

Zeti Akhtar Aziz: Malaysia - encouraging savings in a dynamic economy

Opening remarks by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the launching of the Merdeka Savings Bond, Kuala Lumpur, 2 January 2004.

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Ladies and Gentlemen,

It is my honour and pleasure to welcome you to the launch ceremony for the Merdeka Savings Bond. The launching of this bond marks another step forward in our efforts to enhance the diversity of financial products for Malaysian consumers.

In this more dynamic environment, the Malaysian economy has continued to expand with per capita income rising to exceed levels prior to the Asian financial crisis. This growth has been supported by comprehensive pro-growth policies and the development of a much stronger banking sector that is able to better manage new risks and challenges.

As a trade-oriented economy, external developments will continue to be important in affecting our growth prospects. In order to reduce our vulnerability to adverse external developments, increased attention has been given to promoting domestic demand. Policy strategies have therefore been directed at promoting domestic consumption and investment. Low interest rates, together with policies to increase disposable incomes, have led to higher consumption and a recovery in private investment. These trends have been important in sustaining growth.

As a high savings country, Malaysia has the potential to promote a higher level of consumption without undermining the prospect for financing of private investment from domestic sources. The relative importance of consumption in the economy has increased from 56% in 1998 to 61% of GDP in 2002. The savings rate has, nevertheless, remained high at 35% of GDP, having declined from a peak of 42.2% in 1998. While household consumption and private investment would continue to remain important in sustaining domestic demand and economic activity, this needs to be balanced against the need to save. While there is potential to increase consumption further, of importance is for households to improve the management and planning of their finances over the different stages of their lives. Indeed, financial planning is essential to sustain living standards and long-term financial security. With the rapid development of the financial system and the broader array of financial products and services available to consumers, there is an increasing need for Malaysians to make wise savings and investment decisions that will have lasting implications for their financial well-being. Such financial planning and management will determine the extent of consumption expenditure, the indebtedness and the savings that is possible at the respective stages of one's life.

The strengthening of domestic demand in our economy has also been supported by increased lending by banks, including to households. For a number of advanced economies, this trend has become a source of concern. This is in view of their rising household debt that have exceeded prudent levels in the range of 80-100% of GDP. Household indebtedness in Malaysia has, however, remained within prudent levels at 60% of GDP. Another important consideration that needs to be taken into account is the ability of households to service their debt. With rising income levels, the household sector in Malaysia has continued to accumulate net financial savings as reflected in higher accumulation of deposits against accumulation in debts. Household deposits, as a percentage of GDP, remains high at 67%. Strong household debt servicing capacity is also reflected in the continued improvement in non-performing loans ratio of the household sector, which declined from a peak of 12.2% at end-1998 to 8.1% at end-November 2003.

Amidst low and stable inflation, the cost of financing has been kept low to promote sustained consumption and, of greater importance, to stimulate stronger investment activities. The positive effects of increasing bank lending, especially to small businesses, have been an important factor in supporting the domestic economy. As at end-November 2003, bank lending to small and medium scale enterprises expanded by 9% year-on-year, accounting for one-third of the share of business loans. The growth of the small and medium scale enterprises is important in supporting a more balanced economic structure that will enhance Malaysia's potential for economic expansion and employment.

The Merdeka Savings Bond will provide Malaysians with an additional avenue and incentive for savings. For retirees who spend out of their pensions and accumulated savings, returns on their

savings is an important source of income to support their consumption. The individual responsibility to have in place a sound long-term retirement income strategy, that integrates private savings, contributions to the Employees Provident Fund and supplementary private pension and annuity plans, has therefore become important.

Ladies and Gentlemen,

This is not the first time that Bank Negara Malaysia has issued such bonds. The second and third series of the Malaysia Savings Bonds, which were issued in November 1999 and February 2002 respectively, had the same underlying objective. Each time, the features of the bonds have been enhanced.

The Merdeka Savings Bond is for retirees who are 55 years old and above, and who do not have a full-time job. Armed Forces personnel who opted for mandatory retirement below the age of 55 are also eligible to purchase the bonds.

The Merdeka Savings Bond, which will be based on the Islamic principle of Bai' Al-Inah, has several new features. Firstly, the bond will be issued on a regular basis over the next two years. Following the first issuance on 4 February 2004, there will be three other issuances on 1st April, 1st July, and 1st October in 2004. This will be followed by similar quarterly issuances in 2005. It is hoped that this regular issuance would provide interested investors, who may have their savings locked in other assets with the flexibility in the future to purchase the Merdeka Savings Bond. A total issuance of RM 2.25 billion has been planned for 2004 and 2005, with the first issuance amounting to RM 500 million.

Secondly, in order to make it easier for investors to purchase the bonds, all commercial and Islamic banks, as well as Bank Kerjasama Rakyat, have been appointed as agent banks. The public may start applying for the bond beginning 5 January until 30 January 2004.

Thirdly, profits will be paid to investors on a quarterly basis. Through the quarterly payment of profits, investors will receive a steady stream of income to support their expenditure needs. For the first issuance, the Merdeka Savings Bond offers a profit margin of 5% per annum. At 5% per annum, the return is higher than interest rates paid for 12-month fixed deposits by the commercial banks. The income earned from the bonds will also be exempted from tax.

The Merdeka Savings Bond also provides investors with the benefit of early redemption without any penalty in terms of forgone profits. Investors can redeem the full amount of their initial investments at any time after the first profit payment. Profit payments will then be based on the number of days the bond is held. This feature gives investors the option and flexibility to withdraw their savings at any time to meet unanticipated expenses. There will be a dedicated hotline and website to attend to public queries regarding the bonds.

The launch of the Merdeka Savings Bond marks a further step forward in creating new investment instruments for a specific target group of savers who have retired. Moving forward, further savings products should be developed by the financial services industry. Financial institutions, including insurance companies, unit trusts, and other non-bank financial institutions, need to continue to develop innovative financial products that can meet the needs of savers throughout their life cycle. The availability of a wide range of savings instruments for savers is a necessary pre-requisite for effective mobilisation of the nation's savings. Indeed, the ongoing evolution of an innovative, dynamic and diversified financial system in Malaysia will not only help Malaysians save, but also invest effectively for their future by facilitating the more efficient allocation of personal resources.

Thank you.