



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

Ref. No.: 08/08/11

**EMBARGO: Not for publication or  
broadcast before 1800 hours on  
Friday, 29 August 2008**

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

- Net financing to the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 13.2%.
- Loan applications, approvals and disbursements were relatively steady month-on-month.
- The capitalisation of the banking system remained strong with a risk-weighted capital ratio (RWCR) of 13.2% as at end-July 2008.
- Headline inflation rose to 8.5% in July, due mainly to the substantial increases in transport and food prices.



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## **MONETARY AND FINANCIAL DEVELOPMENTS** **July 2008**

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In July, gross financing raised moderated to RM59.4 billion, due mainly to lower 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 slower combined annual rate of 13.2%. Loan applications, approvals and disbursements were relatively steady month-on-month.

Interbank rates for all maturities were generally steady. Fixed deposit rates remained unchanged while the average lending rate of commercial banks was lower at 6.02%.

During the period 1 July to 28 August 2008, the ringgit depreciated by 3.2% against the US dollar. Other regional currencies also depreciated against the US currency. The US dollar strengthened on signs of slower growth in other major economies. During the same period, the ringgit appreciated against the euro (3.3%) and the pound sterling (5.0%), but depreciated against the Japanese yen (-0.5%). Against regional currencies, the ringgit appreciated against the Singapore dollar (0.4%) and the Korean won (0.3%), but depreciated against other regional currencies in the range of 1.4% to 4.0%.

Headline inflation rose to 8.5% in July (June: 7.7%) as a result of higher inflation in the *transport and food and non-alcoholic beverages* categories.

Broad money, or M3, increased by 14.1% on an annual basis in July, reflecting expansionary Government operations and lending by the banks.

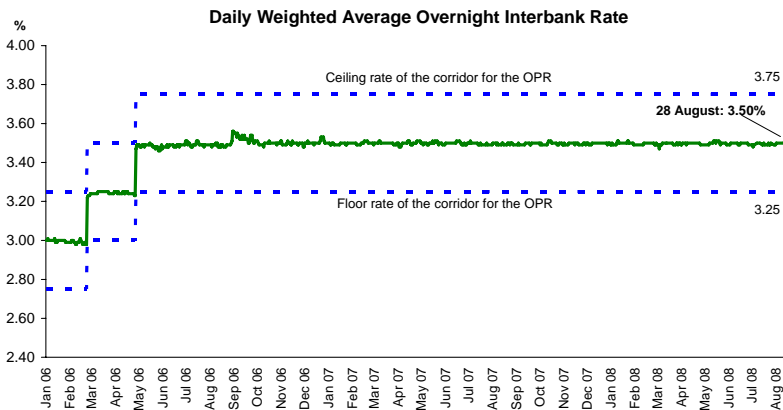
The capitalisation of the banking system remained strong with a risk-weighted capital ratio (RWCR) of 13.2% as at end-July. The net non-performing loans (NPLs) ratio improved further to 2.5%.

**Interest rates remained stable**

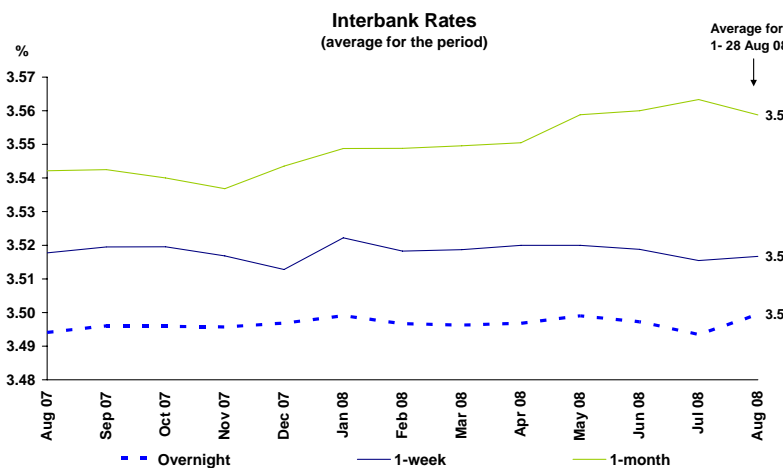
During the period 1 July – 28 August, the daily weighted average overnight interbank rate moved within a narrow range of 3.49% - 3.51%. Interbank rates of other maturities were also relatively stable.

The average fixed deposit (FD) rates of commercial banks (CBs) remained unchanged in July and August. As at 15 August 2008, the average quoted FD rates for tenures between 1 and 12 months were within the range of 3.08% and 3.70%. With the higher inflation, the impact was larger on negative real FD rates.

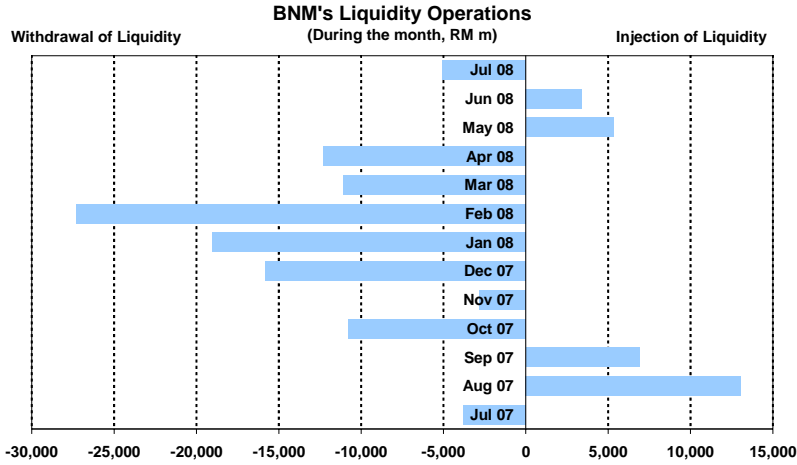
In terms of the CBs' lending rates, the average base lending rate (BLR) was unchanged at 6.72%, while the average lending rate (ALR) was lower at 6.02% in July (6.08% in June).



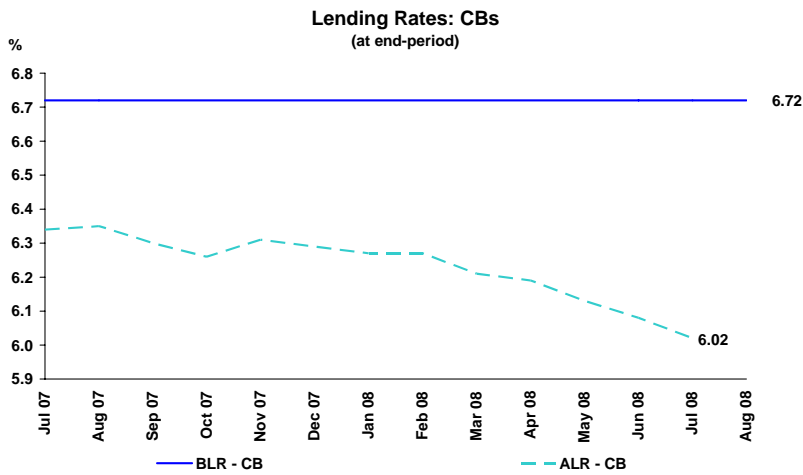
*The average overnight interbank rate moved within a narrow range*



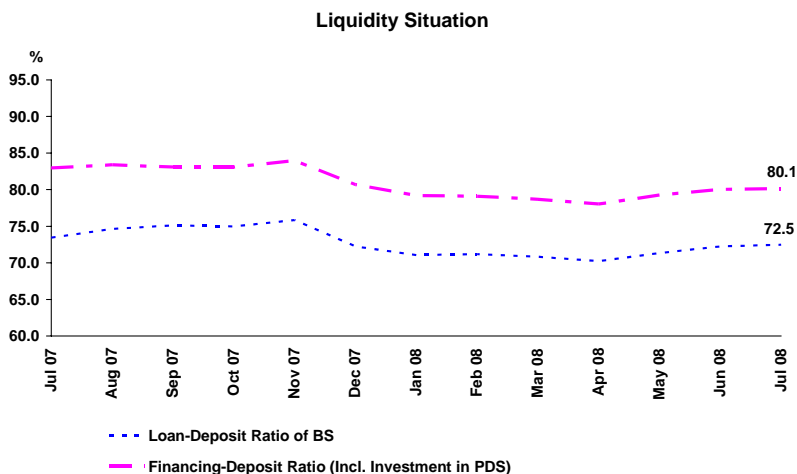
*Other interbank rates remained relatively stable*



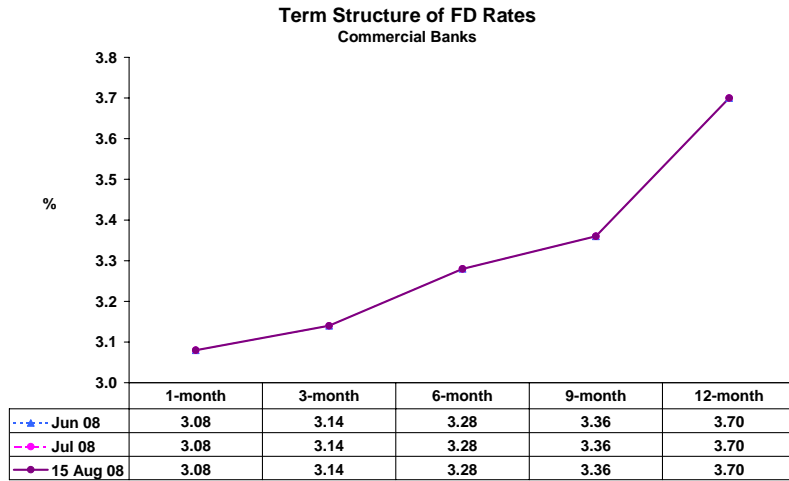
*BNM withdrew liquidity from the interbank market in July*



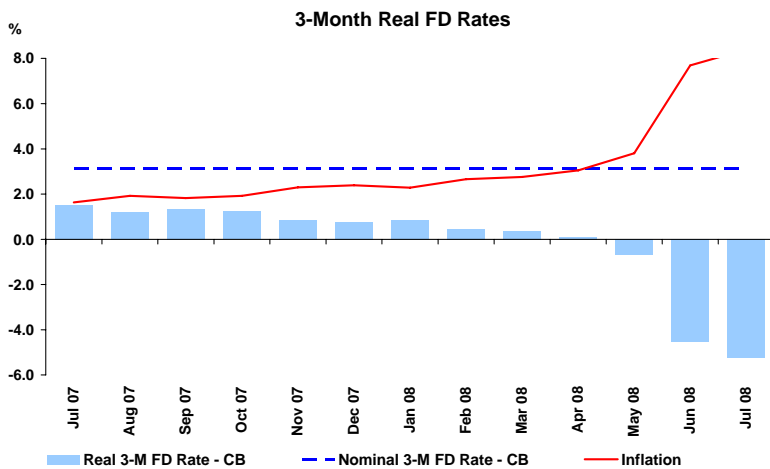
*CBs' ALR maintained its gradual downward trend*



*The financing-deposit and loan-deposit ratios increased in July as the growth in financing outpaced the increase in deposits*



*Average FD rates were unchanged*

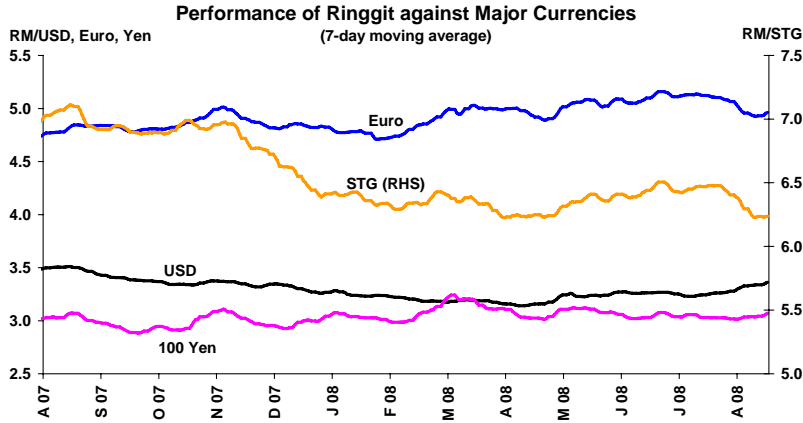


*Higher inflation had a larger impact on negative real FD rates*

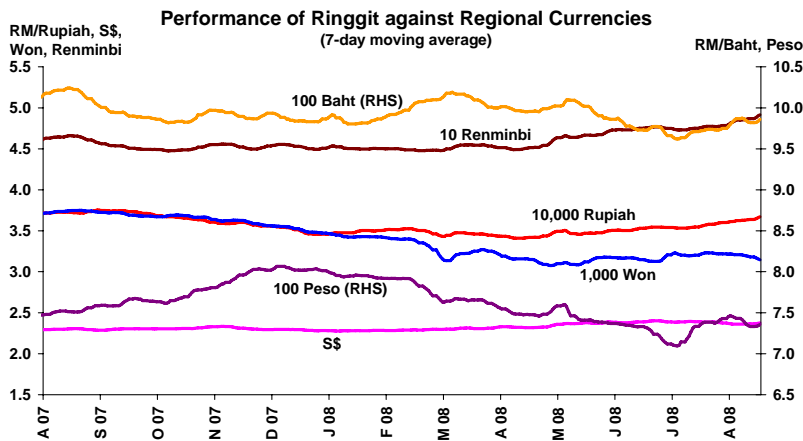
***The ringgit depreciated against the US dollar***

During the period 1 July to 28 August 2008, the ringgit depreciated by 3.2% against the US dollar. A similar trend was observed for other regional currencies. The US dollar strengthened on signs of slower growth in other major economies. During the same period, the ringgit appreciated against the euro (3.3%) and the pound sterling (5.0%), but depreciated against the Japanese yen (-0.5%). Against regional currencies, the ringgit appreciated against the Singapore dollar (0.4%)

and the Korean won (0.3%), but depreciated against other regional currencies in the range of 1.4% to 4.0%.



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



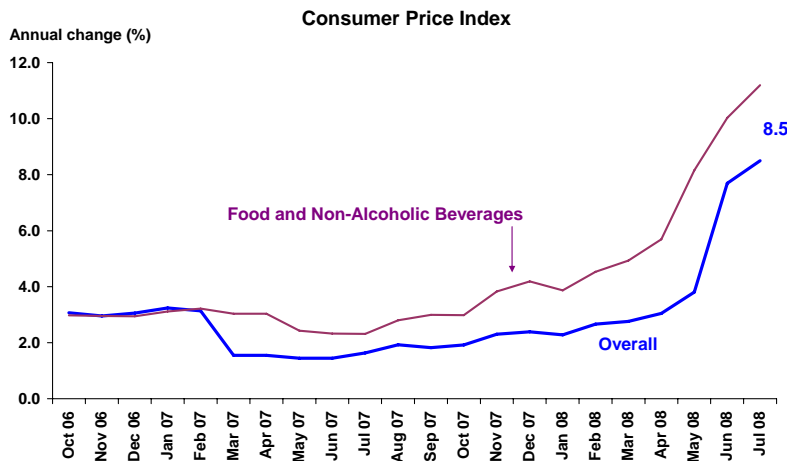
*..and recorded a mixed performance against regional currencies*

### Performance of Ringgit against Selected Currencies

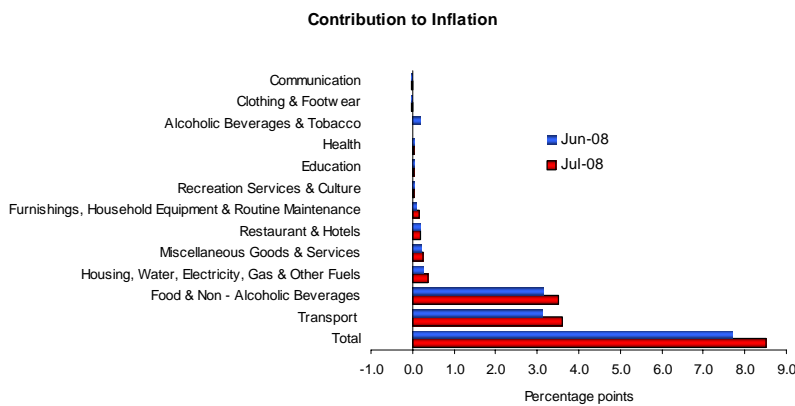
RM per foreign currency	End-period				% Change	
	Dec 07	Jun 08	Jul 08	28 Aug 08	End Dec 07 - 28 Aug 08	End Jun 08 - 28 Aug 08
US dollar	3.3065	3.2665	3.2630	3.3760	-2.1	-3.2
Euro	4.8756	5.1565	5.0859	4.9934	-2.4	3.3
Pound sterling	6.6070	6.5114	6.4642	6.2009	6.6	5.0
100 Japanese yen	2.9534	3.0749	3.0219	3.0916	-4.5	-0.5
Singapore dollar	2.2938	2.3995	2.3853	2.3887	-4.0	0.4
100 Thai baht	9.8159	9.7435	9.7301	9.9192	-1.0	-1.8
100 Philippine peso	8.0158	7.2759	7.3782	7.3808	8.6	-1.4
100 Indonesian rupiah	0.0352	0.0354	0.0358	0.0369	-4.5	-4.0
100 Korean won	0.3532	0.3128	0.3225	0.3120	13.2	0.3
Chinese renminbi	0.4527	0.4764	0.4775	0.4946	-8.5	-3.7

### Headline inflation increased in July

Headline inflation rose to 8.5% in July (June: 7.7%) as a result of higher inflation in the *transport* and *food and non-alcoholic beverages* categories. Prices in the *transport* category rose by 22.7% in July (June: 19.6%) following the fuel price adjustment in June. Prices in the *food and non-alcoholic beverages* category rose by 11.2% (June: 10%), as most sub-categories recorded higher inflation. Following the adjustment to electricity tariffs by the Government effective 1 July, the *housing, water, electricity, gas and other fuels* category registered an inflation rate of 1.8% in July (June: 1.1%). Meanwhile, prices in the *clothing and footwear*, and *communication* categories were lower, which, to a certain extent, mitigated the overall increase in headline inflation.



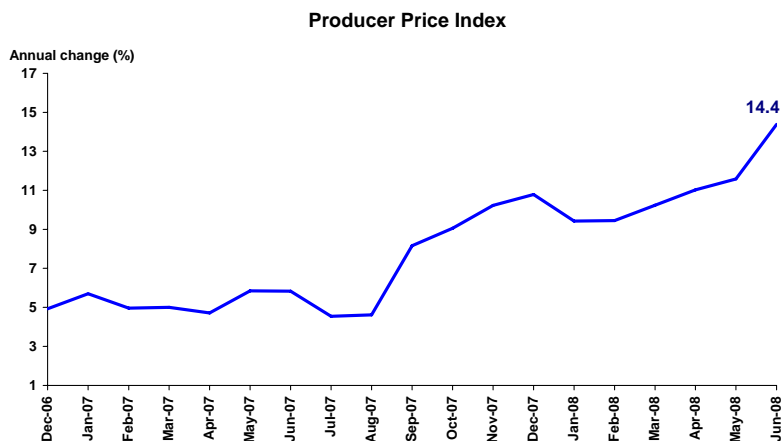
Inflation increased to 8.5% in July



### ***Producer price inflation increased in June***

Producer price index (PPI) inflation increased to 14.4% in June (May: 11.6%) due to higher price increases in the commodity-based component of the PPI, which rose at an accelerated pace of 42.5% (May: 34.9%). This reflected higher prices for global commodities such as crude oil, natural gas and rubber during the period. Inflation in the non-commodity-based component of the PPI, meanwhile, rose to 3.4% (May: 2.6%), as higher prices were recorded in the *chemicals and related products, manufactured goods classified chiefly by material* (such as tin, alloys, and iron and steel products) and *food and live animals* categories.

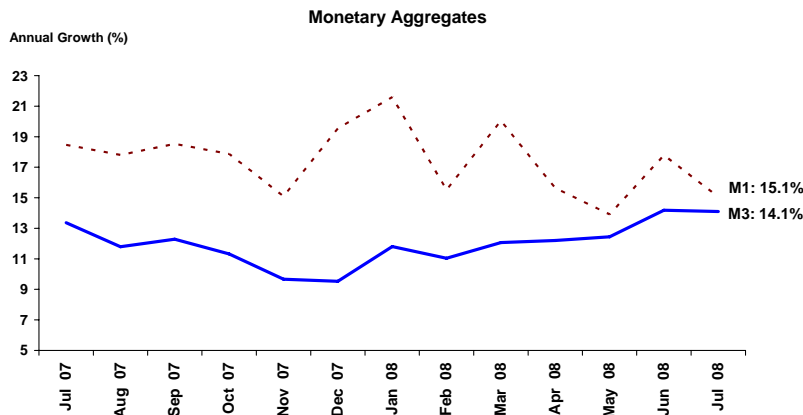
In terms of composition, prices in the local component of the PPI increased further by 18.4% (May: 14.1%). This reflected mainly higher prices in the *food and live animals; mineral fuels, lubricants and related materials and chemical and related product* categories. The imported component of the PPI, however, increased at a slower pace of 6.2% (May: 6.4%).



### ***Monetary aggregates expanded in July***

In July, broad money, or M3, increased by RM12.2 billion to grow by 14.1% on an annual basis. The growth in M3 reflected expansionary Government operations and lending by the banks. The expansionary effect of Government operations on M3 was due to net redemptions of MGS during the month. These factors, however,

were partially mitigated by the contractionary impact of net foreign outflows. M1 decreased by RM0.7 billion during the month.



**M3 Determinants**  
(RM billion)

	Change during period			
	Apr 08	May 08	Jun 08	Jul 08
M3	9.2	5.0	1.8	12.2
Net claims on Government	-1.9	-5.8	3.2	7.9
Claims on the private sector	5.3	11.3	9.7	7.9
<i>Loans</i>	4.2	9.1	9.8	7.7
<i>Securities</i>	1.1	2.2	-0.1	0.2
Net external operations*	18.8	-6.8	-7.9	-7.9
Other influences	-12.9	6.4	-3.3	4.3

\* 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 continued to increase***

Total deposits with the banking system increased by RM9.2 billion or 12.7% on an annual basis in July (June: RM3.6 billion; 10.9%), mainly reflecting the withdrawals of Government funds placed with BNM in order to finance net redemptions of MGS during the month. By customer, placements by domestic business enterprises increased most significantly. By type, the increase 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			
	Apr 08	May 08	Jun 08	Jul 08
Federal Government	-129	1,900	-1,171	-1,801
State Governments	-131	-67	-141	-43
Statutory Authorities <sup>1</sup>	148	1,785	197	-825
Financial Institutions	6,848	-6,753	-3,541	1,462
Business Enterprises	4,192	56	-1,088	9,632
Individuals	2,393	1,780	3,802	2,793
Others <sup>2</sup>	1,002	1,431	5,546	-2,001
<b>Total</b>	<b>14,323</b>	<b>131</b>	<b>3,606</b>	<b>9,216</b>

1/ Include local Governments

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

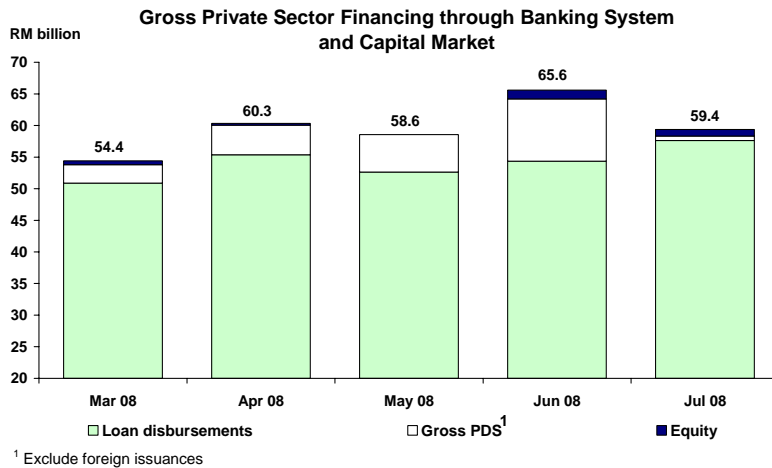
**Deposits by Type**  
(RM million)

	Change during period			
	Apr 08	May 08	Jun 08	Jul 08
Fixed deposits	499	-2,178	1,065	-504
NIDs	-339	-464	4,076	-1,747
Demand deposits	-1,561	-582	5,019	-866
Savings deposits	330	77	722	446
Repos	4,348	-5,020	245	-142
FX deposits	699	2,817	2,456	466
SPI deposits	1,823	5,163	4,731	-1,864
Others <sup>1</sup>	8,525	318	-14,709	13,427
<b>Total</b>	<b>14,323</b>	<b>131</b>	<b>3,606</b>	<b>9,216</b>

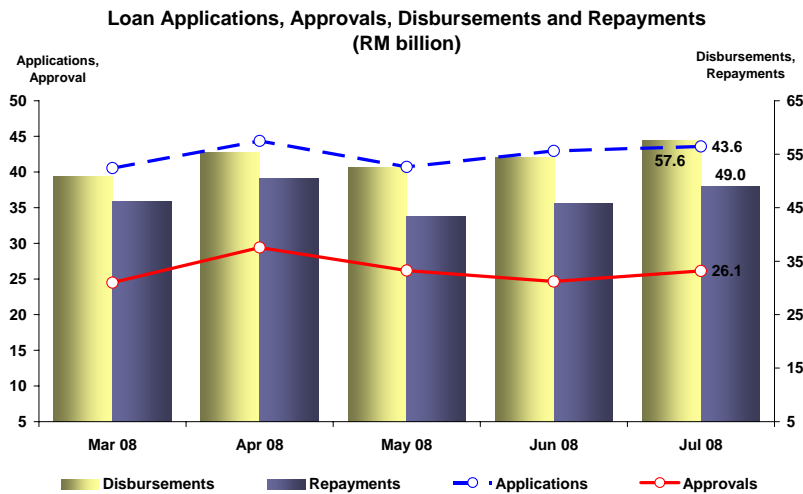
1/ Other deposits comprised mainly of short-term money market deposits

**Gross private sector financing slowed down in July**

Gross financing raised by the private sector from the banking system and capital market moderated to RM59.4 billion in July (June: RM65.6 billion), due mainly to lower issuances of private debt securities (PDS). Notwithstanding this, loans disbursed by the banking system increased during the month. On a net basis, financing to the private sector through banking system loans and PDS outstanding expanded at a slower combined annual rate of 13.2% (June: 14.1%).



*Gross private sector financing moderated in July*



*Total loan volumes were stable...*

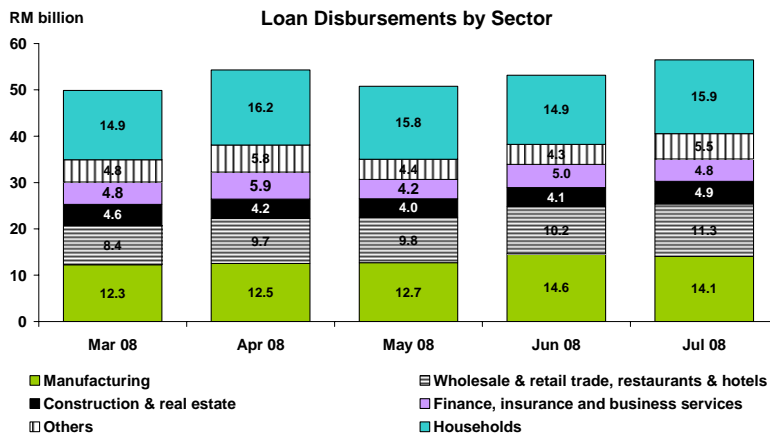
**Bank lending indicators**

	RM billion		Annual Growth (%)	
	Jun-08	Jul-08	Jun-08	Jul-08
<b>Overall</b>				
Loan applications	43.0	43.6	-5.2	11.9
Loan approvals	24.7	26.1	-23.4	2.3
Loan disbursements	54.4	57.6	8.8	-4.9
Chg in Loans Outstanding <sup>1/</sup>	20.1	19.2	11.7	9.9
<b>Businesses</b>				
Loan applications	21.7	21.2	-25.8	-0.2
Loan approvals	11.8	11.6	-45.6	-19.5
Loan disbursements	39.4	41.7	9.7	-7.0
Chg in Loans Outstanding <sup>1/</sup>	13.3	12.4	14.4	9.4
<b>SMEs<sup>2/</sup></b>				
Loan applications	9.1	9.7	5.7	6.6
Loan approvals	5.5	5.9	-3.2	5.0
Loan disbursements	14.5	14.6	20.1	25.2
Chg in Loans Outstanding <sup>1/</sup>	2.8	2.5	11.3	12.0
<b>Households</b>				
Loan applications	21.2	22.4	32.4	26.4
Loan approvals	12.8	14.5	22.9	30.6
Loan disbursements	14.9	15.9	6.5	1.2
Chg in Loans Outstanding <sup>1/</sup>	2.3	3.1	8.9	8.8

*... but business loan growth moderated due to the high base effect*

<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*

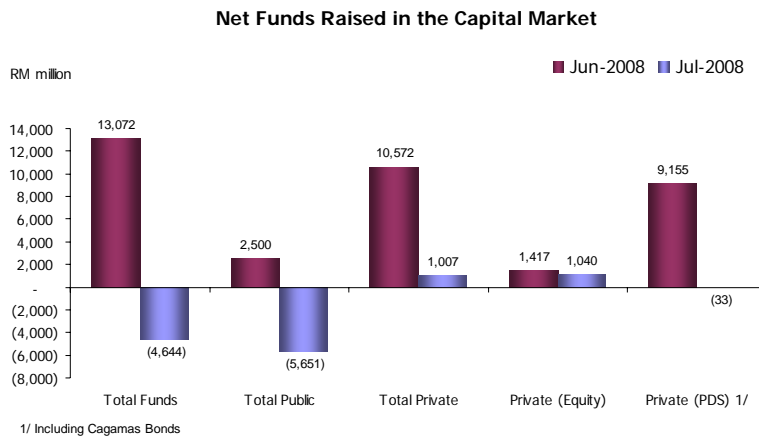
In July, major business loan indicators continued to register negative annual growth rates due to the high base effect from a large syndicated bridging finance facility provided during the same period in 2007. Despite the lower annual growth rate, loan disbursements increased further on a month-on-month basis due to higher financing requirements for working capital, particularly in the wholesale and retail trade, and construction and real estate sectors. Business loans outstanding, however, recorded a slower annual growth of 9.4% (June: 14.4%), also on account of the high base effect.

Demand for financing from the household sector improved in July. The increases in loan applications and approvals during the month were mainly supported by strong demand for housing loans. As for loan disbursements, almost half of the increase was contributed by personal and credit card financing. As at end-July, household loans outstanding increased by 8.8% (end-June: 8.9%).

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

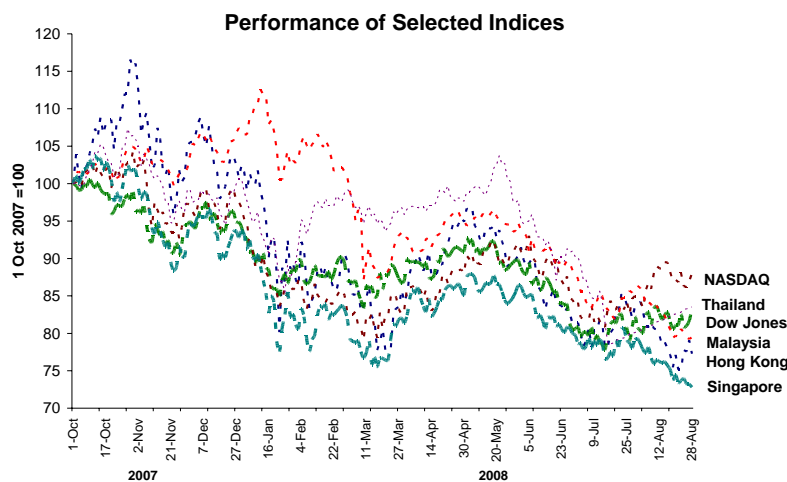
In July, net funds raised in the capital market recorded a net redemption of RM4.6 billion. In the private sector, gross funds raised totalled RM2.6 billion. The amount included two rights issues in the equity market by firms in the property, and trading and services sectors. In addition, there was an issuance by a non-resident corporation in the private debt securities (PDS) market amounting to RM300 million. On a net basis, funds raised by the private sector amounted to RM1.0 billion. Meanwhile, net funds raised in the public sector recorded a net redemption

due to the maturing of Malaysian Government Securities (MGS) amounting to RM9.0 billion.



***KLCI continued to decline in July***

In July 2008, the KLCI ended lower to close at 1,163.1 (since end-June: -2.0%) due mainly to weak market sentiments and the decline in crude palm oil prices. Renewed concerns over US credit markets also contributed to the weaker domestic market performance. Other regional markets were also similarly affected and key regional market indices continued their moderating trend. Market capitalisation decreased to RM876.1 billion (since end-June: -2.8%), while the daily average turnover declined to 475.2 million units (June: 481.5 million units).

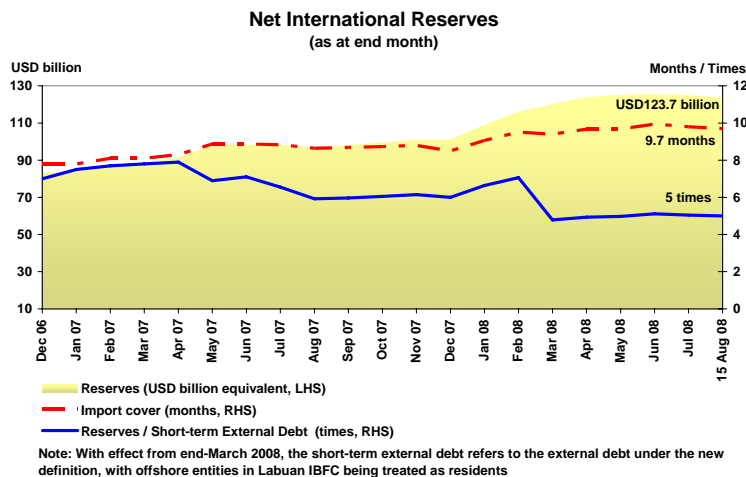


*KLCI declined further*

As at 28 August, the KLCI ended lower at 1,070.5 points (since end-July: -8.0%). Overall market capitalisation was lower at RM814.1 billion (since end-July: -7.1%) and the daily average turnover declined to 414.5 million units.

### ***International reserves***

The international reserves of Bank Negara Malaysia amounted to RM408.5 billion (equivalent to USD125.1 billion) as at 31 July 2008. As at 15 August 2008, the international reserves amounted to RM403.9 billion (equivalent to USD123.7 billion). The international reserve position is sufficient to finance 9.7 months of retained imports and is 5 times the short-term external debt.



### ***Capitalisation level sustained amidst further improvements in non-performing loans***

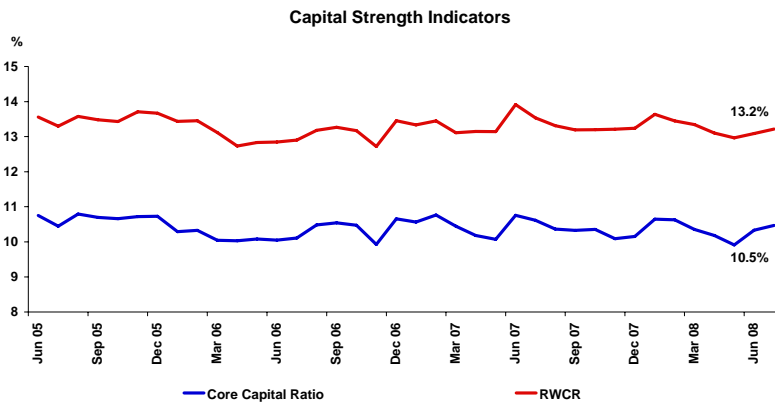
The capitalisation of the banking system remained strong with a risk-weighted capital ratio (RWCR) and core capital ratio of 13.2% and 10.5% respectively. The increase in the RWCR was due to higher retained profits as well as capital injection into one financial institution. Meanwhile, the net non-performing loans (NPLs) ratio improved further to 2.5%, underpinned by continued write-offs, reclassification to performing loans and recoveries by banking institutions.

**Banking System Health Indicators**

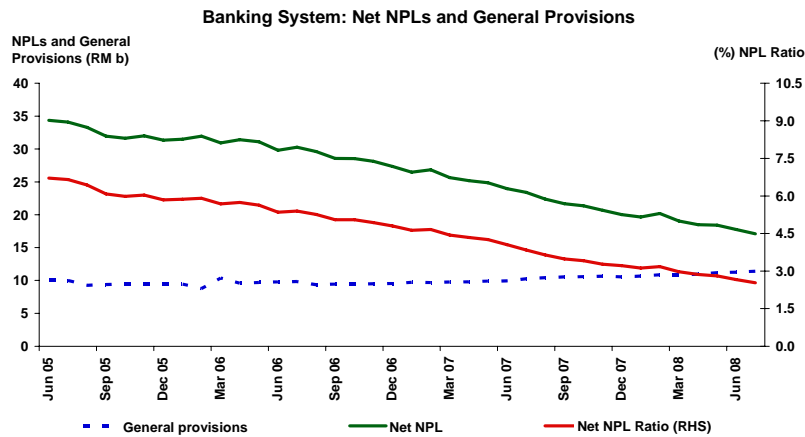
	2001	2002	2003	2004	2005	2006	2007	May 08	Jun 08	Jul 08
<b>Capital (%) **</b>										
Core capital ratio	11.1	11.1	11.1	11.4	10.7	10.7	10.2	9.9	10.3	10.5
RWCR	13.0	13.2	13.8	14.4	13.7	13.5	13.2	13.0	13.1	13.2
<b>Net NPLs (3-month classification)</b>										
% of net total loans	11.5	10.2	8.9	7.5	5.8	4.8	3.2	2.8	2.7	2.5
Amount (RM million)	46,254	43,110	40,013	36,668	31,332	27,360	20,011	18,414	17,745	17,090
<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...*



*...whilst the level of NPLs declined further*

\* based on 3-month classification policy

**Bank Negara Malaysia**  
**29 August 2008**

## Key Monetary and Financial Statistics

	May 08		Jun 08		Jul 08	
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
<b>Monetary Aggregates</b>						
Reserve money	67.4	16.2	68.4	15.7	66.6	12.3
M1	170.3	13.9	175.9	17.8	175.2	15.1
M2	866.7	13.7	869.4	15.9	881.1	16.1
M3	898.7	12.4	900.5	14.2	912.7	14.1
<b>Banking System</b>						
Total deposits	927.4	8.7	931.0	10.9	940.2	12.7
Total loans (including loans sold to Cagamas)	675.3	11.0	685.9	11.7	694.5	9.9
Loan-deposit ratio (%)		71.3		72.2		72.5
Financing-deposit ratio <sup>1</sup> (%)		79.3		80.0		80.1
Loans applied (during the period)	40.7	-9.7	43.0	-5.2	43.6	11.9
Loans approved (during the period)	26.2	-18.9	24.7	-23.4	26.1	2.3
Loans disbursed (during the period)	52.6	15.7	54.4	8.8	57.6	-4.9
Loans repaid (during the period)	43.5	5.2	45.7	5.4	49.0	19.2
<b>Banking System Health</b>						
Risk-weighted Capital Ratio (RWCR) (%)		13.0		13.1		13.2
Net NPLs: 3-month classification (%)		2.8		2.7		2.5
<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 [3.50]		3.49 [3.50]		3.49 [3.49]
	1-week	3.52 [3.52]		3.51 [3.52]		3.51 [3.52]
	1-month	3.57 [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		6.13		6.08		6.02
<b>Prices</b>						
Consumer Price Index (CPI) (2005=100)	109.1	3.8	113.4	7.7	114.7	8.5
Producer Price Index (PPI) (2000=100)	145.4	11.6	149.5	14.4	n.a.	n.a.
<b>Exchange Rates of Ringgit against Selected Currencies (end-period)</b>						
US dollar		3.2435		3.2665		3.2630
Euro		5.0334		5.1565		5.0859
Pound Sterling		6.4103		6.5114		6.4642
100 Japanese yen		3.0757		3.0749		3.0219
Singapore dollar		2.3760		2.3995		2.3853
100 Thai Baht		9.9923		9.7435		9.7301
100 Philippine Peso		7.4095		7.2759		7.3782
100 Indonesian Rupiah		0.0348		0.0354		0.0358
100 Korean Won		0.3161		0.3128		0.3225
<b>Capital Market</b>						
Net funds raised (in RMb) by:	public	3.5		2.5		-5.7
	private	4.5		10.6		1.0
Bursa Malaysia Composite Index (end-period)		1,276.1		1,186.6		1,163.1
Bursa Malaysia Market Capitalisation (RMb, end-period)		971.3		901.2		876.1

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