BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PEN No : 06/05/66 (BN)

EMBARGO: Not for publication or broadcast before 1800 hours on Tuesday, 28 June 2005

Monetary and Financial Developments May 2005

Highlights of the Press Release

Private sector financing activity strengthened in May

In May, private sector financing activity strengthened, underpinned by the sustained demand for bank financing and higher private debt securities issuance. Banking system loans and private debt securities (PDS) outstanding expanded at an annual rate of 9.5%. The higher funds raised in the PDS market were mainly to finance new activity.

Total loans outstanding of the banking system grew at an annual rate of 8.6%. Of significance, bank lending to the SMEs continued to grow strongly, with loans outstanding to the SMEs expanding at an annual rate of 10.4%. As a result, the ratio of loans outstanding to the SMEs as a percentage of total business loans outstanding rose further to 41.3%.

Meanwhile, the banking system remained strong, with the RWCR at 13.3% and net NPL ratio at 5.4% as at end-May 2005.

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MONETARY AND FINANCIAL DEVELOPMENTS
MAY 2005

Private sector financing activity strengthened in May

In the money market, the daily weighted average overnight interbank rate moved within a narrow range to average at 2.70% in the month, while in the retail market, the average lending rates for commercial banks and finance companies were lower at 5.94% and 8.57% respectively.

The Consumer Price Index increased by 3.1% in May, reflecting the higher cost of transportation and the increase in the prices of retail petrol and diesel. Prices of other sub-groups, however, registered only marginal increases.

The sustained domestic demand and robust loan growth were reflected in the monetary aggregates. Transactional balances, M1, grew at a sustained annual rate

of 11.3%. Broad money, M3, expanded at an annual rate of 13.7%, due mainly to the inflows of external funds and higher claims on the private sector.

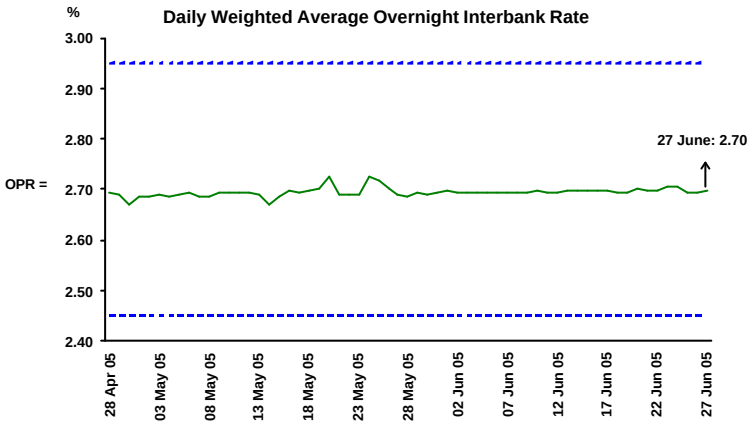
Supported by demand from both businesses and households, financing activity strengthened in May. Total net financing (banking system loans and private debt securities (PDS) outstanding) expanded at an annual rate of 9.5% while total bank loans outstanding grew by 8.6%. Of significance, bank lending to the SMEs expanded strongly, with the loans outstanding to this sector registering an annual growth rate of 10.4%. As a result, the ratio of loans outstanding to the SMEs as a percentage of total business loans outstanding rose further to 41.3% as at end-May.

In the capital market, net funds raised were higher at RM5.8 billion, reflecting the larger amount of funds raised by the private sector from the PDS market. A significant development in May was the issuance of a 5-year RM760 million Islamic bond by the International Bank for Reconstruction and Development, which represented the third issuance by a supranational in the ringgit bond market.

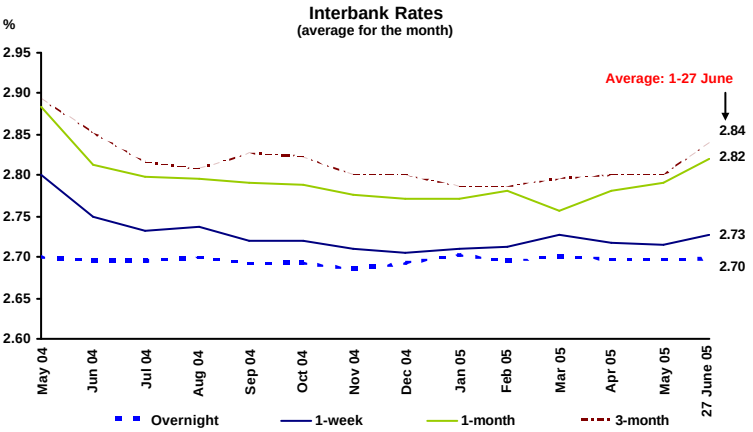
Meanwhile, the banking system remained strong, with the RWCR at 13.3% and net NPL ratio at 5.4% as at end-May 2005.

Interest rates remained stable

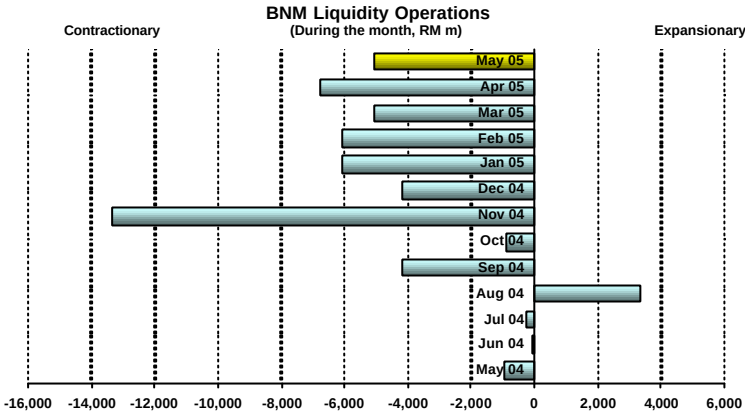
In May, liquidity operations by Bank Negara Malaysia were aimed at offsetting the inflows of external funds and maintaining a stable overnight interbank rate. During the period of 1 May – 27 June, the daily weighted average overnight interbank rate moved within a range of 2.67% - 2.73%, averaging at 2.70%. The average BLRs of commercial banks (CBs) and finance companies (FCs) remained unchanged while the ALR for CBs and FCs were lower at 5.94% and 8.57%, respectively. In the interbank market, average interbank rates for the 1-week to 3-month tenure increased marginally, reflecting expectations of some market participants that interest rates will increase going forward.



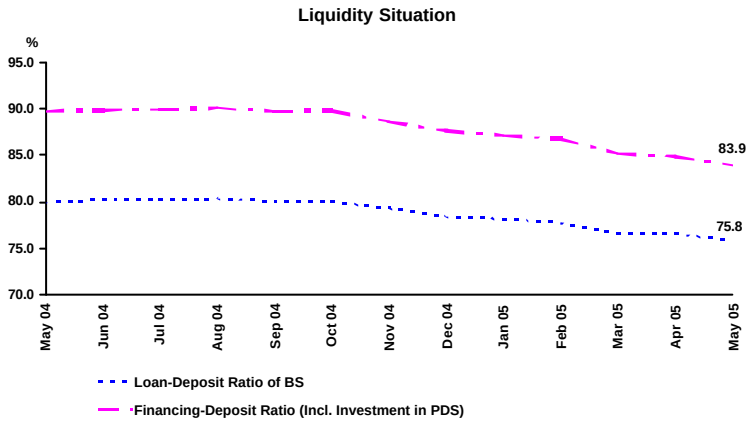
Stable overnight interbank rate



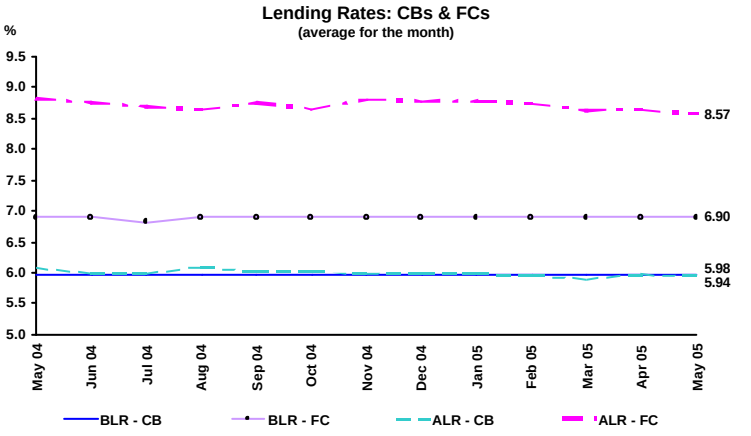
Other interbank rates were marginally higher



Liquidity operations in May were largely to offset the expansionary net external operations

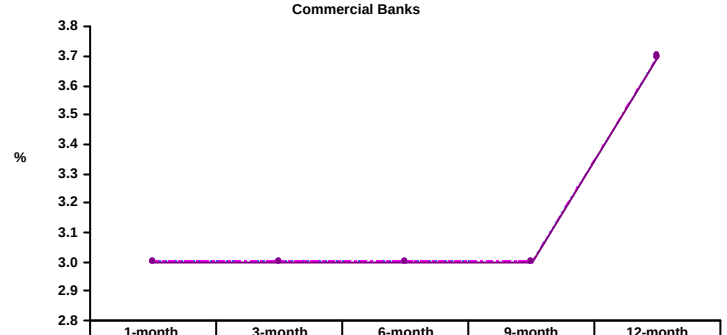


The financing-deposit ratio moderated to 83.9%



ALRs for CBs and FCs were lower in May

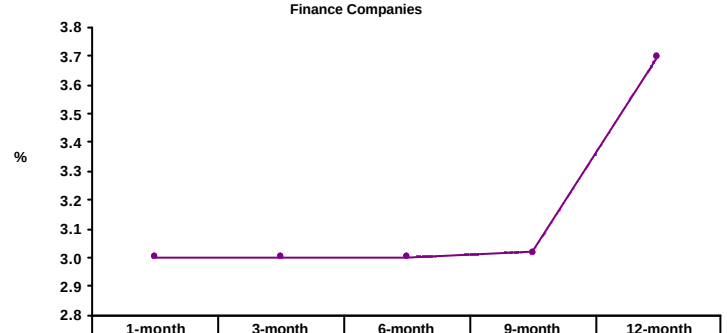
Term Structure of FD Rates
Commercial Banks



	1-month	3-month	6-month	9-month	12-month
Apr 05	3.00	3.00	3.00	3.00	3.70
May 05	3.00	3.00	3.00	3.00	3.70
24 Jun 05	3.00	3.00	3.00	3.00	3.70

FD rates of CBs remained unchanged

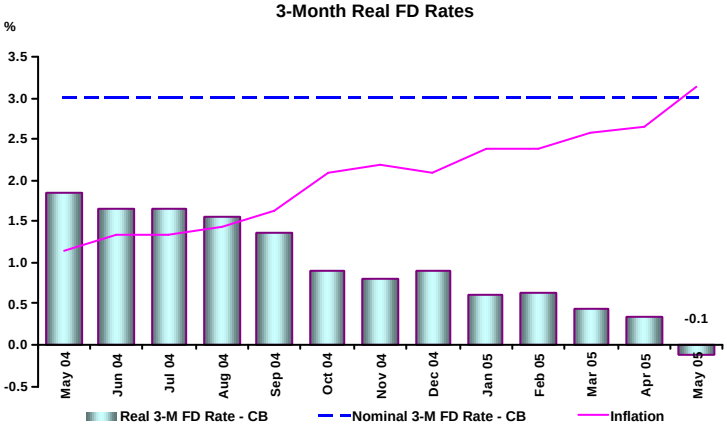
Term Structure of FD Rates
Finance Companies



	1-month	3-month	6-month	9-month	12-month
Apr 05	3.00	3.00	3.00	3.02	3.70
May 05	3.00	3.00	3.00	3.02	3.70
24 Jun 05	3.00	3.00	3.00	3.02	3.70

FD rates of FCs remained unchanged

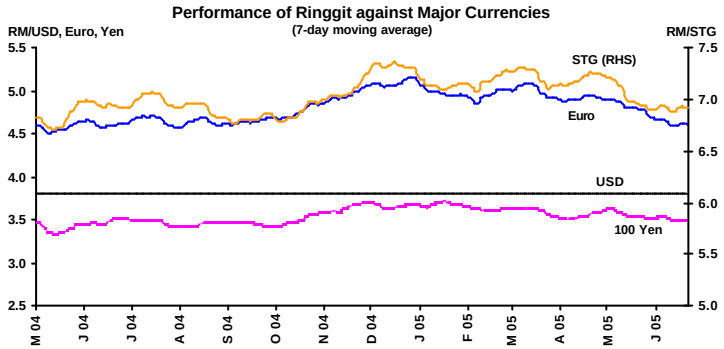
3-Month Real FD Rates

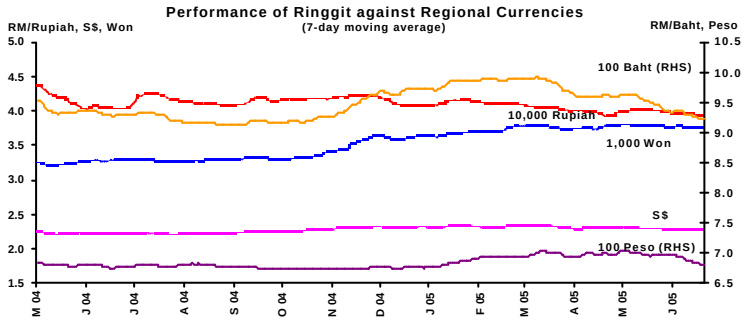


The 3-month real FD rate turned negative

Performance of the ringgit

Over the period 1 May – 27 June, the ringgit appreciated with the US dollar. The US dollar appreciated against the major currencies amid expectations of further US interest rate increases, yield differentials favouring the US dollar and continued expectations that economic growth in the US will outpace that of the Euro area and Japan in 2005. Concurrently, the euro weakened on concern over the future of EU economic integration and speculation of a reduction in the benchmark interest rate. The ringgit appreciated against the major and regional currencies.



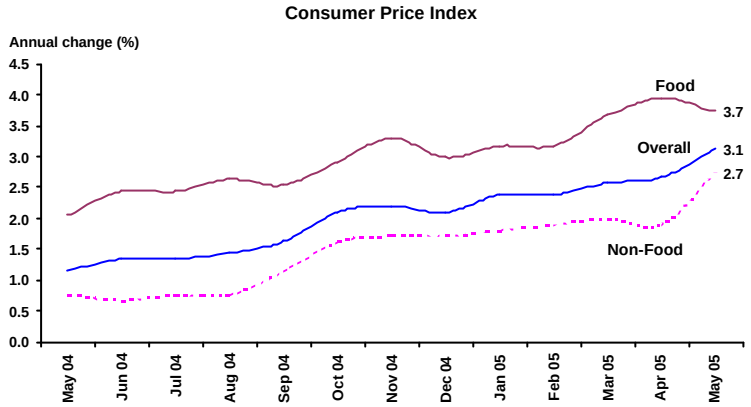


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change	
	Dec 04	Apr 05	May 05	27 Jun 05	End Dec 04 - 27 Jun 05	End Apr 05 - 27 Jun 05
US dollar	3.8000	3.8000	3.8000	3.8000	0.0	0.0
Euro	5.1729	4.9079	4.7112	4.6081	12.3	6.5
Pound sterling	7.3169	7.2542	6.8921	6.9303	5.6	4.7
100 Japanese yen	3.7026	3.5895	3.5164	3.4765	6.5	3.2
Singapore dollar	2.3258	2.3071	2.2840	2.2689	2.5	1.7
100 Thai baht	9.7636	9.5790	9.3862	9.2469	5.6	3.6
100 Philippine peso	6.7706	6.9817	6.9789	6.8413	-1.0	2.1
100 Indonesian rupiah	0.0408	0.0397	0.0400	0.0393	3.9	0.8
100 Korean won	0.3671	0.3785	0.3777	0.3752	-2.1	0.9

Inflation increased in May

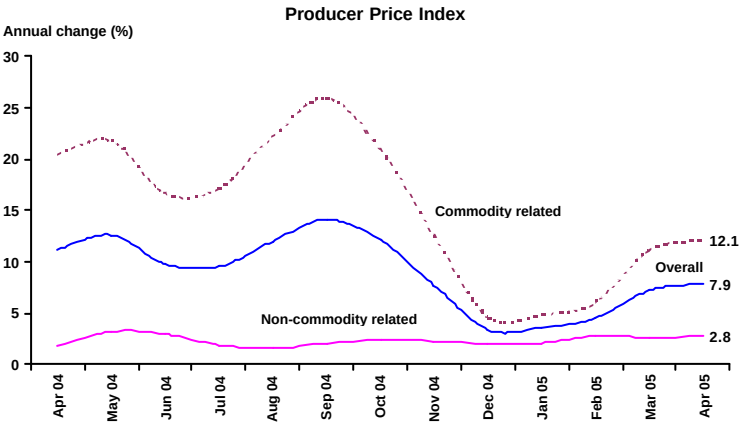
Headline inflation, as measured by the Consumer Price Index, increased to 3.1% in May (April: 2.7%). The higher inflation in May relative to April was due mainly to higher cost of transportation, following the upward revisions in bus and taxi fares, and the increase in the prices of retail petrol and diesel. Prices of other sub-groups, however, registered only marginal or slower increases.



Inflation increased to 3.1% in May

Producer prices increased

On an annual basis, the Producer Price Index (PPI) increased by 7.9% in April (March: 7.2%), as the increase in crude oil prices more than offset the decline in the prices of rubber and crude palm oil. Excluding commodity prices, the PPI was higher by 2.8% (March: 2.6%).



PPI inflation increased

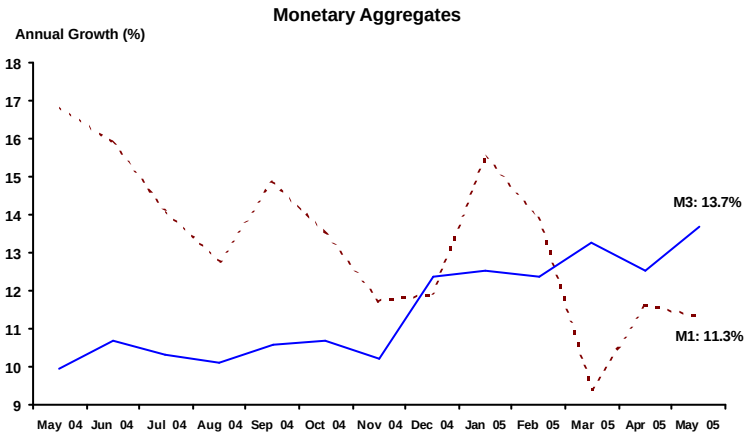
Monetary aggregates continued to expand in May

In May, transactional balances, measured by M1, grew at an annual rate of 11.3% (April: 11.6%). Broad money, M3, expanded by 13.7%, supported by the continued inflow of external funds and higher claims on the private sector. However, this expansionary impact was mitigated somewhat by the increase in Government deposits with Bank Negara Malaysia.

M3 Determinants
(RM billion)

	Change during period			
	2004	**Apr 05**	**May 05**	**Jan-May 05**
M3	68.0	0.2	8.7	35.3
Net claims on Government	38.1	1.4	-4.0	-11.6
Claims on the private sector	-9.7	-1.8	2.1	9.3
Loans	82.0	*0.1*	*4.3*	*14.8*
Securities	90.0	*-1.9*	*-2.2*	*-5.6*
Net external operations *	-8.0	4.0	12.4	45.4
Other influences	-28.1	-3.3	-1.8	-7.6

* Pre-revaluation of the international reserves



Banking system deposits continued to increase in May

Total deposits increased by RM13.1 billion or at an annual rate of 15.4% in May (April: 13.1%). The increase was mainly attributed to higher deposit placements by domestic business enterprises in the form of foreign exchange deposits, fixed deposits and Islamic Banking Scheme (SPI) deposits. Most of the foreign exchange deposits were transitory demand deposit placements by a multinational corporation.

Deposits by Holder
(RM million)

	Change during period			
	Feb 05	**Mar 05**	**Apr 05**	**May 05**
Federal Government	198	83	-281	646
State Governments	610	-134	-7	55
Statutory Authorities [1]	-255	190	230	1,495
Financial Institutions	398	6,441	4,167	1,533
Business Enterprises	1,653	10,367	-2,238	7,644
Individuals	3,255	253	340	586
Others [2]	-479	709	-363	1,178
Total	5,380	17,909	1,848	13,136

1/ Include local Governments

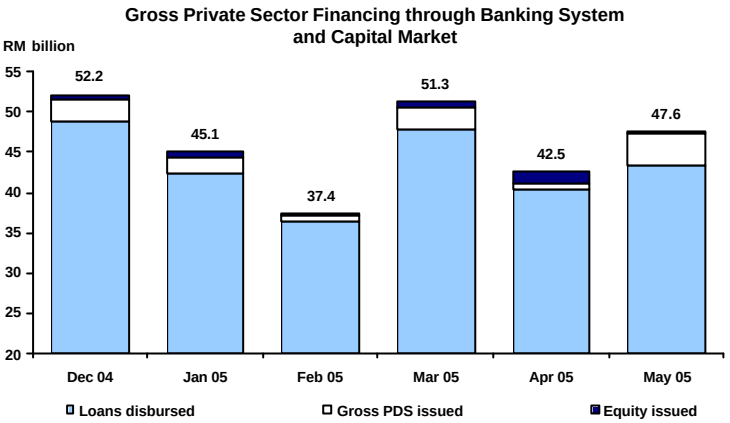
2/ Include domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

	Change during period			
	Feb 05	**Mar 05**	**Apr 05**	**May 05**
Fixed deposits	4,667	4,641	-808	3,703
NIDs	-1,262	8,958	4,686	728
Demand deposits	-1,125	-1,511	-1,096	420
Savings deposits	641	-504	-358	-195
Repos	2,588	4,110	1,043	138
FX deposits	-304	909	-1,093	4,218
SPI deposits	-33	864	-582	3,679
Others	208	442	56	445
Total	5,380	17,909	1,848	13,136

Financing to the private sector remained high

Continued demand for financing from the private sector was evident in May. Overall, total gross financing of the private sector by the banking system and the capital market amounted to RM47.6 billion (April: RM 42.5 billion) and expanded at an annual rate of 17.1% at end-May (end-April: 2.8%). This was attributed to the higher loans disbursed and gross PDS issuance during the period. On a net basis, the total financing of the private sector (banking system loans and PDS outstanding) remained firm, increasing at an annual rate of 9.5% at end-May (end-April: 9.3%).



Gross private sector financing remained at high levels

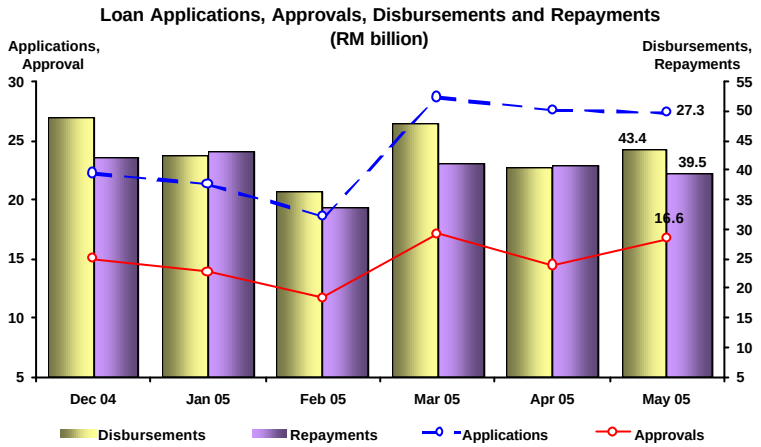
Bank lending indicators

	RM billion		Annual Growth (%)	
	Apr	May	Apr	May
Overall				
Loan applications	27.6	27.3	13.6	26.1
Loan approvals	14.4	16.6	-9.0	31.3
Loan disbursements	40.4	43.4	3.2	13.1
Chg in Loans Outstanding[1/]	0.3	4.9	8.8	8.6
Businesses				
Loan applications	14.8	14.9	12.8	30.9
Loan approvals	6.5	8.0	-19.0	47.3
Loan disbursements	27.2	29.4	1.6	11.6
Chg in Loans Outstanding[1/]	-2.3	2.3	2.0	1.7
SMEs				
Loan applications	5.6	5.5	25.3	12.3
Loan approvals	3.0	2.8	11.9	19.8
Loan disbursements	8.6	8.9	10.3	8.1
Chg in Loans Outstanding[1/]	-0.1	1.2	10.4	10.4
Households				
Loan applications	12.3	12.2	10.5	20.1
Loan approvals	7.8	8.6	0.8	18.9
Loan disbursements	11.5	11.7	9.5	15.4
Chg in Loans Outstanding[1/]	2.9	3.1	15.3	15.4

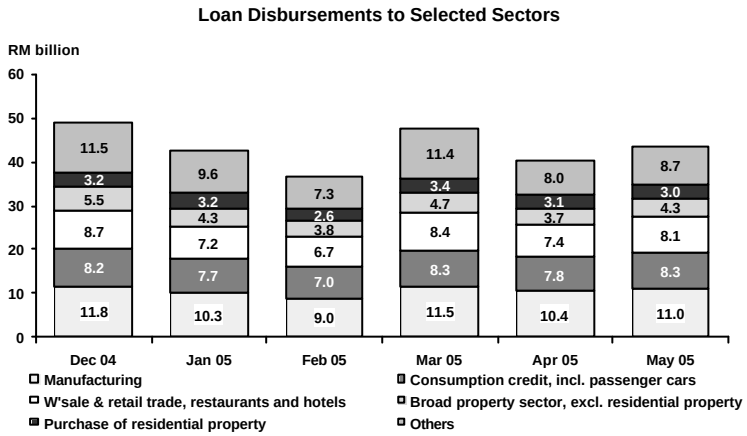
[1/] The annual growth is for end-period

Continued bank lending evident

Lending activity by the banking system remained at high levels, with sustained demand for financing coming from the business and household sectors. Overall, loan applications and approvals increased at higher annual rates of 26.1% and 31.3%, respectively at end-May (end-April: 13.6% and –9%). Similarly, loans disbursed to businesses and households also increased at higher annual rates of 11.6% and 15.4% respectively at end-May (end-April: 1.6% and 9.5%).



Indicators showed robust lending activity in May

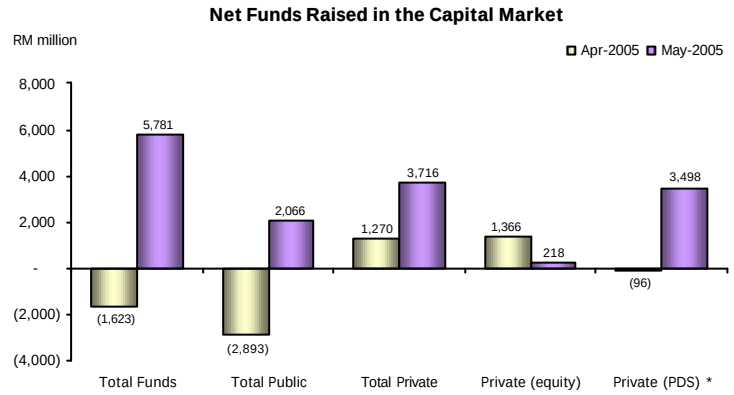


Disbursements during the month remained broad-based

As a result of continued demand for bank financing, loans outstanding grew at an annual rate of 8.6% at end-May (end-April: 8.8%). The annual growth in loans outstanding of businesses remained positive at 1.7% at end-May (end-April: 2%), due mainly to an increase in loans outstanding to SMEs, which grew by 10.4% (end-April: 10.4%). As a result, SME loans accounted for a higher share of 41.3% of the total loans to businesses (end-2004: 40.3%). Meanwhile, loans outstanding to the household sector grew at an annual rate of 15.4% at end-May (end-April: 15.3%).

Higher volume of funds raised in the capital market

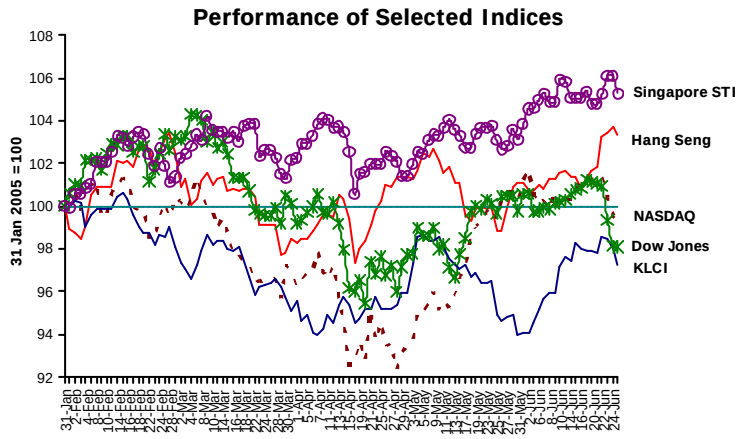
Net funds raised in the capital market were higher in May, amounting to RM5.8 billion, reflecting largely funds raised by the private sector through debt issuance. New issuances of PDS amounted to RM4 billion, mainly by companies in the utilities sector to finance new activity. During the month, the International Bank for Reconstruction and Development issued a 5-year RM760 million Islamic bond, representing the third supranational to source funds from the ringgit bond market. In the equity market, a smaller amount of RM217.5 million was raised mainly through six initial public offerings.



Funds raised in May were mainly through debt issuance by the private sector

KLCI increased as market sentiment improved in June

In May, the KLCI ended lower at 860.73 (since end-April: -2.1%) as market sentiment was affected by market volatility and continued selling pressure on several stocks which hit limit down. Market capitalisation declined to RM665.8 billion (since end-April: -3.4%). The daily average turnover during the month increased to 377.8 million units (April: 341.8 million units).

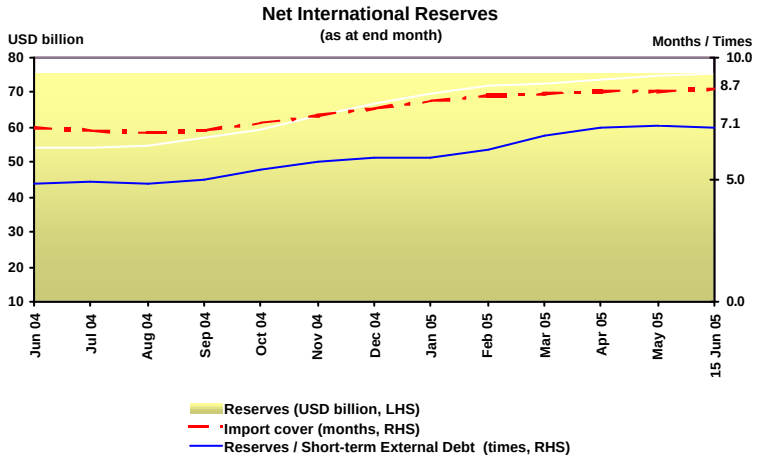


KLCI improved in the first three weeks of June

The performance of the KLCI improved in June. As at 27 June, the KLCI closed higher at 891.23 (since end-May: 3.5%) with market capitalisation at RM691.6 billion (since end-May: 3.9%). Market activity increased, with daily average turnover amounting to 547 million units.

International reserves strengthened further

The international reserves of Bank Negara Malaysia increased by RM4.3 billion (USD1.1 billion) to RM284.6 billion (USD74.9 billion) as at 31 May 2005. The increase in reserves in May was due mainly to continued repatriation of export earnings, inflows of portfolio investments and the drawdown of external loans by the private sector. Outflows reflected mainly payments for imports of goods and services and repatriation of dividends. Reserves strengthened further to RM285.6 billion (USD75.2 billion) as at 15 June 2005. The current level of reserves is sufficient to finance 8.7 months of retained imports and is 7.1 times the short-term external debt.



Banking system remained strong

The risk-weighted capital ratio (RWCR) and core capital ratio (CCR) of the banking system improved marginally to 13.3% and 10.5% respectively, largely following the recognition of audited profits as capital by several banking institutions. The net NPL ratio on 3-month classification declined to 7.2% whilst on 6-month classification, the net NPL ratio remained unchanged at 5.4% as at end-May 2005.

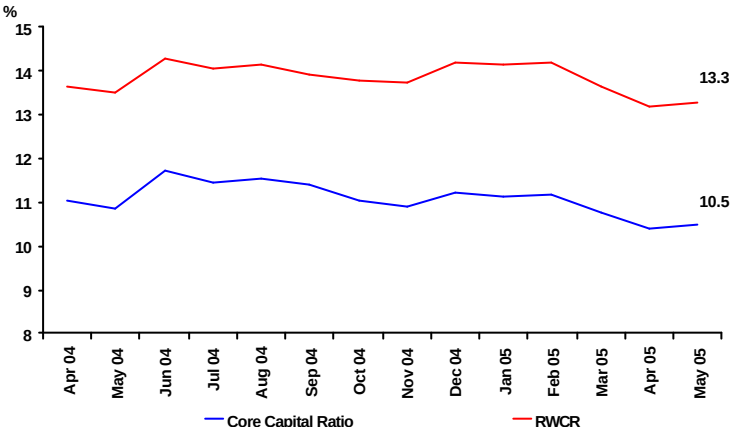
Banking System Health Indicators *

	As at end-								
	1999	2000	2001	2002	2003	Dec 04	Mar 05	Apr 05	May 05
Capital (%)									
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.3	10.9	10.4	10.5
RWCR	12.5	12.5	13.0	13.2	13.8	14.3	13.8	13.2	13.3
Net NPLs (6-month classification)									
% of net total loans	6.4	6.3	6.9	7.5	6.8	5.8	5.4	5.4	5.4
Amount (RM million)	23,849	24,700	32,833	31,702	30,766	28,630	27,007	27,190	27,242
GP / Net total loans (6-month, %)	1.9	1.9	1.9	1.8	1.8	1.7	1.7	1.7	1.7

* Beginning June 1999, the figures include Islamic banks.

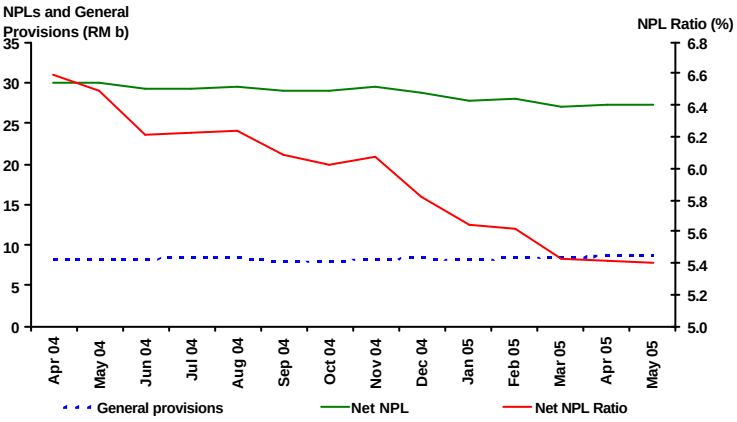
* Beginning April 2005, RWCR and CCR include market risk factor

Capital Strength Indicators



RWCR rose to 13.3%

Banking System: Net NPLs and General Provisions



Net NPL ratio (6-month classification) remained at 5.4%

Bank Negara Malaysia
28 June 2005

Key Monetary and Financial Statistics

		Mar 05		Apr 05		May 05	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		50.6	7.5	51.4	8.0	50.8	9.3
M1		115.7	9.4	114.3	11.6	114.7	11.3
M2		552.6	25.7	552.5	24.7	561.0	26.5
M3		644.0	13.3	644.3	12.5	652.9	13.7
Banking System							
Total deposits		651.1	13.6	652.9	13.1	666.1	15.4
Total loans (including loans sold to Cagamas)		522.5	9.1	522.8	8.8	527.7	8.6
Loan-deposit ratio (%)		76.6		76.5		75.8	
Financing-deposit ratio [1] (%)		85.2		84.9		83.9	
Loans applied (during the period)		28.6	20.3	27.6	13.6	27.3	26.1
Loans approved (during the period)		17.1	3.1	14.4	-9.0	16.6	31.3
Loans disbursed (during the period)		47.7	12.1	40.4	3.2	43.4	13.1
Loans repaid (during the period)		41.1	0.4	40.7	4.4	39.5	14.1
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.8		13.2		13.3	
Net NPLs: 6-month classification (%)		5.4		5.4		5.4	
International Reserves of BNM (end-period)							
Reserves in RM (billion)		275.2		280.2		284.5	
Reserves in USD (billion)		72.4		73.7		74.9	
Months of retained imports		8.5		8.6		8.6	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		2.70		2.70		2.70	
Interbank:	Overnight	2.72 [2.70]		2.67 [2.70]		2.69 [2.70]	
	1-week	2.75 [2.73]		2.72 [2.72]		2.72 [2.72]	
	1-month	2.77 [2.76]		2.79 [2.78]		2.81 [2.79]	
	3-month	2.82 [2.80]		2.80 [2.80]		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		5.90		5.97		5.94	
Prices							
Consumer Price Index (CPI) (2000=100)		107.7	2.6	108.0	2.7	108.8	3.1
Producer Price Index (PPI) (1989=100)		160.8	7.2	161.7	7.9	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
Euro		4.9125		4.9079		4.7112	
Pound Sterling		7.1415		7.2542		6.8921	
100 Japanese yen		3.5446		3.5895		3.5164	
Singapore dollar		2.3034		2.3071		2.2840	
100 Thai Baht		9.7013		9.5790		9.3862	
100 Philippine Peso		6.9381		6.9817		6.9789	
100 Indonesian Rupiah		0.0401		0.0397		0.0400	
100 Korean Won		0.3734		0.3785		0.3777	
Capital Market							
Net funds raised (in RMb) by:	public	4.0		-2.9		2.1	
	private	1.3		1.3		3.7	
Bursa Malaysia Composite Index (end-period)		871.4		879.0		860.7	
Bursa Malaysia Market Capitalisation (RMb, end-period)		694.9		689.0		665.8	

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