BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 04/05/63 (BN)

EMBARGO: Not for publication or broadcast before 1930 hours on Thursday, 28 April 2005

Monetary and Financial Developments March 2005
Highlights of the Press Release

Banking system remained resilient

In March, the banking system's net non-performing loan (NPL) ratio based on the 6-month classification, improved further to 5.4%, the lowest since the Asian crisis. Financing activity remained robust in March, underpinned by strong demand for financing by the private sector. During the month, total gross financing by the banking system and the capital market grew at a higher annual rate of 14.5%. Of significance, bank lending to the business sector continued to improve, with loans outstanding to businesses growing at a positive rate for the fourth consecutive month, registering an annual growth rate of 2.8% as at end-March. Financing to the small and medium enterprises (SMEs) also expanded strongly, with loans outstanding to the SMEs recording a higher annual growth rate of 10.5% in March.

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MONETARY AND FINANCIAL DEVELOPMENTS MARCH 2005

Banking system remained resilient

In the money market, the daily weighted average overnight interbank rate averaged at 2.70% in March 2005. While the deposit rates remained unchanged in the retail market, the average lending rates for commercial banks and finance companies were lower at 5.90% and 8.63% respectively.

The Consumer Price Index edged up by 2.6% in March due mainly to higher prices of food taken at home. Prices of other sub-groups registered only marginal increases.

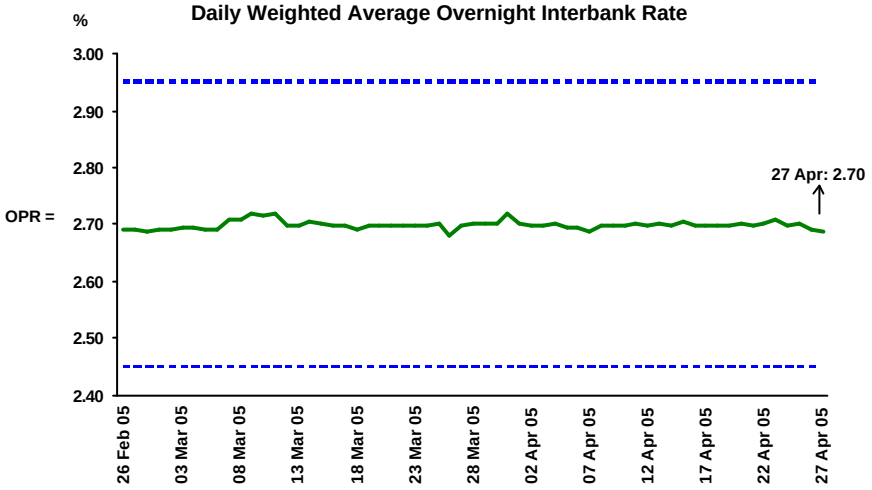
Financing to the private sector expanded at a stronger pace in March, with total gross financing by the banking system and capital market growing at a higher annual rate of 14.5%. On a net basis, the annual growth rate of the total banking system loans and private debt securities (PDS) outstanding was also higher at 9.6% in March. The robust bank lending activity was reflected in the growth of loan indicators. Of significance, loans outstanding of the business sector grew at a positive rate for the fourth consecutive month, registering an annual growth rate of 2.8% as at end-March. Financing to the small and medium enterprises (SMEs) also expanded strongly, with loans outstanding to the SMEs recording an annual growth rate of 10.5% in March. In the capital market, net funds raised by both the public and private sectors were also higher, amounting to RM5.1 billion in March.

Broad money, M3, expanded at an annual rate of 13.3% in March, due mainly to the inflows of external funds and higher banking system loans extended to the private sector. Meanwhile, the annual growth rate of M1 was lower at 9.4% in the month, reflecting the normalisation of the demand for cash balances after the seasonal festivities.

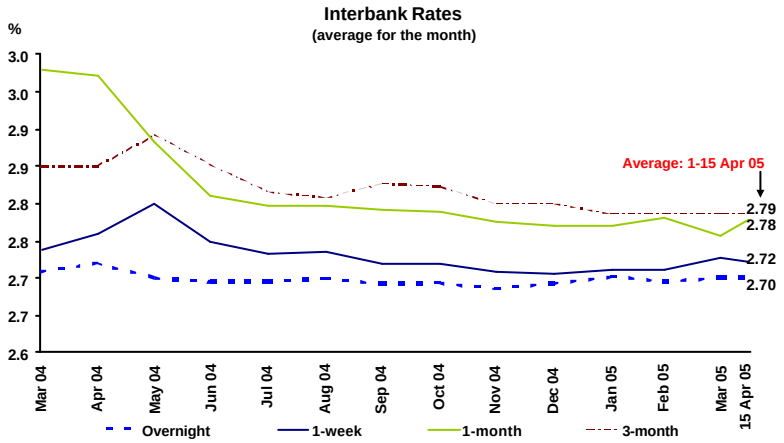
The banking system's net non-performing loans (NPL) ratio based on 6-month classification improved further to 5.4% in March, the lowest since the Asian crisis. However, the risk weighted capital ratio (RWCR) declined to 13.5% following the increase in investment in subsidiaries as well as redistribution of profits to shareholders by some banking institutions.

Interest rates remained stable

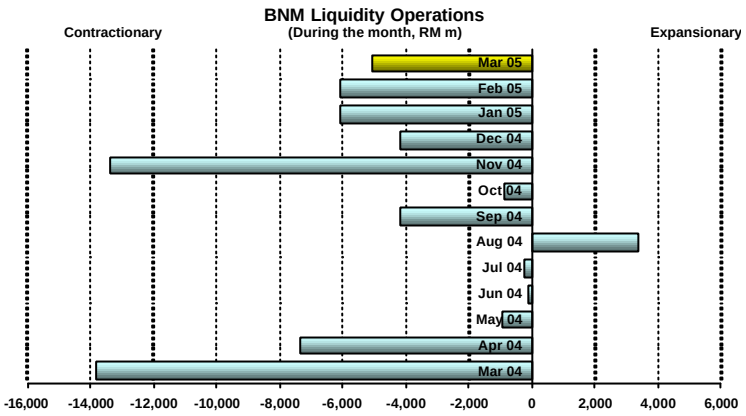
Liquidity operations by Bank Negara Malaysia were largely to offset the expansionary effects of the external sector and maintain a stable overnight interbank rate. During the period of 1 March – 27 April, the daily weighted average overnight interbank rate moved within a range of 2.68% - 2.72%, averaging at 2.70%. Both deposit rates and lending rates remained relatively stable during the month. The average BLRs of commercial banks (CBs) and finance companies (FCs) remained unchanged while the ALR for CBs and FCs were lower at 5.90% and 8.63% respectively.



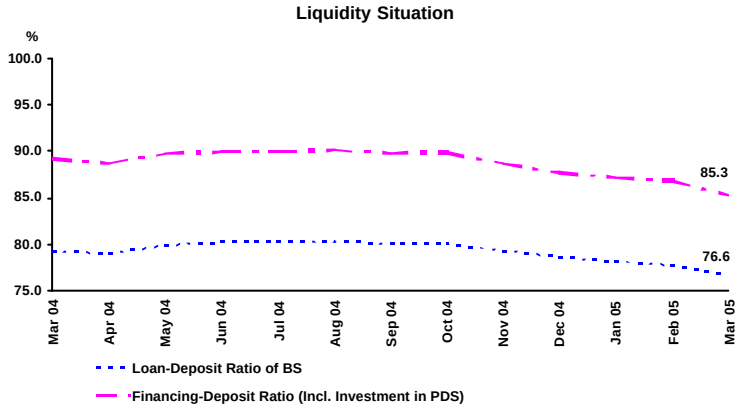
Stable overnight interbank rate



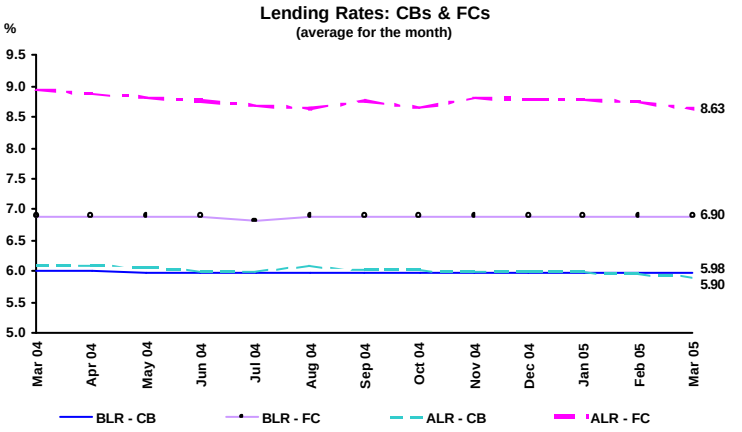
Other interbank rates also stable



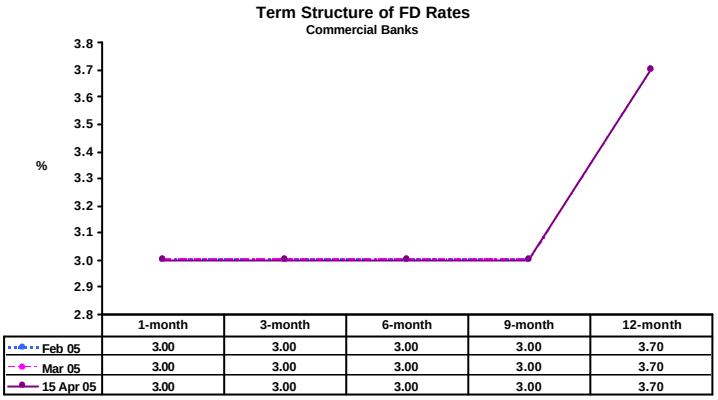
Liquidity operations in March were largely to offset the expansionary effects of the external sector



The financing-deposit ratio was 85.3%

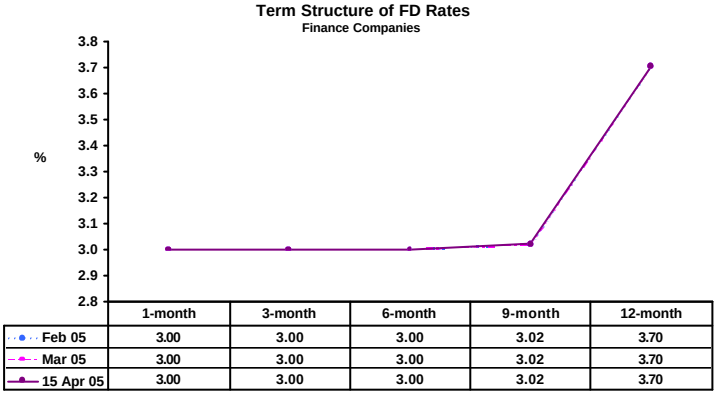


ALR continued to decline



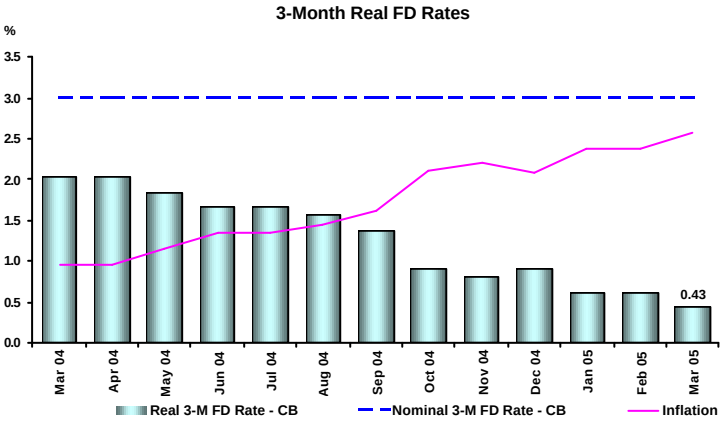
	1-month	3-month	6-month	9-month	12-month
Feb 05	3.00	3.00	3.00	3.00	3.70
Mar 05	3.00	3.00	3.00	3.00	3.70
15 Apr 05	3.00	3.00	3.00	3.00	3.70

FD rates of CBs remained unchanged



	1-month	3-month	6-month	9-month	12-month
Feb 05	3.00	3.00	3.00	3.02	3.70
Mar 05	3.00	3.00	3.00	3.02	3.70
15 Apr 05	3.00	3.00	3.00	3.02	3.70

FD rates of FCs remained unchanged

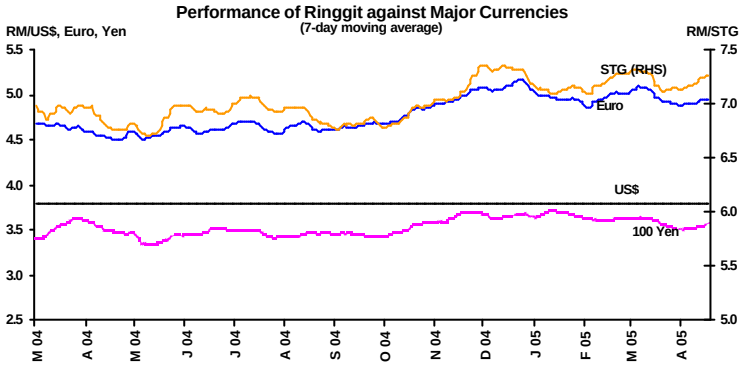


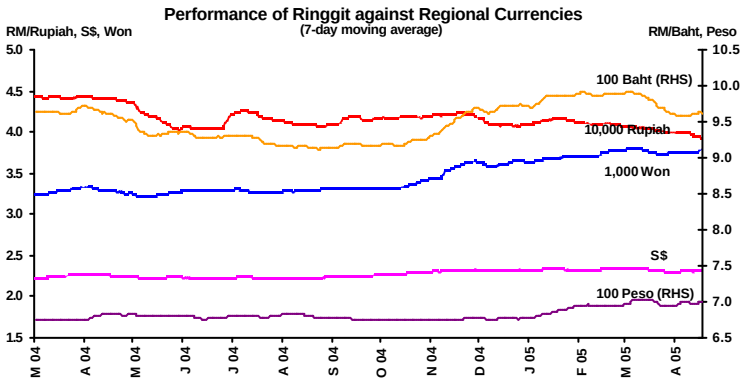
The 3-month real FD rate declined

Performance of the ringgit

Reflecting movements in the US dollar, the ringgit appreciated against the major and regional currencies in March. The US dollar appreciated amid expectations of, and the eventual increase in the US benchmark interest rate, as well as signs that economic growth in the US was relatively faster than in most other major economies.

In the 1 – 27 April period, however, the ringgit depreciated against the pound sterling (1.3%), yen (0.8%) and euro (0.3%). Against the regional currencies, the ringgit appreciated against the Indonesian rupiah (1.6%) and Thai baht (1.1%), but depreciated against the Korean won (1.5%) and Philippine peso (0.6%) and remained unchanged against Singapore dollar.



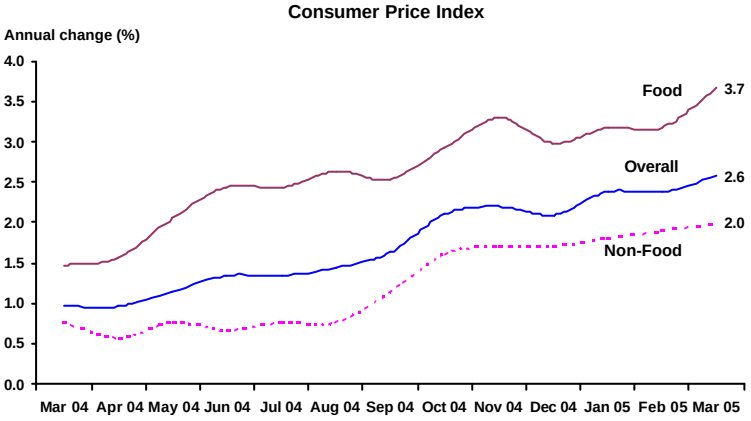


Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change		
	Dec 04	Feb 05	Mar 05	27 Apr 05	End Feb 05 - Mar 05	End Mar 05 - 27 Apr 05	End Dec 04 - 27 Apr 05
US dollar	3.8000	3.8000	3.8000	3.8000	0.0	0.0	0.0
Euro	5.1729	5.0437	4.9125	4.9284	2.7	-0.3	5.0
Pound Sterling	7.3169	7.3065	7.1415	7.2365	2.3	-1.3	1.1
100 Japanese yen	3.7026	3.6282	3.5446	3.5750	2.4	-0.8	3.6
Singapore dollar	2.3258	2.3360	2.3034	2.3034	1.4	0.0	1.0
100 Thai baht	9.7636	9.9139	9.7013	9.5984	2.2	1.1	1.7
100 Philippine peso	6.7706	6.9463	6.9381	6.9795	0.1	-0.6	-3.0
100 Indonesian Rupiah	0.0408	0.0410	0.0401	0.0394	2.4	1.6	3.6
100 Korean won	0.3671	0.3781	0.3734	0.3790	1.3	-1.5	-3.1

Inflation edged up in March

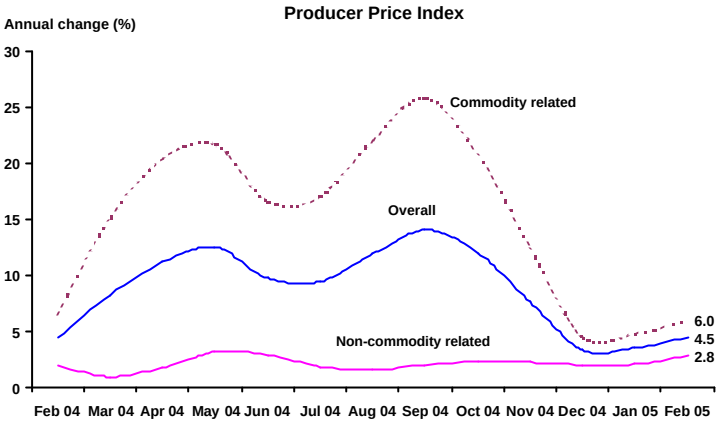
Headline inflation, as measured by the Consumer Price Index, edged up to 2.6% in March (February: 2.4%). The increase in inflation during the month was driven mainly by higher prices of food taken at home, especially vegetables and fresh fish, as adverse weather conditions led to an interruption in the supply of these items. Prices of other sub-groups registered only marginal increases.



Inflation edged up to 2.6%

Producer prices increased slightly

On an annual basis, the Producer Price Index (PPI) increased by 4.5% in February (January: 3.6%) due mainly to the increase in commodity prices. Excluding commodity prices, the PPI grew at an annual rate of 2.8% (January: 2.1%).

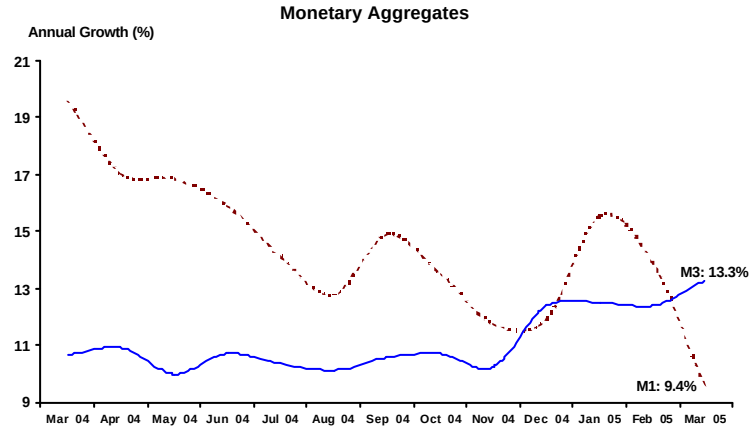


PPI inflation increased slightly

Broad money continued to expand further

During the month, narrow money, M1, grew at a slower annual growth rate of 9.4% (February: 13.9%) as a result of lower growth rates for currency in circulation and demand deposits. This reflected a normalisation of the demand for cash balances, after the seasonal festivities.

The continued inflow of external funds and higher claims on the private sector arising from higher loans extended by the banking system, resulted in an expansionary impact on broad money, M3, which grew further by 13.3% on an annual basis (February: 12.4%). This however, was partially mitigated by the contractionary impact of the increase in Government deposits with Bank Negara Malaysia.



Overall, broad money expanded further

M3 Determinants
(RM billion)

	Change during period			
	2004	**Feb 05**	**Mar 05**	**Jan-Mar '05**
M3	68.0	5.9	13.9	26.4
Net claims on Government	-15.9	-5.3	-2.6	-9.1
Claims on the private sector	30.1	2.4	5.4	9.0
Loans	*39.8*	*3.2*	*6.8*	*10.4*
Securities	*-9.8*	*-0.8*	*-1.3*	*-1.4*
Net external operations *	81.9	10.1	10.5	29.2
Other influences	-28.1	-1.3	0.5	-2.8

* Pre-revaluation of the international reserves

Banking system deposits rose further

Total deposits rose significantly by RM17.9 billion, or at an annual rate of 13.6%, in March. The rise was driven mainly by higher deposit placements by public enterprises, domestic business enterprises and financial institutions. The bulk of deposit placements were in the form of negotiable instruments of deposits, fixed deposits and repurchase agreements.

Deposits by Holder
(RM million)

	Change during period			
	Jan 05	**Feb 05**	**Mar 05**	**Jan - Mar 05**
Federal Government	169	198	83	450
State Governments	-413	610	-134	63
Statutory Authorities [1]	-297	-255	190	-363
Financial Institutions	-4,201	398	6,441	2,638
Business Enterprises	5,880	1,653	10,368	17,901
Individuals	1,740	3,255	253	5,248
Others [2]	948	-479	712	1,181
Total	3,827	5,380	17,913	27,119

1/ Include local Governments

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

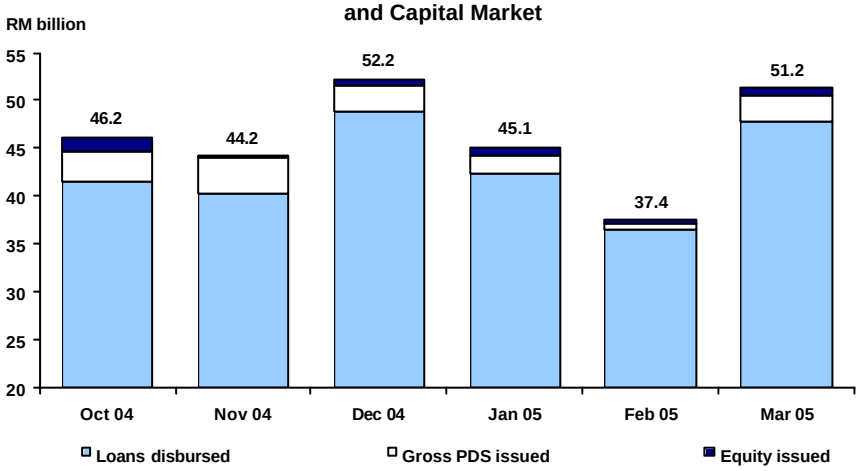
Deposits by Type
(RM million)

	Change during period			
	Jan 05	**Feb 05**	**Mar 05**	**Jan - Mar 05**
Fixed deposits	2,056	4,667	4,641	11,364
NIDs	1,362	-1,262	8,958	9,058
Demand deposits	3,518	-1,125	-1,511	881
Savings deposits	84	641	-504	221
Repos	-2,278	2,588	4,110	4,420
FX deposits	-309	-304	909	295
SPI deposits	-769	-33	868	66
Others	163	208	442	813
Total	3,827	5,380	17,913	27,119

Higher private sector financing in March

In March, demand for financing by the private sector continued to remain strong. Total gross financing extended to the private sector by the banking system and capital market increased strongly to RM51.2 billion, at an annual growth of 14.5% (February: 10.8%), with loan disbursements, PDS and equity issuances recording positive growth rates. Similarly, on a net basis, total financing extended to the private sector (banking system loans and PDS outstanding) expanded further by RM6.8 billion or at an annual rate of 9.6% (February: RM3 billion or 8.9%).

Gross Private Sector Financing through Banking System and Capital Market



Total gross financing extended to the private sector higher

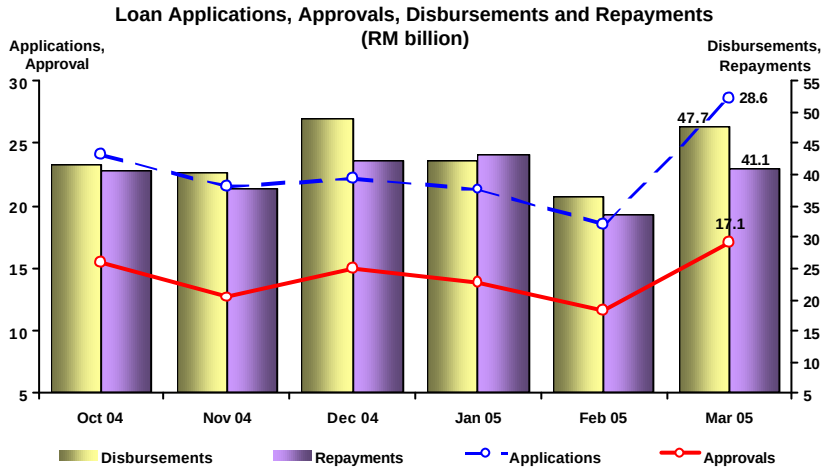
Bank Lending Indicators

	RM billion		Annual growth (%)	
	Feb	Mar	Feb	Mar
Overall				
Loan applications	18.5	28.6	5.2	20.3
Loan approvals	11.7	17.1	7.3	3.1
Loan disbursements	36.5	47.7	11.2	12.1
Change in loans outstanding[1/]	2.9	5.9	8.3	9.1
Businesses				
Loan applications	9.5	15.8	1.1	31.0
Loan approvals	4.9	8.4	-1.2	2.1
Loan disbursements	24.6	33.5	11.7	15.4
Change in loans outstanding[1/]	0.6	2.7	1.4	2.8
SMEs				
Loan applications	3.6	5.6	9.7	29.8
Loan approvals	2.3	3.4	28.5	31.5
Loan disbursements	7.6	9.6	1.6	22.5
Change in loans outstanding[1/]	0.4	1.5	9.1	10.5
Households				
Loan applications	8.6	12.6	7.7	12.3
Loan approvals	6.4	8.5	14.0	6.7
Loan disbursements	10.2	12.2	14.7	5.6
Change in loans outstanding[1/]	2.2	2.4	15.2	15.2

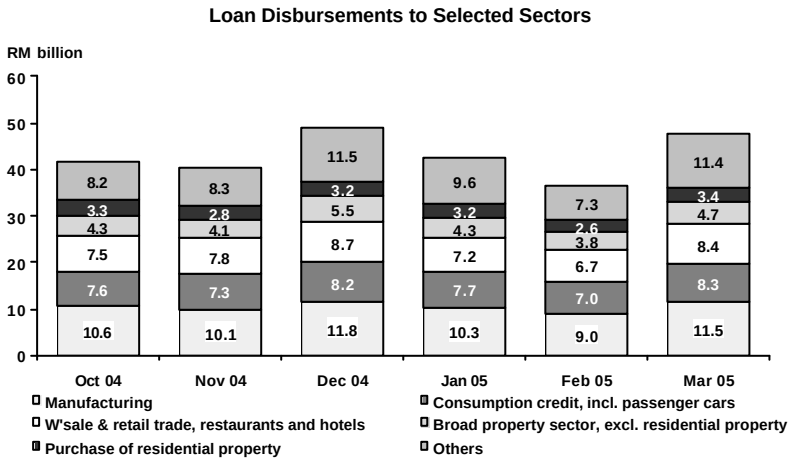
[1/] The annual growth is for end-period

Stronger bank lending activities across the board

Overall, robust bank lending activity continued into March with the loan indicators continuing to register strong growth rates, reflecting continued expansion in bank lending to both the business and household sectors. Loan applications by and disbursements to businesses recorded high annual growth rates of 31% and 15.4% respectively. This reflected the stronger demand for bank financing by both large businesses and SMEs. Meanwhile, loan applications by and disbursements to households expanded by 12.3% and 5.6% on an annual basis respectively.



Robust expansion in the loan indicators



Higher disbursements by the banking system remained broad-based

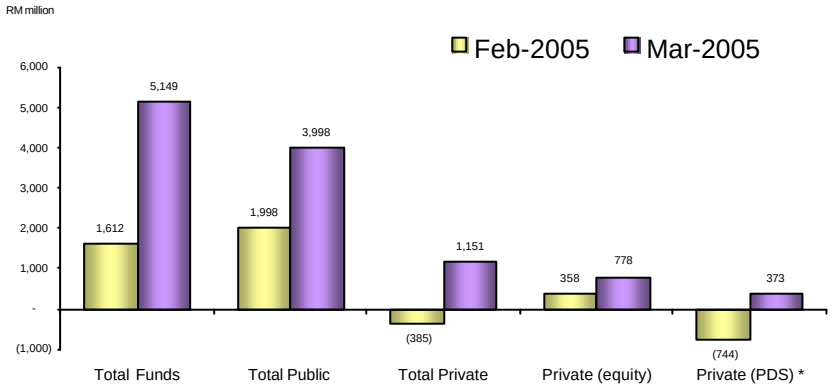
The continued strong demand for bank financing was also reflected in the further expansion of loans outstanding, which expanded at an annual rate of 9.1% at end-March (end-February: 8.3%). Of significance, loans outstanding to businesses grew at a positive rate for the fourth consecutive month, at an annual rate of 2.8% at end-March (end-February: 1.4%). Similarly, loans outstanding to the SMEs rose strongly by 10.5% on an annual basis (end-February: 9.1%). Consequently, SMEs

loans accounted for a higher share of 40.9% (end-February: 40.7%) of the total loans to businesses. Meanwhile, loans outstanding to the household sector continued to increase strongly by 15.2% on an annual basis (end-February: 15.2%).

Significantly higher fund raising activities in the capital market

Higher net funds of RM5.1 billion were raised in the capital market in March by both the public and private sectors. A total of RM4 billion was raised through the new issuances of 10-year MGS2/05 and 10-year GII1/05. Companies in the business services and manufacturing sectors were the main issuers of PDS and a total of RM2.8 billion were raised, mainly for restructuring and merger and acquisition purposes. In the equity market, a total of RM778 million was raised mainly through six Initial Public Offerings (IPOs).

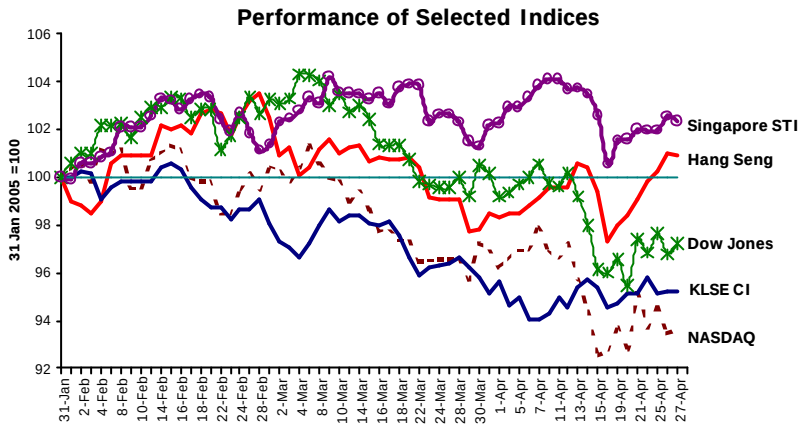
Net Funds Raised in the Capital Market



* Includes medium-term notes

KLCI closed higher in April

In March, the KLCI closed lower at 871.35 (-4.0% since end-February). Market capitalisation was lower at RM694.9 billion (-4.2% since end-February) while the daily average turnover during the month decreased to 471.6 million units.

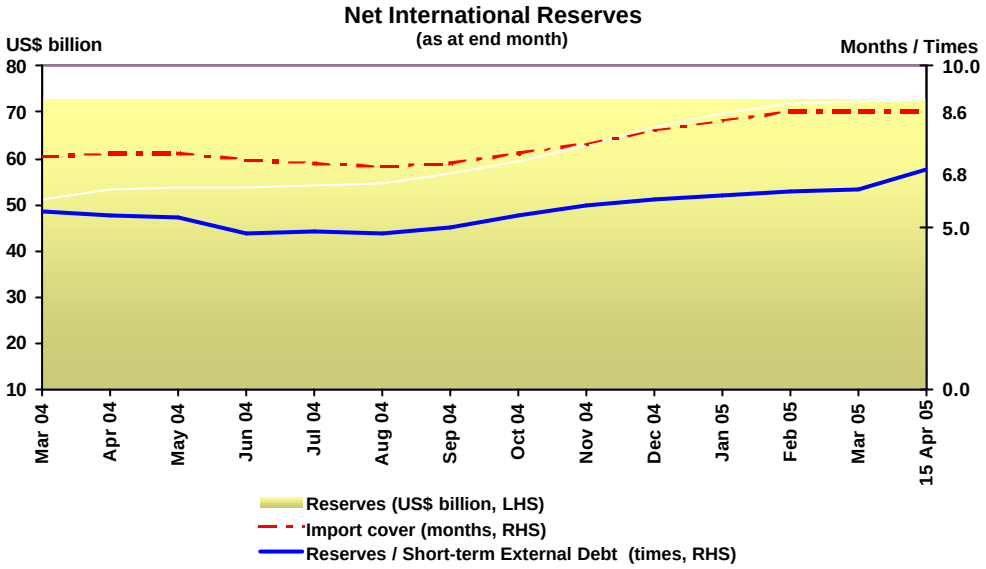


KLCI closed higher in April

In the period 1 - 27 April, the KLCI closed higher at 872.45 on 27 April (+0.1% since end-March). Market capitalisation was lower at RM689.41 billion (-0.8% since end-March). Lower market activity was also recorded, with daily average turnover at 346.85 million units.

International reserves strengthened further

The international reserves of Bank Negara Malaysia increased by RM2.2 billion (US$0.6 billion) to RM275.2 billion (US$72.4 billion) as at 31 March 2005. The increase in reserves in March was due mainly to higher repatriation of export earnings, inflows of FDI and portfolio investment as well as drawdown of external loans by the private sector. Outflows reflected mainly larger payments for imports of goods and services and repatriation of dividends. The reserves level has also taken into account the quarterly adjustments of foreign exchange revaluation loss amounting to US$1.2 billion during the first quarter. Reserves increased further to RM276.7 billion (US$72.8 billion) as at 15 April 2005. The current level of reserves is sufficient to finance 8.6 months of retained imports and is 6.8 times the short-term external debt.



Banking system remained resilient

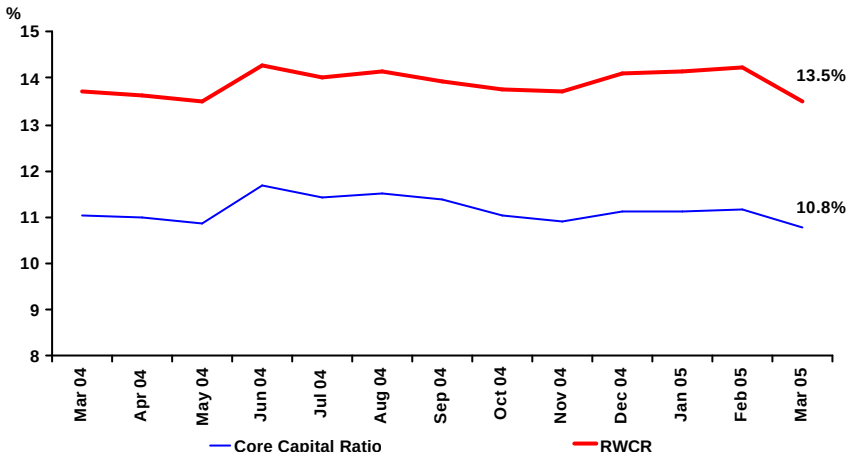
The risk-weighted capital ratio (RWCR) of the banking system declined to 13.5% following the increase in investment in subsidiaries as well as redistribution of profits to shareholders by some banking institutions. Meanwhile, the net non-performing loans (NPL) based on 6-month classification continued to trend downwards to RM27.3 billion, resulting in a marked improvement in the net NPL ratio to 5.4% as at end-March 2005.

Banking System Health Indicators *

	As at end-								
	1999	2000	2001	2002	2003	Dec 04	Jan 05	Feb 05	Mar 05
Capital (%)									
Core capital ratio	10.1	10.7	11.1	11.1	11.1	11.1	11.1	11.2	10.8
RWCR	12.5	12.5	13.0	13.2	13.8	14.1	14.2	14.2	13.5
Net NPLs (6-month classification)									
% of net total loans	6.4	6.3	6.9	7.5	6.8	5.9	5.9	5.8	5.4
Amount (RM million)	23,849	24,700	32,833	31,702	30,766	28,978	28,974	28,613	27,277
GP / Net total loans (6-month, %)	1.9	1.9	1.9	1.8	1.8	1.7	1.6	1.7	1.7

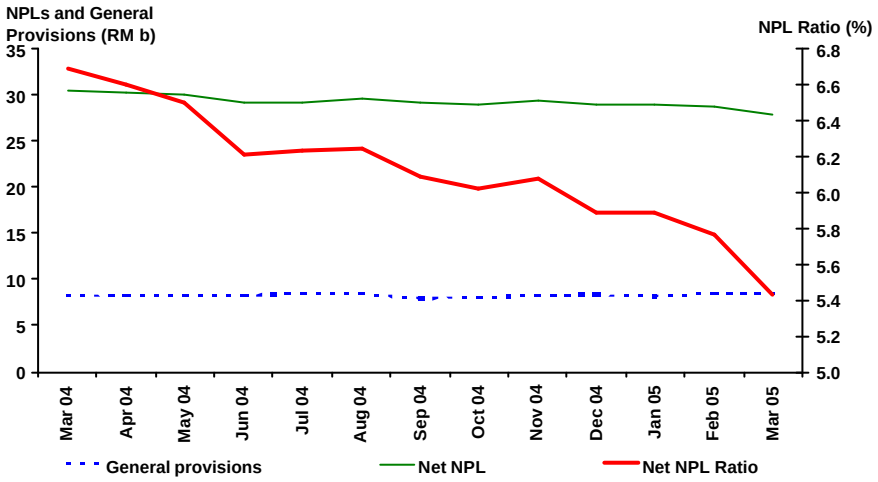
* Beginning June 1999 onwards, the figures include Islamic banks.

Capital Strength Indicators



RWCR was 13.5%

Banking System: Net NPLs and General Provisions



Net NPL ratio (6-month classification) declined further to 5.4%

Bank Negara Malaysia
28 April 2005

Key Monetary and Financial Statistics

		Jan 05		Feb 05		Mar 05	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		53.4	7.3	51.9	9.7	50.6	7.5
M1		119.6	15.5	117.8	13.9	115.7	9.4
M2		539.9	25.5	540.9	24.9	552.6	25.7
M3		624.2	12.5	630.2	12.4	644.0	13.3
Banking System							
Total deposits		627.8	13.3	633.2	12.6	651.1	13.6
Total loans (including loans sold to Cagamas)		513.8	8.0	516.7	8.3	522.6	9.1
Loan-deposit ratio (%)		78.1		77.7		76.6	
Financing-deposit ratio [1] (%)		87.2		86.8		85.3	
Loans applied (during the period)		21.3	24.0	18.5	5.2	28.6	20.3
Loans approved (during the period)		13.9	42.4	11.7	7.3	17.1	3.1
Loans disbursed (during the period)		42.4	7.3	36.5	11.2	47.7	12.1
Loans repaid (during the period)		43.3	11.8	33.6	2.2	41.1	0.3
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		14.2		14.2		13.5	
Net NPLs: 6-month classification (%)		5.9		5.8		5.4	
International Reserves of BNM (end-period)							
Reserves in RM (billion)		264.7		272.9		275.2	
Reserves in USD (billion)		69.6		71.8		72.4	
Months of retained imports		8.3		8.5		8.6	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		2.70		2.70		2.70	
Interbank:	Overnight	2.70 [2.70]		2.69 [2.69]		2.72 [2.70]	
	1-week	2.73 [2.71]		2.69 [2.71]		2.75 [2.73]	
	1-month	2.78 [2.77]		2.78 [2.78]		2.77 [2.76]	
	3-month	2.79 [2.79]		2.79 [2.79]		2.82 [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		5.98		5.95		5.90	
Prices							
Consumer Price Index (CPI) (2000=100)		107.5	2.4	107.6	2.4	107.7	2.6
Producer Price Index (PPI) (1989=100)		148.5	3.6	153.4	4.5	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
Euro		4.9480		5.0437		4.9125	
Pound Sterling		7.1617		7.3065		7.1415	
100 Japanese yen		3.6669		3.6282		3.5446	
Singapore dollar		2.3175		2.3360		2.3034	
100 Thai Baht		9.8535		9.9139		9.7013	
100 Philippine Peso		6.8966		6.9463		6.9381	
100 Indonesian Rupiah		0.0415		0.0410		0.0401	
100 Korean Won		0.3698		0.3781		0.3734	
Capital Market							
Net funds raised (in RMb) by:	public	1.2		2.0		4.0	
	private	2.3		-0.4		1.2	
Bursa Malaysia Composite Index (end-period)		916.3		907.4		871.4	
Bursa Malaysia Market Capitalisation (RMb, end-period)		731.7		725.2		694.9	

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