BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 04/06/11

EMBARGO: Not for publication or broadcast before 1800 hours on Friday, 28 April 2006

Monetary and Financial Developments March 2006 Highlights of the Press Release

Sustained growth in financing to the private sector

Growth in private sector financing was sustained in March, with banking system loans and PDS outstanding expanding at a combined annual rate of 9.1%. Banking system loans outstanding increased at an annual rate of 8.4% at end-March, driven mainly by household loans, which increased at an annual rate of 14.5%. Loans outstanding to businesses also continued to expand, at an annual rate of 2.7%.

The banking system remained sound with high capitalisation and improved non-performing loan (NPL) levels. The net NPL ratio, based on the 6-month classification, improved to 4.5%, while the risk-weighted capital ratio (RWCR) declined marginally to 13.1%, on account of profit distributions.

On 26 April, Bank Negara Malaysia raised the Overnight Policy Rate (OPR) by 25 basis points to align monetary conditions to the current macroeconomic environment.

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MONETARY AND FINANCIAL DEVELOPMENTS MARCH 2006

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Funds raised by the private sector through the capital market were higher in March. A total of RM1.8 billion was raised through the private debt securities (PDS) market, mainly by companies in the services and construction sectors. Most of the funds raised were for the financing of new activities. Meanwhile, a total RM259 million was raised through the equity market from five initial public offerings (IPOs) during the month.

During the period 1 March – 26 April, the daily weighted average overnight interbank rate moved within a narrow range of 3.23% - 3.25%. Interbank rates for other maturities were also relatively stable. Following the increase in the Overnight Policy Rate (OPR) on 26 April, the daily weighted average overnight interbank rate ended higher at 3.47% on 27 April. As at 15 April, both lending rates and deposit

rates were also higher. The average base lending rate (BLR) of commercial banks (CBs) increased to 6.47%. The average quoted fixed deposit (FD) rates of CBs for the 1-month to 9-month maturities also edged upwards to between 3.03% and 3.16%.

In the period 1 March – 27 April, the ringgit appreciated against the US dollar, reflecting the strong current account performance and capital inflows. Against other major and regional currencies, the ringgit performance was mixed.

Headline inflation, as measured by the Consumer Price Index (CPI), increased to 4.8% in March. This mainly reflected the 18% rise in the transport prices, resulting from the upward revision in retail fuel prices on 28 February 2006. Meanwhile, the annual growth of the Producer Price Index (PPI) moderated to 11% in February.

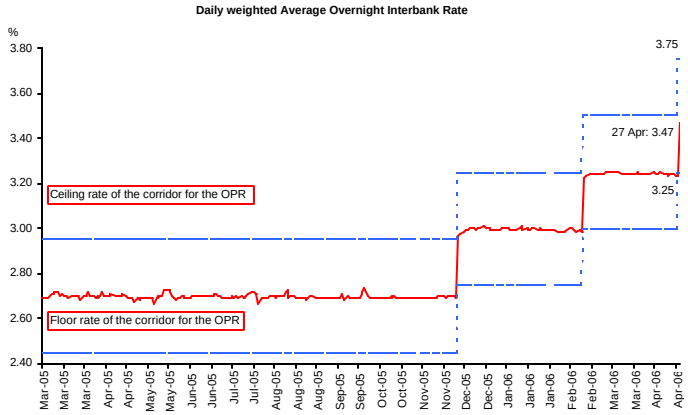
M3 or broad money, expanded at an annual rate of 6.2% in March, while M1 or narrow money, representing transactional balances, expanded at an annual rate of 5.7%.

The banking system remained sound with high capitalisation and improved non-performing loan (NPL) levels. The net NPL ratio, based on the 6-month classification, improved to 4.5%, while the risk-weighted capital ratio (RWCR) declined marginally to 13.1%, on account of profit distributions.

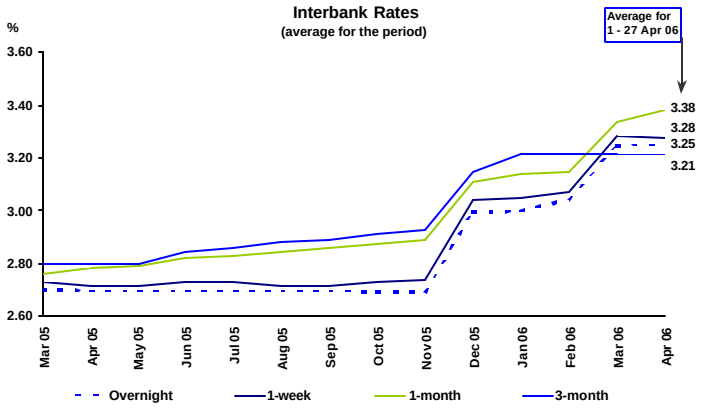
Interest rates adjusting to OPR increase

During the period 1 March - 26 April, the daily weighted average overnight interbank rate moved within a narrow range of 3.23% - 3.25%. Interbank rates for other maturities were also relatively stable. Following the increase in the Overnight Policy Rate (OPR) to 3.5% on 26 April, the daily weighted average overnight interbank rate ended higher at 3.47% on 27 April.

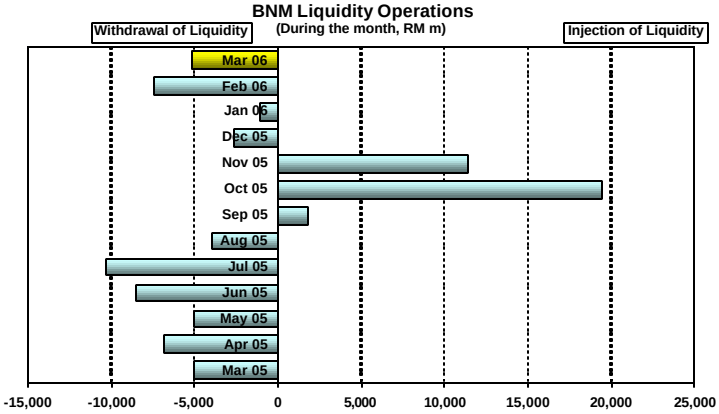
As at 15 April, both lending rates and deposit rates were also higher. The average base lending rate (BLR) of commercial banks (CBs) increased to 6.47% (end-February: 6.34%). The average quoted fixed deposit (FD) rates of CBs for the 1-month to 9-month maturities also edged upwards to between 3.03% and 3.16%, while the rate at the 12-month maturity remained unchanged.



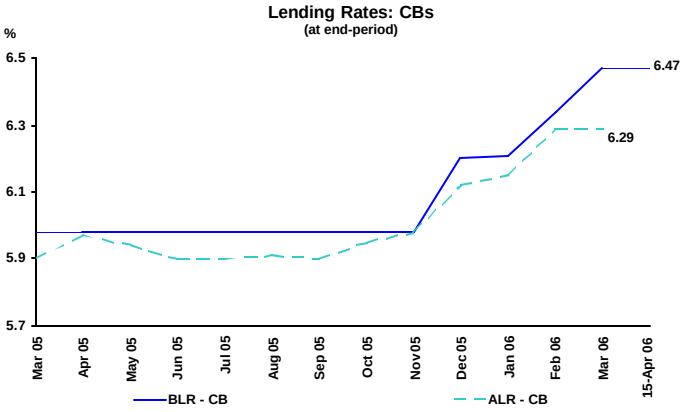
The average overnight interbank rate remained stable relative to the OPR



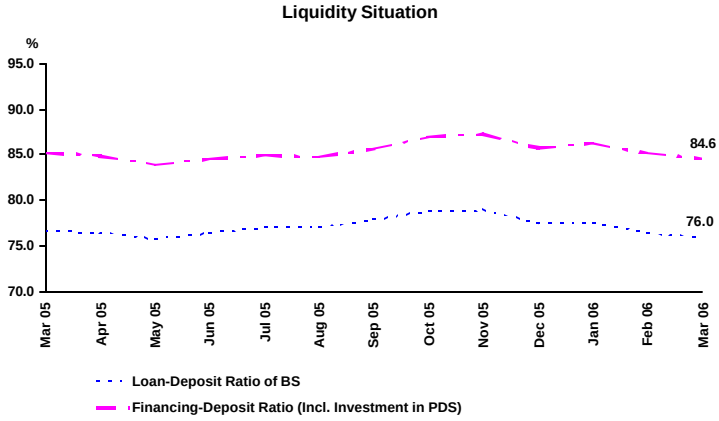
Interbank rates were broadly stable



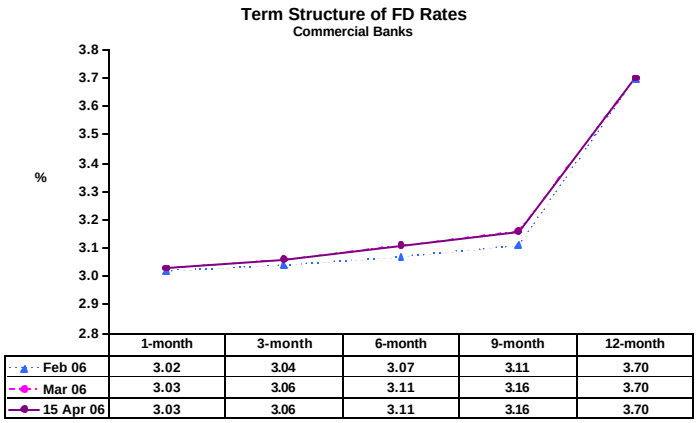
BNM absorbed excess liquidity from the banking system



The average BLR of CBs rose in March and remained unchanged in early April

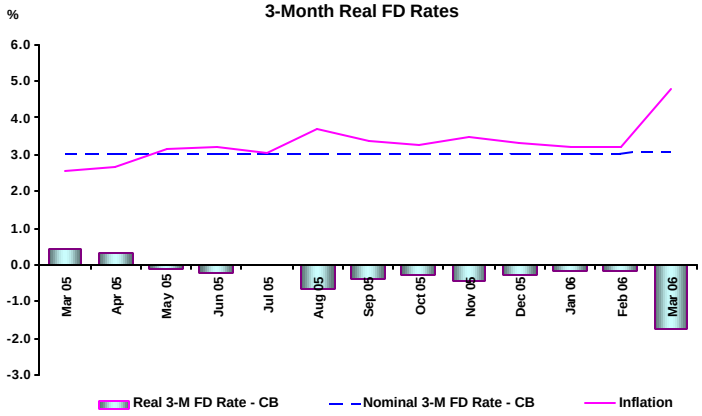


Both the loan-deposit and financing-deposit ratios were slightly lower in March as deposit growth outpaced loan growth



	1-month	3-month	6-month	9-month	12-month
Feb 06	3.02	3.04	3.07	3.11	3.70
Mar 06	3.03	3.06	3.11	3.16	3.70
15 Apr 06	3.03	3.06	3.11	3.16	3.70

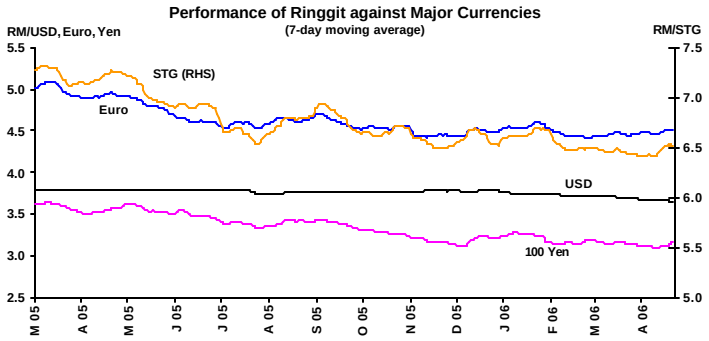
FD rates of CBs rose in March and remained stable in early April

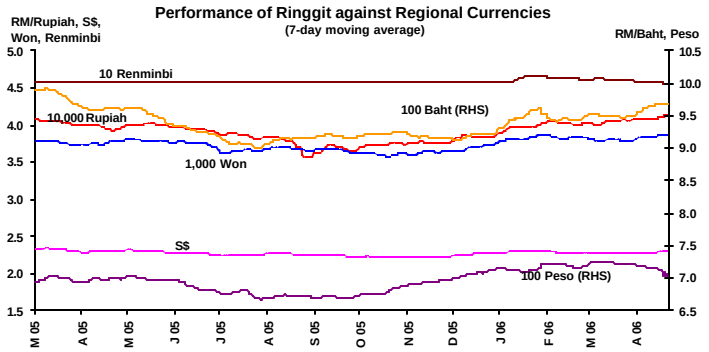


The 3-m real FD rate remained negative in March

Ringgit appreciated against the US dollar

In the 1 March – 27 April 2006 period, the ringgit appreciated against the US dollar, reflecting the strong current account performance and capital inflows. Against other major currencies, the ringgit performance was mixed. The ringgit was influenced by developments in the G3 currencies. The US dollar weakened due to market expectations that the cycle of US interest rate increases may be close to an end. The Japanese yen depreciated as the Bank of Japan kept interest rates unchanged at near zero percent. The euro meanwhile strengthened amidst expectations of further increases in the benchmark interest rate. Against regional countries, the ringgit also recorded a mixed performance. The ringgit appreciated against the Chinese renminbi (1.9%) and Philippine peso (2.4%), but depreciated against the Singapore dollar, Korean won, Thai baht and Indonesian rupiah in the range of 0.1% - 2.5%.



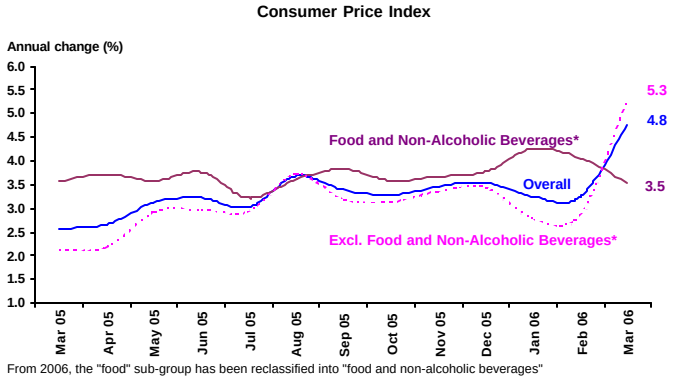


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% change	
	Dec. 05	Feb. 06	Mar. 06	27 Apr. 2006	End Dec. 05 - 27 Apr. 2006	End Feb. - 27 Apr. 2006
US dollar	3.7800	3.7135	3.6860	3.6320	4.1	2.2
Euro	4.4867	4.4055	4.4829	4.5229	-0.8	-2.6
Pound Sterling	6.5226	6.4643	6.4337	6.4844	0.6	-0.3
100 Japanese yen	3.2229	3.1907	3.1397	3.1650	1.8	0.8
Singapore dollar	2.2714	2.2857	2.2778	2.2890	-0.8	-0.1
100 Thai baht	9.2049	9.4407	9.4914	9.6570	-4.7	-2.2
100 Philippine peso	7.1254	7.1793	7.2077	7.0096	1.7	2.4
100 Indonesian Rupiah	0.0385	0.0402	0.0407	0.0413	-6.9	-2.5
100 Korean won	0.3739	0.3827	0.3781	0.3840	-2.6	-0.3
Chinese renminbi	0.4686	0.4619	0.4599	0.4532	3.4	1.9

Inflation increase driven by supply-side factors

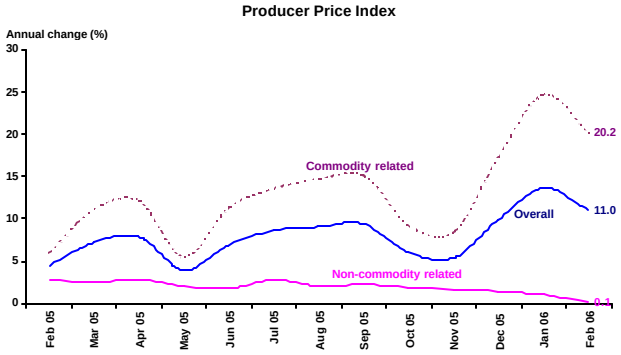
Headline inflation, as measured by the Consumer Price Index (CPI), increased to 4.8% in March (February: 3.2%). The increase mainly reflected the 18% rise in the cost of transportation (8% in February), resulting from the upward revision in retail fuel prices on 28 February 2006. The increase was also in part the result of a higher weight being assigned to the transport category in the revised CPI basket (effective from January 2006, the Department of Statistics has revised the CPI base reference period. Please refer to the box article below for more details). Meanwhile, the CPI for clothing and footwear, and communication categories continued to decline.



Inflation increased to 4.8% in March

Growth in producer prices moderated in February

The annual growth of the Producer Price Index (PPI) moderated to 11% in February (January: 13.7%). The moderation in the PPI was due mainly to the slower growth in the commodity-related category, largely on account of the slower increase in crude oil prices. Excluding the commodity-related category, the PPI also registered a slower growth of 0.1% (January: 1%) primarily due to the decline in the prices of food and live animals.



PPI growth moderated in February

Revision and Rebasing of the Consumer Price Index (Base Year 2005 = 100)

The Consumer Price Index (CPI) is revised with effect from January 2006, in line with the international recommendation to revise the weighting pattern at least once every five years. The revision ensures that the CPI continues to accurately reflect the current expenditure pattern of households in Malaysia, and thus provides a reliable and relevant indicator of domestic consumer price inflation.

The base year for the new CPI series is 2005. The types and specifications of the goods and services in the CPI basket, as well as their quantities, are kept constant at the base period to ensure that any changes in the index reflect solely price changes over time.

The recent revision to the CPI involved the introduction of a new classification structure, namely the "Classification of Individual Consumption according to Purpose" (COICOP), which is the international standard classification of individual consumption expenditure. The new CPI basket contains 12 broad divisions and these divisions are progressively sub-classified into three further levels of disaggregation. For the recent revision, the composition and weightage of the CPI basket were derived from the results of the Household Expenditure Survey (HES) conducted between June 2004 and May 2005. Prices of 460 items are used in the computation of the new CPI, and these are obtained from about 20,000 retail outlets in Peninsula Malaysia, 2,200 outlets in Sabah and 2,400 outlets in Sarawak.

Table 1 shows the new divisions and weighting pattern for the 2005-based CPI vis-à-vis the former 2000-based CPI. While food products continue to account for the highest percentage of household expenditure, its weightage has fallen slightly to 30% (from 33%). Meanwhile, the combined weightage of transport and communication has increased to 21% from 18.8% previously. Reflecting the increased importance of services in consumer expenditure, the share of services items in the CPI expanded further to account for nearly half of the total CPI basket.

The Department of Statistics, Malaysia has published the average indices for the three years series from 2003 to 2005 (refer table VI.12 for historical CPI), using the COICOP structure to facilitate comparison of price changes over time.

Comparison of 2000 and 2005 Expenditure Weights Used in the Consumer Price Index, Malaysia

	Weights (%)		
	Previous CPI (2000=100) (a)	New CPI (2005=100) (b)	Difference between (a) and (b)
Food and Non-Alcoholic Beverages	34.9	31.4	-3.5
Food	33.0	30.0	-3.0
Food at home	23.3	19.6	-3.7
Rice, bread and other cereals	5.5	4.6	-0.9
Meat	3.3	2.9	-0.4
Fish and seafood	4.9	4.5	-0.4
Milk, cheese and eggs	2.1	1.8	-0.3
Oils and fats	0.8	0.6	-0.2
Fruits	2.0	1.4	-0.6
Vegetables	3.0	2.3	-0.7
Sugar, jam, honey, choc. & confectionery	0.9	0.7	-0.2
Food products and not elsewhere classified	0.8	0.8	0.0
Food away from home	9.7	10.4	0.7
Coffee, tea, cocoa and non-alcoholic beverages	1.9	1.4	-0.5
Alcoholic Beverages and Tobacco	2.0	1.9	-0.1
Clothing and Footwear	3.4	3.1	-0.3
Housing, Water, Electricity, Gas and Other Fuels	22.4	21.4	-1.0
Furnishings, Household Equipment and Routine Household Maintenance	5.1	4.3	-0.8
Health	1.7	1.4	-0.3
Transport	13.9	15.9	2.0
Communication	3.6	5.1	1.5
Recreation Services and Culture	4.3	4.6	0.3
Education	1.9	1.9	0.0
Restaurants and Hotels	1.9	3.0	1.1
Miscellaneous Goods and Services	4.9	6.0	1.1
ALL ITEMS	**100.0**	**100.0**	
Durable goods	9.4	7.8	-1.6
Semi-durable goods	5.4	4.0	-1.4
Non-durable goods	40.2	38.4	-1.8
Services	45.0	49.8	4.8

Source: Department of Statistics, Malaysia

Sustained growth in bank lending supported expansion in M3

M3 or broad money, expanded at an annual rate of 6.2% in March (February: 7.8%). In terms of determinants, higher loans extended to the private sector, expansionary external operations and the drawdown of deposits by a non-bank financial institution from Bank Negara Malaysia were expansionary on money supply. These factors, however, were partly offset by the lower net claims on the Government, as the Government deposited with Bank Negara Malaysia its receipts from dividends and the issuance of Malaysian Government Securities.

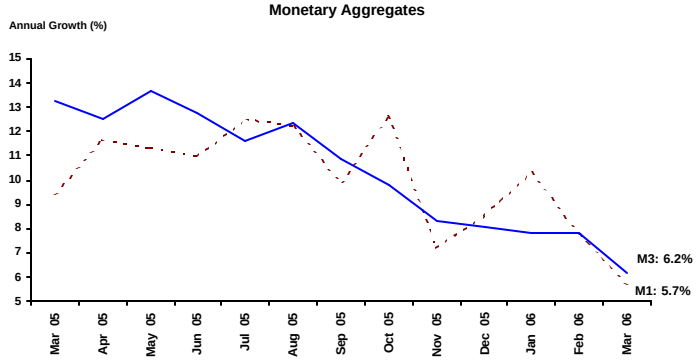
Meanwhile, M1 or narrow money, representing transactional balances, expanded at an annual rate of 5.7% (February: 7.7%). Demand deposits were lower, reflecting withdrawals by the business sector, and to a lesser extent, lower currency held by the private sector during the period following the end of the festive seasons.

M3 Determinants
(RM billion)

	Change during period			
	2004	**2005**	**Feb 06**	**Mar 06**
M3	68.0	49.7	6.0	4.6
Net claims on Government	-15.9	-5.5	4.5	-5.3
Claims on the private sector	30.6	45.3	1.8	2.0
Loans	39.8	*45.0*	*2.8*	*2.9*
Securities	-9.2	*0.3*	*-1.0*	*-0.9*
Net external operations *	82.0	16.5	9.9	1.9
Other influences	-28.7	-6.7	-10.3	6.1

* Pre-revaluation of the international reserves

Monetary Aggregates



Banking system deposits continued to increase in March

In March, total deposits with the banking system continued to increase, rising by RM8.7 billion or at an annual rate of 9.5% (February: +RM13.1 billion or +11.3%). The increase was driven mainly by higher deposit placements from financial institutions, statutory authorities and individuals. The increase in deposit placements of financial institutions reflected mainly interbank placements, and to a lesser extent, deposits by non-bank financial institutions.

Deposits by Holder
(RM million)

	Change during period			
	Dec 05	**Jan 06**	**Feb 06**	**Mar 06**
Federal Government	358	2,408	-3,262	469
State Governments	-223	-259	897	568
Statutory Authorities [1]	-62	416	554	1,264
Financial Institutions	11,682	-5,216	5,651	6,090
Business Enterprises	6,345	-1,646	6,131	-1,114
Individuals	2,346	3,052	3,120	1,238
Others [2]	-449	11	-3	146
Total	19,998	-1,234	13,089	8,661

1/ Include local Governments

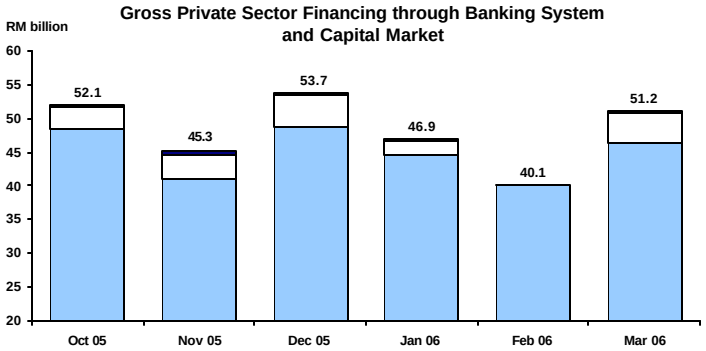
2/ Include domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

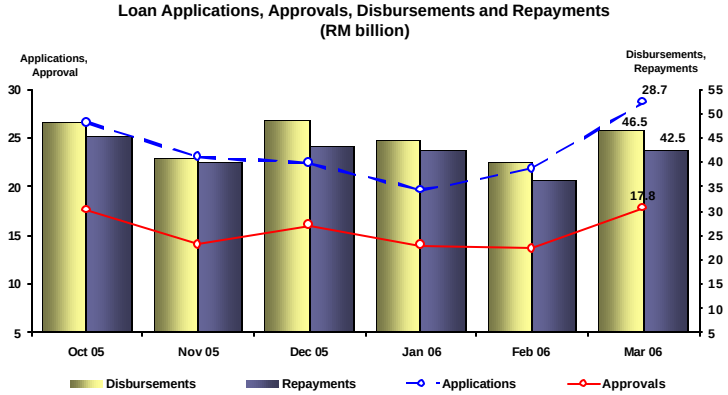
	Change during period			
	Dec 05	**Jan 06**	**Feb 06**	**Mar 06**
Fixed deposits	-1,092	-4,603	-2,835	7,272
NIDs	6,857	40	7,082	2,452
Demand deposits	2,748	3,271	-1,126	-3,687
Savings deposits	762	1,052	562	-324
Repos	7,211	-4,242	9,744	2,582
FX deposits	-286	-521	1,474	-268
SPI deposits	4,557	3,531	-2,300	113
Others	-759	237	487	521
Total	19,998	-1,234	13,089	8,661

Higher private sector financing

In March, gross financing to the private sector from the banking system and the capital market was higher, amounting to RM51.2 billion (February: RM40.1 billion). After the lower levels recorded in January and February, gross financing increased considerably, amid higher banking system loan disbursements and higher funds raised in the capital market. 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% (February: 9.5%).



Gross private sector financing increased considerably in March



Loan applications, approvals and disbursements higher on a monthly basis…

Bank lending indicators

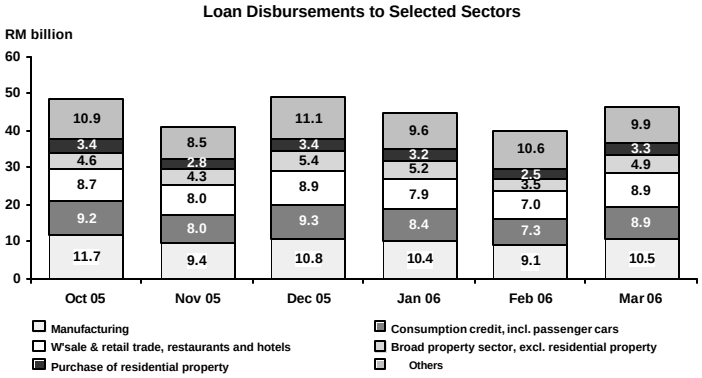
	RM billion		Annual Growth (%)	
	February	March	February	March
Overall				
Loan applications	21.9	28.7	18.1	0.3
Loan approvals	13.7	17.8	16.8	4.3
Loan disbursements	40.0	46.5	9.7	-2.7
Chg in Loans Outstanding [1/]	4.0	2.2	9.2	8.4
Businesses				
Loan applications	10.8	15.9	13.8	0.7
Loan approvals	6.0	8.9	20.6	6.2
Loan disbursements	25.9	31.7	5.4	-5.4
Chg in Loans Outstanding [1/]	-0.2	-0.9	4.4	2.7
SMEs				
Loan applications	3.2	4.8	-13.3	n.a. [2/]
Loan approvals	1.8	3.3	-23.4	n.a.
Loan disbursements	8.2	11.6	8.5	n.a.
Chg in Loans Outstanding [1/]	-0.2	6.0	8.3	n.a.
Households				
Loan applications	9.1	12.4	5.3	-1.8
Loan approvals	5.9	8.4	-7.8	-1.7
Loan disbursements	10.4	12.9	2.5	5.1
Chg in Loans Outstanding [1/]	2.4	2.9	14.4	14.5

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

[2/] Beginning March 2006, growth data is not available as financial institutions are in the process of adopting the Standard SME Definitions, as approved by the National SME Development Council.

n.a. Not applicable

…across business and household sectors



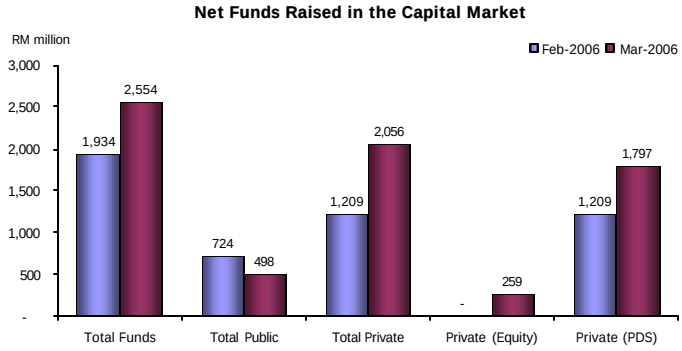
Higher loans disbursed across all major sectors

Major bank lending indicators recorded higher levels on a month-on-month basis. On an annual basis, loan applications and approvals by businesses continued to expand. Meanwhile, loan disbursements were lower by 2.7% on an annual basis, with higher loans disbursed to households offset by lower loans disbursed to businesses. It should be noted that the lower annual growth figures for loan disbursements and applications were largely due to the base effect, as loan disbursements and applications rose strongly in March 2005.

Loans outstanding increased at an annual rate of 8.4% at end-March (end-February: 9.2%). Loans outstanding to households increased at an annual rate of 14.5% (end-February: 14.4%), while loans outstanding to businesses expanded at an annual rate of 2.7%.

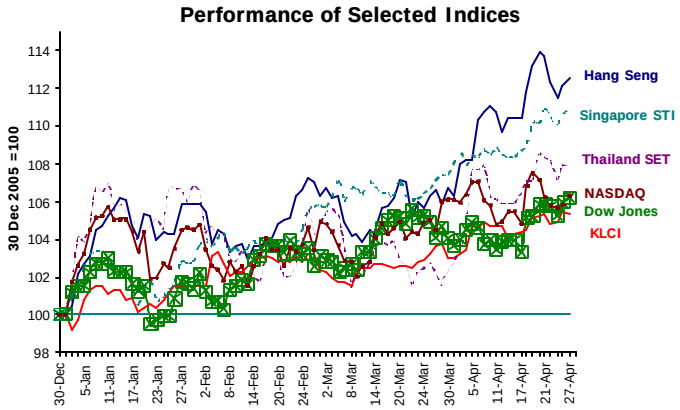
Higher net funds raised in the capital market

Net funds raised in the capital market were higher in March, totalling RM2.6 billion, with the private sector contributing most of the increase. The private debt securities market mobilised higher net funds of RM1.8 billion, mainly by companies in the services and construction sectors for the financing of new activity (88% of total issuance). In the equity market, RM259 million was raised through five initial public offerings (IPOs). In the public sector, Government issued 10-year MGS with a total amount of RM2.7 billion. After adjusting for redemption (mainly redemption of Khazanah Bonds), the net funds raised by the public sector amounted to RM498 million.



Performance of the KLCI improved in April

As at end-March, the KLCI closed marginally lower at 926.63 (since end-February: -0.2%). Market capitalisation on the other hand, increased to RM732.9 billion (since end-February: +0.8%) while daily average turnover during the month dropped to 797.95 million units (February: 905.2 million units).

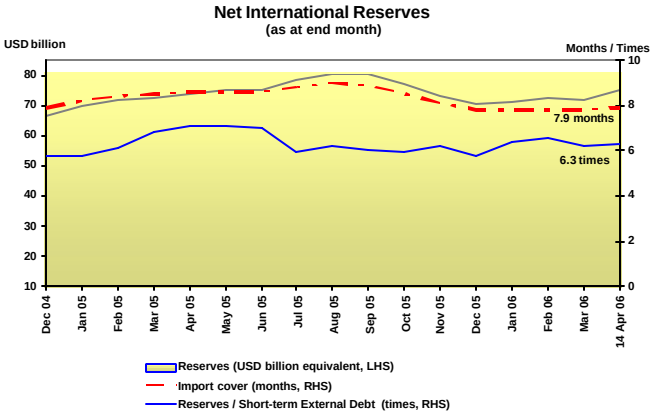


KLCI performance strengthened

In April, stronger investors' interests led the KLCI to end higher on 27 April at 947.61 (since end-March: +2.3%) with an increased market capitalisation of RM743 billion (since end-March: +1.4%). Trading activity increased significantly with daily average turnover at 1,231.4 million units.

International reserves

The international reserves of Bank Negara Malaysia amounted to RM271.6 billion or USD73.7 billion as at 31 March 2006. The reserves level has taken into account the quarterly adjustment for the foreign exchange revaluation loss, following the strengthening of ringgit against the major currencies. The reserves increased further to RM275.9 billion or USD74.9 billion as at 14 April 2006. The reserves position is sufficient to finance 7.9 months of retained imports and is 6.3 times the short-term external debt.



Banking system remained sound and resilient

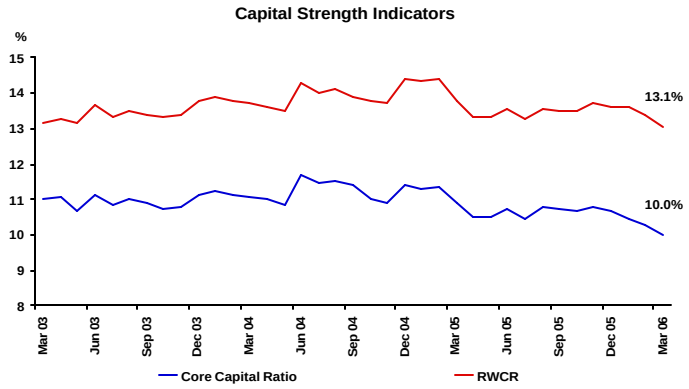
The capitalisation level of the banking system remained high with a slight improvement in the non-performing loan (NPL) level. As at end-March 2006, the risk-weighted capital ratio (RWCR) and core capital ratio were at 13.1% and 10% respectively, declining marginally from the preceding month on account of profit distribution to shareholders. The improvement in the level of NPLs resulted from higher write-offs, as well as higher recoveries and reclassifications to performing status. Net NPLs based on the 6-month classification improved to RM24.4 billion, accounting for 4.5% of total net loans.

Banking System Health Indicators *

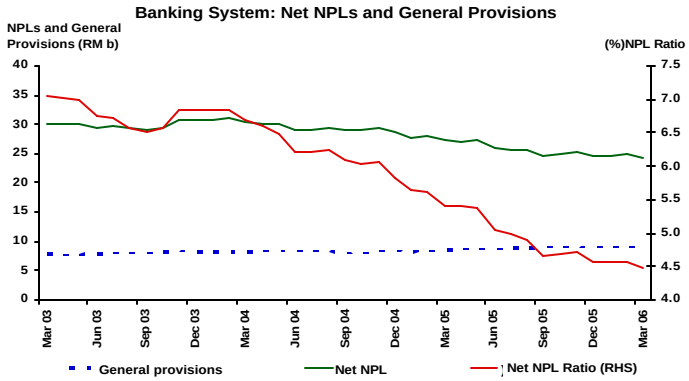
	As at end-									
	1999	2000	2001	2002	2003	2004	Dec 05	Jan 06	Feb 06	Mar 06
Capital (%)										
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.4	10.7	10.5	10.3	10.0
RWCR	12.5	12.5	13.0	13.2	13.8	14.4	13.6	13.6	13.4	13.1
Net NPLs (6-month classification)										
% of net total loans	6.4	6.3	8.1	7.5	6.8	5.8	4.6	4.6	4.6	4.5
Amount (RM million)	23,849	24,700	32,833	31,702	30,766	28,590	24,545	24,651	24,834	24,385
GP / Net total loans (6-month, %)	1.9	1.9	1.9	1.8	1.8	1.7	1.7	1.7	1.7	1.7

* Beginning June 1999, the figures include Islamic banks.

* Beginning April 2005, RWCR and CCR include market risk factor



Capitalisation level of the banking system remained high…



…whilst NPL level improved slightly

Bank Negara Malaysia
28 April 2006

Key Monetary and Financial Statistics

		Jan 06		Feb 06		Mar 06	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		60.5	13.4	54.8	5.6	54.1	6.9
M1		132.0	10.3	127.0	7.7	122.3	5.7
M2		630.3	16.7	635.7	17.5	636.6	15.2
M3		673.3	7.9	679.3	7.8	683.9	6.2
Banking System							
Total deposits		691.4	10.1	704.5	11.3	713.1	9.5
Total loans (including loans sold to Cagamas)		560.1	9.0	564.1	9.2	566.3	8.4
Loan-deposit ratio (%)		77.5		76.4		76.0	
Financing-deposit ratio [1] (%)		86.2		85.2		84.6	
Loans applied (during the period)		19.7	-7.7	21.9	18.1	28.7	0.3
Loans approved (during the period)		14.0	0.7	13.7	16.8	17.8	4.3
Loans disbursed (during the period)		44.6	5.2	40.0	9.7	46.5	-2.7
Loans repaid (during the period)		42.6	-1.5	36.5	8.7	42.5	3.4
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.6		13.4		13.1	
Net NPLs: 6-month classification (%)		4.6		4.6		4.5	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		269.3		272.7		271.6	
Net Reserves in USD billion (equivalent)		71.3		72.2		73.7	
Months of retained imports		7.8		7.8		7.9	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.00		3.00		3.25	
Interbank:	Overnight	2.99 [3.00]		3.23 [3.04]		3.25 [3.25]	
	1-week	3.05 [3.05]		3.23 [3.07]		3.28 [3.28]	
	1-month	3.14 [3.14]		3.15 [3.14]		3.25 [3.33]	
	3-month	3.22 [3.21]		-		-	
Fixed deposits of commercial banks:	1-month	3.01		3.02		3.03	
	3-month	3.03		3.04		3.06	
BLR of commercial banks		6.21		6.34		6.47	
ALR of commercial banks		6.15		6.29		6.29	
Prices							
Consumer Price Index (CPI) (2005=100)		101.8	3.2	101.9	3.2	103.4	4.8
Producer Price Index (PPI) (1989=100)		168.8	13.7	170.3	11.0	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.7510		3.7135		3.6860	
Euro		4.5813		4.4055		4.4829	
Pound Sterling		6.6811		6.4643		6.4337	
100 Japanese yen		3.2264		3.1907		3.1397	
Singapore dollar		2.3092		2.2857		2.2778	
100 Thai Baht		9.6241		9.4407		9.4914	
100 Philippine Peso		7.1512		7.1793		7.2077	
100 Indonesian Rupiah		0.0400		0.0402		0.0407	
100 Korean Won		0.3862		0.3827		0.3781	
Capital Market							
Net funds raised (in RMb) by:	public	1.3		0.7		0.5	
	private	2.0		1.2		2.1	
Bursa Malaysia Composite Index (end-period)		914.0		928.9		926.6	
Bursa Malaysia Market Capitalisation (RMb, end-period)		713.2		726.9		732.9	

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