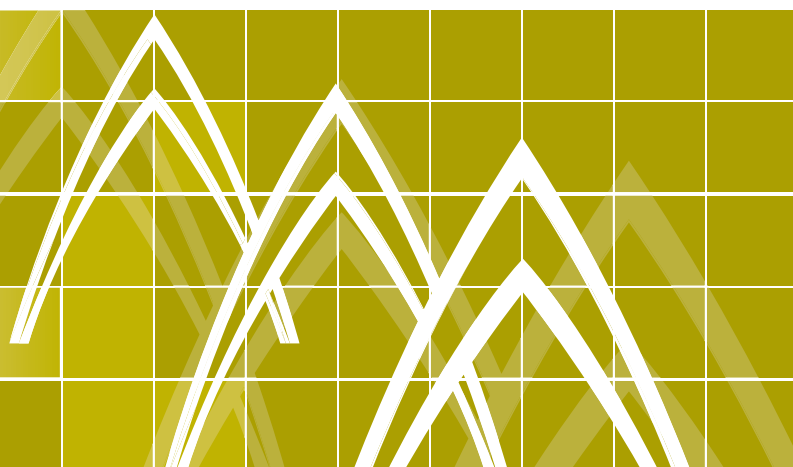


5 Monetary and Financial Developments





Monetary And Financial Developments

Overview

Accommodative monetary policy...

The focus of monetary policy in 2009 is on growth amid abating inflationary pressures and an adverse external environment. The Overnight Policy Rate (OPR) was lowered 150 basis points (bps) to 2.00% to reduce the cost of borrowing. The Statutory Reserve Requirement (SRR) was cut 300 bps to reduce the cost of intermediation for banking institutions. The accommodative monetary conditions, particularly low interest rates and ample liquidity supported economic activity through private sector financing.

Private sector financing through the banking system and capital market picked up in the second quarter in tandem with improving business and consumer sentiment. The banking system remains sound and plays an active intermediation role. Several measures were taken to ensure continued access to financing, particularly for small and medium enterprises (SMEs). These included the provision of special funds and guarantee facilities for working capital and industry restructuring as well as the establishment of *Danajamin Nasional Berhad* (Danajamin), a Financial Guarantee Insurer to help companies raise funds from the capital market. The Corporate Debt Restructuring Committee (CDRC) was reactivated as a pre-emptive measure to assist companies in debt restructuring.

Further liberalisation measures were introduced in 2009 to enhance the nation's long-term competitiveness in promoting greater private investment. Liberalisation of the financial sector includes allowing new foreign players, raising foreign equity limit and enhancing operational flexibilities. Meanwhile, deregulation of the Foreign

Investment Committee (FIC) guidelines includes removing the *Bumiputera* equity requirement for public-listed companies (PLCs) as well as repealing the guidelines on acquisition of equity stakes, mergers and takeovers.

Malaysia remains the leader in *sukuk* issuance, accounting for more than 60% of global outstanding *sukuk*. The Islamic financial sector recorded strong growth, with Islamic banking and *takaful* expanding at an average annual rate of 19.0% and 24.8%, respectively since 2001 to 2008. Initiatives such as the establishment of international currency business units, liberalisation and ongoing efforts to harmonise interpretation of Islamic financial products will further strengthen Malaysia as an international Islamic financial hub.

Monetary Policy

Monetary policy supports growth...

The economy declined 6.2% in the first quarter of 2009, the first contraction since the third quarter of 2001. The Consumer Price Index (CPI) moderated to 3.7% in the first quarter (Q4 2008: 5.9%) following lower fuel prices and slower increase in food prices. With inflationary pressures receding, the focus of **monetary policy** was on growth.

The OPR was lowered 75 bps in January and a further 50 bps in February 2009 to 2.00%. This marked a total reduction of 150 bps, following an earlier cut of 25 bps in November 2008. To reduce the cost of intermediation for banking institutions, the SRR was cut 300 bps from 4.00% to 1.00% from December 2008 to March 2009. Amid signs of improvement in the economy and further moderation in inflation, the OPR was left

Central Bank of Malaysia Act 2009

Background

Since the enactment of the Central Bank of Malaysia Act 1958, the operating environment of *Bank Negara Malaysia* has undergone significant transformation, amid major changes in the global and domestic economic and financial landscape over the last five decades. These developments have redefined the manner in which central banks across the world effectively function, including those of *Bank Negara Malaysia*. From time to time, necessary amendments have been made to the Central Bank of Malaysia Act 1958 to keep abreast with the evolving role of the central bank, particularly with respect to maintaining monetary and financial stability. The outbreak of the Asian financial crisis in 1997/1998 and the recent global financial turmoil, however, has called for a more holistic review of the existing legislative framework of *Bank Negara Malaysia* to provide the Bank with a strong legal foundation for the future. The new Central Bank of Malaysia Act 2009 which was passed by Parliament in July 2009 will enable the Bank to deal more effectively with emerging risks and challenges in discharging its role and responsibilities as the nation's central bank.

Aims of the Central Bank of Malaysia Act 2009

The Act provides greater clarity on the mandates of the Bank and vests with the Bank the necessary powers and instruments to achieve the mandates. The Act also provides for a more robust governance framework that enhances greater accountability and transparency. In addition, the Act also institutionalises some of the Bank's existing practices which have proven to be important in enhancing the efficiency and effectiveness of the Bank.

Mandates and Functions of the Bank

The objects of promoting monetary and financial stability conducive to the sustainable growth of the economy constitute the *raison d'être* for the Bank. In streamlining the principal objects and functions, the Act provides greater clarity and focus to the Bank's role as a central bank. In this respect, the Act has prescribed the following as the primary functions of the Bank:

- (a) formulate and conduct monetary policy;
- (b) issue currency;
- (c) regulate and supervise financial institutions which are subject to the laws enforced by the Bank;
- (d) provide oversight over the money and foreign exchange markets;
- (e) exercise oversight over payments systems;
- (f) promote a sound, progressive and inclusive financial system;
- (g) hold and manage the foreign reserves of Malaysia;
- (h) promote an exchange rate regime consistent with the fundamentals of the economy; and
- (i) act as financial adviser, banker and financial agent of the Government.

Inherent in the objects and functions of the Bank is the over-riding goal of providing a stable monetary environment and a progressive and resilient financial system that supports Malaysia's economic development. Hence, in giving effect to its objects and carrying out its functions, the Act has expressly provided that the Bank will perform these functions giving due regard to the national interest.

Monetary Stability

The primary objective of monetary policy under the Act is to maintain price stability while giving due regard to developments in the economy. Monetary policy is to be formulated and implemented autonomously by a Monetary Policy Committee (MPC) established under the Act. The MPC comprises



between 7–11 members, including the Governor and the Deputy Governors of the Bank. The Bank's Board of Directors, on the recommendation of the Board Governance Committee, may appoint directors and officers of the Bank to serve as members of the MPC, while external members are appointed by the Minister of Finance on the recommendation of the Board Governance Committee. The MPC shall meet not less than six times a year and additional meetings may be convened if necessary.

In order to ensure the soundness of monetary policy decisions, extensive safeguards have been incorporated in the Act. The members of the MPC must be persons of probity, competence and sound judgment with relevant expertise and experience. Monetary policy will only be formulated at a formally convened meeting of the MPC with a quorum of not less than two-thirds of its members. At the end of each meeting, a monetary policy statement will be issued stating the decision and its rationale. The Bank's Board of Directors is empowered to review the appropriateness of the monetary policy decisions of the MPC for ensuring monetary stability in Malaysia.

The exchange rate regime will continue to be determined by the Minister on the recommendation of the Bank. The Bank will conduct the foreign exchange operations to promote the efficient and effective functioning of the exchange rate regime and foreign exchange market.

Financial Stability

The dramatic transformation of the international and domestic financial environment presents new challenges for the Bank's role in preserving financial stability. Over the years, the Malaysian financial system has become more highly integrated with the global financial markets, with increased financial innovation and greater convergence of financial intermediaries as well as trading and clearing systems. As the recent international financial turmoil underscores, the sources of risks have become increasingly more uncertain with heightened risks of contagion. In such a globalised environment, it is crucial that financial regulation and crisis management are effective not only across sectors but across borders. The Act provides comprehensive provisions to ensure swift and orderly resolution in the event of an imminent financial crisis to reduce its impact and costs to the domestic economy and to sustain public confidence.

The Act will also strengthen Malaysia's resilience to financial crises. Provisions have been made for heightened surveillance, pre-emptive actions and resolution powers including the extension of liquidity assistance to entities not regulated by the Bank but which pose risks to overall financial stability. The Act also provides for the Bank to have oversight over the money and foreign exchange markets, payment systems and for enhanced arrangements for cooperation with other supervisory authorities.

In line with a strengthened governance and accountability framework which underpins the Act, the exercise of the powers for the purposes of achieving financial stability shall be decided by the Financial Stability Executive Committee (FSEC) established under the Act. The FSEC will comprise the Governor, a Deputy Governor and at least three other members to be appointed by the Minister on the recommendation of the Board. The Secretary General of Treasury will become a member of the FSEC on all matters relating to financial institutions not under the purview of the Bank. Heads of other supervisory authorities will also be present as FSEC members on matters relating to financial institutions and markets under their respective purview.

Consistent with the goal to promote Malaysia as an international centre for Islamic finance, the Act gives due recognition to both the Islamic and conventional financial systems operating in parallel in Malaysia. The Act also provides for an enhanced role of the Syariah Advisory Council on Islamic Finance whose members are appointed by the *Yang di-Pertuan Agong* on the advice of the Minister after consultation with the Bank.

Governance

The wide-ranging role and responsibilities of a central bank and its pervasive impact on the economy and financial system necessitates a highly robust governance framework. The Board of Directors shall have oversight of the management of the Bank and review the performance of the Bank. As in the existing Central Bank of Malaysia Act 1958, the Governor and Deputy Governors will continue to be answerable to the Board for their actions and decisions.



The Board Governance Committee, the Board Audit Committee and the Board Risk Committee, consisting only of non-executive directors, will be established to assist the Board in its oversight role. The functions of the Board Committees are:

Board Governance Committee

- nominate members of the MPC and other Committees of the Bank;
- examine and recommend the budget and operating plan of the Bank to the Board for approval; and
- such other matters as provided for in the Act.

Board Audit Committee

- assist the Board in its oversight on the integrity of the accounts and financial statements of the Bank, the effectiveness of internal control system, performance of internal audit functions and compliance with legal and regulatory requirements.

Board Risk Committee

- assist the Board in the review of the organisational risk management activities undertaken by the Bank to assess and ensure that risks have been adequately identified and adequately managed.

Accountability

The Bank shall keep the Minister informed on the policies relating to its principal objects and submit to the Minister, on a fortnightly basis, the Bank's statement of assets and liabilities. The Bank's accounts shall be audited by the Auditor General. The financial statements and annual report of the Bank shall be laid in Parliament. The Act also requires the Bank to publish the Monetary Policy Statement, the fortnightly statement of assets and liabilities and the annual report and financial statements.

Conclusion

The Act provides a holistic review of existing legislative framework underpinning *Bank Negara Malaysia's* effectiveness in discharging its role and responsibilities as the nation's central bank. The Act also gives greater clarity to the mandates of the Bank in preserving monetary stability and financial stability conducive to sustainable economic growth and safeguarding the national interest. In empowering the Bank with the necessary legal authority and instruments, the Act also emphasises a robust governance framework which enhances transparency and accountability, thus providing a strong legal foundation for the future.

Contributed by *Bank Negara Malaysia*.



unchanged at 2.00% since February through August 2009. This policy stance will continue to be assessed against the risks and outlook for growth and inflation.

On the regulatory front, the new Central Bank of Malaysia Act 2009 will be effective in November 2009. The Act provides greater clarity to *Bank Negara Malaysia* (BNM) on its mandates in relation to monetary and financial stability. It also vests BNM with the necessary powers and instruments to achieve the mandates.

Monetary Developments

Monetary aggregates expand moderately...

Monetary aggregates expanded at a slower pace during the first seven months of 2009. **M1 or narrow money** grew 6.0% as at end-July 2009 (end-2008: 8.3%) on account of higher placement of demand deposits by business enterprises. **M3 or broad money** increased 5.3% (end-2008: 11.9%) mainly due to higher bank lending (RM20.4 billion) to the private sector supported by low interest rates and ample liquidity. Government spending (RM11.4 billion) and net foreign assets (RM10.5 billion) were also expansionary on M3.

TABLE 5.1

Determinants of M3 January – July

	Change (RM million)	
	2008	2009
M3	79,955.5	29,060.9
Net claims on Government	4,340.3	11,416.3
Claims on private sector	51,641.3	22,261.4
Loans	47,840.8	20,434.6
Securities	3,800.5	1,826.8
Net foreign assets	48,756.5	10,530.5
Bank Negara Malaysia	72,829.7	4,032.0
Banking system	-24,073.2	6,498.5
Other influences	-24,782.6	-15,147.3

Source: Bank Negara Malaysia.

Interest rates remain low...

Following reductions in the OPR in January and February 2009, the average base lending rate (BLR) of commercial banks fell to 5.89% in February 2009 and further eased to 5.53% in March. With the OPR at 2.00% since 24 February 2009, the BLR also remained unchanged at 5.53%. Increased competition among banking institutions in an environment of ample liquidity led to the average lending rate (ALR) trending downward. The ALR has since declined 90 bps to a historic low of 4.96% in July 2009 (December 2008: 5.86%). Similarly, rates on fixed deposits (FDs) of 1-month to 12-month maturities eased to between 2.02% and 2.52% in July 2009 (December 2008: 3.01%; 3.50%). With inflation abating to -2.4% in August 2009, the real returns on FDs for all maturities have risen.

Resilient private financing...

Gross private sector financing through the banking system and capital market was sustained at RM404.9 billion in the first seven months of 2009 (January – July 2008: RM400.5 billion). Loan disbursements declined 2.4% to RM362.9 billion (January – July 2008: 19.4%; RM371.7 billion) on account of slower disbursements to the business sector. However, higher issuance of private debt securities (PDS) at RM30.3 billion (January – July 2008: RM24.7 billion) and strong expansion in equity issuance totalling RM11.7 billion (January – July 2008: RM4.1 billion) helped to offset slower loan disbursements. Fund raising in the equity market was dominated by rights issues amounting to RM11.3 billion.

Loan performance of the banking system moderated during the period January – July 2009, mainly due to the decline in business loans. **Total loan approvals and disbursements** declined 8.4% and 2.4%, respectively (January – July 2008: 25.6%; 19.4%). However, **total loan applications** increased 5.7% (January – July 2008: 26.8%) supported by the rebound in business loan applications since May 2009. **Total loans outstanding** grew 8.4% to RM752.5 billion as at end-July 2009 (end-2008: 12.8%; RM726.5 billion).

Business loan applications, approvals and disbursements declined 0.2%, 19.7% and 7.2%, respectively in the first seven months of 2009 (January – July 2008: 1.5%; -7.7%; 13.9%). The bulk of loans disbursed were mainly for working capital amounting to RM195.1 billion or 53.8% of total loans (January – July 2008: RM209.1 billion; 56.3%). Manufacturing accounted for 20.0% of total loan disbursements; wholesale and retail

trade, accommodation and restaurants 16.4%; finance, insurance and business activities 7.1%; and construction 5.9%.

Loan applications, approvals and disbursements to SMEs by the banking system declined 8.1%, 29.5% and 13.7%, respectively in the first seven months of 2009 (January – July 2008: 15.2%; 12.9%; 19.3%). The five special SME funds administered by BNM including the RM200 million Micro Enterprise Fund set up in November 2008, were well utilised at 88.6% as at end-July 2009 (end-2008: 90.3%).

In February 2009, BNM launched a RM2 billion SME Assistance Guarantee Scheme to ensure access to financing for viable SMEs. Another major step towards further developing SMEs was the transformation of the Small and Medium Industries Development Corporation (SMIDEC) into SME Corp, a one-stop centre for better coordination of initiatives. Efforts were taken to rationalise 79 Government SME funds to 33 funds to improve the financing mechanism.

Micro financing by nine participating financial institutions (comprising six banking institutions and three development financial institutions) grew strongly in line with efforts to promote financial inclusion. Total loans outstanding increased 44.8% to RM587.5 million as at end-August 2009 (end-2008: 113.0%; RM478.0 million), benefiting 54,900 clients.

Household loan applications, approvals and disbursements increased 11.7%, 3.4% and 9.5%, respectively in the first seven months of 2009 (January – July 2008: 36.1%; 37.4%; 13.7%), supported by low interest rates as well as improving labour market conditions and consumer sentiment. Household loan disbursements amounted to RM118.1 billion or 32.5% of total disbursements, mostly for consumption credit at RM54.3 billion and purchase of residential properties at RM31.8 billion.

Transactions using **credit cards** expanded further by 6.0% to RM38.9 billion in the first seven

TABLE 5.2

**Banking System: Loan Indicators
January – July**

Indicator	RM billion		Annual change (%)	
	2008	2009	2008	2009
Total¹				
Loan applications	281.6	297.7	26.8	5.7
Loan approvals	178.2	163.2	25.6	-8.4
Loan disbursements	371.7	362.9	19.4	-2.4
Loans outstanding ²	694.5	752.5	9.9	8.4
Businesses				
Loan applications	140.4	140.1	1.5	-0.2
Loan approvals	90.6	72.8	-7.7	-19.7
Loan disbursements	263.8	244.8	13.9	-7.2
Loans outstanding ²	287.5	296.8	9.3	3.2
of which:				
SMEs				
Loan applications	61.5	56.5	15.2	-8.1
Loan approvals	34.5	24.3	12.9	-29.5
Loan disbursements	95.0	82.1	19.3	-13.7
Loans outstanding ²	123.3	119.4	12.4	-3.1
Households				
Loan applications	141.2	157.7	36.1	11.7
Loan approvals	87.5	90.5	37.4	3.4
Loan disbursements	107.9	118.1	13.7	9.5
Loans outstanding ²	377.3	411.3	9.3	9.0

¹ Total sectors including other sectors (foreign entity, other domestic entity, Government and others).

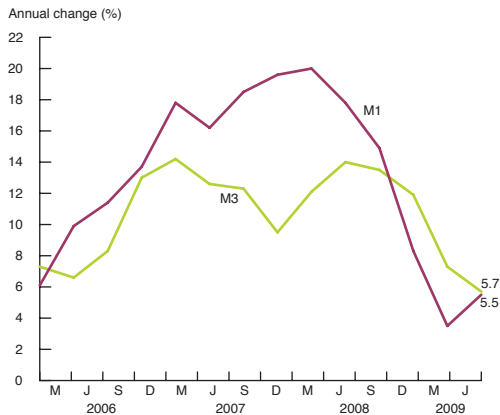
² Outstanding loans as at end-period.

Source: Bank Negara Malaysia.



CHART 5.1

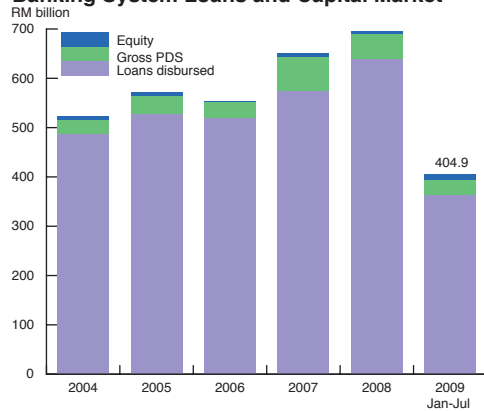
Monetary Aggregates



Source: Bank Negara Malaysia.

CHART 5.2

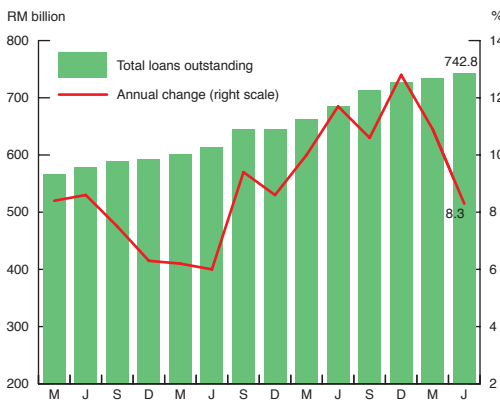
Gross Private Sector Financing Through Banking System Loans and Capital Market



Source: Bank Negara Malaysia.

CHART 5.3

Banking System: Total Loans Outstanding¹





months of 2009 (January – July 2008: 18.2%; RM36.7 billion). The bulk of transactions were for purchases amounting to RM37.0 billion or 95.1% of the total. Credit cards in circulation rose 4.9% to 11.0 million as at end-July 2009 (end-2008: 11.4%; 10.5 million). Individuals with credit card related debts seeking the services of the Credit Counselling and Debt Management

Agency (CCDMA) under BNM increased 38.6% to 7,492 and accounted for 74.0% of total cases under the Debt Management Programme (January – July 2008: 75.9%; 5,406 cases; 78.0%). The tiered interest rates were reduced from 15.0% – 18.0% to 13.5% – 17.5% in March 2009 to help ease the financial burden of credit card holders.

TABLE 5.3

Loans by Sector

	Loans disbursed				Loans outstanding			
	Jan - July 2008 RM billion	Share (%)	Jan - July 2009 RM billion	Share (%)	End-2008 RM billion	Share (%)	End-July 2009 RM billion	Share (%)
Business enterprises	263.8	71.0	244.8	67.5	295.7	40.7	296.7	39.4
Large corporations ¹	168.8	45.4	162.8	44.9	170.9	23.5	177.3	23.6
SMEs	95.0	25.6	82.0	22.6	124.8	17.2	119.4	15.9
Selected sectors								
Primary agriculture	9.5	2.6	10.9	3.0	15.9	2.2	17.4	2.3
Mining and quarrying	1.5	0.4	1.5	0.4	1.9	0.3	2.4	0.3
Manufacturing (including agro-based)	90.2	24.3	72.6	20.0	81.0	11.1	73.9	9.8
Electricity, gas and water supply	1.4	0.4	3.9	1.1	4.5	0.6	6.8	0.9
Wholesale and retail trade, accommodation and restaurants	66.2	17.8	59.5	16.4	61.5	8.5	59.9	8.0
Construction	21.2	5.7	21.5	5.9	34.3	4.7	35.3	4.7
Real estate	9.3	2.5	11.6	3.2	25.4	3.5	28.8	3.8
Transport, storage and communication	7.8	2.1	12.6	3.5	21.6	3.0	21.5	2.9
Finance, insurance and business activities	34.2	9.2	25.7	7.1	23.3	3.2	24.5	3.3
Households	107.9	29.0	118.1	32.5	393.0	54.1	411.3	54.7
Purchase of residential properties	26.6	7.2	29.4	8.1	184.9	25.5	193.1	25.7
Purchase of passenger cars	21.1	5.7	18.9	5.2	99.8	13.7	102.4	13.6
Consumption credit ²	48.2	13.0	54.3	15.0	55.9	7.7	58.6	7.8
of which:								
Credit cards	33.9	9.1	38.8	10.7	24.7	3.4	24.5	3.3
Other sectors	-	-	-	-	37.9	5.2	44.5	5.9
Total³	371.7	100.0	362.9	100.0	726.5	100.0	752.5	100.0

¹ Large corporations include other sectors (foreign entity, other domestic entity, Government and others).

² Consumption credit = Credit cards + Personal use + Consumer durables.

³ Total = Business + Households + Other sectors.

Note: Total may not add up due to rounding.

Source: Bank Negara Malaysia.



Update on Guarantee Schemes

Two loan guarantee schemes were announced under the Second Economic Stimulus Package in March 2009 aimed at helping companies gain access to financing. The guarantee schemes are the RM5 billion **Working Capital Guarantee Scheme (WCGS)** and the RM5 billion **Industry Restructuring Financing Guarantee Scheme (IRFGS)**. The WCGS and IRFGS are administered by *Syarikat Jaminan Pembiayaan Perniagaan Berhad (SJPP)*, a company wholly-owned by Minister of Finance Incorporated. The two schemes were established in March 2009 and will be available until December 2010 or until fully utilised, whichever is earlier.

WCGS

- To help viable companies obtain working capital financing from financial institutions (FIs);
- Open to companies with shareholder equity less than RM20 million;
- The Government will provide 80% guarantee of the financing amount and the FIs 20%;
- Financing offered is between RM50,000 and RM10 million with repayment period up to five years; and
- The guarantee fee is at 0.5% per annum payable upfront, based on the coverage period.

As the WCGS was almost fully utilised, the Government increased the guarantee limit of the WCGS to RM7 billion and reduced the IRFGS to RM3 billion on 7 September 2009. As of 30 September 2009, a total of 4,358 applications worth RM5.7 billion were approved.

IRFGS

- A facility by FIs to finance capital expenditure for high value-added activities and to promote greater use of green technology;
- The Government provides 80% guarantee for companies with shareholder equity less than RM20 million and 50% guarantee for companies with shareholder equity more than RM20 million;
- Financing ranges from RM50,000 to RM50 million for a period up to 10 years; and
- The guarantee fee is at 0.5% per annum payable upfront, based on the coverage period.

The IRFGS facility drew less response with only RM429.3 million loans approved to 133 companies as of 30 September 2009.

[Loan performance moderated in August 2009 with total applications, approvals and disbursements of the banking system declining 16.8%, 21.1% and 7.0%, respectively, weighed down by the business sector. Loan demand by households remained strong with loan applications, approvals and disbursements increasing 30.2%, 21.6% and 21.9%, respectively]

Ringgit strengthens against greenback...

During the first half of 2009, the **ringgit** depreciated against major and regional currencies on account of export contraction and capital outflows. Exports shrank 23.4%, while net outflows of portfolio investment amounted to RM22.1 billion (January – June 2008: 15.5%; +RM4.1 billion). The ringgit depreciated 1.7% against the United States (US) dollar to RM3.5225 as at end-June 2009 (end-2008: RM3.4640) and eased between 0.1% and 8.4% against regional currencies. In the first quarter, the ringgit depreciated 5.0% against the dollar, as the greenback strengthened against most regional currencies on deleveraging activities. In the second quarter, the ringgit appreciated 3.5% against the dollar on increased investor risk appetite for higher yielding assets following signs of stabilisation in the global economy.

From 1 July to 14 October 2009, the performance of the ringgit was mixed against major and regional currencies. The ringgit appreciated 4.4% against the US dollar and 9.0% against the pound sterling, but depreciated 3.1% against the yen and 1.0% against the euro.

Financial Sector Developments

Banking system remains strong...

The **banking system** remains resilient and sound with strong capitalisation and sustained asset quality. The risk-weighted capital ratio (RWCR) and core capital ratio (CCR) improved to 14.3% and 12.7%, respectively as at end-July 2009 (end-2008: 12.6%; 10.6%). Pre-tax profits of the banking system declined 25.4% to



RM8.4 billion in the first seven months of 2009 (January – July 2008: 17.3%; RM11.3 billion), attributed to a one-off provisioning adjustment by a large banking institution in accordance with its financial year end. Overall, core income sources from financing activities, cross-selling of bancassurance and wealth management services as well as treasury activities remained stable.

The asset quality of the banking system was sustained with net non-performing loans (NPLs) declining 5.1% to RM15.1 billion as at end-July 2009 (end-2008: RM15.9 billion) due to higher recoveries and reclassification to performing loans. The 3-month net NPLs ratio further improved to 2.1% as at end-July 2009 after holding steady at 2.2% since December 2008. As for NPLs of commercial banks, households accounted for RM15.8 billion or 48.6% of total gross NPLs as at end-June 2009, followed by manufacturing (RM5.7 billion; 17.6%) and construction (RM3.1 billion; 9.7%).

Update on Corporate Debt Restructuring Committee

The **Corporate Debt Restructuring Committee (CDRC)** was first established during the Asian financial crisis 1997/1998 to assist companies with debt problems. CDRC provided a platform for companies to work out debt restructuring schemes without resorting to legal proceedings. CDRC successfully resolved 57 cases totalling RM45.8 billion and ceased operations on 15 August 2002.

The CDRC was reactivated as a pre-emptive measure to help distressed companies during the current economic downturn. With the recommencement of CDRC's operations on 23 July 2009, companies now have a platform to resolve their debts with creditors. As at end-September 2009, CDRC received applications from three companies with debts amounting to RM478.7 million and preliminary enquiry from a company with debt of RM188.3 million. The small number indicates the corporate sector is in a healthier position than during the Asian financial crisis.

FSMP draws to a close...

The financial sector has undergone significant transformation since the Asian financial crisis and has emerged stronger, resilient and more diversified. The **Financial Sector Masterplan (FSMP)**, which was released in 2001, charted the transformation process that has been undertaken in terms of capacity building and reforms in the regulatory and institutional frameworks. The strengthened financial sector is well-positioned to contribute meaningfully to the economy. Over the years, the contribution of the financial sector to Gross Domestic Product (GDP) has grown from 9.2% in 2000 to 11.0% in 2008, a level comparable to developed countries.

Given the global and domestic forces of change that present significant opportunities for the Malaysian financial sector and with the FSMP reaching a close in 2010, BNM is now in the midst of formulating a new blueprint to position the financial sector to support and contribute meaningfully to Malaysia's economic transformation process. The blueprint aims to enhance the role of the financial sector as an enabler, catalyst and driver of economic growth. This will be underpinned by the objective of promoting Malaysia's socio-economic development as well as the need to preserve financial soundness and stability.

Strong performance of DFIs...

Loans outstanding of **development financial institutions (DFIs)** expanded 11.5% to RM83.8 billion as at end-July 2009 (end-2008: RM75.1 billion), mainly for consumption credit, construction, agriculture and SMEs. Loans to the manufacturing sector declined 7.1% to RM5.4 billion (end-2008: RM5.8 billion), particularly for export-oriented industries. Consumption credit, mainly extended by *Bank Kerjasama Rakyat Malaysia Berhad* (Bank Rakyat) and *Bank Simpanan Nasional* (BSN), registered strong growth of 15.1% to RM36.0 billion, especially for personal financing. Lending for the agriculture sector, mainly by Agrobank expanded 23.9% to RM6.2 billion. *Bank Pembangunan Malaysia*



Financial Liberalisation

Financial liberalisation is consistent with the objectives under the Financial Sector Masterplan (2001-2010) to develop a resilient, efficient and competitive financial sector. Liberalisation of the financial services sector has been undertaken gradually to ensure domestic players are well prepared to compete in a more challenging environment. On 27 April 2009, further liberalisation measures were announced:

- **Issuance of new licences**
 - Two commercial banking licences will be offered in 2009 to foreign financial institutions specialised in supporting development of targeted economic sectors;
 - Two Islamic banking licences will be offered in 2009 to foreign players with a minimum paid-up capital of USD1 billion;
 - Two family *takaful* licences will be granted in 2009 for operators with minimum paid-up capital of RM100 million; and
 - Three commercial banking licences will be offered in 2011 to world-class banks.
- **Increase in foreign equity limit with immediate effect**
 - From 49% up to 70% for existing domestic Islamic banks, investment banks as well as insurance companies and *takaful* operators; and
 - A higher foreign equity limit beyond 70% can be considered on a case-by-case basis for insurance players who can facilitate consolidation and rationalisation of the industry.
- **Greater operational flexibilities with immediate effect**
 - Locally-incorporated foreign commercial banks are allowed to establish up to 10 microfinance branches;
 - Locally-incorporated foreign commercial banks are allowed to establish up to four new branches in 2010;
 - Locally-incorporated foreign insurance companies and *takaful* operators are allowed to establish branches nationwide without restriction;
 - Locally-incorporated foreign insurance companies and *takaful* operators can enter into bancassurance/*bancatakaful* arrangements with banking institutions without restrictions;
 - Greater flexibility to banking institutions, insurance companies and *takaful* operators to employ specialist expatriates; and
 - Flexibility to offshore banking institutions licensed by the Labuan Offshore Financial Services Authority (LOFSA) that meet the predetermined criteria to have a physical presence onshore in 2010 and for insurance companies in 2011.

Further liberalisation measures announced at Invest Malaysia 2009 Conference on 30 June include:

- **Foreign equity limit**
 - Allowing 100% foreign equity for qualified and leading fund management companies to establish operations in Malaysia;
 - Raising foreign equity from 49% to 70% for unit trust management companies; and
 - Raising foreign equity in existing stock broking companies from 49% to 70%.
- **Foreign talent**
 - *Bank Negara Malaysia* and the Securities Commission will review visa applications for foreign talent in the financial services and capital market industries to fast-track the recruitment process.
- **Foreign Investment Committee (FIC) guidelines**
 - Repealing the FIC guidelines on acquisition of equity stakes, mergers and takeovers; and
 - Removing the *Bumiputera* equity condition for companies seeking listing and post-listing fund raising exercises.
- **Private equity fund**
 - Establishing *Ekuiti Nasional Berhad* (Ekuinas), a private equity fund to enhance effective *Bumiputera* participation through investment in sectors with high growth potential. Ekuinas was established with an initial fund of RM500 million, which will subsequently be enlarged up to RM10 billion.

Berhad (BPMB) continued to support the development of strategic sectors with loans for infrastructure, maritime and high technology-based industries at RM17.8 billion, RM1.9 billion and RM1.1 billion, respectively as at end-July 2009. Loans extended by DFIs to SMEs rose 24.8% to RM18.6 billion as at end-July 2009 (end-2008: RM14.9 billion). Deposits mobilised by the DFIs and borrowings from the Government remained the major source of funding, accounting for about 68% of total resources.

Several guidelines were introduced by BNM in the first seven months of 2009 to further strengthen the DFIs in serving targeted customers more effectively. These include best practices on management of credit risk as well as outsourcing non-core functions and provision of basic banking services at minimal costs. In addition, DFIs were required to assist borrowers in loan restructuring as well as focus on customer complaints and requests.

Insurance industry remains resilient...

The **insurance industry** remained sound and resilient in the first seven months of 2009, due to strong asset base, increased premium growth, sustained profitability and solvency levels. Combined premium income grew 1.9% to RM15.8 billion (January – July 2008: 6.3%; RM15.5 billion).

New business premiums of the **life insurance sector** declined 5.4% to RM4.0 billion (January – July 2008: -0.7%; RM4.3 billion) on lower sales of investment-linked products, which remained lacklustre since late 2008. Sales of investment-linked products fell 53.7% to RM784.1 million (January – July 2008: RM1.7 billion). Net premium income rose 0.9% to RM10.8 billion (January – July 2008: 4.1%; RM10.7 billion). Market penetration improved to 41.1% as at end-June 2009 (end-June 2008: 39.9%). In the **general insurance sector**, gross direct premiums expanded 5.5% to RM7.1 billion, driven by the

TABLE 5.4

Development Financial Institutions¹: Direction of Lending

Sector	RM million		Share (%)	
	End-2008	End-July 2009	End-2008	End-July 2009
Primary agriculture	4,977.8	6,165.1	6.6	7.4
Manufacturing	5,845.8	5,428.0	7.8	6.5
Wholesale and retail trade, accommodation and restaurants	1,539.7	1,962.0	2.0	2.3
Construction	9,634.4	12,189.4	12.8	14.6
Transport, storage and communication	5,466.9	6,084.5	7.3	7.3
Finance, insurance and business activities	1,029.9	1,209.7	1.4	1.4
Others	46,625.5	50,724.6	62.1	60.5
Total	75,120.1	83,763.2	100.0	100.0

¹ Refers to Bank Pembangunan Malaysia Berhad, Bank Kerjasama Rakyat Malaysia Berhad, Bank Simpanan Nasional, Export-Import Bank of Malaysia Berhad, Agrobank, Bank Perusahaan Kecil & Sederhana Malaysia Berhad (SME Bank), Malaysian Industrial Development Finance Berhad, Sabah Development Bank Berhad, Borneo Development Corporation (Sabah) Sendirian Berhad, Borneo Development Corporation (Sarawak) Sendirian Berhad, Credit Guarantee Corporation Malaysia Berhad, Sabah Credit Corporation and Lembaga Tabung Haji.

Source: Bank Negara Malaysia.



TABLE 5.5

Life and General Insurance Business

	2008	Jan-July 2009
Life Insurance (RM million)		
New business:		
Number of policies ('000 units)	1,585.8	795.1
Sums insured	219,166.9	149,876.7
Total premiums	7,234.7	4,043.5
Business in force		
Number of policies ('000 units)	11,522.2	11,627.3 ¹
Sums insured	771,274.8	757,123.1 ¹
Annual premiums	15,446.4	16,468.1 ¹
Premium income	18,609.1	10,759.7
Benefit payments	9,946.3	6,464.1
General insurance (RM million)		
Premium income:		
Gross direct premiums	10,547.9	7,142.6
Net premiums	9,066.7	5,042.8
Reinsurance placed outside Malaysia	436.1	258.6 ¹
Retention ratio ² (%)	71.6	70.6
Number of insurance companies		
Direct	42	40
Life	9	9
General	26	24
Composite	7	7
Reinsurance:	7	7
Life	1	1
General	5	5
Composite	1	1

¹ As at end-June 2009.² Net premiums to gross direct and reinsurance accepted premiums less reinsurance within Malaysia.

Source: Bank Negara Malaysia.

increase in fire, motor and miscellaneous insurance business. Motor insurance is the largest business in the general insurance sector, accounting for 42.8% of total gross premiums.

Asset base of the insurance industry grew 12.4% to RM141.3 billion (January – July 2008: 9.6%; RM125.8 billion). Liquid assets amounted to RM41.7 billion or 29.5% of total assets, sufficient to cover claims and benefits totalling RM9.8 billion as at end-July 2009. Asset allocation remained concentrated on corporate debt securities and Government securities, accounting for 52.7% of total assets (end-July 2008: 51.7%).

Capital adequacy ratio of the insurance industry remained strong at 214.8% as at end-June 2009 (end-March 2009: 211.3%). Profitability of life insurance business improved with excess of income over outgo at RM6.0 billion (January – July 2008: RM5.2 billion). General insurance business recorded an underwriting loss of RM180.5 million (January – July 2008: -RM281.0 million). The improvement in underwriting loss was due to higher earned premium income at 3.2% and reduction of 1.8% in management expenses. The general insurance sector reported healthy operating profit of RM436.0 million (January – July 2008: RM107.7 million), mainly due to unrealised gains of investment activities.

The Risk Based Capital (RBC) Framework was implemented on 1 January 2009 to bring greater alignment between business strategy and risk as well as strengthen incentives for improvements in risk management practices. Meanwhile, consolidation efforts over the years led to insurance companies decreasing from 56 as at end-1999 to 40 as at end-July 2009. The liberalisation measures announced in April 2009 are expected to drive greater consolidation and higher strategic tie-ups of domestic insurers with foreign insurance companies.

Islamic Finance Developments

Robust Islamic finance...

Efforts continue to be taken to strengthen Malaysia as an International Islamic Financial Centre (MIFC). These include promotional

TABLE 5.6
Assets of Life and General Insurance Funds

(RM million)

	Life Insurance		General Insurance	
	2008	Jan-July 2009	2008	Jan-July 2009
Property, plant and equipment	496.9	1,601.2	750.1	692.7
Loans	12,007.9	11,853.9	183.3	173.5
Investments	76,275.0	86,099.0	11,136.7	10,011.9
Government securities	18,315.6	18,214.2	4,310.3	3,012.0
Corporate and debt securities	56,044.4	65,439.5	6,450.0	6,368.0
Others	1,915.0	2,445.3	376.3	632.0
Investment properties	3,614.2	2,508.7	240.8	148.6
Cash and deposits	13,001.1	13,517.2	8,011.3	6,944.9
Foreign assets	1,521.6	2,803.0	497.0	681.9
Other assets	2,514.3	2,082.1	2,192.1	2,217.7
Total	109,431.1	120,465.2	23,011.4	20,871.3

Source: Bank Negara Malaysia.

activities, branding, *sukuk* issuance, product innovation, standardisation of documentation as well as harmonisation efforts towards understanding and interpretation of Islamic financial products and services. MIFC promotional activities focused on attracting potential *sukuk* issuers and global players from established financial centres in Europe, Asia and the Middle East. These include international road shows, advertisements through the mass media and branding. The brand “Shaping Islamic Finance Together” launched in October 2009 reflects Malaysia’s position of being at the frontier in the development of Islamic finance and in thought leadership.

The Islamic finance industry was not spared from the global economic downturn, which saw *sukuk* issuance declining 57.1% to USD15.0 billion in 2008 (2007: USD35.0 billion). Despite this, a landmark issuance of USD3.0 billion bond and USD1.5 billion *sukuk* by *Petroleum Nasional Berhad* (PETRONAS) in August 2009 received overwhelming response. It is the largest USD issuance by an Asian entity this year, excluding Japan. The issuance was designated as “*Emas*”

to create a distinct identity for foreign currency denominated bond issuance out of Malaysia, thereby providing greater visibility to the domestic capital market for the raising of funds by local and foreign corporations.

Another initiative was the launch of *Bursa Suq Al-Sila’*, formerly known as Bursa Commodity *Murabahah* House in August 2009, the world’s first *Syariah*-compliant commodity trading platform, using crude palm oil (CPO) as the underlying commodity. The platform will further enhance liquidity management for Islamic financial institutions. On 15 September 2009, *Bursa Suq Al-Sila’* achieved a milestone with its first international transaction.

Malaysia pursued strategic collaboration in Islamic finance with key financial centres and international institutions to further enhance international linkages. This resulted in BNM signing memorandums of understanding (MoUs) with the United Kingdom Trade and Investment, Dubai Financial Services Authority, Qatar Financial Centre Regulatory Authority and Central Bank of Bahrain.



BNM is developing *Syariah* parameters to promote consistent application of Islamic financial contracts. Six contracts were identified, namely *Murabahah*, *Ijarah*, *Mudharabah*, *Musharakah*, *Istina'* and *Wadiah*. The issuance of *Syariah* parameters will add greater clarity as well as harmonise interpretation and understanding of products and services. This will facilitate wider acceptance of Islamic finance and greater cross border transactions. The first *Syariah* parameter on *Murabahah* contract was issued on 28 August 2009.

Islamic banking expands...

The **Islamic banking system** inclusive of DFIs continued to improve in terms of market share in assets, deposits and lending in the first seven months of 2009. Assets grew 11.1% to RM279.1 billion (end-2008: RM251.1 billion) and accounted for 18.9% of total assets of banking system. Deposits increased RM24.0 billion to RM218.5 billion, representing 20.4% of total deposits in the banking system (end-2008: RM194.5 billion). Financing expanded 12.4% to RM169.2 billion, constituting 20.2% of total banking system loans (end-2008: RM150.5 billion). Financing continued to be dominated by the household sector, which accounted for 61.7% or RM104.4 billion of total financing (end-2008: RM90.9 billion).

Vibrant takaful industry...

The **takaful industry** experienced rapid growth averaging 24.8% annually from 2001 to 2008, with assets accounting for 7.5% or RM11.5 billion of total insurance assets as at end-June 2009 (end-June 2008: 6.9%). Net contributions for family and general *takaful* grew 21.4% to RM1.7 billion (January – June 2008: 22.7%; RM1.4 billion).

New business contributions for **family takaful** expanded 6.5% to RM1.1 billion, mainly attributed to the increase in ordinary family business. The profit level for family *takaful* rose 28.6% to RM871.9 million (January – June 2008: 35.7%;

TABLE 5.7

Islamic Banking: Key Indicators

	RM million		Change (%)
	End-2008	End-July 2009	
Assets	251,133	279,068	11.1
Deposits	194,545	218,515	12.3
of which:			
Investment	104,400	125,840	20.5
Savings	18,390	20,146	9.5
Demand	26,655	27,212	2.1
Others	45,100	45,317	0.5
Financing	150,501	169,168	12.4
of which:			
Primary agriculture	6,459	6,724	4.1
Manufacturing (including agro-based)	11,094	10,643	-4.1
Wholesale and retail trade accommodation and restaurants	6,484	6,151	-5.1
Finance, insurance and business activities	6,640	8,237	24.1
Households	90,946	104,367	14.8

Source: Bank Negara Malaysia.

RM678.1 million), in tandem with the robust expansion of the industry. Market penetration improved to 5.0% as at end-June 2009 (end-June 2008: 4.2%). Gross direct contributions for **general takaful** grew 26.4% to RM512.3 million (January – June 2008: -11.2%; RM405.4 million) due to increased demand in fire and motor coverage. Operating profit declined 27.5% to RM78.5 million (January – June 2008: RM108.3 million), due primarily to higher investments writedown and claims.



TABLE 5.8

Family and General *Takaful* Business

	2008	Jan-Jun 2009
Assets¹ (RM million)	10,622.7	11,466.5
Fixed assets	11.4	10.8
Financing	65.8	65.0
Investment	6,093.8	7,298.2
Government securities	855.7	1,152.4
Islamic debt securities	4,361.3	5,099.4
Other Investment	941.1	1,077.4
Investment properties	263.2	303.8
Cash and deposits	3,590.5	3,190.7
Others	569.5	564.6
Family <i>takaful</i>		
New business:		
Total contributions (RM million)	1,981.7	1,069.0
Sums covered (RM million)	95,209.2	115,279.0
Number of certificates	480,235	304,029
Business in force:		
Annual contributions ² (RM million)	1,269.2	1,401.4
Sums covered (RM million)	204,576.2	267,404.5
Number of certificates	2,181,477	2,383,572
General <i>takaful</i>		
Gross direct contributions (RM million)	869.4	512.3
Net contributions (RM million)	652.1	388.5

¹ Asset funds include family *takaful*, general *takaful* and shareholders' funds.

² Annual contributions reported as annual numbers only.

Note: Total may not add up due to rounding.
Source: Bank Negara Malaysia.

raised expanded more than two-fold to RM68.4 billion (January – July 2008: RM31.8 billion), with the public sector accounting for RM45.0 billion and the private sector RM23.4 billion.

The issuance of Government securities grew 109.3% to RM66.3 billion (January – July 2008: 6.1%; RM31.7 billion), in line with the Government's expansionary fiscal policy. Funds raised included the RM5 billion *Sukuk Simpanan Rakyat 2009*, a 3-year savings instrument with an annual return of 5.0%.

New PDS issuance by the private sector rose 1.5% to RM31.8 billion (January – July 2008: 1.7%; RM31.3 billion) while funds raised in the equity market expanded nearly three-fold to RM11.7 billion (January – July 2008: 54.7%; RM4.1 billion). Islamic bonds remained a key segment of the PDS market, with Islamic medium-term notes and *sukuk* comprising 53.0% of total bonds issued as at end-July 2009. Fund raising by the private sector picked up in the second quarter in tandem with improving business sentiment. During the quarter, PDS issuance expanded 109.0% to RM19.3 billion (Q1 2009: RM9.3 billion) while equity issuance rose sharply to RM11.5 billion (Q1 2009: RM0.1 billion).

The large PDS issuers included a federal-owned sovereign wealth fund company, a special-purpose vehicle for a government-linked entity, a diversified holding company as well as several financial institutions. There were two non-resident firms, which raised PDS worth RM1.3 billion. The sharp increase in funds raised in the equity market was due to two large rights issues totalling RM11.3 billion by a telecommunications and a finance corporation. The finance, insurance, real estate and business services sector accounted for RM14.7 billion or 48.5% of total PDS issuances. Funds raised were mainly for working capital and general business activities.

During January – July 2009, sovereign yields were mainly driven by concerns over the larger supply of Government securities. The rising trend in Malaysian Government Securities (MGS) yields was more prominent on securities with long tenure as most investors shifted their demand towards

Capital Market Developments

Strong fund raising...

Gross funds raised in the capital market increased 63.7% to RM109.7 billion during the first seven months of 2009 (January – July 2008: 3.1%; RM67.0 billion). After redemptions, net funds



TABLE 5.9

Funds Raised in the Capital Market January – July

(RM million)

	2008	2009
By Public Sector		
Government securities		
Malaysian Government Securities	24,670	38,258
Khazanah Bonds	-	-
Government Investment Issues	5,500	21,000
Merdeka Savings Bond	1,483	2,000
Sukuk Simpanan Rakyat	-	5,000
New issues of Government securities	31,653	66,258
Less: Redemptions	15,654	21,214
Net funds raised	15,998	45,044
By Private Sector		
Shares¹/Warrants		
Initial public offers	704	256
Rights issues	2,845	11,316
Private placements/ Restricted offer-for-sale	247	144
Special issues	-	-
Warrants	298	-
New issues of shares/ warrants	4,093	11,716
Debt securities²		
Straight bonds	10,419	6,815
Convertible bonds	205	80
Islamic bonds	5,059	1,811
Asset-backed bonds	1,200	97
Bonds with warrants	-	-
Medium-term notes	14,398	22,962
Cagamas bonds	-	-
New issues of debt securities	31,281	31,764
Less: Redemptions³	19,619	20,110
Net issues of debt securities	11,662	11,654
Net funds raised	15,755	23,370
Total net funds raised	31,753	68,414

¹ Excludes funds raised by the exercise of Employees Share Option Scheme, Transferable Subscription Rights and Irredeemable Convertible Unsecured Loan Stocks.

² Including private debt securities issued by non-resident corporations.

³ Includes straight bonds, bond with warrants, convertible bonds and Islamic bonds.

Source: Bank Negara Malaysia.

short-term securities. Throughout the period, pressures for higher MGS yields were mitigated to some extent by reductions in the OPR and moderating inflation. Between January and July 2009, the 5-year and 10-year MGS yields rose 87.1 bps and 117.1 bps, respectively (January – July 2008: 23.5 bps; 65.8 bps).

PDS yields were generally on the uptrend during the period, reflecting increasing credit risk premiums on investor concerns over credit conditions in the domestic bond market, slower economic growth and an increase in companies with rating downgrades or placed on watch list. This saw the widening of spreads for PDS yields for AAA credit rating and A1/A+ in the range of 67.3 bps to 271.9 bps over 5-year MGS as at end-July 2009 (end-2008: 148.1 bps; 354.2 bps). The increase in yields was more significant on lower rated securities but began to moderate towards end-July 2009 as sentiment in the PDS market improved.

TABLE 5.10

New Issues of PDS by Sector¹ January – July

Sector	2008		2009	
	RM million	Share (%)	RM million	Share (%)
Agriculture, forestry and fishing	-	-	268	0.9
Manufacturing	120	0.5	5	0.0
Construction	4,810	19.5	1,731	5.7
Electricity, gas and water	2,536	10.3	400	1.3
Transport, storage and communication	5,585	22.6	2,875	9.5
Finance, insurance, real estate and business services	11,258	45.6	14,659	48.5
Government and other services	230	0.9	10,191	33.7
Wholesale and retail trade, accommodation and restaurants	163	0.7	115	0.4
Total	24,701	100.0	30,244	100.0

¹ Excluding private debt securities issued by Cagamas and non-resident corporations.

Source: Bank Negara Malaysia.

Update on *Danajamin Nasional Berhad*

Danajamin Nasional Berhad (Danajamin) was established in May 2009 as part of the stimulus package announced in March 2009. Licensed under the Insurance Act 1996, Danajamin is regulated and supervised by *Bank Negara Malaysia*. Danajamin is Malaysia's first Financial Guarantee Insurer with AAA rating. With a capital base of RM1 billion, Danajamin can underwrite policies of up to RM15 billion.

The Government set up Danajamin to facilitate capital raising by local companies that face difficulties to access the capital market under the current challenging conditions. Danajamin will guarantee corporate bonds and *sukuk* issued by companies with at least BBB rating. With the guarantee, the bond rating will be enhanced to AAA, thus enabling companies to have access to lower cost of funds. As of 30 September 2009, Danajamin received seven applications to guarantee RM1.7 billion bonds from the oil and gas, property and construction as well as financial services sectors.

FBM KLCI strengthens...

The **equity market** began 2009 on weak investor sentiment with the Kuala Lumpur Composite Index (KLCI) closing at a low of 838.39 points on 12 March 2009. Market sentiment improved in the second half of March, supported by firmer CPO prices and the announcement of the second stimulus package. The KLCI ended the first quarter at 872.55 points, gaining 4.1% since 12 March but easing 0.5% compared with 876.75 points as at end-2008.

Investor sentiment improved in the second quarter on optimism of a global and domestic economic recovery. The market responded positively to the announcement of liberalisation measures in the financial services sector and the deregulation of FIC guidelines. The KLCI surged 202.69 points or 23.2% to 1,075.24 points as at end-June 2009 (end-March 2009: 872.55 points). On 6 July 2009, the new FTSE *Bursa Malaysia* KLCI (FBM KLCI) comprising 30 largest companies

TABLE 5.11

Bursa Malaysia: Selected Indicators January – July

	2008	2009
Price indices¹		
Composite ²	876.75	1,174.90
FBMEMAS	5,726.46	7,919.79
FBM2BRD	4,007.31	5,291.32
FBM-MDQ	3,333.59	4,258.71
Total turnover³		
Volume (million units)	141,097.8	150,410.5
Value (RM million)	289,289.9	162,531.3
Average daily turnover		
Volume (million units)	575.9	1,037.3
Value (RM million)	1,180.8	1,120.9
Market capitalisation ¹ (RM billion)	663.8	885.8
Market capitalisation ¹ / GDP (%)	89.9	258.3 ⁴
Total no. of companies listed¹	977	957
Main Board	634	622
Second Board	221	218
MESDAQ Market	122	117
Market liquidity¹		
Turnover value/Market capitalisation (%)	43.6	18.3
Market concentration¹		
10 most highly capitalised stocks/market capitalisation (%)	48.5	38.1

¹ As at end period.

² Effective 6 July 2009, FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) replaced the Kuala Lumpur Composite Index (KLCI).

³ Based on market transactions only during period.

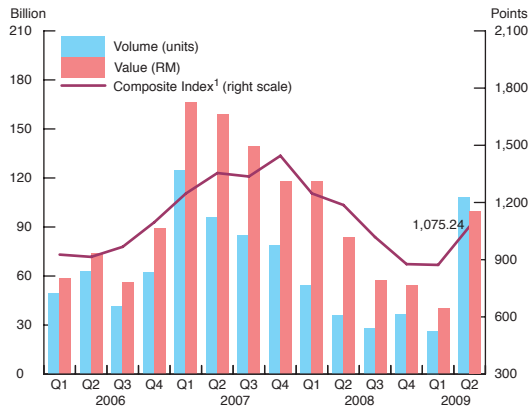
⁴ For the first half of 2009.

Source: Bursa Malaysia.



CHART 5.7

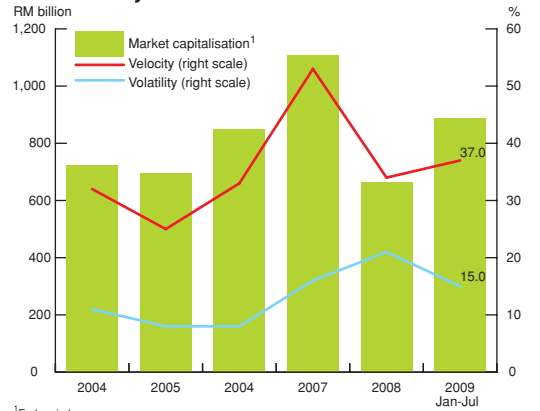
Performance of Bursa Malaysia



¹End-period.
Source: Bursa Malaysia.

CHART 5.8

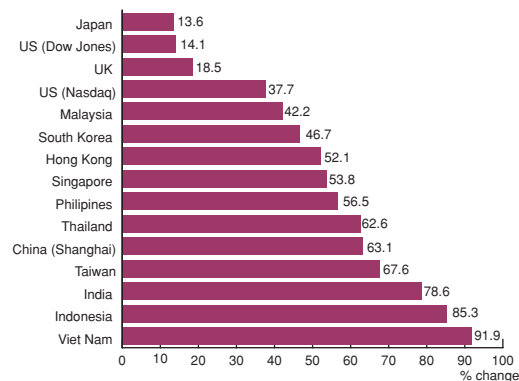
Bursa Malaysia: Market Capitalisation¹, Velocity and Volatility



¹End-period.
Source: Bursa Malaysia.

CHART 5.9

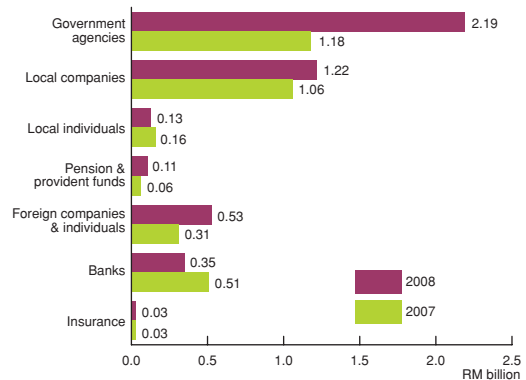
Performance of Selected Stock Markets (End-2008 – 14 October 2009)



Source: Bloomberg.

CHART 5.10

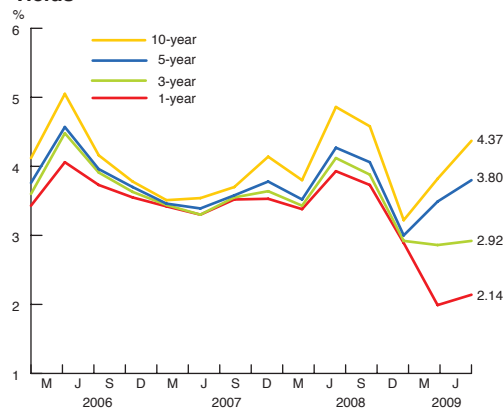
Source of Venture Capital Funds



Source: Securities Commission Malaysia.

CHART 5.11

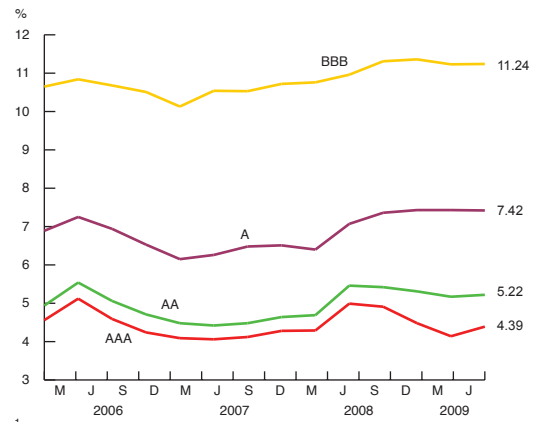
Malaysian Government Securities (MGS) Indicative Yields¹



¹End-period.
Source: Fully Automated System for Issuing/Tendering (FAST), Bank Negara Malaysia.

CHART 5.12

Private Debt Securities (PDS) 5-Year Yields¹



¹End-period.
Source: Fully Automated System for Issuing/Tendering (FAST), Bank Negara Malaysia.



in market capitalisation replaced the 100-component KLCI as the benchmark index. The FBM KLCI closed at 1,246.84 points on 14 October 2009, a new high for the year, with a gain of 370.09 points or 42.2% year-to-date. The performance of major and regional stock markets also improved year-to-date.

Total market transactions on *Bursa Malaysia* surged 63.7% to 150.4 billion units in the first seven months of 2009 (January – July 2008: 91.9 billion units). Average daily turnover increased 66.7% to one billion units (January – July 2008: 0.6 billion units). Total market transacted value, however, declined 20.9% to RM162.5 billion (January – July 2008: RM205.4 billion) while market capitalisation rose 33.4% to RM885.8 billion as at end-July 2009 (end-2008: RM663.8 billion). Improved market sentiment contributed to higher retail participation at 36.0% during the first seven months of 2009 compared with 24.0% for the whole of 2008. Market velocity was sustained at 37.0% while market volatility was lower at 15.0% (January – July 2008: 37.0%; 21.6%).

Fund raising through initial public offerings (IPOs) was lacklustre in the first seven months of 2009, with four domestic companies raising RM216.8 million. Funds raised from rights issues involved a larger amount of RM11.3 billion. Efforts to attract foreign listings saw two foreign firms listed on *Bursa Malaysia*. The total number of listed companies stood at 957 as at end-July 2009, among the highest in the region. During the period, although eight companies took their shares private, the impact was minimal with a reduction of about RM2.7 billion or 0.3% of total market capitalisation as at end-July 2009.

Among the initiatives introduced to ensure the Malaysian capital market remains an attractive platform for local and foreign companies was merging of the Main Board and Second Board into a single unified board known as the Main Market. The Malaysian Exchange of Securities Dealing and Automated Quotation

(MESDAQ) Market was transformed into an alternative market known as the Access, Certainty and Efficiency (ACE) Market. The *Bumiputera* equity condition for PLCs was also lifted.

On the regional front, five ASEAN exchanges from Malaysia, Indonesia, Philippines, Singapore and Thailand signed a MoU on 23 February 2009 to establish an ASEAN electronic trading link. The link through a single access point will allow intra-ASEAN cross border trading and attract international funds into ASEAN. On 15 September 2009, Viet Nam joined this regional pact. Meanwhile, Malaysia, Singapore and Thailand implemented the ASEAN and Plus Standards Scheme on 12 June 2009 to facilitate multi-jurisdictional offerings of equity and debt securities in the region.

CPO futures drive trading...

The **derivatives market** registered growth of 5.3% in trading to 3.8 million contracts during the first seven months of 2009 (January – July 2008: -3.3%; 3.6 million contracts). Turnover was dominated by CPO futures, accounting for 61.4% of the total, followed by FBM KLCI futures with 36.3%, while trading in other derivative instruments remained insignificant.

Trading volume of CPO futures surged 39.5% to 2.3 million contracts (January – July 2008: -3.0%; 1.7 million contracts) attributed to decreased production of palm oil following lower yield of fresh fruit bunches and replanting activity. In line with lower prices of crude oil in 2009, the benchmark 3-month CPO futures average price declined to RM2,177 per tonne (January – July 2008: RM3,484 per tonne). Market buying of FBM KLCI futures declined 23.6% to 1.4 million contracts (January – July 2008: -2.0%; 1.8 million contracts). This was in line with the lacklustre performance of the underlying KLCI in the first quarter, which improved in the second quarter.



Steady growth of unit trusts...

In the first seven months of 2009, the **unit trust industry** saw 26 new funds launched, bringing the total to 541 funds (end-2008: 532 funds). Accounts and units in circulation increased 8.0% and 10.8%, respectively (end-2008: 6.4%; 13.5%). In line with improved performance of the KLCI, total net asset value (NAV) of the unit trust industry rose 37.5% to RM179.4 billion and accounted for 20.3% of market capitalisation of *Bursa Malaysia* as at end-July 2009 (end-2008: -23.0%; RM130.4 billion; 19.7%).

Equity funds charted the highest sales at RM12.0 billion compared with bond and fixed income funds at RM653.0 million in the first

half of 2009. This was attributed to the sales of an additional 3.3 billion units of *Amanah Saham Malaysia* and 2.0 billion units of *Amanah Saham Wawasan 2020* in April 2009.

The first seven months of 2009 saw the launch of 17 new funds for investment in foreign markets, of which 10 funds had invested RM166.4 million. Despite the liberalisation allowing investment abroad up to 50% of NAV of resident funds since April 2007, the overseas investment by 192 funds is still small at 9.2% of the NAV of the industry or RM16.5 billion as at end-July 2009.

The **real estate investment trusts (REITs) industry** recorded creditable growth, with trading volume and value increasing 33.4% and 16.2% to 448.0 million units and RM418.0 million, respectively during the first seven months of 2009 (January – July 2008: 335.7 million units; RM359.8 million). Market capitalisation of REITs rose 14.1% to RM4.6 billion as at end-June 2009 (end-2008: RM4.0 billion).

TABLE 5.12

Unit Trust Industry: Selected Indicators

	End-2008	End-July 2009
Number of unit trust management companies	39	38
Number of unit trust funds ¹	532	541
Conventional	392	398
Islamic	140	143
Units in circulation (million)	236,392	261,912
Number of accounts (million)	13.05	14.09
Net asset value (NAV) (RM million)	130,436	179,398
Conventional	114,318	158,681
Islamic	16,118	20,717
NAV/Bursa Malaysia market capitalisation (%)	19.7	20.3

¹ Refers to funds already launched.

Source: Securities Commission Malaysia.

VC funds increase...

The **venture capital (VC) industry** remains an important alternative source of financing to the economy, especially to the information and communication technology and life sciences sectors. As at end-June 2009, there were 108 venture capital companies (VCCs) and venture capital management companies (VCMCs). Total committed funds for VC investment grew 38.0% to RM4.6 billion as at end-2008 (end-2007: RM3.3 billion), with Government agencies remaining the biggest source of VC funds at RM2.2 billion or 47.9% of total VC funds (end-2007: RM1.2 billion; 35.7%). Total VC investments rose 8.1% to RM1.9 billion in 2008 (2007: 54.0%; RM1.8 billion). The bulk of the RM477.0 million VC funds was invested in companies at the expansion and growth stage at 62.7%, while companies at the early stage accounted for 17.4%.



Key Capital Market Measures

Strengthening capital market...

Several measures were taken in the first nine months of 2009 to further enhance the capital market, which include:

Facilitating Access to Capital Market

- On 16 March, new measures were introduced to reduce time-to-market for companies to raise funds from the capital market, as follows:
 - Proposed revision to terms and conditions of bonds and *sukuk* no longer requires approval of the Securities Commission (SC);
 - Convertible and exchangeable bonds and *sukuk* are exempted from mandatory credit rating requirement;
 - Rights issues and issuance/offering of equity securities by unlisted public companies are exempted from obtaining SC's approval; and
 - The Malaysian Code on Take-overs and Mergers 1998 no longer applies to private limited companies.

Enhancing Market Liquidity and Efficiency

- On 8 May, the SC and *Bursa Malaysia* launched a new framework for listings and equity fund raising. This is aimed at facilitating efficient access to capital and investments as well as making *Bursa Malaysia* a more attractive platform for domestic and foreign companies. The new framework became effective on 3 August 2009, involving the following:
 - Merging of the Main Board and Second Board into a single board called the Main Market and transforming the Malaysian Exchange of Securities Dealing and Automated Quotation (MESDAQ) Market into the Access, Certainty and Efficiency (ACE) Market;
 - SC's approval is only required for initial public offerings, acquisitions via reverse take-overs and back-door listings, secondary and cross listings as well as transfers of listings from the ACE Market to the Main Market; and
 - Other equity-based corporate proposals such as acquisitions, disposals, placement of securities, rights offerings and issuance of warrants no longer require SC's approval.
- On 11 May, *Bursa Malaysia* announced the market making framework for exchange traded funds (ETFs) and Structured Warrants to improve liquidity in the equity market. The formalised market making framework replaces the voluntary market making practice in the market, as well as provides for the participation of foreign market makers.
- On 11 June, the revised Exchange Traded Funds Guidelines were issued to allow ETFs from recognised jurisdictions to be cross-listed on *Bursa Malaysia*.
- On 6 July, the FTSE *Bursa Malaysia* Kuala Lumpur Composite Index (FBM KLCI) comprising 30 largest companies in market capitalisation replaced the 100-component Kuala Lumpur Composite Index (KLCI) as the benchmark index.
- On 13 July, *Bursa Malaysia* introduced the multi-currency securities framework to support listing, trading, clearing and settlement of non-ringgit securities.



- On 3 August, a smaller tick size structure for equities and ETFs was implemented to create market depth, enable price discovery and boost liquidity.
- On 3 August, the trading halt of stocks for the purpose of disseminating material announcements by listed companies was shortened from one trading session to one hour.
- On 4 August, the Securities Borrowing and Lending Negotiated Transactions and the revised Securities Borrowing and Lending Guidelines were introduced to facilitate securities borrowing and lending on an over-the-counter basis.

Strengthening Islamic Capital Market

- On 9 August, the SC issued the Registration of *Syariah* Advisers Guidelines to facilitate individuals and corporations in providing advice on Islamic capital market products and services through a single registration.
- On 17 August, *Bursa Suq Al-Sila'* was launched, the world's first *Syariah*-compliant commodity trading platform. It facilitates commodity-based Islamic financing and investment transactions.

Strengthening Fund Management Industry

- On 18 February, the SC issued Guidelines on Wholesale Funds and revised Guidelines on Unit Trust Funds to give greater flexibility for licensed fund managers to introduce innovative products.

Promoting Venture Capital Industry

- On 28 September, the Venture Capital Tax Incentives Guidelines were issued to enhance tax incentives for venture capital companies (VCCs) and venture capital management companies (VCMCs), which include:
 - VCCs are eligible for tax exemption for 10 years of assessment, if they invest at least 70% of their invested funds in seed capital, start-up and/or early stage financing or at least 50% of their invested funds in seed capital in qualified investee companies; and
 - VCMCs can enjoy tax exemption on income arising from a profit-sharing agreement between the VCMCs and the VCCs.

Increasing Investor Protection

- On 8 May, amendments to the Listing Requirements were made to among others enhance requirements for a valuation report on real estate, mandate every listed issuer to have a website, expedite the timeframe for suspension in trading of securities and shorten the notice of dealings outside closed period timeframe.
- On 22 June, the SC issued a circular to fund managers to provide clarity on parties that can act as custodian for foreign assets and roles to be played by custodian in safeguarding clients' assets.



Prospects for 2010

Monetary policy remains supportive...

The Malaysian economy is expected to improve in 2010 with growth of 2.0% – 3.0%, supported by stronger domestic demand and fiscal measures as well as the recovery in the global economy. Inflation is anticipated to rise modestly in line with the increase in global commodity prices. Monetary policy will remain supportive of growth and will continue to be determined based on the assessment of domestic and international

developments, and their implications on economic growth and price stability.

Private sector financing through the banking system and capital market is expected to increase as economic growth gathers momentum. Liberalisation measures for the financial sector will enhance the attractiveness and competitiveness of the Malaysian financial and capital markets. Meanwhile, a proposed private pension scheme will enable more savings to be intermediated through the capital market and provide an additional retirement savings scheme.

