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Taklimat
Laporan Tahunan 2009 dan Laporan Kestabilan Kewangan & Sistem Pembayaran 2009

Gabenor Bank Negara Malaysia

24 Mac 2010

Uneven global economic recovery in 2010

- The global economy is on a recovery path:
  - The advanced economies to record modest growth, supported by stimulus measures
  - The emerging economies, particularly Asia, to lead the global growth

- Global financial conditions have stabilised
  - But lending activity in the advanced economies remains constrained

Emerging economies leading the recovery

Global Growth Projection for 2010

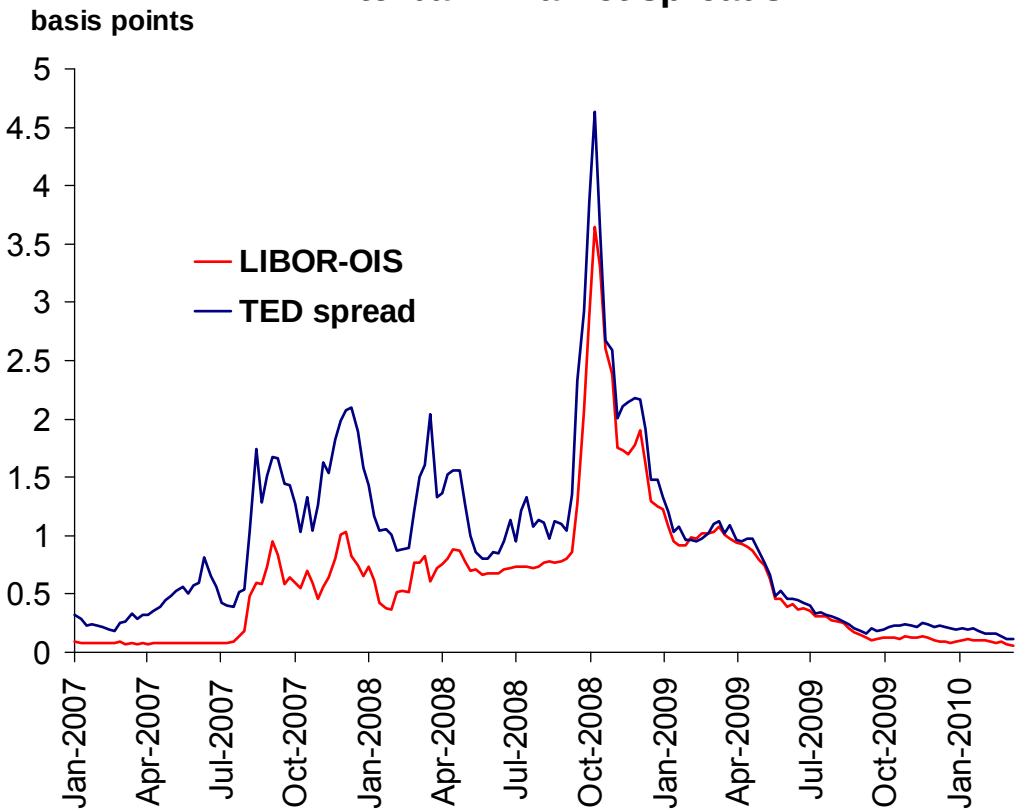
	2008	2009e	2010f
	Annual change (%)		
World GDP	**3.0**	**-0.8**	**3.9**
World Trade	**2.8**	**-12.3**	**5.8**
US	0.4	-2.4	2.7
Euro area	0.6	-4.1	1.0
Japan	-1.2	-5.2	1.7
East Asia	6.9	5.1	7.7~7.9
Asian NIEs	1.7	-0.9	4.6~4.9
China	9.6	8.7	10.0
ASEAN-4	4.6	1.1	4.4~5.2
India	7.4	6.5	7.7

- **Modest growth in the advanced economies due to:**
  - Persistent high unemployment
  - Restricted access to credit
  - Sluggish housing market
  - Continued de-leveraging by the private sector
  - Fiscal consolidation plans
- **Better growth prospects in the emerging economies:**
  - Stronger domestic demand
  - Robust financial sector
  - Growing intra-regional trade

Source: IMF World Economic Outlook (WEO) (January 2010 Update), National authorities, BNM estimates

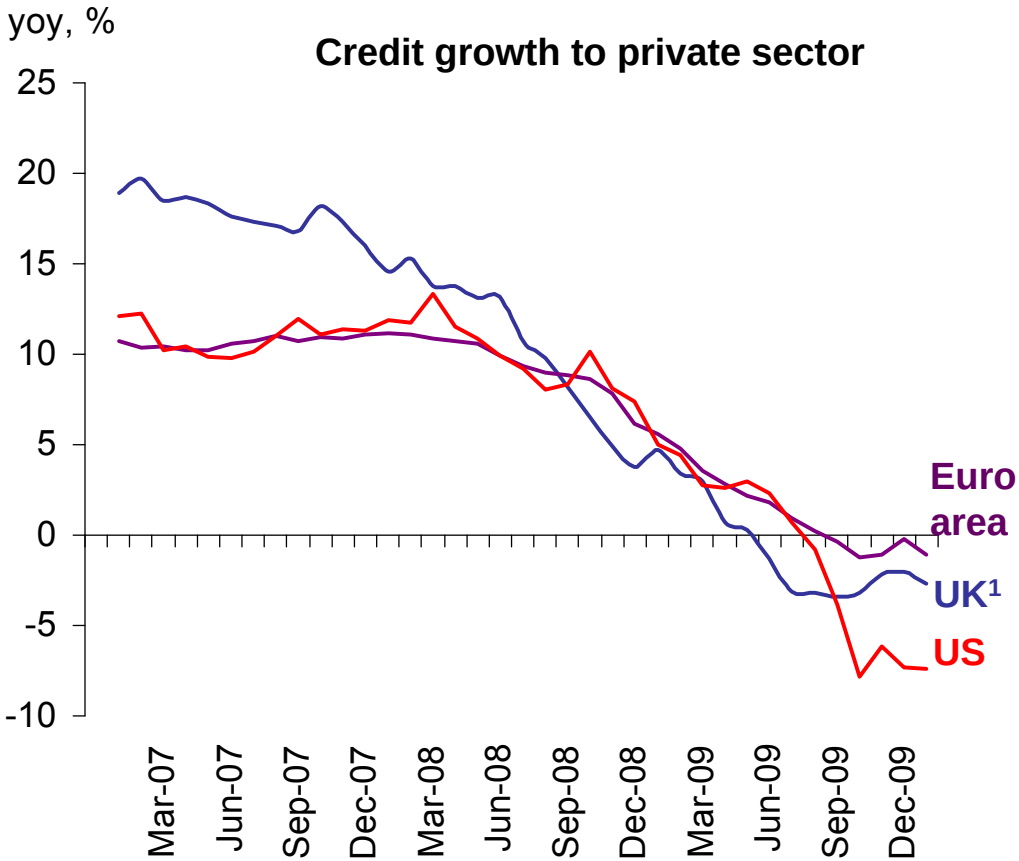
Financial conditions have improved but lending activities in the advanced economies yet to resume

Spreads have narrowed



Source: Bloomberg

But credit growth remains negative

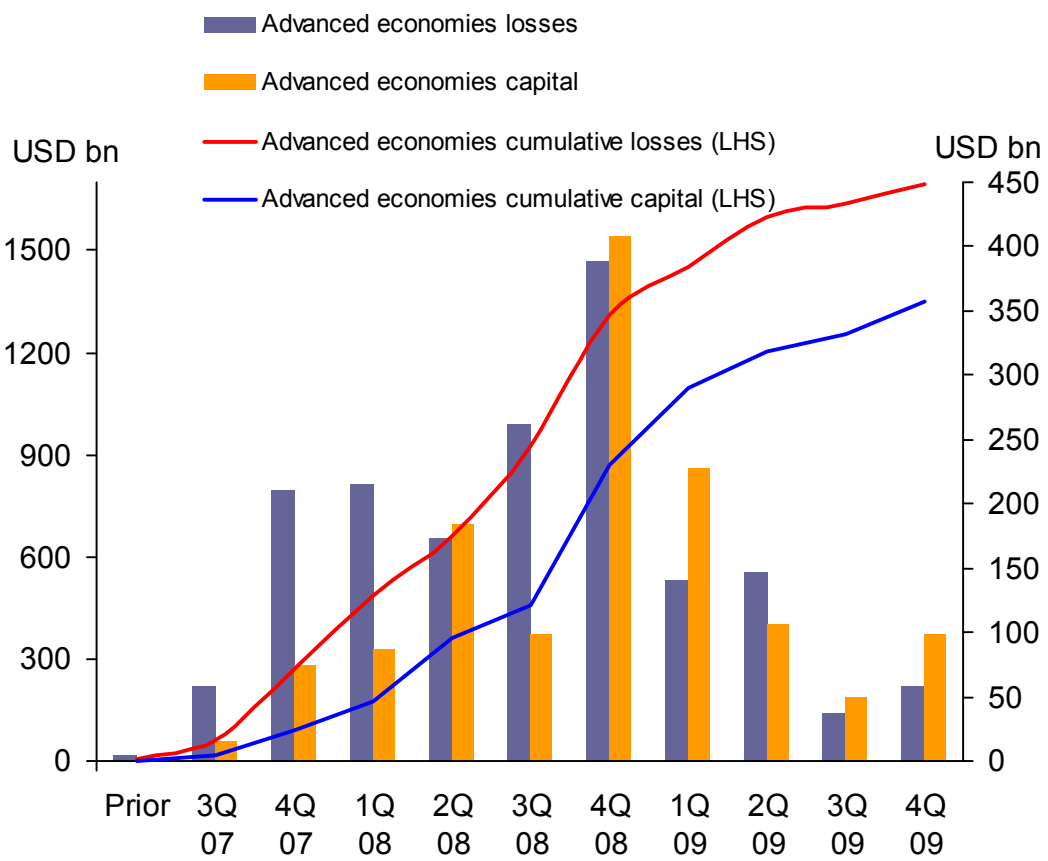


[1] Lending to non-financial corporations

Source: National authorities & Haver

Slow progress in financial sector resolution

Cumulative bank losses exceeding capital raised



Advanced economies refer to US and Europe

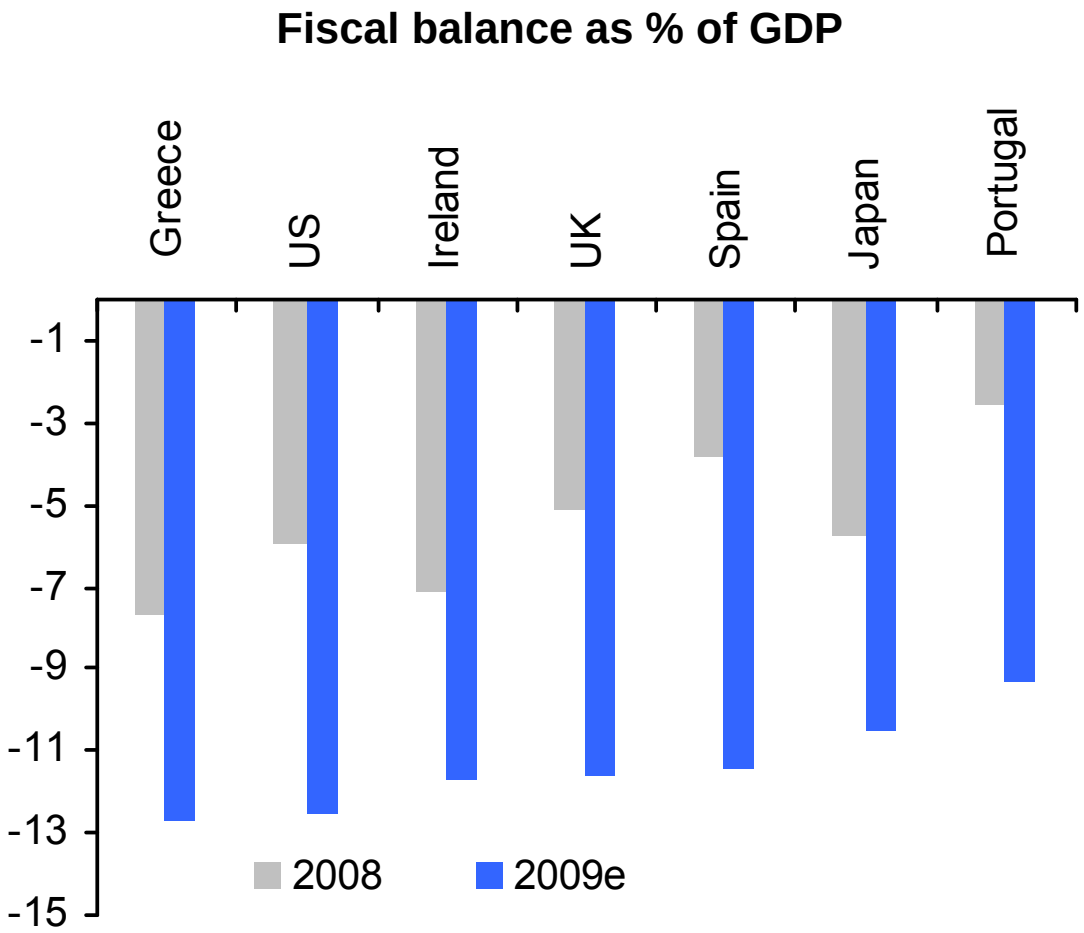
Source: Bloomberg and BNM calculations

- Cumulative bank losses for advanced economies expected to reach USD2.6 trillion[1]
- As at end-2009, realised losses have reached USD1.7 trillion[2] (65% of expected losses)
- Continued deleveraging process
- Banks remain cautious in view of the ongoing financial reforms

[1] Based on IMF estimate (October 2009 GFSR)

[2] BNM calculations based on Bloomberg data

Large fiscal deficits and rising public debt levels in several advanced economies



Source: IMF and national authorities

- Unprecedented stimulus measures during the crisis have led to rising fiscal deficit in many countries
- Growing sovereign debt problems and fiscal consolidation may affect strength of growth

Regional economies to lead global growth

Asian Region: Growth Outlook for 2010

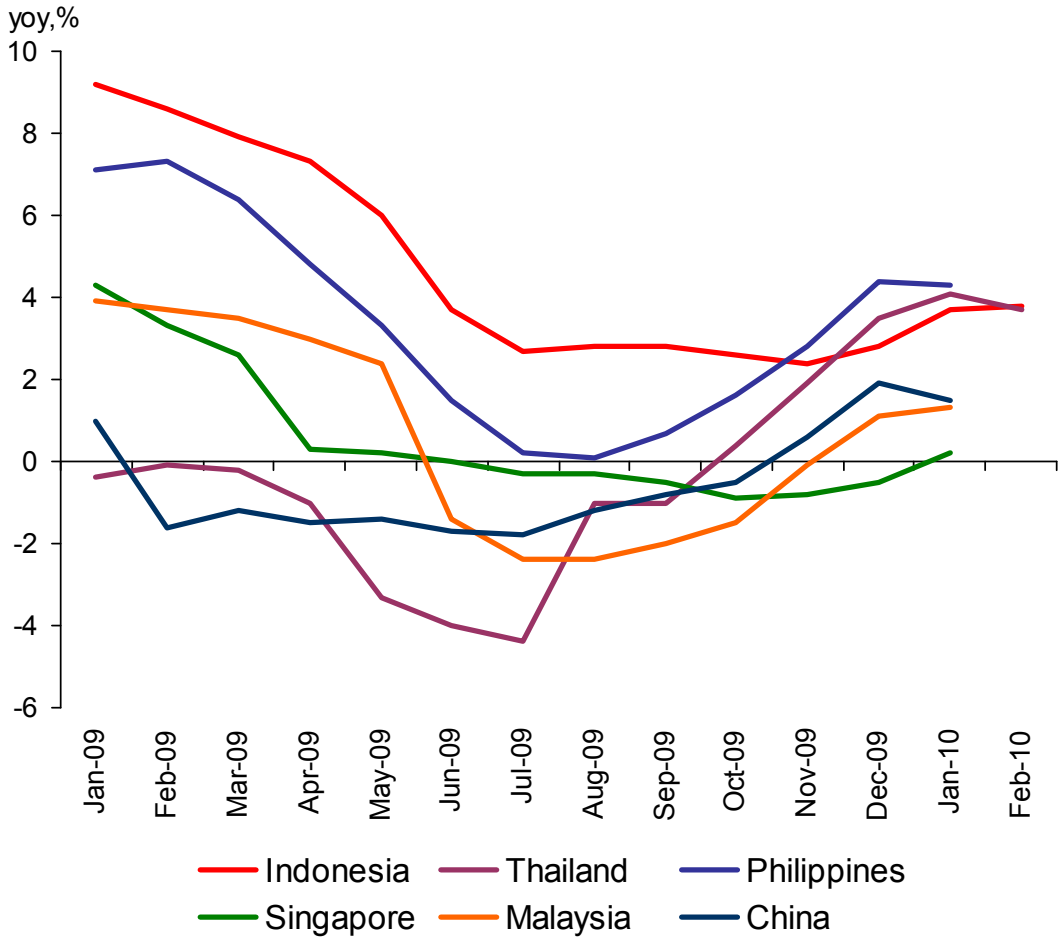
	3Q 09	4Q 09	2009	2010[f]
	Annual change (%)			
Region[1]	**5.5**	**8.6**	**5.1**	**7.7 ~ 7.9**
PR China	9.1	10.7	8.7	10.0
India	7.9	6.0	6.5	7.7
Indonesia	4.2	5.4	4.5	5.5 ~ 6.0
Singapore	0.6	4.0	-2.0	4.5 ~ 6.5
Malaysia	-1.2	4.5	-1.7	4.5 ~ 5.5
Chinese Taipei	-1.0	9.2	-1.9	4.7
Korea	0.9	6.0	0.2	4.6
Hong Kong SAR	-2.2	2.3	-2.7	4.0 ~ 5.0
Thailand	-2.7	5.8	-2.3	3.5 ~ 4.5
Philippines	0.4	1.8	0.9	2.6 ~ 3.6

[f] forecast [1] excluding India

Source: National authorities, IMF

Modest inflation in 2010

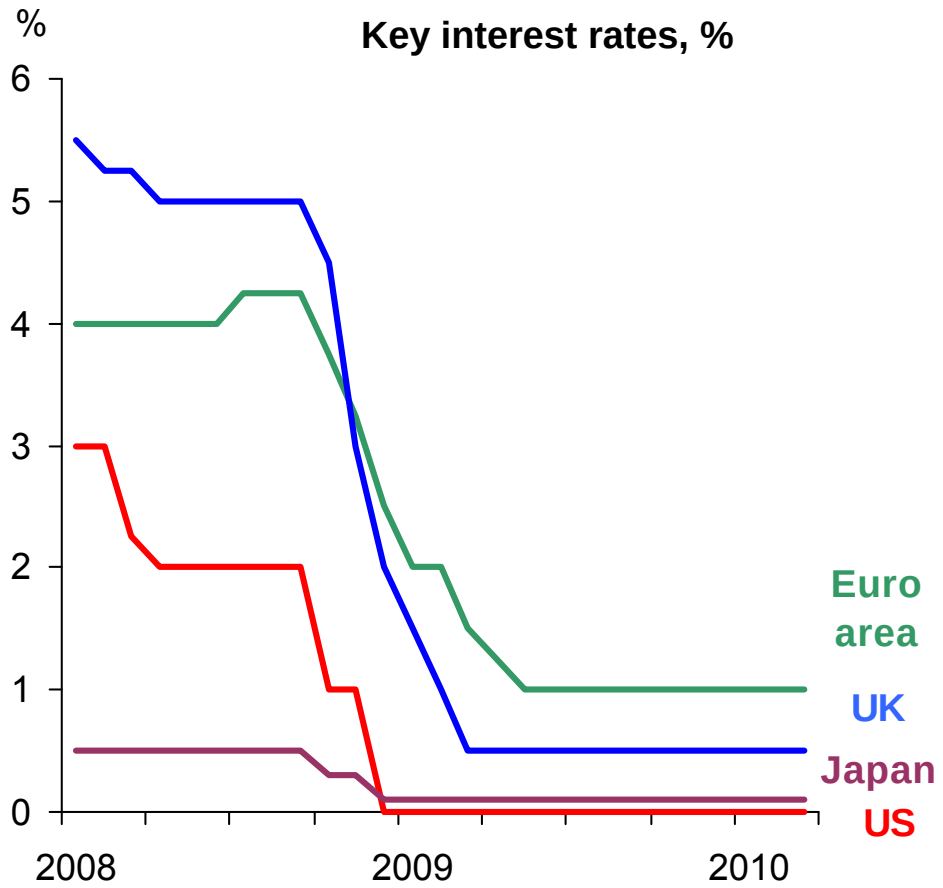
Regional inflation rates rising moderately



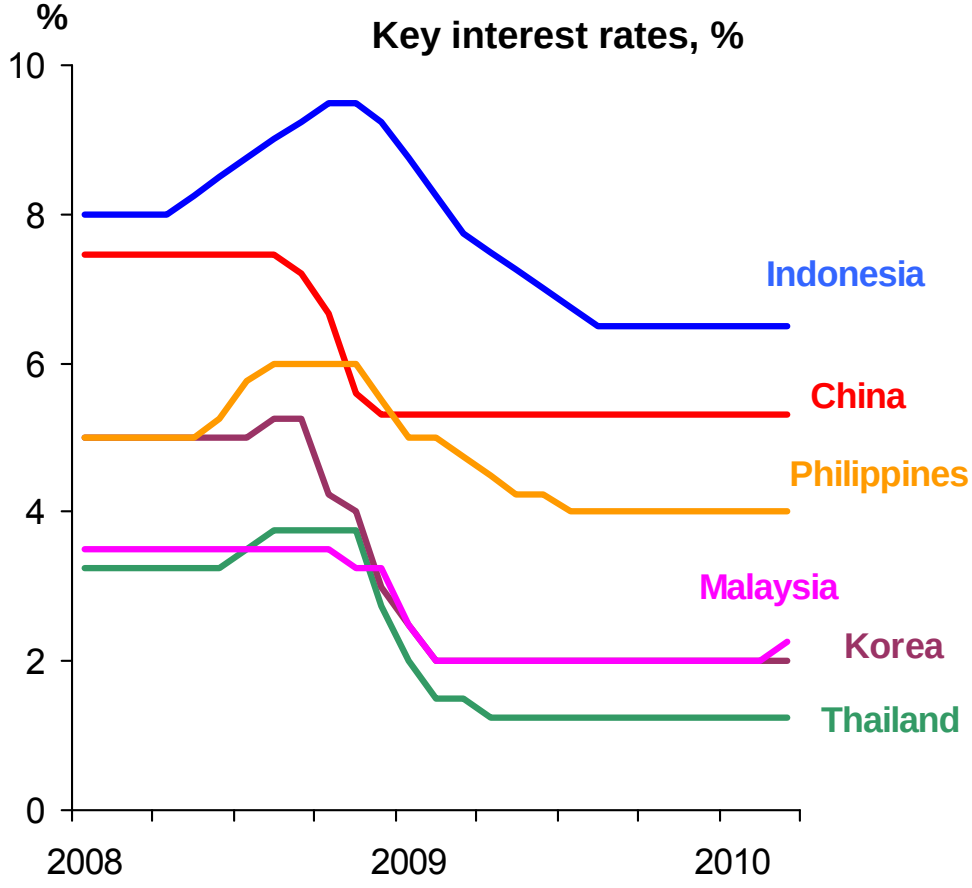
- Global inflation is expected to rise, albeit moderately in 2010 :
  - Improving demand conditions
  - Upward trend in commodity prices
- But, underlying inflation is expected to remain contained

Uneven recovery to lead to differences in thrust of policy

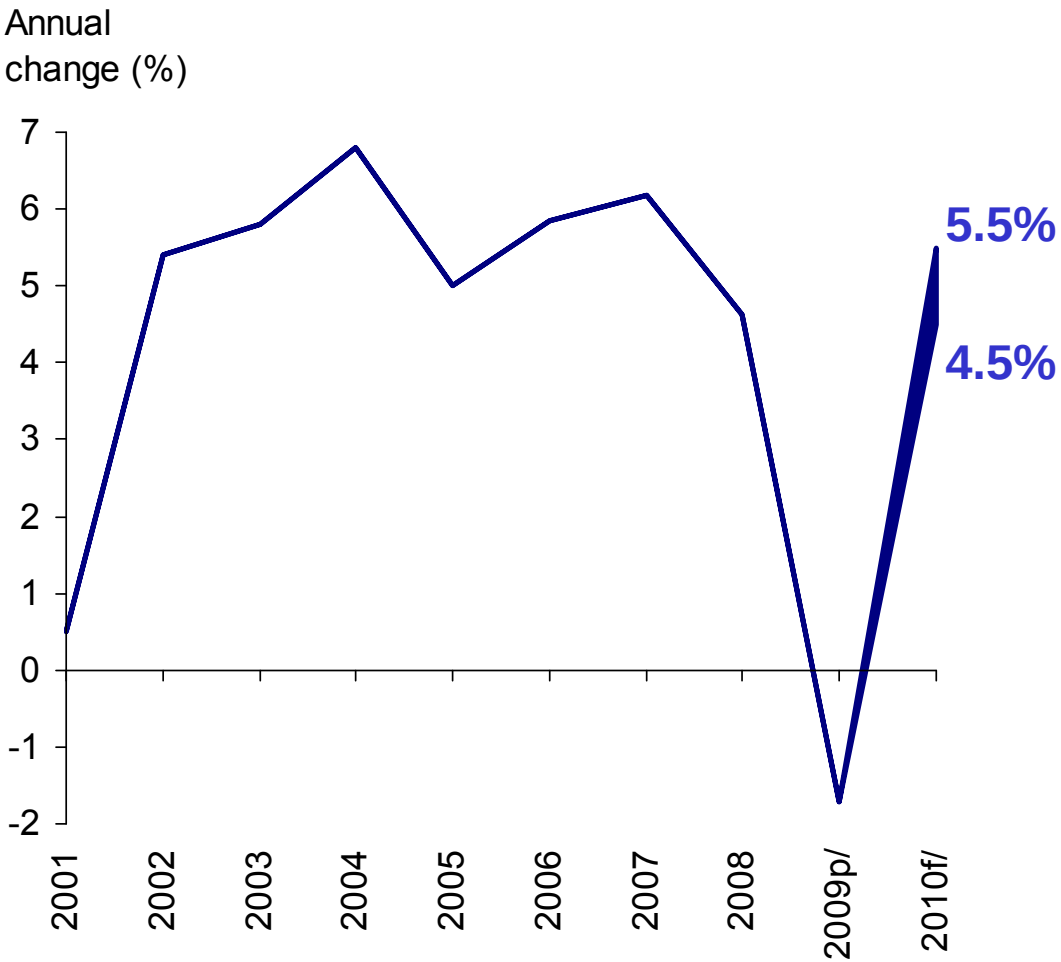
Advanced economies: Recovery and improving financial conditions



Regional economies: Stronger growth expected



The Malaysian economy is projected to grow by 4.5% to 5.5% in 2010



Source: Department of Statistics, Malaysia and Bank Negara Malaysia

- Growth will be underpinned by strengthening domestic demand and an improving external environment
- The underlying strong fundamentals will provide support to a private sector-led recovery
- Continued access to financing key in supporting private sector-led growth

Strengthening domestic demand to drive growth, reinforced by external demand

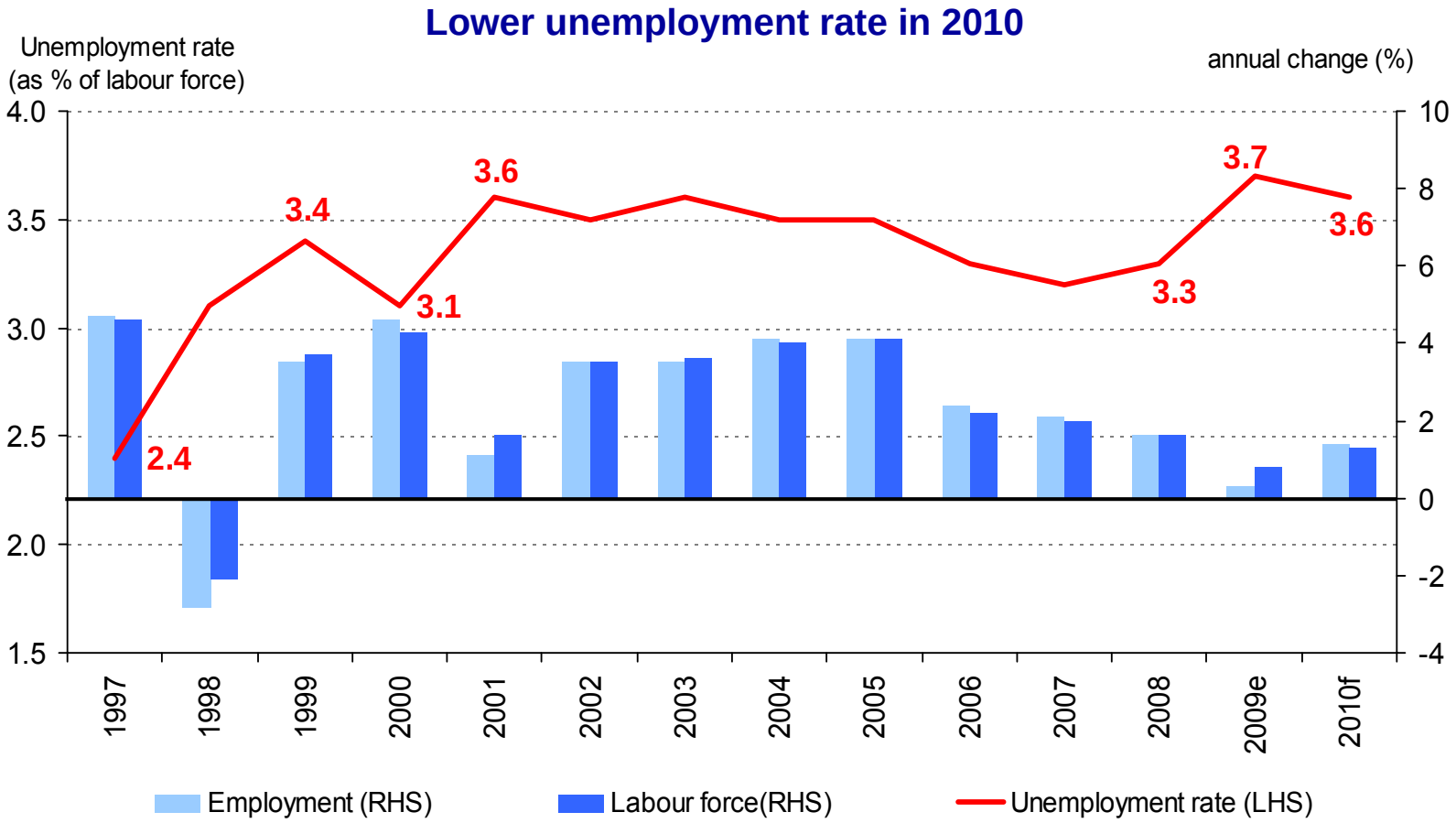
	2009p	2010f	2009p	2010f
	Annual change (%)		Contribution to growth (p.p)	
Domestic demand	**-0.4**	**3.2**	**-0.3**	**2.8**
Private sector	**-3.4**	**3.3**	**-2.2**	**2.1**
Consumption	*0.8*	*3.8*	*0.4*	*2.0*
Investment	*-21.8*	*0.7*	*-2.6*	*0.1*
Public sector	**7.7**	**2.7**	**1.9**	**0.7**
Consumption	*3.7*	*-2.7*	*0.5*	*-0.4*
Investment	*12.9*	*9.3*	*1.3*	*1.1*
Net exports	**8.4**	**-18.6**	**1.1**	**-2.7**
Exports of G&S	*-10.1*	*7.7*	*-12.0*	*8.3*
Imports of G&S	*-12.5*	*11.7*	*-13.1*	*11.0*
Real GDP	**-1.7**	**4.5 ~ 5.5**	**-1.7**	**4.5 ~ 5.5**

Private consumption to strengthen during the year

% yoy	2008	2009[p]	2010[f]
Private consumption	**8.5**	**0.8**	**3.8**

- Stronger expansion in consumer spending will be supported by :
  - Improvements in labour market conditions
  - Steady increase in disposable income
  - Sustained consumer confidence
  - Continued access to financing

Improving labour market conditions in 2010



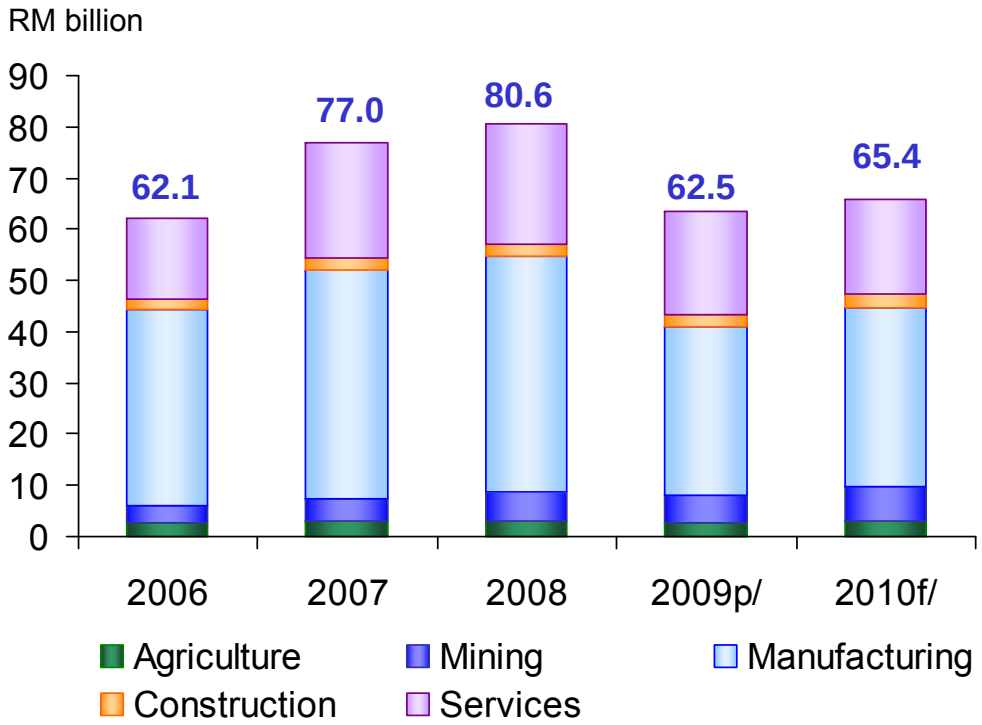
e Estimate
f Forecast

Source: Economic Planning Unit

Private investment to recover gradually

% yoy	2008	2009p	2010f
Real private investment	0.8	-21.8	0.7

Nominal Private Investment

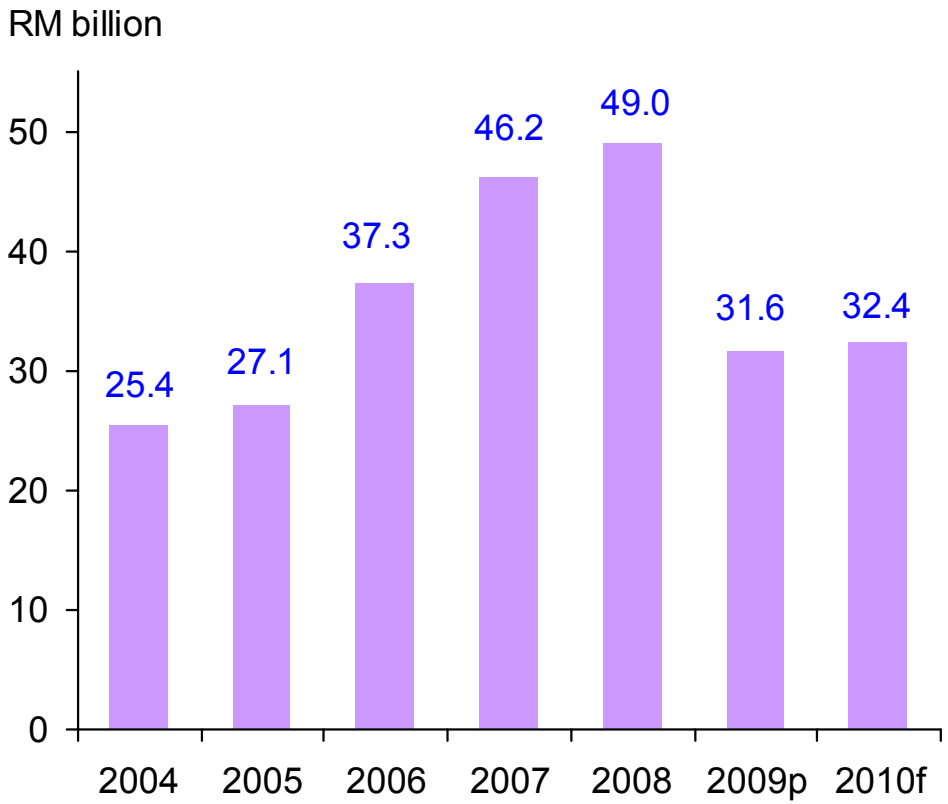


Source: Department of Statistics, Malaysia and BNM

- Capital spending is forecast to recover with the strengthening of domestic and external demand
- Improved business optimism and resumption of projects that have been deferred

Gross FDI inflows sustained in 2010

Gross FDI inflows into Malaysia



p/ preliminary; f/ forecast

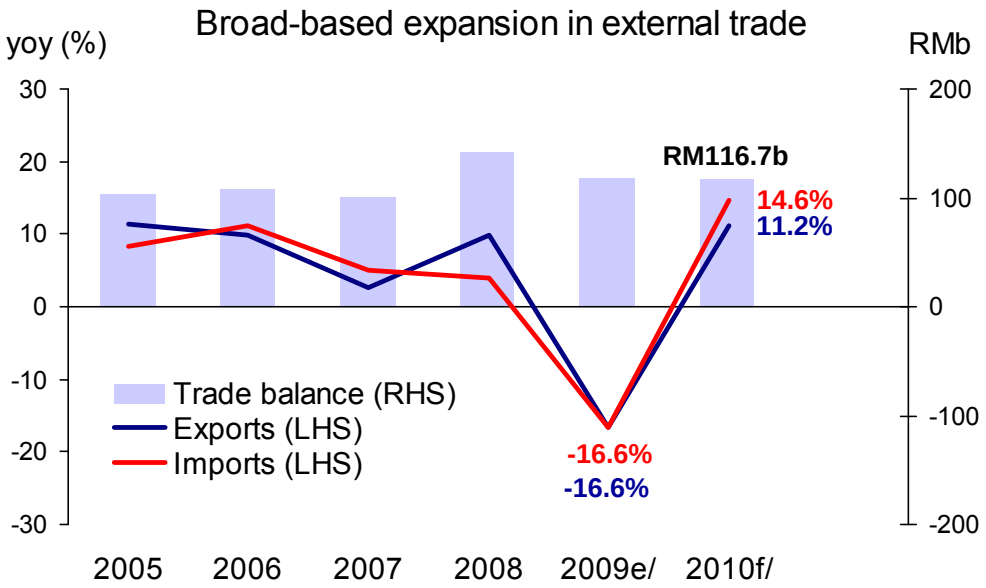
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

- Gross inflows of FDI at RM32.4 billion in 2010
- Inflows into the manufacturing, services, and oil and gas sectors

Public sector to continue to support domestic demand in 2010

	2009p	2010f
	Annual change (%)	
Public sector	7.7	2.7
Consumption	3.7	-2.7
Investment	12.9	9.3
	Contribution to growth (p.p)	
Public sector	1.9	0.7

External trade to expand in 2010

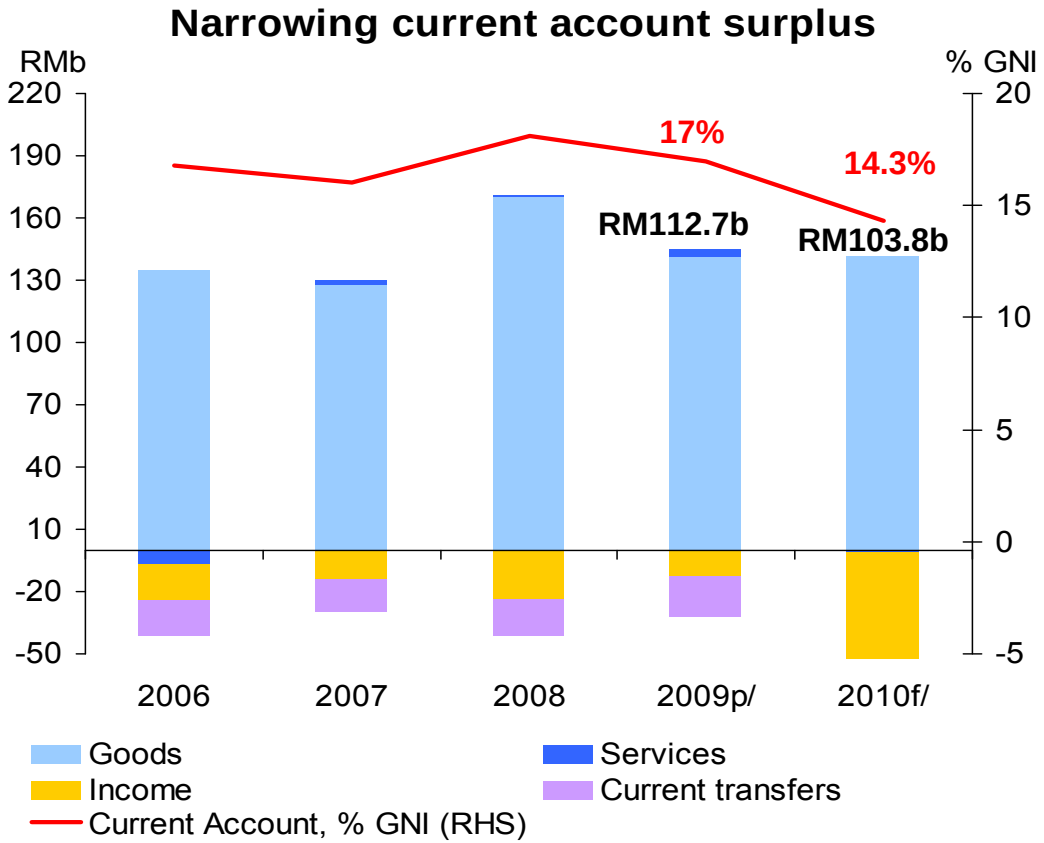


	2009[e]	2010[f]
	Annual change (%)	
Gross exports	**-16.6**	**11.2**
Manufactured	**-12.5**	**10.1**
E&E	*-11.0*	*10.0*
Non E&E	*-14.5*	*10.3*
Commodities	**-27.6**	**16.3**
Agriculture	-21.6	12.8
Minerals	-32.2	19.4

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
e/ estimate *f/* forecast

- Export expansion to be more broad-based:
  - Stronger external demand, particularly from the region
  - Higher commodity prices
- Imports to expand faster than exports:
  - expansion in manufactured exports
  - higher imports of consumption & capital goods

Current account surplus to narrow but remains significant



Source: Department Statistics, Malaysia and Bank Negara Malaysia
p/ preliminary f/ forecast

- Trade surplus to narrow as imports expand faster than exports
- Recovery in external trade and outbound tourism will result in a marginal services deficit
- Income deficit to widen due mainly to repatriation of profits and dividends by MNCs operating in Malaysia

Broad-based growth across all sectors

Annual change (%)	2009^{p}	2010^{f}
Agriculture	0.4	3.1
Mining	-3.8	2.5
Manufacturing	-9.3	6.5
Construction	5.7	3.7
Services	2.6	4.9
Real GDP	-1.7	4.5 ~ 5.5

Services sector to be a key contributor to growth

Sub-sector	2009[p]	2010[f]
	Annual change (%)	
Total Services	**2.6**	**4.9**
Finance & insurance	4.4	5.2
Real estate & business services	2.1	7.0
Wholesale & retail trade	1.2	4.4
Accommodation & restaurant	2.7	4.8
Transport & storage	-2.8	4.8
Communication	6.0	6.5
Utilities	0.4	5.0
Other services	4.4	5.1
Government services	3.0	3.0

- Higher demand for consumption-related services
- Continued lending and financial intermediation activities
- Recovery in trade and manufacturing-related services

Strong recovery in the manufacturing sector

Value-added growth (% yoy)	2009[p]	2010[f]
Total Manufacturing	**-9.3**	**6.5**
Export-oriented	**-11.7**	**6.7**
E&E	-18.7	9.6
Primary-related (e.g. chemicals, petroleum, rubber, wood)	-5.1	4.3
Domestic-oriented	**-4.5**	**6.2**
Construction-related (e.g. iron & steel, cement)	-2.6	6.5
Consumer-related (e.g. food & beverages, transport equipment)	-9.4	5.4

- **Broad-based expansion across all clusters, reflecting**:
  - ✓ **Improved external demand**
  - ✓ **Strengthening of domestic demand**

Better performance in the agriculture and mining sectors

% yoy	2009p	2010f
Agriculture	**0.4**	**3.1**
Palm oil	-1.0	1.1
Rubber	-20.2	20.3
Mining	**-3.8**	**2.5**
Crude Oil	-4.4	1.8
Natural gas	-4.0	2.5

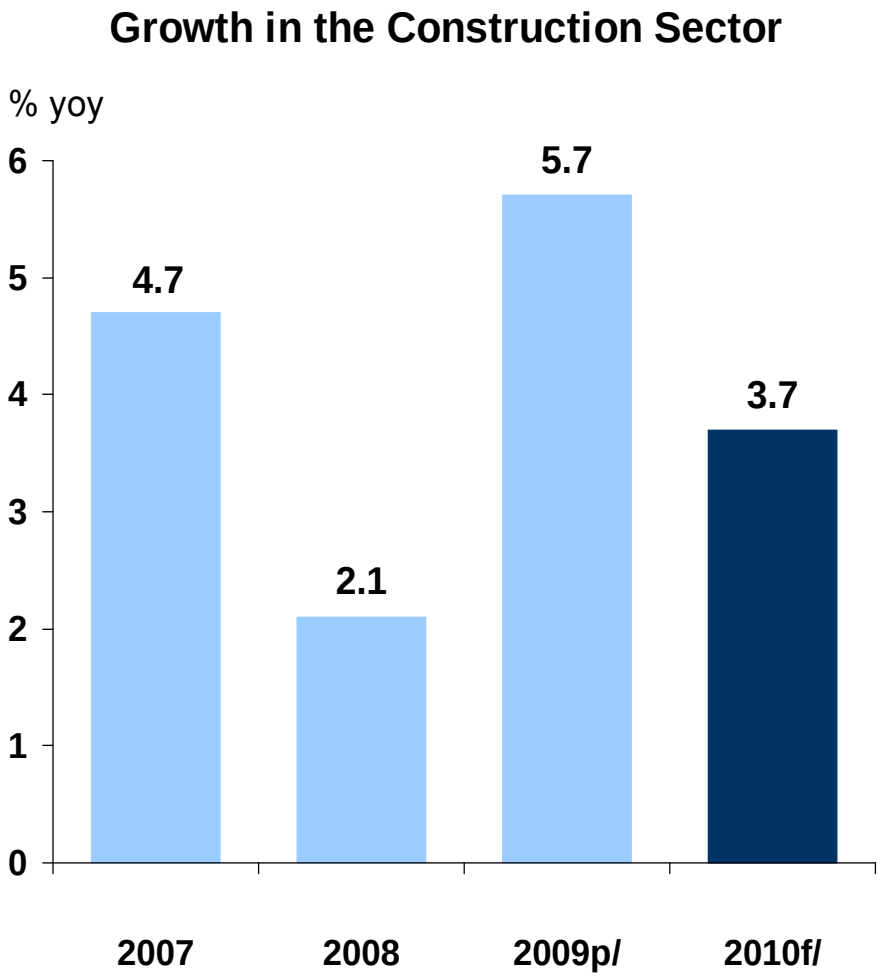
Agriculture

- **Production of palm oil and rubber are expected to increase to meet higher demand**

Mining

- **Higher crude oil production with the recovery in demand**
- **Higher gas output partly reflecting LNG exports to China**

Construction sector to maintain growth momentum

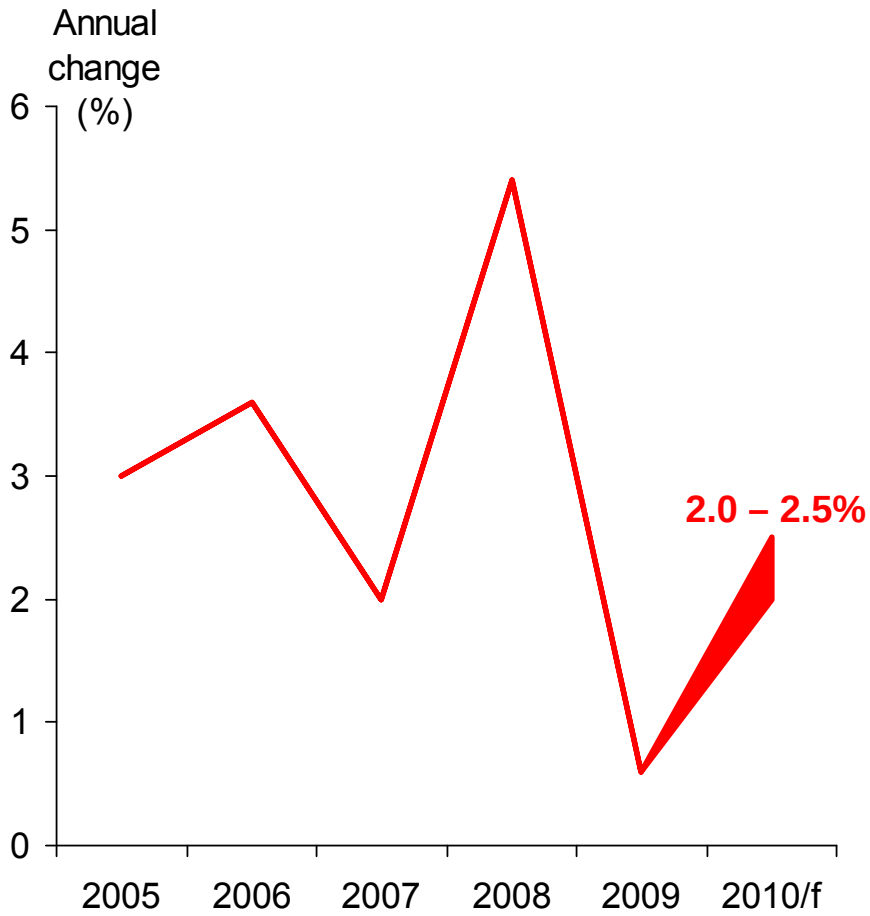


- Growth supported by the second stimulus package, benefiting the **civil engineering** and **non-residential** sub-sectors, and the remaining projects under the Ninth Malaysia Plan

- Continued growth in **residential** sub-sector due to stronger demand

Headline inflation to remain modest at 2.0 – 2.5% in 2010

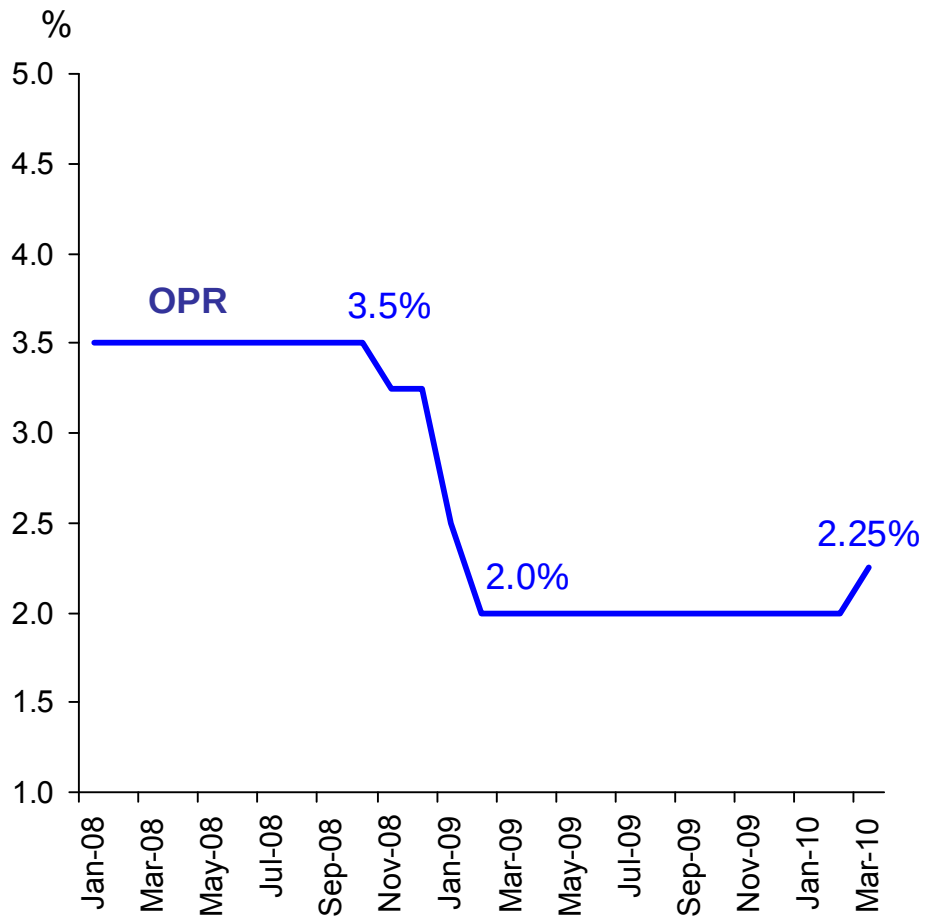
Inflation Forecast for 2010



- **Price increase in 2010 modest reflecting :**
  - **Improving demand conditions**
  - **Potential adjustments to administered prices**

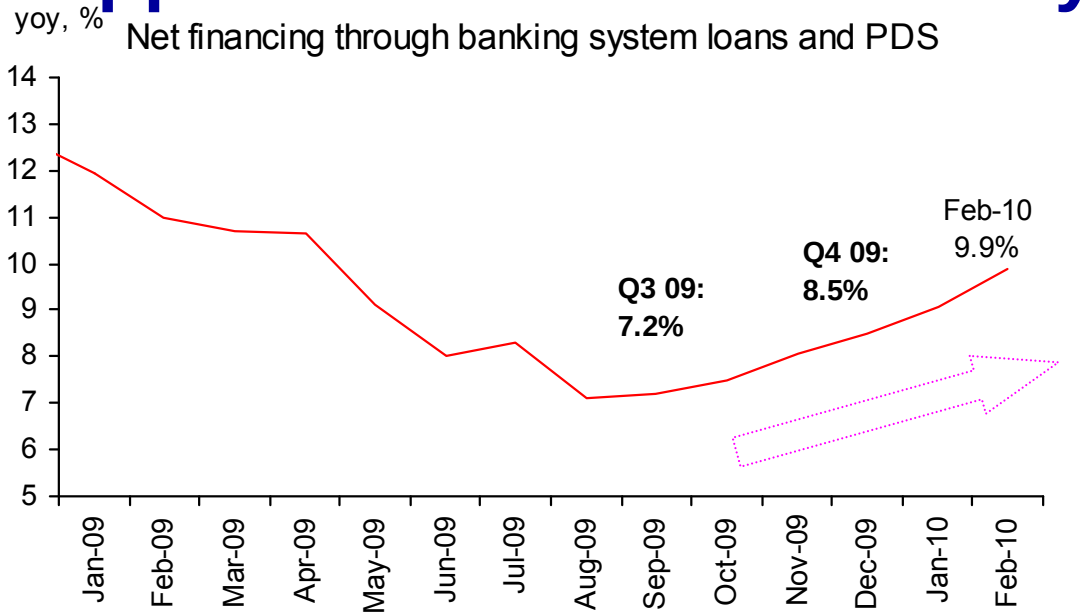
Monetary policy remains supportive of economic growth

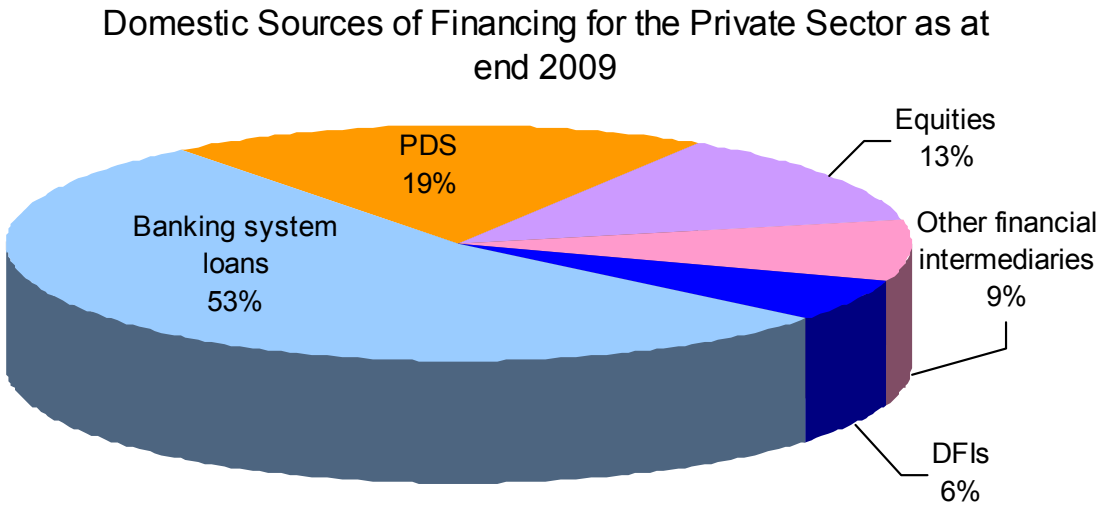
The OPR was raised by 25 bps in March



- **OPR was reduced to a historic low in early 2009 under extraordinary conditions**
- **Given improved economic outlook, the OPR was adjusted in March 2010 to:**
  - **normalise monetary conditions**
  - **prevent the risk of financial imbalances that could undermine the economic recovery process**
- **Monetary policy continues to remain accommodative to provide support to domestic economic activity**

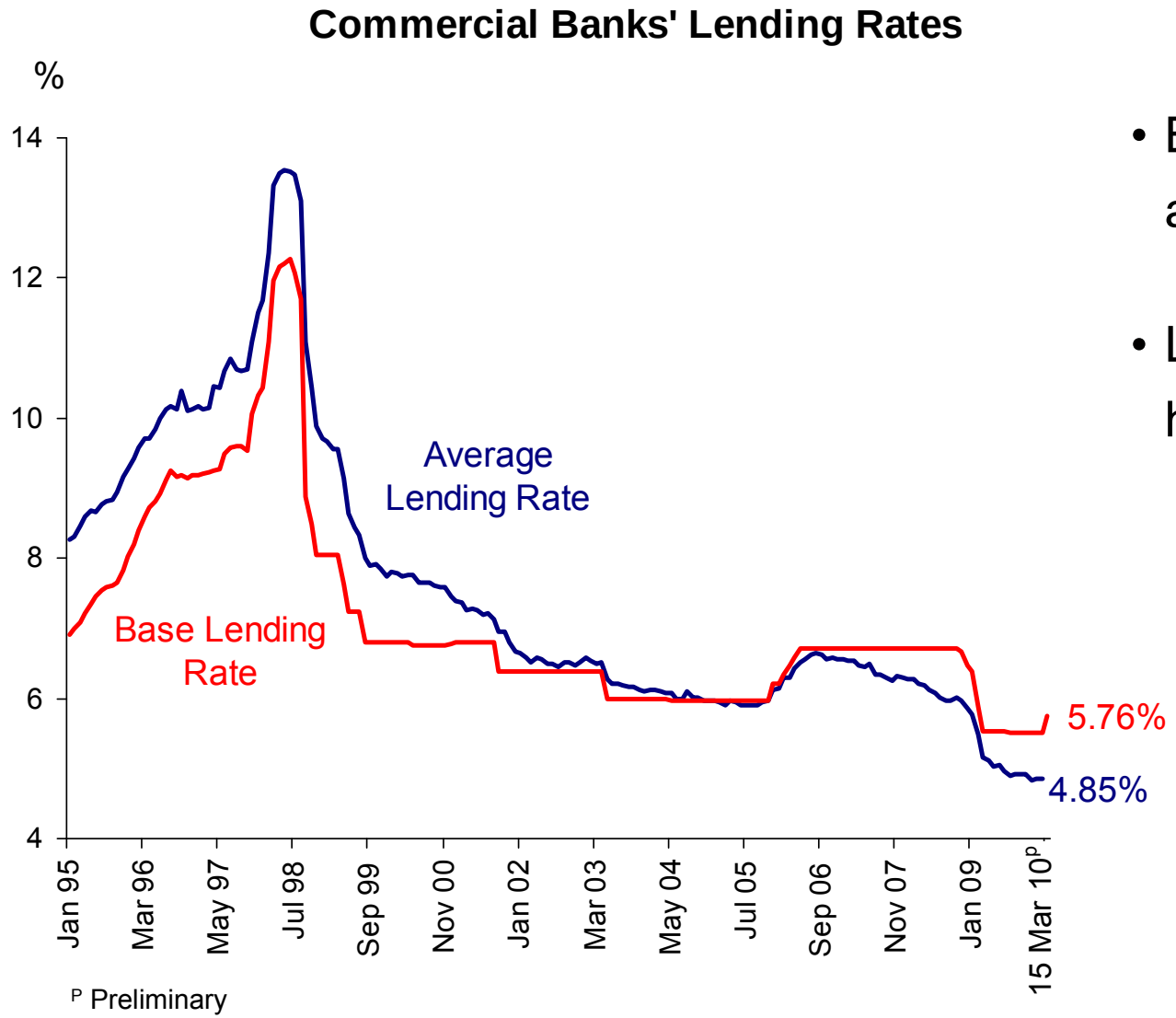
Continued access to financing is a key support to economic recovery





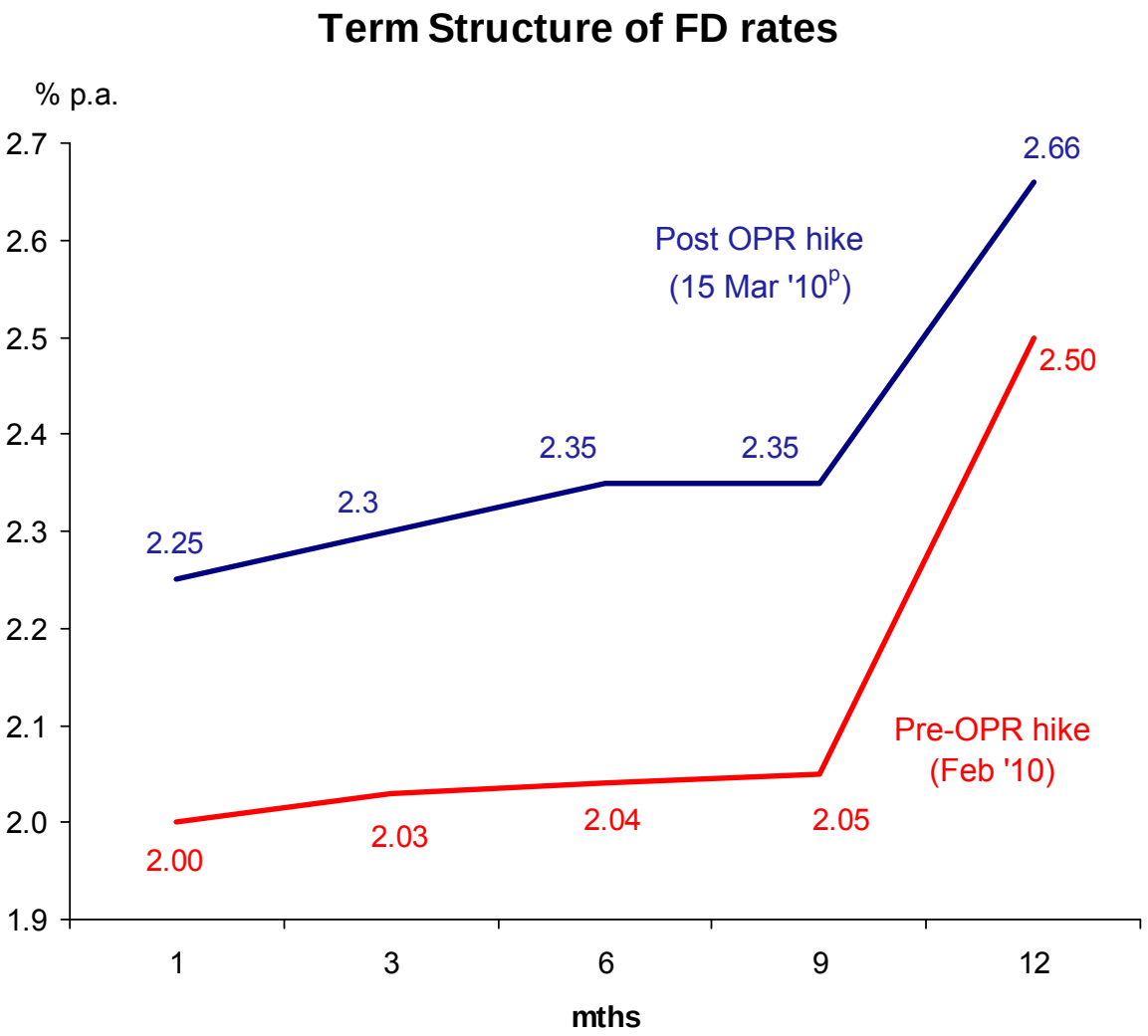
- Financing to businesses and households increasing, supported by :
  - continued access to financing
  - ample liquidity
  - low interest rate environment
- Expansion in other sources of financing

Cost of financing remains low



- BLR responded to OPR adjustments
- Lending rates remained near historical lows :
  - Base lending rate: 5.76% (15 March 2010)
  - Average lending rate: 4.85% (end-Feb 2010)

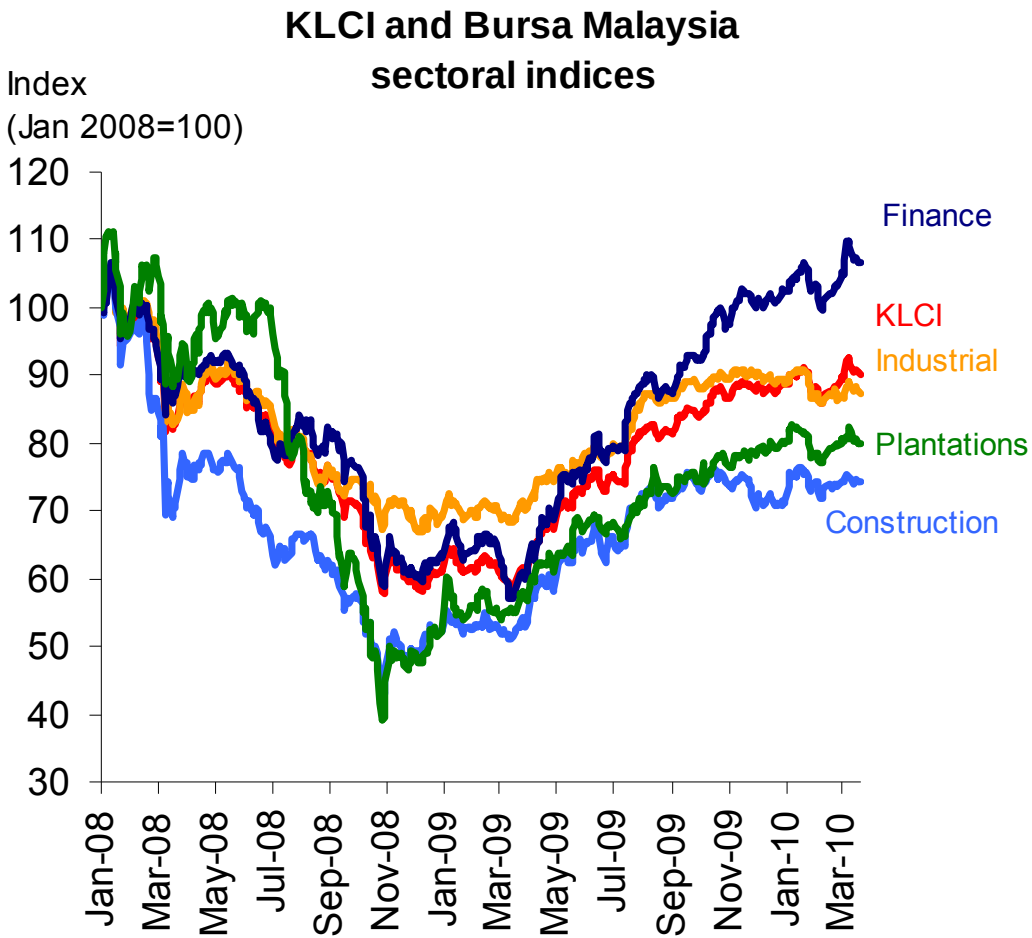
Deposit rates have increased

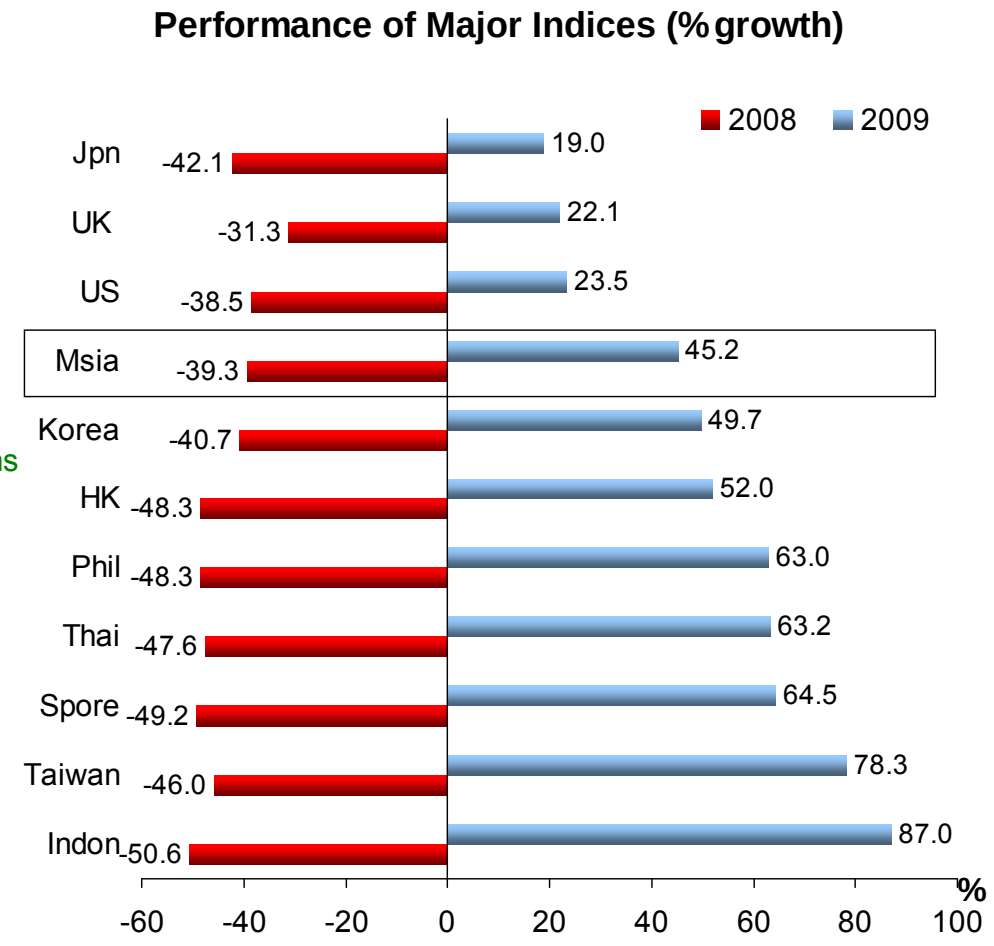


P Preliminary

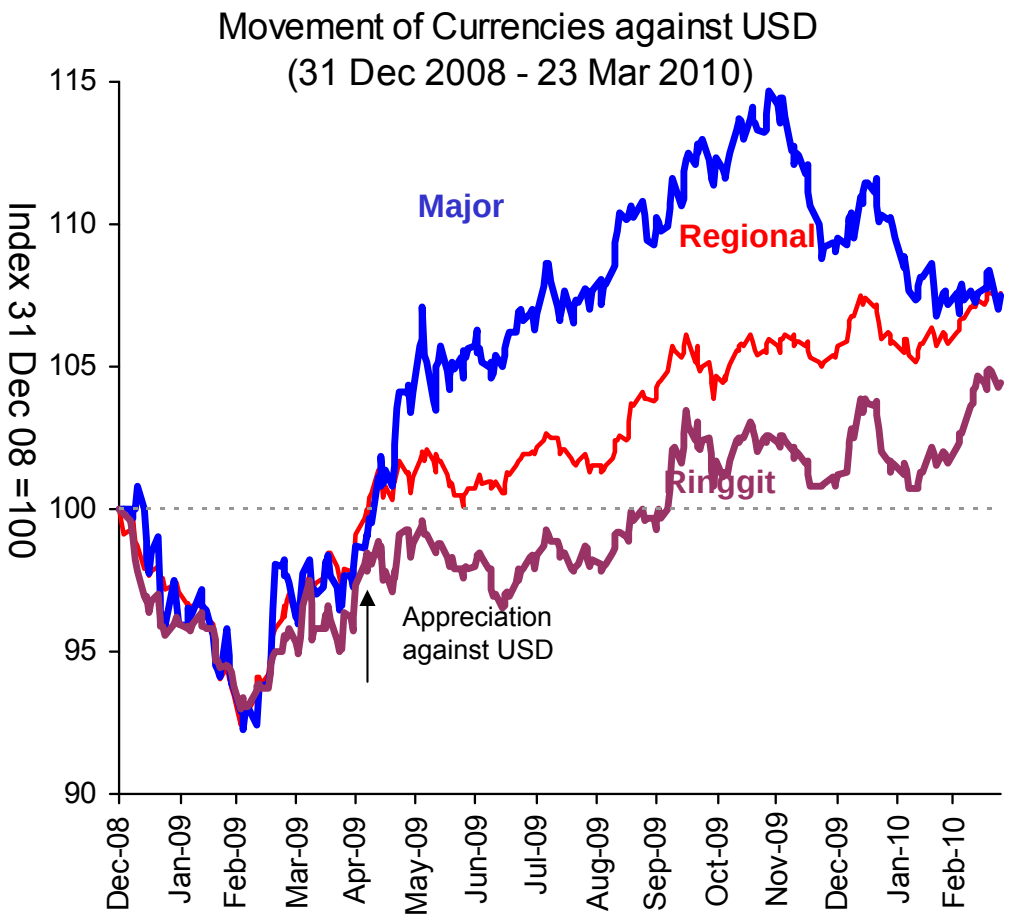
- FD rates raised by 16-30 bps following increase in OPR

Domestic equity market recovered on improving economic conditions





Ringgit performance driven by external developments and improving domestic fundamentals



- Ringgit was on a broad appreciating trend, in tandem with regional currencies
- Generally, orderly ringgit adjustment

Regional: CNY, IDR, KRW, PHP, SGD, TWD, THB
Major: AUD, JPY, EUR, GBP

For Malaysia, policies will focus on strengthening private sector led growth

- **Strategies being put in place to transition Malaysia to a high value-added, high income economy**

- **Measures to promote private investment**
  - **incentives for high growth sectors**
  - **liberalisation of the economy**
  - **privatisation of Government-owned corporations**

- **Monetary policy to remain supportive of growth**

- **Ensure continued access to financing**

Bank Negara Malaysia
Annual Accounts 2009

Financial position of the Bank remained strong in 2009

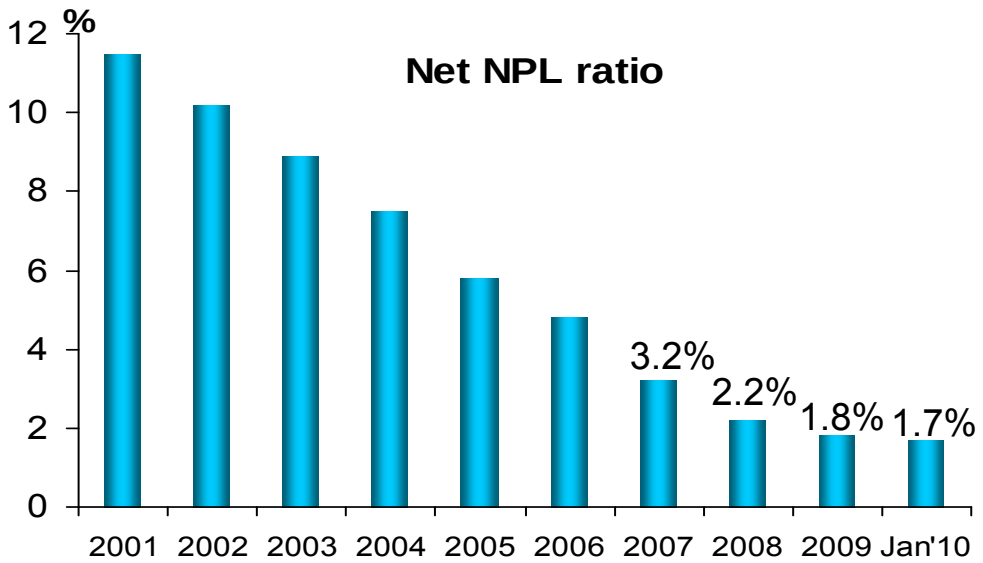
- **Total assets of BNM increased by RM18.5 billion to RM363 billion with international reserves of RM331.3 billion (USD96.7 billion)**
- **Net profit of RM7.7 billion**
- **Dividend paid amounted to RM2 billion**

FINANCIAL STABILITY AND PAYMENT SYSTEMS REPORT 2009

Financial system stability was preserved, supported by a well-functioning financial intermediation process and orderly financial markets

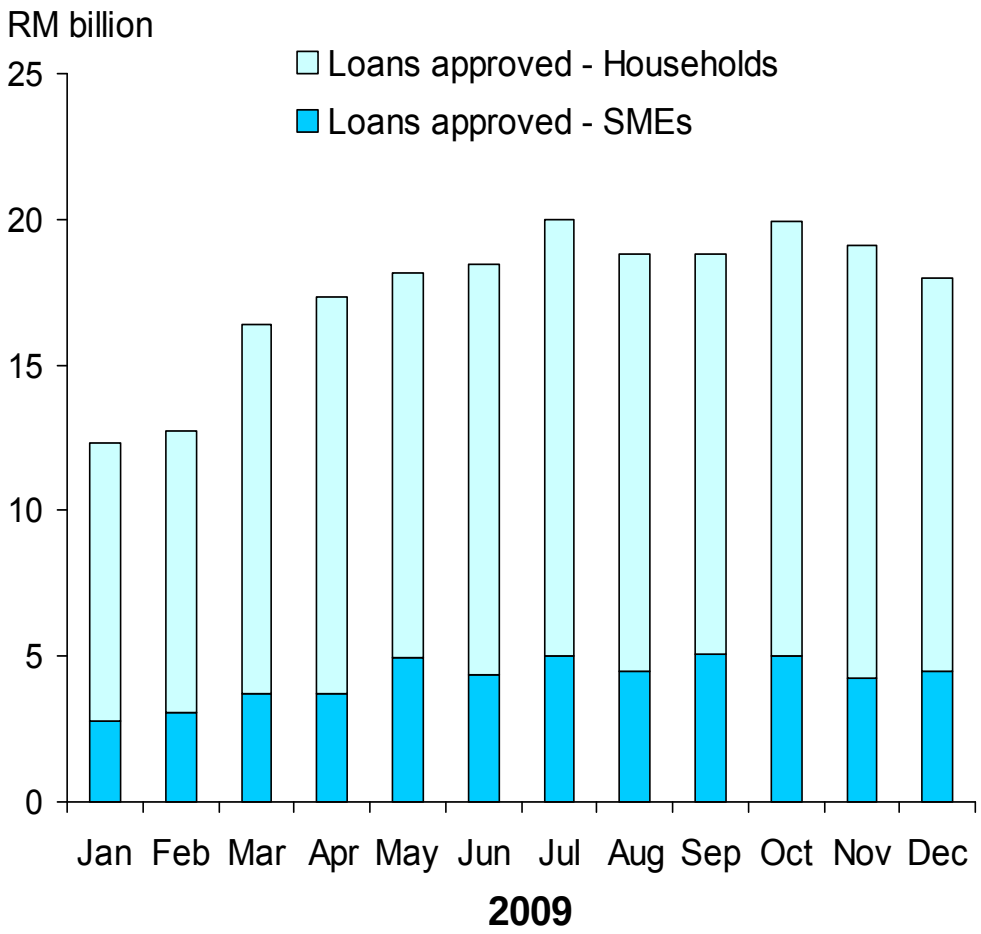
High degree of financial system resilience

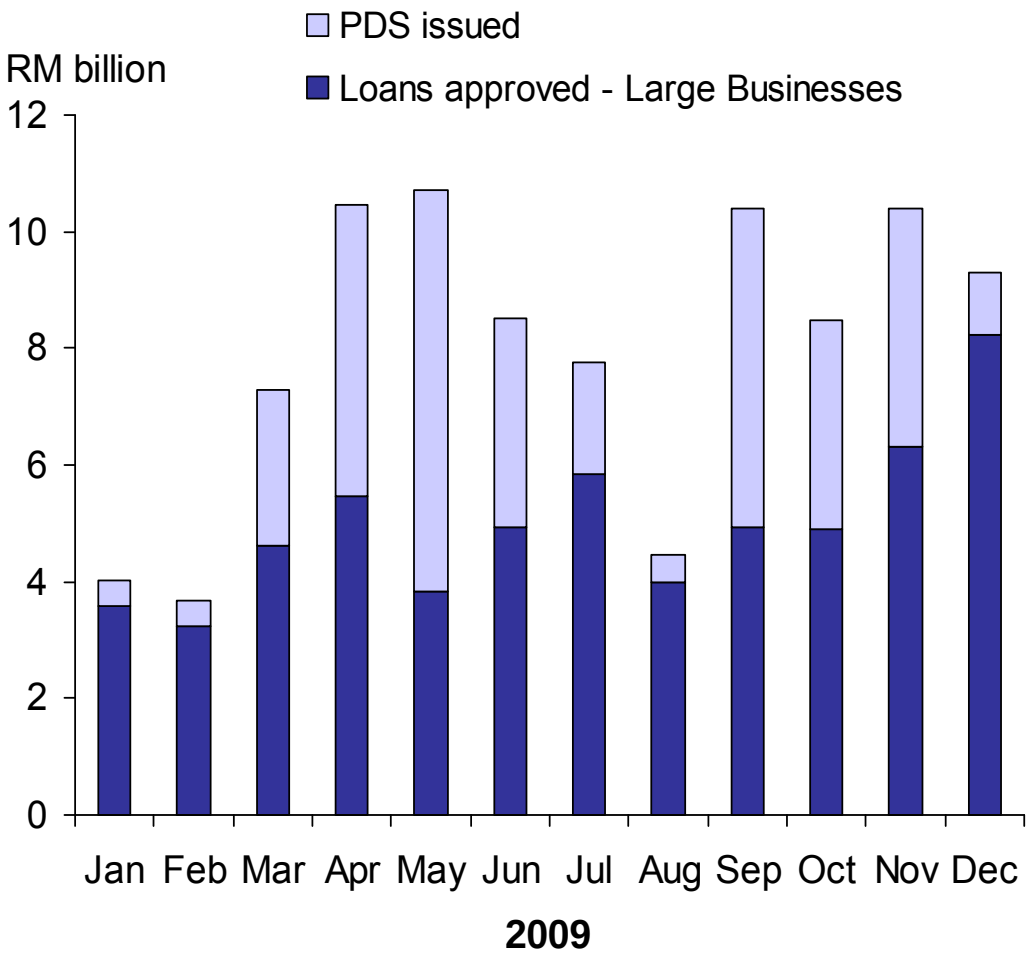
Banking sector (%)	Dec 08	Jan 10
Risk-weighted capital ratio	12.6	14.8
Core capital ratio	10.6	13.3
Capital buffer (RM billion)	38.7	60.3
Insurance sector (%)	**Dec 08**	**Dec 09**
Capital adequacy ratio	187.6	230.0
Capital buffer (RM billion)	12.3	18.6



- Strong solvency position
  - Forward looking capital management since 2008
  - High quality of capital
- Loan quality intact
  - Improved underwriting standards
  - Pro-active management of debts
  - Historical high provisions
- Profitability sustained
  - RoE of 13.9% and RoA of 1.2%

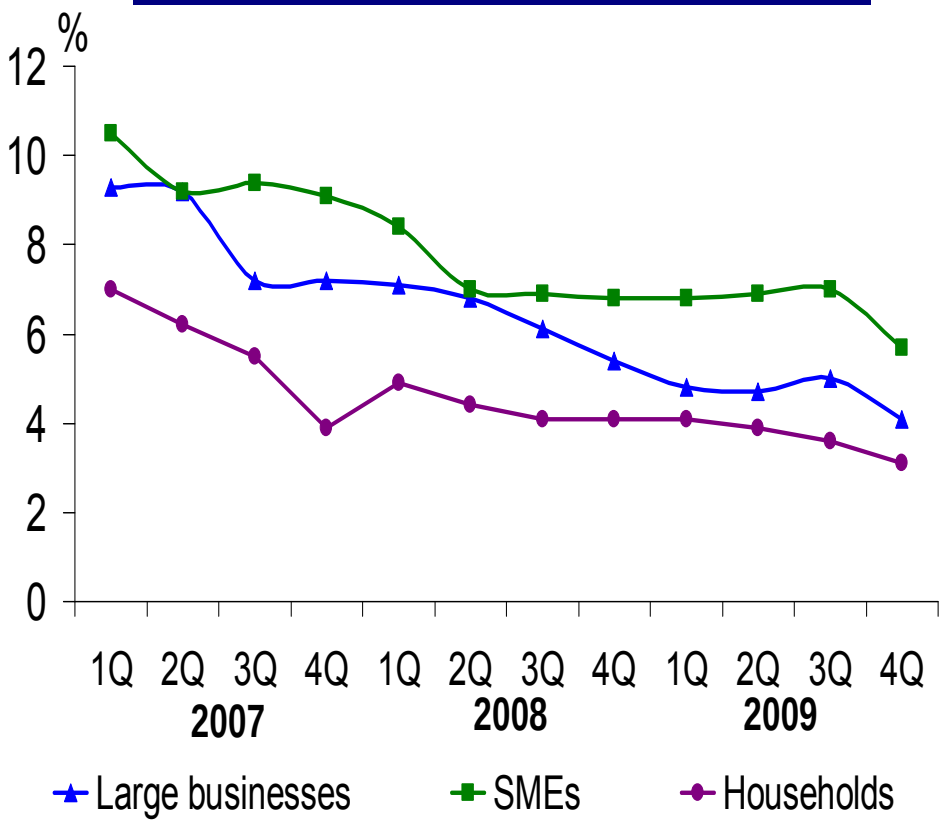
Access to financing supported early recovery



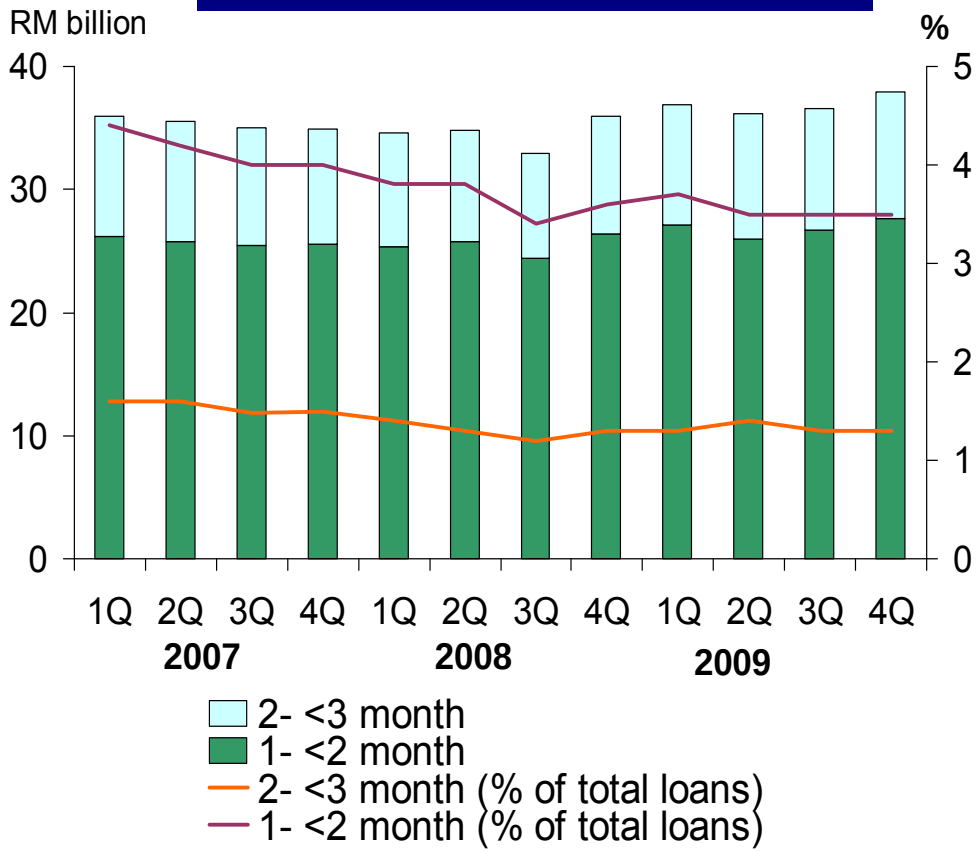


Improving quality of loan portfolio

NPL ratio on steady decreasing trend



Stable loans-in-arrears



Financial stability supported by supervisory vigilance and robust prudential framework

- Early and prompt detection and management of emerging risks
  - Enhanced surveillance and stress testing
  - Strengthening of home-host supervisory engagement to support consolidated supervision

- Improved risk management and governance practices
  - Implementation of more sophisticated approaches to assessments of capital adequacy under Basel II and Risk-Based Capital Framework
  - Continued strengthening of capital buffers to withstand potential shocks
  - Enhanced liquidity framework to address market disruptions and foreign currency exposures
  - Continued improvements in governance practices
  - Strengthened oversight capability of boards of financial institutions

Policy measures to enhance access to financing

- Special funds
  - SME Assistance Guarantee Scheme (RM 2 billion)
  - Working Capital Guarantee Scheme (RM 7 billion)
  - Industry Restructuring Guarantee Scheme (RM 3 billion)
- Avenues for debt restructuring
  - Large corporations: Corporate Debt Restructuring Committee (CDRC)
  - SMEs : Small Debt Resolution Scheme (SDRS)
  - Individuals : Agensi Kaunseling dan Pengurusan Kredit (AKPK)
- Avenues for complaints and financial advice
  - BNM Integrated Contact Centre
  - ABMConnect
- Introduction of credit enhancement agency in 2009
  - Danajamin Nasional Berhad

Developmental strategies continued to be pursued

- In addition to institutional arrangements, mechanisms and schemes for access to financing

- Enhance interlinkages with international economies
  - Liberalisation plan for financial sector
  - MoUs to strengthen bilateral and multilateral cooperation
  - Reinforce international dimension of Islamic finance

- Promote financial inclusion
  - Raise level of financial literacy
  - Operational flexibilities for new branches and bancassurance arrangements for insurance companies and takaful operators

- Continuous priority on human capital development
  - Asian Institute of Finance (AIF) fully operationalised to coordinate human capital development initiatives
  - Continuous enhancement to FSTEP programme design and delivery
  - Enhance FIDE programme for boards of financial institutions

Outlook for domestic financial stability

- Malaysian financial system has adequate buffers to withstand external risks and domestic challenges
  - Banking system capitalisation expected to remain >10% under most challenging stress test scenario
- Downside risks mainly stem from external environment
  - Sustainability of global economic recovery
  - Orderly exit from unconventional support measures
  - Reforms in global prudential regulations and regulatory structure
  - Destabilising capital flows

Supported by strengthened financial stability framework under Central Bank of Malaysia Act 2009

- Greater clarity in mandates, functions and power
- Captures core elements of macroprudential stability
  - **Ex-ante surveillance powers** for timely risks identification
  - **Pre-emptive powers** to avert or mitigate systemic risks
  - **Ex-post powers** for resolution to reduce impact of instability
- Complemented by strengthened framework for governance, transparency and accountability
- Positions the Bank to effectively address current and future challenges

Areas of focus for financial sector in 2010

- Blueprint for financial sector development
  - Develop a strong and stable financial sector that best serves Malaysia
  - Competitive, dynamic and inclusive financial system
- Comprehensive review of existing legislations to ensure an effective and efficient legislative framework to:
  - Align legislation with more principle-based and differentiated supervisory approaches
  - Enhance appropriate enforcement and resolution framework
  - Achieve more consistent legal framework across different financial sectors
  - Strengthen market conduct regulation and supervision
- Transition to enhanced deposit guarantee scheme
- Greater internationalisation of sukuk market

Thank you