BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PEN : 05/03/56 (BN)

EMBARGO: Not for publication or broadcast before 2040 hours on Wednesday, 28 May 2003

Highlights of the April 2003 Press Release

Private sector financing activity remained resilient in April

Monetary conditions remained stable in April. Bank lending activity remained resilient with loan approvals, applications and disbursements remaining at high levels. In particular, lending to the small and medium sized enterprises (SMEs) increased by RM641 million, accounting for about 40% of the increase in loans outstanding extended by the banking institutions.

In an external environment in which the recovery in the global economy is expected to be more modest than earlier expected, as a pre-emptive measure, Bank Negara Malaysia reduced the 3-month Intervention Rate by 50 basis points to 4.5% on 21 May 2003. The ceiling base lending rate (BLR) for the commercial banks and the finance companies will accordingly decline to 6% and 6.94%, from 6.42% and 7.46% respectively. As at 27 May, the average BLR for both commercial banks and finance companies were 6% and 6.90% respectively. The lower lending rates, complements other supporting measures announced in the Package of New Strategies. The cumulative measures are expected to strengthen the growth prospects of the economy. Increased disposable incomes and the reduced cost of operations are expected to enhance confidence and allow the economy to achieve its potential growth.

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PRESS RELEASE
MONETARY AND FINANCIAL DEVELOPMENTS
APRIL 2003

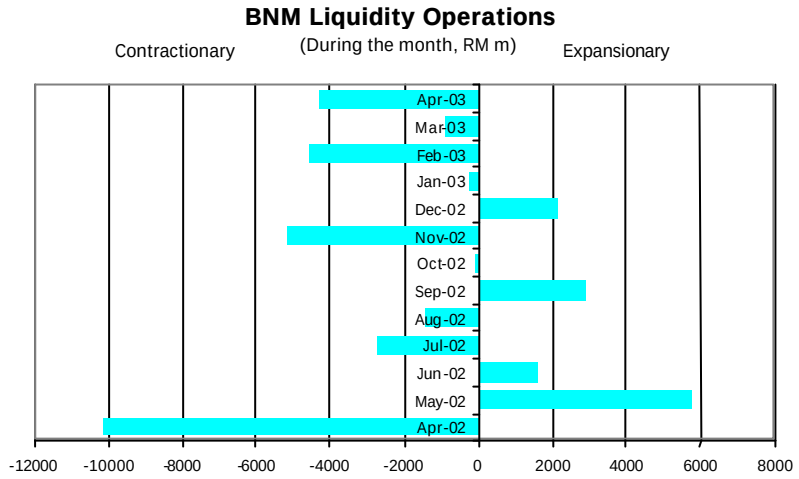
Private sector financing activity remained resilient in April

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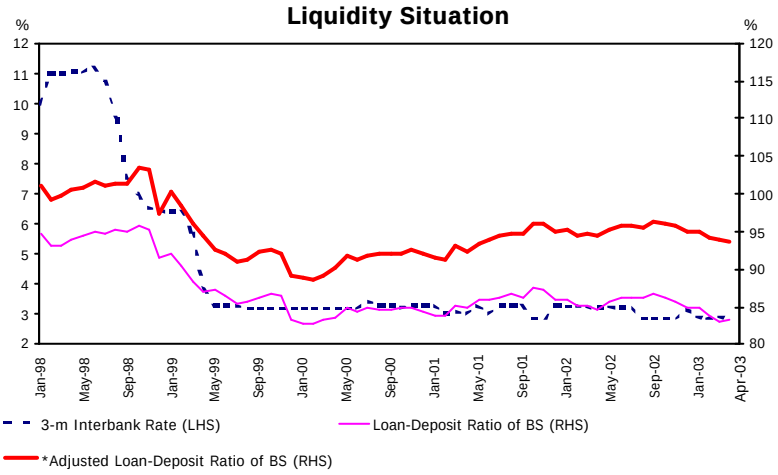
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Interest rates remained low, the 3-month Intervention Rate was reduced by 50 basis points on 21 May 2003 to 4.5%

In April, liquidity conditions in the money market remained stable. BNM liquidity operations were aimed to offset the increase in liquidity emanating from the Government and external operations. The loan-deposit ratio including private debt securities held by the banking system was 93.7%.

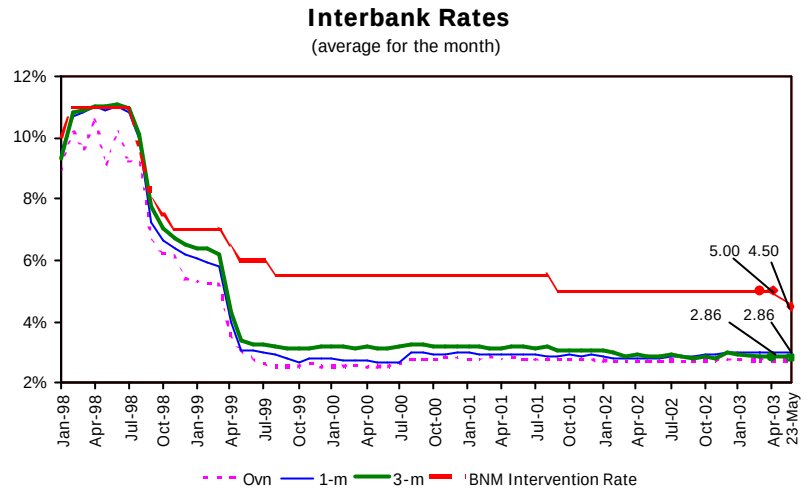


BNM liquidity operations offset the increase in liquidity arising from the Government and external operations



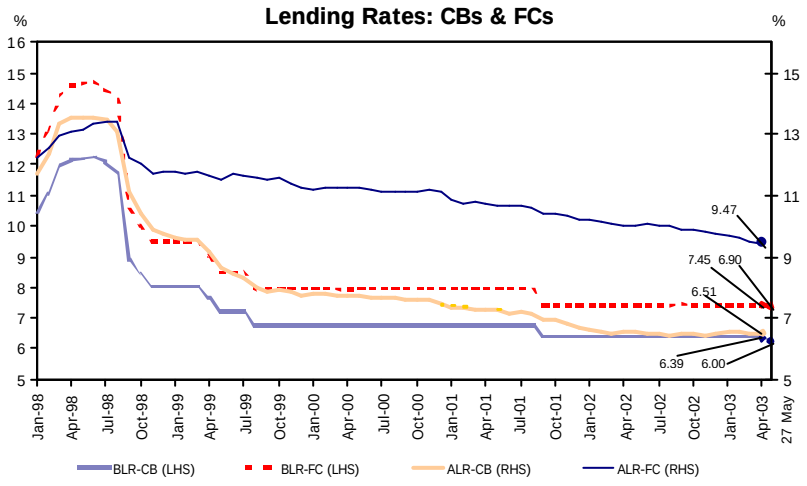
*Adjusted Loan-Deposit Ratio includes BS investment in private debt securities

The loan-deposit ratio including private debt securities held by the banking system was 93.7%



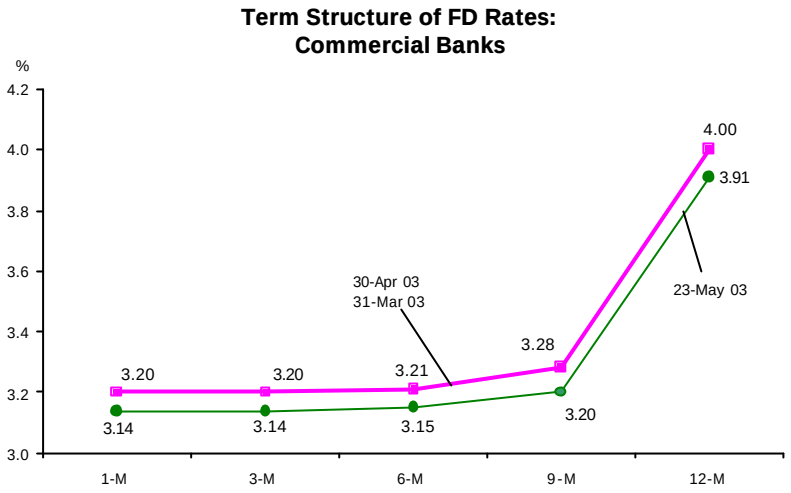
The Intervention Rate was reduced by 50 basis points to 4.5% on 21 May. The interbank money market rates continued to remain stable

The **average lending rate (ALR)** of the commercial banks (CBs) and finance companies (FCs) remained stable at 6.51% and 9.47% respectively as at end-April (March: 6.50% and 9.49%). The average **BLR** of both institutions remained unchanged in April. On 21 May, the 3-month Intervention Rate was reduced by 50 basis points to 4.5%. The ceiling BLR is expected to decline by 42 basis points and 52 basis points respectively for CBs and FCs. As at 27 May, the average BLR of CBs has declined to 6% from 6.39%, while that of FCs declined to 6.90% from 7.45%.

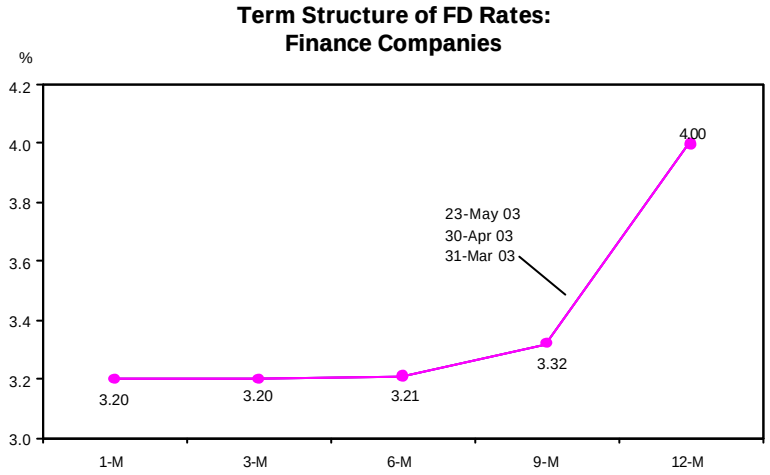


BLR of CBs and FCs declined in May following the reduction in the Intervention Rate

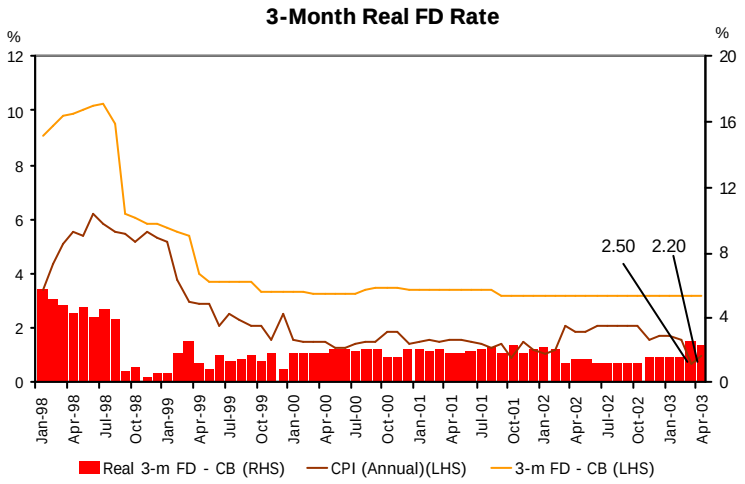
As at 23 May, the **term structure of fixed deposit rates** of CBs adjusted in response to the reduction in the policy rate.



The term structure of quoted fixed deposit of CBs has declined



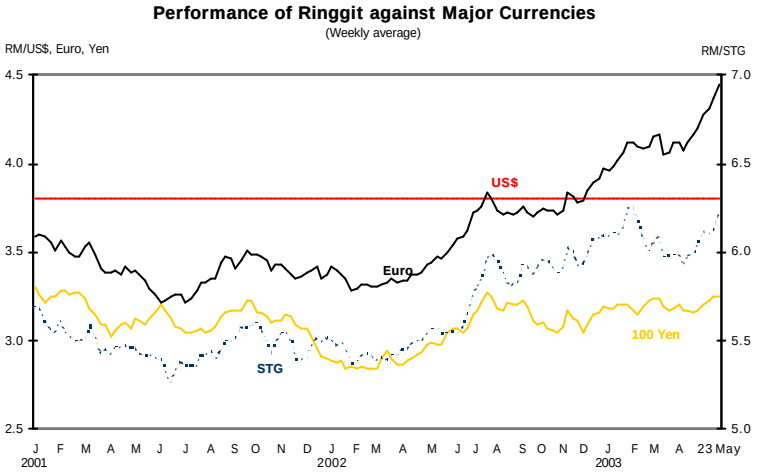
...while FCs remained unchanged



The real 3-month FD was marginally lower at 2.2% in April

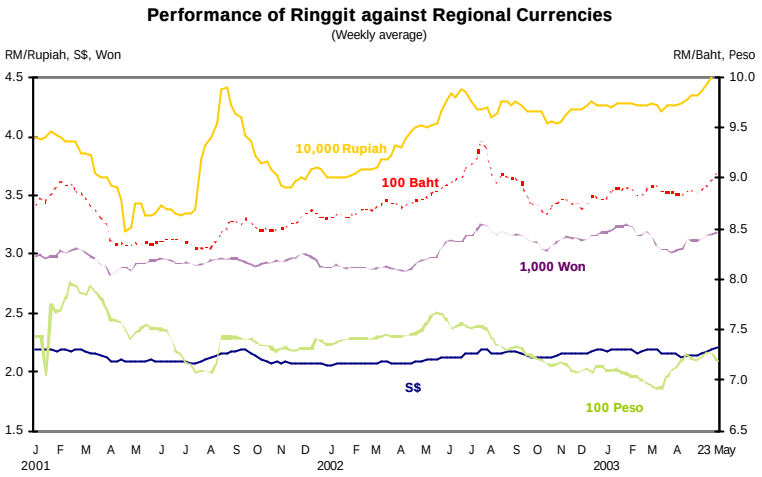
Performance of ringgit

In April, **the ringgit depreciated against the major currencies.** In tandem with the movement of the US dollar in the international foreign exchange markets, the ringgit depreciated against the euro, the pound sterling and the Japanese yen by 2.6%, 1.2% and 0.1%, respectively. The US dollar weakened following outflows into higher-yielding currencies, in particular, the euro.



The ringgit depreciated against major currencies in April.

The ringgit depreciated against most regional currencies in the range of 0.1% - 3.5%, while appreciating against the Singapore dollar by 0.5%. Regional currencies gained from a relief rally towards the end of April when the World Health Organisation noted that the worst of the SARs outbreak was over in some countries. The Korean won appreciated due to strong stock market performance, technical factors, and the softening of tension in the conflict in North Asia. The Singapore dollar, however, weakened following market speculation that the authorities would tolerate a weaker currency in the light of less favourable economic conditions.



The ringgit depreciated against most regional currencies.

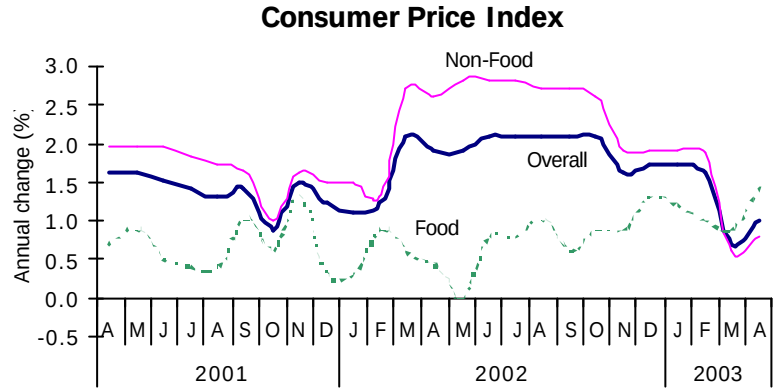
In the period **1 – 23 May 2003**, the ringgit depreciated against the major and regional currencies. In line with the further weakening of the US dollar, the ringgit depreciated against the euro by 4.8%, against the pound sterling by 2.3% and against the Japanese yen by 1.8%. Concerns over the weakness of the US economy resulted in market expectations of a possible lowering of US interest rates. In contrast, the euro resumed its upward trend, rising to a new four-year high on 21 May, supported by higher yields on euro denominated assets relative to US dollar assets. The ringgit meanwhile depreciated against most regional currencies in the range of 1.8%-4.2%, while appreciating against the Philippine peso by 0.5%.

Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-Apr. 2003	23 May 2003	% Change			
				April 2003	End-Apr. - 23 May 2003	End-2002 - 23 May 2003	2 Sep. 1998 - 23 May 2003
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.2231	4.4382	-2.6	-4.8	-10.3	-
Pound Sterling	6.3708	6.0627	6.2045	-1.2	-2.3	-1.8	2.7
100 Japanese yen	2.7742	3.1807	3.2383	-0.1	-1.8	-1.1	-14.3
Singapore dollar	2.1998	2.1421	2.2070	0.5	-2.9	-0.8	-0.3
100 Thai baht	9.3713	8.8692	9.0509	-0.1	-2.0	-2.7	3.5
100 Philippine peso	8.8302	7.2264	7.1925	-1.8	0.5	-0.6	22.8
100 Indonesian Rupiah	0.0354	0.0438	0.0457	-2.5	-4.2	-7.0	-22.5
100 Korean won	0.2827	0.3130	0.3186	-3.5	-1.8	0.3	-11.3

Inflation increased in April

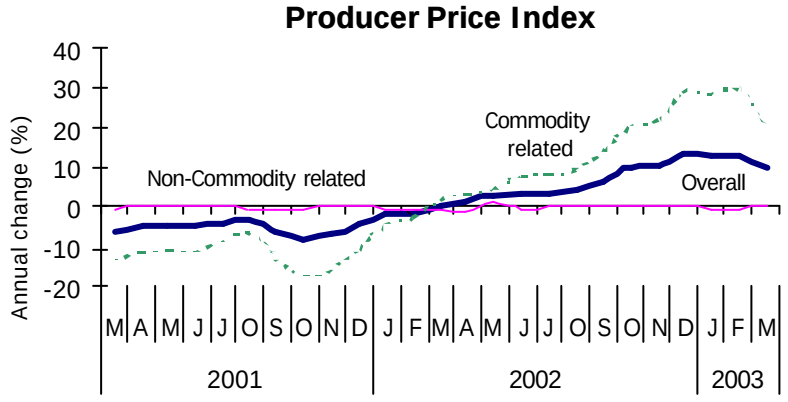
The annual rate of **inflation,** as measured by the Consumer Price Index (CPI, 2000=100), **increased to 1%** in April (March: 0.7%). This reflected mainly higher prices for food, transport and communication. The increase in food prices was due mainly to higher prices for food taken at home, while higher prices for transport and communication reflected partly the increase in telephone rentals from RM22 to RM25 from mid-March 2003.



Inflation increased in April

Producer prices continued to increase

Producer prices, as measured by the Producer Price Index (PPI), increased by 9.8% in March (February: 13.1%), reflecting mainly higher prices of crude palm oil, crude oil and rubber. Excluding commodity-related products, however, the adjusted PPI increased by only 0.9%.



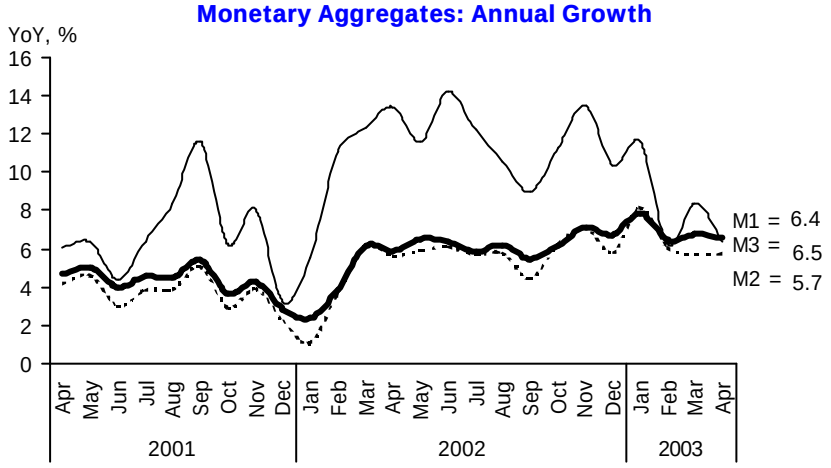
Producer prices continued to increase

Sustained growth in the broad money supply

In April, the annual growth rates of broad monetary aggregates, M2 and M3, were sustained at 5.7% and 6.5% respectively (5.7% and 6.8% respectively at end-March). M1 growth moderated to 6.4% (8.4% at end March) largely on account of the decline in demand deposits of domestic business enterprises.

During the month, the growth in M3 emanated mainly from the expansionary Government and external operations, as well as the sustained increase in bank lending activities. These expansionary effects were partially offset by the liquidity operations of BNM.

Monetary Aggregates: Annual Growth



The annual growth rates of broad monetary aggregates were sustained in April

M3 Determinants

(RM billion)

	Change during period			
	2003			
	Feb	Mar	Apr	Jan - Apr
M3	1.6	2.8	1.3	14.0
Net claims on Government	-1.5	0.5	2.9	7.8
Claims on private sector	1.2	1.7	0.4	7.6
Net external operations [1]	0.3	-2.1	0.9	-1.2
Other influences	1.5	2.6	-3.0	-0.2

1/ pre-revaluation

Broad money growth was due to Government and external operations; and higher bank lending activity

Banking system deposits were higher in April

Total **deposits** mobilised by the banking system continued to increase by RM572 million or 0.1% in April. The increase reflected the higher deposits held by individuals, business enterprises and the Federal Government. On an annual basis, total deposits mobilised by the banking system rose by 5.6% as at end-April.

Monthly Change in Deposits **(RM million)**

	2003		
	Feb.	**Mar.**	**Apr.**
Holder			
Federal Government	17	325	907
State Governments	199	-52	132
Statutory Authorities[1/]	-1,050	214	212
Financial Institutions	-1,092	2,444	-3,131
Business Enterprises	4,634	783	497
Individuals	2,588	535	1,954
Total	**5,296**	**4,249**	**572**

[1/] Include local Governments.

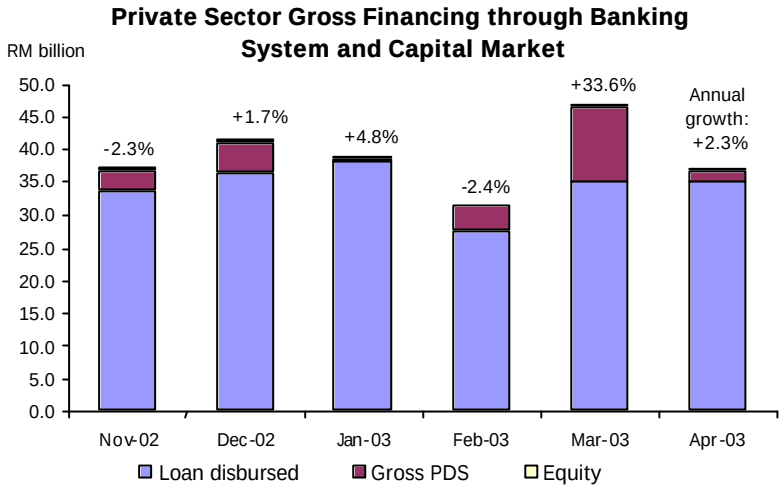
Higher deposits continued to be placed by business enterprises and individuals...

Monthly Change in Deposits **(RM million)**

	2003		
	Feb.	**Mar.**	**Apr.**
Type			
Fixed deposits	2,469	4,168	960
NIDs	-563	2,004	-2,177
Demand deposits	-512	-596	-687
Savings deposits	464	-801	146
Repos	3,083	-242	926
FX deposits	131	-396	295
SPI deposits	-197	208	1,041
Others	421	-96	69
Total	**5,296**	**4,249**	**572**

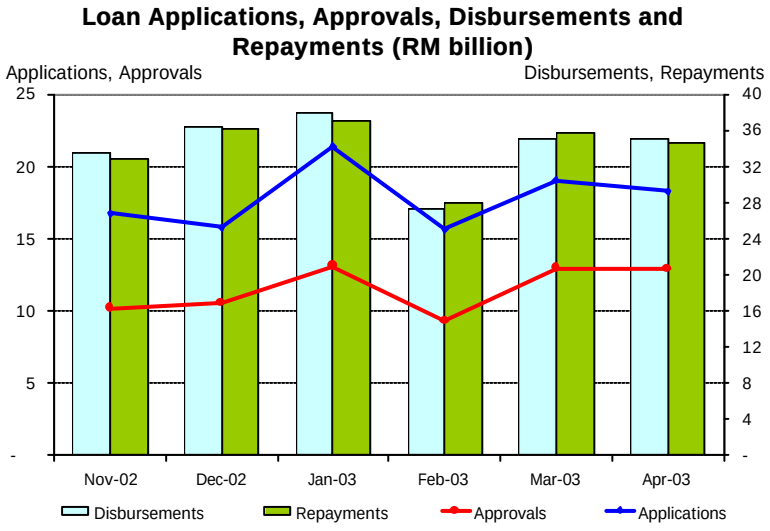
.... mainly in SPI and fixed deposits as well as repos

Financing of the private sector sustained



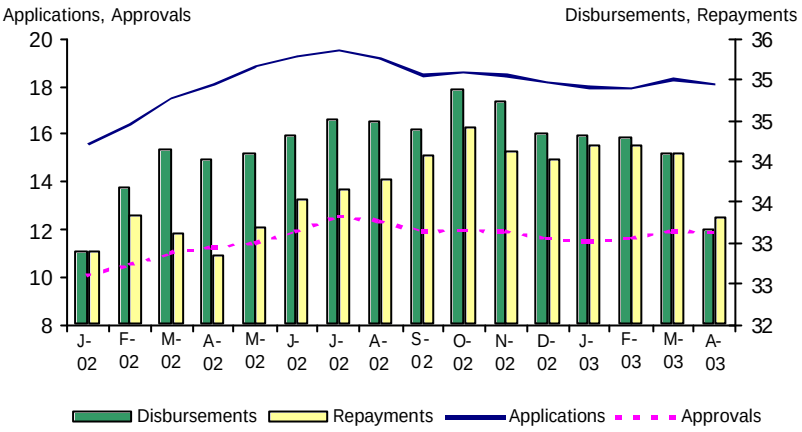
Financing through loans were sustained

Gross financing to the private sector by the banking institutions from loan extension and through funds raised from the capital market amounted to RM36.8 billion (RM46.7 billion in March). Lending activity by the banking system was sustained in April, with loan approvals and disbursements rising at an annual rate of 34.7% and 3.8% respectively. In particular, loan approvals granted to the business sector have risen since the beginning of the year, registering a higher monthly average of RM6.3 billion in the first four months of the year (monthly average of RM5.7 billion in 2002). Higher approvals were granted mainly for manufacturing activities (10.1% of total approvals in April); transport, storage and communication (9.5%) and construction (7.9%) sectors as well as wholesale and retail trade (6%). Meanwhile, approvals to the household sector remained high, mainly for the purchase of residential property (17.9% of total approvals) and passenger cars (17%).



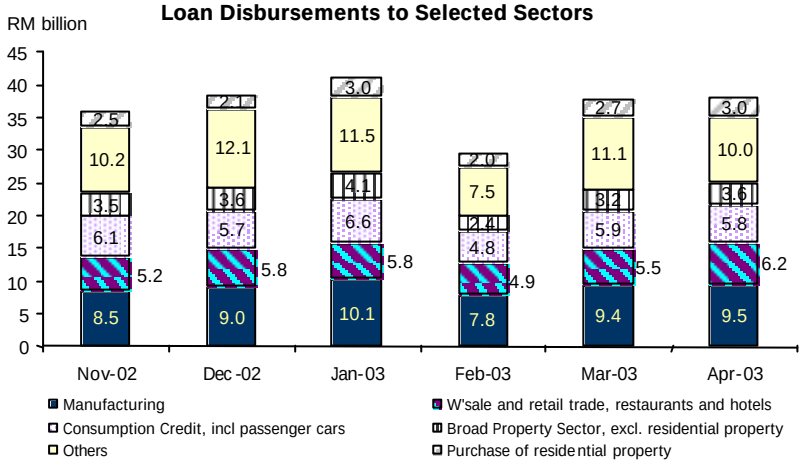
Bank lending was sustained

Deseasonalised Loan Indicators (RM billion)



Based on the de-seasonalised series, loan applications and approvals were sustained

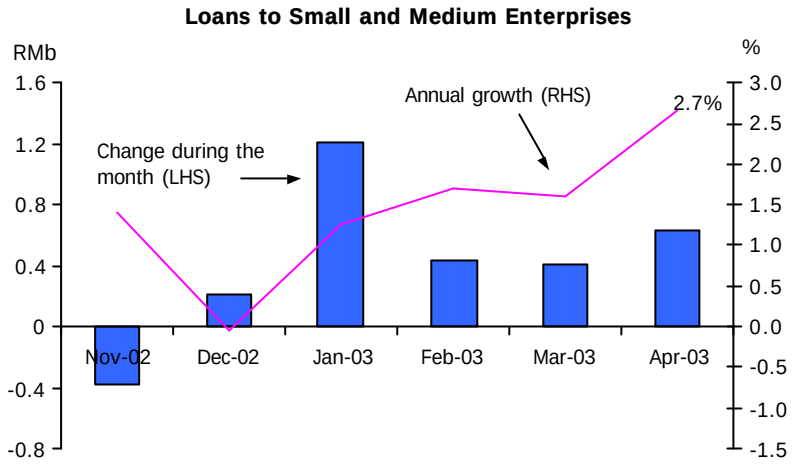
Loan Disbursements to Selected Sectors



The bulk of the disbursements continued to be channelled to the businesses

Total loans outstanding recorded an increase of RM1.5 billion after two consecutive months of decline on account of higher loans disbursed to the household sector, particularly for the purchase of residential property (+RM1.4 billion) and passenger cars (+RM0.6 billion). This was, however, partly offset by the decline in loans to the business sector as repayments from businesses were relatively higher than disbursements. On an annual basis, outstanding loans expanded further by 3.3% at end-April (3.2% at end-March).

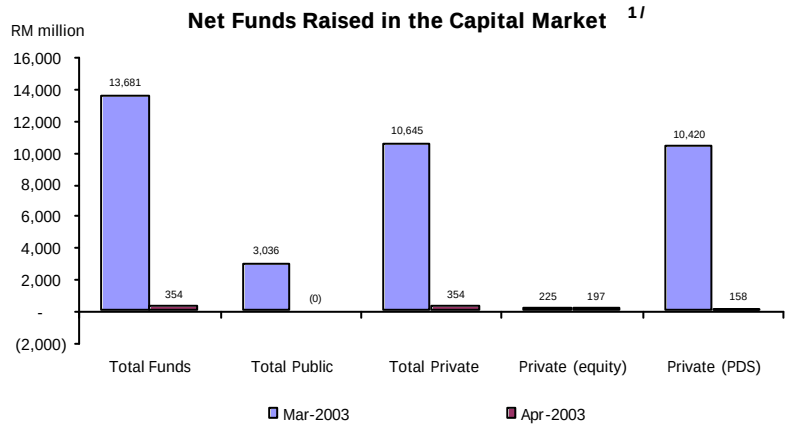
Loans extended to the small and medium enterprises increased by RM641 million in April, resulting in a cumulative increase of RM2.7 billion during the first four months of 2003 (+RM668 million in the corresponding period of 2002). Consequently, loans extended to SMEs accounted for a higher share of total loans outstanding at 17.9% at end-April (17.4% at end-2002). As a share to outstanding loans extended to business enterprises, it accounted for 36.1% at end-April (34.1% at end-2002). On an annual basis, loans to SMEs rose by 2.7% as at end-April (1.6% at end-March).



Loans to SMEs expanded further

Lower net funds raised in the capital market

On a gross basis, total funds raised by the private sector through the equity and private debt securities (PDS) markets amounted to RM2.4 billion in April. However, due to higher redemptions of PDS (RM2.1 billion), net funds raised by the private sector for the month was lower at RM354.4 million. Meanwhile, the public sector recorded a net redemption of RM0.4 million due to the redemption of Malaysian Saving Bonds.

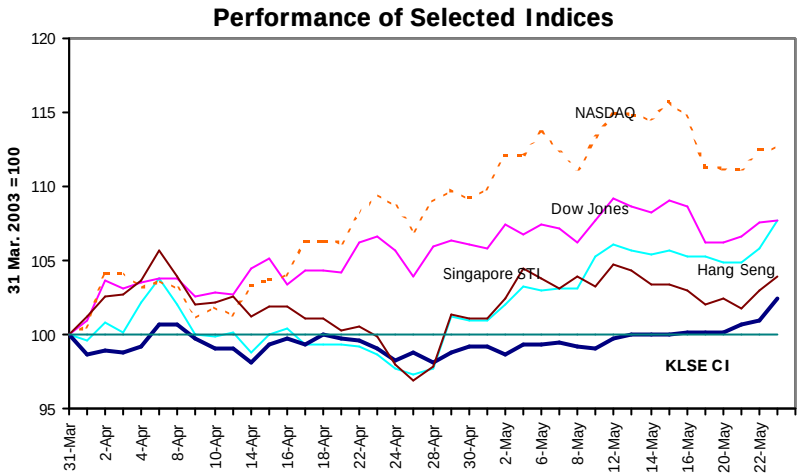


1/ Net funds raised in the capital market by private sector (including Cagamas and Danaharta bonds)

Higher redemption of PDS in April

In April, the **Kuala Lumpur Stock Exchange Composite Index** (KLSE CI) was traded within a narrow range amid uncertainties in Iraq and concerns over the outbreak of SARS. As selected index-linked stocks in the tourism-related sectors were affected, the KLSE CI closed at 630.37 points at 31 April (-0.8% since end-

March). Market capitalisation stood at RM476.35 billion (-0.4% since end-March) while daily average turnover was at 152.8 million units (163.2 million units in March).

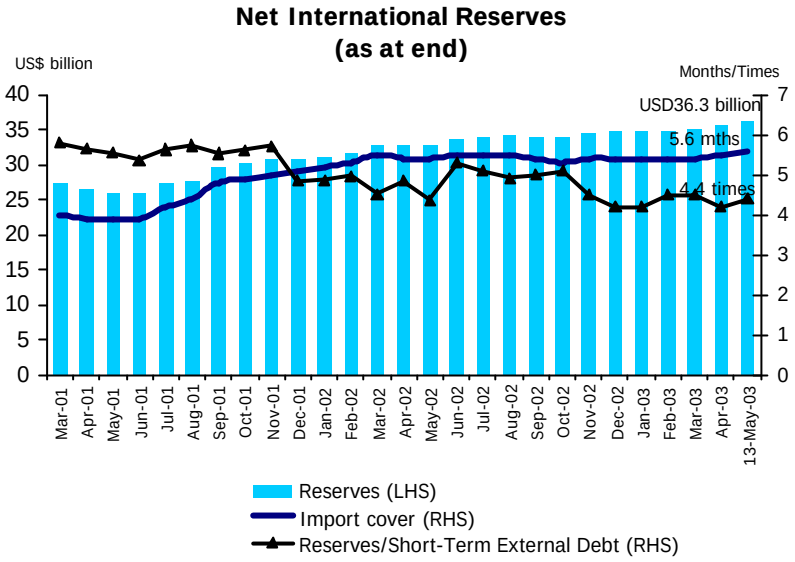


KLSE CI improved in May

In the first three weeks of May, the KLSE CI improved due to some favourable developments such as positive announcements made by World Health Organisation on progress towards containing the SARS outbreak and merger talks between two Malaysian banking groups. The sentiment was also supported by the steady performance of the US markets and the announcement of the pre-emptive pro-growth measure by the Government. As at 23 May, the KLSE CI closed at 650.88 points (+3.3% since end-April) with market capitalisation higher at RM493.65 billion (+3.6% since end-April). The daily average turnover was at 179.78 million units.

International reserves

The net international reserves of Bank Negara Malaysia increased in April to RM134.9 billion or US$35.5 billion as at 30 April 2003, supported by the larger repatriation of export earnings and steady inflow of investment income. Reserves increased further to RM138.1 billion or US$36.3 billion as at 13 May 2003. The increase of RM3.2 billion or US$0.8 billion during the first half of May was largely due to the sustained repatriation of export earnings. Outflows reflected mainly payments for imports of goods and services and partly the external loan repayments by the private sector. The reserves position is adequate to finance 5.6 months of retained imports and is 4.4 times the short-term external debt.



Net international reserves continued its rising trend

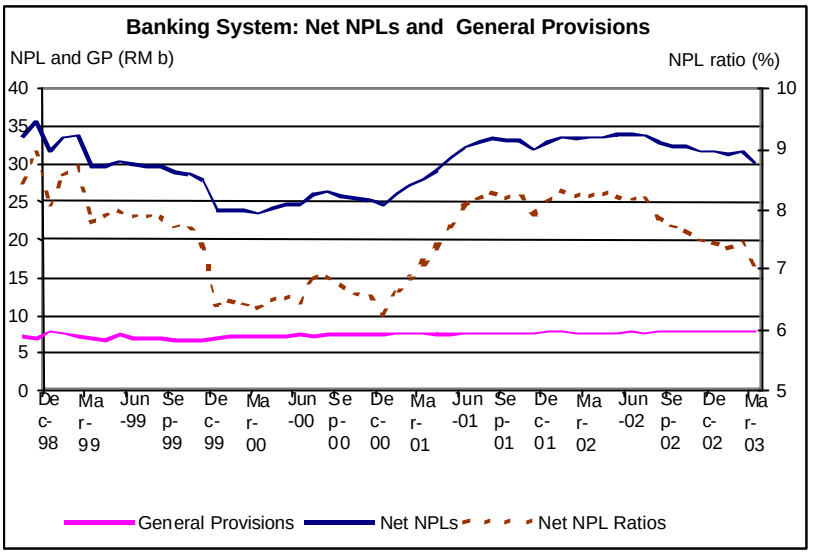
Banking system remained resilient

The capital position of the banking system remained strong, with the risk-weighted capital ratio (RWCR) marginally higher at 13.2% as at end April 2003. The net non-performing loans ratio (6-month classification) was 7%.

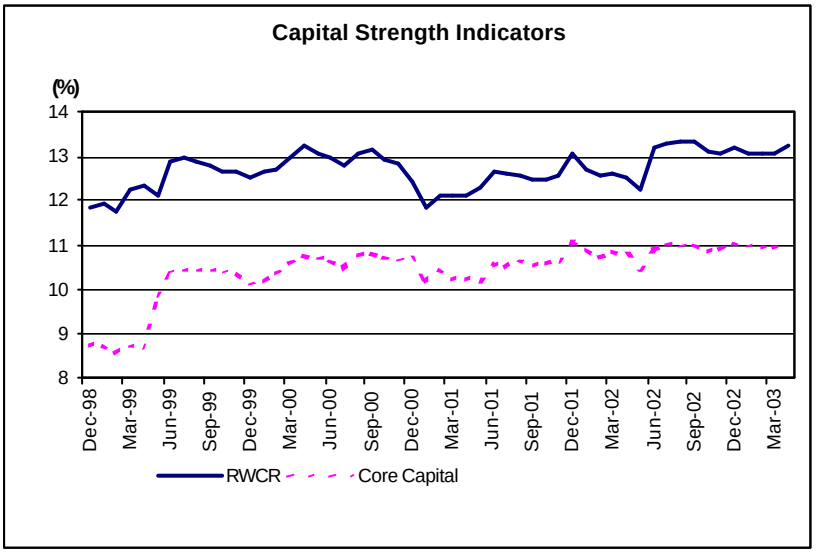
Banking System Health Indicators*

	1998	1999	2000	2001	2002	2003		
	Dec.	Dec.	Dec.	Dec.	Dec.	Feb.	Mar.	Apr.
Capital (%)								
Core capital ratio	8.7	10.1	10.7	11.1	11.1	10.9	10.9	11.0
RWCR	11.8	12.5	12.5	13.0	13.2	13.1	13.1	13.2
Net NPLs (6-month classification)								
% of net total loans	8.1	6.4	6.3	8.1	7.5	7.4	7.0	7.0
Amount (RM million)	31,675	23,849	24,700	32,775	31,703	31,721	30,037	30,054
GP/Net total loans (6-month, %)	2	1.9	1.9	1.9	1.8	1.8	1.8	1.8

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



..Net NPL ratio remained at 7%



.... RWCR marginally higher at 13.2%

Overall, Danaharta expected to recover RM29.5 billion from its total NPL portfolio resulting in an overall expected recovery rate of 56%. Recovery proceeds received by Danaharta up to 31 March 2003 amounted to RM20.3 billion in the form of cash, restructured loans, securities and properties. The remainder of RM9.1 billion that it expected to receive was pending the implementation of various recovery strategies it has formulated. Danaharta had also distributed an aggregate of RM12.3 billion in cash and 55,899,542 units of securities to the selling financial institutions and Government.

Bank Negara Malaysia
28 May 2003

Key Monetary and Banking Statistics

	March 2003		April 2003	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	43.1	5.4	42.8	4.8
M1	88.4	8.4	87.5	6.4
M2	390.7	5.7	393.3	5.7
M3	513.9	6.8	515.1	6.5
Banking System				
Total deposits	517.2	6.0	517.8	5.6
Total loans (including loans sold to Cagamas and Danaharta)	491.4	3.2	492.9	3.3
Total loans (excluding loans sold to Cagamas and Danaharta)	429.1	3.2	431.3	4.1
Loan-deposit ratio (%)	83.0		83.3	
Loans approved during the month	12.9	20.8	12.9	34.7
Loans disbursed during the month	35.0	2.5	35.0	3.8
Loans repaid during the month	35.7	10.7	34.6	0.7
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	13.1		13.2	
Net NPLs: 6-month classification (%)	7.0		7.0	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	132.6		134.9	
Reserves in USD (billion)	34.9		35.5	
Months of retained imports	5.4		5.6	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.99[2.99]		2.99[2.98]	
3-month	2.90[2.86]		2.86[2.86]	
Fixed deposits of commercial banks: 1-month	3.20[3.20]		3.20[3.20]	
3-month	3.20[3.20]		3.20[3.20]	
BLR of commercial banks	6.39[6.39]		6.39[6.39]	
Prices				
Consumer Price Index (CPI) (2000=100)	104.0	0.7	104.2	1.0
Producer Price Index (PPI) (1989=100)	138.5	9.8	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	4.1145		4.2231	
Pound Sterling	5.9898		6.0627	
Singapore dollar	2.1523		2.1421	
100 Japanese yen	3.1774		3.1807	
100 Thai Baht	8.8588		8.8692	
100 Philippine Peso	7.0948		7.2264	
100 Indonesian Rupiah	0.0427		0.0438	
100 Korean Won	0.3019		0.3130	
Capital Market				
Net funds raised by: public sector (RM billion)	3.036		...	
private sector (RM billion)	10.645		0.35	
Kuala Lumpur Composite Index (end-period)	635.72		630.37	
KLSE Market Capitalisation (RMb) (end-period)	478.30		476.35	