BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PEN : 07/03/48 (BN)

EMBARGO: Not for publication or broadcast before 1830 hours on Monday, 28 July 2003

Highlights of the June 2003 Press Release

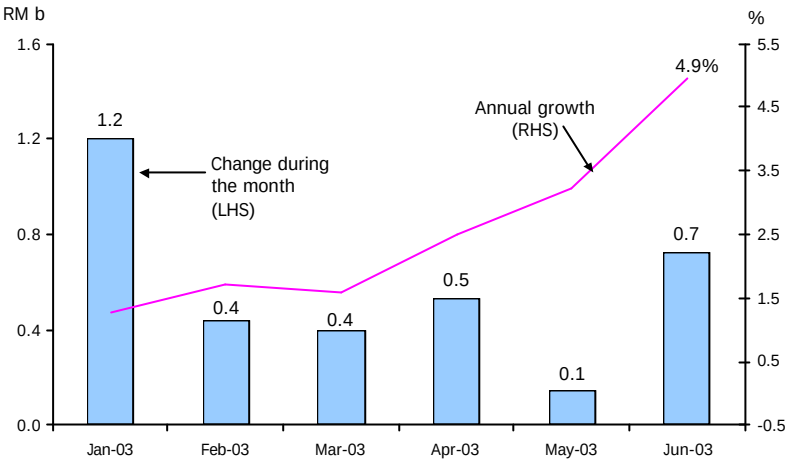
Financing for private sector activities strengthened in June

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All loan indicators increased significantly in June. Loan applications rose to RM18.3 billion, approvals to RM13.9 billion and disbursements to RM37.7 billion. Net funds raised in the capital market were also significantly higher. The strong bank lending activity provided the main impetus to M3 growth, which expanded by 8.2% in June.

Loans extended to the small and medium-sized enterprises (SMEs) increased further to record the highest monthly change since January. The outstanding loans extended to the SMEs increased by RM727.8 million in June, raising the cumulative increase in the first half of 2003 to RM3.4 billion. In the first half of 2003, a total of RM12 billion was approved to 37,648 SMEs, while RM40.2 billion was disbursed. Loans to SMEs accounted for 16.3% of total outstanding loans and 35.8% of total loans outstanding to business enterprises (17.4% and 34.1% respectively as at end-2002).

Loans Outstanding to Small and Medium Enterprises



Loans to SMEs continued to increase

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PRESS RELEASE
MONETARY AND FINANCIAL DEVELOPMENTS
JUNE 2003

Financing for private sector activities strengthened in June

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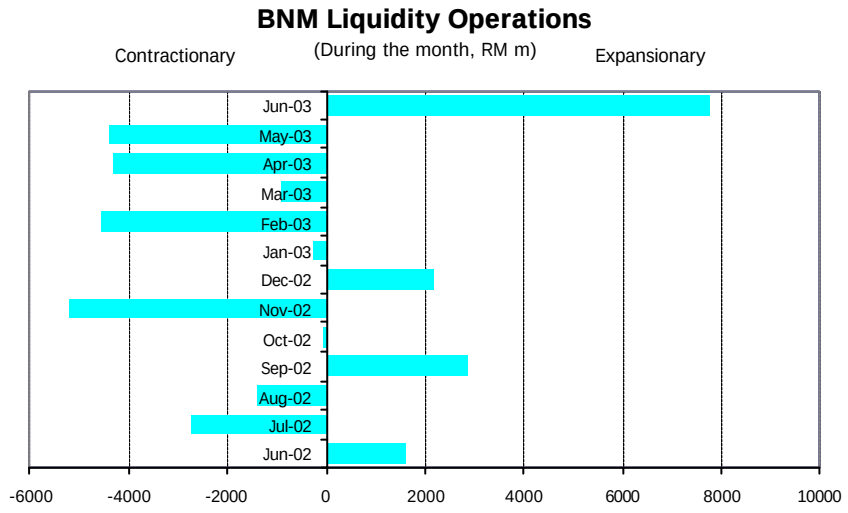
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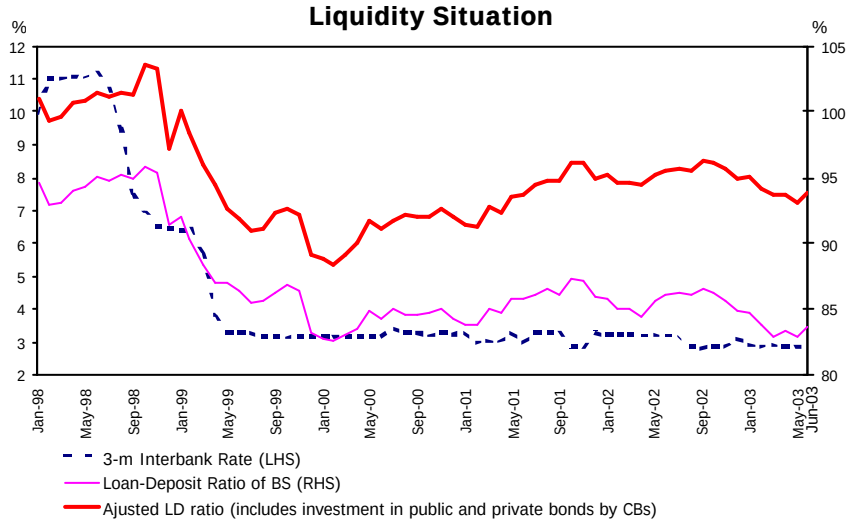
loans outstanding to business enterprises (17.4% and 34.1% respectively as at end-2002).

Interest rate remained low and stable

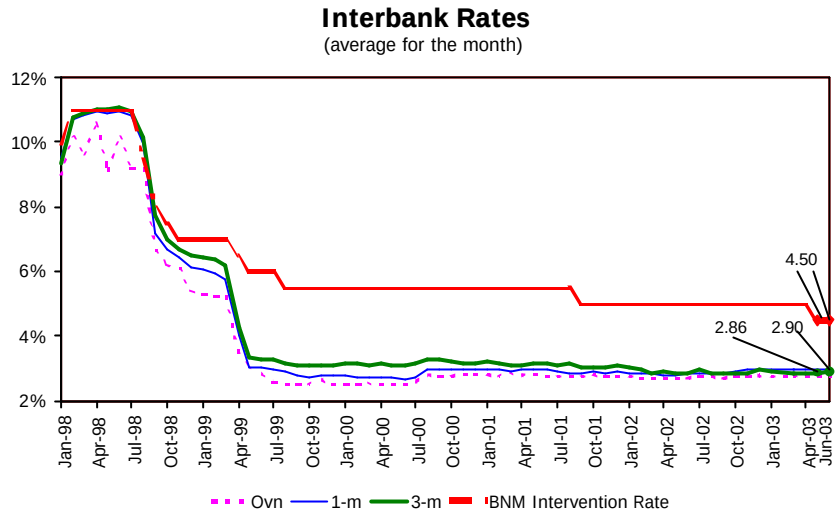
In the interbank money market, BNM money market operations continued to balance the impact of the Government and external operations on liquidity. As a result, interbank money market rates remained relatively stable, notwithstanding the issuance of MGS of RM6 billion by the Government.



BNM liquidity operations were expansionary to stabilize liquidity conditions

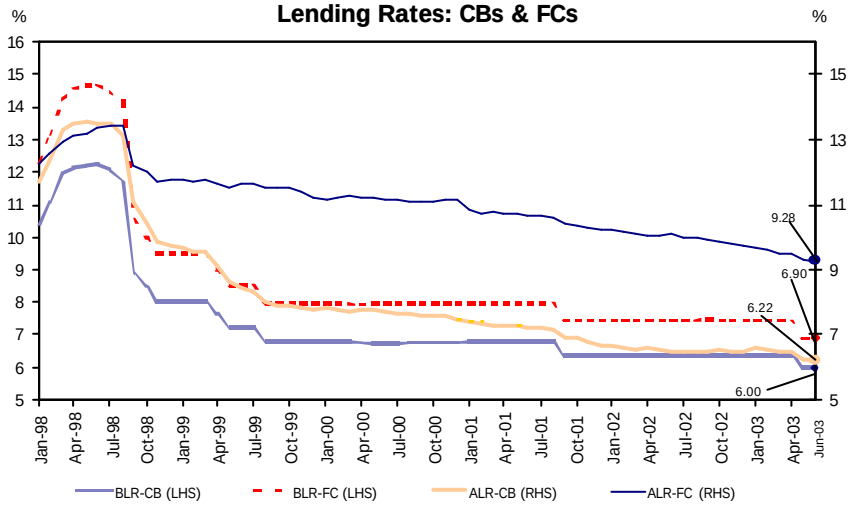


Liquidity in the banking system was more than adequate to support financing activities. The loan-deposit ratio including private debt securities held by the banking system remained high at 93.8%



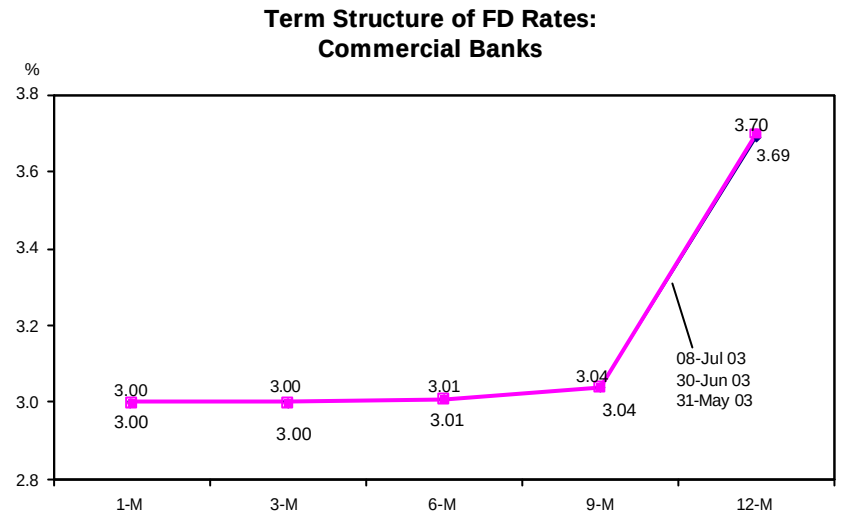
In June, the interbank money market rates continued to remain low and stable

The **average lending rate (ALR)** declined in June by 6 basis points for commercial banks (CBs) to 6.22% and 7 basis points for finance companies (FCs) to 9.28% (end-May: 6.28% and 9.35% respectively). This represents a cumulative decrease in the ALR of 29 basis points for CBs and 19 basis points for FCs since the adjustment in the **base lending rate (BLR)** on 21 May 2003.

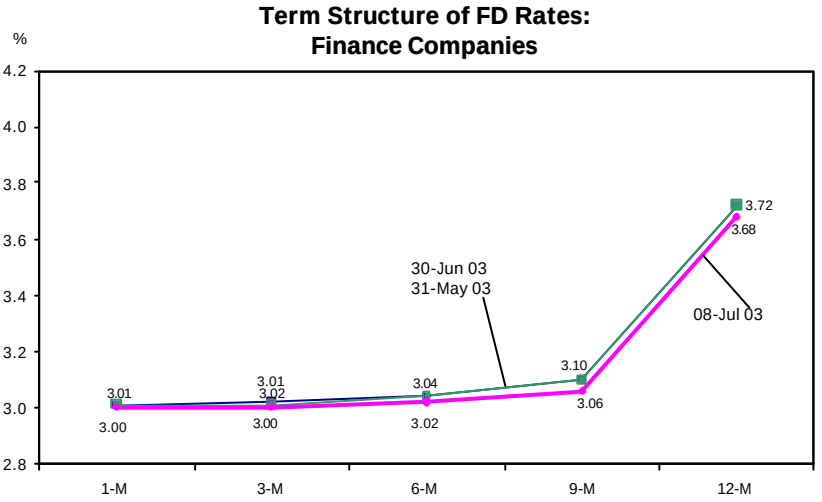


ALR for CBs and FCs declined by 29 basis points and 19 basis points respectively since the adjustment in BLR on 21 May

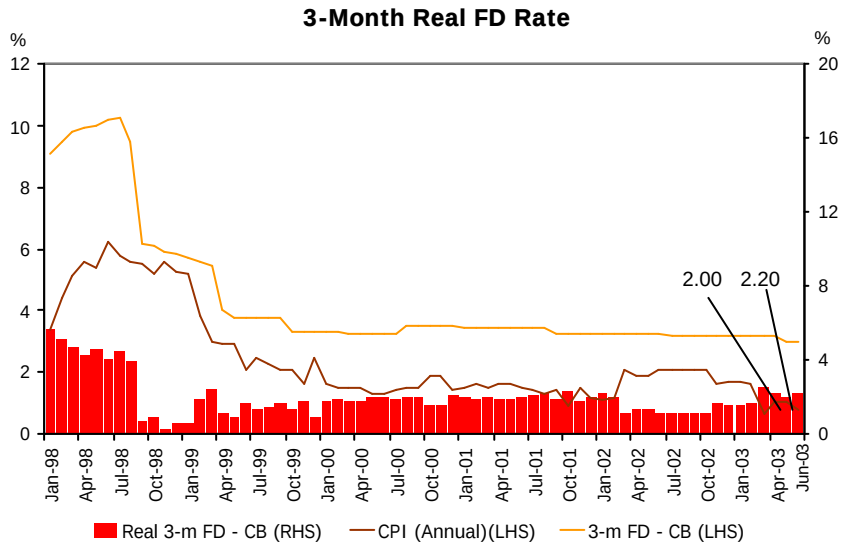
As at 8 July, the fixed deposit rates for 1-12 month maturity for CBs and FCs remained stable at 3 – 3.70% and 3 – 3.68% respectively.



FD rates remained stable for CBs



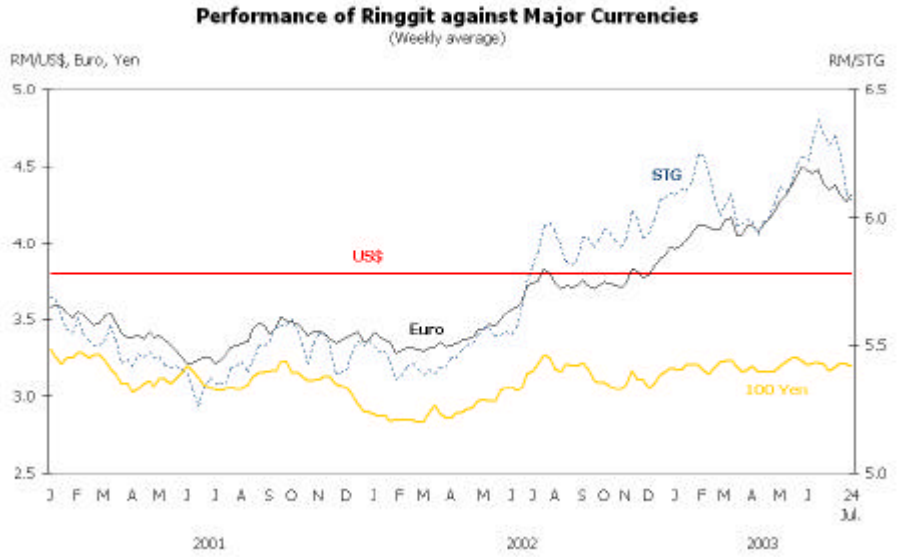
...as well as for FCs



With the lower inflation rate, the 3-month real FD rate increased by 20 basis points

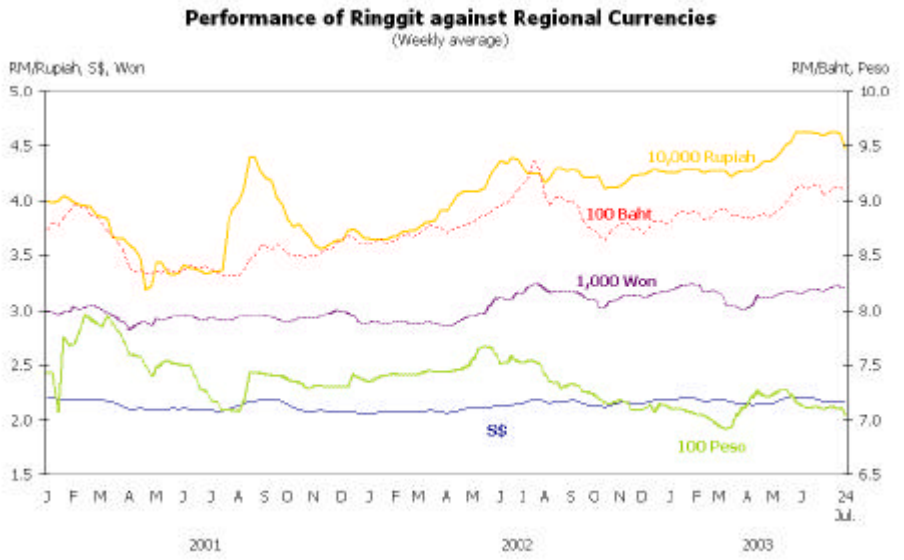
Performance of ringgit

In June, the ringgit recorded a mixed performance against the major currencies. With the firming of the US dollar in the international foreign exchange markets, the ringgit appreciated against the euro by 3.8% and the Japanese yen by 1.3%, while depreciating against the pound sterling by 0.1%. The US dollar strengthened against the euro following the release of more favourable economic data, including indications of better-than-expected US services sector performance and housing starts. The favourable US inflation data also eased downward pressure on the US dollar by allaying market expectations of a significant interest rate cut by the US Federal Reserve Bank. The pound sterling continued to benefit from inflows into high-yielding sterling assets.



The ringgit appreciated against the euro and the yen

The ringgit also recorded a mixed performance against regional currencies. The ringgit appreciated against several regional currencies in the range of 0.5% - 1.5%, while depreciating against the Indonesian rupiah and Korean won by 0.4% and 0.8%, respectively. The Indonesian rupiah gained from improving economic fundamentals and capital inflows, while the Korean won appreciated on inflows into the equity market and from strong export performance. The Philippine peso was adversely affected by a credit ratings downgrade and reports of the Government's plan to issue bonds to finance its budget deficit. The Singapore dollar weakened following the release of data indicating a mild deflation in May.



The ringgit recorded a mixed performance against regional currencies

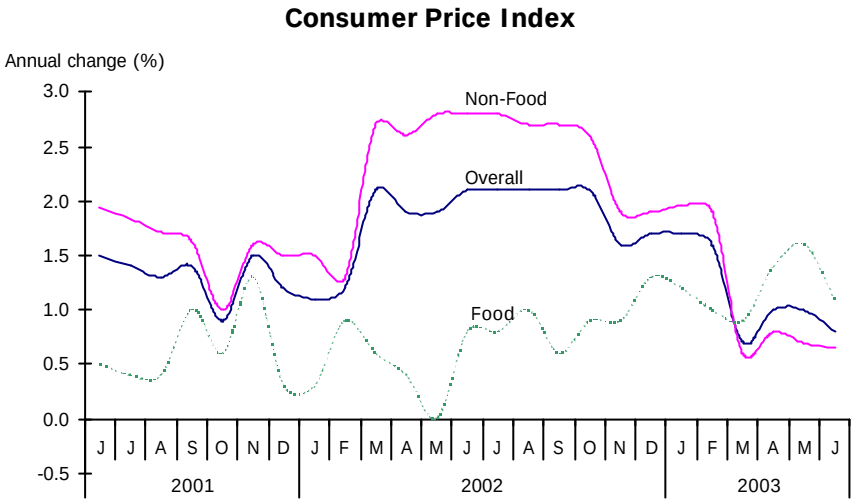
In the period **1 – 24 July 2003**, the ringgit appreciated against the pound sterling by 2.8%, while depreciating against the Japanese yen and the euro by 0.9% and 0.4% respectively. The Japanese yen strengthened due to the strong stock market performance following the better than expected 'tankan' survey of economic conditions and the stronger-than-expected rise in machinery orders in May. The pound sterling weakened as yields on sterling assets fell following the interest rate cut by the Bank of England. The ringgit depreciated against several regional currencies in the range of 0.2% - 1.3%, while appreciating against the Indonesian rupiah by 4.6% and Philippine peso by 1.1%.

Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-June 2003	24 July 2003	% Change			
				June 2003	End-June - 24 July 2003	End-2002 - 24 July 2003	2 Sep. 1998 - 24 July 2003
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.3463	4.3622	3.8	-0.4	-8.7	-
Pound Sterling	6.3708	6.2835	6.1117	-0.1	2.8	-0.3	4.2
100 Japanese yen	2.7742	3.1708	3.1982	1.3	-0.9	0.1	-13.3
Singapore dollar	2.1998	2.1631	2.1694	1.5	-0.3	0.9	1.4
100 Thai baht	9.3713	9.0541	9.0692	0.5	-0.2	-2.9	3.3
100 Philippine peso	8.8302	7.0995	7.0227	0.5	1.1	1.8	25.7
100 Indonesian Rupiah	0.0354	0.0459	0.0439	-0.4	4.6	-3.2	-19.4
100 Korean won	0.2827	0.3178	0.3220	-0.8	-1.3	-0.7	-12.2

Inflation remained low in June

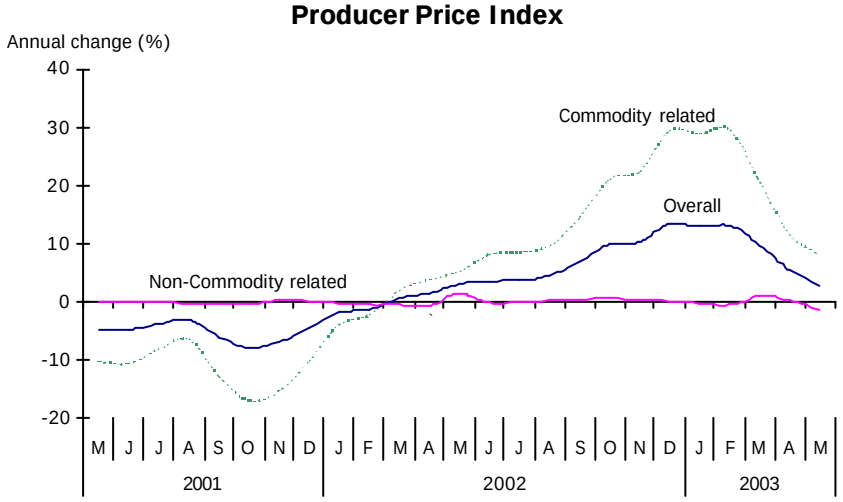
The annual rate of **inflation,** as measured by the Consumer Price Index (CPI, 2000=100), **slowed to 0.8%** in June (May: 1%). This was due mainly to the lower price increases for food.



Inflation remained low in June

Producer prices continued to increase

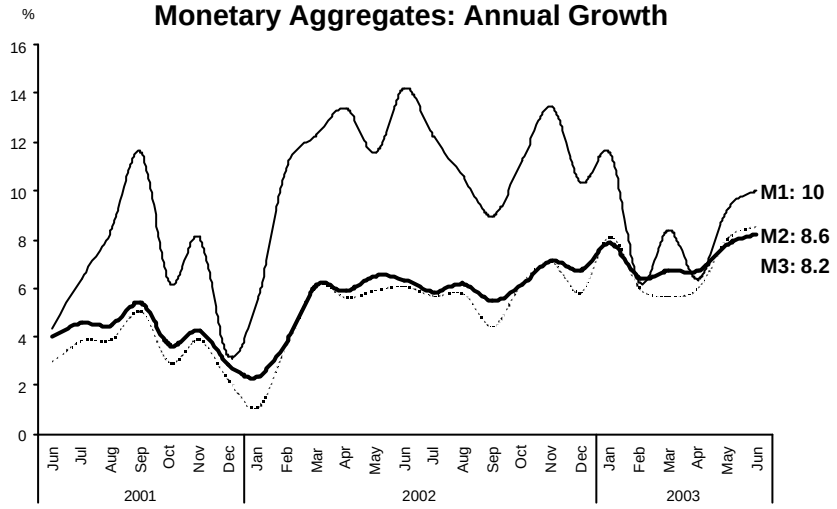
Meanwhile, **Producer Price Index (PPI)** increased at a slower rate of 2.9% in May (5.4% in April), in tandem with more moderate increases in prices of crude oil, crude palm oil and rubber. Excluding commodity-related products, the adjusted PPI declined by 1.3%.



Excluding commodity-related products, the adjusted PPI declined by 1.3%.

Growth in money supply strengthened further

On an annual basis, growth in all three monetary aggregates was higher at end-June, with M1, M2 and M3 growing at a more rapid rate of 10%, 8.6% and 8.2% respectively (9.3%, 8.0% and 7.8% respectively at end-May). Stronger bank lending operations provided the main impetus to M3 growth during the month. Government operations were influenced by the build-up in Government deposits placed with the Central Bank following the issue of MGS of RM6 billion during the month.



Growth in all three monetary aggregates strengthened further

M3 Determinants

(RM billion)

	Change during period			
	2003			
	Apr	May	Jun	Jan - June
M3	2.4	6.1	0.2	21.3
Net claims on Government	4.0	2.5	-1.2	10.1
Claims on private sector	0.4	0.9	7.5	16.0
Net external operations [1]	0.9	1.6	-2.3	-1.8
Other influences	-3.0	1.1	-3.8	-3.0

1/ pre-revaluation

Expansion in M3 reflected the strong bank lending activity

Banking system deposits increased further in June

Total **deposits** mobilised by the banking system increased by RM2.9 billion or 0.6% in June. Higher salaries due to mid-year bonus payments was a contributory factor. On an annual basis, total deposits mobilised by the banking system rose by 7.6% as at end-June (7% at end May).

Monthly Change in Deposits			(RM million)
	2003		
	Apr.	May	June
Holder			
Federal Government	-229	-691	140
State Governments	132	295	78
Statutory Authorities[1/]	235	-307	622
Financial Institutions	-2,615	1,662	-533
Business Enterprises	3,083	3,761	779
Individuals	-35	653	1,804
Total	**572**	**5,372**	**2,889**

[1/] Include local Governments.

Higher deposits was placed by individuals and business enterprises...

Monthly Change in Deposits			(RM million)
	2003		
	Apr.	May	June
Type			
Fixed deposits	960	747	2,839
NIDs	-2,177	-209	-409
Demand deposits	-687	557	2,033
Savings deposits	146	-264	674
Repos	926	3,179	-3,899
FX deposits	295	237	-317
SPI deposits	1,041	1,055	1,641
Others	69	70	329
Total	**572**	**5,372**	**2,889**

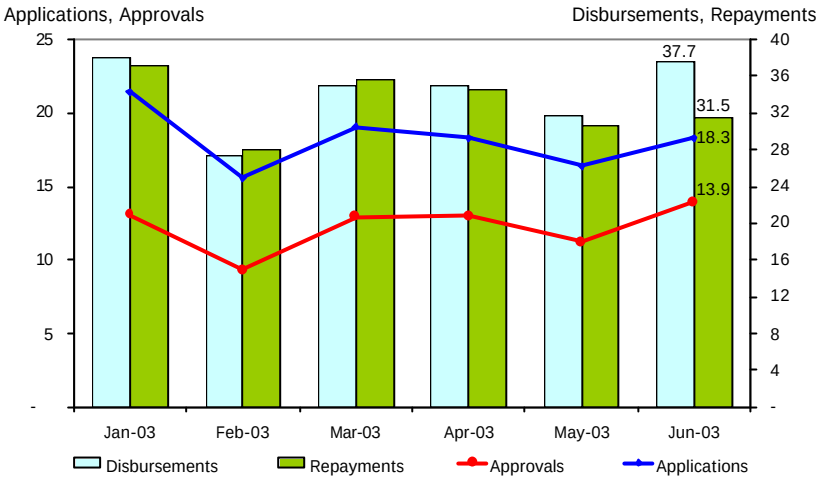
...mainly in fixed and demand deposits

Significant increase in financing of the private sector in June

Total loans outstanding increased significantly in June by RM6.9 billion (+RM2.2 billion in May) on account of higher loans for both the household and business sectors. On an annual basis, loans outstanding rose by 3.9% as at end-June (2.8% at end-May).

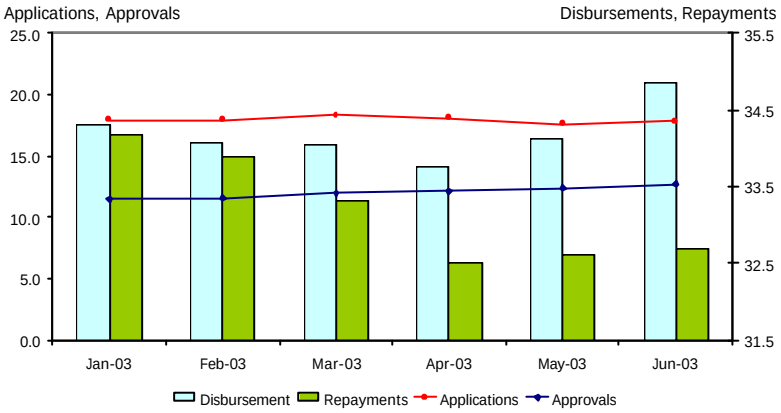
Demand for new funds was higher during the month as reflected in the increase in loan applications to RM18.3 billion in June from RM16.4 billion in May. Loan approvals and disbursements also increased to RM13.9 billion and RM37.7 billion respectively in June (RM11.2 billion and RM31.8 billion respectively in May).

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



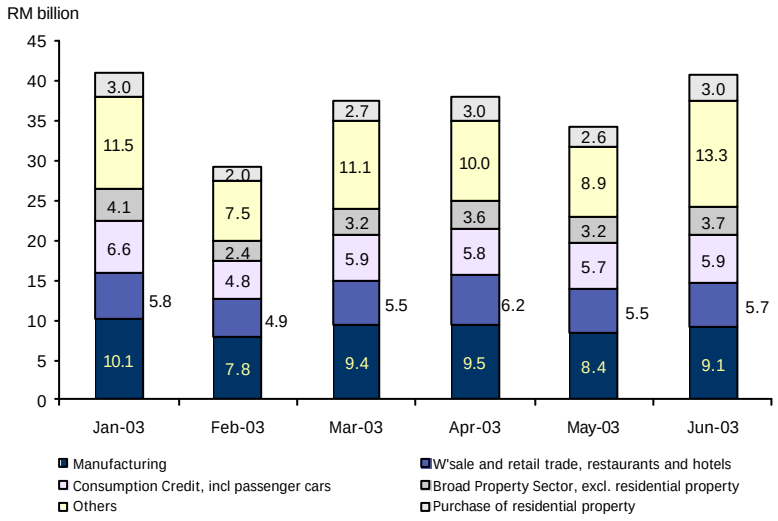
Demand for funds was higher in June

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



Deseasonalised data suggests the underlying demand for loans remained strong

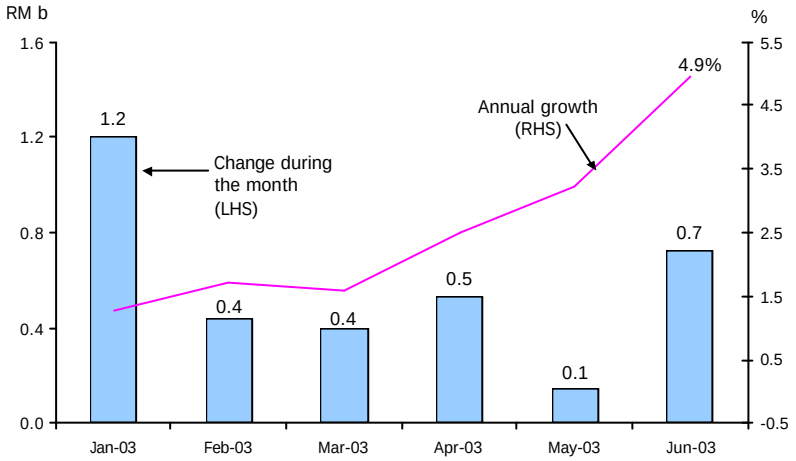
Loan Disbursements to Selected Sectors



Disbursements remained broad based

Bank lending activity to the small and medium enterprises (SMEs) expanded further. In the first half of 2003, a total of RM12 billion was approved to 37,648 SMEs, while RM40.2 billion was disbursed. The outstanding loans extended to the SMEs increased by RM727.8 million in June, raising the cumulative increase in the first half of 2003 to RM3.4 billion. On an annual basis, loans to SMEs rose at a higher annual rate of 4.9% as at end-June (3.2% at end-May) and accounted for 16.3% of total outstanding loans and 35.8% of total loans outstanding to business enterprises (17.4% and 34.1% respectively as at end-2002).

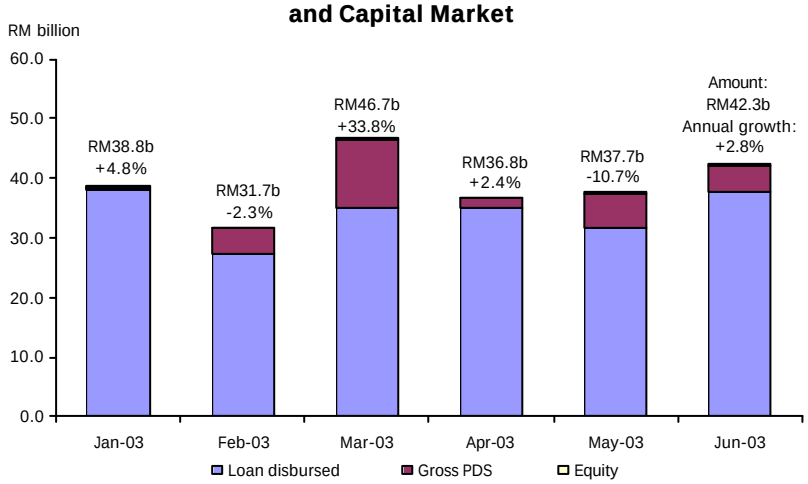
Loans Outstanding to Small and Medium Enterprises



Loans to SMEs continued to increase

Gross financing of the private sector by the banking institutions as well as through funds raised from the capital market were higher in June at RM42.3 billion (RM37.7 billion in May), on account of higher loan disbursements by the banking system and a sustained issuance of private debt securities.

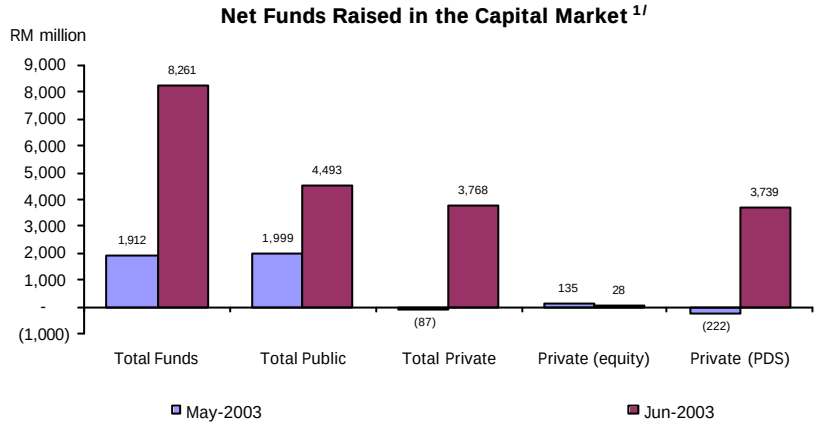
Private Sector Gross Financing through Banking System and Capital Market



Higher loan disbursements and sustained issuance of PDS led to higher financing of the private sector

Higher net funds raised in the capital market

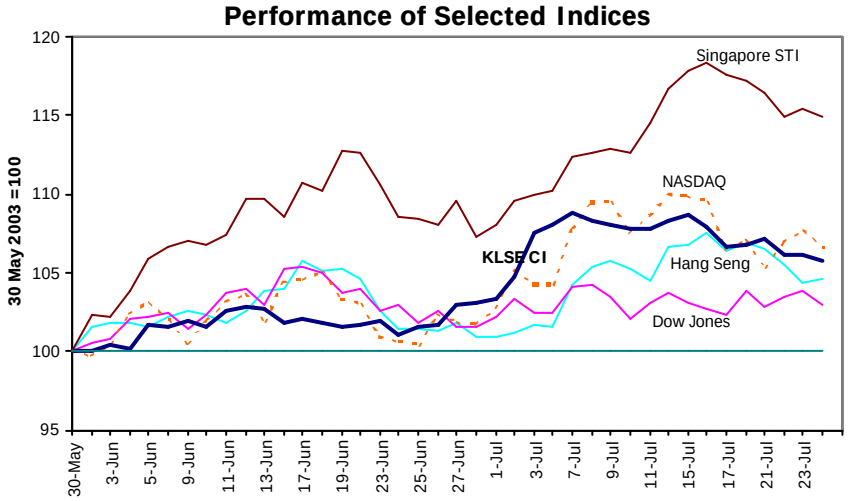
Net funds raised in the capital market were significantly higher in June, amounting to RM8.4 billion. Net funds raised by both the public and private sectors increased substantially by RM4.6 billion and RM3.8 billion respectively.



Higher net funds raised in June

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

The **Kuala Lumpur Stock Exchange** (KLSE) CI made further gains in June, benefiting from improved market sentiment due to the economic measures introduced by the Government. The introduction of standard 100-unit board lots has also encouraged more participation in the equity market. As at 30 June, the KLSE CI closed at 691.96 points (+3.1% since end-May) with market capitalisation higher at RM532.45 billion (+4.6% since end-May). The daily average turnover was significantly higher at 485.27 million units (222.27 million units in May).

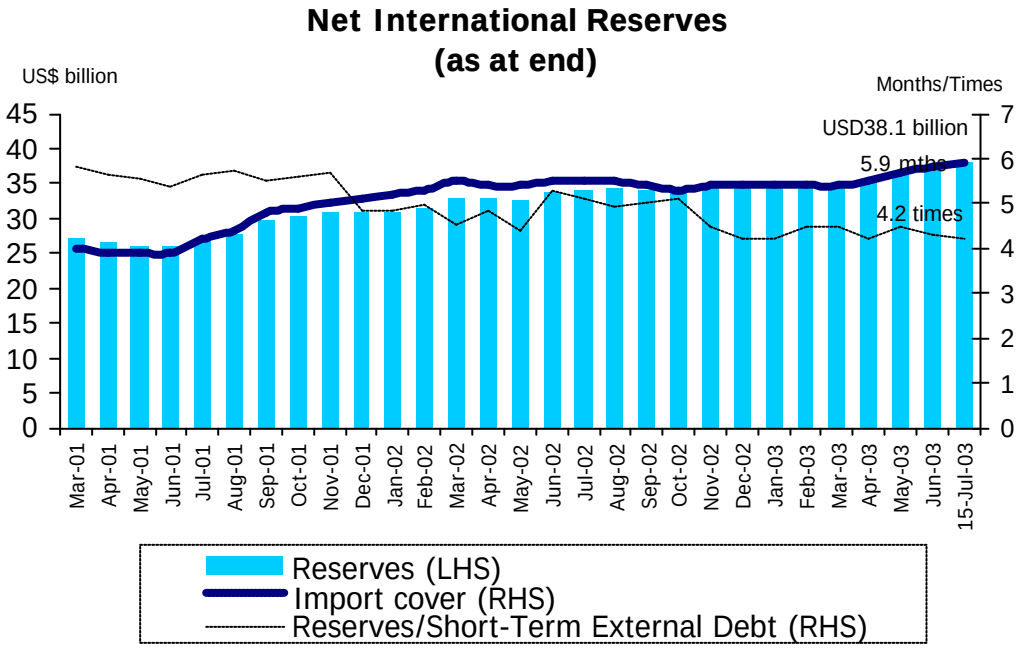


KLSE CI performance improved in June and July

The KLSE CI breached the 700-point level on 2 July. As at 24 July, the KLSE CI closed at 710.37 points (+2.7% since end-June) with market capitalisation at RM555.02 billion (+4.2% since end-June). The daily average turnover during the period rose substantially to 779.60 million units.

International reserves

The net international reserves of Bank Negara Malaysia increased in June to RM140.9 billion or US$37.1 billion as at 30 June 2003, supported by sustained inflows from export earnings. The reserves level at the end of June has taken into account the quarterly adjustment of the unrealised foreign exchange revaluation gain amounting to US$573 million. Reserves increased further to RM144.7 billion or US$38.1 billion as at 15 July 2003. The increase of RM3.8 billion or US$1 billion during the first half of July was largely due to the sustained repatriation of export earnings and portfolio investment inflows. Outflows reflected mainly normal services payments and dividends repatriation. The reserves position is adequate to finance 5.9 months of retained imports and is 4.2 times the short-term external debt.



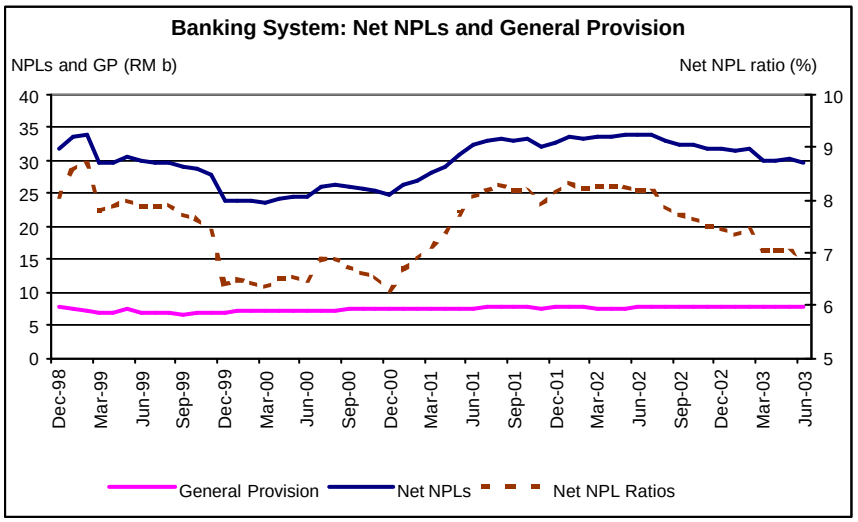
Continued improvement in asset quality

The banking system's net non-performing loans (NPLs) declined further to 6.8% of net total loans as at end-June 2003. Meanwhile, the risk-weighted capital ratio (RWCR) and core capital ratio declined marginally to 13.1% and 10.6% due to an increase in investment in subsidiaries following the higher holdings in a finance company subsidiary by a commercial bank as part of its group rationalisation.

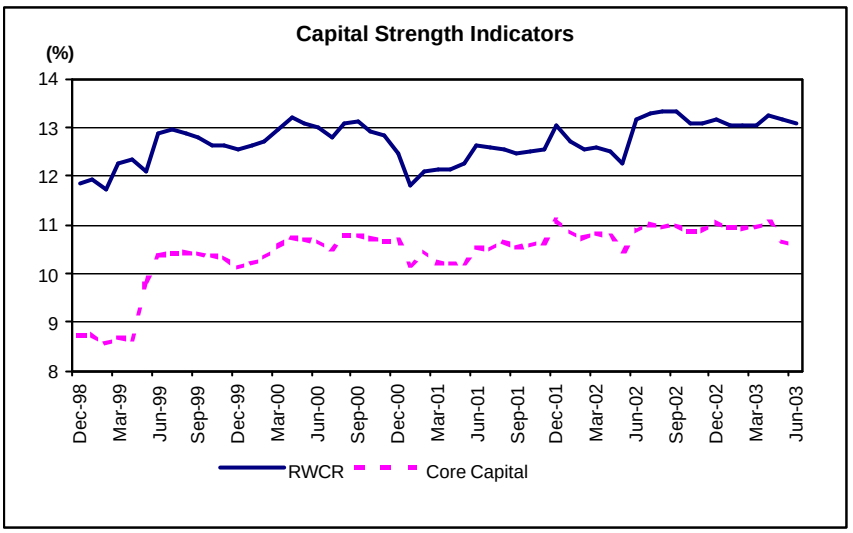
Banking System Health Indicators*

	1998	1999	2000	2001	2002	2003		
	Dec.	Dec.	Dec.	Dec.	Dec.	Apr.	May	Jun.
Capital (%)								
Core capital ratio	8.7	10.1	10.7	11.1	11.1	11.1	10.7	10.6
RWCR	11.8	12.5	12.5	13.0	13.2	13.3	13.2	13.1
Net NPLs (6-month classification)								
% of net total loans	8.1	6.4	6.3	8.1	7.5	7.0	7.0	6.8
Amount (RM million)	31,675	23,849	24,700	32,775	31,703	30,052	30,201	29,579
GP/Net total loans (6-month, %)	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 NPLs declined to 6.8%



.... RWCR at 13.1%

Bank Negara Malaysia
28 July 2003

Key Monetary and Banking Statistics

	May 2003		June 2003	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	43.1	5.0	42.7	4.4
M1	88.2	9.3	90.6	10.0
M2	401.2	8.0	401.5	8.6
M3	522.2	7.8	522.4	8.2
Banking System				
Total deposits	523.2	7.0	526.1	7.6
Total loans (including loans sold to Cagamas and Danaharta)	495.1	2.8	502.0	3.9
Total loans (excluding loans sold to Cagamas and Danaharta)	433.9	3.6	440.5	4.7
Loan-deposit ratio (%)	82.9		83.7	
Loan-deposit ratio including private debt securities (%)	93.2		93.8	
Loans approved during the month	11.2	-26.1	13.9	24.5
Loans disbursed during the month	31.8	-12.5	37.7	8.5
Loans repaid during the month	30.7	-6.9	31.5	-3.9
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	13.2		13.1	
Net NPLs: 6-month classification (%)	7.0		6.8	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	138.5		140.9	
Reserves in USD (billion)	36.5		37.1	
Months of retained imports	5.6		5.8	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.99[2.99]		2.98[2.99]	
3-month	2.86[2.86]		2.88[2.90]	
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]	
Prices				
Consumer Price Index (CPI) (2000=100)	104.3	1.0	104.2	0.8
Producer Price Index (PPI) (1989=100)	134.3	2.9		
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	4.5117		4.3463	
Pound Sterling	6.2761		6.2835	
Singapore dollar	2.1956		2.1631	
100 Japanese yen	3.2115		3.1708	
100 Thai Baht	9.0996		9.0541	
100 Philippine Peso	7.1382		7.0995	
100 Indonesian Rupiah	0.0457		0.0459	
100 Korean Won	0.3153		0.3178	
Capital Market				
Net funds raised by: public sector (RM billion)	2.0		4.5	
private sector (RM billion)	0.09		3.8	
Kuala Lumpur Composite Index (end-period)	671.46		691.96	
KLSE Market Capitalisation (RMb) (end-period)	509.08		532.45	