

Ref. No.: 09/08/04

**EMBARGO: Not for publication or
broadcast before 1930 hours on
Friday, 26 September 2008**

Monetary and Financial Developments August 2008
Highlights of the Press Release

- Increased uncertainty and volatility in the international financial markets led to higher volatility in the domestic financial markets.
- Financing continued to be channelled to different sectors of the economy and the overall financial system remained resilient.
- Net financing to the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 13.8%.
- Loan applications and approvals were higher during the month, driven by the business sector.
- The capitalisation of the banking system remained strong with a risk-weighted capital ratio (RWCR) of 13.2% as at end-August.
- The headline inflation rate was unchanged at 8.5% in August. The rate reflected the increases in transport and food prices compared to a year ago.

Ref. No.: 09/08/04

**EMBARGO: Not for publication or
broadcast before 1930 hours on
Friday, 26 September 2008**

MONETARY AND FINANCIAL DEVELOPMENTS

August 2008

In August, gross financing raised by the private sector was sustained at RM59 billion, due mainly to higher issuances of private debt securities (PDS). On a net basis, financing to the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 13.8%. Loan applications and approvals were higher during the month, driven by the business sector.

Interbank rates for all maturities were generally steady. Fixed deposit rates remained unchanged while the average lending rate of commercial banks was lower at 5.98%.

During the period 1 August to 25 September 2008, the ringgit depreciated by 4.8% against the US dollar. Although the US dollar weakened in mid-September following the turmoil in US financial markets, the US dollar broadly strengthened during the period as a whole amidst signs of slower growth in other major economies, and due to short-covering of the US dollar in the global financial markets. During the same period, the ringgit appreciated against the pound (1.5%) and the euro (0.9%), but depreciated against the Japanese yen (-6.7%). Against regional currencies, the ringgit appreciated against the Korean won (9.5%) and the Philippine peso (0.2%), but depreciated against other regional currencies in the range of 1.1% to 4.9%.

The headline inflation rate was unchanged at 8.5% in August. The rate reflected the increases in transport and food prices compared to a year ago.

Broad money, or M3, expanded at a more moderate annual rate of 12.8% in August, due to the contractionary impact of substantial net foreign outflows as well as Government operations.

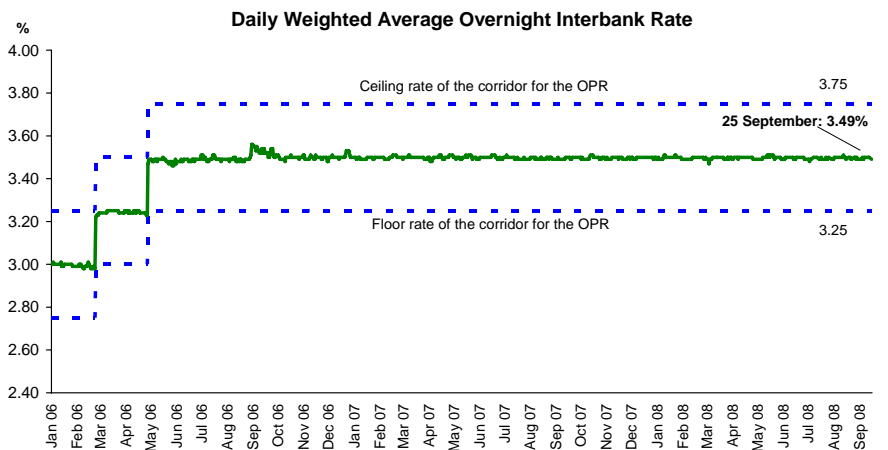
The capitalisation of the banking system remained strong with a risk-weighted capital ratio (RWCR) of 13.2% as at end-August. The net non-performing loans (NPLs) ratio was sustained at 2.5%.

Interest rates remained stable

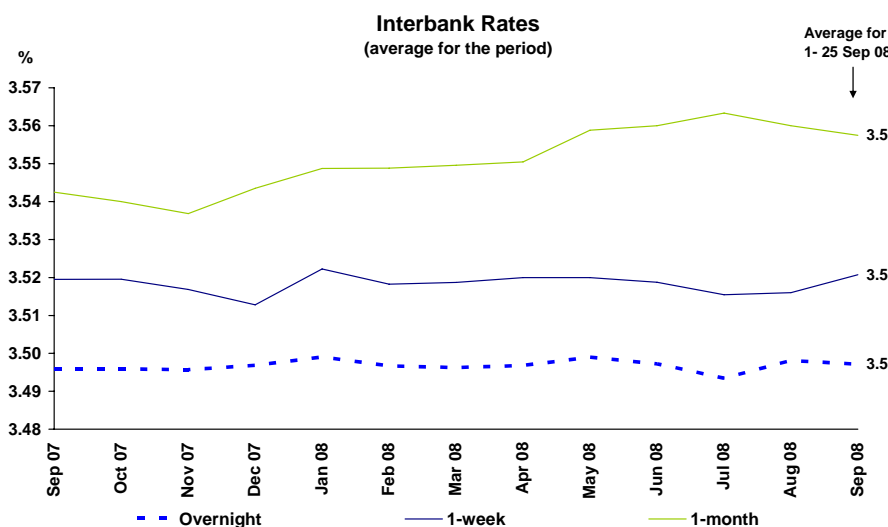
During the period 1 August – 25 September, the daily weighted average overnight interbank rate moved within a narrow range of 3.49% - 3.51%. Interbank rates of other maturities were relatively stable.

The average fixed deposit (FD) rates of commercial banks (CBs) remained unchanged in August and September. As at 15 September 2008, the average quoted FD rates for tenures between 1 and 12 months remained within the range of 3.08% and 3.70%.

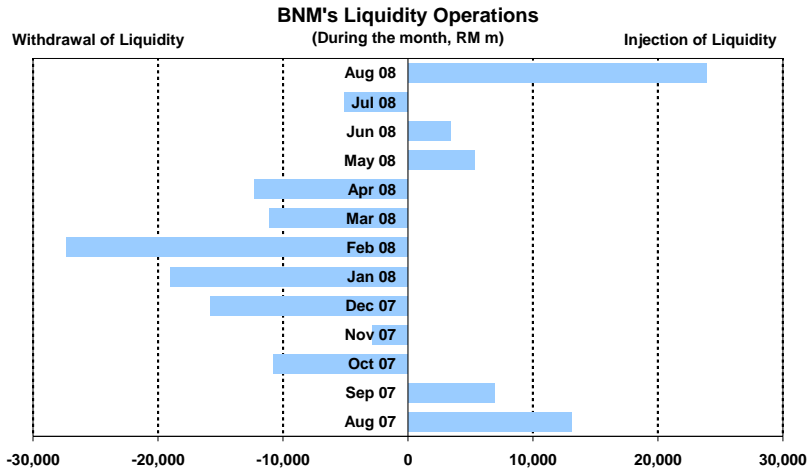
In terms of the CBs' lending rates, the average base lending rate (BLR) was unchanged at 6.72%, while the average lending rate (ALR) trended further downwards to 5.98% in August (6.02% in July).



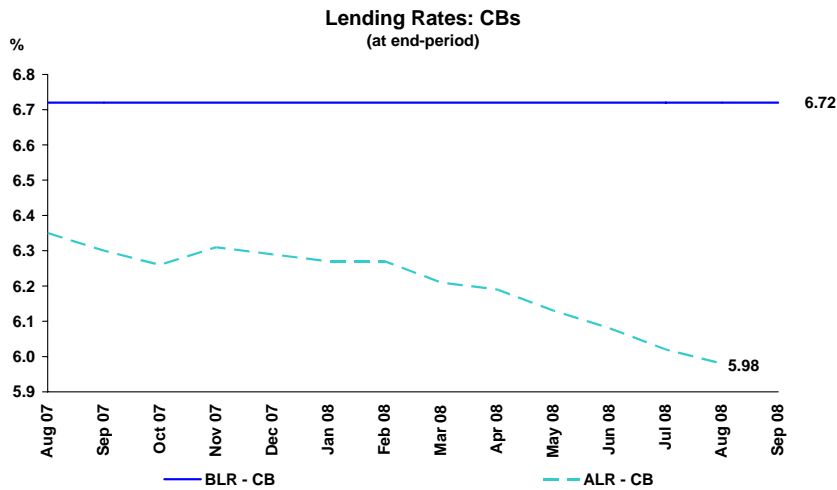
The average overnight interbank rate moved within a narrow range



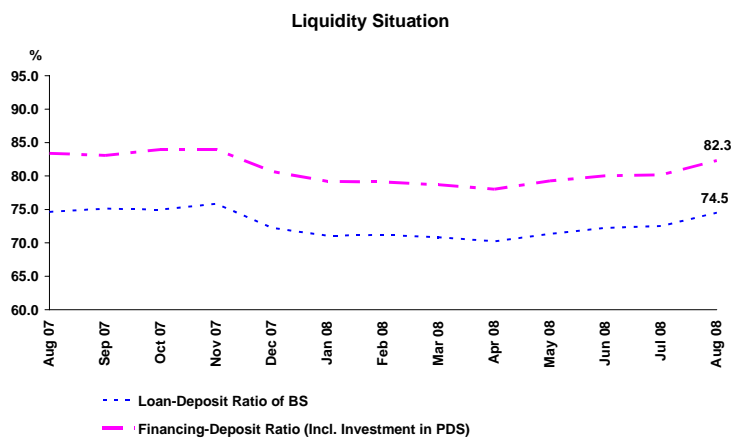
Other interbank rates remained relatively stable



BNM injected liquidity into the interbank market in August

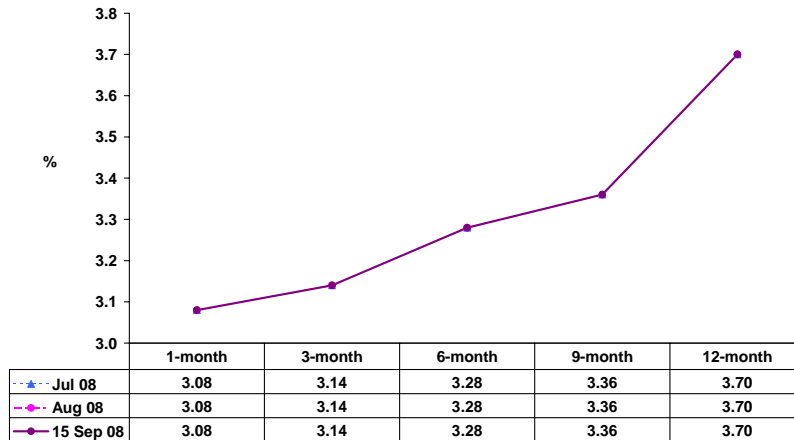


CBs' ALR trended downwards



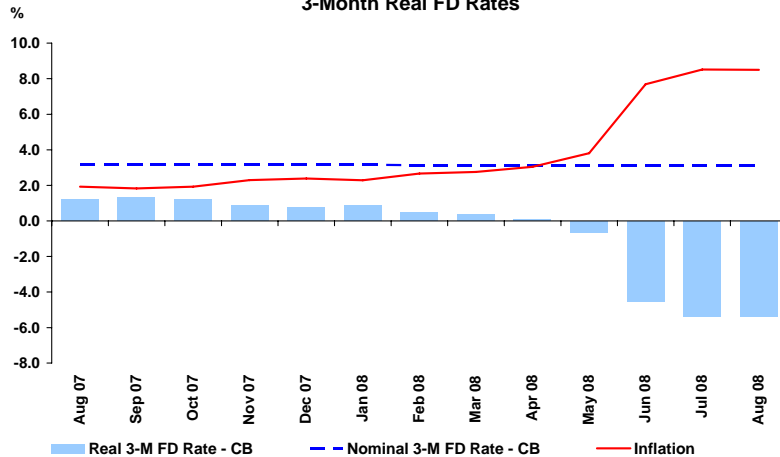
The financing-deposit and loan-deposit ratios increased further in August as the growth in deposits slowed

Term Structure of FD Rates
Commercial Banks



Average FD rates were unchanged

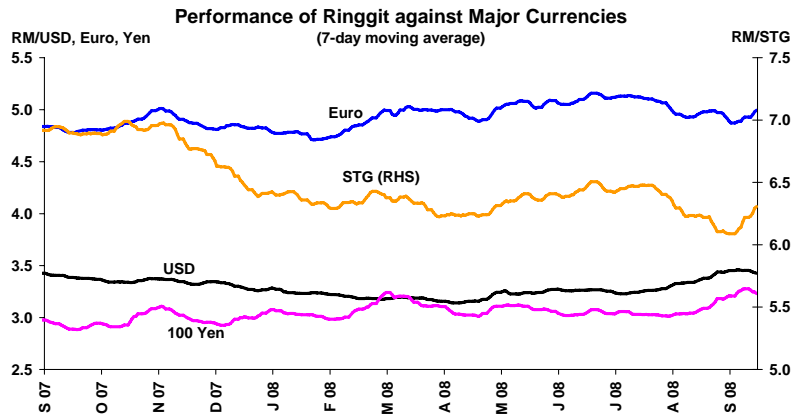
3-Month Real FD Rates



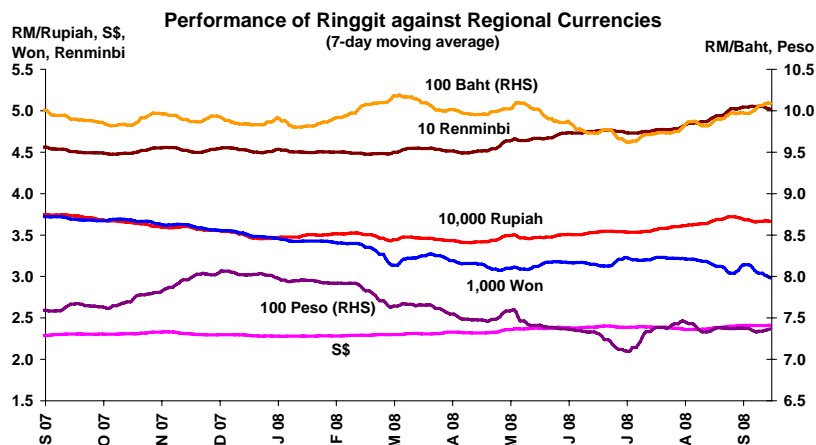
Real FD rates remained in negative territory

The ringgit depreciated against the US dollar

During the period 1 August to 25 September 2008, the ringgit depreciated by 4.8% against the US dollar. Although the US dollar weakened in mid-September following the turmoil in US financial markets, the US dollar broadly strengthened during the period as a whole amidst signs of slower growth in other major economies, and due to short-covering of the US dollar in the global financial markets. During the same period, the ringgit appreciated against the pound (1.5%) and the euro (0.9%), but depreciated against the Japanese yen (-6.7%). Against regional currencies, the ringgit appreciated against the Korean won (9.5%) and the Philippine peso (0.2%), but depreciated against other regional currencies in the range of 1.1% to 4.9%.



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



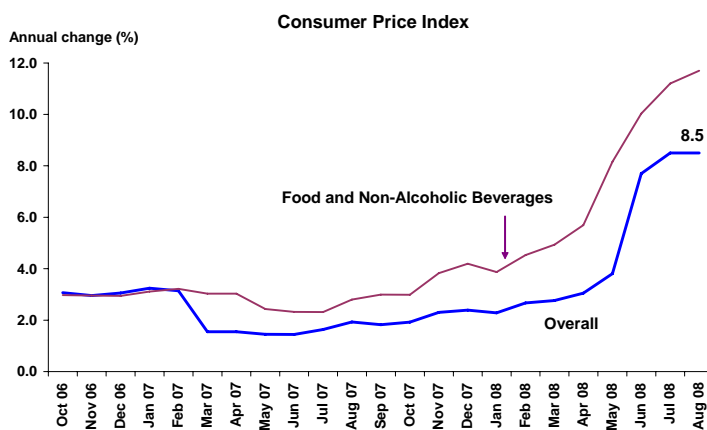
..and recorded a mixed performance against regional currencies

Performance of Ringgit against Selected Currencies

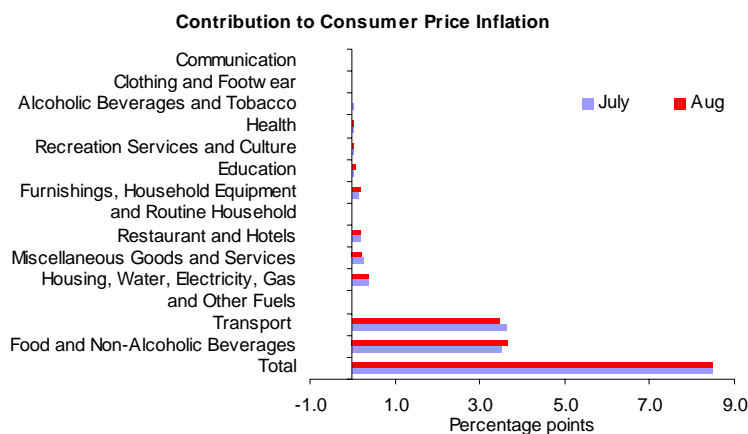
| RM per foreign currency | End-period | | | | % Change | |
|-------------------------|------------|--------|--------|-----------|---------------------------|---------------------------|
| | Dec 07 | Jul 08 | Aug 08 | 25 Sep 08 | End Dec 07 - 25 Sep 08 | End Jul 08 - 25 Sep 08 |
| US dollar | 3.3065 | 3.2630 | 3.3895 | 3.4285 | -3.6 | -4.8 |
| Euro | 4.8756 | 5.0859 | 4.9971 | 5.0425 | -3.3 | 0.9 |
| Pound sterling | 6.6070 | 6.4642 | 6.2079 | 6.3657 | 3.8 | 1.5 |
| 100 Japanese yen | 2.9534 | 3.0219 | 3.1065 | 3.2405 | -8.9 | -6.7 |
| Singapore dollar | 2.2938 | 2.3853 | 2.3937 | 2.4124 | -4.9 | -1.1 |
| 100 Thai baht | 9.8159 | 9.7301 | 9.9152 | 10.084 | -2.7 | -3.5 |
| 100 Philippine peso | 8.0158 | 7.3782 | 7.3837 | 7.3636 | 8.9 | 0.2 |
| 100 Indonesian rupiah | 0.0352 | 0.0358 | 0.0370 | 0.0366 | -3.7 | -2.1 |
| 100 Korean won | 0.3532 | 0.3225 | 0.3116 | 0.2947 | 19.9 | 9.5 |
| Chinese renminbi | 0.4527 | 0.4775 | 0.4958 | 0.5023 | -9.9 | -4.9 |

Headline inflation remained high but constant

Headline inflation remained at 8.5% in August (July: 8.5%), mainly due to higher inflation in the *transport* and *food and non-alcoholic beverages* categories. Prices in the *transport* category rose at a slower rate of 21.8% in August (July: 22.7%) due to the lowering of pump prices of petrol and diesel on Aug 22. Prices in the *food and non-alcoholic beverages* category rose slightly by 11.7% (July: 11.2%). Nevertheless, several categories accounting for up to 52.3% of the CPI basket registered slower price increases compared to the previous month.



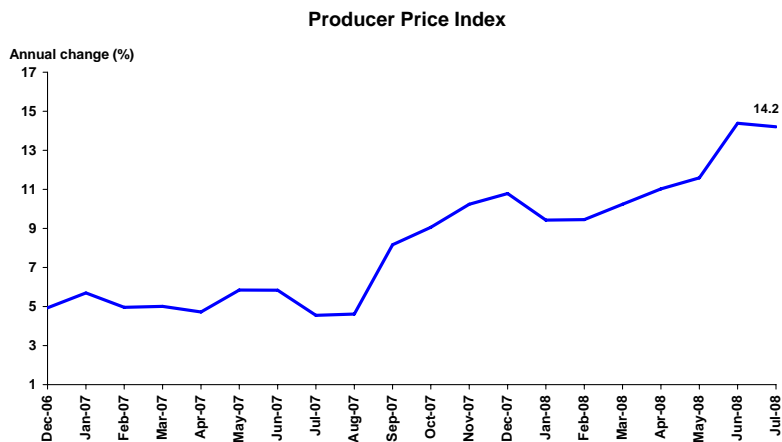
Inflation remained at 8.5% in August



Producer price inflation fell slightly in July

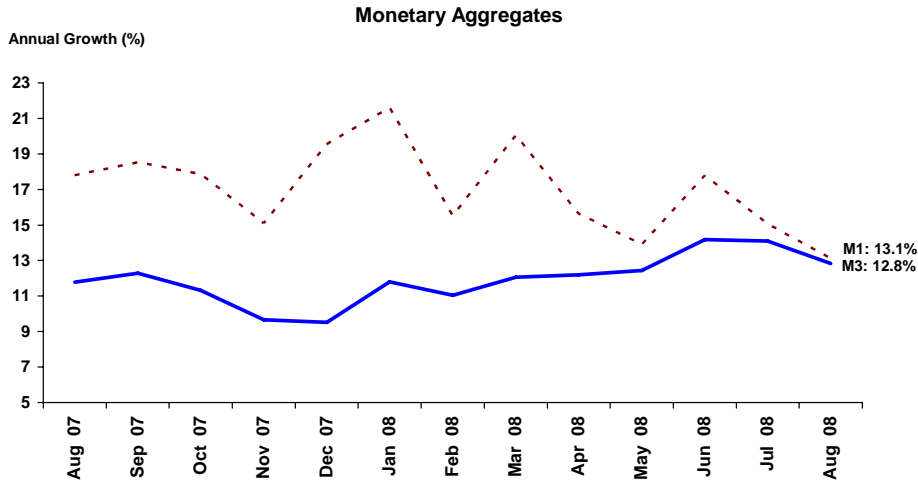
Producer price index (PPI) inflation fell slightly to 14.2% in July (June: 14.4%). The moderation was due to the slower price increase in the commodity-based component of the PPI, which eased to 40.7% (June: 42.5%) in line with the recent downward trend in global commodity prices. Inflation in the non-commodity-based component of the PPI, meanwhile, rose to 3.8% (June: 3.4%) following higher prices in the *chemicals and related products, manufactured goods classified chiefly by material* (such as tin, alloys, and iron and steel products), *beverages and tobacco* and *food and live animals* categories.

In terms of composition, the inflation rate in the local component of the PPI remained constant at 18.4% (June: 18.4%). Prices in the imported component of the PPI, however, increased at a slower pace of 5.9% (June: 6.2%).



Monetary aggregates expanded on an annual basis, albeit at a slower pace

Broad money, or M3, expanded at a more moderate annual rate of 12.8% in August. On a month-on-month basis, M3 decreased by RM8.1 billion. During the month, the expansionary effect of higher credit to the private sector on M3 was offset by the contractionary impact of substantial net foreign outflows as well as Government operations. The Government had placed proceeds from the issuance of a Government Investment Issue (GII) with Bank Negara Malaysia. M1 also expanded at a slower annual rate of 13.1%, and recorded a month-on-month decline of RM0.7 billion.



M3 Determinants

(RM billion)

| | Change during period | | | |
|------------------------------|----------------------|--------|--------|--------|
| | May 08 | Jun 08 | Jul 08 | Aug 08 |
| M3 | 5.0 | 1.8 | 12.2 | -8.1 |
| Net claims on Government | -5.8 | 3.2 | 7.9 | -4.7 |
| Claims on the private sector | 11.3 | 9.7 | 7.9 | 16.2 |
| Loans | 9.1 | 9.8 | 7.7 | 12.9 |
| Securities | 2.2 | -0.1 | 0.2 | 3.2 |
| Net foreign assets* | -6.8 | -7.9 | -7.9 | -22.3 |
| Other influences | 6.4 | -3.3 | 4.3 | 2.7 |

* 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 lower in August

Total deposits with the banking system declined by RM7.2 billion or 12.5% on an annual basis in August (July: RM9.2 billion; 12.7%), due mainly to net foreign outflows during the month. The lower deposits were reflected in the deposits of business enterprises, financial institutions and statutory authorities. By type, the decline in deposits was mainly in the form of short-term money market deposits, which is included in the *other deposits* category.

Deposits by Holder
(RM million)

| | Change during period | | | |
|------------------------------------|----------------------|--------------|--------------|---------------|
| | May 08 | Jun 08 | Jul 08 | Aug 08 |
| Federal Government | 1,900 | -1,171 | -1,801 | 2,435 |
| State Governments | -67 | -141 | -43 | 799 |
| Statutory Authorities ¹ | 1,785 | 197 | -825 | -1,171 |
| Financial Institutions | -6,753 | -3,541 | 1,462 | -1,441 |
| Business Enterprises | 56 | -1,088 | 9,632 | -9,527 |
| Individuals | 1,780 | 3,802 | 2,793 | 1,507 |
| Others ² | 1,431 | 5,546 | -2,001 | 245 |
| Total | 131 | 3,606 | 9,216 | -7,152 |

1/ Include local Governments

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

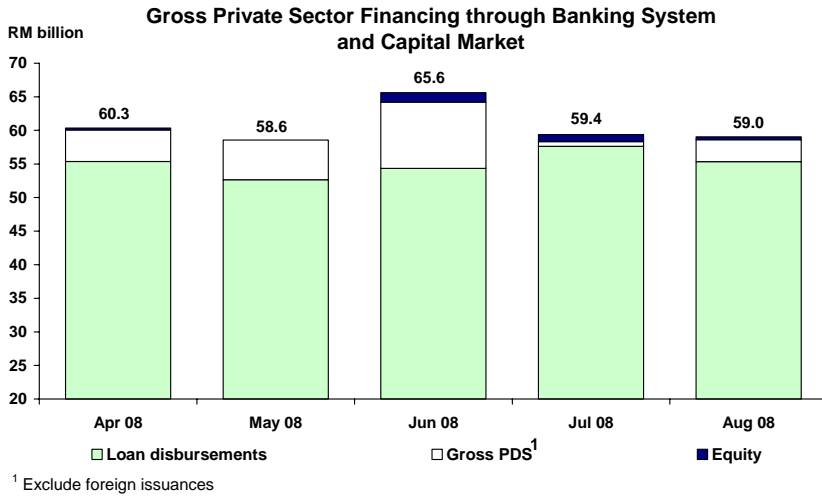
Deposits by Type
(RM million)

| | Change during period | | | |
|---------------------|----------------------|--------------|--------------|---------------|
| | May 08 | Jun 08 | Jul 08 | Aug 08 |
| Fixed deposits | -2,178 | 1,065 | -504 | 691 |
| NIDs | -464 | 4,076 | -1,747 | -1,836 |
| Demand deposits | -582 | 5,019 | -866 | -778 |
| Savings deposits | 77 | 722 | 446 | 69 |
| Repos | -5,020 | 245 | -142 | -1,259 |
| FX deposits | 2,817 | 2,456 | 466 | 1,889 |
| SPI deposits | 5,163 | 4,731 | -1,864 | 3,630 |
| Others ¹ | 318 | -14,709 | 13,427 | -9,559 |
| Total | 131 | 3,606 | 9,216 | -7,152 |

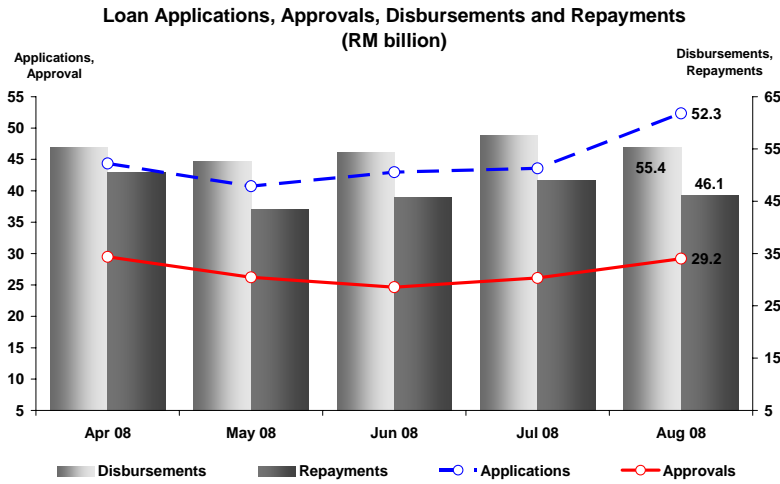
1/ Other deposits comprised mainly of short-term money market deposits

Gross private sector financing remained stable in August

Gross financing raised by the private sector from the banking system and capital market was sustained at RM59 billion in August (July: RM59.4 billion). In particular, issuances of private debt securities (PDS) recovered during the month. On a net basis, financing to the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 13.8% (July: 13.1%).



Gross private sector financing remained relatively stable in August



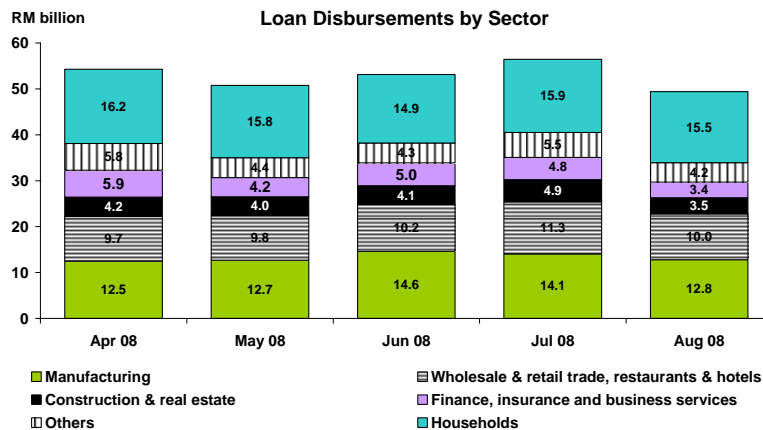
Loan applications and approvals were higher during the month ...

| Bank lending indicators | | | | |
|--|------------|--------|-------------------|--------|
| | RM billion | | Annual Growth (%) | |
| | Jul-08 | Aug-08 | Jul-08 | Aug-08 |
| Overall | | | | |
| Loan applications | 43.6 | 52.3 | 11.9 | 25.5 |
| Loan approvals | 26.1 | 29.2 | 2.3 | 15.8 |
| Loan disbursements | 57.6 | 55.4 | -4.9 | 14.9 |
| Chg in Loans Outstanding ^{1/} | 8.6 | 13.0 | 9.9 | 11.0 |
| Businesses | | | | |
| Loan applications | 21.2 | 33.1 | -0.2 | 48.4 |
| Loan approvals | 11.6 | 17.0 | -19.5 | 26.7 |
| Loan disbursements | 41.7 | 39.9 | -7.0 | 21.0 |
| Chg in Loans Outstanding ^{1/} | 4.6 | 8.4 | 9.4 | 11.4 |
| SMEs^{2/} | | | | |
| Loan applications | 9.7 | 9.7 | 6.6 | -1.5 |
| Loan approvals | 5.9 | 4.2 | 5.0 | -20.3 |
| Loan disbursements | 14.6 | 14.4 | 25.2 | 16.6 |
| Chg in Loans Outstanding ^{1/} | 0.9 | 2.7 | 12.0 | 13.2 |
| Households | | | | |
| Loan applications | 22.4 | 19.2 | 26.4 | -0.8 |
| Loan approvals | 14.5 | 12.2 | 30.6 | 3.5 |
| Loan disbursements | 15.9 | 15.5 | 1.2 | 1.7 |
| Chg in Loans Outstanding ^{1/} | 3.1 | 3.1 | 8.8 | 8.7 |

...driven by the business sector

^{1/} The annual growth in outstanding amount as at end-period.

^{2/} Include loans to individual businesses.



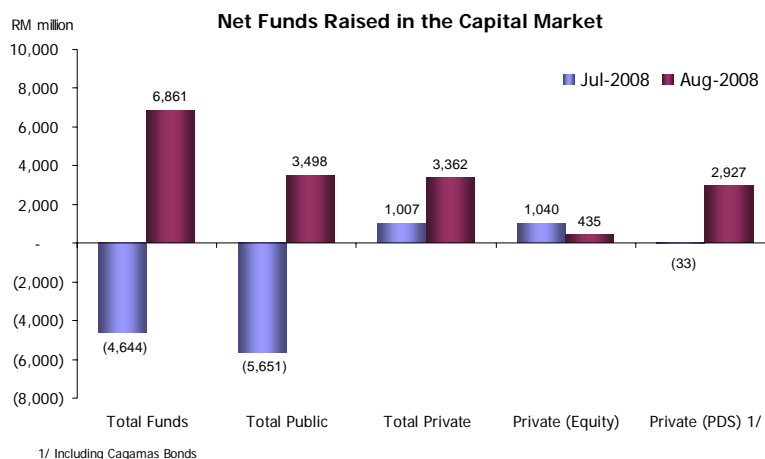
Loan disbursements remained broad-based

Lending to the business sector improved in August, with most loan indicators registering stronger annual growth rates. Loan applications and approvals, in particular, were higher due to increased requirements for working capital from the manufacturing as well as finance, insurance and business services sectors. Meanwhile, loans disbursed to the business sector remained relatively steady on a month-on-month basis. As at end-August, loans outstanding of the business sector increased at an annual growth rate of 11.4% (end-July: 9.4%).

For the household sector, demand for financing declined during the month, as reflected by the lower loan applications and approvals compared to July. With relatively steady loan disbursements, loans outstanding of the household sector recorded an annual growth rate of 8.7% as at end-August (end-July: 8.8%).

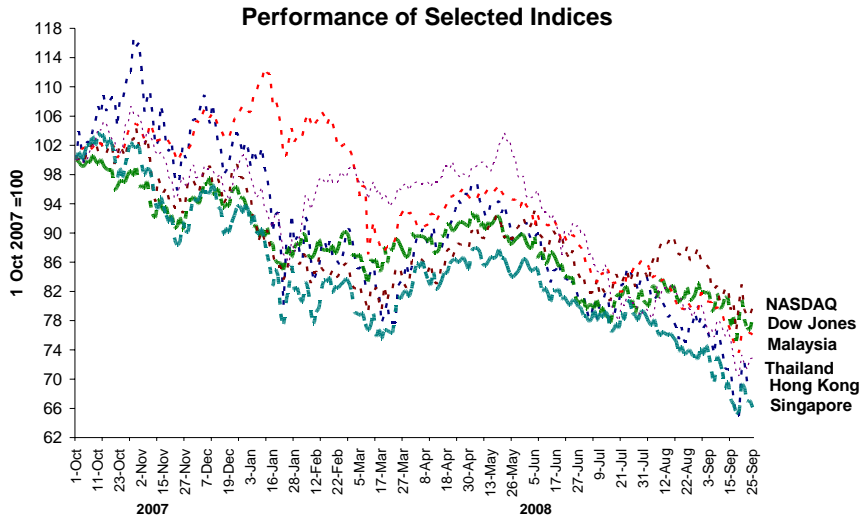
Higher net funds raised in the capital market

Net funds raised in the capital market amounted to RM6.9 billion in August. In the public sector, funds were raised through the issuance of a 5-year Government Investment Issue (GII). Meanwhile, gross funds raised by the private sector amounted to RM4.1 billion. The bulk of the funds were raised through the issuance of private debt securities (PDS) from the finance sector. After adjusting for redemptions, net funds raised by the private sector amounted to RM3.4 billion.



KLCI continued to decline in August

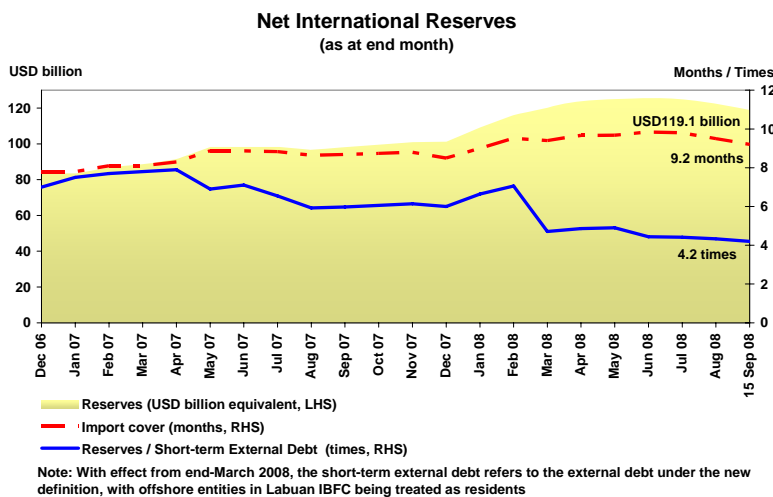
In August 2008, the KLCI ended lower to close at 1,100.5 (since end-July: -5.4%) in line with the trend in the global and regional markets. The weak performance of the local market was aggravated by the decline in crude palm oil prices which led to the de-rating of the plantation sector stocks. The KLCI, however, rebounded following an improvement in sentiment in conjunction with the announcement of the 2009 Budget on 29 August. Market capitalisation decreased to RM833.5 billion (since end-July: -4.9%), while the daily average turnover declined to 425.0 million units (July: 475.2 million units).



As at 25 September, the KLCI ended lower at 1,024.7 (since end-Aug: -6.9%). Overall market capitalisation was lower at RM775.8 billion (since end-Aug: -6.9%) and the daily average turnover declined to 418.1 million units.

International reserves

The international reserves of Bank Negara Malaysia amounted to RM400.2 billion (equivalent to USD122.6 billion) as at 29 August 2008. As at 15 September 2008, the international reserves amounted to RM388 billion (equivalent to USD119.1 billion). The reserves position is sufficient to finance 9.2 months of retained imports and is 4.2 times the short-term external debt.



Capitalisation level remains strong whilst non-performing loans stabilise

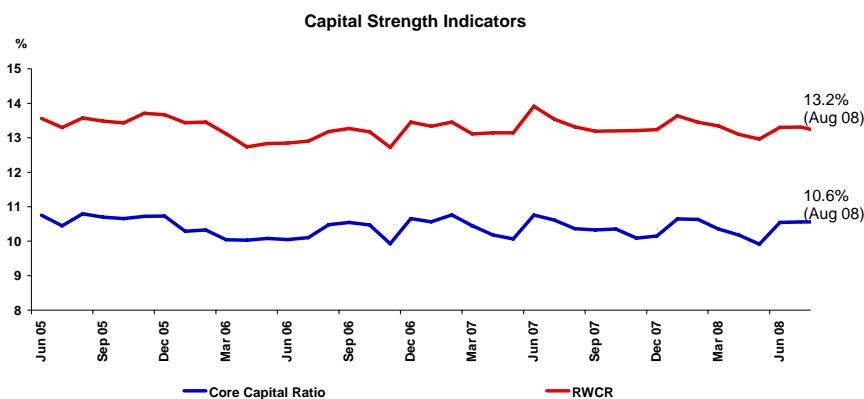
The banking system capitalisation remained at a strong level with risk-weighted capital ratio (RWCR) and core capital ratio of 13.2% and 10.6% respectively. Capital base increased marginally by 0.4% following the establishment of one Islamic banking subsidiary during the month. Meanwhile, the net non-performing loans (NPLs) ratio of the banking system was sustained at 2.5%.

Banking System Health Indicators[†]

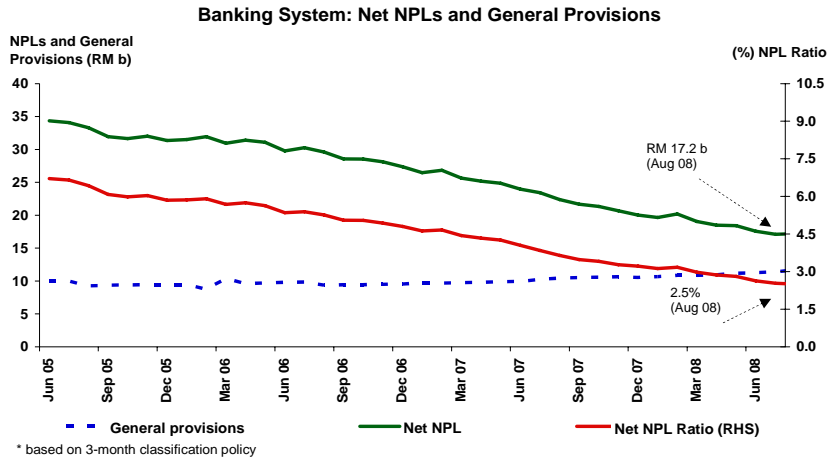
| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | Jun 08 | Jul 08 | Aug 08 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Capital (%)** | | | | | | | | | | |
| Core capital ratio | 11.1 | 11.1 | 11.1 | 11.4 | 10.7 | 10.7 | 10.2 | 10.5 | 10.6 | 10.6 |
| RWCR | 13.0 | 13.2 | 13.8 | 14.4 | 13.7 | 13.5 | 13.2 | 13.3 | 13.3 | 13.2 |
| Net NPLs | | | | | | | | | | |
| (3-month classification) | | | | | | | | | | |
| % of net total loans | 11.5 | 10.2 | 8.9 | 7.5 | 5.8 | 4.8 | 3.2 | 2.6 | 2.5 | 2.5 |
| Amount (RM million) | 46,254 | 43,110 | 40,013 | 36,668 | 31,332 | 27,360 | 20,011 | 17,550 | 17,090 | 17,187 |
| GP / Net total loans | | | | | | | | | | |
| (3-month, %) | | | | | | | | | | |
| | 2.1 | 2.1 | 2.0 | 1.9 | 1.8 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |

[†] Figures include Islamic banks.

** Beginning March 2008, RWCR and CCR are computed based on Basel II for banking institutions that have adopted the standardised approach



Banking system capitalisation remained strong...



...whilst the level of NPLs remained low

Bank Negara Malaysia
26 September 2008

Key Monetary and Financial Statistics

| | Jun 08 | | Jul 08 | | Aug 08 | |
|---|-----------|-------------|--------|-------------|--------|-------------|
| | Outs. | Ann. growth | Outs. | Ann. growth | Outs. | Ann. growth |
| | (RM b) | (%) | (RM b) | (%) | (RM b) | (%) |
| Monetary Aggregates | | | | | | |
| Reserve money | 68.4 | 15.7 | 66.6 | 12.3 | 69.3 | 12.1 |
| M1 | 175.9 | 17.8 | 175.2 | 15.1 | 174.5 | 13.1 |
| M2 | 869.4 | 15.9 | 881.1 | 16.1 | 872.5 | 14.7 |
| M3 | 900.5 | 14.2 | 912.7 | 14.1 | 904.6 | 12.8 |
| Banking System | | | | | | |
| Total deposits | 931.0 | 10.9 | 940.2 | 12.7 | 933.1 | 12.5 |
| Total loans (including loans sold to Cagamas) | 685.9 | 11.7 | 694.5 | 9.9 | 707.5 | 11.0 |
| Loan-deposit ratio (%) | | 72.2 | | 72.5 | | 74.5 |
| Financing-deposit ratio ¹ (%) | | 80.1 | | 80.2 | | 82.3 |
| Loans applied (during the period) | 43.0 | -5.2 | 43.6 | 11.9 | 52.3 | 25.5 |
| Loans approved (during the period) | 24.7 | -23.4 | 26.1 | 2.3 | 29.2 | 15.8 |
| Loans disbursed (during the period) | 54.4 | 8.8 | 57.6 | -4.9 | 55.4 | 14.9 |
| Loans repaid (during the period) | 45.7 | 5.4 | 49.0 | 19.2 | 46.1 | 9.3 |
| Banking System Health | | | | | | |
| Risk-weighted Capital Ratio (RWCR) (%) | | 13.3 | | 13.3 | | 13.2 |
| Net NPLs: 3-month classification (%) | | 2.6 | | 2.5 | | 2.5 |
| Interest Rates at end-period [average for the month] | | | | | | |
| Overnight Policy Rate (OPR) | | 3.50 | | 3.50 | | 3.50 |
| Interbank: | Overnight | 3.49 [3.50] | | 3.49 [3.49] | | 3.49 [3.49] |
| | 1-week | 3.51 [3.52] | | 3.51 [3.52] | | 3.52 [3.52] |
| | 1-month | 3.56 [3.56] | | 3.56 [3.56] | | 3.56 [3.56] |
| 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 | | 6.08 | | 6.02 | | 5.98 |
| Prices | | | | | | |
| Consumer Price Index (CPI) (2005=100) | 113.4 | 7.7 | 114.7 | 8.5 | 114.9 | 8.5 |
| Producer Price Index (PPI) (2000=100) | 149.5 | 14.4 | 149.6 | 14.2 | n.a. | n.a. |
| Exchange Rates of Ringgit against Selected Currencies (end-period) | | | | | | |
| US dollar | | 3.2665 | | 3.2630 | | 3.3895 |
| Euro | | 5.1565 | | 5.0859 | | 4.9971 |
| Pound Sterling | | 6.5114 | | 6.4642 | | 6.2079 |
| 100 Japanese yen | | 3.0749 | | 3.0219 | | 3.1065 |
| Singapore dollar | | 2.3995 | | 2.3853 | | 2.3937 |
| 100 Thai Baht | | 9.7435 | | 9.7301 | | 9.9152 |
| 100 Philippine Peso | | 7.2759 | | 7.3782 | | 7.3837 |
| 100 Indonesian Rupiah | | 0.0354 | | 0.0358 | | 0.0370 |
| 100 Korean Won | | 0.3128 | | 0.3225 | | 0.3116 |
| Capital Market | | | | | | |
| Net funds raised (in Rmb) by: | public | 2.5 | | -5.7 | | 3.5 |
| | private | 10.0 | | 1.0 | | 3.4 |
| Bursa Malaysia Composite Index (end-period) | | 1,186.6 | | 1,163.1 | | 1,100.5 |
| Bursa Malaysia Market Capitalisation (Rmb, end-period) | | 901.2 | | 876.1 | | 833.5 |

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