

**DP01**

# **Monetary Economics and the Malaysian Financial System**

**9 OCTOBER 2000**

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**.

## PART A

### COMPULSORY QUESTION

1. (a) (i) Describe a major function of the financial system in an economy. [3]
- (ii) Briefly explain the **three** key services provided by the financial system to the domestic economy. [6]
- (b) (i) Highlight a major function of the capital market. [2]
- (ii) Briefly explain the objectives of the Government in strengthening the capital market. [2]
- (iii) Does the capital market contribute to economic development? Explain. [2]
- (c) Explain any **three** of the following:
- (i) Financial innovation [3]
- (ii) Integration of financial markets [3]
- (iii) The new base lending rate framework for commercial banks and finance companies. [3]
- (iv) Money multiplier [3]
- (d) Explain the **two** types of costs to the economy due to inefficient financial market. [4]
- (e) Explain how a decline in interest rates can affect the cost of funds for investment and the exchange rates in the economy. [4]
- (f) (i) Discuss **two** reasons why Malaysia adopted the selective capital control measures in 1998. [4]
- (ii) Highlight the thrust of monetary policy in Malaysia during 1998 to 1999. [4]
- (Total:40 marks)

## PART B

### ANSWER THREE (3) QUESTIONS ONLY

2. (a) (i) What are the differences between the utilisation of funds by a commercial bank and a finance company? [3]
- (ii) Highlight **three** differences between the statutory reserve requirements for a commercial bank and a finance company. [3]
- (b) (i) What are the short-term and long-term objectives of implementing the banking sector restructuring plans? [4]
- (ii) Discuss **two** banking measures implemented in 1999 to improve the efficiency of the banking operations in Malaysia. [4]
- (c) Explain **one** major advantage of credit card loans extended by commercial banks and finance companies. [2]
- (d) Briefly discuss **two** main challenges in the relationship between depositors and commercial banks. [4]
- (Total:20 marks)

3. (a) **Two** main functions of Bank Negara Malaysia are to promote a sound monetary policy and a stable and efficient financial system. Discuss. [5]
- (b) Give **four** reasons for the imposition of the liquidity ratio in financial institutions. [4]
- (c) Briefly explain how a central bank influences money supply in the economy. [3]
- (d) How does the decision of the central bank affect the monetary base? [5]
- (e) Explain the type of assistance rendered by a central bank to “troubled” financial institutions. [3]  
(Total:20 marks)

4. (a) Define the current measurements of monetary aggregates (M1, M2 and M3) in Malaysia. [5]
- (b) What are the **three** main determinants of money supply in the economy? [5]
- (c) (i) Will higher interest rates increase money supply, with a given stock of high-powered money? [1]
- (ii) Will an increase in income increase money supply? [1]
- (d) A simple formula for calculating money multiplier is as stated below:

$$k = \frac{(c + 1)}{(b + c)}$$

where c is the currency-deposit ratio and b is the statutory reserve ratio.

- (i) Briefly define the term currency-deposit ratio. [2]
- (ii) Compute the size of the money multiplier if the currency-deposit ratio is 0.5 and the statutory reserve ratio is 10%. [2]
- (iii) What is the value of the currency-deposit ratio when the money multiplier reaches a maximum value? [2]
- (iv) What is the value of the statutory reserve ratio when the money multiplier reaches a maximum value? [2]  
(Total:20 marks)
5. (a) Explain **three** goals of monetary policy. [6]
- (b) The central bank sets intermediate and operating targets to meet the goals of monetary policy.
- (i) Explain the differences between intermediate and operating targets. [4]
- (ii) Suggest any **two** possible alternatives to intermediate targets. [2]
- (c) What are the differences between general and selective instruments of monetary control? [4]
- (d) What are the implications of a pegged exchange rate on monetary policy? [4]  
(Total:20 marks)

6. (a) Briefly highlight the main functions of the World Bank and the International Monetary Fund. [4]
- (b) (i) When does a country need to revalue and devalue its official currency, under a fixed-exchange rate regime? [4]
- (ii) Briefly explain why central banks intervene in the foreign exchange market. [2]
- (c) A country has a trade deficit of RM30billion and a current account balance of RM10billion. Compute the balance of net services plus investment income and unilateral transfers. [2]
- (d) (i) Highlight **one** major difference between Islamic banking and conventional banking in Malaysia. [4]
- (ii) Highlight **two** recent developments in Islamic banking in Malaysia. [4]
- (Total:20 marks)

## **OUTLINE ANSWERS**

### **PART A**

#### **Question 1**

This compulsory question tested candidates' knowledge on the financial system, capital market and monetary policies. Only a small number of candidates managed to pass this question. Generally, candidates were weak in explaining the costs to the economy due to inefficient financial market and how a decline in interest rates affect the cost of funds for investment and exchange rates.

1. (a) (i) The financial system's main function is to mobilise funds from savers to borrowers. The matching process increases the economy's ability to produce goods and services. Moreover, it makes consumers better off by allowing them to purchase according to their needs and desires. Hence, a smoothly functioning financial system improves the economy's efficiency and people's economic welfare.
- (ii) The three key services are:
- Risk Sharing**  
The financial system provides risk sharing by allowing savers to hold many assets. By splitting wealth into many assets, the overall returns would tend to average out. This would reduce the risk of severe fluctuations of the portfolio of assets of the savers. The ability of the financial system to provide risk sharing makes savers more willing to buy borrowers' IOUs. This would in turn, increase borrowers' ability to raise funds in the financial system.
- Liquidity**  
Liquidity refers to the ease with which an asset can be exchanged for other assets or for goods and services. Indeed, savers care about liquidity of financial assets. The more liquid an asset, the easier it is to exchange the asset for something else. By holding financial claims such as stocks and bonds on a factory, individual investors have more liquid savings than they would if they owned the machines in the factory. Financial assets are more liquid compared with non-financial assets such as cars and real estates.
- Information**  
The third service the financial system provides to savers and borrowers is to gather and communicate information about borrowers and expectations about returns on financial assets. Savers and borrowers receive the benefits of information from the financial system by looking at asset returns. As long as financial market participants are informed, the information works its way into asset returns and prices. Information is communicated to both borrowers and savers.
- (b) (i) The activities are mainly raising long-term funds in the primary market. The other activities include the trading of funds raised in the form of securities in the secondary markets. The capital market in Malaysia comprises a primary securities in which new issues of the Government and corporate securities are offered to the public and institutions. There is also a secondary market in which existing Government and corporate securities are transacted.
- (ii) Capital market measures implemented are aimed at strengthening the regulatory framework. These measures are intended to enhance disclosure and transparency, investor protection and the enforcement capabilities of the regulatory authorities. In addition, it would improve corporate governance practices, ensure an orderly and fair market in the trading of securities and futures contract on the Malaysian exchanges and strengthen the financial standing of domestic stock-broking companies.
- (iii) Yes. The presence of the capital market will mobilise medium as well as long-term funds from a wide-spectrum of the population, to finance public development

programs as well as private investments. The presence of the capital market will provide the needed intermediary services to raise funds for investments by the private sector as well as other productive business activities.

- (c) (i) **Financial innovation**  
Financial innovation refers to the changes in costs of providing risk sharing, liquidity or information services or changes in demand for these services. This would lead to alterations in the operations of financial markets and innovations. One example, is the increased efficiency in housing finance that lead to a lower cost of mortgages.
- (ii) **Integration of financial markets**  
It measures the way in which financial markets are tied together geographically. When markets are dispersed then interest rates charged to borrowers tend to be different. The degree of financial integration measures the financial system's efficiency.
- (iii) **New Framework for the Base Lending Rate**  
Commercial banks:  
 $[(\text{BNM intervention rate} \times 80\%) / (1 - \text{SRR})] + 2.25\%$   
Finance companies:  
 $[(\text{BNM intervention rate}) / (1 - \text{SRR})] + 2.25\%$
- (iv) **Money Multiplier**  
In simple terms, the money multiplier is the number of times the money supply will change in response to a given change of the monetary base. Given a monetary aggregate (M) the money multiplier (k) is the direct link between the monetary aggregate and the supply of reserve money. As an example, a multiplier of 2 and a monetary base of RM20billion will generate money supply of RM40billion.
- (d) The two types of costs are:

**Costs of Excessive Price Fluctuation**

Prices of financial assets must reflect its fundamentals so that the right signals are sent for savings and investments. When prices are more volatile than fundamental values, the risks sharing service provided by stock and bond markets is hindered. At the same time the financial assets become less useful for risk sharing, trading volume may decline, making financial assets less liquid. Moreover, another concern is that excessive fluctuations in the stock market could lead to volatile economic activities.

**High Information Costs**

Information must be available to participants or else market prices may not represent fundamental values even if the prices are available to the public. In order to obtain the missing information, savers and borrowers must incur research and monitoring costs. One cost to the economy due to high information costs is a weakened role for financial markets in matching savers and borrowers in the saving-investment process.

- (e) The lower real interest rates reduces the opportunity cost of investing in new plant and machinery, and thus increasing aggregate demand. It would also increase inventory as the costs of carrying inventory decline. Thus, the lowering of interest rates lead to higher level of output by lowering the cost of funds for business investment.

When the price level increases gradually in response to a monetary expansion, the real interest rates available on domestic assets fall relative to rates on foreign assets. Thus, foreign investors allocate more of their portfolio to foreign assets and less to domestic assets. As the demand for domestic currency declines relative to foreign currencies, the domestic exchange rate declines.

- (f) (i) The reasons why Malaysia adopted the selective capital control measures in 1998 are:

- The conventional macroeconomic tightening (fiscal and monetary) aggravated the negative impact of the financial crisis by dampening aggregate domestic demand and increasing debt burden.
  - Malaysia was concerned that the risks of contagion from Asian crisis had increased and that pre-emptive measures were therefore necessary to protect the domestic economy from the risk of a global financial meltdown.
- (ii) The basic thrust of monetary policy was to create an environment to support economic recovery, facilitate structural change while maintaining price stability in the domestic economy. The central bank adopted an accommodative monetary stance during 1998-1999. The easing of monetary policy began in August 1998. The monetary measures that were implemented reflected the continued accommodative monetary policy stance to strengthen economic recovery while maintaining monetary and financial stability. This would ensure that credit continued to be channeled for productive purposes in the domestic economy. Another task of monetary policy was to manage the excess liquidity due to trade surplus, in order to avoid inflationary pressures.

## Part B

### Question 2

Only a few candidates attempted this question, which examined various areas, such as utilisation of funds, statutory reserves requirements, banking measures implemented to improve the banking operations in Malaysia and the relationships between commercial banks, savers and borrowers. This was the weakest attempted question. Almost all the candidates were unclear about the banking measures and the relationship between depositors and commercial banks.

2. (a) (i) Uses of funds:

Commercial Banks	Cash, Balances with Bank Negara Malaysia (BNM), Statutory reserves with BNM, Call money, Amounts due from financial institutions (FIs) in Malaysia and abroad, Negotiable instruments of deposits (NIDs) held, Investment in Malaysian securities, Loans and advances (Overdraft, Trade bills and Term loans), Fixed assets in Malaysia and other assets
Finance Companies	Cash, Statutory reserves with BNM, Call money, Deposits with FIs, Investment in government securities, Loans to FIs, Hire-purchase, Leasing, Housing, Fixed and other assets

- (ii)

### Statutory Reserves (SRR)

#### Commercial Banks

- An instrument to control the volume of liquidity in the banking system.
- Reserves earned no interest rates. An increase in reserves will effectively lock-in with the central bank a large proportion of the resources of the commercial bank.
- The statutory ratio has been changed over time. With effect from February 16 and July 2, 1998, the SRR was reduced from 13.5% to 10% and 8% of the eligible liability. Currently, it is at 4%.

#### Finance Companies

- Finance companies have to observe the SRR.
- Since 1989 there has been 10 instances of upward revisions of the SRR.
- More recently, the SRR was revised downwards by 3.5 and 2% points to 10% and 8% with effect from 16 February and 2 July 1998.
- Finance companies are also required to hold on average at least 10% of their eligible liabilities in liquid assets.

- (b) (i) The short-term objective is to halt the vicious cycle and to stimulate economic recovery by encouraging banks to lend. Another short-term objective is to restore confidence. The long-term objectives are to create a resilient banking system that can withstand future shocks, develop an efficient and competitive banking sector to support economic growth. In addition, the long-term objectives are to provide the foundation to broaden deepen financial markets and strengthen financial infrastructure to meet future challenges.
- (ii) **Banking Measures 1999**
- The two-tier regulatory systems for banking institutions were abolished on 10 April 1999. Thus, the incentives that were available previously to tier-1 banking institutions were made available to all institutions. The blanket approval previously granted to all tier-1 domestic banks to open branch offices was withdrawn.
  - The transition period for the banking institutions to cross over to the new liquidity framework was extended by another year to 31 December 2000.
- (c) **Credit Card Lending**
- Credit card loans provide banks a way to profit from making small consumers and business loans through a pre-authorised line of credit. The credit card business also adds profits by attracting customers to other bank services.
- (d) The two main challenges in the relationship between depositors and commercial banks are:

#### **Moral Hazard**

Banks are important in reducing information costs for savers. Savers are concerned about the problem of moral hazard and must ensure that bankers do not misuse the information to the detriment of saver interests.

A debt contract can be used to exert discipline on bankers. A short-term debt contract will provide for both the liquidity needs of depositors as well as bankers. Next, savers can mandate the amount of capital invested by bankers and bank shareholders. Bankers will act more responsible when their own capital are at risk.

#### **Liquidity Risks**

Banks are faced with liquidity risks or the possibility that depositors may collectively decide to withdraw more funds than the bank has on hand. When this happens, banks have to liquidate relatively illiquid loans and probably receive less than their full value. Thus, banks have to reduce their risk exposure without sacrificing risk exposure, by holding large amount of cash but such strategy is not profitable. Banks have to adopt other strategies, notably, asset and management approaches.

### Question 3

A popular question amongst candidates was on the various functions of a central bank. Candidates were able to explain the roles of the central bank, assistance rendered by the central bank and how the central bank influences money supply and liquidity requirements, generally well.

3. (a) The central bank will influence the credit situation to help achieve the nation's overall economic objectives. The central bank will ensure that the supply of money and the volume of credit are sufficiently elastic to demands in the domestic economy, without creating undue pressure on resources. The central bank regulates the volume of money and the generation of credit by the banking system through a wide range of instruments, including quantitative and qualitative. The central bank will manage the banking system in a manner that would ward off the possibility of systematic failure. This is crucial to maintain public confidence in the banking system. Major legislative amendments have enabled the central bank to institute prompt measures in the face of developments and take effective remedial actions. The introduction of Banking and Financial Institutions Act (BAFIA) in 1989 was a main measure by the central bank to modernise and streamline the laws relating banking and financial institutions.
- (b) The reasons for the imposition of the liquidity ratio (LR) are:
- As a prudential measure to ensure that banking institutions are liquid at all times to meet deposit withdrawals of the customers.
  - As a selective credit policy by according "liquid assets" status to encourage direct credit to desired areas.
  - As a means to ensure continuous and ready financing of the government's development projects.
  - As a monetary instrument to influence the liquidity situation of the banking system.
- (c) The central bank through its monetary policy will influence the level of money supply. This will have impact on production, employment and the price level. The central bank conducts monetary policy and affects the volume of reserves, level of interest, volume of credit and the direction of bank credit. The monetary instruments that the central bank adopts include the traditional open market operations and changes to the reserve requirements. These instruments are used to influence the credit and pace of money creation through the impact on the availability of bank reserves or high-powered money.
- (d) The most important factor that influences the monetary base is the actions of the central bank through open market operations. Changes in the net foreign assets and stocks of domestic credit of the central bank will change the monetary base. While surplus balance of payments raise the monetary base, a deficit will shrink the monetary base. The monetary base is linked to money supply by the money multiplier.

The central bank does not have direct control over the factors that affect the monetary base. As part of monetary management, the central bank affects the level of monetary base to keep it consistent with the policy objectives for growth.

The central bank affects the monetary base by manipulating its balance sheet. This can be achieved by selling and buying securities and also making discounted loans to banks. The most direct route that the central bank can use to change the monetary base is through open market operations. An open market purchase will raise the monetary base while an open market sales will reduce the monetary base.

The central bank can also increase monetary base by placement of some of its government deposits with commercial banks. This recycling of government deposits coupled with coordination of government receipt-expenditure flows, is another means by which the amount of reserve money in the financial system can be influenced.

- (e) The central bank will act as the lender of last resort. The key forms of assistance include rediscounting of eligible bills and borrowing from the central bank against collateral. When the financial institution is short of fund, the central bank stands ready to extend credit to

temporarily tide the institution over its difficulty. Assistance could also be in the form of placing short-term deposits with the institutions on a roll-over basis.

#### **Question 4**

This question tested candidates' knowledge on determinants of supply and the creation of money. Most of them had a good understanding of the measurements of money and its determinants. However, they were weak in computing the money multiplier. Despite the fact that this has been a popular question in almost every sitting and answers to this topic can be obtained from the study manual, yet many candidates were unsure of the variables in the formula for calculating money multiplier.

4. (a) The narrowest definition of money is M1, which comprises currency in circulation, travelers' checks, demand deposits and other checkable deposits. A broader definition is M2 and comprises M1 and other short-term investment, including small denominations time deposits, saving deposits, money market deposit accounts, overnight repurchase agreements (REPOs). M3 is the broader definition and includes M2 and large denomination time deposits, institutional money market balances, term purchase agreement and even Euro dollars (as in the case of the Federal Reserve Bank).
- (b) The three main determinants of money supply are as follows:

##### **Bank Credit to Private Sector**

Loans by the banking system to the private sector are a major source of liquidity. Every loan will create a deposit and therefore, expand money supply. The limit to which banks may extend credit will depend on the size of the statutory reserves at the central bank. On the other hand, a restrictive monetary policy will slow-down lending to the private sector.

##### **External Sector**

Any excess of foreign exchange receipts over payments will raise money supply and vice-versa. In the event of a large flow of external funds into the domestic economy than outflows, the central bank and the banking system will be receiving foreign currency. This will increase domestic deposits and therefore money supply in the economy. In other words, a surplus balance of payments position will result in an inflow of fund and vice-versa when there is a deficit.

##### **Net Government Operations**

Financing a budget deficit through borrowings from the private sector, financial institutions, central bank and even sources from abroad is another determinant of money supply. Financing the government's overall deficit by the banking system will have the same effect on money supply as the banking sector's loan to the non-bank's private system. The government operations are reflected by the average differences over time between the level of government's debt by the banking sector, mainly in government's paper. A higher government's deposits with the banking system compared with holdings of government's debt by the banking system will have a contractionary impact on the level of money supply and vice-versa.

- (c) (i) With a given stock of high-powered money, increase in interest rates would increase money supply.
- (ii) Increase in income will not increase money supply as income as nothing to do with money supply.
- (d) (i) Currency-deposit ratio is the ratios of currency holdings to demand deposits. The ratio is determined by the amount of money the public wants to hold as currency versus the amount it wants to hold as deposits. The public can raise the ratio to any level that it wants by withdrawing currency from banks, thus increasing currency held and reducing deposits. Likewise, the public can deposit currency in banks, thus, lowering the currency-deposit ratio. The size of the currency-ratio will have influence on the value of the money multiplier.

- (ii) Money multiplier is 2.5.
- (iii) Currency-deposit ratio is zero.
- (iv) Statutory reserve ratio is zero.

#### Question 5

This question tested candidates' understanding on the goals of monetary policy, differences between intermediate and operating targets, differences between general and selective instruments and the implications of a pegged exchange rate on monetary policy. Many candidates were able to explain the goals of monetary policy well, but lost marks when they were unsure of the intermediate and operating targets, general and selective instruments and exchange rates influence on monetary policy.

5. (a) The goals of monetary policy are:

**To achieve price stability**

Inflation erodes the value of money as a medium of exchange and a unit of account. Thus, policy makers have emphasised price stability as a policy goal. In a market economy where prices contain information about costs and demand, inflation would make prices less useful as signals for resources allocation. It would also make decisions more difficult for households and firms.

**To achieve high employment**

An important monetary objective is to maintain a low rate of unemployment. The reasons being, unemployment leads to excess productive capacity, financial stress and low-esteem for those who lose their jobs. Indeed, excess production capacity is evident during an economic slow down.

**To achieve real economic growth**

To promote the highest sustainable rate of real economic growth that is consistent with domestic prices and exchange rate stability. A steady economic growth and increase in the output of an economy leads to higher revenue for the government. Moreover, economic growth policies would induce savings and ensures that a large pool of investment fund is created in the economy. Stability of economic growth is crucial as it allows for precise planning and promotes long-term investment in the economy.

- (b) (i) The **intermediate targets** are the objectives for financial variables. This includes money supply and short-term interest rates and these targets are required to help the central bank to achieve its monetary goals.

**Operating targets** can be directly controlled by the central bank. These targets are closely associated with the intermediate targets. Examples of operating targets are non-borrowed reserves and federal funds as in the case of the Federal Reserve in the United States.

- (ii) The alternatives to intermediate targets are nominal GDP, commodity prices, yield curve and value of domestic currency.

- (c) General instruments of monetary policy are those that operate to influence the level of bank reserves or high-powered money. The general instruments are variations in the statutory reserve requirements (SRR), adjustment in the liquidity ratio and money market instruments.

Selective instruments are used to influence credit to a particular sub-sector or type of lending. Selective instruments are considered more of a set of complementary instruments rather than as alternatives or substitutes for general instruments. Selective instruments are priority sector lending guidelines, hire-purchase guidelines on motor vehicles, guidelines on credit card operations, credit limit for purchase of stocks and shares and units of unit trust funds, credit limit for financing specific property and moral suasion.

- (d) A pegged exchange rate has implications for the conduct of monetary policy. Generally, domestic monetary policy has to follow the monetary policy of the country to which the currency is pegged. In the case of Malaysia, the selective exchange rate controls have reduced the degree of free-flow of capital. This has granted the authorities some degree of independence in monetary policy.

Another implication of the pegged exchange rate is that the liquidity operations of the central bank have to be adjusted to preserve the goals of monetary policy. Under a pegged exchange rate, the burden of adjustment to external shocks would fall on the international reserves of the country. An adequate level of reserve is important for promoting confidence in the sustainability of a pegged regime.

#### **Question 6**

The least attempted questions were on the similarities and differences between the World Bank and the International Monetary Fund, exchange rates, capital flows and Islamic banking.

6. (a) The World Bank is primarily a development institution but the International Monetary Fund (IMF) is a cooperative institution that seeks to maintain an orderly system of payments and receipts between nations. The World Bank's central purpose is to promote economic and social progress in developing countries in order to raise the standard of living. The World Bank is an investment bank that intermediates between investors and recipients. The World Bank only lends to creditworthy governments of developing countries.

The IMF was set up in the midst of unresolved financial problems that was instrumental in initiating and protracting the Great Depression of the 1930s. While it is not primarily a lending institution, it is an overseer of the members monetary and exchange rate policies and a guardian of the code of conduct. The IMF is not a bank and does not intermediate between investors and recipients. The IMF is like a credit union whose members have access to a common pool of resources. All member countries have the right to financial assistance of the IMF.

- (b) (i) Revaluing the domestic currency involves raising the official value of the currency relative to other currencies, thereby resetting the exchange rate. This is necessary when the domestic currency is undervalued, relative to the other currencies.

Devaluing takes place when the price of foreign currencies under the fixed rate regime is raised due to official intervention. Hence, the domestic currency will be cheaper compared with foreign currencies. A foreigner will pay less for the devalued currency while the residents of the affected country will pay more for foreign currencies. Countries will devalue their domestic currency as a policy instrument to improve a deteriorating balance of payments position. The government devalues the domestic currency in order to improve aggregate demand in the economy. The adverse impact is reflected by an increase in inflationary pressures in the economy.

- (ii) The central bank is concerned over the impact of an appreciation or depreciation of the domestic currency on the economy. As such, they would attempt to minimise the impact by buying or selling domestic currency in the foreign exchange market.

- (c) RM40billion.

Trade deficit	-30billion
Net services + investment income and unilateral transfer	+40billion
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Current account balance	10billion
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- (d) (i) In the operations of Islamic banking in Malaysia, various principles have been applied in place of interest charges and various banking services. Among the principles are Al-Wadiah (trusteeship), Al-Mudharabah (trustee profit sharing) and

Al-Mushyarakah. In the case of conventional banking, these principles are not applicable and interest charges depends on the liquidity conditions in the economy.

- (ii)
  - The setting-up of the second Islamic bank in Malaysia. This is the Bank Muamalat Malaysia Berhad. The establishment arose from the merger between Bank Bumiputra Malaysia and Bank Commerce (M) Berhad.
  - The permission given by Bank Negara Malaysia for full-fledged Islamic banking branches operated by banking institutions to accept conventional deposit placements, facilitate withdrawal of conventional deposits and receive payments for conventional loans from customers of conventional branches.