BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 09/04/34 (BN) **EMBARGO: Not for publication or broadcast before 1800 hours on Tuesday, 28 September 2004**

PRESS RELEASE

Monetary and Financial Developments August 2004
Highlights of the Press Release

Continued high bank lending to the SME sector

In August, financing activity was sustained, with outstanding banking system loans and PDS increasing at an annual rate of 7.1%. Bank lending to the business sector improved, with loans disbursements growing at an annual rate of 4%. Reflective of sustained economic activities, demand for funds by businesses increased further with loan applications expanding at an annual rate of 37%, especially in the finance, insurance and business services and the transport, storage and communications sectors.

Financing extended to the SMEs remained strong, as reflected in the annual growth of 7.8% in loans outstanding of the SMEs in August. Loans disbursed to SMEs expanded at an annual rate of 10.3%, while RM2.7 billion was approved to 7,807 SME accounts.

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MONETARY AND FINANCIAL DEVELOPMENTS AUGUST 2004

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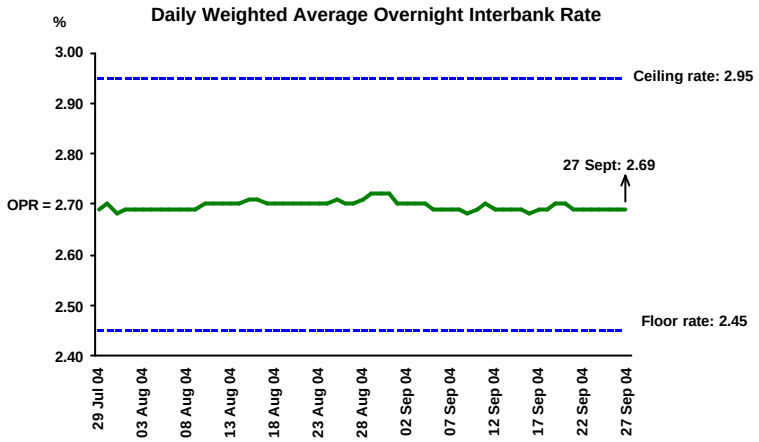
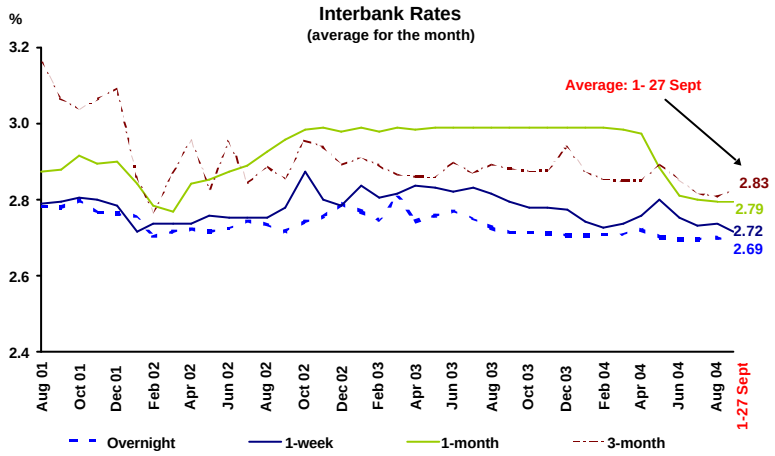
Financing extended to the SMEs remained strong, as reflected in the annual growth of 7.8% in loans outstanding of the SMEs in August. Loans disbursed to SMEs expanded at an annual rate of 10.3%, while RM2.7 billion was approved to 7,807 SME accounts.

Interest rates remained low

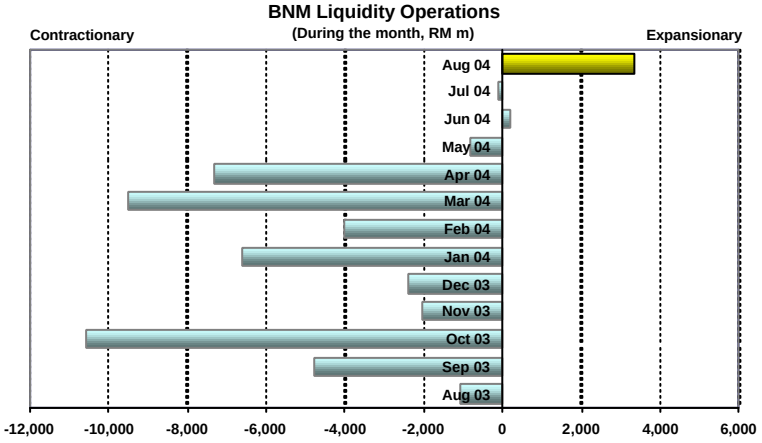
In the period 2 August – 27 September, the daily weighted average of the overnight interbank rate moved within a range of 2.68 – 2.72%, averaging at 2.70%.



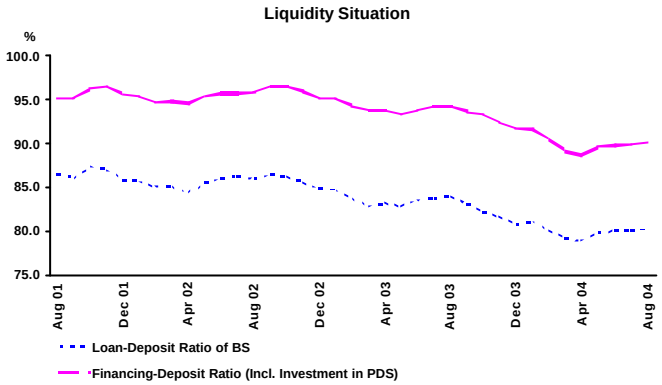
The overnight interbank rate remained stable



Interbank rates remained low and stable

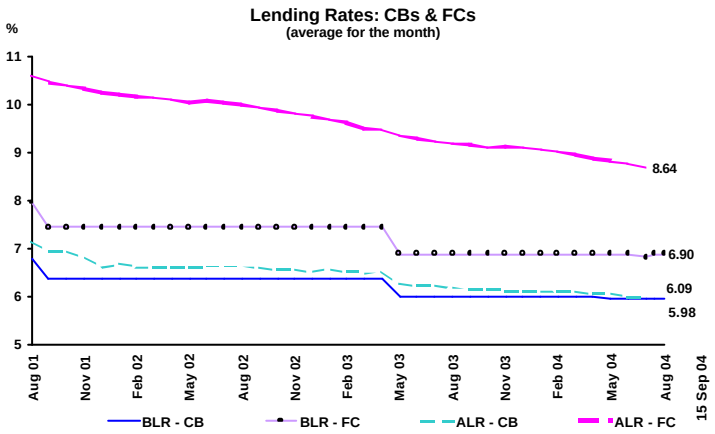


Liquidity operations were expansionary during the month to offset the impact of Government operations

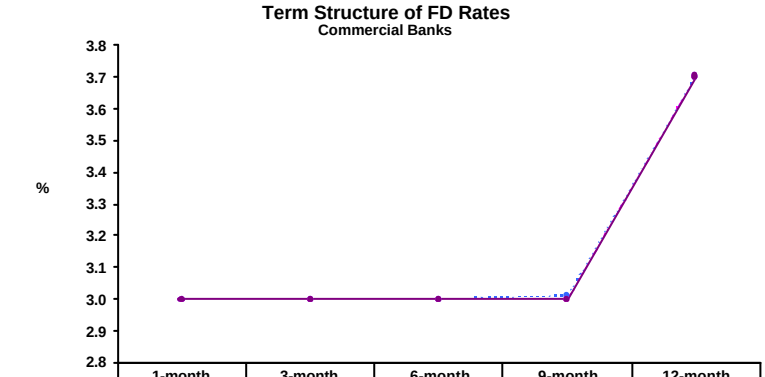


The financing-deposit ratio stood at 90.1%

The average base lending rates (BLRs) of commercial banks (CBs) and finance companies (FCs) remained unchanged at 5.98% and 6.90% at end-August. The average lending rate (ALR) of the CBs increased to 6.09% (6.00% at end-July), due mainly to the transfer of the loans extended by a finance company following its merger with a commercial bank. Concomitantly, the average ALR of the FCs declined to 8.64% (8.69% at end-July).

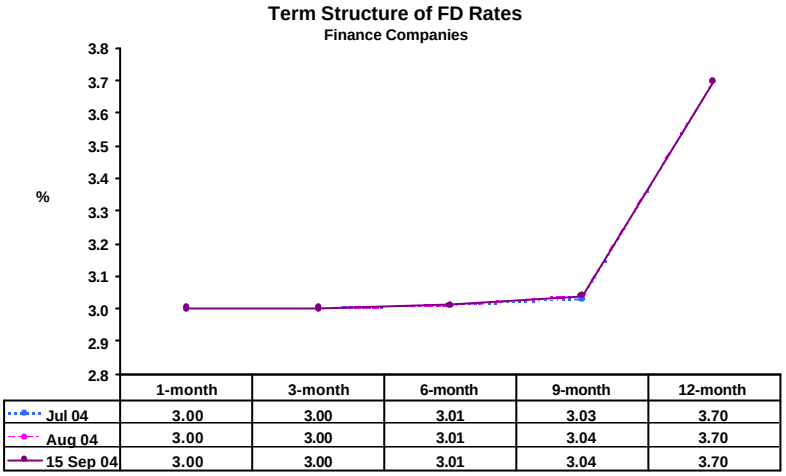


ALR of CBs was higher while ALR of FCs was lower due mainly to the effect of a merger with a commercial bank



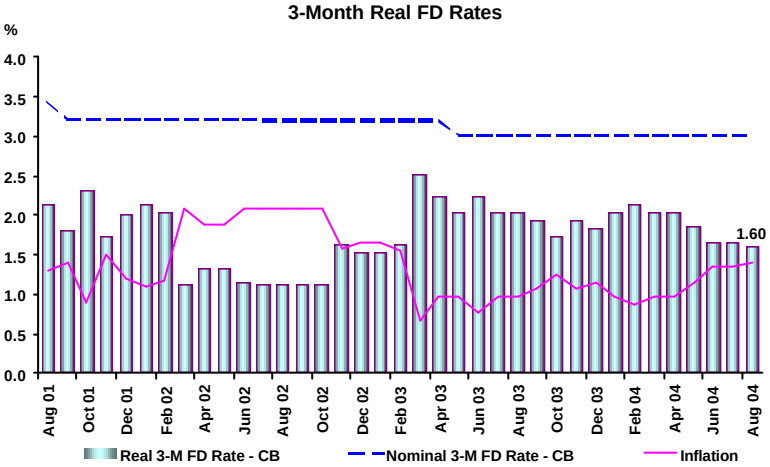
	1-month	3-month	6-month	9-month	12-month
Jul 04	3.00	3.00	3.00	3.01	3.70
Aug 04	3.00	3.00	3.00	3.00	3.70
15 Sep 04	3.00	3.00	3.00	3.00	3.70

FD rates of CBs remained unchanged…



	1-month	3-month	6-month	9-month	12-month
Jul 04	3.00	3.00	3.01	3.03	3.70
Aug 04	3.00	3.00	3.01	3.04	3.70
15 Sep 04	3.00	3.00	3.01	3.04	3.70

…similarly for FCs



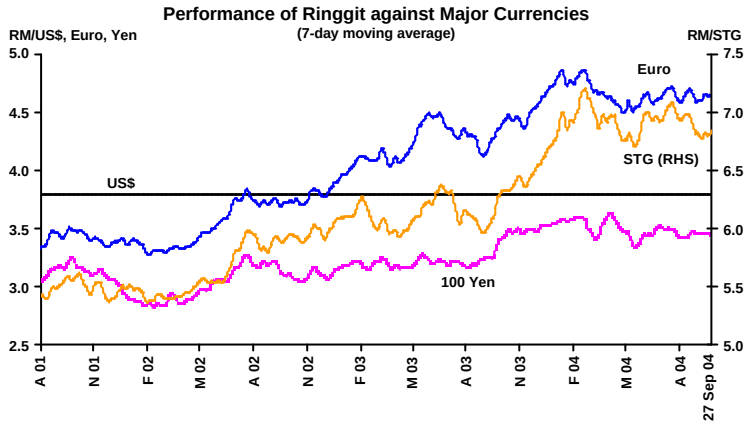
The 3-month real FD rate was marginally lower

Performance of the ringgit

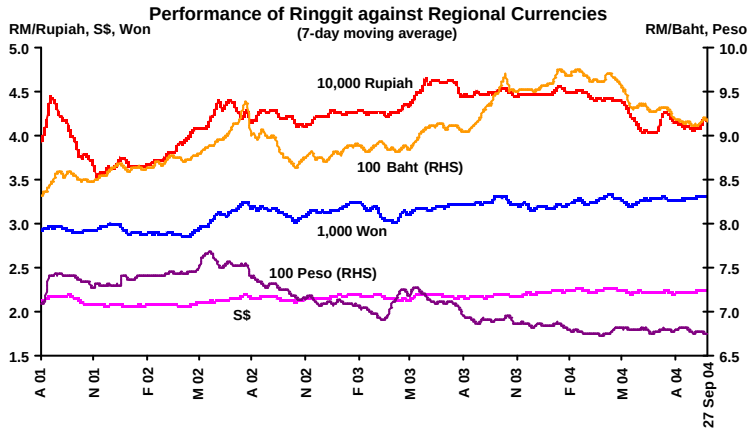
In August, the performance of the ringgit was mixed against the major currencies. The US dollar gained strength following the quarter percentage increase in the Fed Funds rate, positive economic data and the lower crude oil prices during the latter part of the month. Vis-à-vis the pound sterling, the dollar's appreciation was also due to the perception that interest rate differentials would narrow. Meanwhile, the sustained economic performance in Japan underpinned the appreciation of the yen during the month. Against the regional currencies, the ringgit also recorded a mixed performance. The appreciation of the won against the US dollar was due to the increased foreign inflows into the South Korean equity market. The depreciation of the baht and rupiah, however were due to dampened sentiments on the domestic economies.

In the period 1-27 September, the performance of the ringgit was mixed vis-à-vis the major and regional currencies. The US dollar weakened following the report

of a widening U.S. current account deficit and a more moderate increase in consumer prices which supported sentiments of a measured pace in the increase in interest rates.



In the period 1-27 September the ringgit depreciated against the pound sterling and the euro



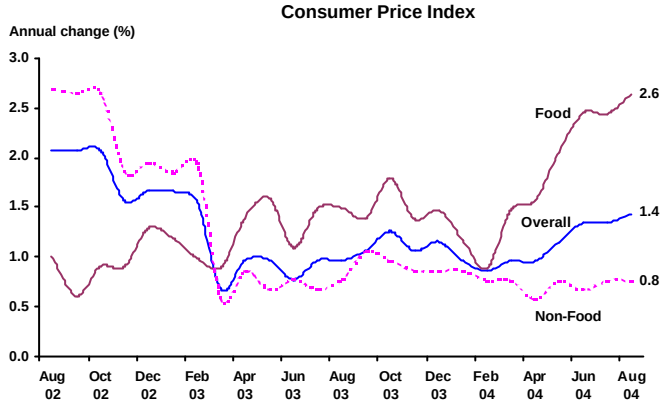
Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period			% Change			
	02 Sep 98	Aug 04	27 Sep 04	Aug 04	End Aug 04 - 27 Sep 04	End Dec 03 - 27 Sep 04	02 Sep 98 - 27 Sep 04
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.5621	4.6670	0.3	-2.2	2.4	-
Pound Sterling	6.3708	6.8007	6.8641	1.6	-0.9	-1.4	-7.2
100 Japanese yen	2.7742	3.4478	3.4350	-1.5	0.4	3.5	-19.2
Singapore dollar	2.1998	2.2166	2.2483	-0.6	-1.4	-0.6	-2.2
100 Thai baht	9.3713	9.1182	9.1621	0.7	-0.5	4.7	2.3
100 Philippine peso	8.8302	6.7559	6.7334	0.5	0.3	1.6	31.1
100 Indonesian Rupiah	0.0354	0.0406	0.0416	1.9	-2.2	8.0	-14.8
100 Korean won	0.2827	0.3294	0.3306	-1.5	-0.4	-3.8	-14.5

Inflation remained low

The inflation rate, as measured by the Consumer Price Index (CPI, 2000=100), remained low at 1.4% in August. Higher increases in food prices were offset to a large extent by lower price increases in most other items. The average

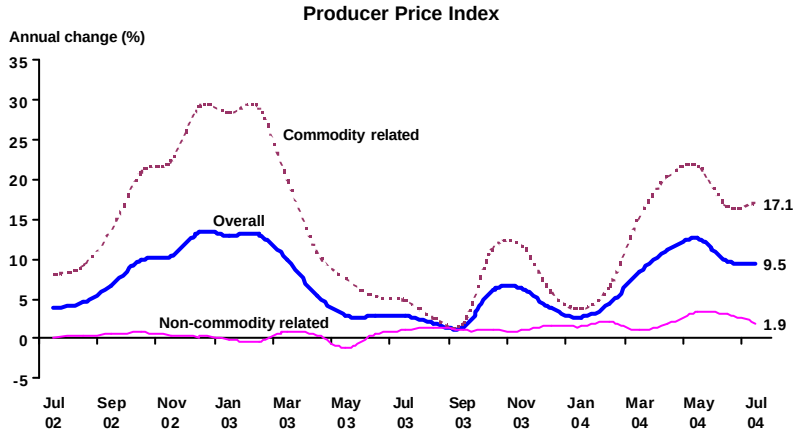
annual inflation rate for the first eight months of 2004 was 1.2% (1.1% in January-August 2003).



CPI remained low

Producer prices moderated

The Producer Price Index (PPI, 1989=100) moderated further in July to register an annual growth rate of 9.5% (9.8% in June). The moderation was observed in the food and live animals, crude materials, as well as animals and vegetable oils and fats sectors. Excluding commodity-related products, the adjusted PPI recorded a lower annual growth rate of 1.9% (2.9% in June).

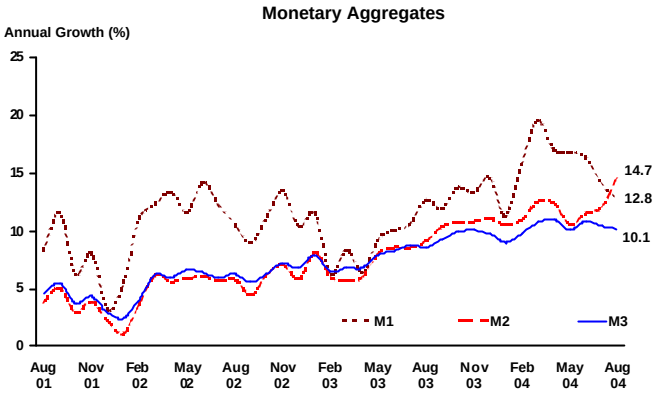


PPI moderated in July

Sustained expansion of broad money

Broad money, M3, expanded at a sustained annual pace of 10.1% in August (10.4% in July). The increase in M3 during the month largely reflected the higher bank financing activities and the sustained repatriation of export earnings. Reflecting resilient consumer and business spending during the month, M1

increased by RM1.8 billion or at an annual rate of 12.8% as at end-August (14.1% at end-July).



M3 Determinants
(RM billion)

	Change during period			
	Jun 04	**Jul 04**	**Aug 04**	**Jan - Aug 04**
M3	4.4	2.4	2.1	33.7
Net claims on Government	0.4	1.8	-0.9	-7.1
Claims on the private sector	5.8	-0.4	3.4	19.0
Loans	*6.8*	*-0.6*	*3.0*	*22.3*
Securities	*-1.0*	*0.1*	*0.4*	*-3.3*
Net external operations *	4.3	2.0	0.8	42.1
Other influences	-6.0	-1.0	-1.1	-20.3

* Pre-revaluation

Higher deposits by individuals

Total deposits mobilised by the banking system increased by RM2.9 billion during the month, due mainly to the increase in fixed deposits by individuals. Overall, the annual growth of banking system deposits remained high at 10.2% at end-August (10.4% in July).

Deposits by Holder
(RM million)

	Change during period			
	Jun 04	**Jul 04**	**Aug 04**	**Jan - Aug 04**
Federal Government	694	-1,361	394	-507
State Governments	43	-283	588	966
Statutory Authorities [1]	46	-450	-5	-3,309
Financial Institutions	391	3,111	-56	8,613
Business Enterprises	5,887	-1,745	258	14,250
Individuals	1,259	-596	1,420	11,480
Others [2]	-981	502	284	1,336
Total	7,340	-822	2,884	32,830

1/ Include local Governments

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

Individuals were main contributors

Deposits by Type
(RM million)

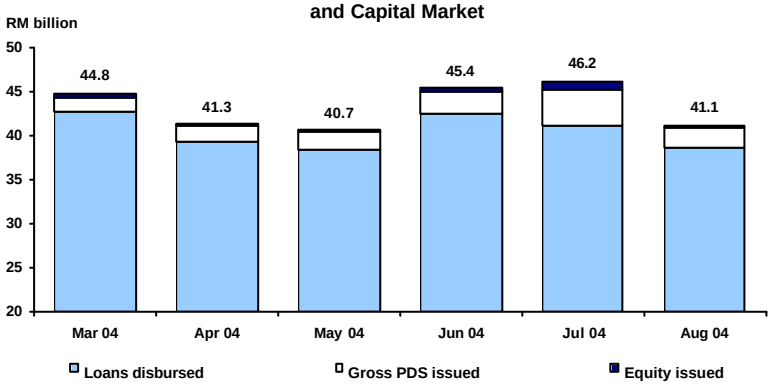
	Change during period			
	Jun 04	Jul 04	Aug 04	Jan - Aug 04
Fixed deposits	-11	2,979	-745	13,343
NIDs	790	371	316	4,523
Demand deposits	2,491	-2,165	1,924	2,223
Savings deposits	334	-728	144	1,654
Repos	1,825	-1,437	503	4,899
FX deposits	-430	55	-55	-85
SPI deposits	1,986	-194	907	4,416
Others	356	297	-111	1,857
Total	7,340	-822	2,884	32,830

Funds were placed mainly in the form of demand deposits

Bank lending activities remained strong with higher growth in outstanding loans to the SMEs

In August, gross financing was lower during the month with less fund raising activities by the private sector in the capital market. Nevertheless, on a net basis, total financing of the private sector was higher with banking system loan oustanding and PDS increasing by RM4.4 billion or at an annual rate of 7.1%.

Gross Private Sector Financing through Banking System and Capital Market



Gross financing extended to the private sector was lower

The underlying trend in bank lending activity was sustained during the month. Loan disbursements grew at an annual rate of 3.2% in August (1.5% in July), with loans extended mainly to the manufacturing and wholesale, retail, restaurants and hotels sectors. The two forward-looking loan indicators, total loan applications and approvals, expanded by 21.8% and 14.4% on an annual basis respectively (11.5% and 14.2% in July).

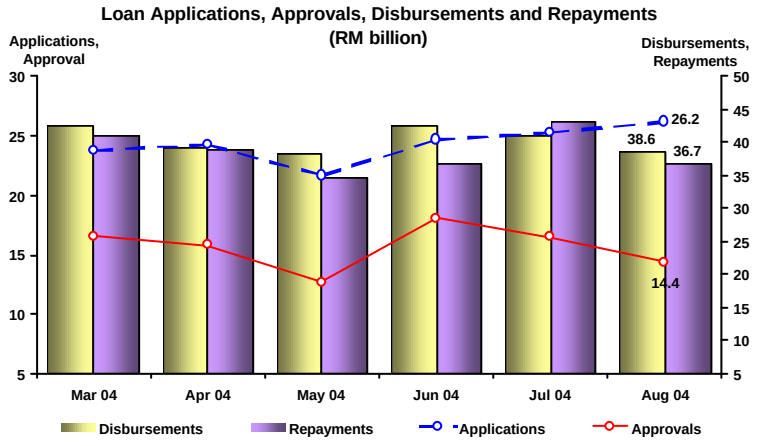
In the business sector, bank lending activity remained high in August. On an annual basis, loan approvals and disbursements increased at a faster pace of 18.7%

and 4% respectively (2.6% and -0.2% respectively in July). Demand for funds by businesses increased further with a higher annual growth rate of loan applications by 37% (8.2% in July) due mainly to higher demand by the finance, insurance and business services and the transport, storage and communications sectors.

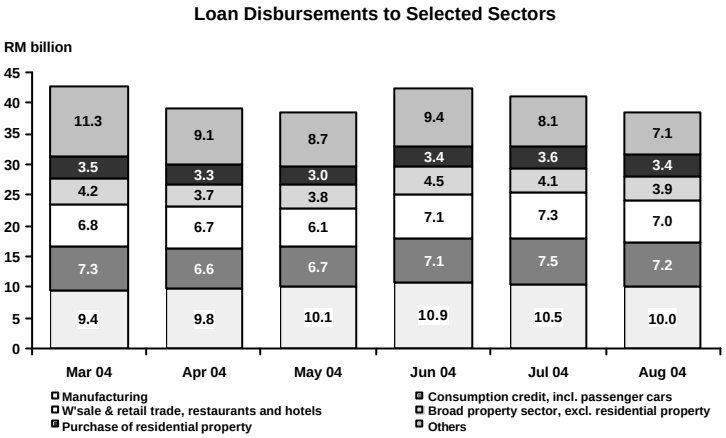
Within the business sector, bank lending activity to the SMEs continued to remain strong. Loan disbursements amounted to RM8.1 billion, growing at an annual rate of 10.3% in August (12.8% in July), reflecting higher loans extended to the manufacturing, wholesale trade, and construction sectors. Loan approvals to the SMEs remained high, with RM2.7 billion approved to 7,807 SME accounts. On an annual basis, outstanding loans to the SMEs were 7.8% higher as at end-August (7.3% at end-July).

Meanwhile, lending to the household sector continued to expand at a sustainable pace. Loans disbursed to this sector amounted to RM11 billion, growing at an annual rate of 7.9% (10.1% in July), with funds extended mainly for the purchase of residential properties. Demand for new funds as reflected in application for loans increased by RM10 billion or 3.8% on an annual basis (RM10.9 billion or 14.3% in July).

Overall, the total loans outstanding for the banking system increased by 5.3% on an annual basis as at end-August (5.3% at end-July).



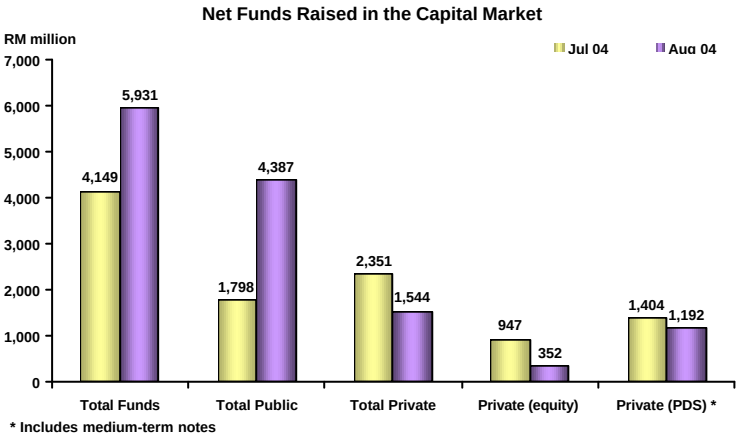
All major loan indicators were sustained at high levels



Sustained level of loans disbursed across all sectors

Higher net funds raised in the capital market by the public sector

In August, total net funds raised in the capital market were higher, amounting to RM5.9 billion (RM4.1 billion in July). Higher funds were raised by the public sector through the re-opening of Malaysian Government Securities 3/86. Funds raised in the PDS market were mainly to finance mergers and acquisitions.

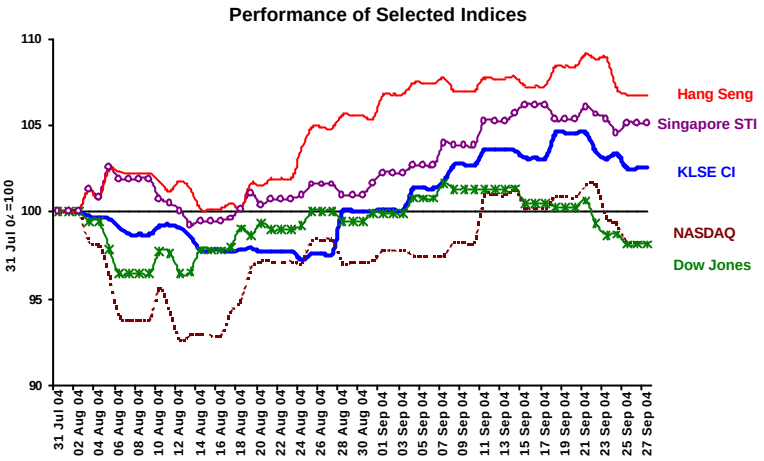


Higher net funds raised by the public sector

The KLSE CI declined by 0.7% to 828 points at end-August compared with end-July, following concerns on geopolitical issues. Nevertheless, market sentiment improved towards the end of the month, following the announcement of better-than-expected 2Q 2004 GDP growth as well as announcements of better quarterly corporate earnings. Market capitalisation was slightly lower at RM654.3 billion (-1.6% since end-July), while the daily average turnover for the month was 303.4 million units (333.27 million units in July).

As at 27 September, the KLSE CI closed higher at 848.3 points (+2.5% since end-August). Market performance improved further following the announcement of Budget 2005 and the stabilisation of crude oil prices. Market capitalisation was

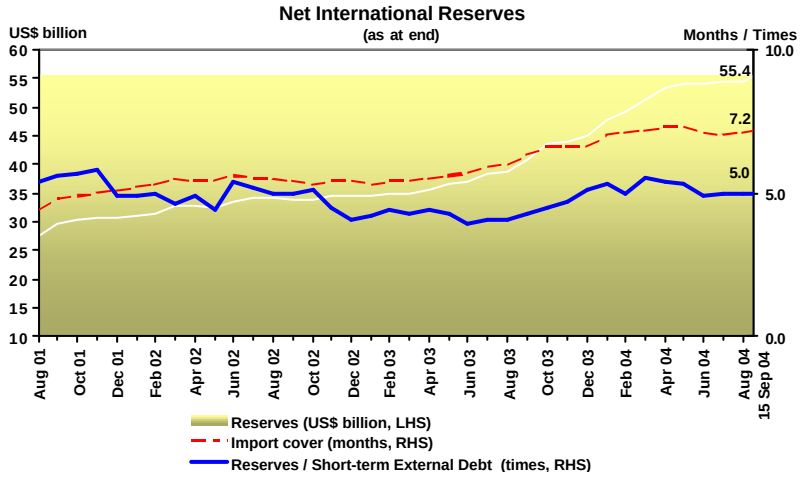
higher at RM671.1 billion (+2.6% since end-August), while the daily average turnover for the period 1-27 September was higher at 386.9 million units.



KLSE CI increased following improved market sentiments

International reserves rose on higher export receipts

The international reserves of Bank Negara Malaysia amounted to RM207.2 billion or US$54.5 billion as at 30 August 2004. The increase of RM0.8 billion (US$203 million) in August was due mainly to the continued repatriation of export earnings and inflows of foreign direct investment. Outflows reflected mainly payments for imports of goods and services, repatriation of dividends and portfolio investments. The reserves increased further to RM210.7 billion (US$55.4 billion) as at 15 September 2004. 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

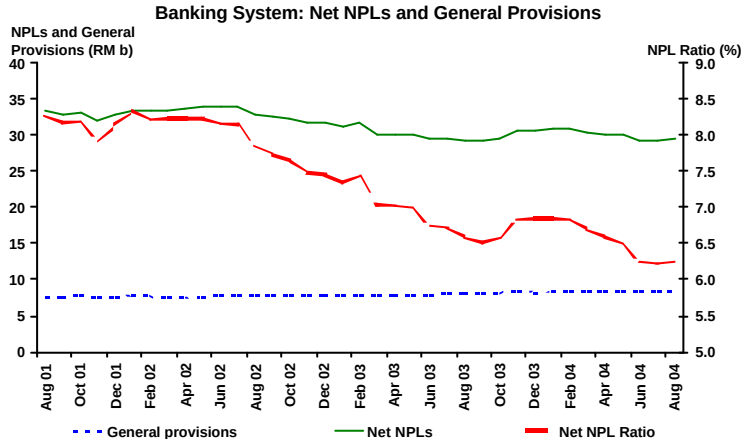
Capitalisation strengthened further as NPLs sustained

The risk-weighted capital ratio (RWCR) of the banking system strengthened further to 14.1%, the highest level since the Asian financial crisis, due mainly to the inclusion of audited profits into the capital base by several banking institutions. The net NPL ratio on a 6-month classification stood at 6.2%.

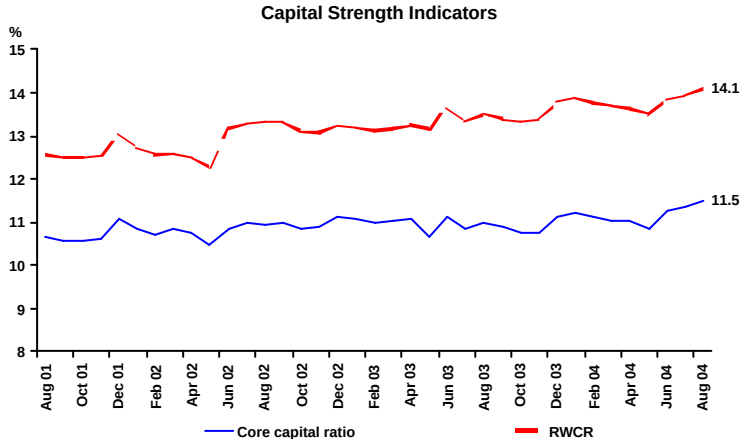
Banking System Health Indicators *

	As at end-							
	1999	**2000**	**2001**	**2002**	**2003**	**Jun 04**	**Jul 04**	**Aug 04**
Capital (%)								
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.3	11.4	11.5
RWCR	12.5	12.5	13.0	13.2	13.8	13.9	13.9	14.1
Net NPLs (6-month classification)								
% of net total loans	6.4	6.3	8.1	7.5	6.8	6.3	6.2	6.2
Amount (RM million)	23,849	24,700	32,833	31,703	30,766	29,330	29,152	29,481
GP / Net total loans (6-month, %)	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) stood at 6.2%



RWCR and core capital ratio strengthened further to 14.1% and 11.5% respectively

Bank Negara Malaysia
28 September 2004

Key Monetary and Financial Statistics

		Jun 04		Jul 04		Aug 04	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		46.4	8.7	47.3	8.0	47.4	6.0
M1		105.4	16.3	103.9	14.1	105.7	12.8
M2		447.6	11.5	451.2	12.1	467.0	14.7
M3		578.8	10.8	581.2	10.4	583.3	10.1
Banking System							
Total deposits		584.6	11.1	583.8	10.4	586.7	10.2
Total loans (including loans sold to Cagamas)		492.7	6.2	491.8	5.3	495.5	5.3
Loan-deposit ratio (%)		80.2		80.2		80.3	
Financing-deposit ratio [1] (%)		89.9		90.0		90.1	
Loans applied (during the period)		24.7	34.9	25.3	11.5	26.2	21.8
Loans approved (during the period)		18.1	28.5	16.5	14.2	14.4	14.4
Loans disbursed (during the period)		42.4	12.7	41.2	1.5	38.6	3.2
Loans repaid (during the period)		36.7	16.5	43.2	13.8	36.7	5.2
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.9		13.9		14.1	
Net NPLs: 6-month classification (%)		6.3		6.2		6.2	
International Reserves of BNM (end-period)							
Reserves in RM (billion)		204.8		206.4		207.1	
Reserves in USD (billion)		53.9		54.3		54.5	
Months of retained imports		7.1		7.0		7.1	
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]		2.68 [2.70]		2.72 [2.70]	
	1-week	2.77 [2.75]		2.74 [2.73]		2.74 [2.74]	
	1-month	2.83 [2.81]		2.84 [2.80]		2.83 [2.80]	
	3-month	2.83 [2.85]		2.83 [2.82]		2.80 [2.81]	
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		5.99		6.00		6.09	
Prices							
Consumer Price Index (CPI) (2000=100)		105.6	1.3	105.8	1.3	105.8	1.4
Producer Price Index (PPI) (1989=100)		148.2	9.8	148.6	9.5		
Exchange Rates of Ringgit against Selected Currencies (end-period)							
Euro		4.5933		4.5777		4.5621	
Pound Sterling		6.8719		6.9073		6.8007	
100 Japanese yen		3.4991		3.3951		3.4478	
Singapore dollar		2.2139		2.2034		2.2166	
100 Thai Baht		9.2841		9.1854		9.1182	
100 Philippine Peso		6.7640		6.7887		6.7559	
100 Indonesian Rupiah		0.0404		0.0414		0.0406	
100 Korean Won		0.3298		0.3245		0.3294	
Capital Market							
Net funds raised (in RMb) by:	public	-2.5		1.8		4.4	
	private	-1.1		2.4		1.5	
Bursa Malaysia Composite Index (end-period)		819.9		834.0		828.0	
Bursa Malaysia Market Capitalisation (RMb, end-period)		653.9		664.7		654.3	

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