

## ASLI 15th MALAYSIAN BANKING SUMMIT

**“Banking for Growth – Fuelling Economic Transformation and Expanding Revenue Frontiers”**

**19 – 20 May 2011 Kuala Lumpur Convention Centre**

**SESSION 5:**

**9:20 am Friday 20<sup>th</sup> May 2011**

**Panel Discussion**

**Managing Emerging Risks**

*Threats on the Horizon*

# Factors for consideration

- Global economy
  - Europe sovereign credit risk
  - Middle East unrest
  - US and the end of QE2
  - Asian growth and risks
- The Malaysian Banking sector outlook
  - Consumer leveraging
  - Ample domestic liquidity has its inherent risk
- Risk-based pricing in a time of severe price competition
- Risks issues relating to talents and competencies in banking
- Finally ➤ What's the next major crisis?  
Do we know? Should we know?

# 2011 - 2012

## Asian Landscape

- ❑ Strong growth outlook generally across the Asian region.
- ❑ China's strong growth continues with GDP growth trending back towards double digits.
- ❑ India's strong growth continues uninterrupted.
- ❑ Hong Kong, Taiwan & South Korea solid growth outlook with GDP in region of 5%.
- ❑ ASEAN also retains strong growth outlook with GDP growth ranging between 5 to 7%.
- ❑ Japan – difficult 2011 but set for strong rebound during 2012

# 2011 - 2012

## Asian Landscape

**GDP Growth Rates / Estimated Inflation Rates / Current Central Bank Prime Rates**

	GDP 2011 (%)	Inflation (%)	OPR (%)
Malaysia	5.0 to 5.5	3.0 to 3.5	3.0
Singapore	5.0 to 6.0	3.5 to 4.0	0.02
Indonesia	6.0 to 6.5	6.0 to 6.5	6.75
Thailand	4.0 to 4.5	3.5 to 4.0	2.75
Philippines	4.0 to 4.25	3.75 to 4.0	4.5
Vietnam	6.0 to 6.25	13.0 to 13.5	15.0
China	9.25 to 9.75	4.5 to 5.0	6.3
Hong Kong	5.0 to 5.5	4.0 to 4.5	0.5
Taiwan	4.5 to 4.75	2.0 to 2.25	1.75
South Korea	4.0 to 4.5	4.0 to 4.5	3.0
India	7.5 to 8.0	8.25 to 8.75	6.25

# 2011 - 2012

## Malaysian Landscape

❑ GDP Growth outlook 5 to 6%.

❑ Banking sector strong and well capitalised.

❑ Corporate sector healthy – satisfactorily leveraged with strong growth sectors in:

- Oil & Gas
- Infrastructure
- Tourism
- Education
- Health
- Selective manufacturing
- Green technologies

❑ Consumer sector okay but leverage on the rise.

❑ Interest rates conducive for business even with additional rate rises of 25 to 75 basis points.

# Managing Emerging Risks: “External Threats on the Horizon”

Fragile European Economies

Middle Eastern Unrest

Pace of Recovery in the USA

Volatile Commodity Prices

Use of Monetary Policy by European and US Central Banks

Monetary Policy Impact on Currencies

Impact of Global Disasters, Japan, Australia, New Zealand

Global Excess Liquidity looking for higher Yields – Hot “Capital Flows”

BUT - INFLATION RISKS POSE GREATEST THREAT TO ASIAN & GLOBAL ECONOMIES

# 2011 – 2012 Global Landscape

## GDP Growth Rates / Estimated Inflation Rates / Current Central Bank Prime Rates

	GDP 2011 (%)	Inflation (%)	OPR (%)
United States	2.7	2.5 to 3.0	0.25
Euro	1.7	2.25 to 2.5	1.25
Germany	2.8	2.25 to 3.0	1.25
France	1.9	2.0 to 2.5	1.25
Italy	1.1	2.25 to 2.5	1.25
UK	1.5	3.75 to 4.0	0.5
Australia	2.75 to 3.0	3.0 to 3.5	4.75
Singapore	5.0 to 6.0	3.5 to 4.0	0.02
Indonesia	6.0 to 6.5	6.0 to 6.5	6.75
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# Managing Emerging Risks: “Things to Watch”

## ❑ G3 OUTLOOK – (US, Europe & Japan)

- The Fed is prepared to keep policy loose until employment market stronger
- The European Central Bank’s hawkish stance on inflation may impede growth
- Impact of Japanese earthquake – short term versus long term impacts
- Currency volatility
- Inflation concerns

# Managing Emerging Risks: “Things to Watch”

## □ CHINA OUTLOOK

- Inflation major risk
- Labor shortages are widespread along the coastal regions – wage push likely
- Prices of land, water, energy and other utilities are increasingly “market determined”
- Currency volatility
- Capital flows concerning authorities and impacting inflation expectations

# Managing Emerging Risks: “Things to Watch”

## □ Rest of Asia

- Demand side inflation is rising across the region
- Central Banks dilemma – higher interest rates or lower currencies? Either way – increasing FX and interest rate volatility.
- Increasing commodity prices – particularly oil and supply side inflation – could negatively impact Asian growth rates and further fuel inflation.
- Capital “inflow” and “outflow” volatility – large chunk liquidity chasing higher yields
- Asset bubbles
- Rising consumer debt levels
- Timely execution of infrastructure capital investment programs
- **Asia “feeding on Asia” - strongly linked but “not tied” to the western world**

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# Malaysian banking sector - what lies ahead?

OPR to increase

Upward SRR movements

Loan growth

Gross impaired loan ratio stable

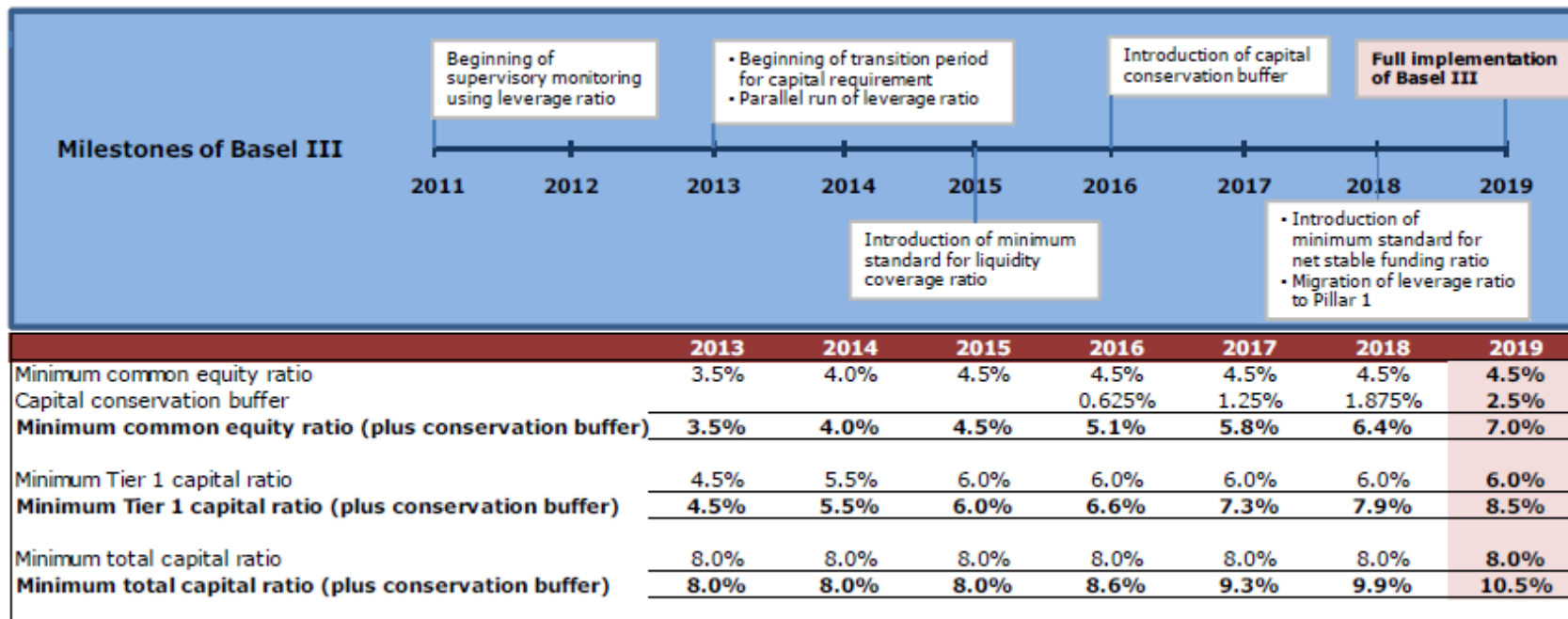
Household segment warrants closer scrutiny

Capitalisation levels to remain strong

Liquidity and funding positions to stay comfortable

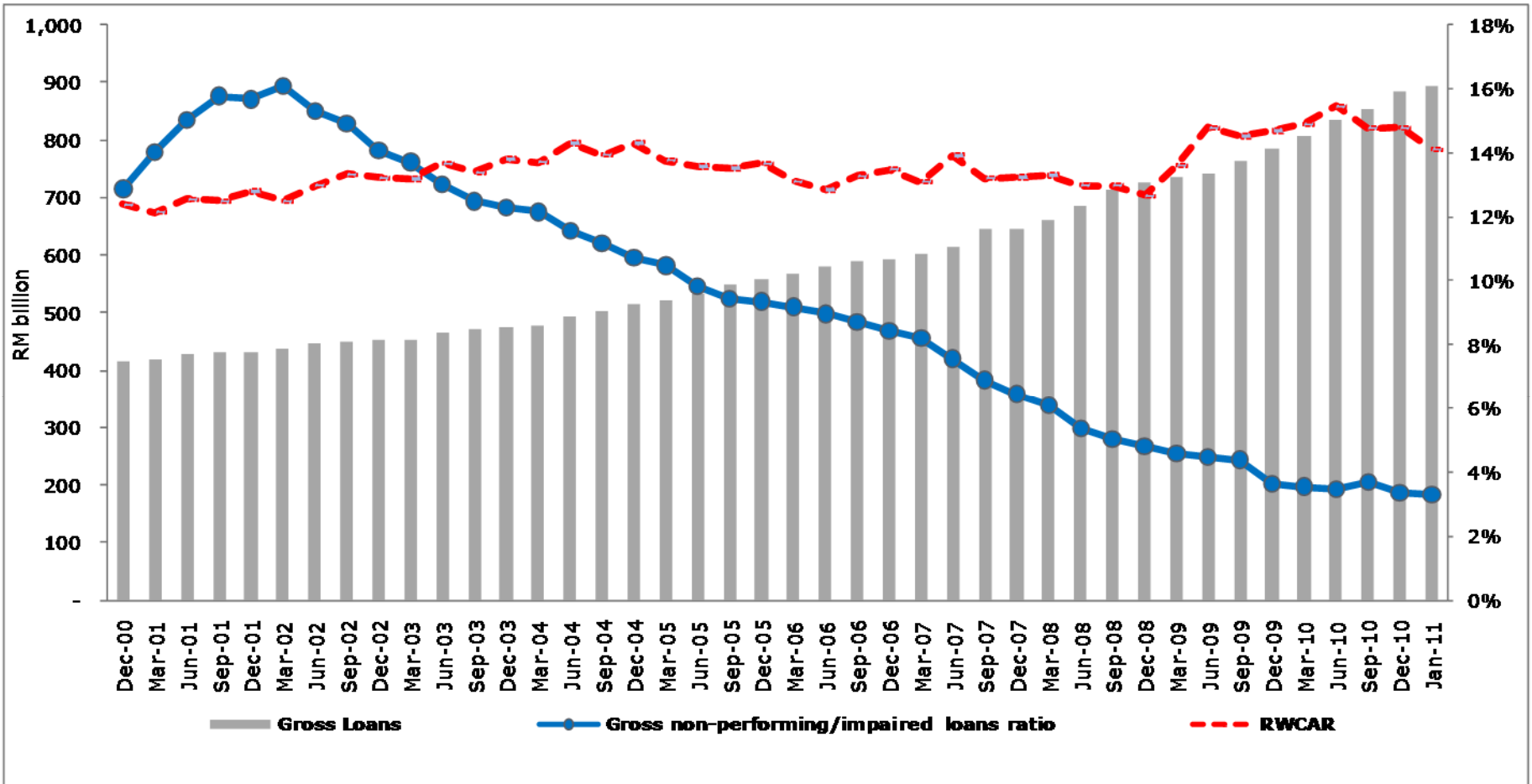
# BASEL III

## - what's on the horizon



Source: Bank for International Settlements

# Malaysian banking sector - tracking the decade



# Malaysian banking sector -quick snap

12M December 2010

3M March 2011

Robust growth continues

+ 13%

+ 3.3%

Gross impaired loan ratio stable

3.3%

3.2%

Loans-to-deposits ratio trending upwards

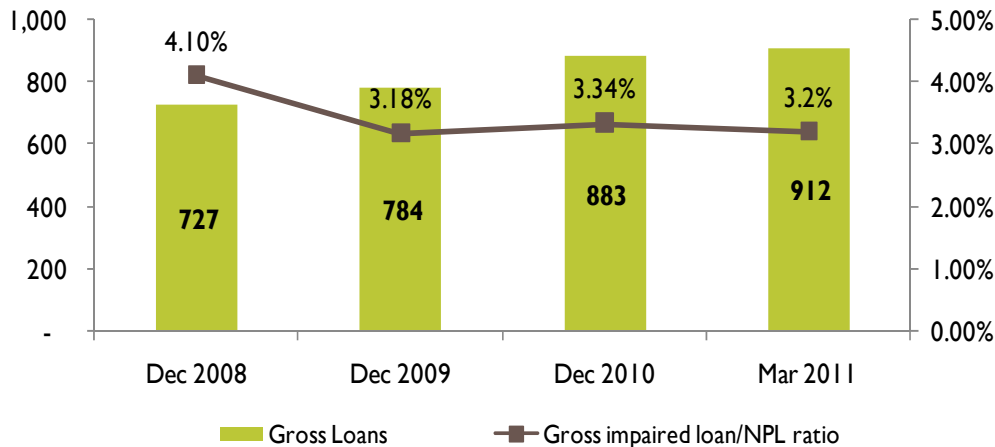
77%

78%

Still-strong capitalisation levels

14.8%

14.3%



**OVERNIGHT POLICY RATE** now at 3.0%

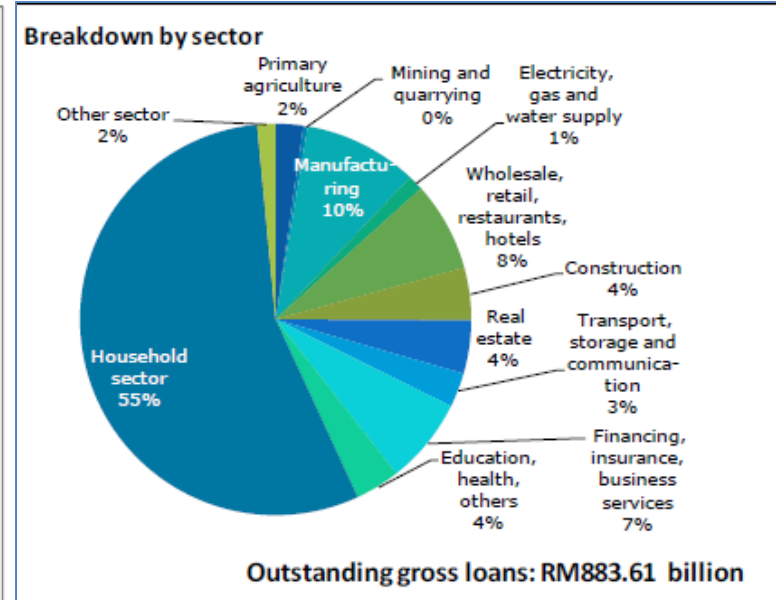
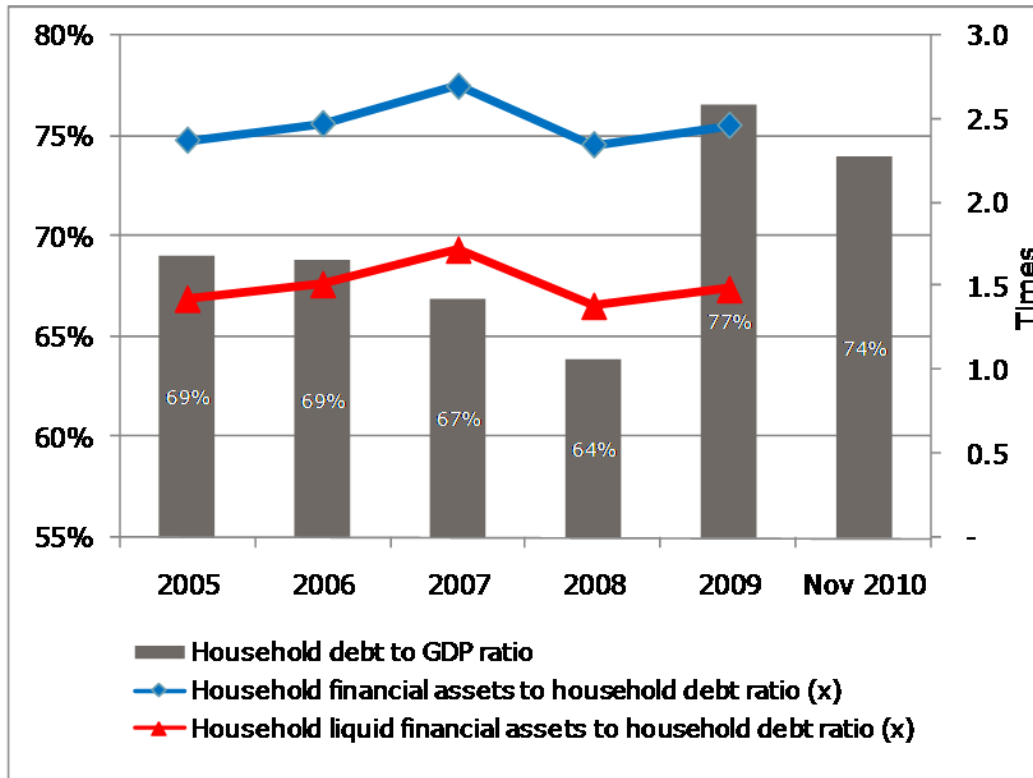
Aggregate **+ 50 to 75 bps**  
by end-2011

**Statutory Reserve Requirement**

**↑ to 3% effective 16 May 2011**

**further increases likely**

# Household debt



Source:

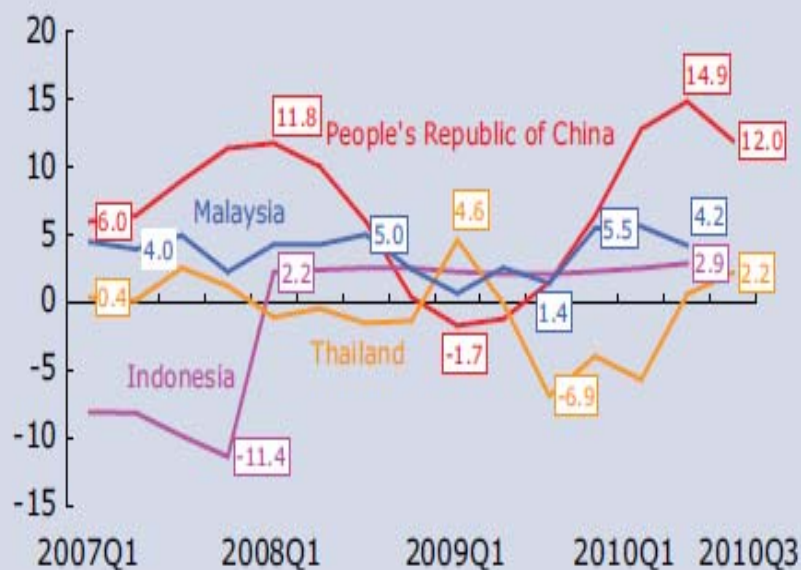
BNM financial stability and payment systems report 2009  
 A quote from BNM Governor Tan Sri Dr Zeti Akhtar Aziz in a  
 Bernama article dated 19 January 2011

While still manageable, household debt levels may get worrisome if left unchecked

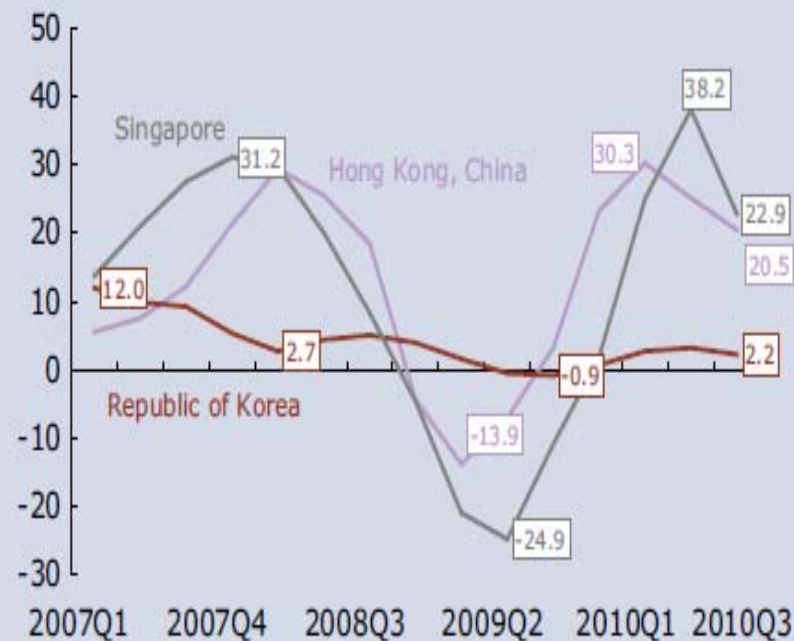
... lower-income households may be more vulnerable to inflationary pressures

# Housing Prices : Malaysia v Region

**Figure 18a: Housing Prices<sup>1</sup>—PRC, Indonesia, Malaysia, and Thailand (y-o-y growth, %)**



**Figure 18b: Housing Prices<sup>2</sup>—NIEs (y-o-y growth, %)<sup>3</sup>**



PRC = People's Republic of China, y-o-y = year-on-year.

<sup>1</sup>Data for PRC refers to sales price index for residential buildings; Indonesia refers to residential property price index; Thailand refers to housing price index. <sup>2</sup>Data for Hong Kong, China; and Singapore refer to residential property price index; Republic of Korea refer to housing price index.

<sup>3</sup>3-month average for Hong Kong, China; and Republic of Korea.

Source: OREI staff calculations based on CEIC data.

Source: Office of Regional Economic Integration (OREI), Asian Development Bank

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