DP01

Monetary Economics and the Malaysian Financial System

3 APRIL 2006

1.	Time allowed	: Three (3) hours
2.	Total number of questions	: Six (6) questions
3.	Number of questions to be answered	: Four (4) questions Part A : Compulsory question [40 marks] Part B : Three (3) questions [20 marks each]

4. Candidates must obtain a minimum of 20 marks in Part A as well as pass the paper as a whole.
5. Begin each answer to a new question on a fresh page.
6. Answer **all** questions in **English**.
7. Blank pages are provided at the end of the question paper for rough work.

PART A

COMPULSORY QUESTION

1. (a) In 2005, the international reserves of Bank Negara Malaysia (BNM) rose by RM12.8billion to RM266.4billion.

   (i) In your opinion, what could have contributed to the rise in the international reserves in 2005? [2]

   (ii) Explain why Malaysia through BNM needs to maintain a strong international reserve position. [3]

   (b) (i) What is overnight policy rate (OPR)? [3]

   (ii) What are the new ceiling and floor rates of the corridor for the OPR? [2]

   (iii) Explain the implications of a rise in the OPR on deposits and lending rates, exchange rates, private savings, consumption and investments, and the overall economic growth. [4]

   (iv) What is Monetary Policy Statement and how often is it issued? [3]

   (c) Generally, a major reason for the rise in the general level of domestic interest rate is due to the threat of inflation.

   Explain the negative implications of persistently high inflation. [4]

   (d) (i) On 21 July 2005, BNM announced that the exchange rate of the Ringgit was allowed to operate in a managed float.

   What is a managed float and how is it different from a clean float? [4]

   (ii) Explain the potential effects due to the change in the exchange rate of the Ringgit from a pegged system to a managed float on the following:

   (aa) Resource allocation [3]

   (bb) Inflation [3]

   (cc) Export [3]

   (dd) Foreign investment [3]

   (e) Explain what Gross Domestic Product (GDP) is and the difference between nominal and real GDP. [3]

(Total:40 marks)

PART B

ANSWER THREE (3) QUESTIONS ONLY

2. (a) (i) Explain the concept of monetary stability. [2]

   (ii) What is financial stability? [2]

   (b) List **two** Islamic banking products/services offered in the Malaysian market and the applicable Islamic concepts for each of the following:

   (i) Deposit [2]

   (ii) Financing [2]

   (iii) Treasury/money market instrument [2]

   (iv) Trade financing [2]

   (v) Card services [2]

   (vi) Banking services [2]

   (c) Briefly explain the following:

   (i) Repurchase agreement [2]

   (ii) Bank Negara Bills [2]

(Total:20 marks)

3. (a) On 23 March 2005, Bank Negara Malaysia (BNM) announced the framework for the creation of investment banks through the integration and rationalisation of the merchant banks, stockbroking companies and discount houses.

   (i) Explain the rationale for the creation of investment banks. [4]

   (ii) What is the scope of activities offered by the investment banks? [4]

   (iii) What benefits could be expected from the integration of merchant banks, stockbroking companies and discount houses? [4]

   (b) Briefly explain the following:

   (i) Capital market [2]

   (ii) Primary market [2]

   (iii) Secondary market [2]

   (iv) Interbank market [2]

(Total:20 marks)

4. (a) Explain how does the World Bank help reduce world poverty. [4]

   (b) The International Monetary Fund (IMF) was established to promote international monetary cooperation.

   What are **four** other objectives of the IMF? [4]

   (c) Define “banking business” as per the Banking and Financial Institutions Act 1989. [4]

(d) (i) State **four** main objectives of Bank Negara Malaysia (BNM) as stated in the Central Bank of Malaysia Act 1958. [4]

(ii) What are **five** principal macroeconomic objectives of BNM? [4]

(Total:20 marks)

5. (a) Briefly describe Malaysia's exchange control policies under the Exchange Control Act 1953. [4]

(b) Name any **four** laws enacted by the Government to specifically enhance Bank Negara Malaysia's regulatory authority. [4]

(c) Briefly explain the Development Financial Institutions Act 2002. [4]

(d) State **two** main reasons why Malaysia needs to develop a more resilient, competitive and dynamic financial system. [6]

(e) Why are unit trust schemes popular among small investors? [2]

(Total:20 marks)

6. (a) What are **five** major groups of non-bank financial institutions? [2½]

(b) Name **five** monetary instruments at Bank Negara Malaysia's (BNM) disposal to inject and withdraw funds to influence the level of interest rates in the financial system. [2½]

(c) Describe BNM's role as an economic adviser to the Government. [5]

(d) Explain **two** major objectives of the Financial Sector Masterplan 2001 - 2010. [5]

(e) Briefly describe the foreign exchange market. [5]

(Total:20 marks)

OUTLINE ANSWERS

The comments given in the boxes below indicate the areas of weaknesses the examiners have identified and their advice to future candidates.

PART A

Question 1

- Candidates showed poor understanding of the balance of payments (BOP) concept, the component of the BOP and its link with the national account or gross domestic product. They also failed to explain the new mechanism used by Bank Negara Malaysia (BNM) in its interest rate management, namely the overnight policy rate (OPR) which is the key rate used by BNM to signal a change in monetary policy stance. Candidates were unable to explain how a change in OPR would result in changes to other rates.

- Candidates are advised to understand the balance of payments concept, the component of the balance of payments, and its link with the national account or gross domestic product. In the balance of payment, candidates would notice two major accounts, namely the current account and the capital account. The current account is further divided into three sub-accounts, namely the merchandise trade (export and import), services and income. The capital account meanwhile consists of inflow and outflow of borrowings, foreign direct investment and portfolio account. Any changes in these components will result in the movement of the overall account, which is also reflected in the changes of the international reserves of BNM. In general, if the external sector is doing well, there could be more export than import. There is also a possibility that the country would receive more foreign direct investments and portfolio funds if the economy and its fundamentals are strong. This inevitably would result in a rise in external reserves as seen in 2005.

- Candidates are advised to update themselves with the changes in government policies, particularly those related to the banking, finance and monetary issues announced by BNM or the Government. Policy announcements would normally be reported by the media but if candidates need to track past initiatives, it could be found in the BNM website under the press or public announcement section.

- Candidates did not differentiate the implication of inflation on various economic sectors. They were also unable to differentiate between managed and clean float. They were not able to understand the implication of the change in the exchange rate on the various economic variables or sectors, namely resource allocation, inflation, export and foreign direct investment. Candidates failed to link the relationship between exchange rate and interest rate. Difference between nominal and real GDP was not apparent.

- Whether the conversion from fixed to managed float would result in the appreciation or depreciation of the currency would depend on number of internal and external factors, particularly the underlying strength of the economy. In answering such question, candidates must make several assumptions. It does not matter if the assumptions are right or wrong, but what matter is that the implication on the various variables are correct.

1. (a) (i) Factors that could possibly contribute to the rise in international reserves are due to the following:
   - Repatriation of export earnings
   - Inflow of foreign direct investment
   - Inflow of portfolio investment or short-term funds
   - Inflow of external borrowings.

   (ii) Maintaining a strong reserves position is important to sustain market confidence and stability, promote a stable and fundamentally sound Ringgit exchange rate, enhance creditworthiness and, at the same time, provide the Government with greater flexibility in the conduct of domestic policies. It is also important for the achievement of the broad macroeconomic objectives of BNM, namely strong economic growth and to maintain a sustainable external position. Additionally, a large reserves cushion is indeed a key element in protecting the country against unforeseen destabilising developments such as a large and sudden outflow of portfolio funds.

(b) (i) The overnight policy rate (OPR) is an indicator of the BNM's monetary policy stance. The OPR will have a dual role – as a signalling device to indicate the monetary policy stance and as a target rate for the day-to-day liquidity operations of BNM. Any change in the monetary policy stance would be signalled by a change in the OPR. It will serve as the primary reference rate in determining other market rates.

(ii) The new ceiling and floor rates of the corridor for OPR correspondingly increased to 3.25% and 2.75% as against 2.95% and 2.45% previously.

(iii) Technically speaking, deposit and borrowing rates would increase following the upward adjustment in OPR and the Ringgit exchange rate could be expected to appreciate as the Ringgit assets become more attractive. The higher deposit rate would attract more savings but, at the same time, could negatively affect private consumption and investment as borrowings would become more expansive. This, in turn, could reduce the overall economic growth.

(iv) Monetary policy statement is a statement from Bank Negara that contains information on monetary and financial policies, and is released regularly from time to time, in the form of press releases. In other words, the policy statement provides the direction of monetary policy in the near term. Currently, Monetary Policy Statements are made every quarter, together with the release of the quarterly Gross Domestic Product. The Monetary Policy Statement (MPS) is issued at least four times a year, at a pre-determined quarterly interval to coincide with the releases of Malaysia's quarterly gross domestic product (GDP) performance. In the intervening period between the fixed scheduled dates, should there be a change in the monetary policy stance, an additional MPS would be issued.

(c) Negative implications from persistently high inflation
Malaysia's inflation rate had increased in 2005, primarily due to higher energy prices. If inflation continues to rise, people will be concerned about the purchasing power of their money balances. This would result in a greater demand for real assets like houses and properties, which are thought to be more "inflation-proof". There would be less interest to invest in productive capacity of the economy. Similarly, savers would be less inclined to hold savings in the financial system if they expect that the value of their savings would be diminished. Fixed income earners would find that they are able to buy less goods and services and would experience a reduction in their standard of living. High inflation would also make exports more expensive to foreigners and this would reduce the competitiveness of the exports. Persistently high inflation would therefore, reduce the growth potential of the economy.

(d) (i) The managed float implies that BNM would intervene in the foreign exchange market to smoothen short-term fluctuations. For example, BNM would sell Ringgit if there is a strong demand for the currency and buy Ringgit if there is excess supply. On the other hand, in a clean float system, the exchange rate is determined by supply and demand for the currency without government interventions. Managed float provides a middle ground where one can have the benefit of exchange rate flexibility without excessive instability that may occur is a clean float system.

(ii) Potential effects due to the change in the exchange rate of the Ringgit from a peg system to a managed float on the following:

(aa) Resource allocation
As the ringgit is no longer linked to any single currency without any built-in bias, one can expect efficiency gains through resource reallocation. The domestic sector will gain considerably, as the bias against the non-traded sector has ceased to exist. Price distortions under the peg system had cost implications in terms of resource misallocation.

(bb) Inflation
Assuming that the ringgit gradually regains its strength, imports will cost less, and given the high import content in domestic manufactures, this should translate into lower costs, lower prices, positive wealth effect and greater demand. This should also help reduce inflationary pressures in the domestic economy.

(cc) Export
An appreciating Ringgit would raise the price of Malaysian products in the export market. However, the loss of export competitiveness resulting from an appreciating Ringgit is expected to be temporary. It will offset partially in the near term by the lower cost of imports which constitute the bulk of the total cost of production. In the medium term, the exporters will find ways and means to cut costs and raise productivity.

(dd) Foreign investment
The managed float will be good for foreign direct investment, as it would ensure exchange flexibility with stability. The managed float is also conducive for foreign portfolio investments, as investors may profit from both stock price increases and exchange rate changes.

(e) GDP is the value of all final goods and services produced within the territory of a country by using domestic factors of production within a given period. GDP includes the value of goods produced as well as the value of services.

GDP is measured both in current and constant prices. GDP at current prices or nominal GDP measures the value of output at the prices prevailing in the period during which the output is produced, while GDP at constant prices or real GDP measures the value of the output produced in any one period at the price of the base year.

PART B

<u>Question 2</u>

- Candidates showed poor understanding of the concepts tested.
- Candidates must understand the objectives for the introduction or issuance of bonds, bills or certificates by the financial institutions or by the central bank

2. (a) (i) Monetary stability refers to the stability of the value of the Malaysian currency, the Ringgit. The best way to ensure that the value of the Ringgit is preserved, is by ensuring price stability, that is, to ensure that inflation in the country remains low and stable. By maintaining monetary stability through appropriate changes in monetary policy, Bank Negara Malaysia (BNM) ensures that inflation is kept low and that the purchasing power of the Ringgit is not diminished.

(ii) Financial stability refers to an environment where institutions in a financial system are strong and can continue to meet their contractual obligations without interruption or without any external assistance. Market participants can also confidently enter into transactions at prices that do not change substantially over short periods when there have not been any changes in market fundamentals.

(b) Any two banking products/services and the applicable Islamic concepts for each category:

	Products/Services	Applicable Islamic Concepts
(i)	Deposit	
	• Current account- i	Wadiah Yad Dhamanah/Mudharabah
	• Savings account-i	Wadiah Yad Dhamanah/Mudharabah
	• General investment account-i	Mudharabah
	• Special investment account-i	Mudharabah
	• Specific investment account-i	Mudharabah
(ii)	Financing	
	• Benevolent loan-i	Qard
	• Block discounting-i	Bai' Dayn
	• Bridging finance-i	Istisna'/Bai' Bithaman Ajil
	• Bungalow lots financing-i	Bai' Bithaman Ajil
	• Cash line facility-i	Bai' Inah/Bai' Bithaman Ajil/ Murabahah
	• Club membership financing-i	Bai' Bithaman Ajil
	• Computer financing-i	Bai' Bithaman Ajil
	• Contract financing-i	Murabahah/Bai' Bithaman Ajil/Istisna
	• Education financing-i	Murabahah/Bithaman Ajil/Bai' Inah
	• Equipment financing-i	Bai' Bithaman Ajil
	• Factoring facility-i	Bai' Dayn
	• Fixed asset financing-i	Bai' Bithaman Ajil
	• Floor stocking financing-i	Murabahah/Bai' Bithaman Ajil
	• Hire purchase agency-i	Wakalah
	• Hire purchase-i	Ijarah Thumma Bai'
	• Home/house financing-i	Bai' Bithaman Ajil/Istisna'/Variable Rate Ijarah
	• Industrial hire purchase-i	Ijarah Thumma Bai'
	• Land financing-i	Bai' Bithaman Ajil
	• Leasing-i	Ijarah

•	Pawn broking-i	Rahnu (Qard & Wadiah Yad Dhamanah)/Rahnu
•	Personal financing-i	Bai' Bithaman Ajil/Murabahah/ Bai' Inah
•	Plant & machinery financing-i Rate Ijarah	Bai' Bithaman Ajil/Istisna'/Variable
•	Project financing-i	Bai' Bithaman Ajil/Istisna'/Ijarah
•	Property financing-i	Bai' Bithaman Ajil/Istisna'/ Variable Rate Ijarah
•	Revolving credit facility-i	Bai' Bithaman Ajil/ Murabahah/Hiwalah/Bai' Inah
•	Share financing-i	Bai' Bithaman Ajil/Bai'Inah
•	Shop house financing-i	Bai' Bithaman Ajil/Istisna'/ Variable Rate Ijarah
•	Sundry financing-i	Bai' Bithaman Ajil
•	Syndicated financing-i	Istisna'/Bithaman Ajil/ Ijarah Thumma Bai'
•	Term financing-i	Bai' Bithaman Ajil
•	Tour financing-i	Bai' Bithaman Ajil
•	Umrah & visitation financing-i	Bai' Bithaman Ajil
•	Working capital financing-i	Murabahah/Bai' Bithaman Ajil

(iii) Treasury / Money market investment

•	Government investment issues-i	Bai' al-Inah
•	Malaysian Islamic treasury bills	Bai' al-Inah
•	Bank Negara negotiable notes-i	Bai' al-Inah
•	Cagamas papers	Bai' Bithaman Ajil/Mudaharabah
•	Commercial papers-i	Murabahah
•	Negotiable debt certificate-i	Bai' Bithaman Ajil
•	Negotiable instrument of deposit-i	Mudaharabah
•	Sell and buy back agreements-i	Bai' al-Inah
•	Foreign exchange	Ujr

(iv) Trade financing

•	Accepted bills-i	Murabahah/Bai' Dayn

• Bank guarantee-i	Kafalah
• Export credit refinancing-i	Murabahah/Bai' Dayn
• Letter of credit-i	Wakalah/Murabahah/Ijarah/ Bai'Bithaman Ajil
• Shipping guarantee-i	Kafalah
• Trust receipt-i	Wakalah/Murabahah

(v) Card services

• Charge card-i	Qard
• Credit card-i	Bai' Inah/Bai' Bithaman Ajil
• Debit card-i	Ujr

(vi) Banking services

• Stockbroking services	Ujr
• TT/funds transfer	Ujr
• Travellers' cheques	Ujr
• Cashiers' order	Ujr
• Demand draft	Ujr
• Standing instruction	Ujr
• ATM service	Ujr
• Telebanking	Ujr

(c) (i) Repurchase agreement

A repo is an agreement under which a seller of securities, such as Malaysian Government securities, undertakes to repurchase the paper from a buyer at a pre-determined price on a specified future date. Therefore, through a repo, a bank is able to use its holding of marketable securities to raise liquid funds for a specified period of time. In essence, a repo is no more than a deposit substitute.

(ii) Bank Negara Bill (BNB)

BNBs are short-term papers similar to treasury bills, which will be issued on an auction basis. It represents an additional money market instrument at the disposal of BNM to influence the liquidity situation. It also provides financial institutions with an alternative instrument other than Tabs and Government securities to meet the legal requirements on their investment portfolio.

Question 3

- Candidates focused on merchant banking which is not totally correct as investment banking encompasses other areas such as stockbroking.

- Investment banking is new in Malaysia and candidates are advised to study and understand more on this new framework.

3. (a) (i) Rationale for the creation of investment banks

The framework is among the key initiatives to strengthen the capacity and capabilities of domestic banking groups to contribute towards economic transformation and to face the challenges of liberalisation and globalisation. It also aims to rationalise the discount house industry towards developing a more resilient, competitive and dynamic financial system.

(ii) Scope of activities offered by investment banks

Investment banks will retain all activities based on the types of licences they held prior to the rationalisation. Investment banks will therefore continue to accept wholesale deposits, conduct lending activities to complement their fee based activities and provide a wide array of investment banking activities which include, amongst others, financial advisory, underwriting, portfolio management and equity brokerage services.

(iii) Benefits could be expected from the integration of merchant banks, stockbroking companies and discount houses

The integration will enhance their efficiency and effectiveness by minimising duplication of resources and overlapping of activities, leveraging on common infrastructure and reaping benefits of synergies and economies of scale. It will also strengthen their potential to capitalise on business opportunities, increase their competitive advantage and leverage on a larger capital base to support their expanded range of activities. Customers will also benefit from wider access to financial services at more cost-effective prices.

(b) (i) Capital market

The capital market refers to the market in longer-term financial assets, comprising all public and private debt instruments with maturities exceeding one year, corporate stocks and shares (for which there is no fixed maturity period) and commodity futures.

(ii) Primary market

Primary market refers to new issues of Government and corporate securities offered directly to the investors.

(iii) Secondary market

Secondary market is where transactions in Malaysian Government securities are conducted mainly through the money market, while secondary market trading of corporate securities is carried out in the Bursa Malaysia.

(iv) Inter-bank market

An inter-bank market is a place where the lending and borrowing of short-term funds take place, and the market operates through discount houses, which accept call money and engage in the purchase and sale of money market papers.

Question 4

Candidates were unable to state the role of the World Bank and the objectives of International Monetary Fund.

4. (a) World Bank

Essentially, the World Bank provides loans, policy advice, technical assistance and knowledge sharing services to low and middle income countries to reduce poverty and improve the living standards of people in the developing world. The bank promotes growth to create jobs and to empower poor people to take advantage of these opportunities. The World Bank also works to bridge this divide and turn rich country's resources into poor country's growth. As one of the world's largest sources of development assistance, the World Bank supports the efforts of developing country governments to build schools and health centers, provide water and electricity, fight disease, and protect the environment.

(b) International Monetary Fund (IMF)

Other objectives of the IMF include:

(i) promoting exchange rate stability and orderly exchange arrangements;
(ii) fostering economic growth and high levels of employment; and
(iii) providing temporary financial assistance to countries to help ease balance of payment adjustments.

Since the IMF was established, its purposes have remained unchanged but its operations - which involve surveillance, financial assistance and technical assistance – have developed to meet the changing needs of its member countries in an evolving world economy.

(c) "Banking business" as per Banking and Financial Institution Act 1989

"Banking business" is defined as "the business of receiving deposits on current account, deposit account, savings account or other similar account; paying or collecting cheques drawn by or paid in by customers; and provision of finance; or such other business as the Bank Negara Malaysia (BNM), with the approval of the Minister of Finance, may prescribe".

(d) (i) Four main objectives of BNM as prescribed in the Central Bank of Malaysia Act 1958:

- To promote monetary stability and a sound financial structure;
- To act as a banker and financial adviser to the Government;
- To issue currency and keep reserves safeguarding the value of the currency ; and
- To influence the credit situation to the advantage of the country.

(ii) Five principal macroeconomic objectives of BNM

- To promote economic growth;
- To promote a high level of employment
- To maintain price stability;
- To ensure a reasonable balance in the country's international payment position; and
- To eradicate poverty and restructure society.

Question 5

- Candidates had poor knowledge on the exchange control policies and the Development Financial Institutions Act 2002.

- They were unable to explain the reasons why Malaysia needs to develop a resilient, competitive and dynamic financial system. Failed to highlight the real challenges currently faced by the local financial system.

5. (a) Malaysia's exchange control policies

The exchange control policies in Malaysia are directed at ensuring the stability of the Ringgit as well as encouraging the use of the country's financial resources for productive purposes. There is generally free movement of funds into and out of the country subject to certain prudential regulations administered by Bank Negara Malaysia (BNM) under the Exchange Control Act 1953.

(b) Any four laws that enhance BNM's regulatory authority over the financial system:

- Banking and Financial Institutions Act in 1989
- Insurance Act in 1996
- Islamic Banking Act 1983
- Development Financial Institutions Act 2001
- Anti-Money Laundering Act 2002

(c) Development Financial Institutions Act 2002 (DFIA)

The DFIA which came into force on 15 February 2002 focuses on promoting the development of effective and efficient DFIs to ensure that the roles, objectives and activities of the DFIs are consistent with the Government policies and that the mandated roles are effectively and efficiently implemented. DFIA also emphasises on efficient management and effective corporate governance, provides a comprehensive supervision mechanism and mechanism to strengthen the financial position of DFIs through the specification of prudential requirements.

(d)
- Global forces and competition – Global forces at work and advances in technology have redefined the rules of the game and transformed the operational environment within which financial institutions operate. Indeed, the ability to reap the benefits arising from greater competition depends largely on the capability and capacity of financial institutions to adapt swiftly and to embrace the changes.

- Economic development and consumer demand – The rapid pace of economic development and transformation that creates new demands as well as opportunities for businesses have also called for a more effective and efficient provision of financial services. It is envisaged that Malaysia's economy will continue to expand significantly and becoming more internationally integrated and dynamic (with more high-tech services, greater reliance on small and medium-sized industries and rapidly increasing innovation rate) and with more differentiated and demanding consumers.

(e) Unit trusts are popular among investors, who neither have the time nor the inclination to hold portfolios of direct investments or shares, because they can invest in small amount in a secure, reputable investment vehicle which suits their purposes. Unit trusts also allow investors to have easy access to a wide range of investment exposures not normally available to them.

Question 6

- Candidates were unable to describe the role of Bank Negara Malaysia and the major objectives of the Financial Sector Masterplan 2001-2010. They were also not able to describe the foreign exchange market.

- Candidates really need to do more study in understanding the importance of foreign exchange market – its objectives, players and forces that influence the market.

6. (a) Five major groups of non-bank financial institutions:
   - Development finance institutions;
   - Savings institutions;
   - Provident and pension funds;
   - Insurance companies; and
   - a group of other financial intermediaries, comprising building societies, unit trusts and several special investment agencies; leasing companies, etc.

   (b) Monetary instruments
   - The purchase and sale of Bank Negara Malaysia (BNM) and Malaysian Government papers.
   - Changes in the statutory reserve requirements.
   - Direct lending and borrowing in the inter-bank market.
   - Issuance of BNM papers.
   - Centralisation of the Federal Government surplus balance and the Employees Provident Fund's excess funds at BNM.

   (c) BNM's role as an economic adviser to the Government
   In its role as an economic adviser to the Government, BNM analyses and assesses the developments in the international and domestic economy and highlights the areas that need to be addressed. BNM undertakes economic intelligence and surveillance and carries out forecasts on the economic condition of the country. Based on these assessments, BNM presents policy recommendations at regular briefings to the Minister of Finance as well as at various economic policy by making forums at the national level.

   (d) Two major objectives of the Financial Sector Master Plan 2001-2010
   - To establish a more resilient, competitive and dynamic financial system with best practices, that supports and contributes positively to the growth of the economy throughout the economic cycle.

   - To establish a core of strong and forward looking domestic financial institutions that are more technology-driven and ready to face the challenges of liberalisation and globalisation. The development of domestic institutions that form the core of an efficient, effective and stable financial sector is an important part of this process.

   (e) Foreign exchange market
   The foreign exchange market is essentially a wholesale inter-bank market for the sale and purchase of foreign currencies including purchases by importers to pay for their imports and sale of the Ringgit by exporters arising from receipt of export proceeds. Except for travellers, who can transact in foreign currency notes and coins through money changers, all foreign exchange dealings have to be conducted through institutions authorised under the Exchange Control Act 1953. These comprised the commercial banks and Islamic banks, and to a limited extent of finance companies and merchant banks. The commercial banks however are the main players, participating as intermediaries for their corporate customers, exporters, importers as well as participating in their own account.