BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 06/04/32 (BN)

EMBARGO: Not for publication or broadcast Before 1830 hours on Monday, 28 June 2004

Monetary and Financial Developments May 2004
Highlights of the Press Release

Sustained lending activities in May, especially to the SMEs

The prevailing low interest rates amidst a low inflation environment continued to support private sector activity. With the overnight policy rate (OPR) remaining unchanged at 2.70%, banking institutions' cost of borrowing and their base lending rates (BLRs) remained relatively stable. Monetary trends have continued to support sustained domestic demand. Total loan applications remained strong in May, amounting to RM21.7 billion or an annual increase of 32.2%.

During the month, financing to the small and medium enterprises (SMEs) also increased significantly. Higher disbursements were recorded to the sector, amounting to RM8.3 billion, while a total of RM2.4 billion was approved to 6,946 SME accounts. In terms of outstanding loans, increases in loans to businesses, including to the SMEs, and the household sector resulted in total loans outstanding recording a higher annual growth rate of 6.3% at end-May, compared with 5.6% at end-April.

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MONETARY AND FINANCIAL DEVELOPMENTS MAY 2004

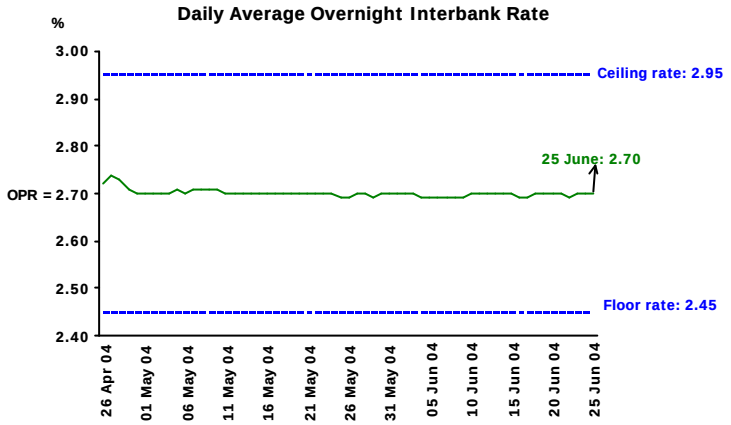
Sustained lending activities in May, especially to the SMEs

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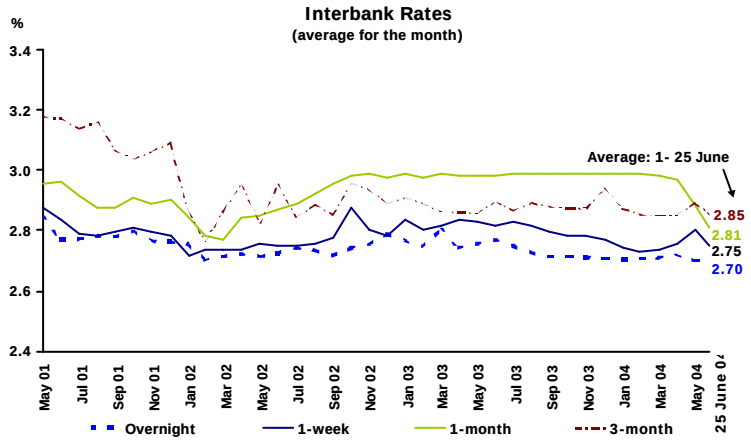
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Interest rates remained low

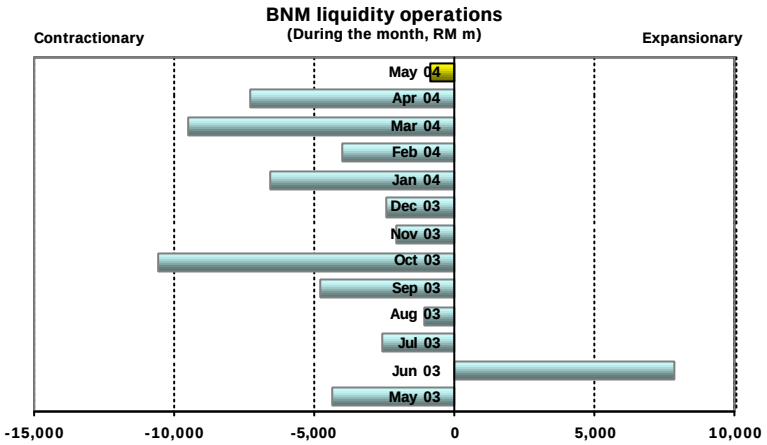
In the period 5 May-25 June, the daily weighted average overnight interbank rate fluctuated within a narrow range of 2.69 – 2.71%, with an average of 2.70%.



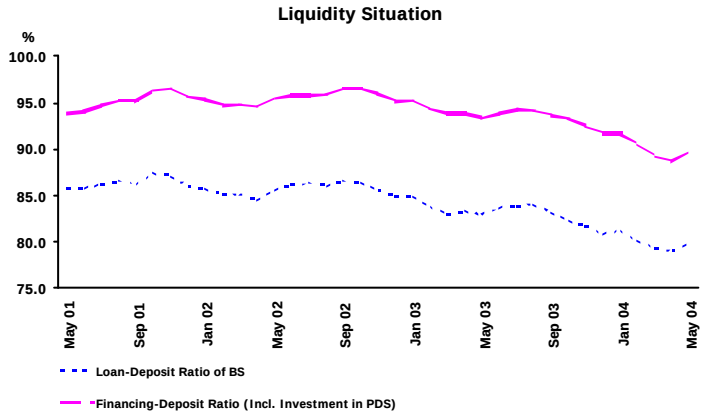
The overnight interbank rate averaged 2.70% in the period 5 May – 25 June



Interbank rates remained low

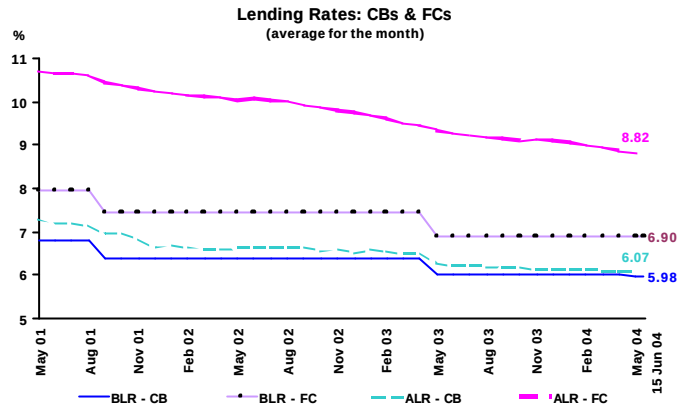


Bank Negara Malaysia absorbed additional liquidity to maintain stable monetary conditions



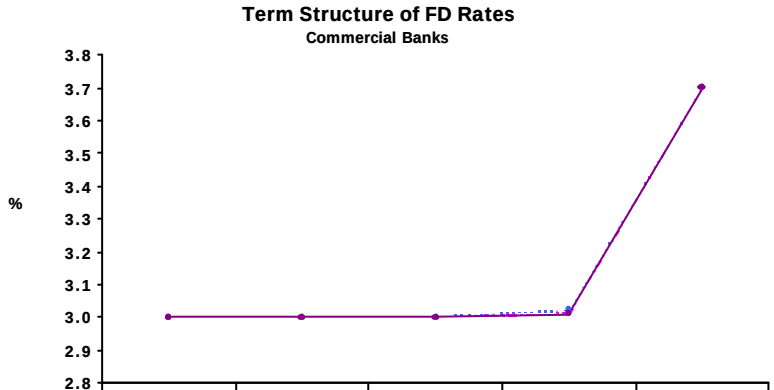
Higher loans outstanding led to an increase in the financing-deposit ratio to 89.8%

Following the implementation of the new interest rate framework, the average BLR of the commercial banks (CBs) was slightly lower at 5.98% as at end-May and as at 15 June (6.00% as at end-April). The average BLR of finance companies (FCs) remained unchanged at 6.90%. The average lending rate (ALR) of the CBs remained stable at 6.07% at end-May while the ALR of FCs continued to decline to 8.82%.



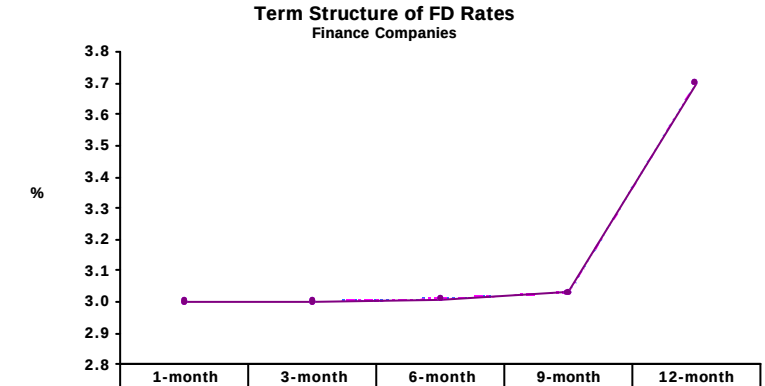
The ALR of CBs was stable while ALR of FCs continued to decline

As at 15 June 2004, the nominal rates on fixed deposits of CBs and FCs remained stable for the one to 12 month maturities.



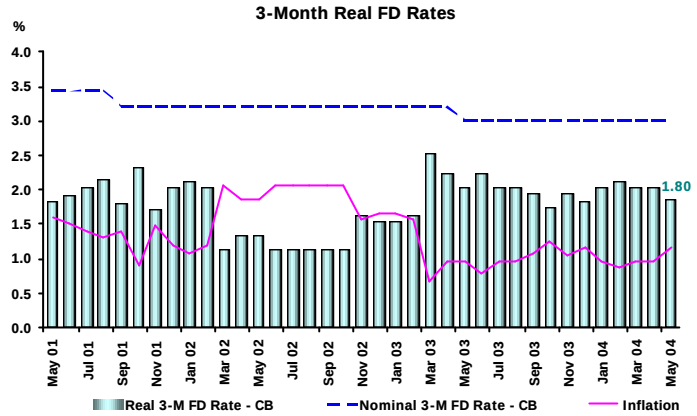
	1-month	3-month	6-month	9-month	12-month
Apr 04	3.00	3.00	3.00	3.02	3.70
May 04	3.00	3.00	3.00	3.01	3.70
15 Jun 04	3.00	3.00	3.00	3.01	3.70

FD rates of CBs remained stable...



	1-month	3-month	6-month	9-month	12-month
Apr 04	3.00	3.00	3.01	3.03	3.70
May 04	3.00	3.00	3.01	3.03	3.70
15 Jun 04	3.00	3.00	3.01	3.03	3.70

...similarly for FCs



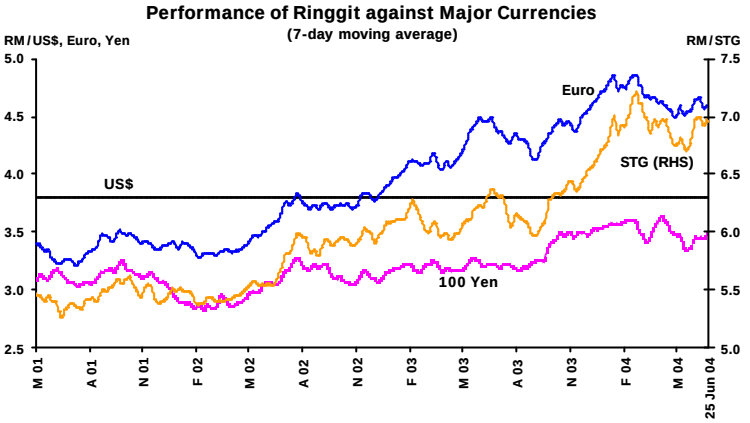
The 3-month real FD rate was marginally lower

Performance of the ringgit

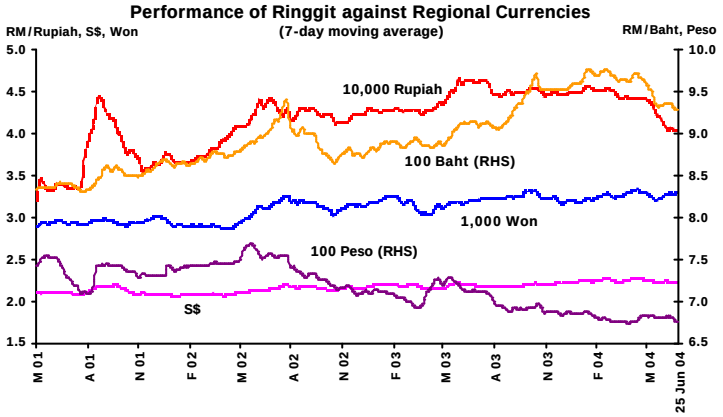
In May, the ringgit depreciated against the euro, pound sterling and yen. The US dollar appreciated briefly in the early part of the month but the further widening of the US trade deficit in March and weaker than expected consumer and business sentiments as well as expectations that US interest rate increases would be gradual weighed on the performance of the US dollar against the three major currencies. Meanwhile, the pound sterling was supported by prospects of further increases in interest rates by the Bank of England.

The ringgit showed mixed trends against the regional currencies in May. The ringgit depreciated against the Korean won as the currency strengthened on foreign equity purchases and exporters' demand for the won. Meanwhile, the Indonesian rupiah and Thai baht were adversely affected by concerns over the impact of higher oil prices. The rupiah was also affected by political uncertainty.

Over the period 1- 25 June, the ringgit appreciated against the euro and pound sterling as the US dollar strengthened following sustained expectations of US interest rate increases amid higher industrial output, rising producer prices and lower job claims. These factors outweighed the subsequent downward pressure on the US dollar from the higher than expected US current account deficit for the first quarter of 2004. The US dollar depreciated against the yen as Japanese authorities revised their growth forecast upwards, and following a widening of Japan's trade surplus for May. The ringgit also strengthened against most regional currencies. Regional currencies generally weakened following concerns over the impact of higher oil prices and the implications of the possible interest rate increases in the US.



In the period 1-25 June, the ringgit appreciated against the euro and pound sterling...



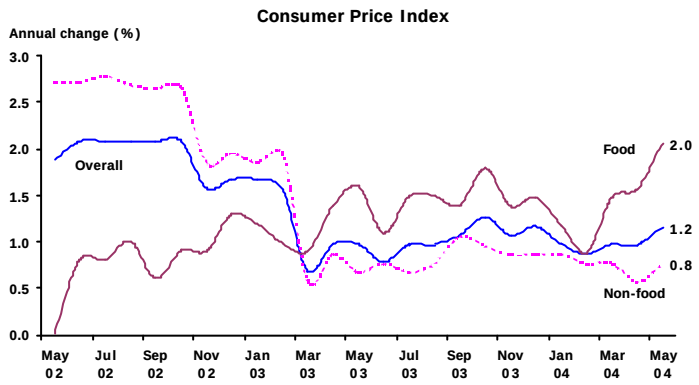
...and most regional currencies

Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period			% Change			
	02 Sep 98	May 04	25 Jun 04	May 04	End May 04 - 25 Jun 04	End Dec 03 - 25 Jun 04	02 Sep 98 - 25 Jun 04
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.6381	4.6191	-1.9	0.4	3.4	-
Pound Sterling	6.3708	6.9740	6.9274	-3.2	0.7	-2.3	-8.0
100 Japanese yen	2.7742	3.4616	3.5398	-0.4	-2.2	0.4	-21.6
Singapore dollar	2.1998	2.2378	2.2285	-0.3	0.4	0.3	-1.3
100 Thai baht	9.3713	9.3792	9.3172	1.3	0.7	3.0	0.6
100 Philippine peso	8.8302	6.8070	6.7772	-0.3	0.4	1.0	30.3
100 Indonesian Rupiah	0.0354	0.0410	0.0403	6.7	1.6	11.2	-12.2
100 Korean won	0.2827	0.3265	0.3301	-0.9	-1.1	-3.7	-14.4

Inflation remained low

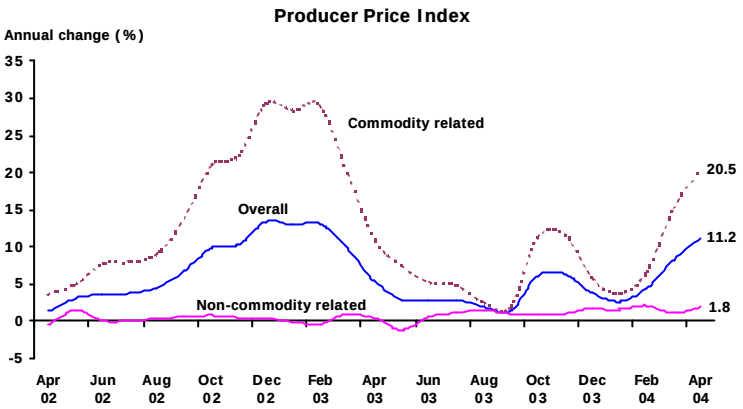
The inflation rate, as measured by the Consumer Price Index (CPI, 2000=100), remained low and stable. The average annual inflation rate for the first five months of 2004 remained low at 1.1% (1.2% in January-May 2003). Similarly, the annual inflation rate in May remained low at 1.2% (1% in April) with small increases in prices for food items; gross rent, fuel and power; as well as beverages and tobacco. Price increases for transport and communication were also marginally higher, reflecting the increase in prices of retail petroleum-related products with effect from 1 May 2004.



Inflation remained low in May

Higher producer prices

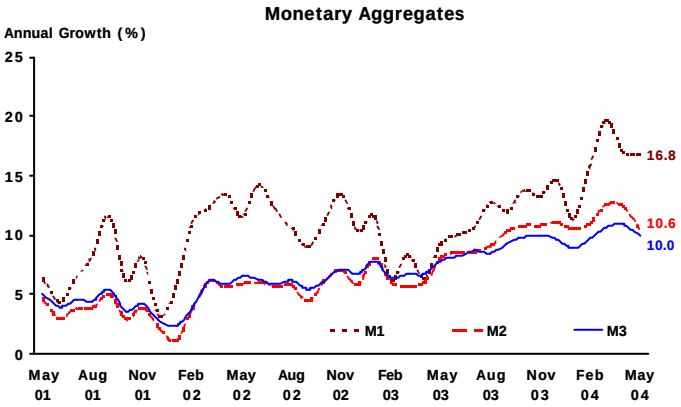
The Producer Price Index (PPI, 1989=100) increased at an annual rate of 11.2% in April (8.3% in March), reflecting mainly higher commodity prices, in particular prices of rubber, crude oil and crude palm oil. On a monthly basis, however, the PPI was lower by 0.1% in April as the prices of these major commodities declined marginally. Excluding commodity-related products, the PPI increased to a lesser extent at an annual rate of 1.8%.



Producer prices increased due to higher commodity prices

Sustained expansion in broad money

Continued monetary expansion resulted in the annual growth rates of all the three monetary aggregates being sustained at high levels. M1, M2 and M3 increased by 16.8%, 10.6% and 10% respectively at end-May. Strong bank lending provided the main impetus for M3 growth during the month, but this was partially offset by the increase in Government deposits arising mainly from the reopening of the MGS 1/04 issue.



The annual growth rates of all the three monetary aggregates remained high in May

M3 Determinants

(RM billion)

	Change during period			
	Mar 04	Apr 04	May 04	Jan - May 04
M3	7.8	4.0	1.9	24.7
Net claims on Government	-1.9	1.0	-3.3	-8.3
Claims on the private sector	1.5	0.1	6.4	10.3
Loans	*1.5*	*1.6*	*5.9*	*13.1*
Securities	*0.0*	*-1.4*	*0.5*	*-2.8*
Net external operations *	11.4	4.5	-2.7	35.1
Other influences	-3.1	-1.6	1.6	-12.3

* Pre-revaluation

Annual growth rate of total deposits remained high

Total deposits mobilised by the banking system increased at an annual rate of 10.3%. On a month-on-month basis, total deposits increased marginally by RM10 million in May.

Deposits by Holder
(RM million)

	Change during period			
	Mar 04	**Apr 04**	**May 04**	**Jan - May 04**
Federal Government	925	-773	184	-234
State Governments	227	65	281	618
Statutory Authorities [1]	-557	-1,030	-659	-2,901
Financial Institutions	2,555	1,669	-116	5,167
Business Enterprises	4,667	2,888	286	9,851
Individuals	2,234	1,342	-485	9,397
Others [2]	859	-68	518	1,530
Total	10,911	4,093	10	23,428

1/ Include local Governments

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

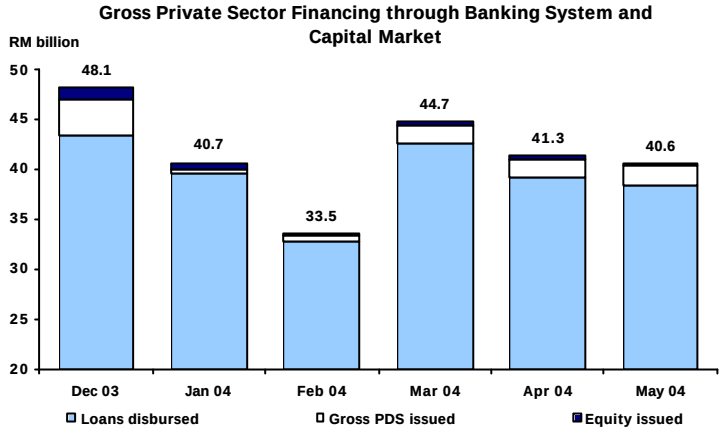
In May, total deposits increased marginally

Deposits by Type
(RM million)

	Change during period			
	Mar 04	**Apr 04**	**May 04**	**Jan - May 04**
Fixed deposits	639	5,228	-2,385	11,119
NIDs	1,938	2,398	310	3,047
Demand deposits	1,594	-3,375	1,531	-27
Savings deposits	57	-19	-330	1,905
Repos	5,207	-98	-783	4,007
FX deposits	-627	728	803	345
SPI deposits	1,553	-889	503	1,717
Others	548	119	362	1,316
Total	10,911	4,093	10	23,428

Bank lending activity remained strong

Total financing by the banking system and through the capital market was sustained at a high level. The financing provided in May amounted to RM40.6 billion, representing a 7.7% increase on an annual basis.

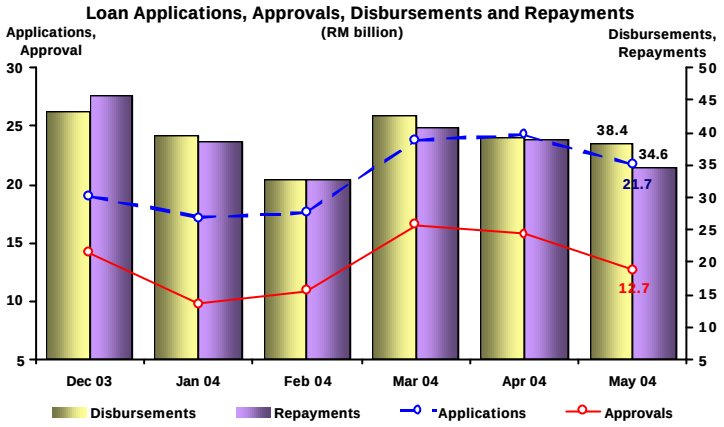


Gross financing of the private sector was sustained at a high level

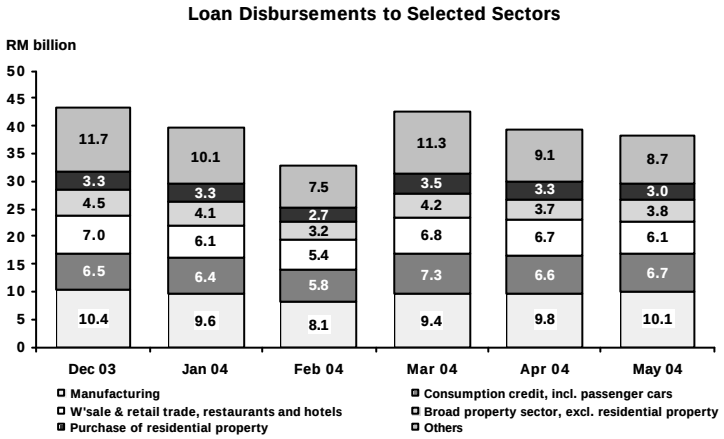
In the banking system, the major loan indicators continued to show strong lending activity in May. Total loans disbursed amounted to RM38.4 billion (RM39.2 billion in April) or an annual growth rate of 20.5% (12% in April). The higher growth rate, to some extent, also reflected the low base effect following the impact of SARS on the domestic economy in 2003.

Reflecting increases in business and household loans (RM2.8 billion and RM2.5 billion respectively), total loans outstanding increased by RM5.4 billion in May to record a growth rate of 6.3% on an annual basis (5.6% at end-April). The loans to businesses were mainly channelled to the manufacturing sector. The disbursements to the SME sector were higher in May, amounting to RM8.3 billion (RM7.8 billion in April). In terms of outstanding loans, lending to SMEs increased by RM1.1 billion, to record an annual growth rate of 5.8% at end-May (4.6% at end-April).

The two forward-looking loan indicators, total loan applications and approvals were sustained at high levels, amounting to RM21.7 billion or an annual increase of 32.2% and RM12.7 billion or an annual increase of 12.7% respectively. A total of RM2.4 billion was approved to 6,946 SME accounts in May.



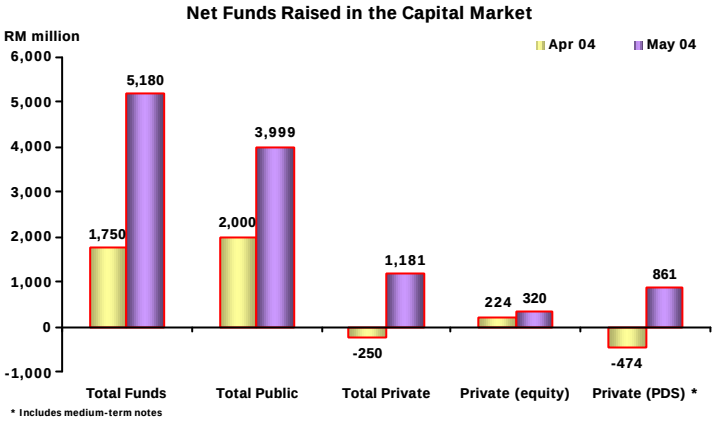
Bank lending activity remained strong in May



Loans disbursed were broad based

Higher new issues of private debt securities

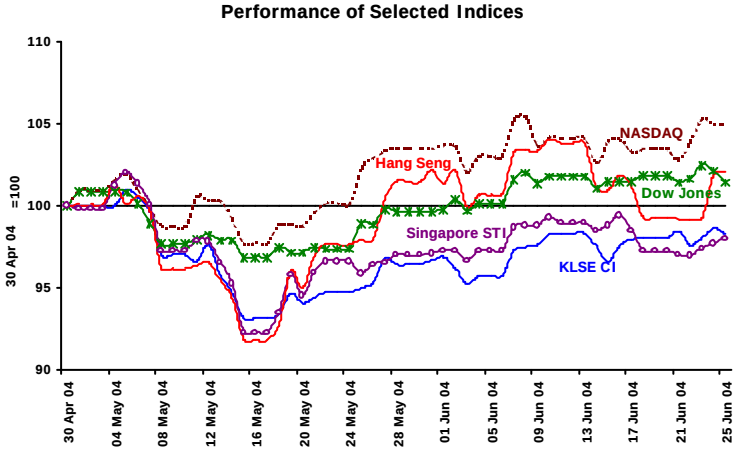
Net funds raised in the capital market were notably higher in May, amounting to RM5.2 billion (RM1.8 billion in April). Of this amount, net funds raised in the private debt securities (PDS) market amounted to RM0.9 billion. On a gross basis, funds raised through new issues of private debt securities by Cagamas and five companies amounted to RM2.7 billion (RM2.2 billion in April). Of the funds raised by the five companies, 92% was for financing of new activities. The Government raised RM4 billion from the reopening of the 5-year MGS 1/04 issue. In the equity market, funds raised was higher, totalling RM320.3 million, arising mainly from rights issues (RM130.8 million) and five initial public offerings (RM118.9 million).



On a net basis, funds raised in the capital market was higher

The KLSE CI declined by 3.3% to 810.67 points at end-May compared with end-April. For most of the month, the KLSE CI was affected by global and regional developments, including concerns over the prospect of a rise in US interest rates and the impact of higher oil prices on the global economy. Sentiments, however, improved toward end-month, following the announcement of strong first quarter economic growth and better-than-expected quarterly profits announced by several public-listed companies. Market capitalisation was lower at RM653.02 billion (-4.7% since end-April) and the daily average turnover during the period was lower at 366.15 million units.

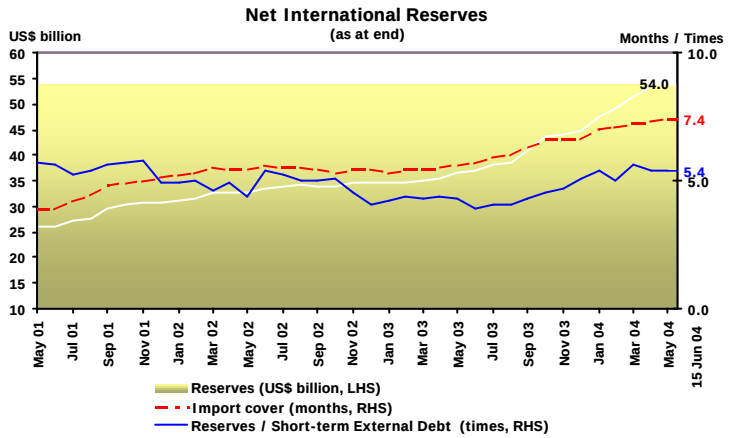
As at 25 June, the KLSE CI closed higher at 824.23 points (+1.7% since end-May) supported by buying interest in blue chip stocks. Market capitalisation was slightly higher at RM655.79 billion while the daily average turnover during the period, 1-25 June, was lower at 251.18 million units.



The KLSE CI closed higher as at 25 June

International reserves increased further

The international reserves of Bank Negara Malaysia increased by RM2 billion or US$0.5 billion in May to RM204.9 billion or US$53.9 billion as at 31 May 2004. The increase in reserves during the month of May was due mainly to sustained repatriation of export earnings, inflows of foreign direct investment and drawdown of external loans. Outflows during the period reflected mainly payments for imports of goods and services, repatriation of dividends and some outflows of portfolio investment. The reserves increased further to RM205.1 billion or US$54 billion as at 15 June 2004, adequate to finance 7.4 months of retained imports and is 5.4 times the short-term external debt.



Increase in reserves was due mainly to sustained repatriation of export earnings, inflow of foreign direct investment and net drawdown of external loans

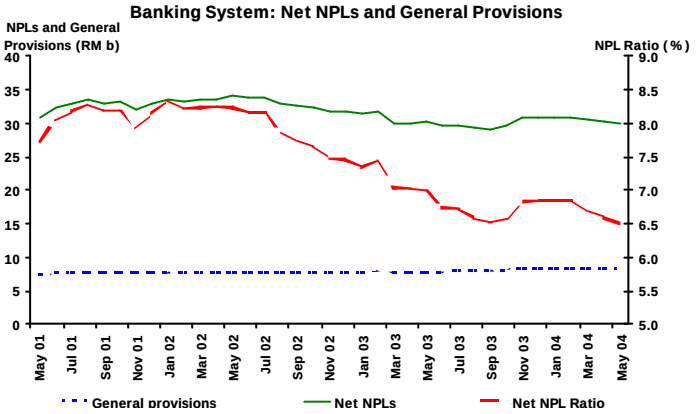
Improved asset quality amidst high level of capitalisation

The downtrend in net non-performing loans (NPLs) of the banking system was sustained. The 6-month net NPL ratio improved to 6.5% on account of RM0.1 billion decline in net NPLs coupled with expansion in the loan base, while the risk weighted capital ratio (RWCR) of the banking system was sustained at 13.5%.

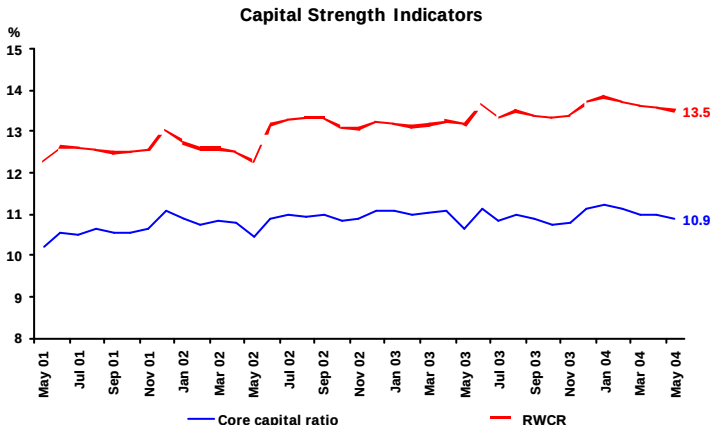
Banking System Health Indicators*

	As at end-								
	1998	1999	2000	2001	2002	2003	Mar 04	Apr 04	May 04
Capital (%)									
Core capital ratio	8.7	10.1	10.7	11.1	11.1	11.1	10.9	11.0	10.9
RWCR	11.8	12.5	12.5	13.0	13.2	13.7	13.5	13.6	13.5
Net NPLs (6-month classification)									
% of net total loans	8.1	6.4	6.3	8.1	7.5	6.8	6.7	6.6	6.5
Amount (RM million)	31,576	23,849	24,700	32,833	31,703	30,766	30,449	30,079	30,003
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.8	1.8	1.8	1.8	1.8

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



Net NPL ratio (6-month classification) continued to decline to 6.5%



RWCR and core capital ratio were 13.5% and 10.9% respectively

Bank Negara Malaysia
28 June 2004

Key Monetary and Financial Statistics

		Mar 04		Apr 04		May 04	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		47.0	9.0	47.5	11.1	46.5	7.9
M1		105.7	19.6	102.4	17.0	103.1	16.8
M2		439.5	12.5	443.3	12.4	443.6	10.6
M3		568.5	10.7	572.5	10.9	574.4	10.0
Banking System							
Total deposits		573.2	10.8	577.2	11.5	577.3	10.3
Total loans (including loans sold to Cagamas)		479.1	5.7	480.4	5.6	485.8	6.3
Loan-deposit ratio (%)		79.3		79.0		79.9	
Financing-deposit ratio [1] (%)		89.2		88.7		89.8	
Loans applied (during the period)		23.8	24.9	24.3	32.5	21.7	32.2
Loans approved (during the period)		16.5	27.6	15.8	21.2	12.7	12.7
Loans disbursed (during the period)		42.6	21.6	39.2	12.0	38.4	20.5
Loans repaid (during the period)		40.9	14.5	39.0	12.7	34.6	12.9
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.5		13.6		13.5	
Net NPLs: 6-month classification (%)		6.7		6.6		6.5	
International Reserves of BNM (end-period)							
Reserves in RM (billion)		195.1		202.9		204.9	
Reserves in USD (billion)		51.3		53.4		53.9	
Months of retained imports		7.2		7.3		7.4	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)				2.70		2.70	
Interbank:	Overnight	2.71 [2.71]		2.70 [2.72]		2.70 [2.70]	
	1-week	2.77 [2.74]		2.84 [2.76]		2.77 [2.80]	
	1-month	2.97 [2.98]		2.89 [2.97]		2.87 [2.88]	
	3-month	2.85 [2.85]		2.85 [2.85]		2.91 [2.89]	
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		6.00		6.00		5.98	
ALR of commercial banks		6.10		6.08		6.07	
Prices							
Consumer Price Index (CPI) (2000=100)		105.0	1.0	105.2	1.0	105.5	1.2
Producer Price Index (PPI) (1989=100)		150.0	8.3	149.9	11.2		
Exchange Rates of Ringgit against Selected Currencies (end-period)							
Euro		4.6522		4.5496		4.6381	
Pound Sterling		6.9667		6.7480		6.9740	
100 Japanese yen		3.6334		3.4475		3.4616	
Singapore dollar		2.2633		2.2303		2.2378	
100 Thai Baht		9.6239		9.4988		9.3792	
100 Philippine Peso		6.7580		6.7833		6.8070	
100 Indonesian Rupiah		0.0442		0.0437		0.0410	
100 Korean Won		0.3308		0.3237		0.3265	
Capital Market							
Net funds raised (in RMb) by:	public	-0.5		2.0		4.0	
	private	-1.9		-0.2		1.2	
Bursa Malaysia Composite Index (end-period)		901.9		838.2		810.7	
Bursa Malaysia Market Capitalisation (RMb, end-period)		724.2		685.6		653.0	

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