



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 07/07/10

**EMBARGO: Not for publication or
broadcast before 1800 hours on
Tuesday, 31 July 2007**

Monetary and Financial Developments June 2007
Highlights of the Press Release

- Headline inflation remained unchanged at 1.4% in June.
- Higher gross private sector financing during the month was supported by increases in loan disbursements and new PDS issuances.
- Net funds raised in the capital market were significantly higher at RM8.9 billion in June.
- The net NPL ratio of banking institutions improved further to 4.1% in June.



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MONETARY AND FINANCIAL DEVELOPMENTS JUNE 2007

In June, financing of the private sector through banking system loans and private debt securities (PDS) outstanding expanded at a combined annual rate of 6.8%. Total loans outstanding expanded by 6.0% on an annual basis, with loans outstanding to businesses and households increasing by 6.0% and 7.2% respectively. The major loan indicators for the business and household sectors continued to register positive annual growth rates.

Total net funds raised in the capital market were significantly higher at RM8.9 billion in June. The bulk of the funds were raised by the public sector through the issuance of the 10-year Government Investment Issues (GII) and the reopening of the 5-year Malaysian Government Securities (MGS). In the private sector, gross funds were raised mainly through the private debt securities (PDS) market.

Both the fixed deposit rates and average base lending rates of commercial banks remained relatively unchanged in June and July. Interbank rates for all maturities were also relatively steady during the period.

During the period 1 June - 30 July 2007, the ringgit exchange rate reflected two-way trade and investment flows. Changing investor sentiments during the period created volatility in capital flows. For the period as a whole, the ringgit depreciated against the major and regional currencies in the range of 1.9% - 4.4%, while appreciating against the Indonesian rupiah by 2.4%.

Headline inflation, as measured by the annual change in the Consumer Price Index (CPI) remained unchanged at 1.4% in June. For the first-half year of 2007, the average inflation rate was 2%.

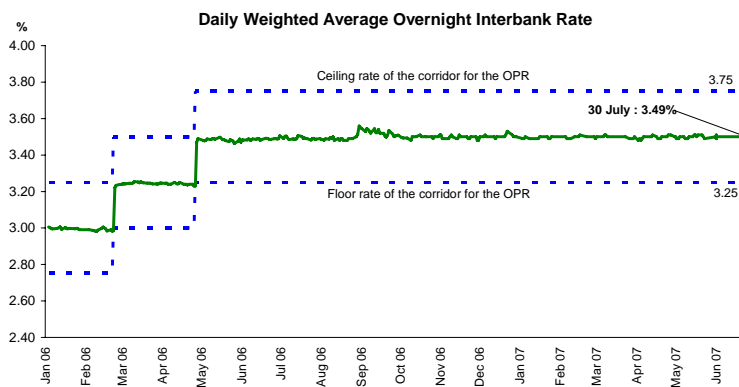
Narrow money, or M1, increased at a slower pace of 16.2% in June, due to lower placements of demand deposits during the month. Broad money or M3, expanded at a lower rate of 12.6% on an annual basis. On a month-on-month basis, M3 declined due mainly to a higher placement of deposits by the Government with Bank Negara Malaysia, as well as the decline in net foreign assets of the banking system.

The banking system's capitalisation remained strong with the risk-weighted capital ratio (RWCR) at 13.1%. The net NPL ratio improved further to 4.1%. The improvement was due mainly to the reclassification of NPLs to performing status, continued write-offs by banking institutions and the sale of NPLs by one banking institution.

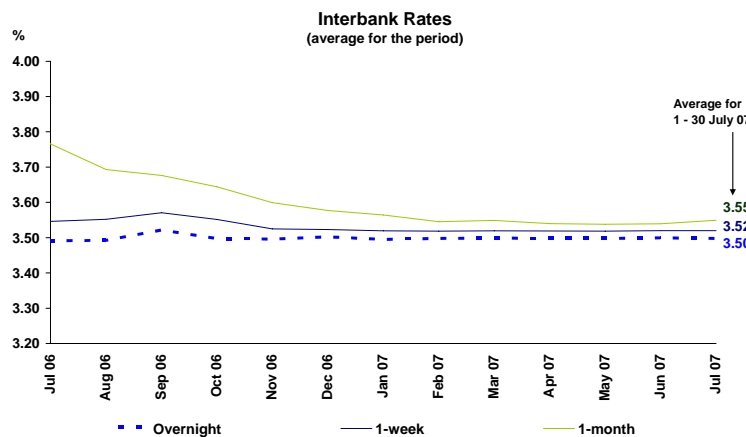
Interest rates remained stable

During the period 1 June – 30 July, the daily weighted average overnight interbank rate moved within a narrow range of 3.48% - 3.51%. Interbank rates of other maturities also remained relatively stable.

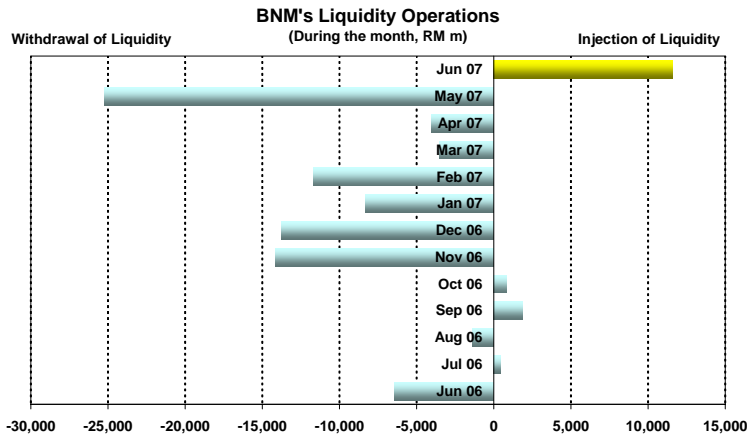
The average fixed deposit (FD) rates of commercial banks (CBs) remained relatively unchanged in June and July. As at 15 July 2007, the average quoted FD rates for tenures between 1 and 12 months were 3.08% and 3.70% respectively. In terms of CBs' lending rates, the average base lending rate (BLR) was unchanged at 6.72%, while the average lending rate (ALR) was marginally higher at 6.49% in June (6.44% in May).



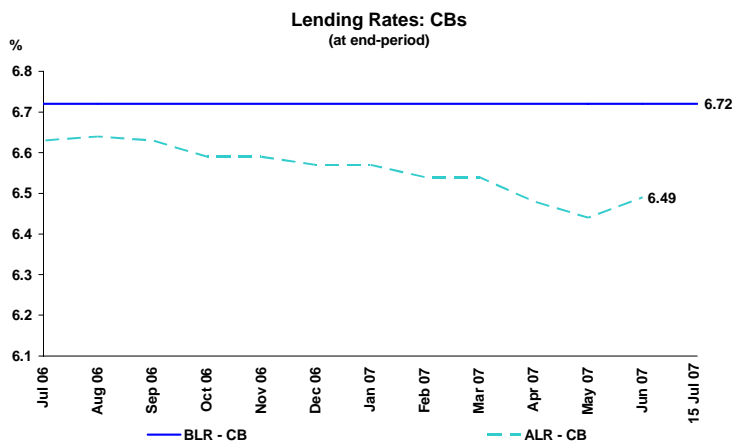
The average overnight interbank rate moved within a narrow range



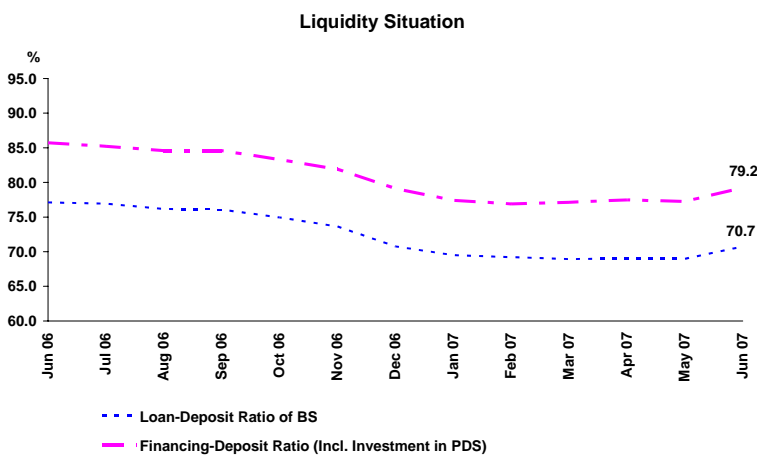
Other interbank rates remained relatively stable



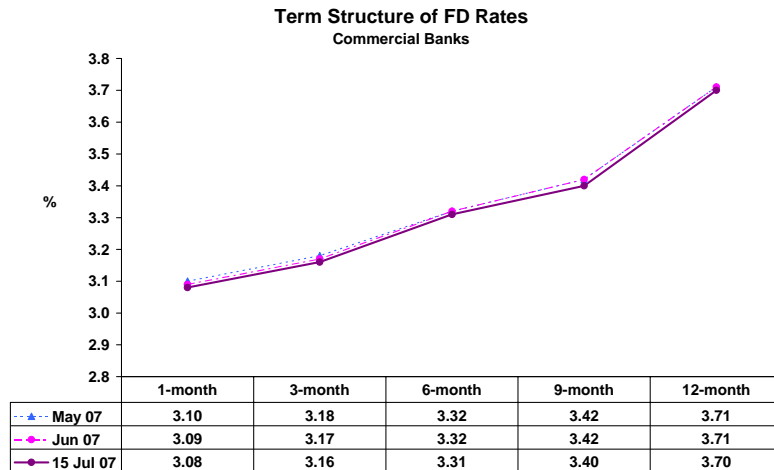
BNM's liquidity operations were expansionary in June to offset deposit placements by the Government and a non-bank financial institution with the Central Bank



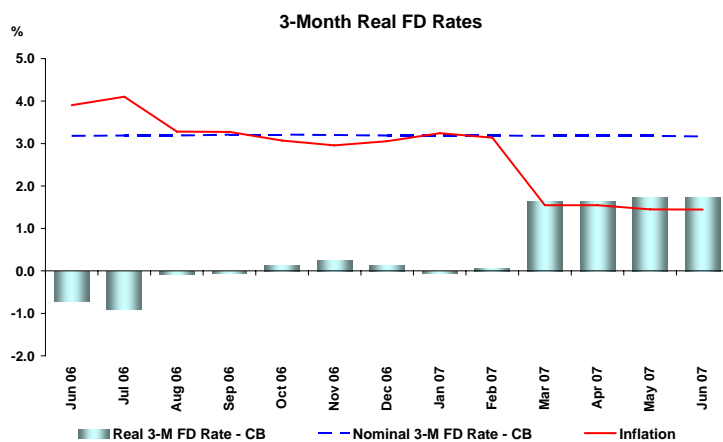
CBs' ALR increased in June



The financing-deposit and loan-deposit ratios increased in June due to a moderation in deposit growth whilst financing continued to grow at a steady pace



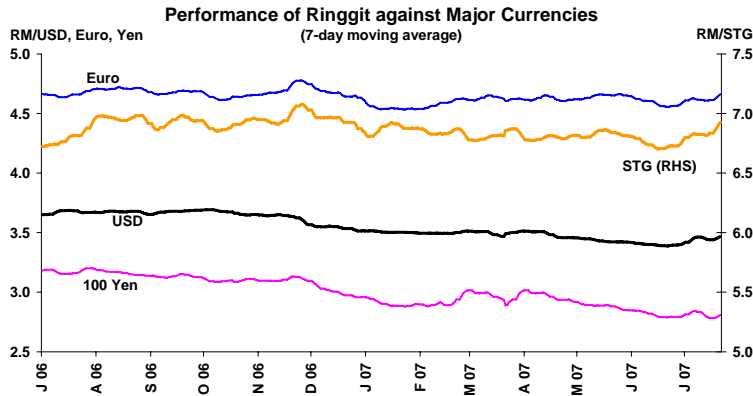
FD rates were relatively unchanged



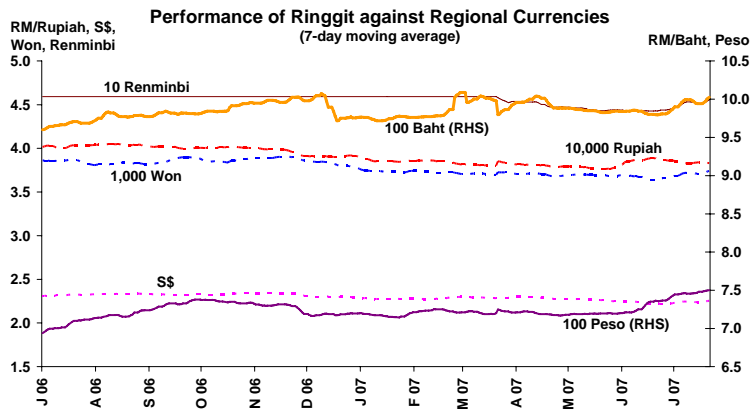
The real 3-month FD rate was relatively stable

Ringgit depreciated against the US dollar

During the period 1 June - 30 July 2007, the ringgit exchange rate reflected two-way trade and investment flows. Changing investor sentiments during the period created volatility in capital flows. Over the period 1 - 27 June, the ringgit weakened following an extended period of appreciation, moving in line with other regional currencies that were also affected by the reassessment of risk in emerging market assets by global investors. From 28 June - 23 July, the ringgit appreciated amidst the release of positive domestic economic data, as well as the recovery of investor sentiment towards the region. The ringgit has since been range bound. For the period as a whole, the ringgit depreciated against the major and regional currencies in the range of 1.9% - 4.4%, while appreciating against the Indonesian rupiah by 2.4%.



Ringgit depreciated against the US dollar



Ringgit depreciated against several regional currencies

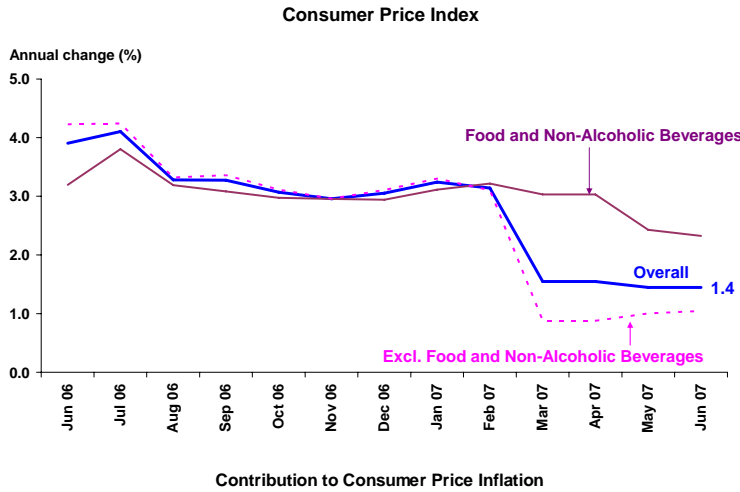
Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change	
	Dec 06	May 07	Jun 07	30 Jul 07	End Dec 06 - 30 Jul 07	End May 07 - 30 Jul 07
US dollar	3.5315	3.4045	3.4545	3.4690	1.8	-1.9
Euro	4.6460	4.5724	4.6425	4.7305	-1.8	-3.3
Pound sterling	6.9315	6.7278	6.9171	7.0204	-1.3	-4.2
100 Japanese yen	2.9675	2.8004	2.8000	2.9269	1.4	-4.3
Singapore dollar	2.3028	2.2265	2.2547	2.2902	0.6	-2.8
100 Thai baht	9.8111	9.8297	10.0000	10.2831	-4.6	-4.4
100 Philippine peso	7.2027	7.3778	7.4692	7.6058	-5.3	-3.0
100 Indonesian rupiah	0.0393	0.0386	0.0382	0.0376	4.3	2.4
100 Korean won	0.3797	0.3669	0.3732	0.3757	1.1	-2.3
Chinese renminbi	0.4523	0.4452	0.4535	0.4583	-1.3	-2.9

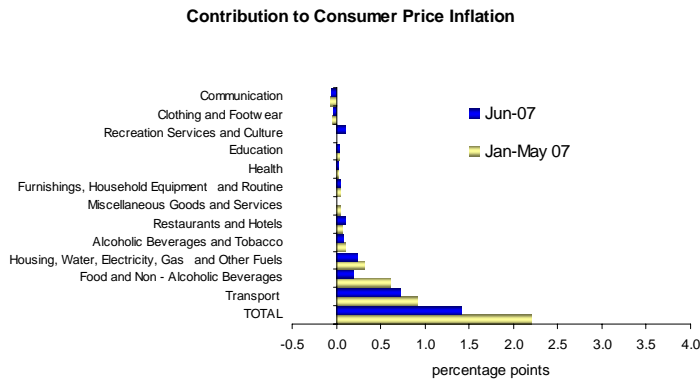
Headline inflation remained unchanged at 1.4%

Headline inflation, as measured by the annual change in the Consumer Price Index (CPI), remained unchanged at 1.4% in June 2007. For the first-half of 2007, the average inflation rate stood at 2%. The main contributors to inflation in June were increases in the prices of *food and non-alcoholic beverages, transport and housing, water, electricity, gas and other fuels*. The inflation rates of *restaurants and hotels and recreation services and culture* categories were also

higher during the month. Meanwhile, the *clothing and footwear* and *communication* categories continued to experience declining prices, thereby moderating the overall increase in the CPI.

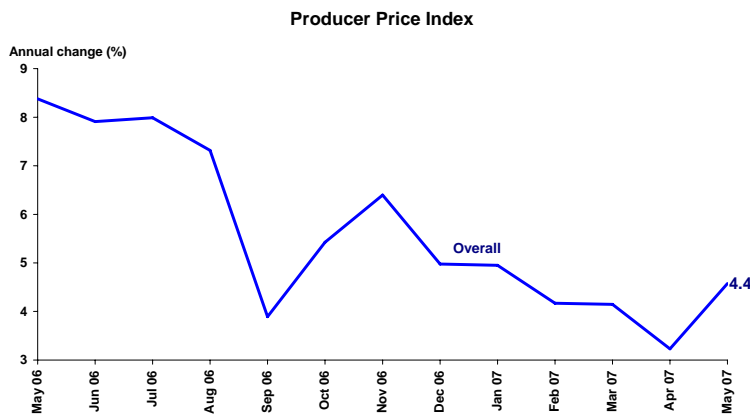


Inflation unchanged at 1.4% in June



Pace of growth in Producer Price Index increased in May

In May, the Producer Price Index (PPI) increased by 4.4% (April: 3.1%) due to higher inflation in the commodity-related sector following increases in commodity prices. Meanwhile, the inflation rate in the non-commodity-related sector remained unchanged.



Pace of growth in the PPI increased in May

M3 expanded at a slower rate

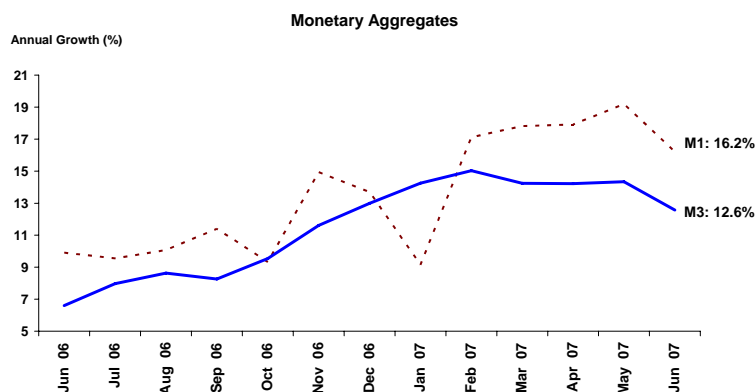
Narrow money, or M1, increased at a slower pace of 16.2% in June (May: 19.2%), due to lower placements of demand deposits during the month. Broad money, or M3, expanded by 12.6% (May: 14.3%). On a month-on-month basis, there was a decline in M3, mainly due to higher placement of deposits by the Government with Bank Negara Malaysia arising from the proceeds of the issuance of Government securities. Net external operations also contributed marginally to the moderation in M3, mainly on account of a decline in net foreign asset of the banking system. Claims on the private sector, on the other hand, were expansionary on broad money, supported by higher loans extended, as well as higher holdings of private debt securities by the banking institutions.

M3 Determinants
(RM billion)

	Change during period			
	Mar 07	Apr 07	May 07	Jun 07
M3	0.1	7.3	2.8	-10.6
Net claims on Government	-2.8	-5.4	-7.2	-8.1
Claims on the private sector	4.8	5.7	2.8	7.0
<i>Loans</i>	3.3	3.1	3.8	6.0
<i>Securities</i>	1.5	2.6	-1.0	1.1
Net external operations *	4.6	22.9	24.2	-6.4
Other influences	-6.5	-15.9	-17.0	-3.2

* 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 were lower in June

After steady increases over the last few months, total deposits with the banking system declined by RM13.4 billion (May: +RM7.0 billion) in June, registering a slower pace of growth of 16.2% on an annual basis (May: 19%). Deposit withdrawals were recorded mainly by financial institutions, in particular domestic non-bank financial institutions (DNBFIs), and to a lesser extent, by

statutory authorities. The decline in deposits partially reflected the withdrawals to purchase the new issuance of Government securities. By type, the decline in deposits was observed in negotiable instruments of deposits (NIDs) and repos, while “other deposits” continued to increase. The increase in “other deposits” was mainly on account of short-term money market deposit products.

Deposits by Holder
(RM million)

	Change during period			
	Mar 07	Apr 07	May 07	Jun 07
Federal Government	1	383	-492	4,116
State Governments	993	364	-100	-265
Statutory Authorities ¹	653	-326	2,942	-3,047
Financial Institutions	6,632	-7,152	3,193	-14,978
Business Enterprises	-7,506	6,957	-769	2,516
Individuals	1,928	3,338	2,955	1,590
Others ²	1,097	731	-733	-3,287
Total	3,798	4,295	6,996	-13,355

1/ Include local Governments

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

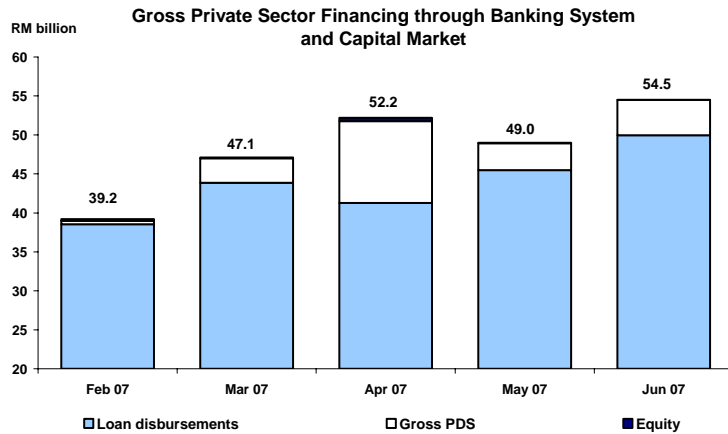
Deposits by Type
(RM million)

	Change during period			
	Mar 07	Apr 07	May 07	Jun 07
Fixed deposits	-366	1,316	6,079	-1,315
NIDs	-4,155	-2,133	1,538	-16,757
Demand deposits	-3,849	3,091	1,551	2,570
Savings deposits	-135	734	-193	938
Repos	6,485	-13,368	-4,437	-29,221
FX deposits	690	965	-1,883	2,096
SPI deposits	2,222	3,047	2,620	81
Others ¹	2,905	10,642	1,721	28,252
Total	3,798	4,295	6,996	-13,355

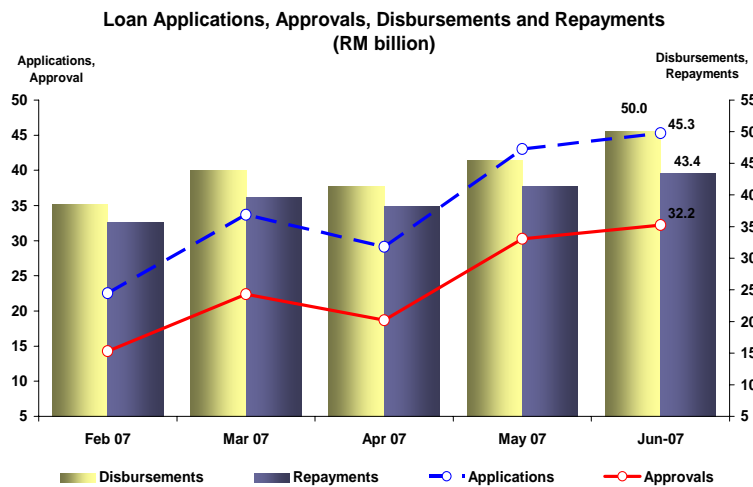
1/ Other deposits comprise of mainly short-term deposits

Higher gross private sector financing

In June, gross financing to the private sector was higher at RM54.5 billion (May: RM49.0 billion) supported by increases in loan disbursements and new PDS issuances 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 6.8% (May: 6.2%).



Gross private sector financing supported by higher loan disbursements and PDS issuances



Major loan indicators were higher during the month

Bank lending indicators

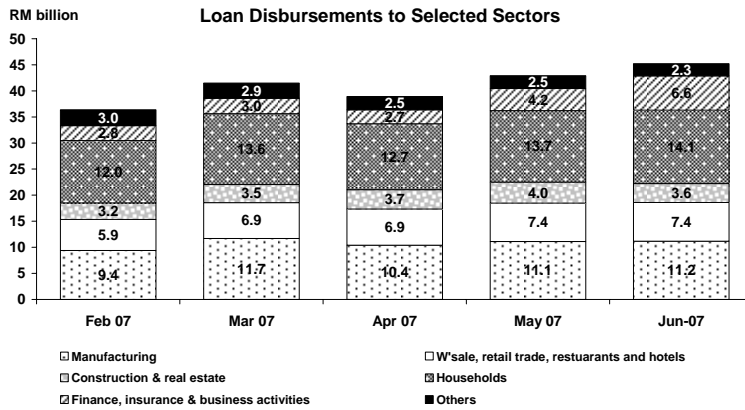
	RM billion		Annual Growth (%)	
	May	June	May	June
Overall				
Loan applications	43.0	45.3	57.8	78.7
Loan approvals	30.3	32.2	95.3	80.6
Loan disbursements	45.5	50.0	7.5	13.1
Chg in Loans Outstanding ^{1/}	3.8	5.6	5.9	6.0
Businesses^{2/}				
Loan applications	25.7	29.3	68.5	116.0
Loan approvals	19.6	21.7	169.5	115.7
Loan disbursements	31.8	35.9	7.2	12.9
Chg in Loans Outstanding ^{1/}	2.6	2.7	6.0	6.0
SMEs				
Loan applications	8.0	8.6	9.2	49.6
Loan approvals	4.6	5.7	35.6	72.7
Loan disbursements	11.7	12.0	3.2	8.9
Chg in Loans Outstanding ^{1/}	1.4	0.1	4.1	3.9
Households				
Loan applications	17.3	16.1	44.1	36.0
Loan approvals	10.6	10.5	29.5	35.0
Loan disbursements	13.7	14.1	8.0	13.7
Chg in Loans Outstanding ^{1/}	1.3	2.0	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



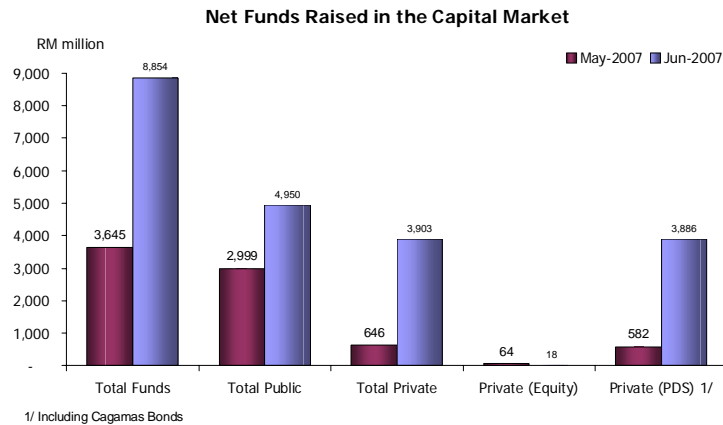
Loan disbursements remained broad-based

The major loan indicators for the business and household sectors continued to register positive annual growth rates in June. The strong positive annual growth rates in business loan applications and approvals were due to a large syndicated bridging loan facility. Loan disbursements to the business sector were notably higher with funds mainly channeled to the transport, storage and communication; and finance, insurance and business services sectors, and to a lesser extent, the manufacturing sector. In the household sector, the positive annual growth rates in the major loan indicators reflected higher demand for housing loans and credit card financing.

Total loans outstanding expanded by 6.0% on an annual basis as at end-June (end-May: 5.9%). Loans outstanding to businesses and households expanded at annual growth rates of 6.0% and 7.2% respectively (end-May: 6.0% and 7.2% respectively).

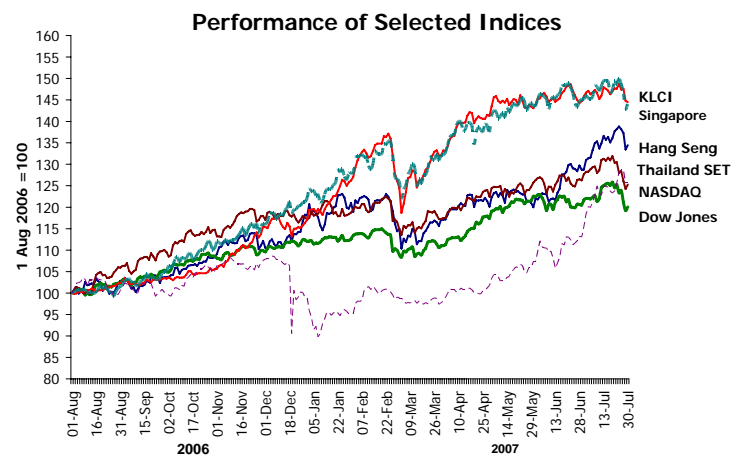
Funds raised in the capital market rose significantly

In June, net funds raised in the capital market amounted to RM8.9 billion, significantly higher than the RM3.6 billion raised in the month of May. The public sector raised the bulk of the funds through the issuance of the 10-year Government Investment Issues (GII) and the reopening of the 5-year Malaysian Government Securities (MGS). After adjusting for redemption, the net funds raised in the public sector amounted to RM5 billion. In the private sector, total gross funds raised were RM4.5 billion, mainly through 2 issuances of private debt securities (PDS), one of which was from a Special Purpose Vehicle (SPV) in the manufacturing sector. After adjusting for redemption, net funds raised in the private sector amounted to RM3.9 billion, a substantial increase from the RM 646 million raised in May.



The KLCI improved further in June

The KLCI ended June at 1,354.38 points or 0.56% higher compared to end-May, despite concerns from rising global interest rates and higher crude oil prices. The market was supported by Malaysia's strong economic fundamentals and the stronger performance of regional markets. Market capitalisation rose to RM1,088.28 billion (since end-May: 2.58%), while the daily average turnover increased to 1,299.13 million units (May: 1,161.71 million units).



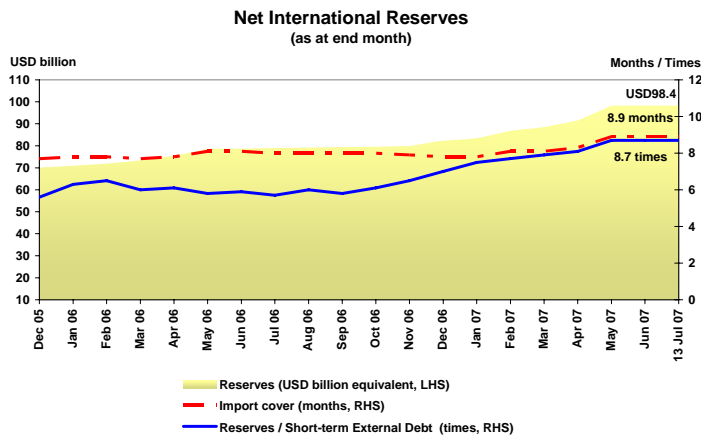
KLCI performance strengthened further

As at 30 July 2007, the KLCI closed marginally lower at 1,352.41 points (since end-June: -0.15%). Overall market capitalisation was lower at RM1,063.91 billion (since end-June: -2.24%), while trading activity was higher, with a daily average turnover of 1,481.71 million units.

International reserves

The international reserves of Bank Negara Malaysia amounted to RM339.8 billion (equivalent to USD98.4 billion) as at 29 June 2007. The reserves level as at 29 June 2007 has taken into account the quarterly revaluation gain, following the strengthening of the major currencies against the ringgit during the second quarter. As at 13 July 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.



Strong capitalisation whilst non-performing loans improved further

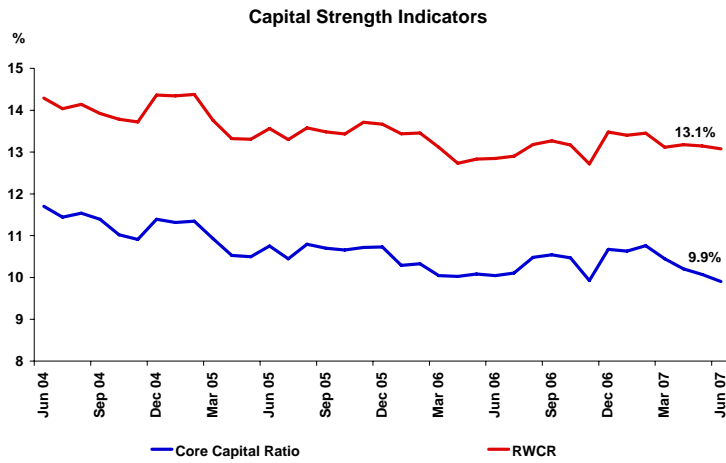
The banking system remained sound and resilient. Non-performing loans (NPLs) on a net basis, improved further to account for 4.1% of net total loans. This positive development was due mainly to the reclassification of NPLs to performing status, continued loan write-offs by banking institutions as well as the sale of NPLs by one banking institution. Meanwhile, capitalisation remained strong with risk-weighted capital ratio (RWCR) and core capital ratio of 13.1% and 9.9% respectively as at end-June 2007. Amidst greater competition, the risk-weighted assets continued to expand moderately at 1.3% during the month.

Banking System Health Indicators *

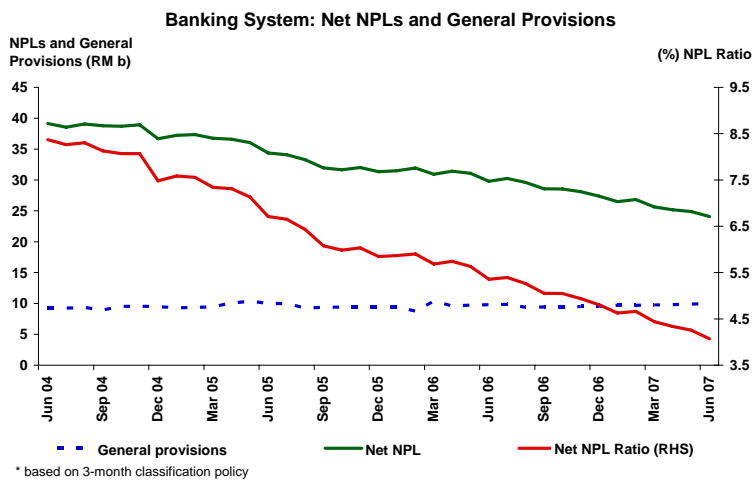
	2000	2001	2002	2003	2004	2005	2006	Apr 07	May 07	Jun 07
Capital (%)										
Core capital ratio	10.7	11.1	11.1	11.1	11.4	10.7	10.7	10.2	10.1	9.9
RWCR	12.5	13.0	13.2	13.8	14.4	13.7	13.5	13.2	13.1	13.1
Net NPLs										
(3-month classification)										
% of net total loans	9.7	11.5	10.2	8.9	7.5	5.8	4.8	4.3	4.3	4.1
Amount (RM million)	37,678	46,254	43,110	40,013	36,668	31,332	27,360	25,174	24,872	24,078
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 robust...



...whilst level of NPLs improved further

Bank Negara Malaysia
31 July 2007

Key Monetary and Financial Statistics

	Apr 07		May 07		Jun 07	
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates						
Reserve money	59.7	9.5	58.0	8.7	59.1	10.6
M1	147.1	17.9	149.5	19.2	149.4	16.2
M2	753.6	16.4	762.4	17.4	750.0	13.0
M3	796.5	14.2	799.2	14.3	788.6	12.6
Banking System						
Total deposits	846.1	18.3	853.1	19.0	839.8	16.2
Total loans (including loans sold to Cagamas)	604.6	6.2	608.4	5.9	614.0	6.0
Loan-deposit ratio (%)		69.0		69.0		70.6
Financing-deposit ratio ¹ (%)		77.5		77.2		79.2
Loans applied (during the period)	29.1	24.4	43.0	57.8	45.3	78.7
Loans approved (during the period)	18.7	31.4	30.3	95.3	32.2	80.6
Loans disbursed (during the period)	41.3	-11.9	45.5	7.5	50.0	13.1
Loans repaid (during the period)	38.3	-11.8	41.4	9.6	43.4	11.9
Banking System Health						
Risk-weighted Capital Ratio (RWCR) (%)		13.2		13.1		13.1
Net NPLs: 3-month classification (%)		4.3		4.3		4.1
International Reserves of BNM (end-period)						
Net Reserves in RM billion		316.2		339.5		339.8
Net Reserves in USD billion (equivalent)		91.6		98.4		98.4
Months of retained imports		8.3		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	3.50 [3.50]		3.49 [3.50]		3.50 [3.50]
	1-week	3.52 [3.52]		3.52 [3.52]		3.53 [3.52]
	1-month	3.54 [3.54]		3.54 [3.54]		3.55 [3.54]
Fixed deposits of commercial banks:	1-month	3.10		3.10		3.09
	3-month	3.18		3.18		3.17
BLR of commercial banks		6.72		6.72		6.72
ALR of commercial banks		6.48		6.44		6.49
Prices						
Consumer Price Index (CPI) (2005=100)		105.0	1.5	105.1	1.4	105.3
Producer Price Index (PPI) (2000=100)		131.1	3.2	132.6	4.4	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)						
US dollar		3.4230		3.4045		3.4545
Euro		4.6709		4.5724		4.6425
Pound Sterling		6.8332		6.7278		6.9171
100 Japanese yen		2.8635		2.8004		2.8000
Singapore dollar		2.2524		2.2265		2.2547
100 Thai Baht		9.8461		9.8297		10.0000
100 Philippine Peso		7.2014		7.3778		7.4692
100 Indonesian Rupiah		0.0377		0.0386		0.0382
100 Korean Won		0.3678		0.3669		0.3732
Capital Market						
Net funds raised (in RMb) by:	public	2.7		3.0		5.0
	private	6.9		0.6		3.9
Bursa Malaysia Composite Index (end-period)		1,322.3		1,346.9		1,354.38
Bursa Malaysia Market Capitalisation (RMb, end-period)		1,056.1		1,060.9		1,088.28

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