



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 10/04/48 (BN)

**EMBARGO: Not for publication or
broadcast before 1700 hours on
Thursday, 28 October 2004**

Monetary and Financial Developments September 2004 **Highlights of the Press Release**

Stronger private sector financing activities in September

Monetary indicators strengthened in September, reflecting sustained underlying economic activity. September recorded the highest volume of gross financing raised by the private sector so far this year with a total of RM47.2 billion, due mainly to the higher disbursement of loans and higher PDS issuance. The higher annual growth registered in loan disbursements contributed to further loan expansion and increases in broad money supply. On a net basis, total financing of the private sector (banking system loans and PDS outstanding) grew at an annual rate of 7.6% (7.1% in August).

Financing to the SMEs recorded strong annual growth in loan disbursements (15.2%), applications (38.8%) and approvals (40.6%) in September. Loan disbursements to the SMEs amounted to RM8.6 billion, while loan approvals to the SMEs increased further, with RM3.2 billion approved to 9,278 SME accounts. The annual growth rate of loans outstanding to the SMEs expanded by 8.1% in September to reach RM86.1 billion.

The banking system's net NPL ratio based on the 6-month classification, declined further to 6.1% in September, the lowest level since the Asian Crisis.



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MONETARY AND FINANCIAL DEVELOPMENTS SEPTEMBER 2004

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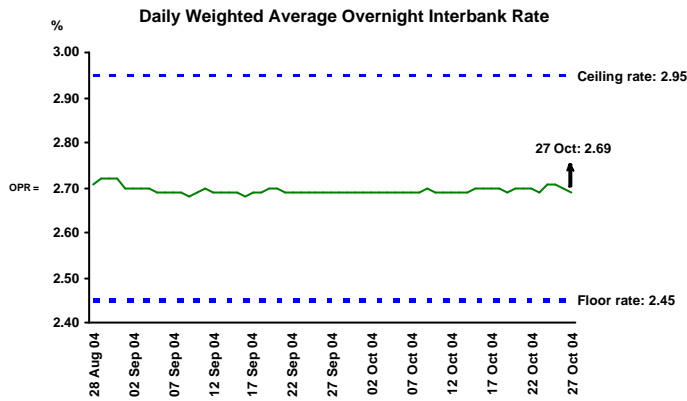
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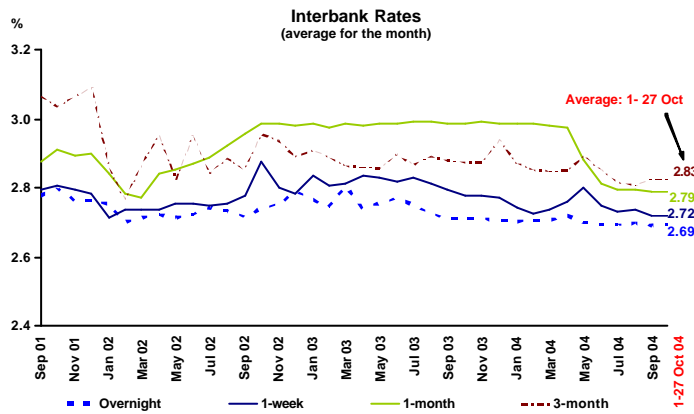
The banking system's net NPL ratio based on the 6-month classification, declined further to 6.1% in September, the lowest level since the Asian Crisis.

Interest rates remained low

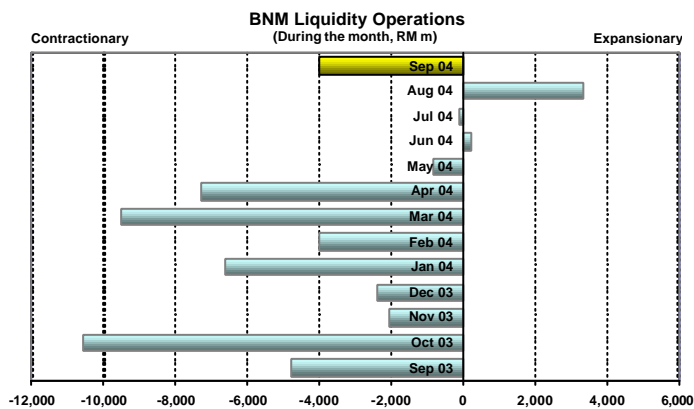
In the period 1 September – 27 October, the daily weighted average of the overnight interbank rate moved within a narrow range of 2.68 – 2.70%, averaging at 2.69%.



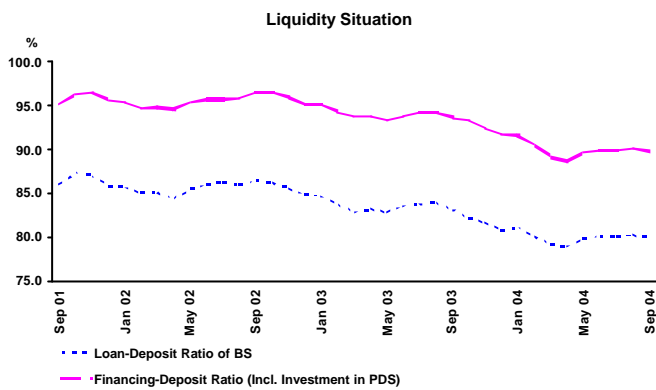
The overnight interbank rate remained stable



Other interbank rates also remained stable

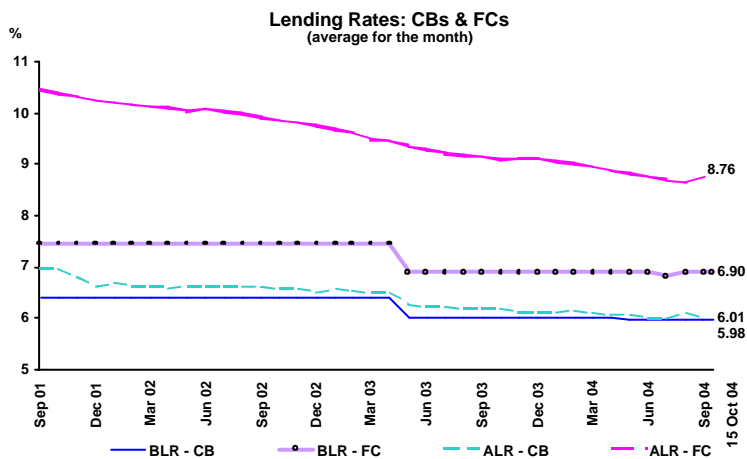


Liquidity operations were contractionary in September to offset the impact of external inflows

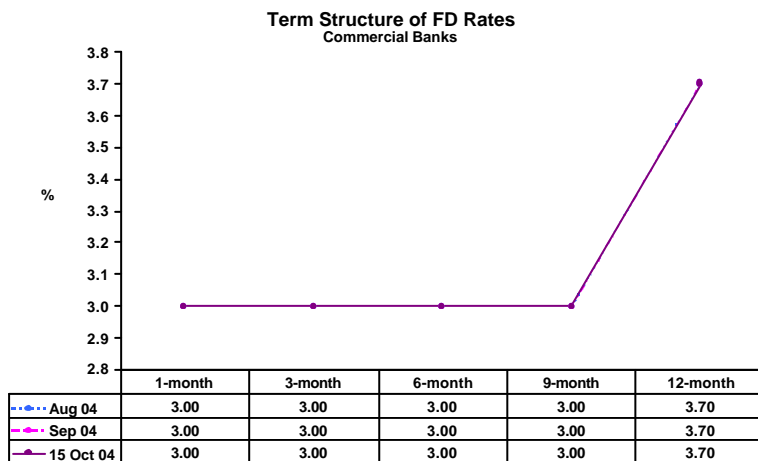


The financing-deposit ratio stood at 89.8%

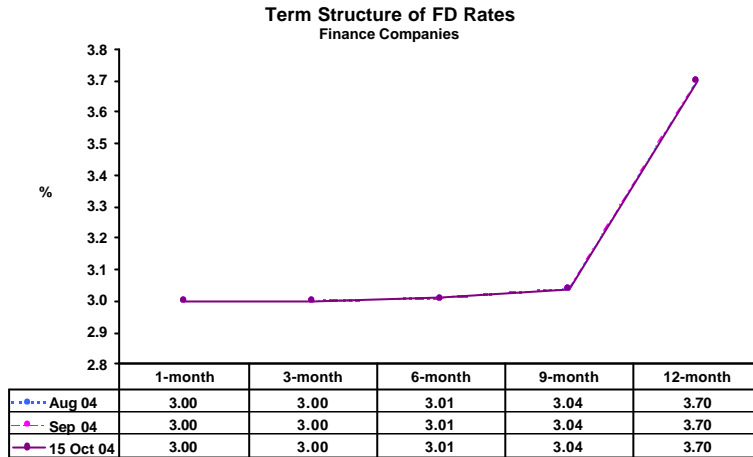
The average base lending rates (BLRs) of commercial banks (CBs) and finance companies (FCs) remained stable at 5.98% and 6.90% at end-September. The average lending rate (ALR) of the CBs declined to 6.01% (6.09% at end-August), with new loans extended at lower rates. Meanwhile, the ALR of the FCs increased to 8.76% (8.64% at end-August) due mainly to the transfer of the loans extended by a finance company following its merger with a commercial bank.



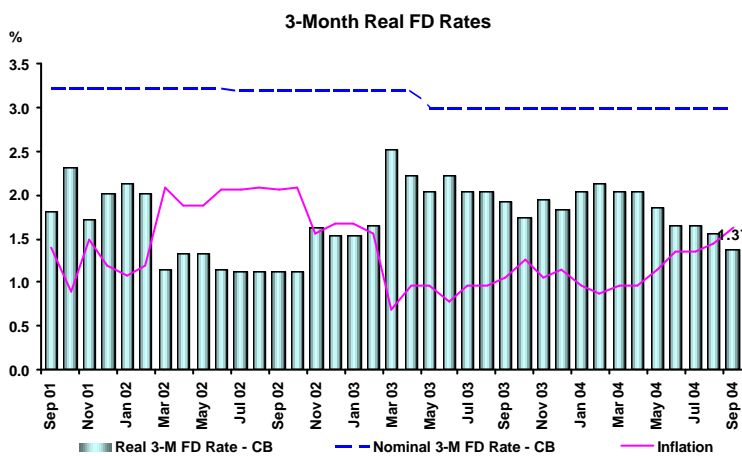
ALR of the CBs declined with the extension of new loans at lower rates



FD rates of CBs remained unchanged...



...similarly for FCs

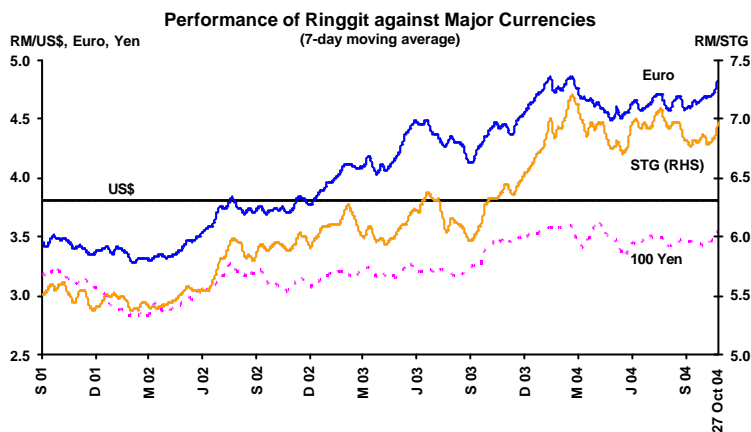


The 3-month real FD rate was marginally lower

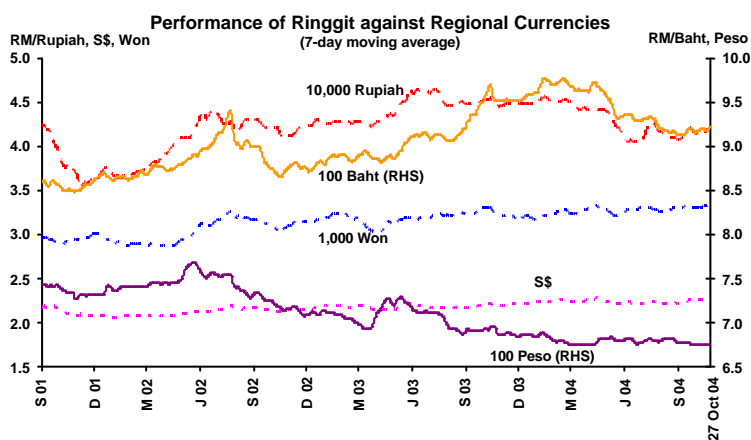
Performance of the ringgit

In September, the performance of the ringgit was mixed against the major currencies. The US dollar depreciated against the euro and sterling, but appreciated against the yen. The US dollar was affected by the increase in oil prices and its consequent economic repercussions on the US economy. Concerns on oil prices were also evident in the Japanese economy given Japan's high dependency on oil imports. The yen depreciated against the dollar as a result of an increase in the demand for the dollar to finance the higher oil bill. Against the regional currencies, the ringgit also recorded a mixed performance.

In the period 1-27 October, the ringgit depreciated against most major and regional currencies. The dollar weakened on signs that higher oil prices were affecting the US economy.



In the period 1-27 October, the ringgit depreciated against all major currencies



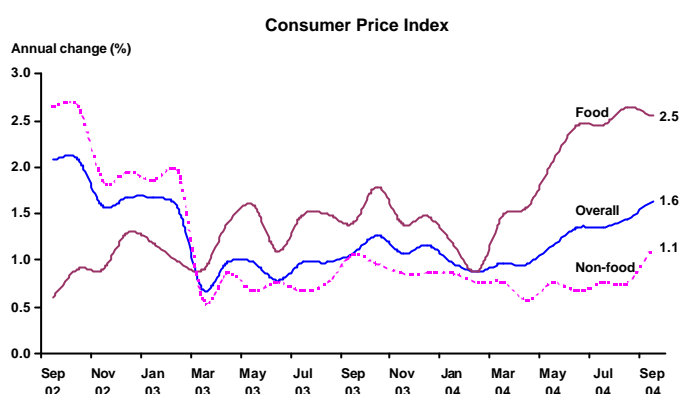
Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period			% Change			
	02 Sep 98	Sep 04	27 Oct 04	Sep 04	End Sep 04 - 27 Oct 04	End Dec 03 - 27 Oct 04	02 Sep 98 - 27 Oct 04
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.6826	4.8403	-2.6	-3.3	-1.3	-
Pound Sterling	6.3708	6.8347	6.9656	-0.5	-1.9	-2.8	-8.5
100 Japanese yen	2.7742	3.4264	3.5491	0.6	-3.5	0.2	-21.8
Singapore dollar	2.1998	2.2475	2.2787	-1.4	-1.4	-1.9	-3.5
100 Thai baht	9.3713	9.1644	9.2446	-0.5	-0.9	3.8	1.4
100 Philippine peso	8.8302	6.7517	6.7391	0.1	0.2	1.5	31.0
100 Indonesian Rupiah	0.0354	0.0414	0.0417	-1.9	-0.7	7.5	-15.2
100 Korean won	0.2827	0.3295	0.3356	0.0	-1.8	-5.2	-15.8

Inflation edged up slightly reflecting mainly the impact of higher taxes on selected items

The inflation rate, as measured by the Consumer Price Index (CPI, 2000=100), edged up to 1.6% in September. This was mainly the result of the higher prices of beverages and tobacco products following the increase in excise duties

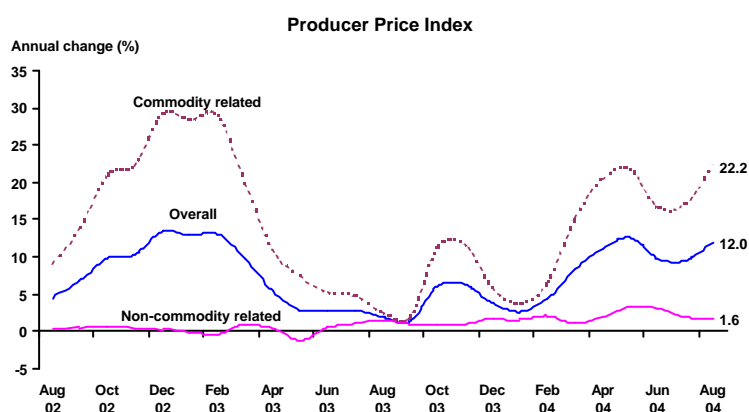
announced in Budget 2005. The average annual inflation rate for the first nine months of 2004 was 1.2% (1.1% in January-September 2003).



CPI remained low at 1.6%

Producer prices adjusted to higher oil prices

The Producer Price Index (PPI, 1989=100) rose in August to register an annual growth rate of 12% (9.5% in July) due to the higher increase in crude oil prices. Excluding commodity-related products, the adjusted PPI recorded a lower annual growth rate of 1.6% (1.9% in July).

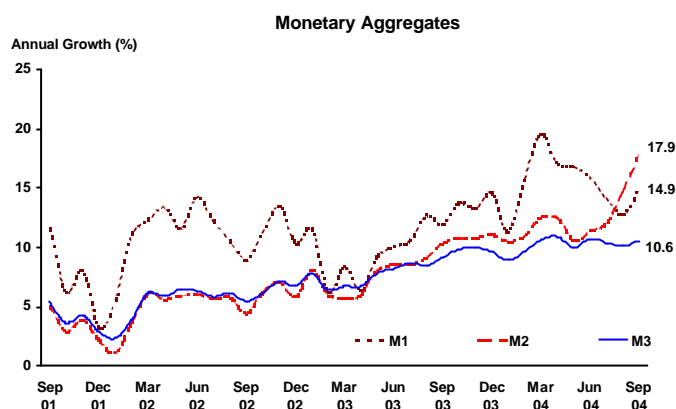


PPI rose in August

Sustained expansion of broad money

In September, broad money, M3, grew at an annual rate of 10.6% (10.1% in August). The increase in M3 of RM8.6 billion during the month reflected the higher bank financing activities and the sustained repatriation of export earnings. The growth in M3 was partially offset by the lower net claims on the Government following the higher deposits placement with Bank Negara Malaysia. During the

month, the net funds raised by the Government from the capital market amounted to RM3.7 billion. Demand for transaction balances improved with M1 increasing at an annual rate of 14.9% as at end-September (12.8% at end-August), reflecting resilient consumer spending.



M3 Determinants

(RM billion)

	Change during period			Jan - Sep 04
	Jul 04	Aug 04	Sep 04	
M3	2.8	2.1	8.6	42.3
Net claims on Government	1.8	-0.9	-3.4	-10.5
Claims on the private sector	-0.3	3.4	7.6	26.6
Loans	-0.5	3.0	6.3	28.6
Securities	0.2	0.4	1.3	-1.9
Net external operations *	2.0	0.8	9.2	51.3
Other influences	-0.7	-1.1	-4.8	-25.1

* Pre-revaluation

Higher deposits by businesses

Total deposits mobilised by the banking system increased significantly by RM10.3 billion during the month. Higher deposits by businesses contributed mainly to the increase in total deposits. Overall, the annual growth rate of banking system deposits rose to 11.1% at end-September (10.2% in August).

Deposits by Holder

(RM million)

	Change during period			Jan - Sep 04
	Jul 04	Aug 04	Sep 04	
Federal Government	-1,353	394	451	-55
State Governments	-283	588	-276	690
Statutory Authorities ¹	-449	-5	497	-2,812
Financial Institutions	3,145	-56	3,265	11,878
Business Enterprises	-1,434	258	4,810	19,060
Individuals	-450	1,325	730	12,210
Others ²	405	379	817	2,153
Total	-419	2,884	10,294	43,124

Businesses were main contributors

1/ Include local Governments

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

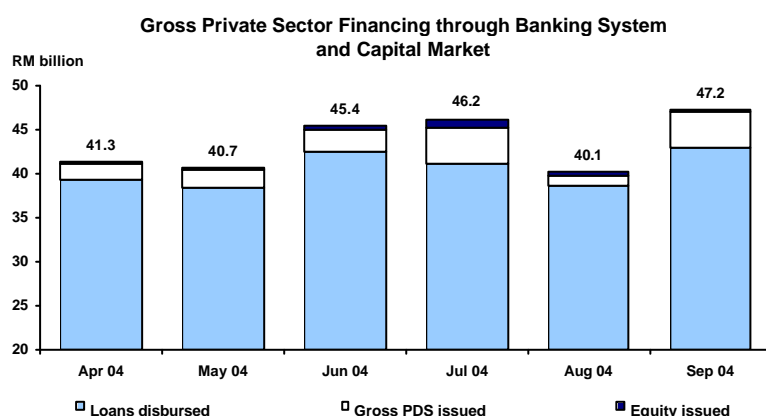
Deposits by Type
(RM million)

	Change during period			
	Jul 04	Aug 04	Sep 04	Jan - Sep 04
Fixed deposits	2,979	-745	1,047	14,390
NIDs	371	316	2,762	7,285
Demand deposits	-1,768	1,924	716	2,939
Savings deposits	-728	144	-4	1,650
Repos	-1,437	503	-68	4,831
FX deposits	55	-55	2,809	2,723
SPI deposits	-188	907	2,412	6,828
Others	297	-111	620	2,477
Total	-419	2,884	10,294	43,124

Higher funds across most deposit types

Bank lending activities picked up in September with higher growth in outstanding loans to the SMEs

The private sector raised RM47.2 billion from the banking system and the capital market in September. This represents the largest monthly amount raised so far this year. The increase in financing was mainly on account of the higher disbursement of loans by the banking system of RM42.9 billion (RM38.6 billion in August) and the higher issuance of PDS of RM4 billion (RM1.2 billion in August). On a net basis, total financing of the private sector (banking system loans and PDS outstanding) grew at an annual rate of 7.6% (7.1% in August).

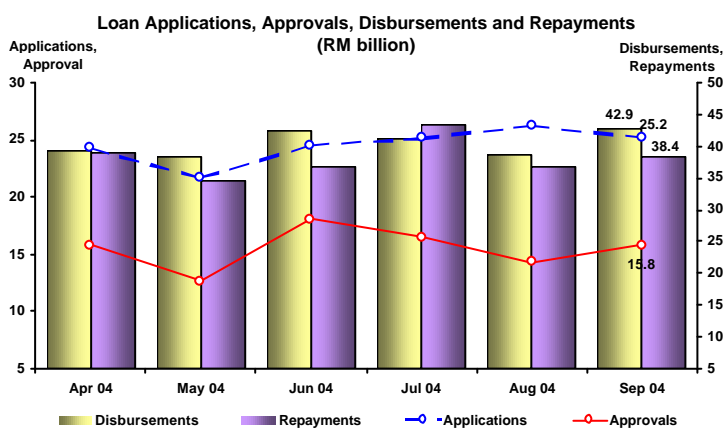


Financing extended to the private sector was higher

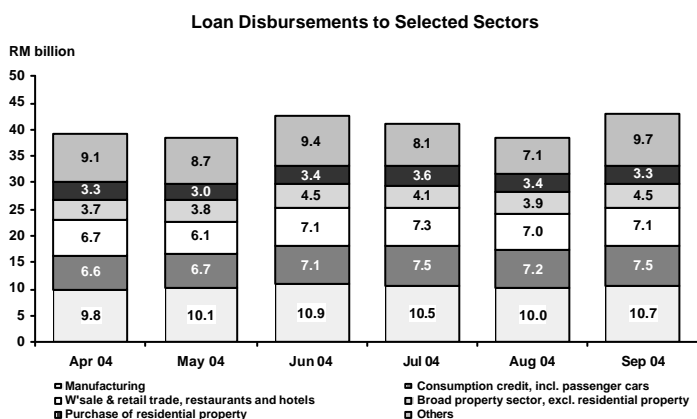
Total loan disbursements grew at an annual rate of 13.1% in September (3.2% in August), with loans extended mainly to the manufacturing and wholesale, retail, restaurants and hotels sectors. The annual growth rates of the two forward-looking loan indicators, total loan applications and approvals, rose to 35.5% and 20% respectively (21.8% and 14.4% in August), pointing to sustained demand for funds by the private sector. Overall, the total loans outstanding of the banking system increased by 6.2% on an annual basis as at end-September (5.3% at end-August).

In the business sector, bank lending activity was sustained in September. Loan disbursements amounted to RM29.2 billion (RM26.2 billion in August) and grew at an annual rate of 11.4% (4% in August) with higher growth registered across most subsectors. Within the business sector, bank lending to the SMEs strengthened further, with higher loan disbursements, applications and approvals. Loan disbursements to SMEs grew at an annual rate of 15.2% in September (10.3% in August), while the demand for funds by the SMEs as reflected in loan applications, grew by 38.8% on an annual basis (8.4% in August). Loan approvals to the SMEs increased by 40.6% on an annual basis, with RM3.2 billion approved to 9,278 SME accounts. Loans outstanding to the SMEs grew at annual rate of 8.1% in September to reach RM86.1 billion (7.8% and RM85.3 billion in August).

Meanwhile, lending to the household sector continued to expand. Loans disbursed to the household sector amounted to RM11.3 billion, growing at an annual rate of 16.2% (RM11 billion and 7.9% in August). Application for loans was sustained at high levels of RM10.6 billion or growing by 19.2% on an annual basis (RM10 billion or 3.8% in August).



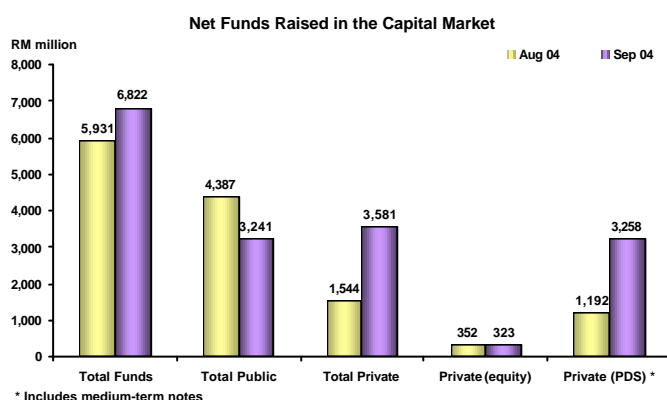
All major loan indicators were sustained at high levels



Higher level of loans disbursed across all sectors

Higher amount raised through the PDS market in September

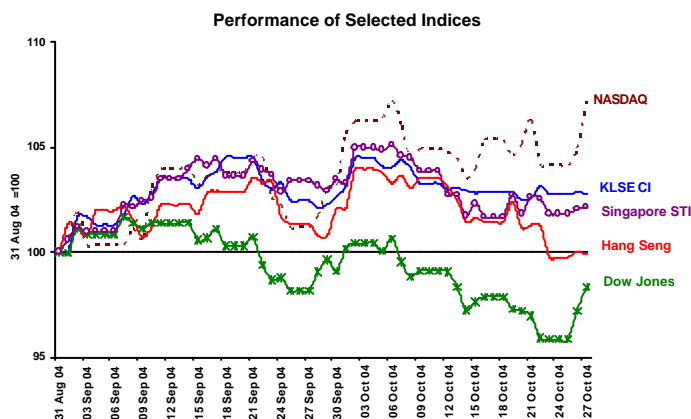
Net funds raised in the capital market were higher in September, amounting to RM6.8 billion (RM5.9 billion in August). The higher amount of funds raised was due mainly to the larger issuances of PDS (RM3.3 billion; RM1.2 billion in August). The bulk of the fund was raised for refinancing and restructuring purposes. In the public sector, gross funds raised were mainly through the new issuance of MGS 4/04, the reopening of MGS 3/04 and the new issuance of GII 2/04 which amounted to a total of RM5.7 billion.



Higher net funds raised by the private sector through the PDS market

The KLSE CI closed higher at 849.96 points at end-September (+2.7% since end-August). Market performance improved following the announcement of Budget 2005, which contained proposed measures to liberalise Malaysia's capital market. Market capitalisation was higher at RM672.6 billion (+2.8% since end-August), while the daily average turnover for the month was higher at 378.52 million units.

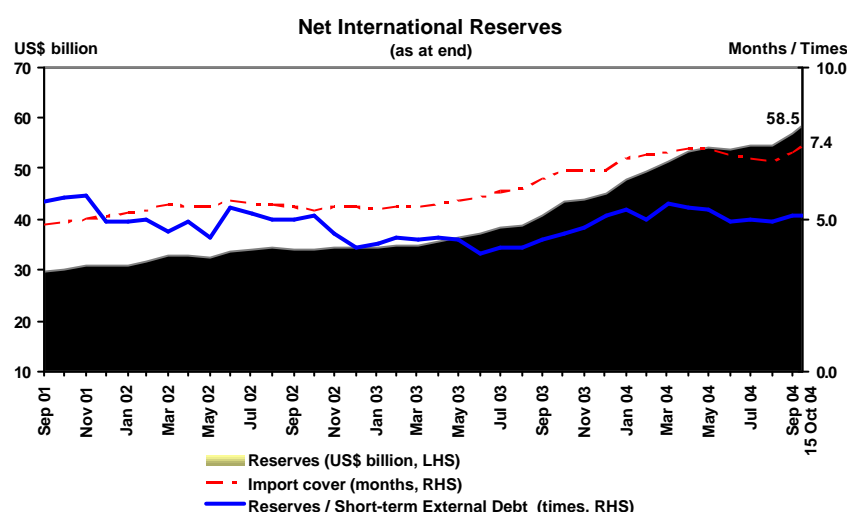
In October, market sentiments were however weighed down by concerns of rising oil prices. The KLSE CI closed marginally higher at 851.17 points on 27 October (+0.1% since end-September). Market capitalisation was lower at RM667.07 billion (-0.8% since end-September), while the daily average turnover for the month was slightly lower at 333.32 million units.



KLSE CI dampened by concerns of higher oil prices

International reserves rose on higher export receipts

The international reserves of Bank Negara Malaysia amounted to RM216.1 billion or US\$56.9 billion as at 30 September 2004. The increase of RM8.9 billion (US\$2.4 billion) in September was due mainly to the higher repatriation of export earnings and inflows of portfolio funds and foreign direct investment. Outflows reflected mainly payment for imports of goods and services, repatriation of dividends and repayment of external loans. The reserves increased further to RM222.1 billion (US\$58.5 billion) as at 15 October 2004. The reserves position is adequate to finance 7.4 months of retained imports and is 5.1 times the short-term external debt.

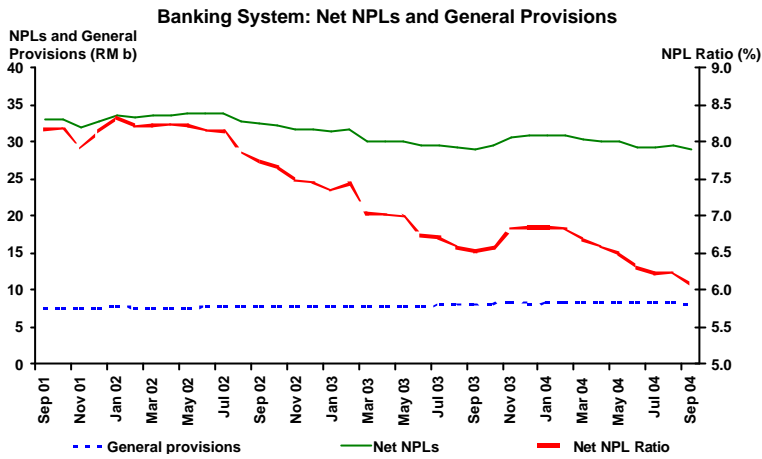


Capitalisation remains high amidst improvement in asset quality

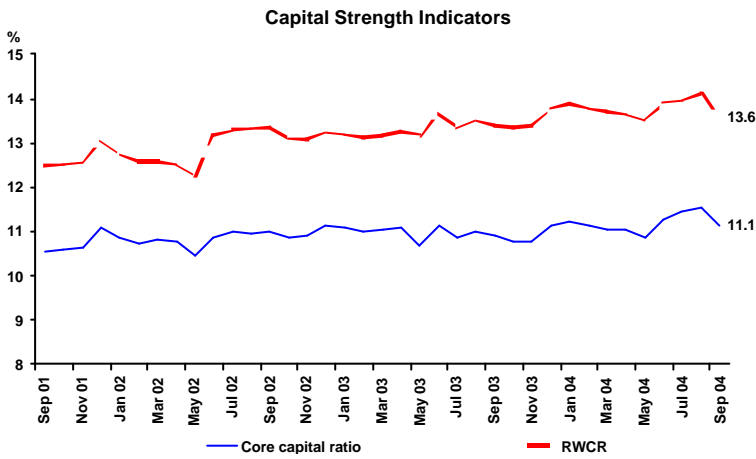
The risk-weighted capital ratio (RWCR) and core capital ratio (CCR) of the banking system declined from 14.1% and 11.5% to 13.6% and 11.1% respectively, due mainly to the completion of a merger between a commercial bank and a finance company. Meanwhile, net NPL ratio based on 6-month classification improved to 6.1%, the lowest level post crisis.

	Banking System Health Indicators [*]							
	As at end-							
	1999	2000	2001	2002	2003	Jul 04	Aug 04	Sep 04
Capital (%)								
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.4	11.5	11.1
RWCR	12.5	12.5	13.0	13.2	13.8	14.0	14.1	13.6
Net NPLs (6-month classification)								
% of net total loans	6.4	6.3	8.1	7.5	6.8	6.2	6.2	6.1
Amount (RM million)	23,849	24,700	32,833	31,703	30,766	29,152	29,481	29,102
GP / Net total loans (6-month, %)								
	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.6

^{*} Beginning June 1999 onwards, the figure include Islamic banks.



Net NPL ratio (6-month classification) improved to 6.1%



RWCR and core capital ratio declined to 13.6% and 11.1% respectively

Bank Negara Malaysia
28 October 2004

Key Monetary and Financial Statistics

	Jul 04		Aug 04		Sep 04	
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates						
Reserve money	47.3	8.0	47.4	6.0	47.1	5.8
M1	103.9	14.1	105.7	12.8	107.4	14.9
M2	451.2	12.1	467.0	14.7	483.5	17.9
M3	581.2	10.4	583.3	10.1	592.0	10.6
Banking System						
Total deposits	583.8	10.4	586.7	10.2	597.0	11.1
Total loans (including loans sold to Cagamas)	491.8	5.3	495.5	5.3	501.9	6.2
Loan-deposit ratio (%)		80.2		80.3		80.1
Financing-deposit ratio ¹ (%)		90.0		90.1		89.8
Loans applied (during the period)	25.1	10.8	26.2	21.8	25.2	35.5
Loans approved (during the period)	16.5	14.2	14.4	14.4	15.8	20.0
Loans disbursed (during the period)	41.2	1.5	38.6	3.2	42.9	13.1
Loans repaid (during the period)	43.2	13.8	36.7	5.2	38.4	3.6
Banking System Health						
Risk-weighted Capital Ratio (RWCR) (%)		14.0		14.1		13.6
Net NPLs: 6-month classification (%)		6.2		6.2		6.1
International Reserves of BNM (end-period)						
Reserves in RM (billion)		206.4		207.1		216.1
Reserves in USD (billion)		54.3		54.5		56.9
Months of retained imports		7.0		6.9		7.2
Interest Rates at end-period [average for the month]						
Overnight Policy Rate (OPR)		2.70		2.70		2.70
Interbank:	Overnight	2.68 [2.70]		2.72 [2.70]		2.69 [2.69]
	1-week	2.74 [2.73]		2.74 [2.74]		2.73 [2.72]
	1-month	2.84 [2.80]		2.83 [2.80]		2.75 [2.79]
	3-month	2.83 [2.82]		2.80 [2.81]		2.80 [2.83]
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		6.00		6.09		6.01
Prices						
Consumer Price Index (CPI) (2000=100)	105.8	1.3	105.8	1.4	106.2	1.6
Producer Price Index (PPI) (1989=100)	148.6	9.5	152.7	12.0		
Exchange Rates of Ringgit against Selected Currencies (end-period)						
Euro		4.5777		4.5621		4.6826
Pound Sterling		6.9073		6.8007		6.8347
100 Japanese yen		3.3951		3.4478		3.4264
Singapore dollar		2.2034		2.2166		2.2475
100 Thai Baht		9.1854		9.1182		9.1644
100 Philippine Peso		6.7887		6.7559		6.7517
100 Indonesian Rupiah		0.0414		0.0406		0.0414
100 Korean Won		0.3245		0.3294		0.3295
Capital Market						
Net funds raised (in RMb) by:	public	1.8		4.4		3.2
	private	2.4		1.5		3.6
Bursa Malaysia Composite Index (end-period)		834.0		828.0		850.0
Bursa Malaysia Market Capitalisation (RMb, end-period)		664.7		654.3		672.6

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