BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 08/06/14 **EMBARGO: For immediate release**

Monetary and Financial Developments July 2006
Highlights of the Press Release

Sustained growth in net private sector financing

Growth in private sector financing was sustained in July, with banking system loans and PDS outstanding expanding at a combined annual rate of 9.6%. Loans outstanding increased at an annual rate of 9.3% at end-July (end-June: 8.6%). Loans outstanding to businesses advanced at an annual rate of 5.4%, while loans outstanding to households expanded by 12.7%. The sustained increase in bank lending activity is also reflected in further expansion in both M1 and M3, which grew by 9.7% and 7.6% on annual basis respectively in July.

The banking system remained sound. The risk-weighted capital ratio (RWCR) was stable at 12.9%, while the net non-performing loans (NPL) ratio based on the 6-month classification was steady at 4.2%, as at end-July 2006.

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Gross funds raised from the private debt securities (PDS) market remained firm at RM2 billion in July (June: RM2 billion). The funds were mainly raised by companies in the finance, property and construction sectors. After accounting for redemptions of PDS and Cagamas bonds, however, the PDS market recorded a net redemption position of RM891 million during the month. A higher amount of funds, totalling RM417 million, were raised from the equity market in July, mainly through initial public offerings.

Banking institutions' average fixed deposit rates and average base lending rates were stable in July and the first half of August. The average lending rate, however, increased to 6.63% as at end-July (end-June: 6.55%) reflecting the combination of disbursement of loans by a few commercial banks at higher lending rates, as well as the repayment of lower rate loans by their customers. As for interbank rates, the overnight and 1-week rates were relatively stable, but the 1-month interbank rate trended lower in early August as market participants pared down their expectations on the future path of interest rates.

In the period 1 July - 29 August 2006, the ringgit depreciated against the US dollar and euro, but appreciated against the Japanese yen. The ringgit was influenced mainly by developments in the G3 currencies and the corresponding impact on other currencies. The ringgit appreciated against the

Korean won by 0.7%, but depreciated against most other regional currencies in the range of 0.4% - 4.0%.

Headline inflation, as measured by the Consumer Price Index (CPI), increased to 4.1% in July (June: 3.9%). During the month, the increase in headline inflation was due mainly to the higher prices of items in the *food and non-alcoholic beverages* category. *Transport* prices continued to be higher due to the carry-through effects of the increase in retail fuel prices since March 2006. The prices of other categories remained broadly unchanged or registered slower growth rates. Meanwhile, the rate of increase of the Producer Price Index (PPI) moderated to 8.9% in June (May: 11.1%), mainly due to the slower increase in the prices of the commodity-related category following a more modest increase in crude oil prices during the month.

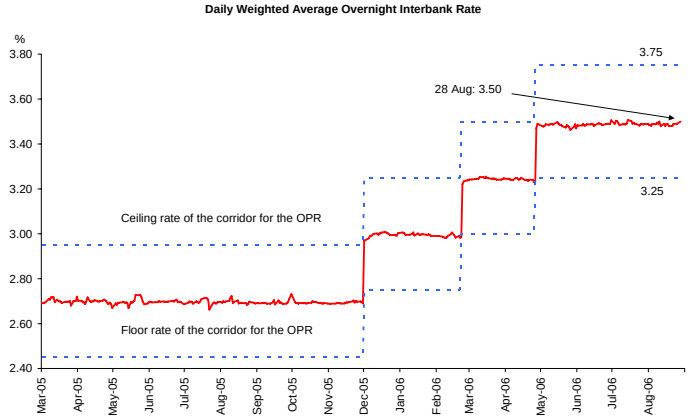
M1, or narrow money, expanded at an annual rate of 9.7% in July (June: 10.1%). Meanwhile, M3, or broad money, increased at a higher annual rate of 7.6% (June: 6.4%), driven mainly by the sustained growth in bank lending activity.

The banking system remained sound. The risk-weighted capital ratio (RWCR) was stable at 12.9%, while the net non-performing loans (NPL) ratio based on the 6-month classification was steady at 4.2%, as at end-July 2006.

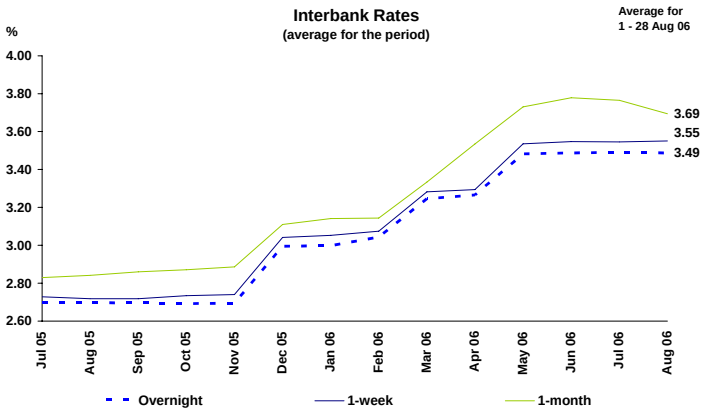
Deposit rates remained relatively stable in July and first half of August

During the period 3 July – 28 August, the daily weighted average overnight interbank rate moved within a narrow range of 3.48% - 3.51%. While the interbank rate at the 1-week maturity has remained relatively stable, the 1-month interbank rate trended lower in early August as market participants pared down their expectations on the future path of interest rates.

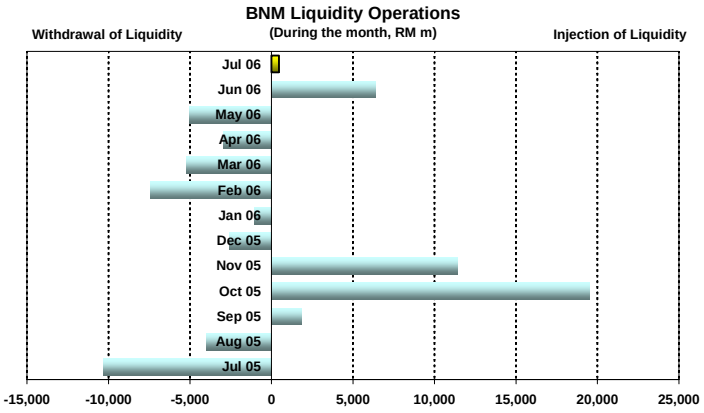
Commercial banks' (CBs) average fixed deposit (FD) rates remained stable in July and the first half of August. As at 15 August, the average quoted FD rates of CBs for tenures of between 1 and 12 months were steady at 3.12% and 3.76% respectively (end-June: 3.11% and 3.75% respectively). In terms of lending rates, the average base lending rate (BLR) of the CBs was unchanged at 6.72% in July. Meanwhile, the CBs' average lending rate (ALR) increased to 6.63% as at end-July (end-June: 6.55%) reflecting the combination of disbursement of loans by a few CBs at higher lending rates, as well as the repayment of lower rate loans by their customers.



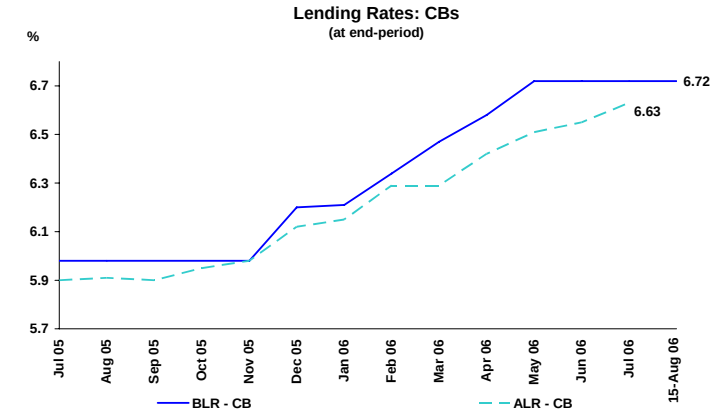
The average overnight interbank rate remained stable in July and August



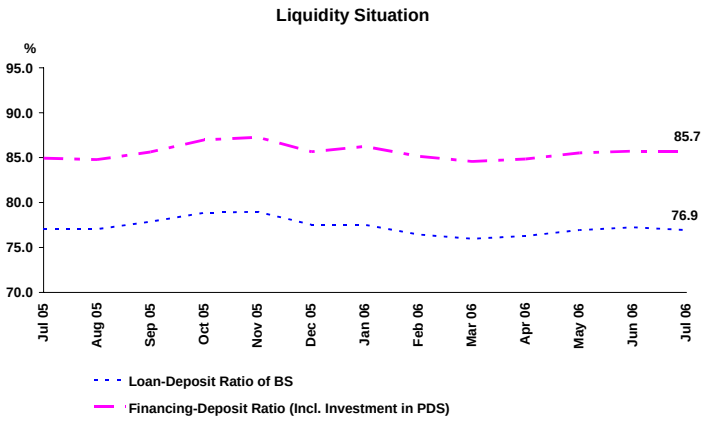
The 1-month interbank rate trended lower as market participants pared down their expectations on the future path of interest rates



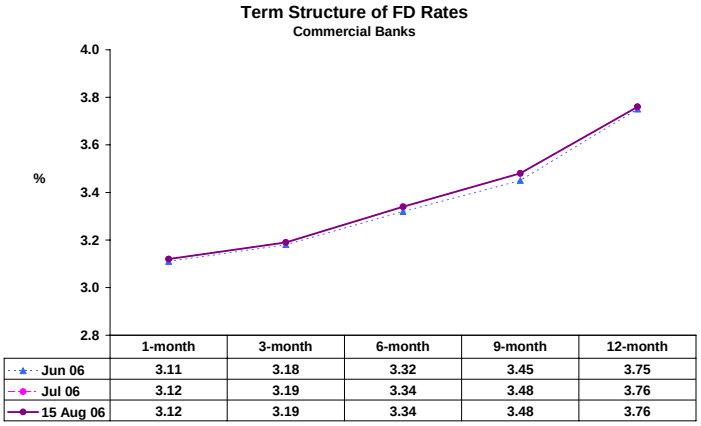
BNM injected liquidity into the banking system in July



The average BLR of CBs remained stable in July and August. Meanwhile, the ALR rose slightly

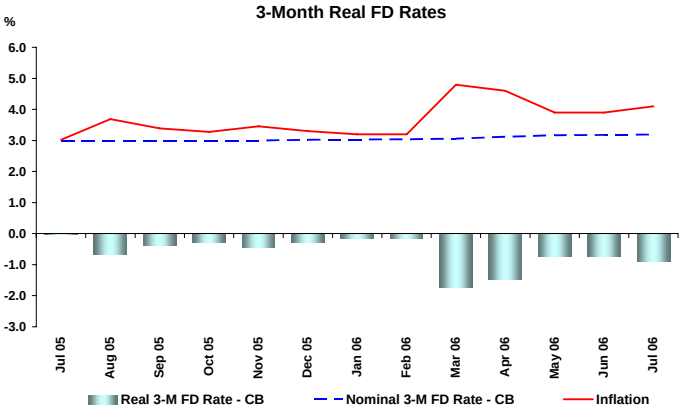


The loan-deposit ratio was slightly lower in July as deposits grew faster than loans. Meanwhile, the financing-deposit ratio remained stable



	1-month	3-month	6-month	9-month	12-month
Jun 06	3.11	3.18	3.32	3.45	3.75
Jul 06	3.12	3.19	3.34	3.48	3.76
15 Aug 06	3.12	3.19	3.34	3.48	3.76

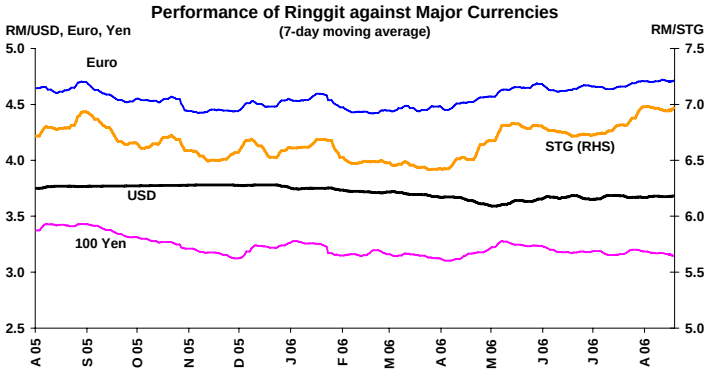
FD rates of CBs remained stable in July and the first half of August

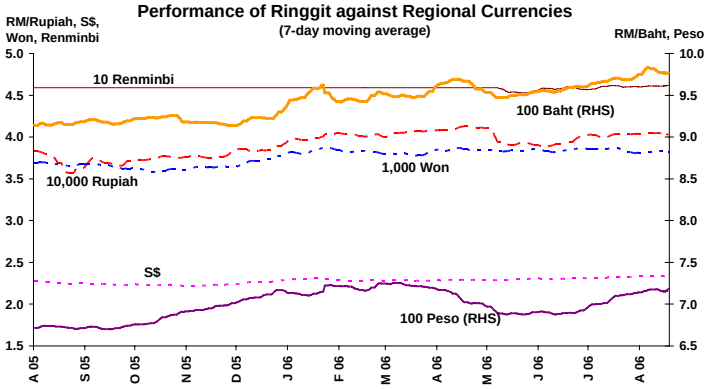


The real 3-m FD rate remained in negative territory

Ringgit depreciated against the US dollar and euro

In the period 1 July - 29 August 2006, the ringgit depreciated against the US dollar and euro, but appreciated against the Japanese yen. The ringgit was influenced mainly by developments in the G3 currencies and the corresponding impact on other currencies. The euro was supported by continued expectations of further increases in the European Central Bank's benchmark interest rate. The Japanese yen, however, depreciated amidst expectations that the Bank of Japan would keep interest rates on hold for the rest of the year after raising the benchmark interest rate in July. The ringgit appreciated against the Korean won by 0.7%, but depreciated against most other regional currencies in the range of 0.4% - 4.0%.



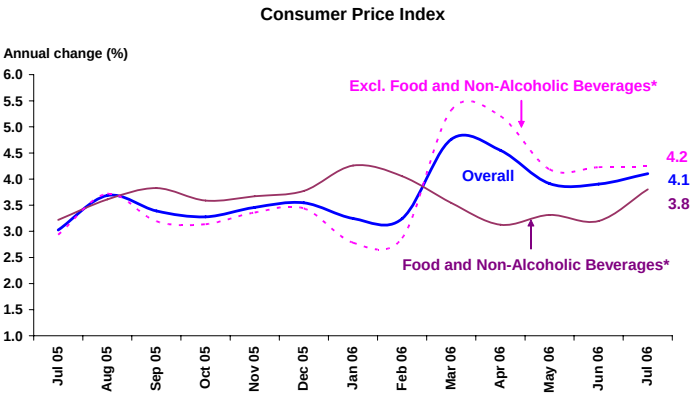


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change	
	Dec 05	Jun 06	Jul 06	29 Aug 06	End Dec 05 - 29 Aug 06	End Jun 06 - 29 Aug 06
US dollar	3.7800	3.6750	3.6535	3.6795	2.7	-0.1
Euro	4.4867	4.6698	4.6653	4.7160	-4.9	-1.0
Pound sterling	6.5226	6.7352	6.8163	6.9820	-6.6	-3.5
100 Japanese yen	3.2229	3.1963	3.1946	3.1484	2.4	1.5
Singapore dollar	2.2714	2.3126	2.3160	2.3372	-2.8	-1.0
100 Thai baht	9.2049	9.6104	9.6577	9.7846	-5.9	-1.8
100 Philippine peso	7.1254	6.9047	7.1059	7.1900	-0.9	-4.0
100 Indonesian rupiah	0.0385	0.0395	0.0403	0.0404	-4.9	-2.2
100 Korean won	0.3739	0.3856	0.3827	0.3829	-2.3	0.7
Chinese renminbi	0.4686	0.4598	0.4582	0.4617	1.5	-0.4

Inflation at 4.1% in July

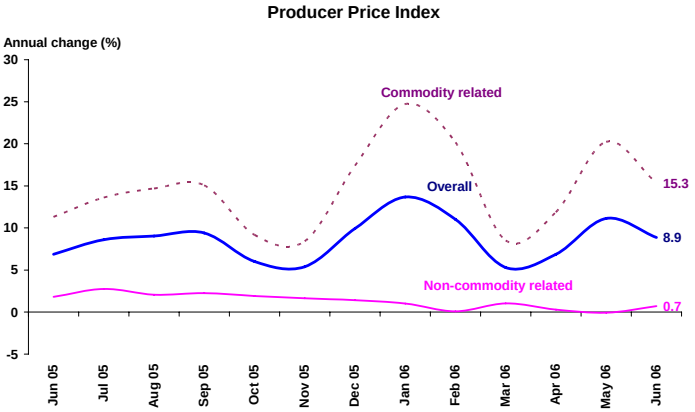
Headline inflation, as measured by the Consumer Price Index (CPI), increased to 4.1% in July (June: 3.9%). During the month, the increase in headline inflation was due mainly to the higher prices of items in the *food and non-alcoholic beverages* category. *Transport* prices continued to be higher due to the carry-through effects of the increase in retail fuel prices since March 2006. The prices of other categories remained broadly unchanged or registered slower growth rates. Meanwhile, the prices of *clothing and footwear*, and *communication* charges declined from a year ago.



Inflation at 4.1% in July

Growth in producer prices moderated in June

The rate of increase of the Producer Price Index (PPI) moderated to 8.9% in June (May: 11.1%). The moderation in the PPI was due mainly to the slower increase in the prices of the commodity-related category following a more modest increase in crude oil prices during the month. Excluding the commodity-related category, the PPI registered a growth rate of 0.7% (May: -0.1%), due mainly to higher inflation in the *food and live animals*, and *manufactured goods* categories.



PPI growth moderated in June

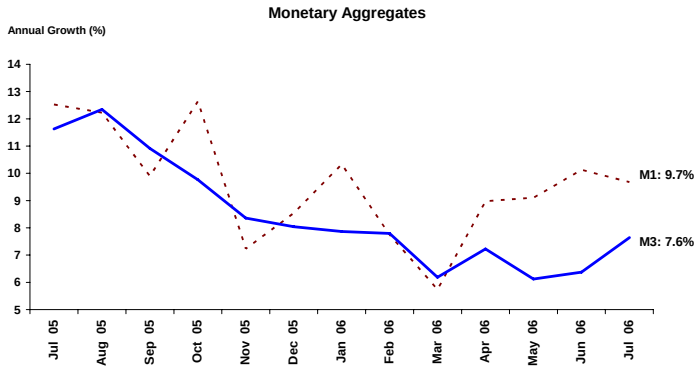
Increase in loans outstanding supported expansion in broad money

In July, M1, or narrow money, expanded at an annual rate of 9.7% (June: 10.1%). Broad money, M3, meanwhile, increased at a higher annual rate of 7.6% (June: 6.4%). On a monthly basis, claims on the private sector were expansionary on M3 mainly on account of the continued rise in loans outstanding, as well as the increase in holdings of securities by the banking system. These factors were partly offset by slightly lower net claims on the Government and net external operations. Net claims on the Government were lower, as the Government deposited the proceeds from the issuance of Government Investment Issues (GII) with Bank Negara Malaysia.

M3 Determinants
(RM billion)

	Change during period			
	2004	**2005**	**Jun 06**	**Jul 06**
M3	68.0	49.7	1.0	4.5
Net claims on Government	-15.9	-5.5	-2.8	-0.7
Claims on the private sector	30.6	44.6	4.6	5.6
Loans	39.8	*45.0*	*4.1*	*4.9*
Securities	-9.2	*-0.4*	*0.5*	*0.7*
Net external operations *	82.7	17.4	-0.7	-0.6
Other influences	-29.4	-6.8	-0.1	0.2

* Pre-revaluation of the international reserves



Banking system deposits increased in July

In July, higher placements by business enterprises, individuals and the Federal Government caused deposits to increase by RM7.4 billion or 10.1% (June: +RM5.9 billion or +8.1%). By type, repos increased significantly compared to the previous month, primarily on account of business enterprises

and, to a lesser extent, financial institutions. On the other hand, the rise in fixed deposits was largely due to individuals.

Deposits by Holder
(RM million)

	Change during period			
	Apr 06	**May 06**	**Jun 06**	**Jul 06**
Federal Government	-173	-633	753	1,188
State Governments	255	-304	49	-321
Statutory Authorities [1]	-1,814	862	1,798	-1,200
Financial Institutions	2,849	-1,538	1,844	-102
Business Enterprises	-751	4,367	-295	3,720
Individuals	1,808	-980	1,736	3,244
Others [2]	33	-8	-4	883
Total	2,207	1,767	5,881	7,413

1/ Include local Governments

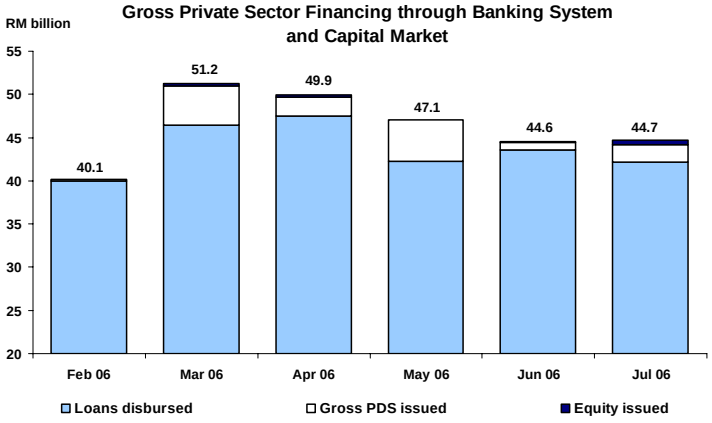
2/ Include domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

	Change during period			
	Apr 06	**May 06**	**Jun 06**	**Jul 06**
Fixed deposits	5,437	1,795	-967	1,910
NIDs	-3,271	3,761	3,267	-216
Demand deposits	921	1,090	2,722	-152
Savings deposits	-128	-896	-178	123
Repos	632	-5,053	782	4,056
FX deposits	-1,263	-423	121	109
SPI deposits	-577	1,718	-93	707
Others	456	-225	226	876
Total	2,207	1,767	5,881	7,413

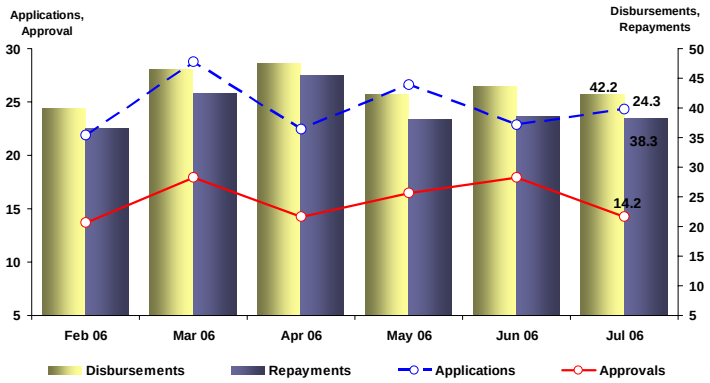
Sustained growth in net private sector financing

In July, total gross financing to the private sector from the banking system and the capital market amounted to RM44.7 billion (June: RM44.6 billion). Total PDS issuance increased while loan disbursements were marginally lower during the period. On a net basis, financing of the private sector through banking system loans and PDS outstanding expanded at a faster combined annual rate of 9.6% (June: 9.1%).



Stable level of gross private sector financing

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



Loan applications were higher on a month-on-month basis

Bank lending indicators

	RM billion		Annual Growth (%)	
	Jun[p]	Jul[p]	Jun	Jul
Overall				
Loan applications	22.8	24.3	-12.2	-11.0
Loan approvals	17.9	14.2	8.9	-21.8
Loan disbursements	43.6	42.2	-4.8	1.2
Chg in Loans Outstanding[1/]	4.7	4.7	8.6	9.3
Businesses[2/]				
Loan applications	11.7	12.5	-4.1	-8.8
Loan approvals	10.4	6.6	55.9	-24.6
Loan disbursements	29.9	30.1	-7.9	5.2
Chg in Loans Outstanding[1/]	1.7	1.1	4.1	5.4
SMEs				
Loan applications	5.2	5.4	n.a.[3/]	n.a.[3/]
Loan approvals	3.5	2.8	n.a.	n.a.
Loan disbursements	10.8	11.4	n.a.	n.a.
Chg in Loans Outstanding[1/]	0.4	0.8	n.a.	n.a.
Households				
Loan applications	11.1	11.8	-19.4	-13.2
Loan approvals	7.5	7.7	-23.1	-19.2
Loan disbursements	13.7	12.1	2.7	-7.7
Chg in Loans Outstanding[1/]	2.4	2.4	13.3	12.7

n.a. not applicable

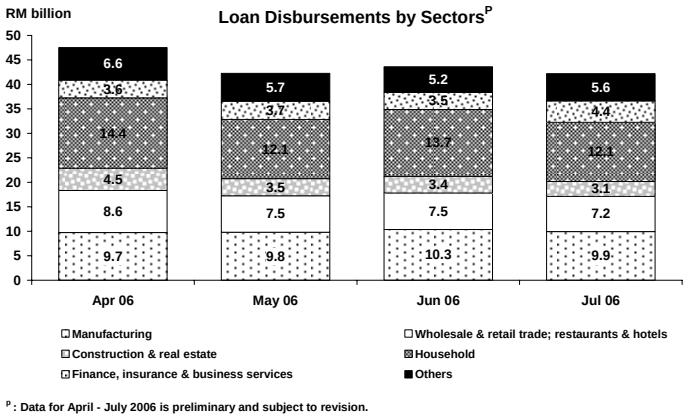
[1/] The annual growth in outstanding amount as at end-period.

[2/] Following reclassifications under the Financial Institutions Statistical System (FISS) effective April 2006, in order to maintain comparability on an annual basis for loan applications, approvals, disbursements and repayments, the category business enterprises has been expanded to include loans to other customers, namely non-bank financial institutions, Government, domestic non-business entities and foreign entities. These loans account for a relatively small share of the total compared with business enterprises. Trend wise, growth rates remain similiar to those under the previous definition.

[3/] 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.

p Preliminary. Data is subject to revision, arising from changes in the classification of loan indicators by economic sectors and purpose.

Loan disbursements to the business sector continues to expand



^P : Data for April - July 2006 is preliminary and subject to revision.

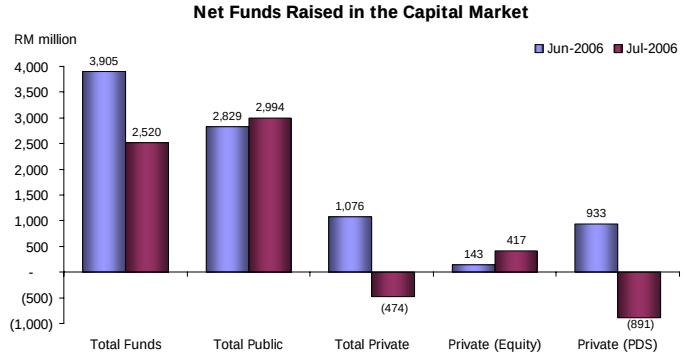
Steady disbursements to main sectors

On a month-on-month basis, both businesses and individuals contributed to the increase in loan applications, while the lower loan approvals were accounted for by large corporations. On an annual basis, loan disbursements were higher on account of higher financing channeled to the business sector.

As at end-July, growth in loans outstanding increased at an annual rate of 9.3% (end-June: 8.6%). While business loans outstanding increased at an annual rate of 5.4% (June: 4.1%), household loans outstanding recorded a marginally lower rate of 12.7% (June: 13.3%).

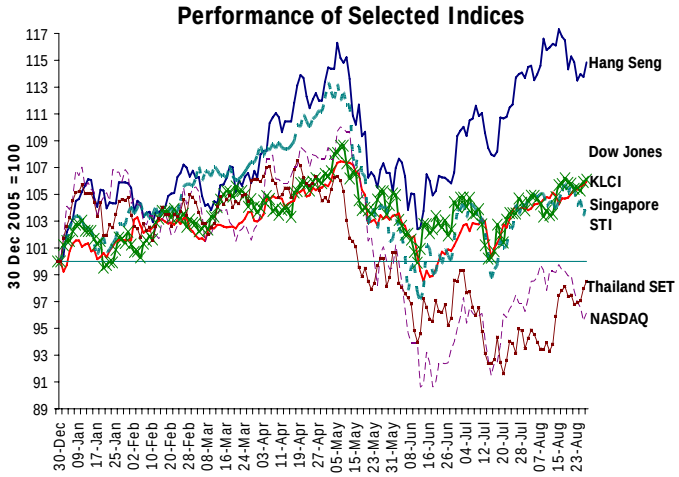
Lower net funds raised in the capital market

Net funds raised in the capital market were lower in July, totalling RM2.5 billion (June: RM3.9 billion). The bulk of the funds were raised by the public sector through the new issuance of 5-year Government Investment Issues (GII), which amounted to RM3 billion. In the private debt securities (PDS) market, gross funds of RM2 billion were raised mainly by companies in the finance, property and construction sectors. The PDS market, however, recorded a net redemption position of RM891 million due to the redemptions of PDS and Cagamas bonds which amounted to RM2.9 billion during the month. A higher amount of funds, totalling RM417 million, were raised in the equity market, mainly through initial public offerings. In total, the private sector recorded a net redemption position of RM474 million during the month.



KLCI performance continues to improve

Positive sentiments in the second half of July, driven mainly by the government's announcement of infrastructure projects under the Ninth Malaysia Plan (9MP), lifted sentiments of the local equity market. The KLCI closed marginally higher at 935.85, or 2.3% higher compared with end-June. Market capitalisation increased to RM727.8 billion (since end-June: 0.8%), while the daily average turnover increased to 801.8 million units (June: 447.6 million units).

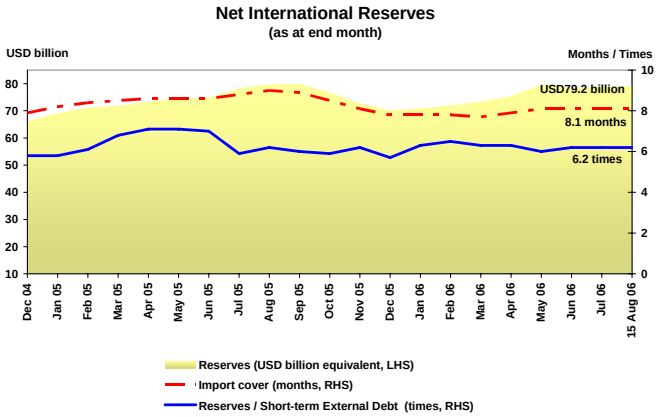


KLCI continues to improve given positive local sentiments

As at 29 August, the composite index ended slightly higher with the KLCI at 953.22 (since end-July: 1.9%). Overall market capitalisation was marginally higher at RM737.4 billion (since end-July: 1.3%), but trading activities decreased significantly with the daily average turnover at 463.2 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM290.4 billion or equivalent to USD79.1 billion as at 31 July 2006. The reserves increased to RM291 billion or equivalent to USD79.2 billion as at 15 August 2006. The reserves position is sufficient to finance 8.1 months of retained imports and is 6.2 times the short-term external debt.



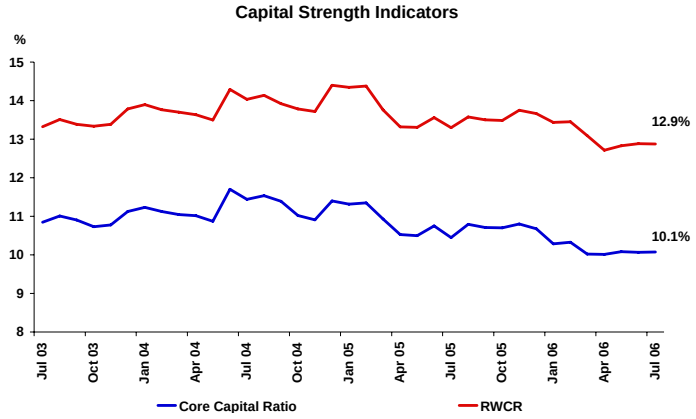
Banking system remained sound amidst sustained capitalisation level

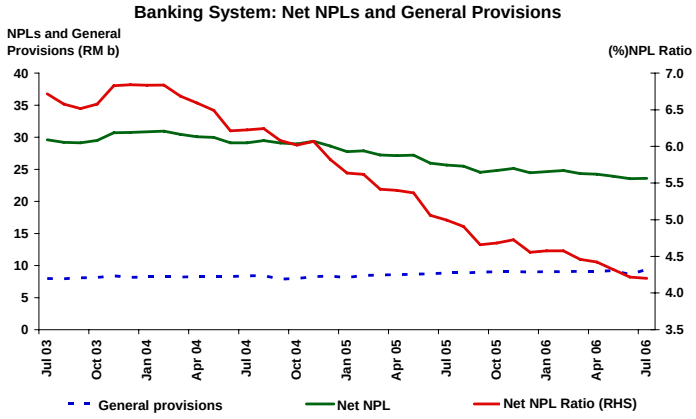
The level of capitalisation of the banking system remained strong, with both the risk-weighted capital ratio (RWCR) and core capital ratio unchanged, at 12.9% and 10.1% respectively. The capital base strengthened to RM87.5 billion on account of half-year profits amidst continued expansion in risk-weighted assets. As at end of the month, the net non-performing loans (NPL) ratio based on the 3-month classification declined marginally to 5.4%. Meanwhile, based on the 6-month classification, the net NPL ratio remained at 4.2%.

Banking System Health Indicators *

	As at end-									
	1999	2000	2001	2002	2003	2004	2005	May 06	Jun 06	Jul 06
Capital (%)										
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.4	10.7	10.1	10.1	10.1
RWCR	12.5	12.5	13.0	13.2	13.8	14.4	13.7	12.8	12.9	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	4.3	4.2	4.2
Amount (RM million)	23,849	24,700	32,833	31,702	30,766	28,590	24,468	23,912	23,528	23,609
GP / Net total loans (6-month, %)	1.9	1.9	1.9	1.8	1.8	1.7	1.7	1.7	1.5	1.7

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





Bank Negara Malaysia
30 August 2006

Key Monetary and Financial Statistics

		May 06		Jun 06		Jul 06	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		53.3	4.7	53.4	5.4	53.7	5.3
M1		125.2	9.1	128.3	10.1	128.3	9.7
M2		644.0	14.8	657.2	11.2	662.7	12.7
M3		692.9	6.1	693.9	6.4	698.3	7.6
Banking System							
Total deposits		717.1	7.7	723.0	8.1	730.4	9.8
Total loans (including loans sold to Cagamas)		574.7	8.9	579.3	8.6	584.1	9.3
Loan-deposit ratio (%)		76.9		77.2		76.9	
Financing-deposit ratio [1] (%)		85.5		85.7		85.7	
Loans applied (during the period)		26.6	-2.6	22.8	-12.2	24.3	-11.0
Loans approved (during the period)		16.4	-1.3	17.9	8.9	14.2	-21.8
Loans disbursed (during the period)		42.3	-2.6	43.6	-4.8	42.2	1.2
Loans repaid (during the period)		38.2	-3.5	38.5	-4.5	38.3	-7.4
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		12.8		12.9		12.9	
Net NPLs: 6-month classification (%)		4.3		4.2		4.2	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		289.5		289.3		290.4	
Net Reserves in USD billion (equivalent)		78.7		78.8		79.1	
Months of retained imports		8.2		8.2		8.1	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.25		3.50		3.50	
Interbank:	Overnight	3.47 [3.48]		3.51 [3.49]		3.49 [3.49]	
	1-week	3.54 [3.54]		3.55 [3.55]		3.51 [3.55]	
	1-month	3.69 [3.73]		3.78 [3.78]		3.75 [3.77]	
Fixed deposits of commercial banks:	1-month	3.11		3.11		3.12	
	3-month	3.17		3.18		3.19	
BLR of commercial banks		6.72		6.72		6.72	
ALR of commercial banks		6.51		6.55		6.63	
Prices							
Consumer Price Index (CPI) (2005=100)		103.6	3.9	103.8	3.9	104.0	4.1
Producer Price Index (PPI) (1989=100)		174.6	11.1	172.4	8.9	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.6290		3.6750		3.6535	
Euro		4.6689		4.6698		4.6653	
Pound Sterling		6.8298		6.7352		6.8163	
100 Japanese yen		3.2348		3.1963		3.1946	
Singapore dollar		2.3023		2.3126		2.3160	
100 Thai Baht		9.5100		9.6104		9.6577	
100 Philippine Peso		6.8692		6.9047		7.1059	
100 Indonesian Rupiah		0.0393		0.0395		0.0403	
100 Korean Won		0.3837		0.3856		0.3827	
Capital Market							
Net funds raised (in RMb) by:	public	2.9		2.8		3.0	
	private	1.1		1.1		-0.4	
Bursa Malaysia Composite Index (end-period)		927.8		914.7		935.9	
Bursa Malaysia Market Capitalisation (RMb, end-period)		727.3		721.8		727.8	

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