



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

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hours on Wednesday, 25 August 2004**

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

***Financing to the private sector was sustained in July***

In an environment of low inflation and interest rates, the monetary and financial conditions in July remained supportive of economic activity. Outstanding banking system loans and private debt securities (PDS) increased by 7.2% on an annual basis. The higher funds raised in the PDS market were mainly to finance new activities.

Loans disbursed to SMEs expanded by 12.8% on an annual basis. Demand for loans by the SMEs remained high, with loan applications growing by 34.6% on an annual basis. Loan approvals to SMEs also expanded, with a total of RM2.9 billion extended to 8,294 SME accounts. On an annual basis, loan approvals to SMEs rose by 46.2%.



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## **MONETARY AND FINANCIAL DEVELOPMENTS JULY 2004**

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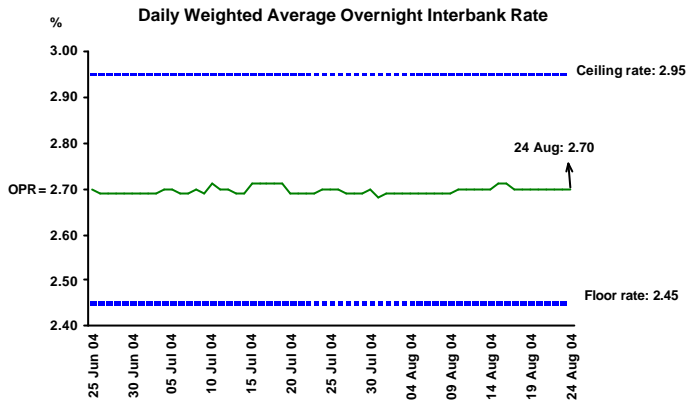
### ***Financing to the private sector was sustained in July***

In an environment of low inflation and interest rates, the monetary and financial conditions in July remained supportive of economic activity. Outstanding banking system loans and private debt securities (PDS) increased by 7.2% on an annual basis. The higher funds raised in the PDS market were mainly to finance new activities.

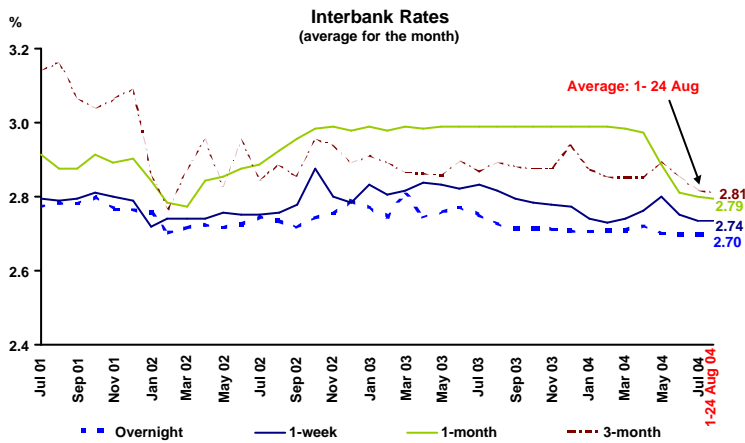
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**Interest rates remained low**

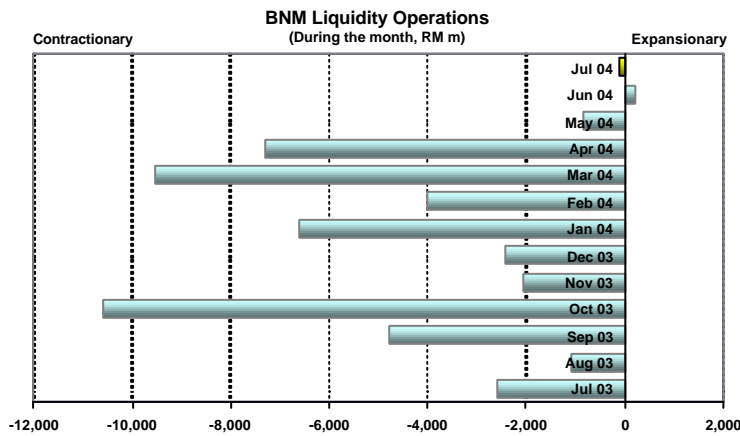
In the period 1 July – 24 August, the daily weighted average of the overnight interbank rate moved within a narrow range of 2.68 – 2.71%, averaging at 2.70%.



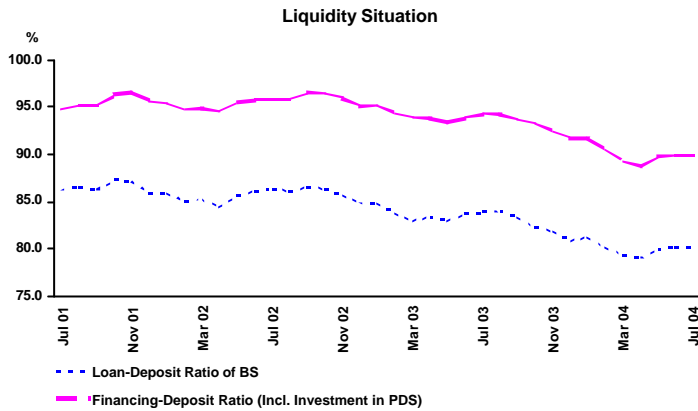
*The overnight interbank rate remained stable*



*Interbank rates remained low and stable*

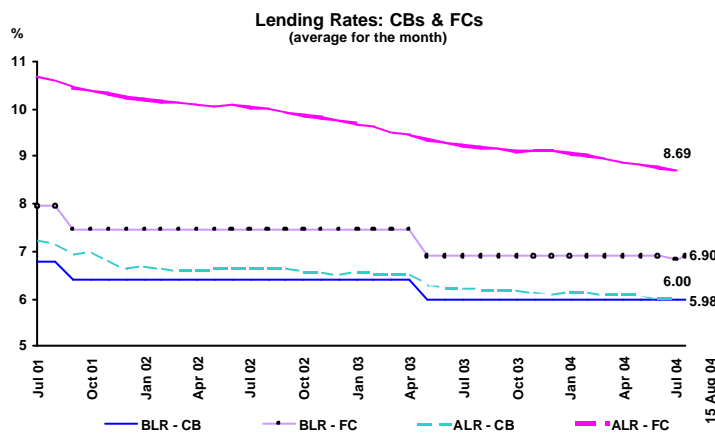


*Liquidity absorbed during the month was marginal*

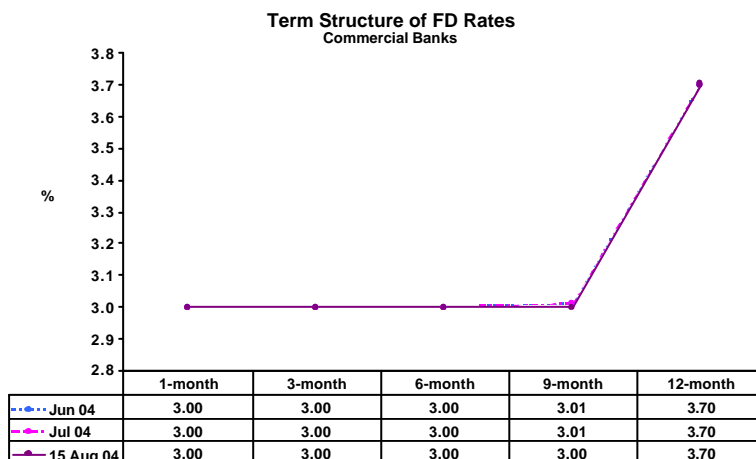


The financing-deposit ratio stood at 89.9%

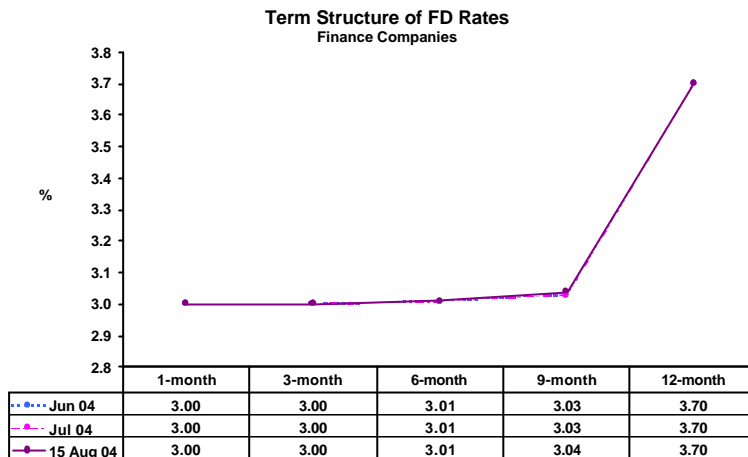
The average base lending rates (BLRs) of commercial banks (CBs) and finance companies remained stable at 5.98% and 6.90% at 15 August. The average lending rate (ALR) of the CBs remained stable at 6.00% while the ALR of FCs declined to 8.69% at end-July (5.99% and 8.76% at end-June).



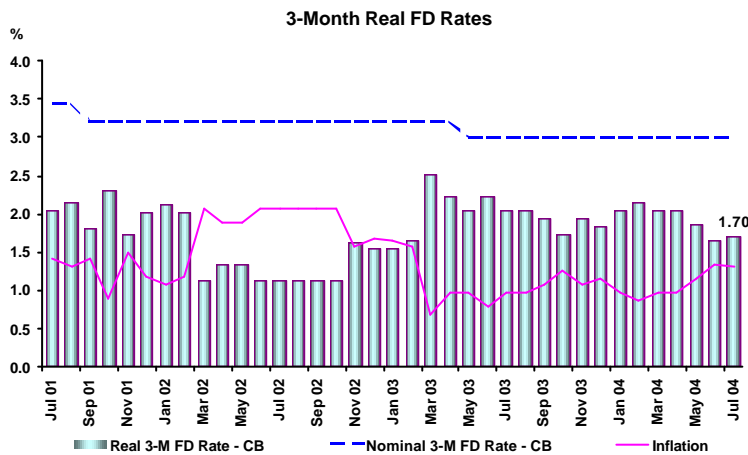
ALR of CBs remained stable while ALR of FCs declined further



FD rates of CBs remained unchanged...



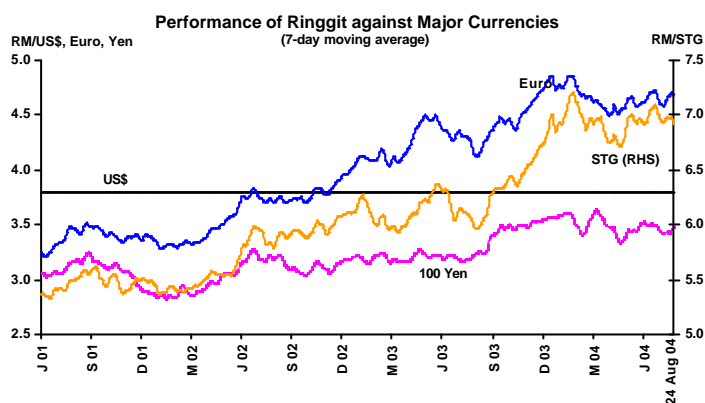
*...similarly for FCs*



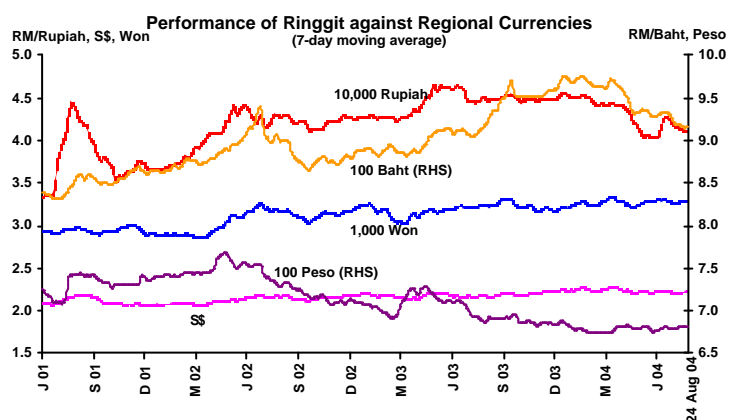
### **Performance of the ringgit**

In July, the performance of the ringgit was mixed against the major currencies. The US dollar appreciated against the euro and the yen on account of the positive assessment of the US economy and expectations for a gradual increase in U.S. interest rates. Against the pound sterling, the ringgit depreciated following market expectations of further interest rate increases in the UK. The ringgit recorded a mixed performance against regional currencies.

In the period 1-24 August, ringgit depreciated vis-à-vis most major currencies as the US dollar depreciated against these currencies after the release of a weaker-than-expected U.S. jobs report and a widening U.S. trade deficit. The performance of regional currencies was mixed on account of domestic factors.



*In the period 1-24 August the ringgit depreciated against most major currencies*

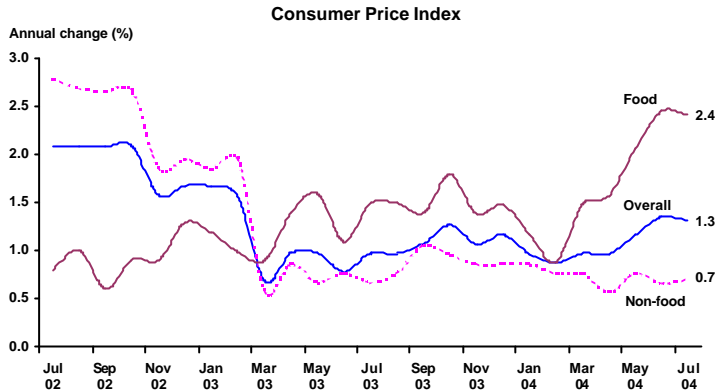


**Performance of Ringgit against Selected Currencies**

RM per foreign currency	End-period			% Change			
	02 Sep 98	Jul 04	24 Aug 04	Jul 04	End Jul 04 - 24 Aug 04	End Dec 03 - 24 Aug 04	02 Sep 98 - 24 Aug 04
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.5777	4.6117	0.3	-0.7	3.6	-
Pound Sterling	6.3708	6.9073	6.8605	-0.5	0.7	-1.4	-7.1
100 Japanese yen	2.7742	3.3951	3.4549	3.1	-1.7	2.9	-19.7
Singapore dollar	2.1998	2.2034	2.2202	0.5	-0.8	0.6	-0.9
100 Thai baht	9.3713	9.1854	9.1555	1.1	0.3	4.8	2.4
100 Philippine peso	8.8302	6.7887	6.7942	-0.4	-0.1	0.7	30.0
100 Indonesian Rupiah	0.0354	0.0414	0.0409	-2.4	1.3	9.8	-13.4
100 Korean won	0.2827	0.3245	0.3290	1.6	-1.4	-3.3	-14.1

### ***Inflation remained low***

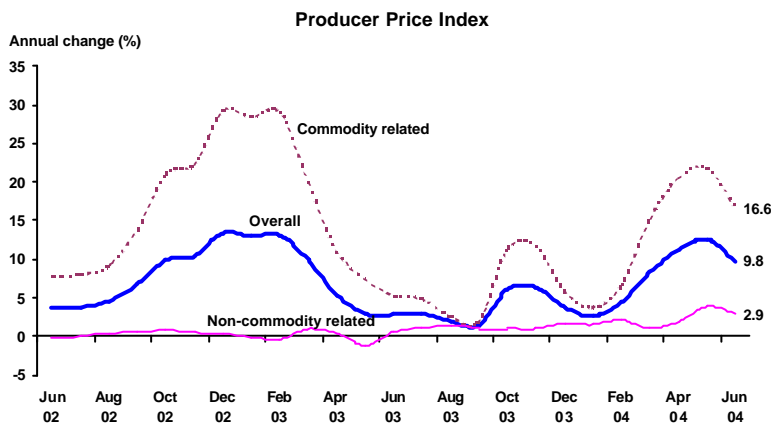
The inflation rate, as measured by the Consumer Price Index (CPI, 2000=100), remained low and stable. The average annual inflation rate for the first seven months of 2004 remained low at 1.1% (1.1% in January-July 2003). The annual inflation rate in July remained unchanged from June at 1.3%. Price changes during the month remained broadly stable across all sub-sectors of consumer goods and services.



*Inflation remained low and stable in July*

### ***Producer prices moderated***

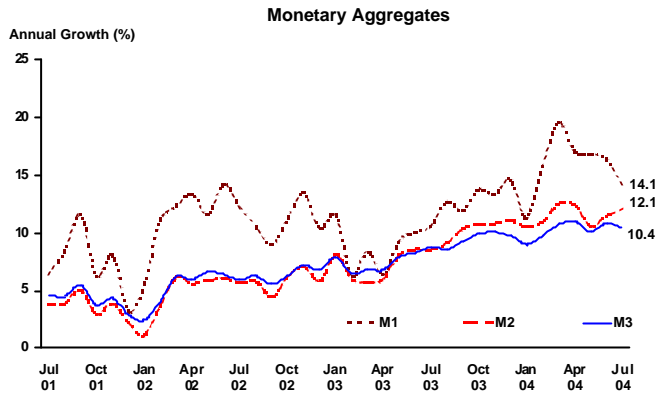
The Producer Price Index (PPI, 1989=100) moderated in June to register an annual growth rate of 9.8% (12.6% in May). The moderation was due mainly to the lower prices of major commodities, especially crude palm oil. Excluding commodity-related products, the adjusted PPI recorded an annual growth rate of 2.9% (3.7% in May).



*PPI moderated in June*

### ***Sustained expansion in broad money***

Broad money, M3, increased further by RM2.4 billion during the month or at an annual rate of 10.4%. The increase in M3 largely reflected the expansionary impact of net external operations from sustained repatriation of export earnings and inflows of portfolio funds, as well as expansionary Government operations. Holdings of transactional balances were lower in July, due mainly to withdrawals by business enterprises. On an annual basis, M1 rose by 14.1%.



**M3 Determinants**  
(RM billion)

	Change during period			
	May 04	Jun 04	Jul 04	Jan - Jul 04
M3	1.9	4.4	2.4	31.6
Net claims on Government	-3.3	0.4	1.8	-6.2
Claims on the private sector	6.4	5.8	-0.5	15.6
Loans	5.9	6.8	-0.6	19.3
Securities	0.5	-1.0	0.1	-3.7
Net external operations	-2.7	4.3	2.0	41.4
Other influences	1.6	-6.1	-0.9	-19.3

\* Pre-revaluation

**Higher deposits by domestic non-bank financial institutions but overall deposits declined due to repayment of external loans**

While there was a large deposit placement by domestic non-bank financial institutions with the banking system, this was offset by the reduction in deposits across most other deposit holders. The decrease in the deposits reflected mainly the repayments of external loans by business enterprises and the purchase of Bon Simpanan Merdeka by individuals. Overall, total deposits mobilised by the banking system decreased by RM0.8 billion during the month, with the annual growth remaining high at 10.4% at end-July.

**Deposits by Holder**  
(RM million)

	Change during period			
	May 04	Jun 04	Jul 04	Jan - Jul 04
Federal Government	184	694	-1,361	-900
State Governments	281	43	-283	378
Statutory Authorities <sup>1</sup>	-659	46	-450	-3,304
Financial Institutions	-116	391	3,111	8,669
Business Enterprises	286	5,887	-1,745	13,992
Individuals	-485	1,259	-596	10,060
Others <sup>2</sup>	518	-981	502	1,052
<b>Total</b>	<b>10</b>	<b>7,340</b>	<b>-822</b>	<b>29,946</b>

*Higher deposit placed by non-bank financial institutions*

1/ Include local Governments

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

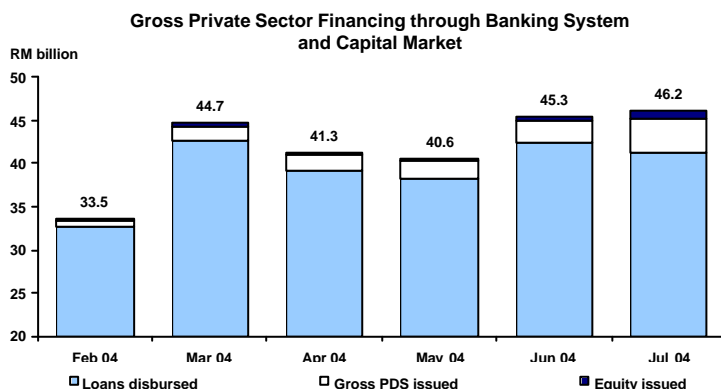


**Deposits by Type**  
(RM million)

	Change during period			
	May 04	Jun 04	Jul 04	Jan - Jul 04
Fixed deposits	-2,385	-11	2,979	14,088
NIDs	310	790	371	4,207
Demand deposits	1,531	2,491	-2,165	299
Savings deposits	-330	334	-728	1,510
Repos	-783	1,825	-1,437	4,396
FX deposits	803	-430	55	-31
SPI deposits	503	1,986	-194	3,509
Others	362	356	297	1,968
<b>Total</b>	<b>10</b>	<b>7,340</b>	<b>-822</b>	<b>29,946</b>

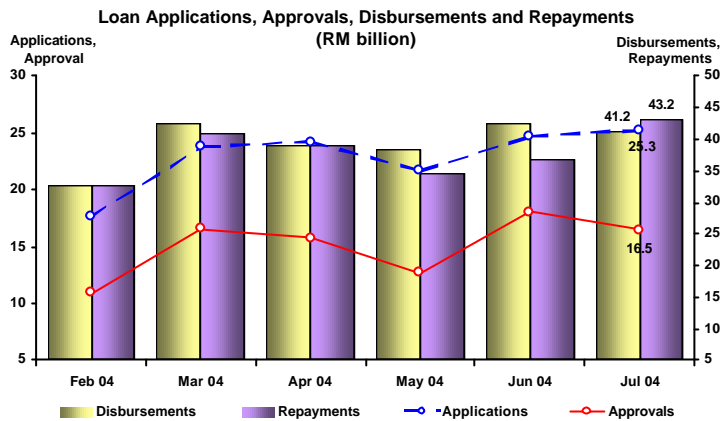
**Higher private sector financing**

The low and stable interest rate environment, together with ample liquidity provided a conducive environment for growth. Financing through loans extended by the banking system and the capital market increased during the month. Outstanding banking system loans and PDS increased at an annual rate of 7.2%. Total outstanding banking system loans increased by 5.3% on an annual basis at end-July, with outstanding SME loans rising at a higher annual rate of 7.3%.

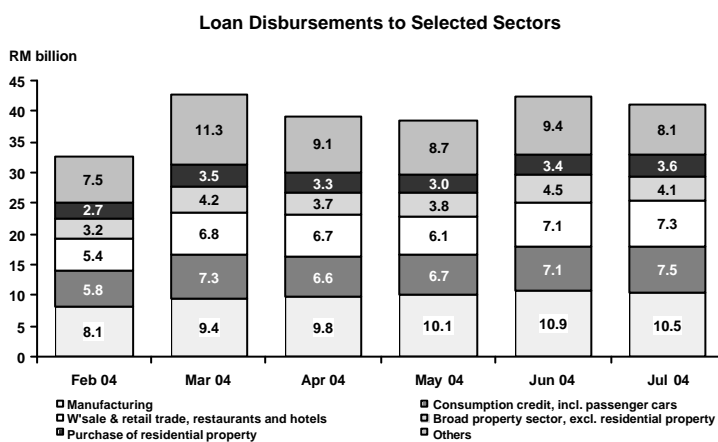


*Gross financing extended to the private sector was higher in July*

The two forward-looking loan indicators, total loan applications and approvals, expanded by 11.5% and 14.2% on an annual basis to RM25.3 billion and RM16.5 billion respectively. Demand for loans by the SMEs remained high, with loan applications growing by 34.6% on an annual basis to RM5.2 billion. Loan approvals to SMEs also expanded, with RM2.9 billion extended to 8,294 SME accounts. On an annual basis, loan approvals to SMEs rose by 46.2%.



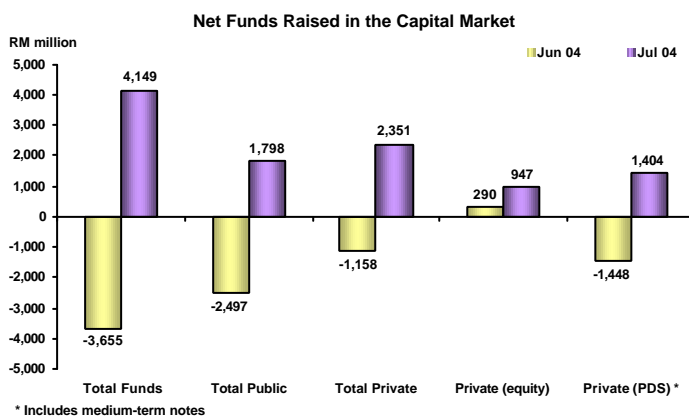
*All major loan indicators were sustained at high levels*



*Sustained level of loans disbursed across all sectors*

### Higher new issuances of PDS

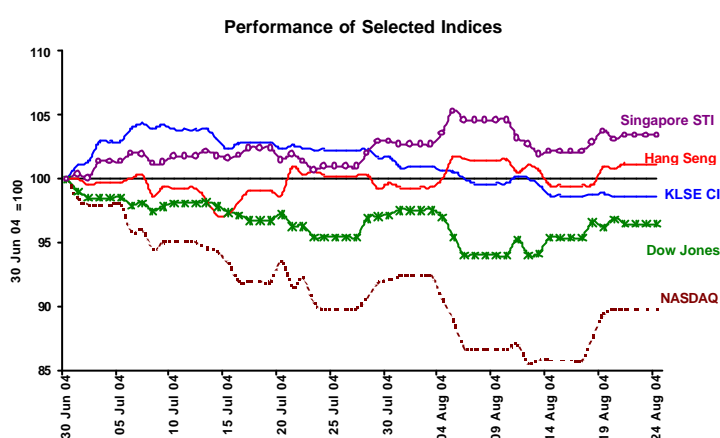
In July, total net funds raised in the capital market were higher, amounting to RM4.1 billion. Gross funds raised through the PDS market amounted to RM4.1 billion, of which 87.8% was for financing of new activities. After accounting for redemption of matured PDS, the net amount of private sector financing through PDS was RM2.3 billion. In the public sector, higher net funds were raised mainly through a new issuance of 15-year Malaysian Government Securities.



*New issuances by the private and public sectors were partially offset by redemptions*

The KLSE CI increased by 1.7% to 834 points at end-July compared with end-June. Market sentiment was supported by the positive outlook on the Malaysian economy for the rest of the year. Market capitalisation was slightly higher at RM664.7 billion (+1.6% since end-June) while the daily average turnover for the month was higher at 333.27 million units (258.6 million units in June).

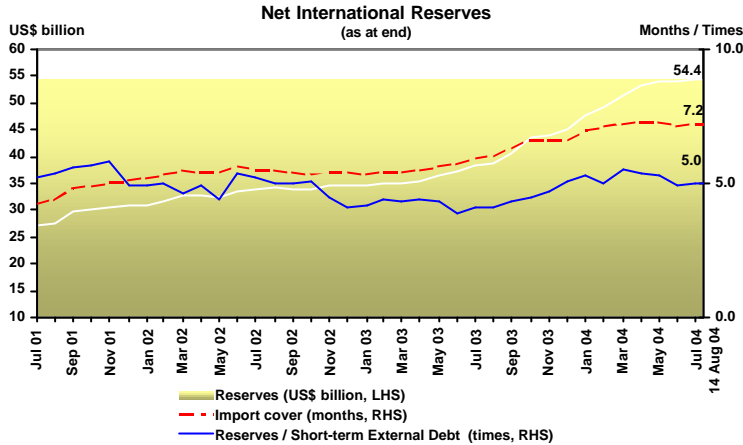
As at 24 August, the KLSE CI closed at 804.9 points (-3.5% since end-July). Market performance was affected by concerns of rising crude oil prices. Market capitalisation was lower at RM637.9 billion (-4.0% since end-July) while the daily average turnover for the period 1-24 August was lower at 301.72 million units.



### ***International reserves rose on higher export receipts***

The international reserves of Bank Negara Malaysia amounted to RM206.4 billion or US\$54.3 billion as at 31 July 2004. The increase of RM1.6 billion (US\$426 million) in July was due mainly to higher repatriation of export earnings and some inflows of portfolio funds. Outflows reflected mainly payments for imports of goods and services and some repayments of external loans. The reserves position is adequate to finance 7.2 months of retained imports and is 5 times the short-term external debt.

Reserves increased further to RM206.9 billion or US\$54.4 billion as at 14 August 2004, adequate to finance 7.2 months of retained imports and is 5 times the short-term external debt.



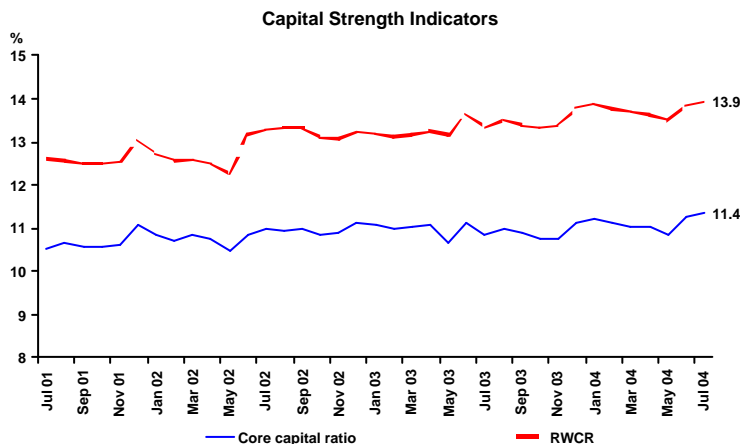
*Reserves increased further*

### Capitalisation strengthened further

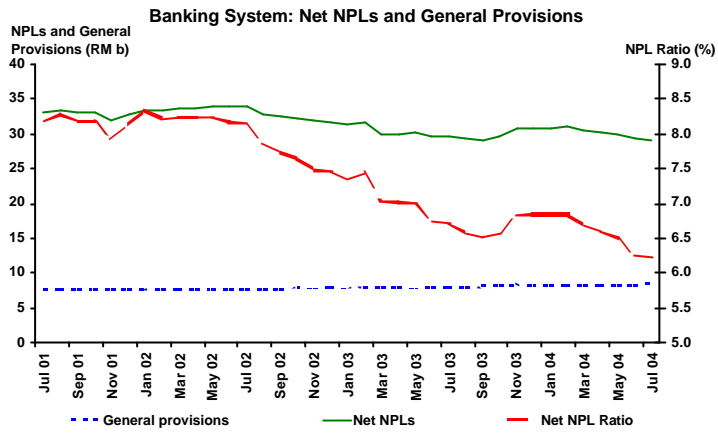
The risk-weighted capital ratio (RWCR) of the banking system strengthened to 13.9% due mainly to capital raising exercise by a number of banking institutions and a decline in the risk-weighted assets. After five consecutive months of decline, the net NPL ratio remained unchanged at 6.2%, the lowest level since the financial crisis in 1998.

	Banking System Health Indicators <sup>*</sup>							
	As at end-					May 04	Jun 04	Jul 04
	1999	2000	2001	2002	2003			
<b>Capital (%)</b>								
Core capital ratio	10.1	10.7	11.1	11.1	11.1	10.9	11.3	11.4
RWCR	12.5	12.5	13.0	13.2	13.8	13.5	13.8	13.9
<b>Net NPLs (6-month classification)</b>								
% of net total loans	6.4	6.3	8.1	7.5	6.8	6.5	6.2	6.2
Amount (RM million)	23,849	24,700	32,833	31,703	30,766	29,985	29,301	29,160
<b>GP / Net total loans (6-month, %)</b>	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.8

\* Beginning June 1999 onwards, the figure include Islamic banks.



*RWCR and core capital ratio strengthened further to 13.9% and 11.4% respectively*



*Net NPL ratio (6-month classification) remained at 6.2%*

Bank Negara Malaysia  
25 August 2004

## Key Monetary and Financial Statistics

	May 04		Jun 04		Jul 04	
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
<b>Monetary Aggregates</b>						
Reserve money	46.5	7.9	46.4	8.7	47.3	8.0
M1	103.1	16.8	105.4	16.3	103.9	14.1
M2	443.6	10.6	447.6	11.5	451.2	12.1
M3	574.4	10.0	578.8	10.8	581.2	10.4
<b>Banking System</b>						
Total deposits	577.3	10.3	584.6	11.1	583.8	10.4
Total loans (including loans sold to Cagamas)	485.8	6.3	492.8	6.2	491.8	5.3
Loan-deposit ratio (%)		79.9		80.2		80.2
Financing-deposit ratio <sup>1</sup> (%)		89.8		89.9		89.9
Loans applied (during the period)	21.7	32.2	24.7	34.9	25.3	11.5
Loans approved (during the period)	12.7	12.7	18.1	28.5	16.5	14.2
Loans disbursed (during the period)	38.4	20.5	42.4	12.7	41.2	1.5
Loans repaid (during the period)	34.6	12.9	36.7	16.5	43.2	13.8
<b>Banking System Health</b>						
Risk-weighted Capital Ratio (RWCR) (%)		13.5		13.8		13.9
Net NPLs: 6-month classification (%)		6.5		6.2		6.2
<b>International Reserves of BNM (end-period)</b>						
Reserves in RM (billion)		204.9		204.8		206.4
Reserves in USD (billion)		53.9		53.9		54.3
Months of retained imports		7.3		7.1		7.2
<b>Interest Rates at end-period [average for the month]</b>						
Overnight Policy Rate (OPR)		2.70		2.70		2.70
Interbank:	Overnight	2.70 [2.70]		2.69 [2.70]		2.68 [2.70]
	1-week	2.77 [2.80]		2.77 [2.75]		2.74 [2.73]
	1-month	2.87 [2.88]		2.83 [2.81]		2.84 [2.80]
	3-month	2.91 [2.89]		2.83 [2.85]		2.83 [2.82]
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		6.07		5.99		6.00
<b>Prices</b>						
Consumer Price Index (CPI) (2000=100)	105.5	1.2	105.6	1.3	105.8	1.3
Producer Price Index (PPI) (1989=100)	151.2	12.6	148.2	9.8		
<b>Exchange Rates of Ringgit against Selected Currencies (end-period)</b>						
Euro		4.6381		4.5933		4.5838
Pound Sterling		6.9740		6.8719		6.9253
100 Japanese yen		3.4616		3.4991		3.4239
Singapore dollar		2.2378		2.2139		2.2148
100 Thai Baht		9.3792		9.2841		9.2032
100 Philippine Peso		6.8070		6.7640		6.8039
100 Indonesian Rupiah		0.0410		0.0404		0.0417
100 Korean Won		0.3265		0.3298		0.3260
<b>Capital Market</b>						
Net funds raised (in RMb) by:	public	4.0		-2.5		1.8
	private	1.2		-1.2		2.4
Bursa Malaysia Composite Index (end-period)		810.7		819.9		834.0
Bursa Malaysia Market Capitalisation (RMb, end-period)		653.0		653.9		664.7

<sup>1</sup> Refers to the ratio of loans and holdings of PDS by the banking system to deposits of the banking system.