BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 09/05/66 (BN) **EMBARGO: Not for publication or broadcast before 1700 hours on Wednesday, 28 September 2005**

PRESS RELEASE

Monetary and Financial Developments August 2005
Highlights of the Press Release

Banking system strengthened further in August

The banking system's net non-performing loan ratio based on the 6-month classification fell below 5%, to 4.9% in August. Financing to the private sector increased during the month. Banking system loans and private debt securities outstanding increased at an annual rate of 8.9% at end-August, while total bank loans outstanding also grew by 8.9% on an annual basis. Both the household and business sectors contributed to the expansion of loans outstanding. Meanwhile, the strong annual growth of 9.2% in loans outstanding to the SMEs during the month, resulted in a further increase in the SMEs share of total business loans.

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PRESS RELEASE

MONETARY AND FINANCIAL DEVELOPMENTS AUGUST 2005

Banking system strengthened further in August

In the money market, the daily weighted average overnight interbank rate moved within a narrow range to average at 2.70% in the month, while the 1-month interbank rate was marginally higher. In the retail market, the average lending rates (ALR) for commercial banks and finance companies were relatively stable at 5.91% and 8.72% respectively.

Over the period 1 August – 27 September, the ringgit depreciated marginally against the major and most regional currencies. The USD appreciation against the ringgit, amidst the general expectations of a US interest rate increase, was moderated somewhat by market concerns on the impact of Hurricane Katrina and high oil prices on US economic growth.

Headline inflation, as measured by the Consumer Price Index, increased to 3.7% in August, due mainly to higher prices for transportation and communication, as well as for food. Producer price inflation increased in July, with the Producer Price Index increasing by 8.6% on an annual basis.

The growth rates of monetary aggregates were relatively stable in August. Narrow money or M1, and broad money, M3, had expanded at annual rates of 12.2% and 12.3% respectively at end-August.

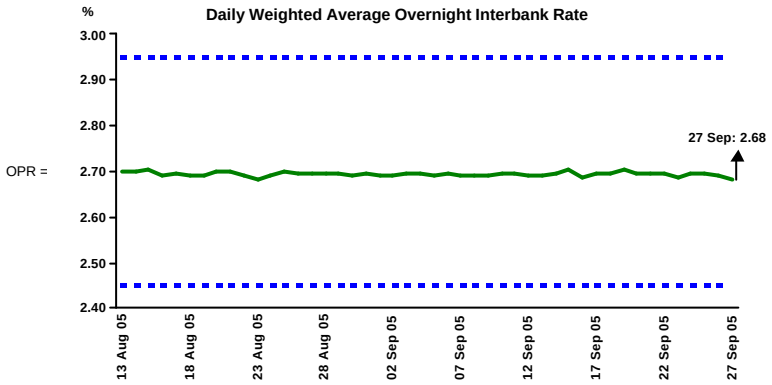
Financing to the private sector increased in August. Banking system loans and private debt securities outstanding increased at an annual rate of 8.9% at end-August, while total bank loans outstanding also grew by 8.9% on an annual basis. Loans outstanding to the SMEs registered an annual growth rate of 9.2% and accounted for 42.1% of the total business loans outstanding at end-August.

In the capital market, net funds raised were higher at RM4.1 billion during the month, due mainly to the new issuances of PDS. In the public sector, net funds raised amounted to RM2 billion, mainly from the reopening of MGS 1/05.

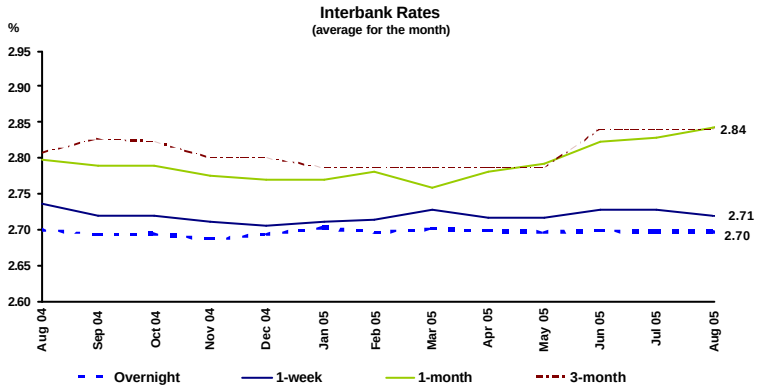
The banking system remained strong, with the RWCR increasing to 13.6% and net NPL ratio based on the 6-month classification declining to 4.9%.

Interest rates remained relatively stable

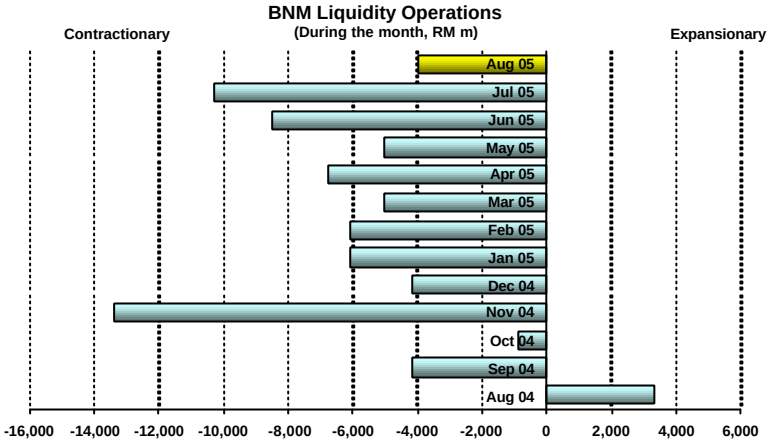
During the period of 1 August – 27 September, the daily weighted average overnight interbank rate moved within a range of 2.68% - 2.72%, averaging at 2.70%. The average BLRs of commercial banks (CBs) and finance companies (FCs) remained unchanged. Meanwhile, the ALRs of CBs and FCs remained relatively stable at 5.91% and 8.72% respectively (5.90% and 8.75% respectively as at end-July).



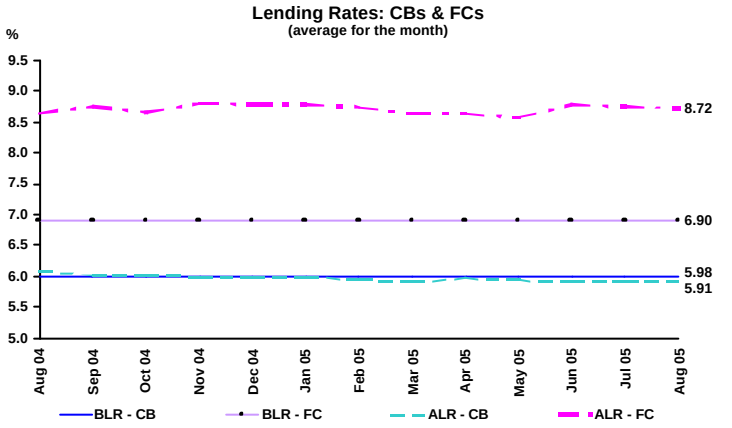
Stable overnight interbank rate



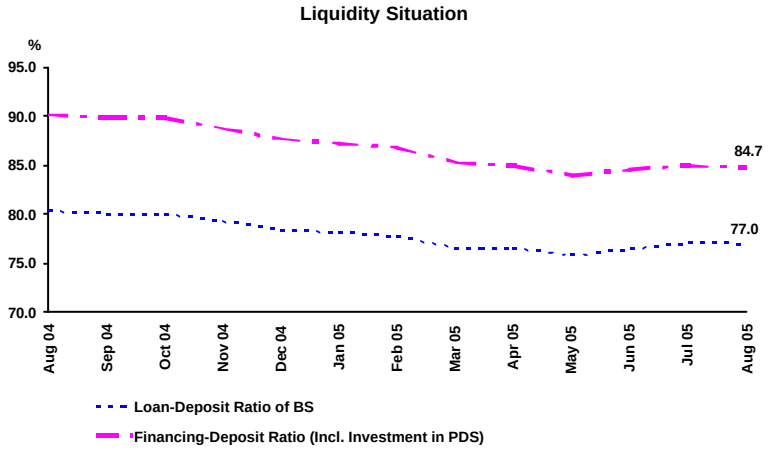
The 1-month interbank rate was marginally higher



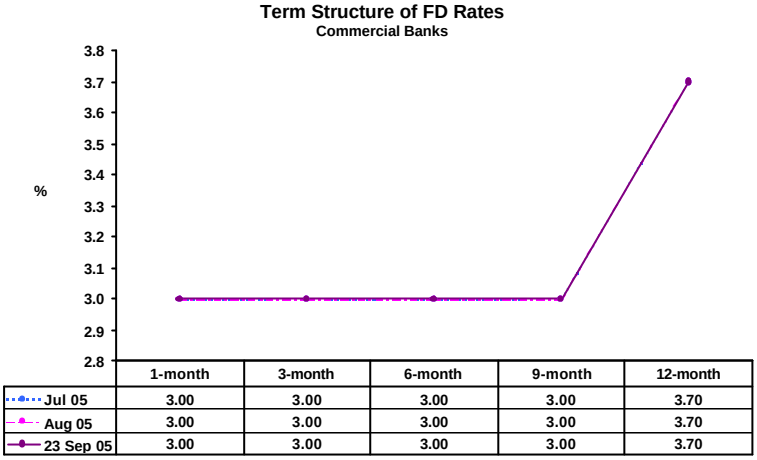
Liquidity operations in August were aimed at maintaining a stable overnight interbank rate



ALRs of the CBs and FCs were stable

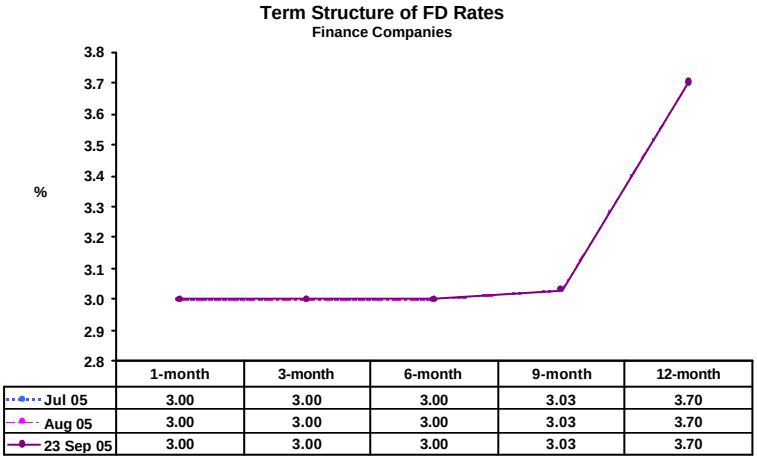


The financing-deposit ratio remained stable at 84.7%



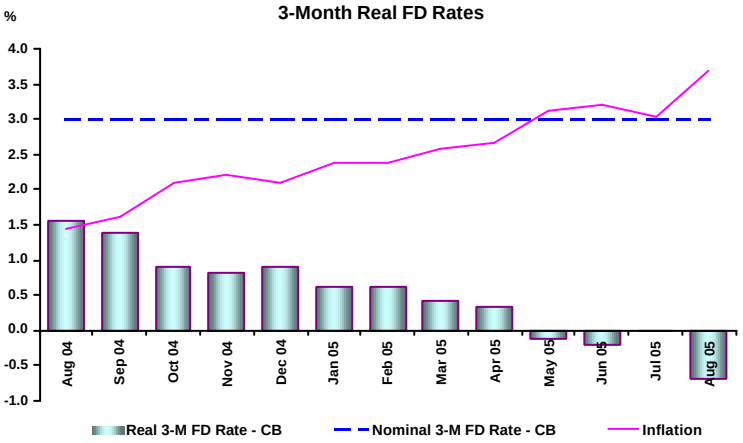
	1-month	3-month	6-month	9-month	12-month
Jul 05	3.00	3.00	3.00	3.00	3.70
Aug 05	3.00	3.00	3.00	3.00	3.70
23 Sep 05	3.00	3.00	3.00	3.00	3.70

FD rates of CBs remained unchanged



	1-month	3-month	6-month	9-month	12-month
Jul 05	3.00	3.00	3.00	3.03	3.70
Aug 05	3.00	3.00	3.00	3.03	3.70
23 Sep 05	3.00	3.00	3.00	3.03	3.70

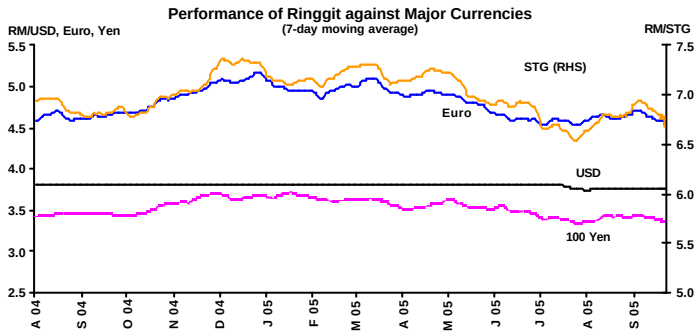
FD rates of FCs remained unchanged

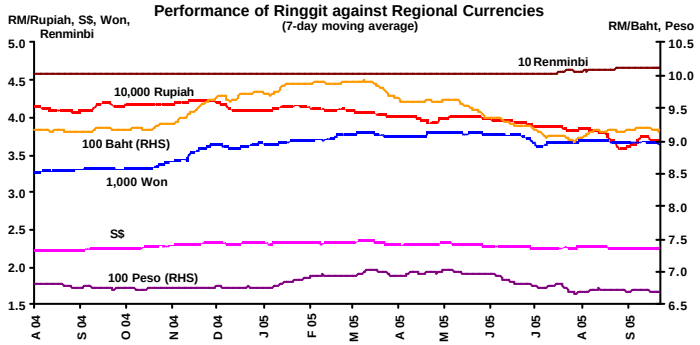


Negative 3-month real FD rate in August

Performance of the ringgit

Over the period 1 August – 27 September, the ringgit depreciated marginally against most major and regional currencies. The USD appreciated against the ringgit amidst general expectations of a US interest rate increase. However, market concern pertaining to the impact of Hurricane Katrina and high oil prices on US economic growth had a moderating impact on the extent of the dollar appreciation. The euro depreciated against the ringgit due to the recent German political uncertainty, despite improved European economic growth prospects. The yen appreciated against the ringgit on expectations of further Japanese economic reforms following Prime Minister Junichiro Koizumi's electoral win. Most regional currencies also strengthened against the ringgit, with the exception of the Singapore dollar, Indonesian rupiah and Korean won, which weakened against the ringgit. The rupiah depreciated sharply in the second half of August on dollar demand for oil imports and concerns over the impact of high oil prices on government fuel subsidies.



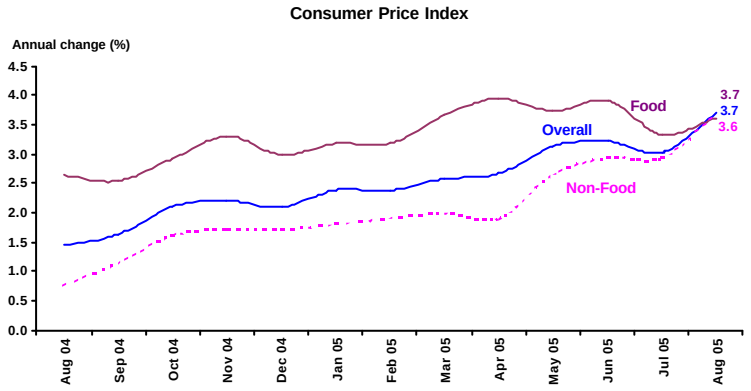


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% change	
	Dec. 04	Jul. 05	Aug. 05	27 Sept. 2005	End Dec. 04 - 27 Sept. 2005	End Jul. 05 - 27 Sept. 2005
US dollar	3.8000	3.7505	3.7698	3.7698	0.8	-0.5
Euro	5.1729	4.5475	4.6027	4.5351	14.1	0.3
Pound Sterling	7.3169	6.5799	6.7605	6.6729	9.7	-1.4
100 Japanese yen	3.7026	3.3414	3.3985	3.3432	10.8	-0.1
Singapore dollar	2.3258	2.2565	2.2395	2.2289	4.3	1.2
100 Thai baht	9.7636	8.9757	9.1178	9.1312	6.9	-1.7
100 Philippine peso	6.7706	6.6759	6.7098	6.6941	1.1	-0.3
100 Indonesian Rupiah	0.0408	0.0382	0.0346	0.0368	11.1	3.8
100 Korean won	0.3671	0.3655	0.3648	0.3640	0.8	0.4
Chinese renminbi	0.4591	0.4626	0.4657	0.4667	-1.6	-0.9

Inflation increased in August

Headline inflation, as measured by the Consumer Price Index, increased to 3.7% in August (July: 3%). The increase in inflation was driven primarily by the higher prices for the transportation and communication category, which was affected by the upward revision in the prices of retail petroleum products that came into effect on 1 August 2005. Food prices also increased due largely to the higher prices of meat and fish. On the other hand, prices for the gross rent, fuel and power category remained unchanged, while prices for clothing and footwear continued to decline.

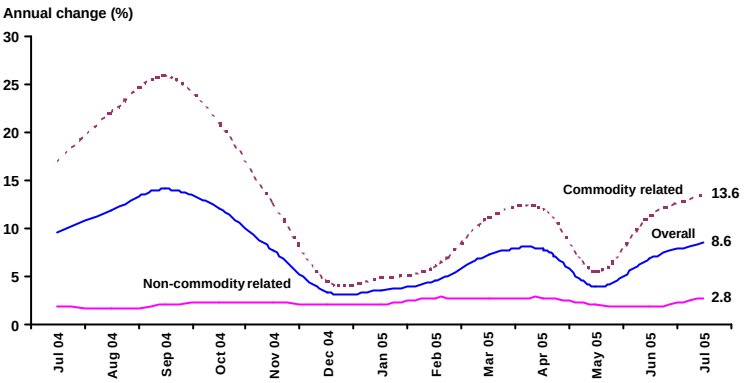


Inflation increased to 3.7% in August

Producer price inflation continued to increase

The annual growth of the Producer Price Index (PPI) increased to 8.6% in July (June: 6.9%). This was driven mainly by the continued increase in crude oil prices and the recovery in rubber prices, which more than offset the decline in prices of crude palm oil. Excluding commodity prices, the PPI inflation increased to 2.8% (June: 1.8%), primarily due to higher prices for food and live animals.

Producer Price Index



PPI inflation continued to increase

Growth of monetary aggregates were relatively stable

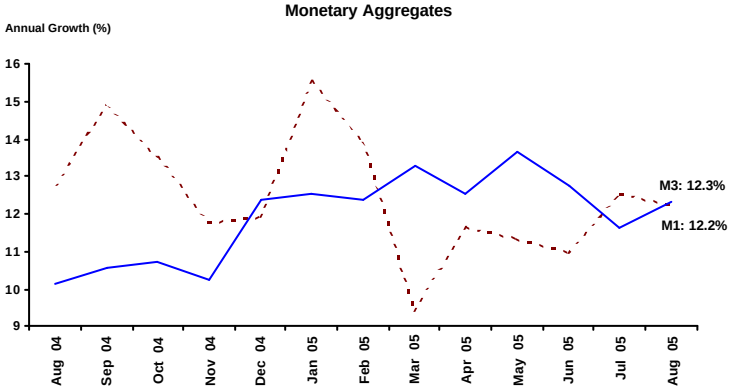
In August, narrow money or M1, representing transactional balances, grew at an annual rate of 12.2% (July: 12.5%), while broad money, M3, expanded at an annual rate of 12.3% (July: 11.6%). On a monthly basis, M3 expanded by RM6.6 billion due to higher claims on the private sector. Net external operations were also expansionary during the month. These expansionary factors, however, were partially offset by the decline in net claims on the Government.

M3 Determinants
(RM billion)

	Change during period			
	2004	**Jul 05**	**Aug 05**	**Jan-Aug 05**
M3	68.0	-3.5	6.6	37.7
Net claims on Government	38.1	-1.0	-2.1	-16.9
Claims on the private sector	-9.5	0.0	5.2	20.8
Loans	82.0	*1.4*	*5.3*	*27.6*
Securities	90.0	*-1.4*	*-0.2*	*-6.8*
Net external operations *	-8.0	5.7	1.8	49.3
Other influences	-28.3	-8.0	1.7	-15.6

* Pre-revaluation of the international reserves

Monetary Aggregates



Banking system deposits increased in August

In August, total deposits mobilised by the banking system increased by RM8.5 billion or 14.8% on an annual basis (July: -RM3.7 billion or 13.9%). The increase during the month was due mainly to higher placements by domestic business enterprises in the form of fixed deposits, negotiable instruments of deposits and repurchase agreements. Deposits of individuals also increased during the month.

Deposits by Holder
(RM million)

	Change during period			
	May 05	**Jun 05**	**Jul 05**	**Aug 05**
Federal Government	646	968	-312	140
State Governments	55	219	182	297
Statutory Authorities [1]	1,495	386	-657	2
Financial Institutions	1,533	802	-1,912	-884
Business Enterprises	7,645	-1,091	-1,567	8,124
Individuals	586	1,248	539	1,281
Others [2]	1,178	23	13	-507
Total	13,138	2,555	-3,714	8,454

1/ Include local Governments

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

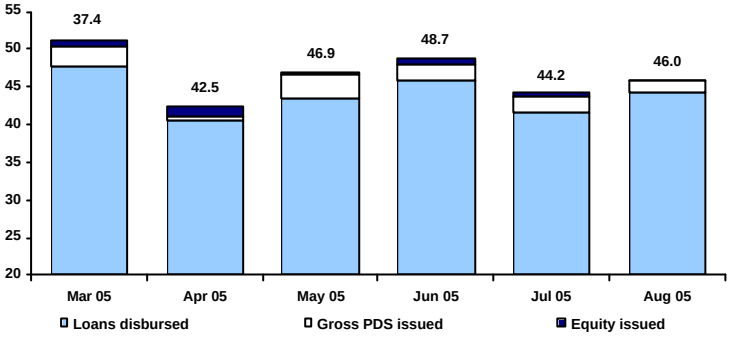
Deposits by Type
(RM million)

	Change during period			
	May 05	**Jun 05**	**Jul 05**	**Aug 05**
Fixed deposits	3,703	-2,003	2,190	3,540
NIDs	728	3,049	-6,344	3,058
Demand deposits	420	3,042	-1,671	316
Savings deposits	-195	342	-230	-160
Repos	138	612	2,739	1,624
FX deposits	4,218	-3,379	-1,252	-147
SPI deposits	3,681	347	717	94
Others	445	546	137	130
Total	13,138	2,555	-3,714	8,454

Financing to the private sector was higher in August

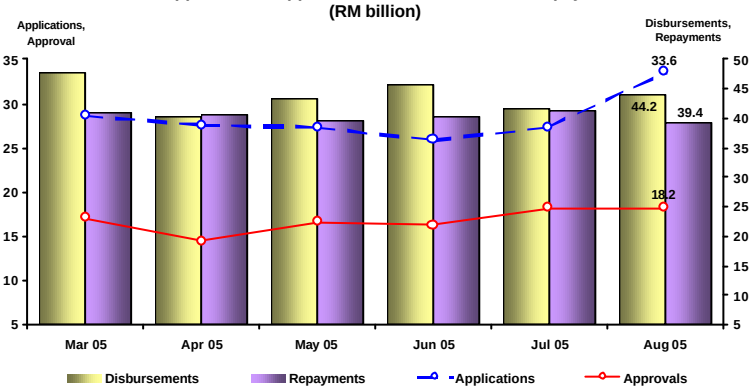
In August, gross financing of the private sector from the banking system and the capital market was higher at RM46 billion (July: RM44.2 billion), expanding at an annual rate of 14.6% (July: -4.5%). The higher financing was due mainly to higher loan disbursements of RM44.2 billion (July: RM41.7 billion). On a net basis, financing to the private sector (banking system loans and PDS outstanding) increased at an annual rate of 8.9% (July: 8.8%).

Gross Private Sector Financing through Banking System and Capital Market



Gross private sector financing strengthened in August with higher loan disbursements

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



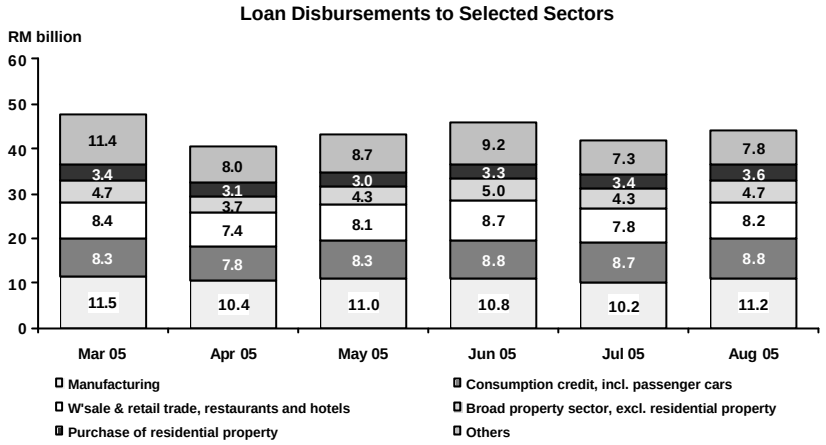
Overall loan applications and approvals increased

Bank lending indicators

	RM billion		Annual Growth (%)	
	July	August	July	August
Overall				
Loan applications	27.3	33.6	8.9	28.1
Loan approvals	18.2	18.2	10.6	27.1
Loan disbursements	41.7	44.2	1.3	14.6
Chg in Loans Outstanding[1/]	0.6	5.2	8.7	8.9
Businesses				
Loan applications	14.3	16.4	2.7	3.6
Loan approvals	9.0	9.1	12.0	25.1
Loan disbursements	27.5	29.6	-1.9	13.2
Chg in Loans Outstanding[1/]	-1.5	1.0	2.6	3.0
SMEs				
Loan applications	6.0	6.3	16.6	23.1
Loan approvals	3.2	3.8	11.9	39.8
Loan disbursements	8.8	9.6	8.4	18.4
Chg in Loans Outstanding[1/]	0.6	1.0	9.0	9.2
Households				
Loan applications	12.7	16.6	16.5	65.2
Loan approvals	8.9	9.0	13.0	26.9
Loan disbursements	12.4	12.8	6.4	16.2
Chg in Loans Outstanding[1/]	3.5	3.9	15.1	15.0

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

Indicators of lending activity were higher across businesses and households



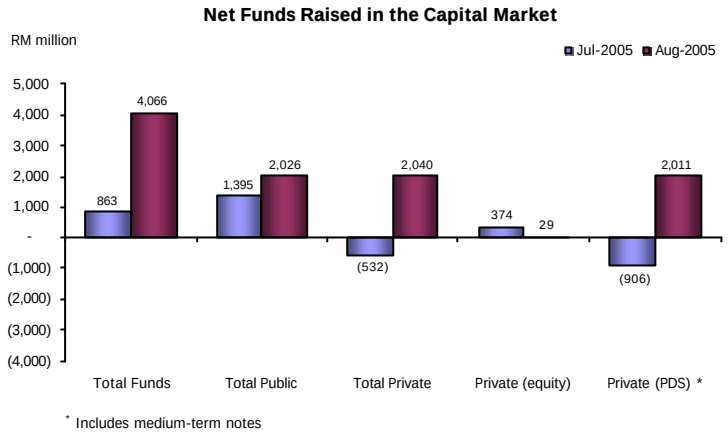
Loan disbursements remained broad-based

Loan disbursements to businesses, particularly SMEs, were higher in August, at RM29.6 billion, expanding at an annual rate of 13.2%. The stronger growth rate was in part due to a low base effect. The increase in loan disbursements was evident across several business sectors. Meanwhile, loan disbursements to households were sustained at RM12.8 billion, increasing at an annual rate of 16.2%. The forward-looking indicators, loan applications and approvals, were higher for both the business and household sectors.

Amid the stronger disbursements and stable repayments, loans outstanding rose at an annual rate of 8.9% at end-August (end-July: 8.7%). Loans outstanding to the household and business sectors increased at annual rates of 15% and 3% respectively at end-August (15.1% and 2.6% respectively at end-July). The expansion in business loans outstanding was supported by the strong increase in loans outstanding to SMEs, which grew by 9.2% (end-July: 9%). The share of SMEs loans to total business loans stood at 42.1% (end-2004: 40.3%).

Higher amount of funds raised in the capital market

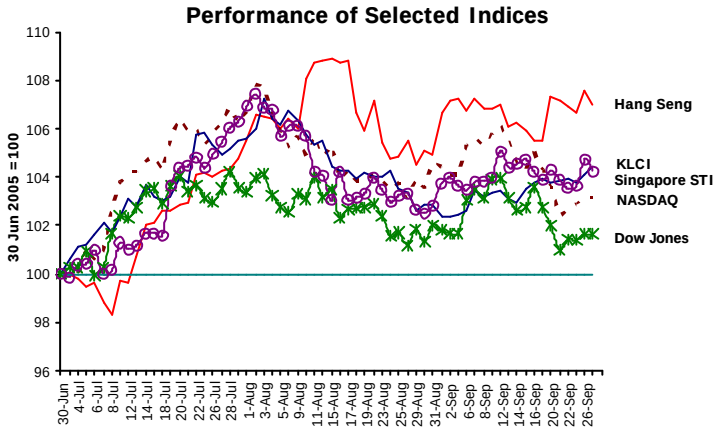
On a net basis, a higher amount of RM4.1 billion was raised in the capital market in August, reflecting largely funds raised by the private sector through debt issuance. New issuances of PDS amounted to RM3.8 billion, mainly by companies in the finance and construction sectors. After taking into account the redemption of RM1.8 billion, a total of RM2 billion was raised in the PDS market. On a net basis, the public sector raised RM2 billion, mainly from the reopening of MGS1/05. Funds raised from the equity market, on the other hand, were much lower at RM29.4 million.



Higher funds raised particularly via the debt market in August

KLCI improved in September due to renewed buying interests

In August, the KLCI ended lower at 913.56 (since end-July: -2.5%) due to profit-taking activities, fuelled by concerns over rising global oil prices and higher anticipated inflation. Market capitalisation declined to RM706.4 billion (since end-July: -2.6%). The daily average turnover during the month was lower at 410.1 million units (July: 472.8 million units).

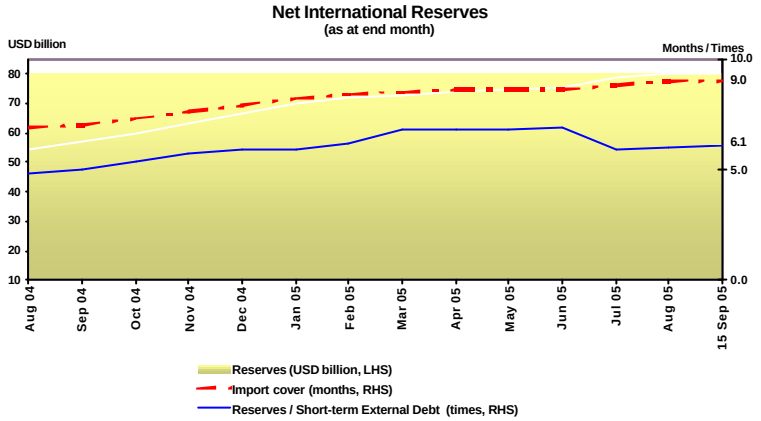


KLCI improved on the back of renewed buying interests

However, the market improved slightly in the first three weeks of September due to renewed buying interests. On 27 September, the KLCI closed at 927.71 (up 1.5% since end-August) with market capitalisation at RM716.49 billion (up 1.4% since end-August). However, trading declined slightly, with daily average turnover amounting to 405 million units.

International reserves increased further

The international reserves of Bank Negara Malaysia increased to RM304.3 billion or equivalent to USD80.1 billion as at 30 August 2005. Reserves stood at RM304.4 billion or equivalent to USD80.2 billion as at 15 September 2005. The current level of reserves is sufficient to finance 9 months of retained imports and is 6.1 times the short-term external debt.



Banking system strengthened amidst higher capitalisation and lower NPL level

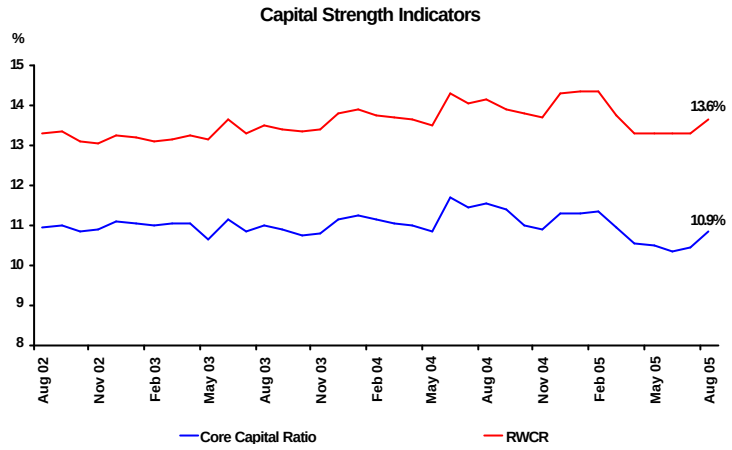
The core capital ratio and risk-weighted capital ratio (RWCR) of the banking system rebounded and strengthened to 10.9% and 13.6% respectively as at end-August 2005. This was due mainly to capital raising exercises as well as the inclusion of audited profits of two domestic banking institutions which offset further expansion in lending activities. Meanwhile, the net non-performing loans (NPL) ratio based on the 6-month classification fell below 5% to 4.9%, as a result of continued write-offs and strong repayments. Similarly, the net NPL ratio based on the 3-month classification improved to 6.4% of net loans.

Banking System Health Indicators *

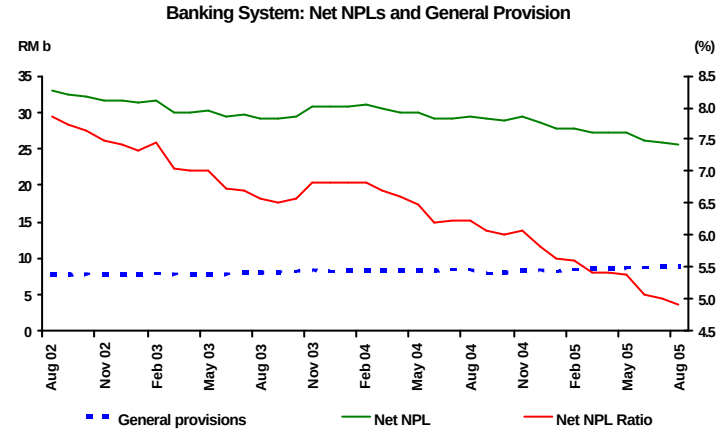
	As at end-								
	1999	2000	2001	2002	2003	Dec 04	Jun 05	Jul 05	Aug 05
Capital (%)									
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.3	10.5	10.5	10.9
RWCR	12.5	12.5	13.0	13.2	13.8	14.3	13.4	13.3	13.6
Net NPLs (6-month classification)									
% of net total loans	6.4	6.3	6.9	7.5	6.8	5.8	5.1	5.0	4.9
Amount (RM million)	23,849	24,700	32,833	31,702	30,766	28,630	26,068	25,709	25,464
GP / Net total loans (6-month, %)	1.9	1.9	1.9	1.8	1.8	1.7	1.7	1.7	1.7

* Beginning June 1999, the figures include Islamic banks.

* Beginning April 2005, RWCR and CCR include market risk factor



Capitalisation level of banking system strengthened…



…amidst continued decline in NPL level

Bank Negara Malaysia
28 September 2005

Key Monetary and Financial Statistics

		Jun 05		Jul 05		Aug 05	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		50.7	9.1	51.0	7.8	50.8	7.1
M1		116.5	11.0	117.0	12.5	118.7	12.2
M2		591.0	32.2	587.8	30.3	597.5	27.9
M3		652.3	12.8	648.8	11.6	655.4	12.3
Banking System							
Total deposits		668.6	14.4	664.9	13.9	673.4	14.8
Total loans (including loans sold to Cagamas)		533.8	8.3	534.4	8.7	539.6	8.9
Loan-deposit ratio (%)		76.5		77.1		77.0	
Financing-deposit ratio [1] (%)		84.6		84.9		84.7	
Loans applied (during the period)		25.9	5.4	27.3	8.9	33.6	28.1
Loans approved (during the period)		16.3	-10.0	18.2	10.6	18.2	27.1
Loans disbursed (during the period)		45.8	7.9	41.7	1.3	44.2	14.6
Loans repaid (during the period)		40.3	9.8	41.3	-4.4	39.4	7.4
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.4		13.3		13.6	
Net NPLs: 6-month classification (%)		5.1		5.0		4.9	
International Reserves of BNM (end-period)							
Reserves in RM billion		285.8		298.7		304.3	
Reserves in USD billion (equivalent)		75.2		78.7		80.1	
Months of retained imports		8.6		8.8		9.0	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		2.70		2.70		2.70	
Interbank:	Overnight	2.69 [2.70]		2.70 [2.70]		2.69 [2.70]	
	1-week	2.73 [2.73]		2.72 [2.73]		2.71 [2.72]	
	1-month	2.83 [2.82]		2.83 [2.83]		2.83 [2.84]	
	3-month	2.84 [2.84]		2.86 [2.86]		2.89 [2.88]	
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		5.90		5.91	
Prices							
Consumer Price Index (CPI) (2000=100)		109.0	3.2	109.0	3.0	109.7	3.7
Producer Price Index (PPI) (1989=100)		158.4	6.9	161.4	8.6	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
Euro		4.5948		4.5475		4.6027	
Pound Sterling		6.8685		6.5799		6.7605	
100 Japanese yen		3.4469		3.3414		3.3985	
Singapore dollar		2.2576		2.2565		2.2395	
100 Thai Baht		9.2032		8.9757		9.1178	
100 Philippine Peso		6.7628		6.6759		6.7098	
100 Indonesian Rupiah		0.0391		0.0382		0.0346	
100 Korean Won		0.3699		0.3655		0.3648	
Capital Market							
Net funds raised (in RMb) by:	public	2.2		1.4		2.0	
	private	1.2		-0.5		2.0	
Bursa Malaysia Composite Index (end-period)		888.3		937.4		913.6	
Bursa Malaysia Market Capitalisation (RMb, end-period)		688.6		725.0		706.4	

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