BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 01/06/10

EMBARGO: Not for publication or broadcast before 1730 hours on Friday, 27 January 2006

Monetary and Financial Developments December 2005
Highlights of the Press Release

Sustained growth in financing to the private sector

Financing of the private sector through banking system loans and private debt securities (PDS) expanded at a combined annual rate of 9.3% in December. Banking system loans outstanding grew by 8.6% on an annual basis, while loans outstanding to the small and medium enterprises (SMEs) increased by 8.7%. Financing to the private sector through the capital markets, in particular the private debt securities (PDS) market, improved significantly in December.

The banking system maintained strong capitalisation and recorded further improvements in asset quality. The risk-weighted capital ratio (RWCR) stood at 13.1%, while the net non-performing loans (NPL) ratio declined to 4.6%, on a 6-month classification.

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MONETARY AND FINANCIAL DEVELOPMENTS DECEMBER 2005

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The higher net funds raised through the PDS market was largely due to issuances by Cagamas MBS Berhad and companies involved in highway construction. Most of the funds raised through the PDS market were for financing new activities and for refinancing.

During the period 1 December 2005 – 26 January 2006, the daily weighted average overnight interbank rate moved within a narrow range of 2.97% - 3.01%, averaging at 3%. Interbank rates for other maturities were also relatively stable. In terms of retail lending rates, most banking institutions had adjusted their base lending rates (BLRs) upward by 25-30 basis points following the 30 basis points increase in BNM's Overnight Policy Rate.

Over the period 1 December 2005 – 26 January 2006, the ringgit appreciated against the US dollar, but depreciated against the Japanese yen, euro, and most regional currencies.

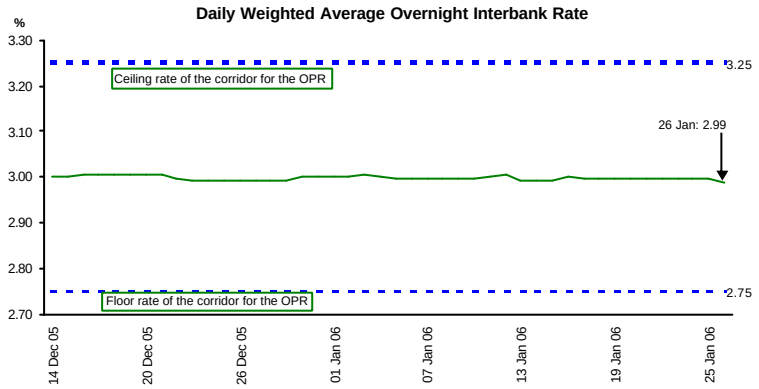
Headline inflation, as measured by the Consumer Price Index, remained at 3.5% in December (November: 3.5%). The CPI for food, transport and communication, and miscellaneous goods and services, registered stronger increases during the month. The annual growth of the Producer Price Index (PPI) moderated further to 5.4% in November.

Broad money or M3 expanded at a slightly slower annual growth rate of 8% in December, while narrow money or M1, grew by 8.5%.

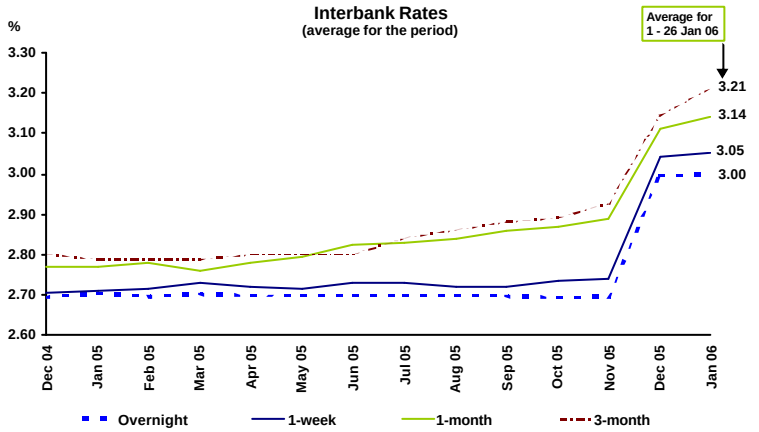
The banking system maintained strong capitalisation and recorded further improvements in asset quality. The risk-weighted capital ratio (RWCR) stood at 13.1%, while the net non-performing loans (NPL) ratio declined to 4.6%, on a 6-month classification.

Most banking institutions have adjusted their BLR upwards

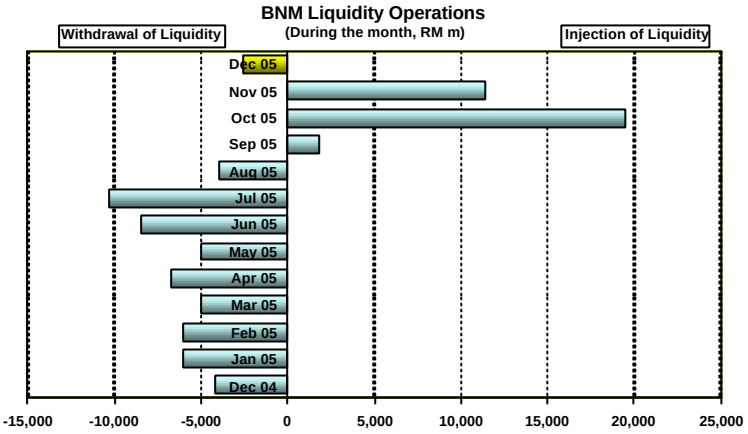
During the period 1 December 2005 – 26 January 2006, the daily weighted average overnight interbank rate moved within a narrow range of 2.97% - 3.01%, averaging at 3%. Meanwhile, interbank rates for other maturities were also relatively stable. In terms of retail lending rates, as at end-December, the average BLRs for commercial banks (CBs) and finance companies (FCs) were at 6.20% and 7.03% respectively (end-November 2005: 5.98% and 6.90% respectively) as most banking institutions had adjusted their BLRs upward by 25-30 basis points following the 30 basis point increase in BNM's Overnight Policy Rate. In early January 2006, following the mergers of three finance companies (FCs) with their respective commercial banks, the average BLR of finance companies declined to 6.90%. With the mergers, there is now only one finance company operating in Malaysia.



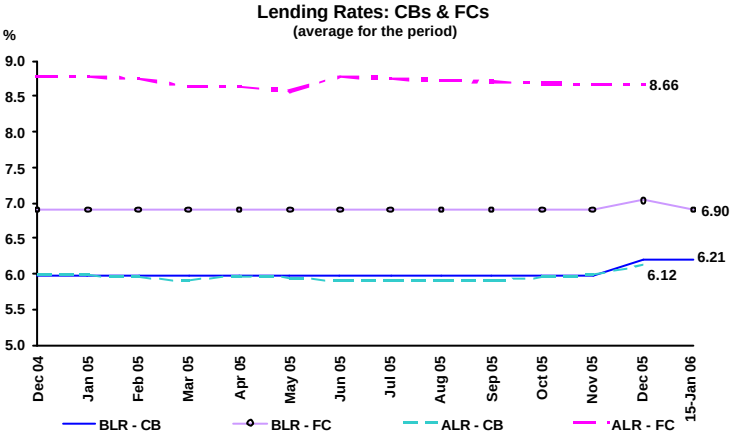
The average overnight interbank rate remained stable



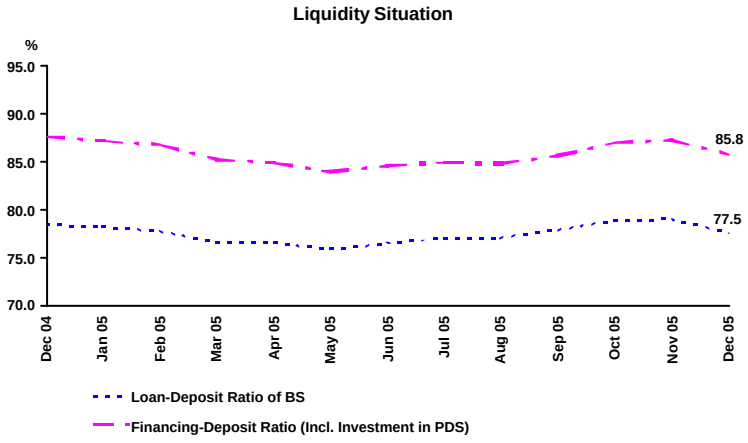
Interbank rates were relatively stable around new levels



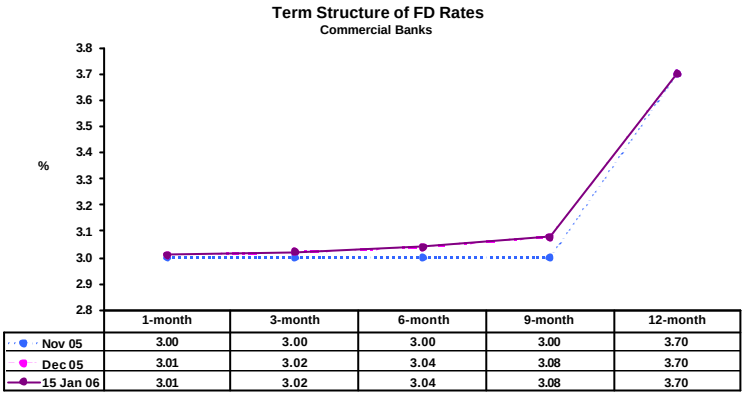
BNM withdrew excess liquidity from the banking system



Most CBs and FCs adjusted their BLRs upward in December

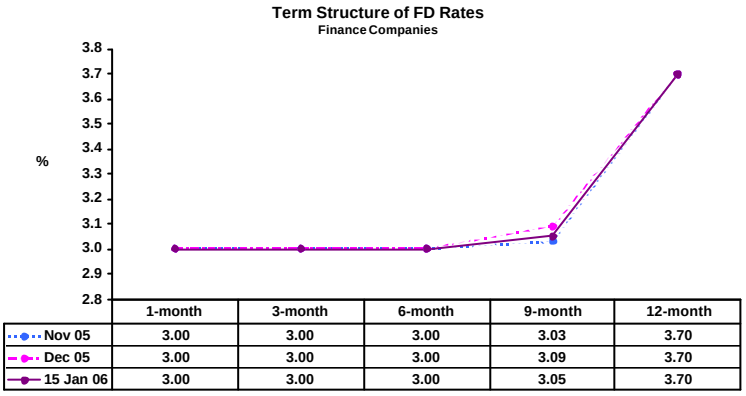


Both the loan-deposit and financing ratios were lower, as banking system deposits increased significantly in December



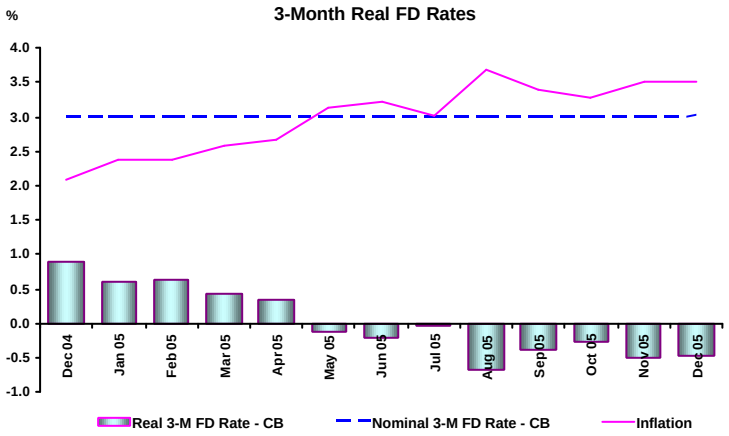
	1-month	3-month	6-month	9-month	12-month
Nov 05	3.00	3.00	3.00	3.00	3.70
Dec 05	3.01	3.02	3.04	3.08	3.70
15 Jan 06	3.01	3.02	3.04	3.08	3.70

As at 15 January 2006, FD rates of CBs remained stable



	1-month	3-month	6-month	9-month	12-month
Nov 05	3.00	3.00	3.00	3.03	3.70
Dec 05	3.00	3.00	3.00	3.09	3.70
15 Jan 06	3.00	3.00	3.00	3.05	3.70

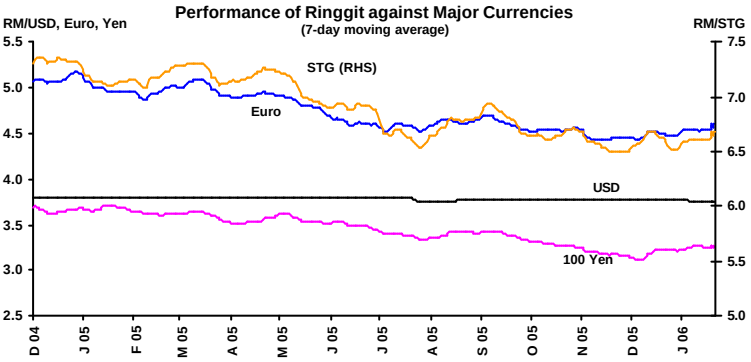
Similarly for FCs

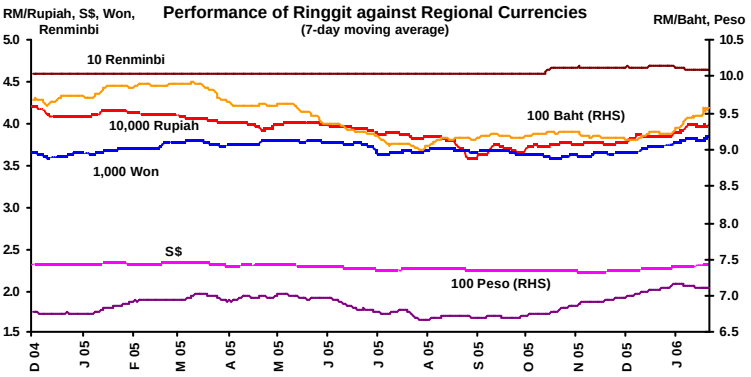


The 3-month real FD rate remained negative in December

Performance of the ringgit

Over the period 1 December 2005 – 26 January 2006, the ringgit appreciated against the US dollar, but depreciated against the Japanese yen, euro, and most regional currencies. Like most regional currencies, the ringgit was affected by developments in the G3 currencies. The euro appreciated during the period following statements by European Central Bank officials that the central bank may add to the 25 basis points benchmark interest rate increase in December. The yen was also stronger against the ringgit, as the Tankan Survey for December 2005 indicated rising Japanese business confidence. The Indonesian rupiah, Thai baht, Korean won, Singapore dollar and Philippine peso strengthened against the ringgit, while the Chinese renminbi weakened against the ringgit.



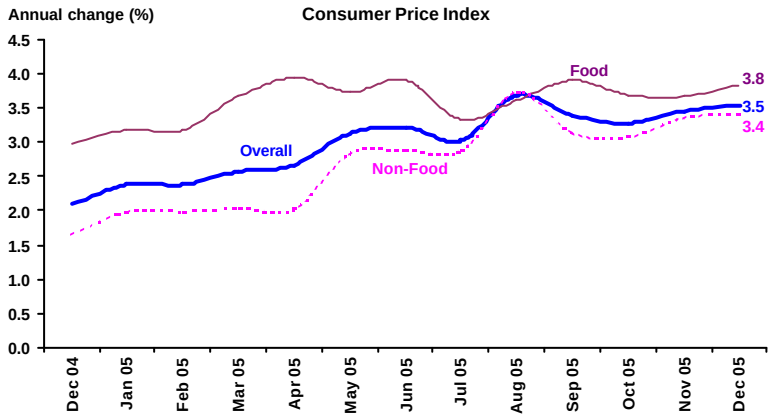


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% change	
	Dec. 04	Nov. 05	Dec. 05	26 Jan. 2006	End Dec. 04 - 26 Jan. 2006	End Nov. 05 - 26 Jan. 2006
US dollar	3.8000	3.7783	3.7800	3.7480	1.4	0.8
Euro	5.1729	4.4527	4.4867	4.5907	12.7	-3.0
Pound Sterling	7.3169	6.4959	6.5226	6.6906	9.4	-2.9
100 Japanese yen	3.7026	3.1628	3.2229	3.2415	14.2	-2.4
Singapore dollar	2.3258	2.2329	2.2714	2.3121	0.6	-3.4
100 Thai baht	9.7636	9.1683	9.2049	9.6164	1.5	-4.7
100 Philippine peso	6.7706	6.9793	7.1254	7.1438	-5.2	-2.3
100 Indonesian Rupiah	0.0408	0.0377	0.0385	0.0401	2.0	-5.9
100 Korean won	0.3671	0.3652	0.3739	0.3875	-5.2	-5.7
Chinese renminbi	0.4591	0.4679	0.4686	0.4650	-1.3	0.6

Inflation remained unchanged in December

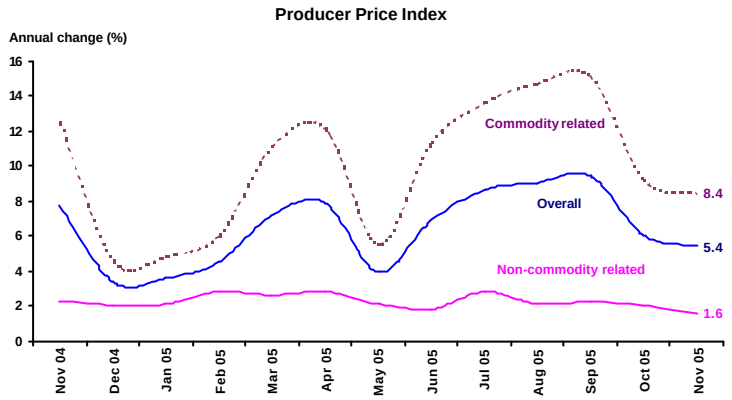
Headline inflation, as measured by the Consumer Price Index, remained at 3.5% in December (November: 3.5%). The CPI for food, transport and communication, and miscellaneous goods and services, registered stronger increases during the month. For miscellaneous goods and services, the CPI was higher due to the recent strong increase in gold prices, which caused the prices of jewellery items to increase. Nevertheless, these price increases were offset by the decline in the CPI for clothing and footwear, and the slower growth in the CPI for household furnishing. Price increases of other goods and services in the CPI were relatively stable.



Inflation was unchanged at 3.5% in December

Producer price inflation moderated in November

The annual growth of the Producer Price Index (PPI) moderated further to 5.4% in November (October: 6%). Almost all categories in the PPI registered slower increases, with the exception of beverages and tobacco; and miscellaneous manufactured articles, which increased marginally. Excluding the commodity-related categories, the PPI registered a slower growth of 1.6% (October: 2%).



PPI inflation moderated

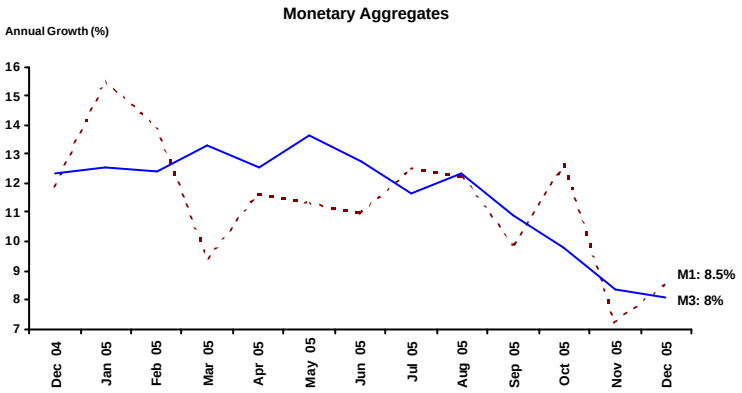
Broad money expanded at a slightly slower growth rate

In December, narrow money or M1, representing transaction balances, increased at an annual growth rate of 8.5% (November: 7.2%), due mainly to the increase in demand deposits by businesses. Broad money or M3, meanwhile, increased at a slightly slower annual growth rate of 8% (November: 8.4%). On a monthly basis, both net claims on the Government and claims on the private sector were expansionary on M3. However, these were partly offset by the contractionary impact of net external operations.

M3 Determinants
(RM billion)

	Change during period			
	2004	**Nov 05**	**Dec 05**	**Jan-Dec 05**
M3	68.0	-2.0	12.3	49.7
Net claims on Government	-15.9	2.4	7.0	-5.5
Claims on the private sector	30.6	4.2	6.4	45.4
Loans	39.8	*1.2*	*3.9*	*45.0*
Securities	-9.2	*3.0*	*2.5*	*0.4*
Net external operations *	82.0	-7.8	-4.7	16.4
Other influences	-28.7	-0.8	3.5	-6.6

* Pre-revaluation of the international reserves



Banking system deposits rose further in December

In December, total deposits with the banking system rose by RM20 billion, or 11% on an annual basis (November: 10.3%). The increase was mainly on account of deposits by financial institutions, business enterprises and individuals. The increase in deposits of financial institutions reflected interbank placements and deposits by domestic non-bank financial institutions. In part, the increase in deposits of businesses was attributable to payments for Government projects, as reflected by an increase in the Government's development expenditure in December.

Deposits by Holder
(RM million)

	Change during period			
	Sep 05	**Oct 05**	**Nov 05**	**Dec 05**
Federal Government	147	-756	-317	358
State Governments	-14	34	-44	-223
Statutory Authorities [1]	-99	-960	1,056	-62
Financial Institutions	-368	-7,213	70	11,676
Business Enterprises	709	1,236	-287	6,345
Individuals	1,281	1,680	870	2,346
Others [2]	1,950	543	-279	-445
Total	3,607	-5,437	1,069	19,995

1/ Include local Governments

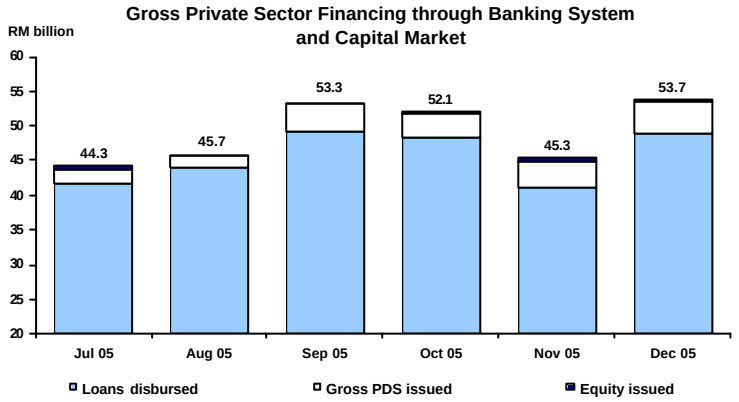
2/ Include domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

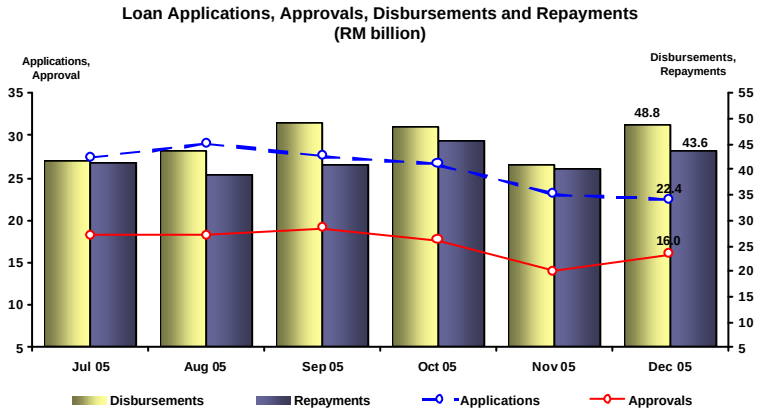
	Change during period			
	Sep 05	**Oct 05**	**Nov 05**	**Dec 05**
Fixed deposits	-592	-3,177	-1,820	-1,092
NIDs	5,333	-8,103	-1,145	6,857
Demand deposits	871	1,220	-310	2,748
Savings deposits	206	199	87	762
Repos	-5,808	3,185	1,082	7,211
FX deposits	2,015	665	1,454	-286
SPI deposits	1,346	-13	1,393	4,560
Others	237	587	327	-765
Total	3,607	-5,437	1,069	19,995

Financing to the private sector increased in December

In December, gross financing to the private sector from the banking system and the capital market was higher at RM53.7 billion (November: RM45.3 billion), expanding at an annual rate of 3.9% (November: 3.5%). The increase was due mainly to higher loan disbursements of RM48.8 billion (November: RM41.1 billion). On a net basis, financing of the private sector through banking system loans and private debt securities (PDS) expanded at a combined annual rate of 9.3% in December (November: 9.2%).



Gross private sector financing increased to RM53.7 billion



Approvals and disbursements were higher

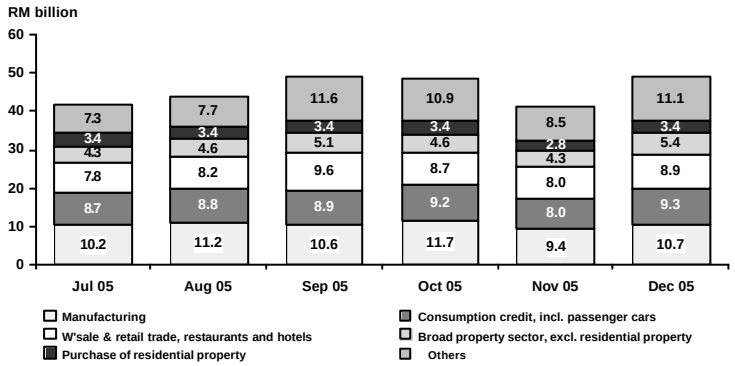
Bank lending indicators

	RM billion		Annual Growth (%)	
	November	December	November	December
Overall				
Loan applications	23.1	22.4	7.2	1.0
Loan approvals	14.0	16.0	10.8	6.7
Loan disbursements	41.1	48.8	1.9	-0.2
Chg in Loans Outstanding[1/]	1.3	5.4	9.0	8.6
Businesses				
Loan applications	12.8	10.8	-1.4	-6.7
Loan approvals	7.0	8.1	15.0	4.3
Loan disbursements	27.6	33.5	0.2	-3.7
Chg in Loans Outstanding[1/]	-1.6	0.8	3.9	3.0
SMEs				
Loan applications	4.0	4.2	-8.5	-8.6
Loan approvals	2.2	2.5	-10.9	-21.8
Loan disbursements	8.9	10.1	8.8	-2.9
Chg in Loans Outstanding[1/]	0.5	0.4	10.0	8.7
Households				
Loan applications	10.1	11.5	21.1	14.5
Loan approvals	6.6	7.8	1.5	9.5
Loan disbursements	11.2	13.2	6.5	9.5
Chg in Loans Outstanding[1/]	3.1	3.5	15.1	15.1

[1/] The annual growth in outstanding amount as at end-period

Overall, loan disbursements declined slightly on an annual basis, while all other major loan indicators increased at more moderate rates

Loan Disbursements to Selected Sectors



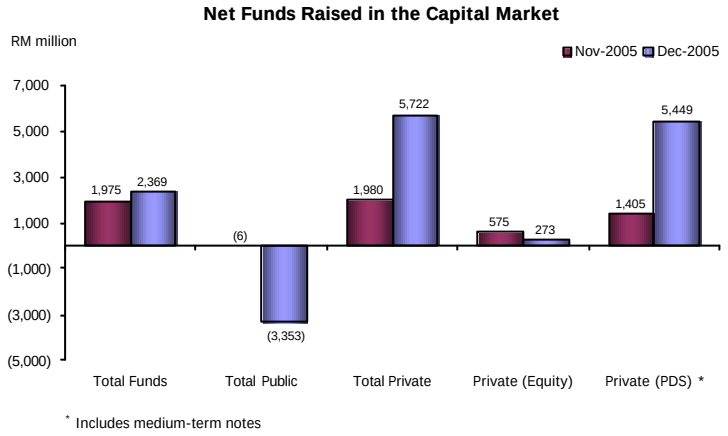
Loan disbursements remained broad-based

Loan disbursements to businesses increased on a month-on-month basis to RM33.5 billion, but were lower by 3.7% on an annual basis (November: +0.2%). Higher disbursements were recorded to SMEs and other businesses. By sector, the increase in loan disbursements was contributed mainly by the manufacturing; finance, insurance and business services; wholesale and retail trade, restaurants and hotels; construction; and electricity, gas and water supply sectors. Both loan applications and approvals to the SMEs were higher in December.

Loans outstanding increased by RM5.4 billion, or 8.6% on an annual basis. Loans outstanding to businesses increased at a more moderate annual rate of 3% (November: 3.9%), with loans outstanding to SMEs increasing by 8.7% (November: 10%). Meanwhile, growth in loans outstanding to households remained stable at 15.1% (November: 15.1%).

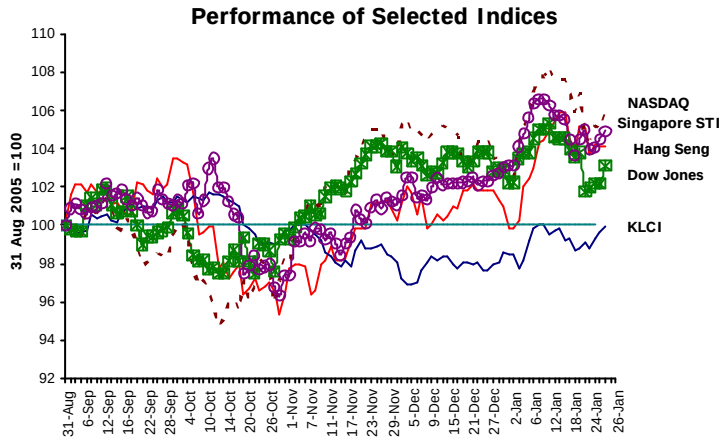
Private sector financing through the capital market remained high

The private debt securities (PDS) market recorded higher net funds raised in December, attributed largely to issuances by Cagamas MBS Berhad and companies involved in the construction of expressways. The bulk of the funds raised through the PDS market were for financing new activities and refinancing purposes. In the equity market, financing was mainly done through rights issues and initial public offerings. Net funds raised through the equity market amounted to RM273 million. As a result of a high net redemption position by the public sector, net funds raised in the capital market amounted to RM2.4 billion in December.



Marginal change in the KLCI for December

The absence of market leads, despite bargain-hunting activities on selected blue chips, resulted in a range-bound performance of the Kuala Lumpur Composite Index (KLCI) in December. The KLCI closed at a slightly higher level of 899.79 (since end-November: +0.4%) with a small increase in market capitalisation to RM695.27 billion (since end-November: +0.3%). The daily average turnover during the month increased slightly at 278.34 million units (November: 265.12 million units).



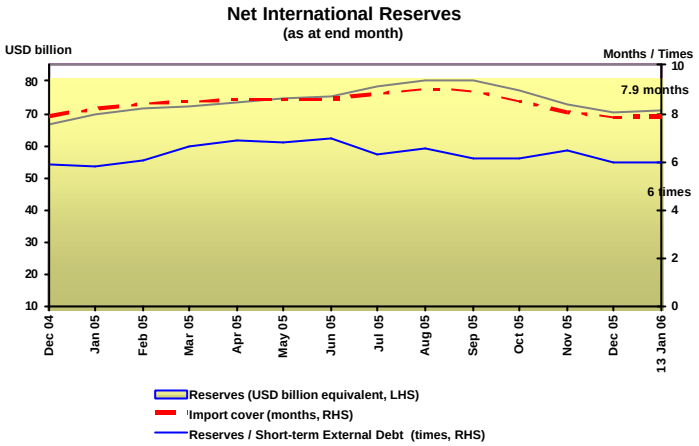
Slight improvement in the KLCI

The performance of the KLCI in 2006 improved, with the KLCI closing higher at 913.14 on 26 January (since end-December: +1.5%), and with market capitalisation increasing to RM710.69 billion (since end-December: +2.2%). Trading increased significantly with daily average turnover at 627.02 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM266.4 billion or equivalent to USD70.5 billion as at 31 December 2005. The reserves level has also taken into account the quarterly adjustment of the foreign exchange revaluation loss, following the strengthening of the ringgit against the major currencies during the quarter. Reserves amounted to RM267.5 billion or equivalent to USD70.8 billion as at 13 January 2006. The reserves position is sufficient to finance 7.9 months of retained imports and is 6 times the short-term external debt.

For the year 2005 as a whole, the net international reserves increased by RM12.9 billion or equivalent to USD3.8 billion. In the first half of 2005, the sustained repatriation of exports proceeds and foreign direct investment was reinforced by significant inflows of portfolio investment. The large inflows of short-term funds were partly in anticipation of a change in the exchange rate regime. The unwinding of these positions commenced in September and continued in October and November. These outflows, however, subsided in December. In December, there were the usual remittances arising from year-end repatriation of profits and dividends by foreign corporations.



Banking system remained sound and stable

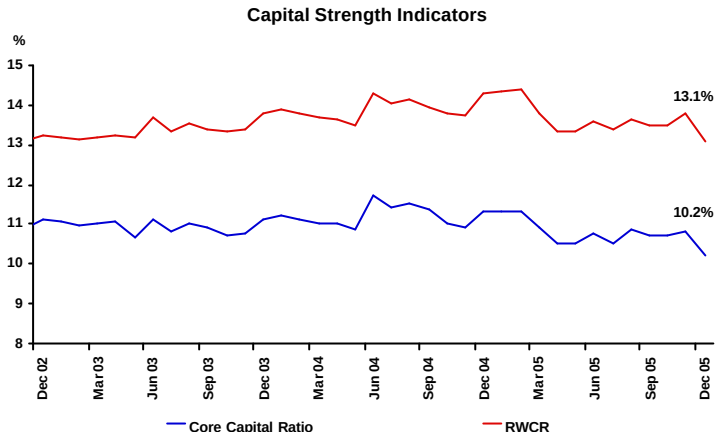
The banking system maintained strong capitalisation and recorded further improvements in asset quality. As at end-December 2005, the risk-weighted capital ratio (RWCR) and core capital ratio (CCR) stood at 13.1% and 10.2% respectively. The lower capital ratios were due primarily to increases in the loan base and dividend payments. The net non-performing loans (NPL) ratio declined to 4.6% and 5.8%, based on the 6-month and 3-month classifications, respectively.

Banking System Health Indicators *

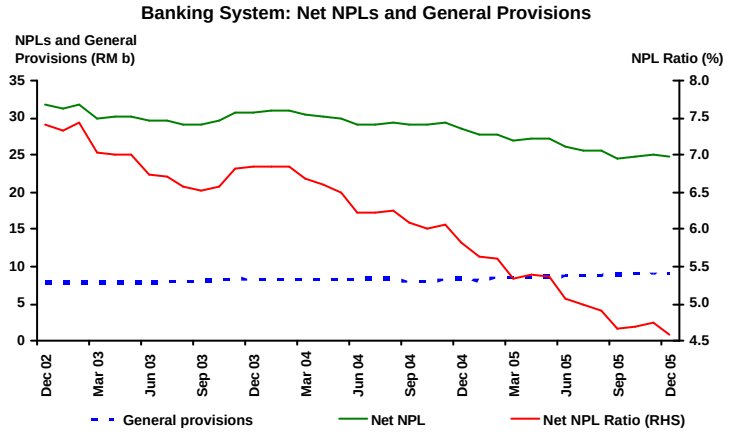
	As at end-								
	1999	**2000**	**2001**	**2002**	**2003**	**Dec 04**	**Oct 05**	**Nov 05**	**Dec 05**
Capital (%)									
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.3	10.7	10.8	10.2
RWCR	12.5	12.5	13.0	13.2	13.8	14.3	13.5	13.8	13.1
Net NPLs (6-month classification)									
% of net total loans	6.4	6.3	6.9	7.5	6.8	5.8	4.7	4.7	4.6
Amount (RM million)	23,849	24,700	32,833	31,702	30,766	28,590	24,836	25,143	24,658
GP / Net total loans (6-month, %)	1.9	1.9	1.9	1.8	1.8	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 strong and healthy…



…whilst NPL level continued to improve

Bank Negara Malaysia

27 January 2006

Key Monetary and Financial Statistics

		Oct 05		Nov 05		Dec 05	
		Outs. (RM b)	Ann. growth (%)	Outs. (RM b)	Ann. growth (%)	Outs. (RM b)	Ann. growth (%)
Monetary Aggregates							
Reserve money		55.5	11.0	52.6	7.3	52.6	5.1
M1		123.1	12.6	119.5	7.2	124.0	8.5
M2		602.1	19.6	601.4	15.9	616.2	15.4
M3		657.0	9.8	655.1	8.4	667.3	8.0
Banking System							
Total deposits		671.6	11.9	672.6	10.3	692.6	11.0
Total loans (including loans sold to Cagamas)		551.3	9.3	552.6	9.0	558.1	8.6
Loan-deposit ratio (%)		78.9		79.0		77.5	
Financing-deposit ratio[1] (%)		87.0		87.3		85.8	
Loans applied (during the period)		26.6	10.6	23.1	7.2	22.4	1.0
Loans approved (during the period)		17.6	13.5	14.0	10.8	16.0	6.7
Loans disbursed (during the period)		48.4	16.6	41.1	1.9	48.8	-0.2
Loans repaid (during the period)		45.5	11.5	40.2	6.6	43.6	3.2
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.5		13.8		13.1	
Net NPLs: 6-month classification (%)		4.7		4.7		4.6	
International Reserves of BNM (end-period)							
Reserves in RM billion		290.4		275.3		266.4	
Reserves in USD billion (equivalent)		77.1		73.1		70.5	
Months of retained imports		8.6		8.1		7.7	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		2.70		3.00		3.00	
Interbank:	Overnight	2.69 [2.69]		2.69 [2.69]		3.00 [3.00]	
	1-week	2.70 [2.73]		2.74 [2.74]		3.06 [3.04]	
	1-month	2.88 [2.87]		2.89 [2.89]		3.12 [3.11]	
	3-month	2.92 [2.91]		2.95 [2.93]		3.20 [3.15]	
Fixed deposits of commercial banks:	1-month	3.00		3.00		3.01	
	3-month	3.00		3.00		3.02	
BLR of commercial banks		5.98		5.98		6.20	
ALR of commercial banks		5.95		5.98		6.12	
Prices							
Consumer Price Index (CPI) (2000=100)		110.3	3.3	110.7	3.5	111.0	3.5
Producer Price Index (PPI) (1989=100)		167.3	6.0	162.4	5.4	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.7748		3.7783		3.7800	
Euro		4.5515		4.4527		4.4867	
Pound Sterling		6.6999		6.4959		6.5226	
100 Japanese yen		3.2616		3.1628		3.2229	
Singapore dollar		2.2308		2.2329		2.2714	
100 Thai Baht		9.2576		9.1683		9.2049	
100 Philippine Peso		6.8570		6.9793		7.1254	
100 Indonesian Rupiah		0.0373		0.0377		0.0385	
100 Korean Won		0.3618		0.3652		0.3739	
Capital Market							
Net funds raised (in RMb) by:	public	4.4		...		-3.4	
	private	3.8		2.0		5.7	
Bursa Malaysia Composite Index (end-period)		910.8		896.1		899.8	
Bursa Malaysia Market Capitalisation (RMb, end-period)		702.7		693.0		695.3	

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