BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 11/03/29 (BN)

EMBARGO: Not for publication or broadcast before 1800 hours on Wednesday, 19 November 2003

Highlights of the October 2003 Press Release

Monetary and financial indicators reflected continued strengthening in domestic economic activities

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All loan indicators (applications, approvals and disbursements) were higher in October, at RM19.5 billion, RM13.4 billion and RM41.7 billion respectively (RM18.6 billion, RM13.1 billion and RM37.9 billion respectively in September). Of significance, loans disbursed to businesses grew at a stronger annual rate of 19.7% (13.5% in September). Growth in loans outstanding to SMEs was sustained, expanding at an annual rate of 7% as at end-October. In the first ten months of 2003, a total of RM21.3 billion was approved to 57,883 SMEs, while RM70.5 billion was disbursed.

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PRESS RELEASE
MONETARY AND FINANCIAL DEVELOPMENTS
OCTOBER 2003

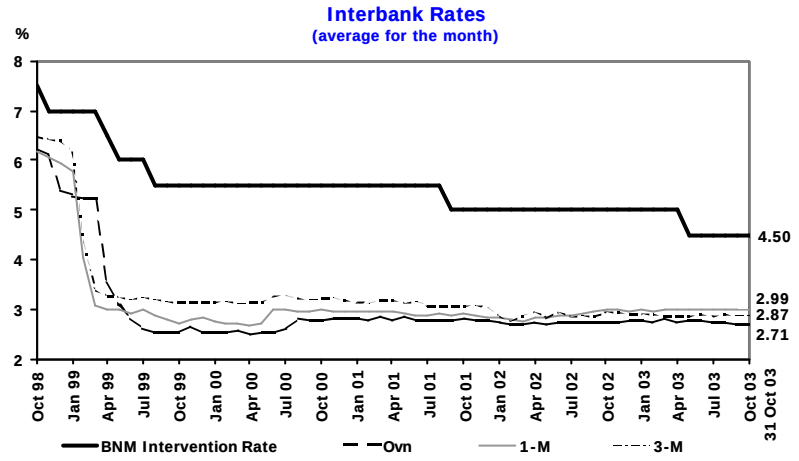
Monetary and financial indicators reflected continued strengthening in domestic economic activities

The monetary and financial indicators for October supported continued strengthening of domestic economic activities. All three monetary aggregates expanded at higher rates. M1, M2 and M3 increased at annual growth rates of 13.7%, 10.8% and 9.9% respectively at end-October (11.9%, 10.3% and 9.2% respectively at end-September).

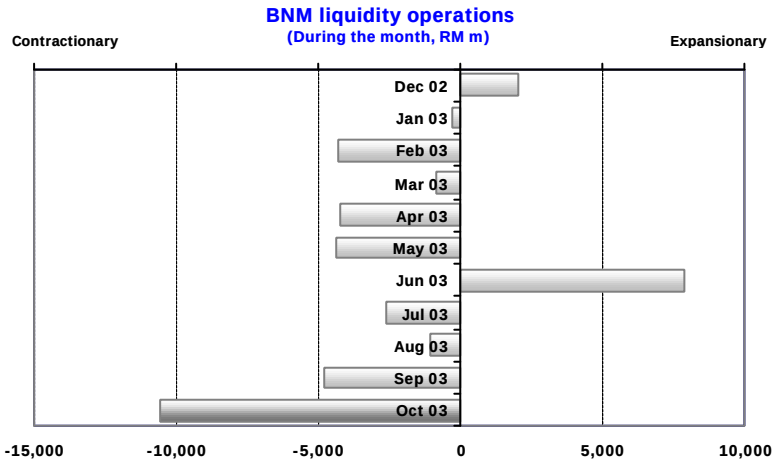
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Interest rate remained low and stable

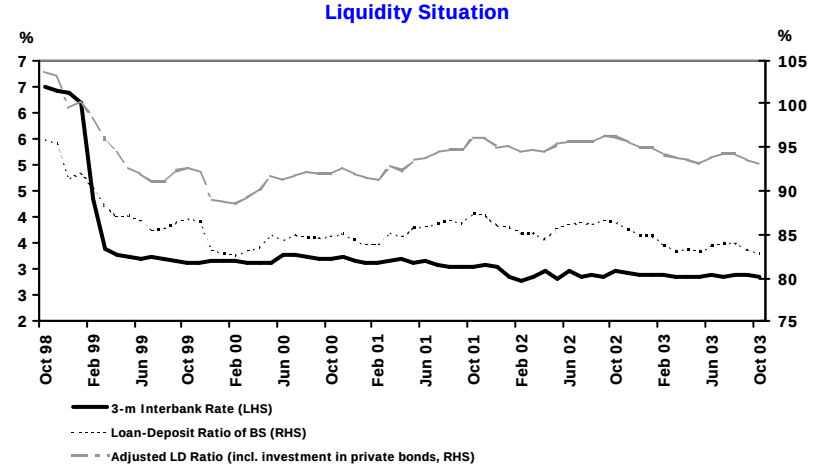
The interbank money market rates remained low and stable during the month. BNM money market operations helped to stabilise the impact of an expansionary external sector on excess liquidity in the system.



The interbank money market rates remained low and stable

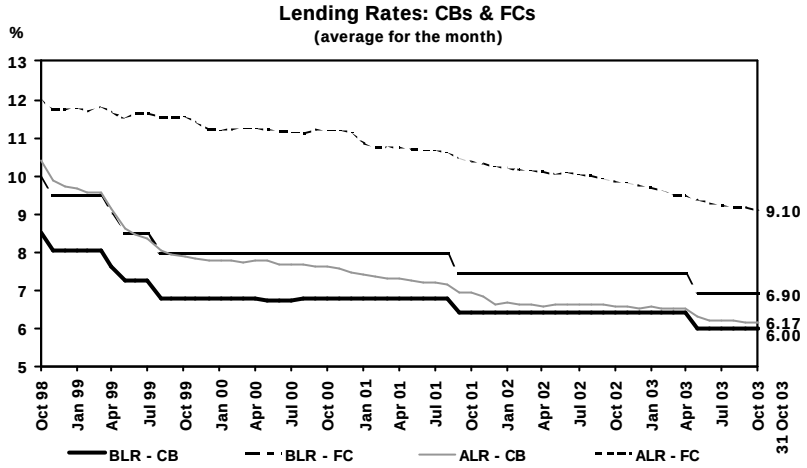


BNM absorbed excess liquidity from the system to maintain interest rates at current level



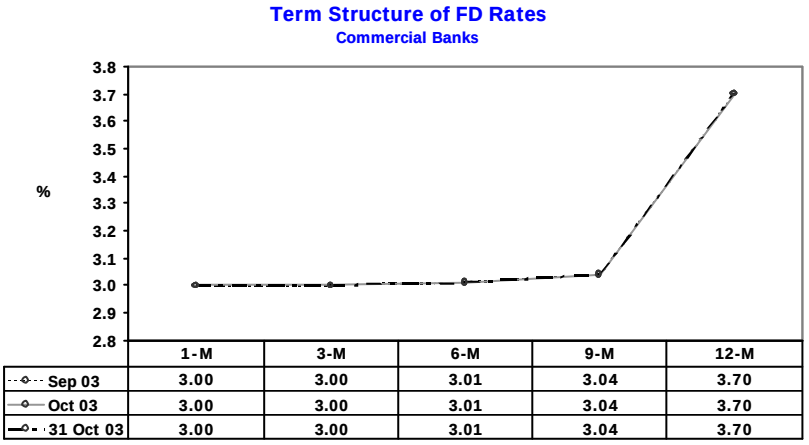
Ample liquidity in the banking system continued to support financing activities. The loan-deposit ratio including private debt securities held by the banking system remained high at 93.1%

The **average lending rate (ALR)** and the **average base lending rate (BLR)** remained unchanged during the month. ALR stood at 6.17% for commercial banks (CBs) and 9.16% for finance companies (FCs) (end-September: 6.17% and 9.16% respectively).



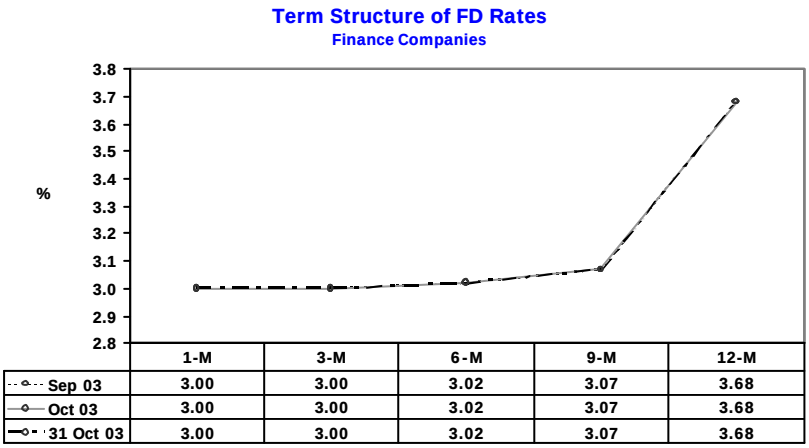
ALR and BLR for CBs and FCs remained unchanged

As at 31 October, the fixed deposit rates for 1-12 month maturity for CBs and FCs remained stable at 3 – 3.70% and 3 – 3.68% respectively.



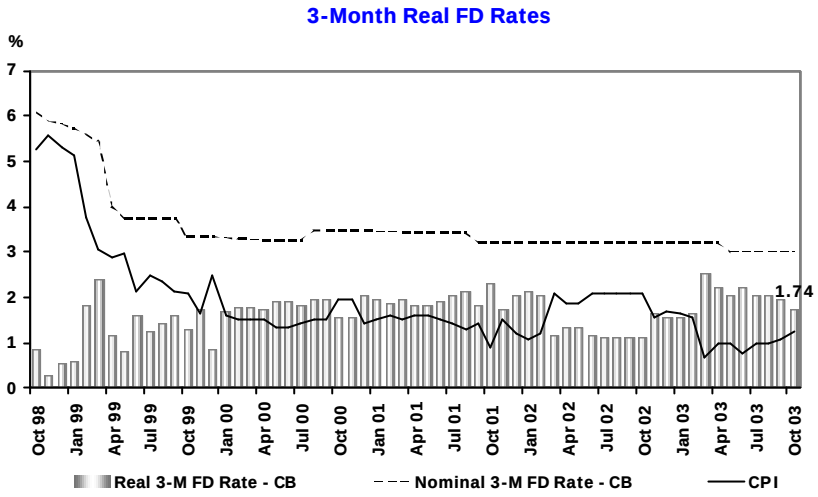
	1-M	3-M	6-M	9-M	12-M
Sep 03	3.00	3.00	3.01	3.04	3.70
Oct 03	3.00	3.00	3.01	3.04	3.70
31 Oct 03	3.00	3.00	3.01	3.04	3.70

FD rates of CBs remained stable



	1-M	3-M	6-M	9-M	12-M
Sep 03	3.00	3.00	3.02	3.07	3.68
Oct 03	3.00	3.00	3.02	3.07	3.68
31 Oct 03	3.00	3.00	3.02	3.07	3.68

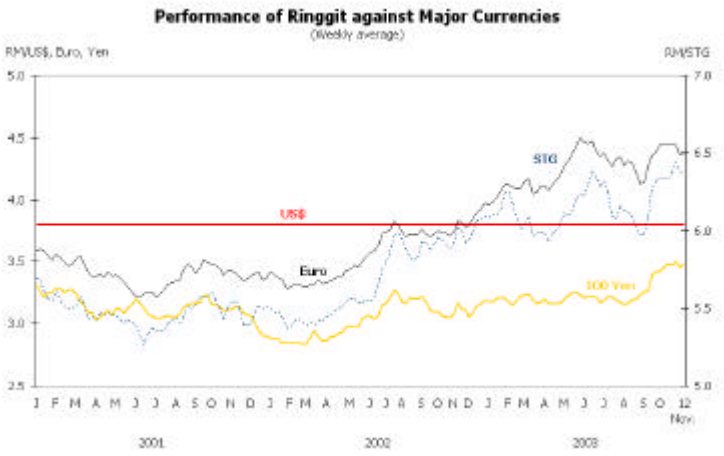
… similarly for FC



The 3-month real FD rate remained relatively stable

Performance of the ringgit

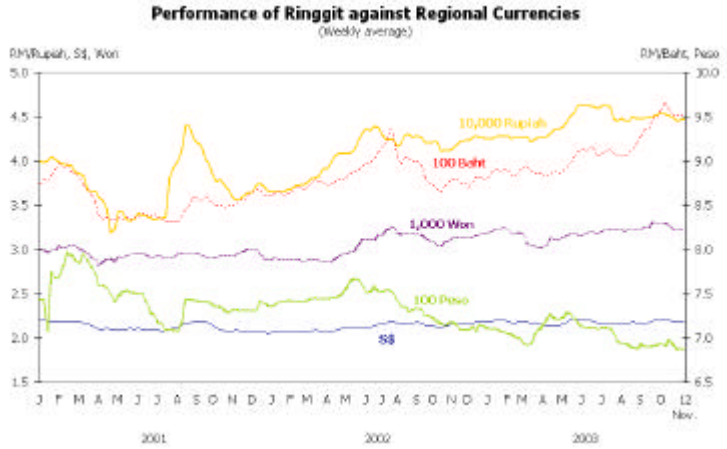
In October, the ringgit recorded a mixed performance against the major currencies. In tandem with the movement of the US dollar in the international foreign exchange markets, the ringgit depreciated against the pound sterling by 1.6% and against the Japanese yen by 1.9%, while remaining relatively unchanged against the euro. The dollar was affected in October by market concerns over the large current account and fiscal deficits. The Japanese yen strengthened on improving growth prospects.



Ringgit performance was mixed against the major currencies in October

The ringgit appreciated against most regional currencies in the range of 0.5% - 2.8%. The exception was the Thai baht, against which the ringgit depreciated by 0.2%. Regional currencies largely benefited from the firmer Japanese yen. The Philippine peso weakened on market concerns over the government budget deficit,

weak economic data and political uncertainty. The Indonesian rupiah also weakened as sentiment was affected by investigations into a state-owned bank and the postponement of the sale of a major stake in a local bank by the Indonesian Bank Restructuring Agency. In contrast, the Thai baht strenghtened on growing confidence over the economy and market views that the authorities are not averse to a strong currency.



The ringgit appreciated against most regional currencies in October

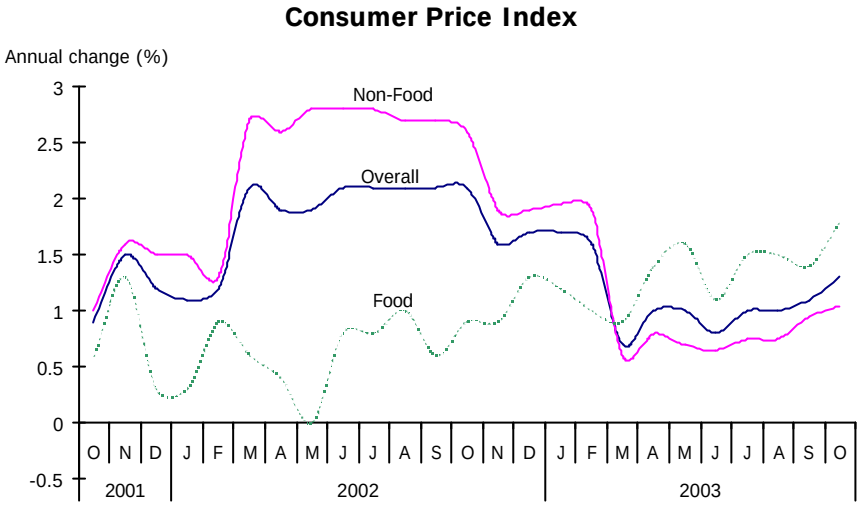
In the period **1 – 12 November 2003**, the ringgit continued its mixed performance against the major currencies. The ringgit appreciated against the euro by 0.5% and against the pound sterling by 1.6%, while depreciating against the Japanese yen by 0.2%. The dollar was supported by the release of stronger-than-expected economic data for manufacturing, construction and employment. The Japanese yen strengthened following strong repatriation flows by exporters and favourable market response to the re-election of the incumbent government. The ringgit depreciated against several regional currencies in the range of 0.1% - 0.7%, while remaining relatively unchanged against the Thai baht and the Philippine peso.

Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-Oct. 2003	12 November 2003	% Change			
				October 2003	End-Oct. - 12 Nov. 2003	End-2002 - 12 Nov. 2003	2 Sep. 1998 - 12 Nov. 2003
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.4169	4.3941	0.0	0.5	-9.4	-
Pound Sterling	6.3708	6.4461	6.3458	-1.6	1.6	-4.0	0.4
100 Japanese yen	2.7742	3.4878	3.4944	-1.9	-0.2	-8.4	-20.6
Singapore dollar	2.1998	2.1883	2.1906	0.5	-0.1	-0.1	0.4
100 Thai baht	9.3713	9.5202	9.5155	-0.2	0.0	-7.4	-1.5
100 Philippine peso	8.8302	6.8682	6.8691	0.7	0.0	4.0	28.5
100 Indonesian Rupiah	0.0354	0.0447	0.0448	1.1	-0.2	-5.1	-21.0
100 Korean won	0.2827	0.3213	0.3237	2.8	-0.7	-1.2	-12.7

Inflation remained subdued in October

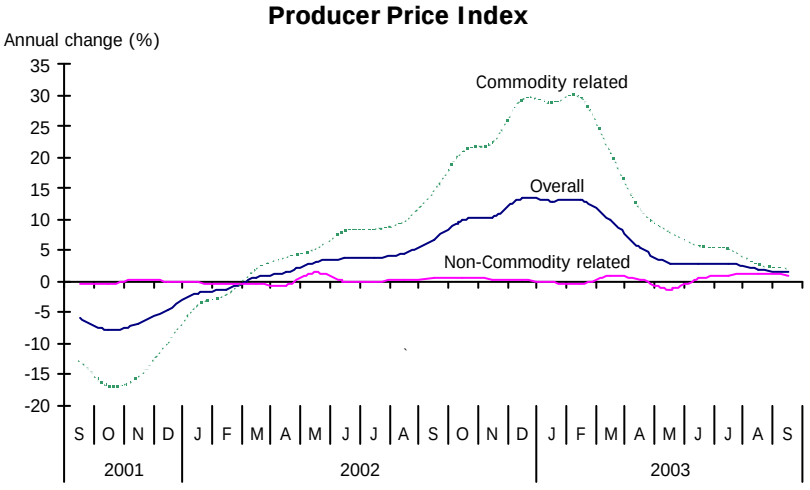
The annual rate of **inflation,** as measured by the Consumer Price Index (CPI, 2000=100), **increased slightly to 1.3%** in October (September: 1.1%). Food prices were higher ahead of the festive month, while prices for other goods remained broadly stable.



Inflation increased to 1.3% in October

Producer prices moderated in September

Producer Price Index (PPI) continued to increase at a slower rate of 1.4% in September (1.9% in August). The slower increase in producer prices largely reflected the moderation in price increases of crude palm oil and crude petroleum, which more than offset the higher price increase for rubber. Excluding commodity-related products, the adjusted PPI increased by 0.9%.

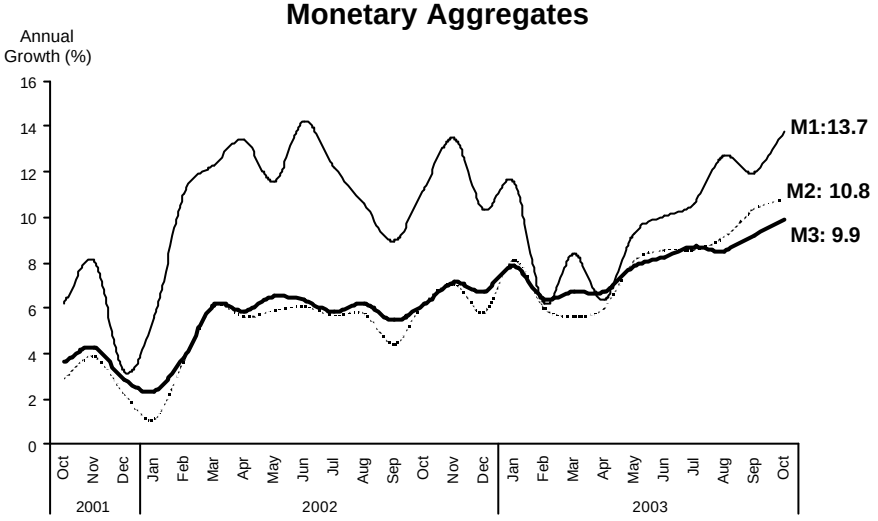


Producer prices, excluding commodity related products increased by 0.9%

Rapid increase in money supply

All three monetary aggregates (M1, M2 and M3) recorded stronger growth rates of 13.7%, 10.8% and 9.9% respectively at end-October (11.9%, 10.3% and 9.2% respectively at end-September). The faster growth in M1 reflected stronger demand for transactional balances and higher turnover in the equity market. Large inflow of funds arising from the repatriation of export earnings and investment flows contributed to the increase in broad money supply, M3, which rose by RM5.3 billion or 1% in October.

Monetary Aggregates



All three monetary aggregates expanded at higher rates...

M3 Determinants

(RM billion)

	Change during period			
	2003			
	Aug	Sep	Oct	Jan - Oct
M3	3.1	5.6	5.3	39.5
Net claims on Government	-1.9	-2.2	1.2	5.6
Claims on private sector	3.0	4.5	1.0	29.9
Net external operations [1]	1.4	5.3	10.8	19.5
Other influences	0.6	-2.0	-7.7	-15.5

1/ pre-revaluation

...due mainly to higher inflow of funds

Banking system deposits increased significantly in October

Total **deposits** mobilised by the banking system increased significantly by RM6.9 billion or 1.3% in October. The increase reflected the higher deposits of businesses and individuals, mainly in demand deposits. On an annual basis, total deposits mobilised by the banking system rose by 10% as at end-October (9.3% at end-September).

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

	2003		
	Aug.	**Sept.**	**Oct.**
Holder			
Federal Government	-833	-171	103
State Governments	295	-349	-137
Statutory Authorities[1/]	484	-531	674
Financial Institutions	1,815	1,615	108
Business Enterprises	-757	3,125	3,699
Individuals	2,107	1,652	2,098
Others [2/]	649	-525	376
Total	**3,760**	**4,817**	**6,920**

[1/] Include local Governments.

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

Higher deposits were placed by businesses and individuals...

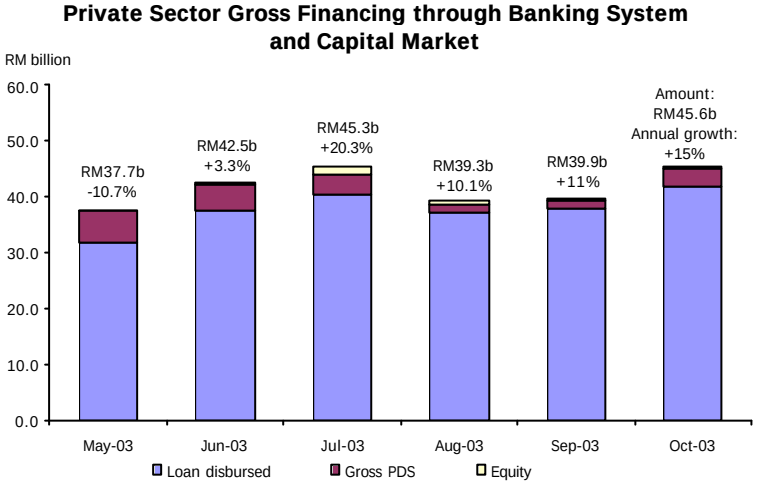
Monthly Change in Deposits **(RM million)**

	2003		
	Aug.	**Sept.**	**Oct.**
Type			
Fixed deposits	390	1,973	1,305
NIDs	542	153	968
Demand deposits	1,957	44	2,293
Savings deposits	395	326	404
Repos	912	1,464	1,614
FX deposits	269	847	-461
SPI deposits	-936	-80	702
Others	231	90	96
Total	**3,760**	**4,817**	**6,920**

.... mainly in demand deposits

Gross financing of the private sector rose strongly in October

Total gross financing of the private sector by the banking system and funds raised in the capital market expanded significantly at an annual growth rate of 15% to RM45.6 billion in October. On a net basis, financing provided by the banking system through the extension of loans and holdings of private debt securities (PDS) expanded at an annual rate of 6% as at end-October (5.7% as at end-September). Loan-deposit ratio, including private debt securities held by the banking system, stood at 93.1% as at end-October (93.5% as at end-September).



Gross financing of the private sector rose strongly with higher loans disbursed and gross PDS issuance

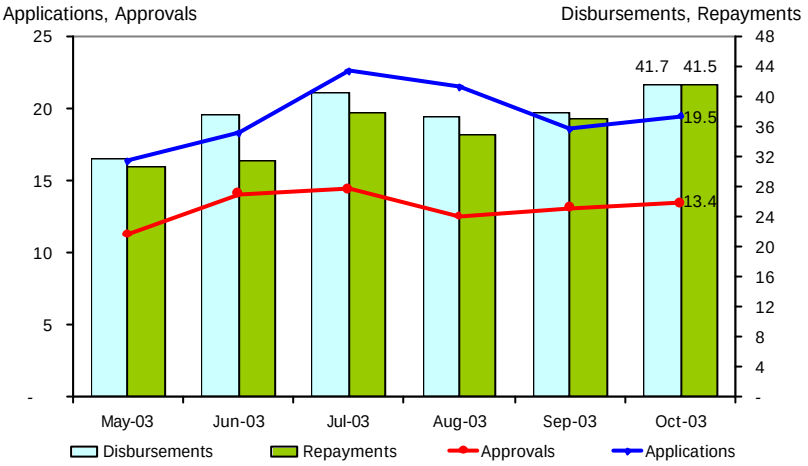
Lending extended by the banking system was higher, with continued strong growth in loan disbursements of 15.3% in October to RM41.7 billion (RM37.9 billion in September). Loans disbursed to the business sector expanded at a stronger rate of 19.7%, with a significant proportion channelled to the financial, insurance and business services, wholesale and retail trade, restaurants and hotels as well as the manufacturing sectors. The household sectors received a total of RM10.7 billion of loans disbursed in October (RM9.8 billion in September).

Demand for bank financing was higher with larger loan applications amounting to RM19.5 billion in October (RM18.6 billion in September). Loan approved also increased, amounting to RM13.4 billion (RM13.1 billion in September). Approvals granted to the household sector were higher at RM6.8 billion (RM6.4 billion in September), while loan approved to the business sector was sustained at RM6.3 billion (RM6.4 billion in September).

Loans outstanding increased at an annual growth rate of 4.6% or RM1.7 billion in October, reflecting mainly higher outstanding loans to the household sector

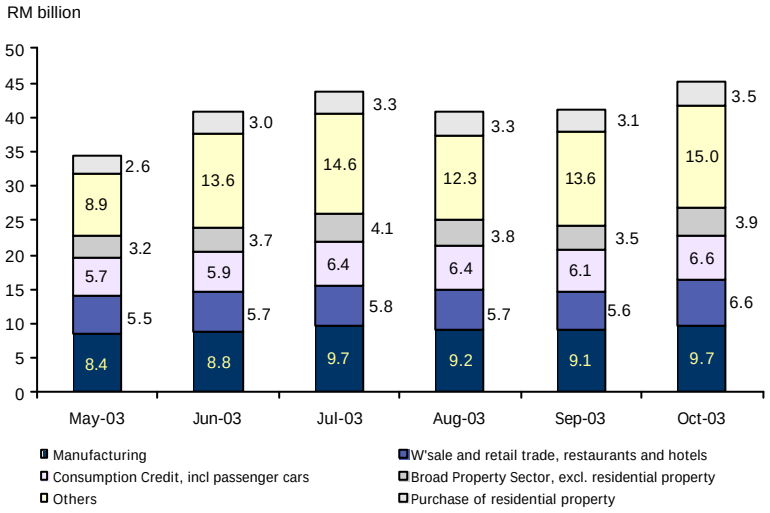
(+RM2.7 billion in October, +RM2.4 billion in September). Despite higher disbursements, outstanding loans to the business sector declined by RM1.6 billion due to larger repayments mainly by businesses in the electricity, gas and water supply sector.

Loan Applications, Approvals, Disbursements and Repayments (RM billion)



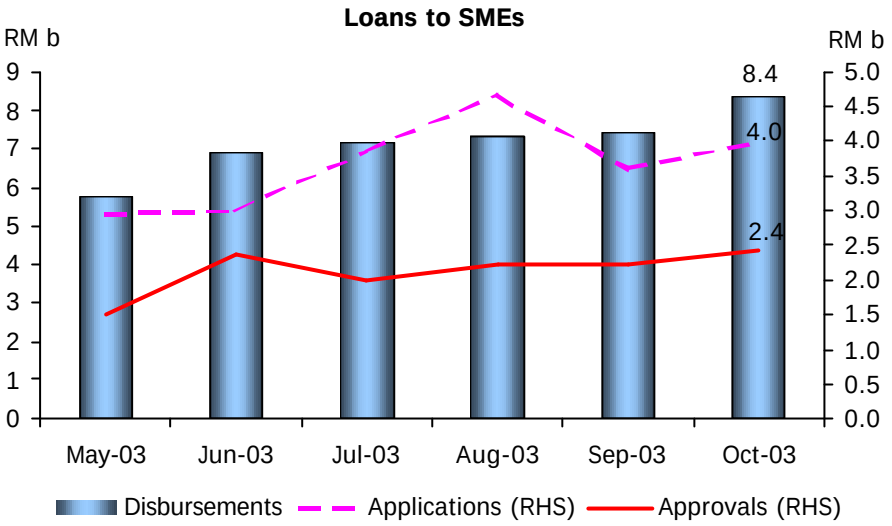
Loans applied, approved and disbursed were higher

Loan Disbursements to Selected Sectors



Disbursements remained broad based

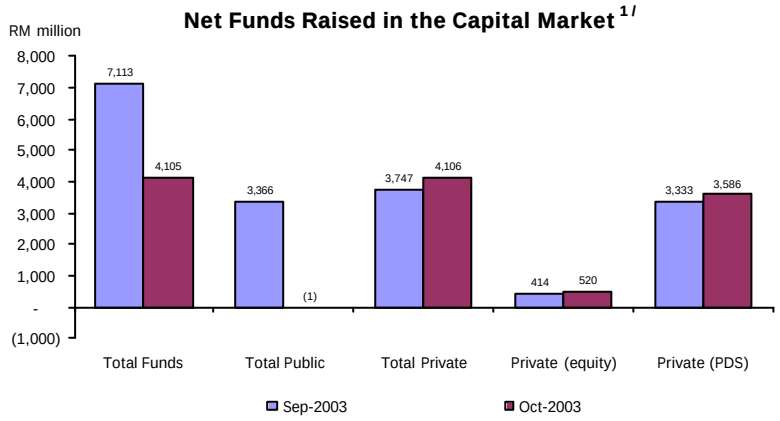
Outstanding loans of the SMEs expanded further at a stronger annual rate of 7% compared with the overall loan growth of 4.6%. On a month-on-month basis, SMEs loans outstanding increased by RM563 million in October (RM518 million in September), bringing the cumulative increase to RM5.4 billion on the first ten months. During the same period, a total of RM21.3 billion was approved to 57,883 SMEs, while RM70.5 billion was disbursed. SMEs loans accounted for 32% of business loans outstanding and 15.6% of total loans as at end-October.



SME loans increased further

Net funds raised in the capital market were higher

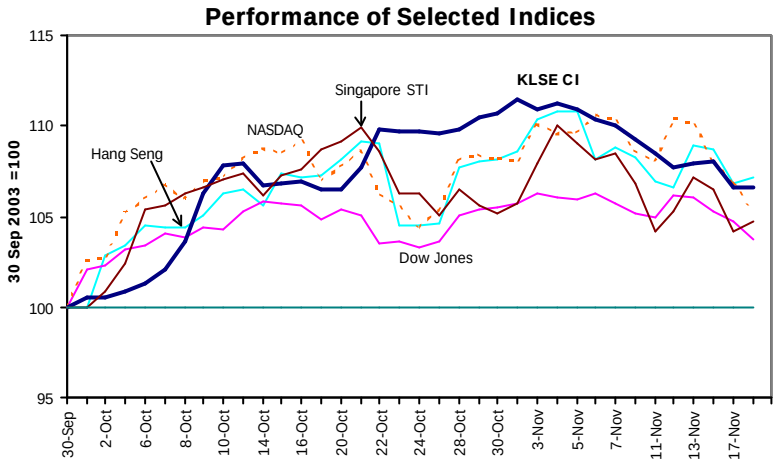
In October, net funds raised in the capital market amounted to RM4.1 billion. The funds were raised entirely by the private sector. Higher net funds were raised in both the private debt securities and equity markets. During the month, there were six new listings on the KLSE.



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

Higher net funds were raised by the private sector in October

Sentiments in the **Kuala Lumpur Stock Exchange** (KLSE) strengthened further in October, reflecting better performances of global markets on improved optimism on the global, regional and domestic economic outlook. As at end-October, the KLSE CI closed at the highest level for the year at 817.1 points (+11.4% since end-September) with market capitalisation higher at RM572.3 billion (+13.6% since end-September). The daily average turnover was also higher at 820.1 million during the month (575.9 million units in September).

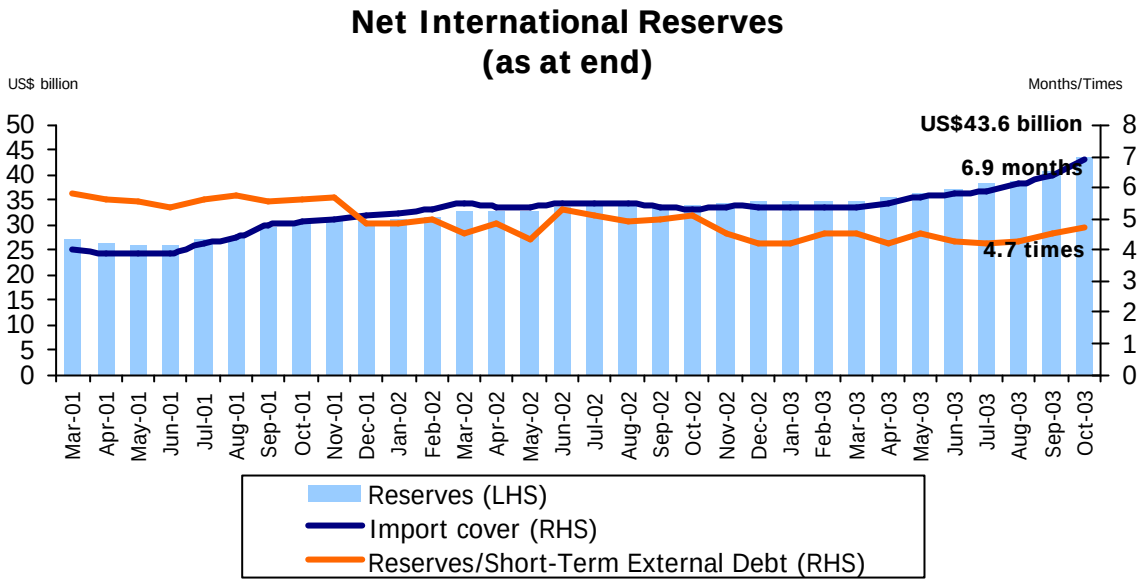


The KLSE CI consolidated in early November

Profit-taking activities led to some consolidation in the first two weeks of November following the significant gains in October. As at 18 November, the KLSE CI closed at 782.2 points (-4.3% since end-October) with market capitalisation slightly lower at RM627.9 billion (-3.4% since end-October). The daily average turnover during the period remained high at 728 million units.

International reserves continued its upward trend

In October, international reserves of Bank Negara Malaysia continued its upward trend to increase by another RM11 billion or US$2.9 billion to RM165.8 billion or US$43.6 billion as at 31 October 2003 (RM154.8 billion or US$40.7 billion as at 30 September 2003). The increase was attributed mainly to sustained repatriation of export earnings, larger inflows of foreign direct investment and portfolio investment. Outflows reflected payments for imports of goods and services, repayments of external loans and remittance of profits and dividends. The reserves position is adequate to finance 6.9 months of retained imports and is 4.7 times the short-term external debt.



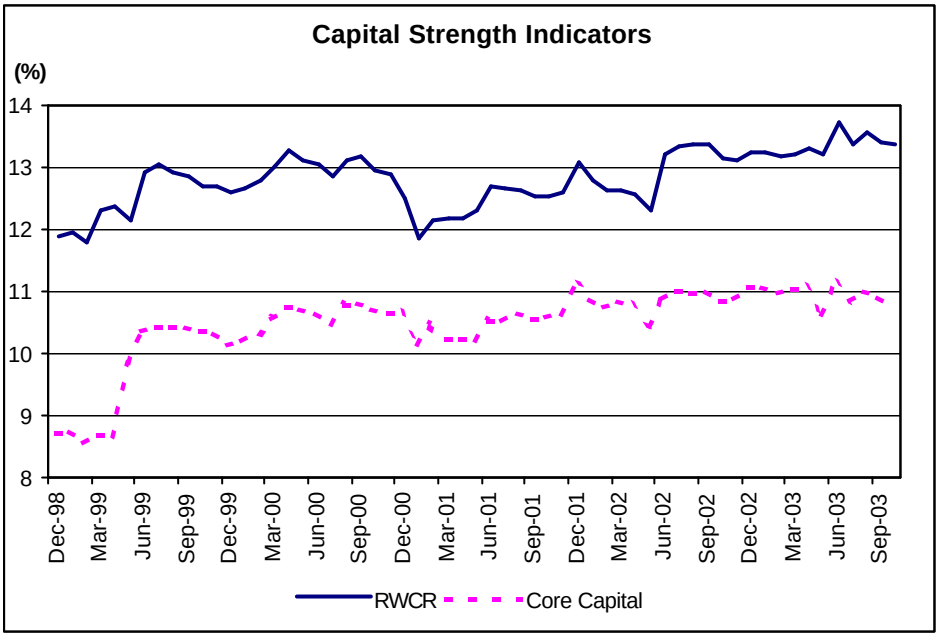
Capital remained strong

The risk-weighted capital ratio (RWCR) declined marginally to 13.3% at end-October 2003 on account of higher expansion in assets of RM3.5 billion (or +0.7%) relative to the RM0.3 billion (or +0.4%) increase in capital base. The net NPL ratio based on 6-month classification increased marginally by 0.1 percentage point to 6.6% at end-October 2003 following an increase of RM0.3 billion (+1.2%) in net NPLs during the month. However, based on the 3-month classification, the net NPL ratio improved further to 8.8% from 9% at end-September 2003 on account of lower net NPLs.

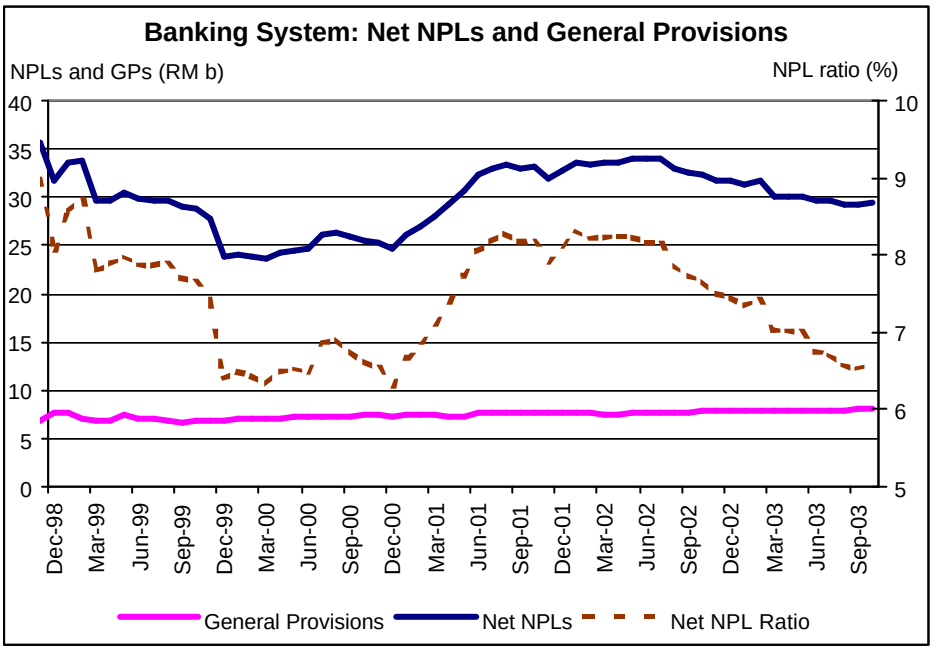
Banking System Health Indicators*

	1998	1999	2000	2001	2002	2003		
	Dec.	Dec.	Dec.	Dec.	Dec.	Aug.	Sept.	Oct.
Capital (%)								
Core capital ratio	8.7	10.1	10.7	11.1	11.1	11.0	10.9	10.7
RWCR	11.8	12.5	12.5	13.0	13.2	13.5	13.4	13.3
Net NPLs (6-month classification)								
% of net total loans	8.1	6.4	6.3	8.1	7.5	6.6	6.5	6.6
Amount (RM million)	31,675	23,849	24,700	32,775	31,703	29,222	29,168	29,506
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.8	1.8	1.8	1.8

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



…RWCR remains high at 13.3%



…. Net NPL ratio stabilised at 6.6% on 6-month classification

Bank Negara Malaysia

19 November 2003

Key Monetary and Banking Statistics

	September 2003		October 2003	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	44.5	11.2	44.6	7.9
M1	93.5	11.9	96.3	13.7
M2	410.0	10.3	415.9	10.8
M3	535.4	9.2	540.6	9.9
Banking System				
Total deposits	537.4	9.3	544.3	10.0
Total loans (including loans sold to Cagamas and Danaharta)	510.5	4.7	512.2	4.6
Total loans (excluding loans sold to Cagamas and Danaharta)	447.2	5.1	450.5	5.4
Loan-deposit ratio (%)	83.2		82.8	
Loan-deposit ratio including private debt securities (%)	93.5		93.1	
Loans applied during the month	18.6	-5.5	19.5	-2.5
Loans approved during the month	13.1	-8.1	13.4	4.4
Loans disbursed during the month	37.9	11.2	41.7	15.3
Loans repaid during the month	37.0	14.2	41.5	15.7
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	13.4		13.3	
Net NPLs: 6-month classification (%)	6.5		6.6	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	154.8		165.8	
Reserves in USD (billion)	40.7		43.6	
Months of retained imports	6.6		6.9	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.99[2.99]		2.99[2.99]	
3-month	2.86[2.88]		2.88[2.87]	
Fixed deposits of commercial banks: 1-month	3.00[3.00]		3.00[3.00]	
3-month	3.00[3.00]		3.00[3.00]	
BLR of commercial banks	6.00[6.00]		6.00[6.00]	
Prices				
Consumer Price Index (CPI) (2000=100)	104.5	1.1	104.6	1.3
Producer Price Index (PPI) (1989=100)	136.0	1.4		
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	4.4160		4.4169	
Pound Sterling	6.3439		6.4461	
Singapore dollar	2.1984		2.1883	
100 Japanese yen	3.4205		3.4878	
100 Thai Baht	9.5048		9.5202	
100 Philippine Peso	6.9179		6.8682	
100 Indonesian Rupiah	0.0452		0.0447	
100 Korean Won	0.3304		0.3213	
Capital Market				
Net funds raised by: public sector (RM billion)	3.4		...	
private sector (RM billion)	3.7		4.1	
Kuala Lumpur Composite Index (end-period)	733.45		817.12	
KLSE Market Capitalisation (RMb) (end-period)	572.26		649.81	