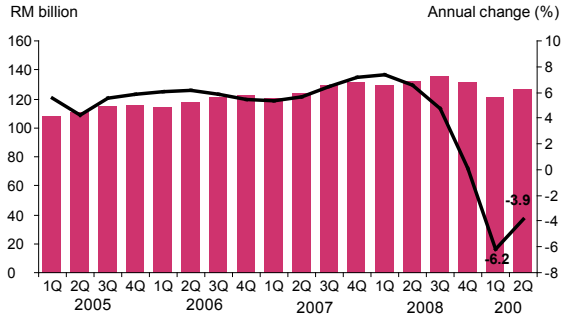
ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE SECOND QUARTER OF 2009

OVERVIEW

Growth declined at a slower pace in the second quarter

The Malaysian economy contracted at a slower rate of 3.9% in the second quarter of 2009 (1Q 09: -6.2%), due mainly to higher public spending and positive growth in private consumption. Nonetheless, growth continued to be affected by weak external demand and private investment activity. Reflecting continued sluggish global economy, real net exports of goods and services declined by 0.7%. On the supply side, all economic sectors registered improved performance.

Slower pace of contraction in the second quarter
(at constant 2000 prices)



Source: Department of Statistics, Malaysia

During the quarter, domestic demand registered a slower decline of 2.3% (1Q 09: -2.9%) following expansion in public sector spending and private consumption. Private consumption recorded a positive growth of 0.5% (1Q 09: -0.7%), as stabilisation in labour market conditions and lower price levels provided further support to consumer spending. Consumer sentiments improved in the second quarter as reflected by MIER Consumer Sentiments Index, which increased to 105.8 points from 78.9 points in the previous quarter. Meanwhile, public consumption expanded by 1% due to higher expenditure on supplies and services and emoluments. Gross fixed capital formation contracted by 9.8% (1Q 09: -10.8%) following continued decline in private investment activity, particularly in the manufacturing sector due to prevailing excess capacity amidst weak external demand. Nevertheless, higher public sector spending on development projects in the education, trade and industry as well as agriculture and rural development sectors provided some support to the overall investment activity.

All key sectors of the economy recorded better performance during the quarter. The services sector registered a positive growth of 1.6% (1Q 09: -0.2%) due mainly to better performance of the finance and insurance sub-sector. The manufacturing sector declined at a slower pace of 14.5% (1Q 09: -17.9%) following improvements in the export-oriented industries, particularly the E&E industry, as a result of increasing inventory replenishment activity after the massive cut in production and large inventory drawdown undertaken during the first quarter. Growth in the construction sector strengthened to 2.8% (1Q 09: 1.1%) as the industry benefitted from the increased implementation of the stimulus package. Meanwhile, the agriculture sector turned around to grow by 0.3% (1Q 09: -4.3%) supported by continued strong production of food crops and a smaller decline in industrial crops, while growth in the mining sector declined at a moderate pace of 2.6% (1Q 09: -5.2%) due to a smaller contraction in the output of natural gas and crude oil.

Headline inflation rate, as measured by the change in the Consumer Price Index (CPI), was 1.3% in the second quarter of 2009 (1Q 09: 3.7%). As with the previous quarter, the moderation in inflation was largely explained by lower inflation in the *food and non-alcoholic beverages* and *transport* categories. Inflation in the *food and non-alcoholic beverages* category moderated to 5.3% (1Q 09: 9.2%). Meanwhile, prices in the *transport* category fell by 8.2% compared to their levels a year ago (1Q 09: -2.1%), reflecting mainly the high base effect of the sharp rise in the price level in June 2008 arising from fuel price adjustments.

In the external sector, the trade surplus narrowed but remained large at RM26.5 billion, as gross imports contracted at a slower pace compared to gross exports. Gross exports registered a sharper contraction of 26.3% (1Q 09: -20.0%) as demand for manufactured products from major trading partners remained weak, while commodity exports contracted significantly by 40.6% (1Q 09: -23.8%) due primarily to lower prices compared with the same period of 2008. Meanwhile, improved manufacturing output and the restocking of inputs for production led to a smaller contraction in imports of intermediate goods, and thus a lower decline of imports of 23.7% (1Q 09: -29.0%).

On a cash basis, gross inflows of foreign direct investment (FDI)[1] was higher at RM10.4 billion in the second quarter (1Q 09: RM6.8 billion), reflecting mainly higher inflows of equity capital. Net FDI amounted to RM6.7 billion (1Q 09: RM2.1 billion), directed mainly into the oil and gas and manufacturing sectors. Overseas investment by Malaysian companies registered a net outflow of RM0.9 billion (1Q 09: -RM2.8 billion). Investments were concentrated in the services sector, mainly in finance, insurance, real estate and business services and communications. Meanwhile, net outflows of portfolio investment amounted to RM15 billion (1Q 09: -RM9.6 billion), due largely to the maturity of the Federal Government USD1.5 billion Global Bond (1999). Excluding this, net outflows in equity and debt securities were largely unchanged.

The international reserves of Bank Negara Malaysia amounted to RM322.9 billion (equivalent to USD91.5 billion) as at 30 June 2009, and RM322.2 billion (equivalent to USD91.4 billion) as at 14 August 2009. The reserves are sufficient to finance 9 months of retained imports and are 3.8 times the short-term external debt.

Monetary policy remains supportive of economic activity

The OPR was left unchanged at 2.00% in the second quarter, in line with the assessment that the accumulated monetary policy easing would provide sufficient support to economic activity over the medium term.

Concurrently, interbank rates for all maturities were relatively stable during the quarter. In terms of lending rates, the average base lending rate (BLR) remained unchanged during the quarter, while the average lending rate (ALR) continued to decrease in the second quarter to a low of 5.02% in May, before stabilising at 5.04% in June. Meanwhile, deposit rates were relatively unchanged.

Total gross financing raised by the private sector through the banking system and the capital market was higher at RM183.4 billion during the quarter (1Q 09: RM157.4 billion), supported by more accommodative monetary conditions since end-2008 and extensive measures targeted at improving access to financing for all segments of the economy. In terms of annual growth, net banking system loans and PDS outstanding increased by 8% per annum as at end-June (end-March 2009: 10.7%). Overall loan applications, approvals and disbursements were also higher compared to the previous quarter.

During the second quarter, net funds raised in the capital market by both the public and private sectors amounted to RM45.7 billion (1Q 09: RM11.6 billion). After adjusting for redemptions, net funds raised by the public sector totalled RM24.7 billion (1Q 09: RM10.8 billion), reflecting the Government's expansionary fiscal policy. For the private sector, net funds raised through the PDS market amounted to RM19.3 billion, while funds raised through the equity market amounted to RM11.5 billion.

Monetary aggregates continued to register a modest annual increase in the second quarter, consistent with the moderation in economic activity. M3, or broad money, expanded at a slower annual growth rate of 5.8% at end-June 2009 (end-March 2009: 7.3%). On a quarter-on-quarter basis, M3 increased by RM1.6 billion. The main impetus for M3 growth came from credit expansion.

The ringgit appreciated by 3.5% against the US dollar during the quarter, reflecting the broad

[1] The statistics for FDI on a cash basis does not include retained earnings and investment in the form of imported machinery and equipment.

trend of regional currencies. Movements in the ringgit were reflective of developments in both the domestic and international economic and financial conditions. The ringgit was supported by the improved sentiments towards emerging markets following incipient signs of greater stabilisation in the global and regional economic conditions. The ringgit also appreciated against the yen (1.0%), but depreciated against the pound sterling (-10.9%) and euro (-2.7%). Amidst signs of improvements in the UK economy, the pound sterling recovered significantly against most currencies including the ringgit, reversing some of the marked depreciation experienced in 2008. Against regional currencies, the ringgit appreciated against the Chinese renminbi (3.5%) and Philippine peso (3.1%), but depreciated against other regional currencies between 0.9% and 8.7%. The ringgit depreciated significantly against the Indonesian rupiah and Korean won as these currencies recovered from significant weakness earlier during the year. The rupiah had appreciated against all regional currencies following positive sentiments arising from favourable economic conditions as well as the recent electoral outcome in Indonesia. The Korean won also strengthened as better economic conditions were supported by stronger exports and domestic demand. Between 1 July and 25 August, 2009, the ringgit appreciated against the US dollar by 0.3%. The ringgit also appreciated against the pound sterling by 1.7%, but depreciated against the Japanese yen (-1.7%) and the euro (-1.1%). Against regional currencies, the ringgit appreciated against the Philiipine peso (1.1%), Thai baht (0.3%) and the Chinese renminbi (0.3%), but depreciated between 0.2% and 2.2% against other regional currencies.

Financial sector remained resilient

The financial sector remained resilient supported by strong capitalisation and strengthened risk management capability. Profitability was sustained despite the difficult economic environment. Given the strong financial buffer, reinforced by robust funding and liquidity positions, the financial sector remained well-positioned in meeting the financing and financial services needs of the economy throughout the quarter.

As at end-June 2009, the risk weighted capital ratio (RWCR) and core capital ratio (CCR) strengthened to 14% and 12.3% respectively. The strong capitalisation was attributed to retained earnings and pro-active capital management initiatives by several banking institutions. Loan quality remained favourable. The net non-performing loans ratio has been sustained at 2.2% since December 2008. Pre-tax profit was sustained at RM4.8 billion, driven by improved revenue from financing and fee related businesses.

The Capital Adequacy Ratio (CAR) of the insurance industry improved to 214.8% (1Q 09: 210.2%). Profitability of the sector improved to RM3.6 billion driven largely by increased premiums and contributions across all business segments. Lacklustre capital market activity, nonetheless, continued to exert some downward pressure on profitability, albeit at a more moderate pace.

Growth outlook to improve in the second half of 2009

There are increasing signs that conditions in the global economy are stabilising. In the major advanced economies, the pace of the decline in economic activity is moderating, while conditions in the international financial markets have broadly improved. These improvements were the result of the cumulative effects of extensive policy measures undertaken to stabilise the financial markets and to support the economy. There is also evidence that economic activity in the regional economies is picking up. Economic recovery, however, is likely to be slow as most advanced economies are still undergoing adjustments amidst on-going deleveraging activity in the private sector.

The domestic economy continued to be affected by the weak global economic activity in the second quarter as reflected in the continued sharp decline in exports. However, recent indicators, including industrial production, export growth and conditions in the labour market, point towards stabilisation of the domestic economy. Going forward, the expectation remains that the domestic economy will improve in the second half of the year, to be supported by a recovery in domestic demand following

improvements in labour market conditions, as well as business and consumer sentiments. The accelerated implementation of the fiscal measures, lower inflation, continued access to financing, and the accomodative monetary environment will provide further support to domestic demand. The stabilisation of the global economy is also expected to contribute to the improvement in the domestic economy in the second half of the year.

DEVELOPMENTS IN THE SECOND QUARTER OF 2009

INTERNATIONAL ECONOMIC ENVIRONMENT

Increasing signs of stabilisation in the global economy

The global economy showed increasing signs of stabilisation in the second quarter following improvements in the international financial markets. In the major advanced economies, while overall economic conditions continued to remain weak, the pace of decline in economic activity has slowed. A similar trend has also been observed in most regional economies following stabilisation in exports and production. To a large extent, the gradual improvement in economic conditions in the global economy could be attributed to policy measures undertaken to stabilise the financial systems in the advanced countries as well as the cumulative effects of fiscal and monetary stimulus for most economies.

In the **US**, real GDP contracted in the second quarter, but at a slower annualised rate of 1% (1Q 09: -6.4%), making it the fourth consecutive quarter of contraction and the longest economic contraction since 1947. While increased public sector spending and improvements in net exports provided support to growth, the decline in overall GDP was due to the continued contraction in private consumption expenditure and private fixed investment as well as inventory drawdown. Private consumption expenditure declined by 1.2% (1Q 09: +0.6%) as unemployment continued to rise, reaching a 26-year high of 9.5% at the end of the second quarter. Meanwhile, the contraction in private fixed investment moderated to 13.5% (1Q 09: -39%) due to slower declines in investment in both the residential and non-residential sectors. Private inventory drawdown accounted for nearly fourth-fifth of the GDP decline in the second quarter, as businesses continued to scale down inventories. On the inflation front, headline consumer prices declined by 0.9% during the quarter (1Q 09: -0.2%) due mainly to lower energy prices and transportation costs.

In **Japan**, after four consecutive quarters of economic contraction, real GDP grew by an annualised rate of 3.7% in the second quarter (1Q 09: -11.7%) following improvements in net exports and private consumption. The slower rate of decline of 27.9% in industrial production in the second quarter (1Q 09: -34.5%) reflected improvement in net exports largely stemming from inventory normalisation as well as slower pace of decline in exports to PR China. In spite of rising unemployment (2Q 09: 5.2%; 1Q 09: 4.4%) and weak sentiment, private consumption received a boost from cash payouts and subsidies in the fiscal stimulus package. On the inflation front, core consumer prices (excluding fresh food) declined by 1% (1Q 09: 0%), reflecting sharply lower commodity prices and sluggish demand conditions.

The **euro area** experienced a slightly slower annual contraction of 4.6% in the second quarter (1Q 09: -4.9%), due to the positive impact of stimulus measures on economic activities in Germany and France. On a quarterly basis, both Germany and France recorded a quarter-on-quarter growth of 0.3% in the second quarter (1Q 09 quarter-on-quarter: Germany -3.5%; France: -1.3%). The sentiment-based indicators such as the Purchasing Managers Index and Economic Sentiment Indicator, have also showed signs of stabilisation in the second quarter. On the inflation front, consumer prices moderated further to 0.2% in the second quarter (1Q 09: 1.0%) due to falling commodity prices. Meanwhile, in the **UK**, real GDP contracted 5.6% year-on-year in the second quarter (1Q 09: -4.9%), its worst contraction since 1955. Growth was affected by the sharp decline in the services sector on weaker activity in the business and financial services sub-sectors as well as continued contraction in the manufacturing sector. On the inflation front, consumer prices moderated to 2.1% in the second quarter (1Q 09: 3%) due to lower prices in food and non-alcoholic beverages.

Industrial Countries: Real GDP Growth

	2008		2009			Key contributing factors for 2Q growth
	2Q	1H	1Q	2Q	1H	
	Annual change (%)					
US[1]	1.5	1.8	-6.4[r]	-1.0[a]	-3.6[a]	Declines in private consumption and investment activities, as well as continued inventory drawdown. However, net exports and public sector spending contributed positively to growth.
UK	1.8	2.2	-4.9[r]	-5.6[p]	-5.3[p]	Broad-based decline in all sectors especially services sector.
Euro area	1.5	1.8	-4.9	-4.6[p]	-4.8[p]	Due to improvement in economic activities in Germany and France.
Japan[1]	-4.3	1.0	-11.7[r]	3.7[p]	-7.6[p]	Due to improvements in private consumption and net exports.

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

Source: National authorities

Central banks in the major advanced economies continued to maintain an accommodative monetary policy stance and implemented measures to strengthen the financial system during the quarter. In the **US**, with the federal fund rate rates maintained at 0 – 0.25%, several changes were made with respect to measures to support the financial sector. These include an extension of the Primary Dealer Credit Facility and Commercial Paper Funding Facility until February 2010 to support short-term funding, as well as the scaling down of the Legacy Securities Program of the *Public-Private Investment Program* (that is aimed at removing bad assets) from the original size of USD500 billion – USD1 trillion to USD30 billion. In Japan, while the uncollateralised overnight call rate was maintained at 0.1%, the **Bank of Japan** extended its emergency corporate funding support measures until December 2009. The **Bank of England** also maintained its base lending rate at 0.5% during the quarter while expanding the *Asset Purchase Facility* twice by £50 billion in May and another £50 billion in August to £175 billion. Meanwhile, the **European Central Bank** reduced its refinancing rate to 1% in May 2009 and started its €60 billion covered bond purchase programme in early July to inject liquidity into the financial system.

In the second quarter, **global crude oil prices**[2] increased to a 9-month high of USD72 per barrel in mid-June, driven largely by improved risk appetite among investors while the fundamental demand-supply conditions remained weak. Despite the spike in prices in June, crude oil prices averaged around USD60 per barrel during the quarter (1Q 09: USD40 per barrel).

In the **Asian region**, several regional economies such as Korea, Singapore, Chinese Taipei, Hong Kong SAR and Thailand recorded smaller declines in annual real GDP growth in the second quarter following stabilisation in production and exports. On a quarter-on-quarter basis, Singapore, Chinese Taipei, Hong Kong SAR and Thailand recorded positive growth of 20.7%[3], 20.7%[3], 3.3%[4] and 2.3%[4] respectively. Regional growth continued to be led by PR China, which posted a stronger-than-expected annual growth of 7.9% (1Q 09: 6.1%), due mainly to the higher contribution from investment, which gained support from the impact of the sizeable fiscal stimulus. With most regional countries such as Thailand, Chinese Taipei, PR China, Singapore and Hong Kong SAR experiencing technical deflation, central banks across Asia continued to maintain accommodative monetary policy. During the quarter, Thailand reduced the policy interest rate by 25 basis points while Indonesia and Philippines reduced interest rates by 75 basis points each to support economic activity.

[2] Refers to WTI one-month futures on NYMEX
[3] Seasonally adjusted annualised quarter-on-quarter rate
[4] Seasonally adjusted quarter-on-quarter rate

Regional Countries: Real GDP Growth

	2008		2009			Key contributing factors for 2Q growth
	2Q	1H	1Q	2Q	1H	
	Annual change (%)					
PR China	10.1	10.4	6.1	7.9	7.0	Supported by investment which was driven by the large fiscal and monetary stimulus.
Indonesia	6.3	6.4	4.4	4.0	4.2	Supported by consumption and goverment spending.
Korea	4.3	4.9	-4.2	-2.5[a]	-3.4	Supported by improvement in exports growth and household spending.
Singapore	2.5	4.6	-9.5[r]	-3.5	-6.5	Supported by slower contraction in the manufacturing sector due to the sharp increase in biomedical output.
Hong Kong SAR	4.1	5.7	-7.8	-3.8	-5.8	Supported by slower contraction in exports.
Thailand	6.0	5.7	-7.1	-4.9	-6.0	Supported by government spending and private consumption.
Chinese Taipei	4.6	5.4	-10.1	-7.5[p]	-8.8	Supported by positive contribution from private consumption with smaller drag from gross fixed capital formation.

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

Source: National authorities

In the **foreign exchange market**, all major currencies appreciated against the US dollar during the quarter due to improved risk appetite among global investors following the rally in the global equity markets. However, towards the end of the quarter, the US dollar began to strengthen slightly against the euro and the Japanese yen on concerns over the relatively weak economic conditions in these economies vis-à-vis the US. Similarly, regional currencies appreciated against the US dollar during the second quarter due mainly to improved investor sentiments amid stabilisation in regional exports and production. Of significance, the Indonesian rupiah strengthened considerably against the US dollar due to the favourable economic conditions and political developments.

Going forward, with increasing signs of stabilisation in economic indicators for most economies in July and early August, global economic conditions are expected to improve further in the second half of the year. Nonetheless, the sustainability of growth prospects will depend crucially on the recovery in private sector demand in the advanced economies, which in turn is conditional on the resumption of lending activities by the financial institutions. This will, to some extent, influence the growth outlook for the Asian region.

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Growth contracted at a slower pace in the second quarter

The Malaysian economy contracted at a slower pace of 3.9% in the second quarter (1Q 09: -6.2%), due mainly to higher public spending and positive growth in private consumption. Nonetheless, growth continued to be affected by the decline in external demand and weak private investment activity. The contraction in external demand reflected weak global demand and was exacerbated by the high base effect due to strong export performance in the second quarter of 2008. On the supply side, all economic sectors recorded improved performance.

Domestic demand contracted at a slower rate

During the quarter, **domestic demand** registered a slower decline of 2.3% (1Q 09: -2.9%), following higher public sector spending and expansion in private consumption.

Private consumption recorded a positive growth of 0.5% in the second quarter (1Q 09: -0.7%), as stabilisation in labour market conditions and lower price levels provided further support to consumer spending. Consumer sentiments also improved further in the second quarter, as indicated by the increase in the MIER Consumer Sentiments Index (105.8 points; 1Q 09: 78.9 points). There were also notable improvements in major consumption indicators on a preceding quarter basis. These include credit card spending, imports of consumption goods, manufacturing sales of food and beverages as well as sales of new passenger cars.

Meanwhile, **public consumption** expanded by 1%, supported by the increase in expenditure on supplies and services and emoluments for the civil service.

Gross fixed capital formation contracted by 9.8% in the second quarter, due mainly to continued sharp deterioration in private investment. Weak external demand and the lower-than-normal capacity utilisation continued to affect capacity expansion activity in the manufacturing sector. Major investment indicators such as imports of capital goods, sales of commercial vehicles and manufacturing sales of construction-related products also fell further, pointing to sluggish private sector capital spending activity. Nevertheless, higher public sector development expenditure on education, trade and industry as well as agriculture and rural development provided some support to the overall investment activity. Business sentiments have, however, improved towards the end of the quarter, as reflected in the substantial rise in the MIER Business Conditions to 105.2 points (1Q 09: 61.1 points).

GDP by Expenditure Components (at constant 2000 prices)

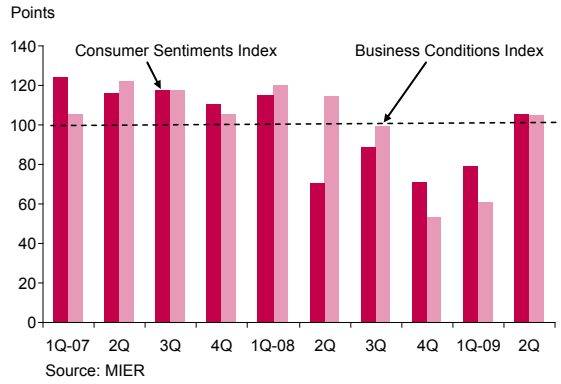
	2008		2009		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	8.4	9.1	-2.9	*-2.3*	-2.6
Consumption	9.6	10.7	-0.2	*0.6*	0.2
Private sector	*9.4*	*10.3*	*-0.7*	*0.5*	*-0.1*
Public sector	*10.3*	*12.1*	*2.1*	*1.0*	*1.6*
Gross Fixed Capital Formation	5.6	5.1	-10.8	-9.8	-10.3
Net Exports	19.9	23.9	39.1	-0.7	19.1
Exports of Goods and Services	*9.5*	*7.7*	*-15.2*	*-17.3*	*-16.3*
Imports of Goods and Services	*8.1*	*5.7*	*-23.5*	*-19.7*	*-21.5*
GDP	**6.6**	**7.0**	**-6.2**	**-3.9**	**-5.1**

Source: Department of Statistics, Malaysia

Better performance across all economic sectors

On the supply side, all key economic sectors recorded better performance in the second quarter. The services sector turned around to register positive growth, supported mainly by higher growth in the finance and insurance; and the recovery in wholesale and retail trade, and real estate and business services sub-sectors. The manufacturing sector recorded a slower contraction, reflecting a pick-up in production for inventory restocking and final domestic consumption. Meanwhile, the construction sector recorded a higher growth, benefiting from the increased implementation of projects under the fiscal stimulus packages. The agriculture sector turned around to register a positive growth supported by continued strong production of food crops and a smaller decline in industrial crops. The mining sector also declined at a moderate pace, in line with a smaller decline in the output of natural gas and crude oil.

Business and consumer sentiments improved



Source: MIER

Quarterly GDP by Economic Activity (at constant 2000 Prices)

	2008		2009		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Agriculture	6.3	6.4	-4.3	0.3	-2.0
Mining	-0.5	1.6	-5.2	-2.6	-3.9
Manufacturing	5.6	6.3	-17.9	-14.5	-16.2
Construction	3.9	4.5	1.1	2.8	2.0
Services	7.9	8.2	-0.2	1.6	0.7
Real GDP (Annual Change)	**6.6**	**7.0**	**-6.2**	**-3.9**	**-5.1**
Real GDP (Preceding Change)	**2.3**	**0.2**	**-7.8**	**4.8**	**-7.2**

Source: Department of Statistics, Malaysia

Services sector recorded positive growth

The **services sector** grew by 1.6% during the quarter, an improvement from the marginal contraction of 0.2% recorded in the first quarter. Growth was mainly supported by expansion in the finance and insurance; and the turnaround in both wholesale and retail trade, and real estate and business services sub-sectors.

The **finance and insurance** sub-sector expanded further by 3.3% following higher fee-based income, as a result of the increase in activity in the equity market, as well as improved net interest income. The **wholesale and retail trade** sub-sector turned around to register a growth of 0.4%, reflecting improved consumption activity. The **real estate and business services** sub-sector also registered a positive growth of 3%, in line with the improvement in capital market-related activity.

The **utilities** sub-sector registered a smaller contraction of 1.1% due to higher electricity demand by industrial and commercial users. Meanwhile, the **transport and storage** sub-sector contracted further by 6.4%, in line with the sluggish external sector, which translated into weak demand for cargo-related services.

Performance of the Services Sector (value added at constant 2000 prices)

	Share 2008 (%)	2008		2009		
		2Q	1H	1Q	2Q	1H
		Annual change (%)				
Intermediate Services	**43.3**	**6.8**	**7.6**	**-0.7**	**2.1**	**0.7**
Finance & insurance	20.0	7.5	8.7	1.2	3.3	2.3
Real estate & business services	9.4	3.8	4.3	-6.7	3.0	-1.8
Transport & storage	7.0	8.1	9.0	-4.0	-6.4	-5.2
Communication	7.0	7.9	7.7	4.9	5.8	5.3
Final Services	**56.7**	**8.8**	**8.7**	**0.3**	**1.2**	**0.8**
Utilities	5.3	4.1	4.4	-8.1	-1.1	-4.6
Wholesale & retail trade	23.2	12.7	12.3	-1.7	0.4	-0.6
Accommodation & restaurant	4.4	7.3	8.6	2.1	2.9	2.5
Government services	13.4	7.9	7.4	2.8	0.5	1.6
Other services	10.4	5.3	5.1	5.2	4.5	4.9
Total Services	**100.0**	**7.9**	**8.2**	**-0.2**	**1.6**	**0.7**

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2008				2009	
	1Q	2Q	3Q	4Q	1Q	2Q
	Index					
MIER Consumer Sentiment Index	115.5	70.6	88.9	71.4	78.9	105.8
MIER Retail Trade Index	106.1	94.5	116.5	52.7	52.3	76.3
MIER Tourism Market Index	120.3	107.5	109.2	94.0	78.1	75.8
	Annual change (%)					
Tourist arrivals	1.2	3.9	8.2	7.5	2.2	4.7
Total passenger traffic at all airports	13.2	6.7	2.7	2.1	-4.6	5.2
Total consumption credit outstanding	7.6	9.6	9.7	8.9	8.5	6.8
Loans outstanding to the wholesale & retail trade, hotels & restaurants	10.1	15.4	14.0	9.0	3.5	-1.8
Imports of consumption goods	5.6	21.3	16.2	4.5	-4.3	-8.3
Total sales of motor vehicles	24.6	27.1	10.5	-8.3	-9.2	-11.5
Container cargo handled (Port Klang and PTP)	9.7	9.4	16.4	-3.9	-10.6	-6.4

Source: Various sources

Performance in the Manufacturing Sector

	2008		2009		
	2Q	1H	1Q	2Q	1H
	Annual Change (%)				
Value Added (at constant 2000 prices)	**5.6**	**6.3**	**-17.9**	**-14.5**	**-16.2**
Overall Production[1]	**4.2**	**6.4**	**-18.8**	**-14.9**	**-16.9**
Export-oriented industries	**2.5**	**4.9**	**-20.4**	**-16.4**	**-18.4**
Electronics and electrical cluster	**4.6**	**5.7**	**-35.4**	**-30.8**	**-33.1**
Of which:					
Electronics	4.6	7.1	-36.3	-34.6	-35.5
Electrical	4.5	2.3	-33.2	-21.7	-27.3
Primary-related industry cluster	**1.2**	**4.4**	**-10.8**	**-6.7**	**-8.8**
Of which:					
Chemicals and chemical products	-2.3	0.8	-17.6	-3.9	-10.8
Petroleum products	4.0	10.4	2.9	-4.6	-0.7
Rubber products	7.8	7.3	-21.2	-7.4	-14.3
Off-estate processing	18.0	20.0	-8.0	-4.5	-6.2
Domestic-oriented industries	**10.8**	**12.4**	**-12.4**	**-9.7**	**-11.0**
Construction-related cluster	**10.0**	**10.8**	**-21.3**	**-16.7**	**-18.9**
Of which:					
Construction-related materials	6.8	11.1	-29.3	-23.7	-26.5
Fabricated metal products	15.3	10.4	-7.6	-6.3	-6.9
Consumer-related cluster	**11.5**	**13.7**	**-5.4**	**-3.8**	**-4.6**
Of which:					
Transport equipment	21.9	22.4	-10.7	-14.3	-12.6
Food, beverage & tobacco products	11.1	12.1	-4.8	-0.2	-2.6

[1] Industrial Production Index (2005=100)

Source: Department of Statistics, Malaysia

Slower contraction in the manufacturing sector

The **manufacturing sector** registered a slower pace of decline of 14.5% in the second quarter (1Q 09: -17.9%), reflecting an increase in production for inventory restocking and final domestic consumption.

Contraction in output of export-oriented industries was smaller during the quarter (-16.4%; 1Q 09: -20.4%) led by better performance in both E&E and primary-related clusters. In the **E&E cluster**, the decline in output moderated due to inventory replenishment following the large cut in production and inventory drawdown at the end of 2008 and early 2009. Producers, in particular, of electronic parts and components, also benefited from PR China's economic stimulus package which helped to provide some support for demand for final electronic products.

Meanwhile, production of the **primary-related cluster** declined at a slower rate during the quarter (-6.7%; 1Q 09: -10.8%). This was seen across most major segments. In particular, improvements in the E&E cluster provided support to the chemical products industry, in particular, the plastic products segment. In the rubber products industry, the better performance was due to increased demand for rubber gloves. Nonetheless, weakness was seen in the petroleum products industry, as demand from the region worsened during the quarter.

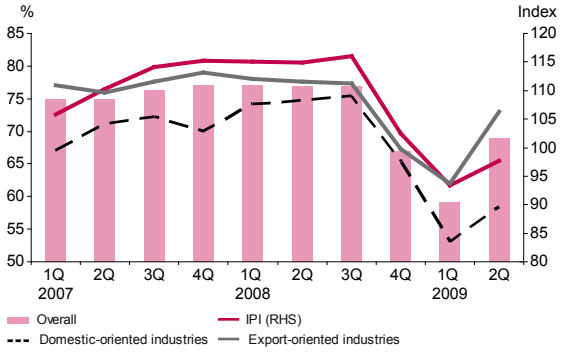
The **domestic-oriented industries** registered a smaller contraction in the second quarter (-9.7%; 1Q 09: -12.4%) reflecting improvements in both the consumer-related and construction-related clusters. In the consumer-related cluster, production of food, beverage and tobacco products improved, offsetting the further contraction in output of transport equipment due to weak sales of new motor vehicles. The better performance of the construction-related cluster was due mainly to higher activity in the construction sector.

Reflecting the improvement in production, the overall capacity utilisation rate in the manufacturing sector increased to 69% in the second quarter (1Q 09: 59%). Export- and domestic-oriented industries were operating at 73% and 58% of total capacity respectively (1Q 09: 61% and 53% respectively).

Improvement in the commodity sector

The **agriculture sector** turned around to record a positive growth of 0.3% during the quarter (1Q 09: -4.3%) supported by continued strong production of food crops, as well as a smaller decline in the output of industrial crops such as palm oil, rubber and forestry. Meanwhile, the **mining sector** contracted at a moderate pace of 2.6% (1Q: 09: -5.2%), following a smaller decline in output of natural gas and crude oil.

Capacity utilisation rate in the manufacturing sector*



* Beginning 2009, the capacity utilisation rate in the manufacturing sector has been rebased from value-add in year 2004 to value-add in year 2006

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Performance of the Agriculture Sector

	2008		2009		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Value Added (at constant 2000 prices)	**6.3**	**6.4**	**-4.3**	**0.3**	**-2.0**
Industrial Crops	**7.0**	**7.9**	**-13.9**	**-5.1**	**-9.4**
Food Crops	**5.3**	**4.4**	**9.2**	**7.9**	**8.5**
Production					
Of which:					
Crude palm oil	21.8	22.8	-3.9	-3.0	-3.4
Rubber	-8.1	-4.9	-39.3	-21.7	-31.7
Fish	1.9	1.2	13.2	14.4	13.8
Livestock	4.1	2.4	-4.6	-0.4	-2.5

Source: Malaysian Palm Oil Board (MPOB)
Malaysian Rubber Board (MRB)
Fisheries Department Malaysia
Department of Veterinary Services, Malaysia
Department of Statistics, Malaysia

Performance of the Mining Sector

	2008		2009		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Value Added (at constant 2000 prices)	**-0.5**	**1.6**	**-5.2**	**-2.6**	**-3.9**
Production					
Of which:					
Crude oil and condensates	3.6	5.3	-5.7	-3.1	-4.4
Natural gas (net)	-6.8	-4.0	-4.7	-2.1	-3.5

Source: PETRONAS
Department of Statistics, Malaysia

Higher growth in construction

The **construction** sector registered a higher growth of 2.8% (1Q 09: 1.1%). The better performance was contributed by higher take-off of projects related to the stimulus packages, in particular construction of non-residential buildings, such as schools, colleges and hospitals. The civil engineering sub-sector also improved amidst increased activity of infrastructure projects such as construction of rail track and road. The growth of the sector was further supported by activity in the residential segment, in particular construction of luxury condominiums in Klang Valley and Penang.

Construction Indicators

	2008		2009		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
New sales and advertising permits	10.9	2.0	-25.5	-9.1	-16.8
Housing approvals	28.5	19.0	-30.2	-17.4	-23.7
Production[1] of construction-related materials	10.0	10.8	-21.3	-16.7	-18.9
Loans approved for construction	-12.4	20.5	-48.2	-26.3	-38.3
Imports of construction materials and mineral products	10.6	7.2	-17.1	-7.6[2]	-13.2[3]

[1] Industrial Production Index (2005=100)
[2] Apr-May 2009
[3] Jan-May 2009

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

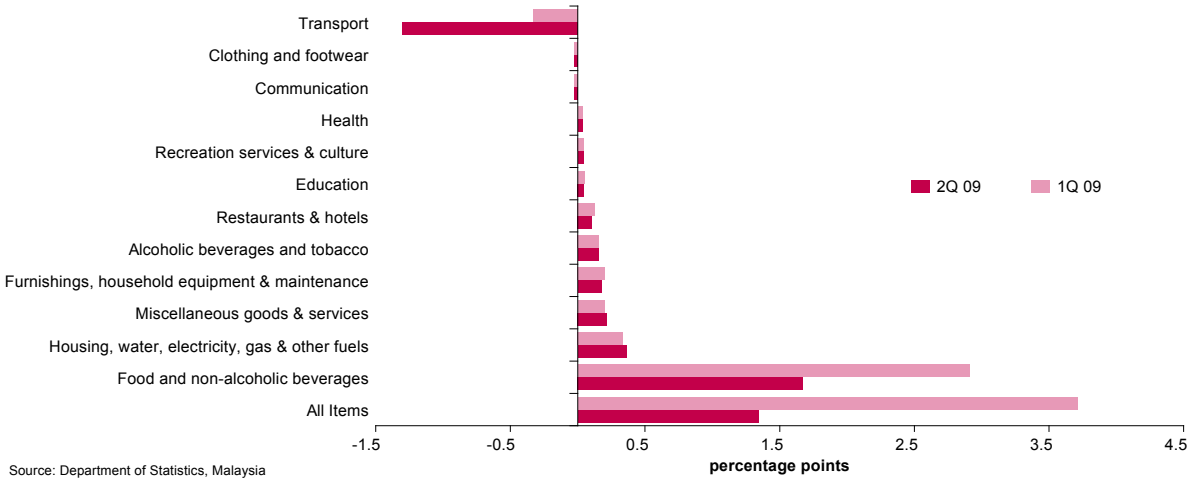
Inflation continued to moderate

The headline inflation rate, as measured by the change in the Consumer Price Index (CPI), was 1.3% in the second quarter of 2009 (1Q 09: 3.7%). As with the previous quarter, the moderation in inflation was largely explained by lower inflation in the *food and non-alcoholic beverages* and *transport* categories. Inflation in the *food and non-alcoholic beverages* category moderated to 5.3% (1Q 09: 9.2%). The slower increase in food prices was registered across all food sub-components, in part reflecting the easing pressure on food prices. Meanwhile, prices in the transport category fell by 8.2% compared to their levels a year ago (1Q 09: -2.1%), reflecting mainly the high base effect of the sharp rise in the price level in June 2008 arising from fuel price adjustments. This was experienced mostly in June, when prices in the transport category declined by 18% (19.6% in June 2008), which subsequently caused headline inflation to decline by 1.4% (April 09: 3%; May 09: 2.4%).

Producer prices, as measured by the Producer Price Index (PPI), declined by 11.0% in the second quarter (1Q 09: -6.6%). Prices in the commodity-related components of the PPI fell by 28.3% compared to its level a year ago (1Q 09: -19.4%). The decline in producer prices was also broad-based, with seven out of 10 PPI categories registering lower prices compared to their levels a year ago. On average, prices in the non commodity-related components of the PPI declined by 2.1% (1Q 09: -0.7%).

In terms of composition, both the local and imported components of the PPI registered declines. Prices in the local component of the PPI declined by 14.5% (1Q 09: -8.5%), while prices in the imported component of the PPI declined by 3.1% (1Q 09: -2.5%)

Contribution to Consumer Price Inflation



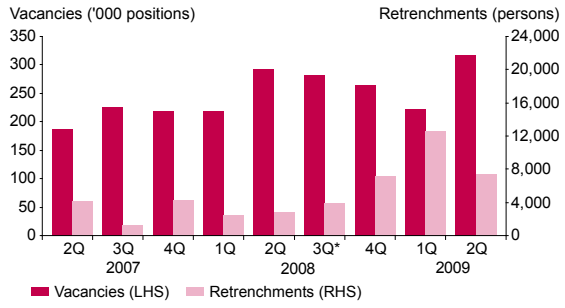
Source: Department of Statistics, Malaysia

Stabilisation in labour market conditions

Conditions in the labour market stabilised in the second quarter as total retrenchments were substantially lower, while there were more job openings compared with the previous quarter. Total retrenchments declined to 7,470 persons (1Q 09: 12,590 persons), reflecting mainly fewer retrenchments in the manufacturing and services sectors. The bulk of the retrenchments continued to be in the manufacturing sector (71% of total retrenchments), in particular the E&E industry (35% of total retrenchments),

Meanwhile, total vacancies in the Electronic Labour Exchange improved, rising to 317,996 positions (1Q 09: 221,876 positions) with higher openings in all sectors except agriculture. In addition, the real wage per worker in the manufacturing sector recorded a smaller contraction (0.8%; 1Q 09: -5.2%), as more companies which had instituted temporary layoffs and shorter work-week earlier have started to resume normal working hours.

Labour Market Conditions

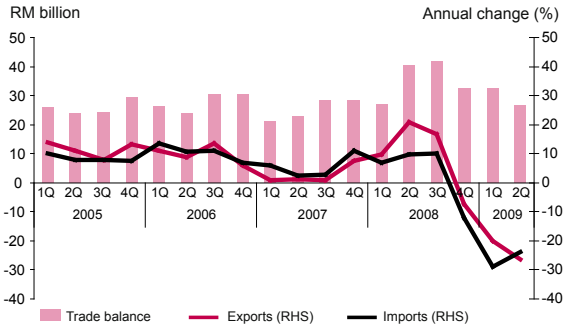


* Reflects adjusted retrenchments for 3Q 2008
Source: Ministry of Human Resources

Continued contraction in exports while decline in imports moderated

Gross exports contracted by 26.3% in the second quarter. The contraction reflected the significant decline in demand from major trading partners and lower commodities prices, and was exacerbated by the high base effect due to strong export performance in the second quarter of 2008. Improved manufacturing output and the restocking of inputs for production led to a smaller import contraction of 23.7%. The trade surplus narrowed, but was still large, amounting to RM26.5 billion (1Q 09: RM32.7 billion).

External Trade Performance



Source: Department of Statistics, Malaysia

Commodity exports contracted further in the second quarter on account of lower prices and demand for commodities, particularly minerals. This weakness was exaggerated by the high base effect due to strong commodity prices in the second quarter of 2008. Meanwhile, the contraction in electronics exports was due to lower demand from the major markets and the downward pressure on prices. Nevertheless, electrical exports declined at a more moderate pace due mainly to a smaller contraction in exports of consumer electrical products. Further contraction in non-E&E manufactured exports reflected the impact of lower commodity prices and slower external demand. While exports of chemicals and chemical products, wood products and petroleum products contributed to the decline in resource-based products, contraction in exports of non-resource based products was due mainly to lower exports of manufactures of metal, optical and scientific equipment as well as iron and steel products.

Trade Account

	2008[1]		2009[1]		
	2Q	1H	1Q	2Q	1H
	Annual change (%)				
Gross Exports	**20.8**	**15.5**	**-20.0**	**-26.3**	**-23.4**
Manufactured	12.3	5.3	-18.0	-20.5	-19.3
E&E	*10.7*	*0.5*	*-19.0*	*-23.0*	*-21.2*
Non-E&E	*14.4*	*11.6*	*-16.9*	*-17.3*	*-17.1*
Commodites	54.3	54.8	-23.8	-40.6	-32.7
Agriculture	*58.8*	*59.9*	*-28.1*	*-29.6*	*-28.9*
Minerals	*51.6*	*51.9*	*-21.1*	*-47.5*	*-35.0*
Gross Imports	**9.9**	**8.4**	**-29.0**	**-23.7**	**-26.3**
Capital goods	11.3	9.6	-7.8	-17.6	-13.0
Intermediate goods	10.4	9.7	-34.9	-27.1	-30.9
Consumption goods	21.3	13.4	-4.3	-8.3	-6.4
Trade balance (RM billion)	**40.6**	**67.5**	**32.7**	**26.5**	**59.2**

[1] Malaysia's trade classification has been revised in April 2008 to reflect the revisions of the international trade codes i.e. Harmonised System (HS), ASEAN Harmonised Tariff Nomenclature (AHTN) and Standard International Trade Classification (SITC)

Source: MATRADE and Department of Statistics, Malaysia

Malaysia: Direction of Exports

	2008		2009			2008		2009		
	2Q	1H	1Q	2Q	1H	2Q	1H	1Q	2Q	1H
	Annual change (%)					Share of total exports (%)				
United States	**0.0**	**-8.9**	**-31.0**	**-35.1**	**-33.2**	**13.0**	**13.0**	**11.1**	**11.5**	**11.3**
European Union (EU)[1]	**-3.5**	**-0.7**	**-28.0**	**-26.4**	**-27.2**	**10.7**	**11.3**	**10.7**	**10.7**	**10.7**
Selected ASEAN countries[2]	**23.9**	**18.9**	**-26.8**	**-24.1**	**-25.4**	**25.5**	**26.0**	**24.4**	**26.2**	**25.4**
North East Asia	**35.7**	**19.7**	**-5.9**	**-22.1**	**-15.1**	**21.8**	**20.5**	**22.3**	**23.0**	**22.7**
People's Republic of China	*55.3*	*34.4*	*-1.8*	*-16.0*	*-10.2*	*10.4*	*9.4*	*10.2*	*11.8*	*11.0*
Hong Kong SAR	*34.9*	*11.1*	*3.5*	*-23.8*	*-13.4*	*5.1*	*4.4*	*4.7*	*5.2*	*5.0*
Chinese Taipei	*6.3*	*1.2*	*-18.4*	*-29.6*	*-24.6*	*2.6*	*2.5*	*2.4*	*2.5*	*2.4*
Korea	*17.9*	*13.4*	*-14.2*	*-31.2*	*-22.4*	*3.8*	*4.2*	*5.0*	*3.5*	*4.2*
West Asia	**38.5**	**32.6**	**-12.7**	**-14.7**	**-13.9**	**3.8**	**3.6**	**3.7**	**4.4**	**4.0**
India	**39.8**	**32.3**	**-14.9**	**-38.9**	**-28.2**	**3.7**	**3.6**	**3.7**	**3.1**	**3.4**
Total exports	**20.8**	**15.5**	**-20.0**	**-26.3**	**-23.4**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1]Refers to European Union (EU) 27 from 2007 onwards
[2]Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam

Source: Department of Statistics, Malaysia

Gross imports declined at a slower pace in the second quarter due mainly to the smaller contraction in intermediate imports as firms increased production and replenished stocks. Meanwhile, both consumption and capital imports declined further as households remained cautious on spending on imported goods, while businesses reduced capital spending amidst excess capacity and uncertainty in the outlook for demand.

Higher inflows of foreign direct investment

On a cash basis, gross inflows of **foreign direct investment (FDI)**[5] was higher at RM10.4 billion in the second quarter (1Q 09: RM6.8 billion), reflecting mainly inflows of equity capital. Net FDI amounted to RM6.7 billion (1Q 09: RM2.1 billion), directed mainly into the oil and gas and manufacturing sectors. FDI in the oil and gas sector reflected mainly investment in the petroleum and natural gas production. Meanwhile, FDI in the manufacturing sector was channelled mainly into the manufacturing of petroleum products and solar cells.

Overseas investment by Malaysian companies registered a net outflow of RM0.9 billion (1Q 09: -RM2.8 billion). Investments were concentrated in the services sector, mainly in finance, insurance, real estate and business services and communications.

Meanwhile, net outflows of **portfolio investment** amounted to RM15 billion (1Q 09: -RM9.6 billion), due largely to the maturity of the Federal Government USD1.5 billion Global Bond (1999). Excluding this, net outflows in equity and debt securities were largely unchanged.

External debt declined

As at end-June 2009, Malaysia's total external debt amounted to RM233.3 billion or USD65.5 billion (end-March 2009: RM247.7 billion or USD67.1 billion), equivalent to 33.6% of GNI. The **medium-and long-term external debt** declined to RM147 billion, reflecting mainly net repayment by the public sector and appreciation of the ringgit against the USD during the quarter. The Federal Government and the NFPEs recorded higher gross repayments following the maturity of several large borrowings and scheduled principal repayments of loans. Meanwhile, the private sector recorded a marginal net drawdown of RM0.2 billion.

The total **short-term external debt** declined to RM86.3 billion or USD24.2 billion as inter-bank borrowing activities moderated. As at end-June 2009, the short-term debt accounted for 37% of total external debt and was 26.8% of the net international reserves.

External Debt Outstanding

	2008	2009	
	end-June	end-Mar	end-June[p]
	RM billion		
Medium- and long-term debt	139.2	159.5	147.0
Public sector	73.7	85.1	72.9
Private sector	65.5	74.4	74.1
Short-term debt[1]	96.1	88.1	86.3
Total external debt	235.3	247.7	233.3
USD billion equivalent	71.3	67.1	65.5

[1] Excludes currency and deposits held by non-residents with resident banking institutions
[p] Preliminary

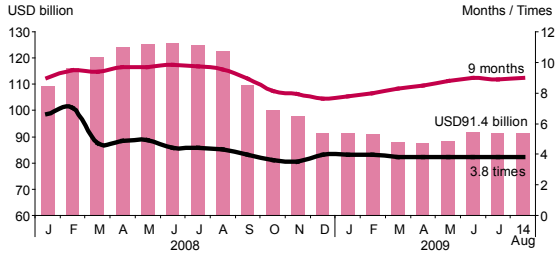
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

[5] The statistics for FDI on a cash basis does not include retained earnings and investment in the form of imported machinery and equipment

International reserves

The international reserves of Bank Negara Malaysia amounted to RM322.9 billion (equivalent to USD91.5 billion) as at 30 June 2009. The reserves level as at 30 June 2009 has taken into account the quarterly adjustment for the foreign exchange revaluation gain, following the strengthening of some of the major currencies against the ringgit during the quarter. The reserves position is sufficient to finance 8.5 months of retained imports and is 3.8 times the short-term external debt. The reserves amounted to RM322.2 billion (equivalent to USD91.4 billion) as at 14 August 2009 and are sufficient to finance 9 months of retained imports and are 3.8 times the short-term external debt.

Net International Reserves (as at end period)



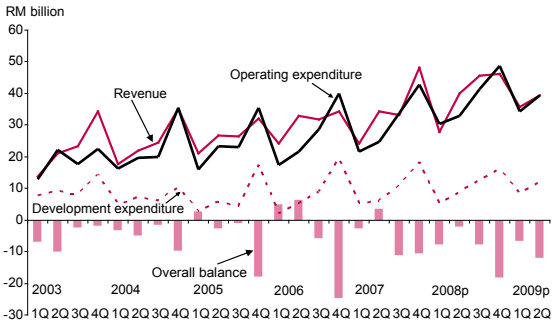
Note: With effect from end-March 2008, the short-term external debt refers to the external debt under the new definition, with offshore entities in Labuan IBFC being treated as residents

Source: Bank Negara Malaysia

Higher total expenditure as fiscal stimulus gathers pace

In the second quarter, the Federal Government's total expenditure was larger, amounting to RM51.5 billion (1Q 09: RM42.6 billion). This reflected the Government's efforts in accelerating the spending allocated under the fiscal stimulus. In particular, larger development expenditure was channeled to the education, trade and industry, as well as agriculture and rural development sectors. Higher operating expenditure was recorded mainly for the payment of grants and transfers to statutory bodies and supplies and services. As revenue increased moderately, the Federal Government's financial position recorded a fiscal deficit of RM12.1 billion (7.5% of GDP) during the quarter. The fiscal deficit was financed from domestic borrowings, including through the issuance of Sukuk Simpanan Rakyat of RM5 billion. As at the end of June 2009, total outstanding debt of the Federal Government amounted to RM335.7 billion or 48.4% of the estimated 2009 GDP.

Federal Government Finance



[p] Preliminary

Source: Ministry of Finance

Federal Government Finance[p]

	2008		2009		
	2Q	1H	1Q	2Q	1H
	RM billion				
Revenue	39.9	67.8	35.9	39.4	75.2
% growth	16.6	16.1	28.3	-1.2	10.9
Operating expenditure	32.9	63.3	34.4	39.4	73.7
% growth	32.6	36.2	12.9	19.8	16.5
Current account	**7.0**	**4.5**	**1.5**	**0.0**	**1.5**
% of GDP	***3.7***	***1.2***	***1.0***	***0.0***	***0.5***
Gross development expenditure	9.0	14.3	8.2	12.1	20.3
% growth	43.8	23.5	55.4	34.9	42.5
Overall balance	**-1.9**	**-9.6**	**-6.7**	**-12.1**	**-18.7**
% of GDP	***-1.0***	***-2.6***	***-4.3***	***-7.5***	***-5.9***
Memo item:					
Total gross expenditure	41.8	77.6	42.6	51.5	94.1
% growth	34.8	33.7	19.2	23.0	21.3
Total Federal Government debt (as at end-period)	285.1	285.1	317.1	335.7	335.7
% of GDP	38.6	38.6	45.7	48.4	48.4
Domestic debt	266.8	266.8	297.0	321.5	321.5
% of GDP	36.1	36.1	42.8	46.3	46.3
External debt	18.4	18.4	20.2	14.3	14.3
% of GDP	2.5	2.5	2.9	2.1	2.1

[p] Preliminary

Source: Ministry of Finance

MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates were stable

The OPR was left unchanged at 2.00% in the second quarter, in line with the assessment that the accumulated monetary policy easing would provide sufficient support to economic activity over the medium term.

Reflecting the unchanged OPR, the average overnight interbank rate was stable, moving within a narrow range of 1.99% to 2.01% during the period 1 April – 20 August 2009. Similarly, interbank rates of other maturities were also stable.

In terms of retail lending rates, the average base lending rate (BLR) of commercial banks (CBs) was unchanged at 5.53%. The average lending rate (ALR) on loans outstanding, however, continued to decrease in the second quarter to a low of 5.02% in May 2009, before stabilising at 5.04% in June 2009. The continued downward trend in the ALR on loans outstanding reflected new loans being contracted at lower rates after the reduction in the OPR, while existing loans that were more expensive were repaid.

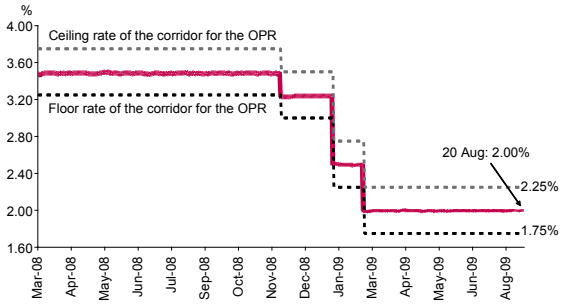
In terms of retail deposit rates, the average quoted fixed deposit (FD) rates of CBs were relatively unchanged. As at end-June, the average quoted FD rates for tenures between 1 to 12 months ranged between 2.02% and 2.52% respectively. With the negative inflation rate recorded in June 2009, real FD rates have turned positive across all tenures.

Interest Rates

	2008	2009	
	2Q	1Q	2Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.50	3.25	2.00
Interbank rates			
Overnight	3.49	2.00	1.99
1-month	3.56	2.06	2.09
Base lending rates (BLR)			
Commercial banks	6.72	5.53	5.53
Average lending rates (ALR)			
Commercial banks	6.08	5.16	5.04
Fixed deposit rates			
Commercial banks			
3-month	3.14	2.04	2.05
12-month	3.70	2.52	2.52

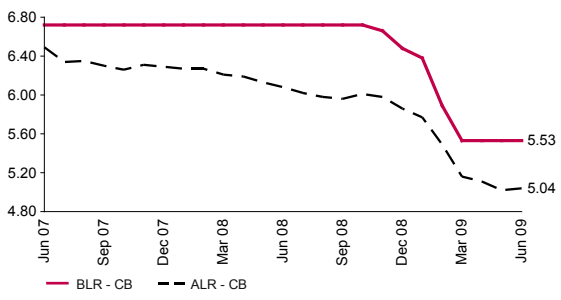
Source: Bank Negara Malaysia

Daily Weighted Average Overnight Interbank Rate



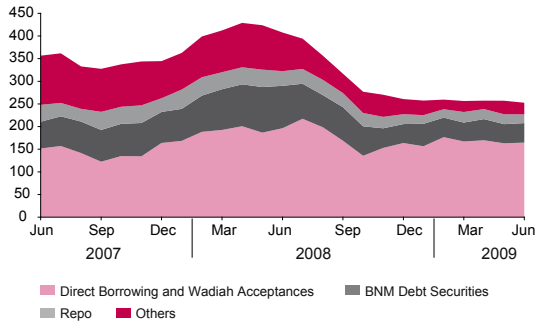
Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (Average for the period)



Source: Bank Negara Malaysia

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



Source: Bank Negara Malaysia

M3 rose at a more moderate pace

The monetary aggregates continued to register a modest annual increase in the second quarter, reflecting the moderation in economic activity. M1, or narrow money, increased by RM5.9 billion during the quarter. On an annual basis, M1 expanded at a rate of 5.5% as at end-June (end-March 2009: 3.5%).

M3, or broad money, expanded at a slower annual growth rate of 5.8% at end-June (end-March 2009: 7.3%). On a quarter-on-quarter basis, M3 increased by RM1.6 billion. The main impetus for M3 growth came from credit expansion. This included higher financing by the banking system to the Government and the private sector. These expansionary factors, however, were partially offset by net foreign outflows. Other influences also registered a quarterly decline of RM7.4 billion, reflecting mainly the capital raising exercise by banks in April.

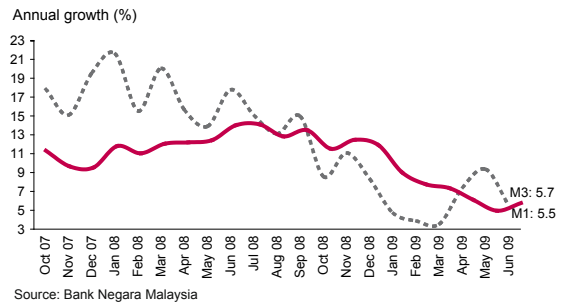
Determinants of Broad Money, M3

	Change during the period			
	2008		2009	
	2Q	Year	1Q	2Q
	RM billion			
M3	**14.7**	**99.1**	**17.4**	**1.1**
Net claims on Govt	-5.1	33.6	5.7	5.8
Claims on private sector	26.1	94.2	5.3	8.7
Loans	*23.5*	*76.9*	*4.5*	*7.9*
Securities	*2.7*	*17.3*	*0.8*	*0.8*
Net foreign assets[1]	2.9	-46.1	3.7	-5.7
BNM	*15.9*	*-12.4*	*-4.3*	*-1.7*
Banking System	*-13.0*	*-33.7*	*8.1*	*-4.0*
Other influences	-9.3	17.4	2.7	-7.7

[1]Pre-revaluation

Source: Bank Negara Malaysia

Monetary Aggregates

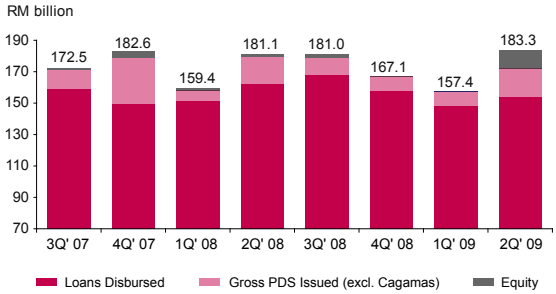


Source: Bank Negara Malaysia

Private sector financing activity improved in the second quarter

Private sector financing activity improved in the second quarter compared to the first quarter. The more accommodative monetary conditions since end-2008 have helped to sustain financing activity in the second quarter. Lending rates were at historic lows and liquidity was ample. Banks continued to play an active intermediation role given their healthy balance sheet positions. Combined with extensive policy measures targeted at improving access to financing for all segments of the economy, total gross financing raised by the private sector through the banking system and the capital market was higher at RM183.4 billion during the quarter (1Q 09: RM157.4 billion). On a net basis, banking system loans and PDS outstanding increased by 8% per annum as at end-June (end-March 2009: 10.7%).

Gross Private Sector Financing through Banking System and Capital Market



Source: Bank Negara Malaysia

Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2008	2Q 08	1Q 09	2Q 09	2008	1Q 09	2Q 09
Gross total financing	**688.6**	**181.1**	**157.4**	**183.3**	**6.1**	**-1.3**	**1.2**
Loans disbursed*	640.3	162.5	148.2	153.8	11.3	-2.2	-5.3
Gross PDS (excl. Cagamas)	42.9	16.9	9.0	18.0	-35.5	39.1	6.6
Equity	5.5	1.7	0.1	11.5	-23.1	-89.3	578.2
Net total financing (A)+(B)	**110.1**	**40.8**	**7.8**	**20.3**	**12.7**	**10.7**	**8.0**
Banking system	87.2	26.2	8.7	7.4	12.4	10.9	8.0
Loans outstanding (A)	*82.3*	*24.3*	*7.3*	*8.9*	*12.8*	*10.9*	*8.3*
Holding of PDS	*4.9*	*1.9*	*1.4*	*-1.5*	*8.6*	*11.2*	*5.0*
PDS outstanding (B)	27.8	16.5	0.5	11.4	12.4	9.9	7.2
Memorandum item							
Gross PDS (incl. Cagamas)	49.7	19.7	9.3	19.3	-28.4	-7.4	-1.9

*Banking system loans include loans sold to Cagamas

Loan Indicators

	During the period (RM billion)				Annual growth (%)			
	2008	2Q 08	1Q 09	2Q 09	2008	2Q 08	1Q 09	2Q 09
Total								
Loan applications	475.5	127.5	108.2	138.5	3.9	6.7	-2.5	8.6
Loan approvals	291.8	80.4	58.9	77.0	-2.3	-3.4	-17.8	-4.2
Loan disbursements	640.3	162.5	148.2	153.8	11.3	18.8	-2.2	-5.3
Loan repayments	568.1	139.8	138.0	148.2	9.5	13.7	-0.7	6.0
Change in loan outstanding*	82.3	24.3	7.3	8.9	12.8	11.7	10.9	8.3
Of which:								
Business enterprises**								
Loan applications	244.3	64.2	52.0	64.3	-7.0	-10.9	-6.1	0.1
Loan approvals	147.9	40.9	26.1	34.7	-18.5	-24.0	-31.5	-15.1
Loan disbursements	455.7	115.6	100.8	102.7	12.3	19.9	-5.2	-11.2
Loan repayments	403.1	99.3	93.5	102.4	8.9	13.6	-4.1	3.1
Change in loan outstanding*	34.4	14.0	-1.2	-1.0	13.2	14.3	9.5	3.7
SMEs**								
Loan applications	100.3	27.8	20.2	26.2	1.2	16.5	-16.1	-6.0
Loan approvals	54.0	15.9	8.9	11.3	-2.0	11.0	-30.6	-29.1
Loan disbursements	163.1	41.1	34.7	34.6	15.1	17.5	-11.7	-15.9
Loan repayments	145.6	35.7	32.3	32.0	14.8	12.0	-9.4	-10.3
Change in loan outstanding*	10.6	3.6	-6.8	0.5	9.3	11.3	-0.4	-2.9
Large corporations								
Loan applications	144.0	36.4	31.8	38.1	-11.9	-24.5	1.7	4.7
Loan approvals	93.9	25.0	17.2	23.5	-25.7	-36.7	-32.0	-6.3
Loan disbursements	292.6	74.5	66.2	68.1	10.8	21.2	-1.5	-8.6
Loan repayments	257.7	63.6	61.2	70.4	5.8	14.5	-1.0	10.6
Change in loan outstanding*	23.8	10.5	5.6	-1.5	16.2	16.6	17.3	8.7
Households								
Loan applications	231.2	63.3	56.1	74.2	18.6	33.4	0.9	17.3
Loan approvals	143.9	39.4	32.8	42.3	22.9	34.5	-2.2	7.2
Loan disbursements	184.6	46.8	47.3	51.1	8.9	16.3	4.9	9.1
Loan repayments	164.9	40.5	44.4	45.8	11.1	13.9	7.2	13.1
Change in loan outstanding*	34.8	9.1	5.8	9.4	9.7	9.3	9.3	9.1

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

Source: Bank Negara Malaysia

Financing extended by the banking system was higher. Loan disbursements rose in the second quarter supported mainly by higher drawdown of loans by the household sector for the purchase of residential property and cars, as well as for credit card spending and personal loans. Household loans outstanding expanded by RM9.4 billion in the second quarter to increase at an annual rate of 9.1% as at end-June (end-March 2009: 9.3%). Loans disbursed to the business sector were sustained across all sectors. Nevertheless, business loans outstanding declined during the quarter following substantially higher business loan repayments, largely reflecting the settlement of loans by a company in the telecommunication sector. On an annual basis, business loans outstanding expanded at a slower rate of 3.7% as at end-June (end-March 2009: 9.5%).

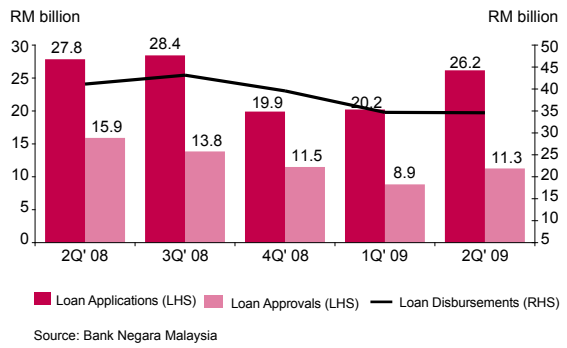
Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	2008	2Q 08	1Q 09	2Q 09		
	(RM billion)				(%)	
Business enterprises	**455.7**	**115.6**	**100.8**	**102.7**	**66.8**	**45.1**
Large corporations	*292.6*	*74.5*	*66.2*	*68.1*	*44.3*	*29.1*
*SMEs**	*163.1*	*41.1*	*34.7*	*34.6*	*22.5*	*15.9*
Selected sectors						
Agriculture, hunting, forestry and fishing	16.1	4.3	4.2	4.4	2.9	2.3
Mining and quarrying	2.3	0.8	0.7	0.7	0.4	0.3
Manufacturing	151.6	39.9	30.2	30.9	20.1	10.1
Construction	34.8	8.8	8.7	9.1	5.9	4.8
Real estate	16.5	3.6	5.2	4.8	3.1	3.9
Electricity, gas and water supply	2.6	0.5	1.0	0.9	0.6	0.7
Wholesale, retail, restaurants and hotels	114.0	29.7	24.5	25.5	16.6	8.0
Transport, storage and communication	17.8	4.0	5.6	5.8	3.8	3.1
Finance, insurance and business services	57.7	15.0	11.4	11.2	7.3	6.7
Households	**184.6**	**46.8**	**47.3**	**51.1**	**33.2**	**54.9**
Purchase of residential properties	47.1	12.0	11.7	12.7	8.3	25.7
Consumption credit	117.2	30.1	29.7	31.4	20.4	21.4
Of which:						
Credit cards	*59.1*	*14.4*	*16.2*	*16.6*	*10.8*	*3.3*
Purchase of passenger cars	*33.8*	*9.6*	*7.6*	*7.9*	*5.2*	*13.6*
Others	20.4	4.8	6.0	7.0	4.6	7.8
Total	**640.3**	**162.5**	**148.2**	**153.8**	**100.0**	**100.0**

*Include loans to individual businesses.

Source: Bank Negara Malaysia

Bank Lending to SMEs



Source: Bank Negara Malaysia

There is some evidence that the low interest rate environment has helped to stimulate demand for financing. In the household sector, the competitive lending rates for property loans have spurred demand for loans to purchase or refinance residential and non-residential properties. Demand for new financing from businesses has also improved in the second quarter. The increase was observed across all major sectors, namely *finance, insurance and business services; manufacturing; wholesale and retail trade* as well as *construction* sectors and was mainly to finance working capital requirements. The improvement in demand for new financing from both the business and household sectors suggests that going forward financing activity is likely to increase, in line with improvements in economic conditions.

Active fund raising activity in the capital market

Net funds raised in the second quarter increased significantly to RM45.7 billion due to both the public and private sectors. Higher funds were raised by the public sector, reflecting the Government's expansionary fiscal policy. Funds were raised through issuances of a 3-year and a 5.5-year Government Investment Issues (GII), a 10.5-year Malaysian Government Securities (MGS), and the re-opening of the 3-year and 5-year MGS. Additionally, funds were also raised via the issuance of Sukuk Simpanan Rakyat, providing another savings instruments for the Malaysian public. After adjusting for redemptions, net funds raised by the public sector totalled RM24.7 billion.

Fund raising activity by the private sector picked up in both the bond and equity markets. During the quarter, gross funds amounting to RM19.3 billion were raised in the private debt securities

(PDS) market. A significant portion of the amount was raised by a newly-established state-owned sovereign wealth fund. Other large issuers included a special-purpose vehicle (SPV) for a government-linked entity, a diversified holding company as well as several financial institutions. There were also issuances by two non-resident firms during the period. The bulk of funds raised were mainly geared towards working capital and general business activities (87%).

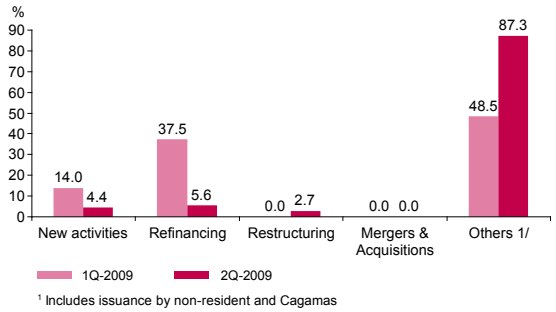
Funds raised in the equity market recorded a marked increase following two large rights issues by a telecommunications and a finance corporation totaling RM11.3 billion in April. The large rights issues were for the purpose of debt repayment and working capital financing. In addition, two new listings were recorded on Bursa Malaysia in the month of June as market sentiments continued to improve.

Funds Raised in the Capital Market

	2008		2009		
	2Q	1H	1Q	2Q	1H
	RM billion				
By Public Sector	**11.0**	**21.6**	**10.8**	**24.7**	**35.5**
Government securities, *net*	10.5	21.2	8.8	19.7	28.5
Malaysian Government Securities	*7.0*	*21.3*	*20.5*	*12.7*	*33.2*
Government Investment Issues	*3.5*	*5.5*	*6.0*	*10.5*	*16.5*
Less: Redemptions	*0.0*	*5.7*	*17.7*	*3.5*	*21.2*
Khazanah Bonds, *net*	-1.0	-1.0	-	-	-
Savings Bonds, *net*	1.5	1.5	2.0	5.0	7.0
By Private Sector	**12.7**	**14.7**	**0.8**	**21.0**	**21.9**
Shares	1.7	3.1	0.1	11.5	11.7
Debt securities, *net*	11.0	11.7	0.7	9.5	10.2
Private Debt Securities	*19.7*	*29.7*	*9.3*	*19.3*	*28.6*
Less: Redemptions	*8.7*	*18.0*	*8.6*	*9.8*	*18.4*
Total	**23.7**	**36.4**	**11.6**	**45.7**	**57.4**

Source: Bank Negara Malaysia and Bursa Malaysia

Private Debt Securities Issued by Purpose (% of total)



[1] Includes issuance by non-resident and Cagamas

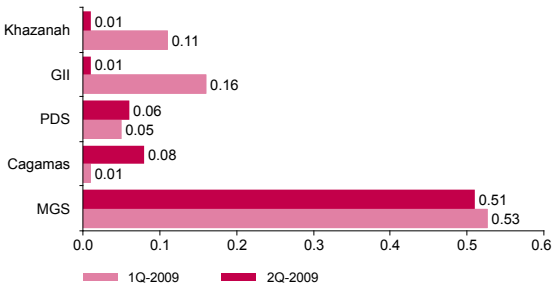
Source: Bank Negara Malaysia

Higher secondary trading in the bond market

Total trading in the secondary market rose to RM139.3 billion during the quarter (1Q 09: RM132 billion). Government securities (MGS and GII) accounted for 90% of the total trade. In addition, trading of PDS was higher to account for 10% of the total trade (1Q 09: 8.9%). In terms of liquidity, the MGS remains the most liquid paper, registering a liquidity ratio of 0.51.

Amid global concerns on fiscal positions, most investors continued to be cautious and focused primarily on short-term maturities. This led to the reduction of liquidity at the longer end of the MGS yield curve, thus exerting upward pressure on yields. Nevertheless, the rise in yields was mitigated slightly following the downtrend in headline inflation. MGS yields remained stable despite the downgrading of Malaysia's long-term local currency rating by Fitch Ratings on 9 June. By-end June 2009, the 5-year and 10-year MGS yields rose by 30 and 55 basis points respectively, while the 3-year MGS yields increased by 6 basis points, leading to a steepening of the yield curve.

Liquidity Ratio: Turnover / Outstanding



Source: Bank Negara Malaysia

Trend in MGS Yields



Source: Bank Negara Malaysia

Bursa Malaysia: Turnover of Corporate Securities

	2008				2009					
	2Q		1H		1Q		2Q		1H	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	35,927	83,429	89,889	201,473	26,360	39,927	107,707	99,768	134,067	139,695
Of which:										
Main Board	28,347	80,553	64,835	192,105	22,657	39,075	90,513	95,128	113,169	134,203
Of which										
Consumer Products	891	2,999	1,822	6,621	675	2,096	3,685	4,158	4,360	6,255
Industrial Products	3,341	6,271	6,750	13,273	3,798	2,401	19,188	13,950	22,986	16,351
Construction	3,326	6,427	8,048	20,248	2,508	2,936	7,252	8,709	9,760	11,645
Trading/Services	9,165	28,490	19,549	67,010	8,261	14,423	30,596	33,378	38,857	47,801
Finance	2,992	18,139	6,382	40,115	1,903	8,095	7,158	14,424	9,061	22,519
Properties	3,054	3,442	7,288	8,469	2,984	1,895	15,248	9,134	18,232	11,029
Plantations	1,528	9,922	3,790	23,788	1,085	4,332	2,176	6,843	3,261	11,175
Infrastructure	952	2,960	2,100	6,631	629	2,405	2,316	3,068	2,945	5,473
Second Board	2,403	1,825	6,502	4,863	1,647	498	7,480	2,754	9,127	3,252
Mesdaq	2,519	858	8,140	3,296	798	193	6,969	1,220	7,766	1,413

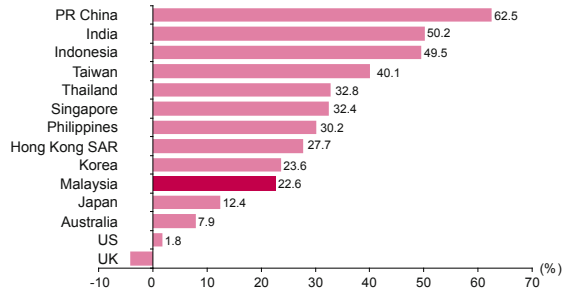
Source: Bursa Malaysia

KLCI increased in the second quarter

The KLCI ended the second quarter higher at 1,075.2 (1Q 09: 872.6), in line with other regional markets. The improvement in global credit market conditions and signs of economic recovery supported investors' optimism and increased risk appetite. In addition, domestic market sentiments were augmented by the announcement of the liberalisation of domestic services and financial sectors and the sustained rise in prices of crude palm oil. Market capitalisation rose to RM817.9 billion (1Q 09: RM662.1 billion) and trading activity increased to a daily average turnover of 1,682.9 million units (1Q 09: 454.5 million units).

On 25 August 2009, the KLCI closed higher at 1,171.1 (since end-2008: +33.6%), with market capitalisation increasing to RM889.4 billion (since end-2008: +34.0%).

Performance of Selected Global and Regional Markets (31 December 2008 - 30 June 2009)



Source: Bloomberg

Bursa Malaysia: Selected Market Indicators

	As at end				
	2008		2009		
	2Q	1H	1Q	2Q	1H
Price Indices					
Composite	1,186.6	1,186.6	872.6	1,075.2	1,075.2
FBM30[1]	7,656.7	7,656.7	5,598.5	6,910.0	6,910.0
FBMEMAS[2]	7,900.4	7,900.4	5,701.1	7,206.8	7,206.8
FTSE Second Board	5,535.6	5,535.6	3,872.4	4,754.5	4,754.5
FTSE Mesdaq	4,404.8	4,404.8	2,942.7	4,096.3	4,096.3
Average daily turnover					
Volume (million units)	570.3	570.3	454.5	1,682.9	1,682.9
Value (RM million)	1,324.3	1,324.3	688.4	1,558.9	1,558.9
Market capitalisation (RM billion)	901.2	901.2	662.1	817.9	817.9
No. of companies listed	986	986	969	960	960

[1] FBM30 stands for FTSE Bursa Malaysia 30 Index
[2] FBMEMAS stands for FTSE Bursa Malaysia EMAS Index

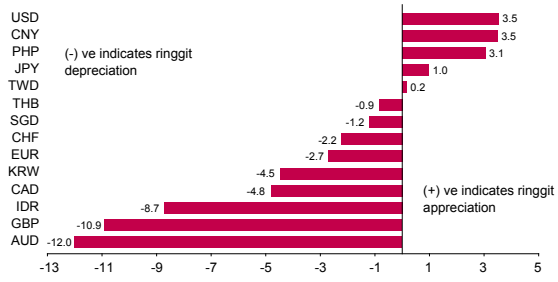
Source: Bursa Malaysia

The ringgit appreciated against the US dollar

The ringgit appreciated by 3.5% against the US dollar during the quarter, reflecting the broad trend of regional currencies. Movements in the ringgit were reflective of improving domestic and regional economic and financial conditions. The ringgit was supported by the rising appetite for emerging markets following signs of stronger growth outlook in the Asian region. The ringgit also appreciated against the yen (1.0%), but depreciated against the pound sterling (-10.9%) and euro (-2.7%). Amid signs of improvements in the UK economy, the pound sterling recovered significantly

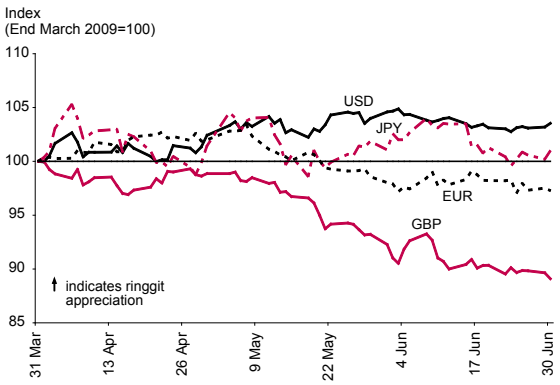
against most currencies including the ringgit to recover some of the marked depreciation experienced in 2008. Against regional currencies, the ringgit appreciated against the Chinese renminbi (3.5%) and Philippine peso (3.1%), but depreciated against other regional currencies between 0.9% and 8.7%. The ringgit depreciated significantly against the Indonesian rupiah and Korean won as these currencies recovered from significant weakness earlier during the year. The rupiah had appreciated against all regional currencies following positive sentiments arising from the favourable domestic economic conditions and recent successful electoral outcome in Indonesia. The Korean won also strengthened as economic conditions improved during the quarter, as a result of stronger exports and domestic demand. Between 1 July and 25 August, 2009, the ringgit appreciated against the US dollar by 0.3%. The ringgit also appreciated against the pound sterling by 1.7%, but depreciated against the Japanese yen (-1.7%) and the euro (-1.1%). Against regional currencies, the ringgit appreciated against the Philiipine peso (1.1%), Thai baht (0.3%) and the Chinese renminbi (0.3%), but depreciated between 0.2% and 2.2% against other regional currencies.

Summary of Ringgit Performance Against Selected Currencies Percent Change (1 April - 30 June 2009)



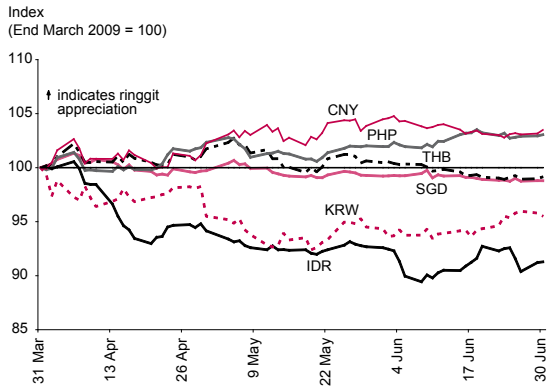
Source: Bank Negara Malaysia

Ringgit Performance Against Major Currencies



Source: Bank Negara Malaysia

Ringgit Performance Against Regional Currencies



Source: Bank Negara Malaysia

Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	2Q 08	1Q 09	2Q 09	21 Jul 05	2Q 08	2Q 09
US dollar	3.8000	3.2665	3.6470	3.5225	7.9	-7.3	3.5
Euro	4.6212	5.1565	4.8348	4.9699	-7.0	3.8	-2.7
Pound sterling	6.6270	6.5114	5.2203	5.8592	13.1	11.1	-10.9
100 Japanese yen	3.3745	3.0749	3.7091	3.6729	-8.1	-16.3	1.0
Singapore dollar	2.2570	2.3995	2.4008	2.4302	-7.1	-1.3	-1.2
100 Thai baht	9.0681	9.7435	10.266	10.354	-12.4	-5.9	-0.9
100 Philippine peso	6.8131	7.2759	7.5343	7.3111	-6.8	-0.5	3.1
100 Indonesian rupiah	0.0386	0.0354	0.0315	0.0345	12.0	2.8	-8.7
100 Korean won	0.3665	0.3128	0.2630	0.2754	33.1	13.6	-4.5
Chinese renminbi	0.4591	0.4764	0.5335	0.5155	-10.9	-7.6	3.5

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

Source: Bank Negara Malaysia

DEVELOPMENTS IN THE BANKING SECTOR

The banking sector remained resilient, supported by strong capitalisation and strengthened risk management capability. Profitability was sustained despite a difficult economic environment. Given the strong financial buffer, reinforced by robust funding and liquidity positions, the banking sector remained well-positioned in meeting the financing needs of the economy.

Banking System

	2Q 08	1Q 09	2Q 09
Capital position			
Risk-weighted assets (RM billion)	870.9	886.7	904
Capital base (RM billion)	118.5	120.4	126.6
Risk-weighted capital ratio (%)	13.6	13.6	14
Core capital ratio (%)	10.8	11.6	12.3
Profit before tax (RM million)	4,450.1	4,733.3	4,794.7
Annualised return on equity (%)	20.6	16.7	16
Annualised return on assets (%)	1.6	1.4	1.4

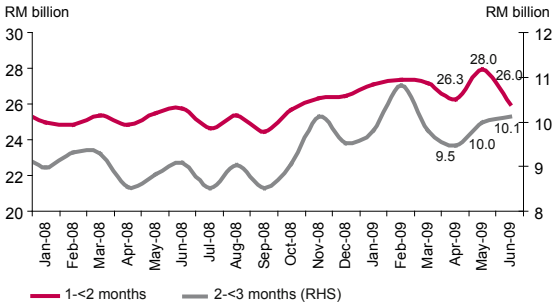
Capitalisation strengthened with capital in excess of the minimum regulatory requirement increasing to RM50.7 billion (1Q 09: RM46 billion). The strong capitalisation was attributed to higher retained earnings and proactive capital management initiatives by several banking institutions. Pre-tax profit was underscored by higher revenue from financing and fee-related businesses totalling RM7.9 billion and RM2.1 billion respectively.

Banking System: Non Performing Loans (NPL)

	2Q 08	1Q 09	2Q 09
	%		
Net NPL (RM million)	17,549.9	16,032.9	15,691.6
Net NPL ratio	2.6	2.2	2.2
Gross NPL ratio	5.4	4.6	4.5
Large Businesses	6.8	4.8	4.7
SMEs	7	6.8	6.9
Households	4.4	4.1	3.9

The quality of loan portfolio was largely sustained. The level of net NPLs registered a decline of 2.1% to RM15.7 billion attributable primarily to higher recoveries and reclassifications of loans to performing status. On the sectoral front, the lower NPL ratio was driven by the decline in NPLs in the household loan segment.

Banking System: Loan-in-arrears



Source: Bank Negara Malaysia

Improvements in the quality of loan portfolios were also evident from the moderation in loan delinquencies. Loans-in-arrears in the 1-<2 months bucket declined 4% to account for 3.5% of total loans (1Q 09: 3.7% of total loans). This underscored the rise in proportion of loans-in-arrears in the 2-<3 months bucket. Going forward, improvements in labour market conditions and business and consumer outlook will provide support to an improvement in credit risk appetite.

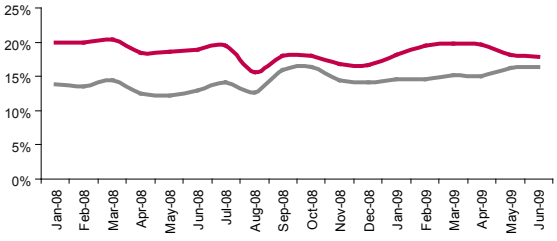
Banking System: Market Risk Exposure

	2Q 08	1Q 09	2Q 09
Duration weighted position (RM million)	5,562	6,373	4,165
As % of capital base	5.4	6.2	3.8
Net open position (RM million)	6,997	5,607	5,377
As % of capital base	5.9	4.7	4.2

Exposure to interest rate risk declined significantly in the second quarter as a result of hedging by institutions. At the same time, given the 3.5% appreciation of the ringgit against the USD, exposure to foreign exchange risk, which is largely denominated in US dollar moderated to 4.2% of capital base. The level of market risk is expected to remain manageable given the active use of hedging instruments by the banking institutions to manage overall risk exposure.

The ability of the banking system to meet demands for deposit withdrawals and other liquidity obligations remained strong. The liquidity buffer for the maturity buckets of up to one week and one month remained ample at 16.3% and 17.8% of total deposits respectively (1Q 09: 15.1% and 19.8%). Meanwhile, the industry's loan-to-deposit ratio remained satisfactory at 74.1%.

Banking System: Liquidity Mismatch to Total Deposit Ratio



Source: Bank Negara Malaysia

Developments in the insurance and takaful sector

The insurance and takaful sector remained resilient with a healthy level of capitalisation. The Capital Adequacy Ratio (CAR) improved to 214.8% (1Q 09: 210.2%).

Profitability improved, driven largely by increased premiums and contributions across all business segments. Lacklustre capital market activity, nonetheless, continued to pose downward pressure on profitability, albeit at a more moderate pace.

Excess of income over outgo rose to RM3.2 billion (1Q 09: RM2 billion) due mainly to a significant increase in capital gains and investment income. Operating profit for the general business registered a substantial improvement on account of lower underwriting loss.

Insurance and Takaful Sector: Profitability

	2008		2009		
	2Q	1H	1Q	2Q	1H
	RM million				
Life/family business					
Excess of income over outgo	2,568.9	5,072.7	2,042.1	3,204.8	5,246.9
General business					
Operating profit	-10.1	259	306.1	356.1	662.2

Launch of SME Credit Bureau
Kuala Lumpur, 16 April 2009

Keynote Address by

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

Introduction

It is my pleasure to be here this morning to speak at the launch of the SME Credit Bureau. The development of a strong and dynamic SME sector is a priority on our national agenda to promote a vibrant and active SME sector that will contribute towards generating a sustainable and balanced economic growth. Malaysia has therefore adopted an aggressive SME development programme to strengthen the viability and capacity of the SMEs to increase their contribution to high quality growth of the economy.

Over the recent five years, the SMEs contribution to economic growth has increased. Indeed, the SME contribution to economic growth in the manufacturing sector has increased from 6% of real gross domestic product in 2001 to 8.4% in 2005. The overall SME contribution to the gross domestic product has increased to 32% while 19% of total exports are by SMEs. Experience has shown in several of the developed countries, that SMEs contribute to at least half of the gross domestic product. Benchmarked against this, there is clearly a significant potential for SMEs in Malaysia to increase their contribution to the economy.

Economic Outlook and Policy Response

The year 2009 is likely to be a difficult year for businesses. The global economy is expected to remain weak following the synchronised recession in the advanced economies. While there is significant uncertainty on the prospects for recovery, the stimulus measures being implemented across the globe and the measures to address the financial crisis in the advanced economies are expected to contribute to improving conditions in the second half of this year. However, should there be further delays in addressing the impairment of the financial systems in the crisis affected countries, this would be a risk to the economic recovery process. This would in turn continue to have significant spillover effects on the rest of the world.

Whilst Malaysia has successfully maintained the stability of its financial system during this period of uncertainty, the economy is not insulated from these global developments. Despite the high degree of openness of our economy, Malaysian businesses are however, less leveraged with significantly less foreign financial exposures and therefore better able to cope with the effects of the global economic downturn.

During this recent decade, Malaysia has aggressively implemented measures to promote domestic demand as a driver for growth and thus achieve a more balanced growth. While the export sector is still important, the significance of domestic demand has gradually increased. In this current environment, the Malaysian Government has implemented a significant fiscal stimulus to sustain domestic demand. Following the reduction in interest rates, retail borrowing costs have declined to new historical lows. Thus both the fiscal stimulus and the accommodative monetary environment are expected to improve demand conditions in the second half of the year.

Malaysia also has diverse trading partners which contributes towards mitigating the full impact of the global slowdown on our domestic economy. Businesses in Malaysia have over the years continued to build trade and investment linkages with other emerging countries especially in Asia . Adequate access to financing is therefore vital not only for supporting domestic demand but also to ensure that Malaysian businesses are able to take advantage of the opportunities in the regional and global economy.

The strong domestic banking system, with its ample liquidity, has the potential capacity to provide the access to financing. Some SMEs however are experiencing stress from the current more difficult environment. Several preemptive measures have therefore been introduced to enhance the prospect for access to financing. The SME Assistance Guarantee Scheme that was launched on 3 February 2009 to provide SMEs with an 80% guarantee cover will enhance access to financing in addition to keeping the cost of financing low. As at 5 April 2009, more than 880 applicants have successfully obtained financing through this scheme and more than 790 applicants are still being evaluated. Two additional schemes, the Working Capital Guarantee Scheme and the Industry Restructuring Financing Guarantee Scheme, has been recently launched to enhance access to financing for working capital and to support long-term investments that will increase productivity and that will generate high value-added activities.

The measures to enhance access to financing are also reinforced by the provision of financial advisory services and by developing channels for redress by borrowers. The BNM LINK and TELELINK established by Bank Negara Malaysia and the ABM-Connect that has been set up by the Association of Banks in Malaysia serve as important conduits for greater interface between the banks and the borrowers. These measures are also complemented by the institutional framework to deal with problem loans in the retail and business segments. The Small Debt Resolution Scheme (SDRS), which was created in 2003 to facilitate the restructuring and rescheduling of credit facilities for small businesses has now been expanded to include all viable SMEs facing financial difficulties with financing from multiple financial institutions.

Importance of Information Credit Bureaus

Malaysia has been ranked number one in the world in terms of access to credit by the World Bank in 2008. Despite is favourable assessment, efforts will continue to be intensified to ensure that this access continues, particularly during this more challenging and uncertain time. The establishment of the SME Credit Bureau is one of these measures. The SME Credit Bureau is a vital element in the information credit bureau industry. SMEs are thus encouraged to maintain and compile the required information so as to enhance their potential access to credit.

SMEs are expected to benefit greatly from the services of the SME Credit Bureau. Firstly, the SME Credit Bureau empowers SMEs to build their credit reputation from a wide range of transaction behaviors. These include transactions with suppliers, customers and utility providers. The record of transaction behavior is expected to provide comprehensive information on the SMEs, especially for SMEs that are accessing financing from the banking sector for the first time. Secondly, the SME Credit Bureau uses a credit methodology that discounts aged information thus providing a fairer assessment of the SMEs current credit worthiness.

SMEs should also use the services provided by the SME Credit Bureau to better understand the credit evaluation processes. This will facilitate the efficient processing of the loan applications. This will also allow SMEs to secure more favorable financing terms from financial institutions. This approach is also expected to incentivise SMEs to inculcate a credit culture that enhances their eligibility for financing. A positive assessment from the SME Credit Bureau will be recognised by all financial institutions. The SMEs will therefore have increased options and will be able to compare and obtain the most favorable terms.

Over the years, SMEs have become an increasingly important segment of the loan portfolio of our financial institutions. With higher exposures to this sector, the comprehensive information compiled by the SME Credit Bureau will be a valuable information source that will facilitate better monitoring and management of the SME portfolio. The information from the SME Credit Bureau will also expedite the assessment of developments in new markets and the creation of a liquid secondary market which would in turn increase the availability of funds to SMEs.

Consistent with the importance of the SME segment in the total loan portfolio, financial institutions should also regularly interface with

SME associations so that financial services rendered to the sector can be more customised to the specific requirements of the sector. In this current challenging period of slower growth, financial institutions need to understand and address early the problems being faced by the SMEs. This may involve adopting greater flexibility in structuring SMEs' financing facilities including in the restructuring programmes and to provide the supporting financial advisory services. In addition, early assessments and taking the appropriate remedial actions before the financial conditions deteriorate will avoid other more costly solutions.

In this highly challenging environment, SMEs also need to initiate their own measures to achieve greater cost efficiency and to enhance productivity improvements. This would involve looking at every facet of the business operations and to identify ways to streamline processes, eliminate waste, consolidate activities and adopt new technology and energy-efficient processes. A number of funds have been established to support these enhancements. Other initiatives could include the pooling of resource requirements such as the purchase of common raw materials to benefit from bulk discounts from suppliers and to share transportation costs. The Chambers of Commerce and Industry associations can have an important coordinating role in such undertakings. Experience-sharing sessions can also be organized in which successful members can share experiences in achieving cost efficiency and productivity improvements.

Equally important is increasing the value creation and seeking new areas of business growth. This may involve shifting resources to new areas of business or markets. In striving towards long-term competitiveness. Experience has shown that the aptitude for hard work, prudent practices, the agility to adapt to changing conditions, perseverance and the ability for reinvention are some of the qualities of the successful SMEs in our economy.

The creation of the SME Credit Bureau is another milestone in the development of the enabling supporting infrastructure for strengthening the SME sector. The creation of such an information credit bureau industry is a further step forward in generating a financial intermediation process that is more efficient and effective. I hope that financial institutions and the SME Credit Bureau would work together towards making today's initiative achieve its objective. In enhancing greater access to credit to the SME sector, it would strengthen the potential for SME contribution to the economy.
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UNAG Asia Regional Forum on Policy and Regulation of Financial Inclusion Kuala Lumpur, 6 May 2009

Welcoming Remarks by

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

Introduction

It is my pleasure to welcome you to the United Nations Advisers Group Asia Regional Forum on Policy and Regulation of Financial Inclusion. This conference takes place at a time when the world is confronted with addressing many issues that have emerged from the current global financial and economic crisis. Whilst significant attention and efforts are being channelled to resolving the financial crisis and creating an enabling environment for the resumption of growth and job creation, we must not lose sight of the financial inclusion agenda. Financial inclusion is vital for creating balanced sustainable economic growth. It provides the opportunity for all members of society to benefit from economic progress. It allows for a shared prosperity, an aspiration that is encapsulated in the United Nations Millennium Development Goals.

The Central Bank of Malaysia is most honoured to be given the opportunity to host this forum which is being held in Asia for the first time. We are most honoured to have Governor Nout Wellink, President, of the Central Bank of Netherlands . We are also pleased to have present Mr. Jacques Toureille, UNAG Advisor, who will be delivering the keynote address by Her Royal Highness Princess Maxima on her behalf.

This forum brings together some of the best minds from different parts of the world with diverse experiences in the field of financial inclusion. I am certain that this forum will enhance our understanding of the vital issues confronting the financial inclusion agenda, and will contribute towards the formulation of new ideas in addressing the important issue of regulation and policy that will ensure the sustainability of an inclusive financial system.

The financial crisis and its implications on the poor

The year 2009 will likely to be a difficult year for most countries. As we enter the third year of this financial crisis, there is already a synchronised recession in the advanced economies. For most of the emerging economies however, the full effects of the crisis on their domestic economies will be felt this year. It is important to note that the financial systems in most emerging economies continue to remain sound and more importantly continue to function, providing credit and supporting the economy. The collapse of external demand has however, adversely affected the more open emerging economies. The issue of equal concern however, is the more disproportionate impact these developments will have on the poorer economies. Similarly, the disproportionate effect these developments are having on the poorer segments within a particular economy.

This crisis thus brings to the forefront a number of issues concerning financial inclusion. Firstly, while the crisis demands action with great urgency, the policy response to restore the functioning of the financial system and to get growth in the economy again, there also needs to be a continued commitment to the financial inclusion objective. This becomes all the more vital given the more adverse implications of the crisis on the poor segments in the economy.

Secondly, while the policies and regulation of financial inclusion are essential to ensure the soundness and sustainability of an inclusive financial system, of equal importance are the policies, instruments and framework to deal with distress in an inclusive financial system. This is to ensure that the strategies for resolution will provide a total solution that addresses the entire spectrum of the financial

system, from that which is large and highly connected with systemic implications to that which is small and highly vulnerable. This includes measures relating to relief and support and the mechanisms for resolution to ensure the sustainability of an inclusive financial system even during unstable financial and economic conditions.

In recognising the importance of financial inclusion, the United Nations established the United Nations Advisory Group on Financial Inclusion in 2006. The group advises the United Nations and member states on issues relating to the advancement of the financial inclusion agenda on a global scale. Since its establishment, many successes have been achieved. These include increasing the public awareness on the importance of financial inclusion, assisting governments in the design of regulatory systems that facilitate the creation of financial services for the poor, encouraging the of use of holistic measures to gauge the progress of financial inclusion, collecting and disseminating best practices, collaborating with the private sector to leverage on the talent and technology to further advance financial inclusion and to promote research that will galvanise new initiatives.

In Malaysia , financial inclusion is a high priority in our national agenda. Since the establishment of the Central Bank, there has been a conscious policy to have an extensive commercial banking branch network across the country, to ensure the outreach, in particular, to cover the non-urban areas. Malaysia now has 10.2 branches for every 100,000 individuals as opposed to the global median of 8.4 branches for every 100,000 individuals. In Malaysia , more than 80% of the population also have some form of savings account. This has also contributed to the financialisation of savings in the country. Deposits as a percentage of gross domestic product is 180%. This means that savings is mobilised including from small savers into the formal financial system. This allows the savings to be channelled to productive economic activity.

To further drive the provision of basic financial services to the underserved, the National Savings Bank in Malaysia has been mandated to enhance the outreach of deposit services and micro-financing. Their efforts, together with those of commercial banking institutions and government mandated micro-financing agencies, have resulted in a significant expansion of micro-financing. Micro-financing has increased from RM151 million in 2000 to RM1.7 billion in 2008, representing an annual average growth rate of 35%.

Early this year, Bank Negara Malaysia celebrated its 50 th anniversary. The Bank has taken the opportunity to review our existing legislation; the Central Bank Act to take into account the dramatically changed domestic and international economic and financial environment. The work on this proposed new legislation has spanned two years. In articulating with greater clarity the mandate of the Bank, the objective of financial inclusion, not explicitly mentioned in our existing Act, but undertaken in practice is now explicitly articulated in the proposed Act. This is to ensure that going forward, the future generation of central bankers at Bank Negara Malaysia will continue with the unwavering commitment to the building of an inclusive financial system.

Conclusion

Let me conclude my remarks. In this current environment of great uncertainty, financial intermediation has a vital role in supporting an economic recovery. As regulators, the focus is placed on ensuring the soundness and stability of the financial system, and thereby provides the platform on which the role of the banking sector in the economy can be enhanced. It is the continued functioning of the financial system that will be a vital element in the economic growth and development process.

For emerging market economies in particular, the efforts have to be extended beyond this to building the financial infrastructure, raising the level of financial literacy and providing the enabling environment for a more inclusive financial system.

This forum will provide us an opportunity to deliberate on the many issues that are before us, particularly in the context of the unstable times and the manner in which we can strengthen our capacity to enhance the financial inclusion agenda. On that note, I wish you a very productive and successful meeting.

LOFSA's Luncheon Talk with Foreign Embassies in Malaysia Kuala Lumpur, 13 May 2009

Opening Remarks by

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

It is my great pleasure to welcome you to this special luncheon. At a time of rapidly changing economic and financial conditions, we appreciate having this opportunity in conjunction with the release of the Labuan Offshore Financial Services Authority (LOFSA) annual report two days ago to share with you on the developments of the Labuan International Business and Financial Centre (IBFC) and on the recent financial liberalization announcements that relate to the Labuan IBFC.

Our annual report for 2008 highlights that the Labuan IBFC maintained positive growth across all key business sectors despite the more challenging global environment.

The more challenging environment has also not interrupted the implementation of further policy initiatives in 2008 to transform the Labuan IBFC from a traditional offshore financial centre to a vibrant International Business and Financial Centre.

The positioning of Labuan IBFC at the higher end of the financial service chain has contributed to the strengthening its competitive position. The implementation of these initiatives reflects the commitment of LOFSA and the Malaysian Government in ensuring that the development of Labuan IBFC continues to be given priority and that it will continue to remain competitive as a highly connected, convenient and cost-efficient business and financial centre in Asia.

The Labuan IBFC now has more than 300 international financial institutions that provide the comprehensive range of conventional and Islamic financial products and services. These financial institutions include among the top international banks and reinsurance companies.

The performance of the banking industry in Labuan IBFC showed continued expansion in 2008 with strong capitalisation and an improvement in the quality of the asset portfolio as reflected by the decline in gross non-performing loans. Similarly, the insurance sector has remained in a healthy position with the aggregate margin of solvency well above the minimum regulatory requirement. The insurance industry has also recorded a significant increase in gross premiums which has now surpassed the USD1 billion mark. There was also an increase in the number of Labuan companies. In addition, the leasing industry continued to be vibrant while the trust companies sustained their steady performance during the year.

In Islamic finance, the Labuan IBFC has continued to record positive performance, particularly in the areas of Islamic private funds and retakaful business. This has further strengthened the supporting role of the Labuan IBFC in positioning Malaysia as an International Islamic Financial Hub.

Thus, while many international financial centres have recorded slower growth in this time of the global financial turmoil, the Labuan IBFC continues to record steady growth in the substantive cross-border, financial and business transactions.

A key success factor to the sustained growth of Labuan IBFC is the well-regulated business environment in the IBFC. This has provided confidence for investors to continue to be drawn to the Labuan IBFC. As the regulatory authority for the Labuan IBFC, LOFSA is entrusted with the regulation and supervision of the activities of the centre and has put in place the necessary financial infrastructure to ensure that the international business sectors

are well governed and regulated. This is to maintain the soundness and stability of the Labuan IBFC and its status as a centre with high integrity.

LOFSA's supervisory approach has evolved over the years to take into account the changing environment. At the very outset, however, LOFSA implemented a stringent entry policy for the establishment of financial institutions and trust companies as well as for capital market activities. Only genuine and legitimate businesses are allowed. Extensive due diligence which is conducted at the entry level is undertaken to ensure that only the "fit and the proper" are allowed to operate in Labuan IBFC. The Labuan IBFC has received a positive assessment in the IMF report and the Asia Pacific Group on Money Laundering has categorised the Labuan IBFC as a low-risk jurisdiction for money laundering.

LOFSA has also subscribed to international best practices and is a member of the fraternity of regulators in various international organisations including the:

1. Offshore Group of Banking Supervisors;
2. Offshore Group of Insurance Supervisors;
3. International Organisation of Securities Commissions; and
4. Asia Pacific Group on Money Laundering.

The recent OECD's unilateral assessment of Malaysia (Labuan) as a "Category 3 jurisdiction", has therefore been unfounded. What is even more disappointing was the recognition given to this list by the G20. The decision taken by the OECD and the G20 to publish the list without consultation and without providing any notice to all the affected nations was not constructive. Several countries that were selectively made aware of this were able to file in their intentions to comply with the required tax standards of the OECD just days before the release of the list and were taken off the list. Malaysia became one of the four countries that remained on the list. Now, after stating the position on this matter to the OECD, none of the countries including Malaysia are in the "Category 3 jurisdiction". The damage however, has taken place.

It is clear that the decision to "blacklist" was made without taking into consideration Malaysia's and Labuan's long precedence of compliance to international standards of banking and exchange of information.

The existing legislation has already allowed for exchange of information and Malaysia has signed 69 Double Tax Agreements all of which follow the Model convention for Double Tax Treaties as developed by the OECD. Although Malaysia is not a member of OECD, it has always cooperated with competent authorities around the world to assist in the pursuit of unlawful tax or financial practices.

Of equal concern is also the absence of some jurisdictions or "tax havens" which are clearly not in full compliance with the OECD standards of exchange of information. It is regrettable that the decision by 20 countries can determine the fate of the other 165 countries in the world. But, in spite of these developments, Malaysia will remain steadfast in its efforts to continue to adopt international standards and best practices to ensure Labuan as a robust and well managed jurisdiction for conducting legitimate international business.

As you may be aware, the Honourable Prime Minister of Malaysia, recently announced a series of liberalisation of the financial services sector in Malaysia. The liberalisation is aimed at enhancing our international economic and financial inter-linkages and to strengthen Malaysia's financial services sector as a catalyst that will take the country to the next level of development.

On the liberalisation measures which are related to Labuan IBFC, with effect from 1 June 2009, Labuan holding companies will be accorded flexibility to have a physical presence in Kuala Lumpur. Similarly, Labuan banking institutions and insurance companies that meet the predetermined criteria will also be allowed to have a physical presence onshore from 2010 and 2011 respectively. This new flexibility will enable Labuan institutions to enhance their operating efficiencies by leveraging on the facilities, infrastructure and resources such as human capital and professional services that are accorded onshore. This flexibility will however, be complemented by a strengthened monitoring and

regulatory and supervisory framework that will govern the operations of the participating entities.

In an effort to maintain Labuan competitiveness as an international business and financial centre, several other strategic initiatives have been implemented including the establishment of a separate marketing company by LOFSA, the reduction in the annual fees payable by Labuan companies, and the widening in the range of potential products and services following the review of the legislative framework. We believe that these initiatives will reinforce Labuan as an international business and financial centre that provides the best opportunities and services to its customers and to potential investors.

There are many challenges in view of the spill over effects of the global financial crisis. However, LOFSA remains committed to its long term goals in maintaining the Labuan IBFC as a preferred international financial centre of high integrity. This is to position LOFSA on a solid platform to serve businesses and investors, and to ensure that the Labuan IBFC is supported by top quality service providers, an efficient delivery system and a conducive legislative framework. It is therefore our hope that we can continue to have your cooperation and support to enhance the awareness of companies and businesses from your respective countries on the opportunities accorded in the Labuan IBFC.

CALENDAR OF EVENTS
April – June 2009

7 April 2009

The Bank announced the issuance of Sukuk Simpanan Rakyat 2009 amounting to RM2.5 billion. The Shariah principles based scripless sukuk (Islamic bond), which offers a tax-free return of 5% per annum, is an additional savings instrument made available for Malaysian citizens aged 21 years and above. On 17 April, the issuance amount was increased to RM5 billion using the allocation of the second series due to overwhelming response from the public and was fully subscribed on 27 April.

16 April 2009

Governor Dr. Zeti, in her keynote address at the Launch of SME Credit Bureau, said the establishment of the bureau is another component in generating a financial intermediation process that is more efficient and effective towards ensuring greater access to credit to the SME sector. She added that small and medium enterprises (SMEs) will benefit greatly from the services of the bureau in terms of building their credit reputation, fairer assessment of SMEs credit worthiness and better understanding of the credit evaluation process.

27 April 2009

The Bank announced further liberalisation of the financial sector which aims to strengthen Malaysia's economic interlinkages with other economies and enhancing the role of the financial sector as a key enabler and catalyst of economic growth. This liberalisation moves are towards achieving the long-term vision to have a financial sector that is efficient, resilient and dynamic. Malaysia's approach towards liberalisation would be selective and sequenced to ensure maximum benefits to the country, and supplemented with sufficient safeguards to ensure that the overall intermediation function of the financial system remains intact, effective and sound.

Highlights of the measures to liberalise Malaysia's financial services industry:

I. Issuance of new licences

Issuance of up to nine new banking and insurance licences with the maximum of :

- two new Islamic banking licences in 2009 for foreign players to establish new Islamic banks with
  paid-up capital of at least US$1 billion each;
- two new commercial bank licences in 2009 for foreign players with 'specialised expertise';
- three new commercial bank licences in 2011 for 'world-class' banks; and
- two new family takaful licences in 2009

II. Increase in foreign equity limits

- Raising of foreign equity limit in domestic Islamic banks, investment banks, insurance companies and takaful operators from 49% to 70% with immediate effect. A higher foreign equity limit beyond 70% for insurance companies will be considered on a case-by-case basis for players who can facilitate consolidation and rationalization of the insurance industry.

III. Operational flexibilities

- Offshore banking institutions and offshore insurance companies, licensed by LOFSA that meets the pre-determined criteria, will be given flexibility to establish their physical presence onshore in 2010 and 2011 respectively
- Locally incorporated foreign commercial banks are allowed to establish up to four new branches in 2010 and with immediate effect, up to ten microfinance branches.
- Locally incorporated foreign insurance companies and takaful operators are allowed to establish branches nation-wide without restriction, with immediate effect.
- Banking institutions, insurance companies and takaful operators, will be given greater flexibility in hiring specialist expatriates, with immediate effect.

On the same day, the Bank issued a set of commemorative coins to commemorate the 75th Anniversary of the Royal Malaysian Navy. The coins are available in three specifications; Gold Commemorative Coin (proof), Silver Commemorative Coin (proof) and Nordic Gold Brilliant Uncirculated (B.U) Commemorative Coin. Members of the public can buy the coins from Bank Negara Malaysia's headquarters (BNMLINK) and its branches located in Pulau Pinang, Johor Bahru, Kuala Terengganu, Kota Kinabalu and Kuching.

29 April 2009

At its third meeting for 2009, the Bank's Monetary Policy Committee (MPC) decided to leave the Overnight Policy Rate (OPR) unchanged at 2.00 percent. The MPC stated that the domestic economy is expected to record a marked contraction in the first quarter of 2009 and it will prevail until the second quarter of the year. Nevertheless, the domestic economy is expected to improve in the second half of 2009, supported by likely stabilisation in global economic conditions and the larger impetus from the implementation of the fiscal stimulus measures.

6 May 2009

The Bank and the United Nations Advisors Group (UNAG) on Inclusive Financial Sectors jointly hosted the "Asia Regional Forum on Policy and Regulation of Financial Inclusion" from 6 to 7 May. The Forum provided the opportunity for senior policymakers, regulators and financial experts from 14 Asian countries to discuss strategic issues concerning financial inclusion globally and in the Asian region. The participants also deliberated on the role of regulators in establishing a regulatory infrastructure that supports the unique role played by microfinance institutions in ensuring that more are able to have access to financial services.

13 May 2009

In her speech at LOFSA's Luncheon Talk with Foreign Embassies in Malaysia, Governor highlighted that Labuan International Business and Financial Centre (IBFC) has maintained positive growth in 2008 across all key business sectors despite the more challenging global environment. She added that further policy initiatives to transform Labuan IBFC from a traditional offshore financial centre to a vibrant International Business and Financial Centre has also been implemented in that year. She indicated that the implementation of the initiatives reflects the commitment of LOFSA and the Government in ensuring that the development of Labuan IBFC continues to be given priority and that it will continue to remain competitive as a highly connected, convenient and cost-efficient business and financial centre in Asia.

15 May 2009

The Government announced the establishment of Danajamin, a national financial guarantee institution that would provide credit enhancements to facilitate corporations with viable businesses and investment grade ratings to enhance their access to the Malaysian bond market. Danajamin is regulated and supervised by the Bank and is subject to prudential requirements governing its risk-taking activities and management of risks.

26 May 2009

The MPC decided to leave the OPR unchanged at 2.00 percent. The deterioration in the world economy during the first quarter was worse than expected as the global financial turmoil became more prolonged. The domestic economy continues to be adversely affected by the significant contraction in external demand, resulting in steep declines in exports and industrial production. However, a more modest pace of decline in the latest indicators of global economic activity suggest the potential for a gradual improvement in the second half of the year. With sizeable and sufficient liquidity in the system, continued emphasis will be given to ensure an adequate flow of credit to all segments of the economy.

27 May 2009

The Bank announced that the Malaysian economy contracted by 6.2% in the first quarter of 2009, amidst a significant deterioration in the external demand following the deepening recession in advanced economies. However, the prognosis for improved economic conditions looks brighter in the second half of the year, supported by fiscal stimulus measures and continued access to financing.

30 May 2009

Senior officials of the Bank and Bank of Thailand (BOT) met in Bangkok as part of their regular dialogue and to exchange views on current issues facing the domestic, regional and international economy and financial system. The two central banks agreed to pursue avenues to further bolster bilateral initiatives in the financial system to reinforce the high degree of economic and trade integration of both Malaysia and Thailand. The meeting also agreed to explore and pursue new avenues of cooperation and to broaden the activities of financial institutions in their respective economy.

30 June 2009

The Bank announced the nationwide roll out of the Cheque Truncation and Conversion System (CTCS). Effective 1 July, the cheque clearing system in Malaysia is driven by the transmission of cheque images and data between banks and the clearing house as compared with the previous physical exchange of cheques. The CTCS is managed and operated by the Malaysian Electronic Clearing Corporation Sdn. Bhd. (MyClear), a wholly-owned subsidiary of the Bank. The system will enhance the efficiency of the payout structure for both consumers and businesses and contributes toward lowering the cost of doing business, thereby enhancing the competitiveness of the overall economy. The implementation of CTCS reflects the Bank's continuous effort to promote wider adoption of e-payments for transactions.