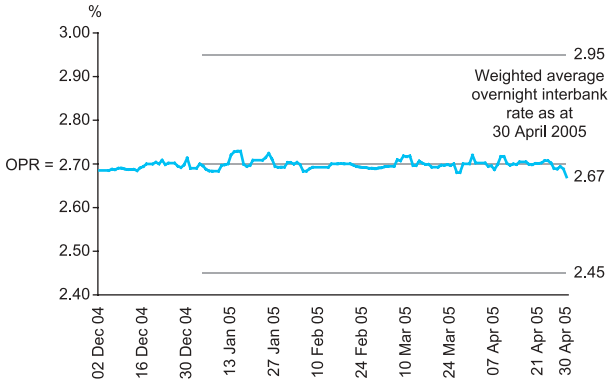
MONETARY AND FINANCIAL DEVELOPMENTS

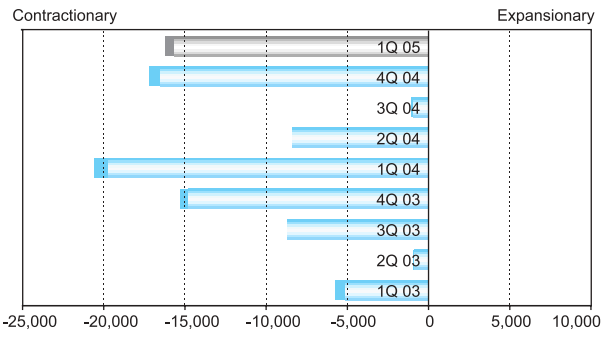
Monetary policy continued to support growth

In the first quarter, monetary and financial indicators continued to reflect a sustained expansion in underlying economic activity with monetary policy continuing its growth supportive stance. The Overnight Policy Rate (OPR) was maintained at 2.70%. The daily weighted average of the overnight interbank rate moved within a narrow range of 2.67% - 2.73%, averaging 2.70% in the period 1 January - 30 April 2005. Low interest rates and ample liquidity in the banking system continued to support the financing of economic activity through the banking system and the capital market.

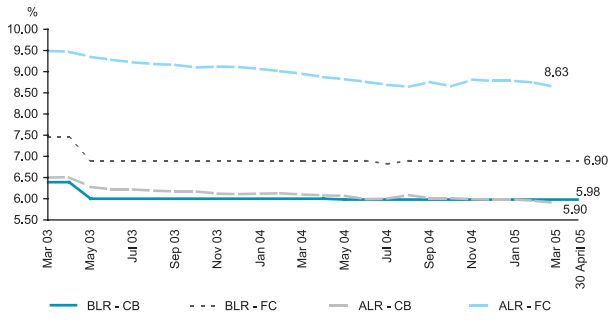
Daily Weighted Average Overnight Interbank Rate



BNM Liquidity Operations
(During the quarter, RM m)



Lending Rates of Commercial Banks & Finance Companies
(average for the month)



Interest Rates

	1Q 04	4Q 04	1Q 05
	At end-period (%)		
3-month intervention rate*	4.50		
Overnight Policy Rate (OPR)*		2.70	2.70
Interbank rates			
Overnight	2.71	2.69	2.70
1-month	2.98	2.77	2.76
Base lending rates (BLR)			
Commercial banks	6.00	5.98	5.98
Finance companies	6.90	6.90	6.90
Average lending rates			
Commercial banks	6.10	5.98	5.90
Finance companies	8.95	8.78	8.63
Fixed deposit rates			
Commercial banks			
3-month	3.00	3.00	3.00
12-month	3.70	3.70	3.70
Finance companies			
3-month	3.00	3.00	3.00
12-month	3.70	3.70	3.70

* Effective 26 April 2004, the Overnight Policy Rate (OPR) replaced the 3-month intervention rate as the indicator of the monetary policy stance.

As at end-March 2005, the average BLR of commercial banks (CBs) and finance companies (FCs) remained unchanged at 5.98% and 6.90% respectively, while the ALR of CBs and FCs declined to 5.90% and 8.63%.

Financing of the private sector sustained at a high level

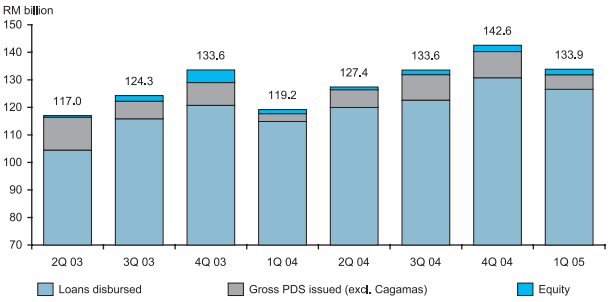
In the first quarter of 2005, gross private sector financing raised through the banking system and the capital market stood at RM133.9 billion (4Q 2004: RM142.6 billion), with an annual growth rate of 12.3% (4Q 2004: 6.7%). The amount of financing was slightly lower than the previous quarter, however, in part due to the fewer number of working days in the first quarter. Meanwhile, on a net basis, banking system loans and PDS outstanding increased further at an annual rate of 9.6% at end-March 2005 (end-2004: 9%), driven mainly by loans outstanding, which grew by 9.1% on an annual basis at end-March 2005 (end-2004: 8.5%).

Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual change (%)			
	1Q 04	4Q 04	2004	1Q 05	1Q 04	4Q 04	2004	1Q 05
Gross total financing	119.2	142.6	522.8	133.9	1.7	6.7	6.2	12.3
Loans disbursed	114.9	130.8	488.2	126.6	14.4	8.3	10.6	10.2
Gross PDS (excl. Cagamas)	2.8	9.5	28.1	5.3	-82.5	14.7	-34.4	86.4
Equity	1.5	2.3	6.5	2.0	160.1	-49.3	-16.7	31.6
Outstanding total financing (A)+(B)	6.9	18.2	55.6	11.2	8.2	9.0	9.0	9.6
Banking system	3.3	10.7	39.0	8.2	5.3	7.7	7.7	8.6
Loans outstanding (A)[1]	*5.3*	*11.9*	*40.1*	*8.7*	*5.7*	*8.5*	*8.5*	*9.1*
Holding of PDS	*-2.0*	*-1.2*	*-1.1*	*-0.6*	*0.1*	*-3.1*	*-3.1*	*1.3*
PDS outstanding (B)	1.6	6.3	15.5	2.5	17.5	10.7	10.7	11.2
Memorandum item								
Gross PDS (incl Cagamas)	6.0	10.1	36.3	5.5	-65.3	-3.9	-28.7	-9.2

[1] Including loans sold to Cagamas

Gross Private Sector Financing through Banking System and Capital Market



The major loan indicators registered positive growth rates in the first quarter. Loan disbursements to businesses rose at an annual rate of 11.1% during the quarter (4Q 2004: 7.8%) and continued to be channeled mainly to the manufacturing sector (35.6% of total disbursements to businesses); wholesale, retail, restaurants and hotels sector

Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	2004	1Q 04	4Q 04	1Q 05		
	RM billion				%	
Business enterprises	335.3	78.2	90.8	86.9	68.7	41.9
Large corporations	*234.9*	*54.6*	*63.7*	*61.0*	*48.2*	*24.8*
SMEs	*100.4*	*23.7*	*27.2*	*25.9*	*20.5*	*17.1*
Households	130.3	30.8	34.0	33.9	26.8	52.3
By sector						
Agriculture, hunting, forestry and fishing	13.7	3.1	3.4	3.1	2.5	2.1
Mining and quarrying	2.0	0.5	0.7	0.5	0.4	0.2
Manufacturing	121.5	27.2	32.5	30.9	24.4	12.0
Broad property sector	88.8	21.0	23.2	22.0	17.4	40.8
Construction	*30.3*	*7.0*	*8.5*	*7.4*	*5.8*	*5.8*
Purchase of residential property	*38.8*	*9.5*	*9.3*	*9.2*	*7.3*	*26.3*
Purchase of non-residential property	*12.1*	*2.7*	*3.3*	*3.5*	*2.8*	*6.1*
Real estates	*7.5*	*1.8*	*2.1*	*1.9*	*1.5*	*2.7*
Electricity, gas and water supply	6.4	1.5	2.2	1.4	1.1	1.0
Wholesale, retail, restaurants and hotels	83.7	18.3	24.0	22.3	17.6	8.4
Transport, storage and communication	9.5	2.5	2.6	1.9	1.5	1.8
Finance, insurance and business services	36.5	10.6	8.6	11.1	8.7	6.1
Total	**488.2**	**114.9**	**130.8**	**126.6**	**100.0**	**100.0**

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)				Annual change (%)			
	1Q 04	4Q 04	2004	1Q 05	1Q 04	4Q 04	2004	1Q 05
Total								
Loan applications	58.6	67.8	273.3	68.4	4.4	21.6	20.1	16.9
Loan approvals	37.2	43.2	173.6	42.6	5.2	10.9	13.6	14.6
Loan disbursements	114.9	130.8	488.2	126.6	14.4	8.3	10.6	10.2
Loan repayments	112.5	120.7	461.6	117.9	11.5	-1.8	7.3	4.8
Change in loan outstanding*	5.3	11.9	40.1	8.7	5.7	8.5	8.5	9.1
Of which:								
Business enterprises								
Loan applications	30.5	37.4	149.9	36.3	-9.9	31.0	20.0	19.0
Loan approvals	17.2	21.7	84.9	20.0	-5.1	14.8	9.8	16.3
Loan disbursements	78.2	90.8	335.3	86.9	14.9	7.8	10.5	11.1
Loan repayments	75.6	84.5	319.8	82.6	8.9	-2.7	6.8	9.3
Change in loan outstanding*	-0.4	1.0	5.5	...	-0.6	2.6	2.6	2.8
SMEs								
Loan applications	10.5	13.9	54.2	13.1	-17.8	41.4	21.7	24.4
Loan approvals	5.7	8.7	31.6	8.1	-15.9	30.5	22.0	40.8
Loan disbursements	23.7	27.2	100.4	25.9	12.3	9.1	15.3	9.6
Change in loan outstanding*	-1.1	2.2	6.3	1.2	5.3	7.7	7.7	10.5
Large corporations								
Loan applications	20.0	23.5	95.7	23.2	-5.0	25.5	19.1	16.2
Loan approvals	11.5	12.9	53.3	12.0	1.4	6.2	3.7	4.1
Loan disbursements	54.6	63.7	234.9	61.0	16.0	7.2	8.6	11.7
Change in loan outstanding*	0.6	-1.2	-0.8	-1.2	-3.9	-0.6	-0.6	-2.0
Households								
Loan applications	27.2	29.3	120.2	31.0	29.9	15.0	22.1	14.0
Loan approvals	19.3	21.3	86.8	21.9	20.8	14.1	20.5	13.3
Loan disbursements	30.8	34.0	130.3	33.9	17.5	12.0	13.9	10.0
Loan repayments	26.8	27.9	107.0	28.1	19.2	6.2	13.7	4.6
Change in loan outstanding*	6.0	8.9	33.3	8.7	12.9	14.4	14.4	15.2

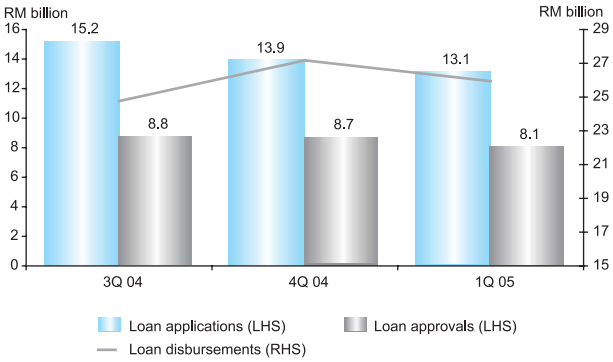
... negligible
* The annual growth is for end-period.
Source: Bank Negara Malaysia

(25.6%); and the finance, insurance and business services sector (12.7%). Higher demand for financing by businesses was also reflected in loan applications and approvals, which continued to record sustained growth rates of 19% and 16.3% respectively in the first quarter (4Q 2004: 31% and 14.8% respectively). Of significance, loans outstanding of businesses registered positive annual growth rates for two consecutive quarters, sustaining at an annual growth rate of 2.8% at end-March 2005 (end-2004: 2.6%) amid a declining trend in the gross non-performing loans (NPLs) ratio of businesses to 12.7% at end-March 2005 (end-2004: 13.7%).

Within the business sector, bank lending to the small and medium enterprises (SMEs) continued to increase. Loans outstanding of the SMEs grew significantly by 10.5% on an annual basis at end-March

2005 (end-2004: 7.7%). Meanwhile, loans disbursed to the SMEs were higher by 9.6% on an annual basis in the first quarter of 2005 (4Q 2004: 9.1%), with a total of RM8.1 billion approved to 19,711 SME accounts during the quarter (4Q 2004: RM8.7 billion approved to 25,924 SME accounts).

Bank Lending to SMEs

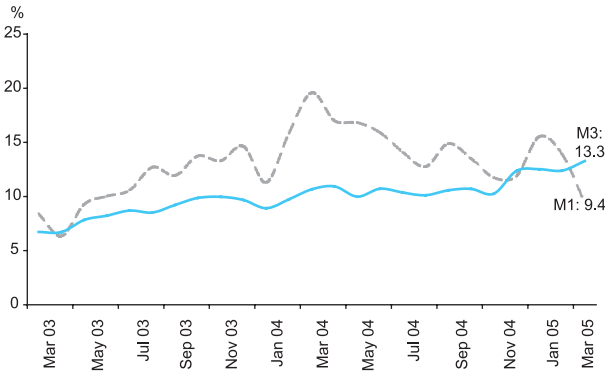


Financing to the household sector was sustained at a high level. Reflecting the sustained demand for bank financing by households, loan disbursements to households rose at an annual rate of 10% during the quarter (4Q 2004: 12%), and continued to be channelled towards credit card spending (29.4% of total disbursements to households), the purchase of residential properties (27.3%) and the purchase of passenger cars (25.3%). Similarly, loan applications and approvals expanded at annual rates of 14% and 13.3% respectively (4Q 2004: 15% and 14.1% respectively). Meanwhile, the growth in loans outstanding of households was higher at 15.2% at end-March 2005 (end-2004: 14.4%). Similar to business loans, gross NPL ratio of household loans was slightly lower at 7.4% at end-March 2005 (end-2004: 7.5%).

Continued growth in money supply in tandem with economic expansion

Monetary aggregates grew during the quarter in line with the expansion in domestic economic activity. Narrow money, M1, expanded by 9.4% on an annual basis at end-March 2005 (end-2004: 11.9%). Meanwhile, broad money, M3, grew at an annual rate of 13.3% at end-March 2005 (end-2004: 12.4%), driven mainly by higher claims on the private sector arising from increased lending by the banking system, as well as the continued inflow of external funds.

Monetary Aggregates: Annual Change



M3 Determinants

	Change during the year			
	Quarterly		Yearly	Quarterly
	1Q 04	4Q 04	2004	1Q 05
	RM billion			
M3	18.9	25.7	68.0	26.4
Net claims on Government	-6.0	-5.3	-15.9	-9.1
Claims on private sector	3.7	3.8	30.0	9.1
Net external operations*	33.3	30.6	81.9	29.0
Other influences	-12.2	-3.4	-28.1	-2.7

* Pre-revaluation

The capital market remained a major source of financing

In the first quarter of 2005, the capital market continued to be a major source of financing, especially for long-term business financing, with net funds raised amounting to RM10.5 billion. In the private debt securities (PDS) market, gross funds raised amounted to RM5.5 billion or 1.8 times the amount raised during the corresponding period of last year. These funds were raised by 25 corporations, of which 66.4% of the funds raised were channeled to the finance and business services sectors, followed by the manufacturing sector. The private sector continued to take advantage of the low interest rate environment as funds raised were mainly for restructuring and refinancing purposes (37% and 28.1% of total PDS issued, respectively). Funds raised for new activities accounted for 22% of total PDS issued. During the quarter, a new asset class was introduced with the inaugural issuance of an RM80 million Islamic principal municipal bond backed by assessment tax collections of a local authority. After adjusting for redemptions, net funds raised from the PDS market totaled RM1.3 billion.

The public sector bond issuances remained significant and accounted for 68.7% of total net funds raised. The Government issued two Malaysian Government Securities (MGS) with maturity of 5.5-year and 10.5-year. For the first time, a 10-year Government Investment Issues (GII) was issued, as part of the Government's efforts to lengthen the Islamic benchmark yield curve.

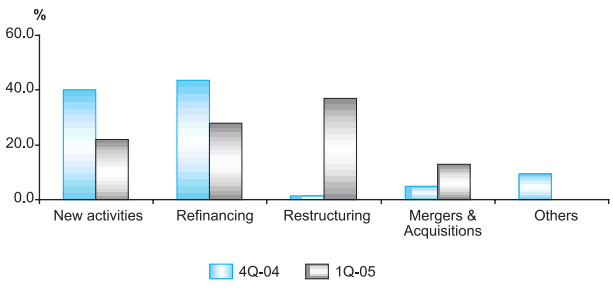
Funds raised through the equity market remained high at RM2 billion. Bulk of the funds were raised through 22 initial public offerings (IPOs) totaling RM1.8 billion. During the quarter, there were 23 new listings on Bursa Malaysia, with six listings on the Main Board, eight on the Second Board and nine on the MESDAQ Market.

Funds Raised in the Capital Market

	2004		2004	2005
	1Q	4Q		1Q
	RM million			
By Public Sector				
Government Securities, *gross*	11,000	7,021	43,173	4,000
Less Redemptions	5,500	1,000	18,200	-
Less Government holdings	-	-	-	-
Equals Net Federal receipts	5,500	6,021	24,973	4,000
Khazanah Bonds, *net*	-	-	(1,198)	833
Govt. Investment Issues, *net*	-	1,243	1,423	2,000
Malaysia Savings Bond, *net*	45	436	1,474	357
Net Funds Raised	5,545	7,700	26,671	7,190
By Private Sector				
Shares	1,527	2,316	6,475	2,009
Debt securities	6,041	10,083	36,340	5,486
Private Debt Securities (PDS)	2,836	9,483	28,050	5,286
Cagamas	3,205	600	8,290	200
Less Redemptions	6,928	4,463	26,814	4,212
Net Issues	(887)	5,620	9,526	1,274
Net issues (excluding Cagamas)	(2,092)	5,494	8,402	2,634
Net Funds Raised	640	7,936	16,001	3,282
Total Net Funds Raised	6,185	15,636	42,672	10,473
Short-term Papers and Notes, *net*[1]	(269)	(1,103)	(3,208)	587
Total	5,916	14,533	39,465	11,059

[1] Refers to Commercial Papers and Cagamas Notes only.

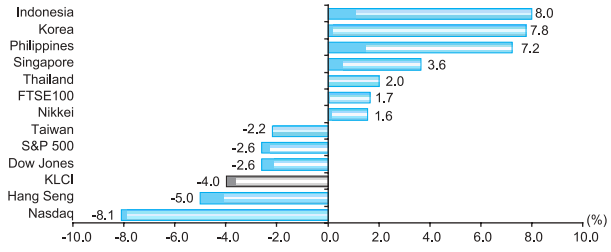
Private Debt Securities Issued by Purpose
(% of total)



KLCI performance consolidated due to concerns over escalating oil prices

Concerns over the strength of corporate earnings and the adverse implications of rising oil prices continued to plague the performance of the equity market. In the first quarter, the KLCI declined by 36.08 points, ending the quarter lower at 871.35 (-4% since end-2004). As a result, market capitalisation during the quarter was lower at RM694.9 billion (end-2004: RM722 billion). Nevertheless, trading activity improved with slightly higher average daily turnover recorded in terms of volume and value.

Performance of Selected Global and Regional Markets in the First Quarter of 2005



Bursa Malaysia: Selected Market Indicators

	As at end		
	2004		2005
	1Q	4Q	1Q
Price Indices			
- Composite	901.85	907.43	871.35
- EMAS	219.76	214.26	204.98
- Second Board	135.33	110.87	101.76
Average daily turnover			
- Volume (million units)	650.65	441.36	517.97
- Value (RM million)	1,328.20	835.02	965.78
Market Capitalisation (RM b)	724.15	722.04	694.89
No. of Companies Listed	923	962	982

Source: Bursa Malaysia

Bursa Malaysia: Turnover of Corporate Securities

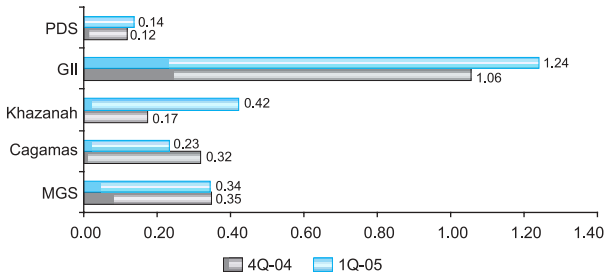
	2004				2004		2005	
	1Q		4Q				1Q	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	37,737	77,036	27,364	51,771	107,610	215,623	30,042	56,261
of which:								
Main Board	27,626	61,454	20,186	45,129	78,132	180,408	21,236	48,384
of which								
- Consumer Products	1,173	3,905	899	2,924	4,008	12,583	1,018	3,117
- Industrial Products	4,087	6,067	4,036	4,978	12,365	17,427	4,829	5,767
- Construction	1,693	4,044	1,070	1,922	4,721	9,582	1,579	3,114
- Trading/Services	5,632	19,975	5,500	16,991	18,937	63,418	4,320	15,710
- Finance	4,536	14,521	1,958	8,090	10,843	38,176	3,059	10,495
- Properties	4,159	5,145	3,205	5,468	11,749	17,151	3,367	5,602
- Plantations	762	3,106	771	2,171	2,455	10,184	604	2,168
- Mining	43	140	-	1	48	175	0	1
Second Board	6,258	11,249	4,227	4,102	18,516	24,948	5,537	5,586

Source: Bursa Malaysia

Higher secondary trading in the bond market

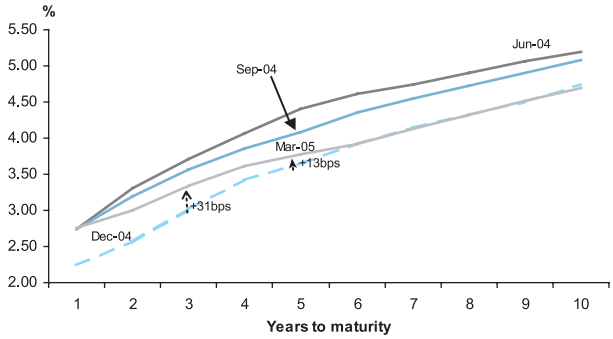
In the secondary market, total turnover increased to RM98.8 million in the first quarter (4Q 2004: RM91.7 million), with the highest turnover being recorded in March. Government securities accounted for 66.7% of the total trade, while Cagamas bonds and Khazanah bonds contributed 10.9% of the total trade. In terms of liquidity, the GII and Khazanah bonds were the most liquid papers, registering liquidity ratios of 1.24 and 0.42 respectively.

Liquidity Ratio: Turnover / Outstanding



Throughout the first quarter of 2005, sentiments in the bond market were positive until the last week of March. The MGS benchmark yields rose marginally before trending downwards in late January, following concerns over the impact of higher crude oil prices on global economic growth as well as the higher demand for Ringgit fixed income securities from non-residents. Subsequently, the shorter-end of the MGS yields shifted upwards in late-March, mirroring the increase in the US Treasury yields following the Federal Fund rates hike and concerns over the inflationary pressures in the US economy. As a result, the 3- and 5-year MGS benchmark yields increased by 31 basis points and 13 basis points respectively during the quarter.

Trend in MGS Yield



Performance of the ringgit

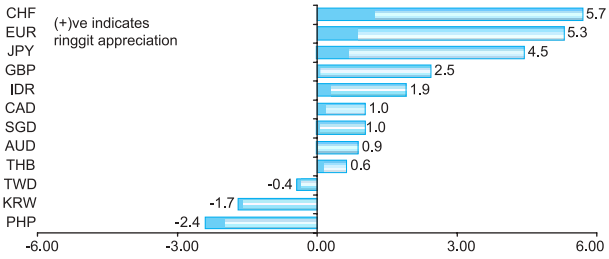
Reflecting movements in the US dollar, the ringgit appreciated against the major currencies over the quarter. The US dollar appreciated against these currencies, despite the yen reaching a 5-year high of 102.095 on 17 January, on expectations of, and the eventual increase in US interest rates by 0.25% at each of the two Federal Open Market Committee meetings. Anticipation of accelerated interest rate increases to contain inflationary pressures also contributed to the US dollar rally. Concurrently, forecasts and economic data indicated that positive economic growth in the US would continue to outpace that in the euro area and Japan in 2005.

The dollar, and hence the ringgit, appreciated against most regional currencies. Concerns of rising oil prices affecting regional

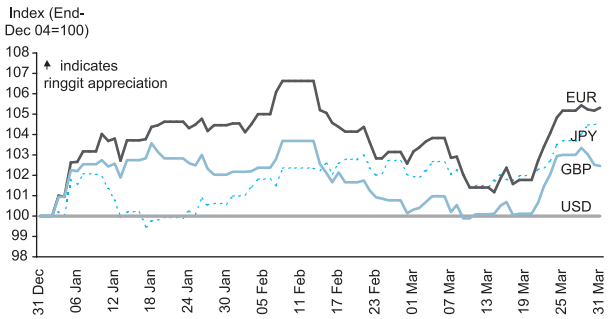
growth prospects contributed to some easing of regional currencies. The ringgit, however, depreciated against the Korean won as Korean exporters continued to repatriate earnings from abroad. The ringgit also depreciated against the Philippine peso over investor optimism that proposed tax increases would be approved in Congress.

Summary of Ringgit Performance Against Selected Currencies

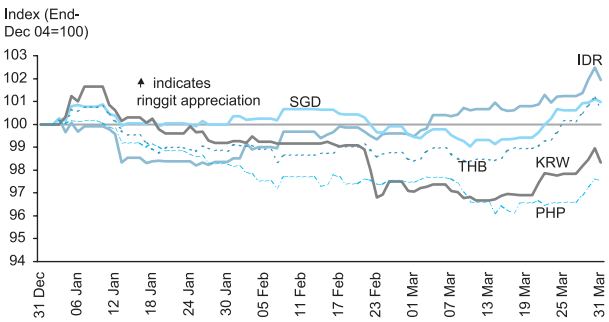
Percent Change (1 January - 31 March 2005)



Ringgit Performance Against Major Currencies



Ringgit Performance Against Regional Currencies



Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end					% change since*			
	30 Jun 97	02 Sep 98	1Q 04	4Q 04	1Q 05	30 Jun 97	02 Sep 98	1Q 04	4Q 04
US dollar	2.5235	3.8000	3.8000	3.8000	3.8000	-33.6	0.0	0.0	0.0
Euro	-	-	4.6522	5.1729	4.9125	-	-	-5.3	5.3
Pound sterling	4.1989	6.3708	6.9667	7.3169	7.1415	-41.2	-10.8	-2.4	2.5
100 Japanese yen	2.2088	2.7742	3.6334	3.7026	3.5446	-37.7	-21.7	2.5	4.5
Singapore dollar	1.7647	2.1998	2.2633	2.3258	2.3034	-23.4	-4.5	-1.7	1.0
100 Thai baht	9.7470	9.3713	9.6239	9.7636	9.7013	0.5	-3.4	-0.8	0.6
100 Philippine peso	9.5878	8.8302	6.7580	6.7706	6.9381	38.2	27.3	-2.6	-2.4
100 Indonesian rupiah	0.1038	0.0354	0.0442	0.0408	0.0401	159.0	-11.7	10.4	1.9
100 Korean won	0.2842	0.2827	0.3308	0.3671	0.3734	-23.9	-24.3	-11.4	-1.7

* (+) indicates appreciation of ringgit against respective currency and (-) indicates depreciation.