BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 09/06/11

EMBARGO: Not for publication and broadcast before 1830 hours on Thursday, 28 September 2006

Monetary and Financial Developments August 2006
Highlights of the Press Release

Sustained growth in net private sector financing

Growth in private sector financing was sustained in August, with banking system loans and PDS outstanding expanding at a combined annual rate of 9.2%. Loans outstanding grew at an annual rate of 8.6% at end-August (end-July: 9.3%). Loans outstanding to businesses increased at an annual rate of 5.4%, while loans outstanding to households increased by 12.2%.

The banking system's capitalisation level and asset quality strengthened in August. The risk-weighted capital ratio (RWCR) increased to 13.2%, due to the inclusion of audited profits by several banking institutions in the capital base, and a capital raising exercise by a banking institution. Meanwhile the net non-performing loans (NPL) ratio based on the 3-month classification improved to 5.3% (July: 5.4%) as at end-August 2006.

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MONETARY AND FINANCIAL DEVELOPMENTS AUGUST 2006

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Growth in private sector financing was sustained in August, with banking system loans and PDS outstanding expanding at a combined annual rate of 9.2%. Loans outstanding grew at an annual rate of 8.6% at end-August (end-July: 9.3%). Loans outstanding to businesses increased at an annual rate of 5.4%, while loans outstanding to households increased by 12.2%.

On a gross basis, total funds raised by the private sector through the equity and private debt securities (PDS) markets amounted to RM4.1 billion in August. The bulk of the funds were raised from the PDS market, mainly by companies in the business services, finance and property sectors. Excluding Cagamas, the net funds raised by the private sector were higher and amounted to RM1.8 billion.

While the average fixed deposit (FD) rates of commercial banks (CBs) remained stable in August and September, the real average FD rates for the 6-month, 9-month and 12-month maturities turned positive following the lower inflation in August. In terms of lending rates, both the average base lending rate (BLR) and average lending rate (ALR) of CBs remained stable in August.

During the period 1 August – 26 September, the daily weighted average overnight interbank rate moved within a range of 3.48% - 3.56%. 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 daily weighted average overnight interbank rate trended closer to the OPR. Meanwhile, interbank rates of other maturities have remained relatively stable.

In the period 1 August – 27 September 2006, the ringgit depreciated against the US dollar and euro, but appreciated against the Japanese yen. In addition to trade and investment flows, the ringgit was influenced by developments in the G3 currencies. The ringgit appreciated against the Indonesian rupiah by 0.6%, but depreciated against most other regional currencies in the range of 0.2% - 3.1%.

Headline inflation, as measured by the Consumer Price Index (CPI), slowed to 3.3% in August (July: 4.1%). During the month, the moderation in headline inflation was due mainly to the slower pace of price increase for items in the *transport* category, following the lapse of the August 2005 upward revision in the prices of retail petrol and diesel. In addition, the prices of items in the *food and non-alcoholic beverages* category also rose at a slower pace. Meanwhile, the rate of increase of the Producer Price Index (PPI) moderated further to 8.1% in July (June: 8.9%).

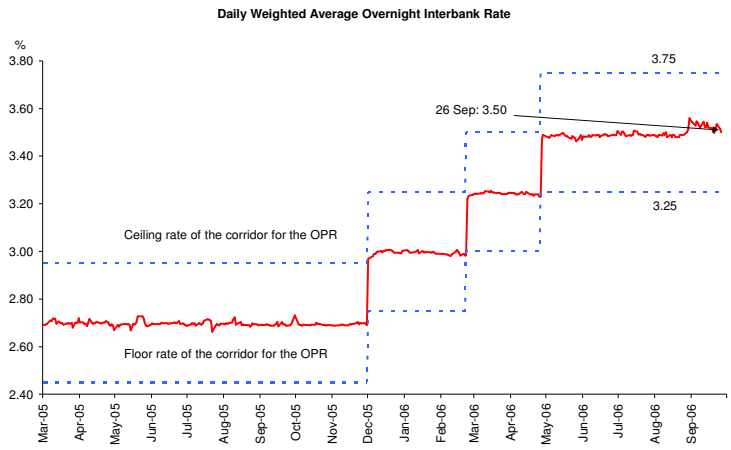
M1, or narrow money, expanded at an annual rate of 10.2% in August (July: 9.7%). Meanwhile, M3, or broad money, also increased at a higher annual rate of 8.3% (July: 7.6%).

The banking system's capitalisation level and asset quality strengthened in August. The risk-weighted capital ratio (RWCR) increased to 13.2%, due to the inclusion of audited profits by several banking institutions in the capital base, and a capital raising exercise by a banking institution. Meanwhile the net non-performing loans (NPL) ratio based on the 3-month classification improved to 5.3% (July: 5.4%) as at end-August 2006.

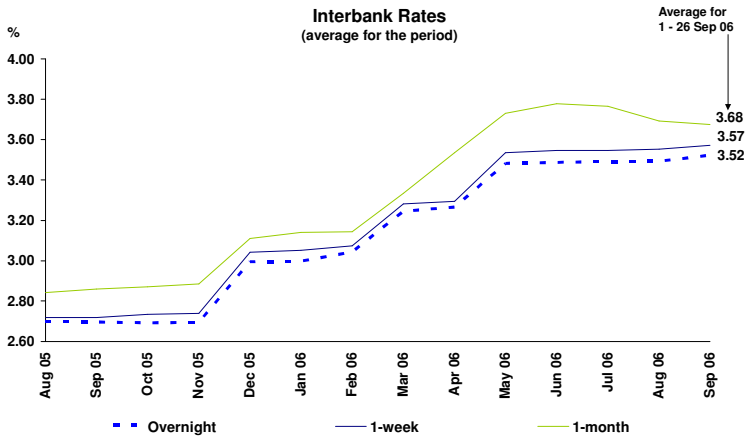
Real fixed deposit rates on longer tenures turned positive in August

During the period 1 August – 26 September, the daily weighted average overnight interbank rate moved within a range of 3.48% - 3.56%. 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 daily weighted average overnight interbank rate trended closer to the OPR. Meanwhile, interbank rates of other maturities have remained relatively stable.

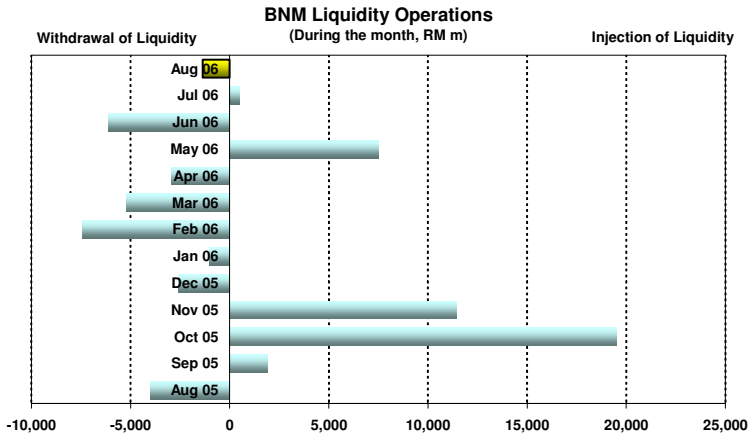
The average fixed deposit (FD) rates of commercial banks (CBs) remained stable in August and September. As at 15 September, the average quoted FD rates of CBs for tenures of between 1 and 12 months remained stable at 3.13% and 3.77% respectively. The real average FD rates of CBs for the 6-month, 9-month and 12-month maturities turned positive because of the lower inflation in August. In terms of lending rates, the average base lending rate (BLR) and the average lending rate (ALR) of CBs were relatively unchanged at 6.72% and 6.64% respectively at end-August.



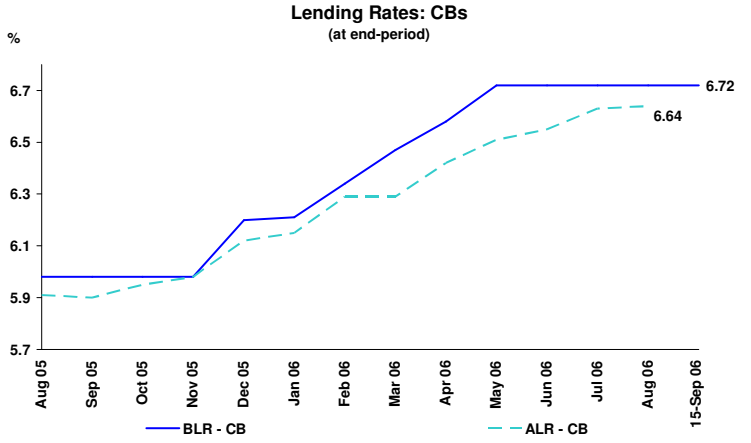
Overnight interbank rates rose marginally in early September, but trended closer to the OPR subsequently



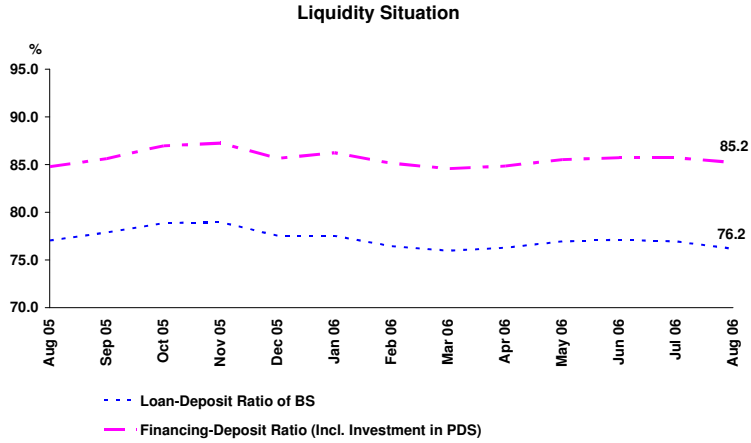
Other interbank rates were relatively unchanged



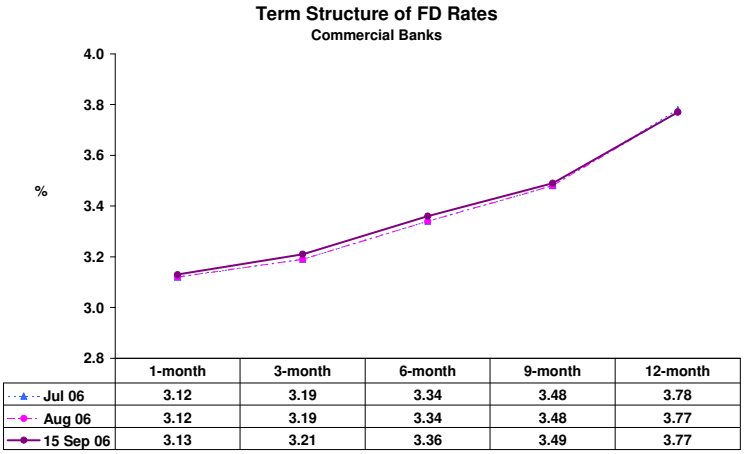
BNM absorbed liquidity from the banking system in August



The ALR of CBs remained below BLR

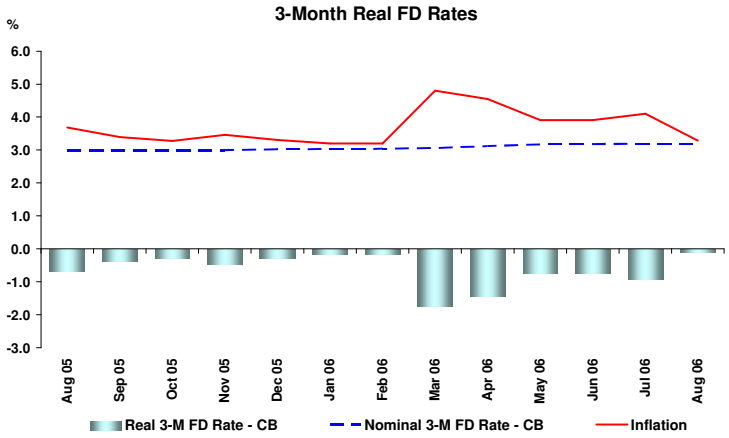


The loan-deposit and the financing-deposit ratio were slightly lower as deposit growth outpaced loan growth in August



	1-month	3-month	6-month	9-month	12-month
Jul 06	3.12	3.19	3.34	3.48	3.78
Aug 06	3.12	3.19	3.34	3.48	3.77
15 Sep 06	3.13	3.21	3.36	3.49	3.77

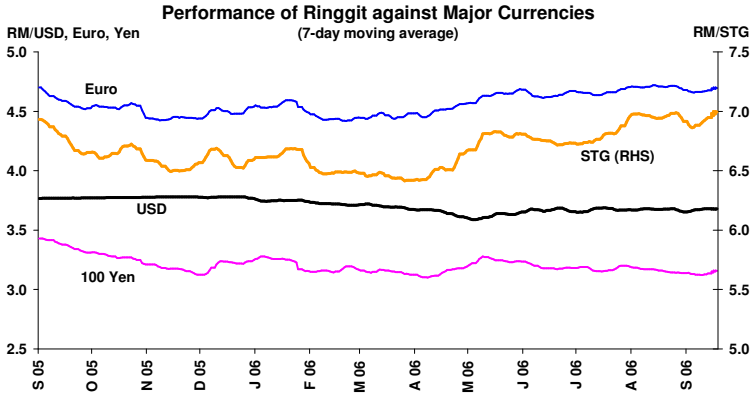
FD rates of CBs remained stable in August and September

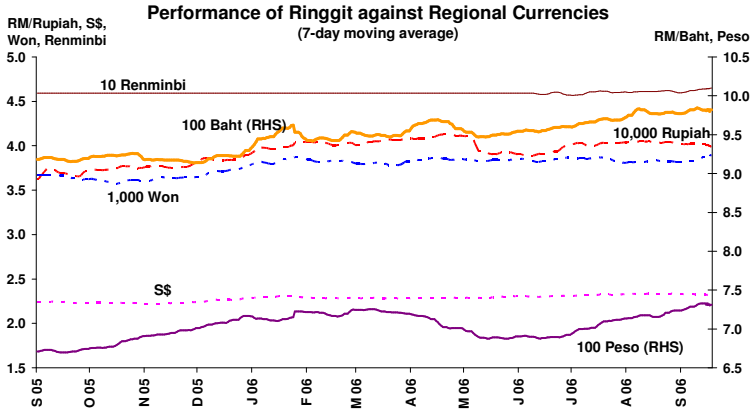


The negative real 3-m FD rate narrowed following the lower inflation in August

Ringgit depreciated against the US dollar and euro

In the period 1 August – 27 September 2006, the ringgit depreciated against the US dollar and euro, but appreciated against the Japanese yen. In addition to trade and investment flows, the ringgit was influenced by developments in the G3 currencies. The euro was supported by expectations that the European Central Bank would raise benchmark interest rates further. The Japanese yen weakened due to reduced expectations for higher benchmark interest rates. The ringgit appreciated against the Indonesian rupiah by 0.6%, but depreciated against most other regional currencies in the range of 0.2% - 3.1%.



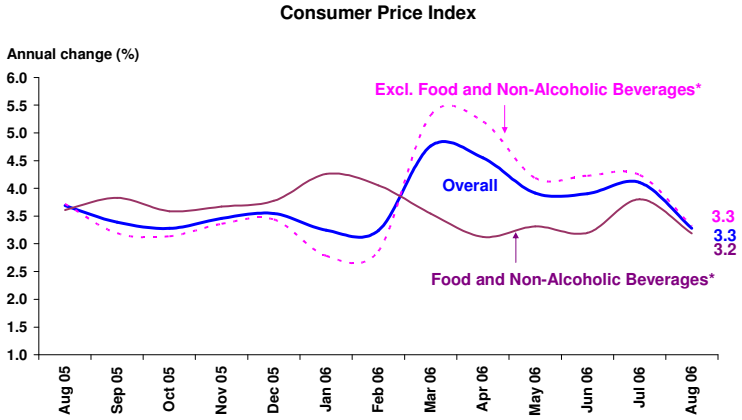


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change	
	Dec 05	Jul 06	Aug 06	27 Sep 06	End Dec 05 - 27 Sep 06	End Jul 06 - 27 Sep 06
US dollar	3.7800	3.6535	3.6770	3.6835	2.6	-0.8
Euro	4.4867	4.6653	4.7181	4.6764	-4.1	-0.2
Pound sterling	6.5226	6.8163	6.9826	6.9808	-6.6	-2.4
100 Japanese yen	3.2229	3.1946	3.1485	3.1471	2.4	1.5
Singapore dollar	2.2714	2.3160	2.3379	2.3208	-2.1	-0.2
100 Thai baht	9.2049	9.6577	9.7923	9.8135	-6.2	-1.6
100 Philippine peso	7.1254	7.1059	7.2204	7.3303	-2.8	-3.1
100 Indonesian rupiah	0.0385	0.0403	0.0405	0.0400	-4.0	0.6
100 Korean won	0.3739	0.3827	0.3834	0.3901	-4.1	-1.9
Chinese renminbi	0.4686	0.4582	0.4620	0.4659	0.6	-1.7

Inflation slowed to 3.3% in August

Headline inflation, as measured by the Consumer Price Index (CPI), slowed to 3.3% in August (July: 4.1%). During the month, the moderation in headline inflation was due mainly to the slower pace of price increase for items in the *transport* category, following the lapse of the August 2005 upward revision in the prices of retail petrol and diesel. In addition, the prices of items in the *food and non-alcoholic beverages* category also rose at a slower pace. In particular, the inflation rate of *food at home* declined on account of the lower prices of fresh meat, milk and eggs.

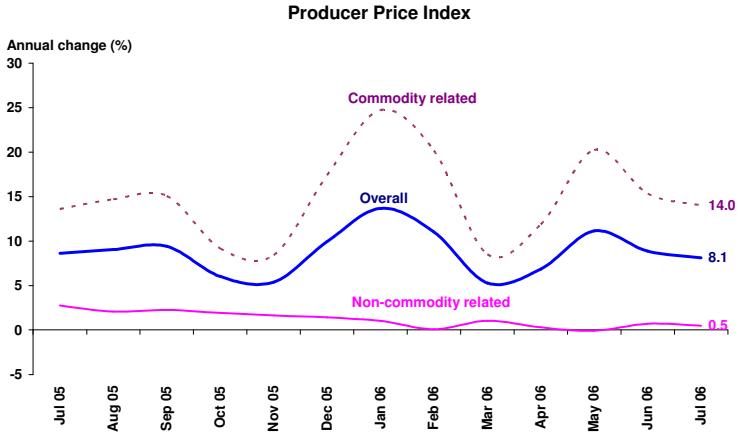


From 2006, the "food" sub-group has been reclassified into "food and non-alcoholic beverages"

Inflation at 3.3% in August

Growth in producer prices moderated in July

The rate of increase of the Producer Price Index (PPI) moderated further to 8.1% in July (June: 8.9%). The moderation in the PPI was due mainly to the slower increase in the prices of items in the commodity-related category following a more modest increase in crude oil prices during the month. Excluding the commodity-related category, the PPI also registered a slower growth rate of 0.5% (June: 0.7%), due mainly to the decline of prices in the *food and live animals* category from a year ago.



PPI growth moderated in July

Broad money increased further in August

In August, M1, or narrow money, expanded at a higher annual rate of 10.2% (July: 9.7%), mainly reflecting higher placements of demand deposits by businesses.

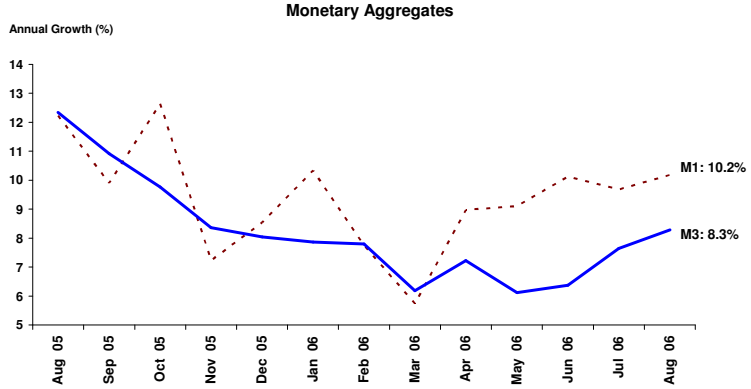
Broad money, M3, meanwhile, increased further at an annual rate of 8.3% in August (July: 7.6%). On a monthly basis, all M3 determinants were expansionary. Net claims on the Government contributed to M3 growth as the Government withdrew its deposits from Bank Negara Malaysia following the redemption of Malaysian Government Securities (MGS) in August. Both net external operations and claims on the private sector were also expansionary on M3. Claims on the private sector were expansionary mainly on account of the rise in loans outstanding and the increase in holdings of securities by the banking system.

M3 Determinants
(RM billion)

	Change during period			
	2004	**2005**	**Jul 06**	**Aug 06**
M3	68.0	49.7	4.5	11.3
Net claims on Government	-15.9	-5.5	-0.7	3.1
Claims on the private sector	30.6	44.6	5.6	1.5
Loans	39.8	*45.0*	*4.9*	*1.3*
Securities	-9.2	*-0.4*	*0.7*	*0.2*
Net external operations *	82.7	17.4	-0.6	3.6
Other influences	-29.4	-6.8	0.2	3.1

* Pre-revaluation of the international reserves

Monetary Aggregates



Banking system deposits increased in August

In August, higher deposit placements by business enterprises, non-bank financial institutions, State Governments, and individuals, led to a further increase of RM8.6 billion or 9.7% (July: RM7.4 billion or 9.8%) in total deposits mobilised by the banking system. By type, the increase in deposits was mainly in the form of negotiable instruments of deposits (NIDs), fixed deposits and demand deposits. However, the increase in these deposits was partially offset by the decline in repos.

Deposits by Holder
(RM million)

	Change during period			
	May 06	**Jun 06**	**Jul 06**	**Aug 06**
Federal Government	-633	753	1,188	-1,285
State Governments	-304	49	-321	1,391
Statutory Authorities [1]	862	1,798	-1,200	-105
Financial Institutions	-1,538	1,844	-102	766
Business Enterprises	4,367	-295	3,719	6,477
Individuals	-980	1,736	3,244	1,385
Others [2]	-8	-4	883	6
Total	1,767	5,881	7,413	8,636

1/ Include local Governments

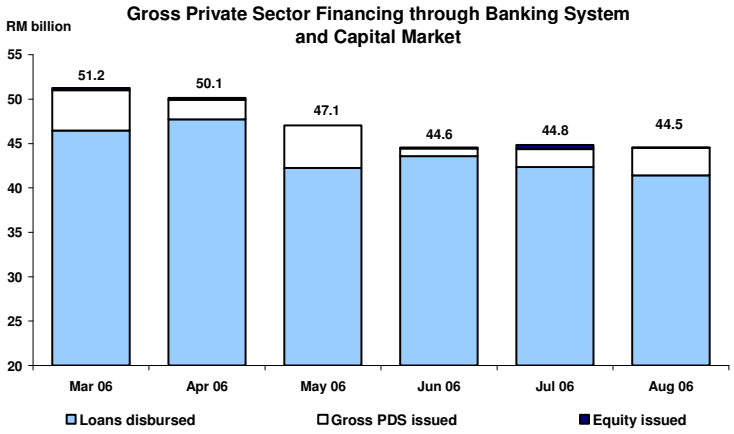
2/ Include domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

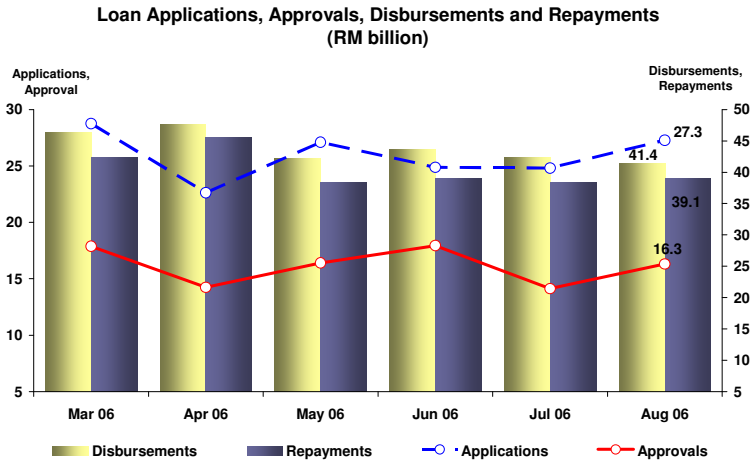
	Change during period			
	May 06	**Jun 06**	**Jul 06**	**Aug 06**
Fixed deposits	1,795	-967	1,910	2,763
NIDs	3,761	3,267	-216	5,635
Demand deposits	1,090	2,722	-152	1,959
Savings deposits	-896	-178	123	200
Repos	-5,053	782	4,056	-3,142
FX deposits	-423	121	109	952
SPI deposits	1,718	-93	707	-65
Others	-225	226	876	334
Total	1,767	5,881	7,413	8,636

Sustained growth in net private sector financing

In August, total gross financing of the private sector through the banking system and the capital market amounted to RM44.5 billion (July: RM44.8 billion). Total PDS issuance increased while loan disbursements were marginally lower during the period. On a net basis, financing of the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 9.2% (July: 9.6%).



Relatively stable level of gross private sector financing



Loan applications and approvals increased during the month

Bank lending indicators

	RM billion		Annual Growth (%)	
	July	Aug	July	Aug
Overall				
Loan applications	24.8	27.3	-9.2	-6.1
Loan approvals	14.1	16.3	-22.4	-6.4
Loan disbursements	42.3	41.4	1.5	-5.6
Chg in Loans Outstanding[1/]	4.7	2.4	9.3	8.6
Businesses[2/]				
Loan applications	13.1	14.0	-4.3	-9.3
Loan approvals	6.6	7.8	-24.6	-1.2
Loan disbursements	30.1	28.7	5.2	-6.3
Chg in Loans Outstanding[1/]	1.0	1.3	5.4	5.4
SMEs				
Loan applications	5.4	6.3	n.a.[3/]	n.a.[3/]
Loan approvals	2.8	4.0	n.a.	n.a.
Loan disbursements	11.3	11.4	n.a.	n.a.
Chg in Loans Outstanding[1/]	0.8	0.0	n.a.	n.a.
Households				
Loan applications	11.7	13.3	-14.2	-2.6
Loan approvals	7.5	8.5	-20.4	-10.7
Loan disbursements	12.2	12.8	-6.6	-4.1
Chg in Loans Outstanding[1/]	2.6	3.1	12.7	12.2

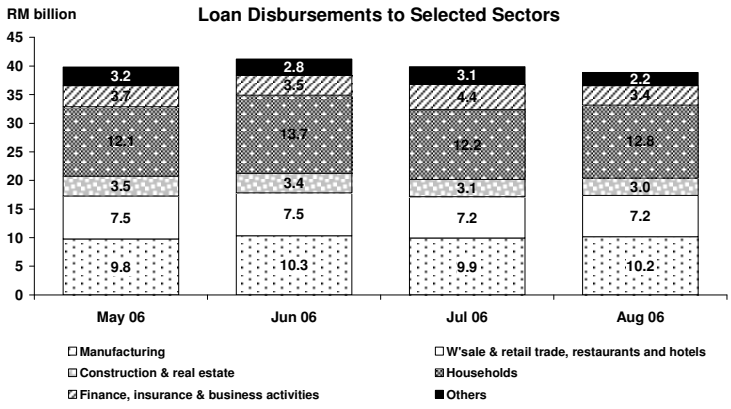
n.a. not applicable

[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.

… across business and household sectors.



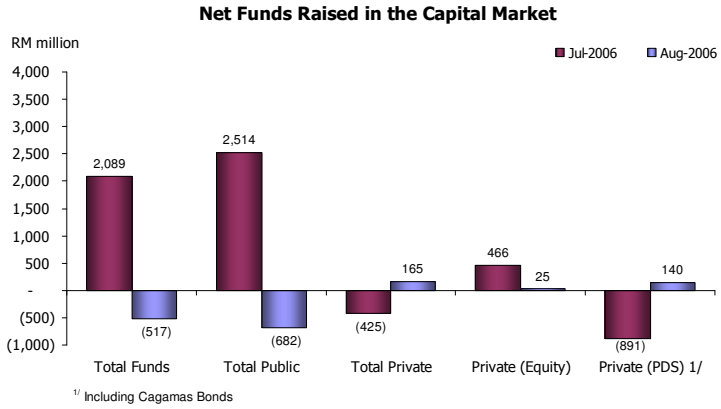
Steady disbursements to main sectors

On a month-on-month basis, loan applications and approvals were higher in both the business and household sectors. In the business sector, both large businesses and SMEs accounted for the increase in loan applications and approvals. Meanwhile, loan disbursements to SMEs and households held steady, with loan disbursements continuing to be channelled to various sectors of the economy.

As at end-August, loans outstanding increased at an annual growth rate of 8.6% (end-July: 9.3%), with loans outstanding to businesses and households increasing at annual rate of 5.4% and 12.2% respectively (July: 5.4% and 12.7% respectively).

Gross funds raised remained significant in the capital market

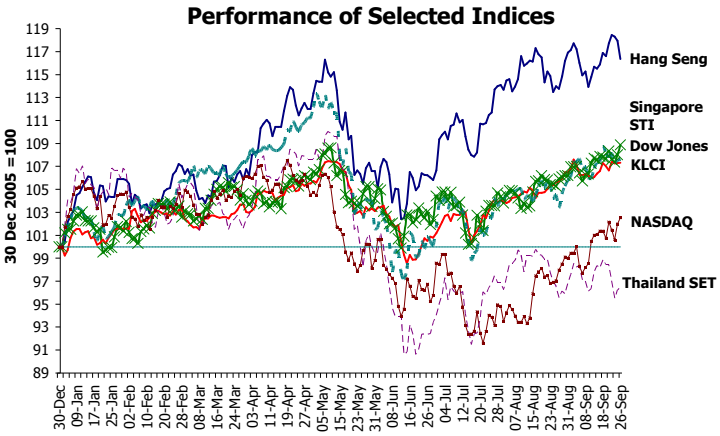
On a gross basis, total funds raised by the private sector through the equity and private debt securities (PDS) markets amounted to RM4.1 billion in August. The bulk of the funds were raised from the PDS market mainly by companies in the business services, finance and property sectors. Excluding Cagamas, the net funds raised by the private sector were higher and amounted to RM1.8 billion. In the public sector, a total of RM6.3 billion was raised through the reopening of 3-year and 5-year MGS issues. However, the net funds raised by the public sector recorded a net redemption position due to the higher redemptions of MGS amounting to RM7 billion. In total, the capital market recorded a net redemption position of RM517 million during the month.



KLCI performance improves further

In August, the KLCI maintained its upward momentum and closed at 958.12 or 2.4% higher compared to end-July. Positive sentiments arising from the allocations of construction projects in the Ninth Malaysia Plan (9MP) and expectations of an unchanged interest rate environment in Malaysia boosted the local equity market. Market capitalisation increased to RM740.4 billion

(since end-July: 1.7%), while the daily average turnover decreased to 460.5 million units (July: 801.8 million units).

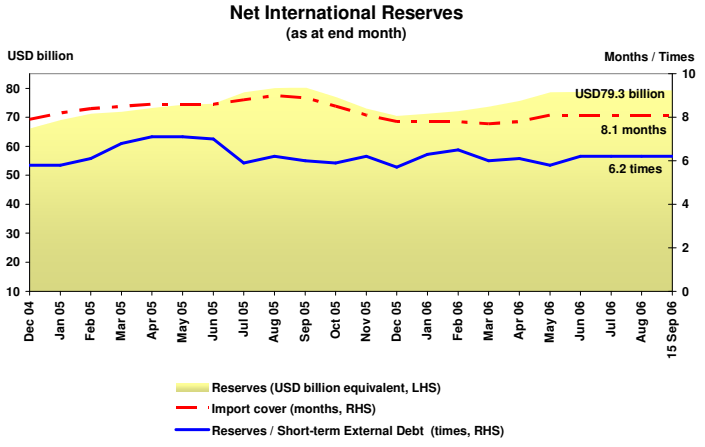


KLCI improved further due to positive sentiments

As at 26 September, the KLCI closed at 965.66 (since end-August: +0.8%). Overall market capitalisation was higher at RM743.6 billion (since end-August: +0.4%). Trading activity was higher with the average daily turnover at 467.2 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM291.2 billion or equivalent to USD79.3 billion as at 30 August 2006. The reserves increased to RM291.4 billion or equivalent to USD79.3 billion as at 15 September 2006. The reserves position is sufficient to finance 8.1 months of retained imports and is 6.2 times the short-term external debt.



Strengthening capitalisation level and asset quality of banking system

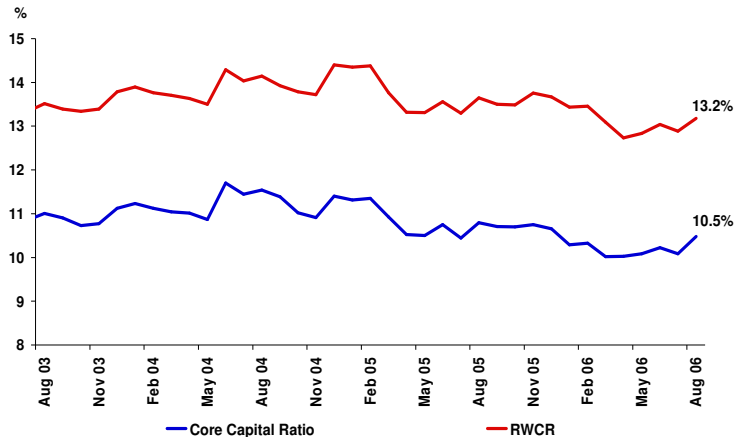
Strong financial performance led to a stronger capital base for banking institutions. The inclusion of audited profits by several banking institutions in the capital base combined with a capital raising exercise by a banking institution resulted in a higher capital base of RM90.4 billion. As at 31 August 2006, the risk-weighted capital ratio (RWCR) and core capital ratio rose to 13.2% and 10.5% respectively. On a 3-month classification basis, the net non-performing loans (NPL) continued to trend downwards to 5.3% of total net loans.

Banking System Health Indicators *

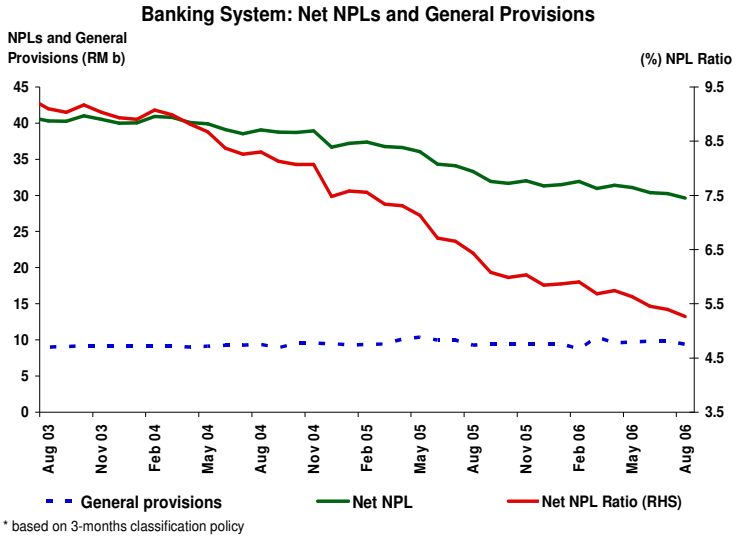
	As at end-									
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**Jun 06**	**Jul 06**	**Aug 06**
Capital (%)										
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.4	10.7	10.2	10.1	10.5
RWCR	12.5	12.5	13.0	13.2	13.8	14.4	13.7	13.0	12.9	13.2
Net NPLs (3-month classification)										
% of net total loans	11.0	9.7	11.5	10.2	8.9	7.5	5.8	5.5	5.4	5.3
Amount (RM million)	40,631	37,678	46,254	43,110	40,013	36,668	31,322	30,368	30,260	29,618
GP / Net total loans (3-month, %)	2.2	2.2	2.1	2.1	2.0	1.9	1.8	1.8	1.8	1.7

* Beginning June 1999, the figures include Islamic banks.
* Beginning April 2005, RWCR and CCR include market risk factor

Capital Strength Indicators



Capitalisation level of the banking system remained high…



…amidst continuing improvement in asset quality

Bank Negara Malaysia
28 September 2006

Key Monetary and Financial Statistics

		Jun 06		Jul 06		Aug 06	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		53.4	5.4	53.7	5.3	54.6	7.6
M1		128.3	10.1	128.3	9.7	130.7	10.2
M2		657.2	11.2	662.7	12.7	673.8	12.8
M3		693.9	6.4	698.3	7.6	709.6	8.3
Banking System							
Total deposits		723.0	8.1	730.4	9.8	739.0	9.7
Total loans (including loans sold to Cagamas)		579.3	8.6	584.1	9.3	586.5	8.6
Loan-deposit ratio (%)		77.1		76.9		76.2	
Financing-deposit ratio [1] (%)		85.7		85.7		85.2	
Loans applied (during the period)		24.9	-4.4	24.8	-9.2	27.3	-6.1
Loans approved (during the period)		17.9	9.1	14.1	-22.4	16.3	-6.4
Loans disbursed (during the period)		43.6	-4.8	42.3	1.5	41.4	-5.6
Loans repaid (during the period)		39.0	-3.2	38.4	-7.0	39.1	-0.2
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.0		12.9		13.2	
Net NPLs: 3-month classification (%)		5.5		5.4		5.3	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		289.3		290.4		291.2	
Net Reserves in USD billion (equivalent)		78.8		79.1		79.3	
Months of retained imports		8.2		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	3.51 [3.49]		3.49 [3.49]		3.56 [3.49]	
	1-week	3.55 [3.55]		3.51 [3.55]		3.57 [3.55]	
	1-month	3.78 [3.78]		3.75 [3.77]		3.68 [3.69]	
Fixed deposits of commercial banks:	1-month	3.11		3.12		3.12	
	3-month	3.18		3.19		3.19	
BLR of commercial banks		6.72		6.72		6.72	
ALR of commercial banks		6.55		6.63		6.64	
Prices							
Consumer Price Index (CPI) (2005=100)		103.8	3.9	104.0	4.1	103.9	3.3
Producer Price Index (PPI) (1989=100)		172.4	8.9	174.5	8.1	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.6750		3.6535		3.6770	
Euro		4.6698		4.6653		4.7181	
Pound Sterling		6.7352		6.8163		6.9826	
100 Japanese yen		3.1963		3.1946		3.1485	
Singapore dollar		2.3126		2.3160		2.3379	
100 Thai Baht		9.6104		9.6577		9.7923	
100 Philippine Peso		6.9047		7.1059		7.2204	
100 Indonesian Rupiah		0.0395		0.0403		0.0405	
100 Korean Won		0.3856		0.3827		0.3834	
Capital Market							
Net funds raised (in RMb) by:	public	2.8		2.5		-0.7	
	private	1.1		-0.4		0.2	
Bursa Malaysia Composite Index (end-period)		914.7		935.9		958.1	
Bursa Malaysia Market Capitalisation (RMb, end-period)		721.8		727.8		740.4	

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