



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

**Ref. No.: 11/08/08**

**EMBARGO: Not for publication  
or broadcast before 1800 hours  
on Friday, 28 November 2008**

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

- Given the heightened downside risks to growth and the diminishing inflationary pressures, the Overnight Policy Rate (OPR) was reduced by 25 basis points on 24 November as a pre-emptive measure aimed at providing a more accommodative monetary environment.
- To further reduce the cost of intermediation, the Statutory Reserve Requirement (SRR) was also reduced from 4% to 3.5%, with effect from 1 December 2008.
- Liquidity in the domestic financial system remains ample as evidenced by the accommodative financing-deposit and loan-deposit ratios.
- Financial institutions have sufficient liquidity to fund their lending activities. Net financing to the private sector through banking system loans and PDS outstanding expanded at a steady growth rate of 13.4% in October. Total loans outstanding expanded at an annual growth rate of 10.3% as at end-October.
- Headline inflation moderated to 7.6% in October, mainly on account of the reduction in fuel prices by the Government. Headline inflation is expected to continue to moderate given the downward trend in global and domestic fuel prices.



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## **MONETARY AND FINANCIAL DEVELOPMENTS**

### **October 2008**

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In October, gross financing to the private sector remained high at RM57.1 billion. On a net basis, financing to the private sector through banking system loans and PDS outstanding expanded at a steady growth rate of 13.4%. Total loans outstanding expanded at an annual growth rate of 10.3% as at end-October.

During the period 1 October – 24 November, the daily weighted average overnight interbank rate moved within a narrow range of 3.49% - 3.51%. Interbank rates of other maturities were relatively stable. Following the reduction in the Overnight Policy Rate (OPR) to 3.25% on 24 November, the daily weighted average overnight interbank rate traded lower within a narrow range of 3.24% - 3.25% during the period 25 - 27 November. As at 15 November, the average quoted FD rates for tenures between 1 and 12 months were within the range of 3.08% and 3.70%. In terms of the CBs' lending rates, the average base lending rate (BLR) was unchanged at 6.72%, while the average lending rate (ALR) increased to 6.01% in October.

During the period 1 October to 27 November 2008, the ringgit depreciated by 4.5% against the US dollar. The ringgit, along with most currencies, continued to be affected by the de-leveraging process and heightened risk aversion amid the ongoing turmoil in the global financial markets. Against other major currencies, the ringgit appreciated against the pound sterling (11.8%) and the euro (6.1%), but depreciated against the Japanese yen (-12.8%). Against regional currencies, the

ringgit depreciated against the Chinese renminbi (-4.7%), Philippine peso (-1.2%) and the Thai baht (-0.8%), but appreciated against other regional currencies in the range of 0.9% to 24.1%.

Headline inflation moderated to 7.6% in October, mainly on account of the reduction in fuel prices by the Government. Headline inflation is expected to continue to moderate given the downward trend in global and domestic fuel prices.

Broad money, or M3, grew at an annual rate of 11.5% in October. The expansionary effect of higher credit to the private sector was offset by the contractionary impact of net foreign outflows as well as Government operations.

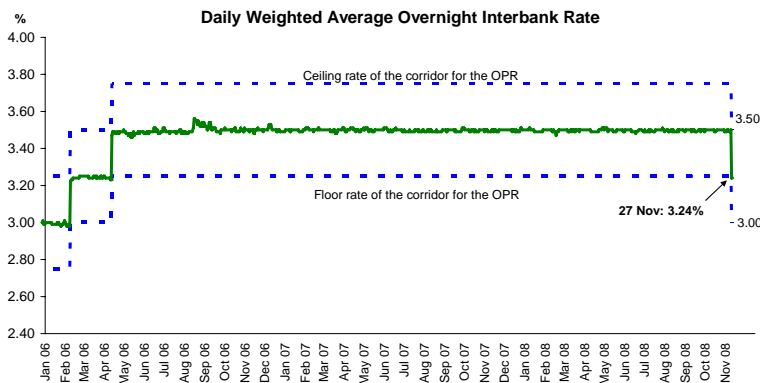
The net non-performing loans (NPLs) ratio of the banking system was sustained at 2.4%. The capitalisation of the banking system remained at a strong level with a risk-weighted capital ratio (RWCR) of 12.6%.

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

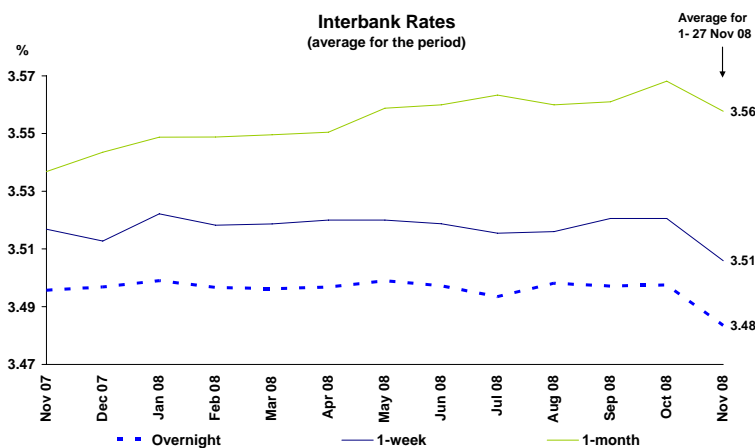
During the period 1 October – 24 November, the daily weighted average overnight interbank rate moved within a narrow range of 3.49% - 3.51%. Interbank rates of other maturities were relatively stable. Following the reduction in the Overnight Policy Rate (OPR) to 3.25% on 24 November, the daily weighted average overnight interbank rate traded lower within a narrow range of 3.24% - 3.25% during the period 25 - 27 November.

The average fixed deposit (FD) rates of commercial banks (CBs) remained unchanged in October. As at 15 November, the average quoted FD rates for tenures between 1 and 12 months were within the range of 3.08% and 3.70%.

In terms of the CBs' lending rates, the average base lending rate (BLR) was unchanged at 6.72%, while the average lending rate (ALR) increased to 6.01% in October (5.96% in September).

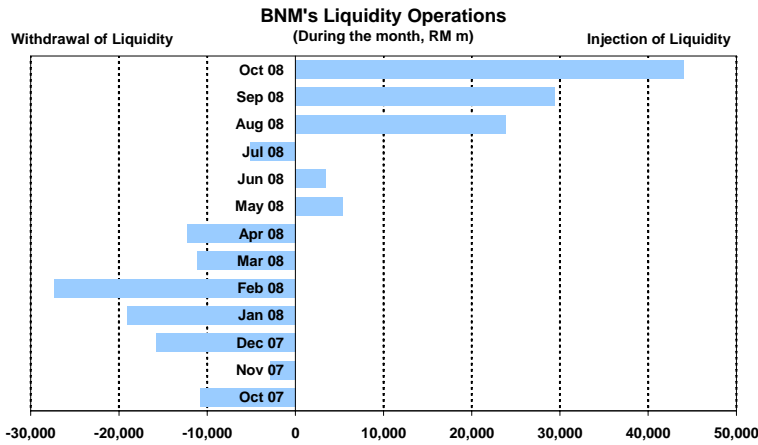


*The average overnight interbank rate was lower following the reduction in the OPR*

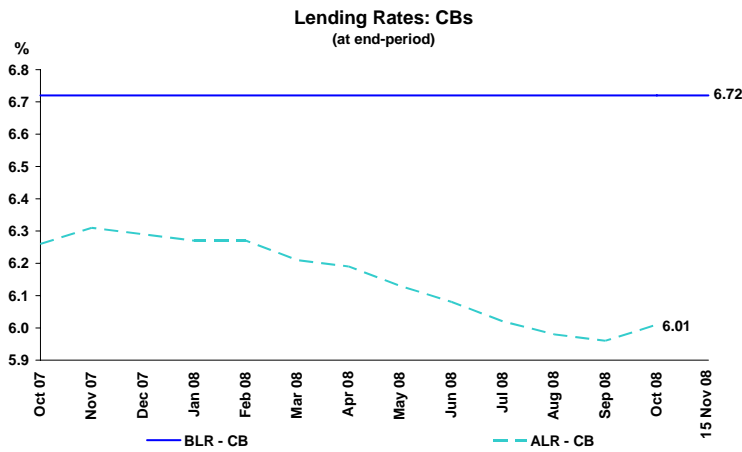


*Other interbank rates softened following the reduction in the OPR*

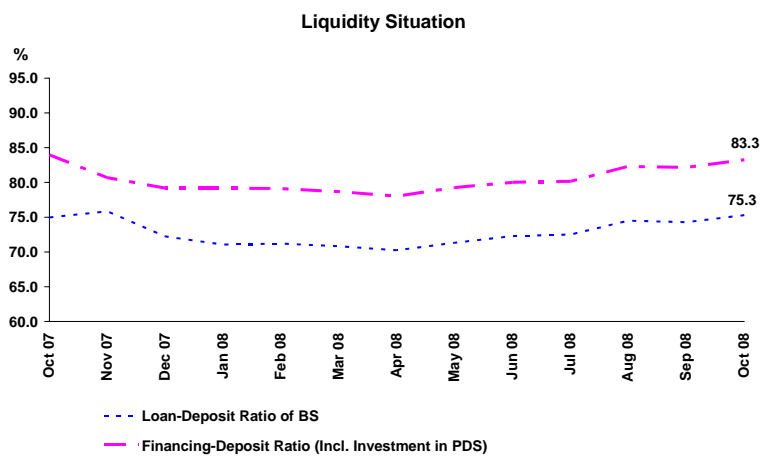
*BNM injected liquidity into the interbank market in October*

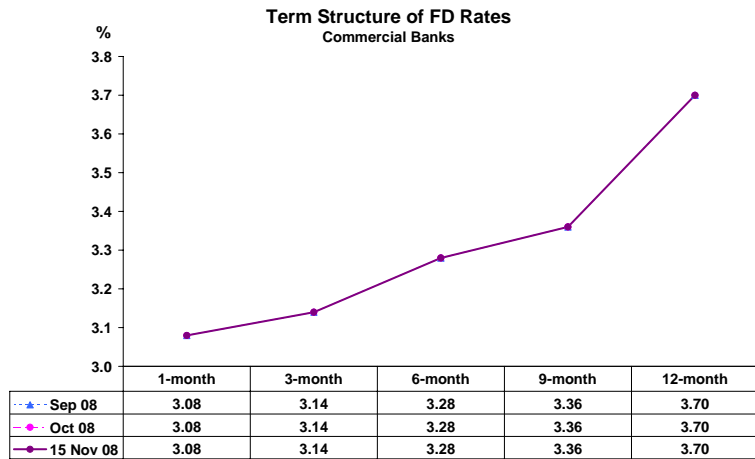


*CBs' ALR trended higher in October*

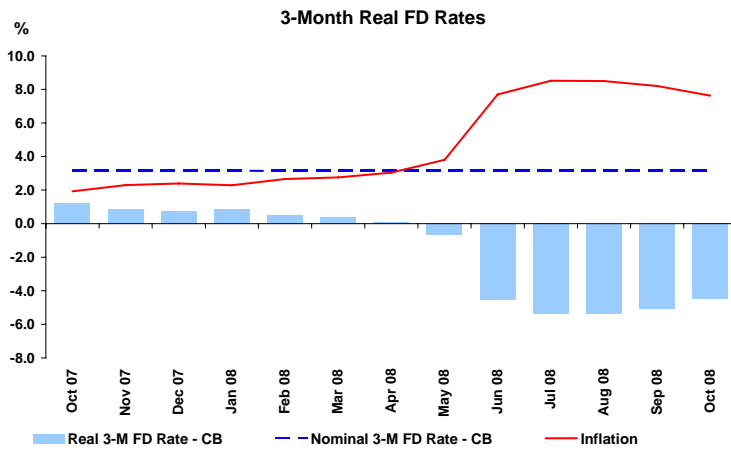


*The financing-deposit and loan-deposit ratios remained on an upward trend*





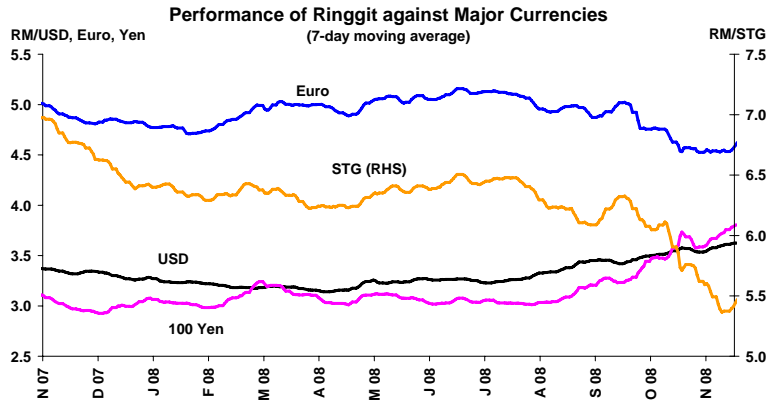
*Average FD rates were unchanged*



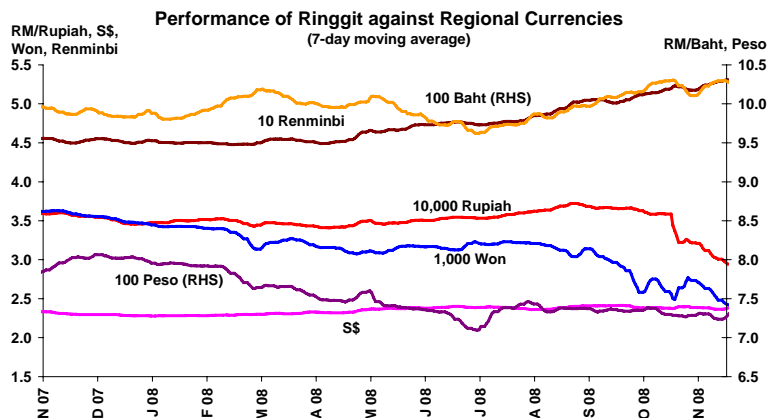
*Negative real FD rates narrowed following lower inflation*

***The ringgit depreciated against the US dollar***

During the period 1 October to 27 November 2008, the ringgit depreciated by 4.5% against the US dollar. The ringgit, along with most currencies, continued to be affected by the de-leveraging process and heightened risk aversion amid the ongoing turmoil in the global financial markets. Against other major currencies, the ringgit appreciated against the pound sterling (11.8%) and the euro (6.1%), but depreciated against the Japanese yen (-12.8%). Against regional currencies, the ringgit depreciated against the Chinese renminbi (-4.7%), Philippine peso (-1.2%) and the Thai baht (-0.8%), but appreciated against other regional currencies in the range of 0.9% to 24.1%.



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



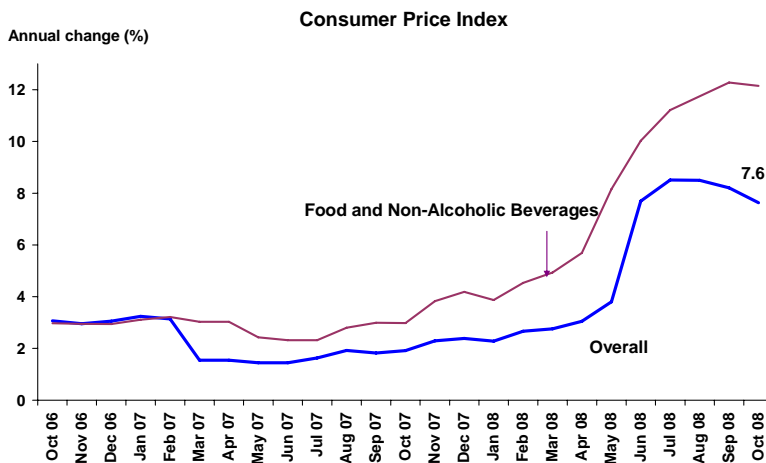
*..whilst recording a mixed performance against regional currencies*

### Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change	
	Dec 07	Sep 08	Oct 08	27 Nov 08	End Dec 07 - 27 Nov 08	End Sep 08 - 27 Nov 08
US dollar	3.3065	3.4575	3.5625	3.6200	-8.7	-4.5
Euro	4.8756	4.9636	4.5794	4.6774	4.2	6.1
Pound sterling	6.6070	6.2254	5.8382	5.5663	18.7	11.8
100 Japanese yen	2.9534	3.3154	3.6127	3.8039	-22.4	-12.8
Singapore dollar	2.2938	2.4153	2.4050	2.3948	-4.2	0.9
100 Thai baht	9.8159	10.154	10.171	10.239	-4.1	-0.8
100 Philippine peso	8.0158	7.3159	7.2767	7.4029	8.3	-1.2
100 Indonesian rupiah	0.0352	0.0367	0.0325	0.0296	19.2	24.1
100 Korean won	0.3532	0.2846	0.2787	0.2440	44.8	16.7
Chinese renminbi	0.4527	0.5051	0.5210	0.5300	-14.6	-4.7

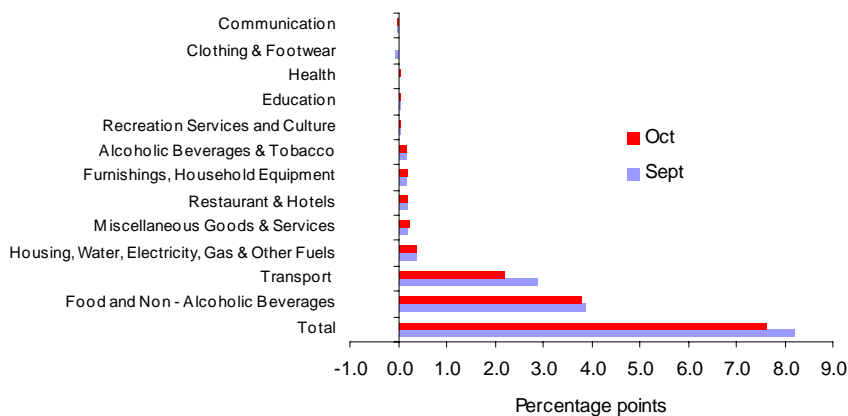
### ***Inflation moderated***

Headline inflation moderated to 7.6% in October (Sept: 8.2%), mainly on account of the reduction in fuel prices by the Government. Prices in the *transport* category rose at a slower pace of 13.9% in October (Sept 08: 18.1%). Inflation in the *food and non-alcoholic beverages* category also eased to 12.1% (Sept 08: 12.3%). Headline inflation is expected to continue to moderate given the downward trend in global and domestic fuel prices.



*Inflation moderated to 7.6% in October*

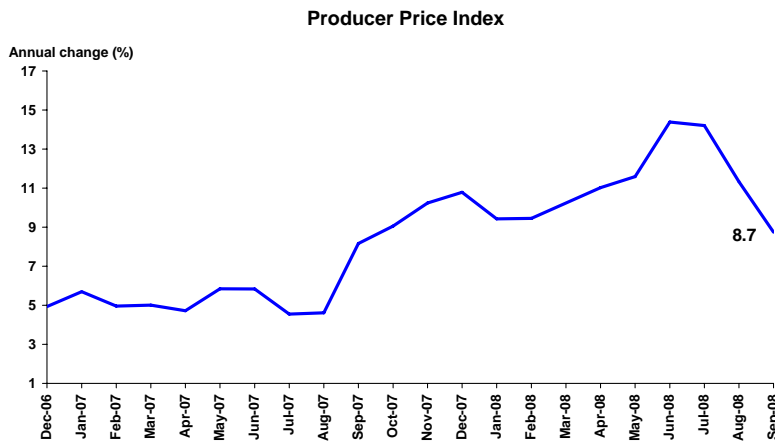
### **Contribution to Consumer Price Inflation**



### ***Producer price inflation moderated further in September***

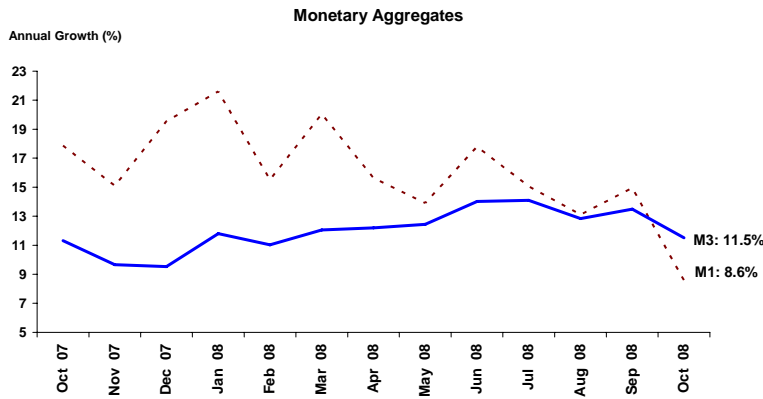
Producer price index (PPI) inflation moderated to 8.7% in September (Aug: 11.3%). Inflation in the commodity-based component of the PPI continued to fall to 24.2% (Aug: 34.0%) in line with the downward trend in global commodity prices. In the non-commodity-based component of the PPI, inflation eased slightly to 2.5% (Aug: 2.6%).

By composition, the inflation rate in the local component of the PPI moderated to 11.8% in September (Aug: 15.0%). Prices in the imported component of the PPI also increased at a slower pace of 2.8% (Aug: 4.0%).



### ***Monetary aggregates expanded on an annual basis***

In October, broad money, or M3, grew at an annual rate of 11.5%. During the month, the expansionary effect of higher credit to the private sector was offset by the contractionary impact of net foreign outflows as well as Government operations.



**M3 Determinants**  
(RM billion)

	Change during period			
	Jul 08	Aug 08	Sep 08	Oct 08
M3	13.6	-8.1	8.2	-12.4
Net claims on Government	8.5	-4.7	10.8	-3.8
Claims on the private sector	8.4	16.2	8.8	4.7
<i>Loans</i>	7.7	12.9	5.1	1.6
<i>Securities</i>	0.7	3.2	3.7	3.1
Net foreign assets*	-6.7	-22.3	-28.8	-22.1
Other influences	3.4	2.7	17.5	8.9

\* 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.

### ***Lower banking system deposits in October***

Total deposits with the banking system declined by RM8.7 billion (September: +RM9.1 billion), due mainly to outflows of portfolio funds during the month. The annual growth in deposits also moderated to 10.9% (September: 13.0%). By holder, the lower deposits mainly reflected withdrawals by domestic non-bank financial institutions (DNBFIs), which are classified under the financial institutions category. By type, the decline in deposits was mainly in the form of short-term money market deposits, which are included in the *other deposits* category, as well as demand deposits and repos.

**Deposits by Holder**  
(RM million)

	Change during period			
	Jul 08	Aug 08	Sep 08	Oct 08
Federal Government	-1,801	2,435	-1,533	-854
State Governments	-43	799	-837	-111
Statutory Authorities <sup>1</sup>	-825	-1,171	-305	617
Financial Institutions	722	-1,441	10,998	-7,374
Business Enterprises	9,632	-9,527	-5,528	-786
Individuals	2,793	1,507	4,701	356
Others <sup>2</sup>	-568	245	1,623	-530
<b>Total</b>	<b>9,909</b>	<b>-7,152</b>	<b>9,118</b>	<b>-8,682</b>

1/ Include local Governments

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

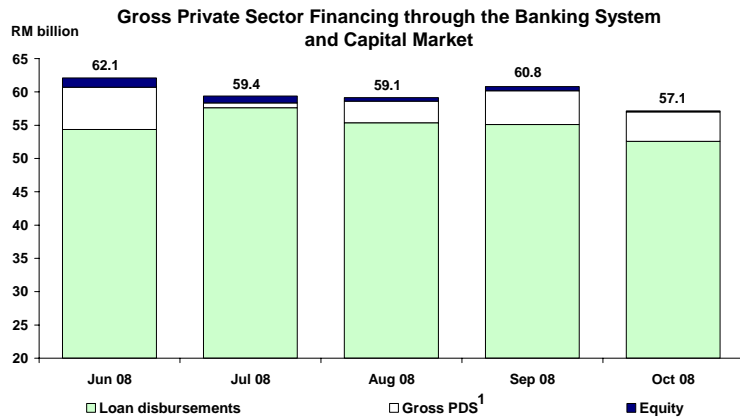
**Deposits by Type**  
(RM million)

	Change during period			
	Jul 08	Aug 08	Sep 08	Oct 08
Fixed deposits	-504	691	2,390	3,686
NIDs	-1,747	-1,836	5,252	-532
Demand deposits	-866	-778	260	-3,057
Savings deposits	446	69	820	-593
Repos	-142	-1,259	779	-2,661
FX deposits	466	1,889	1,080	837
SPI deposits	-1,171	3,630	-1,540	651
Others <sup>1</sup>	13,427	-9,559	78	-7,013
<b>Total</b>	<b>9,909</b>	<b>-7,152</b>	<b>9,118</b>	<b>-8,682</b>

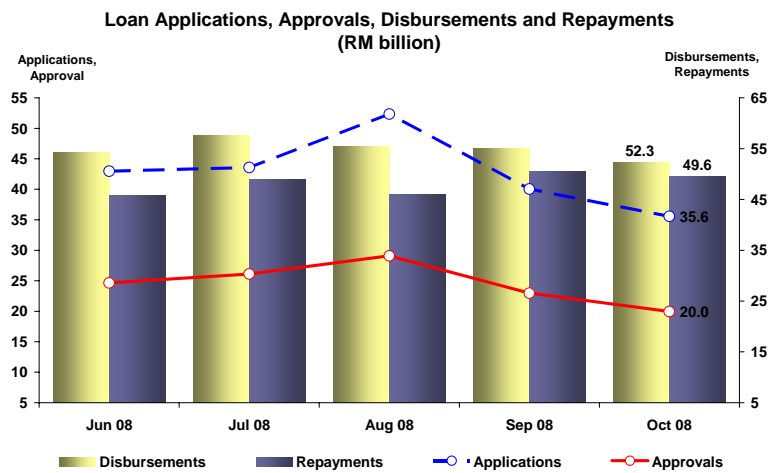
1/ Other deposits comprised mainly of short-term money market deposits

### ***Gross private sector financing remained high in October***

Gross financing to the private sector from the banking system and capital market remained high at RM57.1 billion in October (September: RM60.8 billion). On a net basis, financing to the private sector through banking system loans and PDS outstanding expanded at a steady growth rate of 13.4% (September: 13.4%). Loan disbursements to the business sector remain broad based with funds mainly channeled to the manufacturing; wholesale and retail trade, restaurants and hotels; and finance, insurance and business services sectors.



*Sustained financing  
of the economy*

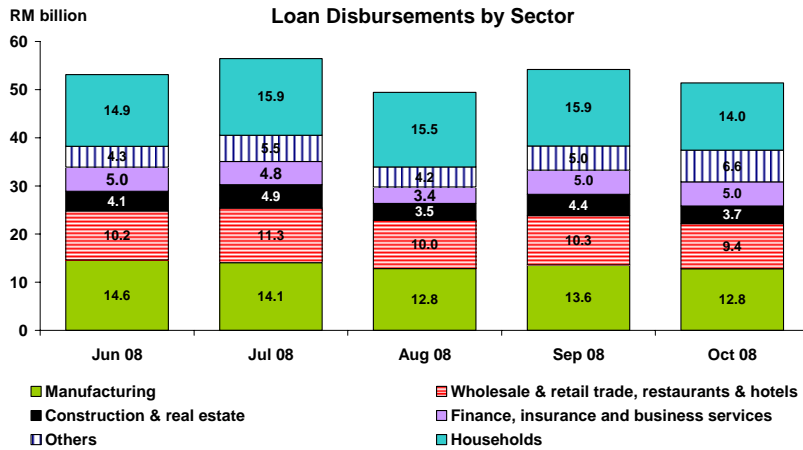


**Bank lending indicators**

	RM billion		Annual Growth (%)	
	Sep-08	Oct-08	Sep-08	Oct-08
<b>Overall</b>				
Loan applications	40.1	35.6	-5.8	-7.9
Loan approvals	23.0	20.0	-2.9	-14.4
Loan disbursements	55.1	52.6	9.1	8.2
Chg in Loans Outstanding <sup>1/</sup>	5.3	2.6	10.6	10.3
<b>Businesses</b>				
Loan applications	20.5	18.7	-17.2	-2.5
Loan approvals	10.9	9.1	-17.9	-26.4
Loan disbursements	39.2	38.3	8.7	16.5
Chg in Loans Outstanding <sup>1/</sup>	1.0	-0.2	9.5	8.8
<b>SMEs<sup>2/</sup></b>				
Loan applications	9.7	7.3	-0.4	-8.7
Loan approvals	3.8	3.7	-29.8	-12.6
Loan disbursements	14.2	13.5	18.1	11.4
Chg in Loans Outstanding <sup>1/</sup>	-0.9	0.3	11.0	10.5
<b>Households</b>				
Loan applications	19.6	16.8	9.8	-13.3
Loan approvals	12.1	10.8	16.2	-0.8
Loan disbursements	15.9	14.2	10.1	-9.4
Chg in Loans Outstanding <sup>1/</sup>	3.6	1.6	9.1	8.9

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

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

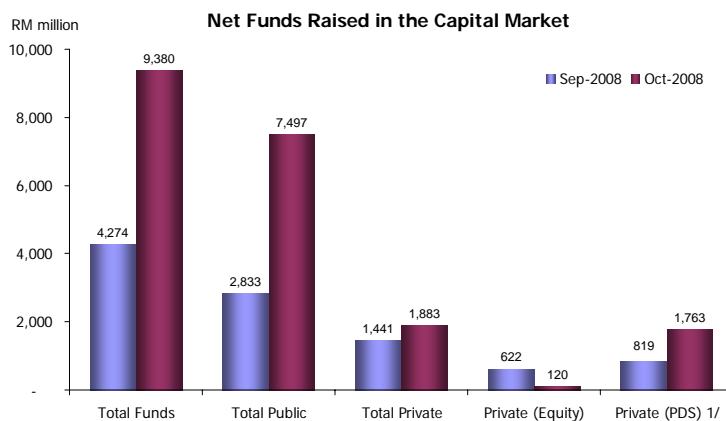


*Loan disbursements remained broad-based*

Total loans outstanding expanded at an annual growth rate of 10.3% as at end-October (end-September: 10.6%). By customers, loans outstanding of the businesses and household sectors rose at annual growth rates of 8.8% and 8.9% respectively (end-September: 9.5% and 9.1% respectively).

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

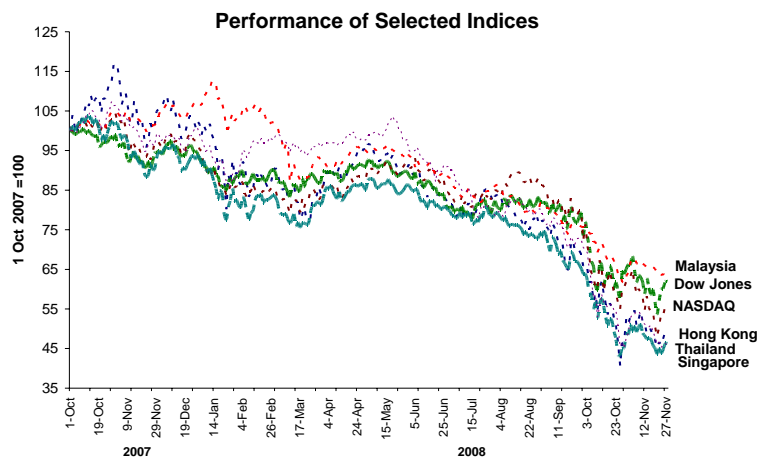
In October, net funds raised in the capital market amounted to RM9.4 billion. Net funds were raised mainly by the public sector through the issuance of a 10-year Government Investment Issue (GII) amounting to RM7.5 billion. In the private sector, gross funds raised totalled RM4.4 billion. The bulk of the funds were raised from the private debt securities (PDS) market, mainly by companies in the finance, insurance, real estate and business services; construction; and electricity, gas and water sectors. After adjusting for redemptions, net funds raised by the private sector amounted to RM1.9 billion.



1/ Including Cagamas Bonds

### ***KLCI declined in October in line with other regional markets***

In October, the KLCI ended lower to close at 863.6 points (since end-September: -15.2%) in line with the decline in other regional markets. The weak performance of the local market was due to prevailing concerns over the global economy. Expectations for weak domestic corporate earnings in the third and fourth quarters also affected market sentiments. Market capitalisation decreased to RM655.3 billion (since end-September: -15.0%), while the daily average turnover increased to 686.6 million units (September: 408.9 million units).

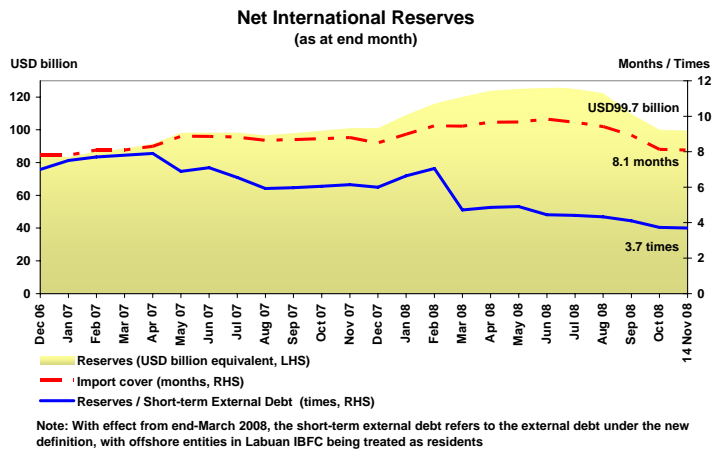


*KLCI declined  
in October*

As at 27 November, the KLCI ended higher at 870.0 points (since end-October: 0.7%). Overall market capitalisation was higher at RM659.3 billion (since end-October: 0.6%) and the daily average turnover increased to 753.6 million units.

### ***International reserves***

The international reserves of Bank Negara Malaysia amounted to RM345.5 billion (equivalent to USD100.2 billion) as at 31 October 2008. As at 14 November 2008, the international reserves amounted to RM343.8 billion (equivalent to USD99.7 billion). The reserves position is sufficient to finance 8.1 months of retained imports and is 3.7 times the short-term external debt.



### ***Sustained level of non-performing loans amidst strong capitalisation***

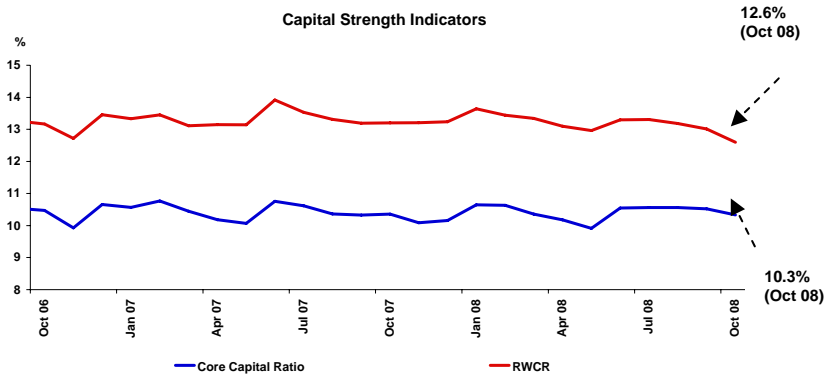
Non-performing loans remained stable in October. The net non-performing loans (NPLs) ratio of the banking system was sustained at 2.4% on account of continued recoveries and reclassifications of NPLs to performing status. Banking system capitalisation remained at a strong level with a risk-weighted capital ratio (RWCR) and core capital ratio of 12.6% and 10.3% respectively. The RWCR was slightly lower due to a 1.7% decline in the capital base attributed to a large investment in subsidiaries by one banking institution.

#### **Banking System Health Indicators**

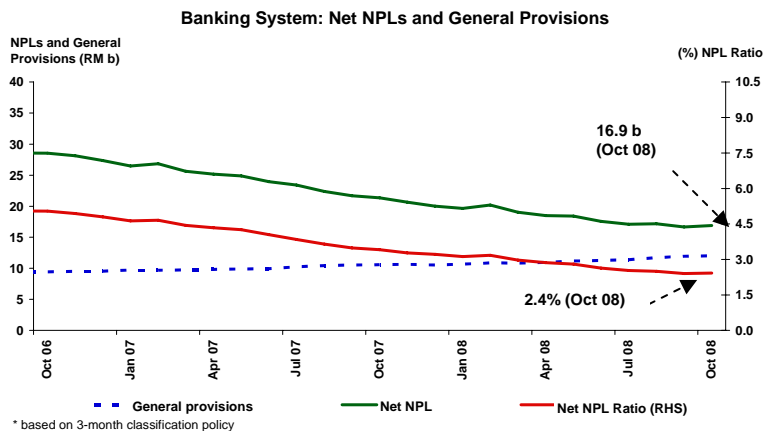
	2001	2002	2003	2004	2005	2006	2007	Aug 08	Sep 08	Oct 08
<b>Capital (%) **</b>										
Core capital ratio	11.1	11.1	11.1	11.4	10.7	10.7	10.2	10.6	10.5	10.3
RWCR	13.0	13.2	13.8	14.4	13.7	13.5	13.2	13.2	13.0	12.6
<b>Net NPLs</b>										
<b>(3-month classification)</b>										
% of net total loans	11.5	10.2	8.9	7.5	5.8	4.8	3.2	2.5	2.4	2.4
Amount (RM million)	46,254	43,110	40,013	36,668	31,332	27,360	20,011	17,187	16,660	16,878
<b>GP / Net total loans</b>										
<b>(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...*



*...whilst the NPL level remained low*

**Bank Negara Malaysia**  
**28 November 2008**

## Key Monetary and Financial Statistics

	Aug 08		Sep 08		Oct 08	
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
<b>Monetary Aggregates</b>						
Reserve money	69.3	12.1	73.6	16.9	69.5	16.0
M1	174.5	13.1	179.7	14.9	172.7	8.6
M2	872.5	14.7	883.5	15.6	870.8	13.3
M3	904.6	12.8	912.8	13.5	900.4	11.5
<b>Banking System</b>						
Total deposits	933.1	12.5	942.2	13.0	933.5	10.9
Total loans (including loans sold to Cagamas)	707.5	11.0	712.7	10.6	715.3	10.3
Loan-deposit ratio (%)		74.5		74.3		75.3
Financing-deposit ratio <sup>1</sup> (%)		82.3		82.2		83.3
Loans applied (during the period)	52.3	25.5	40.1	-5.8	35.6	-7.9
Loans approved (during the period)	29.1	15.4	23.0	-2.9	20.0	-14.4
Loans disbursed (during the period)	55.4	14.9	55.1	9.1	52.6	8.2
Loans repaid (during the period)	46.1	9.3	50.6	24.5	49.9	12.6
<b>Banking System Health</b>						
Risk-weighted Capital Ratio (RWCR) (%)		13.2		13.0		12.6
Net NPLs: 3-month classification (%)		2.5		2.4		2.4
<b>Reserves</b>						
Net Reserves in RM billion		400.2		379.3		345.5
Net Reserves in USD billion (equivalent)		122.6		109.7		100.2
Months of retained imports		9.5		8.9		8.1
<b>Interest Rates at end-period [average for the month]</b>						
Overnight Policy Rate (OPR)		3.50		3.50		3.50
Interbank:	Overnight	3.49 [3.49]		3.49 [3.50]		3.49 [3.50]
	1-week	3.52 [3.52]		3.52 [3.52]		3.52 [3.52]
	1-month	3.56 [3.56]		3.57 [3.56]		3.57 [3.57]
Fixed deposits of commercial banks:	1-month	3.08		3.08		3.08
	3-month	3.14		3.14		3.14
BLR of commercial banks		6.72		6.72		6.72
ALR of commercial banks		5.98		5.96		6.01
<b>Prices</b>						
Consumer Price Index (CPI) (2005=100)	114.9	8.5	114.7	8.2	114.2	7.6
Producer Price Index (PPI) (2000=100)	146.4	11.3	145.5	8.7	n.a.	n.a.
<b>Exchange Rates of Ringgit against Selected Currencies (end-period)</b>						
US dollar		3.3895		3.4575		3.5625
Euro		4.9971		4.9636		4.5794
Pound Sterling		6.2079		6.2254		5.8382
100 Japanese yen		3.1065		3.3154		3.6127
Singapore dollar		2.3937		2.4153		2.4050
100 Thai Baht		9.9152		10.154		10.171
100 Philippine Peso		7.3837		7.3159		7.2767
100 Indonesian Rupiah		0.0370		0.0367		0.0325
100 Korean Won		0.3116		0.2846		0.2787
<b>Capital Market</b>						
Net funds raised (in RMb) by:	public	3.5		2.8		7.5
	private	3.5		1.4		1.9
Bursa Malaysia Composite Index (end-period)		1,100.5		1,018.7		863.6
Bursa Malaysia Market Capitalisation (RMb, end-period)		833.5		770.5		655.3

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