BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PEN : 10/02/48 (BN)

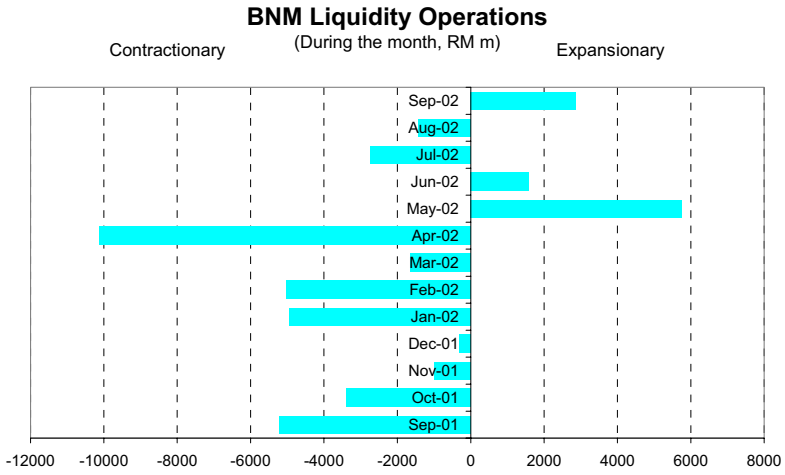
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PRESS RELEASE
MONETARY AND FINANCIAL DEVELOPMENTS
SEPTEMBER 2002

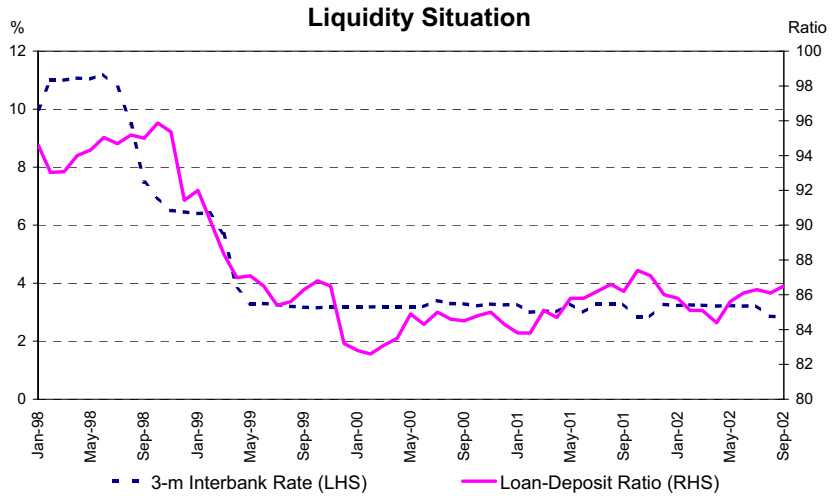
In September, overall monetary conditions remained stable. Amidst low inflation, the prevailing low and stable interest rates, and ample liquidity continued to provide positive environment for financing activities of the private sector. Both loan approvals and disbursements were higher, while the broad money supply increased further. Funds raised in the capital market were higher, especially through the private debt securities market. Under this environment, the current accommodative monetary policy stance continues to support the strengthening of the economic recovery.

Domestic interest rates continue to remain low and steady

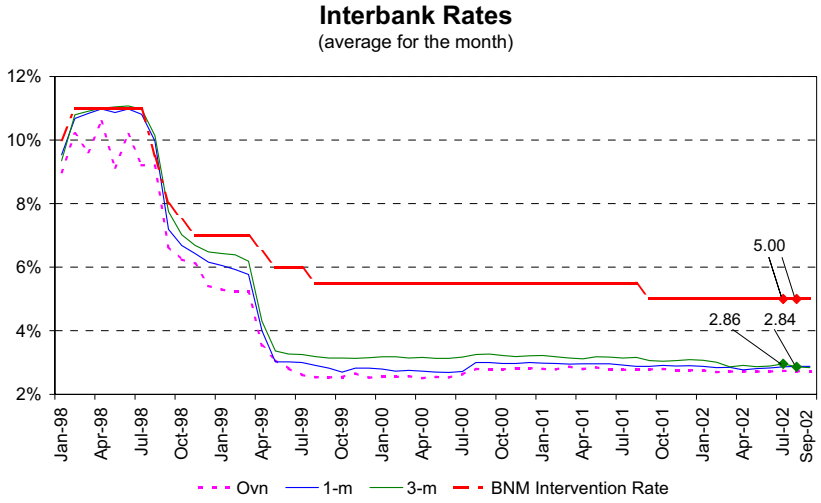
During the month, **interbank money market rates** remained low and stable. BNM liquidity operations were expansionary to maintain a stable liquidity environment that supports the financing activities of the economy.



BNM liquidity operations expanded by RM2.8 billion to offset the contractionary impact of external and Government operations

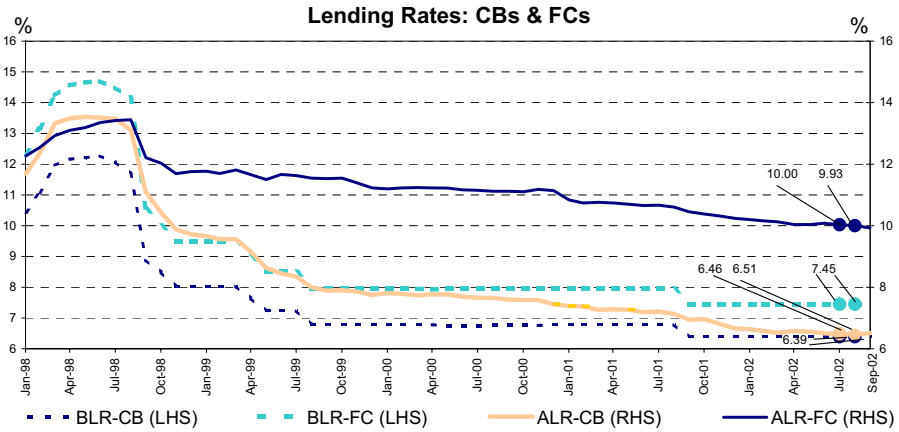


Liquidity remained ample in September



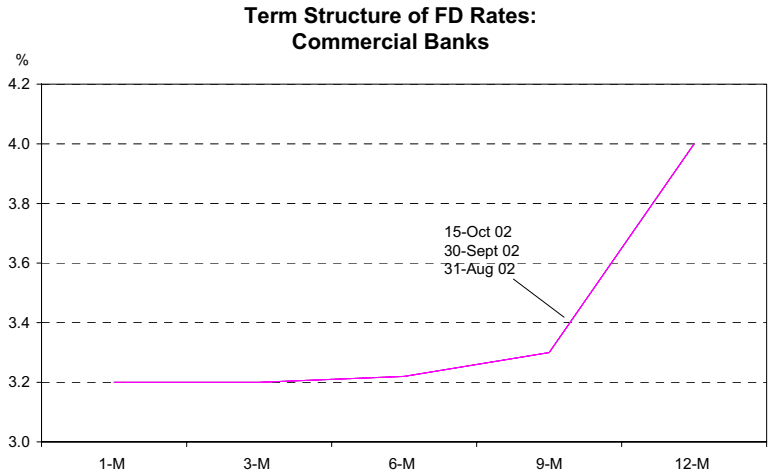
The low and steady interbank rates have been preserved to support domestic economic activity

The **average base lending rate (BLR)** of commercial banks (CBs) and finance companies (FCs) remained unchanged during the month. A similar trend was also observed in the **average lending rates (ALR)** of CB and FC (6.51% and 9.93% respectively as at end-September; 6.46% and 10.00% respectively as at end-August).

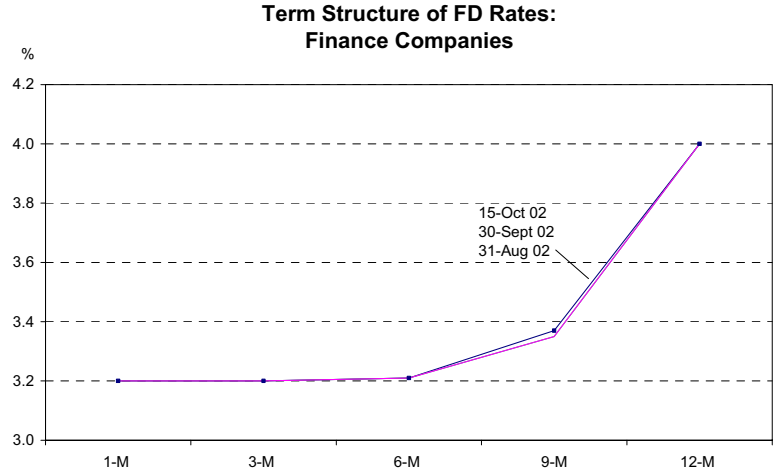


BLR and ALR remained low and stable

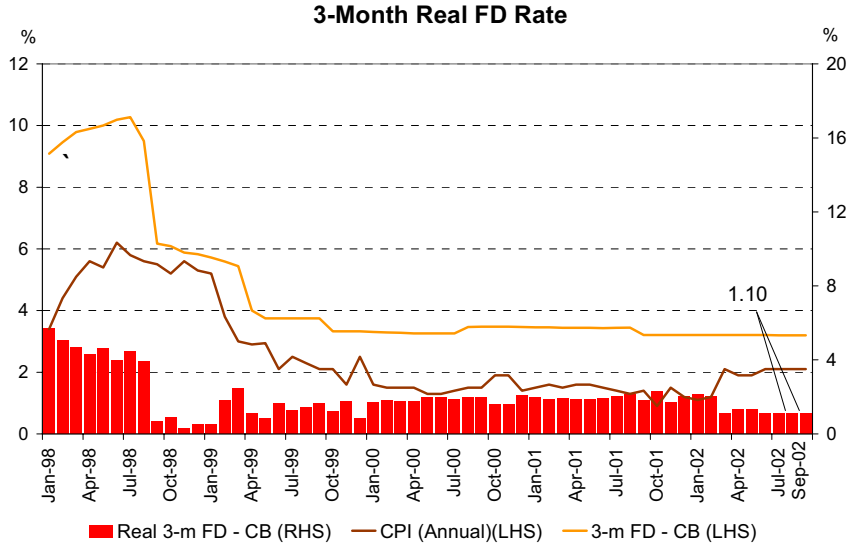
As at 15 October, the **term structure of average fixed deposit rates** of CB and FC, remained unchanged for all maturities.



FD rate of CBs remained unchanged



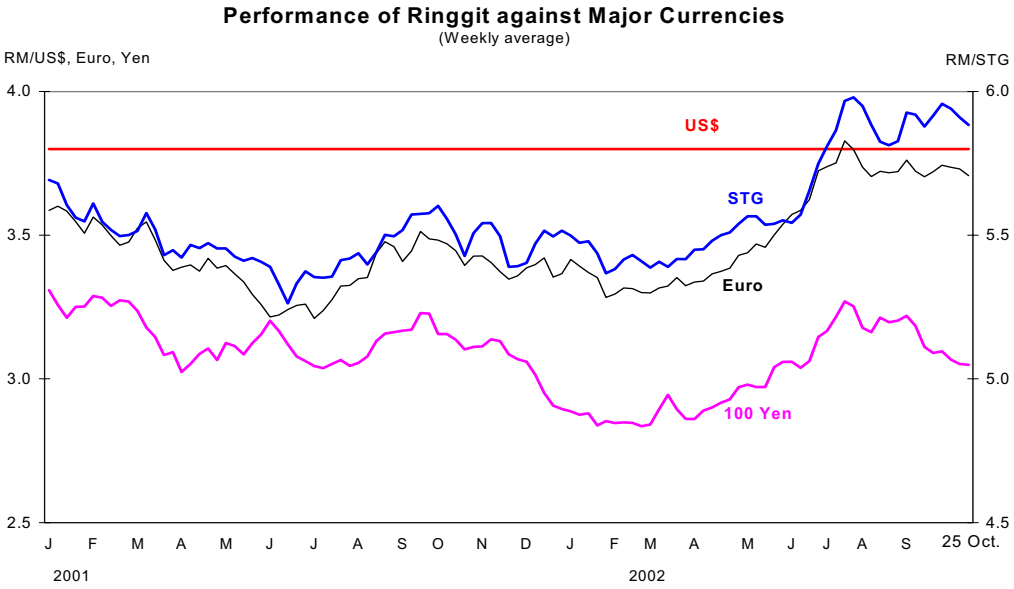
...similarly, for FCs



The CB 3-month real FD rate remain unchanged in September

The ringgit appreciated against most major currencies and against regional currencies in September

In September, the **ringgit appreciated against most major currencies**, in tandem with the movement of the US dollar in the international foreign exchange markets. The ringgit appreciated against the euro by 0.1% and the Japanese yen by 3.0%, while depreciating against the pound sterling by 1.1%. The US dollar strengthened on the back of better-than-expected US second quarter GDP growth, as well as better-than-expected economic data on employment, retail sales and durable goods orders. In contrast, the euro weakened following the release of data indicating a slow second quarter economic growth and an unexpected fall in German industrial output in July. The Japanese yen was weighed down by renewed market anxiety over developments in the financial sector.

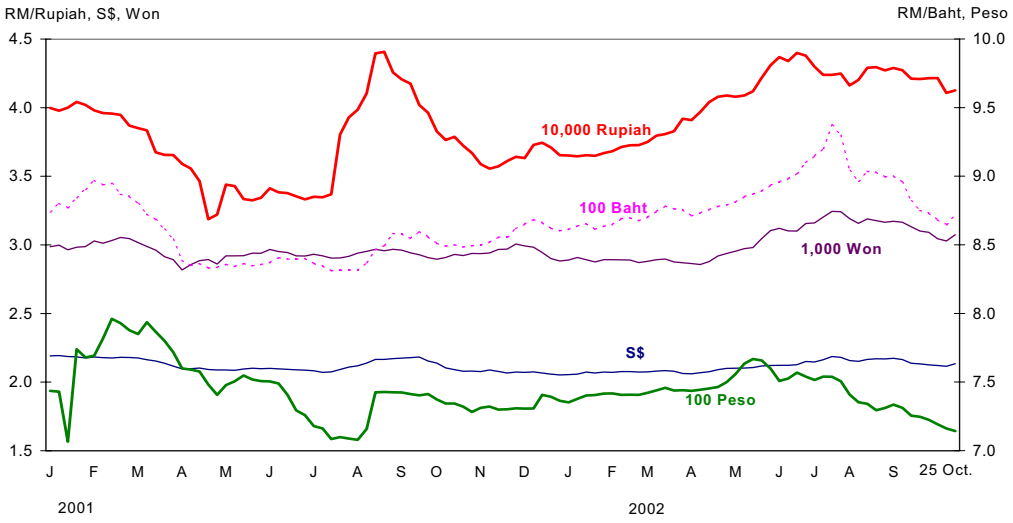


The ringgit appreciated against most major currencies

The **ringgit appreciated against regional currencies** in the range of 1.1% - 2.8%. Regional currencies were affected by market concerns over the potentially adverse implications of higher oil prices on the region following developments in the Middle East as well as equity-related outflows.

Performance of Ringgit against Regional Currencies

(Weekly average)



The ringgit appreciated against regional currencies

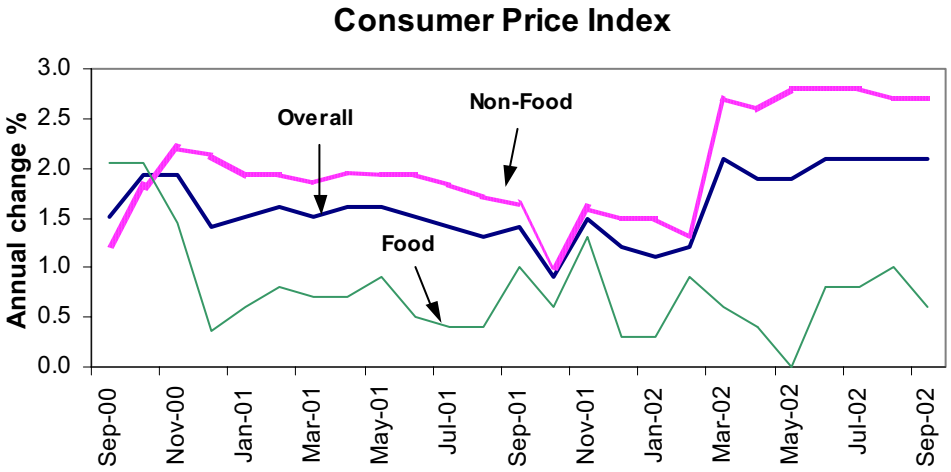
In the period **1 – 25 October**, the ringgit strengthened against major currencies while recording a mixed performance against regional currencies. The ringgit appreciated against the euro by 0.4%, the Japanese yen by 1.9% and the pound sterling by 0.6%. The US dollar strengthened on the back of better-than-expected growth in the services sector and an unexpected fall in unemployment in September, as well as the rebound in equities following better-than-expected corporate earnings report. The euro weakened amid deteriorating economic prospects of the euro area economies. The Japanese yen weakened on market concerns over the near-term economic impact of a more aggressive approach to banking sector reform. Over the same period, the ringgit appreciated against several regional currencies in the range of 0.1% - 2.4%, while depreciating against the Singapore dollar by 0.2%. The ringgit was relatively unchanged against the Korean won. Southeast Asian currencies fell across the board against the dollar in the immediate aftermath of the Bali bomb blast.

Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-Sept. 2002	25 Oct. 2002	% Change			
				Sept. 2002	End-Sept - 25 Oct. 2002	End-2001 - 25 Oct. 2002	2 Sep. 1998 - 25 Oct. 2002
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	3.7379	3.7217	0.1	0.4	-9.6	-
Pound Sterling	6.3708	5.9464	5.9113	-1.1	0.6	-6.7	7.8
100 Japanese yen	2.7742	3.1280	3.0691	3.0	1.9	-5.7	-9.6
Singapore dollar	2.1998	2.1384	2.1419	1.6	-0.2	-4.2	2.7
100 Thai baht	9.3713	8.7608	8.7477	2.8	0.1	-1.7	7.1
100 Philippine peso	8.8302	7.2526	7.1570	1.1	1.3	2.9	23.4
100 Indonesian Rupiah	0.0354	0.0422	0.0412	1.7	2.4	-11.4	-14.1
100 Korean won	0.2827	0.3093	0.3092	2.4	0.0	-6.8	-8.6

Inflation remained unchanged

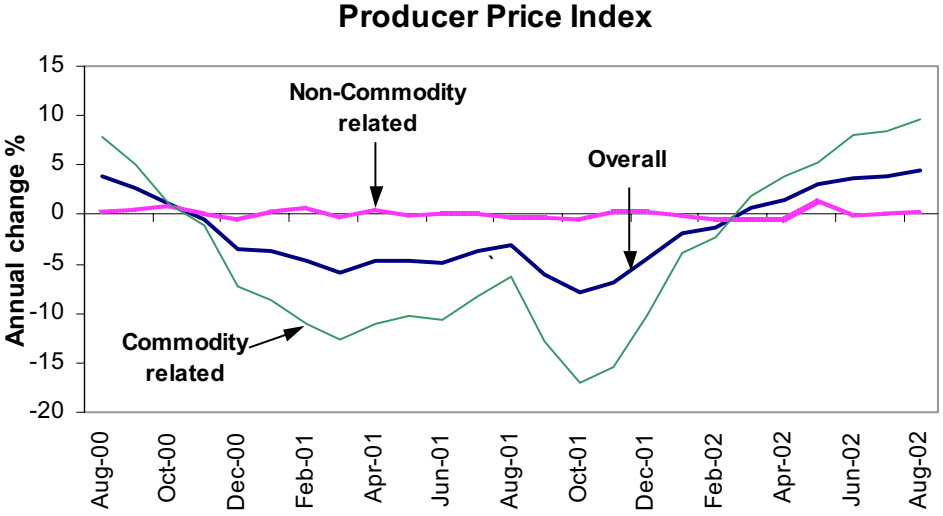
The annual rate of inflation, as measured by the **Consumer Price Index** (CPI, 2000=100), remained unchanged at 2.1% in September (August: 2.1%). The increase in the CPI was contributed largely by higher prices for transport and communication, mainly due to the one-off price adjustment in telephone charges in March 2002. On a monthly basis, the CPI increased marginally by 0.1%.



Inflation remained unchanged

Producer prices continued to increase

Producer prices, as measured by the **Producer Price Index** (PPI), increased by 4.5% year-on-year in August (July: 3.8%). The increase in the PPI reflected higher prices of crude palm oil, crude oil and rubber. Meanwhile, excluding commodity related products, the adjusted PPI increased by 0.3%.

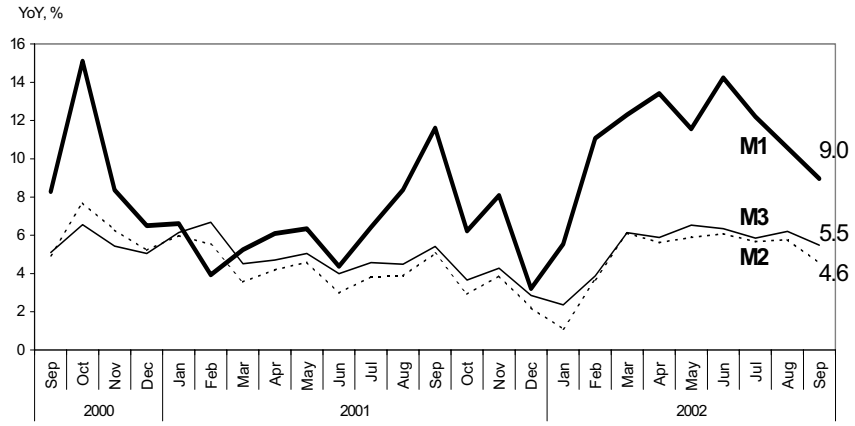


Producer prices continued to increase

M3 continued to increase

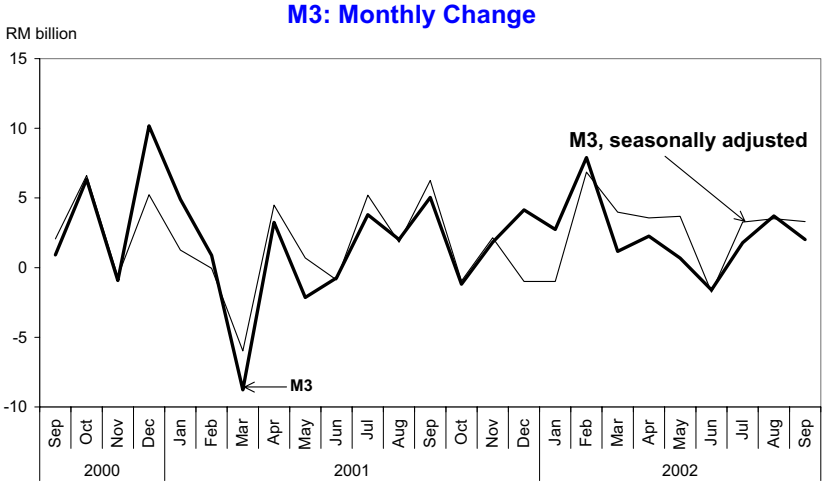
In tandem with growth in economic activity, monetary aggregates continued to increase further in September. Both M1 and M3 rose further during the month (RM0.3 billion and RM2 billion respectively). On an annual basis, M1, M2 and M3 grew by 9%, 4.6% and 5.5% respectively at end-September (10.6%, 5.8% and 6.2% respectively at end-August). The main impetus to the expansion in M3 emanated from bank financing activities and Government operations.

Monetary Aggregates: Annual Growth



All three monetary aggregates expanded further in September

M3: Monthly Change



Adjusting for seasonal effects, M3 increased further on a monthly basis

M3 Determinants

(RM billion)

	Change during period			
	2002			
	Jul	Aug	Sep	Jan - Sep
M3	1.8	3.7	2.0	20.7
Net claims on Government	0.6	3.3	1.0	10.4
Claims on private sector	-1.9	3.9	4.5	18.4
Net external operations [1]	1.2	-0.9	-2.4	2.2
Other influences	1.8	-2.6	-1.1	-10.3

1/ pre-revaluation

Expansion in M3 reflected higher bank financing activities and Government operations

Higher banking system deposits

Total deposits mobilised by the banking system were higher by RM489 million or 0.1% in September, mainly reflecting increases in deposits by business enterprises and Federal Government. On an annual basis, total deposits expanded by 3.1% at end-September.

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

	2002		
	Jul.	**Aug.**	**Sep.**
Holder			
Federal Government	-502	-574	944
State Governments	-516	100	-7
Statutory Authorities[1/]	250	-1,079	-446
Financial Institutions	-1,246	3,045	-1,497
Business Enterprises	487	648	1,434
Individuals	874	1,578	172
Others	54	-130	-112
Total	**-598**	**3,587**	**489**

[1/] Include local Governments.

Deposits by business enterprise, Federal Government and individuals increased

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

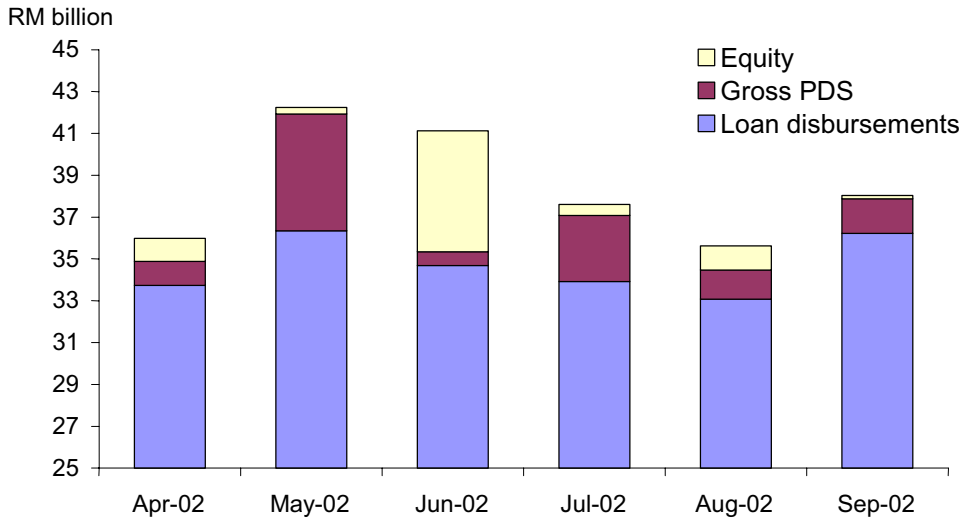
	2002		
	Jul.	**Aug.**	**Sep.**
Type			
Fixed deposits	929	-1,672	2,282
NIDs	-873	1,515	-782
Demand deposits	-177	108	843
Savings deposits	19	-163	24
Repos	178	3,914	-1,110
FX deposits	-84	-260	-143
SPI deposits	-643	275	-512
Others	54	-130	-112
Total	**-598**	**3,587**	**489**

Fixed and demand deposits increased, while lower deposits mainly in repos and NIDs

Financing to the private sector increased

The low and stable interest rates environment, together with ample liquidity situation continued to provide a conducive environment to support domestic economic growth. During the month, **total gross financing** through loans extended by the banking system and the capital market increased to RM38 billion (RM35.6 billion in August).

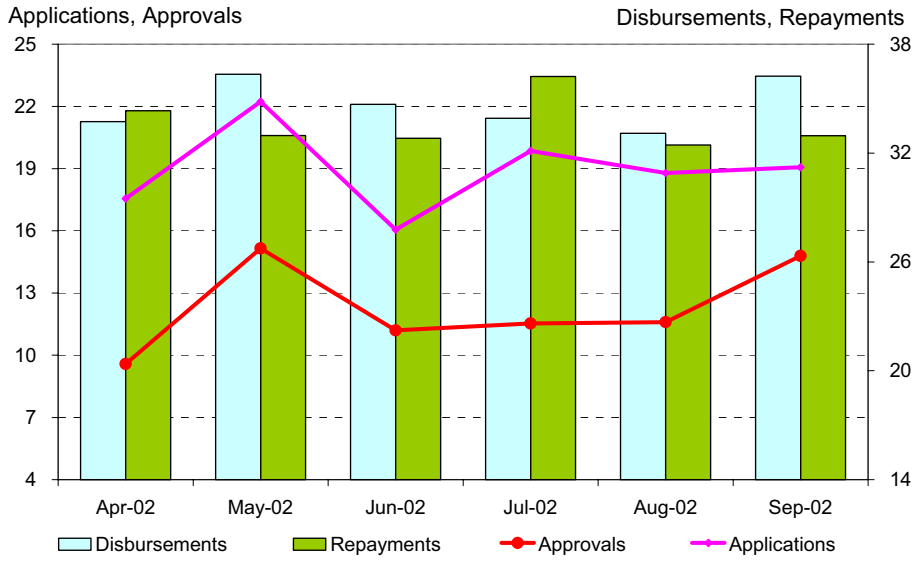
Private sector gross financing through banking system and capital market



The bank lending activities strengthened further in September. **Loan disbursements** increased to RM36.2 billion (August: RM33.1 billion) and continued to be channeled to a wide range of economic sectors. Disbursements to the business sector were higher at RM23.1 billion in September (August: RM20.5 billion), accounting for 64% of total loan disbursements during the month. Meanwhile, disbursements to individuals amounted to RM8.7 billion or 24% of total loans disbursed in September (August: RM8.8 billion).

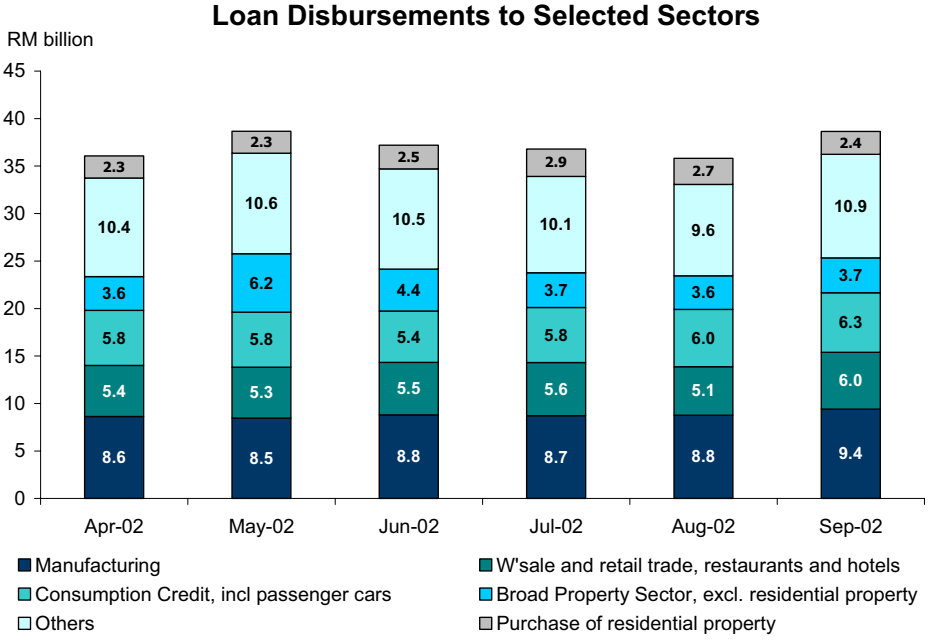
Loans outstanding increased further by RM2.6 billion (an annual growth of 3.8% at end-September; 3.6% at end-August). In view of the continued significant repayment by the business sector, the bulk of the expansion in loans outstanding continued to be retail-driven, for the purchase of residential property and passenger cars. Loans extended to the business sector also remained short-term in nature, mainly to meet working capital needs.

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



Sustained lending evident in loan approvals and disbursements

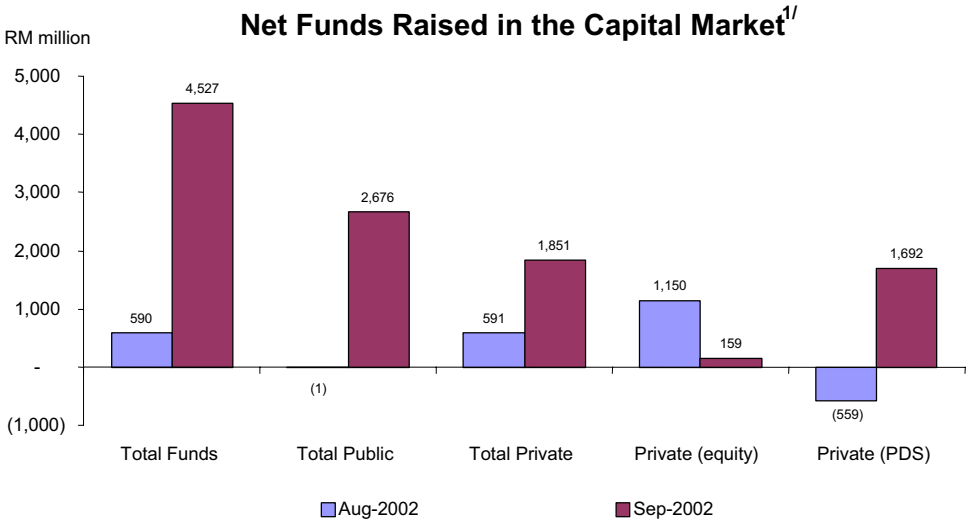
Loan Disbursements to Selected Sectors



Loan disbursements continued to be channeled to a wide range of economic sectors

Higher net funds raised in the capital market

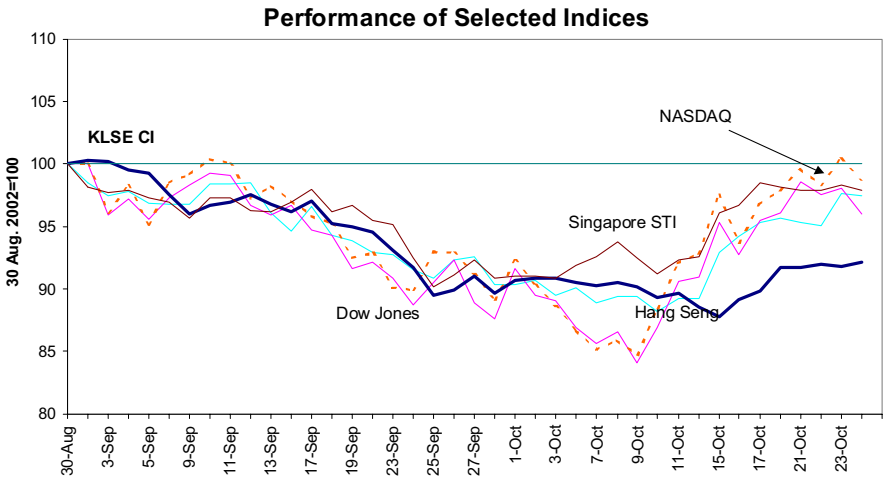
Total net funds raised in the capital market were higher in September, amounting to RM4.5 billion. Higher net funds were raised in the public sector following the issuance of Malaysian Government Securities of RM3.7 billion. The private sector also recorded higher net funds raised of RM1.9 billion, mainly through new issues of private debt securities.



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

Higher net funds raised in the capital market

The **Kuala Lumpur Stock Exchange Composite Index** (KLSE CI) declined further in September following concerns over the 11 September anniversary and US-Iraq tensions. Meanwhile, the absence of fresh leads in the local market has also contributed to the weak market performance. As at 30 September, the KLSE CI closed at 638.01 points (-10.3% since end-August) with market capitalisation at RM476.35 billion (-10% since end-August). The daily average turnover was at 138.6 million units (143.2 million units in August).

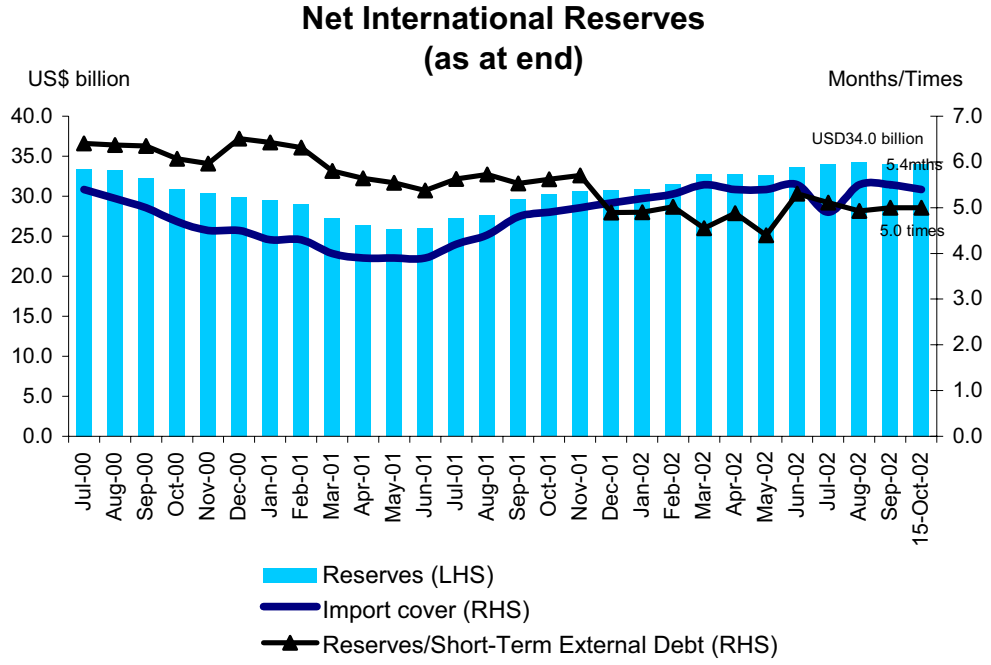


KLSE CI trended lower in September

Sentiments in the KLSE remained weak in the first three weeks of October due to concerns over the weaker US economy, higher crude oil prices as well as continued tensions in the Middle East. The market stabilised towards the end of the third week following the improved performance of the US market. As at 25 October, the KLSE CI closed higher at 655.68 points (+2.8% since end-September) with market capitalisation at RM486.41 billion (2.1% since end-September). The daily average turnover was higher at 154.3 million units.

International reserves

The **net international reserves of BNM** amounted to RM129 billion or US$33.96 billion as at 30 September 2002. Inflows from the repatriation of export earnings were sustained in September. Outflows reflected the payments for imports of goods and services, repayment of external debt, and portfolio flows. The reserves level at the end of September had taken into account the quarterly adjustment of the unrealised foreign exchange revaluation loss amounting to US$122 million, mainly as a result of the depreciation of the yen and euro against the US dollar during the quarter. Reserves increased by RM171.5 million or US$45.1 million during the first half of October to RM129.2 billion or US$34.01 billion as at 15 October 2002. There were significant inflows from the repatriation of export earnings which were more than sufficient to finance payments for imports of goods and services, repayment of external debt, as well as portfolio outflows. The reserves position is adequate to finance 5.4 months of retained imports and is 5 times the short-term external debt.



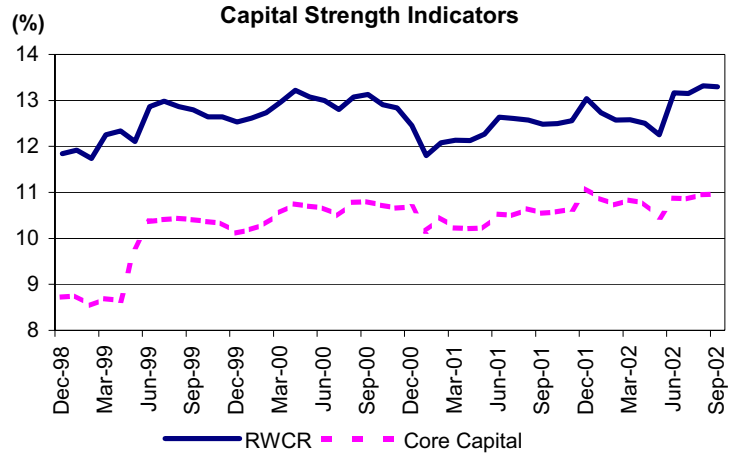
Banking system on firmer ground

The banking system continued to be on a firmer financial position as the quality of assets improved further and its capital position remained strong. The net NPL ratio (6-month classification) moderated further for the third consecutive month to 7.7% primarily due to loan write-offs. In addition to the improving asset quality, the banking system remained well capitalised with its risk-weighted capital ratio (RWCR) and core capital ratio standing at 13.3% and 11.0% respectively as at end-September 2002.

Banking System Health Indicators*

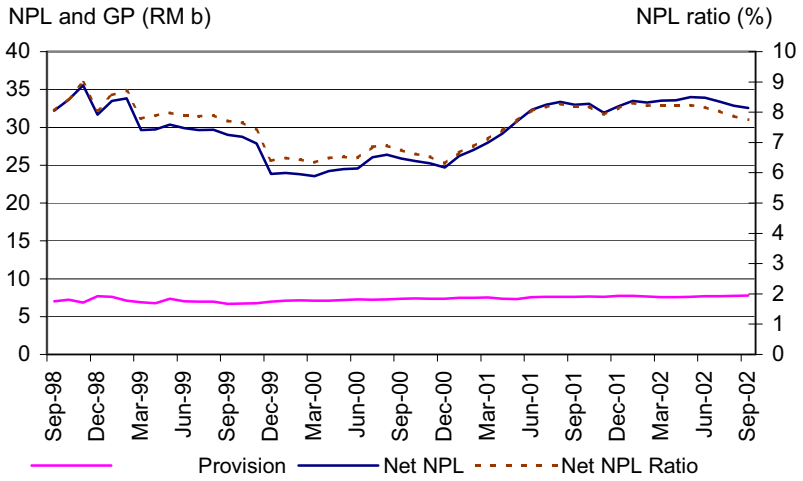
	1998	1999	2000	2001		2002	
	Dec.	Dec.	Dec.	Jun.	Dec.	Aug.	Sep.
Capital (%)							
Core capital ratio	8.7	10.1	10.7	10.5	11.1	11.0	11.0
RWCR	11.8	12.5	12.5	12.6	13.0	13.3	13.3
Net NPL (6-month classification)							
% of net total loans	8.1	6.4	6.3	8.0	8.1	7.9	7.7
Amount (RM million)	31,675	23,849	24,700	32,291	32,775	32,845	32,558
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.9	1.9	1.8

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



….RWCR and core capital ratio remained at 13.3% and 11.0% respectively

Banking System: Net NPL and General Provisions



…Net NPL ratio improved further to 7.7%

On 14 October 2002, Danaharta launched its seventh nation-wide property tender offering for sale a total of 180 properties with indicative value of RM626.2 million. The properties offered in the tender comprised mainly of development land and industrial properties. The property tender will close on 13 November 2002.

As at end-September 2002, the outstanding balance of capital injection by Danamodal remained at RM2.1 billion. Danamodal is expected to close its operations in 2003.

Bank Negara Malaysia
28 October 2002

Key Monetary and Banking Statistics

	August 2002		September 2002	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	40.5	2.4	40.0	1.6
M1	83.2	10.6	83.5	9.0
M2	373.3	5.8	372.1	4.6
M3	488.1	6.2	490.2	5.5
Banking System				
Total deposits	491.7	3.9	492.2	3.1
Total loans (including loans sold to Cagamas and Danaharta)	485.2	3.6	487.8	3.8
Total loans (excluding loans sold to Cagamas and Danaharta)	423.3	3.3	425.8	3.5
Loan-deposit ratio (%)	86.1		86.5	
Loans approved during the month	11.6		14.8	
Loans disbursed during the month	33.1		36.2	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	13.3		13.3	
Net NPLs: 6-month classification (%)	7.9		7.7	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	130.1		129.0	
Reserves in USD (billion)	34.2		34.0	
Months of retained imports	5.5		5.5	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.97 [2.88]		2.98[2.88]	
3-month	2.86 [2.86]		2.83[2.84]	
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)	103.3	2.1	103.4	2.1
Producer Price Index (PPI) (1989=100)	133.8	4.5	-	-
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.7430		3.7379	
Pound Sterling	5.8822		5.9464	
Singapore dollar	2.1733		2.1384	
100 Japanese yen	3.2213		3.1280	
100 Thai Baht	9.0069		8.7608	
100 Philippine Peso	7.3348		7.2526	
100 Indonesian Rupiah	0.0429		0.0422	
100 Korean Won	0.3167		0.3093	
Capital Market				
Funds raised by: public sector (RM billion)	…		2.7	
private sector (RM billion)	0.6		1.9	
Kuala Lumpur Composite Index (end-period)	711.36		638.01	
KLSE Market Capitalisation (RMb) (end-period)	529.53		476.35	