



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 03/06/05

**EMBARGO: Not for publication or
broadcast before 1700 hours on
Tuesday, 28 March 2006**

Monetary and Financial Developments February 2006
Highlights of the Press Release

Sustained growth in financing to the private sector

Growth in private sector financing was sustained in February, with banking system loans and private debt securities (PDS) outstanding increasing at a combined annual rate of 9.5%. Banking system loans outstanding grew by 9.2% on an annual basis, with the growth in loans outstanding to the small and medium enterprises (SMEs) remaining firm at 8.3%. All major lending indicators (loan applications, approvals and disbursements) registered firm growth on an annual basis.

The banking system remained sound with strong capitalisation and stable loan quality. The risk-weighted capital ratio (RWCR) remained unchanged at 13.4% at end-February, while the net non-performing loans (NPL) ratio, based on the 6-month classification, stabilised at 4.6% since end-December 2005.



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MONETARY AND FINANCIAL DEVELOPMENTS FEBRUARY 2006

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Net funds raised in the PDS market were lower in February, with five companies raising funds to finance new activities. Including Cagamas bonds, net funds raised by the private sector amounted to RM1.2 billion.

During the period 3 – 22 February, the daily weighted average overnight interbank rate moved within a narrow range of 2.98% - 3.01%, averaging 3%. Subsequent to the increase in the Overnight Policy Rate (OPR) to 3.25% on 22 February, the daily weighted average overnight interbank rate traded within a range of 3.22% - 3.25%, averaging close to 3.25% over the period of 23 February – 27 March. Interbank rates at other maturities have also increased. In terms of retail lending rates, as at 15 March, the average base lending rates (BLRs) of commercial banks (CBs) increased to 6.47% as most CBs raised their BLRs in the range of

0.25% - 0.50%. Meanwhile, the average quoted fixed deposit (FD) rates of CBs for the 1-month to 9-month maturities also increased.

Over the period 1 February – 27 March, the ringgit appreciated against the major currencies and most regional currencies.

Headline inflation, as measured by the Consumer Price Index, remained unchanged at 3.2% in February. The main increases were in the prices of food and non-alcoholic beverages; housing, water, electricity, gas and other fuels; and transport categories.

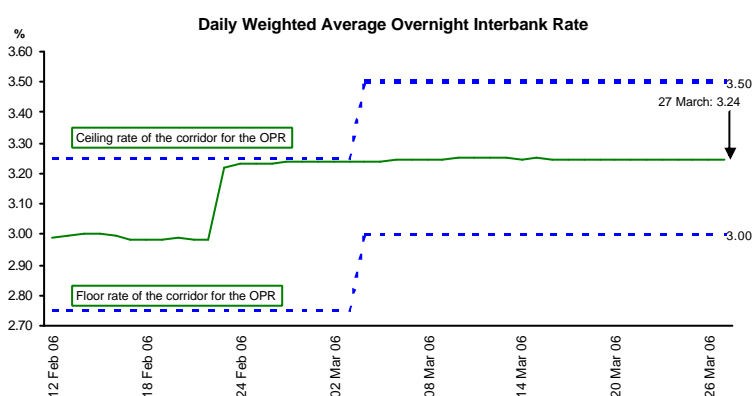
Broad money, or M3, expanded at an annual rate of 7.8%, while narrow money, or M1, grew at a slower annual rate of 7.7%. The lower M1 growth was mainly due to the reduced holding of currencies, following the end of the festive season and the lower number of working days.

The banking system remained sound with strong capitalisation and stable loan quality. The risk-weighted capital ratio (RWCR) remained unchanged at 13.4% at end-February, while the net non-performing loans (NPL) ratio, based on the 6-month classification, stabilised at 4.6% since end-December 2005.

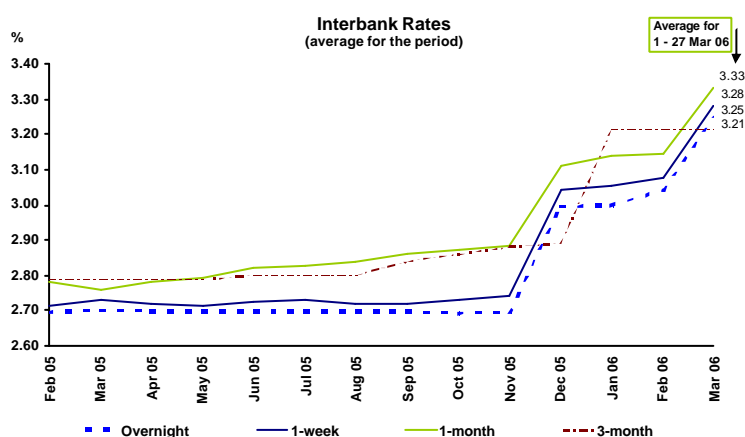
Interest rates rose following the increase in the OPR

During the period 3 – 22 February, the daily weighted average overnight interbank rate moved within a narrow range of 2.98% - 3.01%, averaging 3%. Interbank rates for other maturities were also relatively stable. On 22 February, Bank Negara Malaysia raised the Overnight Policy Rate (OPR) by 25 basis points to 3.25%. Subsequent to the increase in the OPR, the daily weighted average overnight interbank rate traded within a range of 3.22% - 3.25%, averaging close to 3.25% over the period of 23 February – 27 March. Interbank rates at other maturities have also increased.

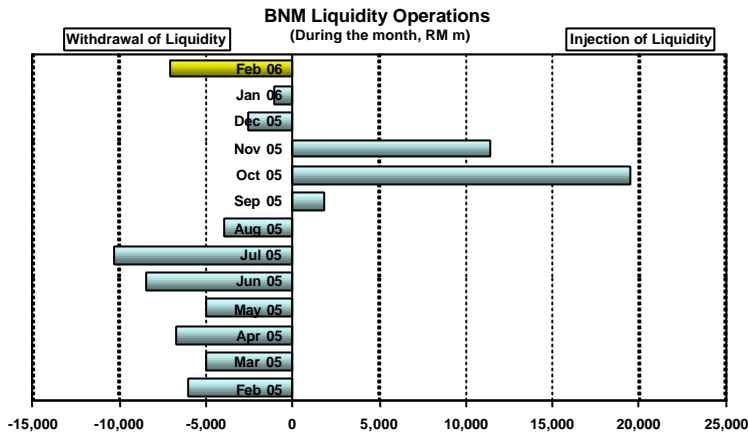
In terms of retail lending rates, as at 15 March, the average BLRs of commercial banks (CBs) increased to 6.47% (end-January: 6.21%) as most CBs raised their BLRs in the range of 0.25% - 0.50%. Meanwhile, the average quoted fixed deposit (FD) rates of CBs for the 1-month to 9-month maturities also increased, while the rates at the 12-month maturity remained unchanged.



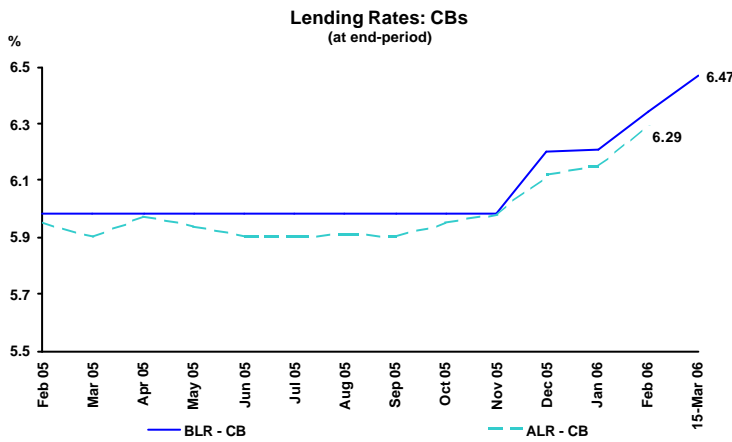
The average overnight interbank rate rose following the increase in the OPR



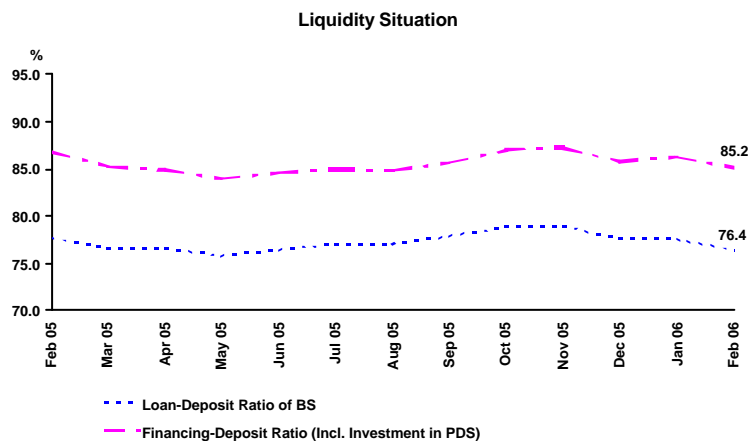
Interbank rates also increased following the increase in the OPR



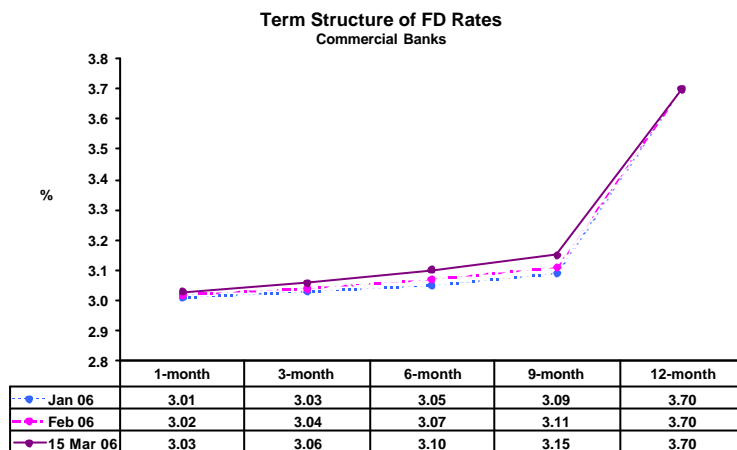
BNM absorbed the excess liquidity from the banking system



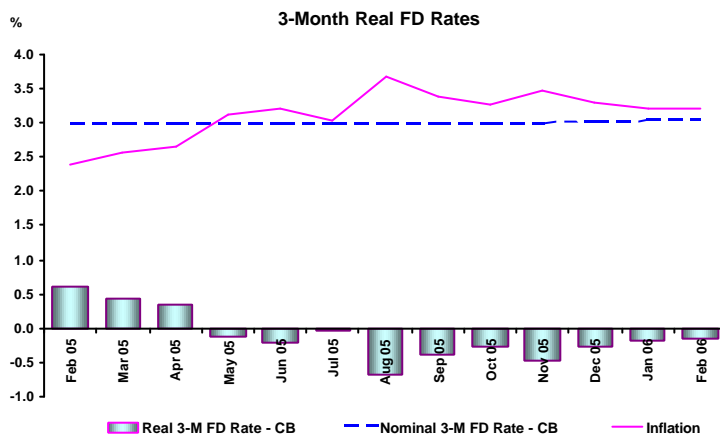
Lending rates of CBs rose



Both loan-deposit and financing-deposit ratios were slightly lower in February as deposit growth outpaced loan growth



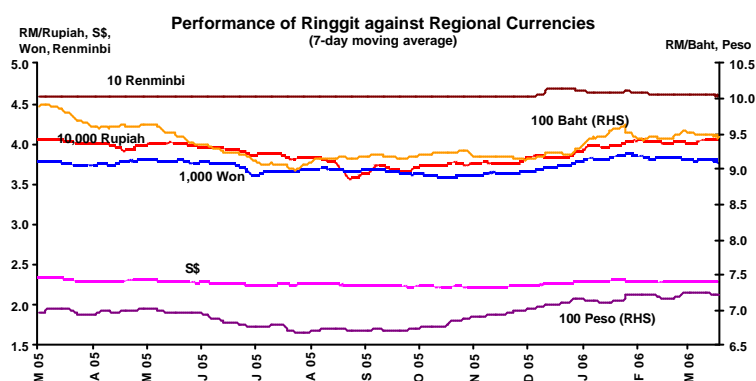
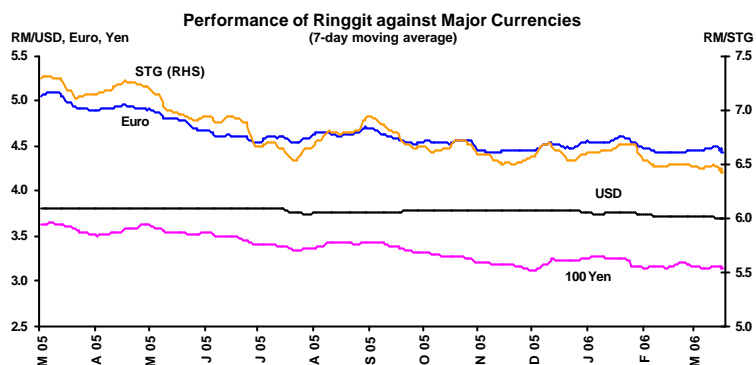
Following the increase in the OPR, FD rates of CBs rose



The 3-m real FD rate remained negative in February

Performance of the ringgit

Over the 1 February – 27 March period, the ringgit appreciated against the major currencies and most regional currencies. The ringgit strengthened against the US dollar reflecting underlying trade and capital flows. The ringgit was also influenced by developments in other G3 currencies. Market activity surrounding the ending of the Bank of Japan's quantitative easing monetary policy contributed to the weaker Japanese yen. The euro also depreciated amidst expectations that the monetary policy tightening in the euro area would continue to lag behind that of the US. During this period the ringgit appreciated against most regional currencies in the range of 1.1% - 2.2%, the exception being depreciations against the Indonesian rupiah (1.6%) and the Philippine peso (0.9%).

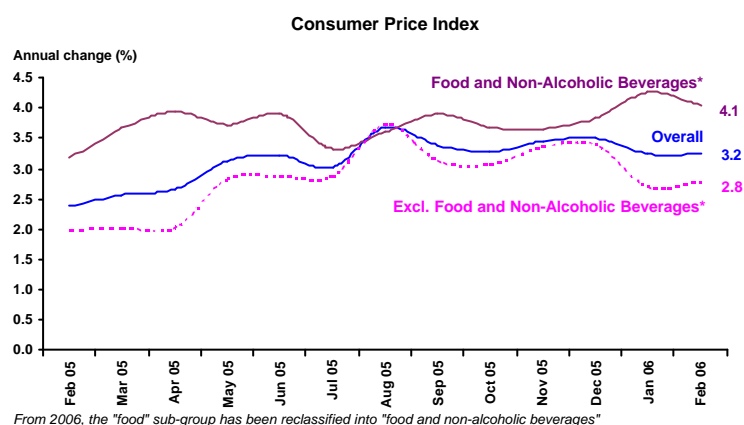


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period			27 Mar. 2006	% change	
	Dec. 05	Jan. 06	Feb. 06		End Dec. 05 - 27 Mar. 2006	End Jan. - 27 Mar. 2006
US dollar	3.7800	3.7510	3.7135	3.6925	2.4	1.6
Euro	4.4867	4.5813	4.4055	4.4484	0.9	3.0
Pound Sterling	6.5226	6.6811	6.4643	6.4478	1.2	3.6
100 Japanese yen	3.2229	3.2264	3.1907	3.1633	1.9	2.0
Singapore dollar	2.2714	2.3092	2.2857	2.2846	-0.6	1.1
100 Thai baht	9.2049	9.6241	9.4407	9.4813	-2.9	1.5
100 Philippine peso	7.1254	7.1512	7.1793	7.2176	-1.3	-0.9
100 Indonesian Rupiah	0.0385	0.0400	0.0402	0.0407	-5.5	-1.6
100 Korean won	0.3739	0.3862	0.3827	0.3777	-1.0	2.2
Chinese renminbi	0.4686	0.4654	0.4619	0.4604	1.8	1.1

Inflation remained at 3.2% in February

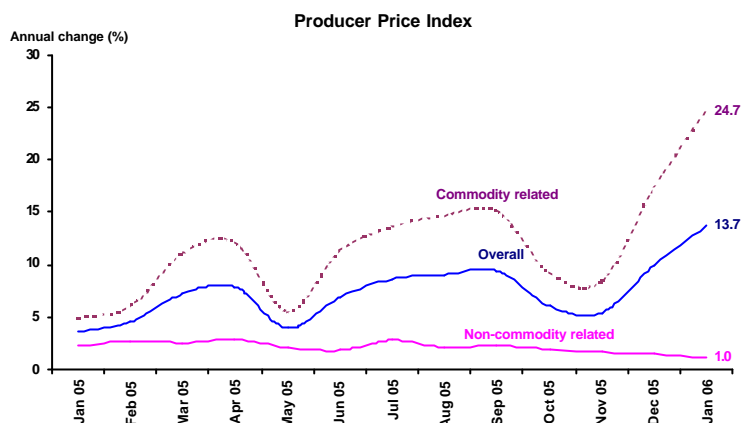
Headline inflation, as measured by the Consumer Price Index, remained unchanged at 3.2% in February (January: 3.2%). The main increases were in the prices of food and non-alcoholic beverages; housing, water, electricity, gas and other fuels; and transport categories. Nevertheless, the increase in prices of food and non-alcoholic beverages moderated marginally to 4.1% in February (January: 4.3%), mainly on account of slower growth in prices of food taken at home. Meanwhile, the prices of clothing and footwear and communication charges were lower compared to their levels a year ago.



Inflation at 3.2% in February

Producer prices increased in January

The annual growth of the Producer Price Index (PPI) increased by 13.7% in January (December 2005: 9.9%). The increase in the PPI was due mainly to the stronger growth in the commodity-related category, mainly on account of higher crude oil prices and the upturn in the prices of crude palm oil. Excluding the commodity-related category, however, the PPI registered a slower growth of 1% (December 2005: 1.4%) due mainly to the slower growth in the prices of machinery and transport equipment, as well as food and live animals.



PPI increased in January

Broad money growth remained unchanged

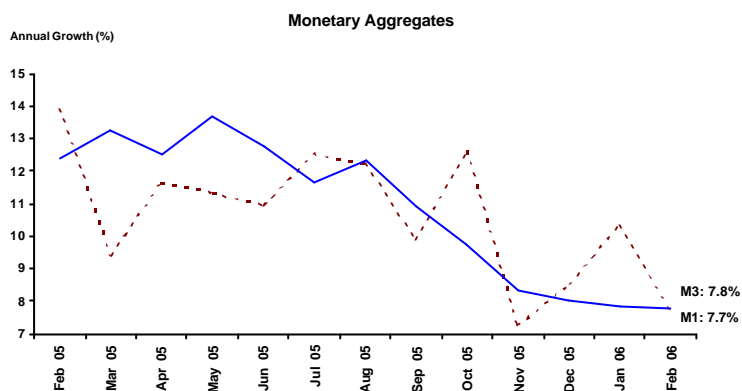
M1 or narrow money, representing transaction balances, expanded at a slower annual growth rate of 7.7% in February (January: 10.3%). This was mainly due to the reduced holding of currencies, following the end of the festive season and the lower number of working days.

Meanwhile, broad money, M3, expanded at an annual rate of 7.8% (January: 7.8%). On a monthly basis, both net claims on the Government and net external operations were expansionary on M3. Similarly, claims on the private sector also caused M3 to expand. This, however, was partly offset by a smaller reduction in the holdings of securities by the banking institutions. These expansionary factors were partly offset by the contracting impact of net other influences, resulting mainly from the increase in deposits of a non-bank financial institution with the Bank and repurchase agreement transactions between banking institutions and the Bank conducted under the Institutional Securities Custodian Programme (ISCAP).

M3 Determinants
(RM billion)

	Change during period			
	2004	2005	Jan 06	Feb 06
M3	68.0	49.7	5.8	6.1
Net claims on Government	-15.9	-5.5	3.6	4.5
Claims on the private sector	30.6	45.4	0.1	2.0
Loans	39.8	45.0	1.3	2.8
Securities	-9.2	0.4	-1.2	-0.7
Net external operations	82.0	16.5	2.0	9.9
Other influences	-28.7	-6.8	0.1	-10.4

* Pre-revaluation of the international reserves



Total deposits with the banking system increased in February

Total deposits with the banking system increased by RM13.1 billion or at an annual rate of 11.3% in February (January: -RM1.2 billion or +10.1%). The increase was driven mainly by higher deposit placements from domestic business enterprises, financial institutions, and individuals. The increase in deposit placements of financial institutions reflected mainly interbank placements.

Deposits by Holder (RM million)

	Change during period			
	Nov 05	Dec 05	Jan 06	Feb 06
Federal Government	-317	358	2,408	-3,262
State Governments	-44	-223	-259	897
Statutory Authorities ¹	1,056	-62	416	554
Financial Institutions	70	11,682	-5,049	5,509
Business Enterprises	-287	6,345	-1,779	6,264
Individuals	870	2,346	3,052	3,120
Others ²	-279	-449	-23	6
Total	1,069	19,998	-1,234	13,089

1/ Include local Governments

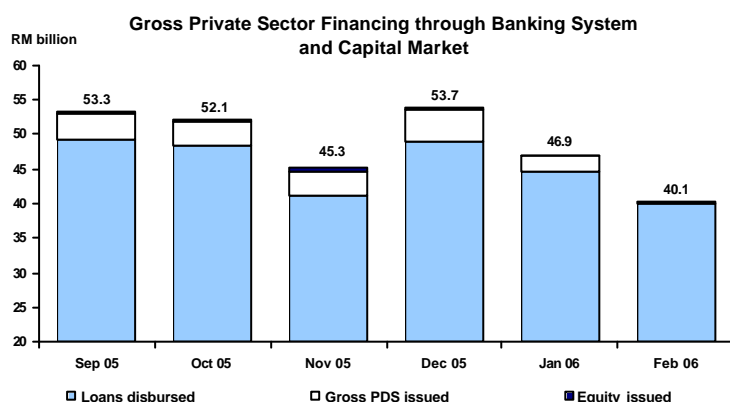
2/ Include domestic other entities and foreign non-bank entities

Deposits by Type (RM million)

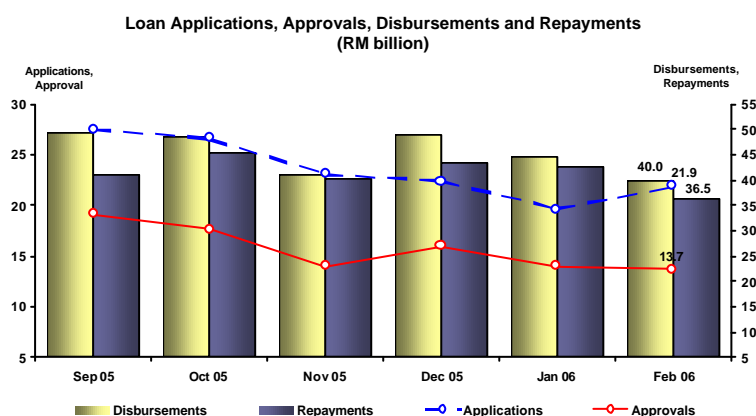
	Change during period			
	Nov 05	Dec 05	Jan 06	Feb 06
Fixed deposits	-1,820	-1,092	-4,603	-2,835
NIDs	-1,145	6,857	40	7,082
Demand deposits	-310	2,748	3,271	-1,126
Savings deposits	87	762	1,052	562
Repos	1,082	7,211	-4,242	9,744
FX deposits	1,454	-286	-521	1,474
SPI deposits	1,393	4,557	3,531	-2,300
Others	327	-759	237	487
Total	1,069	19,998	-1,234	13,089

Financing to the private sector remained resilient

In February, gross financing to the private sector from the banking system and the capital market amounted to RM40.1 billion, expanding by a further 7.2% on an annual basis (January: RM46.9 billion; 3.9%). Financing activity was somewhat affected by the fewer working days during the month. Gross financing was driven almost entirely by banking system loan disbursements. On a net basis, financing of the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 9.5% (January: 9.5%).



Gross private sector financing amounted to RM40.1 billion



Loan applications increased during the month

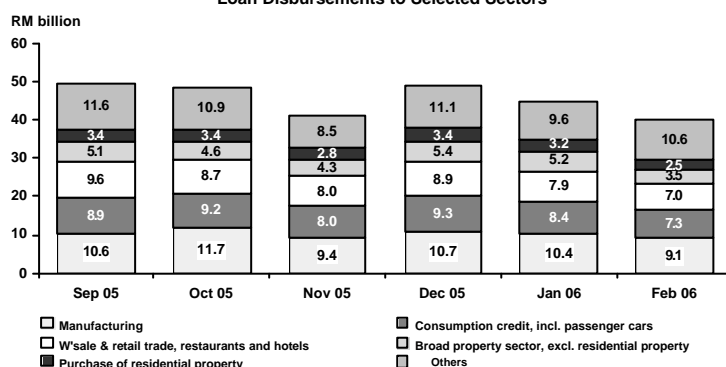
Bank lending indicators

	RM billion		Annual Growth (%)	
	January	February	January	February
	Overall			
Loan applications	19.7	21.9	-7.7	18.1
Loan approvals	14.0	13.7	0.7	16.8
Loan disbursements	44.6	40.0	5.2	9.7
Chg in Loans Outstanding ^{1/}	2.0	4.0	9.0	9.2
Businesses				
Loan applications	9.6	10.8	-13.4	13.8
Loan approvals	6.5	6.0	-2.5	20.6
Loan disbursements	30.7	25.9	6.5	5.4
Chg in Loans Outstanding ^{1/}	0.5	-0.2	4.8	4.4
SMEs				
Loan applications	2.9	3.2	-25.4	-13.3
Loan approvals	2.3	1.8	-4.0	-23.6
Loan disbursements	9.2	8.2	4.6	8.5
Chg in Loans Outstanding ^{1/}	-0.6	-0.2	9.0	8.3
Households				
Loan applications	9.9	9.1	0.9	5.3
Loan approvals	7.3	5.9	6.1	-7.8
Loan disbursements	12.0	10.4	4.5	2.5
Chg in Loans Outstanding ^{1/}	3.0	2.4	14.5	14.4

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

The major lending indicators expanded on an annual basis

Loan Disbursements to Selected Sectors



Loans disbursed across all sectors

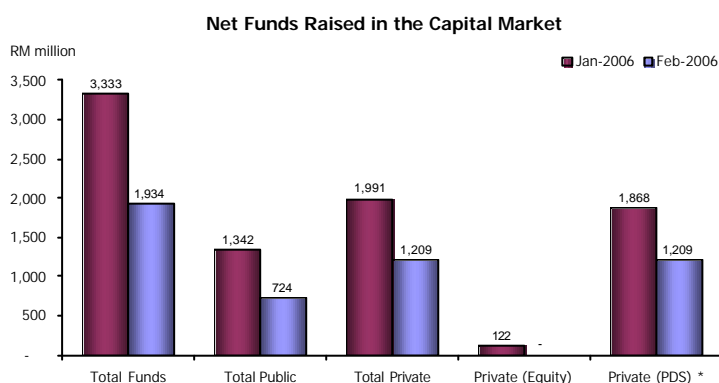
During the month, all major lending indicators expanded on an annual basis. In particular, loan applications registered an annual growth rate of 18.1% (January: -7.7%), reflecting mainly the strong growth in loans applied by large corporations, and to a lesser extent, households. Meanwhile, growth in loan approvals and disbursements increased by 16.8% and 9.7% respectively (January: 0.7% and 5.2% respectively), with loan disbursements continuing to be channelled to various sectors of the economy.

Loans outstanding expanded further at an annual rate of 9.2% at end-February (end-January: 9%). Loans outstanding to households continued to increase at a relatively stable annual rate of 14.4% (end-January: 14.5%). Meanwhile, loans outstanding to businesses expanded at an annual rate of 4.4%, with loans outstanding to SMEs rising at an annual rate of 8.3% (end-January: 4.8% and 9%

respectively). The share of SMEs loans outstanding in business sector loans was sustained at 42.2%.

Fund raising in the capital market

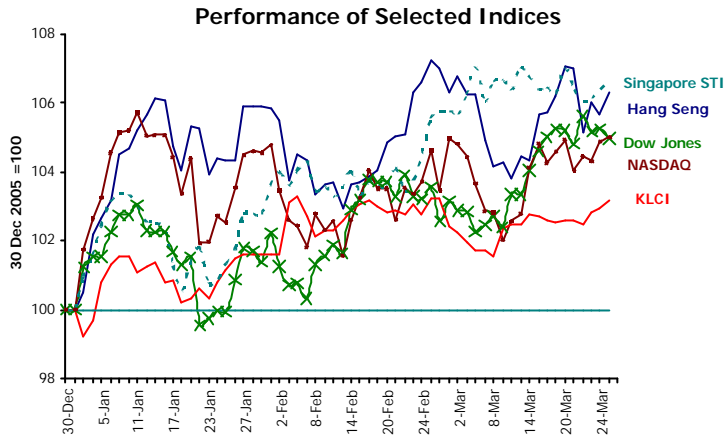
Total net funds raised in the capital market in February amounted to RM1.9 billion. The funds were mainly raised by the public sector through the re-opening of a 5-year Malaysia Government Securities (MGS) with a gross amount of RM1.2 billion. After adjusting for redemption of Merdeka Saving Bonds, net funds raised in the public sector amounted to RM724.4 million. Meanwhile, in the private debt securities market, lower net funds were raised during the month with a total of five companies raising funds to finance their new activities. Including Cagamas bonds, total net funds raised by the private sector amounted to RM1.2 billion.



¹ Includes medium-term notes

Performance of the KLCI remained firm

Overall market confidence remained firm in the month of February. As at end-February, the KLCI closed higher at 928.94 (since end-January: +1.6%) with market capitalisation increasing to RM726.9 billion (since end-January: +1.9%). The daily average turnover during the month improved significantly to 905.2 million units (January: 630.1 million units).

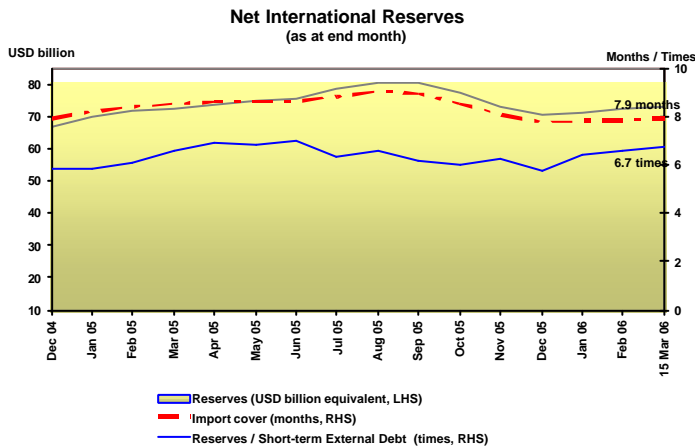


Domestic concerns dampened KLCI's performance

For the most of March, the market remained subdued as sentiments were affected by concerns over inflationary pressures. As at 27 March, KLCI was slightly lower at 928.48 (since end-February: -0.1%) with market capitalisation at RM732.5 billion (since end-February: +0.8%). Trading activity was slower with daily average turnover at 734.6 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM272.7 billion or equivalent to USD72.2 billion as at 28 February 2006. The reserves increased further to RM275.2 billion or equivalent to USD72.9 billion as at 15 March 2006. The reserves position is sufficient to finance 7.9 months of retained imports and is 6.7 times the short-term external debt.



Banking system remained sound and resilient

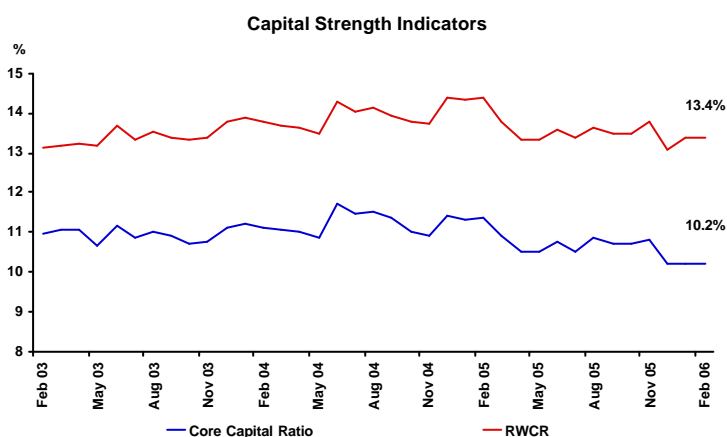
The banking system remained sound with strong capitalisation level and stable loan quality. As at end-February, the risk-weighted capital ratio (RWCR) and core capital ratio (CCR) remained unchanged at 13.4% and 10.2%, respectively. Similarly, the net non-performing loans (NPL) ratio, based on the 6-month classification, stabilised at 4.6% since end-December 2005.

Banking System Health Indicators

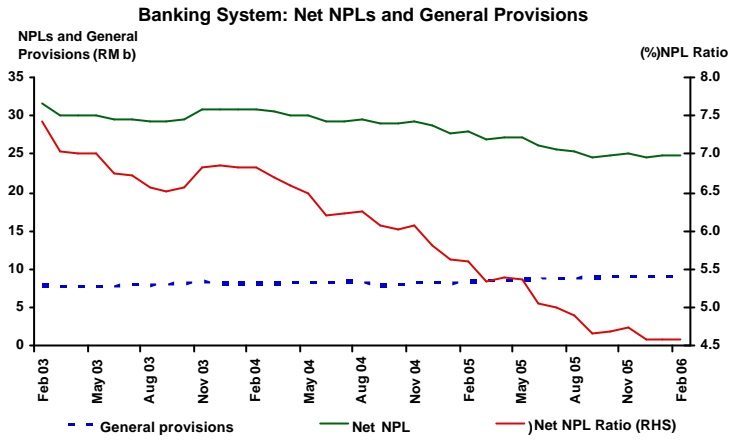
	As at end-						Nov 05	Dec 05	Jan 06	Feb 06
	1999	2000	2001	2002	2003	2004				
Capital (%)										
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.4	10.8	10.2	10.2	10.2
RWCR	12.5	12.5	13.0	13.2	13.8	14.4	13.8	13.1	13.4	13.4
Net NPLs (6-month classification)										
% of net total loans	6.4	6.3	8.1	7.5	6.8	5.8	4.7	4.6	4.6	4.6
Amount (RM million)	23,849	24,700	32,833	31,702	30,766	28,590	25,138	24,649	24,750	24,834
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



Capitalisation level remained sound ...



...whilst NPL level remained stable

Bank Negara Malaysia
28 March 2006

Key Monetary and Financial Statistics

	Dec 05		Jan 06		Feb 06		
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth	
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)	
Monetary Aggregates							
Reserve money	52.6	5.1	60.5	13.4	54.8	5.6	
M1	124.0	8.5	132.0	10.3	127.0	7.7	
M2	616.2	15.4	629.6	16.6	635.2	17.4	
M3	667.3	8.0	673.2	7.8	679.3	7.8	
Banking System							
Total deposits	692.6	11.0	691.4	10.1	704.5	11.3	
Total loans (including loans sold to Cagamas)	558.1	8.6	560.1	9.0	564.1	9.2	
Loan-deposit ratio (%)		77.5		77.5		76.4	
Financing-deposit ratio ¹ (%)		85.8		86.2		85.2	
Loans applied (during the period)	22.4	1.0	19.7	-7.7	21.9	18.1	
Loans approved (during the period)	16.0	6.7	14.0	0.7	13.7	16.8	
Loans disbursed (during the period)	48.8	-0.2	44.6	5.2	40.0	9.7	
Loans repaid (during the period)	43.6	3.2	42.6	-1.5	36.5	8.7	
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.1		13.4		13.4	
Net NPLs: 6-month classification (%)		4.6		4.6		4.6	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		266.3		269.3		272.7	
Net Reserves in USD billion (equivalent)		70.5		71.3		72.2	
Months of retained imports		7.8		7.8		7.8	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.00		3.00		3.25	
Interbank:	Overnight	3.00 [3.00]		2.99 [3.00]		3.24 [3.04]	
	1-week	3.06 [3.04]		3.05 [3.05]		3.23 [3.07]	
	1-month	3.12 [3.11]		3.14 [3.14]		3.15 [3.14]	
	3-month	3.20 [3.15]		3.22 [3.21]		-	
Fixed deposits of commercial banks:	1-month	3.01		3.01		3.02	
	3-month	3.02		3.03		3.04	
BLR of commercial banks		6.20		6.21		6.34	
ALR of commercial banks		6.12		6.15		6.29	
Prices							
Consumer Price Index (CPI) (2005=100)		101.5	3.5	101.8	3.2	101.9	3.2
Producer Price Index (PPI) (1989=100)		162.7	9.9	168.8	13.7	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.7800		3.7510		3.7135	
Euro		4.4867		4.5813		4.4055	
Pound Sterling		6.5226		6.6811		6.4643	
100 Japanese yen		3.2229		3.2264		3.1907	
Singapore dollar		2.2714		2.3092		2.2857	
100 Thai Baht		9.2049		9.6241		9.4407	
100 Philippine Peso		7.1254		7.1512		7.1793	
100 Indonesian Rupiah		0.0385		0.0400		0.0402	
100 Korean Won		0.3739		0.3862		0.3827	
Capital Market							
Net funds raised (in RMb) by:	public	-3.4		1.3		0.7	
	private	5.7		2.0		1.2	
Bursa Malaysia Composite Index (end-period)		899.8		914.0		928.9	
Bursa Malaysia Market Capitalisation (RMb, end-period)		695.3		713.2		726.9	

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