Taklimat
Laporan Tahunan 2011 dan
Laporan Kestabilan Kewangan
dan Sistem Pembayaran 2011

Gabenor Bank Negara Malaysia

21 Mac 2012

Key challenge for 2012 :
To sustain the economic recovery

Global growth projection for 2012

	2010	2011	2012[f]
	Annual change (%)		
World GDP	**5.2**	**3.8**	**3.3**
World Trade	**12.7**	**6.9**	**3.8**
US	3.0	1.7	1.8
Euro area	1.9	1.5	-0.5
Japan	4.4	-0.9	1.7
Developing Asia 1/	9.5	7.9	7.3
China	10.3	9.2	8.2
ASEAN-5 2/	6.9	4.8	5.2

Note: Forecasts for 2012 are IMF's projections
1/ IMF: Asia ex-NIEs
2/ IMF: Indonesia, Malaysia, Philippines, Thailand and Vietnam

- **Recent improvements :**
  - ➢ Lower volatility in the global financial markets
  - ➢ Progress in addressing the European sovereign debt crisis, including alleviating the risks of a disorderly default in Greece
  - ➢ Emerging signs of recovery in the US
- **Factors affecting growth in several major economies:**

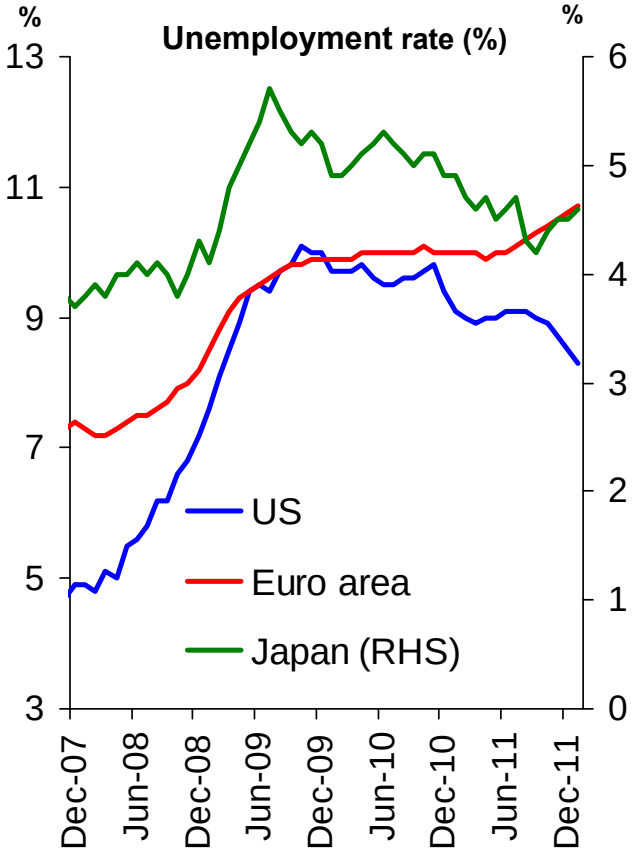
➢ Fiscal austerity in economies

- ➢ Deleveraging activity by private sector
- ➢ Structural reforms that result in near-term economic dislocation

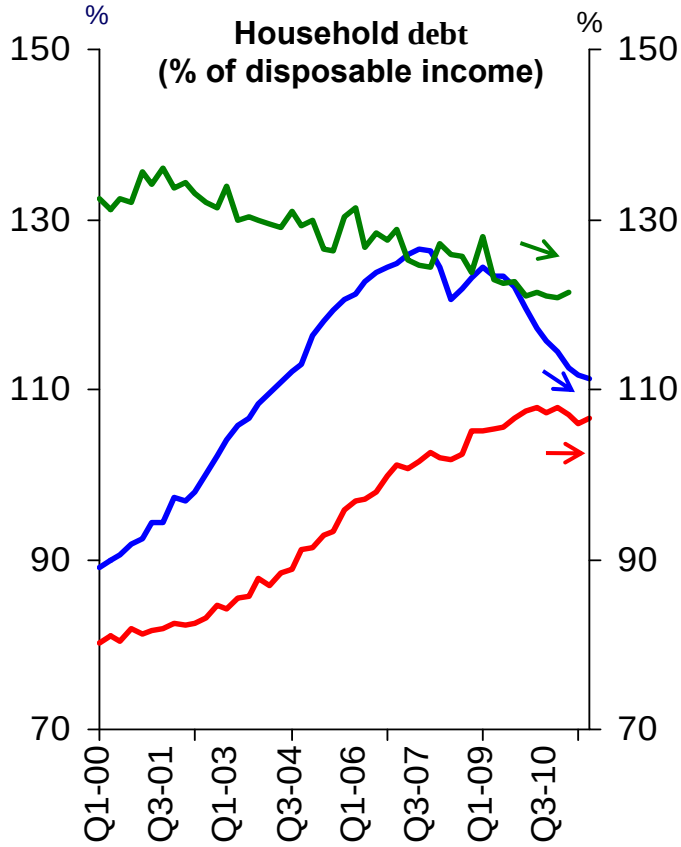
Source: National authorities, IMF World Economic Outlook, January 2012 Update

Advanced economies: Structural issues continue to affect the pace of economic recovery

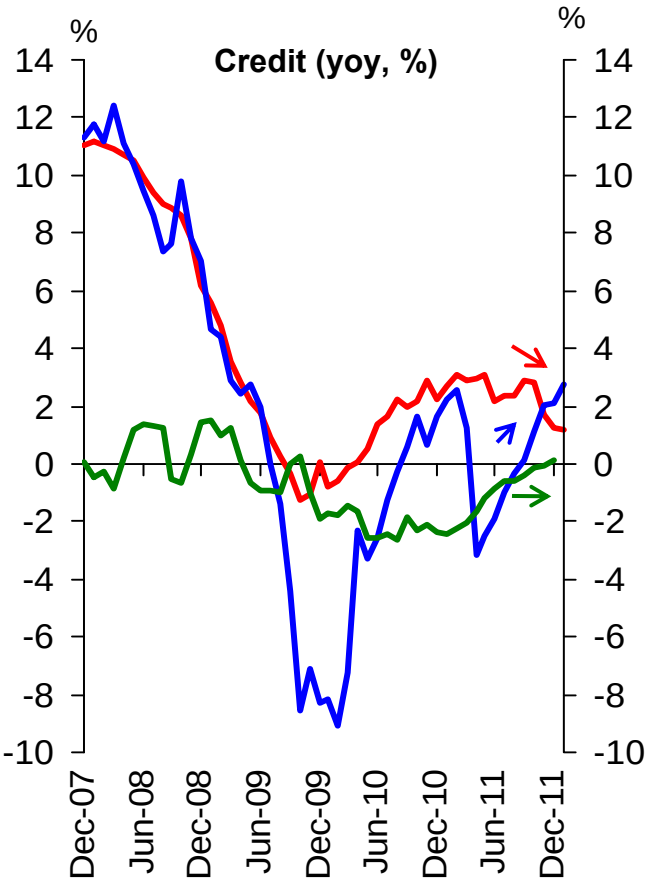
1 High unemployment rate



2 Continued deleveraging activity

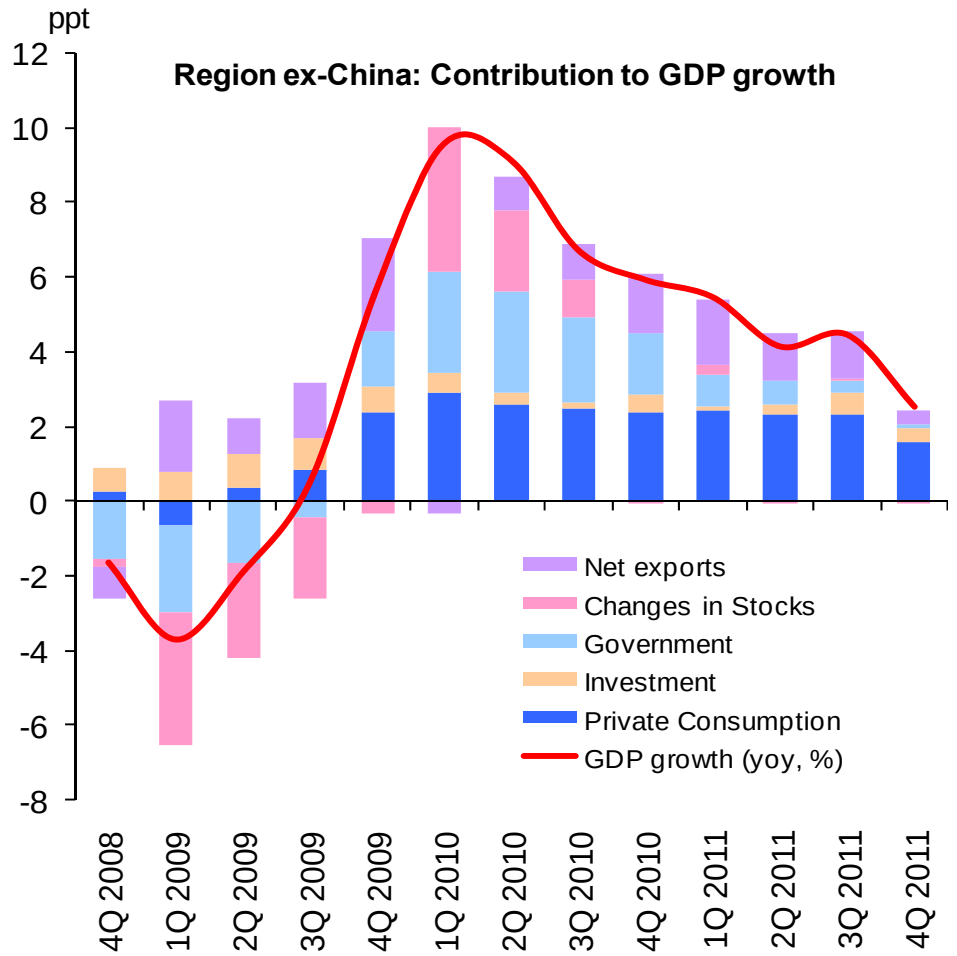


3 Restrained credit conditions



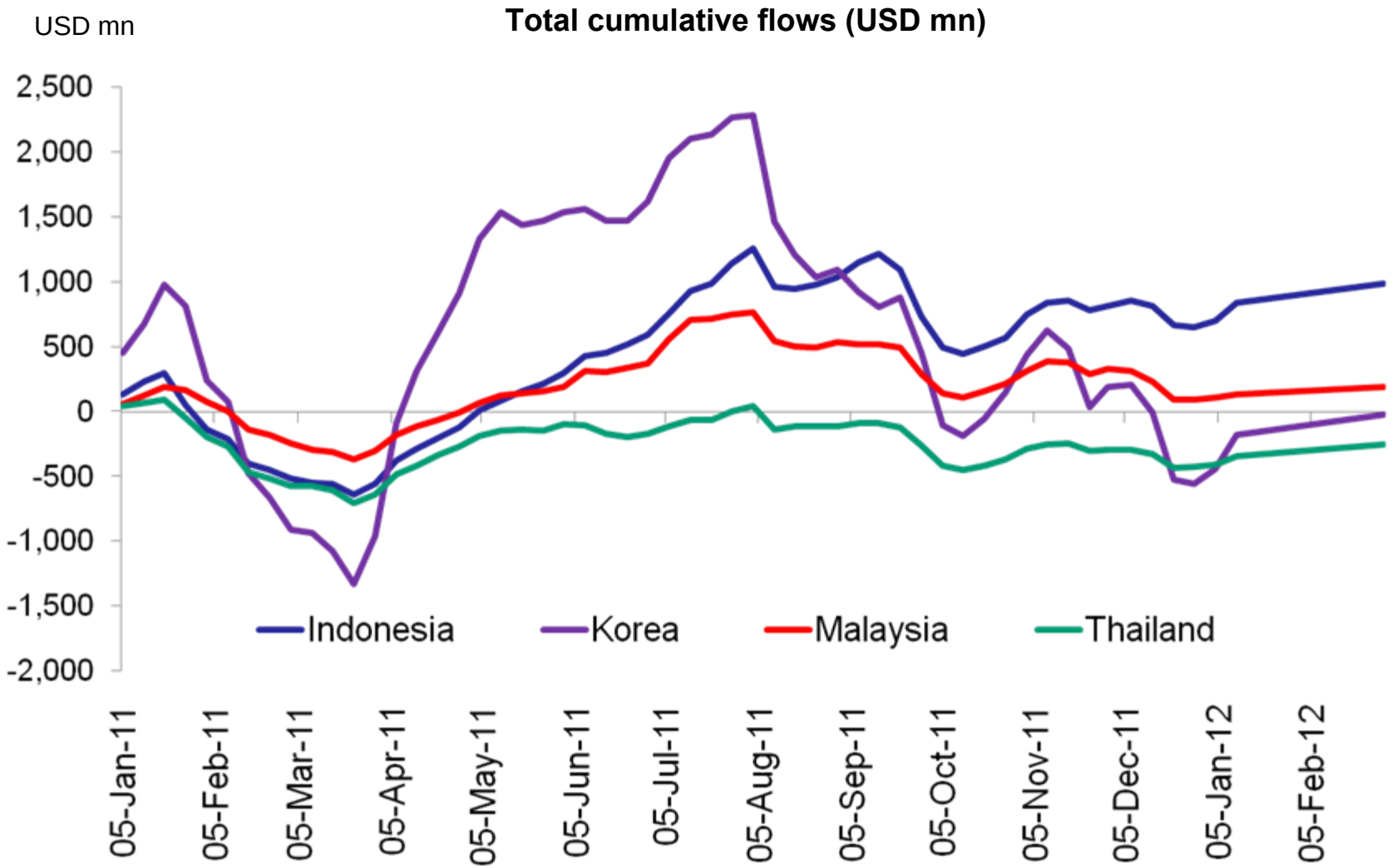
Source: National authorities, Haver, IMF

Asia: Continued growth amid the weaker external environment



- Spillovers from the advanced economies are via the trade and financial channels
- Domestic demand to be the main contributor to growth, mitigating the impact of weaker external demand.
- Several Asian economies have announced fiscal measures to support domestic demand.

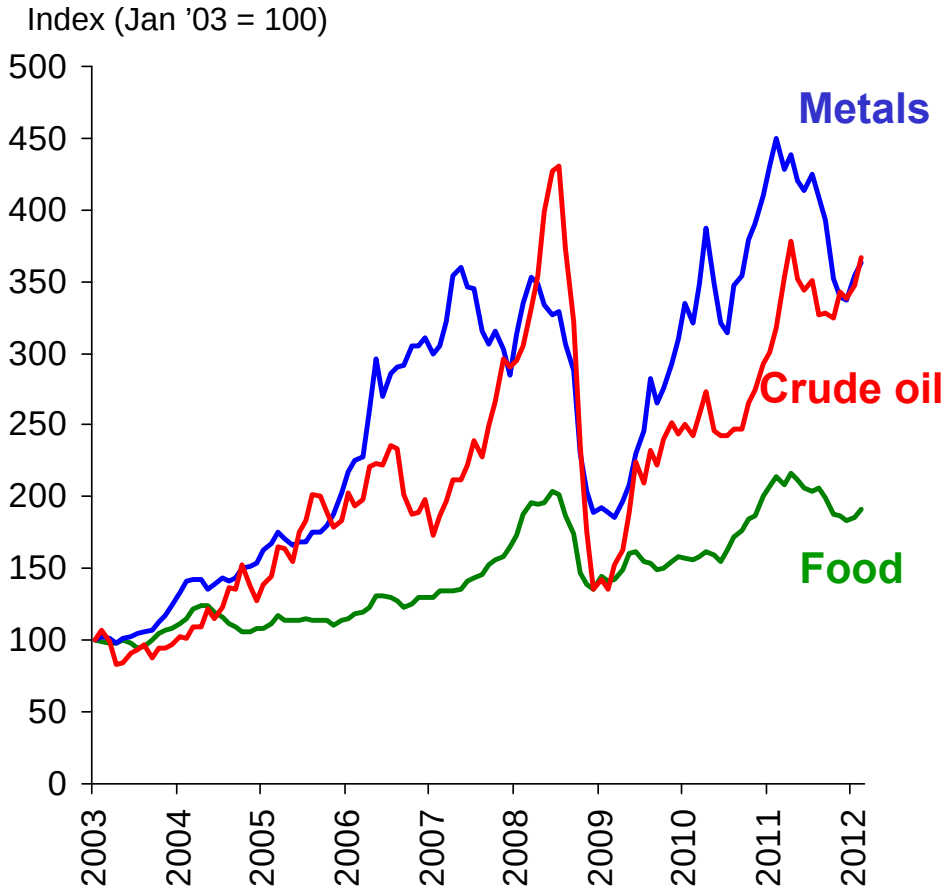
Asia: Volatility in international capital flows amid uncertain global environment



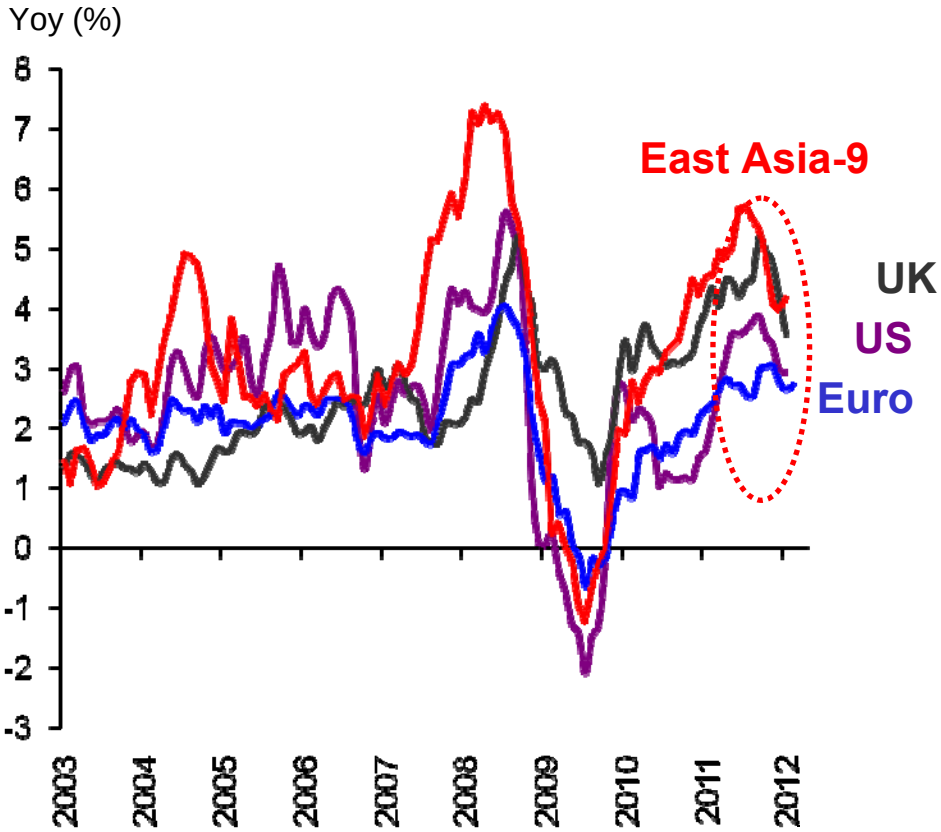
Source: EPFR

Global inflation to moderate amid lower commodity prices

Despite the increase in recent months, global commodity prices are expected to be lower



… containing inflationary pressures

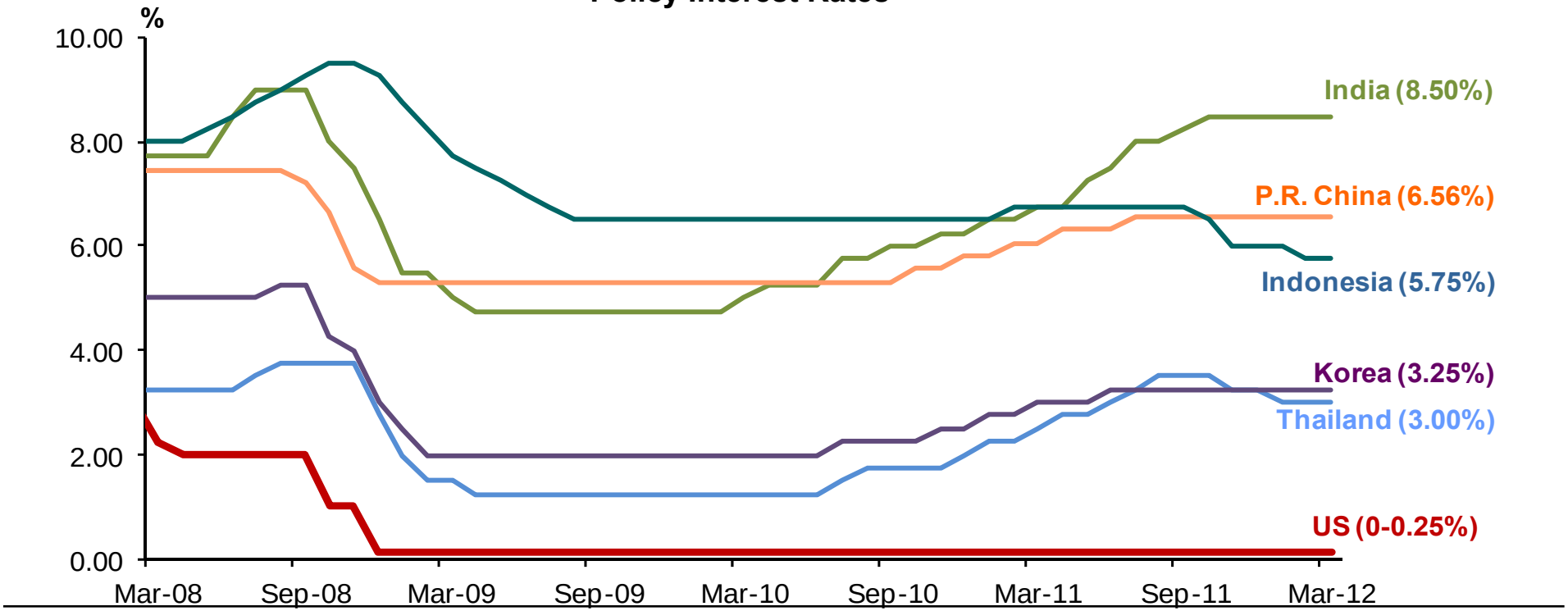


Monetary authorities shifting policy focus towards supporting growth

Liquidity easing measures announced by the advanced economies since end-2011

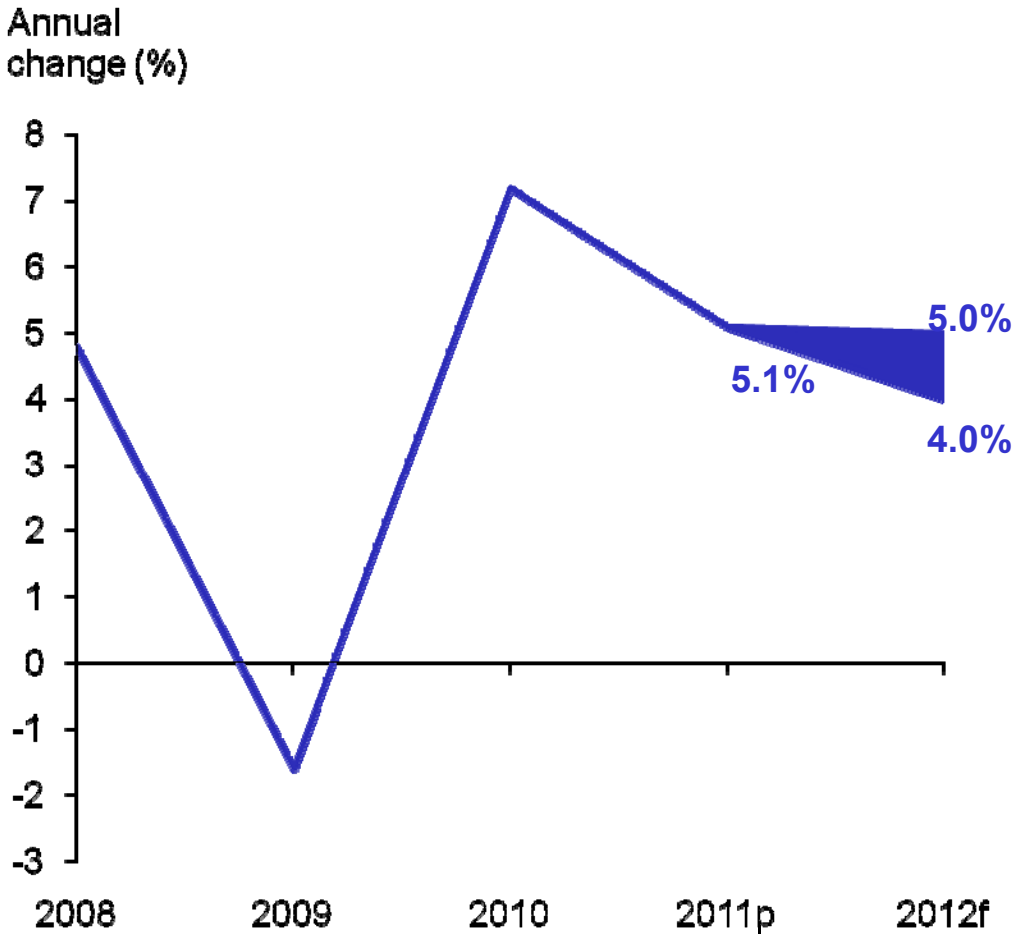
Oct '11	Nov '11	Dec '11	Jan '12	Feb '12
BoE's QE expansion: +£75 bn	Coordinated central bank action to increase liquidity	ECB's LTRO: Gross liquidity injection +€489 bn	Fed extended low interest rate to 2014	BoE's QE expansion: +£50 bn ECB's 2nd LTRO: +€530 bn

Policy Interest Rates



Source: National authorities

The Malaysian economy to register a growth of 4–5% in 2012 despite the weaker external environment



p preliminary f forecast

- Domestic demand to remain resilient and will continue to be the anchor for growth
- Weaker demand in the global economy to weigh down Malaysia's export sector

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Domestic demand to remain resilient and will continue to be the main driver of growth in 2012

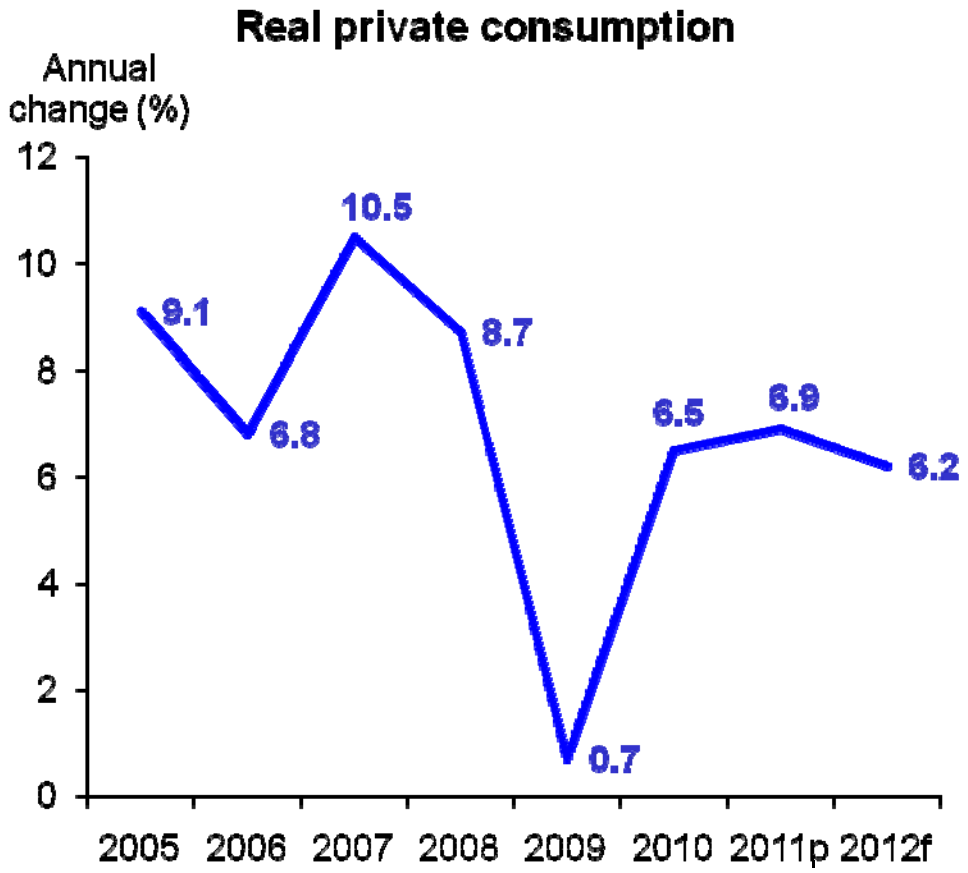
	2011[p]	2012[f]	2011[p]	2012[f]
	Annual change (%)		Contribution to growth (p.p)	
Domestic demand (excluding stocks)	**8.2**	**6.6**	**7.2**	**6.0**
Private sector	*8.2*	*6.6*	**5.2**	**4.4**
Consumption	**6.9**	**6.2**	*3.7*	*3.4*
Investment	**14.4**	**8.3**	*1.6*	*1.0*
Public Sector	*8.2*	*6.7*	**2.0**	**1.7**
Consumption	**16.8**	**0.2**	*2.2*	*0.0*
Investment	**-2.4**	**16.2**	*-0.3*	*1.6*
Net exports	*-14.4*	*-1.4*	**-1.4**	**-0.1**
Exports of goods & services	**3.7**	**1.4**	*4.0*	*1.5*
Imports of goods & services	**5.4**	**1.6**	*5.4*	*1.6*
Real GDP	**5.1**	**4.0 ~5.0**	**5.1**	**4.0 ~ 5.0**

- Sustained expansion in domestic demand following continued expansion in private and public expenditure
- Private investment remains strong
- Public sector to remain supportive of growth, driven by higher capital expenditure

p preliminary f forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Private consumption will remain strong



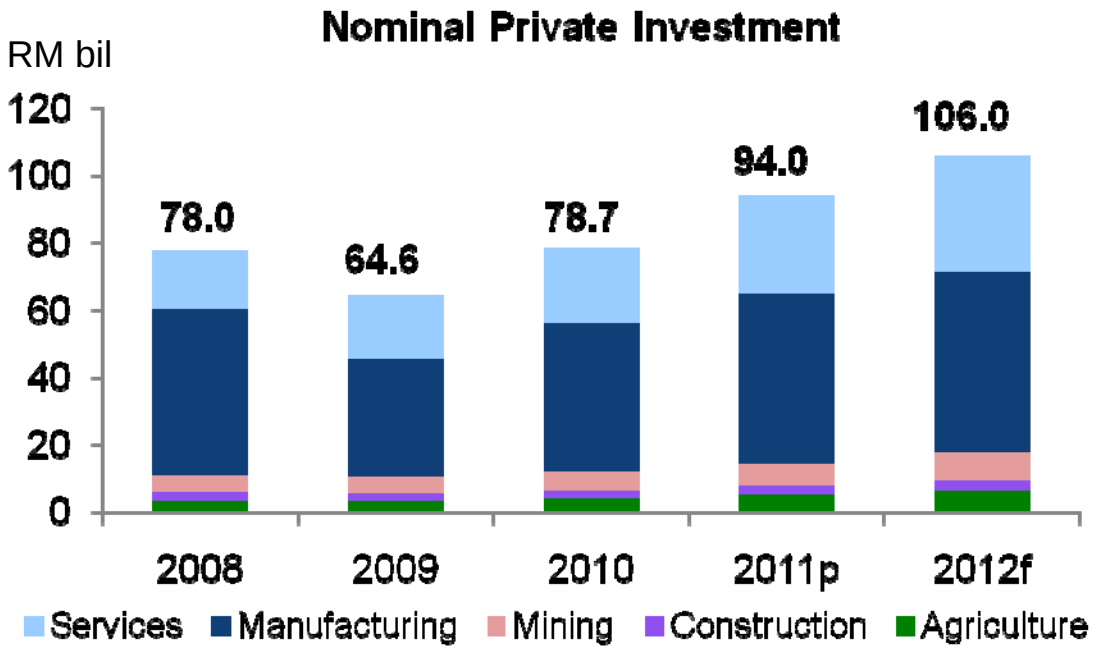
p preliminary f forecast

The continued strength of consumption is underpinned by:

- Sustained income growth in the private sector
- Stable labour market with continued job creation
- Higher public sector wages
- Continued access to financing

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Private investment to expand further



Private investment to be underpinned by:

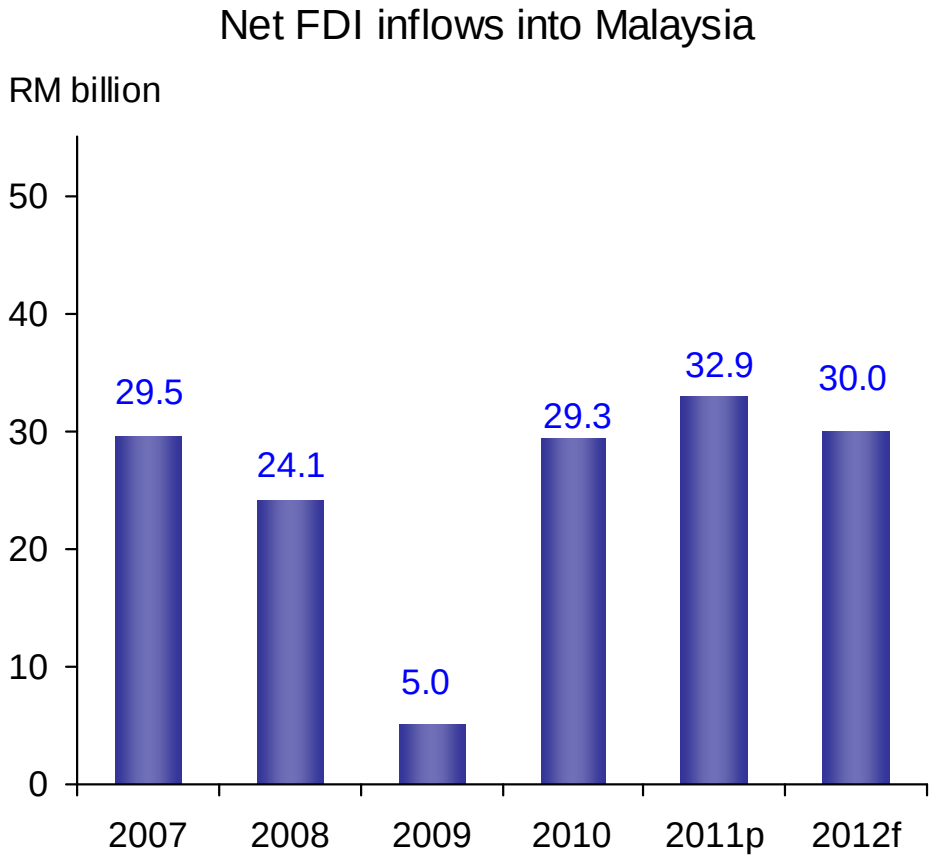
- Capital spending in consumer-related services and manufacturing industries
- Investment in the mining and agriculture sectors
- Implementation of ETP projects
- Reinforced by inflows of FDI

Annual change (%)	2010	2011^{p}	2012^{f}
Real private investment	17.7	14.4	8.3

p preliminary; f forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

FDI to remain sizeable in 2012



- **Net inflows of FDI to moderate but remain sizeable in 2012**
  - Moderation in global FDI flows
  - Inflows into new growth areas
  - ETP projects in the oil and gas sector to support FDI inflows.
- **Further liberalisation of several services sub-sectors will also spur FDI inflows**

p preliminary; f forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Public sector remains supportive of growth

	2011[p]	2012[f]
	Annual change (%)	
Public sector	8.2	6.7
Consumption	16.8	0.2
Investment	-2.4	16.2
	Contribution to growth (p.p)	
Public sector	2.0	1.7

Despite fiscal rationalisation to contain deficit, public investment to expand significantly in 2012:

- Supported by higher Fed. Govt. development expenditure and investments by NFPEs
- Implementation of Special Stimulus Package through Private Financing Initiative

Public consumption to register a positive growth:

- Significant moderation in expenditure on supplies and services

Continued expansion across most sectors

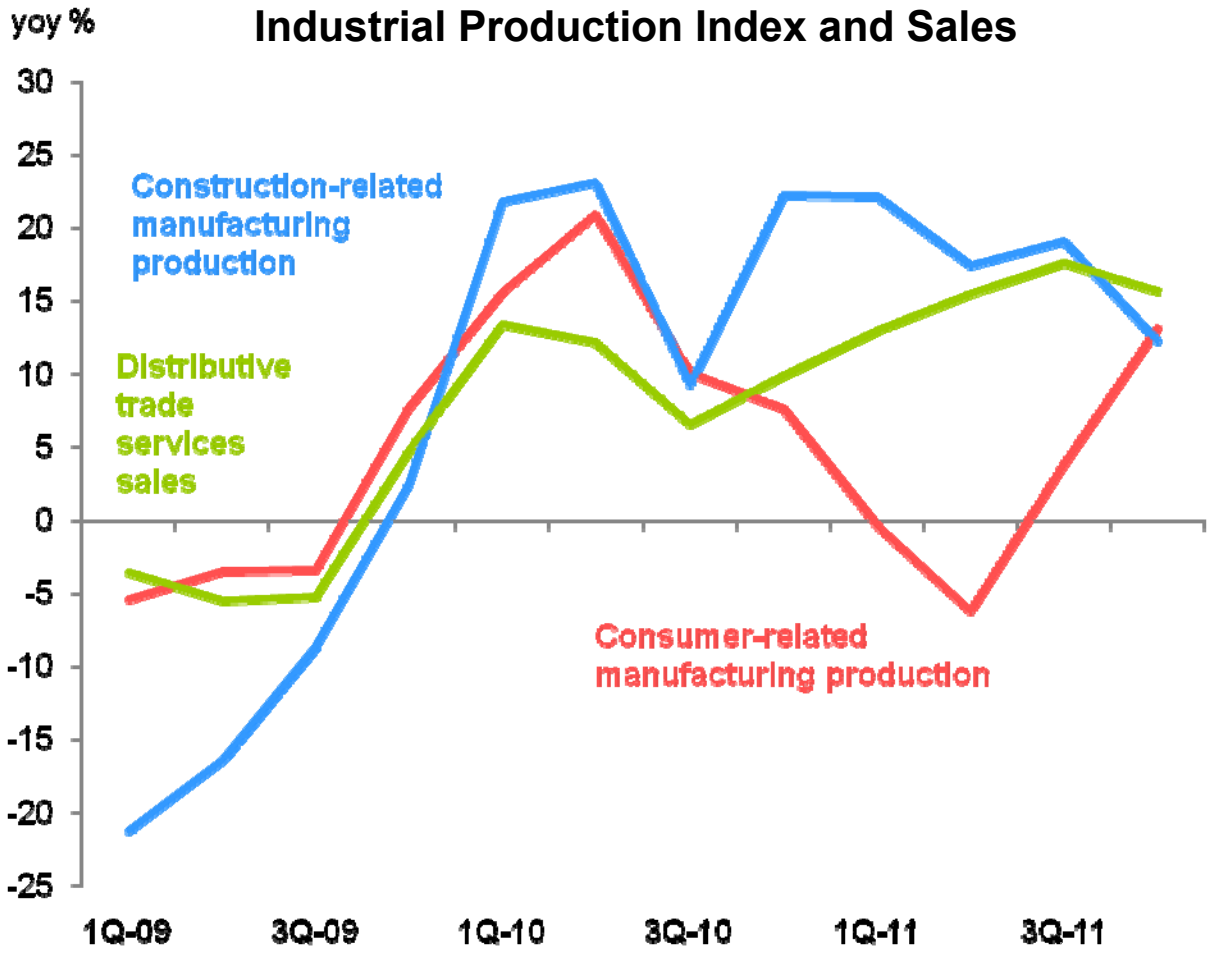
	% share of GDP (2011)	2011[p]	2012[f]
		Annual change (%)	
Services	58.6	6.8	5.1
Manufacturing	27.5	4.5	3.9
Agriculture	7.3	5.6	3.8
Mining	6.3	-5.7	0.6
Construction	3.2	3.5	6.6
Real GDP	**100.0**	**5.1**	**4.0 ~ 5.0**

- Performance of domestic-oriented industries expected to remain firm
- Weaker external conditions to adversely affect the export-oriented manufacturing industries and trade-related services
- Construction sector to be lifted by civil engineering projects

[p] Preliminary [f] Forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Domestic-oriented industries to continue to support growth



- Growth in domestic-oriented industries expected to remain firm going forward:
  - Construction-related manufacturing industry to benefit from civil engineering projects
  - Resilient domestic demand to support consumer-related manufacturing and distributive trade services activity

Source: Department of Statistics, Malaysia

External trade to moderate in 2012

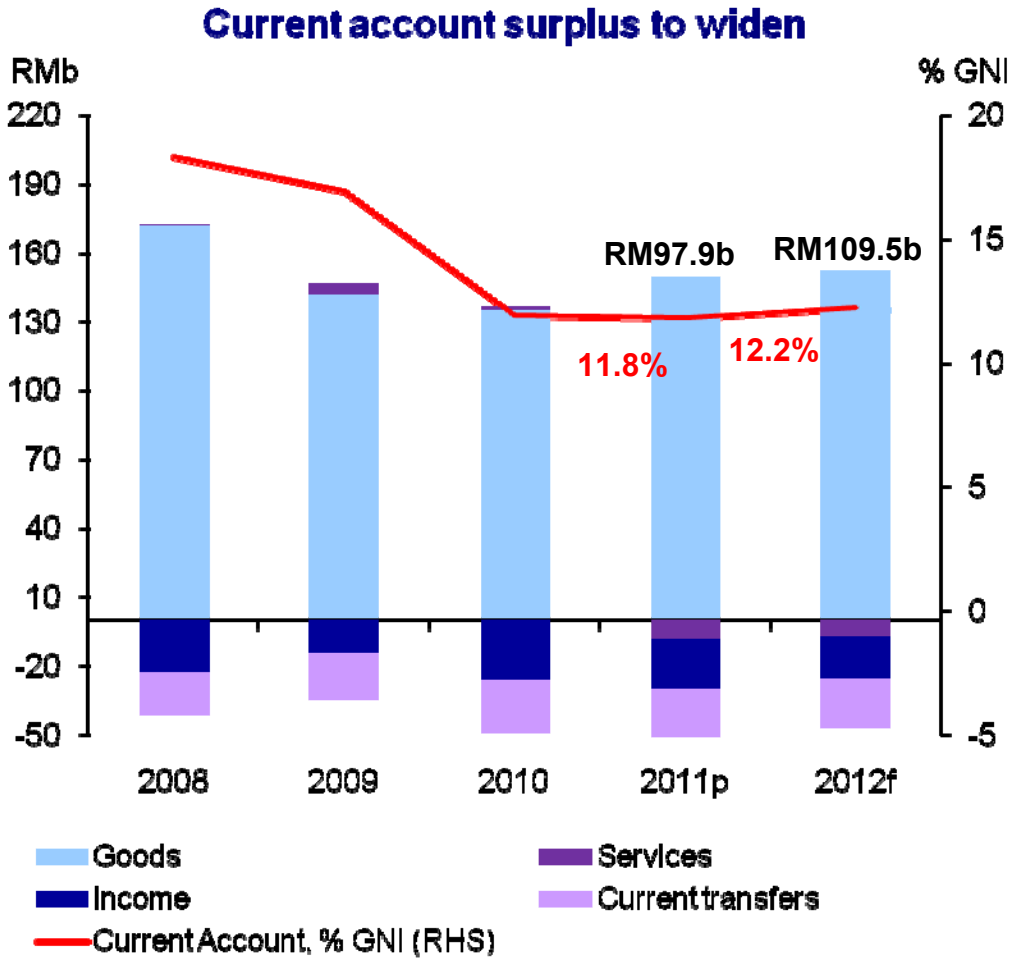
Annual change (%)	2011[p]	2012[f]
Gross exports	**8.7**	**3.2**
Manufactured	**3.4**	**4.5**
E&E	*-4.1*	*-1.0*
Non-E&E	*12.8*	*10.4*
Commodities	**26.4**	**-1.7**
Agriculture	*32.9*	*-9.3*
Minerals	*20.4*	*6.1*
Gross Imports	**8.6**	**3.0**
Capital	*9.7*	*6.8*
Intermediate	*5.4*	*2.5*
Consumption	*19.0*	*3.7*
Trade balance (RM bn)	**120.3**	**125.6**

- Exports to moderate on weak external demand
- E&E exports to decline, but non-E&E exports will support manufactured exports
- Imports to moderate faster than exports, widening the trade balance

p preliminary f forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Current account surplus to remain large



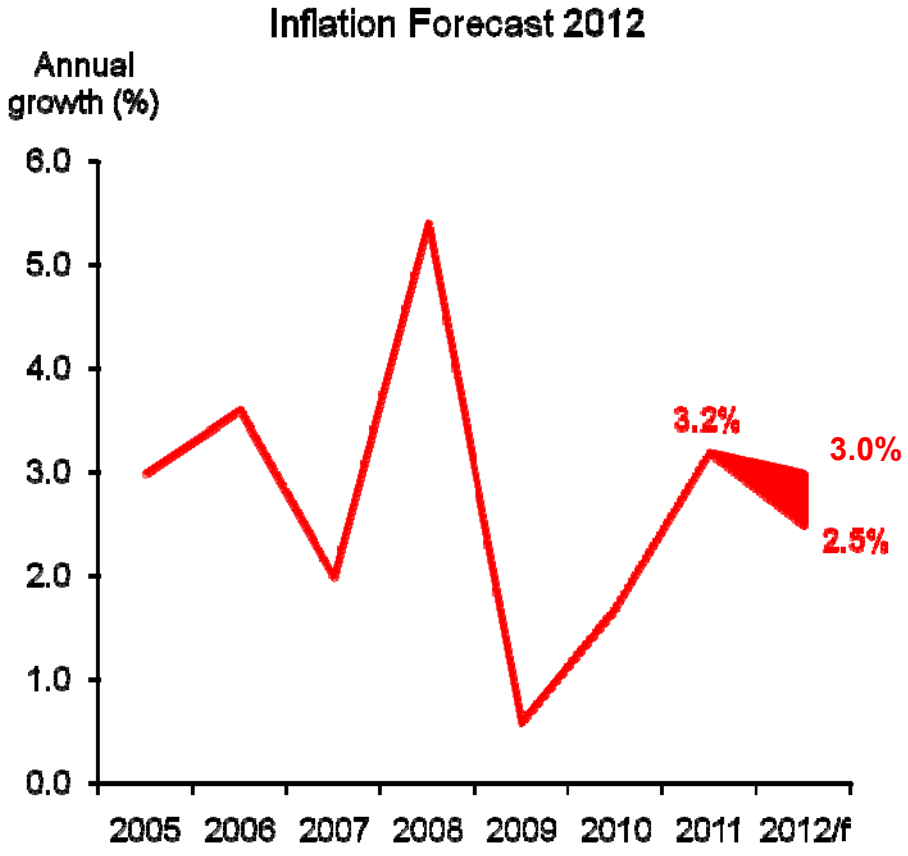
p preliminary f forecast

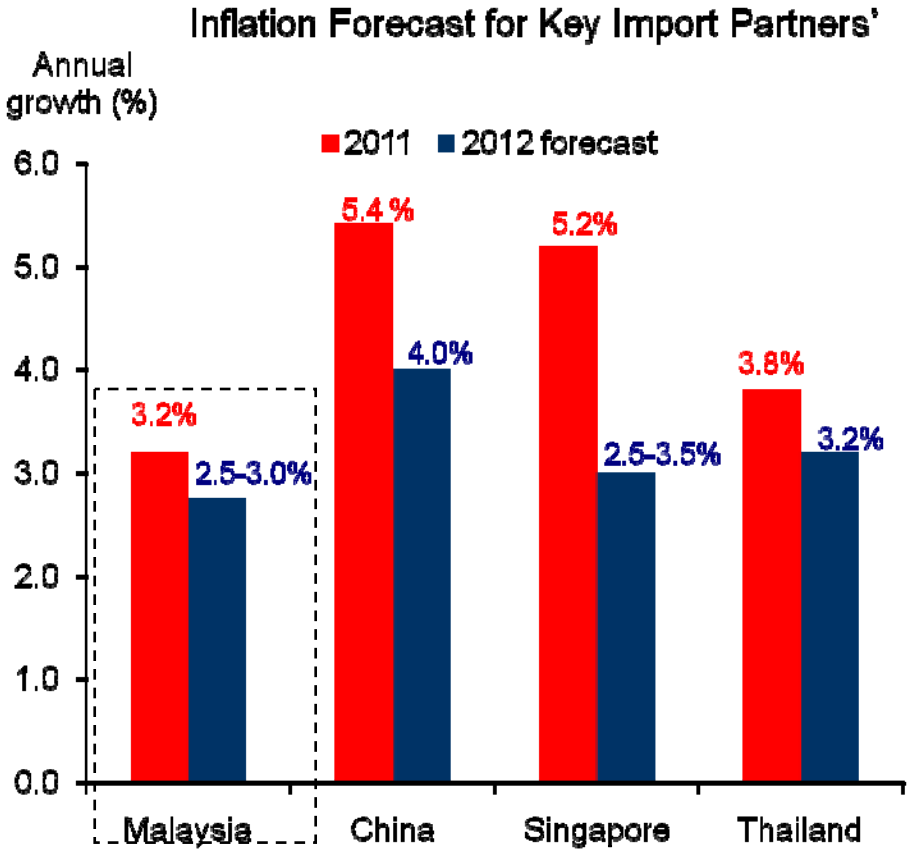
Large surplus in the current account to be supported by

- Sustained large trade surplus
- Lower deficits in services and income accounts

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Headline inflation to range between 2.5 – 3.0% in 2012





Note: Inflation forecast refers to the central bank' official forecast. The inflation forecast for China is its central bank's inflation target

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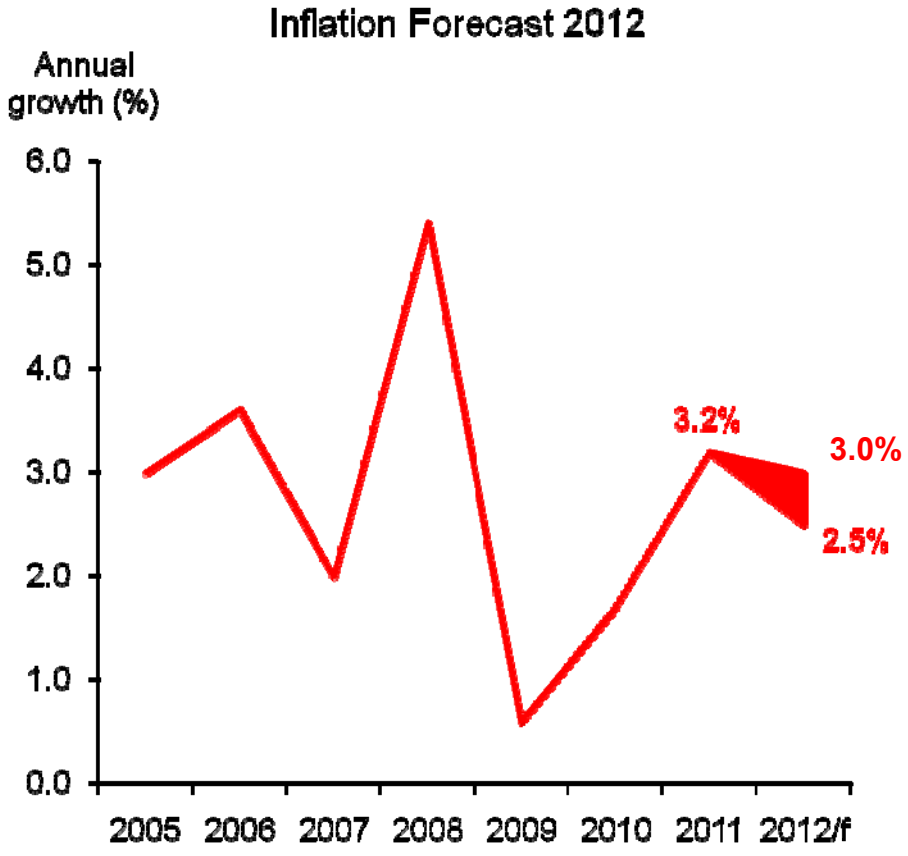

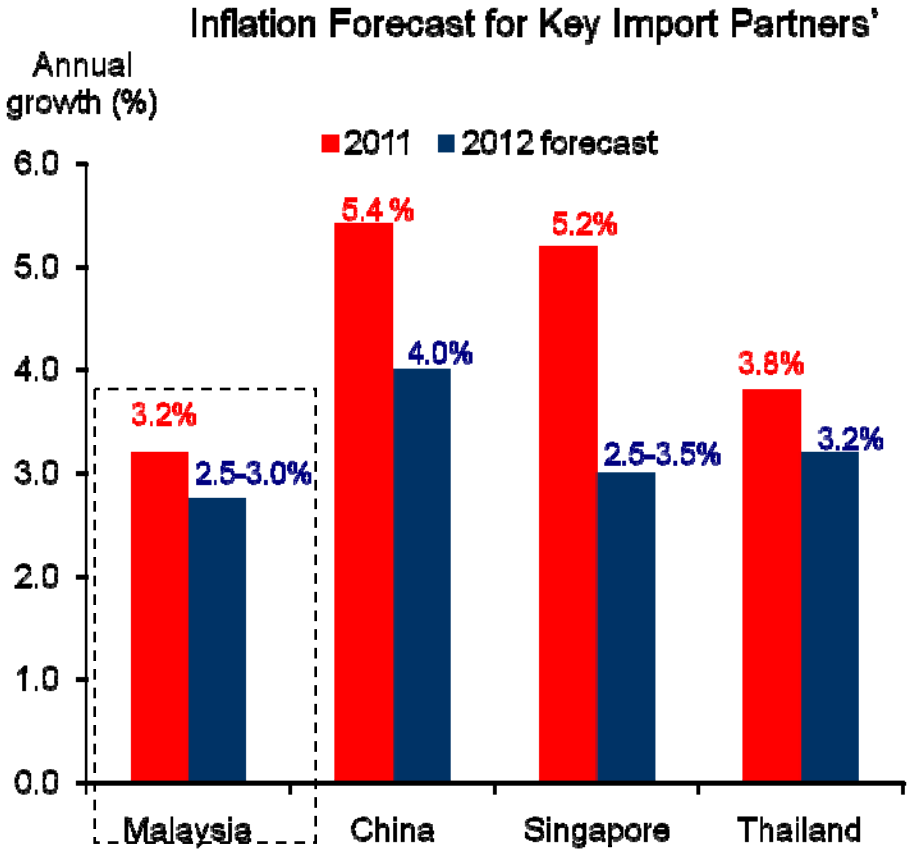

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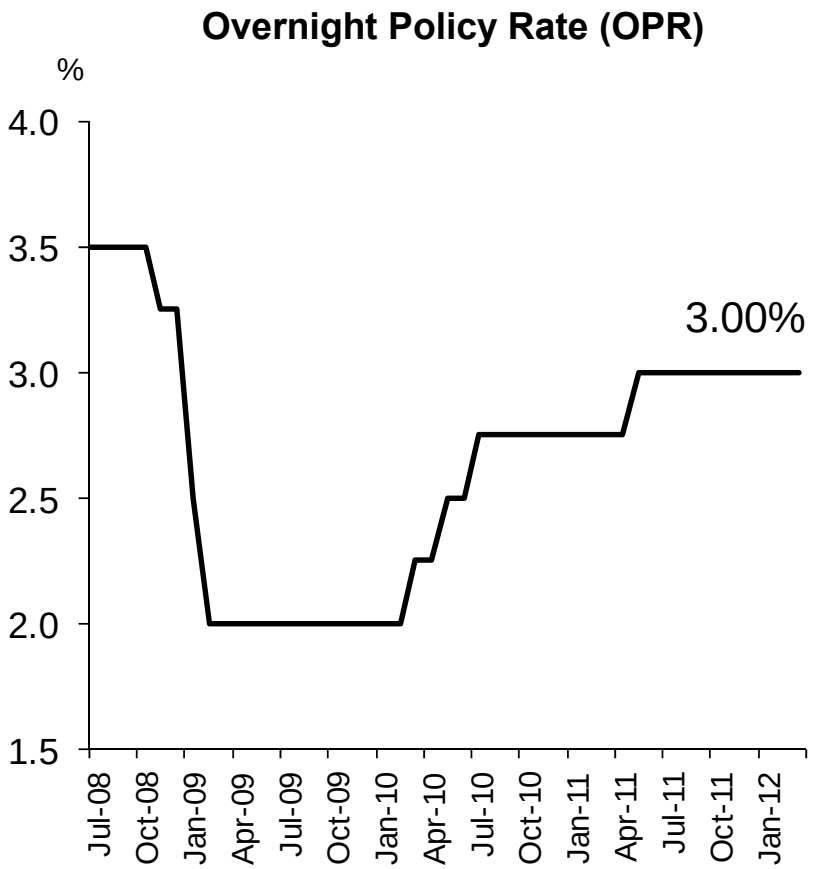
Monetary policy in 2012

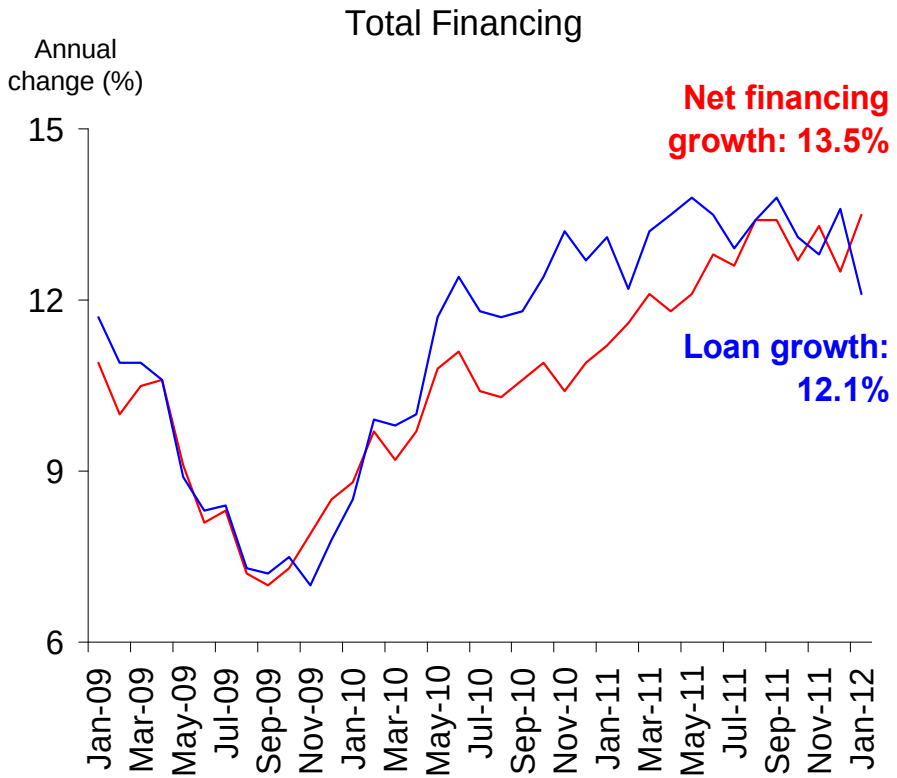


- **The OPR was normalised and raised further to 3.00% in 2011**

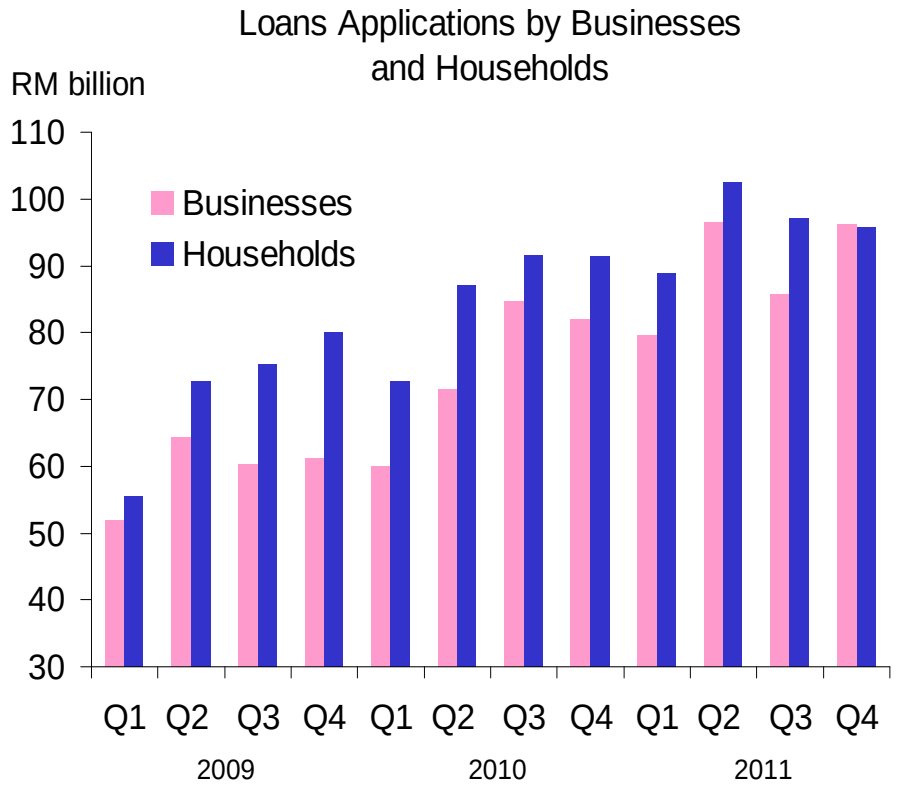
- **For 2012, monetary policy will focus on:**
  - Promoting sustainable growth amidst the more challenging external environment
  - Ensuring price stability
  - Preventing a build-up in financial imbalances

Financing conditions to continue to remain favourable

Net financing growth sustained…



… supported by robust demand for loans by businesses and households



Volatile portfolio flows expected to persist

Portfolio flows largely driven by global events in 2011…

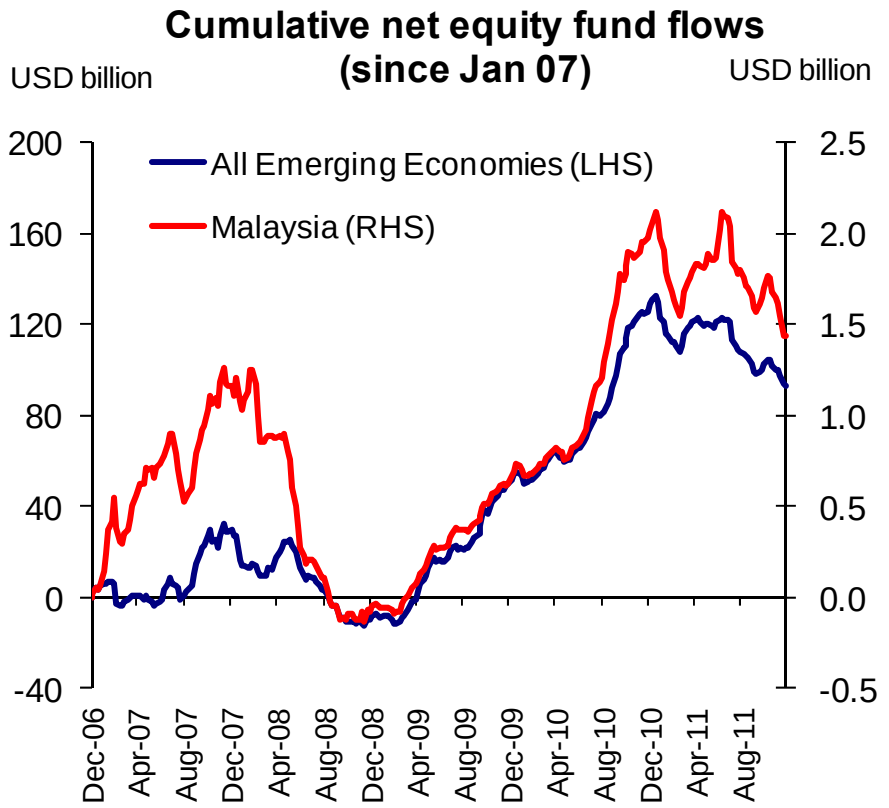
Malaysia: Portfolio Capital Flows in 2011

Period in 2011	Net Portfolio flows (RM billion)	Drivers
1H	**+56.4**	• Emerging economies' (EE) strong stock market performance • Strong economic data by EE • Fed announcement to keep interest rates low
2H	**-26.1**	• Downgrade of US credit rating • News on possible downgrade of France • Concerns over Greek sovereign debt crisis
Year	**+30.2**	-

Note: Numbers may not necessarily add up due to rounding

Source: DOSM

…in line with regional trend

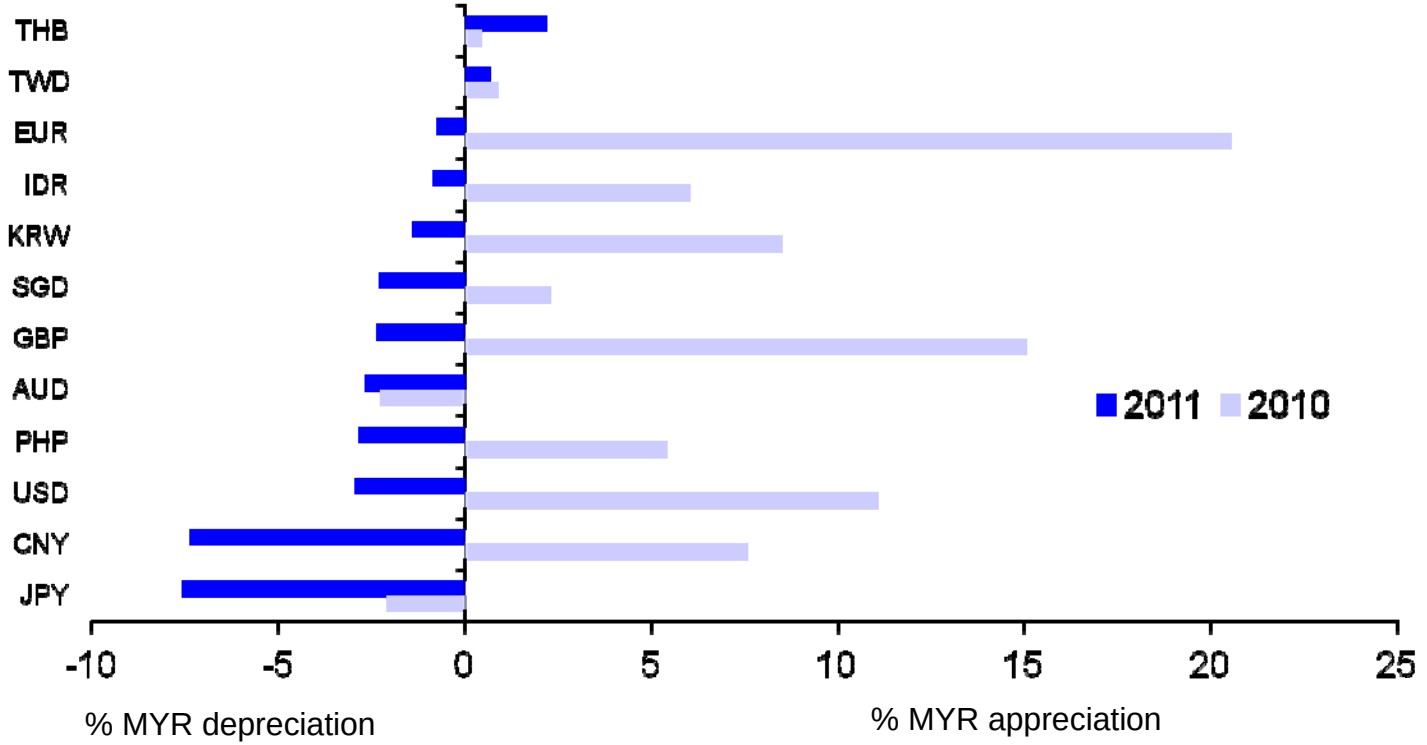


Source: EPFR

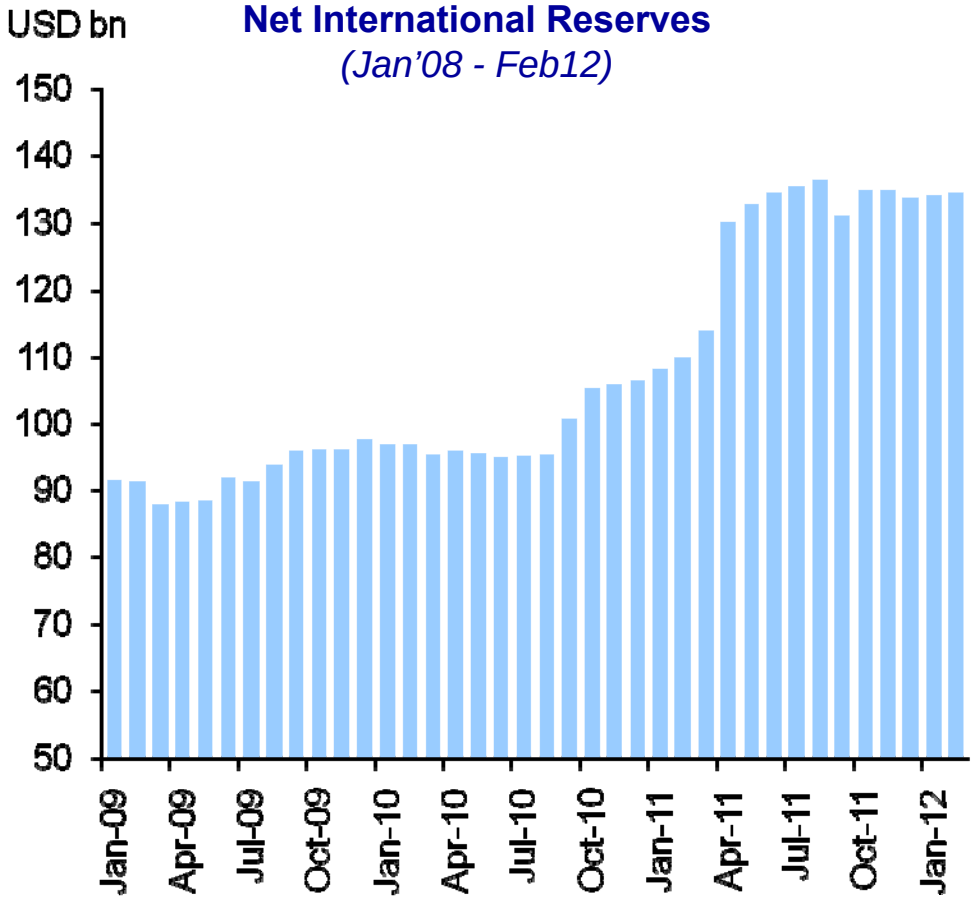
Ringgit performance driven by external developments

- Despite volatile capital flows, ringgit adjustments remained orderly
- Ringgit has strengthened in 2012 amid inflows

MYR performance against selected currencies in 2010 and 2011



International reserves remain at healthy levels



- **International reserves remain high, mainly supported by current account surplus**
  - Also reflected inflow of **portfolio and foreign direct investments**.
  - Partially offset by higher outflow of direct investment abroad.

Source: BNM

Bank Negara Malaysia : Annual Financial Statements 2011

Financial position remained strong in 2011 :

- Total assets of BNM amounted to RM473 billion with International Reserves of RM423.4 billion (USD133.6 billion)
- Net profit of RM4.7 billion
- Dividend of RM2 billion to the Government

FINANCIAL STABILITY AND PAYMENT SYSTEMS REPORT 2011

Press Conference

Financial stability was preserved throughout 2011

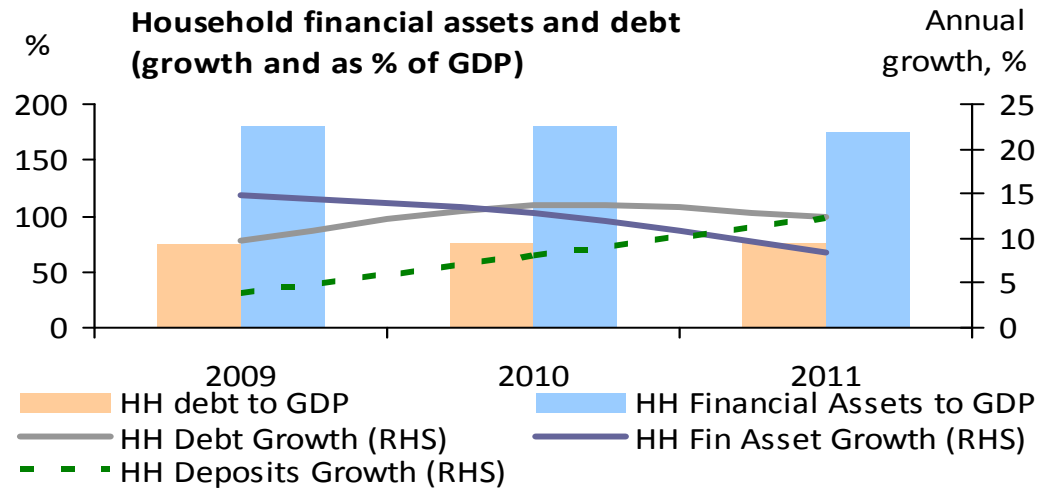
Banking Sector (%)	2010	Jan-12
Capital Adequacy		
Risk-Weighted Capital Ratio	14.8	14.7
Core Capital Ratio	13.0	12.9
Capital Buffer (RM bil)	64.8	71.1
Profitability		
Return on Assets	1.5	1.6^
Return on Equity	16.6	17.4^
Asset Quality		
Net impaired loans ratio	2.3	1.9
Loan in arrears (1-<3 months)	4.1	3.6
Liquidity Position		
Liquidity buffer (<1 mth, % of deposits)	16.2	17.5
Insurance/Takaful Sector (%)	**2010**	**2011**
Capital Adequacy		
Capital Adequacy Ratio	224.6	222.5
Capital Buffer (RM bil)	18.6	20.1
Profitability		
Profits (RM bil)	16.3	14.5

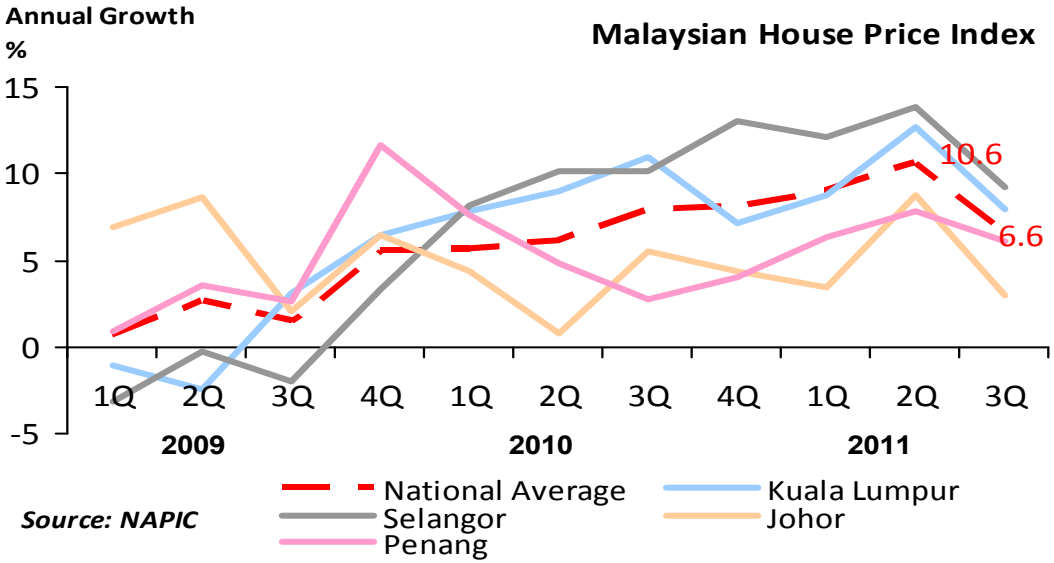
Source: Bank Negara Malaysia

^ Reflects 2011 position

- **Financial indicators at strong levels**
- **Financial intermediation supportive of the economy**
- **Orderly functioning of financial markets despite higher volatility**
- **Confidence in banking system preserved**
- **Stress tests reaffirm financial sector resilience under adverse market and credit risk scenarios**

Early implementation of wide-ranging measures have begun to show results





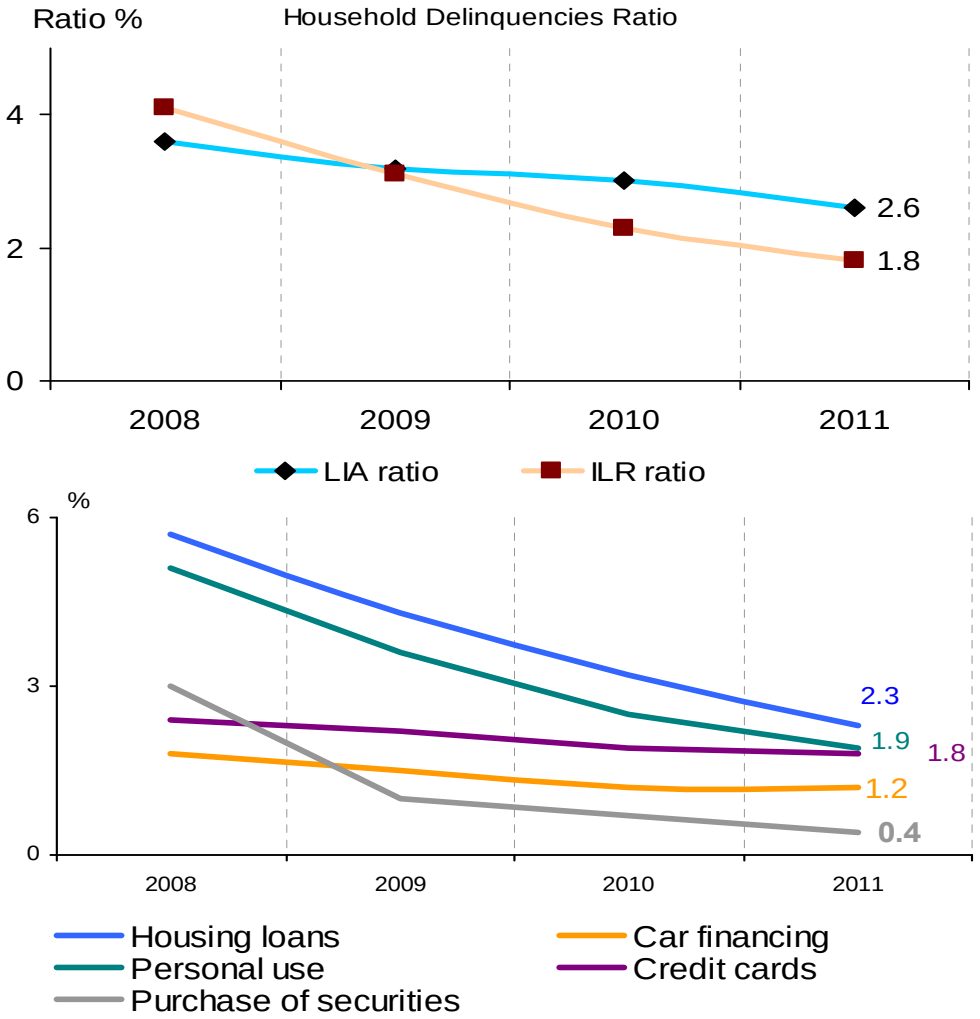
Source: NAPIC

- **More moderate expansion in indebtedness**
  - HH debt grew 12.5% (2010: 13.7%)
  - HH debt-to-GDP: 76.6%
- **Lower growth in borrowers with multiple housing loans (2011: 2.9%; 2010: 14.9%)**
- **Slower increase in house prices**
  - The MIER residential property index moderated to 120 points in 4Q 2011 (1Q 2011: 130 points)

MIER: Malaysian Institute of Economic Research

Risks to financial stability from household indebtedness remains contained

- **Households continue to maintain sound financials**
  - Household financial asset-to-debt ratio of 2.3 times
- **Banks maintain prudent loan underwriting standards and risk management practices**
- **Trends in delinquency declining**
  - Declining loan-in-arrears
  - Credit card revolving balances grew at slower pace (Apr-Dec 2011: 11.9%, Jan-Mar 2011: 20.3%)



ILR = Impaired loans ratio

Lower income households in urban centres face greater challenges

- **More highly leveraged, with borrowings mainly concentrated in hire purchase and/ or personal loans**
- **But exposure to the banking system is relatively small**
  - Bank exposures to borrowers earning <RM3,000 account for less than 13% of total banking system loans
- **Responsible lending guidelines to contain accumulation of debt above levels that are affordable, particularly for more vulnerable households**
- **Further supported by established and well-functioning debt management mechanisms at individual banks and AKPK, and Government initiatives to ease financial burden**

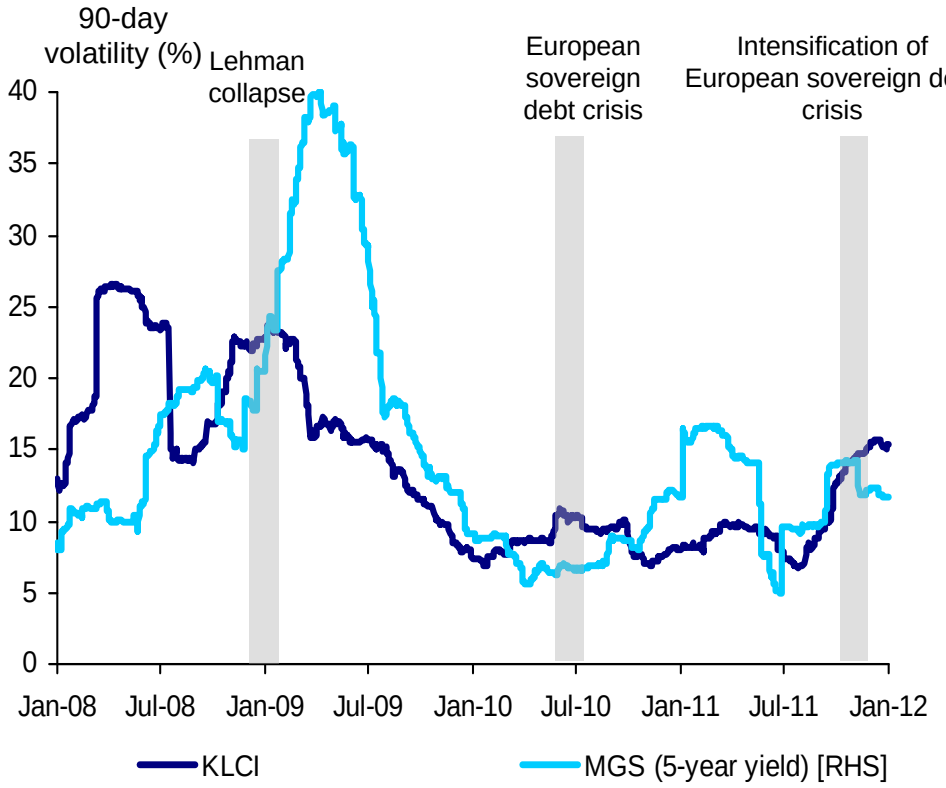
Leverage Position Estimate by Income Group			
Monthly Income	Total Leverage (times of annual income)	Outstanding Loans (RM bil)	% Banking System Loans
< RM3k	4.4 – 9.6	127.4	12.7
> = RM 3k	2.3 - 4.1	425.5	42.4

Source: Bank Negara Malaysia, Department of Statistics, Malaysia and Internal Estimate

Contagion risks from external developments well-contained

1 *Volatility in prices and portfolio flows effectively intermediated*

Volatility remains elevated but well below levels at height of the global financial crisis



Favourable trading liquidity

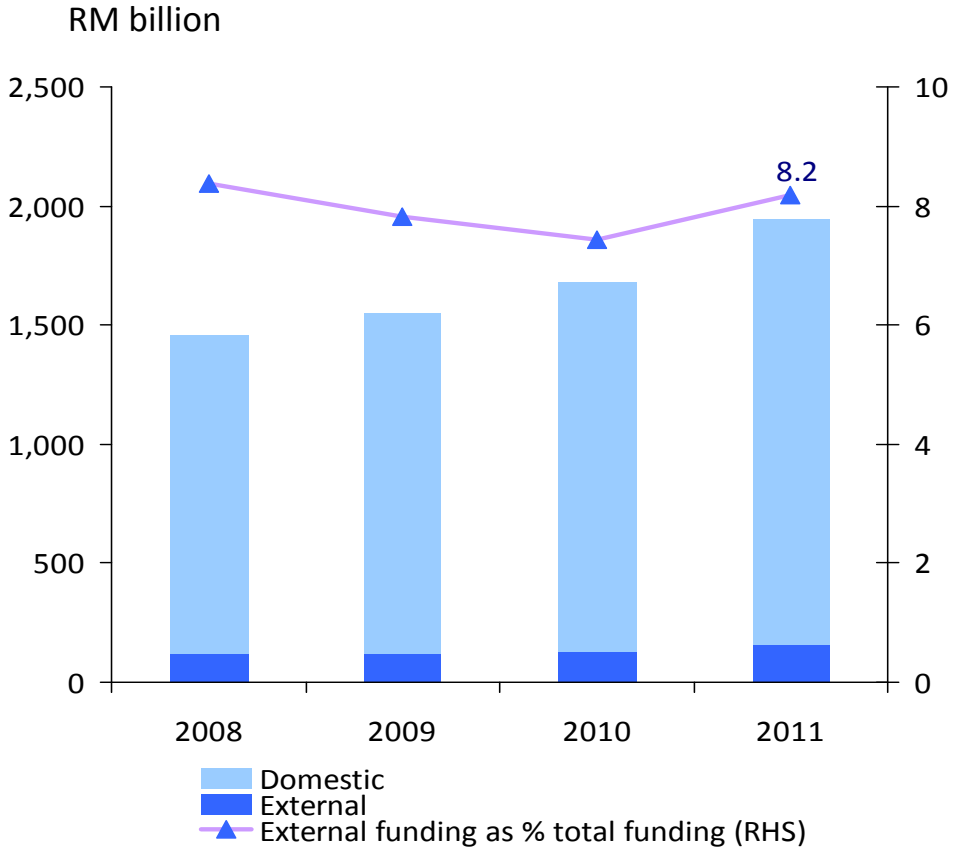
	2010 average	2011 average
Monthly turnover ratio (%)		
• *FBM KLCI*	2.0	*2.1*
• *Public debt*	21.1	*27.6*
Bid ask spread (bps)		
• *FBM KLCI*	4.4	*4.7*
• *MGS*	12.1	*10.0*

Source: Bloomberg

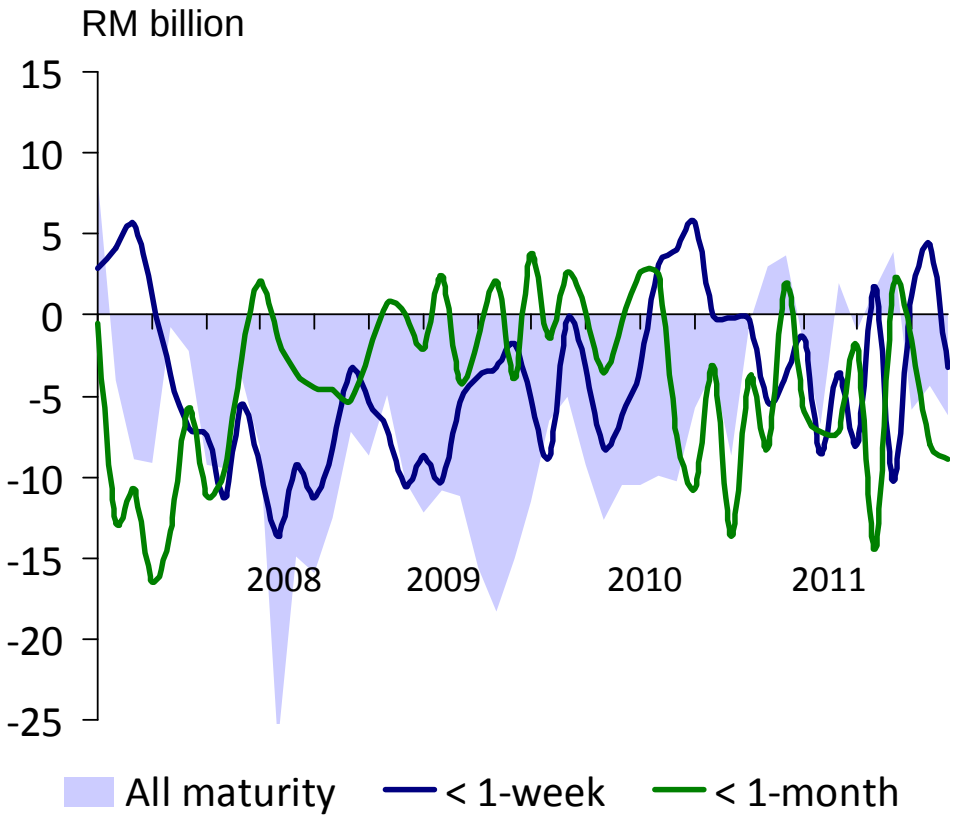
Contagion risks from external developments well-contained

2 *Foreign currency liquidity conditions tighter but manageable*

Low reliance by banks on external funding



Overall USD funding and liquidity mismatches are manageable



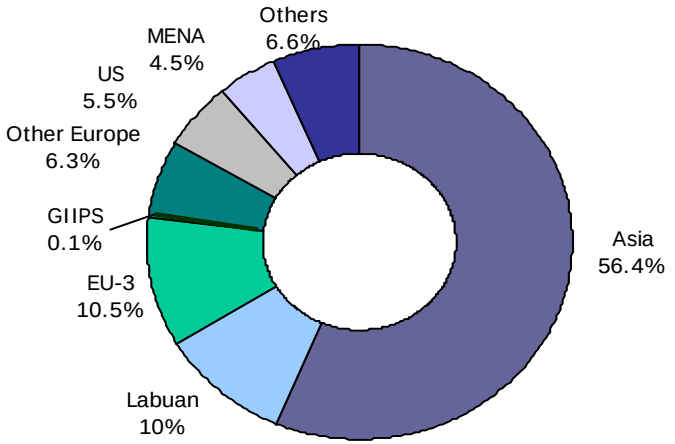
Limited credit exposure to counterparties in Europe

- **External claims of Malaysian banks on counterparties in Europe totalled RM 23.1 bil or 16.9% of external assets**

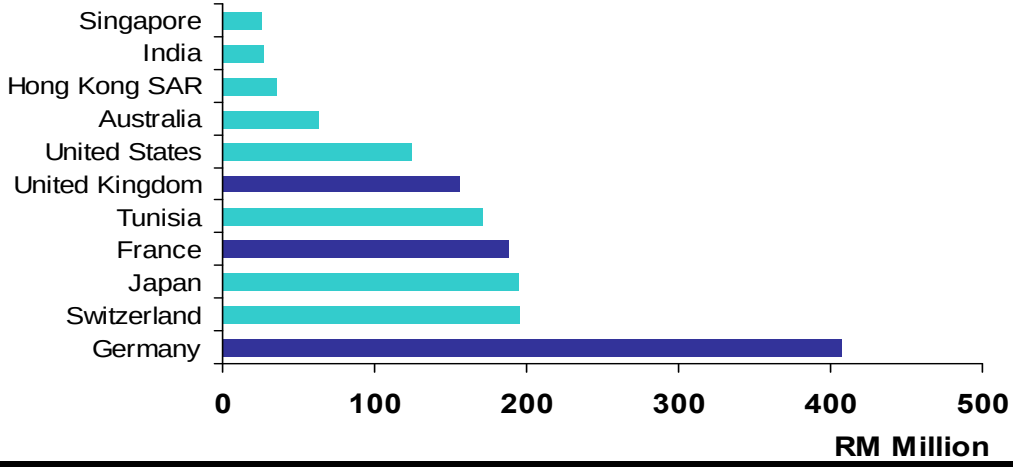
- **Banks' credit exposures to businesses with trade relations in Europe represented only 1.6% of total financing**

- **Insurance counterparty risks mainly to Euro reinsurers with strong ratings**
  - Reinsurance exposures to Europe account for only 11.6% of total capital available for general insurers

Banking system: Composition of External Claims by Region or Country

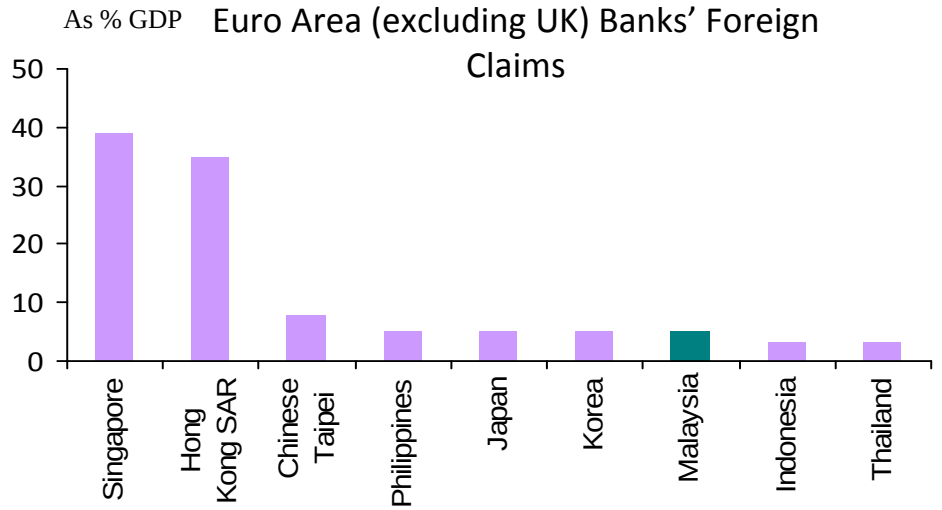


Foreign Reinsurance Exposures (by Claims Outstanding)

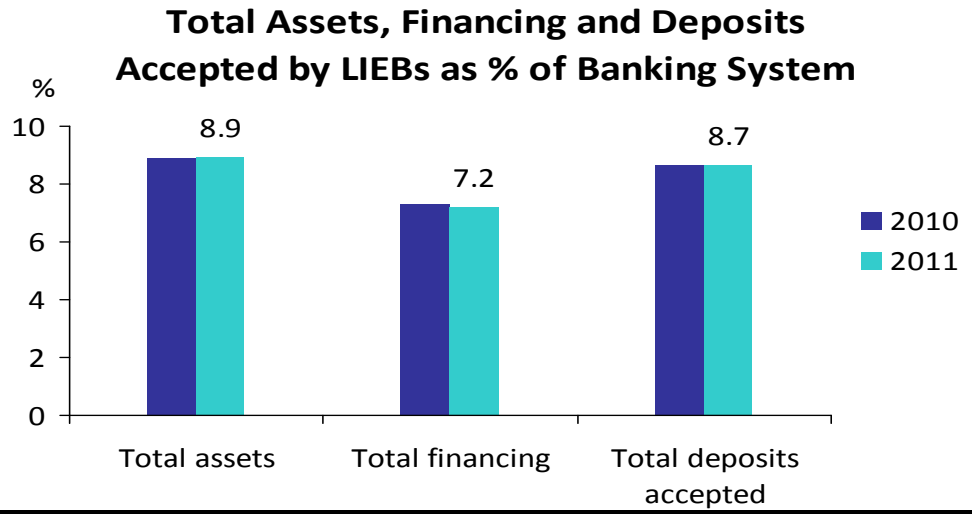


Impact from European banks' deleveraging lower than implied by international statistics

- **Excluding UK banks, foreign claims by European banks on Malaysia were 5% of GDP**
  - Mainly comprising claims of locally incorporated European banks (LIEBs) on Malaysian entities
- **Low likelihood of material scale back by LIEBs**
  - Dedicated capital for domestic operations
  - Mainly funded by domestic sources
  - Stable market share through 2011, with continued healthy profits
  - No material increase in capital repatriation observed
- **Other banks in Malaysia have strong capacity to ensure continued financial intermediation**



Source: Moody's Investor Service and BIS



Strengthened regulatory and supervisory framework to support financial stability

Implementation of reform package in Malaysia

Basel III	**Risk management and governance**
Consumer and market conduct	**Integrity of financial system**

Continuous improvements to standards and practices

Continued efforts to ensure responsible financial behaviour and fair outcomes for consumers

Enhanced legal framework to reduce risk of misuse of financial system

Malaysian banking system to implement Basel III

- **Implementation will be consistent with globally agreed timelines**
  - Gradual phasing-in of standards from 2013 until 2019

- **Key components of Basel III**
  - Higher levels and quality of capital with greater capacity to absorb losses
  - Minimum leverage ratio to be observed as a backstop to risk-based capital requirement
  - Sufficient high quality liquid assets to withstand stressed funding scenarios and with greater emphasis on more stable funding sources to address liquidity mismatches

- **Banks in Malaysia are well positioned to meet new standards**
  - Majority of banking institutions already operating at levels consistent with Basel III targets

	Common equity	Tier 1 capital	Total capital	Leverage
Minimum requirement	**4.5%**	**6%**	**8%**	**3%**
Minimum requirement + conservation buffer	**7%**	**8.5%**	**10.5%**	**-**
Estimated position (Dec 2011)	**9.0%**	**9.0%**	**13.2%**	**5.9%**

Financial sector development initiatives focused on reinforcing growth potential and stability of the financial sector

- **Launch of the Financial Sector Blueprint 2011-2020**

- **Continuous access to financing to meet changing needs of economy**
  - Enhancements to SME financing environment
  - Enhanced capacity of financial sector to support new growth areas and innovative industries

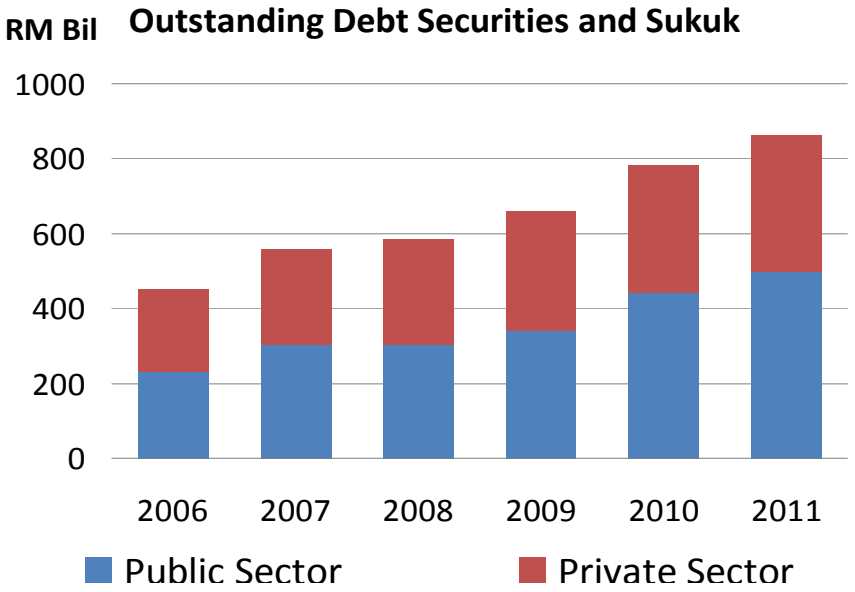
Outstanding Financing by Banking System	Value (RM bil)	Annual Growth
TOTAL	**1,003.5**	**13.6%**
Large Enterprises	224.7	9.8%
SMEs	153.2	19.4%
Pembiayaan Mikro	0.9	14.3%
Households	552.6	12.9%

- **Enhanced market structure**
  - Further consolidation and rationalisation of banks and insurers
  - New motor cover framework to ensure continuous access to affordable motor cover and to enhance sustainability of motor insurance industry
  - Annual tax relief to further spur development of robust pension framework

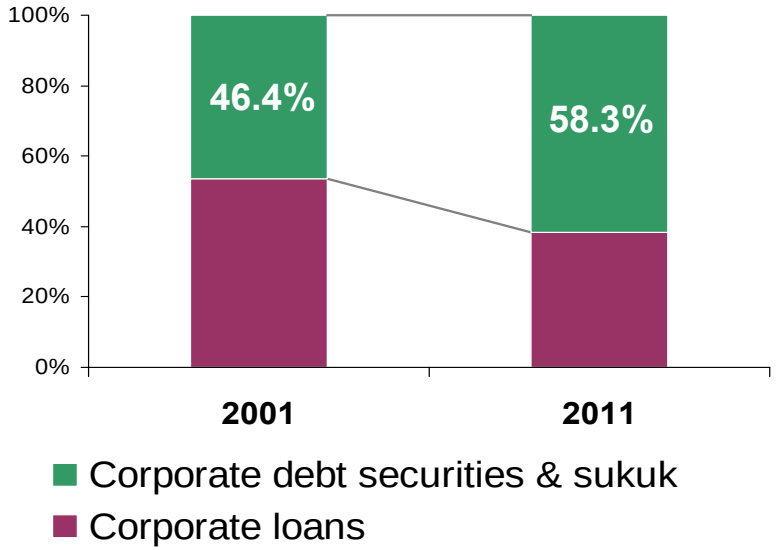
- **Talent development in financial sector a key priority**
  - Enhanced programme offerings by FSTEP, AIF, INCEIF and Iclif
  - Establishment of Financial Inclusion Centre in AIF

Increased depth and diversity of financial markets

Significant growth in bond and sukuk markets



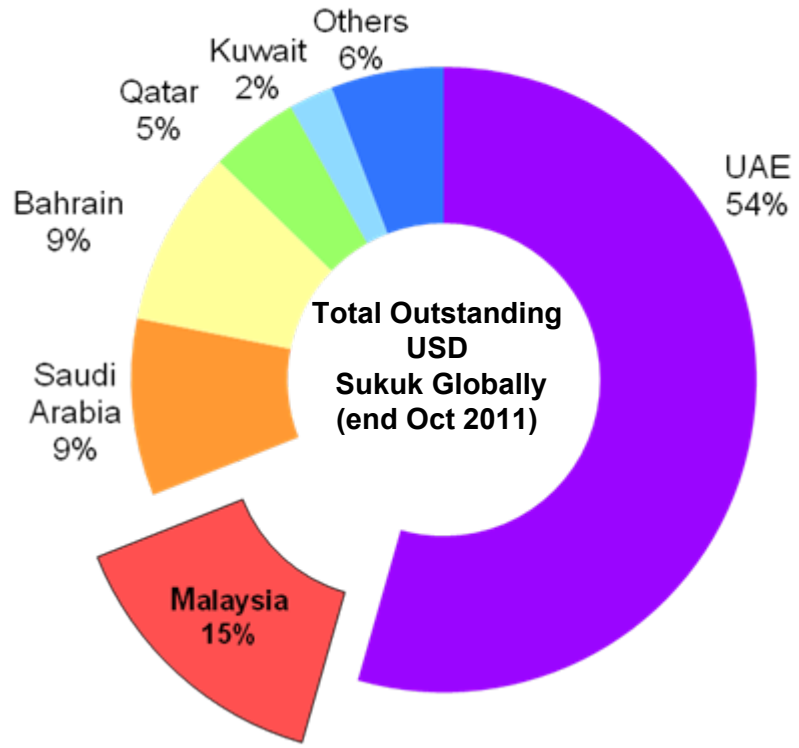
Diversified sources of corporate funding



- **Malaysia has the largest bond market in Southeast Asia accounting for 103.8% of GDP**
- **Robust growth in foreign exchange market**
  - Average daily turnover increased 44.2% to USD12.3 billion
- **Positive developments in collaboration between financial institutions and Danajamin in enhancing access to long term funding through the bond market**

Significant growth and broader innovation in Islamic finance

- Growing multi-currency sukuk market
- Foreign currency sukuk issued in Malaysia grew by 33.4% to USD 4.07 billion
- Outside GCC, Malaysia has the highest USD-denominated sukuk



Increased product diversity in Islamic financial markets

Issuance of Wakala Global Sukuk	World's first renminbi sukuk out of Malaysia	Bank Negara Monetary Notes-Istithmar

Strengthened position as international Islamic financial hub

Malaysia remains at forefront of the global Islamic finance industry

Global Ranking

No. 1	Sukuk Outstanding
No. 2	Islamic Banking Assets
No. 3	Takaful Assets

- 39 Malaysian Islamic FIs in the world's top 500 largest Islamic financial institutions
- 21 institutions within top 100

- The Banker's Report

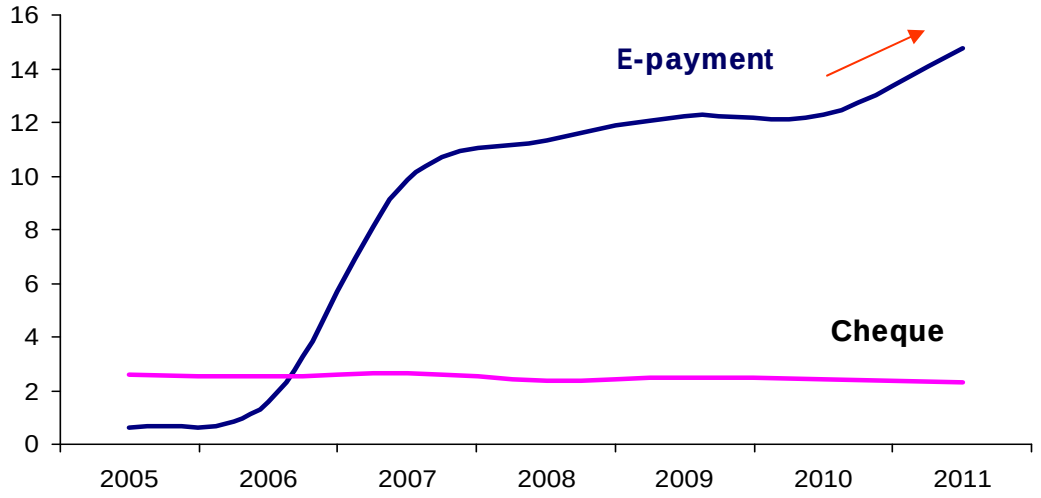
reinforced by multi-pronged strategic initiatives

Enhancing international liquidity management in Islamic finance	Building sustainable supply of global talent for Islamic finance	Strengthening linkages through strategic cooperation & continued initiatives to develop a common global Shariah understanding

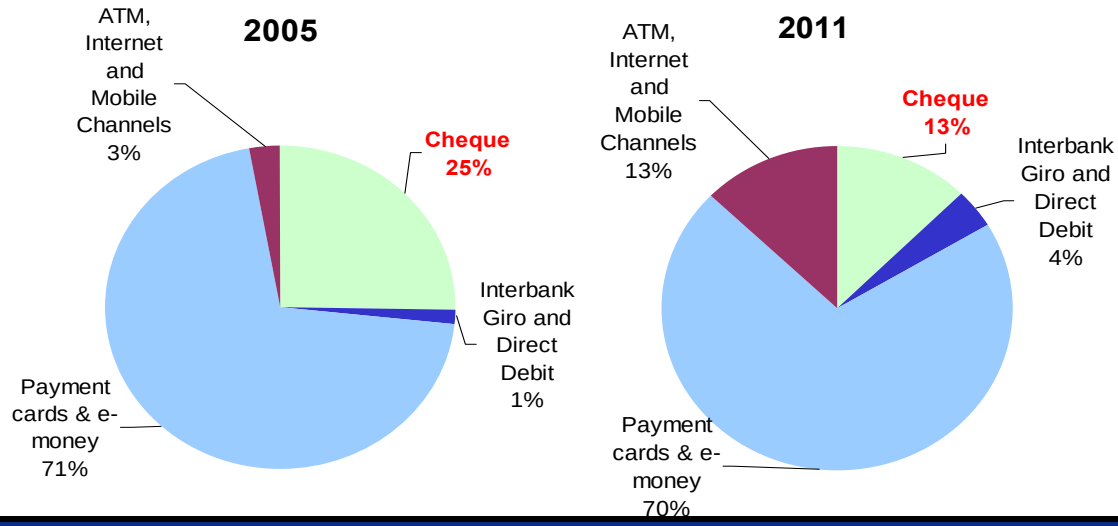
Electronic payments continue to gain momentum

- **Value of e-payment transactions increased from 0.6 times GDP in 2005 to 14.8 times in 2011**
- **Declining cheque usage**
- **Continue to focus on priority sectors**
- **Enhance operational efficiency and user convenience**

E-payment and Cheque: Turnover to GDP (Times)



Share of Non-cash Retail Payments by Volume



Strengthened financial inclusion

High financial inclusion levels by global standards

1 **'Getting Credit'**
World Bank Doing Business Report since 2007

8 **'Ease of Access to Loans'**
WEF Global Competitiveness Report 2011/2012

92% **of Malaysians have deposit accounts**
BNM Survey

Achievements in 2011

- **Outreach of financial services**
  All districts in Malaysia now have access to essential financial services
- **Pembiayaan Mikro Framework**
  Increased by 14.3% to benefit 71,535 accounts
- **Consumer education and literacy**
  - Continued collaboration with relevant agencies in implementing consumer education initiatives nationwide
  - Targeted initiatives such as POWER! Programme for young adults and first-time borrowers

Holistic Financial Inclusion Strategy Moving Forward

- Develop cost-effective **agent banking and mobile banking channels** to enhance outreach of affordable financial services
- Expand **product and services** to meet distinct financial needs of the underserved
- Introduce **greater operational flexibility** for financial institutions to establish delivery channels
- Promote **fair and responsible practices** among financial service providers

Outlook for domestic financial stability in 2012 remains positive

- **Risks to financial stability to be largely externally-driven**
- **Wide-ranging measures have begun to take effect, with strong institutional arrangements in place, including an effective financial safety net and debt resolution mechanism**
- **Financial system well-placed with sufficient capacity and flexibility to respond to emerging risks**
- **Macrosurveillance and supervisory activities in 2012 will focus on:**
  - Promoting prudent and responsible risk-taking and market conduct by FIs
  - Ensuring resilience and robustness of major payment and settlement systems
  - Further strengthening of regulatory laws and prudential guidelines
  - Further enhancing cooperation and coordination with domestic regulators and regional authorities in regulation, supervision and crisis management

Financial Sector Blueprint : *"Strengthening our Future"*

Areas of growth

1. Effective and efficient intermediation
2. Deep and dynamic financial markets
3. Financial inclusion for greater shared prosperity
4. Strengthened regional and international financial integration
5. Internationalisation of Islamic finance

Safeguards for stability

6. Regulatory and supervisory regime to safeguard financial system stability

Enabling environment

7. Empowering consumers
8. E-payments for greater economic efficiency
9. Talent development

..to serve beyond domestic needs towards regional & international aspirations

MALAYSIA	*ASEAN*	*ASIA & DEVELOPING ECONOMIES*	*INTERNATIONAL*
Strong, stable, competitive & inclusive financial system that supports effective & efficient intermediation of funds, the development of financial markets and contributes toward meeting needs of the economy	Integrated ASEAN financial market driven by ASEAN Economic Community	Strong financial linkages to facilitate trade & investment and supporting effective intra-regional intermediation	Evolving into an international Islamic financial hub with strong connectivity, diversity and specialisation in areas with strong competitive advantage

Supported by a robust surveillance, regulatory & supervisory framework and robust cross-border arrangements to ensure preservation of financial stability

Press Release

Renminbi Settlement Services in RENTAS

New Services

- Renminbi (RMB) Settlement Services for
  - Real time Inter-bank funds transfer
  - Real time securities settlement services
  - Scripless securities depository for all unlisted debt instruments

Purpose

- Provide a safe and efficient clearing and settlement platform to support trade and investment flows in RMB
- Promote the use of RMB as a currency for trade settlement
- Enhance financial stability by eliminating settlement risk
- Facilitate RMB securities issuance

Launch date

- 21 March 2012

Thank you