BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen No: 03/05/59 (BN)

EMBARGO: Not for publication or broadcast before 1730 hours on Monday, 28 March 2005

Monetary and Financial Developments February 2005
Highlights of the Press Release

Sustained financing activities in February, especially to the SMEs

The banking system's health strengthened further in February. The net non-performing loan (NPL) ratio based on the 6-month classification, improved to 5.8% at end-February, the lowest level since the Asian crisis. Similarly, the risk weighted capital ratio (RWCR) increased to 14.2% at end-February, also the strongest level since the Asian crisis. Together with a supportive interest rate environment, the stronger balance sheets of the banking institutions contributed to the sustained financing of the private sector. Banking system loans outstanding expanded further at a higher annual growth rate of 8.3% at end-February. In particular, financing to the small and medium enterprises (SMEs) expanded strongly, with loans outstanding to the SMEs recording an annual growth rate of 9.1% in February, to account for a higher share of 40.7% of total loans outstanding to businesses.

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MONETARY AND FINANCIAL DEVELOPMENTS
FEBRUARY 2005

Sustained financing activities in February, especially to the SMEs

In the money market, the daily weighted overnight interbank rate averaged at 2.70% in February 2005. While the deposit rates remained unchanged in the retail market, the average lending rates for commercial banks and finance companies declined marginally to 5.95% and 8.74% respectively.

Financing to the private sector was sustained in February. On a gross and net basis, total financing extended to the private sector (bank loans and private debt securities outstanding), grew at sustained annual rates of 10.8% and 8.9% respectively in February.

Bank lending activity remained strong in February, with loan disbursements and loans outstanding growing at stronger annual rates of 11.2% and 8.3% respectively. In particular, financing to the small and medium enterprises (SMEs)

expanded strongly, with loans outstanding to the SMEs recording an annual growth rate of 9.1% in February, to account for a higher share of 40.7% of total loans outstanding to businesses.

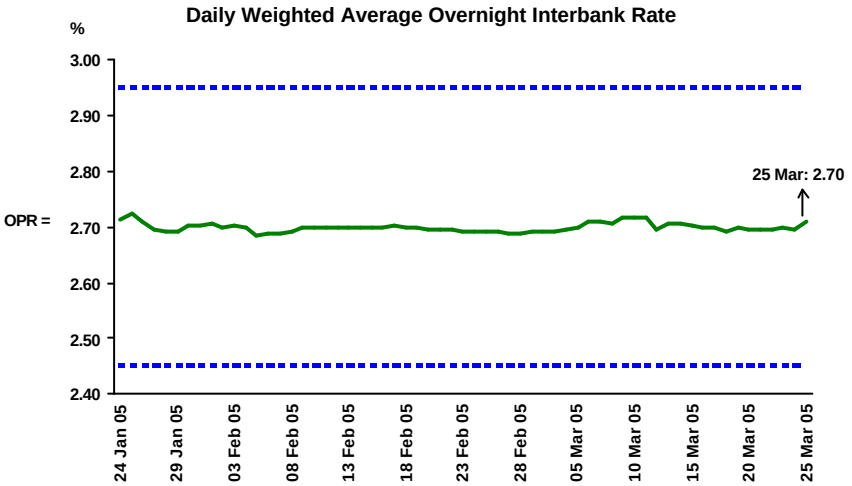
Meanwhile, in the capital market, net funds raised remained significant, amounting to RM2.4 billion in February, sourced mainly by the public sector. A new asset class was introduced in the capital market with the inaugural issuance of Islamic principal municipal bond of RM80 million backed by property tax assessments collections of a local authority.

Broad money, M3, expanded at an annual rate of 12.4% in February, due mainly to inflows from the external sector and loans extended to the private sector.

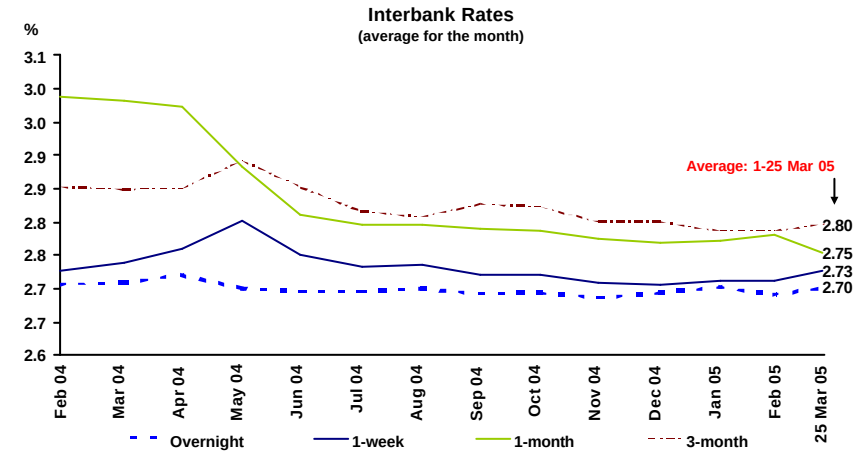
The health of the banking system improved as reflected in the strengthening of the risk weighted capital ratio (RWCR) to 14.2% and lower net non-performing loans (NPL) ratio of 5.8% as at end-February.

Interest rates remained stable

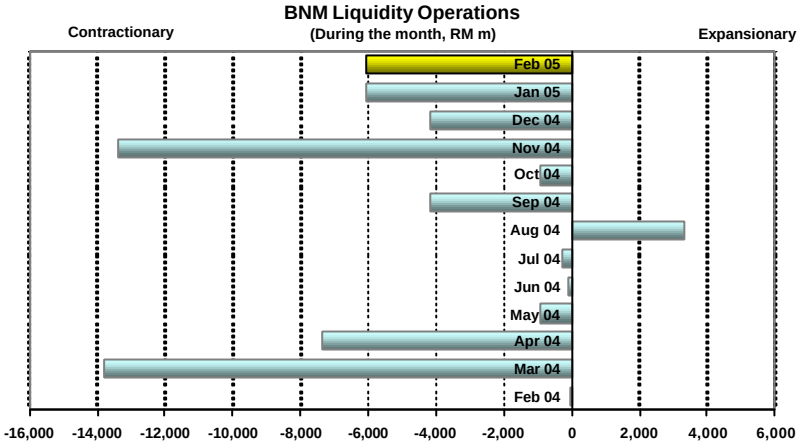
Bank Negara Malaysia's liquidity operations were contractionary to offset the expansionary net external operations and to support stable overnight interbank rates. During the period of 1 February – 25 March, the daily weighted average overnight interbank rate moved within a range of 2.68% - 2.72%, averaging at 2.70%. Both deposit and lending rates remained stable during the month. The average BLRs of commercial banks (CBs) and finance companies (FCs) remained unchanged while the ALR for CBs and FCs declined marginally to 5.95% and 8.74% respectively.



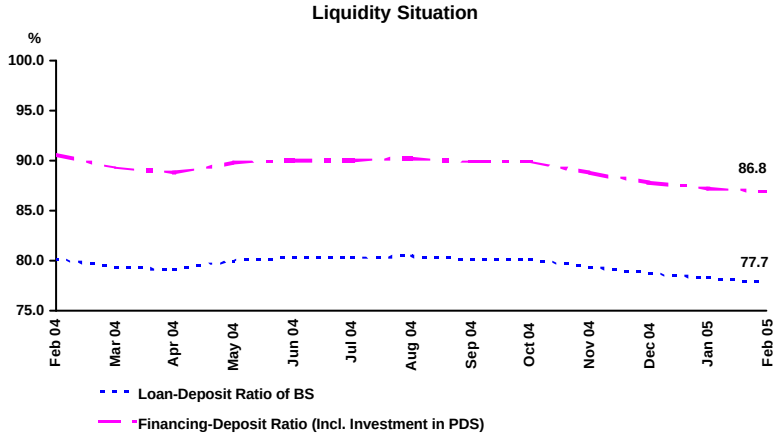
Stable overnight interbank rate



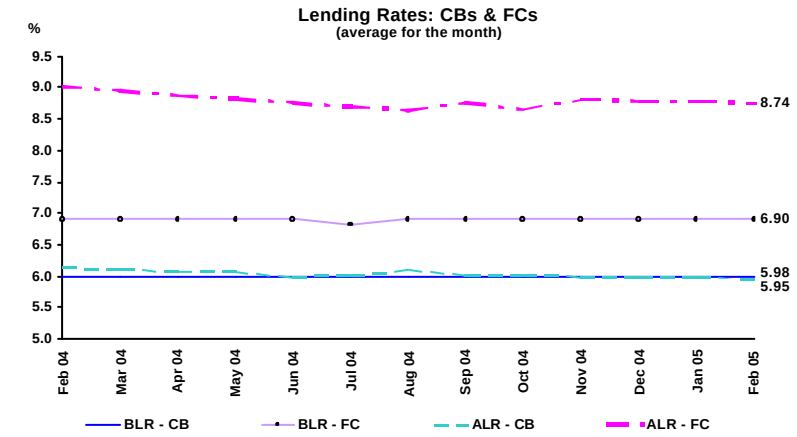
Other interbank rates also stable



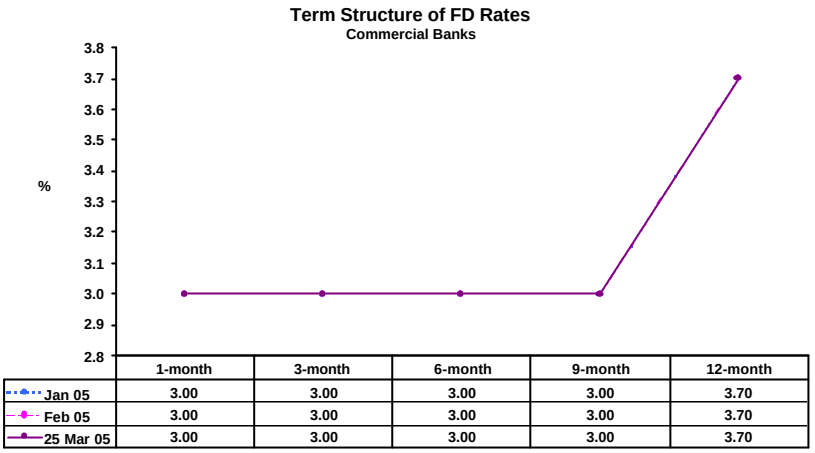
Liquidity operations were contractionary in February largely to offset the expansionary net external operations



The loan-deposit ratio moderated to 77.7%

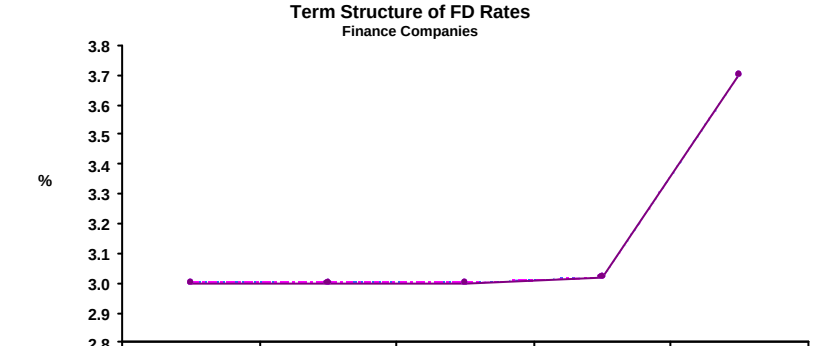


Retail lending rates were mostly unchanged



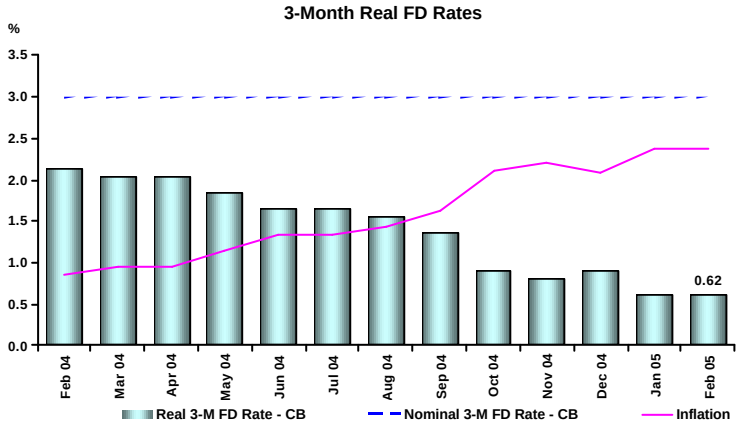
	1-month	3-month	6-month	9-month	12-month
Jan 05	3.00	3.00	3.00	3.00	3.70
Feb 05	3.00	3.00	3.00	3.00	3.70
25 Mar 05	3.00	3.00	3.00	3.00	3.70

FD rates of CBs remained unchanged



	1-month	3-month	6-month	9-month	12-month
Jan 05	3.00	3.00	3.00	3.02	3.70
Feb 05	3.00	3.00	3.00	3.02	3.70
25 Mar 05	3.00	3.00	3.00	3.02	3.70

FD rates of FCs remained unchanged

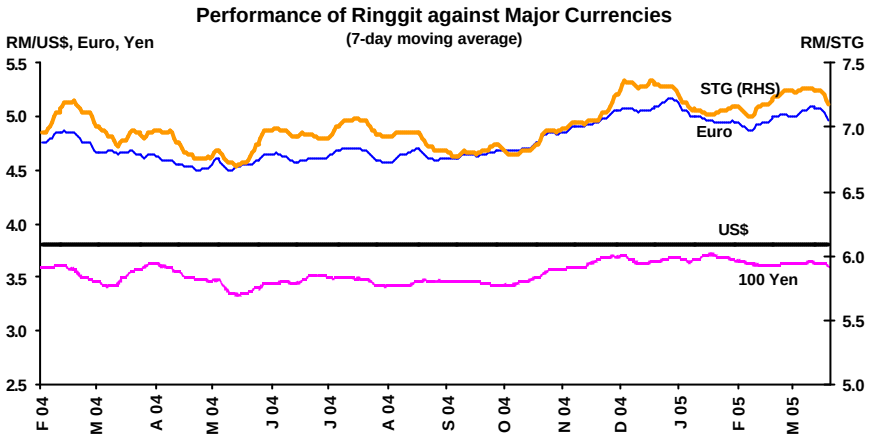


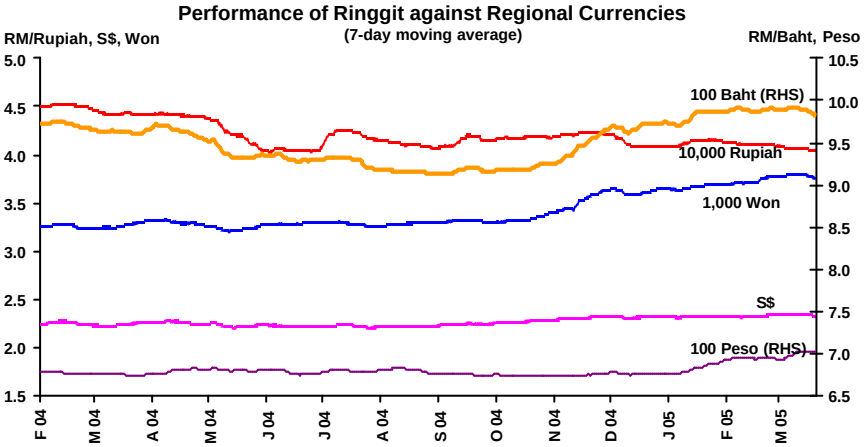
The 3-month real FD rate stabilised

Performance of the ringgit

Mirroring movements in the US dollar, in February the ringgit depreciated against the euro and pound sterling, but appreciated against the yen. The ringgit also depreciated against most regional currencies.

In the 1- 25 March period, the ringgit appreciated against the euro, yen and pound sterling. Against the regional currencies, the ringgit depreciated against the Philippine peso (0.9%) but appreciated against the Indonesian rupiah (1.7%), Thai baht (1.7%), Singapore dollar (1%) and Korean won (0.8%).



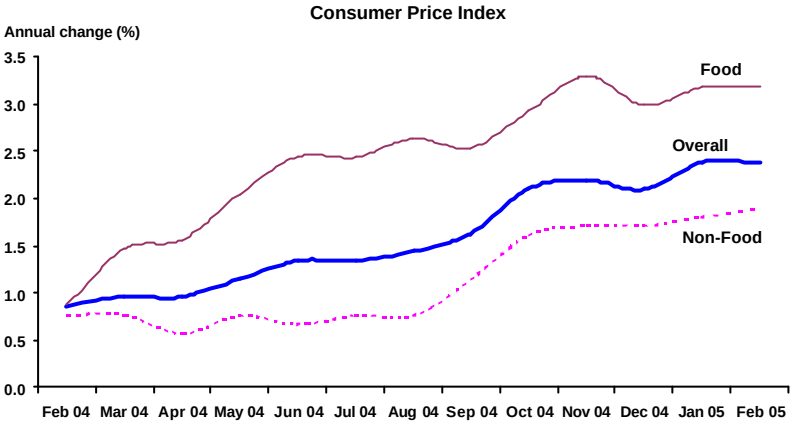


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change		
	Dec 04	Jan 05	Feb 05	25 Mar 05	End Jan 05 - Feb 05	End Feb 05 - 25 Mar 05	End Dec 04 - 25 Mar 05
US dollar	3.8000	3.8000	3.8000	3.8000	0.0	0.0	0.0
Euro	5.1729	4.9480	5.0437	4.9182	-1.9	2.6	5.2
Pound Sterling	7.3169	7.1617	7.3065	7.1037	-2.0	2.9	3.0
100 Japanese yen	3.7026	3.6669	3.6282	3.5714	1.1	1.6	3.7
Singapore dollar	2.3258	2.3175	2.3360	2.3119	-0.8	1.0	0.6
100 Thai baht	9.7636	9.8535	9.9139	9.7498	-0.6	1.7	0.1
100 Philippine peso	6.7706	6.8966	6.9463	7.0098	-0.7	-0.9	-3.4
100 Indonesian Rupiah	0.0408	0.0415	0.0410	0.0404	1.1	1.7	1.2
100 Korean won	0.3671	0.3698	0.3781	0.3753	-2.2	0.8	-2.2

Inflation remained unchanged

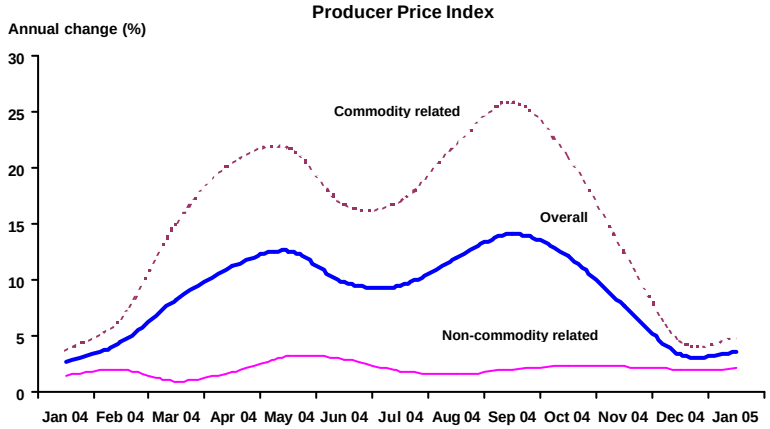
Headline inflation, as measured by the Consumer Price Index, remained unchanged at 2.4% in February (January: 2.4%). Notable price movements during the month were the increase in rentals as well as higher prices for furniture, furnishings, household equipment and operations. The increases, however, were offset by the decline in prices of clothing and footwear and the slower increase in transport and communication charges.



Overall inflation at 2.4%

Producer prices increased slightly

On an annual basis, the Producer Price Index (PPI) increased slightly by 3.6% in January (December: 3.4%) due mainly to the marginal increase in commodity prices. Excluding commodity prices, PPI grew at a rate of 2.1%.



PPI inflation increased slightly

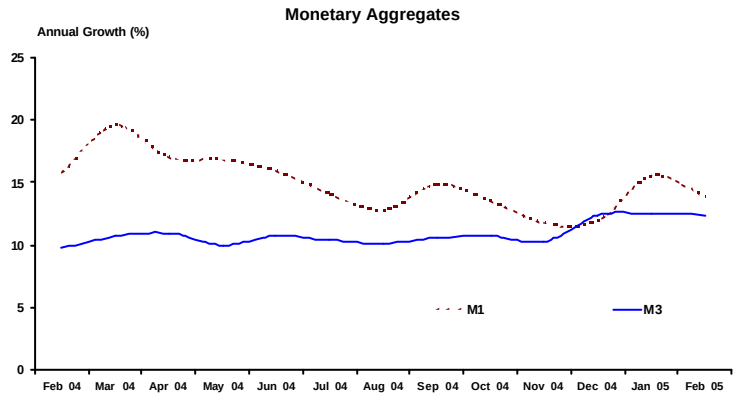
Money supply expansion remained strong

All monetary aggregates registered sustained growth rates in February. On an annual basis, transactional balances (M1), increased by 13.9% (January: 15.5%). Meanwhile, broad money (M3) expanded at a sustained growth rate of 12.4% (January: 12.5%). The increase in M3 was the result of expansionary external operations as well as the sustained lending by the banking system to the private sector. This was, however, mitigated somewhat by the contractionary impact of Government deposits with the Bank.

M3 Determinants
(RM billion)

	Change during period			
	2004	**Jan 05**	**Feb 05**	**Jan-Feb'05**
M3	68.0	6.6	5.9	12.5
Net claims on Government	-11.8	-5.3	-5.3	-10.6
Claims on the private sector	30.3	1.0	2.4	3.3
Loans	*39.8*	*0.4*	*3.2*	*3.6*
Securities	*-9.6*	*0.6*	*-0.9*	*-0.3*
Net external operations *	82.2	7.7	10.8	18.5
Other influences	-32.7	3.2	-1.9	1.3

* Pre-revaluation



Sustained growth of money supply

Banking system deposits continued to increase

Total deposits increased by RM5.4 billion or at an annual rate of 12.6% in February. The increase was driven mainly by higher deposit placements from individuals and domestic business enterprises. The bulk of deposit placements were in the form of fixed deposits and repos.

Deposits by Holder

(RM million)

	Change during period			
	Dec 04	**Jan 05**	**Feb 05**	**Jan - Feb 05**
Federal Government	-376	169	198	366
State Governments	-62	-413	610	197
Statutory Authorities [1]	1,571	-297	-255	-553
Financial Institutions	1,551	-4,201	398	-3,802
Business Enterprises	6,612	5,880	1,653	7,534
Individuals	4,078	1,740	3,255	4,995
Others [2]	862	948	-479	469
Total	14,237	3,827	5,380	9,206

1/ Include local Governments

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

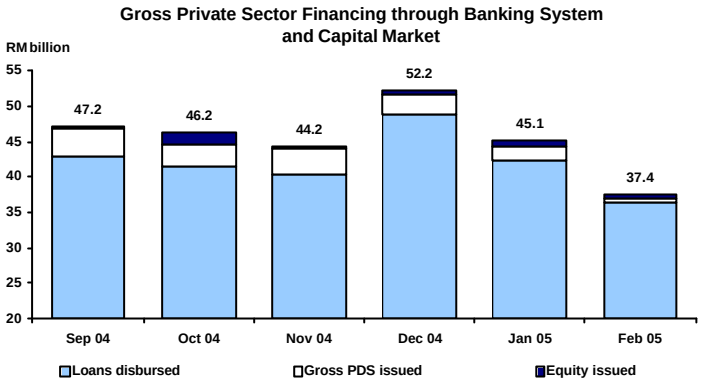
Deposits by Type

(RM million)

	Change during period			
	Dec 04	**Jan 05**	**Feb 05**	**Jan - Feb 05**
Fixed deposits	3,718	2,056	4,667	6,723
NIDs	1,989	1,362	-1,262	99
Demand deposits	2,191	3,518	-1,125	2,392
Savings deposits	1,799	84	641	725
Repos	1,862	-2,278	2,588	310
FX deposits	24	-309	-304	-613
SPI deposits	2,385	-769	-33	-801
Others	269	163	208	371
Total	14,237	3,827	5,380	9,206

Financing to the private sector remained strong

In February, private sector financing remained strong. On an annual basis, total gross financing extended to the private sector by the banking system and the capital market expanded by 10.8% (January: 11%). On a monthly basis, gross financing was however, lower at RM37.4 billion. This, to some extent, reflected the fewer working days during the month. Nonetheless, on a net basis, total financing extended to the private sector (banking system loans and PDS outstanding) was higher by RM4 billion, increasing by an annual rate of 8.9% (+RM1.3 billion or 8.8% in January), reflecting the sustained expansion in financing for the economy.



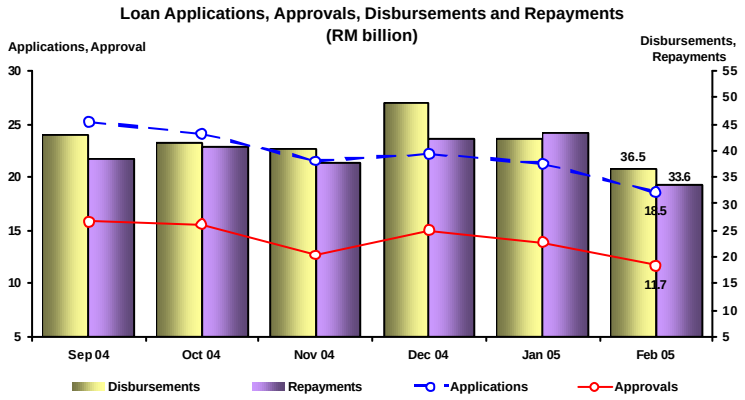
Gross private sector financing was lower due to shorter working month

Bank lending activity remained strong in February. In particular, loan disbursements grew at a stronger annual rate of 11.2% (January: 7.3%). The increase in loan disbursements was broad-based.

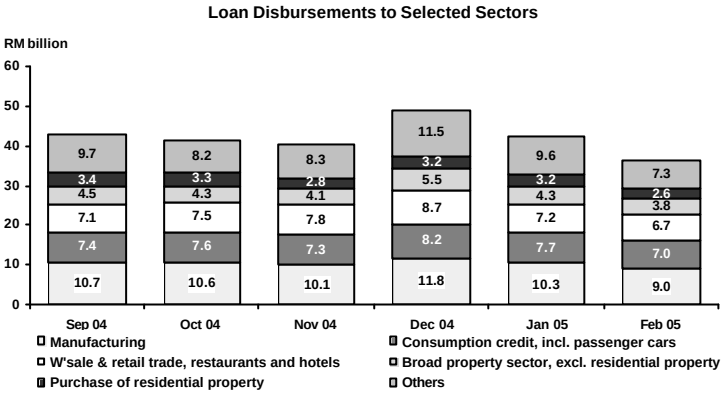
Bank Lending Indicators

	Mthly average (RM b)		Annual growth (%)	
	Jan	**Feb**	**Jan**	**Feb**
Overall				
Loan applications	21.3	18.5	24.0	5.3
Loan approvals	13.9	11.7	42.4	7.3
Loan disbursements	42.4	36.5	7.3	11.2
Businesses				
Loan applications	11.1	9.5	21.7	1.1
Loan approvals	6.7	4.9	67.1	-1.2
Loan disbursements	28.9	24.6	5.9	11.7
SMEs				
Loan applications	4.2	3.7	43.6	10.0
Loan approvals	2.4	2.3	75.1	27.7
Loan disbursements	8.8	7.6	4.6	1.6
Households				
Loan applications	9.8	8.6	22.6	7.7
Loan approvals	6.9	6.4	21.9	14.0
Loan disbursements	11.5	10.2	10.7	14.7

Bank lending activity remained strong



Loan indicators were seasonally lower in February



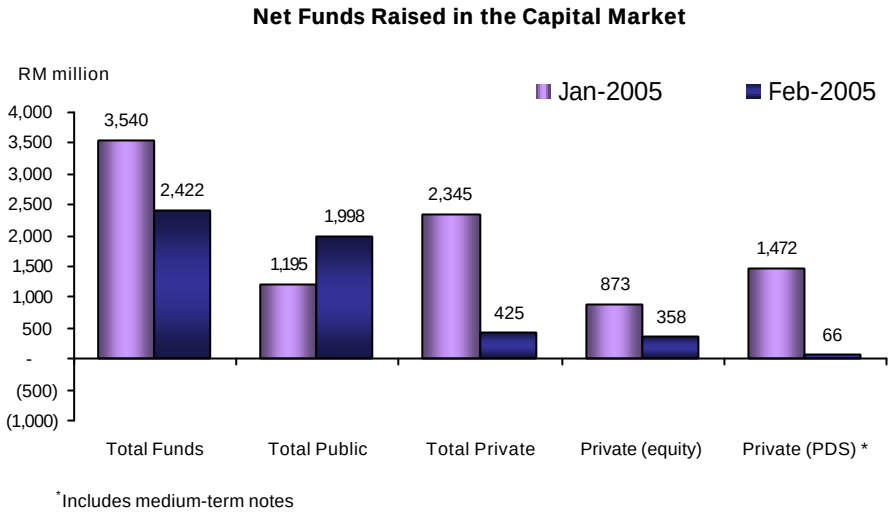
Disbursements during the month remained broad-based

Amidst continued high loan disbursements, loans outstanding expanded further at a stronger annual growth of 8.3% at end-February (8% at end-January). In particular, loans outstanding to businesses were higher at an annual rate of 1.4% (1.2% at end-January). This was driven mainly by the strong increase in loans outstanding to SMEs, which rose at an annual rate of 9.1% (7.1% at end-January). The proportion of SMEs loans in the business sector grew further to 40.7% (40.6% at end-January). Meanwhile, loans outstanding to the household sector continued to increase at a sustained annual growth rate of 15.2% (15.2% at end-January 2005).

Net funds raised in the capital market remained significant

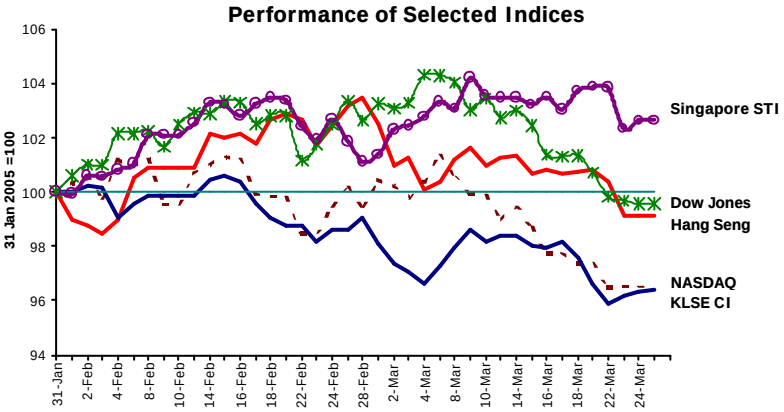
In February, net funds raised in the capital market remained significant, amounting to RM2.4 billion, sourced mainly by the public sector. Net funds raised by the private sector through the equity and private debt securities (PDS) markets were lower at RM424 million, attributed partly to the fewer trading days on account of the festive seasons during the month. Funds raised through PDS were for refinancing and new activity purposes.

During the month, a new asset class was introduced in the capital market with the inaugural issuance of Islamic principal municipal bond of RM80 million backed by property tax assessments collections of a local authority.



KLCI closed lower in March

In February, the KLCI closed lower at 907.38 (-1.0% since end-January). Market capitalisation was lower at RM725.2 billion (-1.0% since end-January) while the daily average turnover during the month decreased to 489.7 million units.

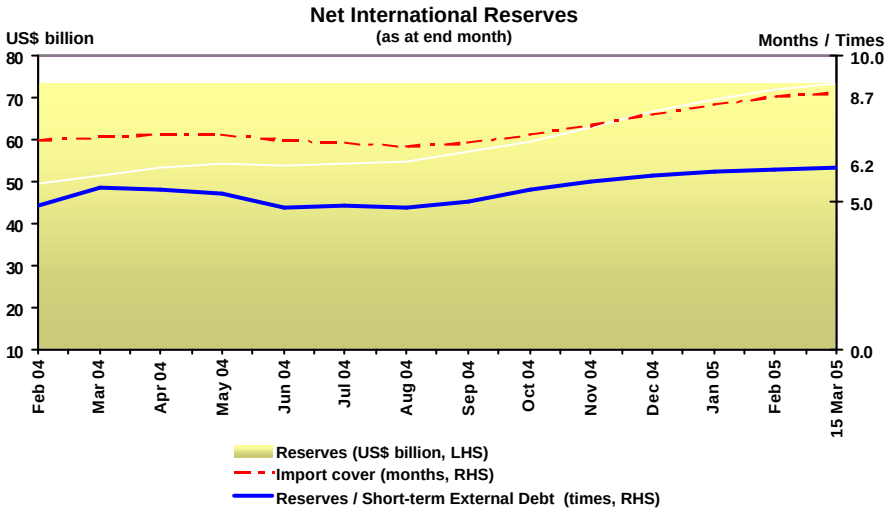


KLCI declined in March

In the period 1-25 March, the KLCI closed lower at 883.40 on 25 March (-2.6% since end-February) with market capitalisation at RM707.92 billion (-2.2% since end-February). Market activity was lower with daily average turnover during the period recorded at 480.33 million units.

International reserves strengthened further

The international reserves of Bank Negara Malaysia strengthened further by RM8.3 billion (US$2.2 billion) in February to RM272.9 billion (US$71.8 billion) as at 28 February 2005. The increase was due mainly to higher repatriation of export earnings, foreign direct investment and inflows of portfolio investment. Outflows during the month reflected mainly payments for imports of goods and services and some repayments of external loans. The reserves increased further to RM278.3 billion (US$73.2 billion) as at 15 March 2005. The reserves position is adequate to finance 8.6 months of retained imports and is 6.2 times the short-term external debt.



Banking system's capitalisation and asset quality improved further

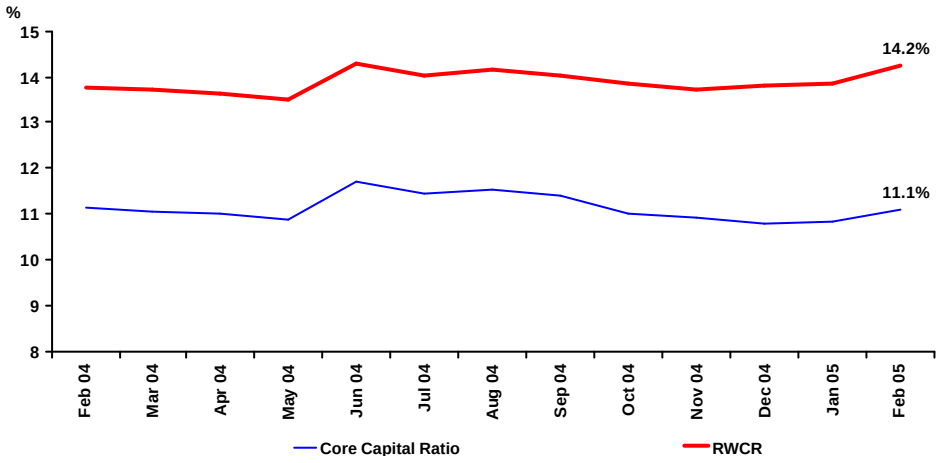
The risk-weighted capital ratio (RWCR) of the banking system strengthened further to 14.2% due mainly to the inclusion of audited profits of several banking institutions. Meanwhile, the net non-performing loans (NPL) based on 6-month classification improved to RM28.6 billion, maintaining the downward trend in net NPL ratio, which stood at 5.8% as at end-February 2005.

Banking System Health Indicators *

	As at end-								
	1999	2000	2001	2002	2003	Nov 04	Dec 04	Jan 05	Feb 05
Capital (%)									
Core capital ratio	10.1	10.7	11.1	11.1	11.1	10.9	10.8	10.8	11.1
RWCR	12.5	12.5	13.0	13.2	13.8	13.7	13.8	13.9	14.2
Net NPLs (6-month classification)									
% of net total loans	6.4	6.3	6.9	7.5	6.8	6.1	5.9	5.9	5.8
Amount (RM million)	23,856	24,760	32,833	31,702	30,766	29,382	28,978	28,974	28,613
GP / Net total loans (6-month, %)	1.9	1.9	1.9	1.8	1.8	1.7	1.7	1.6	1.7

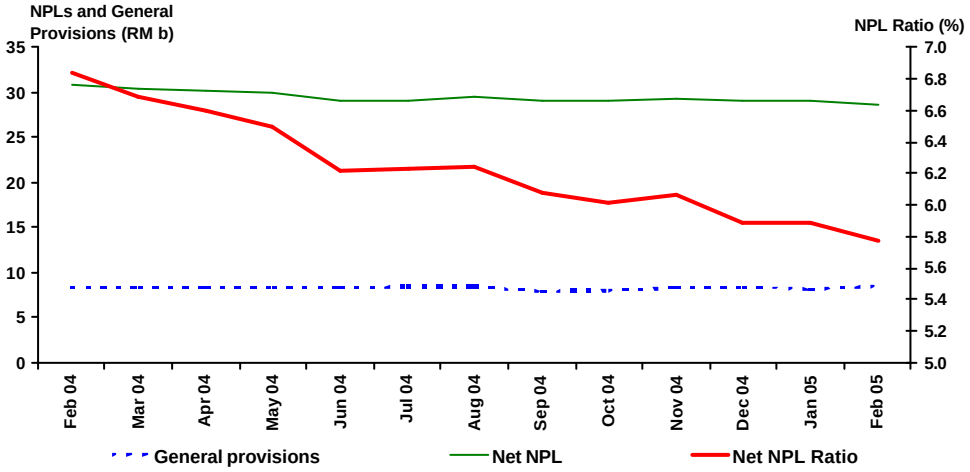
* Beginning June 1999 onwards, the figures include Islamic banks.

Capital Strength Indicators



RWCR at highest level of 14.2%

Banking System: Net NPLs and General Provisions



Net NPL ratio (6-month classification) declined to 5.8%

Bank Negara Malaysia
28 March 2005

Key Monetary and Financial Statistics

		Dec 04		Jan 05		Feb 05	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		50.1	10.0	53.4	7.3	51.9	9.7
M1		114.3	11.9	119.6	15.5	117.8	13.9
M2		534.2	25.4	539.9	25.5	540.9	24.9
M3		617.7	12.4	624.2	12.5	630.2	12.4
Banking System							
Total deposits		624.0	12.7	627.8	13.3	633.2	12.6
Total loans (including loans sold to Cagamas)		514.0	8.5	513.8	8.0	516.7	8.3
Loan-deposit ratio (%)		78.6		78.1		77.7	
Financing-deposit ratio [1] (%)		87.7		87.2		86.8	
Loans applied (during the period)		22.2	16.6	21.3	24.0	18.5	5.3
Loans approved (during the period)		15.0	5.8	13.9	42.4	11.7	7.3
Loans disbursed (during the period)		48.9	12.7	42.4	7.3	36.5	11.2
Loans repaid (during the period)		42.2	-7.6	43.3	11.8	33.6	2.2
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.8		13.9		14.2	
Net NPLs: 6-month classification (%)		5.9		5.9		5.8	
International Reserves of BNM (end-period)							
Reserves in RM (billion)		253.5		264.6		272.9	
Reserves in USD (billion)		66.7		69.6		71.8	
Months of retained imports		8.0		8.3		8.6	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		2.70		2.70		2.70	
Interbank:	Overnight	2.69 [2.69]		2.70 [2.70]		2.69 [2.69]	
	1-week	2.72 [2.71]		2.73 [2.71]		2.69 [2.71]	
	1-month	2.77 [2.77]		2.78 [2.77]		2.78 [2.78]	
	3-month	2.80 [2.80]		2.79 [2.79]		2.79 [2.79]	
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		5.98		5.98		5.95	
Prices							
Consumer Price Index (CPI) (2000=100)		107.2	2.1	107.5	2.4	107.6	2.4
Producer Price Index (PPI) (1989=100)		148.0	3.4	148.5	3.6	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
Euro		5.1729		4.9480		5.0437	
Pound Sterling		7.3169		7.1617		7.3065	
100 Japanese yen		3.7026		3.6669		3.6282	
Singapore dollar		2.3258		2.3175		2.3360	
100 Thai Baht		9.7636		9.8535		9.9139	
100 Philippine Peso		6.7706		6.8966		6.9463	
100 Indonesian Rupiah		0.0408		0.0415		0.0410	
100 Korean Won		0.3671		0.3698		0.3781	
Capital Market							
Net funds raised (in RMb) by:	public	5.0		1.2		2.0	
	private	0.7		2.3		0.4	
Bursa Malaysia Composite Index (end-period)		907.4		916.3		907.4	
Bursa Malaysia Market Capitalisation (RMb, end-period)		722.0		731.7		725.2	

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