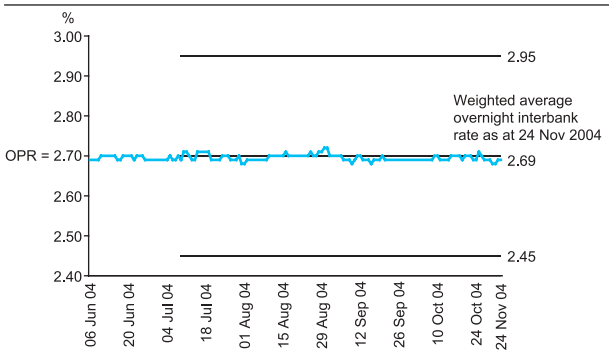
MONETARY AND FINANCIAL DEVELOPMENTS

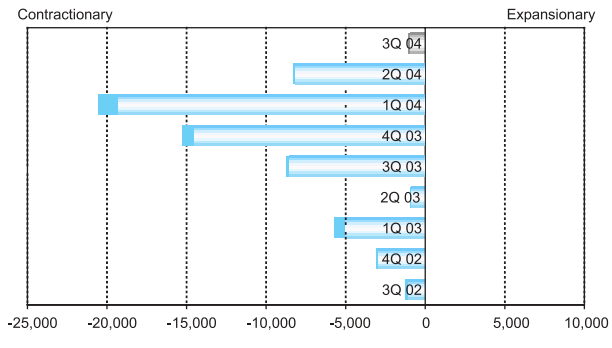
Monetary policy continued to support growth

Monetary and financial indicators during the third quarter reflected 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 2.68% - 2.72%, averaging 2.69% in the period 1 July - 24 November.

Daily Weighted Average Overnight Interbank Rate

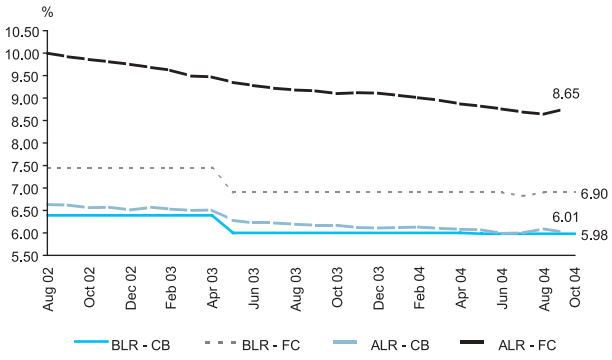


BNM Liquidity Operations
(During the quarter, RM m)



The three mergers between three commercial banks and their finance companies, which occurred during the quarter, led to some technical adjustments of the banks' base lending rates (BLRs) and average lending rates (ALRs). Notwithstanding these adjustments, the average BLR of commercial

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



Interest Rates

	3Q 03	2Q 04	3Q 04
	At end-period (%)		
3-month intervention rate *	4.50		
Overnight Policy Rate (OPR)*		2.70	2.70
Interbank rates			
Overnight	2.71	2.70	2.69
1-month	2.99	2.81	2.79
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	6.17	5.99	6.01
Finance companies	9.16	8.76	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	3.00	3.00	3.00
12-month	3.68	3.70	3.70

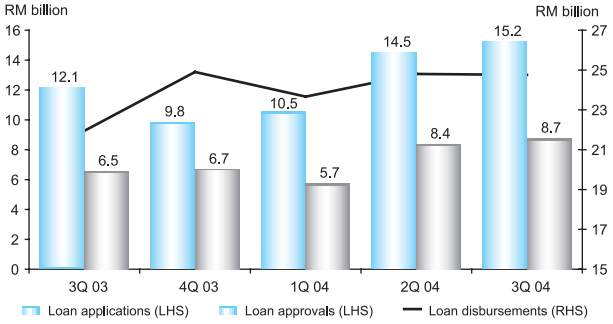
* Effective 26 April 2004, the Overnight Policy Rate (OPR) replaced the 3-month intervention rate as the indicator of the monetary policy stance.

banks (CBs) and finance companies (FCs) remained stable at 5.98% and 6.90% respectively at end-September 2004. The technical adjustments, however, caused the average lending rate (ALR) of CBs to increase slightly to 6.01% while the ALR of FCs remained unchanged at 8.76% at end-September.

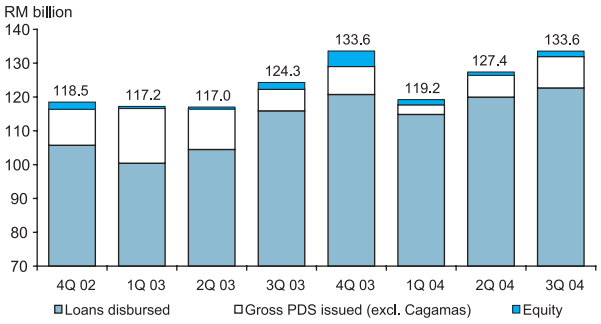
Financing of the private sector was sustained

Gross private sector financing through the banking system and the capital market increased at an annual rate of 7.5% in the third quarter to RM133.6 billion. This amount was higher than levels recorded in the first two quarters of this year, and reflected the higher bank loan disbursements and the larger issuance of PDS. On a net basis, banking system loans and PDS outstanding grew at an annual rate of 8% at end-September (8.2% at end-June).

Bank Lending to SMEs



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	3Q 03	2Q 04	3Q 04	2003	2Q 04	3Q 04
Gross total financing	492.1	124.3	127.4	133.6	9.0	8.9	7.5
Loans disbursed *	441.6	115.9	120.0	122.7	7.3	14.8	5.8
Gross PDS (excl. Cagamas)	42.8	6.4	6.5	9.3	60.5	-46.0	45.5
Equity	7.8	2.0	1.0	1.6	-41.5	66.0	-20.0
Outstanding total financing (A)+(B)	57.8	14.8	15.9	14.5	10.3	8.2	8.0
Banking system	28.1	9.6	14.1	10.9	5.9	6.4	6.5
Loans outstanding (A)	21.6	8.6	13.6	9.3	4.8	6.2	6.2
Holding of PDS	6.6	0.9	0.5	1.7	23.8	8.8	10.9
PDS outstanding (B)	36.2	6.1	2.3	5.2	33.4	15.4	14.0
Memorandum item							
Gross PDS (incl. Cagamas)	51.0	10.2	7.5	12.7	40.8	-41.9	25.1

* Banking system loans include loans sold to Cagamas.

Compared with the second quarter, the growth rates of most loan indicators moderated in the third quarter partly due to the high base effect. Loan disbursements to businesses grew by 5% on an annual basis (15.8% in the second quarter), with funds channelled mainly to the manufacturing sector (37.4% of total disbursements of businesses) and the wholesale, retail, restaurants and hotels sector (25.8%). The two forward looking indicators, applications and approvals of business loans, continued to register double digit growth rates, 29.4% and 10.1% respectively during the third quarter.

Loan disbursements to the small and medium enterprises (SMEs) grew at an annual rate of 12.8% in the third quarter (2Q 2004: 29.5%), contributing to an 8.1% growth of total loans outstanding to the SMEs at end-September (7.4% at end-June). A total of

Loan Indicators

	During the period (RM billion)				Annual Growth (%)			
	2003	3Q 03	2Q 04	3Q 04	2003	3Q 03	2Q 04	3Q 04
Total								
Loan applications	227.6	62.8	70.4	76.5	4.8	7.8	32.9	21.9
Loan approvals	152.8	40.2	46.6	46.7	11.1	7.3	21.4	16.2
Loan disbursements	441.6	115.9	120.0	122.7	7.3	14.6	14.8	5.8
Loan repayments	430.4	109.9	110.3	118.3	6.9	8.7	14.0	7.6
Change in loan outstanding *	21.6	8.6	13.6	9.3	4.8	5.1	6.2	6.2
Of which:								
Business enterprises								
Loan applications	124.9	34.0	37.9	44.0	-7.7	-4.2	33.4	29.4
Loan approvals	77.3	20.4	23.6	22.4	12.8	7.3	18.4	10.1
Loan disbursements	303.4	79.5	82.8	83.4	7.6	17.0	15.8	5.0
Loan repayments	299.5	77.0	76.0	83.9	8.6	10.4	14.6	8.9
Change in loan outstanding *	-5.2	0.4	5.4	-0.4	-2.4	-1.0	0.2	-0.2
SMEs								
Loan applications	44.5	12.1	14.5	15.2	-8.6	n.a.	49.0	25.3
Loan approvals	25.9	6.5	8.4	8.7	-15.6	n.a.	42.1	33.7
Loan disbursements	87.1	21.9	24.8	24.8	76.0	n.a.	29.5	12.8
Change in loan outstanding *	7.4	1.5	2.9	2.2	10.0	7.3	7.3	8.1
Large corporations								
Loan applications	80.4	21.9	23.4	28.8	n.a.	n.a.	25.3	31.6
Loan approvals	51.4	13.8	15.2	13.7	n.a.	n.a.	8.5	-1.0
Loan disbursements	216.3	57.5	58.0	58.6	-7.0	n.a.	10.7	2.0
Change in loan outstanding *	-12.7	-1.1	2.5	-2.6	-8.8	-5.2	-3.8	-4.9
Households								
Loan applications	98.4	28.1	32.3	31.5	20.2	25.2	34.5	12.3
Loan approvals	72.0	19.2	22.8	23.4	7.6	8.3	25.5	22.0
Loan disbursements	114.4	30.6	31.5	34.1	8.9	14.1	15.4	11.3
Loan repayments	94.1	23.8	25.6	26.8	12.4	13.5	18.4	12.9
Change in loan outstanding *	26.2	7.9	8.0	10.4	12.8	12.3	13.5	14.2

*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	3Q 03	2Q 04	3Q 04		
	RM billion				%	
Business enterprises	303.4	79.5	82.8	83.4	68.0	*43.4*
Large corporations	*216.3*	*57.5*	*58.0*	*58.6*	*47.8*	*26.3*
SMEs	*87.1*	*21.9*	*24.8*	*24.8*	*20.2*	*17.1*
Households	114.4	30.6	31.5	34.1	27.8	50.9
By sector						
Agriculture, hunting, forestry and fishing	11.1	3.1	3.7	3.5	2.8	2.2
Mining and quarrying	1.7	0.7	0.4	0.4	0.4	0.2
Manufacturing	110.3	27.9	30.7	31.2	25.4	12.7
Broad property sector	78.9	21.1	21.7	22.9	18.6	40.4
Construction	*27.5*	*7.3*	*7.3*	*7.6*	*6.2*	*6.0*
Purchase of residential property	*35.6*	*9.7*	*9.7*	*10.4*	*8.4*	*25.7*
Purchase of non-residential property	*9.7*	*2.6*	*2.9*	*3.2*	*2.6*	*6.0*
Real estates	*6.1*	*1.4*	*1.9*	*1.8*	*1.4*	*2.7*
Electricity, gas and water supply	6.0	2.0	1.5	1.2	0.9	1.1
Wholesale, retail, restaurants and hotels	70.1	17.1	20.0	21.5	17.5	8.3
Transport, storage and communication	12.0	4.3	2.8	1.7	1.4	1.8
Finance, insurance and business services	36.7	9.7	8.8	8.5	7.0	5.9
Consumption credit	72.4	18.9	20.4	22.1	18.0	19.8
Of which:						
Credit cards	*30.5*	*7.9*	*8.6*	*9.3*	*7.6*	*2.7*
Purchase of passenger cars	*24.5*	*6.7*	*7.1*	*7.9*	*6.4*	*13.8*
Purchase of securities	12.9	4.0	2.8	3.2	2.6	4.0
Purchase of transport vehicles excluding passenger cars	1.2	0.2	0.2	0.1	0.1	0.5
Others	28.3	7.0	7.1	6.4	5.2	2.9
Total	**441.6**	**115.9**	**120.0**	**122.7**	**100.0**	**100.0**

Source: Bank Negara Malaysia

RM8.7 billion was approved to 25,379 SME accounts during the quarter up from RM8.4 billion to 22,161 SME accounts in the second quarter. An important development during the quarter was the establishment of the National SME Development Council in August to coordinate policy initiatives and to ensure the effective implementation of policy measures to develop this sector.

Financing to the household sector continued to support the growth of private consumption during the quarter. Total loan disbursements to households rose at an annual rate of 11.3% (2Q 2004: 15.4%). The bulk of the loans disbursed were for the purchase of residential property (30.4% of total disbursements to households), credit card

spending (27.2%) and the purchase of passenger cars (23.1%). While the disbursements of loans for credit card spending continued to grow at a strong annual rate of 18%, these were matched to a large extent by high repayments (annual growth rate of 14.8%). Overall, outstanding balances on credit cards represented 2.6% of total loans outstanding and 5.2% of total loans outstanding of the household sector at end-September (2.6% and 5.1% respectively at end-June). Meanwhile, both forward-looking loan indicators of loan applications and loan approvals moderated from the high levels registered in the previous quarter to register sustainable annual growth rates of 12.3% and 22% respectively in the third quarter (34.5% and 25.5% respectively in the second quarter).

Sustained expansion in broad money

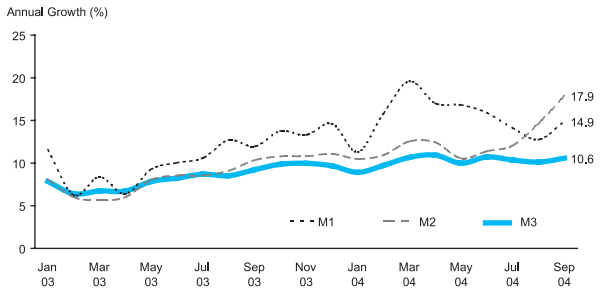
The annual growth rate of broad money, M3, was 10.6% at end-September 2004. The quarterly expansion in M3 by RM13.6 billion in the third quarter (+RM9.9 billion in 2Q 2004) was attributed to higher external inflows in the form of repatriation of export proceeds, some portfolio and FDI inflows (3Q 2004: +RM12 billion; 2Q 2004: +RM6 billion) and the sustained increase in the claims on the private sector (3Q 2004: +RM10.7 billion; 2Q 2004: +RM12.2 billion). M1 continued to increase at a double-digit annual growth rate, reflecting resilient consumer and business spending during the quarter[1].

M3 Determinants

	Change during the period				
	Yearly	Quarterly			Jan-Sep
	2003	1Q 04	2Q 04	3Q 04	2004
	RM billion				
M3	48.5	18.9	9.9	13.6	42.3
Net claims on Government	12.9	-6.0	-2.0	-2.5	-10.5
Claims on private sector	31.3	3.8	12.2	10.3	26.2
Net external operations*	20.8	33.3	6.0	12.0	51.3
Other influences	-16.5	31.7	-6.4	-6.2	19.2

* Pre-revaluation

Monetary Aggregates



Higher new funds raised in the capital market

In the third quarter, total net funds raised from the capital market were significantly higher, amounting to RM16.9 billion (2Q 2004: RM3.9 billion). Improved market sentiment and the increased importance of the capital market as a source of financing for the private sector were reflected in higher funds raised from both the private debt securities (PDS) and equity markets.

As in the last quarter, the new issuances of private debt securities (PDS) were mainly to finance new activity (49% of total issuance). Corporations that utilised the PDS market were mainly from the electricity, gas and water supply, and the manufacturing sectors. Of significance, Islamic debt securities formed 59.2% of the total new PDS issues during the quarter. On a net basis,

[1] The stronger growth of M2 was attributed to the three mergers of finance companies with commercial banks, which led to the reclassification of the deposits held by the finance companies. M2 includes M1 and the sum of deposits/interest bearing instruments placed by the non-bank private sector with the commercial banks and Islamic banks.

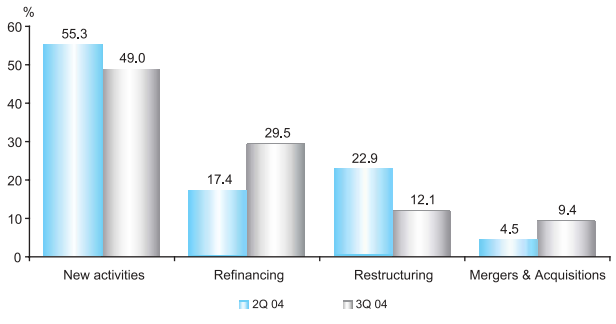
funds raised through the PDS market were higher at RM5.9 billion, compared with a net redemption of RM1 billion in the previous quarter.

Funds Raised in the Capital Market

	2Q 03	3Q 03	2Q 04	3Q 04
	RM million			
By Public Sector				
Malaysian Government Securities (MGS), *gross*	8,132	12,632	14,763	10,389
Less Redemptions	1,500	6,800	9,700	2,000
Less Government holdings	0	0	0	0
Equals Net Federal receipts	6,632	5,832	5,063	8,389
Khazanah Bonds, *net*	-138	-183	-1,000	-198
Government Investment Issues (GII), *net*	0	0	-560	740
Malaysia Savings Bond, *net*	-2	-2	0	0
Merdeka Savings Bond, *net*	0	0	497	495
Net Funds Raised	6,491	5,647	4,001	9,426
By Private Sector				
Shares	584	2,028	969	1,663
Debt securities	12,911	10,165	7,498	12,718
Private Debt Securities (excluding Cagamas)	*11,966*	*6,370*	*6,463*	*9,268*
Cagamas	*945*	*3,795*	*1,035*	*3,450*
Less Redemptions	9,602	4,472	8,558	6,865
Net Issues	3,310	5,694	-1,060	5,853
Net issues (excluding Cagamas)	*4,135*	*3,754*	*75*	*4,925*
Net Funds Raised	3,894	7,722	-91	7,516
Total Net Funds Raised	10,385	13,368	3,910	16,942
Short-term papers and notes, *net**	-1,437	-85	-1,213	-623
TOTAL	8,949	13,283	2,697	16,319

*Refers to Commercial Papers and Cagamas Notes only.

Private Debt Securities Issued by Purpose
(% of total)



In the equity market, improved market sentiment during the quarter resulted in higher funds raised, totalling RM1.6 billion, of which RM1.2 billion were raised from 16 initial public offerings. There were 15 new listings on Bursa Malaysia, with one listing on the Main Board, six on the Second Board and eight on MESDAQ.

Meanwhile, funds raised by the public sector were lower at RM12.6 billion (2Q 2004: RM16.7 billion). The bulk of the funds were raised through the issuances of four Malaysian Government Securities (MGS). Of significance, a long tenured 15-year MGS of RM2 billion was successfully issued in July. After adjusting for redemptions, net funds raised in the public sector amounted to RM9.4 billion (2Q 2004: RM4 billion).

KLSE CI strengthened on positive sentiment

In the third quarter, the KLSE CI ended on a stronger note as market sentiment improved following the release of better quarterly corporate earnings and the announcement of the 2005 Budget, which contained proposed measures to liberalise Malaysia's capital market. Overall, the KLSE CI increased by 3.7% to 849.96 at end-September (end-June 2004: 819.9). Market capitalisation at the end of the quarter was higher by 2.9% at RM672.64 billion (end 2Q

Bursa Malaysia: Selected Market Indicators

	As at end				
	2Q 03	3Q 03	1Q 04	2Q 04	3Q 04
Price Indices					
Composite	691.96	733.45	901.85	819.86	849.96
EMAS	170.23	182.03	219.76	197.34	202.35
Second Board	108.96	122.03	135.33	117.17	108.95
Average daily turnover					
Volume (million units)	286.7	644.3	650.6	332.7	338.9
Value (RM million)	457.2	958.1	1,328.2	714.6	659.3
Market Capitalisation (RM b)	532.5	572.3	724.2	653.9	672.6
No. of Companies Listed	877	889	923	934	945

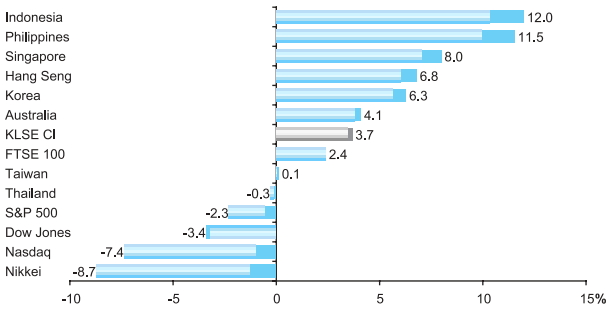
Source: Bursa Malaysia

Bursa Malaysia: Turnover of Corporate Securities

	During the period									
	2Q 03		3Q 03		1Q 04		2Q 04		3Q 04	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	17,776	28,349	41,877	62,274	37,737	77,036	20,478	43,964	22,031	42,852
of which:										
Main Board	14,421	24,648	27,849	46,225	27,626	61,454	14,826	37,062	15,494	36,763
of which:										
Consumer Products	509	1,959	857	2,768	1,173	3,905	782	2,605	1,154	3,149
Industrial Products	1,429	2,105	3,911	5,406	4,087	6,067	2,211	3,663	2,031	2,719
Construction	1,181	1,796	2,088	3,967	1,693	4,044	862	1,911	1,096	1,706
Trading / Services	3,329	9,009	5,993	14,829	5,632	19,975	3,509	12,723	4,296	13,729
Finance	1,908	4,422	3,497	8,471	4,536	14,521	2,342	7,728	2,008	7,838
Properties	2,942	2,210	5,215	4,567	4,159	5,145	2,155	2,978	2,230	3,560
Plantations	307	1,129	675	1,815	762	3,106	539	2,779	383	2,127
Mining	53	92	42	67	43	140	5	30	0	4
Second Board	2,685	3,377	8,069	12,103	6,258	11,249	4,018	5,468	4,014	4,130

Source: Bursa Malaysia

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

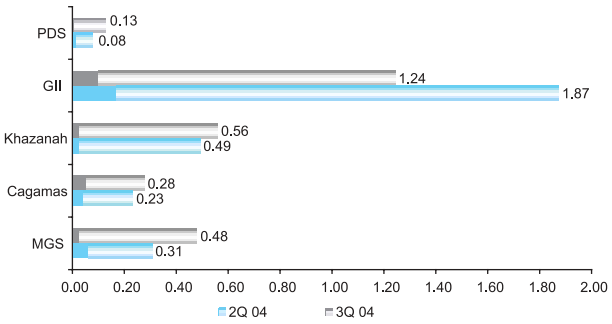


2004: RM653.94 billion) while the average daily turnover for the quarter was higher at 333.8 million units.

Higher secondary trading in the bond market

Total turnover in the secondary bond market increased to RM69.8 billion in the third quarter (2Q 2004: RM43.1 billion), due mainly to greater interest in the bond market, following concerns over the impact of rising oil prices on world growth. During the quarter, trading activities were concentrated on 3- and 5-year MGS papers. In terms of liquidity, the GII and Khazanah bonds were the most liquid papers, with liquidity ratios of 1.24 and 0.56 respectively.

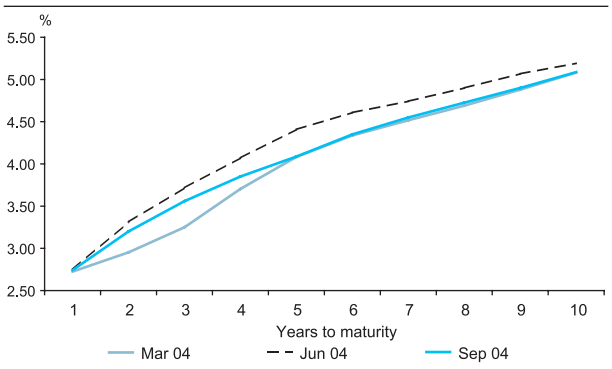
Liquidity Ratio: Turnover/Outstanding



MGS benchmark yields trended lower in the third quarter. The 3- and 5-year MGS benchmark yields declined by 16 and 32 basis points respectively towards the end of the third quarter, reflecting mainly the increased demand for fixed income securities, following concerns over the impact of higher oil prices

on global economic performance. Market participants responded positively to the revision of the regulatory treatment for new Cagamas bonds and the withholding tax exemption for non-residents on income earned from investment in Islamic securities and debentures announced in September.

Trend in MGS Yield

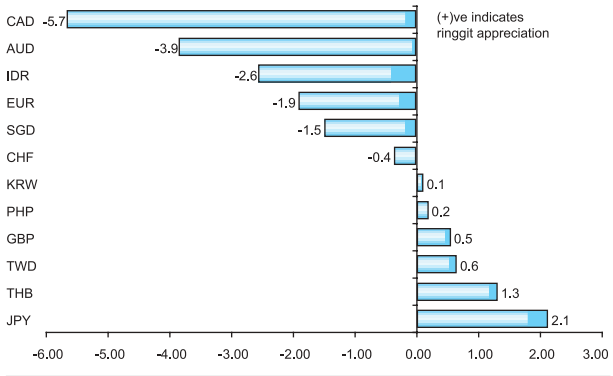


Performance of the ringgit

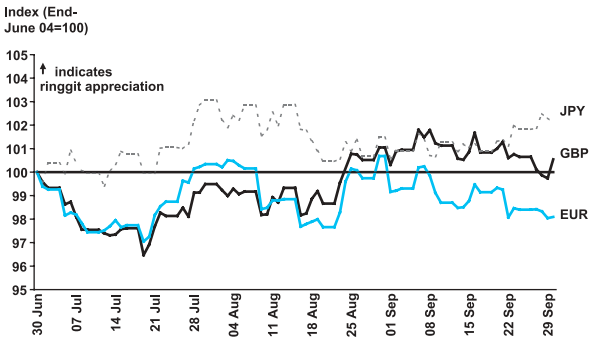
In the third quarter of 2004, the ringgit recorded a mixed performance against the major currencies. The ringgit depreciated against the euro as the US dollar was affected by market concerns over the impact of rising oil prices on US growth. In contrast, the ringgit appreciated against the Japanese yen. Concerns over the impact of rising oil prices on the Japanese economy were also evident given Japan's high dependency on oil imports. The yen depreciated against the dollar as a result of an increase in the demand for the dollar to finance the higher cost of oil imports. Against the regional currencies, the ringgit also recorded a mixed performance.

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.

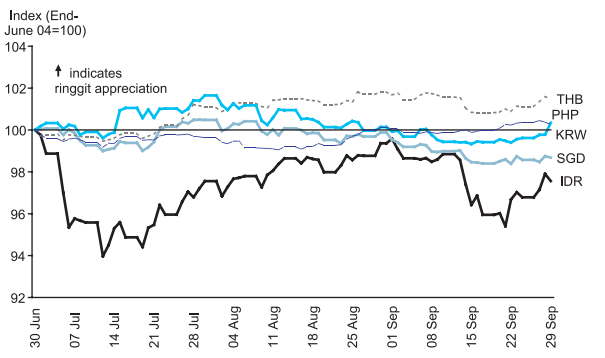
Summary of Ringgit Performance Against Selected Currencies
Percent Change (1 July - 30 September 2004)



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	3Q 04	30 Jun 97	02 Sep 98	2Q 04
US dollar	2.5235	3.8000	3.8000	3.8000	-33.6	0.0	0.0
Euro	-	-	4.5933	4.6826	-	-	-1.9
Pound sterling	4.1989	6.3708	6.8719	6.8347	-38.6	-6.8	0.5
100 Japanese yen	2.2088	2.7742	3.4991	3.4264	-35.5	-19.0	2.1
Singapore dollar	1.7647	2.1998	2.2139	2.2475	-21.5	-2.1	-1.5
100 Thai baht	9.7470	9.3713	9.2841	9.1644	6.4	2.3	1.3
100 Philippine peso	9.5878	8.8302	6.7640	6.7517	42.0	30.8	0.2
100 Indonesian rupiah	0.1038	0.0354	0.0404	0.0414	150.5	-14.6	-2.6
100 Korean won	0.2842	0.2827	0.3298	0.3295	-13.7	-14.2	0.1

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