BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Press Release

Pen: 11/05/49 (BN) **EMBARGO: Not for publication or broadcast before 2015 hours on Monday, 28 November 2005**

Monetary and Financial Developments October 2005
Highlights of the Press Release

Sustained financing to the private sector

Financing to the private sector was sustained at high levels in October. Banking system loans and private debt securities (PDS) outstanding increased at an annual rate of 9.7% at end-October, while total bank loans outstanding grew by 9.3% on an annual basis. Financing to the small and medium enterprises (SMEs) in particular, continued to expand, with loans outstanding to the SMEs growing by 10.2% on an annual basis in October, to account for 42% of total loans outstanding to businesses.

Meanwhile, the banking system continued to remain strong, with the risk-weighted capital ratio (RWCR) strengthening to 13.4% and the net non-performing loan (NPL) ratio based on the 6-month classification, remaining at 4.7% in October.

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MONETARY AND FINANCIAL DEVELOPMENTS OCTOBER 2005

Sustained financing to the private sector

Financing to the private sector was sustained at high levels in October. Banking system loans and private debt securities (PDS) outstanding increased at an annual rate of 9.7% at end-October, while total bank loans outstanding grew by 9.3% on an annual basis. Financing to the small and medium enterprises (SMEs) in particular, continued to expand, with loans outstanding to the SMEs growing by 10.2% on an annual basis in October.

During the period of 1 October – 25 November, the daily weighted average overnight interbank rate moved within a narrow range to average at 2.70%, while the the 1-month and 3-month interbank rates increased marginally. In the retail market, the average lending rates (ALR) for commercial banks and finance companies were relatively stable at 5.95% and 8.68% respectively.

Over the period 1 October – 25 November, the ringgit recorded a mixed performance against major and regional currencies. The USD appreciated against most major and regional currencies, including the ringgit.

Headline inflation, as measured by the Consumer Price Index, moderated to 3.3% in October, due mainly to the slower growth in the prices of food, medical care and transport and communication. Producer prices increased in September, with the Producer Price Index increasing by 9.4% on an annual basis, due largely to higher prices of crude oil and rubber.

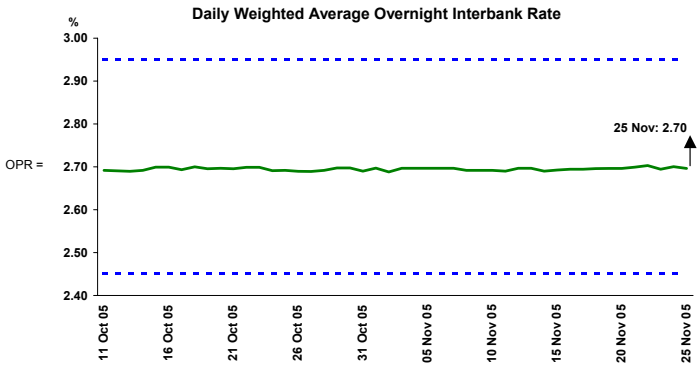
The growth rates of the monetary aggregates were sustained in October. Narrow money or M1, and broad money, M3, expanded at annual rates of 12.6% and 9.8% respectively at end-October.

In the capital market, net funds raised were higher at RM8.1 billion during October, the largest monthly amount recorded thus far in 2005. This was due mainly to the funds raised in the debt securities market.

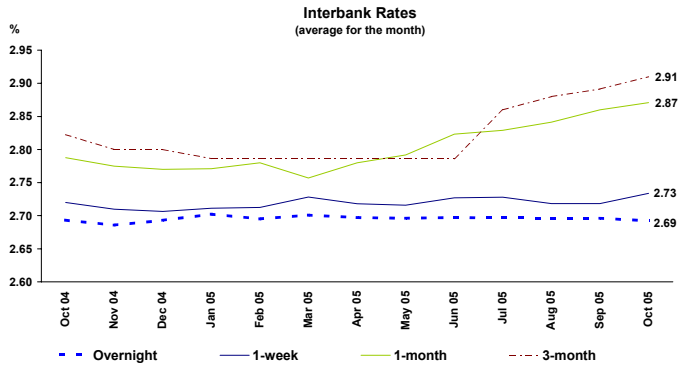
The banking system continued to remain strong, with the risk-weighted capital ratio (RWCR) strengthening to 13.4% and the net non-performing loan (NPL) ratio based on the 6-month classification, remaining at 4.7% in October.

Interest rates remained relatively stable

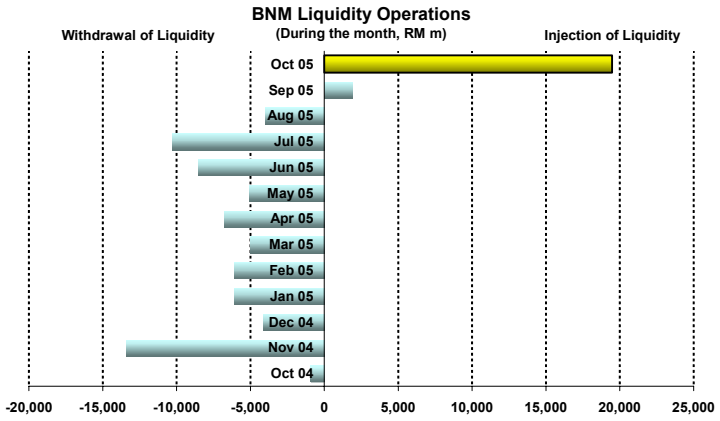
During the period of 1 October – 25 November, the daily weighted average overnight interbank rate moved within a narrow range of 2.69% - 2.70%, averaging at 2.70%. Meanwhile, the average interbank rates for the 1-month and 3-month tenures continued to increase marginally, reflecting expectations that interest rates would 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 5.95% and 8.68% respectively (5.90% and 8.70% respectively as at end-September).



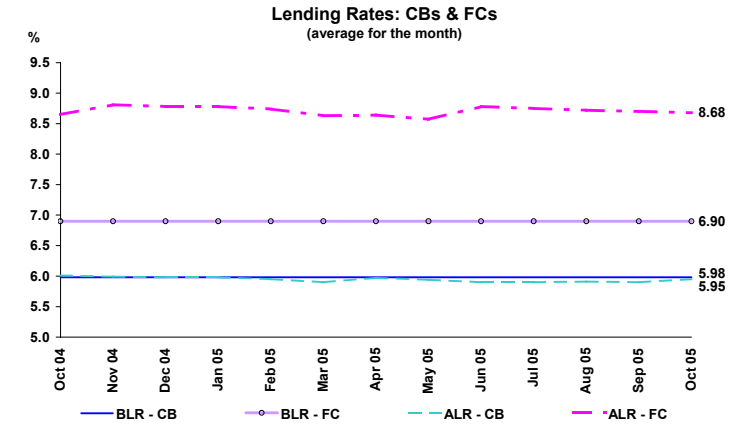
Stable overnight interbank rate



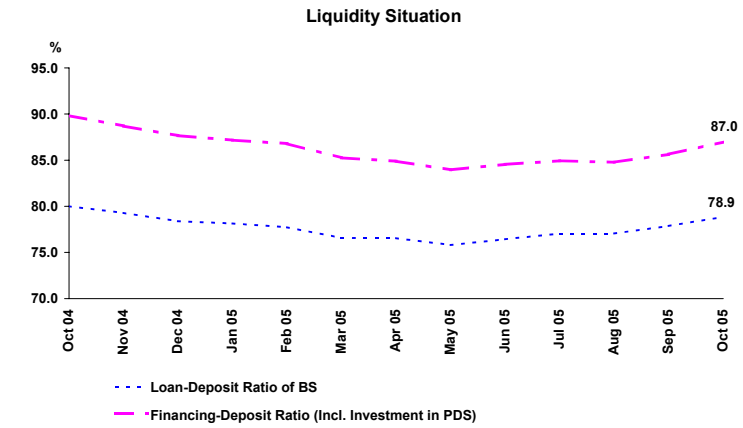
The interbank rates for the 1-month and 3-month tenures continued to increase marginally in October



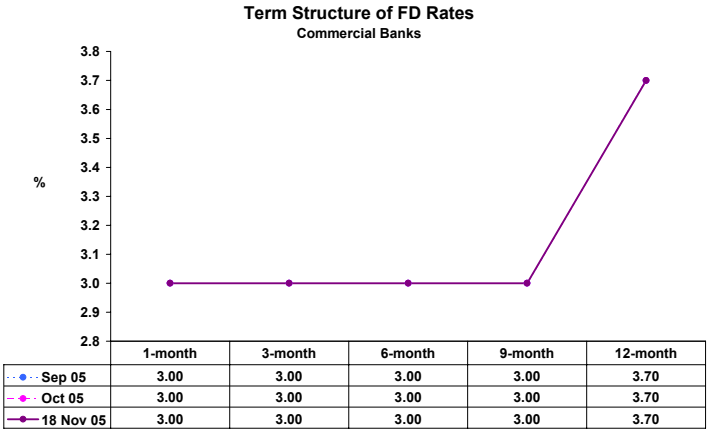
There was an injection of liquidity into the system in October mainly to offset contractionary external operations



ALRs of the CBs and FCs were stable

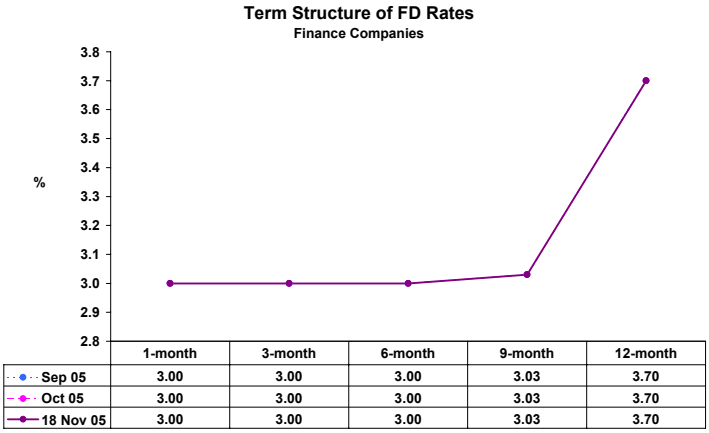


The financing-deposit ratio continued on a modest upward trend, amid sustained growth in financing and slightly slower growth in deposits



	1-month	3-month	6-month	9-month	12-month
Sep 05	3.00	3.00	3.00	3.00	3.70
Oct 05	3.00	3.00	3.00	3.00	3.70
18 Nov 05	3.00	3.00	3.00	3.00	3.70

FD rates of CBs remained unchanged



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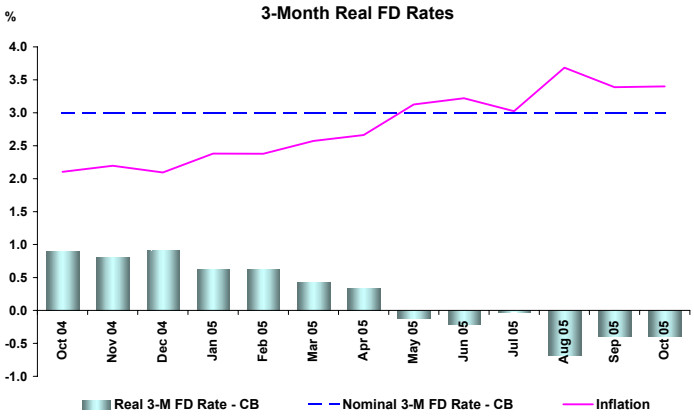
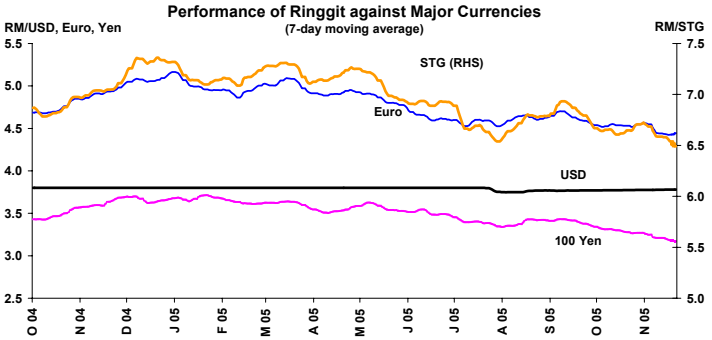
FD rates of FCs remained unchanged

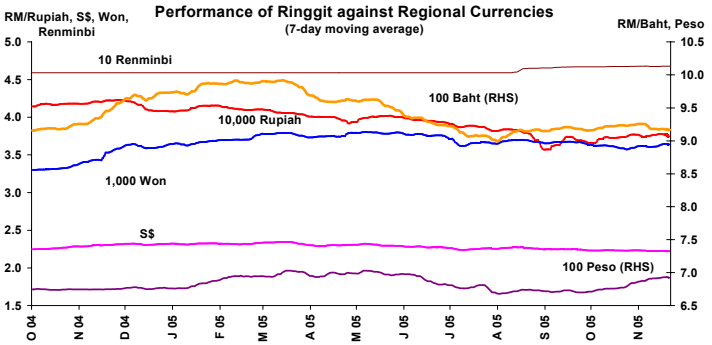


The 3-month real FD rate improved slightly in October

Performance of the ringgit

Over the period 1 October – 25 November, the ringgit recorded a mixed performance against major and regional currencies. The USD appreciated against most major and regional currencies, including the ringgit amidst general expectations of further US interest rate increases. The weakness of the euro reflected the reduced expectations of an interest rate increase by the European Central Bank, as well as the social unrest in France. The yen also exhibited a downtrend reflecting market perception of a delayed change in Japanese monetary policy, and the strong Japanese demand for higher yielding foreign assets. In addition to the developments in the G3 exchange rates, regional currencies were influenced by country-specific factors. The Philippine peso, Indonesian rupiah, Korean won and Singapore dollar strengthened against the ringgit, while the Thai baht weakened against the ringgit.



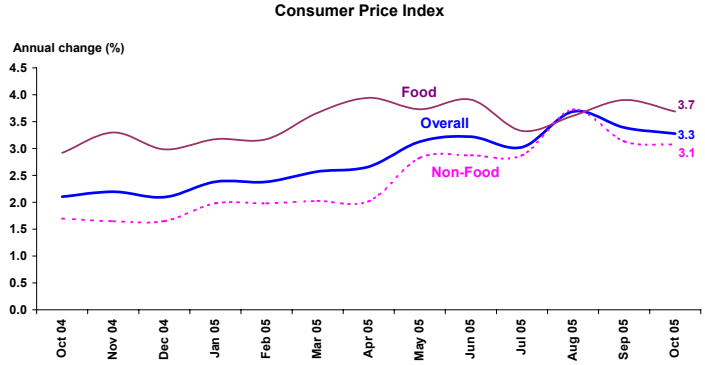


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% change	
	Dec. 04	Sept. 05	Oct. 05	25 Nov. 2005	End Dec. 04 - 25 Nov. 2005	End Sept. 05 - 25 Nov. 2005
US dollar	3.8000	3.7692	3.7748	3.7797	0.5	-0.3
Euro	5.1729	4.5421	4.5515	4.4519	16.2	2.0
Pound Sterling	7.3169	6.6438	6.6999	6.5119	12.4	2.0
100 Japanese yen	3.7026	3.3359	3.2616	3.1693	16.8	5.3
Singapore dollar	2.3258	2.2315	2.2308	2.2341	4.1	-0.1
100 Thai baht	9.7636	9.1988	9.2576	9.1707	6.5	0.3
100 Philippine peso	6.7706	6.7262	6.8570	6.9704	-2.9	-3.5
100 Indonesian Rupiah	0.0408	0.0366	0.0373	0.0375	8.8	-2.5
100 Korean won	0.3671	0.3619	0.3618	0.3632	1.1	-0.3
Chinese renminbi	0.4591	0.4669	0.4679	0.4678	-1.9	-0.2

Inflation moderated slightly in October

Headline inflation, as measured by the Consumer Price Index (CPI), moderated to 3.3% in October (September: 3.4%). The moderation in inflation during the month was caused mainly by slower growth in the food, medical care and transport and communication categories. Prices of food taken at home, as well as away from home, grew at a slower pace. The moderation in the growth of transport and communication category was accounted mainly by the lapse in the petrol price adjustment that was implemented in October 2004. Meanwhile, the CPI for beverages and tobacco was higher, reflecting the effect of the recent increase in excise duties.

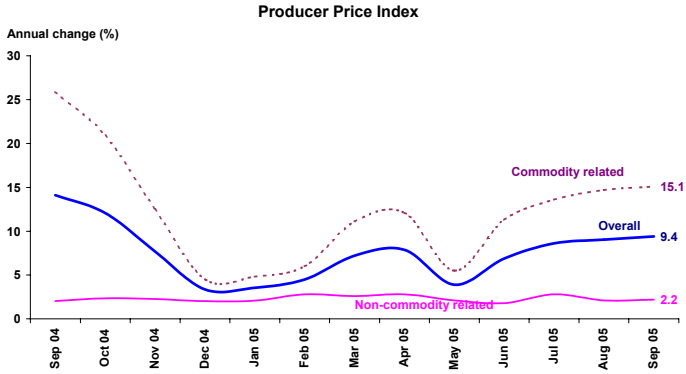


Inflation moderated to 3.3% in October

Producer price inflation continued to increase

The annual growth of the Producer Price Index (PPI) increased further to 9.4% in September (August: 9%). 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 increased

only slightly by 2.2% (August: 2.1%), on account of the higher growth in prices of food and live animals and chemical related products.



PPI inflation continued to increase

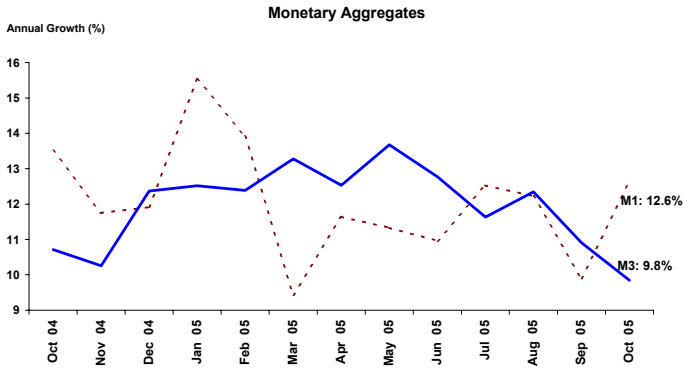
Monetary aggregates continued to expand at sustained growth rates

In October, narrow money or M1, and broad money, M3, expanded at annual rates of 12.6% and 9.8% respectively (September: 9.9% and 10.9% respectively). The increase in M1, which comprises transactional balances, mainly reflected the increase in currency in circulation ahead of the festive period in November. Meanwhile, M3 rose marginally by RM0.9 billion in October. Net claims on the Government and claims on the private sector were higher during the month, the former following a new issue of MGS. However, these were offset by contractionary net external operations.

M3 Determinants
(RM billion)

	Change during period			
	2004	**Sep 05**	**Oct 05**	**Jan-Oct 05**
M3	68.0	1.2	0.9	39.8
Net claims on Government	-15.9	-1.2	3.1	-15.0
Claims on the private sector	30.3	9.3	4.1	34.2
Loans	39.8	*8.4*	*3.5*	*39.9*
Securities	-9.5	*0.9*	*0.6*	*-5.7*
Net external operations *	82.0	-9.0	-11.4	28.9
Other influences	-28.3	2.1	5.1	-8.3

* Pre-revaluation of the international reserves



Deposits in the interbank market declined in October

In October, total deposits with the banking system declined by RM5.4 billion, although on an annual basis, the amount mobilised was higher by 11.9% (September: 13.4%). The decline reflected mainly the lower deposits of financial institutions, the Federal Government and statutory authorities. The decline in deposits of the financial institutions reflected the decline of deposits in the interbank market and by domestic non-bank financial institutions. Meanwhile, the deposits of both domestic business enterprises and individuals increased during the month.

Deposits by Holder
(RM million)

	Change during period			
	Jul 05	**Aug 05**	**Sep 05**	**Oct 05**
Federal Government	-312	140	147	-756
State Governments	182	297	-14	34
Statutory Authorities [1]	-657	2	-99	-960
Financial Institutions	-1,912	-884	-368	-7,213
Business Enterprises	-1,567	8,343	709	1,235
Individuals	539	1,062	1,281	1,682
Others [2]	13	-507	1,950	543
Total	-3,714	8,454	3,607	-5,437

1/ Include local Governments

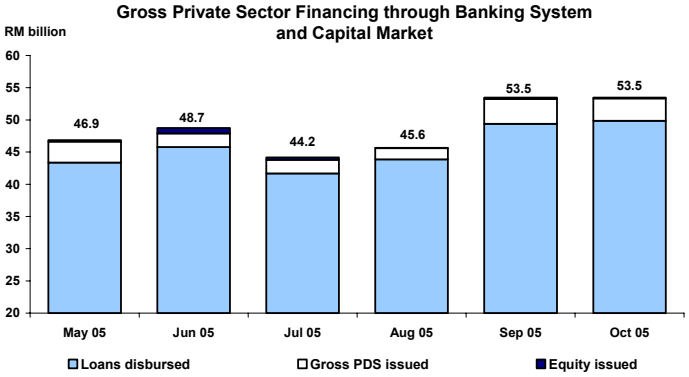
2/ Include domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

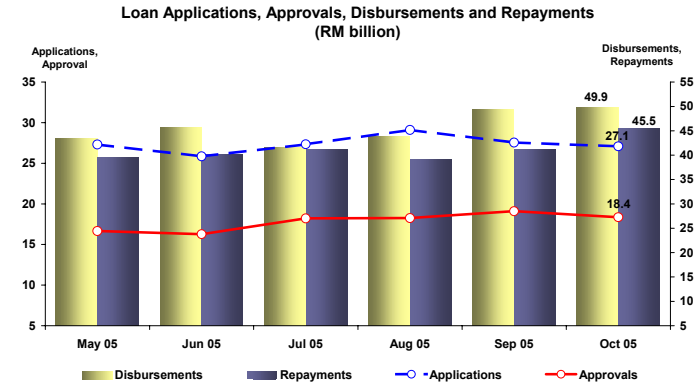
	Change during period			
	Jul 05	**Aug 05**	**Sep 05**	**Oct 05**
Fixed deposits	2,190	3,540	-592	-3,177
NIDs	-6,344	3,058	5,333	-8,103
Demand deposits	-1,671	316	871	1,220
Savings deposits	-230	-160	206	199
Repos	2,739	1,624	-5,808	3,185
FX deposits	-1,252	-147	2,015	665
SPI deposits	717	94	1,346	-13
Others	137	130	237	587
Total	-3,714	8,454	3,607	-5,437

Financing to the private sector was sustained at a high level in October

In October, gross financing to the private sector from the banking system and the capital market amounted to RM53.5 billion (September: RM53.5 billion), increasing at an annual rate of 19.7% (September: 13.3%). The sustained level of financing was mainly supported by loan disbursements, amounting to RM49.9 billion (September: RM49.4 billion). On a net basis, financing to the private sector (banking system loans and PDS outstanding) expanded at an annual rate of 9.7% (September: 9.2%).



Gross private sector financing was sustained at a high level in October



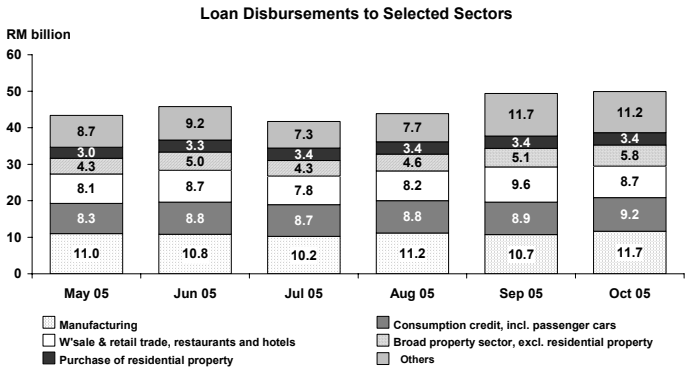
Applications, approvals and disbursements were sustained while repayments were higher

Bank lending indicators

	RM billion		Annual Growth (%)	
	September	October	September	October
Overall				
Loan applications	27.5	27.1	9.3	12.5
Loan approvals	19.1	18.4	21.0	18.3
Loan disbursements	49.4	49.9	15.3	20.1
Chg in Loans Outstanding[1/]	8.0	3.4	9.2	9.3
Businesses				
Loan applications	12.9	13.5	-8.8	5.1
Loan approvals	9.6	9.2	35.4	17.7
Loan disbursements	34.3	34.7	17.7	21.4
Chg in Loans Outstanding[1/]	5.1	-0.1	3.9	4.5
SMEs				
Loan applications	5.1	4.5	1.8	-8.8
Loan approvals	4.0	2.8	26.5	-6.1
Loan disbursements	10.1	9.6	17.2	11.0
Chg in Loans Outstanding[1/]	1.3	0.7	9.8	10.2
Households				
Loan applications	13.6	13.0	28.0	20.1
Loan approvals	8.7	9.1	2.0	18.7
Loan disbursements	12.9	13.2	13.9	16.0
Chg in Loans Outstanding[1/]	3.6	4.1	14.9	15.1

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

Sustained bank lending activity was reflected in both business and household sectors



Loan disbursements remained broad-based

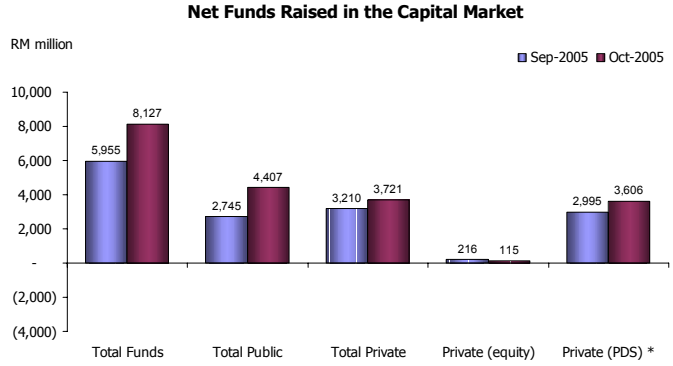
Loan disbursements to businesses amounted to RM34.7 billion, expanding by 21.4% on an annual basis (September: 17.7%), with higher disbursements being channelled mainly to the real estate; manufacturing; and finance, insurance and business services sectors. Loan repayments were higher, most notably in the finance, insurance and business services; and utilities (electricity, gas and water) sectors. In terms of the forward-looking indicators, large business loan applications and approvals were higher on an annual and monthly basis while there was some moderation in SME loan applications and approvals following the strong increase registered the previous month. Meanwhile, in the household sector, loan indicators were relatively stable on a monthly basis.

Amid higher repayments, loans outstanding rose more modestly by RM3.4 billion on a monthly basis, while on an annual basis, growth was sustained at 9.3%

(September: RM8.0 billion or 9.2%). Loans outstanding to businesses increased at a faster annual rate of 4.5% (September: 3.9%), while the growth in loans outstanding to households was relatively sustained at 15.1% (September: 14.9%). The expansion in business loans outstanding was supported by the continued increase in loans outstanding to SMEs, which increased by 10.2% (end-September: 9.8%). The share of SME loans outstanding to total business loans outstanding stood at 42% at end-October (end-2004: 40.3%).

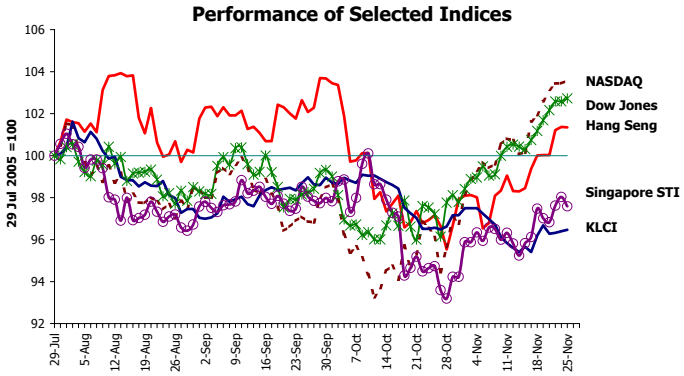
Higher funds raised in the capital market

The largest monthly amount of net funds raised in the capital market thus far in 2005, was recorded in October. Out of the total net funds of RM8.1 billion, the private debt securities (PDS) market mobilised a gross total of RM4.8 billion during the month. Companies in the business and wholesale, construction and manufacturing sectors were the main issuers, and funds were raised for financing new activities and refinancing existing debt. After adjusting for redemptions, the net issues remained high amounting to RM3.6 billion. In the equity market, lower funds totaling RM115 million was raised mainly from right issues and initial public offerings (IPOs). Meanwhile, a net total of RM4.4 billion was raised by the public sector, mainly through the issuances of 5.5- and 20-year MGS.



Lower trading activity in the stock market

In October, the KLCI remained above the 900-point level despite lower trading activity. Continued uncertainty over growth prospects, weighed down by higher inflation, contributed to sluggish market performance. KLCI ended lower at 910.76 (since end-September: -1.8%) with market capitalisation dropping to RM702.68 billion (since end-September: -1.8%). The daily average turnover during the month was reported lower at 364.7 million units (September: 408.2 million units).

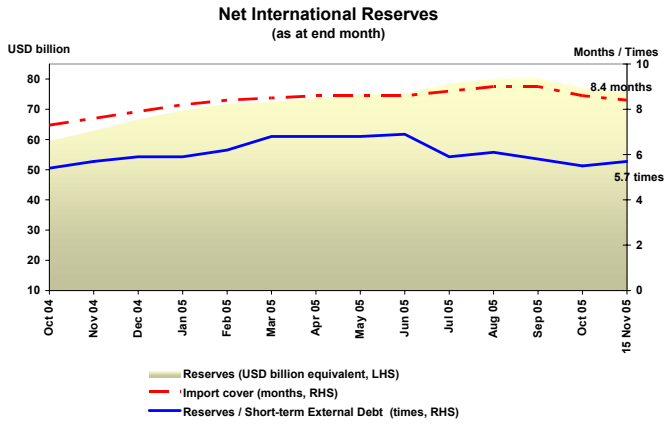


KLCI declined in the first three weeks of November

The market continued to be lacklustre for the first three weeks of November with concerns over uncertainty of economic growth prospects and higher inflation. As at 25 November, the KLCI closed at 904.28 (since end-October: -0.7%) with market capitalisation at RM698.16 billion (since end-October: -0.6%). Trading also declined with daily average turnover at 262 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM290.4 billion or equivalent to USD77.1 billion as at 31 October 2005. Reserves amounted to RM285.2 billion or equivalent to USD75.7 billion as at 15 November 2005. The reserves position is sufficient to finance 8.4 months of retained imports and is 5.7 times the short-term external debt.



Banking system remained strong

The banking system continued to record strong capitalisation levels, as the risk-weighted capital ratio (RWCR) strengthened to 13.4% and the core capital ratio remained unchanged at 10.6% as at end-October 2005. This was mainly attributed

to the issuance of new capital and increased profitability. Asset quality remained manageable, with the net non-performing loans (NPL) ratio based on the 6-month classification remaining at 4.7%. The marginal increase in the net NPLs to RM24.8 billion was largely due to a stricter adoption of NPL classification by one banking institution.

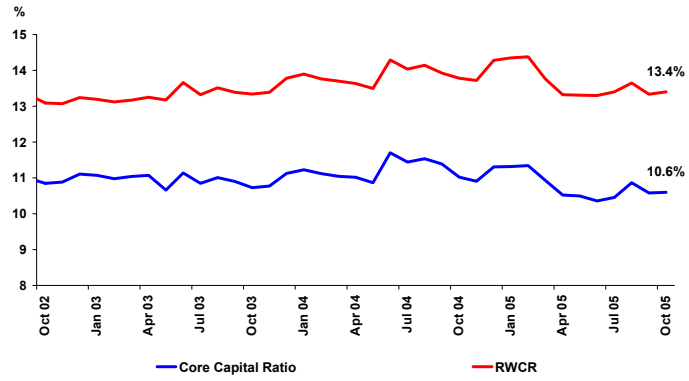
Banking System Health Indicators *

	As at end-								
	1999	2000	2001	2002	2003	Dec 04	Aug 05	Sep 05	Oct 05
Capital (%)									
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.3	10.9	10.6	10.6
RWCR	12.5	12.5	13.0	13.2	13.8	14.3	13.6	13.3	13.4
Net NPLs (6-month classification)									
% of net total loans	6.4	6.3	6.9	7.5	6.8	5.8	4.9	4.7	4.7
Amount (RM million)	23,849	24,700	32,833	31,702	30,766	28,630	25,464	24,584	24,836
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.

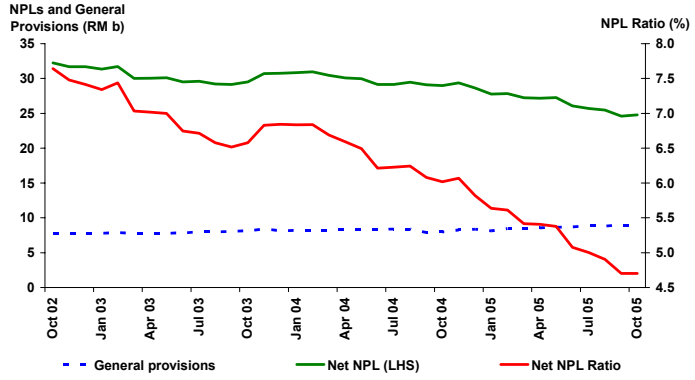
* Beginning April 2005, RWCR and CCR include market risk factor

Capital Strength Indicators



Capitalisation level of the banking system remained strong…

Banking System: Net NPLs and General Provisions



…whilst NPL level remained manageable

Bank Negara Malaysia
28 November 2005

Key Monetary and Financial Statistics

		Aug 05		Sep 05		Oct 05	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		50.8	7.1	52.1	10.6	55.5	11.0
M1		118.7	12.2	118.0	9.9	123.1	12.6
M2		597.5	27.9	600.5	24.2	602.1	19.6
M3		655.4	12.3	656.6	10.9	657.5	9.8
Banking System							
Total deposits		673.4	14.8	677.0	13.4	671.6	11.9
Total loans (including loans sold to Cagamas)		540.0	9.0	548.0	9.2	551.3	9.3
Loan-deposit ratio (%)		77.0		77.9		78.9	
Financing-deposit ratio [1] (%)		84.8		85.6		87.0	
Loans applied (during the period)		29.1	11.0	27.5	9.3	27.1	12.5
Loans approved (during the period)		18.2	27.1	19.1	21.0	18.4	18.3
Loans disbursed (during the period)		43.9	13.7	49.4	15.3	49.9	20.1
Loans repaid (during the period)		39.2	6.7	41.2	7.6	45.5	11.5
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.6		13.3		13.4	
Net NPLs: 6-month classification (%)		4.9		4.7		4.7	
International Reserves of BNM (end-period)							
Reserves in RM billion		304.3		302.7		290.4	
Reserves in USD billion (equivalent)		80.1		80.3		77.1	
Months of retained imports		9.0		8.9		8.5	
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]		2.73 [2.70]		2.69 [2.69]	
	1-week	2.71 [2.72]		2.75 [2.72]		2.70 [2.73]	
	1-month	2.83 [2.84]		2.87 [2.86]		2.88 [2.87]	
	3-month	2.89 [2.88]		2.90 [2.89]		2.92 [2.91]	
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		5.91		5.90		5.95	
Prices							
Consumer Price Index (CPI) (2000=100)		109.7	3.7	109.8	3.4	110.3	3.3
Producer Price Index (PPI) (1989=100)		166.5	9.0	169.8	9.4	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
Euro		4.6027		4.5421		4.5515	
Pound Sterling		6.7605		6.6438		6.6999	
100 Japanese yen		3.3985		3.3359		3.2616	
Singapore dollar		2.2395		2.2315		2.2308	
100 Thai Baht		9.1178		9.1988		9.2576	
100 Philippine Peso		6.7098		6.7262		6.8570	
100 Indonesian Rupiah		0.0346		0.0366		0.0373	
100 Korean Won		0.3648		0.3619		0.3618	
Capital Market							
Net funds raised (in RMb) by:	public	2.0		2.7		4.4	
	private	2.0		3.2		3.7	
Bursa Malaysia Composite Index (end-period)		913.6		927.5		910.8	
Bursa Malaysia Market Capitalisation (RMb, end-period)		706.4		715.4		702.7	

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