

## MONETARY AND FINANCIAL DEVELOPMENTS

### Interest rates were reduced following the cut in the OPR

The Overnight Policy Rate (OPR) was reduced by 25 basis points in November 2008 and by another 75 basis points in January 2009. To reduce further the cost of intermediation, the Statutory Reserve Requirement (SRR) was also reduced concurrently by 50 basis points and 150 basis points. These significant respective downward adjustments were to frontload the monetary stimulus to support domestic demand, given the increased downside risk to growth in an environment of rapidly diminishing inflationary pressures. The sharper deterioration of the global economy in the fourth quarter and the increased risk of contraction of the domestic economy prompted the further reduction in the OPR by 50 basis points on 24 February 2009, and the SRR by 100 basis points.

Interbank rates of various maturities were stable prior to the monetary response. During the period, the daily weighted overnight interbank rate moved within a narrow range of 3.49% - 3.51%. Following the reduction in the OPR, the daily weighted average overnight interbank rate decreased and stabilised at a lower range of 3.24% - 3.25% during the period 25 November – 31 December 2008. Interbank rates of other maturities also softened accordingly, and remained stable at their new levels during the same period.

In terms of lending rates, the average base lending rate (BLR) of commercial banks (CBs) was lower at 6.48% as at end-December 2008 (end-September 2008: 6.72%), as 20 banks lowered their BLR in response to the reduction in the OPR. Accordingly, existing loans with variable rates were re-priced lower in the fourth quarter. New loans were also contracted at lower rates after the reduction in the OPR. As a result, the average lending rate (ALR) on loans outstanding

softened to 5.86% at end-December 2008, compared to 5.96% at end-September 2008.

Similarly, the average quoted fixed deposit (FD) rates of CBs decreased in the fourth quarter. The reduction in FD rates was most pronounced at the 12 month tenure, as the floor was revised downward by 20 basis points to 3.5%. As at end-December 2008, the average quoted FD interest rates for tenures between 1 to 12 months were within the range of 3.01% and 3.5% respectively.

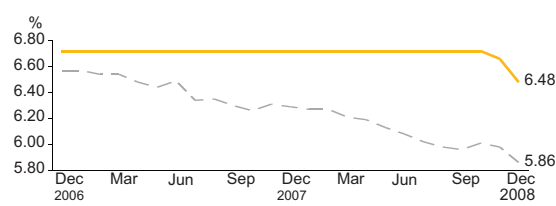
In contrast to nominal rates, real interest rates increased in the fourth quarter, as inflation moderated faster compared to the reduction in nominal interest rates.

#### Interest Rates

	2007	2008	
	4Q	3Q	4Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.50	3.50	3.25
Interbank rates			
Overnight	3.49	3.49	3.25
1-month	3.56	3.57	3.30
Base lending rates (BLR)			
Commercial banks	6.72	6.72	6.48
Average lending rates (ALR)			
Commercial banks	6.29	5.96	5.86
Fixed deposit rates			
Commercial banks			
3-month	3.15	3.14	3.04
12-month	3.70	3.70	3.50

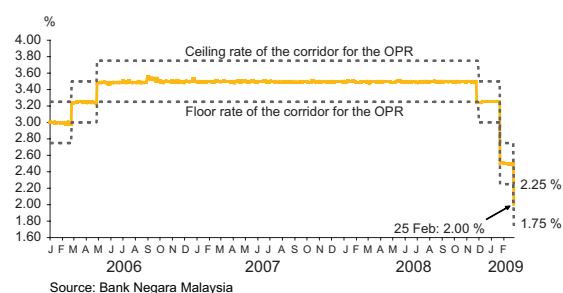
Source: Bank Negara Malaysia

#### Lending Rates of Commercial Banks (Average for the period)



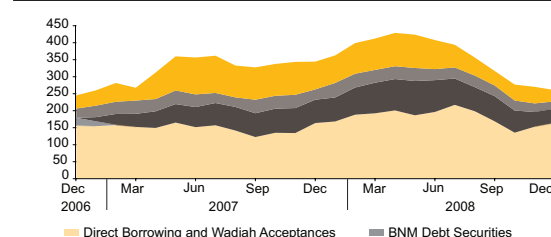
Source: Bank Negara Malaysia

#### Daily Weighted Average Overnight Interbank Rate



Source: Bank Negara Malaysia

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



Source: Bank Negara Malaysia

### M3 rose at a more moderate pace

M3, or broad money, expanded by RM19 billion in the fourth quarter of 2008. The pace of annual broad money growth continued to moderate, however, decreasing to 11.9% at end-December 2008 (end-September 2008: 13.5%) amidst large external outflows arising from the repatriation of funds by global investors. As a result, net foreign assets exerted a contractionary impact on broad money in the fourth quarter.

In contrast, domestic factors supported broad money growth. Higher government spending exerted an expansionary impact on M3. Meanwhile, claims on the private sector also increased, as banking institutions continued to supply credit to the private sector. Loans outstanding, however, increased by a more moderate amount in the fourth quarter.

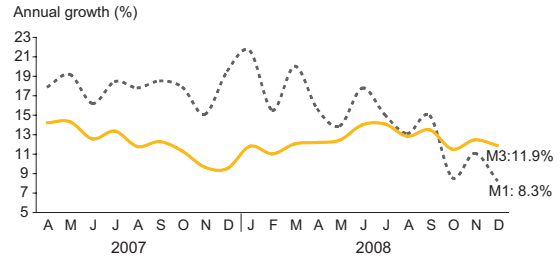
Similarly, M1 increased at a more modest annual pace of 8.3%, or RM3.3 billion during the fourth quarter.

### Private sector financing in the fourth quarter remained steady

In the fourth quarter, credit conditions in Malaysia remained orderly despite the deteriorating global financial and economic conditions. While loan indicators show some slowing in the demand for credit, demand for financing by businesses and households continued to be supported by the domestic banking institutions. As a result, overall gross financing raised by the private sector through the banking system and the capital market was steady at RM167.1 billion in the fourth quarter (quarterly average of RM157.5 billion during the period 2006 - 2008). During the quarter, new issuances of private debt securities (PDS) were slightly lower, notably in November, as businesses delayed bond issuances. On a net basis, banking system loans and PDS outstanding rose by 12.7% at end-2008 (end-September 2008: 13.4%).

The contraction in exports and private investment as well as moderation in the pace of private consumption activities in the fourth quarter led to slower demand for financing from both the business and household sectors. Within the business sector, new loans applied declined across all the economic sectors,

### Monetary Aggregates



Source: Bank Negara Malaysia

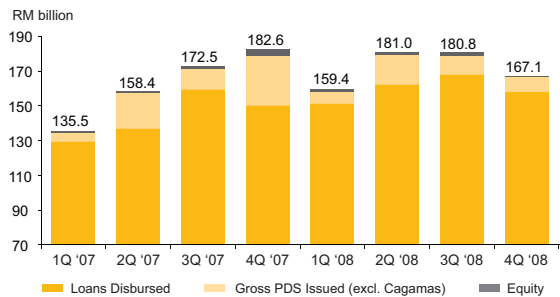
### Determinants of Broad Money, M3

	Change during the period			
	2007		2008	
	3Q	4Q	2Q	3Q
	RM billion			
<b>M3</b>	<b>15.6</b>	<b>28.5</b>	<b>14.7</b>	<b>13.7</b>
Net claims on Government	10.6	8.5	-5.1	14.5
Claims on private sector	32.9	-0.8	26.1	32.7
Loans	30.6	-0.6	23.5	25.6
Securities	2.3	-0.2	2.7	7.1
Net foreign assets <sup>1</sup>	-21.2	21.1	2.9	-57.3
BNM	-7.6	7.2	15.9	-32.2
Banking system	-13.5	14.0	-13.0	-25.0
Other influences	-6.7	-0.4	-9.3	23.8

<sup>1</sup> Pre-revaluation

Source: Bank Negara Malaysia.

### Gross Private Sector Financing through Banking System and Capital Market



Source: Bank Negara Malaysia

with the exception of the wholesale and retail trade sector. Although initially demonstrating cautiousness in extending credit, banking institutions have continued to be forthcoming in extending credit facilities. Business loan approvals over applications increased from 52.6% in third quarter to 56.8% in the fourth quarter. Meanwhile, disbursements to businesses continued to register positive annual growth. In particular, loans disbursed for the purpose of working capital rose further by 12.2% in the fourth quarter (3Q 08: 32%). Accordingly,

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

	During the period (RM billion)				Annual growth (%)		
	2007	4Q 07	3Q 08	4Q 08	2007	3Q 08	4Q 08
<b>Gross total financing</b>	<b>648.9</b>	<b>182.6</b>	<b>180.8</b>	<b>167.1</b>	<b>17.4</b>	<b>4.8</b>	<b>-8.5</b>
Loans disbursed*	575.3	150.0	168.1	157.9	10.6	5.5	5.3
Gross PDS (excl. Cagamas)	66.5	28.7	10.5	9.0	116.4	-12.9	-68.9
Equity	7.1	3.8	2.2	0.2	272.0	93.9	-94.2
<b>Outstanding total financing (A)+(B)</b>	<b>88.0</b>	<b>20.1</b>	<b>30.4</b>	<b>16.1</b>	<b>11.3</b>	<b>13.4</b>	<b>12.7</b>
Banking system	59.7	5.6	28.8	15.7	9.3	11.2	12.5
Loans outstanding (A)	51.2	-0.1	26.8	13.8	8.6	10.6	12.8
Holding of PDS	8.5	5.7	1.9	1.9	17.6	18.5	9.9
PDS outstanding (B)	36.8	20.2	3.5	2.2	19.6	22.4	12.4
Memorandum item							
Gross PDS (incl. Cagamas)	69.4	28.7	11.0	9.0	78.4	-8.8	-68.9

\* Banking system loans include loans sold to Cagamas

Source: Bank Negara Malaysia

business loans outstanding grew at an annual growth rate of 13.2% at end-December 2008.

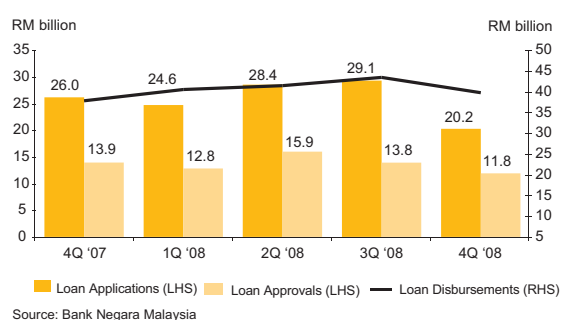
For the household sector, concerns over income prospects led to more cautious spending behaviour and a moderation in applications for consumer loans. The supply conditions for household loans remained favourable, with the ratio of household loan approvals to applications remaining above 60%. Disbursements to the household sector continued to register positive annual growth, supported mainly by housing and personal loans. Household loans outstanding grew at a sustained rate of 9.1% at end-December 2008 (end-September 2008: 9.1%).

### Higher net funds raised in the capital market

Net funds raised in the capital market were higher at RM14.3 billion in the fourth quarter (3Q 08: RM6.6 billion). The increase was largely due to higher funds raised by the public sector. Funds were raised through the issuance of the 10-year Government Investment Issues (GII), and the re-opening of the 3-year, 5-year and 10-year Malaysian Government Securities (MGS). After adjusting for redemptions, net funds raised by the public sector amounted to RM13.9 billion.

Meanwhile, in the private sector, gross funds raised from the private debt securities (PDS) market declined from RM11 billion in the third quarter to RM9 billion in the fourth quarter. Issuers delayed their issuances in the month of November as businesses evaluated the credit conditions in an environment of highly

### Bank Lending to SMEs



volatile global financial conditions. Funds raised during the quarter were by companies in the finance and insurance as well as real estate and business services sub-sectors. During the quarter, PDS was mostly issued to finance new investments (65.5%).

In the equity market, funds raised totalled RM222 million compared to RM2.2 billion in the third quarter. The decline was due mainly to weak market sentiments and heightened risk aversion. The bulk of the funds was raised through rights issues (RM164 million).

### Secondary trading in the bond market increased

Total trading in the secondary market rose to RM165.8 billion in the fourth quarter (3Q 08: RM160.7 billion). Government securities (MGS and GII) accounted for 93% of total trades. In terms of liquidity, the MGS was the most liquid paper, registering a liquidity ratio of 0.69, followed by the GII with a liquidity ratio of 0.23.

## Loan Indicators

	During the period (RM billion)				Annual Growth (%)			
	2007	4Q 07	3Q 08	4Q 08	2007	4Q 07	3Q 08	4Q 08
<b>Total</b>								
Loan applications	457.5	131.2	136.0	103.4	52.1	71.0	10.4	-21.2
Loan approvals	298.6	87.9	78.2	61.6	58.6	77.1	5.1	-30.0
Loan disbursements	575.3	150.0	168.1	157.9	10.6	18.0	5.5	5.3
Loan repayments	518.7	153.8	145.6	143.4	8.5	25.6	17.6	-6.8
Change in loan outstanding*	51.2	-0.1	26.8	13.8	8.6	8.6	10.6	12.8
<b>Of which:</b>								
<b>Business enterprises**</b>								
Loan applications	262.6	77.3	74.8	51.9	63.1	87.3	9.5	-32.9
Loan approvals	181.5	56.7	39.4	29.5	88.4	101.8	-4.2	-48.0
Loan disbursements	405.8	105.1	120.8	112.6	9.7	17.2	6.1	7.1
Loan repayments	370.3	115.0	104.3	101.9	5.3	30.2	21.0	-11.4
Change in loan outstanding*	24.4	-10.1	14.1	-1.4	10.3	10.3	9.5	13.2
<b>SMEs**</b>								
Loan applications	99.1	26.0	29.1	20.2	38.8	31.5	1.4	-22.5
Loan approvals	55.1	13.9	13.8	11.8	37.1	17.0	-14.7	-14.5
Loan disbursements	141.7	37.6	43.2	39.6	5.6	13.4	19.9	5.2
Loan repayments	126.8	34.6	38.2	36.1	3.5	10.2	23.0	4.5
Change in loan outstanding*	9.5	1.8	2.6	0.1	9.1	9.1	11.0	9.4
<b>Large corporations</b>								
Loan applications	163.5	51.3	45.6	31.7	82.4	138.7	15.4	-38.1
Loan approvals	126.4	42.9	25.5	17.7	125.2	163.6	2.8	-58.8
Loan disbursements	264.1	67.5	77.6	73.0	12.1	19.4	-0.3	8.2
Loan repayments	243.5	80.4	66.1	65.8	6.2	41.3	19.8	-18.2
Change in loan outstanding*	14.9	-11.9	11.5	-1.5	11.3	11.3	8.4	16.2
<b>Households</b>								
Loan applications	194.9	53.9	61.2	51.5	39.4	51.9	11.4	-4.4
Loan approvals	117.1	31.2	38.8	32.1	27.3	44.8	16.5	2.8
Loan disbursements	169.5	44.9	47.3	45.4	12.8	19.9	4.2	1.0
Loan repayments	148.5	38.8	41.4	41.5	17.3	13.8	9.8	7.0
Change in loan outstanding*	24.5	7.2	9.8	7.9	7.4	7.4	9.1	9.1

\* The annual growth is for end-period

\*\* Include loans to individual businesses

Source: Bank Negara Malaysia

## Loans by Sector

	Loans disbursed					Loans out- standing	
	During the period				Share of total	Share of total	
	2007	4Q 07	3Q 08	4Q 08			
	(RM billion)				(%)		
<b>Business enterprises</b>	<b>405.8</b>	<b>105.1</b>	<b>120.8</b>	<b>112.6</b>	<b>71.3</b>	<b>46.6</b>	
<i>Large corporations</i>	264.1	67.5	77.6	73.0	46.2	29.4	
<i>SMEs*</i>	141.7	37.6	43.2	39.6	25.0	17.2	
<i>Selected sectors</i>							
Agriculture, hunting, forestry and fishing	14.1	3.6	4.2	3.9	2.5	2.2	
Mining and quarrying	2.0	0.7	0.5	0.5	0.3	0.3	
Manufacturing	134.9	35.0	40.5	34.9	22.1	11.2	
Construction	32.6	8.3	8.7	8.0	5.1	4.8	
Real estates	12.3	3.6	4.0	4.7	3.0	3.5	
Electricity, gas and water supply	1.3	0.4	0.3	1.0	0.6	0.6	
Wholesale, retail, restaurants and hotels	91.5	25.4	31.6	27.5	17.4	8.5	
Transport, storage and communication	32.1	5.6	7.9	3.3	2.1	3.2	
Finance, insurance and business services	45.7	11.9	13.3	15.0	9.5	6.6	
<b>Households</b>	<b>169.5</b>	<b>44.9</b>	<b>47.3</b>	<b>45.4</b>	<b>28.7</b>	<b>53.4</b>	
Purchase of residential properties	39.9	11.1	12.2	12.3	7.8	25.4	
Consumption credit	109.4	29.2	29.9	27.8	17.6	21.4	
<i>Of which:</i>							
<i>Credit cards</i>	57.9	15.4	14.8	15.2	9.6	3.4	
<i>Purchase of passenger cars</i>	27.8	7.4	9.0	6.8	4.3	13.7	
Others	20.2	4.6	5.2	5.2	3.3	6.5	
<b>Total</b>	<b>575.3</b>	<b>150.0</b>	<b>168.1</b>	<b>157.9</b>	<b>100.0</b>	<b>100.0</b>	

\* Include loans to individual businesses.

Source: Bank Negara Malaysia

During the quarter under review, MGS yields remained on a downward trend as investors' demand for risk-free assets was strong. Furthermore, indications of easing inflationary pressures and increasing concerns over the slowdown in economic growth heightened expectations for a reduction in the OPR. After Bank Negara Malaysia reduced the OPR in November 2008, MGS yields across all maturities eased further. Towards year-end, MGS yields continued to decline on expectations for further interest rate cuts. As at end-December 2008, the 3, 5 and 10-year MGS fell by 96, 106 and 137 basis points respectively.

### KLCI declined in the fourth quarter

In the fourth quarter of 2008, the KLCI declined in line with other regional markets. The weak performance of the local market was due to concerns over the depth of the global recession and expectations for weak domestic corporate earnings. The decline, however, was mitigated somewhat by improvements in market sentiments following policy actions by governments to support growth. The KLCI ended the fourth quarter lower at 876.8 (3Q 08: 1,018.7). Market capitalisation declined to RM663.8 billion (3Q 08: RM770.5 billion) but trading activity increased to a daily average turnover of 610.1 million units (3Q 08: 437 million units).

On 24 February 2009, the KLCI closed higher at 894.1 (since end-2008: +2.0%), with market capitalisation higher at RM670.2 billion (since end-2008: +1%).

### The ringgit broadly depreciated against the US dollar

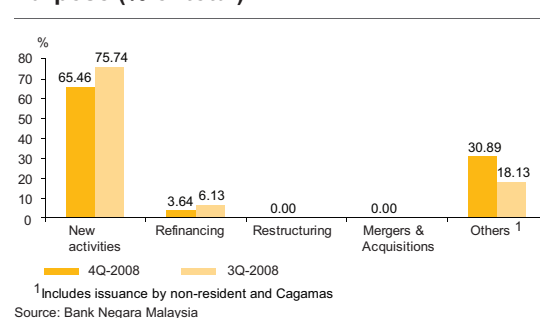
The ringgit depreciated against the US dollar during the fourth quarter following continued global de-leveraging activities. The ringgit weakened to RM3.6375 against the US dollar on 5 December 2008, representing a 13.9% decline from the 23 April 2008 peak of RM3.1315. Towards the end of the year, the ringgit experienced some recovery with the ringgit-US dollar exchange rate at 3.4640, as at 31 December 2008, 4.5% lower than the end-2007 level. Against other major currencies during the fourth quarter, the ringgit was stronger against the pound sterling by 24.5% and by 1.8% against the euro amid growing concerns over deteriorating economic conditions in the UK and euro area. The ringgit also appreciated against most regional currencies in the range of 0.3% to 15.9% during the period. The exception was the Chinese renminbi, against which the ringgit depreciated by 0.5%.

### Funds Raised in the Capital Market

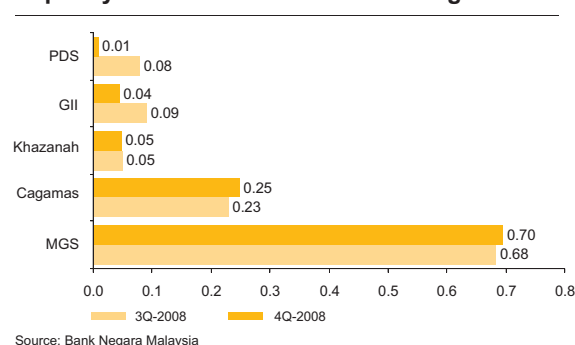
	2007		2008		
	4Q	Year	3Q	4Q	
	RM million				
<b>By Public Sector</b>	<b>(5,946)</b>	<b>25,178</b>	<b>680</b>	<b>13,859</b>	<b>36,188</b>
Government Securities, <i>net</i>	(5,552)	27,187	1,688	14,865	37,720
Malaysian Government Securities	14,048	43,187	11,337	11,965	44,618
Government Investment Issues	-	10,000	3,500	7,500	16,500
Less: Redemptions	19,600	26,000	13,149	4,600	23,399
Khazanah Bonds, <i>net</i>	-	(496)	(1,000)	(1,000)	(3,000)
Merdeka Savings Bond, <i>net</i>	(394)	(1,513)	(8)	(6)	1,468
<b>By Private Sector</b>	<b>6,513</b>	<b>20,300</b>	<b>5,915</b>	<b>451</b>	<b>21,114</b>
Shares	3,819	7,126	2,201	222	5,477
Debt securities, <i>net</i>	2,694	13,174	3,714	229	15,637
Private Debt Securities	28,746	67,606	11,001	8,953	49,658
Cagamas	-	1,750	-	-	-
Less: Redemptions	26,052	56,182	7,287	8,724	34,021
<b>Total</b>	<b>567</b>	<b>45,478</b>	<b>6,595</b>	<b>14,310</b>	<b>57,302</b>

Source: Bank Negara Malaysia

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

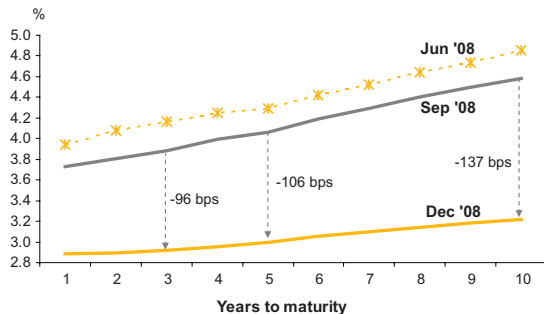


### Liquidity Ratio: Turnover / Outstanding



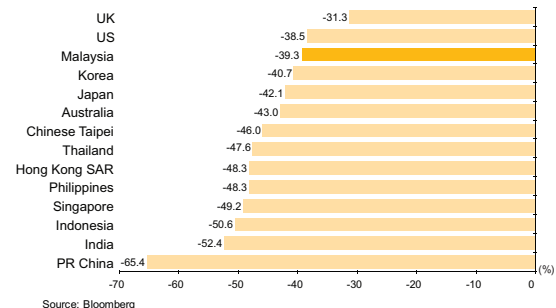
During the period of 1 January to 24 February 2009, the ringgit depreciated against the US dollar by 5.6%, the pound sterling by 6.4% and the Japanese yen by 0.7%, but appreciated against the euro by 4.5%. The ringgit depreciated against regional currencies in the range of 0.2% to 5.6%, with the exception of the Korean won, the Indonesian rupiah and the Singapore dollar, against which the ringgit appreciated by 13.2%, 3% and 0.4% respectively.

### Trend in MGS Yields



Source: Bank Negara Malaysia

### Performance of Selected Global and Regional Markets (31 December 2007 - 31 December 2008)



Source: Bloomberg

During the period of 1 January to 24 February 2009, the ringgit depreciated against the US dollar (-5.6%), the pound sterling (-6.4%) and the Japanese yen (-0.7%), but appreciated against the euro (4.5%). The ringgit depreciated

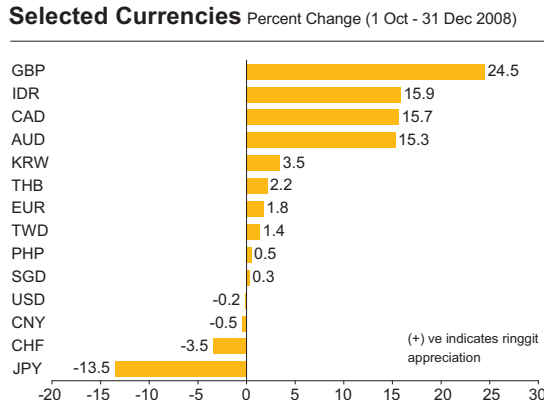
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### Bursa Malaysia: Turnover of Corporate Securities

	2007				2008					
	4Q		Year		3Q		4Q		Year	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	78,648	117,720	383,991	581,733	27,965	57,172	36,605	54,438	154,459	313,083
Of which:										
Main Board	50,667	106,134	271,381	520,787	23,195	55,867	31,273	53,316	119,303	301,289
Of which:										
Consumer Products	1,752	4,777	7,844	20,411	903	2,874	946	2,478	3,671	11,973
Industrial Products	4,906	8,213	29,719	45,069	3,507	4,981	7,609	5,450	17,865	23,704
Construction	3,486	9,748	22,812	57,456	2,995	5,855	3,076	3,967	14,119	30,070
Trading/Services	15,545	38,069	72,457	178,208	6,950	19,311	9,327	20,377	35,826	106,698
Finance	3,728	17,445	23,640	90,048	1,812	9,155	2,652	10,190	10,846	59,459
Properties	7,300	7,814	50,259	48,685	2,500	1,802	3,044	1,805	12,832	12,076
Plantations	2,177	9,658	7,526	37,222	1,723	9,166	2,011	6,284	7,524	39,238
Infrastructure	1,408	4,694	6,284	15,390	511	1,912	787	2,170	3,398	10,713
Second Board	7,254	4,707	34,776	23,887	1,983	919	2,276	739	10,761	6,521
Mesdaq	6,139	3,050	43,276	23,842	1,412	331	1,686	294	11,239	3,921

Source: Bursa Malaysia

### Summary of Ringgit Performance Against Selected Currencies



(+ ve indicates ringgit appreciation)

### Bursa Malaysia: Selected Market Indicators

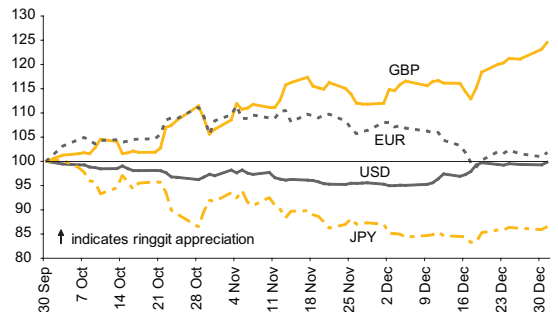
	As at end				
	2007		2008		
	4Q	Year	3Q	4Q	Year
Price Indices					
Composite	1,445.0	1,445.0	1,018.7	876.8	876.8
FBM30 <sup>1</sup>	9,343.7	9,343.7	6,577.7	5,637.7	5,637.7
FBMEMAS <sup>2</sup>	9,810.8	9,810.8	6,755.9	5,726.5	5,726.5
FTSE Second Board	6,732.4	6,732.4	4,978.8	4,007.3	4,007.3
FTSE Mesdaq	6,109.2	6,109.2	3,968.3	3,333.6	3,333.6
Average daily turnover					
Volume (million units)	1,268.5	1,548.4	437.0	610.1	630.4
Value (RM million)	1,898.7	2,345.7	893.3	907.3	1,277.9
Market capitalisation (RM billion)	1,106.2	1,106.2	770.5	663.8	663.8
No. of companies listed	987	987	981	977	977

<sup>1</sup> FBM30 stands for FTSE Bursa Malaysia 30 Index  
<sup>2</sup> FBMEMAS stands for FTSE Bursa Malaysia EMAS Index

Source: Bursa Malaysia

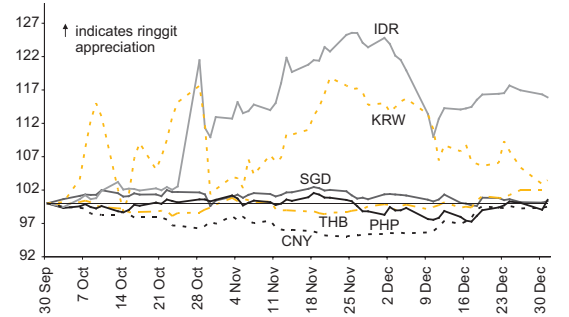
### Ringgit Performance Against Major Currencies

Index  
(End- Sep 2008 = 100)



### Ringgit Performance Against Regional Currencies

Index  
(End- Sep 2008 = 100)



### Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	4Q 07	3Q 08	4Q 08	21 Jul 05	4Q 07	3Q 08
US dollar	3.8000	3.3065	3.4575	3.4640	9.7	-4.5	-0.2
Euro	4.6212	4.8756	4.9636	4.8759	-5.2	-0.0	1.8
Pound sterling	6.6270	6.6070	6.2254	4.9989	32.6	32.2	24.5
100 Japanese yen	3.3745	2.9534	3.3154	3.8327	-12.0	-22.9	-13.5
Singapore dollar	2.2570	2.2938	2.4153	2.4070	-6.2	-4.7	0.3
100 Thai baht	9.0681	9.8159	10.154	9.9398	-8.8	-1.2	2.2
100 Philippine peso	6.8131	8.0158	7.3159	7.2774	-6.4	10.1	0.5
100 Indonesian rupiah	0.0386	0.0352	0.0367	0.0316	22.0	11.3	15.9
100 Korean won	0.3665	0.3532	0.2846	0.2750	33.3	28.4	3.5
Chinese renminbi	0.4591	0.4527	0.5051	0.5076	-9.6	-10.8	-0.5

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

Source: Bank Negara Malaysia