



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

**EMBARGO: Not for publication or
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Thursday, 31 July 2008**

Monetary and Financial Developments June 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 14.1%.
- The capitalisation of the banking system remained strong with a risk-weighted capital ratio (RWCR) of 13.0% as at end-June 2008.
- Headline inflation rose to 7.7% in June, due mainly to the substantial increases in transport and food prices.



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MONETARY AND FINANCIAL DEVELOPMENTS

June 2008

In June, gross financing raised by the private sector increased to RM65.5 billion, supported by the higher private debt securities (PDS) and equity issuances. On a net basis, financing to the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 14.1%. Loan applications, approvals and disbursements remained at relatively high levels, with continued broad-based financing to productive sectors of the economy.

Interbank rates for all maturities were generally steady. Fixed deposit rates remained unchanged while the average lending rate of commercial banks was lower at 6.08% due to competition amidst ample liquidity conditions.

During the period 1 June to 30 July 2008, the ringgit fluctuated between RM3.2145 to RM3.2740 against the US dollar due to shifting market expectations about the likely direction of the Fed Funds rates following the softer US economic data and the continued turmoil in US financial markets. For the period as a whole, the ringgit appreciated against the Japanese yen (1.7%) but depreciated against the euro (-1.0%), pound sterling (-0.8%) and the US dollar (-0.6%). Against regional currencies, the ringgit appreciated against the Thai baht and the Philippine peso by 2.6% and 0.3% respectively, but depreciated against the Indonesian rupiah (-2.7%), Korean won (-2.3%), Chinese renminbi (-2.1%), and the Singapore dollar (-0.4%).

Headline inflation rose to 7.7% in June (May: 3.8%) due to the substantial price increases in the *transport* and *food and non-alcoholic beverages* categories. Following the restructuring of the fuel subsidy on 4 June 2008, prices in the *transport* category rose by 19.6% (May 08: 0.9%). Prices in the *food and non-alcoholic beverages* category rose by 10% (May 08: 8.2%) reflecting higher prices in both the *food at home* and *food away from home* sub-categories.

Broad money, or M3, increased by 14.2% on an annual basis as at end-June due to higher outstanding bank credit to the private sector and expansionary Government operations.

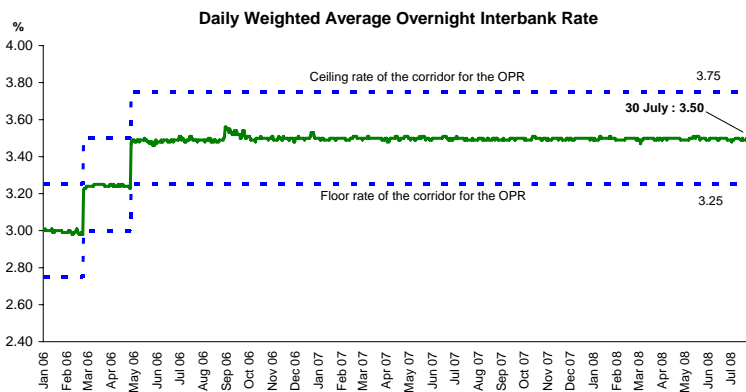
The capitalisation of the banking system remained strong with a risk-weighted capital ratio (RWCR) of 13.0% as at end-June 2008. The net non-performing loans (NPLs) ratio also improved further to 2.7%.

Interest rates remained stable

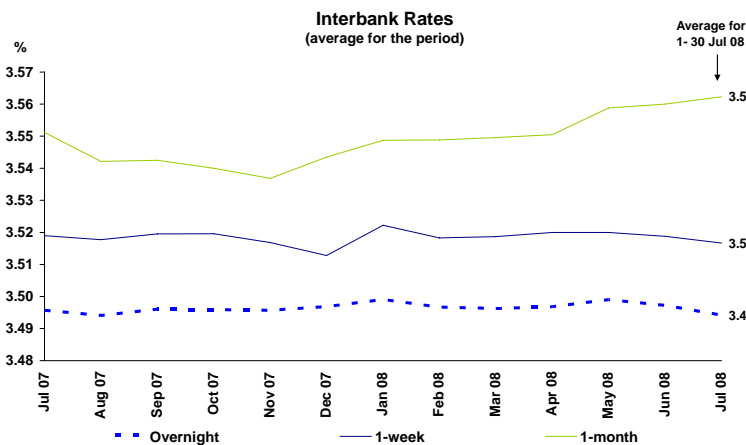
During the period 1 June – 30 July, the daily weighted average overnight interbank rate moved within a narrow range of 3.49% - 3.51%. Interbank rates of other maturities were also relatively stable.

The average fixed deposit (FD) rates of commercial banks (CBs) remained unchanged in June and July. As at 15 July 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 since May, real FD rates have turned negative.

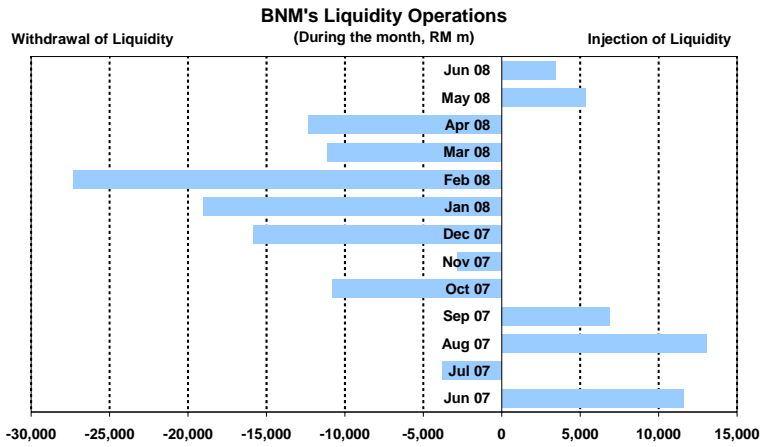
In terms of CBs' lending rates, the average base lending rate (BLR) was unchanged at 6.72%, while the average lending rate (ALR) was lower at 6.08% in June (6.13% in May) due to competition amidst ample liquidity conditions.



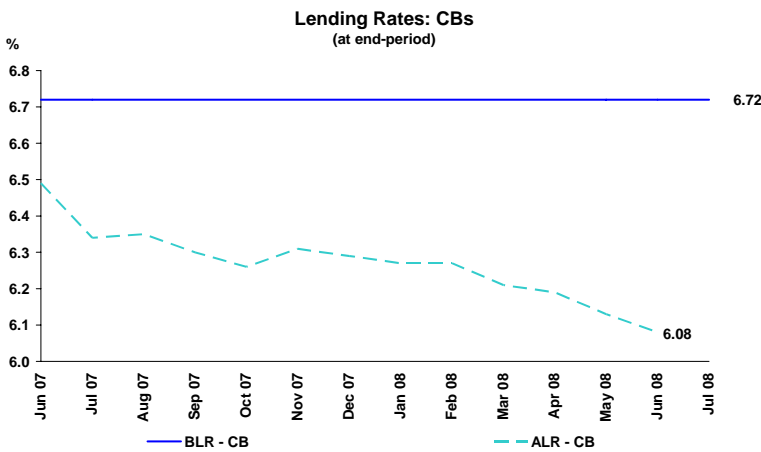
The average overnight interbank rate moved within a narrow range



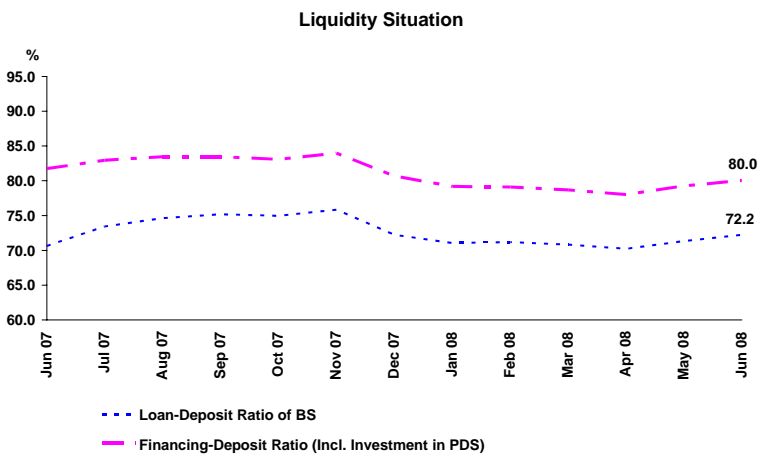
Other interbank rates remained relatively stable



BNM injected liquidity into the interbank market in June

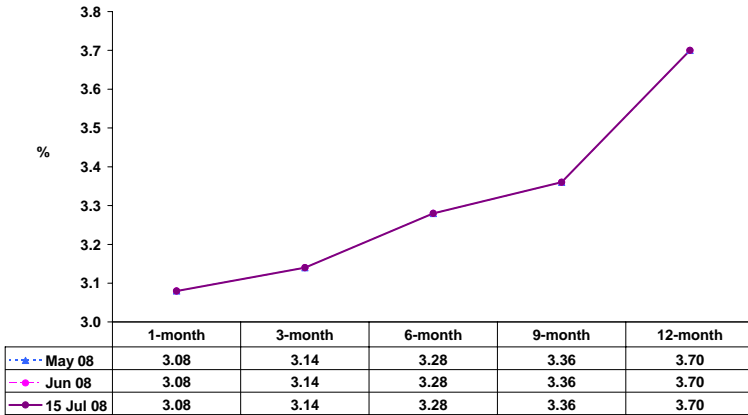


CBs' ALR maintained its gradual downward trend



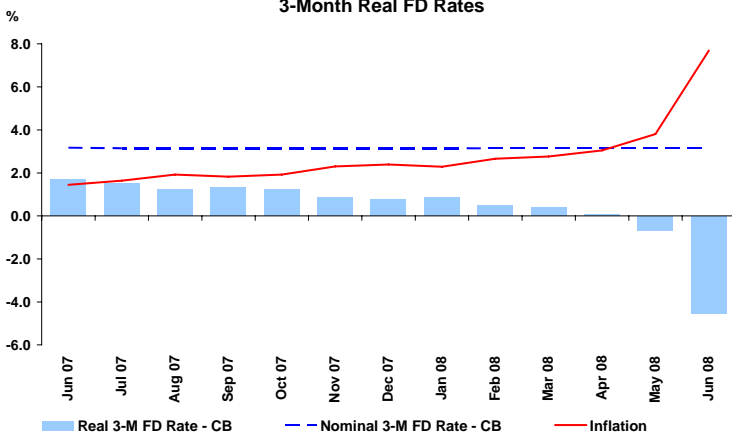
The financing-deposit and loan-deposit ratios increased in June as the growth in financing outpaced the increase in deposits

Term Structure of FD Rates
Commercial Banks



Average FD rates were unchanged

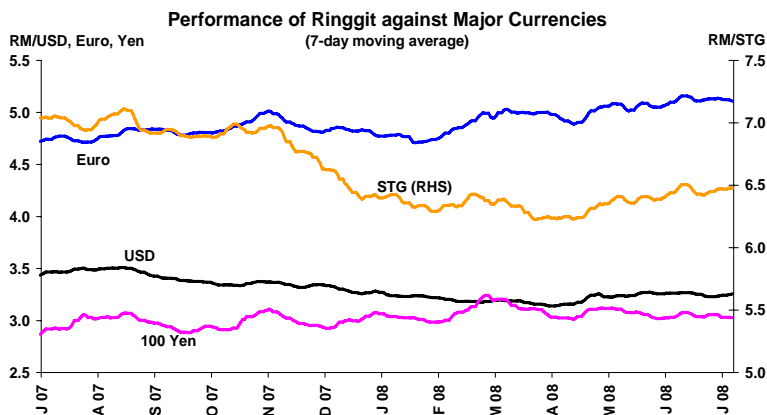
3-Month Real FD Rates



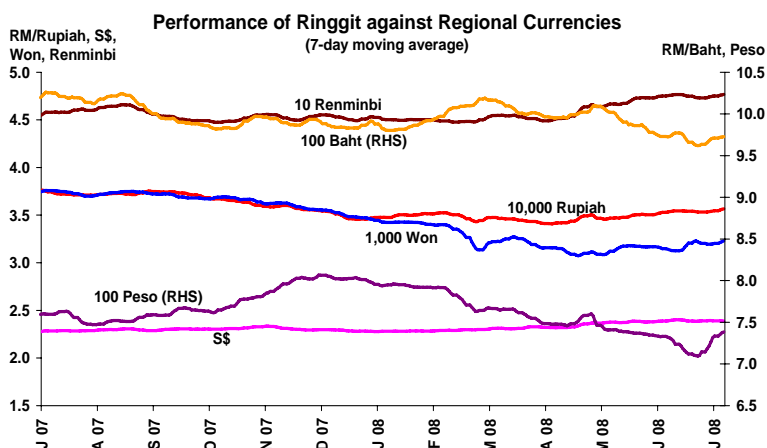
An increase in inflation reduced real FD rates

Mixed performance of the ringgit

During the period 1 June to 30 July 2008, the ringgit fluctuated between RM3.2145 to RM3.2740 against the US dollar due to shifting market expectations about the likely direction of the Fed Funds rates following the softer US economic data and the continued turmoil in US financial markets. For the period as a whole, the ringgit appreciated against the Japanese yen (1.7%) but depreciated against the euro (-1.0%), pound sterling (-0.8%) and the US dollar (-0.6%). Against regional currencies, the ringgit appreciated against the Thai baht and the Philippine peso by 2.6% and 0.3% respectively, but depreciated against the Indonesian rupiah (-2.7%), Korean won (-2.3%), Chinese renminbi (-2.1%), and the Singapore dollar (-0.4%).



The ringgit depreciated against most major currencies...



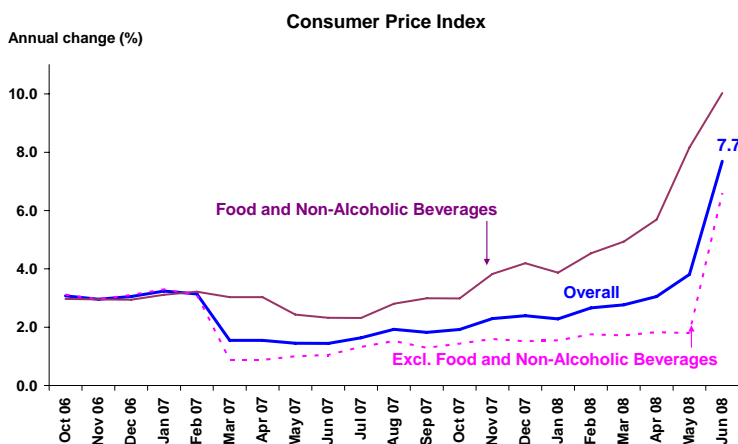
..and recorded a mixed performance against regional currencies

Performance of Ringgit against Selected Currencies

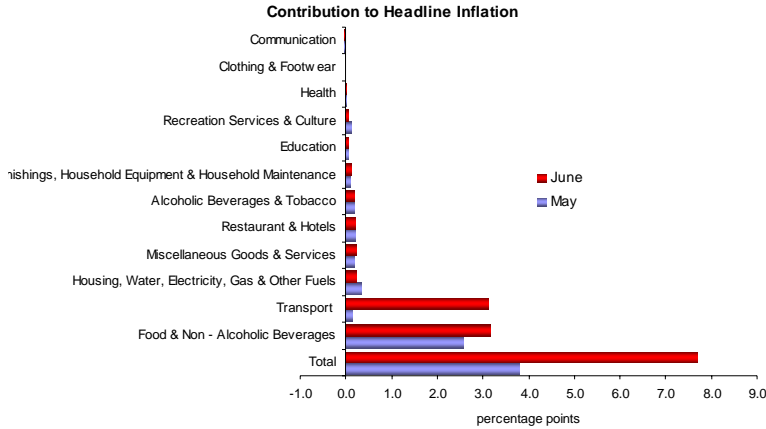
RM per foreign currency	End-period				% Change	
	Dec 07	May 08	Jun 08	30 Jul 08	End Dec 07 - 30 Jul 08	End May 08 - 30 Jul 08
US dollar	3.3065	3.2435	3.2665	3.2625	1.3	-0.6
Euro	4.8756	5.0334	5.1565	5.0857	-4.1	-1.0
Pound sterling	6.6070	6.4103	6.5114	6.4643	2.2	-0.8
100 Japanese yen	2.9534	3.0757	3.0749	3.0231	-2.3	1.7
Singapore dollar	2.2938	2.3760	2.3995	2.3866	-3.9	-0.4
100 Thai baht	9.8159	9.9923	9.7435	9.7403	0.8	2.6
100 Philippine peso	8.0158	7.4095	7.2759	7.3904	8.5	0.3
100 Indonesian rupiah	0.0352	0.0348	0.0354	0.0358	-1.5	-2.7
100 Korean won	0.3532	0.3161	0.3128	0.3235	9.2	-2.3
Chinese renminbi	0.4527	0.4672	0.4764	0.4773	-5.2	-2.1

Headline inflation increased in June

Headline inflation rose to 7.7% in June (May: 3.8%) due to the substantial price increases in the *transport* and *food and non-alcoholic beverages* categories. Following the restructuring of the fuel subsidy on 4 June 2008, prices in the *transport* category rose by 19.6% (May 08: 0.9%). Prices in the *food and non-alcoholic beverages* category rose by 10% (May 08: 8.2%) reflecting higher prices in both the *food at home* and *food away from home* sub-categories. Prices in the non-food component of the CPI increased by 6.7% (May 08: 1.8%) mainly following the higher prices in the *transport* category. Higher inflation was also recorded in the *alcoholic beverages and tobacco; miscellaneous goods and services* and *furnishing, household equipment and routine household maintenance* categories. The *clothing and footwear* and *communication* categories, however, continued to record falling prices.



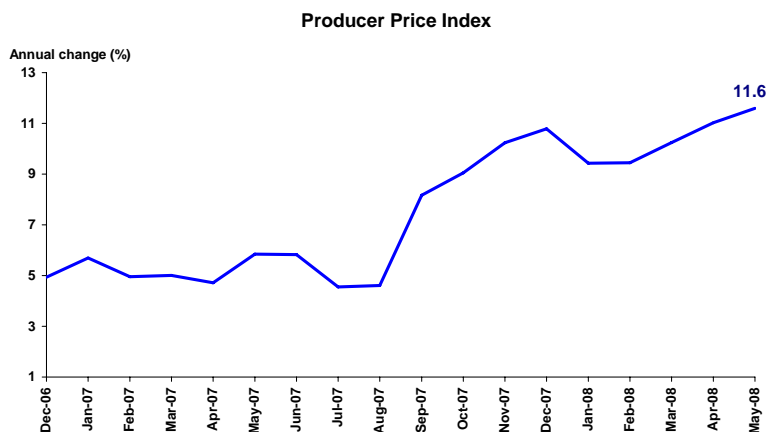
Inflation increased to 7.7% in June



Producer price inflation increased slightly in May

On an annual basis, producer price inflation increased further to 11.6% in May (April: 11%). Although world prices for commodities remained at high levels, prices in the commodity-based component of the PPI rose at a slower pace of 34.9% (April 08: 37.4%). The rate of price increases for the non-commodity-based PPI, meanwhile, was higher at 2.6% (April: 1.4%), as higher prices were recorded in the *chemicals and related products, manufactured goods classified chiefly by material* (such as paper and paperboard, copper, and iron and steel bars) and *miscellaneous manufactured articles* categories.

In terms of composition, prices in the local component of the PPI increased further by 14.1% (April: 13.7%). This reflected mainly higher prices in the *food and live animals; beverages and tobacco* and *chemical and related product* categories. Meanwhile, the imported component of the PPI also increased by 6.4% (April: 5.9%).



Monetary aggregates expanded in June

In June, broad money, or M3, increased by RM1.8 billion to grow at 14.2% on an annual basis. M3 rose due to higher outstanding bank credit to the private sector and expansionary Government operations. This, however, was partially mitigated by net outflows of foreign funds during the month.

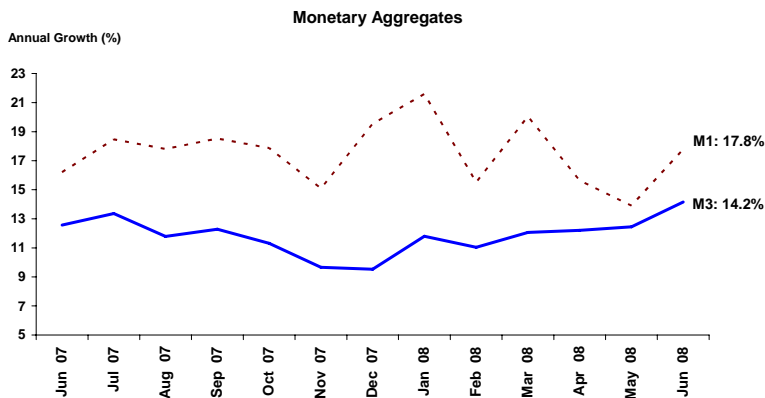
M1, however, increased by RM5.6 billion or 17.8% due to higher demand deposits placed by business enterprises.

M3 Determinants
(RM billion)

	Change during period			
	Mar 08	Apr 08	May 08	Jun 08
M3	8.1	9.2	5.0	1.8
Net claims on Government	3.2	-1.9	-5.8	3.2
Claims on the private sector	4.0	5.3	11.3	9.7
Loans	3.7	4.2	9.1	9.8
Securities	0.3	1.1	2.2	-0.1
Net external operations *	5.8	18.8	-6.8	-7.9
Other influences	-4.8	-12.9	6.4	-3.3

* 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 continue to increase

Total deposits with the banking system increased by RM3.6 billion or 10.9% on an annual basis in June (May: RM131.2 million; 8.7%), reflecting mainly higher deposit placements by foreign non-bank entities and individuals. Higher deposits were observed across all types, with the exception of short-term money market deposits. During the month, outflows from the domestic financial markets partially contributed to the decline in short-term money market deposits, which is included in the *other deposits* category.

Deposits by Holder (RM million)

	Change during period			
	Mar 08	Apr 08	May 08	Jun 08
Federal Government	-244	-129	1,900	-1,171
State Governments	129	-131	-67	-141
Statutory Authorities ¹	1,362	148	1,785	197
Financial Institutions	2,795	6,848	-6,753	-3,541
Business Enterprises	5,017	4,192	56	-1,088
Individuals	584	2,393	1,780	3,802
Others ²	1,452	1,002	1,431	5,546
Total	11,095	14,323	131	3,606

^{1/} Include local Governments

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

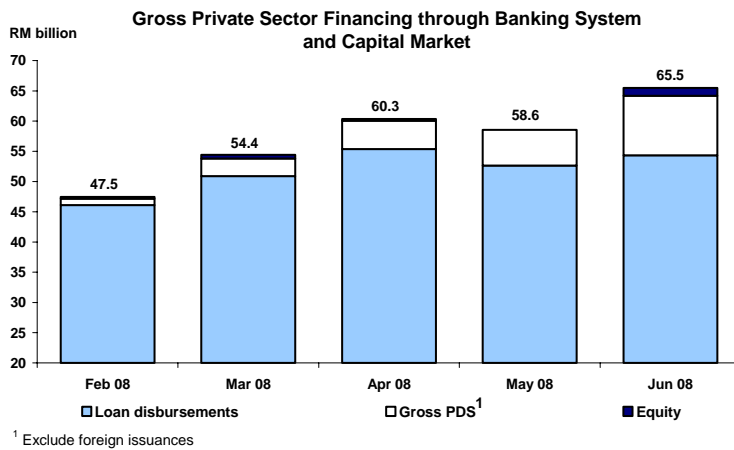
Deposits by Type (RM million)

	Change during period			
	Mar 08	Apr 08	May 08	Jun 08
Fixed deposits	3,944	499	-2,178	1,065
NIDs	-737	-339	-464	4,076
Demand deposits	458	-1,561	-582	5,019
Savings deposits	-957	330	77	722
Repos	-1,109	4,348	-5,020	245
FX deposits	-1,183	699	2,817	2,456
SPI deposits	6,340	1,823	5,163	4,731
Others ¹	4,339	8,525	318	-14,709
Total	11,095	14,323	131	3,606

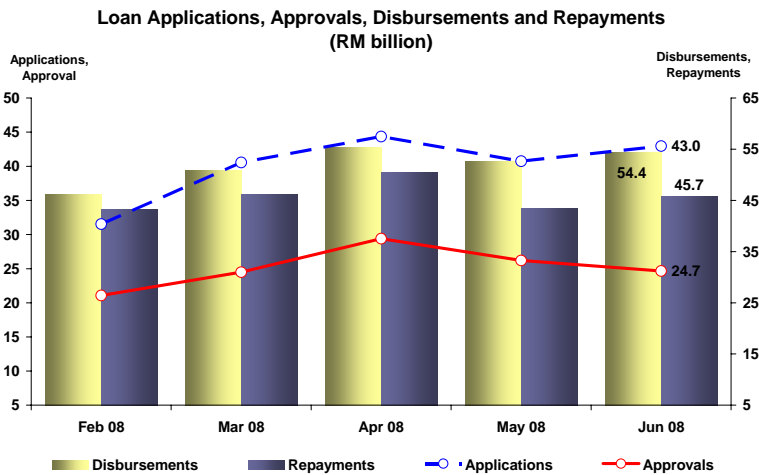
^{1/} Other deposits comprised mainly of short-term money market deposits

Sustained level of gross private sector financing

Gross financing raised by the private sector from the banking system and capital market increased to RM65.5 billion in June (May: RM58.6 billion) supported by the higher private debt securities (PDS) and equity issuances. On a net basis, financing to the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 14.1% (May: 13.2%).



Gross private sector financing amounted to RM65.5 billion



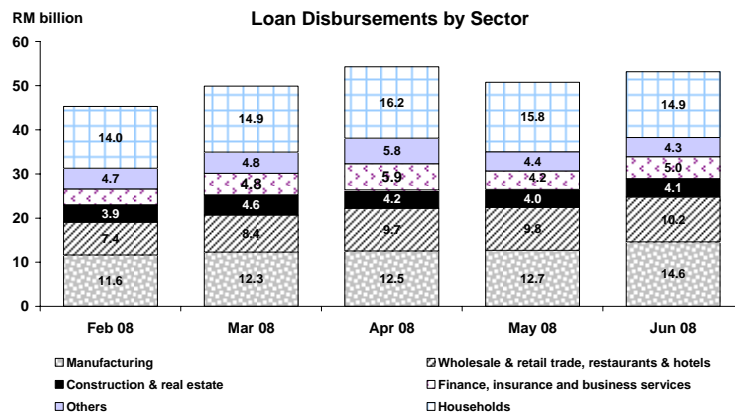
Loan volumes were stable...

	Bank lending indicators			
	RM billion		Annual Growth (%)	
	May-08	Jun-08	May-08	Jun-08
Overall				
Loan applications	40.7	43.0	-9.7	-5.2
Loan approvals	26.2	24.7	-19.0	-23.4
Loan disbursements	52.6	54.4	15.7	8.8
Chg in Loans Outstanding ^{1/}	9.5	10.6	11.0	11.7
Businesses				
Loan applications	20.4	21.7	-27.1	-25.8
Loan approvals	13.4	11.8	-38.2	-45.6
Loan disbursements	36.9	39.4	16.0	9.7
Chg in Loans Outstanding ^{1/}	5.5	7.9	12.6	14.4
SMEs^{2/}				
Loan applications	9.2	9.1	11.8	5.6
Loan approvals	4.7	5.5	2.1	-3.4
Loan disbursements	13.3	14.4	13.4	20.2
Chg in Loans Outstanding ^{1/}	1.0	1.7	11.0	12.0
Households				
Loan applications	20.3	21.2	18.8	32.4
Loan approvals	12.8	12.8	20.4	22.9
Loan disbursements	15.8	14.9	15.3	6.5
Chg in Loans Outstanding ^{1/}	3.0	2.3	8.7	8.9

...but annual growth rates of major loan indicators moderated due to the high base effect

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

^{2/}Include loans to individual businesses.



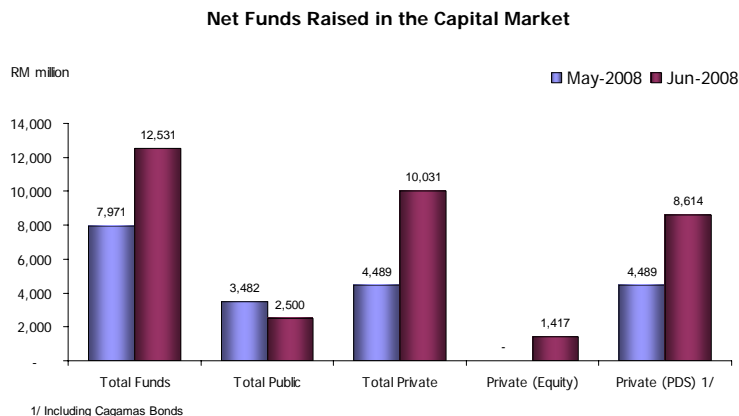
Loan disbursements remained broad-based

During the month, business loan applications and approvals 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 that, business loan applications increased on a month-on-month basis due to higher financing requirements for working capital, particularly in the transport, storage and communication sector. Business loan disbursements were also higher, contributing to the further expansion in business loans outstanding of 14.4% as at end-June (12.6% as at end-May).

Demand for loans from the household sector was sustained, as reflected by loan applications and approvals. Household loans outstanding also increased at a steady rate of 8.9% as at end-June (end-May: 8.7%).

Net funds raised in the capital market increased further

Net funds raised in the capital market were higher in June, amounting to RM12.5 billion. In the private sector, gross funds raised totalled RM10.9 billion, including two large issuances by a financial institution and its subsidiary for capital enhancement purposes. In addition, there were two issuances by non-resident corporations amounting to RM1.1 billion. The bulk of the PDS issuances were raised in the finance, insurance, real estate and business; and construction sectors. After adjusting for redemptions, net funds raised by the private sector amounted to RM10 billion. Meanwhile, net funds raised by the public sector amounted to RM2.5 billion following an issuance of the 3-year Government Investment Issue.

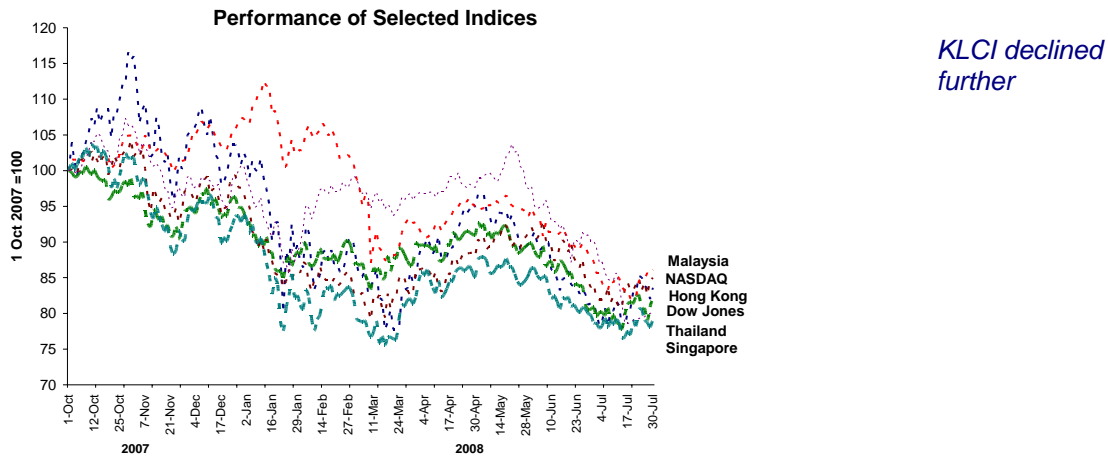


1/ Including Cagamas

KLCI declined in line with regional markets

In June 2008, the KLCI ended lower to close at 1,186.6 (since end-May: -7.0%) in line with the performance of other regional equity markets. Record high crude oil prices and concerns over the extent of the US economic slowdown contributed to the weaker sentiment in the local market. Rising domestic inflationary pressures

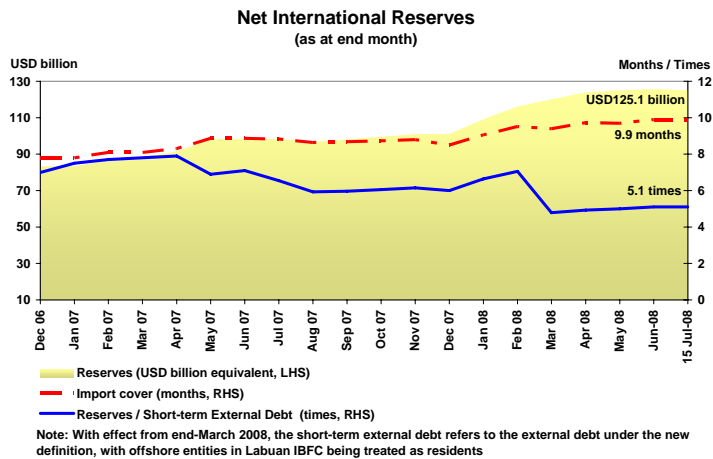
due to higher food and fuel prices also affected market sentiment. Market capitalisation decreased to RM901.2 billion (since end-May: -7.2%), while the daily average turnover declined by 19.4% to 439.0 million units (May: 544.6 million units).



As at 30 July, the KLCI ended lower at 1,159.9 (since end-June: -2.2%). Overall market capitalisation was lower at RM874.0 billion (since end-June: -3.0%) and trading activity declined with a daily average turnover of 436.9 million units.

International reserves

The international reserves of Bank Negara Malaysia amounted to RM410.9 billion (equivalent to USD125.8 billion) as at 30 June 2008. The reserves level has taken into account the quarterly adjustment of the foreign exchange revaluation gain, following the strengthening of the major currencies against ringgit during the quarter. As at 15 July 2008, the international reserves amounted to RM408.8 billion (equivalent to USD125.1 billion). The international reserve position is sufficient to finance 9.9 months of retained imports and is 5.1 times the short-term external debt.



Capitalisation level sustained amidst further improvements in non-performing loans

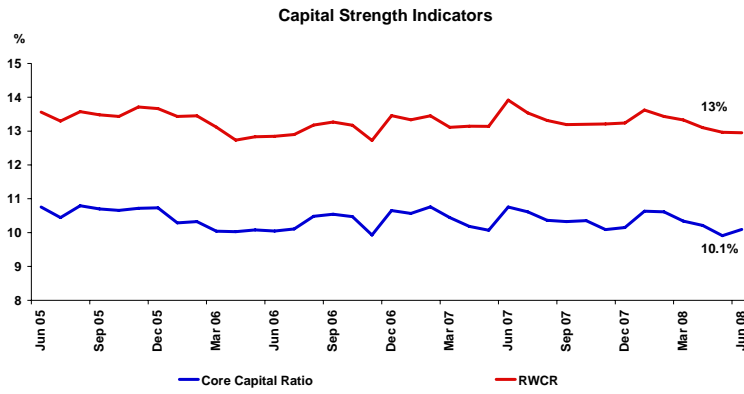
The capitalisation of the banking system remained strong with a risk-weighted capital ratio (RWCR) of 13.0% and core capital ratio of 10.1%. The capital base expanded by 2% due to the issuance of non-cumulative perpetual preference shares by a banking institution. Meanwhile, the net non-performing loans (NPLs) ratio also improved further to 2.7% underpinned by continued write-offs, reclassification to performing loans and recoveries by banking institutions.

Banking System Health Indicators^{*}

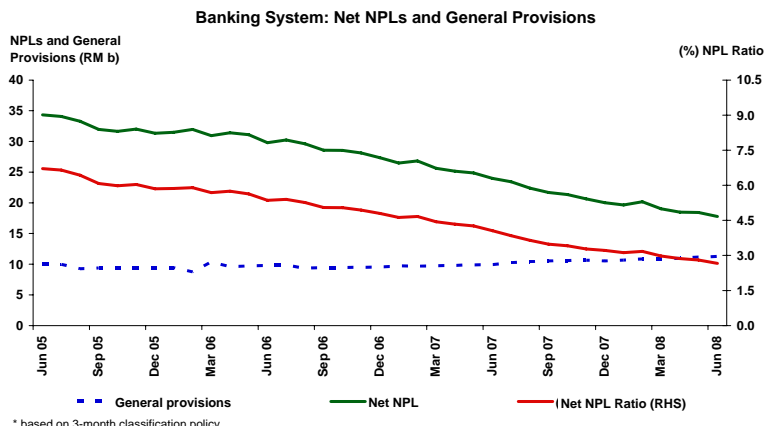
	2001	2002	2003	2004	2005	2006	2007	Apr 08	May 08	Jun 08
Capital (%)**										
Core capital ratio	11.1	11.1	11.1	11.4	10.7	10.7	10.2	10.2	9.9	10.1
RWCR	13.0	13.2	13.8	14.4	13.7	13.5	13.2	13.1	13.0	13.0
Net NPLs										
(3-month classification)										
% of net total loans	11.5	10.2	8.9	7.5	5.8	4.8	3.2	2.9	2.8	2.7
Amount (RM million)	46,254	43,110	40,013	36,668	31,332	27,360	20,011	18,482	18,414	17,759
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 level remained strong...



...whilst the level of NPLs declined further

Bank Negara Malaysia
31 July 2008

Key Monetary and Financial Statistics

	Apr 08		May 08		Jun 08	
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates						
Reserve money	65.3	9.5	67.4	16.2	68.4	15.7
M1	170.1	15.6	170.3	13.9	175.9	17.8
M2	861.8	14.4	866.7	13.7	869.4	15.9
M3	893.7	12.2	898.7	12.4	900.5	14.2
Banking System						
Total deposits	927.3	9.6	927.4	8.7	931.0	10.9
Total loans (including loans sold to Cagamas)	665.7	10.1	675.3	11.0	685.9	11.7
Loan-deposit ratio (%)		70.2		71.3		72.2
Financing-deposit ratio ¹ (%)		78.0		79.3		80.0
Loans applied (during the period)	44.4	52.4	40.7	-9.7	43.0	-5.2
Loans approved (during the period)	29.4	57.5	26.2	-19.0	24.7	-23.4
Loans disbursed (during the period)	55.4	34.1	52.6	15.7	54.4	8.8
Loans repaid (during the period)	50.5	31.9	43.5	5.2	45.7	5.4
Banking System Health						
Risk-weighted Capital Ratio (RWCR) (%)		13.1		13.0		13.0
Net NPLs: 3-month classification (%)		2.9		2.8		2.7
Prices						
Net Reserves in RM billion		396.6		400.1		410.9
Net Reserves in USD billion (equivalent)		124.1		125.2		125.8
Months of retained imports		9.7		9.7		9.9
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 [3.50]		3.49 [3.50]
	1-week	3.52 [3.52]		3.52 [3.52]		3.51 [3.52]
	1-month	3.56 [3.55]		3.57 [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		6.19		6.13		6.08
Prices						
Consumer Price Index (CPI) (2005=100)		108.2		109.1		113.4
Producer Price Index (PPI) (2000=100)		143.0		145.4		n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)						
US dollar		3.1580		3.2435		3.2665
Euro		4.9183		5.0334		5.1565
Pound Sterling		6.2168		6.4103		6.5114
100 Japanese yen		3.0338		3.0757		3.0749
Singapore dollar		2.3186		2.3760		2.3995
100 Thai Baht		9.945		9.9923		9.7435
100 Philippine Peso		7.4777		7.4095		7.2759
100 Indonesian Rupiah		0.0342		0.0348		0.0354
100 Korean Won		0.3151		0.3161		0.3128
Capital Market						
Net funds raised (in RMb) by:	public	5.0		3.5		2.5
	private	1.7		4.5		10.0
Bursa Malaysia Composite Index (end-period)		1,279.9		1,276.1		1,186.6
Bursa Malaysia Market Capitalisation (RMb, end-period)		976.7		971.3		901.2

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