



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 02/07/07

EMBARGO: For Immediate Release

Monetary and Financial Developments January 2007
Highlights of the Press Release

- During the period 1 January – 28 February 2007, the ringgit appreciated against the major currencies in the range of 0.3% - 0.7% amidst larger net trade and investment inflows. The ringgit recorded a mixed performance against regional currencies during this period. The developments in the global, regional and domestic equity markets on 27 and 28 February have not had any material impact on the ringgit.
- Despite the total decline of 6% on 27 and 28 February 2007, the KLCI closed at 1,196.45 points, or 9.1% higher compared to end-2006.



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MONETARY AND FINANCIAL DEVELOPMENTS JANUARY 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 January 2007 (December 2006: 6.2%). Total loans outstanding grew by 6.4%, with loans outstanding to businesses and households increasing at annual rates of 4.4% and 8.9% respectively (December 2006: 4.2% and 9.4% respectively).

Gross funds raised through the PDS market remained substantial at RM2.2 billion. After adjusting for redemptions, however, there was a net redemption of PDS amounting to RM873 million during the month. Net funds raised through the equity market were higher at RM449 million. The financing through the equity market, which was mainly through initial public offerings, included the inaugural issuance of an Islamic plantation REIT in the Malaysian equity market.

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

During the period 1 January – 28 February 2007, the ringgit appreciated against the major currencies in the range of 0.3% - 0.7% amidst larger net trade and investment inflows. The ringgit recorded a mixed performance against regional currencies during this period. The developments

in the global, regional and domestic equity markets on 27 and 28 February have not had any material impact on the ringgit.

Headline inflation, as measured by the Consumer Price Index (CPI), increased marginally to 3.2% in January 2007 (December 2006: 3.1%), mainly on account of the increase in the index of the *transport* category, following the increase in the toll rates of several highways in the Klang Valley.

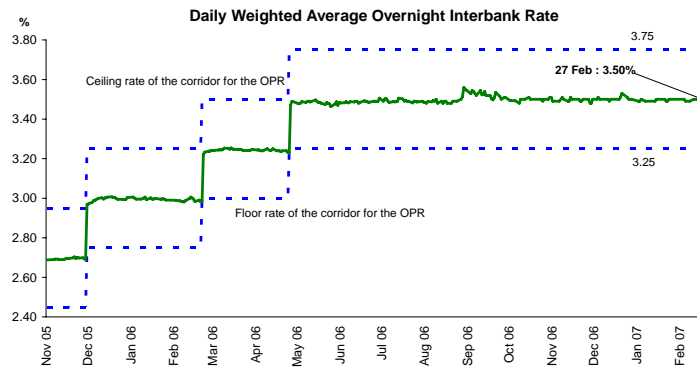
Narrow money, or M1, grew at a more moderate rate of 9.2% in January 2007 (December 2006: 13.8%), as currency in circulation declined following the end of festival season in December. M3, however, expanded at a higher rate of 13.5% in January 2007 (December 2006: 12.3%). The expansion in M3 reflected the increase in net foreign assets of both Bank Negara Malaysia and the banking institutions, and higher net claims on the Government. Claims on the private sector were contractionary on M3 as the increase in loans outstanding of the banking institutions was offset by the decline in their holdings of securities.

The banking system's capitalisation level continued to strengthen with the risk-weighted capital ratio (RWCR) and core capital ratio at 13% and 10.2% respectively as at end-January 2007. Net non-performing loans (NPLs) declined further to RM26.6 billion, or 4.6% of total net loans (based on the 3-month classification), mainly due to the reclassifications of NPLs to performing status as well as continued loan write-offs by banking institutions.

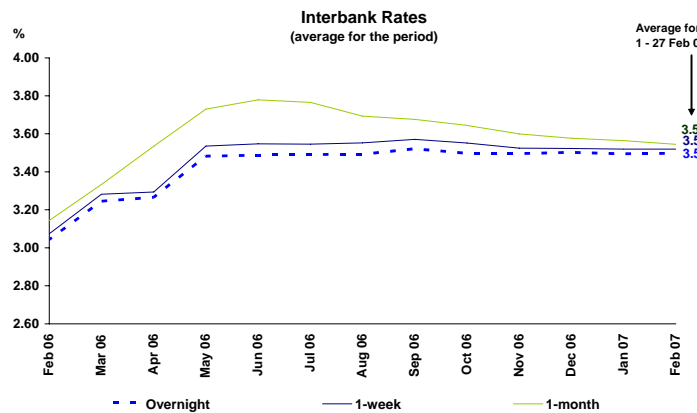
Interest rates remained stable

During the period 1 January – 27 February 2007, the daily weighted average overnight interbank rate moved within a narrow range of 3.49% - 3.51%. Interbank rates of other maturities remained stable.

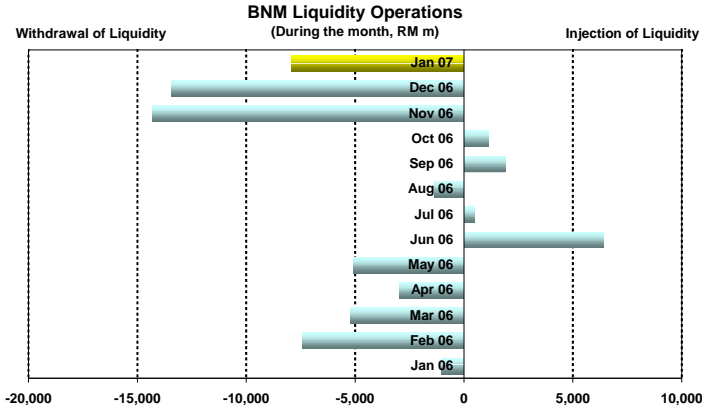
The average fixed deposit (FD) rates of commercial banks (CBs) remained relatively unchanged in January and February 2007. As at 15 February 2007, the average quoted FD rates for tenures between 1 and 12 months were relatively stable at 3.11% and 3.71% respectively. In terms of lending rates, the average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



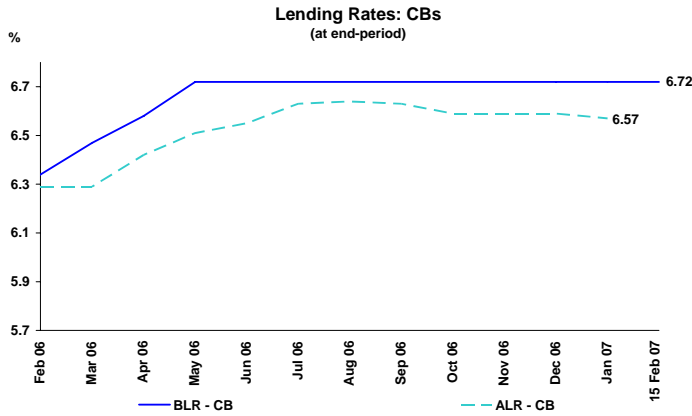
The average overnight interbank rate moved within a narrow range



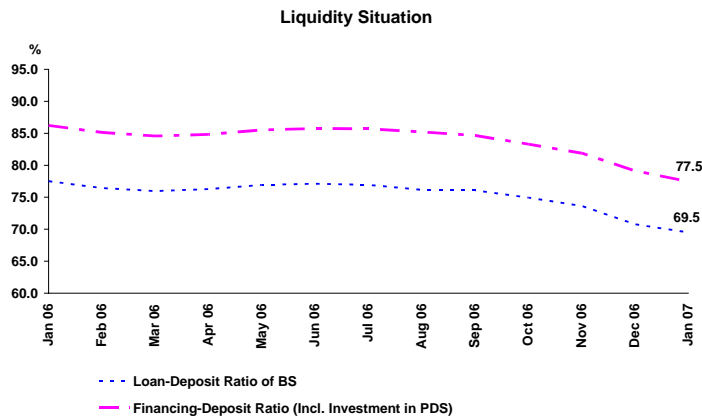
Other interbank rates remained stable



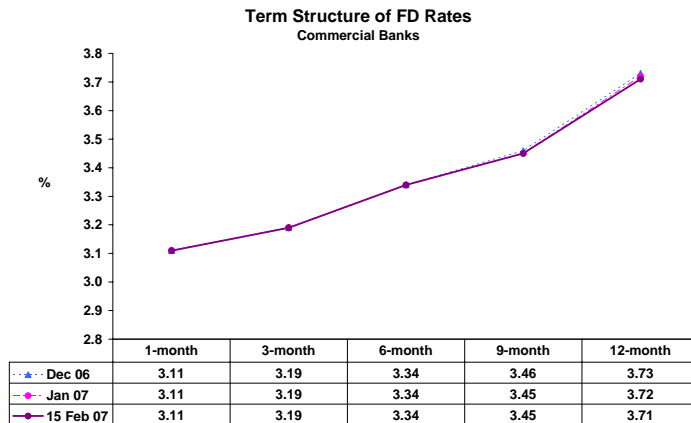
The Central Bank absorbed liquidity from the system in January



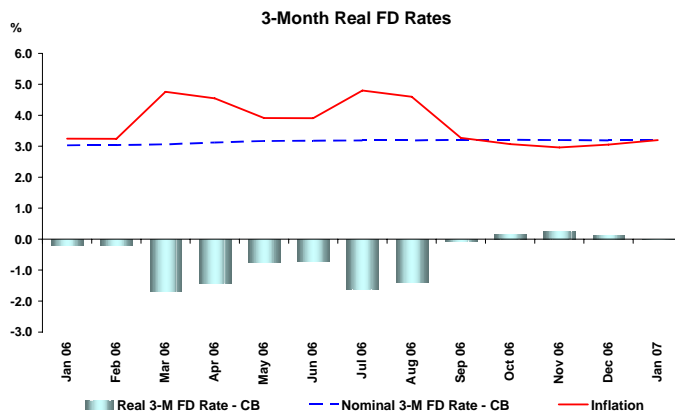
CB's lending rates were unchanged



The financing-deposit ratio declined further as the growth in deposits accelerated



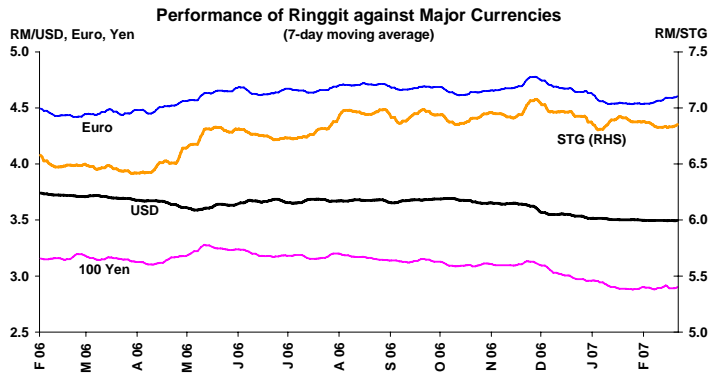
FD rates remained relatively unchanged



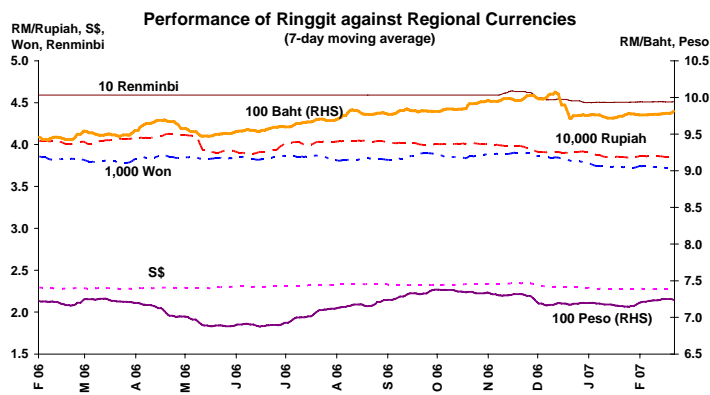
The real 3-month FD rate was lower

Ringgit appreciated against the major and most regional currencies

During the period 1 January – 28 February 2007, the ringgit appreciated against the major currencies in the range of 0.3% - 0.7% amidst larger net trade and investment inflows. The ringgit was also influenced by developments in the G3 currencies. The US dollar strengthened against the euro and Japanese yen earlier in the period, amidst positive expectations for US economic growth. The Japanese yen also depreciated due to uncertainty surrounding further increases in the policy interest rate, the release of some weak economic data, as well as the ambiguity over the outcome of the Group of Seven industrialised nations meeting in February. The ringgit recorded a mixed performance against regional currencies. The developments in the global, regional and domestic equity markets on 27 and 28 February have not had any material impact on the ringgit.



Ringgit appreciated against the major currencies



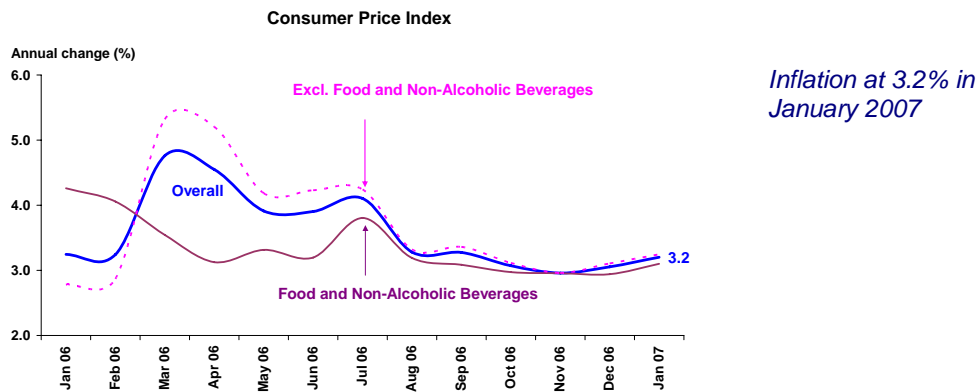
... and also against most regional currencies

Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change	
	Dec 05	Dec 06	Jan 07	28 Feb 07	End Dec 05 - 28 Feb 07	End Dec 06 - 28 Feb 07
US dollar	3.7800	3.5315	3.5015	3.5060	7.8	0.7
Euro	4.4867	4.6460	4.5388	4.6332	-3.2	0.3
Pound sterling	6.5226	6.9315	6.8755	6.8830	-5.2	0.7
100 Japanese yen	3.2229	2.9675	2.8808	2.9595	8.9	0.3
Singapore dollar	2.2714	2.3028	2.2784	2.2920	-0.9	0.5
100 Thai baht	9.2049	9.8111	9.7780	9.9012	-7.0	-0.9
100 Philippine peso	7.1254	7.2027	7.1642	7.2110	-1.2	-0.1
100 Indonesian rupiah	0.0385	0.0393	0.0385	0.0382	0.7	2.8
100 Korean won	0.3739	0.3797	0.3717	0.3728	0.3	1.8
Chinese renminbi	0.4686	0.4523	0.4504	0.4531	3.4	-0.2

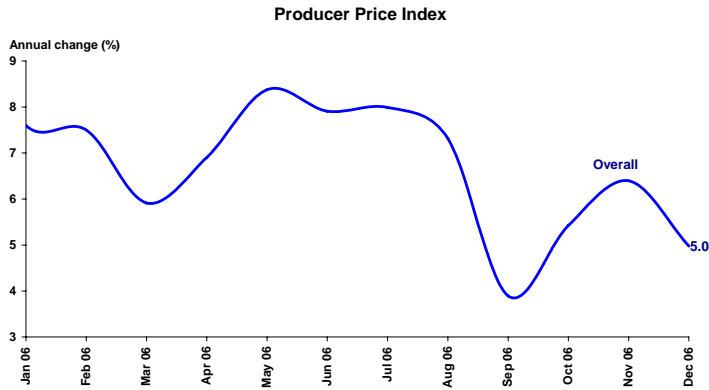
Inflation at 3.2% in January 2007

Headline inflation, as measured by the Consumer Price Index (CPI), increased marginally to 3.2% in January 2007 (December 2006: 3.1%). The slight increase in headline inflation during the month was due mainly to the increase in the index of the *transport* category, following the increase in the toll rates of several highways in the Klang Valley. The higher inflation of the *food and non-alcoholic beverages* category was attributed to the tighter food supply conditions following the severe floods in Johor. Meanwhile, the prices of *clothing and footwear*, and *communication* charges continued to decline compared to a year ago.



Rate of increase in producer prices moderated in December 2006

The rate of increase of the Producer Price Index (PPI) moderated to 5% in December 2006 (November 2006: 6.4%). The slower rate of increase in the PPI was due mainly to the lower inflation in the non commodity-related category, particularly in the machinery and transport equipment category. Meanwhile, the higher inflation for the commodity-related category was because of higher crude palm oil prices. For the year as a whole, producer price inflation moderated slightly to 6.7% (2005: 6.8%).



Rate of increase in the PPI moderated in December

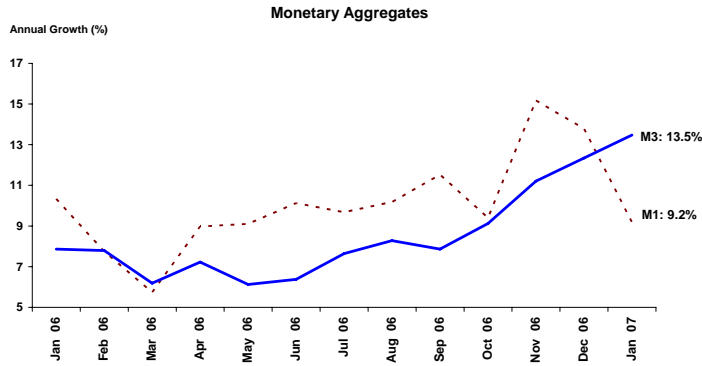
M3 expanded further

Narrow money, or M1, increased by 9.2% in January 2007 (December 2006: 13.8%). While there were higher placements of demand deposits, particularly from business enterprises, currency in circulation declined, reflecting the return of currency after the end of the festival season in December. Broad money, M3, expanded at a higher rate of 13.5% (December 2006: 12.3%). The expansion in M3 reflected the increase in net foreign assets of both Bank Negara Malaysia and the banking institutions. Net claims on the Government were also expansionary on M3. The Government drew down its deposits with Bank Negara Malaysia to finance its expenditures. Claims on the private sector were contractionary on M3 as the increase in loans outstanding of the banking institutions was offset by a decline in their holdings of securities.

M3 Determinants (RM billion)

	Change during period			
	Oct 06	Nov 06	Dec 06	Jan 07
M3	8.8	11.5	21.2	14.3
Net claims on Government	1.4	7.8	10.8	5.3
Claims on the private sector	-0.4	3.0	5.3	-0.9
<i>Loans</i>	-0.1	4.1	4.2	2.7
<i>Securities</i>	-0.3	-1.1	1.1	-3.6
Net external operations *	8.0	5.5	9.2	12.2
Other influences	-0.2	-4.8	-4.1	-2.2

* Pre-revaluation of the international reserves



*Broad money expanded
at a higher rate*

Further expansion in banking system deposits in January

Total deposits with the banking system increased by RM20.2 billion, or 19.9% on annual basis, in January 2007 (December 2006: RM32.3 billion; 16.8%). The expansion mainly reflected higher deposit placements by business enterprises and, to a lesser extent, by individuals and financial institutions. Higher inflows from the external sector contributed to the significant increase in total deposits during the month. In addition, the transformation of a discount house into an investment bank led to the absorption of that institution's deposits into the banking system. By type, the increase in deposits was mainly in the form of negotiable instruments of deposits (NIDs), fixed deposits and demand deposits.

Deposits by Holder
(RM million)

	Change during period			
	Oct 06	Nov 06	Dec 06	Jan 07
Federal Government	-7	220	936	-528
State Governments	214	-218	392	-46
Statutory Authorities ¹	-990	1,211	-889	47
Financial Institutions	3,667	5,543	17,375	1,420
Business Enterprises	6,765	8,769	10,093	14,938
Individuals	2,825	2,459	4,174	2,983
Others ²	538	833	191	1,373
Total	13,012	18,818	32,272	20,188

1/ Include local Governments

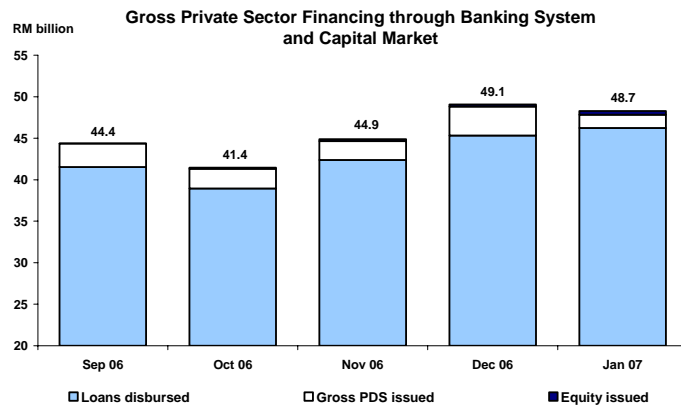
2/ Consist of domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

	Change during period			
	Oct 06	Nov 06	Dec 06	Jan 07
Fixed deposits	3,371	10,518	9,572	5,666
NIDs	2,457	-6,233	8,083	11,107
Demand deposits	2,730	1,567	1,564	4,194
Savings deposits	635	871	1,492	766
Repos	-3,022	9,005	4,803	-2,752
FX deposits	2,803	-292	1,496	289
SPI deposits	3,602	3,010	3,421	-418
Others	435	373	1,840	1,335
Total	13,012	18,818	32,272	20,188

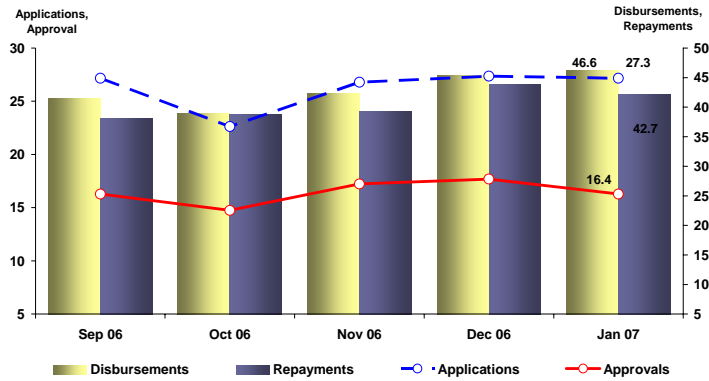
Sustained gross private sector financing in January

Gross financing of the private sector was relatively steady at RM48.7 billion in January 2007 (December 2006: RM49.1 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 6.2% (December 2006: 6.2%).



Sustained level of gross private sector financing

**Loan Applications, Approvals, Disbursements and Repayments
(RM billion)**



Major loan indicators showed sustained financing

Bank lending indicators

	RM billion		Annual Growth (%)	
	Dec	Jan	Dec	Jan
	Overall			
Loan applications	27.4	27.3	22.0	39.0
Loan approvals	17.7	16.4	10.6	17.8
Loan disbursements	45.3	46.6	-5.6	6.7
Chg in Loans Outstanding ^{1/}	0.2	3.0	6.3	6.4
Businesses^{2/}				
Loan applications	15.5	13.3	52.9	40.2
Loan approvals	10.5	8.4	35.2	38.9
Loan disbursements	32.7	33.0	-4.3	6.2
Chg in Loans Outstanding ^{1/}	1.1	1.4	4.2	4.4
SMEs				
Loan applications	5.9	7.0	n.a. ^{3/}	n.a. ^{3/}
Loan approvals	3.4	3.3	n.a.	n.a.
Loan disbursements	12.2	11.0	n.a.	n.a.
Chg in Loans Outstanding ^{1/}	-0.6	-0.1	n.a.	n.a.
Households				
Loan applications	11.8	14.0	-3.5	37.9
Loan approvals	7.2	8.0	-12.7	1.6
Loan disbursements	12.6	13.7	-8.8	7.9
Chg in Loans Outstanding ^{1/}	1.6	1.7	9.4	8.9

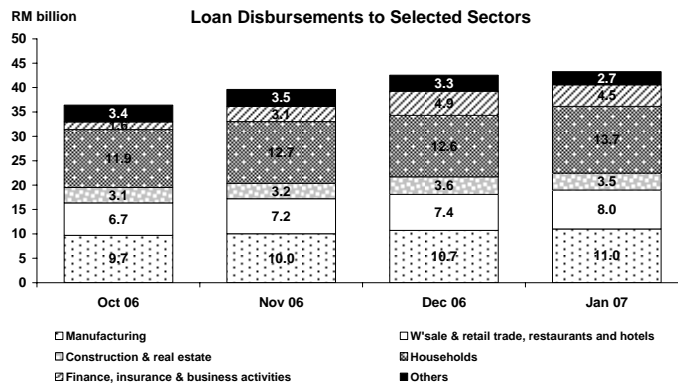
n.a. not applicable

^{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.

^{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 increased across the business and household sectors

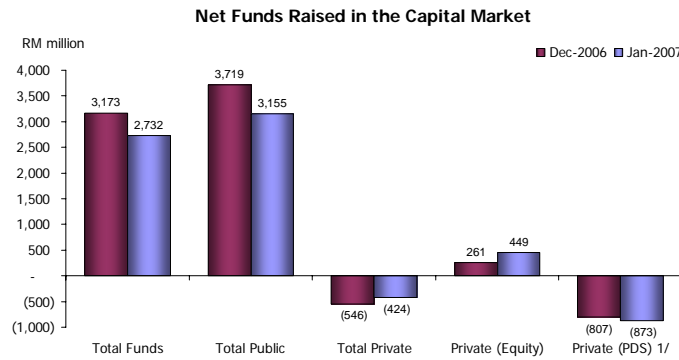


Loan disbursements remained broad-based

The major loan indicators showed sustained growth in financing and were higher across the business and household sectors. Total loans outstanding expanded by 6.4% on an annual basis as at end-January 2007 (end-December 2006: 6.3%). Loans outstanding to businesses expanded at a steady rate of 4.4% (December 2006: 4.2%), while loans outstanding to the household sector increased at a slightly slower rate of 8.9% (December 2006: 9.4%).

Lower net funds raised in the capital market

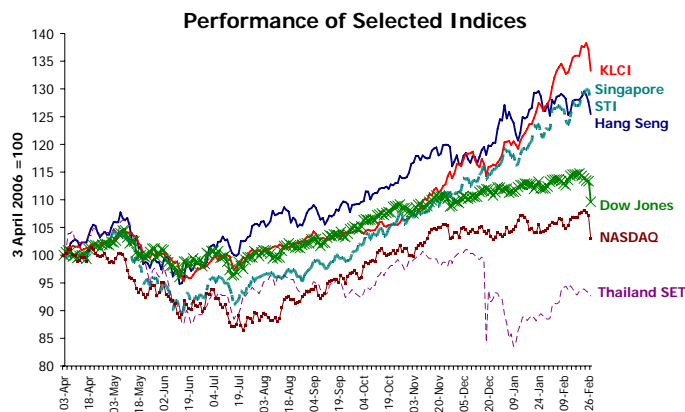
Net funds raised in the capital market in January were lower at RM2.7 billion (December 2006: RM3.2 billion). The public sector raised the bulk of the funds, through the re-opening of a 5-year Malaysian Government Securities (MGS) which amounted to RM3.5 billion. After adjusting for redemptions, net funds raised by the public sector amounted to RM3.2 billion. The private sector recorded a net redemption position of RM424 million during the month. Gross funds raised through the private debt securities (PDS) market remained substantial at RM2.2 billion, including RM600 million of debt securities issued by a foreign bank. The PDS market, however, recorded a net redemption position of RM873 million during the month. Funds raised through the equity market recorded a significant increase with net funds raised amounting to RM449 million. The financing through the equity market, which was mainly through initial public offerings (IPOs), included the inaugural issuance of an Islamic plantation REIT in the Malaysian equity market.



1/ Including Cagamas Bonds

The KLCI strengthened further

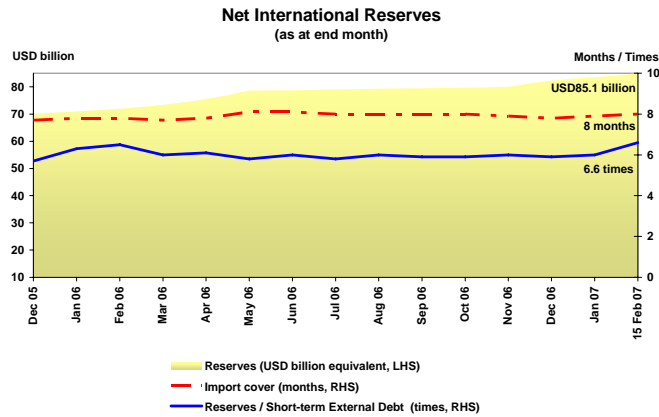
The KLCI's strong performance continued in January and February 2007. The KLCI closed at 1,189.35 points at end-January 2007 (up 8.5% since end-2006). The stronger performance of the KLCI was mainly due to inflows of foreign funds amidst the re-rating of the Malaysian market and on expectations of stronger economic growth, stronger corporate earnings and merger and acquisition activities. Market capitalisation rose to RM920.8 billion (since end-2006: 8.5%), while the daily average turnover increased to 1,270 million units (December 2006: 1,064.8 million units).



Despite the total decline of 6% on 27 and 28 February 2007, the KLCI closed at 1,196.45 points, or 9.1% higher compared to end-2006.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM294.1 billion, or equivalent to USD83.5 billion, as at 31 January 2007. The reserves increased to RM299.8 billion, or equivalent to USD85.1 billion, as at 15 February 2007. The reserves position is sufficient to finance 8 months of retained imports and is 6.6 times the short-term external debt.



Strong banking system capitalisation amidst improvement in the level of non-performing loans

The banking system capitalisation level continued to strengthen with the risk-weighted capital ratio (RWCR) and core capital ratio at 13% and 10.2% respectively as at end-January 2007. The increase in the RWCR was primarily attributed to a capital injection into a recently established Islamic bank, as well as the inclusion of the audited profits of several banking institutions. Meanwhile, net non-performing loans (NPLs) declined further to RM26.6 billion, or 4.6% of total net loans (based on the 3-month classification), mainly due to the reclassifications of NPLs to performing status as well as continued loan write-offs by banking institutions.

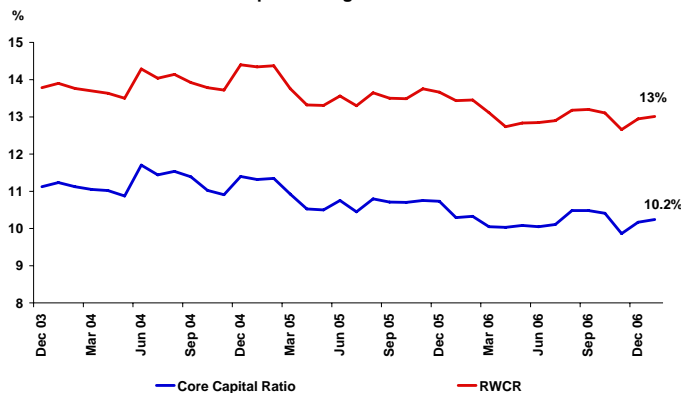
Banking System Health Indicators

	As at end-									
	1999	2000	2001	2002	2003	2004	2005	Nov 06	Dec 06	Jan 07
Capital (%)										
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.4	10.7	9.9	10.2	10.2
RWCR	12.5	12.5	13.0	13.2	13.8	14.4	13.7	12.7	12.9	13.0
Net NPLs (3-month classification)										
% of net total loans	11.0	9.7	11.5	10.2	8.9	7.5	5.8	4.9	4.8	4.6
Amount (RM million)	40,631	37,678	46,254	43,110	40,013	36,668	31,332	28,120	27,356	26,603
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.

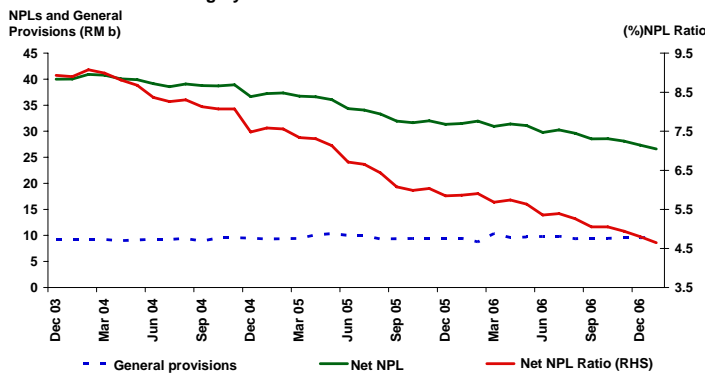
* Beginning April 2005, RWCR and CCR include market risk factor

Capital Strength Indicators



The banking system remains well-capitalised...

Banking System: Net NPLs and General Provisions



... level of NPLs continues to decline

* based on 3-months classification policy

Key Monetary and Financial Statistics

	Nov 06		Dec 06		Jan 07	
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates						
Reserve money	54.2	3.2	58.2	10.6	58.9	-2.7
M1	137.6	15.2	141.1	13.8	144.1	9.2
M2	694.3	15.5	718.2	16.6	734.1	16.5
M3	728.5	11.2	749.7	12.3	764.0	13.5
Banking System						
Total deposits	776.4	15.4	808.7	16.8	828.9	19.9
Total loans (including loans sold to Cagamas)	592.8	7.3	593.0	6.3	595.9	6.4
Loan-deposit ratio (%)		73.6		70.8		69.5
Financing-deposit ratio ¹ (%)		81.9		79.1		77.5
Loans applied (during the period)	26.8	16.1	27.4	22.0	27.3	39.0
Loans approved (during the period)	17.2	22.8	17.7	10.6	16.4	17.8
Loans disbursed (during the period)	42.4	3.2	45.3	-5.6	46.6	6.7
Loans repaid (during the period)	39.2	-2.4	43.9	2.4	42.7	2.2
Banking System Health						
Risk-weighted Capital Ratio (RWCR) (%)		12.7		12.9		13.0
Net NPLs: 3-month classification (%)		4.9		4.8		4.6
International Reserves of BNM (end-period)						
Net Reserves in RM billion		294.9		290.4		294.1
Net Reserves in USD billion (equivalent)		80.0		82.5		83.5
Months of retained imports		8.2		7.9		7.9
Interest Rates at end-period [average for the month]						
Overnight Policy Rate (OPR)		3.50		3.50		3.50
Interbank:	Overnight	3.48 [3.50]		3.50 [3.50]		3.50 [3.50]
	1-week	3.54 [3.52]		3.53 [3.52]		3.52 [3.52]
	1-month	3.59 [3.60]		3.58 [3.58]		3.56 [3.56]
Fixed deposits of commercial banks:	1-month	3.11		3.11		3.11
	3-month	3.20		3.19		3.19
BLR of commercial banks		6.72		6.72		6.72
ALR of commercial banks		6.59		6.57		6.57
Prices						
Consumer Price Index (CPI) (2005=100)	104.4	3.0	104.6	3.1	105.1	3.2
Producer Price Index (PPI) (2000=100)	128.1	6.4	128.7	5.0	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)						
US dollar		3.6180		3.5315		3.5015
Euro		4.7626		4.6460		4.5388
Pound Sterling		7.0473		6.9315		6.8755
100 Japanese yen		3.1124		2.9675		2.8808
Singapore dollar		2.3430		2.3028		2.2784
100 Thai Baht		10.0347		9.8111		9.7780
100 Philippine Peso		7.2833		7.2027		7.1642
100 Indonesian Rupiah		0.0395		0.0393		0.0385
100 Korean Won		0.3889		0.3797		0.3717
Capital Market						
Net funds raised (in RMb) by:	public	1.0		3.7		3.2
	private	0.0		-0.5		-0.4
Bursa Malaysia Composite Index (end-period)		1,080.7		1,096.2		1,189.4
Bursa Malaysia Market Capitalisation (RMb, end-period)		833.2		848.7		920.8

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