



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

**Ref No.: 01/09/08**

**EMBARGO: Not for publication or  
broadcast before 1930 hours on  
Thursday, 29 January 2009**

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

- On 21 January, the OPR was lowered by 75 basis points to 2.50% while the SRR was reduced by 150 basis points to 2.00%. The reduction in the SRR will be effective from 1 February 2009. The reductions in the OPR and the SRR are pre-emptive measures to provide a more supportive monetary environment for the domestic economy.
- In December, net financing to the private sector from the banking system and capital market continued to expand at a combined annual rate of 12.7%.
- Headline inflation moderated further to 4.4% in December, due mainly to the series of downward fuel price adjustments by the Government and more moderate increases in food prices.
- The risk-weighted capital ratio (RWCR) and core capital ratio improved to 12.6% and 10.5% respectively.
- The net non-performing loans ratio improved to 2.2%.



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## **MONETARY AND FINANCIAL DEVELOPMENTS**

### **December 2008**

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In December, gross financing raised by the private sector increased to RM59 billion. On a net basis, financing to the private sector through banking system loans and PDS outstanding continued to expand at a combined annual rate of 12.7%.

During the period 1 December – 21 January, the daily weighted average overnight interbank rate moved within a narrow range of 3.24% - 3.25%. Interbank rates of other maturities were relatively stable. Following the 75 basis points reduction in the Overnight Policy Rate (OPR) to 2.50% on 21 January, the daily weighted average overnight interbank rate traded lower within a narrow range of 2.50% - 2.51% during the period 22 January - 28 January. Interbank rates of other maturities also softened accordingly. The average fixed deposit (FD) rates of commercial banks (CBs) remained unchanged between December and 8 January. As at 8 January, the average quoted FD rates for tenures between 1 and 12 months remained within the range of 3.01% and 3.50%. Meanwhile, the average base lending rate (BLR) was lower at 6.48% as at 8 January, while the average lending rate (ALR) decreased to 5.68% in December. Lending rates are expected to decrease further following the reduction in the OPR in January.

From 1 December 2008 to 28 January 2009, the ringgit appreciated by 0.2% against the U.S. dollar. Against regional currencies, the ringgit appreciated against

the Chinese renminbi (0.3%), but depreciated against other regional currencies in the range of 0.2% to 6.5%.

Headline inflation moderated further to 4.4% in December (Nov: 5.7%). The decline in inflation was due mainly to the series of downward adjustments to fuel prices by the Government and more moderate increases in food prices.

Broad money, or M3, expanded at an annual rate of 11.9% in December reflecting a drawdown of deposits by the Government to finance its outlays, as well as the higher provision of credit by banks.

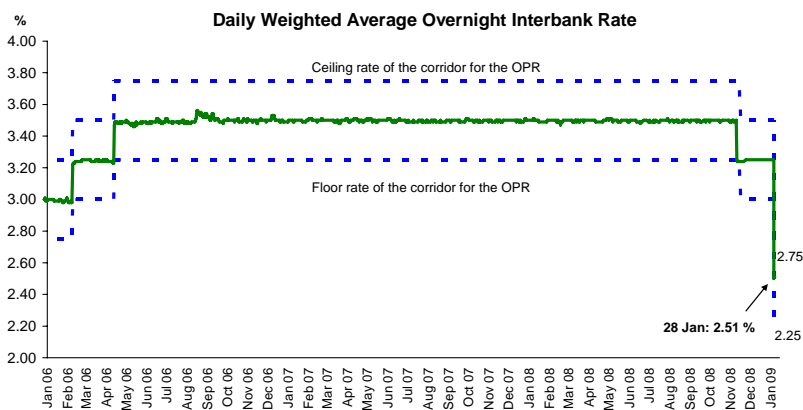
The risk-weighted capital ratio (RWCR) and core capital ratio improved to 12.6% and 10.5% respectively. Meanwhile, the net non-performing loans (NPLs) ratio improved further to 2.2%.

### ***Interest rates decreased in response to the reduction in the OPR***

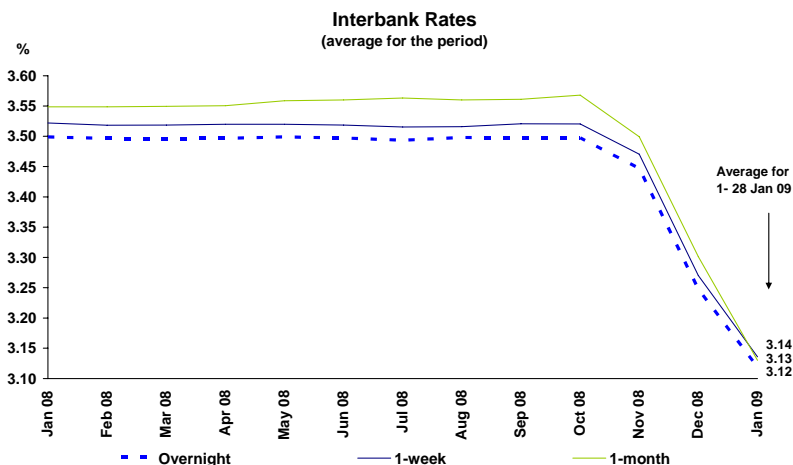
During the period 1 December – 21 January, the daily weighted average overnight interbank rate moved within a narrow range of 3.24% - 3.25%. Interbank rates of other maturities were relatively stable. Following the reduction in the Overnight Policy Rate (OPR) to 2.50% on 21 January, the daily weighted average overnight interbank rate traded lower within a narrow range of 2.50% - 2.51% during the period 22 - 28 January. Interbank rates of other maturities also softened accordingly.

The average fixed deposit (FD) rates of commercial banks (CBs) remained unchanged between December and 8 January. As at 8 January, the average quoted FD rates for tenures between 1 and 12 months remained within the range of 3.01% and 3.50%.

In terms of the CBs' lending rates, the average base lending rate (BLR) was lower at 6.48% as at 8 January (6.66% in November), while the average lending rate (ALR) decreased to 5.86% in December (5.98% in November) following the OPR reduction in November. Lending rates are expected to decrease further following the reduction in the OPR in January.

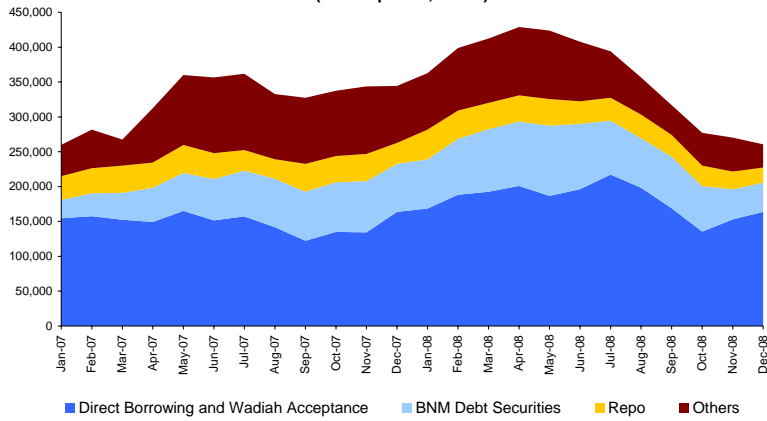


*The average overnight interbank rate was lower following the reduction in the OPR*



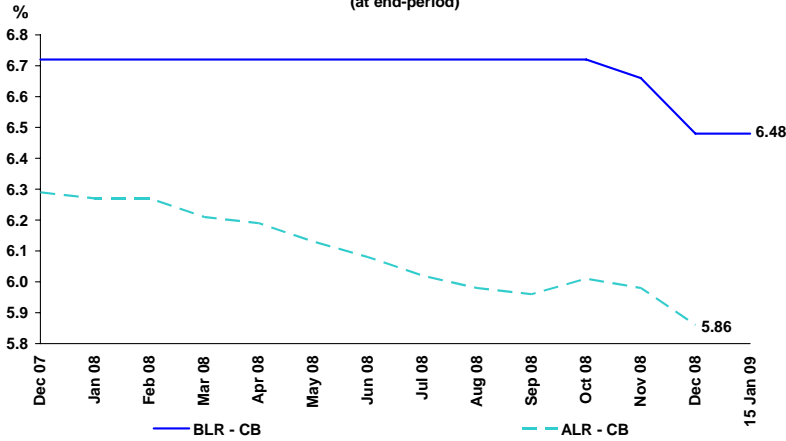
*Other interbank rates also fell after the reduction in the OPR*

**Outstanding Liquidity Placed with BNM**  
(At end-period, RM m)



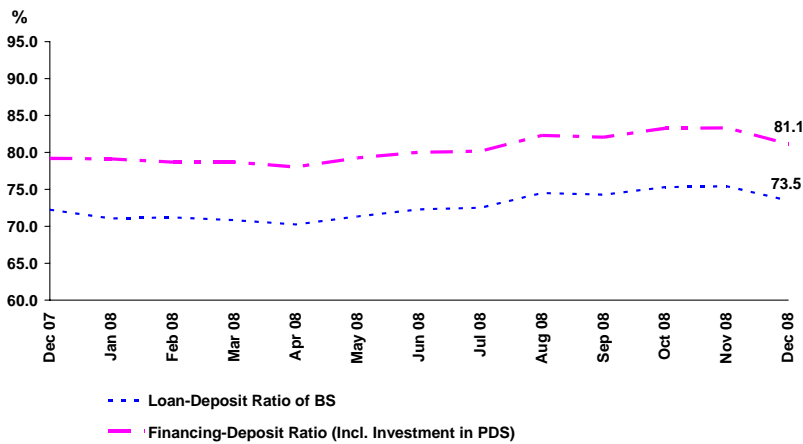
*BNM continued to mop up excess liquidity*

**Lending Rates: CBs**  
(at end-period)

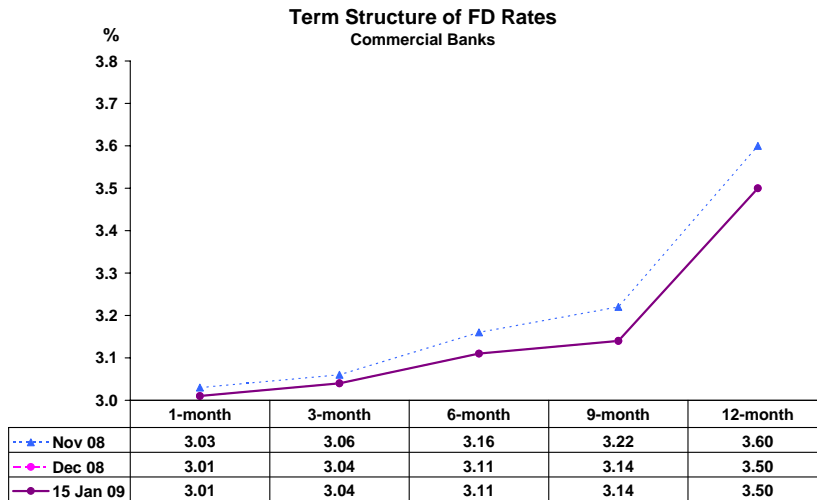


*CBs' ALR trended lower in December following the cut in the OPR*

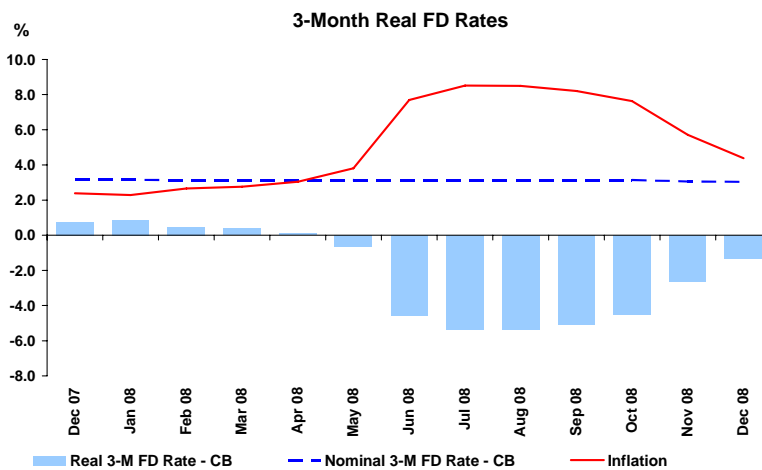
**Liquidity Situation**



*The loan-deposit and financing-deposit ratios decreased in December, as deposits rose at a faster pace than loans and total financing*



*Average FD rates were lower in December*

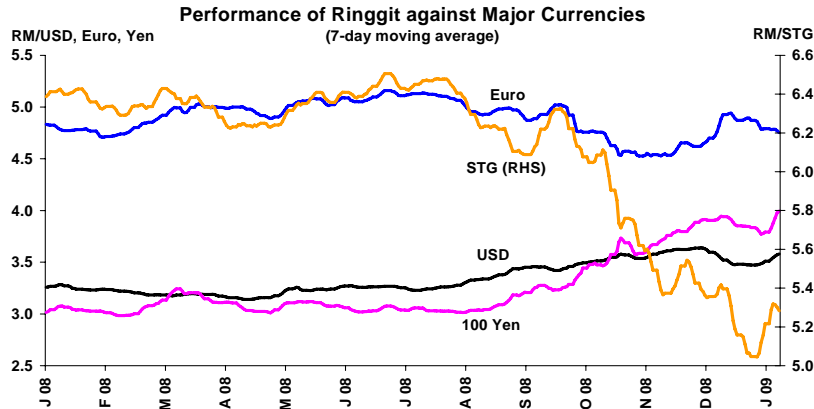


*Real FD rates were less negative due to the lower inflation*

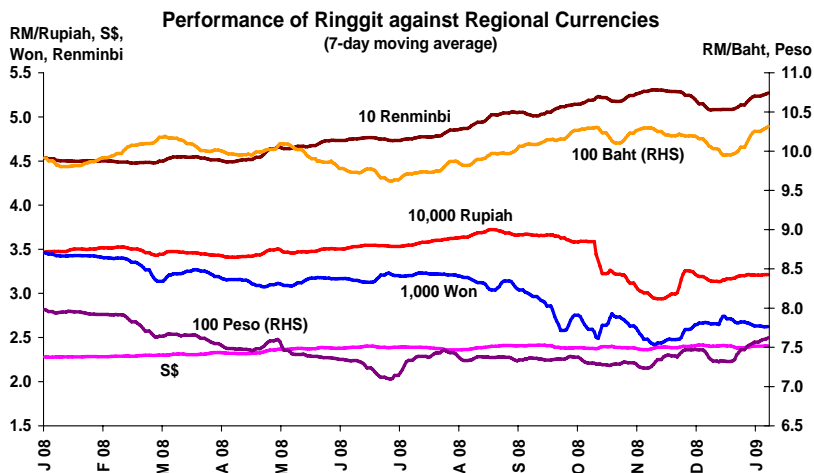
### ***The ringgit depreciated against most currencies***

From 1 December 2008 to 28 January 2009, the ringgit appreciated by 0.2% against the U.S. dollar. In December, the ringgit, along with most currencies, appreciated against the U.S. dollar due to market expectations that the aggressive policy measures by the authorities in the U.S. will ease concerns surrounding the U.S. and the global economy. Nevertheless, the strength of the regional currencies against the U.S. dollar was short-lived as subsequent data indicated a sharper downturn in the U.S. and the world economy. Against other major currencies, the ringgit appreciated against the pound sterling (8.5%), but depreciated against the Japanese yen (-6.2%) and the euro (-2.3%). Against regional currencies, the

ringgit appreciated against the Chinese renminbi (0.3%), but depreciated against other regional currencies in the range of 0.2% to 6.5%.



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



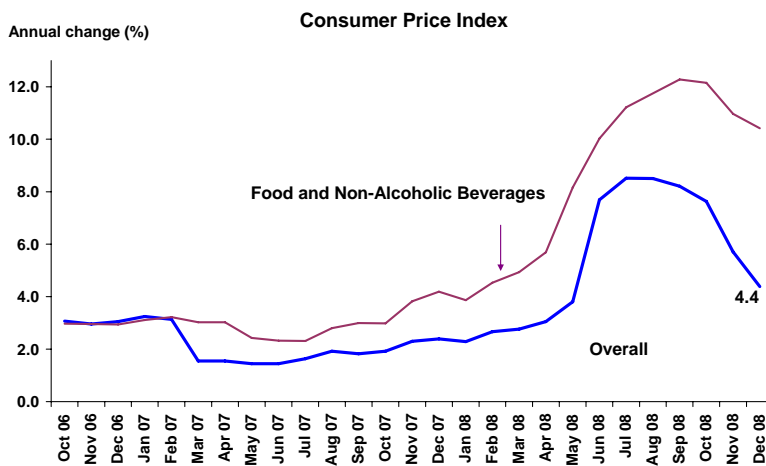
*The ringgit depreciated against most regional currencies*

### Performance of Ringgit against Selected Currencies

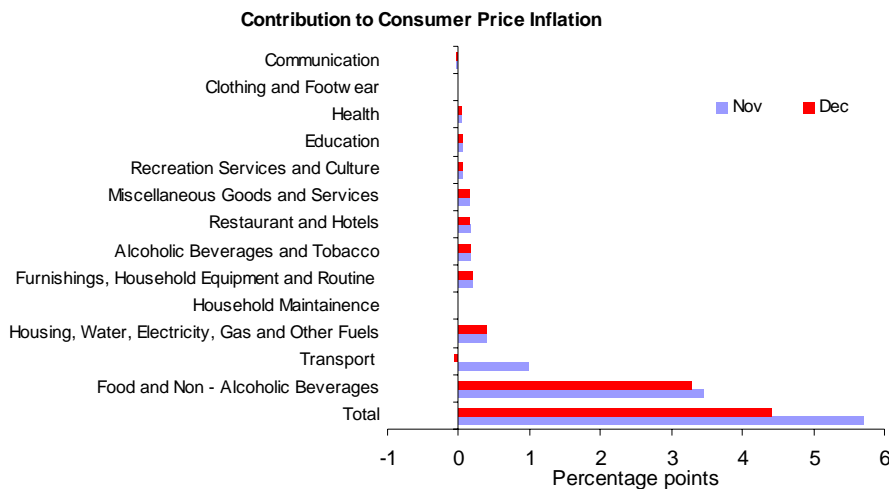
RM per foreign currency	End-period				% Change	
	Dec 07	Nov 08	Dec 08	28 Jan 09	End Dec 07 - 28 Jan 09	End Nov 08 - 28 Jan 09
US dollar	3.3065	3.6175	3.4640	3.6095	-8.4	0.2
Euro	4.8756	4.6660	4.8759	4.7772	2.1	-2.3
Pound sterling	6.6070	5.5684	4.9989	5.1302	28.8	8.5
100 Japanese yen	2.9534	3.7965	3.8327	4.0486	-27.1	-6.2
Singapore dollar	2.2938	2.4003	2.4070	2.4049	-4.6	-0.2
100 Thai baht	9.8159	10.200	9.9398	10.344	-5.1	-1.4
100 Philippine peso	8.0158	7.4038	7.2774	7.6855	4.3	-3.7
100 Indonesian rupiah	0.0352	0.0297	0.0316	0.0318	10.8	-6.5
100 Korean won	0.3532	0.2480	0.2750	0.2606	35.6	-4.8
Chinese renminbi	0.4527	0.5296	0.5076	0.5277	-14.2	0.3

***Inflation moderated further***

Headline inflation moderated further to 4.4% in December (Nov: 5.7%). The decline in inflation was due mainly to the series of downward adjustments to fuel price by the Government. At RM1.80 per liter for RON97, fuel prices are now even lower than the levels prevailing before the upward revision in June 2008. Consequently, prices in the *transport* category declined by 0.3% in December (Nov: 6.2%), which contributed to 79.5% of the decline in inflation during the month. Inflation in the *food and non-alcoholic beverages* category also continued to moderate, rising at a slower rate of 10.4% in December (Nov: 11.0%).



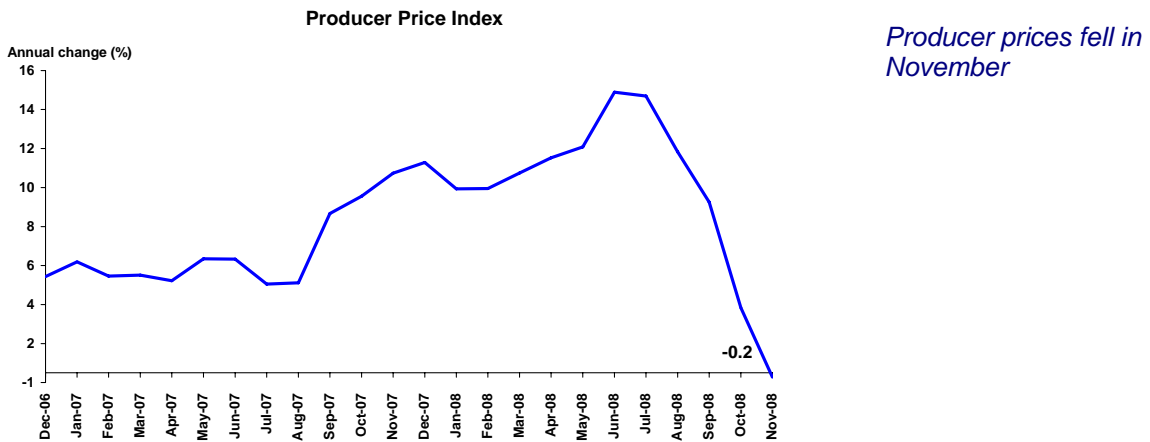
*Inflation slowed further to 4.4% in December*



### ***Producer prices fell in November***

Producer price inflation turned negative in November, declining to -0.2% (Oct: 3.3%). Four components of the producer price index (PPI) recorded negative growth rates while other components showed slower price increases. Inflation in the commodity-based component of the PPI declined markedly to -2.3% (Oct: 7.6%). In the non-commodity-based component of the PPI, inflation rates also moderated significantly to 0.7% (Oct: 1.6%).

In terms of composition, both the local and imported components of the PPI recorded negative inflation rates. In November, the local and imported components both declined to -0.2% (Oct: 4.3% and 1.5% respectively).



### ***Monetary aggregates expanded in December***

In December, broad money or M3, increased by RM22.5 billion, to expand at an annual rate of 11.9%. The increase in M3 was underpinned by a drawdown of deposits by the Government to finance its outlays. M3 also expanded due to the higher provision of credit by banks. Meanwhile, net foreign outflows continued to exert a contractionary impact on M3. The impact of outflows, however, was smaller in December compared to the previous months, as the magnitude of outflows moderated considerably.

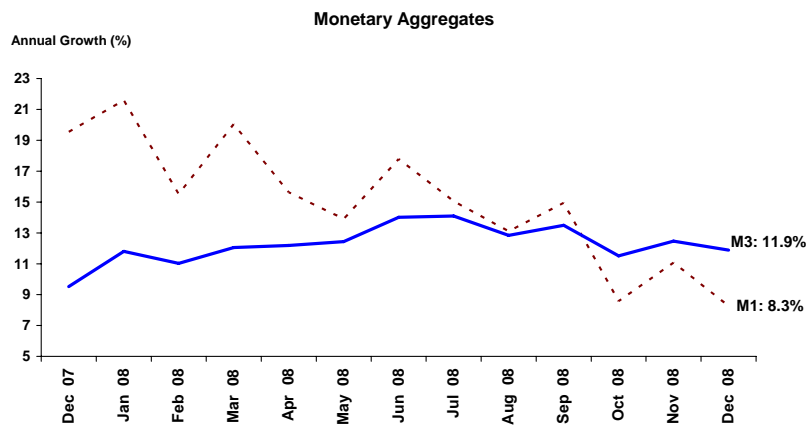
**M3 Determinants**

(RM billion)

	Change during period			
	Sep 08	Oct 08	Nov 08	Dec 08
M3	8.2	-12.3	8.8	22.5
Net claims on Government	10.7	-3.7	5.2	21.6
Claims on the private sector	8.0	5.4	10.9	2.7
<i>Loans</i>	4.9	1.8	7.5	1.6
<i>Securities</i>	3.2	3.6	3.4	1.1
Net foreign assets*	-28.3	-22.7	-12.1	-4.0
Other influences	17.8	8.6	4.8	2.3

\* 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 significantly***

In December, total deposits with the banking system increased significantly by RM29.3 billion or 11.9% on an annual basis (November: RM9.6 billion; 12.4%). The increase in deposits was due to the payment of outlays by the Government mainly for development projects and bonuses to civil servants during the month. By customer, higher deposits were placed by financial institutions, business enterprises, and to a lesser extent, individuals. By type, the increase in deposits was mainly in the form of short-term money market deposits and demand deposits.

**Deposits by Holder**  
(RM million)

	Change during period			
	Sep 08	Oct 08	Nov 08	Dec 08
Federal Government	-1,533	-884	1,847	622
State Governments	-837	-111	-354	230
Statutory Authorities <sup>1</sup>	-305	617	2,517	-1,272
Financial Institutions	10,998	-7,080	-642	13,789
Business Enterprises	-5,528	-1,050	2,797	13,348
Individuals	4,701	356	2,814	5,039
Others <sup>2</sup>	1,623	-530	623	-2,453
<b>Total</b>	<b>9,118</b>	<b>-8,682</b>	<b>9,603</b>	<b>29,303</b>

1/ Include local Governments

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

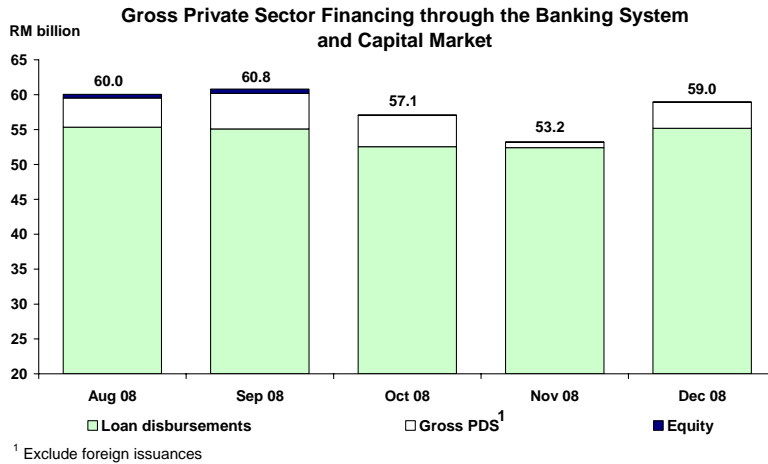
**Deposits by Type**  
(RM million)

	Change during period			
	Sep 08	Oct 08	Nov 08	Dec 08
Fixed deposits	2,390	3,686	629	4,423
NIDs	5,252	-532	1,415	4,913
Demand deposits	260	-3,057	466	6,118
Savings deposits	820	-593	-258	2,047
Repos	779	-2,661	-808	-12
FX deposits	1,080	837	316	-995
SPI deposits	-1,540	651	6,327	4,934
Others <sup>1</sup>	78	-7,013	1,515	7,876
<b>Total</b>	<b>9,118</b>	<b>-8,682</b>	<b>9,603</b>	<b>29,303</b>

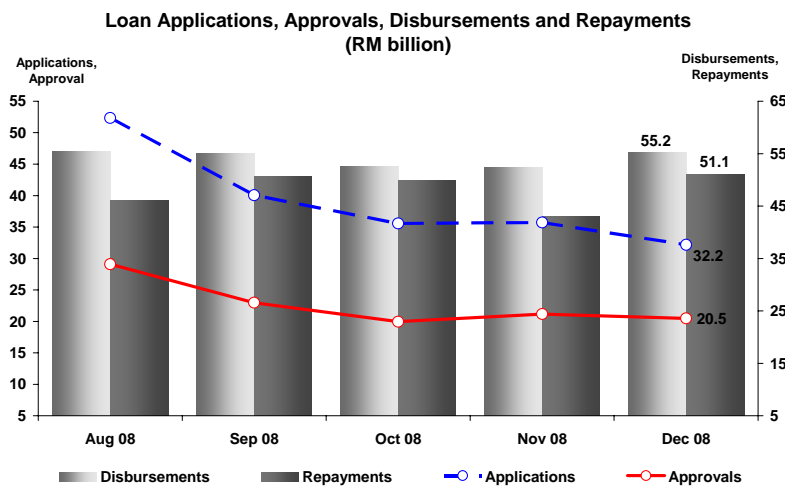
1/ Other deposits comprised mainly of short-term money market deposits

### ***Higher gross financing activity***

On a net basis, financing to the private sector through banking system loans and PDS outstanding continued to expand at a combined annual rate of 12.7% (November: 13.1%). On gross terms, financing raised by the private sector from the banking system and the capital market increased to RM59 billion in December (November: RM53.2 billion). Both loan disbursements and new issuances of private debt securities (PDS) increased during the month.



*Gross financing rose*



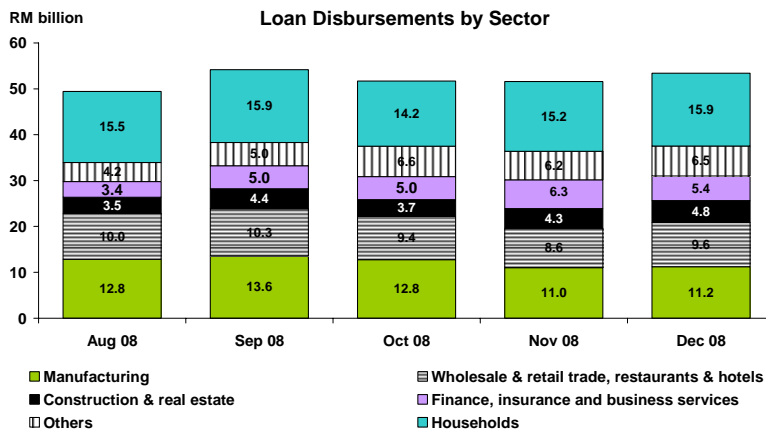
*Higher loan disbursements during the month ...*

	Bank lending indicators			
	RM billion		Annual Growth (%)	
	Nov-08	Dec-08	Nov-08	Dec-08
<b>Overall</b>				
Loan applications	35.7	32.2	-32.6	-18.8
Loan approvals	21.2	20.5	-44.0	-23.7
Loan disbursements	52.4	55.2	7.5	4.8
Chg in Loans Outstanding <sup>1/</sup>	8.0	3.2	10.7	12.8
<b>Businesses</b>				
Loan applications	17.5	15.6	-49.2	-33.7
Loan approvals	9.6	10.8	-64.5	-37.9
Loan disbursements	37.2	39.3	9.1	3.0
Chg in Loans Outstanding <sup>1/</sup>	-0.7	-0.4	7.8	13.2
<b>SMEs<sup>2/</sup></b>				
Loan applications	6.9	6.0	-35.7	-18.1
Loan approvals	4.0	4.1	-29.2	4.3
Loan disbursements	12.7	13.4	-3.4	8.2
Chg in Loans Outstanding <sup>1/</sup>	0.3	-0.4	10.2	9.4
<b>Households</b>				
Loan applications	18.2	16.5	-1.6	3.2
Loan approvals	11.6	9.7	6.9	2.3
Loan disbursements	15.2	15.9	3.7	9.3
Chg in Loans Outstanding <sup>1/</sup>	3.3	3.0	9.0	9.1

*...to both the business and household sectors*

<sup>1/</sup> The annual growth in outstanding amount as at end-period.

<sup>2/</sup> Include loans to individual businesses.

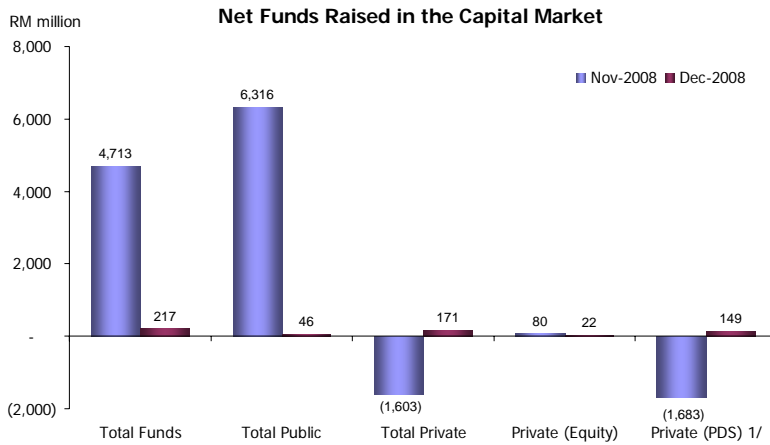


Loans approved to the business sector increased on a month-on-month basis, mainly to the *finance, insurance and business services* sector. Loan disbursements were also higher, with the bulk of the increase channelled to the *wholesale, retail trade, restaurants and hotels; construction as well as transport, storage and communication* sectors. Corresponding to the higher loan disbursements, loans outstanding of the business sector expanded at an annual growth rate of 13.2% as at end-December (end-November: 7.8%).

For the household sector, demand for financing expanded at a slower rate in December. Loan disbursements, however, were higher during the month, mainly supported by the increase in credit card and personal loans. On a net basis, household loans outstanding continued to expand at an annual growth rate of 9.1% as at end-December (end-November: 9.0%).

### ***Lower net funds raised in the capital market***

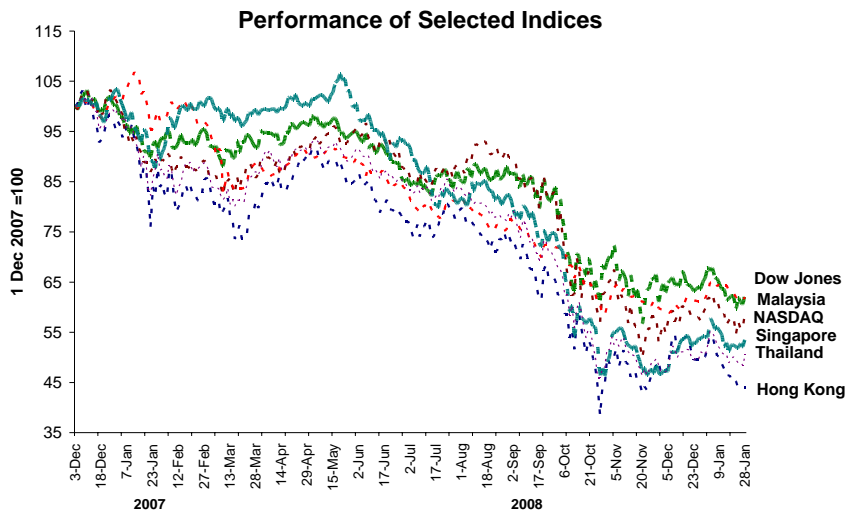
In December, net funds raised in the capital market were significantly lower and amounted to RM217 million. In the private sector, fund raising activity improved, with gross funds raised totaling RM3.8 billion. The bulk of PDS issuances were raised in the finance, insurance, real estate and business services sector to finance new activities. After adjusting for redemptions, net funds raised in the private sector amounted to RM171 million. In the public sector, net funds raised were lower due to the larger redemptions in December.



1/ Including Cagamas Bonds

***KLCI advanced in December***

In December, the KLCI rose modestly to close at 876.8 points (since end-November: 1.2%). This was due mainly to support given by the plantation sector stocks following higher crude palm oil prices. Market capitalisation increased to RM663.8 billion (since end-November: 1.1%), while the daily average turnover fell significantly to 393.6 million units (November: 750.0 million units).

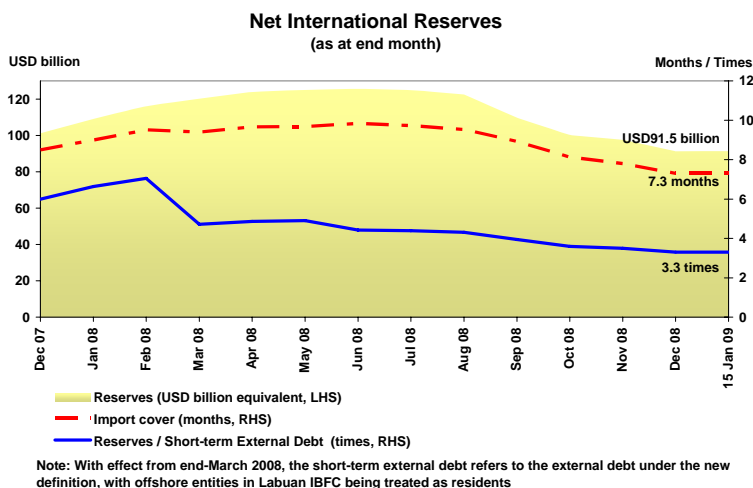


*KLCI rose modestly in December*

As at 28 January, the KLCI ended higher at 879.6 points (since end-December: 0.3%). Overall market capitalisation was higher at RM664.9 billion (since end-December: 0.2%) and the daily average turnover increased to 542.7 million units.

## ***International reserves***

The net international reserves of Bank Negara Malaysia amounted to RM316.8 billion (equivalent to USD91.3 billion) as at 31 December 2008. The reserves level as at 31 December 2008 has taken into account the quarterly adjustment for the foreign exchange revaluation loss, following the strengthening of the ringgit against some of the major currencies during the quarter. As at 15 January 2009, the international reserves amounted to RM317.2 billion (equivalent to USD91.5 billion). The international reserves position is sufficient to finance 7.3 months of retained imports and is 3.3 times the short-term external debt.



## ***Banking system remains well-capitalised amidst continued improvement in the level of non-performing loans***

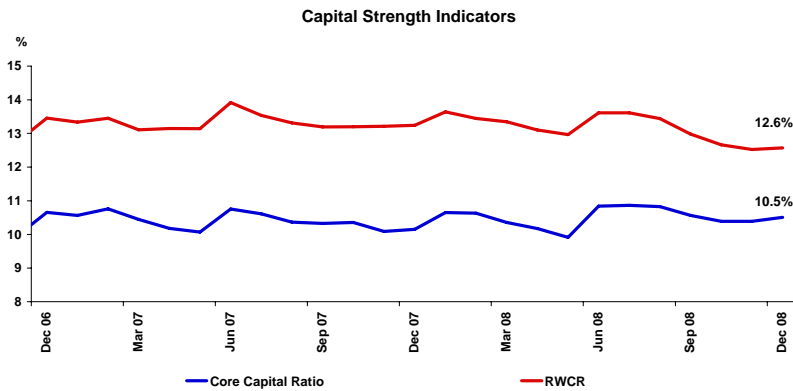
The banking system maintained its position of strength. Both the risk-weighted capital ratio (RWCR) and core capital ratio improved to 12.6% and 10.5% respectively on account of a slight improvement in the capital base following capital expansion by several banking institutions. Improvements in loan delinquencies were sustained with the net non-performing loans ratio declining further to 2.2%, underpinned by continued restructuring and reclassification to performing loans.

**Banking System Health Indicators**

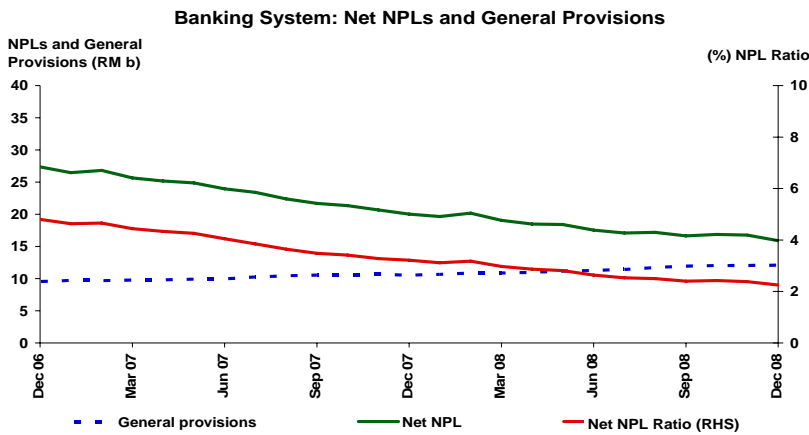
	2001	2002	2003	2004	2005	2006	2007	Oct 08	Nov 08	Dec 08
<b>Capital (%) **</b>										
Core capital ratio	11.1	11.1	11.1	11.4	10.7	10.7	10.2	10.4	10.4	10.5
RWCR	13.0	13.2	13.8	14.4	13.7	13.5	13.2	12.7	12.5	12.6
<b>Net NPLs (3-month classification)</b>										
% of net total loans	11.5	10.2	8.9	7.5	5.8	4.8	3.2	2.4	2.4	2.2
Amount (RM million)	46,254	43,110	40,013	36,668	31,332	27,360	20,011	16,878	16,780	15,900
<b>GP / Net total loans (3-month, %)</b>										
	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

	Oct 08		Nov 08		Dec 08		
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth	
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)	
<b>Monetary Aggregates</b>							
Reserve money	69.5	16.0	69.1	10.3	68.5	7.2	
M1	172.7	8.6	176.2	11.1	183.0	8.3	
M2	870.8	13.3	880.9	14.4	903.4	13.4	
M3	900.4	11.5	909.2	12.5	931.8	11.9	
<b>Banking System</b>							
Total deposits	933.5	10.9	943.1	12.4	972.4	11.9	
Total loans (including loans sold to Cagamas)	715.3	10.3	723.4	10.7	726.6	12.8	
Loan-deposit ratio (%)		75.3		75.4		73.5	
Financing-deposit ratio <sup>1</sup> (%)		83.3		83.3		81.1	
Loans applied (during the period)	35.6	-7.9	35.7	-32.6	32.2	-18.8	
Loans approved (during the period)	20.0	-14.4	21.2	-44.0	20.5	-23.7	
Loans disbursed (during the period)	52.6	8.2	52.4	7.5	55.2	4.8	
Loans repaid (during the period)	49.9	12.6	43.0	-3.3	51.1	-21.4	
<b>Banking System Health</b>							
Risk-weighted Capital Ratio (RWCR) (%)		12.7		12.5		12.6	
Net NPLs: 3-month classification (%)		2.4		2.4		2.2	
<b>International Reserves of BNM (end-period)</b>							
Net Reserves in RM billion		345.5		336.4		316.8	
Net Reserves in USD billion (equivalent)		100.2		97.7		91.3	
Months of retained imports		8.1		7.8		7.3	
<b>Interest Rates at end-period [average for the month]</b>							
Overnight Policy Rate (OPR)		3.50		3.45		3.25	
Interbank:	Overnight	3.49 [3.50]		3.24 [3.45]		3.25 [3.25]	
	1-week	3.52 [3.52]		3.27 [3.52]		3.27 [3.27]	
	1-month	3.57 [3.57]		3.31 [3.49]		3.30 [3.30]	
Fixed deposits of commercial banks:	1-month	3.08		3.03		3.01	
	3-month	3.14		3.06		3.04	
BLR of commercial banks		6.72		6.66		6.48	
ALR of commercial banks		6.01		5.98		5.86	
<b>Prices</b>							
Consumer Price Index (CPI) (2005=100)		114.2	7.6	112.9	5.7	111.8	4.4
Producer Price Index (PPI) (2000=100)		139.4	3.3	136.5	-0.2	n.a.	n.a.
<b>Exchange Rates of Ringgit against Selected Currencies (end-period)</b>							
US dollar		3.5625		3.6175		3.4640	
Euro		4.5794		4.6660		4.8759	
Pound Sterling		5.8382		5.5684		4.9989	
100 Japanese yen		3.6127		3.7965		3.8327	
Singapore dollar		2.4050		2.4003		2.4070	
100 Thai Baht		10.171		10.200		9.9398	
100 Philippine Peso		7.2767		7.4038		7.2774	
100 Indonesian Rupiah		0.0325		0.0297		0.0316	
100 Korean Won		0.2787		0.2480		0.2750	
<b>Capital Market</b>							
Net funds raised (in Rmb) by:	public	7.5		6.3		0.05	
	private	1.9		-1.6		0.2	
Bursa Malaysia Composite Index (end-period)		863.6		866.1		876.8	
Bursa Malaysia Market Capitalisation (Rmb, end-period)		655.3		656.6		663.8	

<sup>1</sup> Refers to the ratio of loans and holdings of PDS by the banking system to deposits of the banking system.