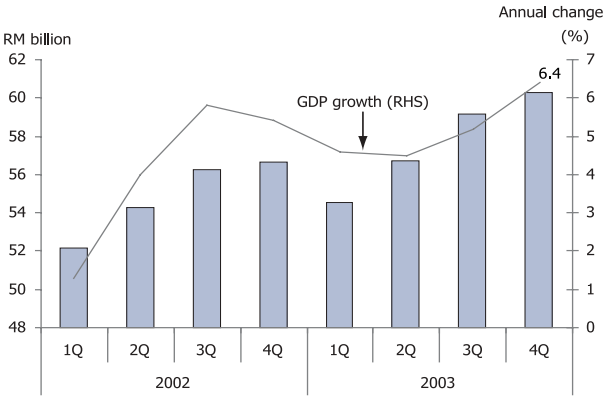
Economic and Financial Developments in the Malaysian Economy in the Fourth Quarter of 2003

OVERVIEW

Stronger growth momentum in the fourth quarter

Growth momentum in the Malaysian economy strengthened to 6.4% in the fourth quarter of 2003 from 5.2% in the third quarter. Growth was broad based, with positive contributions across all industries and demand components. A stronger upturn in exports gave added support to private sector activities and consumer spending. Rising consumer and business confidence, the strong underlying economic fundamentals and low interest rates contributed to the stronger growth momentum. An important development was the stronger expansion in investments. The combination of stronger domestic demand and rising exports resulted in a stronger-than-expected GDP growth of 5.2% for the whole of 2003.

Stronger real GDP growth in 4Q 2003



The main driver to the stronger growth performance was the manufacturing sector while most other sectors also recorded higher growth. Growth in the manufacturing sector accelerated to record a strong expansion of 12%, contributing 3.5 percentage points to GDP growth. Expansion was driven by strengthening domestic demand and reinforced by more robust exports. The stronger expansion was thus seen in both the export- and domestic-oriented industries (17.2% and 8.3% respectively; 3Q 2003: 11.5% and 6% respectively). Capacity utilization remained high across both sectors.

In the export-oriented industries, higher growth was recorded in the electronics, chemicals and rubber products industries. Production of electronics increased markedly following rising global demand across all markets and product segments. The spillover effects from the strong electronics performance as well as the improved external demand for resins and plastic products underpinned the growth in the chemical products industry. The strong expansion in the rubber products industry was attributed mainly to higher external demand for rubber gloves. In the domestic-oriented industries, the higher growth was supported by the increase in the construction-related industries and food and beverages.

Stronger performance in the manufacturing sector reinforced the recovery in the services sector, with growth strengthening to 4.5% (3Q 2003: 4.4%). Growth was underpinned by improved consumer sentiment, higher trade activity and resumption in tourist arrivals to pre-SARs levels of above one million since November. Of significance,

the wholesale and retail trade, hotels and restaurants sub-sector recorded a significant improvement during the quarter due to a pick-up in consumer spending during the Mega sales and year-end festivities.

The agriculture sector registered further expansion (2.2%) on higher production of crude palm oil and rubber, amidst the favourable prices. The mining sector also posted a stronger performance mainly on account of higher crude oil production.

Growth in the construction sector for the quarter was sustained by both civil engineering and the residential sub-sectors. In the latter, activities were supported by new housing starts as well as ongoing work on housing projects from previous launches. The incentives in the Economic Package, low interest rates and attractive financing packages sustained demand for houses. In the public sector, development expenditure remained high during the quarter.

On the demand side, growth in domestic demand was driven mainly by the private sector, with a stronger growth in household consumption. Supporting factors include low interest rates, increased access to financing, higher commodity prices, the positive wealth effect of higher equity prices and measures under the Economic Package which resulted in higher disposable incomes. Stronger external performance further raised consumer and business confidence during the quarter. For the first time since August 2002, sales of passenger cars turned around in December, reflecting in part some pent-up demand. The higher propensity to consume was encouraged by the annual year-end bonus payments amidst more favourable employment prospects, the seasonal festivities and higher export earnings. Consequently, private consumption recorded a stronger growth of 6.9% during the quarter. Public consumption was also higher, increasing by 11.1% due mainly to higher expenditure on supplies and services.

An important development was the stronger growth in investment during the quarter with gross fixed capital formation rising by 3.6%. Private investment in machinery and equipment strengthened as business sentiment improved and capacity utilization remained high, especially for the export-oriented industries in the manufacturing sector. Meanwhile, development expenditure of the Federal Government, though lower than in the corresponding quarter of 2002, remained high in the fourth quarter due mainly to expenditure on transportation and health facilities. The fiscal deficit, however, narrowed in the fourth quarter.

Revisions to the trade data (following the changeover to the Electronic Data Interchange System) show strong contribution of the export sector to expansion in output and improved overall business sentiments. As the trade data is still being reviewed, further statistical revisions in the demand components is expected. Accordingly, the demand components in the national accounts, in particular, the items "change in stocks" and "net exports", will be adjusted when the revisions to the trade data have been finalised.

Stronger economic growth in the fourth quarter was achieved with low inflation. Consumer prices registered a benign increase of 1.2%. A combination of rising capacity, higher productivity and more competitive pricing of goods and services continued to contain pricing power despite strengthening demand. The increase in property

prices had also been marginal and mainly for properties in choice locations.

In the external sector, revised data indicated that the trade surplus in the fourth quarter was larger at RM19.8 billion (3Q 2003: RM19.4 billion). Gross exports expanded strongly by 14.9% while imports increased at a faster rate of 16% (3Q 2003: 7.9% and 1.9% respectively). The expansion in gross exports was due to the significant increases in exports of manufactured goods and continued strong growth in exports of primary commodities. In the manufacturing sector, higher exports were due mainly to the upswing in the electronics cycle. Exports of agriculture and minerals remained strong, supported by high prices and export volume of palm oil, LNG and crude oil.

Rising domestic demand and exports lifted imports, with strong expansion across all categories of imports. In line with the pick-up in electronics exports, imports of intermediate goods, which are inputs for manufactured goods, recorded a strong growth. Imports of consumption goods expanded due mainly to higher consumption for the festive season. Improving consumer confidence also induced strong expansion in imports of consumer goods. Imports of capital goods grew at a robust rate, reflecting continued improvement in investor sentiment.

In the financial account, foreign direct investment was sustained. New long-term equity inflows doubled during the fourth quarter to RM2.8 billion, on a cash basis. The bulk of the foreign direct investment was channelled into manufacturing, particularly electrical and electronic and petroleum-related activities, and the oil and gas sector. Foreign direct investment in the services sector was mainly in financing and business services and wholesale and retail trade.

Gains in the external sector was reflected in an increase in reserves by US$4.2 billion to US$44.9 billion at the end of the quarter, due largely to long-term inflows associated with trade and investment activities. Net inflows of portfolio capital also rose in line with the more robust economic activity and improved investor sentiment. International reserves have risen further to US$48.4 billion as at 14 February 2004, enough to finance 7.6 months of imports and is 5.4 times the short-term external debt.

The ringgit exchange rate continues to be well supported by rising trade and investment flows, the gradual increase in foreign exchange reserves, low inflation, sustainable surplus in the current account, low external debt as well as a strong and resilient banking system.

Monetary policy supported stronger economic activity

Monetary conditions further support the strengthening growth momentum. There was stronger demand for credit, non-performing loans declined and the financial system continued to be supportive of private sector activities. Loans disbursed by the banking system rose at a strong annual rate of 14.3%. Compared with the previous quarter, loans disbursed to the household sector remained strong and the amounts disbursed to the business sector were higher.

As a consequence of the larger disbursements, total loans outstanding increased at an annual rate of 4.8% at end-December. Loans outstanding to the SMEs, which accounted for 17.3%

of all outstanding loans and 38.3% of total loans outstanding to businesses, rose more rapidly at an annual rate of 10%, the highest since July 2001. Outstanding loans to the SMEs expanded by RM2.4 billion and RM7.4 billion during the quarter and in 2003 respectively. Overall, financing provided by the banking system through extension of loans and its holdings of PDS expanded at a higher rate of 5.9% as at end-December. Total gross private sector financing raised through the banking system and from the capital market increased by 12.8% during the quarter.

The increase in all three monetary aggregates was also reflective of the significantly improved consumer and business sentiments. While stronger expansion in M1 (14.6%) reflected increased seasonal demand for liquidity from consumers and businesses, higher growth in M3 (9.7%) reflected the expansionary external sector and Government operations.

Despite the stronger demand for loans, average lending rates continued to decline given the more competitive environment with surplus savings. Notwithstanding larger capital inflows, BNM's liquidity operations ensured that money market rates remained stable. The sterilization cost continues to remain manageable. As a result, growth in money supply has been supportive of the higher level of economic activities.

Sound banking system

The banking system remained sound with the risk-weighted capital ratio (RWCR) at 13.4% as at end-December 2003. The profitability of the banking sector improved during the quarter with a higher gross operating profit of RM3.2 billion in the fourth quarter. Higher income, both interest (11.6%) and fee-based (+17.8%), offset the increase in operating costs during the quarter. Improving economic conditions resulted in lower additional loan loss provision by banking institutions. Recoveries also rose strongly by RM1.5 billion during the quarter.

The net NPL ratio (3-month basis) declined to 8.9% at end-December 2003. The level of NPLs for almost all the business sectors recorded improvements. The gross NPL ratio for the SMEs continued to decline to 14.7% at the end of December 2003. NPLs for the household sector were also lower at 8.1%.

Forward-looking indicators point to sustained stronger growth

The outlook for the global economy for 2004 has improved significantly with growth more broad-based in the major industrial countries and reinforced by strong growth in the Asian region. In the fourth quarter of 2003, growth in the US economy was sustained at a relatively strong pace of 4%, resulting in a stronger-than-expected overall growth of 3.1% for 2003. In Europe, the upturn in business sentiment and improving net exports provide positive indications of firmer economic recovery. In Japan, economic expansion from rising exports and capital expenditure and a consequent improvement in the unemployment rate have strengthened sustainable growth prospects.

The significantly improved external environment will reinforce stronger domestic demand in Malaysia. Higher consumer and business confidence is expected to reinforce the stronger momentum of growth in private consumption and investment while the public sector gradually consolidates.

Leading indicators continue to support strong and sustainable growth in the near to medium term. The Malaysian Institute of Economic Research Consumer Sentiments Index rose by 2.7 points to 115.5 points in the fourth quarter. This is the highest since 2001 and suggests that the upward trend in consumer spending is likely to continue into the coming months.

Similarly, the outlook for investment, especially private investment, also shows an up cycle. Rising investor sentiments in equities and larger funds raised by public listed companies through initial public offerings, stronger loan applications and higher investment approvals in manufacturing point to expanded business activities moving forward. In addition, the economy continues to enjoy the positive effects of strong commodity prices and rising intra-regional trade and a sharper up cycle in the electronics industry.

The improvement in sentiment is supported by strong underlying fundamentals that not only provide stable conditions for future growth but also allow risks to remain contained. The outlook for inflation remains low and stable while the increase in international reserves has been largely due to sustainable inflows from trade and long-term investment activities. In addition, the banking system is well capitalized with NPLs on a declining trend, suggesting a more resilient banking sector. Despite stronger consumer spending and higher debts by households, debt-servicing capability remains strong and sustainable due to faster growth of disposable income.

The current accommodative monetary policy stance will be maintained to provide support for the growth momentum to be sustained. In the meantime, excess capacity allows for economic expansion to continue without creating pressures on supply and inflation.

DEVELOPMENTS IN THE ECONOMY

International Economic Environment

Global growth strengthened and more broad-based. Stronger-than-expected growth in the US. Upturn in business sentiment positive for recovery in Europe.

The global economy gained strength in the fourth quarter. Growth was also more broad-based, led by the United States with stronger growth in Japan and recovery in the Euro area. The Asian region and, specifically, People's Republic of China (P.R. China) also contributed to the robust upturn in the global economy.

In the fourth quarter, growth in the **US** economy was sustained at a relatively strong pace of 4% (3Q 2003: 8.2%), resulting in a stronger-than-expected growth of 3.1% (2.2% in 2002) for the whole of 2003. Growth was well supported with positive contribution from consumption, investment, exports and inventory increases. In the **euro area**, the upturn in business sentiment and improving net exports provided positive indications of recovery in growth. Meanwhile, the **Japanese** economy expanded strongly from rising exports and capital expenditure amidst improvement in the unemployment rate. Reflecting the broader improvements in the economic outlook, the global financial markets rallied with higher corporate earnings and more positive business expectations underpinning increases in equity markets. Prospects of stronger sustainable demand and lower cost of capital have led to the revival in the investment cycle in the global economy.

In the foreign exchange market, the depreciation of the US dollar since November continued but remained orderly. The balance of global adjustment has however, been increased supported by the greater rebalancing of growth in Japan, Europe and the Asian countries. Going forward, the sustainability of the global economic expansion will be driven by the strength of expansion in the investment cycle in the industrialised countries, as well as greater rebalancing of growth between the US and the other major and regional economies and thereby reduce the potential risks emanating from the prevailing structural imbalances in the global economy.

Industrial Countries:
Real GDP growth showed improved performance

	Quarterly			
	2Q '03	3Q '03	4Q '03	Contributing factors
US[1/]	3.1	8.2	4.0	Growth in consumer spending, exports, inventory build-up, expenditure in residential fixed investment as well as equipment and software
UK	2.0	2.1	2.5	Strength in consumer spending and the services sector
Germany	-0.7	-0.2	0.3	Sluggish domestic demand but increase in net exports and public consumption
Japan[1/]	3.5	2.2	7.2	Economic recovery continued to be sustained by exports and capital spending. Household spending began to turn around

[1/] annualised basis

In the **Asian** region, faster growth was recorded in the fourth quarter after strengthening in the third quarter. While the main impetus emanated from stronger export performance, growth was also supported by a sustained rise in private consumption and a pick up in investment activity. The favourable export performance in all the regional countries reflected the seasonally high year-end demand amidst the more robust global upturn. Overall regional growth for 2003 is estimated to be

sustained at 6.1% (2002: 6.1%), led by real GDP growth of 9.1% in P. R. China.

Regional Countries: Faster real GDP growth in the fourth quarter (Annual Growth, %)

	Yearly		Quarterly		Key contributing factors for 4Q growth
	2002	2003e/	3Q '03	4Q '03e/	
P. R. China	8.2	9.1	9.6	9.9	Significant export expansion and robust domestic demand, particularly investment
Korea	6.3	2.9	2.3	3.6	Strong export performance more than offset weak private consumption
Singapore	2.2	0.8	1.8	3.7	Improved performances of both the manufacturing and services industries
Philippines	4.4	4.5	5.1	4.5	Robust private consumption and increased investments in selected sectors
Indonesia	3.7	4.1	3.9	4.4	Strong government expenditure and pick up in exports
C. Taipei	3.6	3.2	4.2	5.2	Strong exports performance

e/ Estimate

The inflation environment in the region remained benign. The P. R. China recorded consumer price increases, due mainly to higher food prices. In contrast, deflationary pressures abated in Hong Kong China and Chinese Taipei, consonant with improvements in domestic demand conditions. During the quarter, interest rate movements were mixed, but continued to remain at relatively low levels. Similarly, exchange rate movements were mixed, while international reserves positions strengthened further.

Development in the Malaysian Economy

Diversified growth across sectors

The stronger growth in the Malaysian economy was supported by expansion across all the major sectors of the economy, with the main impetus emanating from the manufacturing sector which contributed 3.5 percentage points to GDP. The more robust manufacturing sector further reinforced the recovery in the services sector.

Quarterly GDP by Kind of Economic Activity at 1987 Prices

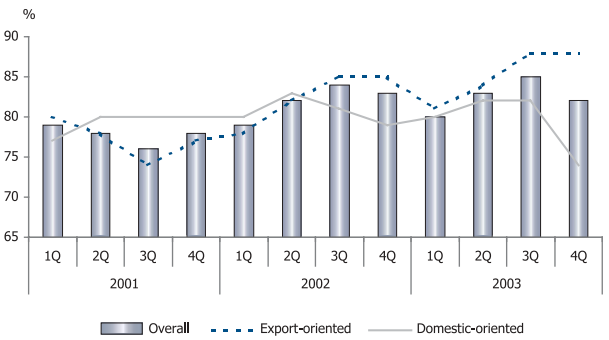
	2002		2003		
	4Q	Year	3Q	4Q	Year
	Annual change in %				
Agriculture	5.5	3.0	6.1	2.2	5.5
Mining	7.1	3.7	1.1	3.0	4.8
Manufacturing	5.7	4.0	8.3	12.0	8.2
Construction	0.5	2.3	2.4	2.7	1.9
Services	4.6	4.1	4.4	4.5	4.1
Real GDP (Annual chg.)	**5.4**	**4.1**	**5.2**	**6.4**	**5.2**
Real GDP (Preceding chg.)	**0.7**	**4.1**	**4.3**	**1.9**	**5.2**

Source: Department of Statistics, Malaysia

... manufacturing sector the main driver

Growth in the **manufacturing sector** accelerated to record a double-digit expansion of 12% during the quarter, driven by stronger exports and strengthening domestic demand. The higher growth emanated from stronger expansion in the export and domestic-oriented industries (17.2% and 8.3% respectively; 3Q 2003: 11.5% and 6% respectively). The capacity utilisation rate for the export-oriented sectors remained high at 88% (3Q 2003: 88%), while that of the domestic-oriented sectors declined to 74% (3Q 2003: 82%),

Capacity Utilisation in the Manufacturing Sector



due mainly to the lower production in the transport equipment industries. The overall manufacturing capacity utilisation rate remains high at 82% in the fourth quarter (3Q 2003: 85%).

The strong performance of the export-oriented industries reflected expansion in the electronics, chemicals and rubber products industries. Of significance, production of electronics increased markedly following rising global demand across all markets and product segments. The spillover effects from the strong electronics performance as well as the improved external demand for resins and plastic products underpinned the growth in the chemical products industry. The strong expansion in the rubber products industry was attributed mainly to higher external demand for rubber gloves. In the domestic-oriented industries, the higher growth was supported by expansion in the construction-related industries and food and beverages, while the performance of the transport equipment industry was affected by the slower demand for new cars.

Performance in the Manufacturing Sector

	2002		2003		
	4Q	Year	3Q	4Q	Year
	Annual change in %				
Value Added (Constant Price)	**5.7**	**4.0**	**8.3**	**12.0**	**8.2**
Overall Production	**6.7**	**4.5**	**10.1**	**15.2**	**10.3**
Export-oriented industries	**8.9**	**5.0**	**11.5**	**17.2**	**11.8**
of which :					
- Electronics	12.5	13.4	14.0	29.0	14.8
- Electrical	-4.2	-5.1	-11.9	-3.0	-6.9
- Textiles & wearing apparel	4.4	-6.2	0.4	-12.0	-2.4
- Chemicals and chemical products	13.1	2.7	20.2	22.6	20.7
- Off-estate processing	12.0	7.1	17.1	0.0	11.8
- Rubber products	5.5	2.0	26.2	23.7	18.7
- Wood and wood products[1/]	1.0	-6.0	1.1	-1.2	0.9
Domestic-oriented industries	**0.6**	**3.4**	**6.0**	**8.3**	**6.0**
of which :					
- Transport equipment	-7.9	6.2	-3.8	-0.3	-6.3
- Fabricated metal products	-1.9	0.8	0.5	17.2	7.3
- Iron & steel and non-ferrous metal	4.7	2.4	13.7	15.2	11.3
- Non-metallic mineral products	1.3	5.1	9.2	7.7	9.6
- Petroleum products	-6.0	-4.1	-6.5	-1.8	2.2
- Food	10.3	8.7	15.5	7.7	8.9

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

Reinforced by continued recovery of the services sector

The recovery in the services sector continued, with growth strengthening further to 4.5% in the fourth quarter (3Q 2003: 4.4%), underpinned by improved consumer sentiment, higher trade activity and resumption in tourist arrivals to pre-SARs levels of above one million since November. Of significance, the wholesale and retail trade, hotels and restaurants sub-sector recorded a significant improvement during the quarter due to a pick-up in spending during the Mega sales and year-end festivities.

Growth in the transport, storage and communications sub-sector picked up strongly led mainly by the strong growth in the telecommunications sector. In particular, the cellular segment was underpinned by expansion in both the subscriber base as well as higher usage of mobile data such as the Short Messaging System (SMS) and Multimedia Messaging System (MMS). This was further supported by increased port

Performance in the Services Sector (Value Added)

	2002		2003		
	4Q	Year	3Q	4Q	Year
	Annual change in %				
Intermediate Services	**3.8**	**4.3**	**6.2**	**5.9**	**5.2**
Transport, storage and communications	3.3	2.6	5.5	7.7	5.6
Finance, insurance, real estate and business services	4.0	5.3	6.6	4.9	4.9
Final Services	**5.2**	**4.1**	**3.2**	**3.6**	**3.4**
Electricity, gas and water	4.3	3.9	5.2	5.0	6.2
Wholesale and retail trade, hotels and restaurants	2.6	2.6	1.7	3.1	1.5
Government services	9.3	6.7	4.1	5.7	5.6
Other services	6.9	4.6	4.3	2.1	3.2
Total Services	**4.6**	**4.1**	**4.4**	**4.5**	**4.1**

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

Indicators	2003				
	2Q	3Q	4Q	3Q	4Q
	Levels			Preceding chg. (levels)	
Electricity Production Index	244.4	246.9	244.5	2.5	-2.4
KLSE CI (end-period)	691.96	733.45	793.94	41.5	60.5
MIER Retail Survey Index	96.3	125.0	114.0	28.7	-11.0
MIER Hotel Operators Index	81.0	139.0	133.6	58.0	-5.4
MIER Travel Agencies Index	73.0	122.0	138.1	49.0	16.1
	Annual change (%)			Preceding chg. (%)	
Tourist arrivals	-51.6	-24.2	3.8	46.7	37.1
Import of consumption goods	-1.6	-12.0	8.4	-6.6	27.6
Consumption credit disbursed	1.9	7.4	4.2	9.2	-0.1
Total passenger traffic in all airports in Malaysia	-15.9	3.4	8.1	31.4	6.7
Total indigenous TEUs handled 1/	7.0	8.4	12.8	7.7	3.2
Total loan outstanding (end-period)	4.2	5.1	4.8	1.9	0.3
Total property transactions (value)	-1.3	3.2	51.3	11.9	3.7

1/ For PTP and Port Klang
Source: Various sources

activity and the gradual return in air travel following the abatement of SARs. Similarly, the finance, insurance, real estate and business services sub-sector remained strong, reflecting the increased bank lending, strong insurance activities and a pick-up in the stock market activity. The Government services sub-sector expanded further as a result of bonus payments to civil servants in November, while the increasing demand for electricity from both commercial and industrial users supported growth in the utilities sub-sector.

Continued impetus from the primary commodity sector

The agriculture sector expanded further by 2.2% during the quarter, attributable to increases in crude palm oil and rubber production. Higher palm oil production was due to increased mature acreage coming into production and favourable weather conditions, while production of rubber from smallholders remained strong, motivated by the high prices during the quarter. Meanwhile, the mining sector posted a stronger performance, driven mainly by higher crude oil production.

Crude palm oil production continued to expand by 5.4% as monthly output remained above one million tonnes throughout the quarter. Despite the lower yields due to seasonal factors (4.74 tonnes of fresh fruit bunches per mature hectare, 3Q 2003: 5.49 tonnes), production during the quarter increased on account of expansion in mature area. Meanwhile, rubber output continued to register a double-digit increase due to intensive tapping activity, especially among smallholders, amidst higher rubber prices of 486 sen per kilogram during the quarter (annual growth of 55%). In the mining sector, production of crude oil, including condensates, rose further by 5.8% to record the highest quarterly production for the year of 758,700 barrels per day. Gas production declined during the quarter, following the shutdown of a few gas plants for maintenance purposes.

Performance of the Agriculture Sector

	2002		2003		
	4Q	Year	3Q	4Q	Year
	Annual change in %				
Value Added (at 1987 prices)	**5.5**	**3.0**	**6.1**	**2.2**	**5.5**
Production 1/					
Of which:					
Crude palm oil	1.6	0.9	15.2	5.4	12.1
Crude palm kernel oil	0.9	-3.9	20.6	3.4	11.5
Rubber	17.8	7.7	17.4	18.8	18.4
Saw logs	22.8	9.1	-2.2	-6.8	3.5
Cocoa	35.2	-17.4	-56.5	-42.2	-24.0

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

Performance of the Mining Sector

	2002		2003		
	4Q	Year	3Q	4Q	Year
	Annual change in %				
Value Added (at 1987 prices)	**7.1**	**3.7**	**1.1**	**3.0**	**4.8**
Production					
Of which:					
Crude oil and condensates ('000 barrels)	7.4	4.9	2.2	5.8	5.4
Natural gas (net) (million standard cubic feet)	9.3	2.9	-1.1	-2.2	5.2

Sustained growth in the construction sector

In the **construction** sector, growth was sustained at 2.7%, supported by both the civil engineering and residential sub-sectors. In the residential sub-sector, activity was supported by new housing starts as well as ongoing works on housing projects from previous launches. The incentives in the Economic Package, low interest rates and attractive financing packages supported the demand for houses. In the civil engineering sub-sector, a higher amount was expended by the Government on construction activity.

Construction Indicators

	2002		2003		
	4Q	Year	3Q	4Q	Year
	Annual change in %				
New sales and advertising permits	-11.4	11.8	14.9	21.5	-2.7
Housing approvals	-32.3	-12.4	19.3	26.7	3.3
Production of construction-related materials	2.8	3.8	11.2	11.1	10.3
Loans approved for construction	69.6	32.0	16.6	15.9	-5.0
Imports of construction materials & mineral products	8.7	10.7	-23.2	15.4*	-8.8**

* *Oct.-Nov. '03*
** *Jan.-Nov. '03*

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

Stronger domestic growth supported by higher private sector activities

On the demand side, growth in domestic demand was led by the private sector, with household consumption gaining greater strength. Higher consumption spending was supported by improving consumer confidence, rising disposable incomes, higher commodity prices, low interest rates, increased access to financing and the positive wealth effect of higher equity prices. Stronger external performance further increased business confidence during the quarter. For the first time since August 2002, sales of passenger cars turned around in December, reflecting in part some pent-up demand. The higher propensity to consume was encouraged by the annual year-end bonus payments amidst more favourable employment prospects, the seasonal festivities and higher export earnings. Consequently, private consumption recorded a stronger growth of 6.9% during the quarter. Public consumption was also higher, increasing by 11.1% due mainly to higher expenditure on supplies and services.

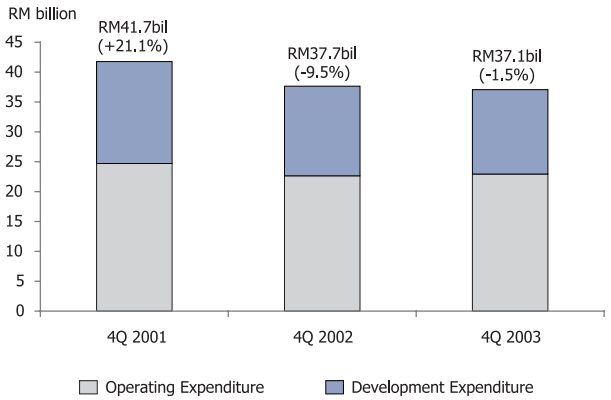
GDP by Expenditure Components (at Constant 1987 prices)

	2002		2003			
	3Q	4Q	1Q	2Q	3Q	4Q
	Annual change in %					
Aggregate domestic demand (excluding stocks)	6.1	6.6	5.9	3.0	3.4	6.7
Consumption	7.8	5.1	6.9	4.3	3.5	8.0
Private sector	*4.2*	*4.6*	*4.3*	*3.4*	*5.4*	*6.9*
Public sector	*19.2*	*6.5*	*18.9*	*7.2*	*-1.7*	*11.1*
Gross Fixed Capital Formation	2.8	10.0	3.8	0.4	3.2	3.6
Exports of Goods and Services	11.2	10.9	5.5	4.4	4.4	10.9
Imports of Goods and Services	15.6	8.7	2.8	-0.5	1.5	15.9
GDP	**5.8**	**5.4**	**4.6**	**4.5**	**5.2**	**6.4**

Source: Department of Statistics, Malaysia

An important development is the stronger growth in investment during the quarter with gross fixed capital formation rising by 3.6%. Private investment in machinery and equipment strengthened as business sentiment improved and

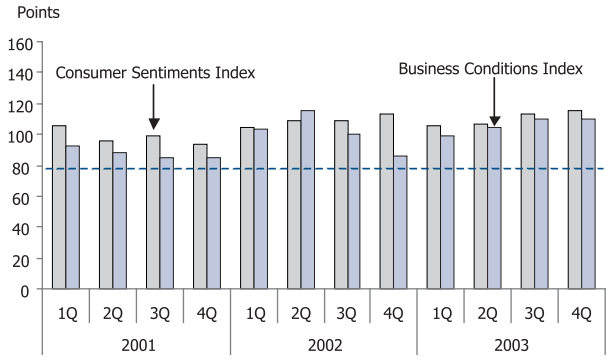
Sustained Federal Government Spending



capacity utilization remained high, especially for the export-oriented industries in the manufacturing sector. Meanwhile, development expenditure of the Federal Government, though lower than in the corresponding quarter of 2002, remained high in the fourth quarter due mainly to continued high expenditure on transportation and health facilities. The fiscal deficit, however, narrowed in the fourth quarter.

Revisions to the trade data (following the changeover to the Electronic Data Interchange System) show strong contribution of the export sector to expansion in output and improved overall business sentiments. As the trade data is still being reviewed, further statistical revisions in the demand components is expected. Accordingly, the demand components in the national accounts, in particular, the items "change in stocks" and "net exports", will also be adjusted when the revisions to the trade data have been finalised.

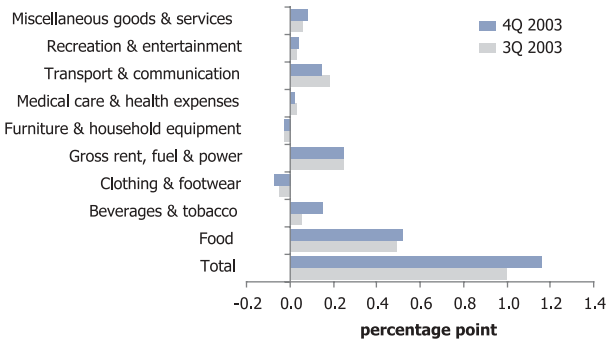
Stronger consumer and business confidence



Inflation continued to remain low

While growth was more robust, inflation (as measured by the change in the consumer price index (CPI), remained low at 1.2% (1.0% in 3Q 2003). Higher price increases for selected food items were mainly due to stronger demand during the festive season. Higher prices of beverage and tobacco products reflected the imposition of higher import and excise duties in the 2004 Budget. Price pressures for other items remained subdued.

Contribution to Inflation

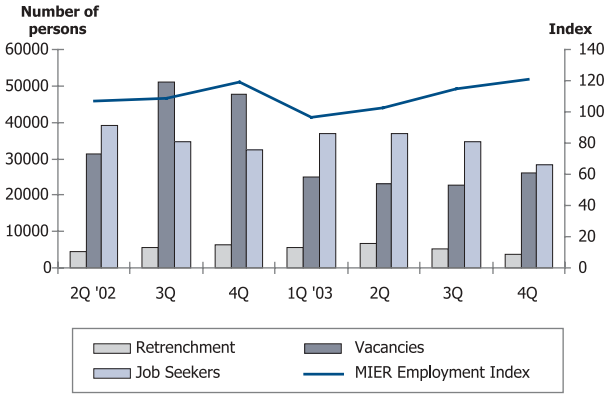


Labour market conditions more favourable

Supported by growth in productivity, labour market conditions improved. In the manufacturing sector, in the fourth quarter, labour productivity, as measured by real sales value of products per employee, rose by 9.7%, exceeding the 2.9% increase in real wage per employee. Retrenchment

during the quarter was lower (3,757 persons; 3Q 2003: 5,328 persons).

Stable Labour Market Conditions



Larger trade surplus in the fourth quarter

In the external sector, revised data indicate that the trade surplus in the fourth quarter was larger at RM19.8 billion (3Q 2003: RM19.4 billion). Gross exports expanded strongly by 14.9% while imports increased at a faster rate of 16% (3Q 2003: 1.9%). The expansion in gross exports was due to the significant increases in exports of manufactures and continued strong growth in exports of primary commodities. In the manufacturing sector, higher exports was due mainly to the upswing in the electronics cycle. Exports of agriculture and minerals remained strong, supported by high prices and export volume of palm oil, LNG and crude oil.

Trade Account

	2002		2003					
	3Q	4Q	Year	1Q	2Q	3Q	4Q	Year
	Annual change in %							
Gross Exports	14.3	14.0	7.0	12.3	11.1	7.9	14.9	11.5
Gross Imports	19.6	9.7	8.3	4.0	-2.0	1.9	16.0	4.9
Trade balance (RM bil)	13.5	17.9	54.3	20.2	21.2	19.4	19.8	80.5

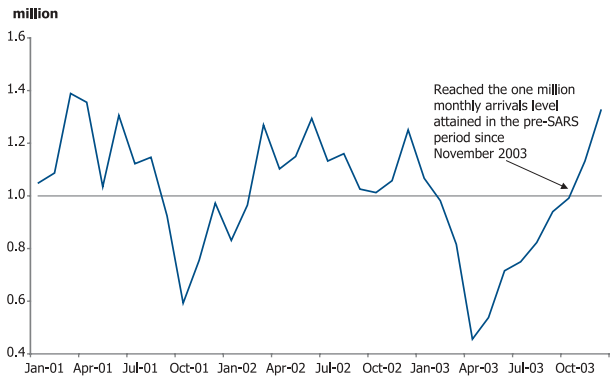
Source: Department of Statistics, Malaysia

The significant rise in imports reflects strong expansion in all categories of imports. In line with the pick-up in electronics exports, imports of intermediate goods, which are inputs for manufactured goods, recorded a strong growth. Imports of consumption goods expanded due mainly to higher demand during the festive season reinforced by the general improvement in consumer sentiment. Imports of capital goods grew at a robust rate, reflecting continued improvement in investor confidence.

Sustained improvement in tourist arrivals

Tourist arrivals increased significantly to 3.5 million in the fourth quarter of 2003 from 2.5 million in the third quarter, mainly from Singapore, China and Indonesia. Higher arrivals was also due to the launch of direct flights from London to Penang and Langkawi while tourism promotion was conducted in new markets such as Iran. Major events like the Langkawi International Maritime and Aerospace (LIMA) Exhibition and Organisation of the Islamic Conference (OIC) Summit were also contributory factors. For the year as a whole, tourist arrivals reached 10.6 million.

Monthly Tourist Arrivals



Larger inflows of investment funds

On a cash basis, gross inflows of long-term investments (FDI) were higher during the fourth quarter (RM5.1 billion; 3Q 2003: RM4 billion). Inflows for equity investments doubled, accounting for more than half of the FDI flows. The bulk of the FDI inflows were channelled into the manufacturing sector, in particular electrical and electronics and petroleum related activities and the oil and gas sector. The services sub-sectors which received significant FDI were the financing, insurance and business services and wholesale and retail trade sub-sectors. After adjusting for outflows due mainly to loan repayment by related companies, FDI recorded a net inflow of RM2.1 billion (3Q 2003: RM 1.2 billion).

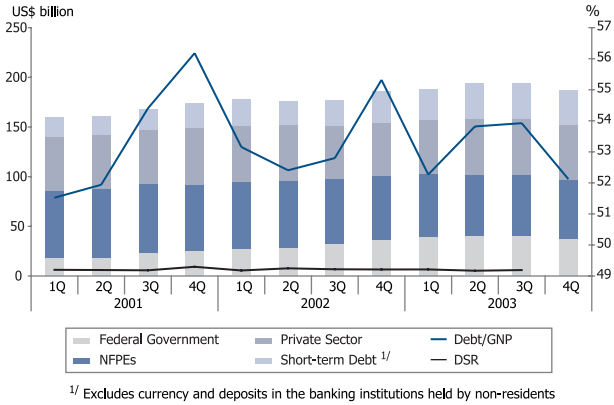
Gross outflows for overseas investment moderated (RM2 billion; 3Q 2003: RM2.4 billion), reflecting lower extension of loans by parent companies in Malaysia to their related companies abroad. About one third of the investments were by companies in the manufacturing sector, investing mainly in the electrical and electronics industries in Thailand, Hong Kong and the US. Investment by companies in the oil and gas sector was sustained, while the bulk of the investments by companies in the financing, insurance and business services sub-sector were channelled to Singapore and Indonesia. Overseas investment, after adjusting for inflows for the repayment of inter-company loans, recorded a lower net outflow of RM1.1 billion during the quarter (3Q 2003: -RM1.6 billion).

Portfolio investment recorded the highest net quarterly inflow since the third quarter of 1994, amounting to RM6.8 billion (3Q 2003: RM 3.6 billion). Investor sentiment improved in the equity market, especially following the strong set of reported corporate earnings and the upgrade of Malaysia's sovereign rating in October.

External debt declined

Malaysia's total external debt declined to RM187.2 billion or US$49.3 billion as at end-2003 (3Q 2003: RM193.7 billion), equivalent to 52.1% of GNP. The **medium and long-term external debt** recorded a higher net repayment of RM6.4 billion during the quarter. Notably, the bulk of the repayment was effected by the public sector, particularly, the Federal Government. The large repayments, including the settlement of a term loan amounting to RM2.6 billion and prepayments of some loans, coupled with no new borrowing by the Federal Government reflected the authorities' commitment to a prudent external debt management policy. Consequently, the share of the Federal Government's external loan to total external debt declined to 19.9% (3Q 2003: 20.7%). The non-financial public enterprises (NFPEs) continued to record a higher net repayment in the quarter, reflecting mainly a redemption of yen bond and some prepayments of foreign borrowings. Similarly, the private sector recorded a small net repayment,

External Debt



1/ Excludes currency and deposits in the banking institutions held by non-residents

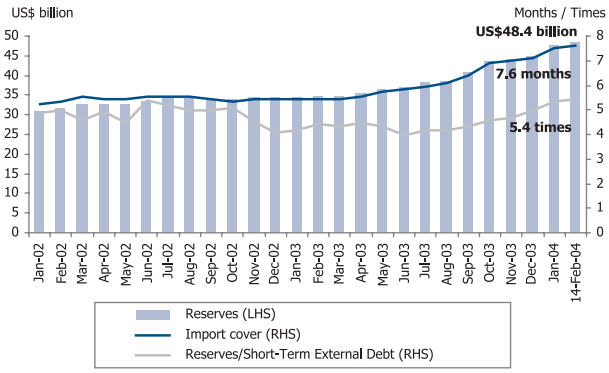
External Debt Outstanding

	2002	2003	
	4Q	3Q	4Q
	RM billion		
Medium & Long-term debt	153.6	157.6	152.8
Public sector	100.6	101.5	96.8
Private sector	53.0	56.2	55.9
Short-term debt [1]	32.1	36.1	34.5
Total external debt	185.6	193.7	187.2
- US$ billion equivalent	48.9	51.0	49.3

[1] Excludes currency and deposits held by non-residents with banking institutions.

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

Net International Reserves (as at end period)



attributed mainly to a lower drawdown, while repayment was sustained. After taking into account the exchange revaluation loss following the appreciation of yen and euro, the medium and long-term debt declined by 3.1% to RM152.8 billion or US$40.2 billion (3Q 2003: RM157.6 billion).

The total **short-term external debt** was lower at RM34.5 billion or US$9.1 billion (3Q 2003: RM36.1 billion) due mainly to the winding down of interbank foreign borrowings as there were higher foreign currency deposits at commercial banks during the quarter. As at end-2003, the short-term debt accounted for only 18.4% of total external debt, and is about 20.2% of net international reserves.

International reserves increased further

The international reserves of Bank Negara Malaysia increased further during the fourth quarter of 2003. Reserves increased by RM15.8 billion or US$4.2 billion since end-September to stand at RM170.6 billion or US$44.9 billion as at 31 December 2003. The increase in reserves during the quarter was attributed mainly to sustained repatriation of export earnings, higher foreign direct investment and larger inflows of portfolio funds in line with the more robust economic activity and improved investor sentiment. The reserves level at the end of December has also taken into account the quarterly adjustment of the foreign exchange revaluation gain amounting to US$1.8 billion, mainly as a result of the appreciation of the major currencies against the US dollar during the quarter.

The international reserves increased further to RM183.9 billion or US$48.4 billion as at 14 February 2004, reflecting mainly higher repatriation of export earnings. There was also an inflow of portfolio funds. The current level of reserves is adequate to finance 7.6 months of retained imports and is 5.4 times the short-term external debt.

Lower Fiscal Deficit

The Federal Government recorded a lower deficit of RM2.4 billion in the fourth quarter. The improvement in its fiscal position reflected mainly higher revenue receipts. Stronger revenue performance recorded in the fourth quarter was due mainly to higher investment income. Development expenditure remained high due to stage

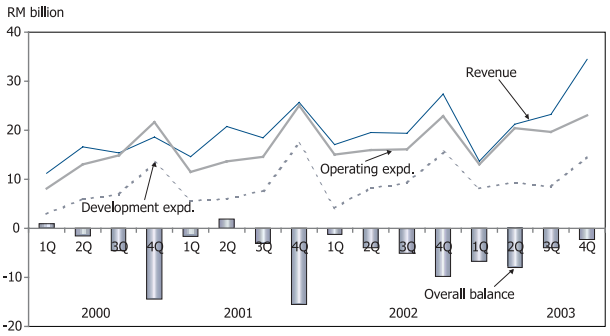
implementation of projects in progress. The deficit was financed largely through non-inflationary domestic sources in the form of Malaysian Government Securities (MGS). Total outstanding debt of the Federal Government remained within prudent levels (48.2% of GDP) as at end-2003. The Federal Government external debt was contained at 19.9% of the nation's external debt. The preliminary data for the year 2003 showed a deficit of 5.4% of GDP.

Federal Government Finance [p]

	2002		2003		
	4Q	Jan.-Dec.	3Q	4Q	Jan.-Dec.
	RM billion				
Revenue	27.3	83.5	23.3	34.4	92.6
% growth	*6.3*	*5.0*	*19.9*	*25.8*	*10.9*
Operating expenditure	22.5	68.7	19.4	22.8	75.2
% growth	*-9.0*	*7.8*	*22.9*	*1.2*	*9.5*
Current account	***4.8***	***14.8***	***3.9***	***11.6***	***17.4***
% of GDP	***5.0***	***4.1***	***3.9***	***11.2***	***4.4***
Gross development expenditure	15.2	36.0	8.1	14.3	39.4
% growth	*-10.3*	*2.1*	*-8.5*	*-5.5*	*9.4*
Loan recoveries	0.5	0.9	0.3	0.4	0.8
Overall balance	***-9.8***	***-20.3***	***-4.0***	***-2.4***	***-21.1***
% of GDP	***-10.2***	***-5.6***	***-4.0***	***-2.3***	***-5.4***
Memo item:					
Total gross expenditure	***37.7***	***104.7***	***27.5***	***37.1***	***114.6***
% growth	*-9.5*	*5.7*	*11.6*	*-1.5*	*9.5*
Total Federal Government debt (as at end period)	165.0	165.0	188.6	188.8	188.8
% of GDP	45.7	45.7	48.1	48.2	48.2
Domestic	*128.7*	*128.7*	*148.4*	*151.5*	*151.5*
External	*36.3*	*36.3*	*40.2*	*37.3*	*37.3*

[p] Preliminary

Federal Government Finance [p/]



[p/] Preliminary

MONETARY AND FINANCIAL DEVELOPMENTS

Monetary conditions supported stronger economic activity

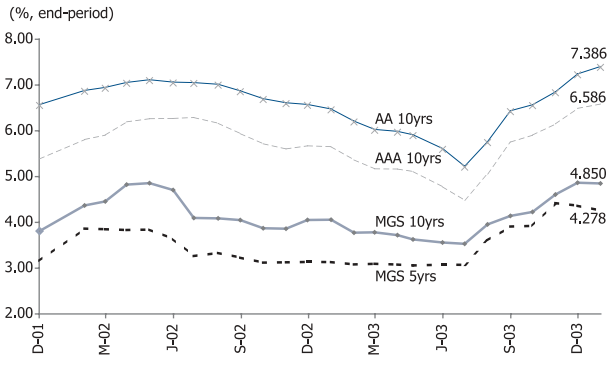
The accommodative stance of monetary policy was maintained in the fourth quarter of 2003, to ensure that domestic economic expansion is well-entrenched. Against a background of benign price pressure, the maintenance of low interest rates and ample liquidity in the banking system has resulted in stronger growth in total financing to the private sector. Financing of economic activities through the banking system and the capital market rose significantly during the fourth quarter.

Interest Rates

	2002	2003	
	4Q	3Q	4Q
	At end-period (%)		
3-month Intervention rate	5.0	4.5	4.5
Interbank rates			
Overnight	2.71	2.75	2.72
1- month	2.99	2.99	2.99
Base lending rates (BLR)			
Commercial banks	6.39	6.00	6.00
Finance companies	7.45	6.90	6.90
Average lending rates			
Commercial banks	6.50	6.17	6.11
Finance companies	9.75	9.16	9.11
Fixed deposit			
Commercial banks			
3-month	3.20	3.00	3.00
12-month	4.00	3.70	3.70
Finance companies			
3-month	3.20	3.00	3.00
12-month	4.00	3.68	3.68

Source: Bank Negara Malaysia

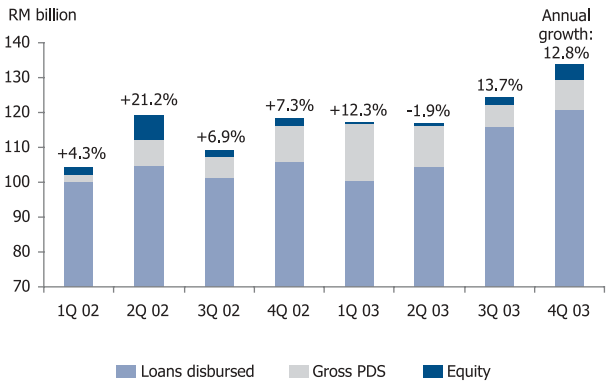
Long term Interest Rates



Higher financing activity

The positive external environment, reinforced by strengthening domestic demand, led to stronger demand for financing by the private sector during the fourth quarter. Gross financing raised from the banking system, the equity and bond markets were higher compared with the third quarter. Total funds raised, amounting to RM133.7 billion, were 7.6% higher than the amount raised in the third quarter.

Gross Private Sector Financing through Banking System and Capital Market



Sustained strong bank lending activities were reflected in loan approvals and disbursements. Higher approvals in previous quarters resulted in strong growth in disbursements (14.3%). Loans disbursed to the business sector were higher at RM84.4 billion during the quarter (RM79.5 billion in 3Q 2003). The bulk of the disbursements were

channeled mainly to the manufacturing, and wholesale, retail, restaurants and hotel sectors and largely for working capital purposes. Amidst an improving economic environment, the applications for loans from businesses moderated as corporates relied on more internally generated funds following improving cash flows.

Financing of the private sector through banking system and capital market

	During the period (RM billion)					Annual growth		
	2002		2003			2003		
	4Q	Year	3Q	4Q	Year	3Q	4Q	Year
Gross total financing	**118.5**	**451.5**	**124.3**	**133.7**	**492.2**	**13.7**	**12.8**	**9.0**
Loans disbursed[1]	105.7	411.6	115.9	120.9	441.7	14.6	14.3	7.3
Gross PDS[2]	10.6	26.7	6.4	8.3	42.8	2.6	-22.3	60.5
Equity	2.1	13.3	2.0	4.6	7.8	4.8	116.5	-41.5
						(At end period, %)		
Net total financing (A)+(B)	**4.6**	**6.1**	**13.0**	**6.5**	**50.3**	**8.8**	**9.0**	**9.0**
Banking system	5.0	21.5	9.6	4.7	28.3	6.0	5.9	5.9
Loans outstanding (A)	2.7	19.8	8.6	1.5	21.8	5.1	4.8	4.8
Holding of PDS	2.3	1.7	0.9	3.1	6.5	22.4	23.4	23.5
PDS outstanding (B)	1.8	-13.7	4.3	5.0	28.5	24.9	27.4	27.4

1 Banking system loans include loans sold to Cagamas.

2 Private debt securities (PDS) exclude Cagamas bonds since financing raised by Cagamas is already reflected in banking system loans. Including Cagamas issues, gross private debt securities rose by 3.2% in the fourth quarter and 40.8% for 2003.

Within the business sector, lending activity to the SME sector continued to grow strongly. The stronger increase in outstanding loans by RM2.4 billion during the quarter (+RM1.5 billion in 3Q 2003) was underpinned by the demand from the broad property and wholesale, retail, restaurant and hotels sectors. At end-December 2003, outstanding loans to SMEs grew at a strong annual rate of 10%, the highest rate registered since July 2001. Consequently, the share of SME loans rose to 17.3% of total outstanding loans and 38.3% of outstanding loans to businesses (16.5% and 34.1% respectively as at end-2002).

Another important initiative to assist the SME sector was the establishment of the Rehabilitation Fund for Small Businesses on 1 November 2003, with an allocation of RM800 million to provide new financing for the small debt resolution process. With the introduction of this new fund, the existing restructuring and financing mechanism under the Rehabilitation Fund for Small and Medium-sized Industries and Entrepreneurs Rehabilitation and Development Fund has been discontinued.

In the household sector, loan applications, approvals and disbursements continued to remain strong during the fourth quarter. Loan applications for the purchase of residential properties and for consumption credit were sustained. In terms of disbursements, the bulk of the funds were channeled towards mortgage loans (32% share of total disbursements to households), credit

Loans by Sector

	Loans disbursed						Loans Out-standing
	During the period					Share of total	Share of total
	2002		2003				
	4Q	Year	3Q	4Q	Year	4Q	
	RM billion					%	
Business enterprises	72.6	282.0	79.5	84.4	303.4	69.8	45.1
Large Corporations	*n.a.*	*232.5*	*57.6*	*59.5*	*216.3*	*49.2*	*27.8*
SMEs	*n.a.*	*49.5*	*21.9*	*24.9*	*87.1*	*20.6*	*17.3*
Households	27.0	105.1	30.6	30.4	114.5	25.1	48.8
By sector							
Agriculture, hunting, forestry and fishing	2.7	9.3	3.1	3.0	11.1	2.5	2.2
Mining and quarrying	0.4	1.5	0.7	0.5	1.7	0.4	0.2
Manufacturing	26.6	105.3	27.9	28.5	110.4	23.6	12.9
Broad Property Sector	18.1	75.8	21.1	21.6	78.9	17.9	39.8
Construction	*7.0*	*30.1*	*7.3*	*7.2*	*27.5*	*6.0*	*6.2*
Purchase of residential property	*7.2*	*29.7*	*9.7*	*9.7*	*35.6*	*8.1*	*24.6*
Purchase of non-residential property	*2.1*	*8.8*	*2.6*	*2.7*	*9.7*	*2.3*	*6.1*
Real Estates	*1.8*	*7.3*	*1.4*	*1.9*	*6.1*	*1.6*	*2.9*
Electricity, gas and water supply	2.3	6.9	2.0	1.0	6.0	0.9	1.1
Wholesale, retail, restaurants and hotels	17.2	64.6	17.1	19.3	70.1	16.0	8.3
Transport, storage and communication	2.3	10.8	4.3	2.4	12.0	2.0	2.3
Finance, insurance and business services	6.9	23.7	9.7	14.7	36.7	12.1	6.2
Consumption Credit	17.9	69.3	18.9	18.9	72.4	15.7	18.8
Of which:							
Credit Cards	*7.4*	*25.4*	*7.9*	*8.5*	*30.5*	*7.0*	*2.6*
Purchase of Passenger Cars	*6.0*	*25.8*	*6.7*	*5.7*	*24.5*	*4.7*	*13.0*
Purchase of securities	3.7	12.3	4.0	3.4	12.9	2.9	4.2
Purchase of transport vehicles	0.3	2.4	0.2	0.3	1.2	0.2	0.7
Others	7.3	29.7	6.9	7.3	28.3	5.8	3.3
Total	**105.7**	**411.6**	**115.9**	**120.9**	**441.7**	**100.0**	**100.0**

Source: Bank Negara Malaysia

Loan Indicators

	During the period					Annual Growth				
	2002		2003			2002		2003		
	4Q	Year	3Q	4Q	Year	4Q	Year	3Q	4Q	Year
	RM billion					(%)				
Total										
Loan applications	52.2	217.2	62.8	55.8	227.6	19.7	14.0	7.8	6.8	4.8
Loan approvals	33.3	137.6	40.1	38.9	152.7	12.6	9.5	7.1	16.8	11.0
Loan disbursements	105.7	411.6	115.9	120.9	441.7	10.6	10.2	14.6	14.3	7.3
Loan repayments	104.7	402.7	109.9	123.0	430.5	6.7	10.2	8.7	17.5	6.9
Change in loan outstanding 1/	2.7	19.8	8.6	1.5	21.8	4.6	4.6	5.1	4.8	4.8
of which:										
Business enterprises										
Loan applications	31.5	135.3	34.0	28.6	124.9	n.a.	n.a.	-4.2	-9.4	-7.7
Loan approvals	16.6	68.5	20.3	18.8	77.2	21.6	7.9	7.0	13.9	12.7
Loan disbursements	72.6	282.0	79.5	84.4	303.4	8.5	4.3	17.0	16.2	7.6
Loan repayments	71.2	275.8	77.0	86.9	299.6	-2.9	-0.4	10.4	22.2	8.6
Change in loan outstanding 1/	-1.8	-3.1	0.4	-4.8	-5.1	-1.4	-1.4	-1.0	-2.3	-2.3
SMEs										
Loan applications	n.a.	n.a.	12.1	9.8	44.5	n.a.	n.a.	n.a.	n.a.	n.a.
Loan approvals	n.a.	n.a.	6.4	6.6	25.7	n.a.	n.a.	n.a.	n.a.	n.a.
Loan disbursements	n.a.	n.a.	21.9	24.9	87.1	n.a.	n.a.	n.a.	n.a.	n.a.
Change in loan outstanding 1/	0.4	...	1.5	2.4	7.4	...	...	7.3	10.0	10.0
Other business										
Loan applications	n.a.	n.a.	21.9	18.8	80.4	n.a.	n.a.	n.a.	n.a.	n.a.
Loan approvals	n.a.	n.a.	13.9	12.2	51.5	n.a.	n.a.	n.a.	n.a.	n.a.
Loan disbursements	n.a.	n.a.	57.5	59.5	216.4	n.a.	n.a.	n.a.	n.a.	n.a.
Change in loan outstanding 1/	-2.2	-3.1	-1.1	-7.1	-12.5	-2.1	-2.1	-5.2	-8.7	-8.7
Households										
Loan applications	20.1	81.9	28.1	25.5	98.5	n.a.	n.a.	25.2	26.8	20.2
Loan approvals	16.5	66.9	19.2	18.7	72.0	9.5	13.0	8.3	13.3	7.6
Loan disbursements	27.0	105.1	30.6	30.4	114.5	11.1	20.8	14.1	12.5	8.9
Loan repayments	21.8	83.7	23.8	26.3	94.1	15.3	17.0	13.5	20.6	12.4
Change in loan outstanding 1/	5.7	26.2	7.9	7.4	26.2	14.7	14.7	12.3	12.8	12.8

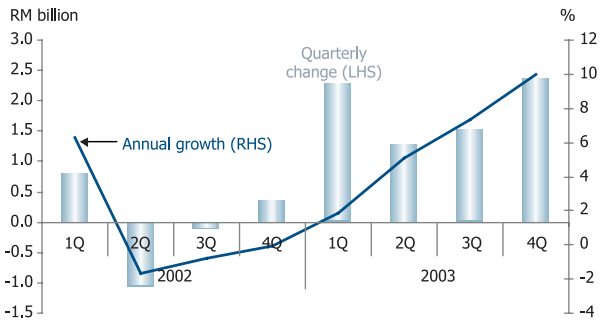
1/ The annual growth is for end-period

Source: Bank Negara Malaysia

cards (28%), purchase of passenger cars (19%) and personal use (15%). The applications and disbursements of car loans however, were marginally lower in the fourth quarter compared with the third quarter as consumers postponed car purchases with the impending announcement of the new tariff structure for passenger cars.

In terms of outstanding loans, banking system loans grew at an annual rate of 4.8% at end-December 2003 (5.1% at end-September), reflecting to a large extent higher repayments by both business and household sectors following improved cash flow position and higher income.

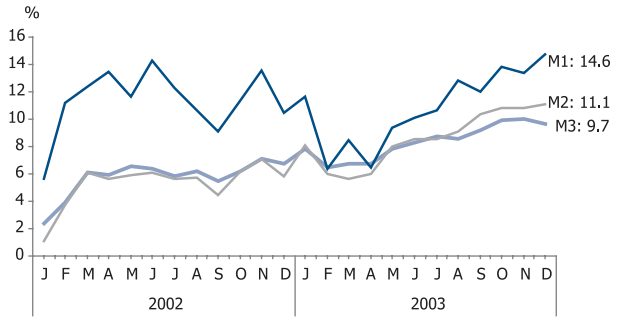
Stronger expansion in bank lending to SMEs



Stronger expansion in monetary aggregates

Concomitant with the improved economic outlook, the rising trend of growth rates in monetary aggregates since the second quarter of 2003 continued into the fourth quarter, with M1, M2 and M3 growing by 14.6%, 11.1% and 9.7% respectively at end-December 2003 (11.9%, 10.3% and 9.2% respectively at end-September). The year-end holiday and festival-related consumption increased the seasonal demand for both currency and demand deposits. Expansionary external operations due to large inflows of funds arising from the repatriation of export earnings and investment inflows as well as expansionary Government operations provided the major impetus to the increase in broad money supply, M3, which rose by RM14.3 billion in the fourth quarter (RM13 billion in 3Q 2003).

Monetary Aggregates: Annual Growth



M3 Determinants

	Change during the quarter				
	2002		2003		
	4Q	Year	3Q	4Q	Year
	RM billion				
M3	11.0	31.6	13.0	14.3	48.5
Net claims on Government	1.2	11.6	-5.6	8.4	12.9
Claims on private sector	9.5	27.7	13.0	3.5	32.4
Net external operations[1]	-0.9	1.2	10.6	10.9	19.6
Other influences	1.2	-8.9	-5.1	-8.6	-16.4

[1] Pre-revaluation
Source: Bank Negara Malaysia

Higher funds raised in the market

On a gross basis, a higher amount of financing was raised in the capital market in the fourth quarter. These funds, which were raised mainly through the issuances of private debt securities (PDS) and initial public offerings (IPOs) as well as re-openings of Malaysian Government Securities (MGS), amounted to RM18.6 billion. After adjusting for redemptions, net funds raised in the capital market amounted to RM682 million during the quarter.

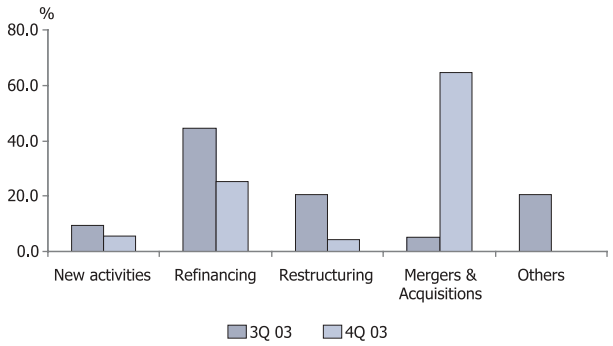
During the fourth quarter, improving market sentiment and measures introduced to enhance liquidity and efficiency of the capital resulted in more companies sourcing for financing through the equity market. New measures announced during the quarter included, among others, the reduction in IPO processing time,

Funds Raised in the Capital Market

	2002		2003	
	3Q	4Q	3Q	4Q
	RM million			
By Public Sector				
Government Securities, *gross*	3,677	6,000	12,632	2,768
Less Redemptions	1,000	2,000	6,800	-
Less Government holdings	-	-	-	-
Equals Net Federal receipts	2,677	4,000	5,832	2,768
Khazanah Bonds, *net*	-	-	(183)	(210)
Govt. Investment Issues, *net*	-	738	-	-
Malaysia Savings Bond, *net*	(3)	(2)	(2)	(2)
Net Funds Raised	2,674	4,736	5,647	2,556
By Private Sector				
Shares	1,935	2,112	2,028	4,573
Debt securities	8,456	11,701	10,165	10,493
Private Debt Securities (PDS)	*6,211*	*10,636*	*6,370*	*8,268*
Cagamas	*2,245*	*1,065*	*3,795*	*2,225*
Less Redemptions	3,458	10,271	4,482	16,940
Net Issues	4,997	1,430	5,684	(6,447)
Net issues (excluding Cagamas)	*5,077*	*685*	*3,744*	*(8,672)*
Net Funds Raised	6,932	3,542	7,712	(1,874)
Total Net Funds Raised	9,606	8,278	13,358	682
Short-term Papers and Notes, *net* 1/	(543)	413	(85)	(884)
Total	9,063	8,691	13,273	(202)

1/ Refers to Commercial Papers and Cagamas Notes only.

Private Debt Securities Issued by Purpose (% of total)



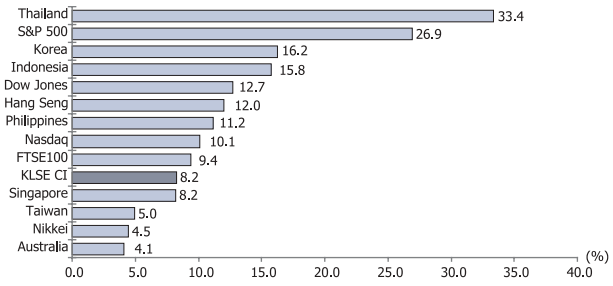
greater flexibility for share buy-backs and share-split exercises as well as the approval for Malaysian businesses abroad and foreign companies to list on the KLSE. On 29 October a large foreign-based company was listed, raising a total of RM2.03 billion. Total funds raised in the fourth quarter doubled to RM4.6 billion from RM2 billion in the third quarter. The bulk of the funds were raised through IPOs (RM3 billion) and rights issues (RM1.3 billion). There were 22 new listings on the KLSE during the period, with five listings on the Main Board, ten on the Second Board and seven on the MESDAQ Market.

On a gross basis, new issues of PDS (excluding Cagamas bonds) increased to RM8.3 billion (RM6.4 billion in the previous quarter). The higher issuance was due mainly to two large issues by companies in the utilities and telecommunication sectors. Funds raised through the PDS market during the quarter were mainly for mergers and acquisitions (64.8% of total), and for refinancing (25.4%). The new issues were mainly in the form of straight bonds and Islamic debt securities. During the quarter, there was a full redemption of Danamodal bonds, amounting to RM11 billion. As a result, the PDS market recorded a net redemption position.

Strong KLSE CI Performance

Market sentiments improved in the fourth quarter following positive prospects for stronger economic expansion globally and in the domestic economy. The KLSE CI breached the 800-point threshold to reach 812.17 points on 31 October, its highest point in 2003.

Performance of Selected Global and Regional Markets in the Fourth Quarter of 2003



During the fourth quarter, the KLSE CI gained 60.5 points (+8.2% since the end of third quarter and +23% since end-2002). Market capitalisation and average daily trading activities during the quarter were also higher at RM640.3 billion and 658.1 million units respectively. For the year as a whole, the KLSE recorded significant gains in terms of prices and

KLSE: Selected Market Indicators

	As at end				
	2002		2003		
	3Q	4Q	2Q	3Q	4Q
Price Indices					
- Composite	638.01	646.32	691.96	733.45	793.94
- EMAS	155.39	157.25	170.23	182.03	195.57
- Second Board	102.89	98.24	108.96	122.03	140.64
Average daily turnover					
- Volume (million units)	159.1	143.4	286.7	644.3	658.1
- Value (RM million)	349.2	275.8	457.2	958.1	1,179.8
Market Capitalisation (RM b)	476.35	481.62	532.45	572.26	640.28
No. of Companies Listed	859	865	877	889	906

Source: Kuala Lumpur Stock Exchange

KLSE: Turnover of Corporate Securities

	2002				2003					
	3Q		4Q		2Q		3Q		4Q	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	10,501	23,045	8,890	17,098	17,775	28,349	41,877	62,274	40,144	71,970
of which:										
Main Board	8,857	20,888	7,276	14,914	14,421	24,648	27,849	46,225	27,495	51,391
of which:										
- Consumer Products	327	1,504	255	1,095	509	1,959	857	2,768	944	3,086
- Industrial Products	738	1,447	575	1,213	1,429	2,105	3,911	5,406	3,735	5,369
- Construction	745	1,516	869	1,199	1,181	1,796	2,088	3,967	2,177	5,415
- Trading/Services	2,382	8,171	1,791	5,384	3,329	9,009	5,993	14,829	6,118	16,632
- Finance	1,370	4,386	1,244	3,335	1,908	4,422	3,497	8,471	3,468	9,065
- Properties	963	765	996	749	2,942	2,210	5,215	4,567	5,138	5,446
- Plantations	234	1,016	178	737	307	1,129	675	1,815	638	1,981
- Mining	45	106	38	72	53	92	42	67	36	102
Second Board	1,462	2,079	1,523	2,162	2,685	3,377	8,069	12,103	10,100	18,229

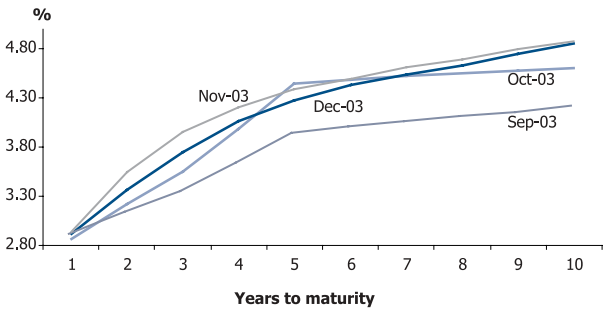
Source: Kuala Lumpur Stock Exchange

trading activities. The better outlook for the domestic economy as well as favourable capital market measures introduced by the Government, improved market sentiment in the second half of 2003.

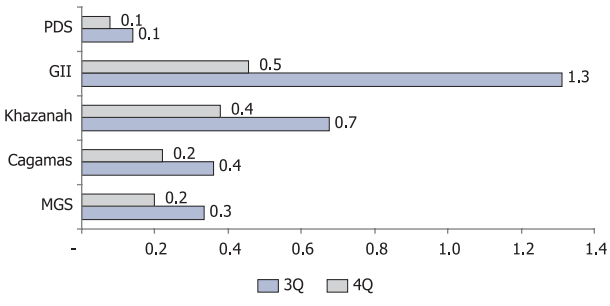
Secondary trading in the bond market

Total turnover in the secondary bond market declined to RM52.8 billion in the fourth quarter (RM97.4 billion in the previous quarter). Amidst thin trading, the yields for MGS increased by another 44 basis points for 5-year MGS and 64 basis points for 10-year MGS during the first two months of the quarter. Improving prospects for the global economic and domestic led to investors demanding higher yields. Bond yields, however, stablised lower in December.

Trend in MGS Yield



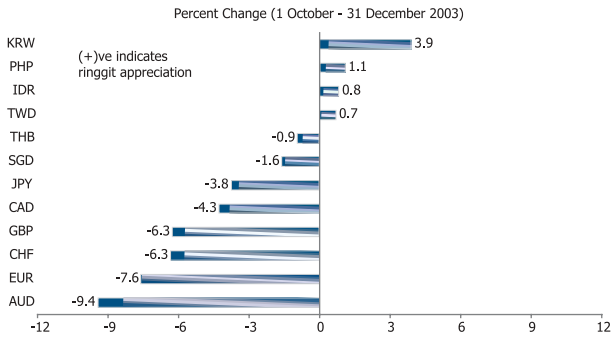
Liquidity Ratio: Turnover/Outstanding



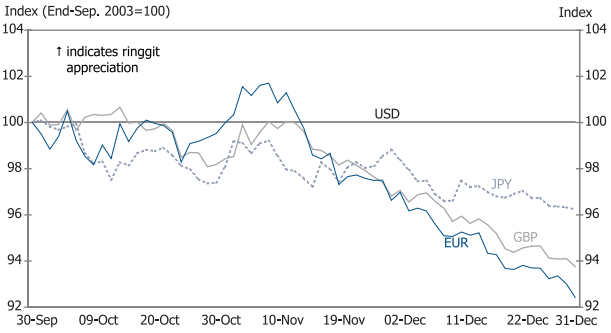
Exchange Rates

The ringgit depreciated against the major currencies while recording a mixed performance against regional currencies in the fourth quarter of 2003. The dollar weakened as funds shifted to other currencies following the widening of interest rate differentials in favour of other major economies, and expectations that US interest rates will remain low for a considerable period of time. While regional currencies largely benefited from the firmer Japanese yen, several currencies were

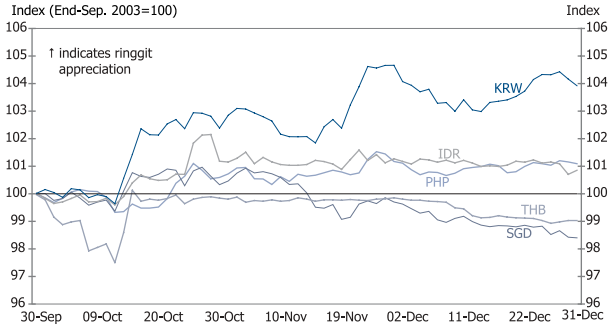
Summary of Ringgit Performance Against Selected Currencies



Ringgit Performance Against Major Currencies



Ringgit Performance Against Regional Currencies



Performance of Ringgit against Selected Currencies

RM per foreign currency	End-June 1997	2 September 1998	End 3Q 2003	End 4Q 2003	% change since [1] End-June 1997	% change since [1] 2 September 1998	% change since [1] End 3Q 2003
US dollar	2.5235	3.8000	3.8000	3.8000	-33.6	0.0	0.0
Euro	-	-	4.4160	4.7783	-	-	-7.6
Pound Sterling	4.1989	6.3708	6.3439	6.7678	-38.0	-5.9	-6.3
100 Japanese yen	2.2088	2.7742	3.4205	3.5546	-37.9	-22.0	-3.8
Singapore dollar	1.7647	2.1998	2.1984	2.2342	-21.0	-1.5	-1.6
100 Thai baht	9.7470	9.3713	9.5048	9.5947	1.6	-2.3	-0.9
100 Philippine peso	9.5878	8.8302	6.9179	6.8431	40.1	29.0	1.1
100 Indonesian rupiah	0.1038	0.0354	0.0452	0.0449	131.4	-21.1	0.8
100 Korean won	0.2842	0.2827	0.3304	0.3180	-10.6	-11.1	3.9

[1] (+) indicates appreciation of ringgit against respective currency and (-) indicates depreciation.

negatively influenced by domestic developments. Overall, the ringgit recorded only a marginal depreciation against the Singapore dollar and Thai baht, while strengthening against the New Taiwan dollar, Indonesian rupiah, Philippine peso and the Korean won. Despite the greater volatility of the exchange rates of major currencies, the ringgit's trade-weighted value has remained consistent with the underlying fundamentals of the economy.

DEVELOPMENTS IN THE BANKING SYSTEM

The overall financial position of the banking system remained sound during the quarter. The capital level remained high whilst profitability improved further. Non-performing loans based on the 6-month classification, however, increased marginally to 6.9% of total loans.

Capitalisation remained high amidst expansion in lending activities

The risk-weighted capital ratio (RWCR) of the banking system remained unchanged at 13.4% as at end-December 2003. During the quarter, risk-weighted assets (RWA) expanded by RM4.2 billion (+0.8%) driven mainly by higher lending activities. This was supported by an increase in capital base of RM0.4 billion (+0.6%) which was due mainly to the raising of subordinated debt capital by a number of banking institutions.

Capital Position remained high

	2002	2003			
	Dec	Mar	Jun	Sep	Dec
Capital					
Core-capital ratio (%)	11.1	11	11.1	10.9	10.7
RWCR (%)	13.2	13.2	13.7	13.4	13.4
Net NPL ratio					
6 months	7.5	7	6.8	6.5	6.9
3 months	10.2	9.9	9.5	9.0	8.9

Higher gross operating profit amidst a more diversified revenue base

Gross operating profit of the banking system increased by RM0.2 billion (+5.1%) to RM3.2 billion during the quarter as a result of higher interest income from dealing and investment portfolio as well as fee-based income. In tandem with the higher bond yields, interest income from holdings of debt securities recorded an increase of 11.6% to amount to RM1.2 billion, whilst income from fee-based activities rose to RM1.1 billion (+17.8%). The higher gross operating income offset the increase in operating expenses (+7.2%) incurred during the quarter. The increase in expenses was due mainly to payment of year-end bonuses and higher marketing cost reflecting continued aggressive marketing campaigns undertaken by banking institutions. Underpinned by the improved economic environment, banking institutions made lower additional loan loss provisions of RM2.2 billion whilst recoveries continued to increase strongly to RM1.5 billion during the quarter.

NPLs of the business sectors improved further

During the quarter, net NPLs based on the 3-month definition declined by RM0.6 billion to

Banking System

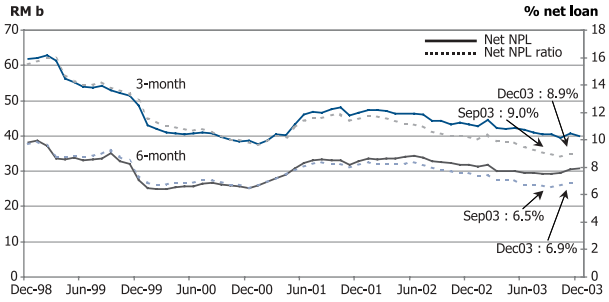
	NPLs as % of total loans to the sector				
	Dec-02	Mar-03	Jun-03	Sep-03	Dec-03
Business enterprises	**18.1**	**17.4**	**16.3**	**15.9**	**16.1**
of which SME loans	-	*15.8*	*14.8*	*14.9*	*14.7*
Households	**8.6**	**8.6**	**8.5**	**8.2**	**8.1**
Agriculture, hunting, forestry and fishing	8.3	7.7	7.9	7.4	7.4
Mining and quarrying	16.1	14.9	12.4	11.8	13.5
Manufacturing	20.8	18.6	17.4	17.6	16.4
Electricity, gas and water	6.2	6.9	6.2	6.0	28.5
Wholesale and retail, restaurants and hotels	11.9	12.3	11.7	12.1	11.9
Construction	30.1	30.1	28.3	28.2	27.8
Purchase of non-residential property	18.0	17.1	17.2	16.9	16.7
Real estate	29.8	28.3	26.7	27.5	25.5
Transport, storage and communication	14.7	14.2	11.6	9.8	11.1
Financial, insurance and business services	10.5	10.0	9.2	7.9	8.1
Community and social services	21.7	21.5	19.3	14.1	15.2
Purchase of securities	20.6	20.3	19.5	18.4	19.3
Purchase of residential property	8.7	8.9	8.9	8.8	8.7
Consumption credit	9.8	9.9	10.1	9.7	9.6
of which: credit card	*4.1*	*4.6*	*4.7*	*4.4*	*4.7*
Purchase of transport vehicles[1]	5.3	5.1	4.7	4.3	4.3
Others	**16.5**	**20.4**	**21.5**	**15.9**	**11.0**

[1] Includes commercial vehicles

RM39.7 billion to account for 8.9% of total net loans. Almost all the business sectors recorded improvements in NPLs.

The gross NPL ratio for SMEs continued to decline throughout the year to 14.7% at the end of the quarter whilst the gross NPL ratio for the household sector also fell marginally by 0.1 percentage points to 8.1% as at end-December 2003.

Banking system: Non-performing loans



Seminar on Medical and Health Insurance for Insurers and Takaful Operators 14 October 2003, Kuala Lumpur

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

Private medical and health insurance has an important role in complementing and supplementing the national healthcare system. Indeed, more and more Malaysians are turning to the insurance and takaful industries for insurance protection to finance their healthcare requirements. This has led to the substantial expansion in medical and health insurance business in the last five years, with premiums increasing at an average annual rate of 16% to nearly RM1 billion in 2002. Medical and health insurance currently accounts for more than 5% of total premiums in the insurance industry.

Going forward, we can expect more Malaysians to allocate an increasingly larger proportion of their income for healthcare provisions. Although Malaysia has a relatively young population, demographic changes point to an expanding aging population with the improvement in living standards and advances in medical science and healthcare facilities. At the same time, any changes in the extended family structure would increase pressures on individual responsibility for medical care. These developments pose significant social policy challenges for the national healthcare system to ensure access to fundamental medical facilities for all Malaysians in the most efficient and cost effective manner. In this regard, private healthcare financing will become increasingly important in complementing and supplementing the healthcare facilities in the public sector.

Public sector healthcare financing has already been on an upward trend in recent years. The Government healthcare expenditure is expected to approach RM9 billion by 2004, from about RM2.8 billion in 1995. Healthcare expenditure as a proportion of the overall Government budget is projected to increase from 5% to 8% over the same period. With the ratio of retirees to the active population projected to double by the year 2020, the demand for healthcare is projected to increase further, creating additional pressures on financing for healthcare and in particular, private healthcare financing. Private sources of financing for healthcare currently account for almost 40% of Malaysia's total healthcare expenditure. These are mainly in the form of direct medical expenses incurred by individuals as well as the payments made by employers towards the medical expenses of their staff. Over time, other private sources of financing, including private medical and health insurance schemes, can be expected to feature more prominently in the overall healthcare financing structure. In this evolution, private medical and health insurance will be an integral element in efforts to achieve a seamless and comprehensive national health care system.

The increasing demand for private medical and health insurance has, however, brought to the forefront a number issues, including escalating costs, that require immediate attention. The industry has already taken some important initiatives in the development of coherent industry solutions to address escalating claims costs. These include dialogues with the private medical service providers and the establishment of a panel of accredited hospitals and incentive measures such as the co-sharing of medical costs. Indeed these efforts by insurance industry are important steps in establishing common principles of sound business conduct in private health care financing. Given this line of business, it is important for the development of more comprehensive and sustainable solutions that will also take into account the broader socio-economic considerations.

At the same time, however, ongoing reforms in the conduct of medical and health insurance business also need to address the specific information needs of the business. From the industry's perspective, the establishment of a comprehensive and credible database on various aspects of the Malaysian medical and health insurance sector will facilitate more scientific underwriting and rating systems employed by insurers, as well as more effective management of risks associated with moral hazard, fraud and abuses. The lack of sufficiently detailed data currently constitutes a significant impediment to the ability of insurers to effectively meet the demand of the community for medical and healthcare covers. A comprehensive database is essential not only for more accurate pricing of medical and health products, but also to enable insurers to better understand and monitor developments affecting their business. These include the profile of policyholders and their risk categorisations, consumer preferences, the types of illnesses and medical treatments that contribute substantially to claims expenses and clinical information affecting relationships with medical service providers.

Equally important is the need to address the information needs of consumers in the sale of medical and health insurance products and services. Last year, medical and health insurance accounted for 25% of total complaints received by Bank Negara Malaysia. Besides premium rate increases and delays in claims settlement, the complaints mainly related to the lack of transparency at the point of marketing and sale of the medical and health insurance products. This underscores the importance of meeting the information needs of the potential policy owners.

It is essential that the terms of medical and health insurance policies sold are clearly explained to policyholders, particularly the effects of policy exclusions and conditions imposed by insurers on the extent of coverage afforded to the policyholder. The issue of increased transparency and disclosure in the sale of medical and health products is important. In many cases, policyholders are not aware of or do not fully realise the implications of particular clauses in the policy contract that deal, for example, with 'pre-existing conditions', 'co-insurance' and 'waiting and survival periods'. Insurers cannot assume such knowledge on the part of the average consumer. It is incumbent on insurers and their intermediaries to ensure that the average consumer is given clear information about the product at the point of sale to enable the consumer to understand his rights and responsibilities and to determine if indeed, the product adequately meets his needs. There should also be greater awareness among consumers on the avenues available for them to seek redress in the event of dispute.

To promote greater transparency in the business, Bank Negara has issued guidelines on minimum standards of product disclosure and transparency in the sale of medical and health insurance policies. These standards require insurers and their intermediaries to provide the details of the essential features of medical and health policies so that policyholders will understand the important provisions of the policies, in particular, with respect to the premiums, benefits, exclusions and limitations. Meeting these requirements must also be supported by the adoption of the highest ethical standards and practices by insurers and intermediaries in their dealings with customers. Insurers should therefore strive to continuously enhance the degree of disclosure and transparency demonstrated in their conduct of the business to prevent the erosion of public confidence in the industry as a whole.

The challenges faced in the conduct of medical and health insurance are significant, particularly in the light of the social considerations that must also be brought to bear on business decisions and strategies. They are, however, not insurmountable. While the various approaches to deal with the challenges are encouraged to permit innovation and improvements, the future development of medical and health insurance in the country will require the industry to proceed on a common platform at some level with respect to what constitutes the basic fundamentals of commercially sound, and socially ethical, business conduct in this area. Today's seminar provides a platform on which insurers, individually and collectively, can build on to explore new ground, develop new ideas and options and formulate new strategies to effectively manage the issues confronting the business, and thereby achieve sustained and viable business growth.

Organisation of Islamic Countries Business Forum in conjunction with the 10th Session of the Islamic Summit Conference, 16 October 2003, Putrajaya

"Managing Diversity - Economic Progress, Racial Harmony and Religious Tolerance: The Malaysian Experience"

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

Diversity, far from being a potential source of conflict, can be a source of strength and opportunities. At the international level, the world we live in is characterized by pronounced diversity. Our ability to manage this diversity to the benefit of the global community can indeed increase our prospects for sustained shared global prosperity. At the national level, the Malaysian experience in managing our own diversity has been to accord priority to economic and financial policies that promote balanced growth. The thrust of our policies has been to achieve a greater balance between high quality growth and a more equitable distribution of the economic progress; a greater balance between domestic and external sources of growth; a greater balance between the role of the public and private sectors; between consumption and investment-led growth; between the different regions across the country; between the different economic sectors; and between the respective communities in our society.

Economic Strategy

In achieving the objective of balanced growth, economic policy in Malaysia has concentrated on the diversification of the economy. For almost five decades our economic structure has undergone waves of transformation. The Malaysian economy has shifted from a commodity based to a more industrialized economy, reinforced by the discovery of petroleum and, more recently to an economy where the services sector is becoming an increasingly important source of growth.

The emphasis has always been to identify new areas of competitive advantage and develop new sources of growth to sustain the long-term development of the Malaysian economy. In the recent decade, the focus has been on the development of the ICT industries. In the development of the respective economic sectors, a balanced approach has been adopted to accord attention to the development of Small and Medium-scale Enterprises (SMEs) to complement the development of large corporations as well as the large MNCs operating in Malaysia. Each component is an integral element in the industrial structure with SMEs as suppliers of components and parts to the larger corporations, or as providers of support services or final products and services. As part of this process, greater attention has been focused on

the development of SMEs as they not only represent important "incubators" of entrepreneurial talents but also have an important role in generating endogenous sources of growth and employment.

Indeed, as a small, open economy where trade accounts for more than 200% of GNP, the Government is committed to promoting the role of the private sector as the main engine of growth. The role of the Government has been to set the broad direction to give clarity to the goals - the vision of our aspirations - and to provide the enabling environment for private enterprise, and smoothen the economic cycle to ensure steady growth and development. The long-term policy direction is set within the context of our 20-year Outline Perspective Plans (including "Vision 2020" on Malaysia's industrialisation strategy). Specific policy measures and strategies to achieve the long-term objectives are outlined in 5-year Development Plans, while shorter-term issues are addressed in the annual budget programme. The Government's role in providing an enabling environment includes the provision of the physical infrastructure, driving institutional development and capacity building, enhancing the Government delivery system to reduce the cost of doing business and providing a stable and sound macroeconomic environment.

While the Government assumes an important role in providing the strategic direction and enabling environment, the development of the domestic economy rests largely with the private sector. Over the last five decades, the private sector accounted for nearly 70% of national output. In addition, more than 90% of the labour force works in the private sector. A significant proportion of the financing that supported Malaysia's economic transformation has emanated from private investment, including foreign direct investment inflows. The role of the private sector can be expected to become increasingly important in sustaining economic growth in the future. Their role will be to continually seek new areas of comparative advantage and new market niches to contribute to income and wealth creation in an increasingly more challenging and competitive environment.

Financial Sector Strategy

A key component of the Government's strategy is to develop a financial system that is effective, efficient and resilient; that will not only support the growth process but will also facilitate the economic transformation towards a diversified economic structure, and thereby achieve sustainable growth and development. The financial sector is seen as an important facilitator of growth. The development of the financial sector has taken into account the need to balance between the objectives of financial stability and efficiency and the social agenda. Specific strategies to facilitate a more balanced growth has been to develop a more diversified financial structure that is able to meet the different requirements of the economy and to ensure that there is increased access to financial services by all economic sectors, regions and communities.

In this regard, efforts have emphasised the development of a comprehensive and diversified financial infrastructure, including mircocredit at one end of the spectrum to provide financial services to micro-enterprises, and at the other end of the spectrum, venture capital to provide financing to ICT and knowledge driven activities. Important components of the financial structure include the banking sector, the insurance companies, the capital market and the specialised and development financial institutions, which provide alternative

avenues for financing. The development of the corporate bond market, in particular, has enabled firms to improve their ability to better manage their funding risks while reducing the risks arising from over-dependence on any single form or source of financing. The development of the corporate bond market has also enhanced the efficiency of capital allocation by enabling firms to tap alternative sources of financing at competitive cost, thereby contributing to increased efficiency, higher investment and consequently contributing to overall growth.

The banking sector will, however, for some time to come, remain the single most important source of financing in Malaysia. Attention has therefore been focused on institutional development and capacity building in the banking sector. This has been identified as an important objective to achieve in the first stage of our 10-year Financial Master Plan to develop the financial sector, that is to develop a core of strong and forward-looking Malaysian banks that are able to face the challenges of liberalisation and globalisation. A major milestone in financial sector development was the banking merger and consolidation programme. This has been reinforced by the promotion of greater operational efficiency, greater leveraging on technology, strengthening risk management and corporate governance practices, enhancing the supervisory and regulatory framework and the development of a framework for consumer education and protection.

While electronic banking is expanding at a rapid pace, in the current environment, an area that has been given priority is to ensure that the banking system conducts its intermediation functions across the country in terms of physical presence in all regions. Over the decades, we have seen the establishment of a strong and extensive banking network in urban and rural areas across the country. In this regard, the number of bank branches throughout the country has increased from 131 in 1960 to 1,660 in 2003. The number of persons served per branch has correspondingly declined dramatically from 62,800 to 15,060 for the same period. The aim of this policy is to increase access to banking services for all the various sectors and regions in the economy. A further issue that has been taken into account is the need to balance the pursuit of greater efficiency in this increasingly more competitive environment against the need to provide basic fundamental financial services to the community at large at minimal costs. While pricing for financial products and services should, for the most part, reflect costs, it is also important to take into account the social agenda which is an integral part of balanced and sustainable growth.

As was discussed in the previous session, an area that Malaysia has focused attention on is the development of an Islamic financial system as a viable component of our financial system. Indeed, the development of a comprehensive Islamic financial infrastructure with the core components, encompassing Islamic banking, takaful and the money and capital markets, will serve to further strengthen the financial system as well as diversify options to meet the varied requirements of Malaysian consumers and businesses.

International Co-operation

Malaysia's approach in managing diversity also applies to our relations in the international arena. Malaysia has actively sought to strengthen trade and investment linkages with other developing countries across the world. Such a policy is based on the premise that by working together, individual

countries can maximise the synergies of each individual country's comparative advantage for the mutual benefit of all parties. Increasing specialization and complementarity drives the law of comparative advantage. As individual countries find niche areas within the globalised network of production based on comparative advantage, this will facilitate optimizing the potential for overall global growth. The stronger cooperation among diverse countries will indeed open such new opportunities. In this endeavour, OIC countries can drive this co-operation and integration. The OIC has 57 member countries with a combined population of 1.25 billion, accounting for 20% of the world's population. There are significant prospects for trade and investment among the OIC countries. The diverse economic structures of OIC members should be seen as an opportunity to expand trade and investment ties.

Conclusion

The Malaysian experience suggests that in managing diversity, there is a need to develop economies that have the agility to adjust to changing economic conditions, to emphasise on capacity enhancement and institutional development and to focus on the role of the Government in providing the enabling environment. It also requires economic and financial policies that balances between growth, efficiency, and equity considerations. A strategy of balanced and broad- based growth that gives due consideration to the social agenda offers the best chances of success. Indeed, diversity can be managed to become a potential source of strengths and opportunities in our pursuit of overall shared prosperity.

The International Centre for Leadership in Finance (ICLIF)

Welcoming Address at the Official Launch
28 October 2003, Kuala Lumpur

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

The International Centre for Leadership in Finance (ICLIF) is being established with the objective of providing a focused and co-ordinated approach towards the development of world class leaders in the financial services sector in Malaysia and in the region.

The unprecedented economic and financial transformations in this decade have created new operating environments that demand new leadership skills. This is most evident in the financial services sector which has become increasingly more complex, more competitive, more uncertain and ambiguous and more challenging.

It is therefore essential to have leaders who are able to see the new emerging opportunities, deal with the high level of unpredictability and navigate through turbulent conditions. The pressure on leaders has become increasingly more immense. In emerging market economies where our aspirations are to elevate our level of performance and development, the demands are even greater. Indeed, in this new environment the role of leadership has changed. Our objective in the establishment of the International Centre for Leadership in Finance (ICLIF) is to contribute to this process of developing a generation of leaders in the financial services sector that will achieve our objectives in the development of the financial sector in particular, and our overall economic prospects in general as we advance forward in this new environment.

We are most honoured today by the presence of Yang Amat Berhormat Dato Seri Dr. Mahathir Mohamad to launch our International Centre for Leadership in Finance. This is particularly special in view of the leadership he has demonstrated for a period of more than two decades in bringing Malaysia to our present level of development and prosperity. The most significant being his leadership in overcoming the 1997-1999 financial crisis experienced by our region. It represents a lasting legacy. In the most testing of times during the crisis, critical decisions were made with the firm conviction that it is a country's legitimate right to defend itself during extreme conditions. At that time, we were able to avoid being put under an IMF programme as we were in a position to meet and repay all our foreign obligations. We have since emerged from this turbulence much strengthened and on a solid and steady growth path. Indeed, this is one debt that the country will not be able to repay. Malaysia will always be indebted to you, Yang Amat Berhormat, for your leadership and your vision.

The financial sector in our region has now reached a new stage of development. Over the years, the role of the financial system has evolved, facilitating the various stages of development and growth. Increasingly, the financial services industry is also becoming a source of growth, especially as several countries in the region are moving towards a knowledge-based and services-led economy. In the process, the dynamic changes taking place are also being driven by technological advances and an increasingly competitive environment.

As financial restructuring and reforms progress to a more advanced stage, financial institutions are also moving on to make the necessary adjustments to become more productive, innovative, and strategically more focused. Efforts are now focused not only on the creation of a sound and resilient financial sector but towards institutional development and capacity building of the financial sector to elevate it to a higher level of performance, efficiency and excellence. This represents an important phase in the development of the financial sector as highlighted in our 10-year Financial Sector Master Plan that was released almost three years ago. It represents an important development prior to moving towards a more deregulated and liberalised environment. In this context, we are envisaging forward-looking financial institutions that will be able to face the challenges of financial liberalisation and globalisation as we progress into our next stage of development.

In this context, leaders need to be visionary to see future trends focused on organisational vision, to stay competitive and be able to adapt rapidly to changes. In addition leaders need to take into account the corporate social responsibility so that the profit mindset is balanced against the objective of long-term sustainability. When we talk about enhancing leadership capability we are talking about leaders who are continuous learners, who are on the cutting edge of excellence, leaders who have strong convictions and beliefs, and yet having humility and recognising the need to reinvent themselves and inspire their organization to adapt to the new challenges and changes. This is vital if the financial services sector is to forge ahead and remain at the forefront of new innovations, an element that is critical to securing long-term competitiveness. We need the remarkable force of corporate leaders to fuel the drive towards long-term growth and stability. We need dynamic leaders to push the frontiers of excellence - leaders who are constantly learning and possess the courage to take on new challenges. In this process, avenues for continuous learning must be actively sought.

The establishment of ICLIF is part of our commitment towards providing such an avenue to enhance our leadership capability and develop world-class leaders in the financial services sector. Towards this endeavour, the Centre is currently in the process of developing a unique leadership competency model that will analyse and understand what makes for great corporate leaders in our regional context. At the same time, the Centre is putting together a world-class Global Leadership Development Program (GLDP) with leading consultants and drawing faculty from the best schools in the world. The Global Leadership Development Program represents ground-breaking design in terms of an executive education program. By drawing faculty from not just one or two, but up to five leading institutions, the Centre will be able to combine the best ideas and thoughts in the world on the various key leadership issues and concerns. The Centre's role will not be to replicate the roles of institutions of higher learning, but rather to facilitate

and provide specific, directed and targeted learning based on the requirements of our industry.

In addition to its Board of Directors, the Centre will also be governed by an International Advisory Panel comprising eminent personalities. In the process, participants will benefit from the best of all worlds in terms of the latest thinking on leadership issues. It is envisaged that the Centre will also serve to complement and supplement the existing capacity building facilities in the financial and corporate sector to become a regional centre of excellence for leadership training in finance. The Centre aims to reinforce the notion that investments in human capital, including the pursuit of leadership excellence, is a continuing process in this ever-changing environment so as to enhance the calibre of our human capital in the financial and corporate sector in meeting the challenges ahead as we advance forward in this new millennium.

Calendar of Events
October 2003 - February 2004

2003

16 October

The Bank signed a Memorandum of Understanding with the Export Credit Bank of Turkey to promote co-operation in the areas of financing of bilateral trade and investment flows, as well as technical assistance and capacity building in banking.

20 October

An international symposium on Foreign Exchange Transaction and Settlement Issues was held in Kuala Lumpur as part of the work programme of one of the six Voluntary Working Groups under the Asian Bond Markets Initiative. The Working Groups were established to address the various areas of regional bond markets development. Malaysia chairs the Voluntary Working Group on Foreign Exchange Transaction and Settlement Issues.

28 October

The International Centre for Leadership in Finance (ICLIF) was launched by the then Prime Minister, Tun Dr. Mahathir Mohamad. The Centre was established with the objective of providing a focused and co-ordinated approach towards the development of world-class leaders in the financial services sector in Malaysia and in the region.

30 October

The Bank met insurers and takaful operators for the regular dialogue session to discuss economic and financial developments, as well as the performance of the insurance and takaful industries. The insurers and takaful operators were also briefed on the progress of implementation of the Financial Sector Masterplan and new regulatory measures.

1 November

The Payment Systems Act 2003 came into force. The Act provides the legal framework to ensure the efficient functioning and stability of the payments system in the country, and that the confidence in the payments system is preserved.

3 November

The Bank announced the relaxation of investment limits in credit facilities by insurers under the Admitted Assets Framework for Insurers. This measure was envisaged to promote increased demand for private debt instruments and thus, contribute to the development of the domestic capital market.

6 November

The Bank hosted the Sixth Annual Meeting of the Bank for International Settlements (BIS) Working Party on Monetary Policy in Asia. The Working Party, a group initiated by the BIS, meets annually to review recent global and regional economic developments and economic outlook, as well as exchange views on the implications for monetary and financial policies.

19 November

The Bank established a Small Debt Resolution Mechanism to facilitate the restructuring of non-performing loans of small and medium enterprises (SMEs) with on-going businesses. An 11-member Small Debt Resolution Committee was set up under this arrangement, with the SME Special Unit of the Bank serving as the Secretariat. This mechanism also supersedes the restructuring and financing mechanisms of two special funds.

19 November

The Bank announced that the Malaysian economy expanded at a more rapid pace of 5.1% in the third quarter of 2003. The growth was broad-based. The strong private sector response to the pro-active Government measures reinforced by low interest rates led to the strengthening of the growth momentum.

21 November

The Bank signed a Memorandum of Understanding with the State Bank of Pakistan to promote co-operation in the areas of financing bilateral trade and investment flows, as well as technical assistance and capacity building in the financial sector. The Memorandum also represents commitment for co-operation in the ongoing efforts to develop alternative financing arrangements, including modalities to establish a gold-based trade payments arrangement.

8 December

The Bank announced details for the first of eight issuances of Bon Simpanan Merdeka (Merdeka Savings Bond). The Syariah-compliant bonds are targeted at senior citizens and Armed Forces personnel who are on retirement. A total of RM500 million worth of bonds were offered for the first issuance on 4 February 2004 with profits of 5% per annum. The bonds were fully subscribed.

29 December

The Bank released the 2004 edition of "Buku Wang Saku" (BWS) and "Buku Perancangan dan Penyata Kewangan Keluarga". The publication of these books is part of the Bank's on-going efforts to enhance public awareness on the importance of management of personal finances and financial planning. The theme for BWS in 2004 is "Financial management, key toward smart investment".

2004

5 January

The Bank released RM10 banknotes with an enhanced security feature, incorporating the LEAD® anticopy device. This additional security feature ensures that the Malaysian banknotes are not easily compromised.

2 February

The Bank and the University of Malaya co-organized a Public Lecture by the second holder of the Tun Ismail Ali Chair, Dr. Yilmaz Akyüz in Kuala Lumpur. The lecture was entitled "Managing Financial Instability and Shocks in a Globalizing World."