MONETARY AND FINANCIAL DEVELOPMENTS

Interbank rates remained relatively stable, while real FD rates on longer tenures turned positive

With inflation moderating and as available data point towards a sustained steady expansion in the domestic economy, the Overnight Policy Rate (OPR) was left unchanged at 3.50% throughout the third quarter.

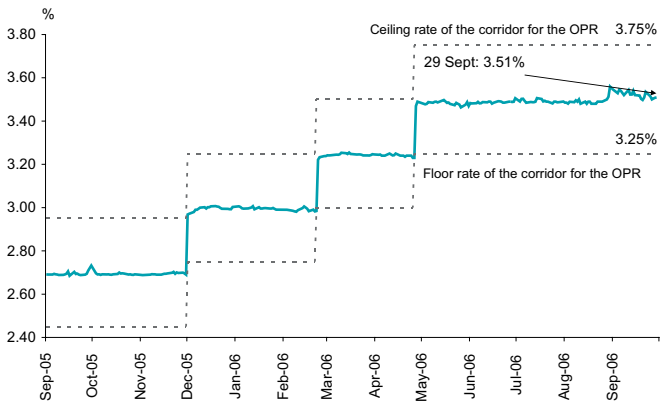
During the period 3 July - 29 September, the average overnight interbank rate remained relatively stable, moving within a range of 3.48% - 3.56%. Some temporary volatility occurred in early September when several money market participants sourced funds in preparation for the MGS auction. On the whole, the average overnight interbank rate was close to the OPR. Money market participants pared down their interest rate expectations and this resulted in the marginal downward adjustment of the 1-month interbank rate in August to 3.69%, where it stabilised thereafter.

In the retail market, the average base lending rate of CBs remained unchanged at 6.72%. The average lending rate of CBs was lower than the average BLR, peaking at 6.63% in July, and remaining relatively stable at that level for the remainder of the third quarter (2Q: 6.55%). Meanwhile, the average quoted FD rates of CBs for the 1-month and 12-month maturities ranged between 3.13% and 3.77% respectively (2Q: 3.11% and 3.77%). Of significance, the real average FD rates of CBs for the 6-month, 9-month and 12-month maturities turned positive in August as inflation trended lower.

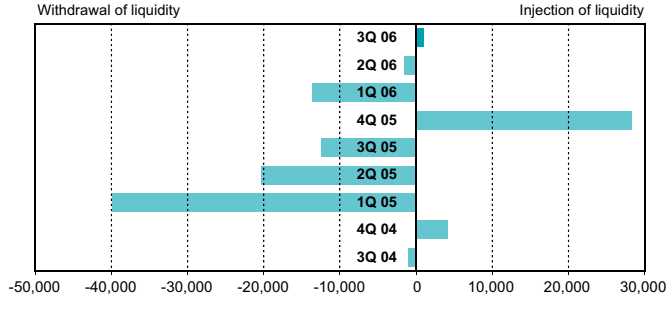
Interest Rates

	2005		2006		
	3Q	4Q	1Q	2Q	3Q
	At end-period (%)				
Overnight Policy Rate (OPR)	2.70	3.00	3.25	3.50	3.50
Interbank rates					
Overnight	2.73	3.00	3.25	3.51	3.51
1-month	2.87	3.12	3.25	3.78	3.68
Base lending rates (BLR)					
Commercial banks	5.98	6.20	6.47	6.72	6.72
Average lending rates (ALR)					
Commercial banks	5.90	6.12	6.29	6.55	6.63
Fixed deposit rates					
Commercial banks					
3-month	3.00	3.02	3.06	3.18	3.21
12-month	3.70	3.70	3.70	3.77	3.77

Daily weighted Average Overnight Interbank Rate



BNM Liquidity Operations (During the quarter, RM million)

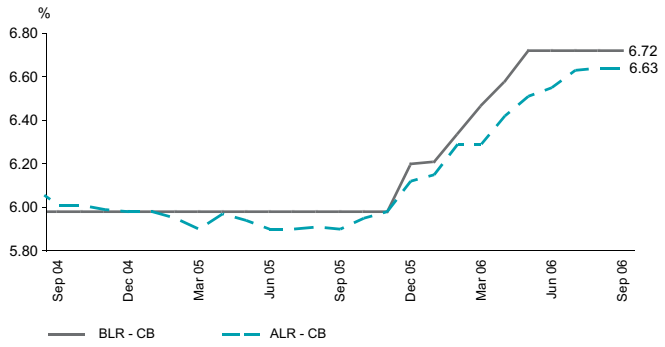


Monetary aggregates expanded at higher growth rates

All monetary aggregates continued to register higher annual growth rates in the third quarter. M1, or narrow money, expanded at an annual rate of 11.5% (2Q: 10.1%), reflecting higher placements of demand deposits and currency held by the private sector. Meanwhile, M3, or broad money increased at an annual rate of 7.9% (2Q: 6.4%).

In terms of determinants, both claims on the private sector and net external operations were expansionary on M3. Claims on the private sector continued to expand, albeit at a more moderate pace, with marginally slower growth in loans outstanding and lower holdings of private debt securities by the banking system. Net external operations had a larger expansionary impact during the quarter, supported mainly by the increases in the net external assets of the banking system. Net claims on the Government, meanwhile, were contractionary on M3 as the Government deposited the proceeds from the issuance of MGS and Government Investment Issues (GII) with Bank Negara Malaysia and the banking system.

Lending Rates of Commercial Banks
(Average for the period)

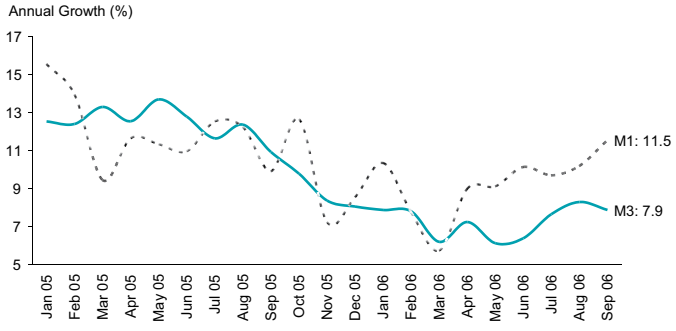


Determinants of Broad Money, M3

	Change during the period				
	2005		2006		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
M3	4.3	10.8	16.5	10.0	14.3
Net claims on Government	-4.3	12.6	2.8	-11.2	-2.2
Claims on private sector	15.0	14.2	4.9	15.0	6.7
Loans	*15.7*	*8.6*	*6.9*	*12.2*	*9.2*
Securities	*-0.7*	*5.6*	*-2.0*	*2.7*	*-2.5*
Net external operations[1]	-1.1	-23.7	14.0	11.3	11.9
BNM	*20.5*	*-34.7*	*10.8*	*14.2*	*2.0*
Banking system	*-21.6*	*11.0*	*3.2*	*-2.9*	*9.9*
Other influences	-5.3	7.6	-5.2	-5.1	-2.1

[1] Pre-revaluation

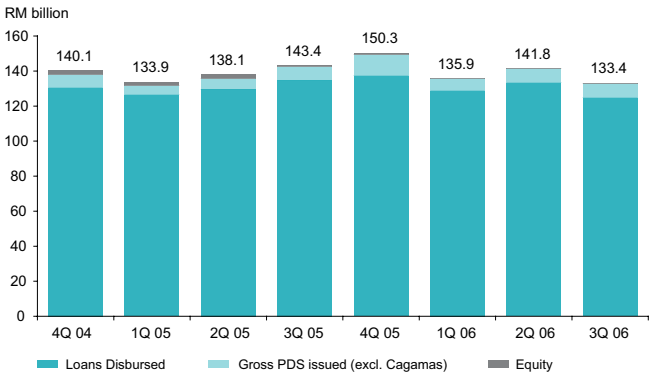
Monetary Aggregates



Slower private sector financing growth in the third quarter

In the third quarter, gross financing of the private sector through the banking system and capital market amounted to RM133.4 billion, lower by 6.9% on an annual basis (2Q: RM141.8 billion or +2.6%). The lower level of gross financing reflected the slower pace of loan disbursements by the banking system. Funds raised through the capital market were relatively stable on a quarterly basis. On a net basis, banking system loans and PDS outstanding expanded at a combined annual rate of 7.9% at end-September (end-June: 9.1%).

Gross Private Sector Financing through Banking System and Capital Market



Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2005	3Q 05	2Q 06	3Q 06[P]	2005	2Q 06	3Q 06[P]
Gross total financing	**565.6**	**143.4**	**141.8**	**133.4**	**8.7**	**2.6**	**-6.9**
Loans disbursed *	528.6	134.8	133.6	125.0	8.3	3.0	-7.3
Gross PDS (excl. Cagamas)	30.8	7.7	7.8	7.9	20.3	28.5	3.4
Equity	6.3	0.9	0.4	0.5	-2.5	-84.1	-39.2
Outstanding total financing (A)+(B)	**62.2**	**18.6**	**16.3**	**11.6**	**9.3**	**9.1**	**7.9**
Banking system	46.3	14.5	16.9	10.4	8.5	9.7	8.8
Loans outstanding (A)	44.2	14.4	13.0	9.6	8.6	8.6	7.5
Holding of PDS	2.1	0.0	3.9	0.8	6.3	28.5	30.8
PDS outstanding (B)	18.0	4.2	3.3	2.0	11.4	10.8	9.2
Memorandum item							
Gross PDS (incl. Cagamas)	10.6	9.7	10.8	9.2	-70.9	37.8	-5.1

[P] Preliminary
* Banking system loans include loans sold to Cagamas

Loan Indicators

	During the period (RM billion)				Annual Growth %			
	2005	3Q 05	2Q 06[P]	3Q 06[P]	2005	3Q 05	2Q 06[P]	3Q 06[P]
Total								
Loan applications[n]	305.4	83.9	74.7	79.3	11.7	9.7	-7.6	-5.5
Loan approvals[n]	192.2	54.4	48.6	46.7	10.7	16.6	2.2	-14.0
Loan disbursements[n]	528.6	134.8	133.6	125.0	8.3	10.0	3.0	-7.3
Loan repayments[n]	488.5	121.5	122.9	115.3	5.8	2.8	2.0	-5.1
Change in loan outstanding*	44.2	14.4	13.0	9.6	8.6	9.2	8.6	7.5
Of which:								
Business enterprises**								
Loan applications[n]	153.1	42.2	40.5	41.1	6.8	0.1	-0.6	-2.4
Loan approvals[n]	88.3	26.1	23.8	22.6	9.4	21.3	17.1	-13.3
Loan disbursements[n]	375.1	94.8	92.2	88.3	7.0	9.3	0.3	-6.8
Loan repayments[n]	367.1	90.9	87.4	84.2	5.3	1.0	-3.9	-7.4
Change in loan outstanding*	6.5	4.9	6.0	3.0	3.0	3.9	4.2	3.3
SMEs***								
Loan applications[n]	59.7	17.3	18.0	18.8	10.3	13.9	n.a.	n.a.
Loan approvals[n]	34.5	9.9	9.7	10.2	9.3	12.6	n.a.	n.a.
Loan disbursements[n]	110.6	28.4	36.4	33.6	10.2	14.7	n.a.	n.a.
Change in loan outstanding*	7.7	3.0	0.3	1.0	8.7	9.8	n.a.	n.a.
Large corporations***								
Loan applications[n]	93.4	24.8	22.5	22.4	4.8	-7.6	n.a.	n.a.
Loan approvals[n]	53.8	16.2	14.0	12.4	9.5	27.2	n.a.	n.a.
Loan disbursements[n]	264.5	66.4	55.7	54.7	5.7	7.2	n.a.	n.a.
Change in loan outstanding*	-0.1	1.8	5.7	2.0	-0.9	0.0	n.a.	n.a.
Households								
Loan applications[n]	152.3	41.8	34.2	38.2	17.2	21.5	-14.7	-8.6
Loan approvals[n]	103.9	28.3	24.8	24.1	12.0	12.8	-9.0	-14.7
Loan disbursements[n]	153.5	40.0	41.4	36.6	11.7	11.5	9.5	-8.4
Loan repayments[n]	121.4	30.6	35.5	31.1	7.6	8.5	19.7	1.5
Change in loan outstanding*	40.0	11.3	7.1	7.4	15.1	14.9	13.3	11.4

* The annual growth is for end-period.

** 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.

*** From 1Q 2006, loan indicators for SMEs and large corporations are not comparable on an annual basis as beginning March 2006, financial institutions have begun adopting the Standard SME Definitions as approved by the National SME Development Council, resulting in some reclassification between SMEs and large corporations.

n.a. Not applicable.
[n] Numbers may not add up due to rounding.

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

Source: Bank Negara Malaysia.

Among the major loan indicators, total loan applications from the household sector increased compared with the preceding quarter, mainly on account of higher applications for the purchase of passenger cars and residential property. Loan approvals to the household sector remained relatively steady compared with the previous quarter, with higher approvals for the purchase of passenger cars and credit card loans. Meanwhile, in the business sector, loan approvals and applications by small-and-medium enterprises (SMEs) were higher, amounting to RM18.8 billion and RM10.2 billion respectively.

In terms of the distribution of loan disbursements, almost 44% went to large corporations, followed by households and SMEs. In terms of sectors of the economy, the manufacturing sector received almost a quarter of all loans disbursed during the quarter, followed by the wholesale, retail, restaurants and hotels sector. Consumption credit accounted for almost one-fifth of loans disbursed during the quarter.

Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	2005	3Q 05	2Q 06[P]	3Q 06[P***]		
	RM billion				%	
Business enterprises *	375.1	94.8	92.2	88.3	70.7	39.7
Large corporations **	*264.5*	*66.4*	*55.7*	*54.7*	*43.8*	*22.2*
SMEs **	*110.6*	*28.4*	*36.4*	*33.6*	*26.9*	*17.6*
Households	153.5	40.0	41.4	36.6	29.3	55.6
Selected sectors						
Agriculture, hunting, forestry and fishing	13.8	4.0	3.5	3.5	2.8	2.2
Mining and quarrying	1.6	0.4	0.7	0.5	0.4	0.3
Manufacturing	126.7	32.0	29.7	30.3	24.2	11.3
Construction	30.4	8.0	7.8	7.6	6.0	5.3
Real estates	9.0	2.4	3.3	2.2	1.8	3.0
Electricity, gas and water supply	7.1	1.6	0.2	0.4	0.3	0.9
Wholesale, retail, restaurants and hotels	97.2	25.6	23.3	21.7	17.4	8.9
Transport, storage and communication	9.8	3.3	2.7	2.3	1.9	1.9
Finance, insurance and business services	35.7	7.4	10.7	10.6	8.5	5.8
Consumption credit	100.8	26.5	25.9	24.3	19.5	23.6
Of which:						
Credit cards	*42.7*	*11.0*	*11.4*	*11.9*	*9.5*	*3.2*
Purchase of passenger cars	*39.2*	*10.7*	*8.8*	*8.4*	*6.8*	*15.8*
Total	**528.6**	**134.8**	**133.6**	**125.0**	**...**	**...**

* Following reclassification 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.

** From 1Q 2006, loan indicators for SMEs and large corporations are not comparable on an annual basis as beginning March 2006, financial institutions have begun adopting the Standard SME Definitions as approved by the National SME Development Council, resulting in some reclassification between SMEs and large corporations.

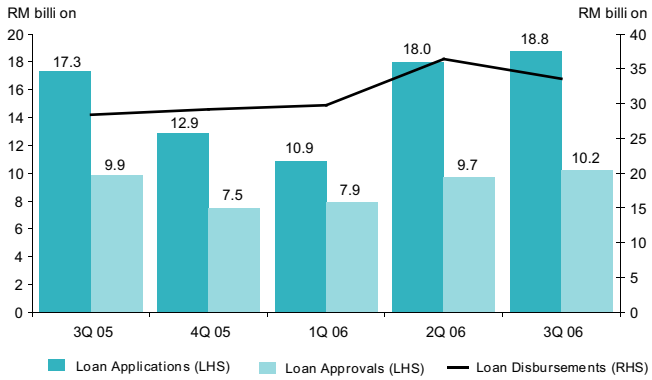
*** Based on new classification system under the Financial Institutions Statistical System (FISS), effective April 2006. Futher details are available in the July issue of the Monthly Statistical Bulletin.

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

Source: Bank Negara Malaysia

Total loans outstanding expanded by 7.5% on an annual basis at the end of the third quarter (end-2Q: 8.6%), with loans outstanding to businesses and households increasing at annual rates of 3.3% and 11.4% respectively (end-2Q: 4.2% and 13.3% respectively).

Bank Lending to SMEs



*From March 2006, financial institutions have begun adopting the Standard SME Definitions as approved by the National SME Development Council, resulting in some reclassification between SMEs and large corporations.

Financing activity in the capital market remained significant

Fund raising in the capital market remained active during the quarter with total net funds raised by both the public and private sectors amounting to RM3.8 billion. The **public sector** raised gross funds amounting to RM12.3 billion from four issuances of Government securities: one issuance of 5-year GII, two reopenings of 3-year and 10-year MGS, and a new issuance of 20-year MGS. After adjusting for redemptions, the net funds raised by the public sector during the quarter were lower, amounting to RM3.6 billion (2Q: RM7.4 billion).

In the **private sector**, gross funds raised from the PDS market amounted to RM9.2 billion (RM7.9 billion if excluding Cagamas). The funds were mainly raised through the issuance of medium-term notes and long-term bonds, which accounted for 46% and 42% respectively of total PDS issued. On a net basis, the funds raised through the PDS market, excluding Cagamas bonds, amounted to RM2.4 billion during the quarter (2Q: RM3.3 billion).

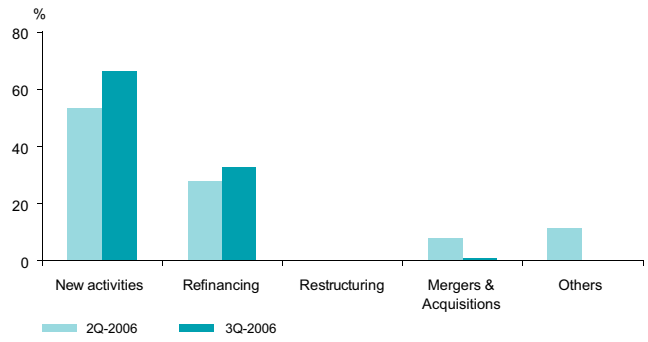
Funds raised through the equity market during the third quarter amounted to RM518 million. Most of the funds were raised through 10 initial public offerings (IPOs) totaling about RM371 million. During the quarter, there were 12 new listings on Bursa Malaysia, two on the Main Board, three on the Second Board and seven on the Malaysian Exchange of Securities Dealing and Automated Quotation (MESDAQ) Market.

Funds Raised in the Capital Market

	2005		2006		
	3Q	4Q	1Q	2Q	3Q
	RM million				
By Public Sector					
Government Securities, *gross*	8,233	6,500	5,265	5,741	9,324
Less Redemptions	2,450	4,850	500	1,300	8,200
Less Government holdings	-	-	-	-	-
Equals Net Federal receipts	5,783	1,650	4,765	4,441	1,124
Khazanah Bonds, *net*	-	-	(1,700)	-	-
Govt. Investment Issues, *net*	-	(1,000)	-	3,500	3,000
Merdeka Savings Bond, *net*	383	397	(500)	(502)	(495)
Net Funds Raised	6,166	1,047	2,564	7,438	3,629
By Private Sector					
Shares	851	1,043	381	384	518
Debt securities	9,726	15,161	10,574	10,784	9,233
Private Debt Securities (PDS)	9,726	13,801	6,889	8,819	7,933
Cagamas	-	1,360	3,685	1,965	1,300
Less Redemptions	5,627	4,701	5,498	7,684	9,590
Net Issues	4,099	10,461	5,076	3,099	(356)
Net issues (excluding Cagamas)	6,359	9,851	2,993	3,314	2,404
Net Funds Raised	4,950	11,504	5,457	3,484	161
Total Net Funds Raised	11,116	12,552	8,022	10,922	3,790
Short-term Papers and Notes, *net* [1]	454	456	1,312	1,175	(577)
Total	11,570	13,008	9,334	12,097	3,213

[1] Refers to Commercial Papers and Cagamas Notes only.

Private Debt Securities Issued by Purpose (% of total)



Higher secondary trading in the bond market

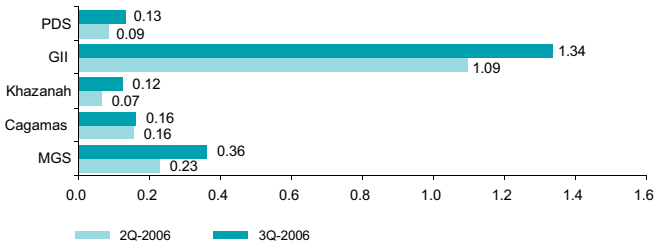
In the secondary market, total trading increased significantly to RM114.9 billion in the third quarter (2Q: RM74.7 billion). Government Securities (MGS and GII) accounted for the bulk of the trading (75% of the total trades), followed by PDS, which accounted for 21% of total trades. In terms of liquidity, the GII was the most liquid paper, registering a liquidity ratio of 1.34.

The MGS benchmark yield curve shifted downwards between 33 – 89 basis points across all tenures during the third quarter of 2006. The downward shift was mainly attributed to the lower than expected inflation in June and August, which resulted in the market expecting that the OPR will remain unchanged. In addition, the market's perception that the appreciation of the ringgit in September may lower imported inflation also contributed to the downward shift in the yield curve. As a result, the quarterly yield spreads of the 3-year, 5-year and 10-year MGS declined by 57, 61 and 89 basis points respectively.

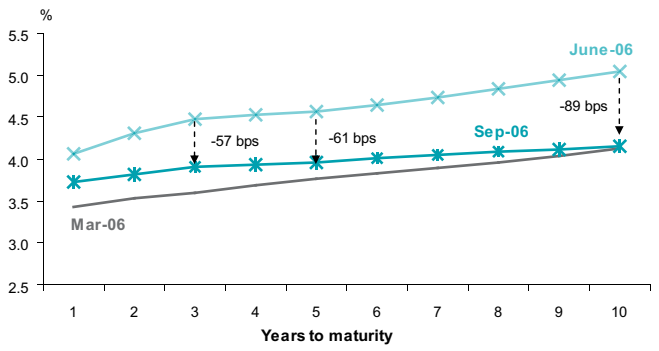
The KLCI improved during the third quarter

Global and regional equity markets strengthened in the third quarter of 2006. In Malaysia, the Kuala Lumpur Composite Index (KLCI) was lifted by positive sentiments arising from the allocations of construction projects in the Ninth Malaysia Plan and a growth-supportive Budget 2007 which included reductions in corporate income tax for 2007 and 2008. In addition, the stronger than expected second quarter GDP growth and benign inflation outlook also contributed to the better performance of the KLCI.

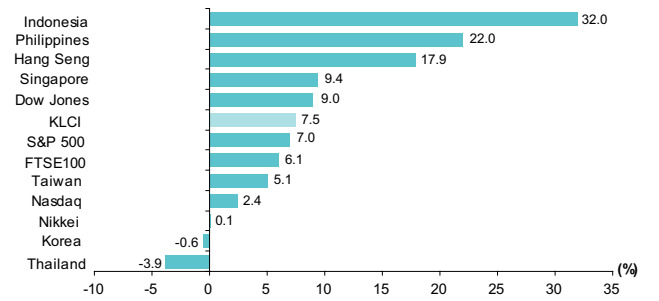
Liquidity Ratio: Turnover / Outstanding



Trend in MGS Yield



Performance of Selected Global and Regional Markets in the Third Quarter of 2006 (30 Dec 2005 - 30 September 2006)



The KLCI rose 52.86 points or 5.8% (2Q: -11.94 points) to end the third quarter at 967.55 (end-2Q: 914.69). Market capitalisation was higher at RM745.5 billion (2Q: RM 721.79 billion), but trading activity declined, with the average daily turnover at 573.9 million units during the quarter (2Q: 931.9 million units).

As at 20 November 2006, the KLCI rose further to 1,033.52 points (since end-2005: +14.9%). Market capitalisation was also higher, at RM805.4 billion (since end- 2005: +15.8%).

Bursa Malaysia: Turnover of Corporate Securities

	2005				2006					
	2Q		1H		1Q		2Q		3Q	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	25,824	40,423	55,867	96,684	45,988	53,671	57,775	68,662	37,040	49,741
of which:										
Main Board	18,253	35,778	39,489	84,162	26,565	42,744	36,340	54,879	22,422	40,720
of which										
Consumer Products	872	2,072	1,890	5,189	1,808	4,834	1,320	4,245	660	2,200
Industrial Products	2,996	3,076	7,825	8,842	3,147	3,133	5,201	5,432	3,410	3,787
Construction	810	1,287	2,389	4,401	3,048	3,120	3,676	4,799	1,596	2,626
Trading/Services	4,055	14,160	8,375	29,870	6,191	14,985	8,855	19,699	5,958	15,148
Finance	2,173	8,253	5,232	18,748	2,711	9,046	3,218	9,562	2,475	7,291
Properties	3,767	3,069	7,134	8,671	4,106	2,040	7,090	2,928	4,084	2,331
Plantations	453	1,951	1,057	4,119	518	2,708	782	4,118	1,078	4,848
Mining	0	7	0	8	0	1	0	1	1	17
Second Board	4,194	2,960	9,731	8,546	5,837	4,532	6,792	5,304	3,853	2,758

Source: Bursa Malaysia

Exchange Rate Developments

In the third quarter of 2006, movements of the ringgit exchange rate reflected broadly market demand and supply conditions. During the period, the ringgit depreciated against the US dollar amidst range-bound trading. In addition to trade and investment flows, the ringgit was affected by developments in the currencies of the major industrialised economies. The US dollar was supported by safe-haven flows in reaction to geopolitical developments in the Middle East and North Korea, as well as some positive US economic data. The ringgit, however, appreciated against the Japanese yen as the Japanese currency weakened amidst reduced expectations for further interest rates increases.

During the third quarter, the ringgit depreciated against most regional currencies in the range of

Bursa Malaysia: Selected Market Indicators

	As at end				
	2005		2006		
	2Q	1H	1Q	2Q	3Q
Price Indices					
Composite	888.3	888.3	926.6	914.7	967.6
FBM30	-	-	-	5919.4	6260.4
EMAS	203.7	203.7	213.4	-	-
FBMEMAS	-	-	-	5973.7	6270.7
Second Board	87.8	87.8	91.1	93.7	83.2
Average daily turnover					
Volume (million units)	416.5	461.7	779.5	931.9	573.9
Value (RM million)	652.0	797.0	909.7	1107.5	782.0
Market capitalisation (RM b)	688.6	688.6	732.9	721.8	745.5
No. of companies listed	990.0	990.0	1025.0	1026.0	1027.0

Source: Bursa Malaysia

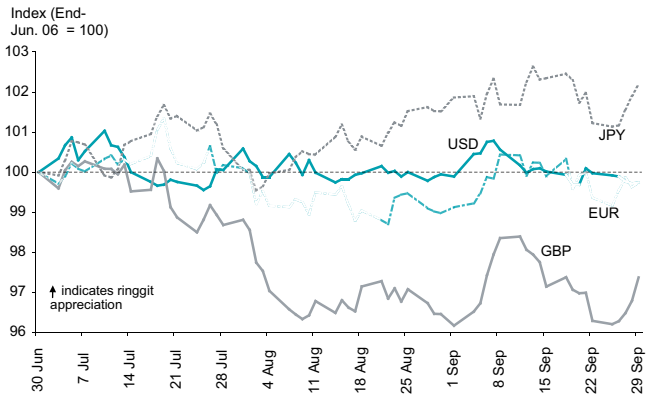
Summary of Ringgit Performance Against Selected Currencies Percent Change (1 July - 30 September 2006)



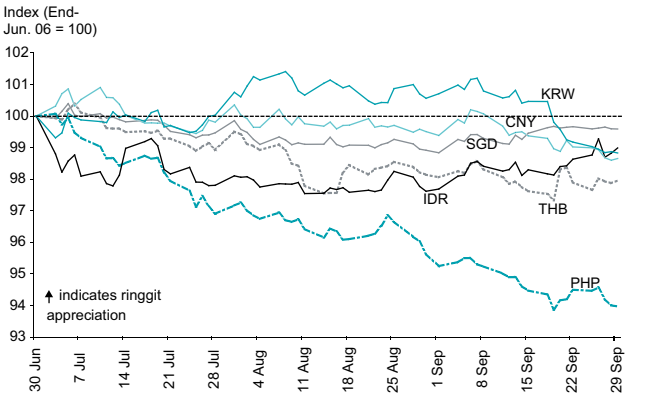
0.4% - 6%. Regional currencies were supported by continued capital inflows into regional equity and high-yielding assets. Regional currencies were also affected by country-specific factors. The Philippine peso, in particular, benefited from continued positive sentiments arising from improved government finances. The Thai baht appreciated over the quarter, despite weakening temporarily in the immediate aftermath of the military coup in September.

During the period 1 October - 21 November 2006, the ringgit appreciated against most of the major currencies, amidst continued trade and investment flows. The ringgit also appreciated against most regional currencies in the range of 0.1% - 0.5%, the exception being against the Thai bath (1.6%) and Singapore dollar (0.9%).

Ringgit Performance Against Major Currencies



Ringgit Performance Against Regional Currencies



Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end						% change since*				
	30 Jun 97	02 Sep 98	21 Jul 05	3Q 05	2Q 06	3Q 06	30 Jun 97	02 Sep 98	21 Jul 05	3Q 05	2Q 06
US dollar	2.5235	3.8000	3.8000	3.7692	3.6750	3.6845	-31.5	3.1	3.1	2.3	-0.3
Euro	-	-	4.6212	4.5421	4.6698	4.6821	-	-	-1.3	-3.0	-0.3
Pound sterling	4.1989	6.3708	6.6270	6.6438	6.7352	6.9171	-39.3	-7.9	-4.2	-4.0	-2.6
100 Japanese yen	2.2088	2.7742	3.3745	3.3359	3.1963	3.1279	-29.4	-11.3	7.9	6.6	2.2
Singapore dollar	1.7647	2.1998	2.2570	2.2315	2.3126	2.3221	-24.0	--5.3	-2.8	-3.9	-0.4
100 Thai baht	9.7470	9.3713	9.0681	9.1988	9.6104	9.8109	-0.7	-4.5	-7.6	-6.2	-2.0
100 Philippine peso	9.5878	8.8302	6.8131	6.7262	6.9047	7.3477	30.5	20.2	-7.3	-8.5	-6.0
100 Indonesian rupiah	0.1038	0.0354	0.0386	0.0366	0.0395	0.0399	160.2	-11.3	-3.3	-8.3	-1.0
100 Korean won	0.2842	0.2827	0.3665	0.3619	0.3856	0.3901	-27.1	-27.5	-6.0	-7.2	-1.2
Chinese renminbi	0.3045	0.4594	0.4591	0.4669	0.4598	0.4660	-34.7	-1.4	-1.5	0.2	-1.3

* (+) indicates appreciation of ringgit against respective currency and (-) indicates depreciation.