

MONETARY AND FINANCIAL DEVELOPMENTS | 5

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Overview

Financial sector remains strong

Amid a more challenging environment, including moderate global growth, declining commodity prices and weakening ringgit, the Malaysian financial system remains strong. Despite volatility in capital flows, the financial intermediation process was unaffected. The monetary policy remains accommodative and supportive of economic growth in 2015. During the first eight months of 2015, interest rates remained stable with the Overnight Policy Rate (OPR) at 3.25%, which was appropriate to support economic activity and to manage the inflation expectations. Meanwhile, inflation was lower at 1.9% for the first eight months of 2015, benefiting from lower domestic fuel prices despite the implementation of Goods and Services Tax (GST).

In the first eight months of 2015, the US dollar appreciated against other major and regional currencies, including the ringgit. There has been significant portfolio outflow from regional financial markets due to an improving US economy along with increased expectations of higher US interest rates. In addition, other factors affecting regional currencies include subdued commodity prices and yuan devaluation.

Financing in the banking system and capital market was orderly despite increasing downside risks to global growth and heightened volatility in international financial markets. Financial intermediation activities continued to be well-supported by sound financial institutions, stable financial market conditions and ample liquidity. Furthermore, the banking system remains sound and well-capitalised with the capital ratios well above the minimum regulatory levels coupled with a stable credit risk exposure. Lending in the banking system continued to expand in the first eight months of 2015 with loan indicators posting positive growth.

Malaysia continued its dominance in the sukuk market accounting for 54.9% of global sukuk outstanding at USD312.9 billion as at end-June 2015. However, global sukuk issuance during the first six months of 2015 was down by almost half compared with the corresponding period of 2014. Issuances were affected by weaker sentiment in financial markets over concerns on global growth outlook and declining commodity prices. In April 2015, the Government successfully issued its fourth US dollar-denominated sovereign global sukuk amounting to USD1.5 billion. The overwhelming response to the *wakala* sukuk issued in dual tranches of 10-years and 30-years reflected investors' confidence in Malaysia's economic fundamentals. The 30-year sovereign sukuk issuance was the world's first longest tenure, further strengthened Malaysia as a global leader in the sukuk market.

Monetary Developments

Monetary Policy

Monetary policy remains accommodative

Monetary policy in 2015 continues to focus on ensuring steady growth of the Malaysian economy amid the moderate global economic outlook as well as increased uncertainties in the external environment. The domestic economy continued to expand by 5.3% in the first half of 2015 (January – June 2014: 6.4%) driven by resilient domestic demand. Meanwhile, the inflation rate remained benign, averaging 1.9% for the first eight months of 2015 (January – August 2014: 3.3%), benefiting from lower domestic fuel prices. Supported by sound fundamentals, the economy is expected to remain on a steady growth path, with domestic demand as the driver of growth.

Amid signs of slowing global growth, weaker commodity prices and increased volatility in financial markets, the OPR was held at 3.25% in the first eight months of 2015, unchanged since July 2014. At the prevailing level of the OPR, the monetary policy stance remains accommodative of economic activity. Similarly, the statutory reserve requirement (SRR) has been kept at 4.00% since July 2011. Given the heightened uncertainties in the global environment, both external and domestic developments are closely monitored to assess their impact on macroeconomic stability and growth prospects of the economy.

Interest rates remain stable

Interest rates in the banking system remained stable in line with the unchanged OPR in the first eight months of 2015. On 2 January 2015, the base rate (BR) was introduced to replace the base lending rate (BLR) as the main reference rate for new retail floating rate loans. The BR is expected to benefit borrowers and financial institutions, while facilitating a more effective transmission of monetary policy changes to the economy. As at end-August 2015, the average BR declined by five basis points to 3.85% since it was introduced. However, the BLR of commercial banks held steady at 6.79% during the same period (end-2014: 6.79%). Meanwhile, the weighted average lending rate (ALR) of commercial banks fell by 13 basis points to 5.38% as at end-August 2015 (end-2014: 5.51%). Similarly, the savings deposit rate decreased by two basis points to 1.05% as at end-August 2015 (end-2014: 1.07%).

The interest rate on fixed deposits for tenures of 1-month to 12-month remained unchanged within the range of 3.08% and 3.31% during the first eight months of 2015. Despite a gradual increase in the inflation rate, which rose to 3.1% in August 2015, the real rates of return on fixed deposits remained positive except the 1-month maturity.

Monetary aggregates expand moderately

Monetary aggregates continued to grow during the first eight months of 2015. M1 or narrow money increased at a faster pace of 8.8% to RM351.5 billion as at end-August 2015 (end-2014: 5.7%; RM346.4 billion). This was mainly supported by the increase in demand deposits, which rose by 7.8% amounting to RM276.1 billion. Meanwhile, M3 or broad money expanded at a slower pace of 4.6% to RM1,563.2 billion as at end-August 2015 (end-2014:

7%; RM1,553.8 billion). The moderate growth in M3 was due to the decline in net foreign assets and net claims on the Government. However, the moderation in M3 was mitigated by higher credit extended by banking institutions to the private sector, which grew by 9.3% to RM1,513.7 billion.

Ringgit depreciates along with regional currencies

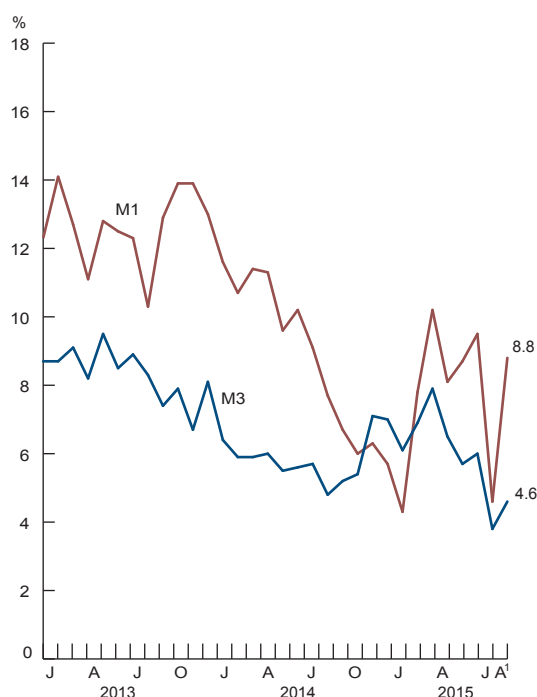
The **ringgit** weakened against major and regional currencies in the first nine months of 2015. The ringgit, along with most major and regional currencies, were generally on a depreciating trend due to the strengthening of the US dollar amid improving US economy and expectation of interest rate hikes. Uncertainties on the developments in Greece as well as growing concerns over China's slowing economy and yuan devaluation in August also affected the performance of regional currencies. Furthermore, the ringgit experienced sharper declines during the period due to plunging crude oil prices and domestic factors.

In September, the ringgit slipped further by 5.2% against the US dollar despite the US Federal Reserve's (Fed) decision to delay the interest rate hike. In line with other regional markets, the ringgit was also affected by factors such as persistent falling global crude oil prices, slowdown in China's economy, moderate global growth outlook as well as risk of foreign outflows in the domestic capital market. The ringgit also softened against other major and regional currencies between 1% and 6%. From January to September 2015, the ringgit depreciated against the

CHART 5.1

Monetary Aggregates

(% annual change)



¹ End-August 2015.
Source: Bank Negara Malaysia.

TABLE 5.1

Factors Affecting M3 January – August

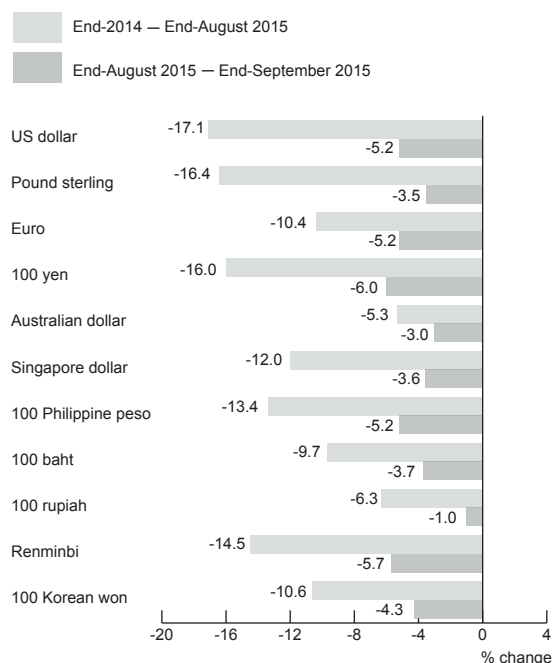
	Change (RM billion)	
	2014 ¹	2015
M3	41.8	9.3
Net claims on Government	11.9	-25.8
Claims on private sector	64.0	74.4
Loans	60.3	68.6
Securities	3.7	5.8
Net foreign assets	15.9	-33.8
Bank Negara Malaysia	-17.6	-47.9
Banking system	33.5	14.2
Other influences	-49.9	-5.5

¹ Beginning January 2014, the compilation of monetary aggregates uses data collected based on a new taxonomy.

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

CHART 5.2

Performance of Ringgit Against Selected Currencies



Source: Bank Negara Malaysia.

US dollar by 21.4%, the Japanese yen (21.1%), the pound sterling (19.3%) and the euro (15.1%). The ringgit also eased in the range of 7.3% to 19.4% against other regional currencies.

Financial Sector Developments

Banking System Performance

Lending growth moderates

The loan performance of the banking system recorded some moderation during the first eight months of 2015. Total **loan applications** and **loans approved** rebounded by 0.2% to RM536.8 billion and 1.5% to RM260.8 billion, respectively (January – August 2014: -0.5%, RM535.9 billion; -1.4%, RM257 billion). Total **loans disbursed** by the banking system grew by 2.1% to RM706 billion (January – August 2014: 13.3%; RM691.4 billion) on account of high disbursement in business loans. Meanwhile, total **loans outstanding** expanded by 10.2% to RM1,412.8 billion as at end-August 2015 (end-2014: 9.3%; RM1,339.7 billion).

Lending to businesses during the first eight months of 2015 also grew at a moderate pace. Loan applications by the business sector increased by 1.9% to RM251.8 billion during the period (January – August 2014: 4.6%; RM247.1 billion), while loan approvals to the business sector rebounded with a strong growth of 20.4% to RM116.1 billion (January – August 2014: -6.6%; RM96.4 billion). Meanwhile, loan disbursements to businesses grew by 3.1% to RM506 billion (January – August 2014: 18.5%; RM490.6 billion). The disbursements were mostly channelled to the manufacturing sector, accounting for 19.4% of total loan disbursements, followed by wholesale and retail trade, restaurants and hotels sector (18.3%) as well as finance, insurance and business activities sector (8.7%). Total loans outstanding to the business sector increased by 11.5% to RM522.8 billion as at end-August 2015 (end-2014: 9.4%; RM493.4 billion).

During the first eight months of 2015, **financing for small and medium enterprises (SMEs)** recorded a positive growth with a rebound in applications and approvals at 5.6% and 2.6%, respectively (January – August 2014: -6.5%; -11%). Meanwhile, loan disbursements to SMEs posted a double-digit growth of 15.3% to RM174.5 billion (January – August 2014: 1.2%; RM151.3 billion). Total SME loans outstanding rose by 17.7% to RM251.2 billion, accounting for 48% of total loans to businesses as at end-August 2015 (end-2014: 14%; RM225.9 billion; 45.8%). Most of the SME loans were channelled to the finance, insurance and business activities sector (28.8%) as well as the wholesale and retail trade, restaurants and hotels sector (24.6%).

TABLE 5.2

Banking System: Loan Indicators January – August

	RM billion		% Change	
	2014	2015	2014	2015
Total¹				
Loan applications	535.9	536.8	-0.5	0.2
Loan approvals	257.0	260.8	-1.4	1.5
Loan disbursements	691.4	706.0	13.3	2.1
Loans outstanding ²	1,281.9	1,412.8	8.6	10.2
of which:				
Business				
Loan applications	247.1	251.8	4.6	1.9
Loan approvals	96.4	116.1	-6.6	20.4
Loan disbursements	490.6	506.0	18.5	3.1
Loans outstanding ²	468.9	522.8	6.7	11.5
of which:				
SMEs				
Loan applications	119.9	126.6	-6.5	5.6
Loan approvals	42.5	43.6	-11.0	2.6
Loan disbursements	151.3	174.5	1.2	15.3
Loans outstanding ²	213.5	251.2	11.9	17.7
Households				
Loan applications	288.8	285.1	-4.6	-1.3
Loan approvals	160.6	144.7	2.0	-9.9
Loan disbursements	200.9	200.0	2.4	-0.4
Loans outstanding ²	738.5	799.8	11.0	8.3

¹ Include 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.

Apart from the banking system, financing for SMEs was also sourced from various **special revolving funds¹** administered by Bank Negara Malaysia (BNM). Total financing amounting to RM26.7 billion was given to 65,532 SMEs, drawing an average utilisation rate of 70.4% as at end-August 2015 (end-August 2014: 60,925 SMEs; RM25.1 billion; 68.8%). In the first eight months of 2015, loan approvals were granted to 4,617 SMEs amounting to RM1,572.7 million (January – August 2014: 2,136 SMEs; RM836.2 million).

Microenterprises also continued to have access to financing through *Skim Pembiayaan Mikro*. Currently, seven banking institutions and three development financial institutions (DFIs) provide **microfinancing** to entrepreneurs through conventional and Islamic products via more than 2,200 access points. Under the scheme, total loans outstanding increased by 4.1% to RM892.1 million as at end-August 2015 (end-2014: 0.7%; RM863.2 million). In the first eight months of 2015, a total of 11,601 microenterprise accounts worth RM233.3 million were approved (January – August 2014: 11,018 accounts; RM207.3 million).

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); Bumiputera Entrepreneurs Projects Fund – Islamic (2009) and SRF was established in January 2015 to assist businesses that were affected by floods and closed for new applications on 30 June 2015.

TABLE 5.3

**Loans Outstanding by Sector
(as at end-period)**

	RM billion		% Share	
	2014	2015 Aug	2014	2015 Aug
Business	493.4	522.8	36.8	37.0
Large corporations ¹	267.5	271.7	20.0	19.2
SMEs	225.9	251.2	16.9	17.8
<i>Selected sectors</i>				
Primary agriculture	31.5	37.1	2.4	2.6
Mining and quarrying	9.4	12.9	0.7	0.9
Manufacturing	100.9	103.3	7.5	7.3
Electricity, gas and water supply	12.9	10.8	1.0	0.8
Wholesale and retail trade, restaurants and hotels	98.6	105.1	7.4	7.4
Construction	57.8	59.3	4.3	4.2
Real estate	85.4	92.8	6.4	6.6
Transport, storage and communication	32.8	35.5	2.5	2.5
Finance, insurance and business activities	93.9	93.3	7.0	6.6
Households²	762.0	799.8	56.9	56.6
of which:				
Purchase of residential properties ³	368.1	396.6	27.5	28.1
Purchase of passenger cars ³	142.7	145.6	10.6	10.3
Consumption credit ^{3,4}	95.3	96.4	7.1	6.8
of which:				
Credit cards ³	35.1	34.3	2.6	2.4
Personal use ³	59.6	61.9	4.4	4.4
Other sectors	84.4	90.1	6.3	6.4
Total⁵	1,339.7	1,412.8	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.

⁵ Total = Business + Households + Other sectors.

Note: Total may not add up due to rounding.

Source: Bank Negara Malaysia.

Bank Simpanan Nasional (BSN), Agrobank and Bank Rakyat continued to play a significant role in supporting microfinance activities. Microfinance outstanding through these DFIs stood at RM773.1 million as at end-August 2015, accounting for 86.7% of total microfinance outstanding (end-2014: RM749.5 million; 86.8%). During the first eight months of 2015, a total of 9,642 microfinance accounts amounting to RM197.4 million were approved (end-2014: 14,788 accounts; RM285.5 million).

During the first eight months of 2015, **household loan** applications and approvals decreased by 1.3% and 9.9%, respectively (January – August 2014: -4.6%; 2%). Loans disbursed to households also fell marginally by 0.4% to RM200 billion during the period (January – August 2014: 2.4%; RM200.9 billion). In terms of share, loans disbursed to the household sector were mainly for consumption

credit which totalled RM86.4 billion or 43.2% of total household loan disbursements (January – August 2014: RM85 billion; 42.3%), followed by loans for purchase of residential properties at RM56.2 billion or 28.1% (January – August 2014: RM52.8 billion; 26.3%). Total household loans outstanding grew by 8.3% to RM799.8 billion and accounted for 56.6% of total loans outstanding in the banking system as at end-August 2015 (end-2014: 9.9%; RM762 billion; 56.9%).

Total household debt, which includes loans provided mainly by the banking system, DFIs and Treasury Housing Loans Division, has been on a moderating trend since 2012, growing by 7.9% as at end-August 2015 to account for 88.1% of nominal GDP (end-2014: 9.4%; 86.8%). This was largely due to the implementation of the macro-prudential measures taken since 2010 to rein in the excessive accumulation of household debt and to avoid financial imbalances. In addition, underlying this trend is the continued moderation in the expansion of personal financing by non-banks, which grew by 3.7% during the period (end-2014: 5.2%). The expansion in household debt has been supported by sustained increase in household financial assets. At the aggregate level, household financial buffers remained strong and are consistently maintained at more than two times of household debt. As at end-August 2015, household financial assets grew by 4% to RM2,058.8 billion with the composition of financial assets remaining broadly unchanged (end-2014: 6%; RM2,018.2 billion). More than half of liquid financial assets of households are in the form of deposits and deposit-like instruments, providing households with access to quick liquidity to meet any increase in financial expenditure.

The risks to domestic financial stability arising from household indebtedness and increasing property prices continued to remain manageable as a result of measures implemented since 2010. The measures include promoting a sustainable property market and curbing speculation activities; implementation of macroprudential policy to ensure prudent credit; and encouraging responsible individuals and financial institutions on financial matters. The implementation of the Guidelines on Responsible Financing introduced in 2012 to promote prudent credit underwriting and affordability assessment contributed to improvements in the debt servicing capacity of borrowers.

Resilient banking system

The **banking system** remained well-capitalised. As at end-August 2015, the common equity tier 1 (CET1) capital ratio, tier 1 capital ratio and total capital ratio were well above the minimum regulatory levels at 12.1%, 12.7% and 14.8%, respectively (end-2014: 12.8%; 13.6%; 15.5%). More than 80% of the banks' total capital consists of high quality capital in the form of retained earnings, paid-up capital and reserves. Total capital buffers in excess of

minimum regulatory requirement were sustained at above RM98 billion (end-August 2014: RM97 billion). Similarly, liquidity in the banking system remained ample. As at end-August 2015, the banks' surplus liquidity placed with BNM, remained in excess of RM110 billion. In the first eight months of 2015, the banking system recorded a slightly lower pre-tax profit of RM19.7 billion (January – August 2014: RM21.7 billion). The banking system continued to record steady profit, despite competitive pressures especially in the retail financing market. Profitability was also supported by revenue from other fee-based activities, such as investment banking and payment-related services, which recorded steady growth. All banks are in compliance with the strengthened Basel III Liquidity Coverage Ratio (LCR) requirement, which is being phased in from 1 June 2015. Loan quality in the banking system improved further with the level of net impaired loans at 1.2% of net loans as at end-August 2015 (end-August 2014: 1.3%).

Benefiting from Malaysia's gradual and sequenced approach to liberalisation in an effort to shift the financial sector to international markets, Malaysia's banking sector continues to have significant presence of foreign banks, accounting for 22.3% of banking sector assets as of August 2015. There are currently 29 locally incorporated foreign banks operating in Malaysia, out of a total of 58 banking institutions, which include commercial banks, investment banks and Islamic banks. In addition, the conclusion of the Sixth Package of Financial Sector Commitments in March 2015

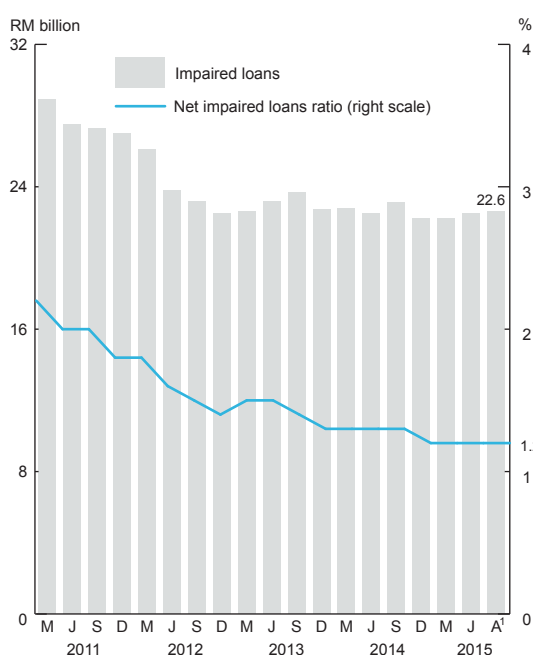
marked the most meaningful step in financial services liberalisation under the ASEAN Framework Agreement on Services (AFAS). A significant milestone achieved together with the Sixth Package is the conclusion of the ASEAN Banking Integration Framework (ABIF).

Financing support from DFIs

The financing activities of **DFIs** remained positive during the first eight months of 2015, focusing on extending support to the strategic sectors of the economy, particularly agriculture, infrastructure, SMEs and export sectors as well as promoting financial inclusion. As at end-August 2015, total financing outstanding increased further to RM133.6 billion, albeit registering a slower growth of 5.5% (end-2014: RM128.4 billion; 6.9%). Growth in financing was attributable to higher export-oriented businesses and cross-border ventures as well as financing for the household sector. Financing to support export activities and overseas ventures by EXIM Bank recorded a growth of 39.5% to RM12.3 billion as at end-August 2015 (end-2014: 37.5%; RM8.8 billion). The growth was driven largely by higher financing to Malaysian companies expanding abroad, particularly those involved in construction, property development, utility and investment-related activities. Meanwhile, financing to households by Bank Rakyat and BSN grew further by 7% to RM78 billion (end-2014: 7.7%; RM74.8 billion), reflecting continued demand for consumption credit and residential properties. The overall financing of DFIs to SMEs grew marginally by 1% to RM14.4 billion at end-August 2015 (end-2014: 2.5%; RM13.6 billion) mainly extended to the utilities, primary agriculture and manufacturing as well as transport and communication sectors.

CHART 5.3

Banking System: Impaired Loans and Net Impaired Loans Ratio (as at end-period)



¹ End-August 2015.
Source: Bank Negara Malaysia.

TABLE 5.4

Development Financial Institutions¹: Direction of Lending by Sector (as at end-period)

	RM billion		% Share	
	2014	2015 Aug	2014	2015 Aug
Primary agriculture	7.7	7.6	6.0	5.7
Manufacturing	5.5	5.4	4.3	4.0
Wholesale and retail trade, restaurants and hotels	2.3	3.0	1.8	2.3
Construction	12.6	12.5	9.8	9.4
Transport, storage and communication	10.2	9.6	8.0	7.2
Finance, insurance and business activities	4.7	5.2	3.7	3.9
Others	85.4	90.3	66.5	67.6
Total	128.4	133.6	100.0	100.0

¹ Refers to Bank Pembangunan Malaysia Bhd, Bank Kerjasama Rakyat Malaysia Bhd, Bank Simpanan Nasional, Export-Import Bank of Malaysia Bhd, Bank Pertanian Malaysia Bhd (Agrobank) and Bank Perusahaan Kecil & Sederhana Malaysia Bhd (SME Bank).

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

Islamic banking flourishes

Malaysia continues to pursue Islamic finance with efforts taken domestically and internationally towards positioning Malaysia as a premier Islamic financial hub in the world. The **Islamic banking industry** has shown significant growth since the last five years. Islamic banking assets, including DFIs grew at a compounded annual growth rate (CAGR) of 15.5% to RM625.2 billion as at end-2014 from RM351.2 billion as at end-2010. As at end-August 2015, the total assets of the Islamic banking system grew by 13.7% to RM672.6 billion (end-2014: 12%; RM625.2 billion). Similarly, total deposits of the Islamic banking system increased by 6.6% to RM497.1 billion (end-2014: 13.4%; RM494.7 billion). During the same period, total financing of the Islamic banking system grew strongly by 17.5% to RM473.9 billion (end-2014: 16.1%; RM430.9 billion). The strong growth of the Islamic banking system has resulted in an increased market share of Islamic banking assets (including DFIs), at 25.8% of total banking system assets as at end-August 2015 (end-2014: 25.5%).

Lending remained concentrated on the household sector, with loans amounting to RM294.5 billion or 62.1% of total outstanding loans as at end-August 2015, (end-2014: RM273.3 billion; 63.4%). Meanwhile, the finance, insurance and business activities sector accounted for 6.4% or RM30.1 billion (end-2014: 6.5%; RM27.8 billion), followed by the manufacturing sector at 4.6% or RM21.7 billion and construction sector at 4.4% or RM20.8 billion (end-2014: 4.8%, RM20.6 billion; 5.1%, RM22 billion).

TABLE 5.5

Islamic Banking¹: Key Indicators (as at end-period)

	RM billion		% Change	
	2014	2015 Aug	2014	2015 Aug
Assets	625.2	672.6	12.0	13.7
Deposits	494.7	497.1	13.4	6.6
of which:				
Investment	151.5	93.9	-20.6	-49.9
Savings	32.3	42.6	-9.0	6.7
Demand	75.5	68.2	24.3	9.3
Others	235.5	292.5	57.0	65.6
Financing	430.9	473.9	16.1	17.5
of which:				
Manufacturing	20.6	21.7	18.8	11.2
Construction	22.0	20.8	33.0	10.5
Finance, insurance and business activities	27.8	30.1	16.4	29.5
Education, health and others	17.2	19.5	-4.8	14.4
Households	273.3	294.5	14.4	12.7

¹ Includes development financial institutions (DFIs).

Note: Total may not add up due to rounding.

Source: Bank Negara Malaysia.

Capital Market Performance

Fund raising activity moderates

Gross funds raised in the capital market decreased by 9.8% to RM119.9 billion from January to August 2015 (January – August 2014: 21.2%; RM132.9 billion). This was due to lower fund raising activity in the private sector with gross funds raised declining by 26.1% to RM50.2 billion (January – August 2014: 41.9%; RM68 billion). However, gross funds raised by the public sector increased at a faster pace of 7.3% to RM69.7 billion (January – August 2014: 5%; RM64.9 billion). On a sectoral basis, private debt securities (PDS) issuance was dominated by the finance, insurance, real estate and business services sector during the first eight months of 2015 amounting to RM29.7 billion or 73.4% of PDS issued, mainly for new activity, working capital and general corporate purposes. The Islamic bond market continued to receive strong interest from issuers, accounting for 77% of new PDS

TABLE 5.6

Funds Raised in the Capital Market January – August

	RM million	
	2014	2015
Public Sector		
Government securities		
Malaysian Government Securities	33,029.4	34,500.4
Malaysian Government Investment Issues	23,773.2	27,154.9
Sukuk Perumahan Kerajaan	8,100.0	8,000.0
New issues of debt securities	64,902.6	69,655.3
Less: Redemptions	32,442.7	30,796.7
Net funds raised by the public sector	32,459.9	38,858.6
Private Sector		
Shares¹ / Warrants		
Initial public offers	5,680.3	3,640.0
Rights issues	10,199.9	6,132.4
Warrants	6.5	0.0
New issues of shares / warrants	15,886.7	9,772.4
Debt securities		
Straight bonds	2,809.0	2,303.4
Convertible bonds	0.0	0.0
Islamic bonds	7,376.5	2,596.2
Medium term notes	41,953.6	35,575.9
New issues of debt securities	52,139.1	40,475.5
Less: Redemptions	32,543.2	26,825.4
Net issues of debt securities	19,595.9	13,650.1
Net funds raised by the private sector	35,482.7	23,422.5
Total net funds raised	67,942.6	62,281.1

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 PDS¹ by Sector
January – August**

	RM million		% Share	
	2014	2015	2014	2015
Agriculture, forestry and fishing	38.0	1,228.0	0.1	3.0
Mining and quarrying	12.0	0.0	0.0	0.0
Manufacturing	450.0	355.0	0.9	0.9
Construction	10,773.8	2,796.2	20.7	6.9
Electricity, gas and water	3,762.9	2,230.0	7.2	5.5
Transport, storage and communication	1,510.0	1,140.0	2.9	2.8
Finance, insurance, real estate and business services	27,775.7	29,727.0	53.3	73.4
Government and other services	7,350.2	2,809.7	14.1	6.9
Wholesale and retail trade, hotels and restaurants	466.5	189.5	0.9	0.5
Total	52,139.1	40,475.5	100.0	100.0

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

Note: Total may not add up due to rounding.

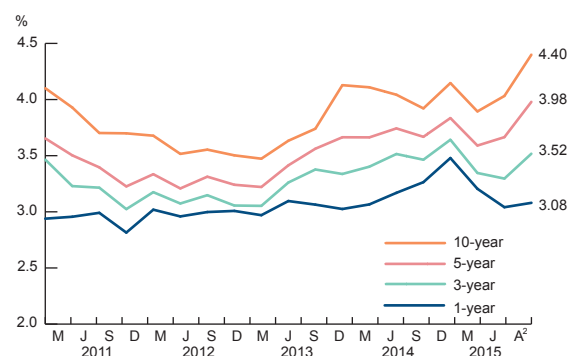
Source: Bank Negara Malaysia.

issued. In addition, 60% of total PDS issuance were high-end investment grade issues of AA and above as at end-August 2015.

Total net funds raised in the capital market decreased by 8.3% to RM62.3 billion during the first eight months of 2015 (January – August 2014: 102.1%; RM67.9 billion). Public sector net fund raising activity accounted for a bigger share at RM38.9 billion or 62.4% of total funds (January – August 2014: RM32.5 billion; 47.8%), while the remaining balance of RM23.4 billion or 37.6% was contributed by the private sector (January – August 2014: RM35.5 billion; 52.2%). Funds raised in the equity market declined by 38.5% to RM9.8 billion (January – August 2014: 87.9%; RM15.9 billion), as the number of initial public offerings (IPOs) decreased during the period. As at end-August 2015, there were eight new listings of IPOs (end-2014: 14 IPOs) with two notable IPOs listed in the energy and construction sectors. The lower funds raised in the equity market were on account of companies holding back IPOs mainly due to cautious market sentiment.

The Malaysian Government Securities (MGS) yields declined across all tenures on the back of strong demand by investors during the first seven months of 2015 despite the increased volatility in global financial markets. However, MGS yields increased in August 2015 as concerns over the impact of a sharp decline in global crude oil prices, ringgit depreciation as well as increased expectations of an interest rate hike by the Fed led to the liquidation of non-resident holdings, amounting to RM8 billion. Overall,

CHART 5.4

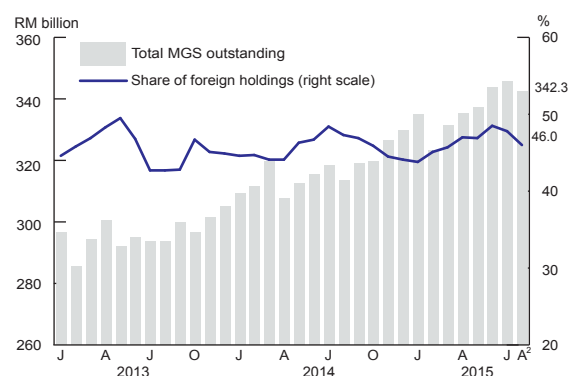
**Malaysian Government Securities (MGS)
Indicative Yields¹**

¹ End-period.

² End-August 2015.

Source: Bank Negara Malaysia.

CHART 5.5

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

¹ End-period.

² End-August 2015.

Source: Bank Negara Malaysia.

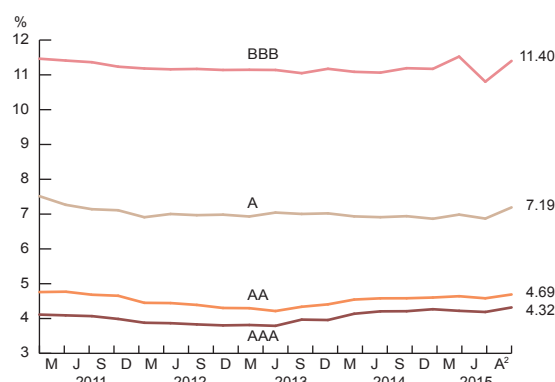
the 5-year and 10-year MGS yields increased by 15 basis points and 25 basis points, respectively while the 3-year MGS yields recorded a decline of 12 basis points in the first eight months of 2015.

As at end-August 2015, foreign investors' holdings in MGS amounted to RM157.4 billion, accounting for 46% of total MGS outstanding (end-August 2014: RM148.3 billion; 47.3%). Meanwhile, in the PDS market, yields on the 5-year AAA-rated, AA-rated and A-rated securities increased by five basis points, nine basis points and 33 basis points, respectively (January – August 2014: 27 basis points; 20 basis points; -7 basis points). The PDS yields remained relatively stable, especially higher-rated PDS yields on account of sustained demand from domestic investors.

During the first eight months of 2015, higher rated PDS credit spreads² narrowed, largely reflecting higher MGS yields in August 2015. During the period, the 5-year PDS credit spreads for AAA-rated and AA-rated debt narrowed

² PDS yields minus MGS yields.

CHART 5.6

Private Debt Securities (PDS) 5-Year Yields¹¹ End-period.² End-August 2015.

Source: Bank Negara Malaysia.

by nine basis points and six basis points, respectively while PDS credit spread for A-rated debt widened by 18 basis points (January – August 2014: 25 basis points; 18 basis points; -9 basis points). However, the MGS term spreads³ widened by 65 basis points (January – August 2014: -42 basis points).

FBM KLCI tracks regional trends

The **equity market** began the year on a soft note amid bearish sentiment in the fourth quarter of 2014. However, the Financial Times Stock Exchange (FTSE) Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) started to rise in the final week of January 2015 and continued its positive trend, surging to a year-to-date high at 1,862.80 points on 21 April 2015. The uptrend was supported by several factors, including the announcement of strong corporate earnings in the fourth quarter of 2014, the Fed's dovish stance on US monetary policy as well as stimulus plans announced by the European Central Bank (ECB) to boost the eurozone economy. During the first four months of 2015, the FBM KLCI performed favourably despite foreign fund liquidation by non-resident investors following decreasing crude oil prices and a weakening ringgit.

The FBM KLCI declined in the final week of April and the market remained subdued tracking major and regional bourses throughout May until July 2015. Several factors caused the market to trend downwards. This included external developments such as concerns over Greece's debt crisis; moderate global growth outlook; volatility in Chinese equity markets; potential US interest rate hike; and weak commodity prices. Domestic issues also weighed on the market, including a potential downgrade of Malaysia's sovereign rating by Fitch Ratings and a weakening ringgit. The FBM KLCI fell from 1,818.27 points as at end-April to 1,691.92 points on 29 June 2015.

TABLE 5.8

Bursa Malaysia: Selected Indicators
January – August

	2014	2015
Indices¹		
FBM KLCI	1,866.1	1,612.7
FBMEMAS	12,995.1	10,976.0
FBM 100	12,583.0	10,734.2
FBM SCAP	18,604.6	13,771.2
FBM-ACE	6,903.7	4,947.1
Total turnover²		
Volume (million units)	356,810.9	323,479.9
Value (RM million)	362,887.2	336,115.9
Average daily turnover²		
Volume (million units)	2,189.0	1,972.4
Value (RM million)	2,226.3	2,049.5
Market capitalisation¹		
(RM billion)	1,776.3	1,555.9
Total number of listed companies¹		
Main Market	799	798
ACE Market	108	107
Market liquidity¹		
Turnover value/ market capitalisation (%)	20.4	21.6
Market concentration¹		
10 highest capitalised stocks/market capitalisation (%)	34.0	35.2

¹ As at end-period.² Based on market transactions and direct business transactions.

Source: Bursa Malaysia.

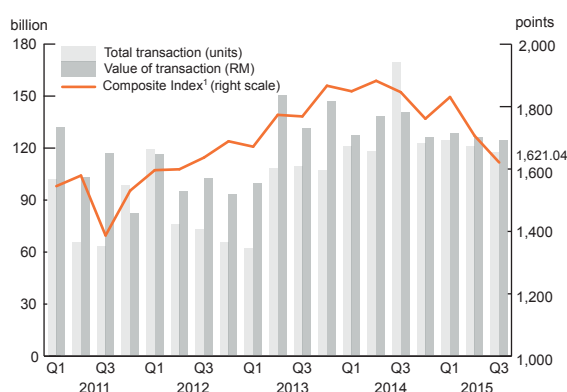
The market reacted positively in July following S&P's reaffirmation of Malaysia's sovereign rating, Fitch Ratings' upgrade in Malaysia's outlook from negative to stable, as well as news that China's regulators had pledged to support the stock market and hinted on more policy easing measures to boost liquidity. However, the market fell sharply below the 1,600 points level in August to touch a year-to-date low of 1,532.14 points on 24 August 2015 in tandem with the sell-down in global and regional markets. Uncertainty over global growth outlook, unexpected devaluation of the yuan coupled with domestic issues as well as a weaker ringgit weighed on the market. Thus, the FBM KLCI closed at 1,612.74 points as at end-August 2015. On the regional front, the FBM KLCI posted a decline of 8.4% in tandem with other markets during the first eight months of 2015. Indonesia led the fall with the Jakarta Composite Index sliding 13.7% to 4,509.61 points, followed by Singapore's Strait Times Index which decreased by 13.2% to 2,921.44 points.

The FBM KLCI advanced in September 2015, supported by positive external sentiment and ringgit appreciation against the US dollar. Market sentiment was also boosted after

³ 10-year MGS minus 1-year MGS yields.

CHART 5.7

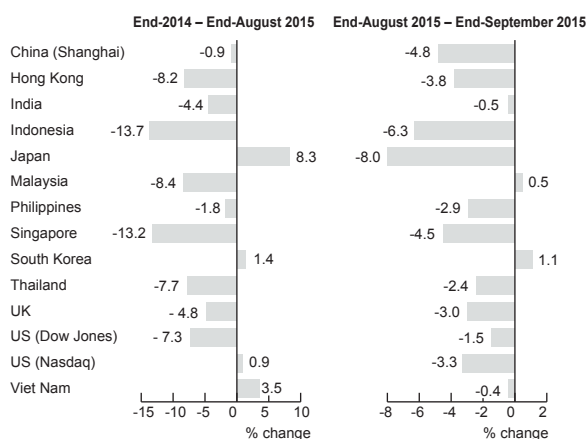
Performance of Bursa Malaysia



¹ End-period.
Source: Bursa Malaysia.

CHART 5.8

Performance of Selected Stock Markets



Source: Bloomberg.

the announcement of RM20 billion injection into ValueCap Sdn. Bhd. as one of the broad-based stimulus measures which will be used to invest in undervalued Malaysian listed companies. Furthermore, the recent decision by the Fed to maintain its benchmark short-term rates near zero continues to increase investors' confidence in the local stock market. From the beginning of the year until end-September 2015, the FBM KLCI dropped by 140.21 points or 8% to close at 1,621.04 points (end-September 2014: -20.7 points; -1.1%; 1,846.31 points).

In terms of trading activity, total volume for the first eight months of 2015 declined by 9.3% to 323.5 billion units, while the average daily total volume held steady at 1.97 billion units (January – August 2014: 46.3%; 356.8 billion units; 2.19 billion units). Likewise, total trading value decreased by 7.4% to RM336.1 billion, registering an average daily value of RM2.05 billion (January – August 2014: 6%; RM362.9 billion; RM2.23 billion). Meanwhile, market capitalisation was at RM1,555.9 billion as at end-August 2015, a decline of 12.4% from RM1,776.3 billion as at end-August 2014. Market velocity declined

to 23.1%, while market volatility increased to 8.7% (end-August 2014: 22%; 5%). The total number of companies listed on Bursa Malaysia remained at 905 companies (end-2014: 907 companies).

Equity-related derivatives drive growth

The **derivatives market** continued to advance for the first eight months of 2015. The market recorded a double-digit growth of 18.4% in trading, totalling 9.2 million contracts during the period (January – August 2014: 6.8%; 7.8 million contracts). Total turnover continued to be driven by CPO futures (FCPO), contributing a market share of 78.6%, followed by FBM KLCI futures (FKLI) with 20.9%. Meanwhile, the 5-year MGS futures, which was not traded in 2014, recorded a significant turnover at 3,600 contracts. However, trading in gold futures (FGLD) and 3-Month Kuala Lumpur interbank offered rate futures (FKB3) declined during the period. The 3-year MGS futures, crude palm kernel oil futures, USD CPO futures as well as the single stock futures were not traded during the period.

In terms of trading volume, FKLI recorded a strong growth of 37.4% to 1.9 million contracts in the first eight months of 2015 (January – August 2014: -24.8%; 1.4 million contracts). Likewise, the trading volume of FCPO expanded by 15.4% to 7.2 million contracts, equivalent to 12.9 million metric tonnes of CPO (January – August 2014: 16.1%; 6.3 million contracts; 12.8 million metric tonnes). Trading in FGLD remains a challenge as spot prices for gold continued to be on a downward trend during the period. Meanwhile, Bursa Malaysia Derivatives Bhd introduced the RBD Palm Olein Futures contracts (FPOL) which commenced trading on 16 June 2014. However, trading activity was minimal due to expensive currency hedging. Meanwhile, there was strong market interest in options as trading in options on FCPO (OCPO) increased by almost five-fold to 1,300 contracts for the first eight months of 2015 (January – August 2014: 265 contracts). Trading in options on FKLI (OKLI) also rose by 53.7% to 3,415 contracts (January – August 2014: 2,222 contracts).

Unit trust industry continues to expand

The **unit trust industry** expanded in the first eight months of 2015. During the period, two new Islamic funds were launched bringing the total number of unit trust funds to 617, comprising 427 conventional funds and 190 Islamic funds (end-2014: 17 new funds; 612 funds; 424 conventional funds; 188 Islamic funds). At the same time, from January to August 2015, total units in circulation rose by 6.1% to 451.2 billion units, while the number of accounts increased by 2.7% to 17.9 million (end-2014: 9.5%, 425.4 billion units; 3.8%, 17.4 million). Meanwhile, the size of the unit trust industry

in terms of total net asset value (NAV) grew marginally by 0.7% to RM340.6 billion as at end-August 2015, representing 21.9% of market capitalisation on Bursa Malaysia (end-2014: 2.2%; RM343 billion; 20.8%). The share of equity funds was more than 90% with the NAV at RM11.7 billion, reflecting the popularity of equity-based funds among investors (January – August 2014: RM17.2 billion).

TABLE 5.9

Unit Trust Industry: Selected Indicators (as at end-period)

	2014	2015 Aug
Number of management companies	36	37
Number of funds launched	612	617
Conventional	424	427
Shariah-compliant	188	190
Units in circulation (billion)	425.4	451.2
Number of accounts (million)	17.4	17.9
NAV (RM billion)	343.0	340.6
Conventional	296.4	292.7
Shariah-compliant	46.7	47.9
% of NAV to Bursa Malaysia market capitalisation	20.8	21.9

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

During the first eight months of 2015, **wholesale funds** continued to expand with 34 new funds launched, bringing the total number of funds to 264 (end-2014: 37 new funds; 230 funds). The NAV of wholesale funds increased by 15.6% to RM75.9 billion as at end-August 2015 (end-2014: 23.3%; RM73.3 billion). Meanwhile, 20 new global funds were launched for investment in foreign markets (January – August 2014: 11 new funds), with 15 of them investing RM1,096.2 million in foreign markets (January – August 2014: 8 funds; RM655 million). Overall, 301 global funds have invested in foreign markets, recording a total investment of RM28.5 billion (end-2014: 295 funds; RM23.3 billion). However, the foreign exposure remained minimal at 8.4% of the total NAV of the total unit trust industry (end-2014: 6.8%).

The market capitalisation of the **real estate investment trusts (REITs)** industry has seen a spectacular growth of 13-fold since its inception in 2005 until August 2015. Total market capitalisation increased to RM36.4 billion as at end-August 2015 (end-2014: RM35.7 billion). The trading volume and value of REITs increased by 27.7% and 47.7%, respectively to more than 1.5 billion units valued at RM2.4 billion (January – August 2014: -38%, -44.9%; 1.2 billion units, RM1.6 billion). To date, there are 17 REITs listed on Bursa Malaysia, including four Islamic REITs. The portfolio of the REITs is predominantly invested in health care, commercial, offices, retail, industrial and hospitality sectors.

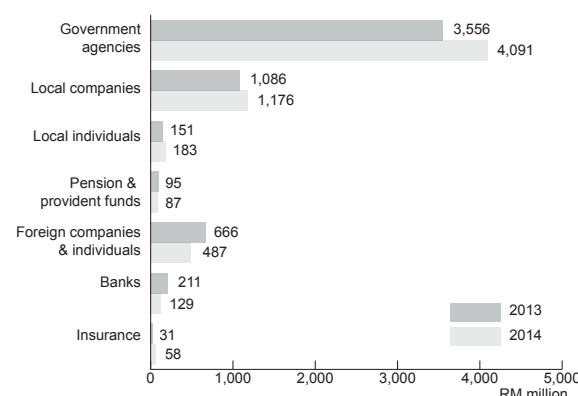
Exchange-traded funds (ETFs) continued to experience slower growth due to the lack of awareness and understanding of the product among investors. Thus, there were only seven ETFs listed on Bursa Malaysia with total market capitalisation of RM1 billion as at end-August 2015 (end-2014: 6 ETFs; RM1 billion). Total volume of transactions also decreased by 7.8% to 22.8 million units (January – August 2014: -81.5%; 21.2 million units), while the total value increased by 27.6% to RM29.4 million (January – August 2014: -81.6%; RM23 million). On 7 May 2015, the first ASEAN Islamic ETF, MyETF MSCI SEA Islamic Dividend, was listed, bringing the total number of Shariah-compliant ETFs to three.

Stable venture capital activity

The **venture capital industry** remains important as a source of funding for growth. As at end-August 2015, there were 56 registered venture capital companies (VCCs) and 63 venture capital management companies (VCMCs) (end-2014: 56 VCCs; 56 VCMCs). On a sectoral basis, the total value of venture capital investment declined by 5.4% to RM3.2 billion as at end-2014 (end-2013: 24.5%; RM3.4 billion) with life sciences accounting for 36.4%, information and communication technology (29.2%), manufacturing (14.6%) as well as electricity and power generation (3.6%). In terms of venture capital investment by spectrum of funds, bridge/pre-IPO financing held the biggest share at 43.7% while expansion/growth stage accounted for 25.2% of total investment. Total committed funds increased by 7.2% to RM6.2 billion, with government agencies remaining the main source of financing, totalling RM4.1 billion or 65.9% of total funds committed as at end-2014 (end-2013: 1.7%, RM5.8 billion; RM3.6 billion, 61.4%).

CHART 5.9

Source of Venture Capital Funds



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

Islamic capital market continues to expand

The **Islamic capital market (ICM)** has contributed significantly to the development of the overall capital market through further broadening the capital market

by providing an attractive alternative source of fund raising and investment. The ICM has expanded in many aspects, including the range of products and services, the number and diversity of stakeholders, infrastructure and capabilities, geographical reach as well as human capital developments. As at end-August 2015, 676 Shariah-compliant securities were listed on Bursa Malaysia, representing 74.7% of total listed securities with RM965.2 billion in market capitalisation (end-2014: 673 securities; 74.3%; RM1,012.1 billion).

In the sukuk market, global sukuk issuance decreased to USD39.8 billion during the first half of 2015 (end-June 2014: USD66.2 billion) on account of weaker sentiment in financial markets as well as declining global crude oil prices. However, Malaysia remains at the forefront in innovation and development of sukuk as well as the global leader in the sukuk market, accounting for 54.9% of total global sukuk outstanding as at end-June 2015. Furthermore, Malaysia retained its number one position for sukuk issuance, with a market share of 49.9% valued at USD19.9 billion as at end-June 2015.

The interest in Islamic notes issued by Malaysia was explicitly shown in April 2015 following the issuance of USD1 billion of 10-year and USD500 million of 30-year sukuk. The 30-year tranche is the world's longest tenured sukuk issued by a sovereign. The 10-year tranche was oversubscribed by almost seven times while the 30-year tranche was oversubscribed by approximately six times. In addition, Malaysia's Sustainable and Responsible Investment Sukuk (SRI) framework was introduced on 28 August 2014. The framework will be used as a guideline to offer funds for project financing related to the protection of natural resources and promotion of renewable energy as well as community and economic development. In this regard, Khazanah Nasional Bhd was the first entity to successfully offer and price the first Socially Responsible Initiatives sukuk worth RM100 million on 2 June 2015. Malaysia's established expertise in the sukuk market offers opportunities for domestic financial players and professional service firms to profile and enhance their global capabilities in providing Islamic financial advisory and services at the international level. This is reaffirmed with the appointment of a local bank as one of the lead arrangers for Garuda Indonesia's first global corporate sukuk issuances of USD500 million.

Bursa Suq Al-Sila' (BSAS) is a Shariah-compliant commodity trading platform to facilitate Islamic financing by applying the concept of *murabahah*⁴ and *tawarruq*⁵. To expand BSAS, Bursa Malaysia has engaged various commodity suppliers to increase the supply base of the market. It has also engaged with potential financial

institutions to become BSAS trading participants to spur more trading activities. As at end-August 2015, BSAS recorded a strong growth of 143.6% in average daily value to reach RM13.3 billion (end-2014: 76.7%; RM6.9 billion) with RM1,010 billion commodities offered and RM2,183 billion traded (end-2014: RM783.4 billion; RM1,687.9 billion). The growth was due to the conversion of bank deposits to *murabahah* and the introduction of tenure-based pricing early this year. There were 80 registered commodity trading participants as at end-August 2015 (end-2014: 70 commodity trading participants).

As at end-August 2015, Islamic assets under management (AUM) accounted for 18.3% or RM118.1 billion of the total AUM amounting to RM644.4 billion. During the first eight months of 2015, two additional Islamic unit trust funds and eight Islamic wholesale funds were launched, bringing the total to 190 and 77 funds, respectively. As at end-August 2015, the total NAV of Islamic unit trust funds rose to RM47.9 billion, while the Islamic wholesale funds increased marginally to RM24.1 billion (end-2014: RM46.7 billion; RM23.5 billion). Currently, there are 20 Islamic fund management companies operating in Malaysia.

Insurance and Takaful Industry Performance

Insurance industry remains resilient

The **insurance industry** remained resilient with strong capitalisation and improved profitability in the first eight months of 2015. The capital adequacy ratio, which measures the adequacy of the capital available in the insurance and shareholders' funds of the insurer to support the total capital required, held steady at 239.1% (end-June 2014: 250.4%). Similarly, total capital buffers in excess of the minimum requirement improved further to RM28.5 billion.

The **life insurance** sector registered lower excess of income over outgo by RM4.4 billion during the first eight months of 2015 (January – August 2014: RM9 billion), with a net capital loss of RM2.6 billion as a result of equity mark-to-market valuation. The new business premiums for life insurers grew further by 4.2% to RM6 billion (January – August 2014: 8.4%; RM5.7 billion). This was largely supported by growth of non-participating life policies. However, life insurance claims rose by 15.4% to RM13.3 billion during the first eight months of 2015 (January – August 2014: 12.1%; RM11.5 billion). The market penetration rate of life insurance stood at 40.8% as at end-August 2015 (end-2014: 41%).

⁴ Sale contract with a disclosure of the asset cost price and profit margin to the buyer.

⁵ Purchasing an asset with deferred price, either on the basis of *musawamah* (sale contract without the disclosure of the asset cost price and profit margin to the buyer) or *murabahah*, then selling it to a third party to obtain cash.

Info Box 1

Key Capital Market Measures

Several measures were undertaken in the first eight months of 2015 to further enhance liquidity and efficiency in the capital market. These included the following:



The operating profit for the **general insurance** sector remained stable totalling RM1.4 billion (January – August 2014: RM1.6 billion). The gross direct premiums also increased, albeit at a lower rate of 2.9% to RM11.9 billion (January – August 2014: 5.1%; RM11.6 billion) on account of an increase in the motor and fire businesses. The motor business continued to account for a dominant share at 46% of total gross direct premiums. In addition, the claims ratio declined slightly to 56.7% (January – August 2014: 57.2%), with broad-based improvements across all classes of business.

As at end-August 2015, insurance fund assets continued to record a growth of 2.7% to RM222.3 billion (end-2014: 6.7%; RM226.8 billion). The bulk of the asset portfolio was contributed by PDS accounting for 41.7% of the total insurance fund assets, followed by equities

at 16.6%. Meanwhile, assets of the life insurance sector remained the major contributor to the industry's total assets at 86.2% (January – August 2014: 86.6%). The composition of general insurers' asset holdings portfolio remained broadly unchanged.

Takaful industry remains robust

The **takaful industry's** assets continued to grow by 5.8% amounting to RM23.7 billion as at end-August 2015 (end-2014: 8.7%; RM22.7 billion), mainly held in PDS (49.9%) and equities (13.9%). The assets contributed 9.6% of total insurance and takaful sector assets. Meanwhile, the capitalisation of the takaful industry remained stable at 187.6% as at end-June 2015 (end-June 2014: 190.7%), with a capital buffer in excess at the minimum requirement of RM3 billion (end-June 2014: RM3.2 billion).

During the first eight months of 2015, the excess of income over outgo for **family takaful** business totalled RM1.1 billion (January – August 2014: RM1.7 billion). The total contribution of new business in family takaful rebounded with a double-digit growth of 10% (January – August 2014: -8.3%). However, the increase was mitigated by higher net claims which increased by 24.5% to RM1.6 billion (January – August 2014: -8%; RM1.2 billion). As at end-August 2015, the market penetration rate of family takaful business also improved to 14.7% (end-2014: 14.5%).

General takaful business expanded further with operating profit increasing slightly to RM190.3 million for the first eight months of 2015 (January – August 2014: RM232.2 million). This was mainly contributed by increase in the claims ratio at 52.7% (January – August 2014: 49.6%). The gross contributions of general takaful recorded a slower growth of 7.6% (January – August 2014: 12%), driven by the marine, aviation and transit classes of business.

TABLE 5.10

Life and General Insurance Business January – August

	2014	2015
Life Insurance (RM million)		
New business		
Number of policies (units) ¹	13,280,458	10,095,875
Sums insured ¹	463,552.8	525,764.0
Total premiums ¹	5,736.4	5,980.2
Business in force		
Number of policies (units) ²	20,218,649	19,578,651
Sums insured ²	1,330,950.8	1,346,231.9
Annual premiums ²	25,878.2	25,880.2
Premium income	18,182.4	18,998.7
Benefit payments	11,514.2	13,282.8
General Insurance (RM million)		
Premium income		
Gross direct premiums	11,599.1	11,939.4
Net premiums	8,615.2	8,765.4
Reinsurance placed outside Malaysia	2,789.1	2,836.9
Retention ratio³ (%)	74.3	73.4
Number of insurance companies⁴		
Direct	33	33
Life	9	10
General	19	19
Composite	5	4
Reinsurance	7	7
Life	1	1
General	5	5
Composite	1	1

¹ Includes data for reinsurers.

² As at end-June, 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.

TABLE 5.11

Family and General Takaful Business January – August

	2014	2015
Family Takaful (RM million)		
New business		
Total contributions	2,299.2	2,416.5
Sums covered	132,179.6	134,674.5
Number of certificates (units)	409,392	430,250
Business in force		
Annual contributions	2,852.0	3,187.9
Sums covered	543,843.3	597,162.3
Number of certificates (units)	4,291,200	4,512,272
General Takaful (RM million)		
Gross direct contributions	1,461.2	1,573.9
Net contributions	1,055.0	1,179.8

Source: Bank Negara Malaysia.

Prospects for 2016

Growth in the global economy is expected to improve in 2016, with modest expansion in the US and EU, while emerging markets and developing economies are anticipated to experience moderate growth. While downside risks remain, the Malaysian economy is expected to be on a steady growth path driven by resilient domestic demand. In this regard, monetary policy in 2016 will

remain supportive of economic growth amid the benign inflation outlook. The sound banking system and the well-developed capital market will be able to absorb volatile capital flows and ensure financial intermediation in an orderly and efficient manner. In addition, the financial system is expected to have ample liquidity to support economic activities. Leveraging its role as the lead issuer in sukuk and pioneer in innovative products, Malaysia remains well placed to make further strides in Islamic finance.