MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates were stable

The OPR was left unchanged at 2.00% in the second quarter, in line with the assessment that the accumulated monetary policy easing would provide sufficient support to economic activity over the medium term.

Reflecting the unchanged OPR, the average overnight interbank rate was stable, moving within a narrow range of 1.99% to 2.01% during the period 1 April – 20 August 2009. Similarly, interbank rates of other maturities were also stable.

In terms of retail lending rates, the average base lending rate (BLR) of commercial banks (CBs) was unchanged at 5.53%. The average lending rate (ALR) on loans outstanding, however, continued to decrease in the second quarter to a low of 5.02% in May 2009, before stabilising at 5.04% in June 2009. The continued downward trend in the ALR on loans outstanding reflected new loans being contracted at lower rates after the reduction in the OPR, while existing loans that were more expensive were repaid.

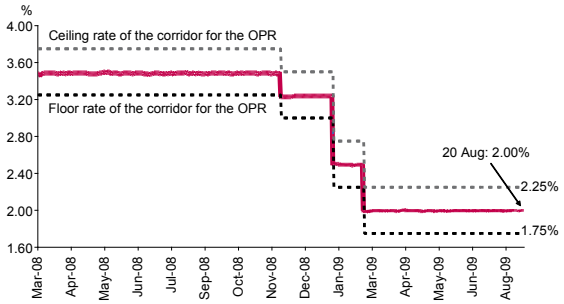
In terms of retail deposit rates, the average quoted fixed deposit (FD) rates of CBs were relatively unchanged. As at end-June, the average quoted FD rates for tenures between 1 to 12 months ranged between 2.02% and 2.52% respectively. With the negative inflation rate recorded in June 2009, real FD rates have turned positive across all tenures.

Interest Rates

	2008	2009	
	2Q	1Q	2Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.50	3.25	2.00
Interbank rates			
Overnight	3.49	2.00	1.99
1-month	3.56	2.06	2.09
Base lending rates (BLR)			
Commercial banks	6.72	5.53	5.53
Average lending rates (ALR)			
Commercial banks	6.08	5.16	5.04
Fixed deposit rates			
Commercial banks			
3-month	3.14	2.04	2.05
12-month	3.70	2.52	2.52

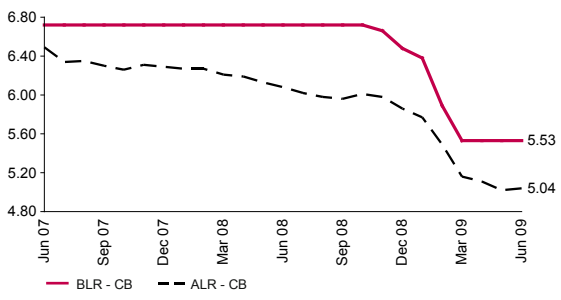
Source: Bank Negara Malaysia

Daily Weighted Average Overnight Interbank Rate



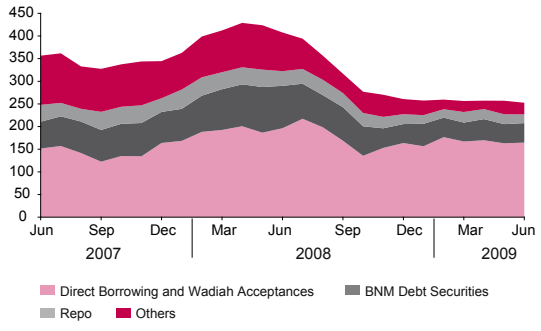
Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (Average for the period)



Source: Bank Negara Malaysia

Outstanding Liquidity Placed with Bank Negara Malaysia (At end-period, RM billion)



Source: Bank Negara Malaysia

M3 rose at a more moderate pace

The monetary aggregates continued to register a modest annual increase in the second quarter, reflecting the moderation in economic activity. M1, or narrow money, increased by RM5.9 billion during the quarter. On an annual basis, M1 expanded at a rate of 5.5% as at end-June (end-March 2009: 3.5%).

M3, or broad money, expanded at a slower annual growth rate of 5.8% at end-June (end-March 2009: 7.3%). On a quarter-on-quarter basis, M3 increased by RM1.6 billion. The main impetus for M3 growth came from credit expansion. This included higher financing by the banking system to the Government and the private sector. These expansionary factors, however, were partially offset by net foreign outflows. Other influences also registered a quarterly decline of RM7.4 billion, reflecting mainly the capital raising exercise by banks in April.

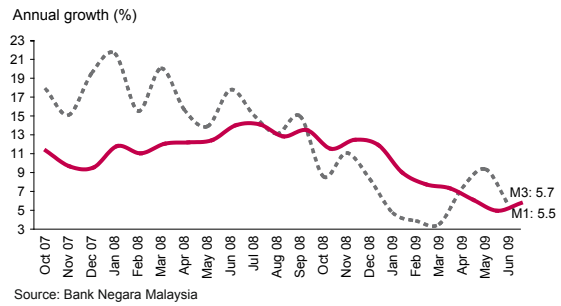
Determinants of Broad Money, M3

	Change during the period			
	2008		2009	
	2Q	Year	1Q	2Q
	RM billion			
M3	**14.7**	**99.1**	**17.4**	**1.1**
Net claims on Govt	-5.1	33.6	5.7	5.8
Claims on private sector	26.1	94.2	5.3	8.7
Loans	*23.5*	*76.9*	*4.5*	*7.9*
Securities	*2.7*	*17.3*	*0.8*	*0.8*
Net foreign assets[1]	2.9	-46.1	3.7	-5.7
BNM	*15.9*	*-12.4*	*-4.3*	*-1.7*
Banking System	*-13.0*	*-33.7*	*8.1*	*-4.0*
Other influences	-9.3	17.4	2.7	-7.7

[1]Pre-revaluation

Source: Bank Negara Malaysia

Monetary Aggregates

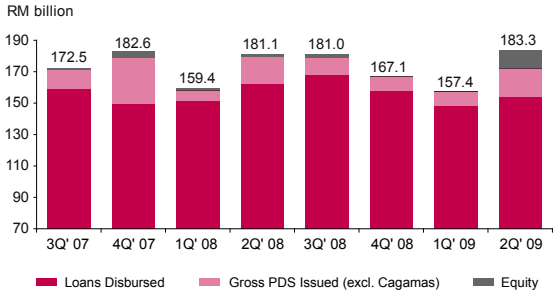


Source: Bank Negara Malaysia

Private sector financing activity improved in the second quarter

Private sector financing activity improved in the second quarter compared to the first quarter. The more accommodative monetary conditions since end-2008 have helped to sustain financing activity in the second quarter. Lending rates were at historic lows and liquidity was ample. Banks continued to play an active intermediation role given their healthy balance sheet positions. Combined with extensive policy measures targeted at improving access to financing for all segments of the economy, total gross financing raised by the private sector through the banking system and the capital market was higher at RM183.4 billion during the quarter (1Q 09: RM157.4 billion). On a net basis, banking system loans and PDS outstanding increased by 8% per annum as at end-June (end-March 2009: 10.7%).

Gross Private Sector Financing through Banking System and Capital Market



Source: Bank Negara Malaysia

Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2008	2Q 08	1Q 09	2Q 09	2008	1Q 09	2Q 09
Gross total financing	**688.6**	**181.1**	**157.4**	**183.3**	**6.1**	**-1.3**	**1.2**
Loans disbursed*	640.3	162.5	148.2	153.8	11.3	-2.2	-5.3
Gross PDS (excl. Cagamas)	42.9	16.9	9.0	18.0	-35.5	39.1	6.6
Equity	5.5	1.7	0.1	11.5	-23.1	-89.3	578.2
Net total financing (A)+(B)	**110.1**	**40.8**	**7.8**	**20.3**	**12.7**	**10.7**	**8.0**
Banking system	87.2	26.2	8.7	7.4	12.4	10.9	8.0
Loans outstanding (A)	*82.3*	*24.3*	*7.3*	*8.9*	*12.8*	*10.9*	*8.3*
Holding of PDS	*4.9*	*1.9*	*1.4*	*-1.5*	*8.6*	*11.2*	*5.0*
PDS outstanding (B)	27.8	16.5	0.5	11.4	12.4	9.9	7.2
Memorandum item							
Gross PDS (incl. Cagamas)	49.7	19.7	9.3	19.3	-28.4	-7.4	-1.9

*Banking system loans include loans sold to Cagamas

Loan Indicators

	During the period (RM billion)				Annual growth (%)			
	2008	2Q 08	1Q 09	2Q 09	2008	2Q 08	1Q 09	2Q 09
Total								
Loan applications	475.5	127.5	108.2	138.5	3.9	6.7	-2.5	8.6
Loan approvals	291.8	80.4	58.9	77.0	-2.3	-3.4	-17.8	-4.2
Loan disbursements	640.3	162.5	148.2	153.8	11.3	18.8	-2.2	-5.3
Loan repayments	568.1	139.8	138.0	148.2	9.5	13.7	-0.7	6.0
Change in loan outstanding*	82.3	24.3	7.3	8.9	12.8	11.7	10.9	8.3
Of which:								
Business enterprises**								
Loan applications	244.3	64.2	52.0	64.3	-7.0	-10.9	-6.1	0.1
Loan approvals	147.9	40.9	26.1	34.7	-18.5	-24.0	-31.5	-15.1
Loan disbursements	455.7	115.6	100.8	102.7	12.3	19.9	-5.2	-11.2
Loan repayments	403.1	99.3	93.5	102.4	8.9	13.6	-4.1	3.1
Change in loan outstanding*	34.4	14.0	-1.2	-1.0	13.2	14.3	9.5	3.7
SMEs**								
Loan applications	100.3	27.8	20.2	26.2	1.2	16.5	-16.1	-6.0
Loan approvals	54.0	15.9	8.9	11.3	-2.0	11.0	-30.6	-29.1
Loan disbursements	163.1	41.1	34.7	34.6	15.1	17.5	-11.7	-15.9
Loan repayments	145.6	35.7	32.3	32.0	14.8	12.0	-9.4	-10.3
Change in loan outstanding*	10.6	3.6	-6.8	0.5	9.3	11.3	-0.4	-2.9
Large corporations								
Loan applications	144.0	36.4	31.8	38.1	-11.9	-24.5	1.7	4.7
Loan approvals	93.9	25.0	17.2	23.5	-25.7	-36.7	-32.0	-6.3
Loan disbursements	292.6	74.5	66.2	68.1	10.8	21.2	-1.5	-8.6
Loan repayments	257.7	63.6	61.2	70.4	5.8	14.5	-1.0	10.6
Change in loan outstanding*	23.8	10.5	5.6	-1.5	16.2	16.6	17.3	8.7
Households								
Loan applications	231.2	63.3	56.1	74.2	18.6	33.4	0.9	17.3
Loan approvals	143.9	39.4	32.8	42.3	22.9	34.5	-2.2	7.2
Loan disbursements	184.6	46.8	47.3	51.1	8.9	16.3	4.9	9.1
Loan repayments	164.9	40.5	44.4	45.8	11.1	13.9	7.2	13.1
Change in loan outstanding*	34.8	9.1	5.8	9.4	9.7	9.3	9.3	9.1

* The annual growth is for end-period.
** Include loans to individual businesses.

Source: Bank Negara Malaysia

Financing extended by the banking system was higher. Loan disbursements rose in the second quarter supported mainly by higher drawdown of loans by the household sector for the purchase of residential property and cars, as well as for credit card spending and personal loans. Household loans outstanding expanded by RM9.4 billion in the second quarter to increase at an annual rate of 9.1% as at end-June (end-March 2009: 9.3%). Loans disbursed to the business sector were sustained across all sectors. Nevertheless, business loans outstanding declined during the quarter following substantially higher business loan repayments, largely reflecting the settlement of loans by a company in the telecommunication sector. On an annual basis, business loans outstanding expanded at a slower rate of 3.7% as at end-June (end-March 2009: 9.5%).

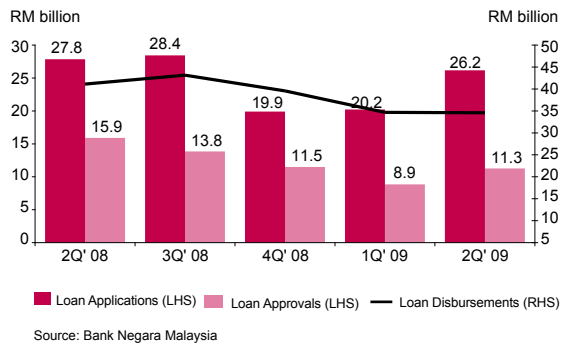
Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	2008	2Q 08	1Q 09	2Q 09		
	(RM billion)				(%)	
Business enterprises	**455.7**	**115.6**	**100.8**	**102.7**	**66.8**	**45.1**
Large corporations	*292.6*	*74.5*	*66.2*	*68.1*	*44.3*	*29.1*
*SMEs**	*163.1*	*41.1*	*34.7*	*34.6*	*22.5*	*15.9*
Selected sectors						
Agriculture, hunting, forestry and fishing	16.1	4.3	4.2	4.4	2.9	2.3
Mining and quarrying	2.3	0.8	0.7	0.7	0.4	0.3
Manufacturing	151.6	39.9	30.2	30.9	20.1	10.1
Construction	34.8	8.8	8.7	9.1	5.9	4.8
Real estate	16.5	3.6	5.2	4.8	3.1	3.9
Electricity, gas and water supply	2.6	0.5	1.0	0.9	0.6	0.7
Wholesale, retail, restaurants and hotels	114.0	29.7	24.5	25.5	16.6	8.0
Transport, storage and communication	17.8	4.0	5.6	5.8	3.8	3.1
Finance, insurance and business services	57.7	15.0	11.4	11.2	7.3	6.7
Households	**184.6**	**46.8**	**47.3**	**51.1**	**33.2**	**54.9**
Purchase of residential properties	47.1	12.0	11.7	12.7	8.3	25.7
Consumption credit	117.2	30.1	29.7	31.4	20.4	21.4
Of which:						
Credit cards	*59.1*	*14.4*	*16.2*	*16.6*	*10.8*	*3.3*
Purchase of passenger cars	*33.8*	*9.6*	*7.6*	*7.9*	*5.2*	*13.6*
Others	20.4	4.8	6.0	7.0	4.6	7.8
Total	**640.3**	**162.5**	**148.2**	**153.8**	**100.0**	**100.0**

*Include loans to individual businesses.

Source: Bank Negara Malaysia

Bank Lending to SMEs



Source: Bank Negara Malaysia

There is some evidence that the low interest rate environment has helped to stimulate demand for financing. In the household sector, the competitive lending rates for property loans have spurred demand for loans to purchase or refinance residential and non-residential properties. Demand for new financing from businesses has also improved in the second quarter. The increase was observed across all major sectors, namely *finance, insurance and business services; manufacturing; wholesale and retail trade* as well as *construction* sectors and was mainly to finance working capital requirements. The improvement in demand for new financing from both the business and household sectors suggests that going forward financing activity is likely to increase, in line with improvements in economic conditions.

Active fund raising activity in the capital market

Net funds raised in the second quarter increased significantly to RM45.7 billion due to both the public and private sectors. Higher funds were raised by the public sector, reflecting the Government's expansionary fiscal policy. Funds were raised through issuances of a 3-year and a 5.5-year Government Investment Issues (GII), a 10.5-year Malaysian Government Securities (MGS), and the re-opening of the 3-year and 5-year MGS. Additionally, funds were also raised via the issuance of Sukuk Simpanan Rakyat, providing another savings instruments for the Malaysian public. After adjusting for redemptions, net funds raised by the public sector totalled RM24.7 billion.

Fund raising activity by the private sector picked up in both the bond and equity markets. During the quarter, gross funds amounting to RM19.3 billion were raised in the private debt securities

(PDS) market. A significant portion of the amount was raised by a newly-established state-owned sovereign wealth fund. Other large issuers included a special-purpose vehicle (SPV) for a government-linked entity, a diversified holding company as well as several financial institutions. There were also issuances by two non-resident firms during the period. The bulk of funds raised were mainly geared towards working capital and general business activities (87%).

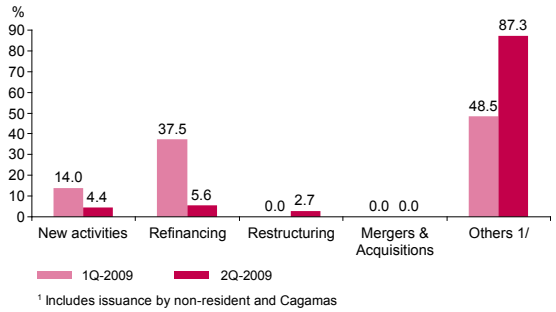
Funds raised in the equity market recorded a marked increase following two large rights issues by a telecommunications and a finance corporation totaling RM11.3 billion in April. The large rights issues were for the purpose of debt repayment and working capital financing. In addition, two new listings were recorded on Bursa Malaysia in the month of June as market sentiments continued to improve.

Funds Raised in the Capital Market

	2008		2009		
	2Q	1H	1Q	2Q	1H
	RM billion				
By Public Sector	**11.0**	**21.6**	**10.8**	**24.7**	**35.5**
Government securities, *net*	10.5	21.2	8.8	19.7	28.5
Malaysian Government Securities	*7.0*	*21.3*	*20.5*	*12.7*	*33.2*
Government Investment Issues	*3.5*	*5.5*	*6.0*	*10.5*	*16.5*
Less: Redemptions	*0.0*	*5.7*	*17.7*	*3.5*	*21.2*
Khazanah Bonds, *net*	-1.0	-1.0	-	-	-
Savings Bonds, *net*	1.5	1.5	2.0	5.0	7.0
By Private Sector	**12.7**	**14.7**	**0.8**	**21.0**	**21.9**
Shares	1.7	3.1	0.1	11.5	11.7
Debt securities, *net*	11.0	11.7	0.7	9.5	10.2
Private Debt Securities	*19.7*	*29.7*	*9.3*	*19.3*	*28.6*
Less: Redemptions	*8.7*	*18.0*	*8.6*	*9.8*	*18.4*
Total	**23.7**	**36.4**	**11.6**	**45.7**	**57.4**

Source: Bank Negara Malaysia and Bursa Malaysia

Private Debt Securities Issued by Purpose (% of total)



[1] Includes issuance by non-resident and Cagamas

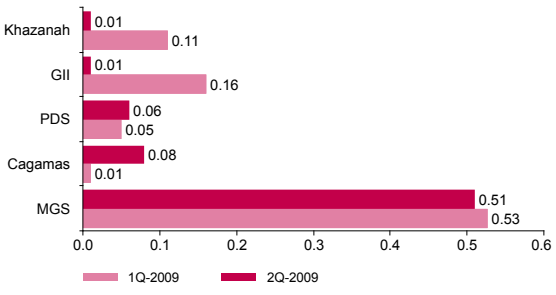
Source: Bank Negara Malaysia

Higher secondary trading in the bond market

Total trading in the secondary market rose to RM139.3 billion during the quarter (1Q 09: RM132 billion). Government securities (MGS and GII) accounted for 90% of the total trade. In addition, trading of PDS was higher to account for 10% of the total trade (1Q 09: 8.9%). In terms of liquidity, the MGS remains the most liquid paper, registering a liquidity ratio of 0.51.

Amid global concerns on fiscal positions, most investors continued to be cautious and focused primarily on short-term maturities. This led to the reduction of liquidity at the longer end of the MGS yield curve, thus exerting upward pressure on yields. Nevertheless, the rise in yields was mitigated slightly following the downtrend in headline inflation. MGS yields remained stable despite the downgrading of Malaysia's long-term local currency rating by Fitch Ratings on 9 June. By-end June 2009, the 5-year and 10-year MGS yields rose by 30 and 55 basis points respectively, while the 3-year MGS yields increased by 6 basis points, leading to a steepening of the yield curve.

Liquidity Ratio: Turnover / Outstanding



Source: Bank Negara Malaysia

Trend in MGS Yields



Source: Bank Negara Malaysia

Bursa Malaysia: Turnover of Corporate Securities

	2008				2009					
	2Q		1H		1Q		2Q		1H	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	35,927	83,429	89,889	201,473	26,360	39,927	107,707	99,768	134,067	139,695
Of which:										
Main Board	28,347	80,553	64,835	192,105	22,657	39,075	90,513	95,128	113,169	134,203
Of which										
Consumer Products	891	2,999	1,822	6,621	675	2,096	3,685	4,158	4,360	6,255
Industrial Products	3,341	6,271	6,750	13,273	3,798	2,401	19,188	13,950	22,986	16,351
Construction	3,326	6,427	8,048	20,248	2,508	2,936	7,252	8,709	9,760	11,645
Trading/Services	9,165	28,490	19,549	67,010	8,261	14,423	30,596	33,378	38,857	47,801
Finance	2,992	18,139	6,382	40,115	1,903	8,095	7,158	14,424	9,061	22,519
Properties	3,054	3,442	7,288	8,469	2,984	1,895	15,248	9,134	18,232	11,029
Plantations	1,528	9,922	3,790	23,788	1,085	4,332	2,176	6,843	3,261	11,175
Infrastructure	952	2,960	2,100	6,631	629	2,405	2,316	3,068	2,945	5,473
Second Board	2,403	1,825	6,502	4,863	1,647	498	7,480	2,754	9,127	3,252
Mesdaq	2,519	858	8,140	3,296	798	193	6,969	1,220	7,766	1,413

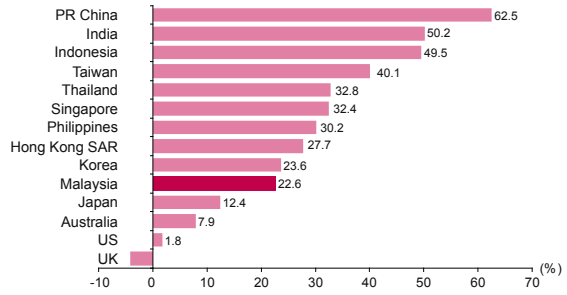
Source: Bursa Malaysia

KLCI increased in the second quarter

The KLCI ended the second quarter higher at 1,075.2 (1Q 09: 872.6), in line with other regional markets. The improvement in global credit market conditions and signs of economic recovery supported investors' optimism and increased risk appetite. In addition, domestic market sentiments were augmented by the announcement of the liberalisation of domestic services and financial sectors and the sustained rise in prices of crude palm oil. Market capitalisation rose to RM817.9 billion (1Q 09: RM662.1 billion) and trading activity increased to a daily average turnover of 1,682.9 million units (1Q 09: 454.5 million units).

On 25 August 2009, the KLCI closed higher at 1,171.1 (since end-2008: +33.6%), with market capitalisation increasing to RM889.4 billion (since end-2008: +34.0%).

Performance of Selected Global and Regional Markets (31 December 2008 - 30 June 2009)



Source: Bloomberg

Bursa Malaysia: Selected Market Indicators

	As at end				
	2008		2009		
	2Q	1H	1Q	2Q	1H
Price Indices					
Composite	1,186.6	1,186.6	872.6	1,075.2	1,075.2
FBM30[1]	7,656.7	7,656.7	5,598.5	6,910.0	6,910.0
FBMEMAS[2]	7,900.4	7,900.4	5,701.1	7,206.8	7,206.8
FTSE Second Board	5,535.6	5,535.6	3,872.4	4,754.5	4,754.5
FTSE Mesdaq	4,404.8	4,404.8	2,942.7	4,096.3	4,096.3
Average daily turnover					
Volume (million units)	570.3	570.3	454.5	1,682.9	1,682.9
Value (RM million)	1,324.3	1,324.3	688.4	1,558.9	1,558.9
Market capitalisation (RM billion)	901.2	901.2	662.1	817.9	817.9
No. of companies listed	986	986	969	960	960

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

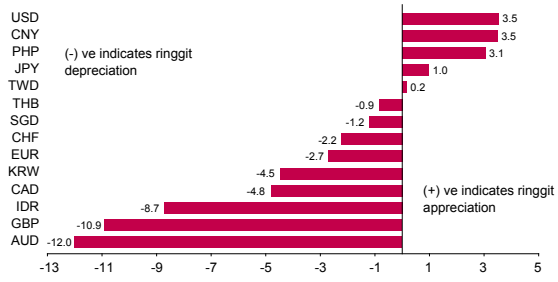
Source: Bursa Malaysia

The ringgit appreciated against the US dollar

The ringgit appreciated by 3.5% against the US dollar during the quarter, reflecting the broad trend of regional currencies. Movements in the ringgit were reflective of improving domestic and regional economic and financial conditions. The ringgit was supported by the rising appetite for emerging markets following signs of stronger growth outlook in the Asian region. The ringgit also appreciated against the yen (1.0%), but depreciated against the pound sterling (-10.9%) and euro (-2.7%). Amid signs of improvements in the UK economy, the pound sterling recovered significantly

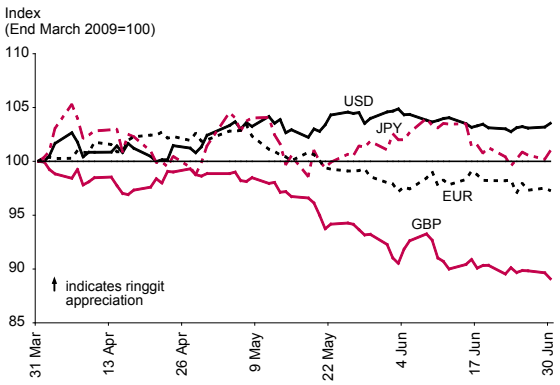
against most currencies including the ringgit to recover some of the marked depreciation experienced in 2008. Against regional currencies, the ringgit appreciated against the Chinese renminbi (3.5%) and Philippine peso (3.1%), but depreciated against other regional currencies between 0.9% and 8.7%. The ringgit depreciated significantly against the Indonesian rupiah and Korean won as these currencies recovered from significant weakness earlier during the year. The rupiah had appreciated against all regional currencies following positive sentiments arising from the favourable domestic economic conditions and recent successful electoral outcome in Indonesia. The Korean won also strengthened as economic conditions improved during the quarter, as a result of stronger exports and domestic demand. Between 1 July and 25 August, 2009, the ringgit appreciated against the US dollar by 0.3%. The ringgit also appreciated against the pound sterling by 1.7%, but depreciated against the Japanese yen (-1.7%) and the euro (-1.1%). Against regional currencies, the ringgit appreciated against the Philiipine peso (1.1%), Thai baht (0.3%) and the Chinese renminbi (0.3%), but depreciated between 0.2% and 2.2% against other regional currencies.

Summary of Ringgit Performance Against Selected Currencies Percent Change (1 April - 30 June 2009)



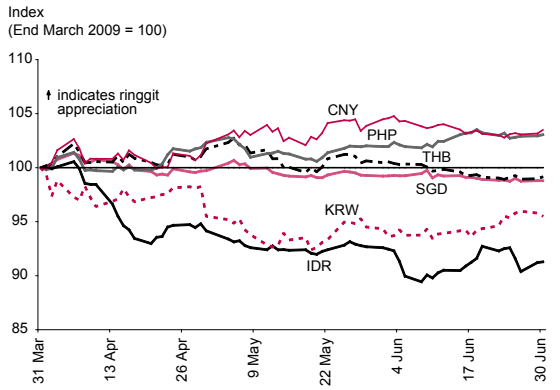
Source: Bank Negara Malaysia

Ringgit Performance Against Major Currencies



Source: Bank Negara Malaysia

Ringgit Performance Against Regional Currencies



Source: Bank Negara Malaysia

Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	2Q 08	1Q 09	2Q 09	21 Jul 05	2Q 08	2Q 09
US dollar	3.8000	3.2665	3.6470	3.5225	7.9	-7.3	3.5
Euro	4.6212	5.1565	4.8348	4.9699	-7.0	3.8	-2.7
Pound sterling	6.6270	6.5114	5.2203	5.8592	13.1	11.1	-10.9
100 Japanese yen	3.3745	3.0749	3.7091	3.6729	-8.1	-16.3	1.0
Singapore dollar	2.2570	2.3995	2.4008	2.4302	-7.1	-1.3	-1.2
100 Thai baht	9.0681	9.7435	10.266	10.354	-12.4	-5.9	-0.9
100 Philippine peso	6.8131	7.2759	7.5343	7.3111	-6.8	-0.5	3.1
100 Indonesian rupiah	0.0386	0.0354	0.0315	0.0345	12.0	2.8	-8.7
100 Korean won	0.3665	0.3128	0.2630	0.2754	33.1	13.6	-4.5
Chinese renminbi	0.4591	0.4764	0.5335	0.5155	-10.9	-7.6	3.5

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

Source: Bank Negara Malaysia