BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 02/06/09

EMBARGO: Not for publication or broadcast before 1800 hours on Wednesday, 22 February 2006

Monetary and Financial Developments January 2006
Highlights of the Press Release

Sustained growth in financing to the private sector

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The banking system remained sound with strong capitalisation levels, and asset quality remaining stable. The risk-weighted capital ratio (RWCR) improved to 13.6%, while the net non-performing loans (NPL) ratio, based on the 6-month classification, remained at 4.6%.

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MONETARY AND FINANCIAL DEVELOPMENTS JANUARY 2006

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Net funds raised through the private debt securities (PDS) market moderated in January 2006. Despite the lower net funds raised, there was active issuance of PDS, with a total of 16 corporations raising gross funds amounting to RM2.2 billion, and Cagamas Berhad raising RM1 billion.

During the period 3 January – 21 February 2006, the daily weighted average overnight interbank rate moved within a narrow range of 2.98% - 3.01%, averaging at 3%. Interbank rates for other maturities were also relatively stable. In terms of retail rates, the average lending rate (ALR) for commercial banks increased slightly to 6.15%.

In early 2006, the ringgit appreciated against the major currencies, but depreciated against most regional currencies. However, the trend reversed in February, and the ringgit appreciated against most regional currencies.

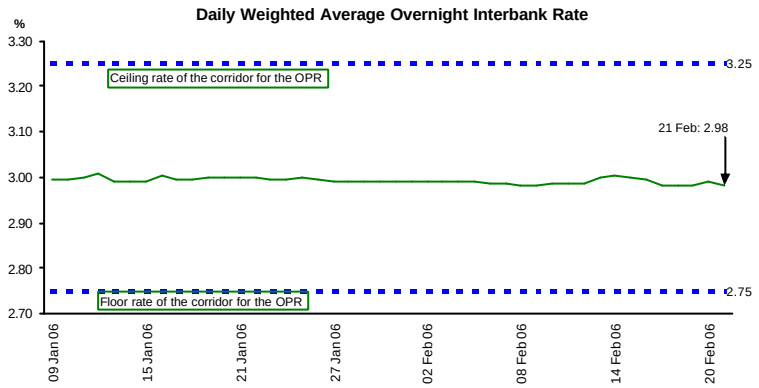
The Consumer Price Index (CPI) has been rebased to year 2005 from 2000 previously, following the revision of the CPI basket. This revision takes place once every five years to reflect the current consumption pattern of households. Using the 2005-based CPI, headline inflation was 3.2% in January 2006 compared with 3.3% in December 2005 (the CPI for December 2005 has also been revised based on the new CPI basket).

Broad money, or M3, expanded at a slightly slower annual rate of 7.8%, while narrow money, or M1, grew by 10.3%. The higher M1 growth was mainly due to the increase in demand for currency in the lead up to the festive season.

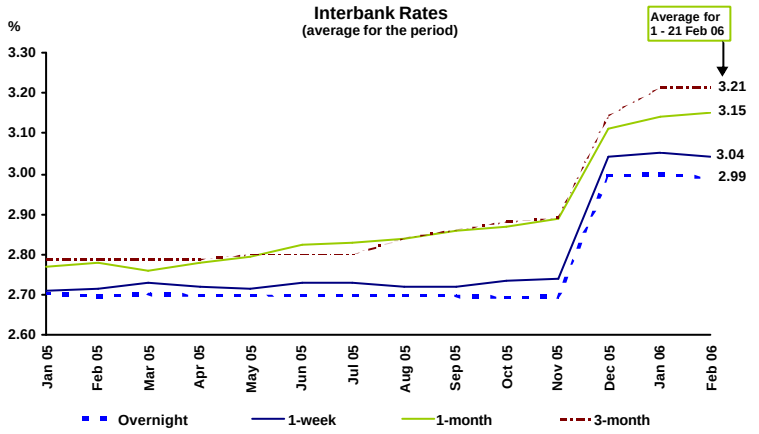
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Interest rates remained relatively stable in January

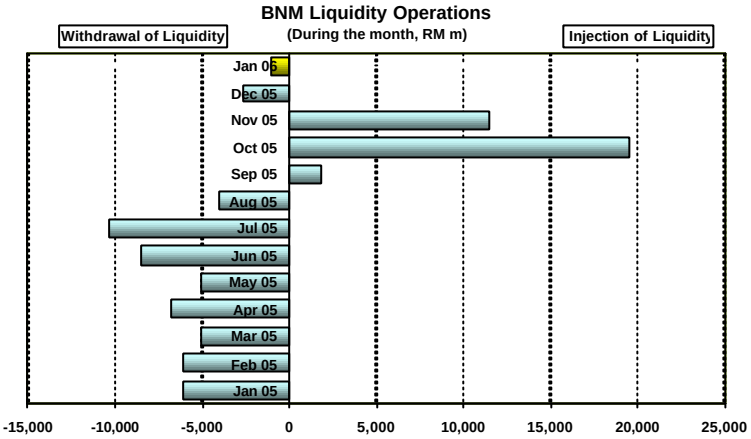
During the period 3 January – 21 February 2006, the daily weighted average overnight interbank rate moved within a narrow range of 2.98% - 3.01%, averaging 3%. Interbank rates for other maturities were also relatively stable. As at end-January, the average BLR for commercial banks (CBs) was relatively unchanged at 6.21% (end-December 2005: 6.20%). The average lending rate (ALR) for CBs increased slightly to 6.15% (end-December 2005: 6.12%).



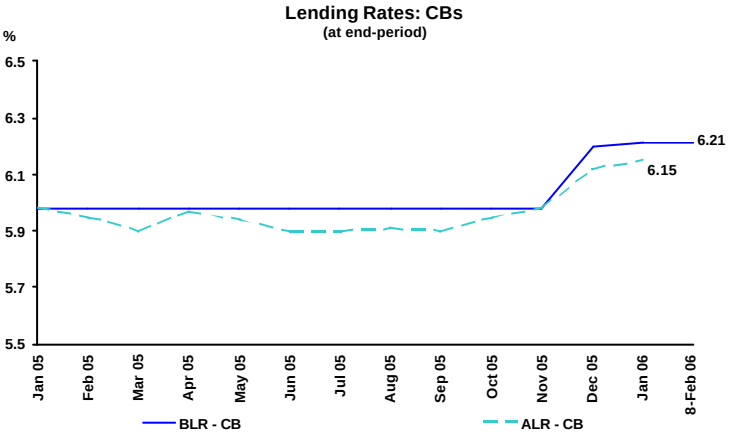
The average overnight interbank rate remained stable



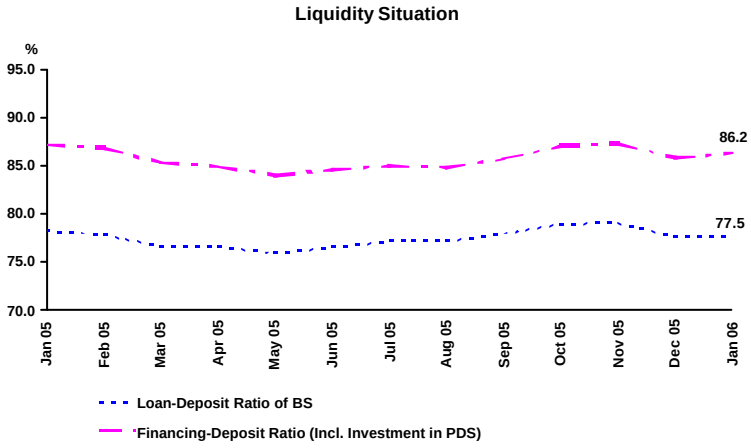
Interbank rates for other maturities were also stable



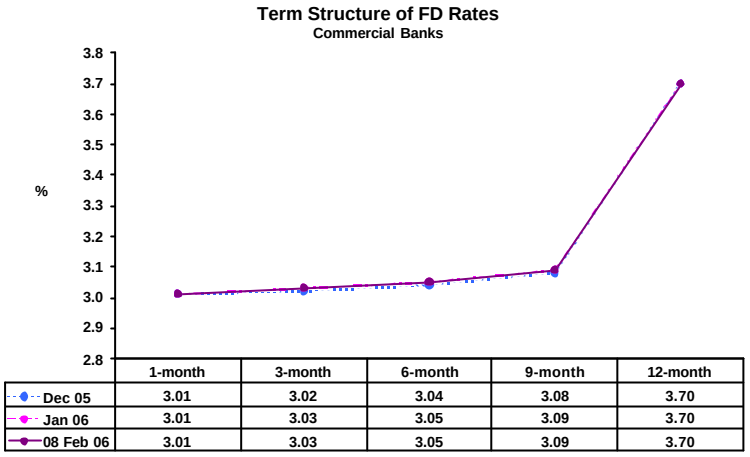
BNM absorbed the excess liquidity from the banking system



The average BLR of CBs remained relatively unchanged

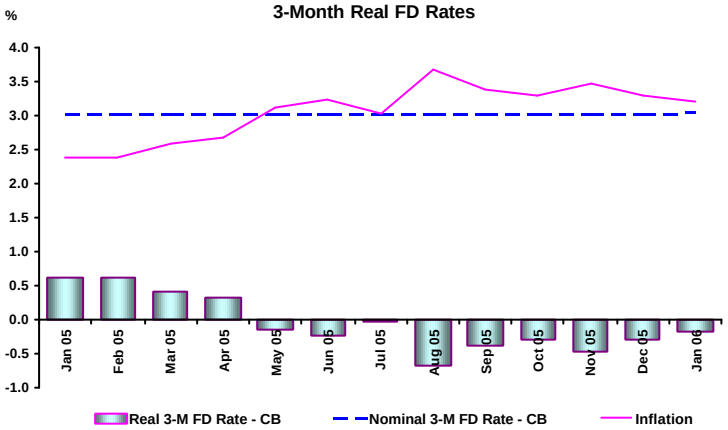


Both loan-deposit and financing-deposit ratios were relatively stable in January



	1-month	3-month	6-month	9-month	12-month
Dec 05	3.01	3.02	3.04	3.08	3.70
Jan 06	3.01	3.03	3.05	3.09	3.70
08 Feb 06	3.01	3.03	3.05	3.09	3.70

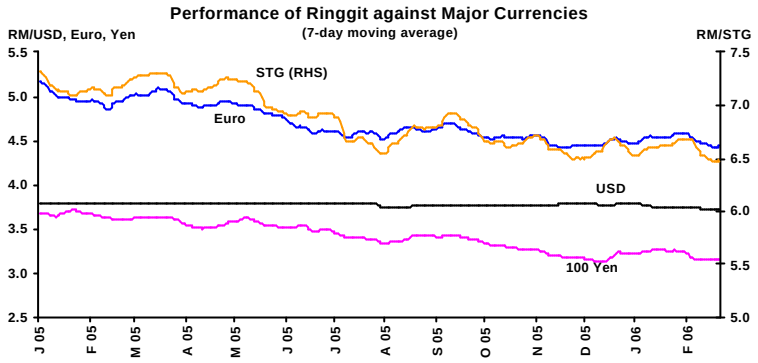
FD rates of CBs remained relatively unchanged

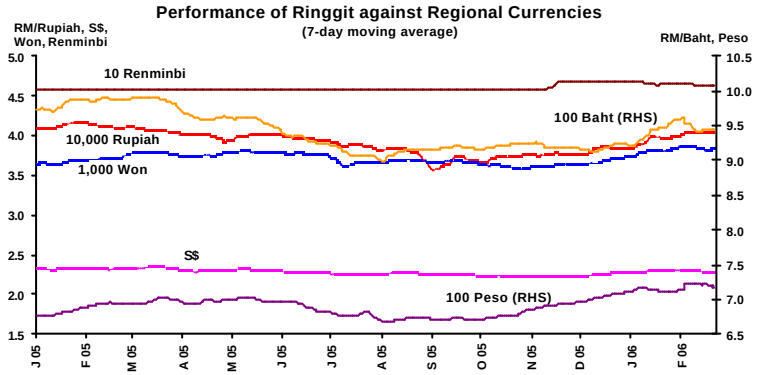


The 3-month real FD rate was negative in January

Performance of the ringgit

In early 2006, the ringgit appreciated against the major currencies, but depreciated against most regional currencies. The ringgit strengthened against the US dollar amidst a strong current account performance and renewed capital inflows. Together with other regional currencies, the ringgit was also influenced by developments in the G3 currencies. The US dollar weakened in global foreign exchange markets due to market perception that the scope for further increases in the Fed Funds rate had become increasingly limited. The euro also depreciated amidst expectations that the monetary policy tightening in the euro area would continue to lag behind that of the US. During this period the ringgit depreciated against most regional currencies. However, in February, this trend reversed. In February, the ringgit appreciated against most regional currencies in the range of 0.5 – 2.0%.





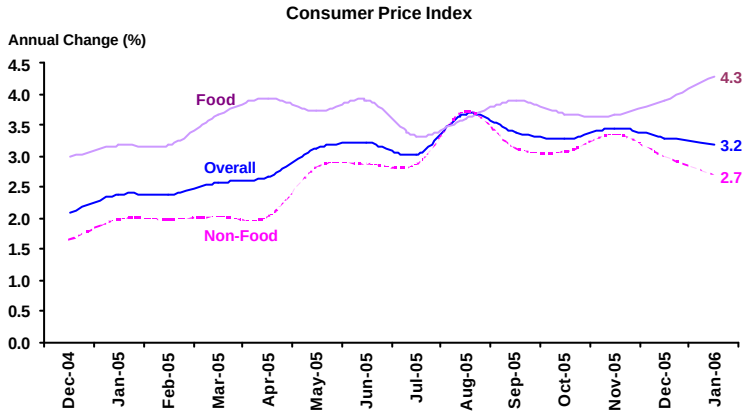
Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% change	
	Dec. 04	Dec. 05	Jan. 06	21 Feb. 2006	End Dec. 04 - 21 Feb. 2006	End Dec. 05 - 21 Feb. 2006
US dollar	3.8000	3.7800	3.7510	3.7208	2.1	1.6
Euro	5.1729	4.4867	4.5813	4.4381	16.6	1.1
Pound Sterling	7.3169	6.5226	6.6811	6.4855	12.8	0.6
100 Japanese yen	3.7026	3.2229	3.2264	3.1392	17.9	2.7
Singapore dollar	2.3258	2.2714	2.3092	2.2826	1.9	-0.5
100 Thai baht	9.7636	9.2049	9.6241	9.4375	3.5	-2.5
100 Philippine peso	6.7706	7.1254	7.1512	7.1580	-5.4	-0.5
100 Indonesian Rupiah	0.0408	0.0385	0.0400	0.0402	1.6	-4.4
100 Korean won	0.3671	0.3739	0.3862	0.3844	-4.5	-2.7
Chinese renminbi	0.4591	0.4686	0.4654	0.4624	-0.7	1.3

Inflation at 3.2% in January

The Consumer Price Index (CPI) has been rebased to year 2005 from 2000 previously, following the revision of the CPI basket. This revision takes place once every five years to reflect the current consumption pattern of households. Using the 2005-based CPI, headline inflation was 3.2% in January 2006 compared with 3.3% in December 2005 (the CPI for December 2005 has also been revised based on the new CPI basket).

The inflation recorded during the month reflected lower prices in the clothing and footwear, and communication categories. The more moderate increase in transportation prices was caused partly by the lapse in the 10% upward adjustment to toll charges that was implemented in January 2005. Meanwhile, prices of food and non-alcoholic beverages increased at a stronger rate due mainly to the increase in the prices of food taken at home.

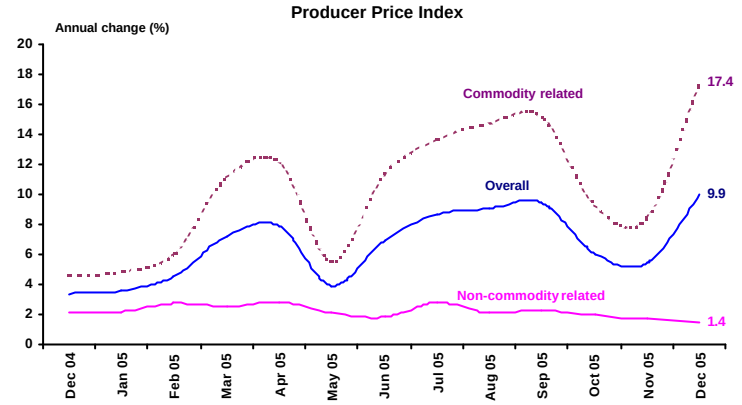


Inflation was 3.2% in January

**Effective from January 2006, the base reference period for the CPI series is year 2005 = 100.*

Producer prices increased in December

The Producer Price Index (PPI) increased at an annual rate of 9.9% in December (November: 5.4%). The increase in the PPI was due mainly to the stronger growth in the commodity-related category, mainly on account of the significant rise in crude oil prices. Excluding the commodity-related category, however, the PPI registered a slower growth of 1.4% (November: 1.6%) due mainly to the slower growth in the manufactured goods category.



PPI inflation moderated

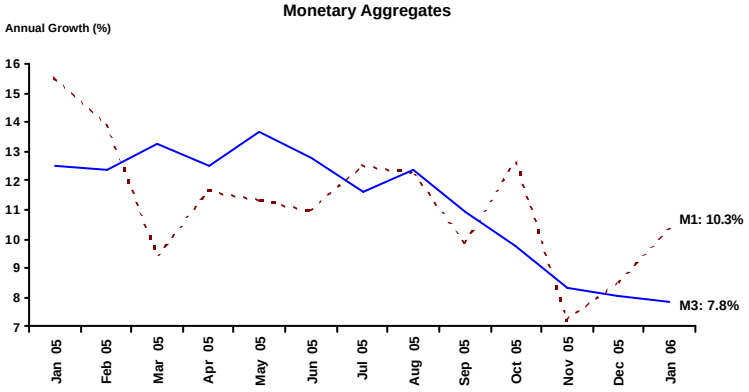
Broad money expanded at a slightly slower growth rate

M1 or narrow money, representing transaction balances, increased at an annual growth rate of 10.3% in January (December: 8.5%). This was due mainly to the increase in demand for currency in the lead up to the festive season. Broad money, M3, meanwhile, expanded at a slightly slower annual rate of 7.8% (December: 8%). On a monthly basis, both net claims on the Government and net external operations were expansionary on M3. Claims on the private sector had a negligible impact on M3, as loans extended by the banking system were offset by a reduction in holdings of securities by the banking institutions.

M3 Determinants
(RM billion)

	Change during period			
	2004	**2005**	**Dec 05**	**Jan 06**
M3	68.0	49.7	12.3	5.8
Net claims on Government	-15.9	-5.5	7.0	3.6
Claims on the private sector	30.6	45.4	6.5	0.1
Loans	39.8	*45.0*	*3.9*	*1.3*
Securities	-9.2	*0.4*	*2.5*	*-1.2*
Net external operations *	82.0	16.5	-4.6	2.0
Other influences	-28.7	-6.8	3.4	0.1

* Pre-revaluation of the international reserves



Total deposits with the banking system were lower in January

After a significant increase in December, total deposits with the banking system declined by RM1.2 billion in January (December: +RM20 billion), although on an annual basis, the amount mobilised was higher by 10.1% (December: +11%). During the month, the rise in deposits of individuals and the Federal Government was offset by the decline in the deposits of financial institutions, and to a lesser extent, domestic business enterprises and state governments. The lower deposits by financial institutions reflected mainly a decline in interbank placements, in part, due to a decline in interbank deposits with a finance company, which was absorbed by its parent commercial bank during the month.

Deposits by Holder
(RM million)

	Change during period			
	Oct 05	**Nov 05**	**Dec 05**	**Jan 06**
Federal Government	-756	-317	358	2,408
State Governments	34	-44	-223	-259
Statutory Authorities [1]	-960	1,056	-62	416
Financial Institutions	-7,213	70	11,682	-5,049
Business Enterprises	1,236	-287	6,345	-1,779
Individuals	1,680	870	2,346	3,052
Others [2]	543	-279	-449	-23
Total	-5,437	1,069	19,998	-1,234

1/ Include local Governments

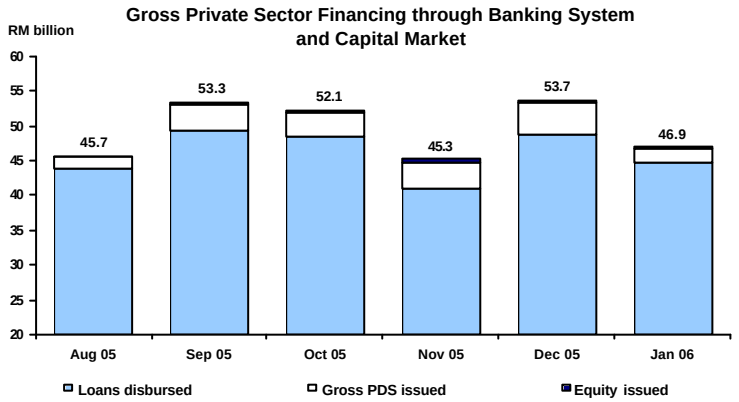
2/ Include domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

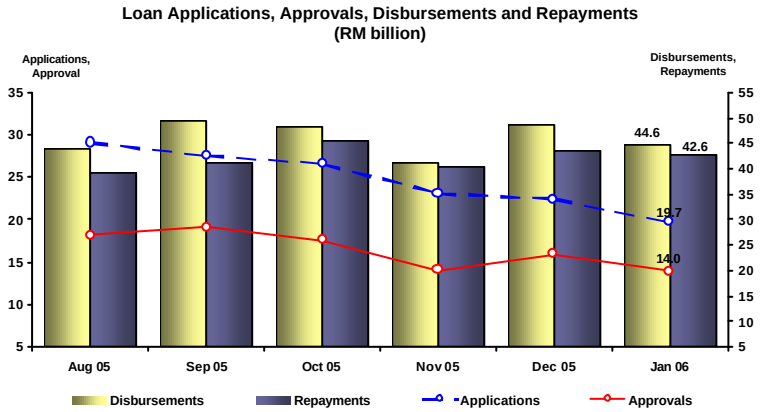
	Change during period			
	Oct 05	**Nov 05**	**Dec 05**	**Jan 06**
Fixed deposits	-3,177	-1,820	-1,092	-4,603
NIDs	-8,103	-1,145	6,857	40
Demand deposits	1,220	-310	2,748	3,271
Savings deposits	199	87	762	1,052
Repos	3,185	1,082	7,211	-4,242
FX deposits	665	1,454	-286	-521
SPI deposits	-13	1,393	4,557	3,531
Others	587	327	-759	237
Total	-5,437	1,069	19,998	-1,234

Financing to the private sector

In January, gross financing to the private sector from the banking system and the capital market amounted to RM46.9 billion, expanding at an annual rate of 3.9% (December: RM53.7 billion; 3.9%). After the relatively higher level recorded in the previous month, gross financing moderated in January, amid lower banking system loan disbursements and raising of funds in the capital market due to the fewer working days during the month. On a net basis, financing of the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 9.5% (December: 9.3%).



Gross private sector financing amounted to RM46.9 billion



Loan applications, approvals and disbursements moderated slightly

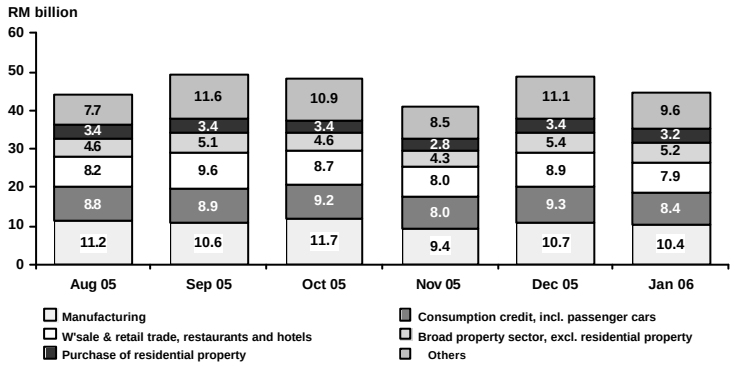
Bank lending indicators

	RM billion		Annual Growth (%)	
	2005	2006	2005	2006
	December	January	December	January
Overall				
Loan applications	22.4	19.7	1.0	-7.7
Loan approvals	16.0	14.0	6.7	0.7
Loan disbursements	48.8	44.6	-0.2	5.2
Chg in Loans Outstanding [1/]	5.4	2.0	8.6	9.0
Businesses				
Loan applications	10.8	9.6	-6.7	-13.4
Loan approvals	8.1	6.5	4.3	-2.5
Loan disbursements	33.5	30.7	-3.7	6.5
Chg in Loans Outstanding [1/]	0.8	0.5	3.0	4.8
SMEs				
Loan applications	4.2	2.9	-8.6	-25.4
Loan approvals	2.5	2.3	-21.8	-4.0
Loan disbursements	10.1	9.2	-2.9	4.6
Chg in Loans Outstanding [1/]	0.4	-0.6	8.7	9.0
Households				
Loan applications	11.5	9.9	14.5	0.9
Loan approvals	7.8	7.3	9.5	6.1
Loan disbursements	13.2	12.0	9.5	4.5
Chg in Loans Outstanding [1/]	3.5	3.0	15.1	14.5

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

Loan disbursements remained high

Loan Disbursements to Selected Sectors



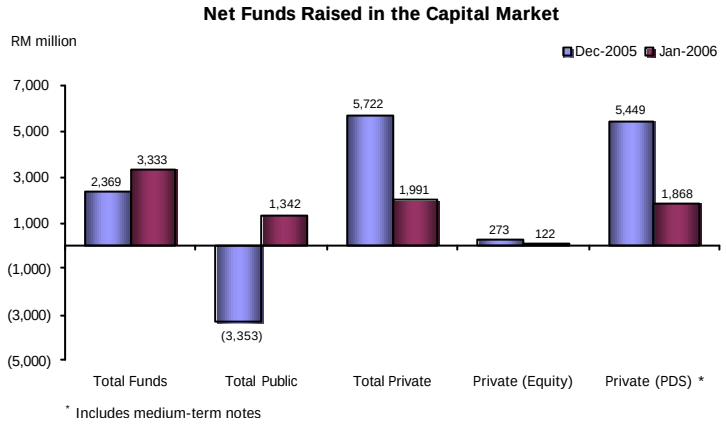
Loan disbursements remained broad-based

Loan applications, approvals and disbursements were lower in both the business and household sectors. On an annual basis, however, loan approvals continued to increase, while loan disbursements turned around to register positive growth, with higher loans disbursed to both large businesses and SMEs.

Loans outstanding rose by RM2 billion, expanding further by 9% on an annual basis in January (December: +RM5.4 billion; 8.6%). Loans outstanding to businesses expanded by 4.8% (December: 3%), with loans outstanding to SMEs increasing by 9% (December: 8.7%). Meanwhile, growth in loans outstanding to households increased by 14.5% (December: 15.1%).

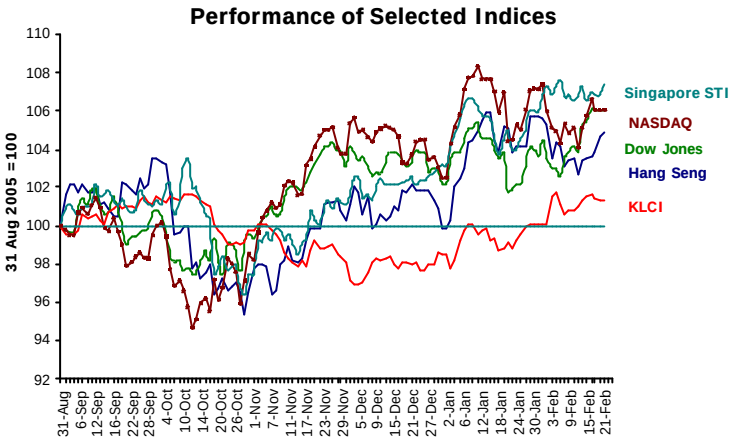
Higher fund raising activity in the capital market

On a net basis, a higher amount of RM3.3 billion was sourced from the capital market in January (December: RM2.4 billion). Financing from issuance of private debt securities (PDS) remained active, despite the lower net funds raised. A total of 16 corporations (December: 13) raised gross funds of RM2.2 billion, while Cagamas Berhad raised another RM1 billion. The bulk of the funds raised through the PDS market were for financing new activity and for refinancing. The Federal Government reopened a 3-year Malaysian Government Securities in January. Financing activity through the equity market recorded a lower amount of RM122.4 million.



Performance of the KLCI continued to improve

Sentiment in the local market was uplifted with expectations of better economic performance and favourable domestic corporate developments. As at end-January, the KLCI closed higher at 914.01 (since end-December 2005: +1.6%) with market capitalisation increasing to RM713.2 billion (since end-December: +2.6%). The daily average turnover during the month improved significantly to 630.1 million units (December: 278.3 million units).

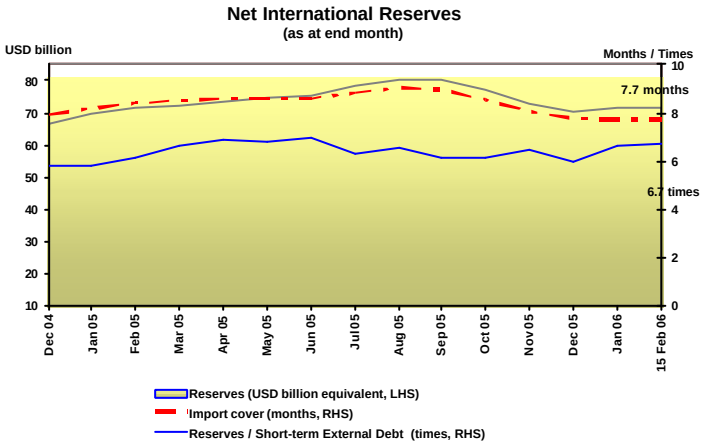


Positive sentiment uplifted performance of the market

As at 21 February, the KLCI closed higher at 925.67 (since end-January: +1.3%) with higher market capitalisation at RM724.5 billion (since end-January: +1.6%). Trading activity increased substantially with daily average turnover at 1,004.7 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM269.3 billion or equivalent to USD71.3 billion as at 27 January 2006. The reserves increased to RM270.4 billion or equivalent to USD71.6 billion as at 15 February 2006. The reserves position is sufficient to finance 7.7 months of retained imports and is 6.7 times the short-term external debt.



Banking system remained resilient

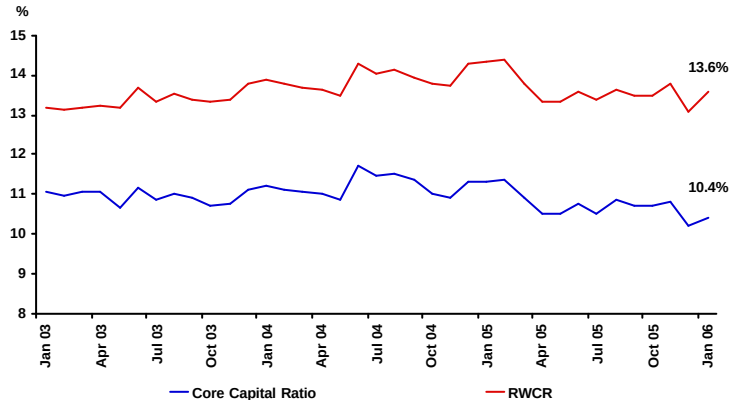
The banking system remained sound with strong capitalisation level, whilst asset quality remained stable. The risk-weighted capital ratio (RWCR) and core capital ratio (CCR) improved to 13.6% and 10.4%, respectively as at end-January 2006. The improved ratios were due mainly to the inclusion of retained profits. The net non-performing loans (NPL) ratio based on the 6-month classification remained at 4.6%, while the net non-performing loans (NPL) ratio based on the 3-month classification increased marginally to 5.9%.

Banking System Health Indicators *

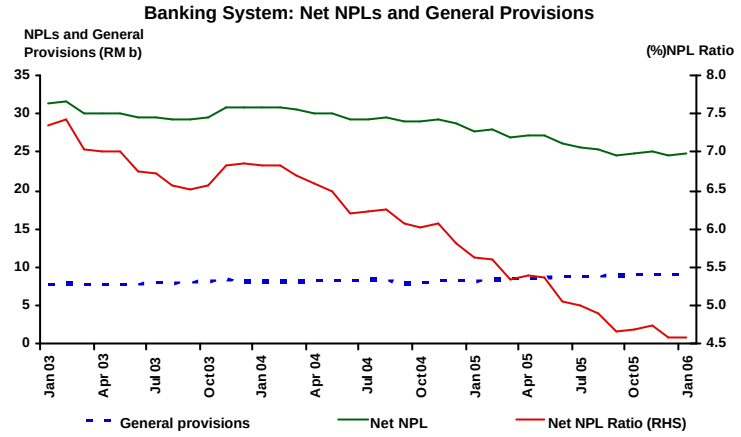
	As at end-									
	1999	2000	2001	2002	2003	2004	Oct 05	Nov 05	Dec 05	Jan 06
Capital (%)										
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.4	10.7	10.8	10.2	10.4
RWCR	12.5	12.5	13.0	13.2	13.8	14.4	13.5	13.8	13.1	13.6
Net NPLs (6-month classification)										
% of net total loans	6.4	6.3	8.1	7.5	6.8	5.8	4.7	4.7	4.6	4.6
Amount (RM million)	23,849	24,700	32,833	31,702	30,766	28,590	24,836	25,138	24,649	24,775
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

Capital Strength Indicators



Capitalisation level remained strong…



…whilst NPL level remained stable

Bank Negara Malaysia

22 February 2006

Key Monetary and Financial Statistics

		Nov 05		Dec 05		Jan 06	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		52.6	7.3	52.6	5.1	60.5	13.4
M1		119.5	7.2	124.0	8.5	132.0	10.3
M2		601.4	15.9	616.2	15.4	629.6	16.6
M3		655.1	8.4	667.3	8.0	673.2	7.8
Banking System							
Total deposits		672.6	10.3	692.6	11.0	691.4	10.1
Total loans (including loans sold to Cagamas)		552.6	9.0	558.1	8.6	560.1	9.0
Loan-deposit ratio (%)		79.0		77.5		77.5	
Financing-deposit ratio [1] (%)		87.3		85.8		86.2	
Loans applied (during the period)		23.1	7.2	22.4	1.0	19.7	-7.7
Loans approved (during the period)		14.0	10.8	16.0	6.7	14.0	0.7
Loans disbursed (during the period)		41.1	1.9	48.8	-0.2	44.6	5.2
Loans repaid (during the period)		40.2	6.6	43.6	3.2	42.6	-1.5
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.8		13.1		13.6	
Net NPLs: 6-month classification (%)		4.7		4.6		4.6	
International Reserves of BNM (end-period)							
Reserves in RM billion		275.3		266.4		269.3	
Reserves in USD billion (equivalent)		73.1		70.5		71.3	
Months of retained imports		8.1		7.8		7.7	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.00		3.00		3.00	
Interbank:	Overnight	2.69 [2.69]		3.00 [3.00]		2.99 [3.00]	
	1-week	2.74 [2.74]		3.06 [3.04]		3.05 [3.05]	
	1-month	2.89 [2.89]		3.12 [3.11]		3.14 [3.14]	
	3-month	2.95 [2.93]		3.20 [3.15]		3.22 [3.21]	
Fixed deposits of commercial banks:	1-month	3.00		3.01		3.01	
	3-month	3.00		3.02		3.03	
BLR of commercial banks		5.98		6.20		6.21	
ALR of commercial banks		5.98		6.12		6.15	
Prices							
Consumer Price Index (CPI) (2000=100)		110.7	3.5	101.5 [2]	3.3	101.8 [3]	3.2
Producer Price Index (PPI) (1989=100)		162.4	5.4	162.7	9.9	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.77825		3.7800		3.7510	
Euro		4.4527		4.4867		4.5813	
Pound Sterling		6.4959		6.5226		6.6811	
100 Japanese yen		3.1628		3.2229		3.2264	
Singapore dollar		2.2329		2.2714		2.3092	
100 Thai Baht		9.1683		9.2049		9.6241	
100 Philippine Peso		6.9793		7.1254		7.1512	
100 Indonesian Rupiah		0.0377		0.0385		0.0400	
100 Korean Won		0.3652		0.3739		0.3862	
Capital Market							
Net funds raised (in RMb) by:	public	…		-3.4		1.3	
	private	2.0		5.7		2.0	
Bursa Malaysia Composite Index (end-period)		896.1		899.8		914.0	
Bursa Malaysia Market Capitalisation (RMb, end-period)		693.0		695.3		713.2	

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

[2] CPI for December 2005 is revised based on the new CPI basket (2005 = 100)

[3] Base reference period is year 2005 = 100