

Malaysia: Towards A More Liberal FX Administration

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Agenda

- ◆ Malaysia – salient points
- ◆ FX Administration – towards a more liberal environment
- ◆ Markets, economic indicators and forecasts
- ◆ Citigroup in Malaysia

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- ◆ **Malaysia – salient points**
 - ◆ FX Administration – towards a more liberal environment
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Malaysia in a Nutshell

- ◆ Economy open and diversified
- ◆ Macro fundamentals improved substantially since Asian crisis, Strong credit profile in long term debt
- ◆ BNM targets Overnight Policy Rate to achieve sustainable non-inflationary economic growth
- ◆ Headline inflation overstates inflation risk
- ◆ Gradual fiscal consolidation underway
- ◆ MYR on a managed float, flexible and no longer pegged to the USD

- ◆ Malaysia – salient points
- ◆ ***FX Administration – towards a more liberal environment***
- ◆ Markets, economic indicators and forecasts
- ◆ Citigroup in Malaysia

Calendar Of Events

1993-1997	1997	1997-2005	2005
<i>Strong Economic Fundamentals</i>	<i>July 1997 – Asian Financial Crisis</i>	<i>Liberalisation</i>	<i>Almost all exchange administration rules have been liberalised</i>
<ul style="list-style-type: none"> ◆ Malaysia experienced 5 consecutive years of fiscal surplus ◆ High GDP growth of 8% for 1Q and 2Q 1997 ◆ Low external debt of 43.2% of GNP ◆ Low short term external debt (18% of total) 	<ul style="list-style-type: none"> ◆ Initial policy response resulted in economic contraction ◆ Follow some of standard IMF prescription ◆ Strengthen financial sector by implementing stringent prudent regulations to follow international standards 	<ul style="list-style-type: none"> ◆ Liberal regime to promote financial and economic efficiency ◆ Prudent regulations to safeguard financial stability ◆ Specific rules to avoid speculation in MYR ◆ Complement basic priority of maintaining sound macro economic policies 	
<i>Strong Banking System</i>	<i>Policy response adapted to circumstances, aimed to achieve stability and allow economic recovery</i>		
<ul style="list-style-type: none"> ◆ RWCR at 12% ◆ NPLs 2.2% 	<ul style="list-style-type: none"> ◆ Selective exchange controls on capital account and MYR pegged to USD ◆ Implementing selected exchange administration rules ◆ Forex rules to eliminate speculation of MYR 		
<i>Pre-emptive measures taken to reduce high credit demand and reduce current account deficits</i>			

1993-1997 – Prior to Crisis

Prior to crisis

Malaysia entered the crisis with strong economic fundamentals..... give wider options on measures to address emerging economic issues...

- ◆ Strong economic fundamentals
 - High GDP growth of 8% for 1Q and 2Q 1997
 - Low inflation 2.1%
 - Five consecutive years of fiscal surpluses 1993 –1997
 - Low external debt of 43.2% of GNP
 - Low short-term external debt (18% of total)
- ◆ Strong banking system
 - RWCR at 12% (international standard 8%)
 - NPLs 2.2%
- ◆ Pre-emptive measures taken to reduce high credit demand and reduce current account deficits

1997 – Asian Financial Crisis

Initial response

Initial policy response resulted to economic contraction...

- ◆ Follow some of standard IMF prescriptions
 - Tighten monetary policy to contain inflation and excess domestic demand
 - Reduce government expenditure and deferred implementation of infrastructure projects
- ◆ Strengthen financial sector by implementing more stringent prudential regulations to follow the international standards
- ◆ Effects:
 - Aggregate demand fall sharply
 - Business face cash flow problems
 - Rapid economic contraction

1997- 1999 - Exchange Control Policies

Policy response

Policy response adapted to circumstances...aimed to achieve stability and allow economic recovery...

- ◆ Selective exchange controls on capital account and peg ringgit to US dollar at 3.8000. Current account remained free.
- ◆ Easing monetary policy: 3-month intervention rates reduced from 11% (Aug 98) to 7% (Nov 99)
- ◆ Fiscal stimulus package to boost economic recovery
- ◆ Danaharta created to restructure non-performing loans
- ◆ Danamodal created to strengthen capital base of selected banks
- ◆ Credit Debt Restructuring Committee set-up to restructure large corporation debt
- ◆ Kuala Lumpur Stock Exchange introduced stringent listing requirements and enhance corporate governance

1997- 1999 – Exchange Control Policies

- Rationale

Rationale

Implementing selected
exchange
administration rules....

- ◆ Ringgit was significantly traded off-shore
- ◆ Substantial onshore-offshore interest rate differential attracted ringgit off-shore (20%-30%)
- ◆ Short-selling of ringgit resulted to sharp depreciation of ringgit
- ◆ Ability to conduct an independent monetary policy is negatively impacted
 - Lowering interest rates lead to further depreciation of currency.
 - Increasing interest rates to counter capital flows further contracted the economy

1997- 1999 – Exchange Control Policies

- Impact

Measures

Foreign exchange rules introduced to eliminate excessive speculation on ringgit

Impact

- ◆ Reduce offshore market in ringgit
 - ◆ Limit supply of ringgit to speculators
 - ◆ Stabilise short-term capital flows
 - ◆ Curbing internationalisation of ringgit
-
- ◆ Affect only short-term capital flows, applied to ringgit offshore-onshore transactions
 - ◆ Free movement of current account transactions
 - ◆ Did not affect trade transactions and foreign direct investments

Excerpts of international authorities assessments on the measures...

“Directors broadly agreed that the regime of capital controls.. .which was intended by the authorities to be temporary.. had produced more positive results than many observers had initially expected.”, IMF Article IV Consultation with Malaysia, Public Information Notice (PIN) No.99/88

“In the context of Malaysia...the fact that the adverse effects that were predicted..did not occur. It is an important lesson. ...The Malaysian Government was sensitive to long-term foreign investment and directed its interventions toward short-term speculative flows.”, Joseph Stiglitz, former World Bank Senior Vice President and Chief Economist, September 1999

“Malaysia’s Central Bank was specially competent in the way it successfully implemented the controls, while not restricting payments and transfers for current international transactions and foreign direct investment.”, Professor Eisuke Sakakibara, Former Vice Finance Minister for International Affairs

2005 – Liberalisation of Exchange Control Policies

Guiding Principle

Almost all exchange administration rules have been liberalised...

- ◆ Liberal regime to promote financial and economic efficiency
- ◆ Prudential regulations to safeguard financial stability
- ◆ Specific rules to avoid speculation in ringgit
- ◆ Complement basic priority of maintaining sound macro economic policies

Liberalisation

- ◆ Non-residents can freely invest and repatriate capital
- ◆ Non-residents allowed to hedge committed inflow and outflow related to investment in ringgit assets
- ◆ Multilateral Development and multinational companies allowed to issue ringgit denominated bonds
- ◆ Further liberalisation underway to enhance Malaysia international position as an investment destination

Banking, Finance & Foreign Exchange Administration

- ◆ Non-residents are free to invest in Malaysia in any form. To complement their investment strategy, non-residents may obtain financing from licensed onshore banks (licensed commercial and Islamic banks in Malaysia) both in ringgit and foreign currency. They are also able to enter into foreign exchange contracts with licensed onshore banks to actively manage their exchange risk exposures arising from their ringgit investments. Non-residents are free to exchange their foreign currency into ringgit and vice versa of any amount as well as repatriate their capital, profits and income earned from Malaysia in foreign currency.

Investment in Malaysia

- ◆ **Setting-up a Business In Malaysia (Equity Investment)**
 - Multinationals are freely allowed to set up businesses in Malaysia, subject to the relevant registration requirement
- ◆ **Purchasing Portfolio or Debt Securities Issued In Malaysia**
 - A non-resident is free to purchase any ringgit securities, including debt securities (including ringgit bonds issued by non-residents) in Malaysia
- ◆ **Purchase of Immovable Properties In Malaysia**
 - A non-resident is free to obtain up to three loans to purchase immovable property in Malaysia
- ◆ **Placement of Deposits in Ringgit or Foreign Currency**
 - A non-resident is free to open any number of ringgit or foreign currency denominated accounts with any licensed onshore banks, licensed finance companies or licensed merchant banks in Malaysia.

Non-Resident Credit Facilities

- ◆ A Non-resident is free to extend a loan in ringgit or foreign currency to residents as long as they adhere to the relevant limits and registration requirements
- ◆ Payment for Investment - A non-resident may pay for the investment in Malaysia in ringgit from his External Account or in foreign currency.
- ◆ A non-resident is free to obtain ringgit credit facilities subject to the relevant limits
- ◆ Issuance of Ringgit Debt Securities
 - Malaysia allows Multilateral Development Banks or foreign multinational corporations to raise ringgit-denominated bonds in Malaysia.
- ◆ Foreign Currency Credit Facilities
 - A non-resident may obtain any amount of foreign currency credit facilities from licensed onshore banks and approved merchant banks.

Investments

- ◆ A non-resident is free to hedge their foreign currency exposures subject to the relevant limit requirements
- ◆ A non-resident may sell any of his investments in Malaysia including securities not listed on Bursa Malaysia
- ◆ A resident may pay or settle the purchase in ringgit or in foreign currency.
- ◆ A non-resident purchaser may also pay or settle the purchase in foreign currency or ringgit from his External Account.
- ◆ Repatriation of Funds
 - A non-resident is free to repatriate capital, divestment proceeds, profits, dividends, rental, fees and interest arising from investments in Malaysia.

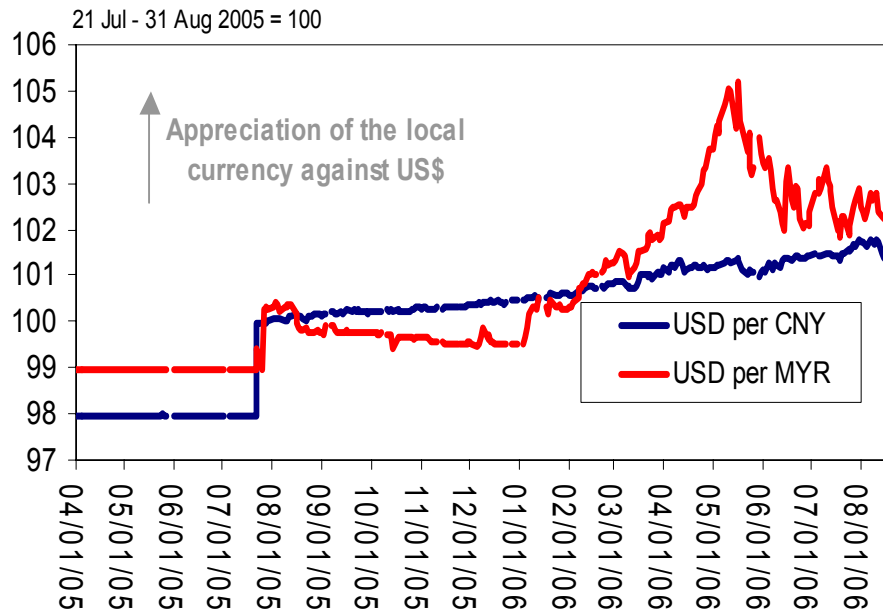
Tax incentives for foreign investors

- ◆ Blanket exemption from withholding tax on interest income derived by non-residents from investments in RM-denominated MGS and corporate bonds, with effect from 11 September 2004
- ◆ Stamp duty exemptions for the transfer of corporate bonds approved by the SC
- ◆ Full Repatriation of Funds is allowed
- ◆ Pioneer Status - A company which is granted "pioneer status" obtains very favorable fiscal treatment
- ◆ Double Deduction Tax Incentives - Expenses incurred on certain activities can be set off twice against taxable profits.
- ◆ Operational Headquarter Companies (OHC) qualify for favorable fiscal incentives

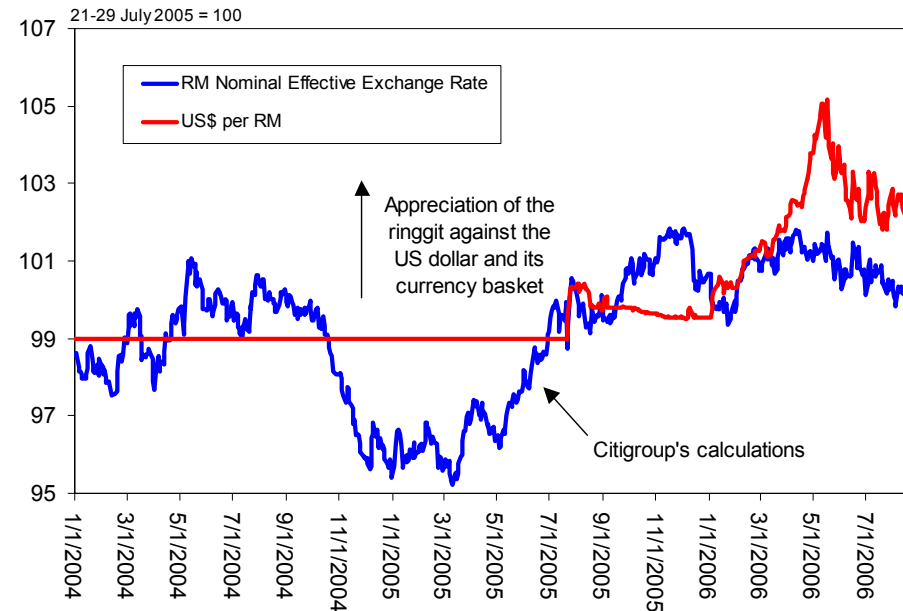
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Tale of Two Currencies and the MYR Currency Basket

USD per CNY and USD per MYR



MYR Nominal Effective Exchange Rate and USD per MYR (21-29 July 2005 = 100)

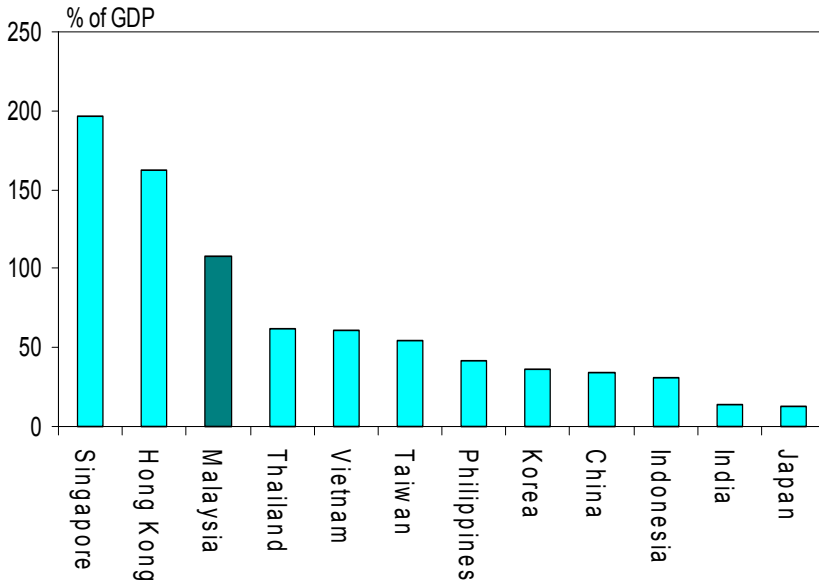


Note: Latest data as of 18 August 2006. The currency basket used to calculate the nominal trade-weighted ringgit consists of US dollar, Japanese yen, Singapore dollar, Euro, Taiwan dollar, Korean won, Hong Kong dollar, Thai baht, Indonesian rupiah, Philippines peso, Indian rupee and Chinese yuan.

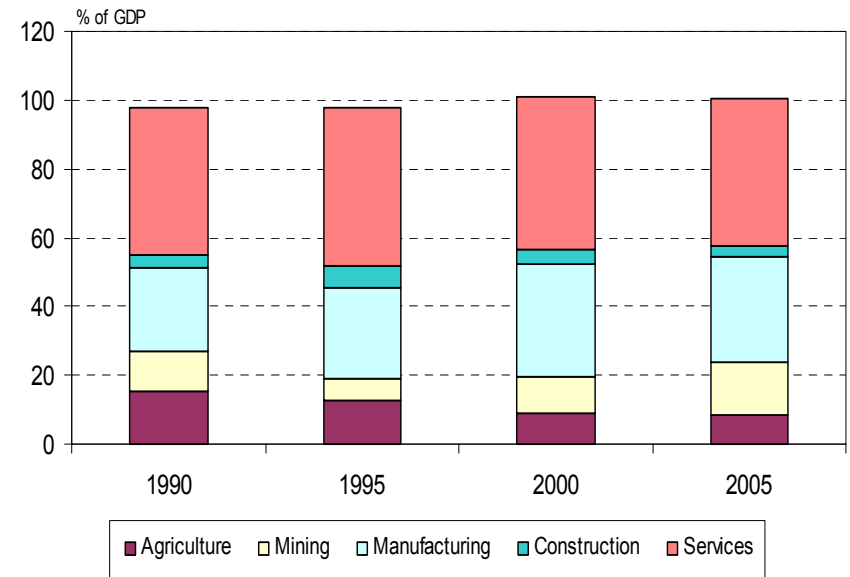
Source: Datastream, CEIC, Citigroup estimates

Malaysia, An Open and Diversified Economy

Exports as Share of GDP



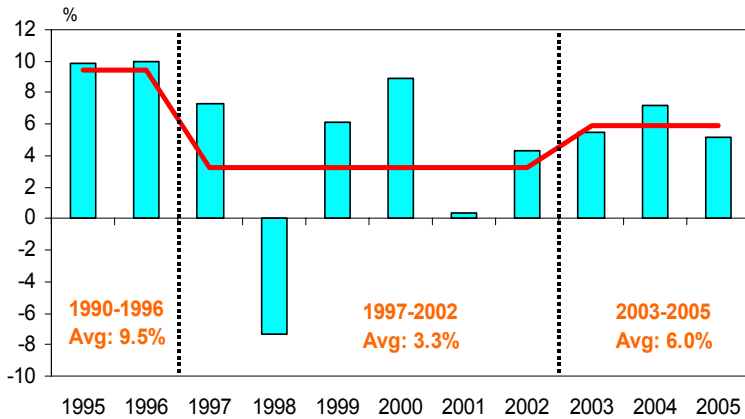
Structure of Output (Percent of GDP)



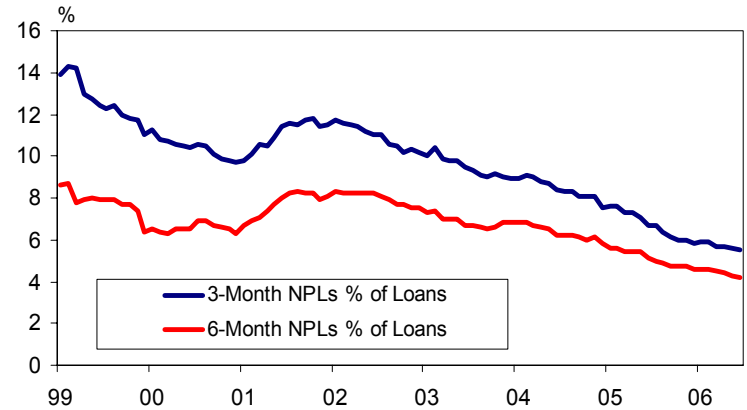
Sources: Department of Statistics, CEIC, Citigroup estimates

Improved and Stable Macro Fundamentals

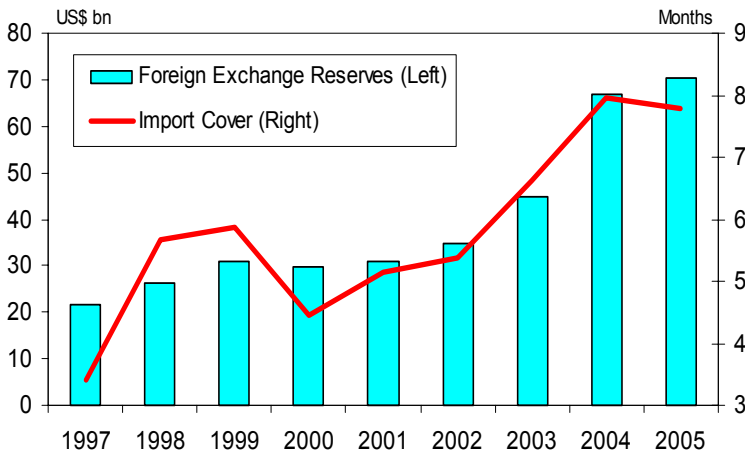
Real GDP Growth



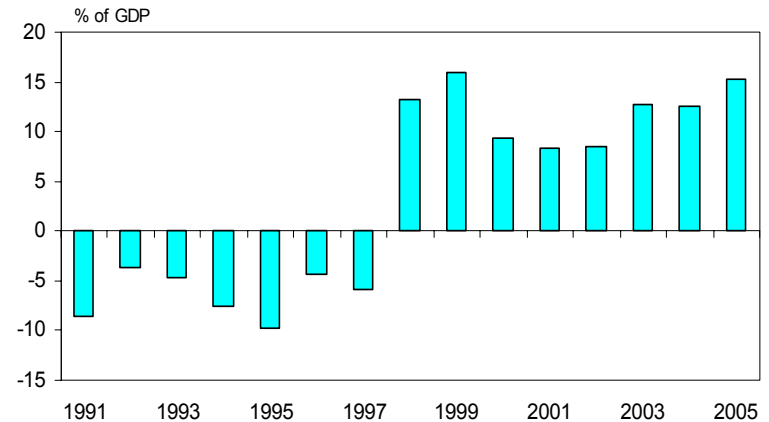
Non-Performing Loans



Foreign Exchange Reserves



Current Account Balance



Strong Credit Profile in Long Term Debt

Moody's

Outlook	Stable
CC LT Foreign Bank Deposit	A3
CC LT Foreign Currency Debt	A3
CC ST Foreign Bank Deposit	P-1
CC ST Foreign Currency Deposit	P-1
LC Currency Issuer Rating	A3
FC Currency Issuer Rating	A3
Foreign Currency LT Debt	A3
LC Currency LT Debt	A3

Standard & Poor's

Outlook	Stable
Foreign Currency LT Debt	A-
Local Currency LT Debt	A+
Foreign Currency ST Debt	A-2
Local Currency ST Debt	A-1

Fitch

Outlook	Stable
LT Issuer Default Rating	A-
Foreign Currency LT Debt	A-
Local Currency LT Debt	A+
Foreign Currency ST Debt	F2
ST Issuer Default Rating	F2

Rating and Investment

Foreign Currency LT Debt	A
Foreign Currency ST Debt	a-1

Japan Credit Rating Agency

Foreign Currency LT Debt	A-
Local Currency LT Debt	A+

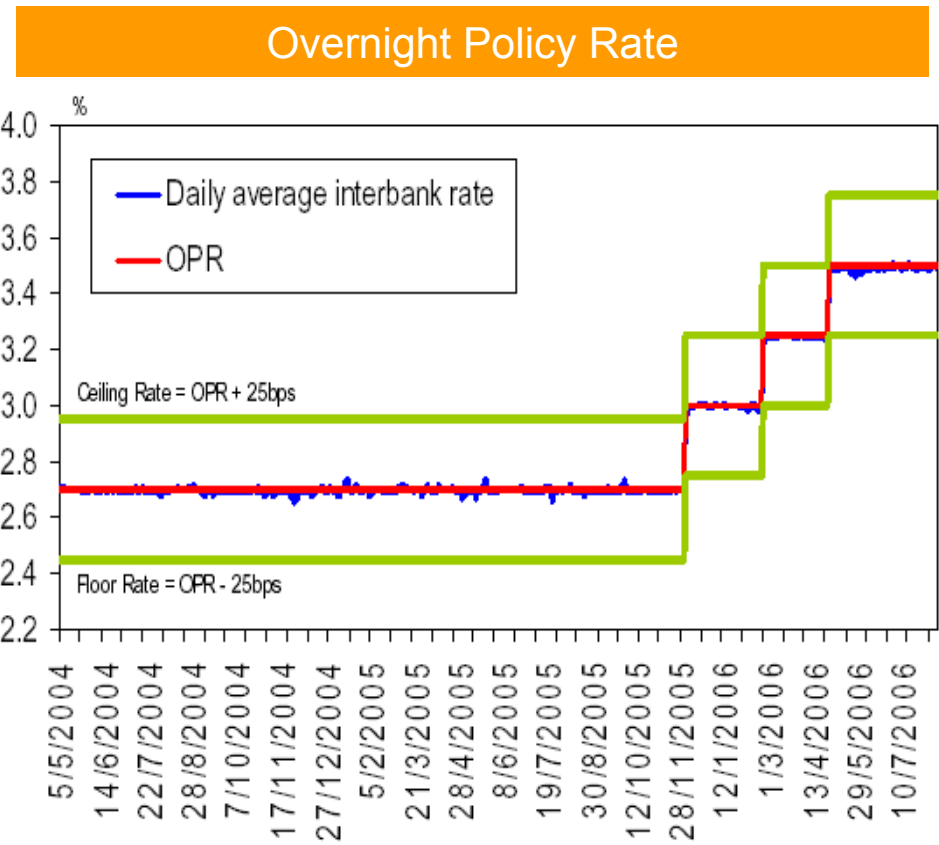
Duff and Phelps

Foreign Currency LT Debt	WR
Local Currency LT Debt	WR

Source: Bloomberg, Various Rating Agencies

Interest Rate Policy

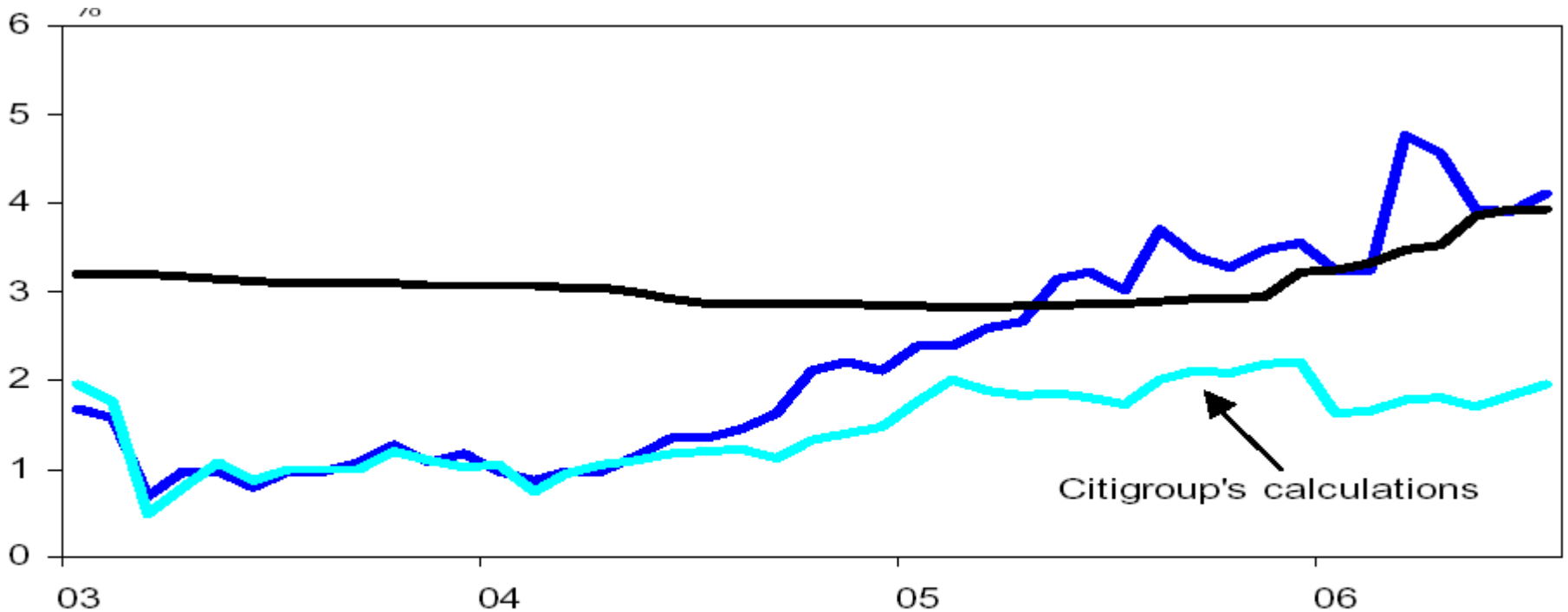
- BNM targets the average overnight interbank rate (AOIR) within +/- 25bps corridor around the Overnight Policy Rate (OPR)
- Changes in OPR will be announced in the Monetary Policy Statement (MPS) at pre-determined dates



Source: BNM

Headline inflation overstates inflation risk

Headline and Core CPI (YoY Percent) and 3-Month KLIBOR (Percent)



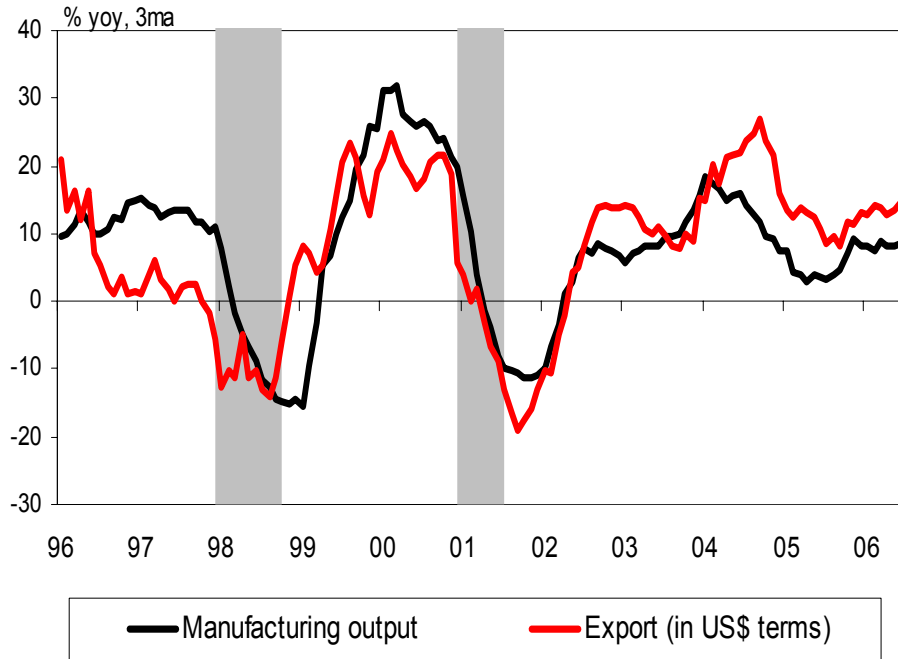
Citigroup's calculations



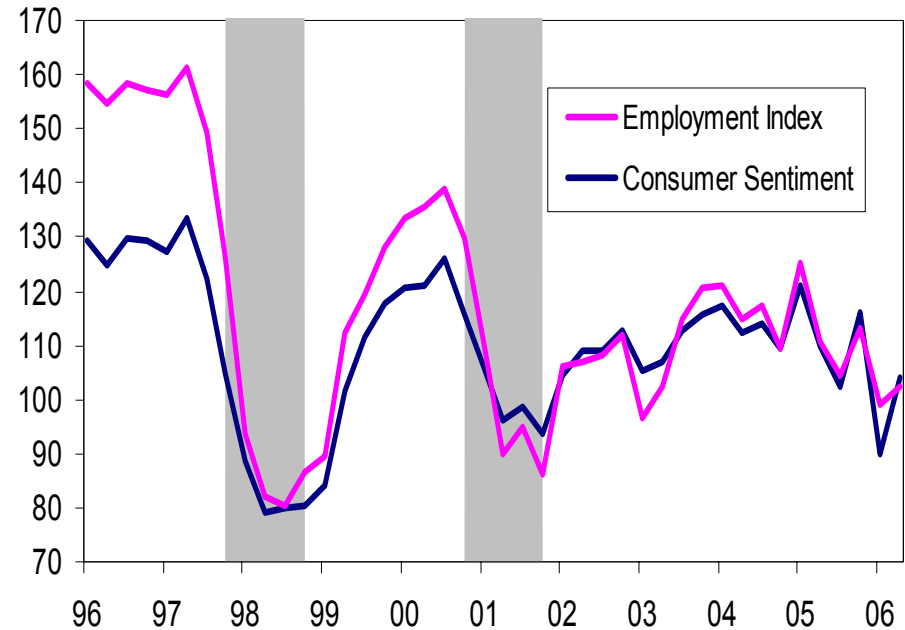
Note: Core CPI excludes fish and seafood, vegetables, alcoholic beverages & tobacco and transport. The CPI has been rebased from 2000 to 2005, following the revision of the CPI basket. Rates of change in the index prior to and including 2005 are measured relative to the former base period. The January-July 2006 increase is measured relative to the new base. Source: Malaysia Department of Statistics, CEIC and Citigroup estimates

Economy Resilient

Export (in US\$ terms) and Manufacturing Output (3-Month MA, YoY Percent)



Consumer Sentiment and Employment Index



Note: Shaded areas denote recession

Source: CEIC, MIER and Citigroup estimates

Currency and Interest Rate Forecast

Policy Rates

	Spot	3Q06E	4Q06E	1Q07E	2Q07E	3Q07E
US -- Fed Fund target rates	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%
Japan -- Call Money	0.25%	0.25%	0.50%	0.50%	0.75%	0.75%
Euro Area -- Repo Rate	3.00%	3.00%	3.25%	3.25%	3.25%	3.25%
Malaysia -- O/N Policy Rate	3.50%	3.50%	3.75%	3.75%	4.00%	4.00%
Malaysia -- 3-Month KLIBOR	3.82%	3.80%	3.95%	3.95%	4.20%	4.20%

Long-Term Rates

US -- 10-Yr Treasuries	4.80%	4.95%	4.90%	4.90%	4.90%	4.90%
Japan -- 10-Yr JGB	1.71%	1.90%	2.00%	2.10%	2.20%	2.30%
Euro Area -- 10-Yr Bunds	3.79%	3.90%	3.90%	3.75%	3.75%	3.75%
Malaysia -- 5-Yr MGS	4.10%	4.30%	4.40%	4.40%	4.60%	4.60%

Exchange Rates

	Spot	1 Month	3 Months	6 Months	12 Months
JPY vs. US\$	116.9	117	116	106	104
US\$ vs. EUR	1.277	1.28	1.30	1.28	1.26
CNY vs. US\$	7.973	7.98	7.90	7.50	7.50
MYR vs. US\$	3.678	3.68	3.65	3.55	3.51

Source: Citigroup estimates

Key Macroeconomic Forecasts for Malaysia

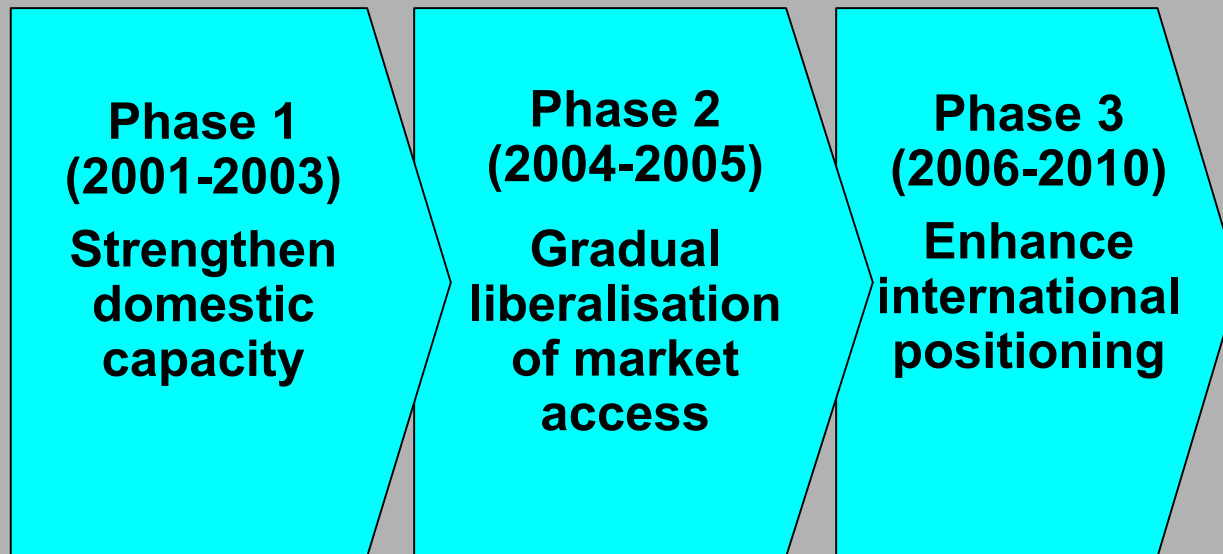
	1999	2000	2001	2002	2003	2004	2005	2006E	2007E
National Account									
Real GDP (% yoy)	6.1	8.9	0.3	4.4	5.5	7.2	5.2	5.5	5.5
Domestic demand (% yoy)	1.4	15.5	2.5	3.9	6.1	7.5	7.3	6.8	7.1
Real Consumption: Private (% yoy)	2.9	13.0	2.4	4.4	6.6	10.5	9.2	5.9	6.0
Real Gross Fixed Capital Formation (% yoy)	-6.5	25.7	-2.8	0.3	2.7	3.1	4.7	8.6	9.6
GDP (US\$ Bils.)	79	90	88	95	104	118	131	148	165
GDP per capita (US\$)	3485	3844	3665	3884	4152	4631	5005	5533	6042
Unemployment Rate (%)	3.4	3.0	3.5	3.5	3.6	3.5	3.5	3.5	3.4
Industrial growth (% yoy)	9.0	19.2	-4.1	4.6	9.3	11.3	4.1	6.0	7.0
External Sector									
Exports (% yoy, US\$)	15.3	16.2	-10.4	6.9	11.6	20.5	11.4	13.0	13.5
Imports (% yoy, US\$)	12.2	25.5	-10.2	8.0	4.8	25.9	8.9	15.0	16.0
Trade balance (US\$ Bils.)	19.1	16.1	14.2	14.3	21.4	21.2	26.4	27.5	27.9
Current account (% of GDP)	15.9	9.4	8.3	8.4	12.8	12.6	15.2	12.7	11.3
International Reserves ex. Gold (US\$ Bils.)	30.9	29.9	30.8	34.6	44.9	66.7	70.5	85.0	90.0
Currency/USD (period average)	3.80	3.80	3.80	3.80	3.80	3.80	3.79	3.68	3.56
Other									
3-month KLIBOR Fixing (% , Average)	4.1	3.2	3.2	3.2	3.1	2.9	2.9	3.7	4.2
5-year MGS yield (% , Average)	5.6	5.1	3.5	3.5	3.6	4.1	3.5	4.2	4.6
Consumer prices (% yoy)	2.7	1.6	1.4	1.8	1.2	1.3	3.1	4.1	2.5
Fiscal balance (% of GDP)	-3.2	-5.7	-5.5	-5.6	-5.3	-4.3	-3.8	-3.6	-3.2

Source: Department of Statistics, CEIC and Citigroup estimates.

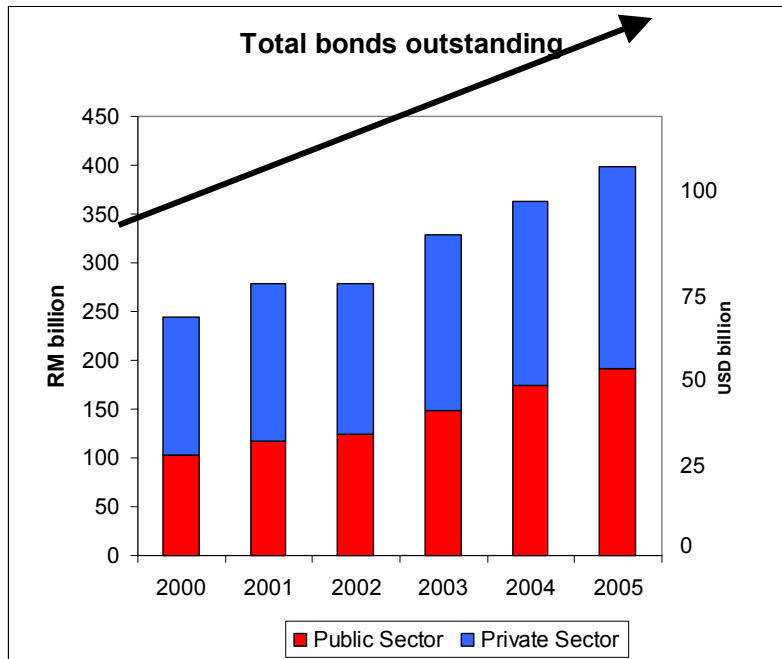
Security Commission's Focus on Capital Market Development

Capital Market Masterplan (2001)

A 10-year blueprint for the development of the
Malaysian capital market



Robust Growth in Malaysian Bond Market



- ◆ As at end-June 2006, the outstanding size amounted to RM408 bln (USD112bln)
- ◆ More than half comprised of corporate bonds
 - Average annual issuance of more than RM33 bln (USD9 bln)
- ◆ Local currency corporate bond market is 3rd largest in Asia (ex. Japan)

Flexible and facilitative regulatory framework for foreign issuers

MDB	ADB	IFC	IBRD	ADB	KfW
Issue date	10 Nov 04	10 Dec 04	12 May 05	25 Apr 06	11 May 06
Issue amount	RM400 mln	RM500 mln	RM760 mln	RM500 mln	RM500 mln
Type	Fixed Rate Bonds	Islamic Bonds	Islamic Bonds	MTN	Fixed Rate Bonds
Tenor	5 yrs	3 yrs	5 yrs	5 yrs	7 yrs
Rating	AAA	AAA	AAA	AAA	AAA

5 RM-denominated bond issues with a total value of RM2.66 billion were issued by 4 international issuers

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Asia Awards and Poll Results for 2005/2006



2005 Annual Structured Products Poll

Best Overall for Commodity-Linked Structured Products

Best Overall for Credit-Linked Structured Products

Best Overall for Currency-Linked Structured Products – Local Currency Products

Best Overall for Interest Rate-Linked Structured Products – Local Currency Products

2005 Deals of the Year Award

Best M&A Deal – CNPCI's US\$4.18 billion acquisition of PetroKazakhstan

Best Equity Deal – PetroChina's US\$2.715 billion accelerated follow-on-H-Share offering

2006 Structured Products Poll – April 2006

- Best Overall for Commodity-Linked Structured products
- Best Credit Derivatives
- 2nd in Equity-Linked Structured products (up from 6th)
- Best Overall for G3 Derivatives
- Best Overall for Interest Rate-Linked Structured products

2006 FX Poll

- Best for overall FX services as voted by corporates
- Best Overall FX services in Singapore, Taiwan, **Malaysia**, India, China, Korea, Vietnam & Australia
- Best Electronic Platform in Singapore, Taiwan, **Malaysia**, India, China, Korea, Philippines, Thailand & Australia
- Best Prime Brokerage in Singapore, Taiwan, **Malaysia**, India, China, Vietnam & Hong Kong

Cash Management

**asia
money**

**Best at Foreign Cash
Management in
Malaysia**

EUROMONEY

**Best at Cash
Management in Asia**
5 years in a row

FinanceAsia

**Best Cash Bank
in Asia**
8 out of 9 years

**asia
money**

**Best MYR Clearing
Bank in Asia**

**GLOBAL
FINANCE**

**Best Bank for Liquidity
Management in Asia**
3 years in a row

**GLOBAL
FINANCE**

**World's Best
Internet Bank**
4 years in a row

Questions & Answers

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