



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 02/08/07

**EMBARGO: Not for publication or
broadcast before 1800 hours on
Wednesday, 27 February 2008**

PRESS RELEASE

Monetary and Financial Developments January 2008 **Highlights of the Press Release**

- Net financing of the private sector through banking system loans and PDS outstanding increased at a faster pace in January.
- Headline inflation moderated slightly to 2.3% in January.
- The ringgit appreciated against most currencies.
- The net non-performing loans (NPLs) ratio improved further to 3.1%.



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MONETARY AND FINANCIAL DEVELOPMENTS

January 2008

In January, gross financing to the private sector remained high at RM57.3 billion, reflecting higher loan disbursements during the month. On a net basis, financing of the private sector through banking system loans and PDS outstanding increased at a higher combined annual rate of 8.8%. Total loans outstanding expanded by 9.3% on an annual basis as at end-January. Loan applications, approvals and disbursements in both the business and household sectors continued to register strong annual growth rates.

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

During the period of 1 January – 26 February 2008, the ringgit strengthened by 2.9% against the US dollar. The ringgit exchange rate was affected by volatile portfolio flows arising from the uncertainties prevailing in the major financial markets. Although the downturn in global equity markets caused the ringgit to weaken in mid-January, improved investor confidence led to renewed inflows. The ringgit appreciated against the euro (2.3%) and British pound (4.6%), but depreciated against the Japanese yen (-0.8%). On the regional front, the ringgit strengthened against most currencies in the range of 0.3% to 4.1%, except against the Thai baht and Indonesian rupiah.

Headline inflation moderated slightly to 2.3% in January 2008 (December: 2.4%) as the rate of increase in prices of items in the *food and non-alcoholic beverages* category moderated to 3.9% (December: 4.2%) following a decline in vegetable prices and slower price increases for fish and seafood, oils and fats and fruits.

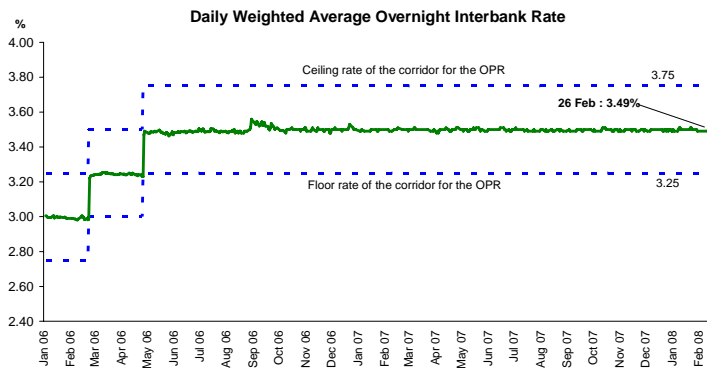
Broad money, or M3, increased at an annual rate of 11.6%, which largely reflected net trade and portfolio inflows, and to a lesser extent, Government spending and higher bank lending to the private sector.

The banking system remained well capitalised, with a risk-weighted capital ratio (RWCR) of 13.2% as at end-January 2008. The net non-performing loans (NPLs) ratio improved further to 3.1% underpinned by sustained recoveries and loan write-offs.

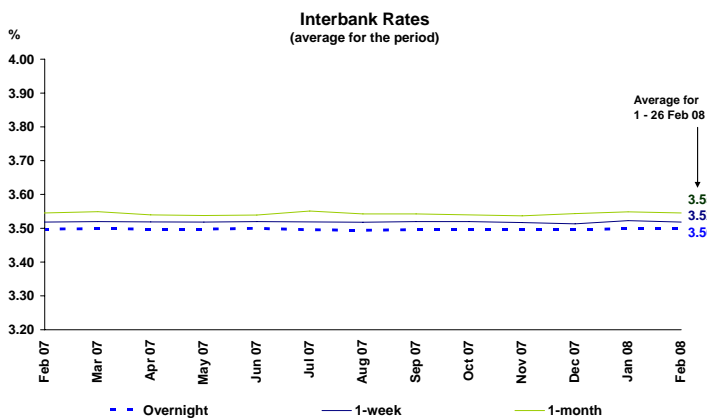
Interest rates remained stable

During the period 1 January – 26 February, 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.

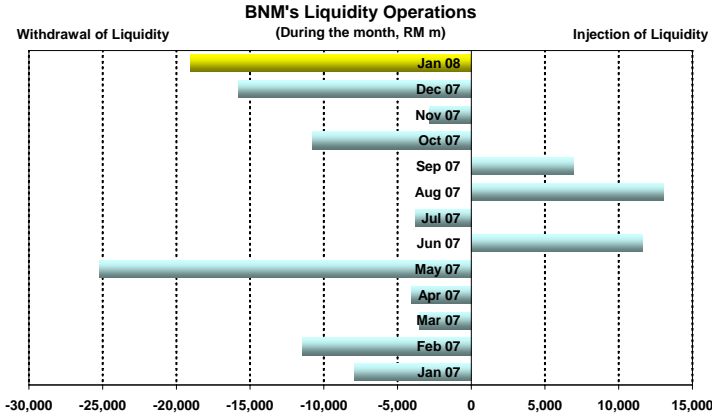
The average fixed deposit (FD) rates of commercial banks (CBs) remained unchanged in January and February. As at 15 February 2008, the average quoted FD rates for tenures between 1 and 12 months were within the range of 3.08% and 3.70%. In terms of CBs' lending rates, the average base lending rate (BLR) was unchanged at 6.72%, while the average lending rate (ALR) was marginally lower at 6.27% in January (6.29% in December).



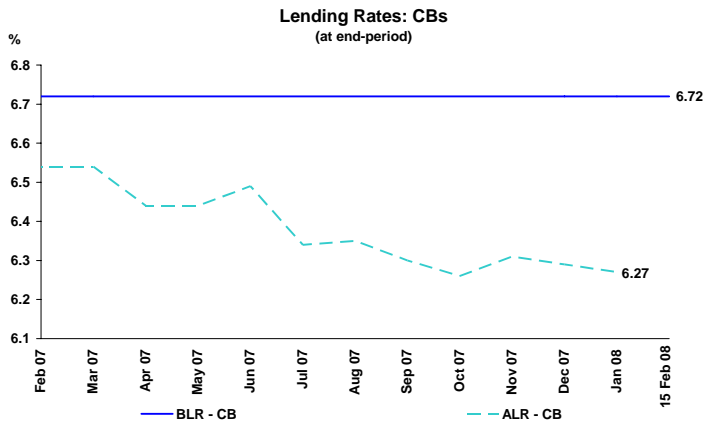
The average overnight interbank rate moved within a narrow range



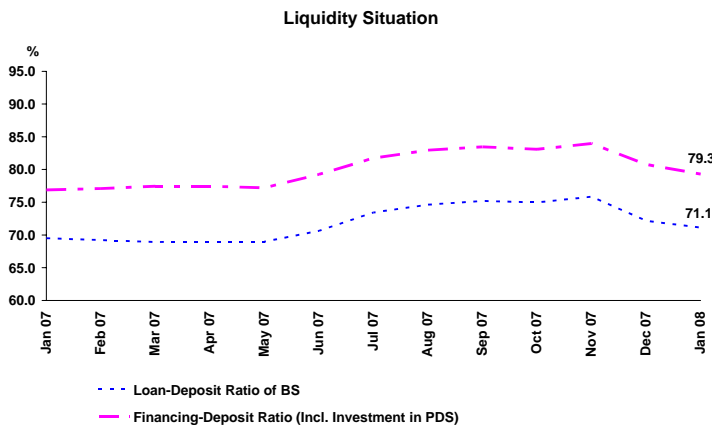
Other interbank rates remained largely unchanged



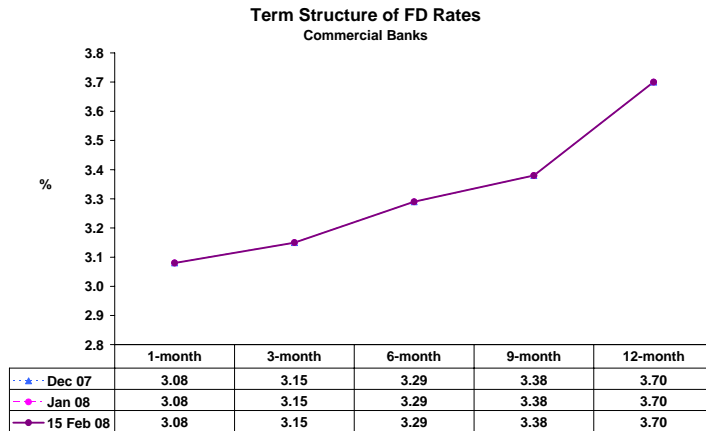
The Central Bank withdrew liquidity from the system in January



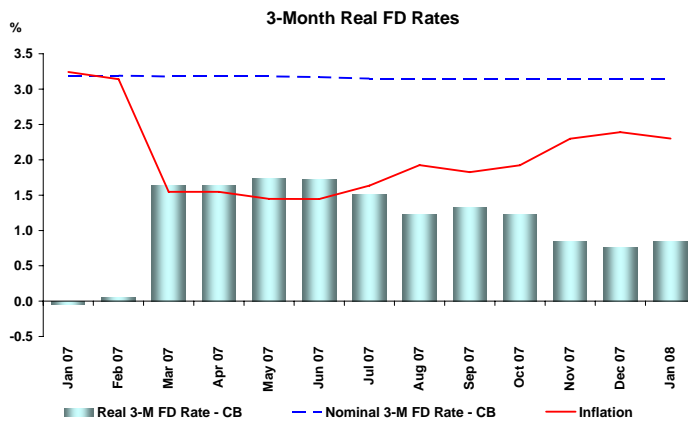
CBs' ALR decreased slightly



The financing-deposit and loan-deposit ratios moderated in January as the growth in deposits outpaced the increase in loans



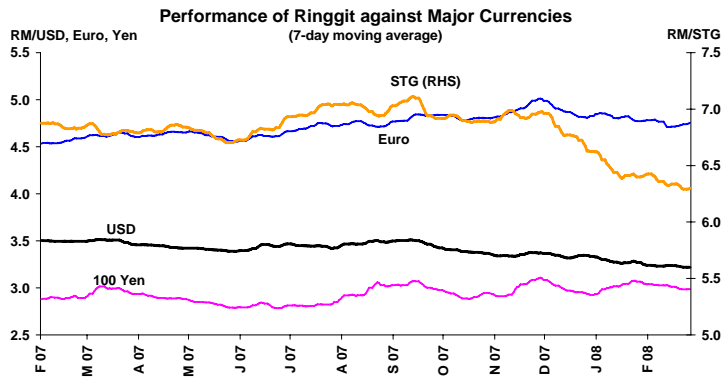
Average FD rates were unchanged



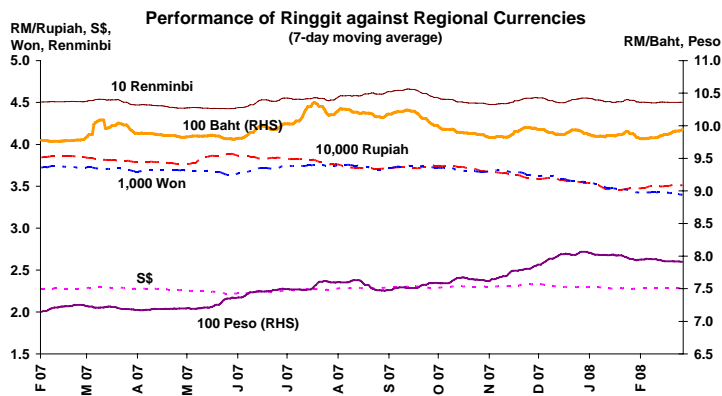
The real 3-month FD rate was higher

Ringgit appreciated against most currencies

During the period of 1 January – 26 February 2008, the ringgit strengthened by 2.9% against the US dollar. The ringgit exchange rate was affected by volatile portfolio flows arising from the uncertainties prevailing in the major financial markets. Although the downturn in global equity markets caused the ringgit to weaken in mid-January, improved investor confidence led to renewed inflows. The ringgit appreciated against the euro (2.3%) and British pound (4.6%), but depreciated against the Japanese yen (-0.8%). On the regional front, the ringgit strengthened against most currencies in the range of 0.3% to 4.1%, except against the Thai baht and Indonesian rupiah.



The ringgit appreciated against most major currencies...



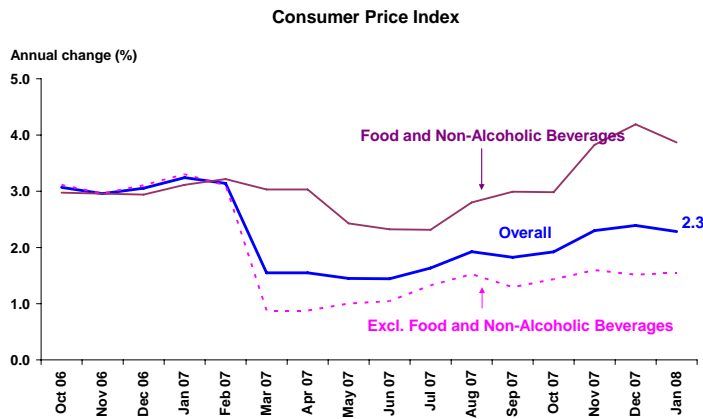
...and against most regional currencies

Performance of Ringgit against Selected Currencies

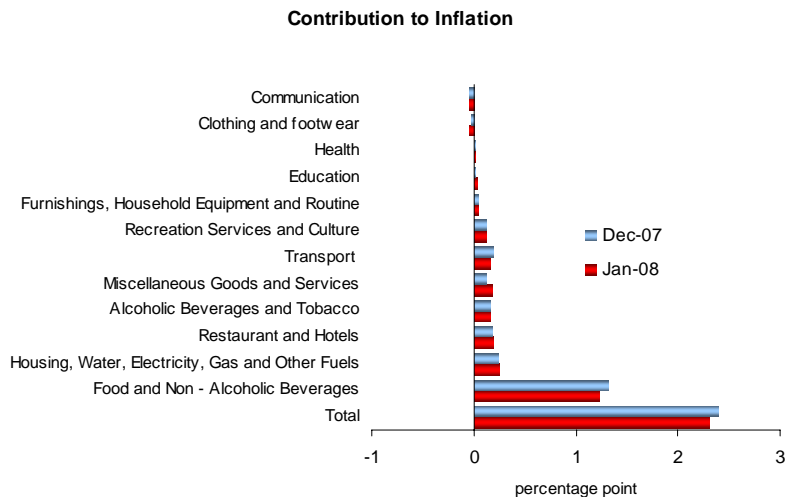
RM per foreign currency	End-period				% Change	
	Dec 06	Dec 07	Jan 08	26 Feb 08	End Dec 06 - 26 Feb 08	End Dec 07 - 26 Feb 08
US dollar	3.5315	3.3065	3.2360	3.2135	9.9	2.9
Euro	4.6460	4.8756	4.8030	4.7647	-2.5	2.3
Pound sterling	6.9315	6.6070	6.4210	6.3177	9.7	4.6
100 Japanese yen	2.9675	2.9534	3.0411	2.9785	-0.4	-0.8
Singapore dollar	2.3028	2.2938	2.2814	2.2869	0.7	0.3
100 Thai baht	9.8111	9.8159	9.7972	9.9643	-1.5	-1.5
100 Philippine peso	7.2027	8.0158	7.9655	7.9307	-9.2	1.1
100 Indonesian rupiah	0.0393	0.0352	0.0348	0.0354	11.1	-0.4
100 Korean won	0.3797	0.3532	0.3421	0.3393	11.9	4.1
Chinese renminbi	0.4523	0.4527	0.4505	0.4488	0.8	0.9

Headline inflation moderated slightly in January

Headline inflation moderated slightly to 2.3% in January (December: 2.4%). The rate of increase in prices of items in the *food and non-alcoholic beverages* category moderated to 3.9% (December: 4.2%) following a decline in vegetable prices and slower price increases for fish and seafood; oils and fats; and fruits. Nevertheless, within the *food and non-alcoholic beverages* category, there were higher increases in the prices of items in the *food at home* and *food away from home* sub-categories. Prices of items in the *restaurants and hotels* and *miscellaneous goods and services* categories also rose faster, by 6.7% and 2.9% respectively (December: 6% and 2% respectively). As in previous months, the *clothing and footwear* and *communication* categories continued to register declining prices.

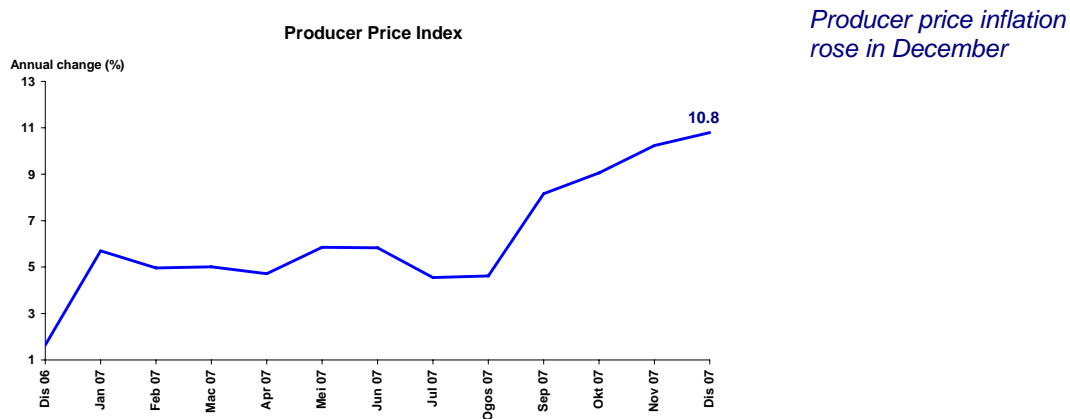


Inflation moderated slightly in January



Producer price inflation increased in December

In December, PPI inflation rose to 10.8% (November: 10.2%) due mainly to higher price increases in the commodity-based components. In particular, continued high world prices for raw commodities in December led to price increases in the *animal and vegetable oils and fats*, and *mineral fuels, lubricants and related material* categories. Meanwhile, prices in the non-commodity components also increased at a faster rate of 4.1% (November: 3.9%) due to price increases for items in the *machinery and transport equipment*;, *manufactured goods classified chiefly by material*; and *chemical and related products* categories.



Note: In December 2007, the Department of Statistics Malaysia revised the PPI figures from 2001 to November 2007 to reflect the latest information available.

Broad money expanded in January

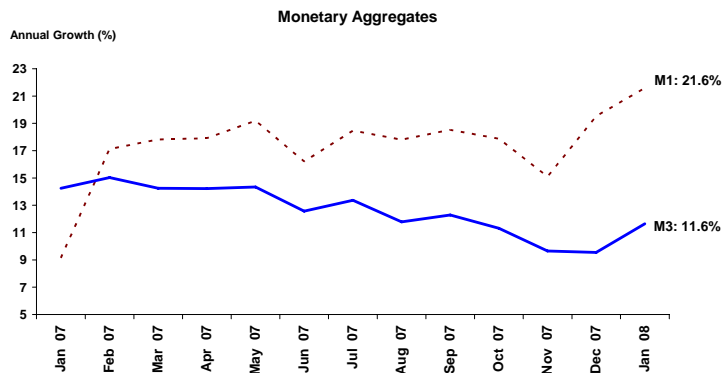
Broad money, or M3, increased by RM33.7 billion or at an annual rate of 11.6% in January. The increase largely reflected net trade and portfolio inflows during the month. Broad money also increased due to expansionary Government activity and higher bank lending to the private sector.

M3 Determinants
(RM billion)

	Change during period			
	Oct 07	Nov 07	Dec 07	Jan 08
M3	3.2	1.0	24.4	33.7
Net claims on Government	-4.1	-0.4	13.6	1.8
Claims on the private sector	4.7	-3.4	-4.0	6.6
Loans	3.3	3.8	-10.7	7.7
Securities	1.4	-7.2	6.7	-1.1
Net external operations *	13.4	0.8	5.7	20.3
Other influences	-10.8	4.0	9.1	5.0

* 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 increased in January

In January, total deposits with the banking system increased by RM24.2 billion or 7.7% on an annual basis (December: RM30.2 billion; 7%). The expansion reflected higher deposit placements mainly by business enterprises and individuals. Higher inflows from the external sector also contributed to the increase in the total deposits during the month. By type, the increase in deposits was mainly in the form of short-term money market deposits, which were reflected in the *other deposits* category.

Deposits by Holder
(RM million)

	Change during period			
	Oct 07	Nov 07	Dec 07	Jan 08
Federal Government	-395	-599	260	-141
State Governments	1,396	-1,199	-1,024	-147
Statutory Authorities ¹	477	298	2,049	-476
Financial Institutions	1,680	-4,753	15,857	1,622
Business Enterprises	1,832	-82	10,653	16,768
Individuals	2,169	2,294	3,966	4,641
Others ²	788	815	-1,600	1,915
Total	7,946	-3,226	30,161	24,181

^{1/} Include local Governments

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

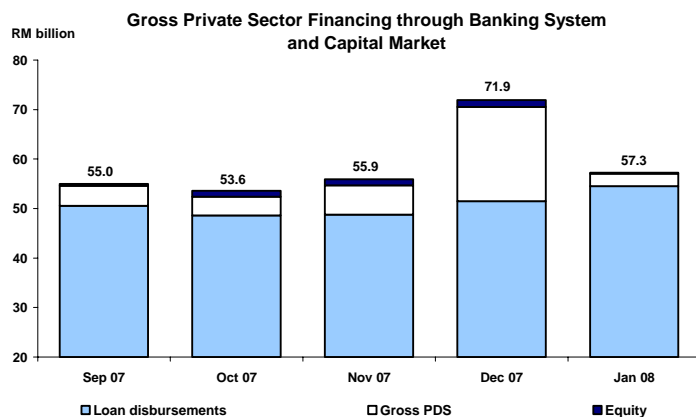
Deposits by Type
(RM million)

	Change during period			
	Oct 07	Nov 07	Dec 07	Jan 08
Fixed deposits	-1,967	-3,503	-997	528
NIDs	1,301	-5,468	8,563	-5,132
Demand deposits	4,454	-2,339	6,764	3,943
Savings deposits	650	132	1,143	1,201
Repos	1,376	77	665	-680
FX deposits	1,183	1,445	-1,284	2,385
SPI deposits	797	1,594	7,021	2,200
Others ¹	153	4,835	8,286	19,737
Total	7,946	-3,226	30,161	24,181

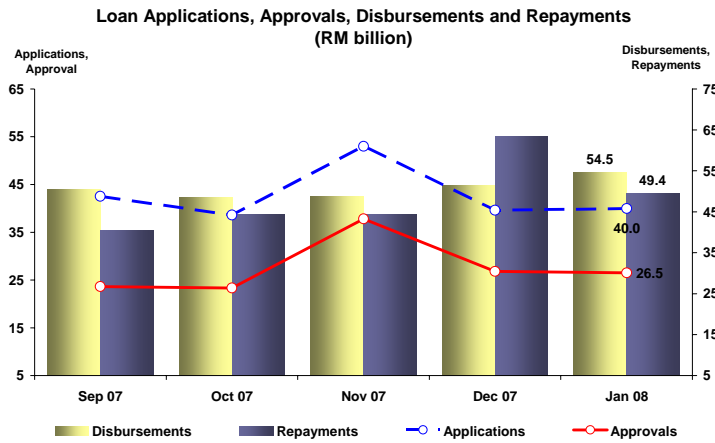
^{1/} Other deposit comprise of mainly short-term deposits

Gross private sector financing remained high in January

In January, gross financing to the private sector remained high at RM57.3 billion (December: RM71.9 billion) reflecting higher loan disbursements during the month. On a net basis, financing of the private sector through banking system loans and PDS outstanding increased at a higher combined annual rate of 8.8% (December: 8.3%).



Loan disbursements were higher in January



Key loan indicators remained strong

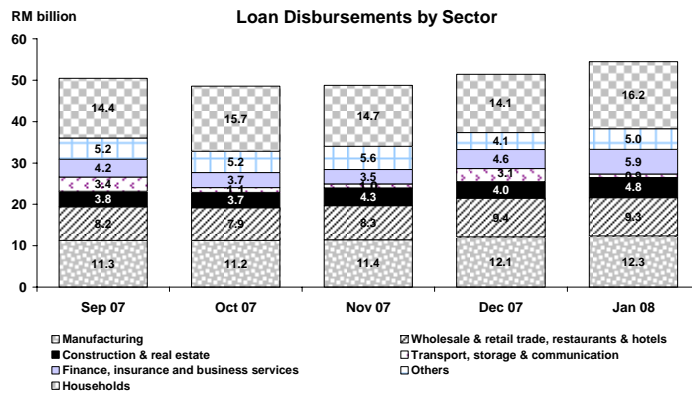
Bank lending indicators

	RM billion		Annual Growth (%)	
	December	January	December	January
Overall				
Loan applications	39.6	40.0	44.8	46.4
Loan approvals	26.8	26.5	51.6	61.3
Loan disbursements	51.5	54.5	13.6	16.5
Chg in Loans Outstanding ^{1/}	-9.4	7.8	8.6	9.3
Businesses				
Loan applications	23.6	20.1	50.5	48.9
Loan approvals	17.4	14.7	64.6	73.7
Loan disbursements	37.4	38.3	14.1	15.3
Chg in Loans Outstanding ^{1/}	-13.2	1.9	10.4	10.6
SMEs^{2/}				
Loan applications	7.3	8.2	20.3	15.0
Loan approvals	4.0	4.5	15.2	33.2
Loan disbursements	12.1	13.8	-1.8	23.8
Chg in Loans Outstanding ^{1/}	0.8	0.6	9.0	9.7
Households				
Loan applications	16.0	19.9	37.1	43.9
Loan approvals	9.5	11.9	32.4	48.2
Loan disbursements	14.1	16.2	12.3	19.6
Chg in Loans Outstanding ^{1/}	1.9	3.6	7.3	7.8

Major loan indicators continued to register strong growth across both business and household sectors

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

^{2/} Include loans to individual businesses.



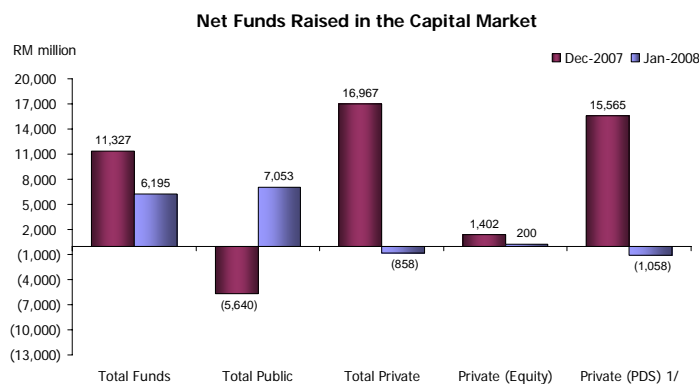
Loan disbursements remained broad-based

The major loan indicators continued to register double digit annual growth across both the business and household sectors. For the business sector, higher loans were disbursed to the construction, finance, insurance and business services sectors. For the household sector, loan disbursements increased mainly for the purchase of passenger cars and residential properties. Higher loan applications from households during the month mainly reflected stronger demand for car loans, in line with the current recovery in the car market.

Total loans outstanding expanded by 9.3% on an annual basis as at end-January (end-December: 8.6%). Loans outstanding to businesses and households expanded at annual growth rates of 10.6% and 7.8% respectively (end-December: 10.4% and 7.3% respectively).

Lower net funds raised in the capital market

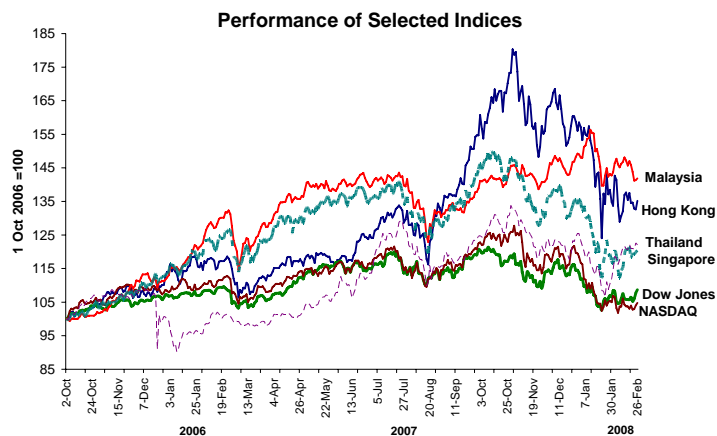
Net funds raised in the capital market were lower in January, amounting to RM6.2 billion. The public sector, through the issuance of a 5-year Malaysian Government Securities (MGS) and the reopening of the 3-year MGS, raised net funds of RM7.1 billion. In the private sector, gross funds raised in the private debt securities market (PDS) amounted to RM2.5 billion. The bulk of the funds were raised through the issuances of asset-backed bonds and Islamic bonds during the month. Due to the redemption of PDS, however, funds raised in the private sector recorded a net redemption of RM858 million.



1/ Including Cagamas

KLCI declined in January in line with regional markets

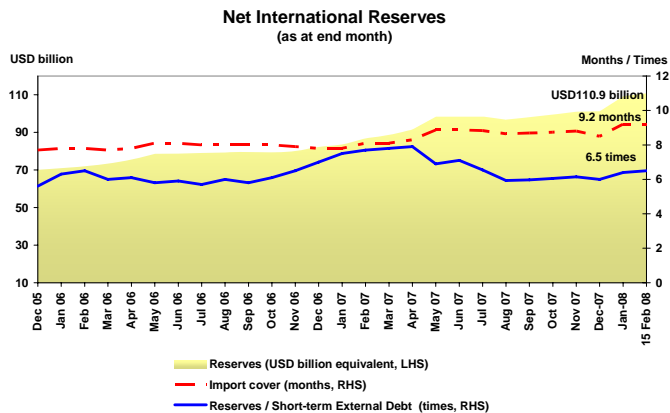
In January 2008, the KLCI declined by 3.6% from the previous month to close at 1,393.3. During the first half of the month, the continued strong performance in the plantation sector drove the KLCI to a new high of 1,516.2 on 11 January. In the second half of the month, however, renewed concerns of a slowdown in the US economy caused the KLCI to decline to 1,354.5 on 22 January, in line with the performance of global equity markets. The KLCI recovered from some of these losses at the end of the month due to positive investor sentiments after the Federal Reserve cut interest rates twice by 75 and 50 basis points on 22 and 30 January respectively to bring the Fed Funds rate to 3%. Market capitalisation decreased to RM1,057.3 billion (since end-December: - 4.4%), while the daily average turnover increased to 1,169 million units (December: 825.6 million units).



The KLCI ended lower on 26 February to close at 1,375.4. Overall market capitalisation decreased to RM1,036.0 billion (since end-December: -6.3%) and trading activity was lower with a daily average turnover of 804.0 million units.

International reserves

The international reserves of Bank Negara Malaysia amounted to RM361.6 billion (equivalent to USD109.3 billion) as at 31 January 2008. As at 15 February 2008, the international reserves of Bank Negara Malaysia amounted to RM366.8 billion (equivalent to USD110.9 billion). The reserves position is sufficient to finance 9.2 months of retained imports and is 6.5 times the short-term external debt.



Capitalisation level sustained amidst further decline in non-performing loans

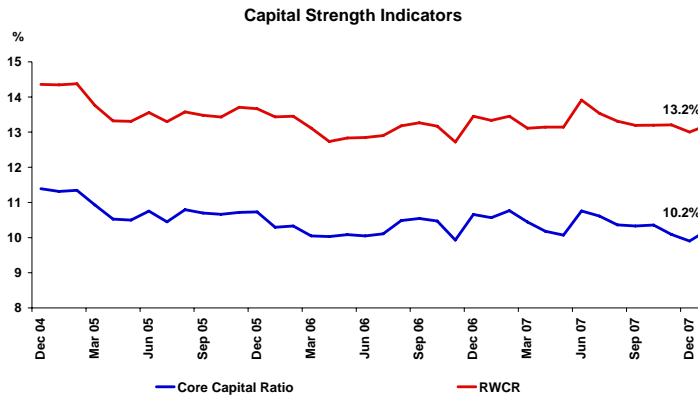
The banking system capitalisation remained strong with a risk-weighted capital ratio (RWCR) and core capital ratio of 13.2% and 10.2% respectively. The capital base of the banking system was further strengthened following the establishment of an Islamic banking subsidiary during the month. Meanwhile, the net non-performing loans (NPLs) ratio improved further to 3.1% underpinned by sustained recoveries and loan write-offs.

Banking System Health Indicators^{*}

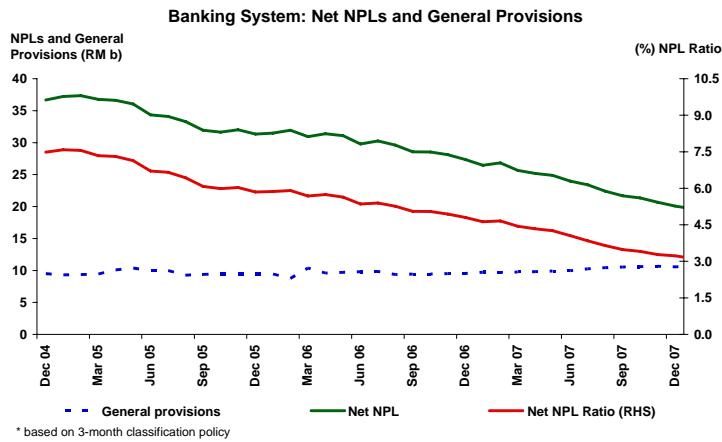
	2000	2001	2002	2003	2004	2005	2006	Nov 07	Dec 07	Jan 08
Capital (%)										
Core capital ratio	10.7	11.1	11.1	11.1	11.4	10.7	10.7	10.1	9.9	10.2
RWCR	12.5	13.0	13.2	13.8	14.4	13.7	13.5	13.2	13.0	13.2
Net NPLs (3-month classification)										
% of net total loans	9.7	11.5	10.2	8.9	7.5	5.8	4.8	3.3	3.2	3.1
Amount (RM million)	37,678	46,254	43,110	40,013	36,668	31,332	27,360	20,665	20,081	19,649
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 strong...



...whilst level of NPLs declined further

Bank Negara Malaysia
27 February 2008

Key Monetary and Financial Statistics

	Nov 07		Dec 07		Jan 08		
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth	
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)	
Monetary Aggregates							
Reserve money	62.7	15.5	63.9	9.8	69.6	18.2	
M1	158.6	15.1	169.0	19.5	175.6	21.6	
M2	769.8	9.5	797.0	9.5	827.2	11.1	
M3	808.4	9.7	832.8	9.5	866.5	11.6	
Banking System							
Total deposits	838.7	8.0	868.9	7.0	893.1	7.7	
Total loans (including loans sold to Cagamas)	653.2	10.2	643.7	8.6	651.5	9.3	
Loan-deposit ratio (%)		75.8		72.2		71.1	
Financing-deposit ratio ¹ (%)		84.0		80.8		79.3	
Loans applied (during the period)	53.0	97.9	39.6	44.8	40.0	46.4	
Loans approved (during the period)	37.8	119.3	26.8	51.6	26.5	61.3	
Loans disbursed (during the period)	48.8	15.0	51.5	13.6	54.5	16.5	
Loans repaid (during the period)	44.4	13.3	63.4	44.5	49.4	15.8	
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.2		13.0		13.2	
Net NPLs: 3-month classification (%)		3.3		3.2		3.1	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		345.1		335.7		361.6	
Net Reserves in USD billion (equivalent)		101.1		101.3		109.3	
Months of retained imports		8.8		8.5		9.2	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.50		3.50		3.50	
Interbank:	Overnight	3.50 [3.50]		3.49 [3.50]		3.49 [3.50]	
	1-week	3.52 [3.52]		3.52 [3.51]		3.54 [3.52]	
	1-month	3.54 [3.54]		3.56 [3.54]		3.55 [3.55]	
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		6.31		6.29		6.27	
Prices							
Consumer Price Index (CPI) (2005=100)		106.8	2.3	107.1	2.4	107.5	2.3
Producer Price Index (PPI) (2000=100)		136.8	10.2	137.6	10.8	0.0	0.0
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.3585		3.3065		3.2360	
Euro		4.9508		4.8756		4.8030	
Pound Sterling		6.9251		6.6070		6.4210	
100 Japanese yen		3.0434		2.9534		3.0411	
Singapore dollar		2.3225		2.2938		2.2814	
100 Thai Baht		9.9202		9.8159		9.7972	
100 Philippine Peso		7.8977		8.0158		7.9655	
100 Indonesian Rupiah		0.0358		0.0352		0.0348	
100 Korean Won		0.3632		0.3532		0.3421	
Capital Market							
Net funds raised (in RMb) by:	public	0.5		-5.6		7.1	
	private	-11.2		17.0		-0.9	
Bursa Malaysia Composite Index (end-period)		1,397.0		1,445.0		1,393.3	
Bursa Malaysia Market Capitalisation (RMb, end-period)		1,065.3		1,106.2		1,057.3	

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