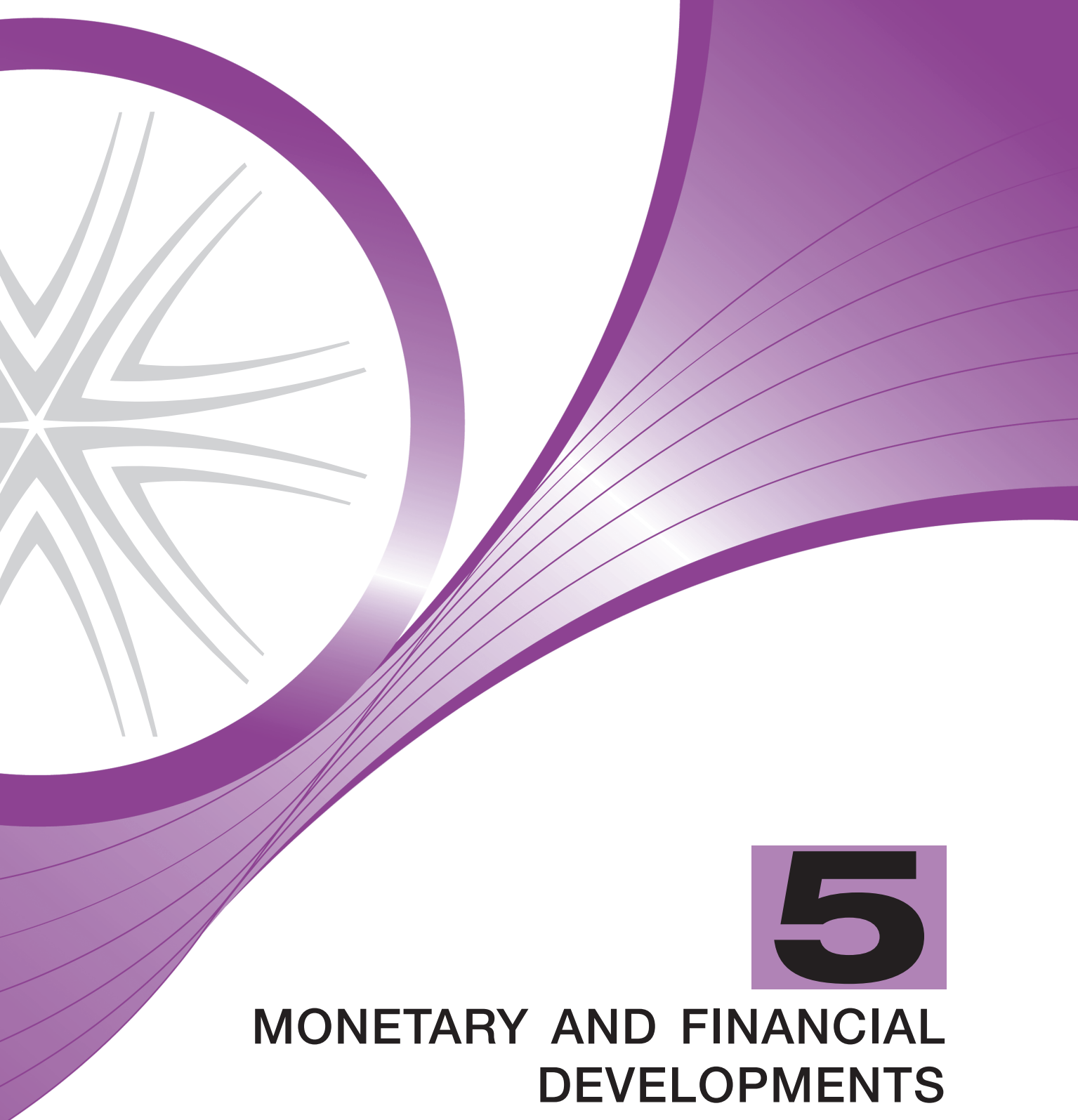




5

MONETARY AND FINANCIAL DEVELOPMENTS

ECONOMIC REPORT **2013/2014**

Monetary and Financial Developments

Overview

A resilient and supportive financial sector

In an environment of continued weakness and uncertainties in the global economy, growth in the domestic economy was driven by private consumption and robust investment activity. While inflation has increased steadily since the early part of this year, it remained low during the first eight months of 2013. Monetary policy during this period was focused on supporting growth while inflation remains contained. Given the continued slow global growth and domestic conditions, the Overnight Policy Rate (OPR) was maintained at 3.00% and the Statutory Reserve Requirement (SRR) at 4.00%.

As the domestic economy was affected by the prolonged weakness in the external environment, the pace of financing that was extended through the financial institutions and capital market moderated, but nevertheless supported the expansion in economic activities in the first eight months of 2013. During the first quarter of 2013, the conditions in the global financial market improved as monetary authorities continued to maintain accommodative policies to strengthen the recovery of the global economy. Subsequently, global financial markets experienced increased volatility following uncertainties over monetary policy adjustments in the advanced economies. However, the domestic financial system remained resilient, with strong and well-capitalised financial institutions, and financial intermediation continued to function efficiently to support economic activities. As at end-August 2013, the common equity tier 1 capital ratio, tier 1 capital ratio and total capital ratio of the banking system registered

12%, 12.8% and 14.1%, respectively. These were well above the minimum regulatory levels under the Basel III capital adequacy framework, which was implemented starting 1 January 2013.

During the first eight months of 2013, the global sukuk market grew 32.6% compared with the same period last year. With high liquidity levels in the sukuk market, Malaysia saw growing interest from foreign issuers to tap into the domestic sukuk market. Malaysia remains the global leader in sukuk issuance, accounting for 70.5% or USD53 billion of the new sukuk issued globally. As at end-August 2013, Bursa Malaysia continued to be ranked as the top exchange for sukuk listing, which amounted to USD32.3 billion. In July 2013, the sukuk market saw a significant development with the inaugural issuance of Government Investment Issues (GIIs) under the Murabahah structure. The GIIs based on the Murabahah contract is essentially a certificate of indebtedness arising from a deferred mark-up sale transaction of an asset, such as commodity (mainly crude palm oil), which complies with Shariah principles. The RM4 billion GIIs was oversubscribed by 2.9 times.

At the beginning of this year, a Malaysian multinational conglomerate, one of the world's largest plantation players with a diversified business portfolio, was given approval to carry out a USD1.5 billion equivalent Multi-currency Sukuk Issuance Programme. This Sukuk Programme is the first of its kind by an Asian corporation under the Shariah principle of Ijarah and was internationally rated. The corporate ratings assigned by Standard & Poor's, Fitch Ratings and Moody's were higher or at par with Malaysia's sovereign rating.

Monetary Developments

Monetary policy continues to support growth

Monetary policy in 2013 continues to promote price stability in an environment of sustained economic growth. The OPR, which was kept unchanged at 3.00% since May 2011, was maintained at the same level during the first eight months of 2013, amid the prolonged weak external demand following continued slow global economic growth. Given the outlook for growth and inflation, the current policy stance is appropriate and will be assessed against the global economic and financial developments with its implication on the domestic economy. Meanwhile, the SRR was also maintained at 4.00% since its last adjustment in July 2011.

Interest rates remain stable

Interest rates in the banking system remained stable in tandem with the unchanged OPR in the first eight months of 2013. The base lending rate of commercial banks set at 6.53% since December 2011, remained unchanged as at end-August 2013. Meanwhile, the weighted average lending rate of commercial banks continued to edge lower to 5.42% as at end-August 2013 (end-2012: 5.52%). The interest rate on savings deposit averaged 1.02% as at end-August 2013 (end-2012: 1.03%) while interest rates on fixed deposits for tenures of 1-month to 12-month were stable during the first eight months of 2013, ranging between 2.91% and 3.15% (end-2012: 2.92% and 3.15%). The real rates of return for all fixed deposit tenures were positive as inflation remained subdued.

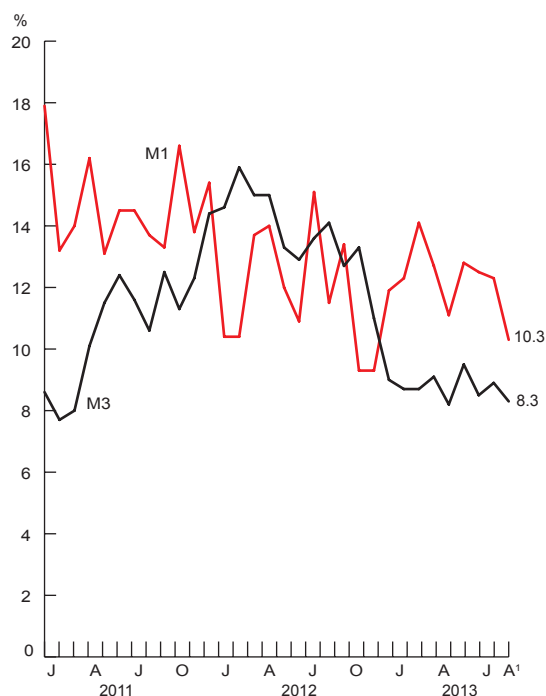
Monetary aggregates continue to expand

Monetary aggregates continued to expand during the first eight months of 2013. M1 or narrow money, rose 10.3% as at end-August 2013 (end-2012: 11.9%). Meanwhile, M3 or broad money, increased RM81.1 billion to record a growth of 8.3% as at end-August 2013, mainly driven by financing activity from the banking system to the private sector (end-2012: RM111.2 billion; 9%).

CHART 5.1

Monetary Aggregates

(% annual change)



¹ End-August 2013.
Source: Bank Negara Malaysia.

TABLE 5.1

Factors Affecting M3 January – August

	Change (RM billion)	
	2012	2013
M3	82.7	81.1
Net claims on Government	-1.7	19.4
Claims on private sector	92.6	66.6
Loans	77.4	66.0
Securities	15.2	0.6
Net foreign assets	15.8	6.0
Bank Negara Malaysia	7.8	0.8
Banking system	7.9	5.2
Other influences	-24.0	-10.9

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

Ringgit depreciates

During the first eight months of 2013, the **ringgit** eased against most major and regional currencies. The demand for ringgit and other regional currencies was mostly influenced by the developments in the US and euro area, stimulus measures by central banks of advanced economies as well as the regional growth and export outlook. From January to mid-March, the ringgit and most other regional currencies

weakened against the US dollar, mainly due to market concerns over developments in Europe, especially the banking crisis in Cyprus as well as a possible early scaling back of quantitative easing measures in the US. The concerns resulted in a withdrawal of funds from emerging market assets. The ringgit was also affected by domestic uncertainties during this period, as investors remained cautious in the run-up to the 13th General Election. As at end-March, the ringgit softened 1% against the US dollar,

Update on Foreign Exchange Administration Rules

Further liberalisation measures were introduced in the first eight months of 2013 to continuously enhance the competitiveness of the economy and develop the domestic financial market in line with the thrusts of the Financial Sector Blueprint, namely:

- (a) to promote the development of the domestic financial market through greater product innovation:
 - (i) residents are free to invest in onshore foreign currency assets offered by other residents;
 - (ii) residents are permitted to issue any securities provided the issuance of debt securities to non-residents are subject to the prevailing rules on borrowing from non-residents; and
 - (iii) non-residents are permitted to issue foreign currency securities in Malaysia.

These flexibilities will also enhance the depth and breadth of the domestic capital market by promoting Malaysia as a centre of origination.
- (b) to support the development of the Islamic financial markets through greater flow of cross-border Islamic financial activities and greater use of Islamic financial intermediaries, resident takaful operators are permitted to undertake investments abroad of any amount on behalf of their resident clients.
- (c) to enhance risk management activities:
 - (i) residents are permitted to undertake anticipatory hedging involving ringgit for financial account transactions with onshore banks;
 - (ii) non-residents are permitted to undertake anticipatory hedging involving ringgit for current account transactions with onshore banks; and
 - (iii) non-residents are permitted to hedge ringgit exposure arising from ringgit investments acquired prior to 1 April 2005, with onshore banks in addition to the current flexibility to hedge ringgit investments acquired from 1 April 2005.
- (d) to enhance regulatory efficiency:
 - (i) resident takaful operators and resident insurers are free to undertake investments abroad for their own account; and
 - (ii) entities, which are registered with Labuan Financial Services Authority, are automatically designated as non-residents.

but gained against the pound sterling (5.2%), euro (2%) and yen (8.4%). The ringgit depreciated between 0.3% and 5.3% against most regional currencies.

From April to early May, the ringgit advanced against the US dollar as investor sentiment was lifted after Cyprus reached an eleventh hour bailout agreement to save its financial sector and avoided a possible pull out from the European Union. The ringgit also strengthened as pre-election uncertainties were quelled after the ruling coalition won the 13th General Election. The ringgit breached the RM3.000 per USD level for the first time in 2013, recording RM2.9675 on 6 May and strengthened further to RM2.9645 on 9 May, the strongest level against the US dollar from end-2012 to end-August 2013.

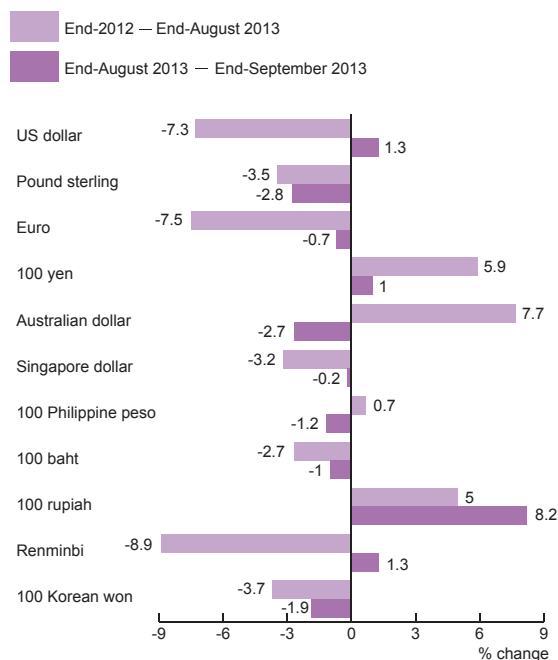
The upward trend was, however, reversed from the second half of May until August 2013, as renewed uncertainties surrounding the tapering

of stimulus measures by the US Federal Reserve (Fed) after the US economy showed sustained signs of improvement, led to another round of withdrawal of funds from regional financial markets. Overall, during the first eight months of 2013, the ringgit fell 7.3%, 3.5% and 7.5% against the US dollar, pound sterling and euro, respectively, but appreciated 5.9% against the yen. The ringgit also eased between 2.7% and 8.9% against the Thai baht, Singapore dollar, Korean won and Chinese renminbi. However, the ringgit advanced in the range of 0.7% and 7.7% against the Philippine peso, Indonesian rupiah and the Australian dollar.

In September, the ringgit appreciated 1.3% against the US dollar at RM3.2575 as the market took into account the Fed delaying the tapering of its stimulus measures. The ringgit, however, softened against most major and regional currencies during the period in the range of 0.2% and 2.8%.

CHART 5.2

Performance of Ringgit Against Selected Currencies



Source: Bank Negara Malaysia.

Financial Sector Developments

During the first eight months of 2013, the banking system and capital market were further strengthened to facilitate and catalyse growth in the economy as Malaysia transitions to a high-income and developed nation. Financial intermediation continued to support economic activities with total loans outstanding in the banking sector increasing 9.3% to RM1,180.3 billion as at end-August 2013. Meanwhile, total financing outstanding of development financial institutions (DFIs) increased 8.5% to RM117 billion, particularly to strategic economic sectors. Microfinancing was also extended through the *Skim Pembiayaan Mikro*, Amanah Ikhtiar Malaysia (AIM) and Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN Nasional) to support microenterprises.

The capital market remains an important source of financing for companies, with total private bonds outstanding amounting to RM415.3 billion and market capitalisation of the equity market increasing to RM1,598.8 billion as at end-August

2013. In January 2013 a new sukuk asset class was launched on Bursa Malaysia, making sukuk and bonds available to all investors, for the first time. The DanaInfra Retail Sukuk issued by DanaInfra Nasional Berhad was used to partly fund the current MY Rapid Transit (MRT) project.

Malaysia continues to be a global hub for Islamic finance with a deep primary and active secondary sukuk market, an efficient price discovery mechanism, a diverse talent base with global capabilities, and an efficient multi-currency clearing and settlement system. Furthermore, with the new Islamic Financial Services Act 2013 (IFSA) that came into force in June this year, there will be greater clarity in the legal and prudential requirements underpinned by Shariah principles on the Islamic finance industry. The Act will strengthen the regulatory and legal system to meet the challenges and developments of an increasingly sophisticated and internationalised industry.

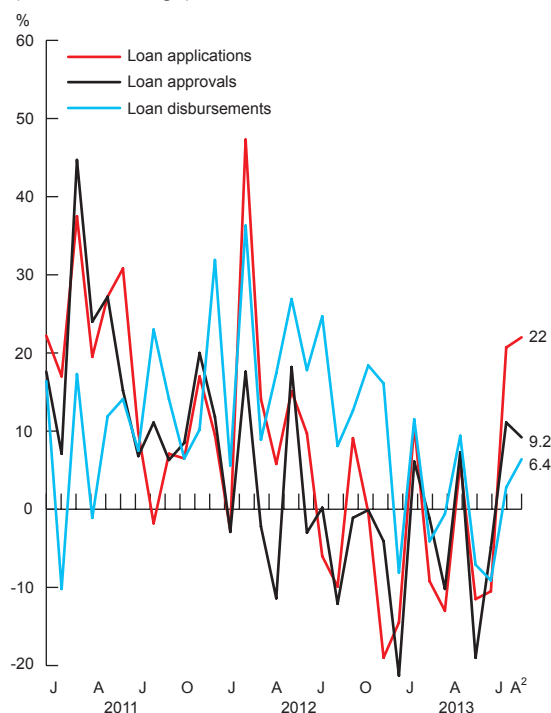
Banking System Performance

Sustained demand for financing

Credit growth in the banking system continued, albeit at a more moderate pace, during the first eight months of 2013. **Loan applications** increased 0.5% to RM535.6 billion while **loan approvals** declined 1.4% to RM261 billion (January – August 2012: 7.5%, RM533 billion; -0.3%, RM264.6 billion). During the same period, **loan disbursements** grew 0.7% to RM619.2 billion (January – August 2012: 17.5%; RM614.6 billion). Total **loans outstanding** in the banking system expanded 9.3% to RM1,180.3 billion as at end-August 2013 (end-2012: 10.4%; RM1,108 billion).

Lending to **businesses** moderated during the first eight months of 2013. Loan applications by businesses dropped 12.5% to RM236.7 billion, while approvals fell 20.5% to RM103.8 billion (January –

CHART 5.3
Banking System: Lending Indicators¹
(% annual change)



¹ Monthly data.

² End-August 2013.

Source: Bank Negara Malaysia.

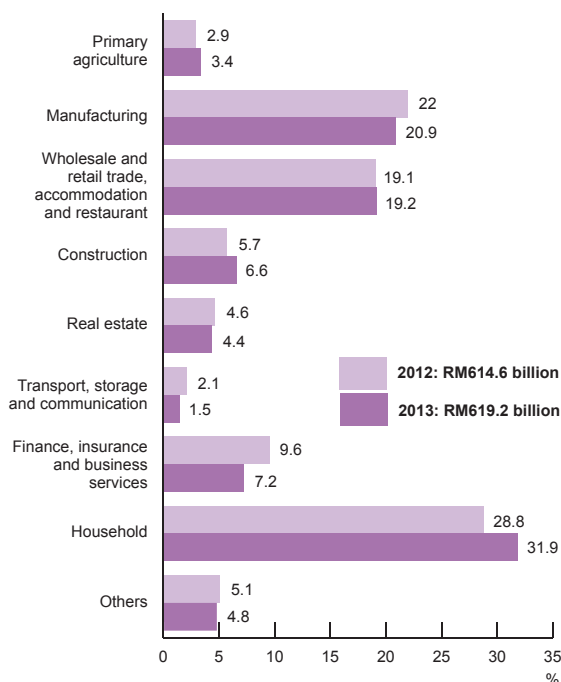
August 2012: 15%, RM270.4 billion; 4%, RM130.6 billion). Likewise, disbursements to businesses slowed 3.8% to RM421.5 billion (January – August 2012: 26.9%; RM437.9 billion). The largest portion of loans disbursed to businesses was to the manufacturing sector at 20.9%; followed by the wholesale and retail trade, accommodation and restaurant sector at 19.2%; the finance, insurance and business services sector at 7.2%; and the construction sector at 6.6%. Total business loans outstanding grew 7.7% to RM440.8 billion as at end-August 2013 (end-2012: 10.9%; RM419.1 billion).

Financing to **small and medium enterprises (SMEs)** was also moderate during the first eight months of 2013. Loan applications grew 3.5% to RM128.2 billion while approvals eased 12.9% to RM47.7 billion (January – August 2012: 13%, RM123.8 billion; 14.5%, RM54.8 billion). During the period, the finance, insurance and

CHART 5.4

Loan Disbursements by Sector January – August

(% share)



Source: Bank Negara Malaysia.

business services sector received the largest share of loans with 27.7%, followed by the wholesale and retail trade, accommodation and restaurant sector with 25.8% while the manufacturing sector accounted for 19.4%. SME loans outstanding expanded 11% to RM191.5 billion, comprising 43.4% of total business loans outstanding in the banking system as at end-August 2013 (end-2012: 15.5%; RM177 billion; 42.2%).

Additionally, SMEs were provided with financing from five **special revolving funds**¹ administered under Bank Negara Malaysia (BNM). In the first eight months of 2013, total financing amounted to RM1,106 million with 2,994 accounts approved (January – August 2012: RM774.1 million; 2,087 accounts), which represented a 42.9% and

TABLE 5.2

Banking System: Loan Indicators January – August

Indicator	RM billion		Change (%)	
	2012	2013	2012	2013
Total¹				
Loan applications	533.0	535.6	7.5	0.5
Loan approvals	264.6	261.0	-0.3	-1.4
Loan disbursements	614.6	619.2	17.5	0.7
Loans outstanding ²	1,079.5	1,180.3	12.3	9.3
of which:				
Business				
Loan applications	270.4	236.7	15.0	-12.5
Loan approvals	130.6	103.8	4.0	-20.5
Loan disbursements	437.9	421.5	26.9	-3.8
Loans outstanding ²	409.2	440.8	13.8	7.7
of which:				
SMEs				
Loan applications	123.8	128.2	13.0	3.5
Loan approvals	54.8	47.7	14.5	-12.9
Loan disbursements	142.5	152.3	23.3	6.9
Loans outstanding ²	172.5	191.5	21.2	11.0
Households				
Loan applications	262.7	298.9	0.8	13.8
Loan approvals	134.0	157.2	-4.2	17.3
Loan disbursements	176.7	197.7	-0.8	11.9
Loans outstanding ²	592.8	663.4	11.7	11.9

¹ Includes other sectors (foreign entities, other domestic entities, Government and others).

² As at end-period.

Note: Total may not add up due to rounding.

Source: Bank Negara Malaysia.

43.5% increase, respectively over the same period last year. As at end-August 2013, total financing approved since the establishment of the funds, amounted to RM23.7 billion with an

¹ Fund For Food was established in 1993; Fund for Small and Medium Industries 2 (2000); New Entrepreneurs Fund 2 (2001); Micro Enterprise Fund (2008); and Bumiputera Entrepreneurs Project Fund – Islamic (2009).

average utilisation rate of 90.9% and benefited 57,373 SMEs (end-2012: RM22.6 billion; 92.2%; 54,379 SMEs).

Meanwhile, microenterprises continued to gain access to **microfinancing** under *Skim Pembiayaan Mikro*, which was established in 2006. Under this scheme, viable microenterprises are eligible to obtain either conventional or Islamic financing of between RM1,000 and RM50,000 from 10 financial institutions with more than 2,400 access points. During the first eight months of 2013, a total of RM208.7 million were approved to 10,658 microenterprises (January – August 2012: RM222.5 million; 11,397 microenterprises). As at end-August 2013, total loans outstanding under the scheme amounted to RM867.3 million, assisting 71,102 microenterprises (end-2012: RM870.3 million; 68,799 microenterprises).

In addition, AIM and TEKUN Nasional continued to extend financing to microentrepreneurs. AIM, which was established in September 1987, currently provides five types of Islamic financing to its growing number of members. As at end-August 2013, AIM has a total of 341,006 registered members, of which about 70% are between 20 and 50 years old. Most of the members are involved in the business sector (51.7%) followed by agriculture (23.6%), manufacturing (8.9%) and services (7.5%). Total financing approved to 279,777 members amounted to RM1,118.1 million in the first eight months of 2013 (January – August 2012: 276,926 members; RM1,211.8 million). The repayment rate for financing extended remained high at 98.4% during the period (January – August 2012: 99.4%). Meanwhile, TEKUN Nasional disbursed a total of RM398.2 million to 32,194 microentrepreneurs (January – August 2012: RM326.4 million; 22,905 microentrepreneurs), with the bulk of financing channelled to the services (50.3%) and the retail (36.5%) sectors. Overall, since its establishment in 1998, TEKUN Nasional has provided financing totalling RM2.8 billion to 269,367 microentrepreneurs.

TABLE 5.3

Loans Outstanding by Sector

	RM billion		Share (%)	
	End-2012	End-Aug 2013	End-2012	End-Aug 2013
Business	419.1	440.8	37.8	37.3
Large corporations ¹	242.2	249.3	21.9	21.1
SMEs	177.0	191.5	16.0	16.2
<i>Selected sectors²</i>				
Primary agriculture	28.6	31.8	2.6	2.7
Mining and quarrying	7.0	8.1	0.6	0.7
Manufacturing	94.9	96.4	8.6	8.2
Electricity, gas and water supply	10.3	9.7	0.9	0.8
Wholesale and retail trade, accommodation and restaurant	82.1	88.0	7.4	7.5
Construction	44.5	47.8	4.0	4.0
Real estate	62.6	67.5	5.6	5.7
Transport, storage and communication	28.1	27.4	2.5	2.3
Finance, insurance and business services	76.0	77.3	6.9	6.5
Households²	616.5	663.4	55.6	56.2
of which:	288.6	312.1	26.0	26.4
Purchase of residential properties ³	56.6	62.0	5.1	5.3
Purchase of passenger cars ³	128.6	136.1	11.6	11.5
Consumption credit ^{3,4}	88.0	89.9	7.9	7.6
of which:				
Credit cards ³	32.8	33.0	3.0	2.8
Personal use ³	55.0	56.7	5.0	4.8
Other sectors	72.3	76.1	6.5	6.4
Total⁵	1,108.0	1,180.3	100.0	100.0

¹ Include other sectors (foreign entities, other domestic entities, Government and others).

² Encompasses loans to all customers (non-household and household).

³ Reflecting household sector only.

⁴ Consumption credit = Credit cards + Personal use + Purchase of consumer durables.

⁵ Total = Business + Households + Other sectors.

Note: Total may not add up due to rounding.

Source: Bank Negara Malaysia.

During the first eight months of 2013, financing to **households** remained firm with all household loan indicators increasing at double-digit rates. Household loan applications grew 13.8% to RM298.9 billion, approvals 17.3% to RM157.2 billion and disbursements 11.9% to RM197.7 billion (January – August 2012: 0.8%, RM262.7 billion; -4.2%, RM134 billion; -0.8%, RM176.7 billion). Total household loans outstanding expanded 11.9% to RM663.4 billion and accounted for 56.2% of total loans outstanding in the banking system as at end-August 2013 (end-2012: 11.6%; RM616.5 billion; 55.6%). Most of the total loans disbursed to households were for consumption credit (43.8%), purchase of residential properties (24.2%) and purchase of passenger cars (14.7%).

Total household debt, which includes loans provided by the banking system, DFIs, the Treasury Housing Loan Division and other credit institutions, expanded at an average annual rate of 12% over the past five years. The accumulation of debt was primarily for asset purchase, such as properties and vehicles, which accounted for 69.8% of total household debt. As at end-August 2013, household debt increased 12.6% to RM824.3 billion (end-2012: 13%; RM761.9 billion). Total household debt relative to nominal GDP stood at 85.1% as at end-June 2013 (end-2012: 80.9%). Meanwhile, household financial assets grew 10.3% to RM1,812.3 billion as at end-August 2013 (end-2012: 12.6%; RM1,686.5 billion). Growth in household debt was supported by sustained growth in income levels and favourable employment conditions. The household sector continued to exhibit the ability to service their loans with the loan impairment ratio remaining low at 1.4% of banking system loans extended to households as at end-August 2013 (end-2012: 1.5%).

While the overall household debt level remains manageable, it was noted that borrowers in the lower income brackets are vulnerable as their leverage position has increased relative to other

income groups. This has been accompanied by the rapid increase in personal financing and extended financing tenures, which can encourage over-borrowing by households that are not in a position to take on more debt. In July 2013, BNM introduced several pre-emptive measures aimed at promoting a more resilient household sector, reinforcing responsible lending practices as well as mitigating potential longer-term risks to financial stability. These measures include, limiting the tenures for housing loan from up to 45 years to 35 years and personal financing, from up to 25 years to 10 years. In addition, financial institutions are prohibited from offering personal financing without application from borrowers. Financial institutions are also required to observe a prudent debt service ratio when extending credit to borrowers, to ensure that they have sufficient financial buffers to support them in the event of rising costs and unexpected adversities. The measures also ensure that households that have the capacity to borrow can continue to have access to financing. In order to ascertain consistency in the financing practices of major credit providers to the household sector, these measures are also applied to cooperatives regulated by Suruhanjaya Koperasi Malaysia, the Malaysia Building Society Berhad (MBSB) and Aeon Credit Service (M) Berhad, in addition to commercial and Islamic banks as well as DFIs regulated by BNM. These measures complemented earlier measures that have been progressively implemented since 2010.

Credit card usage continued to increase in the first eight months of 2013. Transactions grew 5.8% to 221.9 million, amounting to RM65.2 billion (January – August 2012: 6%; 214.7 million; RM61.6 billion). Credit card balances outstanding increased slightly by 2.4% to RM33.8 billion as at end-August 2013 (end-2012: 1.7%; RM34 billion). Meanwhile, credit card debt accounted for 2.9% of total loans outstanding in the banking system and 5.1% of total loans to households as at end-August 2013 (end-2012:

3.1%; 5.5%). Despite the introduction of stricter income requirements, credit card applications rose 13.3% to 1.9 million during the first eight months of 2013 (January – August 2012: -0.6%; 1.7 million). However, the approval rate was lower at 44.3% (January – August 2012: 48.7%). The level of credit card debt impairment remained low at 1.2% as at end-August 2013 (end-2012: 1.3%).

Agensi Kaunseling dan Pengurusan Kredit (AKPK) continued to undertake initiatives to promote financial literacy and prudent financial management, especially to young adults. During the first eight months of 2013, AKPK provided credit counselling to a total of 24,286 individuals, of which 10,785 or 44.4% committed to the Debt Management Programme (DMP) (January – August 2012: 23,842; 10,789; 45.3%). The DMP assisted borrowers in coordinating repayments of RM828.5 million (January – August 2012: RM724.2 million) to financial institutions during the period, of which 7,820 cases were credit card-related debt with a value of RM467.5 million, and 4,956 personal financing cases amounting to RM151.6 million (January – August 2012: 8,670 cases, RM420.6 million; 5,202 cases, RM173.7 million). Meanwhile, home and motor vehicle financing accounted for 450 and 103 cases (January – August 2012: 264 cases; 73 cases), respectively. Since its establishment in 2006, AKPK has assisted more than 94,000 individuals through the DMP.

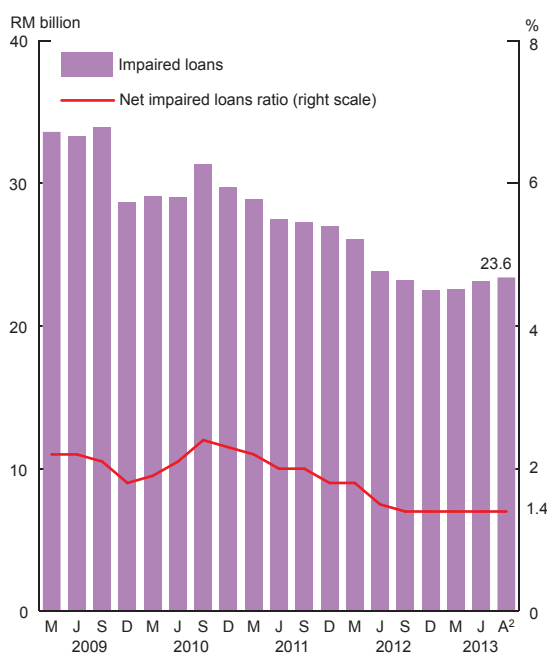
In addition, the DMP has been extended to include borrowers with non-bank lenders, such as the MBSB and credit cooperatives. AKPK has introduced the DMP Booklet to credit providers as a guide to the DMP process. A second module of the successful financial literacy programme, POWER!, focusing on debt management, is being developed, targeting adults between 25 and 45 years old. AKPK, together with Jabatan Kemajuan Islam Malaysia, have also developed a post-marital programme to assist couples in family financial planning.

Banking system remains resilient

The **banking system** remained strong and well capitalised even with the implementation of the new and more stringent Basel III capital adequacy framework, effective from 1 January 2013. As at end-August 2013, the common equity tier 1 capital ratio, tier 1 capital ratio and total capital ratio of the banking system registered 12%, 12.8% and 14.1%. Capital buffers in excess of the minimum regulatory requirement, remained high at more than RM73 billion. Liquidity remained ample with banks maintaining strong liquidity buffers and a large placement of more than RM147 billion with BNM. The banking system also recorded a projected liquidity surplus of 14% of total deposits for liquidity needs maturing within one week.

CHART 5.5

Banking System: Impaired Loans¹ and Net Impaired Loans Ratio¹



¹ End-period.

² End-August 2013.

Source: Bank Negara Malaysia.

During the first eight months of 2013, the banking system recorded a slightly lower pre-tax profit of RM18.9 billion (January – August 2012: RM19.5 billion). The profit was primarily contributed by revenue from financing activities and gains from trading and investment activities. Loan quality in the banking system remained stable with the net impaired loans ratio at 1.4% of net loans as at end-August 2013 (end-2012: 1.4%), while the overall loan loss coverage ratio remained above 90%.

Meanwhile, the financial sector regulatory and supervisory framework was further strengthened when the Financial Services Act 2013 (FSA) and the IFSA came into force on 30 June 2013. The FSA and IFSA were the culmination of efforts to modernise the laws that govern the conduct and supervision of financial institutions in Malaysia. This is to ensure that these laws continue to be relevant and effective to maintain financial stability, support inclusive growth in the financial system and the economy, as well as to provide adequate protection for consumers. The FSA and IFSA consolidated and replaced several separate laws, namely the Banking and Financial Institutions Act 1989 (BAFIA), Islamic Banking Act 1983, Insurance Act 1996, Takaful Act 1984, Payment Systems Act 2003 and Exchange Control Act 1953, to govern the financial sector under a single legislative framework for the conventional and the Islamic financial sector, respectively.

The new legislations provided greater clarity and transparency in the implementation and administration of the law. The FSA and IFSA also included provisions for differentiated regulatory requirements that reflect the nature of financial intermediation activities and their risks to the overall financial system. In addition, there are provisions to regulate financial holding companies and non-regulated entities to take account of systemic risks that can emerge from the interaction between regulated and unregulated institutions, activities and markets. The IFSA further provides a clear focus

on Shariah compliance and governance in the Islamic financial sector, with a comprehensive legal framework that is fully consistent with Shariah in all aspects of regulation and supervision. The new laws also strengthened business conduct and consumer protection requirements to promote consumer confidence in the use of financial services and products as well as strengthened provisions for effective and early enforcement and supervisory intervention to promote the safety and soundness of financial institutions.

The FSA and IFSA also strengthened conditions for the financial sector to contribute to the economic transformation process by supporting innovation, competition and growth with adequate safeguards to ensure that financial intermediaries do so responsibly and in a manner that does not create risks for the financial system as a whole. The FSA and IFSA also enable BNM to approve a financial ombudsman scheme to ensure an effective mechanism in the resolution of disputes between consumers and financial service providers in relation to financial services or products.

DFIs continue to support strategic sectors

Several initiatives and prudential guidelines have been introduced to further strengthen the capacity and capability of **development financial institutions (DFIs)** to ensure the effective performance of their mandated roles, especially in supporting the development of strategic economic sectors, such as agriculture and infrastructure as well as SMEs and export-oriented industries. During the first eight months of 2013, total financing outstanding of DFIs increased 8.5% to RM117 billion (end-2012: 10.1%; RM111.1 billion). This was due to higher financing given for consumption credit, the maritime sector and export-oriented industries. Consumption credit, was largely extended by Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) and Bank Simpanan Nasional, which recorded an increase of 11% to RM60.8 billion as at end-August 2013 (end-2012:

TABLE 5.4

**Development Financial Institutions¹:
Direction of Lending**

Sector	RM billion		Share (%)	
	End-2012	End-Aug 2013	End-2012	End-Aug 2013
Primary agriculture	6.9	6.8	6.2	5.8
Manufacturing	5.2	5.3	4.7	4.5
Wholesale and retail trade, accommodation and restaurant	1.8	2.2	1.6	1.9
Construction	16.6	16.2	14.9	13.8
Transport, storage and communication	5.3	5.4	4.8	4.7
Finance, insurance and business services	3.7	3.6	3.3	3.1
Others	71.7	77.6	64.5	66.3
Total	111.1	117.0	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, Bank Pertanian Malaysia Berhad (Agrobank) and Bank Perusahan Kecil & Sederhana Malaysia Berhad (SME Bank).

Note: Total may not add up due to rounding.

Source: Bank Negara Malaysia.

14.5%; RM57.5 billion). In addition, financing to the business services sector expanded to RM3.6 billion (end-2012: RM3.2 billion) primarily due to higher financing given to cooperatives. During the same period, lending to the maritime sector turned around and increased 11.4% to RM2.4 billion, extended mainly for the construction of naval vessels (end-2012: -6.8%; RM2 billion). Financing to export-oriented industries continued to be strong at 18.2%, totalling RM5.4 billion as at end-August 2013, despite the uncertain global economic environment (end-2012: 23.6%; RM4.3 billion). Total SME loans outstanding extended by DFIs grew 6.8% to RM13.1 billion as at end-August 2013 (end-

2012: -1.1%; RM12 billion). Meanwhile, total deposits received and borrowings from the Government remained the major source of funding for DFIs, accounting for 70.5% of its total resources.

To enhance governance and greater transparency as well as improve the efficiency and effectiveness of DFIs in carrying out their mandates, the Guidelines on Financial Reporting Requirements for DFIs was issued in December 2012, specifying the financial reporting requirements of both Islamic and conventional businesses of DFIs. One salient feature of the guidelines requires the specific disclosure on the achievement of mandates or developmental goals set by the Government for the DFIs, performance of Government special funds managed by DFIs, and future outlook on strategic sectors served by DFIs.

On 2 July 2013, the guidelines Disclosure of Customer Documents and Information by DFIs was issued to protect the interest of customers without compromising the effectiveness of DFIs' operations. The guidelines set out compliance procedures for DFIs to disclose documents or information relating to the affairs or account of their customers, for three specific purposes or circumstances, namely compliance with order by the enforcement agency, request for documents and information by the Inland Revenue Board, and for assessment on performance of outsourced functions.

Insurance industry remains resilient

In the first eight months of 2013, the **insurance industry** remained resilient with strong capitalisation. The capital adequacy ratio for the industry stood at 220.7% (end-2012: 222.8%) with a capital buffer of RM22.9 billion. The impact from adverse developments in Europe remained well contained due to the minimal direct investment abroad and manageable reinsurance exposures. Malaysian insurers' investment exposures to Europe amounted to only RM0.4

TABLE 5.5

Life and General Insurance Business

	2012	2013 Jan – Aug
Life Insurance (RM million)		
New business		
Number of policies (units)	8,854,596	9,157,579 ¹
Sums insured	290,430.3	384,309.5 ¹
Total premiums	8,537.5	5,441.6 ¹
Business in force		
Number of policies (units)	15,995.0	17,203.2 ²
Sums insured	1,119,615.7	1,218,591.2 ²
Annual premiums	22,807.3	24,063.1 ²
Premium Income	24,752.2	16,360.8
Benefit Payments	14,342.4	10,035.0
General Insurance (RM million)		
Premium income:		
Gross direct premiums	14,873.7	10,994.0
Net premiums	12,940.6	9,205.8
Reinsurance placed outside Malaysia	1,179.2	667.2
Retention ratio ³ (%)	71.4	72.8
Number of insurance companies⁴		
Direct	32	32
Life	9	9
General	18	18
Composite	5	5
Reinsurance	7	7
Life	1	1
General	5	5
Composite	1	1

¹ Include data for direct insurers (January – August 2013) and reinsurers (January – June 2013).

² As at end-June 2013. Data updated on quarterly basis.

³ Proportion of premiums retained in the country.

⁴ As at end-period.

Note: Total may not add up due to rounding.

Source: Bank Negara Malaysia.

billion or 0.6% of the industry's total capital base, mainly in the form of investments in private equity funds and bonds in the UK, Germany

and France. Reinsurance claims exposure to European-based insurers and reinsurers stood at 9.5% of the general insurers' capital base and the exposures are mainly to strongly rated insurers and reinsurers with sound financial positions.

The **life insurance** sector registered a lower profitability at RM6.5 billion due to the high unrealised capital loss in debt and equity investments (January – August 2012: RM10.5 billion). New life insurance premiums declined slightly by 2.5% to RM5.4 billion, mainly due to lower premiums from participating products (January – August 2012: 9%; RM5.5 billion). Meanwhile, sales of investment-linked products grew at a slower pace of 1.5% to RM2 billion (January – August 2012: 27.4%; RM1.98 billion). Market penetration of the life insurance sector improved to 57.8% as at end-August 2013 (end-2012: 54.6%).

The **general insurance** sector remained stable with an operating profit of RM1.44 billion attributed to higher premium income and lower claims (January – August 2012: RM1.40 billion). Gross direct premiums grew 6.8% to RM11 billion, mainly from motor and aviation businesses, with the motor business contributing 46.1% of total gross direct premiums. The overall claims ratio for the general insurance industry stood at 59.2% reflecting improvements in claims experience across most classes of business (end-2012: 57.3%).

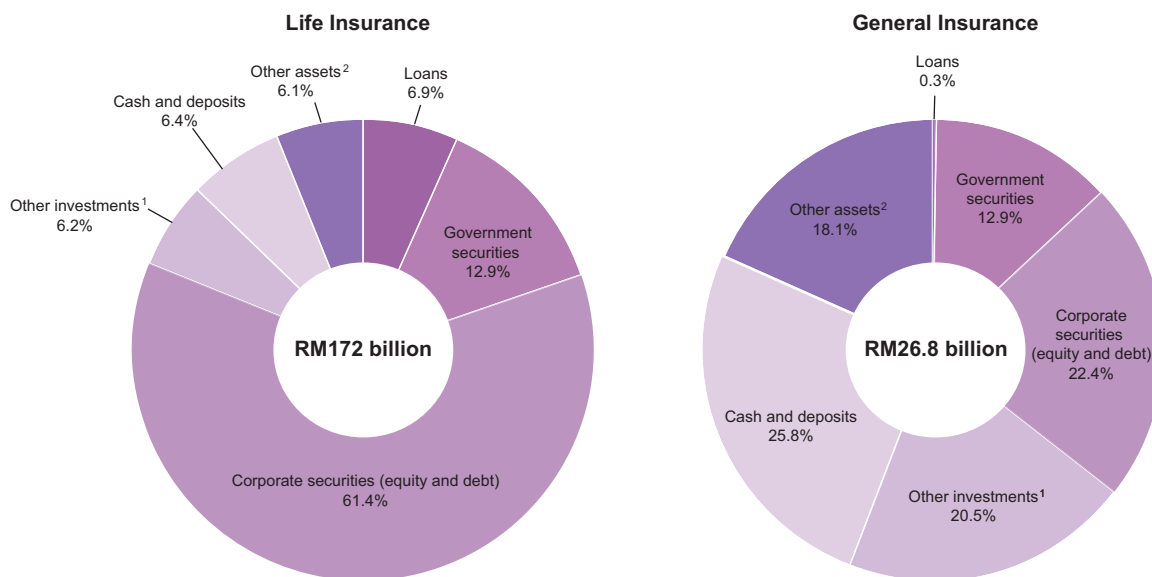
As at end-August 2013, assets of the insurance industry expanded strongly by 6.8% to RM198.8 billion, with about 39% held in the form of private debt securities (PDS) and 17% in equities. The asset portfolio for general insurers comprised about 26% of low risk and liquid assets such as cash and fixed deposits.

From August 2012 to August 2013, there were three completed merger and acquisition exercises, which reduced the number of insurance companies from 35 to 32. A number of mergers and acquisitions

CHART 5.6

Assets of Life and General Insurance Funds As at end-August 2013

(% share)

¹ Other investments = Government guaranteed loans + investment properties + others.² Other assets = Property, plant and equipment + foreign assets + others.

Source: Bank Negara Malaysia.

are also in the pipeline, which will result in the further consolidation and rationalisation of the insurance industry.

Capital Market Performance

Fund raising remains steady

Gross funds raised in the capital market declined 33.8% to RM118.8 billion in the first eight months of 2013 (January – August 2012: 43.1%; RM179.5 billion). Gross funds raised by the public sector contracted 6.7% to RM67 billion (January – August 2012: 6.3%; RM71.8 billion), comprising mainly Malaysian Government Securities (MGS), GIs and Government Housing Sukuk. Meanwhile, gross funds raised by the private sector declined 51.9% to RM51.8 billion (January – August 2012: 86.1%; RM107.7 billion), mainly comprising new issuances of PDS. The bulk of the PDS issuances were from the

electricity, gas and water; and finance, insurance, real estate and business services sectors, which collectively amounted to RM27.8 billion or 64% of total new PDS issued (January – August 2012: RM65 billion; 74.4%). Funds were mainly used for funding working capital and general business activities.

Net funds raised in the capital market decreased 55.3% to RM40.5 billion (January – August 2012: 20.3%; RM90.6 billion) after adjusting for redemptions. However, net funds raised by the public sector increased 3.4% to RM25.4 billion (January – August 2012: -40.5%; RM24.5 billion), while that raised by the private sector dropped 77.1% to RM15.1 billion (January – August 2012: 94.1%; RM66 billion). After a year marked with several large equity listings in 2012, funds raised in the equity market decreased 58.3% to RM8.5 billion in the first eight months of 2013 (January – August 2012: 133.6%; RM20.3 billion). Although initial public offerings (IPOs) moderated

TABLE 5.6

**Funds Raised in the Capital Market
January – August**
(RM million)

	2012	2013
Public Sector		
Government securities		
Malaysian Government Securities	39,099	34,059
Khazanah Bonds	-	-
Government Investment Issues	30,134	28,527
Sukuk Perumahan Kerajaan	2,600	4,400
New issues of Government securities	71,833	66,985
Less: Redemptions	47,291	41,617
Net funds raised by public sector	24,542	25,368
Private Sector		
Shares¹/Warrants		
Initial public offers	17,486	3,349
Rights issues	2,669	5,117
Private placements/ Restricted offer-for-sale	175	-
Special issues	-	-
Warrants	13	13
New issues of shares/warrants	20,343	8,479
Debt securities		
Straight bonds	6,503	1,257
Convertible bonds	-	-
Islamic bonds	3,353	5,607
Asset-backed bonds	40	-
Bonds with warrants	-	-
Medium-term notes	77,465	36,489
Cagamas bonds	-	-
New issues of debt securities	87,362	43,352
Less: Redemptions	41,690	36,724
Net issues of debt securities	45,672	6,629
Net funds raised by private sector	66,015	15,107
Total net funds raised	90,557	40,475

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

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

TABLE 5.7

**New Issuance of Private Debt Securities
(PDS)¹ by Sector**
January – August

Sector	RM million		Share (%)	
	2012	2013	2012	2013
Agriculture, forestry and fishing	1,002	1,449	1.2	3.3
Manufacturing	1,778	75	2.0	0.2
Construction	4,202	2,305	4.8	5.3
Electricity, gas and water	12,029	13,893	13.8	32.1
Transport, storage and communication	8,693	2,234	10.0	5.2
Finance, insurance, real estate and business services	52,950	13,867	60.6	32.0
Government and other services	6,638	9,475	7.6	21.9
Wholesale and retail trade, accommodation and restaurant	70	55	0.1	0.1
Total	87,362	43,352	100.0	100.0

¹ Include PDS issued by Cagamas and non-resident corporations.

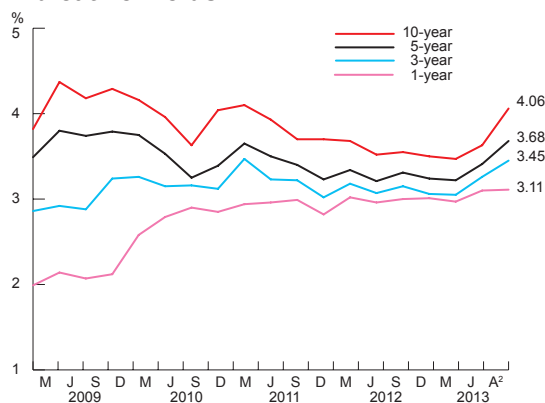
Note: Total may not add up due to rounding.

Source: Bank Negara Malaysia.

to RM3.3 billion, rights issuances were higher at RM5.1 billion (January – August 2012: RM17.5 billion; RM2.7 billion). Fund raising activities remained healthy by historical standards in the first eight months of 2013 after discounting several large and one-off issuances related to the Economic Transformation Programme (ETP) and Government divestment initiatives last year.

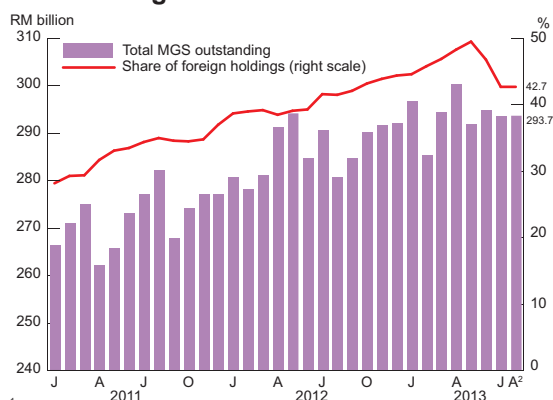
During the first eight months of 2013, the MGS yields went through two phases. From January, the yields which were broadly on a declining trend intensified at the beginning of May due to the positive sentiment in the market following the conclusion of the 13th General Election. However, by mid-May, yields began to increase

CHART 5.7
**Malaysian Government Securities (MGS)
Indicative Yields¹**



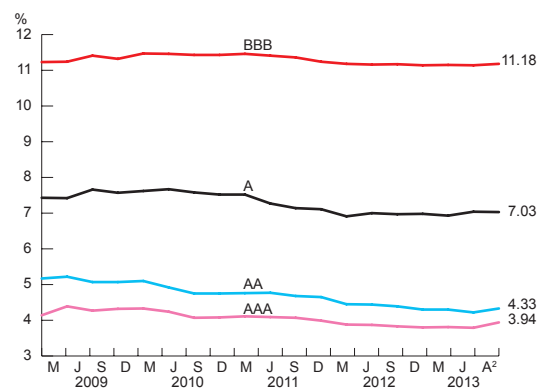
¹ End-period.
² End-August 2013.
Source: Bank Negara Malaysia.

CHART 5.8
**Share of Foreign Holdings in Total MGS
Outstanding¹**



¹ End-period.
² End-August 2013.
Source: Bank Negara Malaysia.

CHART 5.9
Private Debt Securities (PDS) 5-Year Yields¹



¹ End-period.
² End-August 2013.
Source: Bank Negara Malaysia.

following uncertainties surrounding the continuity of the monetary stimulus programme in the US. This resulted in the yields on the 5-year and 10-year MGS increasing 44 basis points (bps) and 55 bps (January – August 2012: 4 bps; -21 bps), respectively, in the first eight months of 2013. Similarly, yields on the 1-year and 3-year MGS increased 10 bps and 39 bps (January – August 2012: 18 bps; 5 bps), respectively. Foreign holdings in MGS amounted to RM125.5 billion and accounted for 42.7% of total outstanding MGS as at end-August 2013 (end-August 2012: RM116.4 billion; 41.5%). Meanwhile, in the PDS market, yields for the 5-year AAA-rated and AA-rated securities increased 14 bps and 2 bps, respectively, while the A-rated increased 4 bps (January – August 2012: -15 bps; -22 bps; -14 bps).

The 5-year PDS credit spreads (PDS yields minus MGS yields) for AAA-rated, AA-rated and A-rated debt narrowed 30 bps, 42 bps and 40 bps (January – August 2012: -19 bps; -26 bps; -18 bps), respectively. This partly reflected the continued demand in the PDS market. The MGS term spreads (10-year MGS minus 1-year MGS yields) widened 45 bps (January – August 2012: -39 bps).

Equity market remains resilient

The **equity market** remained resilient in the first eight months of 2013 despite the heightened global market volatility and challenging global economic environment. The Financial Times Stock Exchange (FTSE) Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) started the year on a positive note as market sentiment improved after the US government passed a budget bill to avert the 'fiscal cliff' and China's manufacturing sector recorded a better-than-expected performance, thus pushing the index up to close at 1,694.16 points on 7 January 2013. Subsequently, the market was dampened by concerns over the timing of the 13th General Election, weaker economic data from Europe and Japan as well as the possibility of the Fed withdrawing its quantitative easing measures. The FBM KLCI fell to its lowest level year-to-date, closing at 1,613.33 points on

20 February 2013, before regaining its momentum in tandem with regional markets following improved economic data and expectation of better growth prospects for Japan with the appointment of a pro-stimulus head to the Bank of Japan, as well as assurance from global central banks to maintain stimulus measures to boost economic growth. The market was further buoyed by the resolution of the debt crisis in Cyprus following the 10 billion euro (RM40.5 billion) bailout by the European Union and International Monetary Fund (IMF). As at end-March 2013, the FBM KLCI closed at 1,671.63 points (end-December 2012: 1,688.95 points).

The stock market showed a robust performance in the second quarter of 2013, outperforming other regional markets. In April, the market closed above the 1,700-point level at 1,707.04 points on 11 April 2013, after Parliament was dissolved. Sentiment was further boosted by tame inflation data from China which reduced concerns that China would further tighten monetary policy, and the record closing highs on Wall Street. However, the uptrend was capped by concerns over China's slower-than-expected first quarter GDP growth, and the IMF's downward revision of the global growth outlook. The FBM KLCI closed at an all-time high of 1,788.43 points on 14 May 2013, as market sentiment was buoyed by the ending of political uncertainties after the ruling coalition retained power in the 13th General Election. However, the market retreated again following several unfavourable global events, including increased concerns over China's slowing growth and the Fed scaling back its stimulus programme on signs of the improving US economy. This sparked a regional sell-off and a reversal of foreign portfolio funds back to the US. Subsequently, the FBM KLCI dropped to 1,728.64 points on 25 June 2013 in tandem with the decline in regional markets. Towards the end of June 2013, the market managed to recover some gains following measures taken by China to sustain growth as well as assurances from the Fed to maintain its stimulus measures if necessary. The FBM KLCI closed at 1,773.54 points as at end-June 2013 (end-June 2012: 1,599.15 points).

During 1 July to end-August, the performance of the FBM KLCI continued its positive momentum and recorded a new high of 1,810 points on 24 July 2013 in line with the positive trend in the regional markets. Investors' sentiment was influenced by the stronger-than-expected US corporate earnings and the Fed's pledge to continue monetary stimulus in the foreseeable future. However, the market retreated 37.38 points or 2% to 1,772.62 points on 31 July 2013, following the downgrading of Malaysia's sovereign credit outlook by Fitch Ratings on account of the country's fiscal position. The

TABLE 5.8

Bursa Malaysia: Selected Indicators January – August

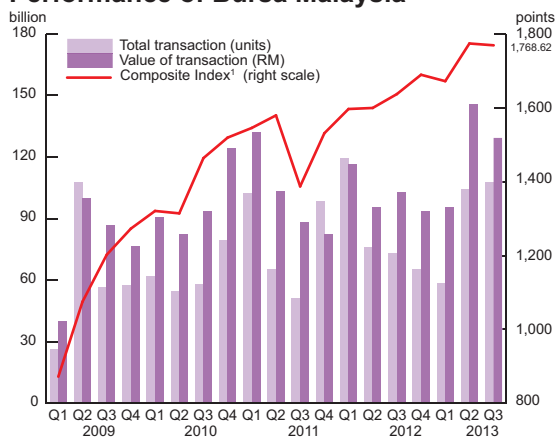
	2012	2013
Price indices¹		
FBM KLCI	1,646.1	1,727.6
FBMEMAS	11,229.5	11,968.6
FBM 100	11,055.2	11,729.2
FBM SCAP	12,189.2	14,447.9
FBM-ACE	4,591.6	4,929.8
Total turnover²		
Volume (million units)	236,394.4	233,102.8
Value (RM million)	265,127.7	329,880.7
Average daily turnover²		
Volume (million units)	1,441.4	1,421.4
Value (RM million)	1,616.6	2,011.5
Market capitalisation ¹ (RM billion)	1,431.6	1,563.9
Total number of listed companies¹		
Main Market	815	802
ACE Market	115	109
Market liquidity¹		
Turnover value/ market capitalisation (%)	18.5	21.1
Market concentration¹		
10 most highest capitalised stocks/ market capitalisation (%)	35.5	35.0

¹ As at end-period.

² Based on market transactions during the period.

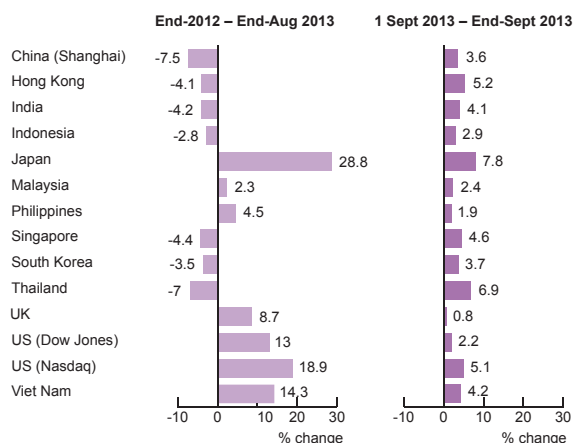
Source: Bursa Malaysia.

CHART 5.10
Performance of Bursa Malaysia



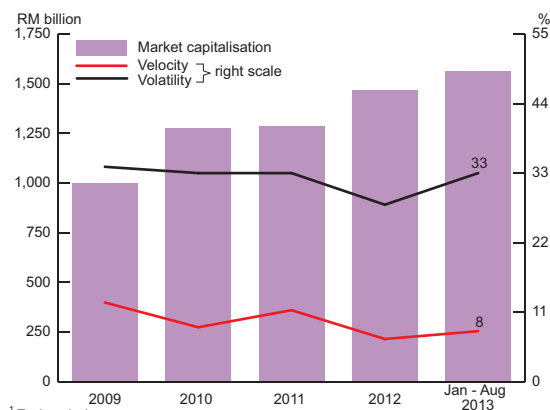
¹ End-period.
Source: Bursa Malaysia.

CHART 5.11
Performance of Selected Stock Markets



Source: Bloomberg.

CHART 5.12
Bursa Malaysia: Market Capitalisation¹,
Velocity and Volatility



¹ End-period.
Source: Bursa Malaysia.

market declined further by another 45.04 points following foreign funds outflow from the Asian markets including Malaysia, in anticipation of the tapering of the Fed's monetary stimulus in the near future. Despite the higher second quarter GDP growth, investors' sentiment was affected by the narrowing of the country's current account surplus. Year-to-date, the FBM KLCI gained 38.63 points or 2.3% to close at 1,727.58 points as at end-August 2013 (end-August 2012: 115.38 points; 7.5%; 1,646.11 points).

In September 2013, the FBM KLCI continued to record gains supported by Japan's successful bid to host the 2020 Olympics, China's strong trade data and the receding threat of a US-led strike on Syria. The market was also boosted by the Fed's unexpected decision not to scale back its stimulus programme until the economy improved further. The FBM KLCI closed above the 1,800-point level to record 1,801.83 points on 20 September 2013. However, the market retreated slightly amid concerns over the progress by US lawmakers in the country's budget talks. The FBM KLCI closed at 1,768.62 points as at 30 September 2013 (end-September 2012: 1,636.66 points).

Market capitalisation increased 9.2% to RM1,563.9 billion in the first eight months of 2013 (end-August 2012: 15.3%; RM1,431.6 billion). However, total market transactions declined by 5.2% to 234.7 billion units during the period (January – August 2012: 16.4%; 247.5 billion units). Total market transactions value increased 17.5% to RM331.4 billion (January – August 2012: -10.7%; RM282 billion). Market velocity and market volatility increased to 33% and 8% (January – August 2012: 30%; 5.5%), respectively. The total number of companies listed in Bursa Malaysia decreased to 911 as at end-August 2013 (end-2012: 921).

During the first eight months of 2013, Malaysia receiving good ratings from the World Bank in its Corporate Governance Report on Observance of Standards and Codes 2012 (ROSC). Malaysia was also recognised as a regional leader in corporate governance, and for having made

ASEAN Trading Link

The launch of the ASEAN Trading Link in September 2012 was another milestone towards the establishment of the ASEAN Economic Community, which will see the economies of the 10-member countries becoming an integrated economic community by 2015. The link was borne out of the collaboration of seven exchanges, namely Bursa Malaysia, Hanoi Stock Exchange, Hochiminh Stock Exchange, Indonesia Stock Exchange, The Philippine Stock Exchange Inc., Singapore Exchange, and The Stock Exchange of Thailand. The ASEAN Exchanges were formed with a mission to establish an interlinked ASEAN capital market via greater cross-border investments, mobilisation of intra-ASEAN funds and trading of security markets.

The ASEAN Trading Link allows investors easier and more seamless access to greater investment opportunities in the region, and for companies listed on the region's bourses to tap a wider pool of capital. The first phase of the link saw the connectivity between Bursa Malaysia and Singapore Exchange on 18 September 2012, followed by The Stock Exchange of Thailand on 15 October 2012. The other Exchange members will join the link following their respective readiness as each exchange is at a different level of development, depending on their technical and regulatory framework.

The seven exchanges have a combined market capitalisation of over USD2 trillion and more than 3,000 companies listed. The ASEAN Exchanges website (www.aseanexchanges.org) provides a single, integrated view of the ASEAN capital market, with access to aggregated ASEAN market data and analytics as well as the performance of the seven exchanges individually. The website is built around the ASEAN Stars, the 180 ASEAN blue-chip stocks, which represented the 30 most exciting companies of each ASEAN country, selected on the basis of market capitalisation and liquidity.

To further promote ASEAN as an asset class, the Invest ASEAN 2013 series of roadshows made its debut in Bangkok on 12 January 2013, with the objective to empower investors with knowledge and insights on the ASEAN capital market and to increase the pool of regional retail investors. Subsequent roadshows were held in Singapore on 2 February, Kuala Lumpur on 2 March, and Ho Chi Minh on 30 March 2013. As part of the roadshows, 30 of the leading blue-chip companies in each market were promoted in a bid to raise the profile of the ASEAN market as a highly investable asset class.

substantial progress in improving the legal and regulatory framework in relation to corporate governance. Moreover, the European Commission with the assistance of the European Group of Auditors Oversight Bodies has acknowledged Malaysia's audit framework, which is at par with international best practices. The acknowledgement confirmed Malaysia's ongoing efforts in warranting independent audit oversight over public interest entities.

On 27 August 2013, the Securities Commission Malaysia (SC) in collaboration with industry players, launched the Graduate Representative Programme 1000 (GRP1000), a specialised and structured programme to train 1,000 graduates as licensed representatives for the capital market in the next three years. The initiative was part

of the SC's ongoing efforts to develop skills and capacity for the industry to further drive growth in the capital market.

On the regional front, the SC, Monetary Authority of Singapore and the Securities and Exchange Commission Thailand implement the ASEAN Disclosure Standards Scheme on 1 April 2013. The Scheme was developed to facilitate cross-border offerings of plain equity and debt securities and support fund-raising activity in the region. Under the Scheme, the issuer needs to provide only a single set of disclosure documents that comply with the ASEAN Disclosure Standards, thus increasing efficiency and reducing costs. The Scheme is benchmarked against the International Organisation of Securities Commission (IOSCO) disclosure standards on cross-border offerings.

Other ASEAN members will adopt the Scheme as and when they are ready to do so, based on the opt-in principle.

SC signed a series of Memoranda of Understanding (MoUs), with European Union (EU) securities regulators from 24 countries to cooperate on the supervision of cross border offering of alternative investment funds, which came into force on 22 July 2013. As required under the EU Alternative Investment Fund Managers (AIFM) Directive, signatories of the MoUs agreed to provide mutual assistance in the supervision and oversight of managers of alternative investment funds, their delegates and depositories that operate on cross border basis in the interest of investor protection, fostering market and financial integrity and maintaining confidence and systemic stability. These supervisory arrangements pave the way for Malaysian fund managers to perform fund management activities on behalf of EU fund managers to manage and market alternative investment funds, including private equity and infrastructure funds, in the EU. At the same time, EU fund managers would also be able to manage Malaysian alternative investment funds, providing a gateway for Malaysia to attract international capital from foreign investors.

Strong derivatives market

Trading in the **derivatives market** rose 21.5% to 7.3 million contracts in the first eight months of 2013 (January – August 2012: 6.3%; 5.9 million contracts). The turnover of FBM KLCI futures (FKLI) and crude palm oil futures (FCPO) accounted for almost all the trading in the derivatives market, representing 99.7% of total trading (January – August 2012: 99.4%). Trading in the Kuala Lumpur Interbank Offered Rate (KLIBOR) futures was minimal while the 3-year and 5-year MGS futures as well as the single stock futures were not traded. During the first eight months of 2013, trading volume of FCPO improved 20.6% to 5.4 million contracts (January – August 2012: 13.3%; 4.5 million contracts), equivalent to 11.8 million metric tonnes of crude palm oil (January – August 2012: 12 million metric tonnes). Similarly, trading

volume of FKLI increased 26.2% to 1.9 million contracts (January – August 2012: -7.9%; 1.5 million contracts).

The performance of options on FKLI (OKLI) showed a slight decrease, with 4,045 contracts traded as at end-August 2013 (end-2012: 5,493 contracts). Meanwhile, trading in options on FCPO (OCPO) saw a significant increase of 2,486 contracts during the same period (end-2012: 821 contracts). The main users of the OKLI are retail customers while the OCPO, are institutional customers. Analysis shows that the volume of options increases whenever volatility increases. In February 2013, the Negotiated Large Trade (NLT) facility was extended to OKLI and OCPO. The NLT is an off-market trading facility that allows traders to transact orders of large sizes away from the trading system via their futures brokers.

Encouraging unit trust performance

The **unit trust** industry recorded a launch of 8 new funds during the first eight months of 2013, bringing the total to 597 funds (end-2012: 2 new funds; 589 funds). Total units in circulation

TABLE 5.9

Unit Trust Industry: Selected Indicators

	End-2012	End-Aug 2013
Number of management companies	40	40
Number of funds launched	589	597
Conventional	420	421
Islamic	169	176
Units in circulation (billion)	352	376
Number of accounts (million)	16	17
Net asset value (NAV) (RM billion)	295	324
Conventional	260	286
Islamic	35	38
Market capitalisation of Bursa Malaysia (%)	20.1	20.7

Note: Total may not add up due to rounding.
Source: Securities Commission Malaysia.

Private Retirement Scheme

The Private Retirement Scheme (PRS), which was launched by the Prime Minister in July 2012, was a milestone event for Malaysia and the capital market. The PRS comes under the third pillar of the Pension and Social Security Framework, which is aimed at providing Malaysian employees and the self-employed with an additional avenue to save for their retirement. In order to give effect to the Scheme, the Capital Markets and Services Act (CMSA) was amended in October 2011 to provide the legal framework to regulate and supervise the key participants and components of the PRS industry.

This was followed by the issuance of a set of guidelines and regulations, which included the Eligibility Requirements for Private Retirement Scheme Providers. This stipulated the expectations and requirements for interested and qualified parties applying to become PRS providers. Meanwhile, the Guidelines on Private Retirement Schemes laid out the regulatory and operational requirements to be complied by PRS providers, PRS scheme trustees and for investments of PRS schemes.

The Securities Commission Malaysia (SC) approved eight PRS Providers in April 2012. To provide an efficient administrative system for the overall private pension industry, the Private Pension Administrator was established in July 2012 to act as a central repository of all transactions made by contributors to private pension schemes in the country.

The first set of Schemes, comprising 24 funds were approved by the SC and offered to the public from November 2012 onwards. Since its inception, 10 Schemes with 36 retirement funds have been launched. As at end-August 2013, the net asset value reached RM147.3 million involving 36,663 PRS members.

To incentivise participation in the PRS, individuals are granted tax relief of up to RM3,000. In addition, employers are provided tax deduction on contributions to the PRS made on behalf of their employees above the statutory rate and up to 19% of employees' remuneration. Tax exemption is also provided on income received by the PRS funds.

On 25 June 2013, the SC held the first PRS Conference to discuss the growth prospects of the private pension industry, with talks by pension experts from Australia, the US and Hong Kong. The 1-day PRS conference, involving more than 300 public-listed companies from various industries, government-linked companies, small and medium enterprises, as well as employers and trade associations, was held to promote the benefits of PRS as part of the employers' talent retention strategy.

increased 6.9% to 375.7 billion units, while the number of accounts increased 3.2% to 16.6 million (end-2012: 11.1%, 351.6 billion units; 4.4%; 16.1 million). The size of the unit trust industry in terms of total net asset value (NAV) increased 9.8% to RM323.8 billion as at end-August 2013, accounting for 20.7% of market capitalisation on Bursa Malaysia (end-2012: 18.2%; RM294.9 billion; 20.1%). Equity funds were the

most preferred funds by investors, with net sales of RM17.9 billion, followed by money market funds, with RM2.8 billion (January – August 2012: RM13.7 billion; RM3.3 billion). The wholesale funds saw 14 new funds launched, bringing the total number of funds to 185 (end-2012: 38 new funds; 171 funds) and with a higher NAV of RM58.5 billion (end-2012: RM52.5 billion).

From January to August 2013, 22 new global funds were launched for investment in foreign markets (January – August 2012: 21 new funds). During the period, 18 global funds have invested RM1.4 billion in foreign markets (January – August 2012: 13 funds; RM1.4 billion). Overall, a total of 285 funds have invested in foreign markets with a total investment of RM21.7 billion, representing a foreign exposure of 6.7% of the industry's total NAV (end-2012: 279 funds; RM16.9 billion; 5.8%).

The **real estate investment trusts (REITs)** continued to grow during the first eight months of 2013. In March 2013, one new REIT application was approved, bringing the total number of REITs listed on Bursa Malaysia to 17 as at end-August 2013 (end-2012: 16 REITs). During the period, trading volume rose 62% to 2 billion units, while trading value increased significantly by 117.5% to RM3.6 billion (January – August 2012: 50.5%, 1.3 billion units; 68.2%, RM1.6 billion). As at end-August 2013, total market capitalisation increased to RM35 billion (end-2012: RM24.6 billion). Meanwhile, the total NAV stood at RM28.2 billion as at end-June 2013 (end-2012: RM20.4 billion).

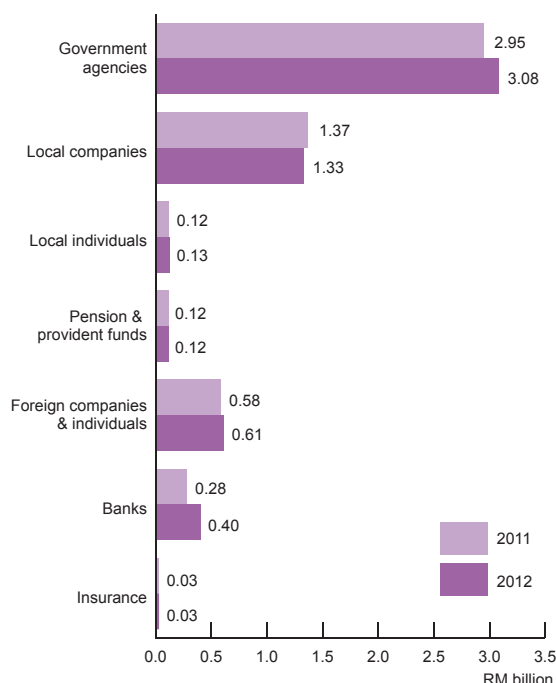
As at end-August 2013, the number of **exchange traded funds (ETFs)** listed on Bursa Malaysia remained unchanged at five, while the total market capitalisation increased to RM1 billion (end-2012: 5 ETFs; RM0.9 billion). Similarly, the volume transacted increased 10.1% to 114.3 million units (January – August 2012: -39.2%; 103.8 million units), while the value also increased 16.7% to RM124.9 million (January – August 2012: -39.5%; RM107.1 million).

VC investment is sustained

The **venture capital (VC)** industry remains an important source of financing for emerging high-growth companies. As at end-2012, the total number of registered venture capital

CHART 5.13

Source of Venture Capital Funds



Note: Total may not add up due to rounding.
Source: Securities Commission Malaysia.

companies (VCCs) increased to 59, while the number of venture capital management companies (VCMCs) increased to 53 companies (end-2011: 56 VCCs; 52 VCMCs). Total value of VC investment by sector decreased 9.1% to RM0.2 billion as at end-2012 (end-2011: -44.2%; RM0.3 billion), with the manufacturing sector accounting for 45%; life sciences, 26.4%; and information and communication technology, 7%. Meanwhile, in terms of VC investment by stage, the bulk of the funds were for expansion/growth (45.2%) and bridge/pre-IPO financing (32.2%). Total committed funds increased 4.4% to RM5.7 billion, with government agencies continuing to be the main source of financing, totalling RM3.1 billion or 54.1% of total funds committed as at end-2012 (end-2011: -8.4%, RM5.5 billion; RM3 billion, 54.1%). Currently, there are seven Islamic VCCs and five Islamic VCMCs.

Key Capital Market Measures

Several measures were undertaken in the first eight months of 2013 to further enhance liquidity and efficiency in the capital market. These included the following:

- On **2 January**, the Capital Markets and Services (Amendment) Act 2012 (CMSA 2012) came into force together with the issuance of several guidelines, which were aimed at encouraging market and product innovation, promoting market efficiency, and allowing more informed investment decisions. These included:
 - A new approval framework to distinguish between listed and unlisted capital market products with their distinct characteristics and differing risk profiles, and applies the appropriate level of regulation that commensurate with the risks attached. This enhances approval efficiency without compromising investor protection.
 - The Business Trusts Guidelines, which allow for greater fund raising flexibility and provides investors with an opportunity to invest in a new asset class.
 - Revising the Guidelines on Private Debt Securities and Sukuk to allow public-listed companies and banks to offer bonds and sukuk to retail investors.
 - The Guidelines on Sales Practices of Unlisted Capital Market Products to promote responsible conduct in the development and sale of unlisted capital market products.
 - The establishment of a consolidated Capital Market Compensation Fund with a widened scope to cover private retirement schemes as well as claims arising from mis-selling of products.
- On **3 January**, Bursa Malaysia implemented a unified “cross-market” surveillance platform for both the equity and derivatives markets to enhance investor protection and ensure a fair and orderly market. It is also in line with Bursa Malaysia’s broader effort to create a more facilitative trading environment for investors.
- On **28 February**, Bursa Malaysia Securities Berhad made amendments to its Rules to introduce some liberalisations and adopted a more principles-based regime in market regulation, where appropriate. The amended rules allow the Participating Organisations or securities brokers to enhance their efficiency and reduce their cost of doing business while not compromising on regulatory objectives. The amended rules came into effect on 2 May 2013.
- On **25 March**, Bursa Malaysia amended its rules to facilitate the listing of business trusts on the Main Market. Business enterprises with stable growth and cash flow may now consider business trusts as an alternative structure to raise capital through initial public offerings in Malaysia.
- On **25 March**, Bursa Malaysia also amended the Main Market Listing Requirements (LR) to facilitate listings of eligible foreign collective investment schemes such as foreign exchange traded funds or foreign business trusts recognised by the Securities Commission, on the Main Market.
- On **28 March**, Bursa Malaysia launched eRights, to facilitate electronic subscription and payment when subscribing for rights issues as well as the Nominee Rights Subscription e-services to facilitate the electronic rights subscription and payment for nominee companies.
- On **5 April**, the “Green Lane Policy” was introduced to shorten the time to market for equity brokers to commence their new activities, which includes the opening of new branches or electronic access facilities, the provision of margin financing and the commencement of proprietary trading. This policy came into effect on 2 May 2013.
- On **8 May**, Bursa Malaysia amended the Main Market LR to facilitate the listing of stapled securities. Stapled securities refer to an arrangement under which different types of securities are listed and traded as one security. The Main Market and ACE Market LR were also amended to enhance the current framework for enforcement action, particularly in the approach and process for enforcement actions.

Islamic Finance Developments

Promoting Malaysia as the Islamic finance marketplace

Promotion in **Islamic finance** continued with more significant efforts and commitment to increase and facilitate cross-border Islamic financial transactions with other global financial communities. Various activities were undertaken in Islamic finance domestically and internationally to further position Malaysia as the leader in Islamic finance. Domestic activities included the hosting of the 10th Islamic Financial Services Board (IFSB) Summit in Kuala Lumpur on 16 May 2013 with the theme “The Future of the Islamic Financial Services Industry: Resilience, Stability and Inclusive Growth”, to examine regulatory policies that underpinned inclusive growth with stability; the Islamic Finance Workshop Series for Judges, held on 28 and 29 June 2013 with the theme “Managing Islamic Banking Cases”; and the 15th Malaysian Finance Association Conference held in June with the theme “Financial Challenges and Economic Growth - The Way Forward”.

On the international front, Malaysia collaborated with several countries to further promote development of Islamic finance. BNM and Autoriti Monetari Brunei Darussalam entered into a memorandum of understanding on 3 April 2013 to establish a collaborative framework towards enhancing mutual cooperation in the development of the financial services sector, including Islamic finance. The International Shariah Research Academy for Islamic Finance (ISRA), in collaboration with the Islamic Research and Training Institute (IRTI) and Durham University, jointly organised the 3rd ISRA-IRTI-Durham University Strategic Roundtable Discussion in Jeddah with the theme, “Risk Sharing in Theory and Practice: Fiqhi Evidence vis-à-vis Current Reality”. Meanwhile, the 7th Regional Shariah Scholars Dialogue themed “Ujrah: Issues and Application in Islamic Finance” was held in Singapore on 29 and 30 May 2013. A bilateral meeting held on 28 August between BNM and the Hong Kong Monetary Authority discussed

the setting up of a private-led joint forum to advance the development of Islamic finance in Hong Kong. This is envisaged to open up new business opportunities in Islamic finance in Malaysia and Hong Kong.

In January this year, the SC gave approval to a Malaysian multinational conglomerate, one of the world’s largest plantation players that is also involved in development, property, energy and utilities as well as healthcare, to carry out a USD1.5 billion equivalent Multi-currency Sukuk Issuance Programme. The internationally rated Sukuk Programme under the Shariah principle of Ijarah is the first of its kind by an Asian corporation. The corporate ratings of A, A and A3 assigned by Standard & Poor’s, Fitch Ratings and Moody’s, respectively were higher or at par with Malaysia’s sovereign rating. The Sukuk Programme provided the corporate with financial agility to meet its funding requirements as its business expands globally. It also enabled the company to tap a wider pool of investors, both conventional and Islamic, from Asia, the Middle East and Europe. The inaugural issuance of the USD800 million 5-year and 10-year sukuk was oversubscribed more than 10 times. Asian investors took up about 70% of the total sukuk issued. It was a landmark transaction with the lowest ever coupon by any corporate globally in the USD sukuk market; the lowest ever US dollar coupon in sukuk format by an Asian issuer; and the lowest ever coupon by a Malaysian borrower in the USD market, in both the 5-year and 10-year tenures.

On 1 August 2013, the Malaysia Islamic finance marketplace was introduced with a new brand identity, “Malaysia: World’s Islamic Finance Marketplace”, to position Malaysia as an Islamic finance marketplace to the world. This is a culmination of the concerted efforts of the Islamic financial industry community to develop Islamic finance in Malaysia since its inception 30 years ago, into a comprehensive and sophisticated Islamic finance marketplace. The key components of the Marketplace include Islamic banking, Islamic capital market, takaful and re-takaful,

Islamic money market, professional ancillary services, talent development infrastructure as well as Islamic fund and wealth management. The Marketplace is open to global industry players and market participants to collaborate with and mutually benefit from a highly conducive business environment of innovation, expertise and deal flows.

The KL-based International Islamic Liquidity Management Corporation (IILM), established by nine central banks/monetary authorities and the Islamic Development Bank, issued its first USD-denominated 3-month sukuk amounting to USD490 million, in August 2013. The sukuk, backed by sovereign assets, was rated A1 by Standard & Poor's and was fully subscribed by primary dealers. The IILM short-term sukuk meets the market demand for highly rated short-term Shariah-compliant cross-border liquidity instruments and complements the intermediate and long-term sukuk currently

available in the market. By creating more liquid Shariah-compliant financial instruments for Institutions Offering Islamic Financial Services (IIFS), the IILM will enhance cross-border investment flows, international linkages and financial stability.

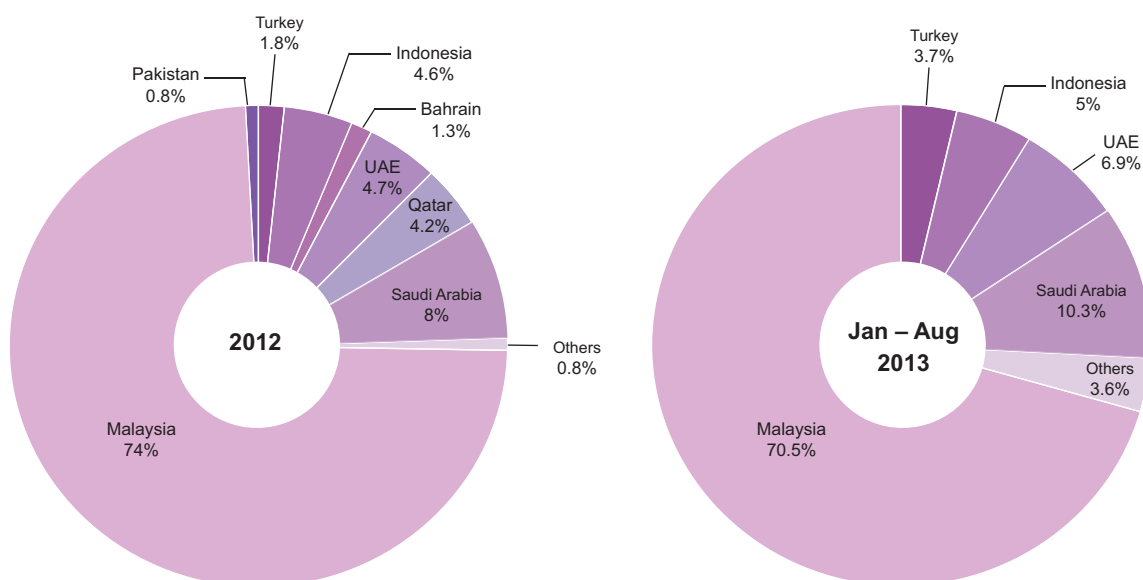
Islamic capital market expands

The **Islamic capital market** continued to be a significant source of financing through sukuk issuances as well as providing opportunities for corporates to tap into new sources of liquidity in the region. As at end-August 2013, 799 Shariah-compliant securities were listed on Bursa Malaysia, representing 87.7% of total listed securities with a market capitalisation of RM995.7 billion or 63.7% of total market capitalisation (end-2012: 813 securities, 88.3%; RM942.2 billion, 64.3%). In the first eight months of 2013, the trading volume of Shariah-compliant securities increased to 197.5 billion units, representing 81%

CHART 5.14

New Sukuk Issuances by Country

(% share)



Note: Total may not add up due to rounding.
Source: Securities Commission Malaysia.

of the total 243.9 billion units traded (January – August 2012: 189 billion units; 76.4%; 247.5 billion unit traded). Malaysia remains the global leader in the sukuk market, accounting for 70.5% of the USD75 billion of new sukuk issued globally during the first eight months of 2013. Malaysia is also a domicile for 63.6% of the USD275.2 billion of total sukuk outstanding globally as at end-August 2013. Meanwhile, Bursa Malaysia continued to be ranked as the top exchange for sukuk listings valued at USD32.3 billion or RM106.6 billion, with a total of 19 sukuk listed (end-August 2012: USD31.7 billion; RM99.4 billion; 19 sukuk). Similarly, Bursa Suq Al-Sila', an end-to-end Shariah compliant commodity murabahah trading platform has attracted increasing foreign interest, especially from the Middle East. As at end-August 2013, Bursa Malaysia Islamic Services registered a total of 74 participants comprising 56 commodity trading participants, 14 commodity supplying participants and four commodity executing participants. As of August 2013, RM311.8 billion worth of commodities were offered with RM579.4 billion traded.

Malaysia remains among the global leaders in the Islamic fund management industry. An application by a US-based Islamic fund management was approved in May 2013, bringing the total number of Islamic fund management companies to 19 (end-2012: 18 companies). During the same period, seven additional Islamic unit trust funds and seven Islamic wholesale funds were launched, bringing the total to 176 and 48 funds, respectively (end-2012: 169 Islamic unit trust funds; 41 Islamic wholesale funds). As at end-August 2013, the total NAV of Islamic unit trust funds stood at RM38 billion and Islamic wholesale funds at RM15.8 billion (end-2012: RM35 billion; RM16.2 billion). Meanwhile, Islamic REITs increased to four, with a market capitalisation of RM15.6 billion as at end-August 2013 (end-2012: 3 REITs; RM3.5 billion), while the market capitalisation of the sole Islamic ETF remained unchanged from end-2012 at RM0.3 billion.

On 8 January, the Exchange Traded Bonds and Sukuk (ETBS) was launched to create a new asset class, which was opened for public/retail investment till book closing on 25 January 2013. ETBS are listed fixed income securities which offer pre-determined returns in the form of coupons paid out over regular intervals. Bonds/sukuk which used to be the domain of institutional investors and high networth individuals, are for the first time offered to retail investors with a minimum investment of RM1,000. The debut issuance of the ETBS or DanaInfra Retail Sukuk by DanaInfra Nasional Berhad totalled RM300 million with a 10-year maturity period and will be used to partly fund the MRT project, giving Malaysians the opportunity to invest in the nation's key transport infrastructure. To further incentivise trading of ETBS on Bursa Malaysia, investors will enjoy non-taxable coupon payments, thereby providing better returns on the ETBS. The Government has also approved the utilisation of investors' EPF Account 1 for investment in ETBS instruments or Government and Government guaranteed bonds and sukuk.

Further growth of Islamic banking

The **Islamic banking** industry has shown significant growth over the last five years, with assets doubling from RM251 billion in 2008 to RM494.6 billion in 2012. As at end-August 2013, the market share of Islamic banking assets (including DFIs) increased to 24.4% of the total banking system assets (end-2012: 23.8%). Islamic banking assets grew 13% to RM542.5 billion (end-2012: 15.4%; RM494.6 billion). Total deposits rose 12.7% to RM416 billion and accounted for 30.4% of total deposits in the banking system (end-2012: 14.3%; RM386.2 billion; 25.6%). Total Islamic financing continued to grow 16.6% to RM348.4 billion and represented 26.9% of the total loans in the banking system (end-2012: 17.4%; RM315 billion; 25.8%).

The household sector continued to account for the bulk of Islamic financing at 65.9% (end-2012: 63%). Meanwhile, the manufacturing

TABLE 5.10

Islamic Banking¹: Key Indicators

	RM billion		Change (%)	
	End-2012	End-Aug 2013	End-2012	End-Aug 2013
Assets	494.6	542.5	15.4	13.0
Deposits	386.2	416.0	14.3	12.7
of which:				
Investment	180.0	170.2	10.1	-5.4
Savings	33.0	34.3	24.2	10.3
Demand	56.9	55.8	16.3	7.1
Others	116.3	155.8	18.6	46.8
Financing	315.0	348.4	17.4	16.6
of which:				
Manufacturing	18.0	17.4	13.0	1.6
Construction	14.1	16.0	34.6	15.6
Finance, insurance and business services	17.1	17.1	31.1	16.0
Education, health and others	15.1	17.3	28.6	16.7
Households	198.5	229.8	13.1	18.4

¹ Includes development financial institutions (DFIs).

Note: Total may not add up due to rounding.

Source: Bank Negara Malaysia.

sector accounted for 5% or RM17.4 billion (end-2012: 5.7%; RM18 billion) followed by finance, insurance and business services at 4.9% or RM17.1 billion (end-2012: 5.4%; RM17.1 billion) and construction at 4.6% or RM16 billion (end-2012: 4.5%; RM14.1 billion).

Takaful industry improves further

The **takaful industry** continued to expand during the first eight months of 2013. As at end-August 2013, the takaful industry assets expanded 10.7% to RM20.4 billion (end-2012: 8.8%; RM19 billion) and accounted for 9.3% of total insurance and takaful industry assets. Most of the assets were held in sukuk

TABLE 5.11

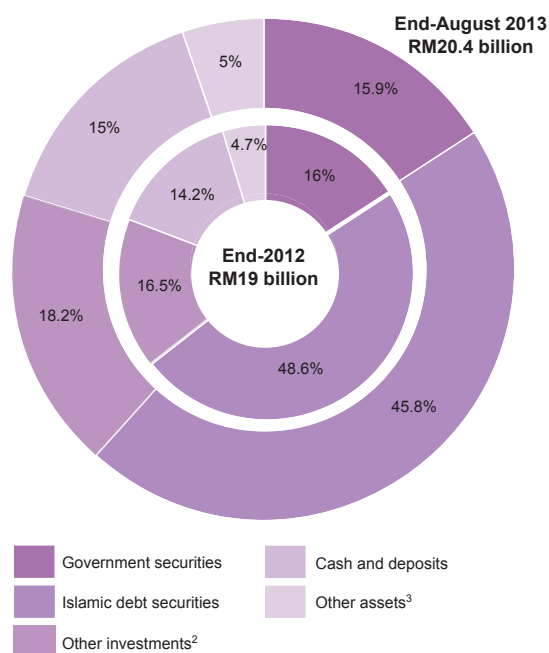
Family and General Takaful Business

	2012	2013 Jan – Aug
Family Takaful		
New business		
Total contributions (RM billion)	3.5	2.0
Sums covered (RM billion)	14.7	11.6
Number of certificates (units)	884,269	604,293
Business in force		
Annual contributions (RM billion)	2.4	2.6
Sums covered (RM billion)	14.3	14.3
Number of certificates (units)	3,852	4,072
General Takaful		
Gross direct contributions (RM billion)	1.7	1.3
Net contributions (RM billion)	1.3	1.0

Source: Bank Negara Malaysia.

CHART 5.15

Assets of Takaful Funds¹ (% share)



¹ Assets of family and general takaful funds.

² Other investment = Investment properties + others.

³ Other assets = Fixed assets + financing + foreign assets + others.

Source: Bank Negara Malaysia.

(45.8%) as well as cash and deposits (15%). During the period, the overall industry's profit totalled RM1.7 billion.

The excess of income over outgo for **family takaful** business decreased to RM1.5 billion (January – August 2012: RM1.7 billion) due to higher capital losses and net certificate benefits paid to date. The market penetration rate of family takaful business rose to 13.9% (end-2012: 13.1%).

The operating profit for **general takaful** business increased 24.3% to RM221.1 million (January – August 2012: 3.7%; RM177.9 million) with improved underwriting profits arising from higher contributions and lower net claims. The general takaful gross direct contributions increased 9.4% to RM1.3 billion (January – August 2012: RM1.2 billion), driven by the fire, motor and personal accident businesses. Overall industry claims ratio improved to 55.9% mainly due to lower net claims incurred from motor business.

To support the operationalisation of the IFSA, the Risk-based Capital Framework for Takaful Operators was updated on 26 June 2013. The Framework, which was originally issued on 30 October 2012, sets out capital requirement that is sensitive to the risk profile of individual takaful operators. The Framework is scheduled for full implementation on 1 January 2014 after a one-year parallel run. The updates aim to strengthen the level of prudence as well as the safety and soundness of takaful operators.

Enhancements were also made to the Guidelines on Takaful Operational Framework to reflect the recent rulings by the Shariah Advisory Council in relation to the distribution of surplus from the Participants' Risk Fund to the takaful operator. The

Guidelines were also updated to incorporate the relevant policies from the Takaful Act 1984 and Insurance Act 1996, which were repealed on 30 June 2013, to ensure continuous enforcement of policies relevant to takaful upon implementation of the IFSA.

Prospects for 2014

Global growth is expected to strengthen moderately in 2014 as some developed economies emerged from recession amid the overall positive effects from the stimulus measures undertaken. However, emerging economies remain vulnerable to the reeling in of stimulus measures, especially by the US. As such, the Malaysian economy is expected to grow between 5% and 5.5% supported by domestic demand. With the external sector likely to be sluggish, growth will be driven by resilient private consumption and the ongoing implementation of infrastructure projects. With stronger domestic financial institutions and reserves, the economy is well positioned to manage any vulnerability. Inflation is expected to be stable. Monetary policy will continue to focus on promoting price stability and support the expansion of economic activities.

The Financial Sector Blueprint (2011-2020) and the Capital Market Masterplan 2 (2011-2020) are expected to continue to drive the development of the domestic financial sector, including the expansion and internationalisation of Islamic finance. As the country transitions towards a high value-added, high-income economy, the financial sector will play a key role in spurring new areas of growth and facilitate the economic transformation. In this regard, a critical success factor is ensuring the supply of a deep pool of highly-skilled talent.

