BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PEN No : 07/05/49 (BN)

EMBARGO: Not for publication or broadcast before 1800 hours on Thursday, 28 July 2005

Monetary and Financial Developments June 2005
Highlights of the Press Release

Banking system strengthened further in June

In June, the banking system strengthened further following the decline in the net non-performing loan (NPL) ratio based on the 6-month classification to 5.1%, the lowest level since the Asian crisis. Financing activity was sustained, with banking system loans and PDS outstanding increasing at an annual rate of 9.3%. Total bank loans outstanding grew by 8.3% on an annual basis. Financing extended to the SMEs remained strong, reflected in the annual growth of 9% in loans outstanding to this sector.

On 21 July 2005, Bank Negara Malaysia announced that the exchange rate of the ringgit would operate in a managed float against a currency basket, with the value of the ringgit being determined by economic fundamentals. Given that the ringgit has strengthened significantly since the beginning of 2005, much of the undervaluation derived from the US dollar depreciation in 2003 and 2004 has been reversed. At the time of the unpegging, the ringgit therefore was close to its fair value and consequently, the exchange rate of the ringgit is not expected to change substantially following the adoption of the new regime. Promoting stability of the exchange rate would continue to be a primary objective of policy.

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MONETARY AND FINANCIAL DEVELOPMENTS JUNE 2005

Banking system strengthened further in June

In the money market, the daily weighted average overnight interbank rate moved within a narrow range to average at 2.70% in the month, while the other interbank rates were marginally higher. In the retail market, the average lending rate (ALR) for commercial banks was stable at 5.93% while the ALR for finance companies was higher at 8.78%.

On 21 July 2005, Bank Negara Malaysia announced that the exchange rate of the ringgit would operate in a managed float against a currency basket, with the value of the ringgit being determined by economic fundamentals. Given that the ringgit has strengthened significantly since the beginning of 2005, much of the undervaluation derived from the US dollar depreciation in 2003 and 2004 has been reversed. At the time of the unpegging, the ringgit therefore was close to its fair value and consequently, the exchange rate of the ringgit is not expected to change substantially following the adoption of the new regime. Promoting stability of the exchange rate would continue to be a primary objective of policy.

The Consumer Price Index increased by 3.2% in June, reflecting the higher prices of food, beverages and tobacco, as well as transport and communication. The annual growth of the Producer Price Index moderated to 3.9% in May.

Narrow money or M1, representing transactional balances, grew at an annual rate of 11.1%. Broad money, M3, expanded by 12.8% on an annual basis, due mainly to higher claims on the private sector.

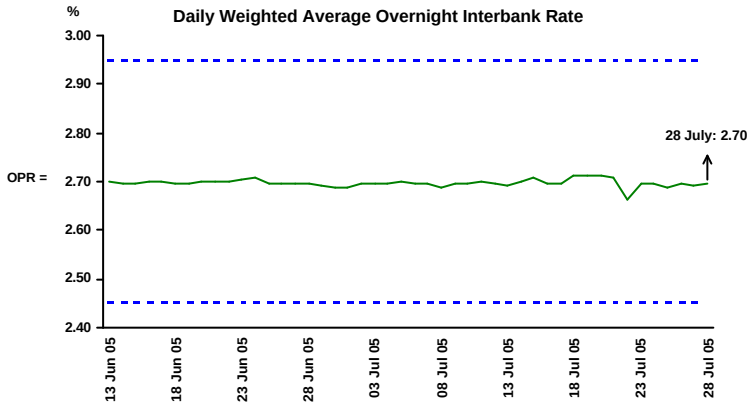
Financing activity was sustained in June, with banking system loans and PDS outstanding increasing at an annual rate of 9.3%. Total bank loans outstanding grew by 8.3%, while loans outstanding to the SMEs registered an annual growth rate of 9%. Loans outstanding to the SMEs accounted for 41.2% of the total business loans outstanding at end-June.

In the capital market, net funds raised amounted to RM3.4 billion, due mainly to the debt issuance by the public sector. In the PDS market, gross PDS issuance amounted to RM2.3 billion, primarily for refinancing activity and to finance new activity.

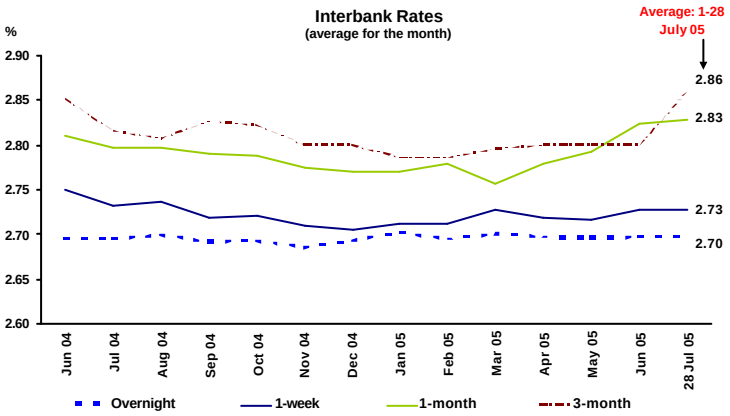
The banking system remained strong, with the RWCR at 13.2% and net NPL ratio declining to 5.1%, at end-June.

Interest rates remained relatively stable

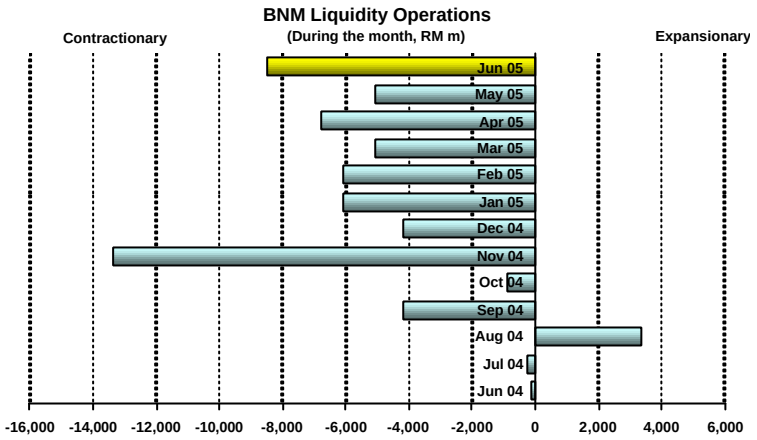
In June, liquidity operations by Bank Negara Malaysia were aimed at maintaining a stable overnight interbank rate. During the period of 1 June – 28 July, the daily weighted average overnight interbank rate moved within a range of 2.66% - 2.71%, averaging at 2.70%. Meanwhile, the average interbank rates for the 1-week to 3-month tenures increased marginally, reflecting expectations of some market participants that interest rates will increase going forward. The average BLRs of commercial banks (CBs) and finance companies (FCs) remained unchanged. Meanwhile, the ALR of CBs was stable at 5.93%. The ALR of the FCs increased to 8.78% (May: 8.57%) due mainly to the exclusion of two finance companies with lower than average ALRs, following their mergers with their commercial banks.



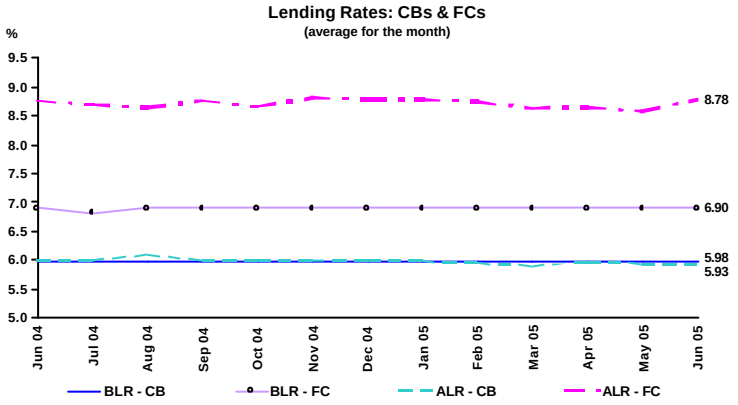
Stable overnight interbank rate



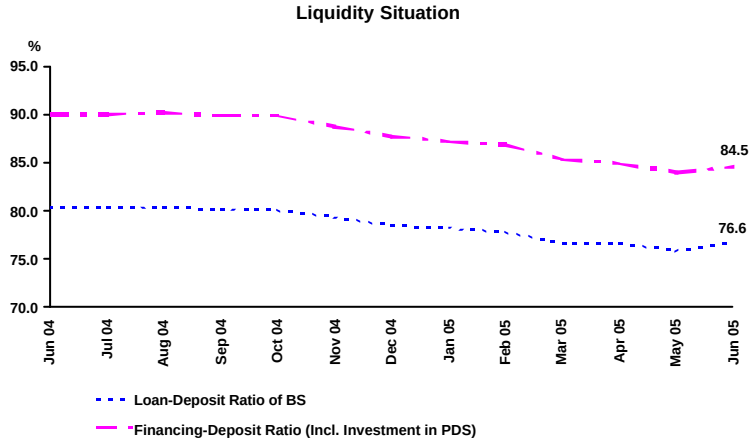
Other interbank rates were marginally higher



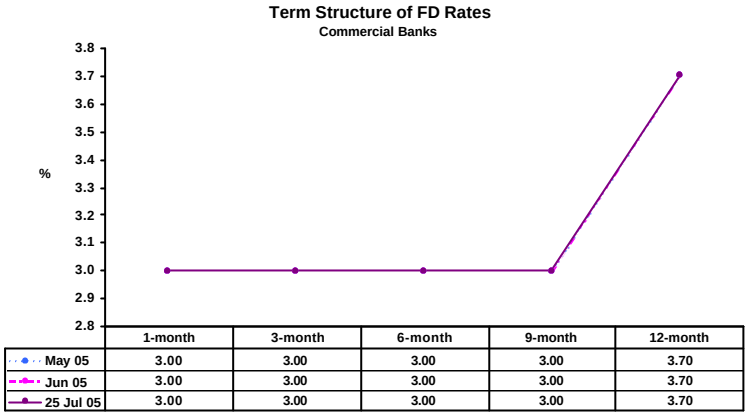
Liquidity operations in June were aimed at maintaining a stable overnight interbank rate



ALR of the CBs stable, while ALR of the FCs increased

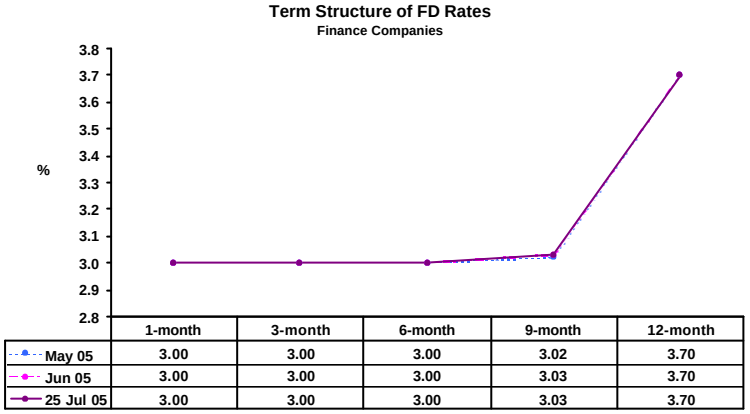


The financing-deposit ratio increased to 84.5%



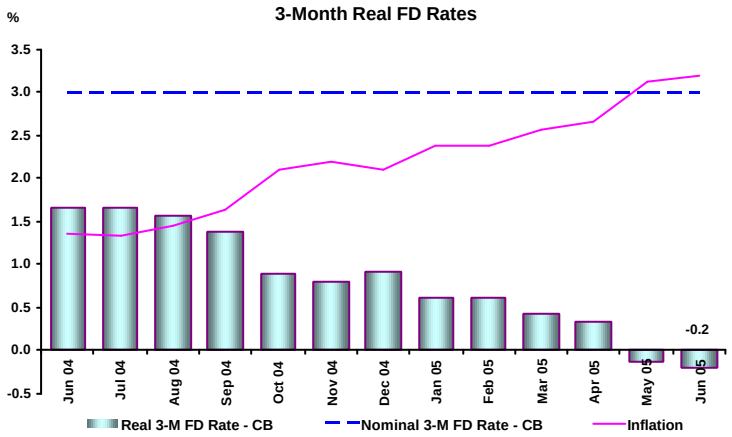
	1-month	3-month	6-month	9-month	12-month
May 05	3.00	3.00	3.00	3.00	3.70
Jun 05	3.00	3.00	3.00	3.00	3.70
25 Jul 05	3.00	3.00	3.00	3.00	3.70

FD rates of CBs remained unchanged



	1-month	3-month	6-month	9-month	12-month
May 05	3.00	3.00	3.00	3.02	3.70
Jun 05	3.00	3.00	3.00	3.03	3.70
25 Jul 05	3.00	3.00	3.00	3.03	3.70

FD rates of FCs remained unchanged

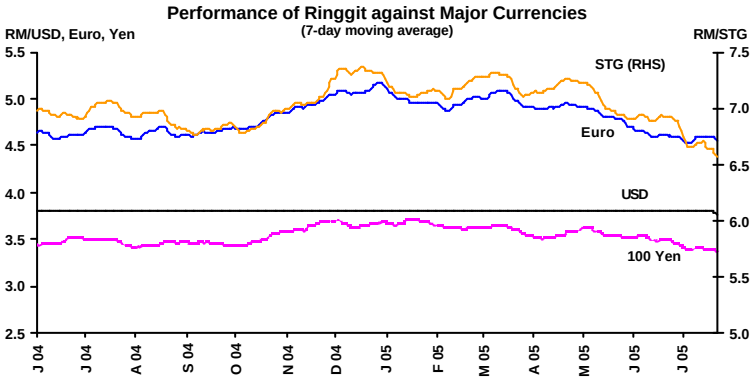


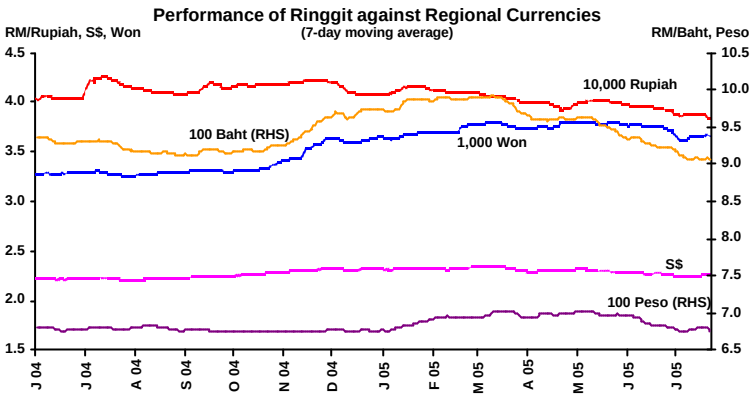
The 3-month real FD rate remained negative in June

Performance of the ringgit

Over the period 1 June – 21 July, the ringgit appreciated against major and regional currencies, in line with the performance of the US dollar. The US dollar appreciated against the major currencies amid expectations of further US interest rate increases, yield differentials favouring the US dollar and continued expectations that economic growth in the US will outpace that of the euro area and Japan in 2005. The 7 July bombings in London moderated the strength of the dollar appreciation, as funds flowed into safe-haven assets such as the Swiss franc. For the 1 January – 21 July 2005 period as a whole, the ringgit has appreciated against the euro (11.9%), the sterling (10.4%) and Japanese yen (9.7%), as well as against most regional currencies in the range of 0.2% - 7.7%. This strengthening of the ringgit has to some extent reversed the depreciation in 2003 and 2004, thereby reducing the degree of ringgit undervaluation and bringing it closer to its fair value.

On 21 July 2005, Bank Negara Malaysia announced that the exchange rate of the ringgit would operate in a managed float against a currency basket, with the value of the ringgit being determined by economic fundamentals. Promoting stability of the exchange rate would continue to be a primary objective of policy. The People's Bank of China announced the move to a managed floating exchange rate regime for the yuan on the same day. Since the removal of the peg, the ringgit has appreciated by 1.3% against the US dollar to RM3.7495 on 28 July 2005. Over the same period, the ringgit also appreciated against the euro (2.1%), the pound sterling (1.4%) and Japanese yen (1.2%), as well as against other regional currencies in the range of 0.2% - 1.9%.





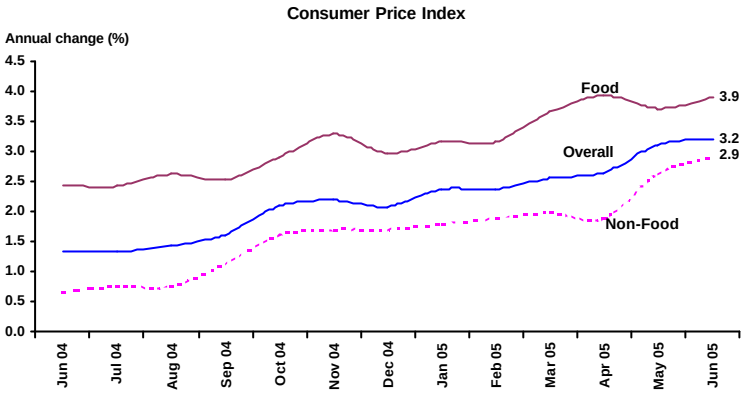
Performance of Ringgit against Selected Currencies [1/]

RM per foreign currency	End-period				% change	
	Dec 04	May 05	Jun. 05	28 Jul.2005	End Dec. 04 - 28 Jul. 2005	End May 05 - 28 Jul. 2005
US dollar	3.8000	3.8000	3.8000	3.7495	1.3	1.3
Euro	5.1729	4.7112	4.5948	4.5266	14.3	4.1
Pound Sterling	7.3169	6.8921	6.8685	6.5339	12.0	5.5
100 Japanese yen	3.7026	3.5164	3.4469	3.3360	11.0	5.4
Singapore dollar	2.3258	2.2840	2.2576	2.2522	3.3	1.4
100 Thai baht	9.7636	9.3862	9.2032	8.9808	8.7	4.5
100 Philippine peso	6.7706	6.9789	6.7628	6.6878	1.2	4.4
100 Indonesian Rupiah	0.0408	0.0400	0.0391	0.0381	7.1	4.8
100 Korean won	0.3671	0.3777	0.3699	0.3647	0.7	3.6

[1/] The average buying and selling rates at noon in the Kuala Lumpur interbank foreign exchange market.

Inflation edged up in June

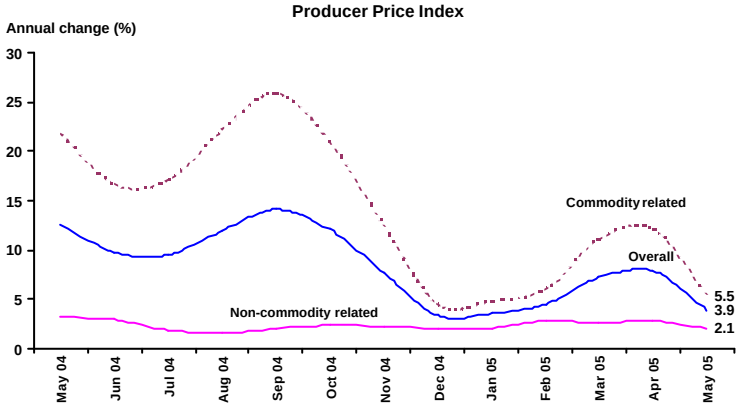
Headline inflation, as measured by the Consumer Price Index, increased to 3.2% in June (May: 3.1%). The increase in prices continued to be driven mainly by the higher prices of food, beverages and tobacco, as well as transport and communication. Food taken at home was the primary source of the higher food prices during the month, due largely to the higher prices of fruits and vegetables. Nevertheless, prices of medical care and household furnishing categories remained relatively unchanged, while clothing and footwear continued to experience falling prices.



Inflation increased to 3.2% in June

Producer price inflation moderated in May

The annual growth of the Producer Price Index (PPI) moderated to 3.9% in May (April: 7.9%). This was driven mainly by the moderation in the growth of commodity prices, as crude oil prices registered a slower rate of increase while crude palm oil and rubber continued to experience falling prices. Excluding commodity prices, the PPI inflation also moderated to 2.1% (April: 2.8%).



PPI inflation moderated

Growth in monetary aggregates relatively stable on an annual basis

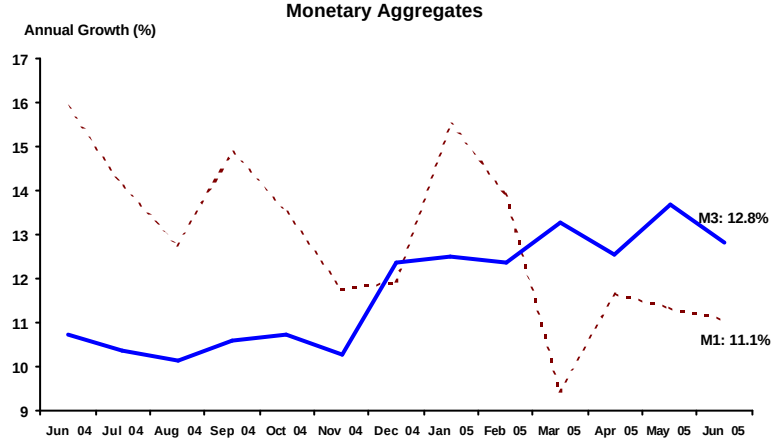
In June, narrow money or M1, representing transactional balances, grew at an annual rate of 11.1% (May: 11.3%), while broad money, M3, expanded by 12.8%. During the month, higher claims on the private sector were mainly offset by the increase in Government deposits with Bank Negara Malaysia and contractionary net external operations.

M3 Determinants
(RM billion)

	Change during period			
	2004	**May 05**	**Jun 05**	**Jan-June 05**
M3	68.0	8.7	-0.5	34.8
Net claims on Government	38.1	-4.0	-2.0	-13.7
Claims on the private sector	-9.7	3.0	6.2	15.6
Loans	82.0	*4.3*	*5.9*	*20.8*
Securities	90.0	*-1.4*	*0.3*	*-5.2*
Net external operations *	-8.0	12.3	-3.4	41.9
Other influences	-28.1	-2.6	-1.3	-9.0

* Pre-revaluation of the international reserves

Monetary Aggregates



Banking system deposits continued to increase in June

In June, total deposits mobilised by the banking system increased by RM2.7 billion or at an annual rate of 14.5% (May: 15.4%). The increase was driven mainly by higher deposit placements from individuals, the Federal Government as well as from interbank placements. Foreign currency deposits registered a decline due mainly to a withdrawal by a multinational corporation, following a temporary placement in May.

Deposits by Holder

(RM million)

	Change during period			
	Mar 05	**Apr 05**	**May 05**	**Jun 05**
Federal Government	83	-281	646	968
State Governments	-134	-7	55	219
Statutory Authorities [1]	190	230	1,495	386
Financial Institutions	6,441	4,167	1,533	802
Business Enterprises	10,367	-2,238	7,644	-1,012
Individuals	253	340	586	1,247
Others [2]	709	-363	1,178	46
Total	17,909	1,848	13,136	2,658

1/ Include local Governments

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

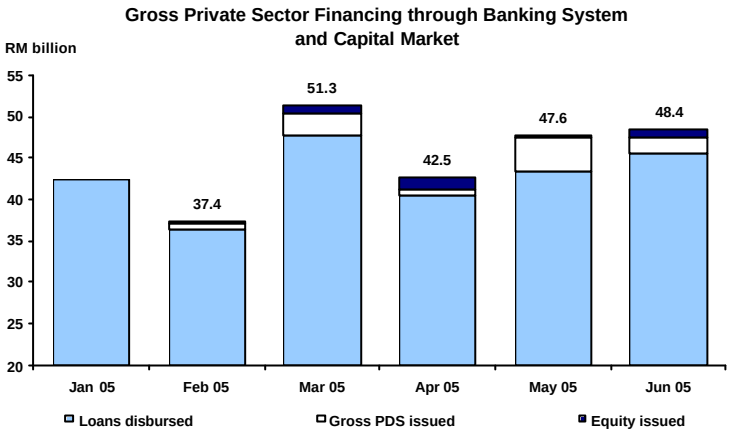
Deposits by Type

(RM million)

	Change during period			
	Mar 05	**Apr 05**	**May 05**	**Jun 05**
Fixed deposits	4,641	-808	3,703	-2,003
NIDs	8,958	4,686	728	3,049
Demand deposits	-1,511	-1,096	420	3,145
Savings deposits	-504	-358	-195	342
Repos	4,110	1,043	138	612
FX deposits	909	-1,093	4,218	-3,358
SPI deposits	864	-582	3,679	347
Others	442	56	445	525
Total	17,909	1,848	13,136	2,658

Financing to the private sector was slightly higher in June

In June, gross financing of the private sector by the banking system and the capital market increased to RM48.4 billion (May: RM 47.6 billion), expanding at an annual rate of 6.5% (17.1% in May). This was largely due to higher loan disbursements. On a net basis, the total financing to the private sector (banking system loans and PDS outstanding) increased at an annual rate of 9.3% (9.5% in May).



Slightly higher gross private sector financing

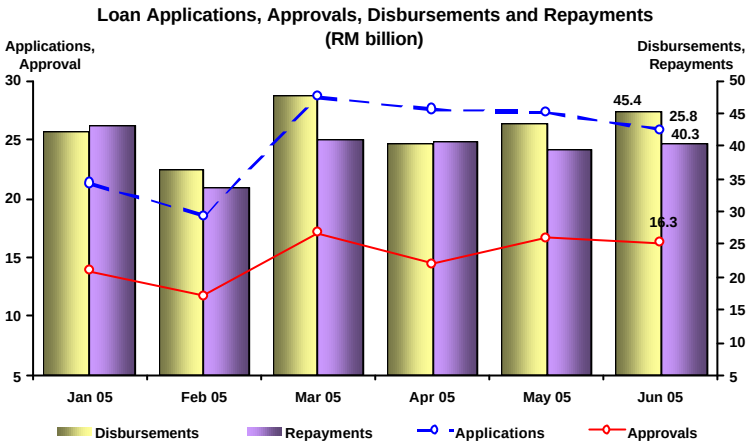
Bank lending indicators

	RM billion		Annual Growth (%)	
	May	June	May	June
Overall				
Loan applications	27.3	25.8	26.1	5.4
Loan approvals	16.6	16.3	31.3	-10.0
Loan disbursements	43.4	45.4	13.1	7.1
Chg in Loans Outstanding[1/]	4.9	6.0	8.6	8.3
Businesses				
Loan applications	14.9	12.7	30.9	-5.7
Loan approvals	8.0	7.2	47.3	-28.9
Loan disbursements	29.4	31.2	11.6	5.1
Chg in Loans Outstanding[1/]	2.3	2.9	1.7	1.5
SMEs				
Loan applications	5.5	5.2	12.3	2.7
Loan approvals	2.8	3.2	19.8	-5.4
Loan disbursements	8.9	9.5	8.1	9.4
Chg in Loans Outstanding[1/]	1.2	0.9	10.4	9.0
Households				
Loan applications	12.2	12.7	20.1	15.7
Loan approvals	8.6	8.9	18.9	14.2
Loan disbursements	11.7	12.3	15.4	13.0
Chg in Loans Outstanding[1/]	3.1	2.9	15.4	15.1

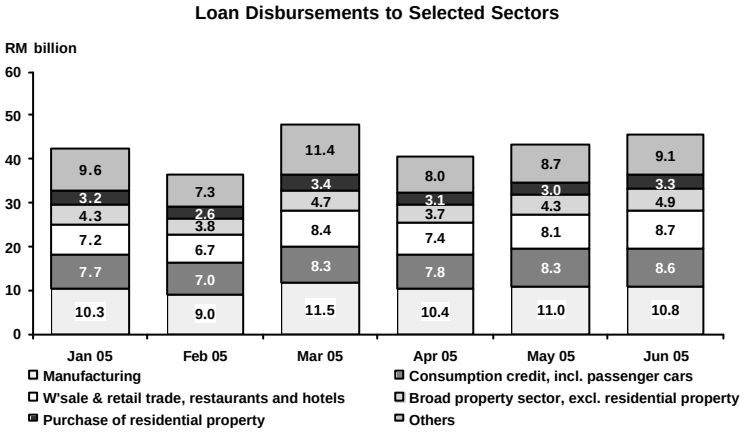
[1/] The annual growth is for end-period

Lending activity remained firm

Lending activity was sustained in June. Loan disbursements to the business and household sectors were higher, amounting to RM31.2 billion and RM12.3 billion respectively, increasing at annual growth rates of 5.1% and 13%. Business loan approvals remained firm on a month-on-month basis, but were lower on an annual basis, largely reflecting the higher base effect of June 2004. Meanwhile, household loan approvals increased at a slower annual rate of 14.2%.



Indicators showed sustained lending activity in June

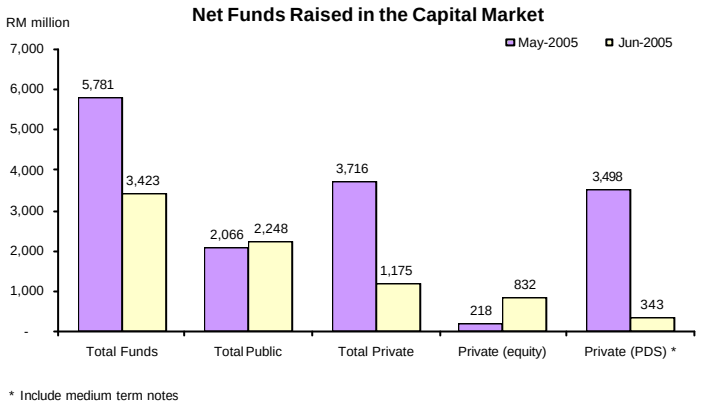


Disbursements during the month remained broad-based

Loans outstanding increased at an annual rate of 8.3% at end-June (end-May: 8.6%). The annual growth of loans outstanding to businesses remained positive at 1.5% at end-June (end-May: 1.7%), due mainly to loans outstanding of SMEs, which increased by 9% (10.4% in May). Loans outstanding to SMEs accounted for 41.2% of the total loans outstanding to businesses (end-2004: 40.3%). Meanwhile, loans outstanding to the household sector grew at an annual rate of 15.1% at end-June (end-May: 15.4%).

Funds raised in the capital market remained high

In June, net funds raised in the capital market remained high at RM3.4 billion, mainly due to the reopening of the 3-year Malaysian Government Securities (MGS 2/88). New issuances of PDS (RM2.3 billion) by companies in the transportation, storage and utilities sectors were primarily for refinancing and to finance new activity. However, on a net basis, funds raised by the private sector were lower at RM343 million during the month. Funds raised through the equity market amounted to RM832 million, mainly attributed to one significant initial public offer (IPO) of RM802 million.

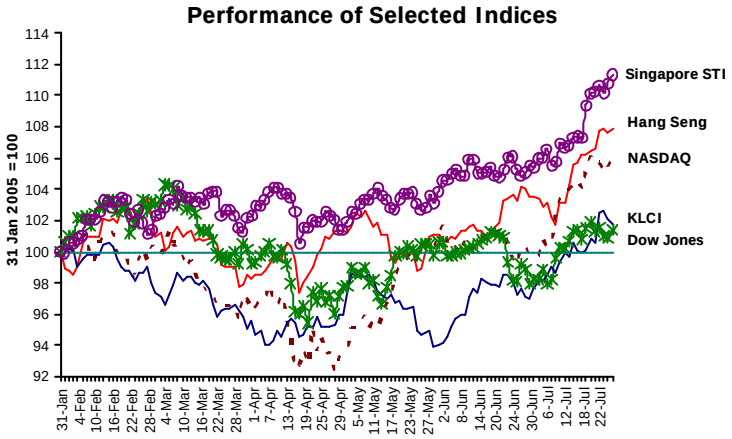


* Include medium term notes

Funds raised in June were mainly through debt issuance by the public sector

KLCI breached 900-level due to buying interests

In June, the KLCI ended higher at 888.32 (since end-May: +3.2%), with improved market confidence following continued efforts taken by the authorities to address market manipulation issues. Towards the end of the month, market sentiment was affected by the increase in oil prices and rising inflation. Nevertheless, market capitalisation increased to RM688.6 billion (since end-May: +3.4%). The daily average turnover during the month improved significantly to 519.6 million units (May: 377.8 million units).

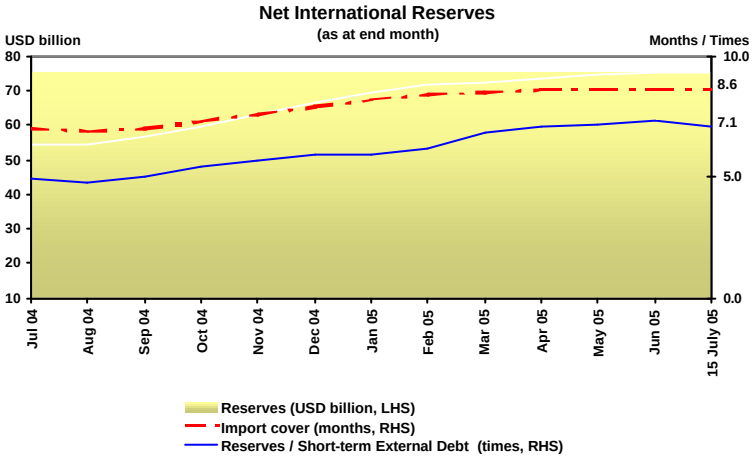


KLCI breached 900-level

The performance of the KLCI improved further in the first three weeks of July with renewed buying interests. As at 27 July, the KLCI closed higher at 931.97 (since end-June: +4.9%) with market capitalisation at RM720.78 billion (since end-June: +4.7%). However, market activity declined slightly, with daily average turnover amounting to 465 million units.

International reserves increased further

The international reserves of Bank Negara Malaysia increased by RM1.2 billion (USD0.3 billion) to RM285.8 billion (USD75.2 billion) as at 30 June 2005. The increase in reserves in June was due mainly to sustained repatriation of export earnings and inflows of FDI. Outflows reflected mainly payments for imports of goods and services, higher repatriation of dividends, overseas investment and repayment of external loans. The reserves level has also taken into account the quarterly adjustments of foreign exchange revaluation loss amounting to USD1.6 billion during the second quarter. Reserves remained stable at RM285.8 billion (USD75.2 billion) as at 15 July 2005. The current level of reserves is sufficient to finance 8.6 months of retained imports and is 7.1 times the short-term external debt.



Further strengthening of banking system following continued decline in NPLs

The net NPL ratios of the banking system based on 3-month and 6-month classifications declined further to 6.9% and 5.1% respectively due largely to reclassification of NPLs into performing accounts and write-offs by some banking institutions. Following the completion of the finance company mergers with commercial banks involving two banking groups (Bafin merger) during the month, the core capital ratio (CCR) of the banking system declined marginally to 10.3%. Nevertheless, the risk-weighted capital ratio (RWCR) remained strong at 13.2% as a result of issuance of subordinated debt capital by a banking institution during the month.

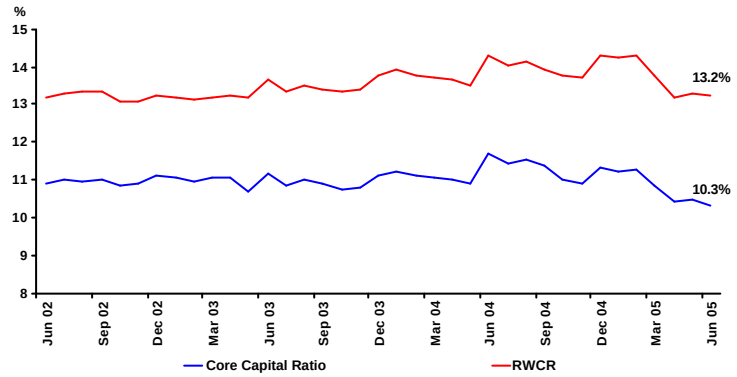
Banking System Health Indicators *

	As at end-								
	1999	2000	2001	2002	2003	Dec 04	Apr 05	May 05	Jun 05
Capital (%)									
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.3	10.5	10.4	10.3
RWCR	12.5	12.5	13.0	13.2	13.8	14.3	13.2	13.2	13.2
Net NPLs (6-month classification)									
% of net total loans	6.4	6.3	6.9	7.5	6.8	5.8	5.4	5.4	5.1
Amount (RM million)	23,849	24,700	32,833	31,702	30,766	28,630	27,176	27,275	26,067
GP / Net total loans (6-month, %)	1.9	1.9	1.9	1.8	1.8	1.7	1.7	1.7	1.5

* Beginning June 1999, the figures include Islamic banks.

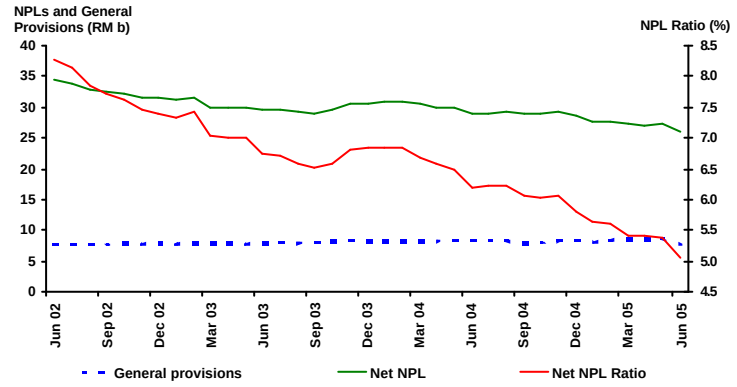
* Beginning April 2005, RWCR and CCR include market risk factor

Capital Strength Indicators



Banking system capitalisation level remained high…

Banking System: Net NPLs and General Provisions



…. whilst level of net NPLs declined further

Bank Negara Malaysia
28 July 2005

Key Monetary and Financial Statistics

		Apr 05		May 05		Jun 05	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		51.5	8.3	50.9	9.6	50.7	9.1
M1		114.3	11.6	114.7	11.3	116.6	11.1
M2		552.5	24.7	561.0	26.5	591.1	32.2
M3		644.3	12.5	652.9	13.7	652.4	12.8
Banking System							
Total deposits		652.9	13.1	666.1	15.4	668.7	14.5
Total loans (including loans sold to Cagamas)		522.9	8.8	527.8	8.6	533.7	8.3
Loan-deposit ratio (%)		76.5		75.8		76.6	
Financing-deposit ratio [1] (%)		84.9		83.9		84.5	
Loans applied (during the period)		27.6	13.6	27.3	26.1	25.8	5.4
Loans approved (during the period)		14.4	-9.0	16.6	31.3	16.3	-10.0
Loans disbursed (during the period)		40.5	3.2	43.4	13.1	45.4	7.1
Loans repaid (during the period)		40.7	4.5	39.5	14.1	40.3	9.8
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.2		13.2		13.2	
Net NPLs: 6-month classification (%)		5.4		5.4		5.1	
International Reserves of BNM (end-period)							
Reserves in RM (billion)		280.2		284.5		285.7	
Reserves in USD (billion)		73.7		74.9		75.2	
Months of retained imports		8.6		8.6		8.6	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		2.70		2.70		2.70	
Interbank:	Overnight	2.67 [2.70]		2.69 [2.70]		2.69 [2.70]	
	1-week	2.72 [2.72]		2.72 [2.72]		2.73 [2.73]	
	1-month	2.79 [2.78]		2.81 [2.79]		2.83 [2.82]	
	3-month	2.80 [2.80]		2.80 [2.80]		2.84 [2.84]	
Fixed deposits of commercial banks:	1-month	3.00		3.00		3.00	
	3-month	3.00		3.00		3.00	
BLR of commercial banks		5.98		5.98		5.98	
ALR of commercial banks		5.97		5.94		5.93	
Prices							
Consumer Price Index (CPI) (2000=100)		108.0	2.7	108.8	3.1	109.0	3.2
Producer Price Index (PPI) (1989=100)		161.7	7.9	157.1	3.9	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
Euro		4.9079		4.7112		4.5948	
Pound Sterling		7.2542		6.8921		6.8685	
100 Japanese yen		3.5895		3.5164		3.4469	
Singapore dollar		2.3071		2.2840		2.2576	
100 Thai Baht		9.5790		9.3862		9.2032	
100 Philippine Peso		6.9817		6.9789		6.7628	
100 Indonesian Rupiah		0.0397		0.0400		0.0391	
100 Korean Won		0.3785		0.3777		0.3699	
Capital Market							
Net funds raised (in RMb) by:	public	-2.9		2.1		2.2	
	private	1.3		3.7		1.2	
Bursa Malaysia Composite Index (end-period)		879.0		860.7		888.3	
Bursa Malaysia Market Capitalisation (RMb, end-period)		689.0		665.8		688.6	

[1] Refers to the ratio of loans and holdings of PDS by the banking system to deposits of the banking system.