BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 01/05/67 (BN)

EMBARGO: Not for publication or broadcast before 1700 hours on Friday, 28 January 2005

Monetary and Financial Developments in December 2004
Highlights of the Press Release

Private sector financing activity strengthened

The banking system strengthened further in December. The net non-performing loan (NPL) ratio based on the 6-month classification, improved further to 5.9%, the lowest level since the Asian crisis. Together with a supportive interest rate environment, the enhanced capacity of the banking system and the stronger balance sheet contributed to the increased financing to the private sector. Banking system loans outstanding and holdings of private debt securities expanded at an annual rate of 7.7%, facilitating private sector economic activity.

Within the business sector, the major loan indicators for the SMEs registered strong expansions in December with loan applications, approvals and disbursements growing at annual rates of 49.5%, 41.4% and 12.9% respectively. Overall, loans outstanding to the SMEs grew by 7.7% on an annual basis.

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MONETARY AND FINANCIAL DEVELOPMENTS DECEMBER 2004

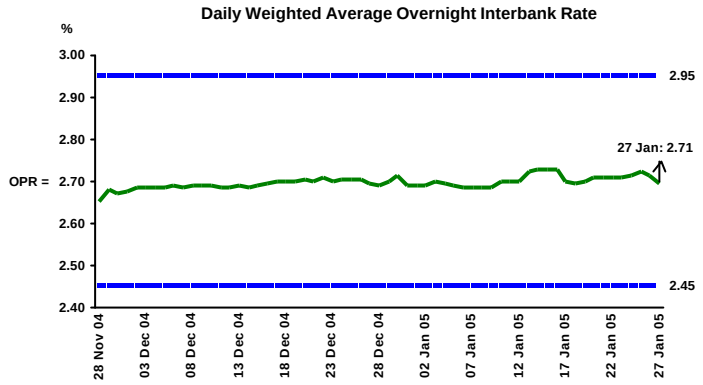
Private sector financing activity strengthened

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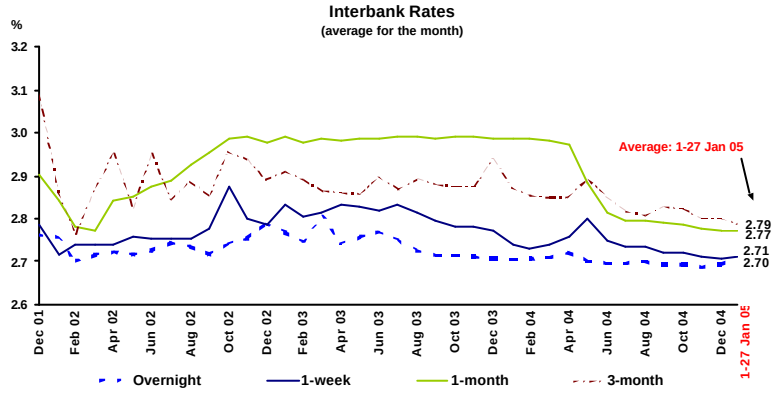
Within the business sector, the major loan indicators for the SMEs registered strong expansions in December with loan applications, approvals and disbursements growing at annual rates of 49.5%, 41.4% and 12.9% respectively. Overall, loans outstanding to the SMEs grew by 7.7% on an annual basis.

Interest rates were stable

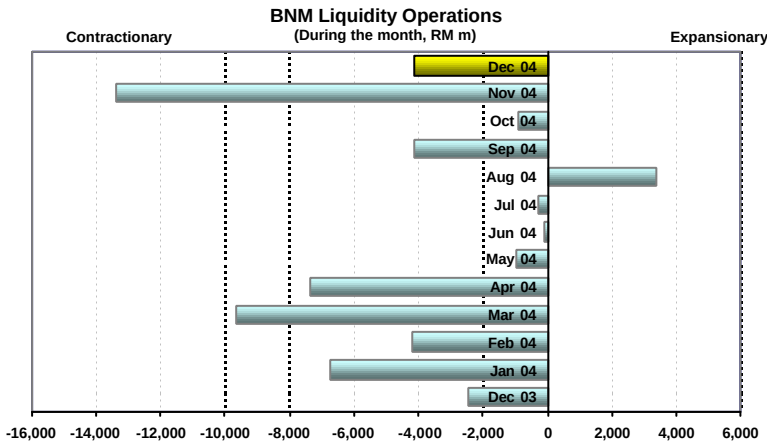
In the period 1 December 2004 – 27 January 2005, the daily weighted average of the overnight interbank rate moved within a narrow range of 2.67 – 2.73%, averaging at 2.70%.



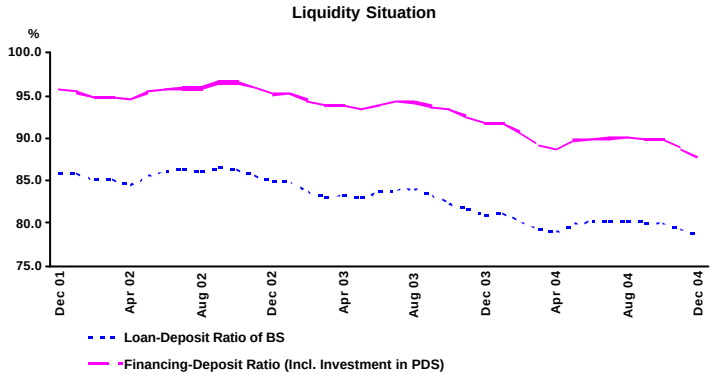
The overnight interbank rate remained stable



Other interbank rates also remained stable

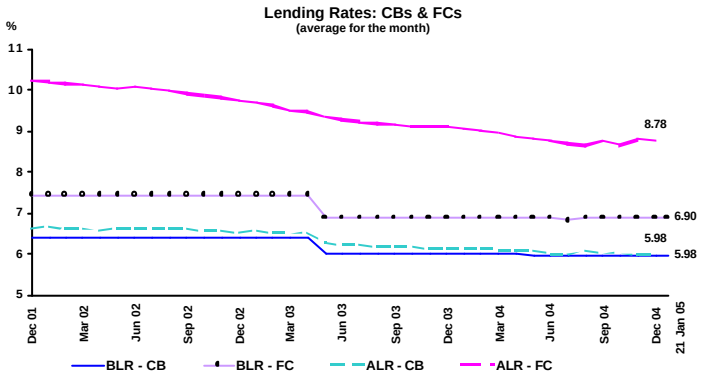


Liquidity operations were contractionary in December to offset the expansionary impact of external operations

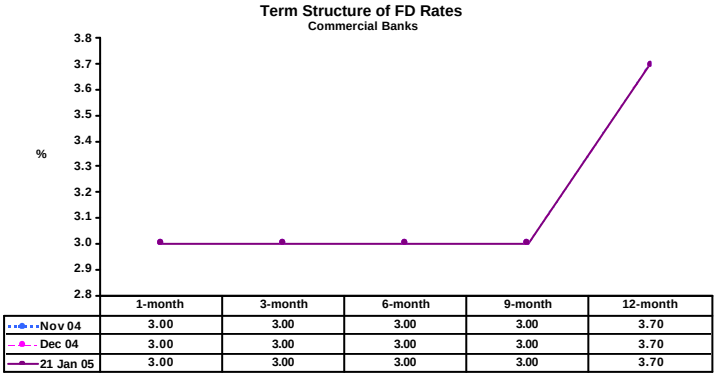


The financing-deposit ratio stood at 87.6%

The average base lending rates (BLRs) of commercial banks (CBs) and finance companies (FCs) remained unchanged at 5.98% and 6.90% respectively at end-December. The average lending rate (ALR) of the CBs increased slightly to 5.98% (5.97% at-end November) while the ALR of the FCs was slightly lower at 8.78% (8.81% at end-November).

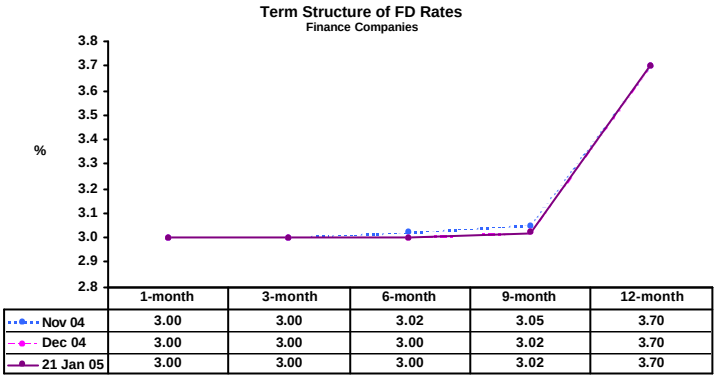


ALR of the CBs were marginally higher while ALR of the FCs declined slightly



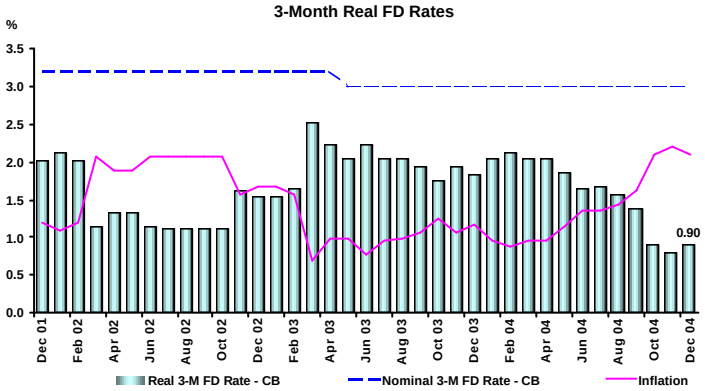
	1-month	3-month	6-month	9-month	12-month
Nov 04	3.00	3.00	3.00	3.00	3.70
Dec 04	3.00	3.00	3.00	3.00	3.70
21 Jan 05	3.00	3.00	3.00	3.00	3.70

FD rates of CBs remained unchanged



	1-month	3-month	6-month	9-month	12-month
Nov 04	3.00	3.00	3.02	3.05	3.70
Dec 04	3.00	3.00	3.00	3.02	3.70
21 Jan 05	3.00	3.00	3.00	3.02	3.70

FD rates of FCs remained stable



The 3-month real FD rate edged up on lower inflation in December

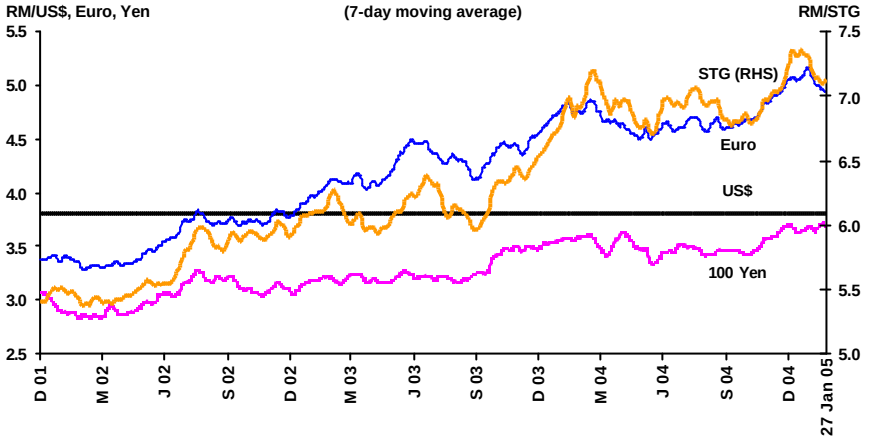
Performance of the ringgit

In December 2004, the ringgit depreciated against the major currencies and most regional currencies. The ringgit depreciation mirrored the weakening US dollar over the period, which culminated in the US currency reaching an all time low of $1.3619 against the euro on 30 December 2004 and a 14-year low of $1.9455 against the pound sterling on 21 December 2004. The dollar depreciated in response to market concerns over the widening US trade and fiscal imbalances, despite an increase in the benchmark interest rate and stronger third quarter US growth. Regionally, the ringgit appreciated against the Indonesian rupiah by 3.2% and depreciated by 1.6% against the Philippine peso as the currency strengthened in response to inflows of repatriated earnings due to the year-end holidays.

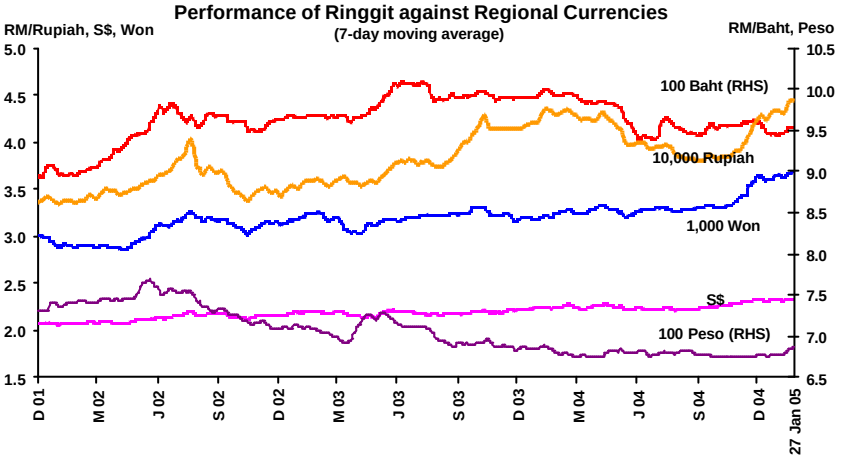
In the 1-27 January 2005 period, the dollar strengthened against the euro and pound sterling but against the yen, the dollar reached a 5-year low of 102.095 on 17 January 2005, weighed down by the latest data showing a widening US trade deficit in November 2004. However, the dollar has since recovered slightly to record

a marginal appreciation against the yen. Meanwhile, the ringgit depreciated by 1.8% against the Indonesian rupiah, 1.7% against the Philippine peso, 1% against the Thai baht and 0.7% against the Korean won but remained unchanged against the Singapore dollar.

Performance of Ringgit against Major Currencies



Performance of Ringgit against Regional Currencies

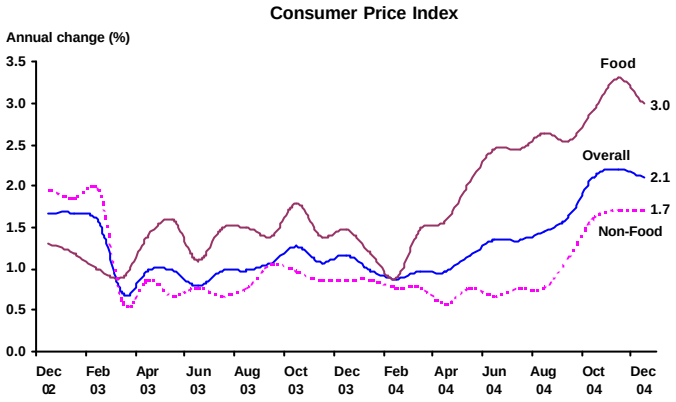


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change			
	02 Sep 98	Dec 03	Dec 04	27 Jan 05	Dec 04	End Dec 04 - 27 Jan 05	End Dec 03 - 27 Jan 05	02 Sep 98 - 27 Jan 05
US dollar	3.8000	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.7783	5.1729	4.9655	-2.6	4.2	-3.8	-
Pound Sterling	6.3708	6.7678	7.3169	7.1522	-1.9	2.3	-5.4	-10.9
100 Japanese yen	2.7742	3.5546	3.7026	3.6825	-0.5	0.5	-3.5	-24.7
Singapore dollar	2.1998	2.2342	2.3258	2.3259	-0.5	0.0	-3.9	-5.4
100 Thai baht	9.3713	9.5947	9.7636	9.8663	-1.6	-1.0	-2.8	-5.0
100 Philippine peso	8.8302	6.8431	6.7706	6.8859	-0.1	-1.7	-0.6	28.2
100 Indonesian Rupiah	0.0354	0.0449	0.0408	0.0416	3.1	-1.8	7.9	-14.9
100 Korean won	0.2827	0.3180	0.3671	0.3697	-1.2	-0.7	-14.0	-23.5

Inflation stabilised

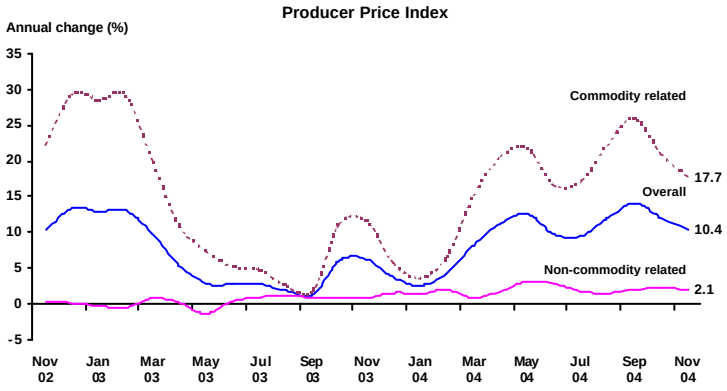
The annual inflation rate, as measured by the Consumer Price Index (CPI, 2000=100), stabilised at 2.1% in December (2.2% in November), due mainly to the slower increase in prices of fruits and vegetables. The average annual inflation rate for 2004 was slightly higher at 1.4% compared to 1.2% in 2003.



December CPI at 2.1%

Annual growth rate of producer prices continued to moderate

The annual growth rate of the Producer Price Index (PPI, 1989=100) moderated further in November to 10.1% (12.1% in October), due mainly to the moderation in crude palm oil prices. Excluding commodity-related products, the non-commodity related PPI increased at annual rate of 2.1% (2.4% in October).



The annual growth rate of PPI continued to moderate

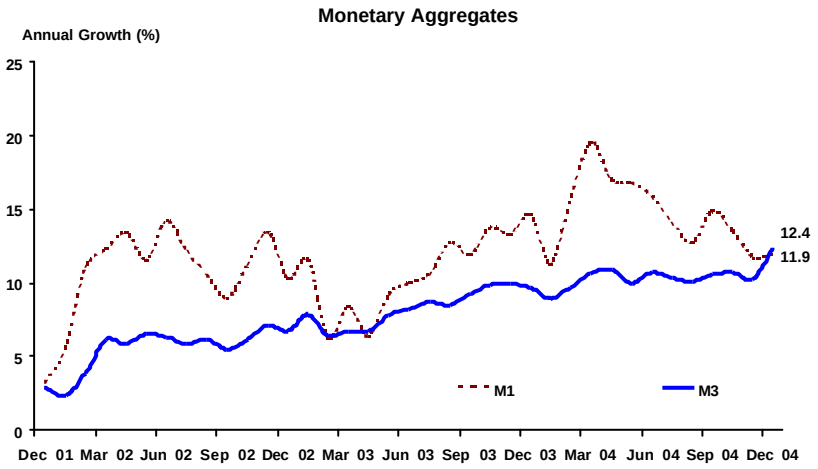
Monetary aggregates continued to expand

Narrow money, M1, grew at an annual growth rate of 11.9% in December (Nov 04: 11.7%) reflecting sustained consumer spending during the year-end holiday season. Similarly, broad money also expanded further at an annual growth rate of 12.4% (Nov 04: 10.3%), reflecting the higher loans extended to the private sector by the banking system as well as further accumulation of net international reserves.

M3 Determinants
(RM billion)

	Change during period			
	Oct 04	**Nov 04**	**Dec 04**	**Jan - Dec 04**
M3	6.6	6.0	13.3	68.2
Net claims on Government	-1.7	-0.2	0.7	-11.9
Claims on the private sector	0.0	0.7	3.3	30.2
Loans	*1.7*	*3.1*	*6.6*	*39.9*
Securities	*-1.7*	*-2.3*	*-3.3*	*-9.6*
Net external operations *	11.0	11.7	8.1	82.2
Other influences	-2.7	-6.2	1.2	-32.4

* Pre-revaluation



Banking system deposits increased

In December, total deposits mobilized by the banking sector increased further by RM14.5 billion to post an annual growth rate of 12.7%. The bulk of the increase was due mainly to higher deposit placements by domestic businesses in the form of fixed deposits, NIDs, SPI deposits as well as repos, and deposits of individuals in terms of savings and fixed deposits.

Deposits by Holder
(RM million)

	Change during period			
	Oct 04	Nov 04	Dec 04	Jan - Dec 04
Federal Government	-365	765	-373	-28
State Governments	-171	-210	-58	251
Statutory Authorities [1]	-539	-980	1,565	-2,765
Financial Institutions	-784	3,634	1,636	16,365
Business Enterprises	3,032	2,909	6,735	31,737
Individuals	1,550	2,486	4,076	20,299
Others [2]	645	821	880	4,497
Total	3,368	9,426	14,461	70,355

1/ Include local Governments

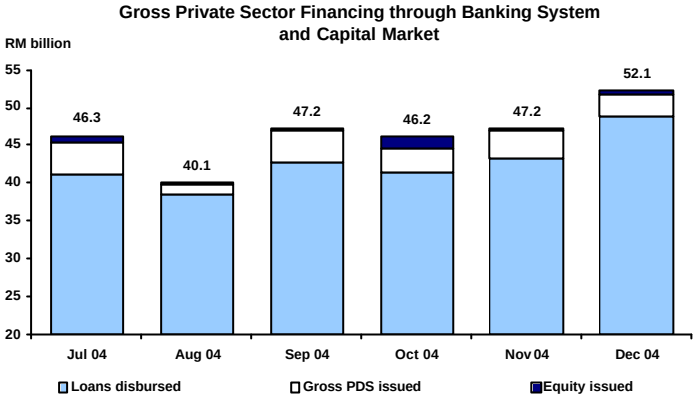
2/ Include domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

	Change during period			
	Oct 04	Nov 04	Dec 04	Jan - Dec 04
Fixed deposits	-2,445	-2,079	3,733	13,598
NIDs	-189	1,773	2,231	11,101
Demand deposits	-88	3,008	2,190	8,026
Savings deposits	138	976	1,799	4,563
Repos	3,882	4,293	1,845	14,852
FX deposits	697	-470	24	2,976
SPI deposits	1,734	1,845	2,370	12,775
Others	-362	81	269	2,465
Total	3,368	9,426	14,461	70,355

Robust financing to the private sector in December

Amidst strong economic activity and continued improvement in consumer and business confidence, demand for financing from both businesses and households increased further during the month. In December, total gross financing extended to the private sector by the banking system and the capital market expanded at an annual rate of 8.3% to RM52.1 billion, driven by the higher loan disbursements to both businesses and households during the month. On a net basis, total financing extended to the private sector (banking system loans and PDS outstanding) increased by RM8.4 billion during the month, recording an annual growth rate of 9% (RM5.6 billion or 8.3% at end-November).



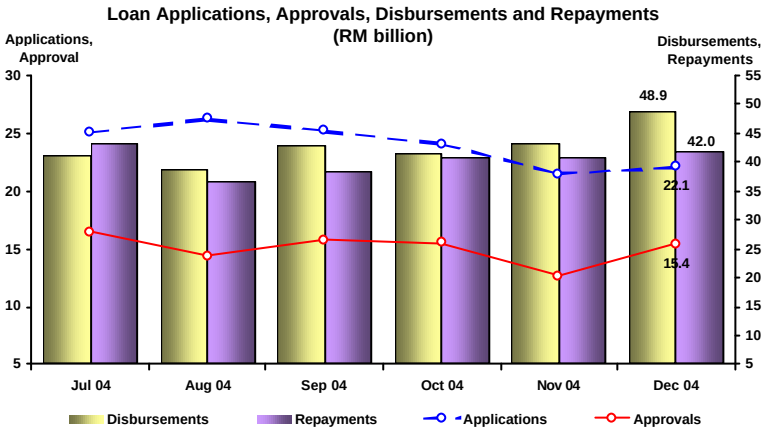
Higher gross private sector financing in December

All loan indicators were higher in December. On an annual basis, loan applications, approvals and disbursements expanded by 16%, 8.6% and 12.6% respectively. For the year as whole, loan applications, approvals and disbursements were higher than in 2003, reflecting stronger economic activity. Stronger demand for long-term financing increased loans outstanding by RM6.9 billion in December or an annual rate of 8.5% (6.7% at end-November).

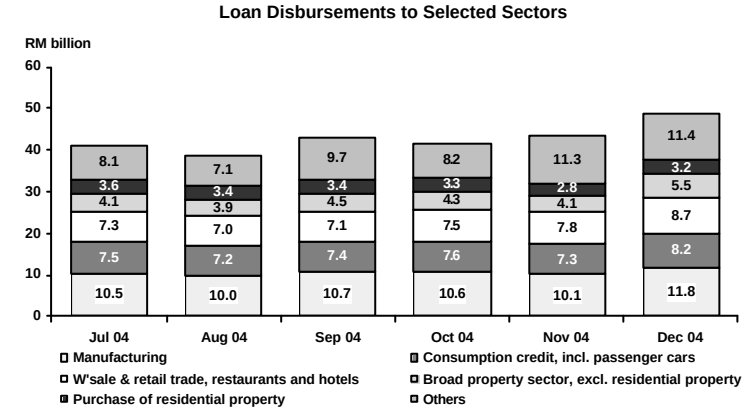
There was a broad-based increase in loans disbursed to businesses in December, which rose to RM34.7 billion or an annual rate of 13.4% (RM30.5 billion or 24.5% in November). Higher demand for bank financing by businesses was also evident in loan applications and approvals, which increased further during the month. Of importance, loans outstanding to businesses, which have been subdued since 2001, recorded a growth of 2.6% at end-December.

Likewise, the demand for bank financing from SMEs expanded significantly in December. All the major loan indicators recorded robust growth during the month. Loan applications by this sector rose strongly by 49.5% on an annual basis. Meanwhile, loan approvals and disbursements to SMEs were also higher, increasing at an annual rate of 41.4% and 12.9%, with RM3.2 billion approved for 7,535 SME accounts and RM10.4 billion disbursed. For the year as a whole, a total of RM31.6 billion was approved for 92,161 SME accounts, while RM100.4 billion was disbursed to bring total loans outstanding to SMEs to rise by a further RM1.4 billion or at an annual rate of 7.7% at end-December. As a result, SMEs bans accounted for a higher share of 40.3% of total business loans outstanding and 17.2% of total loans at end-December (38.4% and 17.3% respectively at end-2003).

In the household sector, demand for loans remained strong and increased by RM3 billion during the month, reflecting sustained consumption spending amidst further improvements in the employment and income outlook. Loans disbursed to households expanded by 15.9% on an annual basis, while household loan applications and approvals grew at annual rates of 17.4% and 13.8% respectively. Consequently, loans outstanding to the household sector expanded by 14.4% on an annual basis.



Loan disbursements were significantly higher in December

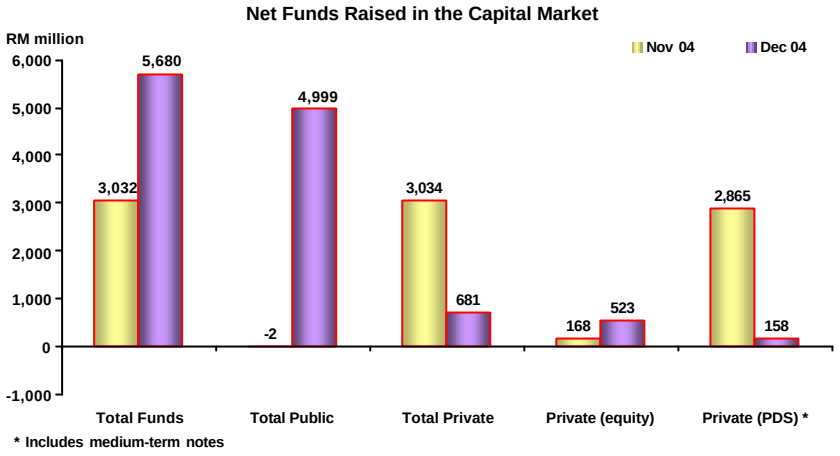


Higher disbursements during the month were broad-based

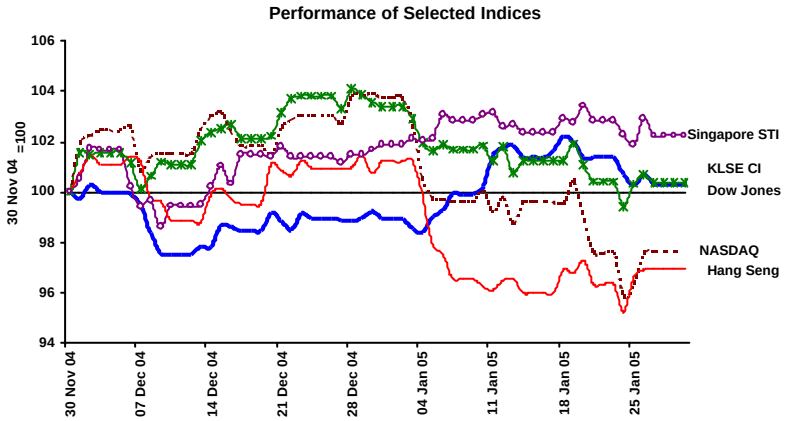
Higher volume of funds raised in the capital market

Net funds raised in the capital market were higher in December, amounting to RM5.7 billion. The bulk of funds was raised in the bond market by the public sector through the new issuance of MGS5/04 and the reopening of MGS2/88. New issuances of PDS amounted to RM2.7 billion, mainly by companies in the construction and transportation sectors. These funds were used mainly for refinancing and to finance new activity. Taking into account the high redemption of RM2.6 billion, the PDS market recorded a lower net funds raised of RM158 million.

Funds raised through the equity market amounted to RM523 million. Ten new companies, mainly in the technology sector, were listed.



In December 2004, the KLSE CI ended lower at 907.43 points (-1.1% since end-November) with market capitalisation at RM722.04 billion (-0.1% since end-November). Market activity was seasonally lower with daily average turnover recording 462.83 million units in December (542.97 million units in November).

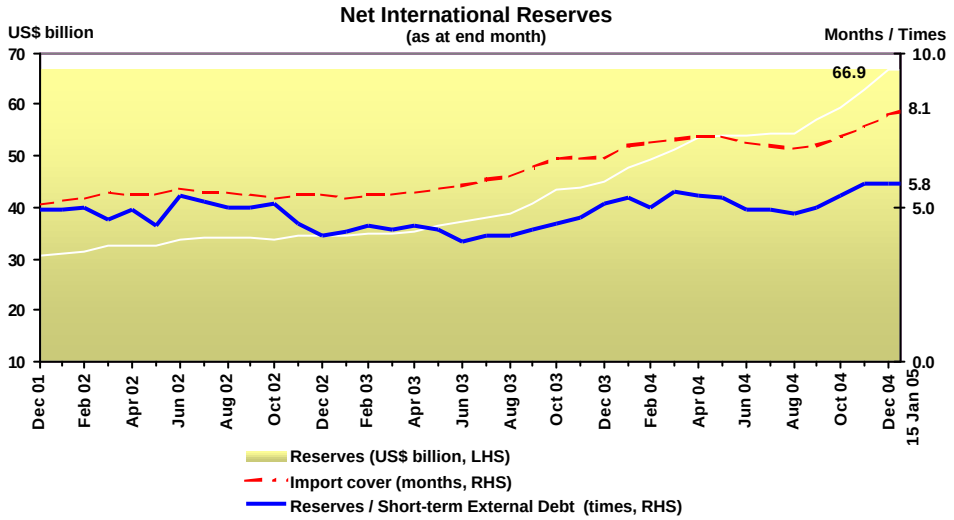


KLSE CI improved in January

In the period 1-27 January 2005, the KLSE CI closed higher at 919.95 on 27 January 2005 (+1.4% since end-December). Market capitalisation was higher at RM734.22 billion (+1.7% since end-December) while the daily average turnover during the period stood at 572.3 million units.

International reserves increased further

The international reserves of Bank Negara Malaysia increased further in December to RM253.5 billion (US$66.7 billion) as at 31 December 2004. The increase of RM14.3 billion (US$3.8 billion) during the month was attributed mainly to the sustained repatriation of export earnings, higher foreign direct investments and inflows of portfolio funds. Outflows reflected mainly higher payments for imports of goods and services and year-end repatriations of profits and dividends. The reserves level has also taken into account the quarterly foreign exchange revaluation gain amounting to US$2.6 billion. Reserves increased further to RM254.2 billion (US$66.9 billion) as at 15 January 2005. The reserves level is adequate to finance 8.1 months of retained imports and is 5.8 times the short-term external debt.



Strong bank capitalisation with improvement in asset quality

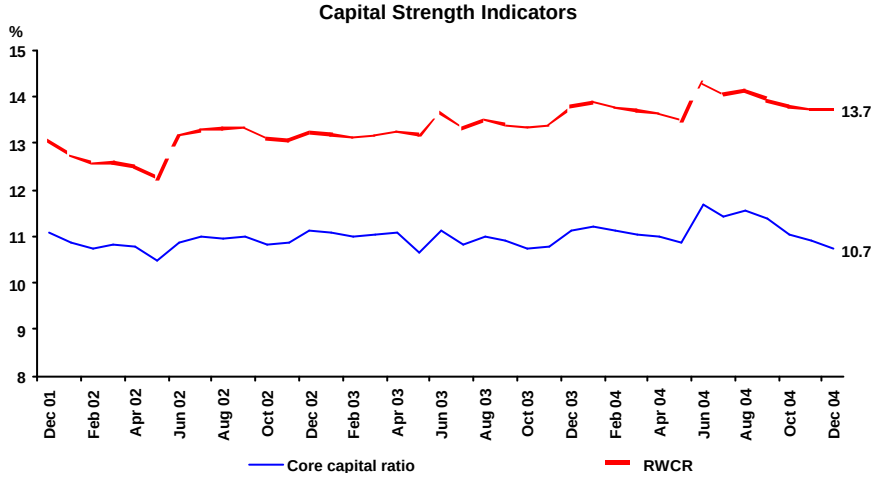
The risk-weighted capital ratio (RWCR) and core capital ratio of the banking system remained strong at 13.7% and 10.7% respectively. Asset quality improved further, with net NPL ratio based on 6-month classification continuing its downward trend to 5.9% as at end December 2004, the lowest level post 1997 Asian financial crisis.

Banking System Health Indicators *

	As at end-							
	1999	2000	2001	2002	2003	Oct 04	Nov 04	Dec 04
Capital (%)								
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.0	10.9	10.7
RWCR	12.5	12.5	13.0	13.2	13.8	13.8	13.7	13.7
Net NPLs (6-month classification)								
% of net total loans	6.4	6.3	8.1	7.4	6.8	6.0	6.1	5.9
Amount (RM million)	23,856	24,760	32,833	31,502	30,766	28,964	29,382	29,066
GP / Net total loans (6-month, %)	1.9	1.9	1.9	1.8	1.8	1.7	1.7	1.7

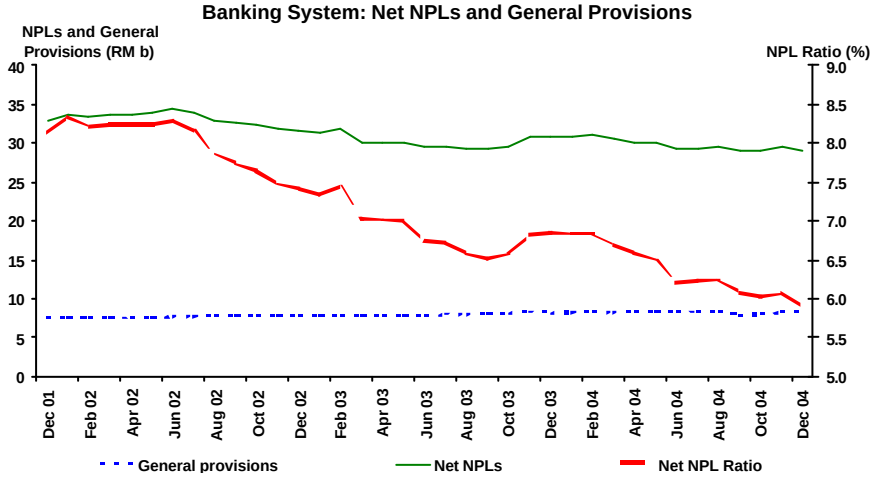
* Beginning June 1999 onwards, the figure include Islamic banks.

Capital Strength Indicators



RWCR remained at 13.7% and core capital ratio decreased slightly to 10.7%

Banking System: Net NPLs and General Provisions



Net NPL ratio (6-month classification) fell to 5.9%

Bank Negara Malaysia

28 January 2005

Key Monetary and Financial Statistics

		Oct 04		Nov 04		Dec 04	
		Outs. (RM b)	Ann. growth (%)	Outs. (RM b)	Ann. growth (%)	Outs. (RM b)	Ann. growth (%)
Monetary Aggregates							
Reserve money		50.0	12.3	49.0	2.8	50.1	10.0
M1		109.3	13.5	111.4	11.7	114.3	11.9
M2		503.3	21.0	518.9	22.6	534.2	25.4
M3		598.6	10.7	604.5	10.3	617.8	12.4
Banking System							
Total deposits		600.3	10.3	609.7	10.9	624.2	12.7
Total loans (including loans sold to Cagamas)		504.4	6.4	507.1	6.7	514.0	8.5
Loan-deposit ratio (%)		80.0		79.3		78.6	
Financing-deposit ratio [1] (%)		89.8		88.7		87.6	
Loans applied (during the period)		24.1	23.8	21.5	24.6	22.1	16.0
Loans approved (during the period)		15.5	15.6	12.7	11.8	15.4	8.6
Loans disbursed (during the period)		41.5	-0.1	43.3	21.3	48.9	12.6
Loans repaid (during the period)		40.8	-1.6	40.7	14.0	42.0	-8.0
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.8		13.7		13.7	
Net NPLs: 6-month classification (%)		6.0		6.1		5.9	
International Reserves of BNM (end-period)							
Reserves in RM (billion)		225.9		239.2		253.5	
Reserves in USD (billion)		59.5		63.0		66.7	
Months of retained imports		7.3		7.6		8.0	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		2.70		2.70		2.70	
Interbank:	Overnight	2.68 [2.69]		2.67 [2.69]		2.69 [2.69]	
	1-week	2.70 [2.72]		2.70 [2.71]		2.72 [2.71]	
	1-month	2.78 [2.79]		2.78 [2.78]		2.77 [2.77]	
	3-month	2.82 [2.82]		2.80 [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		6.01		5.97		5.98	
Prices							
Consumer Price Index (CPI) (2000=100)		106.8	2.1	107.0	2.2	107.2	2.1
Producer Price Index (PPI) (1989=100)		157.8	12.1	158.0	10.4	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
Euro		4.8431		5.0379		5.1729	
Pound Sterling		6.9607		7.1786		7.3169	
100 Japanese yen		3.5800		3.6834		3.7026	
Singapore dollar		2.2868		2.3147		2.3258	
100 Thai Baht		9.2672		9.6044		9.7636	
100 Philippine Peso		6.7451		6.7652		6.7706	
100 Indonesian Rupiah		0.0418		0.0421		0.0408	
100 Korean Won		0.3389		0.3627		0.3671	
Capital Market							
Net funds raised (in RMb) by:	public	2.2		…		5.0	
	private	4.2		3.0		0.7	
Bursa Malaysia Composite Index (end-period)		861.1		917.2		907.4	
Bursa Malaysia Market Capitalisation (RMb, end-period)		674.3		723.0		722.0	

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