



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 06/06/09

**EMBARGO: Not for publication or
broadcast before 1700 hours on
Wednesday, 28 June 2006**

Monetary and Financial Developments May 2006
Highlights of the Press Release

Sustained growth in net private sector financing

Growth in private sector financing was sustained in May, with banking system loans and PDS outstanding expanding at a combined annual rate of 9.3%. Annual growth in banking system loans outstanding remained steady at 8.9%. Loans outstanding to businesses expanded at an annual rate of 4.5%, while loans outstanding to households increased at an annual rate of 13.8%.

The banking system recorded further improvements in the level of non-performing loans (NPLs) while maintaining strong capitalisation. The net NPL ratio based on the 6-month classification improved to 4.3%, whilst the risk-weighted capital ratio (RWCR) strengthened to 12.8%, as at end-May 2006.



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In May, gross funds raised by the corporate sector through the private debt securities market increased to RM6.1 billion (April: RM2.7 billion). The funds were raised mainly by companies in the finance and utility (power-related companies) sectors, mostly to finance their new activities and to refinance existing debt.

Banking institutions continued to increase their fixed deposit (FD) rates in May and early June. As at 15 June, the average quoted FD rates of commercial banks (CBs) had increased by between 2 and 14 basis points since end-April, with the most significant increases at the 6-month and 9-month maturities to 3.32% and 3.45% respectively (end-April: 3.21% and 3.31% respectively). Meanwhile, the average lending rates of CBs increased to 6.51% as at end-May (end-April: 6.42%), but remains at a level below the average BLR of the CBs. Interbank rates of all maturities remained stable.

In the period 1 May – 27 June 2006, the ringgit depreciated against the major currencies. The ringgit's depreciation against the US dollar was in line with the broad trend in regional currencies, which were weighed down by the recent downturn in emerging market equities. The US dollar, in turn, appreciated on increased market expectations of further increases in the US benchmark interest rate to contain inflationary pressures. Against regional currencies, the ringgit appreciated against the Indonesian rupiah (5.2%), Philippine peso (1.6%) and Thai baht (0.8%), but depreciated against the Chinese renminbi (1.7%), Singapore dollar (0.7%) and Korean won (0.3%).

Headline inflation, as measured by the Consumer Price Index (CPI), slowed further to 3.9% in May (April: 4.6%). The key driver behind the lower inflation rate was the slower increase in the prices of transport, due mainly to the lapse of the impact of the upward revision in bus and taxi fares as well as the increase in the prices of retail petrol and diesel that were implemented in May 2005. Meanwhile, the annual rate of increase of the Producer Price Index (PPI) increased to 6.9% in April (March: 5.3%).

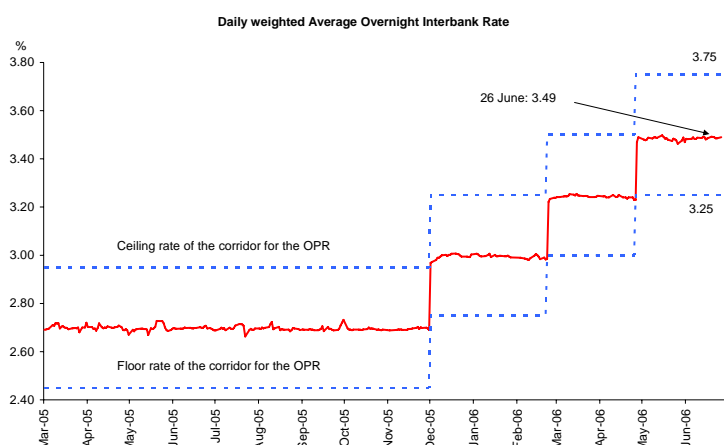
M3 or broad money, expanded at an annual rate of 6.1% in May. M1, or narrow money, representing transaction balances, expanded at a slightly higher annual rate of 9.1% in May, reflecting higher demand deposits of businesses.

The banking system recorded further improvements in the level of non-performing loans (NPLs) while maintaining strong capitalisation. The net NPL ratio based on the 6-month classification improved to 4.3%, whilst the risk-weighted capital ratio (RWCR) strengthened to 12.8%, as at end-May 2006.

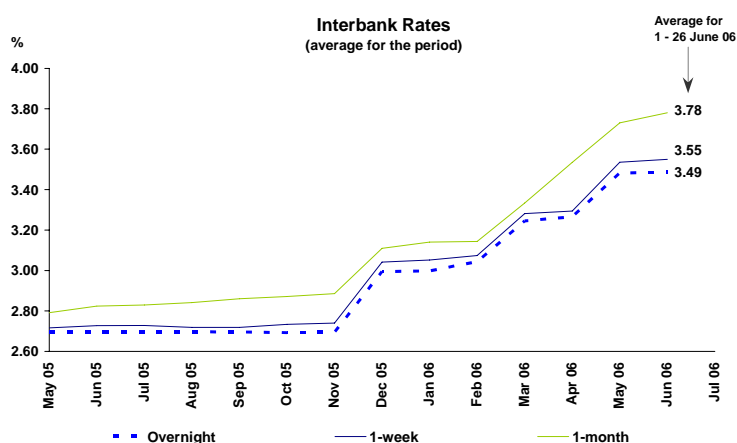
Fixed deposit rates continued to increase in May and early June

During the period 2 May – 26 June, the daily weighted average overnight interbank rate moved within a narrow range of 3.46% - 3.50%. Interbank rates of other maturities have also remained stable.

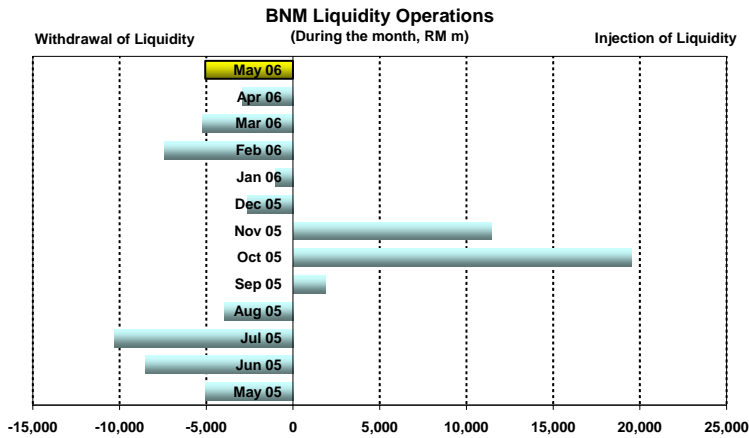
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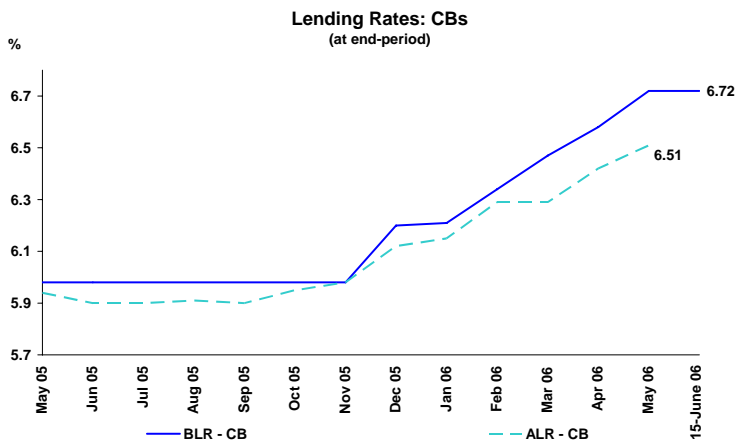
The average overnight interbank rate remained stable in May and June



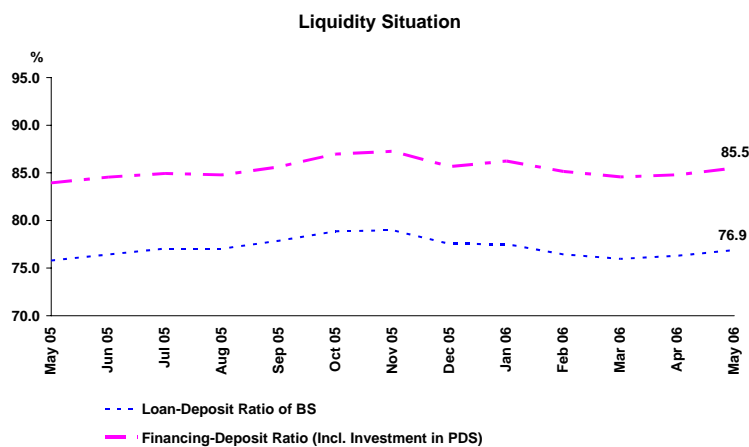
Similarly, other interbank rates remained stable



BNM absorbed excess liquidity from the banking system

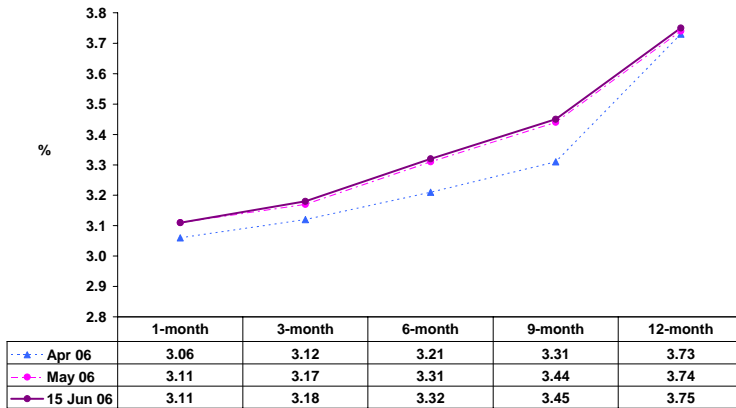


The average BLR of CBs increased in May and stabilised in early June



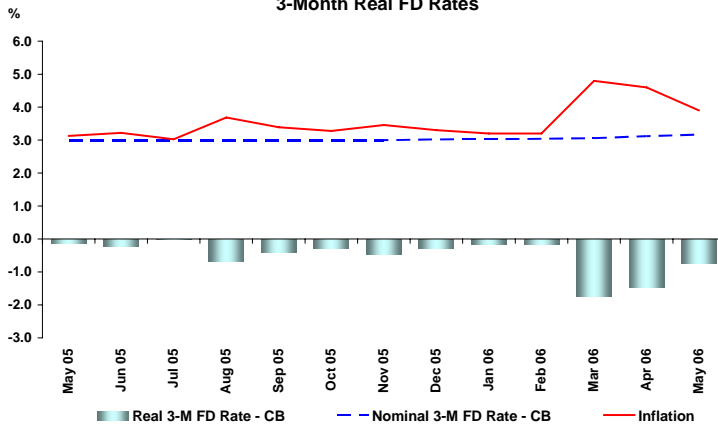
Both the loan-deposit and financing-deposit ratios increased slightly in May as loans outstanding grew faster than deposits

**Term Structure of FD Rates
Commercial Banks**



FD rates of CBs continued to increase in May and early June

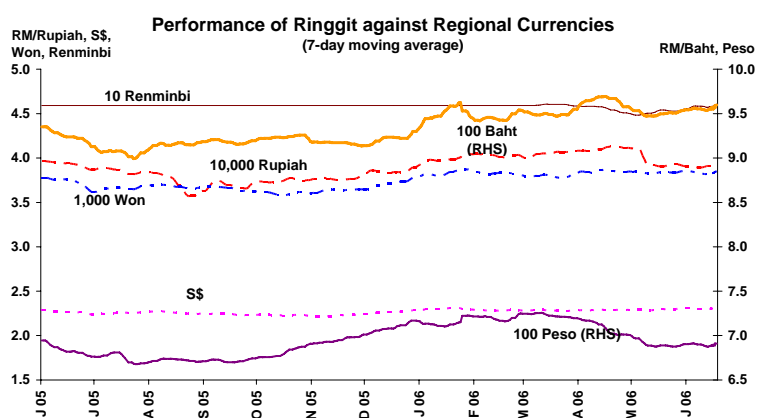
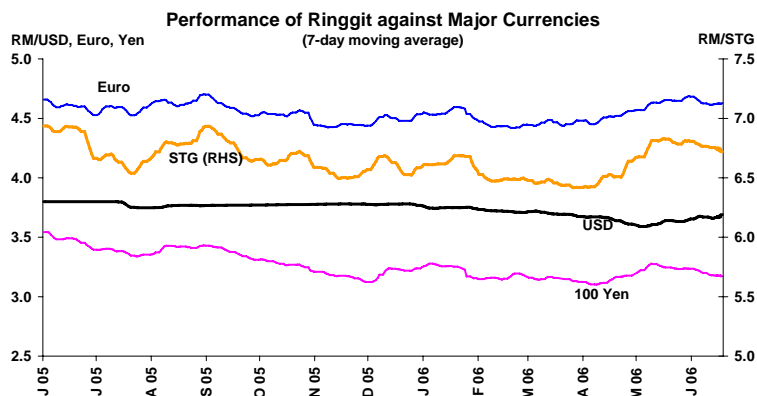
3-Month Real FD Rates



The real 3-m FD rate improved as inflation moderated and nominal FD rate increased

Ringgit depreciated against the US dollar

In the period 1 May – 27 June 2006, the ringgit depreciated against the major currencies. The ringgit's depreciation against the US dollar was in line with the broad trend in regional currencies, which were weighed down by the recent downturn in emerging market equities. The US dollar, in turn, appreciated on increased market expectations of further increases in the US benchmark interest rate to contain inflationary pressures. Against regional currencies, the ringgit appreciated against the Indonesian rupiah (5.2%), Philippine peso (1.6%) and Thai baht (0.8%), but depreciated against the Chinese renminbi (1.7%), Singapore dollar (0.7%) and Korean won (0.3%).

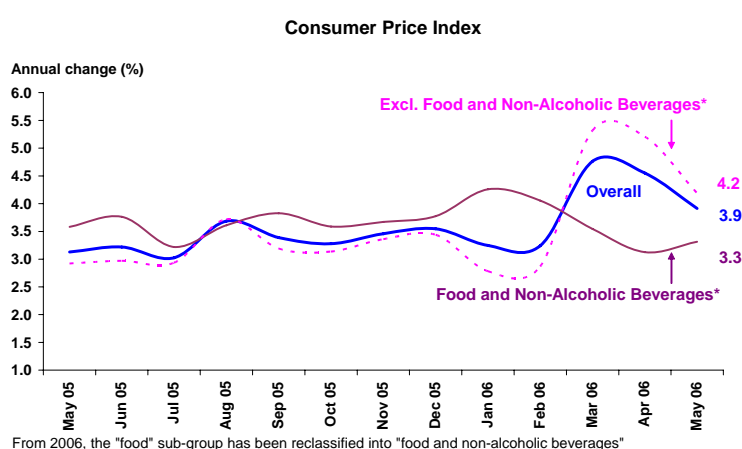


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period			27 June 2006	% change	
	Dec. 05	Apr. 06	May 06		End Dec. 05 - 27 June 2006	End Apr. - 27 June. 2006
US dollar	3.7800	3.6255	3.6290	3.6815	2.7	-1.5
Euro	4.4867	4.5415	4.6689	4.6403	-3.3	-2.1
Pound Sterling	6.5226	6.5293	6.8298	6.7191	-2.9	-2.8
100 Japanese yen	3.2229	3.1696	3.2348	3.1711	1.6	-0.05
Singapore dollar	2.2714	2.2905	2.3023	2.3069	-1.5	-0.7
100 Thai baht	9.2049	9.6564	9.5100	9.5835	-4.0	0.8
100 Philippine peso	7.1254	7.0011	6.8692	6.8910	3.4	1.6
100 Indonesian Rupiah	0.0385	0.0413	0.0393	0.0393	-2.0	5.2
100 Korean won	0.3739	0.3831	0.3837	0.3841	-2.6	-0.3
Chinese renminbi	0.4686	0.4524	0.4522	0.4604	1.8	-1.7

Inflation slowed further in May

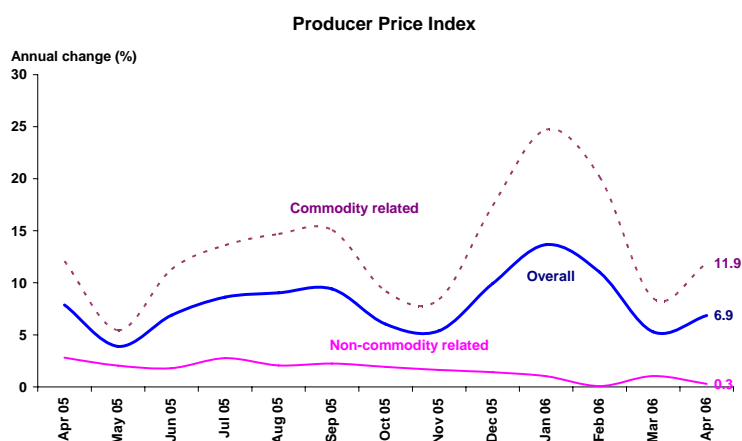
Headline inflation, as measured by the Consumer Price Index (CPI), slowed further to 3.9% in May (April: 4.6%). The key driver behind the lower inflation rate was the slower increase in the prices of transport, due mainly to the lapse of the impact of the upward revision in bus and taxi fares as well as the increase in the prices of retail petrol and diesel that were implemented in May 2005. Meanwhile, the upward price pressures in the food and non-alcoholic beverages, restaurant and hotels, and health categories were offset by the continued decline in the prices of clothing and footwear, and communication charges.



Inflation continued to trend downwards in May

Rate of increase in producer prices edged up in April

The annual rate of increase of the Producer Price Index (PPI) increased to 6.9% in April (March: 5.3%). The increase in the PPI was due mainly to the higher prices in the commodity-related category, largely on account of the sharper increases in crude oil and rubber prices. Excluding the commodity-related category, the PPI registered a slower rate of increase of 0.3% (March: 1%), due mainly to the slower increase in the prices of food and live animals, and the sustained decline in the prices of animal, vegetable oils and fats.



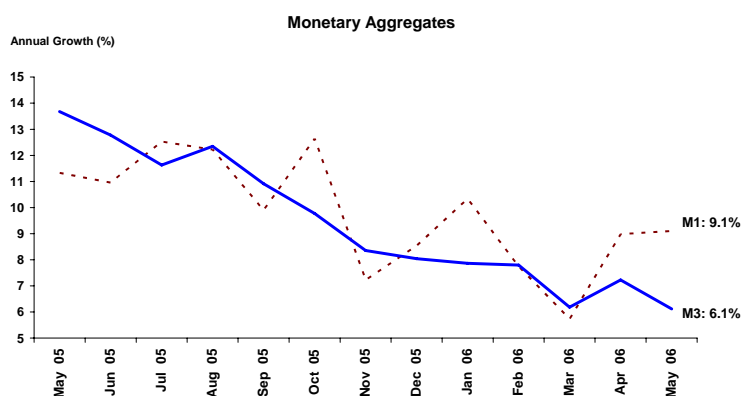
Higher rate of increase in the PPI in April

Sustained growth in bank lending supported expansion in broad money

M1, or narrow money, representing transaction balances, expanded at an annual rate of 9.1% in May (April: 9%), reflecting higher demand deposits by businesses. Broad money, M3, meanwhile, increased at an annual rate of 6.1% (April: 7.2%). On a monthly basis, claims on the private sector, and to a lesser extent, net external operations were expansionary on M3. Claims on the private sector increased mainly on account of the rise in loans outstanding of the banking system. These factors, however, were partly offset by lower net claims on the Government, as the Government deposited with Bank Negara Malaysia the proceeds from its issuance of Malaysian Government Securities (MGS) and receipts from income tax payments.

M3 Determinants (RM billion)				
	Change during period			
	2004	2005	Apr 06	May 06
M3	68.0	49.7	7.0	2.1
Net claims on Government	-15.9	-5.5	-1.8	-6.2
Claims on the private sector	30.6	44.6	3.9	6.0
<i>Loans</i>	39.8	45.0	3.1	5.0
<i>Securities</i>	-9.2	-0.4	0.8	0.9
Net external operations *	82.0	16.5	9.6	1.7
Other influences	-28.7	-6.0	-4.8	0.6

* Pre-revaluation of the international reserves



Banking system deposits increased in May

In May, total deposits with the banking system increased by RM1.8 billion, or at an annual rate of 7.7% (April: +RM2.2 billion or +9.6%). The increase was driven mainly by higher deposit placements from domestic business enterprises, and to a lesser extent, statutory authorities. There was a drawdown of deposits by non-bank financial institutions for the purchase of MGS. By type of deposit, the increase was

reflected in negotiable instruments of deposits, fixed deposits and Islamic banking scheme deposits.

Deposits by Holder
(RM million)

	Change during period			
	Feb 06	Mar 06	Apr 06	May 06
Federal Government	-3,262	469	-173	-633
State Governments	897	568	255	-304
Statutory Authorities ¹	554	1,264	-1,814	862
Financial Institutions	5,651	6,090	2,850	-1,619
Business Enterprises	6,131	-964	-751	4,221
Individuals	3,120	1,088	1,808	-981
Others ²	-3	142	32	221
Total	13,089	8,657	2,207	1,767

1/ Include local Governments

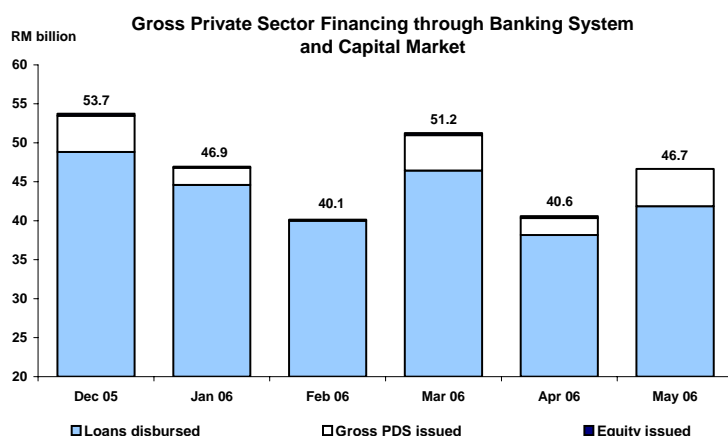
2/ Include domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

	Change during period			
	Feb 06	Mar 06	Apr 06	May 06
Fixed deposits	-2,835	7,272	5,437	1,795
NIDs	7,082	2,452	-3,271	3,761
Demand deposits	-1,126	-3,687	921	1,090
Savings deposits	562	-324	-128	-896
Repos	9,744	2,582	632	-5,053
FX deposits	1,474	-268	-1,263	-423
SPI deposits	-2,300	110	-578	1,718
Others	487	521	456	-225
Total	13,089	8,657	2,207	1,767

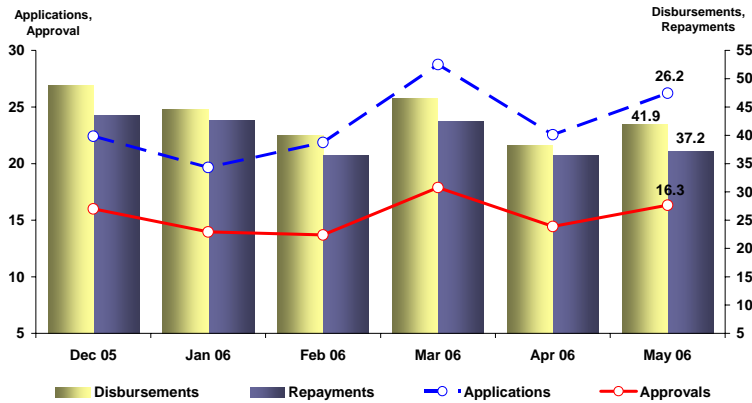
Sustained growth in net private sector financing

In May, gross financing to the private sector from the banking system and the capital market was higher, amounting to RM46.7 billion (April: RM40.6 billion). The increase reflected higher loan disbursements and higher gross PDS issuance during the month. On a net basis, financing of the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 9.3% (April: 9.8%).



Gross private sector financing was higher in May

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



Higher loan applications, approvals and disbursements...

Bank lending indicators

	RM billion		Annual Growth (%)	
	April	May	April	May
Overall				
Loan applications	22.6	26.2	-18.2	-4.0
Loan approvals	14.4	16.3	0.1	-2.0
Loan disbursements	38.2	41.9	-5.7	-3.5
Chg in Loans Outstanding ^{1/}	3.0	5.4	8.9	8.9
Businesses				
Loan applications	11.0	12.9	-25.4	-13.4
Loan approvals	5.9	7.5	-9.6	-6.2
Loan disbursements	24.8	27.5	-8.7	-6.6
Chg in Loans Outstanding ^{1/}	4.4	-0.4	5.8	4.5
SMEs				
Loan applications	6.1	6.6	n.a. ^{2/}	n.a. ^{2/}
Loan approvals	2.7	3.3	n.a.	n.a.
Loan disbursements	8.1	11.1	n.a.	n.a.
Chg in Loans Outstanding ^{1/}	0.4	1.0	n.a.	n.a.
Households				
Loan applications	10.7	12.4	-12.5	1.8
Loan approvals	8.4	8.6	6.9	0.3
Loan disbursements	13.1	13.6	14.3	15.9
Chg in Loans Outstanding ^{1/}	1.7	3.3	13.9	13.8

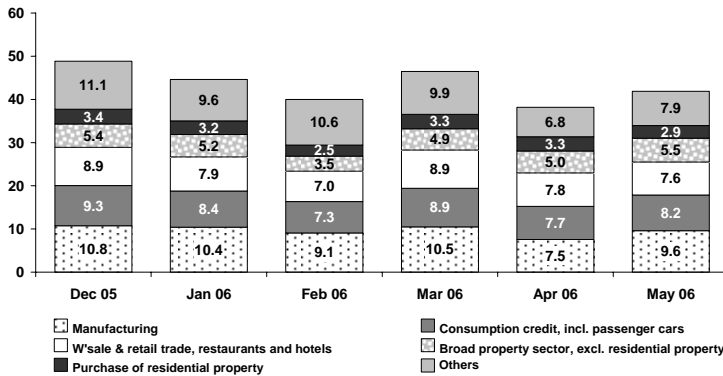
...across business and household sectors

n.a. not applicable

^{1/} The annual growth in outstanding amount as at end-period.

^{2/} 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 Disbursements to Selected Sectors



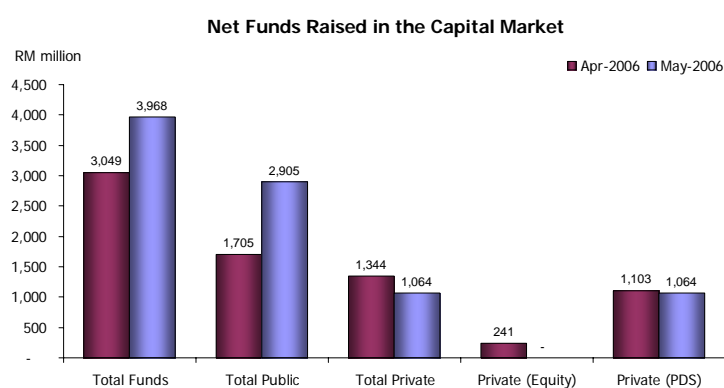
Higher loans disbursed to most major sectors

The major bank lending indicators for businesses and households recorded higher levels during the month. In terms of loan disbursements, higher amounts were channeled to the manufacturing and construction sectors, and for consumption credit.

At end-May, annual growth in loans outstanding remained steady at 8.9% (end-April: 8.9%). Loans outstanding to businesses expanded at an annual rate of 4.5% (end-April: 5.8%), while loans outstanding to households increased at an annual rate of 13.8% (end-April: 13.9%).

Higher fund raising activity in the capital market

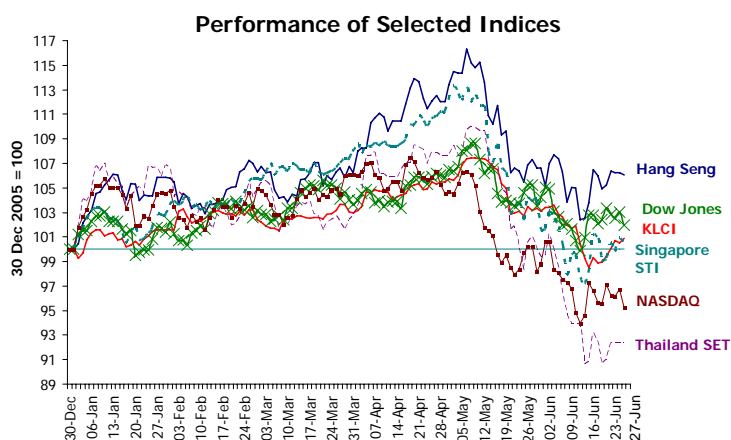
Total net funds raised in the capital market were higher in May, amounting to RM4 billion. The funds were mainly raised by the public sector through the re-opening of a 5-year Malaysia Government Securities (MGS) with gross funds raised of RM2.9 billion. In the private sector, gross funds raised by the corporate sector through the private debt securities market increased to RM6.1 billion. The funds were raised mainly by companies in the finance and utility (power related companies) sectors, mostly to finance their new activities and to refinance existing debt. After adjusting for redemptions, total net funds raised by the private sector amounted to RM1.1 billion during the month.



The global equity market correction affected KLCI performance by less than other regional markets

Concerns over rising US interest rates and global inflationary pressures have contributed to the weakening of global equity markets. The KLCI in May declined to 927.78 (since end-April: -2.3%). Market capitalisation fell to RM727.3 billion (since

end-April: -3.2%), while daily average turnover decreased to 1,172 million units (April: 1,227.2 million units).

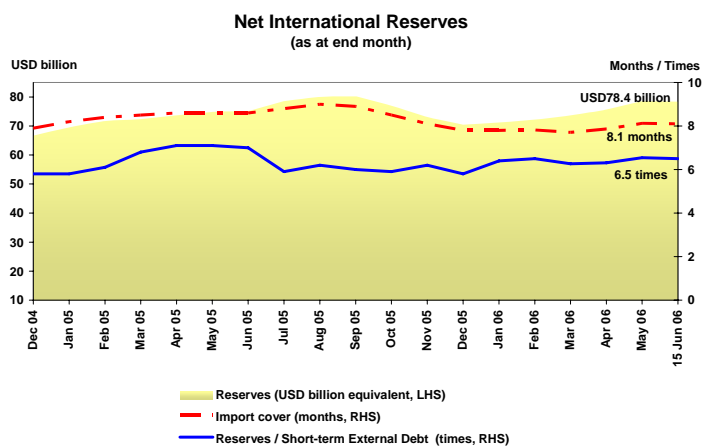


The correction in the domestic market was smaller than that in other regional markets

As at 27 June, global market sentiments remained lacklustre. The KLCI ended lower at 907.76 (since end-May: -2.2%), although this decline was less than that experienced in other regional markets. Market capitalisation declined to RM714.5 billion (since end-May: -1.8%), while trading activities were also lower, with the daily average turnover at 423.3 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM289.5 billion, or the equivalent of USD78.7 billion as at 31 May 2006. Reserves amounted to RM288.5 billion, or the equivalent of USD78.4 billion as at 15 June 2006. The reserves position is sufficient to finance 8.1 months of retained imports and is 6.5 times the short-term external debt.



Improvements exhibited in both capitalisation and non-performing loans levels

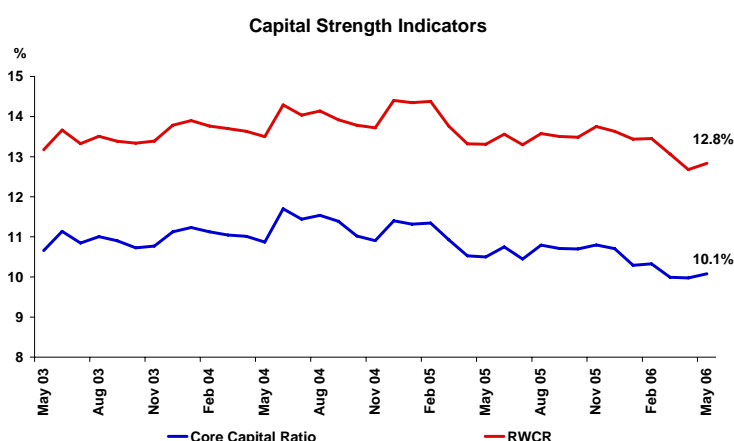
The banking system recorded further improvements in the level of non-performing loans (NPLs) while maintaining strong capitalisation. Net NPL ratios based on the 6-month and 3-month classifications improved to 4.3% and 5.6% respectively as at end-May 2006 due mainly to higher provisions and write-offs. The risk-weighted capital ratio (RWCR) and core capital ratio of the banking system strengthened to 12.8% and 10.1% respectively. The slight improvements in the ratios can be attributed mainly to new issuances of subordinated bonds and incorporation of audited profits amidst further expansion in lending activities. Meanwhile, a new Islamic banking subsidiary also commenced operations at the beginning of the month.

Banking System Health Indicators *

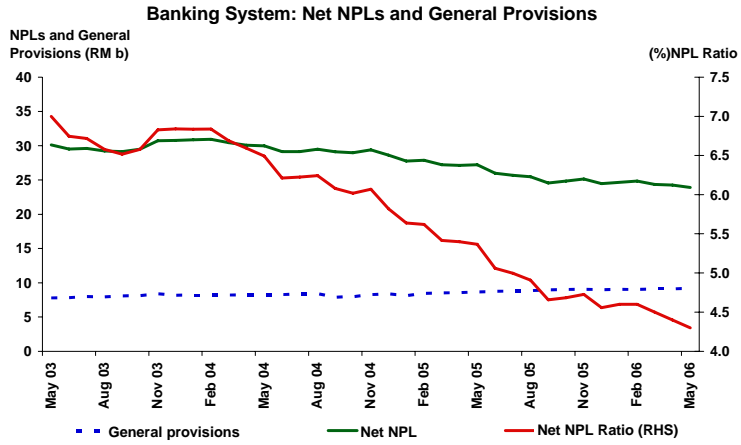
	1999	2000	2001	2002	As at end-			Mar 06	Apr 06	May 06
					2003	2004	2005			
Capital (%)										
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.4	10.7	10.0	10.0	10.1
RWCR	12.5	12.5	13.0	13.2	13.8	14.4	13.6	13.1	12.7	12.8
Net NPLs (6-month classification)										
% of net total loans	6.4	6.3	8.1	7.5	6.8	5.8	4.6	4.5	4.4	4.3
Amount (RM million)	23,849	24,700	32,833	31,702	30,766	28,590	24,468	24,354	24,245	23,912
GP / Net total loans (6-month, %)										
	1.9	1.9	1.9	1.8	1.8	1.7	1.7	1.7	1.7	1.7

* Beginning June 1999, the figures include Islamic banks.

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



*Sustained
capitalisation level of
the banking system...*



...amidst lower NPL level

Bank Negara Malaysia
28 June 2006

Key Monetary and Financial Statistics

	Mar 06		Apr 06		May 06	
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates						
Reserve money	54.1	6.9	54.1	5.0	53.3	4.7
M1	122.3	5.7	124.5	9.0	125.2	9.1
M2	636.6	15.2	641.7	16.1	644.0	14.8
M3	683.9	6.2	690.8	7.2	692.9	6.1
Banking System						
Total deposits	713.1	9.5	715.3	9.6	717.1	7.7
Total loans (including loans sold to Cagamas)	566.3	8.4	569.3	8.9	574.7	8.9
Loan-deposit ratio (%)	76.0		76.3		76.9	
Financing-deposit ratio ¹ (%)	84.6		84.8		85.5	
Loans applied (during the period)	28.8	0.5	22.6	-18.2	26.2	-4.0
Loans approved (during the period)	17.9	4.7	14.4	0.1	16.3	-2.0
Loans disbursed (during the period)	46.5	-2.7	38.2	-5.7	41.9	-3.5
Loans repaid (during the period)	42.5	3.4	36.4	-10.6	37.2	-6.0
Banking System Health						
Risk-weighted Capital Ratio (RWCR) (%)	13.1		12.7		12.8	
Net NPLs: 6-month classification (%)	4.5		4.4		4.3	
International Reserves of BNM (end-period)						
Net Reserves in RM billion	270.5		278.0		289.5	
Net Reserves in USD billion (equivalent)	73.7		75.7		78.7	
Months of retained imports	7.9		8.0		8.2	
Interest Rates at end-period [average for the month]						
Overnight Policy Rate (OPR)	3.25		3.50		3.50	
Interbank:						
Overnight	3.25 [3.25]		3.49 [3.27]		3.47 [3.48]	
1-week	3.28 [3.28]		3.51 [3.29]		3.54 [3.54]	
1-month	3.25 [3.33]		3.38 [3.38]		3.69 [3.73]	
Fixed deposits of commercial banks:						
1-month	3.03		3.06		3.11	
3-month	3.06		3.12		3.17	
BLR of commercial banks	6.47		6.58		6.72	
ALR of commercial banks	6.29		6.42		6.51	
Prices						
Consumer Price Index (CPI) (2005=100)	103.4	4.8	103.4	4.6	103.6	3.9
Producer Price Index (PPI) (1989=100)	169.3	5.3	172.8	6.9	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)						
US dollar	3.6860		3.6255		3.6290	
Euro	4.4829		4.5415		4.6689	
Pound Sterling	6.4337		6.5293		6.8298	
100 Japanese yen	3.1397		3.1696		3.2348	
Singapore dollar	2.2778		2.2905		2.3023	
100 Thai Baht	9.4914		9.6564		9.5100	
100 Philippine Peso	7.2077		7.0011		6.8692	
100 Indonesian Rupiah	0.0407		0.0413		0.0393	
100 Korean Won	0.3781		0.3831		0.3837	
Capital Market						
Net funds raised (in RMb) by:						
public	0.5		1.7		2.9	
private	2.3		1.3		1.1	
Bursa Malaysia Composite Index (end-period)	926.6		949.2		927.8	
Bursa Malaysia Market Capitalisation (RMb, end-period)	732.9		751.0		727.3	

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