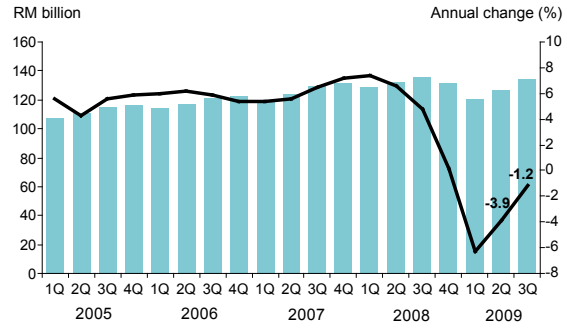
ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE THIRD QUARTER OF 2009

OVERVIEW

Pace of recovery gathering momentum in the third quarter

The Malaysian economy registered an improvement in the third quarter with a reduced contraction of 1.2% (2Q 09: -3.9%) amidst positive growth in domestic demand and stabilisation of external demand. The growth impetus emanated mainly from domestic demand, as a result of stronger private consumption and higher public sector spending. Improvements in the global economy, particularly the regional economies, helped to stabilise the external sector. On the supply side, all economic sectors, except agriculture, recorded improved performance.

Further improvement in the third quarter
(at constant 2000 prices)



Source: Department of Statistics, Malaysia

During the quarter, domestic demand turned around to expand by 0.4% (2Q 09: -2.2%), led by stronger growth in private consumption and public sector spending. Private consumption, which grew by 1.5% (2Q 09: 0.5%), was supported by improved labour market conditions, lower price levels and higher spending for the festive season. Consumer sentiments remained positive in the third quarter as reflected by the MIER Consumer Sentiments Index which was above the 100-point threshold. The public sector continued to provide support to the economy, where public consumption expanded by 10.9% (2Q 09: 1%), following higher expenditure on emoluments while public development expenditure remained strong and was channelled mainly into rural development, education and the transportation sector. The strong public investment provided support to gross fixed capital formation, which contracted at a more moderate pace of 7.9% (2Q 09: -9.6%) as private investment remained subdued.

On the supply side, all economic sectors, except agriculture, recorded a better performance during the quarter. The services sector expanded further by 3.4% (2Q 09: 1.6%), supported mainly by improvements in the wholesale and retail trade, finance and insurance, and real estate and business services sub-sectors. In the construction sector, growth was higher at 7.9% (2Q 09: 4.5%) as implementation of construction projects under the stimulus packages picked up pace. The manufacturing sector declined at a slower pace of 8.6% (2Q 09: -14.5%) as the contraction in export-oriented industries moderated further due to the stabilisation of external demand while the improvement in domestic-oriented industries was driven by higher activity in the construction-related and consumer-related clusters. The contraction in the mining sector also eased slightly to 3.5% (2Q 09: -3.6%). Meanwhile, the agriculture sector registered a 0.5% decline in value-added (2Q 09: 0.3%) due mainly to lower production of industrial crops.

Headline inflation rate, as measured by the change in the Consumer Price Index (CPI), declined by 2.3% on an annual basis in the third quarter (2Q 09: 1.3%). The decline in consumer prices was largely due to the effect of the cumulative downward adjustment to retail fuel prices since the June 2008 price increase.

In the external sector, the trade surplus remained large at RM26.7 billion in the third quarter as both gross exports and imports contracted at a smaller pace. Gross exports declined by 22.3% (2Q 09: -26.3%). A gradual recovery in demand for manufactured products and increased exports of LNG contributed to a smaller decline in commodity exports. A smaller decline in gross imports of 18.3% (2Q 09:

-23.8%) was contributed by slower contraction in imports of intermediate and consumer goods which were in line with the improved manufactured exports and higher private consumption spending.

On a cash basis, gross inflows of foreign direct investment (FDI)[1] moderated to RM6.2 billion in the third quarter (2Q 09: RM9.1 billion). After adjusting for gross outflows due mainly to loan repayment to parent companies, net FDI amounted to RM2.1 billion (2Q 09: RM6.5 billion). The bulk of the FDIs was directed mainly into the manufacturing and services sectors. Overseas investment by Malaysian companies recorded a larger net outflow of RM3.4 billion (2Q 09: -RM2.1 billion), mostly for investments in the services sector. Meanwhile, portfolio investment registered a net inflow of RM8.8 billion (2Q 09: -RM13.6 billion), due largely to the proceeds of bonds issued abroad by a Non-Financial Public Enterprise in the oil and gas sector during the quarter to finance its future capital expenditure.

The international reserves of Bank Negara Malaysia amounted to RM334.3 billion (equivalent to USD96 billion) as at 30 September 2009, and remained largely unchanged at RM334.8 billion (equivalent to USD96.1 billion) as at 13 November 2009. The reserves are sufficient to finance 9.9 months of retained imports and are 4.1 times the short-term external debt.

Monetary policy continued to support economic activity

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

Interbank interest rates for all maturities were relatively stable during the quarter. In terms of lending rates, the average base lending rate (BLR) was unchanged during the quarter, while the average lending rate (ALR) continued to decrease in the third quarter to a historic low of 4.91% in September 2009. Meanwhile, with the inflation rate being negative since June 2009, real fixed deposit (FD) rates have remained positive across all tenures.

Total gross financing raised by the private sector through the banking system and the capital market remained high at RM180.5 billion during the third quarter (2Q 09: RM183.3 billion). Financing activity was supported by the low interest rate environment, the ample liquidity in the banking system, and the targeted measures to improve access to financing. Net banking system loans outstanding expanded by RM21 billion, reflecting higher loans extended to the business and household sectors. In terms of annual growth, net banking system loans and private debt securities (PDS) outstanding expanded by 7.2% as at end-September (end-June: 8%).

During the third quarter, net funds raised in the capital market by both the public and private sectors amounted to RM23.4 billion (2Q 09: RM45.7 billion), reflecting mainly funds raised by the Government through the issuances of Malaysian Government Securities (MGS) and Government Investment Issues (GII). During the quarter, gross funds raised in the PDS market totalled RM13.5 billion (2Q 09: RM19.3 billion), while funds raised in the equity market amounted to RM1.2 billion (2Q 09: RM11.5 billion).

The ringgit appreciated by 1.4% against the US dollar during the quarter, and was generally stable against other regional currencies. The ringgit was supported by favourable investor sentiments and improved risk appetites towards the region following the stronger recovery in the Asian economies. The ringgit also appreciated against the pound sterling (5.2%), but depreciated against the Japanese yen (-5.1%) and euro (-2.2%). Against regional currencies, the ringgit appreciated against the Chinese renminbi (1.3%), but depreciated against other regional currencies by between 0.1% and 6.4%. For regional currencies, the Indonesian rupiah and the Korean won sustained their strong performance against other regional currencies. From 1 October to 19 November, the ringgit appreciated against the US dollar by 2.8%, Japanese yen (2%) and euro (0.7%), but depreciated against the pound sterling (-1.3%). Against regional currencies, the ringgit appreciated between 0.8% and 2.8%.

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

The financial sector exhibited continued resilience

The financial sector remained resilient with strong capitalisation, high asset quality, ample liquidity and continued profitability in the third quarter. This enabled the financial sector to remain supportive of the financing and financial services needs of the economy.

As at end-September, the risk weighted capital ratio and core capital ratio of the banking system strengthened to 14.5% and 12.9% respectively, with a capital buffer of more than RM50 billion. The net non-performing loans ratio improved to 2.1% whilst the delinquency level, as reflected by loan-in-arrears between 1 to 2 months, declined to account for 3.4% of total loans. Pre-tax profit from all major revenue sources improved to RM5.1 billion during the quarter, resulting in a return on equity of 13%.

Meanwhile, the Capital Adequacy Ratio of the insurance industry remained strong at 214.7% (2Q 09: 208%). Profitability of the insurance and takaful sector strengthened to RM4.6 billion, driven largely by increased premium income in almost all business segments as well as favourable results from investment activities in line with the improved capital market conditions.

Domestic economy set to register positive growth going forward

There have been increasing signs of improvements in international economic and financial conditions in the third quarter. Economic activity in the advanced economies continued to stabilise while several regional economies have recorded positive growth in the third quarter. This positive trend is expected to continue going into 2010. While these improvements are positive, the pace of recovery in the global economy is likely to be gradual and uneven, and the outlook remains uncertain, in particular once the effects of the significant policy support begins to diminish.

The Malaysian economy has exhibited stronger signs of improvement in the third quarter and evidence suggests that domestic economic activity is gaining strength. Domestic demand, particularly private consumption and public sector spending, has been the main impetus of growth. Going forward, the pace of economic recovery is expected to gain momentum, as business and consumer sentiment improve further in an environment of continued implementation of fiscal measures, accommodative monetary policy and continued access to financing. In addition, the gradual improvement in the global economy will continue to contribute positively to the recovery of the domestic economy.

DEVELOPMENTS IN THE THIRD QUARTER OF 2009

INTERNATIONAL ECONOMIC ENVIRONMENT

Increasing signs of improvements in the global economy

Signs of improvements in the global economy became more pronounced in the third quarter of 2009. Global production, trade and retail sales revived, while conditions in the international financial markets continued to stabilise. In some of the major advanced economies, notably the US, Japan, Germany and France, economic activity gained momentum as evidenced by the positive growth on a quarterly basis. The rebound in economic activity was stronger in the emerging economies, particularly in Asia. However, the pace of recovery in the global economy continues to be uneven and remains dependent on policy support.

In the **US**, real GDP grew by an annualised rate of 3.5% in the third quarter (2Q 09: -0.7%), the first expansion after four consecutive quarters of contraction. This was driven mainly by positive growth in private consumption and residential fixed investment. Private consumption increased by 3.4% (2Q 09: -0.6%) due to strong purchases of motor vehicles as consumers took advantage of the 'cash for clunkers' programme. Private fixed investment expanded by 2.3% (2Q 09: -12.5%), with investment in the residential sector recording its first expansion in more than two years (3Q 09: 23.3%; 2Q 09: -23.2%). Lower drawdown in inventories and continued expansion in public sector spending provided further support to growth. On the inflation front, headline consumer prices declined at a faster pace of 1.6% during the quarter (2Q 09: -1.1%) due mainly to lower energy prices.

In **Japan**, the growth momentum continued with real GDP growing by an annualised rate of 4.8% (2Q 09: 2.7%) in the third quarter. Growth was supported by improvements in private consumption, capital spending in the non-residential sector and net exports. Exports recorded a slightly smaller decline of 34.4% (2Q 09: -38.6%), due to increased demand for E&E and steel from the Asian region. Meanwhile, government policies, particularly consumption-related measures, helped provide support to private consumption. Of significance, capital spending in non-residential sector rose by 6.6% (2Q 09: -15.6%), marking its first expansion after five consecutive quarters of contraction. On the inflation front, core consumer prices (excluding fresh food) declined by 2.3% (2Q 09: -1%), reflecting lower commodity prices from a year ago.

The **euro area** experienced a slower annual contraction of 4.1% (quarter-on-quarter growth of 0.4%) in the third quarter (2Q 09: -4.8%), as positive effects of fiscal measures and the improvement in external demand provided some support to the economy. On a quarterly basis, several economies including the two largest member economies, Germany and France, continued to register a quarter-on-quarter growth, due to the positive impact from the car scrapping schemes on car sales and consumer sentiment. On the inflation front, consumer prices in the euro area declined by 0.4% in the third quarter (2Q 09: 0.2%), due mainly to lower energy and food prices.

In the **UK**, real GDP declined by 5.2% year-on-year in the third quarter (2Q 09: -5.5%), which was the sixth quarter-on-quarter consecutive contraction, making this the longest economic recession on record. Meanwhile, inflation continued to edge downwards to 1.5% in third quarter (2Q 09: 2.1%).

Industrial Countries: Real GDP Growth

	2008		2009			Key contributing factors for 3Q growth
	3Q	4Q	1Q	2Q	3Q	
	Annual change (%)					
US[1]	-2.7	-5.4	-6.4	-0.7	3.5[a]	Positive growth in private consumption expenditure and residential fixed investment.
Japan[1]	-6.5	-11.5	-12.2	2.7[r]	4.8[p]	Due to positive contribution from private consumption, investment in non-residental sector and net exports.
Euro area	0.4	-1.8	-4.9	-4.8	-4.1[p]	Supported by improvements in Germany and France.
UK	0.3	-1.9	-5.0	-5.5	-5.2[p]	Broad-based contraction across all major economic sectors.

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

Source: National authorities

Central banks in the major advanced economies continued to maintain an accommodative monetary policy and the quantitative measures to ensure continued stability in the financial system. In the **US**, while the federal funds rate was maintained at 0 – 0.25%, changes were made with respect to several of the credit and lending programmes. In August, the Fed decided to gradually slow its purchases of USD300 billion worth of US Treasury securities by the end of October 2009 (previous deadline: September 2009). At the subsequent two meetings, the Fed announced that they would slow the pace of its purchases of both the agency debt and mortgage-backed securities by the end of the first quarter of 2010 (previous deadline: end-2009). The Fed also reduced the maximum amount of purchases of agency debt to USD175 billion (from USD200 billion) but maintained the maximum amount of mortgage-backed securities purchases at USD1.25 trillion. In Japan, the uncollateralised overnight call rate remained unchanged at 0.1%. However, the **Bank of Japan** extended its special lending facility to provide funds at 0.1% until March 2010 (previous deadline: December 2009). While maintaining the base lending rate at 0.5%, the **Bank of England** expanded the purchase of commercial paper, corporate bonds and gilts under the Asset Purchase Facility by another £50 billion and £25 billion in August and November respectively, bringing the total of this facility to £200 billion. Meanwhile, the **European Central Bank** had been purchasing covered bonds since July, while maintaining the refinancing rate at 1%.

In the third quarter, prices of **crude oil**[2] increased to a 10-month high of USD74 per barrel in mid-August, driven mainly by higher risk appetite among investors and expectations of a strong recovery in global demand. However, crude oil prices retreated to below USD70 per barrel in the latter half of the quarter, following concerns over the sustainability of the recovery. Crude oil prices averaged around USD68 per barrel during the quarter (2Q 09: USD60 per barrel).

In the **Asian region**, PR China and Indonesia continued to expand at a stronger pace of 8.9% (2Q 09: 7.9%) and 4.2% (2Q 09: 4%) respectively, while Hong Kong SAR registered a slower contraction of 2.4% (2Q 09: -3.6%). Meanwhile, Singapore and Korea recorded their first positive annual growth of 0.6% (2Q 09: -3.3%) and 0.6% (2Q 09: -2.2%) respectively following the strengthening of domestic demand and a broad-based improvement in exports. Domestic demand in the region has gathered pace, in particular private consumption, benefiting from the impact of fiscal measures, improving consumer confidence and stabilisation in labour market conditions. Stronger intra-regional trade also provided further support to growth in the regional economies. As the outlook for inflation remained benign and the recovery process was still at an early stage, most central banks in the region continued to maintain an accommodative monetary policy stance. **Bangko Sentral ng Pilipinas** reduced its policy rate by 25 basis points in July, while **Bank Indonesia** reduced its policy rate by 25 basis points each in July and August.

[2] Refers to WTI one-month futures on NYMEX

Regional Countries: Real GDP Growth

	2008		2009			Key contributing factors for 3Q growth
	3Q	4Q	1Q	2Q	3Q	
	Annual change (%)					
PR China	9.0	6.8	6.1	7.9	8.9	Supported by strong consumption and investment activities.
Singapore	0.0	-4.2	-9.5	-3.3[r]	0.6	Supported by continued expansion of biomedical and electronics output.
Korea	3.1	-3.4	-4.2	-2.2	0.6[a]	Supported by stronger domestic demand.
Indonesia	6.4	5.2	4.4	4.0	4.2	Supported by government spending and private consumption.
Hong Kong SAR	1.5	-2.6	-7.8	-3.6[r]	-2.4	Supported by improvement in domestic demand.

[a] Advance estimate
[r] Revised

Source: National authorities

In the **foreign exchange market**, all the major currencies except the pound sterling strengthened against the US dollar during the third quarter. The euro appreciated against the US dollar during the quarter on revival in global risk appetite following further signs of recovery taking place in the global economy. Meanwhile, the Japanese yen strengthened against the US dollar reflecting seasonal repatriation flows back to Japan, ahead of the end of the first half of their fiscal year. The repatriation was further motivated by firms taking advantage of the tax exemption on dividends received from overseas' subsidiaries which came into effect in April 2009. On the other hand, the pound sterling weakened against the US dollar on expectations that the recovery in the UK economy will lag other advanced economies. Regional currencies also appreciated against the US dollar in the third quarter following improved investor sentiments about the stronger growth prospects of the region vis-à-vis the advanced economies.

Going forward, global economic conditions are expected to improve further as most of the policy measures supporting demand are still in place. While the risks to growth have receded in recent months, the pace of recovery in the global economy is likely to be gradual and uneven as the outlook remains uncertain. A strong rebound will be constrained by problems in the advanced economies as financial, non-financial and household sectors continue to repair their balance sheets amidst tight financial conditions.

DEVELOPMENTS IN THE MALAYSIAN ECONOMY

Pace of recovery gathering momentum in the third quarter

The Malaysian economy registered an improvement in third quarter with a reduced contraction of 1.2% (2Q 09: -3.9%) amidst positive growth in domestic demand and stabilisation of external demand. The growth impetus emanated mainly from domestic demand as a result of stronger private consumption and higher public sector spending. Meanwhile, improvements in the global economy, particularly the regional economies, helped to stabilise the external sector. On the supply side, all economic sectors, except agriculture, recorded improved performance.

Domestic demand recorded positive growth

Domestic demand registered a positive growth of 0.4% in the third quarter (2Q 09: -2.2%), led by expansion in private consumption and stronger public sector spending.

Private consumption increased by 1.5% in the third quarter (2Q 09: 0.5%), as improved conditions in the labour market and lower price levels provided support to consumer spending. In addition, various promotions held during the festive season also encouraged household spending. The third quarter MIER Consumer Sentiments Index remained above the 100-point threshold (105.4 points; 2Q 09: 105.8 points), indicating that consumers' confidence continued to be positive. The recovery in private consumption spending was reflected in improvements recorded by major consumption indicators such as passenger car sales, bank lending to households and credit card spending.

Meanwhile, **public consumption** continued to expand, recording a growth of 10.9% in the third quarter due to higher expenditure on emoluments.

Gross fixed capital formation recorded a lower contraction of 7.9% in the third quarter (2Q 09: -9.6%), supported by continued strong public sector capital spending activity and slight improvement in private sector business spending. Although private sector capital spending generally remained weak, several investment indicators such as imports of capital goods, sales of commercial vehicles and production of construction-related products contracted at a slower pace in the third quarter. In addition, business conditions improved further, as reflected by the higher MIER Business Conditions Index (113.7 points; 2Q 09: 105.2 points). Meanwhile, public sector capital spending continued to provide support to the domestic economy during the quarter with the bulk of the development expenditure channeled into agriculture and rural development, education and the transportation sector.

GDP by Expenditure Components (at constant 2000 prices)

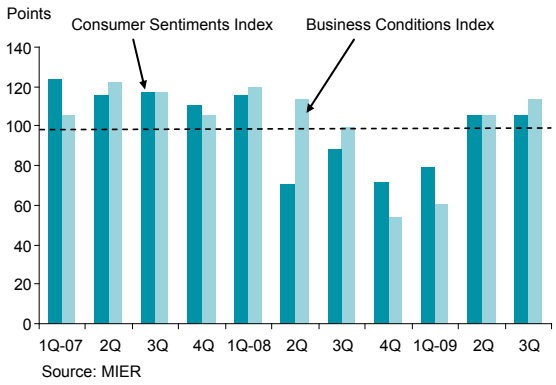
	2008		2009		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Aggregate Domestic Demand (excluding stocks)	6.6	2.8	-2.9	-2.2	*0.4*
Consumption	7.9	7.1	-0.2	*0.6*	*3.3*
Private sector	*8.2*	*5.3*	*-0.7*	*0.5*	*1.5*
Public sector	*6.4*	*12.7*	*2.1*	*1.0*	*10.9*
Gross Fixed Capital Formation	3.1	-10.2	-10.8	-9.6	*-7.9*
Net Exports	-15.9	-39.5	39.1	-0.7	*-16.9*
Exports of Goods and Services	*4.5*	*-13.3*	*-15.2*	*-17.3*	*-13.4*
Imports of Goods and Services	*7.7*	*-10.2*	*-23.5*	*-19.7*	*-12.9*
GDP	**4.8**	**0.1**	**-6.2**	**-3.9**	**-1.2**

Source: Department of Statistics, Malaysia

Improvements across all sectors except agriculture

On the supply side, all economic sectors, except agriculture, recorded a better performance during the quarter. The services sector expanded further, supported mainly by improvements in the wholesale and retail trade, finance and insurance, and real estate and business services sub-sectors. Growth was higher in the construction sector, as implementation of construction projects under the stimulus packages picked up pace. In the manufacturing sector, value-added declined at a slower pace, where the contraction in export-oriented industries moderated further due to the stabilisation of external demand while the improvement in domestic-oriented industries was driven by higher activity in the construction-related and consumer-related clusters. The contraction in the mining sector also eased slightly. Meanwhile, value-added in the agriculture sector fell, due mainly to lower production of industrial crops.

Business and consumer sentiments improved



Source: MIER

Quarterly GDP by Economic Activity (at constant 2000 Prices)

	2008		2009		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Agriculture	3.3	0.5	-4.3	0.3	-0.5
Mining	-0.3	-5.7	-5.2	-3.6	-3.5
Manufacturing	1.8	-8.8	-17.9	-14.5	-8.6
Construction	1.2	-1.6	1.1	4.5	7.9
Services	7.1	5.7	-0.2	1.6	3.4
Real GDP (Annual Change)	**4.8**	**0.1**	**-6.2**	**-3.9**	**-1.2**
Real GDP (Preceding Change)	**2.8**	**-3.4**	**-7.8**	**4.8**	**5.7**

Source: Department of Statistics, Malaysia

Higher growth in the services sector

The **services sector** registered a higher growth of 3.4%, encouraged by increased consumer spending and business sentiments during the quarter. A broad-based improvement was evident particularly in the wholesale and retail trade, finance and insurance, and real estate and business services sub-sectors.

The **wholesale & retail trade** sub-sector expanded for the second consecutive quarter, registering a growth of 2.2%, in line with improved consumer spending and higher tourist arrivals. Similarly, the **finance and insurance** sub-sector grew by 3.5%, supported mainly by higher net interest income and insurance premium collected. The **real estate and business services** sub-sector also improved further amidst strong capital market-related activities. After three consecutive quarters of decline, the **utilities** sub-sector registered a positive growth of 1.4% as a result of higher electricity demand by commercial and industrial users. In the **transport and storage** sub-sector, the decline in value-added was smaller, due to improvements in both passenger and cargo-related segments in line with the stabilisation in international trade activity.

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

	Share 2008 (%)	2008		2009		
		3Q	4Q	1Q	2Q	3Q
		Annual change (%)				
Intermediate Services	**43.3**	**6.2**	**2.6**	**-0.7**	**2.2**	**3.1**
Finance & insurance	20.0	10.0	3.5	1.2	3.3	3.5
Real estate & business services	9.4	-2.0	-0.6	-6.7	3.3	4.9
Transport & storage	7.0	5.9	1.0	-4.0	-6.4	-3.5
Communication	7.0	7.4	6.3	4.9	5.8	6.1
Final Services	**56.7**	**7.8**	**7.9**	**0.3**	**1.2**	**3.7**
Utilities	5.3	2.5	-2.6	-8.1	-1.1	1.4
Wholesale & retail trade	23.2	9.4	5.9	-1.7	0.4	2.2
Accommodation & restaurant	4.4	4.7	7.4	2.1	2.9	3.8
Government services	13.4	10.5	18.2	2.8	0.5	7.4
Other services	10.4	5.3	5.3	5.2	4.5	3.8
Total Services	**100.0**	**7.1**	**5.7**	**-0.2**	**1.6**	**3.4**

Source: Department of Statistics, Malaysia

Selected Quarterly Indicators in the Services Sector

	2008		2009		
	3Q	4Q	1Q	2Q	3Q
	Index				
MIER Consumer Sentiment Index	88.9	71.4	78.9	105.8	105.4
MIER Retail Trade Index	116.5	52.7	52.3	76.3	100.7
MIER Tourism Market Index	109.2	94.0	78.1	75.8	88.7
	Annual change (%)				
Tourist arrivals	8.2	7.5	2.2	4.7	12.4
Total passenger traffic at all airports	2.7	2.1	-4.6	5.2	10.4
Total consumption credit outstanding	9.7	8.9	8.5	6.8	6.6
Loans outstanding to the wholesale & retail trade, hotels & restaurants	14.0	9.0	3.5	-1.8	-4.1
Imports of consumption goods	16.2	4.5	-4.3	-8.3	-4.3
Total sales of motor vehicles	10.5	-8.3	-9.2	-11.5	-3.6
Container cargo handled (Port Klang and PTP)	16.4	-3.9	-10.6	-6.4	-1.7

Source: Various sources

Performance in the Manufacturing Sector

	2008		2009		
	3Q	4Q	1Q	2Q	3Q
	Annual Change (%)				
Value Added (at constant 2000 prices)	**1.8**	**-8.8**	**-17.9**	**-14.5**	**-8.6**
Overall Production[1]	**1.7**	**-11.1**	**-18.8**	**-14.9**	**-9.0**
Export-oriented industries	**-0.4**	**-13.4**	**-20.4**	**-16.4**	**-10.0**
Electronics and electrical cluster	**-0.8**	**-22.5**	**-35.4**	**-31.0**	**-22.9**
Of which:					
Electronics	-4.1	-27.8	-36.3	-34.9	-23.2
Electrical	6.7	-8.2	-33.2	-21.5	-22.2
Primary-related industry cluster	**0.0**	**-6.8**	**-10.8**	**-6.6**	**-1.0**
Of which:					
Chemicals and chemical products	-0.9	-15.0	-17.6	-2.7	-1.3
Petroleum products	1.0	2.0	2.9	-5.4	6.5
Rubber products	2.0	2.1	-21.2	-7.5	2.4
Off-estate processing	3.0	-0.2	-8.0	-4.5	-5.1
Domestic-oriented industries	**9.7**	**-2.0**	**-12.4**	**-9.4**	**-5.3**
Construction-related cluster	**4.7**	**-8.3**	**-21.3**	**-16.5**	**-8.3**
Of which:					
Construction-related materials	2.4	-10.7	-29.3	-22.9	-15.2
Fabricated metal products	8.2	-4.4	-7.6	-6.8	1.8
Consumer-related cluster	**14.0**	**3.1**	**-5.4**	**-3.5**	**-2.9**
Of which:					
Transport equipment	30.3	18.4	-10.7	-13.5	-15.8
Food, beverage & tobacco products	8.4	-2.3	-4.8	-0.3	0.6

[1] Industrial Production Index (2005=100)

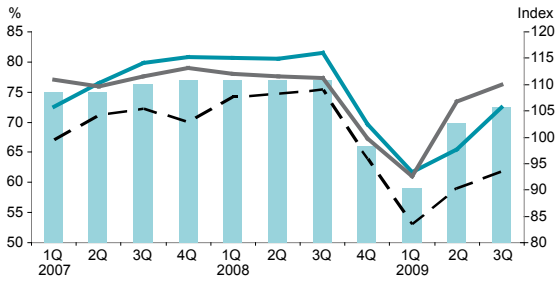
Source: Department of Statistics, Malaysia

Continued improvement in the manufacturing sector

Value-added in the **manufacturing sector** declined at a slower rate during the quarter (-8.6%; 2Q 09: -14.5%), reflecting stabilisation in external demand and improved domestic environment.

Performance of **export-oriented industries** stabilised, with contraction in production of both E&E and primary-related clusters moderating. The improved performance of the **E&E cluster** was supported by an improvement in external demand, particularly from the region, as well as continued inventory replenishment activity, while the increase in demand for petroleum and rubber products contributed to the smaller contraction of output in the **primary-related cluster**.

Capacity utilisation rate in the manufacturing sector*



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

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

The improvement in **domestic-oriented industries** was due to the better performance of the **construction-related cluster**, driven by higher domestic construction activity. Output of the **consumer-related cluster** also improved, due to the positive growth in the food, beverage and tobacco products industry.

Overall capacity utilisation rate in the manufacturing sector increased to 73% in the third quarter (2Q 09: 70%), reflecting the pick-up in production. Export- and domestic-oriented industries were operating at 76% and 62% of total capacity respectively (2Q 09: 73% and 59% respectively).

Weak performance in the agriculture sector

The **agriculture sector** recorded a contraction of 0.5% during the quarter due mainly to lower production of industrial crops such as palm oil and rubber. The lower production of palm oil was partly due to replanting exercises, while that of rubber was due to adverse weather during the quarter. Meanwhile, the **mining sector** contracted by 3.5%, due to lower oil and natural gas production as several oil and gas fields were shut down for maintenance.

Performance of the Agriculture Sector

	2008		2009		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Value Added (at constant 2000 prices)	**3.3**	**0.5**	**-4.3**	**0.3**	**-0.5**
Industrial Crops	**0.4**	**-3.1**	**-13.9**	**-5.1**	**-5.1**
Food Crops	**7.5**	**5.8**	**9.2**	**7.9**	**5.5**
Production					
Of which:					
Crude palm oil	4.9	3.6	-3.9	-3.0	-4.1
Rubber	-4.4	-29.7	-39.3	-21.7	-24.8
Fish	10.7	7.1	13.2	14.4	0.5
Livestock	9.9	3.0	-4.6	-0.4	2.1[1]

[1] July-August 2009

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

Performance of the Mining Sector

	2008		2009		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Value Added (at constant 2000 prices)	**-0.3**	**-5.7**	**-5.2**	**-3.6**	**-3.5**
Production					
Of which:					
Crude oil and condensates	1.9	-5.9	-5.6	-1.8	-4.8
Natural gas	4.0	-1.5	-7.2	-6.5	-2.6

Source: PETRONAS
Department of Statistics, Malaysia

Higher growth in the construction sector

Growth in the **construction sector** strengthened to 7.9% during the quarter, driven by the non-residential segment, due to the implementation of projects under the stimulus packages such as construction of schools and hospitals, as well as on-going construction of purpose-built office space. Further support also came from the civil engineering segment reflecting additional progress in the implementation of infrastructure projects. The residential segment was supported mainly by construction of low-cost houses by the Government.

Indicators for the Construction Sector

	2008		2009		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
New sales and advertising permits	-30.1	-47.8	-25.5	-9.1	28.4
Housing approvals	-51.5	-53.8	-30.2	-17.4	29.3
Production[1] of construction-related materials	4.7	-8.3	-21.3	-16.5	-8.3
Loans approved for construction	-13.4	-25.2	-48.2	-26.1	-6.2
Imports of construction materials and mineral products	5.2	-10.0	-17.1	-5.0	-0.4[2]

[1] Industrial Production Index (2005=100)
[2] July-August 2009

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

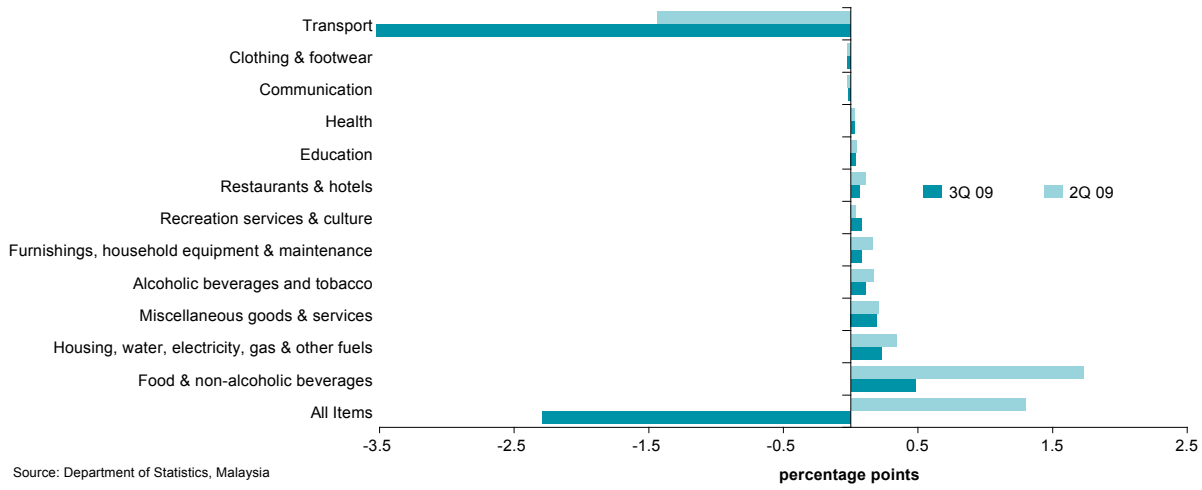
Prices declined on an annual basis

The headline inflation rate, as measured by the change in the Consumer Price Index (CPI), declined to -2.3% on an annual basis in the third quarter of 2009 (2Q 09: 1.3%). The decline in consumer prices was largely explained by the effect of the cumulative downward adjustment to retail fuel prices since the June 2008 price increase. Prices in the *transport* category fell by 18.5% on a yearly basis (2Q 09: -8.2%), which lowered headline inflation by approximately 3.5 percentage points. Elsewhere, consumer price pressures continued to moderate across the board. With the exception of the *recreation services and culture* category, all other CPI categories registered lower inflation rates compared to the previous quarter. Inflation in the food and non-alcoholic beverages category moderated to 1.5% this quarter (2Q 09: 5.3%), due to the base effect of high food prices in 2008.

Producer prices, as measured by the Producer Price Index (PPI), decreased at a slightly slower pace of 10.8% on an annual basis in the third quarter (2Q 09: -11%). This reflected the waning of base effects arising from the high commodity prices in the first half of 2008. The rate of price decline in the commodity-related components of the PPI stabilised at 26.4% (2Q 09: -28.3%). On the other hand, prices in the non commodity-related components of the PPI declined at a faster rate of 2.9% (2Q 09: -2.1%).

In terms of composition, both local and imported components of the PPI registered a slower rate of price declines. Prices in the local component of the PPI declined by 14.4% (2Q 09: -14.5%), while prices in the imported component of the PPI fell by 2.9% (2Q 09: -3.1%).

Contribution to Consumer Price Inflation



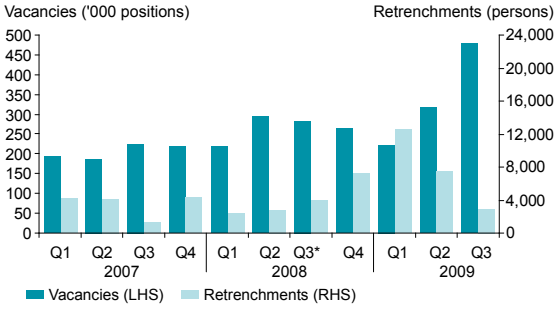
Source: Department of Statistics, Malaysia

Improvement in labour market conditions

Conditions in the labour market improved in the third quarter as total retrenchments declined sharply and job openings increased substantially. Retrenchments dropped to 2,879 persons (2Q 09: 7,470 persons), reflecting fewer layoffs across all sectors. In particular, retrenchments in the manufacturing sector declined by 73% from the previous quarter to 1,411 persons, due to lower retrenchments especially in the E&E industry (664 persons; 2Q 09: 2,630 persons).

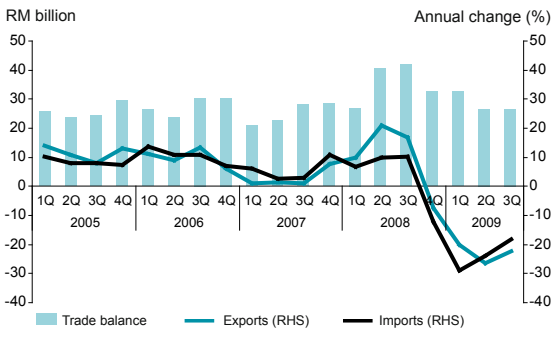
The quarter also saw an improvement in vacancies posted in the Electronic Labour Exchange (474,781 positions; 2Q 09: 317,996 positions) with higher openings in all sectors except agriculture. Available positions in the manufacturing sector increased sharply, accounting for almost half of total vacancies available. Meanwhile, real wage per worker in the manufacturing sector increased by 7.2% (2Q 09: 0.6%), following an increase in total working hours.

Labour Market Conditions



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

External Trade Performance



Source: Department of Statistics, Malaysia

Decline in external trade moderated

Gross exports registered a smaller contraction of 22.3% in the third quarter, attributed to the stabilisation in external demand and improvement in crude oil prices. The pick-up in exports, continued inventory replenishment and improved domestic demand conditions resulted in imports declining at a more moderate rate of 18.3%. Consequently, the trade surplus stood at RM26.7 billion.

The pace of contraction in **manufactured exports** eased, reflecting a slower decline in export of both electronics and electrical products (E&E) and non-E&E products. The smaller contraction in E&E exports was due to the recovery in demand from major markets, particularly PR China, which recorded a positive growth. Improved demand for end-products such as personal computers and mobile phones supported export of electronics to East Asia. Nevertheless, lower demand for consumer electronics and telecommunication products resulted in a larger contraction in electrical exports. Meanwhile, the improvement in non-E&E exports was led by higher demand for chemical products and machinery from Japan and the region. Similarly, the contraction in **commodity exports** moderated, as higher exports of minerals more than offset the bigger decline in agriculture exports. The former was due to higher crude oil prices and better LNG export volume, while the latter was affected by lower unit shipments of palm oil, reflecting the build-up in stocks of edible oils in consuming countries.

Trade Account

	2008[1]		2009[1]		
	3Q	4Q	1Q	2Q	3Q
	Annual change (%)				
Gross Exports	**16.8**	**-7.5**	**-20.0**	**-26.3**	**-22.3**
Manufactured	8.5	-11.2	-18.0	-20.5	-16.0
E&E	*4.5*	*-16.2*	*-19.0*	*-22.9*	*-16.1*
Non-E&E	*14.2*	*-4.3*	*-16.9*	*-17.3*	*-15.9*
Commodites	48.1	6.1	-23.8	-40.6	-37.5
Agriculture	*37.5*	*-10.6*	*-28.1*	*-29.6*	*-31.6*
Minerals	*55.8*	*16.9*	*-21.1*	*-47.5*	*-41.3*
Gross Imports	**10.1**	**-12.2**	**-29.0**	**-23.8**	**-18.3**
Capital goods	-2.3	-13.4	-7.8	-18.4	-12.5
Intermediate goods	17.2	-12.2	-34.9	-27.0	-22.7
Consumption goods	16.2	4.5	-4.3	-8.3	-4.3
Trade balance (RM billion)	**41.8**	**32.7**	**32.7**	**26.5**	**26.7**

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

Source: MATRADE and Department of Statistics, Malaysia

Malaysia: Direction of Exports

	2008		2009			2008		2009		
	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q
	Annual change (%)					Share of total exports (%)				
United States	**-9.9**	**-23.1**	**-31.0**	**-35.1**	**-30.4**	**11.9**	**11.9**	**11.1**	**11.5**	**10.7**
European Union (EU)	**1.0**	**-14.2**	**-28.0**	**-26.4**	**-24.8**	**11.1**	**11.6**	**10.7**	**10.7**	**10.7**
Selected ASEAN countries[1]	**20.7**	**-15.0**	**-26.8**	**-24.1**	**-23.5**	**25.8**	**24.2**	**24.4**	**26.2**	**25.4**
North East Asia	**26.7**	**-18.3**	**-5.9**	**-22.1**	**-9.0**	**21.2**	**18.1**	**22.3**	**23.0**	**24.9**
People's Republic of China	*35.4*	*-18.4*	*-1.8*	*-16.1*	*-2.8*	*10.7*	*8.4*	*10.2*	*11.8*	*13.3*
Hong Kong SAR	*9.3*	*-22.7*	*3.5*	*-23.8*	*2.2*	*4.3*	*4.0*	*4.7*	*5.2*	*5.7*
Chinese Taipei	*14.2*	*-22.1*	*-18.4*	*-29.6*	*-12.5*	*2.6*	*2.2*	*2.4*	*2.5*	*2.9*
Korea	*38.1*	*-9.9*	*-14.2*	*-31.2*	*-38.2*	*3.6*	*3.6*	*5.0*	*3.5*	*2.9*
West Asia	**54.6**	**29.3**	**-12.7**	**-14.7**	**-29.4**	**4.5**	**4.0**	**3.7**	**4.4**	**4.1**
India	**19.1**	**9.8**	**-14.9**	**-38.9**	**-39.9**	**3.7**	**4.0**	**3.7**	**3.1**	**2.8**
Total exports	**16.8**	**-7.5**	**-20.0**	**-26.3**	**-22.3**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

[1]Singapore, Thailand, Indonesia, Philippines, Brunei Darussalam and Vietnam

Source: Department of Statistics, Malaysia

Gross imports declined at a slower pace across all categories where the movement in intermediate imports was in line with the recovery in manufactured exports. Likewise, higher import of final goods reflected improved domestic private consumption.

Portfolio investment turned around to register net inflows while inflows of FDI moderated

On a cash basis, gross inflows of **foreign direct investment (FDI)**[3] moderated to RM6.2 billion in the third quarter (2Q 09: RM9.1 billion). Taking into account of outflows, which were due largely to loan repayment to parent companies, net FDI amounted to RM2.1 billion (2Q 09: RM6.5 billion). During the quarter, FDI was channelled mainly into the manufacturing and services sectors, particularly the E&E industry; wholesale and retail trade; and real estate and business services sub-sectors.

Net direct investment abroad by Malaysian companies increased to RM3.4 billion in the third quarter (2Q 09: -RM2.1 billion), where the bulk of these investments was in the services sector. **Portfolio investment** turned around to register a net inflow of RM8.8 billion in the third quarter (2Q 09: -RM13.6 billion). The inflow of portfolio funds mainly reflected the strong foreign participation in bonds issued abroad by a non-financial public enterprise (NFPE) in the oil and gas sector.

External debt remained manageable

As at end-September 2009, Malaysia's total external debt amounted to RM241 billion or USD68.5 billion (end-June 2009: RM233.2 billion or USD65.5 billion), equivalent to 35.4% of GNI. The **medium- and long-term external debt** increased to RM159.9 billion due mainly to a large net drawdown by an NFPE in the oil and gas sector. Meanwhile, the Federal Government and the private sector each registered net repayments of RM0.6 billion, following the maturity of bonds and scheduled principal repayment of loans.

The total **short-term external debt** declined further to RM81.1 billion or USD23.1 billion as inter-bank borrowing activity moderated. As at end-September 2009, the short-term debt accounted for 33.7% of total external debt and was 24.3% of the net international reserves.

External Debt Outstanding

	2008	2009	
	end-Sep	end-Jun	end-Sep[p]
	RM billion		
Medium- and long-term debt	149.1	146.9	159.9
Public sector	77.8	72.9	87.1
Private sector	71.3	74.0	72.8
Short-term debt[1]	102.2	86.3	81.1
Total external debt	251.4	233.2	241.0
USD billion equivalent	72.0	65.5	68.5

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

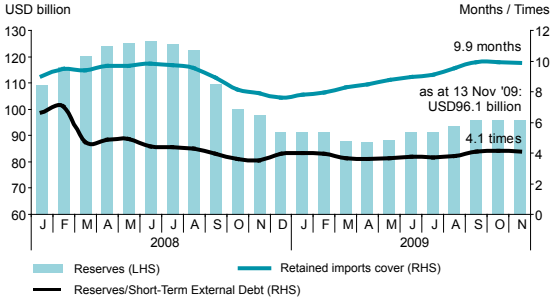
Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

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

International reserves

The international reserves of Bank Negara Malaysia amounted to RM334.3 billion (equivalent to USD96 billion) as at 30 September 2009. The reserves level as at 30 September 2009 has taken account of the quarterly adjustment in foreign exchange revaluation gains, following the strengthening of some major currencies against the ringgit during the quarter. As at 13 November 2009, the reserves remained largely unchanged at RM334.8 billion (equivalent to USD96.1 billion) and are sufficient to finance 9.9 months of retained imports and are 4.1 times the short-term external debt.

Net International Reserves (as at end-period)



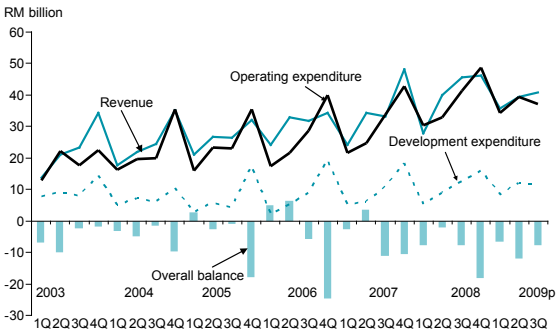
Note: With effect from end-March 2008, the short-term external debt refers to the external debt under the new definition, with offshore entities in Labuan IBFC being treated as residents

Source: Bank Negara Malaysia

Smaller fiscal deficit

The Federal Government recorded a smaller fiscal deficit of RM7.8 billion or 4.5% of GDP in the third quarter (2Q 09: -7.5% of GDP). Total expenditure declined by 5.4% during the quarter to RM48.7 billion compared with RM51.5 billion in the preceding quarter. The decline was due mainly to lower grants and transfers to statutory bodies. Meanwhile, revenue increased moderately due to higher oil-related revenue collection. The fiscal deficit was financed from domestic borrowings. As at end-September 2009, total outstanding debt of the Federal Government amounted to RM354.3 billion or 51.2% of the estimated 2009 GDP.

Federal Government Finance



[p] Preliminary

Source: Ministry of Finance

Federal Government Finance

	2008		2009[p]		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Revenue	45.7	46.3	35.9	39.4	40.8
% growth	37.3	-3.9	28.3	-1.2	-10.6
Operating expenditure	41.4	48.9	34.4	39.4	37.1
% growth	22.7	13.8	12.9	19.8	-10.2
Current account	**4.3**	**-2.6**	**1.5**	**0.0**	**3.7**
% of GDP	***2.2***	***-1.4***	***1.0***	***0.0***	***2.1***
Gross development expenditure	12.5	16.0	8.2	12.1	11.6
% growth	16.2	-12.0	55.4	34.9	-7.4
Overall balance	**-7.8**	**-18.2**	**-6.7**	**-12.1**	**-7.8**
% of GDP	***-3.9***	***-10.3***	***-4.3***	***-7.5***	***-4.5***
Memo item:					
Total gross expenditure	53.9	64.9	42.6	51.5	48.7
% growth	*21.1*	*6.2*	*19.2*	*23.0*	*-9.6*
Total Federal Government debt (as at end-period)	288.1	306.4	317.1	335.7	354.3
% of GDP	*39.0*	*41.5*	*45.8*	*48.5*	*51.2*
Domestic debt	268.7	286.1	297.0	321.5	340.4
% of GDP	*36.4*	*38.7*	*42.9*	*46.5*	*49.2*
External debt	19.4	20.3	20.2	14.3	13.9
% of GDP	*2.6*	*2.8*	*2.9*	*2.1*	*2.0*

[p] Preliminary

Source: Ministry of Finance

MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates were stable

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

Reflecting the unchanged OPR, the average overnight interbank interest rate was stable, moving within a narrow range of 1.99% to 2.01% during the period 1 July – 13 November 2009. Similarly, interbank interest rates of other maturities were also stable.

In terms of the retail lending rates, the average base lending rate (BLR) of commercial banks (CBs) was relatively unchanged at 5.51%. The average lending rate (ALR) on loans outstanding, however, continued to decrease in the third quarter to a historic low of 4.91% in September 2009. The continued downward trend in the ALR on loans outstanding reflected new loans being contracted at lower rates after the reduction in the OPR, while existing more expensive loans were repaid.

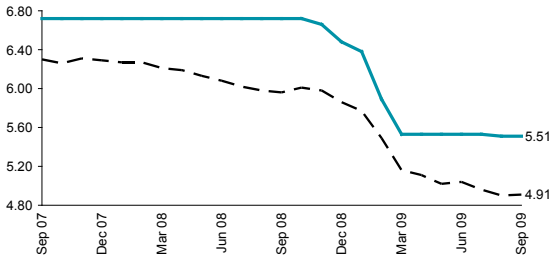
In terms of the retail deposit rates, the average quoted fixed deposit (FD) rates of CBs were relatively unchanged. As at end-September, the average quoted FD rates for tenures of between 1 to 12 months ranged between 2.00% to 2.50% respectively. With the inflation rate being negative since June 2009, real FD rates remained positive across all tenures.

Interest Rates

	2008	2009	
	3Q	2Q	3Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.50	2.00	2.00
Interbank rates			
Overnight	3.49	1.99	1.99
1-month	3.57	2.09	2.07
Base lending rates (BLR)			
Commercial banks	6.72	5.53	5.51
Average lending rates (ALR)			
Commercial banks	5.96	5.04	4.91
Fixed deposit rates			
Commercial banks			
3-month	3.14	2.05	2.03
12-month	3.70	2.52	2.50

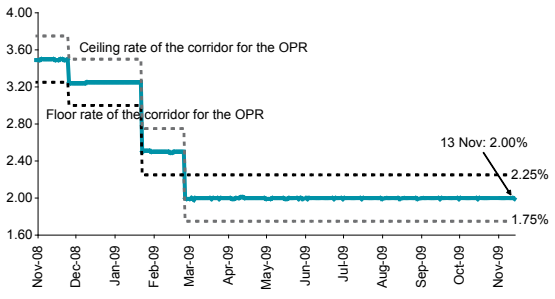
Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (At end-period)



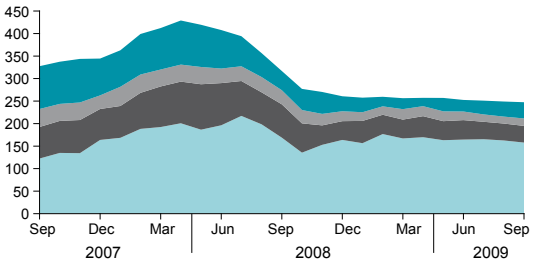
Source: Bank Negara Malaysia

Daily Weighted Average Overnight Interbank Rate



Source: Bank Negara Malaysia

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



Source: Bank Negara Malaysia

M3 rose at a faster pace

Monetary aggregates registered a faster annual increase in the third quarter, consistent with the pick-up in economic activity. M1, or narrow money, increased by RM5.8 billion during the quarter. On an annual basis, M1 expanded at a faster annual growth rate of 6.5% as at end-September 2009 (end-June 2009: 5.5%). M3, or broad money, also expanded at a faster annual growth rate of 6.8% at end-September 2009 (end-June 2009: 5.8%). On a quarter-on-quarter basis, M3 increased by RM24.7 billion.

The M3 aggregate, which had been moderating for the past 15 months, rebounded in the third quarter due mainly to the strong expansion of credit. This included higher financing by the banking system to the private sector and the Government. Growth in broad money was also supported by an increase in the net foreign assets of the banking system, reflecting mainly inflows from Malaysia's trade surplus, as well as the external fund raising activity by one large *Non-Financial Public Enterprise*. This is a turnaround from the net outflows since the second quarter of 2008.

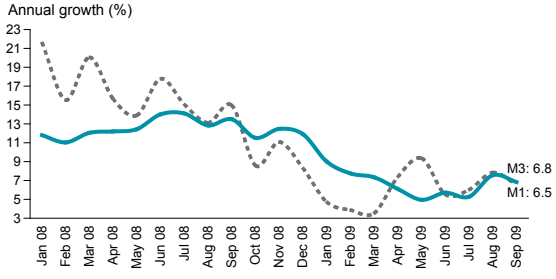
Determinants of Broad Money, M3

	Change during the period				
	2008		2009		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
M3	**13.7**	**19.1**	**17.4**	**1.1**	**24.7**
Net claims on Govt	14.5	23.3	5.7	5.8	0.7
Claims on private sector	32.7	18.3	5.3	5.5	20.8
Loans	*25.6*	*11.2*	*4.5*	*7.9*	*19.4*
Securities	*7.1*	*7.1*	*0.8*	*-2.4*	*1.4*
Net foreign assets[1]	-57.3	-37.6	3.7	-4.2	9.8
BNM	*-32.2*	*-48.6*	*-4.3*	*-1.7*	*1.5*
Banking System	*-25.0*	*11.0*	*8.1*	*-2.5*	*8.3*
Other influences	23.8	15.1	2.7	-6.0	-6.6

[1]Pre-revaluation

Source: Bank Negara Malaysia

Monetary Aggregates

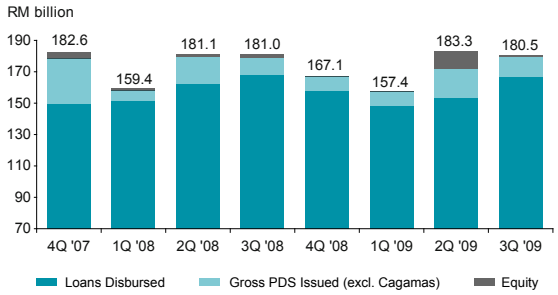


Source: Bank Negara Malaysia

Private sector financing activity improved

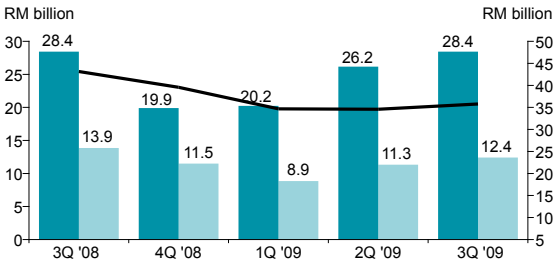
The accommodative monetary conditions continued to provide support to domestic economic activity. In an environment of low interest rates and the ample liquidity in the banking system, coupled with targeted measures to ensure continued flow of financing to the economy, total gross financing raised by the private sector through the banking system and the capital market remained high at RM180.5 billion during the quarter. Notably, net banking system loans outstanding expanded by RM21 billion reflecting higher loans extended to the business and household sectors. On an annual basis, total financing through banking system loans and PDS expanded by 7.2% as at end-September (end-June: 8%).

Gross Private Sector Financing through Banking System and Capital Market



Source: Bank Negara Malaysia

Bank Lending to SMEs



Source: Bank Negara Malaysia

As economic conditions improved in the third quarter, loan disbursements to the business sector increased due mainly to higher drawdown of working capital for the *wholesale, retail, restaurants and hotels; construction;* and *manufacturing* sectors. As a result, business loans outstanding expanded by RM5.2 billion

Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2008	3Q 08	2Q 09	3Q 09	2008	2Q 09	3Q 09
Gross total financing	**688.6**	**181.0**	**183.3**	**180.5**	**6.1**	**1.2**	**-0.3**
Loans disbursed*	640.3	168.3	153.8	166.7	11.3	-5.3	-1.0
Gross PDS (excl. Cagamas)	42.9	10.5	18.0	12.6	-35.5	6.6	20.1
Equity	5.5	2.2	11.5	1.2	-23.1	578.2	-43.9
Net total financing (A)+(B)	**110.1**	**30.4**	**20.3**	**25.2**	**12.7**	**8.0**	**7.2**
Banking system	87.2	28.8	6.7	22.1	12.4	7.9	6.8
Loans outstanding (A)	82.3	26.8	8.9	21.0	12.8	8.3	7.2
Holding of PDS	4.9	1.9	-2.2	1.1	8.6	3.7	2.2
PDS outstanding (B)	27.8	3.5	11.4	4.2	12.4	7.2	7.4
Memorandum item							
Gross PDS (incl. Cagamas)	49.7	11.0	19.3	5.8	-28.4	-1.9	-47.3

*Banking system loans include loans sold to Cagamas

Loan Indicators

	During the period (RM billion)				Annual growth (%)			
	2008	3Q 08	2Q 09	3Q 09	2008	3Q 08	2Q 09	3Q 09
Total								
Loan applications	475.7	134.5	137.8	135.6	4.0	9.2	8.1	0.8
Loan approvals	291.9	78.1	77.1	73.5	-2.2	5.1	-4.1	-6.0
Loan disbursements	640.3	168.3	153.8	166.7	11.3	5.7	-5.3	-1.0
Loan repayments	568.1	145.9	148.2	145.1	9.5	17.8	6.0	-0.6
Change in loan outstanding*	82.3	26.8	8.9	21.0	12.8	10.6	8.3	7.2
Of which:								
Business enterprises**								
Loan applications	244.4	73.3	64.2	60.2	-6.9	7.4	0.0	-17.9
Loan approvals	148.0	39.4	34.8	29.6	-18.5	-4.2	-15.0	-24.8
Loan disbursements	455.7	121.1	102.7	109.3	12.3	6.3	-11.2	-9.7
Loan repayments	403.2	104.6	102.4	97.7	8.9	21.3	3.1	-6.5
Change in loan outstanding*	34.4	14.1	-1.0	5.2	13.2	9.5	3.7	0.5
SMEs**								
Loan applications	100.4	28.4	26.2	28.4	1.4	-1.0	-6.2	-0.2
Loan approvals	54.1	13.9	11.3	12.4	-1.8	-14.7	-29.0	-10.4
Loan disbursements	162.9	43.1	34.6	35.8	15.0	19.6	-15.6	-17.1
Loan repayments	145.4	38.1	32.0	32.7	14.7	22.8	-9.9	-14.3
Change in loan outstanding*	10.6	2.7	0.5	1.0	9.3	11.0	-2.9	-4.3
Large corporations								
Loan applications	144.0	44.9	38.0	31.8	-11.9	13.6	4.7	-29.1
Loan approvals	93.9	25.5	23.5	17.2	-25.7	2.7	-6.1	-32.6
Loan disbursements	292.8	77.9	68.1	73.5	10.8	0.1	-8.8	-5.7
Loan repayments	257.8	66.4	70.4	65.0	5.9	20.4	10.4	-2.1
Change in loan outstanding*	23.8	11.4	-1.5	4.3	16.2	8.4	8.7	4.0
Households								
Loan applications	231.2	61.2	73.5	75.4	18.6	11.4	16.2	23.2
Loan approvals	143.9	38.8	42.3	43.9	22.9	16.5	7.2	13.1
Loan disbursements	184.6	47.3	51.1	57.4	8.9	4.2	9.1	21.4
Loan repayments	164.9	41.4	45.8	47.4	11.1	9.8	13.1	14.6
Change in loan outstanding*	34.8	10.3	9.4	11.3	9.7	9.6	9.1	9.1

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

Source: Bank Negara Malaysia

during the quarter. Demand for new financing, however, moderated slightly compared to the second quarter, reflecting mainly lower applications from the finance, insurance and business services; and *transport, storage and communication* sub-sectors.

Financing to the household sector remained favourable. Key household loan indicators increased for the third consecutive quarter, supported by low interest rates and improved consumer sentiments. Households' loan applications continued to expand, particularly for the purchase of residential and non-residential properties, credit cards as well as purchase of cars. Loan disbursements rose substantially by 21.4% (2Q 09: 9.1%), supported mainly by higher loans disbursed for housing and credit cards. Accordingly, household loans outstanding expanded by RM11.3 billion during the quarter to increase at an annual rate of 9.1% as at end-September (end-June: 9.1%).

Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	2008	3Q 08	2Q 09	3Q 09		
	(RM billion)				(%)	
Business enterprises	**455.7**	**121.1**	**102.7**	**109.3**	**65.6**	**45.1**
Large corporations	*292.6*	*77.9*	*68.1*	*73.5*	*44.1*	*29.5*
*SMEs**	*162.9*	*43.1*	*34.6*	*35.8*	*21.5*	*15.6*
Selected sectors						
Agriculture, hunting, forestry and fishing	16.1	4.2	4.4	5.1	3.1	2.3
Mining and quarrying	2.3	0.5	0.7	0.5	0.3	0.3
Manufacturing	151.6	40.6	30.9	32.2	19.3	9.8
Construction	34.8	8.8	9.1	10.3	6.2	4.6
Real estate	16.5	4.0	4.8	4.2	2.5	3.9
Electricity, gas and water supply	2.6	0.3	0.9	3.4	2.0	1.0
Wholesale, retail, restaurants and hotels	114.0	31.6	25.5	27.1	16.3	7.9
Transport, storage and communication	17.8	7.9	5.8	4.3	2.6	3.2
Finance, insurance and business services	57.7	13.4	11.2	9.7	5.8	6.6
Households	**184.6**	**47.3**	**51.1**	**57.4**	**34.4**	**54.9**
Purchase of residential properties	47.1	12.2	12.7	14.4	8.7	25.7
Consumption credit	117.2	29.9	31.4	35.4	21.2	21.4
Of which:						
Credit cards	*59.1*	*14.8*	*16.6*	*18.2*	*10.9*	*3.3*
Purchase of passenger cars	*33.8*	*9.0*	*7.9*	*9.1*	*5.4*	*13.5*
Others	*20.4*	*5.2*	*7.0*	*7.6*	*4.5*	*7.8*
Total	**640.3**	**168.3**	**153.8**	**166.7**	**100.0**	**100.0**

*Include loans to individual businesses.

Source: Bank Negara Malaysia

Fund raising activity in the capital market remained healthy

Net funds raised in the capital market during the quarter amounted to RM23.4 billion (2Q 09: RM45.7 billion). The bulk of funds was raised by the public sector through the issuances of the 2.5-year and 5.5-year Malaysian Government Securities (MGS), the 3.5-year and 5-year Government Investment Issues (GII), as well as the re-opening of the 10-year MGS. After adjusting for redemptions, net funds raised by the public sector amounted to RM16.6 billion.

In the private sector, there was active fund raising in the third quarter. The amount raised, however, was lower than the second quarter which witnessed increased fund raising due to a large PDS issuance by a new federal-owned sovereign wealth fund and two large rights issues. During the quarter, gross funds raised in the PDS market totalled RM13.5 billion (2Q 09: RM19.3 billion). Issuances of PDS during the quarter were mainly by government-linked entities and companies in the finance, insurance, real estate and business sub-sector. There were also two issuances by non-resident firms amounting to RM675 million during the period. Most of the funds were raised for working capital and general business activities (85%) and for financing new activity (14%).

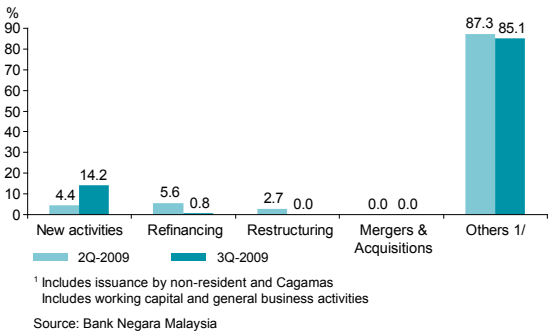
Funds raised in the equity market amounted to RM1.2 billion during the quarter, raised mainly through rights issues by firms in the plantation and technology sectors.

Funds Raised in the Capital Market

	2008		2009		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
By Public Sector	**0.7**	**13.9**	**10.8**	**24.7**	**16.6**
Government securities, *net*	1.7	14.9	8.8	19.7	19.1
Malaysian Government Securities	*11.3*	*12.0*	*20.5*	*12.7*	*14.6*
Government Investment Issues	*3.5*	*7.5*	*6.0*	*10.5*	*8.5*
Less: Redemptions	*13.1*	*4.6*	*17.7*	*3.5*	*4.0*
Khazanah Bonds, *net*	(1.0)	(1.0)	-	-	(2.4)
Savings Bonds, *net*	(0.0)	(0.0)	2.0	5.0	(0.1)
By Private Sector	**5.9**	**(0.5)**	**0.8**	**21.0**	**6.7**
Shares	2.2	0.2	0.1	11.5	1.2
Debt securities, *net*	3.7	(0.8)	0.7	9.5	5.5
Private Debt Securities	*11.0*	*8.0*	*9.3*	*19.3*	*13.5*
Less: Redemptions	*7.3*	*8.7*	*8.6*	*9.8*	*8.0*
Total	**6.6**	**13.3**	**11.6**	**45.7**	**23.4**

Source: Bank Negara Malaysia and Bursa Malaysia

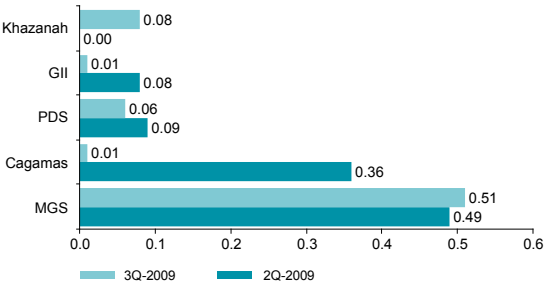
Private Debt Securities Issued by Purpose (% of total)



[1] Includes issuance by non-resident and Cagamas
Includes working capital and general business activities

Source: Bank Negara Malaysia

Liquidity Ratio: Turnover / Outstanding



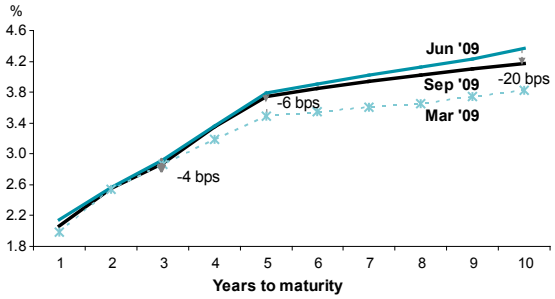
Source: Bank Negara Malaysia

Secondary trading in the bond market increased

Total trading in the secondary market increased to RM155.9 billion during the quarter (2Q 09: RM139.6 billion). Government securities (MGS and GII) accounted for 88% of the total trade. In terms of liquidity, MGS was the most liquid paper, registering a liquidity ratio of 0.49. Liquidity in the PDS market was also higher due to improved investor sentiments.

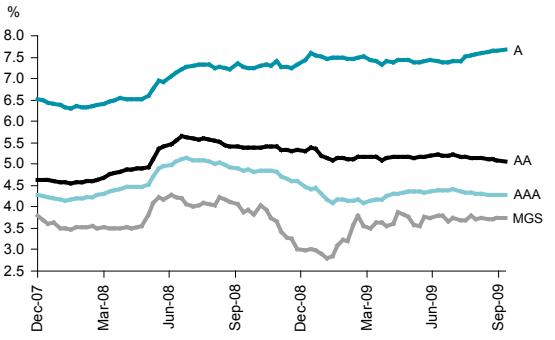
Throughout the third quarter of 2009, MGS yields were relatively stable. There were, however, some signs of improved market sentiments following the easing of concerns over the large supply of government securities. As a result, the 3-year, 5-year and 10-year MGS yields were marginally lower by 4, 6 and 20 basis points respectively during the quarter. The improvement in investors' sentiments was also seen in the PDS market, resulting in some easing of PDS yields, especially in higher-rated securities. Nevertheless, risk premium remains with lower-rated securities, driven largely by concerns over credit risk.

Trend in MGS Yields



Source: Bank Negara Malaysia

5-year MGS and 5-year Corporate Bond Yield



Source: Bank Negara Malaysia

Bursa Malaysia: Market Turnover

	2008				2009					
	3Q		4Q		1Q		2Q		3Q	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	27,965	57,172	36,605	54,438	26,360	39,927	107,802	99,818	56,208	86,785
Of which:										
Main Board	23,195	55,867	31,273	53,316	22,657	39,075	90,513	95,128	48,805	84,666
Of which										
Consumer Products	903	2,874	946	2,478	675	2,096	3,685	4,158	3,115	4,484
Industrial Products	3,507	4,981	7,609	5,450	3,798	2,401	19,188	13,950	11,387	10,161
Construction	2,995	5,855	3,076	3,967	2,508	2,936	7,252	8,709	3,526	6,047
Trading/Services	6,950	19,311	9,327	20,377	8,261	14,423	30,596	33,378	16,284	30,141
Finance	1,812	9,155	2,652	10,190	1,903	8,095	7,158	14,424	3,789	18,946
Properties	2,500	1,802	3,044	1,805	2,984	1,895	15,248	9,134	6,521	4,898
Plantations	1,723	9,166	2,011	6,284	1,085	4,332	2,176	6,843	1,508	5,954
Infrastructure	511	1,912	787	2,170	629	2,405	2,316	3,068	1,106	3,062
Second Board[1]	1,983	919	2,276	739	1,647	498	7,480	2,754	1,696	788
Mesdaq[2]	1,412	331	1,686	294	798	193	6,969	1,220	3,337	607

[1]From 3 August 2009, FTSE Second Board was merged with the Main board and renamed as Main Market
[2]From 3 August 2009, Mesdaq market was replaced with ACE Market

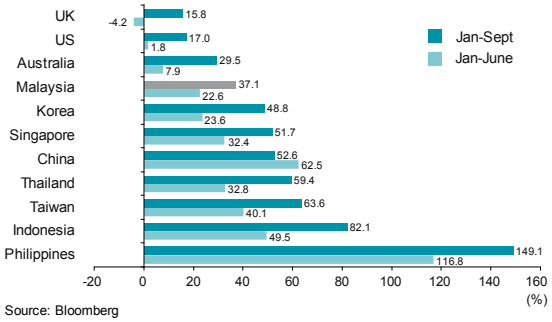
Source: Bursa Malaysia

KLCI strengthened further

The FBM KLCI ended the third quarter higher at 1,202.1 (2Q 09: 1,075.2), in line with other regional markets. The continued improvement in market sentiments was supported by firmer signs of global economic recovery. The increase in investors' risk appetite towards emerging markets, including Malaysia, also contributed to the gain. Market capitalisation rose to RM910.5 billion (2Q 09: RM817.9 billion), while the daily average turnover declined to 892.2 million units (2Q 09: 1,684.4 million units).

On 19 November 2009, the KLCI closed higher at 1,276.7 (since end-2008: +45.6%), with market capitalisation increasing to RM995.8 billion (since end-2008: +50%).

Performance of Selected Global and Regional Markets in 2009



Source: Bloomberg

Bursa Malaysia: Selected Market Indicators

	As at end				
	2008		2009		
	3Q	4Q	1Q	2Q	3Q
Price Indices					
Composite	1,018.7	876.8	872.6	1,075.2	1,202.1
FBM30[1]	6,577.7	5,637.7	5,598.5	6,910.0	-
FBMEMAS[2]	6,755.9	5,726.5	5,701.1	7,206.8	8,097.9
FTSE Second Board[3]	4,978.8	4,007.3	3,872.4	4,754.5	-
FTSE Mesdaq[4]	3,968.3	3,333.6	2,942.7	4,096.3	4,067.7
Average daily turnover					
Volume (million units)	437.0	610.1	454.5	1,684.4	892.2
Value (RM million)	893.3	907.3	688.4	1,559.7	1,377.5
Market capitalisation (RM billion)	770.5	663.8	662.1	817.9	910.5
No. of companies listed	981	977	969	960	957

[1] FBM30 stands for FTSE Bursa Malaysia 30 Index
[2] FBMEMAS stands for FTSE Bursa Malaysia EMAS Index
[3] From 3 August 2009, FTSE Second Board was merged with the Main board and renamed as Main Market
[4] From 3 August 2009, Mesdaq market was replaced with ACE Market

Source: Bursa Malaysia

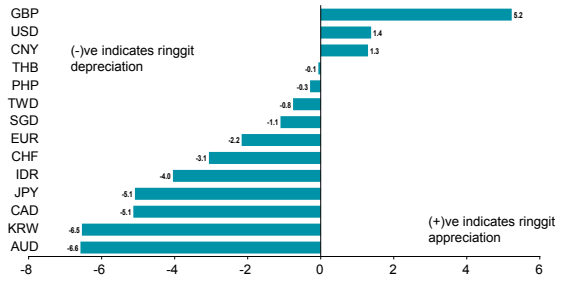
The ringgit appreciated against the US dollar

The ringgit appreciated by 1.4% against the US dollar during the quarter, and was generally stable against other regional currencies. The ringgit was supported by favourable investor sentiments and improved risk appetites towards the region following the stronger recovery in the Asian economies.

The ringgit also appreciated against the pound sterling (5.2%), but depreciated against the Japanese yen (-5.1%) and euro (-2.2%). Against regional currencies, the ringgit appreciated against the Chinese renminbi (1.3%), but depreciated against other regional currencies by between 0.1% and 6.4%. The Indonesian rupiah and the Korean won sustained their strong performance against other regional currencies.

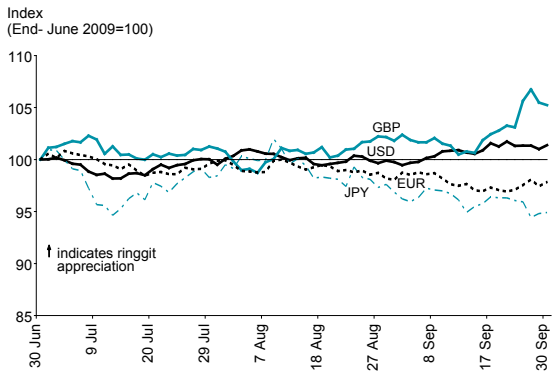
From 1 October to 19 November 2009, the ringgit appreciated against the US dollar by 2.8%, Japanese yen (2%) and euro (0.7%), but depreciated against the pound sterling (-1.3%). Against regional currencies, ringgit appreciated by between 0.8% and 2.8%.

Summary of Ringgit Performance Against Selected Currencies Percent Change (1 July - 30 September 2009)



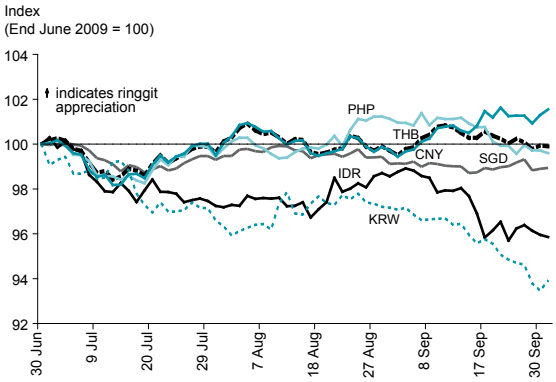
Source: Bank Negara Malaysia

Ringgit Performance Against Major Currencies



Source: Bank Negara Malaysia

Ringgit Performance Against Regional Currencies



Source: Bank Negara Malaysia

Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	3Q 08	2Q 09	3Q 09	21 Jul 05	3Q 08	2Q 09
US dollar	3.8000	3.4575	3.5225	3.4745	9.4	-0.5	1.4
Euro	4.6212	4.9636	4.9699	5.0799	-9.0	-2.3	-2.2
Pound sterling	6.6270	6.2254	5.8592	5.5679	19.0	11.8	5.2
100 Japanese yen	3.3745	3.3154	3.6729	3.8698	-12.8	-14.3	-5.1
Singapore dollar	2.2570	2.4153	2.4302	2.4573	-8.2	-1.7	-1.1
100 Thai baht	9.0681	10.154	10.354	10.361	-12.5	-2.0	-0.1
100 Philippine peso	6.8131	7.3159	7.3111	7.3325	-7.1	-0.2	-0.3
100 Indonesian rupiah	0.0386	0.0367	0.0345	0.0359	7.5	2.1	-4.0
100 Korean won	0.3665	0.2846	0.2754	0.2946	24.4	-3.4	-6.5
Chinese renminbi	0.4591	0.5051	0.5155	0.5089	-9.8	-0.7	1.3

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

Source: Bank Negara Malaysia

DEVELOPMENTS IN THE BANKING AND INSURANCE SECTOR

The banking sector remains resilient

Strong capitalisation and low level of non-performing loans (NPL) contributed towards the sustained soundness of the banking sector. The strong financial buffer, reinforced by favourable funding and liquidity positions enabled the banking sector to continue extending financing to the economy.

Banking System

	3Q 08	2Q 09	3Q 09
Capital position			
Risk-weighted assets (RM billion)	889.8	904.0	917.6
Capital base (RM billion)	115.5	133.6	133.1
Risk-weighted capital ratio (%)	13.0	14.8	14.5
Core capital ratio (%)	10.6	13.1	12.9
Profit before tax (RM million)	4,022.6	1,863.0[1]	5,102.2
Annualised return on equity (%)	18.7	11.2	13.0
Annualised return on assets (%)	1.5	1.0	1.2

[1]The substantial decline was due to a one-off adjustment in the value of overseas investments of a financial institution

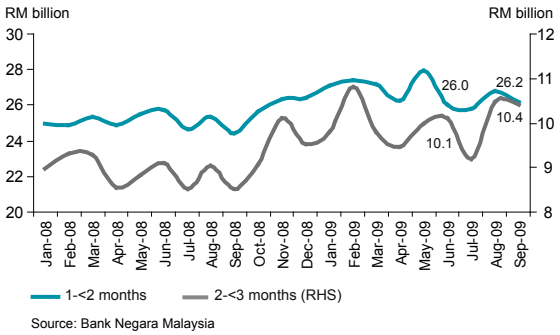
The banking system remained well capitalised with the risk weighted capital ratio (RWCR) and core capital ratio of 14.5% and 12.9% respectively. Capital in excess of the minimum regulatory requirement remained high at RM56 billion. Pre-tax profit for the third quarter improved by 14.3% (adjusted for non-recurring provision made by a financial institution in relation to its investment in an overseas banking subsidiary), attributable to improvements in net financing income and higher treasury gains.

Banking System: Non Performing Loans (NPL)

	3Q 08	2Q 09	3Q 09
	%		
Net NPL (RM million)	16,647.3	15,791.6	15,978.8
Net NPL ratio	2.4	2.2	2.1
Gross NPL ratio	5.1	4.5	4.4
Large Businesses	6.1	4.7	5.0
SMEs	6.9	6.9	7.0
Households	4.1	3.9	3.6

On aggregate, the quality of the banking system's loan portfolio remained high despite the more challenging economic environment in the first half of the year. The net NPL ratio improved to 2.1% as at end of the third quarter despite the marginal 1.2% increase in the level of net NPLs.

Banking System: Loan-in-arrears



Source: Bank Negara Malaysia

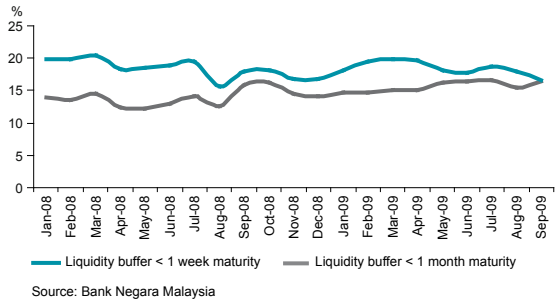
Loan-in-arrears (1-<2 months bucket) increased marginally by 0.7% over the quarter to account for 3.4% of total loans (2Q 09: 3.5% of total loans). Going forward, better labour market conditions and improved business and consumer sentiments will provide support to an improvement in the credit risk outlook.

Banking System: Market Risk Exposure

	3Q 08	2Q 09	3Q 09
Duration weighted position (RM million)	3,411	4,214	4,557
As % of capital base	3.3	3.8	4.0
Net open position (RM million)	6,283	5,377	7,333
As % of capital base	5.4	4.2	5.5

Exposure to interest rate risk increased marginally in 3Q 09 following the increase in holdings of securities, in particular government debt securities.

Banking System: Liquidity Mismatch to Total Deposit Ratio



Source: Bank Negara Malaysia

The ability of the banking system to meet demands for deposit withdrawals and other liquidity obligations remained strong. The liquidity buffer for the maturity buckets of up to one week and one month remained ample at 16.4% and 16.5% of total deposit respectively (2Q 09: 16.4% and 17.7%). Meanwhile, the loan-to-deposit ratio remained satisfactory at 78%.

The insurance and takaful sector continues to strengthen

The insurance and takaful sector remains resilient with healthy level of capitalisation. Profitability improved, driven largely by increased premiums income in almost all business segments as well as favourable results from investment activities in line with the improved capital market conditions.

Excess of income over outgo improved to RM4.1 billion in the third quarter on account of higher premium income for life business and net capital gains. Operating profit for the general business was, however, lower on higher reported claims.

The Capital Adequacy Ratio (CAR) strengthened to 214.7% (2Q 09: 208%) whilst shareholders' equity was sustained at RM14.2 billion (2Q 09: RM14.5 billion). The small decline in shareholders' equity resulted from the transfer of business by one insurance company during the quarter.

Insurance and Takaful Sector: Profitability[p]

	2008		2009		
	2Q	3Q	1Q	2Q	3Q
	RM million				
Life/family business					
Excess of income over outgo	2,568.9	2,161.6	2,042.1	3,200.9	4,125.0
General business					
Operating profit	-10.1	165.9	306.1	506.5	428.7

[p]Preliminary and unaudited

Malaysia-UK Islamic Finance Forum
Kuala Lumpur, 8 July 2009

Keynote Address by

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

It is my pleasure to be here today to address the Malaysia-United Kingdom Islamic Finance Forum organised in collaboration with the Commonwealth Business Council. Allow me to take this opportunity to welcome The Right Honorouble Lord Mayor and distinguished guests from the United Kingdom today that are joining this dialogue with the Malaysian financial community to discuss the opportunities and areas of collaboration in Islamic finance - an important potential avenue for strengthening financial and economic linkages not only between our economies but with other parts of the world.

A global shift is currently taking place in the international environment that is dramatically altering the configuration of the global economy. It is resulting in an increasingly multi-polar world. In this new phase of globalisation, the concentration of economic power will become more dispersed. Strengthening strategic economic and financial linkages across jurisdictions will become a key feature in this environment. It is very much Malaysia 's intention to be part of this new future as we consciously build our capacity to enhance our international economic and financial linkages.

Building Effective Partnership between UK and Malaysia

The United Kingdom and Malaysia has one of the oldest relationships. This relationship has been dynamic, evolving in the rapidly changing international environment. The strong and close bond has continued to evolve in the areas of trade, investment, education and finance.

While the bilateral trade in goods between the United Kingdom and Malaysia only accounts for 1.4% of our total trade, Malaysia 's bilateral trade in services with Britain accounts for 6.3% of our trade in services in 2008. While the balance of trade is in our favour, the balance in the services account is in the favour of the United Kingdom amounting to RM2.3 billion. In the area of mobility of people between our two countries, there continues to be a significant two-way flow relating to employment, education and tourism. Tourists from Britain represent the largest group of visitors from the European market. In the area of education, there are a great number of Malaysian students studying in the United Kingdom . This has been reinforced by the twinning programmes. In addition, British education for Malaysians has been strengthened by the branch campuses in Malaysia.

More recently, the relationship building has extended into the area of Islamic finance. This relationship was cemented with the signing of a Memorandum of Understanding between the UK Trade and Investment and Bank Negara Malaysia.

The early development of Islamic finance was very much domestic-centric. This recent decade has seen the internationalization of Islamic finance. This has increased the potential for strategic partnerships between international financial centres that will bring with it mutually reinforcing benefits.

Malaysia has developed a comprehensive Islamic finance industry founded on a strong legal and regulatory framework, with a diversified number of Islamic banking and takaful institutions and a well-developed Islamic money and capital market. Today, Islamic financial assets comprise 17 per cent of the total assets of the banking system in Malaysia and the daily average volume transacted in our Islamic money market is RM6 billion. The sukuk market which has been expanding at an average annual rate of 22%, now accounts for more than 50% of our bond market.

With this financial infrastructure in place, Malaysia has recently intensified its pace of liberalisation. In April, the government announced further liberalisation measures that included new licences to be offered in Islamic banking and takaful.

More specifically, up to two new mega Islamic banking licences will be issued to foreign players with minimum paid up capital of USD1 billion to enhance global interlinkages and leverage on global developments in Islamic finance. E xisting domestic Islamic banks that wish to scale up their operations and expand into global markets are also given greater flexibility to enter into strategic partnerships with foreign players to raise their capitalization to USD1 billion with a higher foreign equity limit of up to 70%.

In addition, up to two new family takaful licences will be issued in 2009 to players that can offer significant value propositions to Malaysia to spur the development of the takaful industry. Takaful companies will also be given the flexibility to enter into strategic tie-ups with foreign partners through higher foreign equity limit of up to 70%, to further strengthen resilience and competitiveness. In addition, international Islamic financial institutions can be established to offer the full range of Islamic financial services to residents and non-residents in international currencies.

Another further measure announced is the liberalization of legal profession to allow up to five top international law firms with expertise in international Islamic finance to offer legal services in international Islamic finance in Malaysia.

Internationalisation of Islamic Finance

Several factors are important in sustaining the internationalisation of Islamic finance.

Firstly, is the development of international Islamic financial markets to enhance the liquidity of the instruments and the risk management capacity of the players. This is important to promoting the efficient functioning of the markets and thus facilitate cross border capital flows thereby strengthening global financial integration. However, it can be observed that in most jurisdictions that have Islamic financial institutions, Islamic money and capital markets remain relatively less developed. Consequently, Islamic banking institutions face the challenge in their day to day management of cash, arising from the lack of a comprehensive Islamic inter-bank market with highly rated short-term tradable instruments. Without access to such a market, it is difficult for these institutions to manage their short-term liquidity needs in an efficient and effective manner. This would in turn require them to maintain a larger amount of liquidity compared to their conventional counterparts. In Malaysia , such markets exist and have been key to facilitating liquidity management.

Coordinated initiatives across jurisdictions can be taken to foster the development of an efficient and vibrant international Islamic financial market. The IFSB Task Force on Liquidity Management reflects a concerted effort to explore measures needed to develop the liquidity management infrastructure and framework for the Islamic financial institutions. Notwithstanding the effort by the Task Force to look into the pertinent issues, Islamic financial institutions are encouraged to promote innovation in the development of a broader range of Islamic financial market instruments. These include instruments with equity ownership features, Islamic asset-backed securities, the inclusion of permissible forms of credit enhancements as well as Shariah-compliant risk mitigating instruments.

It is also essential that there should be sufficient availability of liquidity to support the intermediation of funds in the Islamic financial system. Central banks must therefore have sufficient Islamic financial instruments at their disposal to manage the liquidity conditions in the Islamic financial system.

Secondly, is the international cooperation to ensure financial stability of the international Islamic financial system. This will also involve partnerships between international financial centres in promoting financial stability. A **robust and effective regulation and supervision of Islamic financial institutions** is key to preserving financial stability. The current ongoing global financial and economic crisis has highlighted the structural weaknesses in the global financial regulatory and supervisory framework. Co-operation between regulators across jurisdictions is vital in containing potential systemic risks that have extended beyond the national and regional boundaries.

In the case of Islamic finance, a rigorous and well developed legal, regulatory and Shariah framework is being put in place. Such a regulatory framework also needs to govern market practices by the Islamic financial institutions. This will involve the implementation of the prudential standards that have been

issued by the Islamic Financial Services Board, the IFSB. The IFSB also has an important role in the harmonisation of prudential standards, in addition to contributing towards the consistent development of Islamic finance across different jurisdictions. Several parts of the world, including Malaysia , have implemented the prudential standards issued by the IFSB. These prudential standards which have been designed to take into account the unique features specific to Islamic finance will contribute towards ensuring its soundness and stability. British financial regulators are therefore encouraged to be members of the IFSB.

Early this year, the IFSB in collaboration with the Islamic Development Bank (IDB) established a task force on Islamic Finance and Global Financial Stability. The task force is responsible to examine the resilience of Islamic finance in the current challenging global financial environment and to examine further the building blocks that need to be put in place to develop the international financial architecture to strengthen further the resilience of Islamic finance. The task force will provide recommendations including on developing the framework for prevention and management of crisis taking into account the lessons for reform of the international financial system.

Thirdly, and importantly is that international integration of Islamic finance would be facilitated by the mutual recognition of financial standards and products across jurisdictions. In the area of Shariah, there has already been the progressive convergence of Shariah views and rulings, and **the mutual recognition of financial standards and products across jurisdictions.** As this continues to occur, it would be a major driver towards greater international financial integration. This convergence and harmonisation is taking place with the greater engagement among the regulators, practitioners and scholars in Islamic finance across jurisdictions.

To promote greater mutual recognition of products, Bank Negara Malaysia has embarked on the initiative to develop the Shariah Parameters to promote more consistent application of Islamic financial contracts. This initiative aims to determine the essential features of Islamic financial products derived from underlying key Shariah principles. This is also to provide greater clarity to the international community thereby facilitating greater cross border transactions. An International Shariah Research Academy for Islamic Finance (ISRA) has also been established in 2008 to promote greater engagement among Shariah scholars from around the world and to undertake research activities and contribute towards a greater understanding and international convergence. In this respect, we welcome relevant British institutions to collaborate with I SRA to advance this endeavour.

Development of human capital in Islamic finance is also important to ensure an adequate supply of talent pool of experts and high calibre professionals. The investment in human capital development is therefore crucial to support the global development of Islamic financial services industry. Bank Negara Malaysia is committed towards promoting human capital development. Dedicated ancillary institutions such as INCEIF, IBFIM and ISRA have been established to focus on training, education and research. There has also been a higher degree of strategic alliance with British education and training institutions with our Malaysian institutions to advance the talent development for the Islamic financial services industry. In this respect, I am pleased to note that we will today witness the signing of a number of strategic collaboration between leading British institutions and Malaysian education and training institutions.

Let me conclude my remarks. The increasing awareness and appreciation of the inherent strengths of Islamic finance and its tremendous potential for advancement have ignited interests amongst the global financial community to venture into this new sphere of finance. Taking advantage of the increasing role of Islamic finance in bringing together different parts of the world with surplus funds in search of investment opportunities, with those that have financing needs, will increase these mutually reinforcing prospects. We look forward to London ‘s participation in this new financial evolution.

SEACEN-BNM Banking and Financial Law School 2009 "Current Challenges in Central Banking - Legal Perspective" Kuala Lumpur, 24 September 2009

Keynote Address by

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

It is my great pleasure to speak at the 5th Banking and Financial Law School 2009, jointly organized by the South East Asian Central Banks (SEACEN) Research and Training Centre, the Institute of Bankers Malaysia and Bank Negara Malaysia. The theme for this year's Banking and Financial Law School on "the legal perspective of the current challenges in Central Banking" has particular relevance in the present environment. Indeed, global attention is now focussed on an overhaul of the financial architecture in the efforts to address the fundamental weaknesses that have surfaced in this recent global financial crisis.

The current policy debates cover a wide ranging set of issues that include far-reaching regulatory reforms to strengthen the foundations for financial stability, institutional arrangements to achieve more efficient functioning of financial markets, effective coordination of financial stability measures and greater clarity of central bank mandates in promoting monetary and financial stability. The theme of this conference also has special relevance to us at Bank Negara Malaysia, as our new Central Bank of Malaysia Act 2009 will come into force later this year. We are very honoured to host the conference for this year and are pleased to welcome so many distinguished members of the legal fraternity, in particular, from other parts of the world to join us at this forum.

My remarks today will focus on three key challenges confronting Central Banks, and how the legal aspects impact the effectiveness of Central Banks. The first relates to building the capacity to manage the increasing uncertainties generated by financial innovation, the increasing prominence of the non-regulated sector and the increasing interconnectedness between financial institutions and markets. Such developments have not only resulted in the emergence of new risks to the financial system but have also changed the dynamics of how risks in the financial system are transmitted to the real economy. In this environment, it is vital to have **a legal and regulatory framework that is robust and dynamic** enough to enable the central bank to respond to these developments.

The second challenge concerns the effective implementation of **financial safety nets** and the effective coordination of the different components of the safety net to maintain public confidence and to support continuous financial intermediation. Appropriate legislation and regulations that ensure credibility and integrity of the safety nets are an essential part of maintaining financial stability.

The third relates to the increasingly and highly **complex financial and economic integration associated with globalisation. This has resulted in a significant expansion in cross-border financial activities** and introduced new sources of risks to domestic financial systems. The recent crisis raised many issues for which clear solutions, or even consensus, have yet to emerge, including on the propensity for home bias in the policy responses, suitable approaches to cross-border resolutions, and the significant challenge of coordinating policies across different legal and institutional frameworks. This is an area where the legal framework remains highly fragmented. A sustainable solution will require legal reforms in particular, to provide certainty and clarity in dealing with crises.

Addressing the new challenges in the Central Bank of Malaysia Act 2009

As events in the current global environment have demonstrated, central banking has become significantly more challenging. The issues confronting central banks today are

far more diverse and complex, prompting the re-examination of the role of central banks, the capacity to manage and contain risks to monetary and financial stability, and the governance arrangements and the policy instruments that are needed to support the effectiveness of central banks.

The new Central Bank of Malaysia Act 2009 which was passed by Parliament in July this year represents the culmination of more than two years work to address the issues and challenges that are confronting Central Banks in this rapidly changing environment. The Act elaborates extensively giving greater clarity on the mandates for which we are accountable and providing enhanced powers to undertake these mandates. In the principal objective of promoting monetary stability, it is recognised that price stability is to be achieved in an environment of sustainable growth of the economy. Consideration is thus given to the sustained implications of monetary stability measures on the real economy. The law therefore requires the Bank to take a balanced view to avoid the adoption of rigid frameworks that may result in strong biases that would lead to a fundamental and sustained damage to the economy. This balance is also extended to the explicit role of the Bank in developing an inclusive financial system in its responsibility to develop a sound and progressive financial system. These considerations are particularly important for emerging market economies so as to ensure balanced economic progress and development.

The new Central Bank of Malaysia Act 2009 also institutionalises the autonomy for the formulation of monetary policy, thus providing for the integrity and credibility of the decisions made. It also provides for greater flexibility in monetary policy implementation, allowing for a diversified range of instruments that can now be deployed for the implementation of monetary policy. As financial markets trend towards greater sophistication and demonstrate periods of extreme volatility, central banks must have commensurate capabilities to conduct monetary policy operations in order to maintain price stability. Equally important is the mandate to provide oversight over the money and foreign exchange market to ensure the orderly development and functioning of the markets. These necessary powers are however, combined with a system of checks and balances to enable the Bank to act decisively, but yet having in place safeguards so as to enhance transparency and accountability.

More extensive powers to achieve financial stability

In the area of financial stability, our new Central Bank Act incorporates an explicit mandate of the Central Bank for financial stability. This mandate is articulated in terms of the risks to financial stability that includes risks that disrupts the financial intermediation process (including the orderly functioning of the financial markets), or which affects public confidence. The Act also provides comprehensive provisions for heightened surveillance, pre-emptive actions and expanded resolution powers to facilitate the swift and orderly resolution of financial crises. The Bank may also take appropriate intervention actions to avert risks that stem from unregulated entities.

The Act further acknowledges the importance of coordinated policy measures across different agencies whose actions can affect financial stability. Accordingly, the new Act provides for cooperation arrangements with other supervisory authorities and the ability of the Central Bank to make recommendations to such authorities on measures or safeguards for promoting financial stability. These new powers are complemented by strengthened institutional arrangements in the form of the establishment of a Financial Stability Executive Committee that will be formed to ensure the effective coordination of regulatory authorities in financial resolution.

Enhanced governance and accountability framework

With these enhanced powers, the governance and accountability framework in the Act has also been strengthened considerably. This relates to the enhanced role of the Board of Directors' in the oversight of the management of the Bank. In providing enhanced powers to the Central Bank to address financial stability issues and the strengthening of the oversight function of the Bank, correspondingly, focus

has also been given to governance, internal controls and risk management by the Bank. For this purpose, the Central Bank of Malaysia Act 2009 empowers the Board to establish three specific committees, namely the Board Governance Committee, Board Audit Committee and Board Risk Committee that are chaired by a non-executive director, to ensure the independence of the oversight on the functioning of the Bank.

A comprehensive Financial System Safety Net

Let me now turn to the second key area confronting central banks, the need to have in place an effective financial safety net. The global experience in these recent two decades has shown that crises have continued to plague the world and have resulted in massive costs to the economy. Financial safety nets serve two primary purposes, that is to avert risks to financial stability and to reduce the costs to the financial system and economy in the event of a crisis. They also serve an important social purpose of protecting savers and investors.

The first component of the financial safety net is the existence of an effective regulatory and supervisory system to ensure the sound management of financial institutions and the ability to deal with problems affecting financial stability. This includes adequate powers and instruments to mitigate losses to the system in the event of a crisis, restore stability and ensure the continuity of the financial intermediation process. The second is the lender of last resort facility that is provided by central banks to address liquidity stresses faced by financial institutions. Thirdly, is the deposit insurance scheme that provides a guarantee on deposits to protect the savings of small depositors and to reduce the prospect for disruptions that could threaten the stability of the financial system.

The effectiveness of the financial safety net depends on several factors. They include the capacity of central bank and supervisory authority to assess risks, the effective coordination between the different components of the safety net, clear communication strategies and a strong and comprehensive legal framework that supports the operation of the safety net. In Malaysia, the Malaysia Deposit Insurance Corporation Act (MDIC Act) which establishes the Malaysian Deposit Insurance Corporation (MDIC) provides comprehensive intervention powers for the protection of depositors. This is complemented by an extensive operating framework developed between the Central Bank and the deposit insurance corporation which clearly sets out the responsibilities and obligations of both agencies in promoting financial stability and in financial resolution. In the area of consumer protection, amendments to Malaysia's financial services legislation are also being put in place to provide for the establishment, roles and functions of a financial ombudsman to deal expediently and efficiently with disputes concerning financial services between consumers and the financial institutions.

Increased Globalisation has brought new challenges

Let me now turn to the challenges arising from greater financial globalisation and the growing importance of international cooperation in ensuring sustainable economic and financial integration across national borders. In this environment regulators are confronted with the challenge of adapting regulatory and legal norms from a nation-centric system to norms that are more reflective of international business and finance. The issue is how to complement the domestic agenda and the international agenda. Regulatory problems arise not only because of the need for domestic regulators – operating within diverse national regulatory norms and cultures – to cooperate and coordinate in the domestic environment but also across jurisdictions.

Operational and legal issues in cross-border resolution arise where the regulatory frameworks of different countries do not provide for a common solution in areas such as the unwinding of financial transactions and the enforceability of secured parties' rights to collateral in the foreign jurisdiction. Failure to address such resolution issues promptly, generally within a matter of days, can lead to increased uncertainty and potential cross-border conflicts. Authorities must also have access to information that is not regularly exchanged in

the normal course of supervisory cooperation. This needs to be supported by consistent requirements for the coordinated execution of regulatory actions. Equally important is an effective legal infrastructure for the mediation of claims against insolvent institutions with international operations.

Concurrence among regulatory authorities on key elements of effective resolutions would be an important step forward. Greater harmonization and clarity about the triggers for action, the tools to return insured funds quickly to depositors, the authority to implement a quick resolution, and the legal powers to restructure and continue key banking functions would allow for more effective crisis management. Hence, it is not just about opening our borders; we need to examine how our domestic regulatory framework interfaces with that of other countries.

International Cooperation

The regional cooperation among central banks in East Asia have advanced significantly in this recent decade in the aftermath of the Asian Financial crisis. The focus of cooperation has been in the areas of financial stability, financial markets and payment and settlement systems. The participation in the working, technical and high level committees have contributed towards efforts to facilitate the adoption of international standards for banking supervision and financial stability taking into consideration the regional perspective. It has also contributed towards identifying supervisory priorities and areas of concern that will have an impact on financial stability, and towards improving techniques relating to supervision and surveillance. Challenges pertaining to cross-border issues such as regulatory arbitrage, competition laws, regulatory harmonisation are, however, yet to be fully resolved.

The new Central Bank of Malaysia Act 2009 gives Bank Negara additional flexibility and the mandate to engage in international cooperation. The Act allows for the Bank to engage with foreign supervisory authorities to coordinate and cooperate on financial stability measures. The new constituent law also incorporates a specific provision for the Bank to participate and provide appropriate resources in arrangements, schemes, programmes, or initiatives with any other central banks or international financial institutions or authorities to promote bilateral, regional and international monetary, financial or economic co-operation.

Conclusion

In conclusion, the supporting legal framework for central banking and the financial system is a key element to addressing the challenges faced by central banks. I have highlighted three areas which are currently very relevant in the current global financial system. Central banks in the advanced financial systems have resorted to unorthodox measures to prevent a systemic collapse of the global financial system. While action has been based on the sense of urgency and to avoid a total collapse of the system, in the aftermath of the crisis, an extensive review of the legislation needs to be made. The more challenging part is to effectively address cross-border issues facing national financial systems. Regardless of whether we are in a state of crisis, these challenges will continue to be relevant given that conditions will continue to be dynamic and the trend towards a more globalised world will not reverse.

On this highly complex subject, this two day conference will likely generate highly engaging discussions. I wish the Banking and Financial Law School a highly productive outcome and hope that your stay in Malaysia will also be enjoyable and memorable.

4th IFSB Seminar on Legal Issues in the Islamic Financial Services Industry Kuala Lumpur, 28 September 2009

Opening Remarks by

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

It is my great pleasure to speak at this 4th IFSB Seminar on Legal Issues in the Islamic Financial Services Industry that has brought together so many international experts and industry practitioners to discuss legal issues in Islamic Finance. Such dialogue is important to achieving a common understanding and solutions to issuess in Islamic finance, thus contributing to its overall development.

Islamic finance has continued to expand and demonstrate its resilience in the current more challenging international financial environment. This advancement has been in terms of the increased range of Islamic financial products and services, the development of the Islamic financial infrastructure and institutions, the greater maturity of the Islamic financial markets and the more comprehensive supporting legal and regulatory framework. More recently, the international dimension of Islamic finance has gained significance with the move to further liberalise domestic Islamic financial system and the strengthening of the international Islamic financial architecture.

In Malaysia, Islamic banking assets at the end of the second quarter of this year, now constitutes close to 19% of total banking assets. Total financing now amounts to RM118 billion and accounts for 20.1% of the total financing portfolio of the banking industry. Net non-performing financing remains low at 2.4%. Islamic securities has also maintained its dominance in the Malaysian bond market, accounting for 58% of total bond market. And almost two thirds of the equity market comprises Shariah compliant securities. Growth has also been experienced in the takaful sector in which the funds asset has registered an increase by 8.2%. This recent decade has also seen the increase in number of Islamic financial institutions including full-fledged Islamic banks, development financial institutions that engage in Islamic banking, takaful, re-takaful and capital market intermediaries. Several of these players have strategic partnerships with foreign players. In April this year, as part of the liberalization initiatives announced, new mega Islamic banking licenses and up to two family takaful licenses will be issued this year. On the global front, Islamic financial assets are projected to grow to **USD1.6 trillion** by 2012 while the global sukuk outstanding valued to date at approximately **USD152.8 billion**.

In the third series of this seminar in 2007, the vital role of a strong legal and Shariah framework in the sustainable development of Islamic finance was extensively discussed. It is key to providing certainty and predictability to financial transactions. The current international financial crisis has demonstrated the importance of recognizing that the rapid transformation of the functioning of the international financial system had to be accompanied by the need to ensure that regulatory and legal framework was aligned with these developments. The relevance of legal framework is essential to providing certainty and predictability to the financial transactions and to the innovative products, thus promoting public confidence in the financial system. This is equally important for the Islamic financial services industry in which this recent decade has seen a rapid evolution in terms of the innovation and in terms of its expansion.

Indeed, a robust legal framework in Islamic finance instills public confidence in the Islamic financial system, provides an enabling platform for practitioners to develop more innovative and complex financial products to meet the increasingly multifaceted consumer demands. In addition, it provides the

mechanism for dispute settlement that takes into account the distinct features of Islamic financial transactions. This is where the legal services industry has a vital role in providing sound legal solutions in Islamic finance. It therefore provides an important "bridge" between Shariah and legal parameters, thus enabling the operationalisation of Shariah principles into legally enforceable Islamic finance practices. In addition, by ensuring that the legal parameters are in compliance with Shariahparameters and the regulations, it also becomes a risk mitigator.

The legal aspects in Islamic finance represents an important "bridge" between the governing Shariah principles and the practice of Islamic finance. The application of Shariah principles in the light of the governing laws and regulations in each Islamic financial transaction are interpreted through legal advice, in legal documentation of the financial transactions, and dealing with disputes. In documenting financial transactions based on specific Shariah principles that underlie a financial product, the legal documentation reflects the tenets of Shariah and that it is in full compliance with the laws and regulations governing the financial transactions. Varying interpretations of Shariah in particular between countries adds to the complexity when cross-border transactions are involved.

From a domestic perspective, more jurisdictions are considering a central Shariah Council as the ultimate decision making body on Shariah matters. Across jurisdictions, there has been greater engagement thus bringing about increased covergence. Mutual recognition of the interpretation of Shariah principles across countries will contribute to the sustained growth of Islamic finance.

To promote consistent application of Islamic financial contracts in Malaysia, Bank Negara Malaysia has issued "Shariah Parameters" aimed at promulgating a standard point of reference on Shariah for Islamic finance practitioners. The Shariah Parameters outline the main Shariah requirements in the contracts and provides examples, methods and models for practical application of such contracts. The first Shariah Parameter on Murabahah that was recently issued aimed to promote consistent interpretation and application of Shariah views and opinions on Murabahah contracts.

In providing legal services, the industry has an important role of bridging the Shariah parameter with the legal parameters of the Islamic financial contracts. This is in particular important in preparing the legal documentation of Islamic financial transactions so as to avoid ambiguity, inconsistency and to avoid the risk that the legal document be considered void by a court of law on the grounds of contravention with Shariah.

Islamic financial transactions have their own unique risk characteristics that need to be managed. Risk areas that are unique to Islamic finance transactions include the legal risk of losses due in the event of lawsuits and non-compliance with relevant laws, the risks associated with non-compliance of Shariah principles and the fiduciary risk arising from failure to perform contractual obligations based on the underlying Shariah principles. The introduction of new, more innovative and complex products and financial transactions enables the disaggregation and repackaging of risks in ways that has not been explored. Shariah advisors would require the collective expertise including legal practitioners, to identify and understand the permissibility of a given structure. Islamic financial institutions in turn would need to address the attendant implications.

In view of the importance for Islamic finance to be supported by a robust legislative framework, the new Central Bank of Malaysia Act 2009 explicitly codifies the duality of the Malaysian financial system which shall consist of the Islamic financial system and the conventional financial system. This statement of law is supported by a comprehensive legal framework already put in place for the regulation of Islamic finance in Malaysia, encompassing the banking, takaful (Islamic insurance) and Islamic capital market industries. The legal recognition of the distinct features of Islamic financial transactions and the availability of a dispute settlement mechanism capable of applying these distinctive features reduces the legal risks as well as risk of non-compliance with Shariah principles.

Institutional structure that is determined by the legal and administrative framework is the first pillar of competitiveness. The ability to execute financial transactions efficiently, with sufficient certainty and enforceability, and a clear process for resolving ambiguities and possible breaches of the contract will enhance competitiveness, both at the institutional level as well as for the financial system as a whole. In Malaysia, Islamic finance disputes are adjudicated in civil courts and not the Shariah courts where the jurisdiction is limited to matters relating to Muslim individuals. If the dispute concerns a point on the ascertainment of Shariah, the courts and arbitrators are required to refer to the Shariah Council at Bank Negara Malaysia to facilitate the ruling. The Shariah Council's authority is the ultimate body responsible for Shariah in banking and financial matters that is within the purview of Bank Negara Malaysia. This referral system provides an enabling platform for preserving consistency and predictability in interpretation and application of Shariah principles for financial transaction in Malaysia.

Concluding remarks

Allow me to now conclude my remarks. The inherent strengths of Islamic finance amid the global financial crisis has heightened interest in Islamic finance across the world. The level of innovation, scale and complexity of Islamic financial transactions is also increasing at a tremendous pace. Going forward, it is envisaged that the legal services in Islamic finance will become even more significant in the continued advancement and efficiency of Islamic finance.

In this regard, your thought leadership in addressing the legal issues embedded in Islamic finance holds important element in the continued growth of the Islamic financial services industry. Here, I would like to take this opportunity to congratulate the Islamic Financial Services Board for organizing this timely seminar. I trust it will continue to be a constructive platform for the legal and industry practitioners to deliberate on effective and pragmatic solutions to the legal issues in Islamic finance. On this note, I wish all of you a productive and successful seminar.

CALENDAR OF EVENTS
July – September 2009

8 July 2009

Governor Dr. Zeti, in her address at the Malaysia-UK Islamic Finance Forum, said that there needs to be international cooperation and partnerships between international financial centres to ensure financial stability of the international Islamic financial system. She also highlighted that it is important for the international integration of Islamic finance be facilitated by mutual recognition of financial standards and products across jurisdictions. Furthermore, to sustain the internalisation of Islamic finance, the development of international Islamic financial markets is also important to enhance the liquidity of the instruments and risk management capacity of players.

15 July 2009

The Bank announced the issuance of the new design RM50 banknote. This new design of RM50 banknote is the first denomination of the Fourth Series of Malaysian currency notes which will replace the existing series in stages. The new RM50 banknote incorporates various modern and innovative security features principally aimed at deterring counterfeiting. The existing design series of the RM50 banknote will continue to remain legal tender and co-circulate with the new RM50 banknotes as the former are gradually phased out.

22 July 2009

On the sideline of the 14th EMEAP Governors' Meeting in Hong Kong, the Bank, together with the Hong Kong Monetary Authority and the Monetary Authority of Singapore announced the establishment of a tripartite working group to map out a coordinated strategy for the scheduled exit from the full deposit guarantee by the end of 2010, in their respective jurisdictions.

23 July 2009

The Bank announced the commencement of operations of the Corporate Debt Restructuring Committee (CDRC), a voluntary forum for the resolution of distressed debts of large corporations. CDRC provides a platform for corporate borrowers and creditors to work out feasible debt resolutions without having to resort to legal proceedings. The CDRC was first established during the 1998 financial crisis and was successful in resolving 57 cases with a total debt outstanding of RM45.8 billion.

29 July 2009

At its fifth meeting for 2009, the Bank's Monetary Policy Committee (MPC) decided to leave the Overnight Policy Rate (OPR) unchanged at 2.00 percent. The MPC stated that signs of stabilisation of the global economy have emerged whilst conditions in the international financial markets have generally improved, since the previous MPC meeting. The domestic economy have also shown signs of stabilising in the second quarter, with several indicators such as the industrial production index and retrenchments recording a slower pace of decline.

At its subsequent meeting on 25th August, the MPC also decided to maintain the OPR at the same level. The MPC said that more signs have emerged to suggest that global economic and financial conditions have improved since July, while domestic economic conditions are also stabilising. Going forward, the MPC expects that the domestic economy will continue to improve in the second half of 2009 and into 2010, following a recovery in domestic demand.

10 August 2009

The Bank accorded the landmark issuance of USD3 billion bond and USD1.5 billion sukuk (the Islamic bond) by PETRONAS, the national petroleum corporation, with the designation of "Emas", which is the Malay word for "gold". The "Emas" designation will be given to foreign-currency denominated sukuk or bond that are issued from the Malaysian market. The PETRONAS issuances were highly successful, attracting significant interest from a wide base of investor base. The issuance showcased Malaysia's credential as a centre of origination not only for Ringgit bonds and sukuk, but also for issuance of foreign currency denominated bonds and sukuk. Malaysia is currently the global leader in sukuk issuance, accounting for 62% of total global sukuk outstanding

26 August 2009

The Bank announced that the Malaysian economy contracted at a slower rate of 3.9% on an annual basis in the second quarter of 2009 (1Q 09: -6.2%), supported by higher public spending and positive growth in private consumption. Nonetheless, growth continued to be affected by weak external demand and private investment activity. On the supply side, all key sectors of the economy registered improved performance during the quarter.

27 August 2009

The Asian Institute of Finance (AIF), a joint initiative by Bank Negara Malaysia and the Securities Commission Malaysia was set up to promote further the development of human capital in the Malaysian financial sector. AIF aspires to be an institution of global excellence in support of the advancement of the financial services industry in Malaysia. This is achieved through strengthened institutional arrangements for collaboration between AIF and the four training institutions that currently serve the financial services sector, namely Institut Bank-Bank Malaysia (IBBM), Islamic Banking and Finance Institute Malaysia (IBFIM), Malaysian Insurance Institute (MII) and Securities Industry Development Corporation (SIDC). AIF will focus on the development of competency frameworks for financial service professionals and will function as the main platform for coordination to draw on the complementarities and strengths of each institution towards achieving a common vision.

28 August 2009

The Bank announced the issuance of the Shariah Parameter Reference 1, also known as the Murabahah Parameter. The Murabahah Parameter is the first in a series of Shariah Parameters issued as guidance and reference to all Islamic financial institutions in Malaysia. Other Shariah Parameters currently being developed are Ijarah, Mudarabah, Musharakah, Istisna' and Wadiah. The Murabahah Parameter has been endorsed by the Bank's Shariah Advisory Council and marks a key advancement in Bank's efforts to promote greater harmonisation in the development of the Islamic finance industry.

24 - 25 September 2009

The Bank, the South East Asian Central Banks (SEACEN) Research and Training Centre and Institute of Bankers Malaysia (IBBM) jointly organised the SEACEN-BNM Banking and Financial Law School 2009 (BFLS) on "Current Challenges in Central Banking - a Legal Perspective". The BFLS brought together distinguished internationally renowned speakers to share views on the key legal reforms which focused on issues relating to central banking legislation, regulation of financial institutions and corporate law.

In her keynote address at the event, Governor highlighted the need for central banks to have robust and dynamic legal and regulatory framework to respond to new challenges and address risks to financial stability. She added that, following the recent crisis, complex global financial and economic integration had introduced new risks to domestic financial systems.

28 September 2009

The Bank and the Hong Kong Monetary Authority (HKMA) signed a Memorandum of Understanding (MoU) on co-operation in the development of the financial services industry, particularly in the area of Islamic finance. Aiming towards a long-term strategic partnership under the MoU, both parties agreed to further strengthen co-operation in the following areas:

- Capacity building and human capital development;
- Facilitating and promoting the development of an effective financial market infrastructure through the exchange of information and experience in developing legal, regulatory and supervisory frameworks for Islamic finance; and
- Promoting cross-border financial activities through exploring harmonisation of standards and documentation relating to Islamic finance transactions and promoting the consistent application of Islamic financial contracts for cross-border transactions.