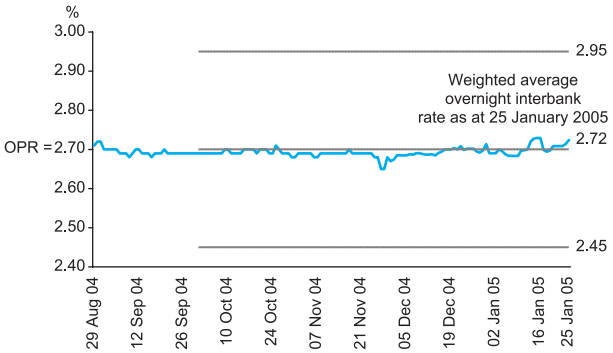
MONETARY AND FINANCIAL DEVELOPMENTS

Monetary policy continued to support growth

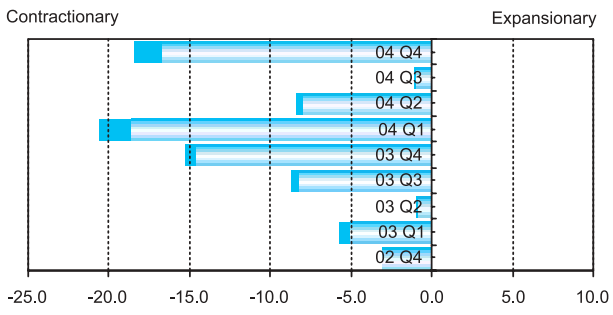
In the fourth quarter, monetary and financial indicators continued to reflect a sustained expansion in underlying economic activity. In an environment of low inflation, the Overnight Policy Rate (OPR) was maintained at 2.70%. The daily weighted average of the overnight interbank rate moved within a narrow range of 2.65% - 2.73%, averaging 2.69% during the period of 1 October 2004 - 25 January 2005. Against the background of low interest rates and ample liquidity in the banking system, financing of economic activity through the banking system and the capital market increased significantly during the fourth quarter.

Another two mergers between two commercial banks and their finance

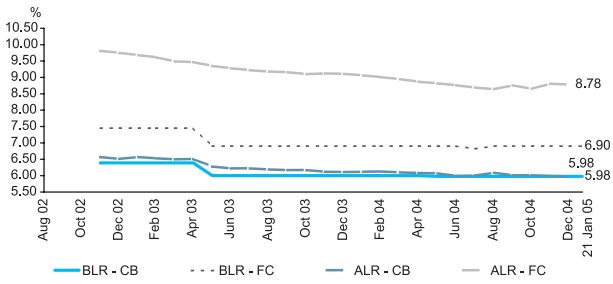
Daily Weighted Average Overnight Interbank Rate



BNM Liquidity Operations
(During the quarter, RM billion)



Lending Rates of Commercial Banks & Finance Companies
(average for the month)



Interest Rates

	4Q 03	3Q 04	4Q 04
	At end-period (%)		
3-month intervention rate *	4.50		
Overnight Policy Rate (OPR) *		2.70	2.70
Interbank rates			
Overnight	2.71	2.69	2.69
1-month	2.99	2.79	2.77
Base lending rates (BLR)			
Commercial banks	6.00	5.98	5.98
Finance companies	6.90	6.90	6.90
Average lending rates			
Commercial banks	6.11	6.01	5.98
Finance companies	9.11	8.76	8.78
Fixed deposit rates			
Commercial banks			
3-month	3.00	3.00	3.00
12-month	3.70	3.70	3.70
Finance companies			
3-month	3.00	3.00	3.00
12-month	3.70	3.70	3.70

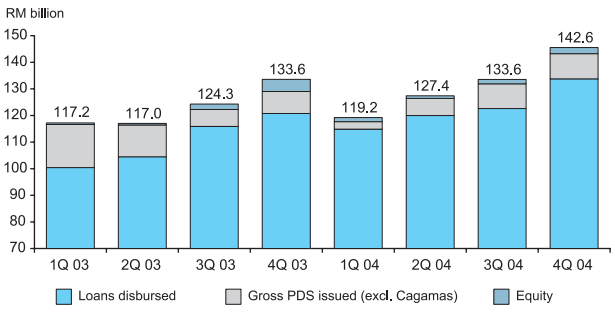
* Effective 26 April 2004, the Overnight Policy Rate (OPR) replaced the 3-month intervention rate as the indicator of the monetary policy stance.

companies occurred during the quarter (three mergers in 3Q 2004), which led to some technical adjustments of the banks' base lending rates (BLRs) and average lending rates (ALRs). Notwithstanding these adjustments, the average BLRs of commercial banks (CBs) and finance companies (FCs) remained stable at 5.98% and 6.90% respectively at end-December 2004. While the ALR of CBs declined slightly to 5.98%, the technical adjustments caused the ALR of the FCs to increase slightly from 8.76% to 8.78% at end-December.

Financing of the private sector remained robust

The continued expansion in private investment and private consumption was reflected in the further increase in gross private sector financing through the banking system and the capital market, totalling RM142.6 billion disbursed or raised during the quarter (3Q: RM133.6 billion), representing an annual increase of 6.7%. The increase primarily reflected the significantly higher bank loans disbursed during the quarter. Similarly, on a net basis, banking system loans and

Gross Private Sector Financing through Banking System and Capital Market



Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2003	4Q 03	3Q 04	4Q 04	2003	3Q 04	4Q 04
Gross total financing	492.1	133.6	133.6	142.6	9.0	7.5	6.7
Loans disbursed *	441.6	120.7	122.6	130.8	7.3	5.8	8.3
Gross PDS (excl. Cagamas)	42.8	8.3	9.3	9.5	60.5	45.5	14.7
Equity	7.8	4.6	1.7	2.3	-41.5	-18.0	-49.3
Outstanding total financing (A)+(B)	57.8	11.1	14.5	18.4	10.3	8.0	9.0
Banking system	28.2	4.6	11.0	11.0	5.9	6.5	7.7
Loans outstanding (A)	21.6	1.3	9.3	12.1	4.8	6.2	8.5
Holding of PDS	6.6	3.2	1.7	-1.1	23.9	10.9	-2.7
PDS outstanding (B)	36.2	9.7	5.2	6.3	33.4	14.0	10.7
Memorandum item							
Gross PDS (incl. Cagamas)	51.0	10.5	12.7	10.1	40.8	25.1	-3.9

*Banking system loans include loans sold to Cagamas.

PDS outstanding increased by 9% at end-December (8% at end-September) due mainly to higher loans outstanding, which expanded by 8.5% at end-December (6.2% at end-September).

The growth rates of all major loan indicators were sustained at high levels in the

Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	2003	4Q 03	3Q 04	4Q 04		
	RM billion				%	
Business enterprises	303.4	84.3	83.4	90.8	69.5	*42.6*
Large corporations	*216.3*	*59.4*	*58.7*	*63.7*	*48.7*	*25.4*
SMEs	*87.1*	*24.9*	*24.8*	*27.2*	*20.8*	*17.2*
Households	114.4	30.4	34.0	34.0	26.0	*51.4*
By sector						
Agriculture, hunting, forestry and fishing	11.1	3.0	3.5	3.4	2.6	*2.1*
Mining and quarrying	1.7	0.5	0.4	0.7	0.5	*0.2*
Manufacturing	110.3	28.4	31.2	32.5	24.8	*12.3*
Broad property sector	78.9	21.6	22.9	23.2	17.7	*40.9*
Construction	*27.5*	*7.2*	*7.6*	*8.5*	*6.5*	*5.8*
Purchase of residential property	*35.6*	*9.7*	*10.4*	*9.3*	*7.1*	*26.3*
Purchase of non-residential property	*9.7*	*2.7*	*3.2*	*3.3*	*2.5*	*6.1*
Real estates	*6.1*	*1.9*	*1.8*	*2.1*	*1.6*	*2.7*
Electricity, gas and water supply	6.0	1.0	1.2	2.2	1.7	*0.8*
Wholesale, retail, restaurants and hotels	70.1	19.3	21.5	24.0	18.3	*8.4*
Transport, storage and communication	12.0	2.4	1.7	2.6	2.0	1.9
Finance, insurance and business services	36.7	14.7	8.5	8.6	6.6	5.9
Total	**441.6**	**120.7**	**122.6**	**130.8**	**100.0**	**100.0**

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)				Annual Growth (%)			
	2003	4Q 03	3Q 04	4Q 04	2003	4Q 03	3Q 04	4Q 04
Total								
Loan applications	227.6	55.7	76.5	67.8	4.8	6.7	21.9	21.6
Loan approvals	152.8	38.9	46.6	43.2	11.1	16.9	16.1	10.9
Loan disbursements	441.6	120.7	122.6	130.8	7.3	14.2	5.8	8.3
Loan repayments	430.4	122.9	118.2	120.7	6.9	17.4	7.5	-1.8
Change in loan outstanding*	21.6	1.3	9.3	12.1	4.8	4.8	6.2	8.5
Of which:								
Business enterprises								
Loan applications	124.9	28.6	44.0	37.4	-7.7	-9.4	29.4	31.0
Loan approvals	77.3	18.9	22.4	21.7	12.8	14.0	10.1	14.8
Loan disbursements	303.4	84.3	83.4	90.8	7.6	16.1	5.0	7.8
Loan repayments	299.5	86.9	83.7	84.5	8.6	22.1	8.7	-2.7
Change in loan outstanding*	-5.2	-4.9	-0.4	1.1	-2.4	-2.4	-0.2	2.6
SMEs								
Loan applications	44.5	9.8	15.2	13.9	-8.6	n.a.	25.3	41.3
Loan approvals	25.9	6.7	8.8	8.7	-15.6	n.a.	33.5	30.4
Loan disbursements	87.1	24.9	24.8	27.2	76.0	n.a.	12.8	9.1
Change in loan outstanding*	7.4	2.4	2.2	2.2	10.0	10.0	8.1	7.7
Large corporations								
Loan applications	80.4	18.7	28.8	23.5	n.a.	n.a.	31.6	25.5
Loan approvals	51.4	12.2	13.7	12.9	n.a.	n.a.	-1.0	6.2
Loan disbursements	216.3	59.4	58.7	63.7	-7.0	n.a.	2.0	7.2
Change in loan outstanding*	-12.7	-7.3	-2.6	-1.1	-8.8	-8.8	-4.9	-0.5
Households								
Loan applications	98.4	25.4	31.5	29.3	20.2	26.6	12.3	15.0
Loan approvals	72.0	18.7	23.4	21.3	7.6	13.3	21.8	14.1
Loan disbursements	114.4	30.4	34.0	34.0	8.9	12.4	11.2	12.0
Loan repayments	94.1	26.2	26.7	27.9	12.4	20.6	12.3	6.2
Change in loan outstanding*	26.2	7.4	10.4	8.9	12.8	12.8	14.2	14.4

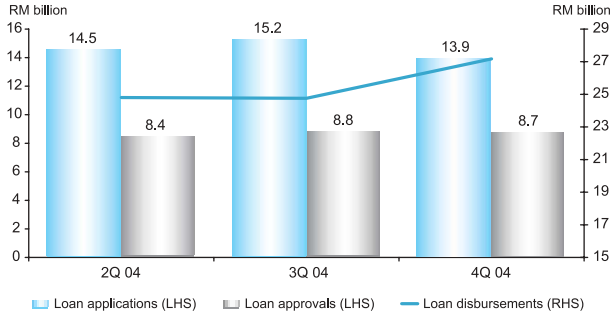
*The annual growth is for end-period.

Source: Bank Negara Malaysia

fourth quarter. Loan disbursements were significantly higher during the quarter at RM130.8 billion (3Q: RM122.6 billion), and were mainly channelled to the business sector, both large businesses and small and medium enterprises (SMEs), while disbursements to households remained at a high level. Loan disbursements to businesses rose by 7.8% in the fourth quarter (3Q: 5%) and continued to be channelled mainly to the manufacturing sector (35.7% of total disbursements to businesses); wholesale, retail, restaurants and hotels sector (26.4%); and the finance, insurance and business services sector (9.4%). Higher demand for financing by businesses was also reflected in loan applications and approvals, which registered higher double-digit growth rates of 31.0% and 14.8% respectively during the fourth quarter (3Q: 29.4% and 10.1% respectively). Of significance, loans outstanding of businesses turned around to register a positive growth of 2.6% at end-December (-0.2% at end-September). Another positive development was that, the gross NPL ratio of businesses continued to decline and stood at 13.6% at end-December (14.8% at end-September).

Bank lending to the SMEs remained at high levels. Loans disbursed to this sector grew by 9.1% in the fourth quarter (3Q: 12.8%), contributing to a 7.7% growth of total loans outstanding to the SMEs at end-December (8.1% at end-September). A total of RM8.7 billion was approved to 25,918 SME accounts during the quarter (3Q: RM8.8 billion approved to 25,379 SME accounts).

Bank Lending to SMEs

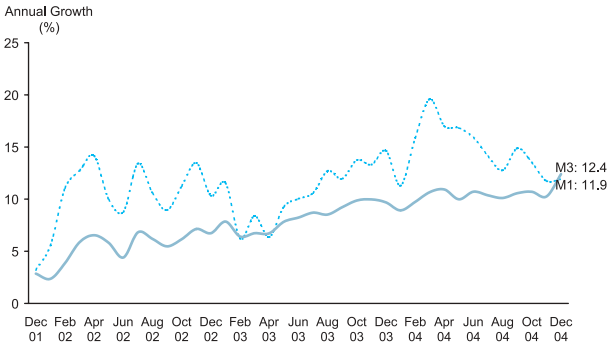


Financing to the household sector also remained strong during the quarter. Loan disbursements to households amounted to RM34 billion in the fourth quarter, growing by 12% annually, and were supported by loans for credit cards (29.7% of total disbursements to households), the purchase of residential properties (27.3%) and the purchase of passenger cars (24.3%). The high loan disbursements for credit card spending were matched by equally high loan repayments for credit card purchases (35.1% of total repayments by households). As a result, loans outstanding for credit cards remained low and represented only 2.8% of total loans outstanding and 5.3% of total household loans outstanding respectively. Meanwhile, reflecting the sustained demand for bank financing by households, loan applications and approvals continued to increase at annual growth rates of 15% and 14.1% respectively in the fourth quarter (3Q: 12.3% and 21.8% respectively). Likewise, growth in loans outstanding to households was sustained at 14.4% at end-December (14.2% at end-September). The non-performing loans (NPLs) of the sector remained stable at 7.2% at end-December (7.4% at end-September).

Growth in money supply was in line with continued economic expansion

Growth in the monetary aggregates during the quarter reflected the continued expansion in economic activity. Narrow money,

Monetary Aggregates



M3 Determinants

	Change during period					
	Year	Quarterly				Year
	2003	1Q 04	2Q 04	3Q 04	4Q 04	2004
	RM billion					
M3	48.5	18.9	9.9	13.6	25.7	68.0
Net Claims on Government	12.9	-6.0	-2.0	-2.7	-1.2	-11.8
Claims on the private sector	31.3	3.7	12.2	10.3	4.0	30.3
Net external operations*	20.7	33.3	6.0	12.0	30.8	82.2
Other influences	-16.5	-12.2	-6.4	-6.0	-8.0	-32.7

* Pre-revaluation

M1, grew at an annual rate of 11.9% (3Q 2004: 14.9%), which reflected the sustained consumer and business spending that coincided with the holiday season. Meanwhile, broad money, M3, continued to expand at 12.4% (3Q 2004: 10.6%) amidst the higher loans extended to the private sector by the banking system, the current account surplus and inflows of capital.

The capital market remained a major source of financing

Net funds raised from the capital market remained substantial at RM15.6 billion in the fourth quarter (3Q 2004: RM16.9 billion), attributable largely to the higher amount of funds raised from the bond market. Prevailing low yields in the bond market encouraged the private sector to refinance their debt (43.7% of new issuances) and to raise funds for new activity (40.3% of new issuances) to "lock-in" the lower financing costs. New issuances in the PDS market provided further evidence of higher private investment activity in the domestic economy, as issuances for new activities remained high at RM3.8 billion (3Q 2004: RM4.5 billion). In addition, the highest number of new corporate listings in the equity market was recorded in the fourth quarter.

In the private debt securities (PDS) market, gross new issuances remained high, amounting to RM10.1 billion (3Q 2004: RM12.7 billion). A total of 30 corporations, mainly from the construction and utilities sectors, issued PDS during the quarter. In terms of instrument, Islamic debt securities and medium term notes were the preferred forms of issuance, representing 27.1% and 25% of total issuance respectively. After adjusting for redemptions, funds raised through the PDS market amounted to RM5.6 billion (3Q 2004: RM5.9 billion).

With the continued improvement in the equity market, higher funds of RM2.3 billion (3Q 2004: RM1.7 billion) were raised, with RM2.0 billion raised through 24 initial public offerings (IPOs). During the quarter, there were 24 new listings on the Bursa Malaysia, including seven listings on the Main Board, six on the Second Board and eleven on MESDAQ.

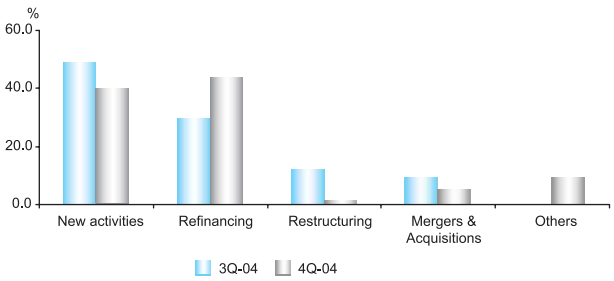
Meanwhile, gross funds raised by the public sector were lower at RM8.7 billion (3Q 2004: RM12.6 billion), due to the smaller issuance of Government securities during the period. After taking into account redemption of RM1 billion, net funds raised in the public

Funds Raised in the Capital Market

	2003		2004	
	3Q	4Q	3Q	4Q
	RM million			
By Public Sector				
Government Securities, *gross*	12,632	2,768	10,389	7,021
Less Redemptions	6,800	-	2,000	1,000
Less Government holdings	-	-	-	-
Equals Net Federal receipts	5,832	2,768	8,389	6,021
Khazanah Bonds, *net*	-183	-210	-198	-
Govt. Investment Issues, *net*	-	-	740	1,243
Malaysia Savings Bond, *net*	-2	-2	495	436
Net Funds Raised	5,647	2,556	9,426	7,700
By Private Sector				
Shares	2,028	4,573	1,663	2,316
Debt securities	10,165	10,493	12,718	10,083
Private Debt Securities (PDS)	6,370	8,268	9,268	9,483
Cagamas	3,795	2,225	3,450	600
Less Redemptions	4,472	16,873	6,865	4,463
Net Issues	5,694	-6,380	5,853	5,620
Net issues (*excluding Cagamas*)	3,754	-8,605	4,925	5,494
Net Funds Raised	7,722	-1,807	7,516	7,936
Total Net Funds Raised	13,368	749	16,942	15,636
Short-term Papers and Notes, *net* [1]	-85	-884	-623	-1,103
Total	13,283	-135	16,319	14,533

[1] Refers to Commercial Papers and Cagamas Notes only.

Private Debt Securities Issued by Purpose
(% of total)



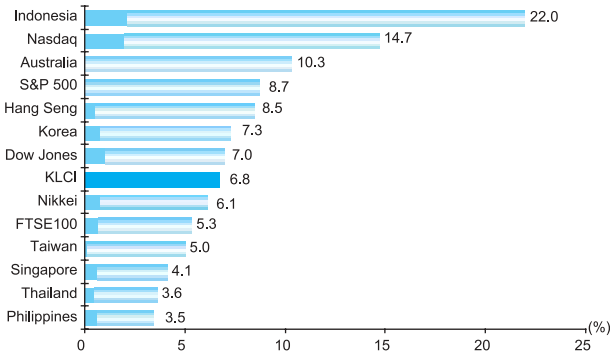
sector amounted to RM7.7 billion (3Q 2004: RM9.4 billion).

Notable developments in the primary ringgit bond market during the quarter were the inaugural issuances of the Asian Development Bank's (ADB) Putra Bonds and the International Finance Corporation's (IFC) Wawasan Bonds, as well as the introduction of Residential Mortgage Backed Securities (RMBS) by Cagamas MBS Berhad (CMBS). The introduction of new asset classes further enhanced the breadth of the bond market.

KLCI breached 900-point level

Concerns over the impact of high crude oil prices affected equity market performance in October. Nevertheless, market performance improved thereafter, as oil prices stabilised and Fitch upgraded Malaysia's

Performance of Selected Global and Regional Markets in the Fourth Quarter of 2004



Bursa Malaysia: Turnover of Corporate Securities

	2003				2004			
	3Q		4Q		3Q		4Q	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	41,877	62,274	40,144	71,970	22,031	42,852	27,364	51,771
of which:								
Main Board	27,849	46,225	27,495	51,391	15,494	36,763	20,186	45,129
of which:								
- Consumer Products	857	2,768	944	3,086	1,154	3,149	899	2,924
- Industrial Products	3,911	5,406	3,735	5,369	2,031	2,719	4,036	4,978
- Construction	2,088	3,967	2,177	5,415	1,096	1,706	1,070	1,922
- Trading/Services	5,993	14,829	6,118	16,632	4,296	13,729	5,500	16,991
- Finance	3,497	8,471	3,468	9,065	2,008	7,838	1,958	8,090
- Properties	5,215	4,567	5,138	5,446	2,230	3,560	3,205	5,468
- Plantations	675	1,815	638	1,981	383	2,127	771	2,171
- Mining	42	67	36	102	0	4	-	1
Second Board	8,069	12,103	10,100	18,229	4,014	4,130	4,227	4,102

Source: Bursa Malaysia

Bursa Malaysia: Selected Market Indicators

	As at end			
	2003		2004	
	3Q	4Q	3Q	4Q
Price Indices				
- Composite	733.45	793.94	849.96	907.43
- EMAS	182.03	195.57	202.35	214.26
- Second Board	122.03	140.64	108.95	110.87
Average daily turnover				
- Volume (million units)	644.26	658.10	338.93	441.36
- Value (RM million)	958.06	1,179.83	681.55	835.02
Market Capitalisation (RM b)	572.26	640.28	672.64	722.04
No. of Companies Listed	889	906	945	962

Source: Bursa Malaysia

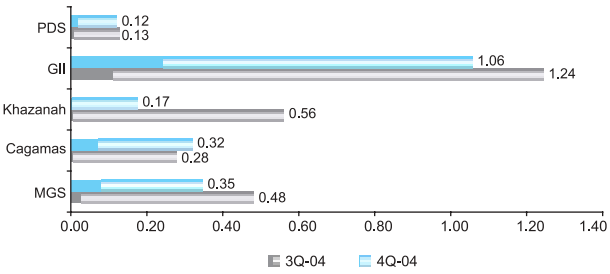
sovereign rating. The KLCI breached the 900-point threshold on 2 December to reach a four-and-a-half-year high of 919.97 points.

In the fourth quarter, the KLCI gained 57.47 points, ending the year at 907.43 (+6.8% since the end of third quarter and +14.3% since end-2003). Market capitalisation rose to RM722.04 billion (end-3Q: RM672.64 billion) and average daily trading activity during the quarter was higher at 441.36 million units.

Lower secondary trading in the bond market

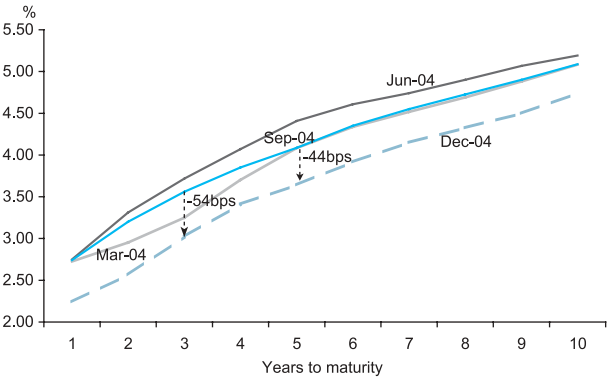
In the secondary market, total turnover declined to RM91.7 billion in the fourth quarter (3Q 2004: RM111.6 billion). The Malaysian Government Securities (MGS) and Government Investment Issues (GII) accounted for 67.6% of the total trade, while Cagamas bonds and Khazanah bonds contributed 11.3%. In terms of liquidity, the GII and MGS were the most liquid papers, registering liquidity ratios of 1.06 and 0.35 respectively.

Liquidity Ratio: Turnover / Outstanding



The MGS benchmark yields declined significantly in the fourth quarter, initially due to higher demand for fixed income securities following concerns over the impact of higher crude oil prices on global economic growth, and subsequently, due to the higher demand for ringgit securities by non-resident investors. Non-resident interest in Malaysian Securities increased following the exemption of withholding tax on interest income earned by non-residents on holdings of ringgit-denominated Islamic securities and debentures, excluding convertible loan stocks, approved by the SC and on securities issued by the Government of Malaysia. Short-term capital inflows also generated demand for

Trend in MGS Yield

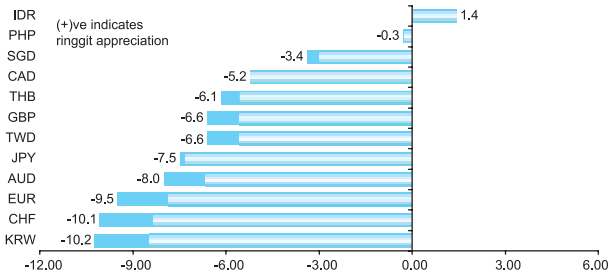


these securities. As a result, the 3- and 5-year MGS benchmark yields declined by 54 and 44 basis points respectively during the quarter. Mirroring the movement of the MGS yields, the corporate bond yields shifted lower. The AA-rated papers registered the biggest decline.

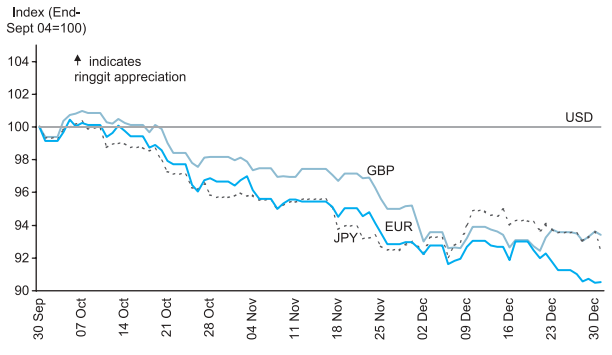
Performance of the ringgit

In line with developments affecting the US dollar, the ringgit declined against the major currencies on continued concerns over the widening US current account and budget deficits. The dollar rallied slightly as the US Federal Reserve Bank increased its Fed Funds Rate by 0.25 percentage points on 14 December. Nonetheless, the dollar reached an all time low of $1.3619 against the euro on 30 December, a 14-year low of $1.9455 against the pound sterling on 21 December and a 5-year low of 102.105 against the yen on 6 December.

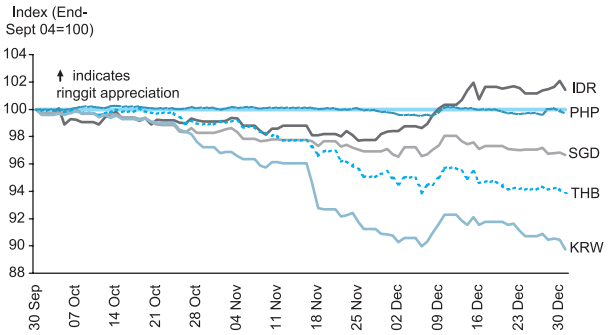
Summary of Ringgit Performance Against Selected Currencies
Percent Change (1 October - 31 December 2004)



Ringgit Performance Against Major Currencies



Ringgit Performance Against Regional Currencies



The depreciation of the ringgit against most regional currencies primarily reflects the weaker dollar, the regional export performance and other positive regional developments, as well as speculative capital inflows. The Korean won appreciated the most against the ringgit on higher repatriation of export earnings and capital inflows. The ringgit appreciated against the Indonesian rupiah as factors specific to that country created increased demand for dollars and led to a weakening of the domestic currency.

Following the depreciation of the US dollar against the euro and yen and rumours of a possible adjustment to the yuan exchange rate regime, there was renewed speculation that the ringgit peg policy was due for a review. Bank Negara Malaysia maintained its stand

Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since*		
	30 Jun 97	02 Sep 98	3Q 04	4Q 04	30 Jun 97	02 Sep 98	3Q 04
US dollar	2.5235	3.8001	3.8000	3.8000	33.6	0.0	0.0
Euro	-	-	4.6826	5.1729	-	-	-9.5
Pound Sterling	4.1989	6.3708	6.8347	7.3169	-42.6	-12.9	-6.6
100 Japanese yen	2.2088	2.7742	3.4264	3.7026	-40.3	-25.1	-7.5
Singapore dollar	1.7647	2.1998	2.2475	2.3258	-24.1	-5.4	-3.4
100 Thai baht	9.7470	9.3713	9.1644	9.7636	-0.2	-4.0	-6.1
100 Philippine peso	9.5878	8.8302	6.7517	6.7706	41.6	30.4	-0.3
100 Indonesian rupiah	0.1038	0.0354	0.0414	0.0408	154.1	-13.3	1.4
100 Korean won	0.2842	0.2827	0.3295	0.3671	-22.6	-23.0	-10.2

* (+) indicates appreciation of ringgit against respective currency and (-) indicates depreciation.

that a review of the peg would only be necessary in the event of a sustained and significant misalignment in the ringgit, or if economic fundamentals dictate that the economy would be better served by an alternative system.