



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 09/07/09

**EMBARGO: Not for publication or
broadcast before 1830 hours on
Friday, 28 September 2007**

Monetary and Financial Developments August 2007
Highlights of the Press Release

- Gross financing to the private sector remained strong amid firm growth in banking system loan disbursements during the month.
- The major loan indicators for the business and household sectors continued to register positive annual growth rates in August.
- The net NPL ratio of banking institutions improved further to 3.6% in August.



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MONETARY AND FINANCIAL DEVELOPMENTS AUGUST 2007

In August, gross financing to the private sector remained strong amid firm growth in banking system loan disbursements during the month. On a net basis, financing of the private sector through banking system loans and private debt securities (PDS) outstanding expanded at a combined annual rate of 8.0%. The major loan indicators for the business and household sectors continued to register positive annual growth rates, and total loans outstanding expanded by 8.6% on an annual basis.

Interbank rates for all maturities were relatively steady in August and September. While the average base lending rates of commercial banks remained unchanged, the average lending rate (ALR) was marginally higher in August.

During the period 1 August - 27 September, the ringgit appreciated against the US dollar and recorded a mixed performance against other major currencies, reflecting two-way trade and investment flows. The ringgit appreciated against the pound sterling (1.8%) but depreciated against the Japanese yen (1.8%) and euro (2.0%). The ringgit, together with other regional currencies, depreciated in the first

half of August due to a shift in asset allocation by global investors, following the developments in the US subprime and housing market and global credit markets. This trend however reversed as Asian financial markets reacted favourably following the reduction in the discount rate by the U.S. Federal Reserve on 17 August, and subsequently, the market expectations for a reduction in the key Fed Funds rate. The decision by the U.S. Federal Reserve to reduce the Fed Funds rate and the discount rate by 50 basis points on 18 September to mitigate some of the adverse impact of the crisis in the credit markets on the economy also reinforced the trend for the strengthening of the regional currencies. The ringgit appreciated against most regional currencies in the range of 0.4% - 2.3%, but depreciated slightly against the Singapore dollar (0.2%).

Headline inflation, as measured by the annual change in the Consumer Price Index (CPI), increased to 1.9% in August. The rise in inflation was mainly accounted by the *food and non-alcoholic beverages* category, as well as the higher inflation rate of items in the *restaurants and hotels* and *recreation services and culture* categories.

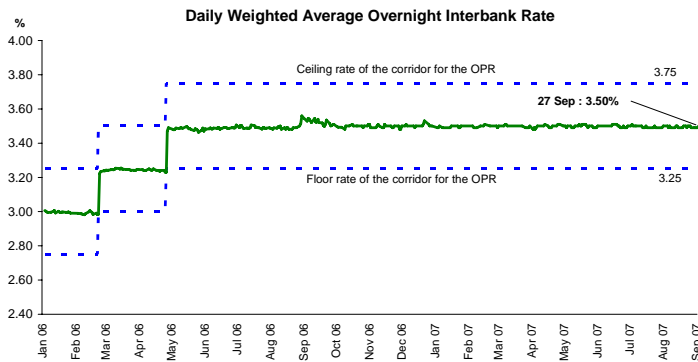
Narrow money, or M1, increased by 17.8% in August, due to higher currency in circulation and placements of demand deposits. Broad money, or M3, expanded at a more moderate pace of 11.8%. On a month-on-month basis, M3 expanded mainly on account of higher claims on the private sector and expansionary Government operations.

The banking system's capitalisation remained strong with the risk-weighted capital ratio (RWCR) at 13.3%. The net NPL ratio improved further to 3.6%. The improvement was driven by a 19% reduction in new NPL's amidst continuous loan write-offs, particularly in the construction, manufacturing and retail sectors.

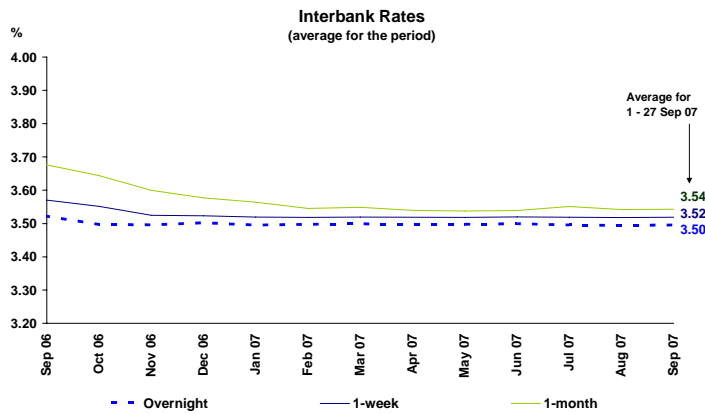
Interest rates remained stable

During the period 1 August – 27 September, 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.

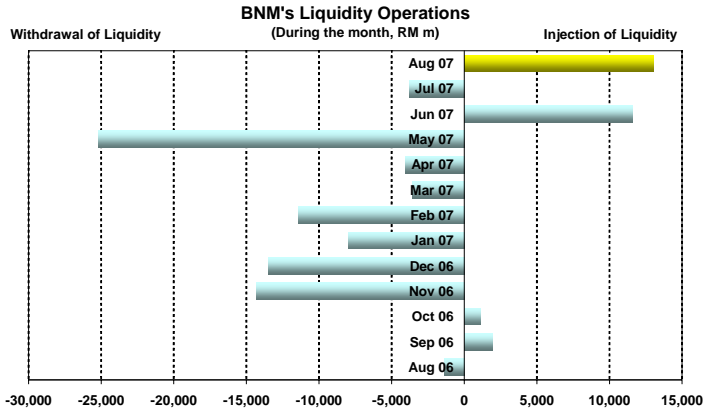
The average fixed deposit (FD) rates of commercial banks (CBs) remained relatively unchanged in August and September. As at 15 September 2007, the average quoted FD rates for tenures between 1 and 12 months were within the range of 3.08% and 3.70%. In terms of CBs' lending rates, the average base lending rate (BLR) was unchanged at 6.72%, while the average lending rate (ALR) was marginally higher at 6.35% in August (6.34% in July).



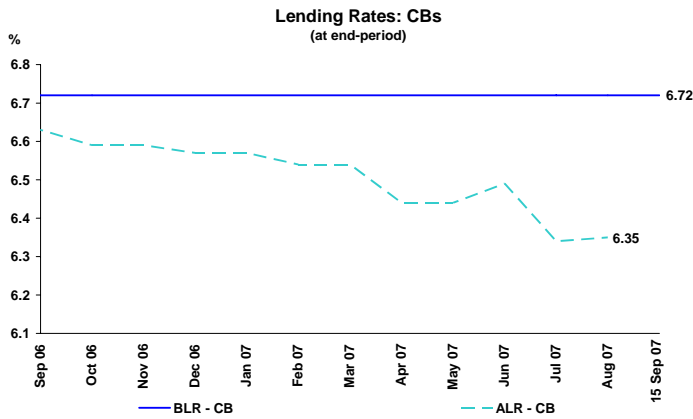
The average overnight interbank rate moved within a narrow range



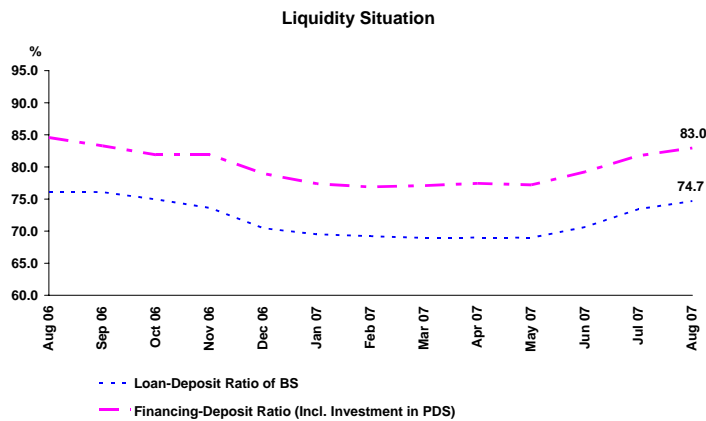
Other interbank rates remained relatively stable



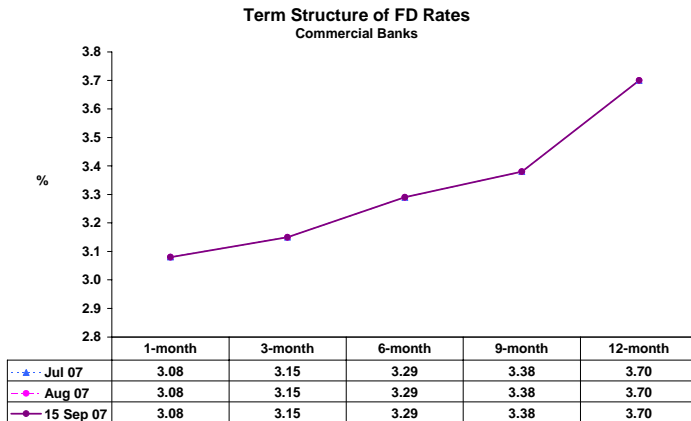
The Central Bank injected liquidity into the system in August mainly to offset contractionary external operations



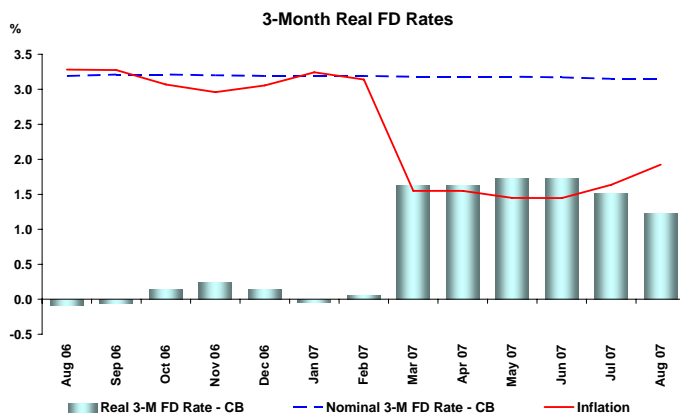
CBs' ALR was marginally higher



The financing-deposit and loan-deposit ratios increased in August due to a decline in deposits whilst financing continued to grow at a steady pace



Average FD rates were unchanged

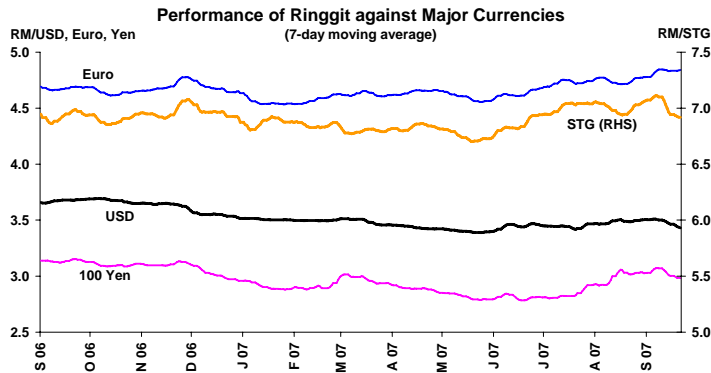


The real 3-month FD rate moderated due to an increase in inflation

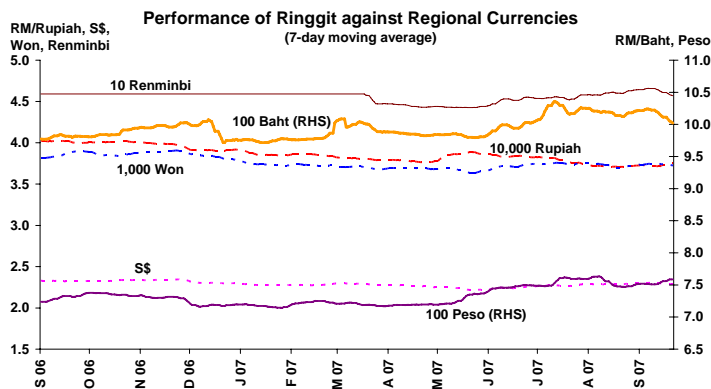
Mixed performance of the ringgit

During the period 1 August - 27 September, the ringgit appreciated against the US dollar and recorded a mixed performance against other major currencies, reflecting two-way trade and investment flows. The ringgit appreciated against the pound sterling (1.8%) but depreciated against the Japanese yen (1.8%) and euro (2.0%). The ringgit, together with other regional currencies, depreciated in the first half of August due to a shift in asset allocation by global investors, following the developments in the US subprime and housing market and global credit markets. This trend however reversed as Asian financial markets reacted favourably following the reduction in the discount rate by the U.S. Federal Reserve on 17

August, and subsequently, the market expectations for a reduction in the key Fed Funds rate. The decision by the U.S. Federal Reserve to reduce the Fed Funds rate and the discount rate by 50 basis points on 18 September to mitigate some of the adverse impact of the crisis in the credit markets on the economy also reinforced the trend for the strengthening of the regional currencies. The ringgit appreciated against most regional currencies in the range of 0.4% - 2.3%, but depreciated slightly against the Singapore dollar (0.2%).



Ringgit appreciated against the US dollar



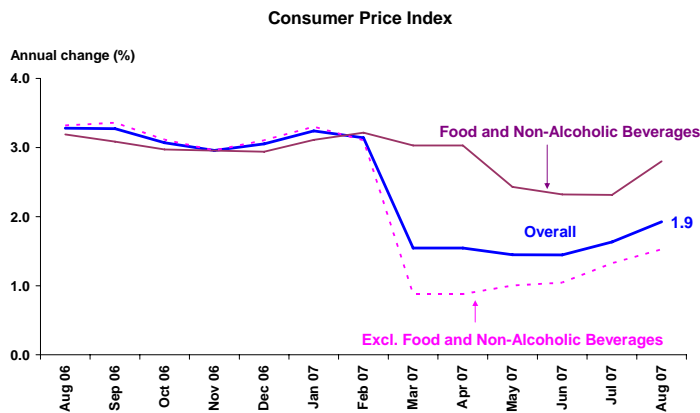
Ringgit appreciated against most regional currencies

Performance of Ringgit against Selected Currencies

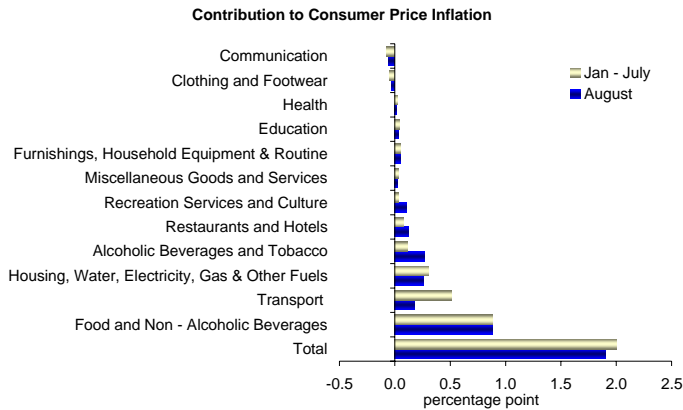
RM per foreign currency	End-period				% Change	
	Dec 06	Jul 07	Aug 07	27 Sep 07	End Dec 06 - 27 Sep 07	End Jul 07 - 27 Sep 07
US dollar	3.5315	3.4540	3.5035	3.4190	3.3	1.0
Euro	4.6460	4.7380	4.7860	4.8336	-3.9	-2.0
Pound sterling	6.9315	7.0197	7.0601	6.8954	0.5	1.8
100 Japanese yen	2.9675	2.9044	3.0259	2.9583	0.3	-1.8
Singapore dollar	2.3028	2.2851	2.3007	2.2890	0.6	-0.2
100 Thai baht	9.8111	10.211	10.205	9.9810	-1.7	2.3
100 Philippine peso	7.2027	7.6180	7.5062	7.5910	-5.1	0.4
100 Indonesian rupiah	0.0393	0.0376	0.0372	0.0374	4.9	0.4
100 Korean won	0.3797	0.3756	0.3728	0.3713	2.3	1.1
Chinese renminbi	0.4523	0.4566	0.4640	0.4549	-0.6	0.4

Headline inflation remained low at 1.9%

Headline inflation, as measured by the annual change in the Consumer Price Index (CPI), increased to 1.9% in August 2007. The rise in inflation was mainly accounted by the *food and non-alcoholic beverages* category, which registered an increase of 2.8% in August from 2.3% in July. The inflation rate of items in the *restaurants and hotels* and *recreation services and culture* categories were also higher at 4.2% and 2.3% in August (July: 3.8% and 2.1%). Nevertheless, the *clothing and footwear* and *communication* categories continued to exhibit declining prices.

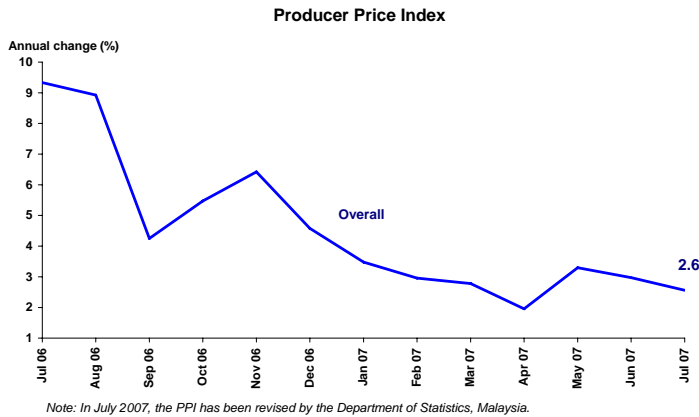


Inflation remained low at 1.9% in August



Producer price inflation moderated in July

In July, the pace of growth in Producer Price Index (PPI) moderated to 2.6% (June: 3%). This was mainly due to the slower inflation rate in the non-commodity related sector, which partially offset the higher inflation rate in the commodity-related sector.



Pace of growth in the PPI moderated in July

M3 expanded on an annual basis

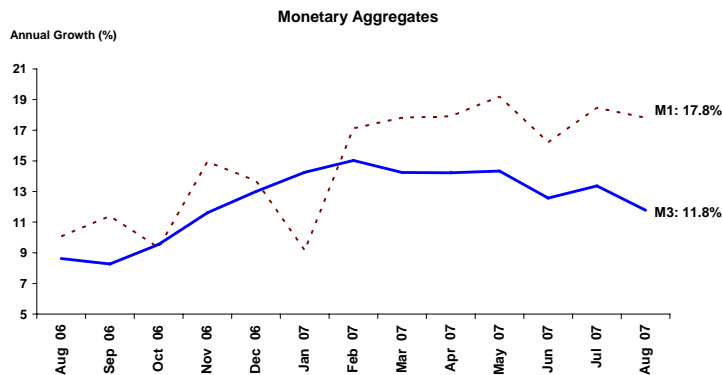
Narrow money, or M1, increased by 17.8% in August (July: 18.5%), due to higher currency in circulation and placements of demand deposits. Broad money, or M3, expanded at a more moderate pace of 11.8% (July: 13.4%). On a month-on-month basis, M3 expanded mainly on account of higher claims on the private

sector, supported by both higher loans extended, as well as the holdings of private debt securities by the banks. Net claims on the Government were also expansionary on M3 as the Government drew down its deposits from Bank Negara Malaysia to finance its spending during the month. Net external operations, on the other hand, were contractionary on M3, reflecting a decline in the net foreign assets of the banking system.

M3 Determinants				
(RM billion)				
	Change during period			
	May 07	Jun 07	Jul 07	Aug 07
M3	2.8	-10.6	11.3	1.7
Net claims on Government	-7.2	-8.1	5.8	6.6
Claims on the private sector	2.8	7.0	17.0	7.3
Loans	3.8	6.0	17.1	5.4
Securities	-1.0	1.6	-0.6	1.9
Net external operations *	24.2	-6.4	-3.9	-7.1
Other influences	-17.0	-3.2	-7.6	-5.1

* 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.



Lower banking system deposits in August

Total deposits with the banking system declined by RM5 billion in August registering a slower growth on an annual basis of 12.2% (July: 14.2%). Deposits withdrawals were recorded largely by financial institutions which includes domestic non-bank financial institutions. By type, the decline in deposits was observed mainly in negotiable instruments of deposits (NIDs), fixed deposits and to a lesser extent, repos. There were large transfers from NIDs and fixed deposits of businesses to the short term money market deposit, which contributed to the increase in “other deposits”.

Deposits by Holder (RM million)

	Change during period			
	May 07	Jun 07	Jul 07	Aug 07
Federal Government	-492	4,116	-1,732	-381
State Governments	-100	-265	643	779
Statutory Authorities ¹	2,942	-3,047	791	-291
Financial Institutions	3,193	-14,978	-11,737	-10,140
Business Enterprises	-769	2,531	5,798	2,404
Individuals	2,955	1,590	1,166	2,506
Others ²	-733	-3,287	-550	118
Total	6,996	-13,341	-5,621	-5,004

1/ Include local Governments

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

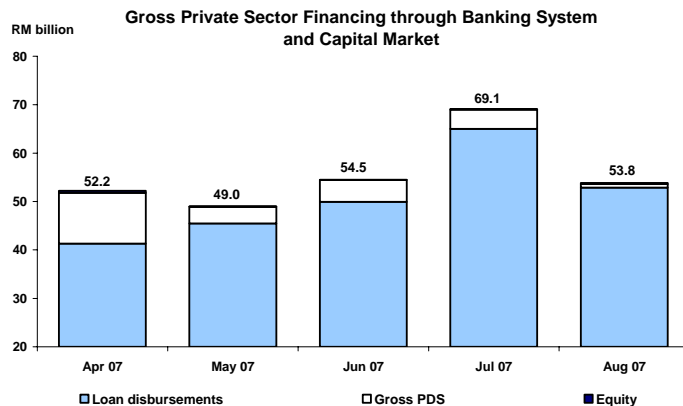
Deposits by Type (RM million)

	Change during period			
	May 07	Jun 07	Jul 07	Aug 07
Fixed deposits	6,079	-1,315	3,606	-5,243
NIDs	1,538	-16,757	-18,354	-7,179
Demand deposits	1,551	2,570	1,312	781
Savings deposits	-193	938	471	63
Repos	-4,437	-29,221	-31,375	-2,495
FX deposits	-1,883	2,096	-561	418
SPI deposits	2,620	96	1,240	2,011
Others ¹	1,721	28,252	38,039	6,640
Total	6,996	-13,341	-5,621	-5,004

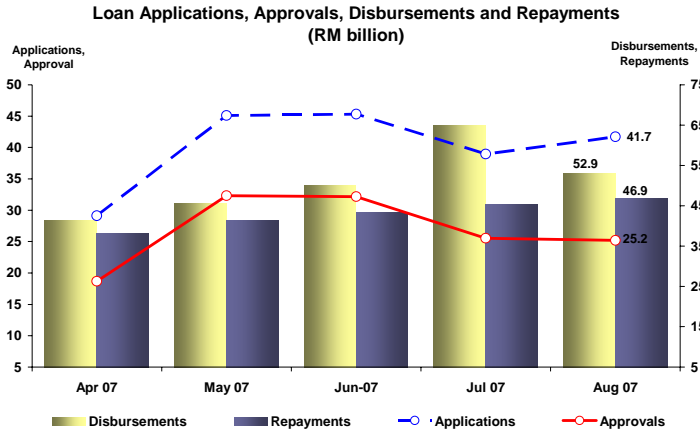
1/ Other deposit comprise of mainly short-term deposits

Financing to the private sector

In August, gross financing to the private sector through the banking system and capital market amounted to RM53.8 billion (July: RM69.1 billion). After the relatively higher level recorded in the previous month, gross financing remained strong amid firm growth in banking system loan disbursements during the month. On a net basis, financing of the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 8.0% (July: 7.9%).



Gross private sector financing amounted to RM53.8 billion



Major loan indicators remained relatively stable during the month

Bank lending indicators

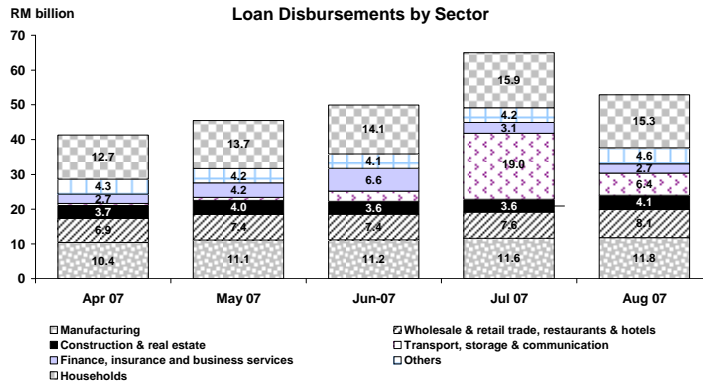
	RM billion		Annual Growth (%)	
	July	August	July	August
Overall				
Loan applications	39.0	41.7	55.5	52.5
Loan approvals	25.5	25.2	77.4	54.5
Loan disbursements	65.0	52.9	48.6	26.5
Chg in Loans Outstanding ^{1/}	17.7	5.4	8.2	8.6
Businesses^{2/}				
Loan applications	21.2	22.3	59.4	51.7
Loan approvals	14.4	13.4	109.0	71.8
Loan disbursements	49.2	37.7	55.2	27.4
Chg in Loans Outstanding ^{1/}	15.8	2.8	12.2	12.8
SMEs				
Loan applications	9.0	9.9	61.3	47.8
Loan approvals	5.6	5.3	93.6	30.0
Loan disbursements	11.7	12.3	1.5	5.2
Chg in Loans Outstanding ^{1/}	0.1	1.3	4.8	5.9
Households				
Loan applications	17.7	19.4	51.3	54.0
Loan approvals	11.1	11.8	48.0	38.8
Loan disbursements	15.8	15.2	31.7	24.6
Chg in Loans Outstanding ^{1/}	3.0	3.4	7.2	7.2

n.a. not applicable

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

^{2/} Following reclassifications under the Financial Institutions Statistical System (FISS) effective April 2006, in order to maintain comparability on an annual basis for loan applications, approvals, and disbursements, the category business enterprises has been expanded to include loans to other customers, namely non-bank financial institutions, Government, domestic non-business entities and foreign entities. These loans account for a relatively small share of the total compared with business enterprises. Trend wise, growth rates remain similar to those under the previous definition.

Loan indicators for the business and household sectors continued to register positive annual growth rates



Loan disbursements remained broad-based

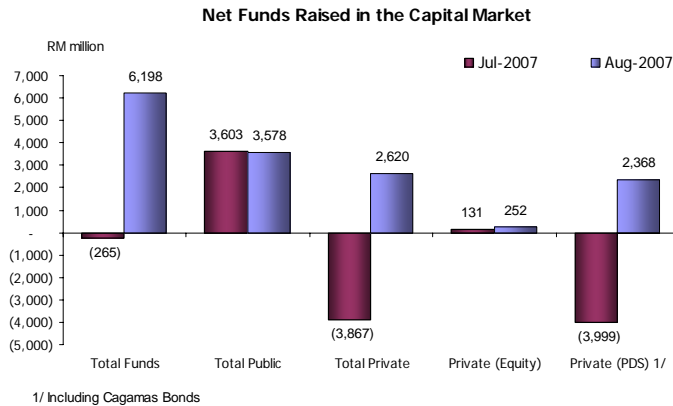
The major loan indicators for the business and household sectors continued to register positive annual growth rates in August. In the business sector, positive growth rates in loan applications and approvals were observed across SMEs and large businesses, with loans applied and approved on account of the manufacturing; finance, insurance, real estates and business services; and agriculture sectors. Business loan disbursements were lower, mainly because of a one-off factor in July, namely the large drawdown of loans under a syndicated bridging loan facility. Meanwhile, household loan disbursements remained relatively steady, with loans disbursed mainly for the purchase of residential property and to a lesser extent, for the purchase of passenger cars.

Total loans outstanding expanded by 8.6% on an annual basis as at end-Aug (end-July: 8.2%). Loans outstanding to businesses and households expanded at annual growth rates of 12.8% and 7.2% respectively (end-July: 12.2% and 7.2% respectively).

Higher net funds raised in the capital market

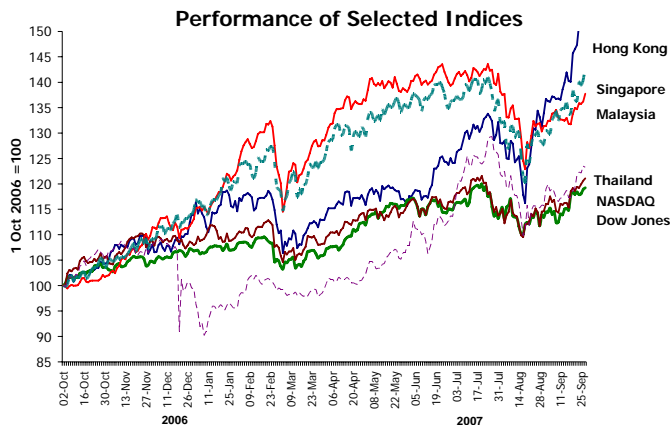
Net funds raised in the capital market in August amounted to RM6.2 billion, an improvement from the net redemption position of RM265 million recorded in the previous month. The public sector raised the bulk of the funds through the reopening of the 3-year MGS. In total, net funds raised by the public sector amounted to RM3.6 billion. Meanwhile, gross funds raised by the private sector amounted to RM4.0 billion. The bulk of the funds were raised through the issuance of private debt securities (PDS). The finance and telecommunications sector accounted for 81 percent of total PDS issuances. In the equity market, funds

raised through initial public offerings (IPOs) recorded an increase from RM131 million in July to RM252 million in August. After adjusting for redemption, net funds raised in the private sector amounted to RM2.6 billion in August.



KLCI rebounded following the correction in global equity markets

In August 2007, the KLCI fell by 7.26% from the previous month as the US sub-prime mortgage default turmoil spread to financial markets globally and across the Asian region. The KLCI hit a low of 1,191.6 on 17 August but has since recovered to close at 1,273.9 as at end August, as domestic market fundamentals continued to remain intact. Market capitalisation declined to RM985 billion (since end-July: RM1,077.3 billion), while the daily average turnover decreased to 1,232.5 million units (July: 1,510.8 million units).

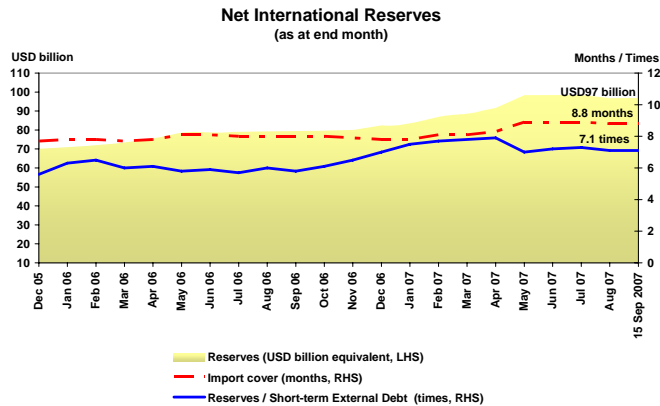


Regional equity markets rebounded after global market correction

As at 27 September 2007, the KLCI closed higher at 1,335.7 points (since end-August: 4.8%). Overall market capitalisation was higher at RM1,030.1 billion (since end-August: 4.6%) and trading activity lower with a daily average turnover of 942.8 million units.

International reserves

The international reserves of Bank Negara Malaysia amounted to RM334.1 billion (equivalent to USD96.8 billion) as at 30 August 2007. As at 15 September 2007, the reserves increased to RM334.9 billion or an equivalent of USD97 billion. The reserves position is sufficient to finance 8.8 months of retained imports and is 7.1 times the short-term external debt.



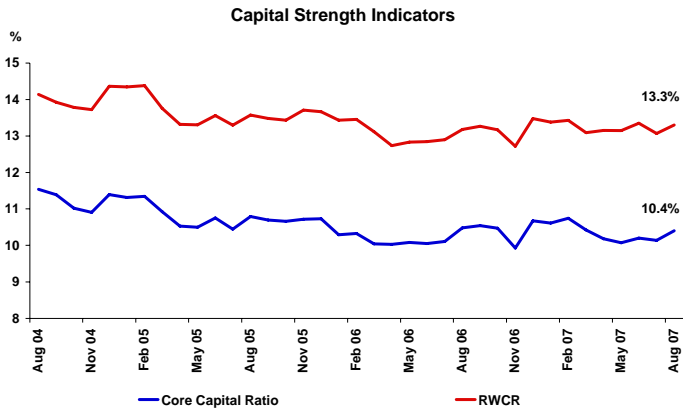
Strong capitalisation amidst further improvement in non-performing loans

Capitalisation of the banking system remained strong. Both risk-weighted capital ratio (RWCR) and core capital ratio strengthened to 13.3% and 10.4% respectively as at end August 2007. This was due mainly to the inclusion of retained profits by a large bank that outpaced the more moderate 0.9% growth in the risk-weighted assets. Further improvements continued to be recorded in the level of non-performing loans (NPLs). The ratio eased further to 3.6% of net loans. This positive development was driven by a 19% reduction in new NPL's amidst continuous loan write-offs, particularly in the construction, manufacturing and retail sectors.

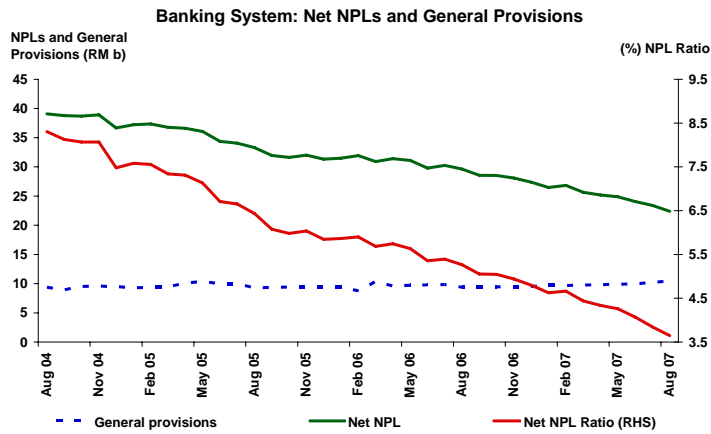
Banking System Health Indicators

	2000	2001	2002	2003	2004	2005	2006	Jun 07	Jul 07	Aug 07
Capital (%)										
Core capital ratio	10.7	11.1	11.1	11.1	11.4	10.7	10.7	10.2	10.1	10.4
RWCR	12.5	13.0	13.2	13.8	14.4	13.7	13.5	13.3	13.1	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	4.1	3.8	3.6
Amount (RM million)	37,678	46,254	43,110	40,013	36,668	31,332	27,360	24,067	23,412	22,389
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 healthy...



... whilst level of NPLs decline further

Key Monetary and Financial Statistics

	Jun 07		Jul 07		Aug 07		
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth	
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)	
Monetary Aggregates							
Reserve money	59.1	10.6	59.3	10.4	61.8	13.2	
M1	149.4	16.2	152.3	18.5	154.3	17.8	
M2	750.0	13.0	758.7	13.3	760.6	11.7	
M3	788.6	12.6	799.9	13.4	801.6	11.8	
Banking System							
Total deposits	839.8	16.2	834.2	14.2	829.1	12.2	
Total loans (including loans sold to Cagamas)	614.0	6.0	631.7	8.2	637.1	8.6	
Loan-deposit ratio (%)		70.6		73.4		74.6	
Financing-deposit ratio ¹ (%)		79.2		81.8		83.0	
Loans applied (during the period)	45.3	78.7	39.0	55.5	41.7	52.5	
Loans approved (during the period)	32.2	80.6	25.5	77.4	25.2	54.5	
Loans disbursed (during the period)	50.0	13.1	65.0	48.6	52.9	26.5	
Loans repaid (during the period)	43.4	11.9	45.4	17.0	46.9	18.0	
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.3		13.1		13.3	
Net NPLs: 3-month classification (%)		4.1		3.8		3.6	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		339.8		340.0		334.1	
Net Reserves in USD billion (equivalent)		98.4		98.5		96.8	
Months of retained imports		8.9		8.9		8.8	
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 [3.49]	
	1-week	3.53 [3.52]		3.52 [3.52]		3.51 [3.52]	
	1-month	3.55 [3.54]		3.57 [3.55]		3.55 [3.54]	
Fixed deposits of commercial banks:	1-month	3.09		3.08		3.08	
	3-month	3.17		3.15		3.15	
BLR of commercial banks		6.72		6.72		6.72	
ALR of commercial banks		6.49		6.34		6.35	
Prices							
Consumer Price Index (CPI) (2005=100)		105.3	1.4	105.7	1.6	105.9	1.9
Producer Price Index (PPI) (2000=100)		131.5	3.0	132.2	2.6	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.4545		3.4540		3.5035	
Euro		4.6425		4.7380		4.7860	
Pound Sterling		6.9171		7.0197		7.0601	
100 Japanese yen		2.8000		2.9044		3.0259	
Singapore dollar		2.2547		2.2851		2.3007	
100 Thai Baht		10.000		10.211		10.205	
100 Philippine Peso		7.4692		7.6180		7.5062	
100 Indonesian Rupiah		0.0382		0.0376		0.0372	
100 Korean Won		0.3732		0.3756		0.3728	
Capital Market							
Net funds raised (in RMb) by:	public	5.0		3.6		3.5	
	private	3.9		-3.9		2.6	
Bursa Malaysia Composite Index (end-period)		1,354.4		1,373.7		1,273.9	
Bursa Malaysia Market Capitalisation (RMb, end-period)		1,088.3		1,077.3		985.0	

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