Taklimat
Laporan Tahunan 2010 dan Laporan Kestabilan Kewangan dan Sistem Pembayaran 2010

Gabenor Bank Negara Malaysia

23 Mac 2011

Challenge for global economy going into 2011 is sustaining growth with job creation

Global growth projection for 2011

	2009	2010	2011[f]
	Annual change (%)		
World GDP	**-0.6**	**5.0**	**4.4**
World Trade	**-10.7**	**12.0**	**7.1**
US	-2.6	2.8	3.0
Euro area	-4.1	1.7	1.5
Japan	-6.3	3.9	1.6
Developing Asia 1/	7.0	9.3	8.4
China	9.2	10.3	9.6
ASEAN-5 2/	1.7	6.7	5.5

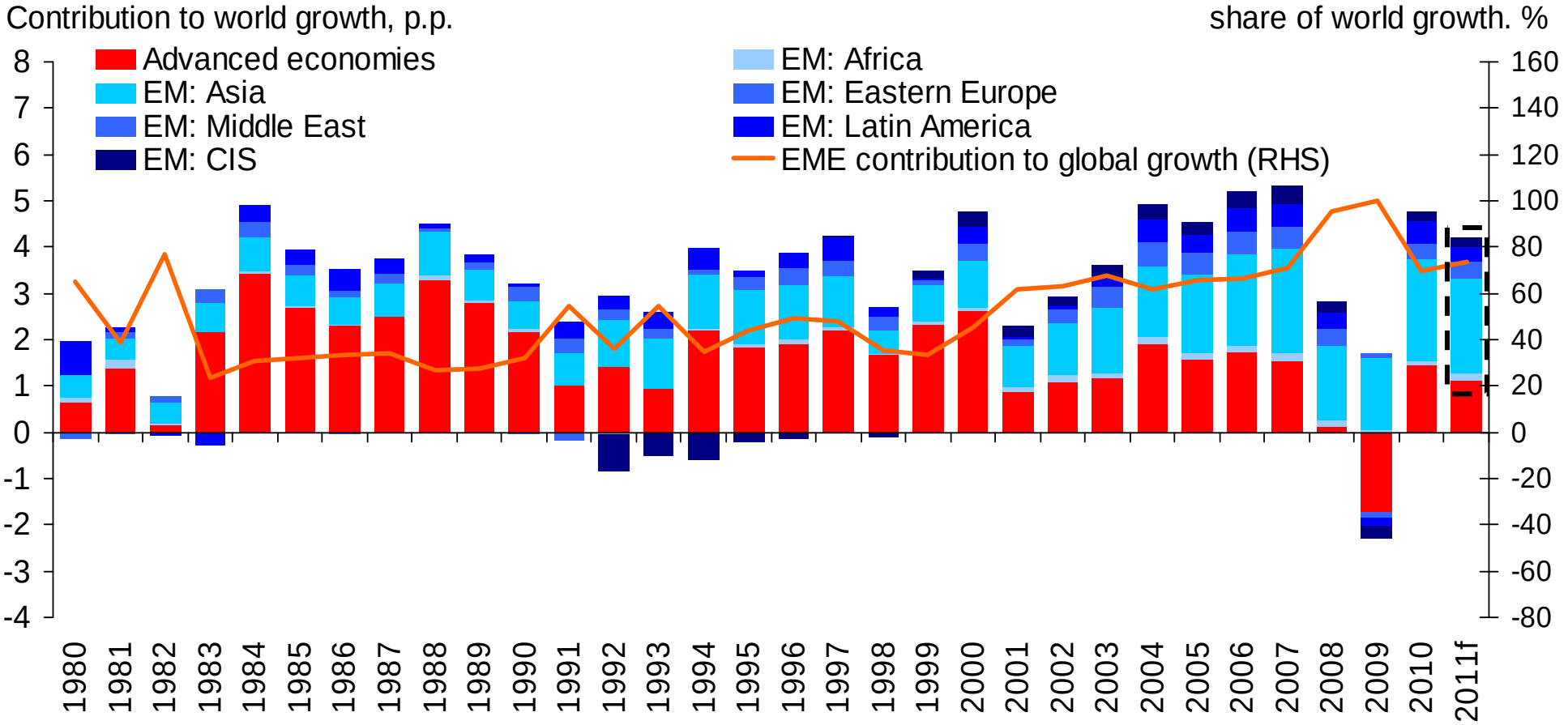
Note: Forecasts for 2011 are IMF's projections
1/ IMF: Asia ex-NIEs
2/ IMF: Indonesia, Malaysia, Philippines, Thailand and Vietnam

- **Significant improvement in 2010**
- **Continued recovery in advanced economies although growth remains slow**
- **Strong growth in emerging economies, particularly in Asia underpinned by domestic demand and recovery in world trade**
- **More recently, rising commodity and energy prices are leading to higher global inflation**

Source: National authorities, IMF World Economic Outlook, January 2011 Update

Global growth mainly from EMEs in 2011

While accounting for 47% of global economy, emerging economies expected to contribute more than 70% of global growth

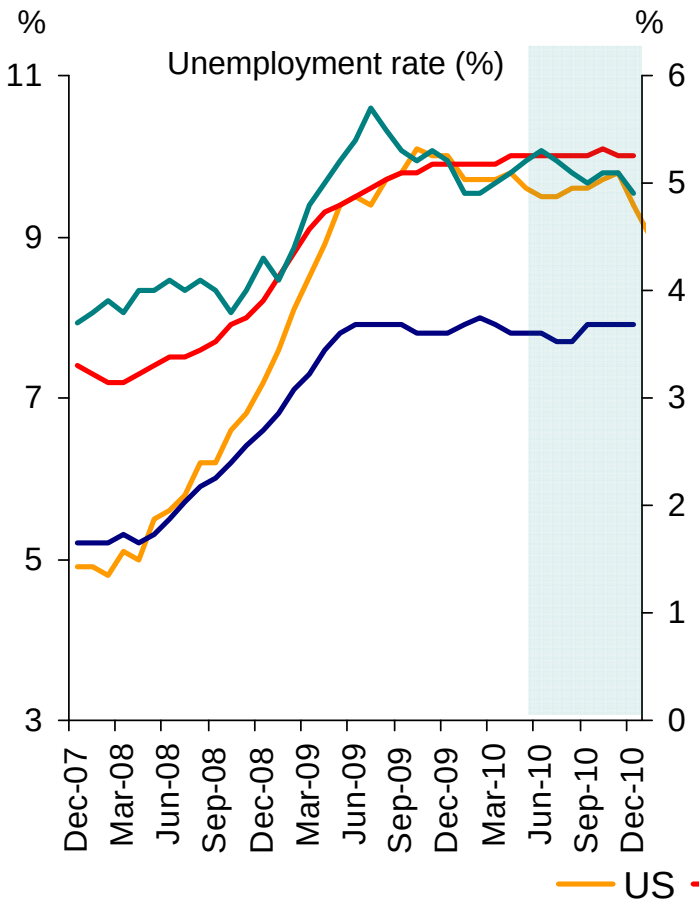


Source: IMF World Economic Outlook

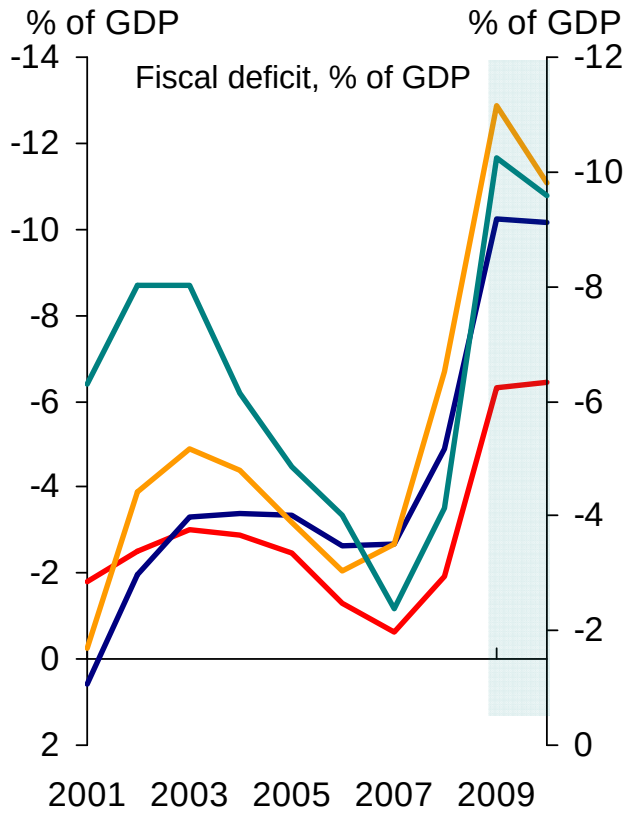
Note: CIS is the Commonwealth of Independent States, formerly Soviet republics

Advanced economies still need to address structural problems

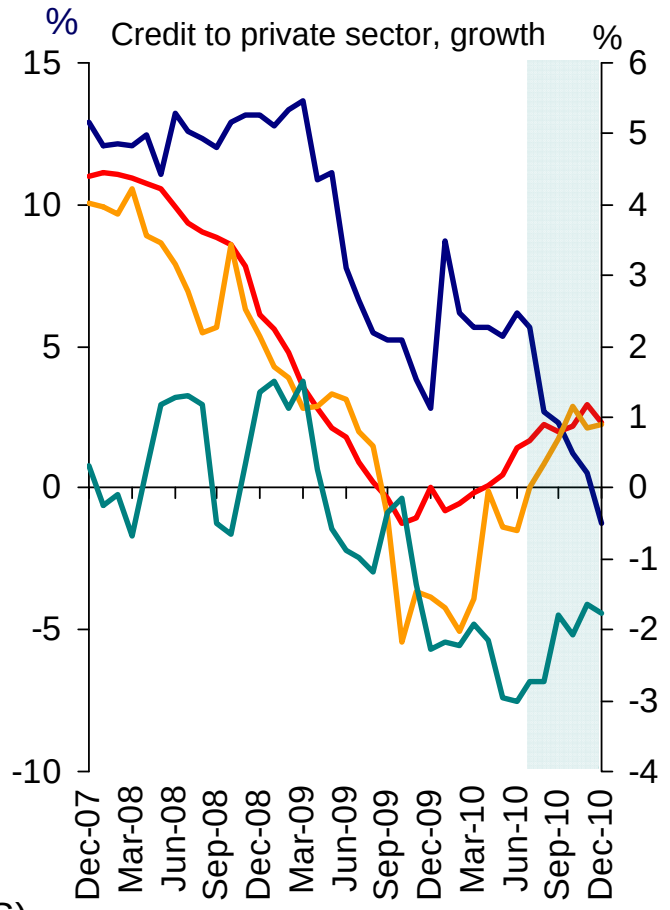
1 High unemployment rate



2 High fiscal deficit



3 Restrained credit conditions

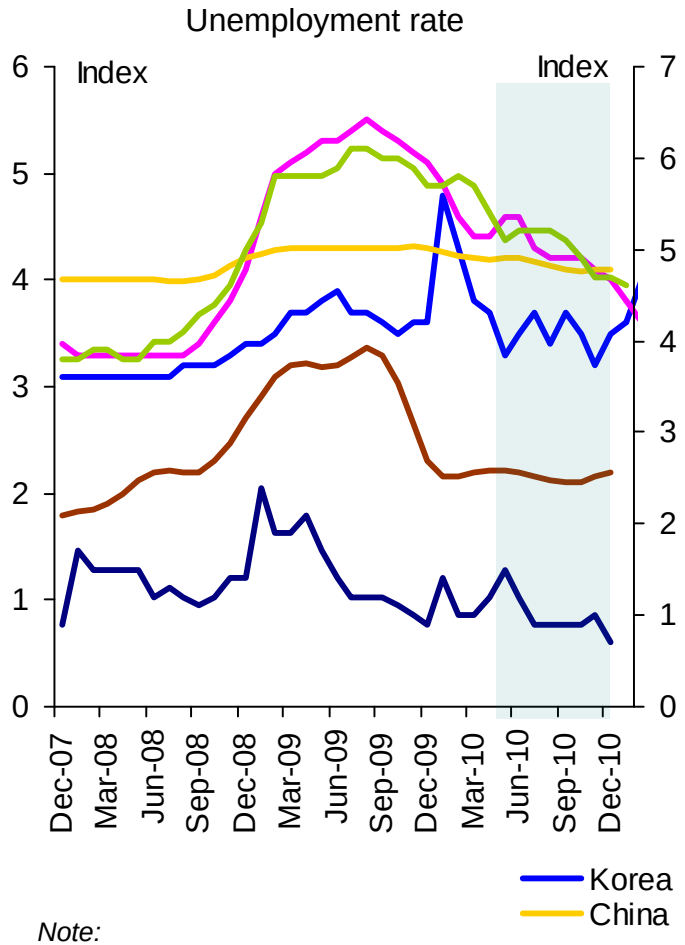


US — Euro area — UK — Japan (RHS)

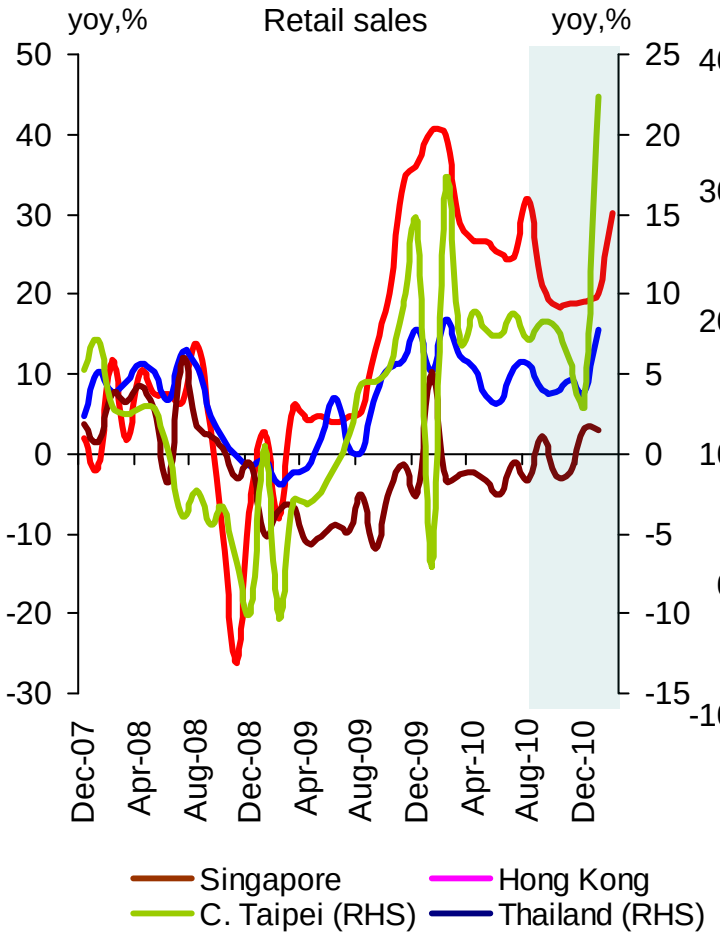
Source: National authorities, Haver, IMF

Regional economies supported by resilient domestic demand

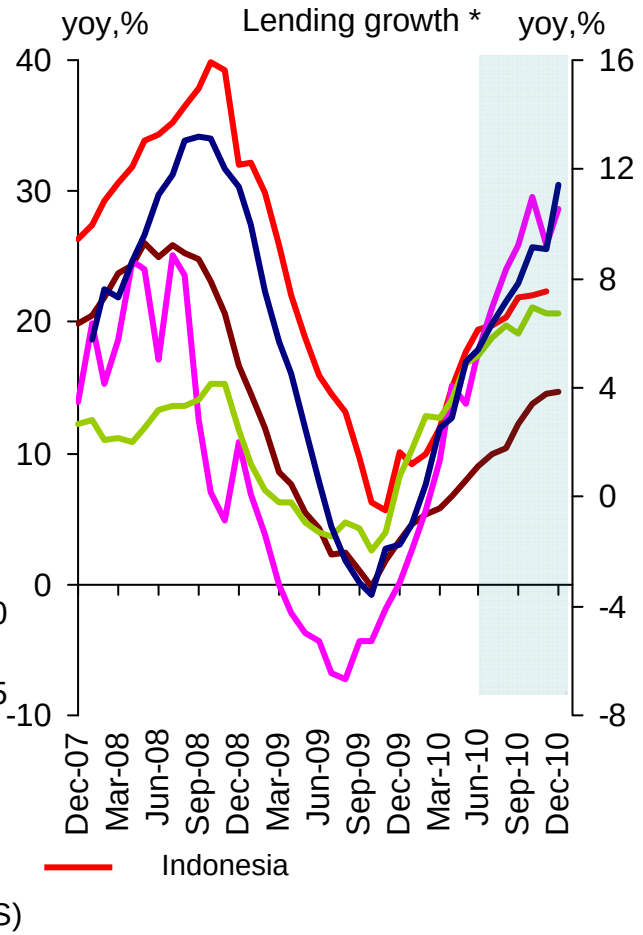
1 Unemployment trending down



2 Rising retail sales



3 Continued access to credit

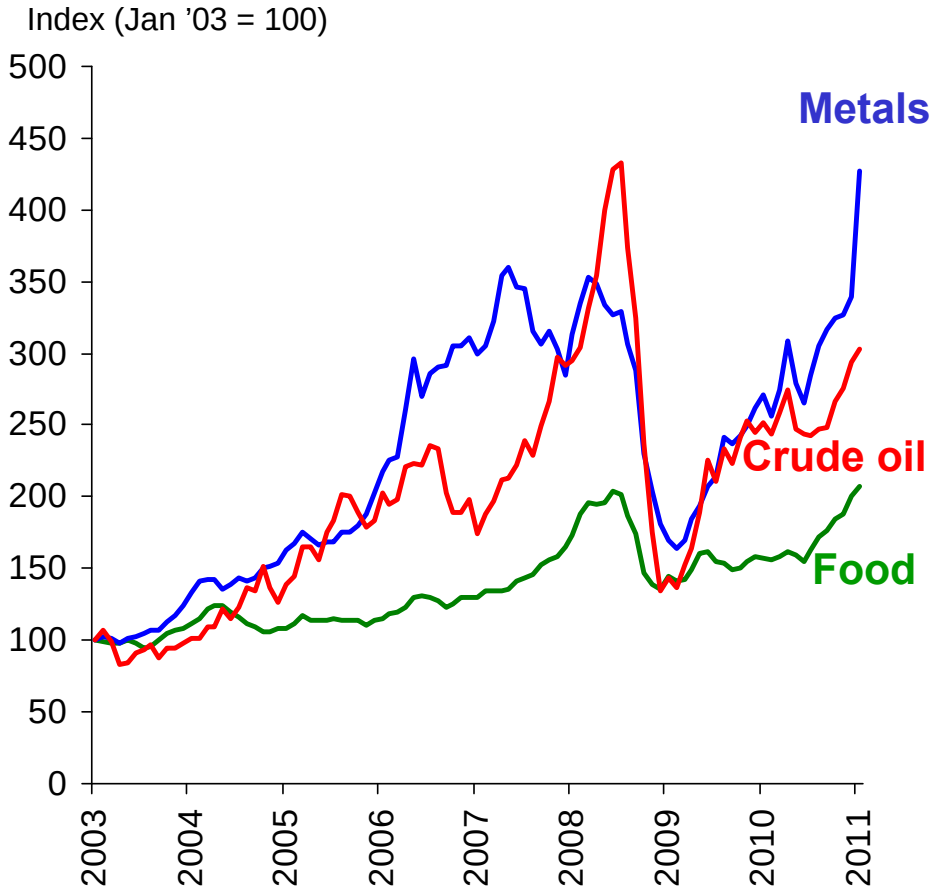


Note:
** Refers to loans as reported in banks' balance sheet, except for Indonesia which refers to loans outstanding*

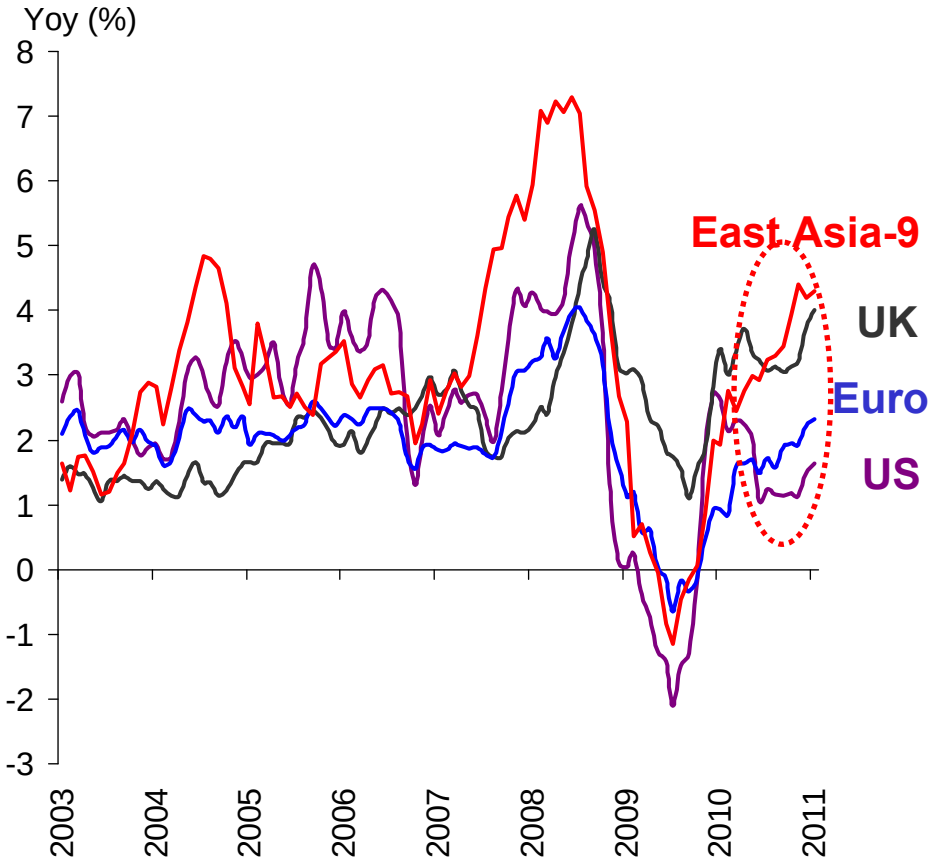
Source: National authorities, Haver

Rising commodity prices have increased the risk to higher global inflation

Rising commodity prices amid supply disruptions and geopolitical tensions…

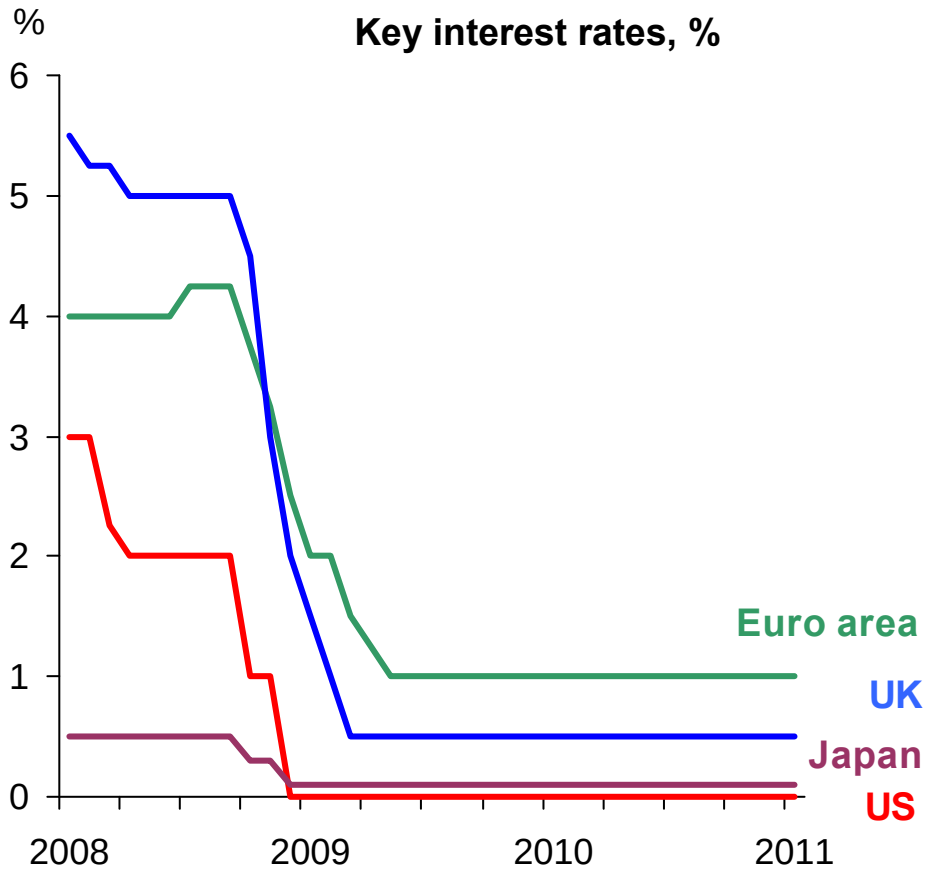


…driving up inflation in most economies

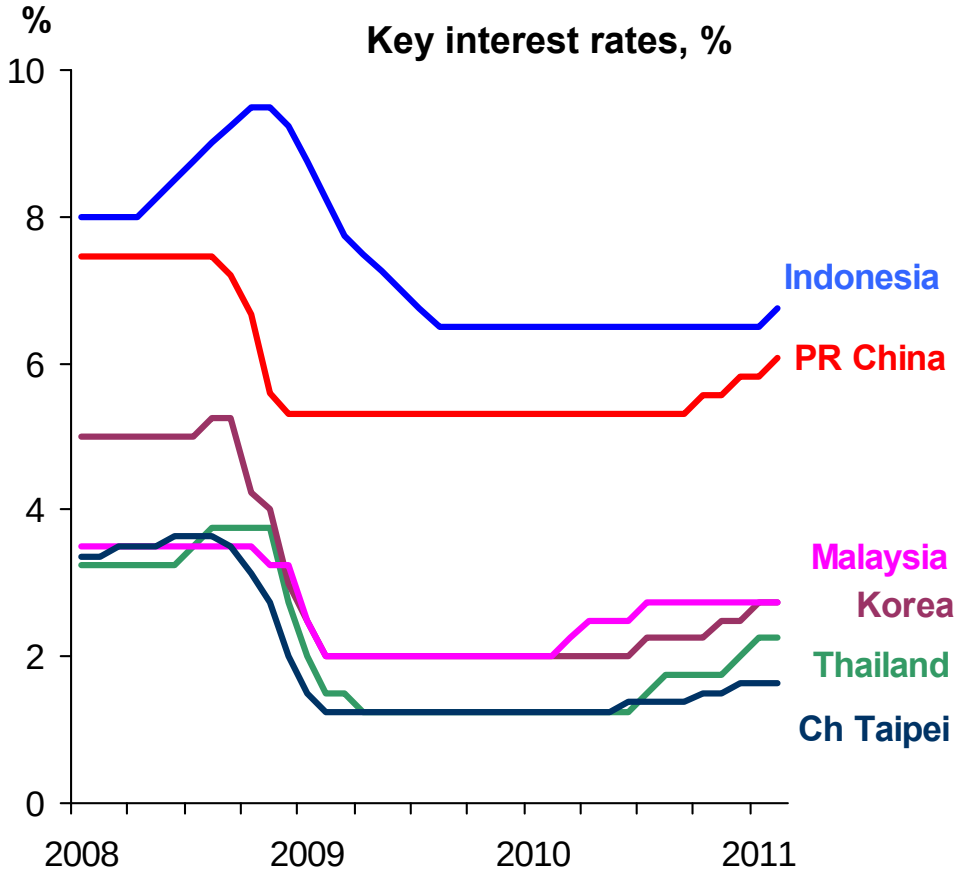


Different degrees of monetary policy response

Some advanced economies are expected to begin to normalise rates this year…



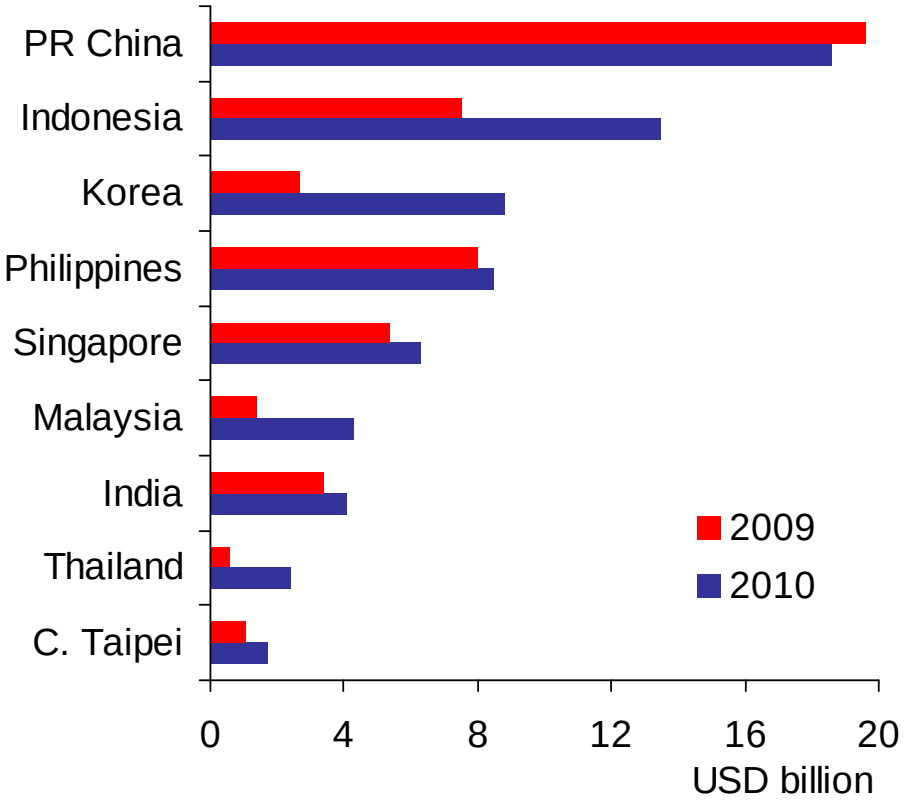
…while most regional economies have started to normalise or tighten since 2010



Global shifts in liquidity: Volatile capital flows…

Large capital inflows driven by growth differentials and the search for yield…

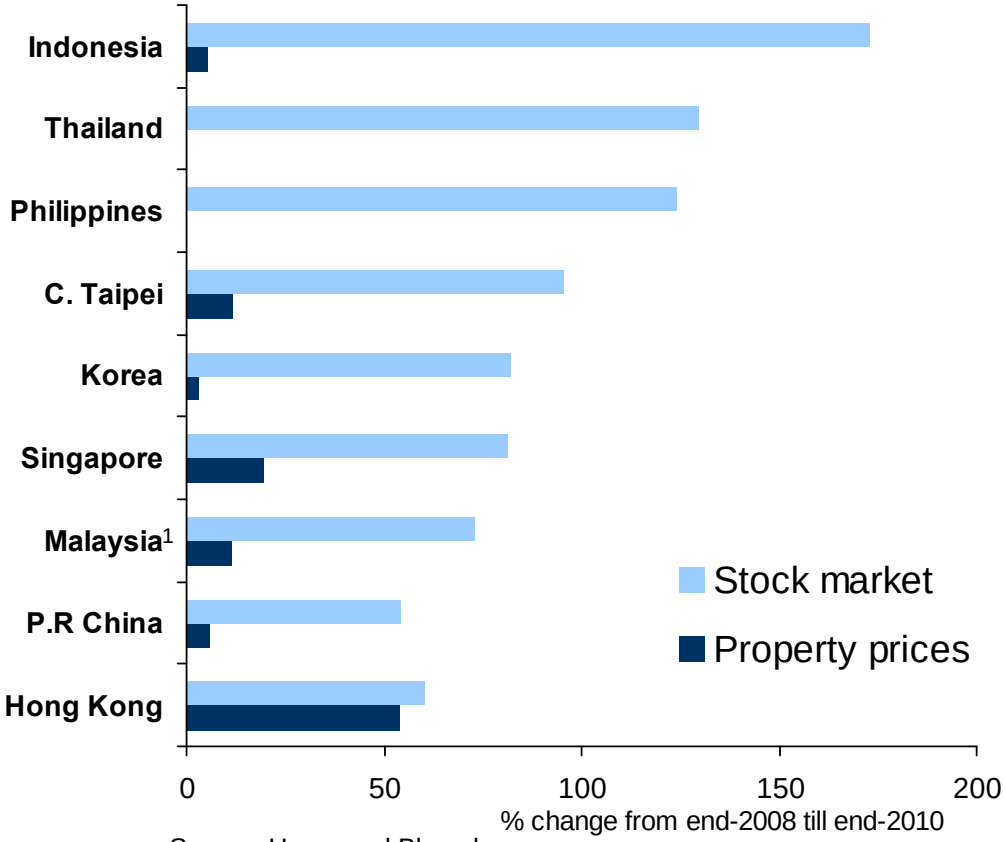
Total flows into equity and bond markets



Source: EFPR

…driving stock and property prices higher

Stock market and property price performance

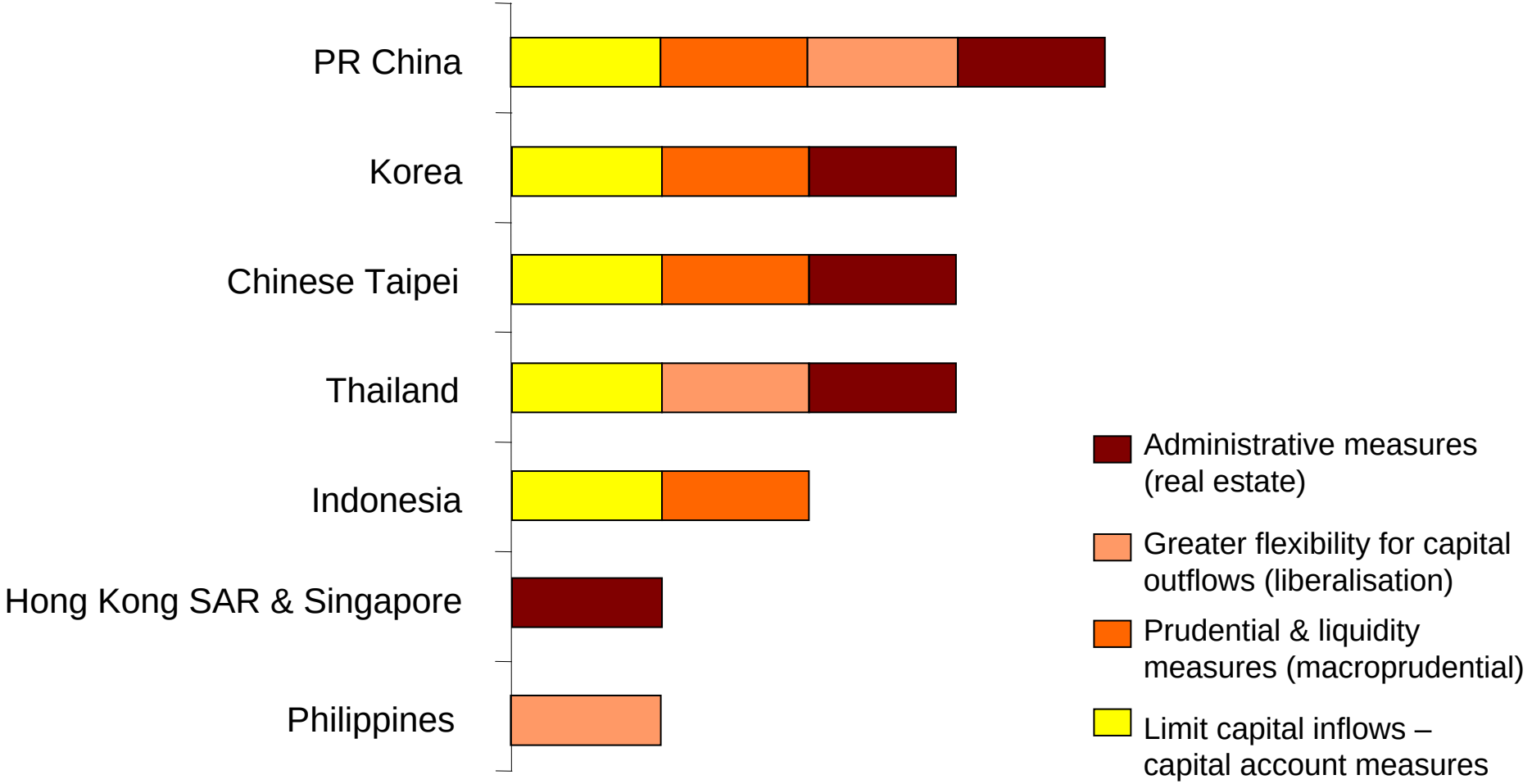


Source: Haver and Bloomberg

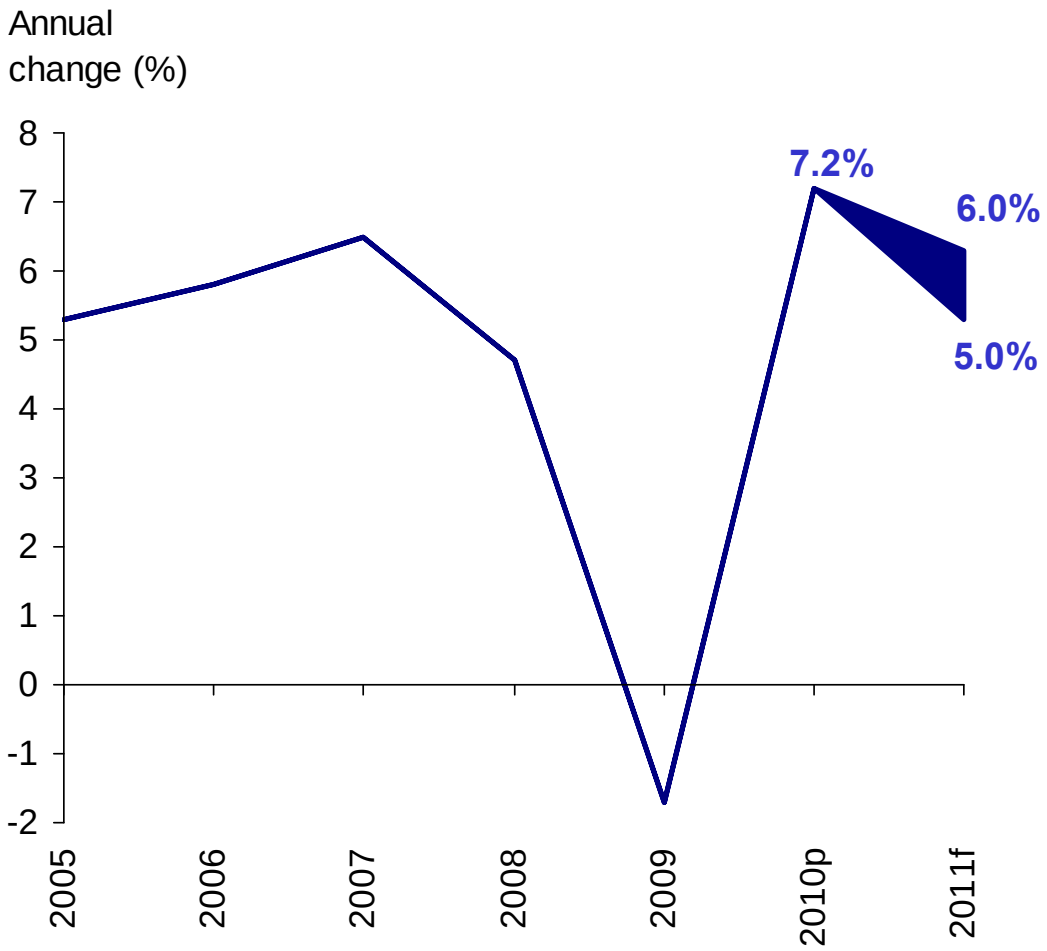
1/ till 3Q 10 for property prices

Several countries have implemented measures to manage the consequences of these flows

Measures introduced in the region to manage capital flows



The Malaysian economy is projected to grow by 5% – 6% in 2011



p preliminary f forecast

- **Slower growth in 1H 2011**
  - High base in 1H 2010, particularly for exports and investment
  - Lower demand for electronic exports
- **Growth is expected to improve in 2H**
  - Stronger expansion of domestic demand, particularly, private consumption and investment
  - Higher exports

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Strong growth in domestic demand to be driven by private sector activity

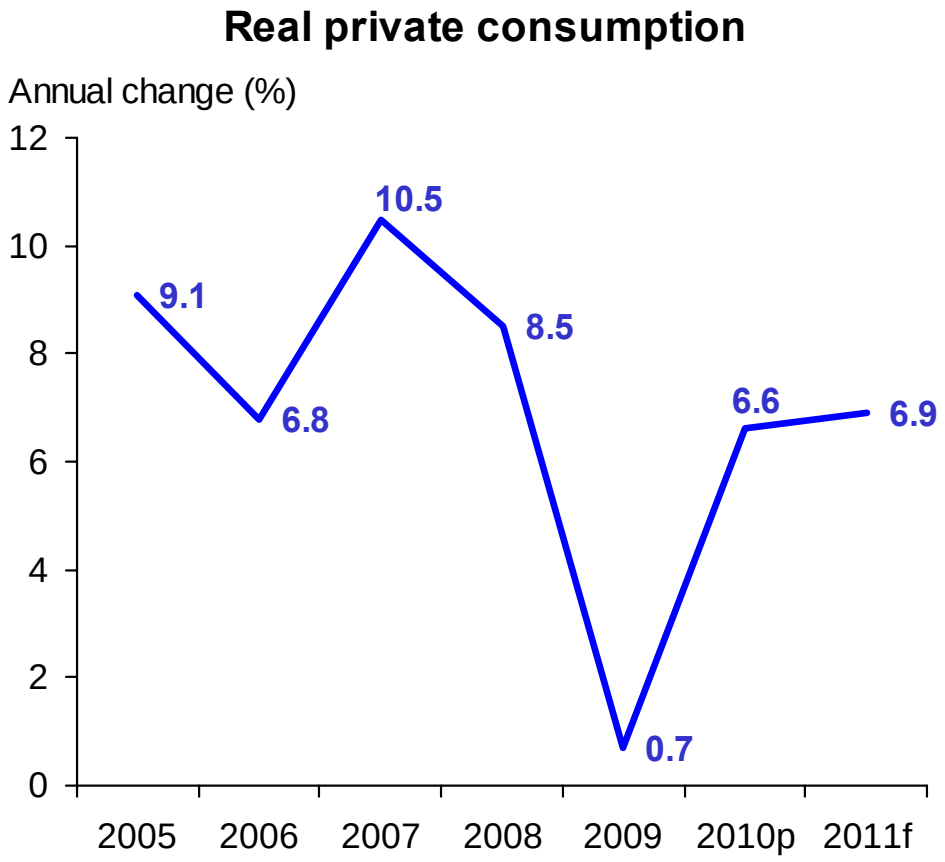
	2010p	2011f	2010p	2011f
	Annual change (%)		Contribution to growth (p.p)	
Domestic demand	**6.3**	**6.7**	**5.6**	**6.0**
Private sector	**7.8**	**7.4**	**4.9**	**4.7**
Consumption	*6.6*	*6.9*	*3.6*	*3.7*
Investment	*13.8*	*9.7*	*1.4*	*1.0*
Public sector	**2.5**	**5.1**	**0.6**	**1.3**
Consumption	*0.1*	*7.2*	*0.0*	*1.0*
Investment	*5.5*	*2.7*	*0.6*	*0.3*
Net exports	**-24.2**	**2.3**	**-3.3**	**0.2**
Exports of G&S	*9.8*	*2.7*	*10.5*	*3.0*
Imports of G&S	*14.7*	*2.8*	*13.8*	*2.8*
Real GDP	**7.2**	**5.0~6.0**	**7.2**	**5.0~6.0**

p preliminary f forecast

- **Private domestic demand to be the main growth driver**
  - Strong private consumption
  - Rising investment activity
- **Public sector to remain supportive of growth**

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Strong expansion in private consumption



p preliminary f forecast

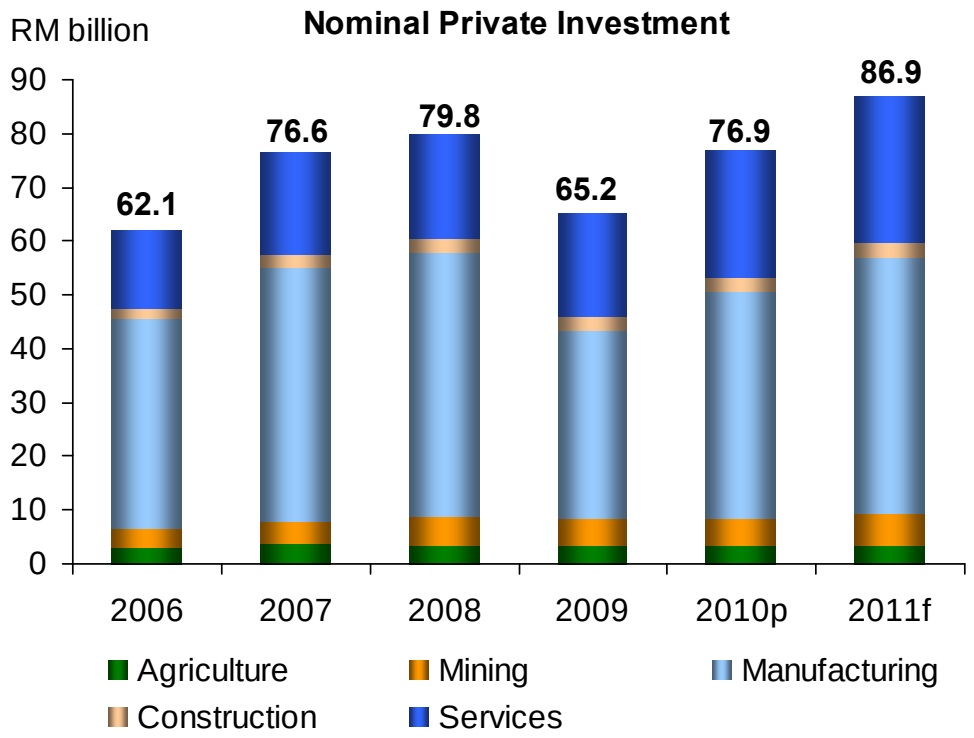
Stronger expansion in consumer spending supported by:

- Favourable labour market conditions
- Rising disposable incomes
- Sustained consumer confidence
- Continued access to credit

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Strong performance in private investment

Annual change (%)	2009	2010p	2011f
Real private investment	-17.2	13.8	9.7

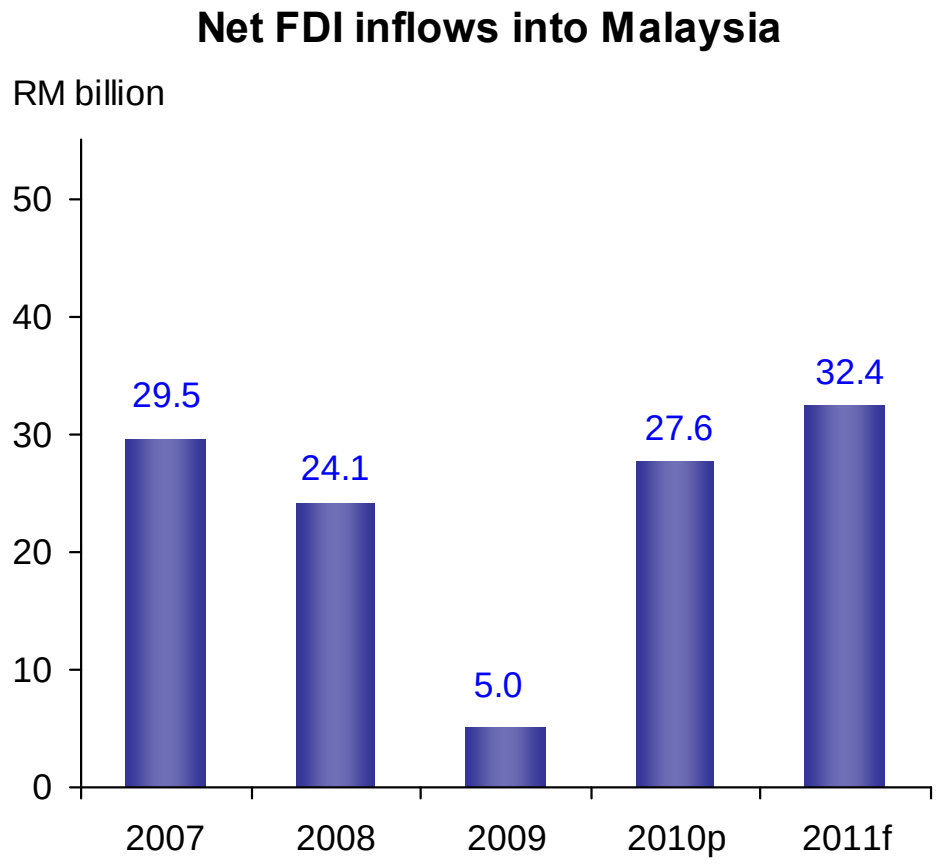


p preliminary f forecast

- **Increased capital spending in all economic sectors**
  - Key sectors: services, manufacturing and mining
- **Factors supporting private investment:**
  - Expansion of new growth areas
  - Strengthening domestic demand
  - Implementation of Government initiatives
  - Sustained business confidence

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

FDI to increase further in 2011



p preliminary f forecast

- **Higher net inflows of FDI in 2011**
  - Better corporate earnings
  - Rising business confidence
  - Further improvement in global FDI flows
  - Liberalisation
  - Implementation of Government ETP projects

- **Inflows channeled mainly into the manufacturing, services, and oil and gas sectors**

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Broad-based growth across all sectors

Annual change (%)	2010[p]	2011[f]
Agriculture	1.7	3.4
Mining	0.2	2.0
Manufacturing	11.4	5.7
Construction	5.2	5.4
Services	6.8	5.9
Real GDP	7.2	5.0 ~ 6.0

- Supported mainly by the continued growth of domestic economic activity
- Trade-related services and export-oriented manufacturing industries to record slower growth in line with the expected moderation in external demand

p preliminary f forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

External trade to expand in 2011

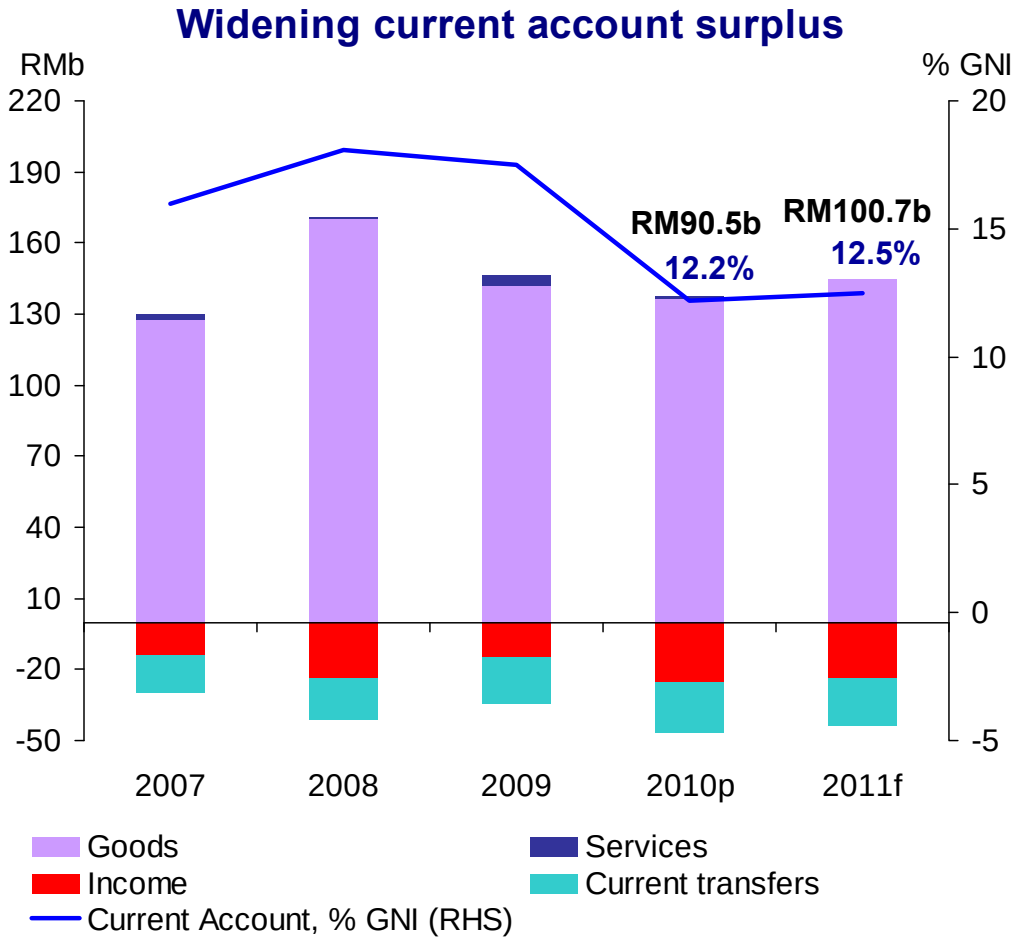
Annual change (%)	2010[p]	2011[f]
Gross exports	**15.6**	**5.4**
Manufactured	**13.0**	**4.4**
E&E	*9.9*	*3.7*
Non-E&E	*17.3*	*5.2*
Commodities	**26.9**	**10.1**
Agriculture	*30.8*	*12.4*
Minerals	*23.4*	*8.0*
Gross Imports	**21.7**	**5.7**
Capital	*16.2*	*10.3*
Intermediate	*22.1*	*5.3*
Consumption	*10.1*	*8.4*
Trade balance (RM bn)	**110.2**	**114.6**

- **Exports**
  - Moderation from the high base of 2010, particularly in manufactured exports
  - **But**, strong support from commodity exports due to higher prices and sustained regional demand
- **Imports**
  - Modest growth in intermediate imports
  - Growth in capital and consumption imports reflects strong domestic demand

p preliminary f forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Current account to remain in surplus



p preliminary f forecast

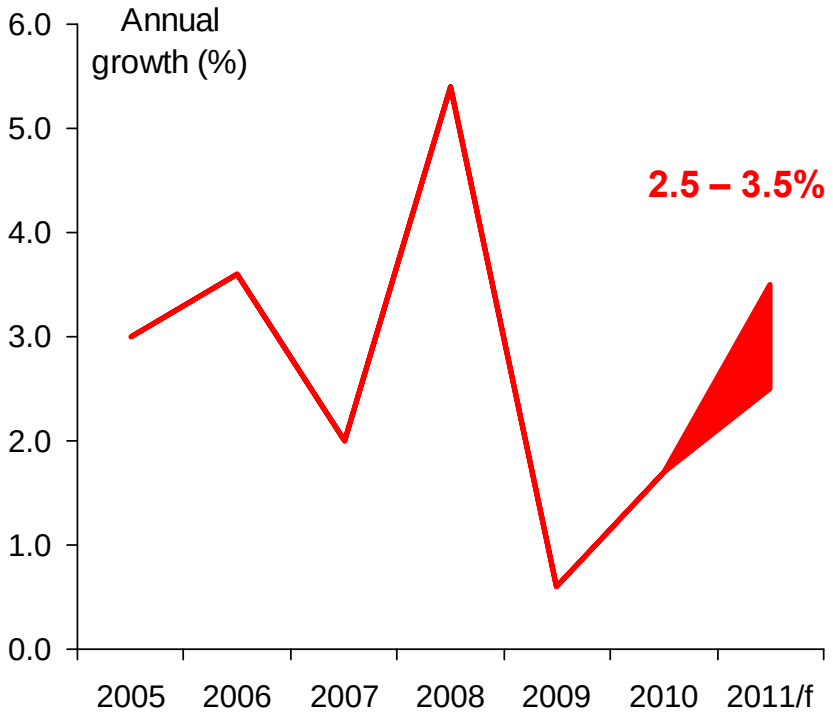
- Larger trade surplus supported by higher commodity exports
- Services surplus, benefiting from higher tourism receipts
- Lower income deficit
  - Higher earnings by Malaysian companies investing abroad
  - Lower repatriation of profits and dividends by MNCs

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

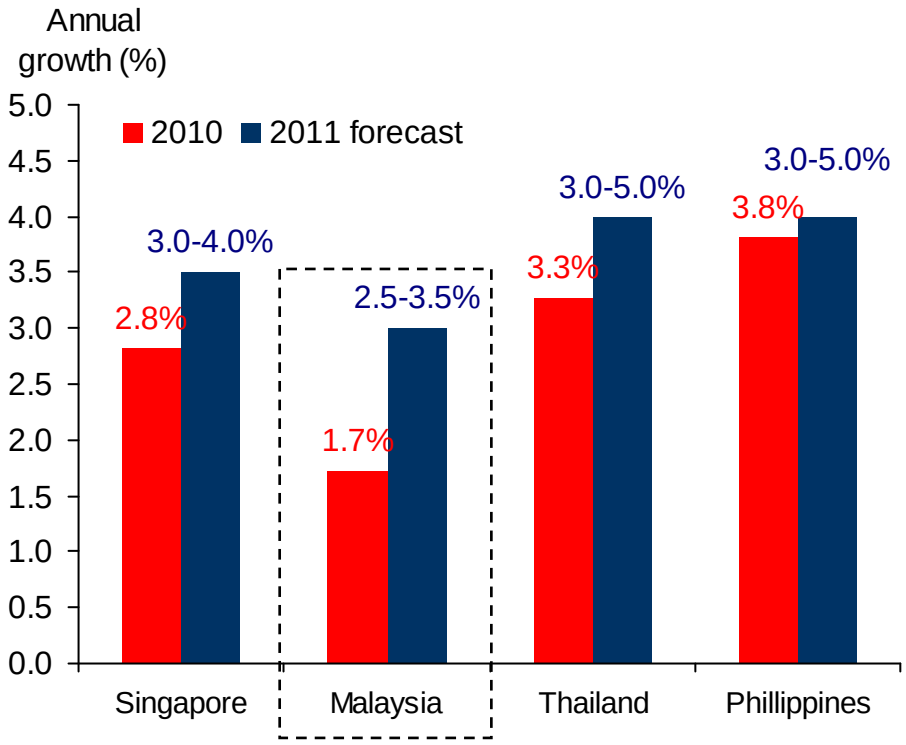
Headline inflation to range between 2.5 – 3.5% in 2011

- Driven mainly by higher global commodity and energy prices, inflation is expected to increase in 2011.
- This trend is similar to other regional economies

Inflation Forecast 2011



Regional Countries Headline Inflation Forecast



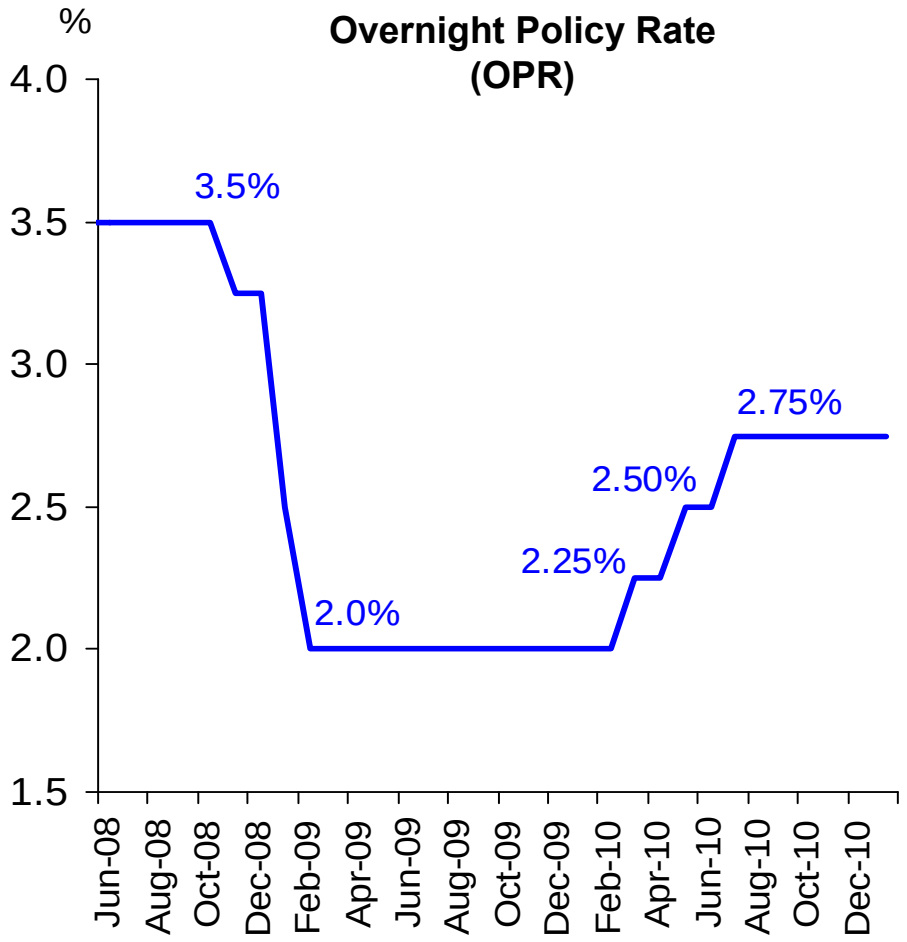
Note: Inflation forecast refer to the central bank official forecast

Malaysia has adopted a comprehensive approach to manage inflationary pressures from commodity prices

In addition to macroeconomic policies, other measures taken are

- Increasing food production and its distributional efficiency
- Promoting greater energy efficiency by households and industry
- A more gradual subsidy rationalisation programme
- Providing income support to targeted groups

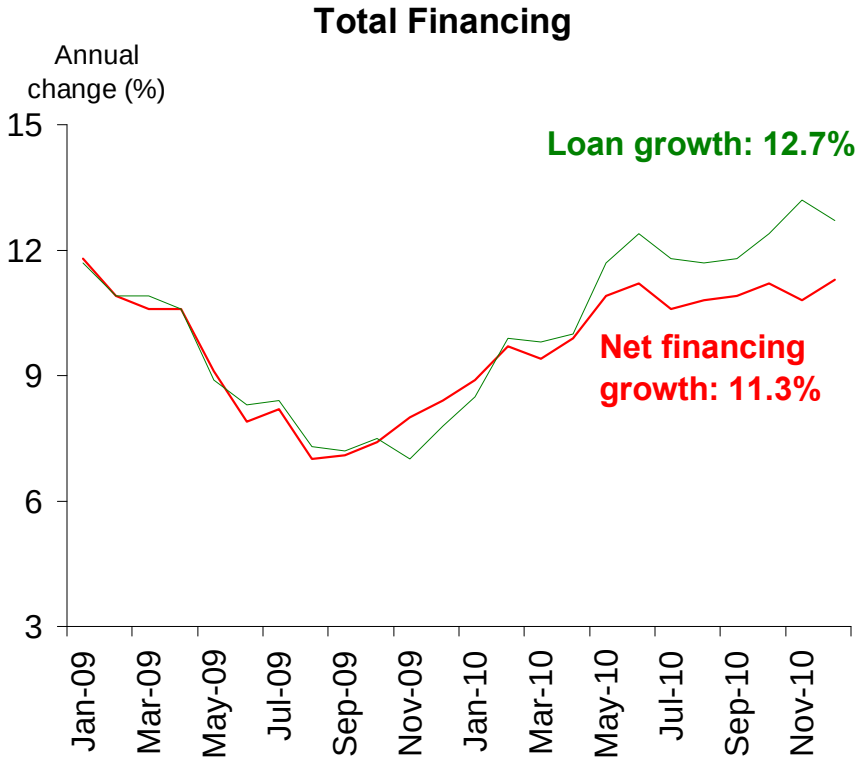
Monetary policy in 2011 will remain supportive of growth, while managing risks to inflation



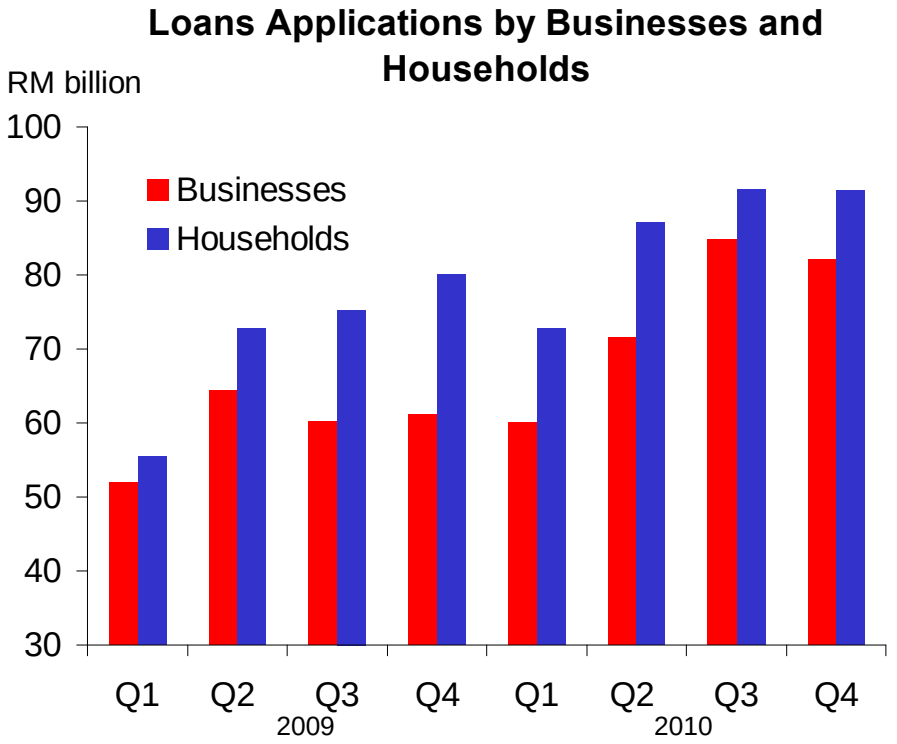
- **Given improved economic outlook, the OPR was adjusted in 2010 to**
  - Normalise monetary conditions
  - Prevent the risk of financial imbalances
- **For 2011, focus of monetary policy is to manage the risk of a more modest growth and higher inflation**
  - Monetary policy has the flexibility to remain accommodative
  - The degree of accommodation may however, need to be reviewed to ensure sustainable economic growth

Financing conditions expected to remain favourable

Net financing growth sustained…



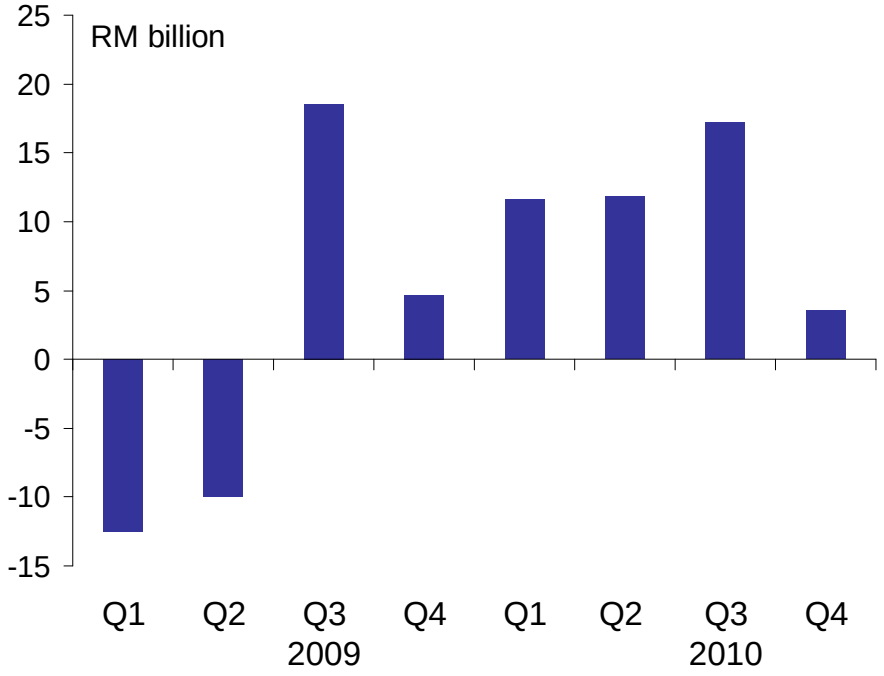
…supported by robust demand for loans from businesses and households



Two-way capital flows expected to continue

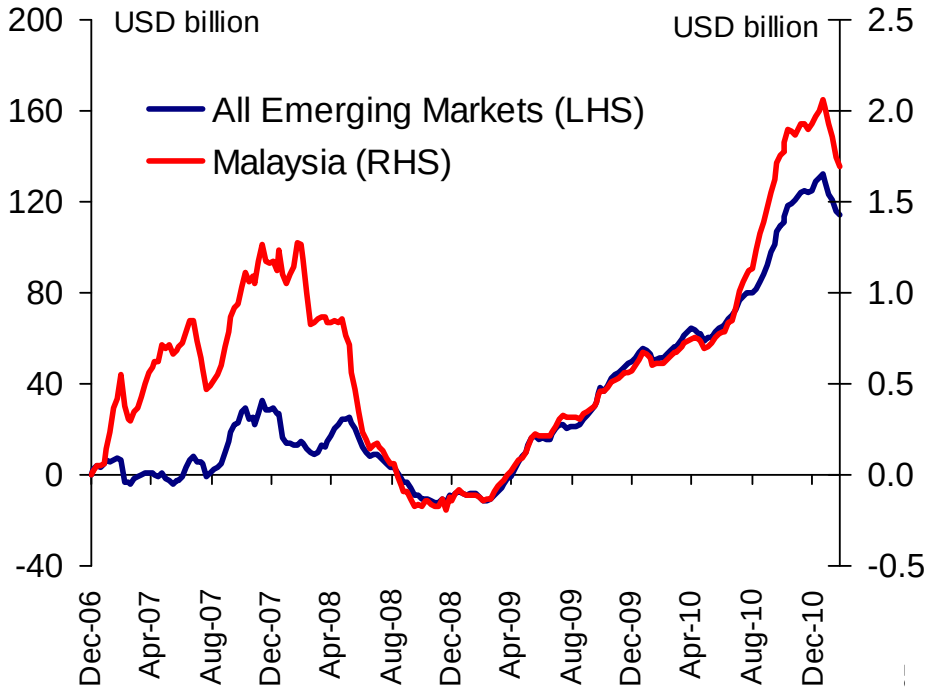
- In 2010, the capital inflows to Malaysia went into both the bond and equity markets
- Strong economic fundamentals and positive prospects will continue to attract portfolio inflows
- But this is likely to be interrupted by intermittent reversals driven by external events

Net Portfolio Investment into Malaysia



Source: Department of Statistics Malaysia

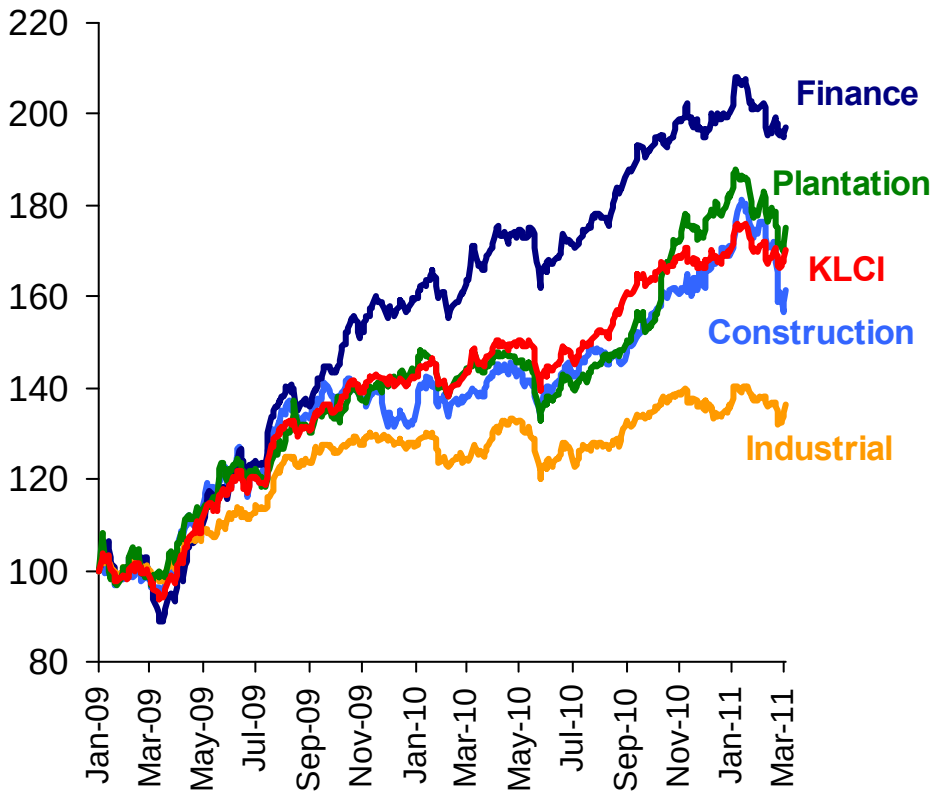
Cumulative net equity fund flows (since Jan 07)



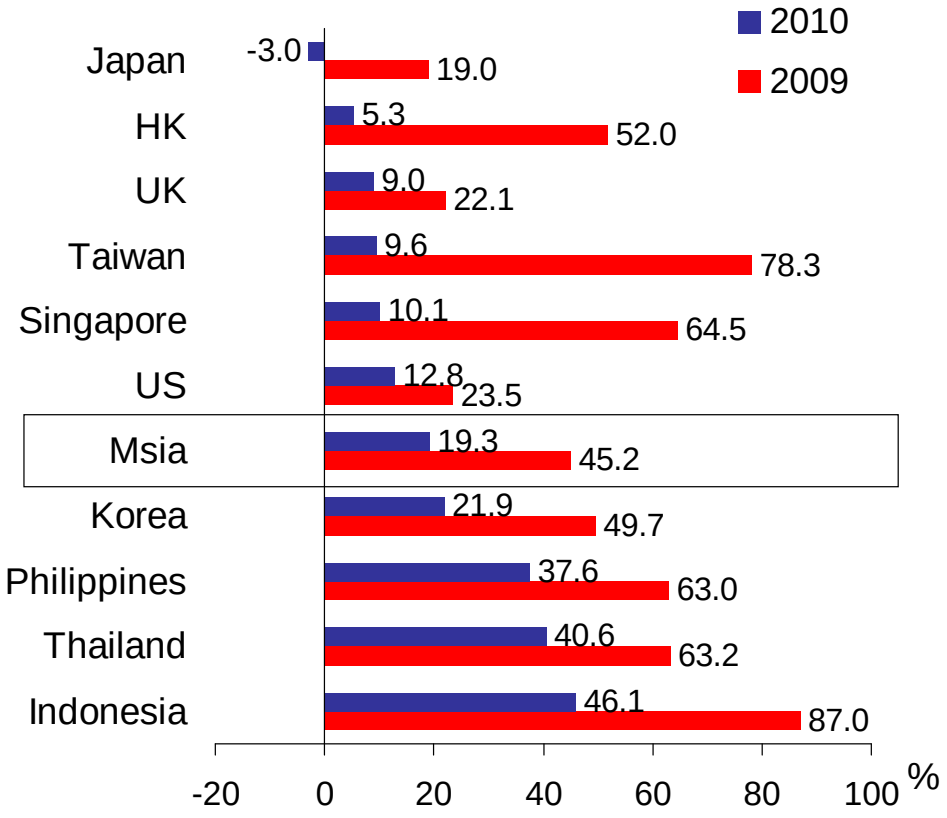
Source: Emerging Portfolio Fund Research Global

Domestic equity market had sustained growth in line with regional trends

KLCI and Bursa Malaysia sectoral indices



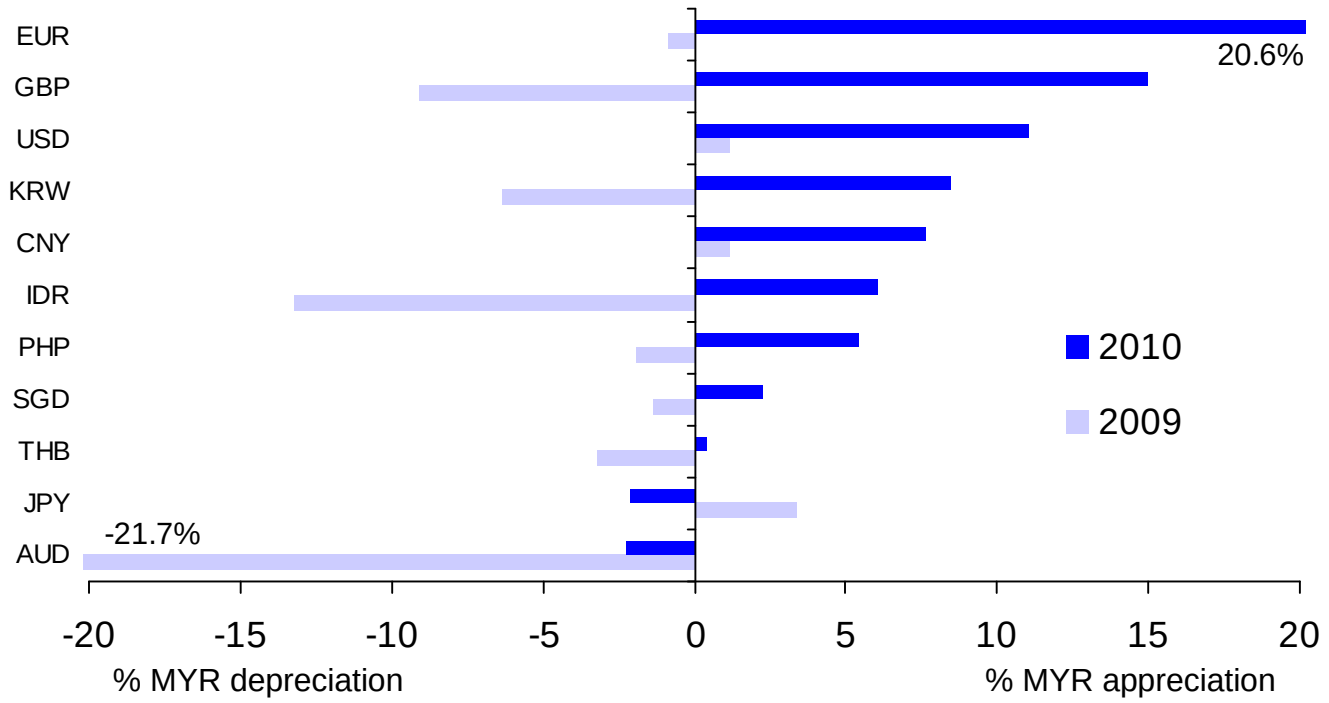
Performance of Major Indices (% growth)



Ringgit performance driven by external and domestic developments

- MYR appreciated against most currencies in 2010 following a relatively subdued performance in 2009
- Despite volatile capital flows, ringgit adjustments have been orderly

MYR performance against selected currencies in 2009 and 2010

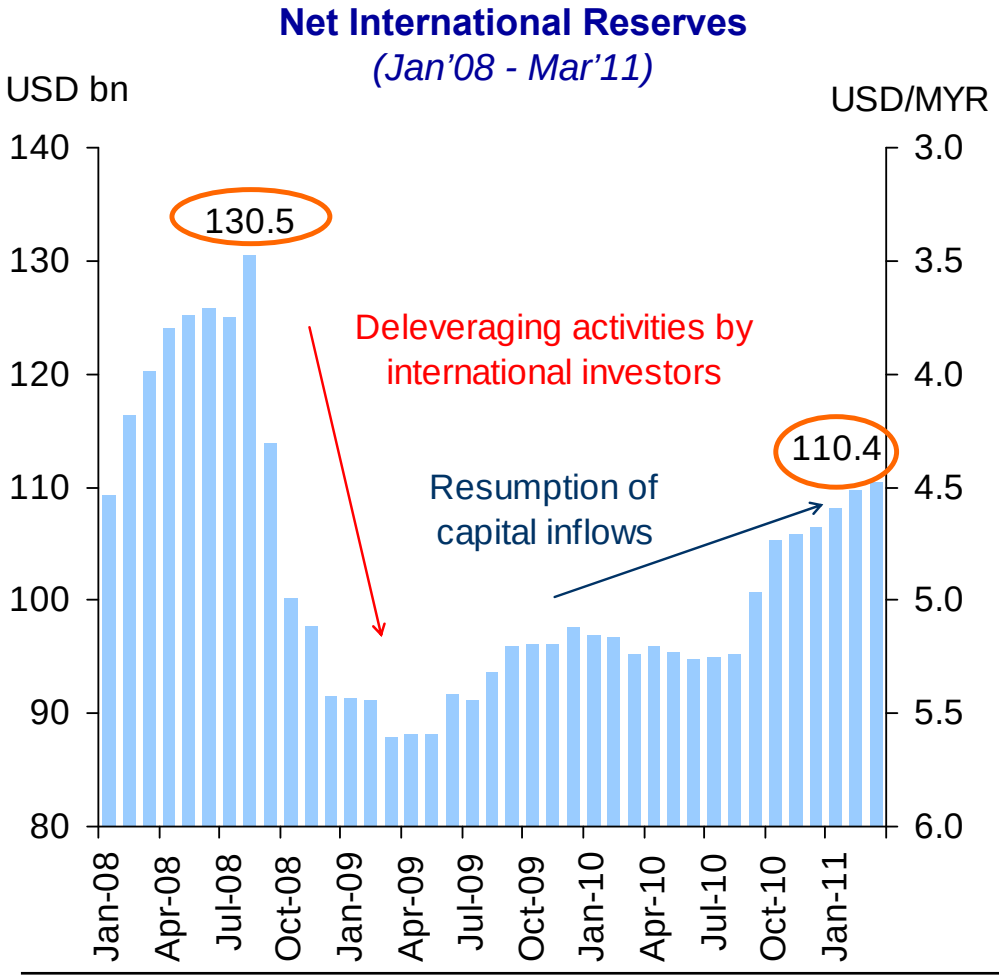


Measures undertaken to allow more efficient management of foreign financial transactions

To allow more efficient management of foreign transactions, several measures have been undertaken, including:

- Allow settlements in local currencies
- Facilitate hedging activities by residents
- Allow unlimited holding of foreign currency accounts
- Allow settlement of transactions in foreign currency by exporters and importers

Large inflows have also led to increases in international reserves



- **Large inflows have led to increases in international reserves**
  - Since the resurgence of capital inflows in 2H 2009, net international reserves at USD110.4 bn in 15 March-11.
  - During previous episode in Aug-08: USD130.5 bn

Source: BNM

Capital flows currently well intermediated

Large inflows have increased liquidity in the domestic financial system but, this has been well managed

- More diversified and developed financial system has helped to intermediate the capital flows
- Managed float regime has the necessary flexibility for the exchange rate to adjust to changing conditions
- Wider range of instruments for effective monetary operations
- Rigorous surveillance and information systems
- Stronger fundamentals and a healthy level of international reserves
- Closer cooperation and communication among central banks

Bank Negara Malaysia
Annual Financial Statements 2010

Financial position remained strong in 2010:

- **Total assets of BNM amounted to RM390.2 billion with International Reserves of RM328.7 billion (USD106.5 billion)**
- **Net profit of RM6.2 billion**
- **Dividend paid RM2 billion**

FINANCIAL STABILITY AND PAYMENT SYSTEMS REPORT 2010

Financial system expanded in 2010 with higher value-added to the economy

- Contribution of financial sector to GDP at 11.6%
- Banking and insurance sector employs more than 143,000 staff
- Financial intermediation continued to function efficiently with sustained access to financing
- Money, foreign exchange and capital markets remained orderly with capacity to absorb greater volume and volatility

Stability of the financial sector was preserved throughout 2010

- *strong fundamentals contributed towards efficient financial intermediation*

- orderly conditions in financial markets and payment and settlement systems facilitated trade and domestic economic activity

Financial system continues to be resilient

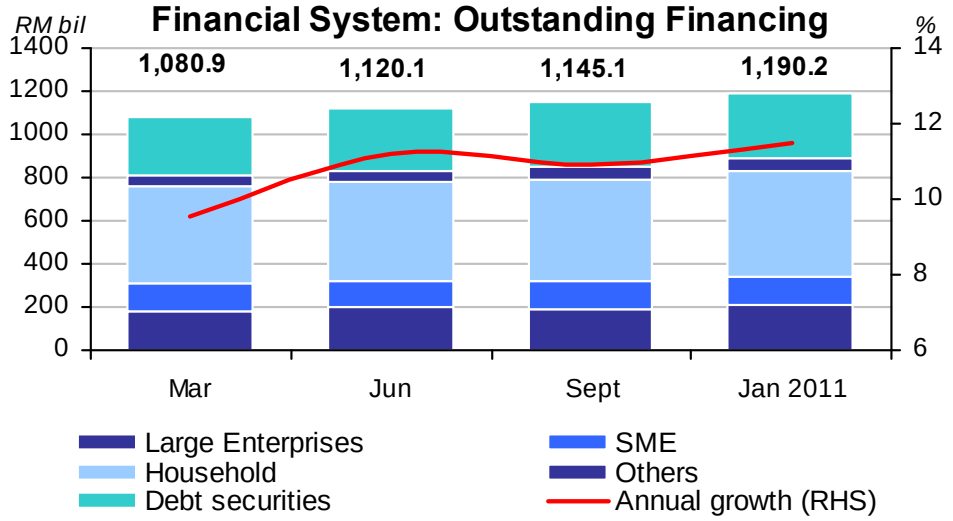
- Strong capital and liquidity buffers
- Improved profitability
- High asset quality
- Stress tests affirmed capacity to withstand extreme macroeconomic and financial conditions

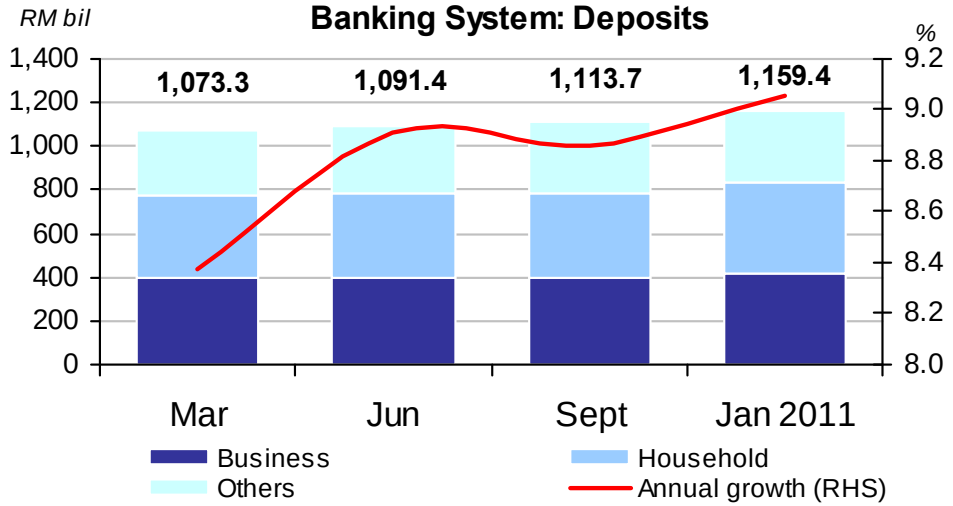
Banking Sector (%)	2009	Jan'11
Capital Adequacy		
Risk-Weighted Capital Ratio	15.4	14.1
Core Capital Ratio	13.8	12.4
Capital Buffer (RM bil)	64.6	60.5
Profitability		
Return on Assets	1.2	1.8
Return on Equity	14.0	19.7
Asset Quality		
Net Non Performing Loan* Ratio	1.8	2.2
Liquidity Position		
Liquidity buffer (<1 mth, % of deposits)	18.2	14.8
Insurance/Takaful Sector (%)	**2009**	**2010**
Capital Adequacy		
Capital Adequacy Ratio^	225.7	224.6
Capital Buffer^ (RM bil)	18.6	18.6
Profitability		
Profit Before Tax (RM bil)	14.7	16.3

** Inclusive of impaired loans* *^ Conventional industry only*

Continued access to financing by all sectors

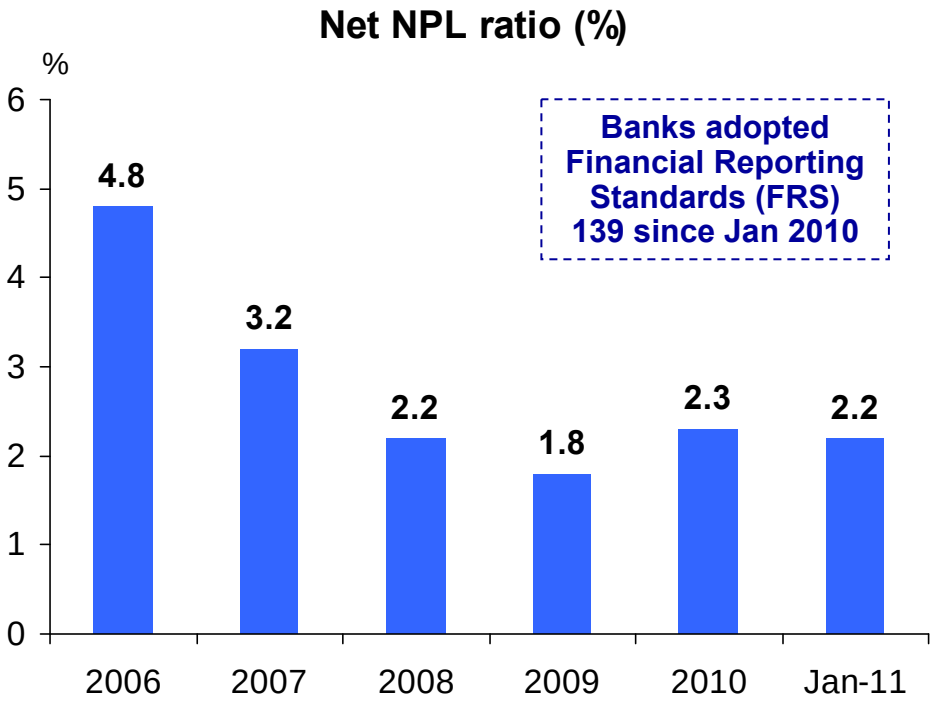
- **Loan outstanding in banking system grew by 13.1% to amount to RM893.3 bil (January 2011)**
  - Continued expansion to all segments, including SMEs
- **Bank deposits increased by 9.1%**
  - Loan-to-deposit ratio stable at 81.2%
- **New PDS issuances of RM76 bil**
  - Danajamin approved RM4.6 bil worth of guarantees



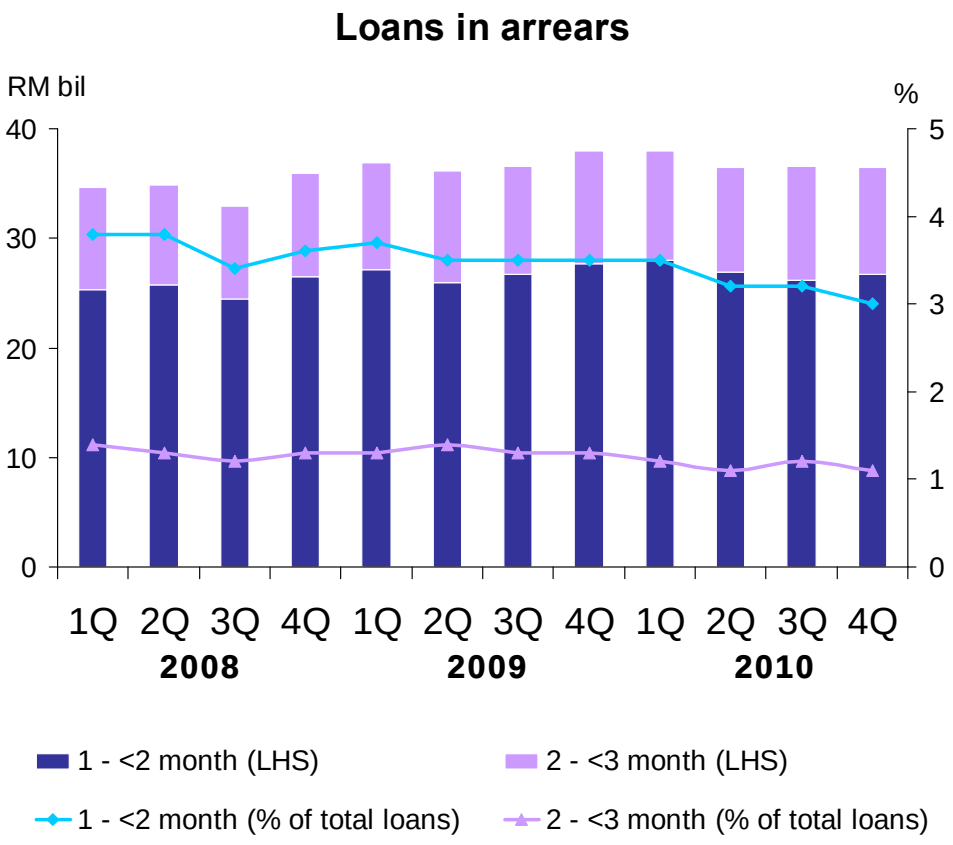


Overall financing quality remained intact

Increase in NPL reflects new accounting standards

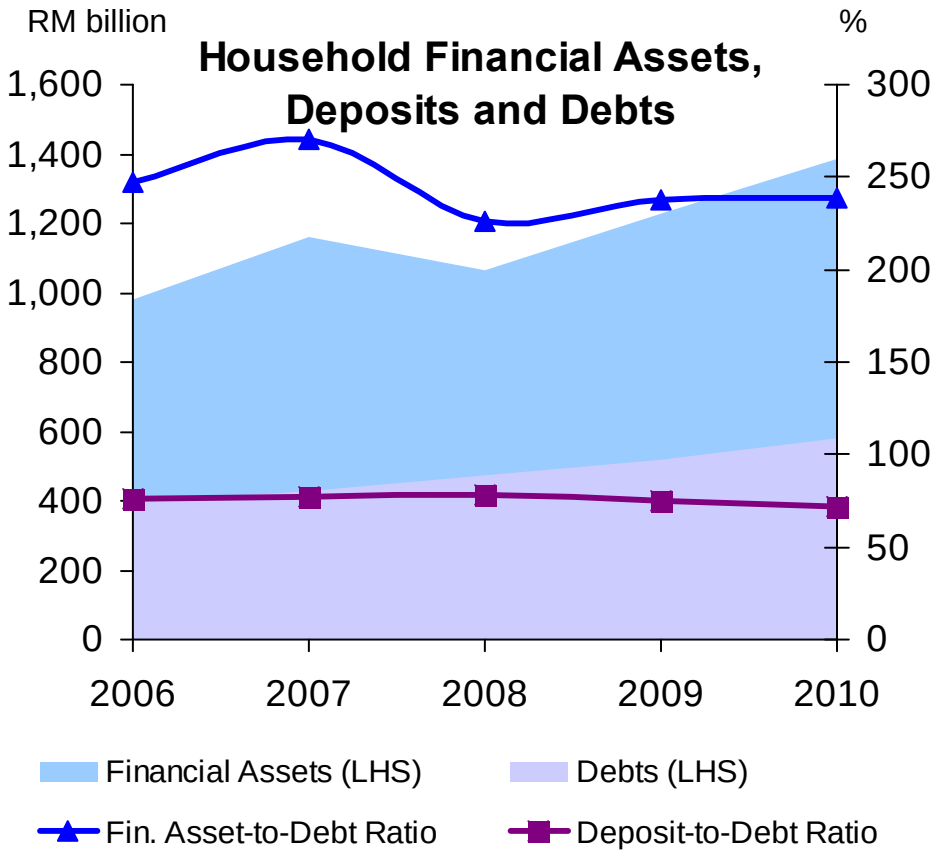


Loans-in-arrears remained stable to account for 4.1% of total loans

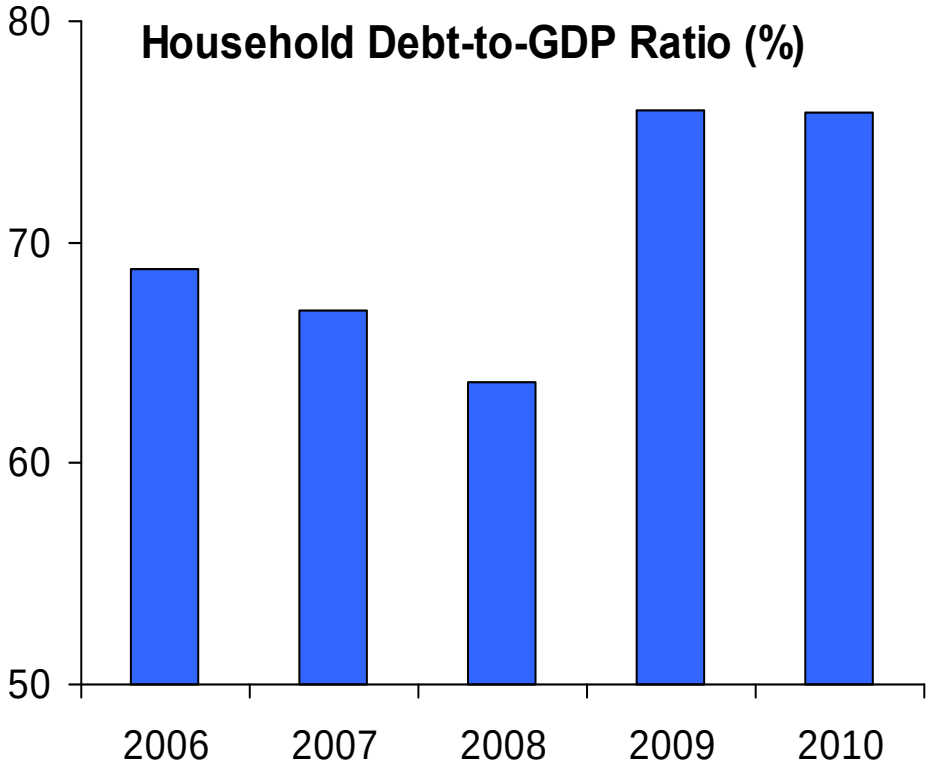


Rising household indebtedness supported by strong financial buffers…

Household financial assets are 2.4 times of household debts

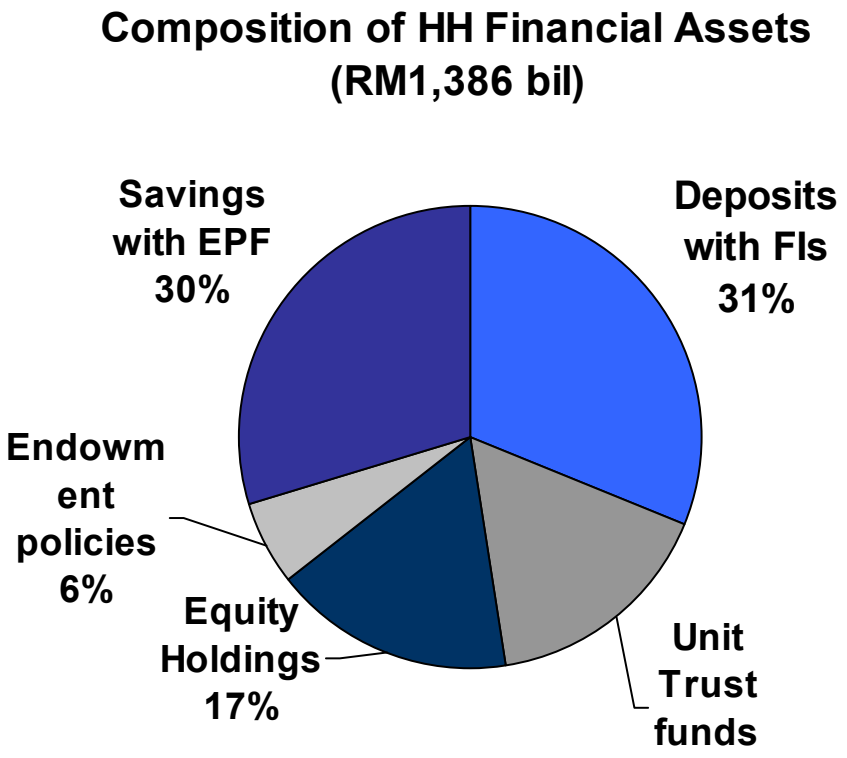


Household debt-to-GDP ratio unchanged at 75.9%

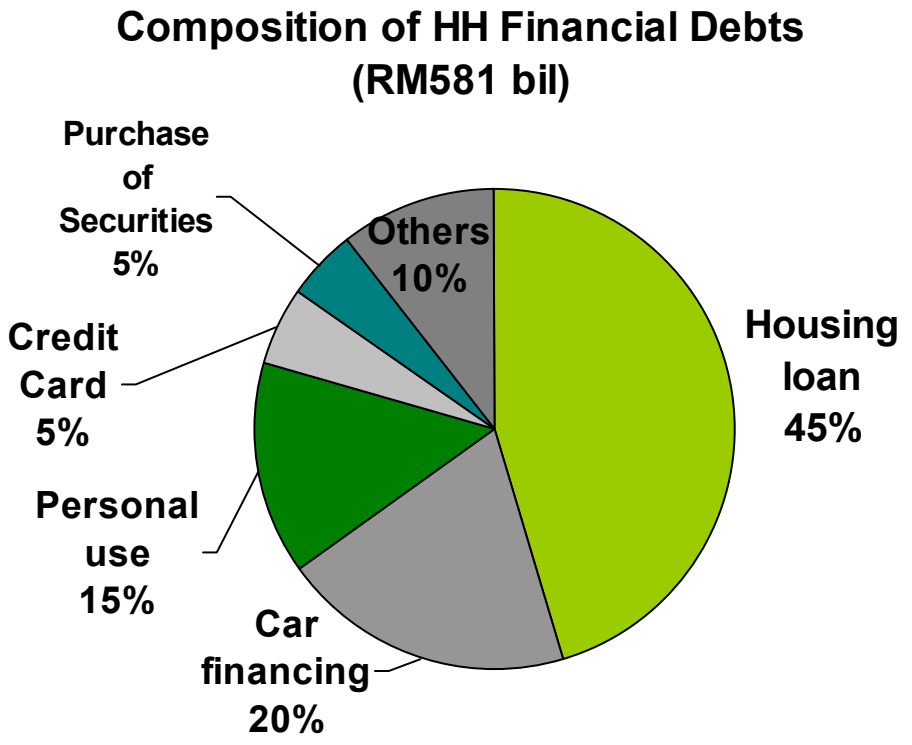


…and high level of liquid assets, with bulk of borrowings for purchase of assets

Liquid assets accounted for 64.6% of financial assets

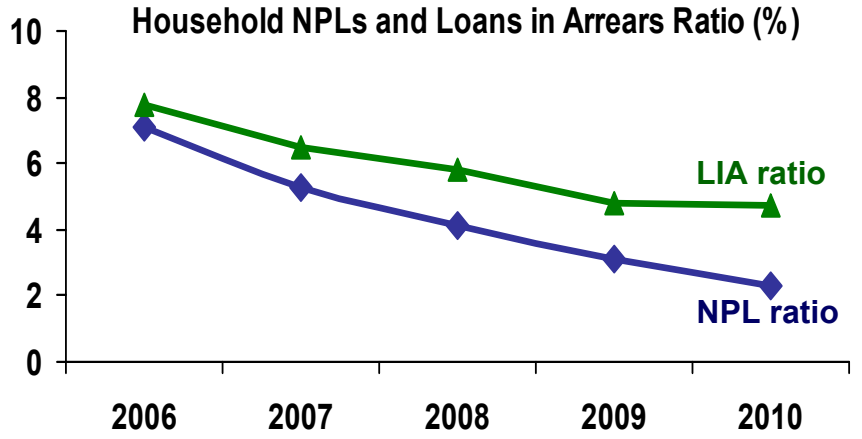


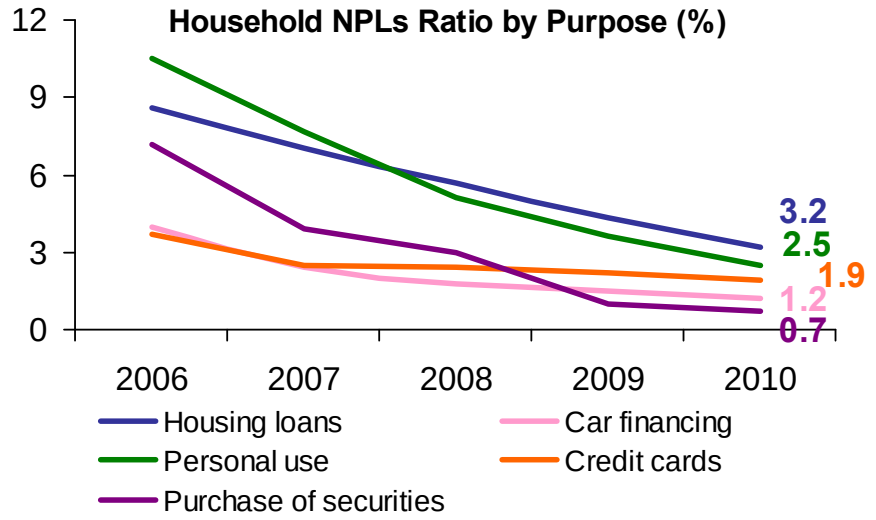
Secured financing constitute 64.9% of household debt



Quality of household loans continue to improve

- **Debt servicing capacity remains sound**
  - Delinquencies continued to improve
  - Gross NPL ratio: 2.3% (2009: 3.1%)
  - LIAs at 4.7% of total loans
- **Banks maintain prudent loan underwriting standards and risk management practices**
- **Supported by comprehensive credit information system and infrastructure**





Comprehensive, pre-emptive strategies to preserve household sector resilience

Prudential policies

- Maximum loan-to-value ratio and new credit card guidelines

Intensive supervisory oversight

- Risk management practices including pricing

Standards on prudent and responsible lending practices

- Suitability and affordability assessments

Targeted financial education programme by AKPK

- Including advisory and support arrangements

Ensuring prudent and responsible conduct for retail financing as part of measures to preserve household sector resilience

- Inculcate responsible lending practices by financial institutions in dealing with retail customers

- Requirements NOT intended nor expected to hamper credit availability

- Key requirements include
  - Suitability and affordability assessment
  - Verification of customers' income
  - Product disclosure sheet to facilitate informed decision making
  - Compensation of sales and marketing personnel to take into account fair dealing conduct

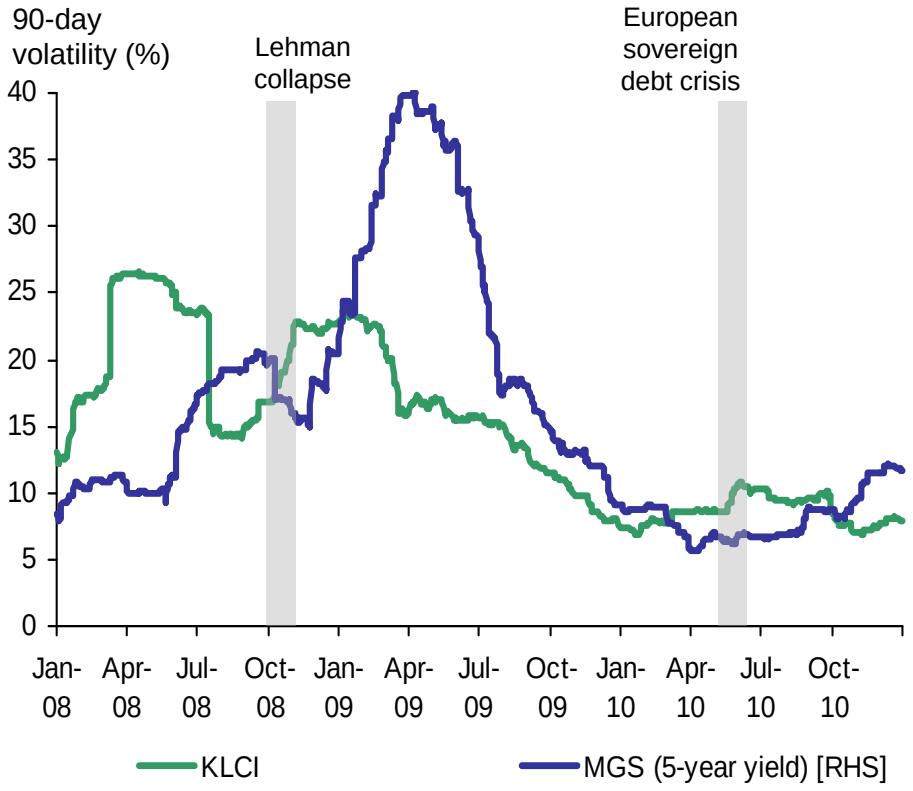
- Complete submissions should not result in processing delays

Key contents of product disclosure sheet

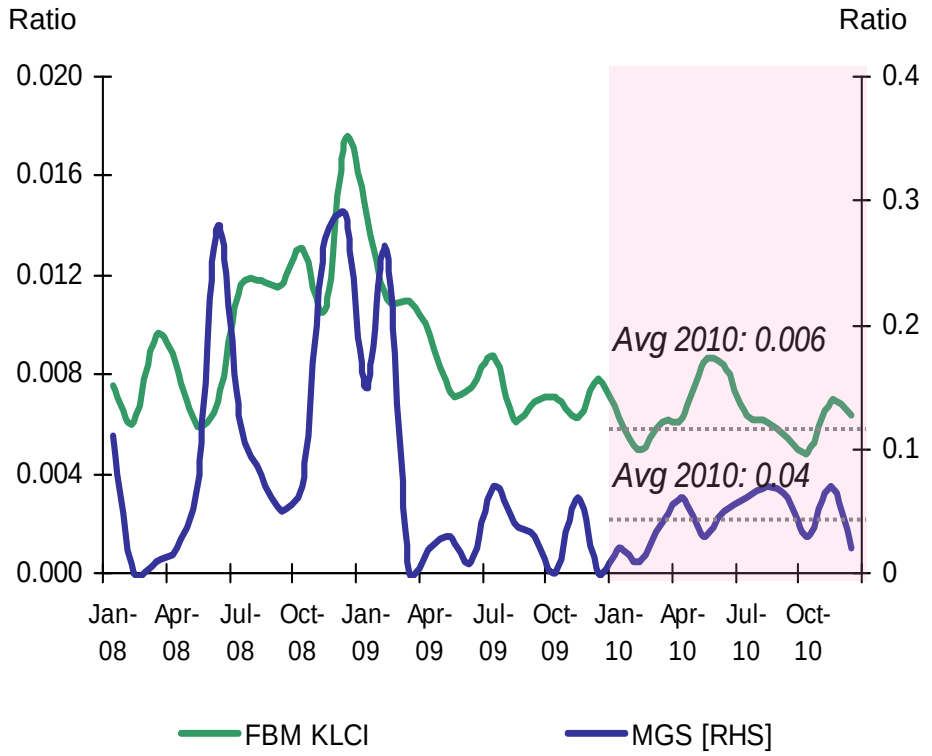
- Borrowing rate, variable / fixed rate, tenure, repayment structure
- Repayment obligation
  - Installment amount, total repayment (entire duration), changes to installment amount for 100-200bps increase in borrowing rate
- Applicable charges
  - Stamp duty, disbursement fee, processing fee
- Implications of non-repayment
  - Late payment penalty, review of borrowing rate, legal implications
- Risk associated with the product
- Assistance and redress mechanism

Financial markets exhibited enhanced capacity to intermediate larger and more volatile portfolio flows

Volatility of asset prices remained low



Lower returns to turnover ratio, denoting higher resilience

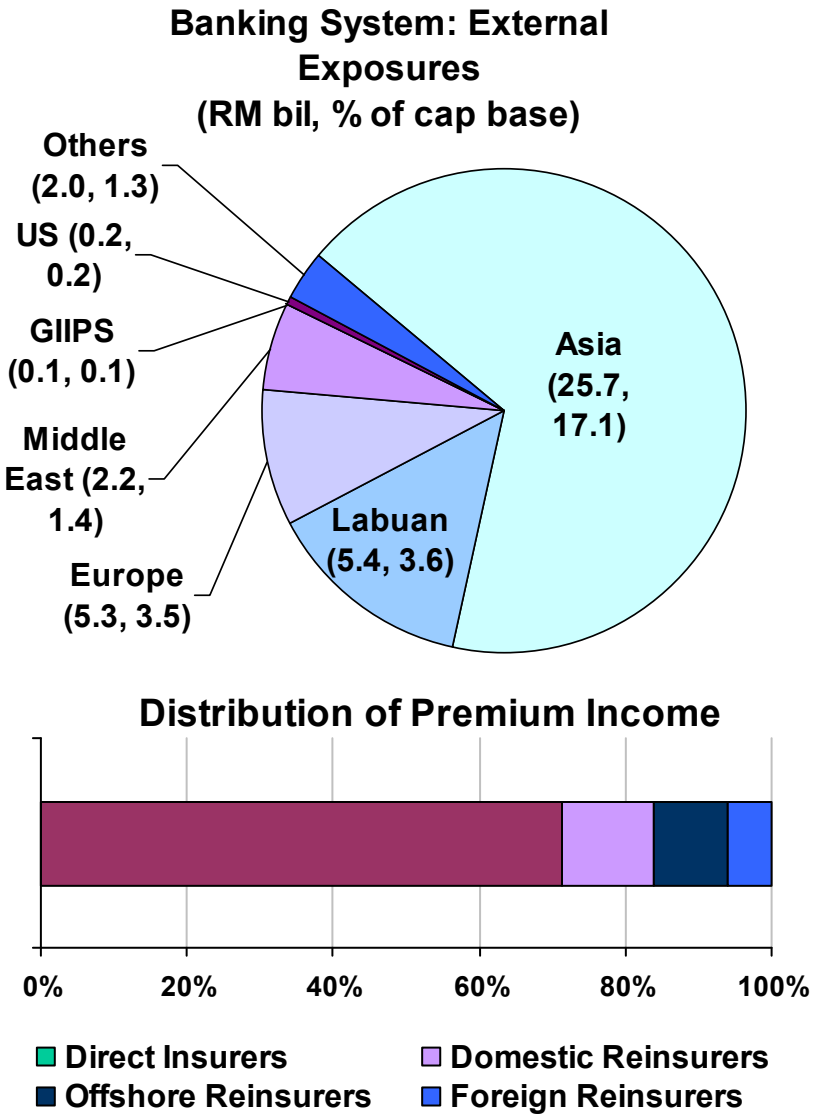


Source: Bloomberg

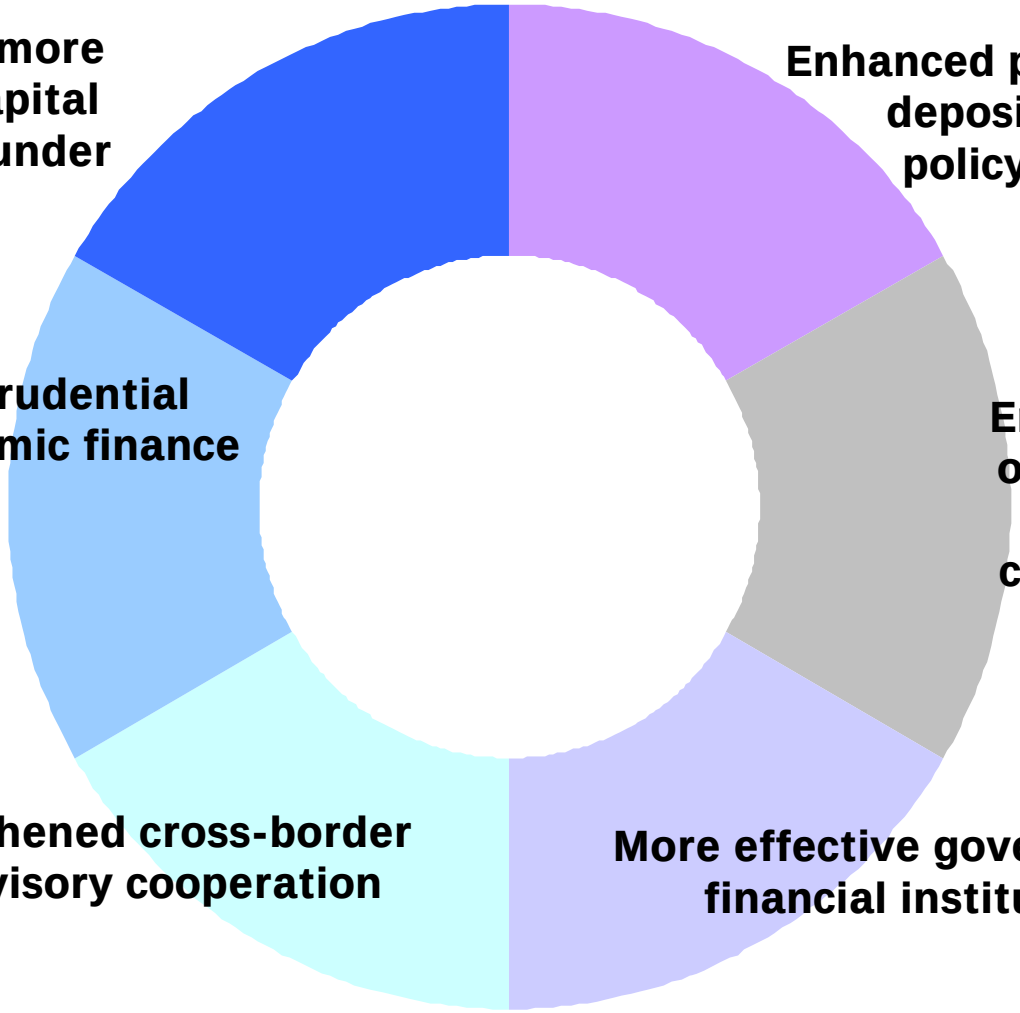
Limited impact from developments in Europe and Middle East

- **Banks' exposures at 18.3% of external exposures or 5% of capital base**
  - No adverse spillovers from interbank funding strains in Europe
  - Regional operations of domestic banks' unaffected due to strong fundamentals

- **Counterparty risks to European reinsurers well-contained**
  - High net retention ratio of 71.4%
  - Reinsurance exposures to Europe only 8.5% of total capital available for general insurance



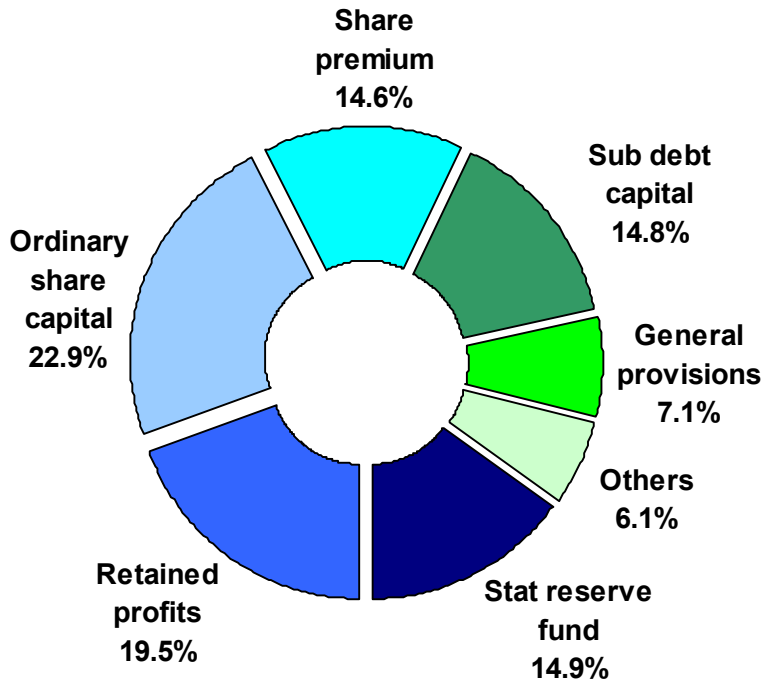
Foundations for financial stability were further strengthened



Malaysian banking system well-positioned to meet Basel III requirements

- **High level and quality of bank capital**
- **Liquidity standards have been in place since 2000**
  - Banks to further strengthen buffers going forward
- **Implementation strategy for local adoption of Basel III to be communicated to industry in 2011**
  - Address specific characteristics of domestic market
  - Minimise impact on bank lending and economic growth

More than 70% is comprised of equity and reserves



Growth potential of financial sector reinforced by further strategic initiatives in 2010

Enhanced inter-linkages with regional and international economies

- Expanding regional footprint of Malaysian FIs
- Issuance of new commercial banking and family takaful licences
- Enhancing post-trade processing infrastructure for capital market
- Enhancing cross-border payment infrastructure
- Strengthened regional and international frameworks for cooperation

Improved environment for financing to SMEs

- With comprehensive institutional framework and proactive measures by FIs

Continued development of human capital

- ICLIF Leadership and Governance Center
- Asian Institute of Finance
- INCEIF

Improving accessibility and sustainability of motor insurance

Expanded outreach of financial services

Recent Achievements

1 *Pembiayaan Mikro*[1]

- Financing grew by 25.8% yoy to RM776 million benefiting over 66,000 microenterprises

2 Physical Outreach of Financial Services

- 8 unserved districts in East Malaysia will have physical access to financial services in 2011 via mini branches, mobile units & Pos Malaysia

3 Comprehensive Mechanisms for Consumer Education and Protection

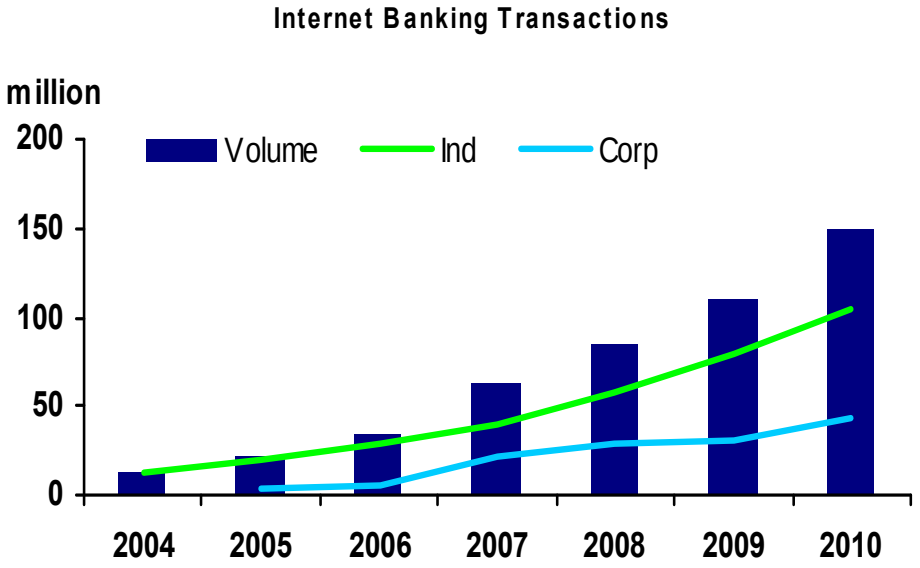
- **POWER**: Educate young adults & first time borrowers on good money management & living with manageable debt
- **Mobile LINK**: Enhance accessibility of financial assistance & education to non-urban population

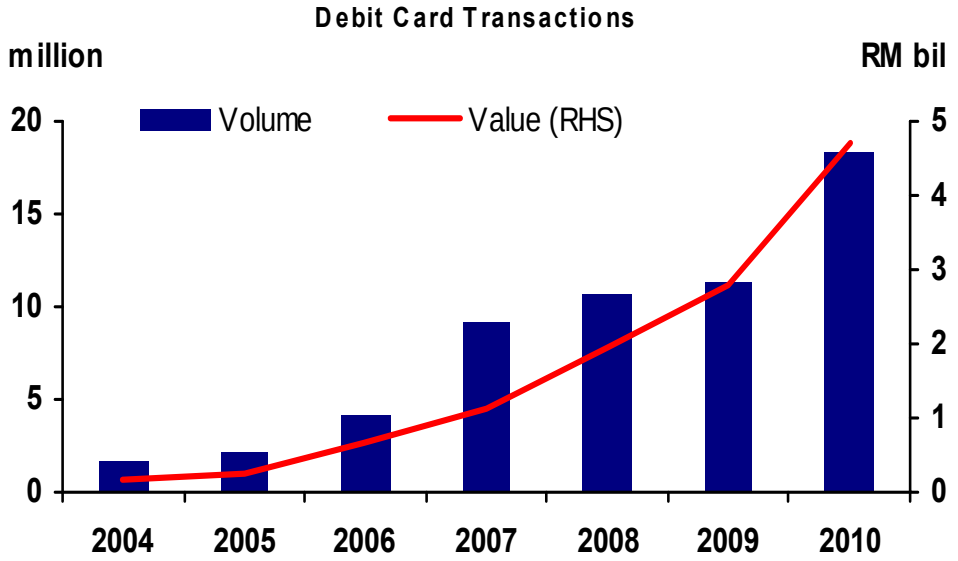
1. As at end 2010

High global financial inclusion rankings

'Getting Credit' *World Bank (Doing Business 2009, 2010 & 2011 Reports)*	**No. 1** for 3 years
'Loan accounts per 1,000 adults' *CGAP (Financial Access Report 2010)*	**No. 2** out of 87 countries
'Ease of Access to Loans' *WEF (The Global Competitiveness Reports 2009-2010 and 2010-2011)*	**No. 10** in 2010 out of 139 countries (up from no.13 in 2009)
'Deposit accounts per 1,000 adults' *CGAP (Financial Access Report 2010)*	**No. 9** out of 110 countries

Migration to electronic means of payments has achieved significant advancements





Driving efficiency gains in various economic sectors and expanding the payment infrastructure

Capital market

Following successful launch of eShare Payment and eDividend

Unit trust, rights issues & refund of unsuccessful Initial Public Offering (IPO) applications

Mobile banking and payment

Multi-bank and mobile network operator neutral ecosystem to be piloted in 2H 2011

Outlook for domestic financial stability in 2011 remains positive

- **Risks to financial stability likely to be largely externally driven**
- **Pre-emptive measures taken and strong financial buffers ensure that Malaysia's financial system is well-placed with capacity and flexibility to respond to emerging risks**
- **Macrosurveillance and supervisory activities in 2011 will focus on:**
  - Ensuring prudent and responsible risk-taking and market conduct by FIs
  - Ensuring resilience and robustness of major payment and settlement systems
  - Active engagement in global regulatory and accounting reforms
  - Further strengthening of regulatory laws and prudential guidelines
  - Promoting closer domestic, regional and global cooperation and coordination

Malaysia maintains a leading role in development of Islamic finance

Malaysia tops global league tables in sukuk equity and fund management

Sukuk market

Rank	Countries
1	**Malaysia**
2	UAE
3	Saudi Arabia
4	Indonesia
5	Bahrain

Equity market

Rank	Countries
1	**Malaysia**
2	Indonesia
3	UAE
4	Saudi Arabia
5	Kuwait

Fund management

Rank	Countries
1	**Malaysia**
2	Saudi Arabia
3	Kuwait
4	Cayman Islands
5	Bahrain

Takaful

Rank	Countries
1	Iran
2	**Malaysia**
3	UAE
4	Saudi Arabia
5	Bahrain

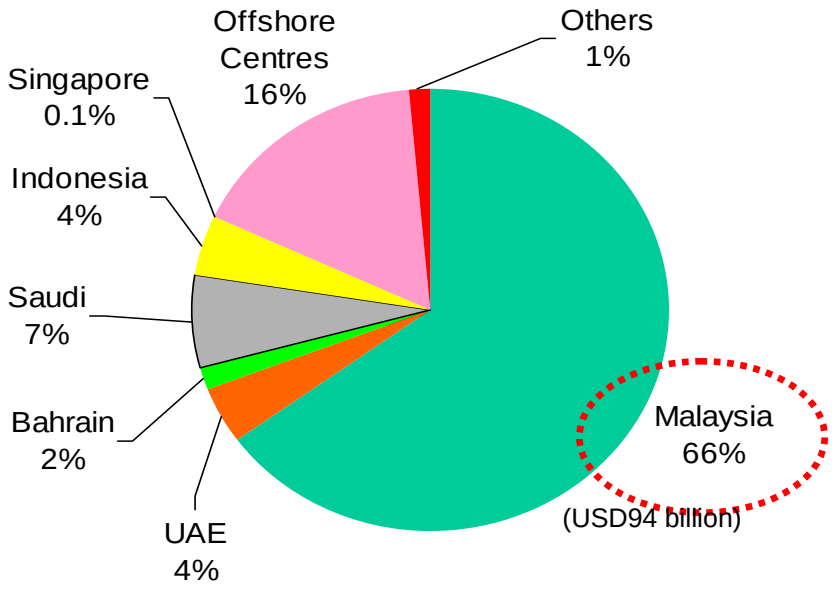
Islamic banking

Rank	Countries
1	Iran
2	Saudi Arabia
3	**Malaysia**
4	UAE
5	Kuwait

Source:
"Gateway to Asia: Malaysia, international Islamic finance hub" by Pricewaterhouse Coopers 2010

…and home to largest sukuk market

Global Sukuk Outstanding by Country*
USD148 billion



*Source: Bloomberg Professional Services Terminal, as at end-2010

Malaysia plays key role in development of Islamic international architecture

1 Islamic Financial Services Board

- Global standard-setting body based in Malaysia for prudential standards in Islamic finance – 11 standards issued to date
- 195 members of which 53 regulators and supervisory authorities from Muslim and non-Muslim countries

2 Islamic Financial Stability Forum (IFSF)

- Established following recommendation in Financial Stability Report led by Bank Negara Malaysia.
- Strategic platform for dialogue among regulators of international Islamic financial system to promote financial stability

3 International Islamic Liquidity Management Corporation (IILM)

- Established in 2010 in Kuala Lumpur with participation of 12 central banks and regulatory agencies and 2 multilateral development institutions.
- Milestone in regional & international cooperation to build a robust liquidity management infrastructure at national, regional & international levels
- Facilitate cross-border liquidity management among players in the Islamic financial industry via regular issuances of short term high-grade Shariah-compliant instruments in major reserve currencies

Significant achievements since 2001 FSMP

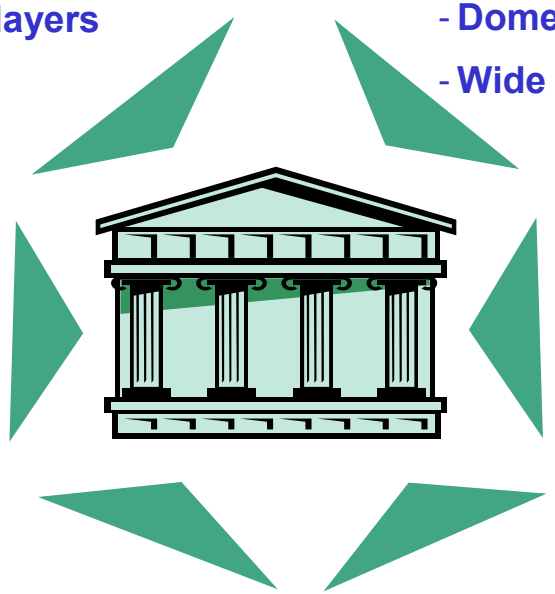
Strengthened linkages with international and regional economies

- 6 banking groups in 19 countries
- New licences to global and regional players

Strong and mature domestic players

- Larger domestic banks with average assets of >RM95 b
- Domestic banks market share > 75%
- Wide array of products and services

More market driven and competitive financial system



Robust regulatory, supervisory & surveillance framework

- Strengthened prudential standards
- Risk-based supervisory framework
- Stronger cross-border cooperation

Enhanced financial inclusion

- Wider outreach of banking services
- Higher lending to SMEs
- Comprehensive consumer education and protection framework

More developed financial markets

- Higher PDS and sukuk financing with active secondary trading
- Increased breadth and liquidity of FX market

Growing Islamic finance and MIFC

- Accounts for >20% of banking sector assets
- Comprehensive infrastructure and diversified players
- Global leader in sukuk issuances

Moving forward…

The new financial sector blueprint will build on the strong foundations of the Malaysian financial system to:

- *remain resilient in withstanding any potential disruptions in the financial system and broader economy;*
- *to best serve the needs of a high value-added and high income economy;*

while further promoting financial inclusion and regional financial integration