BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen : 02/03/49 (BN)

EMBARGO: Not for publication or broadcast before 1930 hours on Friday, 28 February 2003

Highlights of the January 2003 Press Release

Loan applications and approvals rose significantly by 38.3% and 24.2% respectively

In January, monetary and financial indicators pointed towards sustained momentum in economic growth. Money supply, deposits and all loan indicators recorded stronger growth during the month. Continued recovery in investment was seen in stronger business activities, as reflected in strong growth of loan applications, approvals and disbursements for this sector. Loan applications and approvals rose significantly by 38.3% and 24.2% respectively. Loan disbursements were broad-based and channelled mainly to the business sector (68% of total disbursements) and in particular to the manufacturing (26.5%) and wholesale and retail trade, restaurants and hotels (15.3%). Loans extended to small businesses also increased to account for one-quarter of the increase in total loans outstanding extended to small borrowers. At the same time, demand from households for the purchase of residential properties and cars was sustained at a high level.

With the higher private sector financing by the banking system and the expansionary Government operations, M3 recorded stronger growth in January. Narrow money, M1 also recorded a significant increase during the month, reflecting the increased demand for currency by the public ahead of the Chinese New Year festivity.

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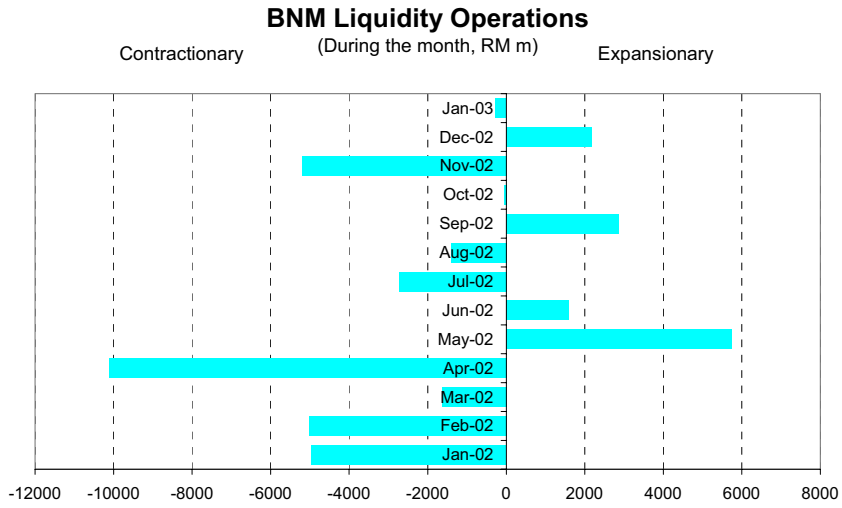
PRESS RELEASE
MONETARY AND FINANCIAL DEVELOPMENTS
JANUARY 2003

In January, monetary and financial indicators pointed towards sustained momentum of expansion in economic activities. Money supply, deposits and all loan indicators recorded stronger growth during the month. Improved business activities relative to households was reflected in strong growth of loan applications, approvals and disbursements for this sector. Loans extended to small businesses also increased to account for one-quarter of the increase in total loans outstanding extended to small borrowers. At the same time, demand from households for the purchase of residential properties and cars was sustained at a high level.

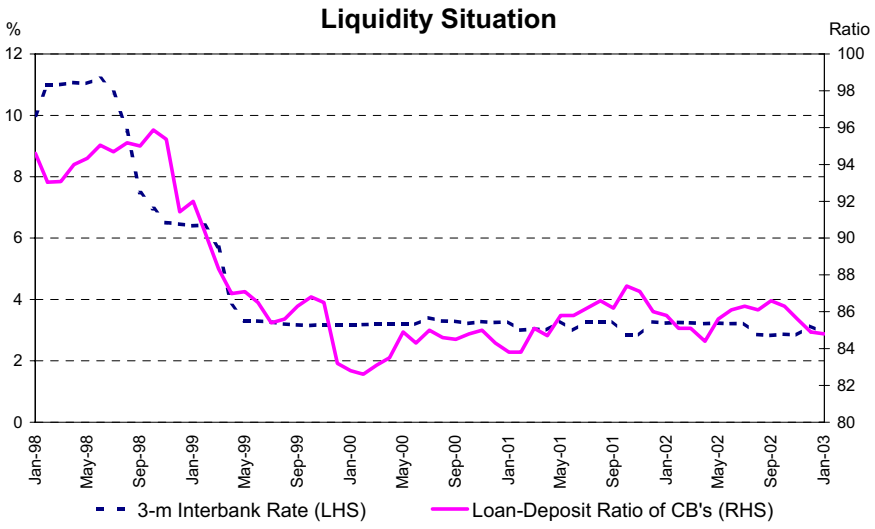
With higher financing by the banking system to the private sector and the expansionary Government operations, M3 recorded stronger growth in January. Narrow money, M1 also recorded a significant increase during the month, reflecting the increased demand for currency by the public ahead of the Chinese New Year festivity.

Interest rate levels remained low, supporting demand for financing

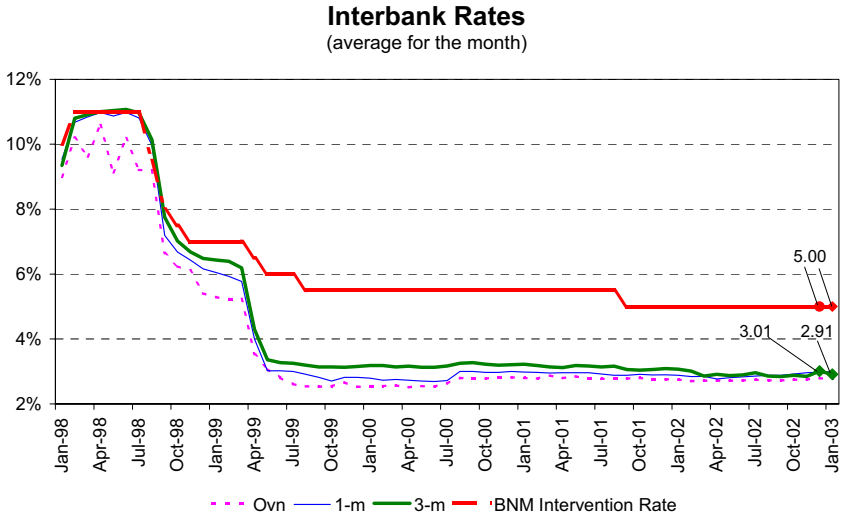
In January, the **interbank money market rates remained low and stable**. The weighted average 3-month interbank rate stood at 2.91% (3.01% in December). After taking into account the increased demand for currency, Bank Negara Malaysia liquidity operations was mildly contractionary, absorbing RM0.2 billion from the system to offset the expansionary Government operations during the month.



BNM absorbed excess liquidity in the banking system to stabilise interest rates at the prevailing levels

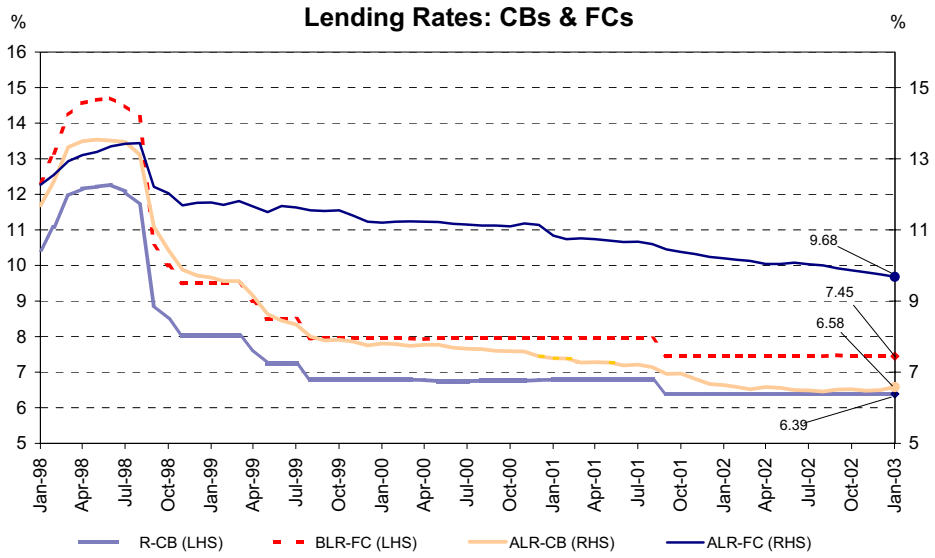


Ample liquidity in the banking system in January



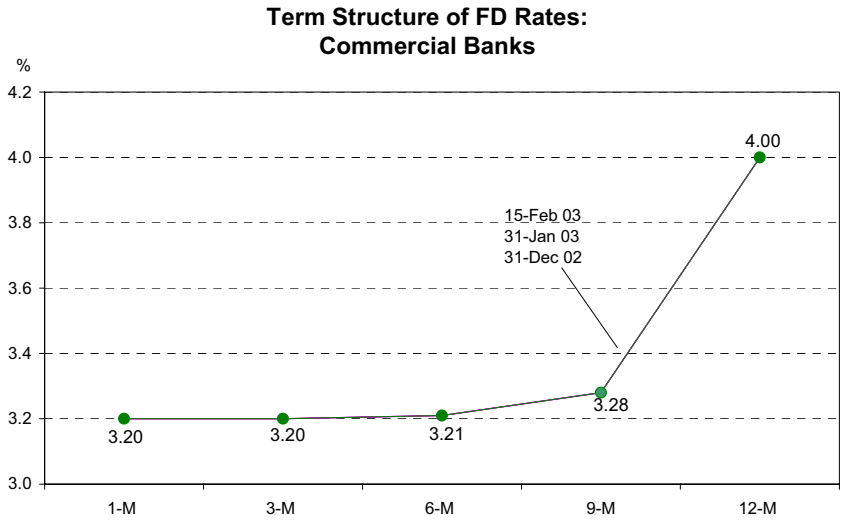
Interbank rates remained low and stable

The **average lending rate (ALR)** of the finance companies (FCs) declined further to 9.68%, from 9.75% at the end of December. For commercial banks (CBs), the ALR was marginally higher at 6.58% (6.50% at end-December), following the repayments of loans with lower lending rates in a few banks. The average **base lending rate (BLR)** of CBs and FCs remained unchanged during the month.

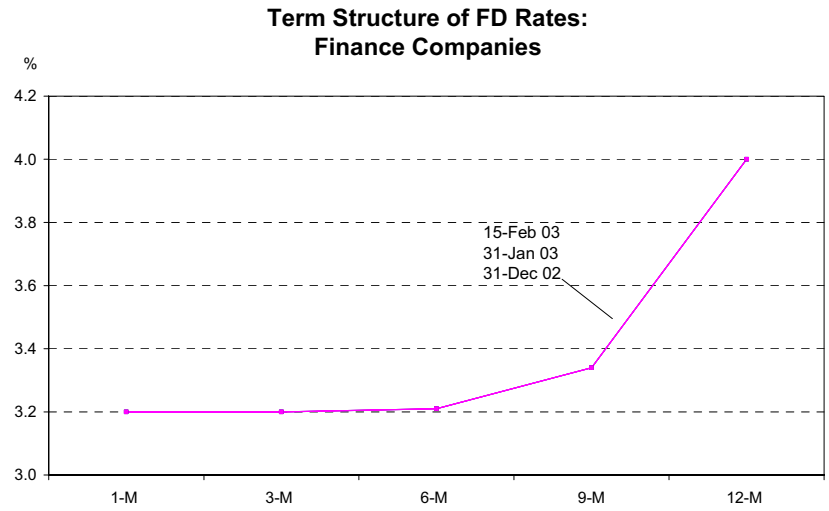


BLR remained stable, while ALR of FCs and most CBs continued to decline

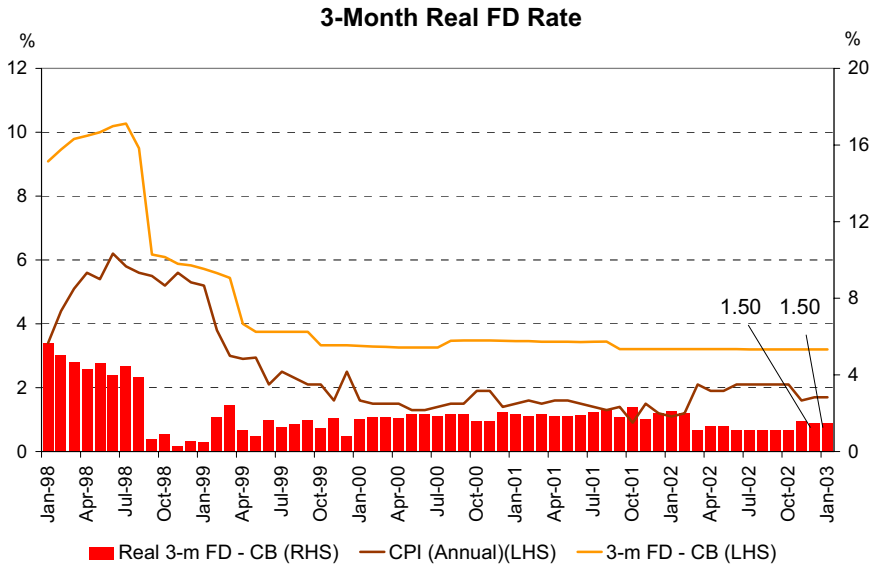
The **term structure of the average fixed deposit rates** of CB and FC, as at 15 February, remained unchanged for all maturities.



FD rate of CBs remained unchanged



...similarly, FD rates for FCs remained unchanged

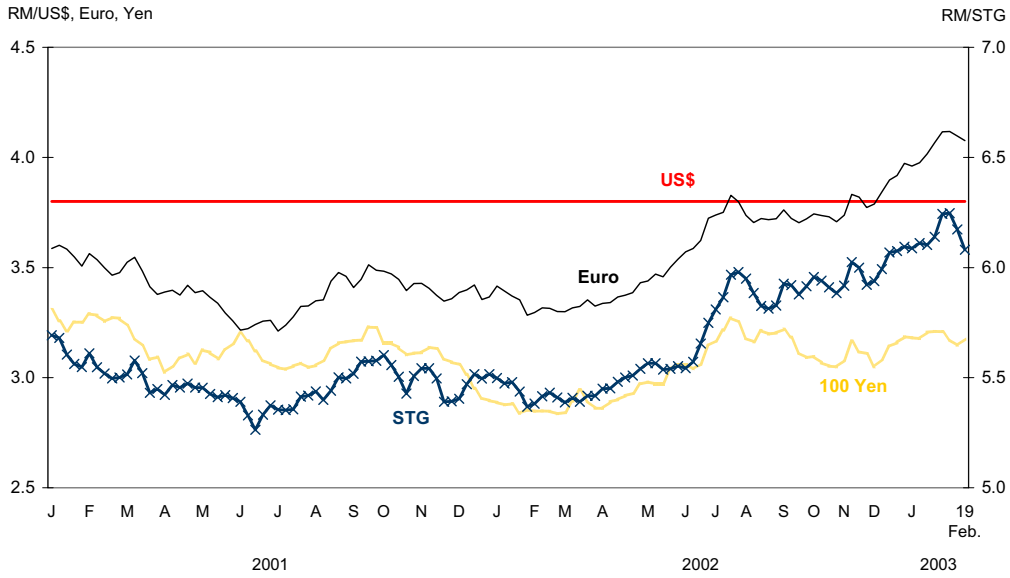


Given the stable inflation rate, the 3-month real FD rate of CB remained unchanged

The ringgit performance

In January, the ringgit recorded a mixed performance against the major currencies. In tandem with the movement of the US dollar in the international foreign exchange markets, the ringgit depreciated by 3.2% against the euro and by 3.1% against the pound sterling, while appreciating by 0.3% against the Japanese yen. The US dollar was adversely affected by heightened risk aversion arising from geo-political tensions and the prospect for larger twin deficits in the US. In addition, the dollar was also adversely affected by the release of weaker-than-expected data for December. The Japanese yen weakened against the US dollar towards the end of the month following confirmation by Japanese authorities of market intervention to stabilise the exchange rate.

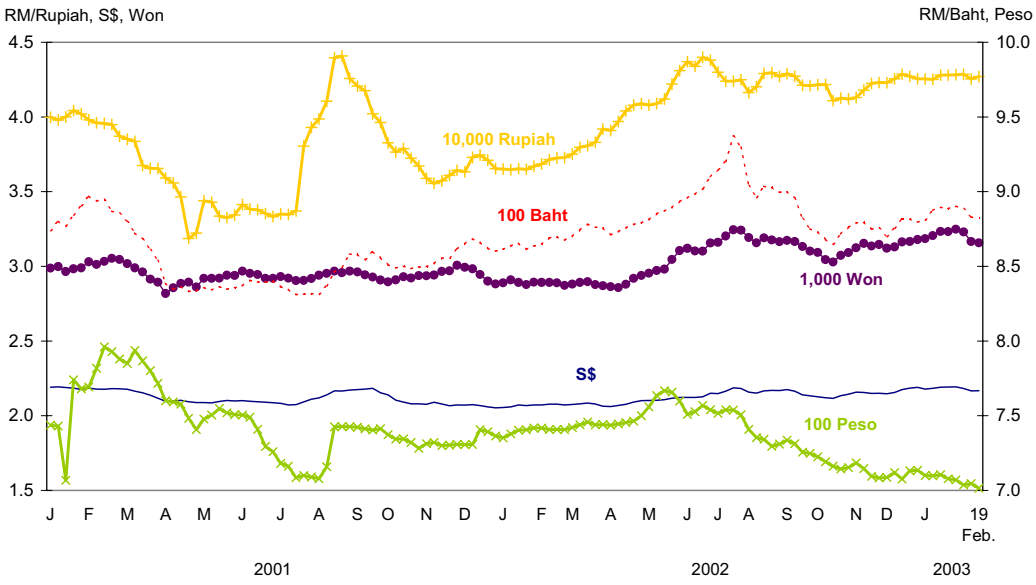
Performance of Ringgit against Major Currencies
(Weekly average)



The ringgit recorded a mixed performance in January

The ringgit also recorded a mixed performance against the regional currencies. The ringgit appreciated against the Singapore dollar and the Philippine peso by 0.1% and 1.3% respectively, while depreciating against other regional currencies in the range of 0.7% - 2.1%. Apart from the weakness in the US dollar, most regional currencies were also supported by other positive developments. The Korean won and Thai baht benefited from equity-related inflows, while the Indonesian rupiah appreciated following agreement of a new economic reform package between the Indonesian Government and the IMF. The Philippine peso weakened due to a lower trade surplus, the fiscal deficit and the demand for US dollars following the Government's activation of an oil-contingency plan requiring refiners to maintain a minimum inventory of crude and oil products by 3 February.

Performance of Ringgit against Regional Currencies
(Weekly average)



In the period **1 – 19 February 2003**, the ringgit appreciated against major and regional currencies in line with a stronger US dollar. The US currency strengthened following positive development towards a diplomatic solution to the Iraqi conflict. Favourable data on new jobs and unemployment data for January also supported the dollar. In contrast, the pound sterling weakened over heightened security concerns in the United Kingdom, while the euro weakened due to economic data indicating a decline in December industrial production for Germany and France. As a result of the stronger dollar, the ringgit appreciated against the pound sterling, euro and Japanese yen by 3.8%, 1% and 0.1% respectively. The ringgit also appreciated by 0.6% - 3% against most regional currencies, while remaining relatively stable against the Indonesian rupiah.

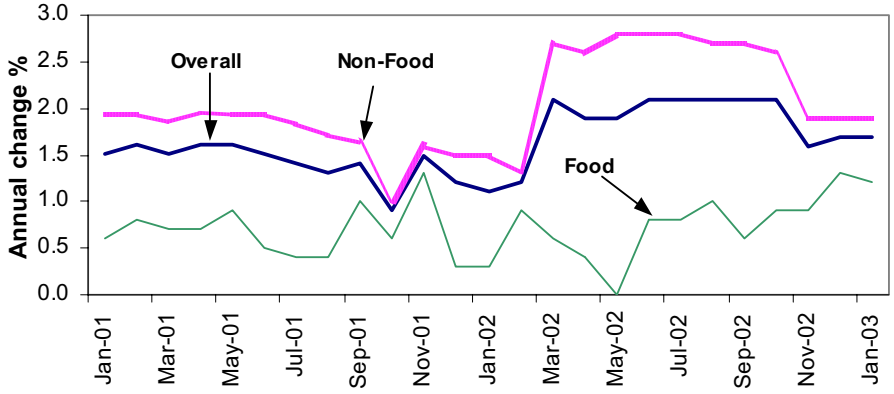
Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-Jan. 2003	19 Feb. 2003	% Change			
				January 2003	End-2002 - 19 Feb. 2003	End-2001 - 19 Feb. 2003	2 Sep. 1998 - 19 Feb. 2003
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.1110	4.0719	-3.2	-2.2	-17.3	-
Pound Sterling	6.3708	6.2858	6.0555	-3.1	0.6	-8.9	5.2
100 Japanese yen	2.7742	3.1939	3.1921	0.3	0.3	-9.3	-13.1
Singapore dollar	2.1998	2.1868	2.1698	0.1	0.9	-5.4	1.4
100 Thai baht	9.3713	8.8868	8.8341	-0.9	-0.3	-2.6	6.1
100 Philippine peso	8.8302	7.0579	7.0027	1.3	2.0	5.2	26.1
100 Indonesian Rupiah	0.0354	0.0428	0.0428	-0.7	-0.7	-14.7	-17.3
100 Korean won	0.2827	0.3265	0.3169	-2.1	0.9	-9.0	-10.8

Inflation remained stable in January

The annual rate of inflation, as measured by the Consumer Price Index (CPI, 2000=100), **remained low and unchanged at 1.7%** in January. Marginal price increases were recorded for medical care and health expenses; and recreation, entertainment, education and cultural services. Price increases for food as well as transport and communication moderated slightly. Prices for clothing and footwear declined during the month.

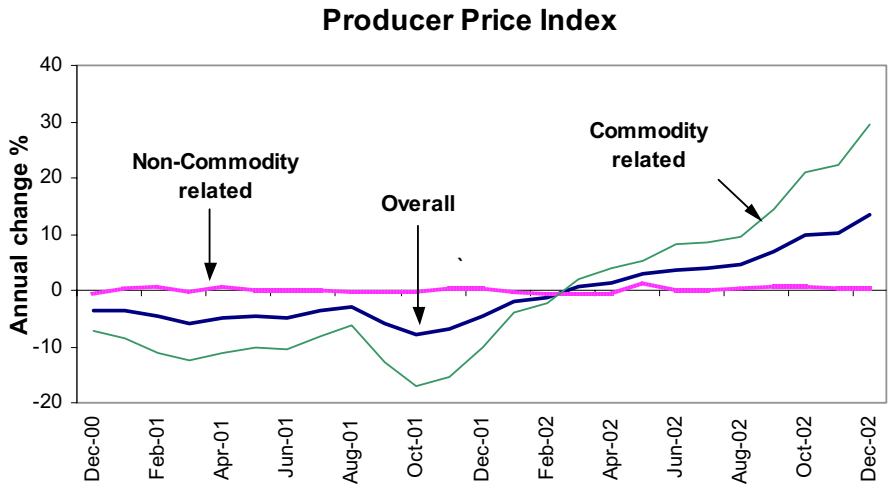
Consumer Price Index



Inflation remained stable in January

Producer prices continued to increase

Producer prices, as measured by the Producer Price Index (PPI), increased by 13.4% year-on-year in December (November: 10.3%), reflecting mainly higher prices of crude palm oil, crude oil and rubber. Excluding commodity-related products, the adjusted PPI was marginally higher by 0.2%.



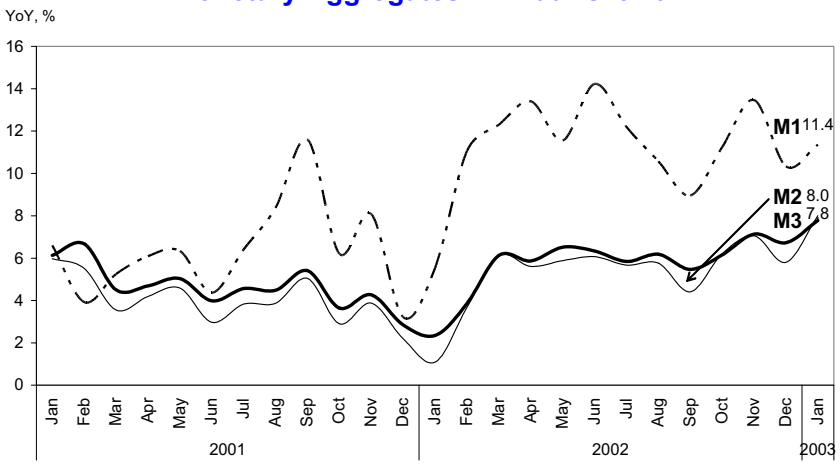
Producer prices continued to increase

Money supply expanded strongly

Money supply expanded strongly in January, in tandem with higher economic activities. M1, M2 and M3 rose to 11.4%, 8% and 7.8% respectively at end-January from 10.3%, 5.8% and 6.7% respectively in December.

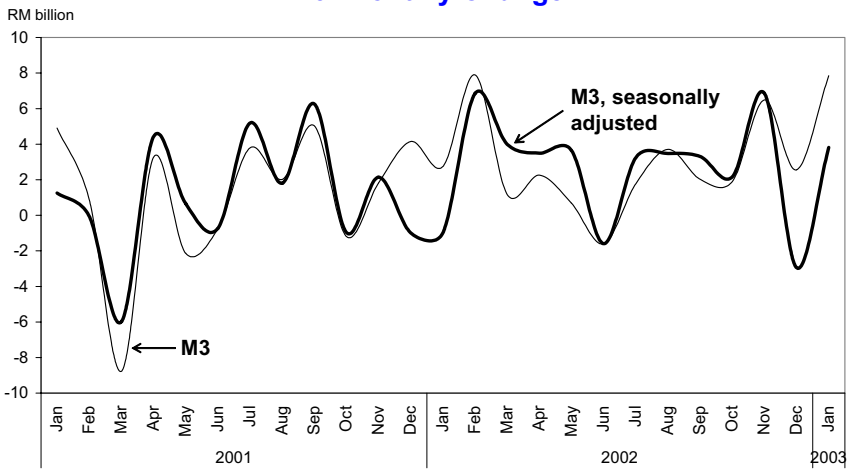
During the month, broad money, M3 increased significantly by RM7.8 billion. The main impetus to monetary expansion emanated from expansionary Government operations (RM5.4 billion) and higher bank financing activity (+RM3.9 billion). An analysis by components showed that the expansion was due mainly to higher M1, reflecting the increased demand for currency by the public (RM4.5 billion), ahead of the Chinese New Year festivity. Deposits of the private sector also increased (+RM3.3 billion) reflecting higher fixed and saving deposits placed by individuals as well as fixed deposits by business enterprises.

Monetary Aggregates: Annual Growth



All three monetary aggregates increased at a faster rate in January

M3: Monthly Change



M3 increased further on a monthly basis…

M3 Determinants

(RM billion)

	Change during period			
	2002			2003
	Nov	Dec	Jan - Dec	Jan
M3	6.5	2.6	31.6	7.8
Net claims on Government	1.8	-3.6	11.7	5.4
Claims on private sector	4.6	... 1/	26.2	3.9 1/
Net external operations 2/	1.0	-2.3	1.2	-0.3
Other influences	-0.9	8.5	-14.1	-1.2

1/ Including loan write-offs and conversions, claims on private sector would be higher by RM3.3 billion in Dec 2002 and RM4.2 billion in Jan 2003.

2/ Pre-revaluation

Expansion in M3 reflected expansionary Government operations and higher bank financing activities

Banking system deposits were higher in January

Total deposits mobilised by the banking system increased further by RM3.3 billion or 0.7% in January. Deposits by individuals continued to rise significantly by RM2.4 billion, while deposits of businesses rose by RM0.6 billion. During the month, there was a net withdrawal of deposits by a non-bank financial institution following the purchase of new issuance of MGS. On an annual basis, total deposits mobilised by the banking system rose by 5.8% at end-January.

Monthly Change in Deposits **(RM million)**

	2002		2003
	Nov.	**Dec.**	**Jan.**
Holder			
Federal Government	426	-45	127
State Governments	-12	-111	290
Statutory Authorities[1/]	-360	-168	807
Financial Institutions	1,355	4,175	-659
Business Enterprises	2,950	-3,542	555
Individuals	2,105	2,559	2,380
Others	-122	433	-209
Total	**6,341**	**3,300**	**3,290**

[1/] Include local Governments.

Higher deposits continued to be placed by individuals and business enterprises…

Monthly Change in Deposits **(RM million)**

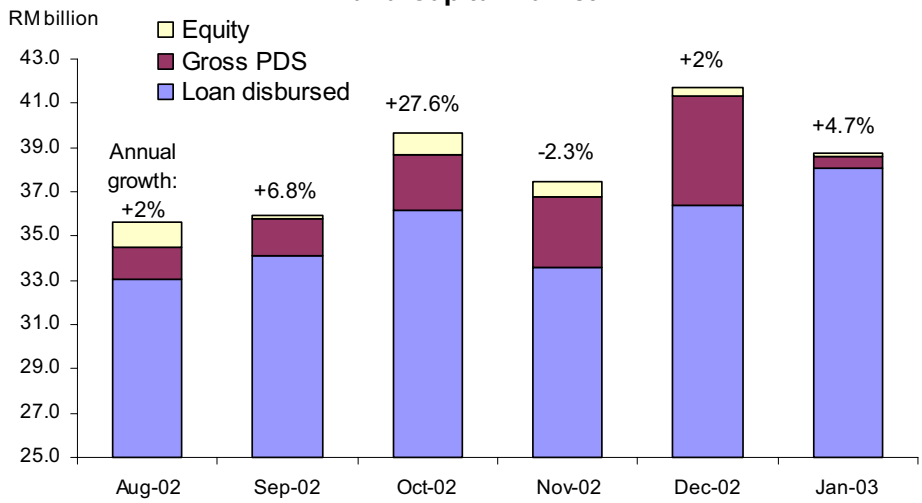
	2002		2003
	Nov.	**Dec.**	**Jan.**
Type			
Fixed deposits	346	-1,008	3,331
NIDs	338	1,623	468
Demand deposits	1,894	695	340
Savings deposits	467	1,753	603
Repos	2,665	-12	-1,217
FX deposits	347	82	9
SPI deposits	407	-387	-32
Others	-122	433	-209
Total	**6,341**	**3,300**	**3,290**

…. which were reflected mainly in fixed and savings deposits

Financing to the private sector remained high

The low and stable interest rates environment, together with ample liquidity situation continued to provide a conducive environment for sustained expansion in private sector financing. **Total gross financing** through loans extended by the banking system and raised in capital market remained high, amounting to RM38.8 billion in January, due mainly to stronger lending activity by the banking system.

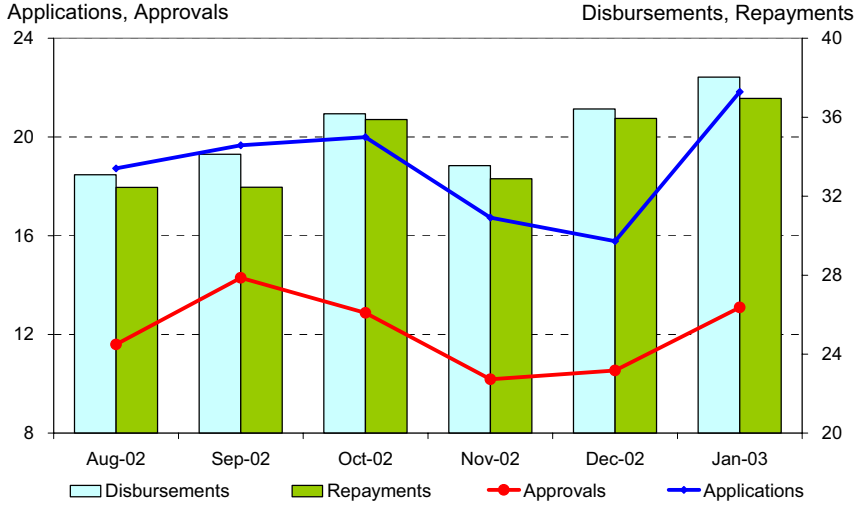
Private Sector Gross Financing through Banking System and Capital Market



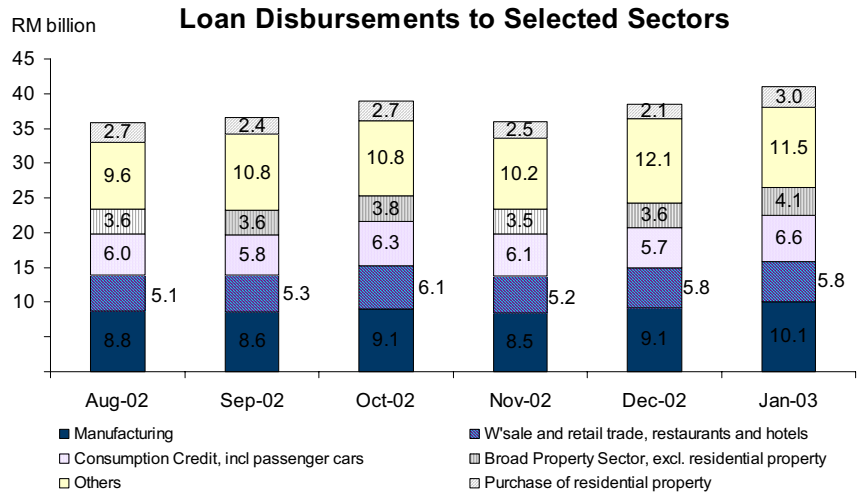
All loan indicators improved in January. Reflecting the improved demand for financing, consistent with higher level of economic activities, **loan applications and approvals rose significantly by 38.3% and 24.2% respectively**, while loan disbursements expanded by 4.4%. Overall, disbursements remained broad-based and were channelled mainly to the business sector (68% of total disbursements), in particular to the manufacturing (26.5%), wholesale and retail trade, restaurants and hotels (15.3%), and construction (7.1%) sectors. Disbursements to individuals were also high, mainly for the purchase of residential properties (7.8% of total disbursements) and passenger cars (6.3%).

A notable development during the month has been the **stronger demand for loans from businesses**. Loan applications, approvals and disbursements to businesses was significantly stronger in January (RM13.5 billion, RM6.8 billion and RM25.9 billion respectively) compared with the monthly average performance in 2002 (RM11.3 billion, RM5.7 billion and RM23.5 billion respectively in 2002).

Loan Applications, Approvals, Disbursements and Repayments (RM billion)



All loan indicators improved in January



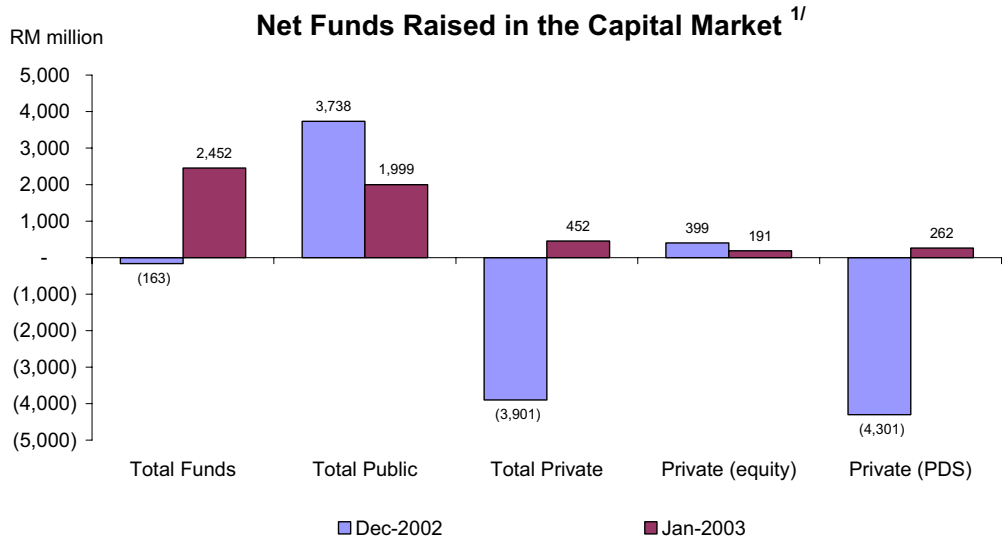
Higher disbursements to both individuals and business sectors

In January, outstanding loans turned around to increase by RM2.3 billion (a decline of RM1.1 billion in December 2002). The increase was channelled mainly for the purchase of residential property and passenger cars (+RM1.5 billion and RM0.8 billion respectively), as well as to the manufacturing sector (+RM1 billion). On an annual basis, outstanding loans rose by 4.6% as at end-January..

An analysis by size of loans showed that the increase in outstanding loans reflected higher loans extended to the small borrowers. Outstanding loans of size below RM100,000 and between RM100,000 and RM500,000 increased by RM1.4 billion or 1.1% and RM1.3 billion or 1.3% respectively. Small loans below RM500,000 extended to businesses increased by RM654 million or 1.2% to account for about one-quarter of the increase in total loans of size below RM500,000.

Net funds raised in the capital market were higher

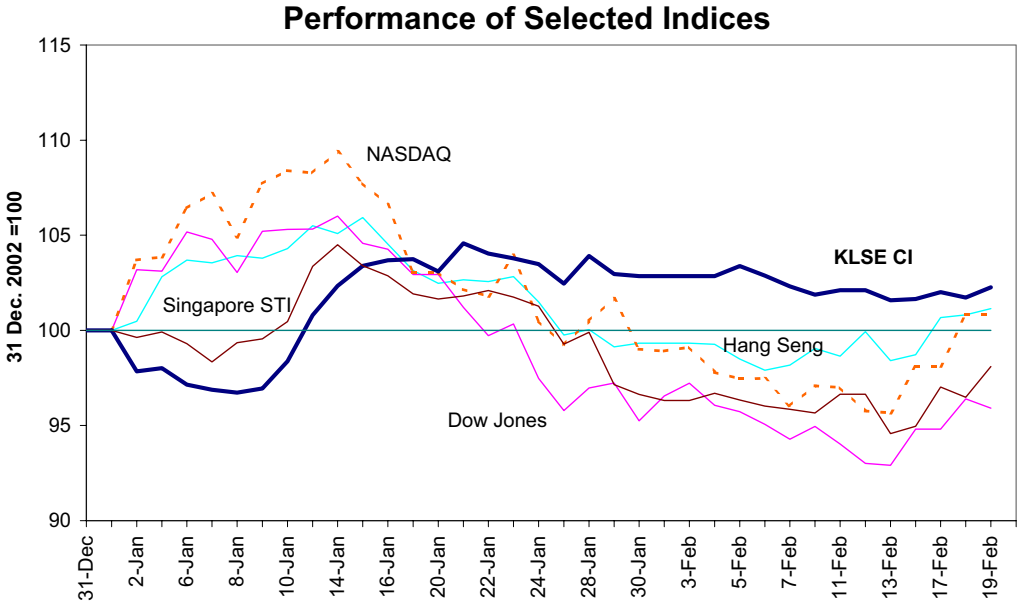
Net funds raised in the capital market was higher in January, amounting to RM2.5 billion, due mainly to the issuance of Malaysian Government Securities. The total funds raised by the private sector was slightly higher during the month. Net funds raised in the form of private debt securities and equity amounted to RM262 million and RM191 million respectively. During the month, there were seven initial public offerings (IPOs) amounting to RM68.5 million. Four were listed on the MESDAQ market, while another three were companies in the industrial and consumer products sectors. Despite weak market sentiment, most of the IPOs were oversubscribed and traded at a premium over the offer price at the end of the first day of trading.



Higher net funds raised in the capital market

1/ Net funds raised in the capital market by private sector (including Cagamas and Danaharta bonds)

The **Kuala Lumpur Stock Exchange Composite Index** (KLSE CI) was higher in January following the announcement of the establishment of a new fund management company owned by public sector related trust funds. In addition, some positive developments in the corporate sector also improved market sentiment. As at 31 January, the KLSE CI closed higher at 664.77 points (+2.9% since end-December) with market capitalisation at RM498.37 billion (+3.5% since end-December). The daily average turnover was significantly higher at 303.6 million units (117.1 million units in December 2002).



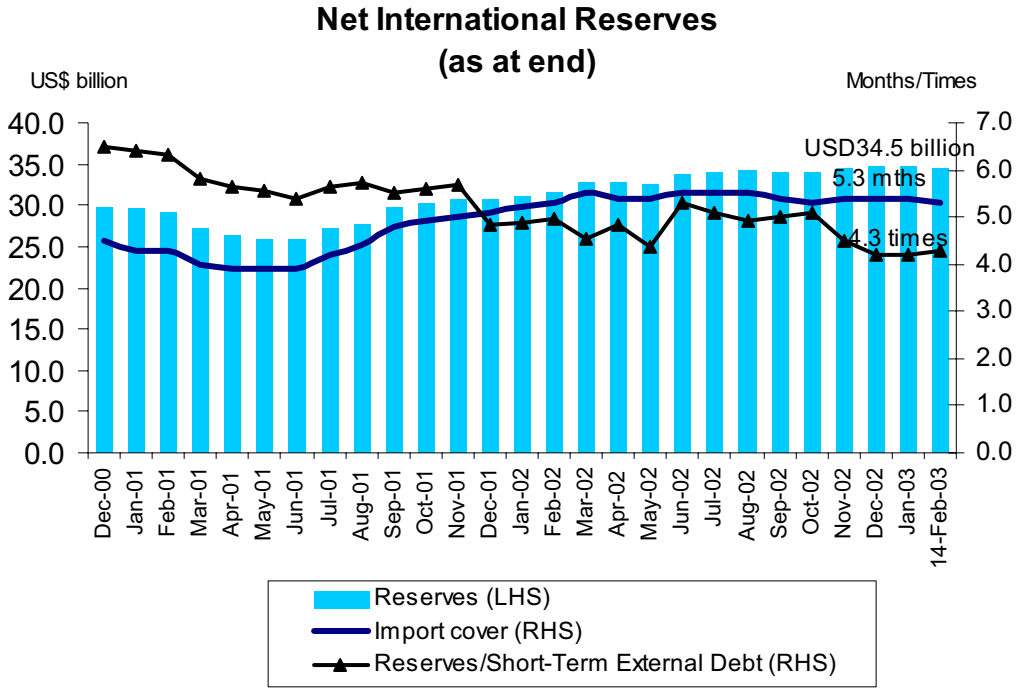
KLSE CI was slightly lower in February

In the first three weeks of February, the KLSE CI declined slightly amidst continued uncertainties over the global economic outlook and increasing tensions in the Middle East. In addition to weak market sentiments, market activities were also affected by the festive

and holiday season. As at 19 February, the KLSE CI closed at 660.96 points (-0.6% since end-January) with market capitalisation at RM496.05 billion (-0.5% since end-January). The daily average turnover was lower at 173.2 million units.

International reserves

The net international reserves of Bank Negara Malaysia stabilised at RM131.5 billion or US$34.6 billion as at 31 January 2003. The inflows from the repatriation of export proceeds were larger in January. These inflows were sufficient to finance payments for imports of goods and services, overseas investment by Malaysian corporations, repayment of external debt and some portfolio outflows. Reserves was stable at RM131 billion or US$34.5 billion as at 14 February 2003. The inflows from the repatriation of export proceeds were sustained while portfolio funds recorded a net inflow during the first half of February. These inflows were offset by the payments for imports of goods and services, including dividend payments, higher external loan repayments, and the payment for the acquisition of foreign interests in the gas sector by a Malaysian company. The reserves position as at 14 February was adequate to finance 5.3 months of retained imports and was 4.3 times the short-term external debt.



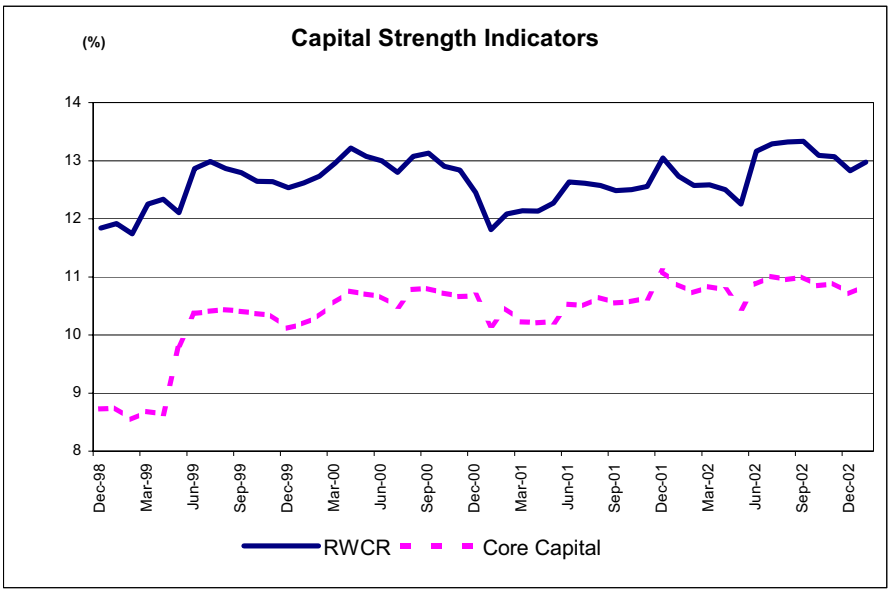
Banking system capitalisation was stronger

The financial position of the banking system remained sound with continued improvements in asset quality and capital position in January 2003. The risk-weighted capital ratio (RWCR) and core capital ratio increased to 13% and 10.9% respectively. The improvements reflected the inclusion of audited profits in the capital base by a number of banking institutions. Net NPLs (6-month classification) declined further to RM31.4 billion or 7.3% of net loans.

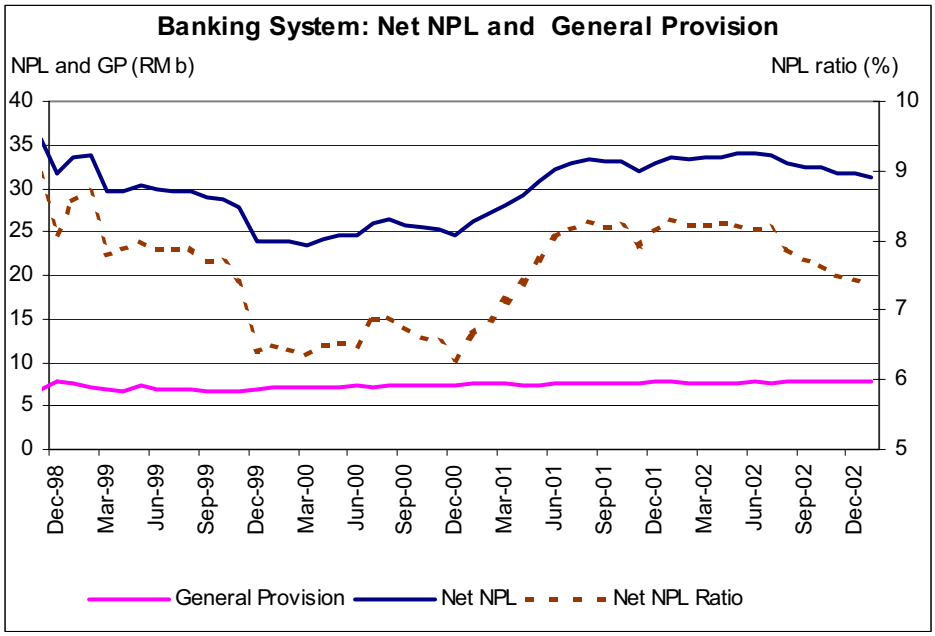
Banking System Health Indicators*

	1998	1999	2000	2001	2002			2003
	Dec.	Dec.	Dec.	Dec.	Oct.	Nov.	Dec.	Jan.
Capital (%)								
Core capital ratio	8.7	10.1	10.7	11.1	10.8	10.9	10.7	10.9
RWCR	11.8	12.5	12.5	13.0	13.1	13.1	12.8	13.0
Net NPLs (6-month classification)								
% of net total loans	8.1	6.4	6.3	8.1	7.7	7.5	7.5	7.3
Amount (RM million)	31,675	23,849	24,700	32,775	32,302	31,803	31,703	31,359
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.9	1.8	1.8	1.8

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



….Capital position remained strong with RWCR and core capital ratio at 13.0% and 10.9% respectively



..Net NPL ratio declined further to 7.3%

Bank Negara Malaysia
28 February 2003

Key Monetary and Banking Statistics

	December 2002		January 2003	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	42.6	6.4	47.9	12.0
M1	89.1	10.3	92.9	11.4
M2	383.5	5.8	389.0	8.0
M3	501.1	6.7	509.0	7.8
Banking System				
Total deposits	504.5	5.3	507.8	5.8
Total loans (including loans sold to Cagamas and Danaharta)	490.5	4.3	492.8	4.6
Total loans (excluding loans sold to Cagamas and Danaharta)	428.5	4.1	430.6	4.6
Loan-deposit ratio (%)	84.9		84.8	
Loans approved during the month	10.5	11.6	13.1	23.0
Loans disbursed during the month	36.4	4.0	38.0	8.2
Loans repaid during the month	35.9	-1.0	37.0	3.4
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	12.8		13.0	
Net NPLs: 6-month classification (%)	7.5		7.3	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	131.5		131.5	
Reserves in USD (billion)	34.6		34.6	
Months of retained imports	5.4		5.4	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.99[2.98]		2.99[2.99]	
3-month	3.13[3.01]		2.91[2.91]	
Fixed deposits of commercial banks: 1-month	3.20[3.20]		3.20[3.20]	
3-month	3.20[3.20]		3.20[3.20]	
BLR of commercial banks	6.39[6.39]		6.39[6.39]	
Prices				
Consumer Price Index (CPI) (2000=100)	103.8	1.7	104.0	1.7
Producer Price Index (PPI) (1989=100)	138.0	13.4		
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.9811		4.1110	
Pound Sterling	6.0924		6.2858	
Singapore dollar	2.1887		2.1868	
100 Japanese yen	3.2020		3.1939	
100 Thai Baht	8.8096		8.8868	
100 Philippine Peso	7.1462		7.0579	
100 Indonesian Rupiah	0.0425		0.0428	
100 Korean Won	0.3197		0.3265	
Capital Market				
Net funds raised by: public sector (RM billion)	3.7		2.0	
private sector (RM billion)	-3.9		0.5	
Kuala Lumpur Composite Index (end-period)	646.32		664.77	
KLSE Market Capitalisation (RMb) (end-period)	481.62		498.37	