BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 03/09/13

EMBARGO: Not for publication or broadcast before 1800 hours on Tuesday, 31 March 2009

Monetary and Financial Developments February 2009
Highlights of the Press Release

- Following the 50 basis point reduction in the OPR to 2.00% on 24 February, the daily weighted average overnight interbank rate trended lower to a range of 1.98% - 2.00%. Meanwhile, both the average base lending rate (BLR) and the average lending rate (ALR) decreased to their historic lows of 5.53% as at 15 March, and 5.49% as at end-February, respectively.

- In February, net financing to the private sector from the banking system and capital market increased at an annual rate of 10.9%.

- Headline inflation continued to moderate to 3.7% in February, due mainly to the decline in retail fuel prices and the lower increase in food prices.

- The banking system remained sound, with the risk-weighted capital ratio (RWCR) and core capital ratio improving to 13.0% and 11.1% respectively.

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 03/09/13

EMBARGO: Not for publication or broadcast before 1800 hours on Tuesday, 31 March 2009

MONETARY AND FINANCIAL DEVELOPMENTS
February 2009

In February, gross financing raised by the private sector amounted to RM42.9 billion. On a net basis, financing to the private sector through banking system loans and PDS outstanding increased at an annual rate of 10.9%. Total loans outstanding expanded at an annual growth rate of 10.9%.

During the period 1 – 24 February, the daily weighted average overnight interbank rate moved within a narrow range of 2.50% - 2.51%. Following the reduction in the OPR to 2.00% on 24 February, the daily weighted average overnight interbank rate trended lower to a range of 1.98% - 2.00% during the period 25 February – 30 March. Interbank rates of other maturities also declined in line with the reduction in the OPR. Meanwhile, the average base lending rate (BLR) declined to a historic low of 5.53% as at 15 March (5.89% in February), while the average lending rate (ALR) decreased to a historic low of 5.49% as at end-February (5.77% in January).

From 1 February to 30 March 2009, the ringgit depreciated by 0.2% against the U.S. dollar. Against other major currencies, the ringgit depreciated against the euro (-5.1%) and the pound sterling (-2.1%) but appreciated against the Japanese yen (9.9%). Against regional currencies, the ringgit depreciated against the Korean

won (-3.4%), Chinese renminbi (-0.3%) and the Singapore dollar (-0.3%), but appreciated against other regional currencies in the range of 0.9% to 1.5%.

Headline inflation continued to moderate to 3.7% in February, due mainly to the decline in retail fuel prices and the lower increase in food prices.

Broad money, or M3, expanded at slower annual growth rate of 7.7% in February. On a month-on-month basis, M3 decreased slightly as trade inflows and provisions of credit were partially offset by temporary placements of Government deposits with commercial banks.

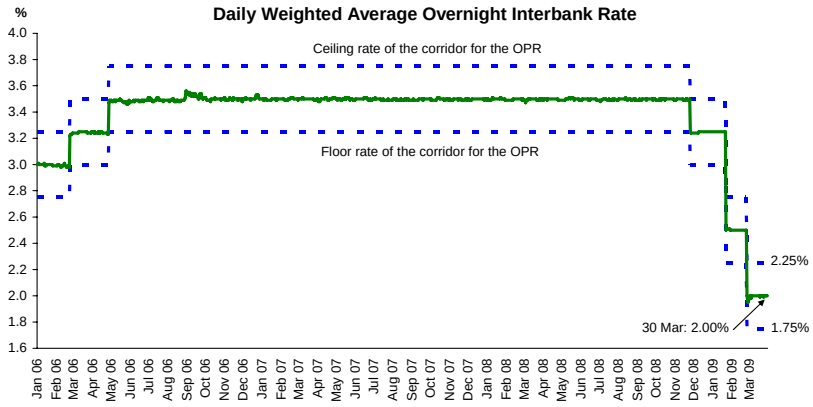
The banking system remained sound, with the risk-weighted capital ratio (RWCR) and core capital ratio improving to 13.0% and 11.1% respectively. The net non-performing loans (NPLs) amounting to RM15.8 billion remained unchanged at 2.2% of total net loans.

Interest rates decreased in response to reductions in the OPR

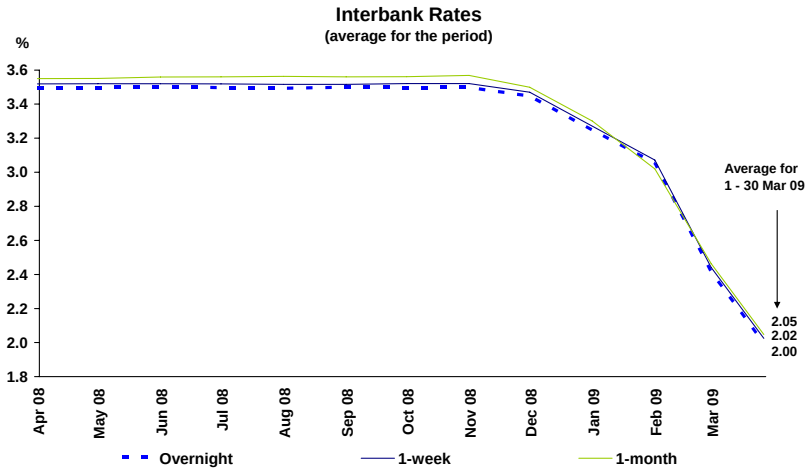
During the period 1 – 24 February, the daily weighted average overnight interbank rate moved within a narrow range of 2.50% - 2.51%. Following the reduction in the OPR to 2.00% on 24 February, the daily weighted average overnight interbank rate trended lower to the range of 1.98% - 2.00% during the period 25 February – 30 March. Interbank rates of other maturities also declined in line with the reduction in the OPR.

The average fixed deposit (FD) rates of commercial banks (CBs) declined in February and March. As at 15 March, the average quoted FD rates for tenures between 1 and 12 months had declined to range between 2.02% and 2.52%.

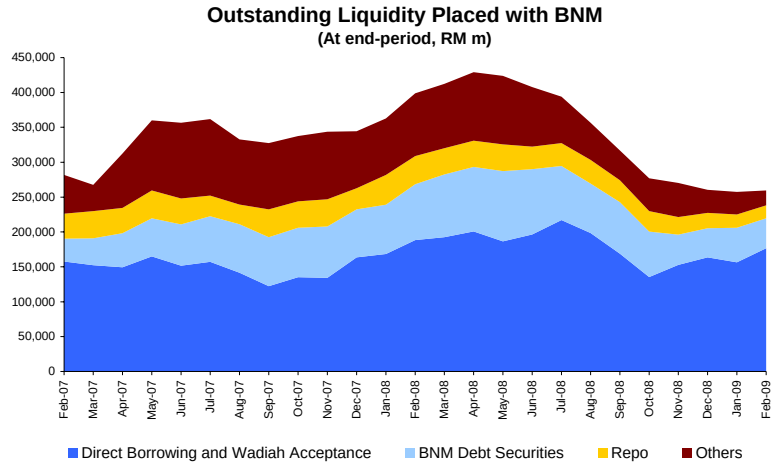
In terms of the CBs' lending rates, the average base lending rate (BLR) declined to a historic low of 5.53% as at 15 March (5.89% in February), while the average lending rate (ALR) decreased to a historic low of 5.49% as at end-February (5.77% in January).



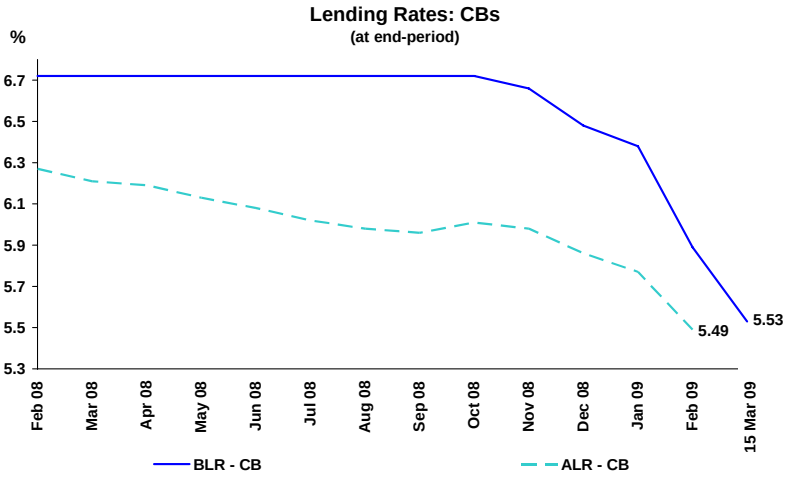
The average overnight interbank rate was lower following the reduction in the OPR



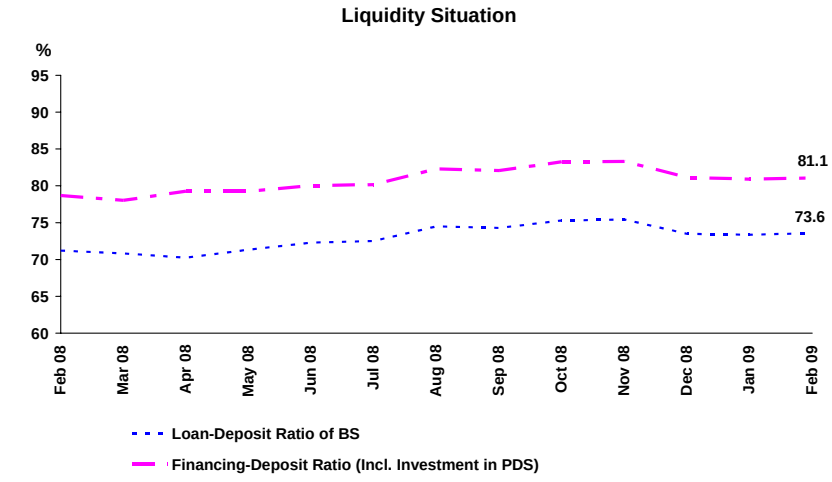
Other interbank rates also declined after the reduction in the OPR



BNM continued to mop up excess liquidity

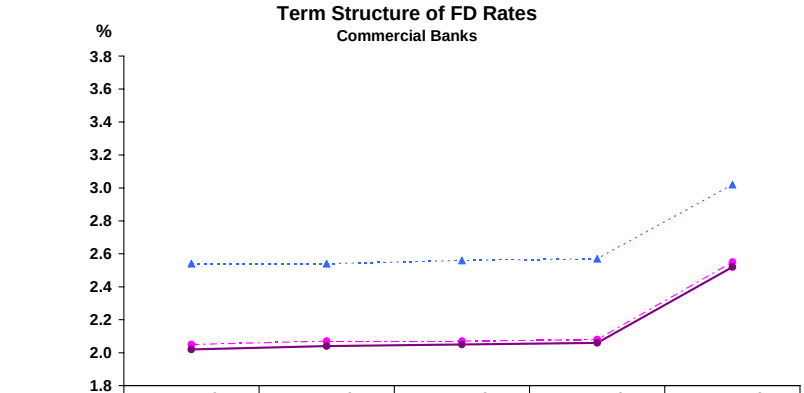


CBs' ALR and BLR trended lower in February, reflecting the reduction in the OPR



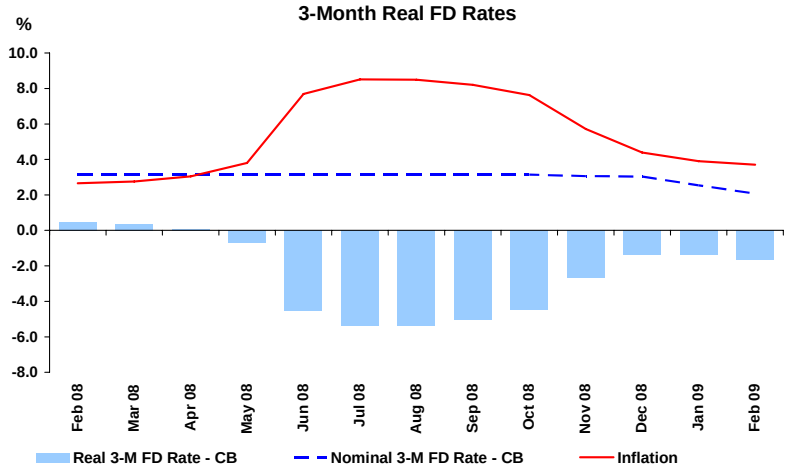
The loan-deposit and financing-deposit ratios were relatively unchanged in February

Average FD rates were lower in March



	1-month	3-month	6-month	9-month	12-month
Jan 09	2.54	2.54	2.56	2.57	3.02
Feb 09	2.05	2.07	2.07	2.08	2.55
15 Mar 09	2.02	2.04	2.05	2.06	2.52

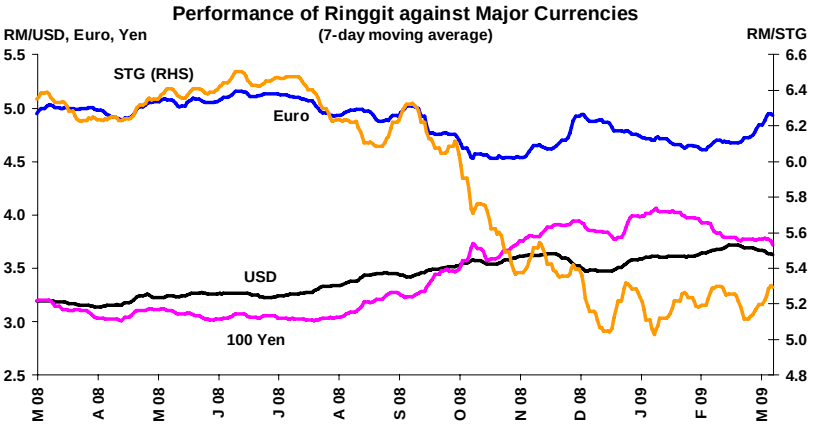
Real FD rates remained negative



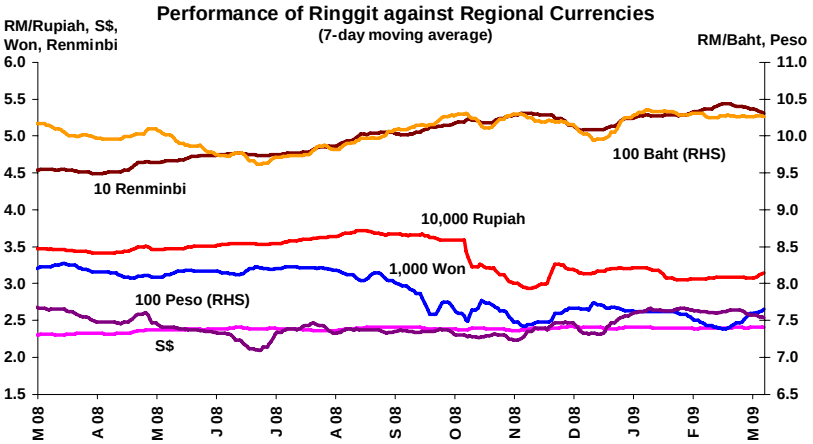
The ringgit depreciated against most major currencies

From 1 February to 30 March 2009, the ringgit depreciated by 0.2% against the U.S. dollar. During the period, the U.S. dollar broadly strengthened against regional currencies due to sustained deleveraging activities in the international financial markets. Against other major currencies, the ringgit depreciated against the euro (-5.1%) and the pound sterling (-2.1%), but appreciated against the Japanese yen (9.9%). Against regional currencies, the ringgit depreciated against the Korean won (-3.4%), Chinese renminbi (-0.3%) and the Singapore dollar

(-0.3%), but appreciated against other regional currencies in the range of 0.9% to 1.5%.



The ringgit depreciated against most major currencies…



… but appreciated against most regional currencies

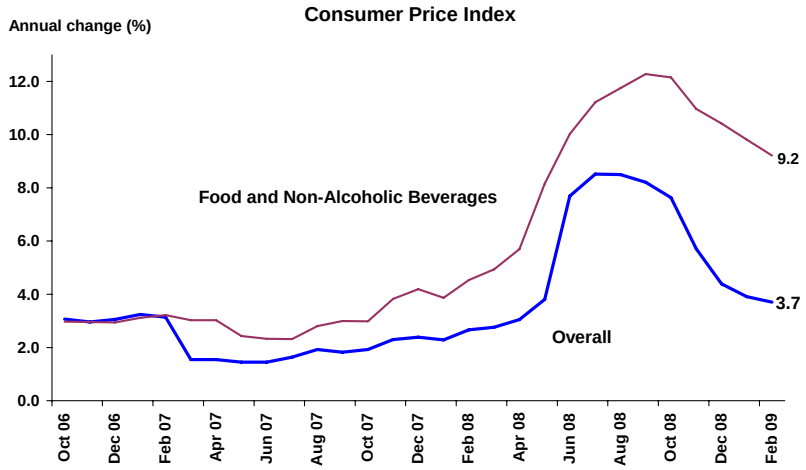
Performance of Ringgit against Selected Currencies

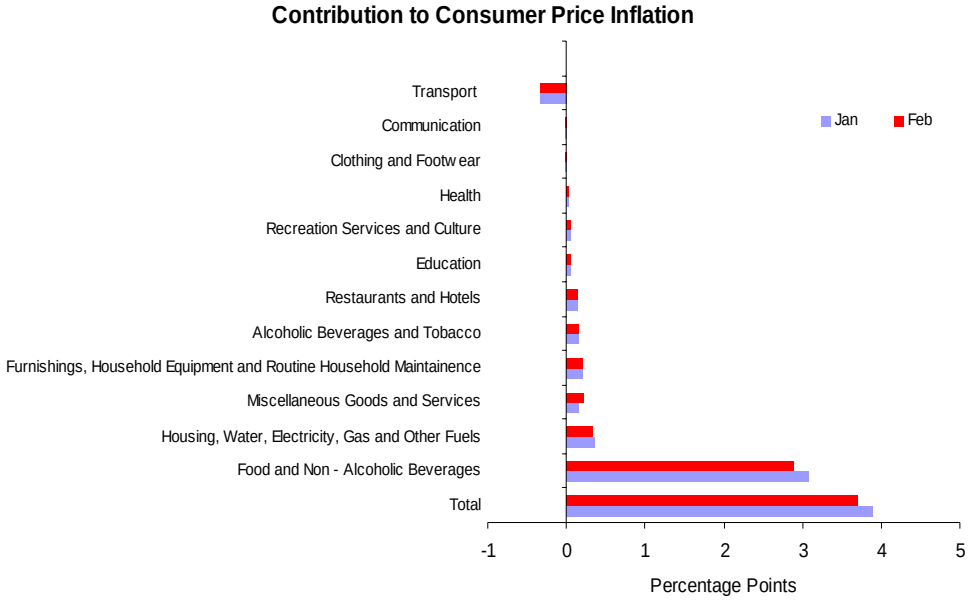
RM per foreign currency	End-period				% Change	
	Dec 08	Jan 09	Feb 09	30 Mar 09	End Dec 08 - 30 Mar 09	End Jan 09 - 30 Mar 09
US dollar	3.4640	3.6085	3.6925	3.6145	-4.2	-0.2
Euro	4.8759	4.6517	4.6952	4.9038	-0.6	-5.1
Pound sterling	4.9989	5.1259	5.2699	5.2342	-4.5	-2.1
100 Japanese yen	3.8327	4.0379	3.7862	3.6744	4.3	9.9
Singapore dollar	2.4070	2.3923	2.3956	2.3992	0.3	-0.3
100 Thai baht	9.9398	10.331	10.248	10.241	-2.9	0.9
100 Philippine peso	7.2774	7.6193	7.5829	7.5032	-3.0	1.5
100 Indonesian rupiah	0.0316	0.0318	0.0308	0.0314	0.7	1.1
100 Korean won	0.2750	0.2609	0.2428	0.2700	1.9	-3.4
Chinese renminbi	0.5076	0.5276	0.5398	0.5291	-4.1	-0.3

Inflation moderated further

Headline inflation moderated further to 3.7% in February (January: 3.9%). This was mostly because of the slower rate of price increases in the *food and non-alcoholic beverages* category and the decline in prices in the *transport* category. Inflation in the *food and non-alcoholic beverages* category moderated to 9.2% (January: 9.8%). Eight out of the eleven food sub-components recorded lower price increases on a year-on-year basis, compared to the previous month. Of significance, two categories, namely, *fish and seafood* and *vegetables* recorded lower price levels than in January. Meanwhile, prices in the *transport* category continued to decline by 2.1% (January: -2.1%).

Inflation moderated to 3.7% in February

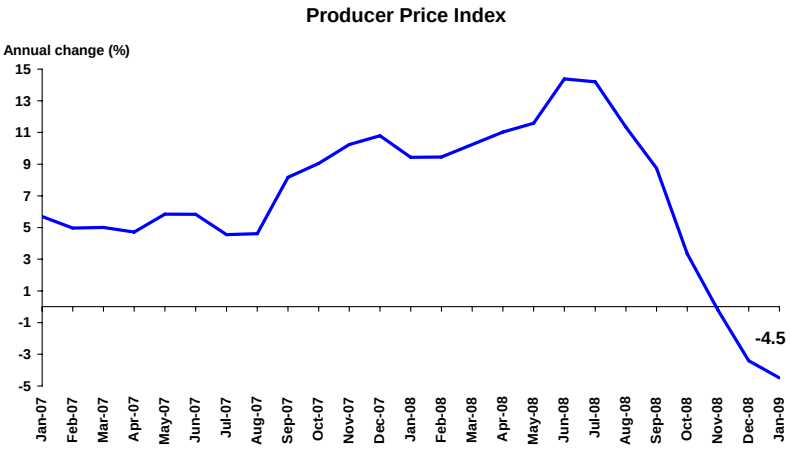




Producer prices declined further in January

Producer prices continued to decline by 4.5% in January (December 2008: -3.4%). This was due mainly to the significantly lower prices in the commodity-related components of the PPI. Prices in the commodity-based components of the PPI were lower at -14.0% in January (December 2008: -10.4%). In the non-commodity-based components of the PPI, prices declined by 0.2% (December 2008: -0.4%).

In terms of composition, both the local and imported components of the PPI continued to register lower prices compared to the year before. In January 2009, prices of the local component declined by 5.6% (December 08: -4.1%) while prices of the imported component declined by 2.2% (December 08: -1.8%).



Producer prices declined further in January

Monetary aggregates increased at a slower pace

In February, broad money or M3, expanded at a slower annual growth rate of 7.7%. On a month-on-month basis, M3 decreased slightly by RM1.7 billion, as trade inflows and the provision of credit by banks were partially offset by the temporary placement of demand deposits by the Government with commercial banks. These funds are in transition for the payment of Government expenditures.

M3 Determinants

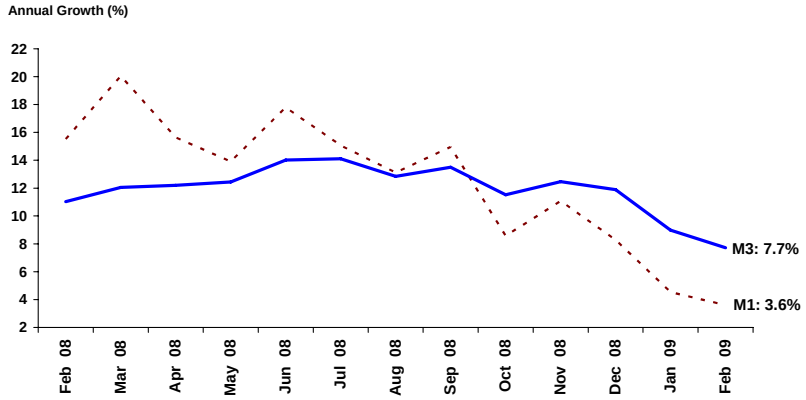
(RM billion)

	Change during period			
	Nov 08	**Dec 08**	**Jan 09**	**Feb 09**
M3	8.8	22.5	13.8	-1.7
Net claims on Government	5.2	21.6	5.5	-1.6
Claims on the private sector	10.9	2.7	2.1	0.8
Loans	*7.5*	*1.6*	*2.3*	*1.4*
Securities	*3.4*	*1.1*	*-0.2*	*-0.6*
Net foreign assets*	-12.1	-3.4	3.7	1.9
Other influences	4.8	1.6	2.5	-2.8

* 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.

Monetary Aggregates



Banking system deposits declined marginally

Total deposits placed with the banking system declined marginally by RM0.2 billion in February (January: +RM4.4 billion), in part due to net foreign outflows during the month. By holder, the lower deposits reflected withdrawals by business enterprises and financial institutions. By type, the decline in deposits was mainly in the form of negotiable instruments of deposits (NIDs) and short term money market deposits.

Deposits by Holder
(RM million)

	Change during period			
	Nov 08	**Dec 08**	**Jan 09**	**Feb 09**
Federal Government	1,847	622	-312	2,851
State Governments	-354	230	-592	1,542
Statutory Authorities [1]	2,517	-1,272	-2,150	643
Financial Institutions	-642	13,789	-4,271	-3,317
Business Enterprises	2,797	13,348	5,154	-4,090
Individuals	2,814	5,039	6,263	1,028
Others [2]	623	-2,453	288	1,119
Total	9,603	29,303	4,380	-225

1/ Include local Governments

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

Deposits by Type
(RM million)

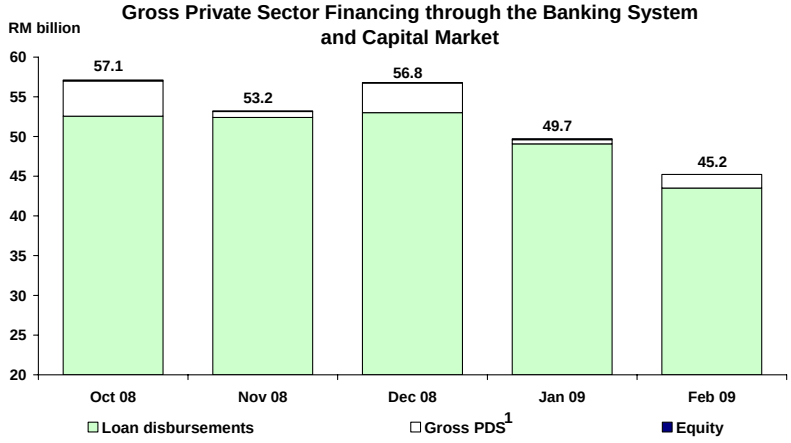
	Change during period			
	Nov 08	**Dec 08**	**Jan 09**	**Feb 09**
Fixed deposits	629	4,423	9,864	2,248
NIDs	1,415	4,913	-4,316	-4,643
Demand deposits	466	6,118	-1,834	252
Savings deposits	-258	2,047	523	1,968
Repos	-808	-12	41	-30
FX deposits	316	-995	2,947	466
SPI deposits	6,327	4,934	-2,619	1,489
Others[1]	1,515	7,876	-226	-1,975
Total	9,603	29,303	4,380	-225

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

Demand for financing picked up in February as compared to January

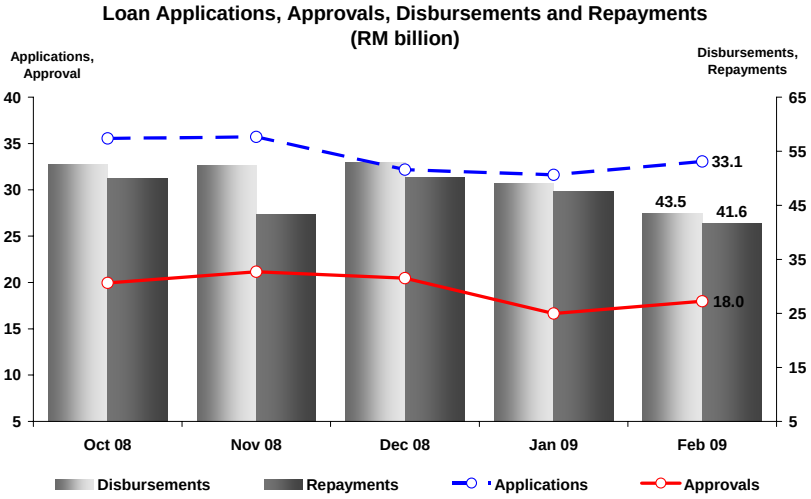
On a net basis, financing to the private sector through banking system loans and PDS outstanding increased at an annual rate of 10.9% in February (January: 11.9%). Gross financing raised by the private sector from the banking system and capital market amounted to RM45.2 billion in February 2009.

Gross Private Sector Financing through the Banking System and Capital Market



[1] Exclude foreign issuances

Gross financing was lower during the month



Loan applications and approvals increased…

Bank lending indicators

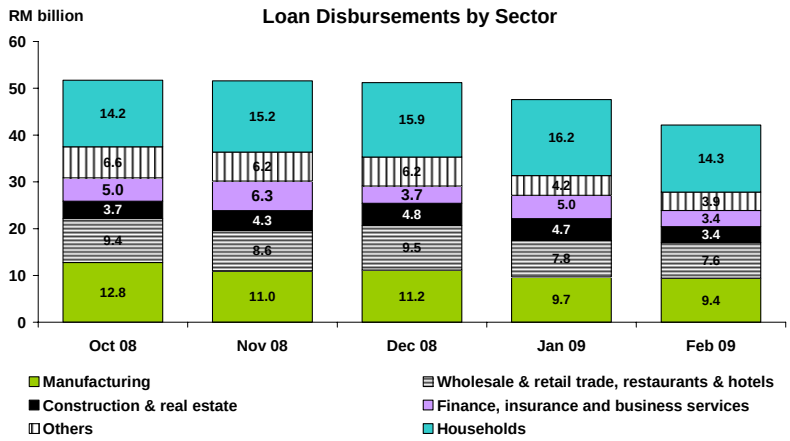
	RM billion			Annual Growth (%)		
	Jan-09	Feb-09	J-F 09	Jan-09	Feb-09	J-F 09
Overall						
Loan applications	31.6	33.1	64.7	-21.0	4.8	-9.6
Loan approvals	16.7	18.0	34.6	-35.5	-15.9	-26.6
Loan disbursements	49.1	43.5	92.6	-10.0	-5.7	-8.0
Chg in Loans Outstanding[1/]	1.4	1.3	2.7	11.7	10.9	10.9
Businesses						
Loan applications	15.8	17.2	33.0	-21.1	11.5	-6.9
Loan approvals	6.9	8.0	15.0	-50.3	-29.2	-40.9
Loan disbursements	32.9	29.2	62.0	-14.2	-9.2	-11.9
Chg in Loans Outstanding[1/]	-1.5	-0.4	-1.8	11.8	9.8	9.8
SMEs[2/]						
Loan applications	5.8	6.3	12.2	-29.3	-17.3	-23.5
Loan approvals	2.5	3.0	5.4	-45.1	-19.2	-33.5
Loan disbursements	11.9	11.2	23.1	-13.9	-17.5	-15.6
Chg in Loans Outstanding[1/ 3/]	-5.6	-2.3	-7.9	3.6	-0.6	-0.6
Households						
Loan applications	15.8	15.9	31.6	-20.8	-1.5	-12.2
Loan approvals	9.7	9.9	19.7	-18.1	-0.8	-10.1
Loan disbursements	16.2	14.3	30.5	0.0	2.5	1.2
Chg in Loans Outstanding[1/]	3.5	1.2	4.8	9.1	9.1	9.1

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

[2/] Include loans to individual businesses.

[3/] The decline in SME loans outstanding partly reflected the exclusion of a number of companies from the SME classification, as they have grown beyond the definition of SME. Without such exclusion, SMEs loans outstanding would have expanded by 2.7% year-on-year as at end-Feb 2009.

… due mainly to the business sector



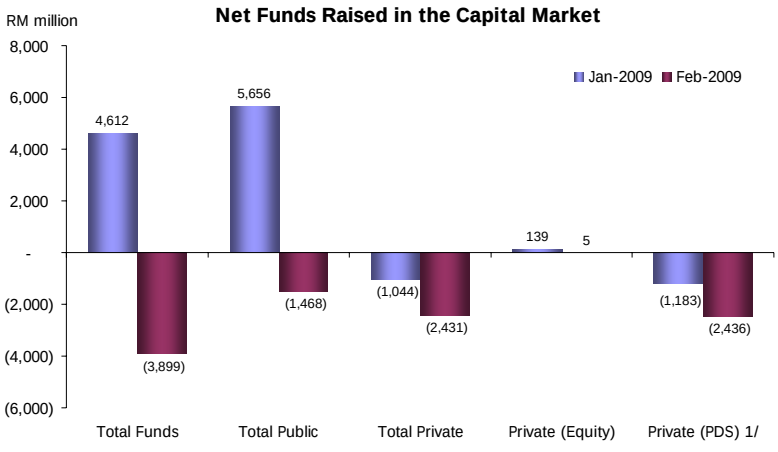
Loan disbursements remained broad-based

In February, demand for financing was sustained as reflected by the increase in the amount of loan applications, primarily from the business sector. Consequently, the amount of loans approved to the businesses also increased, mainly to *education, health and others* as well as the *real estate* sectors. Business loan disbursements on the other hand moderated. Business loans outstanding expanded at a slower rate of 9.8% as at end-February (end-January: 11.8%)

For the household sector, the amount of loan applications and approvals were relatively stable on a month-on-month basis, supported by demand for housing loans. Loans disbursed to the household sector, especially for consumption credit, moderated during the month. Household loans outstanding expanded by 9.1% as at end-February (end-January: 9.1%).

Lower funds raised in the capital market

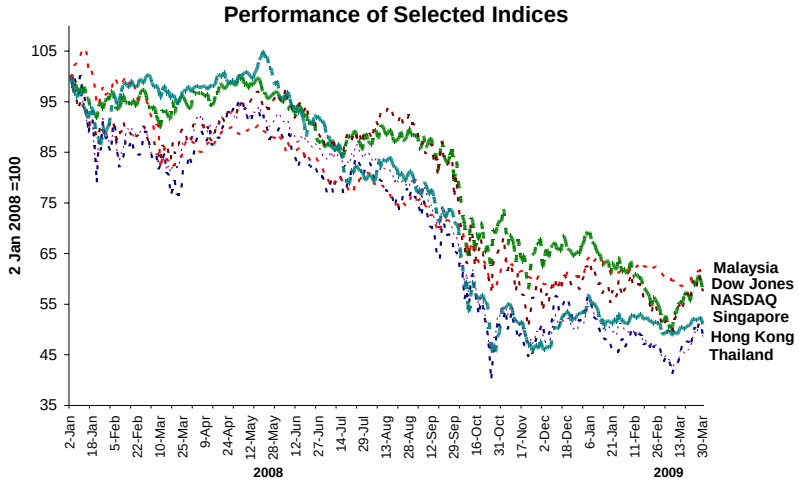
In February, net funds raised in the capital market recorded a net redemption of RM3.9 billion. In the public sector, gross funds amounting to RM10.5 billion were raised through the issuance of 10-year Government Investment Issues (GII) and 3.5-year Malaysian Government Securities (MGS). Meanwhile, gross funds raised by the private sector were higher at RM1.9 billion (January: RM524 million). The bulk of PDS issuances were to finance new activity and for refinancing purposes. Nevertheless, both the public and private sectors recorded net redemptions due to the large amount of redemptions during the period.



1/ Including Cagamas Bonds

KLCI rose marginally in February

The KLCI registered a modest increase to close at 890.7 points in February (since end-January: 0.7%), supported by higher crude palm oil prices and improved sentiments ahead of the announcement of the Second Stimulus Package. Market capitalisation declined to RM667.4 billion (since end-January: -0.1%) and the daily average turnover declined to 396.2 million units (January: 520.7 million units).

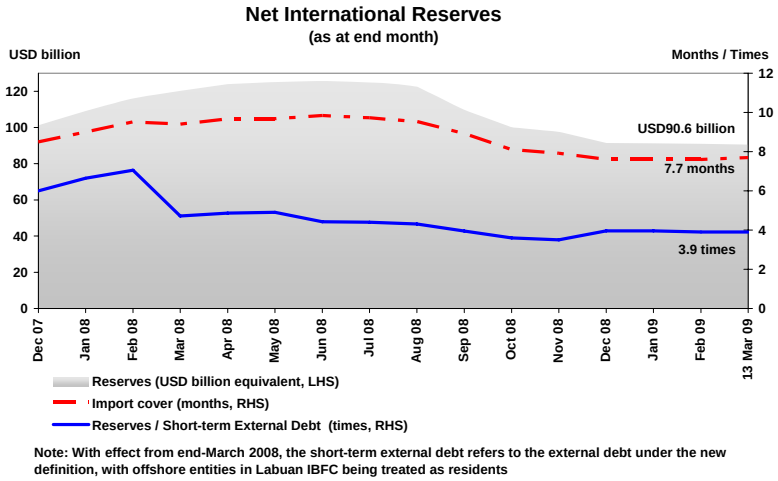


KLCI rose marginally in February

As at 30 March, the KLCI ended lower at 869.3 points (since end-February: -2.4%). While market capitalisation was lower at RM653 billion (since end-February: -2.2%), the daily average turnover increased to 444.7 million units.

International reserves

For the past three months, the net international reserves have remained stable amidst steady trade and financial flows. The net international reserves of Bank Negara Malaysia stood at RM315.9 billion (equivalent to USD91.1 billion) as at 27 February 2009. As at 13 March 2009, the international reserves amounted to RM314 billion (equivalent to USD90.6 billion). The reserves position is sufficient to finance 7.7 months of retained imports and is 3.9 times the short-term external debt.



Note: With effect from end-March 2008, the short-term external debt refers to the external debt under the new definition, with offshore entities in Labuan IBFC being treated as residents

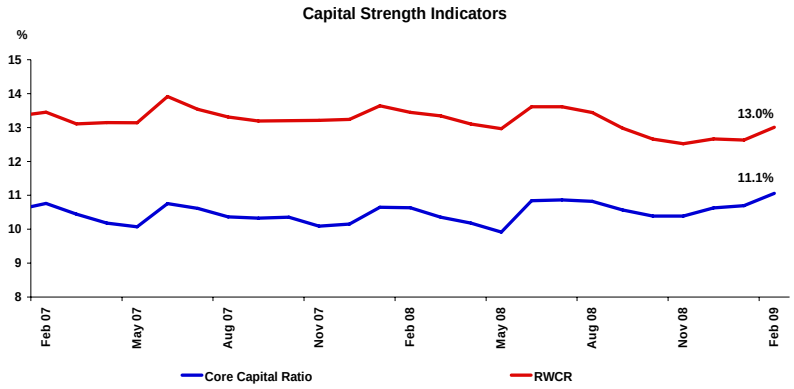
Strong capitalisation and low non-performing loans in the banking system

The banking system remained sound, with the risk-weighted capital ratio (RWCR) and core capital ratio improving to 13.0% and 11.1% respectively. The capital base expanded by 3.2% following the inclusion of audited profits as well as capital raising exercises by several Islamic banking institutions. Meanwhile, the net non-performing loans (NPLs) amounting to RM15.8 billion remained unchanged at 2.2% of total net loans. Similarly, total gross NPLs remained stable at 4.8% of total loans.

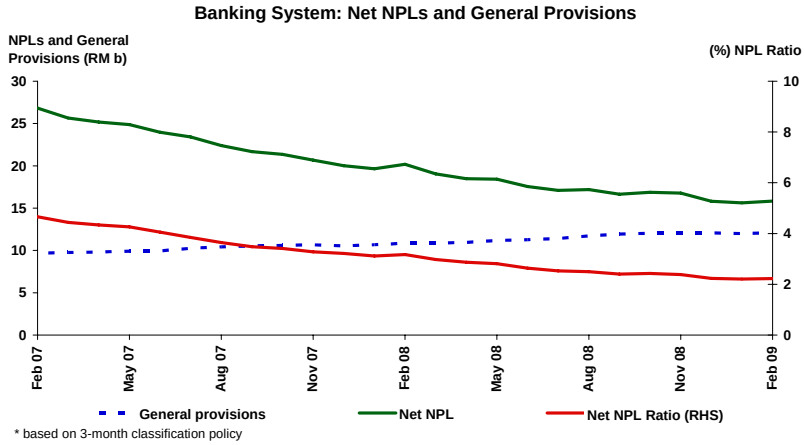
Banking System Health Indicators*

	2001	2002	2003	2004	2005	2006	2007	Dec 08	Jan 09	Feb 09
Capital (%) **										
Core capital ratio	11.1	11.1	11.1	11.4	10.7	10.7	10.2	10.6	10.7	11.1
RWCR	13.0	13.2	13.8	14.4	13.7	13.5	13.2	12.7	12.6	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	2.2	2.2	2.2
Amount (RM million)	46,254	43,110	40,013	36,668	31,332	27,360	20,011	15,812	15,639	15,839
General Provisions (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 remained strong…



* based on 3-month classification policy

…whilst NPLs remained at a low level

Key Monetary and Financial Statistics

		Dec 08		Jan 09		Feb 09	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		68.5	7.2	73.7	5.8	60.5	-10.6
M1		183.0	8.3	183.6	4.5	178.8	3.6
M2		903.4	13.4	916.5	10.7	914.3	9.5
M3		931.8	11.9	945.6	9.0	943.8	7.7
Banking System							
Total deposits		972.4	11.9	976.8	9.2	976.5	8.3
Total loans (including loans sold to Cagamas)		726.5	12.8	727.8	11.6	729.2	10.9
Loan-deposit ratio (%)		73.5		73.3		73.6	
Financing-deposit ratio [1] (%)		81.1		80.9		81.1	
Loans applied (during the period)		32.2	-18.8	31.6	-21.0	34.1	8.1
Loans approved (during the period)		20.5	-23.7	16.7	-35.5	18.0	-15.9
Loans disbursed (during the period)		53.0	0.6	49.1	-10.0	43.5	-5.7
Loans repaid (during the period)		50.2	-22.9	47.7	-3.5	41.6	-4.1
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		12.7		12.6		13.0	
Net NPLs: 3-month classification (%)		2.2		2.2		2.2	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		317.4		316.7		315.9	
Net Reserves in USD billion (equivalent)		91.5		91.3		91.1	
Months of retained imports		7.6		7.6		7.6	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.25		2.50		2.00	
Interbank:	Overnight	3.25 [3.30]		2.50 [3.05]		1.99 [2.42]	
	1-week	3.27 [3.27]		2.52 [3.07]		2.03 [2.44]	
	1-month	3.30 [3.30]		2.56 [3.02]		2.06 [2.46]	
Fixed deposits of commercial banks:	1-month	3.01		2.54		2.05	
	3-month	3.04		2.54		2.07	
BLR of commercial banks		6.48		6.38		5.89	
ALR of commercial banks		5.86		5.77		5.49	
Prices							
Consumer Price Index (CPI) (2005=100)		111.8	4.4	111.7	3.9	111.9	3.7
Producer Price Index (PPI) (2000=100)		132.9	-3.4	131.9	-4.5	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.4640		3.6085		3.6925	
Euro		4.8759		4.6517		4.6952	
Pound Sterling		4.9989		5.1259		5.2699	
100 Japanese yen		3.8327		4.0379		3.7862	
Singapore dollar		2.4070		2.3923		2.3956	
100 Thai Baht		9.9398		10.331		10.248	
100 Philippine Peso		7.2774		7.6193		7.5829	
100 Indonesian Rupiah		0.0316		0.0318		0.0308	
100 Korean Won		0.2750		0.2609		0.2428	
Capital Market							
Net funds raised (in RMb) by:	public	0.05		5.7		-1.5	
	private	0.2		-1.0		-2.4	
Bursa Malaysia Composite Index (end-period)		876.8		884.5		890.7	
Bursa Malaysia Market Capitalisation (RMb, end-period)		663.8		667.9		667.4	

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