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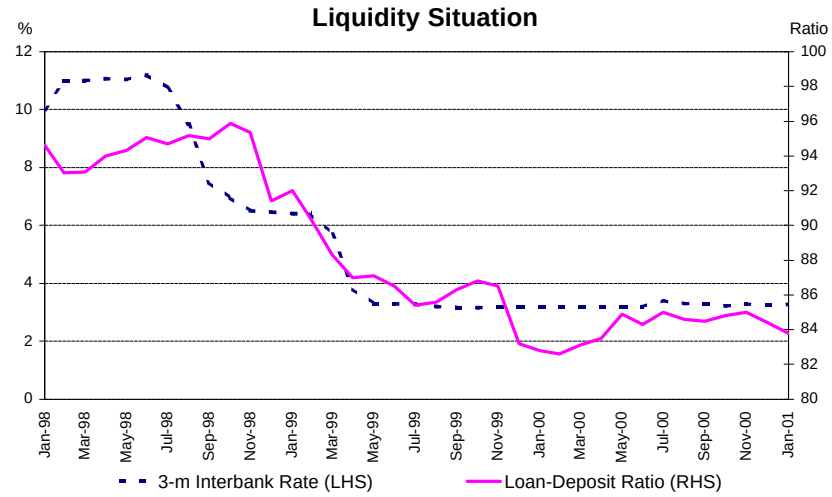
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PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS JANUARY 2001

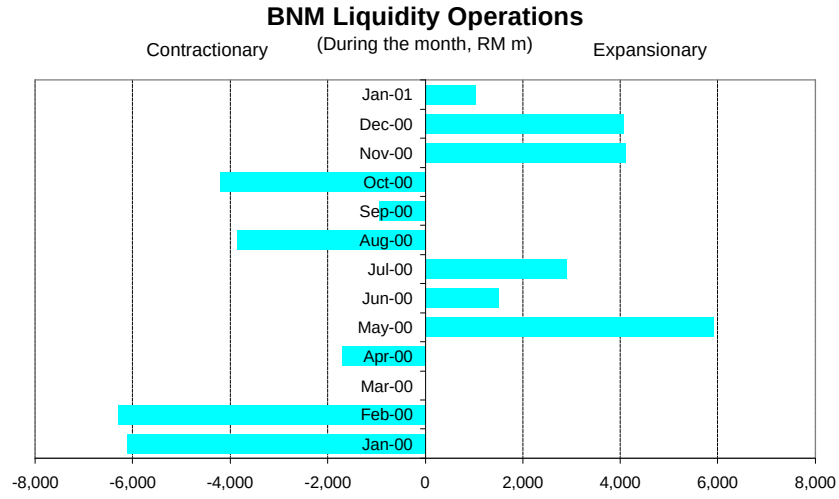
In January 2001, monetary and financial conditions continued to be supportive of economic activities. Money supply, M3, expanded further, albeit more moderately, following the seasonally high increase in December 2000. Inflation remained relatively stable and low in January. With the low inflationary environment, interest rates also remained at low levels. There continued to be ample liquidity in the banking system to finance economic activities.

Interbank rates remained relatively stable

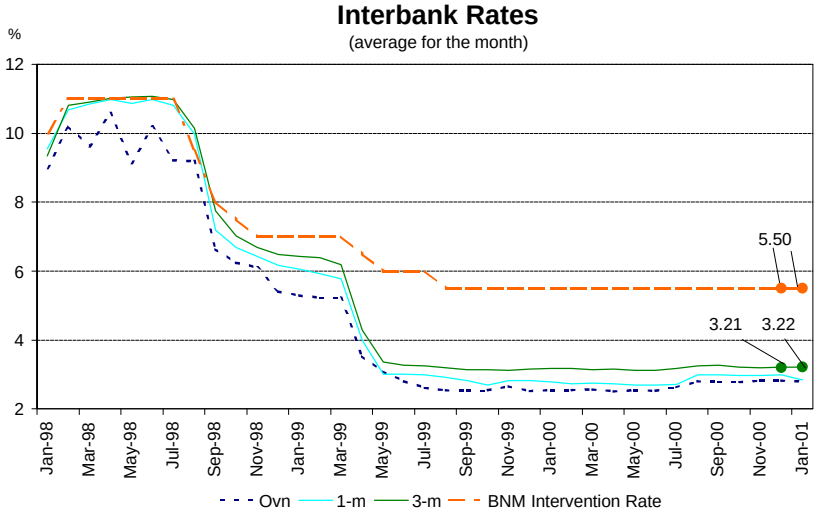
In the interbank money market, **interbank rates** in January and February remained relatively unchanged. In January, BNM operations were marginally expansionary on the system to mitigate the contractionary impact of external reserves and the placement of deposits by a non-bank financial institution. Meanwhile, liquidity in the banking system continued to remain ample.



Liquidity remained ample



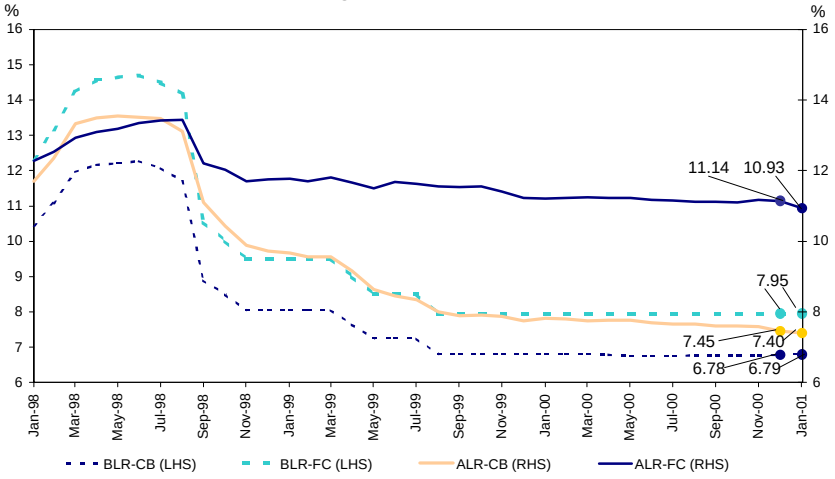
Expansionary BNM operations were aimed at achieving stable liquidity conditions



As a result, average interbank rates remained stable in January

The average **base lending rates** (BLRs) of commercial banks (CBs) remained stable at 6.79%, while that of the finance companies (FCs) remained unchanged at 7.95%. Meanwhile, competition among banking institutions in an environment of ample liquidity led to a decline in the **average lending rates** (ALRs) of the CBs and FCs to 7.40% and 10.93% respectively at end-January (7.45% and 11.14% respectively at end-December).

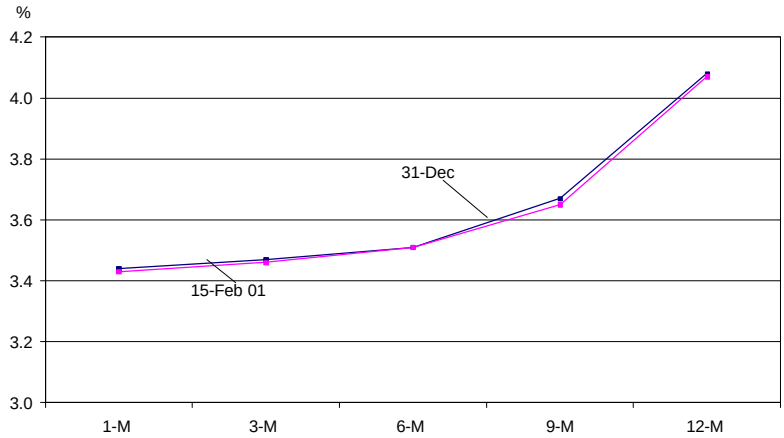
Lending Rates: CBs & FCs



CBs & FCs: ALR moderated further, while BLR remained relatively stable

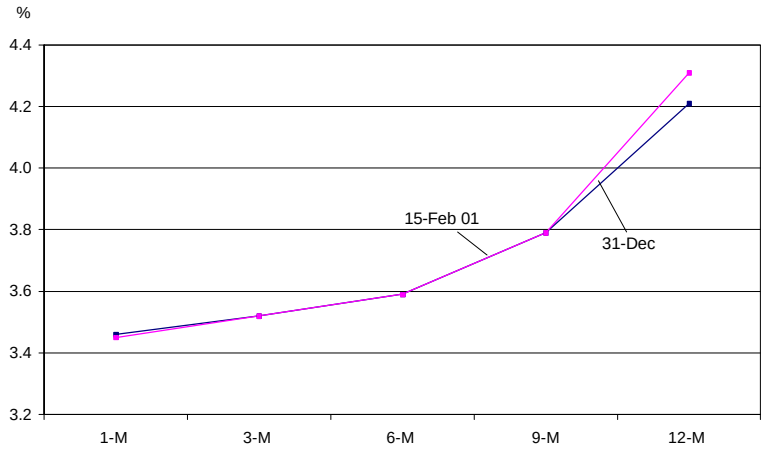
Meanwhile, the **average fixed deposit (FD) rates** of CBs and FCs as at 15 February 2001 remained at levels prevailing at end-December. The average 1-month to 12-month FD rates of CBs and FCs stood at 3.43-4.07% and 3.45-4.31% respectively (3.44-4.08% and 3.46-4.21% respectively at end-December). The slightly higher 12-month FD rate recorded for FCs was a result of a technical adjustment arising from the merger process, whereby FCs with lower rates were being merged into FCs with relatively stable rates. Thus, a simple average of rates of the merged entities resulted in a higher FD rate. Consequently, the **interest margins** of both CBs and FCs were slighty lower at 4.26% and 6.88% respectively at end-January (4.29% and 7.08 at end-December).

Term Structure of FD Rates: Commercial Banks



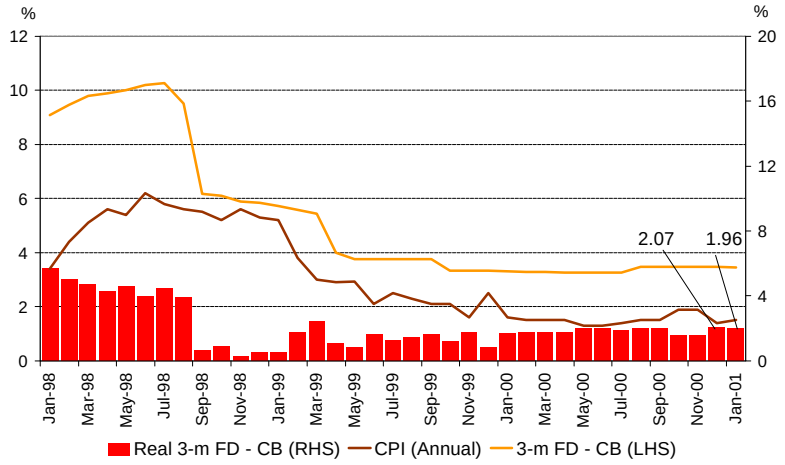
Relatively stable FD rates offered by CBs

Term Structure of FD Rates: Finance Companies



Accounting for the technical adjustment of the merger process, the FD rates offered by FCs remained relatively stable.

Real Interest Rates

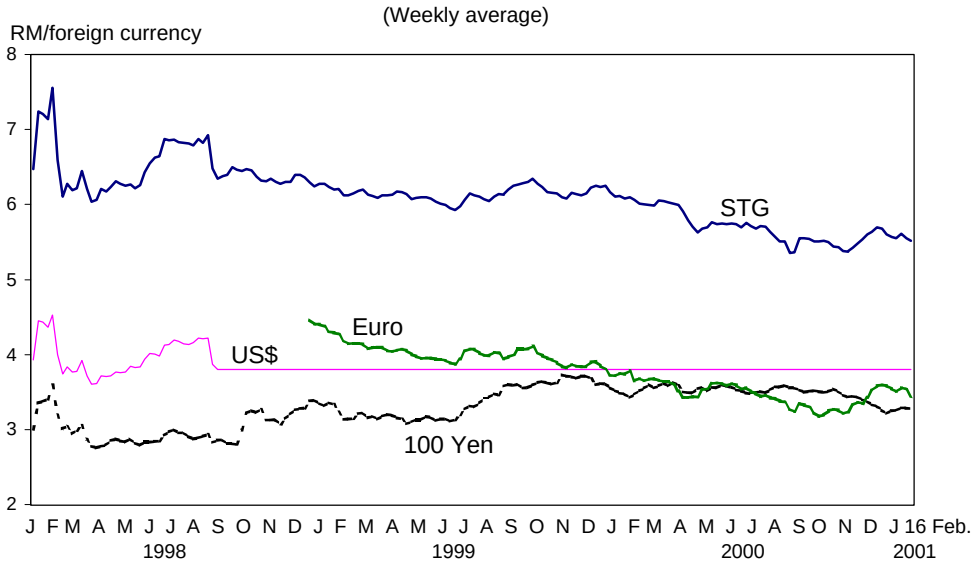


Real FD rates declined slightly due to higher inflation rate in January

Ringgit appreciated against major currencies in January

In January, the **ringgit recorded an appreciation against the major currencies.** The ringgit appreciated against the Japanese yen (+1.5%), the pound sterling (+2.0%), and the euro (+0.4%) in tandem with the movements of the US dollar. Investor concerns over weaknesses in the Japanese economy led the yen to depreciate against the US dollar during the month. However, favourable industrial production data in the second half of the month provided some support for the yen. The pound sterling depreciated against the US dollar during the month as reports of benign inflation in UK raised market expectation on imminent cuts in interest rates by the Bank of England.

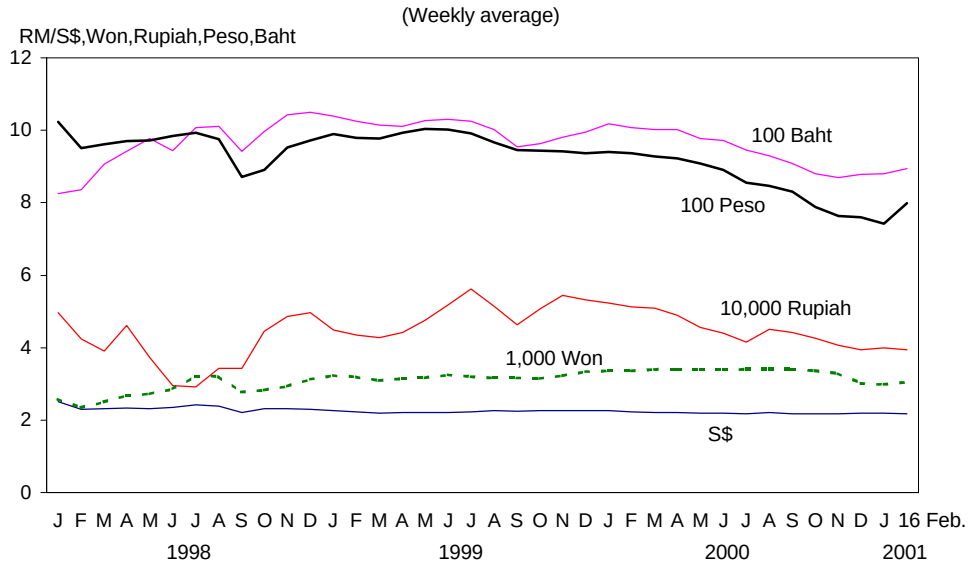
Performance of Ringgit against Major Currencies



Ringgit appreciated against major currencies in January

Meanwhile, the **ringgit recorded a mixed performance against most regional currencies**. The ringgit depreciated against the Thai baht, Philippine peso and the Indonesian rupiah in the range of 1.3% to 1.7% while recording an appreciation against the Singapore dollar and Korean won. Most regional currencies depreciated against the US dollar in the first half of the month following concerns over the impact of a possible slowdown in the US economy on the growth prospects of the region. However, favourable political developments in Thailand and Philippines supported the baht and peso in the second half of the month. The Indonesian rupiah appreciated against the US dollar and the ringgit following Bank Indonesia's announcement of measures to curb speculation on the rupiah.

Performance of Ringgit against Regional Currencies



Ringgit recorded a mixed performance against most regional currencies in January

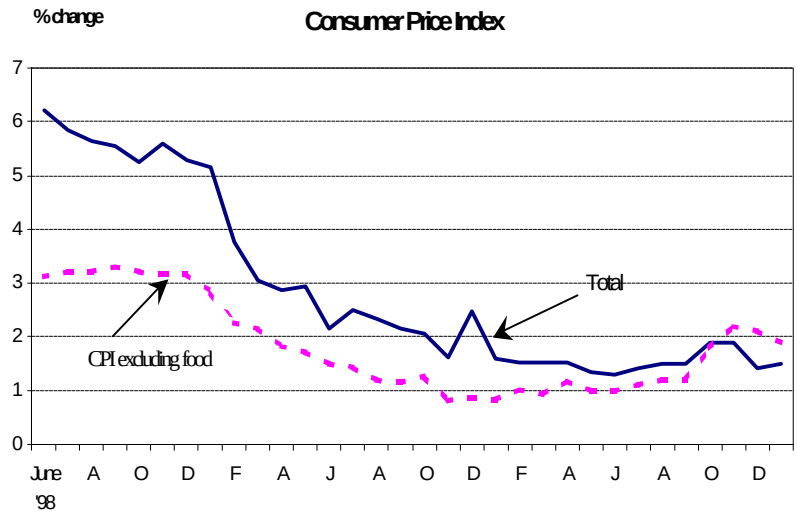
In **the first two weeks of February, the ringgit recorded a mixed performance against both major and regional currencies**. The ringgit appreciated against the pound sterling (+0.7%) and the euro (+2.2%), but depreciated against the Japanese yen (-0.6%) in tandem with the movements of the US dollar in the international foreign exchange markets. Weak retail data from Germany placed downward pressure on the euro while the repatriation of funds by Japanese corporations as the financial year-end approaches lent support to the yen during the period. On the regional front, the ringgit appreciated against the Indonesian rupiah, but depreciated against the Korean won, the Thai baht and the Philippine peso. The Thai baht and Philippine peso continued to be supported by favourable political developments. Meanwhile, the ringgit remained unchanged against the Singapore dollar.

Performance of Ringgit against Selected Currencies

RM per foreign currency	End-June 1997	2 September 1998	16 February 2001	% change		
				Since end-June 1997	Since 2 Sept. 1998	Since end-Jan. 2001
US dollar	2.5235	3.8000	3.8000	-33.6	0.0	0.0
Euro	-	-	3.4453	-	-	2.2
Pound Sterling	4.1989	6.3708	5.5134	-23.8	15.6	0.7
100 Japanese yen	2.2088	2.7742	3.2815	-32.7	-15.5	-0.6
Singapore dollar	1.7647	2.1998	2.1786	-19.0	1.0	0.0
100 Thai baht	9.7470	9.3713	8.9349	9.1	4.9	-0.1
100 Philippine peso	9.5878	8.8302	7.9908	20.0	10.5	-3.6
100 Indonesian Rupiah	0.1038	0.0354	0.0395	162.8	-10.4	1.7
100 Korean won	0.2842	0.2827	0.3058	-7.1	-7.6	-1.7

Consumer prices remained low

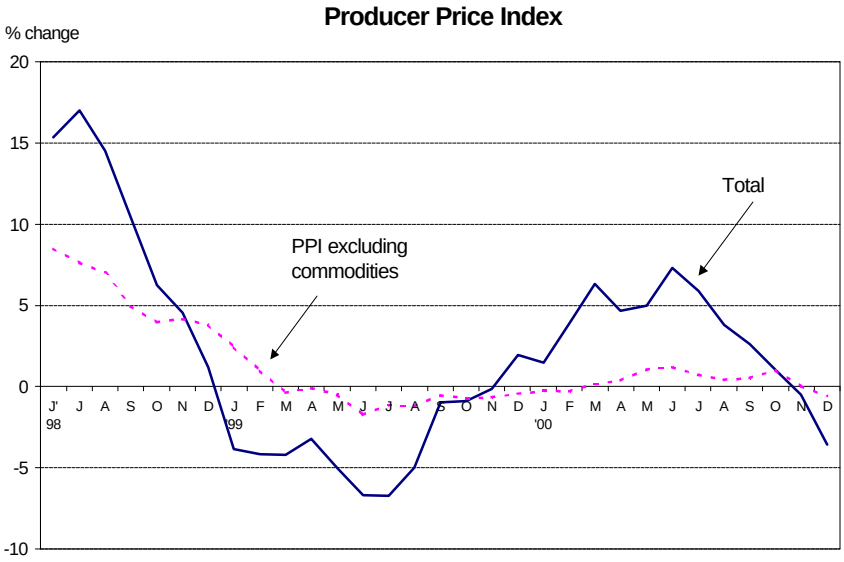
In January, inflation continued to remain relatively low. Inflation measured in terms of the **Consumer Price Index (CPI)** increased by 1.5% year-on-year (1.4% in December 2000). On a month-on-month basis, the increase in inflation was 0.3%.



Inflation remains low

Producer prices declined

The **Producer Price Index (PPI),** which measures the average annual rate of change in prices charged by domestic producers of goods and those paid by importers, declined for the second consecutive month by 3.6% year-on-year in December 2000. The decline was due mainly to lower prices for inedible crude materials, crude oil and palm oil. The adjusted PPI, which excludes the commodities, also declined by 0.6% in December. For the year 2000 as a whole, the PPI and the adjusted PPI increased by 3.1% and 0.3% respectively.



Producer prices declined further in December 2000

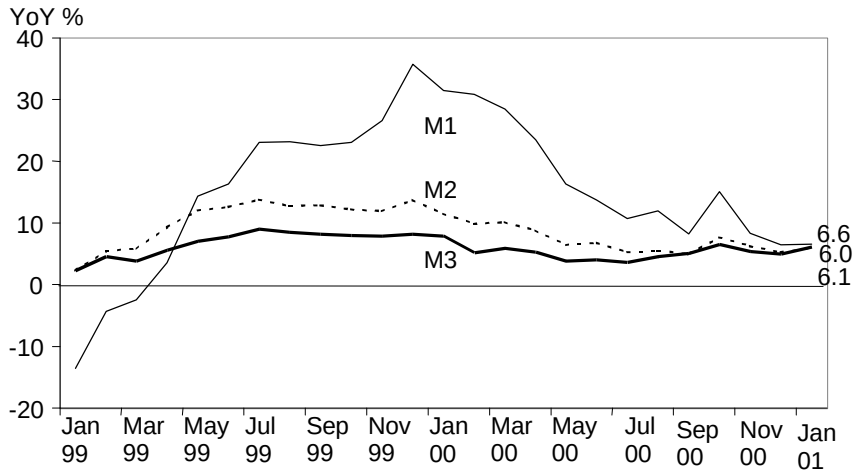
Monetary aggregates expanded further

All **monetary aggregates expanded further**, albeit at a more moderate pace, following the significant expansion in December due to strong seasonal factors. In January 2001, M1 and M2 increased by RM840 million and RM1.6 billion respectively, while broad money rose by RM4.8 billion or 1%. The seasonally adjusted M3 was higher by RM1 billion. On an annual basis, M3 increased by 6.1% at end-January (5% at end-December 2000).

The higher M3 in January reflected mainly expansionary Government operations (+RM7.8 billion), as the Government drew down its deposits with BNM to finance its expenditure. External operations of non-bank private sector also exerted an expansionary impact of RM1.3 billion on money supply. While BNM external reserves declined by RM1.4 billion, net external assets of the banking institutions increased by RM2.7 billion on account of increased foreign currency interbank placements overseas. Meanwhile, net claims on the private sector registered a marginal increase, as higher loans to the private sector were offset by a decline in banking institutions' holdings of securities, resulting from the redemption of Cagamas bonds. On the other hand, net other influences exerted a contractionary impact on money supply, reflecting mainly the placements of deposits by a non-bank financial institution (NBFI) with BNM.

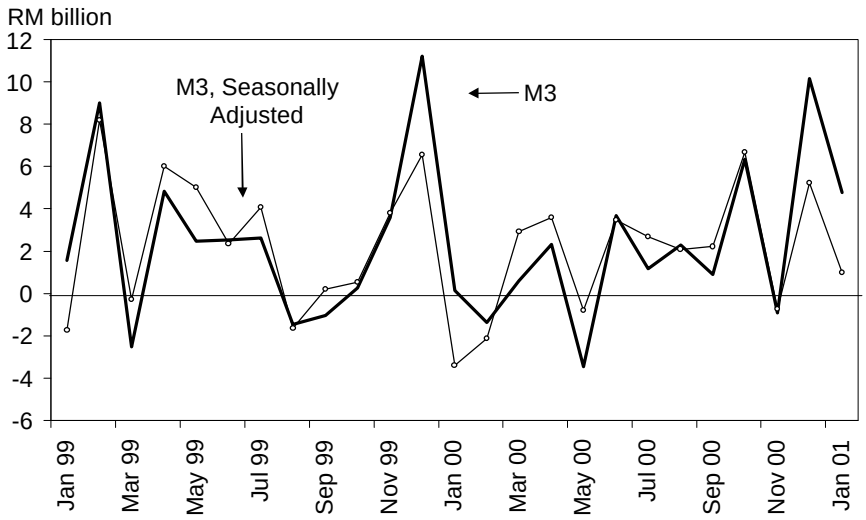
In terms of components, broad quasi-money registered an increase of RM3.8 billion reflecting a broad-based increase in all components except repos. Of significance was the increase in fixed deposits, reflecting higher placements by individuals, NBFIs and statutory authorities. Transaction balances were also higher, particularly currency in circulation, due to festivities during the month.

Monetary Aggregates: Annual Growth



All monetary aggregates continued to expand in January

M3: Monthly Change



Increase in M3 moderated by the placement of deposits by a NBFI with BNM

M3 Determinants
(RM billion)

	Outstanding	Change during the period		
	Jan-01	Nov-00	Dec-00	Jan-01
M3	461.3	-0.9	10.2	4.8
Claims on Government	-6.6	-1.5	1.6	7.8
Claims on private sector	470.6	0.9	6.5	0.2
External operations	128.1	1.7	-1.5	1.3
Other influences	-130.8	-2.0	3.6	-4.5

Banking system deposits increased further while loans were marginally lower

Total deposits returned to the normal growth path in January after the seasonally high increase in December. Month-on-month, total **deposits** increased by RM3.9 billion or 0.8%. The increase reflected higher deposits by individuals and statutory authorities as well as increased interplacements between banking institutions, which more than offset the decline in Government and business sector deposits. On an annual basis, total deposits increased by 4.4% as at end-January (3.2% at end-December 2000).

Monthly Change in Deposits			(RM million)
	2000		2001
	Nov.	Dec.	Jan.
Holder			
Federal Government	-269	652	-285
State Governments	-42	1,119	-630
Statutory Authorities[1/]	-1,260	-713	1,542
Financial Institutions	-805	734	1,055
Business Enterprises	-2,099	5,254	-923
Individuals	2,716	2,495	2,764
Others	-39	-53	357
Total	**-1,797**	**9,487**	**3,881**

[1/] Include local Governments.

Increase in deposits mainly due to higher placements by individuals and statutory authorities

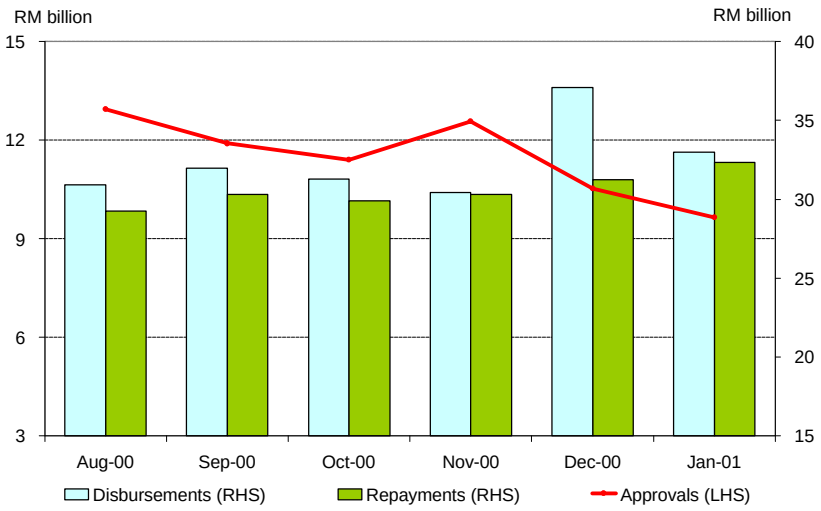
By type, fixed deposits increased on account of higher placements by individuals. SPI deposits continued to rise, with higher placements by statutory authorities, business enterprises and non-bank financial institutions. Foreign currency deposits and NIDs also increased, due mainly to higher deposits by business enterprises and non-bank financial institutions respectively. Meanwhile, repos were lower due mainly to net withdrawals by business enterprises.

Monthly Change in Deposits			(RM million)
	2000		2001
	Nov.	Dec.	Jan.
Type			
Fixed deposits	-6,224	-259	2,157
NIDs issued	292	-568	385
Demand deposits	37	4,320	-150
Savings deposits	782	1,301	220
Repos	1,535	1,777	-1,606
FX deposits	-127	1,129	722
SPI deposits	1,947	1,839	1,797
Others	-39	-53	357
Total	**-1,797**	**9,487**	**3,881**

Increase mainly in the form of fixed and SPI deposits

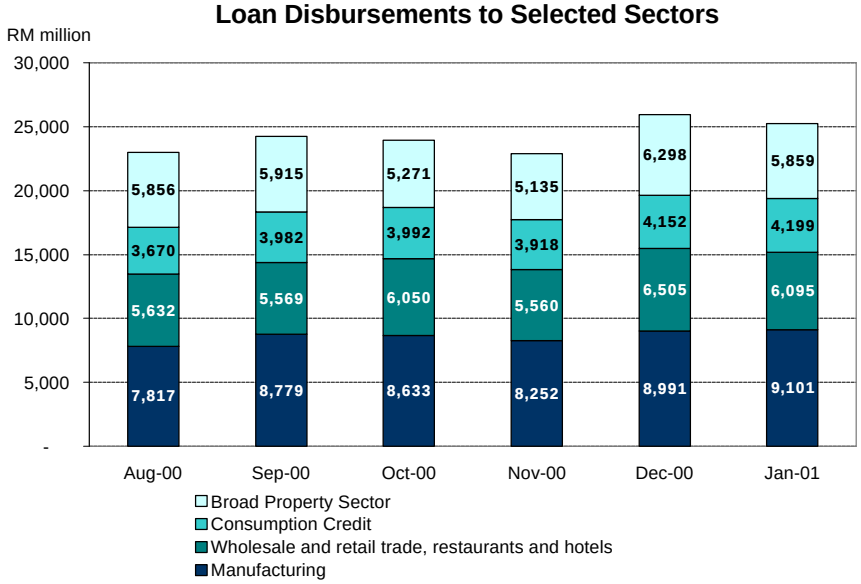
Loan approvals amounted to RM9.6 billion in January and were largely for manufacturing activities and the purchase of residential property and passenger cars. Generally, loan approvals moderate in January only to pick up again in the following months. **Loan disbursements,** meanwhile, remained high at RM33 billion in January. The bulk of the disbursements were mainly for manufacturing activities, wholesale trade, construction activities, the purchase of residential property, financial services, the purchase of passenger cars and credit cards.

Loan Approvals, Disbursements and Repayments



Loan disbursements remained high in January

Loan Disbursements to Selected Sectors



Most of the disbursements were for manufacturing activities, wholesale trade, construction activities and the purchase of residential property

On an annual basis, growth in total **loans outstanding** increased to 5.9% at end-January (5.4% at end-December 2000). On a month-on-month basis, however, total loans outstanding recorded a marginal decline of RM153 million. This, to some extent, reflects the impact of a merger programme between two banking institutions, whereby, about RM150 million worth of loans of one institution was not taken over, and instead was retained with its non-bank holding company.

Banking System: Loans Outstanding by Sector **(RM million)**

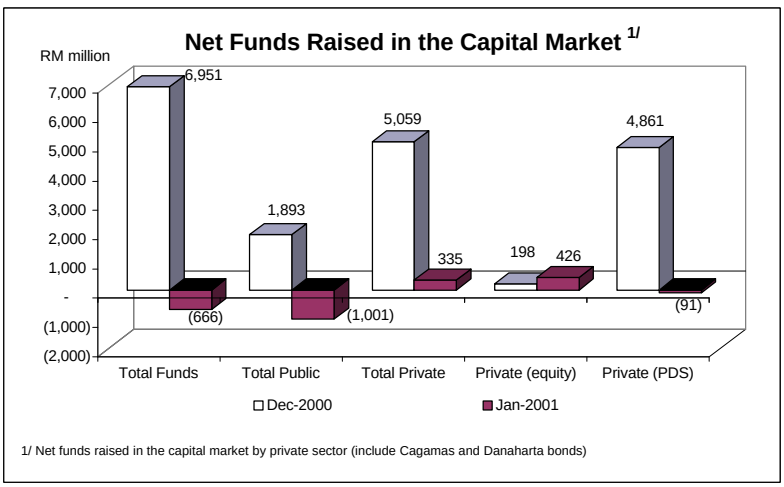
	2000	2001	
	Monthly change		As at end
	Dec.	Jan.	Jan.
Agriculture, hunting, forestry and fishing	1,480	-407	11,560
Mining and quarrying	69	-68	1,661
Manufacturing	-321	-484	67,938
Electricity, gas and water supply	730	449	8,255
Wholesale and retail trade, restaurants and hotels	277	-469	37,878
Broad property sector	694	1,496	164,711
of which:			
Purchase of residential property	*1,294*	*833*	*75,115*
Transport, storage and communication	-338	279	13,980
Finance, insurance and business services	1,094	-510	33,945
Consumption	356	599	60,323
of which:			
Passenger cars	*274*	*814*	*38,279*
Credit cards	*243*	*42*	*7,488*
Purchase of securities	219	-207	33,314
Others	1,111	-831	20,494
Total Loans[1/]	**5,372**	**-153**	**454,059**

[1/] Including loans sold to Danaharta and Cagamas (inclusive of property loans and hire purchase receivables).

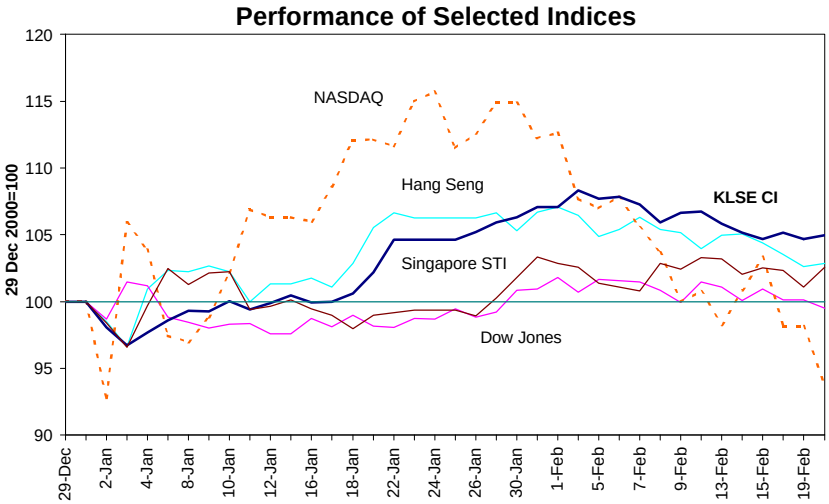
Note: Sub-total may not add up to grand total due to rounding.

Net redemption in the capital market

On a gross basis, total funds raised by the private sector, through the equity and private debt securities markets, amounted to RM1 billion. However, on a net basis, there was a net issue of RM335 million due mainly to the redemption of the Cagamas Bonds. In January, the public sector recorded a net redemption of RM1 billion with the redemption of Malaysian Government Securities. In total, the capital market recorded a net redemption of RM666 million.



Most funds raised were through the equity market in January



The KLSE CI trended higher than the regional stock market indices

Market sentiments improved in January, with the better performance in the US and regional markets following the reduction in interest rates by the Federal Reserve. As at 31 January 2001, the Kuala Lumpur Stock Exchange Composite Index (KLSE CI) closed at 727.73 points (+7.1% since end-December), while market capitalisation stood at RM475.97 billion (+7.1% since end-December).

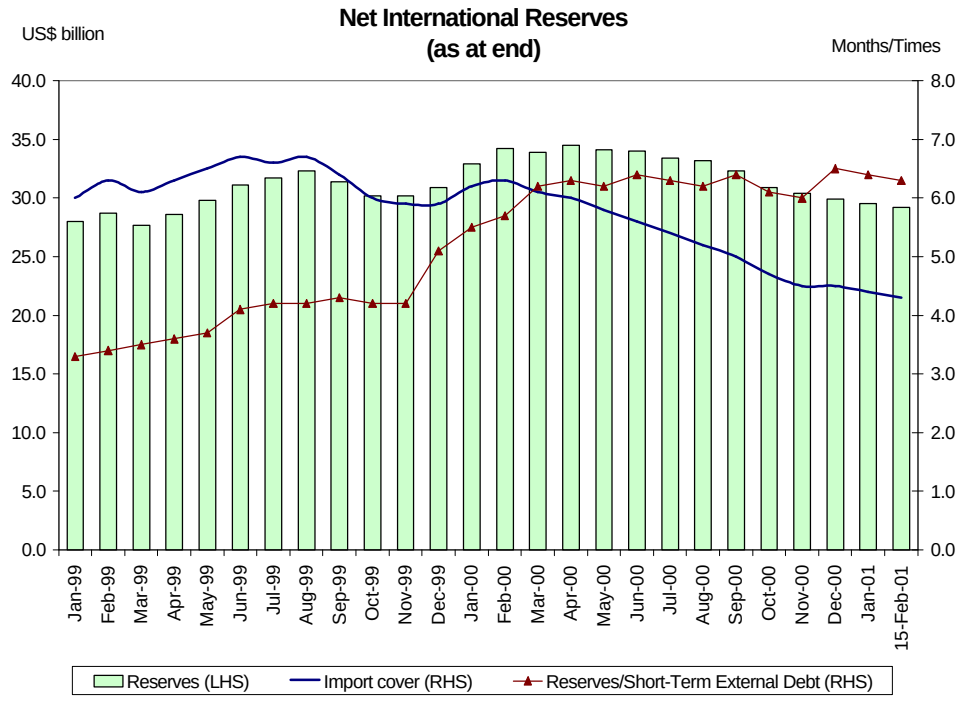
The KLSE CI declined slightly in the first three weeks of February 2001. The improvement in market sentiment was not sustained due to profit-taking activities and the absence of fresh leads. Nevertheless, the KLSE CI performance did better, compared to other regional bourses. As at 23 February 2001, the KLSE CI closed at 712.76 points (-2.1% since end-January), while market capitalisation stood at RM473.1 billion (-0.6% since end-January).

International Reserves remain at high level

The **net international reserves of BNM** amounted to RM112.1 billion (US$29.5 billion) at end-January 2001, compared to RM113.5 billion (US$29.9 billion) at end-December 2000. During the month, there continued to be inflows of funds arising from the trade surplus; long-term capital inflows; and investment income. These inflows were able to cushion to some extent the outflows in connection with interest servicing and repayment of external debt by the non-bank private sector; the repatriation of profits and dividends; overseas investment; as well as some portfolio outflows.

Going forward, reserves inflows will continue to emanate largely from the trade surplus and long-term capital. These inflows would provide the necessary buffer to finance outflows arising from the normal course of business transactions. As at 15 February 2001,

the net international reserves of BNM amounted to RM110.9 billion (US$29.2 billion), which is equivalent to 6.3 times the short-term external debt and is sufficient to finance 4.3 months of retained imports.



International reserves remain high

Banking system maintains strong position

The banking system maintained its strong capital position with a risk-weighted capital ratio and core capital ratio of 12.1% and 10.3% respectively at the end of January 2001. The slight decline in the capital ratios was due to a lower capital base following the exclusion of the capital base of several banking institutions, which have concluded the merger with their respective anchor banks during the month. The capital ratios are expected to strengthen further over the coming months once the audited after-tax profits for the financial year ended 31 December 2000 are included.

Non-performing loans continued to improve in December 2000. Net NPL declined from RM25.3 billion to RM24.8 billion, while the net NPL ratio improved from 6.5% to 6.3%.

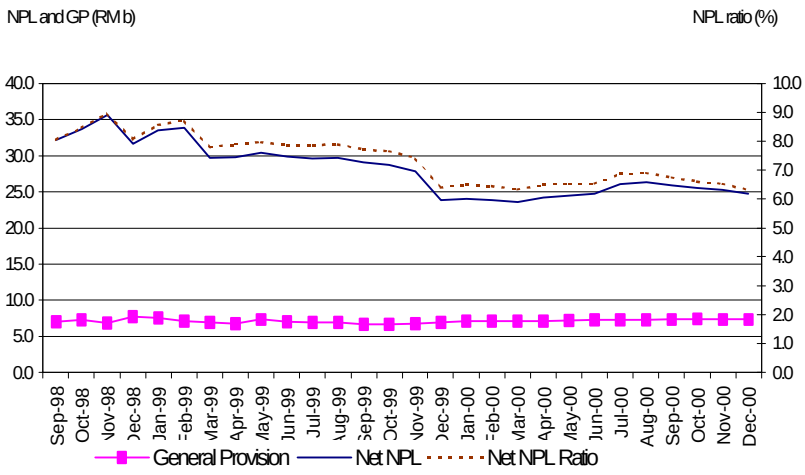
Banking System Health Indicators

	1998	1999		2000				2001
	Dec.	Jun.	Dec.	Jun.	Sep.	Nov.	Dec.	Jan.
Capital								
Core-capital ratio (%)	8.7	10.4	10.1	10.7	10.8	10.7	10.5	10.3
RWCR (%)	11.8	12.9	12.5	13.0	13.1	12.8	12.4	12.1
Net NPL (6-month classification)								
Banking system (%)	8.1	7.9	6.4	6.5	6.7	6.5	6.3	n.a.
Banking system (RM million)	31,675	29,889	23,849	24,736	25,858	25,256	24,773	n.a.
GP/Net total loans (6-month,%)	2.0	1.9	1.9	1.9	1.9	1.9	1.9	n.a.

n.a. Not available

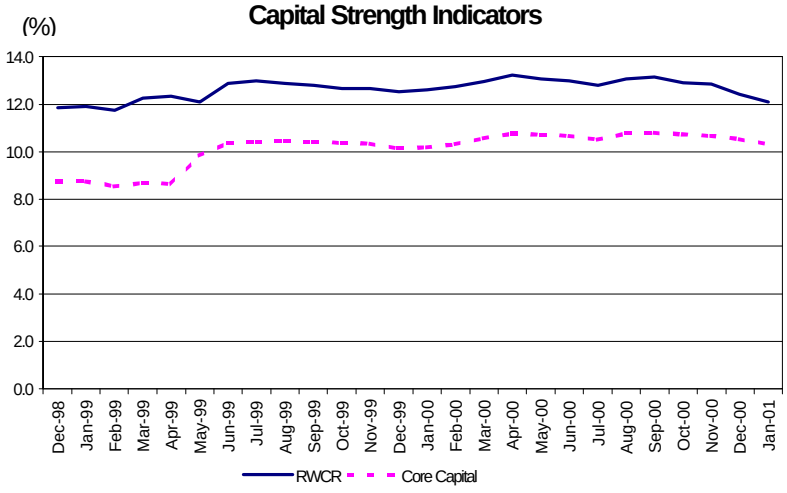
**** Beginning June 1999 onwards, the figures include Islamic Banks.***

Banking System: Net NPL and General Provisions



.....Net NPL ratio improves to 6.3%

Capital Strength Indicators



RWCR remains strong at 12.1%

Danaharta is actively managing the NPLs acquired through loan restructuring, foreclosure of collateral and business and asset management through appointment of special administrators. As at 30 November 2000, loan rights acquired and managed by Danaharta remained at RM47.0 billion, of which RM37.0 billion were removed from the banking system. This represented 42.7% of the total NPL in the banking system. The fourth property tender conducted by Danaarta which was closed on 13 December 2000, offered a total of 197 properties with a total value of RM555.1 million. Results from the fourth property tender are as follows:

		Successful Bids		% of total indicative value
	No. of Properties Offered	No.	Consideration Value	
Fourth Property Tender (7/11-13/12/2000)	197	79	154.79	99%

As at 31 January 2001, capital injection by Danamodal stood at RM3.7 billion following the repayment of the amount injected by two financial institutions. The number of cases resolved by CDRC remained at 42 cases with debts totaling RM27.3 billion from the 54 cases (total debts of RM39.4 billion) received and eligible for restructuring. Thus, the number of cases outstanding with CDRC remained at 12 cases with a loan value of RM12.1 billion.

Bank Negara Malaysia
28 February 2001

Key Monetary and Banking Statistics

	December 2000		January 2001	
	Outstanding (RM billion)	Ann. Growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	41.4	-9.4	43.0	1.7
M1	78.2	6.5	79.0	6.6
M2	354.7	5.2	356.3	6.0
M3	456.5	5.0	461.3	6.1
Banking System				
Total deposits	470.4	3.2	474.3	4.4
Total loans (including loans sold to Cagamas and Danaharta)	454.2	5.4	454.1	5.9
Total loans (excluding loans sold to Cagamas and Danaharta)	396.9	4.6	397.2	5.6
Loan-deposit ratio (%)	84.4		83.8	
Loans approved during the month	10.5		9.6	
Loans disbursed during the month	37.1		33.0	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	12.4		12.1	
Net NPLs: 6-month classification (%)	6.3		n.a.	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	113.5		112.1	
Reserves in USD (billion)	29.9		29.5	
Months of retained imports	4.5		4.4	
Interest Rates (average rates at end-period)				
Interbank: 1-month	3.05		2.98	
3-month	3.25		3.27	
Fixed deposits of commercial banks: 1-month	3.44		3.43	
3-month	3.47		3.46	
BLR of commercial banks	6.78		6.79	
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.5331		3.5194	
Pound Sterling	5.6662		5.5543	
Singapore dollar	2.1946		2.1786	
100 Japanese yen	3.3121		3.2624	
100 Thai Baht	8.7790		8.9275	
100 Philippine Peso	7.6053		7.7024	
100 Indonesian Rupiah	0.0395		0.0402	
100 Korean Won	0.3022		0.3008	
Capital Market				
Funds raised by: public sector (RM million)	1892.9		-1000.5	
private sector (RM million)	5058.5		334.7	
Kuala Lumpur Composite Index (end-period)	679.64		727.73	
KLSE Market Capitalisation (RMb) (end-period)	444.35		475.97	