BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref: 07/06/05

EMBARGO: Not for publication or broadcast before 1915 hours on Friday, 28 July 2006

Monetary and Financial Developments June 2006
Highlights of the Press Release

Sustained growth in net private sector financing

Growth in private sector financing was sustained in June, with banking system loans and PDS outstanding expanding at a combined annual rate of 9.1%. Loans outstanding increased at an annual rate of 8.6% at end-June (end-May: 8.9%). Loans outstanding to businesses increased at an annual rate of 4.1%, while loans outstanding to households expanded by 13.3%.

The banking system recorded further improvements in the level of capitalisation and asset quality. The risk-weighted capital ratio (RWCR) strengthened to 12.9%, while the net non-performing loans (NPL) ratio based on the 6-month classification improved to 4.2%, as at end-June 2006.

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MONETARY AND FINANCIAL DEVELOPMENTS JUNE 2006

Sustained growth in net private sector financing

Growth in private sector financing was sustained in June, with banking system loans and PDS outstanding expanding at a combined annual rate of 9.1%. Loans outstanding increased at an annual rate of 8.6% at end-June (end-May: 8.9%). Loans outstanding to businesses increased at an annual rate of 4.1%, while loans outstanding to households expanded by 13.3%.

In the private debt securities (PDS) market, gross funds amounting to RM2 billion were raised in June, including RM1.2 billion by Cagamas. After adjusting for redemptions, net funds raised through the PDS market amounted to RM933 million during the month.

Banking institutions' average fixed deposit (FD) rates and average base lending rates (BLR) remained stable in June. Similarly, interbank rates of all maturities also remained relatively unchanged.

In the period 1 June – 27 July 2006, the ringgit depreciated against the US dollar, in line with the broad trend in regional currencies, which were weighed down

mostly by the weakness in emerging market equities. The US dollar, in turn, was supported by market expectations of further increases in the US benchmark interest rates, as well as safe-haven flows in reaction to geopolitical tensions in the Middle East. The ringgit, however, appreciated against other major currencies, while depreciating against the regional currencies in the range of 0.5% - 3.4%.

Headline inflation, as measured by the Consumer Price Index (CPI), remained unchanged at 3.9% in June. During the month, the prices of Housing, Water, Electricity, Gas and Other Fuels increased due mainly to the upward revision on electricity tariffs. Meanwhile, the annual rate of increase of the Producer Price Index was higher at 11.1% in May (April: 6.9%). 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 declined marginally by 0.1% from a year ago.

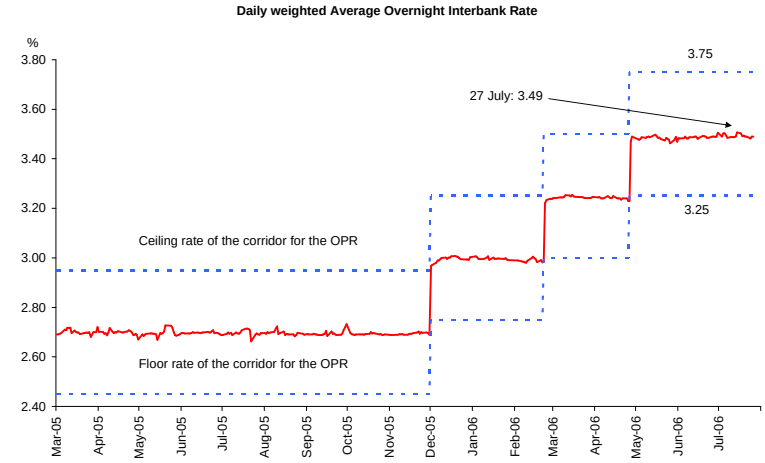
M1, or narrow money, expanded at a higher annual rate of 10.1% in June (May: 9.1%), reflecting increased demand for currency and higher demand deposits placed by businesses. Meanwhile, M3, or broad money, increased at an annual rate of 6.4% (May: 6.1%), driven mainly by the sustained growth in bank lending activity.

The banking system recorded further improvements in the level of capitalisation and asset quality. The risk-weighted capital ratio (RWCR) strengthened to 12.9%, while the net NPL ratio based on the 6-month classification improved to 4.2%, as at end-June 2006.

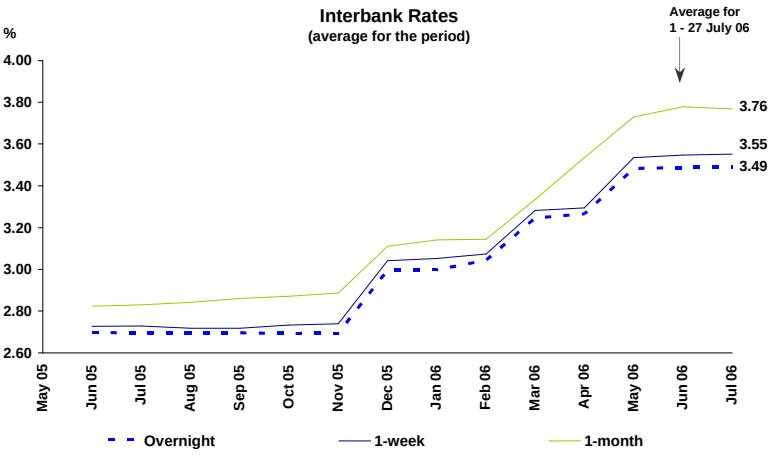
Interest rates remained stable in June and early July

During the period 1 June – 27 July, the daily weighted average overnight interbank rate moved within a narrow range of 3.48% - 3.51%. Interbank rates of other maturities have also remained stable.

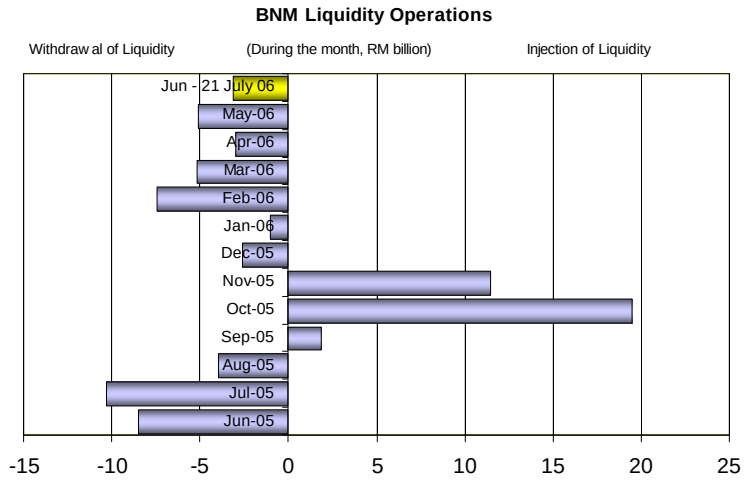
Banking institutions' average fixed deposit (FD) rates remained stable in June and early July. As at 15 July, the average quoted FD rates of commercial banks (CBs) for tenures of between 1 to 12 months were steady at 3.12% and 3.75% respectively (end-May: 3.11% and 3.74% respectively). In terms of lending rates, the average base lending rate (BLR) of the CBs stabilised at 6.72% in June. Meanwhile, the CBs' average lending rate (ALR) increased at a slower pace to 6.55% as at end-June (end-May: 6.51%).



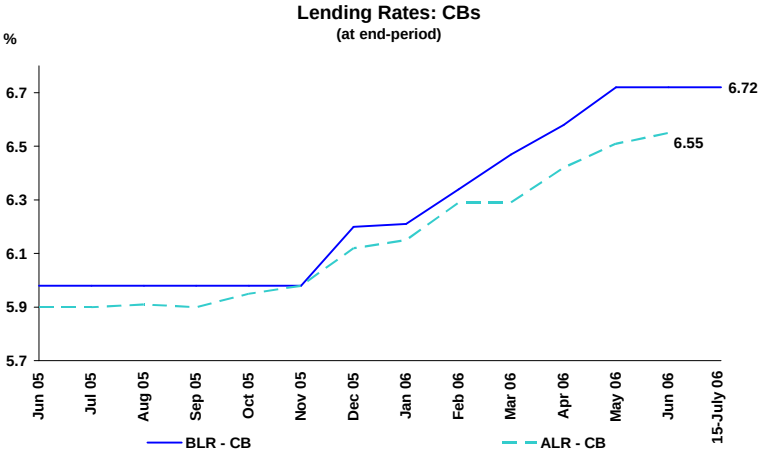
The average overnight interbank rate remained stable in June and July



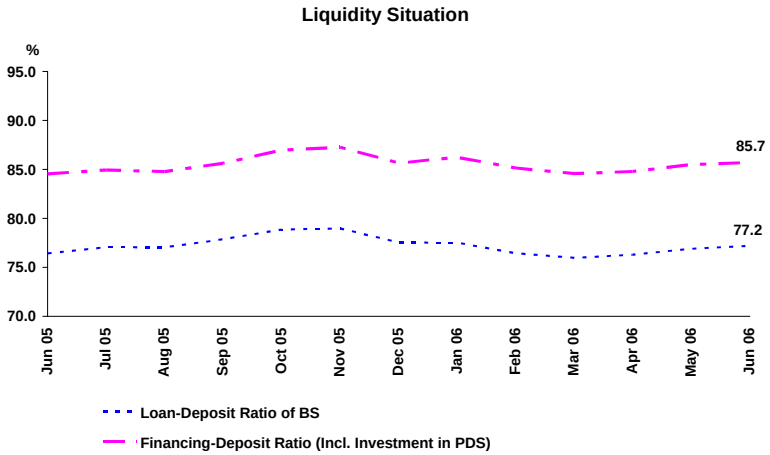
Similarly, other interbank rates remained stable



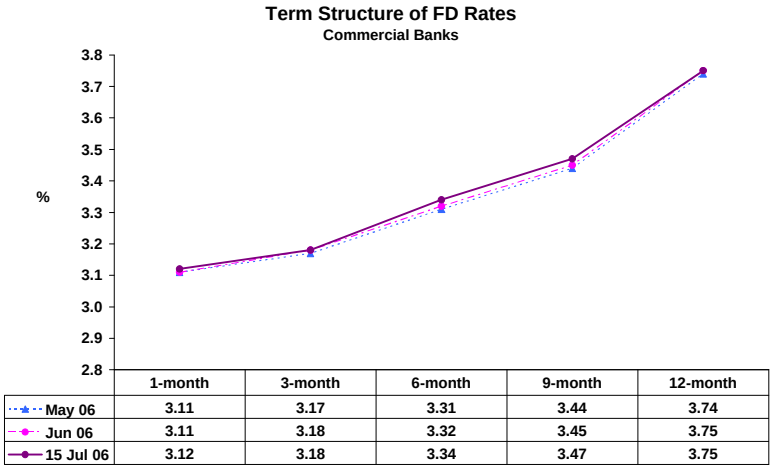
BNM liquidity operations



The average BLR of CBs stabilised in June and early July

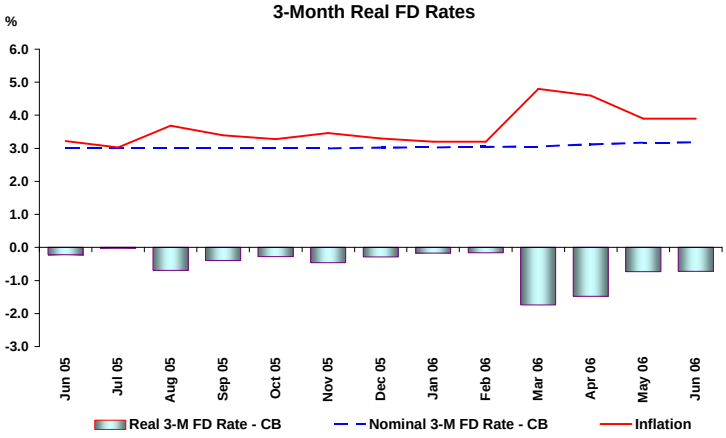


Both the loan-deposit and financing-deposit ratios increased in June as loans outstanding grew faster than deposits



	1-month	3-month	6-month	9-month	12-month
May 06	3.11	3.17	3.31	3.44	3.74
Jun 06	3.11	3.18	3.32	3.45	3.75
15 Jul 06	3.12	3.18	3.34	3.47	3.75

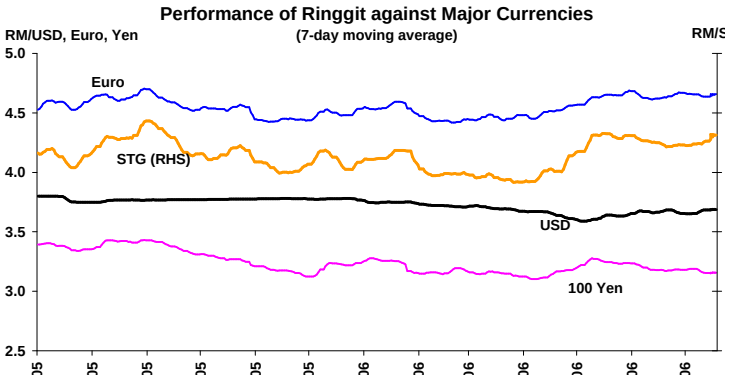
FD rates of CBs remained stable in June and early July

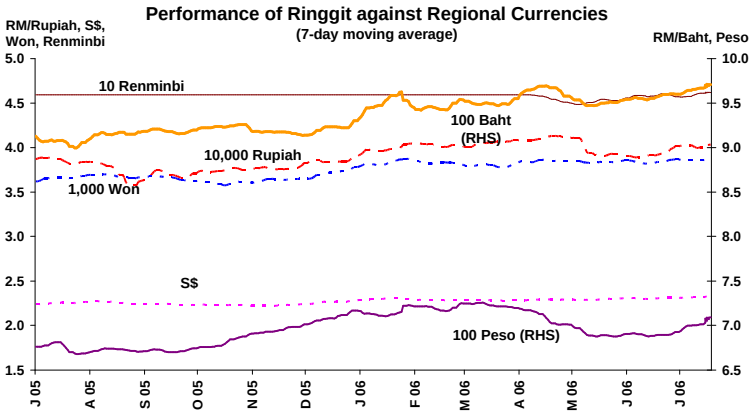


The real 3-m FD rate remained stable

Ringgit depreciated against the US dollar

In the period 1 June – 27 July 2006, the ringgit depreciated against the US dollar. The ringgit's depreciation against the US dollar was in line with the broad trend in regional currencies, which were weighed down mostly by the weakness in emerging market equities. The US dollar, in turn, was supported by market expectations for further increases of US benchmark interest rates, as well as safe-haven flows in reaction to geopolitical tensions in the Middle East. The ringgit, however, appreciated against other major currencies, while depreciating against the regional currencies in the range of 0.5% - 3.4%.



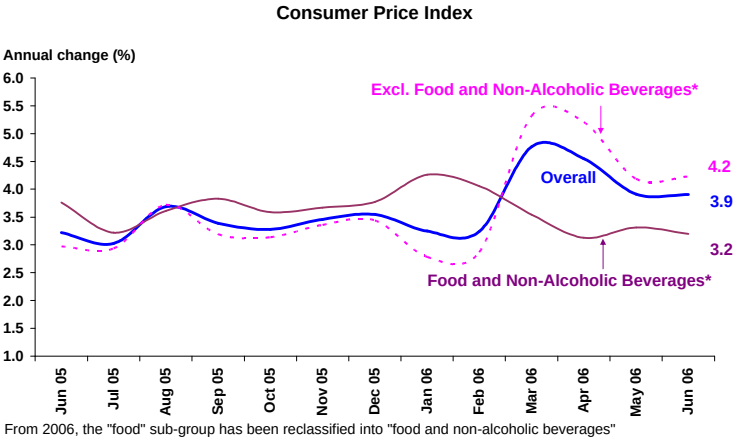


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change	
	Dec 05	May 06	Jun 06	27 Jul 06	End Dec 05 - 27 Jul 06	End May 06 - 27 Jul 06
US dollar	3.7800	3.6290	3.6750	3.6725	2.9	-1.2
Euro	4.4867	4.6689	4.6698	4.6707	-3.9	0.0
Pound sterling	6.5226	6.8298	6.7352	6.8079	-4.2	0.3
100 Japanese yen	3.2229	3.2348	3.1963	3.1587	2.0	2.4
Singapore dollar	2.2714	2.3023	2.3126	2.3265	-2.4	-1.0
100 Thai baht	9.2049	9.5100	9.6104	9.6938	-5.0	-1.9
100 Philippine peso	7.1254	6.8692	6.9047	7.1083	0.2	-3.4
100 Indonesian rupiah	0.0385	0.0393	0.0395	0.0404	-4.9	-2.7
100 Korean won	0.3739	0.3837	0.3856	0.3856	-3.0	-0.5
Chinese renminbi	0.4686	0.4522	0.4598	0.4604	1.8	-1.8

Inflation unchanged in June

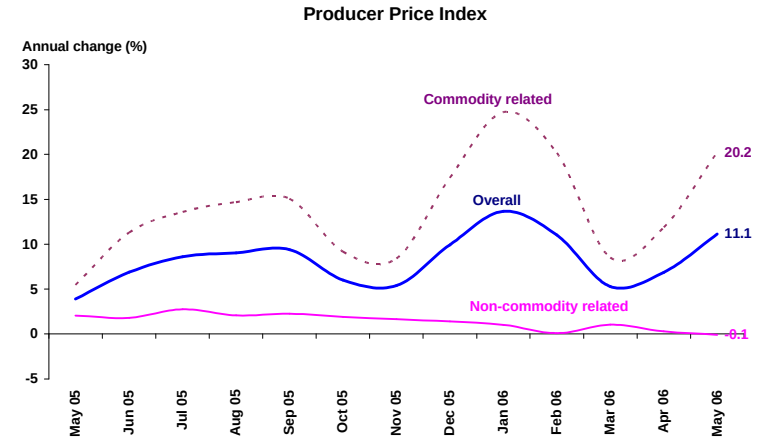
Headline inflation, as measured by the Consumer Price Index (CPI), remained unchanged at 3.9% in June. During the month, the prices of Housing, Water, Electricity, Gas and Other Fuels increased due mainly to the upward revision of electricity tariffs. The Transport and Education categories in the CPI also registered higher inflation rates in June, while the Food and Non-Alcoholic Beverages, Alcoholic Beverages and Tobacco, Restaurant and Hotels, and Miscellaneous Goods and Services categories registered slower growth rates. The prices of Clothing and Footwear and Communication charges continued to decline.



Inflation was unchanged in June

Rate of increase in producer prices higher in May

The annual rate of increase in the Producer Price Index (PPI) was higher at 11.1% in May (April: 6.9%). 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 declined marginally by 0.1% from a year ago (April: +0.3%) primarily due to the decrease in the prices of Food and Live Animals, and Animal, Vegetable Oils and Fats.



Higher rate of increase in the PPI in May

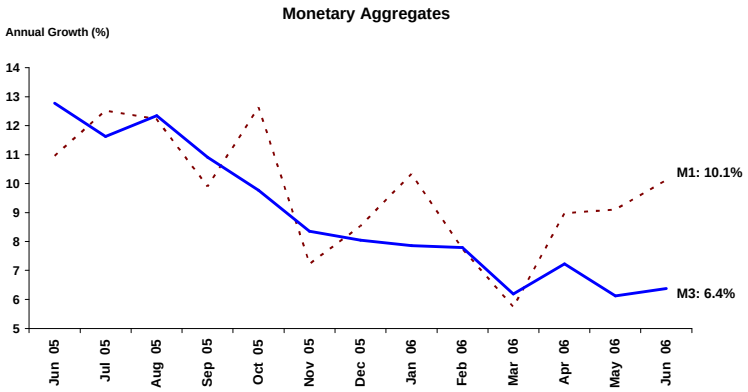
Sustained growth in bank lending supported expansion in broad money

In June, M1, or narrow money, expanded at a higher annual rate of 10.1% (May: 9.1%), reflecting increased demand for currency and higher demand deposits placed by businesses. Broad money, meanwhile, increased at an annual rate of 6.4% (May: 6.1%). On a monthly basis, claims on the private sector were expansionary on M3 mainly on account of the rise in loans outstanding, as well as the increase in holdings of securities by the banking system. These factors, however, were partly offset by lower net claims on the Government and net external operations. During the month, the proceeds from the issuance of Malaysian Government Securities (MGS) by the Government were deposited with Bank Negara Malaysia.

M3 Determinants
(RM billion)

	Change during period			
	2004	**2005**	**May 06**	**Jun 06**
M3	68.0	49.7	2.1	1.0
Net claims on Government	-15.9	-5.5	-6.2	-2.8
Claims on the private sector	30.6	44.6	6.0	4.6
Loans	39.8	*45.0*	*5.1*	*4.1*
Securities	-9.2	*-0.4*	*0.9*	*0.5*
Net external operations *	82.7	17.4	2.7	-0.7
Other influences	-29.4	-6.8	-0.4	-0.1

* Pre-revaluation of the international reserves



Banking system deposits increased in June

In June, total deposits with the banking system increased by RM5.9 billion, or at an annual rate of 8.1% (May: +RM1.8 billion or +7.7%). The increase was driven mainly by higher deposit placements from financial institutions, statutory authorities and individuals. The increase in deposit placements of financial institutions was mainly attributed to deposits by the non-bank financial institutions. In terms of

deposits by type, the increase was mainly reflected in negotiable instruments of deposits, demand deposits, and to a lesser extent, repurchase agreements.

Deposits by Holder
(RM million)

	Change during period			
	Mar 06	**Apr 06**	**May 06**	**Jun 06**
Federal Government	469	-173	-633	753
State Governments	568	255	-304	49
Statutory Authorities [1]	1,264	-1,814	862	1,798
Financial Institutions	6,090	2,849	-1,538	1,844
Business Enterprises	-964	-751	4,367	-296
Individuals	1,088	1,808	-980	1,736
Others [2]	142	33	-8	1
Total	8,657	2,207	1,767	5,885

1/ Include local Governments

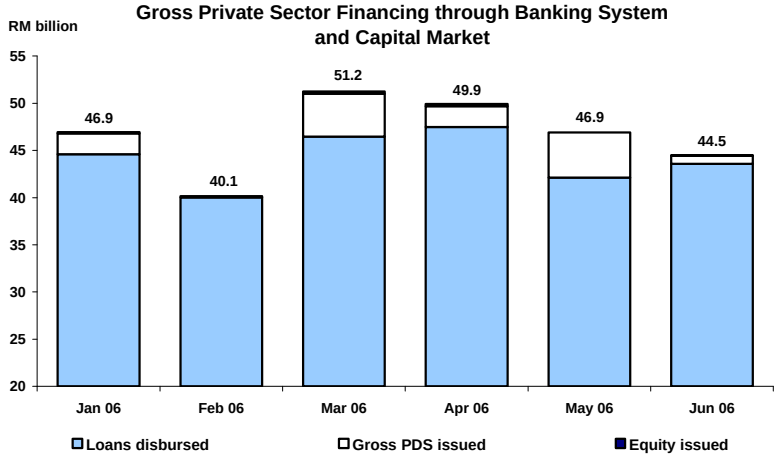
2/ Include domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

	Change during period			
	Mar 06	**Apr 06**	**May 06**	**Jun 06**
Fixed deposits	7,272	5,437	1,795	-967
NIDs	2,452	-3,271	3,761	3,267
Demand deposits	-3,687	921	1,090	2,722
Savings deposits	-324	-128	-896	-178
Repos	2,582	632	-5,053	782
FX deposits	-268	-1,263	-423	121
SPI deposits	110	-577	1,718	-89
Others	521	456	-225	226
Total	8,657	2,207	1,767	5,885

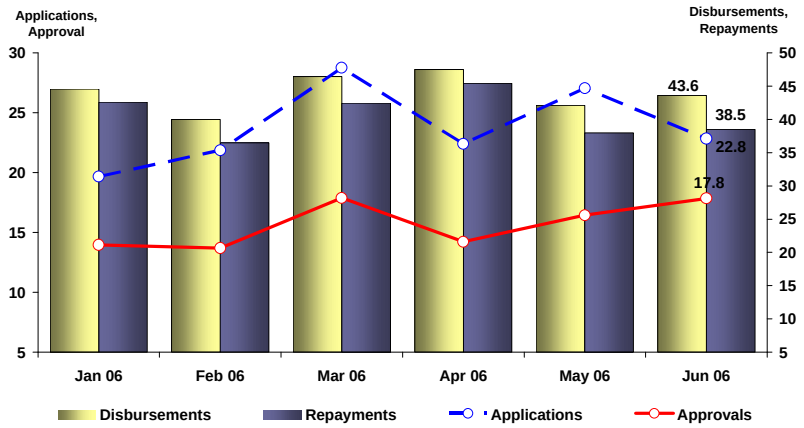
Sustained growth in net private sector financing

In June, gross financing to the private sector from the banking system and the capital market amounted to RM44.5 billion (May: RM46.9 billion). Compared with the preceding month, PDS issued was lower but loan disbursements were higher. On a net basis, financing of the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 9.1% (May: 9.6%).



Gross private sector financing amounted to RM44.5 billion

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



Loan disbursements increased during the month

Bank lending indicators

	RM billion		Annual Growth (%)	
	May	Jun	May	Jun
Overall				
Loan applications	27.1	22.8	-0.9	-12.2
Loan approvals	16.4	17.8	-1.3	8.5
Loan disbursements	42.1	43.6	-2.9	-4.8
Chg in Loans Outstanding[1/]	5.4	4.7	8.9	8.6
Businesses				
Loan applications	13.7	8.4	-8.2	-33.9
Loan approvals	7.4	7.2	-8.0	0.0
Loan disbursements	29.9	29.5	1.6	-5.3
Chg in Loans Outstanding[1/]	2.5	1.9	4.5	4.1
SMEs				
Loan applications	7.2	5.2	n.a.[2/]	n.a.[2/]
Loan approvals	3.3	3.5	n.a.	n.a.
Loan disbursements	11.2	10.8	n.a.	n.a.
Chg in Loans Outstanding[1/]	1.1	0.4	n.a.	n.a.
Households				
Loan applications	12.4	11.2	1.7	-13.0
Loan approvals	8.8	7.4	3.0	-19.1
Loan disbursements	11.7	11.7	-0.1	-6.5
Chg in Loans Outstanding[1/]	2.9	2.3	13.8	13.3

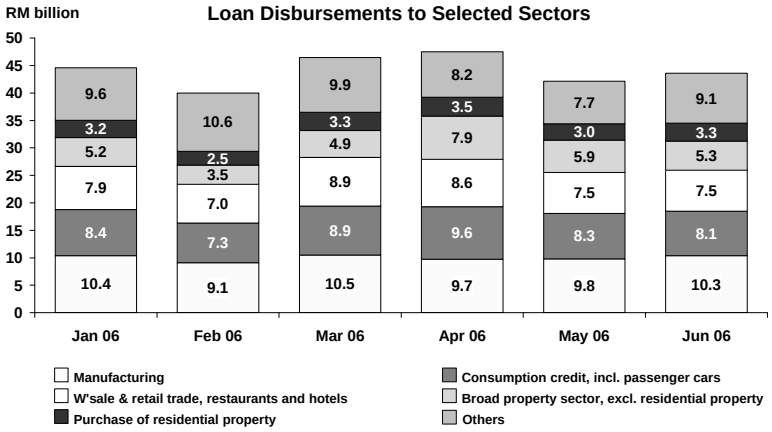
n.a. not applicable

[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.

Overall, loan approvals expanded

Loan Disbursements to Selected Sectors



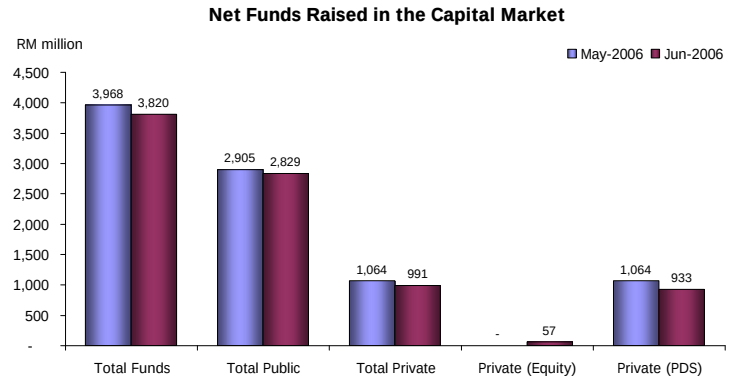
Higher loan disbursements to the manufacturing sector

In June, loan applications were lower, mainly due to businesses. Meanwhile, loan approvals and disbursements were higher on a month-on-month basis, with loan disbursements continuing to be channelled to various sectors of the economy.

Loans outstanding increased at an annual rate of 8.6% at end-June (end-May: 8.9%), with loans outstanding to businesses rising at an annual rate of 4.1%, while loans outstanding to households expanded at an annual rate of 13.3% (end-May: 4.5% and 13.8% respectively).

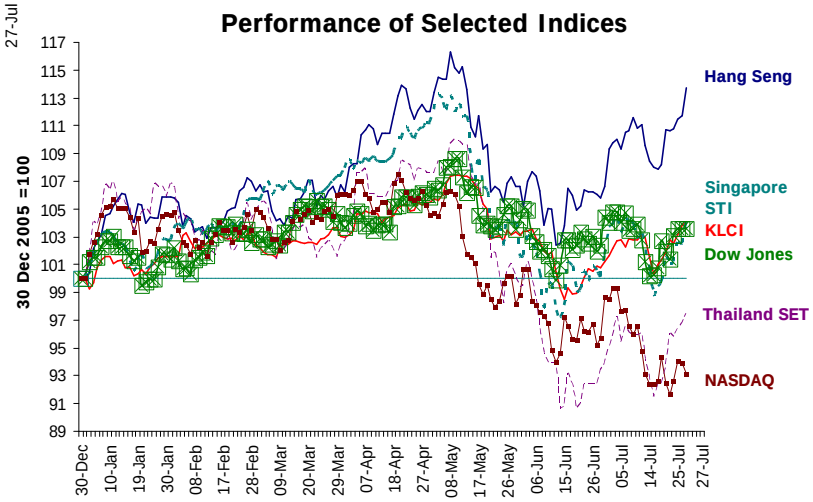
Lower fund raising activity in the capital market

In June, the total net funds raised in the capital market amounted to RM3.8 billion. The funds were mainly raised by the public sector through the re-opening of a 10-year Malaysia Government Securities (MGS) with gross funds raised of RM2.8 billion. Meanwhile, net funds raised by the private sector were lower during the month, totaling RM991 million. In the private debt securities (PDS) market, a total of RM2 billion of gross funds were raised, including RM1.2 billion of Cagamas bonds. After adjusting for redemptions, net funds raised through the PDS market amounted to RM933 million during the month.



KLCI performance recovered in the second half of June

In line with improved global market sentiments, and firmer regional and emerging equity markets, the KLCI recovered in the second half of June to close at 914.69, but ended 1.4% lower compared to end-May. Market capitalisation declined to RM721.8 billion (since end-May: -0.8%), while the daily average turnover decreased to 447.6 million units (May: 1,172 million units).

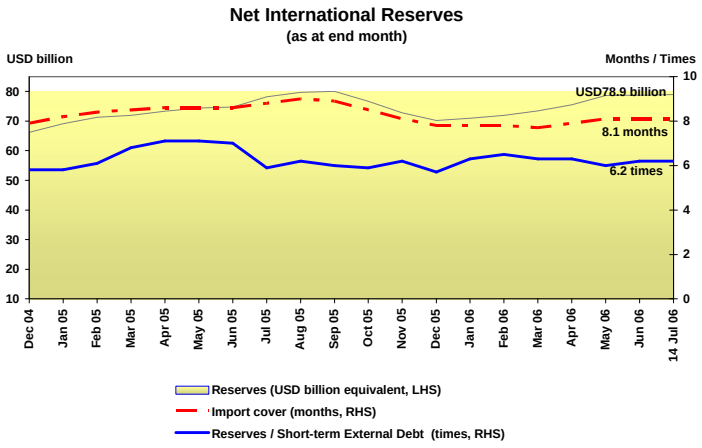


The KLCI was slightly higher in line with other regional markets, since mid-June

As at 27 July, the composite index ended slightly higher with the KLCI at 936.76 (since end-June: 2.4%) with overall market capitalisation marginally higher at RM728.12 billion (since end-June: 0.9%). Trading activities increased significantly with the daily average turnover at 831.9 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM289.3 billion or equivalent to USD78.8 billion as at 30 June 2006. Reserves amounted to RM289.8 billion or equivalent to USD78.9 billion as at 14 July 2006. The reserves position is sufficient to finance 8.1 months of retained imports and is 6.2 times the short-term external debt.



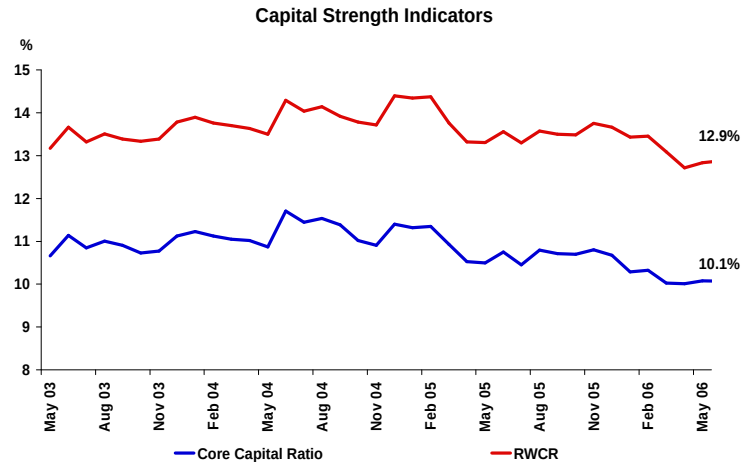
Further improvements in the level of capitalisation and asset quality

The level of capitalisation of the banking system strengthened during the month, with the risk-weighted capital ratio (RWCR) improving to 12.9%. The core

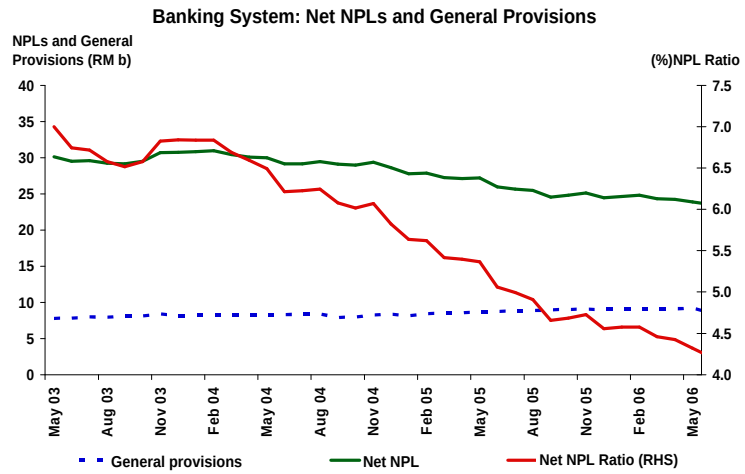
capital ratio remained at 10.1% as at end-June 2006. This was mainly attributed to issuance of new capital and increased profitability. Similarly, asset quality improved further, with the net non-performing loans (NPL) ratio based on the 6-month classification declining to 4.2%. The decline in net NPLs by RM383.9 million to RM23.5 billion was largely due to write-offs and reclassifications of NPLs to performing status.

	As at end-									
	1999	2000	2001	2002	2003	2004	2005	Apr 06	May 06	Jun 06
Capital (%)										
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.4	10.7	10.0	10.1	10.1
RWCR	12.5	12.5	13.0	13.2	13.8	14.4	13.7	12.7	12.8	12.9
Net NPLs (6-month classification)										
% of net total loans	6.4	6.3	8.1	7.5	6.8	5.8	4.6	4.4	4.3	4.2
Amount (RM million)	23,849	24,700	32,833	31,702	30,766	28,590	24,468	24,245	23,912	23,528
GP / Net total loans (6-month, %)	1.9	1.9	1.9	1.8	1.8	1.7	1.7	1.7	1.7	1.5

* Beginning June 1999, the figures include Islamic banks.
* Beginning April 2005, RWCR and CCR include market risk factor



Level of capitalisation of the banking system remained strong…



…amidst lower NPL level

Bank Negara Malaysia
28 July 2006

Key Monetary and Financial Statistics

		Apr 06		May 06		Jun 06	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. grow
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		54.5	5.9	53.3	4.7	53.4	5.4
M1		124.5	9.0	125.2	9.1	128.3	10.1
M2		641.7	16.1	644.0	14.8	657.2	11.2
M3		690.8	7.2	692.9	6.1	693.9	6.4
Banking System							
Total deposits		715.3	9.6	717.1	7.7	723.0	8.1
Total loans (including loans sold to Cagamas)		569.3	8.9	574.7	8.9	579.3	8.6
Loan-deposit ratio (%)		76.3		76.9		77.2	
Financing-deposit ratio [1] (%)		84.8		85.5		85.7	
Loans applied (during the period)		22.4	-18.7	27.1	-0.9	22.8	-12.2
Loans approved (during the period)		14.2	-1.4	16.4	-1.3	17.8	8.5
Loans disbursed (during the period)		47.5	17.4	42.1	-2.9	43.6	-4.8
Loans repaid (during the period)		45.4	11.6	38.0	-4.0	38.5	-4.5
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		12.7		12.8		12.9	
Net NPLs: 6-month classification (%)		4.4		4.3		4.2	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		278.0		289.5		289.3	
Net Reserves in USD billion (equivalent)		75.7		78.7		78.8	
Months of retained imports		8.0		8.2		8.2	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.50		3.50		3.50	
Interbank:	Overnight	3.49 [3.27]		3.47 [3.48]		3.51 [3.49]	
	1-week	3.51 [3.29]		3.54 [3.54]		3.55 [3.55]	
	1-month	3.38 [3.38]		3.69 [3.73]		3.78 [3.78]	
Fixed deposits of commercial banks:	1-month	3.06		3.11		3.11	
	3-month	3.12		3.17		3.18	
BLR of commercial banks		6.58		6.72		6.72	
ALR of commercial banks		6.42		6.51		6.55	
Prices							
Consumer Price Index (CPI) (2005=100)		103.4	4.6	103.6	3.9	103.8	3.9
Producer Price Index (PPI) (1989=100)		172.8	6.9	174.6	11.1	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.6255		3.6290		3.6750	
Euro		4.5415		4.6689		4.6698	
Pound Sterling		6.5293		6.8298		6.7352	
100 Japanese yen		3.1696		3.2348		3.1963	
Singapore dollar		2.2905		2.3023		2.3126	
100 Thai Baht		9.6564		9.5100		9.6104	
100 Philippine Peso		7.0011		6.8692		6.9047	
100 Indonesian Rupiah		0.0413		0.0393		0.0395	
100 Korean Won		0.3831		0.3837		0.3856	
Capital Market							
Net funds raised (in RMb) by:	public	1.7		2.9		2.8	
	private	1.3		1.1		1.0	
Bursa Malaysia Composite Index (end-period)		949.2		927.8		914.7	
Bursa Malaysia Market Capitalisation (RMb, end-period)		751.0		727.3		721.8	

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