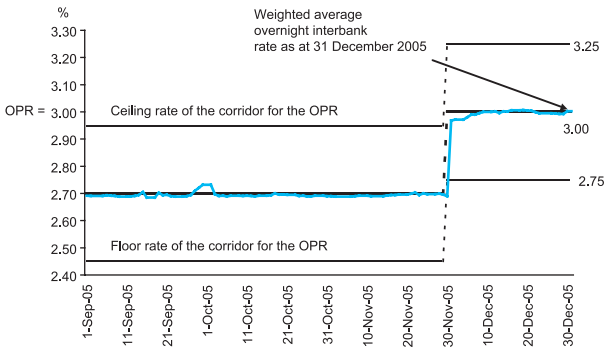
MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates rose in response to the increase in the OPR

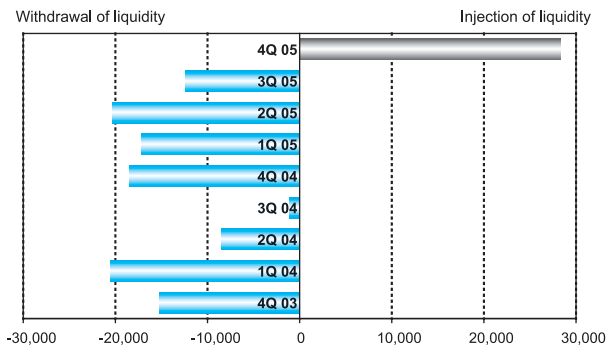
In the fourth quarter, indicators pointed to strong economic growth and for economic activity to gain momentum going into 2006. At the same time, the inflation rate was expected to remain in the region of the prevailing level for some time. Consequently, the OPR was increased by 30 basis points to 3% on 30 November 2005. Notwithstanding the increase, the OPR continued to be below its neutral level and remained supportive of the economy.

Following the increase in the OPR, the daily weighted average overnight interbank rate

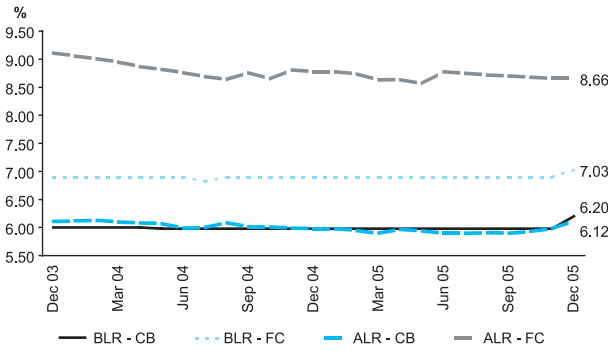
Daily Weighted Average Overnight Interbank Rate



BNM Liquidity Operations
(During the quarter, RM m)



Lending Rates of Commercial Banks & Finance Companies
(average for the period)



Interest Rates

	2004	2005	
	4Q	3Q	4Q
	At end-period (%)		
Overnight Policy Rate (OPR)	2.70	2.70	3.00
Interbank rates			
Overnight	2.69	2.73	3.00
1-month	2.77	2.87	3.12
Base lending rates (BLR)			
Commercial banks	5.98	5.98	6.20
Finance companies	6.90	6.90	7.03
Average lending rates (ALR)			
Commercial banks	5.98	5.90	6.12
Finance companies	8.78	8.70	8.66
Fixed deposit rates			
Commercial banks			
3-month	3.00	3.00	3.02
12-month	3.70	3.70	3.70
Finance companies			
3-month	3.00	3.00	3.00
12-month	3.70	3.70	3.70

moved within a range of 2.97%-3.01% and averaged 3.00% (October-November 2005: 2.69%-2.70%, averaging 2.69%). Interbank rates of other tenures also rose in December.

The average base lending rates (BLRs) of commercial banks (CBs) and finance companies (FCs) increased to 6.20% and 7.03% respectively, as most banking institutions adjusted their BLRs upward in the range of 25-30 basis points. Meanwhile, the average lending rate (ALR) of CBs was higher at 6.12% (3Q 2005: 5.90%), following the increase in banks' BLRs. The ALR of the four remaining FCs remained relatively stable at 8.66% (3Q 2005: 8.70%).

In terms of retail fixed deposit (FD) rates, the adjustments were concentrated in the middle tenures, such as the 6-month and 9-month maturities. The rates for the 1-month and 12-month maturities were mostly unchanged at 3.00% and 3.70%.

Monetary aggregates expanded at more moderate growth rates

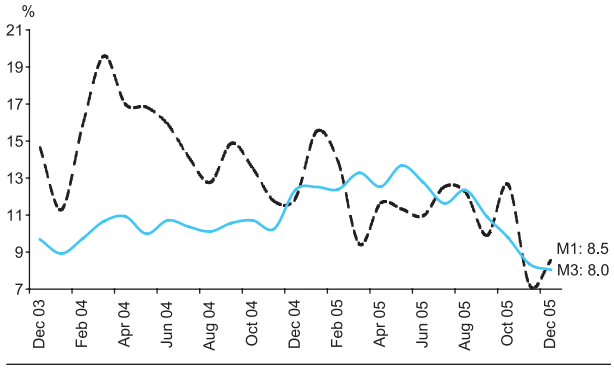
Narrow money, M1, expanded at an annual rate of 8.5% at the end of fourth quarter 2005 (3Q 2005: 9.9%), while broad money, M3, increased at an annual rate of 8% at the end of fourth quarter 2005 (3Q 2005: 10.9%). The main impetus for the expansion in M3 during the quarter was the increase in loans extended to the private sector by the banking system and higher net claims on the Government. The latter was partly attributable to higher Government expenditure in December. Meanwhile, net external operations were contractionary on M3 following the unwinding of short-term portfolio investment during the quarter.

M3 Determinants

	2004		2005		
	4Q	Year	3Q	4Q	Year
	RM billion				
M3	25.7	68.0	4.3	10.8	49.7
Net claims on Government	-5.3	-15.9	-4.3	12.6	-5.5
Claims on private sector	4.1	30.6	15.0	15.0	45.4
Net external operations [1]	30.6	82.0	-1.5	-23.8	16.5
Other influences	-3.8	-28.7	-4.9	7.0	-6.8

[1] Pre-revaluation

Monetary Aggregates: Annual Change

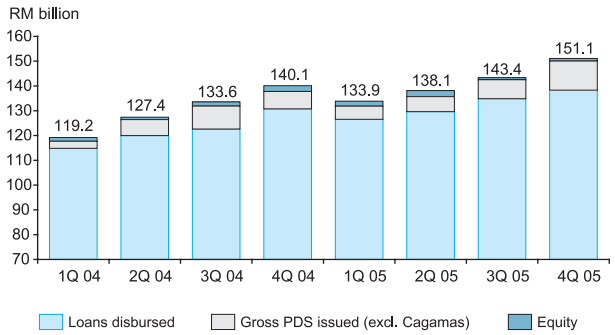


Private sector financing activity increased further

In the fourth quarter, gross financing to the private sector through the banking system and capital market increased to RM151.1 billion, expanding at an annual rate of 7.8% (3Q 2005: RM143.4 billion or 7.3%). Compared with the preceding quarter, the increase was supported mainly by larger PDS issuance and higher banking system loan disbursements. On a net basis, banking system loans and PDS outstanding increased

at a combined annual rate of 9.3% at the end of fourth quarter 2005 (end-3Q 2005: 9.2%).

Gross Private Sector Financing through Banking System and Capital Market



Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2004	4Q 04	3Q 05	4Q 05	2004	3Q 05	4Q 05
Gross total financing	520.3	140.1	143.4	151.1	5.7	7.3	7.8
Loans disbursed *	488.2	130.8	134.8	138.3	10.6	10.0	5.8
Gross PDS (excl. Cagamas)	25.6	7.0	7.7	11.7	-40.2	-17.2	67.1
Equity	6.5	2.3	0.9	1.0	-16.7	-48.8	-55.0
Outstanding total financing (A)+(B)	53.1	15.8	18.6	17.4	8.6	9.2	9.3
Banking system	39.0	10.7	14.5	14.3	7.7	8.1	8.6
Loans outstanding (A)	40.1	11.9	14.4	10.1	8.5	9.2	8.6
Holding of PDS	-1.1	-1.2	0.0	4.2	-3.1	-7.5	8.5
PDS outstanding (B)	13.0	3.8	4.2	7.3	9.0	9.4	11.4
Memorandum item							
Gross PDS (incl. Cagamas)	36.3	10.1	9.7	15.2	-28.7	-23.5	50.4

* Banking system loans include loans sold to Cagamas

Loan Indicators

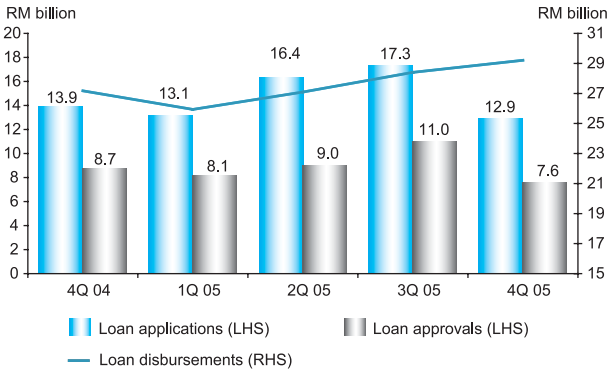
	During the period (RM billion)				Annual Growth (%)			
	2004	4Q 04	3Q 05	4Q 05	2004	4Q 04	3Q 05	4Q 05
Total								
Loan applications	273.3	67.8	83.9	72.1	20.1	21.6	9.7	6.4
Loan approvals	173.6	43.2	55.5	47.7	13.6	10.9	19.1	10.4
Loan disbursements	488.2	130.8	134.8	138.3	10.6	8.3	10.0	5.8
Loan repayments	461.6	120.7	121.5	129.2	7.3	-1.8	2.8	7.1
Change in loan outstanding *	40.1	11.9	14.4	10.1	8.5	8.5	9.2	8.6
Of which:								
Business enterprises								
Loan applications	149.9	37.4	43.1	36.7	20.0	31.0	-2.0	-2.0
Loan approvals	84.9	21.7	27.7	23.6	9.8	14.8	23.6	9.2
Loan disbursements	335.3	90.8	91.2	94.2	10.5	7.8	9.3	3.7
Loan repayments	319.8	84.5	84.5	91.9	6.8	-2.7	1.0	8.7
Change in loan outstanding *	5.5	1.0	4.9	-0.9	2.6	2.6	3.9	3.0
SMEs								
Loan applications	54.2	13.9	17.3	12.9	21.7	41.4	13.9	-7.2
Loan approvals	31.6	8.7	11.0	7.6	22.0	30.5	25.8	-13.1
Loan disbursements	100.4	27.2	28.4	29.2	15.3	9.1	14.7	7.5
Change in loan outstanding *	6.3	2.2	3.0	1.5	7.7	7.7	9.8	8.7
Large corporations								
Loan applications	95.7	23.5	25.8	23.8	19.1	25.5	-10.4	1.1
Loan approvals	53.3	12.9	16.7	16.1	3.7	6.2	22.2	24.2
Loan disbursements	234.9	63.7	62.8	65.0	8.6	7.2	7.0	2.1
Change in loan outstanding *	-0.8	-1.2	1.8	-2.4	-0.6	-0.6	0.0	-0.9
Households								
Loan applications	120.2	29.3	38.9	34.6	22.1	15.0	23.4	18.3
Loan approvals	86.8	21.3	26.4	23.4	20.5	14.1	13.0	9.7
Loan disbursements	130.3	34.0	38.0	37.6	13.9	12.0	11.6	10.8
Loan repayments	107.0	27.9	29.1	29.9	13.7	6.2	8.8	7.3
Change in loan outstanding *	33.3	8.9	11.3	10.7	14.4	14.4	14.9	15.1

* The annual growth is for end-period
Source: Bank Negara Malaysia

Loan disbursements to businesses increased to RM94.2 billion in the fourth quarter, expanding by 3.7% on an annual basis, with a higher amount of funds being channelled to both large businesses and SMEs. Compared with the previous quarter, the increase was particularly evident in the finance, insurance and business services sector. In terms of share, loans to businesses during the quarter continued to be disbursed mainly to the manufacturing (33.7% of total loans disbursed to businesses); wholesale and retail trade, restaurants and hotels (27%); finance, insurance and business services (10.4%); and construction sectors (8.2%). Meanwhile, for large corporations, loan applications and loan approvals were lower compared with the previous quarter, although they still increased on an annual basis. For the SME sector, compared with the high levels recorded in the third quarter, both loan applications and approvals were lower on a preceding quarter as well as on annual basis.

A total of RM7.6 billion was approved for 19,173 SME accounts during the quarter (3Q 2005: RM11 billion for 24,715 SME accounts). At the end of fourth quarter 2005, total loans outstanding to the SMEs grew at an annual rate of 8.7% (end-3Q 2005: 9.8%), to account for a slightly larger share of 42.6% of total business loans outstanding (3Q 2005: 41.7%). Meanwhile, NPLs as a percentage of loans outstanding to SMEs continued to decline, to 10.6% at the end of fourth quarter 2005 (end-3Q 2005: 10.9%).

Bank Lending to SMEs



Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	2004	4Q 04	3Q 05	4Q 05		
	RM billion				%	
Business enterprises	335.3	90.8	91.2	94.2	68.1	40.4
Large corporations	*234.9*	*63.7*	*62.8*	*65.0*	*47.0*	*23.2*
SMEs	*100.4*	*27.2*	*28.4*	*29.2*	*21.1*	*17.2*
Households	130.3	34.0	38.0	37.6	27.2	54.5
By sector						
Agriculture, hunting, forestry and fishing	13.7	3.4	4.0	3.6	2.6	2.0
Mining and quarrying	2.0	0.7	0.4	0.4	0.3	0.1
Manufacturing	121.5	32.5	32.0	31.8	23.0	10.9
Broad property sector	88.8	23.2	24.1	24.0	17.4	41.0
Construction	*30.3*	*8.5*	*8.0*	*7.7*	*5.6*	*5.4*
Purchase of residential property	*38.8*	*9.3*	*10.1*	*9.7*	*7.0*	*26.7*
Purchase of non-residential property	*12.1*	*3.3*	*3.6*	*3.9*	*2.8*	*6.3*
Real estate	*7.5*	*2.1*	*2.4*	*2.6*	*1.9*	*2.6*
Electricity, gas and water supply	6.4	2.2	1.6	1.9	1.4	0.8
Wholesale and retail trade, restaurants and hotels	83.7	24.0	25.6	25.5	18.4	8.4
Transport, storage and communication	9.5	2.6	3.3	2.4	1.7	2.0
Finance, insurance and business services	36.5	8.6	7.4	9.8	7.1	5.4
Consumption credit	85.1	23.2	26.5	26.5	19.1	22.1
Of which:						
Credit cards	*36.3*	*10.1*	*11.0*	*11.7*	*8.5*	*3.0*
Purchase of passenger cars	*29.1*	*8.3*	*10.7*	*10.0*	*7.2*	*15.5*
Purchase of securities	12.7	3.1	2.7	3.0	2.2	3.7
Purchase of transport vehicles excluding passenger cars	0.7	0.1	0.2	0.1	0.1	0.5
Others	27.5	7.2	7.0	9.4	6.8	2.9
Total	**488.2**	**130.8**	**134.8**	**138.3**	**100.0**	**100.0**

Source: Bank Negara Malaysia

In the household sector, bank lending remained resilient. Loan applications and approvals increased at annual growth rates of 18.3% and 9.7% respectively during the quarter (3Q 2005: 23.4% and 13% respectively). Loan disbursements to households amounted to RM37.6 billion, expanding by 10.8% on an annual basis (3Q 2005: 11.6%), and were driven mainly by credit card spending (31.1% of total loans disbursed to households); purchase of passenger cars (26.4%); and purchase of residential properties (25.7%). As a result, the annual growth in household loans outstanding was slightly higher at 15.1% at the end of fourth quarter 2005 (end-3Q 2005: 14.8%). Meanwhile, the ratio of NPLs to household loans outstanding was relatively stable at 7.5% (3Q 2005: 7.4%).

Higher funds raised from the capital market

The capital market remained an important source of financing and continued to complement the banking system in financing activity in the Malaysian economy. In total, funds raised through the capital market by both the public and private sectors during the fourth quarter increased to RM12.6 billion (3Q 2005: RM11.1 billion). For the whole of 2005, total net funds raised amounted RM41.7 billion (2004: RM42.7 billion). Financing through the capital market by the private sector surpassed those by the public sector with total net funds raised amounting to RM11.5 billion (3Q 2005: RM5 billion). This private sector financing was mainly undertaken through the issuance of private debt securities (PDS).

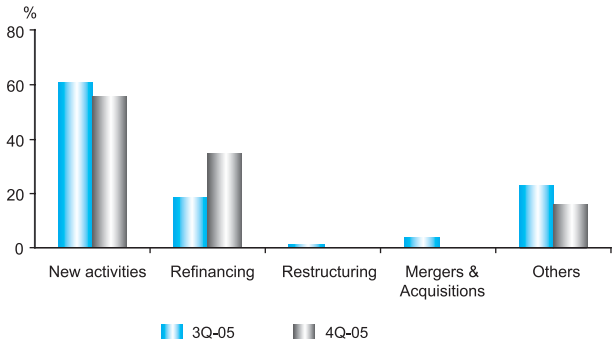
In the PDS market, gross financing increased by 55.8% on a quarterly basis to RM15.2 billion (3Q 2005: RM9.7 billion). The strong issuance during the quarter also partly reflected issuers' anticipation of higher interest rates in the future. Issuances of PDS excluding Cagamas were made by 29 corporations, which were mainly from the finance and business services, construction and utilities sectors. Of the total funds mobilised, a substantial share (52.6% of total PDS excluding Cagamas) was channelled to finance new economic activities, while funds raised to refinance existing debt accounted for 32.5% of the total. In terms of instruments, Islamic bonds and Islamic medium term notes were the preferred forms of issuance (51.6% of total). After adjusting for redemptions, net funds raised through the PDS market were higher at RM10.5 billion (3Q 2005: RM4.1 billion).

Funds Raised in the Capital Market

	2004	2004	2005		2005
	4Q		3Q	4Q	
	RM million				
By Public Sector					
Government Securities, *gross*	7,021	43,173	8,233	6,500	28,276
Less Redemptions	1,000	18,200	2,450	4,850	15,800
Less Government holdings	-	-	-	-	-
Equals Net Federal receipts	6,021	24,973	5,783	1,650	12,476
Khazanah Bonds, *net*	-	(1,198)	-	-	833
Govt. Investment Issues, *net*	1,243	1,423	-	(1,000)	1,000
Merdeka Savings Bond, *net*	436	1,474	383	397	1,516
Net Funds Raised	7,700	26,671	6,166	1,047	15,825
By Private Sector					
Shares	2,316	6,475	851	1,043	6,315
Debt securities	10,083	36,340	9,726	15,161	38,196
Private Debt Securities (PDS)	9,483	28,050	9,726	13,801	35,656
Cagamas	600	8,290	-	1,360	2,540
Less Redemptions	4,463	26,814	5,627	4,701	18,617
Net Issues	5,620	9,526	4,099	10,461	19,579
Net issues (excluding Cagamas)	5,494	8,402	6,359	9,851	22,224
Net Funds Raised	7,936	16,001	4,950	11,504	25,894
Total Net Funds Raised	15,636	42,672	11,116	12,552	41,719
Short-term Papers and Notes, *net* [1]	(1,103)	(3,208)	454	456	1,579
Total	14,533	39,465	11,570	13,008	43,297

[1] Refers to Commercial Papers and Cagamas Notes only.

Private Debt Securities Issued by Purpose
(% of total)



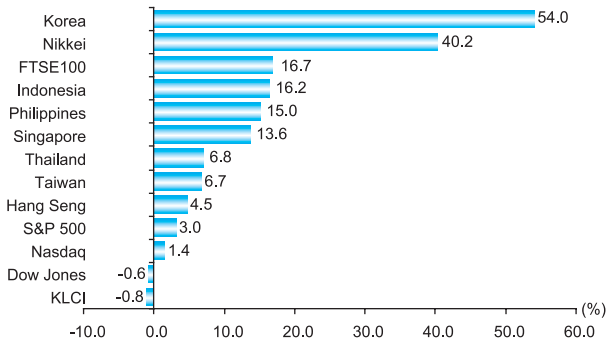
Despite the lacklustre performance of Bursa Malaysia, the RM1 billion in funds raised through the equity market was still higher than in the previous quarter (3Q 2005: RM850 million). The bulk of the funds were raised through 14 initial public offerings (IPOs) totalling RM774 million. During the quarter, there were 16 new listings on Bursa Malaysia, with four listings on the Main Board, one on the Second Board and 11 on the MESDAQ Market.

The Government raised a gross amount of RM8.9 billion via two reopening of Malaysian Government Securities (MGS) and two new issuances of MGS and Government Investment Issues. On a net basis, funds raised by the public sector were lower at RM1 billion (3Q 2005: RM6.2 billion), due to the higher redemptions made during the period.

KLCI was sluggish in the fourth quarter but recovered in early 2006

The absence of market leads weighted down market sentiments during the quarter. Nonetheless, bargain-hunting activities on selected blue chips led to a marginal improvement for the KLCI in December. During the quarter under review, the KLCI declined by 27.75 points (3Q 2005: +39.22 points), ending the quarter lower at 899.79 (3Q 2005: 927.54). Market capitalisation was also lower at RM695 billion (3Q 2005: RM715 billion). Furthermore, trading activity dropped and recorded a lower average daily turnover, at 304 million units during the quarter (3Q 2005: 430 million units). Sentiments in the local market were uplifted in early 2006 with

Performance of Selected Global and Regional Markets in the Fourth Quarter of 2005
(31 Dec 2004 - 30 Dec 2005)



Bursa Malaysia: Selected Market Indicators

	As at end		
	2004	2005	
	4Q	3Q	4Q
Price Indices			
- Composite	907.43	927.54	899.79
- EMAS	214.26	211.02	203.85
- Second Board	110.87	87.48	80.44
Average daily turnover			
- Volume (million units)	441.36	429.71	303.94
- Value (RM million)	835.02	698.06	578.09
Market Capitalisation (RM b)	722.04	715.36	695.27
No. of Companies Listed	963	1,007	1,021

Source: Bursa Malaysia

Bursa Malaysia: Turnover of Corporate Securities

	2004 4Q		2004		2005 3Q		2005 4Q		2005	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	27,364	51,771	107,610	215,623	27,931	45,374	18,541	35,264	102,338	177,321
of which:										
Main Board	20,186	45,129	78,132	180,408	20,538	40,892	13,788	32,391	73,816	157,445
of which										
- Consumer Products	899	2,924	4,008	12,583	1,156	3,146	647	1,863	3,694	10,197
- Industrial Products	4,036	4,978	12,365	17,427	2,692	3,281	1,633	2,020	12,150	14,143
- Construction	1,070	1,922	4,721	9,582	1,057	1,648	694	1,067	4,141	7,116
- Trading/Services	5,500	16,991	18,937	63,418	4,312	16,954	3,321	12,417	16,008	59,241
- Finance	1,958	8,090	10,843	38,176	2,614	9,199	2,262	8,796	10,108	36,743
- Properties	3,205	5,468	11,749	17,151	2,123	1,665	1,392	1,236	10,649	11,572
- Plantations	771	2,171	2,455	10,184	547	2,266	539	2,762	2,144	9,147
- Mining	-	1	48	175	0	1	0	1	0	10
Second Board	4,227	4,102	18,516	24,948	3,722	2,568	1,708	1,175	15,161	12,289

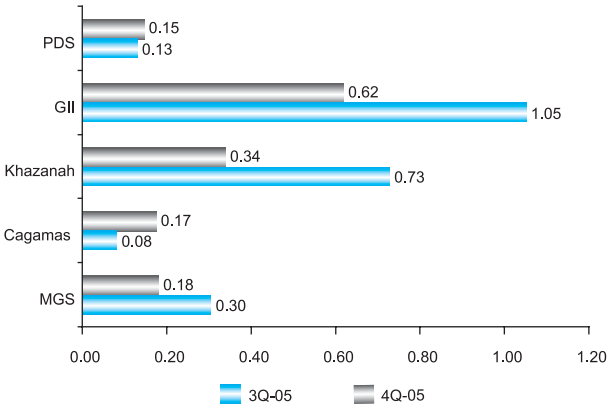
Source: Bursa Malaysia

expectations of better economic performance. As at 21 February 2006, the KLCI closed higher at 925.67 (since end-December: +2.9%) with market capitalisation increasing to RM724.51 billion (since end-December: +4.2%).

Lower secondary trading in the bond market

Trading activity in the secondary market declined to RM69.7 billion in the fourth quarter (3Q 2005: RM92.2 billion), with lower number of trading days following market closure during the festive celebrations. MGS accounted for 43.1% of total trading activity, followed by PDS, which accounted for another 36.1% of the total trade. The lower trading volume resulted in reduced liquidity for most papers, except for the Cagamas and PDS.

Liquidity Ratio: Turnover/ Outstanding

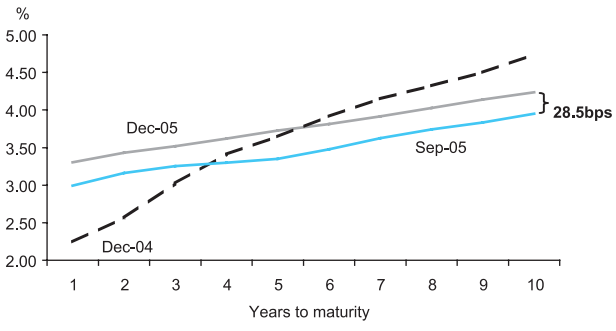


In line with the increase in the overnight policy rate, MGS benchmark yield curves, across all tenures, shifted upwards between 26 - 30 basis points. Secondary market sentiment was generally weak initially with

yields trending upwards, as investors continued to assess the outlook for economic growth, interest rate direction, and inflation amidst high oil prices. In addition, market sentiment was also affected by the uncertainties over the potential issuance size of MGS during the quarter. The increase in the overnight policy rate at end-November and the announcement of the final issuances of government securities for the year in early December helped to mitigate market uncertainties, resulting in stable bond yields in December.

During the quarter, the Bank issued the Guidelines on Regulated Short-Selling of Securities in the wholesale market, to allow market participants and universal brokers to undertake regulated short-selling activity. The widening of participants in the regulated short-selling framework is expected to contribute towards increasing the liquidity in the bond market.

Trend in MGS Yield

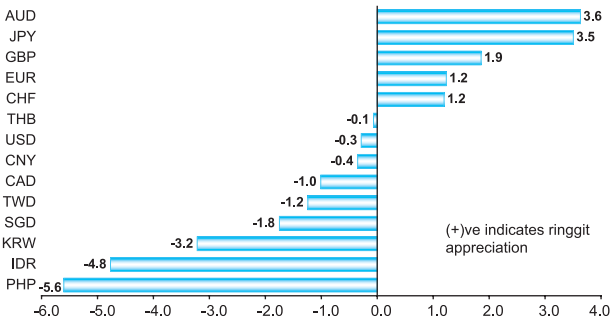


Exchange Rate Developments

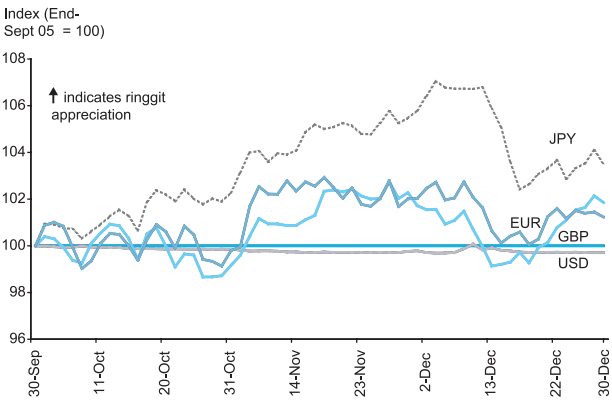
The ringgit appreciated against the yen, pound sterling and euro, but depreciated against the US dollar over the fourth quarter of 2005. The US dollar strengthened amidst general expectations for further increases in the Fed Funds rate. Meanwhile, the euro weakened on market perception that the European Central Bank would not raise its benchmark interest rate. The Japanese yen also depreciated against the ringgit amidst strong Japanese demand for higher yielding foreign assets and market expectations that the Bank of Japan would maintain its quantitative easing policy.

Against regional currencies, the ringgit depreciated in the range of 0.1 - 5.6%. While

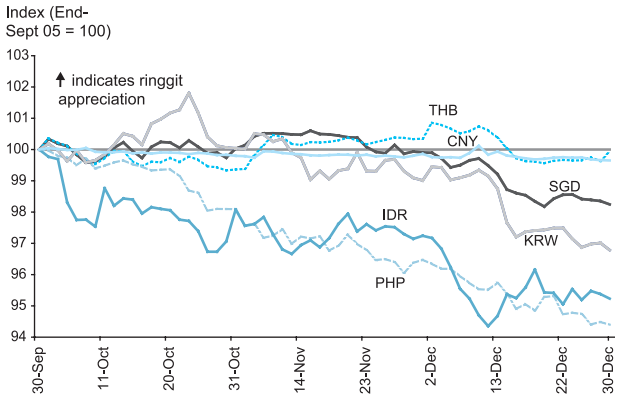
Summary of Ringgit Performance Against Selected Currencies
Percent Change (1 October - 30 December 2005)



Ringgit Performance Against Major Currencies



Ringgit Performance Against Regional Currencies



the ringgit continued to depreciate against most regional currencies in early 2006, this trend reversed in February. In February, the ringgit appreciated against most regional currencies in the range of 0.5 - 2.0%. The Indonesian rupiah appreciated amidst increases in the benchmark interest rates, and market confidence that the newly appointed Ministerial Cabinet would implement policies to spur economic growth. Similarly, the Philippine peso and Korean won strengthened, largely due to the strong repatriation of earnings from abroad.

Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end					% change since *			
	30 Jun 97	02 Sep 98	4Q 04	3Q 05	4Q 05	30 Jun 97	02 Sep 98	4Q 04	3Q 05
US dollar	2.5235	3.8000	3.8000	3.7692	3.7800	-33.2	0.5	0.5	-0.3
Euro	-	-	5.1729	4.5421	4.4867	-	-	15.3	1.2
Pound sterling	4.1989	6.3708	7.3169	6.6438	6.5226	-35.6	-2.3	12.2	1.9
100 Japanese yen	2.2088	2.7742	3.7026	3.3359	3.2229	-31.5	-13.9	14.9	3.5
Singapore dollar	1.7647	2.1998	2.3258	2.2315	2.2714	-22.3	-3.2	2.4	-1.8
100 Thai baht	9.7470	9.3713	9.7636	9.1988	9.2049	5.9	1.8	6.1	-0.1
100 Philippine peso	9.5878	8.8302	6.7706	6.7262	7.1254	34.6	23.9	-5.0	-5.6
100 Indonesian rupiah	0.1038	0.0354	0.0408	0.0366	0.0385	169.9	-7.9	6.2	-4.8
100 Korean won	0.2842	0.2827	0.3671	0.3619	0.3739	-24.0	-24.4	-1.8	-3.2
Chinese renminbi	0.3045	0.4594	0.4591	0.4669	0.4686	-35.0	-2.0	-2.0	-0.4

* (+) indicates appreciation of ringgit against respective currency and (-) indicates depreciation.