MONETARY AND FINANCIAL DEVELOPMENTS

Lending rates remained stable while real FD rates for all maturities turned positive

With inflation trending downwards amid a sustained economic growth outlook, the Overnight Policy Rate (OPR) was left unchanged at 3.50% throughout the fourth quarter.

During the period 2 October – 29 December, the average overnight interbank rate remained stable, moving within a range of 3.48% – 3.53%. Interbank rates of other maturities also remained relatively stable.

In terms of retail lending rates, the average base lending rate (BLR) of commercial banks (CBs) remained unchanged at 6.72%. At the same time, the average lending rate (ALR) declined marginally to 6.57% as at end-December from the third quarter level of 6.63%. The average quoted fixed deposit (FD) rates of CBs for the 1-month and 12-month maturities ranged between 3.11% and 3.73% respectively (3Q: 3.13% to 3.77%). Of significance, the real FD rates for all maturities turned positive in October following lower inflation.

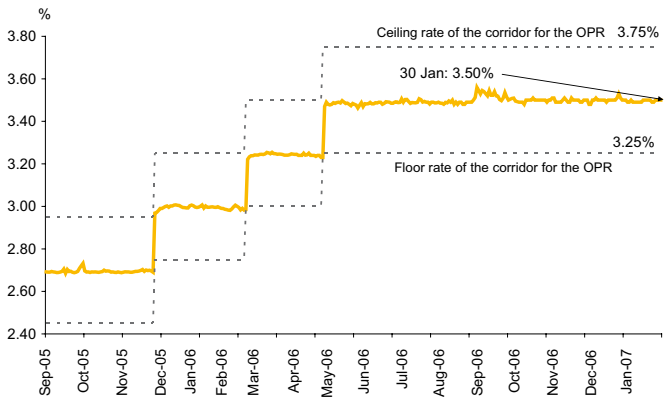
Monetary aggregates grew faster

M1, or narrow money expanded at a higher annual rate of 13.8% in the fourth quarter (3Q: 11.5%), reflecting both the higher demand deposits placed by the business enterprises and the higher amount of currency held by the private sector. M3, or broad money, also increased at a higher rate of 12.3% during the quarter (3Q: 7.9%).

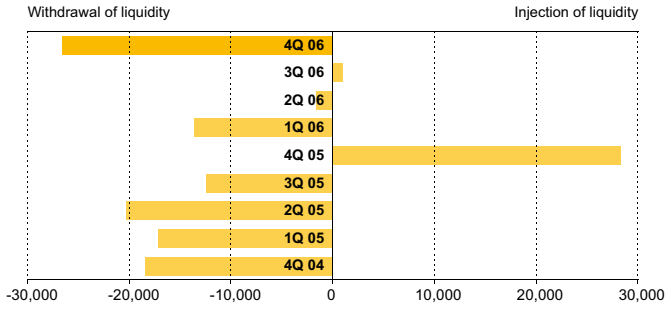
Interest Rates

	2005	2006			
	4Q	1Q	2Q	3Q	4Q
	At end-period (%)				
Overnight Policy Rate (OPR)	3.00	3.25	3.50	3.50	3.50
Interbank rates					
Overnight	3.00	3.25	3.51	3.51	3.50
1-month	3.12	3.25	3.78	3.68	3.58
Base lending rates (BLR)					
Commercial banks	6.20	6.47	6.72	6.72	6.72
Average lending rates (ALR)					
Commercial banks	6.12	6.29	6.55	6.63	6.57
Fixed deposit rates					
Commercial banks					
3-month	3.02	3.06	3.18	3.21	3.19
12-month	3.70	3.70	3.77	3.77	3.73

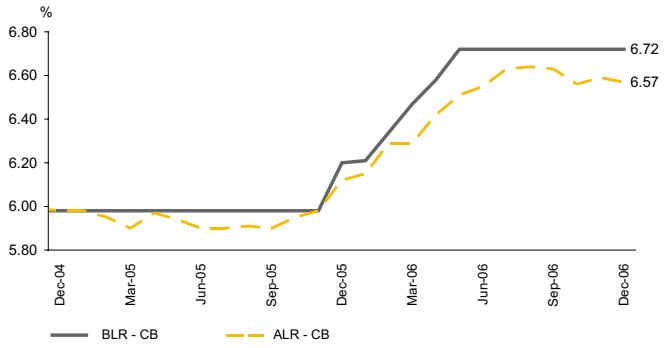
Daily Weighted Average Overnight Interbank Rate



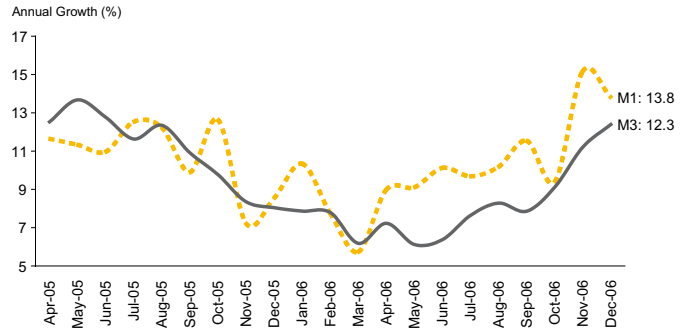
Bank Negara Malaysia Liquidity Operations
(During the quarter, RM million)



Lending Rates of Commercial Banks
(Average for the period)



Monetary Aggregates



Determinants of Broad Money, M3

	Change during the period				
	2005		2006		
	4Q	Year	3Q	4Q	Year
	RM billion				
M3	10.8	49.7	14.3	41.5	82.4
Net claims on Government	12.7	-5.4	-2.2	19.9	9.2
Claims on private sector	14.0	44.4	6.7	7.9	34.7
Loans	*8.5*	*44.8*	*9.2*	*8.2*	*36.8*
Securities	*5.6*	*-0.4*	*-2.5*	*-0.3*	*-2.1*
Net external operations[1]	-23.6	17.3	11.9	22.7	59.8
BNM	*-34.7*	*29.0*	*2.0*	*5.2*	*32.2*
Banking system	*11.1*	*-11.7*	*9.9*	*17.4*	*27.6*
Other influences	7.6	-6.7	-2.1	-9.0	-21.4

[1] Pre-revaluation

During the quarter, the expansion in M3 was driven mainly by the increase in net foreign assets arising from higher inflows from the external sector in the form of export proceeds, net foreign direct investments and portfolio investments. In contrast with the previous quarters, net claims on the Government exerted an expansionary impact on M3 as the Government funded higher expenditure through the drawdown of deposits placed with Bank Negara Malaysia. Claims on the private sector expanded on account of higher loans outstanding. These were, however, slightly offset by lower holdings of private debt securities by the banking institutions.

Slower private sector financing growth in the fourth quarter

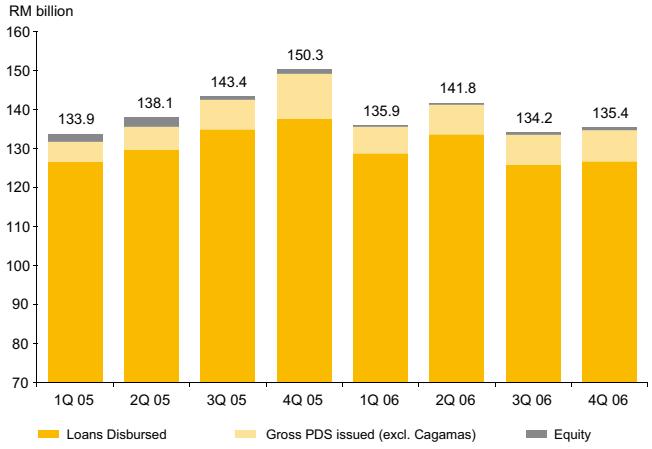
In the fourth quarter, gross financing of the private sector through the banking system and capital market amounted to RM135.4 billion, (3Q: RM134.2 billion). Compared with the preceding quarter, however, loan disbursements by the banking system and funds raised through the capital market was higher. On a net basis, banking system loans and PDS outstanding expanded at a combined annual rate of 6.2% at end-December.

Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2005	4Q 05	3Q 06	4Q 06[p]	2005	3Q 06	4Q 06[p]
Gross total financing	**565.6**	**150.3**	**134.2**	**135.4**	**8.7**	**-6.4**	**-9.9**
Loans disbursed *	528.6	137.5	125.8	126.7	8.3	-6.7	-7.9
Gross PDS (excl. Cagamas)	30.8	11.7	7.9	8.1	20.3	3.4	-31.0
Equity	6.3	1.0	0.5	0.6	-2.5	-39.2	-39.4
Outstanding total financing (A)+(B)	**62.2**	**17.4**	**11.6**	**6.3**	**9.3**	**7.9**	**6.2**
Banking system	46.3	13.5	10.4	9.5	8.5	8.8	7.9
Loans outstanding (A)[p]	44.2	10.1	9.6	4.0	8.6	7.5	6.3
Holding of PDS	2.1	3.5	0.8	5.5	6.3	30.8	33.4
PDS outstanding (B)	18.0	7.3	2.0	2.3	11.4	9.2	6.0
Memorandum item							
Gross PDS (incl. Cagamas)	38.2	15.2	9.2	8.3	5.2	-5.2	-45.3

[p] Preliminary
* Banking system loans include loans sold to Cagamas

Gross Private Sector Financing through Banking System and Capital Market



On an annual basis, overall loan disbursements were lower mainly on account of the lower loans disbursed to the business sector. During the quarter, loan disbursements to businesses declined by 8.5% (3Q: 6.3%), with the moderation mainly accounted for by lower loans disbursed to the manufacturing; wholesale and retail trade, restaurants and hotels sector. Nevertheless, business loan applications and approvals registered strong positive growth rates in the fourth quarter in line with the strong performance of the construction sector and the domestic construction-related manufacturing industries. As a result, new loan applications and approvals rose by 6.5% and 4.2% respectively (3Q: -5.5% and -13.4% respectively). In the household sector, the major loan indicators were lower on an annual basis primarily on account of lower financing channelled for the purchase of passenger cars, and to a lesser extent, residential property.

Total loans outstanding expanded by 6.3% on an annual basis at the end of the fourth quarter (end-3Q 2006: 7.5%), with loans outstanding to businesses and households increasing at annual rates of 4.2% and 9.4% respectively (end-3Q 2006: 3.3% and 11.4% respectively).

Loan Indicators

	During the period (RM billion)				Annual Growth %			
	2005	4Q 05	3Q 06	4Q 06[P]	2005	4Q 05	3Q 06	4Q 06[P]
Total								
Loan applications[n]	305.4	72.1	79.3	76.8	11.7	6.4	-5.5	6.5
Loan approvals[n]	192.2	47.7	47.1	49.7	10.7	10.4	-13.4	4.2
Loan disbursements[n]	528.6	137.5	125.8	126.7	8.3	5.2	-6.7	-7.9
Loan repayments[n]	488.5	128.5	116.2	121.8	5.8	6.5	-4.4	-5.2
Change in loan outstanding[1]	44.2	10.1	9.6	4.0	8.6	8.6	7.5	6.3
Of which:								
Business enterprises[2]								
Loan applications[n]	153.1	35.0	41.2	40.8	6.8	-2.8	-2.4	16.6
Loan approvals[n]	88.3	22.7	22.8	28.0	9.4	12.2	-12.5	23.3
Loan disbursements[n]	375.1	97.8	88.9	89.5	7.0	3.2	-6.3	-8.5
Loan repayments[n]	367.1	97.1	84.8	87.9	5.3	6.3	-6.7	-9.3
Change in loan outstanding[1]	6.5	-0.9	3.1	1.1	3.0	3.0	3.3	4.2
SMEs[3]								
Loan applications[n]	59.4	12.6	18.8	19.4	10.4	-6.9	n.a.	n.a.
Loan approvals[n]	34.9	7.9	10.2	11.8	11.5	-6.3	n.a.	n.a.
Loan disbursements[n]	110.6	29.2	33.6	32.9	9.3	4.3	n.a.	n.a.
Change in loan outstanding[1]	7.7	1.5	0.9	-1.0	8.7	8.7	n.a.	n.a.
Large corporations[3]								
Loan applications[n]	93.6	22.4	22.4	21.4	4.7	-0.4	n.a.	n.a.
Loan approvals[n]	53.4	14.9	12.6	16.3	8.0	25.3	n.a.	n.a.
Loan disbursements[n]	264.5	68.6	55.3	56.7	6.0	2.7	n.a.	n.a.
Change in loan outstanding[1]	-1.1	-2.3	2.2	2.1	-0.9	-0.9	n.a.	n.a.
Households								
Loan applications[n]	152.3	37.1	38.1	35.9	17.2	16.8	-8.7	-3.2
Loan approvals[n]	103.9	25.0	24.3	21.7	11.9	8.7	-14.2	-13.2
Loan disbursements[n]	153.7	39.9	36.9	37.2	11.7	11.0	-7.7	-6.9
Loan repayments[n]	121.5	31.6	31.4	33.9	7.6	7.0	2.5	7.4
Change in loan outstanding[1]	40.0	10.7	7.3	5.8	15.1	15.1	11.4	9.4

[1] The annual growth is for end-period.

[2] Following reclassifications under the Financial Institutions Statistical System (FISS) effective April 2006, in order to maintain comparability on an annual basis for loan applications, approvals, disbursements and repayments, the category business enterprises has been expanded to include loans to other customers, namely non-bank financial institutions, Government, domestic non-business entities and foreign entities. These loans account for a relatively small share of the total compared with business enterprises. Trend wise, growth rates remain similiar to those under the previous definition.

[3] From 1Q 2006, loan indicators for SMEs and large corporations are not comparable on an annual basis as beginning March 2006, financial institutions have begun adopting the Standard SME Definitions as approved by the National SME Development Council, resulting in some reclassification between SMEs and large corporations.

n.a. Not applicable.
[n] Numbers may not add up due to rounding.

[P] Preliminary. Data is subject to revision, arising from changes in the classification of loan indicators by economic sectors and purpose.

Source: Bank Negara Malaysia.

Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	2005	4Q 05	3Q 06[p]	4Q 06[p3]		
	RM billion				%	
Business enterprises [1]	375.1	97.8	88.9	89.5	70.7	39.6
Large corporations [2]	*264.5*	*68.6*	*55.3*	*56.7*	*44.8*	*22.4*
SMEs [2]	*110.6*	*29.2*	*33.6*	*32.9*	*26.0*	*17.3*
Households	153.7	39.9	36.9	37.1	29.3	56.5
Selected sectors						
Agriculture, hunting, forestry and fishing	13.8	3.6	3.5	3.3	2.6	2.2
Mining and quarrying	1.6	0.4	0.5	0.3	0.2	0.2
Manufacturing	126.7	31.5	30.3	30.4	24.0	11.2
Construction	30.4	7.7	7.6	7.9	6.2	5.3
Real estates	9.0	2.6	2.2	2.0	1.6	2.9
Electricity, gas and water supply	7.1	1.9	0.4	0.4	0.3	0.8
Wholesale, retail, restaurants and hotels	97.2	25.2	22.1	21.2	16.7	8.9
Transport, storage and communication	9.8	2.4	2.3	2.8	2.2	1.9
Finance, insurance and business services	35.7	9.8	10.6	9.6	7.6	5.8
Consumption credit	100.8	26.5	25.2	24.7	19.5	23.9
Of which:						
Credit cards	*42.7*	*11.7*	*12.7*	*13.6*	*10.7*	*3.4*
Purchase of passenger cars	*39.2*	*10.0*	*8.4*	*6.8*	*5.4*	*16.6*
Total	**528.6**	**137.5**	**125.8**	**126.7**	**...**	**...**

[1] Following reclassification under the Financial Institutions Statistical System (FISS) effective April 2006, in order to maintain comparability on an annual basis for loan applications, approvals, disbursements and repayments, the category business enterprises has been expanded to include loans to other customers, namely non-bank financial institutions, Government, domestic non-business entities and foreign entities. These loans account for a relatively small share of the total compared with business enterprises.

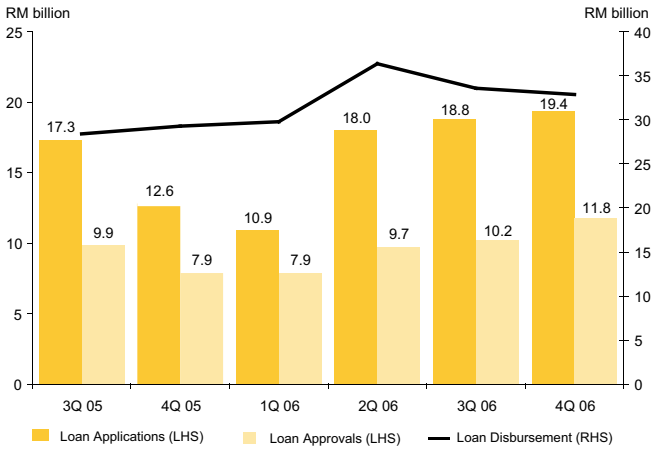
[2] From 1Q 2006, loan indicators for SMEs and large corporations are not comparable on an annual basis as beginning March 2006, financial institutions have begun adopting the Standard SME Definitions as approved by the National SME Development Council, resulting in some reclassification between SMEs and large corporations.

[3] Based on new classification system under the Financial Institutions Statistical System (FISS), effective April 2006. Futher details are available in the July issue of the Monthly Statistical Bulletin.

[p] Preliminary. Data is subject to revision, arising from changes in the classification of loan indicators by economic sectors and purpose.

Source: Bank Negara Malaysia

Bank Lending to SMEs



* From March 2006, financial institutions have begun adopting the Standard SME Definitions as approved by the National SME Development Council, resulting in some reclassification between SMEs and large corporations.

Higher financing activity in the capital market

Fund raising activity in the capital market increased significantly during the quarter with total net funds raised by both the public and private sectors amounting to RM7.5 billion.

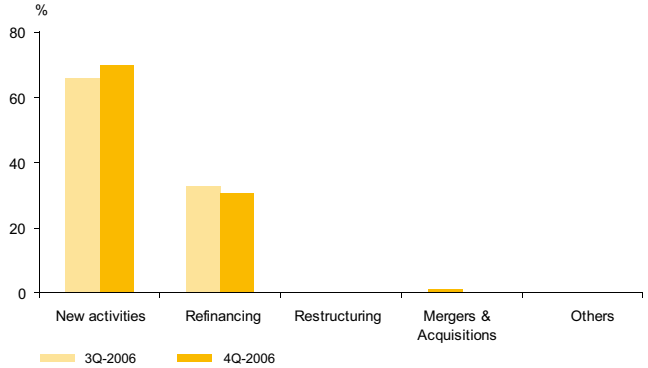
The bulk of the funds were raised by the public sector. Gross funds amounting to RM11.5 billion were raised from four issuances of Government securities, including one new issuance of 3-year Malaysian Government Securities (MGS), one new issuance of 10-year Government Investment Issues (GII) and a new 5-year MGS together with a RM500 million Callable MGS. On a net basis, funds raised by the public sector were higher at RM7.3 billion during the quarter (3Q: RM3.6 billion). The inaugural issuance of Callable MGS was part of the new measures introduced to further develop the MGS market. The instrument would provide an option for the Government to redeem the bond ahead of its maturity for better cashflow management. In addition, the instrument would also benefit the private sector as it would serve as a benchmark for private sector issuers to price their own callable private debt securities.

Funds Raised in the Capital Market

	2005		2006		
	4Q	Year	3Q	4Q	Year
	RM million				
By Public Sector					
Government Securities, *gross*	6,500	26,830	9,324	6,500	26,830
Less Redemptions	4,850	12,850	8,200	2,850	12,850
Less Government holdings	-	-	-	-	-
Equals Net Federal receipts	1,650	13,980	1,124	3,650	13,980
Khazanah Bonds, *net*	-	(630)	-	1,070	(630)
Govt. Investment Issues, *net*	(1,000)	9,500	3,000	3,000	9,500
Merdeka Savings Bond, *net*	397	(1,931)	(495)	(433)	(1,931)
Net Funds Raised	1,047	20,919	3,629	7,287	20,919
By Private Sector					
Shares	1,043	1,916	518	632	1,916
Debt securities	15,161	38,887	9,233	8,297	38,887
Private Debt Securities (PDS)	13,801	31,737	7,933	8,097	31,737
Cagamas	1,360	7,150	1,300	200	7,150
Less Redemptions	4,701	31,519	9,590	8,747	31,519
Net Issues	10,461	7,368	(356)	(451)	7,368
Net issues (excluding Cagamas)	9,851	11,120	2,404	2,409	11,120
Net Funds Raised	11,504	9,284	161	182	9,284
Total Net Funds Raised	12,552	30,203	3,790	7,469	30,203
Short-term Papers and Notes, *net* [1]	456	2,563	(577)	653	2,563
Total	13,008	32,766	3,213	8,122	32,766

[1] Refers to Commercial Papers and Cagamas Notes only.

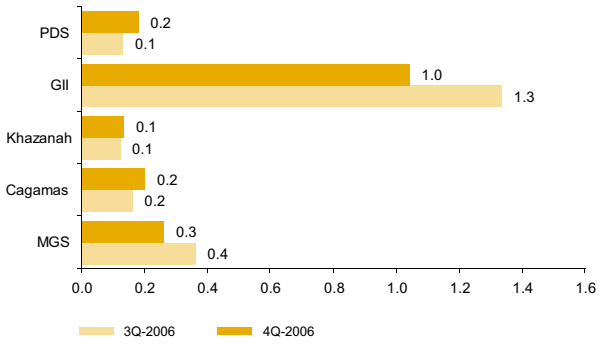
Private Debt Securities Issued by Purpose (% of total)



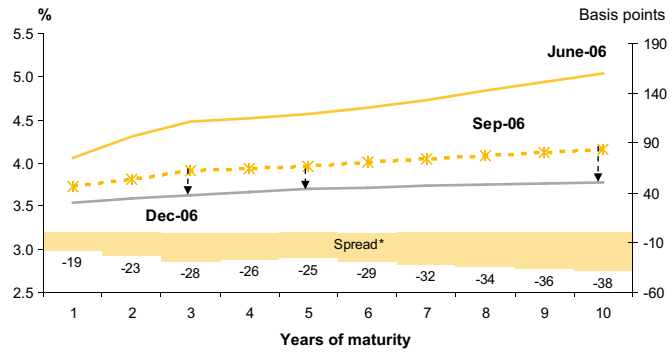
In the private sector, gross funds raised from the private debt securities (PDS) market, which amounted to RM8.3 billion, were lower compared to the previous quarter. Excluding Cagamas, the gross funds raised remained substantial, amounting to RM8.1 billion, and were mainly raised through the issuance of medium-term notes, which accounted for 58% of the total PDS issued. On a net basis, the funds raised through the PDS market, excluding Cagamas, amounted to RM2.4 billion during the quarter.

Funds raised through the equity market increased during the fourth quarter, amounting to RM632 million. Most of the funds were raised through 8 initial public offerings (IPOs) totaling about RM464 million. During the quarter, there were nine new listings on Bursa Malaysia, five on the Main Board, one on the Second Board and three on the MESDAQ Market.

Liquidity Ratio: Turnover / Outstanding

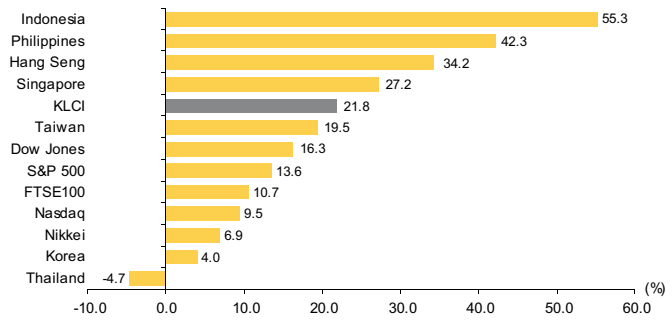


Trend in MGS Yield



* Spread (RHS) : Yield Dec-06 - Yield Sep-06

Performance of Selected Global and Regional Markets in 2006



Sustained secondary trading in the bond market

In the secondary market, total trading was sustained at RM105.1 billion in the fourth quarter (3Q: RM114.9 billion). Government Securities (MGS and GII) accounted for the bulk of total trade (62%), followed by private debt securities (32% of total trade). In terms of liquidity, the GII was the most liquid paper, registering a liquidity ratio of 1.04.

The MGS benchmark yield curve shifted downwards between 18 – 50 basis points over all tenures during the fourth quarter of 2006. The decline was mainly due to the market's expectation that the OPR will remain unchanged following a more benign inflation outlook. In addition, the strengthening of the ringgit also influenced buying momentum in the market which contributed to the downward shift in the yield curve. The quarterly yield spreads for the 3-year, 5-year and 10-year MGS declined by 28, 25 and 38 basis points respectively.

Strongest performance of the KLCI for the year

The KLCI registered its strongest performance for the year in the fourth quarter, in tandem with regional and global equity markets. The moderating trend in inflation and the good corporate earnings boosted the overall

Bursa Malaysia: Turnover of Corporate Securities

	2005				2006					
	4Q		Year		3Q		4Q		Year	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	18,541	35,264	102,338	177,321	37,040	49,741	57,015	78,257	197,819	127,998
of which:										
Main Board	13,788	32,391	73,816	157,445	22,422	40,720	36,338	66,458	121,666	107,178
of which										
Consumer Products	647	1,863	3,694	10,197	660	2,200	977	2,665	4,765	4,866
Industrial Products	1,633	2,020	12,150	14,143	3,410	3,787	4,474	5,395	16,232	9,182
Construction	694	1,067	4,141	7,116	1,596	2,626	2,787	5,262	11,107	7,888
Trading/Services	3,321	12,417	16,008	59,241	5,958	15,148	10,465	26,467	31,469	41,615
Finance	2,262	8,796	10,108	36,743	2,475	7,291	3,689	12,719	12,092	20,010
Properties	1,392	1,236	10,649	11,572	4,084	2,331	5,742	3,681	21,022	6,013
Plantations	539	2,762	2,144	9,147	1,078	4,848	1,004	5,516	3,384	10,364
Mining	0	1	0	10	1	17	33	68	34	85
Second Board	1,708	1,175	15,161	12,289	3,853	2,758	5,432	4,023	21,914	6,782
Mesdaq	2,948	1,598	12,616	6,678	10,352	6,085	10,735	4,981	48,712	11,066

Source: Bursa Malaysia

Bursa Malaysia: Selected Market Indicators

	As at end		
	2005	2006	
	4Q	3Q	4Q
Price Indices			
Composite	899.8	967.6	1,096.2
FBM30[1]	5,882.5	6,260.4	7,059.9
FBMEMAS[2]	5,737.5	6,270.7	7,169.6
Second Board	80.4	83.2	92.0
Mesdaq	87.1	108.1	119.9
Average daily turnover			
Volume (million units)	303.9	573.9	934.7
Value (RM million)	578.1	782.0	1,282.9
Market capitalisation (RM billion)	695.3	745.5	848.7
No. of companies listed	1,021	1,027	1,027

[1] FBM30 stands for FTSE Bursa Malaysia 30 Index
[2] FBMEMAS stands for FTSE Bursa Malaysia Emas Index

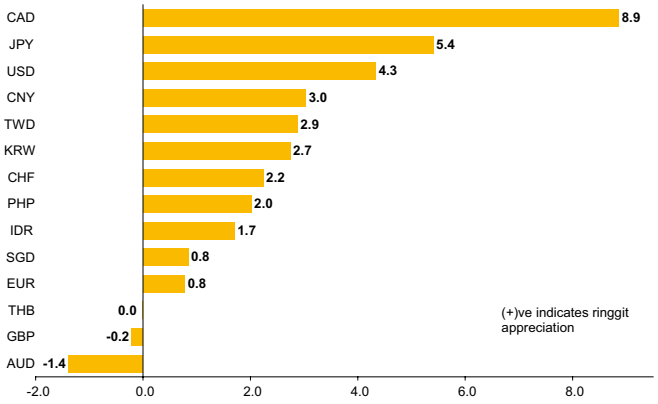
Source: Bursa Malaysia

performance of the KLCI. The plantation and construction sectors gained significantly, due to developments on mergers and acquisitions and announcements identifying high-impact Ninth Malaysia Plan projects. Participation from non-resident investors in the equity market was strong during this period.

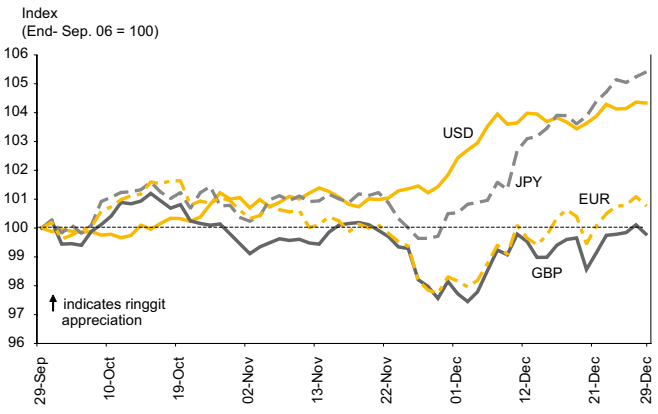
On 19 December, the KLCI declined by 1.96% following the imposition of capital controls in Thailand, but rapidly rebounded to close the year at a higher level. The KLCI rose 128.69 points, or 13.3%, during the quarter (3Q: 52.86 points, or 5.8%) to end the fourth quarter at 1,096.24 points. Market capitalisation was higher at RM848.7 billion (3Q: RM 745.5 billion), while trading activity increased, with the average daily turnover at 934.7 million units during the quarter (3Q: 573.9 million units).

Despite external developments that precipitated a correction on 27 and 28 February 2007, resulting in the market declining by 6%, the KLCI closed at 1196.45 points, 9.1% higher compared to end 2006. Market capitalisation as at 27 February 2007 was higher at RM974.4 billion (since end-December 2006: 14.8%).

Summary of Ringgit Performance Against Selected Currencies Percent Change (1 October - 29 December 2006)



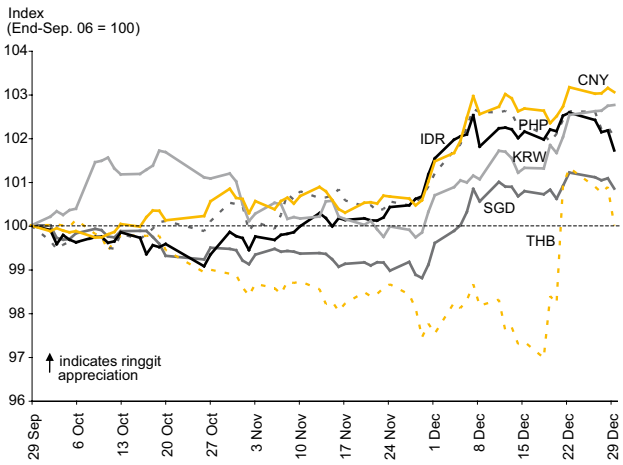
Ringgit Performance Against Major Currencies



Exchange Rate Developments

In the fourth quarter, the ringgit appreciated against the G3 currencies, most significantly in December. The ringgit appreciated against the US dollar as portfolio flows returned to emerging markets, amidst renewed positive investor sentiment towards regional economic prospects. The ringgit strengthened against the Japanese yen amidst weakness in the Japanese yen, due to expectations that the Bank of Japan would normalise domestic interest rate conditions in a measured and gradual manner. The euro subsequency strengthened following market expectations for policy rate increases by the European Central Bank and a positive flow of economic data favouring the euro relative to the US dollar and Japanese yen. In December 2006, there was limited contagion impact on the ringgit arising from the regulatory measures imposed on 18 December 2006 by the Bank of Thailand.

Ringgit Performance Against Regional Currencies



The ringgit appreciated against regional currencies in the fourth quarter, due to the more rapid pace of ringgit appreciation against the US dollar compared with that of other regional currencies. The ringgit appreciated against most regional currencies in the range of 0.8% - 3.0%, while remaining relatively unchanged against the Thai baht.

The ringgit continued its appreciating trend in 2007, as with most regional currencies during the period. For the period 3 January – 28 February 2007, the ringgit appreciated against all major currencies and recorded a mixed performance against regional currencies, appreciating against the Indonesian rupiah (2.8%), Korean won (1.8%), Taiwan dollar (1.8%) and Singapore dollar (0.5%), but depreciating against the Thai baht (0.9%) and remaining relatively unchanged against the Chinese renminbi and Philippine peso.

Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	4Q 05	3Q 06	4Q 06	21 Jul 05	4Q 05	3Q 06
US dollar	3.8000	3.7800	3.6845	3.5315	7.6	7.0	4.3
Euro	4.6212	4.4867	4.6821	4.6460	-0.5	-3.4	0.8
Pound sterling	6.6270	6.5226	6.9171	6.9315	-4.4	-5.9	-0.2
100 Japanese yen	3.3745	3.2229	3.1279	2.9675	13.7	8.6	5.4
Singapore dollar	2.2570	2.2714	2.3221	2.3028	-2.0	-1.4	0.8
100 Thai baht	9.0681	9.2049	9.8109	9.8111	-7.6	-6.2	0.0
100 Philippine peso	6.8131	7.1254	7.3477	7.2027	-5.4	-1.1	2.0
100 Indonesian rupiah	0.0386	0.0385	0.0399	0.0393	-1.6	-2.1	1.7
100 Korean won	0.3665	0.3739	0.3901	0.3797	-3.5	-1.5	2.7
Chinese renminbi	0.4591	0.4686	0.4660	0.4523	1.5	3.6	3.0

* (+) indicates appreciation of ringgit against respective currency and (-) indicates depreciation.