



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

Pen No : 10/03/31 (BN)

**EMBARGO: Not for publication or broadcast  
before 1700 hours on Tuesday, 28 October 2003**

### **Highlights of the September 2003 Press Release**

#### ***Monetary indicators strengthened further amidst sustained strength in domestic economic activity***

The overall monetary and financial developments in September indicate increasing robustness in the domestic economy. Strong expansion in monetary aggregates reflected sustained demand for liquidity from both consumers and businesses. M1, M2 and M3 expanded at annual growth rates of 11.9%, 10.3% and 9.2% respectively at end-September (12.7%, 9.1% and 8.5% respectively at end-August). All indicators (loan applications, approvals and disbursements) showed sustained expansion in loan activities. Loan disbursements were broad-based, increasing further at an annual rate of 10.9%.

Demand for loans remained high with loan applications of RM18.7 billion and rising loan approvals. Of significance, outstanding loans to the SMEs expanded by 7% as at end-September (6.3% as at end-August), much stronger than the overall outstanding loan growth of 4.7%. In the first nine months, a total of RM18.9 billion was approved to 57,877 SMEs, while RM62.2 billion was disbursed.



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**PRESS RELEASE**  
**MONETARY AND FINANCIAL DEVELOPMENTS**  
**SEPTEMBER 2003**

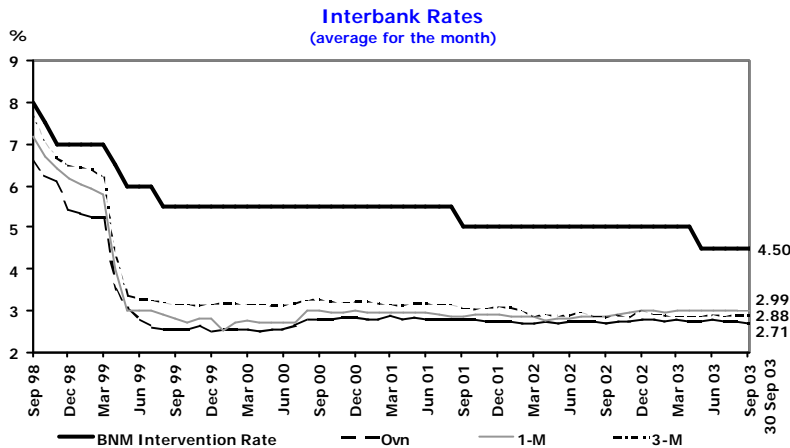
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***Monetary indicators strengthened further amidst sustained strength  
in domestic economic activity***

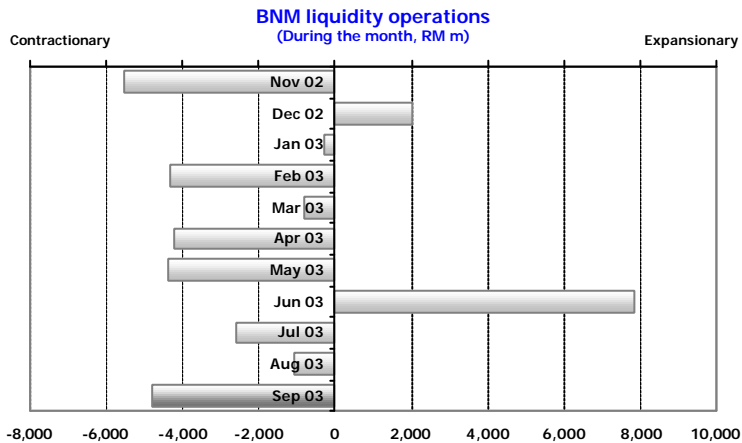
The overall monetary and financial developments in September provided firmer evidence of continuing strength in domestic economic activity. Growth in monetary aggregates strengthened further with sustained demand for liquidity from both consumers and businesses. M1, M2 and M3 expanded at annual growth rates of 11.9%, 10.3% and 9.2% respectively at end-September (12.7%, 9.1% and 8.5% respectively at end-August). All loan indicators (applications, approvals and disbursements) showed sustained expansion in loan activities. Reflecting the strong growth during the period June to August, averaging 14.6% for applications and 19.5% for approvals, loan disbursements increased at a high annual rate of 10.9% in September. Of significance, outstanding loans of the SMEs rose at a stronger rate of 7% (6.3% as at end-August). In the first nine months, a total of RM18.9 billion was approved to 57,877 SMEs, while RM62.2 billion was disbursed.

## Interest rate remained low and stable

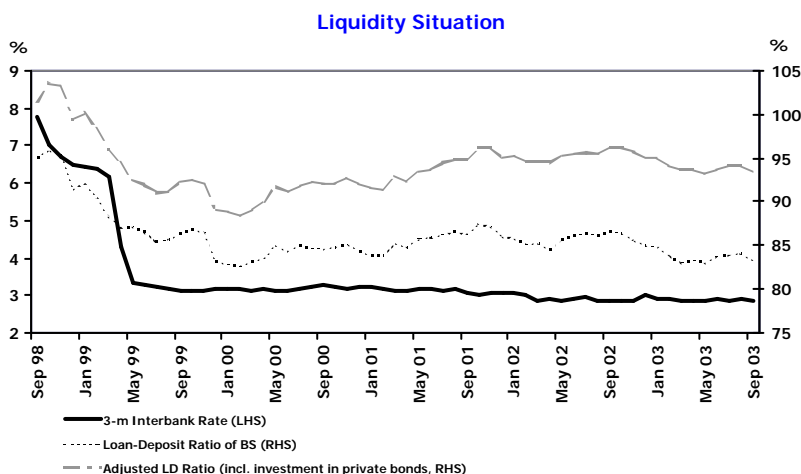
In September, the interbank money market rates continued to remain low and stable. BNM money market operations stabilised the impact on liquidity from an expansionary external sector during the month. External operations were expansionary due to higher trade-related activities and from capital inflows.



*In September, the interbank money market rates remained low and stable*

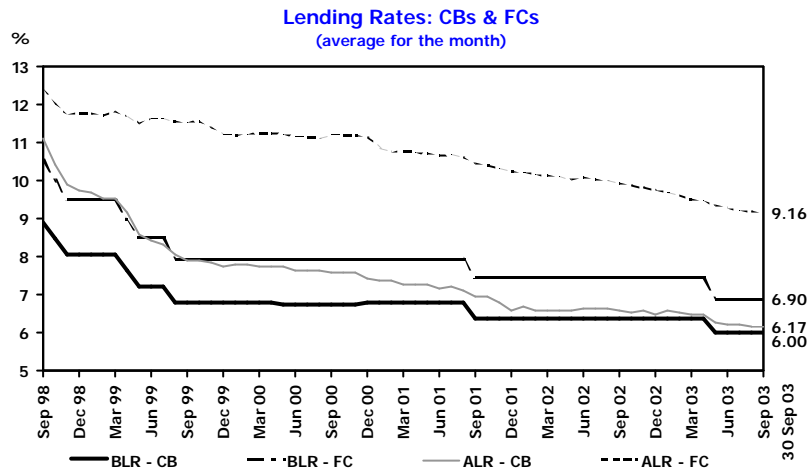


*BNM money market operations stabilised the impact from expansionary external sector*



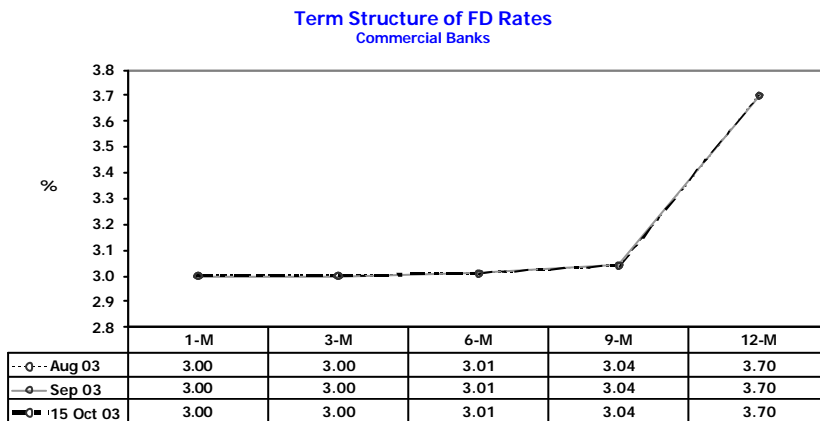
*Ample liquidity in the banking system supported financing activities. The loan-deposit ratio including private debt securities held by the banking system remained high at 93.5%*

Competition for loans, especially for housing loans to the household sector, led to a further decline in the **average lending rate (ALR)**, while the **average base lending rate (BLR)** remained unchanged. ALR declined to 6.17% for commercial banks (CBs) and 9.16% for finance companies (FCs) (end-August: 6.19% and 9.18% respectively).



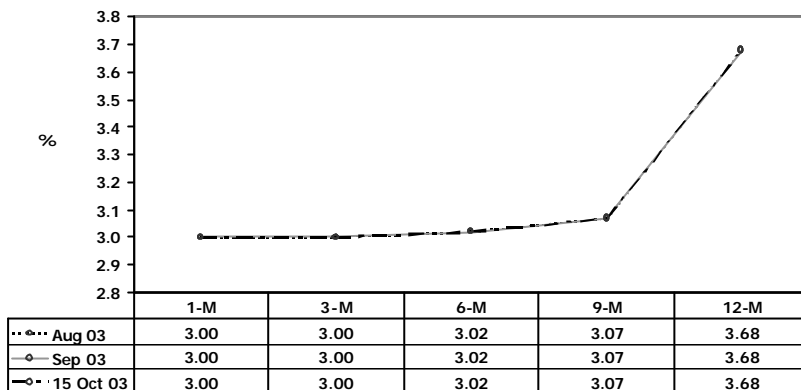
*While BLR for CBs and FCs remained unchanged, ALR for both CBs and FCs declined further*

As at 15 October, the fixed deposit rates for 1-12 month maturity for CBs and FCs remained relatively stable at 3 – 3.70% and 3 – 3.68% respectively.



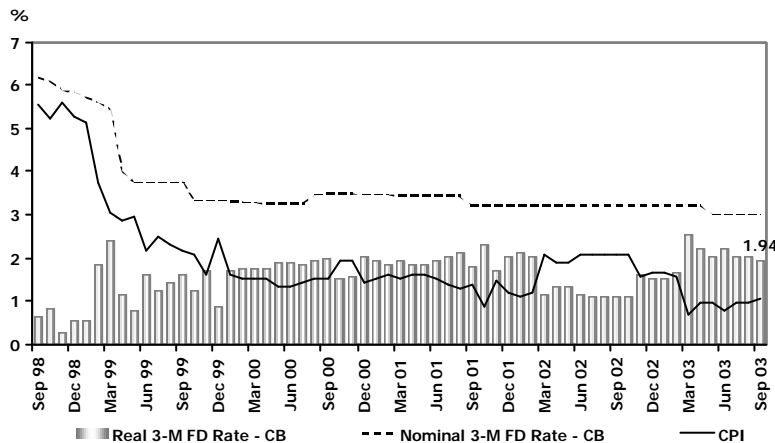
*FD rates of CBs remained unchanged*

**Term Structure of FD Rates**  
Finance Companies



*FD rates for FC have also remained unchanged*

**3-Month Real FD Rates**

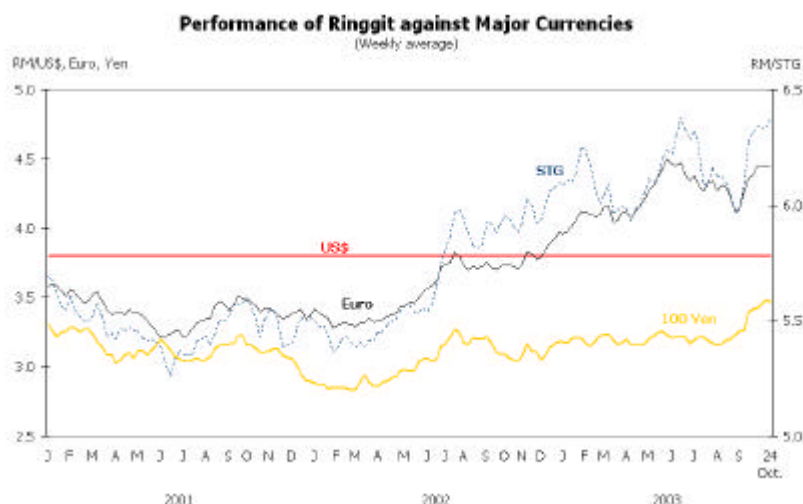


*The 3-month real FD rate remained unchanged.*

***Performance of the ringgit***

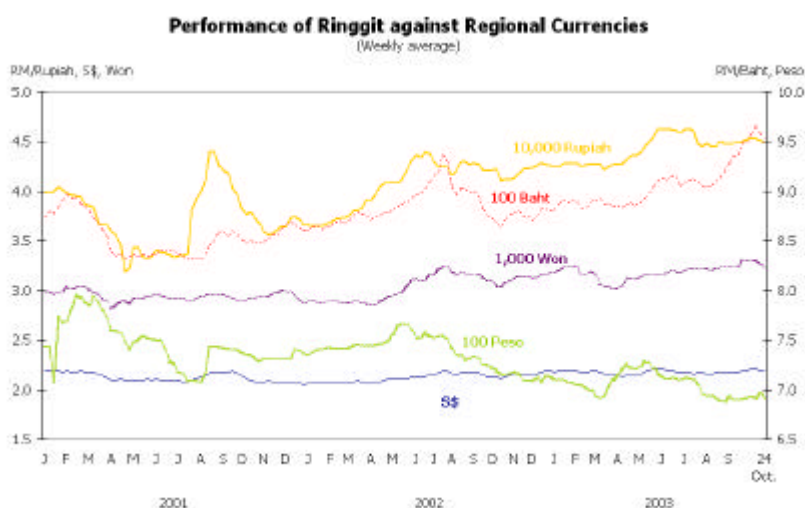
**In September, the ringgit depreciated against the major currencies.** In tandem with the weakening of the US dollar in the international foreign exchange markets, the ringgit depreciated against the euro by 6.4%, the pound sterling by 5.5% and the Japanese yen by 5.2%. The US dollar weakened as markets factored in the weak employment growth, the large US trade deficit, the softer consumer sentiment in September, and the potential impact of the announced oil production cut by OPEC on US economic recovery. The weakness of the dollar also reflected the market reaction to the statement of the G-7 Finance Ministers and Central Bank Governors on 20 September, highlighting the desirability of exchange rate flexibility to facilitate current account adjustments and a more balanced global growth. The Japanese yen appreciated due to the strong stock market

performance and market view that intervention operations would be less aggressive.



*The ringgit depreciated against the major currencies in September*

**The ringgit also depreciated against regional currencies** in the range of 0.1% - 2.9%. Regional currencies largely benefited from the firmer Japanese yen. The Thai baht strengthened on strong capital inflows as stock prices reached 6-year highs. The Indonesian rupiah strengthened on reports of foreign interest in a local bank and ratings upgrade by Moody's Investor Services.



*The ringgit also depreciated against regional currencies in September*

In the period **1 – 24 October 2003**, the ringgit continued to depreciate against the major currencies. The ringgit depreciated against the

Japanese yen by 1.9%, the euro by 1.7% and the pound sterling by 1.5%. The dollar was adversely affected by market perception that economic growth in the final quarter will be weaker compared to the third quarter. The Japanese yen strengthened given market perception that the monetary easing by the Bank of Japan to boost liquidity in the system would support economic recovery. The ringgit appreciated against several regional currencies in the range of 0.3% - 2.4%, while depreciating against the Thai baht by 0.3%.

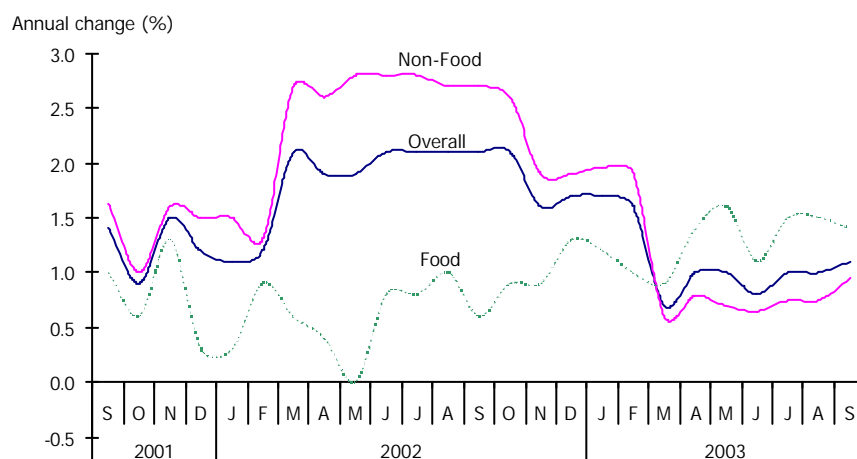
#### Performance of Ringgit against Selected Currencies

RM per foreign currency			24 October 2003	% Change			
	2 September 1998	End-Sep. 2003		September 2003	End-Sep. - 24 Oct. 2003	End-2002 - 24 Oct. 2003	2 Sep. 1998 - 24 Oct. 2003
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.4160	4.4929	-6.4	-1.7	-11.4	-
Pound Sterling	6.3708	6.3439	6.4416	-5.5	-1.5	-5.4	-1.1
100 Japanese yen	2.7742	3.4205	3.4858	-5.2	-1.9	-8.1	-20.4
Singapore dollar	2.1998	2.1984	2.1921	-1.6	0.3	-0.2	0.4
100 Thai baht	9.3713	9.5048	9.5358	-2.9	-0.3	-7.6	-1.7
100 Philippine peso	8.8302	6.9179	6.8741	-0.1	0.6	4.0	28.5
100 Indonesian Rupiah	0.0354	0.0452	0.0449	-1.5	0.7	-5.3	-21.2
100 Korean won	0.2827	0.3304	0.3228	-2.4	2.4	-1.0	-12.4

#### *Inflation increased slightly in September*

The annual rate of **inflation**, as measured by the Consumer Price Index (CPI, 2000=100), **increased slightly to 1.1%** in September (August: 1%), following higher prices of tobacco arising from additional import and excise duties on tobacco imposed in Budget 2004. Prices for other goods remained broadly stable.

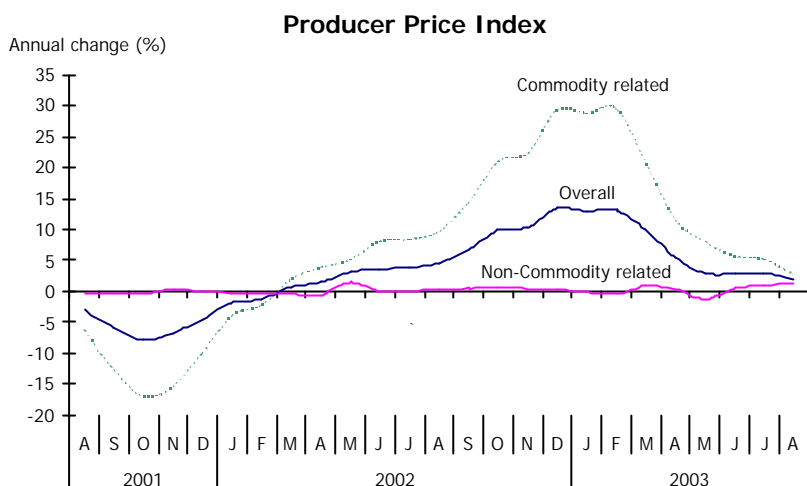
#### Consumer Price Index



*Inflation increased slightly in September*

at a rate of 1.9% in August (2.9% in July). The slower increase was due mainly to the moderation

in prices of major commodities. Excluding commodity-related products, the adjusted PPI increased by 1.3%.

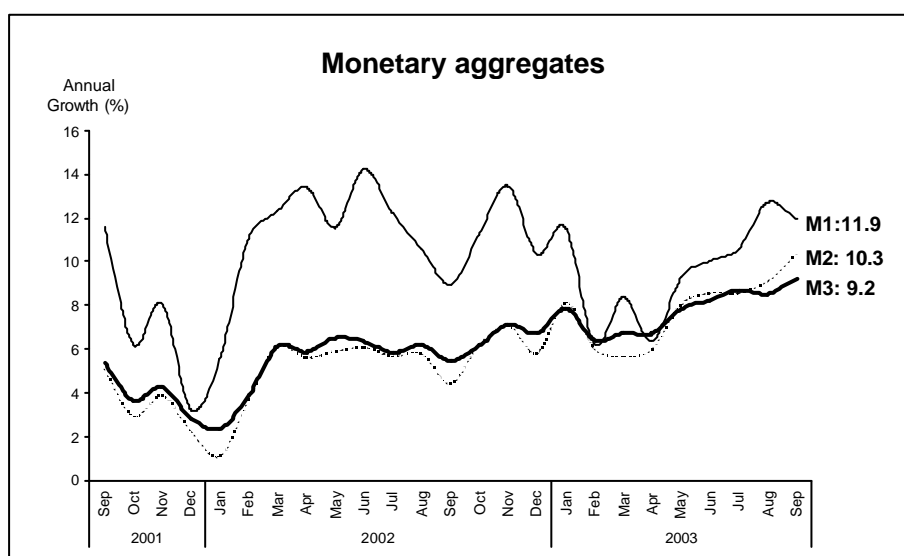


*Producer prices, excluding commodity related products increased by 1.3%*

### **Continued growth in money supply**

All three monetary aggregates continued to expand with M1, M2 and M3 growing at annual rates of 11.9%, 10.3% and 9.2% respectively at end-September (12.7%, 9.1% and 8.5% respectively at end-August) concomitant with strong demand for liquidity by both consumers and businesses.

The increase in the net international reserves of BNM also contributed to the growth in broad money M3 which increased by RM5.6 billion or 1.1%. The higher monetary growth was also supported by the increase in direct lending by the banking system.



*All three monetary aggregates continued to grow at high rates...*

*...due mainly to higher international reserves*



<b>M3 Determinants</b>				
(RM billion)				
	Change during period			
	2003			
	Jul	Aug	Sep	Jan - Sep
M3	4.2	3.1	5.6	34.2
Net claims on Government	-1.5	-1.9	-2.1	4.5
Claims on private sector	5.6	3.0	4.4	28.7
Net external operations <sup>1</sup>	3.8	1.4	5.4	8.8
Other influences	-3.7	0.6	-2.0	-7.8

<sup>1/</sup> pre-revaluation

### **Banking system deposits increased further in September**

Total **deposits** mobilised by the banking system increased by RM4.8 billion or 0.9% in September. The increase reflected the higher deposits of businesses and individuals. To some extent, the increase in businesses' deposits reflected the repatriation of export proceeds. On an annual basis, total deposits mobilised by the banking system rose by 9.3% as at end-September (8.3% at end-August).

<b>Monthly Change in Deposits (RM million)</b>			
	2003		
	July	Aug.	Sept.
<b>Holder</b>			
Federal Government	977	-833	-171
State Governments	-299	295	-349
Statutory Authorities <sup>1/</sup>	-405	484	-531
Financial Institutions	2,442	1,815	1,615
Business Enterprises	-126	-757	3,125
Individuals	1,467	2,107	1,652
Others <sup>2/</sup>	-1,282	649	-525
<b>Total</b>	<b>2,774</b>	<b>3,760</b>	<b>4,817</b>

<sup>1/</sup> Include local Governments.

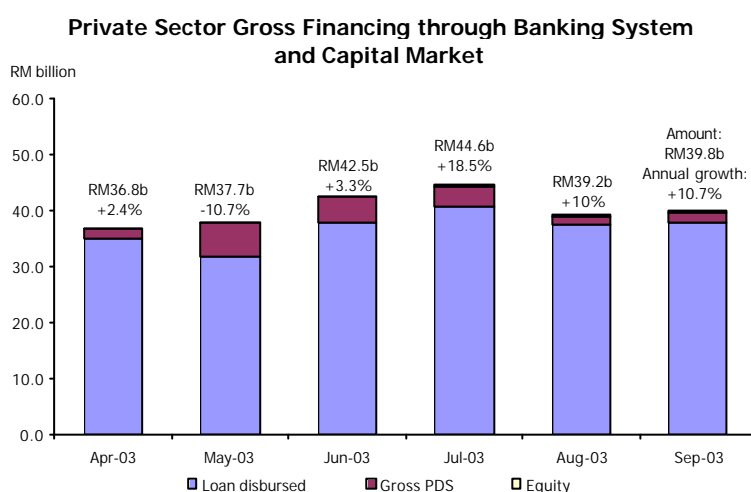
<sup>2/</sup> Include domestic other entities and foreign non-bank entities

*Higher deposits was placed by businesses and individuals...*

<b>Monthly Change in Deposits (RM million)</b>			
	2003		
	July	Aug.	Sept.
<b>Type</b>			
Fixed deposits	956	390	1,973
NIDs	-17	542	153
Demand deposits	354	1,957	44
Savings deposits	685	395	326
Repos	-211	912	1,464
FX deposits	634	269	847
SPI deposits	320	-936	-80
Others	54	231	90
<b>Total</b>	<b>2,774</b>	<b>3,760</b>	<b>4,817</b>

*.....mainly in fixed deposits*

Total gross financing of the private sector by the banking system and funds raised in the capital market was higher in September at RM39.8 billion or an annual increase of 10.7% (RM39.2 billion or at an annual growth rate of 10% in August). On a net basis, financing provided by the banking system through extension of loans and its holdings of private debt securities (PDS) expanded at an annual rate of 5.7% as at end-September (6.1% as at end-August). Loan-deposit ratio, including private debt securities held by the banking system, stood at 93.5% as at end-September (94.2% as at end-August).

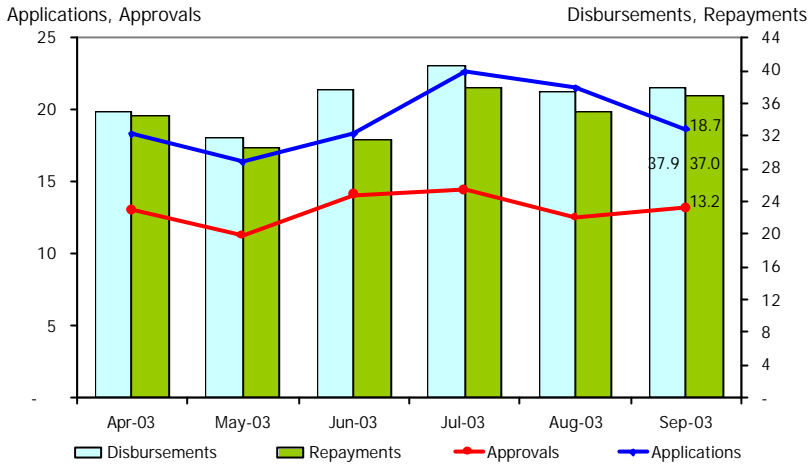


*Gross financing of the private sector increased further*

Loan disbursements in September increased at an annual rate of 10.9% to RM37.9 billion (RM37.4 billion in August). Loans disbursed to the business sector, in particular, were higher at RM26.1 billion (RM25.2 billion in August), reflecting mainly higher loans channelled to financial, insurance and business services and transport, storage and communication sectors. Disbursements to the household sector also remained high at RM9.8 billion (RM10.2 billion in August).

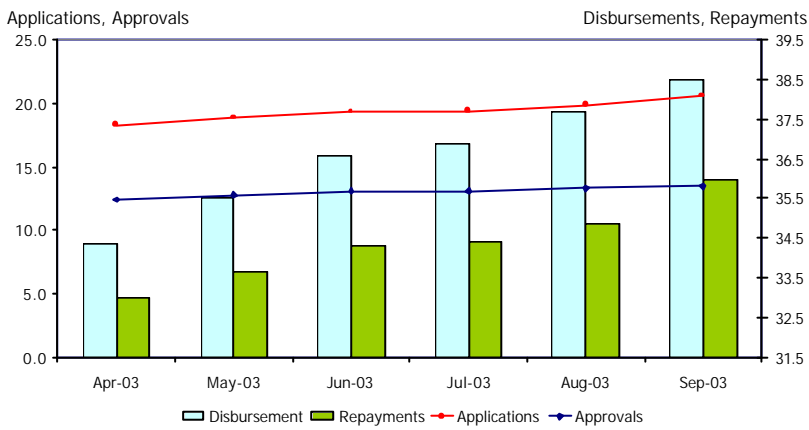
Loans outstanding continued to increase at an annual growth rate of 4.7% or RM2.1 billion in September (4.8% or RM3.2 billion in August). Outstanding loans of the household sector increased further by RM2.4 billion. On the other hand, higher disbursements to the business sector were offset by equally high repayments, resulting in a small decline in loans outstanding by RM93 million in September.

### Loan Applications, Approvals, Disbursements and Repayments (RM billion)



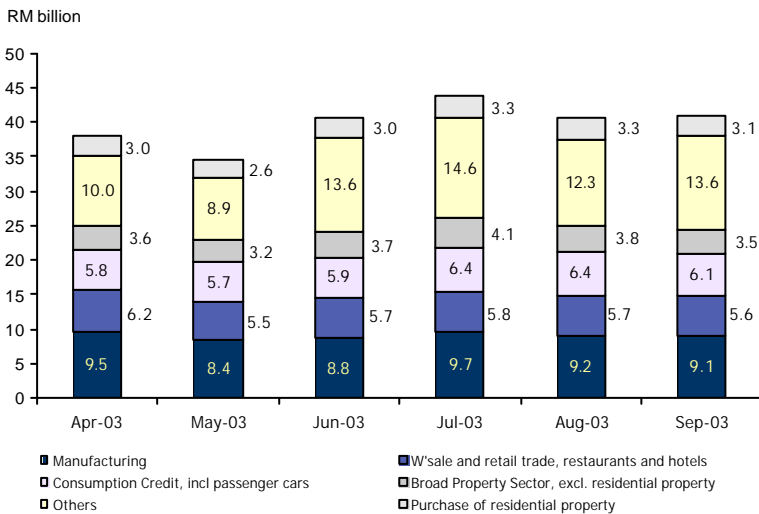
*Loan approvals and disbursements increased*

### Deseasonalised Loan Applications, Approvals, Disbursements and Repayments (RM billion)



*Deseasonalised data suggests that the underlying demand for loans continued to remain strong*

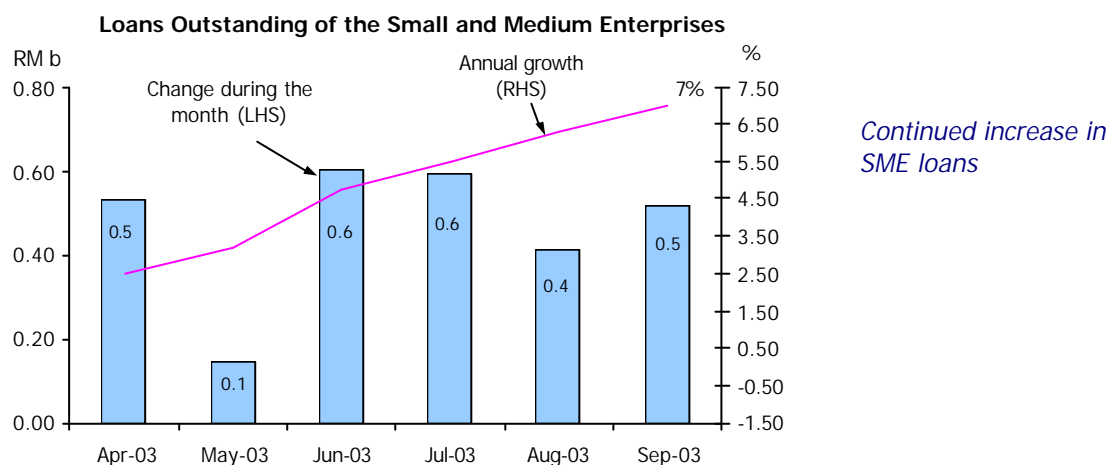
### Loan Disbursements to Selected Sectors



*Disbursements remained broad based*

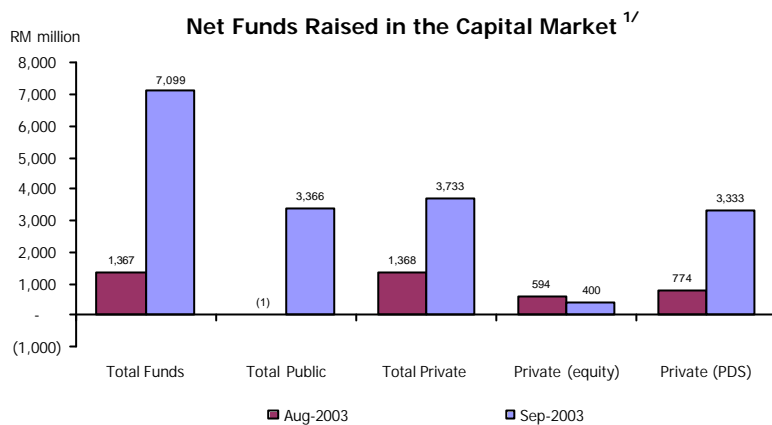
Demand for bank loans remained high in September at RM18.7 billion (RM21.5 billion in August). Loan approvals were higher than the level recorded in August, amounting to RM13.2 billion (RM12.5 billion in August). Loan approvals increased further for both the business sector (to RM6.5 billion from RM6 billion in August) and for the household sector (RM6.4 billion from RM6.3 billion in August).

Lending to SMEs expanded further, with outstanding loans increasing by RM518 million in September (+RM414 million in August). On an annual basis, growth in outstanding loans of the SMEs rose at a stronger rate of 7% compared with overall loan growth of 4.7% as at end-September. SME loans accounted for 15.6% of total outstanding loans and 31.5% of total loans outstanding to businesses. In the first nine months, outstanding loans of the SMEs expanded by RM4.8 billion (a decline of RM0.4 billion in the same period of 2002). During the same period, a total of RM18.9 billion was approved to 57,877 SMEs, while RM62.2 billion was disbursed.



### ***Substantially higher net funds raised in the capital market***

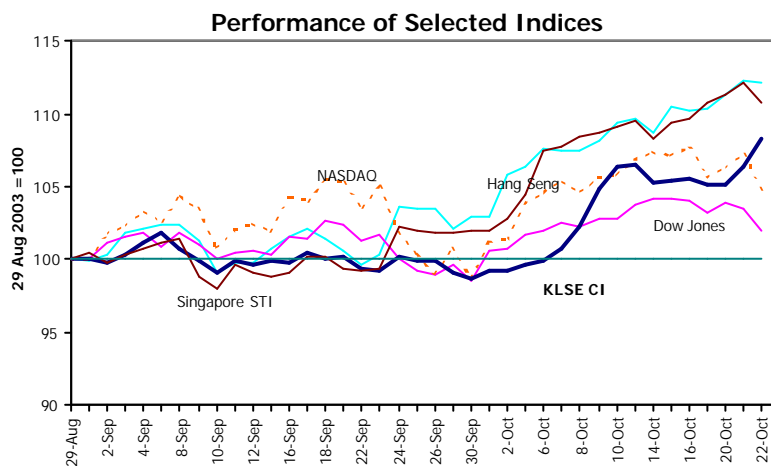
Higher issuance of PDS and MGS led to substantially higher net funds raised in the capital market in September, at RM7.1 billion (RM1.4 billion in August). Net funds raised by the private sector were higher totalling RM3.7 billion, due mainly to the issuance of Cagamas bonds. In the public sector, a total of RM7.5 billion was raised through the issuance of Malaysian Government Securities and Khazanah bonds. After adjusting for redemptions, net public sector funds raised amounted to RM3.4 billion.



*Net funds raised through the capital market were higher in September*

<sup>1/</sup> Net funds raised in the capital market by private sector (including Cagamas and Danaharta bonds)

The performance of the **Kuala Lumpur Stock Exchange** was mixed in September. The KLSE Composite Index (KLSE CI) was higher at the beginning of the month and declined slightly thereafter. As at end-September, the KLSE CI closed slightly lower at 733.45 points (-1.3% since end-August) with market capitalisation at RM572.26 billion (-1.3% since end-August). The daily average turnover was lower at 575.89 million during the month (639.17 million units in August).



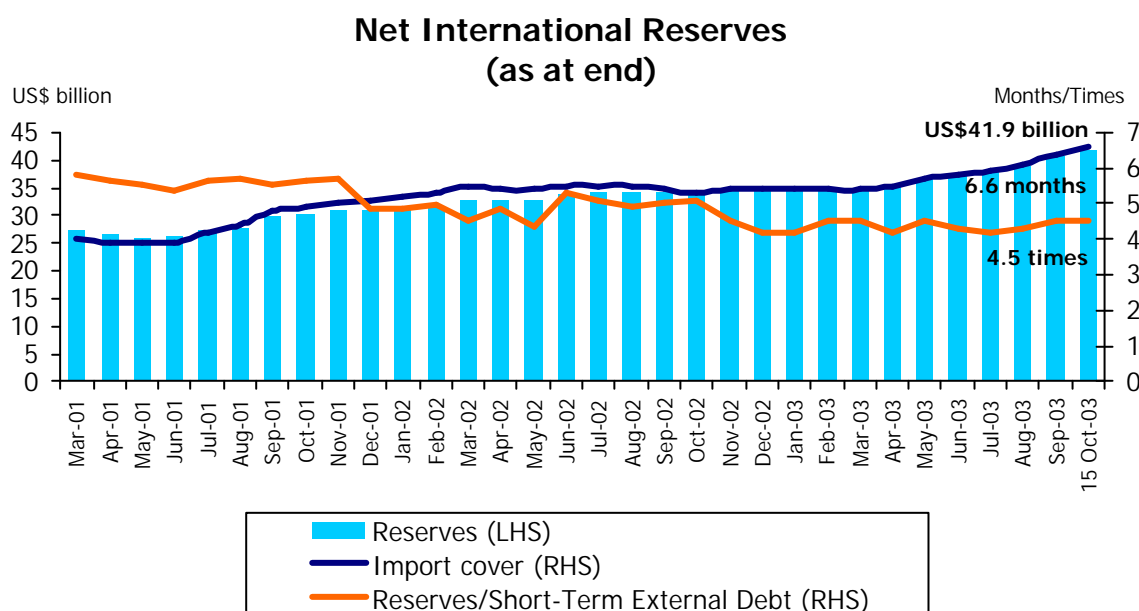
*The KLSE CI increased substantially as market sentiment improved*

The sentiment in the KLSE turned more bullish in the first three weeks of October. This was due to a combination of factors, including better performance of the US markets, improved economic prospects for Malaysia and an upgrade of Malaysia's long-term foreign currency sovereign credit rating by Standard & Poor's. On 22 October, the KLSE CI breached the 800-point threshold and closed at 805.11 points (a rise of 71.7 points or +9.8% since end-September). This was due to strong buying interests by institutional

and retail investors. Market capitalisation was higher at RM630.27 billion (+10.1% since end-September). The daily average turnover during the period was also higher at 764.44 million units.

### ***International reserves increased further***

The net international reserves of Bank Negara Malaysia increased in September to RM154.8 billion or US\$40.7 billion as at 30 September 2003, supported by the larger repatriation of export earnings and inflows of foreign funds for investment. The reserves level at the end of September has taken into account the quarterly adjustment of the unrealised foreign exchange revaluation gain amounting to US\$542 million. Reserves increased further to RM159.4 billion or US\$41.9 billion as at 15 October 2003. The increase of RM4.6 billion or US\$1.2 billion during the first half of October was due to the sustained inflows from export earnings, inflows of foreign funds and foreign direct investment. Outflows reflected payments for imports of goods and services and external loan repayments by the private sector. The reserves position is adequate to finance 6.6 months of retained imports and is 4.5 times the short-term external debt.

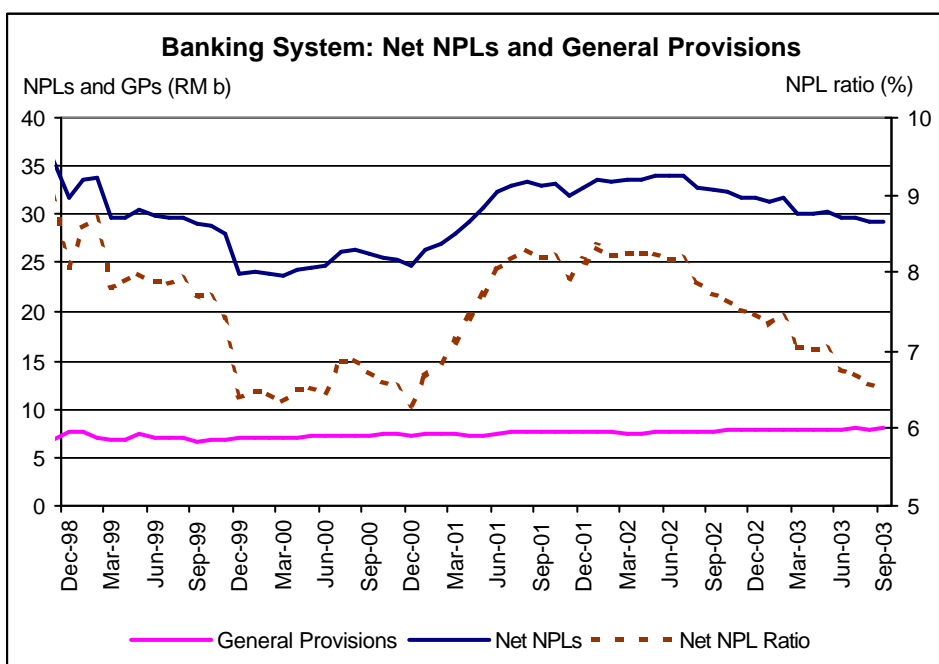


## NPLs improved

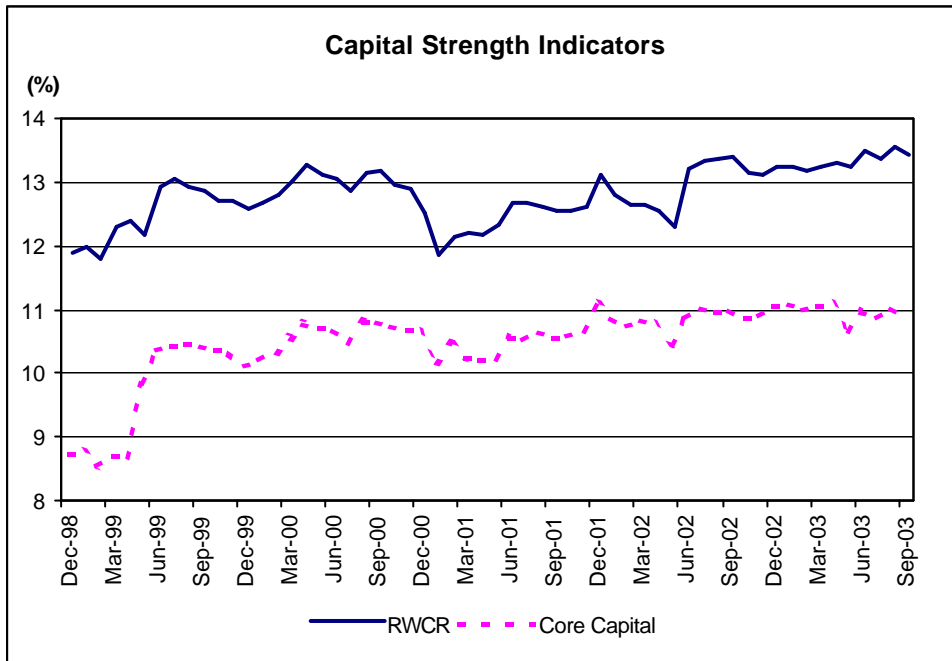
Net non-performing loans ratio on a 6-month classification improved to 6.5%, from 6.6% in August due to loan write-offs by several banking institutions as well as repayment of loans. Meanwhile, the risk-weighted capital ratio (RWCR) moderated slightly to 13.4% as a result of high loan growth.

Banking System Health Indicators*								
	1998	1999	2000	2001	2002	2003		
	Dec.	Dec.	Dec.	Dec.	Dec.	Jul.	Aug.	Sept.
<b>Capital (%)</b>								
Core capital ratio	8.7	10.1	10.7	11.1	11.1	10.8	11.0	10.9
RWCR	11.8	12.5	12.5	13.0	13.2	13.3	13.5	13.4
<b>Net NPLs (6-month classification)</b>								
% of net total loans	8.1	6.4	6.3	8.1	7.5	6.7	6.6	6.5
Amount (RM million)	31,675	23,849	24,700	32,775	31,703	29,610	29,222	29,166
<b>GP/Net total loans (6-month, %)</b>								
	2.0	1.9	1.9	1.9	1.8	1.8	1.8	1.8

\* Beginning June 1999 onwards, the figures include Islamic banks



....Net NPL ratio improved further to 6.5%



... RWCR remained high at 13.4%

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## Key Monetary and Banking Statistics

	August 2003		September 2003	
	Outstanding	Ann. growth	Outstanding	Ann. growth
	(RM billion)	(%)	(RM billion)	(%)
<b>Monetary Aggregates</b>				
Reserve money	44.7	10.2	44.5	11.2
M1	93.8	12.7	93.5	11.9
M2	407.3	9.1	410.0	10.3
M3	529.7	8.5	535.4	9.2
<b>Banking System</b>				
Total deposits	532.6	8.3	537.4	9.3
Total loans (including loans sold to Cagamas and Danaharta)	508.4	4.8	510.5	4.7
Total loans (excluding loans sold to Cagamas and Danaharta)	447.6	5.8	447.2	5.1
Loan-deposit ratio (%)	84.0		83.2	
Loan-deposit ratio including private debt securities (%)	94.2		93.5	
Loans applied during the month	21.5	14.9	18.7	-5.1
Loans approved during the month	12.5	7.9	13.2	-7.7
Loans disbursed during the month	37.4	13.0	37.9	10.9
Loans repaid during the month	34.9	7.5	37.0	13.9
<b>Banking System Health</b>				
Risk-weighted Capital Ratio (RWCR) (%)	13.5		13.4	
Net NPLs: 6-month classification (%)	6.6		6.5	
<b>International Reserves of BNM (end-period)</b>				
Reserves in RM (billion)	146.9		154.8	
Reserves in USD (billion)	38.7		40.7	
Months of retained imports	6.0		6.6	
<b>Interest Rates at end-period [average for the month]</b>				
Interbank: 1-month	2.99[2.99]		2.99[2.99]	
3-month	2.90[2.89]		2.86[2.88]	
Fixed deposits of commercial banks: 1-month	3.00[3.00]		3.00[3.00]	
3-month	3.00[3.00]		3.00[3.00]	
BLR of commercial banks	6.00[6.00]		6.00[6.00]	
<b>Prices</b>				
Consumer Price Index (CPI) (2000=100)	104.3	1.0	104.5	1.1
Producer Price Index (PPI) (1989=100)	136.4	1.9		
<b>Exchange Rates of Ringgit against Selected Currencies (end-period)</b>				
Euro	4.1323		4.4160	
Pound Sterling	5.9932		6.3439	
Singapore dollar	2.1627		2.1984	
100 Japanese yen	3.2438		3.4205	
100 Thai Baht	9.2267		9.5048	
100 Philippine Peso	6.9135		6.9179	
100 Indonesian Rupiah	0.0445		0.0452	
100 Korean Won	0.3224		0.3304	
<b>Capital Market</b>				
Net funds raised by: public sector (RM billion)	...		3.4	
private sector (RM billion)	1.4		3.7	
Kuala Lumpur Composite Index (end-period)	743.30		733.45	
KLSE Market Capitalisation (RMb) (end-period)	579.54		572.26	