



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

**PEN : 07/04/36 (BN)**

**EMBARGO: Not for publication or broadcast  
before 1945 hours on Wednesday, 28 July 2004**

## **Monetary and Financial Developments June 2004** **Highlights of the Press Release**

### ***Higher financing of the private sector***

Private sector financing remained strong in June amidst sustained domestic demand and improving external economic conditions. Banking system loans and private debt securities (PDS) outstanding increased at an annual rate of 8.2% at end-June.

Total loan disbursements increased to RM42.4 billion. The increase was across the three main groups of borrowers, namely small and medium enterprises (SMEs), large businesses and households. In particular, disbursements to the SMEs were higher at RM8.7 billion during the month. The two forward-looking loan indicators, total loan applications and approvals increased on an annual basis, by 33.9% and 28.5% respectively. A total of RM3.3 billion was approved to 7,591 SME accounts in June.

Meanwhile, the health of the banking system improved further as reflected in the strengthening of the risk weighted capital ratio (RWCR) to 13.7% and lower net non-performing loans (NPL) ratio of 6.2% as at end-June.



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## **MONETARY AND FINANCIAL DEVELOPMENTS JUNE 2004**

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### ***Higher financing of the private sector***

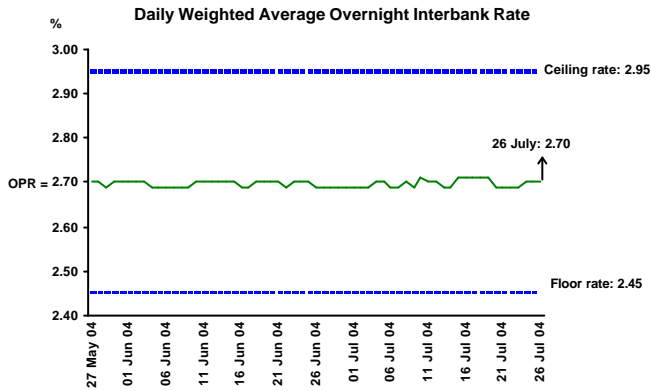
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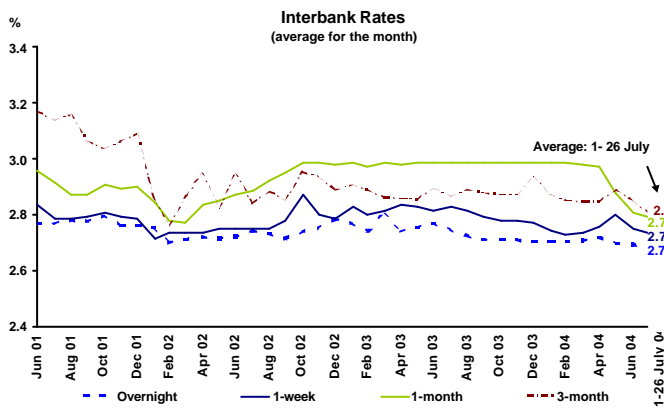
Meanwhile, the health of the banking system improved further as reflected in the strengthening of the risk weighted capital ratio (RWCR) to 13.7% and lower net non-performing loans (NPL) ratio of 6.2% as at end-June.

**Interest rates remained low**

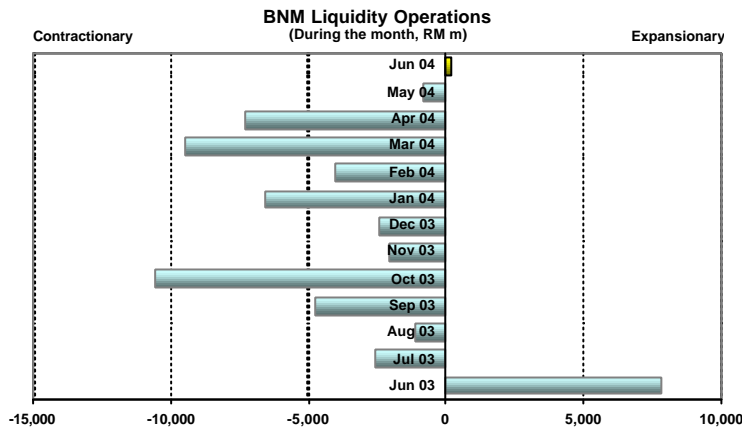
In the period 1 June – 26 July, the daily weighted average of the overnight interbank rate moved within a narrow range of 2.69– 2.71%, with an average of 2.70%.



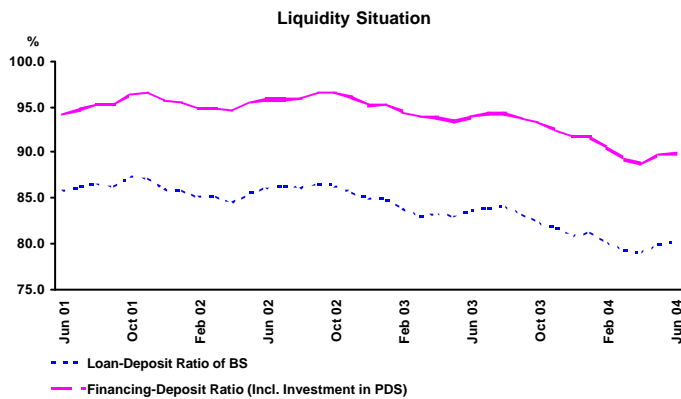
*The overnight interbank rate remained stable*



*Interbank rates remained low and stable*

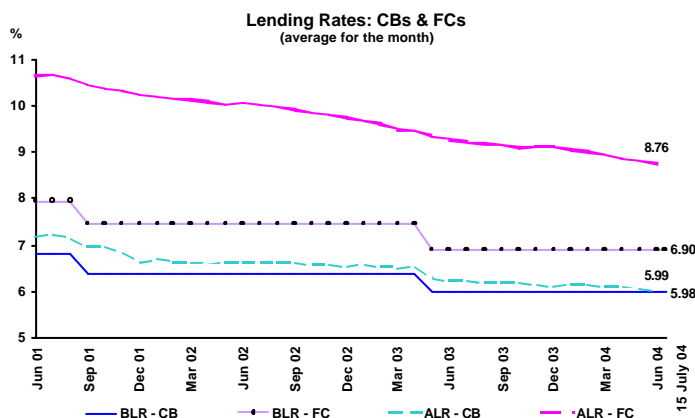


*Bank Negara Malaysia's liquidity operations were aimed at maintaining stable monetary conditions*



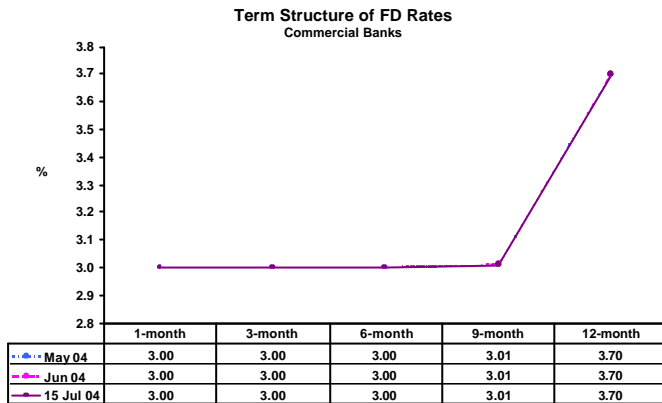
*The financing-deposit ratio remained relatively stable at 89.9%*

The average base lending rates (BLRs) of the commercial banks (CBs) and finance companies remained unchanged at 5.98% and 6.90% as at 15 July. Meanwhile, the average lending rates (ALRs) of the CBs and FCs declined to 5.99% and 8.76% respectively at end-June (6.07% and 8.82% at end-May).

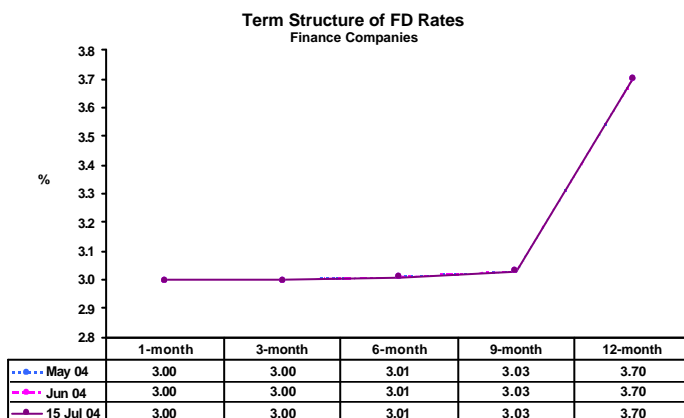


*The ALRs of CBs and FCs declined*

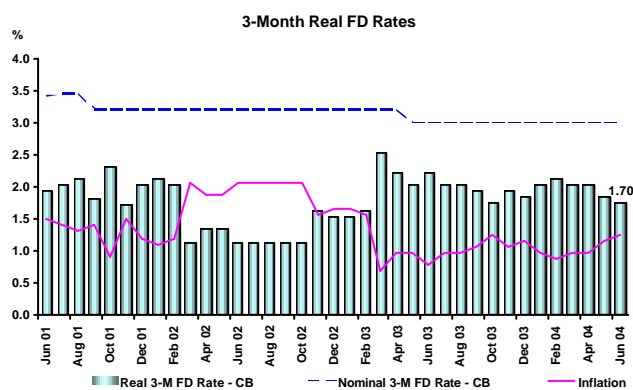
As at 15 July 2004, the nominal rates on fixed deposits of CBs and FCs remained unchanged for the one to 12 month maturities.



*FD rates of CBs remained unchanged...*



*...similarly for FCs*

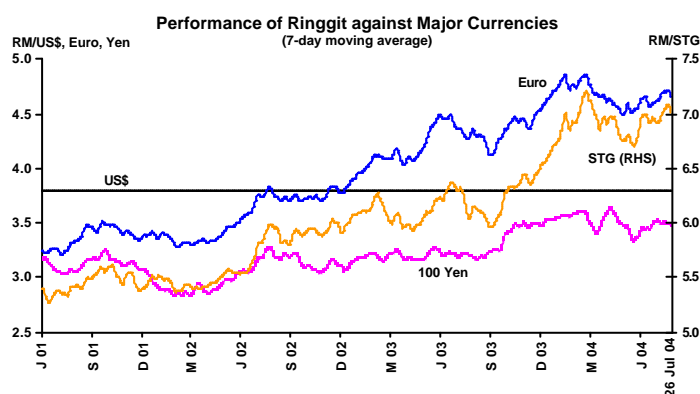


*The 3-month real FD rate was marginally lower*

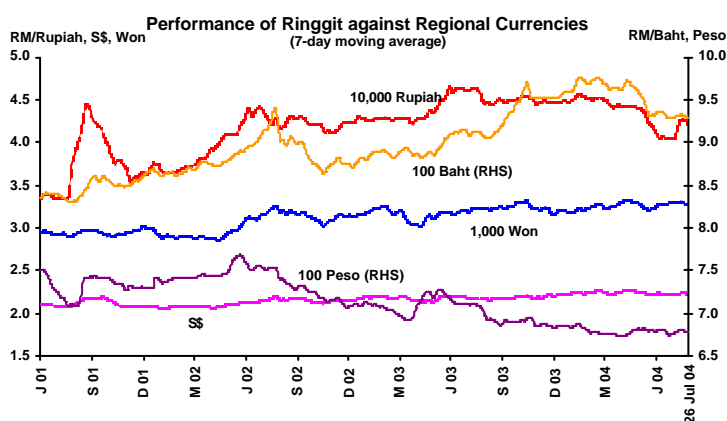
## Performance of the ringgit

In June, the ringgit appreciated against the euro and pound sterling as the US dollar strengthened following expectations of US interest rate increases in the lead up to the Federal Reserve's Federal Open Market Committee (FOMC) meeting at end-month. The US dollar, however, depreciated against the yen following the more positive performance of the Japanese economy in June. The ringgit strengthened against most regional currencies, with the exception of the Korean won, which appreciated following stronger repatriation of earnings by Korean exporters.

In the period 1-26 July, the performance of the ringgit was mixed against the major currencies. The US dollar initially depreciated against the euro and pound sterling following diminishing expectations of aggressive interest rate increases by the Federal Reserve. The US dollar subsequently appreciated somewhat against these currencies on account of the positive assessment of the US economy. Against the yen, the US dollar appreciated as the weak Japanese stock market performance affected the yen. Meanwhile, the performance of the ringgit was mixed against regional currencies.



*In the period 1-26 July the performance of the ringgit was mixed against major currencies...*



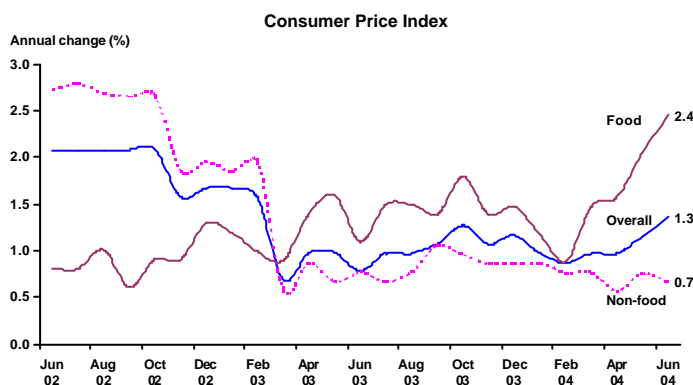
*...as well as regional currencies*

### Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period			% Change			
	02 Sep 98	Jun 04	26 Jul 04	Jun 04	End Jun 04 - 26 Jul 04	End Dec 03 - 26 Jul 04	02 Sep 98 - 26 Jul 04
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.5933	4.6104	1.0	-0.4	3.6	-
Pound Sterling	6.3708	6.8719	6.9778	1.5	-1.5	-3.0	-8.7
100 Japanese yen	2.7742	3.4991	3.4645	-1.1	1.0	2.6	-19.9
Singapore dollar	2.1998	2.2139	2.2055	1.1	0.4	1.3	-0.3
100 Thai baht	9.3713	9.2841	9.2368	1.0	0.5	3.9	1.5
100 Philippine peso	8.8302	6.7640	6.7794	0.6	-0.2	0.9	30.3
100 Indonesian Rupiah	0.0354	0.0404	0.0418	1.5	-3.4	7.3	-15.3
100 Korean won	0.2827	0.3298	0.3271	-1.0	0.8	-2.8	-13.6

### *Inflation remained low*

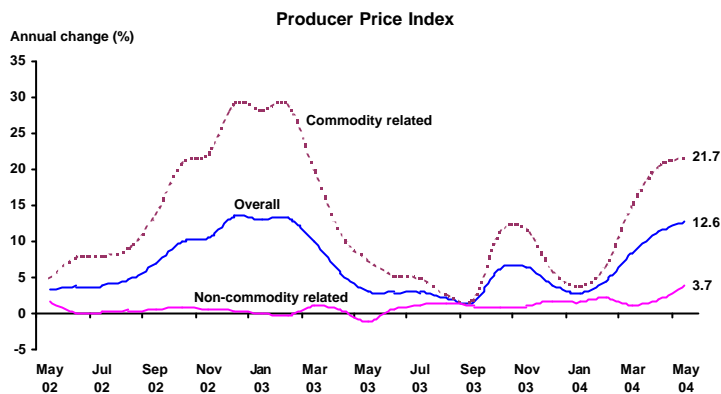
The inflation rate, as measured by the Consumer Price Index (CPI, 2000=100), remained low and stable. The average annual inflation rate for the first six months of 2004 remained low at 1% (1.2% in January-June 2003). Similarly, the annual inflation rate in June remained low at 1.3% (1.2% in May).



*Inflation remained low in June*

### *Higher producer prices*

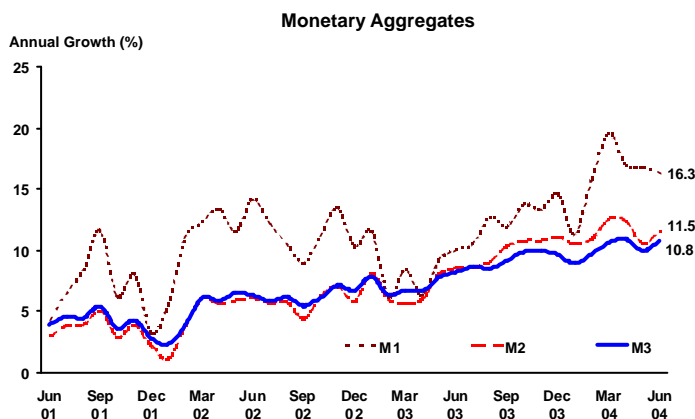
The Producer Price Index (PPI, 1989=100) increased at an annual rate of 12.6% in May (11.2% in April), reflecting mainly higher prices of commodities, in particular prices of rubber and crude oil. Excluding commodity-related products, the PPI increased moderately at an annual rate of 3.7%.



Producer prices increased mainly due to higher commodity prices

### Broad money continued to expand

Broad money, M3 continued to expand in June, with the impetus for growth emanating from bank lending activity, and expansionary net external operations arising from sustained repatriation of export earnings, drawdown of external loans and some inflows of portfolio funds. On an annual basis, the growth rates of the monetary aggregates were sustained with M1 and M3 increasing by 16.3% and 10.8% respectively.



Monetary aggregates expanded in June

### M3 Determinants (RM billion)

	Change during period			
	Apr 04	May 04	Jun 04	Jan - Jun 04
M3	4.0	1.9	4.4	29.2
Net claims on Government	1.0	-3.3	0.4	-8.0
Claims on the private sector	0.2	6.4	5.9	16.2
Loans	1.6	5.9	6.8	20.0
Securities	-1.4	0.5	-0.9	-3.8
Net external operations	4.5	-2.7	4.2	39.3
Other influences	-1.6	1.6	-6.1	-18.4

\* Pre-revaluation



## Deposits of businesses increased significantly

In June, total deposits mobilised by the banking system increased by RM7.3 billion following a significant increase in business deposits across most deposit types, as well as higher deposits by individuals. On an annual basis, total deposits mobilised by the banking system increased by 11.1% at end-June.

Deposits by Holder (RM million)				
	Change during period			
	Apr 04	May 04	Jun 04	Jan - Jun 04
Federal Government	-773	184	694	461
State Governments	65	281	43	661
Statutory Authorities <sup>1</sup>	-1,030	-659	46	-2,854
Financial Institutions	1,669	-116	391	5,558
Business Enterprises	2,888	286	5,887	15,737
Individuals	1,342	-485	1,259	10,656
Others <sup>2</sup>	-68	518	-979	552
<b>Total</b>	<b>4,093</b>	<b>10</b>	<b>7,342</b>	<b>30,771</b>

1/ Include local Governments

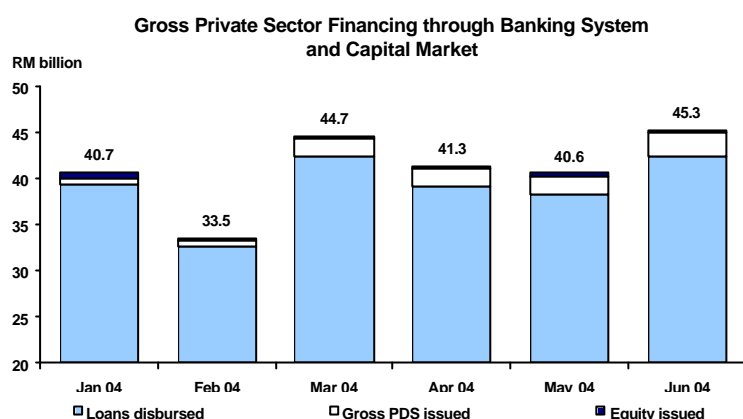
2/ Include domestic other entities and foreign non-bank entities

*Higher business deposits in June*

Deposits by Type (RM million)				
	Change during period			
	Apr 04	May 04	Jun 04	Jan - Jun 04
Fixed deposits	5,228	-2,385	-11	11,108
NIDs	2,398	310	790	3,836
Demand deposits	-3,375	1,531	2,491	2,464
Savings deposits	-19	-330	334	2,239
Repos	-98	-783	1,825	5,833
FX deposits	728	803	-430	-86
SPI deposits	-889	503	1,988	3,705
Others	119	362	356	1,671
<b>Total</b>	<b>4,093</b>	<b>10</b>	<b>7,342</b>	<b>30,771</b>

## Higher private sector financing

Private sector financing expanded in June. Gross financing by the banking system and through the capital market was higher at RM45.3 billion or an annual growth rate of 6.8%. Banking system loans and PDS outstanding increased at an annual rate of 8.2% at end-June.



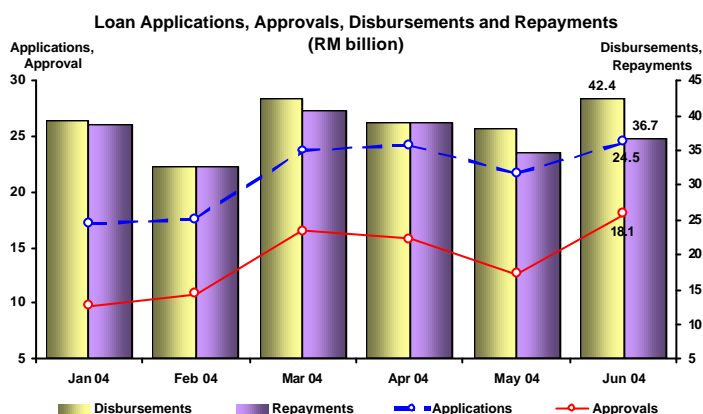
*Gross financing extended to the private sector was higher in June*

The major loan indicators pointed to expansion in bank lending activity in June. The increase was across the three main groups of borrowers, namely SMEs, large businesses and households.

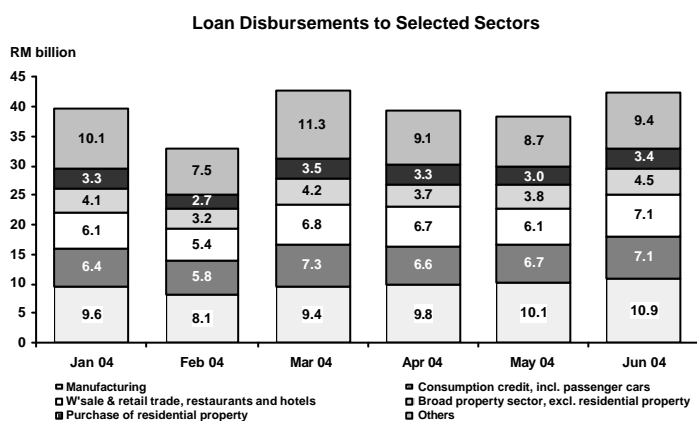
Total loan disbursements increased to RM42.4 billion (RM38.4 billion in May) or an annual growth rate of 12.7%. Disbursements to the business sector were higher at RM29.6 billion (RM26.4 billion in May), of which RM8.7 billion (RM8.3 billion in May) was disbursed to the SME sector. Meanwhile, loans disbursed to the household sector increased to RM10.9 billion (RM10.2 billion in May).

Total loans outstanding expanded by RM7 billion in June to record an annual growth rate of 6.2%. The increase in outstanding business loans of RM3.3 billion largely reflected the increase in outstanding SME loans of RM1.9 billion. As a result, the outstanding SME loans recorded a higher annual growth rate of 7.4% at end-June (5.8% at end-May), accounting for 38.4% of outstanding business loans and 17% of total outstanding loans respectively. Meanwhile, the outstanding household loans increased by RM3.2 billion.

The two forward-looking loan indicators, total loan applications and approvals also rose in June. Loan applications increased to RM24.5 billion or an annual growth rate of 33.9% while loan approvals rose to RM18.1 billion or an annual growth rate of 28.5%. A total of RM3.3 billion was approved to 7,591 SME accounts in June (RM2.4 billion to 6,946 accounts in May).



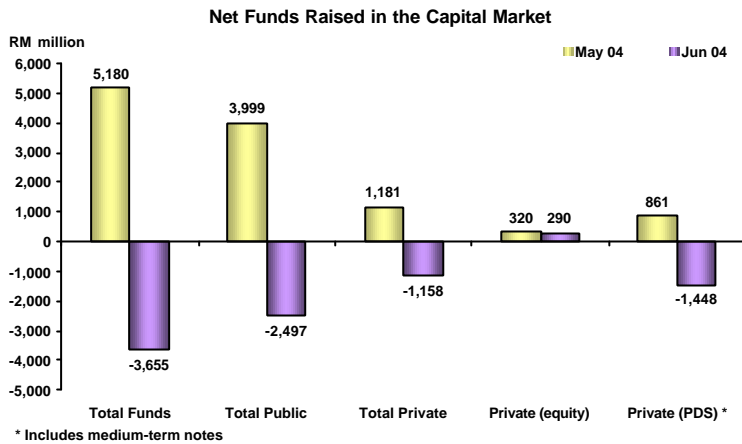
*All major loan indicators were higher in June*



*Loans disbursed were higher across most sectors*

### ***New issuances of PDS sustained***

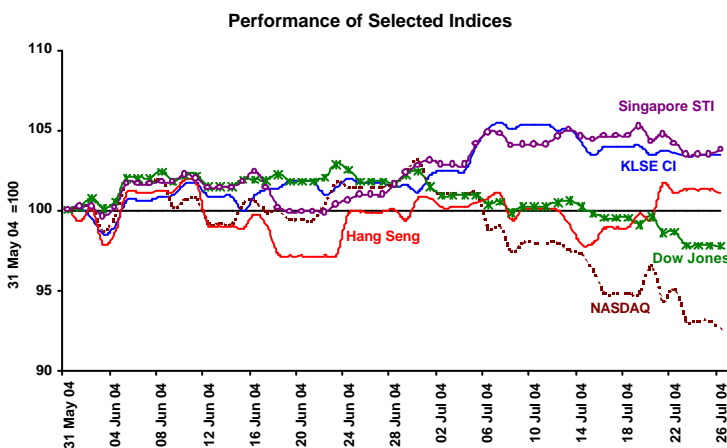
New issuances of PDS was sustained in June. The new issues by 9 companies amounted to RM2.6 billion. Of this amount, 41% was for the financing of new activities. On a net basis, the gross issues were offset by large redemptions amounting to RM4.1 billion. In the equity market, funds raised amounted to RM290.1 million, arising mainly from five initial public offerings (RM146.8 million) and rights issues (RM128.3 million). Meanwhile, in the public sector, the Government raised RM10.2 billion from the reopenings of the 3-year MGS 3/86 and 10-year MGS 2/04, as well as from the new issue of 3-year GII 1/04. The public sector also redeemed RM12.7 billion of MGS, Khazanah bonds and GII. Overall, due to high redemptions by the private and public sectors, there was a net redemption of RM3.7 billion in the capital market.



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

The KLSE CI increased by 1.1% to 819.9 points at end-June compared with end-May. Market capitalisation was slightly higher at RM653.9 billion (+0.1% since end-May) while the daily average turnover for the month was lower at 258.6 million units.

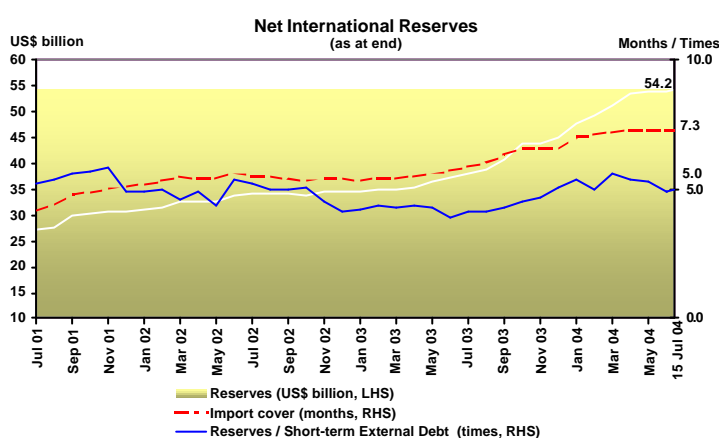
As at 26 July, the KLSE CI closed higher at 838.5 points (+2.3% since end-June). Market capitalisation was higher at RM667.4 billion (+2.1% since end-June) while the daily average turnover for the period 1-26 July was higher at 328.2 million units.



*The KLSE CI closed higher*

***International reserves increased further***

The international reserves of Bank Negara Malaysia amounted to RM204.8 billion or US\$53.9 billion as at 30 June 2004. Inflows in June arose mainly from the sustained repatriation of export earnings, drawdown of external loans and some inflows of portfolio funds. Outflows reflected mainly payments for imports of goods and services, repayment of external loans and the repatriation of dividends. The reserves level had also reflected the quarterly foreign exchange revaluation adjustment amounting to a loss of US\$506 million. Reserves increased further to RM206.1 billion or US\$54.2 billion as at 15 July 2004, adequate to finance 7.3 months of retained imports and is 5 times the short-term external debt.



*Reserves increased further*

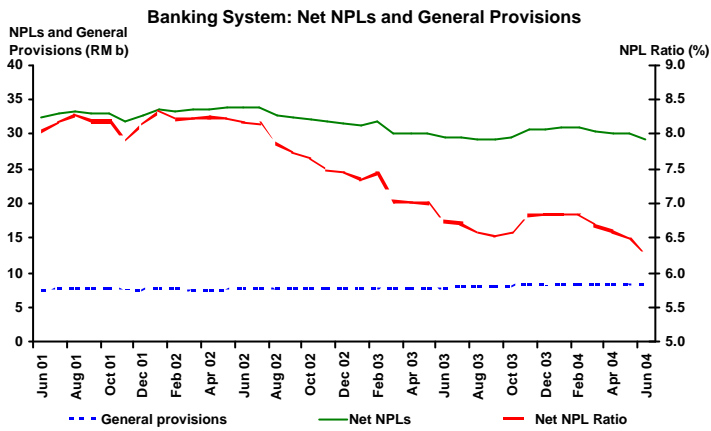
### **Improved capitalisation and asset quality**

The risk-weighted capital ratio of the banking system strengthened to 13.7% due mainly to issuance of subordinated debt capital instruments by a number of banking institutions. Net NPLs declined by RM0.7 billion resulting in net NPL ratio improving to 6.2%.

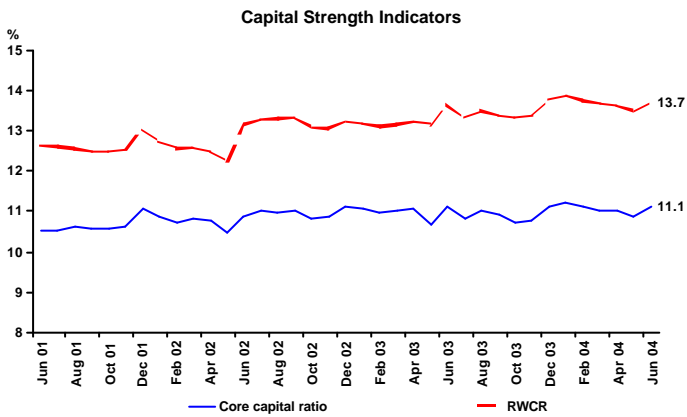
**Banking System Health Indicators \***

	As at end-							
	1999	2000	2001	2002	2003	Apr 04	May 04	Jun 04
<b>Capital (%)</b>								
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.0	10.9	11.1
RWCR	12.5	12.5	13.0	13.2	13.8	13.6	13.5	13.7
<b>Net NPLs (6-month classification)</b>								
% of net total loans	6.4	6.3	8.1	7.5	6.8	6.6	6.5	6.2
Amount (RM million)	23,849	24,700	32,833	31,703	30,766	30,079	30,003	29,321
<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.



*Net NPL ratio (6-month classification) improved to 6.2%*



*RWCR and core capital ratio strengthened to 13.7% and 11.1% respectively*

## Key Monetary and Financial Statistics

	Apr 04		May 04		Jun 04	
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
<b>Monetary Aggregates</b>						
Reserve money	47.5	11.1	46.5	7.9	46.4	8.7
M1	102.4	17.0	103.1	16.8	105.4	16.3
M2	443.3	12.4	443.6	10.6	447.6	11.5
M3	572.5	10.9	574.4	10.0	578.8	10.8
<b>Banking System</b>						
Total deposits	577.2	11.5	577.3	10.3	584.6	11.1
Total loans (including loans sold to Cagamas)	480.4	5.6	485.8	6.3	492.8	6.2
Loan-deposit ratio (%)		79.0		79.9		80.2
Financing-deposit ratio <sup>1</sup> (%)		88.7		89.8		89.9
Loans applied (during the period)	24.3	32.5	21.7	32.2	24.5	33.9
Loans approved (during the period)	15.8	21.2	12.7	12.7	18.1	28.5
Loans disbursed (during the period)	39.2	12.0	38.4	20.5	42.4	12.7
Loans repaid (during the period)	39.0	12.7	34.6	12.9	36.7	16.5
<b>Banking System Health</b>						
Risk-weighted Capital Ratio (RWCR) (%)		13.6		13.5		13.7
Net NPLs: 6-month classification (%)		6.6		6.5		6.2
<b>International Reserves of BNM (end-period)</b>						
Reserves in RM (billion)		202.9		204.9		204.8
Reserves in USD (billion)		53.4		53.9		53.9
Months of retained imports		7.3		7.3		7.3
<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 [2.72]		2.70 [2.70]		2.69 [2.70]
	1-week	2.84 [2.76]		2.77 [2.80]		2.77 [2.75]
	1-month	2.89 [2.97]		2.87 [2.88]		2.83 [2.81]
	3-month	2.85 [2.85]		2.91 [2.89]		2.83 [2.85]
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		6.00		5.98		5.98
ALR of commercial banks		6.08		6.07		5.99
<b>Prices</b>						
Consumer Price Index (CPI) (2000=100)	105.2	1.0	105.5	1.2	105.6	1.3
Producer Price Index (PPI) (1989=100)	149.9	11.2	151.2	12.6		
<b>Exchange Rates of Ringgit against Selected Currencies (end-period)</b>						
Euro		4.5496		4.6381		4.5933
Pound Sterling		6.7480		6.9740		6.8719
100 Japanese yen		3.4475		3.4616		3.4991
Singapore dollar		2.2303		2.2378		2.2139
100 Thai Baht		9.4988		9.3792		9.2841
100 Philippine Peso		6.7833		6.8070		6.7640
100 Indonesian Rupiah		0.0437		0.0410		0.0404
100 Korean Won		0.3237		0.3265		0.3298
<b>Capital Market</b>						
Net funds raised (in Rmb) by:	public	2.0		4.0		-2.5
	private	-0.2		1.2		-1.2
Bursa Malaysia Composite Index (end-period)		838.2		810.7		819.9
Bursa Malaysia Market Capitalisation (Rmb, end-period)		685.6		653.0		653.9

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