BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 11/04/30 (BN)

EMBARGO: Not for publication or broadcast before 1800 hours on Tuesday, 30 November 2004

Monetary and Financial Developments October 2004
Highlights of the Press Release

Private sector financing activities were sustained in October

The health of the banking system continued to strengthen in October. The net non-performing loan (NPL) ratio based on the 6-month classification, improved further to 6%, the lowest level since the Asian crisis. Together with the low interest rate environment, the resilience of the banking system contributed to the expansion in the total financing of the private sector. Banking system loans and private debt securities outstanding expanded at an annual rate of 8%, facilitating private sector economic activity.

Financing provided to the SMEs remained high, with loan applications, loan approvals, and loans outstanding expanding at annual growth rates of 23.7%, 20.5% and 8% respectively. Loan disbursements to the SMEs amounted to RM8.6 billion, while loan approvals to 10,067 SME accounts amounted to RM3 billion.

Lending to the household sector continued to expand, with loans outstanding to the sector expanding by 14.3% on an annual basis. Coupled with the 13.5% expansion in narrow money, M1, this reflected resilient private consumption.

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MONETARY AND FINANCIAL DEVELOPMENTS OCTOBER 2004

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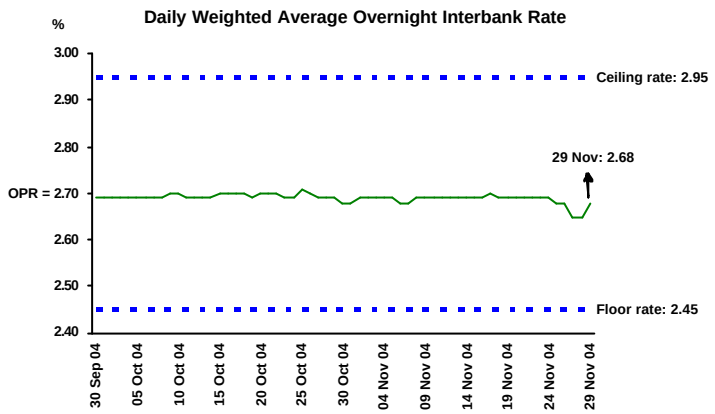
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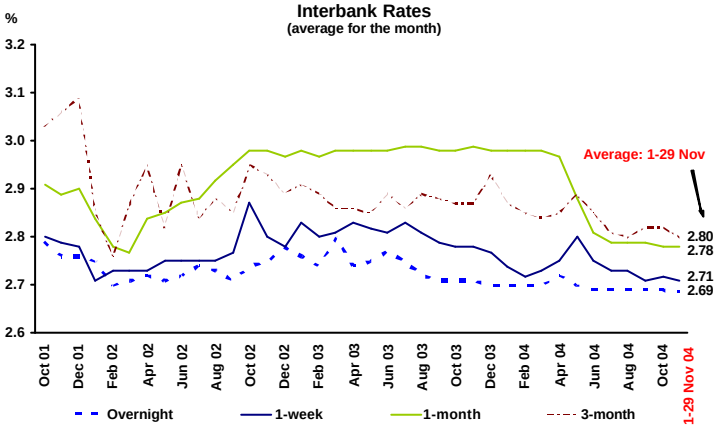
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Interest rates remained low

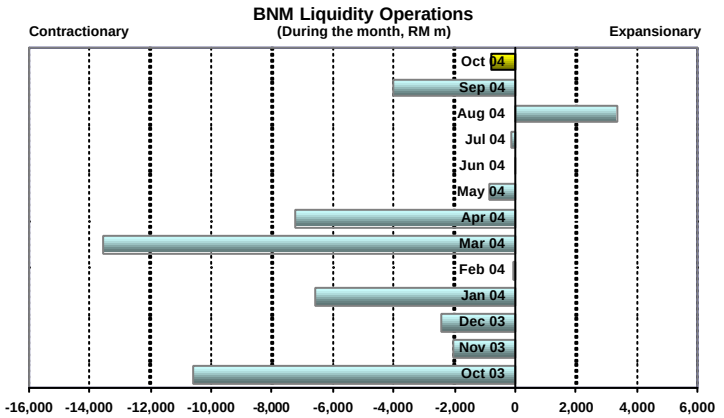
In the period 1 October – 29 November, the daily weighted average of the overnight interbank rate moved within a narrow range of 2.65 – 2.71%, averaging at 2.69%.



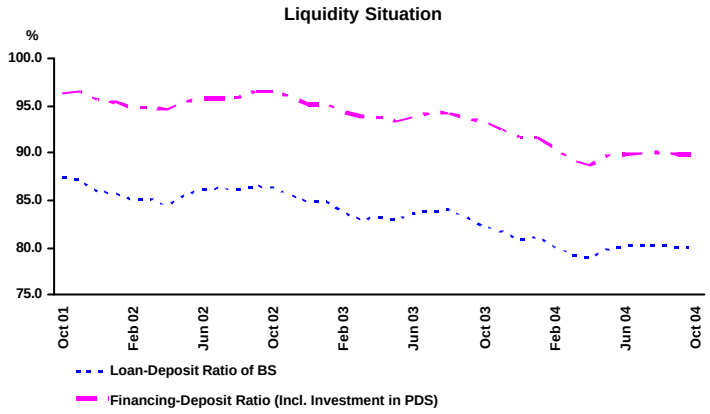
The overnight interbank rate remained stable



Other interbank rates also remained stable

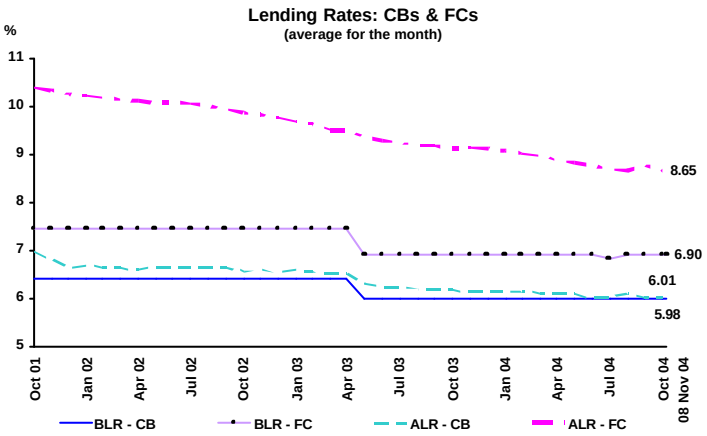


Liquidity operations were contractionary in October to offset the expansionary impact of external operations

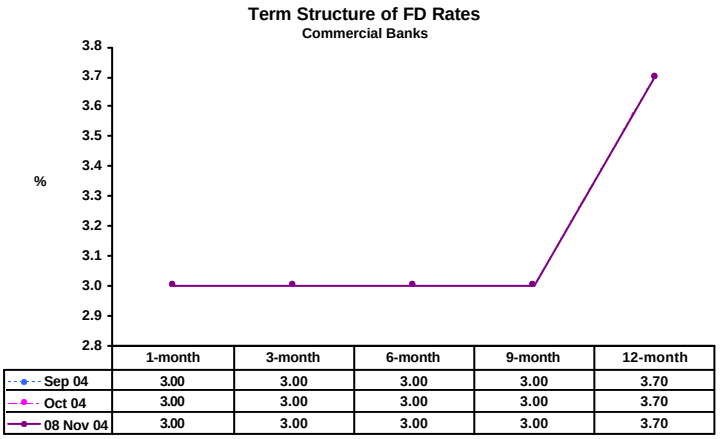


The financing-deposit ratio stood at 89.9%

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-October. The average lending rate (ALR) of the CBs remained unchanged at 6.01%, while the ALR of the FCs declined by 11 basis points to 8.65% (8.76% at end-September) due mainly to the merger of a finance company with its commercial bank.

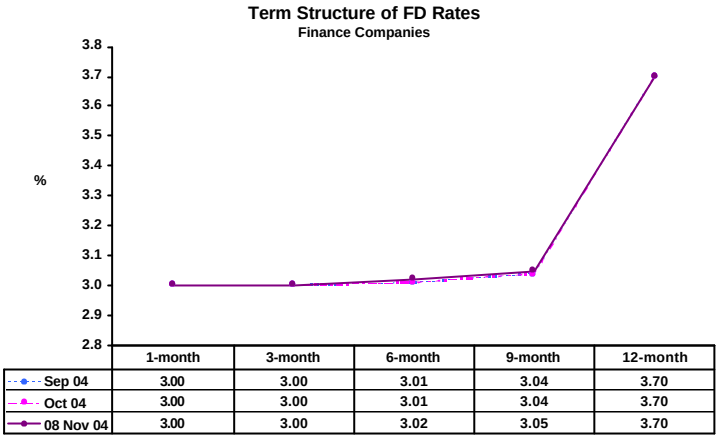


ALR of the FCs declined



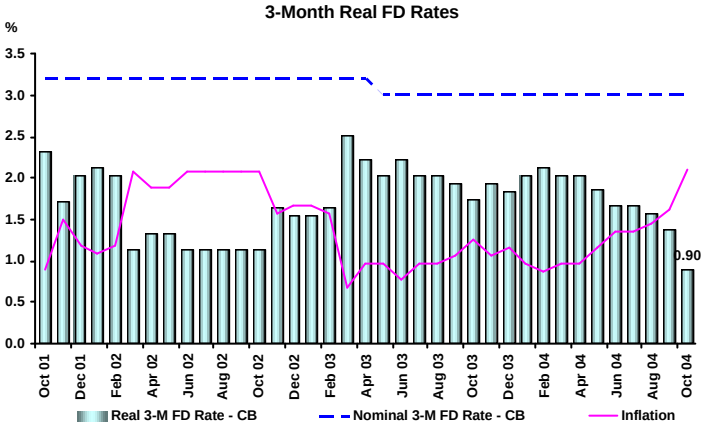
	1-month	3-month	6-month	9-month	12-month
Sep 04	3.00	3.00	3.00	3.00	3.70
Oct 04	3.00	3.00	3.00	3.00	3.70
08 Nov 04	3.00	3.00	3.00	3.00	3.70

FD rates of CBs remained unchanged



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

FD rates of FCs remained stable

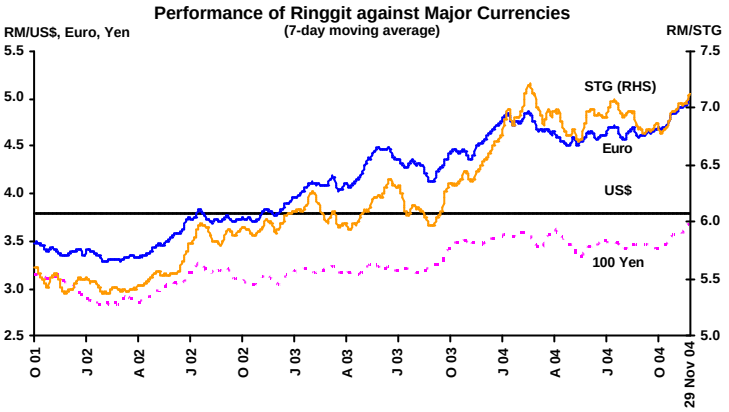


The 3-month real FD rate declined

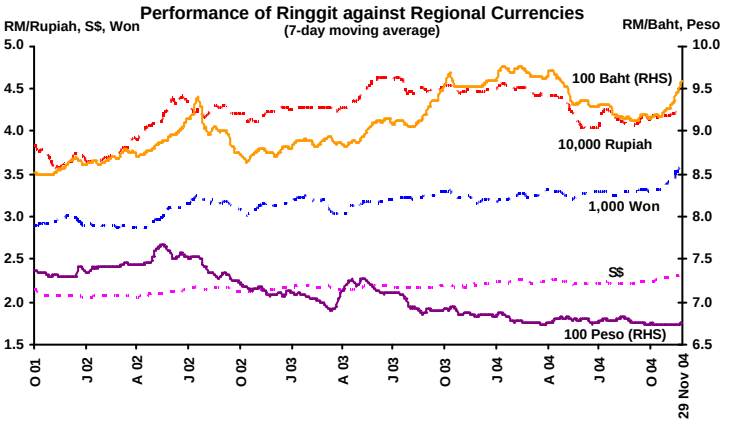
Performance of the ringgit

In October, the ringgit depreciated against the major currencies and most regional currencies. The US dollar weakened on concerns that the pace of US interest rate increases would be slower following the easing of inflationary pressures in the US economy and concerns that higher oil prices contributed to slower US economic growth.

In November, the ringgit continued to depreciate against the major and regional currencies. The US dollar depreciated on increasing market concerns over the impact of the US current account deficit on the US dollar.



In the period 1-29 November, the ringgit depreciated against the major and regional currencies

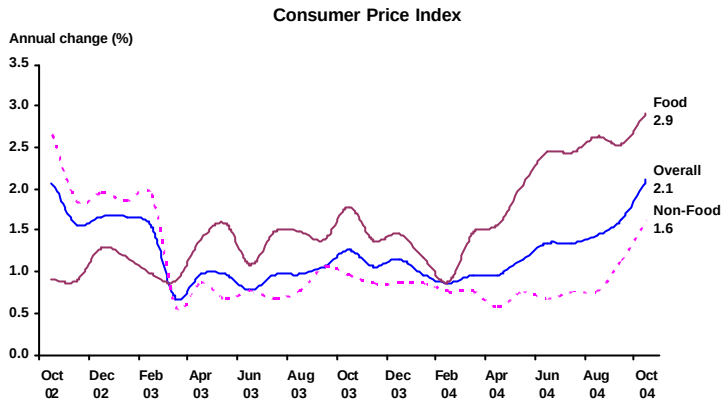


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period			% Change			
	02 Sep 98	Oct 04	29 Nov 04	Oct 04	End Oct 04 - 29 Nov 04	End Dec 03 - 29 Nov 04	02 Sep 98 - 29 Nov 04
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.8431	5.0360	-3.3	-3.8	-5.1	-
Pound Sterling	6.3708	6.9607	7.1814	-1.8	-3.1	-5.8	-11.3
100 Japanese yen	2.7742	3.5800	3.6925	-4.3	-3.0	-3.7	-24.9
Singapore dollar	2.1998	2.2868	2.3187	-1.7	-1.4	-3.6	-5.1
100 Thai baht	9.3713	9.2672	9.6203	-1.1	-3.7	-0.3	-2.6
100 Philippine peso	8.8302	6.7451	6.7646	0.1	-0.3	1.2	30.5
100 Indonesian Rupiah	0.0354	0.0418	0.0422	-0.9	-0.9	6.3	-16.1
100 Korean won	0.2827	0.3389	0.3625	-2.8	-6.5	-12.3	-22.0

Inflation edged up

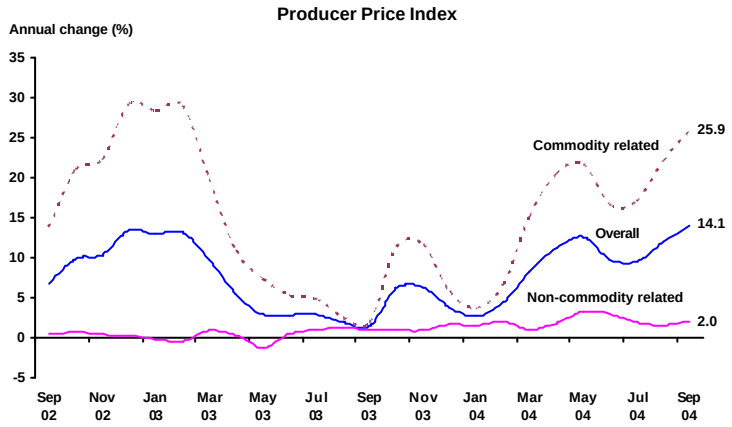
The annual inflation rate, as measured by the Consumer Price Index (CPI, 2000=100), edged up to 2.1% in October (1.6% in September). This reflected the impact of higher personal transportation charges following the increase in retail petrol prices and higher meat product prices. The average annual inflation rate for the first ten months of 2004 was 1.2% (1.2% in January-October 2003).



CPI rose by 2.1%

Producer prices rose in September

The Producer Price Index (PPI, 1989=100) rose in September to register an annual growth rate of 14.1% (12% in August), due mainly to higher commodity prices. Excluding commodity-related products, the non-commodity related PPI increased at an annual rate of only 2% (1.6% in August).

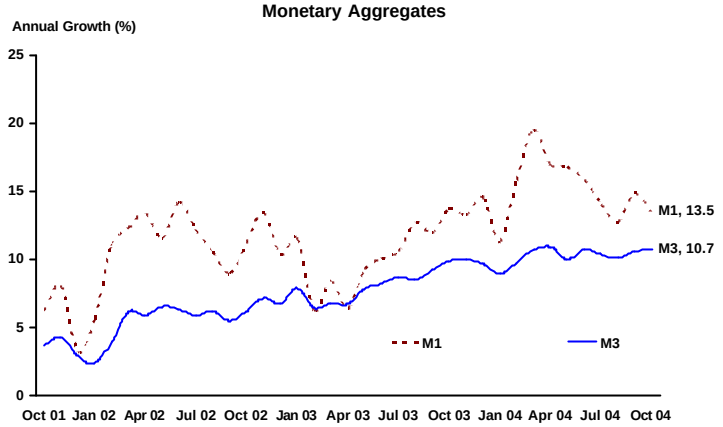


Non-commodity related PPI rose by 2%

Monetary aggregates continued to expand

Broad money, M3, grew at an annual rate of 10.7% in October (10.6% in September). The increase in M3 of RM6.6 billion during the month (RM8.6 billion in September) reflected expansionary external operations and bank financing activities. Meanwhile, narrow money, M1, expanded at an annual rate of 13.5%, reflecting resilient private consumption.

Monetary Aggregates



Monetary aggregates continued to expand

M3 Determinants
(RM billion)

	Change during period			
	Aug 04	**Sep 04**	**Oct 04**	**Jan - Oct 04**
M3	2.1	8.6	6.6	48.9
Net claims on Government	-0.9	-3.4	-1.8	-12.3
Claims on the private sector	3.4	7.2	0.4	26.6
Loans	*3.0*	*6.3*	*1.7*	*30.2*
Securities	*0.4*	*1.0*	*-1.3*	*-3.6*
Net external operations *	0.8	9.2	11.0	62.4
Other influences	-1.1	-4.4	-3.0	-27.7

* Pre-revaluation

Banking system deposits increased

Total deposits mobilised by the banking system increased by RM3.1 billion during the month, due mainly to the deposits by businesses. On annual basis, total banking system deposits increased by 10.2% at end-October (11.1% at end-September).

Deposits by Holder
(RM million)

	Change during period			
	Aug 04	**Sep 04**	**Oct 04**	**Jan - Oct 04**
Federal Government	394	451	-614	-669
State Governments	588	-276	-171	518
Statutory Authorities [1]	-5	497	-539	-3,351
Financial Institutions	-56	3,265	-784	11,095
Business Enterprises	258	4,810	3,032	22,093
Individuals	1,325	730	1,550	13,760
Others [2]	379	815	645	2,796
Total	2,884	10,292	3,119	46,241

1/ Include local Governments

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

Businesses were main contributors of banking system deposits

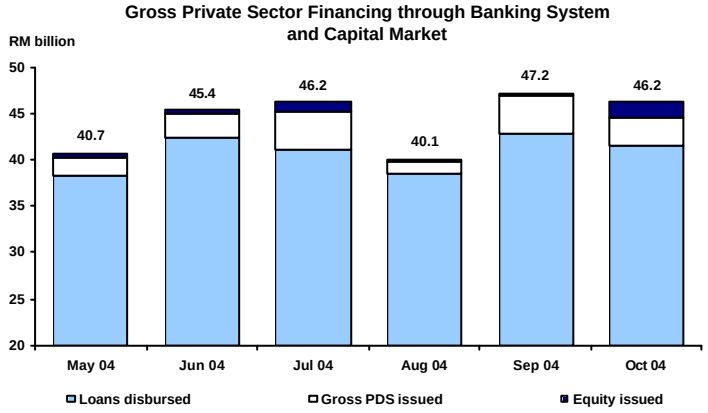
Deposits by Type
(RM million)

	Change during period			
	Aug 04	Sep 04	Oct 04	Jan - Oct 04
Fixed deposits	-745	1,047	-2,445	11,945
NIDs	316	2,762	-189	7,096
Demand deposits	1,924	716	-88	2,851
Savings deposits	144	-4	138	1,789
Repos	503	-68	3,882	8,713
FX deposits	-55	2,809	697	3,421
SPI deposits	907	2,410	1,734	8,560
Others	-111	620	-610	1,867
Total	2,884	10,292	3,119	46,241

Higher deposits were mainly in the form of repos

Financing to the private sector remained high

Gross financing extended to the private sector from the banking system and the capital market remained high at RM46.2 billion in October (RM47.2 billion in September). The funds raised were mainly in the form of loan disbursements by the banking system (RM41.5 billion) and private debt securities (PDS) issues (RM3 billion). On a net basis, total financing of the private sector (banking system loans and PDS outstanding) grew at an annual rate of 8% (8% in September).



Financing extended to the private sector remained high

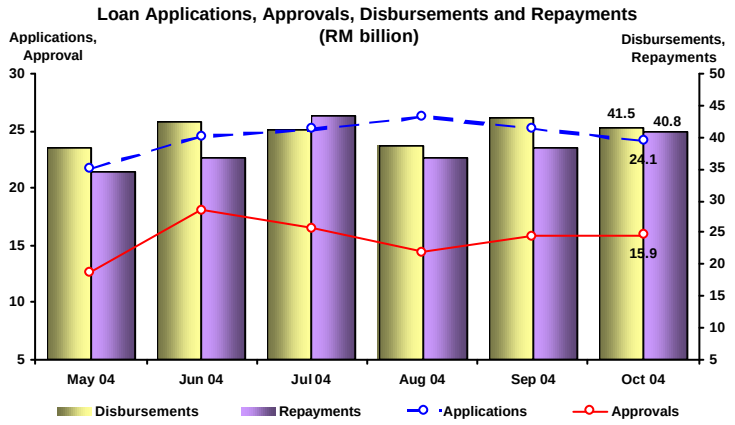
Total loans outstanding of the banking system increased by 6.4% on an annual basis as at end-October (6.2% at end-September). The annual growth rates of the two forward-looking loan indicators, total loan applications and loan approvals, remained high at 23.8% and 18.2% respectively, indicating sustained private sector financing activities. Total loan disbursements also remained high, amounting to RM41.5 billion in October (RM42.9 billion in September), but declined slightly on an annual basis, by 0.1% (13.1% in September).

In general, bank-lending activity to the business sector was sustained in October. Total business loan applications and loan approvals continued to grow on

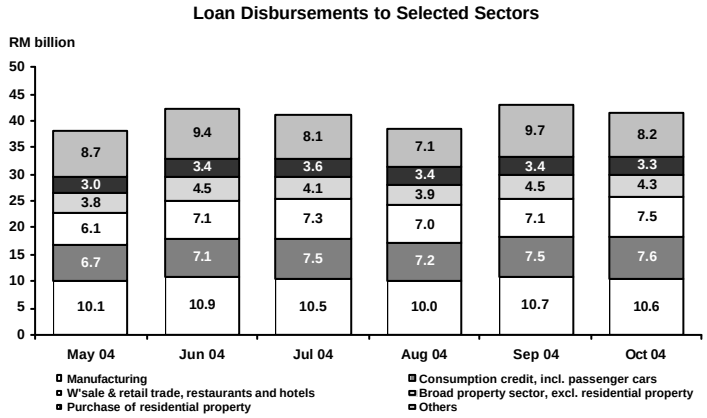
an annual basis, growing at annual rates of 32.6% and 24% respectively. Loan disbursements to businesses remained high at RM28.6 billion (RM29.2 billion in September), but declined marginally at an annual rate of 2%.

Within the business sector, bank lending to the SMEs continued to expand. The demand for funds by SMEs, as reflected in loan applications, expanded by 23.7% on an annual basis. Loan approvals to SMEs increased at an annual rate of 20.5%, with RM3 billion approved to 10,067 SME accounts (9,278 SME accounts in September). Loan disbursements to SMEs expanded at an annual rate of 3.5%, amounting to RM8.6 billion (RM8.6 billion in September). Loans outstanding to the SMEs expanded by 8% on an annual basis to reach RM86.4 billion at end October (RM86.1 billion at end September).

Meanwhile, lending to the household sector continued to expand. Household loan disbursements expanded by 6.8% on an annual basis, while household loan applications and approvals grew at annual rates of 16% and 17.7% respectively. Consequently, bans outstanding to the household sector expanded by 14.3% on an annual basis.



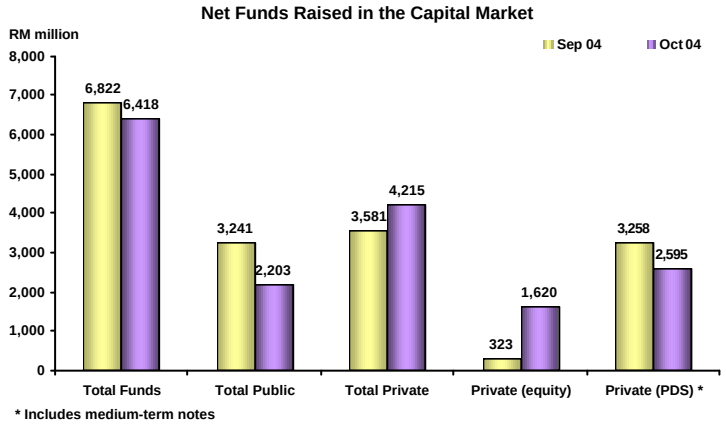
All major loan indicators were sustained at high levels



High level of loans disbursed across all sectors

The private sector raised higher funds in the capital market

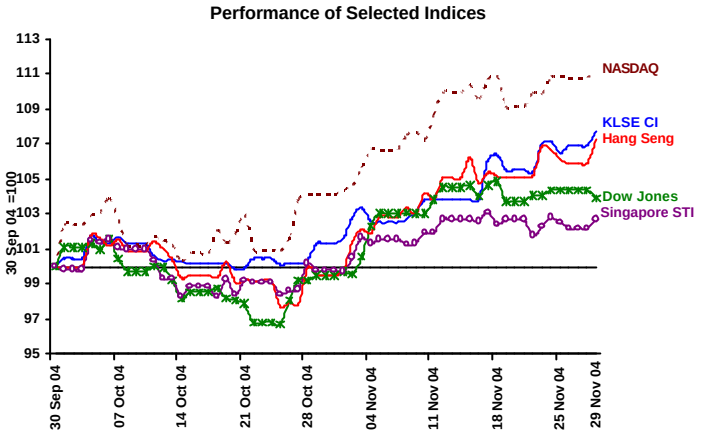
In October, net funds raised in the capital market remained high, amounting to RM6.4 billion, (RM6.8 billion in September). The bulk of the funds raised were by the private sector. Net funds raised by the private sector were higher in October, amounting to RM4.2 billion (RM3.6 billion in September). PDS issuances amounted to RM3 billion, while equity issuances were significantly higher due to 10 initial public offerings (IPOs) that amounted to RM1.6 billion (four IPOs amounting to RM323.3 million in September). In the public sector, the gross funds raised of RM3.5 billion were mainly through the reopening of MGS 4/04 and the new issuance of GII 3/04.



Higher net funds raised by the private sector

The KLSE CI closed higher at 861.1 points at end-October (+1.3% since end-September). For most of October, market sentiment was affected by concerns over rising crude oil prices and their impact on the overall economy. Towards the end of the month, sentiment improved following a decline in oil prices. Market capitalisation was higher at RM674.3 billion (+0.2% since end-September), while the daily average turnover for the month was higher at 330.8 million units.

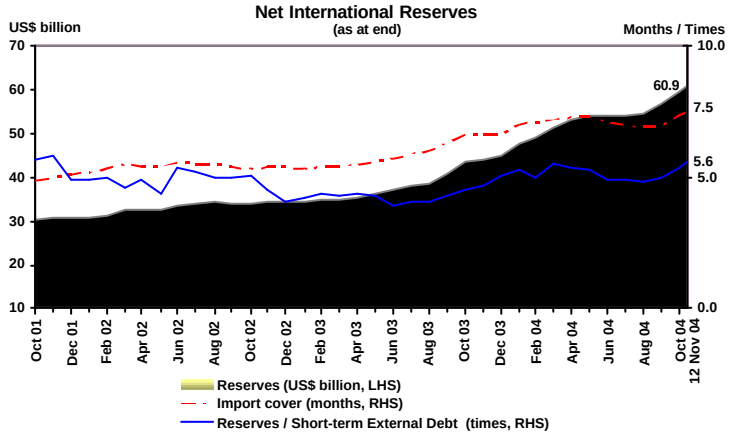
In the period 1-29 November, market sentiment continued to improve, with the KLSE CI breaching the 900-point level on 17 November, as crude oil prices continued to decline. The KLSE CI closed higher at 915.90 points on 29 November (+6.4% since end-October). Market capitalisation was higher at RM720.9 billion (+6.9% since end-October), while the daily average turnover for the month was also higher at 532.1 million units.



KLSE CI closed higher

International reserves increased further

The international reserves of Bank Negara Malaysia increased further to RM226 billion or US$59.5 billion as at 30 October. The increase of RM9.8 billion (US$2.6 billion) in October was due mainly to the higher repatriation of export earnings, inflows of portfolio funds and foreign direct investment. Outflows reflected mainly payment for imports of goods and services and the repatriation of dividends. The reserves increased further to RM231.4 billion (US$60.9 billion) as at 12 November. The reserves position was adequate to finance 7.5 months of retained imports and was 5.6 times the short-term external debt.



Reserves increased further

High level of capitalisation amidst further improvement in asset quality

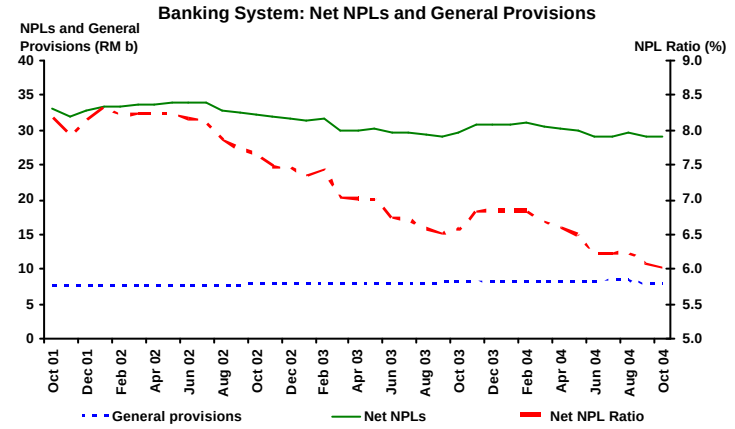
The risk-weighted capital ratio (RWCR) and core capital ratio of the banking system remained strong at 13.7% and 11.0% respectively. A marginal decline in the ratios was due mainly to the completion of a merger between a commercial bank and

a finance company. Meanwhile, net NPL ratio based on 6-month classification improved further to 6%, the lowest level since the Asian crisis.

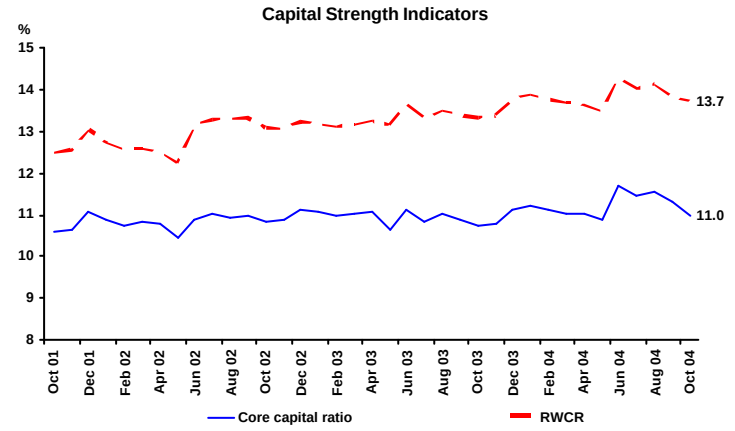
Banking System Health Indicators *

	As at end-							
	1999	2000	2001	2002	2003	Aug 04	Sep 04	Oct 04
Capital (%)								
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.5	11.3	11.0
RWCR	12.5	12.5	13.0	13.2	13.8	14.1	13.8	13.7
Net NPLs (6-month classification)								
% of net total loans	6.4	6.3	8.1	7.5	6.8	6.2	6.1	6.0
Amount (RM million)	23,849	24,700	32,833	31,703	30,766	29,481	29,107	28,964
GP / Net total loans (6-month, %)	1.9	1.9	1.9	1.8	1.8	1.8	1.6	1.7

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



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



RWCR and core capital ratio declined marginally to 13.7% and 11% respectively

Bank Negara Malaysia
30 November 2004

Key Monetary and Financial Statistics

		Aug 04		Sep 04		Oct 04	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		47.4	6.0	47.1	5.8	50.0	12.3
M1		105.7	12.8	107.4	14.9	109.3	13.5
M2		467.0	14.7	483.5	17.9	503.3	21.0
M3		583.3	10.1	592.0	10.6	598.6	10.7
Banking System							
Total deposits		586.7	10.2	597.0	11.1	600.1	10.2
Total loans (including loans sold to Cagamas)		495.5	5.3	501.9	6.2	504.4	6.4
Loan-deposit ratio (%)		80.3		80.1		80.0	
Financing-deposit ratio [1] (%)		90.1		89.8		89.9	
Loans applied (during the period)		26.2	21.8	25.2	35.5	24.1	23.8
Loans approved (during the period)		14.4	14.4	15.8	20.0	15.9	18.2
Loans disbursed (during the period)		38.6	3.2	42.9	13.1	41.5	-0.1
Loans repaid (during the period)		36.7	5.2	38.4	3.6	40.8	-1.6
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		14.1		13.8		13.7	
Net NPLs: 6-month classification (%)		6.2		6.1		6.0	
International Reserves of BNM (end-period)							
Reserves in RM (billion)		207.1		216.1		225.9	
Reserves in USD (billion)		54.5		56.9		59.5	
Months of retained imports		6.9		7.0		7.4	
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]		2.69 [2.69]		2.68 [2.69]	
	1-week	2.74 [2.74]		2.73 [2.72]		2.70 [2.72]	
	1-month	2.83 [2.80]		2.75 [2.79]		2.78 [2.79]	
	3-month	2.80 [2.81]		2.83 [2.83]		2.82 [2.82]	
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		6.09		6.01		6.01	
Prices							
Consumer Price Index (CPI) (2000=100)		105.8	1.4	106.2	1.6	106.8	2.1
Producer Price Index (PPI) (1989=100)		152.7	12.0	155.2	14.1		
Exchange Rates of Ringgit against Selected Currencies (end-period)							
Euro		4.5621		4.6826		4.8431	
Pound Sterling		6.8007		6.8347		6.9607	
100 Japanese yen		3.4478		3.4264		3.5800	
Singapore dollar		2.2166		2.2475		2.2868	
100 Thai Baht		9.1182		9.1644		9.2672	
100 Philippine Peso		6.7559		6.7517		6.7451	
100 Indonesian Rupiah		0.0406		0.0414		0.0418	
100 Korean Won		0.3294		0.3295		0.3389	
Capital Market							
Net funds raised (in RMb) by:	public	4.4		3.2		2.2	
	private	1.5		3.6		4.2	
Bursa Malaysia Composite Index (end-period)		828.0		850.0		861.1	
Bursa Malaysia Market Capitalisation (RMb, end-period)		654.3		672.6		674.3	

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