



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

**Ref. No.: 06/07/09**

**EMBARGO: Not for publication or  
broadcast before 1800 hours on  
Friday, 29 June 2007**

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

- Headline inflation moderated to 1.4% in May.
- During the period 1 May – 28 June 2007, the ringgit recorded a mixed performance.
- Major loan indicators posted significant increases in loan activity during the month.
- The KLCI registered stronger performance in May and June due to positive factors such as the announcement of several privatization deals, a pay rise for civil servants and favourable corporate earnings results.
- The net NPL ratio of banking institutions improved to 4.3% in May on account of stronger repayments and intensified write-offs by banking institutions.



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## **MONETARY AND FINANCIAL DEVELOPMENTS MAY 2007**

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In May, financing of the private sector through banking system loans and private debt securities (PDS) outstanding expanded at a combined annual rate of 6.2%. Total loans outstanding expanded by 5.9% on an annual basis, with loans outstanding to businesses and households increasing by 5.7% and 7.3% respectively. Overall loan applications and approvals continued to increase on an annual basis, due mainly to business loans.

Total net funds raised in the capital market amounted to RM3.6 billion in May. The bulk of the funds were raised by the public sector through the issuance of the 20-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 lending rates of commercial banks were relatively stable in May and June. Similarly, interbank rates for all maturities remained relatively steady during the period.

During the period 1 May – 28 June 2007, the ringgit recorded a mixed performance. The ringgit depreciated against the US dollar and the pound sterling, but appreciated against the Japanese yen, while remaining unchanged against the euro.

Headline inflation, as measured by the annual change in the Consumer Price Index (CPI), moderated to 1.4% in May. The slower inflation rate was due mainly to the lower inflation for *food and non-alcoholic beverages* category, and the declining prices recorded in the *clothing and footwear* and *communication* categories.

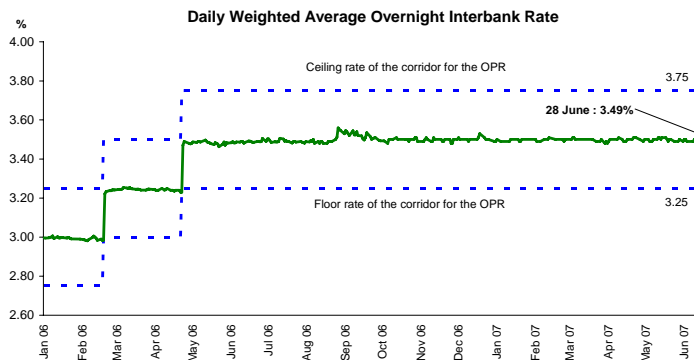
Narrow money, or M1, rose by 19.2% in May, due to higher placements of demand deposits by business enterprises and domestic non-bank financial institutions. Broad money or M3, expanded by 14.3% on an annual basis. The increase in M3 reflected the increase in net foreign assets, as well as higher loans extended by the banks.

The banking system's capitalisation remained strong with the risk-weighted capital ratio (RWCR) at 13.1%. The net NPL ratio improved further to 4.3%. The improvement was due mainly to stronger repayments and intensified write-offs by banking institutions.

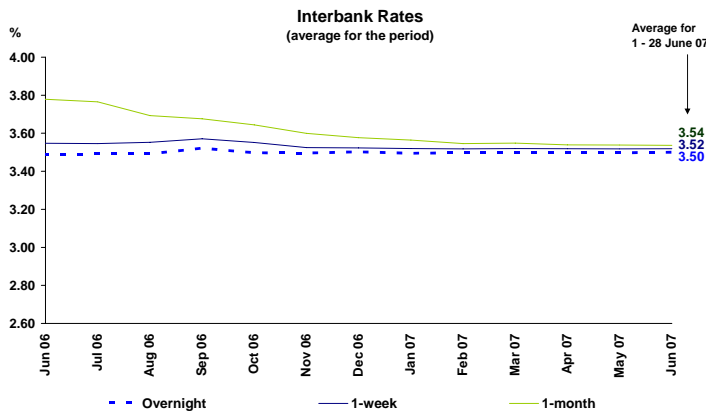
**Interest rates remained stable**

During the period 1 May – 28 June, 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.

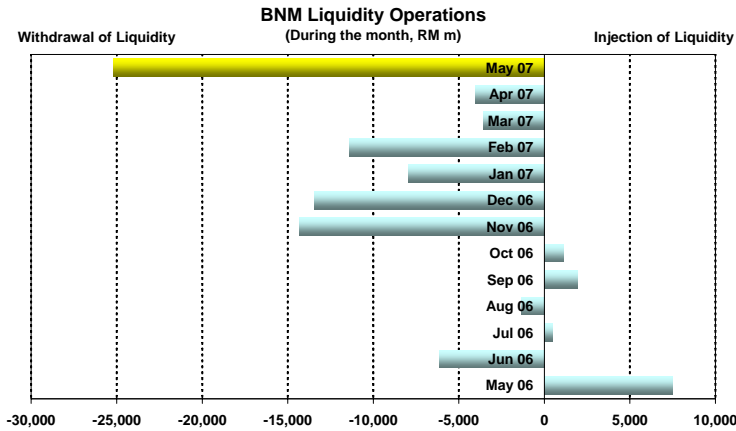
The average fixed deposit (FD) rates of commercial banks (CBs) remained relatively unchanged in May and June. As at 15 June 2007, the average quoted FD rates for tenures between 1 and 12 months were within the range of 3.09% and 3.71%. In terms of the CBs' lending rates, the average base lending rate (BLR) was unchanged at 6.72%, while the average lending rate (ALR) was lower at 6.44% in May (6.48% in April).



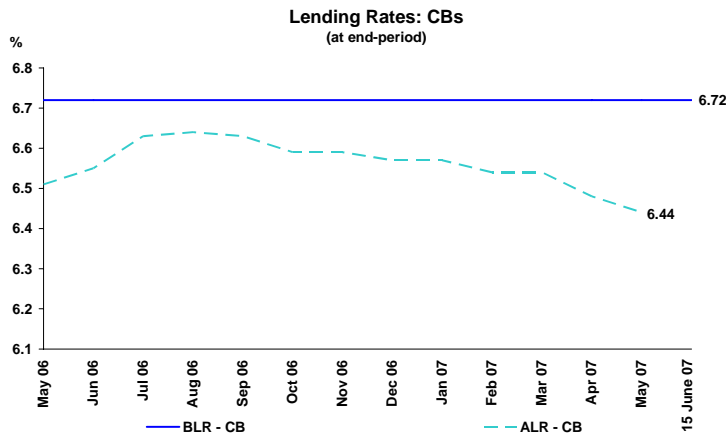
*The average overnight interbank rate moved within a narrow range*



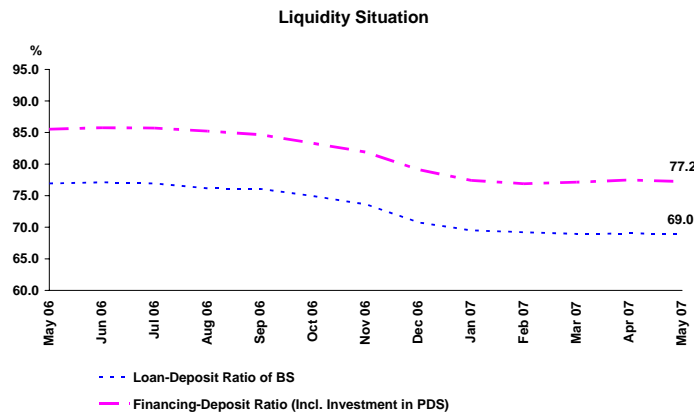
*Other interbank rates remained relatively stable*



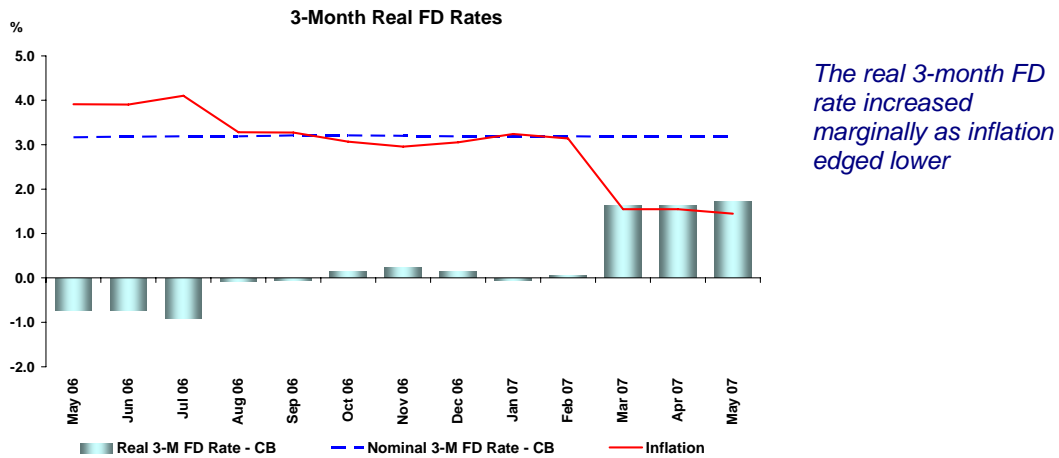
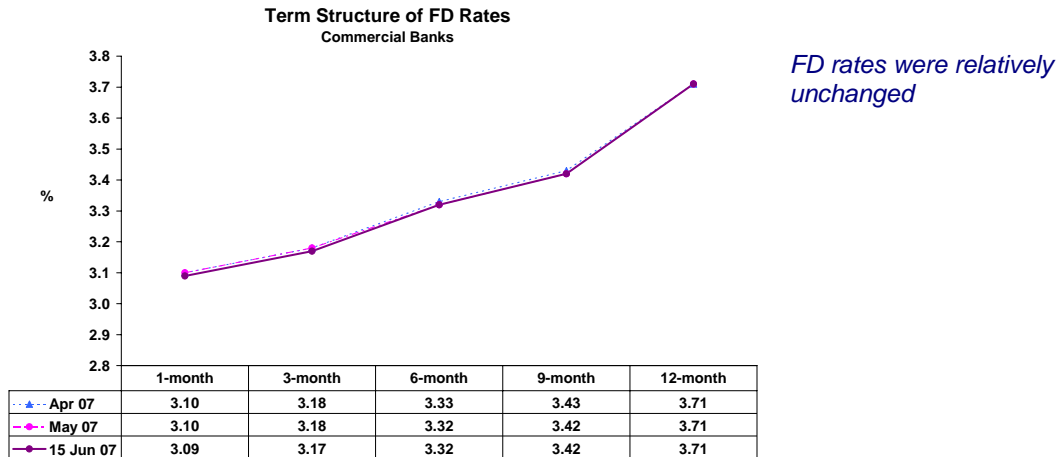
The Central Bank absorbed liquidity from the system in May mainly to offset higher international reserves



CBs' ALR continued its downward trend

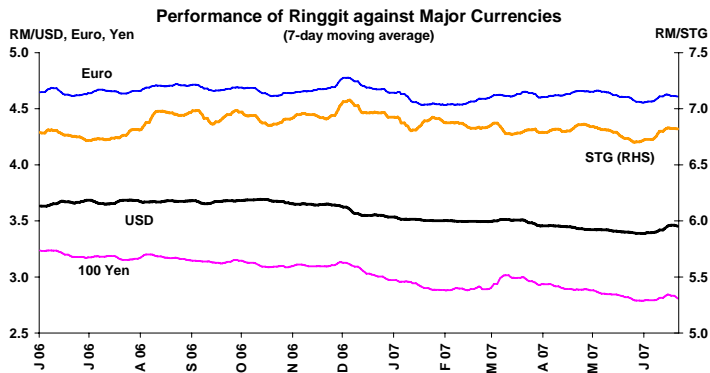


The financing-deposit ratio declined as growth in deposits continued to remain high

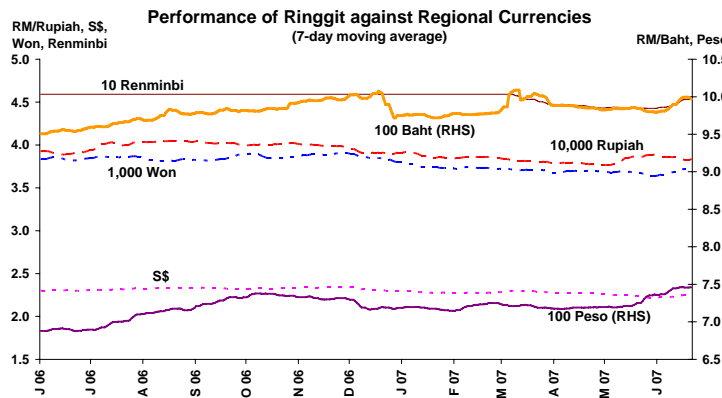


### ***Ringgit recorded a mixed performance***

During the period 1 May – 28 June 2007, the ringgit depreciated by 1.4% against the US dollar amidst two-way trade and investment flows. The US dollar strengthened, as US Treasury yields rose following the publication of positive economic data, which reversed earlier market expectations for a lower US policy rate. The ringgit also depreciated against the pound sterling (1.5%), but appreciated against the Japanese yen (1.4%) and remained unchanged against the euro. The ringgit also depreciated against other regional currencies in the range of 0.3% - 3.9%.



*Ringgit recorded a mixed performance against the major currencies*



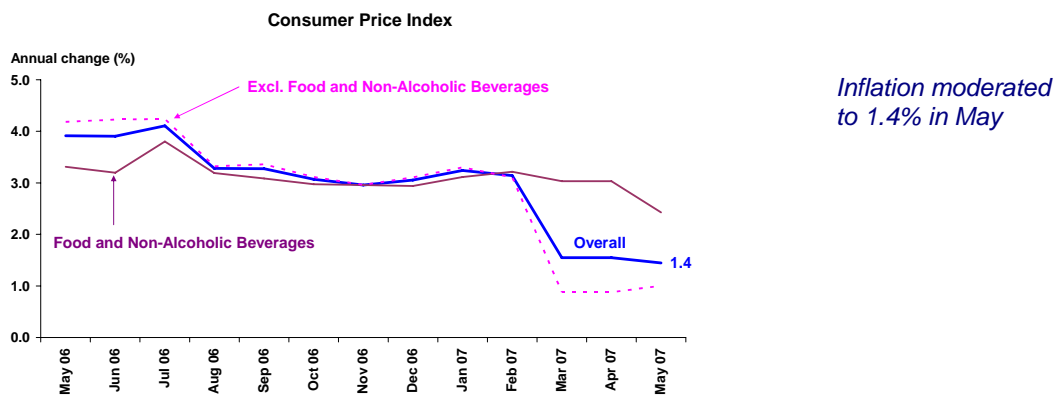
*Ringgit depreciated against other regional currencies*

**Performance of Ringgit against Selected Currencies**

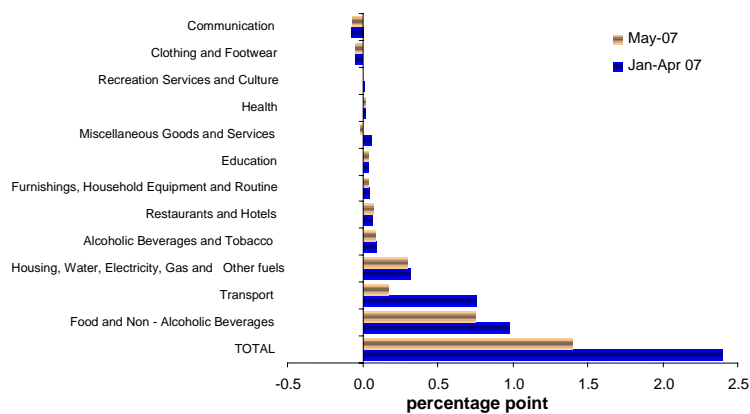
RM per foreign currency	End-period				% Change	
	Dec 06	Apr 07	May 07	28 Jun 07	End Dec 06 - 28 Jun 07	End Apr 07 - 28 Jun 07
US dollar	3.5315	3.4230	3.4045	3.4700	1.8	-1.4
Euro	4.6460	4.6709	4.5724	4.6715	-0.5	0.0
Pound sterling	6.9315	6.8332	6.7278	6.9357	-0.1	-1.5
100 Japanese yen	2.9675	2.8635	2.8004	2.8230	5.1	1.4
Singapore dollar	2.3028	2.2524	2.2265	2.2590	1.9	-0.3
100 Thai baht	9.8111	9.8461	9.8297	10.0449	-2.3	-2.0
100 Philippine peso	7.2027	7.2014	7.3778	7.4962	-3.9	-3.9
100 Indonesian rupiah	0.0393	0.0377	0.0386	0.0382	2.8	-1.4
100 Korean won	0.3797	0.3678	0.3669	0.3744	1.4	-1.8
Chinese renminbi	0.4523	0.4442	0.4452	0.4556	-0.7	-2.5

### Headline inflation moderated in May

Headline inflation, as measured by the annual change in the Consumer Price Index (CPI), moderated to 1.4% in May 2007 (April: 1.5%). The inflation rate for *food and non-alcoholic beverages* category, which accounts for 33.1% of the CPI basket, moderated to 2.4% from 3% in April 2007, reflecting mainly the lower inflation of price-volatile food items such as meat, vegetables, fish and seafood during the month. The *clothing and footwear* and *communication* categories continued to experience declining prices, thereby further moderating the overall increase in the CPI.



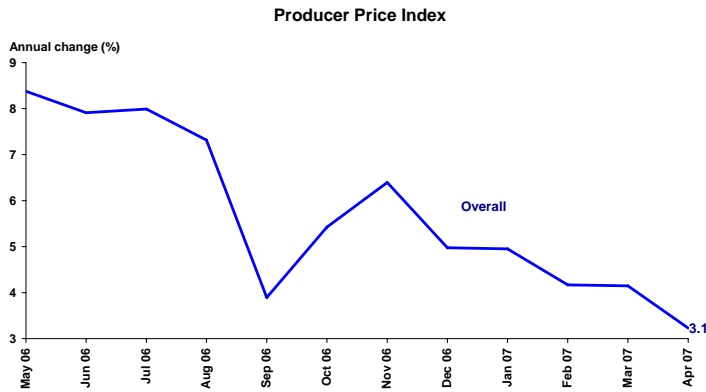
### Contribution to Consumer Price Inflation



### Slower pace of growth in Producer Price Index

In April, the rate of increase of the Producer Price Index (PPI) slowed further to 3.1% (March: 4.1%) due to the lower inflation rate in the non-commodity-related sector, following slower price increases in the *machinery and*

*transport equipment* and *manufactured goods* categories. The inflation rate in the commodity-related sector was unchanged as commodity prices remained high during the month.



*Pace of growth in the PPI slower in April*

### ***Sustained growth in monetary aggregates***

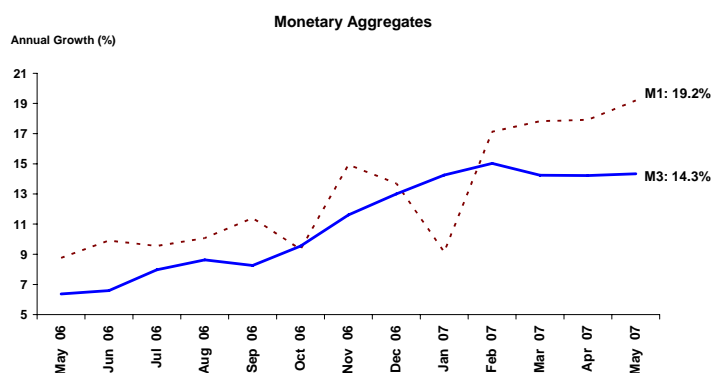
Narrow money, or M1, rose by 19.2% in May, due to higher placements of demand deposits by business enterprises and domestic non-bank financial institutions. Broad money, or M3, expanded by 14.3%. On a month-on-month basis, the increase in net foreign assets was the major contributor to the expansion in M3, mainly on account of higher international reserves. Claims on the private sector also contributed to the expansion of M3 reflecting the higher loans extended, which more than offset the slight decline in holdings of private debt securities by the banks. Government operations, on the other hand, were contractionary on M3 and this was due to higher deposits placed with Bank Negara Malaysia from the proceeds of an MGS issuance as well as higher corporate tax receipts for the month of May. Net other influences, meanwhile, were contractionary on M3 on account of higher purchases of BNM bills by the non-bank private sector.

#### **M3 Determinants** (RM billion)

	Change during period			
	Feb 07	Mar 07	Apr 07	May 07
M3	13.0	0.1	7.2	2.8
Net claims on Government	-1.7	-2.8	-5.4	-7.2
Claims on the private sector	2.5	4.8	5.7	2.8
<i>Loans</i>	2.1	3.3	3.1	3.8
<i>Securities</i>	0.3	1.5	2.6	-1.0
Net external operations*	20.3	4.6	22.2	24.9
Other influences	-8.0	-6.5	-15.9	-17.0

\* 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.



*M3 expanded further*

### **Banking system deposits increased in May**

In May, total deposits with the banking system increased by RM7.0 billion (April: RM4.3 billion) or 19% on an annual basis (April: 18.3%), mainly reflecting higher deposit placements by financial institutions, individuals and statutory authorities. The increase in deposits of financial institutions reflected placements by domestic and foreign banking institutions which more than offset lower deposits by non-bank financial institutions. By type, the increase in deposits was mainly in the form of fixed deposits and Islamic Banking deposits (SPI).

#### **Deposits by Holder** (RM million)

	Change during period			
	Feb 07	Mar 07	Apr 07	May 07
Federal Government	68	1	383	-492
State Governments	132	993	364	-100
Statutory Authorities <sup>1</sup>	106	653	-326	2,942
Financial Institutions	1,333	6,634	-7,153	3,197
Business Enterprises	2,497	-7,506	6,962	-774
Individuals	4,494	1,927	3,339	2,955
Others <sup>2</sup>	511	1,096	726	-732
<b>Total</b>	<b>9,142</b>	<b>3,798</b>	<b>4,295</b>	<b>6,996</b>

<sup>1/</sup> Include local Governments

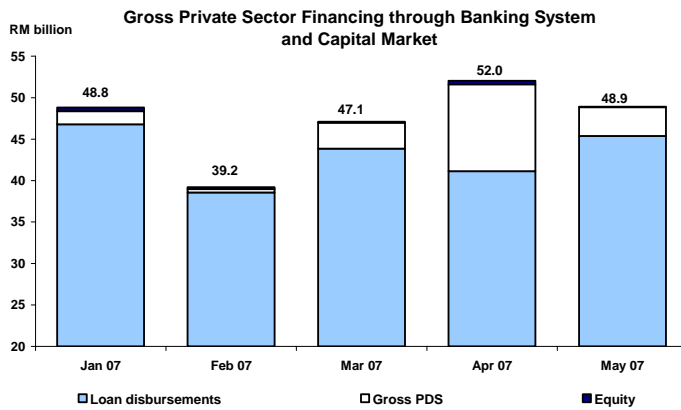
<sup>2/</sup> Consist of domestic other entities and foreign non-bank entities

#### **Deposits by Type** (RM million)

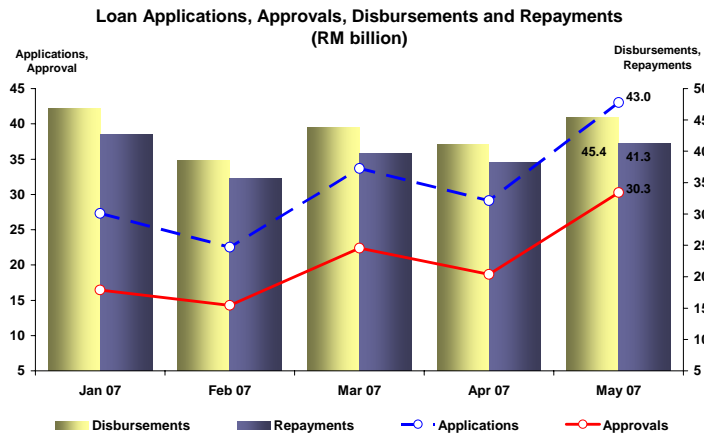
	Change during period			
	Feb 07	Mar 07	Apr 07	May 07
Fixed deposits	5,227	-366	1,316	6,079
NIDs	-5,071	-4,155	-2,133	1,538
Demand deposits	3,078	-3,849	3,091	1,551
Savings deposits	1,661	-135	734	-193
Repos	1,640	6,485	-13,368	-4,437
FX deposits	-1,174	690	965	-1,883
SPI deposits	557	2,222	3,047	2,620
Others	3,224	2,905	10,642	1,721
<b>Total</b>	<b>9,142</b>	<b>3,798</b>	<b>4,295</b>	<b>6,996</b>

**Significant increases in major loan indicators**

In May, gross financing to the private sector amounted to RM48.9 billion (April: RM52.0 billion). Loan disbursements increased while PDS issuances were lower following the significant size of PDS issuance in the previous month. On a net basis, financing of the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 6.2% (April: 6.7%).



*Gross private financing amounted to RM48.9 billion supported by higher loan disbursements*



*Other key loan indicators were also higher during the month*

## Bank lending indicators

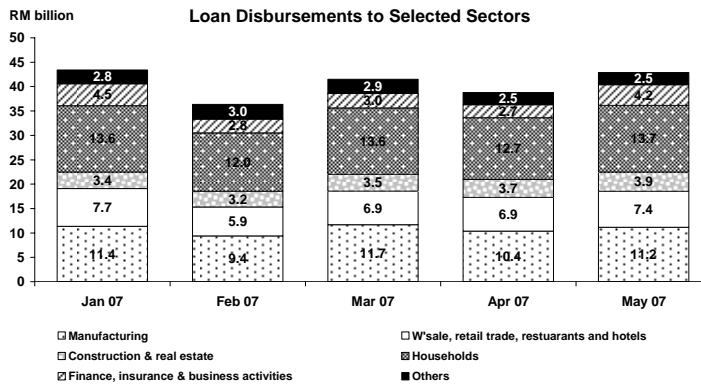
	RM billion		Annual Growth (%)	
	Apr	May	Apr	May
<b>Overall</b>				
Loan applications	29.1	43.0	28.6	58.5
Loan approvals	18.7	30.3	31.2	84.6
Loan disbursements	41.1	45.4	-13.8	7.4
Chg in Loans Outstanding <sup>1/</sup>	3.0	3.8	6.2	5.9
<b>Businesses<sup>2/</sup></b>				
Loan applications	14.7	25.7	20.4	69.6
Loan approvals	10.3	19.6	76.8	158.4
Loan disbursements	28.5	31.7	-11.2	5.1
Chg in Loans Outstanding <sup>1/</sup>	0.8	2.4	5.8	5.7
<b>SMEs</b>				
Loan applications	6.9	8.0	22.6	12.0
Loan approvals	4.0	4.6	34.8	36.7
Loan disbursements	11.1	11.7	-22.6	3.8
Chg in Loans Outstanding <sup>1/</sup>	-0.3	1.4	3.7	4.2
<b>Households</b>				
Loan applications	14.4	17.3	38.1	44.4
Loan approvals	8.3	10.6	-0.6	20.8
Loan disbursements	12.7	13.7	-19.2	13.3
Chg in Loans Outstanding <sup>1/</sup>	2.3	1.5	7.9	7.3

n.a. not applicable

<sup>1/</sup>The annual growth in outstanding amount as at end-period.

<sup>2/</sup> 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 increased on a monthly and annual basis across business and household sectors*



*Loan disbursements remained broad-based*

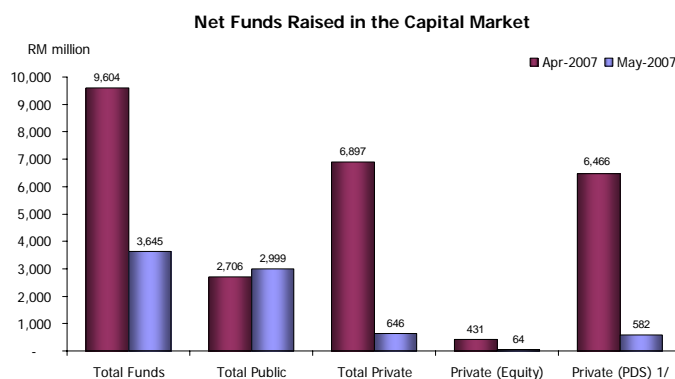
The major loan indicators were significantly higher compared with the previous month and recorded strong positive growth rates on an annual basis across the business and household sectors. There was one large bridging loan during the month that significantly affected the volume of loans. Consequently, the strong annual growth rates in loan applications and approvals were mainly driven by business loans, with loans applied and approved primarily for the transport, storage and communications, and to a lesser extent for the wholesale and retail trade, restaurants and hotels; and construction sectors.

In the household sector, loan applications and approvals were higher on an annual basis mainly on account of loans for the purchase of residential property.

Total loans outstanding expanded by 5.9% on an annual basis as at end-May (end-April: 6.2%). Loans outstanding to businesses and households expanded at annual growth rates of 5.7% and 7.3% respectively (end-April: 5.8% and 7.9% respectively).

### ***Funds raised in the capital market declined***

Total net funds raised in the capital market in May amounted to RM3.6 billion. The amount raised was lower compared to the RM9.6 billion raised in April, which was boosted by a large issuance of private debt securities (PDS) for a merger and acquisition (M&A) activity. The bulk of the funds were raised by the public sector through the new issuance of 20-year Malaysian Government Securities (MGS). In total, the net funds raised by the public sector amounted to RM3.0 billion. In the private sector, total gross funds raised were RM5.6 billion, mainly through the issuance of private debt securities (PDS), particularly for new activity and refinancing purpose. After adjusting for redemption, net funds raised in the private sector amounted to RM646 million.

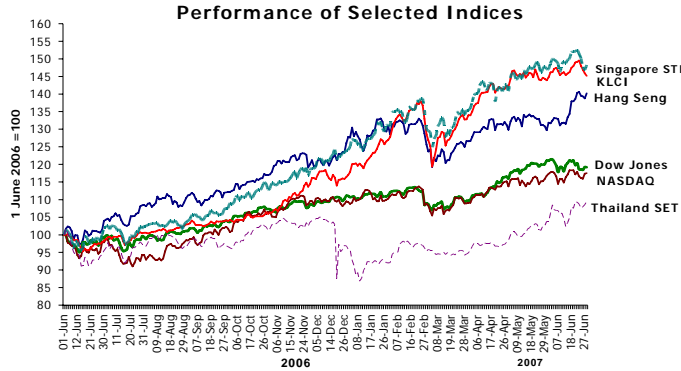


1/ Including Cagamas Bonds

### ***KLCI strengthened further***

In May, the KLCI continued to gain momentum in line with regional markets to close at 1,346.89 points or 1.86% higher than end-April. The stronger performance was due mainly to announcements of several privatisation deals, the pay rise for civil servants and favourable domestic corporate earnings during

the first quarter. Market capitalisation rose to RM1,060.92 billion (since end-April: 0.46%), while the daily average turnover declined to 1,161.71 million units (April: 1,841.31 million units).

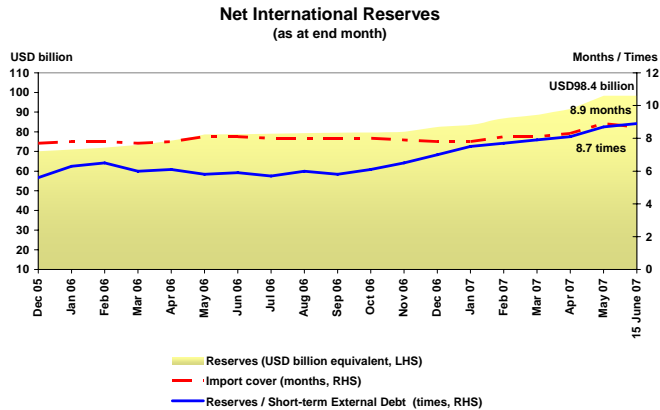


*KLCI outperformed regional markets*

As at 28 June 2007, the KLCI closed marginally higher at 1,350.72 points (since end-May: 0.28%). Overall market capitalisation was higher at RM1,085.55 billion (since end-May: 2.32%), while trading activities were also higher with the daily average turnover at 1,311.42 million units.

**International reserves**

The net international reserves of Bank Negara Malaysia amounted to RM339.5 billion, or an equivalent of USD98.4 billion, as at 31 May 2007. As at 15 June 2007, the reserves amounted to RM339.4 billion, or an equivalent of 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***

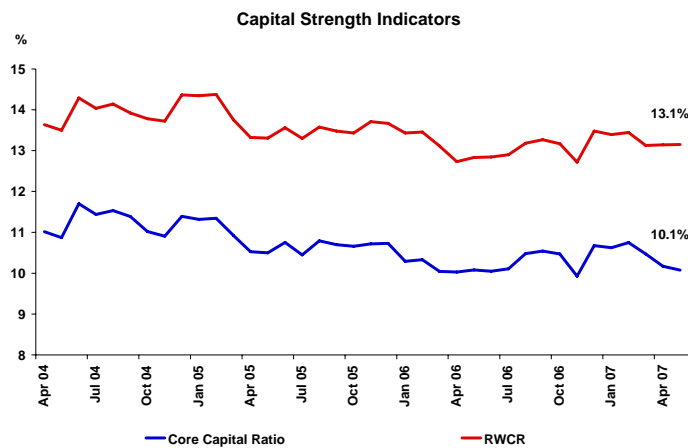
The banking system strengthened further with the key financial soundness indicators recording continued improvements. The downtrend in non-performing loans (NPLs) led to further improvement of the loan quality and sustained capitalisation. As at end-May 2007, the risk-weighted capital ratio (RWCR) was at 13.1% whilst the core capital ratio stood at 10.1%. Meanwhile, the net NPL ratio improved to 4.3% on account of stronger repayments and intensified write-offs by banking institutions.

#### **Banking System Health Indicators \***

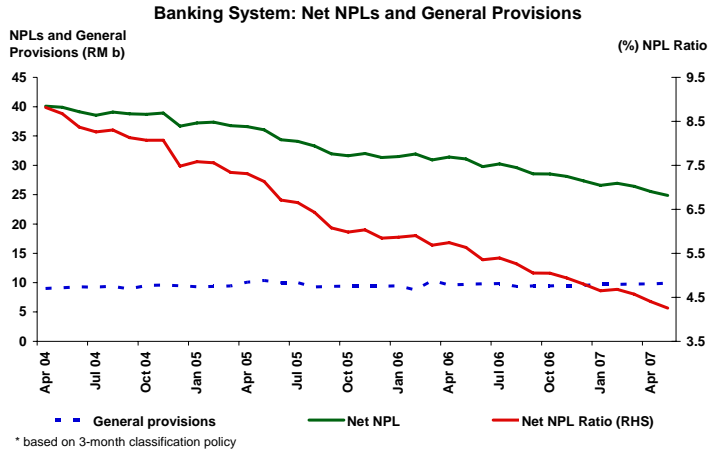
	2000	2001	2002	2003	2004	2005	2006	Mar 07	Apr 07	May 07
<b>Capital (%)</b>										
Core capital ratio	10.7	11.1	11.1	11.1	11.4	10.7	10.7	10.5	10.2	10.1
RWCR	12.5	13.0	13.2	13.8	14.4	13.7	13.5	13.1	13.1	13.1
<b>Net NPLs (3-month classification)</b>										
% of net total loans	9.7	11.5	10.2	8.9	7.5	5.8	4.8	4.6	4.4	4.3
Amount (RM million)	37,678	46,254	43,110	40,013	36,668	31,332	27,360	26,420	25,510	24,872
<b>GP / Net total loans (3-month, %)</b>	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 levels remained healthy...*



*...while the level of NPLs improved further*

**Bank Negara Malaysia**  
**29 June 2007**

## Key Monetary and Financial Statistics

	Mar 07		Apr 07		May 07	
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
<b>Monetary Aggregates</b>						
Reserve money	58.7	8.5	59.7	9.5	56.0	8.7
M1	144.6	17.8	147.1	17.9	149.5	19.2
M2	754.2	17.3	753.6	16.4	762.4	17.4
M3	789.2	14.7	796.5	14.2	799.3	14.3
<b>Banking System</b>						
Total deposits	841.8	18.0	846.1	18.3	853.1	19.0
Total loans (including loans sold to Cagamas)	601.5	6.2	604.6	6.2	608.4	5.9
Loan-deposit ratio (%)		68.9		69.0		69.0
Financing-deposit ratio <sup>1</sup> (%)		77.1		77.5		77.2
Loans applied (during the period)	33.7	19.3	29.1	28.6	43.0	58.5
Loans approved (during the period)	22.4	26.8	18.7	31.2	30.3	84.6
Loans disbursed (during the period)	43.9	-3.9	41.1	-13.8	45.4	7.4
Loans repaid (during the period)	39.6	-5.0	38.2	-16.2	41.3	7.9
<b>Banking System Health</b>						
Risk-weighted Capital Ratio (RWCR) (%)		13.1		13.1		13.1
Net NPLs: 3-month classification (%)		4.6		4.4		4.3
<b>International Reserves of BNM (end-period)</b>						
Net Reserves in RM billion		305.9		316.2		339.5
Net Reserves in USD billion (equivalent)		88.6		91.6		98.4
Months of retained imports		8.1		8.3		8.9
<b>Interest Rates at end-period [average for the month]</b>						
Overnight Policy Rate (OPR)		3.50		3.50		3.50
Interbank:	Overnight	3.50 [3.50]		3.50 [3.50]		3.50 [3.50]
	1-week	3.52 [3.52]		3.52 [3.52]		3.52 [3.52]
	1-month	3.56 [3.56]		3.54 [3.54]		3.54 [3.54]
Fixed deposits of commercial banks:	1-month	3.10		3.10		3.10
	3-month	3.18		3.18		3.18
BLR of commercial banks		6.72		6.72		6.72
ALR of commercial banks		6.54		6.48		6.44
<b>Prices</b>						
Consumer Price Index (CPI) (2005=100)	105.0	1.5	105.0	1.5	105.1	1.4
Producer Price Index (PPI) (2000=100)	130.6	4.1	131.1	3.1	n.a.	n.a.
<b>Exchange Rates of Ringgit against Selected Currencies (end-period)</b>						
US dollar		3.4560		3.4230		3.4045
Euro		4.6105		4.6709		4.5724
Pound Sterling		6.7867		6.8332		6.7278
100 Japanese yen		2.9339		2.8635		2.8004
Singapore dollar		2.2781		2.2524		2.2265
100 Thai Baht		9.8785		9.8461		9.8297
100 Philippine Peso		7.1649		7.2014		7.3778
100 Indonesian Rupiah		0.0379		0.0377		0.0386
100 Korean Won		0.3674		0.3678		0.3669
<b>Capital Market</b>						
Net funds raised (in RMB) by:	public	1.3		2.7		3.0
	private	1.6		6.9		0.6
Bursa Malaysia Composite Index (end-period)		1,246.9		1,322.3		1,346.9
Bursa Malaysia Market Capitalisation (RMB, end-period)		985.1		1,056.1		1,060.9

<sup>1</sup> Refers to the ratio of loans and holdings of PDS by the banking system to deposits of the banking system.