BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 12/05/08

EMBARGO: Not for publication or broadcast before 1700 hours on Wednesday, 28 December 2005

Monetary and Financial Developments November 2005
Highlights of the Press Release

Sustained growth in financing to the private sector

Banking system loans and private debt securities (PDS) outstanding expanded at an annual rate of 9.2%, while total bank loans outstanding grew by 9% on an annual basis. Financing to the small and medium enterprises (SMEs) continued to grow, with loans outstanding to the SMEs increasing by 9.7% on an annual basis. Gross financing through the capital markets improved significantly in November.

The banking system remained resilient in November, with the risk-weighted capital ratio (RWCR) strengthening to 13.8%, and the net non-performing loans (NPL) ratio continuing to remain low at 4.7%, on a 6-month classification.

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MONETARY AND FINANCIAL DEVELOPMENTS NOVEMBER 2005

Sustained growth in financing to the private sector

Banking system loans and private debt securities (PDS) outstanding expanded at an annual rate of 9.2%, while total bank loans outstanding grew by 9% on an annual basis. Financing to the small and medium enterprises (SMEs) continued to grow, with loans outstanding to the SMEs increasing by 9.7% on an annual basis. Gross financing through the capital markets improved significantly in November.

In November, the daily weighted average overnight interbank rate moved within a narrow range, averaging at 2.70%. Following the increase in the OPR on 30 November, the daily weighted average overnight interbank rate traded within a range of 2.97% - 3.01%, averaging close to 3% over the period of 1 – 27 December. Interbank rates for other maturities also increased. Similarly, as at 15 December, the average base lending rates (BLRs) of commercial banks (CBs) and finance companies (FCs) had increased to 6.19% and 7.03% respectively.

Over the period 1 November – 27 December, the ringgit recorded a mixed performance against major and regional currencies. The USD appreciated against most major and regional currencies, including the ringgit.

Headline inflation, as measured by the Consumer Price Index (CPI), increased to 3.5% in November, mainly on account of higher increases in the prices of clothing and footwear, rental and maintenance, household furnishings and medical care. Meanwhile, the annual growth of the Producer Price Index (PPI) moderated to 6% in October due primarily to the moderation in the growth of crude oil prices.

The monetary aggregates expanded at slower rates in November. Narrow money or M1, grew at an annual rate of 7.3%, while broad money, M3, expanded at an annual rate of 8.4% at end-November.

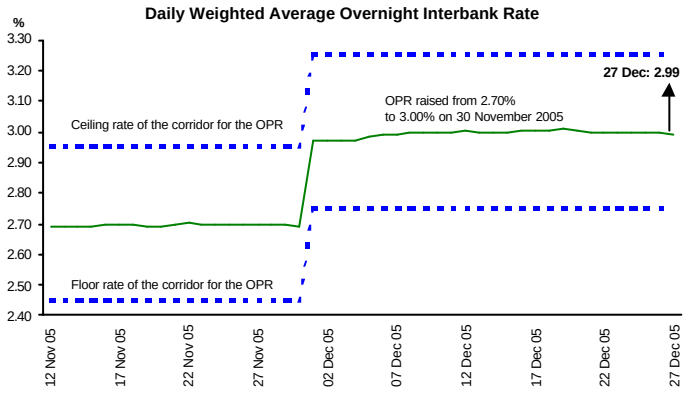
In the capital market, gross financing through the capital market was higher in November. Most of the funds were raised through private debt securities (PDS) and were mainly for refinancing and financing of new activities.

The banking system remained resilient in November, with the risk-weighted capital ratio (RWCR) strengthening to 13.8%, and the net non-performing loans (NPL) ratio continuing to remain low at 4.7%, on a 6-month classification.

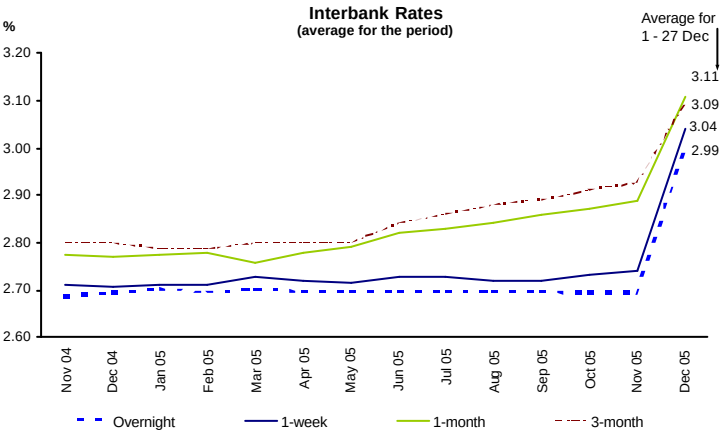
Interest rates rose in response to the increase in the OPR

In November, the daily weighted average overnight interbank rate moved within a narrow range of 2.69% - 2.70%, averaging at 2.70%. On 30 November, Bank Negara Malaysia raised the Overnight Policy Rate (OPR) by 30 basis points to 3%. Subsequent to the increase in the OPR, the daily weighted average overnight interbank rate traded within a range of 2.97% - 3.01%, averaging close to 3% over the period of 1 – 27 December. Interbank rates for other maturities have also increased.

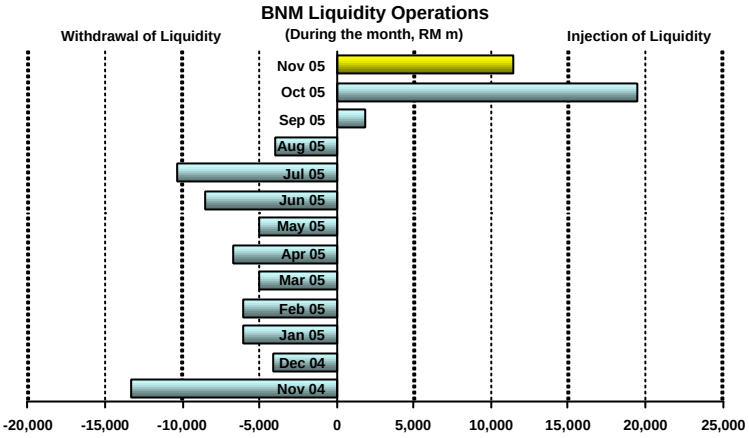
In terms of retail lending rates, as at 15 December, the average BLRs of commercial banks (CBs) and finance companies (FCs) had increased to 6.19% and 7.03% respectively (end-November: 5.98% and 6.90%) as 19 CBs and two FCs had raised their BLRs in the range of 0.25% – 0.30%.



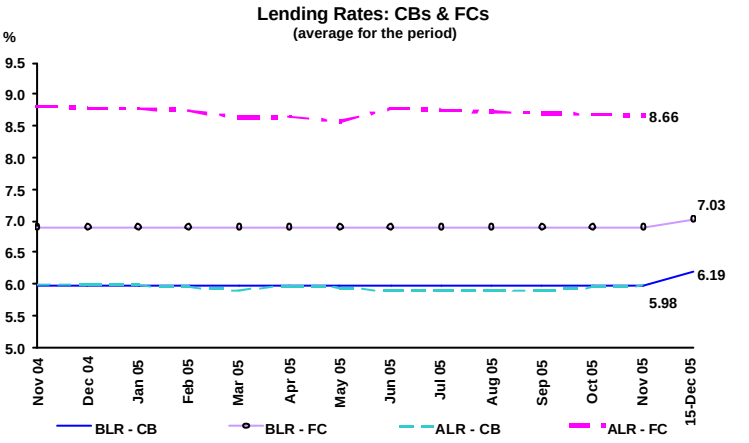
The average overnight interbank rate rose following the increase in the OPR



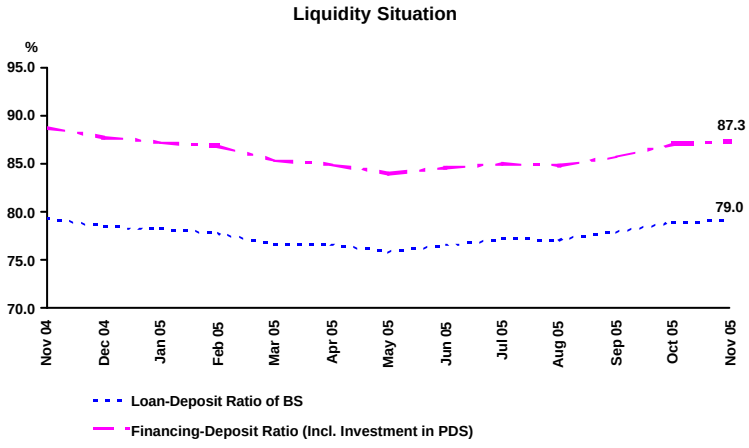
Interbank rates have increased since early December following the increase in the OPR



BNM injected liquidity into the system

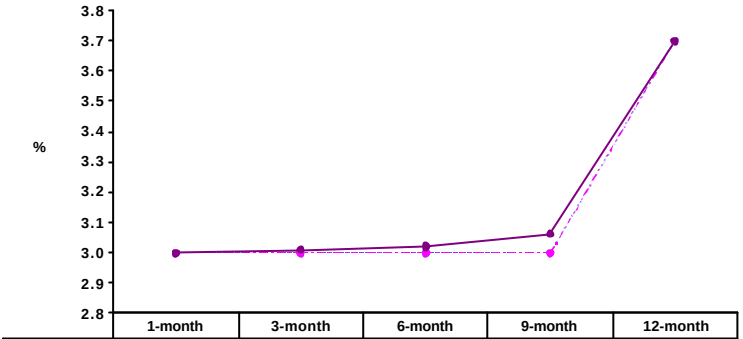


BLRs of CBs and FCs rose in early December following the increase in the OPR



The financing-deposit ratio continued on a modest upward trend as financing growth continued to outpace deposit growth

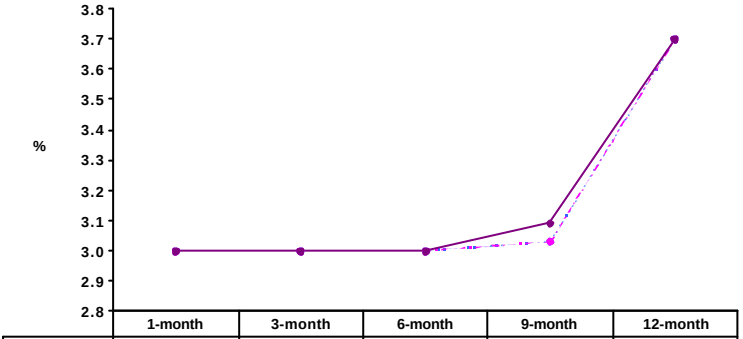
Term Structure of FD Rates
Commercial Banks



	1-month	3-month	6-month	9-month	12-month
Oct 05	3.00	3.00	3.00	3.00	3.70
Nov 05	3.00	3.00	3.00	3.00	3.70
15 Dec 05	3.00	3.01	3.02	3.06	3.70

Following the increase in the OPR, FD rates of CBs rose marginally

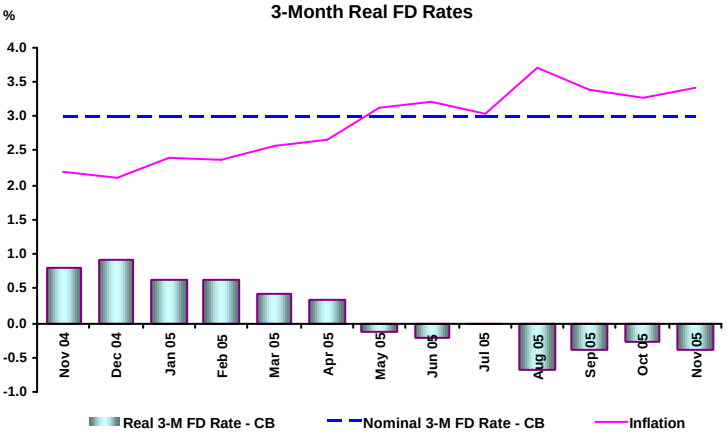
Term Structure of FD Rates
Finance Companies



	1-month	3-month	6-month	9-month	12-month
Oct 05	3.00	3.00	3.00	3.03	3.70
Nov 05	3.00	3.00	3.00	3.03	3.70
15 Dec 05	3.00	3.00	3.00	3.09	3.70

FD rates of FCs also rose marginally

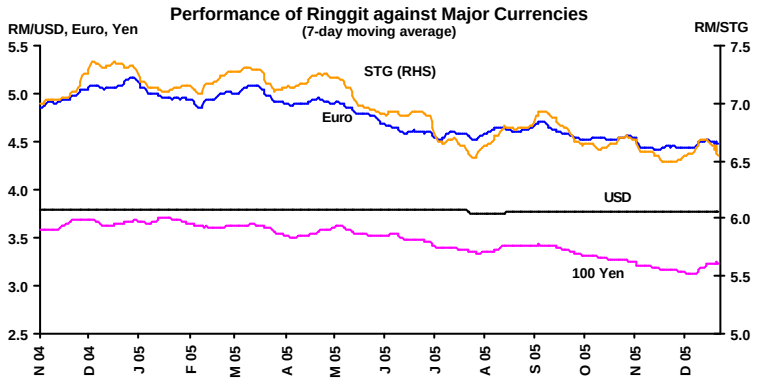
3-Month Real FD Rates

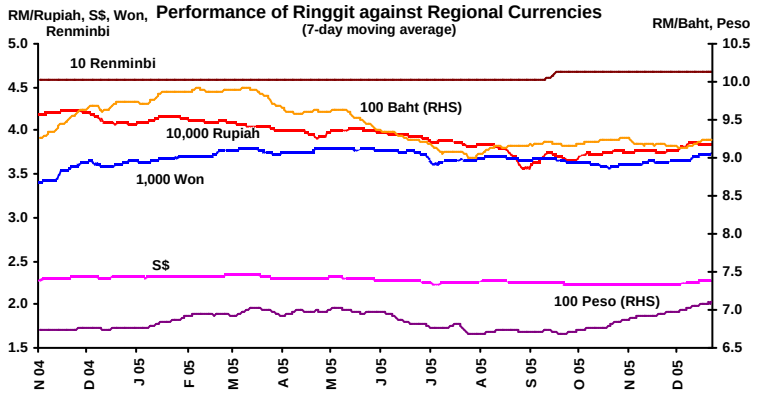


The 3-month real FD rate remained negative

Performance of the ringgit

Over the period 1 November – 27 December, the ringgit recorded a mixed performance against major and regional currencies. Like most regional currencies, the ringgit was affected by developments in the G3 currencies and the corresponding impact on other currencies. The USD appreciated against the ringgit, and most major and regional currencies, amidst general expectations of further US interest rate increases. Market perception that the European Central Bank would not continue to raise interest rates following the 25 basis points increase in the policy rate on 1 December caused some weakness in the euro, and hence the depreciation of the European currency against the ringgit. The Japanese yen also depreciated, due to market perception that the Bank of Japan would maintain its deflation fighting strategy. Meanwhile, the Philippine peso, Korean won, Indonesian rupiah, Singapore dollar and Chinese renminbi strengthened against the ringgit, while the Thai baht weakened against the ringgit.



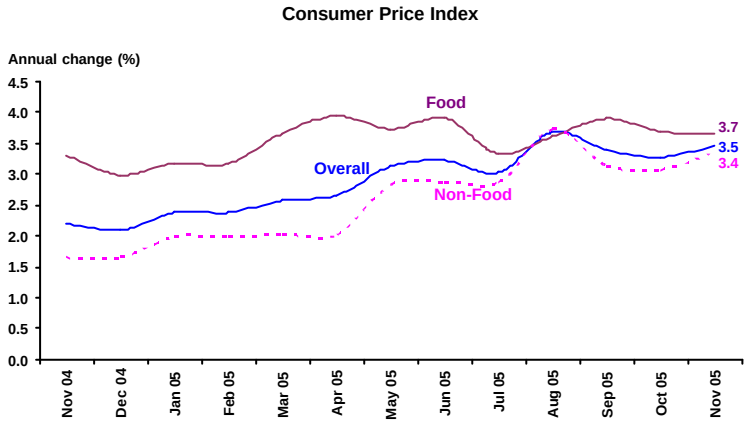


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% change	
	Dec. 04	Oct. 05	Nov. 05	27 Dec. 2005	End Dec. 04 - 27 Dec. 2005	End Oct. 05 - 27 Dec. 2005
US dollar	3.8000	3.7748	3.7773	3.7795	0.5	-0.1
Euro	5.1729	4.5515	4.4517	4.4746	15.6	1.7
Pound Sterling	7.3169	6.6999	6.5313	6.5434	11.8	2.4
100 Japanese yen	3.7026	3.2616	3.1531	3.2288	14.7	1.0
Singapore dollar	2.3258	2.2308	2.2336	2.2674	2.6	-1.6
100 Thai baht	9.7636	9.2576	9.1671	9.2307	5.8	0.3
100 Philippine peso	6.7706	6.8570	6.9721	7.0997	-4.6	-3.4
100 Indonesian Rupiah	0.0408	0.0373	0.0377	0.0385	6.2	-2.9
100 Korean won	0.3671	0.3618	0.3655	0.3736	-1.7	-3.2
Chinese renminbi	0.4591	0.4679	0.4676	0.4681	-1.9	-0.05

Inflation increased in November

Headline inflation, as measured by the Consumer Price Index, increased to 3.5% in November (October: 3.3%). The increase in inflation during the month was mainly on account of higher increases in the prices of clothing and footwear, rental and maintenance, household furnishings and medical care.

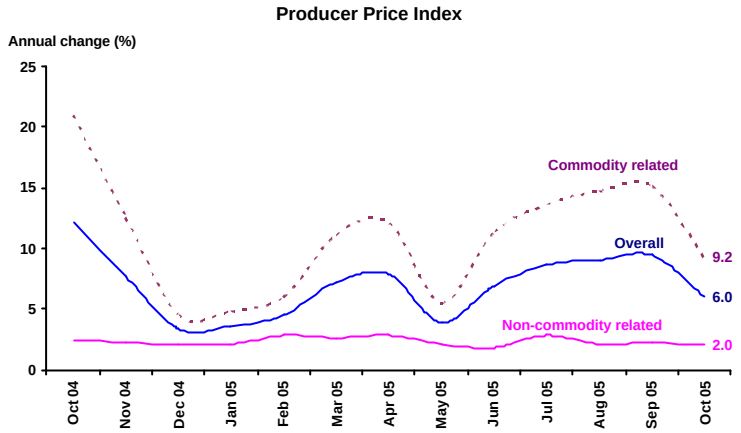


Inflation increased to 3.5% in November

Producer price inflation moderated in October

The annual growth of the Producer Price Index (PPI) moderated to 6% in October (September: 9.4%) due primarily to the moderation in the growth of crude oil prices. Excluding commodity prices, the PPI inflation moderated to 2% (September: 2.2%), on account of the slower growth in the prices of food and live animals, and beverages and tobacco products.

PPI inflation moderated



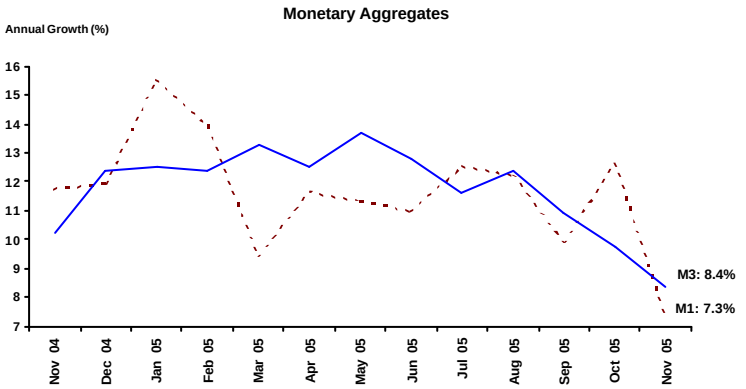
Monetary aggregates expanded at slower growth rates

Narrow money or M1, representing transaction balances, increased at a slower annual growth rate of 7.3% (October: 12.6%) in November, due in part to the reduced holdings of currencies, following the end of the festive period and lower number of working days. Meanwhile, broad money or M3, increased at an annual growth rate of 8.4% (October: 9.8%) in November. Both net claims on the Government and the private sector were expansionary but these were offset by the contractionary impact of net external operations.

M3 Determinants
(RM billion)

	Change during period			
	2004	**Oct 05**	**Nov 05**	**Jan-Nov 05**
M3	68.0	0.5	-1.9	37.5
Net claims on Government	-15.9	3.2	2.5	-12.4
Claims on the private sector	30.6	4.3	4.2	39.0
Loans	39.8	*3.5*	*1.2*	*41.1*
Securities	-9.2	*0.8*	*3.0*	*-2.1*
Net external operations *	82.0	-11.4	-7.8	21.1
Other influences	-28.7	4.4	-0.8	-10.1

* Pre-revaluation of the international reserves



Banking system deposits increased in November

In November, total deposits with the banking system increased by RM1.1 billion, or at an annual rate of 10.3% (October: 11.9%). The increase reflected mainly higher deposit placements by statutory authorities and individuals. By type, deposit growth was driven primarily by increases in repos, Islamic deposits and foreign currency deposits.

Deposits by Holder
(RM million)

	Change during period			
	Aug 05	**Sep 05**	**Oct 05**	**Nov 05**
Federal Government	140	147	-756	-349
State Governments	297	-14	34	-119
Statutory Authorities [1]	2	-99	-960	1,056
Financial Institutions	-884	-368	-7,213	68
Business Enterprises	8,343	709	1,236	-181
Individuals	1,062	1,281	1,680	870
Others [2]	-507	1,950	543	-279
Total	8,454	3,607	-5,437	1,067

1/ Include local Governments

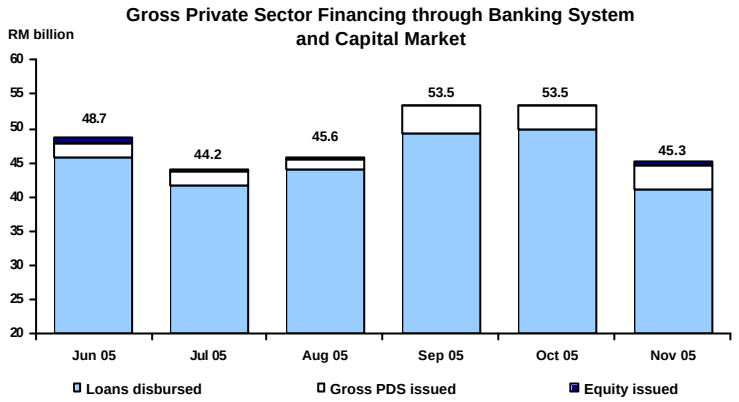
2/ Include domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

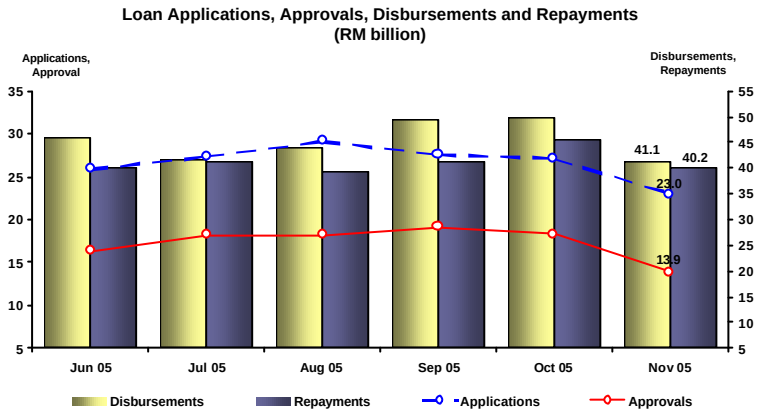
	Change during period			
	Aug 05	**Sep 05**	**Oct 05**	**Nov 05**
Fixed deposits	3,540	-592	-3,177	-1,820
NIDs	3,058	5,333	-8,103	-1,145
Demand deposits	316	871	1,220	-310
Savings deposits	-160	206	199	87
Repos	1,624	-5,808	3,185	1,082
FX deposits	-147	2,015	665	1,454
SPI deposits	94	1,346	-13	1,393
Others	130	237	587	326
Total	8,454	3,607	-5,437	1,067

Sustained growth in financing to the private sector

In November, gross financing to the private sector from the banking system and the capital market amounted to RM45.3 billion (October: RM53.5 billion), increasing at an annual rate of 3.4% (October: 19.7%). After two months of very strong growth, gross financing moderated in November, due mainly to lower loan disbursements of RM41.1 billion (October: RM49.9 billion). On a net basis, financing to the private sector (banking system loans and PDS outstanding) expanded at an annual rate of 9.2% (October: 9.7%).



Gross private sector financing eased after two months of rapid growth



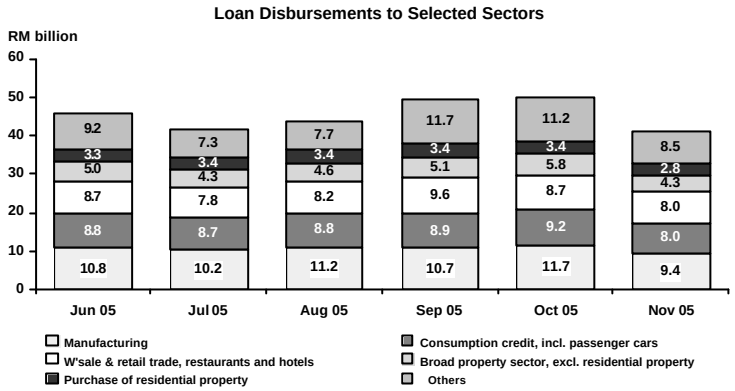
Lending indicators trended lower during the month…

Bank lending indicators

	RM billion		Annual Growth (%)	
	October	November	October	November
Overall				
Loan applications	27.1	23.0	12.5	6.7
Loan approvals	18.4	13.9	18.3	9.7
Loan disbursements	49.9	41.1	20.1	1.9
Chg in Loans Outstanding[1/]	3.4	1.3	9.3	9.0
Businesses				
Loan applications	13.5	12.7	5.1	-2.3
Loan approvals	9.3	6.8	19.2	13.2
Loan disbursements	34.7	27.6	21.4	0.2
Chg in Loans Outstanding[1/]	-0.1	-1.6	4.5	3.9
SMEs				
Loan applications	4.5	4.0	-8.8	-8.5
Loan approvals	2.8	2.2	-6.1	-10.9
Loan disbursements	9.6	8.9	11.0	8.8
Chg in Loans Outstanding[1/]	0.7	0.2	10.2	9.7
Households				
Loan applications	13.0	10.1	20.1	21.1
Loan approvals	8.9	6.6	17.0	0.9
Loan disbursements	13.2	11.2	16.0	6.5
Chg in Loans Outstanding[1/]	4.1	3.1	15.1	15.1

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

…but continued to register positive annual growth rates



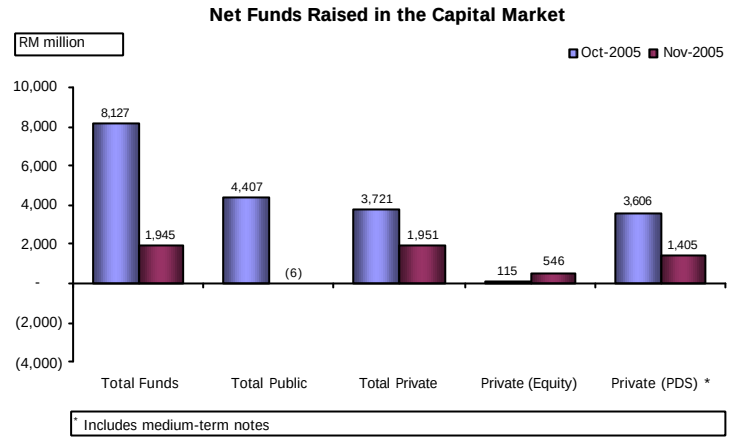
Loan disbursements remained broad-based

During the month, applications, approvals and disbursements were lower in both the business and household sectors, in part due to the festive period, which resulted in a lower number of working days. In the business sector, loan disbursements amounted to RM27.6 billion, with disbursements to SMEs increasing by 8.8% on an annual basis. The disbursements were mainly channelled to the manufacturing (34% of total business loan disbursements); wholesale and retail trade, restaurants and hotels (29%); finance, insurance and business services (10%); and construction (8.3%) sectors; as well as for the purchase of non-residential property (4.9%). Meanwhile, in the household sector, loan applications continued to increase on an annual basis.

Loans outstanding rose more modestly by RM1.3 billion on a monthly basis, or 9% on an annual basis (October: RM3.4 billion or 9.3%). Loans outstanding to businesses increased at a more moderate annual rate of 3.9% (October: 4.5%), with loans outstanding to SMEs increasing by 9.7% (October: 10.2%), while the growth in loans outstanding to households remained stable at 15.1%.

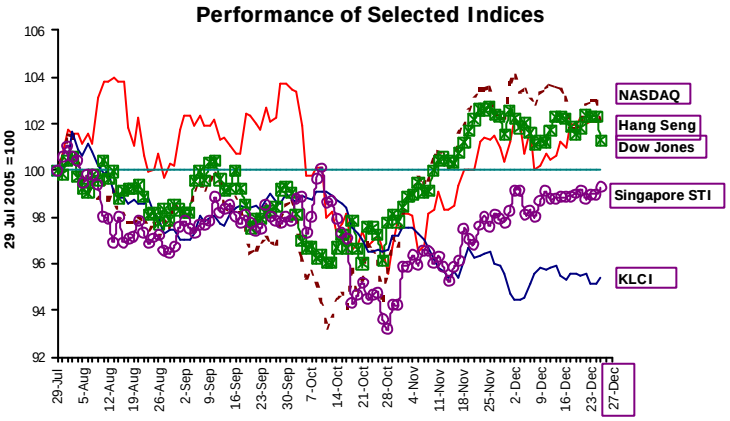
Higher gross financing by the private sector in the capital market

On an annual basis, gross funds raised by the private sector through the capital market increased by 8% in November. After redemption of maturing private debt securities (PDS), net funds raised in the capital market were lower in November and amounted to RM1.9 billion. The bulk of the PDS raised was mainly for refinancing as well as the financing of new activities. In the equity market, funds were raised mainly through initial public offerings (IPOs) with one large IPO in the real estate sector. A total of 73 IPOs have been issued thus far for 2005 (2004: 72 IPOs).



Performance of the KLCI remained sluggish

In November, the KLCI ended lower at 896.13 (since end-October: -1.6%) with market capitalisation declining to RM693.03 billion (since end-October: -1.4%). The daily average turnover during the month was also lower at 265.1 million units (October: 364.7 million units).

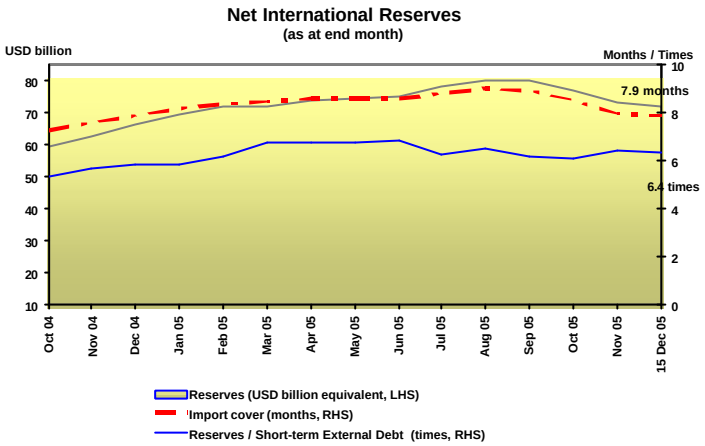


KLCI remained a laggard

Between 1 – 27 December, the KLCI remained range bound to close at 894.51 (since end-November: -0.18%) with market capitalisation at RM690.58 billion (since end-November: -0.35%). Trading, however, increased slightly with daily average turnover at 268.3 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM275.3 billion or equivalent to USD73.1 billion as at 30 November 2005. Reserves amounted to RM271.4 billion or equivalent to USD72 billion as at 15 December 2005. The reserves position is sufficient to finance 7.9 months of retained imports and is 6.4 times the short-term external debt.



Banking system remained strong

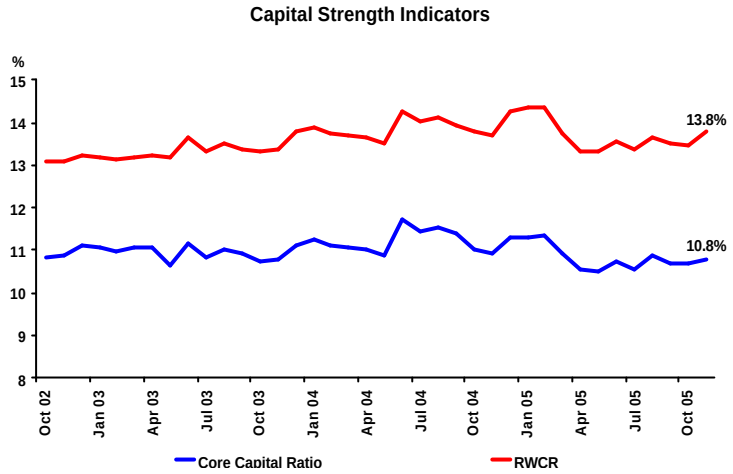
The level of capitalisation of the banking system was sustained at strong levels. The risk-weighted capital ratio (RWCR) and core capital ratio (CCR) strengthened to 13.8% and 10.8% respectively as at end-November 2005. This was due primarily to issuance of capital by several banking institutions. The net non-performing loans (NPL) ratio remained at 4.7% and 6%, based on a 6-month and 3-month classification, respectively.

Banking System Health Indicators *

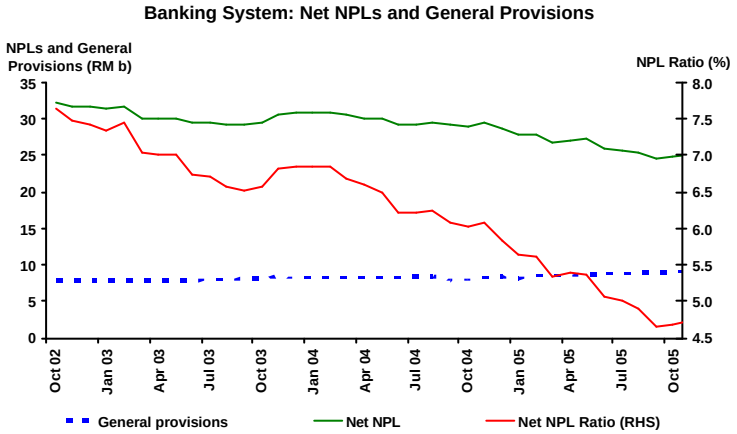
	As at end-								
	1999	2000	2001	2002	2003	Dec 04	Sep 05	Oct 05	Nov 05
Capital (%)									
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.3	10.7	10.7	10.8
RWCR	12.5	12.5	13.0	13.2	13.8	14.3	13.5	13.5	13.8
Net NPLs (6-month classification)									
% of net total loans	6.4	6.3	6.9	7.5	6.8	5.8	4.7	4.7	4.7
Amount (RM million)	23,849	24,700	32,833	31,702	30,766	28,590	24,559	24,836	25,150
GP / Net total loans (6-month, %)	1.9	1.9	1.9	1.8	1.8	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 banking system strengthened...



...whilst NPL level stabilised

Bank Negara Malaysia

28 December 2005

Key Monetary and Financial Statistics

		Sep 05		Oct 05		Nov 05	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		52.1	10.6	55.5	11.0	52.6	7.3
M1		118.0	9.9	123.1	12.6	119.6	7.3
M2		600.5	24.2	602.1	19.6	601.5	15.9
M3		656.6	10.9	657.0	9.8	655.2	8.4
Banking System							
Total deposits		677.0	13.4	671.6	11.9	672.6	10.3
Total loans (including loans sold to Cagamas)		548.0	9.2	551.3	9.3	552.6	9.0
Loan-deposit ratio (%)		77.9		78.9		79.0	
Financing-deposit ratio[1] (%)		85.6		87.0		87.3	
Loans applied (during the period)		27.5	9.3	27.1	12.5	23.0	6.7
Loans approved (during the period)		19.1	21.0	18.4	18.3	13.9	9.7
Loans disbursed (during the period)		49.4	15.3	49.9	20.1	41.1	1.9
Loans repaid (during the period)		41.2	7.6	45.5	11.5	40.2	6.6
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.5		13.5		13.8	
Net NPLs: 6-month classification (%)		4.7		4.7		4.7	
International Reserves of BNM (end-period)							
Reserves in RM billion		302.7		290.4		275.3	
Reserves in USD billion (equivalent)		80.3		77.1		73.1	
Months of retained imports		8.9		8.5		8.0	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		2.70		2.70		3.00	
Interbank:	Overnight	2.73 [2.70]		2.69 [2.69]		2.69 [2.69]	
	1-week	2.75 [2.72]		2.70 [2.73]		2.74 [2.74]	
	1-month	2.87 [2.86]		2.88 [2.87]		2.89 [2.89]	
	3-month	2.90 [2.89]		2.92 [2.91]		2.95 [2.93]	
Fixed deposits of commercial banks:	1-month	3.00		3.00		3.00	
	3-month	3.00		3.00		3.00	
BLR of commercial banks		5.98		5.98		5.98	
ALR of commercial banks		5.90		5.95		5.98	
Prices							
Consumer Price Index (CPI) (2000=100)		109.8	3.4	110.3	3.3	110.7	3.5
Producer Price Index (PPI) (1989=100)		169.8	9.4	167.3	6.0	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.7692		3.7748		3.7783	
Euro		4.5421		4.5515		4.4527	
Pound Sterling		6.6438		6.6999		6.4959	
100 Japanese yen		3.3359		3.2616		3.1628	
Singapore dollar		2.2315		2.2308		2.2329	
100 Thai Baht		9.1988		9.2576		9.1683	
100 Philippine Peso		6.7262		6.8570		6.9793	
100 Indonesian Rupiah		0.0366		0.0373		0.0377	
100 Korean Won		0.3619		0.3618		0.3652	
Capital Market							
Net funds raised (in RMb) by:	public	2.7		4.4		...	
	private	3.2		3.7		2.0	
Bursa Malaysia Composite Index (end-period)		927.5		910.8		896.1	
Bursa Malaysia Market Capitalisation (RMb, end-period)		715.4		702.7		693.0	

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