BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 12/03/38 (BN) **EMBARGO: Not for publication or broadcast before 1700 hours on Monday, 29 December 2003**

Highlights of the November 2003 Press Release

Monetary and financial indicators continue to reflect sustained expansion in domestic economic activities

The overall monetary and financial developments in November indicated continuing strength in domestic economic activities. Growth in the monetary aggregates was sustained, with M1, M2 and M3 expanding by 13.3%, 10.8% and 10% respectively (Oct 03: 13.7%, 10.8% and 9.9% respectively). Loans outstanding continued to increase by RM1.3 billion or at an annual rate of 4.4% in November (RM1.7 billion or 4.6% in October). Outstanding loans of the SMEs expanded at a significantly faster rate of 9%, the highest growth recorded since July 2001. On a cumulative basis, SMEs loans increased by RM6.5 billion in the first eleven months.

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PRESS RELEASE

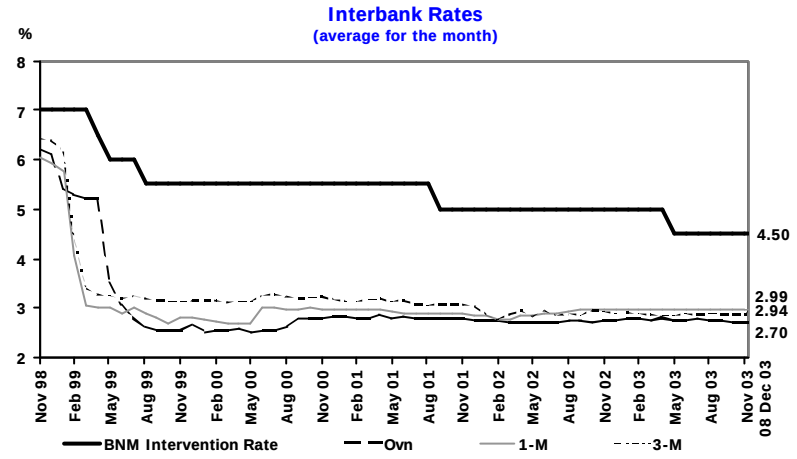
MONETARY AND FINANCIAL DEVELOPMENTS NOVEMBER 2003

Monetary and financial indicators continue to reflect sustained expansion in domestic economic activities

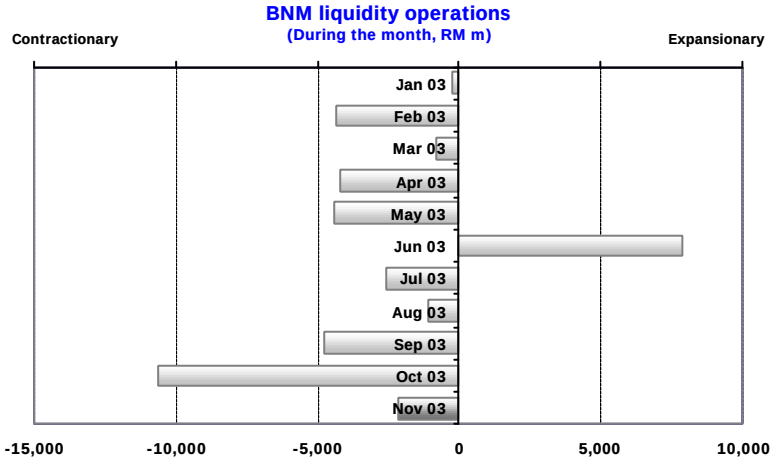
The overall monetary and financial developments in November indicated continuing strength in domestic economic activities. Growth in monetary aggregates was sustained, with M1, M2 and M3 expanding by 13.3%, 10.8% and 10% respectively (Oct 03: 13.7%, 10.8% and 9.9% respectively). Loans outstanding continued to increase by RM1.3 billion or at an annual rate of 4.4% in November (RM1.7 billion or 4.6% in October). Outstanding loans of the SMEs expanded significantly at an annual rate of 9%, the highest rate recorded since July 2001. On a cumulative basis, SMEs loans increased by RM6.5 billion in the first eleven months.

Interest rate remained low and stable

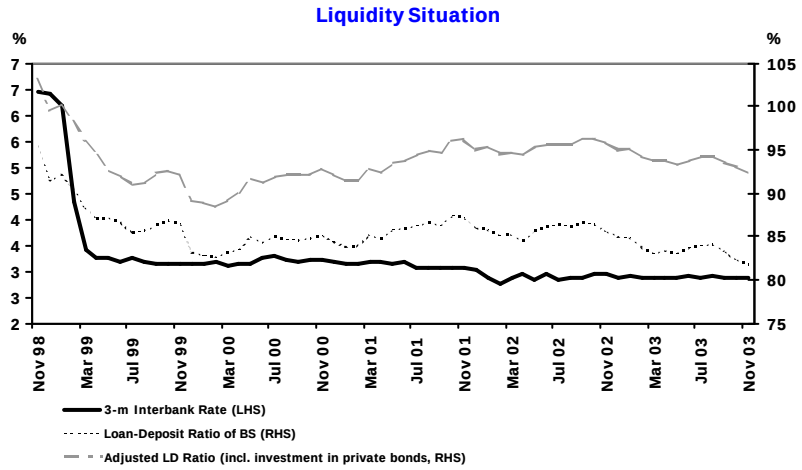
The interbank money market rates continued to remain low and stable during the month. BNM money market operations were focused on stabilising the impact of added liquidity arising from expansionary Federal Government operations as well as external operations.



The interbank money market rates remained low and stable

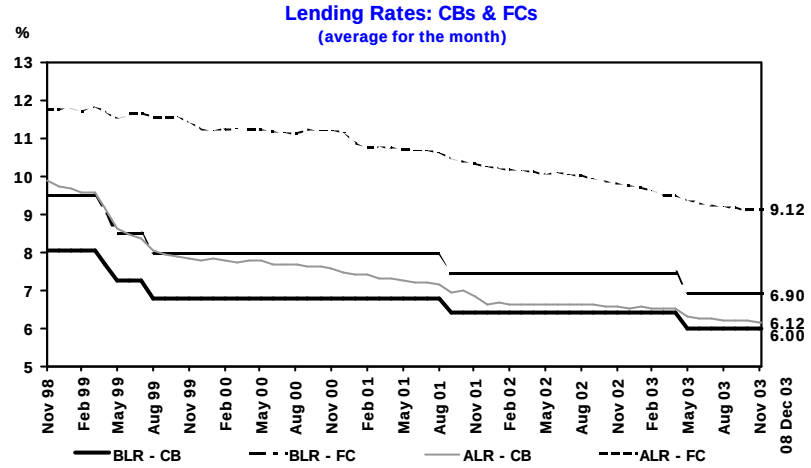


BNM continued to stabilise inflows and maintained stable money market conditions



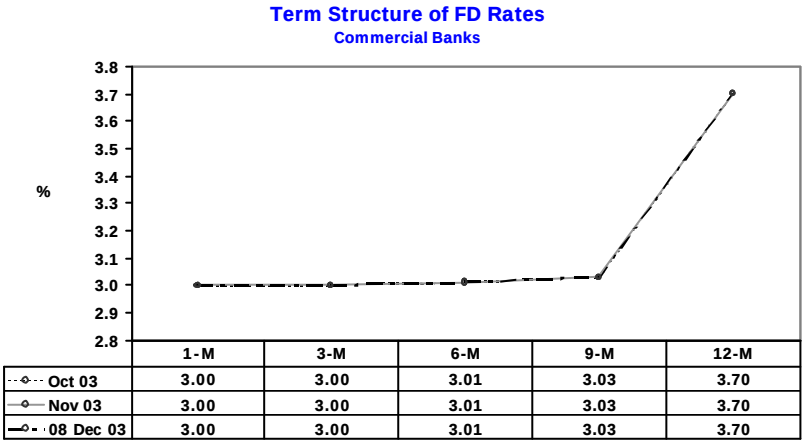
Ample liquidity in the banking system continued to support financing activities. The loan-deposit ratio including private debt securities held by the banking system remained high at 92.2%

The **average base lending rate (BLR)** remained unchanged during the month. Competition for loans led to a five basis point decline in the **average lending rate (ALR)** for commercial banks (CBs) to 6.12% (end-October: 6.17%). The ALR for finance companies (FCs) stabilised at 9.12% (end-October: 9.10%).



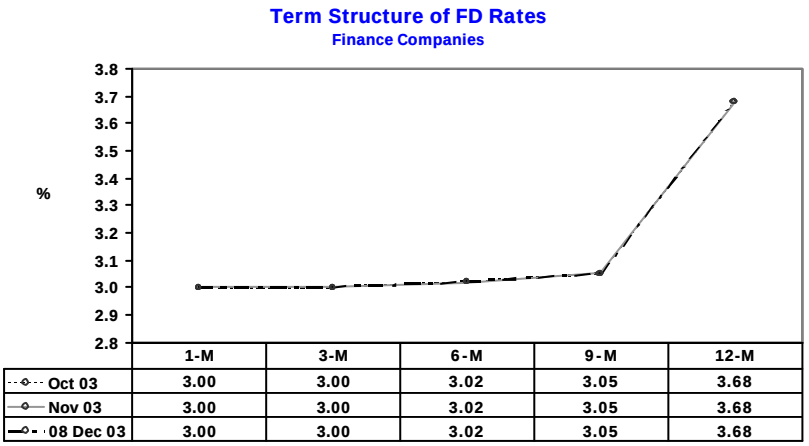
While BLR remained unchanged, ALR for CBs declined slightly

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



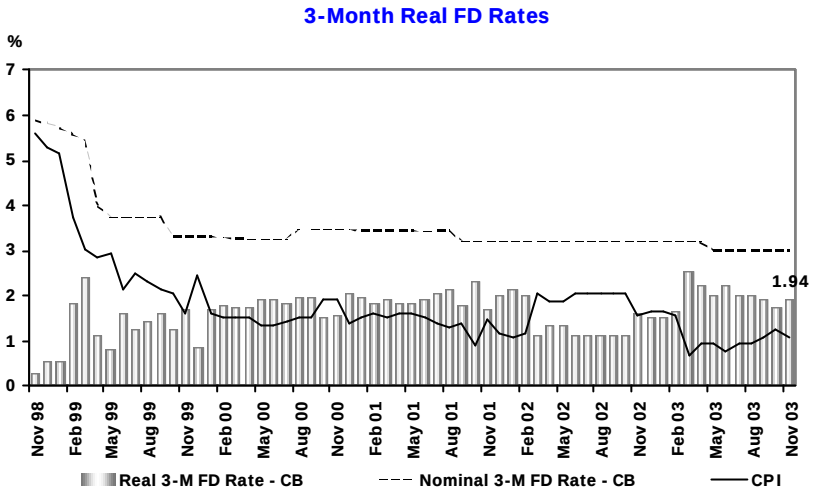
	1-M	3-M	6-M	9-M	12-M
Oct 03	3.00	3.00	3.01	3.03	3.70
Nov 03	3.00	3.00	3.01	3.03	3.70
08 Dec 03	3.00	3.00	3.01	3.03	3.70

FD rates of CBs remained stable



	1-M	3-M	6-M	9-M	12-M
Oct 03	3.00	3.00	3.02	3.05	3.68
Nov 03	3.00	3.00	3.02	3.05	3.68
08 Dec 03	3.00	3.00	3.02	3.05	3.68

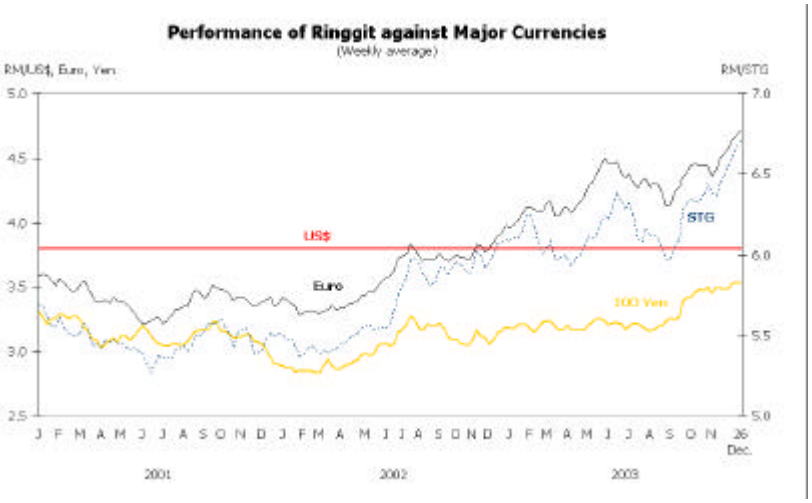
...similarly for FC



The 3-month real FD rate remained relatively stable.

Performance of the ringgit

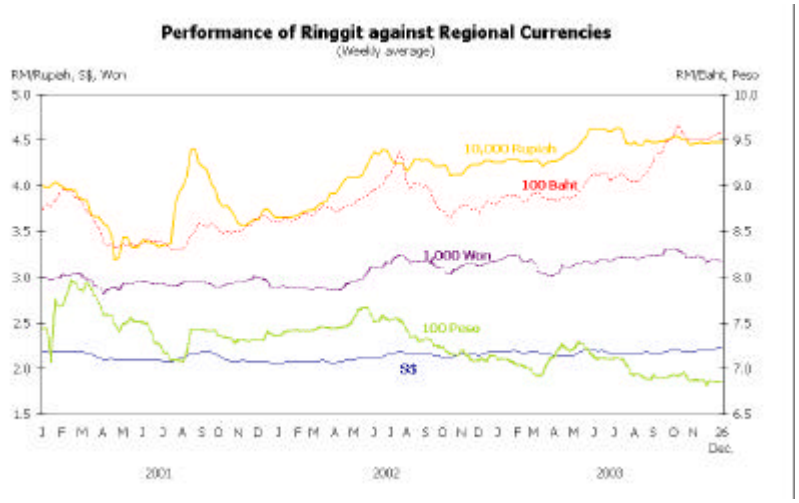
In November, the ringgit recorded a mixed performance against the major currencies. In tandem with the movement of the US dollar in the international foreign exchange markets, the ringgit depreciated against the euro by 2.5% and against the pound sterling by 1%, while appreciating against the Japanese yen by 0.5%. The dollar weakened as funds shifted to other currencies following the widening of interest rate differentials in favour of other major economies, and expectations that US interest rates will remain low in the medium term. The dollar was also adversely affected by persistent concerns over the large US trade deficit and the impact of US protectionist policies on the economy, as well as geopolitical developments in Iraq. The confluence of dollar negative factors resulted in the US currency depreciating to record lows against the euro towards the end of the month.



Ringgit performance was mixed against the major currencies in November

The ringgit also recorded a mixed performance against regional currencies. The ringgit apppreciated against the Philippine peso and Korean won by 0.7% and 1.8%. However, the ringgit depreciated against the Singapore dollar by

0.6%, while remaining relatively unchanged against the Indonesian rupiah and Thai baht. The Philippine peso weakened on market concerns over the fiscal deficit and rising political uncertainties. The Korean won was adversely affected by concerns over consumer debt as well as the liquidity problems of a prominent Korean credit card issuer.



The ringgit recorded a mixed performance against regional currencies in November

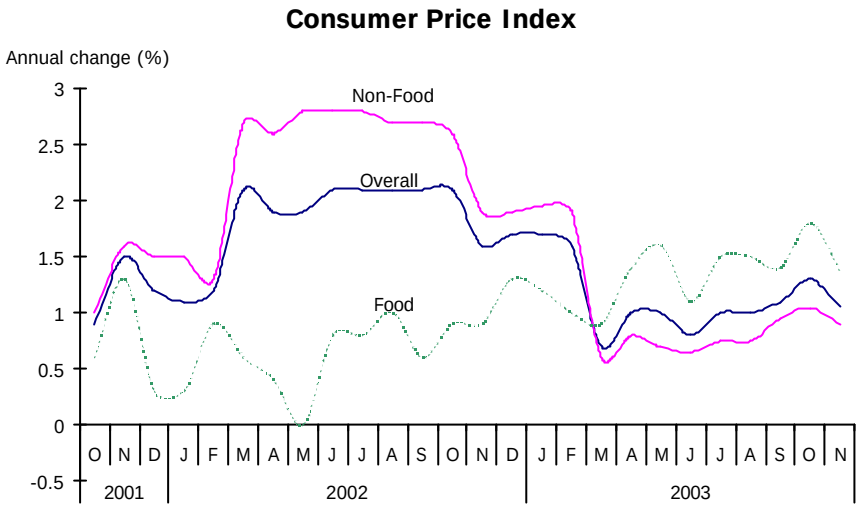
In the period **1 – 26 December 2003**, the ringgit depreciated against the major currencies with the depreciation of the dollar. The ringgit depreciated against the euro by 4.4%, the pound sterling by 3.4% and the Japanese yen by 2.2%. The euro reached a record high of $1.2453 per euro in international foreign exchange markets on 25 December. The dollar continues to be affected by market expectations of a further tightening of interest rates in some major economies following the second interest rate increase over two consecutive months by the Reserve Bank of Australia, and expectations that US interest rates will remain low for a considerable period of time. The release of weak job creation and services sector data, as well as heightened security concerns and the emergence of the first case of 'mad cow' disease in the US also culminated in a weaker dollar. The ringgit depreciated to a lesser extent against the regional currencies in the range of 0.1% - 1.3%.

Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-Nov. 2003	26 December 2003	% Change: November 2003	% Change: End-Nov. - 26 Dec. 2003	% Change: End-2002 - 26 Dec. 2003	% Change: 2 Sep. 1998 - 26 Dec. 2003
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.5290	4.7365	-2.5	-4.4	-15.9	-
Pound Sterling	6.3708	6.5138	6.7410	-1.0	-3.4	-9.6	-5.5
100 Japanese yen	2.7742	3.4717	3.5494	0.5	-2.2	-9.8	-21.8
Singapore dollar	2.1998	2.2016	2.2315	-0.6	-1.3	-1.9	-1.4
100 Thai baht	9.3713	9.5190	9.6044	0.0	-0.9	-8.3	-2.4
100 Philippine peso	8.8302	6.8192	6.8469	0.7	-0.4	4.4	29.0
100 Indonesian Rupiah	0.0354	0.0447	0.0447	0.0	-0.1	-5.0	-20.9
100 Korean won	0.2827	0.3157	0.3168	1.8	-0.3	0.9	-10.8

Inflation increased marginally in November

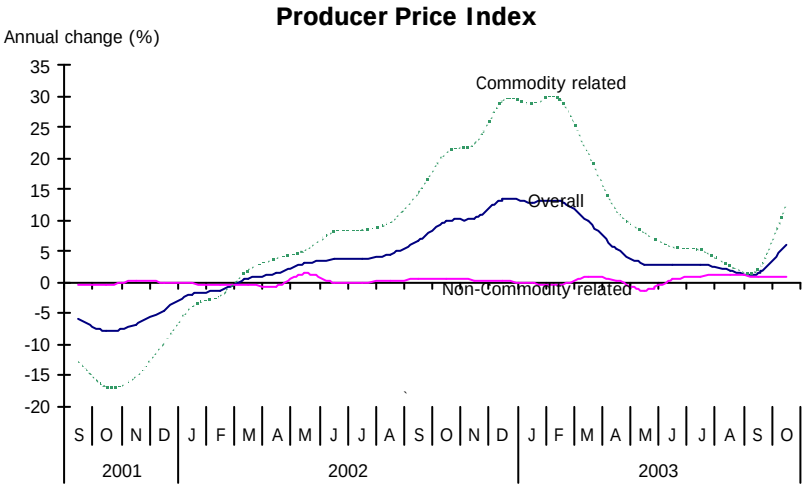
The annual rate of **inflation,** as measured by the Consumer Price Index (CPI, 2000=100), **increased by 1.1%** in November (October: 1.3%) with price changes remaining broadly stable across the spectrum.



Inflation increased marginally to 1.1% in November

Producer prices higher in October

Producer Price Index (PPI) increased by 6.1% in October (Sep 03: 1.4%). The increase was due to higher producer prices of crude materials, mineral fuels and related products, as well as, animal and vegetable oil and fat. Excluding commodity-related products, the adjusted PPI increased by only 0.9%.

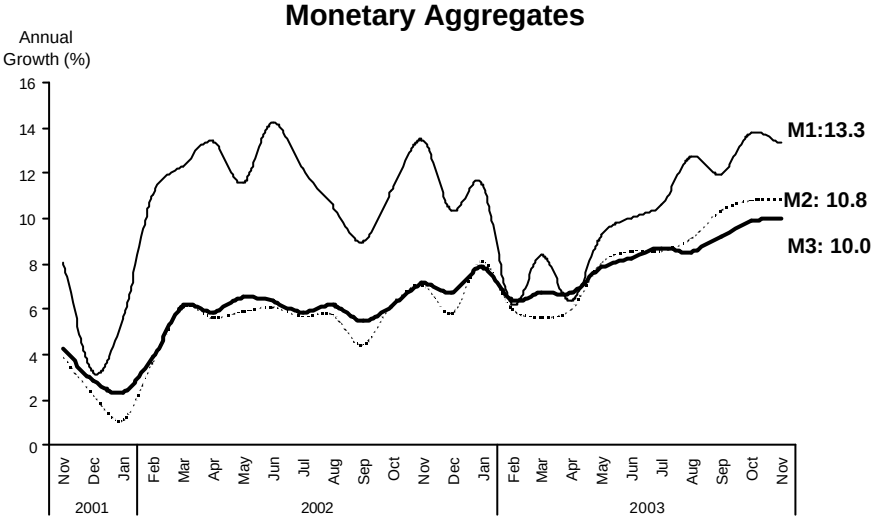


Producer prices, excluding commodity related products increased by 0.9%

Growth in money supply sustained

In November, growth in monetary aggregates was sustained, with M1, M2 and M3 expanding at an annual rate of 13.3%, 10.8% and 10% respectively (Oct 03: 13.7%, 10.8% and 9.9% respectively). The high demand for transaction balance particularly currency in circulation, reflected the higher household spending during the festive season. The three determinants of monetary aggregates, Government, the private sector and external operations contributed positively to the expansion of money supply.

Monetary Aggregates



Growth in all three monetary aggregates was sustained ...

M3 Determinants

(RM billion)

	Change during period			
	2003			
	Sep	Oct	Nov	Jan - Nov
M3	5.6	5.3	7.8	21.8
Net claims on Government	-2.2	1.2	3.2	0.3
Claims on the private sector	4.5	1.0	2.7	11.2
Net external operations [1]	5.3	10.8	1.9	19.4
Other influences	-2.0	-7.7	0.0	-9.1

1/ pre-revaluation

...reflecting the expansionary Government, private sector and external operations

Deposits of the banking system continued to increase in November

The total **deposits** mobilised by the banking system increased month-on-month by RM5.8 billion or 1.1% in November. The increase reflected the higher deposits of businesses and individuals, mainly in repos, demand deposits and SPI deposits. Meanwhile, on an annual basis, total deposits mobilised by the banking system rose by 9.8% as at end-November (10.0% at end-October).

Monthly Change in Deposits			(RM million)
	2003		
	Sept.	Oct.	Nov.
Holder			
Federal Government	-171	103	1,031
State Governments	-349	-137	-254
Statutory Authorities[1/]	-531	674	-269
Financial Institutions	1,615	367	-190
Business Enterprises	3,125	3,149	4,373
Individuals	1,652	2,098	1,536
Others [2/]	-525	376	-405
Total	**4,817**	**6,920**	**5,816**

Higher deposits was placed by the Federal Government, businesses and individuals...

[1/] Include local Governments.

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

Monthly Change in Deposits			(RM million)
	2003		
	Sept.	Oct.	Nov.
Type			
Fixed deposits	1,973	1,305	-952
NIDs	153	968	547
Demand deposits	44	2,293	1,002
Savings deposits	326	404	428
Repos	1,464	1,614	2,773
FX deposits	847	-461	36
SPI deposits	-80	702	1,996
Others	90	96	-14
Total	**4,817**	**6,920**	**5,816**

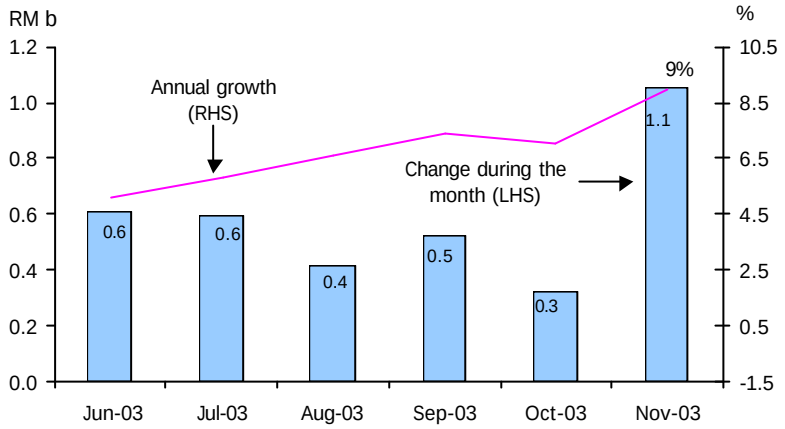
.....mainly in repos, SPI and demand deposits

Outstanding loans of the SMEs expanded significantly

On an annual basis, loan applications rose by 4.2%, approvals by 12.9% and disbursements by 6.4%. Loans outstanding continued to increase by RM1.3 billion or at an annual rate of 4.4% in November (RM1.7 billion or 4.6% in October), on account of higher outstanding loans to the household sector (+RM2.6 billion, +RM2.7 billion in October) and the SMEs (+RM1.1 billion, +RM0.3 billion in October). Outstanding loans of the overall business sector, however, declined by RM0.5 billion, reflecting larger repayments, particularly by the businesses in the agriculture, hunting, forestry and fishing as well as financial, insurance and business services sectors.

Bank financing to SMEs continued to expand strongly. Outstanding loans of the SMEs expanded significantly at an annual rate of 9%, the highest growth recorded since July 2001. On a cumulative basis, SMEs loans expanded by RM6.5 billion in the first eleven months. Consequently, SMEs loans accounted for a higher share of 32.5% of business loans outstanding and 15.8% of total loans as at end-November. During the same period, a total of RM23.2 billion was approved to 69,225 SMEs, while RM77.9 billion was disbursed.

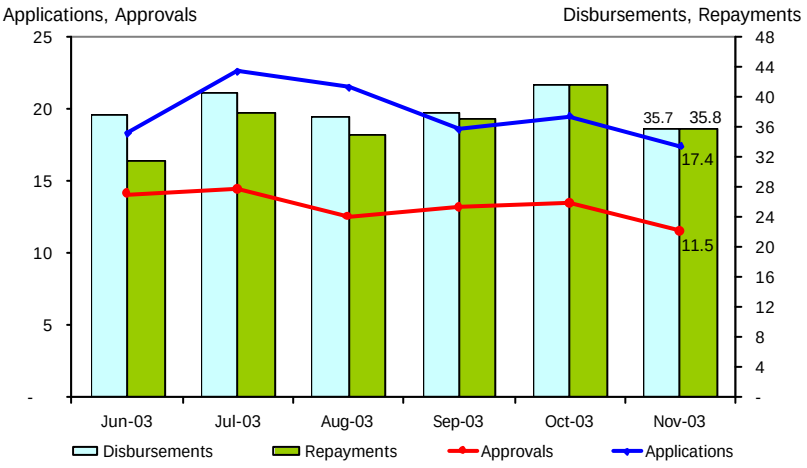
Loans Outstanding of the Small and Medium Enterprises



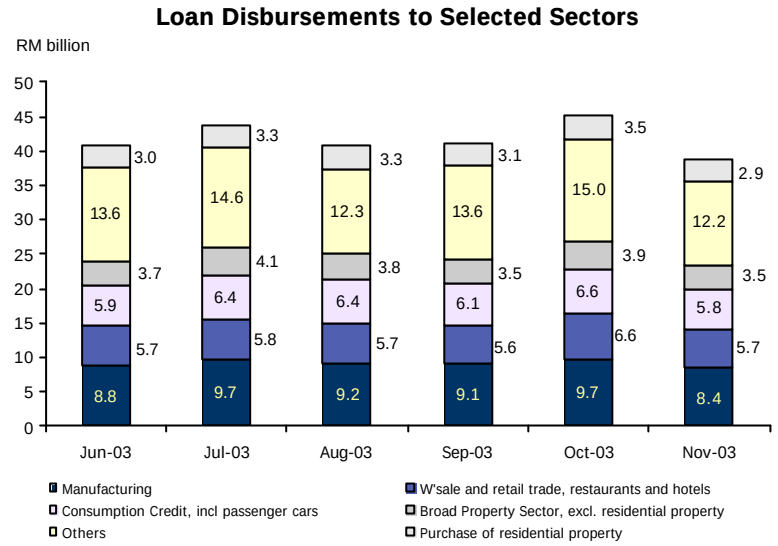
Outstanding loans of SMEs expanded significantly

Reflecting mainly the seasonal slowdown in lending activity towards the year end, loan indicators moderated in November compared with October. This was reflected in the lower overall loan applications by the business sector, although loans applications by the financial, insurance and business services; agriculture hunting, forestry and fishing as well as the manufacturing sectors were higher.

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

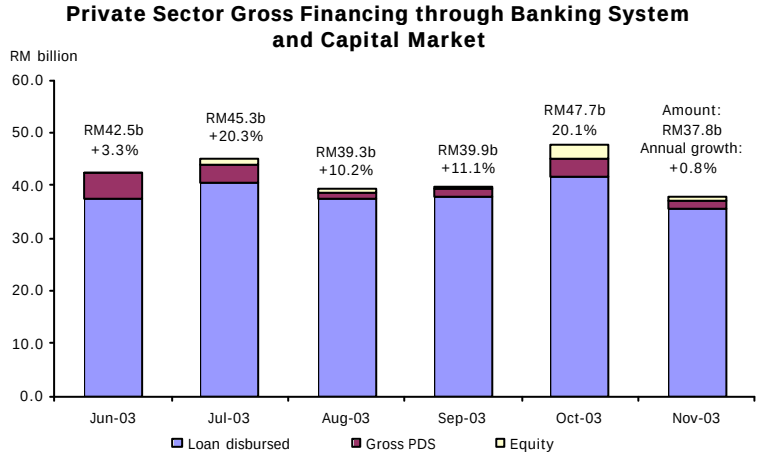


Reflecting mainly the shorter working days due to festive season, loan indicators were lower compared with previous month



Disbursements were across the board

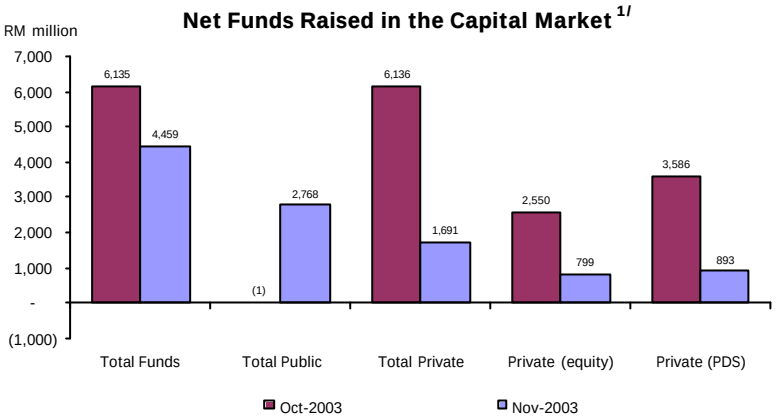
Total gross financing of the private sector by the banking system and funds raised in the capital market amounted to RM37.8 billion (RM47.7 billion in October). On a net basis, financing provided by the banking system through extension of loans and its holdings of private debt securities (PDS) expanded at an annual rate of 5.4% as at end-November (6% as at end-October). Loan-deposit ratio, including private debt securities held by the banking system, stood at 92.2% as at end-November (93.1% as at end-October).



Gross private sector financing expanded at an annual rate of 0.8%

Higher net funds raised by the public sector

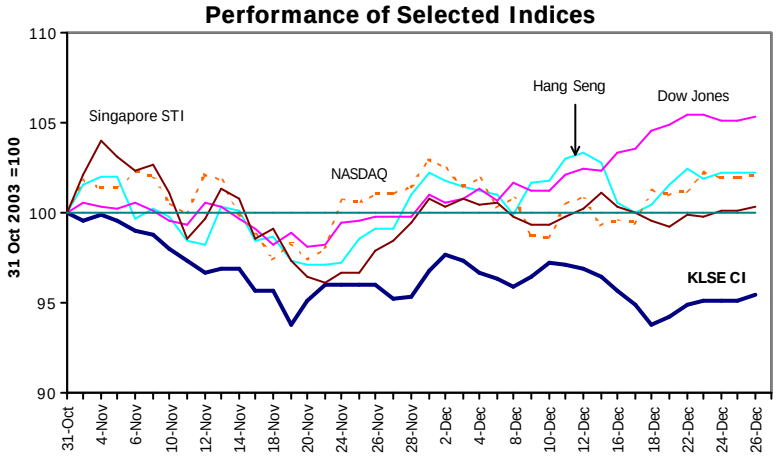
A higher amount of RM2.8 billion was raised by the public sector in November. The private sector raised RM893 million through the private debt securities market and RM799 million through the equity market. On a net basis, RM4.5 billion was raised in the capital market in November.



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

Higher net issuance by the public sector

The **Kuala Lumpur Stock Exchange** (KLSE) consolidated in November due to profit-taking activities following significant gains in October. The market rebounded slightly after the announcement of better-than-expected Gross Domestic Product (GDP) growth for the third quarter. As at end-November, the KLSE CI closed at 779.3 points (-4.6% since end-October) with market capitalisation at RM629.2 billion (-3.2% since end-October). The daily average turnover was also lower at 632.9 million units during the month (820.1 million units in October).

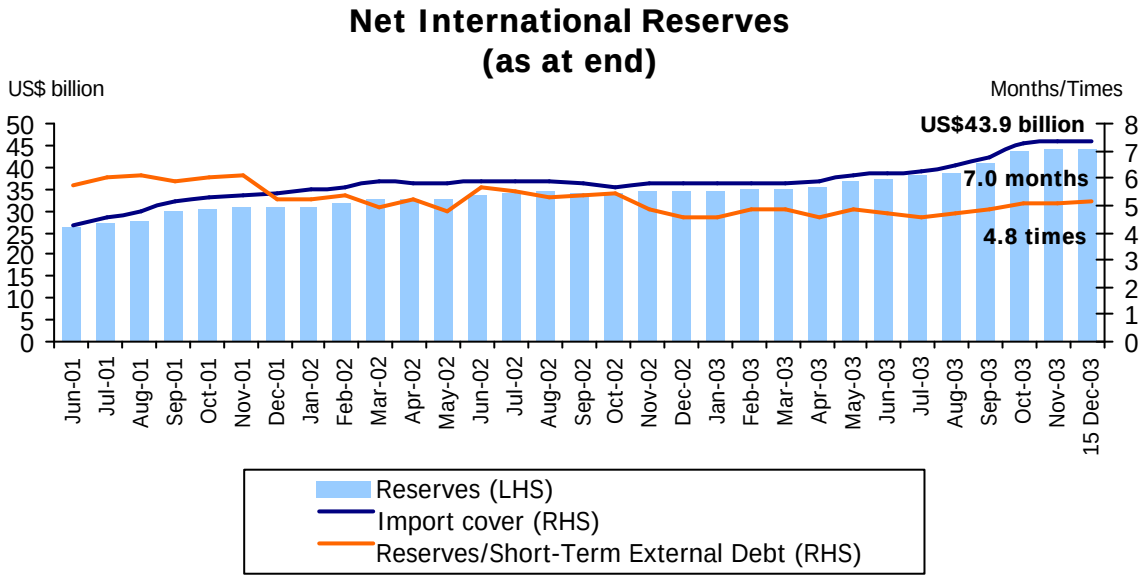


KLSE performance was in line with the regional markets

As at 26 December, the KLSE CI closed at 780 points (+0.1% since end-November). The market capitalisation was higher at RM628.5 billion (-0.1% since end-November) and the daily average turnover during the period stood at 499 million units.

International reserves remained high

The international reserves of Bank Negara Malaysia amounted to RM 167 billion or US$44 billion as at 28 November 2003, representing an increase of RM1.2 billion or US$0.3 billion from the previous month. The high level of reserves was sustained at RM166.7 billion or US$43.9 billion as at 15 December 2003, attributed mainly to the repatriation of export earnings and inflows of portfolio funds. Outflows reflected mainly payments for goods and services, repatriation of dividends and repayments of external loans by the public sector. The current level of reserves is adequate to finance 7.0 months of retained imports and is 4.8 times the short-term external debt.

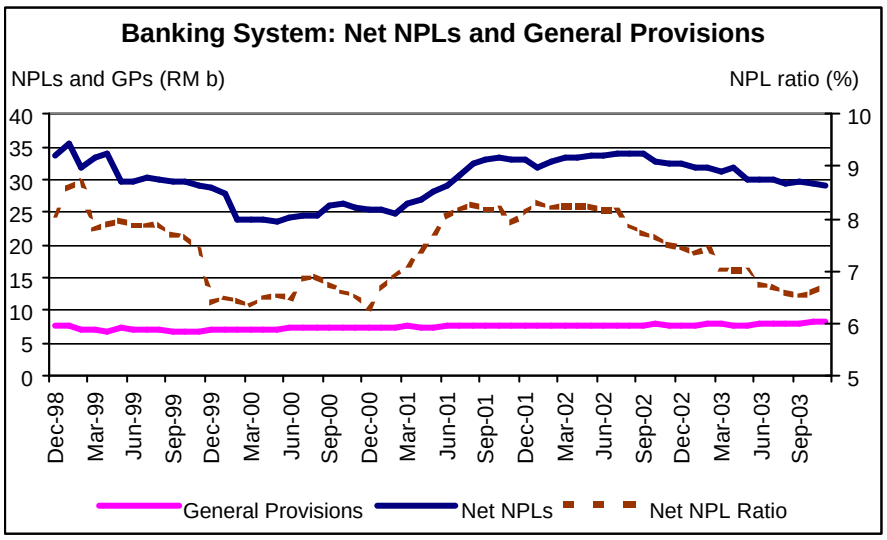


Capitalisation improved further

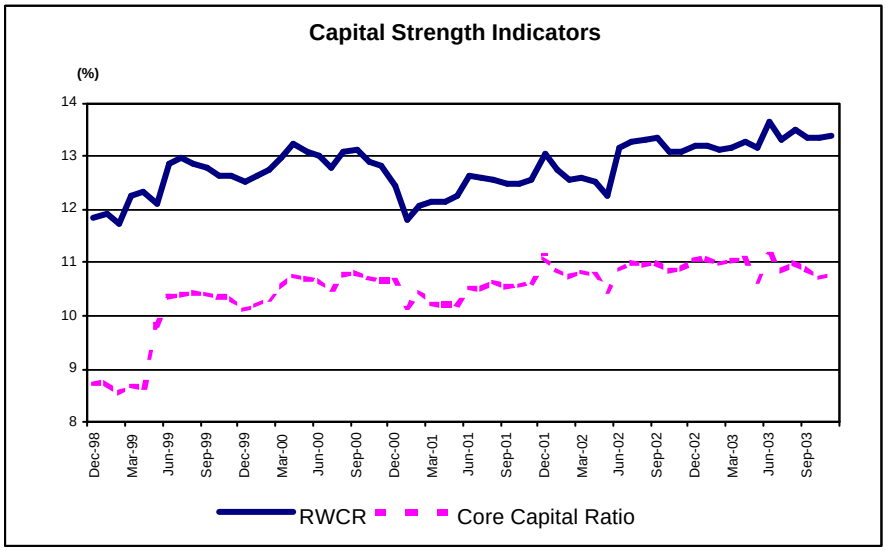
The risk-weighted capital ratio (RWCR) of the banking system strengthened to 13.4% at end-November 2003 as a result of an increase in capital base (+0.1%) and lower risk-weighted assets (-0.3%). Net non-performing loans (NPLs) on the 6-month classification increased by RM0.9 billion during the month, causing the net NPL ratio to increase marginally to 6.8% at end-November 2003.

Banking System Health Indicators*								
	1998	1999	2000	2001	2002	2003		
	Dec.	Dec.	Dec.	Dec.	Dec.	Sept.	Oct.	Nov.
Capital (%)								
Core capital ratio	8.7	10.1	10.7	11.1	11.1	10.9	10.7	10.8
RWCR	11.8	12.5	12.5	13.0	13.2	13.4	13.3	13.4
Net NPLs (6-month classification)								
% of net total loans	8.1	6.4	6.3	8.1	7.5	6.5	6.6	6.8
Amount (RM million)	31,675	23,849	24,700	32,775	31,703	29,168	29,506	30,428
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.8	1.8	1.8	1.9

** Beginning June 1999 onwards, the figures include Islamic banks*



.... Net NPL ratio (6-month classification) increased marginally to 6.8%



.... RWCR strengthened to 13.4%

Bank Negara Malaysia
29 December 2003

Key Monetary and Banking Statistics

	October 2003		November 2003	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	44.6	7.9	47.7	9.5
M1	96.3	13.7	99.7	13.3
M2	415.9	10.8	423.5	10.8
M3	540.6	9.9	548.4	10.0
Banking System				
Total deposits	544.3	10.0	550.2	9.8
Total loans (including loans sold to Cagamas and Danaharta)	512.2	4.6	513.4	4.4
Total loans (excluding loans sold to Cagamas and Danaharta)	447.9	4.8	449.6	4.8
Loan-deposit ratio (%)	82.3		81.7	
Loan-deposit ratio including private debt securities (%)	93.1		92.2	
Loans applied during the month	19.5	-2.5	17.4	4.2
Loans approved during the month	13.4	4.4	11.5	12.9
Loans disbursed during the month	41.7	15.3	35.7	6.4
Loans repaid during the month	41.5	15.7	35.8	8.8
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	13.3		13.4	
Net NPLs: 6-month classification (%)	6.6		6.8	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	165.8		167.0	
Reserves in USD (billion)	43.6		44.0	
Months of retained imports	6.9		7.0	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.99[2.99]		2.99[2.99]	
3-month	2.88[2.87]		2.87[2.87]	
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)	104.6	1.3	104.7	1.1
Producer Price Index (PPI) (1989=100)	140.8	6.1		
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	4.4169		4.5290	
Pound Sterling	6.4461		6.5138	
Singapore dollar	2.1883		2.2016	
100 Japanese yen	3.4878		3.4717	
100 Thai Baht	9.5202		9.5190	
100 Philippine Peso	6.8682		6.8192	
100 Indonesian Rupiah	0.0447		0.0447	
100 Korean Won	0.3213		0.3157	
Capital Market				
Net funds raised by: public sector (RM billion)	...		2.8	
private sector (RM billion)	6.1		1.7	
Kuala Lumpur Composite Index (end-period)	817.12		779.28	
KLSE Market Capitalisation (RMb) (end-period)	649.81		629.19	