



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 06/08/09

**EMBARGO: Not for publication
or broadcast before 1700 hours
on Monday, 30 June 2008**

Monetary and Financial Developments May 2008
Highlights of the Press Release

- Private sector demand for financing remained strong with net financing through banking system loans and PDS outstanding expanding at a combined annual rate of 13.2% in May. Though moderating from the previous month, loan applications, approvals and disbursements remained at relatively high levels, with continued broad-based financing to productive sectors of the economy.
- The domestic financial markets, along with other regional markets, were affected by concerns over the impact of higher fuel and food prices on global inflation and growth.
- The banking system's capitalisation remained strong with the risk-weighted capital ratio (RWCR) and core capital ratio at 13.0% and 9.9% respectively. The net non-performing loans (NPLs) ratio improved further to 2.8%.
- Headline inflation rose to 3.8% in May. On a monthly basis, headline inflation rose by 0.8%. The rise in inflation was mostly due to higher food prices, particularly the increase in the price of rice. Prices in the *food and non-alcoholic beverages* category rose by 8.2% (5.7% in April), accounting for 67.8% of the overall increase in headline inflation during the month. Excluding the *food and non-alcoholic beverages* category, however, the CPI rose by 1.8%, the same rate of increase as in the previous month.



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MONETARY AND FINANCIAL DEVELOPMENTS

May 2008

In May, gross financing raised by the private sector remained high at RM58.6 billion, supported by the 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 13.2%. Though moderating from the previous month, 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 relatively steady. Fixed deposit rates remained unchanged while the average lending rate of commercial banks was lower at 6.13% due to competition amidst ample liquidity conditions.

The ringgit, along with several regional currencies, depreciated against the US dollar during the period 1 May to 26 June 2008, as the US dollar strengthened due to market expectations that the Federal Reserve will pause its easing of interest rates. The ringgit was also affected by dampened investor sentiments towards the region following concerns regarding the impact of higher fuel and food prices. During the period 1 May to 26 June 2008, the ringgit depreciated against the euro (-3.7%), the pound sterling (-3.3%) and the US dollar (-3.0%), but appreciated against the Japanese yen (0.6%). The ringgit recorded a mixed performance against the regional currencies.

Headline inflation rose to 3.8% in May (April: 3%). On a monthly basis, headline inflation rose by 0.8% (April: 0.3%). The rise in inflation was mostly due to

higher food prices, particularly the increase in the price of rice. Prices in the *food and non-alcoholic beverages* category rose by 8.2% (5.7% in April), accounting for 67.8% of the overall increase in headline inflation during the month. Excluding the *food and non-alcoholic beverages* category, however, the CPI rose by 1.8%, the same rate of increase as in the previous month.

Broad money, or M3, increased at a steady annual rate of 12.4% as at end-May. The increase during the month largely reflected higher outstanding bank credit to the private sector.

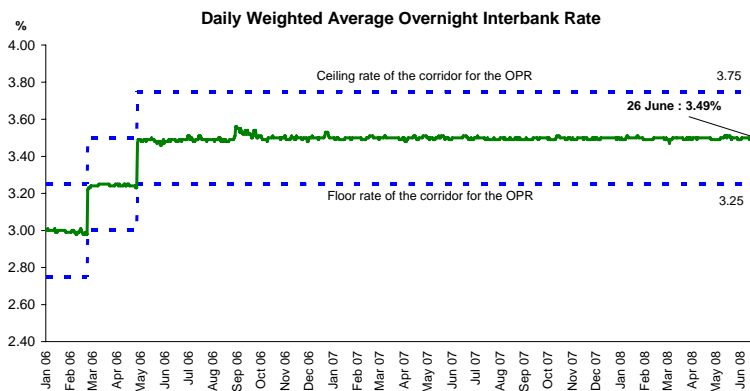
The banking system's capitalisation remained strong with a risk-weighted capital ratio (RWCR) of 13.0% as at end-May 2008. The net non-performing loans (NPLs) ratio improved further to 2.8%.

Interest rates remained stable

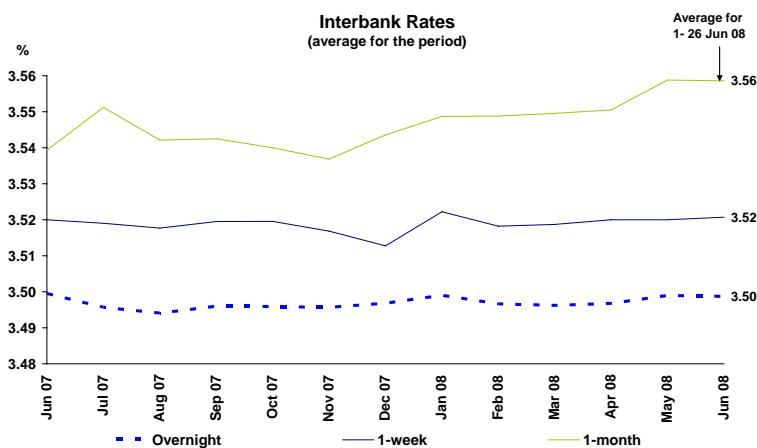
During the period 1 May – 26 June, the daily weighted average overnight interbank rate moved within a narrow range of 3.49% - 3.51%. Interbank rates of other maturities were also relatively stable.

The average fixed deposit (FD) rates of commercial banks (CBs) remained unchanged in May and June. As at 15 June 2008, the average quoted FD rates for tenures between 1 and 12 months were within the range of 3.08% and 3.70%. Real rates on these tenures turned negative in May due to the higher inflation.

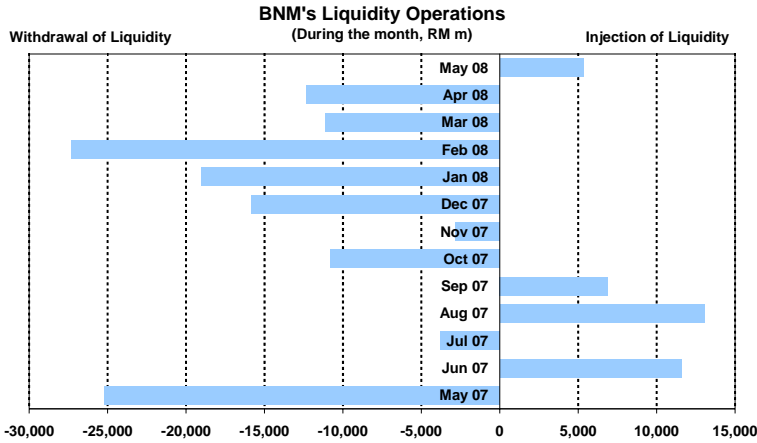
In terms of CBs' lending rates, the average base lending rate (BLR) was unchanged at 6.72%, while the average lending rate (ALR) was lower at 6.13% in May (6.19% in April) due to competition amidst ample liquidity conditions.



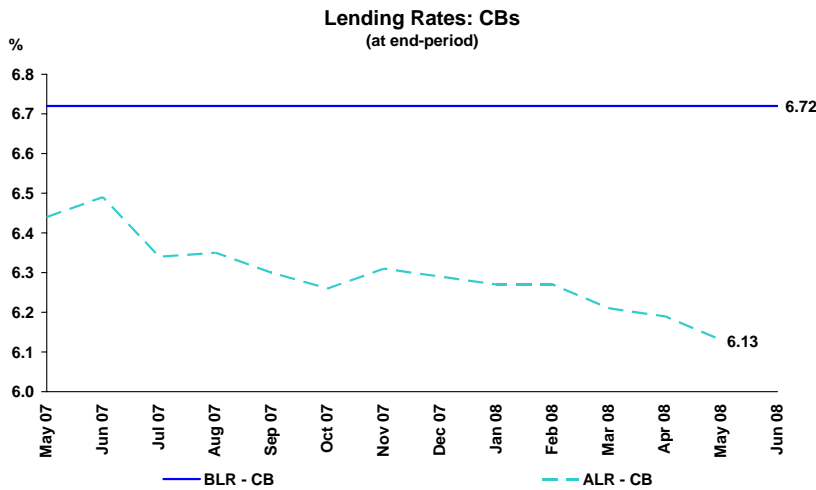
The average overnight interbank rate moved within a narrow range



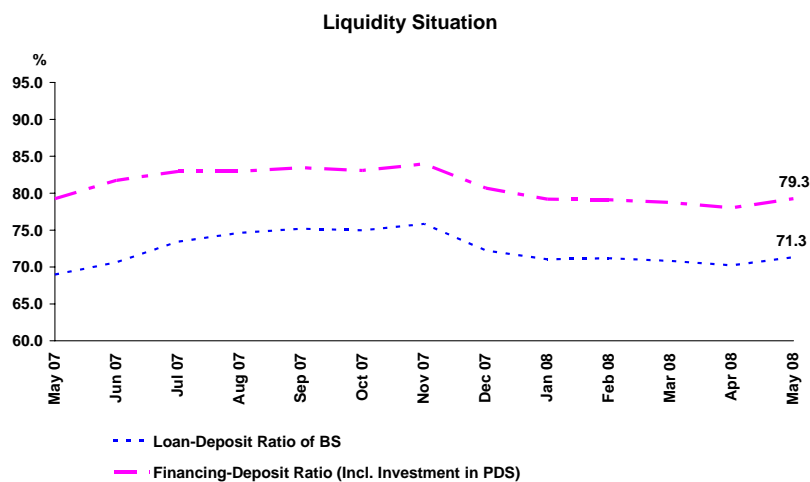
Other interbank rates remained relatively stable



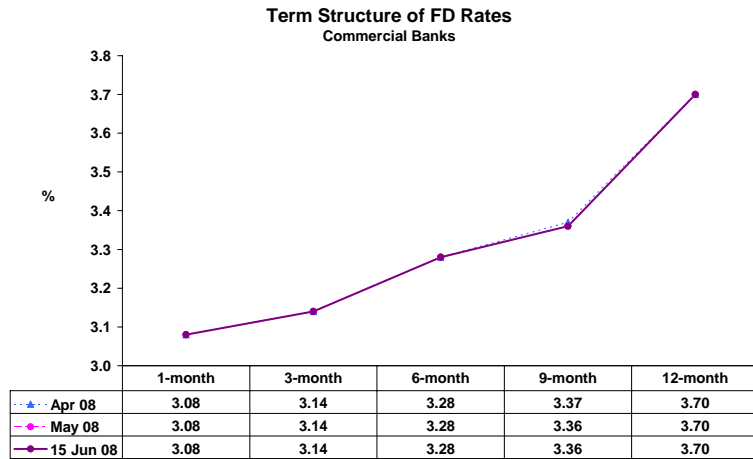
BNM injected liquidity into the interbank market in May



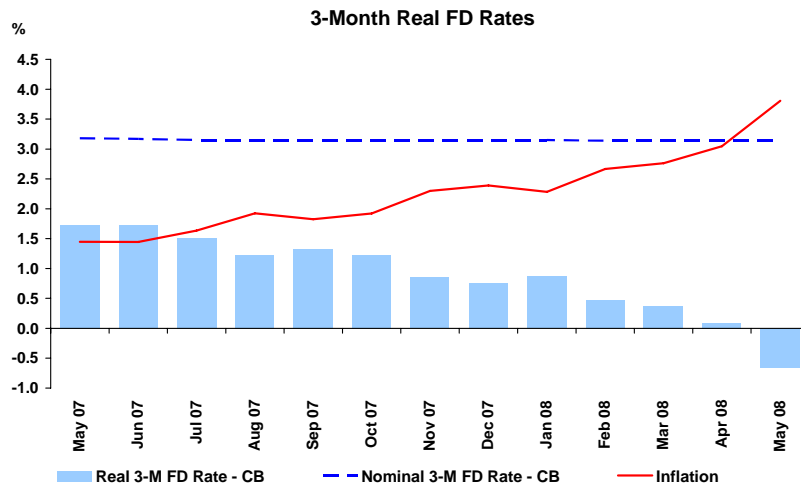
CBs' ALR maintained its gradual downward trend due to competition among lenders amidst ample liquidity conditions



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



Average FD rates were unchanged



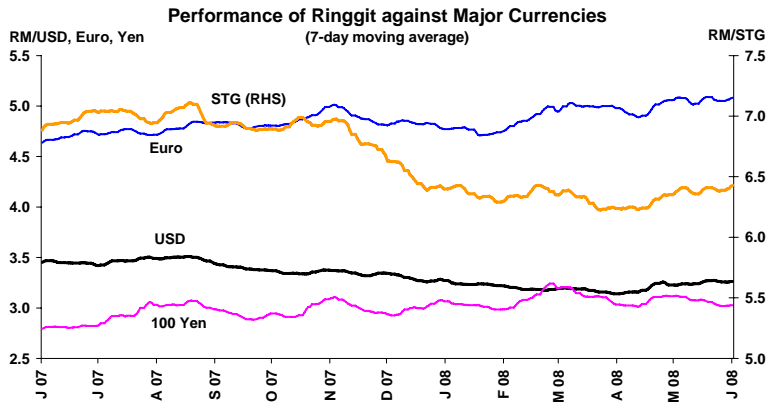
Real interest rate on 3-month FD turned negative

Mixed performance of the ringgit

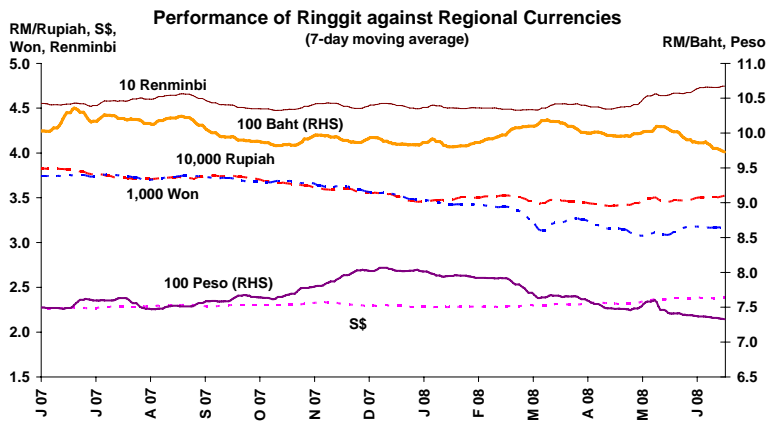
The ringgit, along with several regional currencies, depreciated against the US dollar during the period 1 May to 26 June 2008, as the US dollar strengthened due to market expectations that the Federal Reserve will pause its easing of interest rates. The ringgit was also affected by dampened investor sentiments towards the region following concerns regarding the impact of higher fuel and food prices.

During the period 1 May to 26 June 2008, the ringgit depreciated against the euro (-3.7%), the pound sterling (-3.3%) and the US dollar (-3.0%), but appreciated

against the Japanese yen (0.6%). The ringgit recorded a mixed performance against the regional currencies.



The ringgit depreciated against most major currencies...



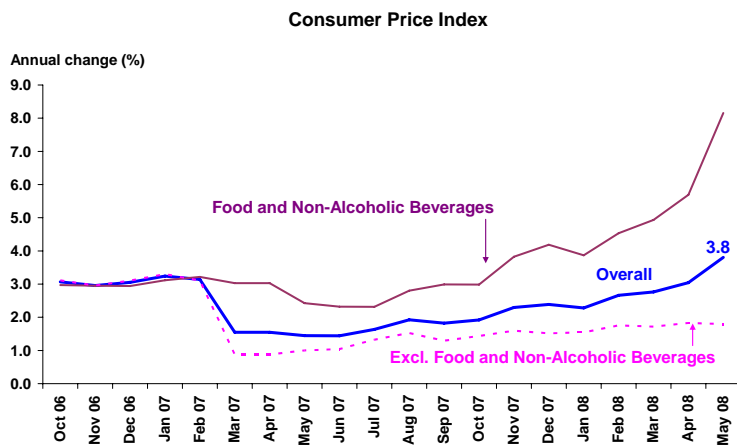
..and recorded a mixed performance against regional currencies

Performance of Ringgit against Selected Currencies

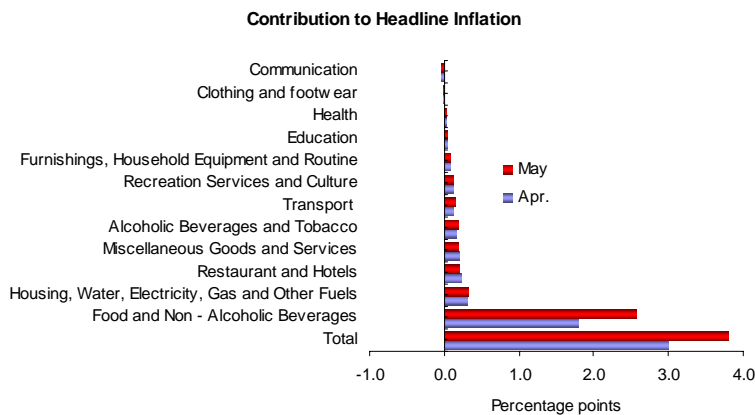
RM per foreign currency	End-period				% Change	
	Dec 07	Apr 08	May 08	26 Jun 08	End Dec 07 - 26 Jun 08	End Apr 08 - 26 Jun 08
US dollar	3.3065	3.1580	3.2435	3.2565	1.5	-3.0
Euro	4.8756	4.9183	5.0334	5.1057	-4.5	-3.7
Pound sterling	6.6070	6.2168	6.4103	6.4269	2.8	-3.3
100 Japanese yen	2.9534	3.0338	3.0757	3.0160	-2.1	0.6
Singapore dollar	2.2938	2.3186	2.3760	2.3864	-3.9	-2.8
100 Thai baht	9.8159	9.9449	9.9923	9.7064	1.1	2.5
100 Philippine peso	8.0158	7.4777	7.4095	7.3254	9.4	2.1
100 Indonesian rupiah	0.0352	0.0342	0.0348	0.0353	-0.2	-3.1
100 Korean won	0.3532	0.3151	0.3161	0.3148	12.2	0.1
Chinese renminbi	0.4527	0.4512	0.4672	0.4745	-4.6	-4.9

Headline inflation rose at a faster pace in May

Headline inflation rose to 3.8% in May (April: 3%). On a monthly basis, headline inflation rose by 0.8% (April: 0.3%). The rise in inflation was mostly due to higher food prices, particularly the increase in the price of rice. Prices in the *food and non-alcoholic beverages* category rose by 8.2% (5.7% in April), accounting for 67.8% of the overall increase in headline inflation during the month. As in the previous month, both the *food at home* and the *food away from home* sub-categories recorded higher prices. Excluding the *food and non-alcoholic beverages* category, however, the CPI rose by 1.8%, the same rate of increase as in the previous month. The rate of inflation also continued to be high in the *restaurants and hotels* (7.1%) and *alcoholic beverages and tobacco* (9.2%) categories. Conversely, the *clothing and footwear* and *communication* categories continued to register falling prices.



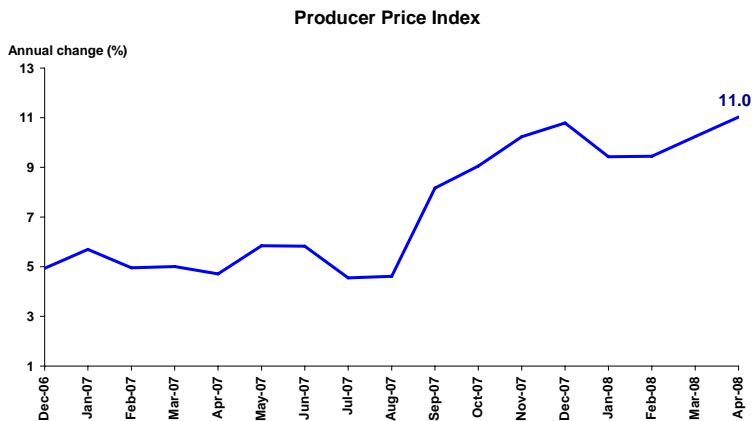
Inflation increased to 3.8% in May



Producer price inflation increased in April

Producer price inflation increased to 11% (March: 10.2%). During this period, prices in the commodity-based component of the PPI rose by 37.4% (March: 34.9%) following higher world prices for commodities such as rubber, crude oil and crude palm oil. Meanwhile, the rate of price increases for the non-commodity-based PPI moderated to 1.4% (March: 1.5%), as several categories, such as the *machinery and transport equipment* and *miscellaneous manufactured articles*, recorded slower price increases.

In terms of composition, prices in the local component of the PPI increased at an annual rate of 13.7% (March: 12.1%). This reflected higher prices in several categories such as the *mineral fuels, lubricants and related materials* category; and the *manufactured goods classified chiefly by material* (such as paper and paperboard, copper, and iron and steel bars) category. On the other hand, the imported component of the PPI increased at a slower pace of 5.9% (March: 6.3%).



Monetary aggregates expanded in May

In the month of May, broad money, or M3, increased by RM5 billion to grow by 12.4% on an annual basis. The increase in M3 reflected largely higher outstanding bank credit to the private sector. This however, was partially mitigated by net foreign outflows, fund raising activity by the Government and the payment of taxes to the Government.

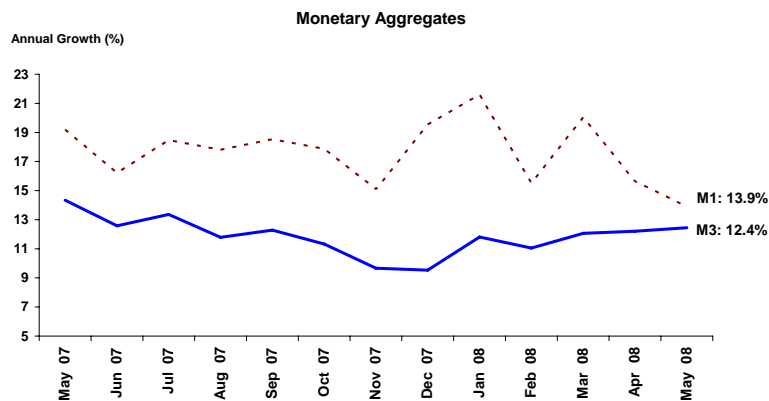
Meanwhile, M1 increased by RM0.2 billion, reflecting higher currency in circulation during the month.

M3 Determinants
(RM billion)

	Change during period			
	Feb 08	Mar 08	Apr 08	May 08
M3	8.6	8.0	9.2	5.0
Net claims on Government	-4.7	4.0	-2.7	-5.8
Claims on the private sector	4.1	4.5	4.8	11.3
Loans	5.4	3.7	4.2	9.1
Securities	-1.3	0.8	0.6	2.2
Net external operations *	19.5	5.2	19.4	-6.8
Other influences	-10.4	-5.6	-12.3	6.4

* 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 remained relatively unchanged

Total deposits remained relatively unchanged in May after recording a significant increase in April. Higher deposits by the Federal Government, statutory authorities and individuals were offset by lower deposits by financial institutions. The latter partly reflected the withdrawal of a large deposit made in April to facilitate a foreign direct investment transaction involving the acquisition of a stake in a domestic banking institution. Other factors leading to the relatively moderate month-on-month deposit growth were outflows from the domestic financial markets, the payment of taxes by business enterprises and fund raising activity by the Government. The latter two were partly reflected in the increase of Government deposits with Bank Negara Malaysia.

Deposits by Holder (RM million)

	Change during period			
	Feb 08	Mar 08	Apr 08	May 08
Federal Government	724	-244	-129	1,900
State Governments	1,362	129	-131	-67
Statutory Authorities ¹	-621	1,362	148	1,785
Financial Institutions	3,800	2,692	6,848	-5,574
Business Enterprises	-1,586	5,017	4,192	56
Individuals	5,187	584	2,393	1,780
Others ²	-1,592	1,452	1,002	251
Total	7,273	10,992	14,323	131

1/ Include local Governments

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

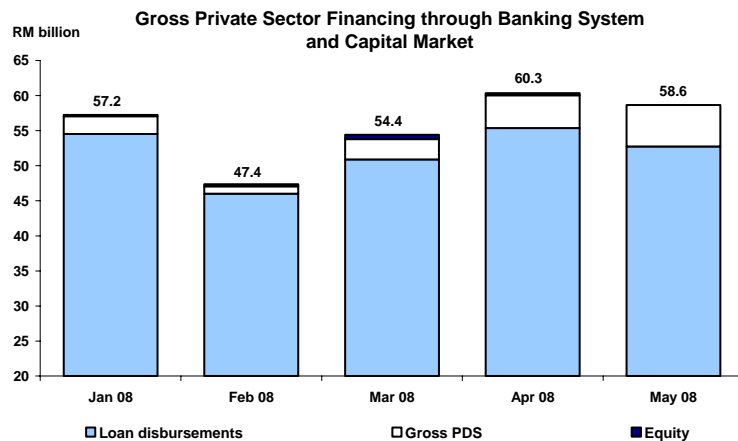
Deposits by Type (RM million)

	Change during period			
	Feb 08	Mar 08	Apr 08	May 08
Fixed deposits	-875	3,944	499	-2,178
NIDs	-3,341	-737	-339	-464
Demand deposits	-2,135	458	-1,561	-582
Savings deposits	1,697	-957	330	77
Repos	2,631	-1,109	4,348	-5,020
FX deposits	714	-1,183	699	2,817
SPI deposits	1,156	6,340	1,823	5,163
Others ¹	7,426	4,236	8,525	318
Total	7,273	10,992	14,323	131

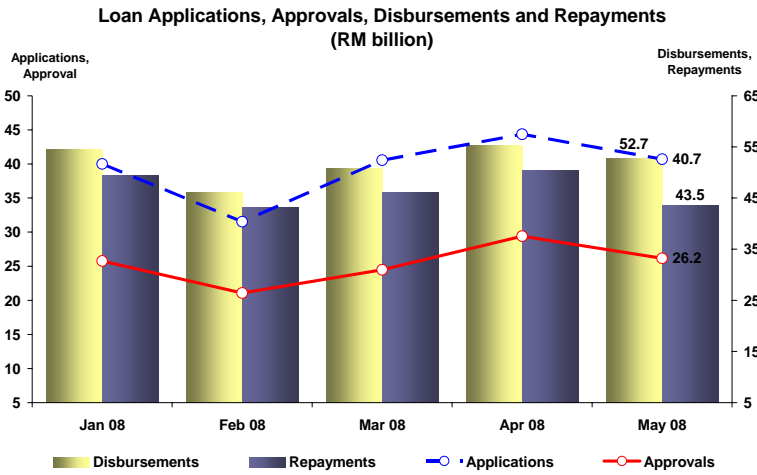
1/ Other deposits comprised mainly of short-term money market deposits

Sustained level of gross private sector financing

Gross financing raised by the private sector from the banking system and capital market remained high at RM58.6 billion in May (April: RM60.3 billion) supported by the 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 13.2% (April: 12.1%).



Gross private sector financing amounted to RM58.6 billion



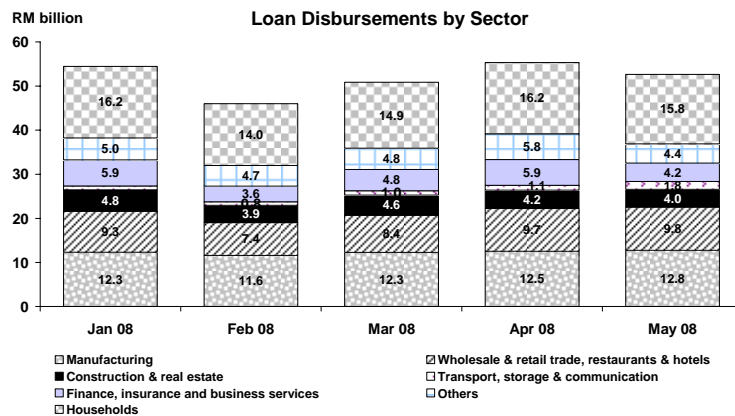
Major loan indicators were slightly lower on a monthly basis

Bank lending indicators

	RM billion		Annual Growth (%)	
	Apr-08	May-08	Apr-08	May-08
Overall				
Loan applications	44.4	40.7	52.4	-9.7
Loan approvals	29.4	26.2	57.5	-19.0
Loan disbursements	55.4	52.7	34.1	16.0
Chg in Loans Outstanding ^{1/}	4.2	9.5	10.1	11.0
Businesses				
Loan applications	22.7	20.4	52.7	-27.2
Loan approvals	15.5	13.4	49.9	-38.3
Loan disbursements	39.2	37.0	36.7	16.3
Chg in Loans Outstanding ^{1/}	0.8	5.5	11.5	12.6
SMEs^{2/}				
Loan applications	10.1	9.2	43.0	11.5
Loan approvals	5.6	4.7	39.1	1.9
Loan disbursements	13.5	13.3	20.6	13.5
Chg in Loans Outstanding ^{1/}	0.4	1.0	11.4	11.0
Households				
Loan applications	21.7	20.3	52.1	18.8
Loan approvals	13.9	12.8	66.9	20.4
Loan disbursements	16.2	15.8	28.2	15.3
Chg in Loans Outstanding ^{1/}	3.3	3.0	8.2	8.7

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

^{2/} Include loans to individual businesses.



Loan disbursements remained broad-based

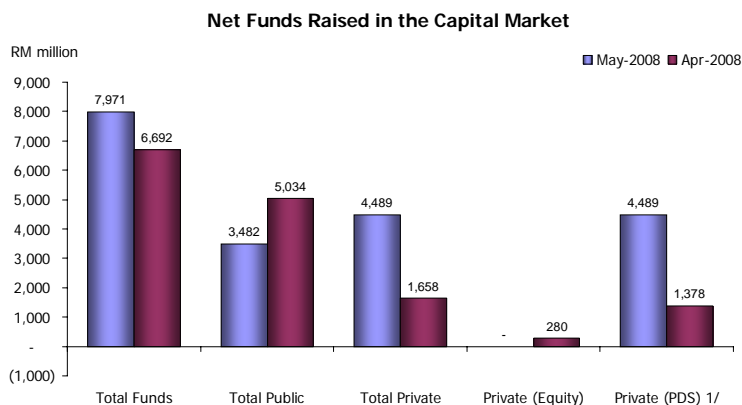
During the month, the major loan indicators moderated. In the business sector, the high base effect from the application and approval of a large syndicated bridging finance facility in May 2007 was a contributing factor to the decline in loan applications and approvals on an annual basis in May 2008. Business loan disbursements growth also slowed down particularly in the finance, insurance and business services sector.

For the household sector, the slightly lower levels in major loan indicators on a monthly basis were largely due to lower loans applied and approved for passenger cars and residential properties. The indicators however, continued to register double-digit growth rates.

Total loans outstanding rose by 11% on an annual basis as at end-May (end-April: 10.1%). By customer, loans outstanding of businesses and households expanded at annual growth rates of 12.6% and 8.7% respectively (April: 11.5% and 8.2% respectively).

Higher net funds raised in the capital market

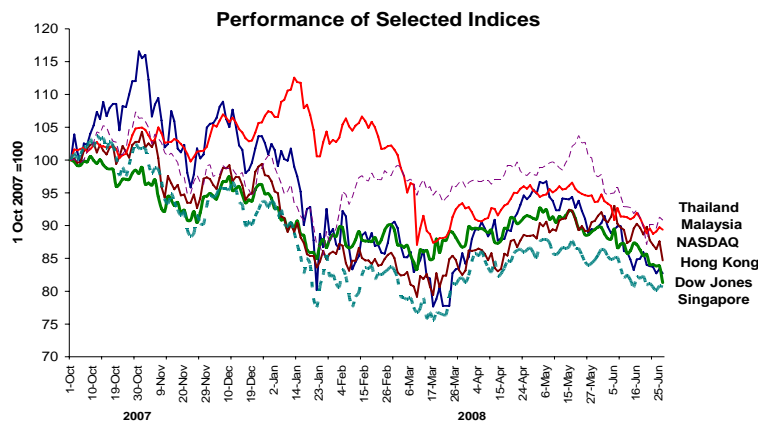
Net funds raised in the capital market in May amounted to RM7.9 billion. In the private sector, gross funds raised totalled RM6.6 billion, including RM2 billion issued by a public-owned transportation company for capital expenditure purposes. After adjusting for redemptions, net funds raised by the private sector amounted to RM4.5 billion. Meanwhile, net funds raised by the public sector amounted to RM3.5 billion, following the reopening of a 5-year Malaysian Government Securities (MGS).



1/ Including Cagamas

KLCI closed marginally lower

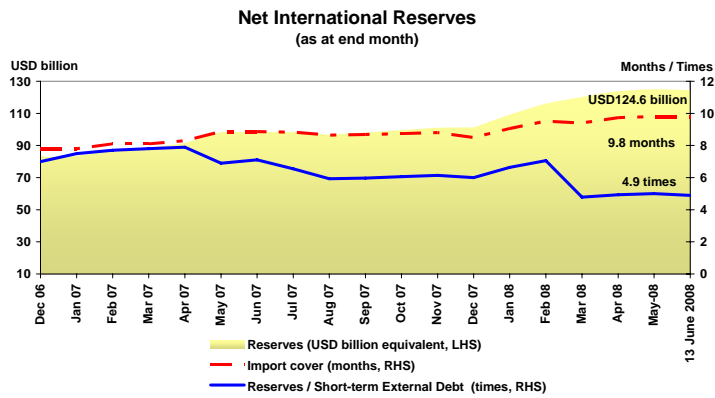
In May 2008, the KLCI ended lower to close at 1,276.1 (since end-April: -0.29%) in line with the performance of other regional equity markets. During the month, sentiment in the domestic stock market was affected by the sustained increase in global crude oil prices and domestic and regional developments. These concerns were, however, mitigated by the continued support from the higher crude palm oil and rubber prices, which boosted the plantation sector. Market capitalisation decreased to RM971.3 billion (since end-April: -0.55%), while the daily average turnover moderated to 609.7 million units (April: 612.0 million units).



As at 26 June, the KLCI ended lower at 1,203.9 points (since end-May: -5.7%). Overall market capitalisation was lower at RM912.4 billion (since end-May: -6.1%) and trading activity declined with a daily average turnover of 495.8 million units.

International reserves

The international reserves of Bank Negara Malaysia amounted to RM400.1 billion (equivalent to USD125.2 billion) as at 30 May 2008. As at 13 June 2008, the international reserves amounted to RM398.1 billion (equivalent to USD124.6 billion). The reserves position is sufficient to finance 9.8 months of retained imports and is 4.9 times the short-term external debt.



Note: With effect from end-March 2008, the short-term external debt refers to the external debt under the new definition, with offshore entities in Labuan IBFC being treated as residents

Capitalisation level sustained amidst further improvements in non-performing loans

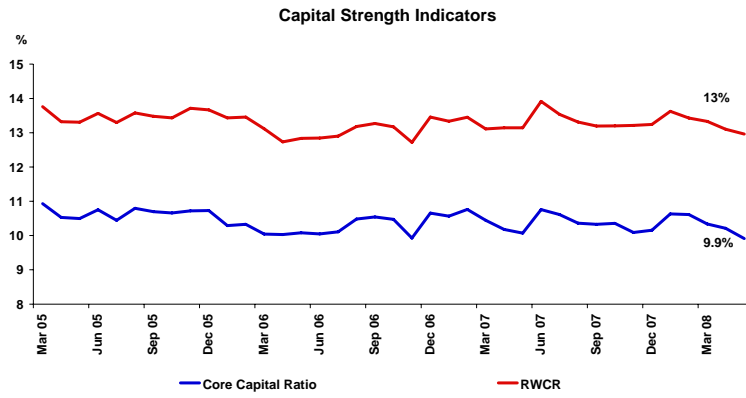
The banking system's capitalisation remained strong with a risk-weighted capital ratio (RWCR) of 13.0% and core capital ratio of 9.9%. The moderation in core capital ratio resulted primarily from dividend payments by banking institutions. Meanwhile the net non-performing loans (NPLs) ratio recorded further improvements to 2.8% underpinned by continued write-offs, reclassification to performing loans and recoveries by banking institutions.

Banking System Health Indicators *

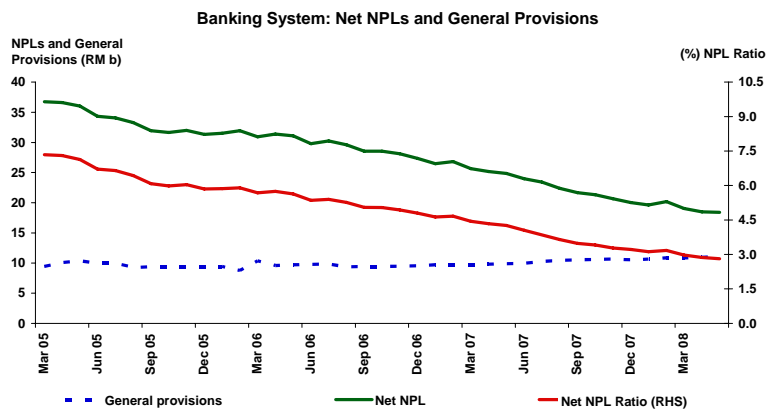
	2001	2002	2003	2004	2005	2006	2007	Mar 08	Apr 08	May 08
Capital (%) **										
Core capital ratio	11.1	11.1	11.1	11.4	10.7	10.7	10.2	10.3	10.2	9.9
RWCR	13.0	13.2	13.8	14.4	13.7	13.5	13.2	13.3	13.1	13.0
Net NPLs										
(3-month classification)										
% of net total loans	11.5	10.2	8.9	7.5	5.8	4.8	3.2	3.0	2.9	2.8
Amount (RM million)	46,254	43,110	40,013	36,668	31,332	27,360	20,011	19,033	18,482	18,408
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, computations of RWCR and CCR reflect computation based on Basel II for banking institutions that have adopted the standardised approach



Banking system capitalisation level remained strong...



...whilst level of NPLs declined further

Bank Negara Malaysia
30 June 2008

Key Monetary and Financial Statistics

	Mar 08		Apr 08		May 08		
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth	
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)	
Monetary Aggregates							
Reserve money	65.5	11.7	65.3	9.5	67.4	16.2	
M1	173.6	20.0	170.1	15.6	170.3	13.9	
M2	843.3	11.8	861.8	14.4	866.7	13.7	
M3	884.4	12.1	893.7	12.2	898.7	12.4	
Banking System							
Total deposits	912.9	8.4	927.3	9.6	927.4	8.7	
Total loans (including loans sold to Cagamas)	661.6	10.0	665.7	10.1	675.3	11.0	
Loan-deposit ratio (%)		70.8		70.2		71.3	
Financing-deposit ratio ¹ (%)		78.8		78.0		79.3	
Loans applied (during the period)	40.6	20.4	44.4	52.4	40.7	-9.7	
Loans approved (during the period)	24.5	9.4	29.4	57.5	26.2	-19.0	
Loans disbursed (during the period)	50.9	16.0	55.4	34.1	52.7	16.0	
Loans repaid (during the period)	46.2	16.6	50.5	31.9	43.5	5.2	
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.3		13.1		13.0	
Net NPLs: 3-month classification (%)		3.0		2.9		2.8	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		384.6		396.6		400.1	
Net Reserves in USD billion (equivalent)		120.3		124.1		125.2	
Months of retained imports		9.4		9.7		9.8	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.50		3.50		3.50	
Interbank:	Overnight	3.50 [3.50]		3.49 [3.50]		3.49 [3.50]	
	1-week	3.52 [3.52]		3.52 [3.52]		3.52 [3.52]	
	1-month	3.55 [3.55]		3.56 [3.55]		3.57 [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		6.21		6.19		6.13	
Prices							
Consumer Price Index (CPI) (2005=100)		107.9	2.8	108.2	3.0	109.1	3.8
Producer Price Index (PPI) (2000=100)		141.0	10.2	143.0	11.0	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.1875		3.1580		3.2435	
Euro		5.0369		4.9183		5.0334	
Pound Sterling		6.3586		6.2168		6.4103	
100 Japanese yen		3.1912		3.0338		3.0757	
Singapore dollar		2.3102		2.3186		2.3760	
100 Thai Baht		10.108		9.9449		9.9923	
100 Philippine Peso		7.6421		7.4777		7.4095	
100 Indonesian Rupiah		0.0346		0.0342		0.0348	
100 Korean Won		0.3211		0.3151		0.3161	
Capital Market							
Net funds raised (in Rmb) by:	public	0.0		5.0		3.5	
	private	2.6		1.7		4.5	
Bursa Malaysia Composite Index (end-period)		1,247.5		1,279.9		1,276.1	
Bursa Malaysia Market Capitalisation (Rmb, end-period)		952.3		976.7		971.3	

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