BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 08/07/08

EMBARGO: Not for publication or broadcast before 1800 hours on Wednesday, 29 August 2007

Monetary and Financial Developments July 2007
Highlights of the Press Release

- Net financing of the private sector increased significantly in July, supported mainly by increases in loan outstanding to the business sector.
- Average lending rates moderated in July.
- Headline inflation increased to 1.6%, reflecting the impact of higher excise duty on tobacco products.
- The net NPL ratio of banking institutions improved further to 3.8% in July.

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MONETARY AND FINANCIAL DEVELOPMENTS JULY 2007

In July, financing of the private sector through banking system loans and private debt securities (PDS) outstanding expanded at a combined annual rate of 8.2%. During the month, a large syndicated bridging loan contributed to the higher growth of 12.3% in loans outstanding to businesses. Combined with sustained expansion in loans outstanding to households, the overall total loans outstanding grew significantly by 8.2% on an annual basis. Total net funds raised in the capital market recorded a net redemption of RM265 million in July.

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

During the period 1 July – 28 August 2007, the ringgit exchange rate reflected two-way trade and investment flows. Over the period 1 – 24 July, the ringgit appreciated amidst the release of positive economic data. After appreciating in the first half of the year, since 25 July, the ringgit has depreciated against the major currencies together with other regional currencies as funds shifted from debts and equities, following the uncertainties arising from developments in the subprime market in the US and global credit markets. For the period as a whole, the ringgit depreciated against the major currencies in the range of 1.2% - 7.5%, and recorded a mixed performance against the regional currencies.

Headline inflation, as measured by the annual change in the Consumer Price Index (CPI) increased to 1.6% in July. The higher inflation rate in the *alcoholic beverages and tobacco* category reflected the impact of higher excise duty on tobacco products.

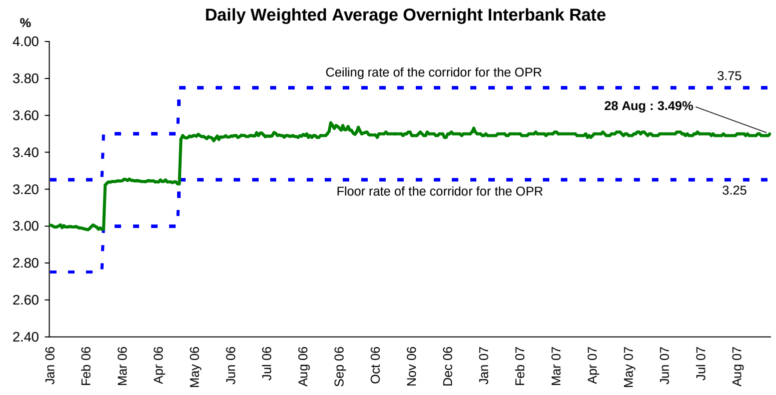
Narrow money, or M1, increased at a higher pace of 18.5% in July, due to higher placements of demand deposits during the month. Broad money or M3, expanded at a higher annual rate of 13.4%. On a month-on-month basis, M3 expanded mainly on account of higher claims on the private sector and expansionary Government operations.

The banking system's capitalisation remained strong with the risk-weighted capital ratio (RWCR) at 13%. The net NPL ratio improved further to 3.8%. The improvement was due mainly to the reclassification of NPLs to performing status and the continued write-offs by banking institutions.

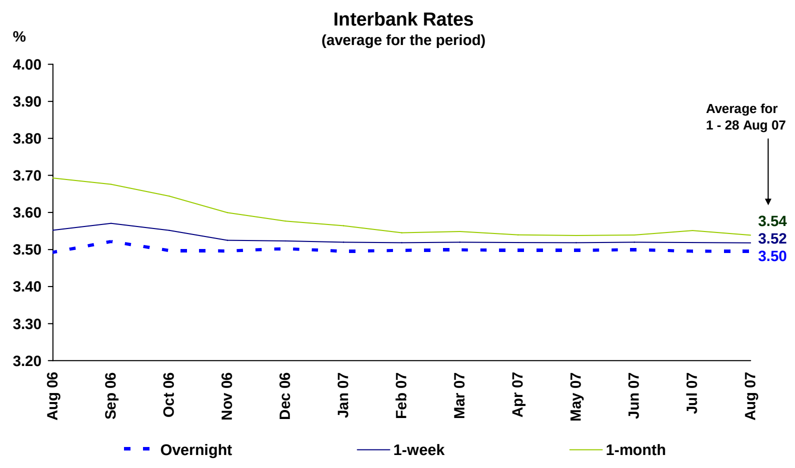
Average lending rate lower

During the period 1 July – 28 August, the daily weighted average overnight interbank rate moved within a narrow range of 3.49% - 3.51%. Interbank rates of other maturities also remained relatively stable.

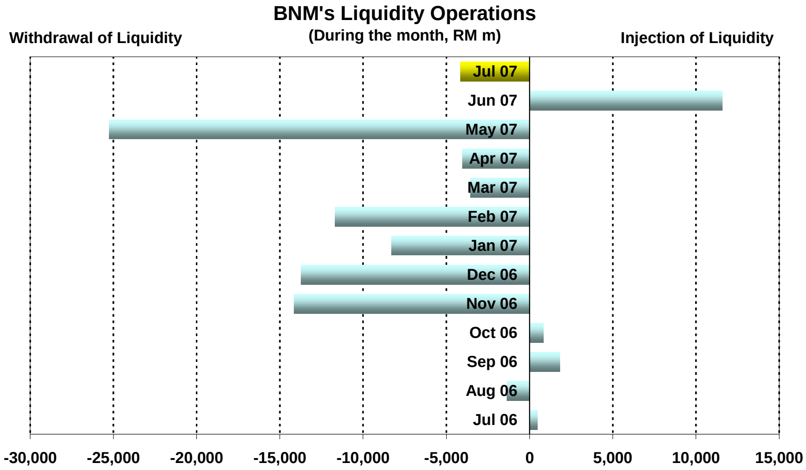
The average fixed deposit (FD) rates of commercial banks (CBs) remained relatively unchanged in July and August. As at 15 August 2007, the average quoted FD rates for tenures between 1 and 12 months were 3.08% and 3.70% respectively. In terms of CBs' lending rates, the average base lending rate (BLR) was unchanged at 6.72%, while the average lending rate (ALR) was considerably lower at 6.34% in July (6.49% in June), largely reflecting the disbursement of lower priced syndicated bridging loans.



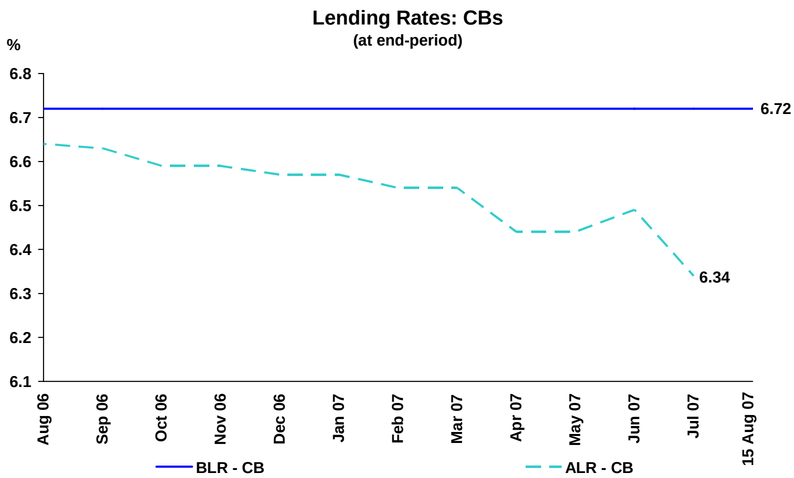
The average overnight interbank rate moved within a narrow range



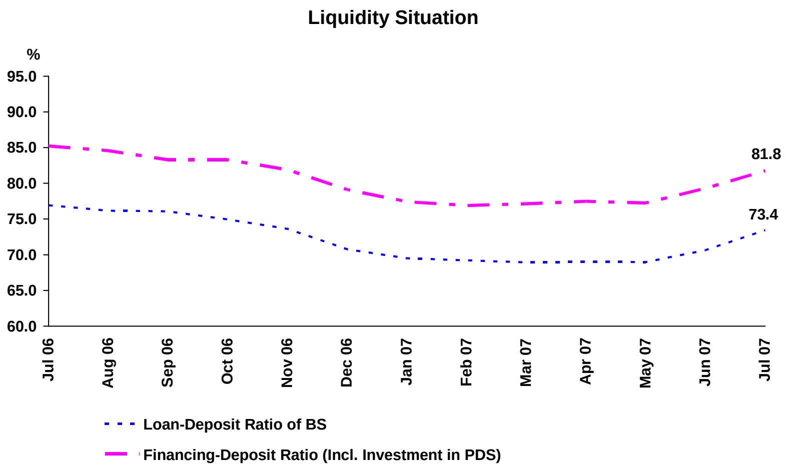
Other interbank rates remained relatively stable



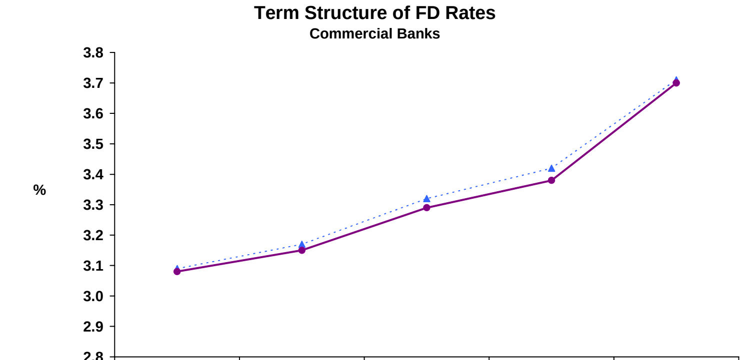
The Central Bank absorbed liquidity from the system in July



CBs' ALR decreased in July, largely reflecting the disbursement of lower priced syndicated bridging loans

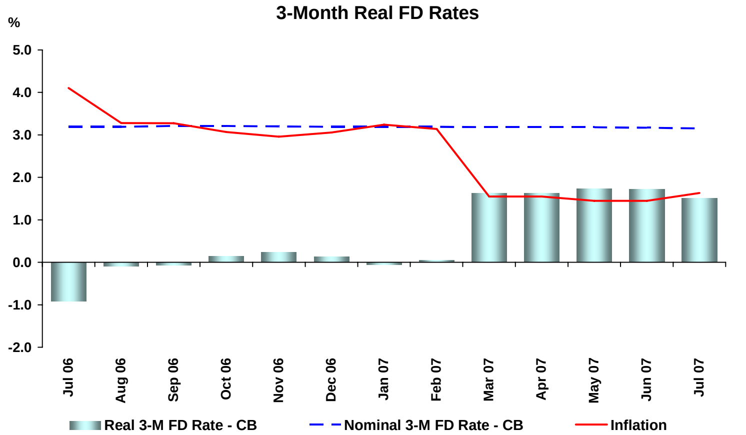


The financing-deposit and loan-deposit ratios increased in July due to a decline in deposits whilst financing continued to grow at a steady pace



	1-month	3-month	6-month	9-month	12-month
Jun 07	3.09	3.17	3.32	3.42	3.71
Jul 07	3.08	3.15	3.29	3.38	3.70
15 Aug 07	3.08	3.15	3.29	3.38	3.70

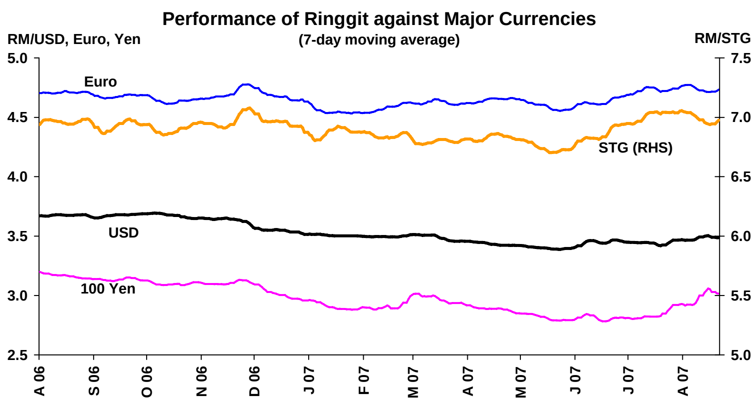
Average FD rates were marginally lower



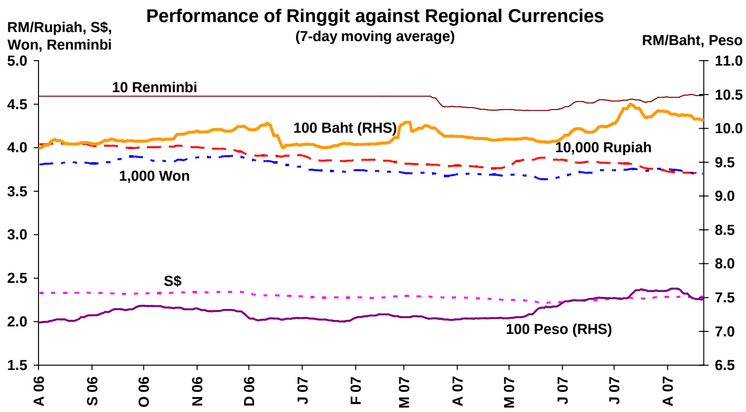
The real 3-month FD rate moderated due to a marginal increase in inflation

Mixed performance of the ringgit

During the period 1 July – 28 August 2007, the ringgit exchange rate reflected two-way trade and investment flows. Over the period 1 – 24 July, the ringgit appreciated amidst the release of positive economic data. Since 25 July, the ringgit has depreciated against the major currencies together with other regional currencies, due to a shift in asset allocation from debts and equities by global investors, following the developments in the US subprime and housing markets and global credit markets. For the period as a whole, the ringgit depreciated against the major currencies in the range of 1.2% - 7.5%, and recorded a mixed performance against the regional currencies.



Ringgit depreciated against the US dollar



Ringgit depreciated against several regional currencies

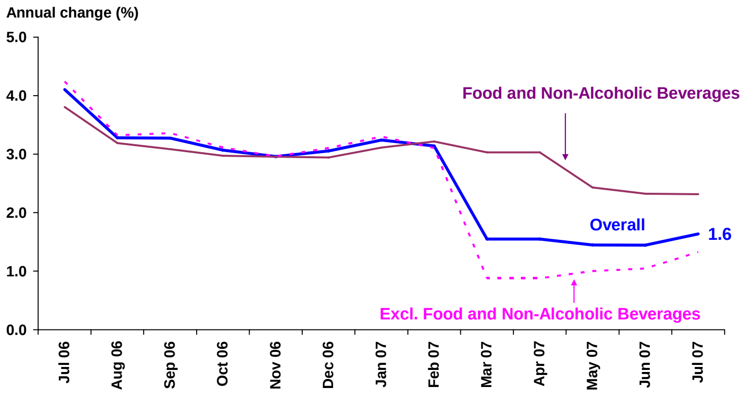
Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change	
	Dec 06	Jun 07	Jul 07	28 Aug 07	End Dec 06 - 28 Aug 07	End Jun 07 - 28 Aug 07
US dollar	3.5315	3.4545	3.4540	3.4965	1.0	-1.2
Euro	4.6460	4.6425	4.7380	4.7659	-2.5	-2.6
Pound sterling	6.9315	6.9171	7.0197	7.0170	-1.2	-1.4
100 Japanese yen	2.9675	2.8000	2.9044	3.0274	-2.0	-7.5
Singapore dollar	2.3028	2.2547	2.2851	2.2970	0.3	-1.8
100 Thai baht	9.8111	10.0000	10.2114	10.1583	-3.4	-1.6
100 Philippine peso	7.2027	7.4692	7.6180	7.4815	-3.7	-0.2
100 Indonesian rupiah	0.0393	0.0382	0.0376	0.0372	5.6	2.7
100 Korean won	0.3797	0.3732	0.3756	0.3717	2.2	0.4
Chinese renminbi	0.4523	0.4535	0.4566	0.4625	-2.2	-1.9

Headline inflation increased to 1.6%

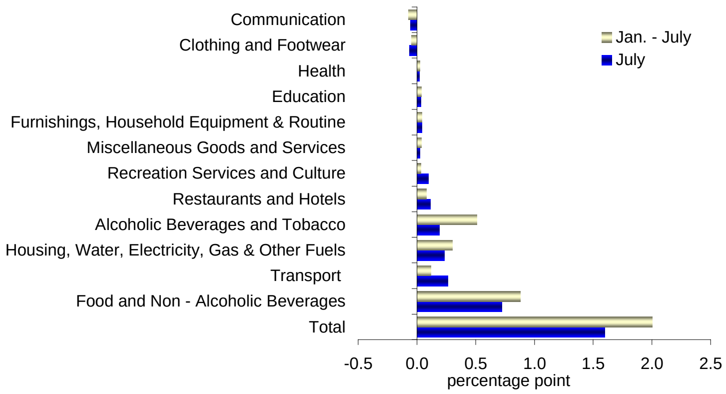
Headline inflation, as measured by the annual change in the Consumer Price Index (CPI), increased to 1.6% in July 2007. Following the Government's imposition of a higher excise duty on tobacco products during the month, the inflation rate for the *alcoholic beverages and tobacco* category increased to 13.9% in July 2007 from 4.7% in June. As a result, tobacco prices contributed 0.3 percentage points to headline inflation in July 2007. The inflation rate for *food and non-alcoholic beverages* remained unchanged at 2.3% in July. Nevertheless, items in the *clothing and footwear* and *communication* categories continued to experience declining prices, thereby moderating the overall increase in the CPI.

Consumer Price Index



Inflation increased to 1.6% in July

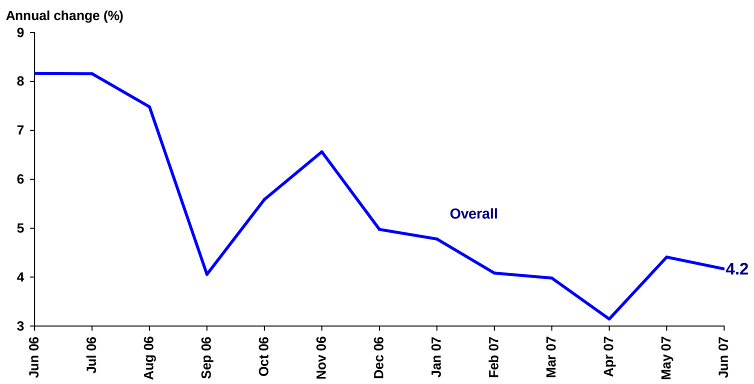
Contribution to Consumer Price Inflation



Pace of growth in Producer Price Index moderated in June

In June, the pace of growth in Producer Price Index (PPI) moderated to 4.2% (May: 4.4%). The higher inflation in the commodity-related sector driven by the sustained increases in commodity prices, was partially offset by the slowing inflation rate in the non-commodity-related sector.

Producer Price Index



Pace of growth in the PPI moderated in June

M3 expanded on an annual basis

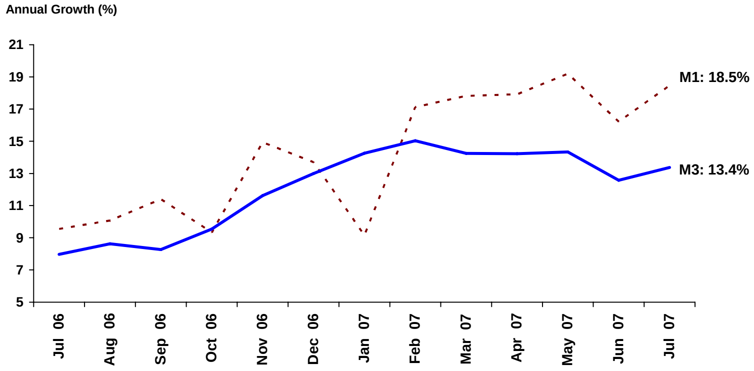
Narrow money, or M1, increased at a higher pace of 18.5% in July (June: 16.2%), due to higher placements of demand deposits during the month. Broad money, or M3, expanded by 13.4% (June: 12.6%). On a month-on-month basis, M3 expanded mainly on account of higher claims on the private sector. Government operations also contributed to the expansion in M3, following larger development expenditure in July coupled with the salary increase for civil servants.

M3 Determinants
(RM billion)

	Change during period			
	Apr 07	**May 07**	**Jun 07**	**Jul 07**
M3	7.3	2.8	-10.6	11.3
Net claims on Government	-5.4	-7.2	-8.1	5.8
Claims on the private sector	5.7	2.8	7.0	17.0
Loans	*3.1*	*3.8*	*6.0*	*17.1*
Securities	*2.6*	*-1.0*	*1.1*	*-0.1*
Net external operations *	22.9	24.2	-6.4	-3.9
Other influences	-15.9	-17.0	-3.2	-7.6

* 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.

Monetary Aggregates



Banking system deposits lower in July

In July, total deposits with the banking system declined by RM5.6 billion resulting in a marginally slower pace of growth of 14.2% on an annual basis (June: 16.2%). During the month, there was a large increase in “other deposits” as a result of depositors switching from repos (repurchase agreements) into short-term money market deposits. Short-term money market deposits is a new instrument that offers institutional customers greater flexibility in cash flow management, with attractive interest returns. There were also non-rollover of negotiable instruments of deposits (NIDs) held by financial institutions.

Deposits by Holder
(RM million)

	Change during period			
	Apr 07	May 07	Jun 07	Jul 07
Federal Government	383	-492	4,116	-1,732
State Governments	364	-100	-265	643
Statutory Authorities [1]	-326	2,942	-3,047	791
Financial Institutions	-7,152	3,193	-14,978	-11,737
Business Enterprises	6,957	-769	2,516	5,813
Individuals	3,338	2,955	1,590	1,166
Others [2]	731	-733	-3,287	-550
Total	4,295	6,996	-13,355	-5,607

1/ Include local Governments

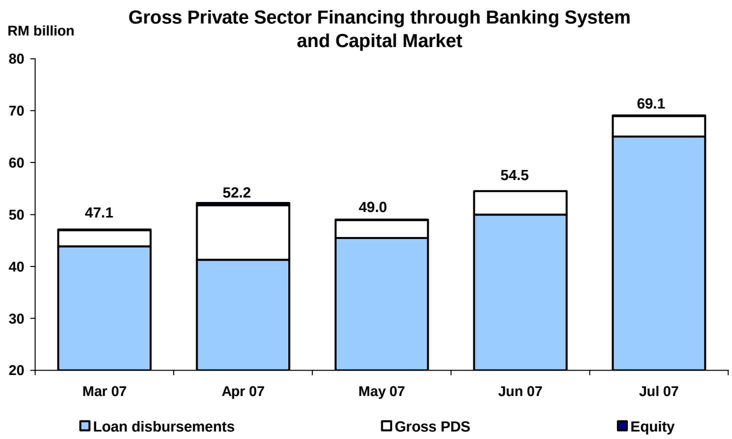
2/ Consist of domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

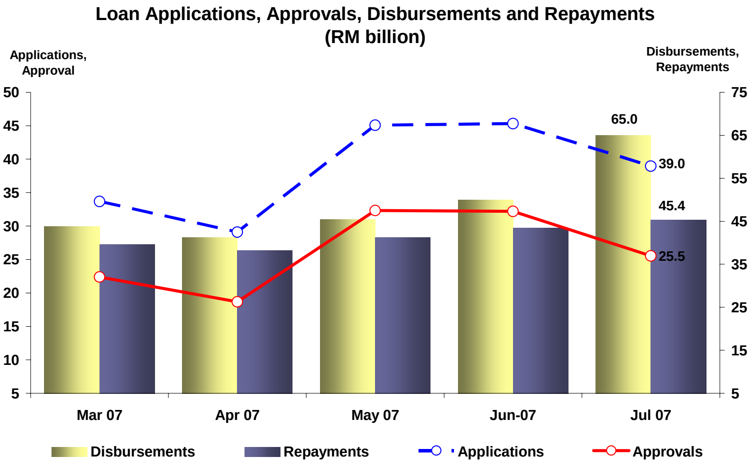
	Change during period			
	Apr 07	May 07	Jun 07	Jul 07
Fixed deposits	1,316	6,079	-1,315	3,606
NIDs	-2,133	1,538	-16,757	-18,354
Demand deposits	3,091	1,551	2,570	1,312
Savings deposits	734	-193	938	471
Repos	-13,368	-4,437	-29,221	-31,375
FX deposits	965	-1,883	2,096	-561
SPI deposits	3,047	2,620	81	1,254
Others	10,642	1,721	28,252	38,039
Total	4,295	6,996	-13,355	-5,607

Higher gross private sector financing

In July, gross financing to the private sector was higher at RM69.1 billion (June: RM54.5 billion) supported by higher loan disbursements. On a net basis, financing of the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 8.2% (June: 6%).



Gross private sector financing supported by higher loans disbursements



Record high loan disbursements due to drawdown on large syndicated bridging loans

Bank lending indicators

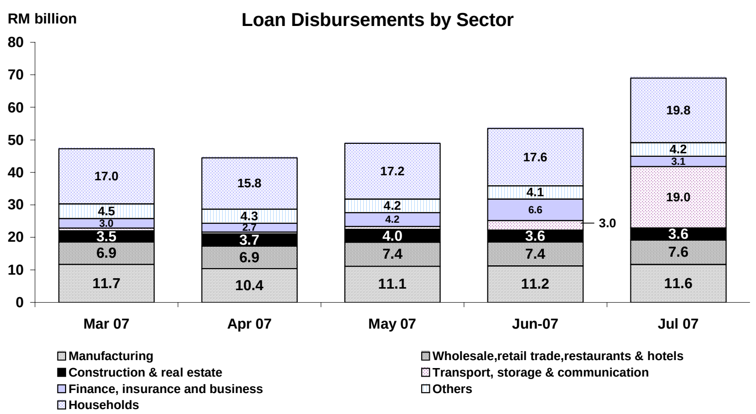
	RM billion		Annual Growth (%)	
	June	July	June	July
Overall				
Loan applications	45.3	39.0	78.7	55.5
Loan approvals	32.2	25.5	80.6	77.4
Loan disbursements	50.0	65.0	13.1	48.6
Chg in Loans Outstanding[1/]	5.6	17.7	6.0	8.2
Businesses[2/]				
Loan applications	29.3	21.2	116.0	60.4
Loan approvals	21.7	14.4	115.7	110.3
Loan disbursements	35.9	49.2	12.9	55.1
Chg in Loans Outstanding[1/]	2.7	15.8	6.0	12.3
SMEs				
Loan applications	8.6	9.0	49.6	64.3
Loan approvals	5.7	5.5	72.7	96.3
Loan disbursements	12.0	11.6	8.9	1.0
Chg in Loans Outstanding[1/]	0.1	0.6	3.9	3.8
Households				
Loan applications	16.1	17.7	36.0	49.9
Loan approvals	10.5	11.2	35.0	47.7
Loan disbursements	14.1	15.9	13.7	31.7
Chg in Loans Outstanding[1/]	2.0	2.5	7.2	7.1

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 similiar to those under the previous definition.

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



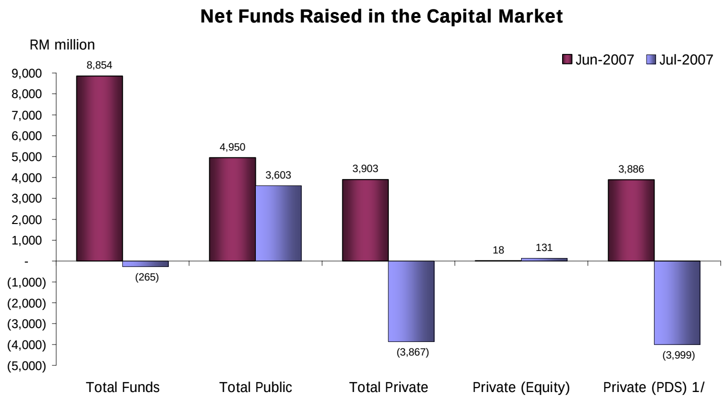
Loan disbursements remained broad-based

The major loan indicators for the business and household sectors continued to register positive annual growth rates in July. Loan disbursements increased significantly on an annual basis, reflecting to a large extent, the drawdown of loans approved over May-June under a large syndicated bridging loan facility. This significant increase in business loan disbursements was seen in the transport, storage and communications sector. Notwithstanding the disbursements under the syndicated bridging loan facility, there were also notable increases in loans disbursed to the wholesale and retail trade, and manufacturing sectors. In addition, loans disbursed for the purchase of residential property and to some extent, for the purchase of passenger cars, also contributed to the overall higher loan disbursements during the month.

Total loans outstanding expanded by 8.2% on an annual basis as at end-July (end-June: 6%). Loans outstanding to businesses and households expanded at annual growth rates of 12.3% and 7.1% respectively (end-June: 6.0% and 7.2% respectively).

Gross funds raised in the capital market remained significant

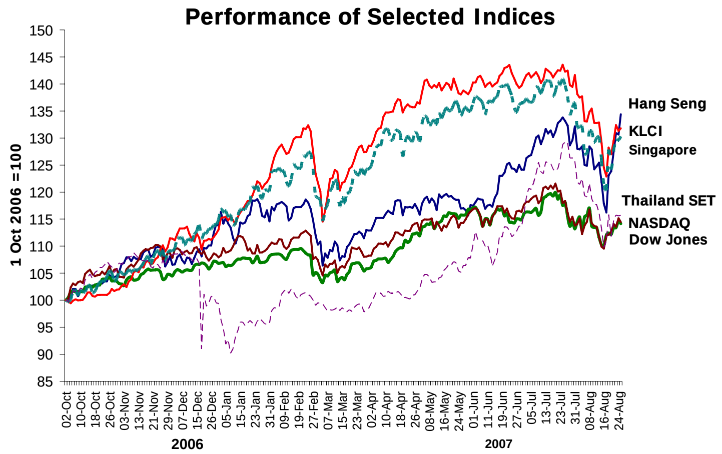
In July, net funds raised in the capital market recorded a net redemption position of RM265 million. A total of RM3.6 billion was raised in the public sector through the reopening of the 10-year Malaysian Government Securities (MGS). Meanwhile, net funds raised in the private sector recorded a net redemption position of RM3.9 billion. Funds raised through private debt securities (PDS) issuances in July were mainly for new activity and refinancing purposes. After adjusting for redemption, funds raised through PDS issuances recorded a net redemption position of RM4.0 billion. In the equity market, funds raised through initial public offerings (IPOs) recorded an increase from RM18 million in June to RM131 million in July, largely through issues in the property sector.



1/ Including Cagamas Bonds

KLCI rose modestly

In July, the KLCI reached a new high of 1,392.18 due to positive domestic developments such as the launching of the Northern Corridor Economic Region masterplan and stronger crude palm oil prices. Towards the end of the month, however, the KLCI underwent a correction to close at 1,373.71 points. The equity market correction was together with the correction in global equity markets, sparked by concerns about the US sub-prime mortgage market. Market capitalisation declined to RM1,077.3 billion (since end-June: -1.0%), while the daily average turnover increased to 1,510.8 million units (June: 1,299.1 million units).

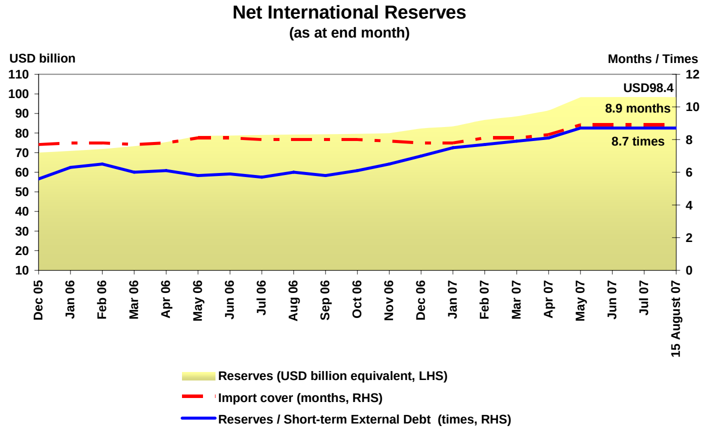


Correction in domestic equity market following developments in the global financial markets

As at 28 August 2007, the KLCI closed lower at 1,278.95 points (since end-July: -6.9%). Overall market capitalisation was lower at RM988.1 billion (since end-July: -8.3%) and trading activities were also lower with the daily average turnover at 1,272.96 million units.

International reserves

The international reserves of Bank Negara Malaysia amounted to RM340 billion (equivalent to USD98.5 billion) as at 31 July 2007. As at 15 August 2007, the reserves amounted to RM339.7 billion or equivalent to USD98.4 billion. The reserves position is sufficient to finance 8.9 months of retained imports and is 8.7 times the short-term external debt.



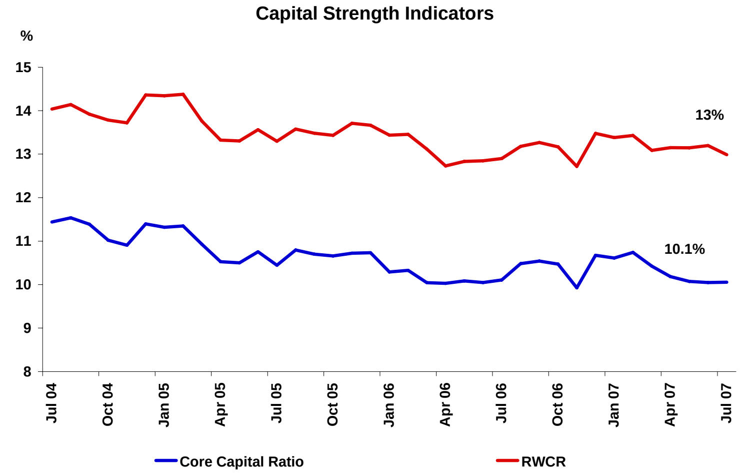
The level of bank capitalisation remained strong with further improvements in asset quality

The level of capitalisation of the banking system remained strong with risk-weighted capital ratio (RWCR) and core capital ratio of 13% and 10.1% respectively as at end-July 2007. Asset quality improved further with the non-performing loans (NPLs) ratio declining 0.3% to account for 3.8% of net total loans. This development was due mainly to the reclassifications of NPLs to performing status and continued loan write-offs by banking institutions.

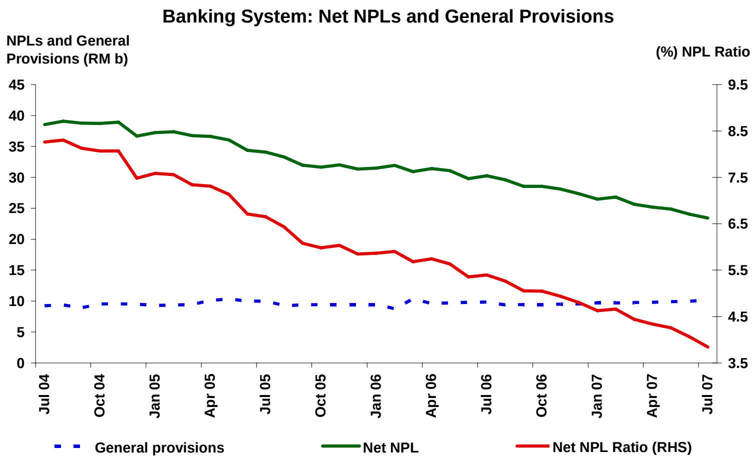
Banking System Health Indicators *

	2000	2001	2002	2003	2004	2005	2006	May 07	Jun 07	Jul 07
Capital (%)										
Core capital ratio	10.7	11.1	11.1	11.1	11.4	10.7	10.7	10.1	10.0	10.1
RWCR	12.5	13.0	13.2	13.8	14.4	13.7	13.5	13.1	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	4.3	4.1	3.8
Amount (RM million)	37,678	46,254	43,110	40,013	36,668	31,332	27,360	24,872	24,034	23,412
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.



Level of capitalisation remained strong…



* based on 3-month classification policy

…whilst level of NPLs improved further

Bank Negara Malaysia
29 August 2007

Key Monetary and Financial Statistics

		May 07		Jun 07		Jul 07	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		58.0	8.7	59.1	10.6	59.3	10.4
M1		149.5	19.2	149.4	16.2	152.3	18.5
M2		762.4	17.4	750.0	13.0	758.7	13.3
M3		799.2	14.3	788.6	12.6	799.9	13.4
Banking System							
Total deposits		853.1	19.0	839.8	16.2	834.2	14.2
Total loans (including loans sold to Cagamas)		608.4	5.9	614.0	6.0	631.7	8.2
Loan-deposit ratio (%)		69.0		70.6		73.4	
Financing-deposit ratio [1] (%)		77.2		79.3		81.8	
Loans applied (during the period)		45.1	65.3	45.3	78.7	39.0	55.5
Loans approved (during the period)		32.3	108.6	32.2	80.6	25.5	77.4
Loans disbursed (during the period)		45.5	7.5	50.0	13.1	65.0	48.6
Loans repaid (during the period)		41.3	9.5	43.4	11.9	45.4	17.0
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.1		13.2		13.0	
Net NPLs: 3-month classification (%)		4.3		4.1		3.8	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		339.5		339.8		340.0	
Net Reserves in USD billion (equivalent)		98.4		98.4		98.5	
Months of retained imports		8.9		8.9		8.9	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.50		3.50		3.50	
Interbank:	Overnight	3.49 [3.50]		3.50 [3.50]		3.49 [3.50]	
	1-week	3.52 [3.52]		3.53 [3.52]		3.52 [3.52]	
	1-month	3.54 [3.54]		3.55 [3.54]		3.57 [3.55]	
Fixed deposits of commercial banks:	1-month	3.10		3.09		3.08	
	3-month	3.18		3.17		3.15	
BLR of commercial banks		6.72		6.72		6.72	
ALR of commercial banks		6.44		6.49		6.34	
Prices							
Consumer Price Index (CPI) (2005=100)		105.1	1.4	105.3	1.4	105.7	1.6
Producer Price Index (PPI) (2000=100)		132.6	4.4	132.5	4.2	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.4045		3.4545		3.4540	
Euro		4.5724		4.6425		4.7380	
Pound Sterling		6.7278		6.9171		7.0197	
100 Japanese yen		2.8004		2.8000		2.9044	
Singapore dollar		2.2265		2.2547		2.2851	
100 Thai Baht		9.8297		10.0000		10.2114	
100 Philippine Peso		7.3778		7.4692		7.6180	
100 Indonesian Rupiah		0.0386		0.0382		0.0376	
100 Korean Won		0.3669		0.3732		0.3756	
Capital Market							
Net funds raised (in RMb) by:	public	3.0		5.0		3.6	
	private	0.6		3.9		-3.9	
Bursa Malaysia Composite Index (end-period)		1,346.9		1,354.4		1,373.7	
Bursa Malaysia Market Capitalisation (RMb, end-period)		1,060.9		1,088.3		1,077.3	

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