its performance. The human capital management also needs to be well supported by an integrated information system that can allow for rigorous analysis that can become an important basis for decision making. Finally, there is a need for the continuous socialisation of the human capital reforms to ensure the effective implementation of the difficult reforms and changes in the organisation.

Conclusion

Let me conclude my remarks. As we advance forward into the future, the economic and financial landscape can be expected to be continuously redefined. If we are to stay ahead of the curve and be well positioned to meet the new challenges, high priority needs to be given to talent development and management. Education and capacity building to generate the new talent with the right skills, mindsets and values is only one part of the solution. New strategies and approaches for the effective human capital management is an equally important part of the equation.

Many of these issues are likely to be discussed at this symposium. Let me thank the speakers, especially those who have travelled here from a far for their contribution to this symposium. Let me take the opportunity to wish you an engaging and productive symposium.

5th AFI Policy Global Forum
Kuala Lumpur, 11 September 2013

Welcoming Address by

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

It is my great honour to welcome Her Majesty Queen Maxima. Let me express our deep gratitude to Her Majesty for gracing this event. Her Majesty, Queen Maxima, as a major advocate for the development of financial inclusion, has had an important role in bringing the attention of the international community to this important agenda. Her Majesty has also been an inspiration to us to persevere in achieving our aspiration of greater financial inclusion. Let me also take this opportunity to welcome our distinguished speakers, guests and all the participants from the member countries of the Alliance for Financial Inclusion (AFI) to this 5th AFI Global Policy Forum in Kuala Lumpur. Bank Negara Malaysia is indeed most honoured to jointly host this Global Policy Forum together with AFI.

We are gathering at a time when global economic and financial conditions remain highly challenging. While there are now some positive signs emerging, global growth prospects continue to remain uncertain. While the unprecedented and unconventional policy measures introduced by several of the major advanced economies have achieved some degree of success in improving their economic conditions, their global implications have been profound, in particular in emerging economies. Indeed the repercussions from their impending exit from these measures may be even more significant. Therein lies the importance for emerging and developing economies to strengthen our economic and financial foundations, reduce our risks and vulnerabilities and spur a balanced and inclusive growth.

The events since the eruption of the global financial crisis have also altered our view of the world in a number of other fundamental ways. Global reforms in the financial system are re-shaping the regulatory landscape. The lines that define financial intermediation activities, and which connect the financial system to other parts of the economy and other parts of the world, are also being re-drawn. In this environment, emerging and developing economies need to be engaged to ensure that unintended consequences on our financial systems and consequently on our economies are minimised.

A key concern in this environment is thus the strengthening of the protection of segments of society, in particular, small businesses and households, from being marginalised by market forces, and from the disproportionate impact of instability, crises and reforms. Related to this is the need to reinforce socially responsible finance, and to ensure that financial systems serves the real economy and to address the new and growing risks of financial exclusion which can result in part of our community to be disenfranchised, particularly, but certainly not only, during periods of financial crises.

In this environment, financial inclusion has gained greater prominence as a key priority for the reform and development agenda.

The theme of the AFI Forum this year, **"Driving Policies for Optimal Impact"**, underlines the need for us to have a better understanding of the interactions between the objectives and effects of financial inclusion, financial stability and integrity, and consumer protection policies. This need has become more pronounced with the recent global developments. Global prudential standards have been significantly strengthened and are increasingly applied to financial institutions in developing countries. This has heightened the practical challenges faced in implementing these standards in a socio-economic setting where promoting inclusive opportunity is an important objective.

The same is also true with stronger standards to combat money laundering to safeguard the integrity of the financial system. In building a financial system that is resilient against crises and abuse, we cannot neglect the socio-economic impact of policies pursued. Our efforts to build a stronger and more stable financial system would also work to strengthen linkages between finance and development and not to weaken it.

Consumer protection regulation is also being significantly strengthened in many countries following the global financial crisis. This has been driven in large part by the recognition 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. While this has positive spillovers for financial inclusion, more can and must be done to ensure that consumer protection policies are designed to adequately protect vulnerable groups, and ensure that financial innovation is pursued in a responsible manner.

To address these issues, we are delighted this year to have the participation of the global standard setting bodies together with members of the AFI at this Forum. We share a common interest in seeking to lower the barriers to financial inclusion and to create a larger positive impact of policy measures on financial inclusion. An important starting point is for the global standards to reflect financial inclusion perspectives. The standards setters have pointed out that this is supported by the concept of proportionality which underpins the global standards. Of great importance is how this is going to be translated into practice. By drawing on the diverse experience of AFI members present at this Forum, it is hoped that we can start to build a common understanding of "proportionality in practice". This is important not only to support the financial inclusion agenda, but also achieve the outcomes of financial stability and consumer protection that were intended by the global standards. This would also promote the wider adoption of these global standards.

Increasing risks of financial exclusion

Financial inclusion has now progressed from access to financial services, to also being concerned with whether the financial services are appropriate to individual circumstances, and are being used effectively to improve individual welfare. In addition, it needs to be concerned with whether vulnerable groups face increased risks of financial exclusion. This is particularly important in a rapidly changing financial and social landscape. Sophisticated risk-profiling methods employed by financial institutions can make it more difficult for deserving individuals and small businesses to qualify for financial services. Aggressive marketing practices by financial institutions and more complex financial products can also lead to poor financial decisions.

The way in which financial services is delivered to consumers is also moving towards more cost-efficient channels that reduce the need for face-to-face contact, except for high net worth customers. Enquiries and complaints are handled largely by phone or e-mail, and usually in a fragmented manner by different parts of a financial institution. This can mean less effective advisory support for vulnerable groups of financial consumers. While the wider adoption of electronic channels has enormous potential to increase financial inclusion, also needed is to ensure access to the relevant technology, in order to avoid being disadvantaged from using alternative channels that will become relatively more costly. A delicate balance therefore needs to be achieved in developing solutions that will allow the financial system to grow and innovate in support of the economy, but without widening the divide in our economy.

The role of non-bank financial institutions

In many of our countries, non-bank financial institutions are being envisaged for a greater role in increasing financial inclusion and thus to contribute to sustainable economic and social development. For some time now, particularly after the global financial crisis, stronger regulation and balance sheet constraints of the banking sector have also led to the rapid expansion of non-bank credit. For the most part, however, this expansion has not been well-managed, resulting in growing concerns with over-indebtedness in many parts of the world. One response has been to strengthen the regulation of such institutions, and reduce the inconsistencies in prudential and conduct standards that apply between banks and non-banks. Another has been to capture better information on the activities of non-banks as a basis to inform more targeted policy measures.

The question of how to evolve the role of non-bank financial institutions to continue to contribute in sustainable way to financial inclusion is a complex one. While we can agree that a different approach to regulation from that applied to banks is justified, it cannot be at the expense of protection for financial consumers, and risks to financial stability. This middle ground is what is needed, taking into account the specific context of our own economies.

The role of financial education

Another important strategy for financial inclusion is the enhanced role of financial education. This is not only to encourage greater participation in the mainstream financial system, but also to keep individuals already in the mainstream from being financially excluded in future as a result of changes in the financial landscape. In a recent report by the OECD, a lack of awareness of different types of financial products, low level of confidence and poor knowledge of how products work were identified as barriers to financial inclusion. These factors will become more acute in an increasingly more complex and technology-driven financial system. Effective financial education will however, require more innovative approaches, broader partnerships involving the Government, educators, and non-Governmental organisations collaborating with regulators and the financial industry. The AFI network provides an important platform to examine these and other issues.

Conclusion

Through the AFI platform, we have a unique opportunity to work together to improve lives through financial inclusion and to have an enduring impact on global issues and developments. In this connection, a specific outcome of this Forum will be the commitment of AFI members to an Accord. This Accord will build on Maya Declaration of 2009 to extend the commitment of AFI members to take the financial inclusion agenda a step further forward towards achieving the vision of a truly inclusive financial system.

Let me conclude by expressing on behalf of Bank Negara Malaysia our deep gratitude to Her Majesty Queen Maxima for gracing this event. I would also like to thank the distinguished speakers and resource persons who have travelled from various parts of the world to share with us your valuable insights. To all participants, I hope this will be a memorable event, and one that will generate new knowledge and new ideas to spur your own country's journey to deeper financial inclusion. Once again, 'Selamat datang' to Kuala Lumpur and thank you for being here.

CALENDAR OF EVENTS
July – September 2013

1 July 2013

The Bank announced the new Financial Services Act 2013 (FSA) and Islamic Financial Services Act 2013 (IFSA), which came into force on 30 June 2013. The laws provide the Bank with the necessary regulatory and supervision oversight powers to fulfill its broad mandate with the more complex and interconnected environment, given the regional and international nature of financial developments. The FSA and IFSA amalgamated several separate laws to govern the financial sector under a single legislative framework for the conventional and Islamic financial sector respectively. The separate laws comprising Banking and Financial Institutions Act 1989, Islamic Banking Act 1983, Insurance Act 1996, Takaful Act 1984, Payment Systems Act 2003 and Exchange Control Act 1953 were repealed on the same date. The FSA and IFSA will place Malaysia's financial sector on a platform to advance forward as a sound, responsible and progressive financial system.

2 July 2013

To support the national agenda of "Going Green", the Bank promoted the usage of recycled fit banknotes of RM1 and RM5 denominations for the Hari Raya Aidilfitri celebrations. This initiative was a collaborative effort with Kementerian Tenaga, Teknologi Hijau dan Air, the Association of Banks in Malaysia, the Association of Islamic Banking Institutions Malaysia, Malaysian Environmental NGOs and Yayasan Anak Warisan Alam to promote sustainability of our resources and conservation of the environment.

5 July 2013

The Bank announced a set of measures aimed at avoiding excessive household indebtedness and to reinforce responsible lending practices by key credit providers. The measures, which took immediate effect, are a maximum tenure of 10 years for financing extended for personal use; maximum tenure of 35 years for financing granted for the purchase of residential and non-residential properties; and prohibition on the offering of pre-approved personal financing products. The key credit providers also need to observe prudent debt service ratios in their credit assessment.

To enhance responsible debt management by households, the Bank will intensify its efforts in financial education to all segments of society. Further, the framework for consumer protection will continue to be further strengthened under the Financial Services Act and Islamic Financial Services Act.

11 July 2013

The Bank decided to maintain the Overnight Policy Rate (OPR) at 3% at its fourth Monetary Policy Committee (MPC) meeting for the year. The MPC's assessment was that the global economy continues to experience slow growth and that domestic demand continues to support the Malaysian economy.

At its subsequent meeting on 5 September, the MPC kept the OPR at the same level. The MPC's assessment was that the global economy continues to experience modest growth as the strength of the recovery in the major advanced economies has yet to gain momentum. For the Malaysian economy, domestic demand continues to support growth. It also highlighted that there are increased uncertainties to the balance of risks surrounding the outlook for domestic growth and inflation and that it will continue to carefully assess the global and domestic economic and financial developments and their implications on the overall outlook for inflation and growth of the Malaysian economy.

30 July 2013

The Bank signed a MoU with the Malaysia Co-operative Societies Commission (Commission) to cooperate and share information in areas of common interests for the effective discharge their respective mandates, including formulation of legislation and policies, financial inclusion initiatives, capacity building and technical cooperation as well as the cooperative arrangements for financial stability. The MoU also sets out the operational and assessment framework that will be applied by the Bank and the Commission when considering an application by a co-operative society to undertake deposit taking activity from the public, other than its own members.

1 August 2013

The Malaysian Prime Minister introduced Malaysia's Islamic finance marketplace to the world and the MIFC's new iconic brand identity - "Malaysia: World's Islamic Finance Marketplace", marking a significant milestone in the development of the Islamic finance industry in Malaysia. The Prime Minister also took the opportunity to extend an open invitation to the global financial community to collaborate with and mutually benefit from Malaysia's Islamic finance marketplace that offers a comprehensive regulatory, supervisory, Shariah and legal framework.

21 August 2013

At the Second Quarter 2013 GDP press conference, the Bank announced that the Malaysian economy grew by 4.3% on an annual basis. While domestic demand remained firm, exports registered a larger decline, amid weakness across most export products. On the supply side, the major economic sectors expanded further in the second quarter, supported by the continued strength in domestic demand. The Bank also reported data on a quarter-on-quarter seasonally adjusted basis, with the economy recording a growth of 1.4% (1Q 2013: -0.4%). Meanwhile, the headline inflation rate, as measured by the annual change in the Consumer Price Index (CPI), was higher at 1.8% for the quarter, attributable mainly to price increases in the categories of food and non-alcoholic beverages and housing, water, electricity, gas, and other fuels.

28 August 2013

In her speech at the Asian Institute of Finance International Symposium 2013, titled "Changing Face of Talent", Governor Dr. Zeti highlighted that talent development and its management needs to be given high priority in preparing for the future that is going to be fundamentally different from the current environment. Two significant shifts in the environment are the significant transformation of the economic, financial and business landscape as well as changes in the character and nature of talent.

These shifts are reshaping the demand for talent that is the most important asset of any organization, including the financial sector. New strategies and approaches for effective human capital management are important. She also said that addressing the shortage of critical talent particularly in risk assessment and management in the new operating environment and in Islamic finance be given urgent priority.

On the same day, the Bank and the Hong Kong Monetary Authority (HKMA) held a bilateral meeting to discuss economic and financial issues and to consider initiatives that would help promote financial market development in Malaysia and Hong Kong. Following these discussions, the Bank and the HKMA have agreed to continue to further strengthen co-operation through collaborative arrangements to deepen trade and investment linkages. The joint efforts will cover, among others, offshore renminbi business development and the internationalisation of Islamic finance.

30 August 2013

The Bank and the Alliance for Financial Inclusion (AFI) signed a Letter of Cooperation to establish a collaborative framework for capacity building targeted at policymakers and regulators around the world. Under this initiative, both the Bank and AFI will jointly design and implement structured capacity building programmes in relevant policy areas to strengthen financial inclusion efforts throughout the AFI network of 108 member institutions.

31 August 2013

The Bank issued Commemorative Coins in conjunction with the 50th Anniversary of Muzium Negara (the National Museum). The coins were issued as Gold Proof, Silver Proof and Nordic Gold Brilliant Uncirculated with a face value of RM100, RM10 and RM1 respectively.

6 September 2013

The Bank and the Securities Commission Malaysia announced the establishment of the Finance Accreditation Agency (FAA), an international and independent quality assurance and accreditation body for the financial services industry. The FAA, which commenced its operations in August 2012, provides learning programme evaluation, accreditation, and institutional audits that will contribute towards the development of quality assurance and promotion of learning initiatives within the financial services industry. In addition, the FAA will seek to develop collaborations and affiliations for mutual and global recognition with local and international professional bodies and associations, accreditation bodies, and institutions of higher learning.

12 September 2013

The Bank with the Alliance for Financial Inclusion (AFI) jointly organised the 5th Annual Global Policy Forum (GPF) themed “Driving Policies for Optimal Impact”. The GPF was attended by more than 400 participants from 80 countries to discuss and deliberate on the optimal policy strategies in various contexts by synergizing financial inclusion, financial stability and consumer protection objectives.

In her welcoming remarks at the GPF, Governor Dr. Zeti expressed her deepest gratitude to Her Majesty, Queen Máxima of the Netherlands’ role in bringing the important agenda of financial inclusion to the attention of the international community.

Governor Dr Zeti also highlighted that among others, global reforms in the financial system are re-shaping the regulatory landscape. A key concern in this environment is thus strengthening the protection of various segments of society, in particular, small businesses and households, from being marginalized by market forces, and from the disproportionate impact of instability, crises and reforms. She also stressed on the roles of non-bank financial institutions and effective financial education to contribute in a sustainable way to financial inclusion.

The GPF concluded with the declaration of the Sasana Accord which further strengthens the AFI Network’s commitment to the Maya Declaration, taking it to the next level through the adoption of systematic assessment of impact to ensure quantifiable and measurable targets for financial inclusion.

16 September 2013

The Bank issued commemorative coins in conjunction with the 50th Anniversary of the Formation of Malaysia. Malaysia Day is celebrated on 16 September every year to commemorate the establishment of the Malaysian federation which comprises 11 states in Malaya and two states in Borneo, namely Sabah and Sarawak. The coins were issued as Gold Proof, Coloured Silver Proof and Nordic Gold Brilliant Uncirculated with a face value of RM100, RM10 and RM1 respectively.