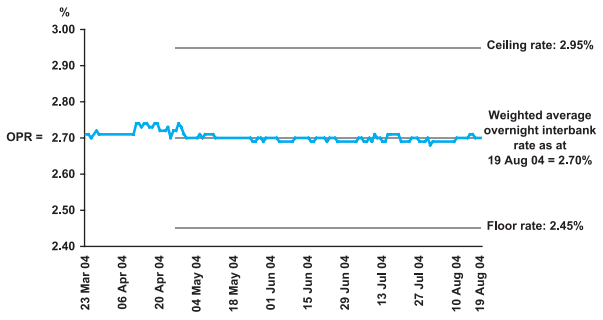
MONETARY AND FINANCIAL DEVELOPMENTS

Monetary policy continued to support growth

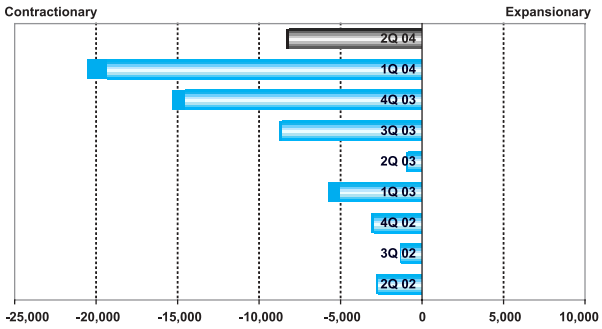
Monetary policy remained supportive of growth. While inflation has remained benign, the ample liquidity together with prevailing low interest rates effectively supported the financing needs of the private sector.

A major change in the system of implementing monetary policy occurred during the quarter following the introduction of the new interest rate framework on 26 April 2004. The Overnight Policy Rate (OPR) replaced the 3-month Intervention Rate as the indicator of monetary policy stance. The new interest framework did not represent a change in monetary policy stance. To reflect this, the OPR was set at the prevailing overnight interbank rate of 2.70%. Transition to the new framework was smooth as market participants responded within expectations. The daily weighted average of the overnight interbank rate moved within a narrow range of 2.68% - 2.74%, averaging 2.70%, in the period 26 April - 19 August. Interbank rates at other tenures continued to remain low. The spread between the KLIBOR rates and interbank rates narrowed during the period. Bank Negara Malaysia absorbed additional liquidity from external operations to maintain stable monetary conditions.

Daily Weighted Average Overnight Interbank Rate



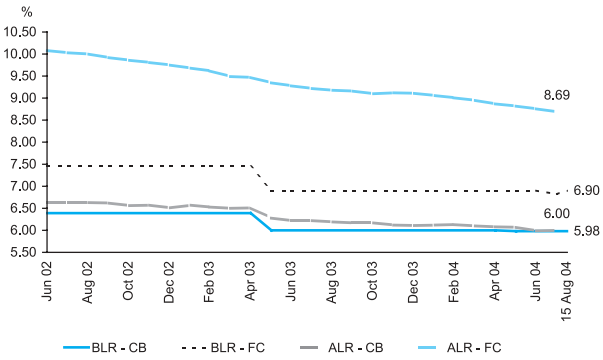
BNM Liquidity Operations
(During the quarter, RM m)



Under the new interest rate framework, each banking institution announces their own base lending rates (BLR) based on their cost structure and business strategies. Following this liberalisation of the BLR formula, one bank quoted lower BLR. As a result, the average BLR of commercial banks (CBs) was only slightly lower at 5.98% as at 15 August 2004 (6.00% at end-March) while the average BLR of finance companies (FCs) remained unchanged at 6.90%. The average lending rates (ALRs) of the CBs and FCs continued to decline during the quarter, to 6.00% and 8.69% respectively at end-July (6.10% and 8.95% respectively as at end-

March). This reflected the larger proportion of new loans priced at lower rates.

Lending Rates: CBs & FCs
(average for the month)



Interest Rates

	2Q 03	1Q 04	2Q 04
	At end-period (%)		
3-month intervention rate *	4.50	4.50	
Overnight Policy Rate (OPR)*			2.70
Interbank rates			
Overnight	2.77	2.71	2.70
1-month	2.99	2.98	2.81
Base lending rates (BLR)			
Commercial banks	6.00	6.00	5.98
Finance companies	6.90	6.90	6.90
Average lending rates			
Commercial banks	6.22	6.10	5.99
Finance companies	9.28	8.95	8.76
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	3.01	3.00	3.00
12-month	3.72	3.70	3.70

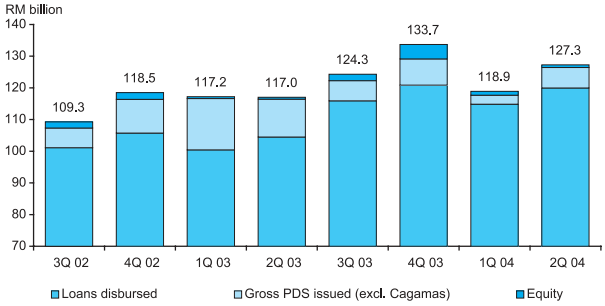
* Effective 26 April 2004, the Overnight Policy Rate (OPR) replaced the 3-month intervention rate as the indicator of the monetary policy stance.

Source: Bank Negara Malaysia

Higher growth in financing to the private sector

Private sector financing remained strong in the second quarter amidst sustained domestic demand and improved external sector performance. Gross private sector financing through the banking system and the capital market was higher at RM127.3 billion during the quarter, increasing at an annual rate of 8.7%. On a net basis, banking system loans and PDS outstanding increased at an annual rate of 8.2% at end-June.

Gross Private Sector Financing through Banking System and Capital Market

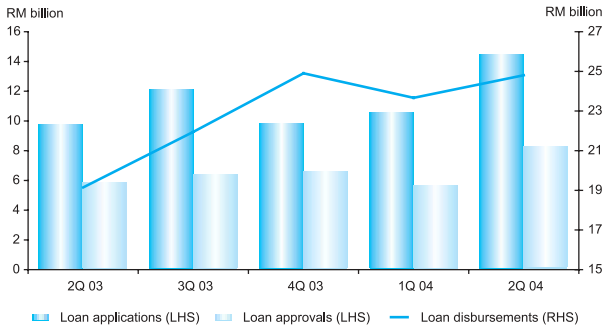


Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2003	2Q 03	1Q 04	2Q 04	2003	1Q 04	2Q 04
Gross total financing	**492.2**	**117.0**	**118.9**	**127.3**	**9.0**	**1.4**	**8.7**
Loans disbursed *	441.7	104.5	114.9	120.0	7.3	14.4	14.8
Gross PDS (excl. Cagamas)	42.8	12.0	2.8	6.5	60.5	-82.5	-46.0
Equity	7.8	0.6	1.2	0.8	-41.5	104.4	42.9
Outstanding total financing (A)+(B)	**57.8**	**14.7**	**6.9**	**16.0**	**10.3**	**8.2**	**8.2**
Banking system	28.1	8.3	3.3	14.2	5.9	5.3	6.4
Loans outstanding (A)	*21.6*	*10.4*	*5.3*	*13.7*	*4.8*	*5.7*	*6.2*
Holding of PDS	*6.6*	*-2.1*	*-2.0*	*0.5*	*23.8*	*0.1*	*8.8*
PDS outstanding (B)	36.2	4.3	1.6	2.3	33.4	17.5	15.4
Memorandum item							
Gross PDS (incl. Cagamas)	51.0	12.9	6.0	7.5	40.8	-65.3	-41.9

* Banking system loans include loans sold to Cagamas.

Bank Lending to SMEs



Loan Indicators

	During the period (RM billion)				Annual Growth (%)			
	2003	2Q 03	1Q 04	2Q 04	2003	2Q 03	1Q 04	2Q 04
Total								
Loan applications	227.6	53.0	58.6	70.6	4.8	-8.2	4.4	33.2
Loan approvals	152.7	38.4	37.2	46.6	11.0	6.8	5.2	21.4
Loan disbursements	441.7	104.5	114.9	120.0	7.3	-0.3	14.4	14.8
Loan repayments	430.5	96.8	112.5	110.3	6.9	-3.3	11.5	14.0
Change in loan outstanding *	21.6	10.4	5.3	13.7	4.8	4.2	5.7	6.2
Of which:								
Business enterprises								
Loan applications	124.9	28.4	30.5	38.2	-7.7	-16.1	-9.9	34.2
Loan approvals	77.2	19.9	17.2	23.6	12.7	11.5	-5.1	18.3
Loan disbursements	303.4	71.5	78.2	82.8	7.6	-2.8	14.9	15.8
Loan repayments	299.6	66.3	75.6	76.0	8.6	-4.0	8.9	14.6
Change in loan outstanding *	-5.2	3.8	-0.4	5.4	-2.4	-1.9	-0.6	0.2
SMEs								
Loan applications	44.5	9.7	10.5	14.5	n.a.	n.a.	-17.8	49.0
Loan approvals	25.7	5.9	5.7	8.3	n.a.	n.a.	-16.1	41.4
Loan disbursements	87.1	19.1	23.7	24.8	-6.9	n.a.	12.3	29.5
Change in loan outstanding *	7.4	1.3	-1.1	2.9	10.0	5.1	5.3	7.4
Large corporations								
Loan applications	80.4	18.7	20.0	23.7	n.a.	n.a.	-5.0	26.6
Loan approvals	51.5	14.0	11.5	15.2	n.a.	n.a.	1.5	8.6
Loan disbursements	216.4	52.3	54.6	58.0	-6.9	n.a.	16.0	10.7
Change in loan outstanding *	-12.7	2.5	0.6	2.5	-8.8	-5.5	-3.9	-3.8
Households								
Loan applications	98.5	24.0	27.2	32.2	20.2	9.5	29.9	34.3
Loan approvals	72.0	18.2	19.3	22.8	7.6	1.7	20.8	25.5
Loan disbursements	114.5	27.3	30.8	31.5	8.9	6.2	17.5	15.4
Loan repayments	94.1	21.6	26.8	25.6	12.4	6.5	19.2	18.4
Change in loan outstanding *	26.2	5.9	6.0	8.1	12.8	12.8	12.9	13.6

* The annual growth is for end-period.

Source: Bank Negara Malaysia

Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	2003	2Q 03	1Q 04	2Q 04		
	RM billion				%	
Business enterprises	303.4	71.5	78.2	82.8	69.0	44.3
Large corporations	*216.4*	*52.3*	*54.6*	*58.0*	*48.3*	*27.3*
SMEs	*87.1*	*19.1*	*23.7*	*24.8*	*20.7*	*17.0*
Households	114.5	27.3	30.8	31.5	26.2	49.7
By sector						
Agriculture, hunting, forestry and fishing	11.1	2.5	3.1	3.7	3.1	2.3
Mining and quarrying	1.7	0.3	0.5	0.4	0.3	0.2
Manufacturing	110.4	26.7	27.2	30.7	25.6	12.9
Broad property sector	78.9	19.0	21.0	21.7	18.1	40.1
Construction	*27.5*	*6.6*	*7.0*	*7.3*	*6.1*	*6.0*
Purchase of residential property	*35.6*	*8.6*	*9.5*	*9.7*	*8.1*	*25.3*
Purchase of non-residential property	*9.7*	*2.3*	*2.7*	*2.9*	*2.4*	*6.0*
Real estates	*6.1*	*1.5*	*1.8*	*1.9*	*1.5*	*2.8*
Electricity, gas and water supply	6.0	1.6	1.5	1.5	1.2	1.1
Wholesale, retail, restaurants and hotels	70.1	17.5	18.3	20.0	16.6	8.2
Transport, storage and communication	12.0	3.5	2.5	2.8	2.3	2.4
Finance, insurance and business services	36.7	6.2	10.6	8.8	7.3	6.0
Consumption credit	72.4	17.3	19.5	20.4	17.0	19.3
Of which:						
Credit cards	*30.5*	*7.1*	*8.4*	*8.6*	*7.2*	*2.6*
Purchase of passenger cars	*24.5*	*6.0*	*6.0*	*7.1*	*5.9*	*13.4*
Purchase of securities	12.9	2.7	3.7	2.8	2.4	4.0
Purchase of transport vehicles excluding passenger cars	1.2	0.2	0.3	0.2	0.1	0.5
Others	28.3	6.9	6.8	7.1	5.9	3.1
Total	**441.7**	**104.5**	**114.9**	**120.0**	**100.0**	**100.0**

Source: Bank Negara Malaysia

Continued expansion in both private consumption and investment activities was reflected in strong growth in the major bank loan indicators. Higher bank lending activity was registered across the three main groups of borrowers, namely SMEs, large businesses and households.

Total loan disbursements was higher amounting to RM120 billion or at an annual growth rate of 14.8% in the second quarter. Disbursements to businesses were higher by 15.8% on an annual basis to RM82.8 billion, continuing to account for close to 70% of total disbursements during the quarter. The bulk of disbursements to businesses were channelled to the manufacturing sector (37.1% of total disbursements to businesses); the wholesale

and retail trade, restaurants and hotels sector (24.1%); and the finance, insurance and business services sector (10.6%). The strong disbursements contributed to higher business loans outstanding in the second quarter. The higher business loans outstanding, particularly of large corporations, partly reflected several new, large long-term loans during the quarter. The forward-looking indicators, applications and approvals of business loans, were notably higher in the second quarter, increasing by 33.4% and 18.3% respectively.

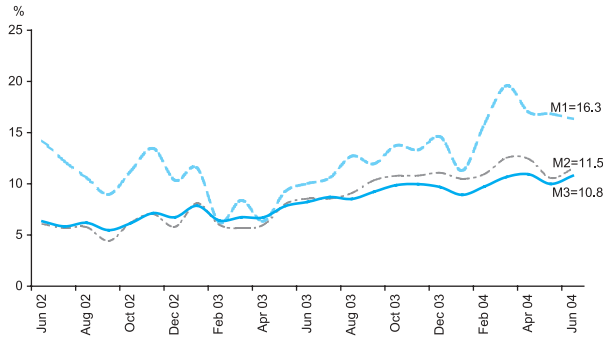
Bank lending to small and medium enterprises (SMEs) continued to increase in the second quarter. Loan disbursements to the sector, which increased at an annual rate of 29.5%, contributed to the growth in loans outstanding to 7.4% at end-June. A total of RM8.3 billion was approved to 22,161 SME accounts during the quarter (1Q: RM5.7 billion approved to 18,703 SME accounts).

Total loan disbursements to households remained strong, amounting to RM31.5 billion. As in the previous quarter, disbursements to households continued to be supported by the robust growth in loans for the purchase of residential property (30.8% of total disbursements to households), credit cards (27.4%) and the purchase of passenger cars (22.4%). Both forward-looking loan indicators showed a sustained trend in the demand for bank financing by households. Loan applications and approvals increased at annual growth rates of 34.5% and 25.5% respectively at end-June. While lending to households was sustained during the quarter, the non-performing loans (NPLs) of the sector remained manageable. As a proportion of total household loans, the gross NPL ratio of the sector was slightly lower at 7.6% at end-June (7.9% at end-March). In particular, the NPL ratios for residential property loans and credit card loans were contained at 8.6% and 4.2% respectively at end-June (8.8% and 4.3% respectively at end-March).

Sustained expansion in broad money

Reflecting the robust economic activity in the second quarter, the annual growth rates of all the monetary aggregates remained high. M3 increased by 10.8% at end-June (10.7% at end-March). The expansion in M3 of RM10.3 billion during the quarter was driven mainly by higher claims on the private sector (2Q: +RM12.4 billion; 1Q: +RM3.8 billion). This was

Monetary Aggregates: Annual Growth



M3 Determinants

	Change during the period				
	Yearly		Quarterly		
	2002	2003	2Q 03	1Q 04	2Q 04
	RM billion				
M3	31.6	48.5	8.7	18.9	10.3
Net claims on Government	11.5	12.9	5.3	-6.0	-2.0
Claims on private sector	27.7	31.3	8.6	3.8	12.4
Net external operations *	1.2	20.8	0.3	33.3	6.0
Other influences	-8.9	-16.5	-5.5	-12.2	-6.2

*Pre-revaluation
Source: Bank Negara Malaysia

mainly due to higher bank lending as holdings of securities by the banking institutions declined during the quarter. The external sector also exerted a positive impact on money supply. Sustained repatriation of export proceeds and some portfolio and FDI inflows contributed to the increase in reserves.

Higher new funds raised in the capital market

The capital market remained an important source of financing for the private sector in the second quarter, as corporations continued to take advantage of the low interest rate environment. New issuances of private debt securities (PDS) were higher, amounting to RM7.5 billion (1Q 2004: RM6 billion). In terms of non-Cagamas PDS issuances, funds were raised by 22 companies, of which about half were from the manufacturing and property sectors. More than half of the total funds raised were channelled towards new activities (55.2%). The new issues were mainly in the form of MTNs, convertible bonds and asset-backed securities. On a net basis, the gross issues were offset by large redemptions amounting to RM8.6 billion. In the equity market, RM800 million was raised, of which RM353 million was from 14 initial public offerings. There were 13 new listings on the KLSE during the period, with five listings on the Main Board, three on the Second Board and five on MESDAQ.

The Government raised funds amounting to RM16.7 billion. Of this, RM14.8 billion was through one new issue and three reopenings of MGS, while RM1.4 billion was from a new issue of GII. The public sector also redeemed MGS, GII and Khazanah bonds amounting to RM12.7 billion, resulting in net financing of RM4 billion.

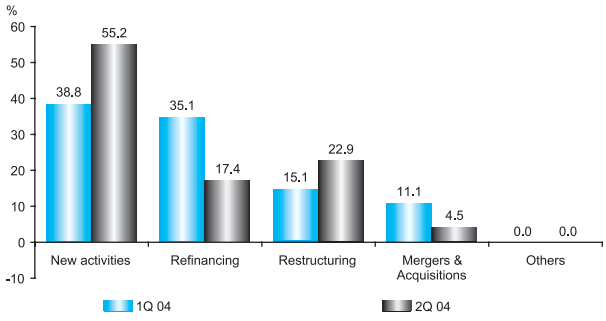
Total net funds raised in the capital market amounted to RM3.8 billion, despite higher redemptions by both the private and public sectors.

Funds Raised in the Capital Market

	1Q 03	2Q 03	1Q 04	2Q 04
	RM million			
By Public Sector				
Malaysian Government Securities (MGS), *gross*	17,730	8,132	11,000	14,763
Less Redemptions	10,300	1,500	5,500	9,700
Less Government holdings	0	0	0	0
Equals Net Federal receipts	7,430	6,632	5,500	5,063
Khazanah Bonds, *net*	878	-138	0	-1,000
Government Investment Issues (GII), *net*	1,729	0	0	-560
Malaysia Savings Bond, *net*	-2	-2	-455	0
Merdeka Savings Bond, *net*	0	0	500	497
Net Funds Raised	10,035	6,491	5,545	4,001
By Private Sector				
Shares	587	584	1,200	834
Debt securities	17,405	12,911	6,041	7,498
Private Debt Securities excluding Cagamas)	*16,185*	*11,966*	*2,836*	*6,463*
Cagamas	*1,220*	*945*	*3,205*	*1,035*
Less *Redemptions*	*2,176*	*9,602*	*6,928*	*8,558*
Net Issues	15,229	3,310	-887	-1,060
Net issues (excluding Cagamas)	*15,536*	*4,135*	*-2,092*	*75*
Net Funds Raised	15,816	3,894	314	-226
Total Net Funds Raised	25,851	10,385	5,858	3,775
Short-term papers and notes, *net*	1,620	-1,437	-269	-1,213
TOTAL	27,471	8,949	5,589	2,563

* Refers to Commercial Papers and Cagamas Notes only.

Private Debt Securities Issued by Purpose
(% of total)



KLSE CI weakened on adverse external developments

The KLSE CI declined in the second quarter of 2004 as global and regional developments affected the performance of several regional bourses, particularly in April and May. Sentiment was adversely affected primarily by concerns over the impact of potentially slower growth in P.R. China, the prospect of increases in US interest rates and the consequences of higher oil prices on the global economy. The KLSE CI improved marginally at the end of May following the announcement of strong first quarter economic growth and better-than-expected quarterly earnings announced by several listed companies.

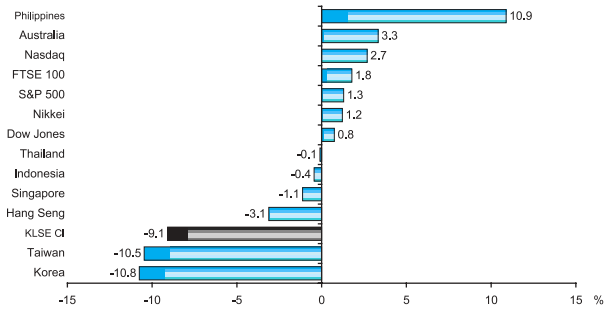
In the second quarter, the KLSE CI declined by 9.1% to 819.9 at end-June (end-March 2004: 901.9). Market capitalisation at the end of the quarter was lower by 9.7% at RM653.9 billion (end 1Q 2004: RM724.2 billion) while the average daily turnover for the quarter was lower at 331.5 million units.

Bursa Malaysia: Selected Market Indicators

	As at end				
	1Q 03	2Q 03	4Q 03	1Q 04	2Q 04
Price Indices					
Composite	635.7	692.0	793.9	901.9	819.9
EMAS	154.0	170.2	195.6	219.8	197.3
Second Board	93.0	109.0	140.6	135.3	117.2
Average daily turnover					
Volume (million units)	213.6	286.7	658.1	650.6	331.5
Value (RM million)	367.1	457.2	1,179.8	1,325.7	714.6
Market Capitalisation (RM b)	478.3	532.5	640.3	724.2	653.9
No. of companies Listed	874	877	906	923	934

Source: Bursa Malaysia

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



Bursa Malaysia: Turnover of Corporate Securities

	During the period									
	1Q 03		2Q 03		4Q 03		1Q 04		2Q 04	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	12,387	21,294	17,776	28,349	40,144	71,970	37,737	77,036	15,192	32,857
of which:										
Main Board	10,609	19,397	14,421	24,648	27,495	51,391	27,626	61,454	11,230	27,790
of which:										
Consumer Products	310	1,481	509	1,959	944	3,086	1,173	3,905	514	1,895
Industrial Products	711	1,535	1,429	2,105	3,735	5,369	4,087	6,067	1,660	2,841
Construction	1,482	1,687	1,181	1,796	2,177	5,415	1,693	4,044	654	1,449
Trading / Services	2,791	7,165	3,329	9,009	6,118	16,632	5,632	19,975	2,588	9,206
Finance	1,532	3,784	1,908	4,422	3,468	9,065	4,536	14,521	1,899	6,061
Properties	1,370	966	2,942	2,210	5,138	5,446	4,159	5,145	1,580	2,185
Plantations	296	1,283	307	1,129	638	1,981	762	3,106	424	2,112
Mining	48	91	53	92	36	102	43	140	5	30
Second Board	1,591	1,807	2,685	3,377	10,100	18,229	6,258	11,249	2,787	3,995

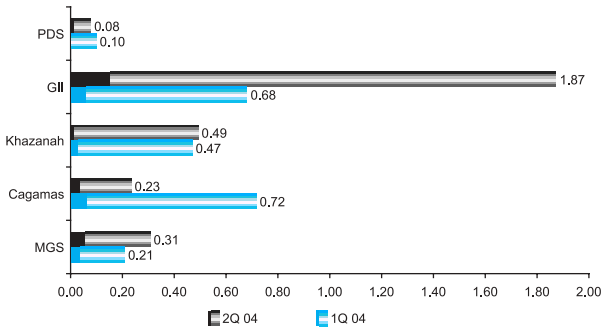
Source: Bursa Malaysia

Higher secondary trading in the bond market following issuances of Government securities

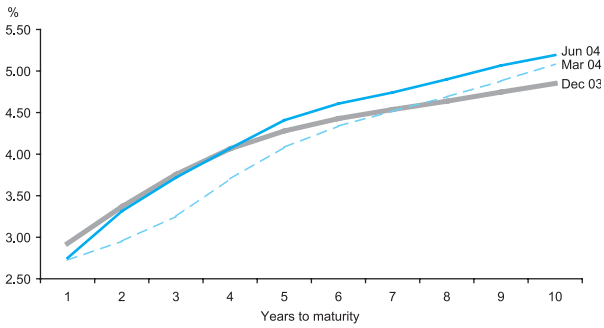
Trading in the secondary market was higher in the second quarter compared with the first quarter, following several issuances of Government securities. For the quarter as a whole, trading activities were concentrated in the 3-5 year Government and quasi-Government securities, which accounted for 85% of total trade. In terms of liquidity, the GII and Khazanah bonds were the most liquid papers, with liquidity ratios of 1.87 and 0.49 respectively.

The medium to long end of the MGS benchmark yield curve shifted upwards in the second quarter. Market sentiment was weak, influenced primarily by concerns over the sooner than expected interest rate increases in the US, coupled with the improvement in the domestic economy. However, the MGS supply in June met market's expectations and lifted market sentiment towards the end of June. In addition, the official announcements that there would be no change to domestic interest rate policy removed market uncertainties. As a result, the MGS benchmark yield curve was only marginally higher in June compared to May.

Liquidity Ratio: Turnover/Outstanding



Trend in MGS Yield

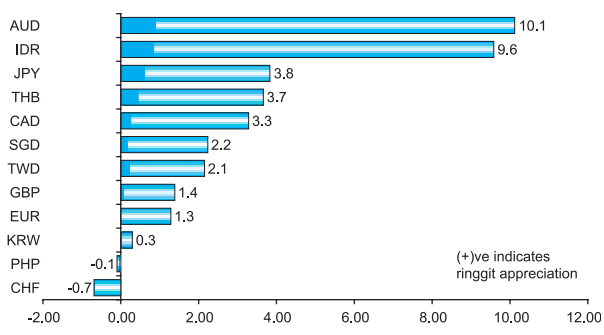


Performance of the ringgit

In the second quarter of 2004, the ringgit appreciated against the yen, pound sterling and euro. The US dollar strengthened against these currencies largely on account of the expected increase in US interest rates.

With the appreciation of the US dollar, the ringgit also strengthened against most of

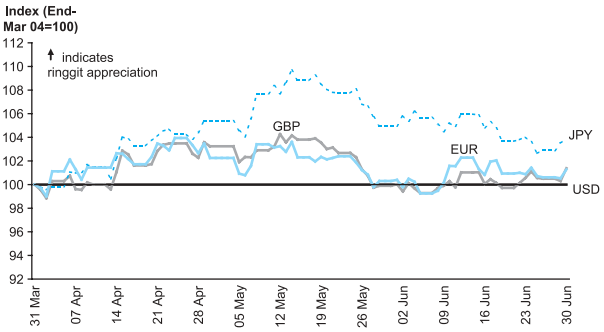
Summary of Ringgit Performance Against Selected Currencies
Percent Change (1 April- 30 June 2004)



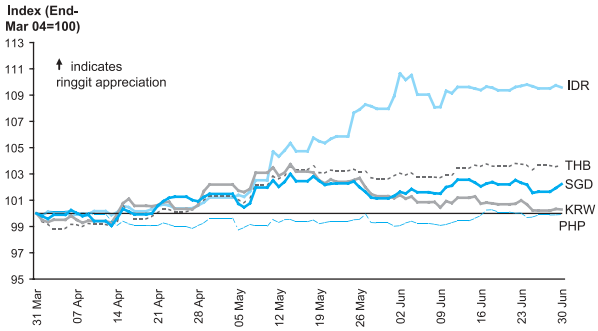
the regional currencies. In the second quarter, most of the regional currencies generally weakened on account of concerns over the impact of potentially slower growth in P.R. China, higher oil prices and the implications of the expected rise in interest rates in the US. Uncertainty over the political atmosphere in several countries, particularly in the lead up to elections also influenced the performance of their currencies.

Notwithstanding the volatility of the exchange rates of major and regional currencies, the ringgit's trade-weighted value continued to remain consistent with the underlying fundamentals of the economy.

Ringgit Performance Against Major Currencies



Ringgit Performance Against Regional Currencies



Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since *		
	30 Jun 97	02 Sep 98	1Q 04	2Q 04	30 Jun 97	02 Sep 98	1Q 04
US dollar	2.5235	3.8000	3.8000	3.8000	-33.6	0.0	0.0
Euro	-	-	4.6522	4.5933	-	-	1.3
Pound sterling	4.1989	6.3708	6.9667	6.8719	-38.9	-7.3	1.4
100 Japanese yen	2.2088	2.7742	3.6334	3.4991	-36.9	-20.7	3.8
Singapore dollar	1.7647	2.1998	2.2633	2.2139	-20.3	-0.6	2.2
100 Thai baht	9.7470	9.3713	9.6239	9.2841	5.0	0.9	3.7
100 Philippine peso	9.5878	8.8302	6.7580	6.7640	41.7	30.5	-0.1
100 Indonesian rupiah	0.1038	0.0354	0.0442	0.0404	157.1	-12.3	9.6
100 Korean won	0.2842	0.2827	0.3308	0.3298	-13.8	-14.3	0.3

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