

## MONETARY AND FINANCIAL DEVELOPMENTS

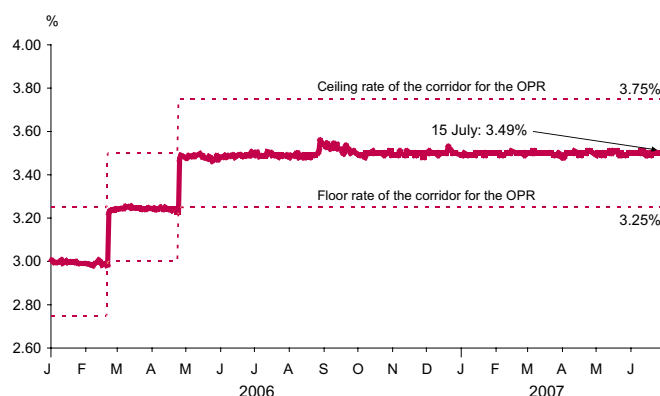
### *Lending rates remained relatively stable*

The Overnight Policy Rate (OPR) was unchanged at 3.50% throughout the second quarter of 2007 as the prevailing level of the policy rate remains consistent with the medium term outlook of low inflation and sustained economic growth.

Reflecting the unchanged OPR, the average overnight interbank rate was steady, moving within a tight range of 3.48% to 3.51% during the period 1 April – 15 July. Despite the expansion in liquidity driven by the external sector, interbank rates also remained relatively stable, as active sterilisation by Bank Negara Malaysia has kept liquidity growth in check.

In terms of lending rates, the average base lending rate (BLR) of commercial banks (CBs) was unchanged at 6.72%. The average lending rate (ALR), was marginally lower at 6.49% as at end-June, compared with 6.54% at end-March, as keen competition between banks put downward pressure on new loan rates. The average quoted fixed deposit (FD) rates of CBs for the 1-month and 12-month maturities, were relatively unchanged, ranging between 3.09% and 3.71% at the end of the second quarter (1Q: 3.10% to 3.71%).

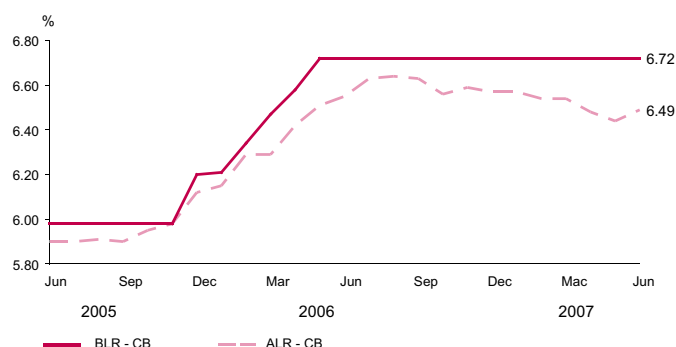
**Daily Weighted Average Overnight Interbank Rate**



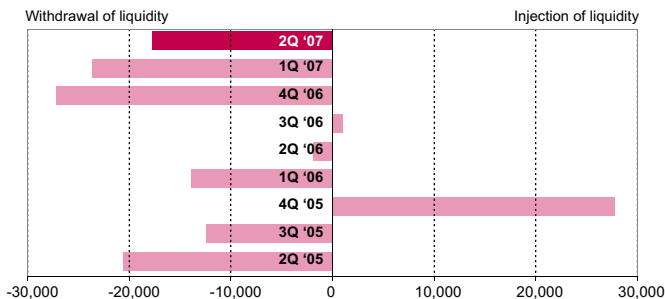
### Interest Rates

	2006	2007	
	2Q	1Q	2Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.50	3.50	3.50
Interbank rates			
Overnight	3.51	3.50	3.50
1-month	3.78	3.55	3.54
Base lending rates (BLR)			
Commercial banks	6.72	6.72	6.72
Average lending rates (ALR)			
Commercial banks	6.55	6.54	6.49
Fixed deposit rates			
Commercial banks			
3-month	3.18	3.18	3.17
12-month	3.75	3.71	3.71

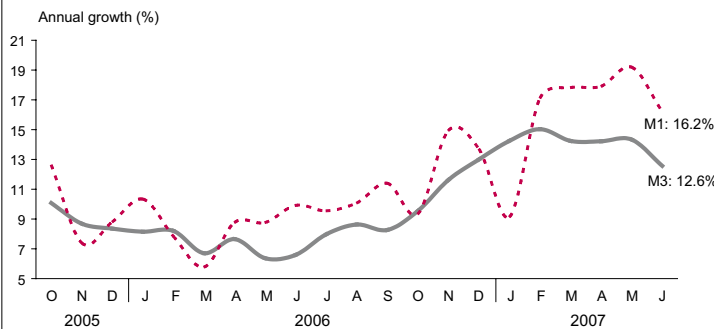
**Lending Rates of Commercial Banks**  
(Average for the period)



### Bank Negara Malaysia Liquidity Operations (During the quarter, RM million)



### Monetary Aggregates



### Determinants of Broad Money, M3

	Change during the period				
	2006			2007	
	2Q	3Q	4Q	1Q	2Q
<b>M3</b>	<b>9.7</b>	<b>15.7</b>	<b>44.0</b>	<b>28.9</b>	<b>-0.6</b>
Net claims on Government	-12.0	-2.3	19.9	1.0	-20.7
Claims on private sector	14.8	6.5	7.9	5.2	15.5
Loans	12.0	9.1	8.2	8.1	12.8
Securities	2.7	-2.6	-0.3	-2.9	2.7
Net external operations <sup>1</sup>	11.3	11.9	22.7	37.3	40.7
BNM	14.2	2.0	5.2	19.9	31.5
Banking system	-2.9	9.9	17.4	17.5	9.2
Other influences	-4.3	-0.3	-6.4	-14.7	-36.1

<sup>1</sup> Pre-revaluation

### M3 continues to expand

M1, or narrow money, a measure of transaction balances, expanded at a slightly slower annual rate of 16.2% at the end of the second quarter (1Q: 17.9%), reflecting mainly slower growth in currency in circulation. Growth in demand deposits remained relatively steady, with continued expansion in placements by businesses and individuals.

M3, or broad money, increased at an annual rate of 12.6% as at end-June (1Q: 14.2%). On a quarterly basis, M3 declined marginally by RM0.6 billion. There was a strong increase in net foreign assets during the second quarter following higher inflows in the form of export proceeds, net foreign investments and portfolio investments. Claims on the private sector also expanded with an increase in loans outstanding as well as higher holdings of private debt securities by the banking system.

Bank Negara Malaysia, through its sterilisation operations, limited the impact of the inflows on broad money expansion. This was achieved through the increased utilisation of Bank Negara Monetary Notes (BNMNs). BNMNs were introduced following the amendments to the Central Bank of Malaysia Act 1958, in late 2006, and is now the key liquidity management instrument.

The effect of Government operations also contributed to the moderation in M3 during the second quarter, as Government deposits with Bank Negara Malaysia increased reflecting the issuance of Government securities as well as tax revenues.

## Higher financing in the second quarter

Gross financing of the private sector through the banking system and capital market was higher in the second quarter, amounting to RM155.7 billion (1Q: RM135.1 billion). This was on account of higher issuance of private debt securities (PDS) and an increase in loan disbursements. The rise in PDS reflected financing for merger and acquisition (M&A) activities in April. On a net basis, banking system loans and PDS outstanding expanded at a higher combined annual rate of 6.8% at end-June (end-1Q: 6.1%).

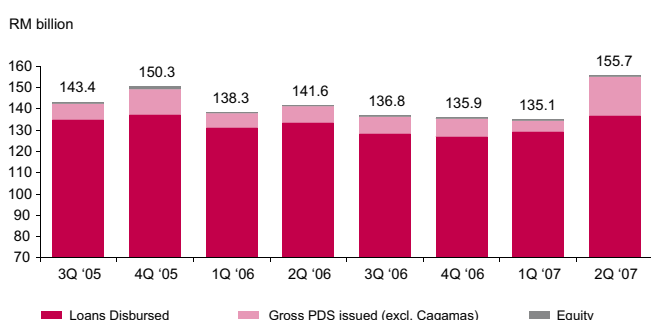
### Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2006	2Q 06	1Q 07	2Q 07*	2006	1Q 07	2Q 07*
<b>Gross total financing</b>	<b>552.6</b>	<b>141.6</b>	<b>135.1</b>	<b>155.7</b>	<b>-2.3</b>	<b>-2.3</b>	<b>10.0</b>
Loans disbursed*	519.9	133.4	129.2	136.7	-1.6	-1.4	2.5
Gross PDS (excl. Cagamas)	30.7	7.8	5.1	18.5	-0.1	-25.5	136.1
Equity	1.9	0.4	0.8	0.5	-69.7	108.5	33.4
<b>Outstanding total financing (A)+(B)</b>	<b>45.4</b>	<b>16.3</b>	<b>11.0</b>	<b>22.7</b>	<b>6.2</b>	<b>6.1</b>	<b>6.8</b>
Banking system	46.7	17.6	9.4	16.5	7.9	7.8	7.4
Loans outstanding (A)	34.9	13.0	8.6	12.5	6.3	6.2	6.0
Holding of PDS	11.8	4.6	0.8	4.0	33.4	32.2	27.2
PDS outstanding (B)	10.5	3.3	2.4	10.3	6.0	5.6	9.4
Memorandum item							
Gross PDS (incl. Cagamas)	38.2	10.8	7.6	21.0	1.8	-28.3	94.5

\* Preliminary

\* Banking system loans include loans sold to Cagamas

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



Loan applications and approvals were notably higher on an annual basis, driven mainly by the business sector, and to a lesser extent, the household sector. Within the business sector, high loan applications and approvals

during the second quarter were registered mainly in the transport, storage and telecommunications sector. This mainly reflected applications and approvals for financing in May and June under a large syndicated bridging loan facility. In addition, the launch of projects under the Ninth Malaysia Plan also contributed to the higher demand for business loans, mainly to the construction sector and construction related-manufacturing industries, such as iron and steel, non-metallic products and fabricated metals. In the household sector, the increase in loan applications and approvals was mainly on account of loans for the purchase of residential property. The availability of various financing packages offered by the financial institutions and also the abolishment of real property gains tax (RPGT) announced by the Government, are the factors influencing growth in housing loan applications and approvals.

Loan disbursements also increased on an annual basis. By sector, the growth in loan disbursements emanated mainly from the finance, insurance & business services sector, and to a lesser extent, the manufacturing and transport, storage & communication sectors. Of the total loans disbursed, 45% went to large corporations, 30% to households and 25% to SMEs.

Total loans outstanding expanded by 6% on an annual basis at the end of the second quarter (end-1Q: 6.2%), with loans outstanding to businesses and households expanding at annual rates of 6% and 7.2% respectively (end-1Q: 6.2% and 7.6% respectively).

## Loan Indicators

	During the period (RM billion)				Annual Growth %			
	2006	2Q 06	1Q 07	2Q 07 <sup>P</sup>	2006	2Q 06	1Q 07	2Q 07 <sup>P</sup>
<b>Total</b>								
Loan applications <sup>n</sup>	300.8	76.0	83.5	119.5	-1.5	-6.0	21.5	57.2
Loan approvals <sup>n</sup>	188.3	47.5	53.1	83.2	-2.0	0.0	20.4	75.0
Loan disbursements <sup>n</sup>	519.9	133.4	129.2	136.7	-1.6	2.9	-1.4	2.5
Loan repayments <sup>n</sup>	478.2	119.9	118.0	123.0	-2.1	-0.5	-0.1	2.6
Change in loan outstanding*	34.9	13.0	8.6	12.5	6.3	8.6	6.2	6.0
<b>Of which:</b>								
<b>Business enterprises**</b>								
Loan applications <sup>n</sup>	159.8	41.0	44.4	71.7	4.4	0.4	23.3	75.1
Loan approvals <sup>n</sup>	95.3	23.4	29.7	53.7	7.9	15.3	41.2	130.0
Loan disbursements <sup>n</sup>	368.8	94.3	90.0	96.3	-1.6	2.6	-3.9	2.1
Loan repayments <sup>n</sup>	349.9	89.1	81.3	86.6	-4.6	-1.9	-6.2	-2.7
Change in loan outstanding*	9.4	6.2	4.0	6.1	4.2	4.4	6.2	6.0
<b>SMEs</b>								
Loan applications <sup>n</sup>	70.1	18.8	19.9	23.5	n.a.	n.a.	52.8	25.2
Loan approvals <sup>n</sup>	39.1	9.5	10.6	14.2	n.a.	n.a.	40.6	49.0
Loan disbursements <sup>n</sup>	133.2	36.7	32.7	34.8	n.a.	n.a.	11.0	-5.5
Change in loan outstanding*	6.5	2.3	2.8	1.2	n.a.	n.a.	6.2	6.8
<b>Large corporations</b>								
Loan applications <sup>n</sup>	89.6	22.2	24.5	48.2	n.a.	n.a.	6.5	117.4
Loan approvals <sup>n</sup>	56.1	13.8	19.2	39.5	n.a.	n.a.	41.6	185.7
Loan disbursements <sup>n</sup>	235.6	57.6	57.3	61.5	n.a.	n.a.	1.0	-5.5
Change in loan outstanding*	2.9	3.9	1.2	4.9	n.a.	n.a.	6.2	6.8
<b>Households</b>								
Loan applications <sup>n</sup>	141.1	35.1	39.1	47.8	-7.3	-12.6	19.5	36.2
Loan approvals <sup>n</sup>	93.1	24.2	23.4	29.4	-10.4	-11.3	1.3	21.8
Loan disbursements <sup>n</sup>	151.1	39.1	39.2	40.5	-1.7	3.5	4.9	3.5
Loan repayments <sup>n</sup>	128.3	30.8	36.7	36.4	5.6	3.8	16.8	18.0
Change in loan outstanding*	28.7	6.5	3.8	5.6	9.4	13.2	7.6	7.2

\* The annual growth is for end-period

\*\* 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, disbursements and repayments, 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

<sup>n</sup> Numbers may not add up due to rounding

<sup>P</sup> Preliminary. Data is subject to revision, arising from changes in the classification of loan indicators by economic sectors and purpose

n.a. Not applicable

Source: Bank Negara Malaysia

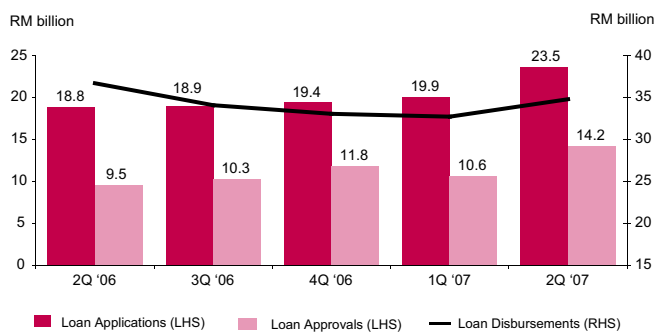
## Loans by Sector

	Loans disbursed				Loans out-standing	
	During the period			Share of total	Share of total	
	2006	2Q 06	1Q 07	2Q 07*		
	RM billion			%		
Business enterprises	368.8	94.3	90.0	96.3	70.4	39.9
<i>Large corporations</i>	235.6	57.6	57.3	61.5	45.0	22.6
<i>SMEs</i>	133.2	36.7	32.7	34.8	25.4	17.4
Households	151.1	39.1	39.2	40.5	29.6	55.8
<b>Selected sectors</b>						
Agriculture, hunting, forestry and fishing	13.9	4.0	3.1	3.3	2.4	2.2
Mining and quarrying	2.0	0.7	0.3	0.6	0.4	0.2
Manufacturing	118.9	29.9	32.5	32.7	23.9	11.5
Construction	30.5	7.9	7.6	8.4	6.1	5.1
Real estates	10.5	3.4	2.4	3.0	2.2	2.9
Electricity, gas and water supply	2.9	0.4	0.3	0.3	0.2	0.6
Wholesale, retail, restaurants and hotels	90.7	25.0	20.5	21.7	15.9	8.6
Transport, storage and communication	10.3	2.8	2.5	4.4	3.2	2.3
Finance, insurance and business services	42.1	9.8	10.3	13.5	9.8	6.3
Consumption credit	100.4	25.8	25.4	25.1	18.3	23.8
<i>Of which:</i>						
<i>Credit cards</i>	48.9	11.2	13.8	13.1	9.6	3.4
<i>Purchase of passenger cars</i>	32.9	8.9	7.2	7.5	5.5	16.1
<b>Total</b>	<b>519.9</b>	<b>133.4</b>	<b>129.2</b>	<b>136.7</b>	<b>100.0</b>	<b>100.0</b>

\* Based on New FISS reporting system

Source: Bank Negara Malaysia

## Bank Lending to SMEs



### Higher fund raising activity in the capital market

During the second quarter, fund raising activity in the capital market was significantly higher. Total net funds raised by the public and private sector amounted to RM22 billion, a sharp increase from the RM9.4 billion raised in the first quarter of 2007.

The bulk of the funds were raised in the private sector, with gross funds raised from private debt securities (PDS) issuances amounting to RM21 billion (1Q: RM7.6 billion). The sharp increase in PDS issuances was mainly due to merger and acquisition (M&A) activities in the electricity, gas and water sector valued at RM7.3 billion. In addition, there were several PDS issuances by special purpose vehicles (SPV). On a net basis, the funds raised through the PDS market, excluding Cagamas, amounted to RM12.4 billion (1Q: RM2.5 billion).

The public sector raised total gross funds amounting to RM12.6 billion mainly from four issuances of Government securities. This includes an issuance of 20-year Malaysian Government Securities (MGS), the re-opening of a 5-year MGS and an issuance of 10-year Government Investment Issues (GII). After adjusting for redemptions, the net funds raised by the public sector were higher than in the previous quarter, amounting to RM10.7 billion (1Q: RM7.4 billion).

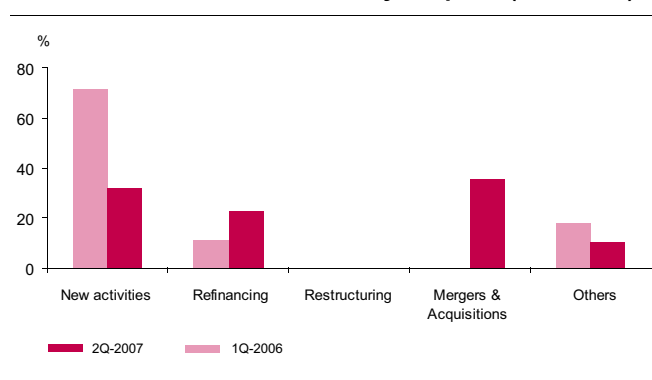
In the equity market, the funds raised during the second quarter decreased to

#### Funds Raised in the Capital Market

	2005	2006		2007		
	Year	1Q	2Q	Year	1Q	2Q
RM million						
<b>By Public Sector</b>						
Government Securities, gross	28,276	5,265	5,741	26,830	10,109	9,107
Less Redemptions	15,800	500	1,300	12,850	4,800	-
Less Government holdings	-	-	-	-	-	-
<i>Equals</i> Net Federal receipts	12,476	4,765	4,441	13,980	5,309	9,107
Khazanah Bonds, net	833	(1,700)	-	(630)	(1,020)	524
Govt. Investment Issues, net	1,000	-	3,500	9,500	3,500	1,400
Merdeka Savings Bond, net	1,516	(500)	(502)	(1,931)	(358)	(375)
Net Funds Raised	15,825	2,564	7,438	20,919	7,431	10,657
<b>By Private Sector</b>						
Shares	6,315	381	384	1,916	795	512
Debt securities	38,196	10,574	10,784	38,887	7,582	20,971
<i>Private Debt Securities (PDS)</i>	35,656	6,889	8,819	31,737	6,232	20,571
Cagamas	2,540	3,685	1,965	7,150	1,350	400
Less Redemptions	18,617	5,498	7,684	31,519	6,390	10,038
Net Issues	19,579	5,076	3,099	7,368	1,192	10,934
<i>Net issues (excluding Cagamas)</i>	22,224	2,993	3,314	11,120	2,547	12,379
Net Funds Raised	25,894	5,457	3,484	9,284	1,987	11,446
<b>Total Net Funds Raised</b>	<b>41,719</b>	<b>8,022</b>	<b>10,922</b>	<b>30,203</b>	<b>9,418</b>	<b>22,103</b>
Short-term Papers and Notes, net <sup>1</sup>	1,579	1,312	1,175	2,563	599	1,164
<b>Total</b>	<b>43,297</b>	<b>9,334</b>	<b>12,097</b>	<b>32,766</b>	<b>10,017</b>	<b>23,265</b>

<sup>1</sup> Refers to Commercial Papers and Cagamas Notes only

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

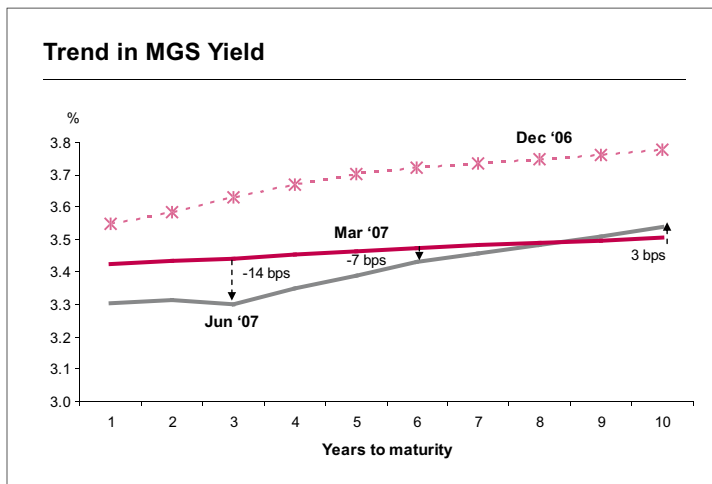
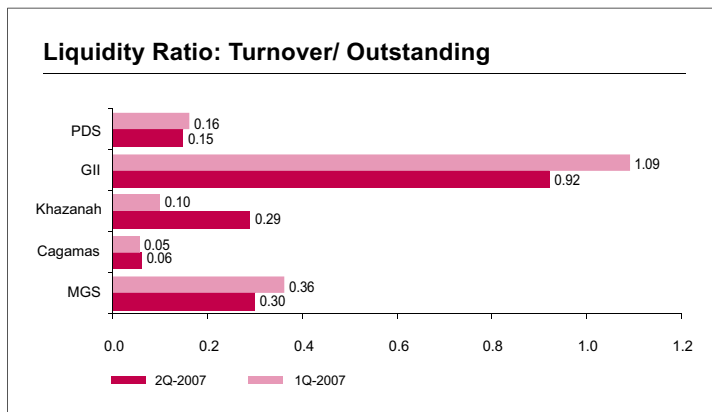


RM512 million (1Q: RM795 million). The funds were raised through seven initial public offerings (IPOs) amounting to RM512 million. During the quarter, eight new listings were recorded on Bursa Malaysia; five on the main board and three on the Second Board. Most of the listings were from the services and consumer products sector.

## Secondary trading in the bond market

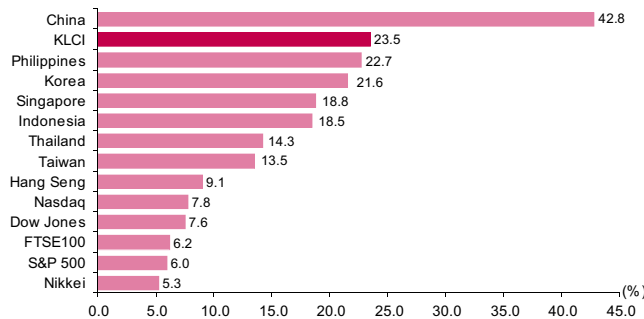
Total trading in the secondary market amounted to RM110.6 billion in the second quarter (1Q: RM120.2 billion). The bulk of the trades were in Government Securities (MGS and GII), accounting for 70% of total trades, followed by private debt securities, which accounted for 27% of total trades. In terms of liquidity, the GII continues to be the most liquid paper, registering a liquidity ratio of 0.92, followed by the MGS with a liquidity ratio of 0.30.

MGS yields went through a volatile period during the quarter. Between early April to early May, bond yields were seen declining between 9 – 16 basis on expectations of capital inflows following the announcement of equity and property market liberalization measures by the government. Speculation on an easing of monetary policy following the release of lower export and industrial production number, pushed yields lower by as much as 37 basis points during the first three weeks of May.



However, Bank Negara Malaysia's decision to keep the OPR unchanged at the May Monetary Policy Committee (MPC) meeting, in combination with the global bond market sell-off in June, MGS yields trended upwards between 41 – 67 basis points. Nonetheless, at the end of the quarter, yields on MGS across all maturities up to 8-years were still lower than their levels in the previous quarter, with the 3-year and 5-year MGS lower by 14 and 7 basis points respectively. The 9-year and 10-year MGS yields rose slightly, with the 10-year MGS higher by 3 basis points. As a result, the yield curve became upward sloping again towards the end of the quarter.

**Performance of Selected Global and Regional Markets (29 Dec 2006 - 29 June 2007)**



**The KLCI improved further in the second quarter**

In the second quarter of 2007, the KLCI performed strongly in line with regional markets despite rising global interest rates. The local market was supported by strong economic fundamentals and positive developments within the plantation and property sectors such as the record high crude palm oil prices and announcements

**Bursa Malaysia: Turnover of Corporate Securities**

	2006				2007					
	2Q		1H		1Q		2Q		1H	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	57,775	68,662	103,763	122,333	118,982	156,614	88,297	141,623	207,279	298,238
Of which:										
Main Board	36,340	54,879	62,905	97,623	87,148	137,851	61,617	125,411	148,766	263,262
Of which										
Consumer Products	1,320	4,245	3,128	9,079	1,796	4,695	2,020	5,052	3,816	9,748
Industrial Products	5,201	5,432	8,347	8,565	8,771	11,725	7,773	11,161	16,544	22,887
Construction	3,676	4,799	6,724	7,919	7,469	16,864	5,080	12,734	12,550	29,598
Trading/Services	8,855	19,699	15,046	34,684	20,181	44,458	16,266	43,536	36,447	87,993
Finance	3,218	9,562	5,929	18,608	8,846	28,428	5,530	21,173	14,377	49,601
Properties	7,090	2,928	11,196	4,968	16,381	11,369	12,125	13,277	28,506	24,646
Plantations	782	4,118	1,301	6,826	1,341	8,318	2,064	10,689	3,405	19,007
Infrastructure	1,048	2,103	2,061	3,705	1,539	3,231	943	2,335	2,481	5,567
Second Board	6,792	5,304	12,629	9,835	8,527	4,955	11,000	7,903	19,527	12,858
Mesdaq	14,188	8,205	27,625	14,493	17,050	8,386	9,704	6,150	26,755	14,537

Source: Bursa Malaysia

**Bursa Malaysia: Selected Market Indicators**

	As at end				
	2006		2007		
	2Q	1H	1Q	2Q	1H
Price Indices					
Composite	914.7	914.7	1,246.9	1,354.4	1,354.4
FBM30 <sup>1</sup>	5,919.4	5,919.4	7,924.6	8,587.9	8,587.9
FBMEMAS <sup>2</sup>	5,973.7	5,973.7	8,332.8	9,107.9	9,107.9
Second Board	93.7	93.7	99.3	110.7	110.7
Mesdaq	118.9	118.9	138.5	137.7	137.7
Average daily turnover					
Volume (million units)	931.9	857.5	1,983.0	1,427.5	1,700.7
Value (RM million)	1,107.5	1,011.0	2,610.2	2,298.4	2,451.7
Market capitalisation (RM billion)	721.8	721.8	985.1	1,088.3	1,088.3
No. of companies listed	1,026	1,026	1,023	1,012	1,012

<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

of several privatisation deals. In addition, the announcement of a pay rise for civil servants and favourable domestic corporate earnings results in the first quarter were also positive on the market. During the quarter under review, the KLCI rose 8.62% and ended the quarter at 1,354 points (1Q: 1,247). Market capitalisation was higher at RM1,088.3 billion (1Q: RM985.1 billion). However, trading activity decreased with the average daily turnover of 1,427.5 million units (1Q: 1,983 million units).

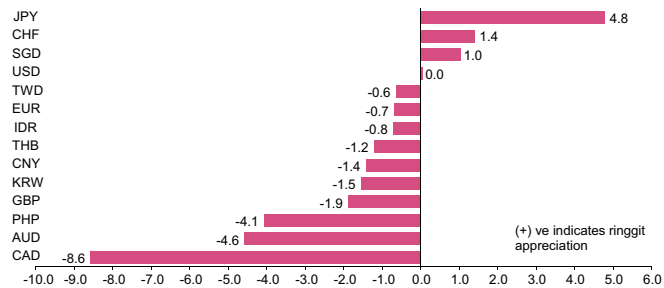
As at 28 August 2007, the KLCI closed higher at 1,278.9 points (since end-2006: +16.7%) with market capitalisation higher at RM988.1 billion (since end-2006: +16.4%).

### Exchange Rate Developments

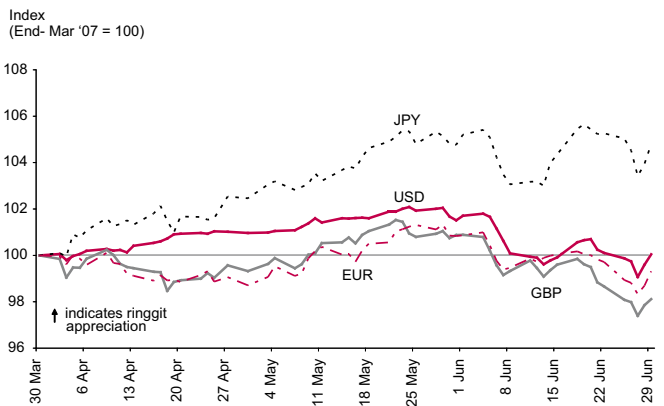
Amidst two-way trade and investment flows, the ringgit continued to strengthen against the US dollar going into the second quarter, appreciating by about 2% until end-May. The turbulence in the global financial markets triggered by developments in the subprime market in the US in July however culminated in the weakening of regional currencies, including the ringgit against the US dollar. Thus, following an extended period of appreciation since the beginning of the year, the ringgit depreciated with other regional currencies against the US dollar. Nevertheless, for the second quarter as a whole the ringgit was relatively unchanged against the US dollar. Against other major currencies, the ringgit weakened marginally against the pound sterling (1.9%) and euro (0.7%), but strengthened against the Japanese yen (4.8%). Against the regional currencies, the ringgit broadly depreciated in the range of 0.8% - 4.1%, the exception being an appreciation against the Singapore dollar (1%).

For the period 1 July – 28 August, the ringgit depreciated against the major and regional currencies in the range of 0.2% - 7.5%, the exception being an appreciation against the Indonesian rupiah (2.7%) and Korean won (0.4%).

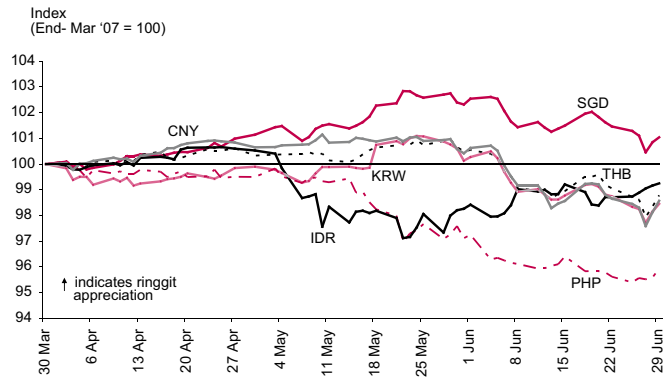
**Summary of Ringgit Performance Against Selected Currencies** Percent Change (1 April - 29 June 2007)



**Ringgit Performance Against Major Currencies**



### Ringgit Performance Against Regional Currencies



### Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	2Q 06	1Q 07	2Q 07	21 Jul 05	2Q 06	1Q 07
US dollar	3.8000	3.6750	3.4560	3.4545	10.0	6.4	0.0
Euro	4.6212	4.6698	4.6105	4.6425	-0.5	0.6	-0.7
Pound sterling	6.6270	6.7352	6.7867	6.9171	-4.2	-2.6	-1.9
100 Japanese yen	3.3745	3.1963	2.9339	2.8000	20.5	14.2	4.8
Singapore dollar	2.2570	2.3126	2.2781	2.2547	0.1	2.6	1.0
100 Thai baht	9.0681	9.6104	9.8785	10.000	-9.3	-3.9	-1.2
100 Philippine peso	6.8131	6.9047	7.1649	7.4692	-8.8	-7.6	-4.1
100 Indonesian rupiah	0.0386	0.0395	0.0379	0.0382	1.1	3.5	-0.8
100 Korean won	0.3665	0.3856	0.3674	0.3732	-1.8	3.3	-1.5
Chinese renminbi	0.4591	0.4598	0.4471	0.4535	1.2	1.4	-1.4

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