

## MONETARY AND FINANCIAL DEVELOPMENTS

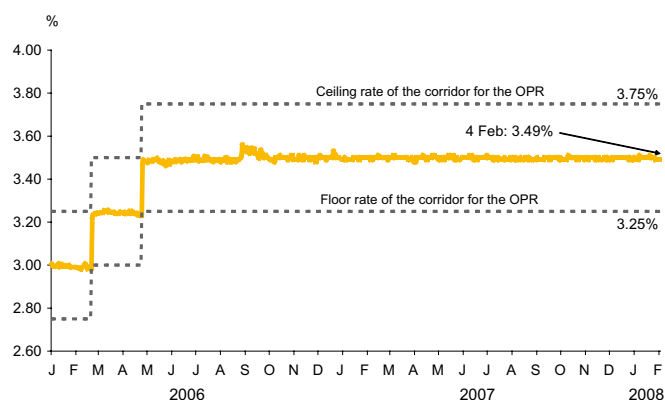
### Interest rates were stable

The OPR remained at 3.50% throughout the fourth quarter of 2007, consistent with the medium term outlook of relative price stability and sustainable economic growth.

Concurrently, the daily weighted average overnight interbank rate moved within a narrow range of 3.49% - 3.51%. Interbank rates of other maturities were also relatively stable during the quarter.

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) on the other hand softened slightly to 6.29% as at end-December, compared with 6.30% as at end-September, as competition remained strong amidst ample liquidity conditions. The average quoted fixed deposit (FD) rates of CBs for tenures of between 1 to 12 months were unchanged, ranging between 3.08% and 3.70% at the end of the fourth quarter.

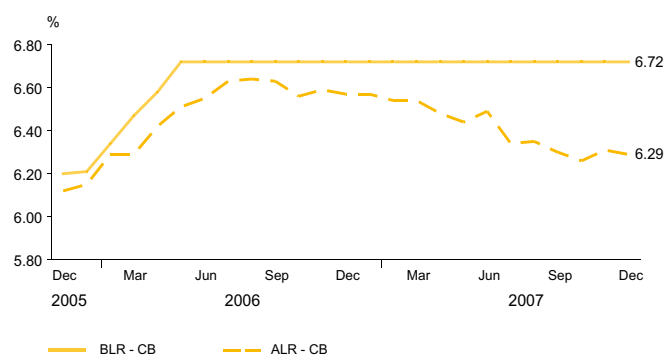
**Daily Weighted Average Overnight Interbank Rate**



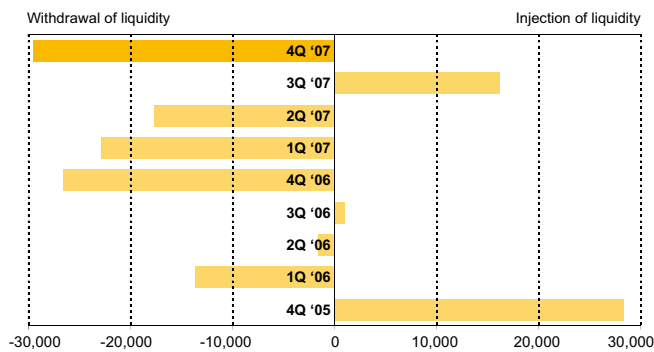
### Interest Rates

	2006	2007			
	4Q	1Q	2Q	3Q	4Q
	<b>At end-period (%)</b>				
Overnight Policy Rate (OPR)	3.50	3.50	3.50	3.50	3.50
Interbank rates					
Overnight	3.50	3.50	3.50	3.50	3.50
1-month	3.58	3.55	3.54	3.54	3.54
Base lending rates (BLR)					
Commercial banks	6.72	6.72	6.72	6.72	6.72
Average lending rates (ALR)					
Commercial banks	6.57	6.54	6.49	6.30	6.29
Fixed deposit rates					
Commercial banks					
3-month	3.19	3.18	3.17	3.15	3.15
12-month	3.73	3.71	3.71	3.70	3.70

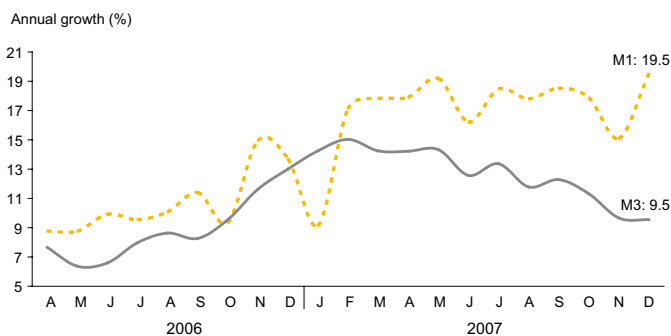
**Lending Rates of Commercial Banks**  
(Average for the period)



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



### Monetary Aggregates



### Monetary aggregates continued to increase

In the fourth quarter, M3 or broad money rose by RM28.6 billion quarter-on-quarter or 9.5% on an annual basis. This increase reflected largely net trade and portfolio inflows during the quarter. Government operations were also positive on M3, reflecting a drawdown in Government funds with BNM to finance its outlays. The strength in M3 growth however was tempered by a reduction in loans outstanding after the repayment of a large syndicated bridging loan at the end of December.

M1, or narrow money, also increased, albeit at a faster pace compared to M3, due to higher demand for liquidity by businesses at the end of the year.

### Determinants of Broad Money, M3

	Change during the period				
	2006		2007		
	4Q	Year	3Q	4Q	Year
	RM billion				
<b>M3</b>	<b>44.0</b>	<b>87.5</b>	<b>44.2</b>	<b>28.6</b>	<b>72.5</b>
Net claims on Government	19.9	8.3	19.7	9.1	-0.1
Claims on private sector	7.9	34.7	25.9	-7.5	46.7
Loans	8.2	36.8	22.3	-8.3	43.2
Securities	-0.3	-2.1	3.1	0.8	3.4
Net external operations <sup>1</sup>	22.7	59.7	-1.7	20.0	76.4
BNM	5.2	32.1	-0.5	7.2	50.9
Banking system	17.4	27.6	-0.7	12.8	25.4
Other influences	-6.4	-15.3	0.3	7.0	-50.4

<sup>1</sup> Pre-revaluation

Source: Bank Negara Malaysia

## Financing continued to increase in the fourth quarter

Gross financing to the private sector by the banking system and capital market continued to increase in the fourth quarter, amounting to RM181.4 billion (3Q: RM170.1 billion). The increase in financing was due mainly to a large issuance of PDS to refinance a syndicated bridging loan contracted earlier with the banking institutions for funding of a privatisation exercise. On a net basis, banking system loans and PDS outstanding expanded at a combined annual rate of 8.3% at end-December (end-3Q: 8.9%).

Loan applications and approvals for the business sector in the fourth quarter were higher, reflecting stronger demand for funds to finance business expansion. Meanwhile, loan disbursements continued to be broad-based, with funds channeled to the manufacturing, wholesales and retail trade, finance, insurance and business services, as well as construction sectors. Financing to the SMEs remained significant, as evidenced by high levels of loan approvals and disbursements. Of the total loans disbursed, 25% were directed to the SMEs.

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

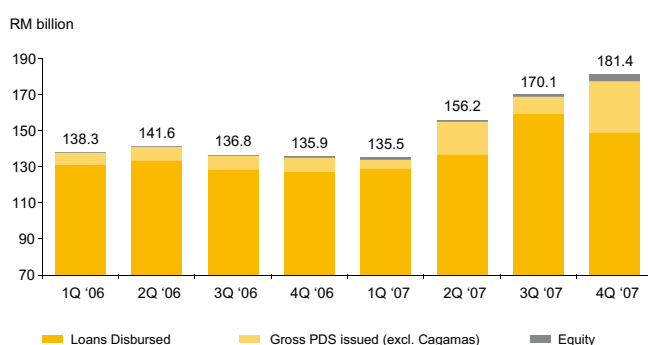
	During the period (RM billion)				Annual growth (%)		
	2006	4Q 06	3Q 07	4Q 07 <sup>a</sup>	2006	3Q 07	4Q 07 <sup>a</sup>
<b>Gross total financing</b>	<b>552.6</b>	<b>135.9</b>	<b>170.1</b>	<b>181.4</b>	<b>-2.3</b>	<b>24.3</b>	<b>33.5</b>
Loans disbursed*	519.9	127.2	159.3	148.9	-1.6	24.1	17.1
Gross PDS (excl. Cagamas)	30.7	8.1	9.6	28.7	-0.1	21.6	255.0
Equity	1.9	0.6	1.1	3.8	-69.7	119.4	504.0
<b>Outstanding total financing (A)+(B)</b>	<b>45.5</b>	<b>6.4</b>	<b>28.7</b>	<b>2.5</b>	<b>6.2</b>	<b>8.9</b>	<b>8.3</b>
Banking system	48.1	11.6	30.6	5.7	8.1	10.5	9.4
Loans outstanding (A)	34.9	4.1	30.9	-1.2	6.3	9.5	8.6
Holding of PDS	13.1	7.6	-0.3	7.0	37.3	25.3	20.1
PDS outstanding (B)	10.5	2.3	-2.2	3.7	6.0	7.0	7.6
Memorandum item							
Gross PDS (incl. Cagamas)	38.2	8.3	12.1	28.7	1.8	30.6	246.5

<sup>a</sup> Preliminary

\* Banking system loans include loans sold to Cagamas

In the household sector, loan applications and approvals remained strong. This reflected sustained demand for loans for the purchase residential property and passenger cars, supported by rising household income, various incentives offered for the purchase of residential properties, as well as the revival of the car market.

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



Notwithstanding the repayment of a large syndicated bridging loan, total loans outstanding continued to expand at an annual rate of 8.6% at the end of the fourth quarter (end-3Q: 9.5%). Loans outstanding to businesses and households expanded at annual rates of 10.4% and 7.3% respectively (end-3Q: 14.8% and 7.3% respectively).

## Loan Indicators

	During the period (RM billion)				Annual Growth (%)			
	2006	4Q 06	3Q 07	4Q 07 <sup>P</sup>	2006	4Q 06	3Q 07	4Q 07 <sup>P</sup>
<b>Total</b>								
Loan applications <sup>n</sup>	300.8	76.8	123.2	131.2	-1.5	6.3	55.4	71.0
Loan approvals <sup>n</sup>	188.3	49.7	74.4	87.9	-2.1	3.9	58.3	77.1
Loan disbursements <sup>n</sup>	519.9	127.2	159.3	148.9	-1.2	-5.8	24.1	17.1
Loan repayments <sup>n</sup>	478.2	122.4	123.8	152.1	-1.5	-2.6	5.1	24.2
Change in loan outstanding*	34.9	4.1	30.9	-1.2	6.3	6.3	9.5	8.6
<b>Of which:</b>								
<b>Business enterprises**</b>								
Loan applications <sup>n</sup>	161.0	41.3	68.3	77.3	4.8	16.2	60.5	87.3
Loan approvals <sup>n</sup>	96.3	28.1	41.1	56.7	8.7	22.0	79.1	101.8
Loan disbursements <sup>n</sup>	369.8	89.7	113.9	104.4	-1.2	-7.7	24.6	16.4
Loan repayments <sup>n</sup>	351.7	88.3	86.1	113.8	-3.9	-7.8	-0.5	28.9
Change in loan outstanding*	11.3	0.4	23.8	-9.8	5.0	5.0	14.8	10.4
<b>SMEs**</b>								
Loan applications <sup>n</sup>	71.4	19.8	28.7	26.0	20.0	55.9	47.0	31.5
Loan approvals <sup>n</sup>	40.2	11.8	16.2	13.9	14.9	48.9	55.6	17.0
Loan disbursements <sup>n</sup>	134.1	33.2	36.0	37.3	21.2	13.4	5.3	12.5
Loan repayments <sup>n</sup>	122.5	31.4	31.0	34.3	n.a.	n.a.	1.0	9.3
Change in loan outstanding*	8.7	0.1	2.9	2.2	9.1	9.1	7.0	9.0
<b>Large corporations</b>								
Loan applications <sup>n</sup>	89.6	21.5	39.5	51.3	-4.7	-6.0	71.9	138.7
Loan approvals <sup>n</sup>	56.1	16.3	24.8	42.9	4.7	7.8	98.8	163.6
Loan disbursements <sup>n</sup>	235.6	56.5	77.9	67.1	-10.7	-16.7	36.1	18.6
Loan repayments <sup>n</sup>	229.2	56.9	55.1	79.5	n.a.	n.a.	-1.3	39.6
Change in loan outstanding*	2.6	0.3	20.9	-12.1	2.0	2.0	21.0	11.6
<b>Households</b>								
Loan applications <sup>n</sup>	139.8	35.5	54.9	53.9	-7.9	-3.2	49.5	51.9
Loan approvals <sup>n</sup>	92.0	21.6	33.3	31.2	-11.3	-12.9	38.4	44.8
Loan disbursements <sup>n</sup>	150.2	37.5	45.4	44.5	-1.0	-1.2	22.9	18.7
Loan repayments <sup>n</sup>	126.6	34.1	37.7	38.3	5.6	14.1	20.7	12.3
Change in loan outstanding*	26.6	6.0	8.6	6.2	8.7	8.7	7.3	7.3

\* The annual growth is for end-period

\*\* Include loans to individual businesses

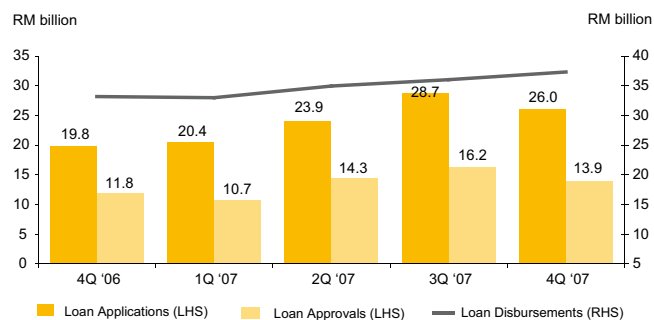
<sup>n</sup> Numbers may not add up due to rounding

<sup>P</sup> Preliminary

n.a. Not applicable

Source: Bank Negara Malaysia

## Bank Lending to SMEs



## Loans by Sector

	Loans disbursed					Loans out-standing	
	During the period				Share of total	Share of total	
	2006	4Q 06	3Q 07	4Q 07			
	(RM billion)				(% )		
Business enterprises	369.8	89.7	113.9	104.4	70.1	40.6	
<i>Large corporations</i>	235.6	56.5	77.9	67.1	45.0	22.9	
<i>SMEs*</i>	134.1	33.2	36.0	37.3	25.1	17.7	
Households	150.2	37.5	45.4	44.5	29.9	55.1	
<b>Selected sectors</b>							
Agriculture, hunting, forestry and fishing	13.9	3.4	4.1	3.5	2.4	2.2	
Mining and quarrying	2.0	0.3	0.4	0.6	0.4	0.2	
Manufacturing	118.9	30.6	34.7	34.8	23.4	11.6	
Construction	30.5	7.9	8.3	8.3	5.6	5.0	
Real estates	10.5	2.1	3.2	3.6	2.4	3.1	
Electricity, gas and water supply	2.9	0.4	0.3	0.4	0.3	0.6	
Wholesale, retail, restaurants and hotels	90.7	21.4	23.8	25.5	17.2	8.8	
Transport, storage and communication	10.3	2.8	19.6	5.2	3.5	2.4	
Finance, insurance and business services	42.1	9.6	10.0	11.8	7.9	6.2	
Consumption credit	100.4	24.7	29.5	29.6	19.9	23.6	
<i>Of which:</i>							
<i>Credit cards</i>	48.9	13.6	14.7	15.3	10.3	3.5	
<i>Purchase of passenger cars</i>	32.9	6.8	9.1	8.5	5.7	15.8	
<b>Total</b>	<b>519.9</b>	<b>127.2</b>	<b>159.3</b>	<b>148.9</b>	<b>100.0</b>	<b>100.0</b>	

\* Include loans to individual businesses.

Source: Bank Negara Malaysia

### Fund raising activity in the capital market remained high

In the fourth quarter, gross funds raised were higher at RM46.6 billion (3Q: RM26.6 billion). However, after adjusting for large redemptions, net funds raised amounted to RM567 million.

The public sector raised total gross funds of RM14 billion through four issuances of government securities. This included an issuance of 5-year Malaysian Government Securities (MGS) as well as re-openings of the 3-year, 5-year and 10-year MGS. Nevertheless, following higher redemptions in the fourth quarter, the public sector recorded a net redemption of RM5.9 billion.

In the private sector, gross funds raised amounted to RM28.7 billion. The bulk of the funds were raised from the private debt securities (PDS) market. The large issuance of PDS was due to an issuance by a large telecommunications provider to refinance its privatisation exercise. On the other hand, the private sector also recorded a high amount of redemptions in the fourth quarter. After adjusting for redemptions, net funds raised through the PDS market, excluding Cagamas, amounted to RM3.9 billion (3Q: RM755 million).

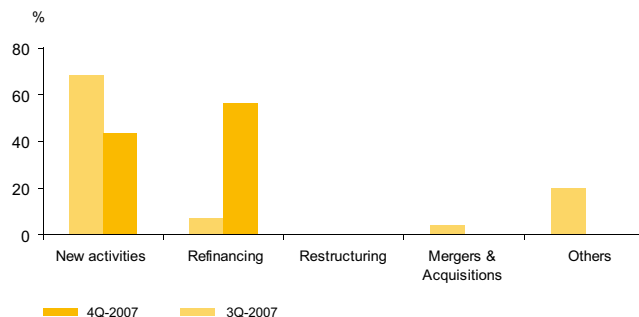
Funds raised through the equity market were higher during the fourth quarter, amounting to RM3.8 billion (3Q: RM1.1 billion). A total of RM1.0 billion (3Q: RM383 million) was raised through three initial public offerings (IPOs); one on the main board and two on the second board, while the remaining RM2.8 billion was raised through rights issues and warrants.

#### Funds Raised in the Capital Market

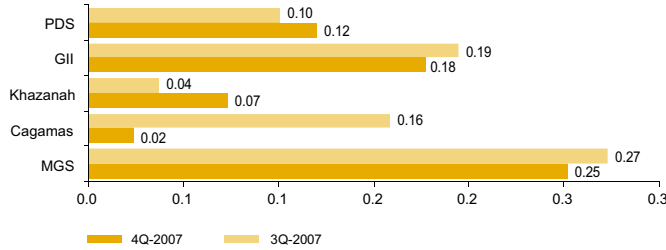
	2006		2007		
	4Q	Year	3Q	4Q	Year
RM million					
<b>By Public Sector</b>					
Government Securities, gross	6,500	26,830	9,924	14,048	43,187
Less Redemptions	2,850	12,850	-	19,600	24,400
Less Government holdings	-	-	-	-	-
<i>Equals</i> Net Federal receipts	3,650	13,980	9,924	(5,552)	18,787
Khazanah Bonds, net	1,070	(630)	-	-	(496)
Govt. Investment Issues, net	3,000	9,500	3,500	-	8,400
Merdeka Savings Bond, net	(433)	(1,931)	(386)	(394)	(1,513)
Net Funds Raised	7,287	20,919	13,038	(5,946)	25,178
<b>By Private Sector</b>					
Shares	632	1,916	1,136	3,819	7,126
Debt securities	8,297	38,887	12,057	28,746	69,356
<i>Private Debt Securities (PDS)</i>	8,097	31,737	12,057	28,746	67,606
Cagamas	200	7,150	-	-	1,750
Less Redemptions	8,747	31,519	13,702	26,052	56,182
Net Issues	(451)	7,368	(1,645)	2,694	13,174
<i>Net issues (excluding Cagamas)</i>	2,409	11,120	755	3,909	19,589
Net Funds Raised	182	9,284	(510)	6,513	20,300
<b>Total Net Funds Raised</b>	7,469	30,203	12,528	567	45,478
Short-term Papers and Notes, net <sup>1</sup>	653	2,563	(880)	(797)	86
Total	8,122	32,766	11,648	(229)	45,565

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

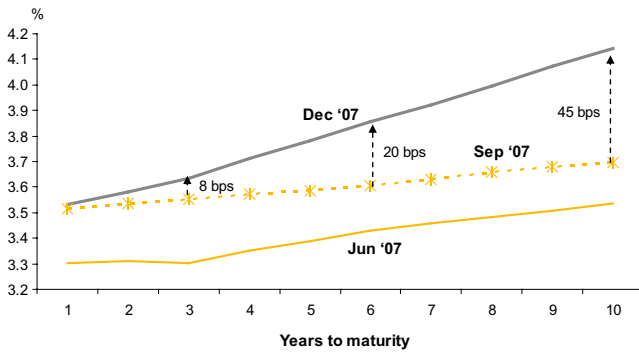
#### Private Debt Securities Issued by Purpose (% of total)



**Liquidity Ratio: Turnover/ Outstanding**



**Trend in MGS Yield**

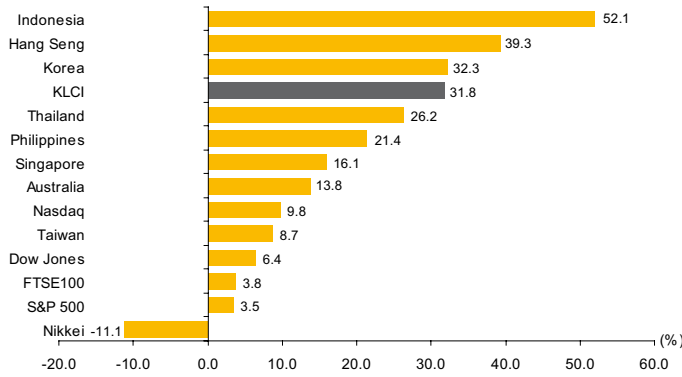


**Secondary trading in the bond market remained high**

Trading in the secondary bond market remained high at RM78.3 billion in the fourth quarter (3Q: RM81.3 billion). The bulk of the trade came from government securities (MGS and GII), accounting for 68% of the total trade, followed by private debt securities, which accounted for 31% of total trade. In terms of liquidity, the MGS was the most liquid paper, registering a liquidity ratio of 0.25, followed by the GII with a liquidity ratio of 0.18.

Expectations of higher inflation caused MGS yields to rise by 8 - 45 bps across all maturities. The spread between the 10-year MGS and the shorter and medium-term MGS widened and eventually led to the steepening of the MGS benchmark yield curve in December. However, as inflows continued to enter the bond market, the rise in the bond yields moderated.

**Performance of Selected Global and Regional Markets (29 December 2006 - 31 December 2007)**



**KLCI rose to a record high in 4Q 2007**

In the fourth quarter of 2007, sentiments in the Kuala Lumpur stock market remained bullish despite the negative sentiments arising from the US sub-prime market. The KLCI rose to a record high of 1,447 on 28 December 2007 due to the strong performance of the plantations sector in response to stronger crude palm oil prices, and also due to positive quarterly corporate earnings. Escalating

**Bursa Malaysia: Turnover of Corporate Securities**

	2006				2007					
	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	57,015	78,257	197,819	250,331	84,841	139,127	78,648	117,720	373,612	561,047
Of which:										
Main Board	36,338	66,458	121,666	204,801	62,160	127,213	50,667	106,134	262,912	501,933
Of which:										
Consumer Products	977	2,665	4,765	13,945	1,901	5,069	1,752	4,777	7,544	19,794
Industrial Products	4,474	5,395	16,232	17,747	7,220	11,812	4,906	8,213	28,788	43,299
Construction	2,787	5,262	11,107	15,807	6,334	15,975	3,486	9,748	22,413	55,618
Trading/Services	10,465	26,467	31,469	76,299	17,795	43,370	15,545	38,069	70,300	172,220
Finance	3,689	12,719	12,092	38,618	4,305	19,752	3,728	17,445	22,481	87,382
Properties	5,742	3,681	21,022	10,981	13,357	14,211	7,300	7,814	49,342	46,898
Plantations	1,004	5,516	3,384	17,190	1,734	7,542	2,177	9,658	7,356	36,549
Infrastructure	1,196	2,512	3,726	7,362	2,217	4,388	1,408	4,694	6,123	14,959
Second Board	5,432	4,023	21,914	16,617	6,818	5,265	7,254	4,707	34,122	23,097
Mesdaq	10,735	4,981	48,712	25,559	9,018	5,268	6,139	3,050	42,156	23,027

Source: Bursa Malaysia

**Bursa Malaysia: Selected Market Indicators**

	As at end				
	2006		2007		
	4Q	Year	3Q	4Q	Year
Price Indices					
Composite	1,096.2	1,096.2	1,336.3	1,445.0	1,445.0
FBM30 <sup>1</sup>	7,059.9	7,059.9	8,413.5	9,343.7	9,343.7
FBMEMAS <sup>2</sup>	7,169.6	7,169.6	8,997.5	9,810.8	9,810.8
Second Board	92.0	92.0	105.8	-	-
Mesdaq	119.9	119.9	122.9	-	-
FTSE Second Board <sup>3</sup>	-	-	6,945.0	6,732.4	6,732.4
FTSE Mesdaq <sup>3</sup>	-	-	6,624.1	6,109.2	6,109.2
Average daily turnover					
Volume (million units)	934.7	802.9	1,326.7	1,268.5	1,548.4
Value (RM million)	1,282.9	1,018.9	2,176.3	1,898.7	2,345.7
Market capitalisation (RM billion)	848.7	848.7	1,031.3	1,106.2	1,106.2
No. of companies listed	1,027	1,027	1,001	987	987

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

<sup>2</sup> FBMEMAS stands for FTSE Bursa Malaysia Emas Index

<sup>3</sup> With effect from 1 Sept 2007, the Second Board and Mesdaq indices have been replaced with the FTSE Second Board & FTSE Mesdaq indices.

Source: Bursa Malaysia

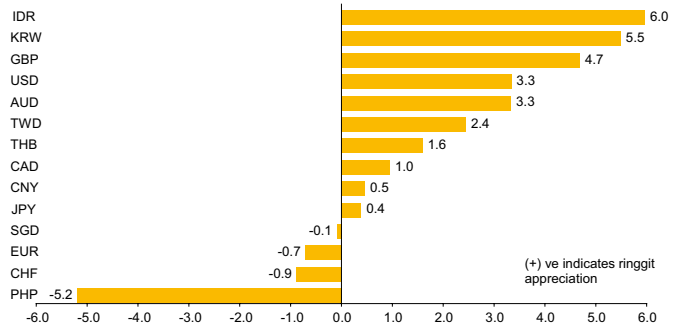
concerns of a downturn in the US economy, had implications on most major bourses, had some impact on the Kuala Lumpur stock market. The 50 basis points cut in the Fed Funds rate during the quarter helped to assuage market concerns and calm the major bourses. The KLCI benefited from this positive sentiment and rose to 1,445 at the end of the fourth quarter (since end-3Q: 8.1%). Market capitalisation was higher at RM1,106.2 billion (since end-3Q: 7.3%). However, trading activity decreased to a daily average turnover of 1,246.8 million units (since end-3Q: -5.4%).

On 26 February 2008, the KLCI closed at 1,375.4 (since end-2007: -4.8%), with market capitalisation lower at RM1,036 billion (since end-2007: -6.3%).

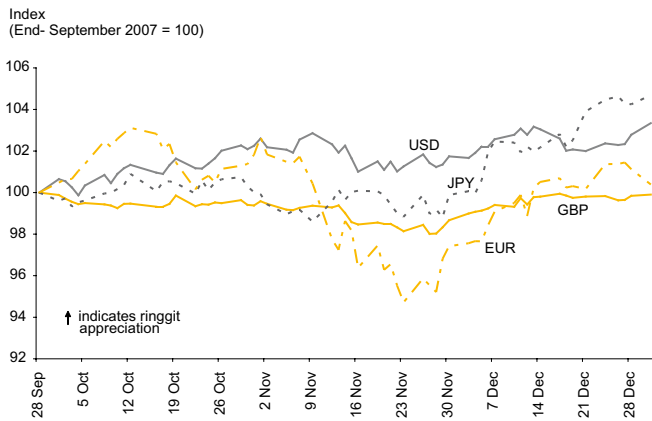
### Exchange Rate Developments

The ringgit strengthened against the US dollar during the quarter arising from trade-related inflows and renewed portfolio inflows. For the quarter as a whole, the ringgit exhibited a mixed performance against major currencies, appreciating against the US dollar (3.3%) and the Japanese yen (0.4%), but depreciating against the euro (-0.7%). The euro strengthened due to market expectations of a widening interest rate differential in its favour. Against regional currencies, the ringgit appreciated in the range of 0.5% to 6.0%. The exception was the Philippine peso, against which the ringgit depreciated by 5.2%.

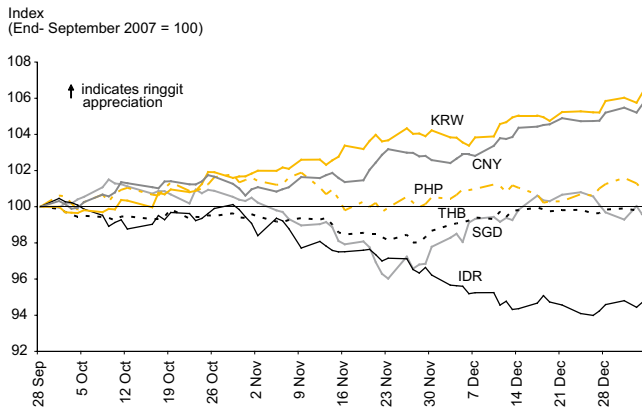
**Summary of Ringgit Performance Against Selected Currencies** Percent Change (1 October - 31 December 2007)



**Ringgit Performance Against Major Currencies**



### Ringgit Performance Against Regional Currencies



The appreciation of the ringgit has continued into early 2008. Although the downturn in global equity markets and concerns about the impact of a slowdown in US economic growth on the region caused the ringgit to temporarily weaken against the US dollar in mid-January, it subsequently reversed following the 75 basis point cut in the Fed Funds rate by the US Federal Reserve on 22 January, and another 50 basis point cut on 30 January 2008. For the period 1 January to 26 February

2008, the ringgit appreciated against the US dollar and the euro by 2.9% and 2.3% respectively, but depreciated against the Japanese yen by 0.8%. The ringgit strengthened against most regional currencies, except the Thai baht and the Indonesian rupiah against which the ringgit depreciated by 1.5% and 0.4% respectively.

### Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	4Q 06	3Q 07	4Q 07	21 Jul 05	4Q 06	3Q 07
US dollar	3.8000	3.5315	3.4170	3.3065	14.9	6.8	3.3
Euro	4.6212	4.6460	4.8410	4.8756	-5.2	-4.7	-0.7
Pound sterling	6.6270	6.9315	6.9167	6.6070	0.3	4.9	4.7
100 Japanese yen	3.3745	2.9675	2.9649	2.9534	14.3	0.5	0.4
Singapore dollar	2.2570	2.3028	2.2916	2.2938	-1.6	0.4	-0.1
100 Thai baht	9.0681	9.8111	9.9723	9.8159	-7.6	0.0	1.6
100 Philippine peso	6.8131	7.2027	7.5992	8.0158	-15.0	-10.1	-5.2
100 Indonesian rupiah	0.0386	0.0393	0.0373	0.0352	9.7	11.6	6.0
100 Korean won	0.3665	0.3797	0.3726	0.3532	3.8	7.5	5.5
Chinese renminbi	0.4591	0.4523	0.4548	0.4527	1.4	-0.1	0.5

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