BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 12/06/05

EMBARGO: Not for publication or broadcast before 1830 hours on Thursday, 28 December 2006

Monetary and Financial Developments November 2006
Highlights of the Press Release

- Inflation continued to trend downwards, moderating to 3% in November.

- During the period 1 November - 27 December 2006, the ringgit appreciated against the US dollar and Japanese yen. The ringgit appreciated against all regional currencies in the range of 1.6% - 2.4%. The imposition of regulatory measures by the Bank of Thailand to limit capital inflows, which was announced on 18 December 2006, only had a marginal and temporary impact on the ringgit.

- In November, the KLCI breached the 1,000-point mark to close at 1,080.66 or 9.4% higher compared to end-October. On 19 December, the KLCI declined by 1.96% after the Thai authorities introduced capital controls to curb speculation on the baht. However, the market subsequently recovered with the KLCI closing marginally higher at 1083.22 (since end-November: 0.2%) as at 27 December.

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MONETARY AND FINANCIAL DEVELOPMENTS NOVEMBER 2006

Financing of the private sector through banking system loans and PDS outstanding expanded at a higher combined annual rate of 7.5% in November (October: 7.2%). Total loans outstanding grew by 7.3%, with loans outstanding to businesses and households increasing at annual rates of 4.1% and 10.2% respectively (October: 2.6% and 10.6% respectively).

Gross funds raised through the private debt securities (PDS) market amounted to RM2.3 billion in November, where the bulk of the funds were raised mainly through the issuances of medium-term notes (MTN) which accounted for 81% of total PDS issued during the month.

The average fixed deposit (FD) rates of commercial banks (CBs) remained stable in November and December. In terms of lending rates, the average base lending rate (BLR) remained unchanged at 6.72%, while the average lending rate (ALR) of CBs was relatively stable at 6.59% in November (end-October: 6.56%). Interbank rates for all maturities were relatively stable during the month.

During the period 1 November - 27 December 2006, the ringgit appreciated against the US dollar and Japanese yen. The ringgit appreciated against all regional currencies in the range of 1.6% - 2.4%. The imposition of regulatory measures by the Bank of Thailand to limit capital inflows, which was announced on 18 December 2006, only had a marginal and temporary impact on the ringgit.

Headline inflation, as measured by the Consumer Price Index (CPI), moderated to 3% in November (October: 3.1%). The moderation in headline inflation was attributed mainly to the slower price increases for items in the *transport* and*, furnishing, household equipment and routine* categories. The rate of increase of the Producer Price Index (PPI) edged up to 5.4% in October (September: 3.9%), mainly due to the higher inflation in the *machinery and transport equipment* category.

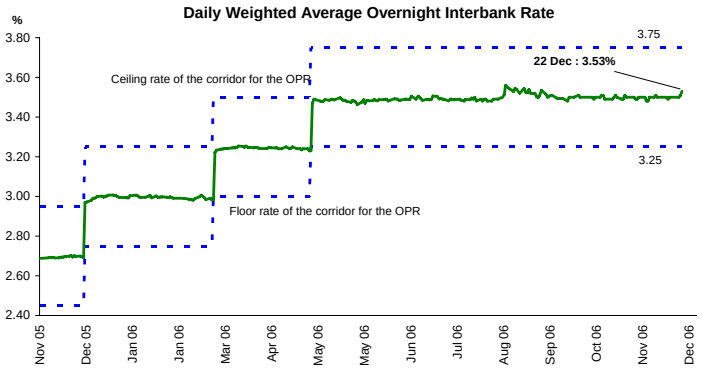
Narrow money, M1, increased at a higher annual rate of 15.2% (October: 9.4%). Broad money, M3, expanded at an annual rate of 11.2% (9.1% in October). Net claims on the Government and net external operations were expansionary on M3 during the month, while the expansionary impact of claims on private sector through higher loans outstanding of the banking system was partly offset by the lower holdings of private debt securities.

The level of capitalisation of the banking system remained high with the risk-weighted capital ratio (RWCR) and core capital ratio at 12.7% and 9.9% respectively. Total capital base declined due to the exclusion of one banking institution following the completion of a merger exercise and the distribution of dividends by another banking institution. Meanwhile, net non-performing loans (NPLs) continued its downward trend to 4.9% of total net loans as at end-November 2006.

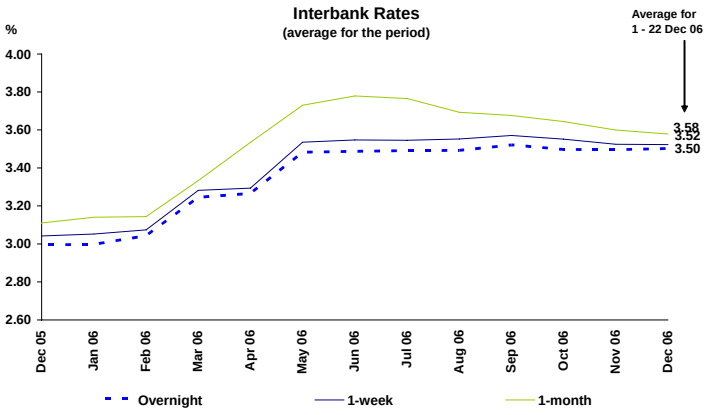
Interest rates remained stable

During the period 1 November – 22 December, the daily weighted average overnight interbank rate moved within a narrow range of 3.48% - 3.53%. Interbank rates of other maturities also remained relatively stable.

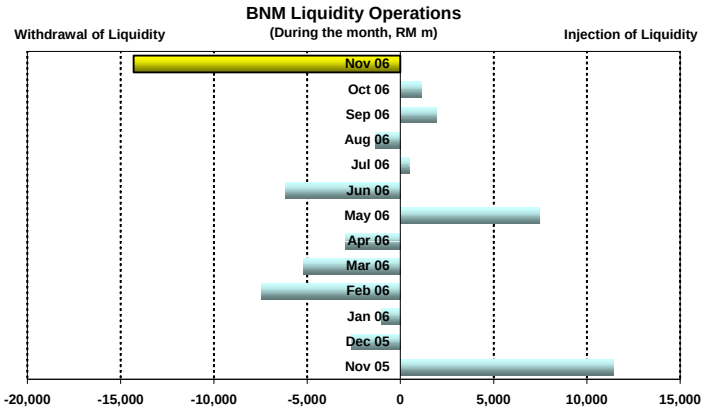
The average fixed deposit (FD) rates of commercial banks (CBs) remained stable in November and December. As at 15 December 2006, the average quoted FD rate of CBs for tenures between 1 and 12 months were stable at 3.11% and 3.73% respectively. In terms of lending rates, the average base lending rate (BLR) of CBs remained unchanged at 6.72% as at 15 December. The average lending rate (ALR) of CBs was relatively stable at 6.59% in November (6.56% in October).



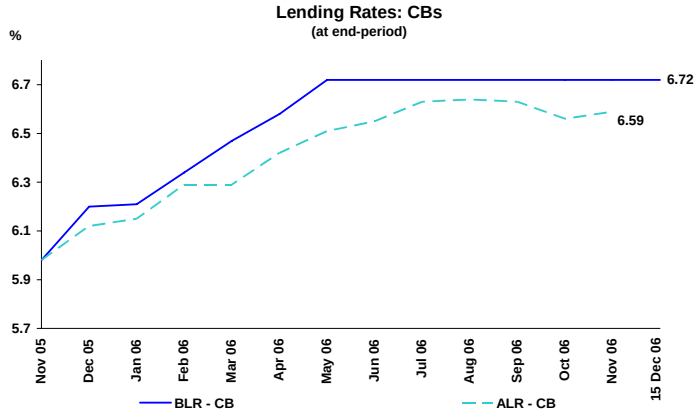
The average overnight interbank rate remained stable in November and December



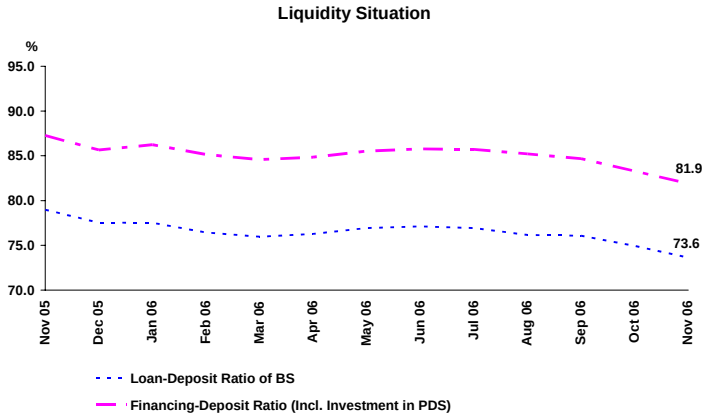
Similarly, other interbank rates were also stable



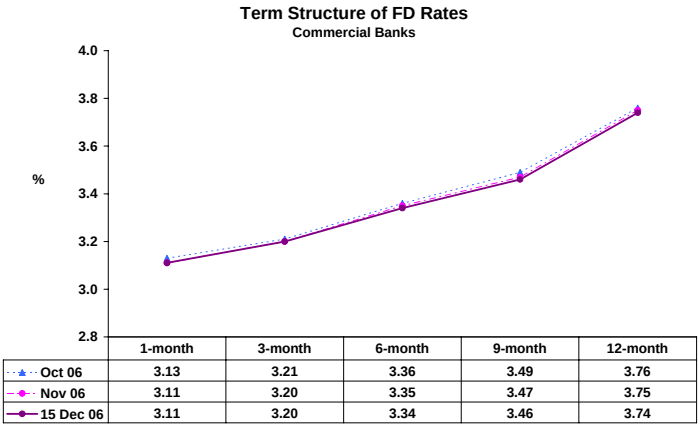
The Central Bank absorbed liquidity from the banking system in November



ALR of CBs was relatively stable

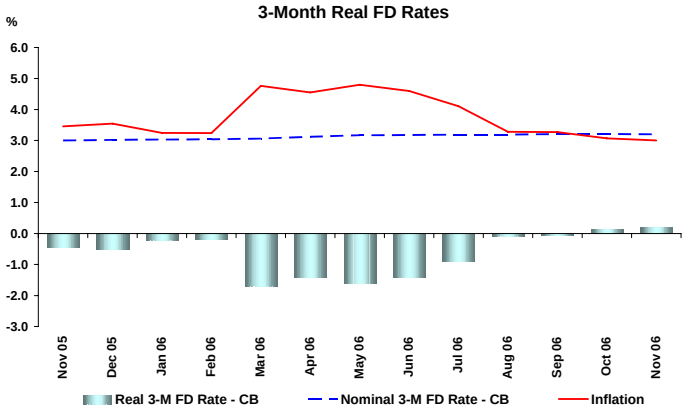


The financing-deposit ratio declined as deposits registered significantly higher growth compared with financing



	1-month	3-month	6-month	9-month	12-month
Oct 06	3.13	3.21	3.36	3.49	3.76
Nov 06	3.11	3.20	3.35	3.47	3.75
15 Dec 06	3.11	3.20	3.34	3.46	3.74

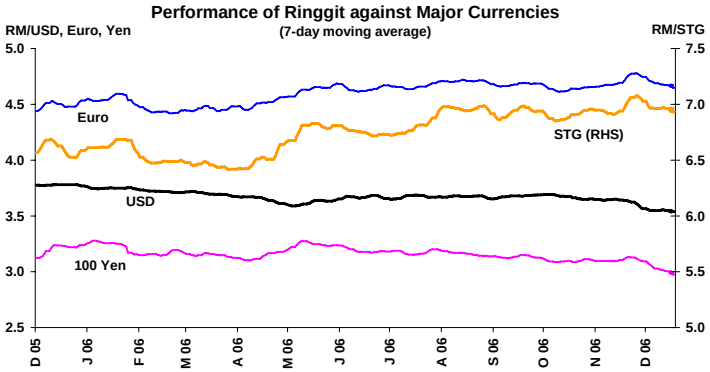
FD rates remained stable

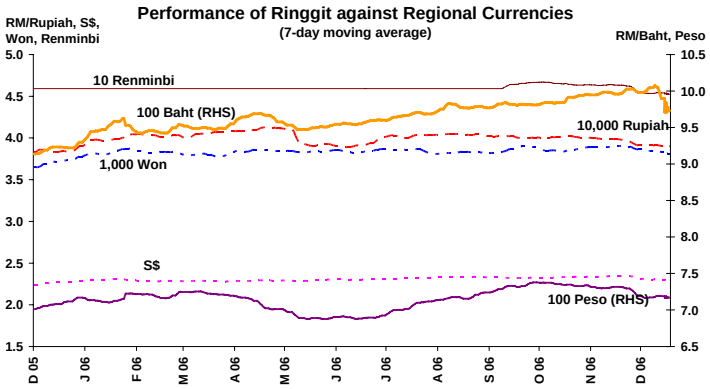


The real 3-m FD edged higher due to lower inflation

Ringgit appreciated against the US dollar

During the period 1 November - 27 December 2006, the ringgit appreciated against the US dollar and Japanese yen. The ringgit, however, depreciated against the euro. The US dollar depreciated amidst some weaker US economic data, which in turn led to expectations for a reduction in the benchmark interest rate, while the euro appreciated as the European Central Bank was anticipated to continue raising its benchmark interest rate. The Japanese yen, meanwhile, weakened on expectations that the benchmark interest rate would not be raised again this year. The ringgit appreciated against all regional currencies in the range of 1.6% - 2.4%. The imposition of regulatory measures by the Bank of Thailand to limit capital inflows, which was announced on 18 December 2006, only had a temporary and marginal impact on the ringgit.



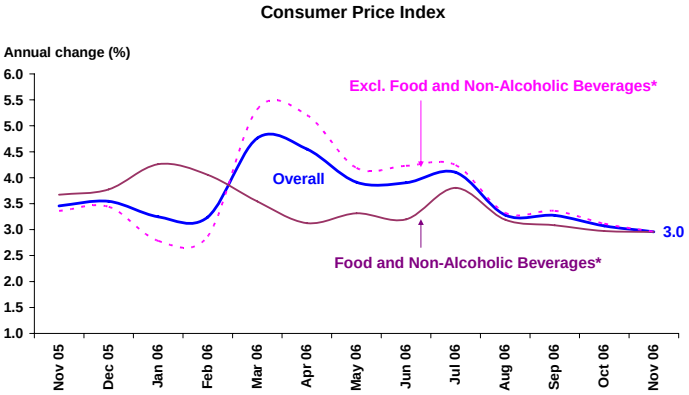


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change	
	Dec 05	Oct 06	Nov 06	27 Dec 06	End Dec 05 - 27 Dec 06	End Oct 06 - 27 Dec 06
US dollar	3.7800	3.6480	3.6180	3.5380	6.8	3.1
Euro	4.4867	4.6382	4.7626	4.6452	-3.4	-0.1
Pound sterling	6.5226	6.9310	7.0473	6.9279	-5.9	0.0
100 Japanese yen	3.2229	3.1035	3.1124	2.9777	8.2	4.2
Singapore dollar	2.2714	2.3352	2.3430	2.2985	-1.2	1.6
100 Thai baht	9.2049	9.9225	10.0347	9.7385	-5.5	1.9
100 Philippine peso	7.1254	7.3121	7.2833	7.1903	-0.9	1.7
100 Indonesian rupiah	0.0385	0.0400	0.0395	0.0391	-1.7	2.4
100 Korean won	0.3739	0.3863	0.3889	0.3802	-1.6	1.6
Chinese renminbi	0.4686	0.4631	0.4614	0.4525	3.6	2.4

Inflation moderated to 3% in November

Headline inflation, as measured by the Consumer Price Index (CPI), moderated to 3% in November (October: 3.1%). The moderation in headline inflation was attributed mainly to the slower price increases for items in the *transport* and*, furnishing, household equipment and routine* categories. Inflation for items in the *food and non-alcoholic beverages* category were relatively stable. In particular, the increase in prices for *food taken at home* during the period was partly offset by the lower prices for *food taken away from home*. Meanwhile, the prices of *clothing and footwear* and *communication charges* continued to decline compared to year ago.

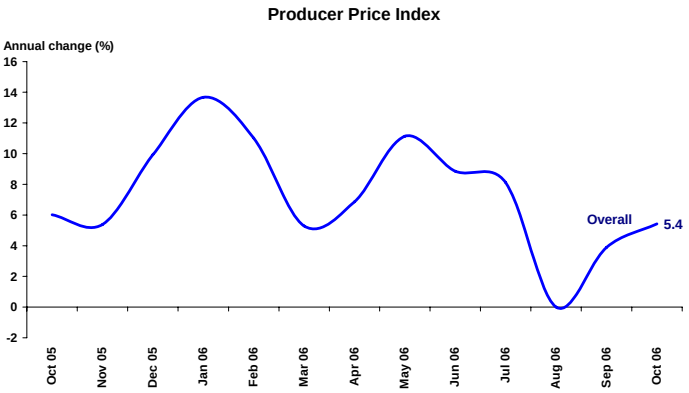


From 2006, the "food" sub-group has been reclassified into "food and non-alcoholic beverages"

Inflation at 3% in November

Growth in producer prices edged up in October

The rate of increase of the Producer Price Index (PPI) edged up to 5.4% in October (September: 3.9%). The increase in the PPI was due mainly to the higher inflation in the *machinery and transport equipment* category.



From August 2006, the PPI has been revised to the new base year of 2000=100, from 1989=100 previously

PPI growth edged up in October

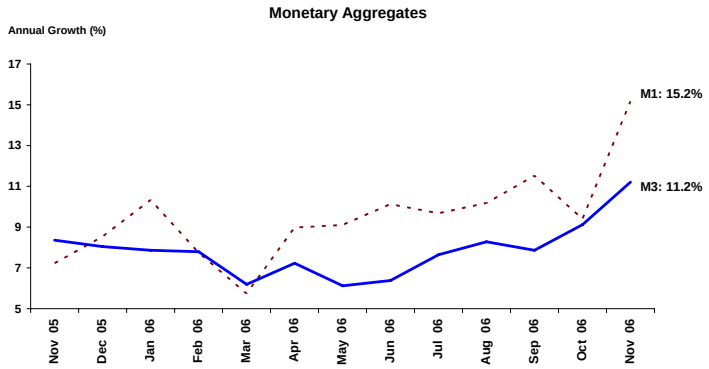
Broad money expanded further in November

In November, narrow money or M1 increased at a higher annual rate of 15.2% (October: 9.4%) on account of higher demand deposits mainly by the non-bank financial institutions. Broad money, M3, expanded at an annual rate of 11.2% (9.1% in October). On a monthly basis, net claims on the Government were expansionary on M3, as the Government withdrew its deposits from Bank Negara Malaysia following net redemptions of Government securities and to finance its outlays. Net external operations were also expansionary, mainly due to the increase in net external assets of the banking system. The expansionary impact of claims on private sector through higher loans outstanding of the banking system was partly offset by the lower holdings of private debt securities.

M3 Determinants
(RM billion)

	Change during period			
	2004	**2005**	**Oct 06**	**Nov 06**
M3	68.0	49.7	8.8	11.5
Net claims on Government	-15.9	-5.5	1.4	7.8
Claims on the private sector	30.6	44.6	-0.4	3.0
Loans	39.8	*45.0*	*-0.1*	*4.1*
Securities	-9.2	*-0.4*	*-0.3*	*-1.1*
Net external operations *	82.7	17.3	8.0	11.5
Other influences	-29.4	-6.7	-0.2	-10.8

* Pre-revaluation of the international reserves



Banking system deposits increased further in November

Total deposits with the banking system increased significantly in the month of November by RM18.8 billion (Oct: RM13.0 billion) or 15.4% (Oct: 12.8%) on an annual basis. Higher deposits were registered by most groups of depositors with notable increases in placements by business enterprises and non-bank financial institutions. Among the business enterprises, the increase in deposits was partly due to the higher repatriation of export proceeds during the month. Following the receipts of payments made by the Government for maturing Government securities, deposits of non-bank financial institutions have also increased. The higher deposits among business enterprises and non-bank financial institutions, to some extent, also reflected the absorption of the deposits from one of the discount houses into the banking system's (commercial banks, Islamic banks and merchant banks) following a merger exercise between a discount house and a merchant bank during the month. By type, the increase was mainly reflected in fixed deposits, repos and SPI deposits.

Deposits by Holder
(RM million)

	Change during period			
	Aug 06	**Sep 06**	**Oct 06**	**Nov 06**
Federal Government	-1,285	1,021	-7	220
State Governments	1,391	-176	214	-218
Statutory Authorities [1]	-105	1,566	-990	1,211
Financial Institutions	766	4,447	3,667	5,543
Business Enterprises	6,477	-4,152	6,765	8,769
Individuals	1,385	1,530	2,825	2,459
Others [2]	6	1,328	538	833
Total	8,636	5,564	13,012	18,818

1/ Include local Governments

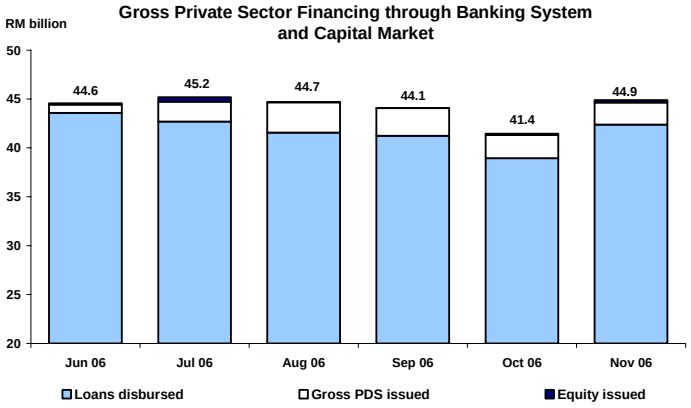
2/ Consist of domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

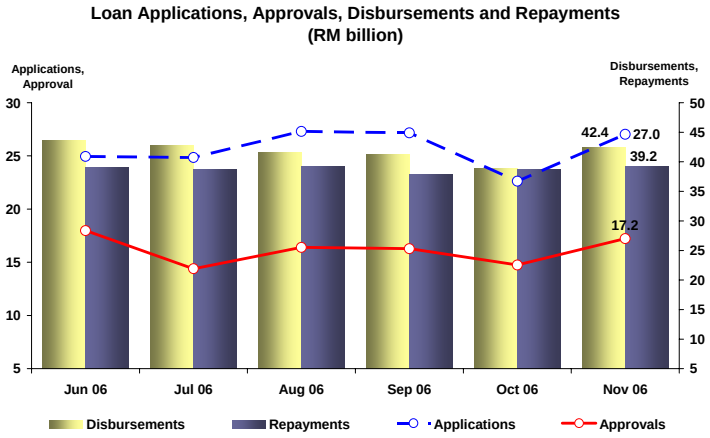
	Change during period			
	Aug 06	**Sep 06**	**Oct 06**	**Nov 06**
Fixed deposits	2,763	3,435	3,371	10,518
NIDs	5,635	4,751	2,457	-6,233
Demand deposits	1,959	-1,015	2,730	1,567
Savings deposits	200	192	635	871
Repos	-3,142	-4,009	-3,022	9,005
FX deposits	952	-1,416	2,803	-292
SPI deposits	-65	2,697	3,602	3,010
Others	334	929	435	373
Total	8,636	5,564	13,012	18,818

Gross private sector financing rose in November

Total gross financing of the private sector through the banking system and the capital market amounted to RM44.9 billion in November (October: RM41.4 billion). On a net basis, financing of the private sector through banking system loans and PDS outstanding expanded at a higher combined annual rate of 7.5% (October: 7.2%).



Gross private sector financing was higher mainly on account of stronger loan disbursements



Major loan indicators were higher on a monthly basis after the seasonally low levels in October

Bank lending indicators

	RM billion		Annual Growth (%)	
	Oct	Nov	Oct	Nov
Overall				
Loan applications	22.6	27.0	-15.0	17.2
Loan approvals	14.7	17.2	-16.3	22.7
Loan disbursements	38.9	42.4	-19.6	3.2
Chg in Loans Outstanding[1/]	-0.1	3.9	6.8	7.3
Businesses[2/]				
Loan applications	11.4	14.6	-9.2	18.5
Loan approvals	7.9	9.6	-1.4	38.3
Loan disbursements	27.1	29.7	-21.6	2.2
Chg in Loans Outstanding[1/]	-1.7	1.7	2.6	4.1
SMEs				
Loan applications	5.9	7.6	n.a.[3/]	n.a.[3/]
Loan approvals	4.1	4.3	n.a.	n.a.
Loan disbursements	10.6	10.0	n.a.	n.a.
Chg in Loans Outstanding[1/]	-0.7	0.3	n.a.	n.a.
Households				
Loan applications	11.2	12.5	-20.2	15.7
Loan approvals	6.9	7.6	-28.7	7.4
Loan disbursements	11.9	12.7	-14.6	5.7
Chg in Loans Outstanding[1/]	2.0	2.2	10.6	10.2

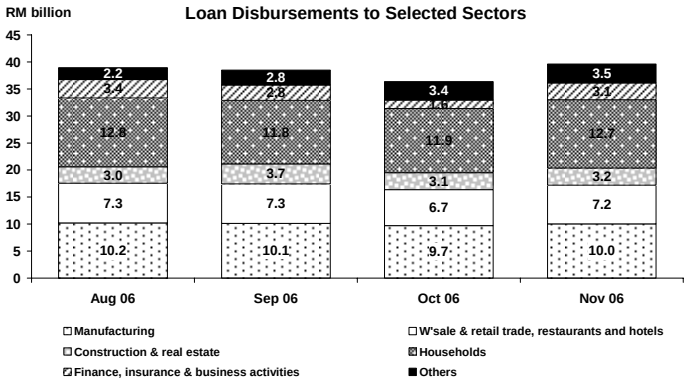
n.a. not applicable

[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, and disbursements, 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.

Expansion in major loan indicators across the business and household sectors



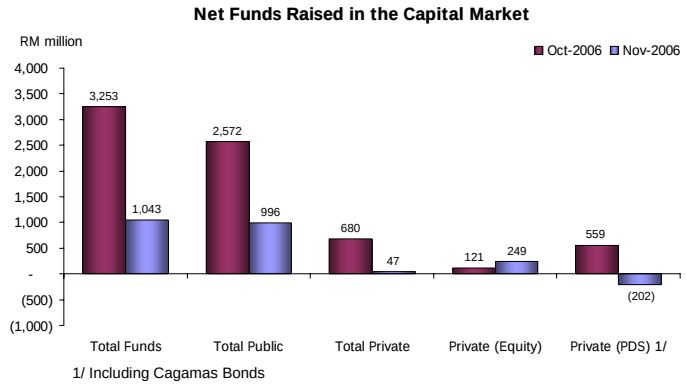
Loan disbursements continued to be broad-based

The major loan indicators were higher on a monthly and annual basis across the business and household sectors. In the household sector, higher loans for the purchase of residential property and consumption credit led to the positive annual growth rates in the major loan indicators.

Total loans outstanding expanded by 7.3% on an annual basis as at end-November (end-October: 6.8%). Loans outstanding to businesses expanded at a faster rate of 4.1% (October: 2.6%) while loans outstanding to the household sector continued to expand steadily at 10.2% (October: 10.6%).

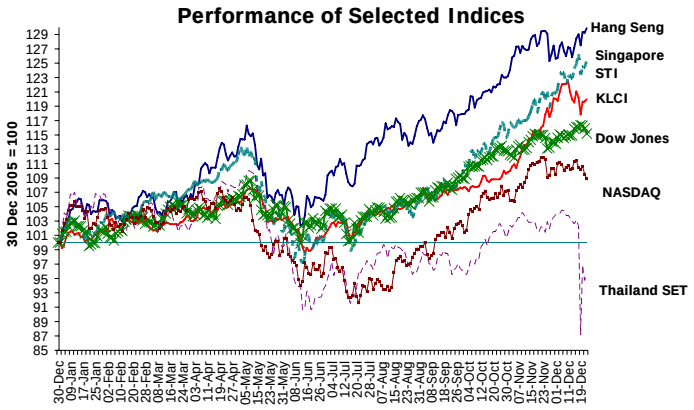
Net funds raised in the capital market

Net funds raised in the capital market were lower in November amounting to RM1.04 billion. The bulk of the funds were raised by the public sector through a new issue of 10-year Government Investment Issue (GII) which amounted to RM3 billion. After adjusting for redemption, the net funds raised by the public sector recorded net funds of RM996 million. In the private sector, the private debt securities (PDS) market recorded gross funds of RM2.3 billion, where the bulk of the funds were raised mainly through the issuances of medium-term notes (MTN) which accounted for 81% of total PDS issued during the month. However, the PDS market recorded a net redemption position of RM202 million due to the redemptions of PDS and Cagamas bonds which amounted to RM2.45 billion. In the equity market, net funds of RM249.5 million were raised through two initial public offerings (IPOs) by companies in the real estate and oil and gas sectors.



The KLCI strengthened further

In November, the KLCI breached the 1,000-point mark to close at 1,080.66 or 9.4% higher compared to end-October. The stronger performance was mainly attributable to stronger corporate earnings announcements and developments in mergers and acquisitions activity. Market capitalisation rose to RM833.2 billion (since end-October: 8.3%), while the daily average turnover increased to 1,059.9 million units (October: 652.7 million units).

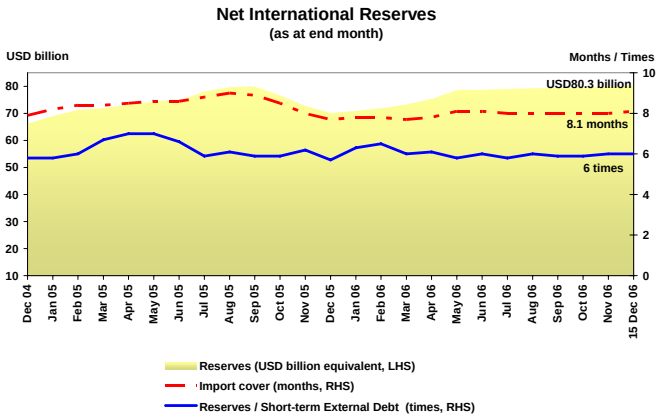


KLCI performance improved further in line with regional markets.

On 19 December, the KLCI declined by 1.96% after the Thai authorities introduced capital controls to curb speculation on the baht. However, the market subsequently recovered with the KLCI closing marginally higher at 1083.22 (since end-November: 0.2%) as at 27 December. Overall market capitalisation was higher at RM836.9 billion (since end-November: 0.5%), while trading activity increased with daily average turnover of 1,081.4 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM294.9 billion or equivalent to USD80 billion as at 30 November 2006. The reserves increased to RM295.9 billion or equivalent to USD80.3 billion as at 15 December 2006. The reserves are sufficient to finance 8.1 months of retained imports and are 6 times the short-term external debt.



Capitalisation remained high as level of non-performing loans improved

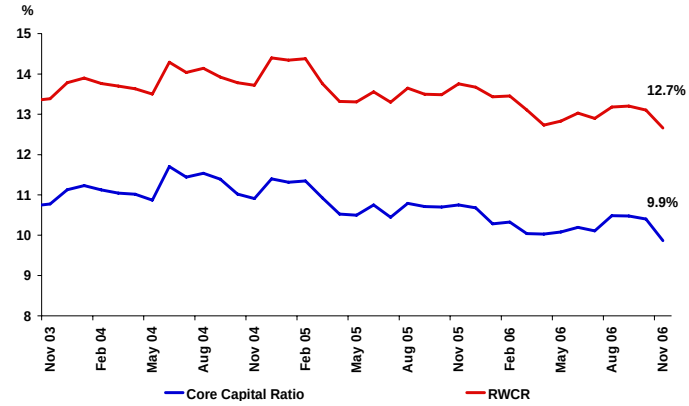
The level of capitalisation of the banking system remained high with the risk-weighted capital ratio (RWCR) and core capital ratio at 12.7% and 9.9% respectively. Total capital base declined due to the exclusion of one banking institution following the completion of a merger exercise and the distribution of dividends by another banking institution. Meanwhile, net non-performing loans (NPLs) continued its downward trend to 4.9% of total net loans as at end-November 2006.

Banking System Health Indicators *

	As at end-									
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**Sep 06**	**Oct 06**	**Nov 06**
Capital (%)										
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.4	10.7	10.5	10.4	9.9
RWCR	12.5	12.5	13.0	13.2	13.8	14.4	13.7	13.2	13.1	12.7
Net NPLs (3-month classification)										
% of net total loans	11.0	9.7	11.5	10.2	8.9	7.5	5.8	5.1	5.1	4.9
Amount (RM million)	40,631	37,678	46,254	43,110	40,013	36,668	31,332	28,557	28,666	28,173
GP / Net total loans (3-month, %)	2.2	2.2	2.1	2.1	2.0	1.9	1.8	1.7	1.7	1.7

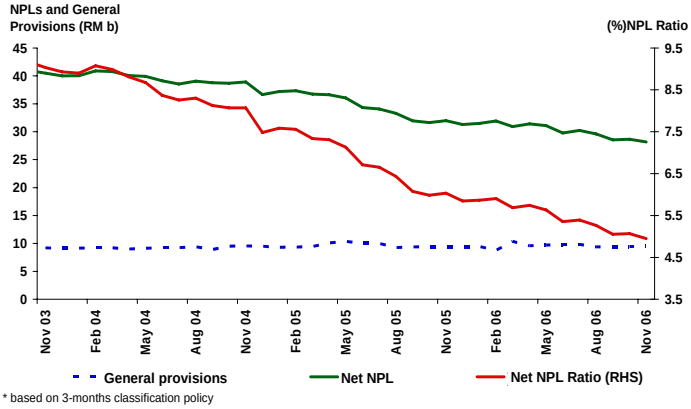
* Beginning June 1999, the figures include Islamic banks.
* Beginning April 2005, RWCR and CCR include market risk factor

Capital Strength Indicators



Level of banking system capitalisation remained high albeit recording a decline…

Banking System: Net NPLs and General Provisions



* based on 3-months classification policy

…amidst improving NPL levels

Bank Negara Malaysia
28 December 2006

Key Monetary and Financial Statistics

		Sep 06		Oct 06		Nov 06	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		55.0	5.6	56.8	2.3	54.2	3.2
M1		131.6	11.5	134.7	9.4	137.6	15.2
M2		673.5	12.2	681.7	13.2	694.3	15.5
M3		708.2	7.9	717.0	9.1	728.5	11.2
Banking System							
Total deposits		744.6	10.0	757.6	12.8	776.4	15.4
Total loans (including loans sold to Cagamas)		589.0	7.5	588.9	6.8	592.8	7.3
Loan-deposit ratio (%)		76.1		74.9		73.6	
Financing-deposit ratio [1] (%)		84.7		83.3		81.9	
Loans applied (during the period)		27.2	-1.3	22.6	-15.0	27.0	17.2
Loans approved (during the period)		16.3	-13.0	14.7	-16.3	17.2	22.7
Loans disbursed (during the period)		41.3	-16.2	38.9	-19.6	42.4	3.2
Loans repaid (during the period)		37.9	-7.6	38.7	-14.9	39.2	-2.4
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.2		13.1		12.7	
Net NPLs: 3-month classification (%)		5.1		5.1		4.9	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		293.1		293.4		294.9	
Net Reserves in USD billion (equivalent)		79.5		79.6		80.0	
Months of retained imports		8.1		8.1		8.2	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.50		3.50		3.50	
Interbank:	Overnight	3.51 [3.52]		3.51 [3.50]		3.48 [3.50]	
	1-week	3.57 [3.57]		3.60 [3.55]		3.54 [3.52]	
	1-month	3.68 [3.68]		3.63 [3.64]		3.59 [3.60]	
Fixed deposits of commercial banks:	1-month	3.13		3.13		3.11	
	3-month	3.21		3.21		3.20	
BLR of commercial banks		6.72		6.72		6.72	
ALR of commercial banks		6.63		6.56		6.59	
Prices							
Consumer Price Index (CPI) (2005=100)		104.1	3.3	104.1	3.1	104.4	3.0
Producer Price Index (PPI) (2000=100)		128.1	3.9	128.3	5.4	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.6845		3.6480		3.6180	
Euro		4.6821		4.6382		4.7626	
Pound Sterling		6.9171		6.9310		7.0473	
100 Japanese yen		3.1279		3.1035		3.1124	
Singapore dollar		2.3221		2.3352		2.3430	
100 Thai Baht		9.8109		9.9225		10.0347	
100 Philippine Peso		7.3477		7.3121		7.2833	
100 Indonesian Rupiah		0.0399		0.0400		0.0395	
100 Korean Won		0.3901		0.3863		0.3889	
Capital Market							
Net funds raised (in RMb) by:	public	1.8		2.6		1.0	
	private	0.4		0.7		…	
Bursa Malaysia Composite Index (end-period)		967.6		988.3		1,080.7	
Bursa Malaysia Market Capitalisation (RMb, end-period)		745.5		769.1		833.2	

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