BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PEN : 01/03/50 (BN)

EMBARGO: Not for publication or broadcast before 1900 hours on Tuesday, 28 January 2003

Highlights of the December 2002 Press Release

Accommodative Monetary Policy Continued to Support the Private Sector

Amidst sustained economic activities, the continued downward trend in lending rates remained an important factor in stimulating loan demand. Loan disbursements rose significantly in December, particularly to the business sector, reflecting some revival in investment activity. Despite higher repayments, outstanding loans, including conversions to equity and write-offs, rose by 5% in 2002. A notable development has been the increase in the loans extended by the banking system to small borrowers of RM500,000 and below which accounted for 53% of total loans outstanding as at end-December 2002 compared with 48% as at end-2001. Higher bank lending provided the main expansionary force for the growth in broad money M3 in December.

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PRESS RELEASE
MONETARY AND FINANCIAL DEVELOPMENTS
DECEMBER 2002

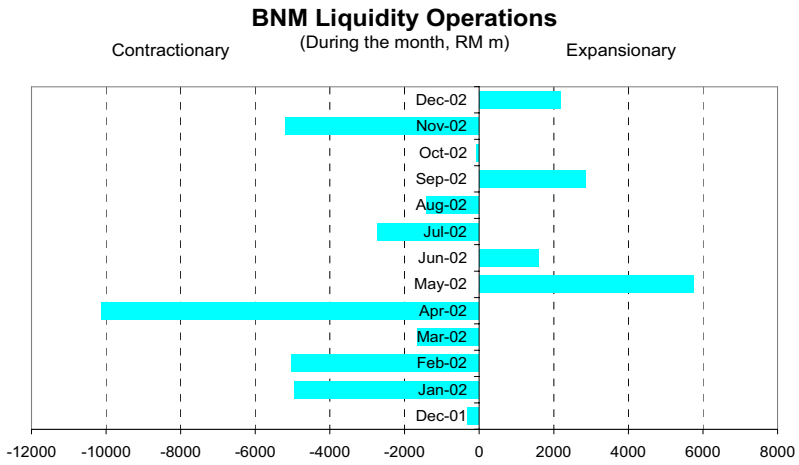
Amidst sustained economic activities, the continued downward trend in lending rates remained an important factor in stimulating loan demand. Loan disbursements rose significantly in December, raising disbursements in 2002 by 9.9%. During the month, disbursements were stronger to the business sector, reflecting some revival in investment activity.

Loan approvals also continued to expand. Despite higher repayments, outstanding loans expanded at an annual rate of 4.3% in December. Including conversions to equity and write-offs, outstanding loans rose by 5% in 2002. A notable development has been the increase in the share of loans extended by the banking system to small borrowers of RM500,000 and below which now accounts for 53% of total loans outstanding as at end-December 2002.

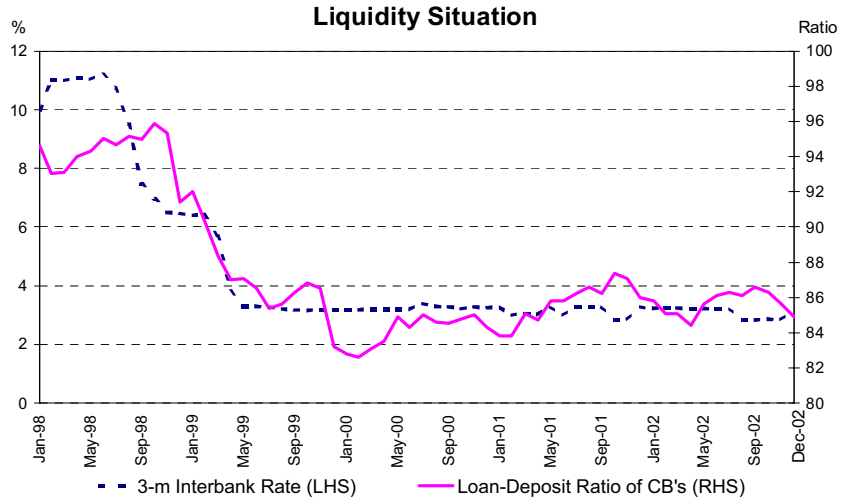
The higher loan disbursements provided the main expansionary force for monetary growth in December. M1 continued to expand as year-end holiday and festival-related consumption increased the seasonal demand for both currency and demand deposits. The expansion in M3 was due mainly to higher bank lending to the private sector.

Low interest rates amidst ample liquidity

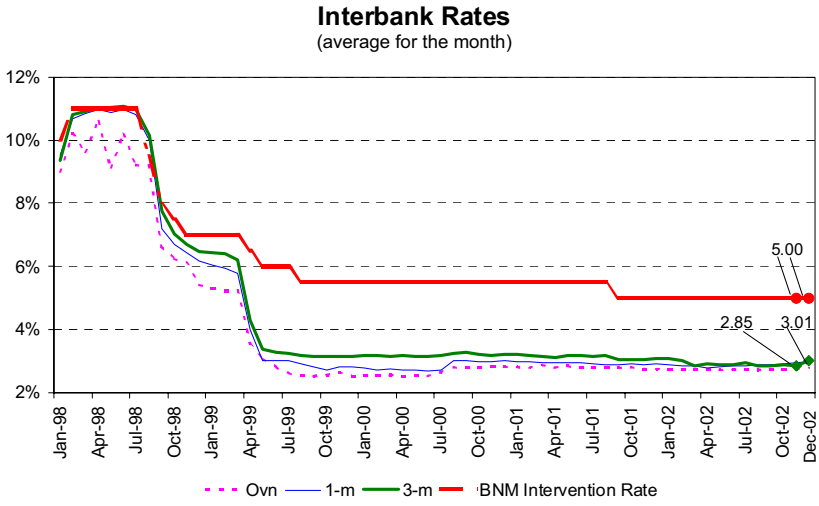
The **interbank money market** rates continued to remain low and stable. BNM liquidity operations were expansionary in December to stabilise the overall liquidity condition in the system. As a result, the weighted average three-month interbank rate stood at 3.01%.



BNM liquidity operations were expansionary by RM2.1 billion

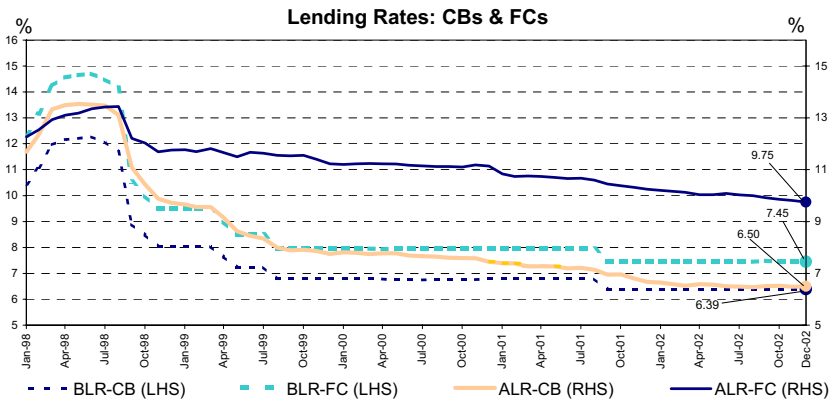


The liquidity situation remained ample



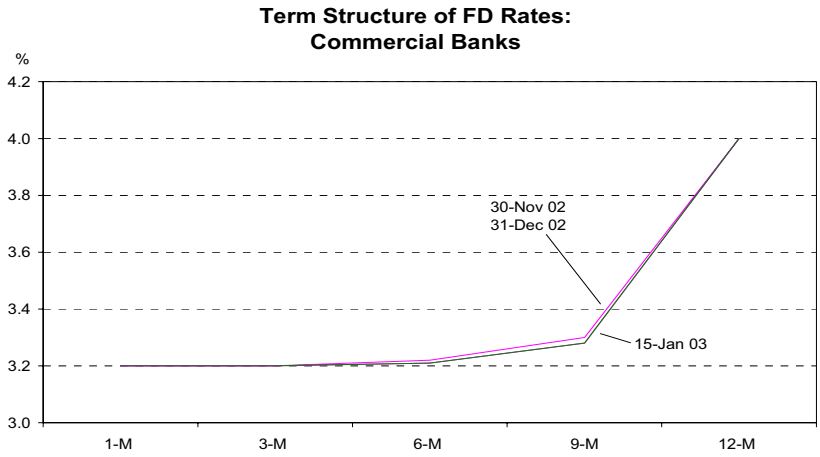
Interbank rates remained low and steady

The **average base lending rate (BLR)** of commercial banks (CBs) and finance companies (FCs) remained unchanged during the month. The **average lending rate (ALR)** of CBs stabilised at 6.50%. Competition for loans among FCs led to lower lending rates and hence, the ALR of FCs continued to trend downwards to 9.75% (9.81% at end-November).

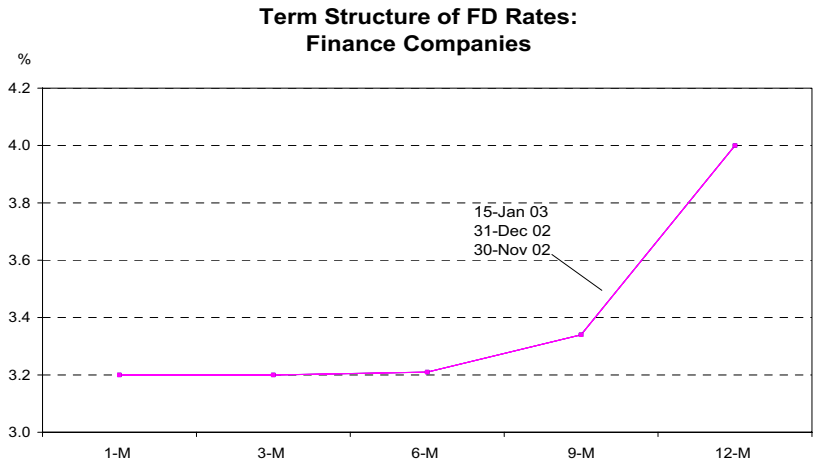


ALR of CBs stabilised while ALR of FCs continued to trend downwards

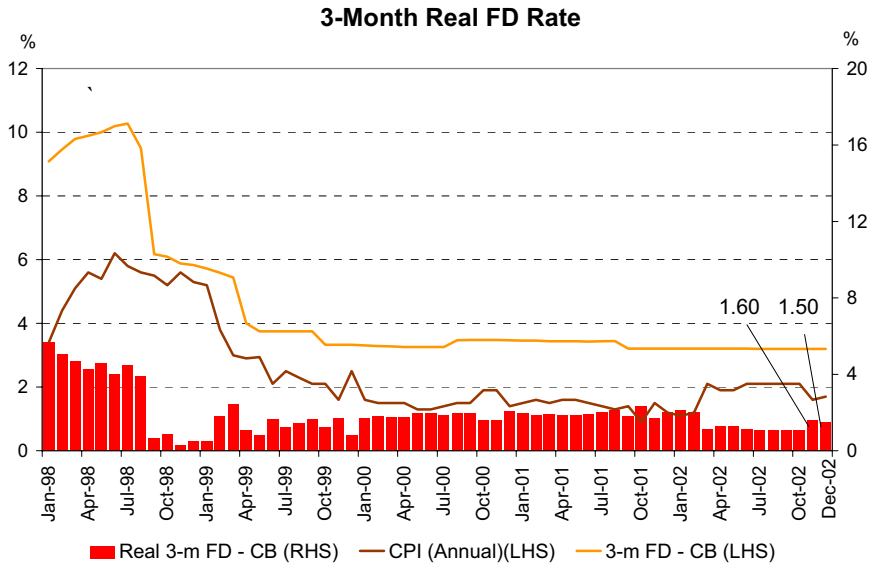
As at 15 January 2003, the **term structure of the average fixed deposit rates** of CBs and FCs remained unchanged for all maturities.



FD rate of CBs remained unchanged



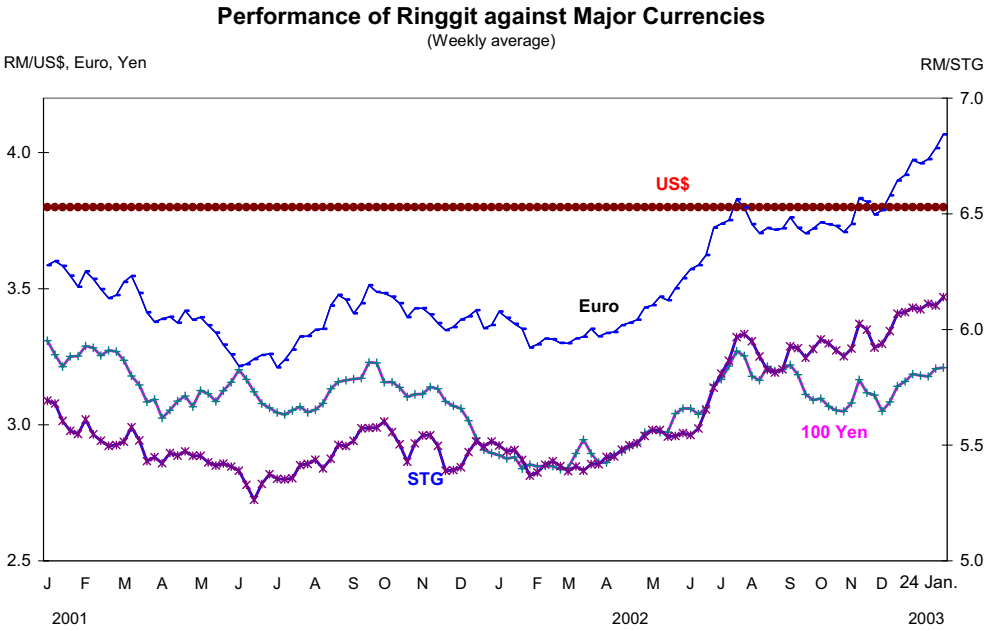
...similarly, for FCs



The 3-month real FD rate of CBs eased slightly due to marginal increase in inflation

The ringgit depreciated against the major and regional currencies in December

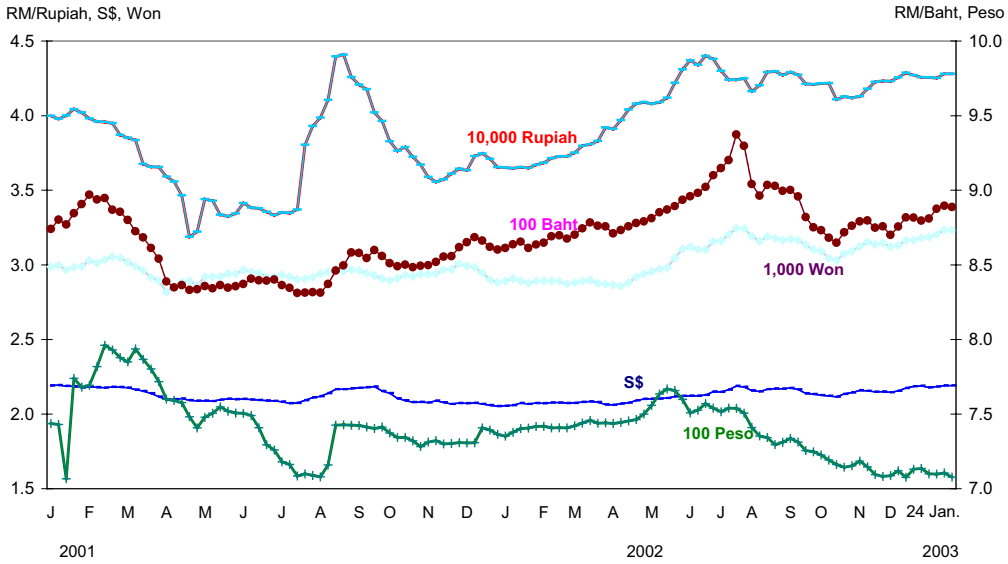
In December, **the ringgit depreciated against all the major currencies**. Against the euro, pound sterling and the Japanese yen, the ringgit depreciated by 5.2%, 3.3% and 3% respectively, in tandem with the weakening of the US dollar in the international foreign exchange markets. The US dollar was adversely affected by heightened concerns over the geopolitical tensions in the Middle East and North Asia towards the end of the period.



The ringgit depreciated in December

The ringgit depreciated across the board against the regional currencies, in the range of 0.5% - 1.6%. In addition to the weakness in the US dollar, specific developments led to further appreciation of regional currencies. The Singapore dollar was supported by better-than-expected data for exports, retail sales and inflation, while the Thai baht was supported by positive economic data and equity-related inflows. Meanwhile, the Philippine peso, was supported by inflows from remittances by Filipinos working abroad.

Performance of Ringgit against Regional Currencies
(Weekly average)



The ringgit also depreciated against all regional currencies

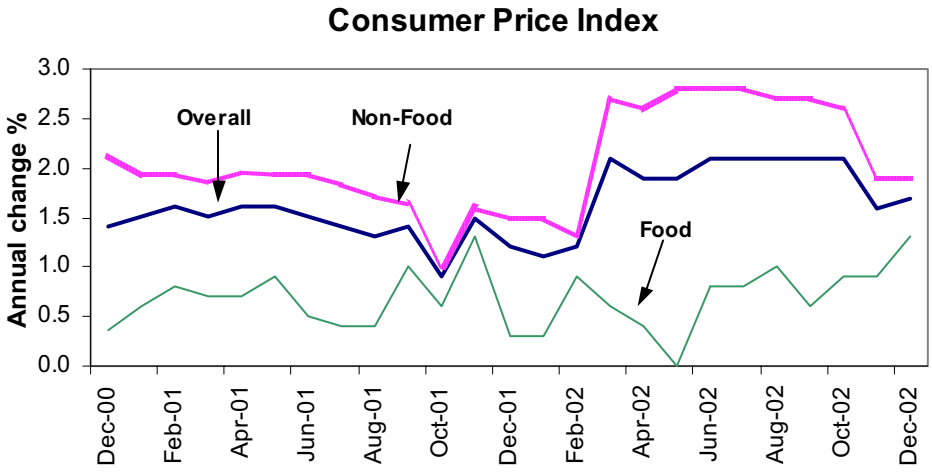
In the period **1 – 24 January 2003**, the ringgit continued to depreciate against the major and regional currencies as the US dollar weakened further. The US currency continued to be affected by risk aversion arising from geopolitical tensions and the prospect of larger twin deficits in the US. In addition, the dollar was adversely affected by the release of weaker-than-expected jobs data and weak retail and industrial production numbers for December in the US, as well as the widening of the US trade deficit in November. As a result of the weaker dollar, the ringgit depreciated against the euro, pound sterling and Japanese yen by 2.7%, 1.5% and 0.5% respectively. The ringgit also depreciated by 0.3-1.4% against all regional currencies. The only exception was the Philippine peso, against which the ringgit appreciated by 0.9%.

Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-Dec. 2002	24 Jan. 2003	% Change			
				December 2002	End-Dec 2002 - 15 Jan. 2003	End-2001 - 15 Jan. 2003	2 Sep. 1998 - 15 Jan. 2003
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	3.9811	4.0911	-5.2	-2.7	-17.7	-
Pound Sterling	6.3708	6.0924	6.1834	-3.3	-1.5	-10.8	3.0
100 Japanese yen	2.7742	3.2020	3.2197	-3.0	-0.5	-10.1	-13.8
Singapore dollar	2.1998	2.1887	2.1955	-1.5	-0.3	-6.5	0.2
100 Thai baht	9.3713	8.8096	8.9014	-0.6	-1.0	-3.4	5.3
100 Philippine peso	8.8302	7.1462	7.0843	-0.7	0.9	4.0	24.6
100 Indonesian Rupiah	0.0354	0.0425	0.0427	-0.5	-0.5	-14.5	-17.1
100 Korean won	0.2827	0.3197	0.3242	-1.6	-1.4	-11.1	-12.8

Inflation rose slightly in December

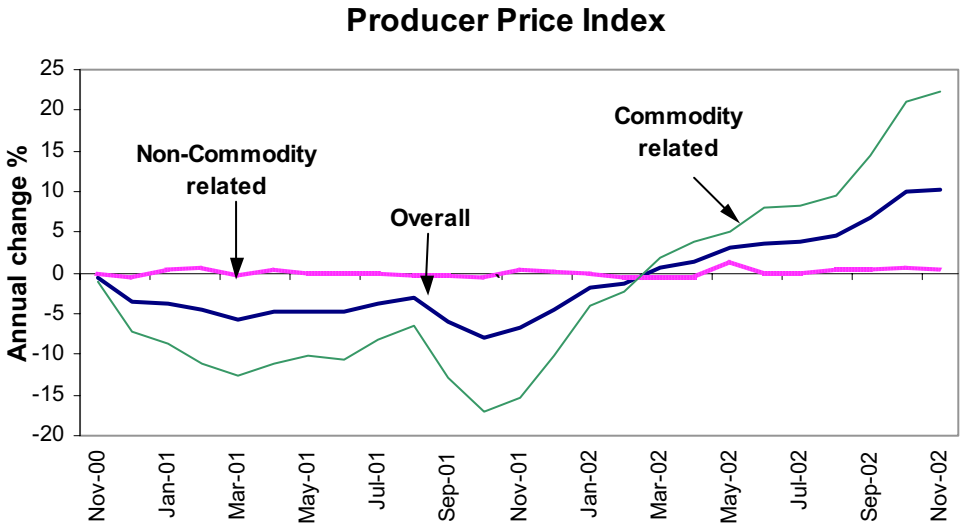
The annual rate of inflation, as measured by the **Consumer Price Index (CPI, 2000=100)**, increased marginally to 1.7% in December (November: 1.6%). On a monthly basis, the CPI also rose by 0.2%. The higher inflation rate was due mainly to the increase in the prices for food. In particular, prices for fruits and vegetables rose significantly during the month amidst unfavourable weather conditions.



Inflation rose slightly in December

Producer prices strengthened further

Producer prices, as measured by the **Producer Price Index (PPI, 1989=100)**, increased by 10.3% year-on-year in November (October: 9.9%), reflecting largely higher prices of crude palm oil, crude oil and rubber. Excluding commodity-related products, the adjusted PPI increased by 0.4%.

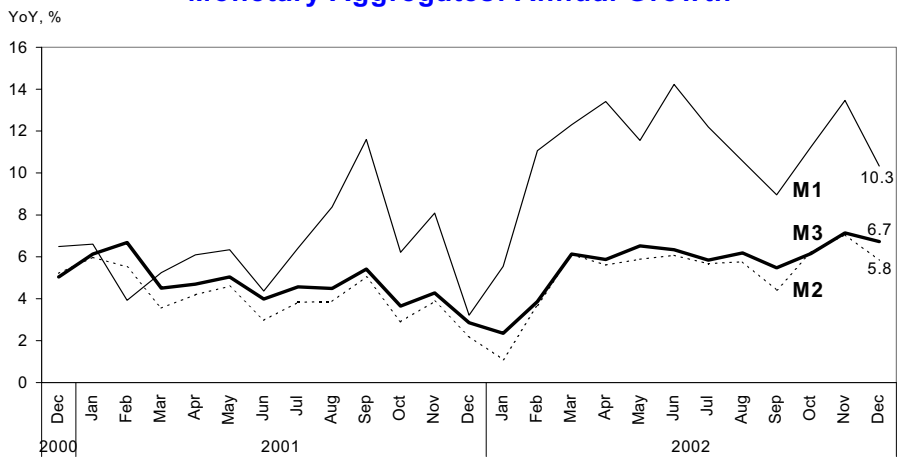


Producer prices strengthened further

Money supply continued to grow

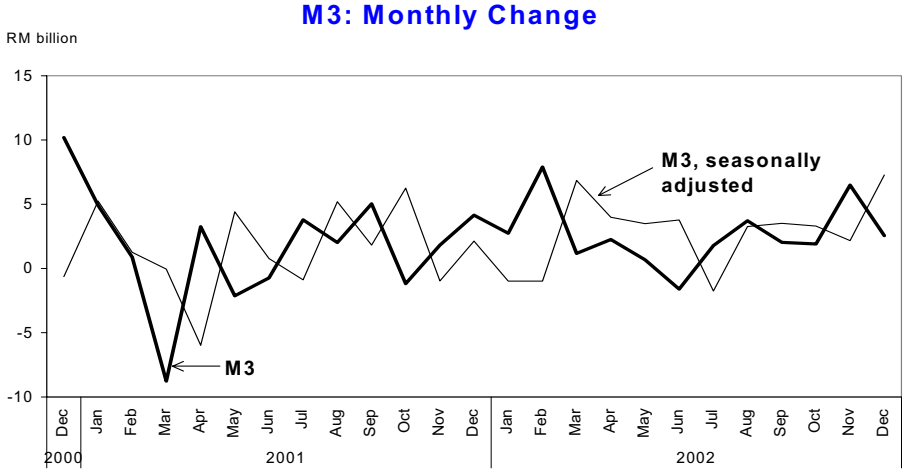
Money supply continued to grow in December. M1 rose by RM 1.1 billion in December, as year-end holiday and festival-related consumption increased the seasonal demand for both currency and demand deposits. During the month, the growth in broad money, M3, of RM2.6 billion, emanated from higher bank lending to the private sector (RM3.4 billion including loan write-offs and conversions). The increase in Government deposits following the issuance of MGS during the month had no impact on money supply as MGS were purchased by a non-bank financial institution from the withdrawal of its deposits placed with BNM.

Monetary Aggregates: Annual Growth



All three monetary aggregates expanded on a year-on-year basis

M3: Monthly Change



On a monthly basis, M3 continued to grow in December

M3 Determinants

(RM billion)

	Change during period			
	2002			
	Oct	**Nov**	**Dec**	**Jan - Dec**
M3	**1.9**	**6.5**	**2.6**	**31.6**
Net claims on Government	3.1	1.8	-3.6	11.7
Claims on private sector	3.4	4.6	0.1[1/]	26.2
Net external operations	0.3	1.0	-2.3[2/]	1.2
Other influences	-4.9	-0.9	8.4	-7.5

1/ Including loan write-offs and conversion, claims on private sector would be higher by RM3.4 billion

2/ pre-revaluation

… due mainly to increase in bank lending

Banking system deposits rose further in December

Total deposits mobilised by the banking system continued to increase by RM3.3 billion or 0.7%. Higher deposits were recorded for financial institutions and for individuals, reflecting higher income largely due to year-end bonus payments.

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

	2002		
	Oct.	**Nov.**	**Dec.**
Holder			
Federal Government	-857	426	-45
State Governments	-230	-12	-111
Statutory Authorities[1/]	-320	-360	-168
Financial Institutions	927	1,355	4,176
Business Enterprises	1,762	2,950	-3,543
Individuals	1,868	2,105	2,559
Others	46	-123	432
Total	**3,196**	**6,341**	**3,300**

[1/] Include local Governments.

Higher deposit placements by individuals and financial institutions

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

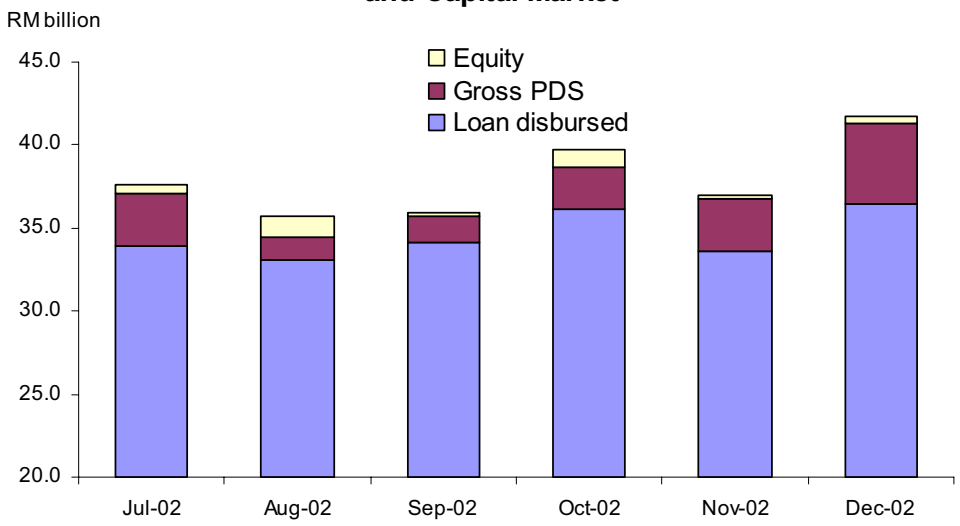
	2002		
	Oct.	**Nov.**	**Dec.**
Type			
Fixed deposits	28	346	-1,008
NIDs	2,514	338	1,623
Demand deposits	292	1,894	695
Savings deposits	213	467	1,754
Repos	28	2,665	-12
FX deposits	-304	347	82
SPI deposits	379	407	-266
Others	46	-123	432
Total	**3,196**	**6,341**	**3,300**

…. which were reflected mainly in savings deposits and NIDs issued

Higher bank lending to the private sector

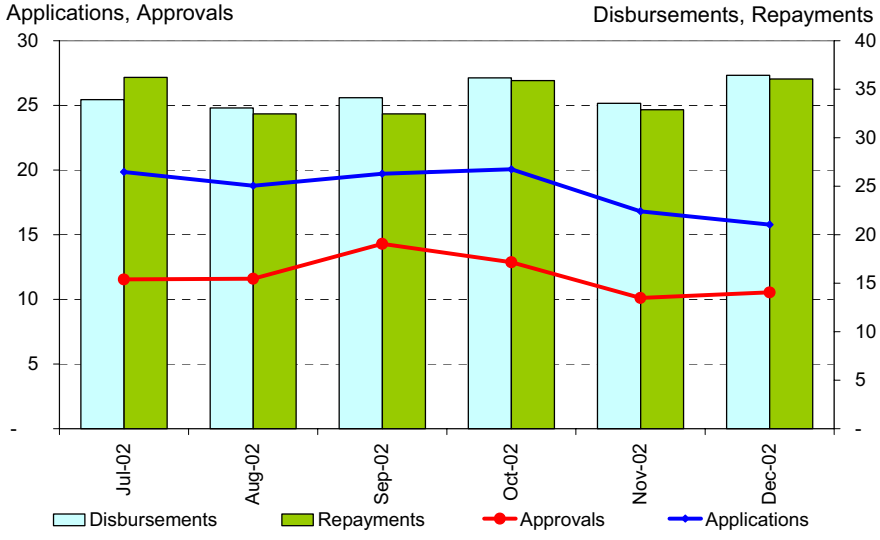
The low interest rates environment and ample liquidity led to stronger growth in financing to support domestic economic activity. **Gross financing** through loans extended by the banking system and capital market increased significantly by 12.8% to RM41.7 billion in December (RM37 billion in November). The increase was most visible in the banking sector where both loan approvals and disbursements were significantly higher.

Private Sector Gross Financing through Banking System and Capital Market



Loan disbursements by the banking system rose significantly by 8.5% to RM36.4 billion in December. The disbursements were broad-based and across sectors. Of significance, growth in disbursements to the corporate sector outpaced growth of disbursements for the individual loans. Meanwhile, loan applications in terms of value amounted to RM15.8 billion (RM16.8 billion in November).

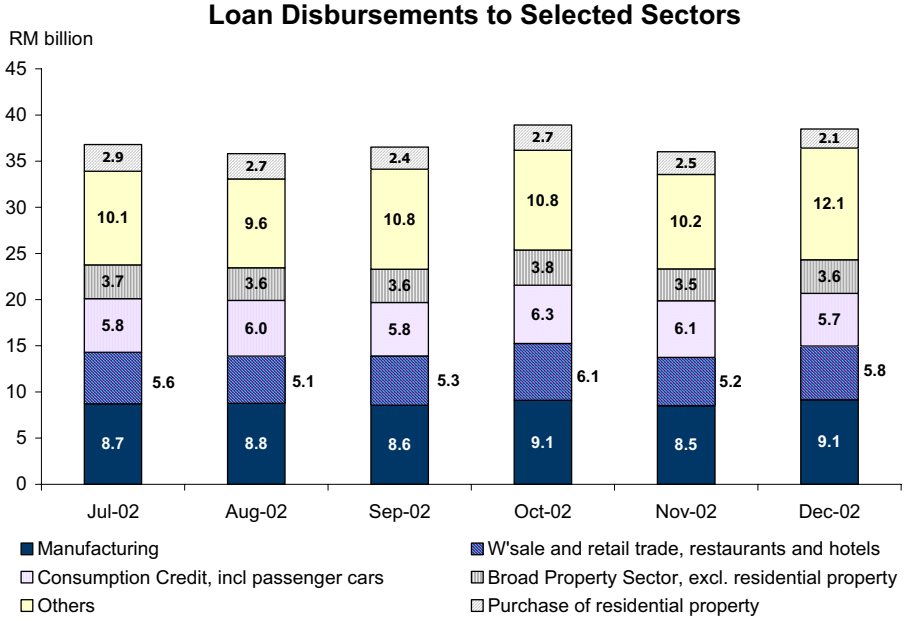
Loan Applications, Approvals, Disbursements and Repayments (RM billion)



Loan approvals, disbursements and repayments increased in December

Gross funds raised from the PDS market also expanded significantly by RM4.9 billion during the month. The bulk of the funds was channelled to the financial services and transport sectors.

Loan Disbursements to Selected Sectors



Disbursements continued to be broad-based

In December, loan repayments also rose significantly by 9.6% to RM36 billion and came mainly from the business sector. This, together with loans written off and conversions (RM3.3 billion) had led to a decline in total loans outstanding of the banking system (-RM1.1 billion). Including the loan write-offs and conversions, outstanding loans would have increased by RM2.2 billion or 5% as at end-December.

For the year 2002 as a whole, loan disbursements increase by 9.9% or RM36.9 billion. The bulk of it was channelled to the business sector (66%), mainly to the manufacturing (26%), wholesale and retail trade, restaurants and hotels (16%), and construction sectors (7%). Disbursements to individuals accounted for 24%, and were channelled mainly for the purchase of residential property (7%) and passenger cars (6%) as well as for credit card expenditure (6%). Meanwhile, repayments increased by 9.8% or RM35.7 billion. In 2002, total outstanding loans increased by RM20.1 billion or 4.3%. Including the loan write-offs and conversions during the year, outstanding loans would have increased by RM32.5 billion or 5%.

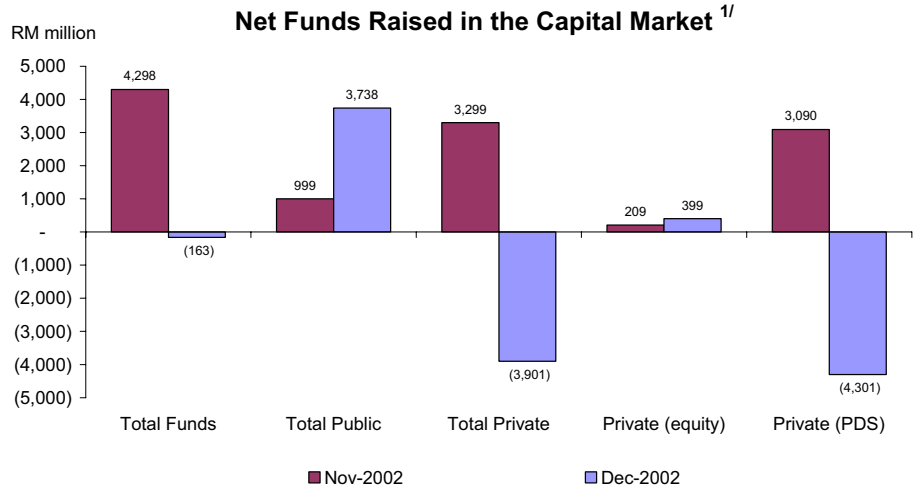
Of significance is that small borrowers have been able to maintain access to financing from the banking system. Loans of RM500,000 and below increased at a faster rate of 13.8% in 2002. Outstanding loans below RM100,000, and between RM100,000 and RM500,000 expanded by 15% and 12% respectively as at end-2002 (12% and 11% respectively at end-2001). Small loans extended to businesses below RM100,000 grew at an even faster pace of 24.3% during the year.

In terms of share, loans below RM100,000, and between RM100,000 and RM500,000 accounted for 30% and 23% of total outstanding loans respectively, higher than 27% and 21% of total loans respectively as at end-2001. Over the years, banking institutions are also placing greater emphasis on the SMEs. While the share of loans granted to SMEs over total loans was relatively stable (17%), its share of business loans extended by the banking system rose from 26% in 1997 to 34% at the end of 2002.

Net redemptions in the capital market

The **capital market recorded a net redemption position** of RM163.4 million in December due mainly to early redemptions in the private debt securities (PDS) market by a company in the infrastructure sector. Gross funds raised through the PDS market, however, remained significant, amounting to RM5.1 billion, while funds raised through the equity market was low at RM400 million reflecting weak sentiments in the equity market. In the public sector, higher net funds was raised mainly through a new issuance of Malaysian Government Securities 2/02.

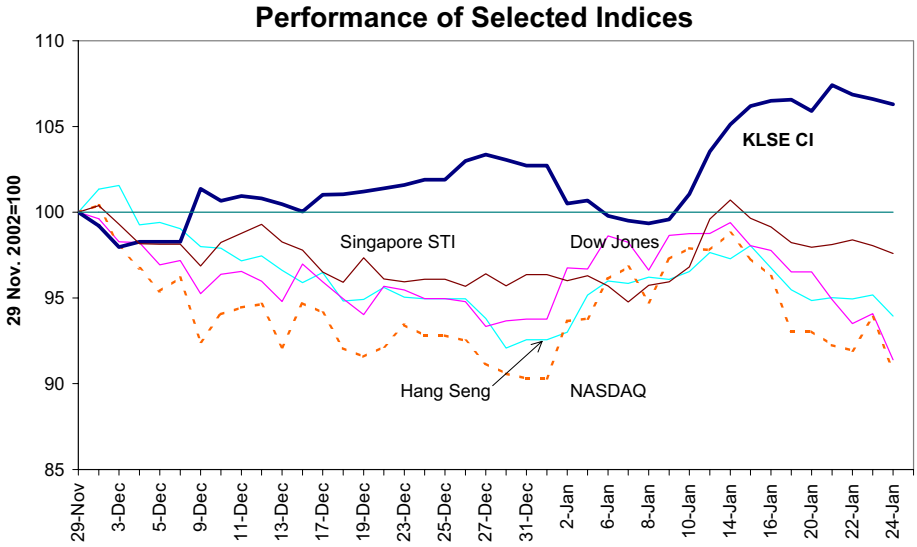
Net Funds Raised in the Capital Market [1/]



Small net redemption position in the capital market

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

In December, the **Kuala Lumpur Stock Exchange Composite Index** (KLSE CI) improved following renewed buying interests, especially for index-linked stocks. For the month of December, the KLSE CI closed higher at 646.32 points, an increase of 2.7% from end-November. Market capitalisation stood at RM481.62 billion as at end-December, an increase of 1.4% from end-November. However, for the year as a whole, the KLSE CI declined by 7.1%. Overall market capitalisation in the Malaysian stock market on the other hand rose by 3.6%.



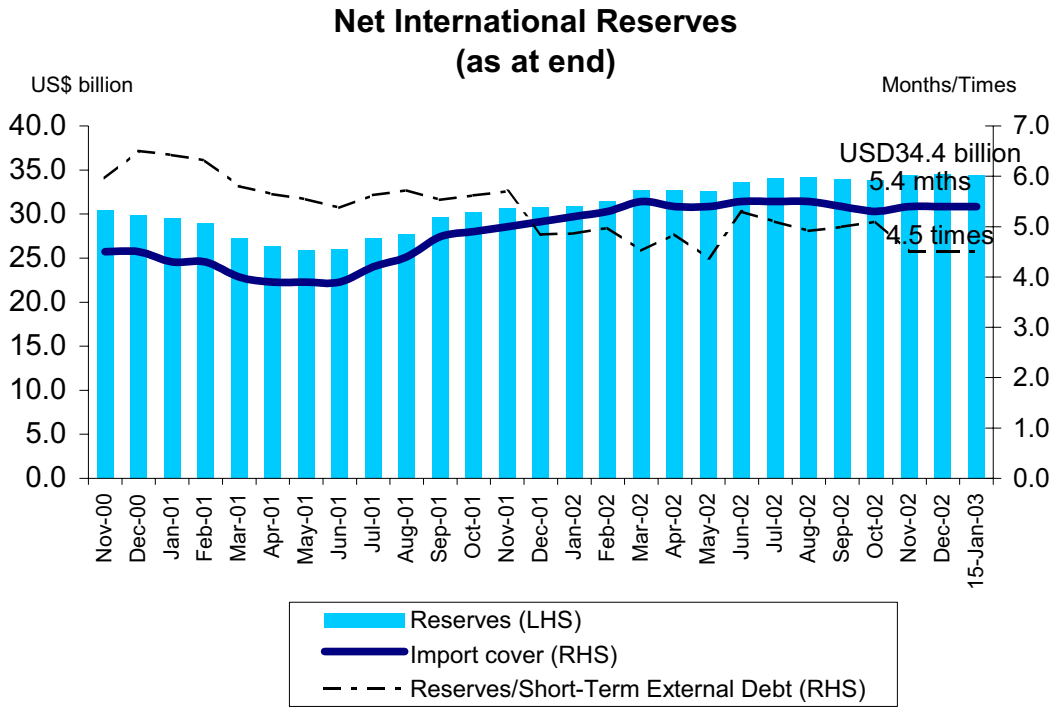
KLSE CI improved in January

Sentiment in the KLSE improved in the first three weeks of January following the announcement of the establishment of a new public sector related fund management company. In addition, some positive corporate announcements also helped to improve market sentiment. As at 24 January, the KLSE CI closed higher at 668.81 points (+3.5% since end-December) with market capitalisation at RM501.87 billion (+4.2% since end-December). The daily average turnover was higher at 306.1 million units, compared with 118.9 million units in December and 224 million units in 2002. The KLSE outperformed most of the major regional markets during the new year till January 24.

International reserves

The **net international reserves** of Bank Negara Malaysia increased to RM131.5 billion or US$34.6 billion as at 31 December 2002 and stood at RM130.9 billion or US$34.4 billion as at 15 January 2003. The reserves position is adequate to finance 5.4 months of retained imports and is 4.5 times the short-term external debt. The reserves level was supported by continued inflows from the repatriation of export earnings and foreign direct investment. A revaluation gain of US$645 million was also recorded as at end of December 2002 as a result of the appreciation of the Euro, Sterling and the yen against the US dollar during the fourth quarter. Outflows in December reflected mainly payments for imports of goods and services, repatriation of profits and dividends, external loan repayments, as well as some overseas investment and portfolio outflows.

Compared with end-2001, the reserves had increased by RM14.3 billion or US$3.8 billion in 2002. The increase in reserves reflected mainly the sustained repatriation of export earnings, steady inflows of foreign direct investment and net drawdown of the external loan proceeds by the Federal Government. Outflows during the year reflected mainly payments for imports of goods and services that were related to the expansion in economic activity, overseas investments and large loan repayments by the private sector, as well as portfolio outflows. For the year 2002, a total net revaluation gain more than offset the revaluation loss in 2001.



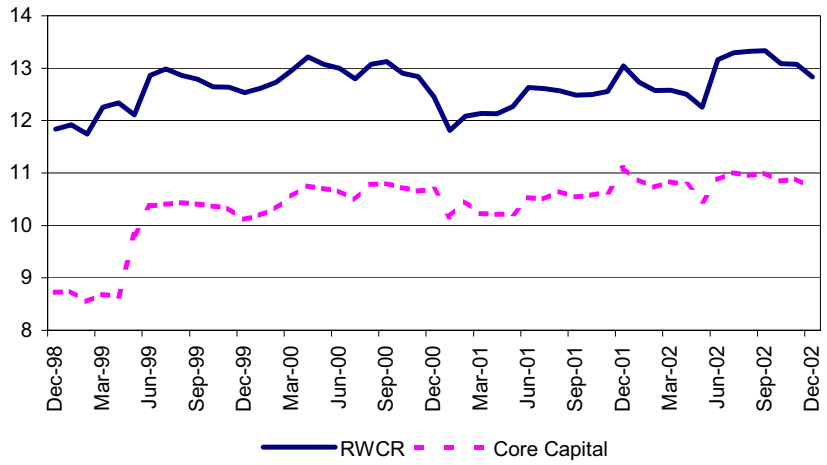
Capitalisation remained strong

The banking system remained sound with further improvement in asset quality. Net NPLs in value terms continued to decline for the seven consecutive months. As a proportion of total loans, the net NPL ratio (6-month classification) was at the same level as in the previous month (7.5%). The risk-weighted capital ratio (RWCR) declined slightly to 12.8%, due to the decline in the capital base of RM0.9 billion, following an increase in investment of a domestic bank in a subsidiary arising from an on-going merger exercise.

Banking System Health Indicators*								
	1998	1999	2000	2001		2002		
	Dec.	Dec.	Dec.	Jun.	Dec.	Oct.	Nov.	Dec.
Capital (%)								
Core capital ratio	8.7	10.1	10.7	10.5	11.1	10.8	10.9	10.7
RWCR	11.8	12.5	12.5	12.6	13.0	13.1	13.1	12.8
Net NPLs (6-month classification)								
% of net total loans	8.1	6.4	6.3	8.0	8.1	7.7	7.5	7.5
Amount (RM million)	31,675	23,849	24,700	32,292	32,775	32,302	31,803	31,703
GP/Net total loans (6-month, %)	2	1.9	1.9	1.9	1.9	1.9	1.8	1.8

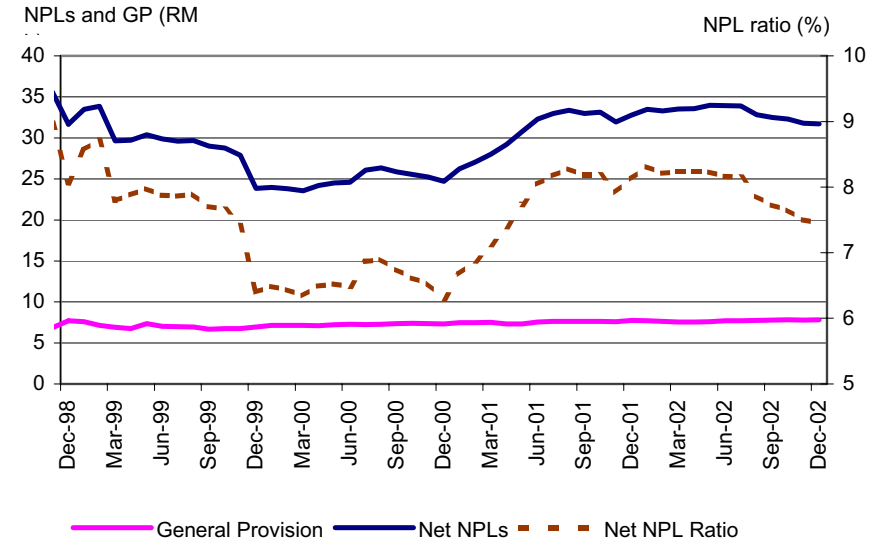
** Beginning June 1999 onwards, the figures include Islamic banks*

Capital Strength Indicators



….RWCR and core capital ratio declined marginally to 12.8% and 10.7% respectively

Banking System: Net NPLs and General Provision



..Net NPLs in value terms continued to decline, whilst net NPL ratio remained at 7.5%

Bank Negara Malaysia
28 JANUARY 2003

Key Monetary and Banking Statistics

	November 2002		December 2002	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	43.5	9.4	42.6	6.4
M1	88.0	13.5	89.1	10.3
M2	382.1	7.1	383.7	5.8
M3	498.6	7.1	501.1	6.7
Banking System				
Total deposits	501.2	5.9	504.5	5.3
Total loans (including loans sold to Cagamas and Danaharta)	491.6	4.5	490.6	4.3
Total loans (excluding loans sold to Cagamas and Danaharta)	428.9	4.1	428.5	4.1
Loan-deposit ratio (%)	85.6		84.9	
Loans approved during the month	10.1		10.5	
Loans disbursed during the month	33.6		36.4	
Loans repaid during the month	32.9		36.0	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	13.1		12.8	
Net NPLs: 6-month classification (%)	7.5		7.5	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	130.8		131.5	
Reserves in USD (billion)	34.4		34.6	
Months of retained imports	5.4		5.4	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.99[2.96]		2.99[2.98]	
3-month	2.85[2.85]		3.13[3.01]	
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)	103.6	1.6	103.8	1.7
Producer Price Index (PPI) (1989=100)	134.6	10.3		
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.7759		3.9811	
Pound Sterling	5.8919		6.0924	
Singapore dollar	2.1551		2.1887	
100 Japanese yen	3.1067		3.2020	
100 Thai Baht	8.7588		8.8096	
100 Philippine Peso	7.0942		7.1462	
100 Indonesian Rupiah	0.0423		0.0425	
100 Korean Won	0.3145		0.3197	
Capital Market				
Net funds raised by: public sector (RM billion)	1.0		3.7	
private sector (RM billion)	3.3		-3.9	
Kuala Lumpur Composite Index (end-period)	629.22		646.32	
KLSE Market Capitalisation (RMb) (end-period)	474.81		481.62	