BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No. : 03/07/13 **EMBARGO: For Immediate Release**

Monetary and Financial Developments February 2007
Highlights of the Press Release

- Inflation moderated to 3.1% in February, resuming its downward trend.

- During the period 1 February - 27 March 2007, the ringgit appreciated against the US dollar amidst continued net trade inflows, as well as investment inflows.

- The KLCI rebounded following the global correction in February, as investor sentiments in equity markets became more positive.

- The improved sentiments in the financial markets were further supported by the announcement of measures to liberalise and deregulate the foreign exchange administration policies, as well as the removal of the real property gains tax, and the introduction of several special incentives to promote investment.

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MONETARY AND FINANCIAL DEVELOPMENTS FEBRUARY 2007

Financing of the private sector through banking system loans and private debt securities (PDS) outstanding expanded at a combined annual rate of 6.2% in February. Total loans outstanding grew by 6.2%, with loans outstanding to businesses and households increasing at annual rates of 5.2% and 8.4% respectively.

Gross funds raised through the PDS and equity markets amounted to RM1.5 billion in February. The bulk of the funds were raised through the PDS market, which included one issuance of RM500 million by a multilateral development bank. After adjusting for redemptions, net funds raised by the private sector amounted to RM784 million during the month.

Both fixed deposit rates and lending rates of commercial banks were stable in February and early March. Similarly, interbank rates for all maturities remained relatively steady during the period.

During the period 1 February - 27 March 2007, the ringgit appreciated against the US dollar amidst continued net trade inflows, as well as investment inflows. Underlying the trend in the ringgit was the continuous improvement of Malaysia’s economic fundamentals.

Headline inflation, as measured by the Consumer Price Index (CPI), moderated to 3.1% in February, from 3.2% in January. While the inflation rate for the *food and non-alcoholic beverages* category was higher, partly reflecting the impact of seasonal factors and festivities, this was offset by lower inflation for other components of the CPI.

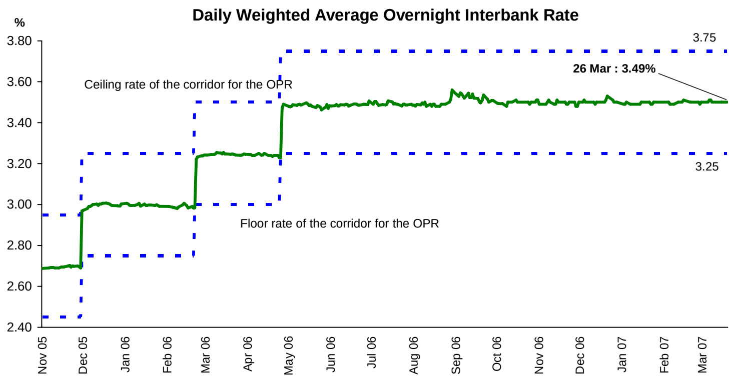
Narrow money, or M1, increased at a higher annual rate of 17.4% in February. This reflected the higher demand for currency during the festive season in the second-half of the month, and higher demand deposits placed by individuals and business enterprises. Broad money, M3, expanded by 13.9%, reflecting mainly the increase in international reserves and net foreign assets of the banking institutions.

The capitalisation of the banking system remained strong with the risk-weighted capital ratio (RWCR) improving to 13.4% as at end-February (January: 13.3%). The net non-performing loans (NPLs) ratio (based on the 3-month classification) remained unchanged at 4.7%.

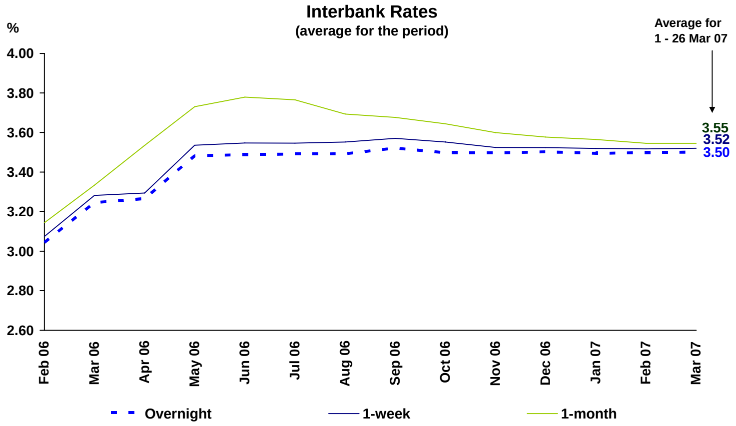
Interest rates remained stable

During the period 1 February – 26 March, 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.

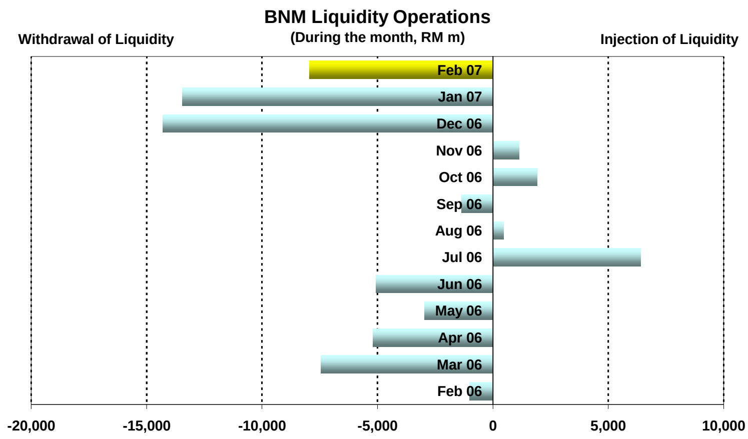
The average fixed deposit (FD) rates of commercial banks (CBs) remained unchanged in February and early March. As at 15 March 2007, the average quoted FD rates for tenures between 1 and 12 months were 3.11% and 3.71% respectively. In terms of CBs' lending rates, the average base lending rate (BLR) remained unchanged at 6.72%, while the average lending rate (ALR) was marginally lower at 6.54% in February (January: 6.57%).



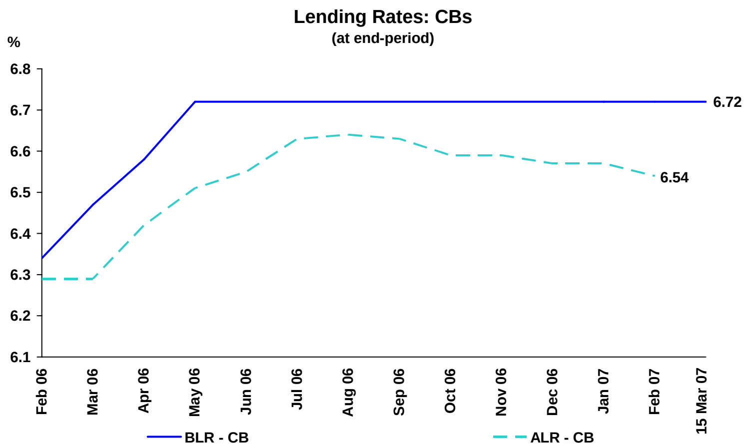
The average overnight interbank rate moved within a narrow range



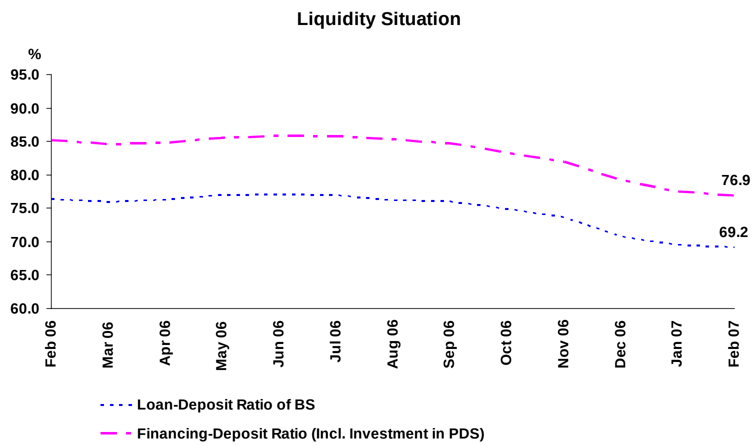
Other interbank rates remained relatively stable



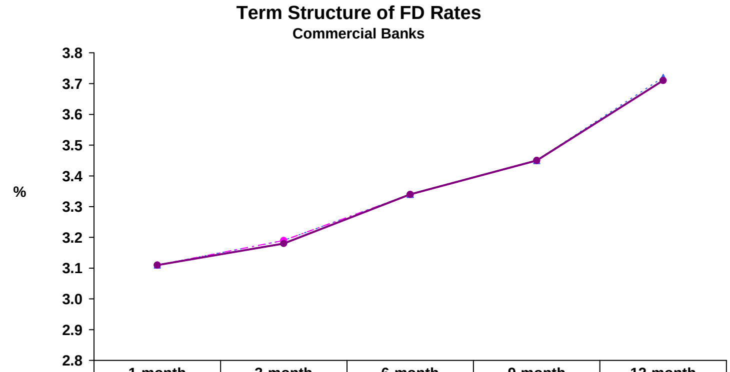
The Central Bank absorbed liquidity from the system in February



Continued moderation in the ALR of CBs

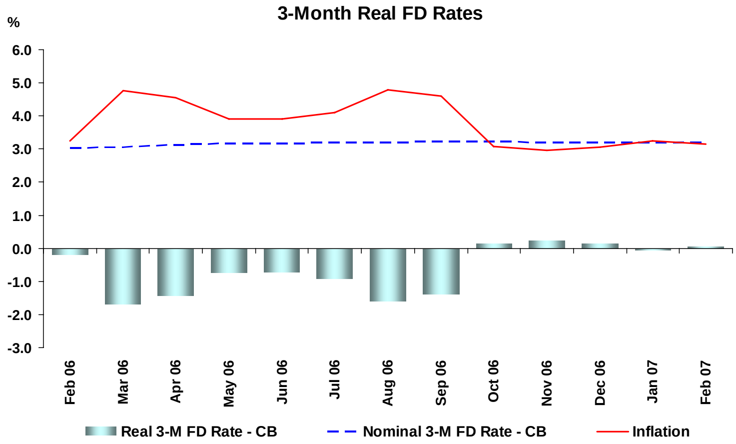


The financing-deposit ratio declined as the growth in deposits increased



	1-month	3-month	6-month	9-month	12-month
Jan 07	3.11	3.19	3.34	3.45	3.72
Feb 07	3.11	3.19	3.34	3.45	3.71
15 Mar 07	3.11	3.18	3.34	3.45	3.71

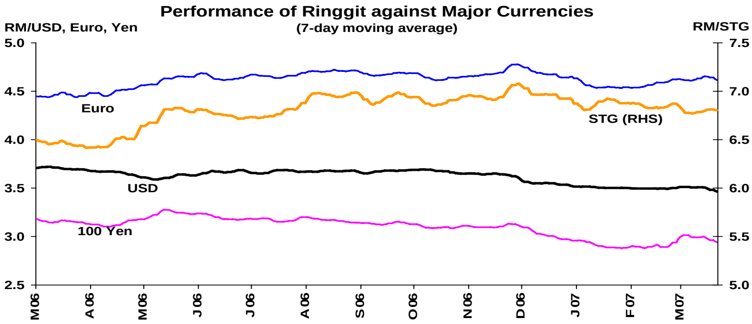
FD rates were relatively unchanged



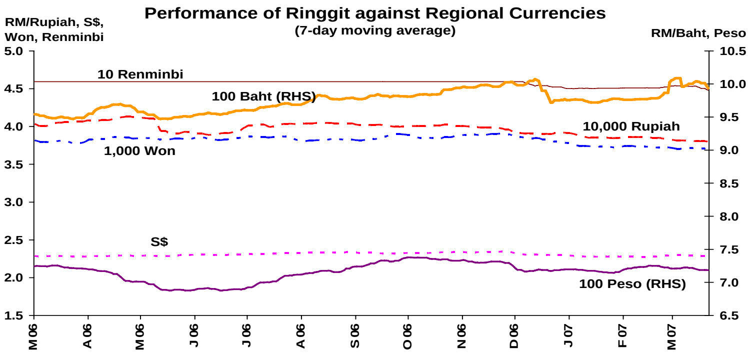
The real 3-month FD rate was marginally higher due to easing inflation

Ringgit appreciated against the US dollar

During the period 1 February - 27 March 2007, the ringgit appreciated by 1.4% against the US dollar amidst continued net trade inflows, as well as investment inflows. Underlying the trend in the ringgit was the continuous improvement of Malaysia's economic fundamentals. The US dollar also weakened as some weak economic data led to market concerns for the growth outlook of the US economy and expectations for a reduction in the US policy rate. The ringgit depreciated by 1.4% and 1.3% against the Japanese yen and euro respectively.



Ringgit appreciated against the US dollar



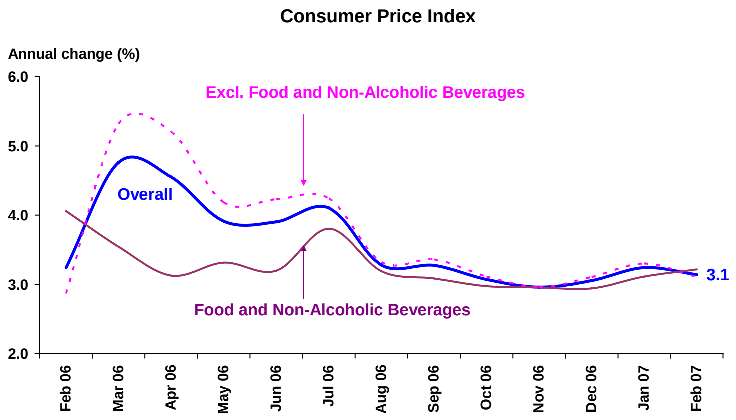
… and several regional currencies

Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change	
	Dec 05	Jan 07	Feb 07	27 Mar 07	End Dec 05 - 27 Mar 07	End Jan 07 - 27 Mar 07
US dollar	3.7800	3.5015	3.5060	3.4520	9.5	1.4
Euro	4.4867	4.5388	4.6332	4.6007	-2.5	-1.3
Pound sterling	6.5226	6.8755	6.8830	6.7953	-4.0	1.2
100 Japanese yen	3.2229	2.8808	2.9595	2.9210	10.3	-1.4
Singapore dollar	2.2714	2.2784	2.2920	2.2748	-0.2	0.2
100 Thai baht	9.2049	9.7780	9.9012	9.8320	-6.4	-0.5
100 Philippine peso	7.1254	7.1642	7.2110	7.1812	-0.8	-0.2
100 Indonesian rupiah	0.0385	0.0385	0.0382	0.0379	1.5	1.6
100 Korean won	0.3739	0.3717	0.3728	0.3671	1.9	1.2
Chinese renminbi	0.4686	0.4504	0.4531	0.4463	5.0	0.9

Inflation moderated to 3.1% in February

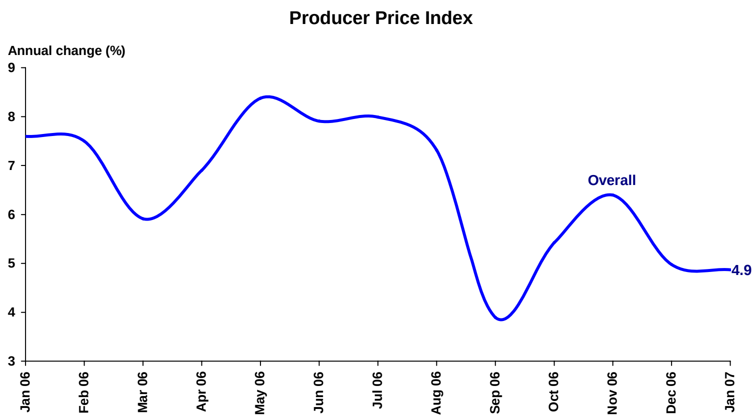
Headline inflation, as measured by the Consumer Price Index (CPI), moderated to 3.1% in February (January: 3.2%). February's data reflected the continuation of the moderating trend in the inflation rate. While the inflation rate for the *food and non-alcoholic beverages* category was higher, partly reflecting the impact of seasonal factors and festivities, this was offset by the lower inflation for other components of the CPI. Apart from the sustained decline in prices for the *clothing and footwear*, and *communication* categories, the price increases in other categories such as *recreation services and culture*; *furnishings, equipment and routine household maintenance*; *education* and *restaurants and hotels*, were also more moderate.



Inflation at 3.1% in February

Growth in producer prices moderated in January

The rate of increase of the Producer Price Index (PPI) moderated further to 4.9% in January 2007 (December 2006: 5%). Slower growth in the PPI was due mainly to the lower inflation in the commodity-related category, particularly in the mineral fuels, lubricants and related items category.



PPI growth moderated in January

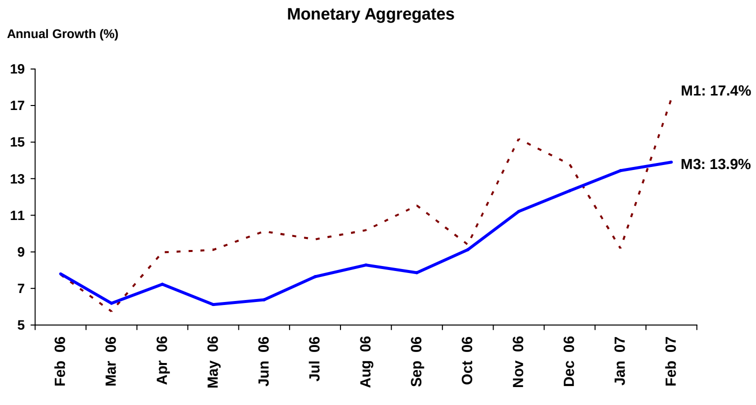
M3 expanded at a relatively stable rate

Narrow money, or M1, increased at a higher annual rate of 17.4% in February (January: 9.2%). This reflected increased demand for currency during the festive season in the second-half of the month, and higher demand deposits placed by individuals and business enterprises. Broad money, M3, expanded by 13.9% (January: 13.4%). Net external operations contributed the most to the expansion in M3, reflecting the higher international reserves and net foreign assets of the banking institutions. Lending to the private sector also had an expansionary effect on M3. On the other hand, the banking institutions' lower holdings of Government securities, captured in net claims on Government, had a contractionary impact on M3.

M3 Determinants
(RM billion)

	Change during period			
	Nov 06	**Dec 06**	**Jan 07**	**Feb 07**
M3	11.5	21.2	14.1	9.9
Net claims on Government	7.8	10.8	5.3	-1.8
Claims on the private sector	3.0	5.3	-1.8	2.2
Loans	*4.1*	*4.2*	*2.7*	*2.1*
Securities	*-1.1*	*1.1*	*-4.5*	*0.1*
Net external operations *	5.5	9.2	12.2	20.6
Other influences	-4.8	-4.0	-1.6	-11.1

* Pre-revaluation of the international reserves



M3 expanded at a relatively stable rate

Further expansion in banking system deposits

Total deposits with the banking system increased by RM9.1 billion in February (January: RM20.2 billion), or 19% on an annual basis (January: 19.9%). The expansion mainly reflected higher deposit placements by individuals, business enterprises and to a lesser extent, financial institutions. By type, the increase in deposits was mainly in the form of fixed deposits and demand deposits.

Deposits by Holder
(RM million)

	Change during period			
	Nov 06	**Dec 06**	**Jan 07**	**Feb 07**
Federal Government	220	936	-528	68
State Governments	-218	392	-46	132
Statutory Authorities [1]	1,211	-889	47	106
Financial Institutions	5,543	17,375	1,620	1,334
Business Enterprises	8,769	10,093	15,530	2,652
Individuals	2,459	4,174	2,391	4,494
Others [2]	833	191	1,173	356
Total	18,818	32,272	20,188	9,142

1/ Include local Governments

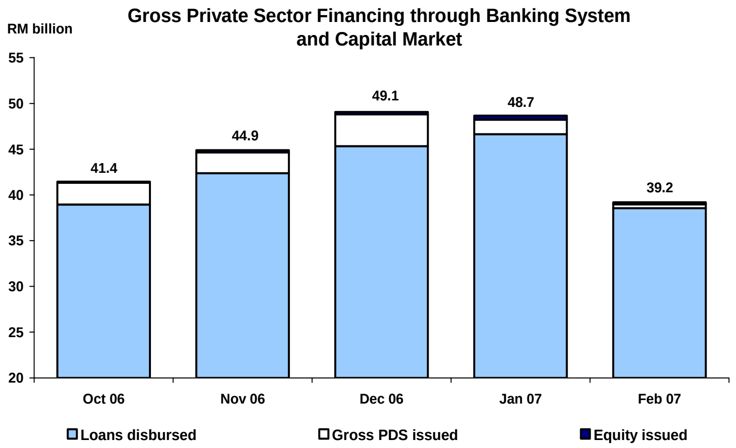
2/ Consist of domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

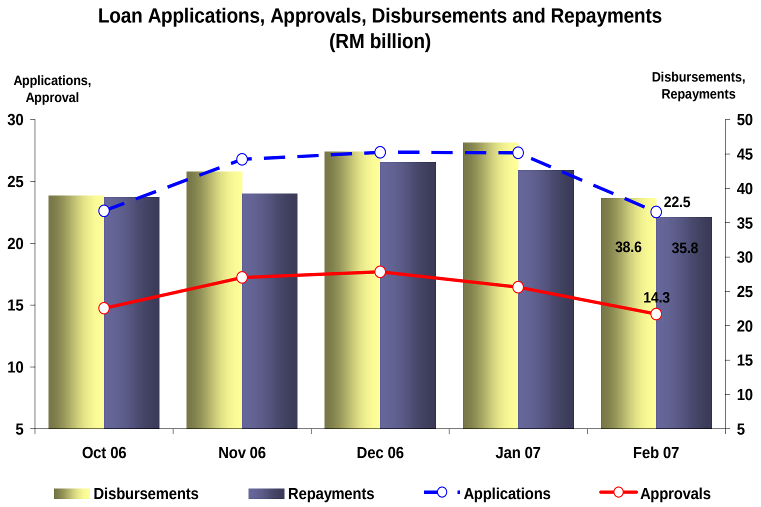
	Change during period			
	Nov 06	**Dec 06**	**Jan 07**	**Feb 07**
Fixed deposits	10,518	9,572	5,666	5,227
NIDs	-6,233	8,083	11,107	-5,071
Demand deposits	1,567	1,564	4,194	3,078
Savings deposits	871	1,492	766	1,661
Repos	9,005	4,803	-2,752	1,640
FX deposits	-292	1,496	289	-1,174
SPI deposits	3,010	3,421	-418	557
Others	373	1,840	1,335	3,224
Total	18,818	32,272	20,188	9,142

Loan applications and approvals increased on an annual basis

Gross financing of the private sector though the banking system and capital market moderated to RM39.2 billion in February (January: RM48.7 billion), mainly reflecting the festive period in the second half of the month, which resulted in a lower number of working days. 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% (January: 6.2%).



Gross private sector financing amounted to RM39.2 billion



Major loan indicators lower on a monthly basis in part due to the festive season

Bank lending indicators

	RM billion		Annual Growth (%)	
	Jan	Feb	Jan	Feb
Overall				
Loan applications	27.3	22.5	39.0	3.0
Loan approvals	16.4	14.3	17.8	4.2
Loan disbursements	46.6	38.6	6.7	-2.0
Chg in Loans Outstanding[1/]	3.0	2.8	6.4	6.2
Businesses[2/]				
Loan applications	13.3	11.8	48.5	-1.8
Loan approvals	8.4	7.4	40.8	0.7
Loan disbursements	33.0	26.6	6.2	-6.1
Chg in Loans Outstanding[1/]	1.4	1.1	4.4	5.2
SMEs				
Loan applications	7.0	5.8	n.a.[3/]	n.a.[3/]
Loan approvals	3.3	3.2	n.a.	n.a.
Loan disbursements	11.0	9.6	n.a.	n.a.
Chg in Loans Outstanding[1/]	-0.1	-0.1	n.a.	n.a.
Households				
Loan applications	14.0	10.7	31.0	8.8
Loan approvals	8.0	6.9	0.6	8.2
Loan disbursements	13.7	12.0	7.9	8.5
Chg in Loans Outstanding[1/]	1.7	0.9	8.9	8.4

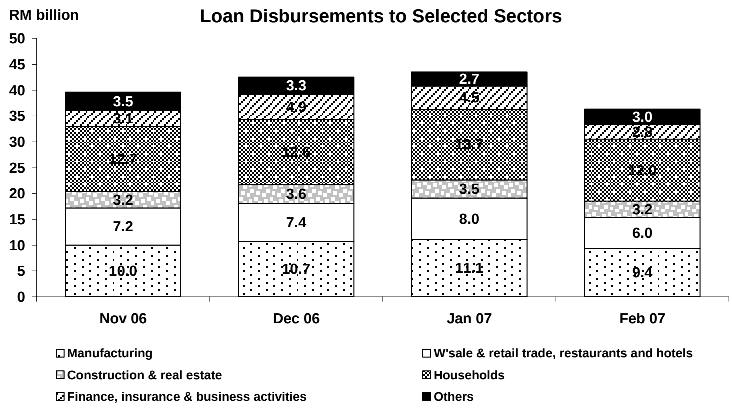
n.a. not applicable

[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.

[3/] Beginning March 2006, annual growth data is not applicable, arising from the adoption of the Standard SME Definitions, as approved by the National SME Development Council, resulting in some reclassification between SMEs and large corporations.

Loan indicators for the household sector continued to register positive annual growth rates



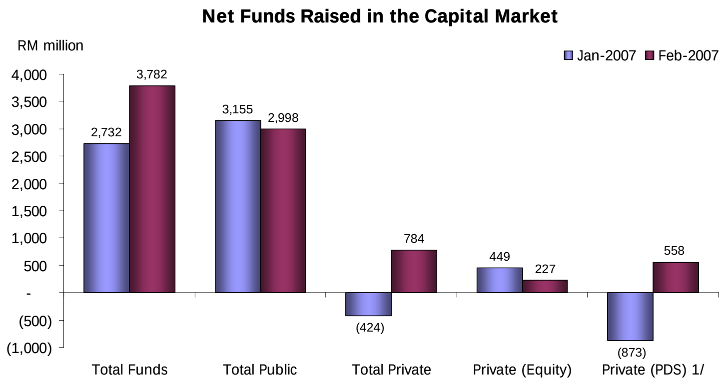
Loan disbursements remained broad-based

Notwithstanding the seasonally lower monthly levels in February, the overall loan applications and approvals continued to register positive annual growth rates, primarily on account of higher applications and approvals of household loans.

Total loans outstanding expanded by 6.2% on an annual basis as at end-February (end-January: 6.4%). Loans outstanding to businesses expanded at a faster rate of 5.2% (January: 4.4%) while loans outstanding to the household sector increased by 8.4% (January: 8.9%).

Higher financing from the capital market

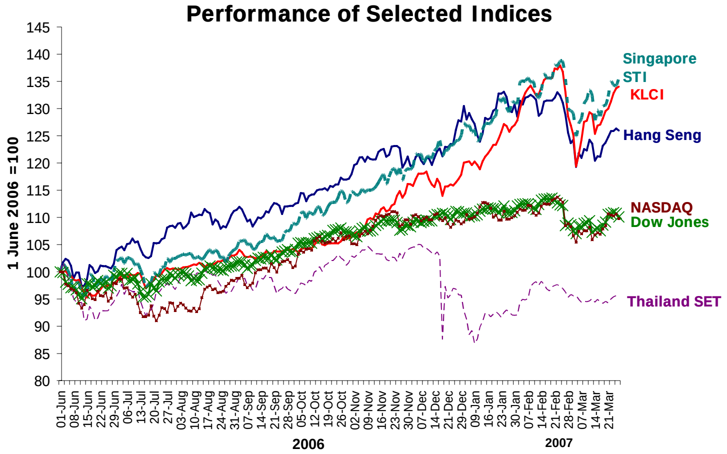
In February, total net funds raised through the capital market were higher, amounting to RM3.8 billion (January: RM2.7 billion). The bulk of the funds were raised by the public sector through a new issue of 10-year Malaysian Government Securities (MGS) together with a 10-year Callable MGS that raised a combined total of RM3 billion. Meanwhile, the private sector continued to tap the domestic capital markets for their financing needs, with total gross funds raised through the private debt securities (PDS) and equity markets amounting to RM1.5 billion. The bulk of the funds were raised through the PDS market including one issuance of RM500 million by a multilateral development bank. In total, the private sector raised net funds of RM784 million during the month.



1/ Including Cagamas Bonds

KLCI rose modestly

In February, the KLCI started on a positive note but underwent a sizeable correction towards the end of the month. The equity market correction was attributed to external developments and was in line with the overall de-rating of the global equity markets. Despite the correction, the KLCI closed at 1,196.45 points or 0.6% higher than at end-January. Market capitalisation was also higher at RM943.4 billion (+2.5% since end-January), while the daily average turnover increased to 2,866.6 million units (January: 1,270 million units).

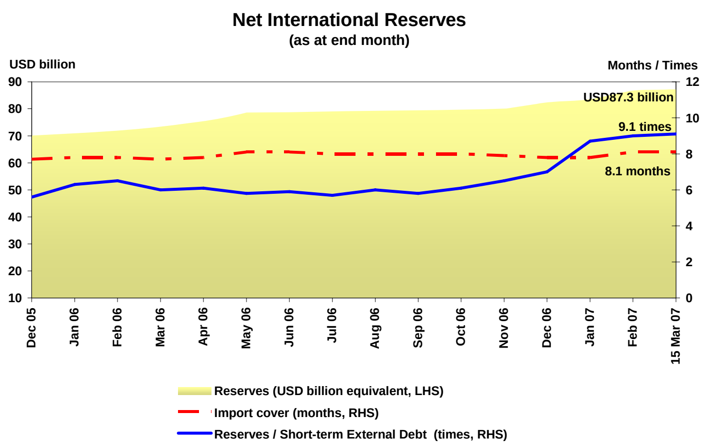


The KLCI has recovered and stabilised

As at 27 March 2007, the KLCI closed at 1,247.17 points (+4.2% since end-February), as investor sentiments in equity markets became more positive. The re-rating was further supported by the announcement of measures to liberalise and deregulate the foreign exchange administration policies, as well as the removal of the real property gains tax, and the introduction of several special incentives to promote investment. Overall market capitalisation was higher at RM979.2 billion (+3.8% since end-February), but trading activity was lower with the daily average turnover at 1,864.1 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM305.9 billion or equivalent to USD86.9 billion as at 28 February 2007. The reserves increased to RM307.2 billion or equivalent to USD87.3 billion as at 15 March 2007. The reserves position is sufficient to finance 8.1 months of retained imports and is 9.1 times the short-term external debt.



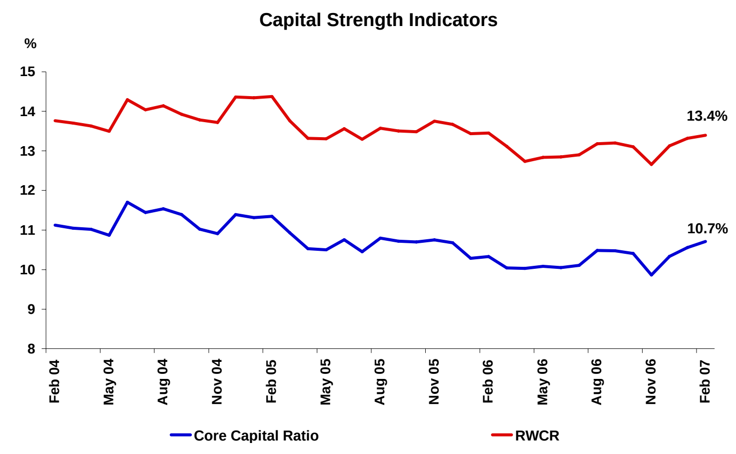
Strong banking system capitalisation amidst stable non-performing loans level

The level of capitalisation of the banking system remained strong with the risk-weighted capital ratio (RWCR) and core capital ratio improving to 13.4% and 10.7% respectively as at end-February 2007. This was primarily attributed to the increase in the capital base as a result of the commencement of operations by three new investment banks. Net non-performing loans (NPLs) remained unchanged at 4.7% of total net loans.

Banking System Health Indicators *

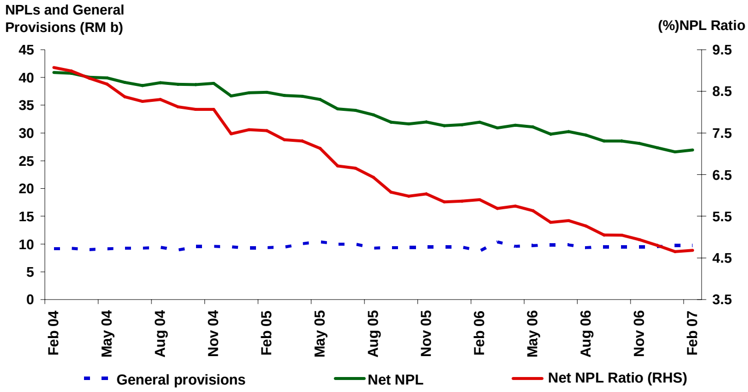
	As at end-									
	1999	2000	2001	2002	2003	2004	2005	Dec 06	Jan 07	Feb 07
Capital (%)										
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.4	10.7	10.3	10.6	10.7
RWCR	12.5	12.5	13.0	13.2	13.8	14.4	13.7	12.8	13.3	13.4
Net NPLs (3-month classification)										
% of net total loans	11.0	9.7	11.5	10.2	8.9	7.5	5.8	4.8	4.7	4.7
Amount (RM million)	40,631	37,678	46,254	43,110	40,013	36,668	31,332	27,356	26,607	26,940
GP / Net total loans (3-month, %)	2.2	2.2	2.1	2.1	2.0	1.9	1.8	1.7	1.7	1.7

* Beginning June 1999, the figures include Islamic banks.
* Beginning April 2005, RWCR and CCR include market risk factor



The banking system remains well-capitalised…

Banking System: Net NPLs and General Provisions



* based on 3-months classification policy

… amidst stable level of NPLs

Bank Negara Malaysia
28 March 2007

Key Monetary and Financial Statistics

		Dec 06		Jan 07		Feb 07	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		58.2	10.6	58.9	-2.7	59.7	8.9
M1		141.1	13.8	144.1	9.2	149.0	17.4
M2		718.2	16.6	733.9	16.4	742.5	16.8
M3		749.7	12.3	763.8	13.4	773.7	13.9
Banking System							
Total deposits		808.7	16.8	828.9	19.9	838.0	19.0
Total loans (including loans sold to Cagamas)		593.0	6.3	595.9	6.4	598.8	6.2
Loan-deposit ratio (%)		70.8		69.5		69.2	
Financing-deposit ratio [1] (%)		79.1		77.5		76.9	
Loans applied (during the period)		27.4	22.0	27.3	39.0	22.5	3.0
Loans approved (during the period)		17.7	10.6	16.4	17.8	14.3	4.2
Loans disbursed (during the period)		45.3	-5.6	46.6	6.7	38.6	-2.0
Loans repaid (during the period)		43.9	2.4	42.7	2.2	35.8	-0.2
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		12.8		13.3		13.4	
Net NPLs: 3-month classification (%)		4.8		4.7		4.7	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		290.4		294.1		306.0	
Net Reserves in USD billion (equivalent)		82.5		83.5		86.9	
Months of retained imports		7.9		7.9		8.2	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.50		3.50		3.50	
Interbank:	Overnight	3.50 [3.50]		3.50 [3.50]		3.49 [3.50]	
	1-week	3.53 [3.52]		3.52 [3.52]		3.51 [3.52]	
	1-month	3.58 [3.58]		3.56 [3.56]		3.55 [3.55]	
Fixed deposits of commercial banks:	1-month	3.11		3.11		3.11	
	3-month	3.19		3.19		3.19	
BLR of commercial banks		6.72		6.72		6.72	
ALR of commercial banks		6.57		6.57		6.54	
Prices							
Consumer Price Index (CPI) (2005=100)		104.6	3.1	105.1	3.2	105.1	3.1
Producer Price Index (PPI) (2000=100)		128.7	5.0	129.2	4.9	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.5315		3.5015		3.5060	
Euro		4.6460		4.5388		4.6332	
Pound Sterling		6.9315		6.8755		6.8830	
100 Japanese yen		2.9675		2.8808		2.9595	
Singapore dollar		2.3028		2.2784		2.2920	
100 Thai Baht		9.8111		9.7780		9.9012	
100 Philippine Peso		7.2027		7.1642		7.2110	
100 Indonesian Rupiah		0.0393		0.0385		0.0382	
100 Korean Won		0.3797		0.3717		0.3728	
Capital Market							
Net funds raised (in RMb) by:	public	3.7		3.2		3.0	
	private	-0.5		-0.4		0.8	
Bursa Malaysia Composite Index (end-period)		1,096.2		1,189.4		1,196.5	
Bursa Malaysia Market Capitalisation (RMb, end-period)		848.7		920.8		943.4	

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