



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 10/08/10

**EMBARGO: Not for publication
or broadcast before 1930 hours
on Friday, 31 October 2008**

Monetary and Financial Developments September 2008
Highlights of the Press Release

- While the Malaysian financial markets have been affected by the increased uncertainty and volatility in the international financial markets, the domestic financial markets have continued to function while ample liquidity remains in the domestic financial system.
- The banking institutions are operating with strong capital and liquidity buffers, and have continued to provide financing to the economy. The risk-weighted capital ratio (RWCR) was 13.0% as at end-September, and net financing to the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 13.6%.
- Headline inflation moderated to 8.2% in September, reflecting the reduction in fuel prices by the Government.



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 10/08/10

**EMBARGO: Not for publication
or broadcast before 1930 hours
on Friday, 31 October 2008**

MONETARY AND FINANCIAL DEVELOPMENTS

September 2008

In September, gross financing raised by the private sector was higher at RM60.8 billion, mainly supported by the issuances of private debt securities (PDS) for new activity and refinancing purposes. On a net basis, financing to the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 13.6%.

Interbank rates for all maturities were stable. Fixed deposit rates remained unchanged while the average lending rate of commercial banks was lower at 5.96%.

During the period 1 September to 30 October 2008, the ringgit depreciated by 4.6% against the US dollar. The US dollar strengthened due to the deleveraging process taking place in the international financial markets that resulted in the flow of US dollars back to the US. Like most other currencies, the ringgit weakened due mainly to portfolio outflows. Against other major currencies, the ringgit appreciated against the euro (6.3%) and the pound sterling (5.3%), but depreciated against the Japanese yen (-13.8%). Against regional currencies, the ringgit depreciated against the Chinese renminbi (-4.5%) and the Thai baht (-3.0%), but appreciated against all other regional currencies in the range of 1.2% to 11.0%.

Headline inflation moderated to 8.2% in September (Aug: 8.5%), reflecting the reduction in fuel prices by the Government.

Broad money, or M3, expanded by 13.5% on an annual basis in September, reflecting expansionary Government operations and increased lending by banking institutions.

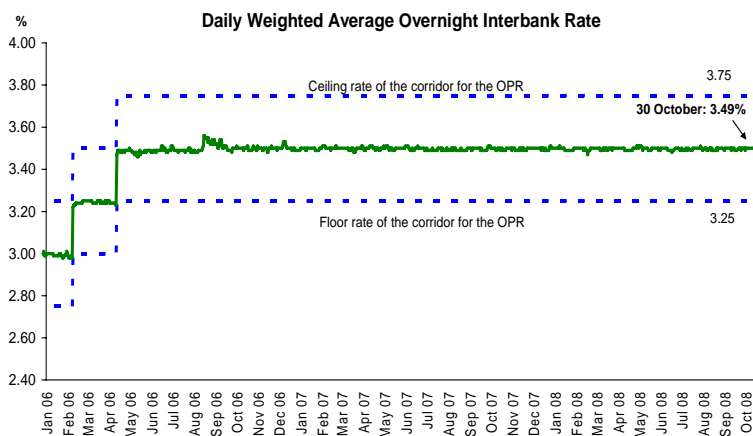
The net non-performing loans (NPLs) ratio of the banking system declined further to 2.4% as at end-September. The capitalisation of the banking system remained strong with a risk-weighted capital ratio (RWCR) of 13.0%.

Interest rates remained stable

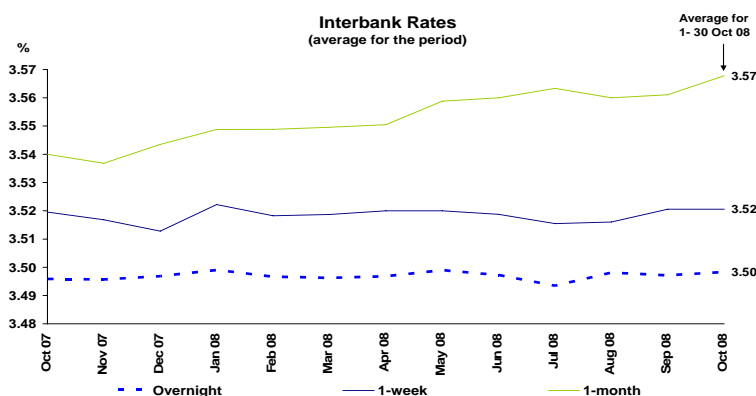
During the period 1 September – 30 October, the daily weighted average overnight interbank rate moved within a narrow range of 3.49% - 3.51%. Interbank rates of other maturities were relatively stable.

The average fixed deposit (FD) rates of commercial banks (CBs) remained unchanged in September and October. As at 15 October, the average quoted FD rates for tenures between 1 and 12 months remained within the range of 3.08% and 3.70%.

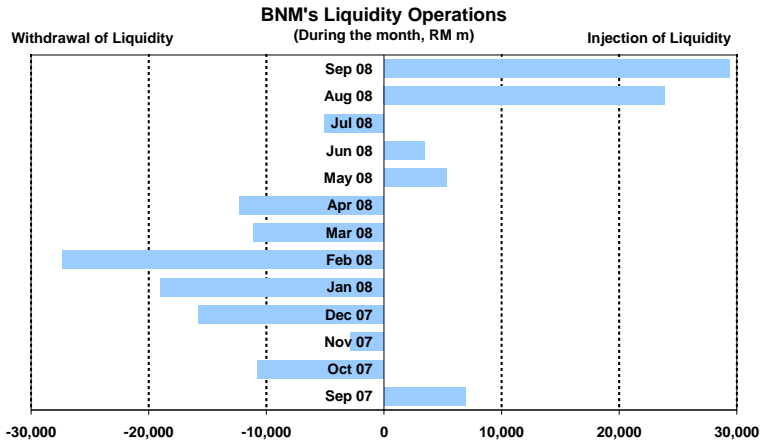
In terms of the CBs' lending rates, the average base lending rate (BLR) was unchanged at 6.72%, while the average lending rate (ALR) trended further downwards to 5.96% in September (5.98% in August).



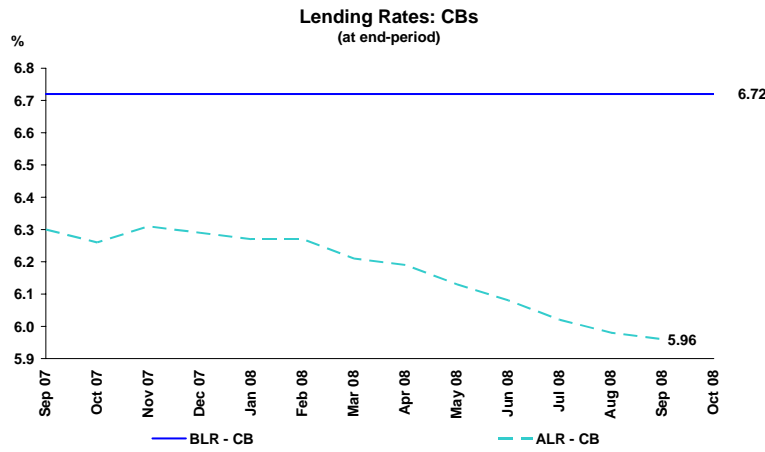
The average overnight interbank rate moved within a narrow range



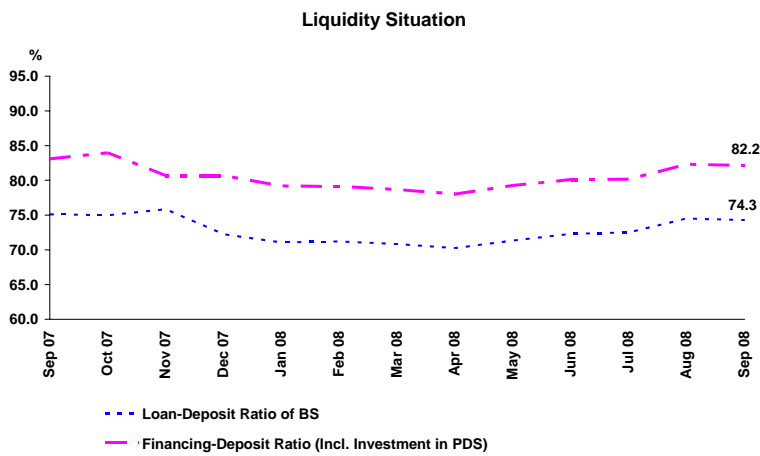
Other interbank rates remained relatively stable



BNM injected liquidity into the interbank market in September

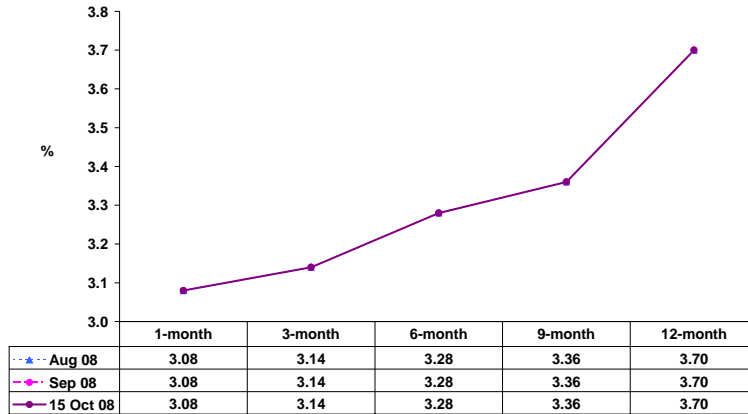


CBs' ALR trended downwards

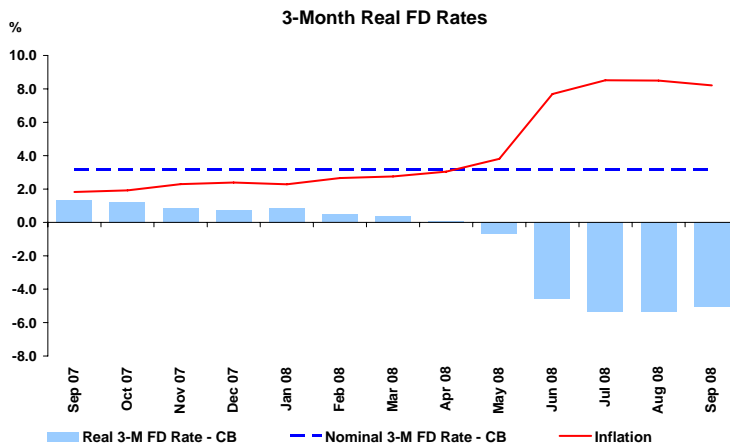


The financing-deposit and loan-deposit ratios decreased in September as deposits grew at a faster pace

Term Structure of FD Rates
Commercial Banks



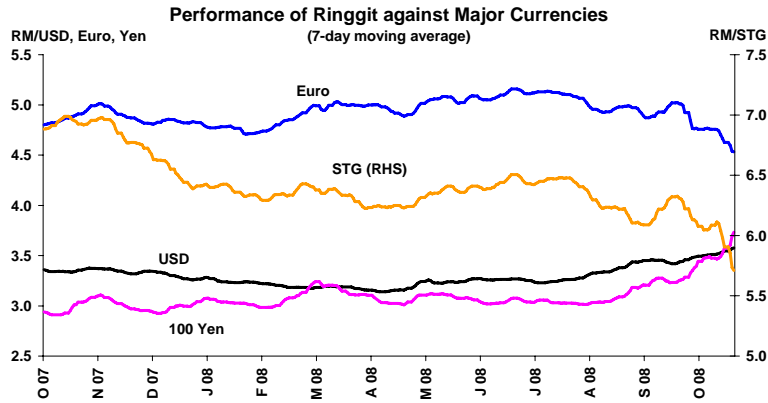
Average FD rates were unchanged



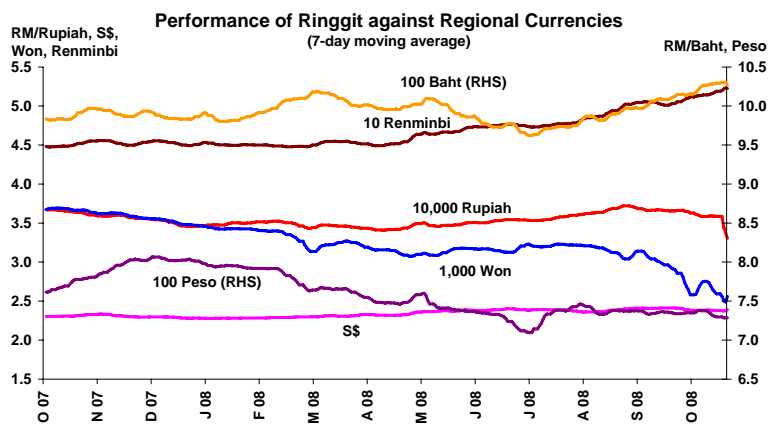
Negative real FD rates narrowed following lower inflation

The ringgit depreciated against the US dollar

During the period 1 September to 30 October 2008, the ringgit depreciated by 4.6% against the US dollar. The US dollar strengthened due to the deleveraging process taking place in the international financial markets that resulted in the flow of US dollars back to the US. Like most other currencies, the ringgit weakened due mainly to portfolio outflows. Against other major currencies, the ringgit appreciated against the euro (6.3%) and the pound sterling (5.3%), but depreciated against the Japanese yen (-13.8%). Against regional currencies, the ringgit depreciated against the Chinese renminbi (-4.5%) and the Thai baht (-3.0%), but appreciated against all other regional currencies in the range of 1.2% to 11.0%.



The ringgit depreciated against the US dollar and Japanese yen, but appreciated against the euro and pound sterling...



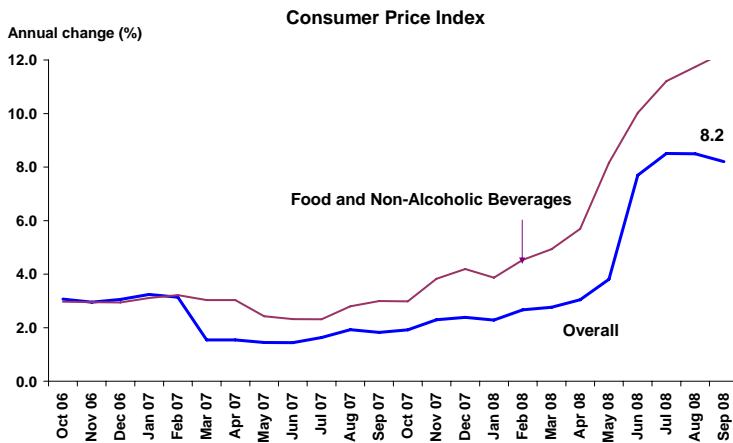
..and recorded a mixed performance against regional currencies

Performance of Ringgit against Selected Currencies

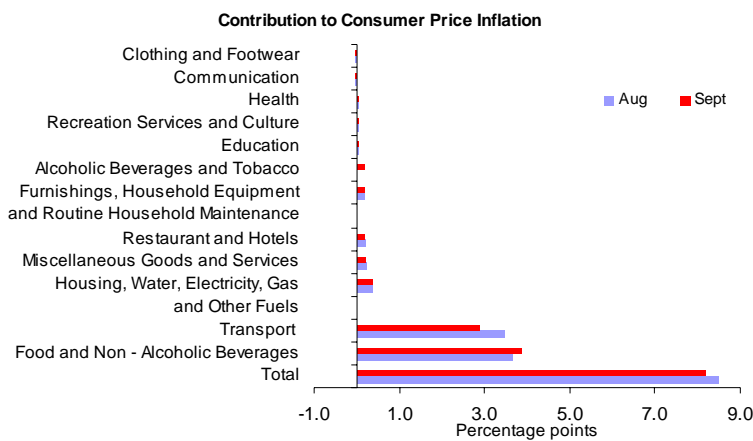
RM per foreign currency	End-period				% Change	
	Dec 07	Aug 08	Sep 08	30 Oct 08	End Dec 07 - 30 Oct 08	End Aug 08 - 30 Oct 08
US dollar	3.3065	3.3895	3.4575	3.5525	-6.9	-4.6
Euro	4.8756	4.9971	4.9636	4.7007	3.7	6.3
Pound sterling	6.6070	6.2079	6.2254	5.8929	12.1	5.3
100 Japanese yen	2.9534	3.1065	3.3154	3.6055	-18.1	-13.8
Singapore dollar	2.2938	2.3937	2.4153	2.4248	-5.4	-1.3
100 Thai baht	9.8159	9.9152	10.154	10.217	-3.9	-3.0
100 Philippine peso	8.0158	7.3837	7.3159	7.2939	9.9	1.2
100 Indonesian rupiah	0.0352	0.0370	0.0367	0.0334	5.6	11.0
100 Korean won	0.3532	0.3116	0.2846	0.2807	25.8	11.0
Chinese renminbi	0.4527	0.4958	0.5051	0.5193	-12.8	-4.5

Headline inflation moderated

Headline inflation moderated to 8.2% in September (Aug: 8.5%), reflecting the reduction in fuel prices by the Government. Prices in the *transport* category rose at a slower rate of 18.1% in September (Aug: 21.8%). Inflation in the *food and non-alcoholic beverages* category continued its upward trend, rising to 12.3% (Aug: 11.7%) due to increased demand during the festive season. Following the imposition of additional excise duties of 20% on cigarettes, inflation in the *alcoholic beverages and tobacco* category rose to 8.4% (Aug 08: 0.4%).



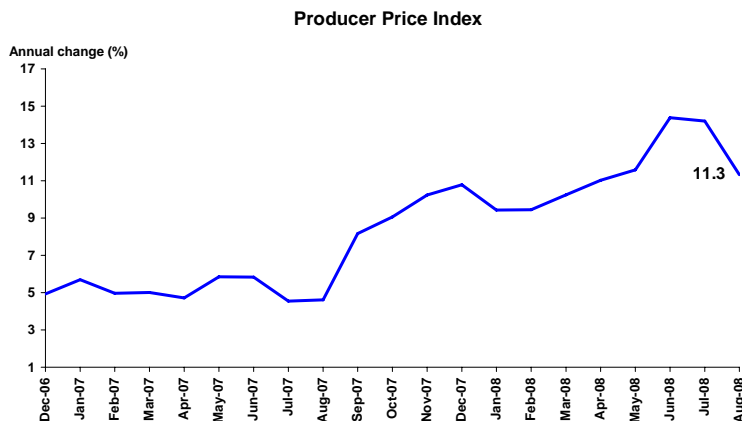
Inflation moderated to 8.2% in September



Overall moderation in producer price inflation in August

Producer price index (PPI) inflation moderated to 11.3% in August (July: 14.2%). The commodity-based component of the PPI continued to decelerate to 34.0% (July: 40.7%) in line with the recent downward trend in global commodity prices. Inflation in the non-commodity-based component of the PPI also eased to 2.6% (July: 3.8%) following slower price increases in the *beverages and tobacco; machinery and transport equipment* and *commodities and transactions not classified elsewhere* categories.

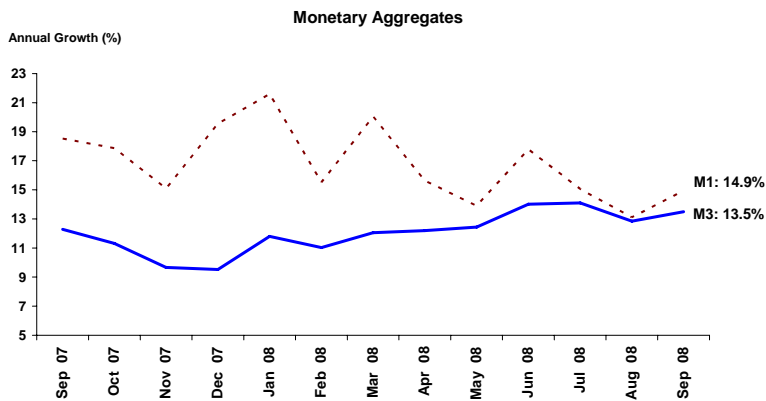
In terms of composition, the inflation rate in the local component of the PPI moderated to 15.0% in August (July: 18.4%). Prices in the imported component of the PPI also increased at a slower pace of 4.0% (July: 5.9%).



Monetary aggregates expanded in September

In September, broad money, or M3, increased by RM8.2 billion to grow by 13.5% on an annual basis. The growth in M3 reflected expansionary Government operations and increased lending by banking institutions. Other influences also expanded following transactions between banking institutions and non-residents, which to some extent offset the contraction in net foreign assets.

M1 increased by RM5.1 billion during the month due to the increase in demand for currency during the Hari Raya Aidilfitri festive season.



M3 Determinants

(RM billion)

	Change during period			
	Jun 08	Jul 08	Aug 08	Sep 08
M3	0.5	13.6	-8.1	8.2
Net claims on Government	3.2	7.9	-4.7	10.8
Claims on the private sector	9.8	7.8	16.2	8.8
Loans	9.8	7.7	12.9	5.1
Securities	0.0	0.1	3.2	3.7
Net foreign assets*	-7.9	-7.9	-22.3	-27.8
Other influences	-4.7	5.7	2.7	16.4

* 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.

Banking system deposits rose in September

Total deposits with the banking system increased by RM9.1 billion or 13.0% on an annual basis in September (August: RM -7.1 billion; 12.5%), mainly reflecting bonus payments to civil servants. By customer, the increase in deposit placements by financial institutions and individuals was partly offset by the decline in deposits placed by the business and public sectors. By type, the increase in deposits was mainly in the form of NIDs and fixed deposits.

Deposits by Holder (RM million)

	Change during period			
	Jun 08	Jul 08	Aug 08	Sep 08
Federal Government	-1,171	-1,801	2,435	-1,533
State Governments	-141	-43	799	-837
Statutory Authorities ¹	197	-825	-1,171	-305
Financial Institutions	-3,502	1,462	-1,441	10,998
Business Enterprises	-1,088	9,632	-9,527	-5,528
Individuals	3,802	2,793	1,507	4,701
Others ²	4,854	-1,308	245	1,622
Total	2,952	9,909	-7,152	9,118

1/ Include local Governments

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

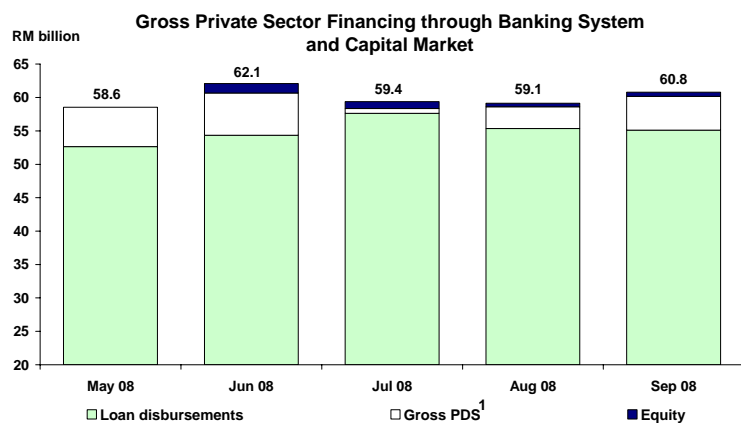
Deposits by Type (RM million)

	Change during period			
	Jun 08	Jul 08	Aug 08	Sep 08
Fixed deposits	1,065	-504	691	2,390
NIDs	4,076	-1,747	-1,836	5,252
Demand deposits	5,019	-866	-778	260
Savings deposits	722	446	69	820
Repos	245	-142	-1,259	779
FX deposits	2,456	466	1,889	1,080
SPI deposits	4,077	-1,171	3,630	-1,540
Others ¹	-14,709	13,427	-9,559	78
Total	2,952	9,909	-7,152	9,118

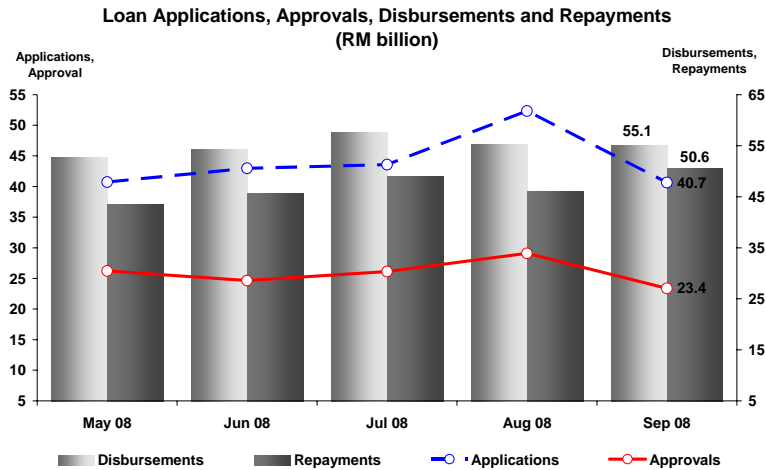
1/ Other deposits comprised mainly of short-term money market deposits

Gross private sector financing remained stable in September

Gross financing raised by the private sector from the banking system and capital market was higher at RM60.8 billion in September (August: RM59.1 billion), mainly supported by issuances of private debt securities (PDS) for new activity and refinancing purposes. On a net basis, financing to the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 13.6% (August: 13.8%).



Gross private sector financing remain stable in September



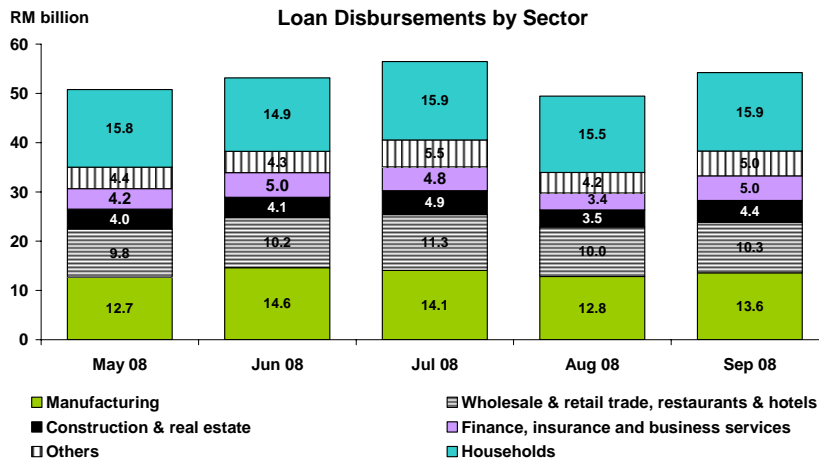
Loan applications and approvals were lower during the month ...

	Bank lending indicators			
	RM billion		Annual Growth (%)	
	Aug-08	Sep-08	Aug-08	Sep-08
Overall				
Loan applications	52.3	40.7	25.5	-4.4
Loan approvals	29.1	23.4	15.4	-1.2
Loan disbursements	55.4	55.1	14.9	9.1
Chg in Loans Outstanding ^{1/}	13.0	5.3	11.0	10.6
Businesses				
Loan applications	33.1	20.8	48.4	-15.7
Loan approvals	16.9	11.4	25.9	-14.3
Loan disbursements	39.9	39.2	21.0	8.7
Chg in Loans Outstanding ^{1/}	8.6	1.0	11.4	9.5
SMEs^{2/}				
Loan applications	9.7	10.0	-1.5	2.5
Loan approvals	4.2	3.7	-20.4	-30.4
Loan disbursements	14.4	14.2	16.6	18.1
Chg in Loans Outstanding ^{1/}	2.7	-0.7	13.2	11.2
Households				
Loan applications	19.2	19.9	-0.8	11.2
Loan approvals	12.2	12.0	3.5	15.6
Loan disbursements	15.5	15.9	1.7	10.1
Chg in Loans Outstanding ^{1/}	3.1	3.6	8.7	9.1

... due to the business sector

^{1/} The annual growth in outstanding amount as at end-period.

^{2/} Include loans to individual businesses.

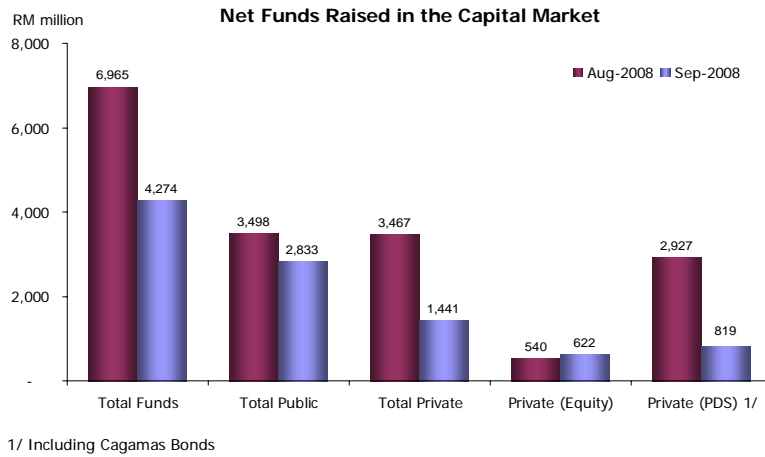


Loan disbursements remained broad-based

In September, demand for financing from the household sector was higher, as reflected by the higher growth in loan applications and approvals, particularly for the purchase of residential properties. With the higher loan disbursements, loans outstanding of the household sector rose by an annual rate of 9.1% as at end-September (end-August: 8.7%). Financing to the business sector was lower with loan applications and approvals declining on both monthly and annual basis. However, loans outstanding of the business sector expanded at an annual rate of 9.5% (end-August: 11.4%).

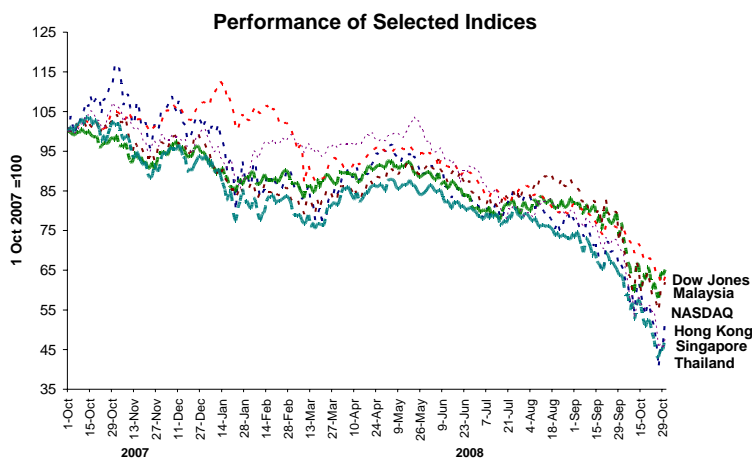
Lower net funds raised in the capital market

In September, net funds raised in the capital market amounted to RM4.3 billion. Gross funds raised in the private debt securities (PDS) market amounted to RM5.3 billion, mainly by companies in the finance, insurance, real estate and business sector. After adjusting for redemptions, net funds raised by the private sector amounted to RM1.4 billion. In the public sector, net funds raised totalled RM2.8 billion. Funds were raised through the issuance of 20-year Malaysian Government Securities (MGS) and the reopening of the 3-year MGS.



KLCI declined in September

In September, the KLCI ended lower to close at 1,018.7 (since end-Aug: -7.4%) in line with other regional markets. Concerns over the deepening financial turmoil in the US and European markets, lower crude palm oil prices and weak market sentiments contributed to the weaker performance of the local market. Market capitalisation decreased to RM770.5 billion (since end-Aug: -7.5%), while the daily average turnover declined to 408.9 million units (Aug: 425.0 million units).

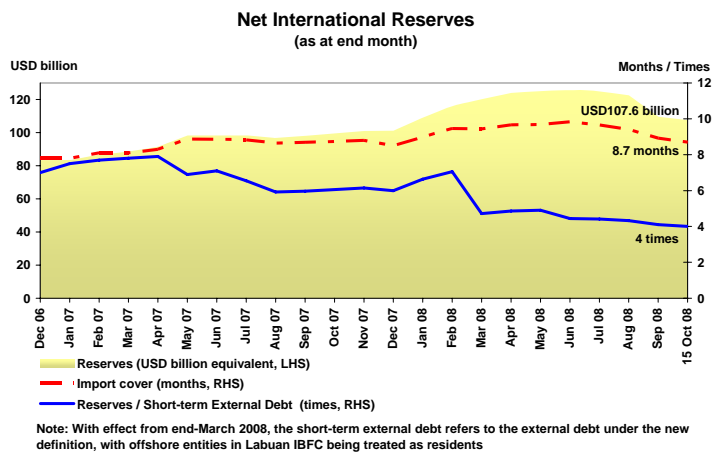


KLCI continued to decline

As at 30 October, the KLCI ended lower at 853.6 points (since end-Sep: -16.2%). Overall market capitalisation was lower at RM647.5 billion (since end-Sep: -16.0%) and the daily average turnover increased to 679.2 million units.

International reserves

The international reserves of Bank Negara Malaysia amounted to RM379.3 billion (equivalent to USD109.7 billion) as at 30 September. The reserves level as at 30 September has taken into account the quarterly adjustment of the foreign exchange revaluation gain, following the strengthening of the major currencies against ringgit during the quarter. As at 15 October, the international reserves amounted to RM371.8 billion (equivalent to USD107.6 billion). The reserves position is sufficient to finance 8.7 months of retained imports and is 4 times the short-term external debt.



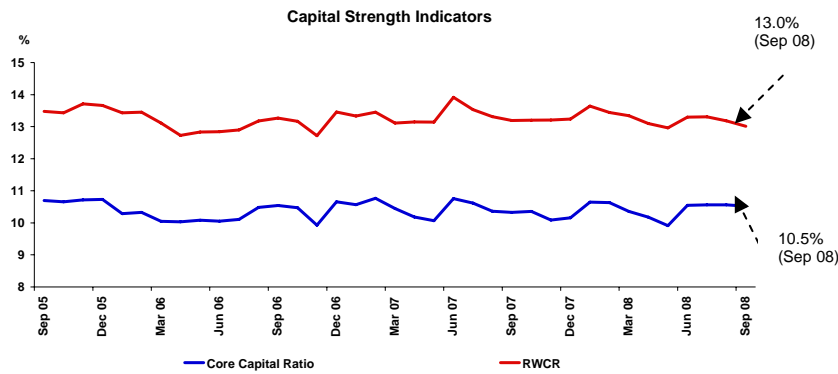
Further improvements in the level of non-performing loans, whilst capitalisation level sustained

Non-performing loans improved further during the month. The net non-performing loans (NPLs) ratio of the banking system declined to 2.4% as at end-September on account of continued recoveries and write offs. The banking system capitalisation remained at a strong level with a risk-weighted capital ratio (RWCR) and core capital ratio of 13.0% and 10.5% respectively. The marginal decline in capital base of 0.8% was due mainly to a large investment in subsidiaries by a banking institution.

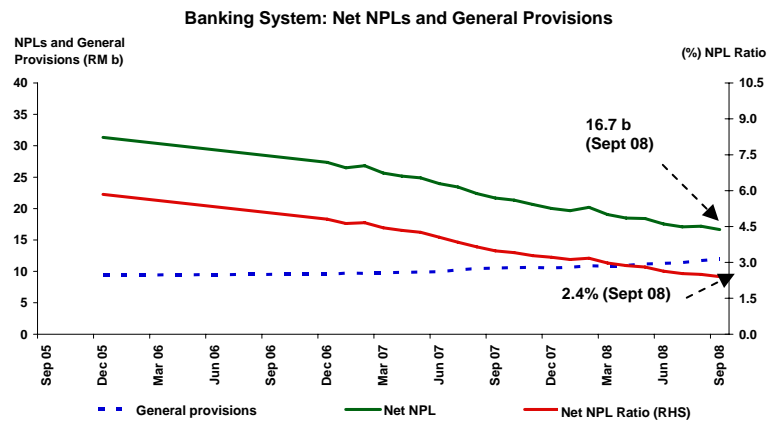
Banking System Health Indicators

	2001	2002	2003	2004	2005	2006	2007	Jul 08	Aug 08	Sep 08
Capital (%)**										
Core capital ratio	11.1	11.1	11.1	11.4	10.7	10.7	10.2	10.6	10.6	10.5
RWCR	13.0	13.2	13.8	14.4	13.7	13.5	13.2	13.3	13.2	13.0
Net NPLs (3-month classification)										
% of net total loans	11.5	10.2	8.9	7.5	5.8	4.8	3.2	2.5	2.5	2.4
Amount (RM million)	46,254	43,110	40,013	36,668	31,332	27,360	20,011	17,090	17,187	16,660
GP / Net total loans (3-month, %)										
	2.1	2.1	2.0	1.9	1.8	1.7	1.7	1.7	1.7	1.7

* Figures include Islamic banks.
 ** Beginning March 2008, RWCR and CCR are computed based on Basel II for banking institutions that have adopted the standardised approach



Banking system capitalisation level remained strong...



...whilst the NPL level remained low

Key Monetary and Financial Statistics

	Jul 08		Aug 08		Sep 08	
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates						
Reserve money	66.6	12.3	69.3	12.1	73.6	16.9
M1	175.2	15.1	174.5	13.1	179.7	14.9
M2	881.1	16.1	872.5	14.7	883.5	15.6
M3	912.7	14.1	904.6	12.8	912.8	13.5
Banking System						
Total deposits	940.2	12.7	933.1	12.5	942.2	13.0
Total loans (including loans sold to Cagamas)	694.5	9.9	707.5	11.0	712.7	10.6
Loan-deposit ratio (%)		72.5		74.5		74.3
Financing-deposit ratio ¹ (%)		80.2		82.3		82.2
Loans applied (during the period)	43.6	11.9	52.3	25.5	40.7	-4.4
Loans approved (during the period)	26.1	2.3	29.1	15.4	23.4	-1.2
Loans disbursed (during the period)	57.6	-4.9	55.4	14.9	55.1	9.1
Loans repaid (during the period)	49.0	19.2	46.1	9.3	50.6	24.5
Banking System Health						
Risk-weighted Capital Ratio (RWCR) (%)		13.3		13.2		13.0
Net NPLs: 3-month classification (%)		2.5		2.5		2.4
Interest Rates at end-period [average for the month]						
Overnight Policy Rate (OPR)		3.50		3.50		3.50
Interbank:	Overnight	3.49 [3.49]		3.49 [3.49]		3.49 [3.50]
	1-week	3.51 [3.52]		3.52 [3.52]		3.52 [3.52]
	1-month	3.56 [3.56]		3.56 [3.56]		3.57 [3.56]
Fixed deposits of commercial banks:	1-month	3.08		3.08		3.08
	3-month	3.14		3.14		3.14
BLR of commercial banks		6.72		6.72		6.72
ALR of commercial banks		6.02		5.98		5.96
Prices						
Consumer Price Index (CPI) (2005=100)		114.7	8.5	114.9	8.5	114.7
Producer Price Index (PPI) (2000=100)		149.6	14.2	146.4	11.3	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)						
US dollar		3.2630		3.3895		3.4575
Euro		5.0859		4.9971		4.9636
Pound Sterling		6.4642		6.2079		6.2254
100 Japanese yen		3.0219		3.1065		3.3154
Singapore dollar		2.3853		2.3937		2.4153
100 Thai Baht		9.7301		9.9152		10.154
100 Philippine Peso		7.3782		7.3837		7.3159
100 Indonesian Rupiah		0.0358		0.0370		0.0367
100 Korean Won		0.3225		0.3116		0.2846
Capital Market						
Net funds raised (in RMb) by:	public	-5.7		3.5		2.8
	private	1.0		3.5		1.4
Bursa Malaysia Composite Index (end-period)		1,163.1		1,100.5		1,018.7
Bursa Malaysia Market Capitalisation (RMb, end-period)		876.1		833.5		770.5

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