BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 08/05/70 (BN)

EMBARGO: Not for publication or broadcast before 1800 hours on Wednesday, 24 August 2005

Monetary and Financial Developments July 2005
Highlights of the Press Release

Banking system remained resilient

In July, the banking system's net non-performing loan ratio based on the 6-month classification, improved further to 5%. Financing to the private sector was sustained in July. Banking system loans and private debt securities outstanding increased at an annual rate of 9.3% at end-July, while total bank loans outstanding grew by 8.7% on an annual basis. Of significance, bank lending to the business sector continued to improve, with loans outstanding to businesses growing at an annual rate of 2.6% at end-July. Financing extended to the small- and medium-scale enterprises continued to expand as reflected in the annual growth of 9% in loans outstanding to this sector.

On 21 July 2005, Bank Negara Malaysia announced that the exchange rate of the ringgit would operate in a managed float regime. Under the new exchange rate system, the exchange rate of the ringgit will be determined by underlying economic fundamentals. Bank Negara Malaysia will monitor the value of the ringgit against a basket of currencies, taking into consideration the relative importance of Malaysia's major trade partners, structure of external debt, payments pattern and the relative movements of regional currencies. Having a stable exchange rate that is reflective of Malaysia's fundamentals would continue to be an important policy objective.

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 08/05/70 (BN)

EMBARGO: Not for publication or broadcast before 1800 hours on Wednesday, 24 August 2005

MONETARY AND FINANCIAL DEVELOPMENTS JULY 2005

Banking system remained resilient

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 other interbank rates were marginally higher. In the retail market, the average lending rate (ALR) for commercial banks and finance companies were relatively stable at 5.90% and 8.75% respectively.

On 21 July 2005, Bank Negara Malaysia announced that the exchange rate of the ringgit would operate in a managed float regime. Under the new exchange rate system, the exchange rate of the ringgit will be determined by underlying economic fundamentals. Bank Negara Malaysia will monitor the value of the ringgit against a basket of currencies, taking into consideration the relative importance of Malaysia's major trade partners, structure of external debt, payments pattern and the relative movements of regional currencies. Having a stable exchange rate that is reflective of Malaysia's fundamentals would continue to be an important policy objective.

Headline inflation, as measured by the Consumer Price Index, moderated to 3% in July, due mainly to the slower growth in food prices. Producer price inflation increased in June, with the Producer Price Index increasing by 6.9% on an annual basis.

The growth rates of monetary aggregates were relatively stable in July. Narrow money or M1, and broad money, M3, expanded at annual rates of 12.6% and 11.6% respectively at end-July.

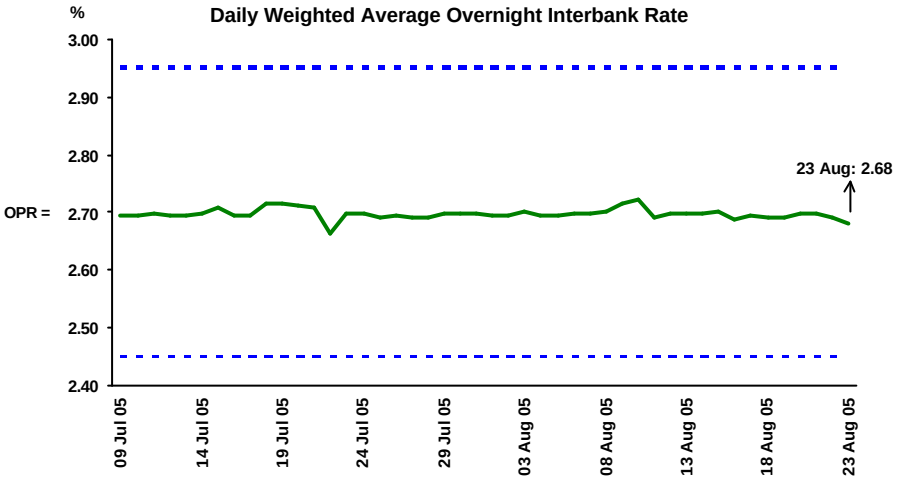
Financing to the private sector was sustained in July. Banking system loans and private debt securities outstanding increased at an annual rate of 9.3% at end-July, while total bank loans outstanding grew by 8.7% on an annual basis. Loans outstanding to the SMEs registered an annual growth rate of 9% and accounted for 41.8% of the total business loans outstanding at end-July.

In the capital market, net funds raised were lower at RM712.8 million, due mainly to the larger amount of PDS that matured during the month. In the PDS market, gross PDS issuance amounted to RM1.9 billion, primarily for refinancing and financing new activity.

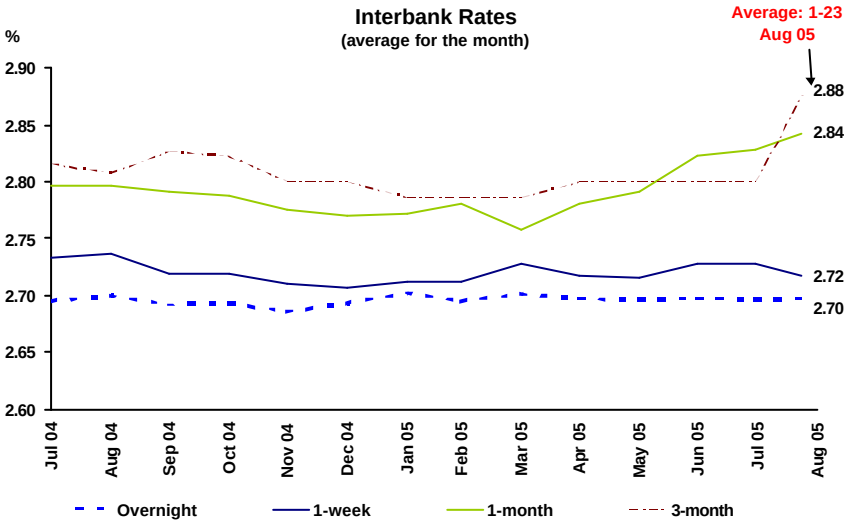
The banking system remained strong, with the RWCR at 13.3% and net NPL ratio based on the 6-month classification declining to 5.0%.

Interest rates remained relatively stable

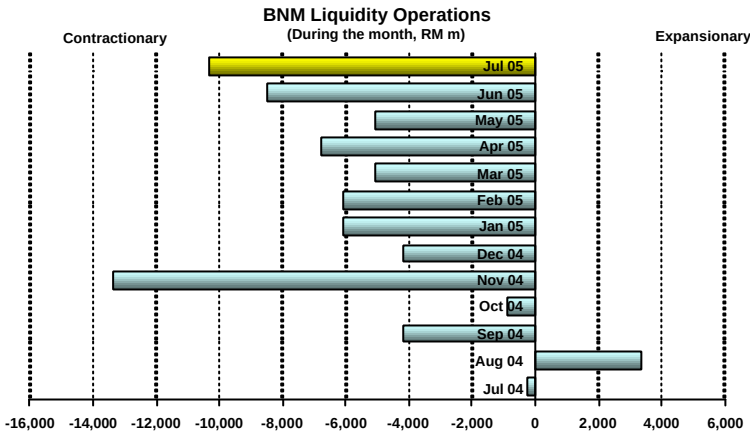
During the period of 1 July – 23 August, the daily weighted average overnight interbank rate moved within a range of 2.66% - 2.72%, averaging at 2.70%. Meanwhile, the average interbank rates for the 1-week to 3-month tenures increased marginally, reflecting expectations that interest rates will increase going forward. The average BLRs of commercial banks (CBs) and finance companies (FCs) remained unchanged. Meanwhile, the ALRs of CBs and FCs declined marginally to 5.90% and 8.75% respectively (5.93% and 8.78% respectively as at end-June).



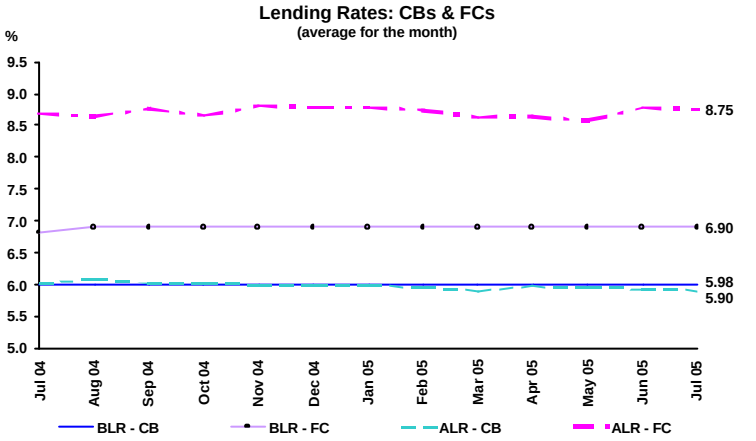
Stable overnight interbank rate



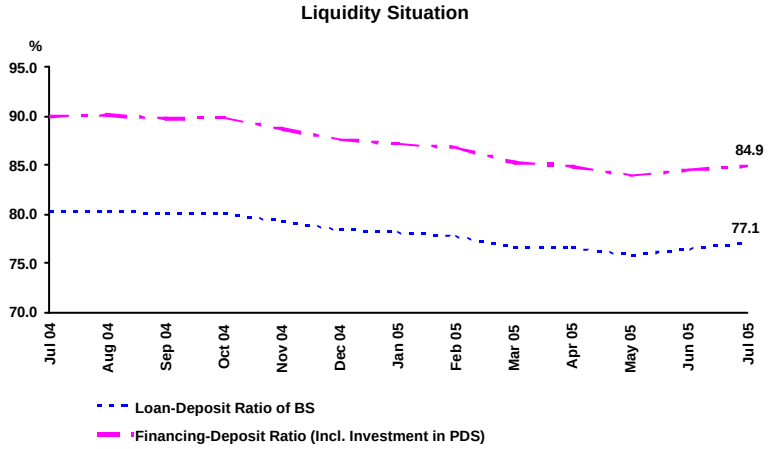
Other interbank rates were marginally higher



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

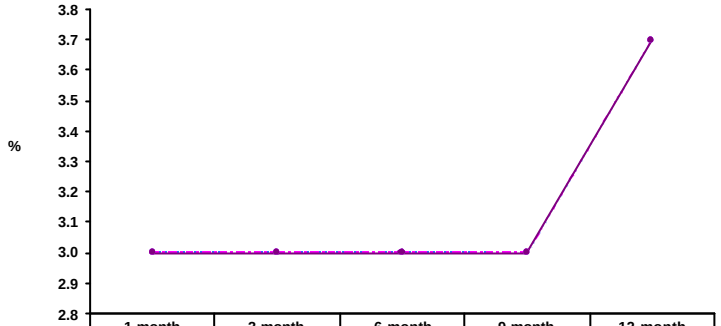


ALRs of the CBs and FCs were stable



The financing-deposit ratio increased to 84.9%

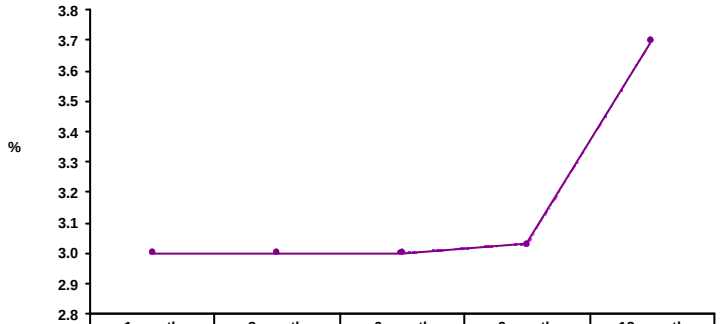
Term Structure of FD Rates
Commercial Banks



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

FD rates of CBs remained unchanged

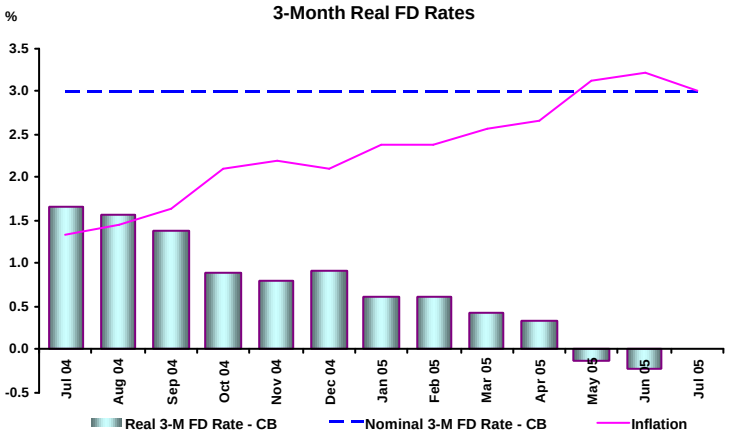
Term Structure of FD Rates
Finance Companies



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

FD rates of FCs remained unchanged

3-Month Real FD Rates

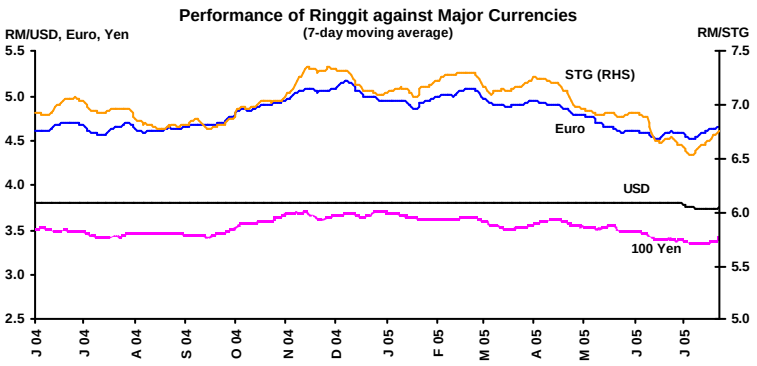


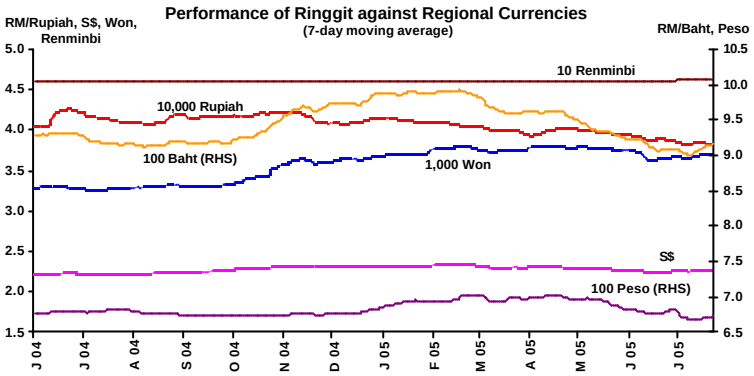
The 3-month real FD rate improved slightly in July

Performance of the ringgit

Over the period 1 July – 21 July, the ringgit appreciated against most major and regional currencies. The US dollar appreciated against the major currencies amid expectations of further US interest rate increases, yield differentials favouring the US dollar and continued expectations that economic growth in the US will outpace that of the euro area and Japan in 2005. For the 1 January – 21 July 2005 period as a whole, the US dollar, and hence the ringgit, appreciated against the euro (11.9%), sterling (10.4%) and the Japanese yen (9.7%), as well as against most regional currencies in the range of 0.2% - 7.7%. The strengthening of the ringgit has therefore, partially reversed the depreciation in 2003 and 2004, thereby reducing the degree of ringgit undervaluation and bringing it closer to its fair value.

On 21 July 2005, Bank Negara Malaysia announced that the exchange rate of the ringgit would operate in a managed float regime. Under the new exchange rate system, the exchange rate of the ringgit will be determined by underlying economic fundamentals. Bank Negara Malaysia will monitor the value of the ringgit against a basket of currencies, taking into consideration the relative importance of Malaysia's major trade partners, structure of external debt, payments pattern and the relative movements of regional currencies. Having a stable exchange rate that is reflective of Malaysia's fundamentals would continue to be an important policy objective. Since the removal of the peg, the ringgit has appreciated to RM3.7698 or 0.8% against the US dollar as at 23 August 2005. Over the same period, the ringgit has depreciated by 2.3% against the pound sterling and 1.7% against the Japanese yen. However, the ringgit appreciated by 0.4% against the euro. Against the regional currencies, the ringgit depreciated within a range of 0.2% - 1.5% against the Singapore dollar, Korean won, Chinese renminbi and Thai baht, but appreciated within a range of 1.1% - 3.3% against the Philippine peso, Taiwan dollar and Indonesian rupiah.



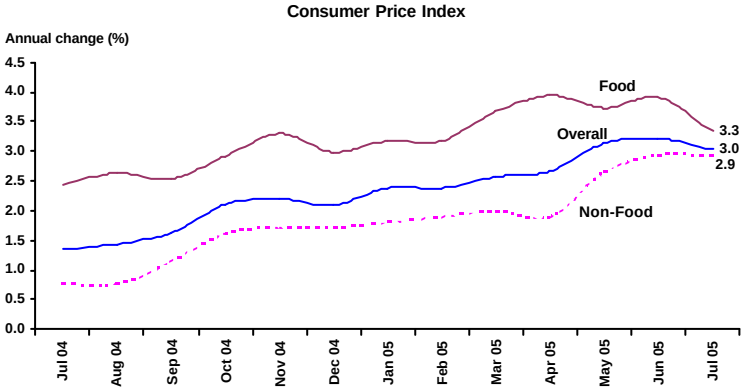


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% change	
	Dec. 04	Jun. 05	Jul. 05	23 Aug. 2005	End Dec. 04 - 23 Aug. 2005	End Jun. 05 - 23 Aug. 2005
US dollar	3.8000	3.8000	3.7505	3.7698	0.8	0.8
Euro	5.1729	4.5948	4.5475	4.6023	12.4	-0.2
Pound Sterling	7.3169	6.8685	6.5799	6.7829	7.9	1.3
100 Japanese yen	3.7026	3.4469	3.3414	3.4334	7.8	0.4
Singapore dollar	2.3258	2.2576	2.2565	2.2607	2.9	-0.1
100 Thai baht	9.7636	9.2032	8.9757	9.2069	6.0	0.0
100 Philippine peso	6.7706	6.7628	6.6759	6.7395	0.5	0.3
100 Indonesian Rupiah	0.0408	0.0391	0.0382	0.0374	9.2	4.5
100 Korean won	0.3671	0.3699	0.3655	0.3675	-0.1	0.6
Chinese renminbi	0.4591	0.4591	0.4626	0.4651	-1.3	-1.3

Inflation moderated in July

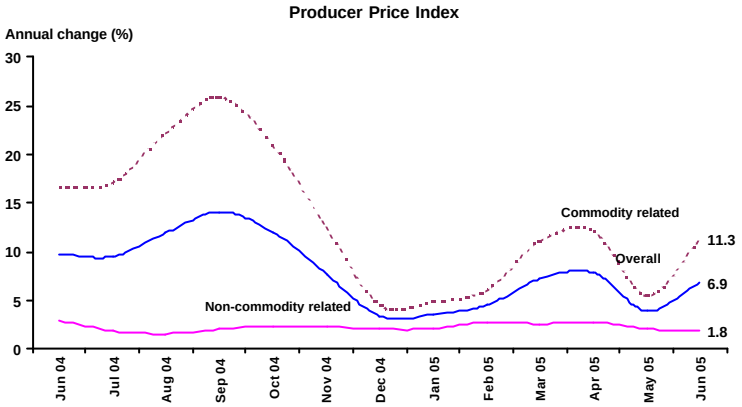
Headline inflation, as measured by the Consumer Price Index (CPI), moderated to 3% in July (June: 3.2%). The moderation in inflation during the month was caused mainly by slower growth in food prices, which in turn was primarily due to a moderation in the prices of fruits and vegetables. The prices for transportation and household furnishing categories continued to increase while the clothing and footwear category continued to experience falling prices, albeit at a slower rate. Prices of other goods and services in the CPI basket were relatively stable.



Inflation moderated to 3% in July

Producer price inflation increased in June

The annual growth of the Producer Price Index (PPI) increased to 6.9% in June (May: 3.9%). This was driven mainly by the higher growth of crude oil prices, which more than offset the decline in the prices of crude palm oil. However, excluding commodity prices, the PPI inflation moderated to 1.8% (May: 2.1%).



PPI inflation increased

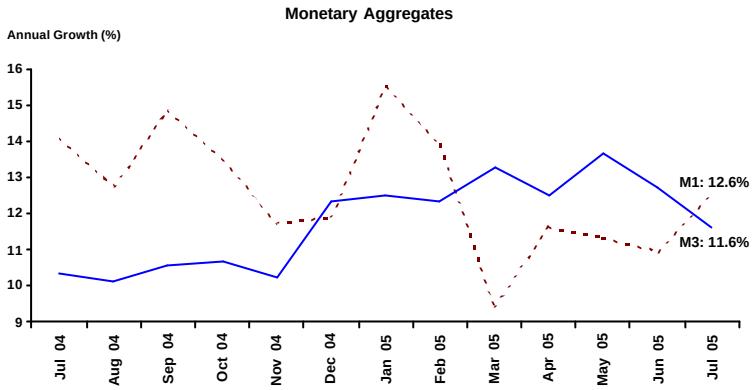
Growth in monetary aggregates were relatively stable

In July, narrow money or M1, representing transactional balances, grew at an annual rate of 12.6% (June: 11%), while broad money, M3, expanded at an annual rate of 11.6% (June: 12.8%). On a monthly basis, however, M3 declined by RM3.5 billion due to lower net claims on the Government, and unchanged claims on the private sector. Net external operations were expansionary on money supply during the month. Claims on the private sector were flat, as increases in loans were offset by a decline in the holdings of PDS by banking institutions.

M3 Determinants
(RM billion)

	Change during period			
	2004	**Jun 05**	**Jul 05**	**Jan-July 05**
M3	68.0	-0.7	-3.5	31.2
Net claims on Government	38.1	-2.0	-1.2	-14.8
Claims on the private sector	-9.7	6.3	0.0	15.7
Loans	82.0	*6.0*	*1.4*	*22.3*
Securities	90.0	*0.3*	*-1.4*	*-6.6*
Net external operations *	-8.0	-3.4	5.7	47.6
Other influences	-28.1	-1.5	-8.0	-17.3

* Pre-revaluation of the international reserves



Banking system deposits declined in July

In July, total deposits with the banking system declined by RM3.7 billion, although on an annual basis they increased by 13.9% (June: 14.4%). The decline during the month stemmed mainly from lower interbank deposits, as well as withdrawals of deposits by domestic business enterprises, statutory authorities and the Federal Government.

Deposits by Holder

(RM million)

	Change during period			
	Apr 05	**May 05**	**Jun 05**	**Jul 05**
Federal Government	-281	646	968	-312
State Governments	-7	55	219	182
Statutory Authorities [1]	230	1,495	386	-657
Financial Institutions	4,167	1,533	802	-1,912
Business Enterprises	-2,238	7,645	-1,091	-1,567
Individuals	340	586	1,248	539
Others [2]	-363	1,178	23	41
Total	1,849	13,138	2,555	-3,686

1/ Include local Governments

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

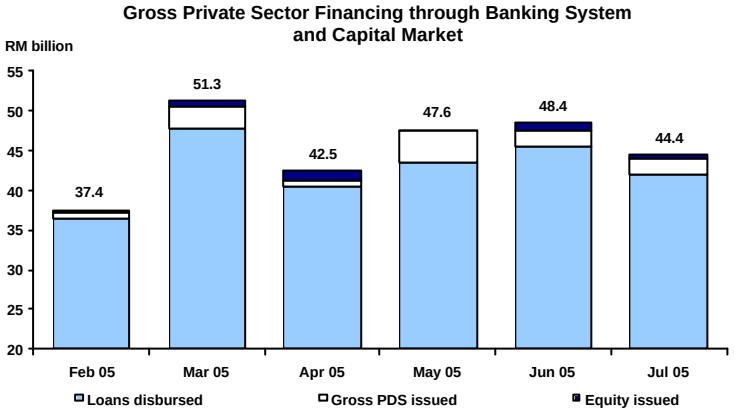
Deposits by Type

(RM million)

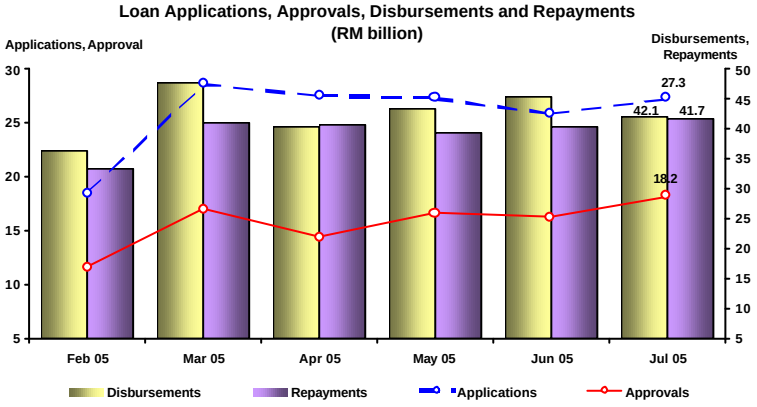
	Change during period			
	Apr 05	**May 05**	**Jun 05**	**Jul 05**
Fixed deposits	-808	3,703	-2,003	2,190
NIDs	4,686	728	3,049	-6,344
Demand deposits	-1,096	420	3,042	-1,643
Savings deposits	-358	-195	342	-230
Repos	1,043	138	612	2,739
FX deposits	-1,093	4,218	-3,379	-1,252
SPI deposits	-582	3,681	347	717
Others	56	445	546	138
Total	1,849	13,138	2,555	-3,686

Financing to the private sector was sustained

Gross financing of the private sector by the banking system and the capital market amounted to RM44.4 billion in July (June: RM48.4 billion). The lower financing was due mainly to the lower loan disbursements of RM42.1 billion (June: RM45.4 billion). On a net basis, the annual growth of total financing to the private sector (banking system loans and PDS outstanding) remained firm at 9.3%.



Slightly lower gross private sector financing due to lower loan disbursements…



but, loan applications and approvals remained firm

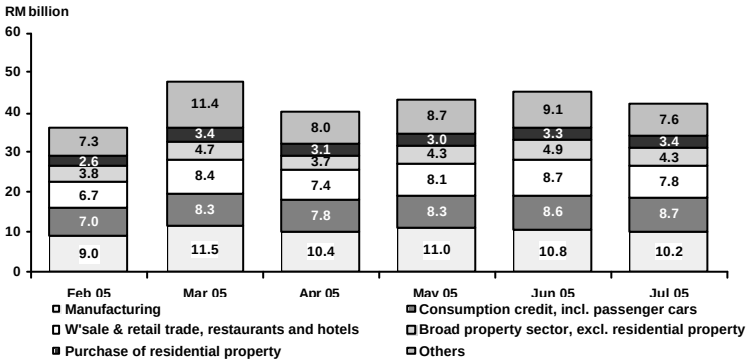
Bank lending indicators

	RM billion		Annual Growth (%)	
	June	July	June	July
Overall				
Loan applications	25.9	27.3	5.4	8.8
Loan approvals	16.3	18.2	-10.0	10.6
Loan disbursements	45.4	42.1	7.1	2.1
Chg in Loans Outstanding 1/	6.0	0.6	8.4	8.7
Businesses				
Loan applications	12.7	14.3	-5.7	2.2
Loan approvals	7.2	9.0	-28.9	12.0
Loan disbursements	31.2	27.5	5.1	-1.9
Chg in Loans Outstanding 1/	2.9	-1.8	1.5	2.6
SMEs				
Loan applications	5.2	6.0	2.7	16.6
Loan approvals	3.2	3.2	-5.4	11.9
Loan disbursements	9.5	8.8	9.4	8.4
Chg in Loans Outstanding 1/	0.9	0.6	9.0	9.0
Households				
Loan applications	12.7	12.7	15.7	16.8
Loan approvals	8.9	8.9	14.2	13.0
Loan disbursements	12.3	12.4	13.0	6.4
Chg in Loans Outstanding 1/	2.9	3.9	15.1	15.1

1/ The annual growth is for end-period

All household loan indicators sustained, while business loan applications and approvals increased

Loan Disbursements to Selected Sectors



Loan disbursements remained broad-based

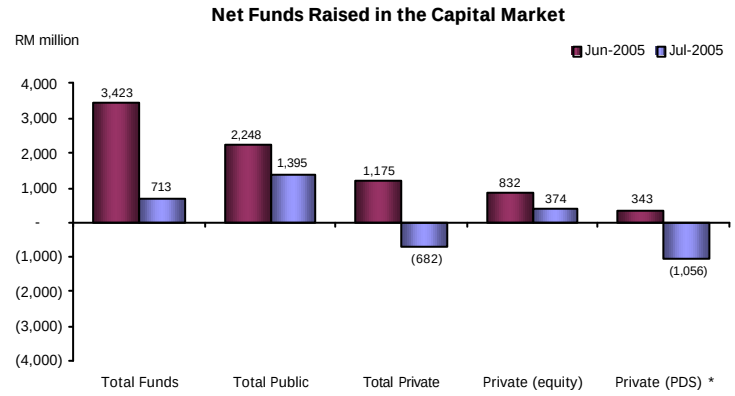
Loan disbursements to the household sector remained stable at RM12.4 billion (June: RM12.3 billion), increasing at an annual rate of 6.4%. However, loan disbursements to businesses were lower, reflecting mainly lower disbursements to the wholesale, retail, restaurants and hotels sector, where loans growth had been particularly strong in recent months. Despite lower loan disbursements, business loan applications and approvals were firmer, at RM14.3 billion (June: RM12.7 billion) and RM9.0 billion (June: RM7.2 billion) respectively, increasing at annual growth rates of 2.2% and 12% respectively.

Given the lower loan disbursements, the increase in loans outstanding was moderate on a monthly basis in July. Nevertheless, the overall trend in loans

remained firm as evidenced by the 8.7% annual growth at end-July (end-June: 8.4%). The annual growth of business loans outstanding was higher at 2.6% (end-June: 1.5%), due mainly to the sustained growth of 9% in SME loans outstanding (end-June: 9%). As at end-July, SME loans accounted for 41.8% of total loans outstanding to businesses (end-2004: 40.3%). Meanwhile, annual growth in household loans outstanding remained firm at 15.1% (end-June: 15.1%).

Lower funds raised in the capital market

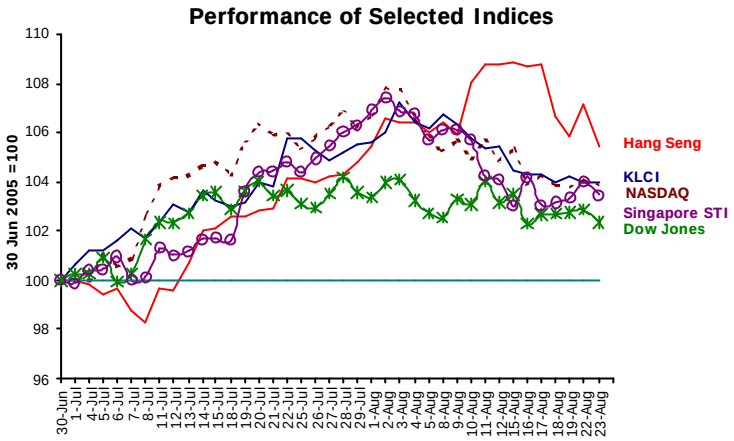
In July, gross fund raising activity through the private debt securities (PDS) market amounted to RM1.9 billion, with financing being channeled mainly to finance operations of companies in construction, transportation and property sectors. These funds were raised mainly for the purpose of refinancing and financing new activity. In the equity market, a total of RM374.1 million was raised mainly through 15 initial public offerings. The Federal Government continued to tap the domestic bond market through an inaugural issue of 20-year Malaysian Government Securities (MGS) amounting to RM1 billion. Including the issuance of Merdeka Savings Bonds, the public sector raised RM1.4 billion, on a net basis, during the month. Given the higher amount of PDS which matured during the month, net funds raised through the capital market were lower at RM712.8 million.



Lower funds raised through the capital market in July

KLCI improved in July

The KLCI has been on an increasing trend since the beginning of July due to buying interests of several index-linked stocks. As at end-July, the KLCI ended higher at 937.39 (since end-June: 5.5%), with market capitalisation increasing to RM724.97 billion (since end-June: 5.3%). However, the daily average turnover during the month was lower at 472.8 million units (June: 519.6 million units).

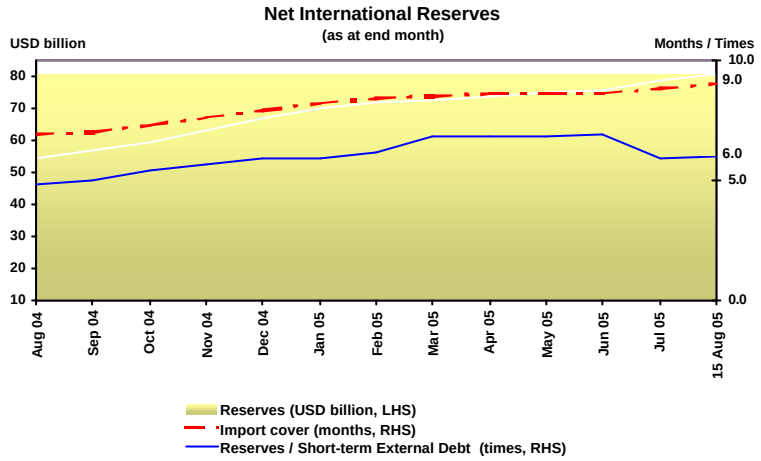


KLCI improved in July

The market consolidated in the first three weeks of August due to profit-taking activities fuelled by renewed concerns of rising oil prices and higher inflation. As at 23 August, the KLCI closed at 923.79 (since end-July: -1.5%) with market capitalisation at RM715.8 billion (since end-July: -1.3%). Trading declined, with daily average turnover amounted to 428.5 million units during the period.

International reserves increased further

The international reserves of Bank Negara Malaysia increased further to RM298.7 billion or equivalent to USD78.7 billion as at 29 July 2005. About two-thirds of the inflows in July had occurred on the day following the announcement of the change in the exchange rate regime to a managed float. The flows were normalised in the subsequent days and the price discovery process has been orderly. The transactions in July were mainly for international trade, FDI and portfolio investment. It also reflected the transactions for payments for goods and services, repatriation of dividends and overseas investment by Malaysian companies. Reserves increased to RM305.2 billion or equivalent to USD80.4 billion as at 15 August 2005. The current level of reserves is sufficient to finance 9 months of retained imports and is 6 times the short-term external debt.



Banking system remained strong

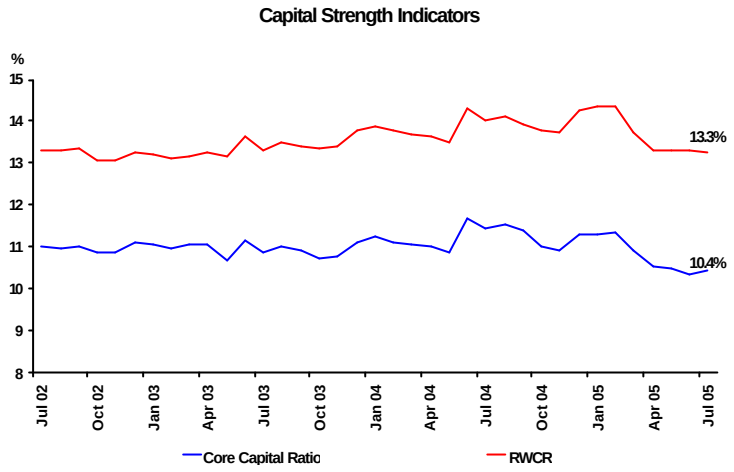
The level of capitalisation of the banking system remained strong, with the core capital ratio and risk-weighted capital ratio (RWCR) at 10.4% and 13.3% respectively. Net non-performing loans (NPLs) of the banking system continued to trend downwards during the month, to account for 6.7% and 5% of net loans based on the 3-month and 6-month classifications respectively.

Banking System Health Indicators*

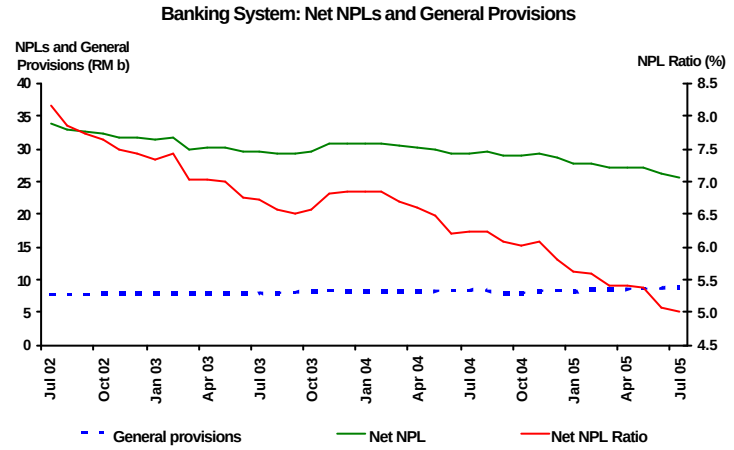
	As at end-								
	1999	2000	2001	2002	2003	Dec 04	May 05	Jun 05	Jul 05
Capital (%)									
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.3	10.5	10.4	10.4
RWCR	12.5	12.5	13.0	13.2	13.8	14.3	13.3	13.3	13.3
Net NPLs (6-month classification)									
% of net total loans	6.4	6.3	6.9	7.5	6.8	5.8	5.4	5.1	5.0
Amount (RM million)	23,849	24,700	32,833	31,702	30,766	28,630	27,275	26,068	25,709
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



Banking system remained strong supported by high level of capitalisation…



…. whilst NPL level continued to decline

Bank Negara Malaysia
24 August 2005

Key Monetary and Financial Statistics

		May 05		Jun 05		Jul 05	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		50.9	9.6	50.7	9.1	51.0	7.8
M1		114.7	11.3	116.5	11.0	117.0	12.6
M2		561.0	26.5	591.0	32.2	587.8	30.3
M3		652.9	13.7	652.3	12.8	648.8	11.6
Banking System							
Total deposits		666.1	15.4	668.6	14.4	665.0	13.9
Total loans (including loans sold to Cagamas)		527.8	8.6	533.8	8.4	534.4	8.7
Loan-deposit ratio (%)		75.8		76.5		77.1	
Financing-deposit ratio [1] (%)		83.9		84.6		84.9	
Loans applied (during the period)		27.3	26.1	25.9	5.4	27.3	8.8
Loans approved (during the period)		16.7	31.3	16.3	-10.0	18.2	10.6
Loans disbursed (during the period)		43.4	13.1	45.4	7.1	42.1	2.1
Loans repaid (during the period)		39.5	14.1	40.3	9.8	41.7	-3.6
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.3		13.3		13.3	
Net NPLs: 6-month classification (%)		5.4		5.1		5.0	
International Reserves of BNM (end-period)							
Reserves in RM (billion)		284.5		285.7		298.7	
Reserves in USD (billion)		74.9		75.2		78.7	
Months of retained imports		8.6		8.6		8.8	
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]		2.69 [2.70]		2.70 [2.70]	
	1-week	2.72 [2.72]		2.73 [2.73]		2.72 [2.73]	
	1-month	2.81 [2.79]		2.83 [2.82]		2.83 [2.83]	
	3-month	2.80		2.84 [2.84]		2.86 [2.86]	
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		5.94		5.93		5.90	
Prices							
Consumer Price Index (CPI) (2000=100)		108.8	3.1	109.0	3.2	109.0	3.0
Producer Price Index (PPI) (1989=100)		157.1	3.9	158.4	6.9	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
Euro		4.7112		4.5948		4.5475	
Pound Sterling		6.8921		6.8685		6.5799	
100 Japanese yen		3.5164		3.4469		3.3414	
Singapore dollar		2.2840		2.2576		2.2565	
100 Thai Baht		9.3862		9.2032		8.9757	
100 Philippine Peso		6.9789		6.7628		6.6759	
100 Indonesian Rupiah		0.0400		0.0391		0.0382	
100 Korean Won		0.3777		0.3699		0.3655	
Capital Market							
Net funds raised (in RMb) by:	public	2.1		2.2		1.4	
	private	3.7		1.2		-0.7	
Bursa Malaysia Composite Index (end-period)		860.7		888.3		937.4	
Bursa Malaysia Market Capitalisation (RMb, end-period)		665.8		688.6		725.0	

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