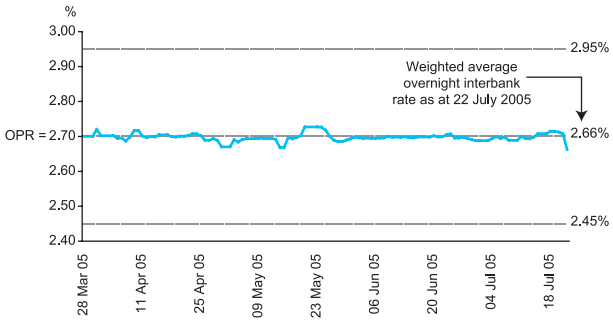
MONETARY AND FINANCIAL DEVELOPMENTS

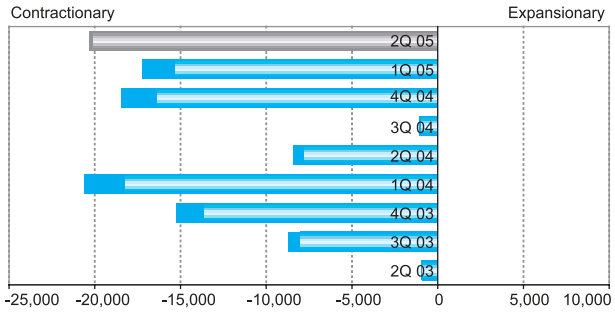
Monetary policy remained accommodative to support economic growth

Inflation edged up during the second quarter. The rise was driven mainly by cost adjustments arising from higher input prices. Demand driven price increases were moderate and were not a source of concern for monetary policy. Consequently, the monetary policy stance remained unchanged with the Overnight Policy Rate (OPR) being maintained at 2.70% during the quarter. Meanwhile, the daily weighted average of the overnight interbank rate moved in the range of 2.67-2.73%, averaging 2.70% during the quarter. The average interbank rates for the 1-week to 3-month tenures increased marginally, reflecting expectations of some market participants that interest rates will increase going forward.

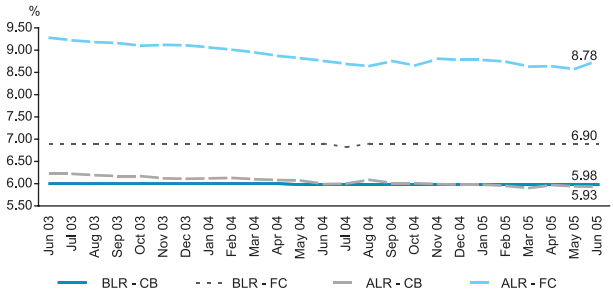
Daily Weighted Average Overnight Interbank Rate



BNM Liquidity Operations
(During the quarter, RM m)



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



Interest Rates

	2Q 04	4Q 04	2Q 05
	At end-period (%)		
Overnight Policy Rate (OPR)*	2.70	2.70	2.70
Interbank rates			
Overnight	2.69	2.69	2.69
1-month	2.83	2.77	2.83
Base lending rates (BLR)			
Commercial banks	5.98	5.98	5.98
Finance companies	6.90	6.90	6.90
Average lending rates			
Commercial banks	5.99	5.98	5.93
Finance companies	8.76	8.78	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.

As at end-2Q 2005, the average BLR of commercial banks (CBs) and finance companies (FCs) remained unchanged at 5.98% and 6.90% respectively. The ALR of CBs remained relatively stable at 5.93% (March: 5.90%), while the ALR of FCs increased to 8.78% (March: 8.63%) due mainly to the exclusion of two finance companies with lower than average ALRs, following mergers with their commercial banks.

Financing of the private sector remained robust

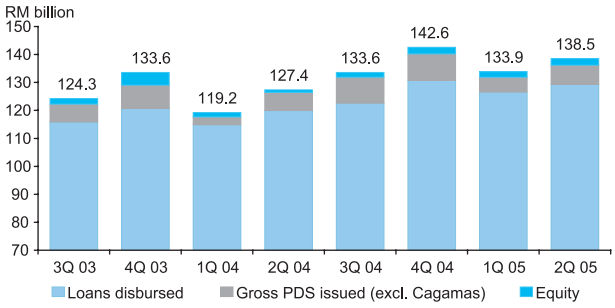
Gross private sector financing raised through the banking system and capital market in the second quarter of 2005 was slightly higher at RM138.5 billion (1Q 2005: RM133.9 billion), growing at an annual rate of 8.7% (1Q 2005: 12.3%). The increase reflected higher loans disbursed by the banking system and to a lesser extent, a larger amount of PDS issuance. On a net basis, banking system loans and PDS outstanding increased at an annual rate of 9.3% at end-2Q 2005 (9.6% at end-1Q 2005).

Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2004	2Q 04	1Q 05	2Q 05	2004	1Q 05	2Q 05
Gross total financing	522.8	127.4	133.9	138.5	6.2	12.3	8.7
Loans disbursed *	488.2	120.0	126.6	129.3	10.6	10.2	7.8
Gross PDS (excl. Cagamas)	28.0	6.5	5.3	6.8	-34.4	86.4	5.9
Equity	6.5	1.0	2.0	2.4	-16.7	31.6	149.2
Outstanding total financing (A)+(B)	55.6	15.9	11.1	16.0	9.0	9.6	9.3
Banking system	39.0	14.1	8.1	10.4	7.7	8.6	7.7
Loans outstanding (A)	40.1	13.6	8.6	11.3	8.5	9.1	8.4
Holding of PDS	-1.1	0.5	-0.6	-0.8	-3.1	1.3	-2.9
PDS outstanding (B)	15.5	2.3	2.5	4.7	10.7	11.2	12.6
Memorandum item							
Gross PDS (incl. Cagamas)	36.3	7.5	5.5	7.8	-28.7	-9.2	4.3

* Banking system loans include loans sold to Cagamas.

Gross Private Sector Financing through Banking System and Capital Market



Major loan indicators showed sustained lending activity. Total applications, approvals, and disbursements in the second quarter were all higher on both a quarter-on-quarter and on a year-on-year basis. While the household sector continued to be the main driver of loan expansion, lending to businesses also continued to increase.

Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	2004	2Q 04	1Q 05	2Q 05		
	RM billion				%	
Business enterprises	335.3	82.8	86.9	87.8	67.9	41.7
Large corporations	*234.9*	*58.0*	*61.0*	*60.7*	*47.0*	*24.5*
SMEs	*100.4*	*24.8*	*25.9*	*27.1*	*21.0*	*17.2*
Households	130.3	31.5	33.9	35.4	27.4	52.6
By sector						
Agriculture, hunting, forestry and fishing	13.7	3.7	3.1	3.1	2.4	2.1
Mining and quarrying	2.0	0.4	0.5	0.3	0.3	0.2
Manufacturing	121.5	30.7	30.9	32.2	24.9	11.8
Broad property sector	88.8	21.7	22.0	22.3	17.3	40.9
Construction	*30.3*	*7.3*	*7.4*	*7.4*	*5.7*	*5.7*
Purchase of residential property	*38.8*	*9.7*	*9.2*	*9.4*	*7.3*	*26.4*
Purchase of non-residential property	*12.1*	*2.9*	*3.5*	*3.5*	*2.7*	*6.2*
Real estates	*7.5*	*1.9*	*1.9*	*2.1*	*1.6*	*2.7*
Electricity, gas and water supply	6.4	1.5	1.4	2.2	1.7	0.9
Wholesale, retail, restaurants and hotels	83.7	20.0	22.3	24.2	18.7	8.6
Transport, storage and communication	9.5	2.8	1.9	2.2	1.7	1.8
Finance, insurance and business services	36.5	8.8	11.1	7.6	5.9	5.8
Total	**488.2**	**120.0**	**126.6**	**129.3**	**100.0**	**100.0**

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)				Annual Growth (%)			
	2004	2Q 04	1Q 05	2Q 05	2004	2Q 04	1Q 05	2Q 05
Total								
Loan applications	273.3	70.5	68.4	80.7	20.1	32.9	16.9	14.6
Loan approvals	173.6	46.6	42.6	47.3	13.6	21.4	14.6	1.6
Loan disbursements	488.2	120.0	126.6	129.3	10.6	14.8	10.2	7.8
Loan repayments	461.6	110.3	117.9	120.6	7.3	14.0	4.8	9.3
Change in loan outstanding *	40.1	13.6	8.6	11.3	8.5	6.2	9.1	8.4
Of which:								
Business enterprises								
Loan applications	149.9	37.9	36.3	42.4	20.0	33.5	19.0	11.7
Loan approvals	84.9	23.6	20.0	21.7	9.8	18.4	16.3	-8.0
Loan disbursements	335.3	82.8	86.9	87.8	10.5	15.8	11.1	6.1
Loan repayments	319.8	76.0	82.6	84.7	6.8	14.6	9.3	11.5
Change in loan outstanding *	5.5	5.4	-0.1	2.8	2.6	0.2	2.8	1.5
SMEs								
Loan applications	54.2	14.5	13.1	16.4	21.7	49.1	24.4	12.9
Loan approvals	31.6	8.4	8.1	9.0	22.0	43.3	40.8	7.2
Loan disbursements	100.4	24.8	25.9	27.1	15.3	29.5	9.6	9.2
Change in loan outstanding *	6.3	2.9	1.2	2.0	7.7	7.3	10.5	9.0
Large corporations								
Loan applications	95.7	23.4	23.2	26.0	19.1	25.3	16.2	10.9
Loan approvals	53.3	15.2	12.0	12.7	3.7	8.0	4.1	-16.4
Loan disbursements	234.9	58.0	61.0	60.7	8.6	10.7	11.7	4.7
Change in loan outstanding *	-0.8	2.5	-1.2	0.9	-0.6	-3.8	-2.0	-3.1
Households								
Loan applications	120.2	32.3	31.0	37.2	22.1	29.9	14.0	15.3
Loan approvals	86.8	22.8	21.9	25.3	20.5	25.5	13.3	11.2
Loan disbursements	130.3	31.5	33.9	35.4	13.9	15.4	10.0	12.6
Loan repayments	107.0	25.6	28.1	28.1	13.7	18.4	4.6	9.8
Change in loan outstanding *	33.3	8.0	8.7	9.0	14.4	13.5	15.2	15.1

* The annual growth is for end-period.
Source: Bank Negara Malaysia

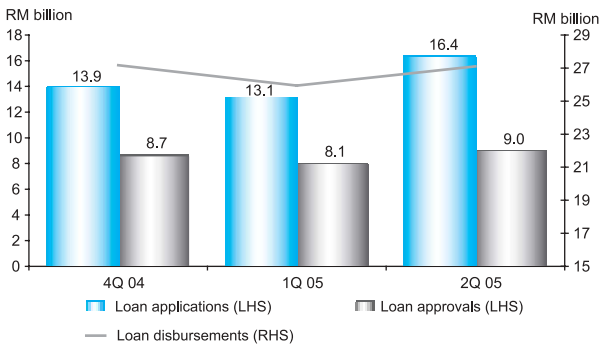
Loan applications and disbursements to households expanded at a stronger pace, indicating sustained demand for bank financing by households. On a year-on-year basis, loan disbursements for credit card spending (28.5% of total disbursements to households) and the purchase of passenger cars (28%) drove the expansion in loan disbursements to households, with annual growth rates of 16.7% and 40.5%, respectively. Meanwhile, disbursements for the purchase of residential properties were slightly lower (-3% compared with 2Q 2004). Growth in household loans outstanding was sustained, increasing at an annual rate of 15.1% at end-2Q 2005 (end-1Q 2005: 15.2%).

Lending to businesses remained resilient. Applications remained strong, expanding at an annual rate of 11.7%. Approvals remained firm on a quarter-on-quarter basis, but were lower on an annual

basis, largely reflecting the higher base effect of 2004. Disbursements, which were higher by 6.1% on an annual basis, were channelled mainly to the manufacturing sector (36.7% of total disbursements to businesses), and the wholesale, retail, restaurants and hotels sector (27.5%). Disbursements to the wholesale, retail, restaurants and hotels sector were particularly strong (21.1% higher than in 2Q 2004). Loans outstanding registered the third consecutive quarter of positive annual growth, increasing at an annual rate of 1.5% at end-June. The gross NPL ratio of business loans continued to decline (12.4% at end-2Q 2005; 13.7% at end-2004).

Lending to SMEs continued to drive growth of loans to businesses, with loans outstanding to SMEs growing at an annual rate of 9% at end-2Q 2005 (10.5% at end-1Q 2005). Sustained strong demand by SMEs for bank financing was reflected in the high growth rates of applications (+12.9%) and disbursements (+9.2%). A total of RM9 billion was approved to 21,421 SME accounts during the quarter (1Q 2005: RM8.1 billion approved to 19,709 accounts).

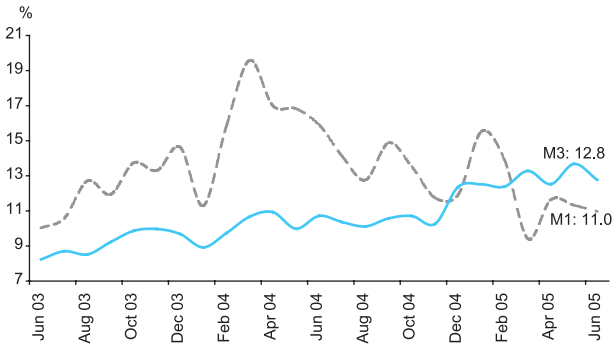
Bank Lending to SMEs



Growth in monetary aggregates were relatively stable during the quarter

Narrow money, M1, increased at an annual rate of 11% at end-2Q 2005 (end-1Q 2005: 9.4%). Broad money, M3, grew at an annual rate of 12.8% at end-2Q 2005 (end-1Q 2005: 13.3%), driven mainly by the inflows of funds and sustained lending activity by the banking system, which were partially offset by the lower net claims on the Government.

Monetary Aggregates: Annual Change



M3 Determinants

	Change during the year			
	Yearly	Quarterly		
	2004	2Q 04	1Q 05	2Q 05
	RM billion			
M3	68.0	9.9	26.4	8.3
Net claims on Government	-15.9	-2.0	-9.1	-4.5
Claims on private sector	30.0	12.2	8.1	7.5
Net external operations*	82.0	6.0	29.0	12.9
Other influences	-28.1	-6.4	-1.7	-7.6

* Pre-revaluation

Financing through the capital market remained substantial

During the second quarter, the financing requirements of both the public and

private sectors were effectively met by the capital market. Net funds raised from the capital market remained substantial at RM7.6 billion (1Q 2005: RM10.5 billion), with the bulk of the financing raised from the bond market.

Gross financing sourced from the private debt securities (PDS) market was higher, amounting to RM7.8 billion (1Q 2005: RM5.5 billion), supported by the prevailing low yields in the bond market. During the quarter, a total of 26 corporations, mainly from the utilities, transportation and storage sectors, sought financing from the PDS market. The funds were raised mainly to finance new activity (52.8% of new issuances) and to refinance their existing debt (35.4% of new issuances). In terms of instruments, medium term notes and Islamic debt securities were the preferred form of issuance, representing 49.3% and 43.5% of total issuances respectively. During the quarter, the International Bank for Reconstruction and Development issued a 5-year RM760 million Islamic bond, making it the third supranational issuance from the ringgit bond market. After adjusting for redemptions, net funds raised through the PDS market totaled RM3.7 billion (1Q 2005: RM1.3 billion).

The Government raised a gross total of RM9.6 billion through the issuance of four Malaysian Government Securities (MGS) during the quarter. However, after accounting for the high level of redemptions, net funds raised by the public sector were lower at RM1.4 billion (1Q 2005: RM7.2 billion).

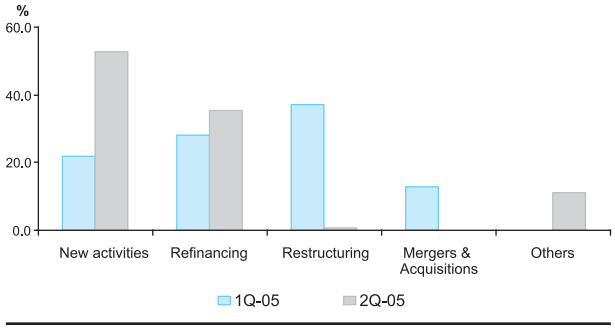
Financing through the equity market increased to RM2.4 billion (1Q 2005: RM2 billion). The bulk of the funds were raised through 14 initial public offerings (IPOs) totaling about RM2 billion, including two major IPOs, which accounted for a total of RM1.7 billion. During the quarter, there were 16 new listings on Bursa Malaysia, with three listings

Funds Raised in the Capital Market

	2004		2005		
	2Q	1H	1Q	2Q	1H
	RM million				
By Public Sector					
Government Securities, *gross*	14,763	25,763	4,000	9,543	13,543
Less Redemptions	9,700	15,200	-	8,500	8,500
Less Government holdings	-	-	-	-	-
Equals Net Federal receipts	5,063	10,563	4,000	1,043	5,043
Khazanah Bonds, *net*	(1,000)	(1,000)	833	-	833
Govt. Investment Issues, *net*	(560)	(560)	2,000	-	2,000
Merdeka Savings Bond, *net*	497	542	357	378	735
Net Funds Raised	4,001	9,546	7,190	1,421	8,611
By Private Sector					
Shares	969	2,496	2,009	2,415	4,424
Debt securities	7,498	13,539	5,486	7,823	13,309
Private Debt Securities (PDS)	6,463	9,299	5,286	6,843	12,129
Cagamas	1,035	4,240	200	980	1,180
Less Redemptions	8,558	15,486	4,212	4,078	8,290
Net Issues	(1,060)	(1,947)	1,274	3,745	5,019
Net issues (excluding Cagamas)	(2,095)	(2,017)	2,634	3,380	6,014
Net Funds Raised	(91)	549	3,282	6,161	9,443
Total Net Funds Raised	3,910	10,095	10,473	7,582	18,054
Short-term Papers and Notes, *net* [1]	(1,213)	(1,482)	587	82	669
Total	2,697	8,614	11,059	7,664	18,723

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

Private Debt Securities Issued by Purpose
(% of total)

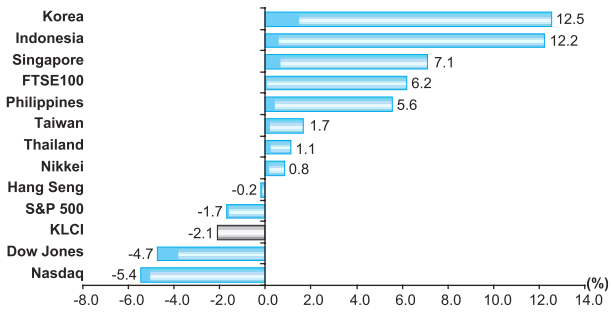


on the Main Board, three on the Second Board and ten on the MESDAQ Market.

KLCI performance was mixed in the second quarter

Concerns over the adverse impact of rising oil prices and higher domestic inflation dampened market sentiments in the first two months of the quarter. However, the market improved in June. Consequently, for the second quarter as a whole, the performance of the KLCI improved by 16.97 points, ending the

Performance of Selected Global and Regional Markets in the Second Quarter of 2005
(31 December 2004 - 30 June 2005)



Bursa Malaysia: Selected Market Indicators

	As at end				
	2004		2005		
	2Q	1H	1Q	2Q	1H
Price Indices					
- Composite	819.86	819.86	871.35	888.32	888.32
- EMAS	197.34	197.34	204.98	203.73	203.73
- Second Board	117.17	117.17	101.76	87.79	87.79
Average daily turnover					
- Volume (million units)	332.73	486.39	517.97	416.52	461.71
- Value (RM million)	726.12	1,017.11	965.78	651.99	797.01
Market Capitalisation (RM b)	653.94	653.94	694.89	688.63	688.63
No. of Companies Listed	934	934	982	990	990

Source: Bursa Malaysia

Bursa Malaysia: Turnover of Corporate Securities

	2004				2005					
	2Q		1H		1Q		2Q		1H	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	20,478	43,964	56,648	117,832	30,042	56,261	25,824	40,423	55,867	96,684
of which:										
Main Board	14,826	37,062	41,237	95,923	21,236	48,384	18,253	35,778	39,489	84,162
of which										
- Consumer Products	782	2,605	1,879	6,355	1,018	3,117	872	2,072	1,890	5,189
- Industrial Products	2,211	3,663	6,109	9,429	4,829	5,767	2,996	3,076	7,825	8,842
- Construction	862	1,911	2,486	5,783	1,579	3,114	810	1,287	2,389	4,401
- Trading/Services	3,509	12,723	8,897	31,898	4,320	15,710	4,055	14,160	8,375	29,870
- Finance	2,342	7,728	6,699	21,694	3,059	10,495	2,173	8,253	5,232	18,748
- Properties	2,155	2,978	6,143	7,909	3,367	5,602	3,767	3,069	7,134	8,671
- Plantations	539	2,779	1,259	5,713	604	2,168	453	1,951	1,057	4,119
- Mining	5	30	47	164	0	1	0	7	0	8
Second Board	4,018	5,468	10,051	16,303	5,537	5,586	4,194	2,960	9,731	8,546

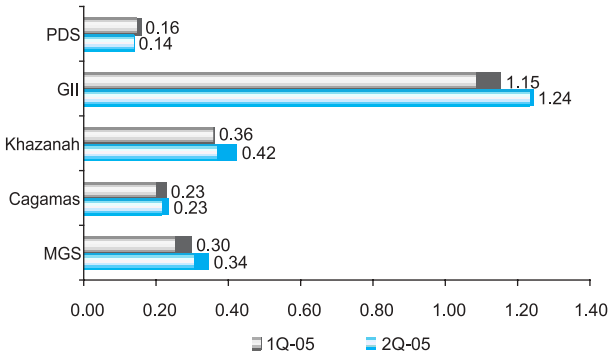
Source: Bursa Malaysia

quarter higher at 888.32 (1Q 2005: +1.9%). However, market capitalisation was lower at RM688.6 billion (1Q 2005: RM694.9 billion). Trading activity during the quarter declined with a lower average daily turnover of 417 million units (1Q 2005: 518 million units).

Lower secondary trading in the bond market

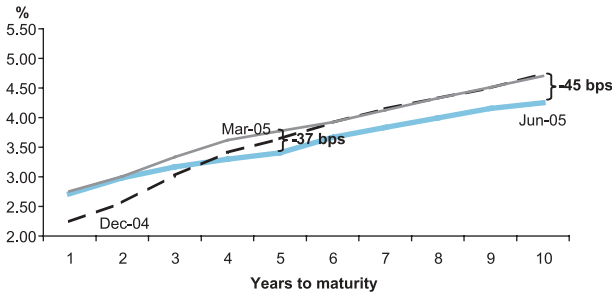
In the secondary market, total trading declined to RM94.5 billion in the second quarter (1Q 2005: RM98.8 billion). Government securities accounted for 62.5% of the total trade, while Cagamas bonds and Khazanah bonds contributed 10.3% of the total trade. In terms of liquidity, the GII and Khazanah bonds were the most liquid papers, registering liquidity ratios of 1.15 and 0.36 respectively

Liquidity Ratio: Turnover / Outstanding



The MGS benchmark yields declined significantly due mainly to the greater demand for fixed income securities from domestic institutional investors given the high redemption of MGS during the quarter. The renewed interest on Government securities by non-resident investors exacerbated the decline in MGS yields. In addition, the bond market sentiment was also influenced by concerns over the impact of higher crude oil prices on the global economic growth. As a result, the MGS yields curve shifted downwards, with the 5-year and 10-year MGS declining by 37 and 45 basis points respectively.

Trend in MGS Yield



Performance of the ringgit

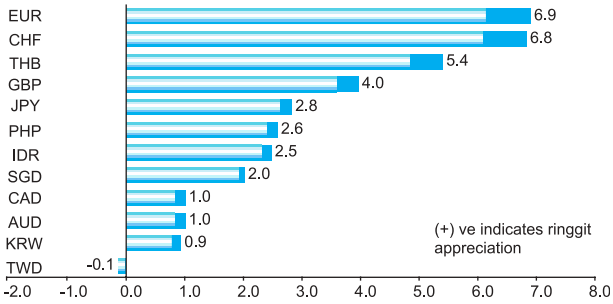
The ringgit appreciated against major and regional currencies during the second quarter. The US dollar had strengthened against the major currencies amid expectations of further tightening of US monetary policy to mitigate inflationary pressures, yield differentials favouring dollar assets, as well as market expectations that US economic growth for 2005 will outpace that of the euro area and Japan. Concerns over the future of European economic integration following the negative outcome of the French and Dutch referendum on the new EU Constitution also weakened sentiments towards the euro.

The US dollar, and hence the ringgit, also appreciated against regional currencies during the second quarter. Several

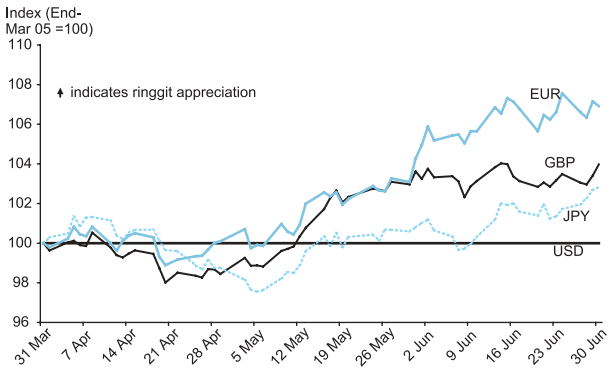
regional currencies were weighed down by concerns over the impact of rising international oil prices on the growth prospects of regional economies. The decline in the Thai baht was partly due to concerns over the impact of high oil import costs on the current account.

The appreciating trend of the dollar and hence the ringgit against other currencies during the second quarter, have to a large extent reversed the depreciation experienced in 2004. This has caused the trade-weighted value of the ringgit to become close to its fair value.

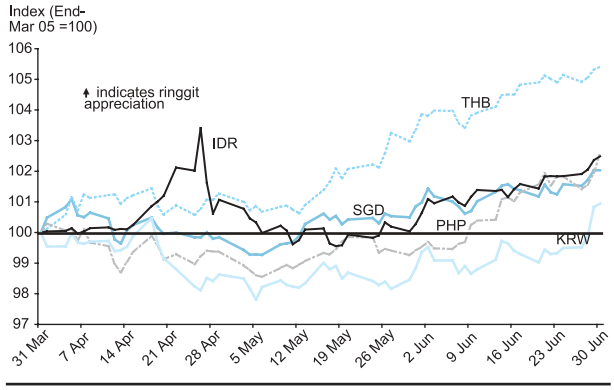
Summary of Ringgit Performance Against Selected Currencies
Percent Change (1 April - 30 June 2005)



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	2Q 04	1Q 05	2Q 05	30 Jun 97	02 Sep 98	2Q 04	1Q 05
US dollar	2.5235	3.8000	3.8000	3.8000	3.8000	-33.6	0.0	0.0	0.0
Euro	-	-	4.5933	4.9125	4.5948	-	-	0.0	6.9
Pound sterling	4.1989	6.3708	6.8719	7.1415	6.8685	-38.9	-7.2	0.0	4.0
100 Japanese yen	2.2088	2.7742	3.4991	3.5446	3.4469	-35.9	-19.5	1.5	2.8
Singapore dollar	1.7647	2.1998	2.2139	2.3034	2.2576	-21.8	-2.6	-1.9	2.0
100 Thai baht	9.7470	9.3713	9.2841	9.7013	9.2032	5.9	1.8	0.9	5.4
100 Philippine peso	9.5878	8.8302	6.7640	6.9381	6.7628	41.8	30.6	0.0	2.6
100 Indonesian rupiah	0.1038	0.0354	0.0404	0.0401	0.0391	165.4	-9.5	3.2	2.5
100 Korean won	0.2842	0.2827	0.3298	0.3734	0.3699	-23.2	-23.6	-10.8	0.9

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