



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 01/08/08

**EMBARGO: Not for publication or
broadcast before 1830 hours on
Thursday, 31 January 2008**

PRESS RELEASE

Monetary and Financial Developments December 2007 **Highlights of the Press Release**

- Net financing of the private sector through banking system loans and PDS outstanding increased at a faster pace in December.
- Net funds raised in the capital market were significantly higher at RM11.3 billion in December.
- The ringgit appreciated against major and most regional currencies.
- The net non-performing loans (NPLs) ratio improved further to 3.2%.



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MONETARY AND FINANCIAL DEVELOPMENTS

December 2007

In December, gross financing to the private sector was significantly higher at RM70.5 billion, reflecting a large issuance of private debt securities (PDS) in the telecommunication sector. On a net basis, financing of the private sector through banking system loans and PDS outstanding increased at a combined annual rate of 8.3%. The repayment of a large syndicated bridging loan during the month resulted in a contraction of loans outstanding. On an annual basis, however, loans outstanding continued to expand at a rate of 8.6%. Loan applications, approvals and disbursements in both the business and household sectors continued to register strong annual growth rates.

Interbank rates for all maturities were relatively steady. Fixed deposit rates were unchanged while the average lending rate of commercial banks was marginally lower.

The ringgit appreciated against major and most regional currencies during the period of 1 December 2007 – 30 January 2008. As with most other currencies, the ringgit continued to be largely affected by developments in the global financial

markets and the US economy. The ringgit was supported by the broad improvement in investor sentiment following reports of a plan by the US government to freeze the interest rates on subprime mortgages and the concerted effort by major central banks to ease the tight liquidity conditions in credit markets. The ringgit continued to strengthen into January 2008 following the improvement in the global equity markets after the Fed Fund rate reduction by the Federal Reserve on 22 January.

Headline inflation edged up to 2.4% in December 2007 (November: 2.3%), primarily on account of higher prices in the *food and non-alcoholic beverages* category, as well as the *restaurants and hotels* and *recreation services and culture* categories. Nevertheless, the impact on overall inflation was partly mitigated by declining prices in the *clothing and footwear* and *communication* categories.

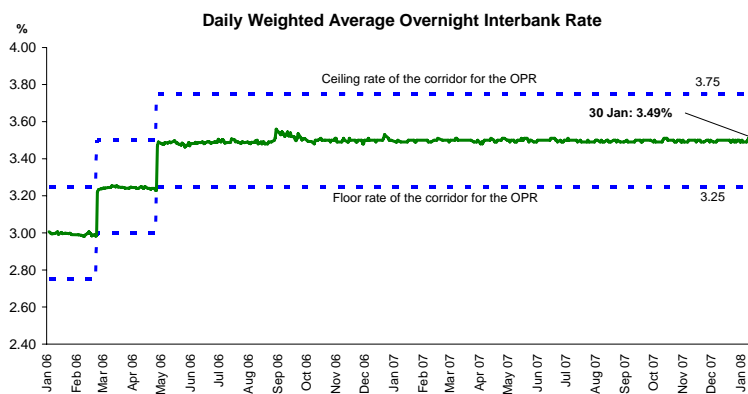
Broad money, or M3, increased at an annual rate of 9.5%, driven by Government spending, as well as the impact of higher holdings of foreign assets by the banking sector.

The banking system remained well capitalised, with a risk-weighted capital ratio (RWCR) of 13.0% as at end-December 2007. The net non-performing loans (NPLs) ratio improved further to 3.2% underpinned by improved recoveries and active balance sheet management via NPL sales and year-end write-offs.

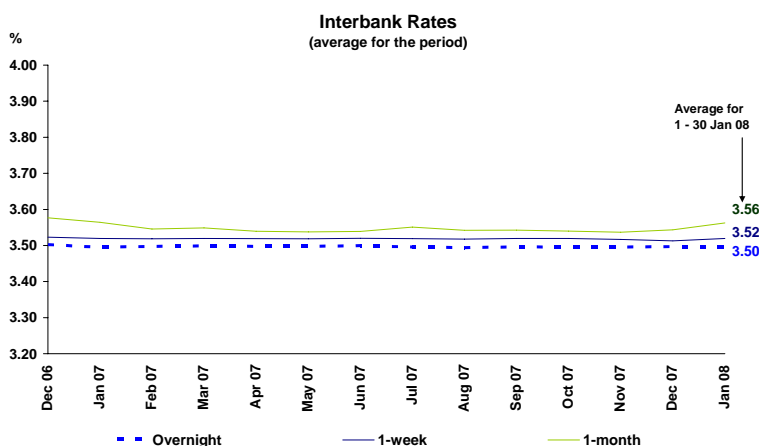
Interest rates remained stable

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

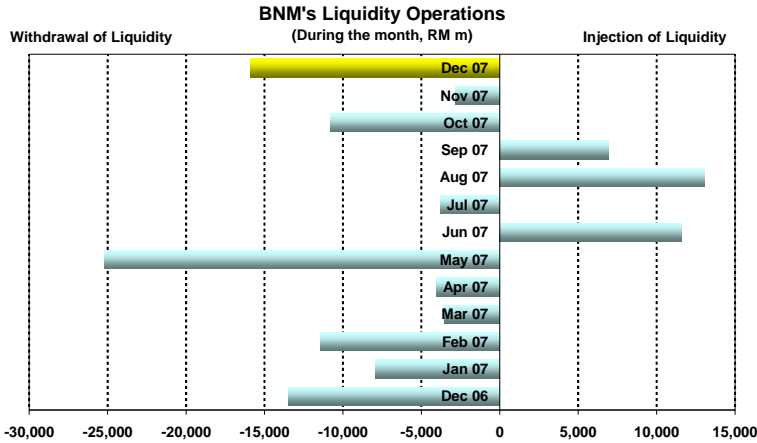
The average fixed deposit (FD) rates of commercial banks (CBs) remained unchanged in December and January. As at 15 January 2008, the average quoted FD rates for tenures between 1 and 12 months were within the range of 3.08% and 3.70%. In terms of CBs' lending rates, the average base lending rate (BLR) was unchanged at 6.72%, while the average lending rate (ALR) was marginally lower at 6.29% in December (6.31% in November).



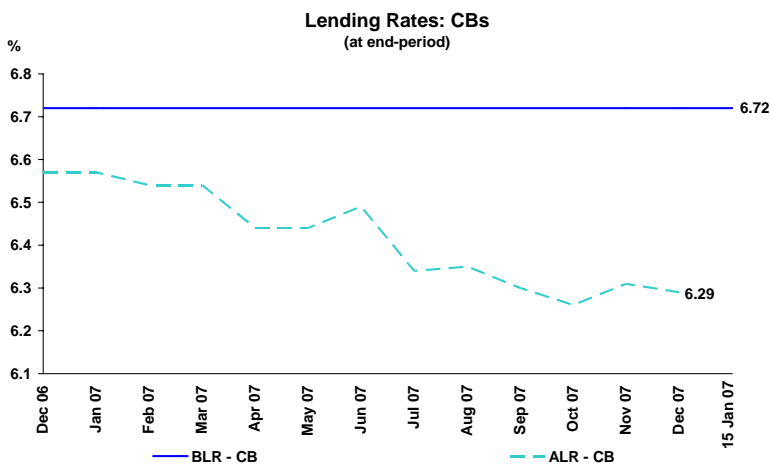
The average overnight interbank rate moved within a narrow range



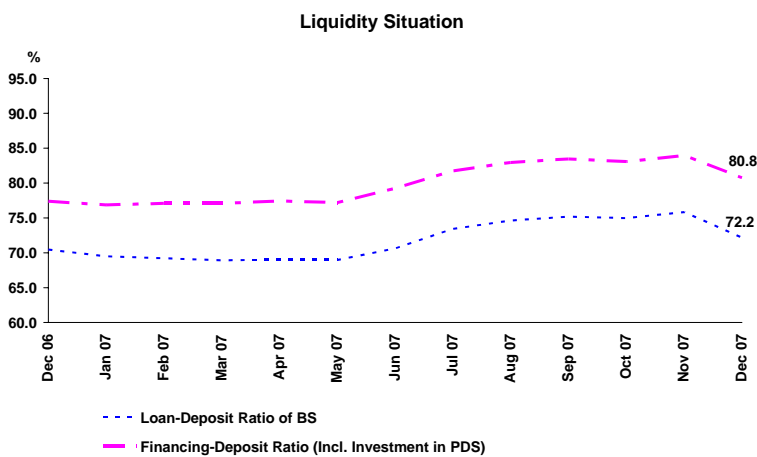
Other interbank rates remained largely unchanged



The Central Bank withdrew liquidity from the system in December

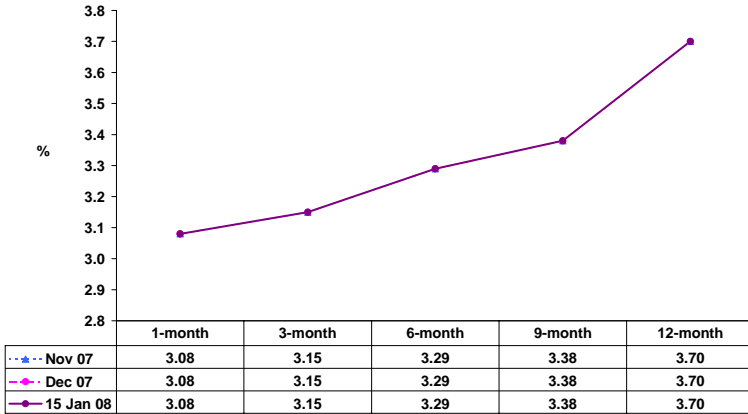


CBs' ALR decreased slightly



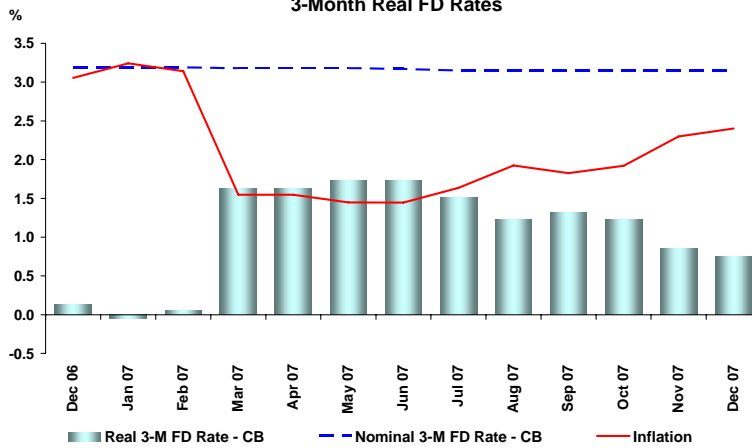
The financing-deposit and loan-deposit ratios moderated in December with the repayment of a large bridging loan

Term Structure of FD Rates
Commercial Banks



Average FD rates were unchanged

3-Month Real FD Rates



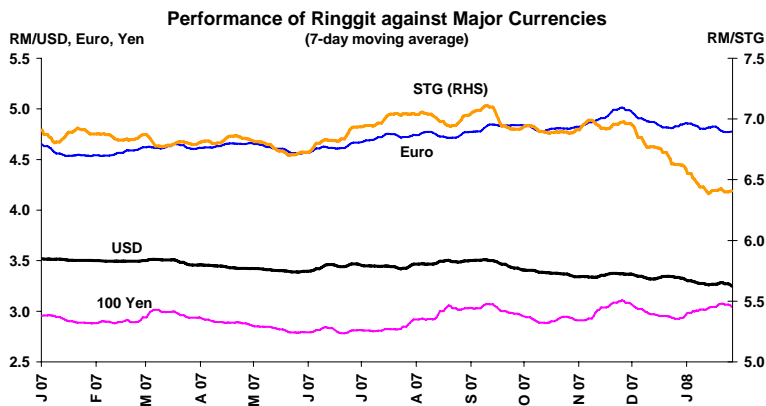
The real 3-month FD rate was lower as inflation increased

Ringgit appreciated against most currencies

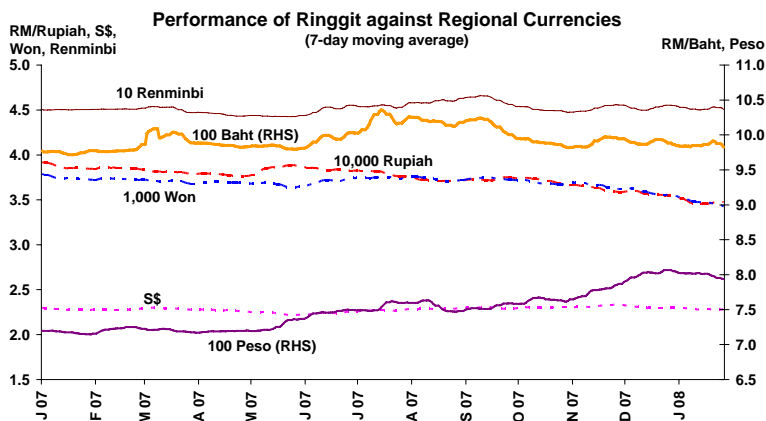
The ringgit appreciated against major and most regional currencies during the period of 1 December 2007 – 30 January 2008. As with most other currencies, the ringgit continued to be largely affected by developments in the global financial

markets and the US economy. The ringgit was supported by the broad improvement in investor sentiment following reports of a plan by the US government to freeze the interest rates on subprime mortgages and the concerted effort by major central banks to ease the tight liquidity conditions in credit markets. The ringgit continued to strengthen into January 2008 following the improvement in the global equity markets after the Fed Fund rate reduction by the Federal Reserve on 22 January.

For the period of 1 December 2007 – 30 January 2008 as a whole, the ringgit appreciated against major currencies in the range of 0.3% to 7.3%. The ringgit also appreciated against most regional currencies in the range of 1.0% to 5.9%, except against the Philippine peso.



The ringgit appreciated against major currencies...



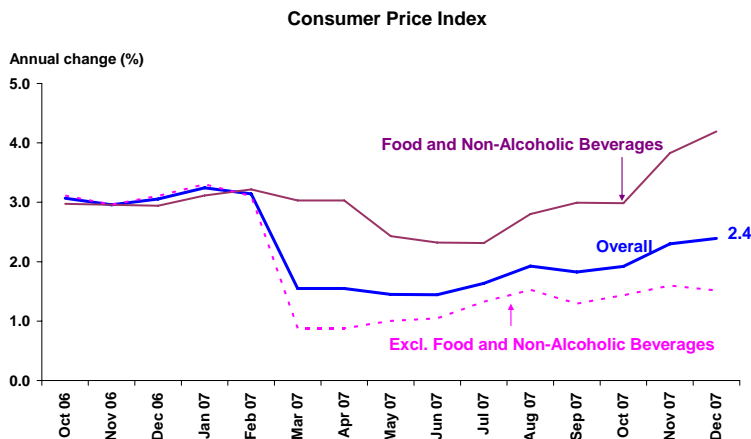
...and against most regional currencies

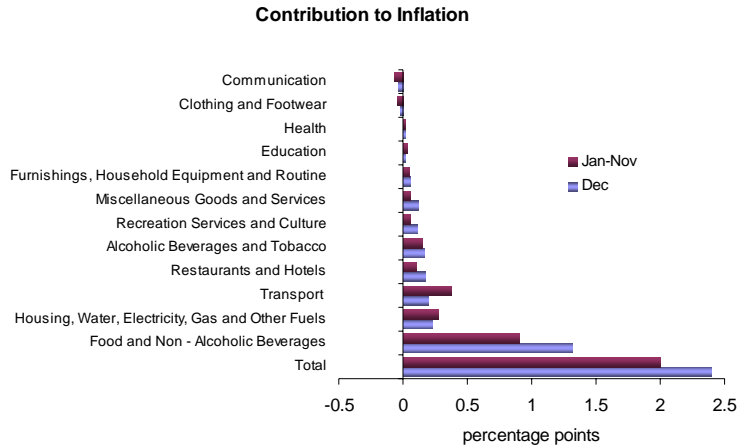
Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change	
	Dec 06	Nov 07	Dec 07	30 Jan 08	End Dec 06 - 30 Jan 08	End Nov 07 - 30 Jan 08
US dollar	3.5315	3.3585	3.3065	3.2395	9.0	3.7
Euro	4.6460	4.9508	4.8756	4.7836	-2.9	3.5
Pound sterling	6.9315	6.9251	6.6070	6.4524	7.4	7.3
100 Japanese yen	2.9675	3.0434	2.9534	3.0338	-2.2	0.3
Singapore dollar	2.3028	2.3225	2.2938	2.2799	1.0	1.9
100 Thai baht	9.8111	9.9202	9.8159	9.8048	0.1	1.2
100 Philippine peso	7.2027	7.8977	8.0158	7.9653	-9.6	-0.8
100 Indonesian rupiah	0.0393	0.0358	0.0352	0.0348	12.7	2.9
100 Korean won	0.3797	0.3632	0.3532	0.3431	10.7	5.9
Chinese renminbi	0.4523	0.4547	0.4527	0.4504	0.4	1.0

Headline inflation was higher in December

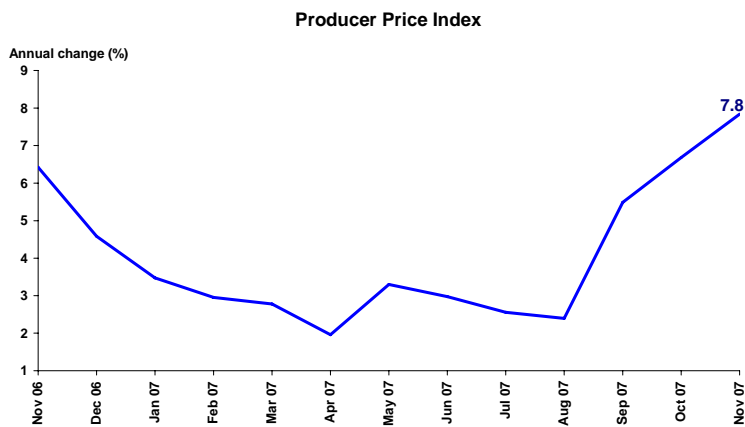
Headline inflation edged up to 2.4% in December 2007 (November: 2.3%). For 2007 as a whole, headline inflation averaged at 2% (2006: 3.6%), which is at the lower end of Bank Negara Malaysia's official forecast of 2-2.5%. The upward pressure on inflation in December came mainly from the *food and non-alcoholic beverages* category, which increased by 4.2%, mainly due to higher food prices that were in part caused by the recent floods and adverse weather conditions. The rates of increase in prices of items in the *restaurants and hotels* and *recreation services and culture* categories were also higher at 6% and 2.5% respectively (November: 5.6% and 2.4%). Nevertheless, the impact on overall inflation was partly mitigated by declining prices in the *clothing and footwear* and *communication* categories.





Producer price inflation increased in November

In November, PPI inflation rose to 7.8% (October: 6.7%) due mainly to higher price increases in the commodity sector. In particular, continued higher world prices for raw commodities during the period led to price increases in the *animal and vegetable oils and fats, crude material, inedible except fuels and mineral fuels, lubricants and related material* categories. Meanwhile, the producer price inflation in the non-commodity sector moderated to 0.9% (October: 1.2%).



Producer price inflation rose further in November

Note: In July 2007, the PPI has been revised by the Department of Statistics, Malaysia.

Money supply expanded in December

Broad money, or M3, increased by RM24.4 billion during the month or at an annual rate of 9.5%. The increase in M3 was driven by the drawdown of deposits by the Government to finance its outlays and the higher holdings of foreign assets by the banking sector. This, however, was partially mitigated by the repayment of a large corporate bridging loan by the private sector, which caused net claims on the private sector to contract. In December, M1 registered a marked increase resulting from a significant increase in the demand deposits of businesses towards the end of the year.

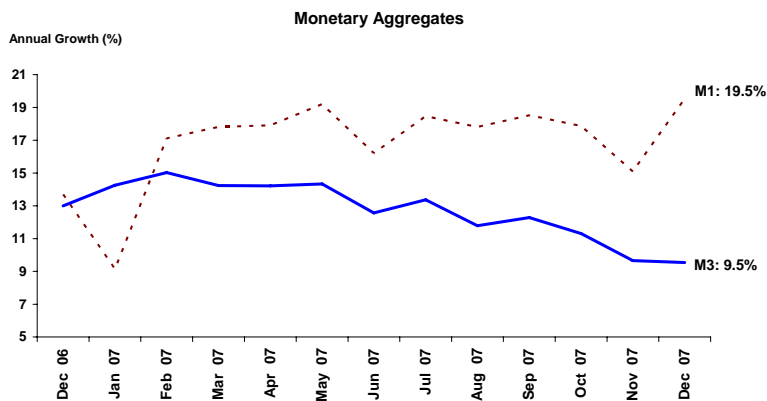
M3 Determinants

(RM billion)

	Change during period			
	Sep 07	Oct 07	Nov 07	Dec 07
M3	2.6	3.2	1.0	24.4
Net claims on Government	-1.8	-4.1	-0.4	13.6
Claims on the private sector	9.2	4.7	-3.4	-8.8
Loans	8.1	3.3	3.8	-15.4
Securities	1.0	1.4	-7.2	6.7
Net external operations *	5.1	13.4	0.8	5.7
Other influences	-9.9	-10.8	4.0	13.9

* 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 increased significantly in December

In December, total deposits with the banking system increased significantly by RM30.2 billion or 7% on an annual basis (Nov: -RM3.2 billion; 8%). The expansion reflected higher deposit placements mainly by financial institutions, business enterprises, and to a lesser extent, individuals. The increase in deposits, in part, reflected disbursements of expenditure and net redemptions of MGS by the Government, which were funded by withdrawals of deposits from Bank Negara Malaysia. By type, the increase in the deposits was mainly in the form of NIDs, SPI and other deposits.

Deposits by Holder (RM million)

	Change during period			
	Sep 07	Oct 07	Nov 07	Dec 07
Federal Government	1,183	-395	-599	260
State Governments	-458	1,396	-1,199	-1,024
Statutory Authorities ¹	372	477	298	2,049
Financial Institutions	6,767	1,680	-4,753	15,857
Business Enterprises	-5,242	1,832	-82	10,653
Individuals	2,694	2,169	2,294	3,966
Others ²	-455	788	815	-1,600
Total	4,860	7,946	-3,226	30,161

1/ Include local Governments

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

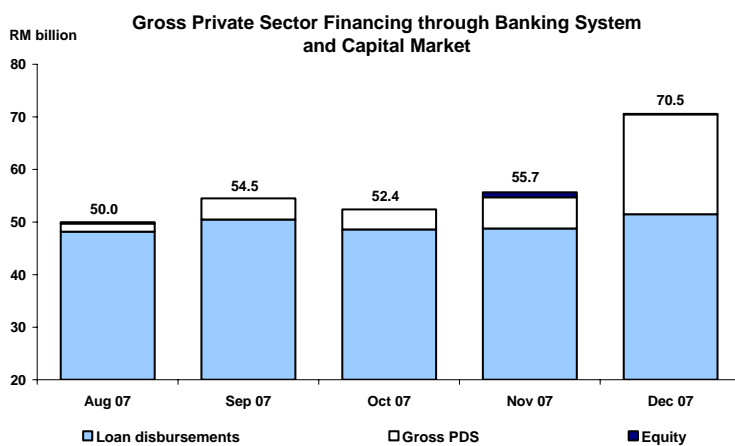
Deposits by Type (RM million)

	Change during period			
	Sep 07	Oct 07	Nov 07	Dec 07
Fixed deposits	-1,929	-1,967	-3,503	-997
NIDs	-1,935	1,301	-5,468	8,563
Demand deposits	-17	4,454	-2,339	6,764
Savings deposits	7	650	132	1,143
Repos	956	1,376	77	665
FX deposits	-598	1,183	1,445	-1,284
SPI deposits	-1,218	797	1,594	7,021
Others ¹	9,595	153	4,835	8,286
Total	4,860	7,946	-3,226	30,161

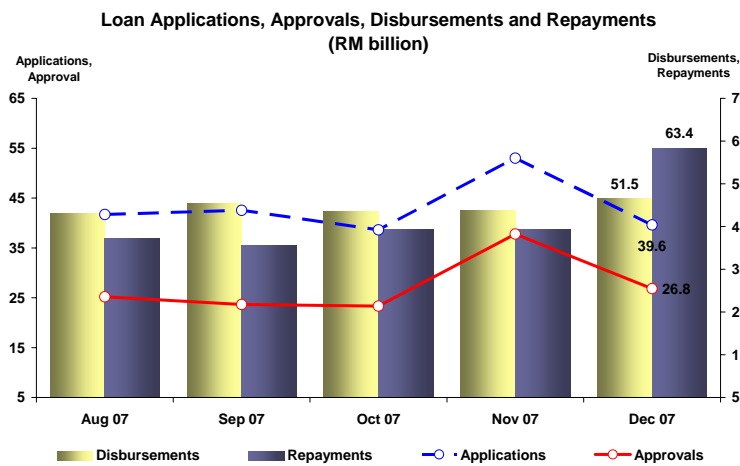
1/ Other deposit comprise of mainly short-term deposits

Gross private sector financing significantly higher

In December, gross financing to the private sector was significantly higher at RM70.5 billion (November: RM55.7 billion), a significant proportion of which was accounted for by a large issuance of private debt securities (PDS) in the telecommunication sector. Meanwhile, loan disbursements also registered a steady increase on a month-on-month basis of 5.6% (November: 0.3%). On a net basis, financing of the private sector through banking system loans and PDS outstanding continued to increase at a combined annual rate of 8.3% (November: 7.6%).



The increase in gross private sector financing was largely accounted by a large issuance of PDS



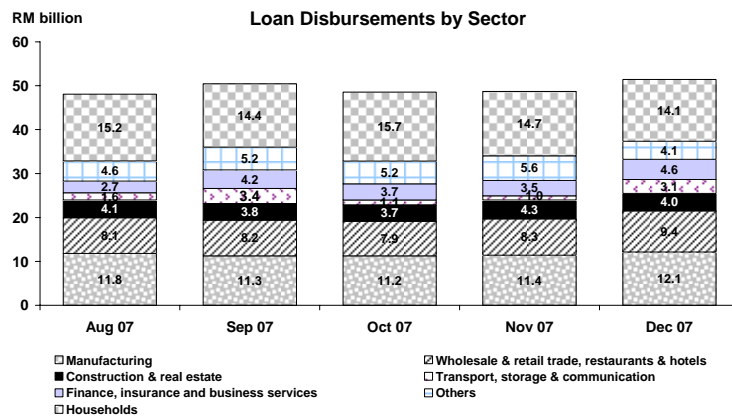
Key loan indicators sustained

Bank lending indicators				
	RM billion		Annual Growth (%)	
	November	December	November	December
Overall				
Loan applications	53.0	39.6	97.9	44.8
Loan approvals	37.8	26.8	119.3	51.6
Loan disbursements	48.8	51.5	15.0	13.6
Chg in Loans Outstanding ^{1/}	4.9	-9.4	10.2	8.6
Businesses				
Loan applications	34.5	23.6	144.9	50.5
Loan approvals	27.0	17.4	179.2	64.6
Loan disbursements	34.1	37.4	14.5	14.1
Chg in Loans Outstanding ^{1/}	1.8	-13.2	16.4	10.4
SMEs^{2/}				
Loan applications	10.8	7.3	40.1	20.3
Loan approvals	6.0	4.0	38.1	15.2
Loan disbursements	13.2	12.1	31.3	-1.8
Chg in Loans Outstanding ^{1/}	0.7	0.8	8.8	9.0
Households				
Loan applications	18.5	16.0	45.6	37.1
Loan approvals	10.8	9.5	43.1	32.4
Loan disbursements	14.7	14.1	16.2	12.3
Chg in Loans Outstanding ^{1/}	2.5	1.9	7.2	7.3

Major loan indicators continued to register strong growth across both business and household sectors

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

^{2/}Include loans to individual businesses.



Loan disbursements remained broad-based

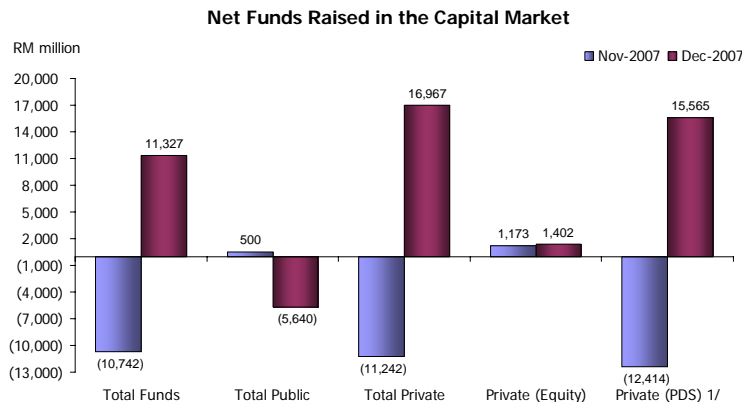
Overall loan applications and approvals in December continued to register double digit growth indicating sustained demand for financing from both businesses and households. During the month, business loan applications and approvals recorded strong increases for the purpose of working capital. By sector, the rise was accounted for mostly by the electricity, gas and water, and to some extent, the real estate sector. For the households, loan approvals were mainly for the purchase of residential property and passenger cars.

The higher loan disbursements during the month were largely channeled to the transport, storage and communications, finance, insurance and business services, and to some extent, the wholesale, retail, restaurants and hotels sectors. This is consistent with the higher loan approvals to these sectors in November.

In December, there was a repayment of a large syndicated bridging loan. As a result, loans outstanding contracted during the month. On an annual basis, however, loans outstanding continued to expand at a sustained rate of 8.6% as at end-December.

Higher net funds raised in the capital market

Net funds raised in the capital market for the month of December amounted to RM11.3 billion, significantly higher than the net redemption of RM10.7 billion recorded in November. The funds were raised by the private sector (+RM17 billion), with a large private debt securities (PDS) issuance by a telecommunications company as part of its privatization exercise. Meanwhile, the public sector recorded a net redemption of RM5.6 billion. During the month, the public sector raised a total of RM7 billion through the reopening of the 3-year and 10-year Malaysian Government Securities (MGS).

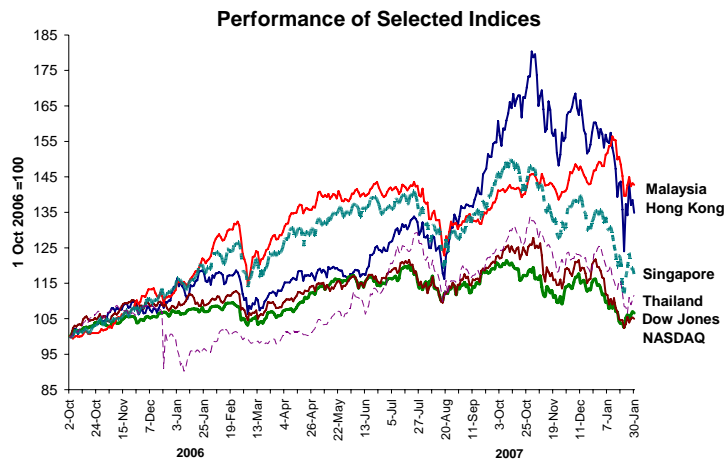


1/ Including Cagamas

KLCI rebounded in December

In December 2007, the KLCI rose by 3.4% from the previous month to close at 1,445. Weak investor sentiment due to the poor performances of foreign equity markets caused the KLCI to fall to 1,385.5 on 18 December. However, the KLCI rebounded to a record high of 1,447 on 28 December following the strong performances of the plantation and industrial sectors. Market capitalisation increased to RM1,106.2 billion (since end-November: +3.8%), while the daily

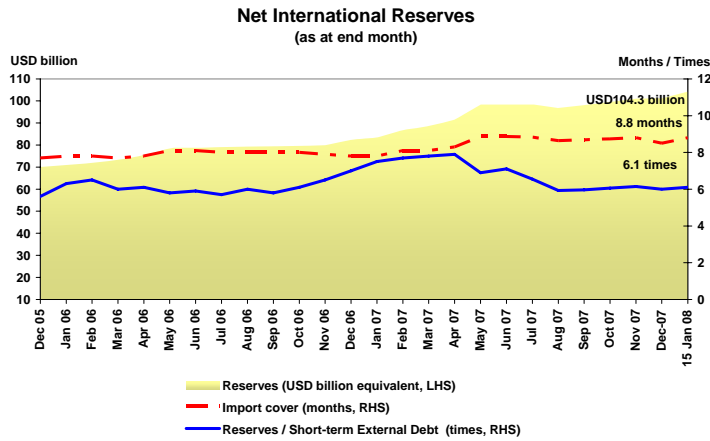
average turnover decreased to 825.6 million units (November: 1,160.3 million units).



The KLCI reached a new high of 1,516.2 on 11 January supported largely by the new record high crude palm oil prices. However, following the sharp corrections in global equity markets, the KLCI fell to 1354.5 on 22 January, on renewed concerns of a slowdown in the US economy. The KLCI recovered some losses to close at 1,384.1 on 30 January (since end-December: -4.2%) due to positive sentiment after the US Federal Reserve made an unscheduled 75 basis points cut in the federal funds rate on 22 January. Overall market capitalisation has declined to RM1,050 billion (since end-December: -5.1%) and trading activity has been higher with a daily average turnover of 1,185.3 million units.

International reserves

The international reserves of Bank Negara Malaysia amounted to RM335.7 billion (equivalent to USD101.3 billion) as at 31 December 2007. The reserves level has also taken into account the quarterly adjustment of the foreign exchange revaluation loss, following the strengthening of ringgit against the major currencies during the quarter. As at 15 January 2008, the international reserves of Bank Negara Malaysia amounted to RM345.4 billion (equivalent to USD104.3 billion). The reserves position is sufficient to finance 8.8 months of retained imports and is 6.1 times the short-term external debt.



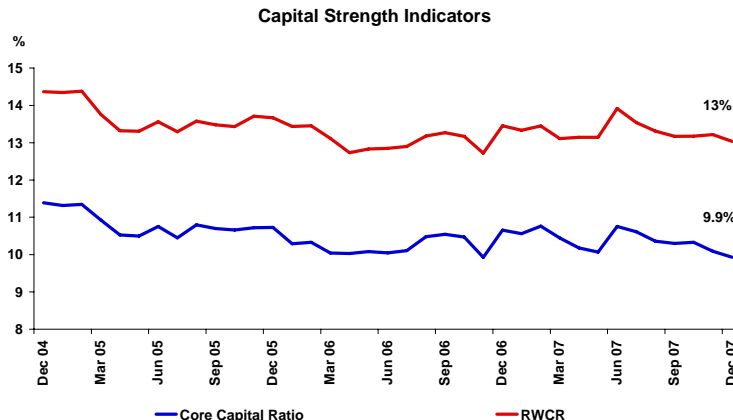
Capitalisation level sustained amidst further decline in non-performing loans

The banking system remained well-capitalised amidst year-end distribution of profits by some banking institutions. The risk-weighted capital ratio (RWCR) and core capital ratio stood at 13% and 9.9% respectively as at end-December 2007. Meanwhile, the net non-performing loans (NPLs) ratio improved further to 3.2% underpinned by improved recoveries and active balance sheet management through NPL sales and year-end write-offs.

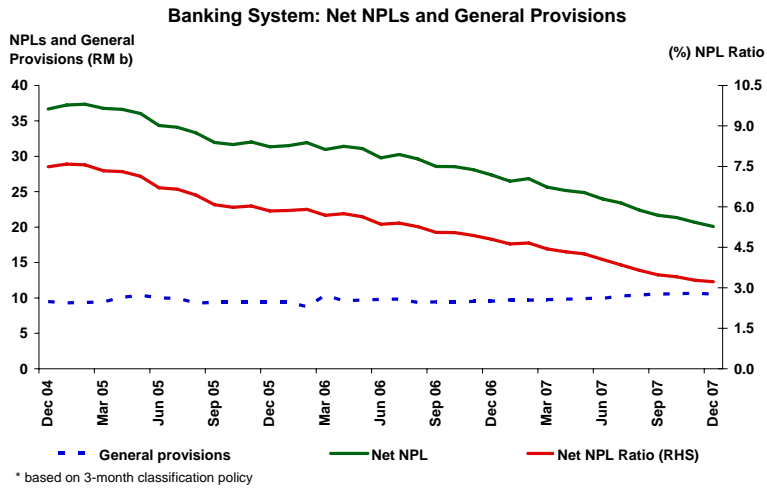
Banking System Health Indicators*

	2000	2001	2002	2003	2004	2005	2006	Oct 07	Nov 07	Dec 07
Capital (%)										
Core capital ratio	10.7	11.1	11.1	11.1	11.4	10.7	10.7	10.3	10.1	9.9
RWCR	12.5	13.0	13.2	13.8	14.4	13.7	13.5	13.2	13.2	13.0
Net NPLs (3-month classification)										
% of net total loans	9.7	11.5	10.2	8.9	7.5	5.8	4.8	3.4	3.3	3.2
Amount (RM million)	37,678	46,254	43,110	40,013	36,668	31,332	27,360	21,350	20,665	20,081
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...



... whilst level of NPLs declined further

Bank Negara Malaysia
31 January 2008

Key Monetary and Financial Statistics

	Oct 07		Nov 07		Dec 07	
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates						
Reserve money	59.9	5.4	62.7	15.5	63.9	9.8
M1	159.0	17.9	158.6	15.1	169.0	19.5
M2	768.3	11.4	769.8	9.5	797.0	9.5
M3	807.4	11.3	808.4	9.7	832.8	9.5
Banking System						
Total deposits	842.0	11.1	838.7	8.0	868.9	7.0
Total loans (including loans sold to Cagamas)	648.3	10.1	653.2	10.2	643.7	8.6
Loan-deposit ratio (%)		75.0		75.8		72.2
Financing-deposit ratio ¹ (%)		83.1		84.0		80.8
Loans applied (during the period)	38.6	70.7	53.0	97.9	39.6	44.8
Loans approved (during the period)	23.3	58.2	37.8	119.3	26.8	51.6
Loans disbursed (during the period)	48.6	23.2	48.8	15.0	51.5	13.6
Loans repaid (during the period)	44.3	12.6	44.4	13.3	63.4	44.5
Banking System Health						
Risk-weighted Capital Ratio (RWCR) (%)		13.2		13.2		13.0
Net NPLs: 3-month classification (%)		3.4		3.3		3.2
International Reserves of BNM (end-period)						
Net Reserves in RM billion		340.2		345.1		335.7
Net Reserves in USD billion (equivalent)		99.6		101.1		101.3
Months of retained imports		8.7		8.8		8.5
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]		3.50 [3.50]		3.49 [3.50]
	1-week	3.52 [3.52]		3.52 [3.52]		3.52 [3.51]
	1-month	3.54 [3.54]		3.54 [3.54]		3.56 [3.54]
Fixed deposits of commercial banks	1-month	3.08		3.08		3.08
	3-month	3.15		3.15		3.15
BLR of commercial banks		6.72		6.72		6.72
ALR of commercial banks		6.26		6.31		6.29
Prices						
Consumer Price Index (CPI) (2005=100)	106.1	1.9	106.8	2.3	107.1	2.4
Producer Price Index (PPI) (2000=100)	135.7	6.7	137.6	7.8	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)						
US dollar		3.3418		3.3585		3.3065
Euro		4.8257		4.9508		4.8756
Pound Sterling		6.9156		6.9251		6.6070
100 Japanese yen		2.9119		3.0434		2.9534
Singapore dollar		2.3059		2.3225		2.2938
100 Thai Baht		9.8272		9.9202		9.8159
100 Philippine Peso		7.6418		7.8977		8.0158
100 Indonesian Rupiah		0.3670		0.0358		0.0352
100 Korean Won		0.3703		0.3632		0.3532
Capital Market						
Net funds raised (in RMb) by:	public	-0.8		0.5		-5.6
	private	-0.4		-11.2		17.0
Bursa Malaysia Composite Index (end-period)		1,413.7		1397.0		1445.0
Bursa Malaysia Market Capitalisation (RMb, end-period)		1,091.4		1065.3		1106.2

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