BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

REF No: 10/07/10

EMBARGO: Not for publication or broadcast before 1800 hours on Wednesday, 31 October 2007

Monetary and Financial Developments September 2007
Highlights of the Press Release

- Net financing of the private sector increased at a faster pace in September, reflecting an increase in loans outstanding to the business sector.
- The average lending rate of commercial banks was marginally lower in September.
- The ringgit appreciated against the US dollar.
- Headline inflation moderated to 1.8%.
- The net NPL ratio of banking institutions improved further to 3.5%.

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MONETARY AND FINANCIAL DEVELOPMENTS
September 2007

In September, gross financing to the private sector increased amid higher loan disbursements and new issuances of private debt securities (PDS). On a net basis, financing of the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 8.9%. Loans outstanding to businesses expanded at an annual rate of 14.8%. Loan applications, approvals and disbursements in both the business and household sectors continued to register positive annual growth rates.

Interbank rates for all maturities were relatively steady. Fixed deposit rates were unchanged while the average lending rate of commercial banks was marginally lower in September.

During the period 1 September - 30 October 2007, the ringgit exchange rate reflected two-way trade and investment flows. The ringgit, together with other regional currencies, appreciated as the outlook for US economic growth dampened following the crisis in the debt market and sharp downturn in the housing market. Market expectation for a further reduction in the US Fed Fund Rate also affected the US dollar. The ringgit appreciated against the US dollar by 4.7% during this period. The ringgit also appreciated against most regional currencies in the range of 1% to 3.8%, but depreciated slightly against the Singapore dollar (0.3%) and the Philippine peso (1.7%).

Headline inflation, as measured by the annual change in the Consumer Price Index (CPI) was marginally lower at 1.8% in September. The impact of higher prices for *food at home* and *restaurants and hotels* categories on overall inflation was partly mitigated by the slower price increases in the *alcoholic beverages and tobacco* category. The *clothing and footwear* and *communication* categories also continued to exhibit declining prices.

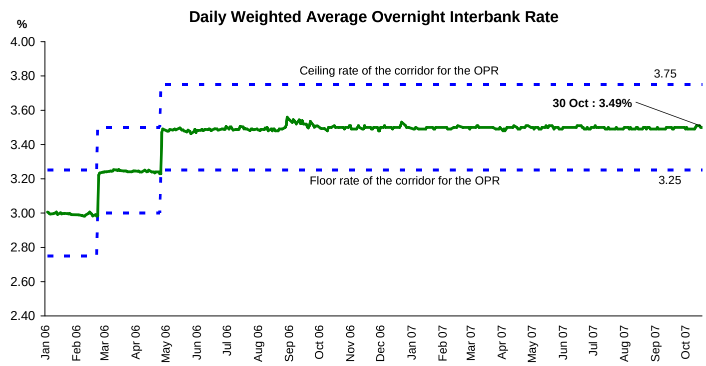
Narrow money, or M1, increased by 18.5% in September, following higher placements of demand deposits and currency in circulation. Broad money, or M3, expanded by 12.3%. On a month-on-month basis, M3 expanded on account of higher claims on the private sector and expansionary external operations.

The banking system's capitalisation remained relatively stable with the risk-weighted capital ratio (RWCR) at 13%, notwithstanding the distribution of profits by banking institutions. The net NPL ratio improved further to 3.5%, driven mainly by the reclassification of NPLs to performing status and continuing loan write-offs.

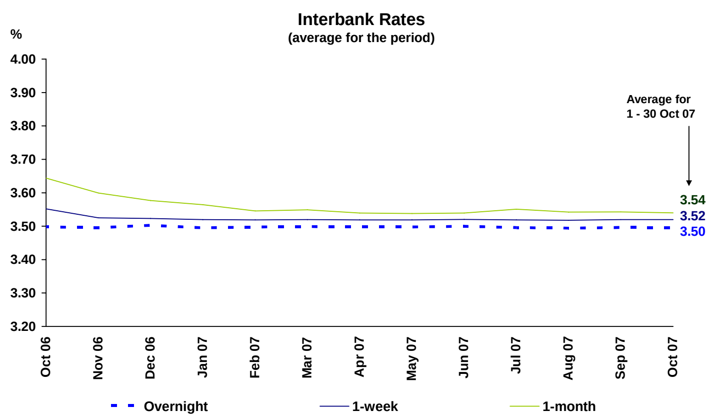
Interest rates remained stable

During the period 1 September – 30 October, the daily weighted average overnight interbank rate moved within a narrow range of 3.49% - 3.51%. Interbank rates of other maturities were also relatively stable.

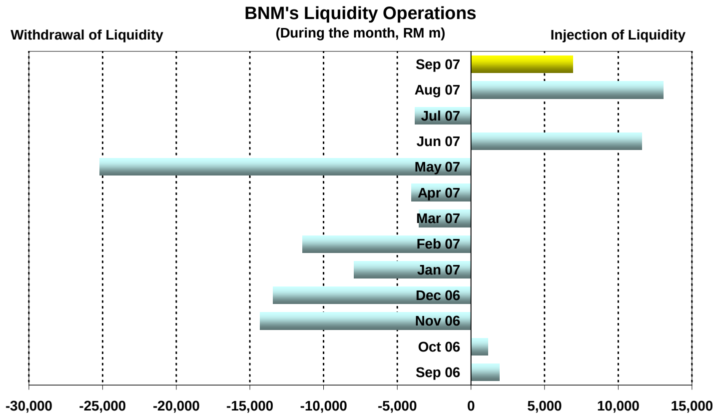
The average fixed deposit (FD) rates of commercial banks (CBs) remained unchanged in September and October. As at 15 October 2007, the average quoted FD rates for tenures between 1 and 12 months were within the range of 3.08% and 3.70%. In terms of CBs' lending rates, the average base lending rate (BLR) was unchanged at 6.72%, while the average lending rate (ALR) was lower at 6.30% in September (6.35% in August).



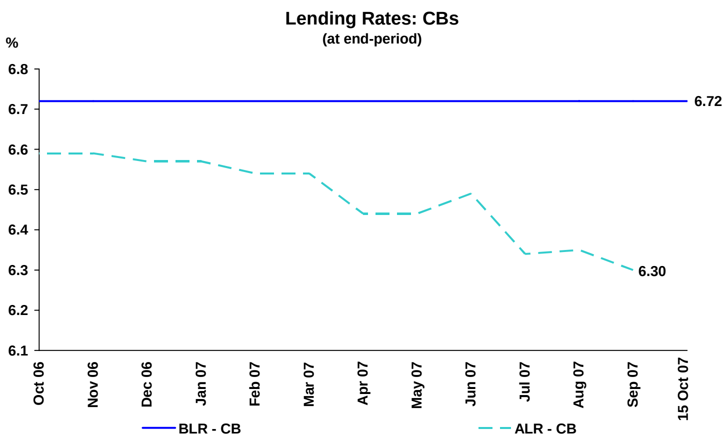
The average overnight interbank rate moved within a narrow range



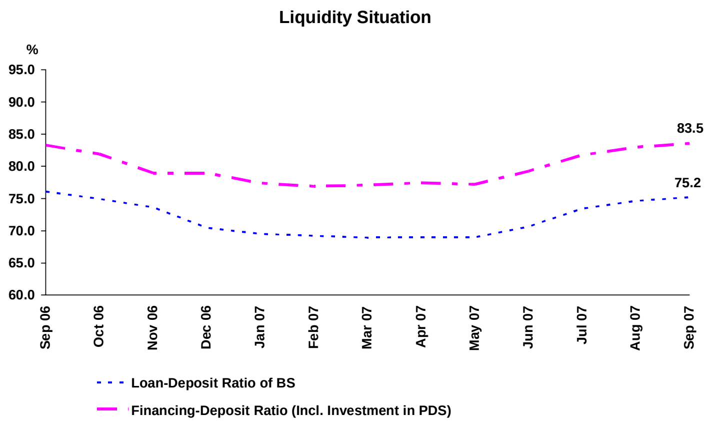
Other interbank rates remained relatively stable



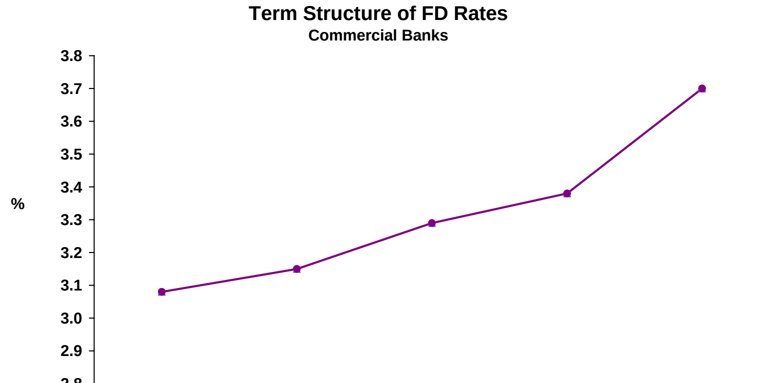
The Central Bank injected liquidity into the system in September mainly to offset contractionary Government operations



CBs' ALR was marginally lower

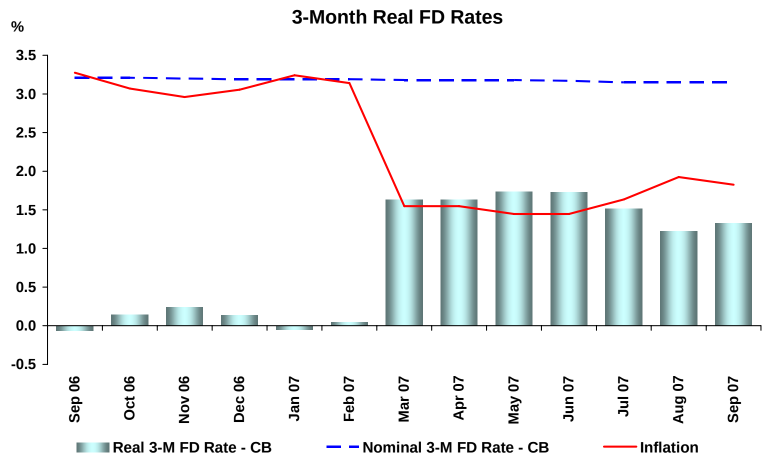


The financing-deposit and loan-deposit ratios increased in September as the growth in financing outpaced the increase in deposits



	1-month	3-month	6-month	9-month	12-month
Aug 07	3.08	3.15	3.29	3.38	3.70
Sep 07	3.08	3.15	3.29	3.38	3.70
15 Oct 07	3.08	3.15	3.29	3.38	3.70

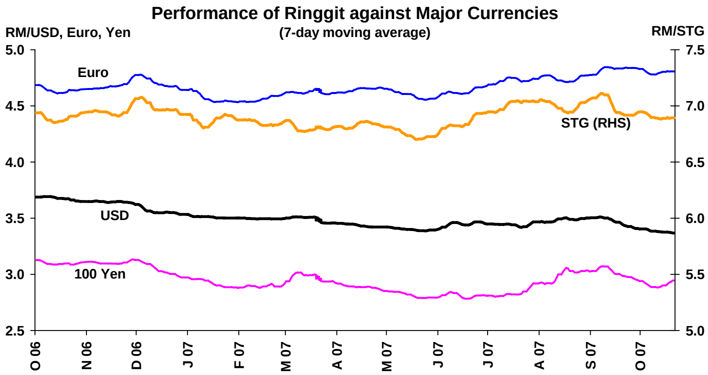
Average FD rates were unchanged



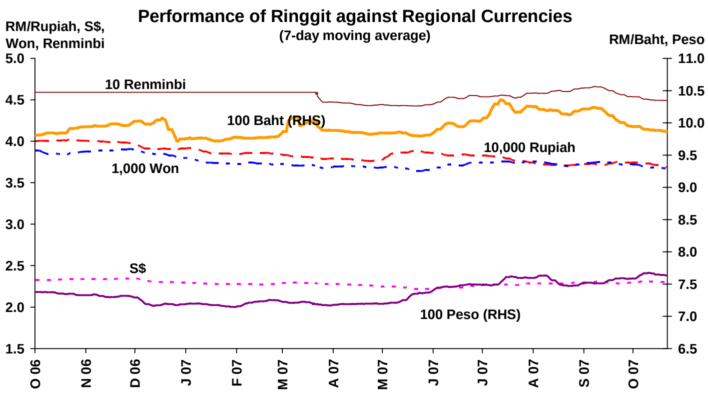
The real 3-month FD rate increased due to a moderation in inflation

Ringgit appreciated against the US dollar

During the period 1 September - 30 October 2007, the ringgit exchange rate reflected two-way trade and investment flows. The ringgit, together with other regional currencies, appreciated as the outlook for US economic growth dampened following the crisis in the debt market and sharp downturn in the housing market. Market expectation for a further reduction in the US Fed Fund Rate also affected the US dollar. The ringgit appreciated against the US dollar by 4.7% during this period. The ringgit also appreciated against most regional currencies in the range of 1% to 3.8%, but depreciated slightly against the Singapore dollar (0.3%) and the Philippine peso (1.7%).



Ringgit appreciated against the US dollar



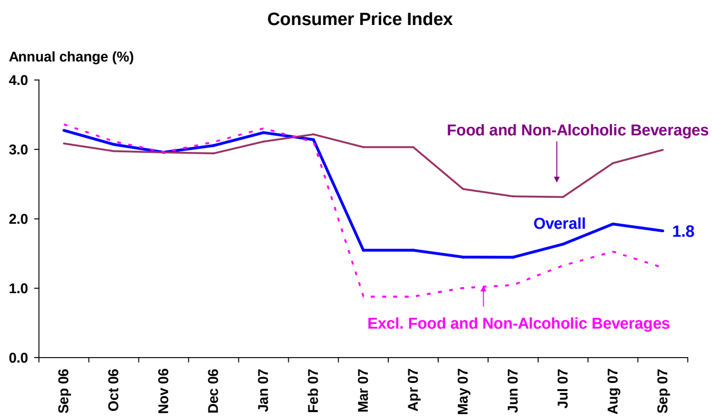
Ringgit appreciated against most regional currencies

Performance of Ringgit against Selected Currencies

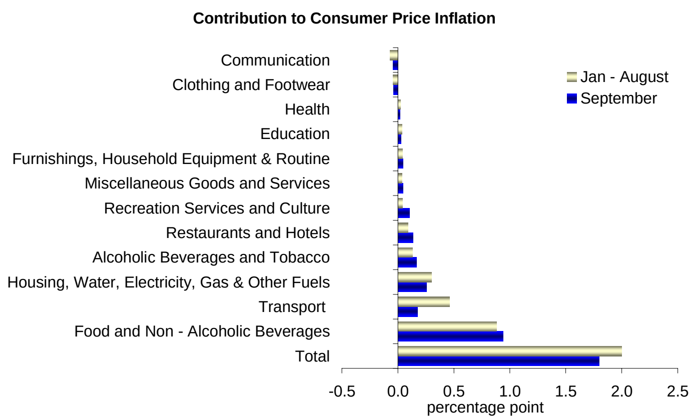
RM per foreign currency	End-period				% Change	
	Dec 06	Aug 07	Sep 07	30 Oct 07	End Dec 06 - 30 Oct 07	End Aug 07 - 30 Oct 07
US dollar	3.5315	3.5045	3.4170	3.3470	5.5	4.7
Euro	4.6460	4.7775	4.8410	4.8224	-3.7	-0.9
Pound sterling	6.9315	7.0460	6.9167	6.8962	0.5	2.2
100 Japanese yen	2.9675	3.0335	2.9649	2.9247	1.5	3.7
Singapore dollar	2.3028	2.2980	2.2916	2.3053	-0.1	-0.3
100 Thai baht	9.8111	10.211	9.972	9.8398	-0.3	3.8
100 Philippine peso	7.2027	7.4835	7.5992	7.6111	-5.4	-1.7
100 Indonesian rupiah	0.0393	0.0372	0.0373	0.0367	6.9	1.3
100 Korean won	0.3797	0.3726	0.3726	0.3689	2.9	1.0
Chinese renminbi	0.4523	0.4645	0.4548	0.4479	1.0	3.7

Headline inflation remained low at 1.8%

Headline inflation moderated to 1.8% in September 2007 (August: 1.9%). The rise in inflation was attributed mainly to the *food and non-alcoholic beverages* category, which registered an increase of 3% in September (August: 2.8%), due to higher prices for food items in the *food at home* category. The rate of increase of prices of items in the *restaurants and hotels* was also higher at 4.5% (August: 4.2%). Nevertheless, the impact on overall inflation was partly mitigated by the slower price increases in the *alcoholic beverages and tobacco* category following the lapse of the effect of the higher excise taxes on alcoholic beverages and tobacco announced in Budget 2007. Furthermore, the *clothing and footwear* and *communication* categories also continued to exhibit declining prices.

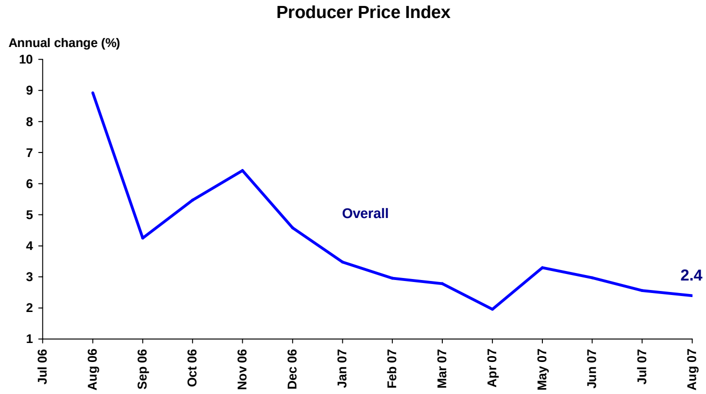


Inflation moderated to 1.8% in September



Producer price inflation moderated in August

In August, the pace of growth in the Producer Price Index (PPI) moderated to 2.4% (July: 2.6%). This was attributed mainly to the slower rate of inflation in the commodity-related sector, which partly offset the increase in inflation in the non-commodity-related sector.



Note: In July 2007, the PPI has been revised by the Department of Statistics, Malaysia.

Pace of growth in the PPI moderated in August

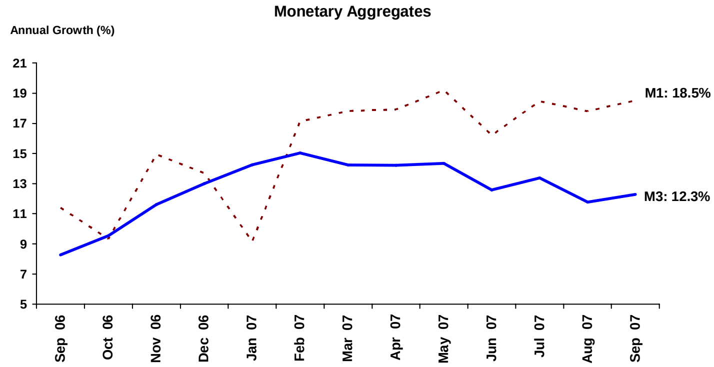
Higher M3 growth in September

Narrow money, or M1, rose by 18.5% in September (August: 17.8%) following higher placements of demand deposits and currency in circulation. Broad money, or M3, also expanded at a faster pace of 12.3% (August: 11.8%). On a month-on-month basis, higher claims on the private sector arising from the increase in loans and higher holdings of private debt securities by the banks contributed significantly to M3 expansion. Net external operations were also expansionary, reflecting the increase in net foreign assets of the banking system. Net claims on the Government, however, declined as proceeds from the issuance of Malaysian Government Securities (MGS) were placed with Bank Negara Malaysia.

M3 Determinants
(RM billion)

	Change during period			
	Jun 07	**Jul 07**	**Aug 07**	**Sep 07**
M3	-10.6	11.3	1.7	2.6
Net claims on Government	-8.1	5.8	6.6	-1.8
Claims on the private sector	7.0	17.0	7.3	9.2
Loans	*6.0*	*17.1*	*5.4*	*8.1*
Securities	*1.6*	*-0.6*	*1.9*	*1.0*
Net external operations *	-6.4	-3.9	-23.0	5.1
Other influences	-3.2	-7.6	10.8	-9.9

* Pre-revaluation of the international reserves
M3 has been revised to include other deposits from December 1999 onwards. Other deposits were previously excluded from the compilation of M3.



Higher banking system deposits in September

Total deposits with the banking system increased by RM4.8 billion in September or 12% on an annual basis (August: 12.2%). The higher deposits mainly reflected placements by financial institutions, particularly non-bank financial institutions (DNBFIs). Deposits of individuals and the Federal Government were also higher. By type, the increase in deposits was mainly in the form of "other deposits", which was, in part, due to transfers from NIDs to short term money market deposits.

Deposits by Holder
(RM million)

	Change during period			
	Jun 07	**Jul 07**	**Aug 07**	**Sep 07**
Federal Government	4,116	-1,732	-381	1,183
State Governments	-265	643	779	-458
Statutory Authorities [1]	-3,047	791	-291	372
Financial Institutions	-14,978	-11,737	-10,140	6,767
Business Enterprises	2,531	5,798	2,404	-5,242
Individuals	1,590	1,166	2,506	2,694
Others [2]	-3,287	-550	118	-455
Total	-13,341	-5,621	-5,004	4,860

1/ Include local Governments

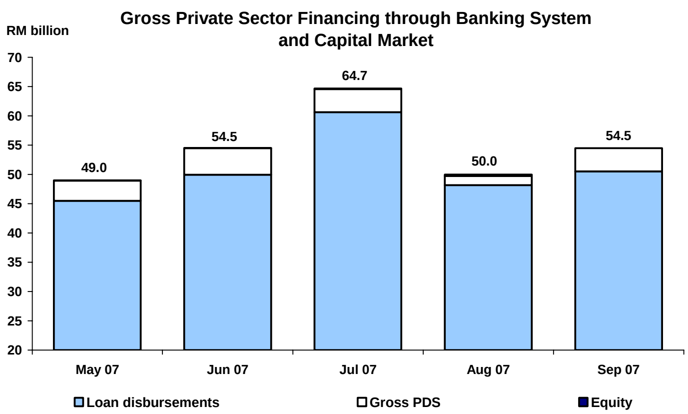
2/ Consist of domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

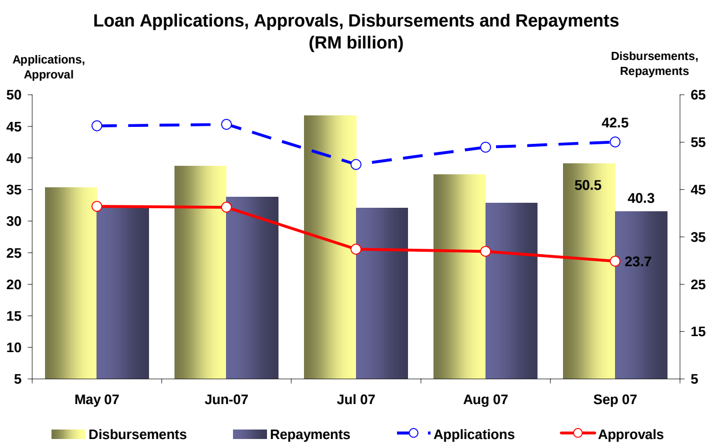
	Change during period			
	Jun 07	**Jul 07**	**Aug 07**	**Sep 07**
Fixed deposits	-1,315	3,606	-5,243	-1,929
NIDs	-16,757	-18,354	-7,179	-1,935
Demand deposits	2,570	1,312	781	-17
Savings deposits	938	471	63	7
Repos	-29,221	-31,375	-2,495	956
FX deposits	2,096	-561	418	-598
SPI deposits	96	1,240	2,011	-1,218
Others[1]	28,252	38,039	6,640	9,595
Total	-13,341	-5,621	-5,004	4,860

Increase in gross private sector financing

In September, gross financing to the private sector amounted to RM54.5 billion (August: RM50 billion) reflecting higher loan disbursements and new issuances of private debt securities (PDS). More than half of total new PDS issuances during the month were accounted by the finance, insurance, business services and real estate sector. On a net basis, financing of the private sector through banking system loans and PDS outstanding expanded at a higher combined annual rate of 8.9% (August: 8%).



Increase in gross private sector financing due to higher loan disbursements and new PDS issuances

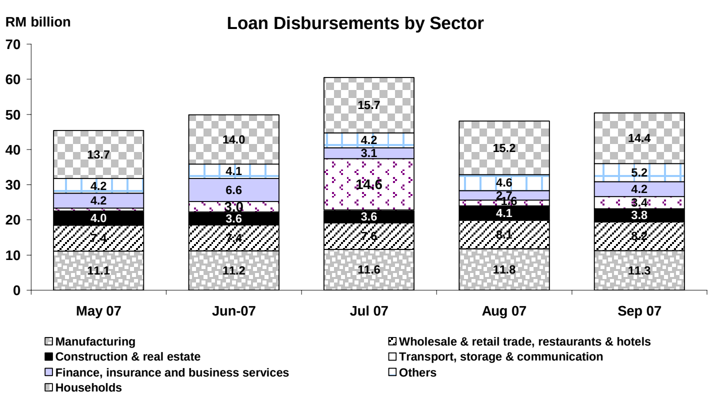


Key loan indicators remained strong

Bank lending indicators

	RM billion		Annual Growth (%)	
	August	September	August	September
Overall				
Loan applications	41.7	42.5	52.5	58.3
Loan approvals	25.2	23.7	54.5	45.2
Loan disbursements	48.2	50.5	15.2	18.0
Chg in Loans Outstanding[1/]	5.4	7.8	8.6	9.5
Businesses				
Loan applications	22.3	24.7	51.5	70.9
Loan approvals	13.4	13.3	71.3	61.4
Loan disbursements	32.9	36.1	11.4	19.9
Chg in Loans Outstanding[1/]	2.8	5.6	12.8	14.8
SMEs[2/]				
Loan applications	9.9	9.7	47.8	34.1
Loan approvals	5.3	5.3	30.0	54.0
Loan disbursements	12.3	12.0	5.3	9.3
Chg in Loans Outstanding[1/]	1.3	1.4	5.9	7.0
Households				
Loan applications	19.4	17.9	53.7	43.7
Loan approvals	11.8	10.4	39.1	28.6
Loan disbursements	15.2	14.4	24.2	13.7
Chg in Loans Outstanding[1/]	3.4	2.2	7.2	7.3

[1/] The annual growth in outstanding amount as at end-period.



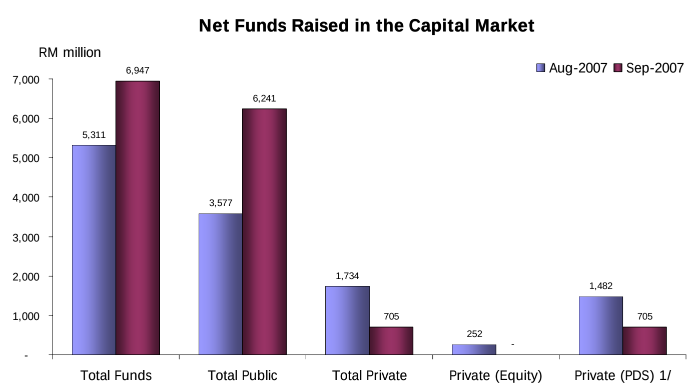
Loan disbursements remained broad-based with the household and manufacturing sectors receiving the largest shares

The major loan indicators continued to register positive annual growth rates in September. Loan applications and disbursements were higher during the month, mainly driven by loan demand from businesses. Higher loan applications were observed across the agriculture, construction, and finance, insurance and business services sectors. The increase in loan disbursements was driven mainly by the drawdown of funds under a large syndicated bridging loan facility, which was reflected in the transport, storage and communications sector. There was also a notable increase in loans disbursed to the finance, insurance and business services sector. On the other hand, loans disbursed to the household sector remained relatively stable.

Total loans outstanding expanded by 9.5% on an annual basis as at end-September (end-August: 8.6%). Loans outstanding to businesses and households expanded at annual growth rates of 14.8% and 7.3% respectively (end-August: 12.8% and 7.2% respectively).

Funds raised in the capital market rose

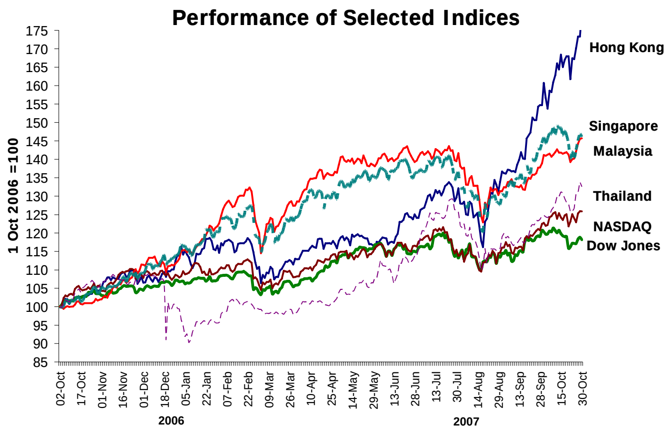
Total net funds raised in the capital market in September amounted to RM6.9 billion, an increase from the RM5.3 billion raised in August. The bulk of the funds were raised by the public sector through the reopening of 20-year Malaysian Government Securities (MGS) and Government Investment Issues (GII). After adjusting for redemption, the net funds raised in the public sector amounted to RM6.2 billion, an increase from the RM3.6 billion raised in the previous month. In the private sector, total gross funds raised were RM4 billion, mainly through the issuance of private debt securities (PDS), particularly for new activity and refinancing purposes. The bulk of the issuance came from the finance sector. After adjusting for redemption, net funds raised by the private sector amounted to RM705 million, compared to the RM1.7 billion raised in the previous month.



1/ Including Cagamas Bonds

KLCI rebounded following the correction in global equity markets

In September 2007, the KLCI rose by 4.9% to close at 1336.3 on positive market sentiment following the cut in the US Fed Funds rate. The plantations, construction and property sector were the main drivers of the strong performance of the KLCI. Market capitalisation rose to RM1,031.3 billion (end-August: RM985 billion), while the daily average turnover decreased to 959.3 million units (August: 1,232.5).

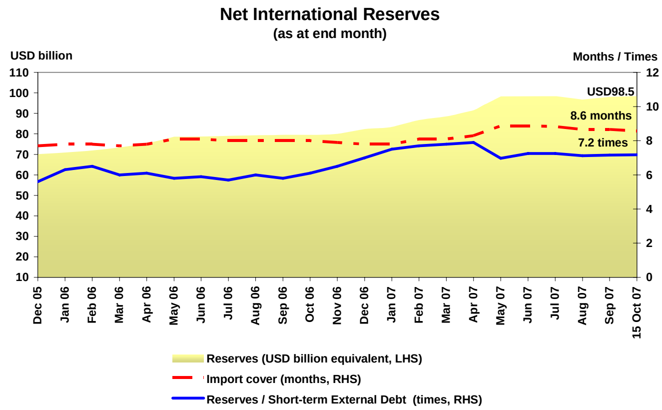


Regional equity markets rebounded

As at 30 October 2007, the KLCI closed higher at 1412.8 points (since end-September: +5.7%). Overall market capitalisation was higher at RM1,090.2 billion (since end-September: +5.7%) and trading activity increased with a daily average turnover of 1,649.3 million units.

International reserves

The international reserves of Bank Negara Malaysia amounted to RM335.4 billion (equivalent to USD98.2 billion) as at 28 September 2007. The reserves level as at 28 September 2007 has taken into account the quarterly revaluation gain, following the strengthening of the major currencies against ringgit during the third quarter. As at 12 October 2007, the international reserves of Bank Negara Malaysia amounted to RM336.5 billion (equivalent to USD98.5 billion). The reserves position is sufficient to finance 8.6 months of retained imports and is 7.2 times the short-term external debt.



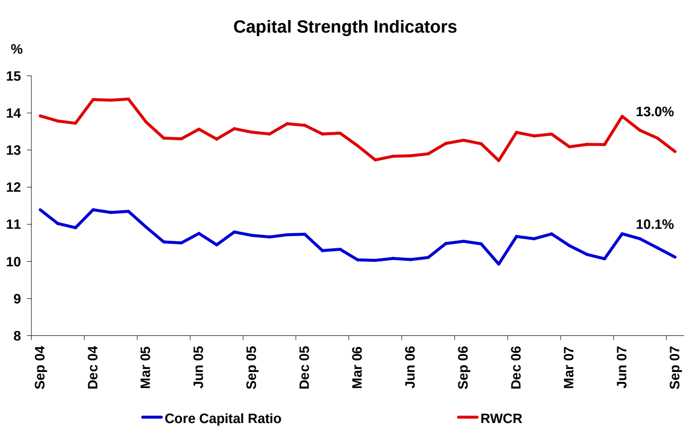
Strong capitalisation with further improvements in non-performing loans

The banking system's capitalisation remained at strong levels. Both the risk-weighted capital ratio (RWCR) and core capital ratio stabilised at 13% and 10.1% respectively as at end-September 2007 despite distribution of profits by banking institutions. Meanwhile, asset quality improved with the non-performing loans (NPLs) ratio easing further to 3.5% of net loans. This positive development was driven mainly by the reclassification of NPLs to performing status and continuing loan write-offs by banking institutions.

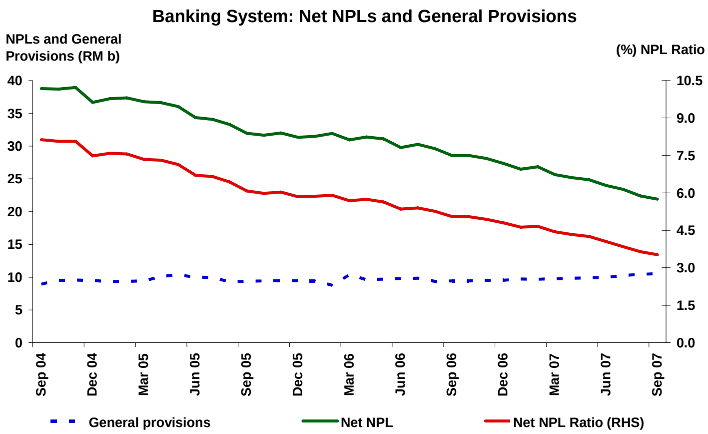
Banking System Health Indicators *

	2000	2001	2002	2003	2004	2005	2006	Jul 07	Aug 07	Sep 07
Capital (%)										
Core capital ratio	10.7	11.1	11.1	11.1	11.4	10.7	10.7	10.6	10.4	10.1
RWCR	12.5	13.0	13.2	13.8	14.4	13.7	13.5	13.5	13.3	13.0
Net NPLs (3-month classification)										
% of net total loans	9.7	11.5	10.2	8.9	7.5	5.8	4.8	3.8	3.6	3.5
Amount (RM million)	37,678	46,254	43,110	40,013	36,668	31,332	27,360	23,412	22,389	21,900
GP / Net total loans (3-month, %)	2.2	2.1	2.1	2.0	1.9	1.8	1.7	1.7	1.7	1.7

* Beginning June 1999, the figures include Islamic banks.
* Beginning April 2005, RWCR and CCR include market risk factor.



Banking system capitalisation level remained healthy



* based on 3-month classification policy

The level of NPLs declined further

Bank Negara Malaysia
31 October 2007

Key Monetary and Financial Statistics

		Jul 07		Aug 07		Sep 07	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		59.3	10.4	61.8	13.2	62.9	14.5
M1		152.3	18.5	154.3	17.8	156.3	18.5
M2		758.7	13.3	760.6	11.7	764.5	12.2
M3		799.9	13.4	801.6	11.8	804.2	12.3
Banking System							
Total deposits		834.2	14.2	829.1	12.2	834.0	12.0
Total loans (including loans sold to Cagamas)		631.7	8.2	637.1	8.6	645.0	9.5
Loan-deposit ratio (%)		73.4		74.6		75.2	
Financing-deposit ratio [1] (%)		81.8		83.0		83.5	
Loans applied (during the period)		39.0	55.5	41.7	52.5	42.5	58.3
Loans approved (during the period)		25.5	77.4	25.2	54.5	23.7	45.2
Loans disbursed (during the period)		60.6	38.6	48.2	15.2	50.5	18.0
Loans repaid (during the period)		41.1	6.0	42.2	6.1	40.3	2.8
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.5		13.3		13.0	
Net NPLs: 3-month classification (%)		3.8		3.6		3.5	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		340.0		334.1		335.4	
Net Reserves in USD billion (equivalent)		98.5		96.8		98.2	
Months of retained imports		8.8		8.7		8.7	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.50		3.50		3.50	
Interbank:	Overnight	3.49 [3.50]		3.49 [3.49]		3.50 [3.50]	
	1-week	3.52 [3.52]		3.51 [3.52]		3.53 [3.52]	
	1-month	3.57 [3.55]		3.55 [3.54]		3.54 [3.54]	
Fixed deposits of commercial banks:	1-month	3.08		3.08		3.08	
	3-month	3.15		3.15		3.15	
BLR of commercial banks		6.72		6.72		6.72	
ALR of commercial banks		6.34		6.35		6.30	
Prices							
Consumer Price Index (CPI) (2005=100)		105.7	1.6	105.9	1.9	106.0	1.8
Producer Price Index (PPI) (2000=100)		132.2	2.6	132.5	2.4	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.4540		3.5035		3.4170	
Euro		4.7380		4.7860		4.8410	
Pound Sterling		7.0197		7.0601		6.9167	
100 Japanese yen		2.9044		3.0259		2.9649	
Singapore dollar		2.2851		2.3007		2.2916	
100 Thai Baht		10.2114		10.2054		9.9723	
100 Philippine Peso		7.6180		7.5062		7.5992	
100 Indonesian Rupiah		0.0376		0.0372		0.0373	
100 Korean Won		0.3756		0.3728		0.3726	
Capital Market							
Net funds raised (in RMb) by:	public	3.6		3.6		6.2	
	private	-3.9		1.7		0.7	
Bursa Malaysia Composite Index (end-period)		1,373.7		1,273.9		1,336.3	
Bursa Malaysia Market Capitalisation (RMb, end-period)		1,077.3		985.0		1,031.3	

[1] Refers to the ratio of loans and holdings of PDS by the banking system to deposits of the banking system.