BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 12/04/45 (BN)

EMBARGO: Not for publication or broadcast before 1700 hours on Tuesday, 28 December 2004

Monetary and Financial Developments in November 2004
Highlights of the Press Release

Robust financing activity in November

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Within the business sector, bank lending to the SMEs continued to grow strongly, with loan applications, loan approvals, loan disbursements and loans outstanding to the SMEs expanding at annual rates of 57.6%, 30.8%, 10.7% and 7.3% respectively as at end-November. A total of RM2.5 billion was approved to 8,316 SME accounts.

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MONETARY AND FINANCIAL DEVELOPMENTS NOVEMBER 2004

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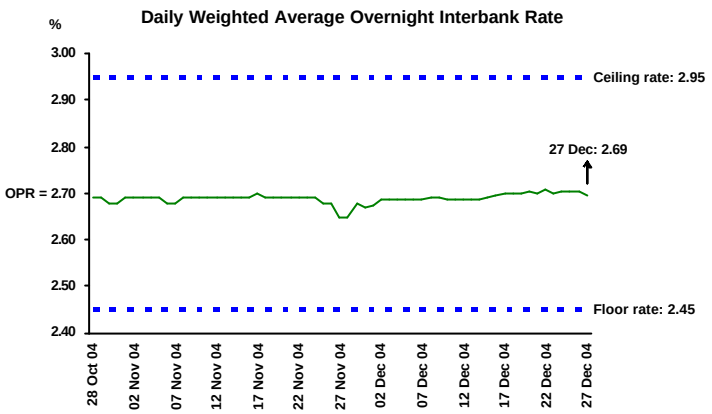
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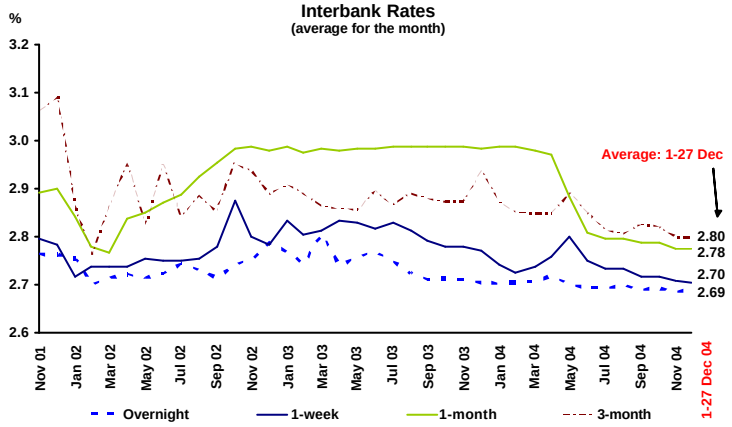
Meanwhile, the banking system continued to remain strong, with the RWCR at 13.7% and net NPL ratio at 6.1% as at end-November 2004.

Interest rates remained low

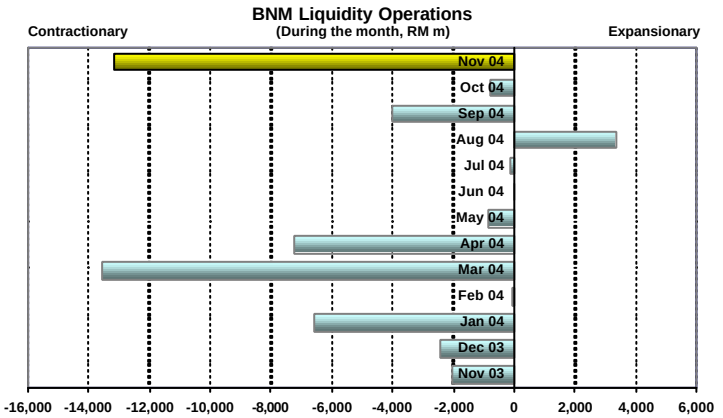
In the period 1 November – 27 December, the daily weighted average of the overnight interbank rate moved within a narrow range of 2.65 – 2.71%, averaging at 2.69%.



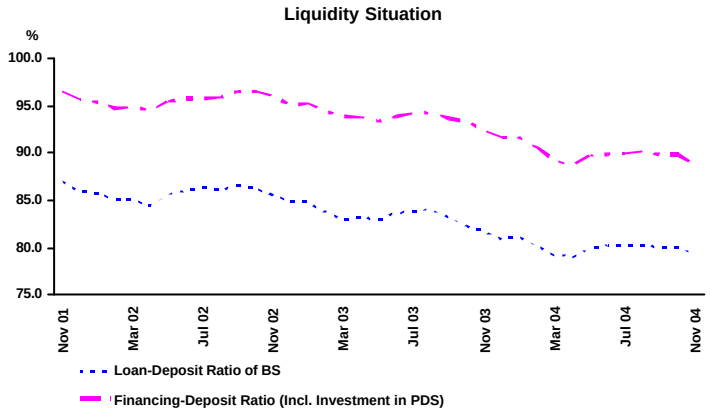
The overnight interbank rate remained stable



Other interbank rates also remained stable

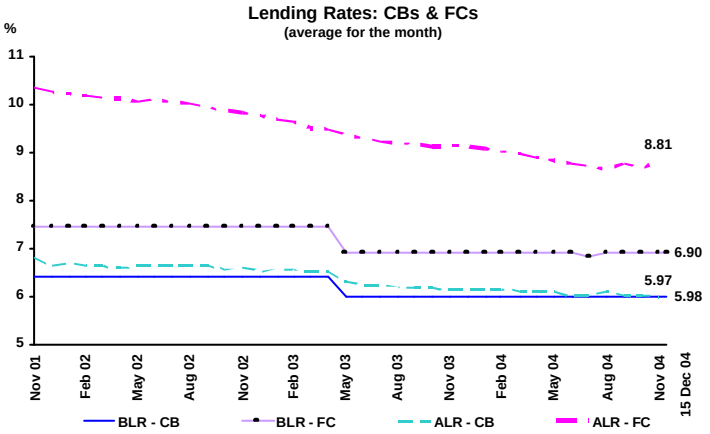


Liquidity operations were contractionary in November to offset the expansionary impact of external operations

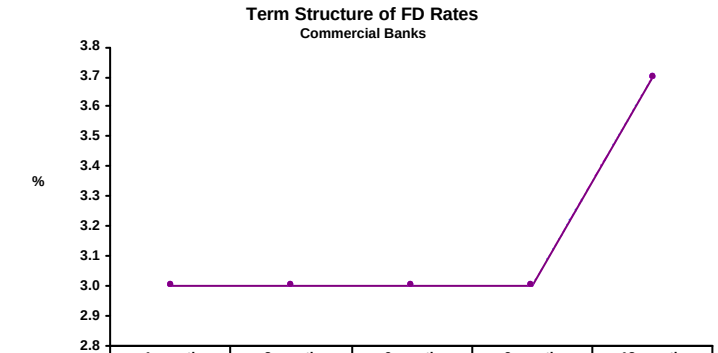


The financing-deposit ratio stood at 88.7%

The average base lending rates (BLRs) of commercial banks (CBs) and finance companies (FCs) remained unchanged at 5.98% and 6.90% respectively at end-November. The average lending rate (ALR) of the CBs declined by 4 basis points to 5.97%. The ALR of the FCs increased to 8.81% (8.65% at end-October) due mainly to the exclusion of a finance company with a lower than average ALR, following its merger with its commercial bank.

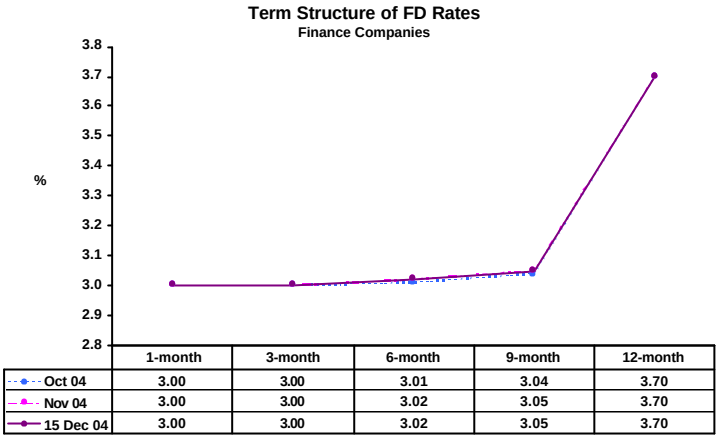


ALR of the CBs declined while ALR of the FCs increased



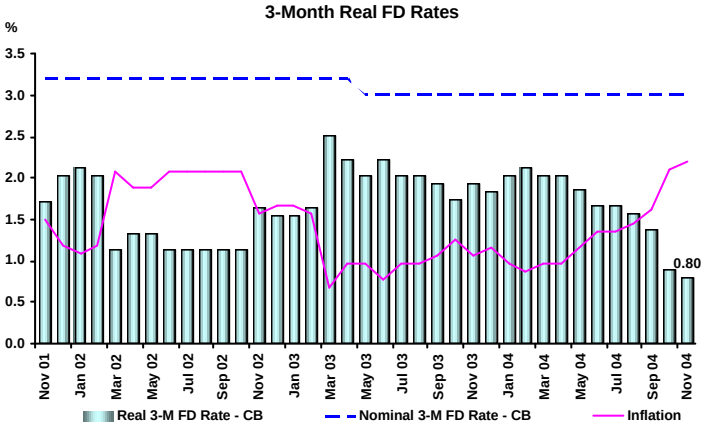
	1-month	3-month	6-month	9-month	12-month
Oct 04	3.00	3.00	3.00	3.00	3.70
Nov 04	3.00	3.00	3.00	3.00	3.70
15 Dec 04	3.00	3.00	3.00	3.00	3.70

FD rates of CBs remained unchanged



	1-month	3-month	6-month	9-month	12-month
Oct 04	3.00	3.00	3.01	3.04	3.70
Nov 04	3.00	3.00	3.02	3.05	3.70
15 Dec 04	3.00	3.00	3.02	3.05	3.70

FD rates of FCs remained stable

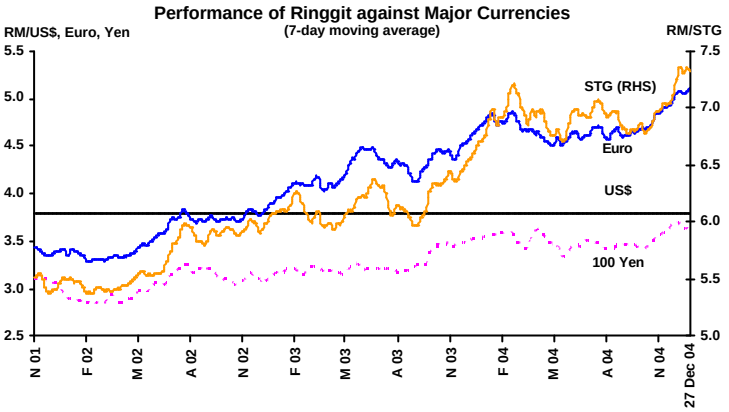


The 3-month real FD rate remained positive

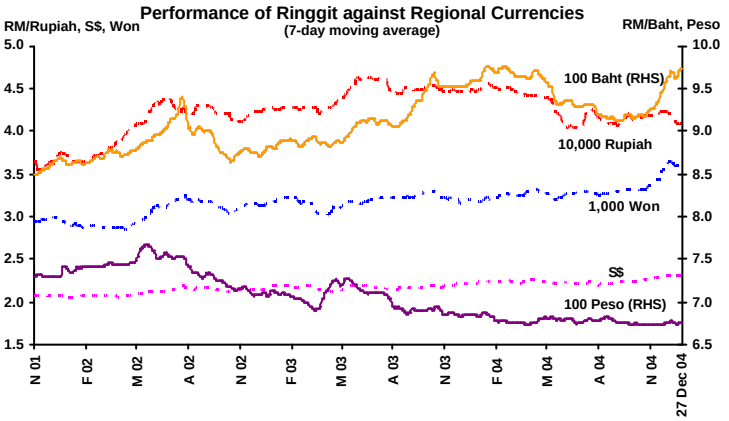
Performance of the ringgit

In November, the ringgit depreciated against the major and regional currencies. The appreciation of these currencies largely reflected the depreciation of the US dollar, associated with market concerns over the growing US current account and fiscal deficits and the ability of the US to fund these deficits through foreign capital inflows.

In the 1–27 December period, the performance of the ringgit was mixed against the major and regional currencies. The pound sterling rose to its historical high of $1.9455 against the USD on 21 December. The euro also rose to its historical high of $1.3536 against the USD on 27 December. The strengthening of these currencies was due mostly to negative sentiments on the dollar given the worsening US current account deficit, which was compounded by the lower than expected US job growth for November. The US dollar however, appreciated against the yen following the low Japanese economic growth in the third quarter.



In the period 1-27 December, the performance of the ringgit was mixed against the major and regional currencies

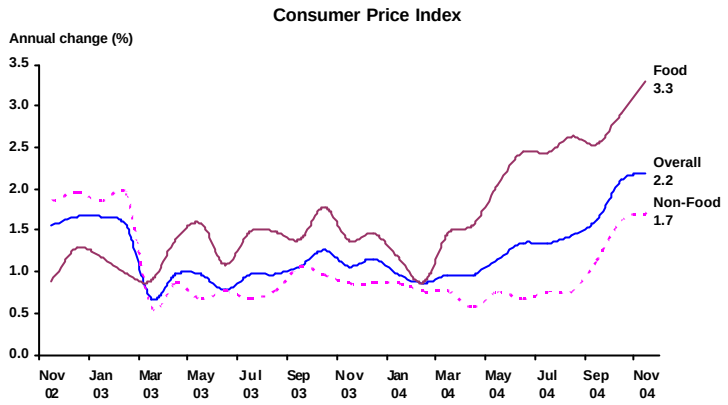


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period			% Change			
	02 Sep 98	Nov 04	27 Dec 04	Nov 04	End Nov 04 - 27 Dec 04	End Dec 03 - 27 Dec 04	02 Sep 98 - 27 Dec 04
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	5.0379	5.1437	-3.9	-2.1	-7.1	-
Pound Sterling	6.3708	7.1786	7.3101	-3.0	-1.8	-7.4	-12.8
100 Japanese yen	2.7742	3.6834	3.6641	-2.8	0.5	-3.0	-24.3
Singapore dollar	2.1998	2.3147	2.3128	-1.2	0.1	-3.4	-4.9
100 Thai baht	9.3713	9.6044	9.7137	-3.5	-1.1	-1.2	-3.5
100 Philippine peso	8.8302	6.7652	6.7767	-0.3	-0.2	1.0	30.3
100 Indonesian Rupiah	0.0354	0.0421	0.0409	-0.8	3.1	9.8	-13.4
100 Korean won	0.2827	0.3627	0.3626	-6.6	0.0	-12.3	-22.0

Inflation edged up

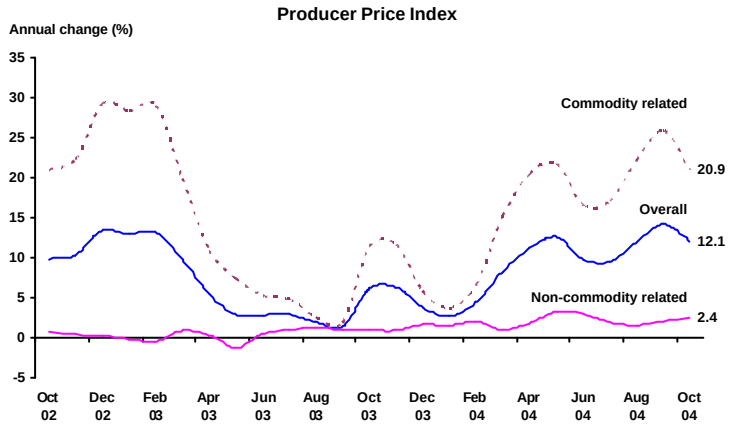
The annual inflation rate, as measured by the Consumer Price Index (CPI, 2000=100), edged up to 2.2% in November (2.1% in October), mainly on account of higher prices of food, including meat prices, consequent upon the festive activities during the month. The average annual inflation rate for the first eleven months of 2004 was 1.3% (1.1% in January-November 2003).



November CPI at 2.2%

Annual growth rate of producer prices moderated

The annual growth rate of the Producer Price Index (PPI, 1989=100) moderated in October to 12.1% (14.1% in September), due mainly to the moderation in crude palm oil prices. Excluding commodity-related products, the non-commodity related PPI increased at annual rate of 2.4% (2% in September).

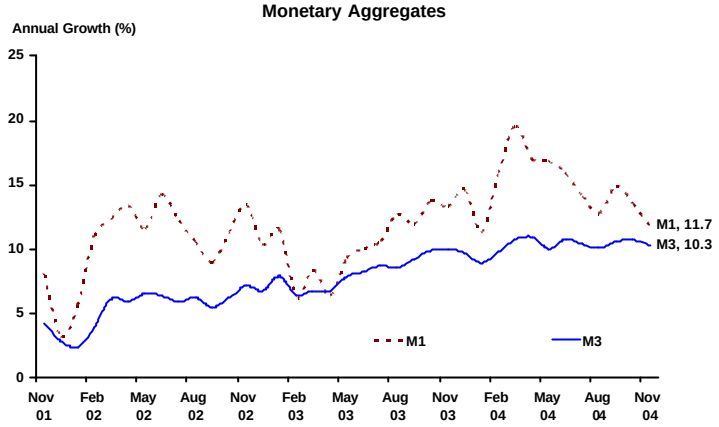


The annual growth rate of PPI moderated

Money growth remained strong

Narrow money, M1, expanded at an annual rate of 11.7% at end-November (13.5% in October), reflecting sustained consumption. Broad money, M3, grew at an annual rate of 10.3% at end-November (10.7% at end-October). On a monthly basis, the increase in M3 of RM6 billion reflected the expansionary external operations and the increase in bank financing.

Monetary Aggregates



Money growth remained strong

M3 Determinants
(RM billion)

	Change during period			
	Sep 04	**Oct 04**	**Nov 04**	**Jan - Nov 04**
M3	8.6	6.6	6.0	54.9
Net claims on Government	-3.4	-1.8	-0.2	-12.5
Claims on the private sector	7.2	0.4	0.4	27.0
Loans	*6.3*	*1.7*	*3.1*	*33.3*
Securities	*1.0*	*-1.3*	*-2.7*	*-6.3*
Net external operations *	9.2	11.0	11.7	74.0
Other influences	-4.4	-3.0	-5.9	-33.6

* Pre-revaluation

Higher growth in banking system deposits

Total deposits mobilised by the banking system increased by RM9.7 billion during the month, due mainly to the higher deposit placements by financial institutions in the form of repos. On an annual basis, total banking system deposits increased by 10.9% at end-November (10.2% at end-October).

Deposits by Holder
(RM million)

	Change during period			
	Sep 04	**Oct 04**	**Nov 04**	**Jan - Nov 04**
Federal Government	451	-614	1,014	345
State Governments	-276	-171	-210	309
Statutory Authorities [1]	497	-539	-980	-4,331
Financial Institutions	3,265	-784	3,634	14,729
Business Enterprises	4,810	3,032	2,909	25,002
Individuals	730	1,550	2,486	16,246
Others [2]	815	645	821	3,617
Total	10,292	3,119	9,675	55,916

1/ Include local Governments

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

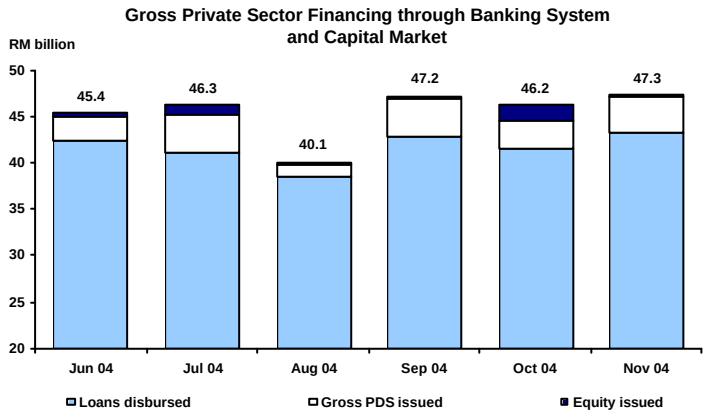
Financial institutions were the main contributors to the increase in banking system deposits

Deposits by Type
(RM million)

	Change during period			
	Sep 04	Oct 04	Nov 04	Jan - Nov 04
Fixed deposits	1,047	-2,445	-2,079	9,866
NIDs	2,762	-189	1,773	8,869
Demand deposits	716	-88	3,008	5,859
Savings deposits	-4	138	976	2,765
Repos	-68	3,882	4,293	13,006
FX deposits	2,809	697	-470	2,950
SPI deposits	2,410	1,734	1,845	10,405
Others	620	-610	330	2,196
Total	10,292	3,119	9,675	55,916

Robust financing to the private sector in November

In November, total gross financing extended to the private sector by the banking system and the capital market remained robust. The financing amounted to RM47.3 billion, or an annual growth rate of 24.9%. Stronger loan disbursements and higher PDS issuance contributed to the higher private sector financing during the month. On a net basis, total financing of the private sector (banking system loans and PDS outstanding) grew at a higher annual rate of 8.3% (8% at end-October).



Financing to the private sector remained robust

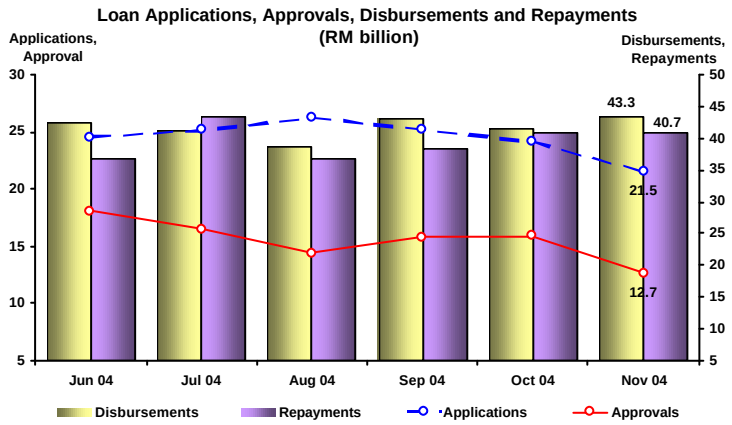
On an annual basis, all the major loan indicators recorded growth in November. The two forward-looking loan indicators, total loan applications and loan approvals, grew at annual rates of 24.6% and 11.8% respectively. Similarly, loan disbursements increased by 21.3% on an annual basis. This contributed to the 6.7% annual growth in total loans outstanding of the banking system at end-November (6.4% at end-October).

Bank lending to the business sector was sustained in November. Loan disbursements to businesses increased at an annual rate of 24.5% in November

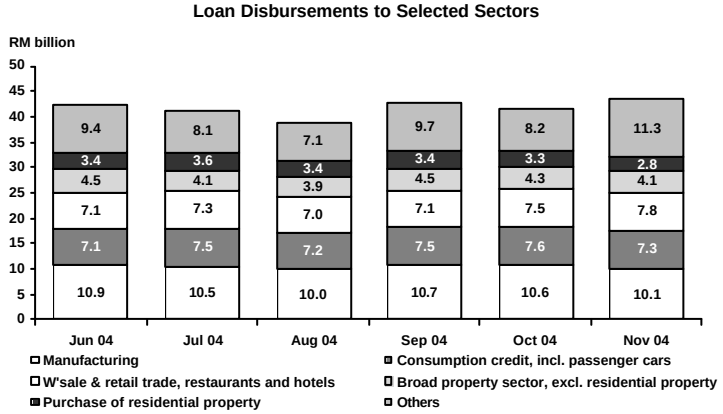
(-2% in October). Sustained demand for bank financing by businesses was also evident in the total business loan applications, which increased at annual rate of 36.9% during the month.

Within the business sector, bank lending to SMEs continued to expand. The demand for funds by SMEs, as reflected in their loan applications, expanded significantly by 57.6% on an annual basis in November. Loan approvals to SMEs were also higher, increasing at an annual rate of 30.8%, with RM2.5 billion approved to 8,316 SME accounts. Following the 10.7% annual growth in loan disbursements to SMEs, loans outstanding to SMEs expanded by 7.3% on an annual basis at end-November.

Reflecting continued consumer spending, lending to the household sector was sustained in November. Household loan disbursements expanded by 12.8% on an annual basis, while household loan applications and approvals grew at annual rates of 10.3% and 20.3% respectively. Consequently, loans outstanding to the household sector expanded by 14.2% on an annual basis.



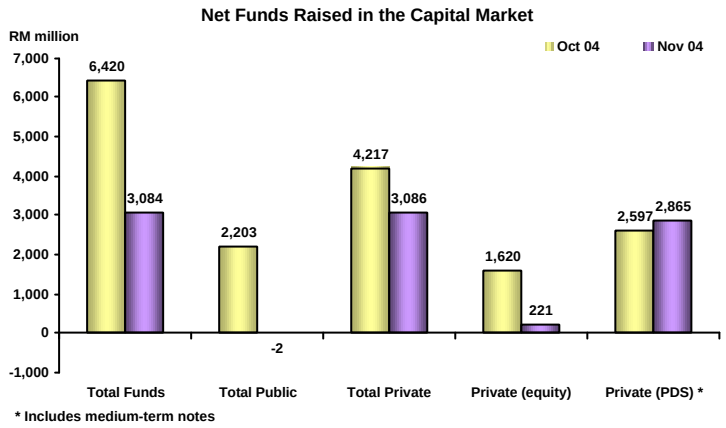
All major loan indicators were sustained in November



High level of loans disbursed across all sectors

Higher PDS issuance in November

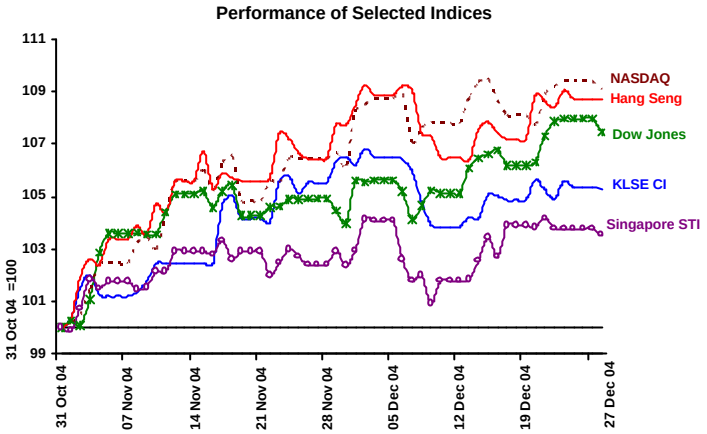
In November, net funds raised in the capital market amounted to RM3.1 billion, reflecting largely funds raised by the private sector through debt issuance (RM2.9 billion). The bulk (80%) of the gross funds raised in the PDS market were to finance new activities. In the equity market, there were four initial public offerings (IPOs) amounting to RM221 million (10 IPOs amounting to RM1.6 billion in October).



Funds raised in November were mainly by the private sector

The KLSE CI closed higher at 917.19 at end-November (+6.5% since end-October) following improved market sentiment, particularly as crude oil prices declined. Market capitalisation was higher at RM723 billion (+7.2% since end-October), while the daily average turnover for the month was higher at 543 million units (330.8 million units in October).

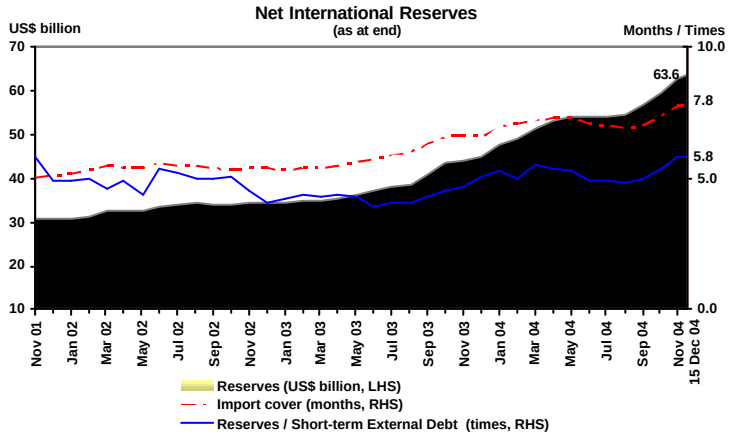
In the period 1 - 27 December, the KLSE CI closed lower at 906.89 on 27 December (-1.1% since end-November) due to profit-taking. In the absence of fresh leads, market capitalisation was lower at RM716.7 billion (-0.9% since end-November) while the daily average turnover for the period was also lower at 476.3 million units.



KLSE CI closed higher

International reserves increased further

The international reserves of Bank Negara Malaysia increased to RM239.2 billion or US$63 billion as at 30 November 2004. The increase of RM13.3 billion (US$3.5 billion) in November was supported mainly by sustained repatriation of export earnings, inflows of portfolio funds and foreign direct investment. Outflows reflected mainly payments for imports of goods and services, the repatriation of dividends, overseas investments by Malaysian companies and external loan repayments. The reserves increased further to RM241.8 billion (US$63.6 billion) as at 15 December 2004. The reserves position was adequate to finance 7.8 months of retained imports and was 5.8 times the short-term external debt.



Reserves increased further

Capitalisation and asset quality remain strong

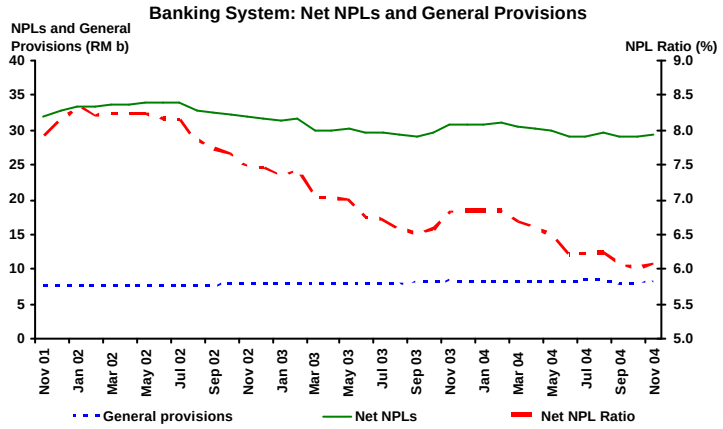
The risk-weighted capital ratio (RWCR) and core capital ratio of the banking system remained strong at 13.7% and 10.9% respectively, despite recording a

marginal decline, as risk weighted assets growth outpaced the expansion of the banking system's capital base. Meanwhile, net NPL ratio based on 6-month classification stood at 6.1% as at end November 2004.

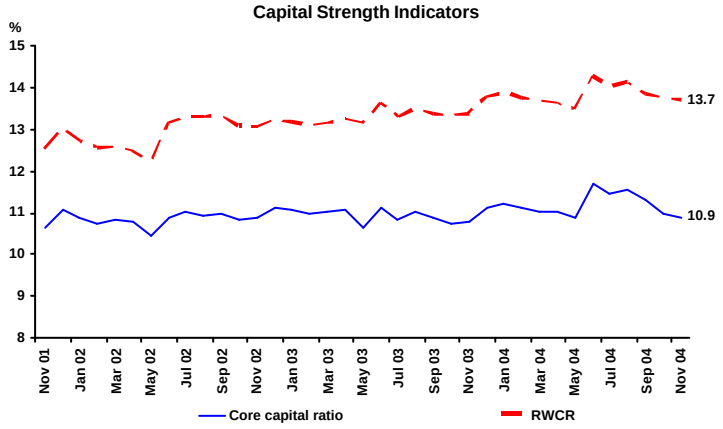
Banking System Health Indicators *

	As at end-							
	1999	**2000**	**2001**	**2002**	**2003**	**Sep 04**	**Oct 04**	**Nov 04**
Capital (%)								
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.3	11.0	10.9
RWCR	12.5	12.5	13.0	13.2	13.8	13.9	13.8	13.7
Net NPLs (6-month classification)								
% of net total loans	6.4	6.3	8.1	7.5	6.8	6.1	6.0	6.1
Amount (RM million)	23,849	24,700	32,833	31,703	30,766	29,107	28,964	29,385
GP / Net total loans (6-month, %)	1.9	1.9	1.9	1.8	1.8	1.6	1.7	1.7

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



Net NPL ratio (6-month classification) stood at 6.1%



RWCR and core capital ratio declined marginally to 13.7% and 10.9% respectively

Bank Negara Malaysia
28 December 2004

Key Monetary and Financial Statistics

		Sep 04		Oct 04		Nov 04	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		47.1	5.8	50.0	12.3	49.0	2.8
M1		107.4	14.9	109.3	13.5	111.4	11.7
M2		483.5	17.9	503.3	21.0	518.9	22.6
M3		592.0	10.6	598.6	10.7	604.5	10.3
Banking System							
Total deposits		597.0	11.1	600.1	10.2	609.7	10.9
Total loans (including loans sold to Cagamas)		501.9	6.2	504.4	6.4	507.1	6.7
Loan-deposit ratio (%)		80.1		80.0		79.3	
Financing-deposit ratio [1] (%)		89.8		89.9		88.7	
Loans applied (during the period)		25.2	35.5	24.1	23.8	21.5	24.6
Loans approved (during the period)		15.8	20.0	15.9	18.2	12.7	11.8
Loans disbursed (during the period)		42.9	13.1	41.5	-0.1	43.3	21.3
Loans repaid (during the period)		38.4	3.6	40.8	-1.6	40.7	14.0
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.9		13.8		13.7	
Net NPLs: 6-month classification (%)		6.1		6.0		6.1	
International Reserves of BNM (end-period)							
Reserves in RM (billion)		216.1		225.9		239.2	
Reserves in USD (billion)		56.9		59.5		63.0	
Months of retained imports		7.0		7.4		7.8	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		2.70		2.70		2.70	
Interbank:	Overnight	2.69 [2.69]		2.68 [2.69]		2.67 [2.69]	
	1-week	2.73 [2.72]		2.70 [2.72]		2.70 [2.71]	
	1-month	2.75 [2.79]		2.78 [2.79]		2.78 [2.78]	
	3-month	2.83 [2.83]		2.82 [2.82]		2.80 [2.80]	
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		6.01		6.01		5.97	
Prices							
Consumer Price Index (CPI) (2000=100)		106.2	1.6	106.8	2.1	107.0	2.2
Producer Price Index (PPI) (1989=100)		155.2	14.1	157.8	12.1	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
Euro		4.6826		4.8431		5.0379	
Pound Sterling		6.8347		6.9607		7.1786	
100 Japanese yen		3.4264		3.5800		3.6834	
Singapore dollar		2.2475		2.2868		2.3147	
100 Thai Baht		9.1644		9.2672		9.6044	
100 Philippine Peso		6.7517		6.7451		6.7652	
100 Indonesian Rupiah		0.0414		0.0418		0.0421	
100 Korean Won		0.3295		0.3389		0.3627	
Capital Market							
Net funds raised (in RMb) by:	public	3.2		2.2		…	
	private	3.6		4.2		3.1	
Bursa Malaysia Composite Index (end-period)		850.0		861.1		917.2	
Bursa Malaysia Market Capitalisation (RMb, end-period)		672.6		674.3		723.0	

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