BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

**Pen: 02/05/61 (BN)**

**EMBARGO: Not for publication or broadcast before 1700 hours on Monday, 28 February 2005**

# Monetary and Financial Developments January 2005
# Highlights of the Press Release

## *Financing to the private sector increased further in January 2005*

Monetary conditions continued to support domestic demand. Total gross financing by the private sector grew at an annual growth rate of 10.8% in January 2005, with positive growth rates registered in loan disbursements, PDS and equity issuances.

Meanwhile, the continued demand for bank financing by the business sector was reflected in the expansion in loans outstanding to businesses, which were growing at an annual rate of 1.2% at end-January 2005. In particular, the demand for funds by the SMEs was higher as reflected by the stronger annual growth rates of loan applications and approvals of 45.5% and 79.1% respectively. Loans outstanding to the SMEs were growing by 7.7% on an annual basis at end-January, to account for a higher share of 40.6% of total loans outstanding to businesses.

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

**Pen: 02/05/61 (BN)**

**EMBARGO: Not for publication or broadcast before 1700 hours on Monday, 28 February 2005**

# MONETARY AND FINANCIAL DEVELOPMENTS JANUARY 2005

## *Financing to the private sector increased further in January 2005*

Monetary conditions continued to support domestic demand. Money market conditions remained stable with the daily weighted overnight interbank rate averaging at 2.70% during the month. In the foreign exchange market, the ringgit appreciated against the major currencies but depreciated against most regional currencies.

Total gross financing extended to the private sector grew at an annual rate of 10.8% in January 2005, with positive growth registered in loan disbursements, PDS and equity issuances. Strong bank lending activity was evident with all loan indicators sustained at high levels during the month. New PDS issuances were mainly for refinancing and to fund new activities. Meanwhile, the continued demand for bank financing by the business sector was reflected in the expansion in loans outstanding to businesses, which was growing at an annual rate of 1.2% at end-January 2005. Loans outstanding to the SMEs were growing at 7.7% on an annual

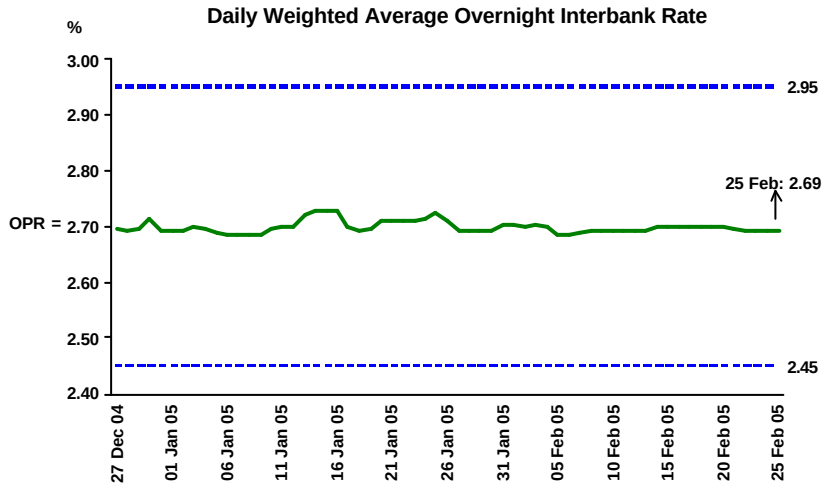
basis at end-January, to account for a higher share of 40.6% of total loans outstanding to businesses.

M1 growth increased in January 2005 because of festival-related seasonal demand for transactional balances. Broad money M3 also expanded further, but its growth was the outcome of the higher external inflows from the sustained repatriation of export earnings, foreign direct investments and portfolio flows. The increase in money supply was placed mainly in the demand and fixed deposits of businesses and individuals.

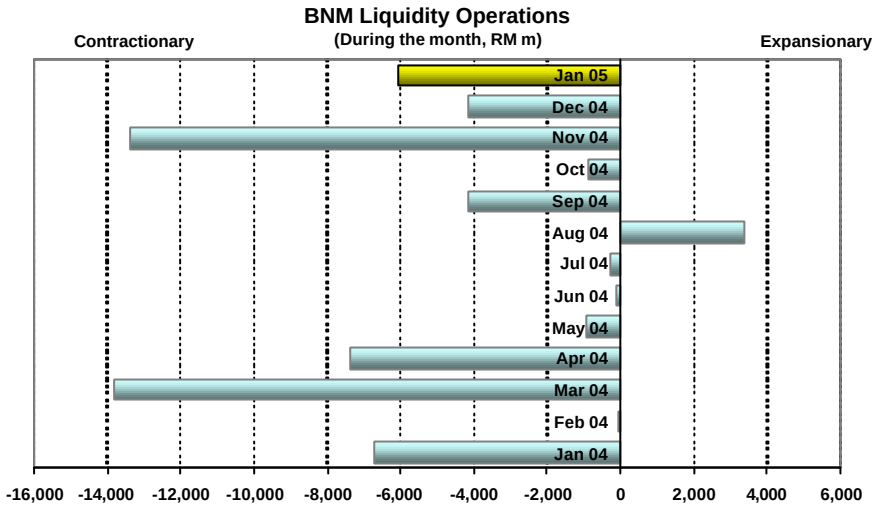
The banking system remained strong with an increase in its risk-weighted capital ratio (RWCR) to 13.9%, while the net NPL ratio based on 6-month classification remained low at 5.9%.

### *Interest rates remained stable*

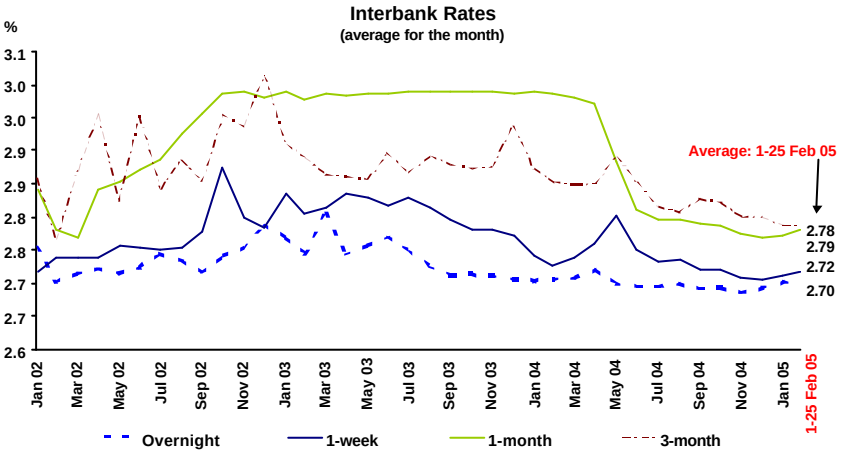
Bank Negara liquidity operations were contractionary to offset the expansionary net external operations and to support stable overnight interbank rates. During the period of 1 January – 25 February 2005, the daily weighted average overnight interbank rate moved within a range of 2.68%-2.73%, averaging at 2.70%. Both deposit rates and lending rates remained stable during the month. The average BLRs of commercial banks (CBs) and finance companies (FCs) remained unchanged while the ALR for CBs and FCs remained stable at 5.98% and 8.78%.



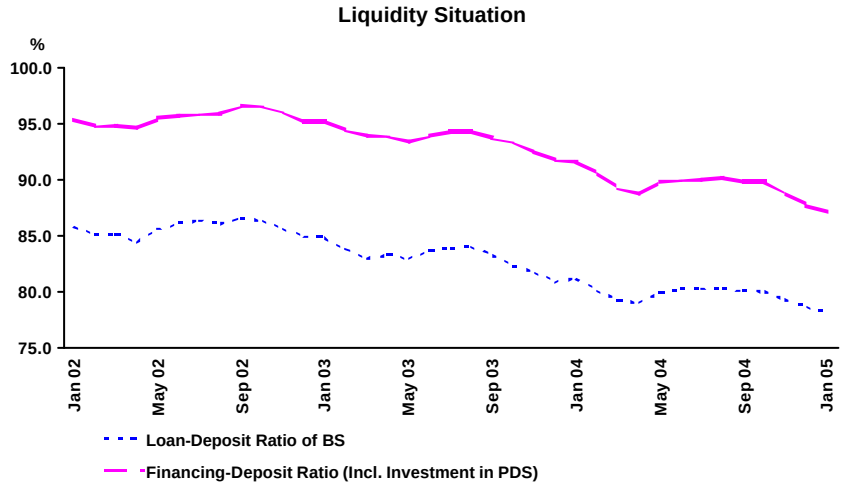

*The overnight interbank rate remained stable*



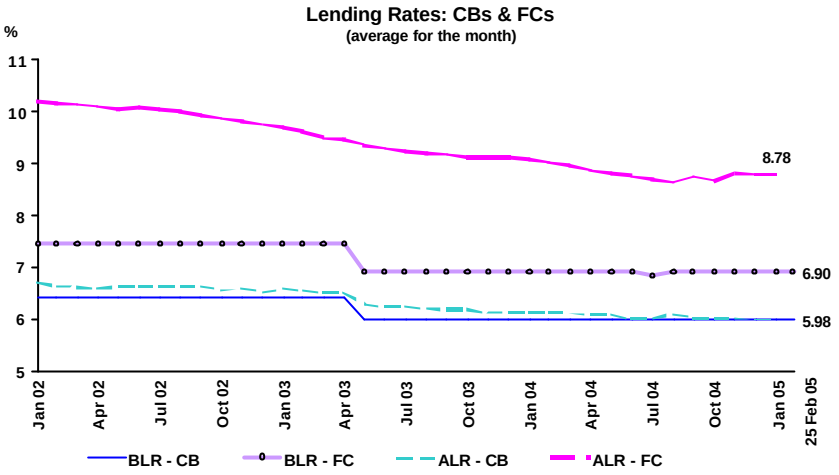

*Liquidity operations were contractionary in January largely to offset the expansionary net external operations*



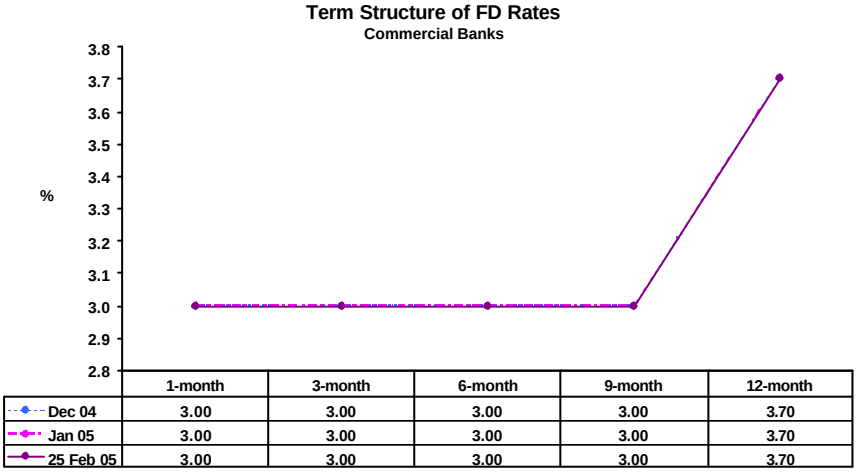

*Other interbank rates remained stable*




*The financing-deposit ratio stood at 78.1%*

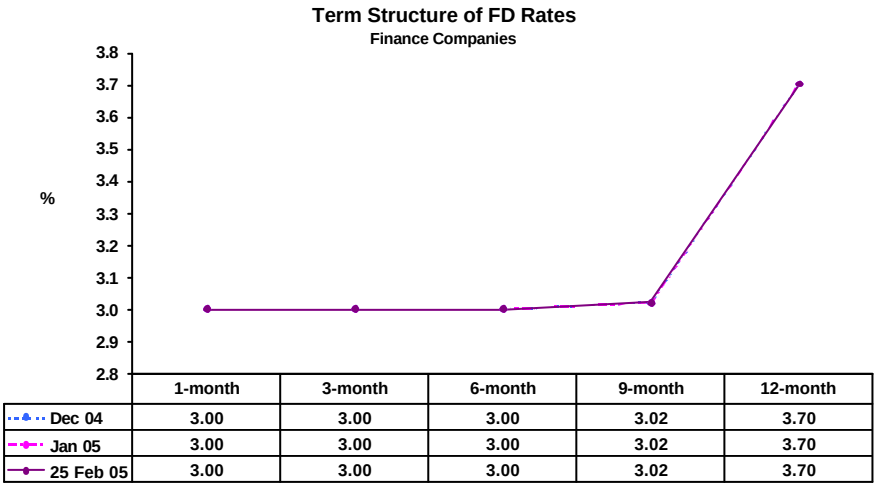



*Retail lending rates remained stable*



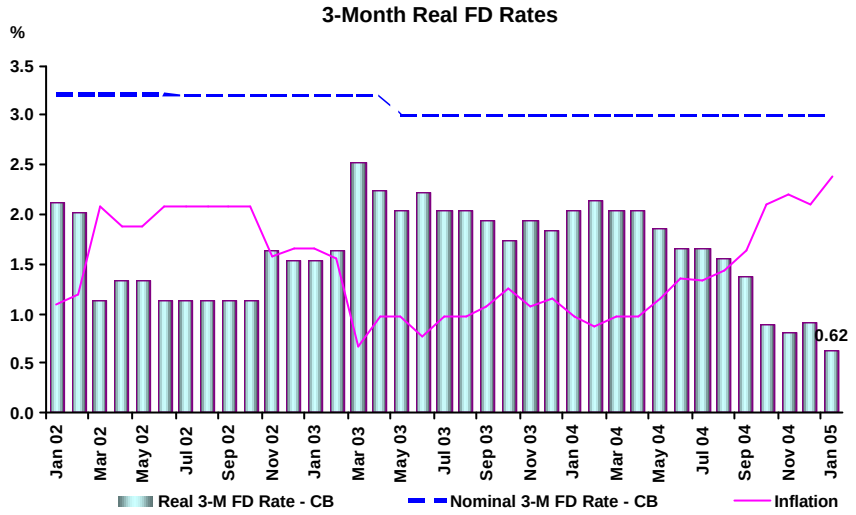

| | 1-month | 3-month | 6-month | 9-month | 12-month |
|---|---|---|---|---|---|
| Dec 04 | 3.00 | 3.00 | 3.00 | 3.00 | 3.70 |
| Jan 05 | 3.00 | 3.00 | 3.00 | 3.00 | 3.70 |
| 25 Feb 05 | 3.00 | 3.00 | 3.00 | 3.00 | 3.70 |

*FD rates of CBs remained unchanged*




| | 1-month | 3-month | 6-month | 9-month | 12-month |
|---|---|---|---|---|---|
| Dec 04 | 3.00 | 3.00 | 3.00 | 3.02 | 3.70 |
| Jan 05 | 3.00 | 3.00 | 3.00 | 3.02 | 3.70 |
| 25 Feb 05 | 3.00 | 3.00 | 3.00 | 3.02 | 3.70 |

*FD rates of FCs remained unchanged*




*The 3-month real FD rate was lower*

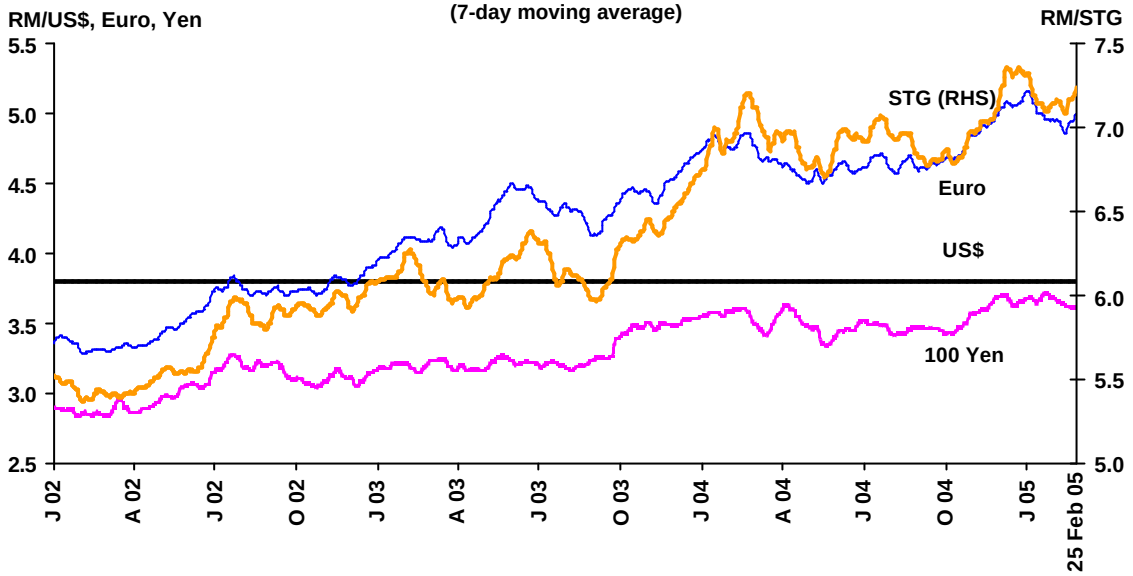
## *Performance of the ringgit*

The ringgit followed the developments in the US dollar, and appreciated against the major currencies but depreciated against most regional currencies in January 2005. Positive US economic data and expectations of further US interest rate increases, alongside reduced expectations of EU interest rate hikes, contributed to the upward trend in the US dollar, after it reached an all-time low against the euro and 14-year low against the pound sterling in December. Against the yen, the US dollar initially appreciated before reaching a 5-year low of 102.095 on 17 January, but continued on its upward trend thereafter.

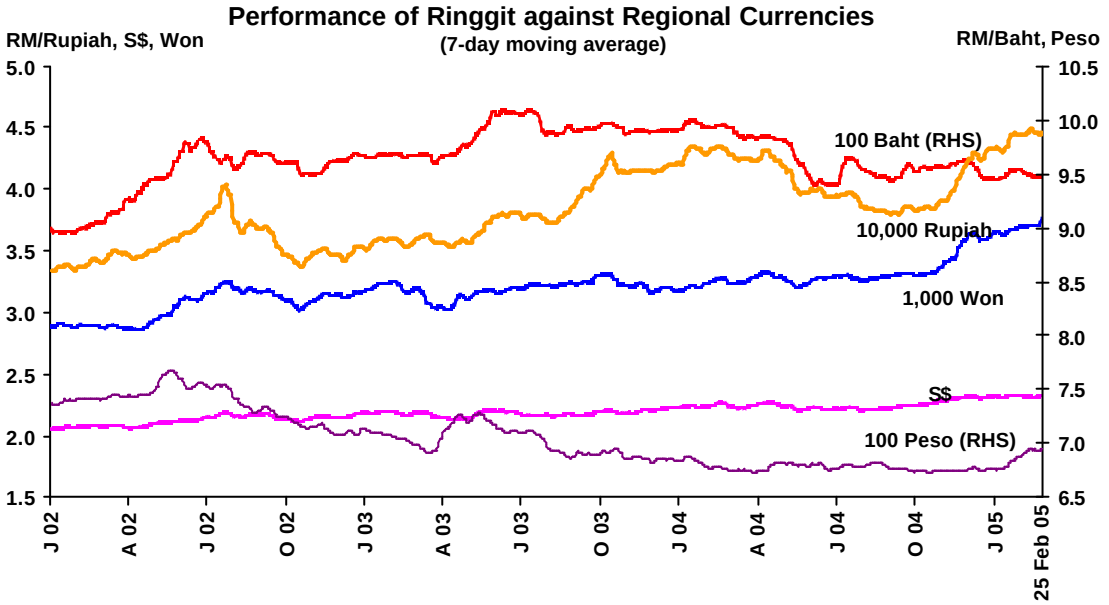
Regionally, the ringgit depreciated against most currencies as capital inflows into regional economies, driven by optimistic expectations and portfolio investments, caused these currencies to appreciate against the US dollar.

In the 1-25 February period, the ringgit depreciated against the euro and pound sterling but appreciated against the yen. Against the regional currencies, the ringgit depreciated against the Korean won (1.8%), Philippine peso (0.6%), Singapore dollar (0.4%) and Thai baht (0.4%) but appreciated against the Indonesian rupiah (1.1%).

## Performance of Ringgit against Major Currencies




## Performance of Ringgit against Regional Currencies



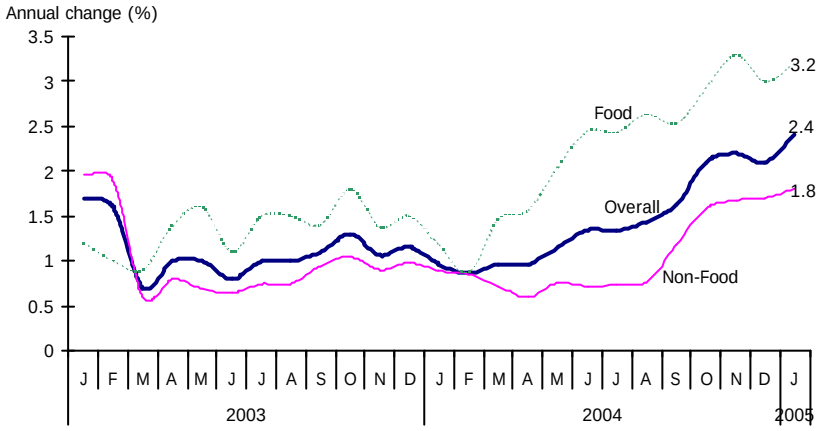

## Performance of Ringgit against Selected Currencies

| RM per foreign currency | End-period | | | % Change | | |
|---|---|---|---|---|---|---|
| | Dec 04 | Jan 05 | 25 Feb 05 | End Dec 04 - Jan 05 | End Jan 05 - 25 Feb 05 | End Dec 04 - 25 Feb 05 |
| US dollar | 3.8000 | 3.8000 | 3.8000 | 0.0 | 0.0 | 0.0 |
| Euro | 5.1729 | 4.9480 | 5.0158 | 4.5 | -1.4 | 3.1 |
| Pound Sterling | 7.3169 | 7.1617 | 7.2601 | 2.2 | -1.4 | 0.8 |
| 100 Japanese yen | 3.7026 | 3.6669 | 3.6051 | 1.0 | 1.7 | 2.7 |
| Singapore dollar | 2.3258 | 2.3175 | 2.3276 | 0.4 | -0.4 | -0.1 |
| 100 Thai baht | 9.7636 | 9.8535 | 9.8881 | -0.9 | -0.4 | -1.3 |
| 100 Philippine peso | 6.7706 | 6.8966 | 6.9400 | -1.8 | -0.6 | -2.4 |
| 100 Indonesian Rupiah | 0.0408 | 0.0415 | 0.0410 | -1.5 | 1.1 | -0.4 |
| 100 Korean won | 0.3671 | 0.3698 | 0.3766 | -0.7 | -1.8 | -2.5 |

## *Inflation edged up*

Headline inflation, as measured by the Consumer Price Index, increased to 2.4% in January 2005 (Dec 2004: 2.1%). The higher inflation rate during the month was due mainly to higher food prices and transport charges. The increase in food prices was attributed to higher prices of meat, fruits and vegetables, and was related to seasonal factors and festivities during the month. Meanwhile, the higher transport charges reflected the 10% increase in toll charges that was implemented on 1 January 2005.

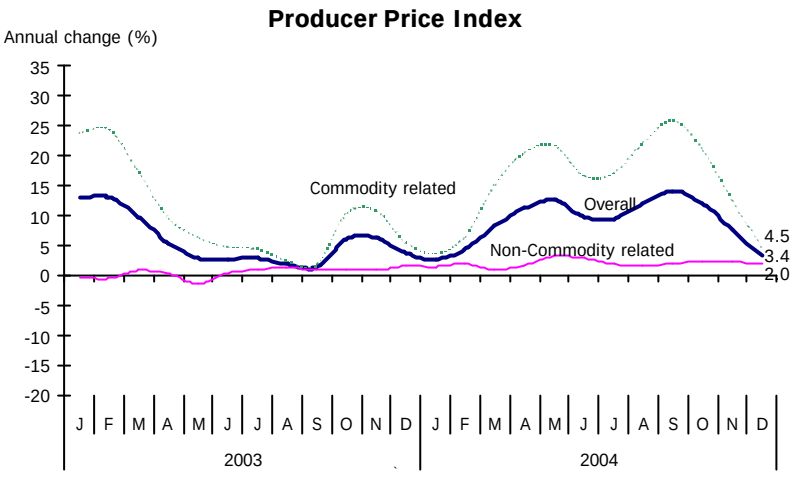
**Consumer Price Index**




*Overall inflation at 2.4%*

## *Producer prices moderated*

On an annual basis, the Producer Price Index (PPI) increased at a slower rate of 3.4% in December 2004 due mainly to lower commodity prices. Excluding commodity prices, PPI grew at a slower rate of 2%.




*PPI moderated further*

## *Sustained expansion in money supply*

Monetary aggregates continued to increase at sustained growth rates in line with expansion in domestic economic activity. Narrow money, M1, grew at an annual rate of 15.5% (Dec 04: 11.9%) due to the higher seasonal demand for currency and transactional balances in tandem with higher consumer spending and retail activity during the festive season.

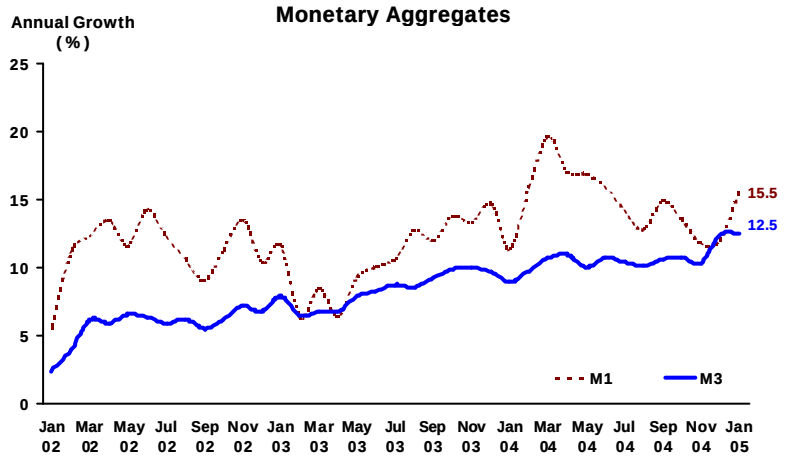
Meanwhile, broad money M3 increased by 12.5% (Dec 04: 12.4%), reflecting the expansionary impact of net external operations as well as sustained expansion in bank lending to the private sector. This however, was offset by the contractionary impact of Government operations following the issuance of Malaysian Government Securities, amounting to RM5 billion, during the period.

**M3 Determinants**

(RM billion)

| | Change during period | | | |
|---|---|---|---|---|
| | **Nov 04** | **Dec 04** | **Jan 05** | **2004** |
| M3 | 6.0 | 13.1 | 6.6 | -68.0 |
| Net claims on Government | -0.2 | 0.7 | -5.3 | 11.8 |
| Claims on the private sector | 0.8 | 3.2 | 1.0 | -30.3 |
| *Loans* | *3.1* | *6.5* | *0.4* | *-39.8* |
| *Securities* | *-2.2* | *-3.3* | *0.6* | *9.6* |
| Net external operations * | 11.7 | 8.1 | 7.7 | -82.2 |
| Other influences | -6.3 | 1.0 | 3.2 | 32.7 |

* Pre-revaluation




*Continued expansion of money supply amidst sustained expansion in economic activity*

## *Banking system deposits continued to increase*

Total deposits continued to increase by RM3.8 billion or at an annual rate of 13.3% in January. The increase was driven mainly by deposit placements by domestic business enterprises in the form of demand deposits, negotiable instruments of deposits issued and fixed deposits; and deposits of individuals in the form of fixed deposits.

**Deposits by Holder**

(RM million)

| | Change during period | | | |
|---|---|---|---|---|
| | **Oct 04** | **Nov 04** | **Dec 04** | **Jan 05** |
| Federal Government | -616 | 765 | -376 | 169 |
| State Governments | -171 | -210 | -62 | -413 |
| Statutory Authorities [1] | -539 | -980 | 1,571 | -297 |
| Financial Institutions | -784 | 3,634 | 1,551 | -4,201 |
| Business Enterprises | 3,032 | 2,909 | 6,612 | 5,880 |
| Individuals | 1,550 | 2,486 | 4,078 | 1,740 |
| Others [2] | 645 | 821 | 862 | 948 |
| Total | 3,117 | 9,426 | 14,237 | 3,827 |

1/ Include local Governments

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

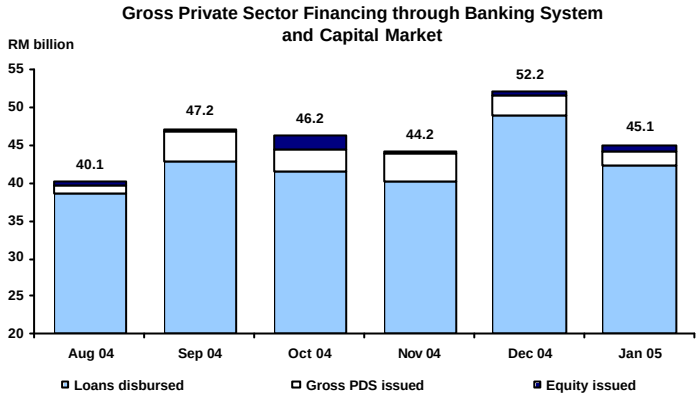
**Deposits by Type**

(RM million)

| | Change during period | | | |
|---|---|---|---|---|
| | **Oct 04** | **Nov 04** | **Dec 04** | **Jan 05** |
| Fixed deposits | -2,445 | -2,079 | 3,718 | 2,056 |
| NIDs | -189 | 1,773 | 1,989 | 1,362 |
| Demand deposits | -88 | 3,008 | 2,191 | 3,518 |
| Savings deposits | 138 | 976 | 1,799 | 84 |
| Repos | 3,882 | 4,293 | 1,862 | -2,278 |
| FX deposits | 697 | -470 | 24 | -309 |
| SPI deposits | 1,734 | 1,845 | 2,385 | -769 |
| Others | -613 | 81 | 269 | 163 |
| Total | 3,117 | 9,426 | 14,237 | 3,827 |

## *Financing to the private sector continued to remain strong*

Demand for financing by the private sector continued to remain strong. Total gross financing extended to the private sector by the banking system and the capital market expanded at an annual rate of 10.8% to RM45.1 billion in January 2005, with loan disbursements, PDS and equity issuances recording positive growth rates. On a net basis, total financing extended to the private sector (banking system loans and PDS outstanding) declined slightly by RM229 million during the month, but continued to record a high annual growth rate of 8.6% (+RM6.8 billion or 9% at end-2004).



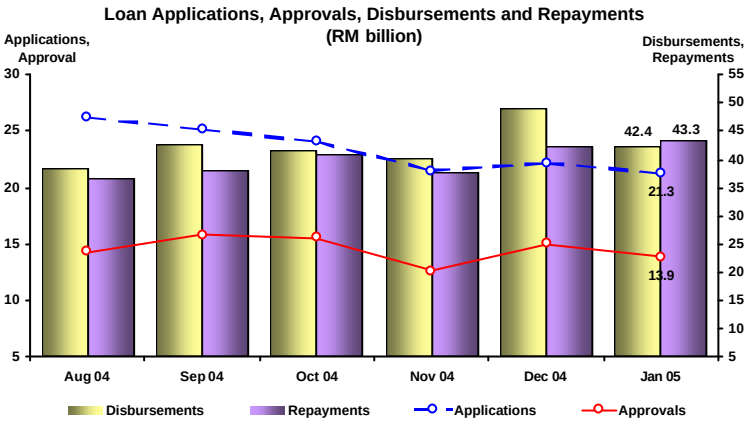

*Gross private sector financing remained high in January*

**Bank lending indicators**

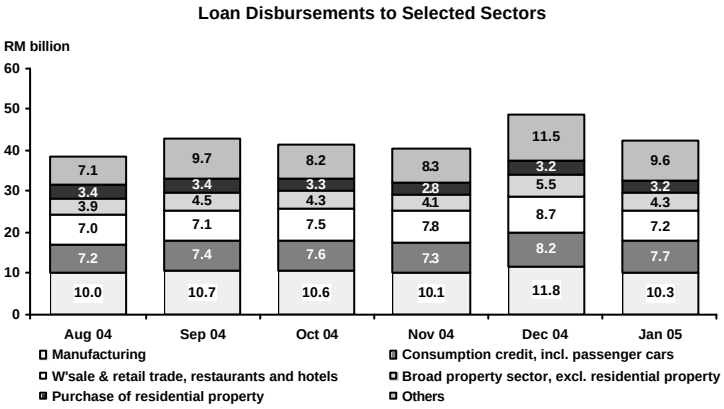
| | Mthly Ave (RM b) | | Annual growth (%) | |
|---|---|---|---|---|
| | 2004 | 2005 | 2004 | 2005 |
| | Dec | Jan | Dec | Jan |
| **Overall** | | | | |
| Loan applications | 22.2 | 21.3 | 16.6 | 24.0 |
| Loan approvals | 15.0 | 13.9 | 5.8 | 42.4 |
| Loan disbursements | 48.9 | 42.4 | 12.7 | 7.3 |
| **Businesses** | | | | |
| Loan applications | 11.5 | 11.1 | 22.8 | 21.7 |
| Loan approvals | 7.8 | 6.7 | 15.2 | 67.1 |
| Loan disbursements | 34.7 | 28.9 | 13.6 | 5.9 |
| **SMEs** | | | | |
| Loan applications | 4.6 | 4.2 | 49.6 | 45.5 |
| Loan approvals | 3.2 | 2.4 | 41.6 | 79.1 |
| Loan disbursements | 10.4 | 8.8 | 12.9 | 4.6 |
| **Households** | | | | |
| Loan applications | 10.1 | 9.8 | 18.5 | 22.6 |
| Loan approvals | 7.1 | 6.9 | 10.7 | 21.9 |
| Loan disbursements | 12.1 | 11.5 | 16.6 | 10.8 |

*Continued strong bank lending activity was reflected in both business and household sectors*

Bank lending activity remained strong with all loan indicators sustained at high levels in January. On an annual basis, loan applications, approvals and disbursements expanded by 24%, 42.4% and 7.3% respectively. Bank lending to both the business and household sectors expanded strongly. Loan applications and approvals of businesses recorded high growth rates of 21.7% and 61.7% respectively. This reflected the stronger demand for bank financing by SMEs, whose applications and approvals rose at 45.5% and 79.1% respectively. Meanwhile, loan applications and approvals for households expanded at 22.6% and 21.9% respectively. Disbursements of loans to both businesses and households remained broad-based.




*All loan indicators were sustained at high levels in January*

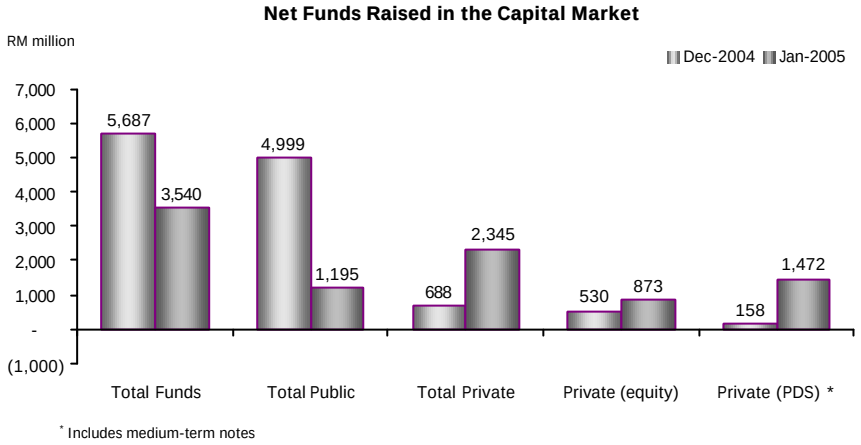



*Disbursements during the month remained broad-based*

The continued strong demand for bank financing was also reflected in the further expansion in loans outstanding, which were growing at an annual rate of 8% at end-January 2005 (8.5% at end-December 2004). Of importance, loans outstanding to businesses were growing at an annual rate of 1.2% at end-January 2005 (2.6% at end-December 2004). Similarly, loans outstanding to SMEs increased strongly at an annual rate of 7.1% (7.7% at end-December 2004). Of the total loans to businesses, SMEs loans accounted for a higher share of 40.6% (40.3% at end-2004). Meanwhile, loans outstanding to the household sector were increasing at an annual rate of 15.2% at end-January 2005.

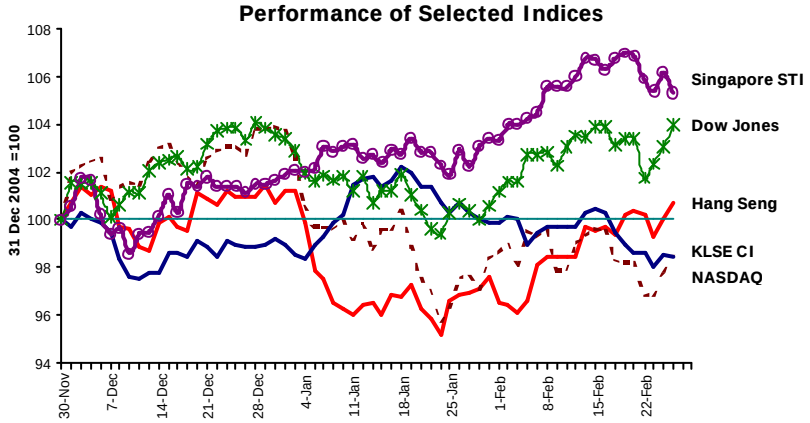
## *Higher funds raised by the private sector*

Net funds raised by the private sector were higher in January, amounting to RM2.3 billion. The bulk of net funds were raised through new issuances of private debt securities (PDS) which amounted to RM1.5 billion. These issuances were mainly by companies in the finance and property sectors and were used mainly for refinancing and for supporting new activity. Similarly, more funds were raised through the equity market (RM872.8 million) via initial public offerings.




## *KLCI closed lower in February*

In January 2005, the KLCI ended higher at 916.27 points with market capitalisation at RM731.7 billion. Market activity was higher with the daily average turnover recording 568.03 million units in January (462.83 million units in December).

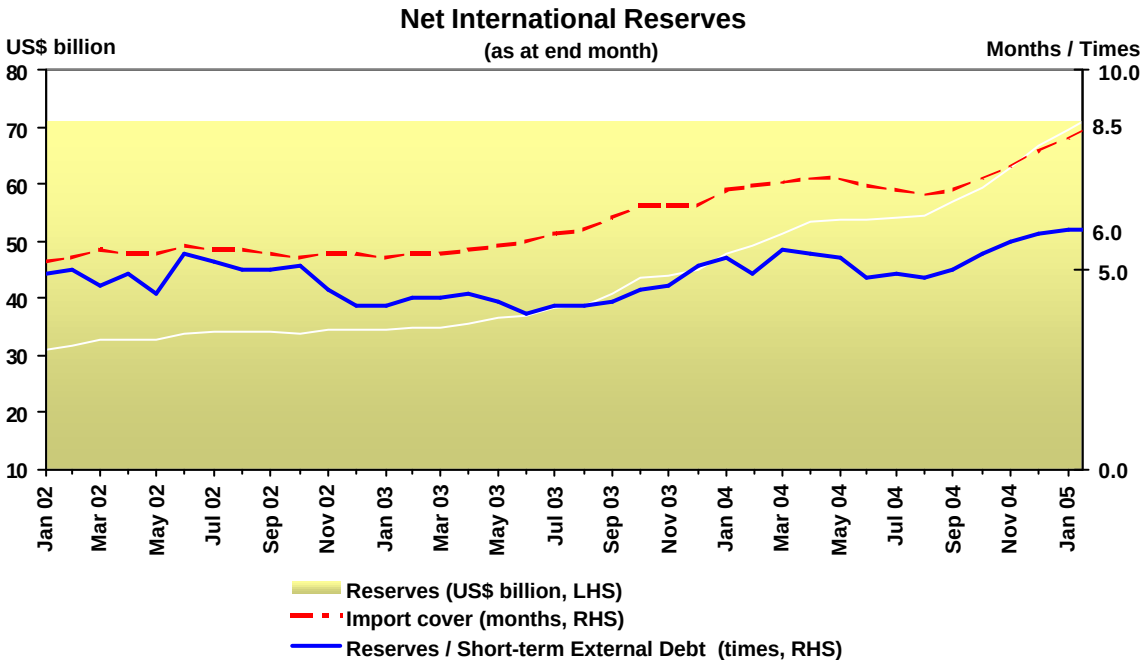



*Lower KLCI in February*

In the period 1-25 February, the KLCI closed lower at 903.51 on 25 February. Market capitalisation was lower at RM724.23 billion while the daily average turnover during the period decreased to 489.11 million units.

### *International reserves strengthened further*

The international reserves of Bank Negara Malaysia strengthened further by RM11.2 billion (US$2.9 billion) to RM264.6 billion (US$69.6 billion) as at 31 January 2005. The increase in reserves in January 2005 was attributed mainly to sustained repatriation of export earnings, foreign direct investments and inflows of portfolio funds. Outflows reflected mainly payments for imports of goods and the repayment of external loans. The reserves increased further to RM269.6 billion (US$71 billion) as at 15 February 2005. The reserves position is sufficient to finance 8.5 months of retained imports and is six times the short-term external debt.




### *Banking system maintained its resilience*

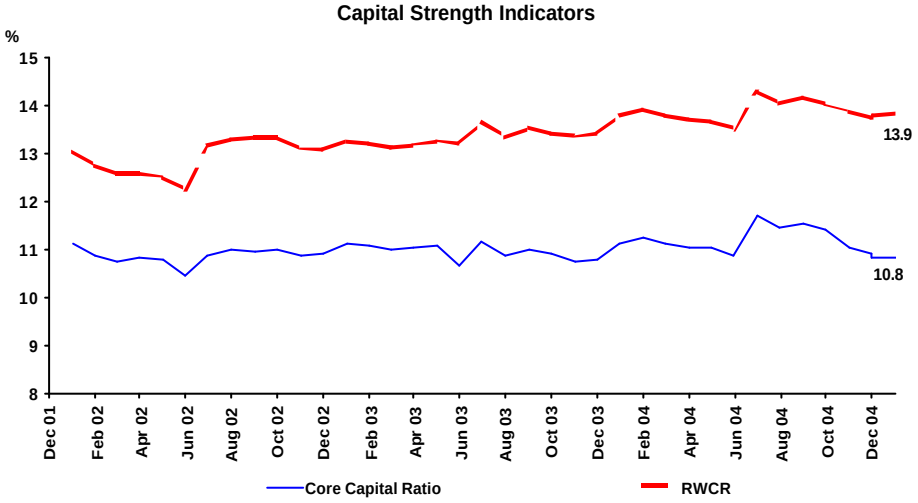
The risk-weighted capital ratio (RWCR) of the banking system increased further to 13.9% due mainly to the inclusion of audited profits of several banking

institutions. Meanwhile, the net NPL ratio based on 6-month classification remained at 5.9% as at end-January 2005.

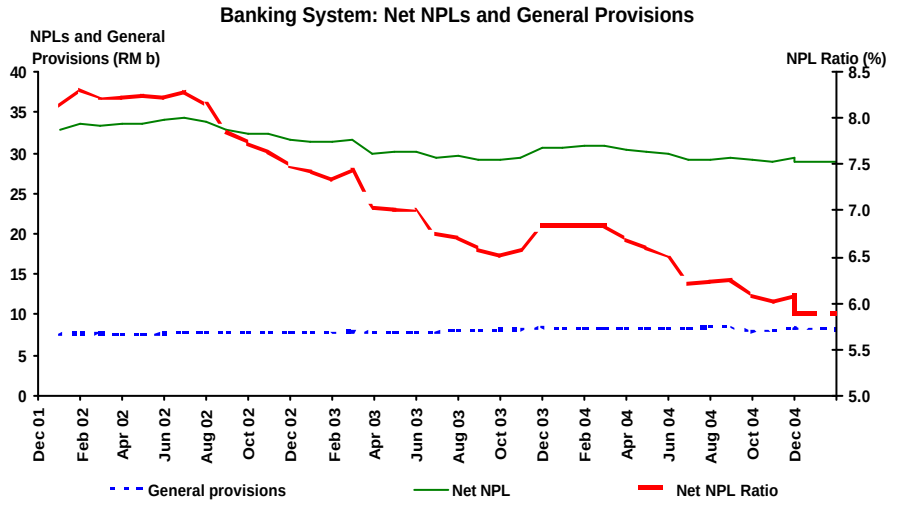
**Banking System Health Indicators** *

| | As at end- | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 | Nov 04 | Dec 04 | Jan 05 |
| **Capital (%)** | | | | | | | | |
| Core capital ratio | 10.1 | 10.7 | 11.1 | 11.1 | 11.1 | 10.9 | 10.8 | 10.8 |
| RWCR | 12.5 | 12.5 | 13.0 | 13.2 | 13.8 | 13.7 | 13.8 | 13.9 |
| **Net NPLs (6-month classification)** | | | | | | | | |
| % of net total loans | 6.4 | 6.3 | 6.9 | 7.5 | 6.8 | 6.1 | 5.9 | 5.9 |
| Amount (RM million) | 23,856 | 24,760 | 32,833 | 31,702 | 30,766 | 29,382 | 28,978 | 28,981 |
| **GP / Net total loans (6-month, %)** | 1.9 | 1.9 | 1.9 | 1.8 | 1.8 | 1.7 | 1.7 | 1.6 |

* Beginning June 1999 onwards, the figure include Islamic banks.




*Banking system capitalization sustained at healthy levels…*




*…. Net NPL ratio (6-month classification) remained unchanged*

**Bank Negara Malaysia**
**28 February 2005**

## Key Monetary and Financial Statistics

| | | Nov 04 | | Dec 04 | | Jan 05 | |
|---|---|---|---|---|---|---|---|
| | | Outs. | Ann. growth | Outs. | Ann. growth | Outs. | Ann. growth |
| | | (RM b) | (%) | (RM b) | (%) | (RM b) | (%) |
| **Monetary Aggregates** | | | | | | | |
| Reserve money | | 49.0 | 2.8 | 50.1 | 10.0 | 53.4 | 7.3 |
| M1 | | 111.4 | 11.7 | 114.3 | 11.9 | 119.6 | 15.5 |
| M2 | | 518.9 | 22.6 | 534.2 | 25.4 | 539.9 | 25.5 |
| M3 | | 604.5 | 10.3 | 617.7 | 12.4 | 624.2 | 12.5 |
| **Banking System** | | | | | | | |
| Total deposits | | 609.7 | 10.9 | 624.0 | 12.7 | 627.8 | 13.3 |
| Total loans (including loans sold to Cagamas) | | 507.1 | 6.7 | 514.0 | 8.5 | 513.8 | 8.0 |
| Loan-deposit ratio (%) | | 79.3 | | 78.6 | | 78.1 | |
| Financing-deposit ratio [1] (%) | | 88.7 | | 87.7 | | 87.2 | |
| Loans applied (during the period) | | 21.5 | 24.7 | 22.2 | 16.6 | 21.3 | 24.0 |
| Loans approved (during the period) | | 12.7 | 11.8 | 15.0 | 5.8 | 13.9 | 42.4 |
| Loans disbursed (during the period) | | 40.3 | 12.8 | 48.9 | 12.7 | 42.4 | 7.3 |
| Loans repaid (during the period) | | 37.7 | 5.5 | 42.2 | -7.6 | 43.3 | 11.8 |
| **Banking System Health** | | | | | | | |
| Risk-weighted Capital Ratio (RWCR) (%) | | 13.7 | | 13.8 | | 13.9 | |
| Net NPLs: 6-month classification (%) | | 6.1 | | 5.9 | | 5.9 | |
| **International Reserves of BNM (end-period)** | | | | | | | |
| Reserves in RM (billion) | | 239.2 | | 253.5 | | 264.6 | |
| Reserves in USD (billion) | | 63.0 | | 66.7 | | 69.6 | |
| Months of retained imports | | 7.6 | | 8.0 | | 8.3 | |
| **Interest Rates at end-period [average for the month]** | | | | | | | |
| Overnight Policy Rate (OPR) | | 2.70 | | 2.70 | | 2.70 | |
| Interbank: | Overnight | 2.67 [2.69] | | 2.69 [2.69] | | 2.70 [2.70] | |
| | 1-week | 2.70 [2.71] | | 2.72 [2.71] | | 2.73 [2.71] | |
| | 1-month | 2.78 [2.78] | | 2.77 [2.77] | | 2.78 [2.77] | |
| | 3-month | 2.80 [2.80] | | 2.80 [2.80] | | 2.79 [2.79] | |
| 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 | | 5.98 | | 5.98 | |
| **Prices** | | | | | | | |
| Consumer Price Index (CPI) (2000=100) | | 107.0 | 2.2 | 107.2 | 2.1 | 107.5 | 2.4 |
| Producer Price Index (PPI) (1989=100) | | 154.1 | 7.7 | 148.0 | 3.4 | n.a. | n.a. |
| **Exchange Rates of Ringgit against Selected Currencies (end-period)** | | | | | | | |
| Euro | | 5.0379 | | 5.1729 | | 4.9480 | |
| Pound Sterling | | 7.1786 | | 7.3169 | | 7.1617 | |
| 100 Japanese yen | | 3.6834 | | 3.7026 | | 3.6669 | |
| Singapore dollar | | 2.3147 | | 2.3258 | | 2.3175 | |
| 100 Thai Baht | | 9.6044 | | 9.7636 | | 9.8535 | |
| 100 Philippine Peso | | 6.7652 | | 6.7706 | | 6.8966 | |
| 100 Indonesian Rupiah | | 0.0421 | | 0.0408 | | 0.0415 | |
| 100 Korean Won | | 0.3627 | | 0.3671 | | 0.3698 | |
| **Capital Market** | | | | | | | |
| Net funds raised (in RMb) by: | public | … | | 5.0 | | 1.2 | |
| | private | 3.0 | | 0.7 | | 2.3 | |
| Bursa Malaysia Composite Index (end-period) | | 917.2 | | 907.4 | | 917.3 | |
| Bursa Malaysia Market Capitalisation (RMb, end-period) | | 723.0 | | 722.0 | | 731.7 | |

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