BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 05/06/09

EMBARGO: Not for publication or broadcast before 1800 hours on Wednesday, 31 May 2006

Monetary and Financial Developments April 2006
Highlights of the Press Release

Sustained growth in financing to the private sector

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Capitalisation of the banking system was sustained at high levels amidst asset quality improvements. As at end-April 2006, the risk-weighted capital ratio (RWCR) declined marginally to 12.7%, while the net non-performing loan (NPL) ratio, based on the 6-month classification, improved further to 4.4%.

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MONETARY AND FINANCIAL DEVELOPMENTS APRIL 2006

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Growth in private sector financing was sustained in April, with banking system loans and PDS outstanding expanding at a combined annual rate of 9.8%. Banking system loans outstanding increased at an annual rate of 8.9% at end-April. Loans outstanding to businesses expanded at a stronger annual rate of 5.8%, reflecting sustained business capacity expansion, while household loans increased at an annual rate of 13.9%.

A total of RM2.7 billion was raised through the private debt securities (PDS) market in April, mainly by companies in the finance and utilities (water-related companies) sectors. The funds raised were mainly for the financing of new activities (47.5% of total) and mergers and acquisitions (25.7%).

Following the increase in the Overnight Policy Rate (OPR) to 3.5% on 26 April, the daily weighted average overnight interbank rate moved within a narrow range of 3.46% - 3.50% during the period 27 April – 29 May. Interbank rates of other maturities remained stable at their new levels. As at 15 May, both lending rates and deposit rates were also higher. The average base lending rate (BLR) of commercial banks (CBs) increased to 6.72%, while the average quoted fixed deposit (FD) rates

of CBs for the 1-month to 12-month maturities increased to between 3.11% and 3.73%. In particular, the average FD rates for the 6-month and 9-month maturities increased to 3.31% and 3.43% respectively (end-March: 3.11% and 3.16% respectively).

In the period 1 April - 30 May 2006, the ringgit appreciated against the US dollar, reflecting both the strong current account performance and capital inflows. Against regional currencies, the ringgit recorded a mixed performance. The ringgit appreciated against the Philippine peso, Indonesian rupiah, Chinese renminbi and Thai baht in the range of 0.1% - 4.8%, but depreciated against the Korean won (1.1%) and Singapore dollar (0.7%).

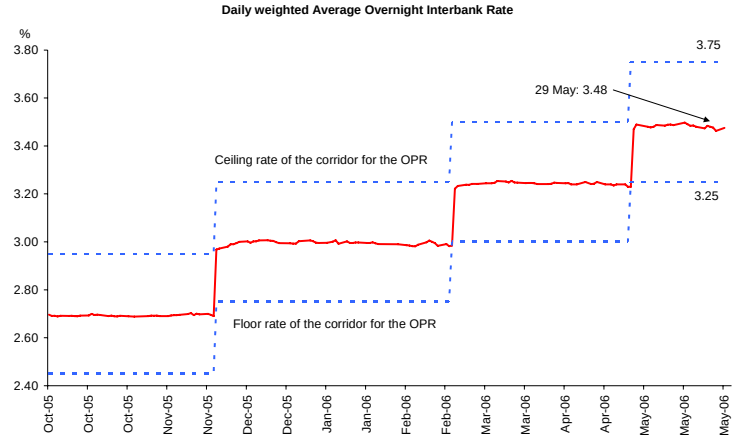
Headline inflation, as measured by the Consumer Price Index (CPI), was lower at 4.6% in April. The key factor that kept inflation above 4% was the higher prices of transport, due mainly to the upward revision in retail fuel prices on 28 February 2006. The annual rate of increase of the Producer Price Index (PPI) moderated further to 5.3% in March.

M3 or broad money, expanded at an annual rate of 7.2% in April. Meanwhile, M1 or narrow money, representing transaction balances, expanded at an annual rate of 9%, reflecting higher demand deposits of businesses and currency in circulation.

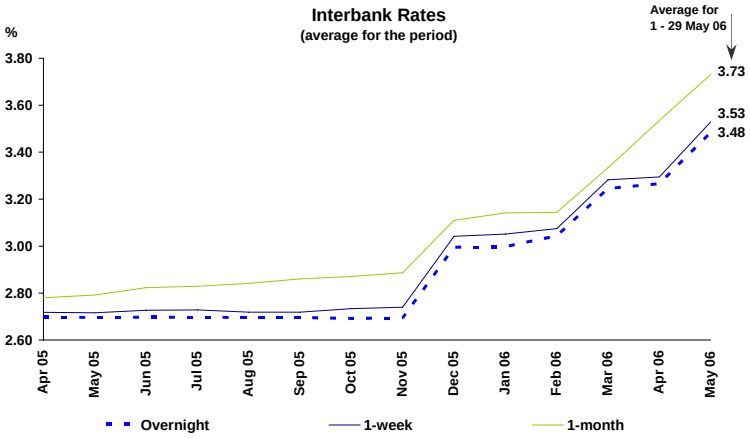
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Interest rates rose following OPR increase

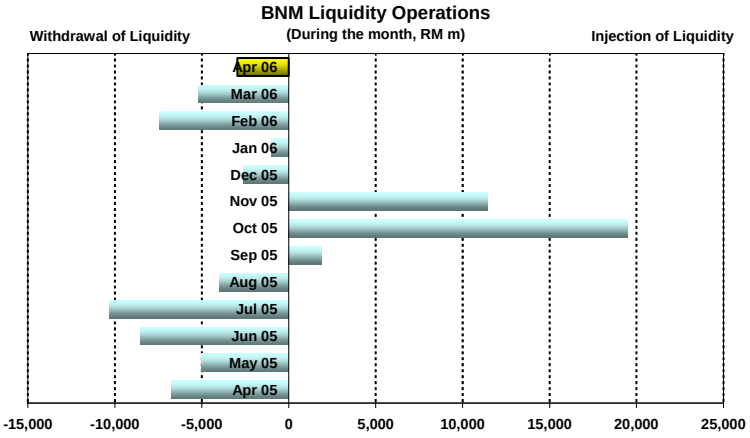
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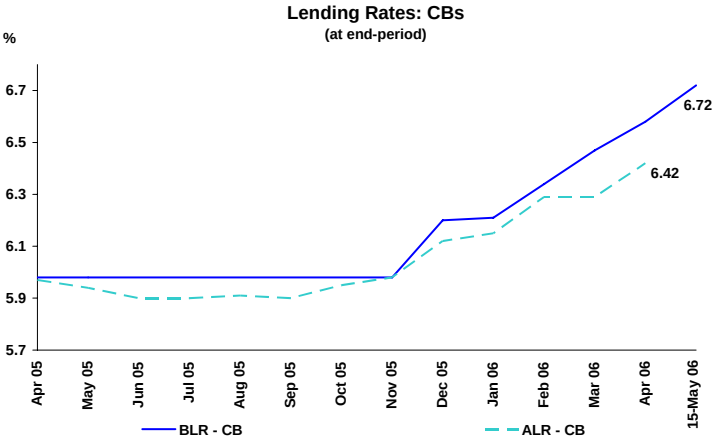
The average overnight interbank rate rose following the increase in the OPR on 26 April and remained stable thereafter



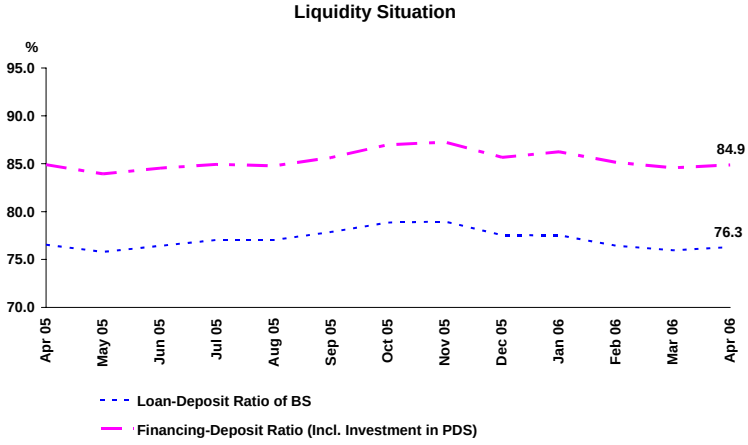
Interbank rates remained stable at their new levels after the OPR hike



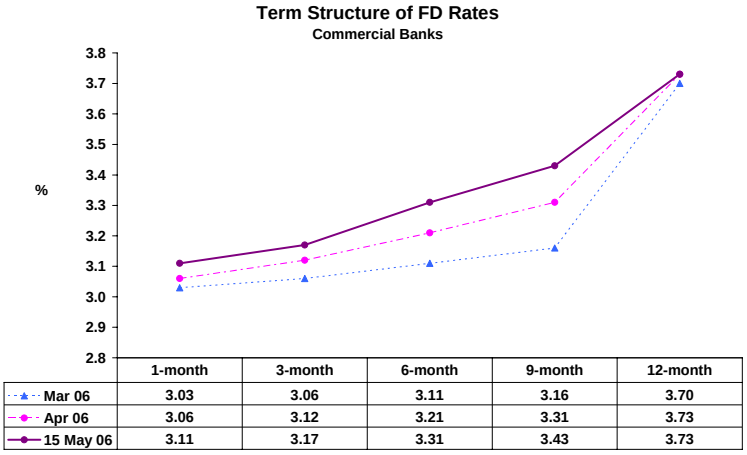
Bank Negara Malaysia absorbed excess liquidity from the banking system



The average BLR of CBs rose in late April and first half of May

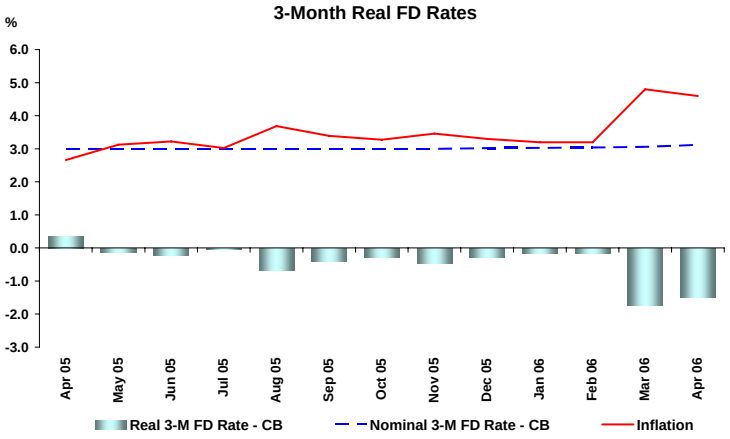


Both the loan-deposit and financing-deposit ratios remained stable in April



	1-month	3-month	6-month	9-month	12-month
Mar 06	3.03	3.06	3.11	3.16	3.70
Apr 06	3.06	3.12	3.21	3.31	3.73
15 May 06	3.11	3.17	3.31	3.43	3.73

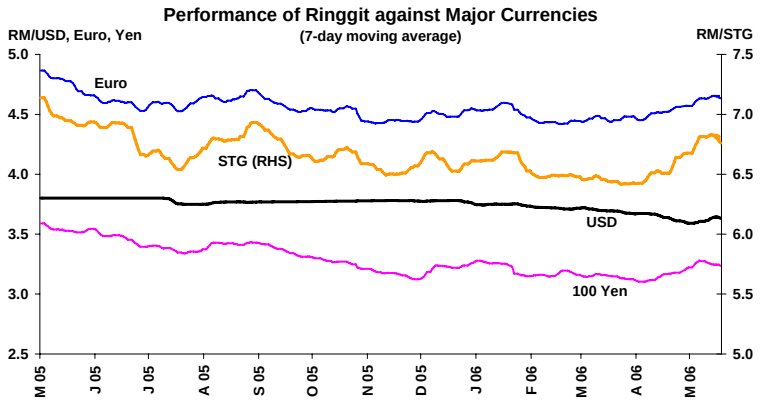
FD rates of CBs continued to increase in first half of May

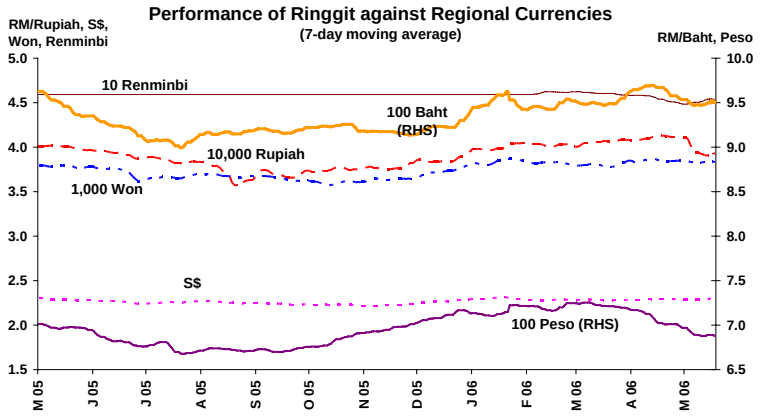


The 3-m real FD rate remained negative in April

Ringgit appreciated against the US dollar

In the period 1 April - 30 May 2006, the ringgit appreciated against the US dollar, reflecting both the strong current account performance and capital inflows. The US dollar weakened amidst expectations of a pause in the rise of US interest rate. The Japanese yen strengthened as the Group of Seven industrialised nations issued a statement suggesting that Asian countries should allow their currencies to appreciate. The euro also appreciated amidst expectations of further increases in the European Central Bank's benchmark interest rate. Against regional currencies, the ringgit recorded a mixed performance. The ringgit appreciated against the Philippine peso, Indonesian rupiah, Chinese renminbi and Thai baht in the range of 0.1% - 4.8%, but depreciated against the Korean won (1.1%) and Singapore dollar (0.7%).



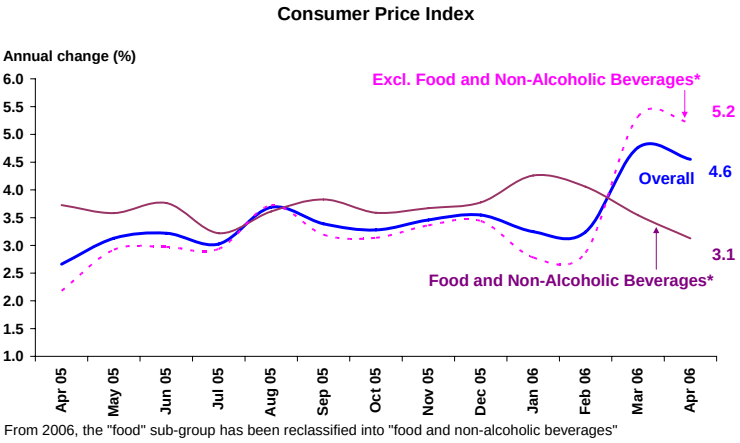


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% change	
	Dec. 05	Mar. 06	Apr. 06	30 May. 2006	End Dec. 05 - 30 May. 2006	End Mar. - 30 May. 2006
US dollar	3.7800	3.6860	3.6255	3.6215	4.4	1.8
Euro	4.4867	4.4829	4.5415	4.6373	-3.2	-3.3
Pound Sterling	6.5226	6.4337	6.5293	6.7639	-3.6	-4.9
100 Japanese yen	3.2229	3.1397	3.1696	3.2306	-0.2	-2.8
Singapore dollar	2.2714	2.2778	2.2905	2.2943	-1.0	-0.7
100 Thai baht	9.2049	9.4914	9.6564	9.4791	-2.9	0.1
100 Philippine peso	7.1254	7.2077	7.0011	6.8784	3.6	4.8
100 Indonesian Rupiah	0.0385	0.0407	0.0413	0.0394	-2.3	3.3
100 Korean won	0.3739	0.3781	0.3831	0.3823	-2.2	-1.1
Chinese renminbi	0.4686	0.4599	0.4524	0.4514	3.8	1.9

Inflation was lower at 4.6% in April

Headline inflation, as measured by the Consumer Price Index (CPI), was 4.6% in April (March: 4.8%). The key factor that kept inflation above 4% was the higher prices of transport, due mainly to the upward revision in retail fuel prices on 28 February 2006. Nevertheless, the rise in transport prices moderated somewhat due to the decline in the prices of motor vehicles, following the lower duties on cars imposed by the Government under the National Automotive Policy (NAP). Meanwhile, the inflation rate for clothing and footwear, and communication categories continued to decline.

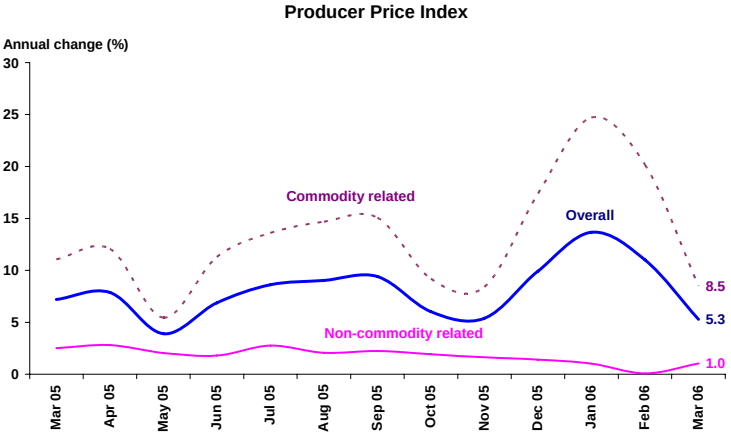


From 2006, the "food" sub-group has been reclassified into "food and non-alcoholic beverages"

Inflation was lower at 4.6% in April

Rate of increase in producer prices moderated in March

The annual rate of increase of the Producer Price Index (PPI) moderated further to 5.3% in March (February: 11%). The moderation in the PPI was due mainly to the slower rate of increase in the commodity-related category, largely on account of the slower increase in crude palm oil prices. Excluding the commodity-related category, the PPI registered a rate of increase of 1% (February: 0.1%) primarily due to the increase in the prices of food and live animals.



Rate of increase in the PPI moderated in March

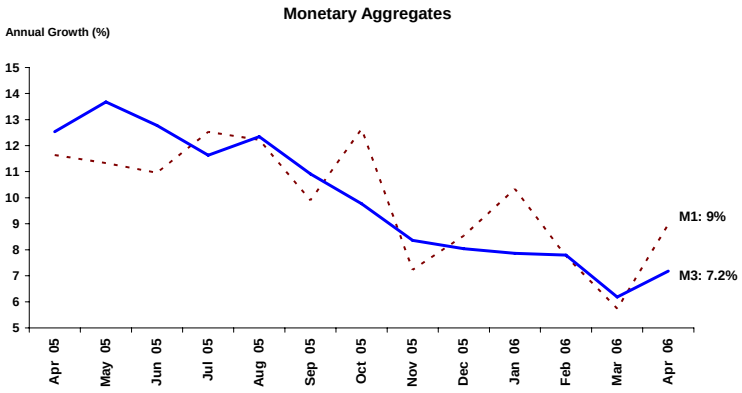
Broad money expanded at a higher annual growth rate

M1, or narrow money, representing transaction balances, expanded at an annual rate of 9% (March: 5.7%), reflecting higher demand deposits of businesses and currency in circulation. Broad money, M3, meanwhile, increased at an annual rate of 7.2% (March: 6.2%). On a monthly basis, both net external operations and claims on the private sector were expansionary on M3. Claims on the private sector increased as loans and holding of securities by the banking system rose. These factors, however, were partly offset by lower net claims on the Government, as the Government deposited with Bank Negara Malaysia proceeds from the issuance of Government Investment Issues (GII).

M3 Determinants
(RM billion)

	Change during period			
	2004	**2005**	**Mar 06**	**Apr 06**
M3	68.0	49.7	4.6	7.0
Net claims on Government	-15.9	-5.5	-5.3	-1.8
Claims on the private sector	30.6	44.6	2.0	3.9
Loans	39.8	*45.0*	*2.9*	*3.1*
Securities	-9.2	*-0.4*	*-0.9*	*0.8*
Net external operations *	82.0	16.5	1.9	9.6
Other influences	-28.7	-6.0	6.0	-4.8

* Pre-revaluation of the international reserves



Banking system deposits increased in April

In April, total deposits with the banking system increased by RM2.2 billion, or at an annual rate of 9.6% (March: +RM8.7 billion or +9.5%). The increase was driven mainly by higher deposit placements from financial institutions and individuals. The increase in deposit placements of financial institutions reflected mainly deposits by non-bank financial institutions. In terms of deposits by type, the increase was mainly

due to fixed deposits, and to a lesser extent, demand deposits and repurchase agreements.

Deposits by Holder
(RM million)

	Change during period			
	Jan 06	**Feb 06**	**Mar 06**	**Apr 06**
Federal Government	2,408	-3,262	469	-173
State Governments	-259	897	568	255
Statutory Authorities [1]	416	554	1,264	-1,814
Financial Institutions	-5,216	5,651	6,090	2,850
Business Enterprises	-1,646	6,131	-964	-751
Individuals	3,052	3,120	1,088	1,808
Others [2]	11	-3	142	32
Total	-1,234	13,089	8,657	2,207

1/ Include local Governments

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

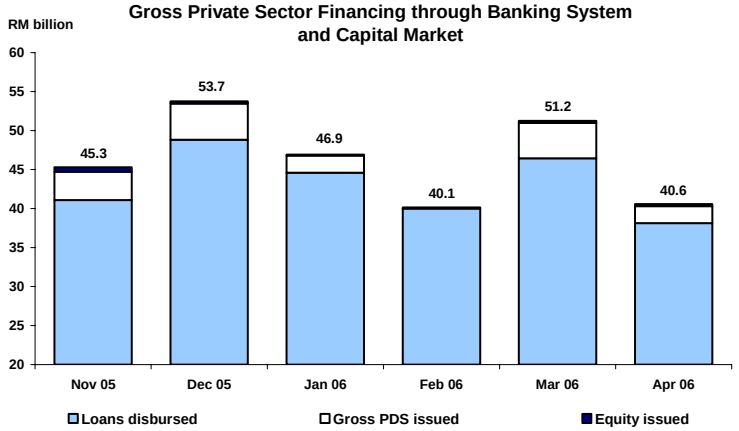
Deposits by Type
(RM million)

	Change during period			
	Jan 06	**Feb 06**	**Mar 06**	**Apr 06**
Fixed deposits	-4,603	-2,835	7,272	5,437
NIDs	40	7,082	2,452	-3,271
Demand deposits	3,271	-1,126	-3,687	921
Savings deposits	1,052	562	-324	-128
Repos	-4,242	9,744	2,582	632
FX deposits	-521	1,474	-268	-1,263
SPI deposits	3,531	-2,300	110	-578
Others	237	487	521	456
Total	-1,234	13,089	8,657	2,207

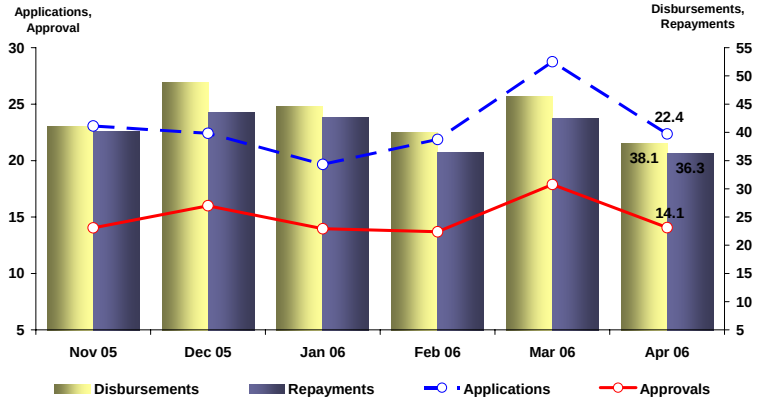
Sustained growth in net private sector financing

In April, gross financing to the private sector from the banking system and the capital market amounted to RM40.6 billion (March: RM51.2 billion) following the relatively high level recorded in the previous month. On a net basis, financing of the private sector through banking system loans and PDS outstanding expanded at a stronger annual rate of 9.8% (March: 9.1%).

Gross Private Sector Financing through Banking System and Capital Market



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



Bank lending indicators

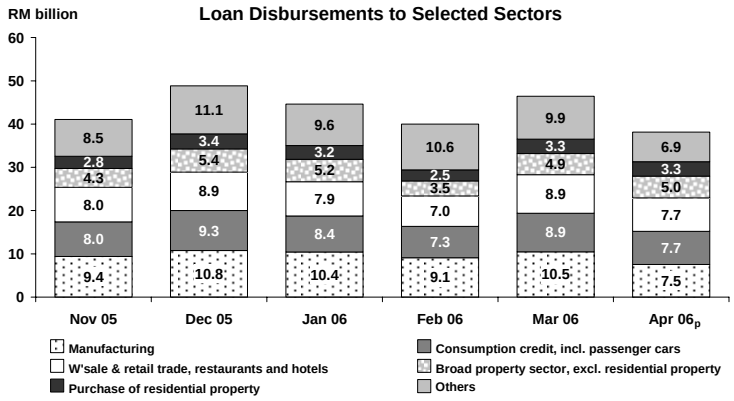
	RM billion		Annual Growth (%)	
	March	April$_p$	March	April$_p$
Overall				
Loan applications	28.8	22.4	0.5	-18.9
Loan approvals	17.9	14.1	4.7	-2.5
Loan disbursements	46.5	38.1	-2.7	-5.7
Chg in Loans Outstanding[1/]	2.2	3.0	8.4	8.9
Businesses				
Loan applications	15.9	11.2	1.0	-24.0
Loan approvals	9.0	6.0	6.9	-7.4
Loan disbursements	31.7	24.7	-5.4	-9.1
Chg in Loans Outstanding[1/]	-0.9	4.5	2.7	5.8
SMEs				
Loan applications	4.8	6.1	n.a.[2/]	n.a.[2/]
Loan approvals	3.4	2.7	n.a.	n.a.
Loan disbursements	11.6	8.1	n.a.	n.a.
Chg in Loans Outstanding[1/]	6.0	0.1	n.a.	n.a.
Households				
Loan applications	12.4	10.3	-1.8	-15.8
Loan approvals	8.4	7.9	-1.7	0.3
Loan disbursements	12.9	13.1	5.1	14.3
Chg in Loans Outstanding[1/]	2.9	1.7	14.5	13.9

n.a. not applicable

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

[2/] Beginning March 2006, annual growth data is not applicable, arising from the adoption of the Standard SME Definitions, as approved by the National SME Development Council, resulting in some reclassification between SMEs and large corporations.

p Preliminary. Data for April 2006 is subject to revision, arising from changes in the classification of loan indicators by economic sectors and purpose.



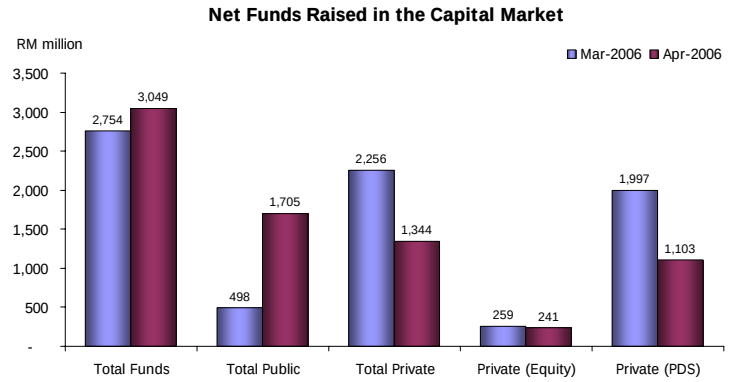
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Loan applications, approvals and disbursements moderated in April. The moderation in bank lending activity largely reflected the moderation in lending to the business sector amidst businesses' continued strong cash flows and lower need for external funding of working capital as reflected in lower disbursements and repayments.

Loans outstanding increased at an annual rate of 8.9% at end-April (end-March: 8.4%). In particular, loans outstanding to businesses expanded at a stronger annual rate of 5.8% (end-March: 2.7%), reflecting sustained business capacity expansion. Meanwhile, loans outstanding to households increased at an annual rate of 13.9% (end-March: 14.5%).

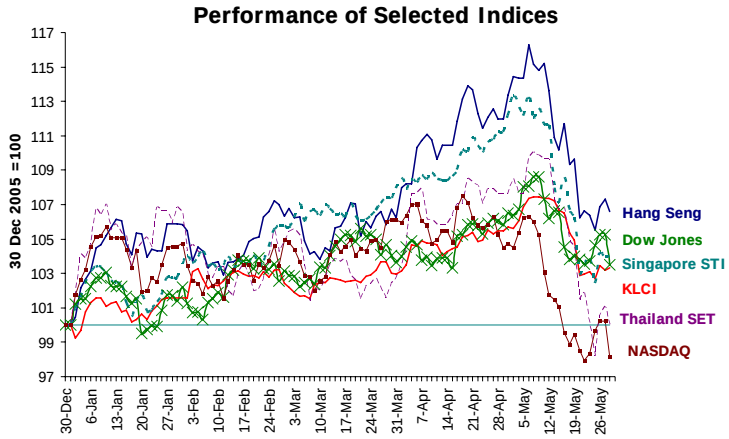
Higher net funds raised in the capital market

In April, net funds raised in the capital market were higher at RM3 billion, contributed mainly by the public sector through the issuance of a 3-year Government Investment Issues (GII). In the private debt securities (PDS) market, a gross total of RM2.7 billion was raised, mainly by companies in the finance and utilities (water-related companies) sectors. The funds raised were mainly for the financing of new activities (47.5% of total) and mergers and acquisitions (25.7%). After adjusting for redemptions, the net funds raised through the PDS market were RM1.1 billion, while funds raised through the equity market were RM241 million for the month.



Performance of the KLCI improved in April

In April, strong investors' interests led the KLCI to close higher at 949.23 (since end-March: +2.4%). Market capitalisation increased to RM751 billion (since end-March: +2.5%) while daily average turnover increased significantly to 1,227.2 million units (March: 798 million units).



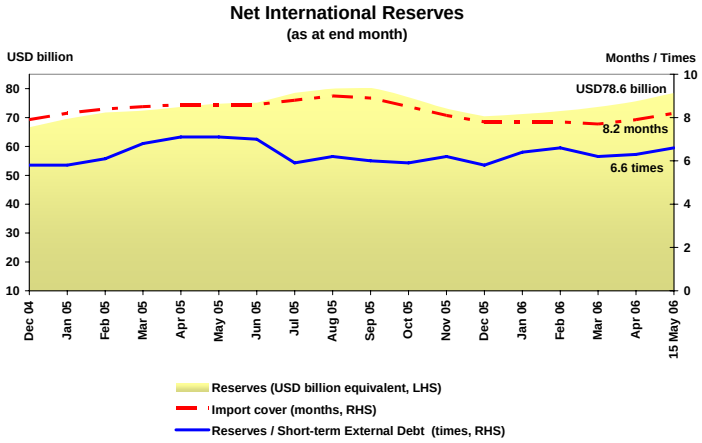
KLCI performance improved in April, but declined in May

As at 30 May, the KLCI declined slightly to 929.89 (since end-April: -2%) due to profit-taking activities after an extended buying period in April. Market capitalisation declined to RM730.3 billion (since end-April: -2.7%) while trading activities were also lower, with the daily average turnover at 1,205.8 million units.

International reserves

The international reserves of Bank Negara Malaysia amounted to RM279 billion or equivalent to USD75.7 billion as at 28 April 2006. The reserves increased further to RM289.5 billion or equivalent to USD78.6 billion as at 15 May 2006. The

reserves position is sufficient to finance 8.2 months of retained imports and is 6.6 times the short-term external debt.



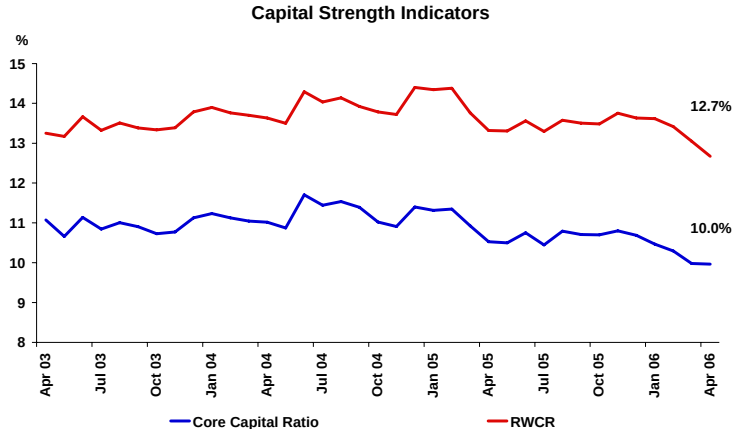
Banking system remained sound and resilient

Capitalisation of the banking system was sustained at high levels amidst asset quality improvements. As at end-April 2006, the risk-weighted capital ratio (RWCR) declined marginally to 12.7%, whilst the core capital ratio (CCR) was sustained at 10% due to increased investment in subsidiaries including the commencement of operations of two Islamic subsidiaries, amidst further expansion in lending activities. NPLs based on the 6-month classification decreased further to RM24 billion, resulting in improved net NPL ratio of 4.4%.

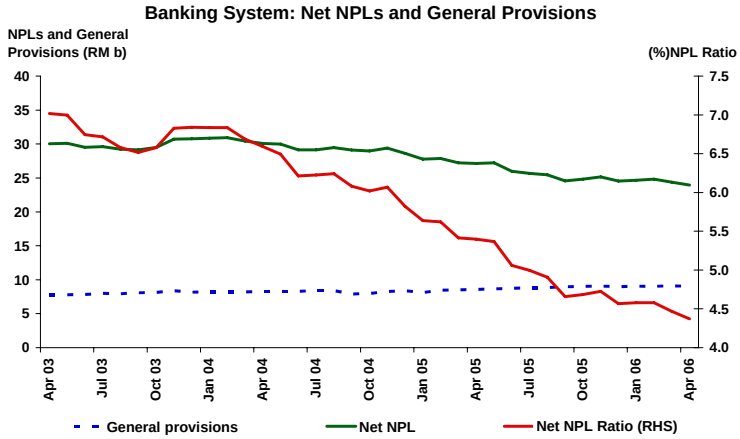
Banking System Health Indicators *

	As at end-									
	1999	2000	2001	2002	2003	2004	2005	Feb 06	Mar 06	Apr 06
Capital (%)										
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.4	10.7	10.3	10.0	10.0
RWCR	12.5	12.5	13.0	13.2	13.8	14.4	13.6	13.4	13.1	12.7
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	4.5	4.4
Amount (RM million)	23,849	24,700	32,833	31,702	30,766	28,590	24,545	24,834	24,385	23,953
GP / Net total loans (6-month, %)	1.9	1.9	1.9	1.8	1.8	1.7	1.7	1.7	1.7	1.6

* 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 net NPL ratio improved

Bank Negara Malaysia

31 May 2006

Key Monetary and Financial Statistics

		Feb 06		Mar 06		Apr 06	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		54.8	5.6	54.1	6.9	54.1	5.0
M1		127.0	7.7	122.3	5.7	124.5	9.0
M2		635.7	17.5	636.6	15.2	641.7	16.1
M3		679.3	7.8	683.9	6.2	690.8	7.2
Banking System							
Total deposits		704.5	11.3	713.1	9.5	715.3	9.6
Total loans (including loans sold to Cagamas)		564.1	9.2	566.3	8.4	569.3	8.9
Loan-deposit ratio (%)		76.4		76.0		76.3	
Financing-deposit ratio [1] (%)		85.2		84.6		84.8	
Loans applied (during the period)		21.9	18.1	28.8	0.5	22.4	-18.9
Loans approved (during the period)		13.7	16.8	17.9	4.7	14.1	-2.5
Loans disbursed (during the period)		40.0	9.7	46.5	-2.7	38.1	-5.7
Loans repaid (during the period)		36.5	8.7	42.5	3.4	36.3	-10.8
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.4		13.1		12.7	
Net NPLs: 6-month classification (%)		4.6		4.5		4.4	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		272.7		271.6		279.0	
Net Reserves in USD billion (equivalent)		72.2		73.7		75.7	
Months of retained imports		7.8		7.9		8.0	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.25		3.25		3.50	
Interbank:	Overnight	3.24 [3.04]		3.25 [3.25]		3.49 [3.27]	
	1-week	3.23 [3.07]		3.28 [3.28]		3.51 [3.29]	
	1-month	3.15 [3.14]		3.25 [3.33]		3.38 [3.38]	
	3-month	-		-		-	
Fixed deposits of commercial banks:	1-month	3.02		3.03		3.06	
	3-month	3.04		3.06		3.12	
BLR of commercial banks		6.34		6.47		6.58	
ALR of commercial banks		6.29		6.29		6.42	
Prices							
Consumer Price Index (CPI) (2005=100)		101.9	3.2	103.4	4.8	103.4	4.6
Producer Price Index (PPI) (1989=100)		170.3	11.0	169.3	5.3	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.7135		3.6860		3.6255	
Euro		4.4055		4.4829		4.5415	
Pound Sterling		6.4643		6.4337		6.5293	
100 Japanese yen		3.1907		3.1397		3.1696	
Singapore dollar		2.2857		2.2778		2.2905	
100 Thai Baht		9.4407		9.4914		9.6564	
100 Philippine Peso		7.1793		7.2077		7.0011	
100 Indonesian Rupiah		0.0402		0.0407		0.0413	
100 Korean Won		0.3827		0.3781		0.3831	
Capital Market							
Net funds raised (in RMb) by:	public	0.7		0.5		1.7	
	private	1.2		2.3		1.3	
Bursa Malaysia Composite Index (end-period)		928.9		926.6		949.2	
Bursa Malaysia Market Capitalisation (RMb, end-period)		726.9		732.9		751.0	

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