



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

2014

Annual Report





## STATUTORY REQUIREMENTS

In accordance with section 13 of the Central Bank of Malaysia Act 2009, Bank Negara Malaysia hereby publishes and has transmitted to the Minister of Finance a copy of this Annual Report together with a copy of its Financial Statements for the year ended 31 December 2014, which have been examined and certified by the Auditor-General. The Financial Statements will also be published in the Gazette.

For the purposes of section 115 of the Development Financial Institutions Act 2002, the annual report on the administration of the Development Financial Institutions Act 2002 and other related matters for the year ended 2014 is incorporated in Bank Negara Malaysia's Financial Stability and Payment Systems Report 2014 which forms an integral part of this Annual Report 2014.

Zeti Akhtar Aziz  
Chairman  
Board of Directors

11 March 2015

PUSTAKA PERDANA



1013360



## BOARD OF DIRECTORS

**Tan Sri Dato' Sri Dr. Zeti Akhtar Aziz**  
D.K. (Johor), P.S.M., S.S.A.P., S.U.M.W., D.P.M.J.  
Governor and Chairman

**Dato' Muhammad bin Ibrahim**  
P.J.N., D.P.M.S.  
Deputy Governor

**Datuk Nor Shamsiah binti Mohd Yunus**  
P.M.W.  
Deputy Governor

**Dr. Sukudhew Singh**  
Deputy Governor

**Tan Sri Dr. Mohd Irwan Serigar bin Abdullah**  
P.S.M., S.S.A.P., D.C.S.M., D.P.S.K., D.I.M.P., S.A.P.

**Dato' N. Sadasivan a/l N.N. Pillay**  
D.P.M.P., J.S.M., K.M.N.

**Tan Sri Dato' Sri Dr. Sulaiman bin Mahbob**  
P.S.M., P.J.N., S.S.A.P., D.J.B.S., J.S.M., S.M.J., P.M.P., K.M.N., A.M.N.

**Datuk Chin Kwai Yoong**  
P.M.W.

**Tan Sri Datuk Dr. Yusof bin Basiran\***  
P.S.M., P.J.N., J.M.N.

**Tan Sri Dato' Seri Siti Norma binti Yaakob\***  
P.S.M., S.P.T.J., D.S.N.S., J.S.M.

**Dato Sri Lim Haw Kuang\***  
P.N.B.S.

**Dato' Lee Yeow Chor\***  
D.S.A.P

\* Appointed to the Board in March 2015.

Dato' N.Sadasivan a/l N.N. Pillay was reappointed as a member of the Board in March 2014.

The Board of Directors wishes to extend its appreciation and gratitude to the two long-serving members, Datuk Oh Siew Nam and Tan Sri Datuk Amar Haji Bujang bin Mohd. Nor who completed their terms in February 2015.



# SHARIAH ADVISORY COUNCIL MEMBERS

**Datuk Dr. Mohd Daud bin Bakar (Chairman)**

P.J.N

**Prof. Dr. Mohamad Akram bin Laldin (Deputy Chairman)**

**Tun Abdul Hamid bin Mohamad**

S.S.M, D.U.P.N, S.P.C.M, D.M.P.N, D.P.C.M, K.M.N, P.J.K

**Tan Sri Sheikh Ghazali bin Abdul Rahman**

P.S.M, P.J.N, D.S.D.K, S.D.K, A.M.N

**Dato' Seri Haji Hassan bin Ahmad**

P.M.P, D.S.P.N, P.J.N, D.G.P.N

**Prof. Dr. Engku Rabiah Adawiah binti Engku Ali**

**Prof. Dr. Ashraf bin Md. Hashim**

**Prof. Madya Dr. Rusni binti Hassan**

**Prof Madya Dr. Asmadi bin Mohamed Naim**

**Dr. Shamsiah binti Mohamad**

**En. Burhanuddin bin Lukman**



Governor	Tan Sri Dr. Zeti Akhtar Aziz
Deputy Governor	Dato' Muhammad bin Ibrahim
Deputy Governor	Datuk Nor Shamsiah binti Mohd Yunus
Deputy Governor	Dr. Sukudhew Singh
Secretary to the Board	Abu Hassan Alshari bin Yahaya
Assistant Governor	Bakarudin bin Ishak
Assistant Governor	Norzila binti Abdul Aziz
Assistant Governor	Jessica Chew Cheng Lian
Assistant Governor	Donald Joshua Jaganathan
Assistant Governor	Abu Hassan Alshari bin Yahaya
Assistant Governor	Marzunisham bin Omar
Assistant Governor	Abdul Rasheed Ghaffour
Director	
Governor's Office	Vivienne Leong Sook Leng
Strategic Communications	Shariffuddin bin Khalid
Internal Audit	Mohamad Muhsin bin Mohd Anas
Risk Management	Abdul Rahman bin Hussein
<i>Economics</i>	
Economics	Fraziali bin Ismail
Monetary Policy	Dr. Norhana binti Endut
International	Nazrul Hisyam bin Mohd Noh
Statistical Services	Toh Hock Chai
<i>Regulation</i>	
Financial Sector Development	Aznan bin Abdul Aziz
Islamic Banking and Takaful	Wan Mohd Nazri bin Wan Osman
Financial Surveillance	Madelena binti Mohamed
Prudential Financial Policy	Mohd Zabidi bin Md Nor
Development Finance and Enterprise	Marina binti Abdul Kahar
Payment Systems Policy	Tan Nyat Chuan
Consumer and Market Conduct	Suhaimi bin Ali
Money Services Business Regulation	Shahariah binti Othman
<i>Supervision</i>	
Financial Conglomerates Supervision	Che Zakiah binti Che Din
Insurance and Takaful Supervision	Yap Lai Kuen
Banking Supervision	Cindy Siah Hooi Hoon
Specialist Risk Unit	Charles Sandanasamy*
Regulation and Supervision Administration	Nor Aslaini binti Mohd Nasir**
Financial Intelligence and Enforcement	Abd. Rahman bin Abu Bakar
<i>Investment and Operations</i>	
Investment Operations and Financial Markets	Adnan Zaylani bin Mohamad Zahid
Foreign Exchange Administration	Shamsuddin bin Mohd Mahayidin
Currency Management and Operations	Azman bin Mat Ali
<i>Organisational Development</i>	
Strategic Management	Mohd. Adhari bin Belal Din
Strategic Human Capital	Mohd. Adhari bin Belal Din
Finance	Eugene Hon Kah Weng
Legal	—
Human Capital Development Centre	Thomas Tan Koon Peng
Central Banking Services	Ruziana binti Mohd Mokhtar**
LINK and Regional Offices	Arlina binti Ariff
IT Services	Ho Chai Huey
MIFC Promotion Unit	Nik Mohamed Din bin Nik Musa
<i>Centralised Shared Services</i>	
General Manager	Dato' Mohd Nor bin Mashor
CSS Management Office	Lim Foo Thai
Facility Management Services	Myrzela binti Sabtu
Hospitality Services	Azmi bin Abd Hamid
Security Services	Dato' Badaruddin bin Mohd Isa
Museum, Art Gallery and KM Centre Services	Lucien de Guise
Human Resource and General Services	Hairi bin Adam**
<i>Chief Representative</i>	
Beijing Representative Office	Albert See Choon Kwang**
London Representative Office	Azizul bin Amiludin**
New York Representative Office	Harris bin Hassan***
<i>Regional Office</i>	
Johor Bahru	Raman A/L Krishnan**
Pulau Pinang	Mohd Daud bin Dahar**
Kuching	Rosnani binti Mahamad Zain**
Kota Kinabalu	Zambre bin Ismail**
<i>Branch Manager</i>	
Shah Alam	Yusoff bin Yahaya***
Kuala Terengganu	Omar bin Moin***

\* Administrative Head

\*\* Deputy Director

\*\*\* Manager



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## **GOVERNOR'S STATEMENT**

The economic restructuring and financial sector reforms undertaken during this recent decade have well positioned Malaysia to manage the external challenges experienced during the year. These efforts have improved Malaysia's macroeconomic foundations and have resulted in a well-diversified economic structure. While the export sector remains an integral component of the economy, domestic demand has now become the key driver of growth, anchored by strong private sector activity. Underpinning the robust domestic demand is the revival of investment activity, particularly by the private sector. Private investment has grown at an annual rate of 15% on average since 2010 and it is now more broad-based both across industries and geographically. The re-orientation of the economic structure has also reduced the reliance of the domestic economy on any particular economic sector. Of significance, is that the economic restructuring has been supported by a more well-developed, resilient and inclusive financial system that has been able to effectively meet the changing requirements of the economy.

The more moderate recovery of the global economy projected for 2015 is generating a challenging environment across both the advanced and emerging economies. Although the growth momentum is strengthening in some economies, weaknesses in several major economies suggest that the global economy remains vulnerable to downside risks. In addition, the significant decline in global oil prices is also having a differentiated impact on the world economy. This uneven growth momentum prevailing in the global economy has raised the prospect of a divergence in the direction of monetary policy in the advanced economies, resulting in shifts in global liquidity and increased volatility in the international financial markets. For small and highly open economies, such volatile capital flows have resulted in challenges in pursuing an independent monetary policy.

Given the degree of openness of the Malaysian economy and financial system, we are not insulated from these global developments. The diversified structure of the Malaysian economy and our strengthened fundamentals have however enhanced the resilience of the economy and have placed us on a steady growth path. Economic growth in 2015 will continue to be primarily driven by private sector-led domestic demand with some support from the expansion in exports. While the mining and commodity sectors have an important role in the economy, growth is expected to be sustained by the broad-based expansion in the services, manufacturing and construction sectors that now account for more than two thirds of the economy. Investment is also increasingly being driven by capital spending by the non-energy-related private sector and public enterprises. The lower inflation outlook and the positive labour market conditions will also continue to support household spending during the year.

In this environment, economic management has focused on the areas of vulnerabilities and building the resilience of the economy. This aims to ensure that Malaysia will continue to have the flexibility to respond and manage the challenges when shocks occur. As part of the strategy, targeted measures have been implemented to rein in excesses in the property market and to reduce the level of household indebtedness. These series of measures, implemented since 2010, have now begun to yield results. Additionally, the fiscal reforms, including the subsidy rationalisation, the introduction of the Goods and Services Tax, and the commitment to consolidation have also improved the fiscal position while ensuring that economic growth is not undermined. In the external sector, while the current account of the balance of payments is affected by the lower commodity prices, it has been to a significantly lesser extent. This is largely due to the more diversified export structure and markets including the exports of services. Consequently, despite the considerable decline in commodity prices, the current account balance is expected to remain in surplus.

Over the longer term, the resilience of the Malaysian economy continues to be strengthened following the on-going structural reforms and institutional improvements. These efforts have contributed towards the creation of a more competitive economic environment that is also driven by the diversification into higher value-added activities. A key pillar of the resilience of the economy is the financial system that is supported by a resilient banking system and the more developed financial markets. Ample domestic liquidity conditions in this environment have facilitated the financing of domestic economic activity. As a result, there has not been excessive reliance on external funding. With financial stability preserved, there have not been any disruptions to the intermediation process. The financial inclusion agenda has also advanced during the year, providing all segments of society, particularly small businesses and low income households, access to financial services and thus, enhancing their participation in the economy.


Taking into consideration the downside risks to growth and the more subdued price pressures, the thrust of monetary policy has been to remain accommodative and supportive of economic activity while giving continued attention to risks of destabilising financial imbalances. In managing these challenges, the Bank has relied on a broader policy toolkit that includes targeted micro- and macro-prudential measures which are also complemented by pro-growth measures. Other such growth supporting measures by other parts of the public sector have included assistance to vulnerable segments of the economy, in particular, to the small and medium enterprises and to the low income households. Additionally, the more developed financial markets have better intermediated the large and volatile capital flows. In particular, orderly conditions in the foreign exchange market are important to facilitate international trade and foreign investment flows.

During the year, significant strides were made in the area of regional financial integration and cooperation. Most notably were the efforts to enhance the effectiveness of financial intermediation in the region with the finalisation of the ASEAN Banking Integration Framework (ABIF). The year ahead will be important for ASEAN as it moves closer to becoming an economic community as the economies and financial systems in the region become more integrated. In this regard, as the Chair of ASEAN in 2015, Malaysia will focus on the effective operationalisation of ABIF, advancing retail payment systems integration across ASEAN and elevating financial inclusion as a policy priority for the region. Central bank cooperation in the region has also continued to have a prominent role in managing the challenges presented by the global economy. Collaborative regional forums including the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), the ASEAN Central Bank Meetings, and the platform provided by the South East Asia Central Banks Research and Training Centre (SEACEN) have allowed for increased information sharing, resource pooling, collective capacity building, and the potential for policy coordination and joint actions. In addition, a regional financial architecture for financial stability and regional financial safety nets are well in place, including the arrangements such as the ASEAN Swap Arrangement, the Chiang Mai Initiative Multilateralisation and the EMEAP Monetary and Financial Stability Committee.

During the year, the Bank made further progress in expanding opportunities for higher value activities within the financial system, notably in developing the enabling environment in the Islamic Finance Marketplace and in the strengthening of the eco-system for multi-currency trading, including the appointment of a renminbi clearing bank. The Bank was also successful in our bid to host the headquarters of the Alliance for Financial Inclusion (AFI) and the World Bank's regional office in Sasana Kijang, enhancing Malaysia's role in supporting the regional and global development agenda.

In 2014, the Bank continued to invest in our organisational capacity. This has aimed to ensure robust strategic, risk, talent and financial management to enhance our organisational performance. These have included better risk surveillance, programmes for the acquisition of technical competencies, in addition to leadership development to manage our succession pipeline. In a challenging external environment, having the organisation-wide clarity of purpose and focus has been important for the effective functioning and performance of the Bank. This year, the Bank will embark on its third three-year business plan.

The dedication and perseverance of the Bank's staff are central to the continued effectiveness of the Bank in delivering its mandates. On behalf of the Board and the management, I wish to express our appreciation to the staff for their steadfast commitment to fulfilling our responsibilities and safeguarding the economic and financial well-being of our nation. I am also grateful to the Board of Directors for their continued support and guidance. I would also like to record our greatest appreciation and gratitude to Datuk Oh Siew Nam and Tan Sri Datuk Amar Haji Bujang bin Mohd. Nor, our two long-serving members of the Board of Directors, who completed their term of service in February 2015, for their unwavering support and contributions to the Bank during these two decades of immense challenge. The Bank will continue to strive towards achieving the highest standards of professional excellence to fulfill the mandates that have been entrusted upon us, and to excel as an organisation in the service of our nation.



Zeti Akhtar Aziz  
Governor  
11 March 2015

# 2017

## EXECUTIVE SUMMARY



## EXECUTIVE SUMMARY

The global economy expanded at a moderate pace in 2014, with uneven growth across and within regions. In the advanced economies, while growth in the US continued to show broader signs of improvement, economic activity in the euro area and Japan remained subdued. In Asia, most economies benefitted from higher external demand. Nevertheless, economic growth was divergent across the region as domestic demand moderated in a number of economies amid country-specific developments. As the year progressed, downside risks to global growth re-emerged following geopolitical developments in Eastern Europe and the Middle East, weaker-than-expected economic activity in a number of major economies, and rising concerns over the growth prospects of commodity-producing emerging economies amid the significant decline in the prices of oil and other commodities in the second half of the year. Inflationary pressures remained benign in most economies, reflecting modest wage growth in the advanced economies and the significant decline in global commodity prices. Global financial markets were characterised by two distinct trends in 2014, with relative low volatility in the first eight months of the year, followed by higher volatility in the subsequent period. The heightened volatility in the later part of the year was driven by uncertainty surrounding monetary policy normalisation in the US, a resurgence of concerns over global growth prospects, and increased uncertainty over the implications of the sharp decline in commodity prices on commodity-producing countries.

The Malaysian economy grew at a stronger pace in 2014 with growth being driven by the continued strength in private domestic demand and positive growth in net exports. The Annual Report provides an analysis of the developments in the Malaysian economy and the policies pursued by the Bank during the year. It also provides an assessment of the prospects for the Malaysian economy given current developments and the challenges ahead. Additionally the report highlights the Bank's efforts to enhance its governance, organisational development and communications.

### **The Malaysian Economy in 2014**

The Malaysian economy recorded a stronger growth of 6.0% in 2014 (2013: 4.7%), driven primarily by the continued strength of domestic demand and supported by an improvement in external trade performance. Net exports turned around to contribute positively to growth after seven years of negative contribution, as Malaysia benefitted from the recovery in the advanced economies and the sustained demand from the regional economies. While the growth in private domestic demand remained strong, public sector expenditure registered slower growth, consistent with the Government's fiscal consolidation efforts.

Private consumption grew by 7.1% in 2014, supported by favourable income growth and stable labour market conditions. Private consumption growth was also supported by the targeted Government transfers to low- and middle-income households. These partially mitigated some of the dampening effects on household spending growth from the higher cost of living following adjustments to administered prices. Public consumption recorded a slower growth rate of 4.4% given the more moderate increase in Government expenditure on supplies and services, which was in line with expenditure rationalisation initiatives announced towards the end of 2013.

Although the growth of overall gross fixed capital formation (GFCF) moderated to 4.7%, private investment grew by 11.0% during the year. Consequently, the share of private investment in GFCF increased to 64% (2013: 60%). Growth in private investment occurred in both export-oriented and domestic-oriented industries and was mainly driven by the services and manufacturing sectors. Public investment contracted by 4.9% following the decline in Federal Government development expenditure and lower capital spending by public enterprises. The latter mainly reflected the completion and near-completion of several major projects.

On the supply side, all economic sectors recorded higher growth rates in 2014, driven by domestic and external factors. In particular, the recovery in the advanced economies and the continued demand from regional economies resulted in the

manufacturing sector recording a strong growth of 6.2%. The services sector remained the largest contributor to growth, expanding by 6.3% (2013: 5.9%).

Labour market conditions remained stable as continued expansion across all economic sectors sustained the demand for labour. The labour force participation rate and the total employment increased, while the unemployment rate declined to 2.9%.

Headline inflation averaged at 3.2% in 2014 (2013: 2.1%). After rising in the earlier part of the year, inflation moderated during the last four months due to lower food inflation, the lapse of the impact of the September 2013 fuel price adjustments, and the downward adjustments in fuel prices following the implementation of the managed float fuel pricing mechanism. Inflation during the year was driven mainly by domestic cost factors arising from the adjustments in the prices of several price-administered items since late 2013. The extent of spillovers on the prices of other goods and services was, however, contained given the subdued global prices, stable domestic demand conditions, and the firms' ability to accommodate some of the increase in input costs. As a result, core inflation averaged 2.4% (2013: 1.8%). The contained spillovers and the absence of excessive wage pressures also mitigated the risk of second-round effects.

Malaysia's external sector remained resilient amid continued uncertainty in the global environment. The current account surplus widened compared to the previous year while the level of international reserves remained high and was more than sufficient to meet short-term obligations and to provide ample buffer against external shocks. In the first half of the year, the current account recorded a higher surplus of RM35.8 billion, driven by a stronger trade surplus amid smaller services and income deficits. The growth in gross exports was broad-based amid improvement in demand across markets and products. In the second half of the year, the current account surplus narrowed to RM13.7 billion amid a lower trade surplus and larger deficits in the services and income accounts. Although lower crude oil prices led to lower export proceeds, the net impact on overall trade was somewhat mitigated by the accompanying decline in imports of petroleum products. Furthermore, prices of other major commodities, in particular liquefied natural gas (LNG) and crude palm oil (CPO) remained high, providing support to overall commodity exports.

Overall imports growth moderated following the lower growth in imports of consumption goods and the decline in imports of capital goods in line with the moderation in the growth of capital spending in the second half of the year. For the year as a whole, the current account registered a surplus of RM49.5 billion or 4.8% of gross national income (GNI) (2013: RM39.9 billion or 4.2% of GNI).

The financial account continued to experience two-way financial flows, involving cross-border financial transactions by both residents and non-residents. Reflecting confidence in Malaysia's economic resilience and growth prospects, foreign direct investment (FDI) flows were sustained and were mainly channelled into the mining, financial services, and distributive trade services sectors. Outward direct investment flows by Malaysian companies were higher during the year, driven by investments in the mining, information and communications, and financial services sectors. For most of the year, an improving global outlook and the healthy performance of the Malaysian economy contributed to strong interest by non-residents in Malaysia's financial assets. Consequently, Malaysia experienced non-resident portfolio inflows of RM11 billion in the first three quarters of 2014, channelled mainly into the debt securities market. In the fourth quarter, however, investor sentiments turned negative amid concerns over weakening global growth prospects, the possible increase in interest rates in the US, and the rapid decline in oil prices. As a result, there was a net outflow of non-resident portfolio investments of RM20.6 billion in the fourth quarter, mainly from Bank Negara Monetary Notes. For the year as a whole, non-resident portfolio investments recorded a net outflow of RM9.6 billion. Overall, the financial account registered a net outflow of RM76.5 billion in 2014.

Despite the large swings in portfolio flows, the impact on domestic financial markets was cushioned by the deep and diversified financial markets and continued demand from domestic institutional investors. With greater exchange rate flexibility, some of the shocks were absorbed through adjustments in the ringgit exchange rate. At the same time, the high level of international reserves functioned as a buffer to prevent excessive fluctuations in the exchange rate.

The international reserves of Bank Negara Malaysia amounted to RM405.3 billion as at end-2014 (2013: RM441.9 billion). As at 27 February 2015,

the reserves level amounted to RM386.0 billion (equivalent to USD110.5 billion), which is sufficient to finance 7.9 months of retained imports and is 1.1 times the short-term external debt. The international reserves held by the Bank remain usable and unencumbered.

Malaysia's external debt amounted to RM744.7 billion, equivalent to 69.6% of GDP, as at end-2014 (2013: RM696.6 billion or 70.6% of GDP). In terms of the maturity profile, slightly more than half of the external debt comprised medium- to long-term maturities. By currency, 41.2% of the external debt was made up of ringgit-denominated debt securities and deposits held by non-residents. During the year, particularly in the fourth quarter, the rise in external debt was partly attributable to the valuation effects from the depreciation of the ringgit. These valuation effects accounted for 42.0% of the RM48.1 billion increase in external debt during the year. Excluding these effects, the increase in offshore borrowing for the year largely reflected the drawdown of short-term borrowing by banks and medium- to long-term borrowing by the banking sector and the non-bank private sector. The increase in non-resident deposits in domestic banks also contributed to the higher external debt.

Interbank offshore borrowing accounted for only a small share of the banking system's total funding. This offshore borrowing mainly reflected domestic banks' increased overseas operations and centralised foreign currency liquidity management operations. In terms of the non-bank private sector's offshore borrowings, 70% of the total was sourced from offshore shareholders, parent companies and associated companies, while most of the debt was either financially or naturally hedged. Furthermore, stress tests conducted on large non-bank corporate borrowers indicated that they were resilient to exchange rate fluctuations.

### **Economic and Monetary Management in 2014**

The Monetary Policy Committee (MPC) adjusted the degree of monetary accommodation by raising the Overnight Policy Rate (OPR) by 25 basis points to 3.25% on 10 July 2014. The economy was assessed to be on a sustained growth path and with the prospects for the domestic economy to remain on this steady growth trajectory in 2014. The MPC also took into account the ongoing concerns about the risks of broader financial imbalances. The key consideration was, therefore, in identifying the appropriate timing for the adjustment, taking

into consideration the ongoing assessment of the balance of risks to the outlook for growth and inflation. By May 2014, the expectation was for growth in 2014 to be at the upper end of the initial forecast of 4.5% - 5.5%. There were greater upside risks to inflation, which was expected to trend above its long-run average in 2014 and 2015, driven mainly by domestic cost factors, namely adjustments in administered prices, and the implementation of the Goods and Services Tax (GST). Furthermore, while the implementation of macro- and micro-prudential measures were having the desired effect of moderating the growth of household indebtedness, the MPC assessed that the sustained period of unchanged and low interest rates was creating an environment of understating risks and had the potential of incentivising broader financial imbalances. Thus, the MPC decided to adjust the degree of monetary accommodation at the July 2014 MPC meeting. The adjustment in the policy rate was transmitted efficiently through the financial system and the broader economy. Retail lending rates adjusted quickly to the change in the OPR. Depositors were also compensated with higher rates of return on their savings.

In the later part of the year, the sustainability of external demand became more uncertain following rising concerns over the growth prospects of the global economy. Global growth continued to be uneven, with increasing evidence of a weaker-than-expected growth momentum in a number of major economies. In addition, the marked increase in global financial market volatility and the sharp decline in oil prices towards the end of 2014 further heightened the downside risks emanating from the external environment. As for inflation, despite a number of price adjustments, there was limited evidence of increased pervasiveness of price increases. The absence of external price pressures and the more moderate domestic demand conditions were also expected to mitigate the impact of cost-push inflation. Given the evolving economic and financial environment, and the uncertainty it created around the inflation outlook, and the growth prospects, the MPC was of the view that maintaining monetary conditions at their prevailing level was warranted. The risks of destabilising financial imbalances continued to be monitored.

The performance of the ringgit during the year followed two noticeable patterns. Between February and August 2014, the ringgit was broadly on a strengthening trend due to sustained portfolio inflows. From September, however, the ringgit,

along with most regional currencies, faced depreciation pressures as investors unwound their holdings of financial assets in the region amidst nervousness about a possible change in US monetary policy and signs of weakness in the global growth momentum. For the year as a whole, the ringgit depreciated by 6.1% to RM3.4950 against the US dollar.

Malaysian Government Securities (MGS) yields were affected by domestic and external factors during the year. For the first 11 months, while market expectations and the eventual policy rate increase by the Bank led to upward adjustments at the shorter-end of the MGS yield curve, sustained interest from non-resident and local investors contributed to the downward shift at the longer-end of the MGS yield curve. This downward trend, however, was reversed in December as resident investors consolidated their investment positions towards the end of the year.

Aggregate outstanding liquidity placed with the Bank remained high despite the net withdrawal of liquidity due to net outflows from the external sector. Given the net external sector outflows, private sector liquidity, as measured by broad money (M3), grew at a more moderate pace of 7.0% during the year (2013: 7.9%).

Financing to the private sector remained healthy during the year. The growth in net financing through the banking system, development financial institutions (DFIs) and the private debt securities (PDS) market expanded at an annual rate of 8.7% in 2014 (2013: 9.7%). The growth in outstanding loans to businesses increased to 9.0% with continued double-digit growth in SME loans, amid a higher level of loan disbursements. Demand for funding from the capital markets by private sector corporations also remained robust, with gross funds raised through bond and equity issuances remaining relatively stable during the year at RM101.3 billion (2013: RM98.1 billion). Meanwhile, taking into account financing from both banks and non-banks, the growth in outstanding loans to households continued to moderate as intended following measures to curb pockets of excesses.

### **Outlook for the Malaysian Economy in 2015**

Despite a challenging external environment, the Malaysian economy is expected to register steady growth of 4.5% - 5.5% in 2015, supported mainly by sustained expansion in domestic

demand amid strong domestic fundamentals and a resilient export sector. Domestic demand will continue to anchor growth in 2015, driven by private sector spending. After registering five consecutive years of above-average growth rates, private consumption is expected to grow by 6.0% in 2015. While the implementation of the GST in April and lower earnings in the commodity-related sectors are expected to affect spending, this will, however, be partially offset by higher household disposable incomes from lower fuel prices, the favourable labour market conditions and the Government measures to assist low- and middle-income households.

After three years of double-digit growth, private investment is expected to expand by 9.0%, amid lower investments in the mining sector. Nevertheless, private investment growth will be supported by on-going projects and new investments in the manufacturing and services sectors with firms benefitting from the continued global recovery and expansion in domestic demand.

Public consumption is projected to grow more moderately, with lower spending on supplies and services following the Government's expenditure rationalisation measures. Public investment is, however, expected to turn around to record positive growth, with higher capital spending by public enterprises and to a lesser extent, by the Federal Government. Investments by public enterprises reflect the continued implementation of key infrastructure projects, particularly in the utilities and transportation sub-sectors.

In the external sector, after a strong performance in 2014, the growth of gross exports is projected to moderate, amid lower commodity prices. Exports of manufactured products, however, are expected to increase at a stronger growth rate. Gross imports growth is expected to be higher in 2015, amid continued growth in intermediate imports given the expansion in export-oriented manufacturing; and higher growth in capital and consumption imports in line with the continued growth of domestic demand. Overall, the trade balance is expected to narrow but remain in surplus. The services account is projected to record a smaller deficit, with the expected recovery in tourist arrivals. Overall, the current account surplus is projected to narrow to 2% - 3% of GNI in 2015.

On the supply side, all economic sectors are expected to expand. The services and manufacturing sectors

will remain the key drivers of overall growth. Growth in the mining sector is projected to be sustained amid rising output from a new oil field. Weighed down by lower commodity prices, the agriculture sector is expected to record a marginal positive growth. The construction sector is expected to continue to record high growth, albeit at a more moderate pace. Although activity in the residential sub-sector is expected to increase at a more moderate pace, growth in the non-residential sub-sector is projected to be sustained while new and existing multi-year civil engineering projects will continue to provide additional support to the sector.

Headline inflation is projected to be lower at 2% - 3% in 2015, largely on account of lower global energy and food prices. The decline in global oil prices will lead to lower domestic fuel prices through the managed float fuel pricing mechanism. The more subdued external price pressures would also mitigate increases in the cost of imports stemming from the recent ringgit depreciation, thereby moderating imported inflation. While the implementation of the GST would result in higher prices for some goods and services, the impact on overall headline is expected to be contained. Basic necessities are either zero-rated or exempted from the GST while for some other items, the GST would merely replace the existing Sales and Services Tax (SST). The inflation rate in 2015 would also be affected by the new pricing mechanism for petrol prices in which there would be a more direct transmission of global oil price volatility into domestic prices given the market-based pricing of domestic fuel products. Nevertheless, the expectation is for underlying inflation to still remain relatively stable, amid modest demand pressures.

### **Economic and Monetary Management in 2015**

The external environment in 2015 will be more challenging. While improving, downside risks to the global growth outlook remain given the continued weakness in a number of major economies. In addition, given uneven growth prospects, monetary policies in the major economies could potentially diverge, which may lead to sizable shifts in global liquidity and contribute to greater volatility in global financial markets and capital flows. The sharp decline in the price of oil and the uncertainty over its future price path, coupled with the attendant effects on the prices of other commodities, further compounds the challenging global environment. Amid this challenging landscape, the focus of policies by the Government and

the Bank will be on addressing domestic vulnerabilities and supporting the growth of the Malaysian economy.

Monetary policy in 2015 will continue to support a steady growth of the Malaysian economy amid contained risks to inflation. The operating environment for monetary policy will be shaped by key challenges on the external front, which would affect the overall outlook for the domestic economy. These include the considerable downside risks to global growth prospects, the changed outlook for commodity prices, and the potential divergence in the monetary policies of the major economies. Notwithstanding these external risks, domestic demand is expected to expand at a sustained pace while the export sector will remain resilient. In terms of the inflation outlook, the key consideration for monetary policy is the development of underlying inflation, which is expected to remain relatively stable amid modest demand pressures. In addition, monetary policy decisions will also continue to take into account assessments on the potential risk of a further build-up in financial imbalances.

Fiscal policy in 2015 will focus on strengthening fiscal management amid the environment of low global commodity prices. The expected lower oil-related revenue has prompted the Government to introduce pre-emptive fiscal adjustment measures and to revise the fiscal deficit target from 3% to 3.2% of GDP. The net impact of lower oil prices on Malaysia's fiscal position is expected to be manageable. This is on account of the increased diversification of sources of revenue over the years, which will be further supported by the implementation of the GST, and the expenditure rationalisation measures encompassing fuel subsidy reforms and the scaling back of discretionary spending.

As a highly open economy, in the event that some of the external risks materialise, Malaysia would be adversely affected but the strong prevailing underlying fundamentals would act as a buffer to mitigate the impact. The economy is well-diversified, inflation is low, and the balance of payments position is resilient. Labour market conditions remain healthy. The deep financial markets, strong banking system, and ample liquidity conditions will ensure that effective financial intermediation continues and will provide support to Malaysia's resilience during bouts of volatile capital flows. External debt remains manageable with the majority of debt

being in medium- to long-term tenures, and with more than 40% being denominated in ringgit. This, together with ample international reserves, accords the economy with the policy flexibility to manage external risks. The combination of these factors will cumulatively enable a more effective policy response to mitigate the impact of any external shocks on domestic demand.

### **Governance, Organisational Development and Communications**

The year 2014 marked the completion of the Bank's three-year strategic Business Plan 2012-2014. During this period, the Bank accomplished several key milestones, including strengthening the legislative framework underpinning the domestic financial sector; establishing the Financial Services Talent Council and Financial Services Professional Board to raise the standards of quality and professionalism in the financial sector; and improving the e-payments ecosystem for more efficient payment transactions.

The Board of Directors' oversight of the Bank's governance included matters relating to financial sector development and financial stability, as well as major initiatives such as the establishment of the Monetary Penalty Review Committee (MPRC), as legislated under the Bank's acts. The Board is supported by three Board Committees, namely the Bank Governance Committee (BGC), the Board Audit Committee (BAC) and the Board Risk Committee (BRC). The Board, with the support of the BRC, provides strategic direction on the Bank's risk management. In 2014, risk dashboards were strengthened and a new principle-based policy was introduced to counter the increased risks associated with the greater use of digital information. The risk management function is complemented by a risk-based internal audit function for all critical operations of the Bank.

Organisational development efforts were focused on enhancing productivity, particularly in facilitating expedited learning given the changing talent demographics in the Bank. Other aspects included improving business processes and strengthening the architecture of the Bank's information systems.

The Bank sustained its proactive communications approach through different channels including the Monetary Policy Statement (MPS) and briefings coinciding with economic press releases, Parliamentary sessions, and meetings with investors and analysts. These engagements have a key role in enhancing the understanding of the Bank's assessments and policy actions as well as sustaining overall confidence. The Bank also continued to engage with the international central banking and financial community at large. Key initiatives included hosting the Alliance for Financial Inclusion (AFI) headquarters in Kuala Lumpur to strengthen global financial inclusion efforts; and establishing a renminbi clearing bank to deepen economic ties between Malaysia and PR China.

Other new initiatives during the year included those in support of the national "Going Green" agenda through the use of recycled fit RM1 and RM5 banknotes during festive celebrations, and Currency Education Programmes to enhance the public's knowledge of banknote security features.

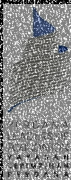
### **Bank Negara Malaysia's Audited Financial Statements for 2014**

The financial position of Bank Negara Malaysia, as audited and certified by the Auditor General, remained strong in 2014. The total assets of Bank Negara Malaysia amounted to RM427.6 billion, with a net profit of RM6.4 billion for the financial year ending 31 December 2014. Bank Negara Malaysia declared a dividend of RM3.0 billion to the Government for the year 2014.

# RTS

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## THE INTERNATIONAL ECONOMIC ENVIRONMENT

The global economy expanded at a moderate pace in 2014, with uneven growth across and within regions. In the advanced economies, while growth in the US continued to show broader signs of improvement, economic activity in the euro area and Japan remained subdued. In Asia, most economies benefitted from higher external demand, particularly from the US. Nevertheless, growth momentum diverged across the region as domestic demand moderated in several economies amid country-specific developments. As the year progressed, downside risks to global growth re-emerged as a consequence of geopolitical developments in Eastern Europe and the Middle East, weaker-than-expected economic activity in several major economies, and rising concerns over the growth prospects of a number of commodity-producing emerging economies amid the significant decline in energy prices in the latter part of 2014. Given these developments and the benign global inflationary pressures, monetary policy remained accommodative across regions. Although there was some divergence in the direction of monetary policy across the major advanced economies amid the increasing unevenness in economic performances, the stance of monetary policy continued to be highly accommodative in all of these economies.

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The global economy expanded at a moderate pace in 2014, with uneven growth across and within regions

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### **Moderate expansion in the global economy**

The global economy remained on a gradual path of improvement at the start of 2014, with most advanced economies registering higher growth. Economic activity in the euro area and Japan was supported by improving domestic demand amid accommodative monetary policies and a slower pace of fiscal consolidation. Consumer spending in Japan was

also significantly higher in anticipation of the consumption tax increase that was scheduled to come into effect in April. In the US, while growth slowed in the early months due to unusually adverse weather conditions, the weakness proved to be transitory. Economic activity subsequently rebounded, underpinned by strengthening labour market conditions and sustained business sentiments. The improving global environment supported better export performance for the Asian economies. Nevertheless, economic growth moderated in several regional economies due mainly to policy measures to address country-specific issues. Of significance, growth in PR China continued to trend towards a more sustainable path amid structural reforms to advance economic rebalancing and address areas of vulnerabilities.

In the second quarter of 2014, while growth in the US continued to gain momentum, economic activity in several major economies began to exhibit signs of weaknesses due to varied underlying factors. These weaknesses had become more entrenched by the third quarter, resulting in increasing unevenness in growth performances across the major economies. In the euro area, geopolitical developments in Eastern Europe affected business sentiments. This, together with persistent structural constraints, weighed on investment activity and led to a deceleration in the overall growth momentum. In Japan, consumer spending declined following the increase in the consumption tax in April. As weak demand conditions weighed on business activity, the Japanese economy entered into a technical recession in the third quarter despite better export performance. In PR China, the continued implementation of structural reforms resulted in a larger-than-expected slowdown in economic activity. Nevertheless, the periodic introduction of targeted policy measures to support the productive and rural sectors helped to stabilise overall growth during the year.

As economic performance in several major economies remained below earlier expectations, concerns over the global growth outlook increased towards the fourth quarter of 2014, particularly following the downgrade of the global economic outlook by the International Monetary Fund (IMF).

The weakness in global demand, together with the sizeable excess supply in the global crude oil market, led to a significant decline in the prices of crude oil and other commodities. Uncertainties over the magnitude and persistence of the decline in commodity prices consequently increased concerns over the growth prospects of a number of commodity-producing emerging economies. This in turn resulted in broad-based financial market volatility across the emerging economies, which further exacerbated concerns over global growth. Nevertheless, in Asia, while overall growth was affected by the adverse developments in the external environment, economic expansion continued to be supported by domestic demand and exports, particularly to the US.

Table 1.1

## World Economy: Key Economic Indicators

	Real GDP Growth (Annual change, %)		Inflation (Annual change, %)	
	2013	2014e	2013	2014e
<b>World Growth</b>	<b>3.3</b>	<b>3.3</b>	-	-
<b>World Trade</b>	<b>3.4</b>	<b>3.1</b>	-	-
<b>Advanced Economies</b>				
United States	2.2	2.4	1.5	1.6
Japan	1.6	0.0	0.4	2.7
Euro area <sup>1</sup>	-0.5	0.9	1.4	0.4
United Kingdom	1.7	2.6	2.6	1.5
<b>Emerging Asia<sup>2</sup></b>	<b>6.5</b>	<b>6.2</b>	<b>2.8</b>	<b>2.5</b>
<b>Other Advanced Asian Economies</b>	<b>2.9</b>	<b>3.3</b>	<b>1.6</b>	<b>1.6</b>
Korea	3.0	3.3	1.3	1.3
Chinese Taipei	2.2	3.7	0.8	1.2
Singapore	4.4	2.9	2.4	1.0
Hong Kong SAR <sup>3</sup>	2.9	2.3	4.3	4.4
<b>The People's Republic of China</b>	<b>7.7</b>	<b>7.4</b>	<b>2.6</b>	<b>2.0</b>
<b>ASEAN-4</b>	<b>5.1</b>	<b>4.4</b>	<b>4.4</b>	<b>4.7</b>
Malaysia	4.7	6.0	2.1	3.2
Thailand	2.9	0.7	2.2	1.9
Indonesia	5.6	5.0	6.4	6.4
Philippines	7.2	6.1	2.9	4.2
<b>India<sup>4</sup></b>	<b>5.0</b>	<b>5.8</b>	<b>10.1</b>	<b>7.2</b>

<sup>1</sup> Refers to EU-18

<sup>2</sup> Emerging Asia refers to Chinese Taipei, Hong Kong SAR, Indonesia, Korea, Malaysia, Philippines, PR China, Singapore and Thailand

<sup>3</sup> Inflation refers to harmonised composite price index

<sup>4</sup> For India, GDP data is presented on a fiscal year basis

e Estimate

Source: International Monetary Fund, National Authorities and Bank Negara Malaysia estimates

### Benign inflationary pressures

Inflationary pressures remained benign in many economies, reflecting modest wage growth in the advanced economies and the significant decline in global commodity prices, particularly in the second half of the year.

Crude oil prices moderated to an average of USD99 per barrel<sup>1</sup> in 2014 (2013: USD109 per barrel), with sizeable price movements during the year. In the first half of 2014, crude oil prices increased to peak at USD115 per barrel in mid-June, following concerns over potential supply disruptions amid increasingly adverse geopolitical developments in the Middle East. However, the weaker-than-expected global demand, continued production by the key oil-producing economies and the rising supply from non-conventional sources, particularly shale oil in the US, resulted in considerable oversupply and triggered a large decline in crude oil prices. Uncertainties over the magnitude and persistence of the decline in crude oil prices were further exacerbated by the Organisation of the Petroleum Exporting Countries' (OPEC) decision in November to maintain production levels despite the prevailing oversupply conditions in the global markets. Given the greater financialisation of the energy sector in recent years, the deterioration in market sentiments further accelerated the decline in prices, with crude oil prices ending the year at around USD56 per barrel, more than 50% below its peak in 2014 and the lowest level since May 2009.

In tandem with the decline in crude oil prices, non-energy commodity prices also moderated. Food prices were lower amid favourable weather conditions and better yield performance in key growing regions, particularly for corn, soybean and wheat. The prices of hard commodities, particularly iron ore and copper, were also affected primarily by weaker demand from key emerging economies, including PR China.

In the advanced economies, core inflation, which excludes food and energy prices, remained subdued amid modest wage growth. Headline inflation continued to remain below targets set by central banks, including in the US, due mainly to the lower energy prices. Of significance, the euro area entered into deflation in December, as the significant decline in energy prices exacerbated the already weak inflation. Although inflation

<sup>1</sup> Based on the Brent crude oil 1-month futures price.

(excluding fresh food) in Japan was higher due mainly to the consumption tax increase, estimates by the Bank of Japan (BoJ) that exclude the effects of the consumption tax increase suggested that underlying inflation remained below 1%. In Asia, while inflation eased in most economies, price pressures remained elevated in a few economies such as Indonesia, where it was due mainly to the adjustments in administered fuel prices. The higher inflation in Chinese Taipei and the Philippines reflected stronger domestic demand.

### **Global policy stance remained supportive of growth**

Amid increasing global growth concerns and benign inflationary pressures during the year, the overall policy stance remained supportive of growth in most regions. In the advanced economies, overall monetary policy remained accommodative despite some divergence in monetary policy stances across the major advanced economies. Monetary authorities continued to rely on 'forward guidance' to manage market expectations and minimise uncertainties relating to the future policy direction. In addition, the pace of fiscal consolidation slowed, except in Japan where the consumption tax was increased from 5% to 8% in April. In Asia, the degree of monetary accommodation was increased in a few economies, while targeted fiscal support was introduced in others. Several economies also advanced the implementation of structural reforms to further strengthen macroeconomic fundamentals and enhance medium-term growth sustainability.

In the advanced economies, the monetary policy stance showed signs of divergence amid increasing unevenness in economic performances, particularly during the second half of the year. In the US, following growing signs of strengthening labour market conditions and more broad-based economic improvements, the Federal Reserve (Fed) continued to gradually reduce the pace of asset purchases, to subsequently end all asset purchases in October. As the Fed adjusted its 'forward guidance' to indicate that "it can be patient in beginning to normalise the stance of monetary policy", market expectations remained for interest rate normalisation to begin in 2015. In contrast, the European Central Bank (ECB) and the BoJ further increased the degree of monetary accommodation in the second half of 2014 on account of weak economic growth and rising disinflationary

pressures. Of significance, the ECB reduced the main refinancing rate by a cumulative 20 basis points to 0.05%, and lowered the marginal lending and deposit rates by 45 and 20 basis points to 0.30% and -0.20%, respectively. In addition, to increase its balance sheet size towards levels observed around early 2012, the ECB introduced a series of targeted longer-term refinancing operations (TLTROs) to encourage greater bank lending in the euro area, and embarked on the purchase of asset-backed securities and covered bonds from October. Nevertheless, despite the implementation of these measures, medium-term inflation expectations had continued to trend downwards. In Japan, the BoJ increased its annual asset purchases to JPY80 trillion (previous target: JPY60~70 trillion) and shifted to conducting asset purchases in an open-ended manner amid continued concerns over disinflation.

In PR China, the People's Bank of China (PBoC) reduced its interest rates in November for the first time since July 2012, to lower real lending rates and reduce the financing costs for enterprises. The benchmark lending and deposit rates were lowered by 40 and 25 basis points to 5.60% and 2.75%, respectively. Targeted policy measures were also introduced during the year to support growth in the productive and rural sectors. These included more accommodative lending to the agriculture and rural sectors, increased funding for infrastructure development, government support for consumption particularly in the rural areas, tax reductions for small and medium-sized enterprises (SME), and lower restrictions on the property market.

In Asia, the monetary policy stance was shaped primarily by domestic considerations. The Reserve Bank of India, Bank Indonesia and Bangko Sentral ng Pilipinas increased key policy rates by a total of 25, 25 and 50 basis points, respectively, to contain inflationary pressures. In contrast, the Bank of Korea and the Bank of Thailand lowered their key policy rates due mainly to weaker-than-expected domestic demand. Importantly, while the regional economies experienced significant capital flow reversals and depreciation pressures on their currencies towards the end of 2014, these economies remained resilient against the external challenges, with no disruption of financial intermediation within the regional financial systems.

To further strengthen macroeconomic fundamentals and enhance medium-term growth prospects, several Asian economies continued with the implementation of structural reforms.

Table 1.2

## Malaysia - Key Economic Indicators

	2012	2013	2014 <sup>p</sup>	2015 <sup>f</sup>
Population (million persons)	29.5	29.9	30.3	30.6
Labour force (million persons)	13.1	13.6	14.0	14.4
Employment (million persons)	12.7	13.2	13.6	14.0
Unemployment (as % of labour force)	3.0	3.1	2.9	3.0
Per Capita Income (RM)	30,698	31,844	34,123	35,572
(USD)	9,938	10,106	10,426	9,914 <sup>6</sup>
<b>NATIONAL PRODUCT (% change)</b>				
Real GDP at 2005 prices <sup>1</sup>	5.6	4.7	6.0	4.5 ~ 5.5
(RM billion)	751.9	787.6	835.0	877.2
Agriculture, forestry and fishery	1.3	2.1	2.6	0.3
Mining and quarrying	1.0	0.7	3.1	3.0
Manufacturing	4.8	3.5	6.2	4.9
Construction	18.6	10.9	11.6	10.3
Services	6.4	5.9	6.3	5.6
Nominal GNI	4.9	5.2	8.4	5.5
(RM billion)	905.9	952.6	1,032.6	1,089.4
Real GNI	3.9	5.3	6.0	5.2
(RM billion)	693.6	730.5	774.6	814.9
Real aggregate domestic demand <sup>2</sup>	10.7	7.4	6.0	6.0
Private expenditure	11.3	8.6	8.0	6.7
Consumption	8.2	7.2	7.1	6.0
Investment	22.8	13.1	11.0	9.0
Public expenditure	9.2	4.4	0.2	3.7
Consumption	5.0	6.3	4.4	2.7
Investment	14.6	2.2	-4.9	5.1
Gross national savings (as % of GNI)	33.0	31.2	30.9	29.8
<b>BALANCE OF PAYMENTS (RM billion)</b>				
Goods balance	125.2	108.2	125.1	94.2
Exports	686.0	679.1	726.0	723.9
Imports	560.9	570.9	601.0	629.7
Services balance	-16.2	-16.7	-20.5	-16.4
Primary income, net	-36.1	-34.1	-37.4	-38.0
Secondary income, net	-18.5	-17.5	-17.6	-18.5
Current account balance	54.5	39.9	49.5	21.4
(as % of GNI)	6.0	4.2	4.8	2.0 ~ 3.0
Bank Negara Malaysia international reserves, net <sup>3</sup>	427.2	441.9	405.3	-
(in months of retained imports)	9.5	9.5	8.3	-
<b>PRICES (% change)</b>				
CPI (2010=100) <sup>4</sup>	1.6	2.1	3.2	2.0 ~ 3.0
PPI (2010=100) <sup>5</sup>	0.1	-1.7	1.4	-
Real wage per employee in the manufacturing sector	4.7	5.8	4.4	-

<sup>1</sup> Beginning 2012, real GDP has been rebased to 2005 prices, from 2000 prices previously

<sup>2</sup> Exclude stocks

<sup>3</sup> All assets and liabilities in foreign currencies have been revalued into ringgit at rates of exchange ruling on the balance sheet date and the gain/loss has been reflected accordingly in the Bank's account

<sup>4</sup> Effective 2011, the Consumer Price Index has been revised to the new base year 2010=100, from 2005=100 previously

<sup>5</sup> Effective 2015, the Producer Price Index has been revised to the new base year 2010=100, from 2005=100 previously

<sup>6</sup> Based on average USD exchange rate for the period of January-February 2015

<sup>p</sup> Preliminary

<sup>f</sup> Forecast

Note: Numbers may not necessarily add up due to rounding

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Table 1.3

## Malaysia - Financial and Monetary Indicators

FEDERAL GOVERNMENT FINANCE (RM billion)	2012		2013		2014 <sup>p</sup>	
Revenue	207.9		213.4		220.6	
Operating expenditure	205.5		211.3		219.6	
Net development expenditure	44.3		40.7		38.4	
Overall balance	-42.0		-38.6		-37.4	
Overall balance (% of GDP)	-4.5		-3.9		-3.5	
Public sector net development expenditure	138.4		133.3		155.3	
Public sector overall balance (% of GDP)	-5.0		-3.9		-7.0	
<b>EXTERNAL DEBT<sup>1</sup></b>						
Total debt (RM billion)	602.1		696.6		744.7	
Medium- and long-term debt	318.6		357.8		383.9	
Short-term debt	283.5		338.8		360.8	
Debt service ratio <sup>2</sup> (% of exports of goods and services)						
Total debt	17.4		17.6		18.2	
Medium- and long-term debt	17.3		17.5		18.1	
<b>MONEY AND BANKING</b>						
	<b>Change in 2012</b>		<b>Change in 2013</b>		<b>Change in 2014</b>	
	<b>RM billion</b>	<b>%</b>	<b>RM billion</b>	<b>%</b>	<b>RM billion</b>	<b>%</b>
Money supply M1	30.8	11.9	37.8	13.0	18.8	5.7
M3	111.2	9.0	107.5	7.9	101.5	7.0
Banking system deposits	109.4	8.4	116.9	8.3	116.4	7.6
Banking system loans <sup>3</sup>	104.5	10.4	117.7	10.6	114.1	9.3
Loan-deposit ratio (end of year) <sup>4</sup>	82.1		84.8		86.7	
Financing-deposit ratio <sup>4,5</sup>	88.7		91.3		93.3	
<b>INTEREST RATES (AS AT END-YEAR)</b>						
	<b>2012</b>		<b>2013</b>		<b>2014</b>	
	<b>%</b>		<b>%</b>		<b>%</b>	
Overnight Policy Rate (OPR)	3.00		3.00		3.25	
Interbank rates (1-month)	3.06		3.20		3.38	
Commercial banks						
Fixed deposit 3-month	2.97		2.97		3.13	
12-month	3.15		3.15		3.31	
Savings deposit	1.03		0.99		1.07	
Base lending rate (BLR)	6.53		6.53		6.79	
Treasury bill (3-month)	3.04		3.00		3.42	
Malaysian Government Securities (1-year) <sup>6</sup>	3.01		3.03		3.48	
Malaysian Government Securities (5-year) <sup>6</sup>	3.24		3.66		3.84	
<b>EXCHANGE RATES</b>						
	<b>2012</b>		<b>2013</b>		<b>2014</b>	
	<b>%</b>		<b>%</b>		<b>%</b>	
Movement of Ringgit (end-period)						
Change against SDR	3.9		-7.3		-0.7	
Change against USD	3.9		-6.8		-6.1	

<sup>1</sup> As redefined effective from the first quarter of 2014. For more information, please refer to the box article titled 'The Redefinition of External Debt' in the Quarterly Bulletin on Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2014

<sup>2</sup> Includes prepayment of medium- and long-term debt

<sup>3</sup> Includes loans sold to Cagamas

<sup>4</sup> Deposits exclude deposits accepted from banking institutions. Loans exclude loans sold to Cagamas and loans extended to banking institutions

<sup>5</sup> Financing comprises loans and banking institutions' holdings of private debt securities (PDS)

<sup>6</sup> Refers to data from FAST, Bank Negara Malaysia

<sup>p</sup> Preliminary

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

