BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 10/06/06

EMBARGO: Not for publication or broadcast before 1800 hours on Monday, 30 October 2006

Monetary and Financial Developments September 2006
Highlights of the Press Release

Sustained level of gross private sector financing

On a gross basis, total financing of the private sector through the banking system and the capital market was sustained in September, amounting to RM44 billion (August: RM44.4 billion). On a net basis, banking system loans and PDS outstanding expanded at a combined annual rate of 7.9% (August: 9.2%). Total loans outstanding increased by 7.5%, with loans outstanding to businesses and households increasing by 3.3% and 11.4% respectively.

The capitalisation level of the banking system remained healthy, amidst continued improvement in asset quality. The risk-weighted capital ratio (RWCR) was sustained at 13.2%. The net non-performing loans (NPL) ratio based on the 3-month classification also continued to improve to 5.1% (August: 5.3%) on account of recoveries and write-offs.

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MONETARY AND FINANCIAL DEVELOPMENTS SEPTEMBER 2006

Sustained level of gross private sector financing

On a gross basis, total financing of the private sector through the banking system and the capital market was sustained in September, amounting to RM44 billion (August: RM44.4 billion). On a net basis, banking system loans and PDS outstanding expanded at a combined annual rate of 7.9% (August: 9.2%). Total loans outstanding increased by 7.5%, with loans outstanding to businesses and households increasing by 3.3% and 11.4% respectively.

In September, the private sector raised RM3.1 billion of gross funds from the capital market, mainly through the issuance of private debt securities (PDS). The bulk of the funds were raised by companies in the hotel, construction, manufacturing and finance sectors.

Bank lending and deposit rates remained relatively stable in September and early October. As of 15 October, the average quoted fixed deposit (FD) rates of commercial banks (CBs) for tenures of 1 and 12 months were stable at 3.13% and 3.76% respectively. Meanwhile, the average lending rate (ALR) of CBs remained relatively unchanged at 6.63% at end-September.

The daily weighted average overnight interbank rate rose marginally in early September as some money market participants sourced funds in preparation for the Malaysian Government Securities (MGS) auction. It moved in a tighter range around the OPR in October. Interbank rates for other maturities have remained relatively stable.

During the period 1 September - 27 October 2006, the ringgit appreciated against the US dollar and other major currencies. Movements of the ringgit against regional currencies were mixed.

Headline inflation, as measured by the Consumer Price Index (CPI), remained unchanged at 3.3% in September. The rate of increase in the prices of *food and non-alcoholic beverages* moderated further to 3.1% (August: 3.2%), mainly on account of the slower price increases for both *food taken at home* and *food taken away from home*. Meanwhile, the rate of increase in the prices of *alcoholic beverages and tobacco* was higher following the imposition of excise taxes on these items in Budget 2007. The rate of increase of the Producer Price Index (PPI) moderated to 7.5% in August (July: 8.1%).

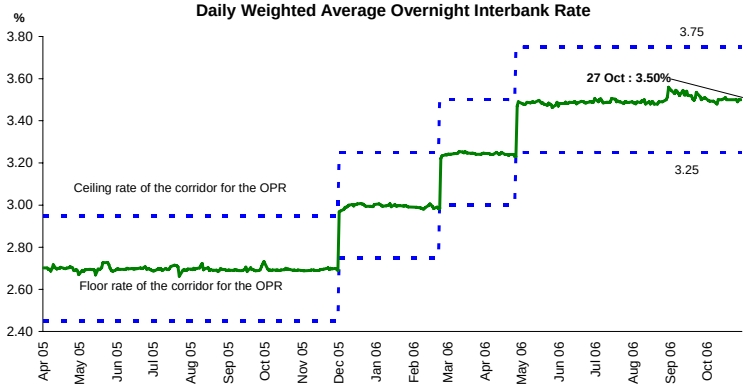
In September, M1, or narrow money, continued to expand at a higher annual rate of 11.5% (August: 10.2%), while broad money, M3, increased at a lower annual rate of 7.9% (August: 8.3%).

The capitalisation level of the banking system remained healthy, amidst continued improvement in asset quality. The risk-weighted capital ratio (RWCR) was sustained at 13.2%. The net non-performing loans (NPL) ratio based on the 3-month classification also continued to improve to 5.1% (August: 5.3%) on account of recoveries and write-offs.

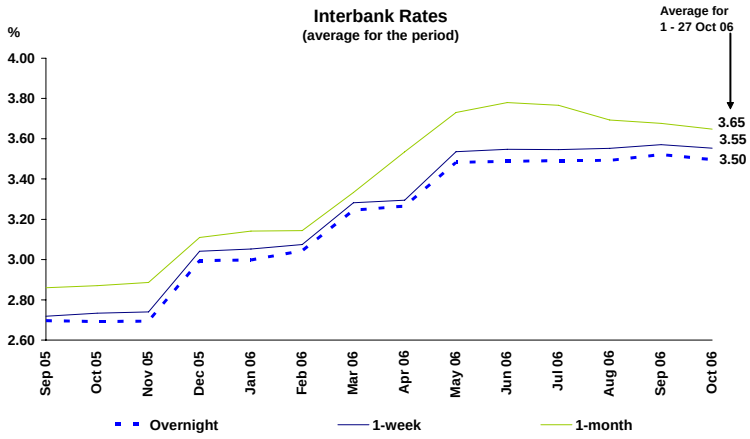
Interest rates stable in October

During the period 1 September – 27 October, the daily weighted average overnight interbank rate moved within a range of 3.48% - 3.55%. The daily weighted average overnight interbank rate rose marginally in early September as some money market participants sourced funds in preparation for the Malaysian Government Securities (MGS) auction. Subsequently, the market rates reverted back to a tighter range around the OPR in October. Interbank rates for other maturities remained relatively stable.

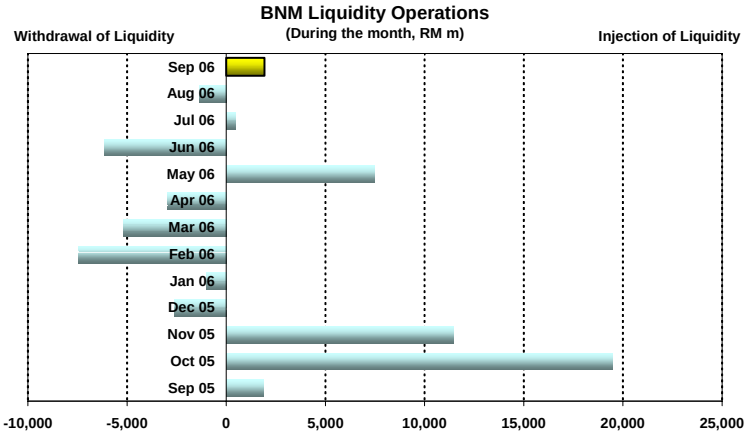
The average fixed deposit (FD) rates of commercial banks (CBs) remained stable in September and early October. As at 15 October, the average quoted FD rates of CBs for tenures of between 1 and 12 months were stable at 3.13% and 3.76% respectively. The real average FD rates of CBs for the 6-month, 9-month and 12-month maturities remained positive as inflation stabilised in September. In terms of lending rates, the average base lending rate (BLR) of CBs remained unchanged at 6.72% in September while the average lending rate (ALR) of CBs stabilised at 6.63% at end-September (end-August: 6.64%).



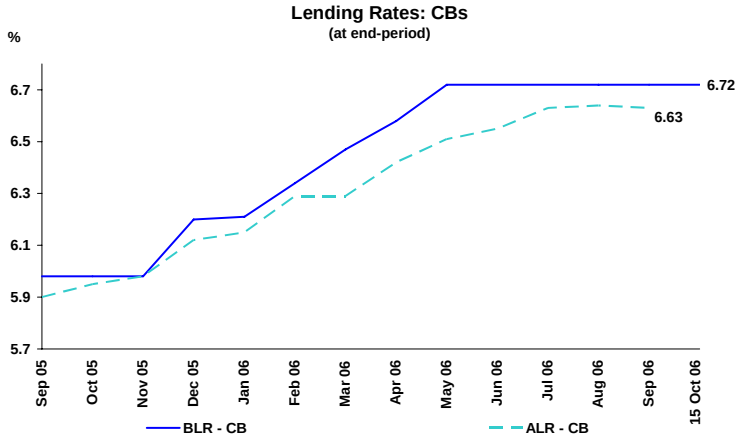
The average overnight interbank rate rose marginally in early September, but subsequently trended closer to the OPR



Other interbank rates were relatively stable

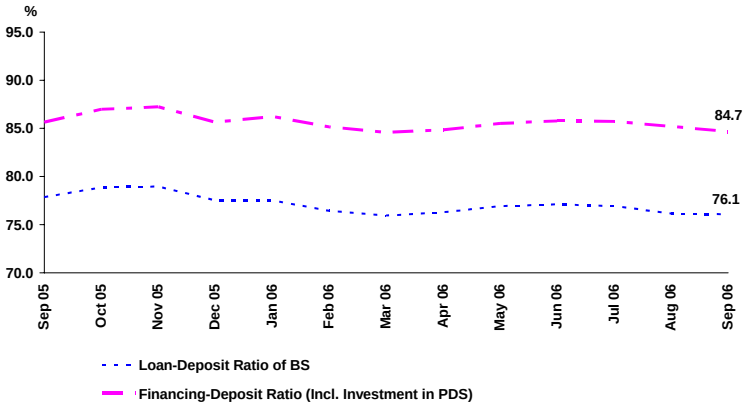


BNM injected liquidity into the banking system in September



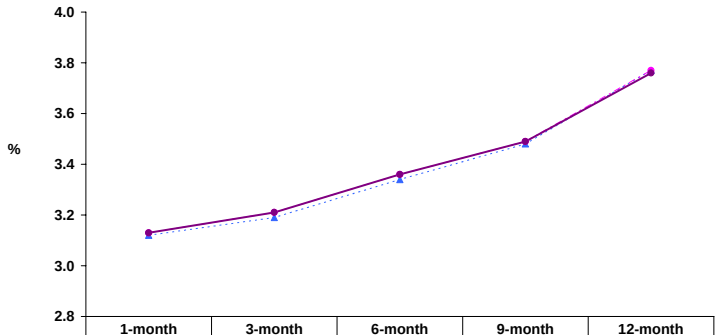
Both BLR and ALR of CBs remained stable

Liquidity Situation



The financing-deposit ratio declined marginally as deposits expanded faster than loans and investments in PDS

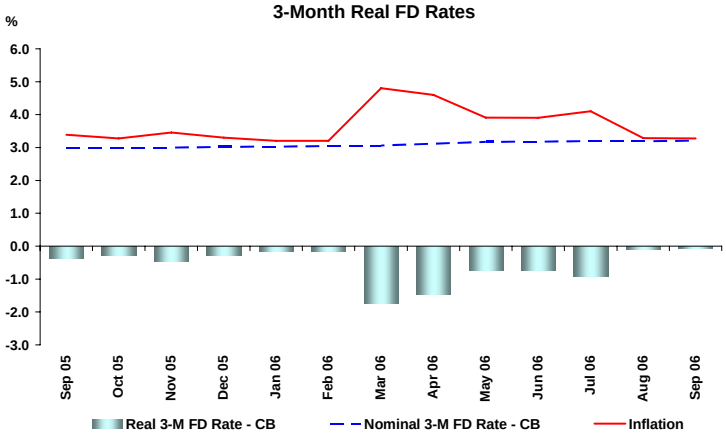
Term Structure of FD Rates
Commercial Banks



	1-month	3-month	6-month	9-month	12-month
Aug 06	3.12	3.19	3.34	3.48	3.77
Sep 06	3.13	3.21	3.36	3.49	3.77
15 Oct 06	3.13	3.21	3.36	3.49	3.76

FD rates of CBs remained relatively stable in September and early October

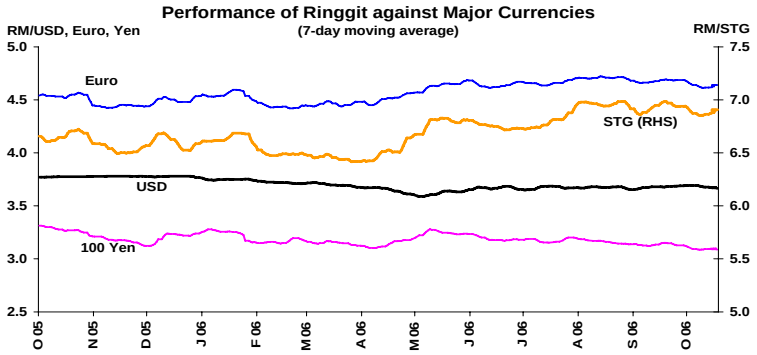
3-Month Real FD Rates

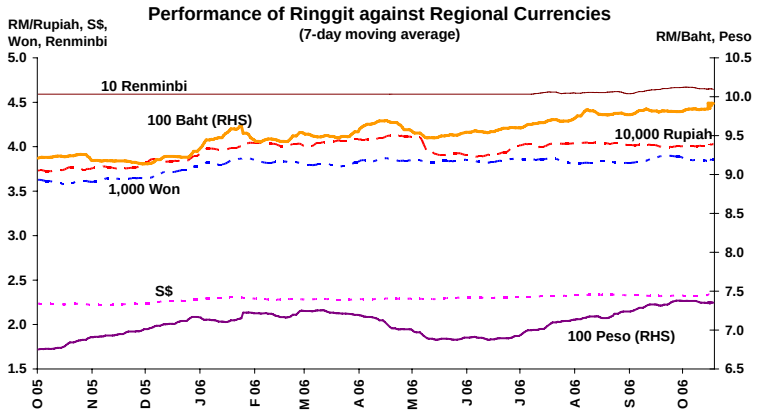


The real 3-m FD rate was relatively unchanged in September

Ringgit appreciated against the major currencies

During the period 1 September - 27 October 2006, the ringgit appreciated against the US dollar and other major currencies. In addition to trade and investment flows, the ringgit was also influenced by developments in the G3 currencies. The euro depreciated as some weaker inflation and economic data reduced expectations for further benchmark interest rate increases. Meanwhile, the Japanese yen weakened amidst some weak economic data as well as geopolitical developments in North Korea. The ringgit recorded a mixed performance against regional currencies. The ringgit appreciated against the Indonesian rupiah (0.7%) and Singapore dollar (0.2%), but depreciated against the Philippine peso (-1.6%), Chinese renminbi (-0.3%), Thai baht (-1.2%) and Korean won (-0.7%).





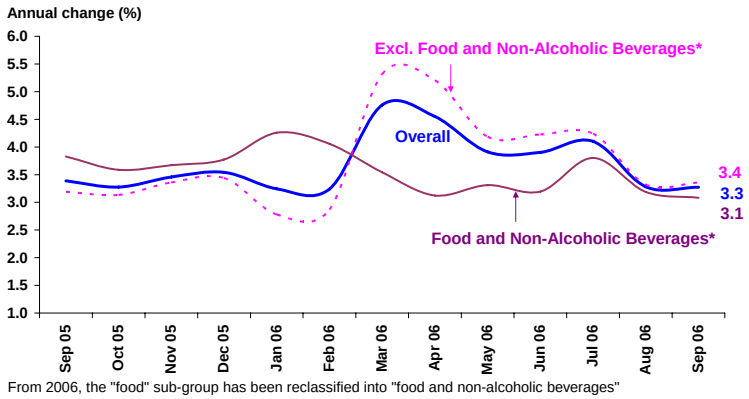
Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change	
	Dec 05	Aug 06	Sep 06	27 Oct 06	End Dec 05 - 27 Oct 06	End Aug 06 - 27 Oct 06
US dollar	3.7800	3.6770	3.6845	3.6545	3.4	0.6
Euro	4.4867	4.7181	4.6821	4.6425	-3.4	1.6
Pound sterling	6.5226	6.9826	6.9171	6.9103	-5.6	1.0
100 Japanese yen	3.2229	3.1485	3.1279	3.0836	4.5	2.1
Singapore dollar	2.2714	2.3379	2.3221	2.3339	-2.7	0.2
100 Thai baht	9.2049	9.7923	9.8109	9.9105	-7.1	-1.2
100 Philippine peso	7.1254	7.2204	7.3477	7.3406	-2.9	-1.6
100 Indonesian rupiah	0.0385	0.0405	0.0399	0.0402	-4.3	0.7
100 Korean won	0.3739	0.3834	0.3901	0.3860	-3.1	-0.7
Chinese renminbi	0.4686	0.4620	0.4660	0.4635	1.1	-0.3

Inflation unchanged at 3.3% in September

Headline inflation, as measured by the Consumer Price Index (CPI), remained unchanged at 3.3% in September. The rate of increase in the prices of *food and non-alcoholic beverages* moderated further to 3.1% (August: 3.2%), 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* was higher following the increase in excise taxes on these items in Budget 2007. Meanwhile, the prices of *clothing and footwear* and *communication charges* continued to decline compared to their levels a year ago.

Consumer Price Index

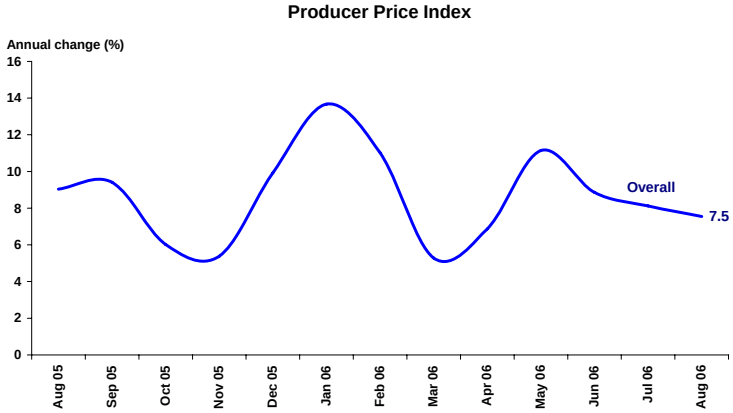


From 2006, the "food" sub-group has been reclassified into "food and non-alcoholic beverages"

Inflation stable at 3.3% in September

Rate of increase in producer prices moderated in August

The Department of Statistics of Malaysia, announced a rebasing of the Producer Price Index (PPI) to year 2000 (previously 1989=100). This exercise also involved the revision of the weights of items in the PPI basket. The new weighting system assigns weights to the components of the PPI in proportion to their contribution to the total value of output in the economy. The new official weights of the sub-components of the PPI would be released by the Department of Statistics in the near future. Based on the new weights, the rate of increase of the PPI moderated to 7.5% in August from 8.1% in July.



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

Rate of increase in PPI moderated in August

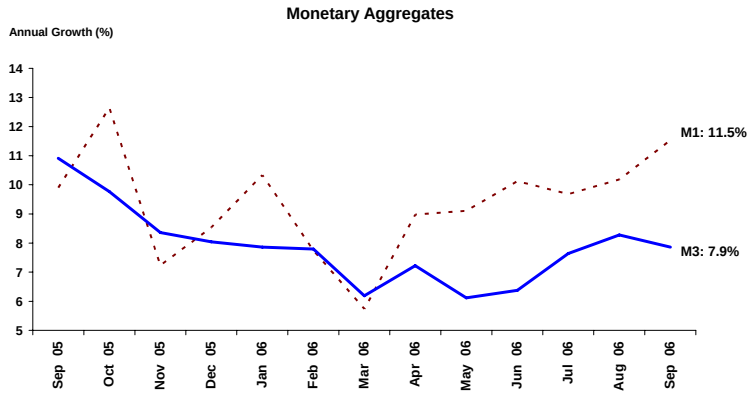
Broad money expanded at a slightly slower rate in September

In September, M1, or narrow money, continued to expand at a higher annual rate of 11.5% (August: 10.2%), while broad money, M3, increased at a lower annual rate of 7.9% (August: 8.3%). On a monthly basis, net external operations were expansionary on M3 as the net external assets of the banking system increased during the month. Other determinants, however, were contractionary on M3. Net claims on the Government were lower following the placements of proceeds from the issuance of Malaysian Government Securities (MGS) with Bank Negara Malaysia and the banking system. Although loans extended to the private sector increased during the month, the banking system's holdings of private debt securities were lower, resulting in a mild net contractionary impact on M3.

M3 Determinants
(RM billion)

	Change during period			
	2004	**2005**	**Aug 06**	**Sep 06**
M3	68.0	49.7	11.3	-1.4
Net claims on Government	-15.9	-5.5	3.1	-4.9
Claims on the private sector	30.6	44.6	1.6	-0.2
Loans	*39.8*	*45.0*	*1.4*	*2.8*
Securities	*-9.2*	*-0.4*	*0.2*	*-3.0*
Net external operations *	82.7	17.3	3.6	8.5
Other influences	-29.4	-6.7	3.1	-4.8

* Pre-revaluation of the international reserves



Banking system deposits increased in September

In September, the total deposits with the banking system increased by RM5.6 billion, or 10% on an annual basis (August: RM8.6 billion, or 9.7%). The increase reflected higher deposit placements by financial institutions and, to a lesser extent, by statutory authorities, individuals and the Federal Government. Deposits of other customers, including those of domestic non-business entities and foreign non-bank entities, also increased. By type, the increase in deposits was mainly in the form of negotiable instruments of deposits (NIDs), fixed deposits and Islamic banking (SPI) deposits.

Deposits by Holder
(RM million)

	Change during period			
	Jun 06	**Jul 06**	**Aug 06**	**Sep 06**
Federal Government	753	1,188	-1,285	1,021
State Governments	49	-321	1,391	-176
Statutory Authorities [1]	1,798	-1,200	-105	1,566
Financial Institutions	1,844	-102	766	4,447
Business Enterprises	-295	3,719	6,477	-4,152
Individuals	1,736	3,244	1,385	1,530
Others [2]	-4	883	6	1,334
Total	5,881	7,413	8,636	5,570

1/ Include local Governments

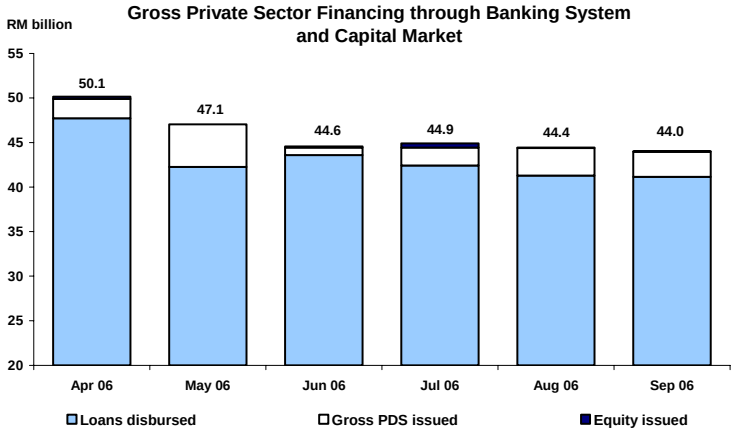
2/ Include domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

	Change during period			
	Jun 06	**Jul 06**	**Aug 06**	**Sep 06**
Fixed deposits	-967	1,910	2,763	3,435
NIDs	3,267	-216	5,635	4,751
Demand deposits	2,722	-152	1,959	-1,015
Savings deposits	-178	123	200	192
Repos	782	4,056	-3,142	-4,009
FX deposits	121	109	952	-1,416
SPI deposits	-93	707	-65	2,703
Others	226	876	334	929
Total	5,881	7,413	8,636	5,570

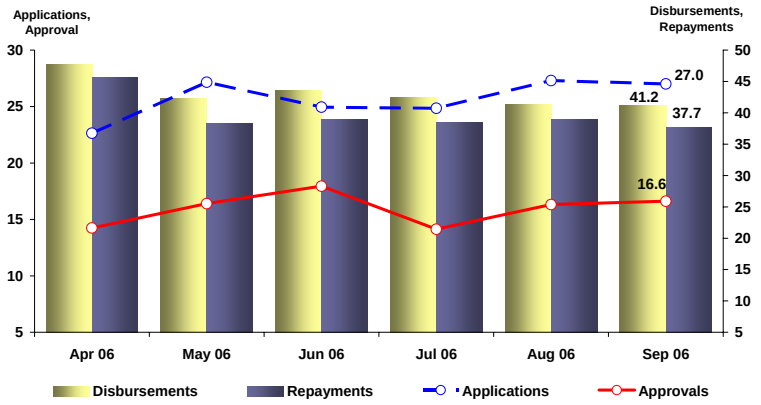
Sustained level of gross private sector financing

Total gross financing of the private sector through the banking system and the capital market was sustained in September, amounting to RM44 billion (August: RM44.4 billion). On a net basis, financing of the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 7.9% (August: 9.2%).



Gross private sector financing remained relatively stable

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



Loan indicators were steady month-on-month

Bank lending indicators

	RM billion		Annual Growth (%)	
	Aug	Sep	Aug	Sep
Overall				
Loan applications	27.3	27.0	-6.1	-1.9
Loan approvals	16.3	16.6	-6.4	-11.3
Loan disbursements	41.3	41.2	-5.9	-16.4
Chg in Loans Outstanding[1/]	2.4	2.5	8.6	7.5
Businesses[2/]				
Loan applications	14.0	13.5	-9.4	4.2
Loan approvals	7.8	8.3	-1.2	-12.6
Loan disbursements	28.6	29.5	-6.4	-17.1
Chg in Loans Outstanding[1/]	1.3	0.7	5.4	3.3
SMEs				
Loan applications	6.3	7.0	n.a.[3/]	n.a.[3/]
Loan approvals	4.0	3.4	n.a.	n.a.
Loan disbursements	11.4	10.8	n.a.	n.a.
Chg in Loans Outstanding[1/]	0.0	0.1	n.a.	n.a.
Households				
Loan applications	13.3	13.5	-2.4	-7.3
Loan approvals	8.5	8.4	-10.7	-9.9
Loan disbursements	12.7	11.7	-4.7	-14.7
Chg in Loans Outstanding[1/]	3.1	1.8	12.2	11.4

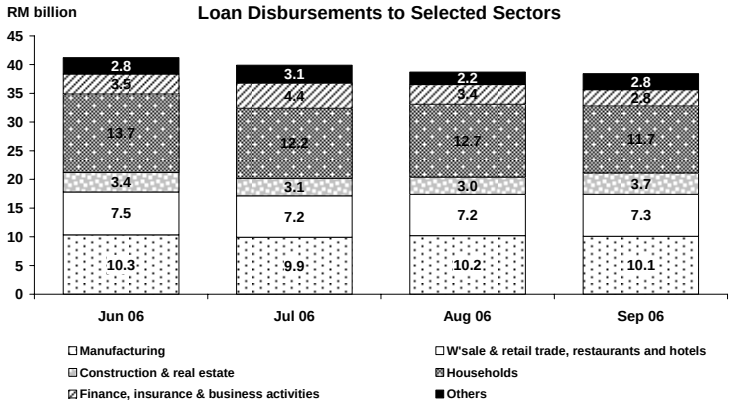
n.a. not applicable

[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.

Business loan approvals and disbursements were higher on a monthly basis



Steady loan disbursements to the main business sectors

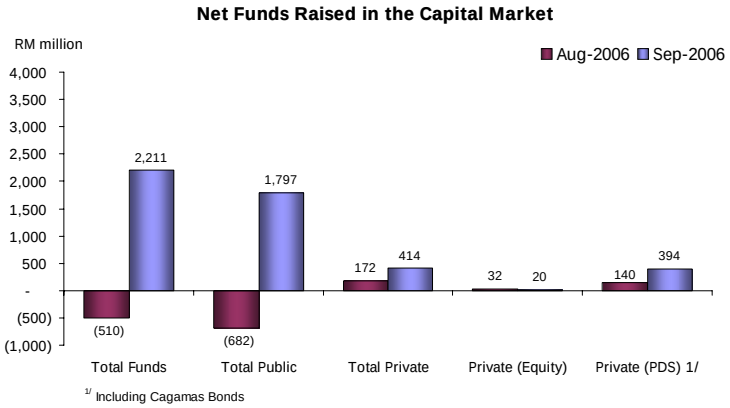
The major loan indicators were relatively stable on a monthly basis with total loan approvals recording a slightly higher level. In the business sector, loan approvals and disbursements were higher during the month with higher funds channelled to large corporations. On an annual basis, business loan approvals and disbursements were lower, reflecting, to some extent, the exceptionally high base of September 2005. Meanwhile, business loan applications recorded a positive annual growth rate of 4.2% (August: -9.4%). In the household sector, financing for the purchase of passenger cars declined. Lower approvals and disbursements for the purchase of passenger cars were the outcome of lower loan applications, which declined by 39.3%.

Total loans outstanding increased by 7.5% on an annual basis as at end-September (end-August: 8.6%), with loans outstanding to businesses and households rising at annual rates of 3.3% and 11.4% respectively (August: 5.4% and 12.2% respectively).

Higher net funds raised in the capital market

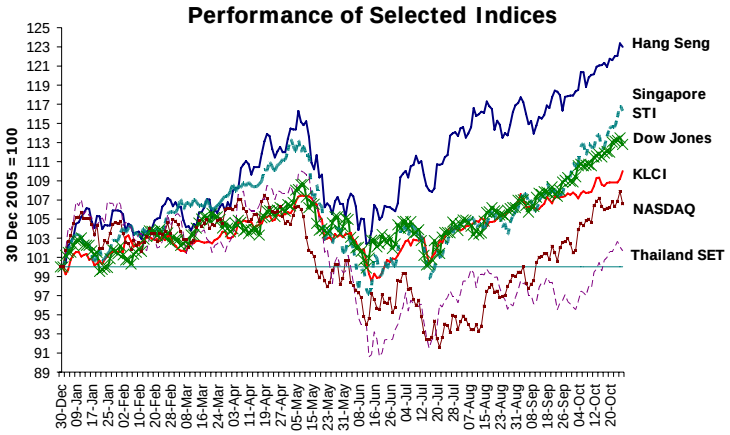
Net funds raised in the capital market were higher in September amounting to RM2.2 billion. The funds were mainly raised by the public sector through the issuance of new 20-year Malaysian Government Securities (MGS) with gross funds raised amounting to RM3 billion. On a net basis, the public sector recorded an inflow of funds of RM1.8 billion during the month. Meanwhile, in the private sector, gross funds amounting to RM3.1 billion were raised, mainly through the private debt securities (PDS) market. The bulk of the funds were raised by companies in the hotel, construction, manufacturing

and finance sectors. After adjusting for redemptions, net funds raised in the PDS and equity markets amounted to RM414 million during the month.



The KLCI strengthened further

In September, positive sentiments arising from the announcement of Budget 2007, stronger than expected second quarter GDP growth, and a benign inflation outlook lifted the KLCI. In addition, lower global oil prices and stronger corporate earnings contributed to the better performance of the KLCI. The KLCI closed at 967.55, or 1% higher compared to end-August. Market capitalisation increased to RM745.5 billion (since end-August: 0.7%), while the daily average turnover rose to 464.8 million units (August: 460.5 million units).

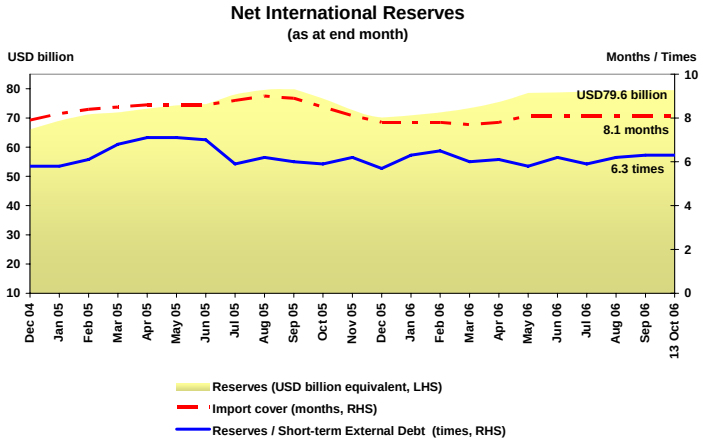


Positive sentiments continued to drive the KLCI upwards

As at 27 October, the KLCI closed higher at 989.90 (since end-September: 2.3%). Overall market capitalisation was higher at RM769.1 billion (since end-September: 3.2%). Trading activities were higher, with the average daily turnover at 613.6 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM293.1 billion or equivalent to USD79.5 billion as at 29 September 2006. The reserves increased to RM293.3 billion or equivalent to USD79.6 billion as at 13 October 2006. The reserves position is sufficient to finance 8.1 months of retained imports and is 6.3 times the short-term external debt.



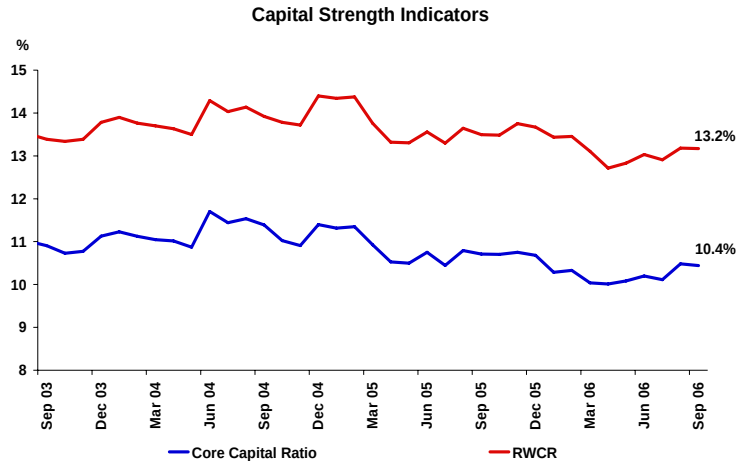
Strong capitalisation level amidst continued improvement in asset quality

The capitalisation level of the banking system remained healthy with the risk-weighted capital ratio (RWCR) sustained at 13.2%. The core capital ratio declined marginally to 10.4% on account of dividend distribution by a number of banking institutions. Meanwhile, the net-non performing loans continued to trend downwards to 5.1% of total net loans on account of recoveries and write-offs.

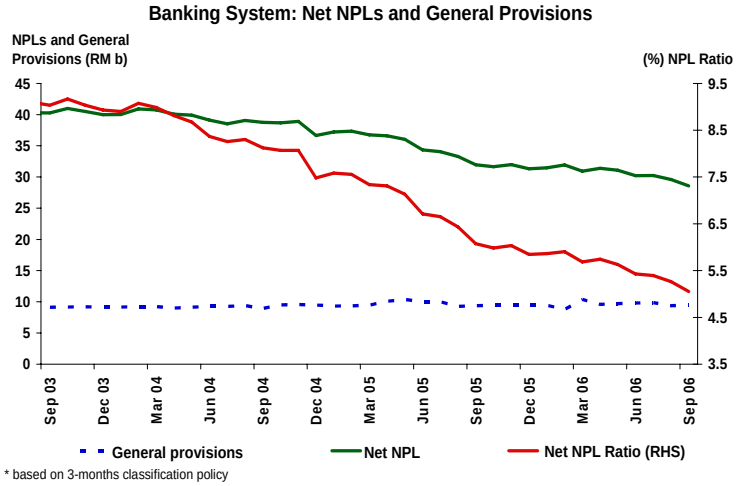
Banking System Health Indicators *

	As at end-									
	1999	2000	2001	2002	2003	2004	2005	Jul 06	Aug 06	Sep 06
Capital (%)										
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.4	10.7	10.1	10.5	10.4
RWCR	12.5	12.5	13.0	13.2	13.8	14.4	13.7	12.9	13.2	13.2
Net NPLs (3-month classification)										
% of net total loans	11.0	9.7	11.5	10.2	8.9	7.5	5.8	5.4	5.3	5.1
Amount (RM million)	40,631	37,678	46,254	43,110	40,013	36,668	31,322	30,247	29,617	28,569
GP / Net total loans (3-month, %)	2.2	2.2	2.1	2.1	2.0	1.9	1.8	1.8	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 the banking system remained healthy…



* based on 3-months classification policy

…amidst declining NPLs

Bank Negara Malaysia
30 October 2006

Key Monetary and Financial Statistics

		Jul 06		Aug 06		Sep 06	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		53.7	5.3	54.6	7.6	55.0	5.6
M1		128.3	9.7	130.7	10.2	131.6	11.5
M2		662.7	12.7	673.8	12.8	673.5	12.2
M3		698.3	7.6	709.6	8.3	708.2	7.9
Banking System							
Total deposits		730.4	9.8	739.0	9.7	744.6	10.0
Total loans (including loans sold to Cagamas)		584.1	9.3	586.5	8.6	589.0	7.5
Loan-deposit ratio (%)		76.9		76.2		76.1	
Financing-deposit ratio [1] (%)		85.7		85.2		84.7	
Loans applied (during the period)		24.8	-9.1	27.3	-6.1	27.0	-1.9
Loans approved (during the period)		14.1	-22.4	16.3	-6.4	16.6	-11.3
Loans disbursed (during the period)		42.4	1.7	41.3	-5.9	41.2	-16.4
Loans repaid (during the period)		38.4	-7.0	39.0	-0.5	37.7	-8.0
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		12.9		13.2		13.2	
Net NPLs: 3-month classification (%)		5.4		5.3		5.1	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		290.4		291.2		293.1	
Net Reserves in USD billion (equivalent)		79.1		79.3		79.5	
Months of retained imports		8.1		8.1		8.1	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.25		3.50		3.50	
Interbank:	Overnight	3.49 [3.49]		3.56 [3.49]		3.51 [3.52]	
	1-week	3.51 [3.55]		3.57 [3.55]		3.57 [3.57]	
	1-month	3.75 [3.77]		3.68 [3.69]		3.68 [3.68]	
Fixed deposits of commercial banks:	1-month	3.12		3.12		3.13	
	3-month	3.19		3.19		3.21	
BLR of commercial banks		6.72		6.72		6.72	
ALR of commercial banks		6.63		6.64		6.63	
Prices							
Consumer Price Index (CPI) (2005=100)		104.0	4.1	103.9	3.3	104.1	3.3
Producer Price Index (PPI) (1989=100)		174.5	8.1	129.7*	7.5*	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.6535		3.6770		3.6845	
Euro		4.6653		4.7181		4.6821	
Pound Sterling		6.8163		6.9826		6.9171	
100 Japanese yen		3.1946		3.1485		3.1279	
Singapore dollar		2.3160		2.3379		2.3221	
100 Thai Baht		9.6577		9.7923		9.8109	
100 Philippine Peso		7.1059		7.2204		7.3477	
100 Indonesian Rupiah		0.0403		0.0405		0.0399	
100 Korean Won		0.3827		0.3834		0.3901	
Capital Market							
Net funds raised (in RMb) by:	public	2.5		-0.7		1.8	
	private	-0.4		0.2		0.4	
Bursa Malaysia Composite Index (end-period)		935.9		958.1		967.6	
Bursa Malaysia Market Capitalisation (RMb, end-period)		727.8		740.4		745.5	

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

* Refers to the base year of 2000=100