

## MONETARY AND FINANCIAL DEVELOPMENTS

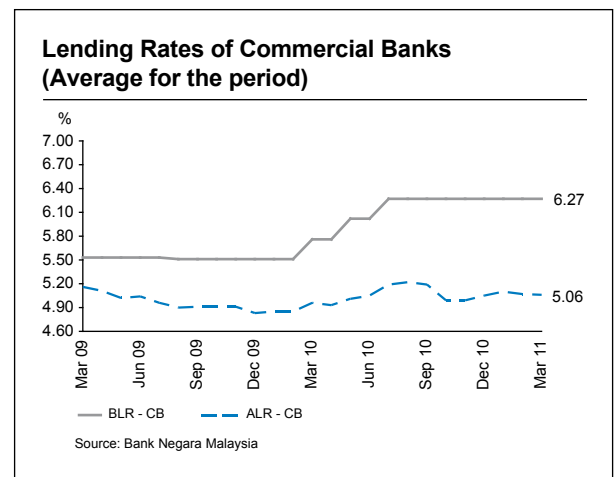
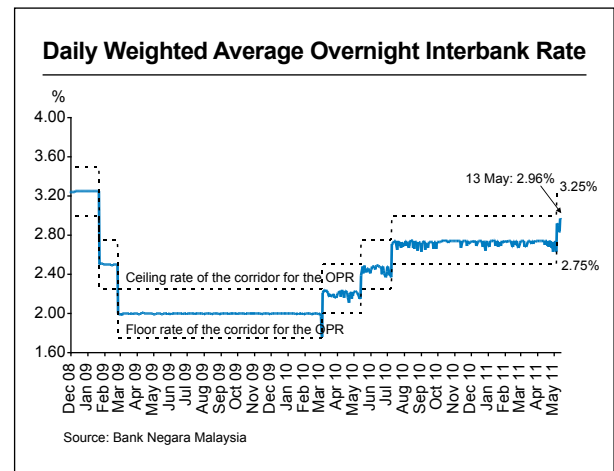
### Interest rates remained stable

The OPR was left unchanged at 2.75% in the first quarter of 2011. On 5 May 2011, the Monetary Policy Committee (MPC) raised the OPR by 25 basis points to 3.00 percent to adjust the degree of monetary accommodation. At the current OPR level, the stance of monetary policy remains supportive of growth.

The average overnight interbank rate was stable, moving within a range of 2.67% to 2.75% during the period 1 January – 31 March 2011. Interbank rates of other maturities were also stable.

In terms of retail deposit rates, the average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. As at end-March, the average quoted FD rates for tenures between 1 to 12 months ranged between 2.71% to 2.98% respectively.

Retail lending rates were also stable during the quarter. The average base lending rate (BLR) of commercial banks (CBs) was unchanged at 6.27%. The average lending rate (ALR) on loans outstanding also remained stable at 5.06% (end-December: 5.05%).



Interest Rates	2010		2011
	1Q	4Q	1Q
	At end-period (%)		
Overnight Policy Rate (OPR)	2.25	2.75	2.75
Interbank rates			
Overnight	2.18	2.72	2.74
1-month	2.35	2.83	2.79
Base lending rates (BLR)			
Commercial banks	5.76	6.27	6.27
Average lending rates (ALR)			
Commercial banks	4.96	5.05	5.06
Fixed deposit rates			
Commercial banks			
3-month	2.28	2.74	2.74
12-month	2.67	2.97	2.98

Source: Bank Negara Malaysia

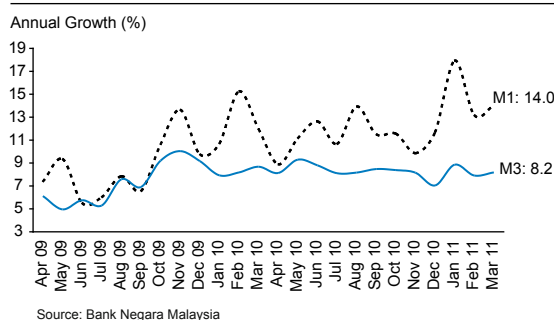
## M3 continued to expand

Monetary aggregates continued to grow at a sustained pace in the first quarter of 2011. M1, or narrow money increased by RM28.2 billion during the quarter. On an annual basis, M1 expanded by 14% as at end-March 2011 (end-Dec 2010: 11.7%). M3, or broad money, expanded at a faster annual growth rate of 8.2% as at end-March (end-Dec 2010: 7.0%), and rose by RM27.3 billion from the previous quarter.

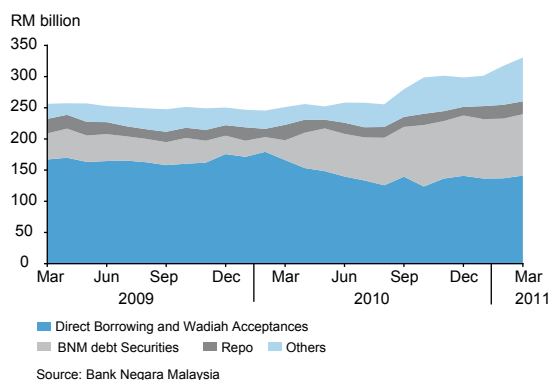
The increase in broad money during the quarter was underpinned mainly by net foreign inflows, reflecting higher portfolio inflows and the country's external trade surplus. Broad money also expanded due to higher credit extension to the private sector by the banking system. The private sector increased its holdings of Bank Negara Malaysia debt securities, which were purchased from the banking institutions. The drawdown of deposits to finance the purchase of these securities had a contractionary impact on M3, and was reflected under the other influences category of the monetary statistics.

The Bank raised the Statutory Reserve Requirement (SRR) ratio by 100 basis points in March and a further 100 basis points in May 2011. Large shifts in global liquidity had resulted in significant capital flows into emerging economies, including Malaysia. The decision to raise the SRR was, therefore, undertaken as a pre-emptive measure to manage the risk of a build-up in liquidity spurring excessive lending and risk taking, activities which could result in the accumulation of financial imbalances.

### Monetary Aggregates



### Outstanding Liquidity Placed with Bank Negara Malaysia (At end-period, RM billion)



### Determinants of Broad Money, M3

	Change during the period			
	2010			2011
	1Q	4Q	Year	1Q
	RM billion			
<b>M3</b>	<b>14.5</b>	<b>30.5</b>	<b>71.7</b>	<b>27.3</b>
Net claims on Govt	-2.4	-3.4	-8.1	-3.7
Claims on private sector	16.7	29.1	84.9	22.9
Loans	19.7	28.6	92.0	26.5
Securities	-3.1	0.5	-7.1	-3.7
Net foreign assets <sup>1</sup>	11.6	15.9	64.3	25.2
BNM	1.3	17.1	30.8	15.8
Banking System	10.3	-1.2	33.6	9.3
Other influences	-11.4	-11.2	-69.4	-17.0

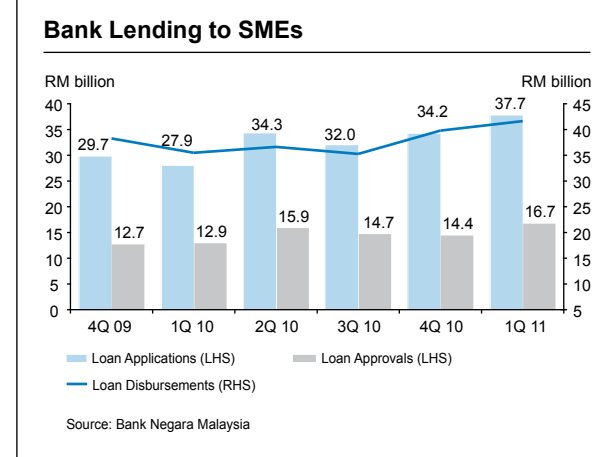
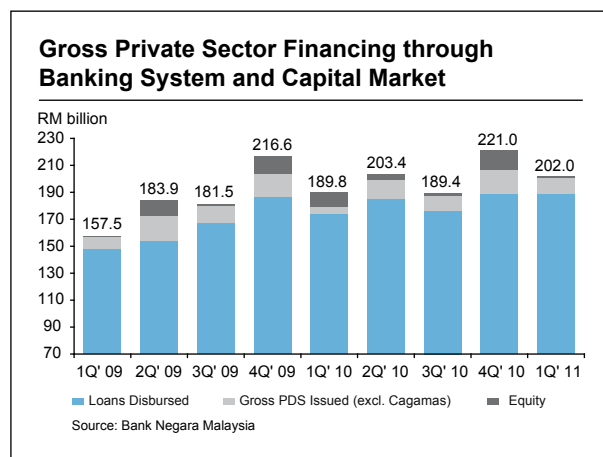
<sup>1</sup> Pre-revaluation

Source: Bank Negara Malaysia

## Private sector financing activity remained robust in the first quarter

In the first quarter, financing conditions remained supportive of economic activity. The continued access to financing, reasonably low cost of borrowing and ample liquidity in the financial system supported the demand

for financing by the private sector. Total gross financing raised by the private sector through the banking system and the capital market was sustained at RM202 billion in the first quarter (4Q 10: RM221 billion). On a net basis, banking system loans and PDS outstanding rose by an annual rate of 12.5% as at end-March (4Q 10: 11.3%).



**Financing of the Private Sector through Banking System and Capital Market**

	During the period (RM billion)				Annual growth (%)			
	1Q 10	4Q 10	2010	1Q 11	1Q 10	4Q 10	2010	1Q 11
<b>Gross total financing</b>	<b>189.8</b>	<b>221.0</b>	<b>803.6</b>	<b>202.0</b>	<b>20.5</b>	<b>2.1</b>	<b>8.7</b>	<b>6.4</b>
Loans disbursed	174.3	188.9	724.6	188.6	17.6	1.0	10.2	8.2
Gross PDS (excl. Cagamas)	4.4	17.4	46.9	12.2	-50.8	5.9	-16.4	174.8
Equity	11.0	14.7	32.1	1.1	7,530.8	12.0	23.4	-89.9
<b>Net total financing (A)+(B)</b>	<b>18.6</b>	<b>37.8</b>	<b>120.5</b>	<b>33.4</b>	<b>9.4</b>	<b>11.3</b>	<b>11.3</b>	<b>12.5</b>
Banking system	19.3	29.5	101.0	25.9	8.5	11.9	11.9	12.4
Loans outstanding (A)	22.0	29.1	99.8	28.8	9.8	12.7	12.7	13.2
Holding of PDS	-2.9	0.4	1.2	-2.9	-6.5	2.0	2.0	2.1
PDS outstanding (B)	-3.6	8.7	20.8	4.6	8.4	7.4	7.4	10.5
Memorandum item								
Gross PDS (incl. Cagamas)	4.7	18.3	52.1	12.2	-49.5	11.4	-11.0	161.3

Source: Bank Negara Malaysia

## Loan Indicators

	During the period (RM billion)				Annual growth (%)			
	1Q 10	4Q 10	2010	1Q 11	1Q 10	4Q 10	2010	1Q 11
<b>Total</b>								
Loan applications	132.9	173.5	641.3	168.5	23.5	22.9	23.0	26.8
Loan approvals	70.1	91.8	343.4	87.6	20.8	14.1	19.7	25.0
Loan disbursements	174.3	188.9	724.6	188.6	17.6	1.0	10.2	8.2
Loan repayments	154.5	167.9	649.3	168.1	11.8	3.4	9.1	8.8
Change in loans outstanding*	22.2	29.1	99.8	28.8	9.8	12.7	12.7	13.2
<b>Of which:</b>								
<b>Business enterprises**</b>								
Loan applications	60.0	82.1	298.4	79.6	15.3	34.1	25.5	32.6
Loan approvals	29.3	43.4	159.3	38.9	12.2	17.0	24.7	32.8
Loan disbursements	117.2	124.6	483.2	122.1	16.1	-1.2	9.8	4.2
Loan repayments	105.3	113.0	443.1	109.8	12.4	0.2	8.8	4.3
Change in loans outstanding*	5.9	13.4	28.5	11.3	5.4	9.4	9.4	10.9
<b>SMEs**</b>								
Loan applications	27.9	34.2	128.3	37.7	38.1	14.9	22.7	35.0
Loan approvals	12.9	14.4	57.8	16.4	45.6	13.5	27.7	27.3
Loan disbursements	35.5	39.8	147.2	41.6	2.3	4.0	2.7	17.3
Loan repayments	33.4	37.4	137.2	37.2	3.6	7.3	3.8	11.4
Change in loans outstanding*	3.4	3.5	3.0	3.4	9.1	2.4	2.4	2.4
<b>Large corporations</b>								
Loan applications	32.1	47.9	170.1	41.9	0.8	52.3	27.7	30.5
Loan approvals	16.4	29.0	101.5	22.2	-5.0	18.9	23.1	37.1
Loan disbursements	81.7	84.8	336.0	80.4	23.4	-3.4	13.2	-1.5
Loan repayments	71.8	75.6	306.0	72.6	17.1	-3.0	11.2	1.1
Change in loans outstanding*	2.5	18.1	25.5	7.9	3.0	14.2	14.2	17.0
<b>Households</b>								
Loan applications	72.8	91.4	342.9	88.9	31.3	14.3	20.9	22.0
Loan approvals	40.8	48.3	184.1	48.8	27.8	11.5	15.6	19.4
Loan disbursements	57.2	64.3	241.4	66.6	20.6	5.6	11.1	16.4
Loan repayments	49.3	54.9	206.2	58.3	10.6	10.6	9.8	18.4
Change in loans outstanding*	13.8	14.2	57.9	14.8	11.7	13.4	13.4	13.2

\* The annual growth is for end-period.  
\*\* Include loans to individual businesses.

Source: Bank Negara Malaysia

The major loan indicators remained strong in the first quarter. Although loan applications and approvals moderated in February due to fewer working days on account of the Chinese New Year festivities, there was a significant rebound in March. In the business sector, higher loan disbursements reflected mainly the increase in working capital needs of firms in the *manufacturing; agriculture and wholesale and retail, restaurants and hotels* sectors. Demand for new financing was sustained at high levels with higher applications from the *finance, insurance and business services; education, health and others; real estate and*

*manufacturing* sectors. On an annual basis, business loans outstanding expanded at 10.9% as at end-March (4Q 10: 9.4%).

Similarly, financing to the household sector remained robust. Demand for loans was mainly for the *purchase of securities, passenger cars and personal use*. Loan disbursements to households also increased during the quarter. Accordingly, household loans outstanding expanded by RM14.8 billion during the quarter to increase at an annual growth rate of 13.2% as at end-March (4Q 10: 13.4%).

### Loans by Sector

	Loans disbursed				Loans out-standing	
	During the period			Share of total	Share of total	
	1Q 10	4Q 10	2010	1Q 11		
	(RM billion)			(%)		
<b>Business enterprises</b>	<b>117.2</b>	<b>124.6</b>	<b>483.2</b>	<b>122.1</b>	<b>64.7</b>	<b>44.7</b>
<i>Large corporations</i>	81.7	84.8	336.0	80.4	42.6	30.3
<i>SMEs*</i>	35.5	39.8	147.2	41.6	22.1	14.4
<i>Selected sectors</i>						
Agriculture, hunting, forestry and fishing	9.2	5.3	24.6	5.6	3.0	2.2
Mining and quarrying	0.8	1.2	3.5	1.1	0.6	0.4
Manufacturing	33.4	36.8	144.0	41.2	21.9	9.5
Construction	9.2	11.9	42.8	10.3	5.4	4.2
Real estate	5.2	7.5	23.7	6.4	3.4	4.4
Electricity, gas and water supply	0.8	2.6	5.3	1.5	0.8	1.4
Wholesale, retail, restaurants and hotels	28.0	30.9	122.8	30.8	16.3	7.3
Transport, storage and communication	5.4	4.3	19.7	4.4	2.3	2.9
Finance, insurance and business services	13.5	17.8	59.5	14.9	7.9	7.3
<b>Households</b>	<b>57.2</b>	<b>64.3</b>	<b>241.4</b>	<b>66.6</b>	<b>35.3</b>	<b>55.3</b>
Purchase of residential properties	14.9	15.1	57.8	15.0	8.0	25.5
Consumption credit	33.4	39.9	149.4	40.1	21.3	20.4
Of which:						
<i>Credit cards</i>	18.4	23.4	83.1	23.3	12.3	3.2
<i>Purchase of passenger cars</i>	8.8	9.1	37.2	8.9	4.7	12.3
Others	8.9	9.3	34.1	11.4	6.1	9.4
<b>Total</b>	<b>174.3</b>	<b>188.9</b>	<b>724.6</b>	<b>188.6</b>	<b>100.0</b>	<b>100.0</b>

\*Include loans to individual businesses.

Source: Bank Negara Malaysia

### Fund raising in the capital market remained strong

Net funds raised in the capital market amounted to RM29.7 billion during the quarter (4Q 10: RM30.5 billion). The bulk of the funds were raised by the public sector (RM24.6 billion) through the issuance of 10.5-year and 3.5-year Malaysian Government Securities (MGS) and a 7.5-year and 3.5-year Government Investment Issues (GII), as well as the re-opening of a 5.5-year MGS.

In the private sector, fund-raising activity was concentrated in the bond market. Gross funds raised through private debt securities (PDS) issuances remained healthy at RM12.2 billion (4Q 10: RM18.3 billion). Issuances came mainly from firms in the finance and utilities sectors, and a Special Purpose Vehicle (SPV) of the Government. As with the previous quarter, the funds were mainly used for refinancing and other purposes. After adjusting for redemptions, net funds raised through debt securities amounted to RM4.0

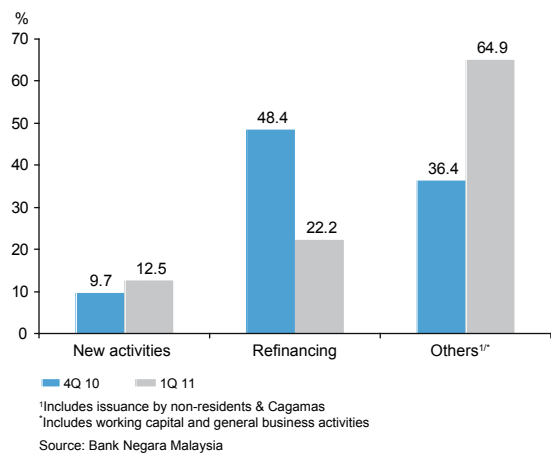
billion (4Q 10: RM8.7 billion). Meanwhile, funds raised from the equity market amounted to RM1.1 billion. Funds were raised through both initial public offerings and rights issues. Overall, net funds raised in the private sector totaled RM5.1 billion in the first quarter.

### Net Funds Raised in the Capital Market

	2010			2011
	1Q	4Q	Year	1Q
	RM billion			
<b>By Public Sector</b>	<b>15.5</b>	<b>7.1</b>	<b>37.0</b>	<b>24.6</b>
Government securities, <i>net</i>	15.6	7.1	34.9	24.6
<i>Malaysian Government Securities</i>	12.6	6.6	37.7	15.1
<i>Government Investment Issues</i>	6.5	3.0	21.0	9.5
<i>Less: Redemptions</i>	3.5	2.5	23.9	-
Khazanah Bonds, <i>net</i>	-	-	-	-
Savings Bonds, <i>net</i>	(0.1)	(0.1)	2.2	(0.1)
<b>By Private Sector</b>	<b>7.1</b>	<b>23.4</b>	<b>50.5</b>	<b>5.1</b>
Shares	11.0	14.7	32.1	1.1
Debt securities, <i>net</i>	(3.9)	8.7	18.4	4.0
<i>Private Debt Securities</i>	4.7	18.3	52.1	12.2
<i>Less: Redemptions</i>	8.6	9.6	33.8	8.2
<b>Total</b>	<b>22.6</b>	<b>30.5</b>	<b>87.5</b>	<b>29.7</b>

Source: Bank Negara Malaysia and Bursa Malaysia

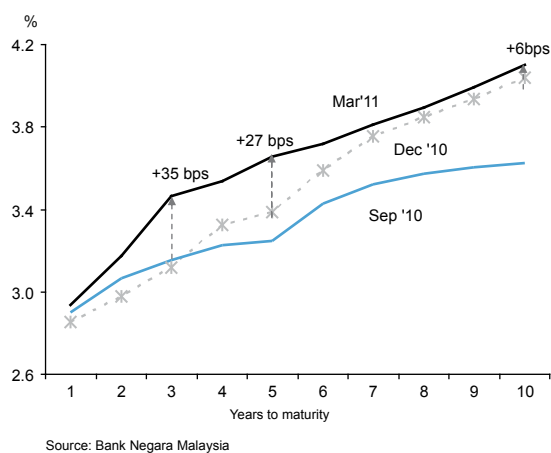
### Private Debt Securities Issued by Purpose (% of total)



### Yields increased on account of higher inflation and expectations for a policy rate adjustment

MGS yields trended upwards in the first quarter, due mainly to higher inflationary expectations due to the rising global food and fuel prices. Towards the end of the quarter, there was also additional upward pressure on yields caused by expectations among market players of an imminent adjustment in the OPR. The increase was across the board, with the benchmark 3-year, 5-year and 10-year MGS recording an increase of 35, 27 and 6 basis points respectively.

### Trend in MGS Yields

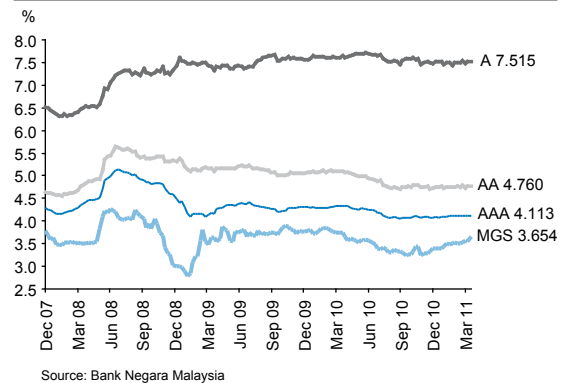


In the PDS market, corporate bond yields also increased in line with the increase in benchmark yields. The 5-year AAA-rated and AA-rated papers recorded increases of 3.9 and 1.2 basis points respectively. The 5-year A-rated paper, however, declined slightly by 1.5 basis points, reflecting improved credit conditions in the lower segment of the PDS market due to improved outlook for the economy.

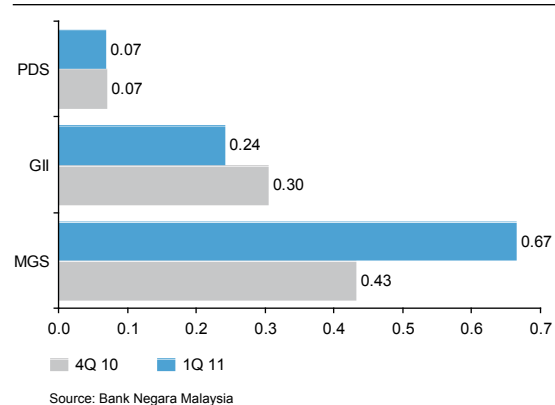
### Secondary trading in the bond market increased

Total trading in the secondary market increased significantly to RM222 billion during the quarter (4Q 10: RM158 billion). Trading was most active along the MGS segment, with an improved liquidity ratio of 0.67 (4Q 10: 0.43). Elsewhere, the liquidity ratio for the PDS segment was unchanged at 0.07, while the ratio for the GII segment declined to 0.24.

### 5-year MGS and 5-year Corporate Bond Yields



### Liquidity Ratio: Turnover / Outstanding

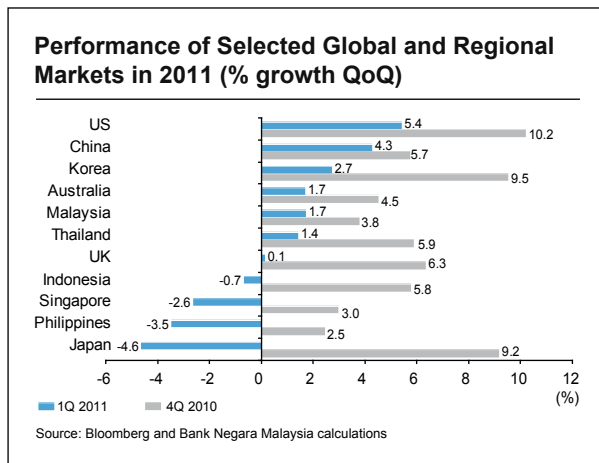


## KLCI continued its rise

The FBM KLCI rose by 26.2 points to end the first quarter at 1,545.1 (end-4Q 10: 1518.9). The KLCI's performance in the first quarter, however, was not as strong as in the previous quarter (+1.7% vs. +3.8%), reflecting trends broadly similar to trends in the global and regional markets due to higher risk aversion caused by unrest in the Middle East and North Africa region and the earthquake in Japan. Nevertheless, optimism in the domestic market was supported by positive economic data as well as the announcement of the planned implementation of the Entry Point Projects (EPP). In addition, strong US corporate

earnings also helped lift investor sentiments globally. Market capitalisation increased to RM1.31 trillion at end-March 2011 (4Q 10: RM1.28 trillion), while the daily average turnover increased substantially to 1.73 billion units (4Q 10: 1.28 billion units) during the quarter.

On 13 May 2011, the KLCI closed higher at 1,540.7 points (since end-2010: +1.4%) with market capitalisation of RM1.30 trillion (since end-2010: +2.9%).



## Bursa Malaysia: Selected Market Indicators

	2010			2011
	As at end			
	Mar	Dec	Year	Mar
Price Indices				
Composite	1,320.6	1,518.9	1,518.9	1,545.1
FBMEMAS <sup>1</sup>	8,957.2	10,375.0	10,375.0	10,612.5
FTSE Second Board <sup>2</sup>	-	-	-	-
ACE Market <sup>3</sup>	4,209.0	4,347.6	4,347.6	4,333.5
Market capitalisation (RM billion)	1,061.1	1,275.3	1,275.3	1,311.0
No. of companies listed	961	957	957	954
	During the quarter			
	1Q	4Q	Year	1Q
Average daily turnover				
Volume (million units)	1,046.6	1,276.5	1,021.2	1,730.1
Value (RM million)	1,532.4	2,002.5	1,573.9	2,233.9

<sup>1</sup>FBMEMAS stands for FTSE Bursa Malaysia EMAS Index

<sup>2</sup>From 3 August 2009, FTSE Second Board was merged with the Main board and renamed as Main Market

<sup>3</sup>From 3 August 2009, Mesdaq market was replaced with ACE Market

Source: Bursa Malaysia

## Bursa Malaysia: Market Turnover

	2010						2011	
	1Q		4Q		Year		1Q	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	61.7	90.4	79.1	124.2	266.0	413.0	102.1	131.8
Of which:								
Main Board	52.4	88.1	65.7	121.1	225.5	403.0	84.1	128.4
Of which								
Consumer Products	2.8	3.7	3.6	5.5	15.3	19.3	4.0	5.4
Industrial Products	12.4	14.1	15.4	22.7	47.6	58.9	18.8	21.2
Construction	3.1	4.9	4.5	8.7	16.4	29.0	4.6	9.0
Trading/Services	16.1	28.8	19.3	40.0	68.2	140.2	33.5	46.2
Finance	4.2	20.8	4.6	22.7	17.7	86.2	4.4	24.6
Properties	6.4	3.9	11.5	8.8	33.1	21.6	12.8	9.6
Plantations	1.5	6.4	2.3	7.9	6.1	25.5	12.4	8.2
Infrastructure	1.1	1.7	1.7	2.4	5.8	8.9	1.1	2.4
Second Board <sup>1</sup>	-	-	-	-	-	-	-	-
Mesdaq <sup>2</sup>	5.4	1.2	5.6	1.3	20.3	3.9	8.3	1.2

<sup>1</sup>From 3 August 2009, FTSE Second Board was merged with the Main board and renamed as Main Market

<sup>2</sup>From 3 August 2009, Mesdaq market was replaced with ACE Market

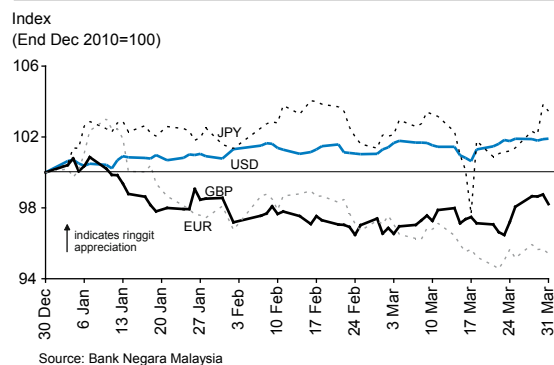
Source: Bursa Malaysia

## Mixed performance of the ringgit against major currencies

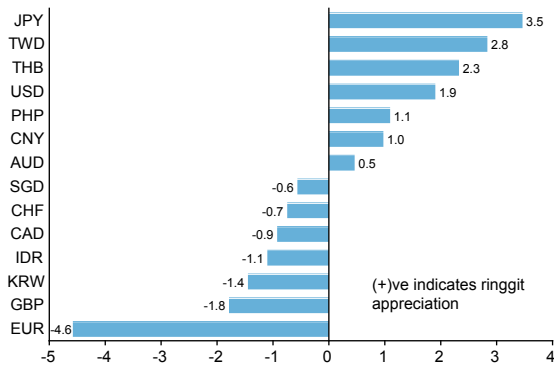
For the quarter as a whole, the ringgit appreciated by 1.9% against the US dollar. The positive growth outlook in Asia relative to the developed economies boosted investors' interest in the regional economies, providing continued support to the ringgit and other regional currencies. Malaysia's better-than-expected GDP growth in the fourth quarter also provided the impetus for the ringgit's strength. Against other major currencies, the ringgit strengthened against the Japanese yen (3.5%) but depreciated against the euro (-4.6%) and pound sterling (-1.8%). The ringgit initially strengthened against the Japanese yen as a result of the earthquake that hit Japan on 11 March 2011, but subsequently reversed its trend following the G7's announcement of joint intervention to stabilise the Japanese yen. The euro

strengthened against most currencies during the quarter due to the anticipation of an interest rate hike by the European Central Bank. Against regional currencies, the ringgit appreciated against the Thai baht (2.3%), the Philippine peso (1.1%) and the Chinese renminbi (1.0%), but depreciated against the Korean won (-1.4%), the Indonesian rupiah (-1.1%) and the Singapore dollar (-0.6%).

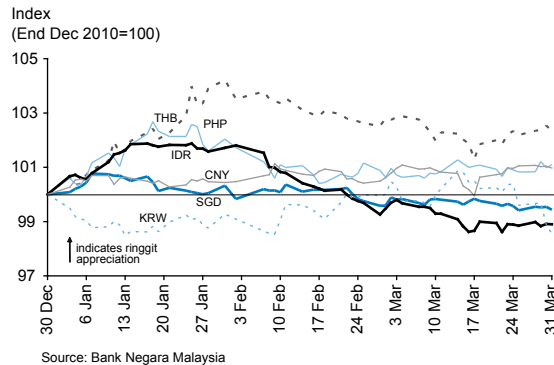
### Ringgit Performance Against Major Currencies



### Summary of Ringgit Performance Against Selected Currencies Percent Change (1 January - 31 March 2011)



### Ringgit Performance Against Regional Currencies



During the period between 1 April to 16 May 2011, the ringgit depreciated by 0.4% against the US dollar. The ringgit also depreciated against the Japanese yen (-2.4%), the euro (-0.1%) and the pound sterling (-0.9%). Within

the region, the ringgit depreciated in the range of -0.4% to -2.0% as factors specific to other countries led to faster appreciation of their currencies relative to the ringgit.

#### Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	1Q 10	4Q 10	1Q 11	21 Jul 05	1Q 10	4Q 10
US dollar	3.8000	3.2730	3.0835	3.0259	25.6	8.2	1.9
Euro	4.6212	4.3850	4.0804	4.2762	8.1	2.5	-4.6
Pound sterling	6.6270	4.9326	4.7817	4.8687	36.1	1.3	-1.8
100 Japanese yen	3.3745	3.5017	3.7869	3.6602	-7.8	-4.3	3.5
Singapore dollar	2.2570	2.3354	2.3859	2.3994	-5.9	-2.7	-0.6
100 Thai baht	9.0681	10.111	10.227	9.9947	-9.3	1.2	2.3
100 Philippine peso	6.8131	7.2236	7.0400	6.9637	-2.2	3.7	1.1
100 Indonesian rupiah	0.0386	0.0359	0.0344	0.0347	11.2	3.4	-1.1
100 Korean won	0.3665	0.2889	0.2707	0.2747	33.4	5.2	-1.4
Chinese renminbi	0.4591	0.4795	0.4662	0.4617	-0.6	3.9	1.0

\* (+) indicates appreciation of ringgit against respective currency and (-) indicates depreciation.

Source: Bank Negara Malaysia