BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 05/04/30 (BN)

EMBARGO: Not for publication or broadcast before 1800 hours on Wednesday, 26 May 2004

Monetary and Financial Developments April 2004
Highlights of the Press Release

Bank lending continued to expand in April

Monetary indicators in April were reflective of the sustained expansion in private sector activities in an environment of low inflation. The forward-looking loan indicators, total loan applications and approvals, amounted to RM24.3 billion and RM16.1 billion respectively, and increased at annual rates of 32.5% and 23.7% respectively. Lending to small and medium enterprises (SMEs) also remained strong, with RM2.6 billion approved to 7,624 SME accounts during the month. Disbursements to SMEs amounted to RM7.8 billion, which represented an annual growth of 20.3%. Supported by expansionary external operations and an increase in bank loans, broad money supply, M3, continued to expand, at an annual growth rate of 10.9% at end-April.

The new interest rate framework, which was effective from 26 April 2004, has been well received by the market. The transition to the new framework has been smooth and within expectations. The interbank overnight rate traded within a narrow range of 2.68% – 2.80%, averaging 2.71% during the period 26 April – 25 May 2004. The base lending rate (BLR) of commercial banks (CBs), with the exception of one institution, remained unchanged at 6.00% while the BLR of finance companies (FCs) remained unchanged at 6.90%, as at 25 May 2004.

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MONETARY AND FINANCIAL DEVELOPMENTS APRIL 2004

Monetary indicators reflected the sustained expansion in private sector activities amid low inflation

Monetary indicators were reflective of the sustained expansion in private sector activities in April, amid low inflation. The forward-looking loan indicators, total loan applications and approvals, amounted to RM24.3 billion and RM16.1 billion respectively in April, and increased at annual rates of 32.5% and 23.7% respectively. Lending to small and medium enterprises (SMEs) remained strong, with RM2.6 billion approved to 7,624 SME accounts. Disbursements to SMEs amounted to RM7.8 billion, which represented an annual growth of 20.3%. The broad money supply, M3, grew by 10.9%, supported by expansionary external operations and an increase in bank loans.

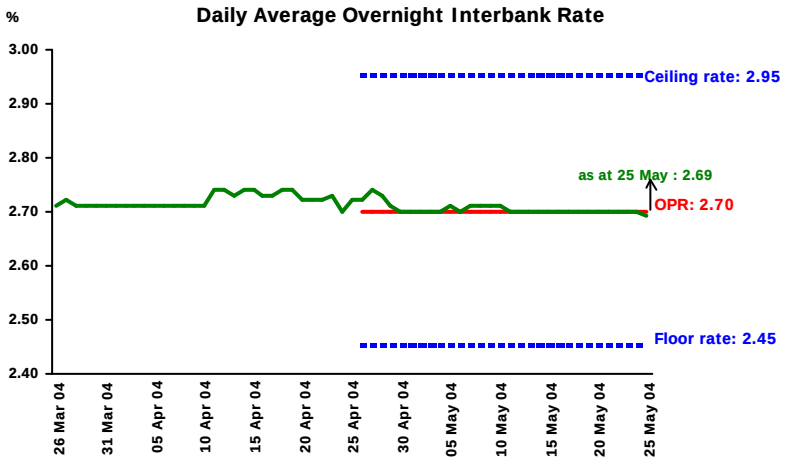
The banking system capitalisation remained high, with the RWCR at 13.6%, while the net non-performing loans (NPLs) ratio declined further to 6.6% as at end-April.

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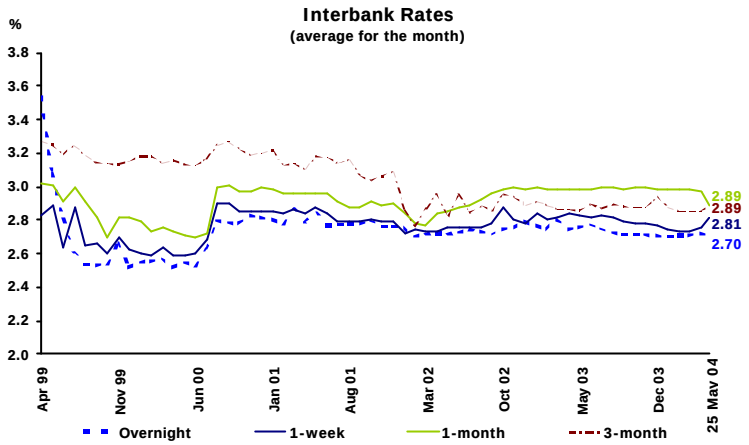
Smooth transition to the new interest rate framework

A significant development in the conduct of monetary policy was the implementation of the new interest rate framework on 26 April 2004. The changes introduced are aimed at enhancing the effectiveness of the monetary policy transmission mechanism and promoting more efficient pricing by banking institutions. Since 26 April 2004, the overnight policy rate (OPR) has replaced the 3-month intervention rate as the indicator of the monetary policy stance. The new framework represents a change in the system of implementing monetary policy. It does not represent a change in monetary policy. As such, the OPR remains at 2.70%.

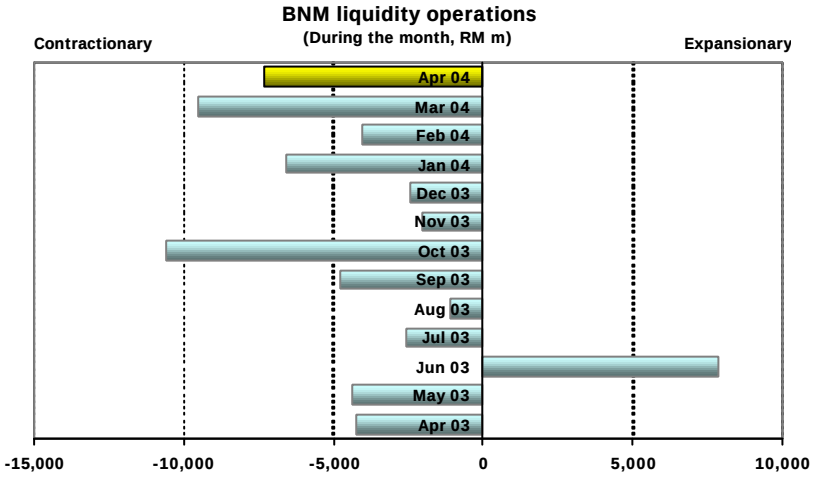
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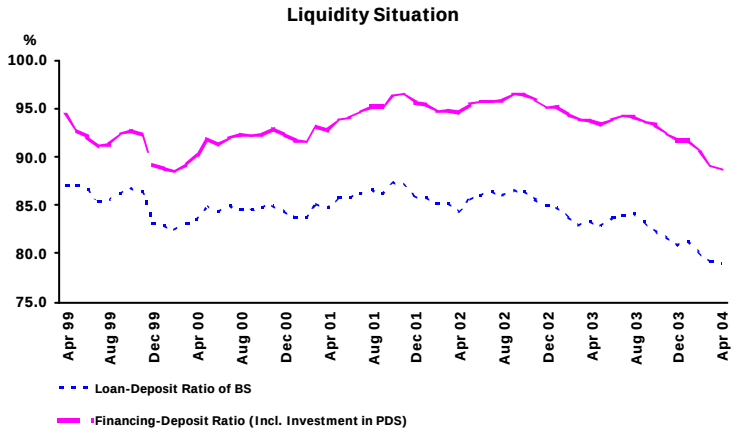
Overnight interbank rate traded within a narrow range



Interbank rates remained low

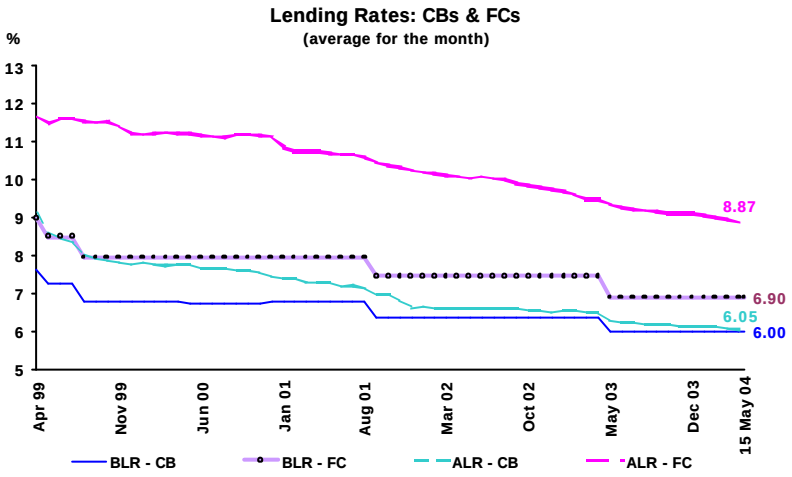


Bank Negara Malaysia absorbed additional liquidity to maintain stable monetary conditions



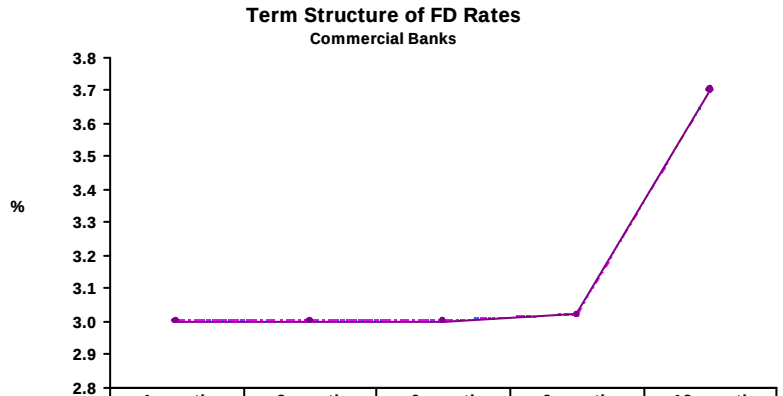
Continued increase in deposits led to a moderation in the financing-deposit ratio to 88.7%

Under the new interest rate framework, each banking institution would announce its own BLR based on its cost structure and business strategies. Since the introduction of the new interest rate framework, the BLR of commercial banks (CBs), with the exception of one institution, remained unchanged at 6.00% while the BLR of finance companies (FCs) remained unchanged at 6.90%, as at 25 May 2004. The average lending rates (ALRs) of the CBs and FCs, however, continued to decline, albeit marginally, to 6.05% and 8.87% respectively as at 30 April 2004, reflecting the larger proportion of new loans priced at lower lending rates.



ALRs of CBs and FCs declined

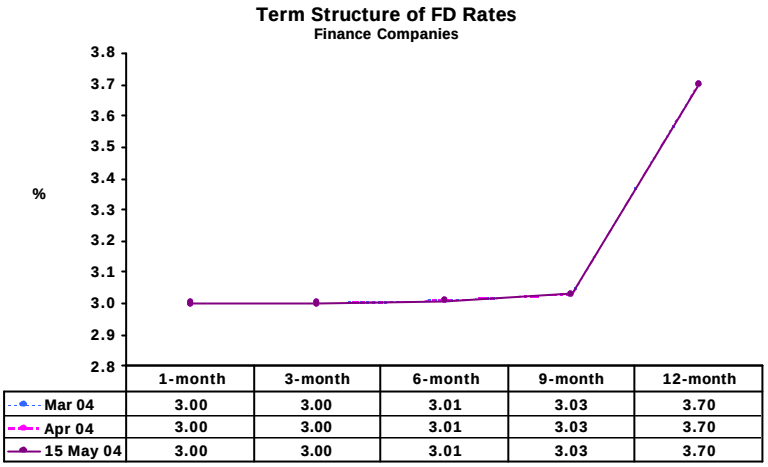
The fixed deposit rates of CBs and FCs have remained unchanged. Under the new interest rate framework, the minimum rates for fixed deposit balances of RM1 million and below have been prescribed at the prevailing levels of 3% for the one-month tenure and 3.70% for the 12-month tenure, to ensure depositors continue to earn a positive real rate of return.



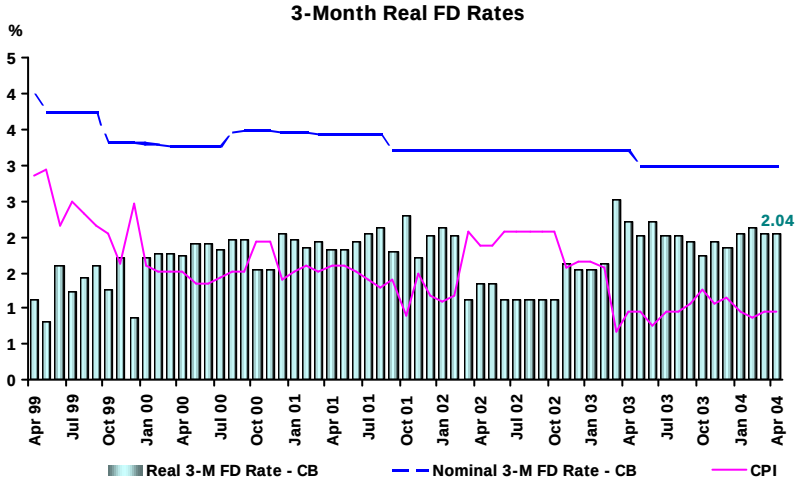
	1-month	3-month	6-month	9-month	12-month
Mar 04	3.00	3.00	3.00	3.02	3.70
Apr 04	3.00	3.00	3.00	3.02	3.70
15 May 04	3.00	3.00	3.00	3.02	3.70

FD rates of CBs unchanged

...similarly for FCs



	1-month	3-month	6-month	9-month	12-month
Mar 04	3.00	3.00	3.01	3.03	3.70
Apr 04	3.00	3.00	3.01	3.03	3.70
15 May 04	3.00	3.00	3.01	3.03	3.70



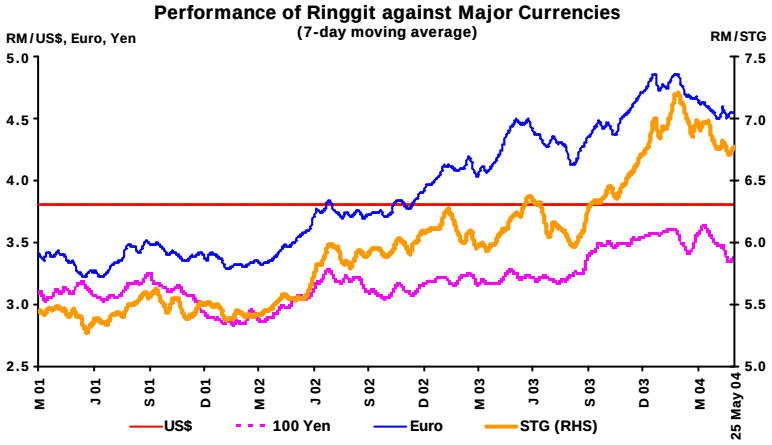
The 3-month real FD rate remained stable

Performance of the ringgit

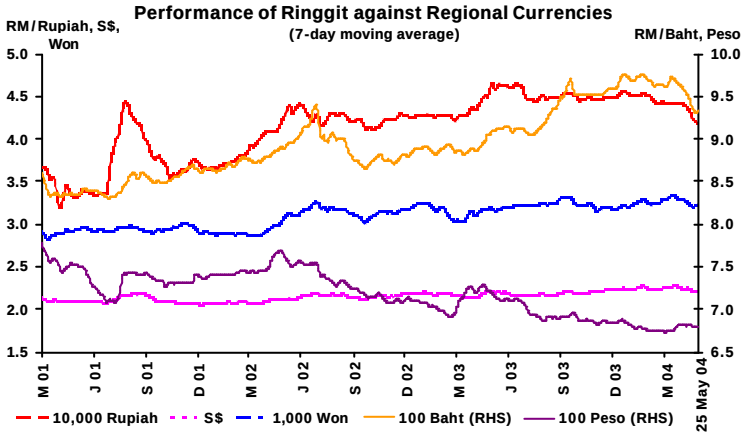
In April, the ringgit appreciated against the major currencies as the US dollar gained strength, supported by favourable economic data and market expectations of a sooner-than-expected increase in US interest rates. The ringgit also appreciated against most regional currencies, reflecting the stronger US dollar and concerns over the impact of potentially slower growth in China on the regional economies. On the other hand, the ringgit depreciated against the Philippine peso following favourable political developments in the Philippines in the lead-up to the elections in May.

In the period 1 – 25 May, the US dollar was mixed against the major currencies. Economic data signalling better US economic performance supported the US dollar in the early part of the month. However, higher oil prices and expectations that the Federal Reserve will be cautious in changes to the policy rate weighed down

the US dollar's performance against the euro and pound sterling in the third week of May. The US dollar also depreciated against the pound sterling, fuelled by expectations of a further increase in interest rates by the Bank of England. Regional currencies continued to be negatively affected by concerns over high oil prices and its impact on inflation, as well as the impact on regional growth arising from measures to moderate economic overheating in China.



The ringgit was mixed against the major currencies...



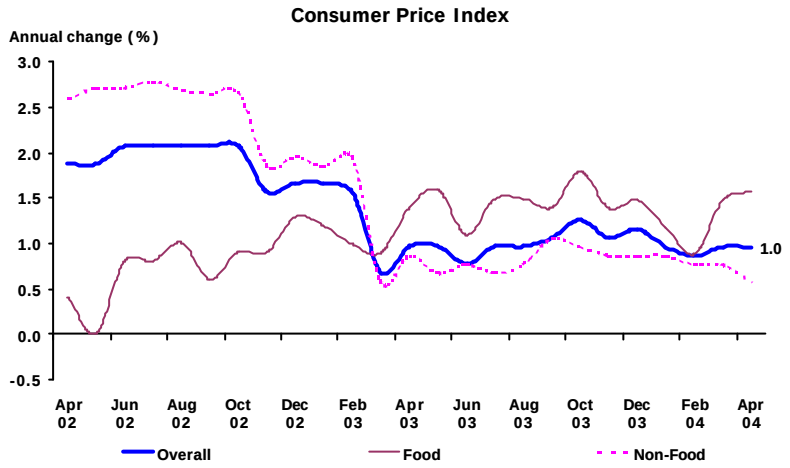
...but appreciated against most regional currencies

Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period			% Change			
	02 Sep 98	Apr 04	25 May 04	Apr 04	End Apr 04 - 25 May 04	End Dec 03 - 25 May 04	02 Sep 98 - 25 May 04
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.5496	4.5667	2.3	-0.4	4.6	-
Pound Sterling	6.3708	6.7480	6.8090	3.2	-0.9	-0.6	-6.4
100 Japanese yen	2.7742	3.4475	3.3613	5.4	2.6	5.7	-17.5
Singapore dollar	2.1998	2.2303	2.2097	1.5	0.9	1.1	-0.4
100 Thai baht	9.3713	9.4988	9.3103	1.3	2.0	3.1	0.7
100 Philippine peso	8.8302	6.7833	6.7912	-0.4	-0.1	0.8	30.0
100 Indonesian Rupiah	0.0354	0.0437	0.0411	1.2	6.4	9.2	-13.9
100 Korean won	0.2827	0.3237	0.3226	2.2	0.3	-1.4	-12.4

Inflation remained low

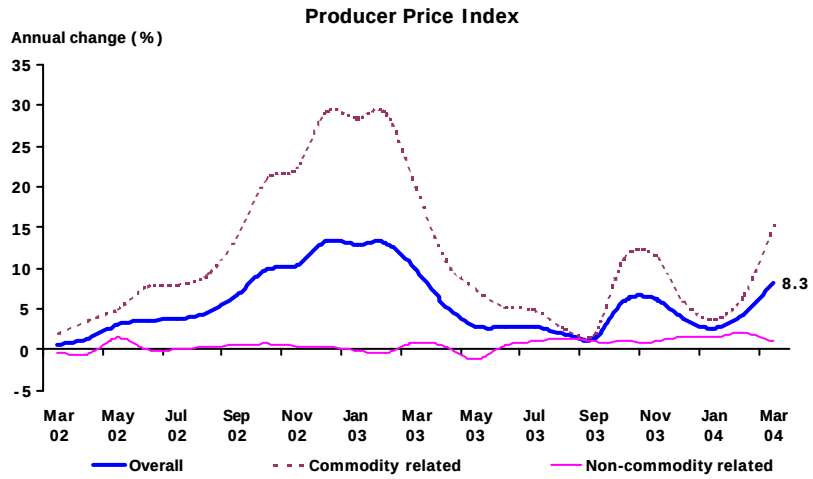
The annual rate of inflation, as measured by the Consumer Price Index (CPI, 2000=100), remained low and stable at 1% in April (1% in March). Higher food prices were moderated by the declines in the prices for clothing and footwear as well as transport and communication.



Inflation rate remained low and stable at 1%

Producer prices increased

The Producer Price Index (PPI, 1989=100) increased at an annual rate of 8.3% in March, reflecting mainly higher commodity prices, in particular prices of rubber, crude palm oil and crude oil. Excluding commodity-related products, the adjusted PPI increased at a slower annual rate of 1% (2% in February).

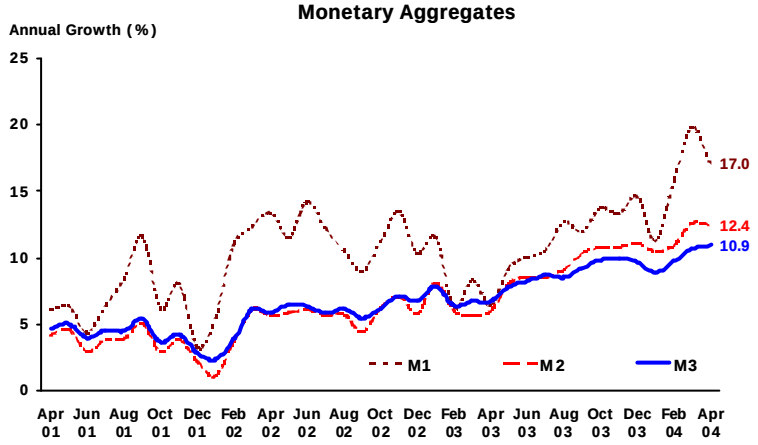


Producer prices increased due to higher commodity prices

Broad money M3 continued to expand

The expansionary external operations and increase in bank lending activities contributed to the further expansion of broad money M3, which increased by RM3.8 billion in April. On an annual basis, the growth rates of all three monetary aggregates remained high with M1, M2 and M3 growing by 17%, 12.4% and 10.9% respectively. M1 growth remained strong, reflecting continued demand for transaction balances amidst strong household spending and retail trade activities.

Monetary Aggregates



The growth rates of all three monetary aggregates remained high...

M3 Determinants

(RM billion)

	Change during period			
	Feb 04	**Mar 04**	**Apr 04**	**Jan - Apr 04**
M3	5.9	8.0	3.8	22.9
Net claims on Government	-5.9	-1.9	1.0	-5.0
Claims on the private sector	1.8	1.5	0.1	3.9
Loans	*2.2*	*1.5*	*1.6*	*7.2*
Securities	*-0.4*	*-0.1*	*-1.4*	*-3.3*
Net external operations *	9.3	11.4	4.5	37.8
Other influences	0.7	-2.9	-1.8	-13.8

* Pre-revaluation

Private sector deposits increased further

Private sector deposits increased further in April, reflecting higher fixed deposit placements by business enterprises and individuals. Total deposits with the banking system increased by RM3.9 billion or an annual rate of 11.5% (10.9% in March). Demand deposits nevertheless, declined by RM3.6 billion, suggesting some shift of funds to interest-earning deposits.

Deposits by Holder

(RM million)

	Change during period			
	Feb 04	Mar 04	Apr 04	Jan - Apr 04
Federal Government	-37	925	-773	-418
State Governments	298	227	65	336
Statutory Authorities [1]	371	-557	-1,030	-2,242
Financial Institutions	1,736	2,555	1,699	5,289
Business Enterprises	2,896	4,902	2,654	9,583
Individuals	2,220	2,234	1,342	9,882
Others [2]	731	834	-73	988
Total	8,215	11,121	3,883	23,418

1/ Include local Governments

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

Higher placements of deposits by both business enterprises and individuals...

Deposits by Type

(RM million)

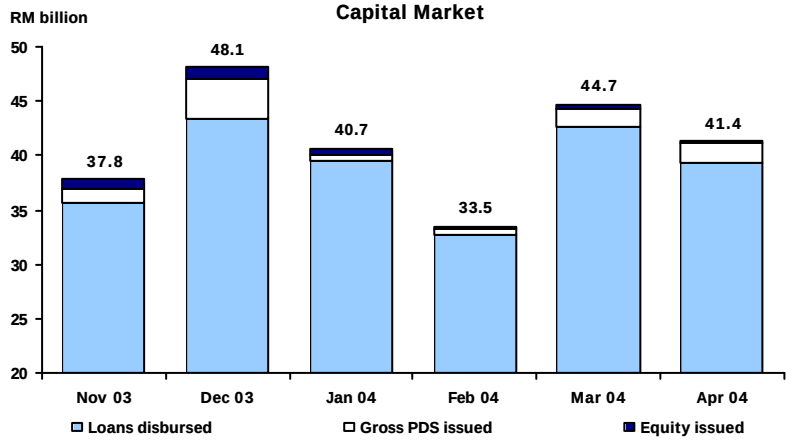
	Change during period			
	Feb 04	Mar 04	Apr 04	Jan - Apr 04
Fixed deposits	5,151	639	5,228	13,504
NIDs	-400	1,938	2,398	2,736
Demand deposits	1,781	1,804	-3,584	-1,559
Savings deposits	593	57	-19	2,235
Repos	-843	5,207	-98	4,791
FX deposits	409	-627	728	-458
SPI deposits	1,033	1,553	-889	1,214
Others	491	548	119	954
Total	8,215	11,121	3,883	23,418

... mainly in the form of fixed deposits

Private sector financing remained high

The favourable monetary environment with low borrowing costs amidst sustained domestic demand led to continued high gross financing of the private sector. Total financing by the banking system and through the capital market remained at a high level, amounting to RM41.4 billion in April.

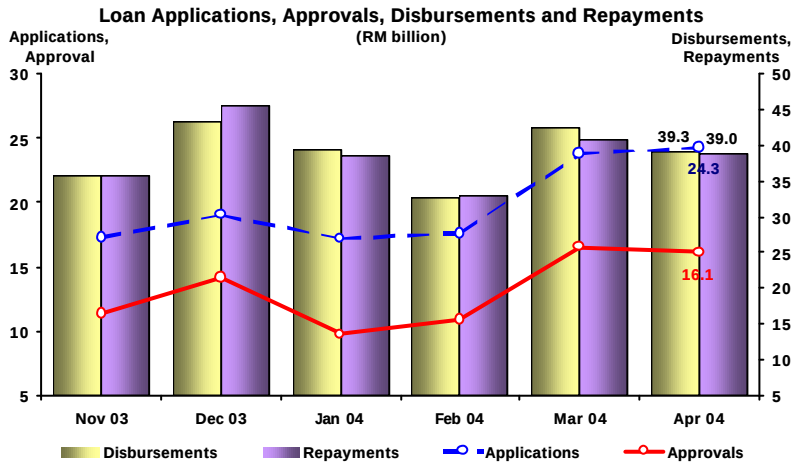
Gross Private Sector Financing through Banking System and Capital Market



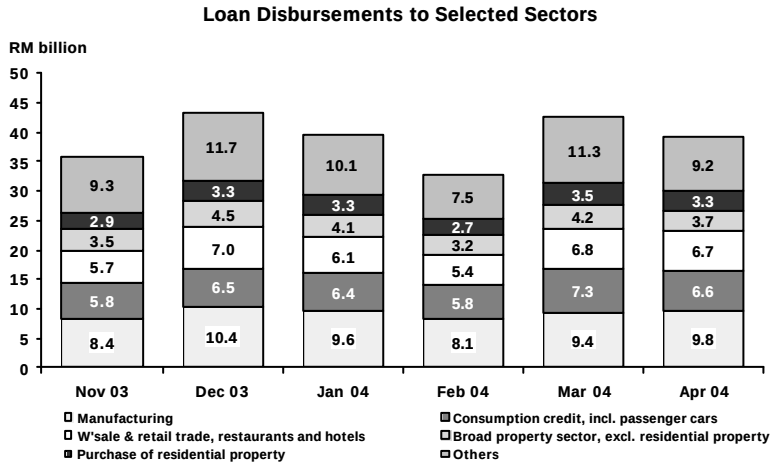
Gross financing of the private sector remained at a high level

Reflecting rising business and consumer confidence, the loan indicators continued to grow at a healthy pace in April. In the banking system, total loan disbursements remained at a high level of RM39.3 billion, growing by 12.2% on an annual basis. Total loans outstanding increased by RM1.3 billion in April to record a growth of 5.6% on an annual basis (5.7% at end-March). Disbursements to the SMEs grew at an annual rate of 20.3%, amounting to RM7.8 billion. Continued high repayments by the SMEs led to loans outstanding to SMEs recording a lower annual growth rate of 4.6% (5.3% at end-March).

The two forward-looking loan indicators, total loan applications and approvals, amounted to RM24.3 billion and RM16.1 billion respectively, and grew at annual rates of 32.5% and 23.7% respectively. Loan approvals to SMEs also expanded strongly by 29.5%. A total of RM2.6 billion was approved to 7,624 SME accounts in April.



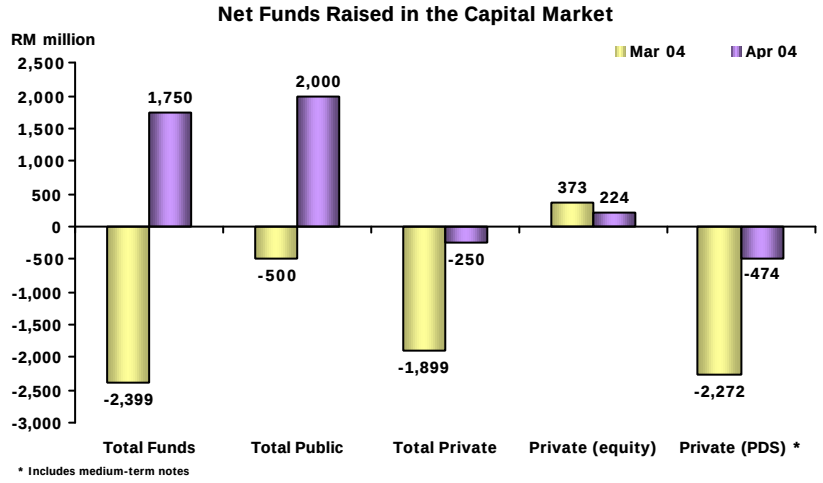
All major banking system loan indicators remained high in April



Loans disbursed were broad based

Sustained new issues of private debt securities

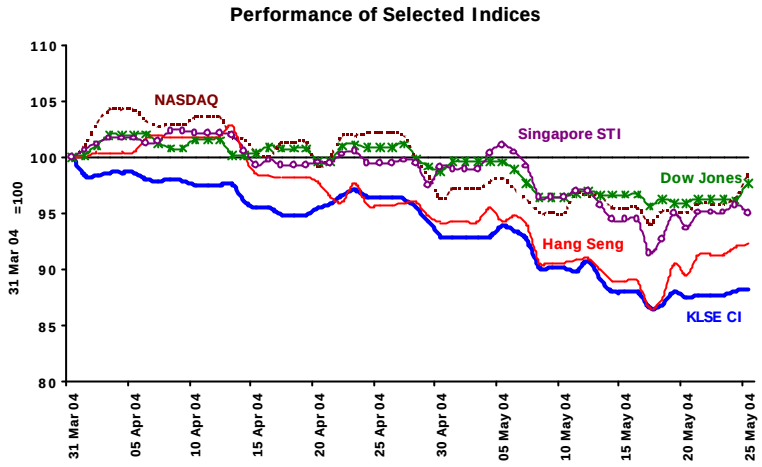
Net funds raised in the capital market were higher in April, amounting to RM1.8 billion. Funds raised through new issues of private debt securities amounted to RM2.2 billion. Financing for new activities accounted for one-third of total funds raised. On a net basis, the private debt securities market recorded a redemption of RM0.5 billion. Meanwhile, the Government raised RM2 billion from the new issue of 10-year MGS. Funds raised in the equity market amounted to RM224 million mainly through rights issues (RM90.1 million) and four initial public offerings (RM87.2 million).



On a net basis, funds raised from the capital market was higher

In line with global and regional developments, the KLSE CI declined by 7.1% to 838.21 points at end-April compared with end-March. During the month, sentiment on the KLSE was affected by concerns over a resurgence of Severe Acute Respiratory Syndrome (SARS) cases in China, unrest in southern Thailand and the impact of potentially slower growth in China on the regional economies. Market capitalisation was lower at RM 685.55 billion (-5.3% since end-March) and daily average turnover for the month was also lower at 374.40 million units.

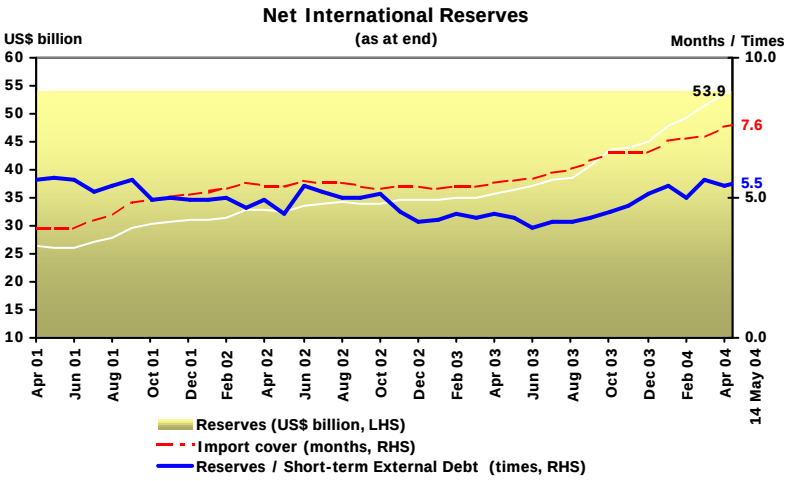
In the period 1-25 May, the decline in the KLSE CI was reflective of developments abroad including concerns over the prospects of a rise in US interest rates and the impact of higher oil prices on the global economy. The KLSE CI closed at 796.48 points on 25 May (-5% since end-April). Market capitalisation was lower at RM642.27 billion (-6.3% since end-April), although the daily average turnover during the period was higher at 375.75 million units.



As with other major bourses, the KLSE CI traded lower affected mainly by expectations of higher interest rates in the US in the near term

International reserves increased further

The international reserves of Bank Negara Malaysia increased by RM7.8 billion or US$2.1 billion in April to RM202.9 billion or US$53.4 billion as at 30 April 2004. The increase in reserves during the month of April was due mainly to sustained repatriation of export earnings, inflows of portfolio funds and foreign direct investment, and drawdown of external loans. Outflows during the period reflected mainly payments for imports of goods and services, repatriation of dividends and remittances for overseas investments. The reserves increased further to RM204.7 billion or US$53.9 billion as at 14 May 2004, adequate to finance 7.6 months of retained imports and is 5.5 times the short-term external debt.



Increase in reserves was due mainly to sustained repatriation of export earnings, inflow of portfolio funds and foreign direct investment, and net drawdown of external loans

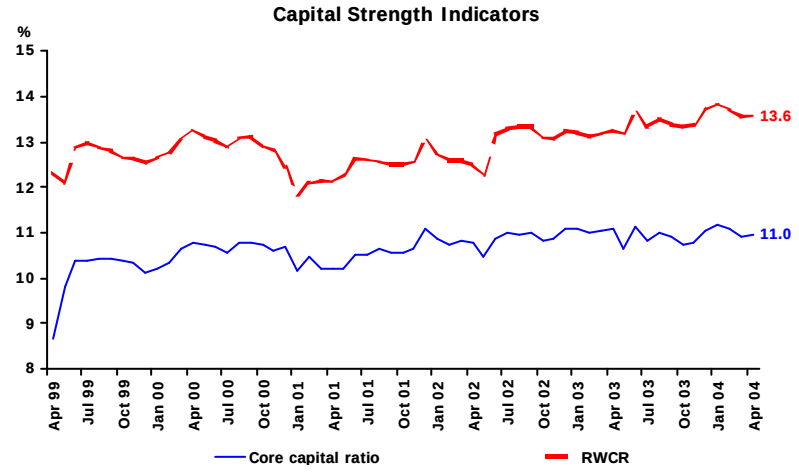
Improved capitalisation and asset quality

The risk-weighted capital ratio (RWCR) and core capital ratio of the banking system strengthened to 13.6% and 11% respectively following the expansion in the capital base of several banking institutions. The amount of net non-performing loans (NPLs) based on the 6-month classification declined by RM0.5 billion and the net NPL ratio improved to 6.6%.

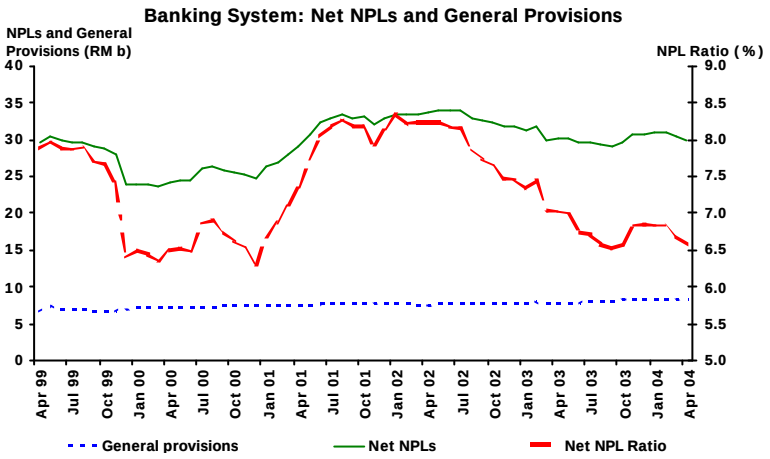
Banking System Health Indicators*

	As at end-								
	1998	**1999**	**2000**	**2001**	**2002**	**2003**	**Feb 04**	**Mar 04**	**Apr 04**
Capital (%)									
Core capital ratio	8.7	10.1	10.7	11.1	11.1	11.1	11.1	10.9	11.0
RWCR	11.8	12.5	12.5	13.0	13.2	13.7	13.7	13.5	13.6
Net NPLs (6-month classification)									
% of net total loans	8.1	6.4	6.3	8.1	7.5	6.8	6.8	6.7	6.6
Amount (RM million)	31,675	23,849	24,700	32,775	31,703	30,765	30,941	30,443	29,970
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.8

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



RWCR and core capital ratio strengthened to 13.6% and 11% respectively



Net NPL ratio (6-month classification improved to 6.6%

Bank Negara Malaysia
26 May 2004

Key Monetary and Banking Statistics

		Feb 04		Mar 04		Apr 04	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		47.3	8.9	47.0	9.0	47.5	11.1
M1		103.4	15.8	105.9	19.8	102.4	17.0
M2		433.0	11.0	439.7	12.6	443.3	12.4
M3		560.7	9.7	568.7	10.7	572.5	10.9
Banking System							
Total deposits		562.2	9.6	573.4	10.9	577.2	11.5
Total loans (including loans sold to Cagamas)		477.2	5.1	479.1	5.7	480.4	5.6
Loan-deposit ratio (%)		80.1		79.2		79.0	
Financing-deposit ratio [1] (%)		90.5		89.2		88.7	
Loans applied (during the period)		17.6	12.8	23.8	24.9	24.3	32.5
Loans approved (during the period)		10.9	17.3	16.5	27.6	16.1	23.7
Loans disbursed (during the period)		32.8	19.7	42.6	21.6	39.3	12.2
Loans repaid (during the period)		32.9	17.4	40.9	14.5	39.0	12.7
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.7		13.5		13.6	
Net NPLs: 6-month classification (%)		6.8		6.7		6.6	
International Reserves of BNM (end-period)							
Reserves in RM (billion)		187.1		195.1		202.9	
Reserves in USD (billion)		49.2		51.3		53.4	
Months of retained imports		7.1		7.2		7.5	
Interest Rates at end-period [average for the month]							
Interbank:	Overnight	2.70 [2.71]		2.71 [2.71]		2.70 [2.72]	
	1-week	2.79 [2.73]		2.77 [2.74]		2.84 [2.76]	
	1-month	2.98 [2.99]		2.97 [2.98]		2.89 [2.97]	
	3-month	2.85 [2.85]		2.85 [2.85]		2.85 [2.85]	
Fixed deposits of commercial banks:	1-month	3.00 [3.00]		3.00 [3.00]		3.00 [3.00]	
	3-month	3.00 [3.00]		3.00 [3.00]		3.00 [3.00]	
BLR of commercial banks		6.00 [6.00]		6.00 [6.00]		6.00 [6.00]	
ALR of commercial banks		6.13		6.10		6.05	
Prices							
Consumer Price Index (CPI) (2000=100)		105.1	0.9	105.0	1.0	105.2	1.0
Producer Price Index (PPI) (1989=100)		146.8	4.4	150.0	8.3		
Exchange Rates of Ringgit against Selected Currencies (end-period)							
Euro		4.7297		4.6522		4.5496	
Pound Sterling		7.0819		6.9667		6.7480	
100 Japanese yen		3.4703		3.6334		3.4475	
Singapore dollar		2.2311		2.2633		2.2303	
100 Thai Baht		9.6594		9.6239		9.4988	
100 Philippine Peso		6.7466		6.7580		6.7833	
100 Indonesian Rupiah		0.0449		0.0442		0.0437	
100 Korean Won		0.3227		0.3308		0.3237	
Capital Market							
Net funds raised (in RMb) by:	public	6.0		-0.5		2.0	
	private	0.3		-1.9		-0.2	
Bursa Malaysia Composite Index (end-period)		879.2		901.9		838.2	
Bursa Malaysia Market Capitalisation (RMb, end-period)		713.4		724.2		685.6	

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