BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref No.: 01/07/08 **EMBARGO: For immediate release**

Monetary and Financial Developments December 2006
Highlights of the Press Release

- During the period 1 December 2006 – 26 January 2007, the ringgit appreciated against the major currencies, as well as all regional currencies, amidst net trade and investment inflows. There was limited contagion impact on the ringgit arising from the regulatory measures imposed by the Bank of Thailand on 18 December 2006 to limit capital inflows.

- The KLCI continued to perform strongly in December, rising by 1.4% from end-November to 1,096.24 points. Strong corporate earnings results, mergers and acquisitions activity, and the strong increase of crude palm oil prices were among the key factors driving the KLCI during the month.

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MONETARY AND FINANCIAL DEVELOPMENTS DECEMBER 2006

Financing of the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 6.7% in December (November: 7.6%). Total loans outstanding grew by 6.3%, with loans outstanding to businesses and households increasing at annual rates of 4.2% and 9.4% respectively (November: 4.1% and 10.2% respectively).

Gross funds raised from the private debt securities (PDS) market were higher in December, amounting to RM3.7 billion (November: RM2.3 billion). However, because of significant redemptions of PDS and Cagamas bonds during the month, there was a net redemption of PDS of RM807 million in December. Net funds raised by the public sector amounted to RM3.7 billion during the month (November: RM996 million).

Both fixed deposit (FD) rates and lending rates of commercial banks were relatively stable in December and early January. Similarly, interbank rates for all maturities remained relatively unchanged during the period.

During the period 1 December 2006 – 26 January 2007, the ringgit appreciated against the major currencies, as well as all regional currencies, amidst net trade and investment inflows. There was limited contagion impact

on the ringgit arising from the regulatory measures imposed by the Bank of Thailand on 18 December 2006 to limit capital inflows.

Headline inflation, as measured by the Consumer Price Index (CPI), increased to 3.1% in December (November: 3%). The slight increase in headline inflation during the month was due mainly to the higher inflation in the Housing, Water, Electricity, Gas and Fuels; Alcoholic Beverages and Tobacco; and Education and Health components of the CPI. The increase in food prices was relatively modest.

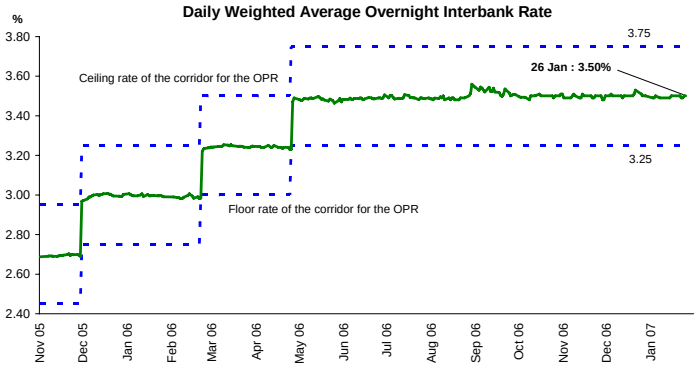
Narrow money, M1, increased at an annual rate of 13.8% in December (November: 15.2%). Broad money, M3, expanded at a higher annual rate of 12.4% (11.2% in November). Net claims on the Government, net external operations, and net claims on the private sector were all expansionary on M3 during the month.

The banking system remained resilient amidst strong capitalisation, with the risk-weighted capital ratio (RWCR) improving to 12.8% as at end-December 2006 (end-November: 12.7%). Net non-performing loans (NPLs) declined to RM27.4 billion, or 4.8% of total net loans, due mainly to the sustained recoveries and reclassifications of NPLs to performing status, as well as continued year-end loan write-offs by banking institutions.

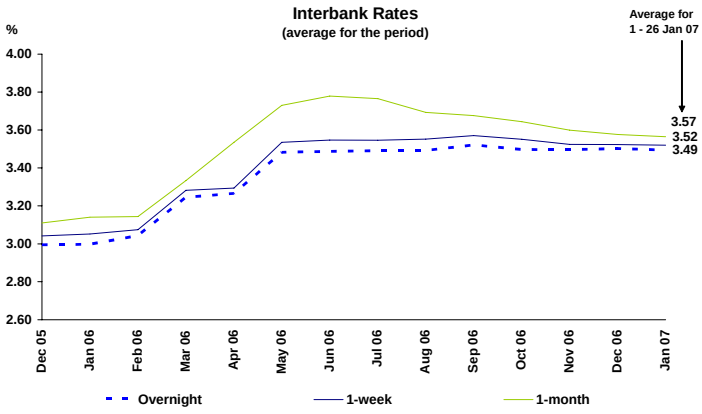
Interest rates remained stable

During the period 1 December – 26 January 2007, the daily weighted average overnight interbank rate moved within a narrow range of 3.49% - 3.53%. Interbank rates of other maturities also remained stable.

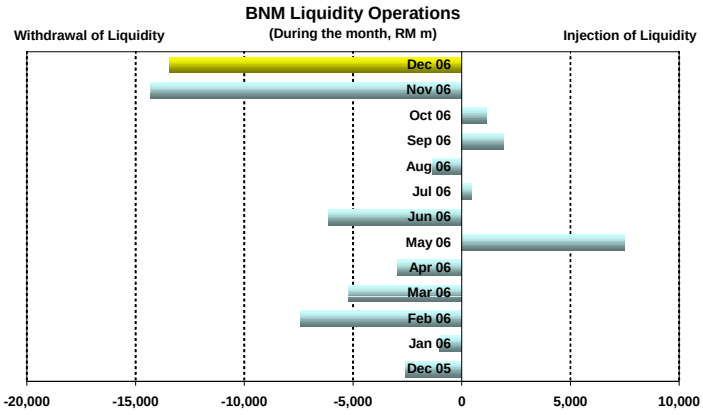
The average fixed deposit (FD) rates of commercial banks (CBs) remained stable in December 2006 and January 2007. As at 15 January 2007, the average quoted FD rate of CBs for tenures between 1 and 12 months were stable at 3.11% and 3.72% respectively. In terms of lending rates, the average base lending rate (BLR) of CBs was also unchanged at 6.72%. The average lending rate (ALR) of CBs was relatively stable at 6.57% in December (6.59% in November).



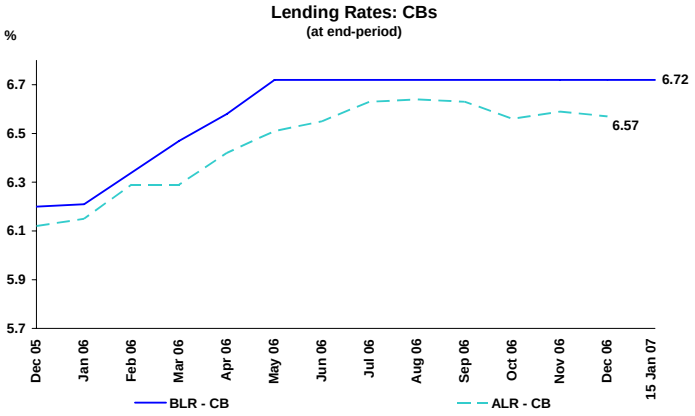
The average overnight interbank rate moved within a narrow range



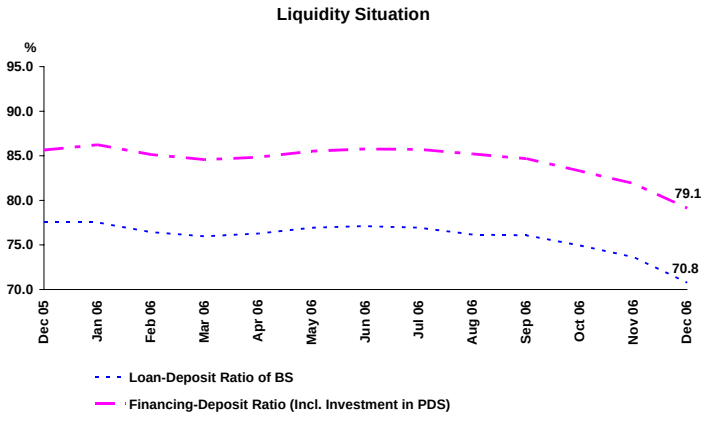
Other interbank rates were similarly stable



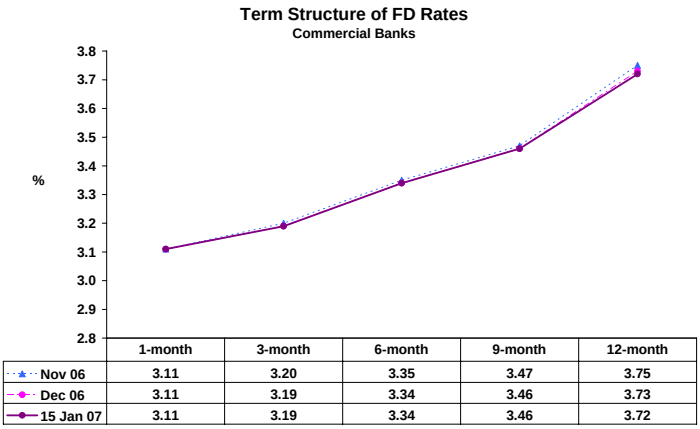
The Central Bank absorbed liquidity from the system in December



CB's ALR was stable

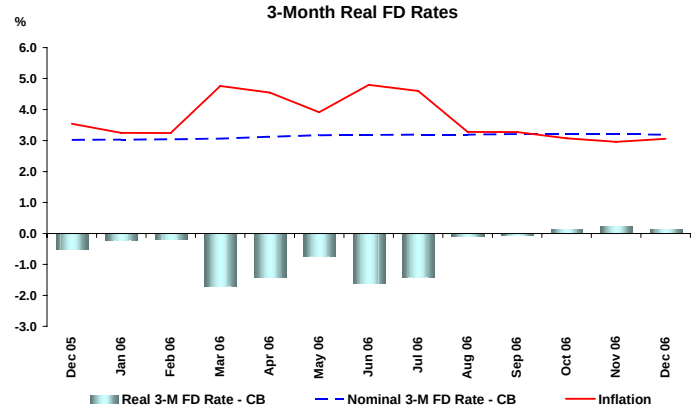


The financing-deposit ratio declined as the growth in deposits continued to outpace the growth in financing



	1-month	3-month	6-month	9-month	12-month
Nov 06	3.11	3.20	3.35	3.47	3.75
Dec 06	3.11	3.19	3.34	3.46	3.73
15 Jan 07	3.11	3.19	3.34	3.46	3.72

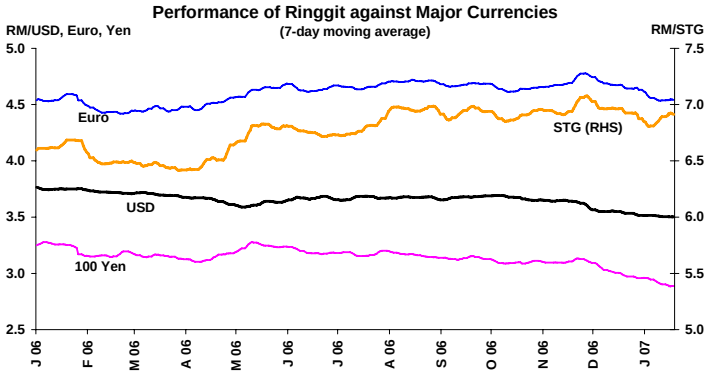
Marginal easing of FD rates



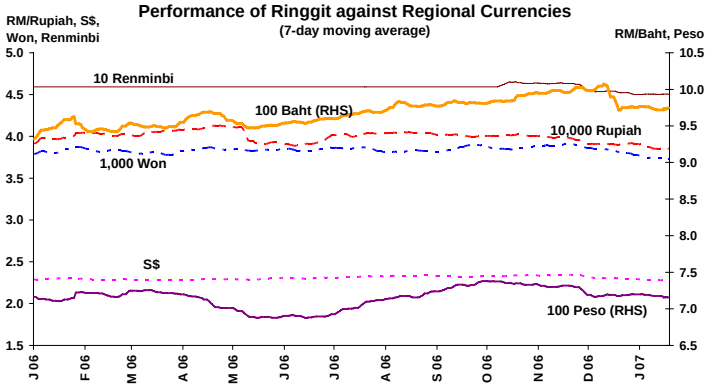
The real 3-month FD rate remained positive

Ringgit appreciated against the major and regional currencies

During the period 1 December 2006 – 26 January 2007, the ringgit appreciated against the major currencies in the range of 2.3% - 7.9% amidst net trade and investment inflows. The US dollar experienced some weakness earlier in the period amidst market expectations of a reduction in the policy rate on concerns of a slowing US economy. The Japanese yen also weakened as market expectations of an increase in the policy rate by the Bank of Japan receded. The ringgit appreciated against the regional currencies in the range of 2% - 4.4%. There was limited contagion impact on the ringgit arising from the regulatory measures imposed by the Bank of Thailand on 18 December 2006 to limit capital inflows.



Ringgit appreciated against the major currencies



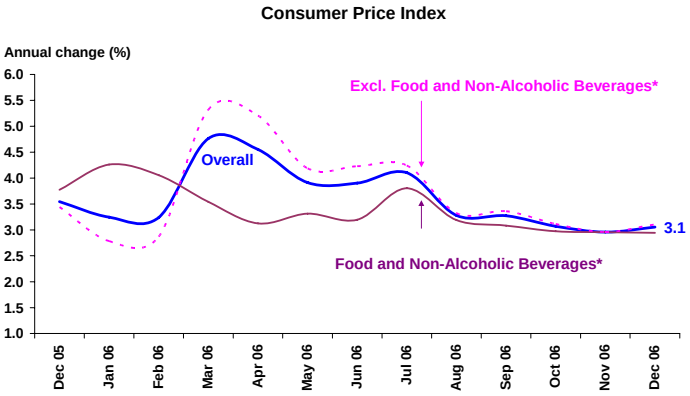
… and also against regional currencies

Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change	
	Dec 05	Nov 06	Dec 06	26 Jan 07	End Dec 05 - 26 Jan 07	End Nov 06 - 26 Jan 07
US dollar	3.7800	3.6180	3.5315	3.5043	7.9	3.2
Euro	4.4867	4.7626	4.6460	4.5291	-0.9	5.2
Pound sterling	6.5226	7.0473	6.9315	6.8867	-5.3	2.3
100 Japanese yen	3.2229	3.1124	2.9675	2.8837	11.8	7.9
Singapore dollar	2.2714	2.3430	2.3028	2.2766	-0.2	2.9
100 Thai baht	9.2049	10.0347	9.8111	9.7720	-5.8	2.7
100 Philippine peso	7.1254	7.2833	7.2027	7.1413	-0.2	2.0
100 Indonesian rupiah	0.0385	0.0395	0.0393	0.0384	0.1	2.7
100 Korean won	0.3739	0.3889	0.3797	0.3725	0.4	4.4
Chinese renminbi	0.4686	0.4614	0.4523	0.4504	4.0	2.4

Inflation increased to 3.1% in December

Headline inflation, as measured by the Consumer Price Index (CPI), increased to 3.1% in December (November: 3%). The slight increase in headline inflation during the month was due mainly to the higher inflation in the following categories: Housing, Water, Electricity, Gas and Fuels; Alcoholic Beverages and Tobacco; and Education and Health. The increase in food prices was relatively moderate, despite the news of negative supply shocks arising from adverse weather conditions and demand factors in conjunction with the festive season. Meanwhile, the prices of clothing and footwear, and communication charges continued to decline compared to a year ago.

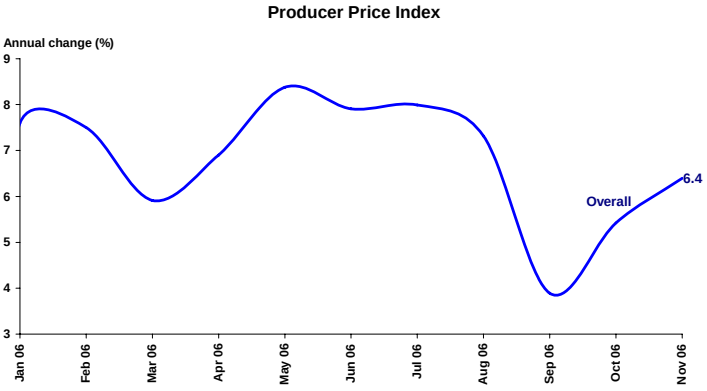


From 2006, the "food" sub-group has been reclassified into "food and non-alcoholic beverages"

Inflation at 3.1% in December

Rate of increase in producer prices edged up in November

The rate of increase of the Producer Price Index (PPI) edged up to 6.4% in November (October: 5.4%). The increase in the PPI was due mainly to the higher inflation in the commodity-related category, following the higher prices of crude palm oil during the month.



Rate of increase in the PPI edged up in November

M3 continued to expand

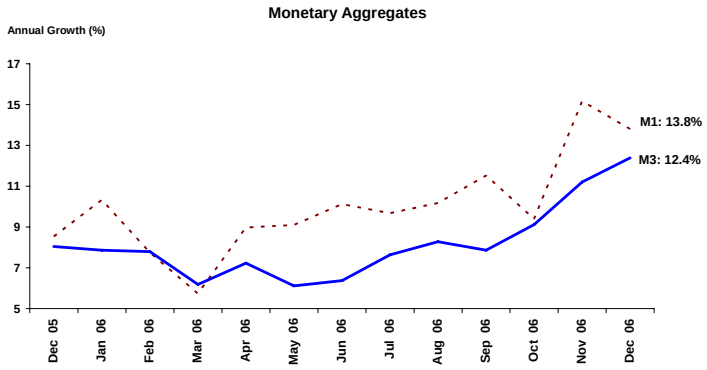
In December, narrow money, or M1, increased at an annual rate of 13.8% (November: 15.2%) due to higher currency in circulation and demand deposits, particularly from business enterprises. Broad money, M3, expanded at a higher rate of 12.4% (11.2% in November). On a monthly basis, net claims on the Government were expansionary on M3 as the Government drew down its deposits with Bank Negara Malaysia to finance its outlays. Net external operations and claims on the private sector were also expansionary on M3, with the latter reflecting the increase in loans outstanding and holdings of securities by the banking system.

M3 Determinants

(RM billion)

	Change during period			
	Nov 06	**Dec 06**	**2005**	**2006**
M3	11.5	21.5	49.7	82.7
Net claims on Government	7.8	10.8	-5.5	9.3
Claims on the private sector	3.0	5.2	44.6	34.4
Loans	*4.1*	*4.2*	*45.0*	*36.6*
Securities	*-1.1*	*1.0*	*-0.4*	*-2.2*
Net external operations *	5.5	8.9	17.3	59.6
Other influences	-4.8	-3.4	-6.7	-20.7

* Pre-revaluation of international reserves



Growth of broad money maintained its upward trend

Banking system deposits increased further in December

Total deposits with the banking system increased significantly in December, by RM32.3 billion (November: RM18.8 billion), or 16.8% on an annual basis (November: 15.4%). The expansion reflected marked increases in deposit placements by financial institutions, business enterprises and individuals. Seasonal year-end activities such as Government expenditure on development projects and bonus payments expanded the deposits of businesses and individuals respectively. There were also one-off factors which caused deposits of business enterprises and non-bank financial institutions to increase significantly. The merger between two discount houses and a merchant bank during the month had led to the absorption of the discount houses deposits into the banking system (commercial banks, Islamic banks, merchant banks and Investment banks). In addition, the increase in deposits was also attributable to inflows from the external sector. By type, increases were registered across all deposit types. The largest increases were in the form of fixed deposits, NIDs, repos and Islamic banking (SPI) deposits.

Deposits by Holder
(RM million)

	Change during period			
	Sep 06	**Oct 06**	**Nov 06**	**Dec 06**
Federal Government	1,021	-7	220	936
State Governments	-176	214	-218	392
Statutory Authorities [1]	1,566	-990	1,211	-889
Financial Institutions	4,447	3,667	5,543	17,375
Business Enterprises	-4,152	6,765	8,769	10,093
Individuals	1,530	2,825	2,459	4,174
Others [2]	1,328	538	833	196
Total	5,564	13,012	18,818	32,276

1/ Include local Governments

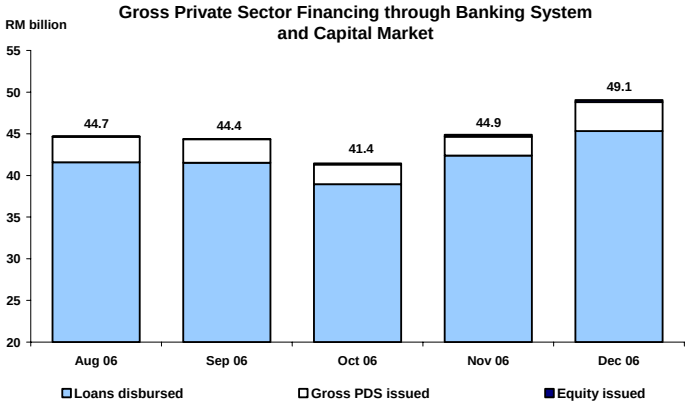
2/ Consist of domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

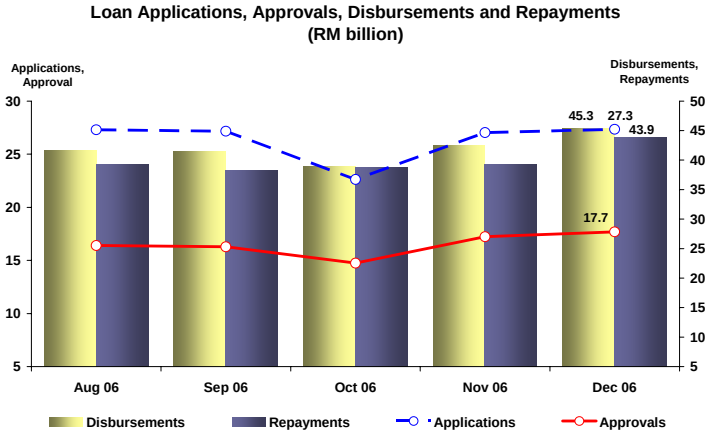
	Change during period			
	Sep 06	**Oct 06**	**Nov 06**	**Dec 06**
Fixed deposits	3,435	3,371	10,518	9,572
NIDs	4,751	2,457	-6,233	8,373
Demand deposits	-1,015	2,730	1,567	1,564
Savings deposits	192	635	871	1,492
Repos	-4,009	-3,022	9,005	4,803
FX deposits	-1,416	2,803	-292	1,496
SPI deposits	2,697	3,602	3,010	3,426
Others	929	435	373	1,550
Total	5,564	13,012	18,818	32,276

Gross private sector financing rose in December

In December, total gross financing of the private sector through the banking system and the capital market was higher at RM49.1 billion (November: RM44.9 billion) mainly on account of higher loan disbursements, and to a lesser extent, new issuances of private debt securities (PDS). On a net basis, financing of the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 6.7% (November: 7.6%).



Gross private sector financing increased amidst higher loan disbursements and PDS issuance



Major loan indicators rose during the month

Bank lending indicators

	RM billion		Annual Growth (%)	
	Nov	Dec	Nov	Dec
Overall				
Loan applications	27.0	27.3	17.2	22.0
Loan approvals	17.2	17.7	22.8	10.6
Loan disbursements	42.4	45.3	3.2	-5.6
Chg in Loans Outstanding[1/]	3.9	0.2	7.3	6.3
Businesses[2/]				
Loan applications	14.6	15.5	18.5	52.9
Loan approvals	9.6	10.5	38.4	35.2
Loan disbursements	29.7	32.7	2.2	-4.3
Chg in Loans Outstanding[1/]	1.7	1.1	4.1	4.2
SMEs				
Loan applications	7.6	5.9	n.a.[3/]	n.a.[3/]
Loan approvals	4.3	3.4	n.a.	n.a.
Loan disbursements	10.0	12.2	n.a.	n.a.
Chg in Loans Outstanding[1/]	0.3	-0.6	n.a.	n.a.
Households				
Loan applications	12.5	11.8	15.7	-3.5
Loan approvals	7.6	7.2	7.4	-12.7
Loan disbursements	12.7	12.6	5.7	-10.2
Chg in Loans Outstanding[1/]	2.4	1.6	10.2	9.4

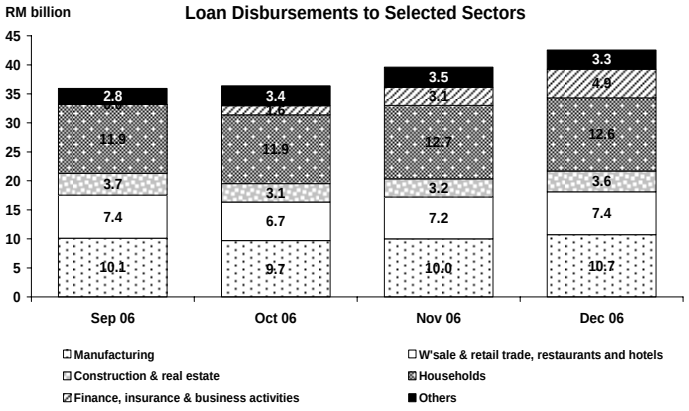
n.a. not applicable

[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 indicators were higher on a monthly basis



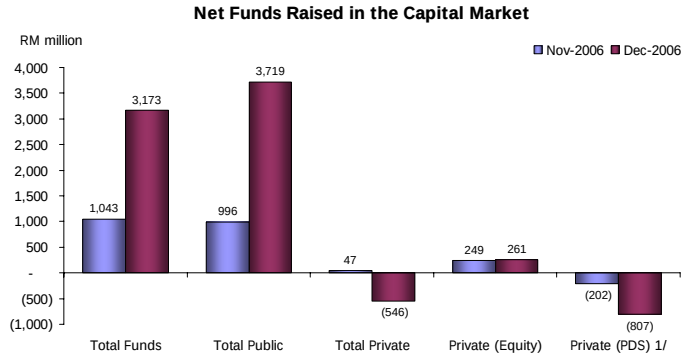
Loan disbursements continued to be broad-based

The major loan indicators were higher on a monthly basis driven by businesses. Business applications and approvals were also higher on an annual basis. The major loan indicators for the household sector were lower on an annual basis mainly on account of the lower level of financing demanded for the purchase of passenger cars.

Total loans outstanding expanded by 6.3% on an annual basis as at end-December (end-November: 7.3%). The slower pace of expansion in loans outstanding reflected, to some extent, a significant loan repayment by the Government in December. Loans outstanding to businesses expanded at a steady rate of 4.2% (November: 4.1%) while loans outstanding to the household sector expanded at a slightly lower rate of 9.4% (November: 10.2%).

Higher net funds raised in the capital market

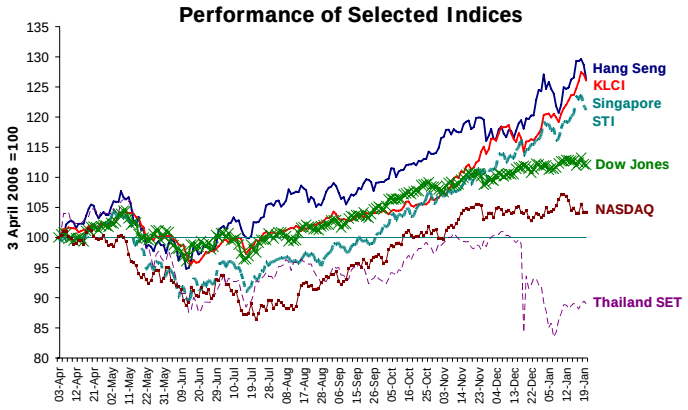
Net funds raised in the capital market increased in December, amounting to RM3.2 billion. The bulk of the funds were raised by the public sector through new issuances of two 6-year Malaysian Government Securities (MGS) and a 10-year Khazanah Bond, which together amounted to RM5.5 billion. Funds raised by the public sector in December also included the introduction of callable bonds amounting to RM500 million. After adjusting for redemptions, net funds raised by the public sector amounted to RM3.7 billion. In the PDS market, gross funds amounting to RM3.7 billion were raised, mainly through the issuances of three conventional bonds which accounted for 48% of total PDS issued during the month. However, because of significant redemptions of PDS and Cagamas bonds, amounting to RM4.5 billion during the month, there was a net redemption of PDS of RM807 million in December. In the equity market, net funds of RM261.5 million were raised through two initial public offerings by companies in the REIT and technology sectors.



1/ Including Cagamas Bonds

The KLCI improved further

Following the strong performance during the month, the KLCI closed at 1,096.24 points at end-December (since end-November: 1.4%). On 19 December, the KLCI declined by 1.96% following the imposition of capital controls in Thailand, but rebounded quickly thereafter to close the year at a higher level. Strong corporate earnings results, mergers and acquisitions activity, and the strong increase of crude palm oil prices were among the key factors driving the KLCI during the month. Market capitalisation rose to RM848.7 billion (since end-November: 1.9%), while the daily average turnover increased to 1,064.8 million units (November: 1,059.9 million units).

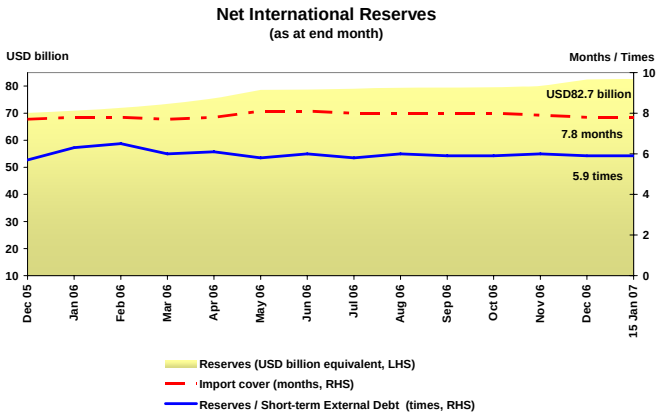


KLCI performance improved further in line with regional markets.

As at 24 January 2007, the KLCI closed higher at 1,183.04 points (since end-December: 7.9%). Overall market capitalisation was higher at RM918.6 billion (since end-December: 8.2%), while trading activity was also higher with the daily average turnover at 1,228.6 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM290.4 billion or equivalent to USD82.4 billion as at 31 December 2006. The reserves increased to RM291.1 billion or equivalent to USD82.7 billion as at 15 January 2007. The reserves position is sufficient to finance 7.8 months of retained imports and is 5.9 times the short-term external debt.



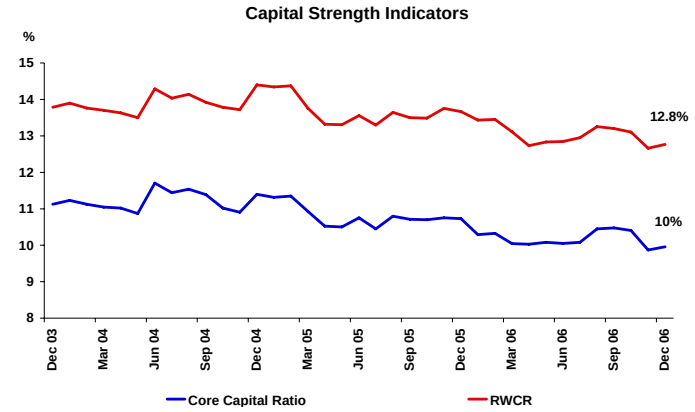
Resilience of the banking system sustained amidst strong capitalisation

The risk-weighted capital ratio (RWCR) and core capital ratio of the banking system improved to 12.8% and 10% respectively as at end-December 2006. This was primarily attributed to capital raising exercise by banking institutions, as well as lower capital deductions following the rationalisation of investment banking subsidiaries. Meanwhile, net non-performing loans (NPLs) declined to RM27.4 billion, or 4.8% of total net loans, due mainly to sustained recoveries and the reclassifications of NPLs to performing status as well as continued year-end loan write-offs by banking institutions.

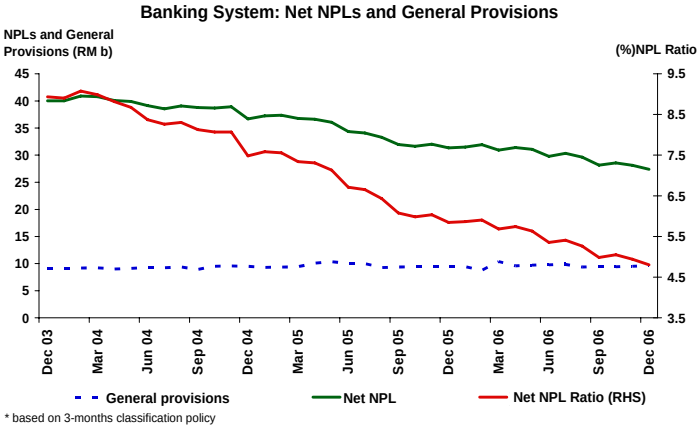
Banking System Health Indicators *

	As at end-									
	1999	2000	2001	2002	2003	2004	2005	Oct 06	Nov 06	Dec 06
Capital (%)										
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.4	10.7	10.4	9.9	10.0
RWCR	12.5	12.5	13.0	13.2	13.8	14.4	13.7	13.1	12.7	12.8
Net NPLs (3-month classification)										
% of net total loans	11.0	9.7	11.5	10.2	8.9	7.5	5.8	5.1	4.9	4.8
Amount (RM million)	40,631	37,678	46,254	43,110	40,013	36,668	31,332	28,561	28,120	27,380
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



The banking system remained well-capitalised…



* based on 3-months classification policy

…amidst continued decline in the level of NPLs

Bank Negara Malaysia
29 January 2007

Key Monetary and Financial Statistics

		Oct 06		Nov 06		Dec 06	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		56.8	2.3	54.2	3.2	58.2	10.6
M1		134.7	9.4	137.6	15.2	141.1	13.8
M2		681.7	13.2	694.3	15.5	718.5	16.6
M3		717.0	9.1	728.5	11.2	750.0	12.4
Banking System							
Total deposits		757.6	12.8	776.4	15.4	808.7	16.8
Total loans (including loans sold to Cagamas)		588.9	6.8	592.8	7.3	593.0	6.3
Loan-deposit ratio (%)		74.9		73.6		70.8	
Financing-deposit ratio [1] (%)		83.3		81.9		79.1	
Loans applied (during the period)		22.6	-15.0	27.0	17.2	27.3	22.0
Loans approved (during the period)		14.7	-16.3	17.2	22.8	17.7	10.6
Loans disbursed (during the period)		38.9	-19.6	42.4	3.2	45.3	-5.6
Loans repaid (during the period)		38.7	-14.9	39.2	-2.4	43.9	2.4
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.1		12.7		12.8	
Net NPLs: 3-month classification (%)		5.1		4.9		4.8	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		293.4		294.9		290.4	
Net Reserves in USD billion (equivalent)		79.6		80.0		82.4	
Months of retained imports		8.1		8.2		7.9	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.50		3.50		3.50	
Interbank:	Overnight	3.51 [3.50]		3.48 [3.50]		3.50 [3.50]	
	1-week	3.60 [3.55]		3.54 [3.52]		3.53 [3.52]	
	1-month	3.63 [3.64]		3.59 [3.60]		3.58 [3.58]	
Fixed deposits of commercial banks:	1-month	3.13		3.11		3.11	
	3-month	3.21		3.20		3.19	
BLR of commercial banks		6.72		6.72		6.72	
ALR of commercial banks		6.56		6.59		6.57	
Prices							
Consumer Price Index (CPI) (2005=100)		104.1	3.1	104.4	3.0	104.6	3.1
Producer Price Index (PPI) (2000=100)		128.3	5.4	128.1	6.4	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.6480		3.6180		3.5315	
Euro		4.6382		4.7626		4.6460	
Pound Sterling		6.9310		7.0473		6.9315	
100 Japanese yen		3.1035		3.1124		2.9675	
Singapore dollar		2.3352		2.3430		2.3028	
100 Thai Baht		9.9225		10.0347		9.8111	
100 Philippine Peso		7.3121		7.2833		7.2027	
100 Indonesian Rupiah		0.0400		0.0395		0.0393	
100 Korean Won		0.3863		0.3889		0.3797	
Capital Market							
Net funds raised (in RMb) by:	public	2.6		1.0		3.7	
	private	0.7		0.0		-0.5	
Bursa Malaysia Composite Index (end-period)		988.3		1,080.7		1,096.2	
Bursa Malaysia Market Capitalisation (RMb, end-period)		769.1		833.2		848.7	

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