BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 03/08/09

EMBARGO: Not for publication or broadcast before 1800 hours on Monday, 31 March 2008

Monetary and Financial Developments February 2008
Highlights of the Press Release

- Increased uncertainty and volatility in the international financial markets led to higher volatility in the domestic financial markets.

- Ample liquidity and a resilient financial system continued to provide financing to the different sectors of the economy.

- Net financing to the private sector through banking system loans and PDS outstanding increased at a faster pace in February.

- Both deposit rates and the average lending rate of the banking system were stable.

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MONETARY AND FINANCIAL DEVELOPMENTS
February 2008

Gross financing to the private sector was lower in February, primarily due to the fewer working days owing to the Chinese New Year festivities during the month. Compared to a year ago, however, gross financing expanded by 20.8%. On a net basis, financing to the private sector through banking system loans and PDS outstanding expanded at a higher combined annual rate of 12.2%. Total loans outstanding increased by 9.8% on an annual basis as at end-February while the annual growth rates for loan applications, approvals and disbursements remained high for both the business and household sectors.

Interbank rates for all maturities were relatively steady. Fixed deposit rates and the average lending rate of commercial banks were also unchanged.

The ringgit appreciated against the US dollar in February, reflecting both the weakness of the US currency as well as investor confidence in the Malaysian economy following the release of strong GDP growth numbers for 2007 on 27 February 2008. The ringgit experienced greater volatility in March, as did many other regional currencies, due to shifting investor sentiments and developments in the international financial markets. During the period 1 February – 28 March 2008 as a whole, the ringgit appreciated against the US dollar (0.9%), but depreciated against the pound sterling (-0.3%), euro (-5.2%) and the Japanese yen (-5.5%). The ringgit performance against regional currencies was mixed.

Headline inflation rose to 2.7% in February 2008 (January: 2.3%) due to larger increases in prices across several CPI categories. Prices in the *food and non-alcoholic beverages* category recorded a strong increase of 4.5% (January:

3.9%), in part attributable to the Chinese New Year celebration. Rents and prices of items in the *restaurants and hotels* and *recreation services and culture* categories were also higher by 7.3% and 2.6% respectively (January: 6.7% and 2.5%). Furthermore, prices in the *miscellaneous goods and services* category also rose by 3.3% (January: 2.9%) due mainly to the increase in the price of jewellery following higher gold prices.

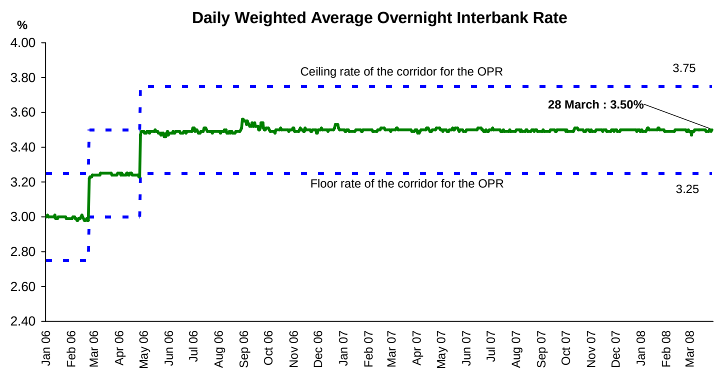
Broad money, or M3, increased at an annual rate of 11%, reflecting net foreign inflows and higher bank lending to the private sector.

The banking system capitalisation remained strong with a risk-weighted capital ratio (RWCR) of 13.3% as at end-February 2008. Meanwhile, the net non-performing loans (NPLs) ratio remained stable at 3.1%.

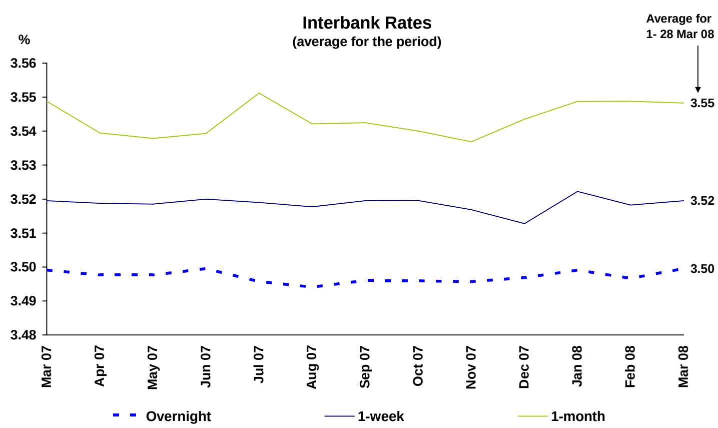
Interest rates remained stable

During the period 1 February – 28 March, 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.

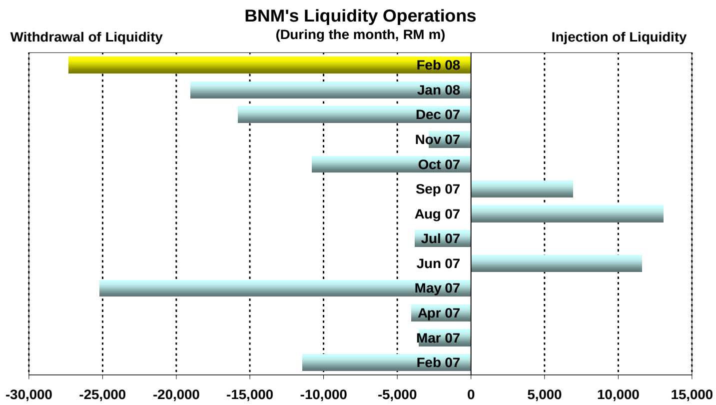
The average fixed deposit (FD) rates of commercial banks (CBs) remained unchanged in February and March. As at 15 March 2008, the average quoted FD rates for tenures between 1 and 12 months were within the range of 3.08% and 3.70%. In terms of CBs' lending rates, both the average base lending rate (BLR) and the average lending rate (ALR) were unchanged at 6.72% and 6.27% respectively in February.



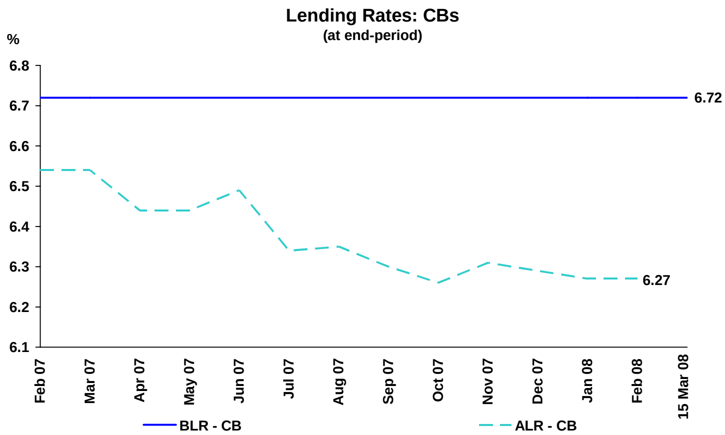
The average overnight interbank rate moved within a narrow range



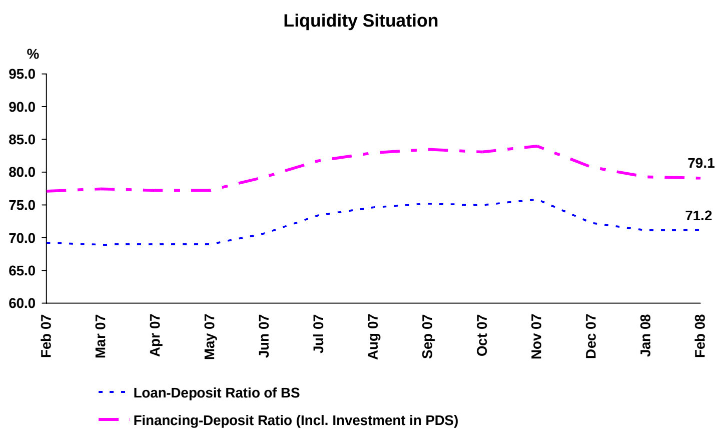
Other interbank rates remained largely unchanged



The Central Bank withdrew liquidity from the system in February

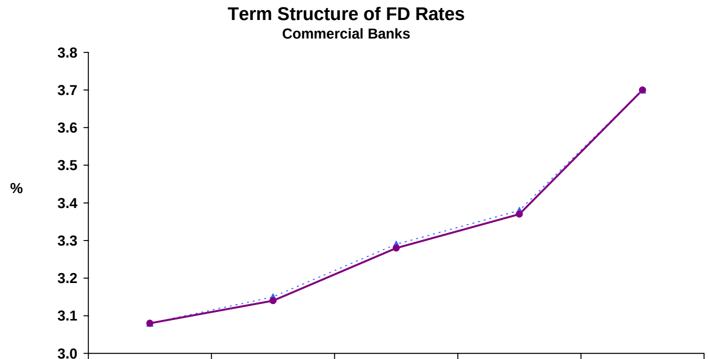


CBs' ALR was unchanged



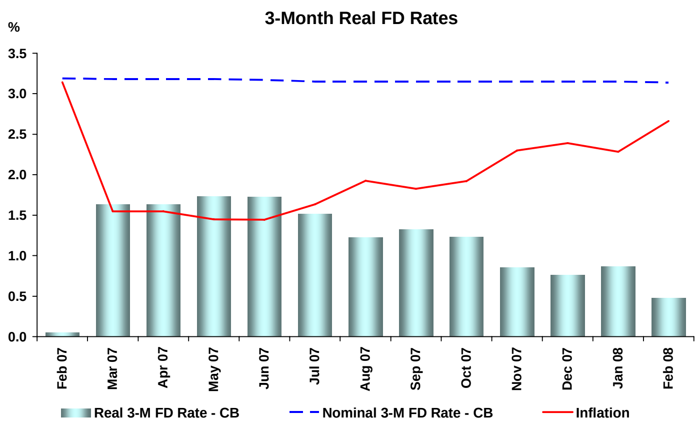
The financing-deposit and loan-deposit ratios moderated in February as the growth in deposits outpaced the increase in loans

Average FD rates were unchanged



	1-month	3-month	6-month	9-month	12-month
Jan 08	3.08	3.15	3.29	3.38	3.70
Feb 08	3.08	3.14	3.28	3.37	3.70
15 Mar 08	3.08	3.14	3.28	3.37	3.70

The real 3-month FD rate was lower

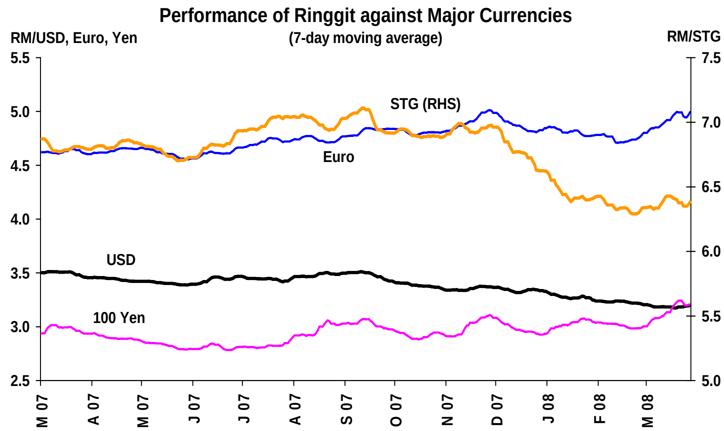


Mixed performance of the ringgit

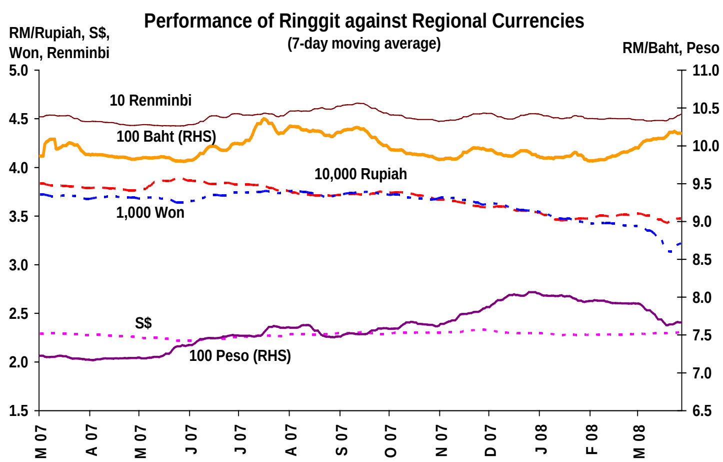
The ringgit appreciated against the US dollar in February, reflecting both the weakness of the US currency as well as investor confidence in the Malaysian economy following the release of strong GDP growth numbers for 2007 on 27 February 2008. The ringgit experienced greater volatility in March, as did many other regional currencies, due to shifting investor sentiments and developments in the international financial markets.

During the period 1 February – 28 March 2008 as a whole, the ringgit appreciated against the US dollar (0.9%), but depreciated against the pound sterling (-0.3%), euro (-5.2%) and the Japanese yen (-5.5%). The ringgit performance against regional currencies was mixed. While it appreciated against the Korean won (5.8%) and the Philippine peso (3.9%), it depreciated against the

Chinese renminbi (-1.5%), the Singapore dollar (-1.8%) and the Thai baht (-3.9%). The ringgit was unchanged against the Indonesian rupiah.



The ringgit appreciated against the US dollar



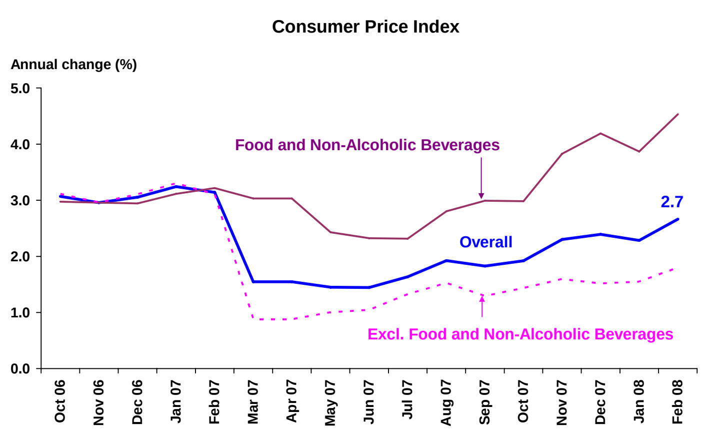
The ringgit exhibited a mixed performance against regional currencies

Performance of Ringgit against Selected Currencies

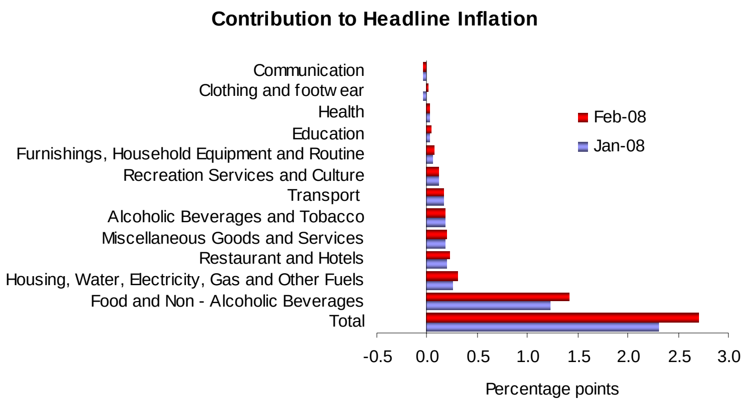
RM per foreign currency	End-period				% Change	
	Dec 07	Jan 08	Feb 08	28 Mar 08	End Dec 07 - 28 Mar 08	End Jan 08 - 28 Mar 08
US dollar	3.3065	3.2360	3.1890	3.2080	3.1	0.9
Euro	4.8756	4.8030	4.8406	5.0667	-3.8	-5.2
Pound sterling	6.6070	6.4210	6.3399	6.4393	2.6	-0.3
100 Japanese yen	2.9534	3.0411	3.0431	3.2178	-8.2	-5.5
Singapore dollar	2.2938	2.2814	2.2899	2.3230	-1.3	-1.8
100 Thai baht	9.8159	9.7972	9.9859	10.1987	-3.8	-3.9
100 Philippine peso	8.0158	7.9655	7.8819	7.6696	4.5	3.9
100 Indonesian rupiah	0.0352	0.0348	0.0352	0.0348	1.2	0.0
100 Korean won	0.3532	0.3421	0.3400	0.3235	9.2	5.8
Chinese renminbi	0.4527	0.4505	0.4481	0.4575	-1.1	-1.5

Headline inflation increased in February

Headline inflation, as measured by the annual change in the Consumer Price Index (CPI), rose to 2.7% in February (January: 2.3%). The increase in inflation was attributed to larger increases in prices across several CPI categories. Prices in the *food and non-alcoholic beverages* category recorded a strong increase of 4.5% (January: 3.9%), in part attributable to the Chinese New Year celebration. Rents and prices of items in the *restaurants and hotels* and *recreation services and culture* categories were also higher by 7.3% and 2.6% respectively (January: 6.7% and 2.5%). Furthermore, prices in the *miscellaneous goods and services* category also rose by 3.3% (January: 2.9%) due mainly to the increase in the price of jewellery following higher gold prices. The prices of items in the communication category, on the other hand, continued to decline.

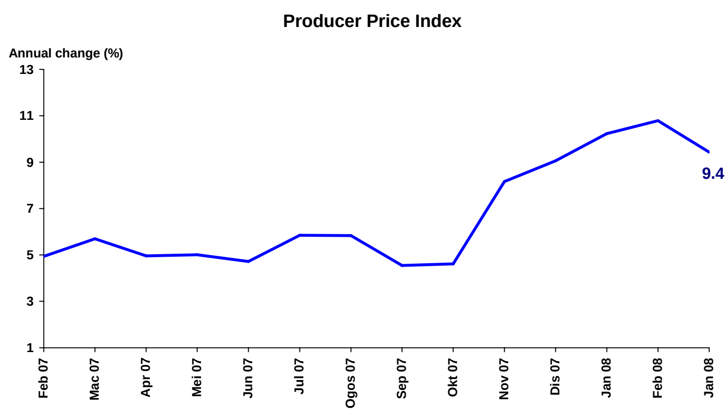


Inflation was higher in February mainly due to higher food prices



Producer price inflation slowed in January

The Producer Price Index (PPI) increased at a slower pace of 9.4% in January (December: 10.8%). Price inflation in the non-commodity-based component of the PPI moderated to 1.2% in January (December: 4.1%) mainly due to declining prices in the *machinery and transport equipment* category. Nevertheless, the decline was partly offset by higher prices in the commodity-based components of the PPI, as the sustained high world prices for raw commodities led to price increases in the *animal and vegetable oils and fats; mineral fuels, lubricants and related materials;* and *inedible crude materials except fuel* categories respectively.



M3 continued to expand in February

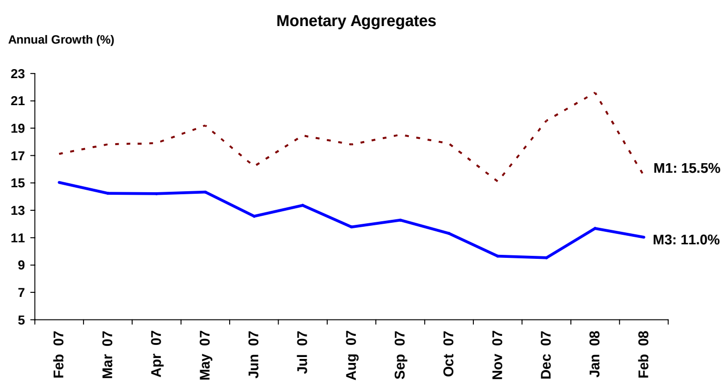
In the month of February, broad money, or M3, increased by RM9.5 billion or at an annual rate of 11%. The increase in broad money reflected net foreign inflows and higher bank lending to the private sector. These factors, however, were mitigated by contractionary Government operations and Bank Negara Malaysia's sterilisation operations.

M1 expanded at a more moderate pace on an annualised basis compared to January. On a month-on-month basis, M1 decreased by RM3 billion due to lower placements of demand deposits by businesses.

M3 Determinants
(RM billion)

	Change during period			
	Nov 07	**Dec 07**	**Jan 08**	**Feb 08**
M3	1.0	24.3	33.9	9.5
Net claims on Government	-0.4	13.9	1.5	-4.7
Claims on the private sector	-3.4	-3.8	7.9	3.8
Loans	*3.8*	*-10.2*	*7.1*	*5.3*
Securities	*-7.2*	*6.3*	*0.8*	*-1.5*
Net external operations *	0.8	5.7	20.4	20.8
Other influences	4.0	8.5	4.1	-10.4

* 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.



Further expansion in banking system deposits

Total deposits with the banking system increased by RM8.5 billion or 7.6% on an annual basis (January: RM24.4 billion; 7.8%), mainly reflecting higher deposit placements by financial institutions, individuals and to a lesser extent, the State Governments. The increase in deposits, in part, reflected net foreign inflows during the month. By type, the increase in deposits was mainly in the form of SPI deposits, repos and short-term money market deposits, which were reflected in the *other deposits* category.

Deposits by Holder
(RM million)

	Change during period			
	Nov 07	**Dec 07**	**Jan 08**	**Feb 08**
Federal Government	-599	260	-141	724
State Governments	-1,199	-1,024	-147	1,362
Statutory Authorities [1]	298	2,049	-476	-621
Financial Institutions	-4,753	15,757	1,722	5,166
Business Enterprises	-82	10,653	16,768	-1,635
Individuals	2,294	3,966	4,866	5,095
Others [2]	815	-1,518	1,832	-1,595
Total	-3,226	30,144	24,424	8,495

1/ Include local Governments

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

Deposits by Type
(RM million)

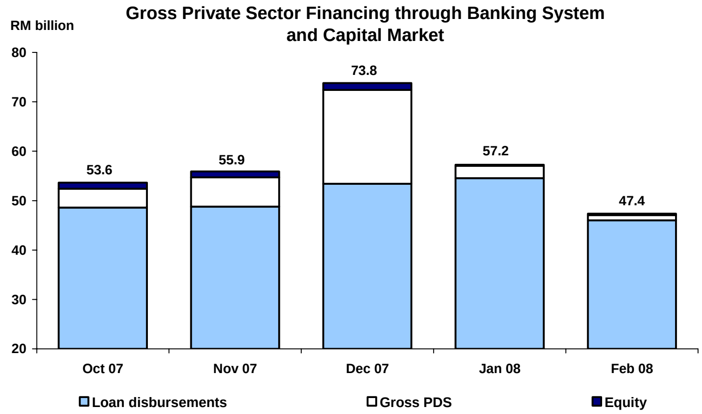
	Change during period			
	Nov 07	**Dec 07**	**Jan 08**	**Feb 08**
Fixed deposits	-3,503	-997	528	-875
NIDs	-5,468	8,563	-5,132	-3,341
Demand deposits	-2,339	6,847	3,861	-2,135
Savings deposits	132	1,143	1,201	1,697
Repos	77	665	-680	2,631
FX deposits	1,445	-1,284	2,385	714
SPI deposits	1,594	7,021	2,200	5,379
Others [1]	4,835	8,186	20,062	4,426
Total	-3,226	30,144	24,424	8,495

1/ Other deposit comprise of mainly short-term deposits

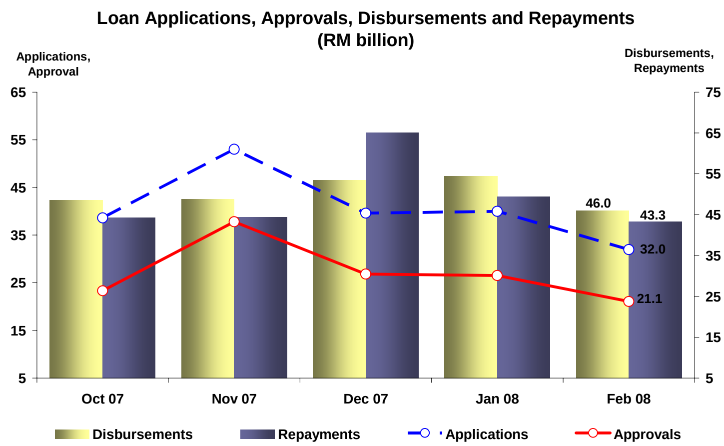
Net financing increased at a faster pace in February

Gross financing to the private sector was lower in February, primarily due to the fewer working days owing to the Chinese New Year festivities during the month. Compared to a year ago, however, gross financing expanded by 20.8% (17.2% in January). On a net basis, financing to the private sector through banking system loans and PDS outstanding expanded at a higher combined annual rate of 12.2% (Jan: 11.6%).

Gross private sector financing amounted to RM47.4 billion



Major loan indicators lower in part due to the festive season

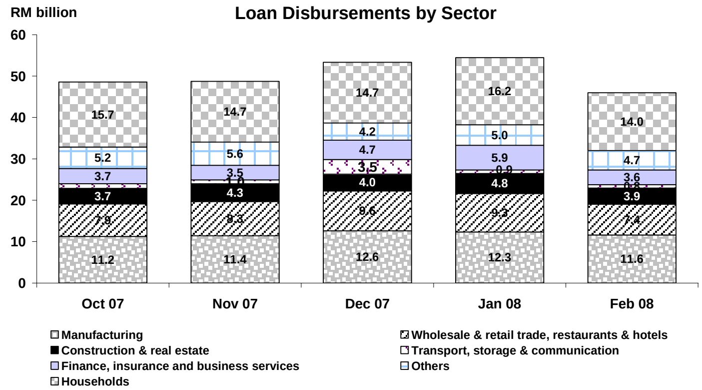


All loan indicators showed sustained strong demand for financing

Bank lending indicators

	RM billion		Annual Growth (%)	
	Jan-08	Feb-08	Jan-08	Feb-08
Overall				
Loan applications	40.0	32.0	46.4	41.9
Loan approvals	26.5	21.1	61.3	47.7
Loan disbursements	54.5	46.0	16.5	19.3
Chg in Loans Outstanding[1/]	7.3	5.7	9.3	9.8
Businesses				
Loan applications	20.1	15.9	48.9	33.0
Loan approvals	14.7	11.1	73.7	49.1
Loan disbursements	38.3	32.0	15.2	20.2
Chg in Loans Outstanding[1/]	1.9	4.4	10.6	11.9
SMEs[2/]				
Loan applications	8.2	7.7	15.0	30.1
Loan approvals	4.5	3.4	33.2	5.4
Loan disbursements	13.8	13.6	23.7	39.4
Chg in Loans Outstanding[1/]	0.9	2.6	10.1	12.7
Households				
Loan applications	19.9	16.1	43.9	51.9
Loan approvals	11.9	10.0	48.2	46.2
Loan disbursements	16.2	14.0	19.6	17.4
Chg in Loans Outstanding[1/]	3.1	1.2	7.8	7.8

[1/] The annual growth in outstanding amount as at end-period.
[2/] Include loans to individual businesses.



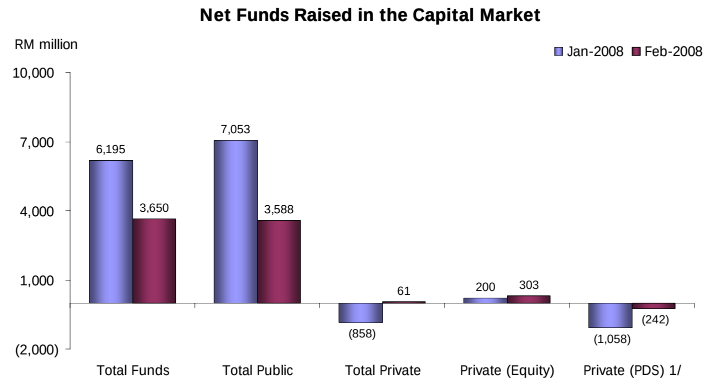
Loan disbursements remained broad-based

Despite the influence of seasonal factors in February, annual growth rates for all loan indicators during the month were high for both the business and household sectors. This reflected the sustained financing demand for business operations, as well as private consumption activities.

Total loans outstanding expanded by 9.8% on an annual basis as at end-February (end-January: 9.3%). By customer, business sector loans outstanding rose at a faster rate of 11.9% (January: 10.6%), while the annual growth rate of loans outstanding to the household sector was stable at 7.8% (January: 7.8%).

Continued increase in funds raised in the capital market

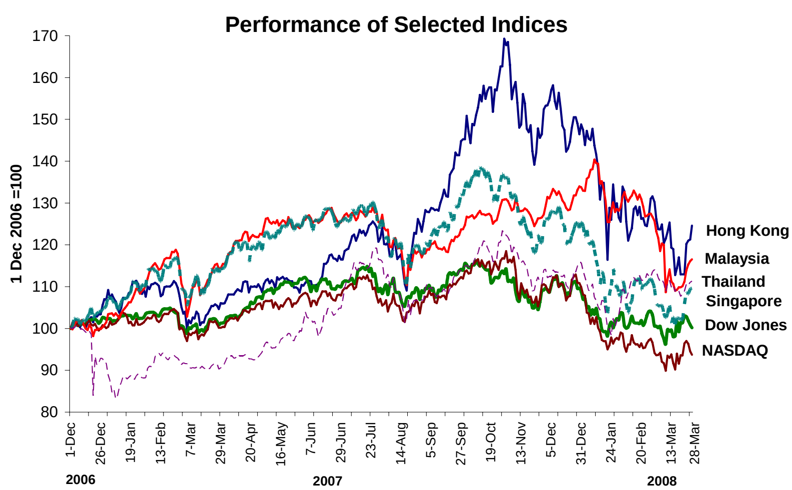
Net funds raised in the capital market were lower in February, amounting to RM3.7 billion. The public sector, through the reopening of the 3-year Malaysian Government Securities (MGS) and 3-year callable MGS, raised net funds of RM3.6 billion. In the private sector, gross funds raised in the private debt securities market (PDS) amounted to RM2.0 billion, including RM1.0 billion issued by a Middle East investment corporation in the Malaysian capital market. After adjusting for redemptions, net funds raised in the private sector amounted to RM61 million.



1/ Including Cagamas

KLCI declined in line with regional markets

In line with the performance of regional equity markets, the KLCI declined in February 2008 to close at 1,357.4, or 2.6% lower than end-January 2008. During the first half of the month, the KLCI recorded a positive performance driven mainly by the plantation sector. Despite the continued increase in crude palm oil prices which provided support to the plantation sector, the KLCI declined in the second half of February on renewed concerns on the depth of the US economic slowdown. During the period, selling pressures in the construction sector also contributed to the poor market sentiments. Market capitalisation decreased to RM1,028.3 billion (since end-January: -2.7%), while the daily average turnover declined to 794.3 million units (January: 1,169.0 million units).



Regional financial markets declined in February

As at 28 March, the KLCI closed lower at 1,258.4 points (since end-February: -7.3%). Overall market capitalisation decreased to RM960.5 billion (since end-February: -6.6%), while trading activity were higher with a daily average turnover of 823.6 million units.

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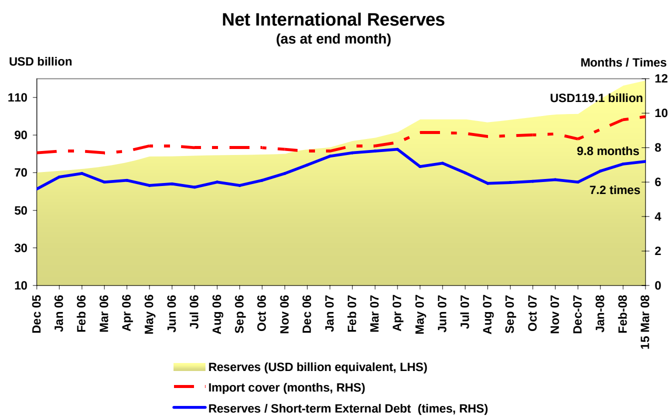
International reserves

The international reserves of Bank Negara Malaysia amounted to RM384.1 billion (equivalent to USD116.3 billion) as at 29 February 2008. As at 14 March 2008, the international reserves of Bank Negara Malaysia amounted to RM393.2 billion (equivalent to USD119.1 billion). The reserves position is sufficient to finance 9.8 months of retained imports and is 7.2 times the short-term external debt.



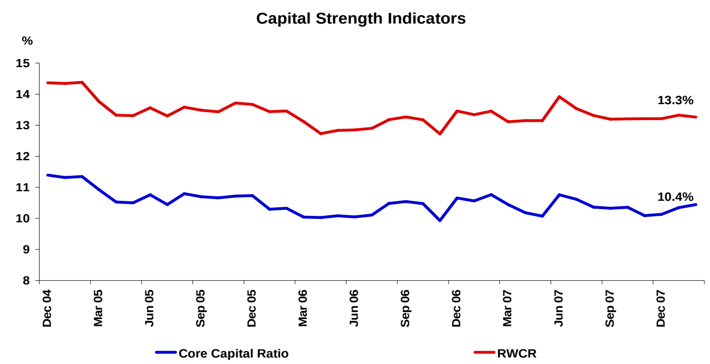
Capitalisation level sustained whilst non-performing loans stabilised

The banking system remained well capitalised with a risk-weighted capital ratio (RWCR) and core capital ratio of 13.3% and 10.4% respectively. The enhanced capital position of banking institutions was the outcome of higher retained profits, but was partially offset by a banking institution's investment in a new domestic Islamic subsidiary. Meanwhile, the net non-performing loans (NPLs) ratio remained stable at 3.1% for the month.

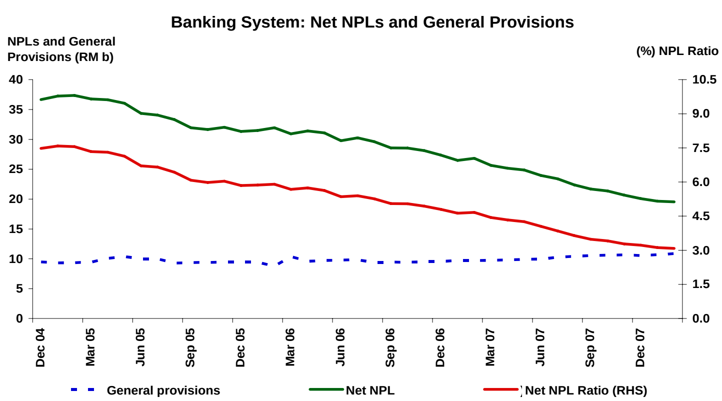
Banking System Health Indicators *

	2000	2001	2002	2003	2004	2005	2006	Dec 07	Jan 08	Feb 08
Capital (%)										
Core capital ratio	10.7	11.1	11.1	11.1	11.4	10.7	10.7	10.1	10.3	10.4
RWCR	12.5	13.0	13.2	13.8	14.4	13.7	13.5	13.2	13.3	13.3
Net NPLs (3-month classification)										
% of net total loans	9.7	11.5	10.2	8.9	7.5	5.8	4.8	3.2	3.1	3.1
Amount (RM million)	37,678	46,254	43,110	40,013	36,668	31,332	27,360	20,081	19,649	19,547
GP / Net total loans (3-month, %)	2.2	2.1	2.1	2.0	1.9	1.8	1.7	1.7	1.7	1.7

* Beginning June 1999, the figures include Islamic banks.
* Beginning April 2005, RWCR and CCR include market risk factor.



Banking system capitalisation level remained strong…



* based on 3-month classification policy

…whilst the level of NPLs remained stable

Bank Negara Malaysia
31 March 2008

Key Monetary and Financial Statistics

		Dec 07		Jan 08		Feb 08	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		63.9	9.8	69.6	18.2	67.7	13.4
M1		169.0	19.6	175.6	21.6	172.6	15.5
M2		796.9	9.5	827.2	11.1	835.4	10.5
M3		832.8	9.5	866.7	11.7	876.2	11.0
Banking System							
Total deposits		868.9	7.0	893.3	7.8	901.8	7.6
Total loans (including loans sold to Cagamas)		644.2	8.6	651.5	9.3	657.2	9.8
Loan-deposit ratio (%)		72.2		71.1		71.2	
Financing-deposit ratio [1] (%)		80.8		79.3		79.1	
Loans applied (during the period)		39.6	44.8	40.0	46.4	32.0	41.9
Loans approved (during the period)		26.8	51.6	26.5	61.3	21.1	47.7
Loans disbursed (during the period)		53.4	17.8	54.5	16.5	46.0	19.3
Loans repaid (during the period)		65.1	48.3	49.4	15.7	43.3	21.2
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.2		13.3		13.3	
Net NPLs: 3-month classification (%)		3.2		3.1		3.1	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		335.7		361.6		384.1	
Net Reserves in USD billion (equivalent)		101.3		109.3		116.3	
Months of retained imports		8.4		9.1		9.6	
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 [3.51]		3.54 [3.52]		3.53 [3.52]	
	1-month	3.56 [3.54]		3.55 [3.55]		3.55 [3.55]	
Fixed deposits of commercial banks:	1-month	3.08		3.08		3.08	
	3-month	3.15		3.15		3.14	
BLR of commercial banks		6.72		6.72		6.72	
ALR of commercial banks		6.29		6.27		6.27	
Prices							
Consumer Price Index (CPI) (2005=100)		107.1	2.4	107.5	2.3	107.9	2.7
Producer Price Index (PPI) (2000=100)		137.6	10.8	138.1	9.4	0.0	0.0
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.3065		3.2360		3.1890	
Euro		4.8756		4.8030		4.8406	
Pound Sterling		6.6070		6.4210		6.3399	
100 Japanese yen		2.9534		3.0411		3.0431	
Singapore dollar		2.2938		2.2814		2.2899	
100 Thai Baht		9.8159		9.7972		9.9859	
100 Philippine Peso		8.0158		7.9655		7.8819	
100 Indonesian Rupiah		0.0352		0.0348		0.0352	
100 Korean Won		0.3532		0.3421		0.3400	
Capital Market							
Net funds raised (in RMb) by:	public	-5.6		7.1		3.6	
	private	17.0		-0.9		0.1	
Bursa Malaysia Composite Index (end-period)		1,445.0		1,393.3		1,357.4	
Bursa Malaysia Market Capitalisation (RMb, end-period)		1,106.2		1,057.3		1,028.3	

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