BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 11/06/12

EMBARGO: Not for publication or broadcast before 1800 hours on Tuesday, 28 November 2006

Monetary and Financial Developments October 2006

Highlights of the Press Release

- Inflation continued to trend downwards, moderating to 3.1% in October. Consequently, real interest rates on fixed deposits with maturities of one month or more turned positive during the month.

- Positive investor sentiments boosted the performance of the stock market.

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MONETARY AND FINANCIAL DEVELOPMENTS OCTOBER 2006

Financing of the private sector through banking system loans and PDS outstanding continued to expand, at a combined annual rate of 7% in October (September: 7.9%). Total loans outstanding grew by 6.8%, with loans outstanding to businesses and households increasing at annual rates of 2.6% and 10.6% respectively (September: 3.3% and 11.4% respectively).

Gross funds raised through the private debt securities (PDS) market amounted to RM2.4 billion in October. Excluding Cagamas, the net funds raised through the PDS market were higher, amounting to RM1.9 billion during the month.

The average fixed deposit (FD) rates of commercial banks (CBs) remained stable in October and November. The real average FD rates for the 1-month and 3-month maturities, however, turned positive in October as inflation continued to trend downwards. In terms of lending rates, while the average base lending rate (BLR) remained unchanged at 6.72%, the average lending rate (ALR) declined marginally to 6.56% as at end-October (end-September: 6.63%). Interbank rates of all maturities were relatively stable during the month.

During the period 1 October – 27 November 2006, the ringgit appreciated against the US dollar, amidst continued trade and investment flows. The ringgit recorded a mixed performance against regional currencies.

Headline inflation, as measured by the Consumer Price Index (CPI), moderated to 3.1% in October. The inflation rate for *food and non-alcoholic beverages* declined further to 3% (September: 3.1%), mainly on account of the slower price increases for both *food taken at home* and *food taken away from home*. The inflation rate for *alcoholic beverages and tobacco* moderated following the lapse of the October 2005 increase in excise duties on these items. The prices of *clothing and footwear* and *communication charges* continued to decline compared to a year ago. The rate of increase of the Producer Price Index (PPI) moderated significantly to 3.9% in September (August: 7.3%), mainly due to price declines for items in the *mineral fuels, lubricants and related items* category, given the lower crude oil prices during the month.

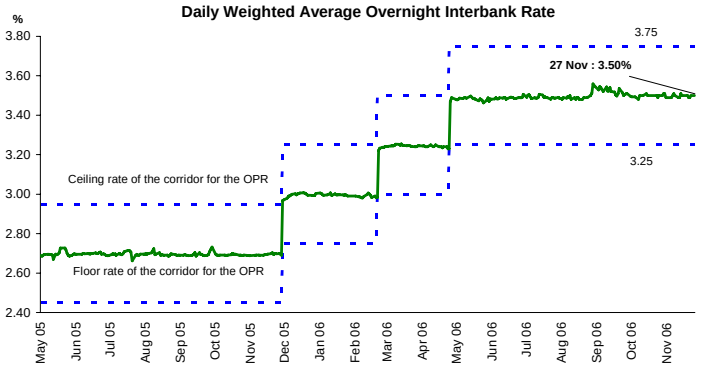
Narrow money, M1, increased at a slower pace of 9.4% in October (September: 11.5%), while broad money, M3, expanded at a faster annual rate of 9.1% (September: 7.9%). Net external operations and net claims on the Government were expansionary on M3 during the month, but claims on the private sector declined due to the smaller holdings of private debt securities by the banking system and lower loans outstanding.

The banking system's capitalisation remained strong during the month, with the risk-weighted capital ratio (RWCR) at 13.1%. The net non-performing loans (NPLs) ratio, based on the 3-month classification, remained unchanged at 5.1% as at end-October 2006.

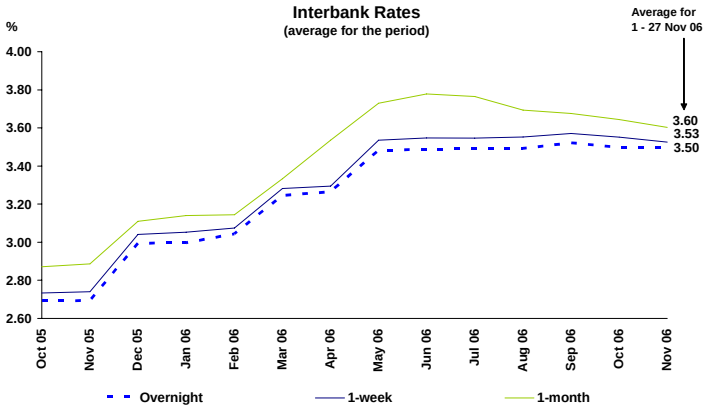
Real FD rates turned positive in October

During the period 1 October – 27 November, the daily weighted average overnight interbank rate moved within a narrow range of 3.48% - 3.51%. Interbank rates of other maturities also remained relatively stable.

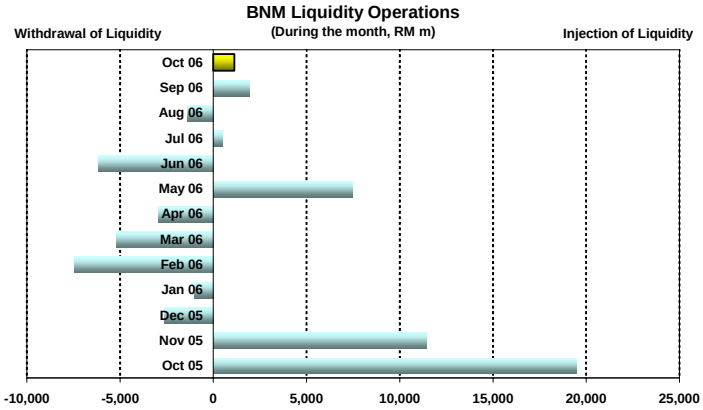
The average fixed deposit (FD) rates of commercial banks (CBs) remained stable in October and November. Of significance, the real average FD rates of CBs for the 1-month and 3-month maturities turned positive in October as inflation continued to trend downwards. In terms of lending rates, the average base lending rate (BLR) of CBs remained unchanged at 6.72% as at 15 November. The average lending rate (ALR) of CBs was marginally lower at 6.56% in October (6.63% in September).



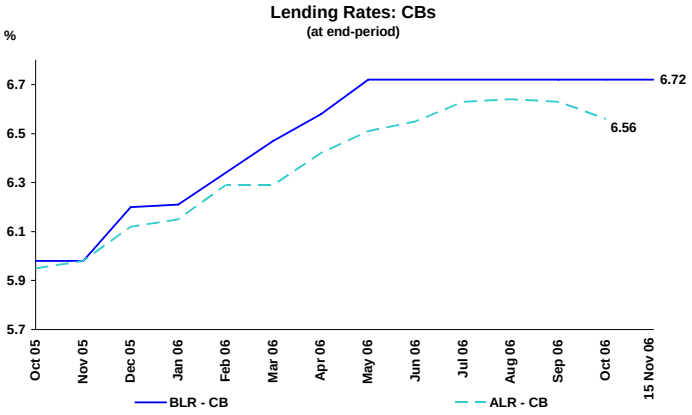
The average overnight interbank rate moved within a narrow range in October and November



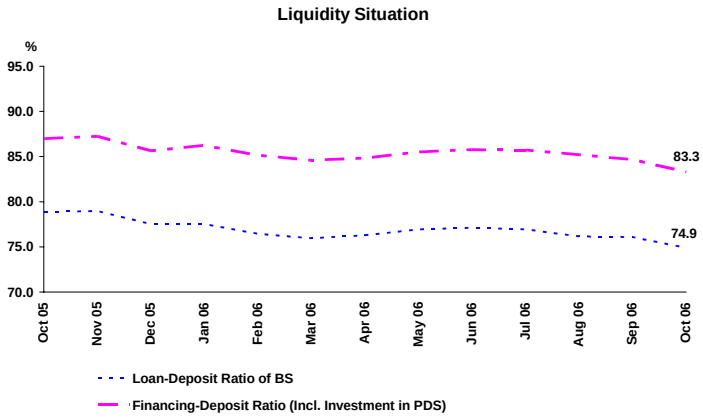
Other interbank rates were also relatively stable



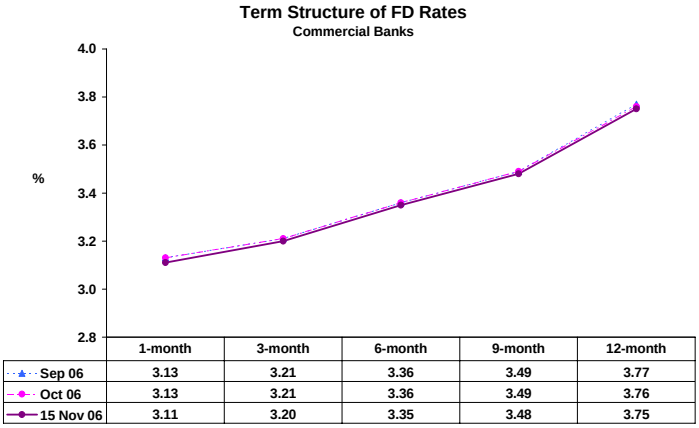
BNM liquidity operations were expansionary in October



ALR of CBs marginally lower

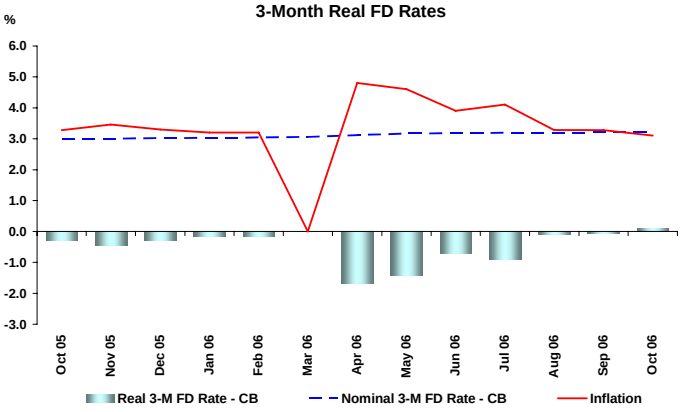


The financing-deposit ratio declined further as the growth in deposits exceeded that of loans



	1-month	3-month	6-month	9-month	12-month
Sep 06	3.13	3.21	3.36	3.49	3.77
Oct 06	3.13	3.21	3.36	3.49	3.76
15 Nov 06	3.11	3.20	3.35	3.48	3.75

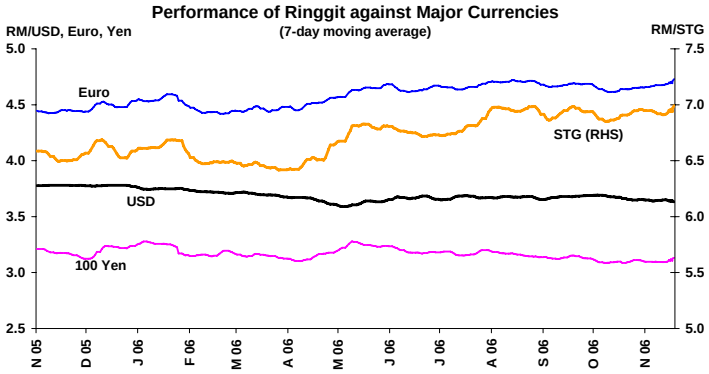
FD rates remained largely unchanged

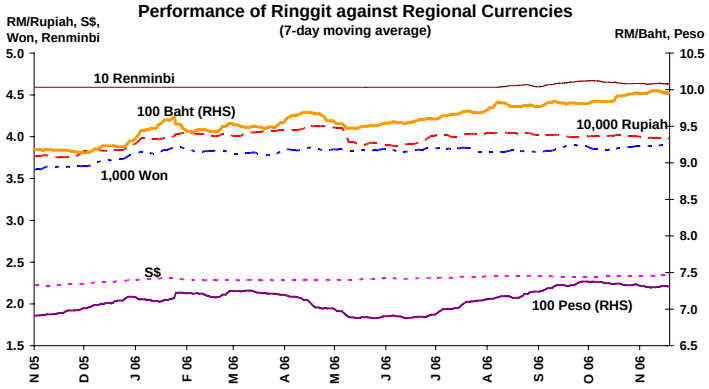


The real 3-m FD rate turned positive in October

Ringgit appreciated against the US dollar

During the period 1 October – 27 November 2006, the ringgit appreciated against the US dollar, amidst continued trade and investment flows, but depreciated against other major currencies. The ringgit was also influenced by developments in the G3 currencies. The US dollar depreciated amidst weaker US economic data, which in turn led to expectations for a continued pause in benchmark interest rate increases. The ringgit recorded a mixed performance against regional currencies, appreciating against the Chinese reminbi (0.6%), Philippine peso (0.5%) and Indonesian rupiah (0.5%), but depreciating against the Thai baht (1.6%), Singapore dollar (0.8%) and Korean won (0.1%).



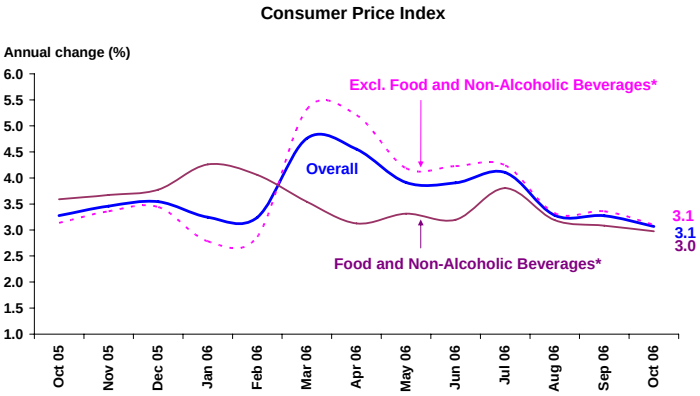


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change	
	Dec 05	Sep 06	Oct 06	27 Nov 06	End Dec 05 - 27 Nov 06	End Sep 06 - 27 Nov 06
US dollar	3.7800	3.6845	3.6480	3.6315	4.1	1.5
Euro	4.4867	4.6821	4.6382	4.7691	-5.9	-1.8
Pound sterling	6.5226	6.9171	6.9310	7.0431	-7.4	-1.8
100 Japanese yen	3.2229	3.1279	3.1035	3.1391	2.7	-0.4
Singapore dollar	2.2714	2.3221	2.3352	2.3415	-3.0	-0.8
100 Thai baht	9.2049	9.8109	9.9225	9.9671	-7.6	-1.6
100 Philippine peso	7.1254	7.3477	7.3121	7.3142	-2.6	0.5
100 Indonesian rupiah	0.0385	0.0399	0.0400	0.0397	-3.3	0.5
100 Korean won	0.3739	0.3901	0.3863	0.3905	-4.2	-0.1
Chinese renminbi	0.4686	0.4660	0.4631	0.4632	1.2	0.6

Inflation moderated to 3.1% in October

Headline inflation, as measured by the Consumer Price Index (CPI), moderated to 3.1% in October. The inflation rate for *food and non-alcoholic beverages* declined further to 3% (September: 3.1%), mainly on account of the slower price increases for both *food taken at home* and *food taken away from home*. The inflation rate for *alcoholic beverages and tobacco* moderated following the lapse of the October 2005 increase in excise duties on these items. The prices of *clothing and footwear* and *communication charges* continued to decline compared to a year ago.

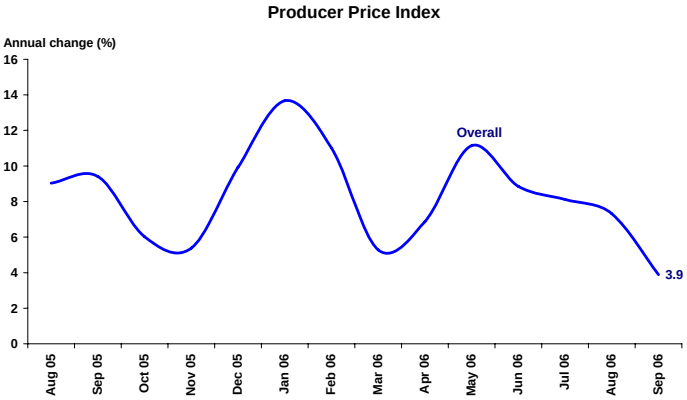


From 2006, the "food" sub-group has been reclassified into "food and non-alcoholic beverages"

Inflation at 3.1% in October

Rate of increase in producer prices moderated in September

The rate of increase of the Producer Price Index (PPI) moderated significantly to 3.9% in September (August: 7.3%). The moderation in the PPI was due mainly to the decline in the prices of *mineral fuels, lubricants and related items,* given the lower crude oil prices during the month.



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

Rate of increase in the PPI moderated in September

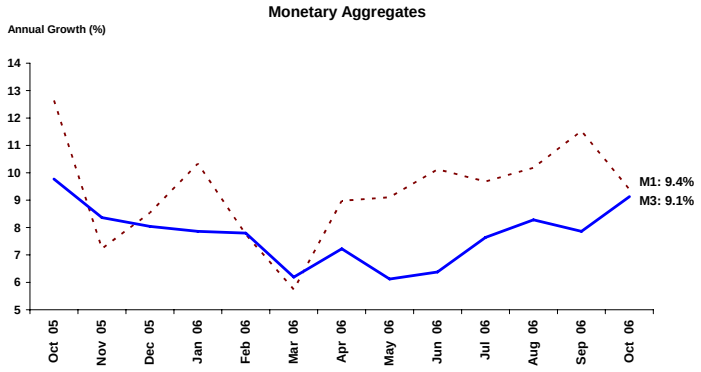
Broad money expanded at a faster rate in October

Narrow money, M1, increased at a slower pace of 9.4% (September: 11.5%), while broad money, M3, expanded at a higher annual rate of 9.1% (September: 7.9%). On a monthly basis, net external operations were expansionary on M3, stemming from the increase in net external assets of the banking system. Net claims on the Government were also expansionary on broad money. Claims on the private sector declined due to the smaller holdings of private debt securities by the banking system and lower loans outstanding.

M3 Determinants
(RM billion)

	Change during period			
	2004	**2005**	**Sep 06**	**Oct 06**
M3	68.0	49.7	-1.4	8.8
Net claims on Government	-15.9	-5.5	-4.9	1.4
Claims on the private sector	30.6	44.6	-0.2	-0.4
Loans	39.8	*45.0*	*2.8*	*-0.1*
Securities	-9.2	*-0.4*	*-3.0*	*-0.3*
Net external operations *	82.7	17.3	8.6	8.0
Other influences	-29.4	-6.7	-4.9	-0.1

* Pre-revaluation of the international reserves



Higher deposits with the banking system in October

Total deposits with the banking system increased further by RM13.1 billion, or 12.8% on an annual basis, in October (September: RM5.6 billion or 10%). The expansion reflected higher deposit placements mainly by business enterprises, financial institutions and, to a lesser extent, individuals. Increases were registered across all types of deposits, with the exception of repos. The largest increase was mainly in the form of Islamic banking (SPI) and fixed deposits.

Deposits by Holder
(RM million)

	Change during period			
	Jul 06	**Aug 06**	**Sep 06**	**Oct 06**
Federal Government	1,188	-1,285	1,021	-7
State Governments	-321	1,391	-176	214
Statutory Authorities [1]	-1,200	-105	1,566	-990
Financial Institutions	-102	766	4,447	3,667
Business Enterprises	3,719	6,477	-4,152	6,765
Individuals	3,244	1,385	1,530	2,825
Others [2]	883	6	1,330	537
Total	7,413	8,636	5,566	13,010

1/ Include local Governments

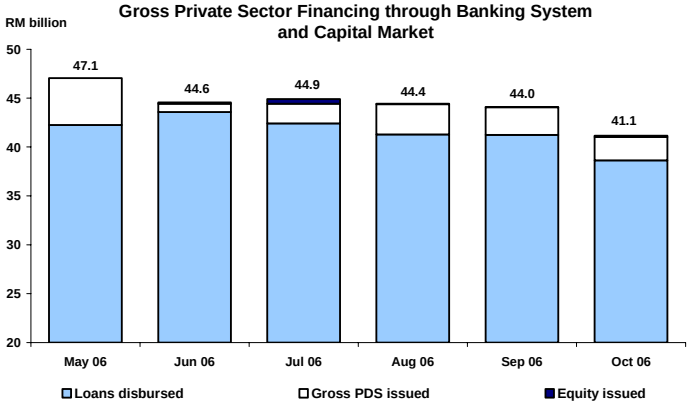
2/ Consist of domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

	Change during period			
	Jul 06	**Aug 06**	**Sep 06**	**Oct 06**
Fixed deposits	1,910	2,763	3,435	3,371
NIDs	-216	5,635	4,751	2,457
Demand deposits	-152	1,959	-1,015	2,730
Savings deposits	123	200	192	635
Repos	4,056	-3,142	-4,009	-3,022
FX deposits	109	952	-1,416	2,803
SPI deposits	707	-65	2,699	3,601
Others	876	334	929	435
Total	7,413	8,636	5,566	13,010

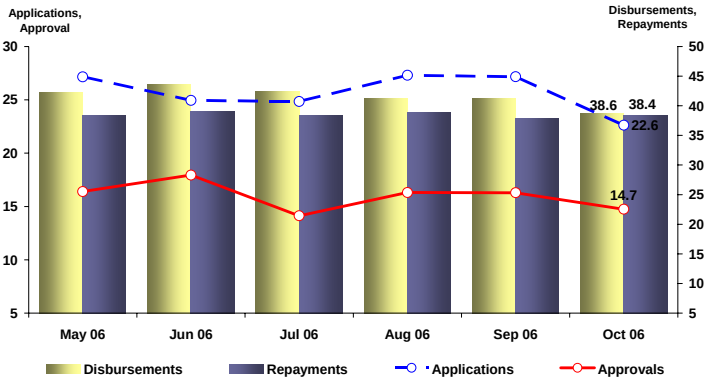
Gross private sector financing moderated in October, partly on account of the festive season

Total gross financing of the private sector through the banking system and the capital market moderated in October, amounting to RM41.1 billion (September: RM44 billion). On a net basis, financing of the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 7% (September: 7.9%).



Gross private sector financing moderated in October

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



Major loan indicators lower in part due to the festive season

Bank lending indicators

	RM billion		Annual Growth (%)	
	Sep	Oct	Sep	Oct
Overall				
Loan applications	27.2	22.6	-1.3	-15.0
Loan approvals	16.3	14.7	-13.0	-16.3
Loan disbursements	41.3	38.6	-16.2	-20.2
Chg in Loans Outstanding[1/]	2.5	-0.1	7.5	6.8
Businesses[2/]				
Loan applications	14.0	11.3	7.8	-9.8
Loan approvals	8.2	7.9	-12.9	-1.4
Loan disbursements	29.5	26.9	-17.1	-22.2
Chg in Loans Outstanding[1/]	0.7	-1.7	3.3	2.6
SMEs				
Loan applications	7.0	5.9	n.a.[3/]	n.a.[3/]
Loan approvals	3.4	4.1	n.a.	n.a.
Loan disbursements	10.8	10.6	n.a.	n.a.
Chg in Loans Outstanding[1/]	0.1	-0.7	n.a.	n.a.
Households				
Loan applications	13.2	11.3	-9.4	-19.7
Loan approvals	8.1	6.9	-13.0	-28.7
Loan disbursements	11.8	11.8	-14.0	-15.2
Chg in Loans Outstanding[1/]	1.8	2.0	11.4	10.6

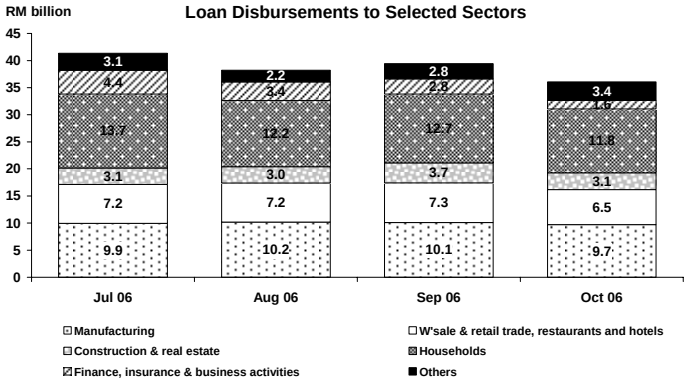
n.a. not applicable

[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.

Lower growth of loans outstanding reflected the slower expansion of long-term loans, namely loans for the purchase of passenger cars and residential property



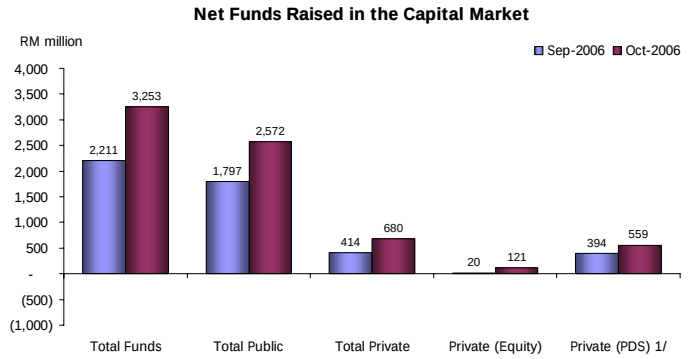
Loan disbursements continued to be channelled to the main sectors

The major loan indicators were lower on a monthly basis across the business and household sectors. To some extent, this reflected the festive period in October which resulted in a lower number of working days. In the business sector, lower loan applications, approvals and disbursements reflected lower working capital requirements. In the households sector, the lower loan applications mainly reflected the moderation in loans for the purchase of passenger cars and residential property.

Total loans outstanding expanded by 6.8% on an annual basis as at end-October (end-September: 7.5%). Loan outstanding to businesses and households expanded at slightly lower rates of 2.6% and 10.6% respectively (September: 3.3% and 11.4% respectively).

Higher net funds raised in the capital market

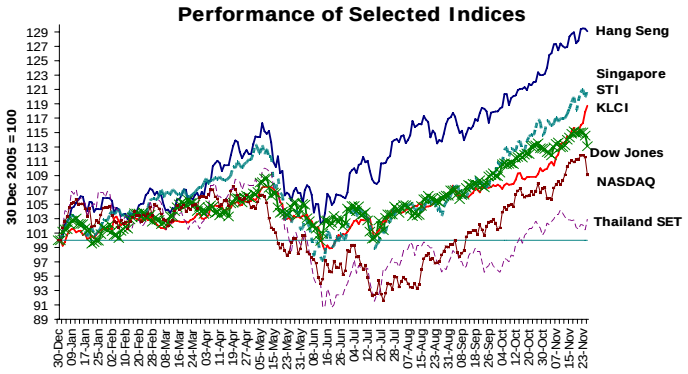
In October, net funds raised in the capital market were higher, amounting to RM3.3 billion. The public sector raised RM3 billion of gross funds through the issuance of 3-year Malaysian Government Securities (MGS). After adjusting for redemption, net funds raised by the public sector were higher, amounting to RM2.6 billion. In the private sector, the private debt securities (PDS) market continued to be the main avenue to mobilise funds with total gross funds raised amounting to RM2.4 billion. Excluding Cagamas, the net funds raised through the PDS market were higher, amounting to RM1.9 billion during the month. In the equity market, funds were raised through four issuances of initial public offering (IPO) amounting to RM121 million.



The KLCI improved further

In October, the KLCI displayed a stronger increase of 2.1% to close at 988.30 (September: 967.55), mainly driven by positive sentiments from both domestic and external factors. Investors' sentiments were lifted by good corporate earnings announcements and expectations of stronger earnings going forward, as well as potential mergers and acquisitions. In addition, strong buying interests from foreign investors, a weaker US dollar, and lower oil and base metal prices also contributed to the positive sentiments.

Market capitalisation rose to RM769.1 billion (since end-September: 3.2%), while the daily average turnover increased to 652.7 million units (September: 464.8 million units).

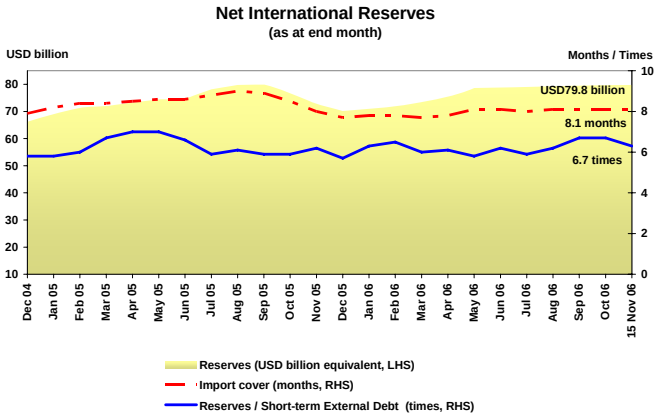


The rise in the KLCI is in line with other regional indices

As at 27 November, the KLCI closed higher at 1068.29 (since end-October: 8.1%). Overall market capitalisation was higher at RM824.6 billion (since end-October: 7.2%). Trading activity was also higher with an average daily turnover of 1037.6 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM293.4 billion or equivalent to USD79.6 billion as at 31 October 2006. The reserves increased to RM294.1 billion or equivalent to USD79.8 billion as at 15 November 2006. The reserves are sufficient to finance 8.1 months of retained imports and are 6.7 times the short-term external debt.



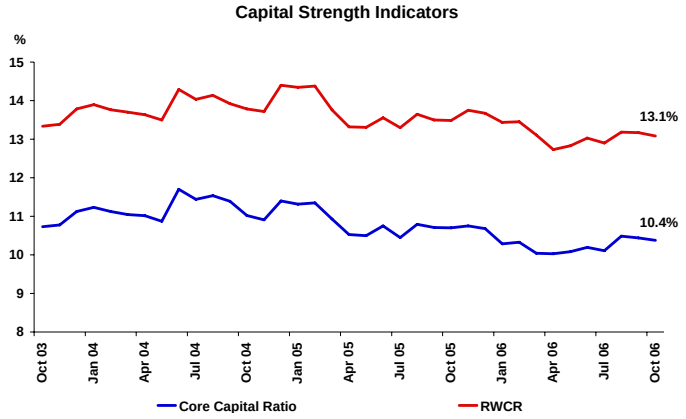
Sustained capitalisation amidst stable level of non-performing loans

Banking system capitalisation level remained strong during the month with a risk-weighted capital ratio (RWCR) and core capital ratio of 13.1% and 10.4% respectively. Net non-performing loans (NPLs) remained unchanged at 5.1% of total net loans as at end-October 2006.

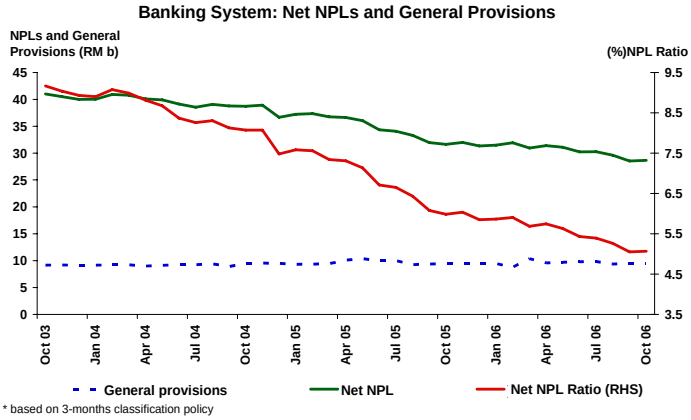
Banking System Health Indicators *

	As at end-									
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**Aug 06**	**Sep 06**	**Oct 06**
Capital (%)										
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.4	10.7	10.5	10.4	10.4
RWCR	12.5	12.5	13.0	13.2	13.8	14.4	13.7	13.2	13.2	13.1
Net NPLs (3-month classification)										
% of net total loans	11.0	9.7	11.5	10.2	8.9	7.5	5.8	5.3	5.1	5.1
Amount (RM million)	40,631	37,678	46,254	43,110	40,013	36,668	31,332	29,617	28,557	28,666
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



Sustained level of banking system capitalisation…



* based on 3-months classification policy

…amidst stable level of NPLs

Bank Negara Malaysia
28 November 2006

Key Monetary and Financial Statistics

		Aug 06		Sep 06		Oct 06	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		54.6	7.6	55.0	5.6	56.8	2.3
M1		130.7	10.2	131.6	11.5	134.7	9.4
M2		673.8	12.8	673.5	12.2	681.7	13.2
M3		709.6	8.3	708.2	7.9	717.0	9.1
Banking System							
Total deposits		739.0	9.7	744.6	10.0	757.6	12.8
Total loans (including loans sold to Cagamas)		586.5	8.6	589.0	7.5	588.9	6.8
Loan-deposit ratio (%)		76.2		76.1		74.9	
Financing-deposit ratio [1] (%)		85.2		84.7		83.3	
Loans applied (during the period)		27.3	-6.1	27.2	-1.3	22.6	-15.0
Loans approved (during the period)		16.3	-6.4	16.3	-13.0	14.7	-16.3
Loans disbursed (during the period)		41.3	-5.9	41.3	-16.2	38.6	-20.2
Loans repaid (during the period)		39.0	-0.5	37.9	-7.7	38.4	-15.5
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.2		13.2		13.1	
Net NPLs: 3-month classification (%)		5.3		5.1		5.1	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		291.2		293.1		293.4	
Net Reserves in USD billion (equivalent)		79.3		79.5		79.6	
Months of retained imports		8.1		8.1		8.1	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.50		3.50		3.50	
Interbank:	Overnight	3.56 [3.49]		3.51 [3.52]		3.51 [3.50]	
	1-week	3.57 [3.55]		3.57 [3.57]		3.60 [3.55]	
	1-month	3.68 [3.69]		3.68 [3.68]		3.63 [3.64]	
Fixed deposits of commercial banks:	1-month	3.12		3.13		3.13	
	3-month	3.19		3.21		3.21	
BLR of commercial banks		6.72		6.72		6.72	
ALR of commercial banks		6.64		6.63		6.56	
Prices							
Consumer Price Index (CPI) (2005=100)		103.9	3.3	104.1	3.3	104.1	3.1
Producer Price Index (PPI) (2000=100)		129.1	7.3	128.1	3.9	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.6770		3.6845		3.6480	
Euro		4.7181		4.6821		4.6382	
Pound Sterling		6.9826		6.9171		6.9310	
100 Japanese yen		3.1485		3.1279		3.1035	
Singapore dollar		2.3379		2.3221		2.3352	
100 Thai Baht		9.7923		9.8109		9.9225	
100 Philippine Peso		7.2204		7.3477		7.3121	
100 Indonesian Rupiah		0.0405		0.0399		0.0400	
100 Korean Won		0.3834		0.3901		0.3863	
Capital Market							
Net funds raised (in RMb) by:	public	-0.7		1.8		2.6	
	private	0.2		0.4		0.7	
Bursa Malaysia Composite Index (end-period)		958.1		967.6		988.3	
Bursa Malaysia Market Capitalisation (RMb, end-period)		740.4		745.5		769.1	

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