BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 05/05/49 (BN)

EMBARGO: Not for publication or broadcast before 1800 hours on Wednesday, 25 May 2005

Monetary and Financial Developments April 2005
Highlights of the Press Release

Financing activity remained strong in April

Financing activity remained strong in April, underpinned by the demand for financing from both businesses and households. Banking system loans and private debt securities outstanding expanded at an annual rate of 9.3%.

Total bank loans outstanding grew at an annual growth rate of 8.8% at end-April. Of significance, bank lending to the SMEs continued to grow strongly, with the loans outstanding to this sector expanding at an annual rate of 10.4%. As a result, the ratio of loans outstanding of the SMEs as a percentage of total business loans outstanding rose further to 41.2%.

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MONETARY AND FINANCIAL DEVELOPMENTS
APRIL 2005

Financing activity remained strong in April

Financial conditions remained favourable in April. In the money market, the daily weighted average overnight interbank rate moved within a narrow range to average at 2.70% in the month, while in the retail market, the average lending rates for commercial banks and finance companies increased marginally to 5.97% and 8.64% respectively.

The Consumer Price Index edged up by 2.7% in April. The higher inflation was due to the higher prices of food taken at home. The increase, however, was partly offset by the decline in the prices of clothing, footwear and jewellery items.

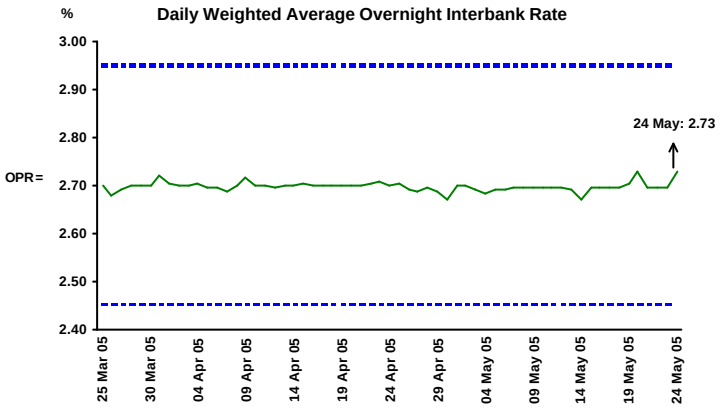
Reflecting the demand for transactional balances, M1, grew at an annual rate of 11.6%. Meanwhile, broad money, M3, expanded at an annual rate of 12.5%, due mainly to the inflows of external funds and Government operations.

Supported by demand from both businesses and households, financing activity in April continued to be at high levels. Total net financing (banking system loans and private debt securities (PDS) outstanding) expanded at an annual rate of 9.3% while total bank loans outstanding grew by 8.8% compared to a year ago. Of significance, bank lending to the SMEs expanded strongly, with the loans outstanding of this sector registering an annual growth rate of 10.4%. As a result, the ratio of loans outstanding of the SMEs as a percentage of total business loans outstanding rose to 41.2% as at end-April. In the capital market, the funds raised by the private sector were sourced mainly from the equity market. On a net basis, the total funds raised by the private sector from the capital market amounted to RM1.3 billion in April.

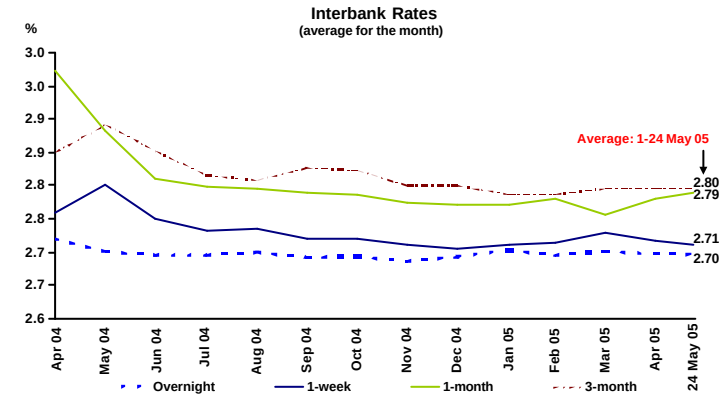
The resilience of the banking system was maintained with the risk-weighted capital ratio (RWCR) and core capital ratio (CCR) of the banking system remaining strong, despite declining to 13.3% and 10.5% respectively. The net NPL ratio based on 6-month classification remained at 5.4% as at end-April 2005.

Interest rates remained stable

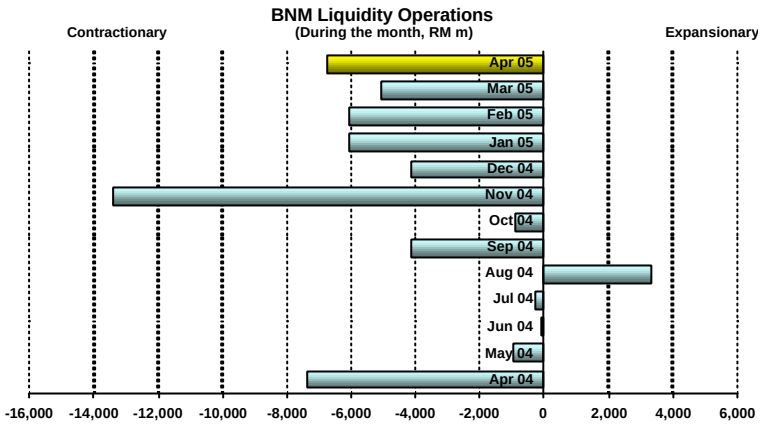
Liquidity operations by Bank Negara Malaysia were largely to support a stable overnight interbank rate in the context of inflows of funds. During the period of 1 April – 24 May, the daily weighted average overnight interbank rate moved within a range of 2.67% - 2.73%, averaging at 2.70%. The average BLRs of commercial banks (CBs) and finance companies (FCs) remained unchanged while the ALR for CBs and FCs increased marginally to 5.97% and 8.64% respectively.



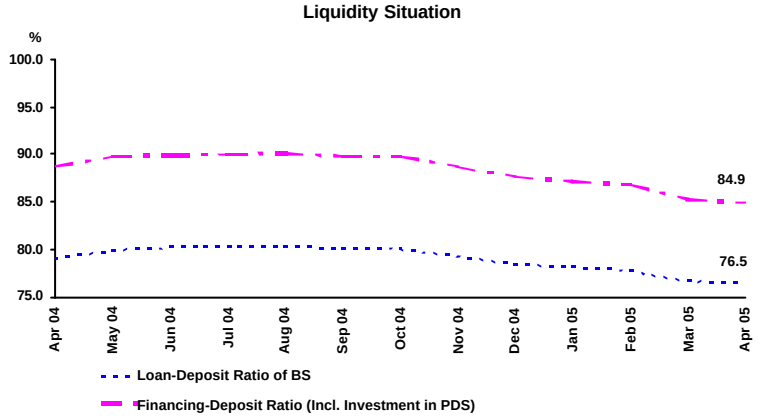
Stable overnight interbank rate



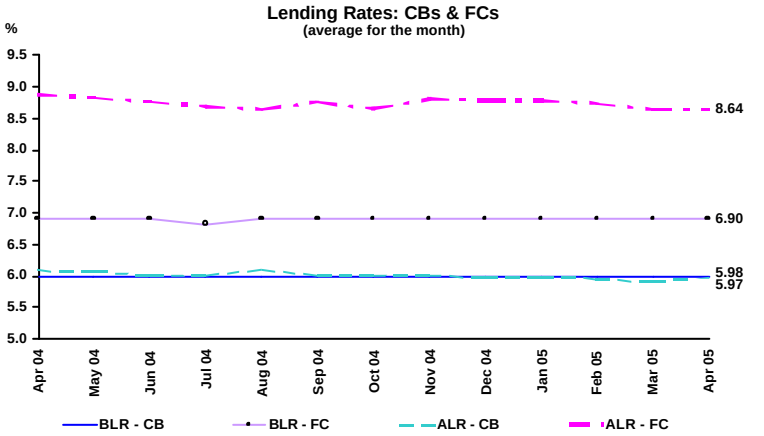
Other interbank rates were relatively unchanged



Liquidity operations in April were largely to offset the expansionary net external operations and higher Government operations

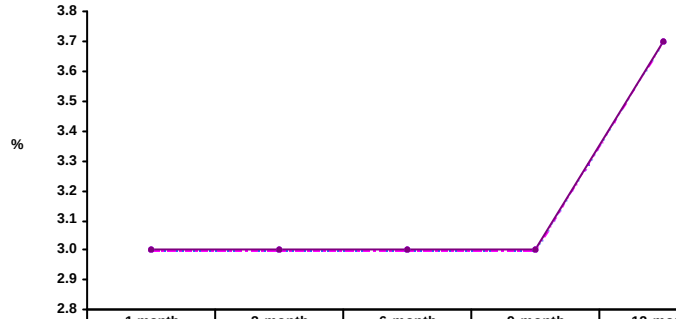


The financing-deposit ratio moderated to 84.9%



ALR for CBs and FCs were higher in April

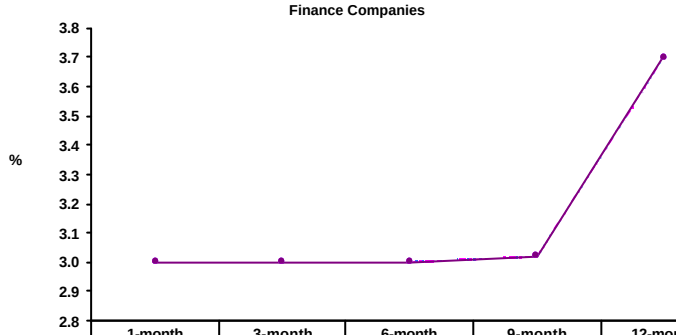
Term Structure of FD Rates
Commercial Banks



	1-month	3-month	6-month	9-month	12-month
Mar 05	3.00	3.00	3.00	3.00	3.70
Apr 05	3.00	3.00	3.00	3.00	3.70
20 May 05	3.00	3.00	3.00	3.00	3.70

FD rates of CBs remained unchanged

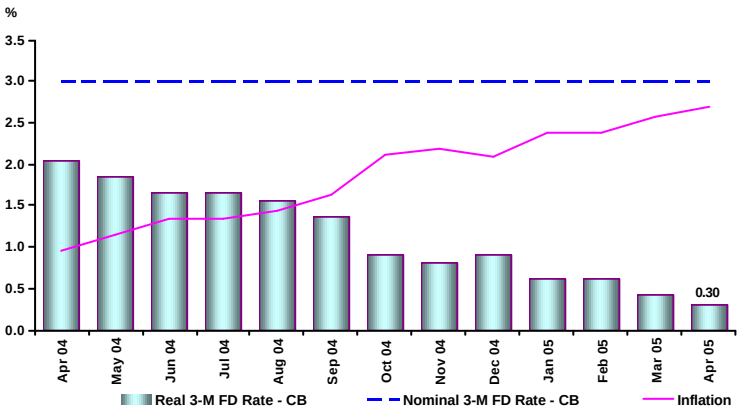
Term Structure of FD Rates
Finance Companies



	1-month	3-month	6-month	9-month	12-month
Mar 05	3.00	3.00	3.00	3.02	3.70
Apr 05	3.00	3.00	3.00	3.02	3.70
20 May 05	3.00	3.00	3.00	3.02	3.70

FD rates of FCs remained unchanged

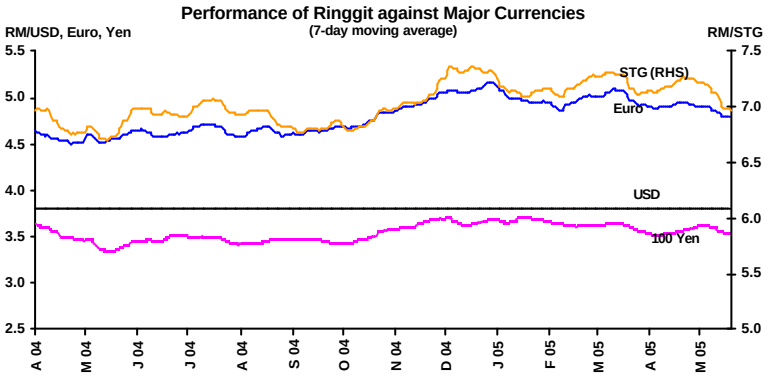
3-Month Real FD Rates

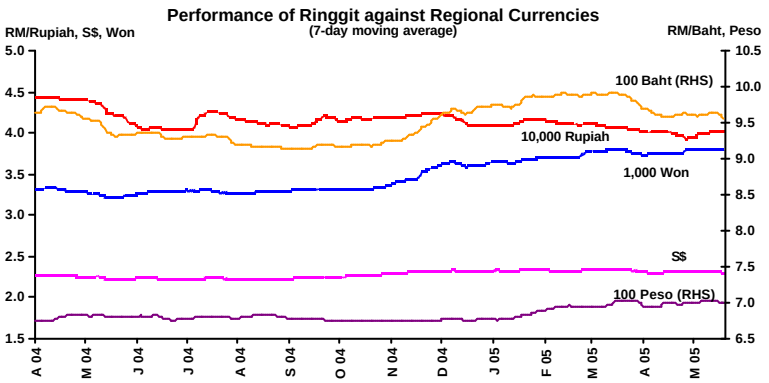


The 3-month real FD rate declined

Performance of the ringgit

Over the period end-March – 24 May 2005, the ringgit moved in tandem with movements in the US dollar. The US dollar appreciated against the major currencies following widening yield differentials in favour of the US dollar and rising expectations that economic growth in the US will outpace that of the Euro area in 2005. Regionally, the ringgit showed mixed patterns against regional currencies due to country specific developments.



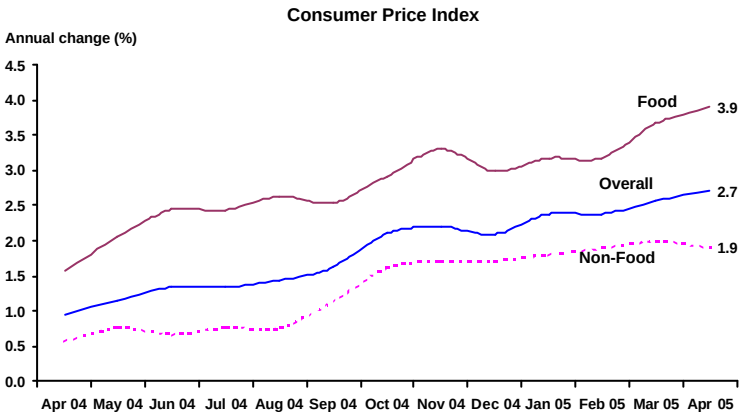


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change		
	Dec 04	Mar 05	Apr 05	24 May 05	End Mar 05 - Apr 05	End Apr 05 - 24 May 05	End Dec 04 - 24 May 05
US dollar	3.8000	3.8000	3.8000	3.8000	0.0	0.0	0.0
Euro	5.1729	4.9125	4.9079	4.7749	0.1	2.8	8.3
Pound Sterling	7.3169	7.1415	7.2542	6.9504	-1.6	4.4	5.3
100 Japanese yen	3.7026	3.5446	3.5895	3.5296	-1.2	1.7	4.9
Singapore dollar	2.3258	2.3034	2.3071	2.2926	-0.2	0.6	1.4
100 Thai baht	9.7636	9.7013	9.5790	9.4905	1.3	0.9	2.9
100 Philippine peso	6.7706	6.9381	6.9817	6.9495	-0.6	0.5	-2.6
100 Indonesian Rupiah	0.0408	0.0401	0.0397	0.0401	1.1	-1.2	1.7
100 Korean won	0.3671	0.3734	0.3785	0.3794	-1.4	-0.2	-3.2

Inflation edged up in April

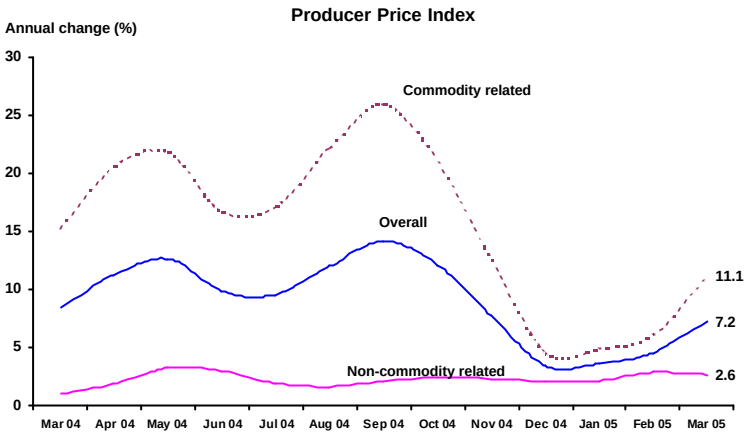
Headline inflation, as measured by the Consumer Price Index, edged up to 2.7% in April (March: 2.6%). The higher inflation in April relative to March was due to the higher prices of food taken at home, especially vegetables and fresh fish. This increase, however, was partly offset by the decline in prices of clothing, footwear and jewellery items. Prices of other sub-groups, however, remained relatively unchanged.



Inflation edged up to 2.7% in April

Producer prices increased

On an annual basis, the Producer Price Index (PPI) increased by 7.2% in March (February: 4.5%), as the strong increase in crude oil prices more than offset the decline in the prices of rubber and crude palm oil. Excluding commodity prices, PPI grew at a rate of 2.6% (February: 2.8%).



PPI inflation increased

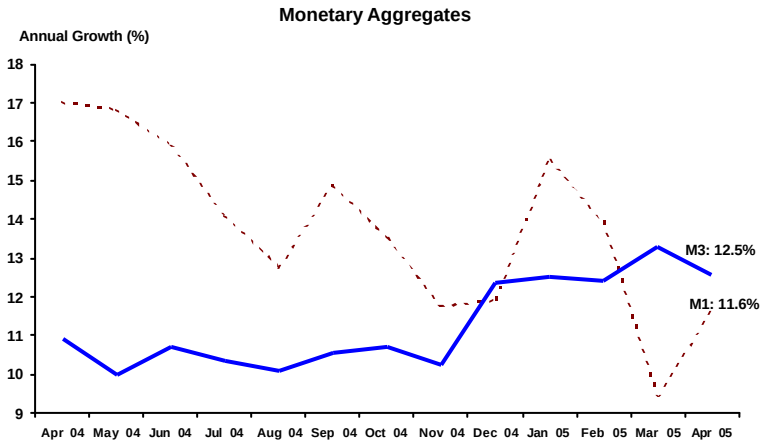
Monetary aggregates continued to expand in April

In April, transactional balances, measured by M1, grew at an annual rate of 11.6% (March: 9.4%). Meanwhile, broad money, M3, expanded by 12.5%, supported by the continued inflow of external funds and Government operations during the period. However, this expansionary impact was mitigated somewhat by the lower claims on the private sector.

M3 Determinants
(RM billion)

	Change during period			
	2004	**Mar 05**	**Apr 05**	**Jan-Apr '05**
M3	74.6	13.9	0.3	26.7
Net claims on Government	-17.1	-2.6	1.4	-7.7
Claims on the private sector	31.3	5.4	-2.0	7.1
Loans	*40.2*	*6.8*	*0.0*	*10.5*
Securities	*-8.9*	*-1.3*	*-2.0*	*-3.4*
Net external operations *	90.5	10.3	4.0	33.0
Other influences	-30.1	0.7	-3.1	-5.7

* Pre-revaluation of the international reserves



Banking system deposits continued to increase in April

Total deposits increased by RM1.8 billion or at an annual rate of 13.1% in April (March: 13.6%). The increase was mainly attributed to higher deposit placements by domestic non-bank financial institutions in the form of repurchase agreements.

Deposits by Holder
(RM million)

	Change during period			
	Jan 05	**Feb 05**	**Mar 05**	**Apr 05**
Federal Government	169	198	83	-281
State Governments	-413	610	-134	-7
Statutory Authorities [1]	-297	-255	190	230
Financial Institutions	-4,201	398	6,441	4,412
Business Enterprises	5,880	1,653	10,367	-2,484
Individuals	1,740	3,255	253	340
Others [2]	948	-479	709	-363
Total	3,826	5,380	17,909	1,848

1/ Include local Governments

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

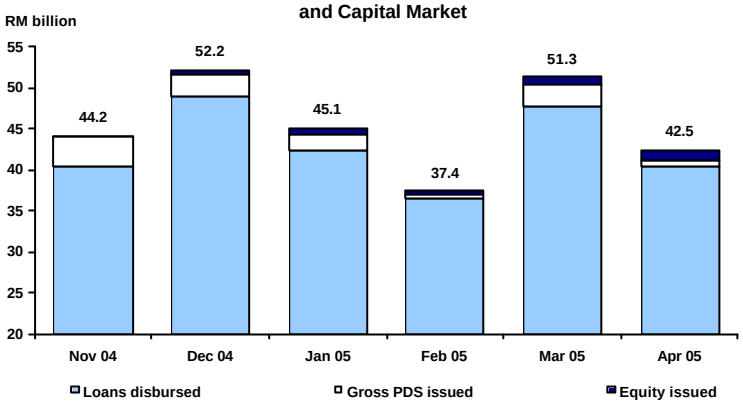
Deposits by Type
(RM million)

	Change during period			
	Jan 05	**Feb 05**	**Mar 05**	**Apr 05**
Fixed deposits	2,056	4,667	4,641	-808
NIDs	1,362	-1,262	8,958	4,686
Demand deposits	3,518	-1,125	-1,511	-1,096
Savings deposits	84	641	-504	-358
Repos	-2,278	2,588	4,110	1,043
FX deposits	-309	-304	909	-1,093
SPI deposits	-769	-33	864	-582
Others	163	208	442	56
Total	3,826	5,380	17,909	1,848

Financing to the private sector remained at high levels

In April, there was sustained demand for financing by the private sector. Total gross financing extended to the private sector by the banking system and the capital market amounted to RM42.5 billion and expanded at an annual rate of 2.8%, as loan disbursements and equity issuances increased. On a net basis, total financing extended to the private sector (banking system loans and PDS outstanding) remained unchanged at RM685.2 billion, but continued to record an annual growth rate of 9.3% at end-April (end-March: +RM6.9 billion or 9.6%).

Gross Private Sector Financing through Banking System and Capital Market



Gross private sector financing remained relatively strong at above RM40 billion in April

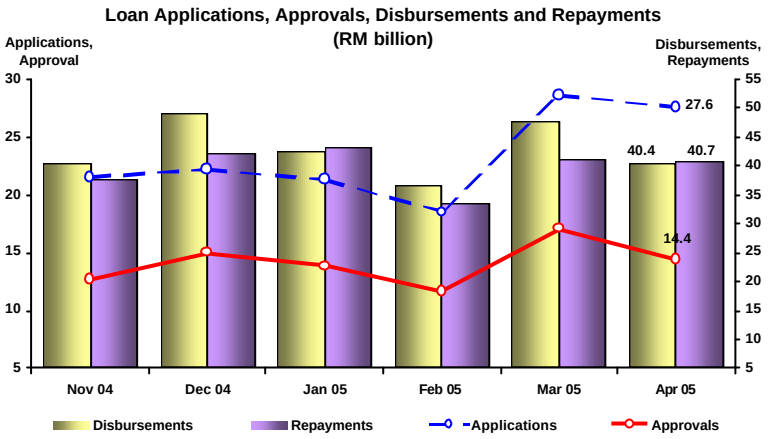
Bank Lending Indicators

	RM billion		Annual growth (%)	
	Mar	Apr	Mar	Apr
Overall				
Loan applications	28.6	27.6	20.3	13.6
Loan approvals	17.1	14.4	3.1	-9.0
Loan disbursements	47.7	40.4	12.1	3.2
Change in loans outstanding[1/]	5.9	0.2	9.1	8.8
Businesses				
Loan applications	15.8	14.8	31.0	12.8
Loan approvals	8.4	6.5	2.1	-19.0
Loan disbursements	33.5	27.2	15.5	1.6
Change in loans outstanding[1/]	2.7	-2.3	2.8	2.0
SMEs				
Loan applications	5.6	5.6	29.8	25.3
Loan approvals	3.4	3.0	31.5	11.9
Loan disbursements	9.6	8.6	22.5	10.3
Change in loans outstanding[1/]	1.5	-0.1	10.5	10.4
Households				
Loan applications	12.6	12.3	12.4	10.5
Loan approvals	8.5	7.8	6.8	0.8
Loan disbursements	12.2	11.5	5.7	9.5
Change in loans outstanding[1/]	2.4	2.9	15.2	15.3

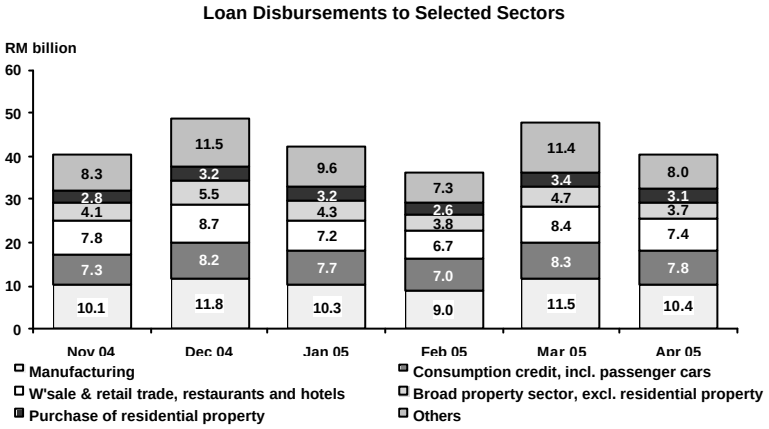
[1/] The annual growth is for end-period

Continued bank lending

Bank lending activity remained at high levels in April, indicating continued strong demand for bank loans from both households and businesses. On an annual basis, loan applications and disbursements expanded by 13.6% and 3.2% respectively. The expansion was driven by both the household and business sectors. Loan applications and disbursements of businesses grew at annual rates of 12.8% and 1.6% respectively. This reflected the stronger demand for bank financing by SMEs, whose applications and disbursements rose by 25.3% and 10.3% respectively. Meanwhile, loan applications and disbursements for households expanded at 10.5% and 9.5% on an annual basis respectively.



Loan indicators were sustained at high levels in April



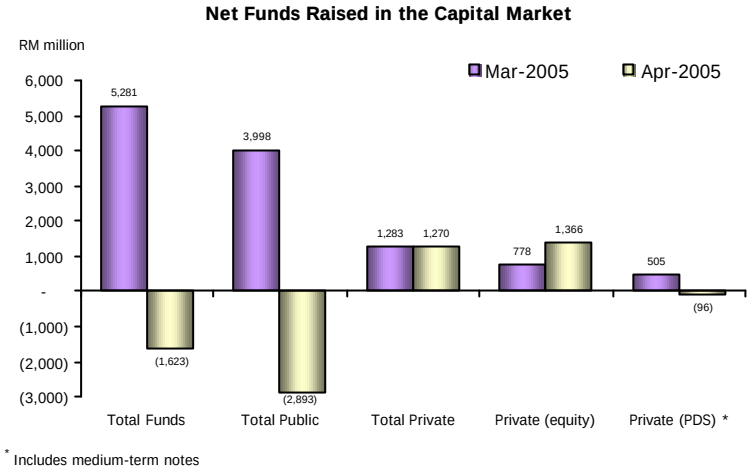
Disbursements during the month remained broad-based

The continued strong demand for bank financing was also reflected in the further expansion in loans outstanding, which grew at an annual rate of 8.8% at end-April (end-March: 9.1%). The annual growth in loans outstanding of businesses remained positive at 2% at end-April (end-March: 2.8%), due mainly to the strong increase in loans outstanding of SMEs, which grew by 10.4% (end-March: 10.5%). As a result, SMEs loans accounted for a higher share of 41.2% of the total loans to businesses (end-2004: 40.3%). Meanwhile, loans outstanding of the household sector increased at an annual rate of 15.3% at end-April (end-March: 15.2%).

Funds raised by the private sector in the capital market remained high

In April, fund-raising activities in the capital market by the private sector were mainly concentrated in the equity market with significantly higher funds raised totalling RM1.4 billion. In the private debt securities market, gross funds raised were lower, with the funds channelled for refinancing and to support new activity. On a net basis, the PDS market recorded a net redemption of RM96 million. Net funds raised

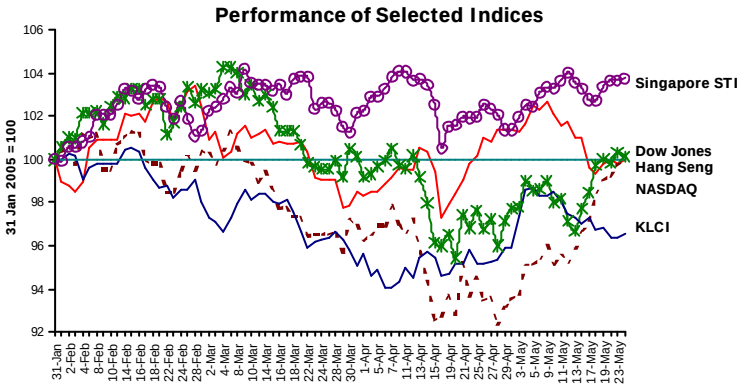
by the private sector from the capital market amounted to RM1.3 billion in April. On the whole, the capital market recorded a net redemption of RM1.6 billion in April following a large redemption by public sector.



* Includes medium-term notes

KLCI improved slightly

In April, the KLCI ended slightly higher at 878.96 (0.9% since end-March). Market capitalisation, however, was lower at RM689.04 billion (-0.7% since end-March). The daily average turnover during the month decreased to 341.8 million units.

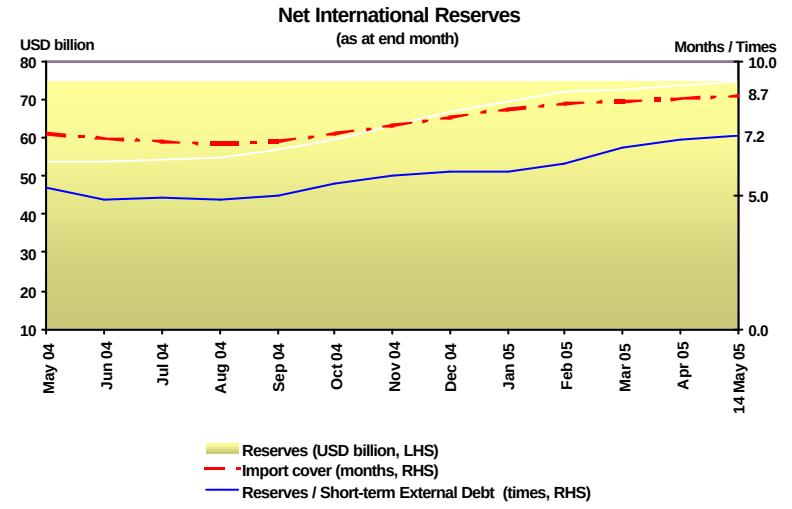


KLCI improved slightly

In the period 1-24 May, the KLCI closed higher at 884.34 on 24 May (0.6% since end-April). Market capitalisation was at RM684.4 billion (-0.7% since end-April). Market activity improved slightly, with daily average turnover at 368.4 million units.

International reserves strengthened further

The international reserves of Bank Negara Malaysia increased by RM5 billion (USD1.3 billion) to RM280.2 billion (USD73.7 billion) as at 30 April 2005. The increase in reserves in April was due mainly to sustained repatriation of export earnings, inflows of FDI and portfolio investment as well as drawdown of external loans. Outflows reflected mainly payments for imports of goods and services and repatriation of dividends. The reserves position is adequate to finance 8.6 months of retained imports and is 7.1 times the short-term external debt. Reserves strengthened to RM284.4 billion (USD74.8 billion) as at 14 May 2005. The current level of reserves is sufficient to finance 8.7 months of retained imports and is 7.2 times the short-term external debt.



Resilience of banking system maintained

With the inclusion of market risk in the capital adequacy framework, the risk-weighted capital ratio (RWCR) and core capital ratio (CCR) of the banking system remained strong, despite declining to 13.3% and 10.5%, respectively. Meanwhile, the net NPL ratio based on 6-month classification remained at 5.4% as at end-April 2005.

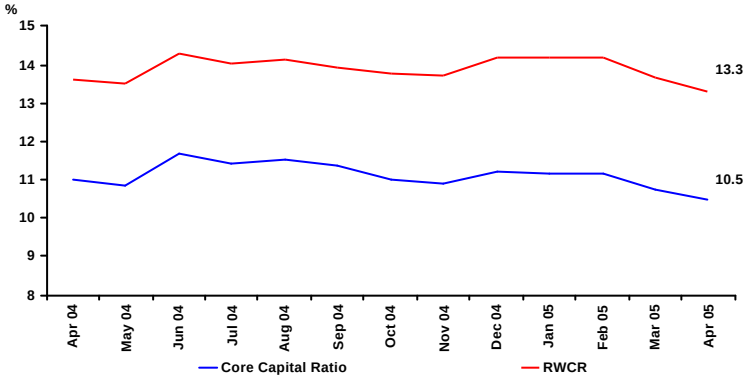
Banking System Health Indicators *

	As at end-								
	1999	2000	2001	2002	2003	Dec 04	Feb 05	Mar 05	Apr 05
Capital (%)									
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.2	11.2	10.8	10.5
RWCR	12.5	12.5	13.0	13.2	13.8	14.2	14.2	13.7	13.3
Net NPLs (6-month classification)									
% of net total loans	6.4	6.3	6.9	7.5	6.8	5.8	5.6	5.4	5.4
Amount (RM million)	23,849	24,700	32,833	31,702	30,766	28,630	27,823	27,277	27,213
GP / Net total loans (6-month, %)	1.9	1.9	1.9	1.8	1.8	1.7	1.7	1.7	1.7

* Beginning June 1999, the figures include Islamic banks.

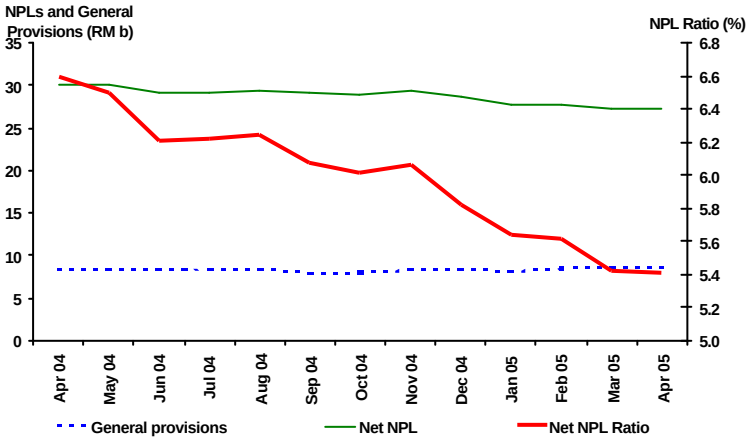
* Beginning April 2005, RWCR and CCR include market risk factor

Capital Strength Indicators



RWCR stood at 13.3%

Banking System: Net NPLs and General Provisions



Net NPL ratio (6-month classification) remained at 5.4%

Bank Negara Malaysia
25 May 2005

Key Monetary and Financial Statistics

		Feb 05		Mar 05		Apr 05	
		Outs. (RM b)	Ann. growth (%)	Outs. (RM b)	Ann. growth (%)	Outs. (RM b)	Ann. growth (%)
Monetary Aggregates							
Reserve money		51.9	9.7	50.6	7.5	51.4	8.0
M1		117.8	13.9	115.7	9.4	114.3	11.6
M2		540.9	24.9	552.6	25.7	552.5	24.7
M3		630.2	12.4	644.0	13.3	644.3	12.5
Banking System							
Total deposits		633.2	12.6	651.1	13.6	652.9	13.1
Total loans (including loans sold to Cagamas)		516.7	8.3	522.6	9.1	522.8	8.8
Loan-deposit ratio (%)		77.7		76.6		76.5	
Financing-deposit ratio [1] (%)		86.8		85.3		84.9	
Loans applied (during the period)		18.5	5.2	28.6	20.3	27.6	13.6
Loans approved (during the period)		11.7	7.3	17.1	3.1	14.4	-9.0
Loans disbursed (during the period)		36.5	11.2	47.7	12.1	40.4	3.2
Loans repaid (during the period)		33.6	2.2	41.1	0.4	40.7	4.4
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		14.2		13.7		13.3	
Net NPLs: 6-month classification (%)		5.6		5.4		5.4	
International Reserves of BNM (end-period)							
Reserves in RM (billion)		272.9		275.2		280.2	
Reserves in USD (billion)		71.8		72.4		73.7	
Months of retained imports		8.4		8.5		8.6	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		2.70		2.70		2.70	
Interbank:	Overnight	2.69 [2.69]		2.72 [2.70]		2.67 [2.70]	
	1-week	2.69 [2.71]		2.75 [2.73]		2.72 [2.72]	
	1-month	2.78 [2.78]		2.77 [2.76]		2.79 [2.78]	
	3-month	2.79 [2.79]		2.82 [2.80]		2.80 [2.80]	
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		5.95		5.90		5.97	
Prices							
Consumer Price Index (CPI) (2000=100)		107.6	2.4	107.7	2.6	108.0	2.7
Producer Price Index (PPI) (1989=100)		153.4	4.5	160.8	7.2	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
Euro		5.0437		4.9125		4.9079	
Pound Sterling		7.3065		7.1415		7.2542	
100 Japanese yen		3.6282		3.5446		3.5895	
Singapore dollar		2.3360		2.3034		2.3071	
100 Thai Baht		9.9139		9.7013		9.5790	
100 Philippine Peso		6.9463		6.9381		6.9817	
100 Indonesian Rupiah		0.0410		0.0401		0.0397	
100 Korean Won		0.3781		0.3734		0.3785	
Capital Market							
Net funds raised (in RMb) by:	public	2.0		4.0		-2.9	
	private	-0.3		1.3		1.3	
Bursa Malaysia Composite Index (end-period)		907.4		871.4		879.0	
Bursa Malaysia Market Capitalisation (RMb, end-period)		725.2		694.9		689.0	

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