BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 10/05/54 (BN)

EMBARGO: Not for publication or broadcast before 1700 hours on Friday, 28 October 2005

Monetary and Financial Developments September 2005
Highlights of the Press Release

Higher financing activity by the private sector

Financing to the private sector increased during the month. Banking system loans and private debt securities outstanding increased at an annual rate of 9.2% at end-September, while total bank loans outstanding also grew by 9.2% on an annual basis. Financing to the small and medium enterprises (SMEs) particularly, continued to be strong as reflected by the higher annual growth of 9.8% in loans outstanding to the SMEs during the month. Meanwhile, the banking system's net non-performing loan ratio based on the 6-month classification declined further to 4.8% in September.

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MONETARY AND FINANCIAL DEVELOPMENTS SEPTEMBER 2005

Higher financing activity by the private sector

Financing to the private sector increased in September. Banking system loans and private debt securities outstanding increased at an annual rate of 9.2% at end-September, while total bank loans outstanding also grew by 9.2% on an annual basis. Loans outstanding to the small and medium enterprises (SMEs) registered a higher annual growth rate of 9.8%.

During the period of 1 September – 27 October, the daily weighted average overnight interbank rate moved within a narrow range to average at 2.69%, while the 1-month and 3-month interbank rates were marginally higher. In the retail market, the average lending rates (ALR) for commercial banks and finance companies were relatively stable at 5.90% and 8.70% respectively.

Over the period 1 September – 27 October, the ringgit recorded a mixed performance against major and regional currencies. The USD appreciated against the ringgit while both the euro and yen depreciated against the ringgit.

Headline inflation, as measured by the Consumer Price Index, moderated to 3.4% in September, due mainly to the slower growth in the prices of beverages and tobacco products. Producer price inflation increased in August, with the Producer Price Index increasing by 9% on an annual basis.

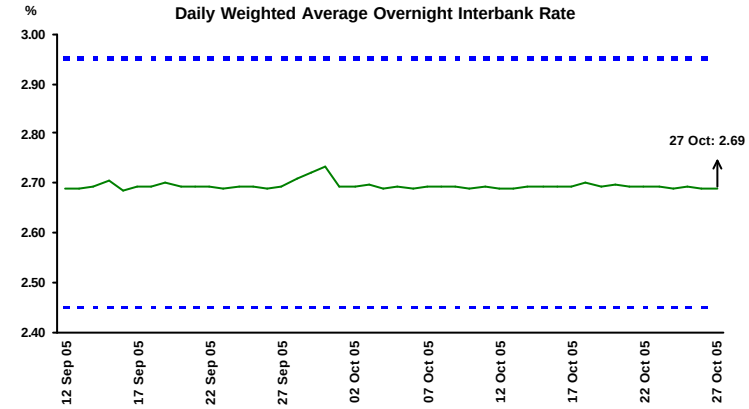
The growth rates of monetary aggregates were slower in September. Narrow money or M1, and broad money, M3, expanded at annual rates of 9.9% and 10.9% respectively at end-September. Growth in M3 was due mainly to the expansion of credit by the banking system, which increased by 9.2%.

In the capital market, net funds raised were higher at RM6.8 billion during the month, due mainly to funds raised by both the private and public sectors through debt issuance. Net issuances of private debt securities (PDS) amounted to RM3.8 billion, mainly by companies in the finance and water supply sectors.

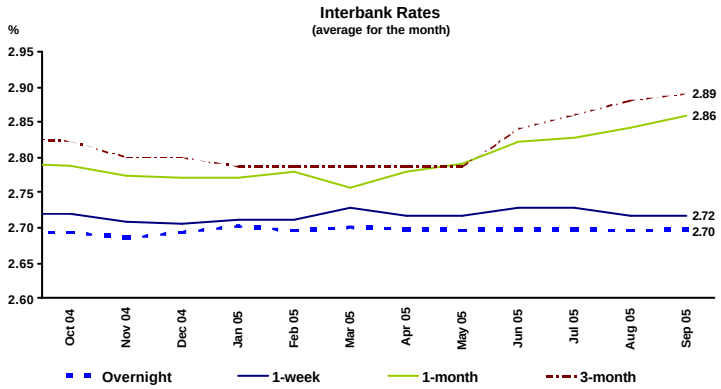
The banking system remained strong, with the risk-weighted capital ratio (RWCR) remaining high at 13.3% and net non-performing loan (NPL) ratio based on the 6-month classification declining to 4.8%.

Interest rates remained relatively stable

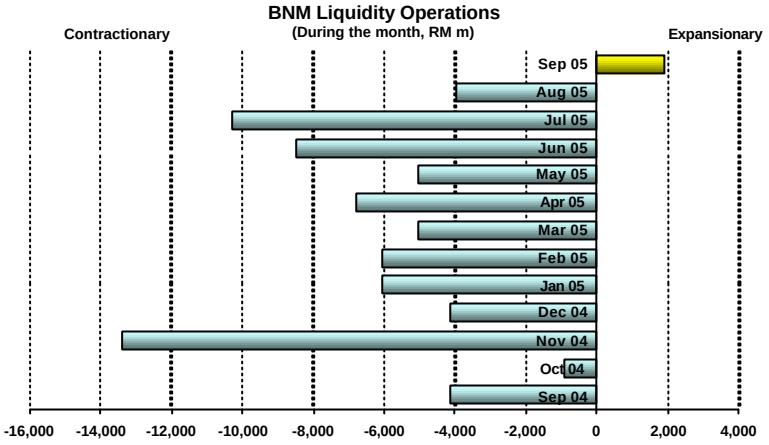
During the period of 1 September – 27 October, the daily weighted average overnight interbank rate moved within a range of 2.69% - 2.73%, averaging at 2.69%. Meanwhile, the average interbank rates for the 1-month and 3-month tenures increased marginally, reflecting expectations that interest rates will increase going forward. The average BLRs of commercial banks (CBs) and finance companies (FCs) remained unchanged. Meanwhile, the ALRs of CBs and FCs remained relatively stable at 5.90% and 8.70% respectively (5.91% and 8.72% respectively as at end-August).



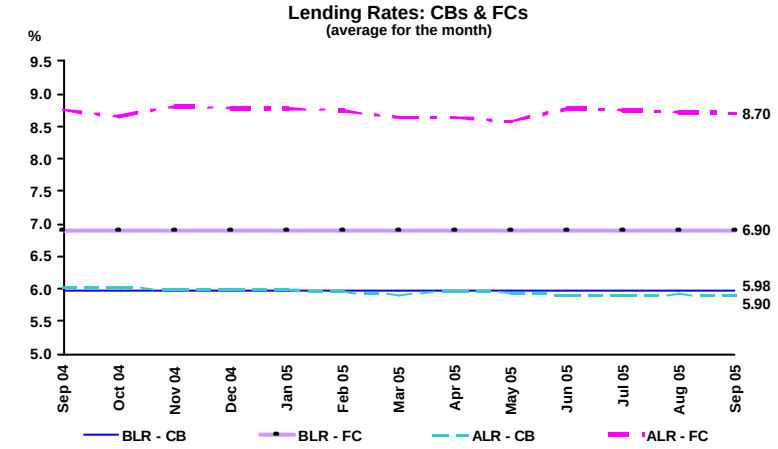
Stable overnight interbank rate



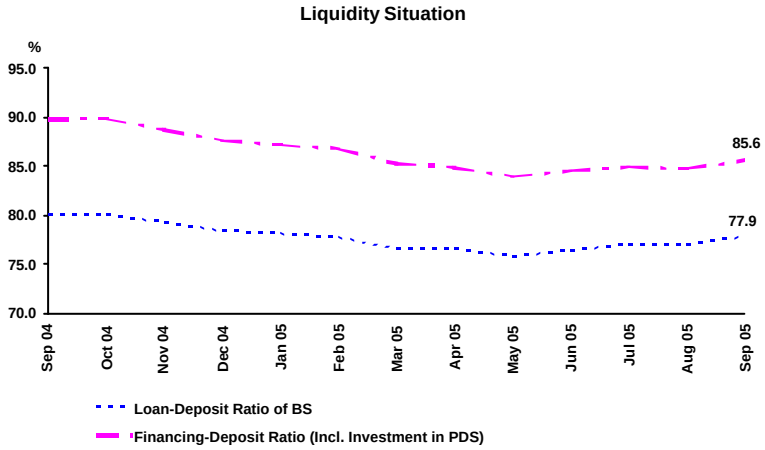
The interbank rates for the 1-month and 3-month tenures have increased marginally in September



Liquidity operations were expansionary in September

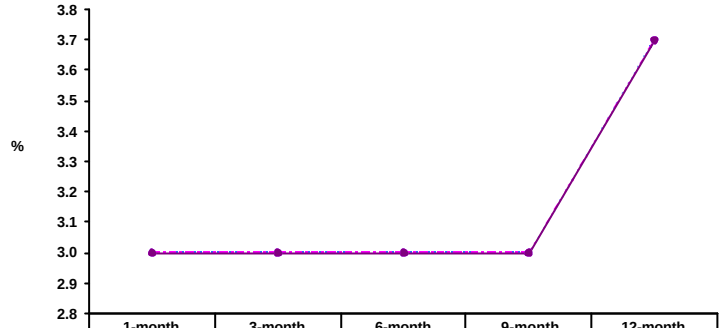


ALRs of the CBs and FCs were stable



The financing-deposit ratio continued on a modest upward trend

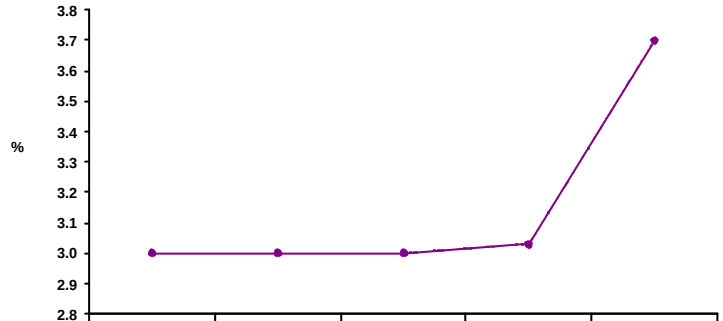
Term Structure of FD Rates
Commercial Banks



	1-month	3-month	6-month	9-month	12-month
Aug 05	3.00	3.00	3.00	3.00	3.70
Sep 05	3.00	3.00	3.00	3.00	3.70
21 Oct 05	3.00	3.00	3.00	3.00	3.70

FD rates of CBs remained unchanged

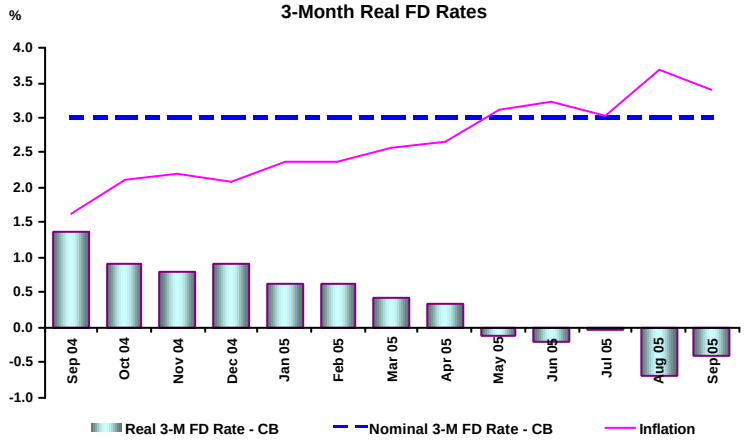
Term Structure of FD Rates
Finance Companies



	1-month	3-month	6-month	9-month	12-month
Aug 05	3.00	3.00	3.00	3.03	3.70
Sep 05	3.00	3.00	3.00	3.03	3.70
21 Oct 05	3.00	3.00	3.00	3.03	3.70

FD rates of FCs remained unchanged

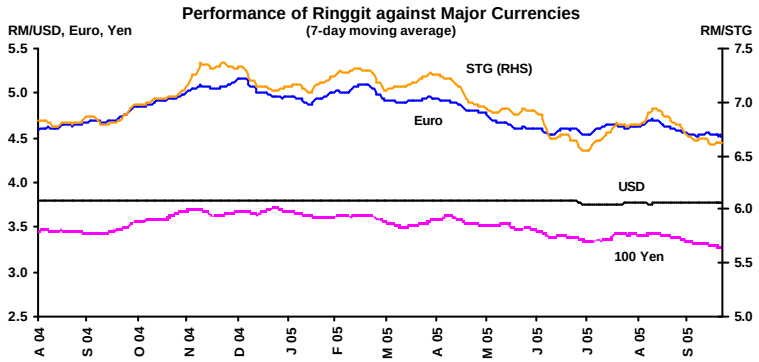
3-Month Real FD Rates

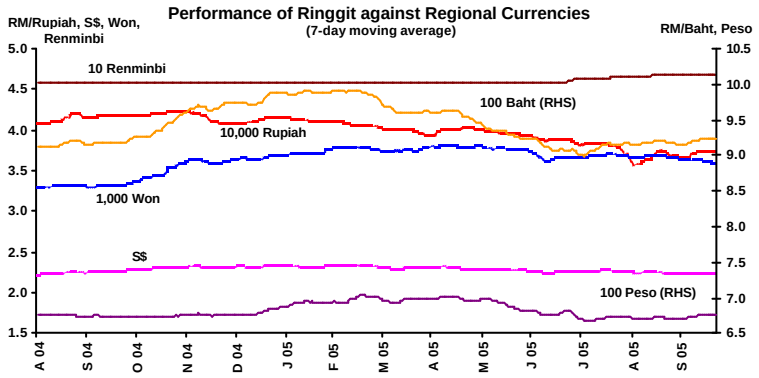


The 3-month real FD rate improved in September as inflation dipped

Performance of the ringgit

Over the period 1 September – 27 October, the ringgit recorded a mixed performance against major and regional currencies. The USD appreciated against the ringgit amidst general expectations of further US interest rate increases. The euro depreciated against the ringgit due to concerns that the post-election situation in Germany would hamper economic reforms. The yen also depreciated against the ringgit amidst high oil prices. Selected regional currencies strengthened against the ringgit, while the Singapore dollar and the Korean won weakened against the ringgit.



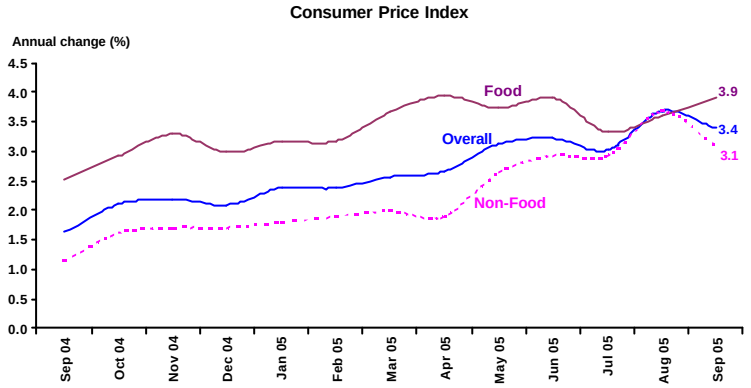


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% change	
	Dec. 04	Aug. 05	Sept. 05	27 Oct. 2005	End Dec. 04 - 27 Oct. 2005	End Aug. 05 - 27 Oct. 2005
US dollar	3.8000	3.7698	3.7692	3.7750	0.7	-0.1
Euro	5.1729	4.6027	4.5421	4.5725	13.1	0.7
Pound Sterling	7.3169	6.7605	6.6438	6.7333	8.7	0.4
100 Japanese yen	3.7026	3.3985	3.3359	3.2697	13.2	3.9
Singapore dollar	2.3258	2.2395	2.2315	2.2337	4.1	0.3
100 Thai baht	9.7636	9.1178	9.1988	9.2513	5.5	-1.4
100 Philippine peso	6.7706	6.7098	6.7262	6.8565	-1.3	-2.1
100 Indonesian Rupiah	0.0408	0.0346	0.0366	0.0379	7.9	-8.6
100 Korean won	0.3671	0.3648	0.3619	0.3615	1.6	0.9
Chinese renminbi	0.4591	0.4657	0.4669	0.4678	-1.8	-0.4

Inflation moderated in September

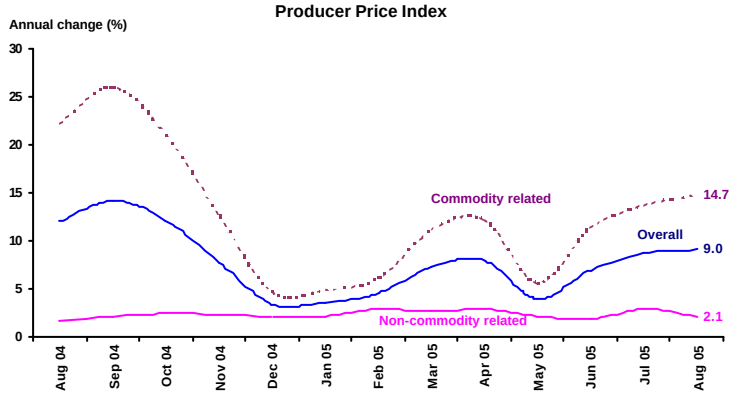
Headline inflation, as measured by the Consumer Price Index (CPI), moderated to 3.4% in September (August: 3.7%). The moderation in inflation during the month was caused mainly by slower growth in the beverages and tobacco category. This was due to the lapse in the price adjustment that was implemented in September 2004, following the increase in excise duty on these items during the 2005 Budget. CPI for food, transportation and household furnishing categories rose while the clothing and footwear category continued to experience falling prices, albeit at a slower rate. Prices of other goods and services in the CPI were relatively stable.



Inflation moderated to 3.4% in September

Producer price inflation continued to increase

The annual growth of the Producer Price Index (PPI) increased to 9% in August (July: 8.6%). This was primarily due to the continued increase in crude oil prices and higher rubber prices, which more than offset the decline in prices of crude palm oil. Excluding commodity prices, however, the PPI inflation moderated to 2.1% (July: 2.8%), primarily due to the slower growth in prices of food and live animals and manufactured goods.



PPI inflation continued to increase

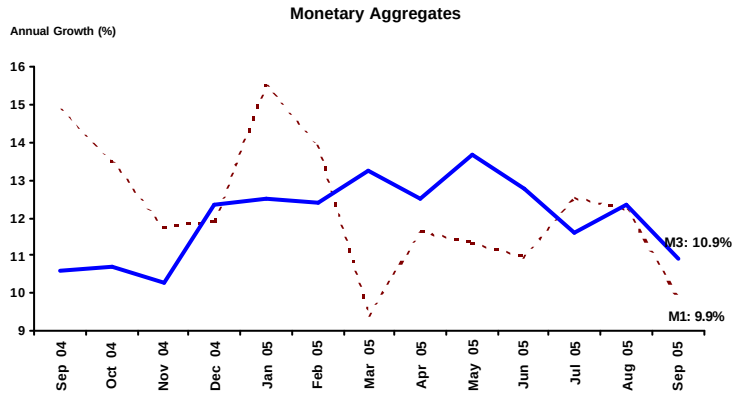
Monetary aggregates registered slightly slower growth rates

In September, narrow money or M1, representing transactional balances, and broad money, M3, expanded at an annual rate of 9.9% and 10.9% respectively (August: 12.2% and 12.3% respectively). On a monthly basis, M3 rose by RM1.2 billion mainly due to higher claims on the private sector. Net external operations were contractionary, mainly because of the lower net external assets position of the banking system. Net claims on the Government were also contractionary, as the Government deposited the proceeds from two re-opened MGS issues with Bank Negara Malaysia.

M3 Determinants
(RM billion)

	Change during period			
	2004	**Aug 05**	**Sep 05**	**Jan-Sep 05**
M3	68.0	6.6	1.2	38.9
Net claims on Government	38.1	-2.1	-1.2	-18.1
Claims on the private sector	-9.5	4.7	9.7	30.1
Loans	82.0	*5.3*	*8.8*	*36.4*
Securities	90.0	*-0.6*	*0.9*	*-6.3*
Net external operations *	-8.0	1.8	-9.0	40.3
Other influences	-28.3	2.1	1.7	-13.4

* Pre-revaluation of the international reserves



Banking system deposits continued to increase in September

In September, total deposits mobilised by the banking system increased by RM3.6 billion or at an annual rate of 13.4% (August: +RM8.5 billion or 14.8%). The increase during the month was mainly due to higher deposit placements by individuals, domestic business enterprises and other domestic entities. In terms of deposit types, the reduction in repurchase agreements, and the increases in negotiable instruments of deposits, foreign currency deposits and Islamic banking deposits were mainly recorded by domestic business enterprises.

Deposits by Holder
(RM million)

	Change during period			
	Jun 05	Jul 05	Aug 05	Sep 05
Federal Government	968	-312	140	147
State Governments	219	182	297	-14
Statutory Authorities [1]	386	-657	2	-99
Financial Institutions	802	-1,912	-884	-371
Business Enterprises	-1,091	-1,567	8,343	709
Individuals	1,248	539	1,062	1,281
Others [2]	23	13	-507	1,953
Total	2,555	-3,714	8,454	3,607

1/ Include local Governments

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

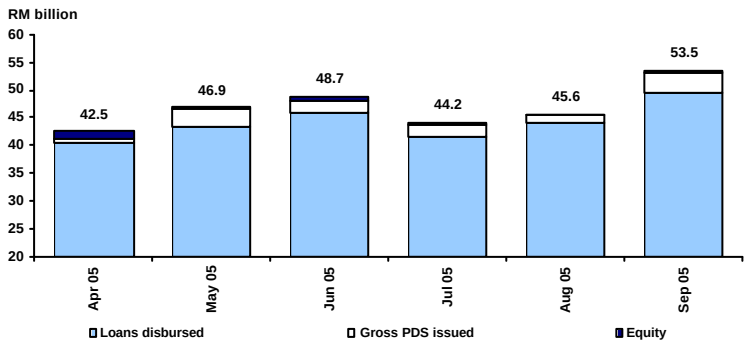
Deposits by Type
(RM million)

	Change during period			
	Jun 05	Jul 05	Aug 05	Sep 05
Fixed deposits	-2,003	2,190	3,540	-592
NIDs	3,049	-6,344	3,058	5,333
Demand deposits	3,042	-1,671	316	871
Savings deposits	342	-230	-160	206
Repos	612	2,739	1,624	-5,808
FX deposits	-3,379	-1,252	-147	2,015
SPI deposits	347	717	94	1,346
Others	546	137	130	237
Total	2,555	-3,714	8,454	3,607

Financing to the private sector was higher in September

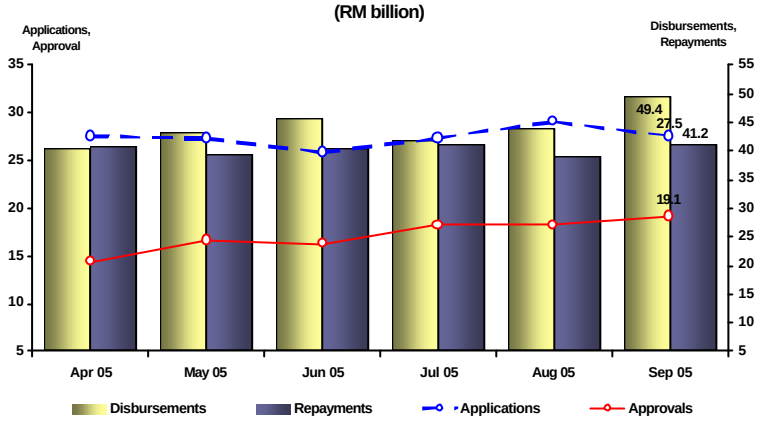
In September, gross financing of the private sector from the banking system and the capital market was higher at RM53.5 billion (August: RM45.6 billion), expanding at an annual rate of 13.3% (August: 13.8%). The higher financing was mainly due to higher loan disbursements of RM49.4 billion (August: RM43.9 billion). On a net basis, financing to the private sector (banking system loans and PDS outstanding) increased at an annual rate of 9.2% (August: 8.9%).

Private Sector Gross Financing through Banking System and the Capital Market



Gross private sector financing increased further in September with higher loan disbursements

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



Total loan approvals increased while loan applications were marginally lower in September

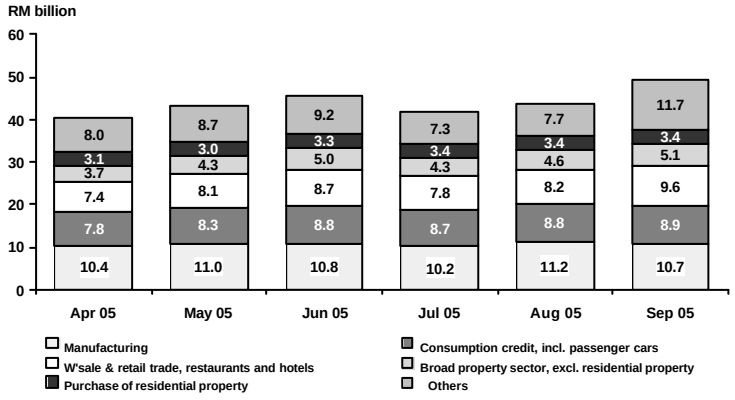
Bank lending indicators

	RM billion		Annual Growth (%)	
	August	September	August	September
Overall				
Loan applications	29.1	27.5	11.0	9.3
Loan approvals	18.2	19.1	27.1	21.0
Loan disbursements	43.9	49.4	13.7	15.3
Chg in Loans Outstanding[1/]	5.2	8.4	8.9	9.2
Businesses				
Loan applications	15.8	12.9	0.0	-8.8
Loan approvals	9.1	9.6	25.1	35.4
Loan disbursements	29.5	34.3	12.6	17.7
Chg in Loans Outstanding[1/]	1.0	5.3	3.0	3.9
SMEs				
Loan applications	6.3	5.1	23.1	1.6
Loan approvals	3.8	4.0	39.8	25.7
Loan disbursements	9.6	10.1	18.4	17.3
Chg in Loans Outstanding[1/]	1.0	1.4	9.2	9.8
Households				
Loan applications	12.7	13.6	26.5	28.0
Loan approvals	9.0	8.7	26.9	2.0
Loan disbursements	12.6	12.9	14.6	13.9
Chg in Loans Outstanding[1/]	3.9	3.8	15.0	14.9

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

Business loan approvals and disbursements were higher

Loan Disbursements to Selected Sectors



Loan disbursements remained broad-based

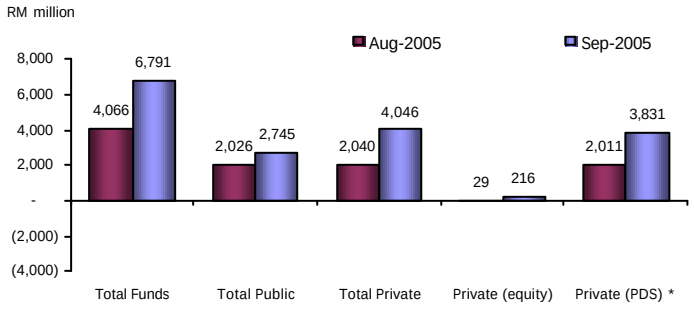
Loan disbursements to businesses were higher in September, at RM34.3 billion, expanding at an annual rate of 17.7%. The increase in loan disbursements was particularly evident in the business sectors of electricity, gas and water; transport, storage and communications; and wholesale and retail trade, restaurants and hotels. Loan approvals to businesses were also higher on a monthly and annual basis, while loan applications were lower. Meanwhile, all loan indicators for the household sector were relatively stable.

Amid the stronger disbursements and relatively stable repayments, loans outstanding rose by RM8.4 billion or at an annual rate of 9.2% (RM5.2 billion or 8.9% in August). Loans outstanding to businesses increased at an annual rate of 3.9% (August: 3%), while the growth in loans outstanding to households remained relatively stable at 14.9% (August: 15%). The growth in loans outstanding to businesses was supported by both the larger businesses and SMEs. Loans outstanding to SMEs increased by 9.8% (August: 9.2%).

Higher volume of funds raised in the capital market

On a net basis, a higher amount of RM6.8 billion was raised in the capital market in September, reflecting largely funds raised by both the private and public sectors through debt issuance. Net issuances of PDS amounted to RM3.8 billion, mainly by companies in the finance and water supply sectors. On a net basis, the public sector raised RM2.7 billion, from the reopening of a 3-year and 10-year MGS. Funds raised from the equity market increased to RM216 million.

Net Funds Raised in the Capital Market

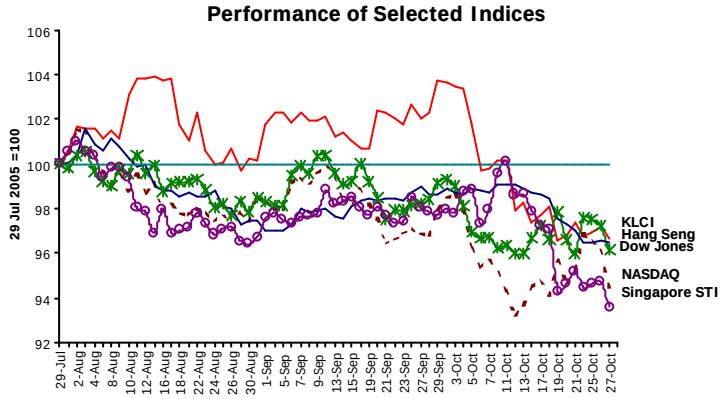


* Includes medium-term notes

Higher funds raised, particularly via the debt market, in September

KLCI improved slightly in September with renewed buying interests

In the first half of September, concerns of increasing domestic inflation and unfavorable corporate developments affected sentiments in the local bourse. However, declining global oil prices during the month and the positive expectations for the 2006 Budget lifted market sentiments towards the end of the month. As a result, the KLCI ended higher at 927.54 (since end-August: 1.5%). Market capitalisation rose to RM715.3 billion (since end-August: 1.3%). The daily average turnover during the month was lower at 408.2 million units (August: 410.1 million units).

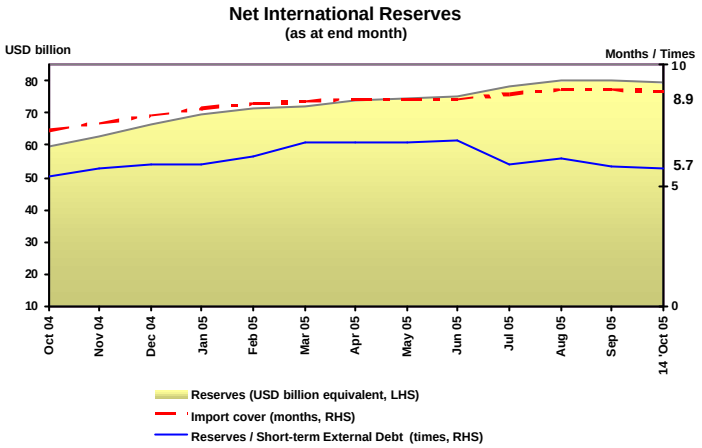


KLCI declined in the first four weeks of October.

The market declined in the first four weeks of October. Concerns on increasing inflation, higher global oil prices and lower corporate earnings remained and offset the gains from improved sentiments created by the 2006 Budget. As at 27 October, the KLCI closed at 904.46 (since end-September: -2.5%) with market capitalisation at RM698.45 billion (since end-September: -2.4%). Trading also declined with daily average turnover at 376 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM302.7 billion or equivalent to USD80.3 billion as at 30 September 2005. The reserves level has also taken into account the quarterly adjustment of the foreign exchange revaluation loss, following the strengthening of ringgit against the major currencies. Reserves amounted to RM299.3 billion or equivalent to USD79.4 billion as at 14 October 2005. The reserves position is sufficient to finance 8.9 months of retained imports and is 5.7 times the short-term external debt.



Strength of banking system preserved

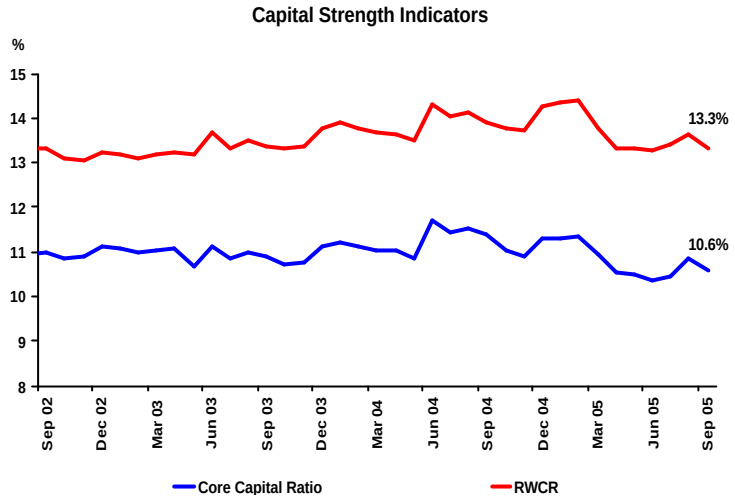
Capitalisation of the banking system remained at strong levels with the risk-weighted capital ratio (RWCR) and core capital ratio stood at 13.3% and 10.6% respectively as at end-September 2005. The capital ratios declined slightly due mainly to an increase in risk-weighted assets. The net non-performing loans (NPL) ratio based on the 6-month classification continued to decline to 4.8%, along with improvement in the net NPL ratio based on the 3-month classification to 6.1%. This was attributed largely to write-offs by several banking institutions.

Banking System Health Indicators *

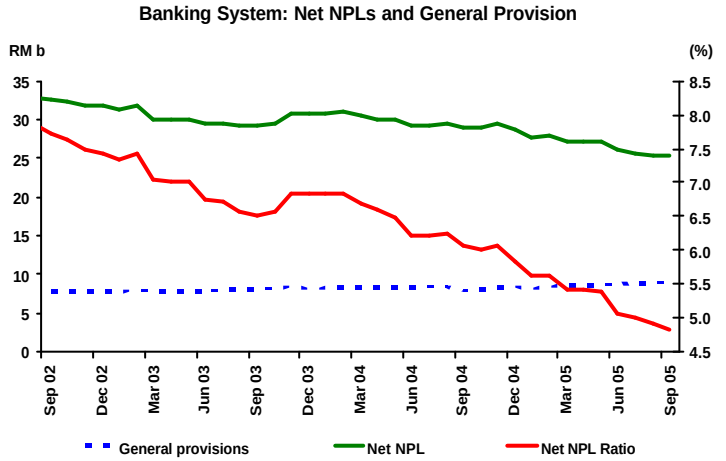
	As at end-								
	1999	2000	2001	2002	2003	Dec 04	Jul 05	Aug 05	Sep 05
Capital (%)									
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.3	10.5	10.9	10.6
RWCR	12.5	12.5	13.0	13.2	13.8	14.3	13.4	13.6	13.3
Net NPLs (6-month classification)									
% of net total loans	6.4	6.3	6.9	7.5	6.8	5.8	5.0	4.9	4.8
Amount (RM million)	23,849	24,700	32,833	31,702	30,766	28,630	25,709	25,464	25,468
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 declined but remained high…



…whilst NPL level continued to improve

Bank Negara Malaysia

28 October 2005

Key Monetary and Financial Statistics

		Jul 05		Aug 05		Sep 05	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		51.0	7.8	50.8	7.1	52.1	10.6
M1		117.0	12.5	118.7	12.2	118.0	9.9
M2		587.8	30.3	597.5	27.9	600.5	24.2
M3		648.8	11.6	655.4	12.3	656.6	10.9
Banking System							
Total deposits		664.9	13.9	673.4	14.8	677.0	13.4
Total loans (including loans sold to Cagamas)		534.4	8.7	539.6	8.9	548.0	9.2
Loan-deposit ratio (%)		77.1		77.0		77.9	
Financing-deposit ratio [1] (%)		84.9		84.7		85.6	
Loans applied (during the period)		27.3	8.9	29.1	11.0	27.5	9.3
Loans approved (during the period)		18.2	10.6	18.2	27.1	19.1	21.0
Loans disbursed (during the period)		41.7	1.3	43.9	13.7	49.4	15.3
Loans repaid (during the period)		41.3	-4.4	39.2	6.7	41.2	7.6
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.4		13.6		13.3	
Net NPLs: 6-month classification (%)		5.0		4.9		4.8	
International Reserves of BNM (end-period)							
Reserves in RM billion		298.7		304.3		302.7	
Reserves in USD billion (equivalent)		79.6		78.7		80.1	
Months of retained imports		8.8		9.0		9.0	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		2.70		2.70		2.70	
Interbank:	Overnight	2.70 [2.70]		2.69 [2.70]		2.73 [2.70]	
	1-week	2.72 [2.73]		2.71 [2.72]		2.75 [2.72]	
	1-month	2.83 [2.83]		2.83 [2.84]		2.87 [2.86]	
	3-month	2.86 [2.86]		2.89 [2.88]		2.90 [2.89]	
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		5.91		5.90	
Prices							
Consumer Price Index (CPI) (2000=100)		109.0	3.0	109.7	3.7	109.8	3.4
Producer Price Index (PPI) (1989=100)		161.4	8.6	166.5	9.0	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
Euro		4.5475		4.6027		4.5421	
Pound Sterling		6.5799		6.7605		6.6438	
100 Japanese yen		3.3414		3.3985		3.3359	
Singapore dollar		2.2565		2.2395		2.2315	
100 Thai Baht		8.9757		9.1178		9.1988	
100 Philippine Peso		6.6759		6.7098		6.7262	
100 Indonesian Rupiah		0.0382		0.0346		0.0366	
100 Korean Won		0.3655		0.3648		0.3619	
Capital Market							
Net funds raised (in RMb) by:	public	1.4		2.0		2.7	
	private	-0.5		2.0		4.0	
Bursa Malaysia Composite Index (end-period)		937.4		913.6		927.5	
Bursa Malaysia Market Capitalisation (RMb, end-period)		725.0		706.4		715.4	

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