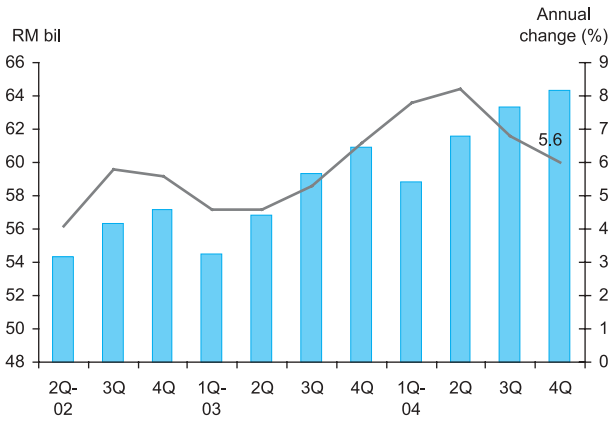
Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2004

OVERVIEW

Growth was led by the private sector

The Malaysian economy registered a growth of 5.6% in the fourth quarter of 2004. Growth was led by private sector activity while the Federal Government continued with its fiscal consolidation program. For 2004 as a whole, the Malaysian economy expanded by 7.1%.

Growth momentum sustained in 4Q 2004



In the manufacturing sector, the more diversified base has provided support to moderate the impact of the slowdown in the electronic equipment sub-sector. The services sector continued to remain firm, with higher growth in most sub-sectors. The primary commodity sector recorded another quarter of strong performance supported by higher palm oil and natural gas production. However, the construction sector remained weak due mainly to lower civil engineering activity.

Value-added in the manufacturing sector increased by 5.4% in the fourth quarter of 2004 (3Q: 9.9%). The pace of growth moderated mainly in the electronics and electrical products industry (production growth: 4.7%, 3Q: 19.3%) in line with the adjustments in inventories in the global electronics sector. Among the other major export-oriented industries, the chemical products industry recorded a higher growth of 13.4% (3Q: 8.7%), attributed to higher production of industrial gases as well as expansion in the plastics segment. As a result, export-oriented industries as a group registered a growth of 7.5% in the fourth quarter (3Q: 12.8%). Meanwhile, growth in the domestic-oriented industries was sustained at a high level of 6.2% (3Q: 7.2%), supported by strong growth in the transport equipment and fabricated metal industries, and to a lesser extent iron and steel industries.

Value-added in the services sector rose by 6.3% (3Q 2004: 6.1%). The transport, storage and communication sub-sector recorded a significant expansion due to robust performance of the telecommunication industry and continued expansion in trade-related activities. In the telecommunication sub-sector, growth was driven by higher

subscriber base in the cellular segment. The utilities sub-sector was supported by increasing demand for electricity by all categories of users. Growth in the wholesale, retail, and restaurant sub-sector was 6.9%. The finance, insurance, real estate, business services sub-sector recorded a growth of 6.2%.

In the fourth quarter, both the agriculture and mining sectors expanded further by 7.7% and 4.7% respectively (3Q 2004: 5.3% and 4.7% respectively). The agriculture sector was underpinned by exceptionally strong performance of the palm oil sector (16.5%), while the expansion in the mining sector was driven largely by higher production of natural gas.

In the construction sector, the residential and non-residential segments expanded with firm demand, particularly for landed properties, supported by the attractive financing packages and rising disposable income. Construction of the non-residential segment was driven largely by demand for office and retail space amidst the favourable business activities. Nevertheless, the overall construction sector contracted by 3.3% (3Q 2004: -3%), due mainly to lower civil engineering activity.

During the fourth quarter, the private sector led the expansion in domestic demand. The rise in consumer sentiment was attributed to stable employment conditions and sustained high disposable incomes from strong commodity export proceeds. Favourable financing conditions, low interest rates and low inflation led to a strong 9.7% increase in private consumption. Although the Consumer Sentiments Index, a forward looking consumption indicator compiled by the Malaysian Institute of Economic Research, was lower in the fourth quarter, the index remained above the 100-point threshold, indicating that consumer confidence remains positive. Consumer optimism was reflected in higher imports of consumption goods, sales of passenger cars, loans approved and disbursed to households for the purposes of consumption and purchase of durable goods. Growth in public consumption moderated to 3.7% (3Q 2004: 4.6%).

During the fourth quarter, private investment activity was robust, on account of expenditure on the replacement of machinery and equipment in the manufacturing sector as well as investment in seismic and geophysical survey apparatus for oil exploration activities. As a result, gross fixed capital formation increased (2.2%) in spite of the decline in the Federal Government development expenditure. Notwithstanding the lower development expenditure, spending continued to be channelled to important fiscal operations and services such as education, housing, transportation, agriculture and rural development.

Growth in the Malaysian economy in the fourth quarter was achieved amidst low inflation. Inflation edged up slightly to 2.1% in the fourth quarter, reflecting increases in food prices, higher personal transportation charges, as well as higher taxes on cigarettes and tobacco. Nevertheless, the upside risks to inflation were limited by expansion in capacity and continued

productivity growth. Meanwhile, labour market conditions remained stable, supported by strong growth in productivity. In the manufacturing sector, real sales value of products per employee rose by 15.3%.

During the fourth quarter, Malaysia's balance of payments position remained strong, with trade account recording a sustained large surplus of RM21 billion (3Q 2004: RM22.7 billion). Gross exports registered a lower growth of 16.1% due mainly to the slowdown in the exports of electronics and electrical (E&E) products. Gross imports increased, albeit at a more moderate pace of 18.6%. Imports of intermediate goods continued to expand by 12.8%, supported by higher demand for metals and resource-based inputs. Imports of capital goods continued to expand strongly by 37.7%, with the bulk being channelled into the manufacturing and services industries for upgrading technology and capacity expansion. Capital imports excluding lumpy items, grew by 26.6%. Consonant with higher disposable income a nd higher demand related to festivities, imports of consumption goods grew by 16.5% during the fourth quarter, with higher demand for food and beverages and consumer goods.

In the financial account, foreign direct investment (FDI), overseas and portfolio investments increased during the fourth quarter. Gross inflows of FDI rose to RM4.6 billion and were channelled evenly to the manufacturing, services and the oil and gas sectors. Gross outflows for overseas investment increased significantly to RM16.5 billion, attributed mainly to higher short-term loan extension by non-resident controlled companies in Malaysia to their related companies abroad arising from the centralisation of their treasury operations. Excluding the outflows for treasury operations, overseas investment from the services, oil and gas and manufacturing sectors were higher in the quarter. Portfolio investment recorded a higher net inflow of RM11.1 billion during the fourth quarter, reflecting renewed active foreign participation in both Malaysian equities and debt securities.

The international reserves of Bank Negara Malaysia strengthened further by RM37.4 billion (US$9.8 billion) in the fourth quarter of 2004 to a record level of RM253.5 billion (US$66.7 billion) as at 31 December 2004. The increase reflected the higher repatriation of export earnings, as well as higher inflows of FDI and portfolio funds. The reserves increased further to RM269.6 billion (US$71 billion) as at 15 February 2005, supported mainly by sustained repatriation of export earnings. The reserves level is sufficient to finance 8.5 months of retained imports and is 6 times the short-term external debt.

Monetary policy continued to support growth

In an environment of low inflation, the Overnight Policy Rate (OPR) was maintained at 2.70% in November. Monetary policy continued to support the expansion in private investment and private consumption. Gross private sector financing through the banking system and capital market was higher,

amounting to RM142.6 billion, equivalent to an annual increase of 6.7%.

Loan disbursements to the business sector grew by 7.8% on an annual basis. The disbursements were channelled mainly to the manufacturing sector (35.7% of total loan disbursements to businesses); the wholesale, retail, restaurants and hotels sector (26.4%); and the finance, insurance and business services sector (9.4%). Loan disbursements to large businesses and small and medium enterprises (SMEs) rose at annual rates of 7.2% and 9.1% respectively. A total of RM8.7 billion new loans were approved to 25,918 SME accounts during the quarter. Meanwhile, financing to the household sector was sustained with loan disbursements increasing by 12%.

In the private debt securities (PDS) market, gross new issuances by the private sector remained high, amounting to RM10.1 billion and were primarily in the construction and utilities sectors. In particular, the issuances by the corporate sector to finance new activities amounted to RM3.8 billion or 40.3% of new issuances. In the equity market, higher funds of RM2.3 billion were raised, with RM2 billion raised through 24 initial public offerings (IPOs).

The larger trade and capital inflows during the quarter remained manageable. Bank Negara Malaysia's liquidity operations were aimed at ensuring a level of interest rates that was consistent with domestic considerations. As a result, the growth in the broad money aggregate, M3 remained broadly in line with the expansion in economic activity.

Increased resilience of the banking system

The banking system continued to exhibit increased resilience in the fourth quarter, with a high level of capitalisation, improvement in profitability and the lowest level of non-performing loans since the Asian financial crisis. The risk-weighted capital ratio (RWCR) and core capital ratio (CCR) of the banking system remained high at 13.8% and 10.8%, despite recording marginal declines. The expansion of capital base was attributed mainly to lower capital deductions for investments in subsidiaries (-RM1.6 billion) post-Bafin mergers, while the higher risk-weighted assets was due mainly to increased lending. The banking system recorded a 6.1% increase to RM3 billion in pre-tax profits during the quarter, compared to RM2.8 billion in the previous quarter.

The net NPLs based on the 6-month classification continued trending downwards to account for 5.9% of total net loans, the lowest level since the Asian crisis (3Q2004: 6.1%). Similarly, the net NPLs based on 3-month classification showed significant improvements to RM37.5 billion or 7.6% of total net loans (3Q2004: 8.1%). The improvement was largely attributed to higher recoveries, reclassifications and write-offs.

The Malaysian economy is expected to sustain growth in the near term …

Going forward, the global economic expansion is expected to be sustained at a steady pace in 2005. The pace of slowdown in the United States and People's Republic

of China is expected to be moderate, based on the premise that adjustment in imbalances in these economies would be gradual. Monetary policy is expected to remain accommodative as inflation is forecast to remain manageable, amidst high but stable oil prices. Labour market conditions have improved in several regions. These developments would be supportive of growth in the Asian region. The impact from the electronics down-cycle will vary across countries. While the global electronics industry is consolidating after reaching a peak in mid-2004, the downcycle is forecast to be modest in view of the continued global demand, more rapid inventory adjustments and relatively low inventory levels. Overall, domestic demand in the region is expected to be supportive of growth, backed by favourable fundamentals and contribution from new growth areas. The impact of the tsunami is estimated to be minimal and short term, confined to the tourism and fishery industries in selected areas in the affected countries.

The growth prospect for Malaysia therefore remains favourable in 2005. The sustained increase in the Leading Index in November suggests that economic growth momentum will be maintained into 2005. Growth would be driven by the private sector as the public sector consolidates its fiscal position. The Consumer Sentiment Index remained well above the critical 100-point mark in December indicating the strong consumer optimism. Growth in the Malaysian economy would continue to be achieved amid low inflation. The upside risks to inflation are limited by capacity expansion and continued productivity growth.

Monetary policy stance would continue to ensure that the interest rates remain consistent with domestic economic activity and be supportive of growth.

DEVELOPMENTS IN THE FOURTH QUARTER OF 2004

International Economic Environment

Moderate global economic expansion in major industrial countries and broad-based growth in the regional economies

The global economy continued to expand, albeit moderately, amidst high oil prices in the fourth quarter, led by strong growth in the United States (US), P.R. China and continued recovery in the European economy. However, revised GDP data showed that the Japanese economy weakened in the second half of 2004. Meanwhile, growth in the Asian region continued to be broad-based.

US GDP growth strengthened at a more modest pace in the fourth quarter, driven mainly by consumption spending, as reflected in expansion in home sales, retail sales, and personal income, amidst strong US consumer confidence. Investment spending was favourable, supported by positive corporate profits and cash flows. However, the trade deficit widened further especially due to high oil prices. Against the backdrop of improving labour market conditions, low inflation and strong growth, the Fed continued to raise interest rates at a measured pace, with two successive interest rate increases by 25 basis points on 10 November and 14 December, raising the Fed funds rate to 2.25% by the end of the year. In the **euro zone**, improving economic sentiment and Germany's IFO business climate index pointed towards continued growth. Growth in the **United Kingdom** economy was sustained, despite some slowing in the housing market and moderation in industrial production. In **Japan**, while the latest Tankan survey showed a moderation in business confidence, corporate capital spending plans were revised upwards.

Global crude oil futures prices reached a record high of $55.67 on 25 October 2004, driven by geopolitical uncertainties, possible supply disruptions in both OPEC (Iraq, Nigeria) and non-OPEC countries (Russia) and strong global demand. Prices remained high in January 2005 due to cold weather in the Northeast of the US and several production disruptions.

Industrial Countries: Real GDP growth

	2003		2004			Key contributing factors for 4Q growth
	4Q	Year	3Q	4Q	Year	
	Annual change (%)					
US[1]	4.2	3.0 r/	4.0	3.8 r/	4.4	Consumption and investment growth were robust, although net exports exerted a larger drag on growth.
UK	2.9	2.2	3.1	2.9 r/	3.1	Domestic demand continues to drive growth.
Euro zone	0.8	0.5	1.8	1.6	2.0	Growth was supported by strong consumer demand in France and Spain.
Japan[1]	3.8 r/	1.4 r/	-1.1 r/	-0.5	2.6	Capital spending was supported by healthy corporate profits while consumption and exports weakened.

[1] annualised basis
r/ revision
Source: National authorities

In the **Asian** region, growth remained strong with broad-based expansion, across both exports and domestic demand. In most regional countries, despite the onset of the

slowdown in the electronics cycle, exports still grew at double-digit rates, supported by the seasonally high year-end demand. The economic impact of the tsunami disaster is assessed to be minimal and short term, affecting mainly the tourism and fishery industries in the affected countries. Overall, regional growth for 2004 is estimated to peak at 7.5% (2003: 6.4%), the highest since 2001. Regional growth continued to be led by real GDP growth of 9.5% in the P.R. China.

Regional Countries: Real GDP growth

	2003		2004			Key contributing factors for 4Q growth
	4Q	Year	3Q	4Q	Year	
	Annual change (%)					
P. R. China	9.9	9.3	9.1	9.5	9.5	Continued broad-based growth supported mainly by strong double-digit export growth.
Singapore	5.6	1.4	7.2	6.5	8.4	The strong performance of the biomedical manufacturing cluster offset slower growth in the electronics and chemicals cluster.
Indonesia	4.1	4.9	5.0	6.7	5.1	Broad-based growth with strong expansion in investment.
Philippines	5.0	4.7	6.3	5.4	6.1	Supported by strong consumer spending, fixed capital investments and exports.
Chinese Taipei	5.7	3.3	5.3	3.3	5.7	Weakest performance since 2Q 2003 due to cooling of exports.

Source: National authorities

In most regional countries, inflation has started to ease on the back of lower oil prices and stronger regional currencies. However, in the Philippines, inflation has hit a 5-year high due to the lag effect of high oil prices, rising food prices and the weaker peso.

In the region, P.R. China, India, C. Taipei and Thailand raised interest rates to mitigate inflationary pressures arising mainly from high oil prices. The latest rate increases by Thailand and C. Taipei have been prompted by the risk to inflation posed by the current low interest rate environment and country-specific factors such as the proposed increase in utility rates in C. Taipei. Korea reduced interest rates to support growth, as domestic demand remained weak.

In the foreign exchange market, the depreciation of the US dollar intensified since November. During the quarter, the euro appreciated by about 9% and the yen by about 7.2% against the dollar. Most of the regional currencies also appreciated due to the weaker dollar and the speculation of a Chinese yuan revaluation. Of significance was the strengthening of the Korean won, New Taiwan dollar and the Singapore dollar to seven-year, six-year and four-year highs respectively during the quarter.

Going forward, the global economic expansion is expected to be sustained at a steady pace in 2005. The pace of slowdown in the US and P.R. China is expected to be moderate, based on the premise that adjustment in imbalances in these economies would be gradual. Monetary policy is expected to remain accommodative as inflation is forecast to remain manageable, amidst stable oil prices. Labour market conditions have improved in several regions. These developments would be supportive of growth in the Asian region. The impact from the electronics down-cycle and high oil prices will vary across countries. While the global electronics industry is consolidating after reaching a peak in mid-2004, the downcycle is forecast to be modest in view of the continued global demand, more rapid inventory adjustments and relatively low

inventory levels. Overall, domestic demand in the region is expected to be supportive of growth, backed by favourable fundamentals and contribution from new growth areas. The impact of the tsunami is estimated to be minimal and short term, confined to the tourism and fishery industries in the affected countries.

Developments in the Malaysian Economy

Growth was led by the private sector

The Malaysian economy registered a growth of 5.6% in the fourth quarter of 2004. Growth was led by private sector activity. In the manufacturing sector, the more diversified base has provided support to moderate the slowdown in the electronic equipment sub-sector. The services sector continued to remain firm, with higher growth in most sub-sectors. The primary commodity sector recorded another quarter of strong performance supported by higher palm oil and natural gas production. The construction sector contracted by 3.3% due mainly to lower civil engineering activity.

Quarterly GDP by Kind of Economic Activity at 1987 Prices

	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Agriculture	1.9	5.7	5.3	7.7	5.0
Mining	5.3	5.9	4.7	4.7	4.1
Manufacturing	12.2	8.3	9.9	5.4	9.8
Construction	2.7	1.9	-3.0	-3.3	-1.9
Services	4.7	4.4	6.1	6.3	6.7
Real GDP (Ann. Chg.)	**6.6**	**5.3**	**6.7**	**5.6**	**7.1**
Real GDP (Preceding Chg.)	**2.7**	**5.3**	**2.8**	**1.7**	**7.1**

Source: Department of Statistics, Malaysia

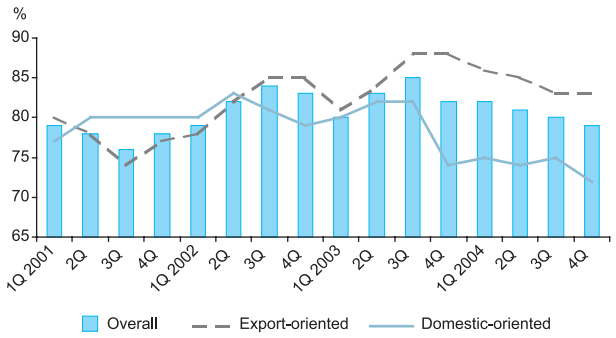
Continued expansion in the manufacturing sector

Value-added in the **manufacturing sector** increased by 5.4% in the fourth quarter of 2004 (3Q: 9.9%). The pace of growth moderated mainly in the electronics and electrical products industry (production growth: 4.7%; 3Q: 19.3%). Other major export-oriented industries continued to record strong growth during the quarter. The overall capacity utilisation rate remained relatively high at 79% (3Q: 80%), with both the export and domestic-oriented industries operating at 83% and 72% respectively (3Q: 83% and 75% respectively).

The **export-oriented industries** expanded by 7.5% (3Q: 12.8%) due to lower growth in the electrical and electronics industry amidst the consolidation in the global electronics industry. During the quarter, electronic manufacturers rationalised output with inventory adjustments at the various levels of the supply chain. Meanwhile, growth in the chemical products industry strengthened to 13.4% (3Q: 8.7%), led by higher production of industrial gases in line with the strong performance of the natural gas production. The chemical industry was also supported by strong growth in the plastics segment. Similarly, off-estate activity strengthened during the quarter due to increased palm oil processing following the exceptionally good harvest during the quarter.

Growth in the **domestic-oriented industries** was sustained at 6.2% (3Q: 7.2%), supported by strong growth in the transport

Capacity Utilisation in the Manufacturing Sector



Performance of the Manufacturing Sector

	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual Change in %				
Value Added (Constant Price)	**12.2**	**8.3**	**9.9**	**5.4**	**9.8**
Overall Production	**15.7**	**10.5**	**11.6**	**7.3**	**12.6**
Export-oriented industries	**17.7**	**11.9**	**12.8**	**7.5**	**14.1**
of which :					
- Electronics	30.4	15.1	27.0	9.5	24.9
- Electrical	-3.5	-7.0	-8.8	-15.6	-9.8
- Textiles & wearing apparel	-11.1	-2.2	-13.8	-15.3	-11.9
- Chemicals and chemical products	22.7	20.8	8.7	13.4	14.1
- Off-estate processing	0.0	11.8	1.5	17.9	4.0
- Rubber products	23.9	18.7	7.5	9.0	14.8
- Wood and wood products[1/]	-0.9	0.9	11.3	4.4	12.5
Domestic-oriented industries	**8.8**	**6.1**	**7.2**	**6.2**	**7.1**
of which :					
- Transport equipment	3.4	-5.5	6.4	16.6	8.3
- Fabricated metal products	17.5	7.4	38.0	20.7	29.0
- Iron & steel and non-ferrous metal	13.3	10.8	-1.9	4.8	4.5
- Non-metallic mineral products	8.3	9.7	-4.6	-4.9	-4.9
- Petroleum products	-1.2	2.3	7.1	5.5	1.3
- Food	7.2	8.8	-1.8	1.8	3.6
Total Manufactured Exports	**14.1**	**8.0**	**27.3**	**13.5**	**19.7**
- Electronics and electrical products	13.1	5.0	21.3	7.5	15.3
- Wood and wood products	9.8	6.1	47.1	12.4	29.5
- Furniture & parts	18.0	8.5	24.5	16.2	17.8
- Textiles, clothing & footwear	0.2	2.2	19.4	14.0	17.9
- Optical & scientific equipment	12.4	12.3	40.5	19.6	26.3
- Chemical and chemical products	24.5	23.1	43.6	26.9	31.0
- Petroleum products	10.5	23.8	66.8	57.1	42.2

[1/] Output of furniture and parts are not captured in the wood production data.

equipment and fabricated metal industries, and to a lesser extent iron and steel industries. Growth in the transport equipment industry strengthened to 16.6% (3Q: 6.4%), due to strong demand for passenger car sales induced by the introduction of new models during the quarter, as well as higher external demand for scooters and motorcycle. Strong external demand also supported the growth in the fabricated metal, and iron and steel industries during the quarter.

Services sector remained firm

The growth momentum in the **services sector** continued (6.3%; 3Q: 6.1%), supported by strong consumption, tourism and trade-related activities. The finance, insurance, real estate and business services sub-sector recorded a strong growth of 6.2% (3Q: 5.4%) attributable to higher bank lending and insurance activities, while growth in the wholesale and retail trade, hotels and restaurants sub-sector was higher at 6.9% (3Q: 5.9%). The latter was supported by continued increase in tourist arrivals (15.4%) as well as strong consumer spending during the holiday season and festivities, including demand for durable items such as motor vehicles.

The transport, storage and communication sub-sector recorded a

Performance in the Services Sector (Value Added)

	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Intermediate Services	**5.8**	**5.5**	**6.2**	**7.3**	**7.2**
Transport, storage & communication	8.0	5.7	7.5	9.2	8.4
Finance, insurance, real estate & business services	4.6	5.4	5.4	6.2	6.5
Final Services	**3.9**	**3.7**	**6.0**	**5.6**	**6.3**
Electricity, gas & water	5.5	5.7	7.4	7.7	8.1
Wholesale & retail trade, hotel & restaurants	3.1	1.5	5.9	6.9	7.1
Government services	5.1	7.6	6.9	3.7	5.1
Other services	3.4	3.3	4.6	3.9	5.0
Total Services	**4.7**	**4.4**	**6.1**	**6.3**	**6.7**

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Tourism-related indicators					
Hotel occupancy rate (index)	59.3	53.3	65.6	62.7	60.8
Tourist arrivals	3.8	-20.4	51.5	15.4	48.5
Total passenger traffic at all airports	10.7	2.0	15.2	11.2	18.9
Consumption-driven indicators					
Total consumption credit outstanding	11.1	11.1	14.7	16.4	16.4
Imports of consumption goods	5.8	-1.2	38.8	16.5	24.1
Total sales of passenger cars	-11.7	-10.9	19.6	27.3	15.3
Cellular phone penetration rate (% as at end)	43.9	43.9	50.8	55.9	55.9
Trade-related services indicators					
Cargo handled (All airports)	2.9	7.0	13.7	10.2	10.5
Container cargo handled (Port Klang and PTP)	11.2	15.6	8.8	3.6	11.2

Source: Various sources

significant increase of 9.2% benefiting mainly from the robust performance of the telecommunications industry. Growth was driven by the higher subscriber base in the cellular segment, with the highest number of new subscribers recorded during the quarter. In addition, broadband usage increased with the penetration rate rising from 0.85% at end-September to almost 1% by end-2004. The trade and travel-related activities also contributed favourably to the transport, storage and communications sub-sector. The utilities sub-sector was supported by increasing demand for electricity by all categories of users, while the expansion in the Government services sub-sector was attributed to the increase in emoluments and bonus payments to civil servants.

Strong performance in the primary commodity sector

The **primary commodity sector** continued to record a strong performance with both the agriculture and mining sectors expanding further by 7.7% and 4.7% respectively (3Q 2004: 5.3% and 4.7% respectively). The agriculture sector was underpinned by exceptionally strong performance of the palm oil sector, while the expansion in the mining sector was driven largely by strong natural gas production and continued growth in crude oil production.

In the **agriculture sector**, crude palm oil output grew at a double-digit rate of 16.5% (3Q 2004: 5.2%), due to further expansion in matured palm oil areas, particularly in East

Performance of the Agriculture Sector

	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (at 1987 prices)	**1.9**	**5.7**	**5.3**	**7.7**	**5.0**
Production[1]					
Of which:					
Crude palm oil	5.4	12.1	5.2	16.5	4.7
Crude palm kernel oil	3.4	11.6	-3.5	11.8	-0.1
Rubber	12.4	10.8	22.5	5.7	20.4
Saw logs	-7.8	4.3	6.8	3.8	0.2
Cocoa beans	-42.0	-24.0	17.7	17.9	-7.8
Exports (RM million)	**14.9**	**28.0**	**4.2**	**1.2**	**7.4**
Of which:					
Palm oil					
('000 tonnes)	0.7	15.0	-14.0	2.3	-5.6
(RM/tonne)	10.6	18.3	5.9	-6.1	5.5
(RM million)	11.4	36.1	-8.9	-3.9	-0.4
Palm kernel oil					
('000 tonnes)	42.4	17.1	-39.9	-24.7	-8.3
(RM/tonne)	10.3	18.0	55.9	38.9	46.9
(RM million)	57.0	38.2	-6.4	4.5	34.7
Rubber					
('000 tonnes)	9.7	2.0	15.3	16.6	16.7
(Sen/kilogramme)	36.1	41.0	29.0	2.6	24.3
(RM million)	49.4	43.8	48.7	19.6	45.1
Sawn timber					
('000 cu.metres)	4.5	1.3	15.3	16.3	13.5
(RM/cu.metre)	1.6	2.9	-1.9	-10.2	-10.4
(RM million)	6.2	4.2	13.1	4.4	1.7
Saw logs					
('000 cu.metres)	11.2	8.4	22.8	-17.9	-5.9
(RM/cu.metre)	-5.8	1.8	7.3	6.2	8.9
(RM million)	4.7	10.3	31.8	-12.8	2.5
Cocoa beans					
('000 tonnes)	-53.6	-37.9	53.8	-15.6	-27.7
(RM/tonne)	-11.0	20.9	-5.8	-5.9	-12.6
(RM million)	-58.7	-25.0	44.8	-20.6	-36.8

[1] In '000 tonnes, except for saw logs in '000 cubic metres

Malaysia, as well as higher productivity. Yields, both in terms of fresh fruit bunches (FFB) and oil extraction rates (OER), were higher during the quarter, at 5.19 tonnes per hectare and 20.19% respectively, compared to the fourth quarter of 2003 (4.74 tonnes per hectare and 19.9% respectively). Meanwhile, rubber production recorded a more moderate increase during the quarter (5.7%; 3Q 2004: 22.5%), on account of lower number of tapping days caused by the long stretch of holidays during the major festivities.

In the **mining sector**, natural gas output grew by 10.3%, recording an historic quarterly output of 5,865 million standard cubic feet per day. The strong production was due to higher capacity utilisation of Malaysian Liquefied Natural Gas (MLNG) plants in Sarawak and Gas Processing Plants (GPPs) in Peninsular Malaysia. While output of crude oil (including condensates) grew at a moderate pace of 1.4% during the quarter (3Q 2004: 5.4%), the quarterly production was an all-time high of 774,191 barrels per day amidst the strong global demand and high prices. The Malaysian Tapis Blend crude oil prices reached a historic high of above US$55 per barrel on 21 October in line with developments in the global oil market before easing to the US$40 - 45 range thereafter.

Performance of the Mining Sector

	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Value Added (at 1987 prices)	**5.3**	**5.9**	**4.7**	**4.7**	**4.1**
Production					
Of which:					
Crude oil and condensates ('000 barrels)	6.4	5.6	5.4	1.4	3.6
Natural gas (net) (million standard cubic feet)	5.2	7.2	-1.5	10.3	4.0
Exports (RM million)	**26.6**	**33.3**	**50.1**	**44.7**	**38.2**
Of which:					
Crude oil					
('000 tonnes)	19.2	10.6	7.8	-11.0	1.0
(US$/barrel)	12.6	22.0	50.6	53.3	34.8
(RM million)	34.2	35.0	62.3	36.4	36.1
Liquefied natural gas					
('000 tonnes)	15.1	15.4	8.9	19.4	19.7
(RM/tonne)	2.4	17.1	11.7	15.9	6.8
(RM million)	17.8	35.1	21.7	38.5	27.9

Lower construction activity

Growth in the **construction sector** contracted by 3.3% (3Q 2004: -3%) due mainly to lower civil engineering activity, while the residential and non-residential segments continued to expand. Demand, particularly for landed properties remained firm supported by the attractive financing packages and rising disposable income. Construction of the non-residential segment was driven largely by demand for office and retail space amidst the favourable business activities.

Construction Indicators

	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
New sales and advertising permits	21.5	-2.7	-31.9	-19.4	-5.9
Housing approvals	23.7	2.2	-30.7	-34.9	-14.1
Production of construction-related materials	10.6	10.2	-3.4	-0.4	-0.6
Loans approved for construction	16.1	-4.7	39.0	-14.8	2.4
Imports of construction materials & mineral products	17.8	-6.7	86.5	15.8*	42.2**

* Oct. - Nov. '04 ** Jan. - Nov. '04

Source: Ministry of Housing and Local Government and Department of Statistics, Malaysia

Private sector led growth….

Economic growth, which has gained considerable momentum since the first quarter of this year, was sustained by the expansion in domestic demand in the fourth

quarter (6.4%; 3Q 2004: 7.3%), led by private sector. While higher household and business spending contributed to the robust expansion, the Federal Government continued to scale down its expenditure as it continued with its fiscal consolidation program.

GDP by Expenditure Components (at Constant 1987 prices)

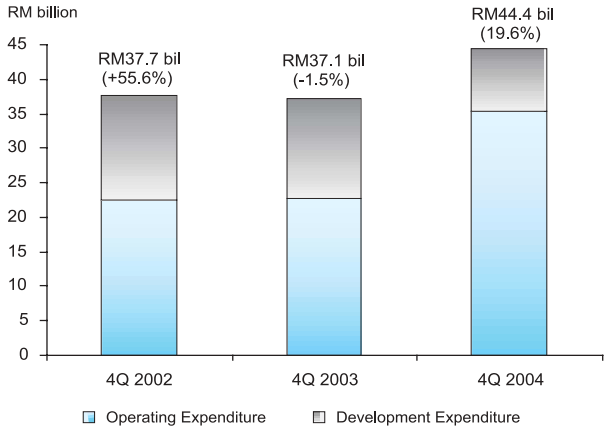
	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	7.7	5.9	7.3	6.4	7.3
Consumption	9.5	7.4	9.2	8.1	9.2
Private sector	8.6	6.6	10.8	9.7	10.1
Public sector	12.2	10.0	4.6	3.7	6.6
Gross Fixed Capital Formation	3.6	2.7	3.2	2.2	3.1
Exports of Goods and Services	10.9	6.3	18.2	10.7	15.6
Imports of Goods and Services	15.9	5.0	23.2	12.6	19.8
GDP	**6.6**	**5.3**	**6.7**	**5.6**	**7.1**

Source: Department of Statistics, Malaysia

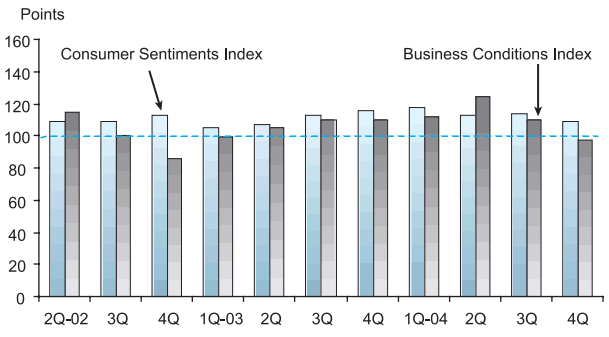
The stable employment conditions and sustained high disposable incomes derived from strong commodity export proceeds sustained consumer sentiments, causing the **private consumption** to rise further during the quarter (9.7%; 3Q 2004: 10.8%). Favourable financing conditions, low inflation and interest rates as well as the prolonged festive period also contributed to their willingness to spend. Although the MIER Consumer Sentiments Index was lower in the fourth quarter, the index remained above the 100-point threshold, indicating that consumer confidence remains positive. Consumer optimism is also reflected by the performance of other major indicators such as imports of consumption goods, sales of passenger cars, loans approved and disbursed to households for the purposes of consumption and purchase of durable goods, which continued to record strong double-digit growth. Growth in **public consumption** moderated to 3.7% (3Q 2004: 4.6%).

Private investment activity was robust, supported by expenditure on the replacement of machinery and equipment in the manufacturing sector as well as investment in seismic and geophysical survey apparatus for oil exploration activities. The strength of business activities was supported by the continued improvements in demand,

Lower Federal Government Development Spending



Consumer and business confidence sustained in 4Q



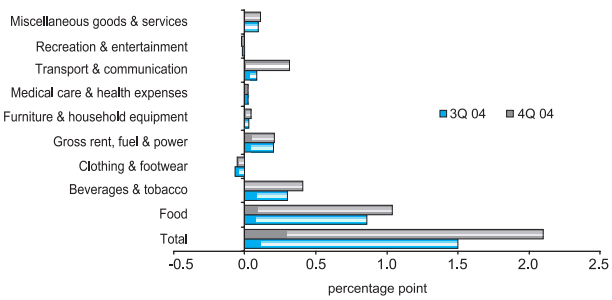
capacity utilisation and corporate earnings. As a result, the rise in private investment activities was sufficient to offset the decline in the Federal Government's development expenditure, therefore resulting in an increase in the **gross fixed capital formation** (2.2%). Despite the lower development expenditure, spending continued to be channelled to essential fiscal operations and capacity enhancing services such as education, housing, transportation, agriculture and rural development.

Inflation

Inflation edged up slightly

The annual rate of inflation, as measured by the **Consumer Price Index** (CPI), increased to 2.1% in the fourth quarter (3Q 2004: 1.5%). The increase was driven mainly by the increase in prices of transport, food, and cigarettes and tobacco products. The increase in transportation prices was due to the five sen increase in prices of retail petroleum products effective from 1 October 2004. Food prices increased further mainly on account of the continued increase in the prices of food taken away from home.

Contribution to Inflation



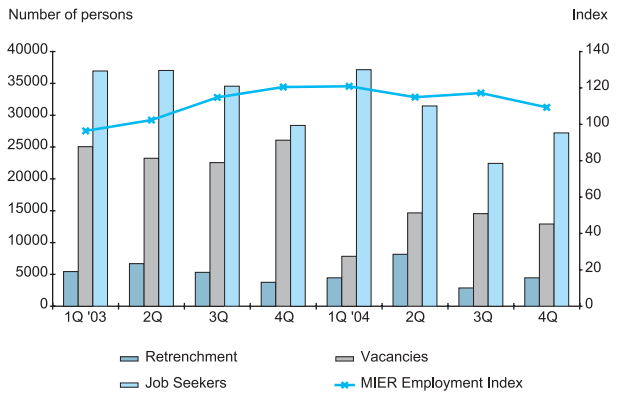
Price increases for cigarette and tobacco were also higher due to the increase in excise duties, which were announced in Budget 2005.

The **Producer Price Index** (PPI) increased at a slower rate of 7.7% (11.9% in Q3 2004), due mainly to the lower commodity prices. Meanwhile, the PPI excluding commodities remained stable at 2.2% in the fourth quarter (1.8% in Q3 2004).

Stable labour market conditions

Labour market conditions in the fourth quarter remained stable, supported by strong growth in productivity. Vacancies reported to the authorities (12,921 positions) significantly outpaced retrenchments (4,459 persons) and registered unplaced jobseekers remained low (27,227 persons). Growth in labour productivity during the quarter, as measured by real sales value of products per employee in the manufacturing sector, rose by 15.3%. Real wage per employee declined by 1.4%.

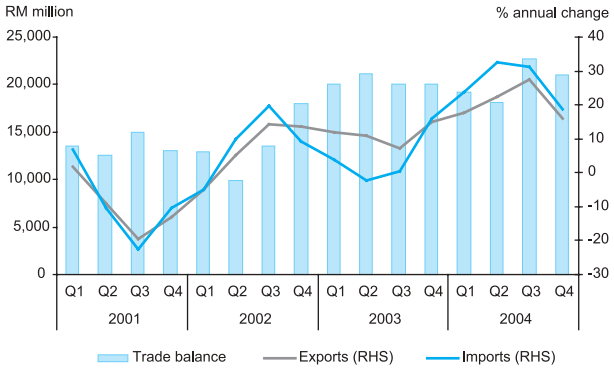
Stable Labour Market Conditions



Sustained strong growth in both exports and imports

In the fourth quarter of 2004, the **trade account** recorded a sustained large surplus of RM21 billion (3Q 2004: RM22.7 billion). Gross exports and imports continued to expand by 16.1% and 18.6% respectively, in line with the growth in production and investment activity.

Trade balance



All categories of exports, namely manufacturing, agriculture and mineral exports registered a more moderate growth. **Manufactured exports** expanded at a slower rate of 13.5% (3Q: 27.3%) mainly attributable to the slowdown in the global electronics cycle. Amidst the slower growth in exports of electronics and electrical products (E&E) (7.5%), these manufacturers rationalised production during the quarter to accommodate speedier inventory adjustments. Part of the slowdown in E&E exports was offset by the strong growth in exports of resource-based products. Of significance, exports of petroleum and chemical products remained strong, underpinned by demand from the Asian region and improving export prices. In the non-resource-based segment, exports of transport equipment remained firm supported by increase in exports of floating and drilling platforms for oil and gas exploration activities, as well as demand for scooters and motorcycles. External demand for metal products was also high from the regional countries, particularly P.R. China.

Exports of agriculture commodities registered an increase of 1.2% during the quarter, as decline in exports of major sub-sectors particularly palm oil was more than offset by the sharp increase in exports of rubber and crude palm kernel oil. Palm oil exports fell by 3.9% during the quarter due entirely to lower prices. Average export prices of Malaysian palm oil declined by 6.1% to RM1,587 per tonne as sentiment was affected by the increase in stocks levels of Malaysian palm oil (1.49 million tonnes as at end-December 2004) and larger-than-expected harvests of soybean (palm oil's closest competitor) in the United States. Nevertheless, export volume increased during the quarter reflecting higher offtake

Trade Account

	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
Gross Exports	**15.1**	**11.3**	**27.5**	**16.1**	**20.8**
Manufacturing	*14.1*	*8.0*	*27.3*	*13.5*	*19.7*
Agriculture	*14.9*	*28.0*	*4.2*	*1.2*	*7.4*
Minerals	*26.6*	*33.3*	*50.1*	*44.7*	*38.2*
Gross Imports	**16.0**	**4.4**	**31.1**	**18.6**	**26.3**
Capital goods	*8.8*	*-5.6*	*38.4*	*37.7*	*36.1*
Intermediate goods	*19.7*	*7.6*	*25.5*	*12.8*	*22.0*
Consumption goods	*5.8*	*-1.2*	*38.8*	*16.5*	*24.1*
Trade balance (RM bil)	**20.0**	**81.3**	**22.7**	**21.0**	**81.1**

Source: Department of Statistics, Malaysia

(2.3%; 3Q 2004: -14%), mainly from P.R. China and the European Union. Export receipts from rubber continued to increase at a double-digit rate of 19.6% supported mainly by firm increase in export volume (16.6%) and higher export prices (460 sen per kilogramme).

Mineral exports continued to expand at a strong pace of 44.7% as a result of record high crude oil prices. Prices of Malaysian crude oil exports strengthened significantly by 53.3% to average of US$48.19 per barrel, in line with developments in the international oil markets during the quarter. The Malaysian crude, namely Tapis Blend reached an intra-day record time of US$55.10 per barrel on 21 October. Major buyers, particularly Australia and Indonesia, increased their purchases significantly by 73.6% and 30.3%, respectively. LNG exports also increased by 38.5%, supported by stronger prices (15.9%) and higher volume (19.4%). The latter was due to higher demand for natural gas from Malaysia's traditional LNG buyers, namely Japan, Korea and Chinese Taipei.

Malaysia's trade with regional countries (excluding Japan) continued to increase. East Asia (excluding Japan) accounted for 44.5% of Malaysia's total exports. The impetus to the growth stemmed from strong growth in exports to the ASEAN, P.R. China and Korea, particularly, in electrical and electronic products, and resource-based products, namely, crude and refined petroleum products, chemicals, metals and liquefied natural gas (LNG). However, increased sourcing of cheaper components from regional countries caused the growth of imports from these countries to outpace export growth. Exports to the United States grew at a more moderate pace to account for a lower share of 18.3% (3Q2004: 19.5%). Exports to the EU countries continued to grow to account for a share of 11.6%. A significant development during the quarter was the increase in resource-based exports to Australia, which increased by 70.8%.

Gross imports remained strong, albeit at a more moderate pace of 18.6%,

Malaysia: Direction of exports

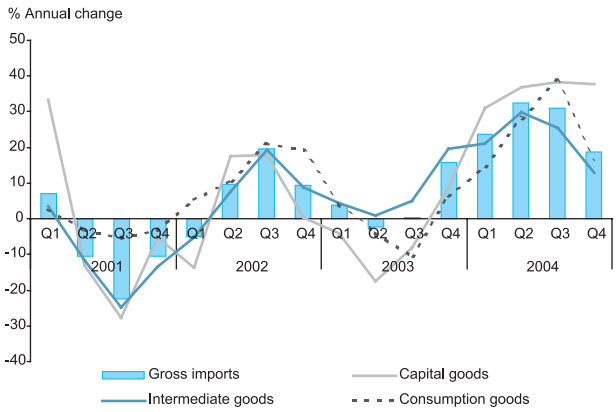
	2003		2004			2003		2004			2003		2004		
	4Q	Year	3Q	4Q	Year	4Q	Year	3Q	4Q	Year	4Q	Year	3Q	4Q	Year
	RM billion					Share of total exports (%)					Annual change (%)				
United States	**21.1**	**77.9**	**25.0**	**23.2**	**90.2**	**19.3**	**19.6**	**19.5**	**18.3**	**18.8**	**15.5**	**5.0**	**25.7**	**9.8**	**15.8**
European Union (EU) [1]	**12.7**	**48.1**	**15.0**	**14.7**	**56.7**	**11.7**	**12.1**	**11.7**	**11.6**	**11.8**	**8.5**	**9.7**	**24.4**	**15.3**	**17.7**
Selected ASEAN countries [2]	**27.1**	**97.9**	**31.9**	**32.0**	**119.7**	**24.8**	**24.6**	**24.8**	**25.3**	**24.9**	**17.1**	**7.3**	**32.2**	**18.2**	**22.3**
North East Asia	**21.8**	**77.4**	**24.1**	**24.3**	**93.4**	**20.0**	**19.5**	**18.8**	**19.2**	**19.4**	**15.8**	**18.3**	**22.8**	**11.5**	**20.7**
People's Republic of China	7.6	25.8	8.6	8.3	32.1	7.0	6.5	6.7	6.6	6.7	35.0	28.9	28.3	8.8	24.6
Hong Kong China	6.9	25.7	7.4	7.3	28.7	6.3	6.5	5.8	5.8	6.0	9.9	26.8	7.1	6.4	11.5
Chinese Taipei	3.8	14.3	4.2	4.1	15.8	3.5	3.6	3.3	3.2	3.3	14.6	8.0	14.9	7.4	10.0
Korea	3.5	11.6	3.9	4.6	16.8	3.2	2.9	3.0	3.6	3.5	-2.9	-2.6	66.0	32.0	45.7
India	**2.7**	**9.6**	**2.8**	**3.2**	**11.4**	**2.5**	**2.4**	**2.2**	**2.5**	**2.4**	**30.2**	**43.8**	**24.3**	**17.4**	**18.3**
Total exports	**109.1**	**397.9**	**128.2**	**126.7**	**480.7**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**15.1**	**11.3**	**27.5**	**16.1**	**20.8**

1 Refers to 15 EU countries
2 Include Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Viet Nam

Source: Department of Statistics, Malaysia

in line with the growth in production and exports of E&E products. Imports of **intermediate goods**, which were inputs used for manufactured exports, particularly the E&E products, continued to expand by 12.8%. The growth in intermediate imports was also supported by higher demand for metals and resource-based inputs, which led to significant increases in industrial supplies, namely, metals, iron and steel products, and chemicals. Sustained growth in private consumption also led to an increase in imports of primary and processed materials used by the food and beverages industry. Growth of the motor assembly industry arising from higher demand for motor vehicle caused imports of parts and accessories of transport equipment to expand.

Import growth



Capital imports, which accounted for 15.1% of total imports continued to expand strongly by 37.7%, reflecting higher investment activity. The bulk of capital imports were channeled into the manufacturing and services industries for upgrading for advances in technology and capacity expansion. The introduction of new technology for cellular phone led to higher imports of telecommunications equipment in the fourth quarter. Imports of office equipment remained strong as corporations continued to upgrade their infrastructure in information technology. Imports of lumpy items increased due to deliveries of new ships and aircraft following increased demand for fleet expansion to service new markets. Capital imports excluding lumpy items, increased by 26.6%.

Consonant with higher disposable income and higher demand owing to festivities, imports of **consumption goods** grew by 16.5%. Growth in consumption imports was mainly supported by higher demand for food and beverages and

Malaysia: Imports by Economic Function And Broad Economic Categories (BEC) Classification

	2003		2004		
	4Q	Year	3Q	4Q	Year
	Annual change (%)				
CAPITAL GOODS	**8.8**	**-5.6**	**38.4**	**37.7**	**36.1**
Capital goods (except transport equipment)	0.7	0.2	27.6	31.0	28.4
Transport equipment	202.7	-49.1	292.6	90.9	151.0
INTERMEDIATE GOODS	**19.7**	**7.6**	**25.5**	**12.8**	**22.0**
Food and beverages, mainly for industry	9.2	12.4	58.7	25.1	52.9
Industrial supplies, n.e.s.	16.4	2.6	53.6	29.2	38.9
Fuel and lubricants	18.7	23.2	76.4	68.4	41.8
Parts and accessories of capital goods (except transport equipment)	21.6	9.4	8.3	-1.5	10.5
Parts and accessories of transport equipment	24.9	-8.6	36.0	38.9	35.0
CONSUMPTION GOODS	**5.8**	**-1.2**	**38.8**	**16.5**	**24.1**
Food and beverages, mainly for household consumption	10.1	-5.2	55.2	18.9	31.3
Transport equipment, non-industrial	125.9	102.9	50.6	-34.4	-6.7
Consumer goods,n.e.s.	1.3	-0.3	29.9	16.9	20.8
Durables	*-23.1*	*-4.3*	*35.9*	*17.3*	*20.8*
Semi-durables	*8.3*	*-5.9*	*23.7*	*9.9*	*18.2*
Non-durables	*14.8*	*6.9*	*32.4*	*22.3*	*22.9*
DUAL USE GOODS	**14.2**	**8.8**	**54.3**	**43.5**	**39.8**
OTHERS	**-5.0**	**-6.3**	**26.1**	**4.7**	**10.8**
RETAINED IMPORTS	**16.5**	**4.8**	**28.5**	**16.8**	**24.1**
RE-EXPORTS	**0.6**	**-6.9**	**134.5**	**77.6**	**102.9**
GROSS IMPORTS	**16.0**	**4.4**	**31.1**	**18.6**	**26.3**

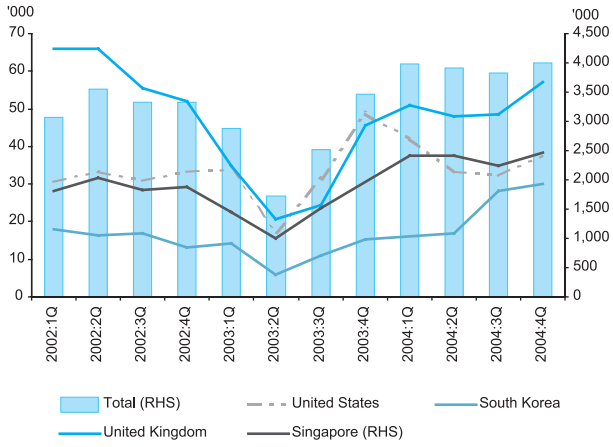
Source: Department of Statistics, Malaysia

consumer goods. During the quarter, imports for re-exports continued to record a strong growth of 77.6% arising mainly from assembling and packing activities in distribution parks located in the free commercial zones. Imports of re-exports comprise mainly E&E products, telecommunication equipment as well as iron and steel products.

Highest quarterly tourist arrivals for the year

Tourist arrivals increased by 15.4% to 4 million in the fourth quarter of 2004, the highest quarterly arrivals for the year. The surge in tourist arrivals was contributed mainly by visitors from Singapore, Thailand, Indonesia and Brunei which together accounted for 79.1% of total tourist arrivals. Meanwhile, visitors from South Korea and United Kingdom recorded strong increases, in line with greater connectivity with increased number of flights. Long-haul visitors from the Americas and European countries continued to increase during the quarter supported by attractive promotional packages and increased connectivity.

Quarterly Tourist Arrivals



Higher flows for FDI, overseas investment and portfolio investment

On a cash basis, gross inflows of **foreign direct investment (FDI)** increased to RM4.6 billion in 4Q 2004 (3Q 2004: RM4.1 billion). The inflows were channelled evenly across the three main sectors, namely manufacturing, services and the oil and gas sectors. FDI inflows into the manufacturing sector were mainly for the electrical and electronics, paper products and petroleum-related activities. Meanwhile, the services-related FDI were largely for the business and support services as well as the wholesale and retail trade sub-sectors. After adjustments for outflows due to repayment of loans to related companies and liquidation of foreign-owned businesses in Malaysia, net FDI inflows were sustained at RM1.7 billion (3Q 2004: RM1.9 billion).

Gross outflows for **overseas investment** increased significantly to RM16.5 billion (3Q 2004: RM5.2 billion), attributed mainly to higher short-term loan extension by non-resident controlled companies in Malaysia to their related companies abroad arising from the centralised treasury operation activities. Nevertheless, these outflows were largely offset by inflows arising from repayment of short-term inter-company loans during the quarter. Excluding the outflows for treasury operations, overseas investment from the

services sector was dominated by the utilities sub-sector, reflecting the acquisition of a power plant in Indonesia. Overseas investment by companies in the manufacturing sector was larger, channelled mainly to the semiconductor and other electronic components as well as petroleum-related manufacturing industries. Investments abroad by the oil and gas sector also increased, with the bulk of the investments channelled to United States and selected ASEAN and African countries. After adjusting for inflows due to repayment of short-term inter-company loans and liquidation of Malaysian-owned businesses abroad, overseas investment recorded a net outflow of RM3.5 billion (3Q 2004: -RM1.6 billion).

Portfolio investment recorded a net inflow of RM11.1 billion (3Q 2004: RM6.1 billion) reflecting renewed active foreign participation in both Malaysian equities and debt securities in tandem with improved investor sentiment following an upgrade in Malaysia's sovereign rating as well as expectations of realignments of exchange rates in the Asian region.

External debt remained manageable

Malaysia's total external debt increased to RM197.3 billion or US$51.9 billion as at end-2004 (3Q 2004: RM193.5 billion or US$50.9 billion), equivalent to 47.9% of GNP. The higher **medium and long-term external debt** at RM154.2 billion or US$40.6 billion (3Q 2004: RM149.9 billion), was attributable to net borrowings of external loans by both the public and private sectors. The public sector reversed to register a small net borrowing of RM0.4 billion, reflecting both lower drawdown and repayments of external loans. While the private sector recorded a higher gross borrowing of external loans, particularly by the oil and gas industry and manufacturing sector, repayments of loans also increased during the quarter.

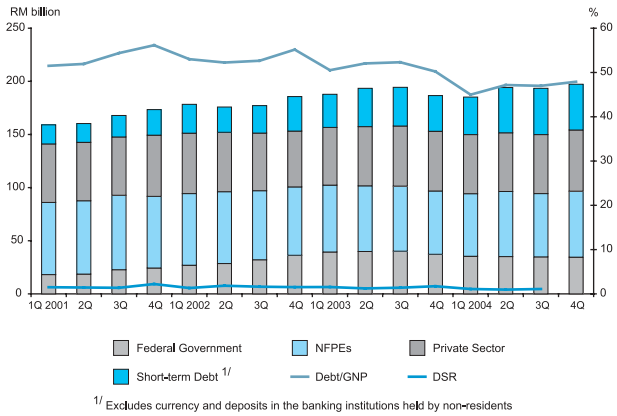
The total **short-term external debt** declined marginally to RM43.1 billion or US$11.3 billion (3Q 2004: RM43.6 billion), due

External Debt Outstanding

	2003	2004		
	End-Dec.	End-June	End-Sept.	End-Dec.p/
Medium & Long-term debt	152.9	151.6	149.9	154.2
Public sector	96.8	96.4	94.4	96.6
Private sector	56.1	55.2	55.5	57.6
Short-term debt[1]	33.7	42.6	43.6	43.1
Total external debt	186.6	194.2	193.5	197.3
- US$ billion equivalent	49.1	51.1	50.9	51.9

[1] Excludes currency and deposits held by non-residents with banking institutions.
p/ Preliminary
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

External Debt Outstanding

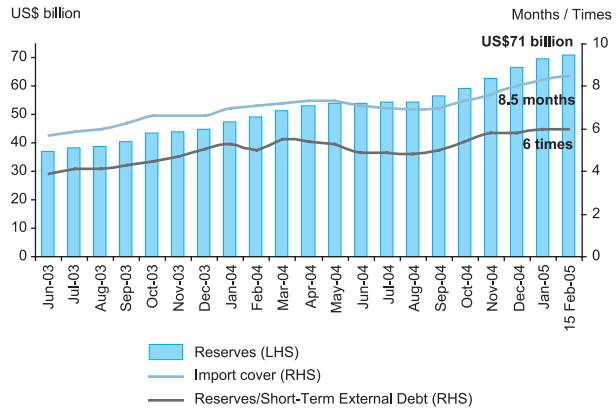


mainly to the lower short-term debt of the non-bank private sector. As at end-2004, the short-term debt remained low, accounting for 21.8% of total external debt, and is about 17% of the net international reserves.

International reserves strengthened to record level

The international reserves of Bank Negara Malaysia strengthened further by RM37.4 billion (US$9.8 billion) in the fourth quarter of 2004 to a record level of RM253.5 billion (US$66.7 billion) as at 31 December 2004. The increase during the quarter was attributed mainly to higher repatriation of export earnings, as well as higher inflows of foreign direct investment and portfolio funds. The reserves level has also taken into account the quarterly adjustment of the foreign exchange revaluation gain amounting to US$2.6 billion. Meanwhile, outflows reflected mainly higher payment for imports of goods and services, year-end repatriation of profits and dividends, and some repayments of external loans.

Net International Reserves (as at end period)



The reserves increased further to RM269.6 billion (US$71 billion) as at 15 February 2005, supported mainly by sustained repatriation of export earnings. The reserves level is sufficient to finance 8.5 months of retained imports and is 6 times the short-term external debt.

Larger fiscal deficit

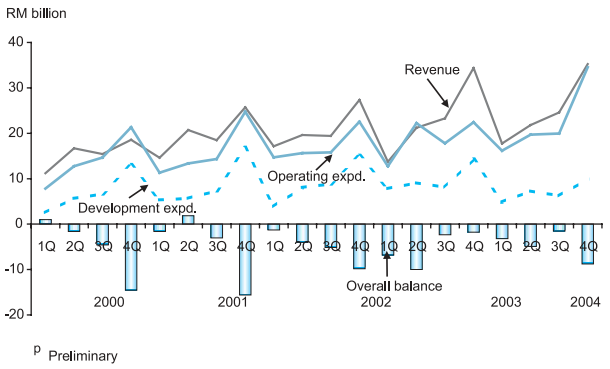
The Federal Government recorded a larger fiscal deficit of RM8.8 billion in the fourth quarter of 2004, due to higher operating expenditure. Higher disbursements were recorded for payment of emoluments due the to payment of bonuses, pensions and gratuities, payment of oil subsidies as

Federal Government Finance

	2003		2004		
	4Q	Jan.-Dec.	3Q	4Q	Jan.-Dec.[p]
	RM billion				
Revenue	34.4	92.6	24.6	35.2	99.4
% growth	*25.8*	*10.9*	*5.5*	*1.8*	*7.1*
Operating expenditure	22.4	75.2	19.9	34.5	90.3
% growth	*-0.5*	*9.5*	*11.9*	*53.9*	*20.1*
Current account	**12.0**	**17.4**	**4.6**	**0.7**	**9.0**
% of GDP	***11.4***	***4.4***	***4.0***	***0.6***	***2.0***
Gross development expenditure	14.3	39.4	6.2	9.9	28.3
% growth	*-5.5*	*9.4*	*-23.0*	*-30.8*	*-28.1*
Loan recoveries	0.6	1.0	0.1	0.4	0.8
Overall balance	**-1.8**	**-20.9**	**-1.5**	**-8.8**	**-18.4**
% of GDP	***-1.7***	***-5.3***	***-1.3***	***-7.5***	***-4.1***
Memo item:					
Total gross expenditure	36.8	114.6	26.2	44.4	118.6
% growth	*-2.5*	*9.5*	*1.0*	*20.9*	*3.5*
Total Federal Government debt (as at end period)	188.8	188.8	204.4	216.5	216.5
% of GDP	*47.9*	*47.9*	*45.7*	*48.5*	*48.4*
Domestic debt	151.5	151.5	169.5	182.0	182.0
% of GDP	*38.4*	*38.4*	*37.9*	*40.7*	*40.7*
External debt	37.3	37.3	34.9	34.5	34.5
% of GDP	*9.5*	*9.5*	*7.8*	*7.7*	*7.7*

p Preliminary

Federal Government Finance [p]



[p] Preliminary

well as tax refunds. Revenue performance remained favourable, reflecting higher collections from income taxes and most major categories of indirect taxes. Given the ample liquidity condition in the domestic banking system, the fiscal deficit was funded from domestic sources. As at end-2004, total outstanding debt of the Federal Government amounted to RM216.5 billion or 48.4% of GDP. The external debt of the Federal Government was lower and accounted for 17.5% of the nation's outstanding external debt or 7.7% of GDP. Based on preliminary data, a fiscal deficit of 4.1% of GDP was recorded in 2004.

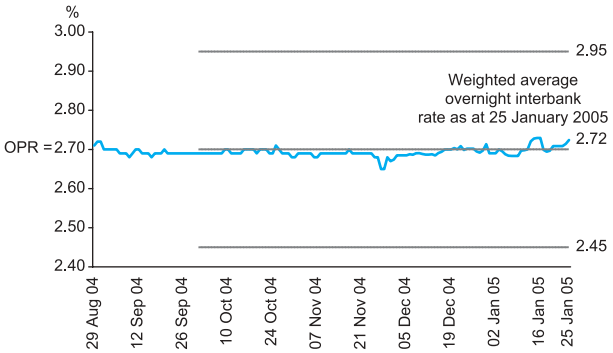
MONETARY AND FINANCIAL DEVELOPMENTS

Monetary policy continued to support growth

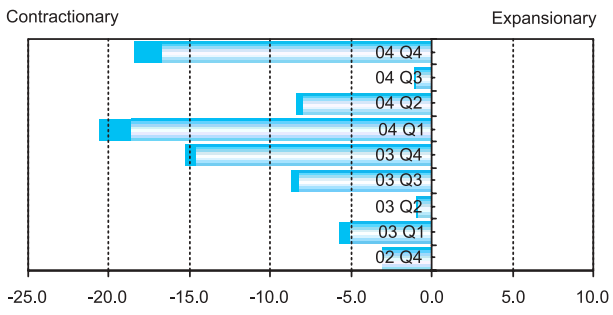
In the fourth quarter, monetary and financial indicators continued to reflect a sustained expansion in underlying economic activity. In an environment of low inflation, the Overnight Policy Rate (OPR) was maintained at 2.70%. The daily weighted average of the overnight interbank rate moved within a narrow range of 2.65% - 2.73%, averaging 2.69% during the period of 1 October 2004 - 25 January 2005. Against the background of low interest rates and ample liquidity in the banking system, financing of economic activity through the banking system and the capital market increased significantly during the fourth quarter.

Another two mergers between two commercial banks and their finance

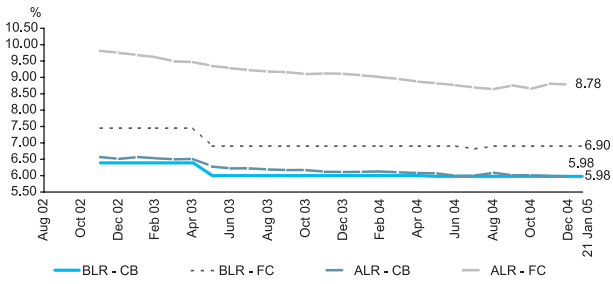
Daily Weighted Average Overnight Interbank Rate



BNM Liquidity Operations
(During the quarter, RM billion)



Lending Rates of Commercial Banks & Finance Companies
(average for the month)



Interest Rates

	4Q 03	3Q 04	4Q 04
	At end-period (%)		
3-month intervention rate *	4.50		
Overnight Policy Rate (OPR) *		2.70	2.70
Interbank rates			
Overnight	2.71	2.69	2.69
1-month	2.99	2.79	2.77
Base lending rates (BLR)			
Commercial banks	6.00	5.98	5.98
Finance companies	6.90	6.90	6.90
Average lending rates			
Commercial banks	6.11	6.01	5.98
Finance companies	9.11	8.76	8.78
Fixed deposit rates			
Commercial banks			
3-month	3.00	3.00	3.00
12-month	3.70	3.70	3.70
Finance companies			
3-month	3.00	3.00	3.00
12-month	3.70	3.70	3.70

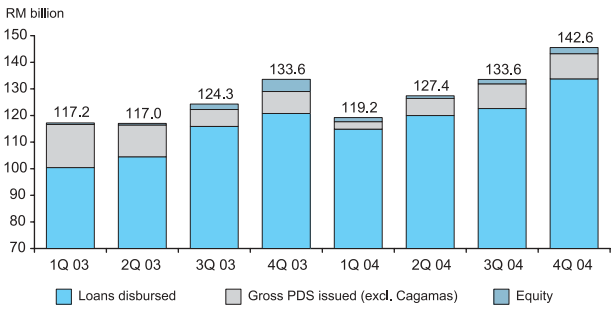
* Effective 26 April 2004, the Overnight Policy Rate (OPR) replaced the 3-month intervention rate as the indicator of the monetary policy stance.

companies occurred during the quarter (three mergers in 3Q 2004), which led to some technical adjustments of the banks' base lending rates (BLRs) and average lending rates (ALRs). Notwithstanding these adjustments, the average BLRs of commercial banks (CBs) and finance companies (FCs) remained stable at 5.98% and 6.90% respectively at end-December 2004. While the ALR of CBs declined slightly to 5.98%, the technical adjustments caused the ALR of the FCs to increase slightly from 8.76% to 8.78% at end-December.

Financing of the private sector remained robust

The continued expansion in private investment and private consumption was reflected in the further increase in gross private sector financing through the banking system and the capital market, totalling RM142.6 billion disbursed or raised during the quarter (3Q: RM133.6 billion), representing an annual increase of 6.7%. The increase primarily reflected the significantly higher bank loans disbursed during the quarter. Similarly, on a net basis, banking system loans and

Gross Private Sector Financing through Banking System and Capital Market



Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2003	4Q 03	3Q 04	4Q 04	2003	3Q 04	4Q 04
Gross total financing	492.1	133.6	133.6	142.6	9.0	7.5	6.7
Loans disbursed *	441.6	120.7	122.6	130.8	7.3	5.8	8.3
Gross PDS (excl. Cagamas)	42.8	8.3	9.3	9.5	60.5	45.5	14.7
Equity	7.8	4.6	1.7	2.3	-41.5	-18.0	-49.3
Outstanding total financing (A)+(B)	57.8	11.1	14.5	18.4	10.3	8.0	9.0
Banking system	28.2	4.6	11.0	11.0	5.9	6.5	7.7
Loans outstanding (A)	21.6	1.3	9.3	12.1	4.8	6.2	8.5
Holding of PDS	6.6	3.2	1.7	-1.1	23.9	10.9	-2.7
PDS outstanding (B)	36.2	9.7	5.2	6.3	33.4	14.0	10.7
Memorandum item							
Gross PDS (incl. Cagamas)	51.0	10.5	12.7	10.1	40.8	25.1	-3.9

*Banking system loans include loans sold to Cagamas.

PDS outstanding increased by 9% at end-December (8% at end-September) due mainly to higher loans outstanding, which expanded by 8.5% at end-December (6.2% at end-September).

The growth rates of all major loan indicators were sustained at high levels in the

Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	2003	4Q 03	3Q 04	4Q 04		
	RM billion				%	
Business enterprises	303.4	84.3	83.4	90.8	69.5	*42.6*
Large corporations	*216.3*	*59.4*	*58.7*	*63.7*	*48.7*	*25.4*
SMEs	*87.1*	*24.9*	*24.8*	*27.2*	*20.8*	*17.2*
Households	114.4	30.4	34.0	34.0	26.0	*51.4*
By sector						
Agriculture, hunting, forestry and fishing	11.1	3.0	3.5	3.4	2.6	*2.1*
Mining and quarrying	1.7	0.5	0.4	0.7	0.5	*0.2*
Manufacturing	110.3	28.4	31.2	32.5	24.8	*12.3*
Broad property sector	78.9	21.6	22.9	23.2	17.7	*40.9*
Construction	*27.5*	*7.2*	*7.6*	*8.5*	*6.5*	*5.8*
Purchase of residential property	*35.6*	*9.7*	*10.4*	*9.3*	*7.1*	*26.3*
Purchase of non-residential property	*9.7*	*2.7*	*3.2*	*3.3*	*2.5*	*6.1*
Real estates	*6.1*	*1.9*	*1.8*	*2.1*	*1.6*	*2.7*
Electricity, gas and water supply	6.0	1.0	1.2	2.2	1.7	*0.8*
Wholesale, retail, restaurants and hotels	70.1	19.3	21.5	24.0	18.3	*8.4*
Transport, storage and communication	12.0	2.4	1.7	2.6	2.0	1.9
Finance, insurance and business services	36.7	14.7	8.5	8.6	6.6	5.9
Total	**441.6**	**120.7**	**122.6**	**130.8**	**100.0**	**100.0**

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)				Annual Growth (%)			
	2003	4Q 03	3Q 04	4Q 04	2003	4Q 03	3Q 04	4Q 04
Total								
Loan applications	227.6	55.7	76.5	67.8	4.8	6.7	21.9	21.6
Loan approvals	152.8	38.9	46.6	43.2	11.1	16.9	16.1	10.9
Loan disbursements	441.6	120.7	122.6	130.8	7.3	14.2	5.8	8.3
Loan repayments	430.4	122.9	118.2	120.7	6.9	17.4	7.5	-1.8
Change in loan outstanding*	21.6	1.3	9.3	12.1	4.8	4.8	6.2	8.5
Of which:								
Business enterprises								
Loan applications	124.9	28.6	44.0	37.4	-7.7	-9.4	29.4	31.0
Loan approvals	77.3	18.9	22.4	21.7	12.8	14.0	10.1	14.8
Loan disbursements	303.4	84.3	83.4	90.8	7.6	16.1	5.0	7.8
Loan repayments	299.5	86.9	83.7	84.5	8.6	22.1	8.7	-2.7
Change in loan outstanding*	-5.2	-4.9	-0.4	1.1	-2.4	-2.4	-0.2	2.6
SMEs								
Loan applications	44.5	9.8	15.2	13.9	-8.6	n.a.	25.3	41.3
Loan approvals	25.9	6.7	8.8	8.7	-15.6	n.a.	33.5	30.4
Loan disbursements	87.1	24.9	24.8	27.2	76.0	n.a.	12.8	9.1
Change in loan outstanding*	7.4	2.4	2.2	2.2	10.0	10.0	8.1	7.7
Large corporations								
Loan applications	80.4	18.7	28.8	23.5	n.a.	n.a.	31.6	25.5
Loan approvals	51.4	12.2	13.7	12.9	n.a.	n.a.	-1.0	6.2
Loan disbursements	216.3	59.4	58.7	63.7	-7.0	n.a.	2.0	7.2
Change in loan outstanding*	-12.7	-7.3	-2.6	-1.1	-8.8	-8.8	-4.9	-0.5
Households								
Loan applications	98.4	25.4	31.5	29.3	20.2	26.6	12.3	15.0
Loan approvals	72.0	18.7	23.4	21.3	7.6	13.3	21.8	14.1
Loan disbursements	114.4	30.4	34.0	34.0	8.9	12.4	11.2	12.0
Loan repayments	94.1	26.2	26.7	27.9	12.4	20.6	12.3	6.2
Change in loan outstanding*	26.2	7.4	10.4	8.9	12.8	12.8	14.2	14.4

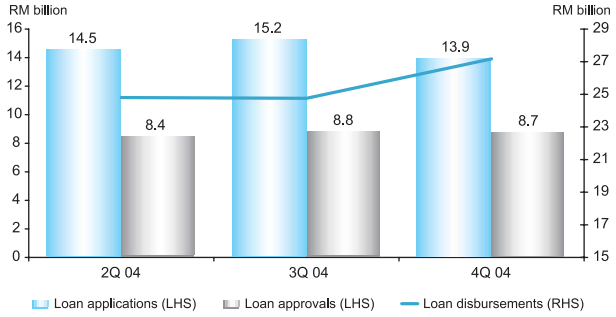
*The annual growth is for end-period.

Source: Bank Negara Malaysia

fourth quarter. Loan disbursements were significantly higher during the quarter at RM130.8 billion (3Q: RM122.6 billion), and were mainly channelled to the business sector, both large businesses and small and medium enterprises (SMEs), while disbursements to households remained at a high level. Loan disbursements to businesses rose by 7.8% in the fourth quarter (3Q: 5%) and continued to be channelled mainly to the manufacturing sector (35.7% of total disbursements to businesses); wholesale, retail, restaurants and hotels sector (26.4%); and the finance, insurance and business services sector (9.4%). Higher demand for financing by businesses was also reflected in loan applications and approvals, which registered higher double-digit growth rates of 31.0% and 14.8% respectively during the fourth quarter (3Q: 29.4% and 10.1% respectively). Of significance, loans outstanding of businesses turned around to register a positive growth of 2.6% at end-December (-0.2% at end-September). Another positive development was that, the gross NPL ratio of businesses continued to decline and stood at 13.6% at end-December (14.8% at end-September).

Bank lending to the SMEs remained at high levels. Loans disbursed to this sector grew by 9.1% in the fourth quarter (3Q: 12.8%), contributing to a 7.7% growth of total loans outstanding to the SMEs at end-December (8.1% at end-September). A total of RM8.7 billion was approved to 25,918 SME accounts during the quarter (3Q: RM8.8 billion approved to 25,379 SME accounts).

Bank Lending to SMEs

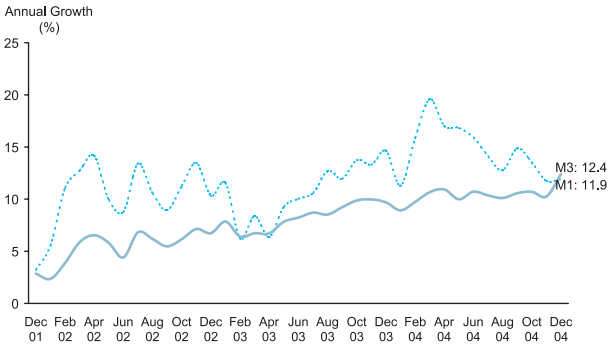


Financing to the household sector also remained strong during the quarter. Loan disbursements to households amounted to RM34 billion in the fourth quarter, growing by 12% annually, and were supported by loans for credit cards (29.7% of total disbursements to households), the purchase of residential properties (27.3%) and the purchase of passenger cars (24.3%). The high loan disbursements for credit card spending were matched by equally high loan repayments for credit card purchases (35.1% of total repayments by households). As a result, loans outstanding for credit cards remained low and represented only 2.8% of total loans outstanding and 5.3% of total household loans outstanding respectively. Meanwhile, reflecting the sustained demand for bank financing by households, loan applications and approvals continued to increase at annual growth rates of 15% and 14.1% respectively in the fourth quarter (3Q: 12.3% and 21.8% respectively). Likewise, growth in loans outstanding to households was sustained at 14.4% at end-December (14.2% at end-September). The non-performing loans (NPLs) of the sector remained stable at 7.2% at end-December (7.4% at end-September).

Growth in money supply was in line with continued economic expansion

Growth in the monetary aggregates during the quarter reflected the continued expansion in economic activity. Narrow money,

Monetary Aggregates



M3 Determinants

	Change during period					
	Year	Quarterly				Year
	2003	1Q 04	2Q 04	3Q 04	4Q 04	2004
	RM billion					
M3	48.5	18.9	9.9	13.6	25.7	68.0
Net Claims on Government	12.9	-6.0	-2.0	-2.7	-1.2	-11.8
Claims on the private sector	31.3	3.7	12.2	10.3	4.0	30.3
Net external operations*	20.7	33.3	6.0	12.0	30.8	82.2
Other influences	-16.5	-12.2	-6.4	-6.0	-8.0	-32.7

* Pre-revaluation

M1, grew at an annual rate of 11.9% (3Q 2004: 14.9%), which reflected the sustained consumer and business spending that coincided with the holiday season. Meanwhile, broad money, M3, continued to expand at 12.4% (3Q 2004: 10.6%) amidst the higher loans extended to the private sector by the banking system, the current account surplus and inflows of capital.

The capital market remained a major source of financing

Net funds raised from the capital market remained substantial at RM15.6 billion in the fourth quarter (3Q 2004: RM16.9 billion), attributable largely to the higher amount of funds raised from the bond market. Prevailing low yields in the bond market encouraged the private sector to refinance their debt (43.7% of new issuances) and to raise funds for new activity (40.3% of new issuances) to "lock-in" the lower financing costs. New issuances in the PDS market provided further evidence of higher private investment activity in the domestic economy, as issuances for new activities remained high at RM3.8 billion (3Q 2004: RM4.5 billion). In addition, the highest number of new corporate listings in the equity market was recorded in the fourth quarter.

In the private debt securities (PDS) market, gross new issuances remained high, amounting to RM10.1 billion (3Q 2004: RM12.7 billion). A total of 30 corporations, mainly from the construction and utilities sectors, issued PDS during the quarter. In terms of instrument, Islamic debt securities and medium term notes were the preferred forms of issuance, representing 27.1% and 25% of total issuance respectively. After adjusting for redemptions, funds raised through the PDS market amounted to RM5.6 billion (3Q 2004: RM5.9 billion).

With the continued improvement in the equity market, higher funds of RM2.3 billion (3Q 2004: RM1.7 billion) were raised, with RM2.0 billion raised through 24 initial public offerings (IPOs). During the quarter, there were 24 new listings on the Bursa Malaysia, including seven listings on the Main Board, six on the Second Board and eleven on MESDAQ.

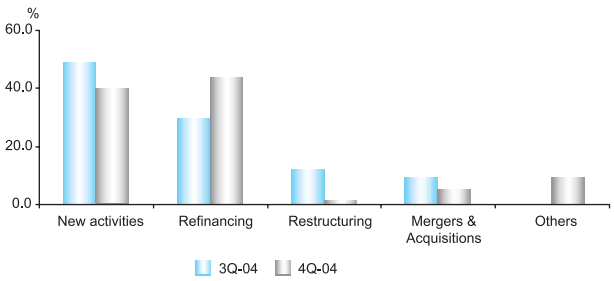
Meanwhile, gross funds raised by the public sector were lower at RM8.7 billion (3Q 2004: RM12.6 billion), due to the smaller issuance of Government securities during the period. After taking into account redemption of RM1 billion, net funds raised in the public

Funds Raised in the Capital Market

	2003		2004	
	3Q	4Q	3Q	4Q
	RM million			
By Public Sector				
Government Securities, *gross*	12,632	2,768	10,389	7,021
Less Redemptions	6,800	-	2,000	1,000
Less Government holdings	-	-	-	-
Equals Net Federal receipts	5,832	2,768	8,389	6,021
Khazanah Bonds, *net*	-183	-210	-198	-
Govt. Investment Issues, *net*	-	-	740	1,243
Malaysia Savings Bond, *net*	-2	-2	495	436
Net Funds Raised	5,647	2,556	9,426	7,700
By Private Sector				
Shares	2,028	4,573	1,663	2,316
Debt securities	10,165	10,493	12,718	10,083
Private Debt Securities (PDS)	6,370	8,268	9,268	9,483
Cagamas	3,795	2,225	3,450	600
Less Redemptions	4,472	16,873	6,865	4,463
Net Issues	5,694	-6,380	5,853	5,620
Net issues (*excluding Cagamas*)	3,754	-8,605	4,925	5,494
Net Funds Raised	7,722	-1,807	7,516	7,936
Total Net Funds Raised	13,368	749	16,942	15,636
Short-term Papers and Notes, *net* [1]	-85	-884	-623	-1,103
Total	13,283	-135	16,319	14,533

[1] Refers to Commercial Papers and Cagamas Notes only.

Private Debt Securities Issued by Purpose
(% of total)



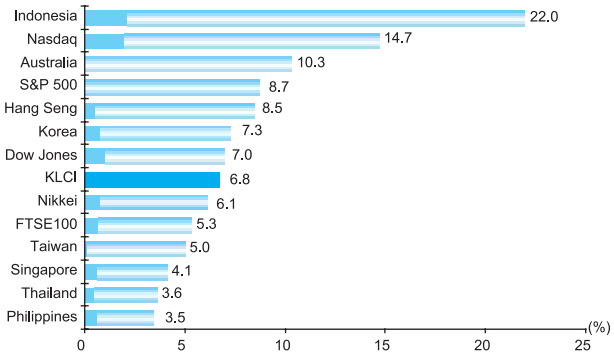
sector amounted to RM7.7 billion (3Q 2004: RM9.4 billion).

Notable developments in the primary ringgit bond market during the quarter were the inaugural issuances of the Asian Development Bank's (ADB) Putra Bonds and the International Finance Corporation's (IFC) Wawasan Bonds, as well as the introduction of Residential Mortgage Backed Securities (RMBS) by Cagamas MBS Berhad (CMBS). The introduction of new asset classes further enhanced the breadth of the bond market.

KLCI breached 900-point level

Concerns over the impact of high crude oil prices affected equity market performance in October. Nevertheless, market performance improved thereafter, as oil prices stabilised and Fitch upgraded Malaysia's

Performance of Selected Global and Regional Markets in the Fourth Quarter of 2004



Bursa Malaysia: Turnover of Corporate Securities

	2003				2004			
	3Q		4Q		3Q		4Q	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	41,877	62,274	40,144	71,970	22,031	42,852	27,364	51,771
of which:								
Main Board	27,849	46,225	27,495	51,391	15,494	36,763	20,186	45,129
of which:								
- Consumer Products	857	2,768	944	3,086	1,154	3,149	899	2,924
- Industrial Products	3,911	5,406	3,735	5,369	2,031	2,719	4,036	4,978
- Construction	2,088	3,967	2,177	5,415	1,096	1,706	1,070	1,922
- Trading/Services	5,993	14,829	6,118	16,632	4,296	13,729	5,500	16,991
- Finance	3,497	8,471	3,468	9,065	2,008	7,838	1,958	8,090
- Properties	5,215	4,567	5,138	5,446	2,230	3,560	3,205	5,468
- Plantations	675	1,815	638	1,981	383	2,127	771	2,171
- Mining	42	67	36	102	0	4	-	1
Second Board	8,069	12,103	10,100	18,229	4,014	4,130	4,227	4,102

Source: Bursa Malaysia

Bursa Malaysia: Selected Market Indicators

	As at end			
	2003		2004	
	3Q	4Q	3Q	4Q
Price Indices				
- Composite	733.45	793.94	849.96	907.43
- EMAS	182.03	195.57	202.35	214.26
- Second Board	122.03	140.64	108.95	110.87
Average daily turnover				
- Volume (million units)	644.26	658.10	338.93	441.36
- Value (RM million)	958.06	1,179.83	681.55	835.02
Market Capitalisation (RM b)	572.26	640.28	672.64	722.04
No. of Companies Listed	889	906	945	962

Source: Bursa Malaysia

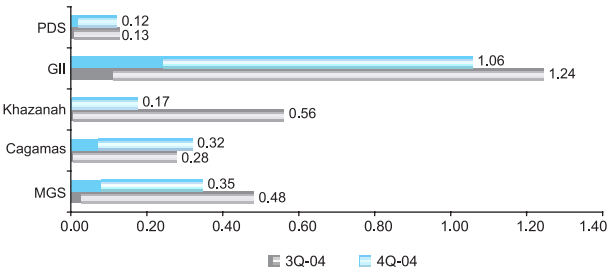
sovereign rating. The KLCI breached the 900-point threshold on 2 December to reach a four-and-a-half-year high of 919.97 points.

In the fourth quarter, the KLCI gained 57.47 points, ending the year at 907.43 (+6.8% since the end of third quarter and +14.3% since end-2003). Market capitalisation rose to RM722.04 billion (end-3Q: RM672.64 billion) and average daily trading activity during the quarter was higher at 441.36 million units.

Lower secondary trading in the bond market

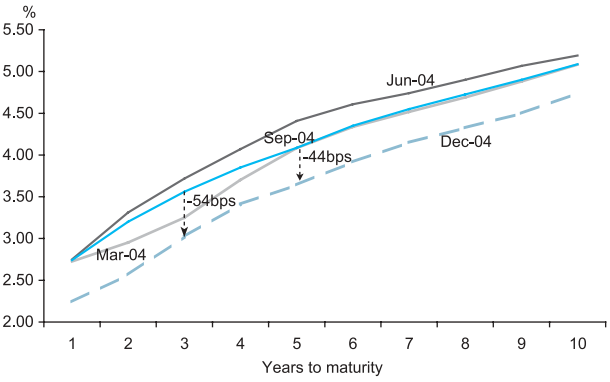
In the secondary market, total turnover declined to RM91.7 billion in the fourth quarter (3Q 2004: RM111.6 billion). The Malaysian Government Securities (MGS) and Government Investment Issues (GII) accounted for 67.6% of the total trade, while Cagamas bonds and Khazanah bonds contributed 11.3%. In terms of liquidity, the GII and MGS were the most liquid papers, registering liquidity ratios of 1.06 and 0.35 respectively.

Liquidity Ratio: Turnover / Outstanding



The MGS benchmark yields declined significantly in the fourth quarter, initially due to higher demand for fixed income securities following concerns over the impact of higher crude oil prices on global economic growth, and subsequently, due to the higher demand for ringgit securities by non-resident investors. Non-resident interest in Malaysian Securities increased following the exemption of withholding tax on interest income earned by non-residents on holdings of ringgit-denominated Islamic securities and debentures, excluding convertible loan stocks, approved by the SC and on securities issued by the Government of Malaysia. Short-term capital inflows also generated demand for

Trend in MGS Yield

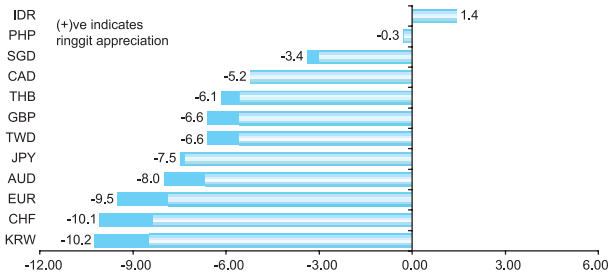


these securities. As a result, the 3- and 5-year MGS benchmark yields declined by 54 and 44 basis points respectively during the quarter. Mirroring the movement of the MGS yields, the corporate bond yields shifted lower. The AA-rated papers registered the biggest decline.

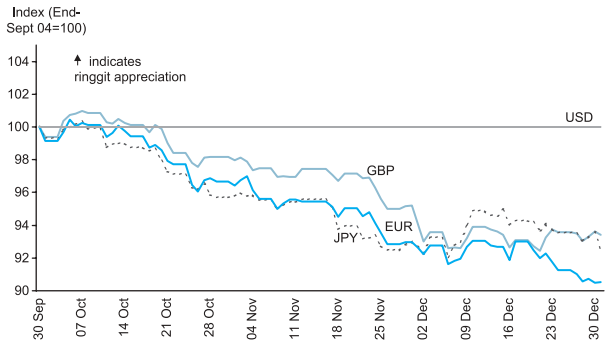
Performance of the ringgit

In line with developments affecting the US dollar, the ringgit declined against the major currencies on continued concerns over the widening US current account and budget deficits. The dollar rallied slightly as the US Federal Reserve Bank increased its Fed Funds Rate by 0.25 percentage points on 14 December. Nonetheless, the dollar reached an all time low of $1.3619 against the euro on 30 December, a 14-year low of $1.9455 against the pound sterling on 21 December and a 5-year low of 102.105 against the yen on 6 December.

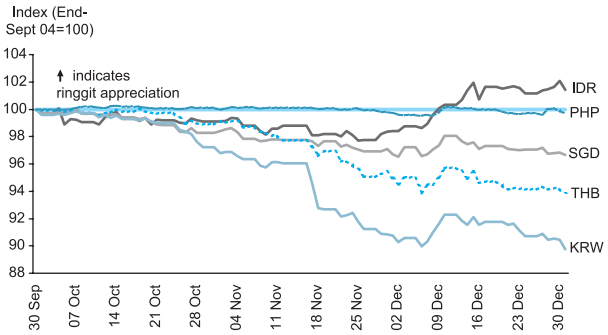
Summary of Ringgit Performance Against Selected Currencies
Percent Change (1 October - 31 December 2004)



Ringgit Performance Against Major Currencies



Ringgit Performance Against Regional Currencies



The depreciation of the ringgit against most regional currencies primarily reflects the weaker dollar, the regional export performance and other positive regional developments, as well as speculative capital inflows. The Korean won appreciated the most against the ringgit on higher repatriation of export earnings and capital inflows. The ringgit appreciated against the Indonesian rupiah as factors specific to that country created increased demand for dollars and led to a weakening of the domestic currency.

Following the depreciation of the US dollar against the euro and yen and rumours of a possible adjustment to the yuan exchange rate regime, there was renewed speculation that the ringgit peg policy was due for a review. Bank Negara Malaysia maintained its stand

Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since*		
	30 Jun 97	02 Sep 98	3Q 04	4Q 04	30 Jun 97	02 Sep 98	3Q 04
US dollar	2.5235	3.8001	3.8000	3.8000	33.6	0.0	0.0
Euro	-	-	4.6826	5.1729	-	-	-9.5
Pound Sterling	4.1989	6.3708	6.8347	7.3169	-42.6	-12.9	-6.6
100 Japanese yen	2.2088	2.7742	3.4264	3.7026	-40.3	-25.1	-7.5
Singapore dollar	1.7647	2.1998	2.2475	2.3258	-24.1	-5.4	-3.4
100 Thai baht	9.7470	9.3713	9.1644	9.7636	-0.2	-4.0	-6.1
100 Philippine peso	9.5878	8.8302	6.7517	6.7706	41.6	30.4	-0.3
100 Indonesian rupiah	0.1038	0.0354	0.0414	0.0408	154.1	-13.3	1.4
100 Korean won	0.2842	0.2827	0.3295	0.3671	-22.6	-23.0	-10.2

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

that a review of the peg would only be necessary in the event of a sustained and significant misalignment in the ringgit, or if economic fundamentals dictate that the economy would be better served by an alternative system.

DEVELOPMENTS IN THE BANKING SYSTEM

The banking system continued to exhibit increased resilience in the fourth quarter, with a high level of capitalisation, marked improvement in profitability and the lowest level of non-performing loans since the Asian financial crisis.

Banking system capitalisation level remained high

The risk-weighted capital ratio (RWCR) and core capital ratio (CCR) of the banking system remained high at 13.8% and 10.8%, despite recording marginal declines. These were due primarily to higher risk-weighted assets (+RM12.6 billion), which outpaced the increase in capital base (+RM0.5 billion). The expansion of capital base was attributed mainly to lower capital deductions for investments in subsidiaries (-RM1.6 billion) post-Bafin mergers, while the higher risk-weighted assets was due mainly to increased lending.

Capital Position Remained Strong

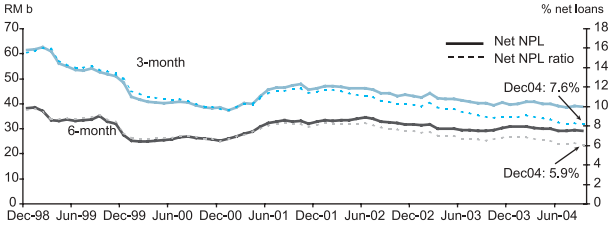
	2003		2004			
	3Q	4Q	1Q	2Q	3Q	4Q
Capital						
CCR (%)	10.9	11.1	11.0	11.7	11.4	10.8
RWCR (%)	13.4	13.8	13.7	14.3	13.9	13.8

Strengthened profitability on account of higher income

The banking system recorded RM3 billion pre-tax profits during the quarter, compared to RM2.8 billion in the previous quarter. The 6.1% increase in pre-tax profits was driven primarily by higher investment (+RM414.2 million), net interest (+RM244 million) and fee-based (+RM177.7 million) incomes. Accordingly, the annualised return on average assets and equity of the banking system improved to 1.4% and 16.5% (3Q2004: 1.3% and 15.5%).

Significant improvements in NPLs

Banking system: Non-performing loans



Net non-performing loans (NPLs) based on the 6-month classification continued trending downwards to RM29 billion to account for 5.9% of total net loans, the lowest level since the Asian crisis (3Q2004: 6.1%). Similarly, the net NPLs based on 3-month classification showed significant improvements to RM37.5 billion or 7.6% of total net loans (3Q2004: 8.1%). The improvement was largely attributed to higher recoveries, reclassifications and write-offs.

The Official Launching of the Islamic Banking and Takaful Expo: "Sustaining Islamic Banking and Finance Growth Through Effective Dissemination of Information"

8 October 2004, PWTC, Kuala Lumpur

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

The domestic Islamic financial system has reached an unprecedented expansion, successfully operating in parallel with the conventional financial system. The further development of Islamic finance requires for it to be endowed with the right pre-requisites to perform as an effective, efficient, resilient form of financial intermediation that supports wealth creation and sustainable economic growth. At the heart of this effort is the necessity to meet the financial requirements of consumers and businesses. While significant progress has been achieved in the development of the overall Islamic financial infrastructure, financial institutions and products that has been reinforced by the strengthening of the regulatory, Shariah and legal dimensions, there has also to be the effective dissemination of information to promote greater nationwide awareness on Islamic finance, to create a more well-informed society on the virtues and benefits of the financial services being provided. Providing information and knowledge is thus integral in our endeavor to steer the development of the Islamic financial system in Malaysia.

It is my pleasure to be here at the official launching of the Islamic Banking and Takaful Expo 2004, organized by the Association of Islamic Banking Institutions Malaysia (AIBIM).

The Islamic financial industry in Malaysia has emerged as a viable and competitive component of a financial system, which operates in parallel with the conventional financial system in contributing towards the nation's economic development and growth. We now have a comprehensive Islamic financial landscape and our success in integrating both systems has contributed towards a more progressive domestic financial intermediation process. Currently, Islamic banking has successfully generated RM90 billion in assets, garnering 10% market share, whereas the takaful industry has recorded assets totalling nearly RM5 billion.

To further strengthen the Islamic financial system and sustain its growth, it is vital to enhance the effectiveness and efficiency of the Islamic financial institutions in meeting the changing requirements of our economy. The Islamic financial infrastructure needs to be continually enhanced to meet the new, more complex and differentiated

demands of the various economic activities of the respective sectors of our economy. Of importance is the need to provide a mechanism to ensure accessibility to information by the public on Islamic financial services and products. An extensive and structured education programme is thus key to enhance consumer and business awareness and knowledge on the products and services. It also represents part of the efforts to promote market integrity over the activities in the market. Of equal importance is also the need to strengthen the consumer protection infrastructure in Islamic finance.

Effective dissemination of information will provide consumers and businesses with the necessary information to undertake the financial transactions with awareness of their rights and accountabilities. In making financial decisions, consumers require various information and details about the processes and documentation involved, the relevant fees and charges to be incurred and the risks and benefits of each type of financial product or service. This will allow consumers to be aware of the opportunities available, actively manage their financial position while at the same time, safeguard their financial future. The avenues to seek redress must also be easily accessible and available. Of importance is the need for all parties involved in the Islamic financial transactions to understand and appreciate the unique characteristics and features of Islamic banking and finance. Clear understanding on the conduct of the Islamic financial transactions would lead to the appropriate execution of Islamic financial contracts that truly reflect the Shariah tenet.

Active consumerism will also prompt the desired efficiency in the Islamic financial industry. For the Islamic financial institutions, understanding the dynamics of customer segmentation, building customer relationships and addressing the requirements and preferences of specific segments are vital not only for strengthening the existing customer relationships but also to secure new businesses. This would contribute towards the expansion and sustainability of the market share of the Islamic financial activities. Fundamental to achieving greater customer-centricity is to ensure that the processes, and workforce orientations, are aligned towards meeting customers' expectations and delivering superior services. This needs to be effectively communicated, shared and understood by all levels of the workforce, in particular, those at the front office. It is therefore important for the Islamic financial institutions personnel to enhance their own knowledge on the products and services offered, as well as customer service orientation.

While the level of public awareness on Islamic banking and finance has significantly improved, more efforts can be done to reach out to the wider population, in particular the sub-urban and rural areas. Existing infrastructure must be utilized in an efficient manner to effectively disseminate information on Islamic financial products and services including by leveraging on the information and communication technology. Information can be in various forms, with the objective of enhancing financial literacy in Islamic finance in our community.

The advancement in ICT has also had significant impact on the operations of Islamic financial institutions with respect to information management systems, product development, risk management and distribution capabilities. Significant application of IT would enhance efficiency by bringing down costs for consumers and businesses.

As part of our initiative for the extensive dissemination of information effectively and efficiently, Bank Negara Malaysia has developed a website on the Islamic money market. More specifically, the website aims to serve as a source of information on domestic Islamic financial instruments. It would provide greater transparency of the Central Bank's Islamic money market operations, thus facilitating investment decisions and enhancing public confidence in their investments. The website also provides an analysis facility to chart historical data, in addition to reference to the rules and regulations in the conduct of the Islamic money market transactions. It thus aims to effectively meet the information requirements of bankers, financiers, statisticians, economists, researchers and prospective investors as well as increasing awareness of both domestic and foreign users. Moving forward, the website will be linked with other markets to serve as a platform for exchanging information and knowledge beyond our own borders.

The Islamic Banking and Takaful Expo is another avenue that connects the Islamic financial institutions directly to the consumers. Therefore, I urge all Islamic financial institutions to take this opportunity to market and offer products and services that meet to the customers' needs. I also understand that there are also a number of participants from foreign countries. Their participation would contribute positively to our efforts to transform Malaysia into the regional Islamic financial centre.

Our endeavour is to develop an Islamic financial system as an intermediation process that will contribute effectively to the overall wealth creation, growth and development and a greater shared prosperity. With new emerging trends, Islamic financial institutions need to prepare for the new challenges and opportunities to meet the changing requirements of the new economy. The future prospects and success of the Islamic financial services industry will be the result of the collaborative efforts of all parties involved, that is the regulators, the industry, the market participants and the community. I would like to congratulate AIBIM for its relentless effort in continuously promoting and educating the public through the organization of an annual Islamic Banking and Takaful Expo.

With Bismillahirrahmanirrahim, I hereby declare the "Islamic Banking and Takaful Expo 2004" officially open.

The Official Launch of ICLIF Alumni Association And ICLIF Leadership Competency Model

30 November 2004, Mandarin Oriental Hotel, Kuala Lumpur

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

It is my great pleasure and honour to welcome you to the official launch of the Alumni Association of the International Centre For Leadership In Finance (or ICLIF) and the ICLIF Leadership Competency Model (ILCM).

ICLIF Alumni Association

It was just over a year ago that we witnessed the Official Launch of ICLIF on 28 October 2003. Within this period, ICLIF has already made considerable progress in meeting its objective to provide a more focused and coordinated approach towards the development of world-class leaders in the financial services sector in Malaysia and in the region.

To date, ICLIF has successfully concluded two sessions of its flagship Global Leadership Development Programme or GLDP, in addition to a Directors' Forum and a seminar on Scenario Planning. Besides providing participants with an opportunity to learn from the "top thinkers" from world-renowned institutions and industry practitioners and experts, one of the key strengths of ICLIF's programmes lies with the unique opportunity for the participants to establish strong social and professional networking and build lasting fraternity bonds. The launch of the ICLIF Alumni Association has been designed to play this role. For this purpose, all participants, faculty members and facilitators of ICLIF programmes will automatically be accredited as members of the Alumni Association. With the rapid changes taking place in the financial and corporate landscape in the country and the greater integration in the region and the world, networking among leaders and captains of industries is most valuable in contributing towards greater understanding and in increasing the potential for collaborative efforts that are of mutual interest.

The establishment of the Alumni Association represents an important part of ICLIF's commitment to provide a platform for members to maintain active networking and productive collaborative alliances. It is also in line with our philosophy that leadership development is a continuous journey. The Alumni Association would thus provide a forum for continuous sharing among its members. Alumni members will also receive automatic notification and invitations to all ICLIF programmes and activities that will be organized in the future.

As the members of the Alumni are spread across the region, ICLIF will leverage on Information and Communication Technology to help members stay connected. To facilitate networking opportunities, a special section has been created on ICLIF's website to cater for the activities of the Alumni Association. This would include the facility to disseminate information among its membership, including the publication of an alumni directory, highlights of important events and latest developments that may be of interest to its members. The Centre will serve as the secretariat to support all activities undertaken by the Alumni Association.

As we advance forward, the reputation, image and stature of the Centre will depend on the performance of its participants and their contributions to the environment and the organisations they represent. ICLIF regards its alumni members as important and looks forward to your continuous support to building ICLIF into a regional centre of excellence for leadership development in financial services.

While ICLIF has put in great efforts in working with leading international consultants and the best schools in the design and delivery of its leadership development programmes, we see this as an evolving process. In this context, we see alumni members as an important sounding board in providing feedback to enhance the relevance and effectiveness of ICLIF's programmes. As beneficiaries of ICLIF's programmes, the alumni members are the best intermediaries in making ICLIF better known to the industry.

ICLIF Leadership Competency Model

One of the first initiatives by ICLIF upon its inception is to develop a unique leadership competency model that will analyse and enhance the understanding of what makes for great corporate leaders in the regional context. The Competency Model was developed through a participatory process involving strategic insights by industry leaders in the country and the region. This was achieved through behavioural-event interviews as well as benchmarking exercises based on literature research and the database of leadership competency models of world class companies.

The preliminary model was further refined in a Validation Seminar attended by visionary and prominent leaders with proven track record of business performance excellence from both the private and public sectors. The Model forms the foundation to guide the philosophy and drive the design and delivery of ICLIF's leadership development programmes. I wish to take this opportunity to express our appreciation to the industry luminaries who have given so much of their time in participating in the validation seminar for the ICLIF Leadership Competency Model.

Let me share with you some of the interesting findings of the consultants in assessing our leaders based on the competencies identified in the Model.

Among the positive findings of the exercise was the observation by the consultants that many of the leaders

interviewed exhibited strong competencies in the area of focus, drive, execution, negotiations (and deal making) and entrepreneurial drive. These are all competencies resulting from high achievement needs and high achievement values. There is also a high sense of national pride and desire to enable Malaysia to meet the challenges of 2020. Participants also displayed a strong sense of performance drive for excellence.

There are areas of competencies that, however, require further development. The review detected some degree of performance complacency by some respondents, as reflected by a lack of drive to achieve and the lack of desire to benchmark against the global best. Participants seemed quite satisfied with what they had personally achieved.

In the studies of how joint ventures between multinationals and local firms sometimes fail, one of the main reasons cited was the misalignment of the ambitions of global multinationals and local partners. The results showed that while global multinationals had unlimited appetite for growth and ambition, fuelled mainly by shareholders' demands and driven by professional managers, local joint venture partners may have achieved their personal goals as professional managers and thus reached a plateau in their ambitions.

Another area of shortfall was in cognitive energy as reflected in the low desire to putting energy into the thinking process and to pushing the mental discipline when the issues gets a little more complex.

Another important issue was in the area of Talent Management. Although the leaders interviewed spoke about the importance of leadership and talent management, there was little or no supporting evidence of action on this important area. Also, there was a need for systems to be in place for constructive, honest and candid assessments about the capabilities and potentials of subordinates who may someday assume a leadership position in their organizations. Such feedback is vital for the development of the intellectual capital and management capabilities of senior management to drive strategic direction and operational excellence in the industry to pave the way for the development of their future leaders in the industry.

Those observations and insights have brought to the fore the importance of leadership competencies in articulating the combination of essential skills, attributes and behaviours required by leaders for the successful and effective performance on the job. It is our hope that the ICLIF Leadership Competency Model will be a constant source of reference, inspiration and impetus to our leaders in building a dynamic organizational culture and in meeting future challenges.

In order to better position ourselves in this more challenging environment, one that is more globalised, more integrated, more competitive and more complex, we need to play a more pro-active role in strengthening our own organizations, we need to prepare ourselves for difficult periods, we need to also contribute

towards the development of the environment in which we operate, the markets and the financial infrastructure, and finally and importantly we also need to invest in people, in their skills, to enhance our organisational capacity to bring about institutional development so as to enhance our respective organizational effectiveness. Leadership is an integral part of this process. Our investment in ICLIF hopes in some part to contribute to achieving these goals.

Alumni members, distinguished guests, ladies and gentlemen, it is now my privilege and pleasure to officially launch ICLIF Alumni Association and ICLIF Leadership Competency Model.

Launch of Financial Mediation Bureau

Auditorium, Bank Negara Malaysia
20 January 2005, Kuala Lumpur

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

Our financial landscape is continuously being redefined. The objective is the development of a financial system that best serves our nation. To achieve this, a comprehensive approach has been adopted, addressing all the key elements and building blocks in the respective components of the financial system so as to form a solid foundation on which an effective, efficient and resilient financial system could be progressively built. An important component in the system that has not been neglected has been the consumer protection framework. The requirements and expectations of consumers are changing rapidly in tandem with increased education levels, growing wealth and greater affluence. Consumers are becoming more discerning and demand better product choices, more efficient delivery channels and more customer centric practices from financial institutions. These trends have become important in reinforcing the more competitive environment in the financial services sector.

Promoting greater awareness and understanding of financial products and services amongst consumers as well as the implementation of the supporting infrastructure to protect consumers and strengthen the regulatory framework for enhanced transparency and disclosures has been a key component of our Financial Sector Masterplan. The Masterplan has laid out a number of key initiatives which seek to empower consumers and promote a better understanding of their financial rights and responsibilities so that they can make better decisions for their financial well being. Efforts to enhance the financial literacy of consumers have always been a priority to Bank Negara. Since 1996, a number of initiatives have been introduced to promote financial literacy and to inculcate sound financial management skills amongst various target groups.

Given the asymmetry in access to information between consumers and financial service providers, consumers often do not have enough information to make informed choices. In 2003, Bank Negara in collaboration with the financial service providers, launched a 10-year consumer education programme (CEP) for the banking and insurance sectors to increase consumers' access to information and broaden awareness on their rights and responsibilities, as well as to enhance consumer knowledge on the underlying concepts and operations of Islamic banking and takaful products and services offered by

financial institutions. In this connection, the BankingInfo and the InsuranceInfo websites have played an important role in enhancing consumer awareness. To date, the websites have continued to receive encouraging response with about 17.6 million hits. In addition, more than 4.2 million information booklets have been distributed to consumers. The rise in consumer awareness has been reflected in the increased feedback that has been received from consumers.

In addition to the focus on financial literacy and awareness among consumers, considerable efforts have also been made to strengthen the consumer protection infrastructure. These include specific initiatives to strengthen the regulatory framework governing market practices by financial service providers as well as enhanced minimum disclosure requirements and standards for credit card issuers, and on fees and charges for financial products. At the same time, ongoing efforts to raise the level of professionalism have also been intensified.

In 2004, the Bank introduced measures relating to sales practices in the insurance industry. Life insurance agents are also required to adopt best advice practices in the sale of life insurance products. To facilitate comparisons by consumers through enhanced disclosures, the Bank introduced mandatory disclosures of commissions, fees and charges for insurance products with savings and investment features that are sold through banking institutions. To ensure equitable treatment of policyholders, the Bank further strengthened the regulations on claims settlement practices and enhanced the controls over bonus reductions by life insurers to ensure reasonable returns to participating policyholders.

More recently, the industry, together with the Ministry of Transport, implemented the e-cover notes system, which will effectively eliminate forged motor insurance cover notes. This represents an important development towards protecting the interests of both vehicle owners as well as road accident victims. The Bank also expects to license financial advisers in 2005. Following the enactment of the relevant legislation, financial advisers will be licensed and regulated by Bank Negara Malaysia to provide professional advisory services on insurance to consumers in relation to their financial planning needs. This development marks an important milestone in the ongoing evolution of the overall consumer protection framework for the industry.

A number of initiatives have also been taken by the banking industry to maintain the integrity of the payments systems and instruments, focused at promoting user confidence and ensuring that consumers' interests are safeguarded. In combating card fraud, significant investments have been made by the industry players to migrate all magnetic stripe ATM and credit card infrastructure to a chip-enabled environment. New payment channels and infrastructures that leveraged on the Internet have also been developed, aimed at increasing safety and efficiency in the financial system.

Measures have also been introduced to enhance customer service levels at financial institutions. For this purpose, Bank Negara

Malaysia has undertaken a nationwide survey to assess how well consumers are being serviced by the financial service providers. The findings of the survey were shared with the industry and individual institutions to serve as a basis for financial institutions to assess their own performance and to use the results to benchmark themselves against global best practices. The objective is to achieve world-class quality in financial services.

The provision of adequate avenues for redress is also important to enable consumers to resolve conflicts through an equitable process. Efforts have been made to strengthen redress mechanisms both at the institutional level as well as on an industry level. As you may be aware, avenues for redress by consumers against banking institutions and insurers are already available via the Banking Mediation Bureau (BMB), and the Insurance Mediation Bureau (IMB) respectively. These bureaus, established more than a decade ago, have achieved considerable success in resolving disputes against banks and insurance companies. In 2004, a total of 1,515 cases have been handled by these two bureaus. Nevertheless, with the blurring of the traditional boundaries between financial products and services provided by banks, insurance companies, and other financial intermediaries, the creation of an integrated bureau is necessary for the resolution of a broad range of consumer issues raised in relation to the diverse range of financial institutions under the supervision of Bank Negara. There are also clear synergies to be achieved from leveraging on the resources available to enhance the efficiency and effectiveness of the dispute resolution process as consumers will be provided with a convenient and efficient one-stop centre to seek formal redress as an alternative to litigation, which may involve considerable time and financial resources.

It therefore gives me great pleasure today to launch the Financial Mediation Bureau, an integrated dispute resolution centre for financial institutions under the supervision of Bank Negara Malaysia. The creation of an integrated agency is in line with the international trends towards such resolution centres, and the framework and model for the Financial Mediation Bureau has been benchmarked against best practices worldwide, notably in countries such as the United Kingdom, Canada and Australia.

The scope of the Financial Mediation Bureau has been expanded to cover, for the first time, Islamic banks, takaful operators, development financial institutions, as well as selected payment system operators and non-bank issuers of credit and charge cards. I am also pleased to announce that with the launch of the Financial Mediation Bureau, the limit on cases falling within the jurisdiction of the Bureau has been increased from the limits applicable to the former Mediation Bureaus. This will provide increased access to the Bureau as an avenue for redress for a wider spectrum of the public. Apart from the expanded coverage, the Financial Mediation Bureau plans to improve its nationwide accessibility by progressively establishing five regional offices.

The Financial Mediation Bureau will be governed by a Board of Directors comprising

nine members, of whom five are independent directors, with the balance from the banking and insurance industries. Tan Sri Dato' Seri Haidar bin Mohamed Noor, the first Chairman of the Board of the Financial Mediation Bureau, has a long and distinguished career in the judicial service. I believe that the Financial Mediation Bureau will benefit from his vast experience and expertise in judicial matters. The Financial Mediation Bureau will be staffed by independent and experienced mediators who are experienced in judicial matters. With the depth and diversity of experience represented on both the Board and staff of Financial Mediation Bureau, I am confident that the new Bureau will be well placed to discharge its responsibility in ensuring a fair and equitable resolution process for consumers.

The creation of this Bureau represents an important milestone in the enhancement of the consumer protection infrastructure. Consumers are encouraged to make full use of the avenue available to seek resolution of the issues faced by them.

I would like to take this opportunity to express our appreciation to the previous Board of Directors of the Banking Mediation Bureau and Insurance Mediation Bureau for their contributions and dedication in giving selflessly of their time and experience in the operation of the bureaus. I would also like to acknowledge the contributions and support by the Association of Banks in Malaysia, Association of Finance Companies in Malaysia, Association of Merchant Banks in Malaysia, Life Insurance Association of Malaysia, Persatuan Insurans Am Malaysia, Association of Islamic Banking Institutions Malaysia, Malaysian Takaful Association, Association of Development Finance institutions of Malaysia, MBF Card Services (M) Sdn. Bhd., American Express and Diners Club (M) Sdn. Bhd. in making this bureau a reality. They have agreed to fund the operational costs of this bureau through levies on individual member companies in order that the services of the bureau can be provided free of charge to members of the public. The strong and continuing support and commitment shown by the industry will augur well for the success of the Financial Mediation Bureau.

In recent years, much progress has been achieved in developing and strengthening the financial sector through policy initiatives in the areas of regulatory and supervisory frameworks, risk management and corporate governance. These have been complemented with consumer protection and education initiatives that promote more active consumerism to create a dynamic and responsive financial system. Moving forward, Bank Negara Malaysia will continue to focus on the development of the necessary infrastructure to ensure that consumers are given greater access to information on financial products and services that will enable them to make well-informed choices and safeguard consumer interests.

Among the measures that are being finalized for implementation is the issuance of guidelines to ensure that the public has access to banking services at reasonable costs. Guidelines have been issued to banking institutions to govern the imposition of fees

and charges. With effect from 1 February 2005, banking institutions will also be required to provide 'basic banking services' to Malaysians at minimal costs. The guideline specifies the minimum threshold of services and monthly transactions that are to be offered without charges. Over and above these financial services, as products and services become more complex, financial institutions need to provide appropriate pricing that not only reflect costs but also adequately reflect the cost saving that arises from investments undertaken. In an increasingly competitive environment, efforts also need to continuously aim at enhancing efficiency and cost effectiveness. This will not only bring benefits to the consumers and businesses but to the overall economy.

One crucial element of the safety net for consumers is deposit insurance. Work in this area is at an advanced stage and will be operational soon. The deposit insurance system will further strengthen incentives for financial institutions to adopt sound financial and business practices and enhance public confidence in the financial system by providing explicit protection on deposits. This represents an additional enhancement to the consumer protection framework to promote confidence in, and the soundness of the financial system.

The development of well-informed consumers who can successfully manage their personal finances requires the collective and collaborative efforts of the financial institutions, consumer agencies, consumers and regulators. Bank Negara will continue to actively engage the industry to develop initiatives in this area. However, the process needs to be driven by the financial institutions. Consumer associations also have an important role in educating and informing consumers of their rights and responsibilities as well as the avenues for redress. While the initiatives undertaken will enhance consumer protection and financial literacy, it is crucial for consumers to take a more proactive role in understanding their rights and obligations and to exercise due care in their selection of financial products and services. The development of more-informed consumers would serve to challenge the financial institutions to accelerate the pace of innovation and diversity of products, services and delivery channels available. This will in turn foster the development of a sound and progressive financial sector that will contribute to the sustained growth of our economy.

On this note, it is my pleasure to officially launch the opening of the Financial Mediation Bureau in Malaysia.

Calendar of Events
October - December 2004

4 October 2004
The Bank announced the issuance of the Dynamic Solvency Testing (DST) guidelines to further strengthen the life insurance industry in Malaysia. The DST is a robust solvency assessment tool which enables life insurance companies to identify and manage their risks in order to enhance their ability to meet current and future long-term liabilities and obligations to policy owners. Indirectly, this would enhance their ability to innovate and introduce new products to the benefit of consumers.

8 October 2004
The Governor launched the 2004 Islamic Banking and Takaful Expo entitled "Sustaining Islamic Banking and Finance Growth Through Effective Dissemination of Information." The exposition serves as a showcase of Shariah-compliant financial products and services, and as a one-stop information outlet to educate the public on the Islamic financial services available in the country. In her speech, Governor stressed that it is vital to enhance the effectiveness and efficiency of the Islamic financial institutions in meeting the changing requirements of our economy to further strengthen the Islamic financial system and sustain its growth.

11 October 2004
The Bank and the International Monetary Fund (IMF) jointly hosted a two-day high-level conference on the role of IMF in supporting financial sector development in Asia. Participants included senior officials from central banks, ministries of finance and financial sector regulatory agencies from around the region. The conference was held to discuss how the IMF could assist ongoing efforts to identify financial sector issues of regional importance, and analyse the implications of growing interdependencies for financial systems.

14 October 2004
The Bank announced the approval for two more foreign Islamic financial institutions - Al-Rajhi Banking & Investment Corporation of Saudi Arabia, and a consortium of Islamic financial institutions represented by Qatar Islamic Bank, RUSD Investment Bank Inc. and Global Investment House - to establish full-fledged Islamic banks in Malaysia. The Bank had announced in September 2003 that three new Islamic banking licences would be issued to qualified foreign Islamic banking players as part of the move to bring forward the liberalisation of the Islamic banking industry. The first foreign Islamic banking licence was awarded to Kuwait Finance House in May 2004.

19 October 2004
The Minister of Education, Y.B. Dato' Hishammuddin Tun Hussein and the Governor jointly launched Duitsaku.com, the financial education website targeted at primary and secondary school

children. In her welcoming speech, Governor said that financial education is a branch of knowledge that needs to be mastered by everyone, especially in times of dynamic and challenging economic and financial environment. The Minister meanwhile said the launch of the website was in line with the Government's aspiration to encourage learning through information technology.

26 October 2004

The Bank issued the RM5 polymer banknote, thus making Malaysia one of the group of 18 countries that have adopted the polymer banknote technology and issued polymer banknotes for circulation.

28 October 2004

A multi-bank Internet payment platform known as the Financial Process Exchange (FPX) was launched by the Governor, that marked an important milestone in the development of Malaysia's payments system. The FPX leverages the banking institutions' Internet banking services to provide on-line assurance of payments, enables payment references to accompany payments to facilitate reconciliation of transactions, and provides an efficient and cost-effective settlement mechanism.

29 October 2004

The Bank with the insurance and takaful industry held their regular dialogue session to discuss on economic and financial developments, the performance of the insurance and takaful industries, new policy measures as well as developments and current issues concerning the insurance and takaful sectors.

2 November 2004

The Bank announced the appointment of ten members of the Shariah Advisory Council for Islamic Banking and Takaful for a two-year term. The Council is the authority in determining the validity of Islamic banking, finance and takaful transactions conducted by Islamic financial institutions under the purview of Bank Negara Malaysia.

25 November 2004

The Bank announced the fifth issuance of Bon Simpanan Merdeka amounting to RM557 million which was issued on 3 January 2005. The bond provides an additional savings instrument to senior citizens, retired Malaysian Armed Forces personnel, as well as Malaysian citizens who have retired on medical grounds.

30 November 2004

The Bank announced that the Malaysian economy expanded at a favourable rate of 6.8 percent in the third quarter of 2004, driven mainly by growth in the private sector. The Bank also announced a revision to the growth rate in the second quarter of 2004 to 8.2 percent from 8.0 percent indicated previously.

2 December 2004

The Second Meeting of the National Small and Medium Enterprise (SME) Development Council was held in Putrajaya, and was chaired by the Prime Minister. The Council represents the highest-level policy-making body to chart future direction and strategies for SME development.