BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen: 03/03/48 (BN) **EMBARGO: Not for publication or broadcast before 1800 hours on Wednesday, 26 March 2003**

Highlights of the February 2003 Press Release

Loan applications, a leading indicator of demand for loans, expanded further by 9.5% in February

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Bank Negara Malaysia
26 March 2003

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PRESS RELEASE
MONETARY AND FINANCIAL DEVELOPMENTS
FEBRUARY 2003

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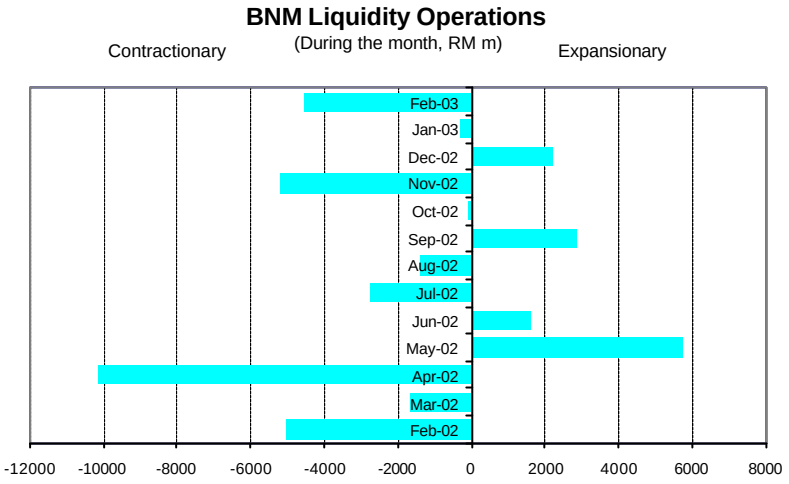
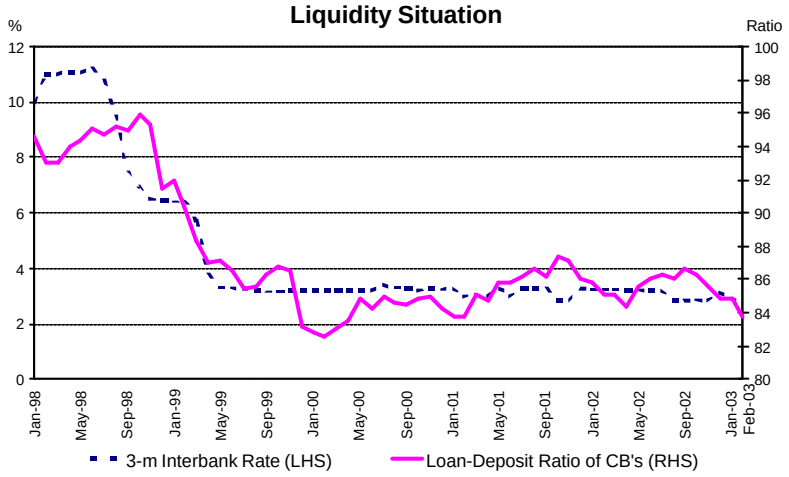
Interest rate levels were kept low to support demand for financing

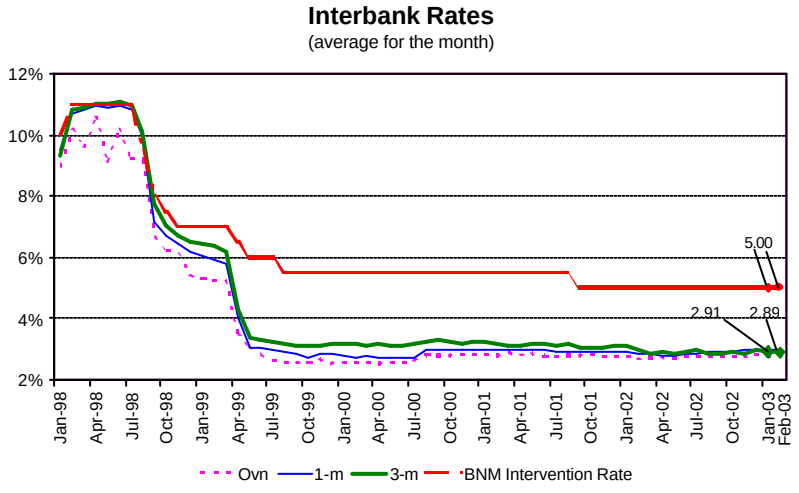
The **interbank money market** rates remained low and stable during the month with the weighted average 3-month interbank rates trading at 2.89% (2.91% in January). BNM absorbed RM4.6 billion of excess liquidity following the return of currency to the system after the festive season.



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

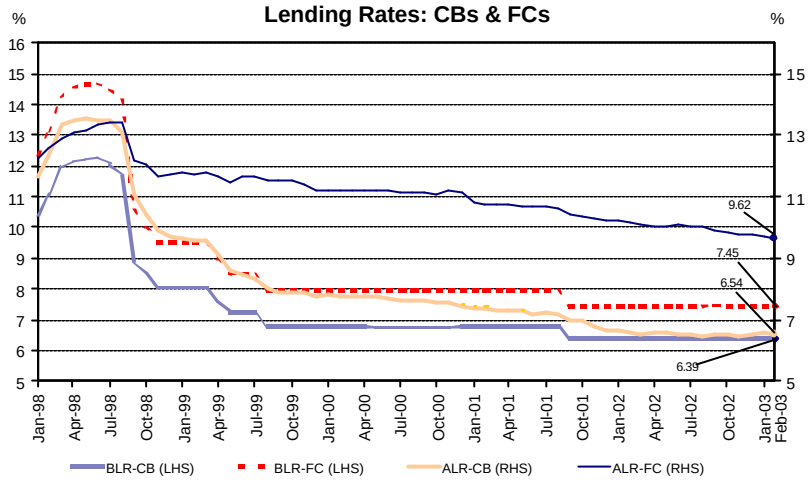


Ample liquidity in the banking system in February



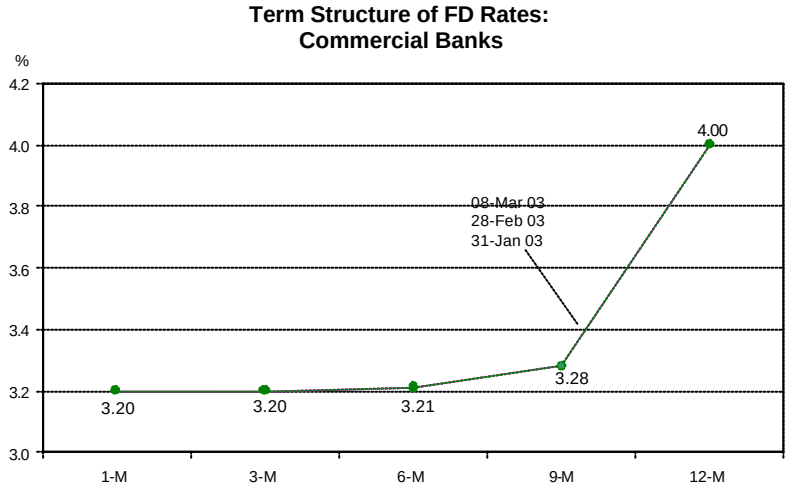
Interbank rates remained low and stable

The **average lending rate (ALR)** of the commercial banks (CBs) and finance companies (FCs) continued to decline to 6.54% and 9.62% respectively at end-February (6.58% and 9.68% respectively at end-January). The **average base lending rate (BLR)** of CBs and FCs remained unchanged during the month.

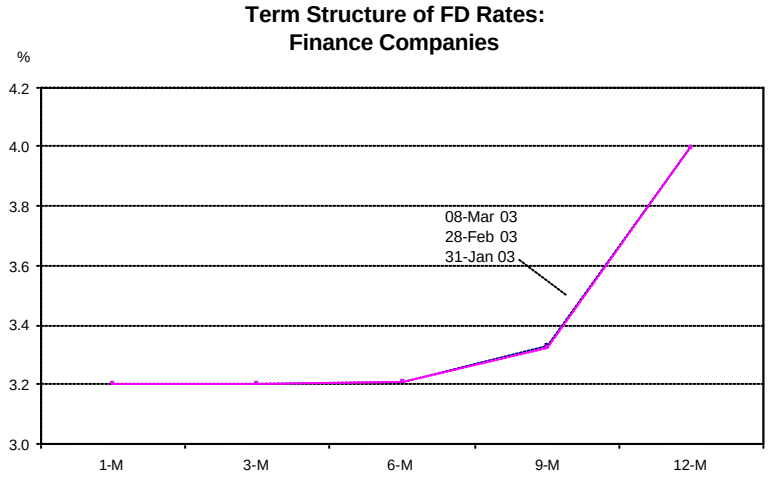


BLR remained stable, while ALR of both CBs and FCs continued to decline

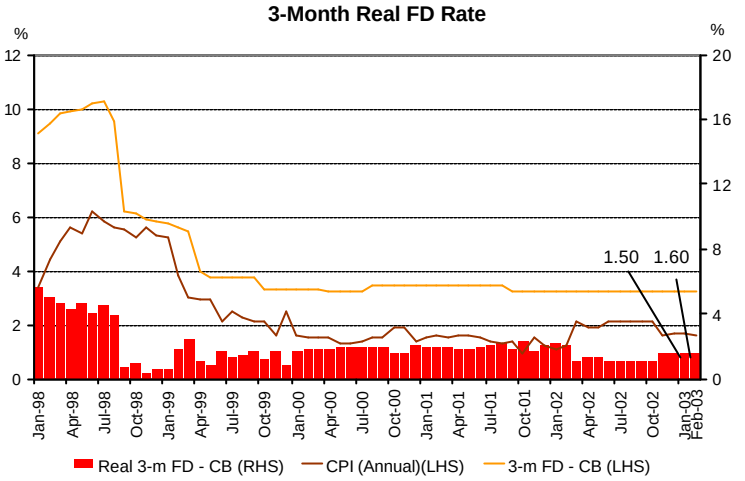
As at 8 March, the **term structure of the average fixed deposit rates** of CBs and FCs remained unchanged for all maturities.



FD rate of CBs remained unchanged



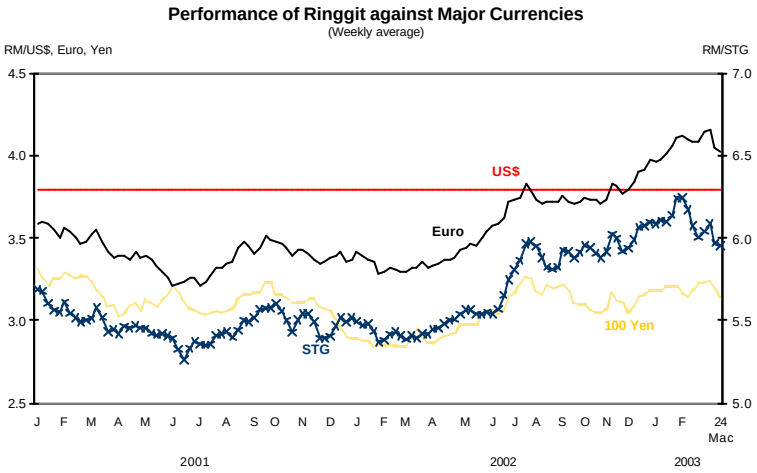
...similarly, FD rates of FCs remained unchanged



Given the slightly lower inflation rate, the 3-month real FD rate of CBs increased marginally

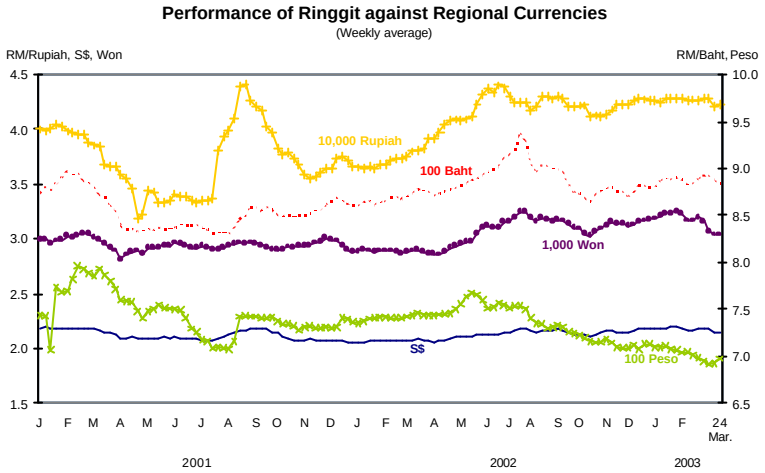
The ringgit performance

In February, the ringgit recorded a mixed performance against the major currencies. In tandem with the firming of the US dollar, the ringgit appreciated against the pound sterling and euro by 4.7% and 0.6%, respectively, and depreciated against the Japanese yen by 1.1%. Equity-related inflows and technical factors supported the dollar. In contrast, the pound sterling weakened over heightened security concerns as well as signs of weaker economic conditions in the United Kingdom. The Japanese yen strengthened against the US dollar due to repatriation flows into Japan ahead of the end of the business year on 31 March.



The ringgit recorded a mixed performance in February.

The ringgit also recorded a mixed performance against the regional currencies. The ringgit appreciated against several regional currencies in the range of 0.2% - 2.2%, but depreciated against the Thai baht by 0.2% and remained virtually unchanged against the Singapore dollar. Apart from concerns over the fiscal deficit, the weakness of the Philippine peso was also due to higher demand for US dollars to pay for oil imports to meet the Government's deadline for refiners to maintain a minimum inventory of crude and oil products by 3 February. Meanwhile, the Korean won was adversely affected by escalating tensions over developments in North Korea.



The ringgit was also mixed against regional currencies.

In the period **1 – 24 March 2003**, the ringgit appreciated against the major and most regional currencies in line with a stronger US dollar. The US currency strengthened on market optimism that war in Iraq would be swiftly concluded. In contrast, the pound sterling weakened following strong dissension on Britain's involvement in the Iraqi conflict. As a result of the stronger dollar, the ringgit appreciated against the Japanese yen by 2.8%, against the euro by 1.5%, and against the pound sterling by 0.8%. The ringgit also appreciated against most regional currencies in the range of 0.8% - 5.2%. Since war on 20 March, the foreign exchange markets have remained relatively stable.

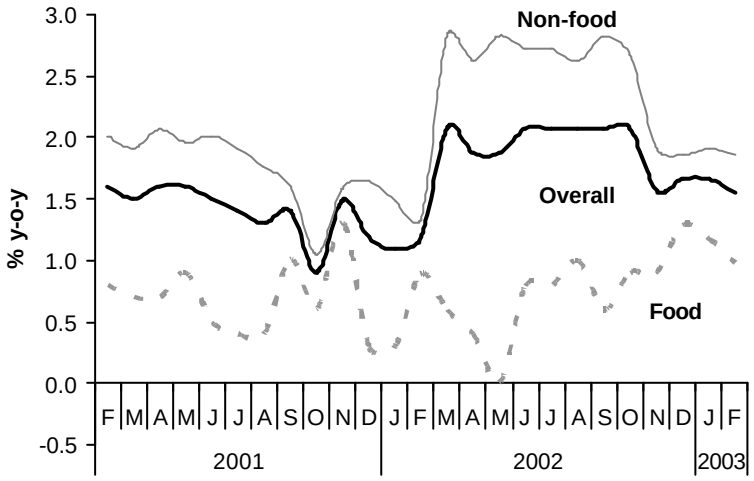
Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-Feb. 2003	24 March 2003	% Change February 2003	% Change End-Feb. - 24 Mar. 2003	% Change End-2002 - 24 Mar. 2003	% Change 2 Sep. 1998 - 24 Mar. 2003
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	4.0867	4.0278	0.6	1.5	-1.2	-
Pound Sterling	6.3708	6.0021	5.9563	4.7	0.8	2.3	7.0
100 Japanese yen	2.7742	3.2281	3.1388	-1.1	2.8	2.0	-11.6
Singapore dollar	2.1998	2.1865	2.1493	0.0	1.7	1.8	2.3
100 Thai baht	9.3713	8.9087	8.8393	-0.2	0.8	-0.3	6.0
100 Philippine peso	8.8302	6.9744	6.9750	1.2	0.0	2.5	26.6
100 Indonesian Rupiah	0.0354	0.0427	0.0423	0.2	0.9	0.5	-16.3
100 Korean won	0.2827	0.3196	0.3038	2.2	5.2	5.2	-6.9

Inflation remained stable

The annual rate of **inflation**, as measured by the Consumer Price Index (CPI, 2000=100), declined slightly to 1.6% in February (January: 1.7%). This reflected mainly lower price increases for food taken away from home, due to the high base effect, as prices of several selected food items under this sub-group increased in February 2002. Price changes for other sub-groups remained relatively stable.

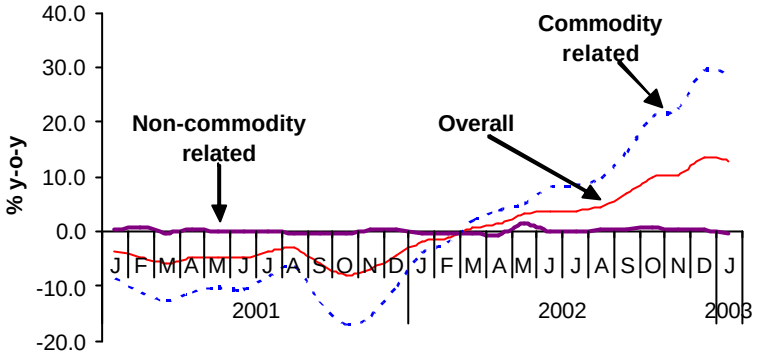
Consumer Price Index



Inflation remained stable

Producer prices, as measured by the Producer Price Index (PPI), increased by 12.9% in January 2003 (December 2002: 13.4%), reflecting mainly higher prices of crude palm oil, crude oil and rubber. Excluding commodity-related products, the adjusted PPI declined by 0.2%.

Producer Price Index



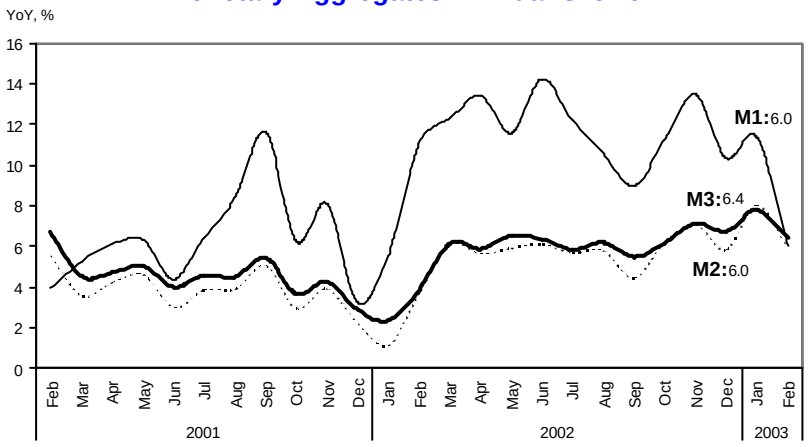
Producer prices continued to increase

Broad money expanded further

Broad money supply expanded further in February, with M2 and M3 increasing by RM1.1 billion and RM1.8 billion respectively. M1 declined by RM3.8 billion due to the return of currency after the festive season. On an annual basis, all monetary aggregates, M1, M2 and M3, expanded albeit at a more moderate pace of 6%, 6% and 6.4% at end-February due to the high base effect of February 2002 (11.4%, 8% and 7.8% respectively at end-January).

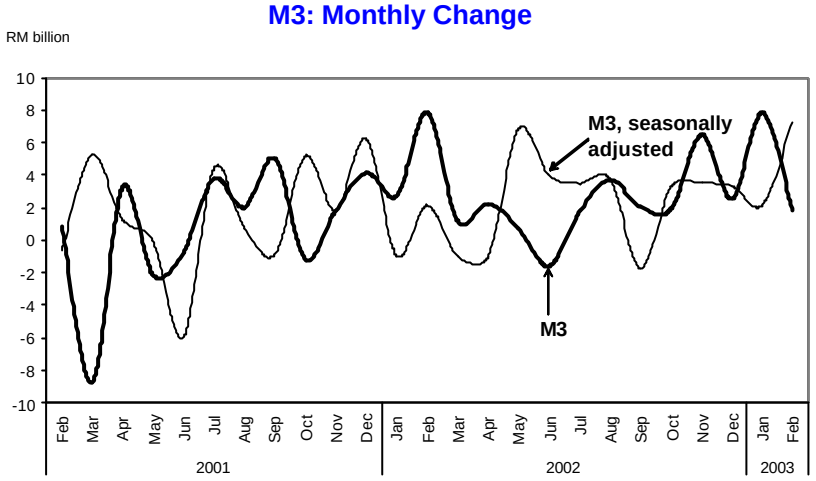
During the month, the expansion in broad money, M3 emanated mainly from the higher holdings of private debt securities (PDS) by the banking system (+RM1.5 billion) and expansionary external operations (+RM0.5 billion).

Monetary Aggregates: Annual Growth



On an annual basis, all monetary aggregates expanded further. More moderate M1 growth reflected return of currency after festivals.

M3: Monthly Change



M3, seasonally adjusted, continued to increase in February…

M3 Determinants

(RM billion)

	Change during period			
	2002	2003		
	Dec	Jan	Feb	Jan - Feb
M3	2.6	7.8	1.8	9.6
Net claims on Government	-3.6	5.4	-1.2	4.2
Claims on private sector	0.0	3.9	1.3	5.2
Net external operations [1]	-2.3	-0.3	0.5	0.2
Other influences	8.5	-1.2	1.2	0.0

1/ pre-revaluation

… due mainly to higher bank financing activity

Banking system deposits were higher in February

Total **deposits** mobilised by the banking system increased further by RM5.2 billion or 1% in February. The increase reflected mainly the higher deposits of individuals and business enterprises. Financial institutions drew down deposits partly to finance the purchase of the new issuance of the Malaysian Government Securities. On an annual basis, total deposits mobilised by the banking system rose by 5.5% as at end-February.

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

	2002	2003	
	Dec.	Jan.	Feb.
Holder			
Federal Government	-49	121	-189
State Governments	-111	290	199
Statutory Authorities[1/]	-168	807	-1,101
Financial Institutions	4,291	-667	-1,178
Business Enterprises	-3,225	354	4,396
Individuals	2,562	2,386	3,021
Total	**3,300**	**3,290**	**5,149**

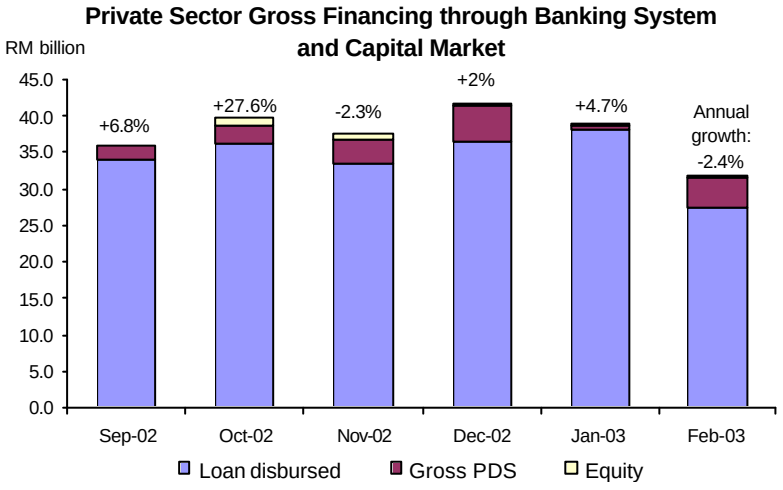
[1/] Include local Governments.

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

Monthly Change in Deposits			(RM million)
	2002	2003	
	Dec.	Jan.	Feb.
Type			
Fixed deposits	-1,008	3,331	2,469
NIDs	1,623	468	-563
Demand deposits	695	340	-543
Savings deposits	1,753	603	464
Repos	-12	-1,217	3,083
FX deposits	82	9	131
SPI deposits	-265	-33	-314
Others	433	-209	421
Total	**3,300**	**3,290**	**5,149**

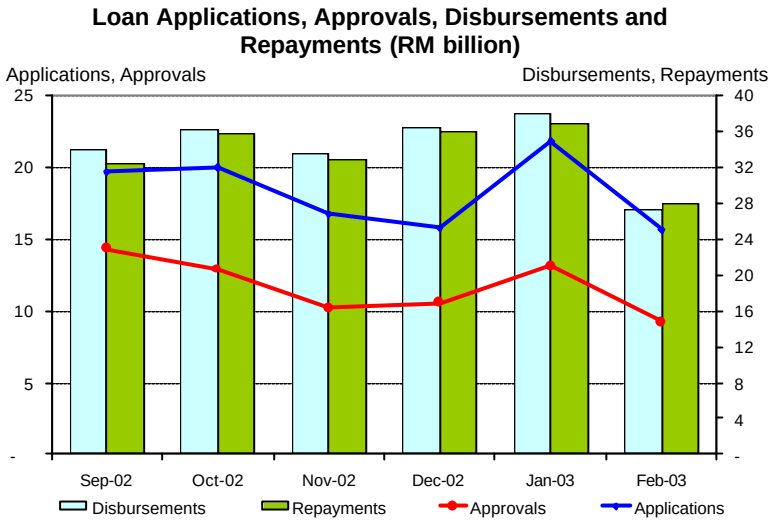
…. mainly in repos and fixed deposits

Financing of the private sector was lower

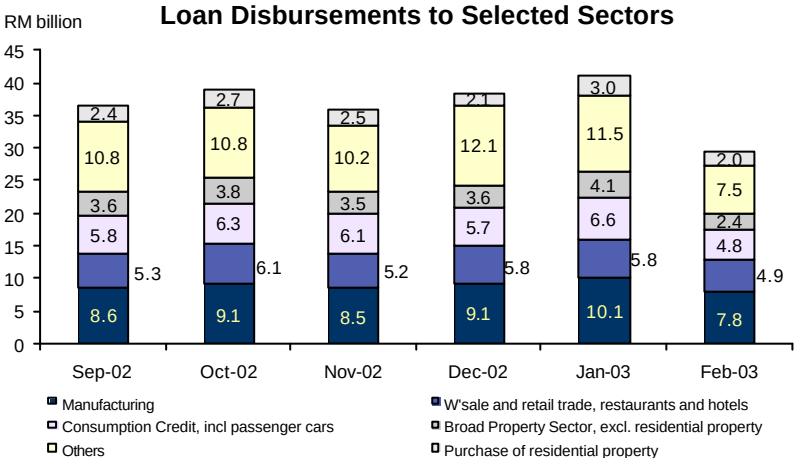


Funds raised through the bond market were substantially higher in February

Financing to the private sector by the banking institutions and through funds raised from the capital markets amounted to RM31.7 billion in February. (RM38.8 billion in January). Reflecting the reduced working days in February, most loan indicators for the month moderated. Loan applications, approvals and disbursements amounted to RM15.6 billion, RM9.2 billion and RM27.4 billion respectively (RM21.8 billion, RM13.1 billion and RM38 billion respectively in January). On an annual basis, loan applications, a leading indicator for demand for loans, expanded strongly by 9.5% in February. During the month, loan disbursed to the manufacturing accounted for 28.6% of the total loans disbursed, followed by wholesale and retail trade, restaurants and hotels, 17.9%, and the construction sector, 5.5%. Disbursements to individuals which accounted for 24.6% of total loans disbursed were mainly for the purchase of residential property (7.2%) and passenger cars (5.8%).



Loan indicators moderated due to shorter working days amidst the festive season in February

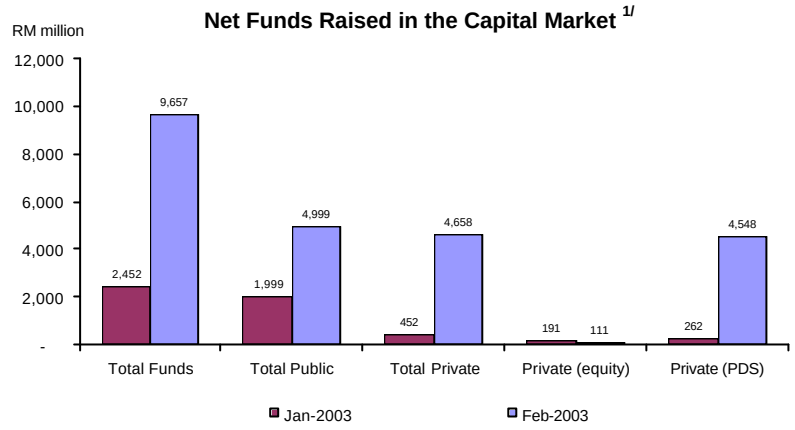


The bulk of the disbursements continued to be channelled to businesses

Loan repayments were also lower during the month (RM18.1 billion; RM24.9 billion in January). After taking into account loan repayments, outstanding loans rose at an annual rate of 3.9% at end-February (4.6% at end-January).

Net funds raised in the capital market increased further

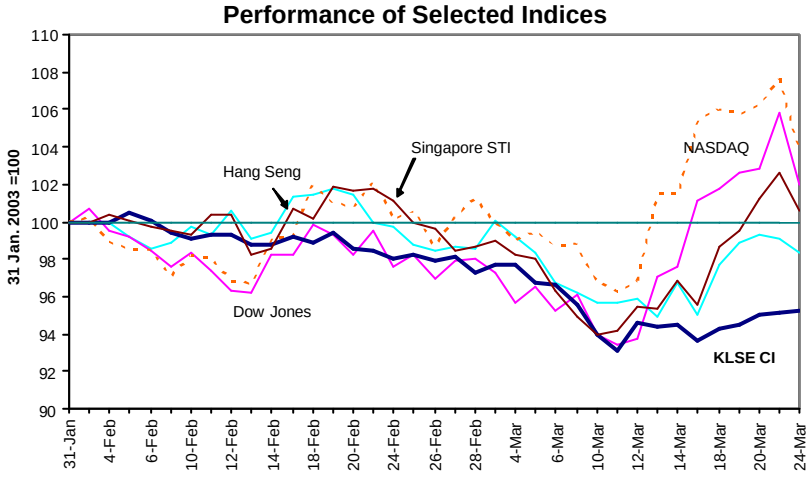
Net funds raised in the capital market were higher in February (RM9.7 billion; RM2.5 billion in January). This reflected the large issuance of private debt securities totalling RM4.9 billion. Funds raised through the equity market remained low amidst the weak market sentiment. During the month, there were two new issuance of MGS totalling RM5 billion.



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

Higher net funds raised in the capital market

The **Kuala Lumpur Stock Exchange Composite Index** (KLSE CI) declined in February amidst continued uncertainty over the global economic outlook and increasing geopolitical tensions in the Middle East. In addition to the weak market sentiment, there was thin trading volume during the festive and holiday season. As at 28 February, the KLSE CI closed at 646.8 points (-2.7% since end-January) with market capitalisation of RM485.76 billion (-2.5% since end-December). The daily average turnover was at 143.9 million units (304 million units in January 2003).

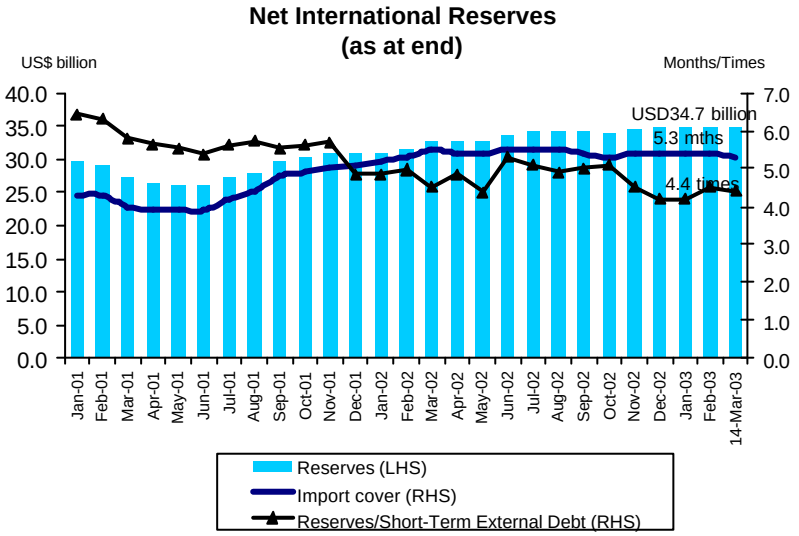


KLSE CI trended lower in March

In the first three weeks of March, trading was also affected by weak sentiment due to continued uncertainty from increased tensions in the Middle East. On the domestic front, the Government announced 10 new measures to further enhance the capital market. As at 24 March, the KLSE CI closed at 633.13 points (-2.1% since end-February) with market capitalisation of RM478.8 billion (-1.4% since end-January). The daily average turnover was slightly higher at 160 million units.

International reserves

In February, the net international reserves of Bank Negara Malaysia continued its upward trend to increase by another RM0.8 billion or US$0.2 billion to RM132.3 billion or US$34.8 billion as at 28 February 2003. The increase in reserves reflected mainly the sustained inflows from the repatriation of export proceeds. Outflows comprised largely payments for imports of goods and services, acquisition of foreign interests in the gas sector by a Malaysian company, repayment of external debt and some portfolio outflows. As at 14 March 2003, net international reserves was sustained at RM131.7 billion or US$34.7 billion. Despite a sizeable external loan repayment by the public sector, the high reserves level was supported mainly by significantly higher net inflows from the repatriation of export proceeds and investment income. The reserves position at 14 March 2003 is adequate to finance 5.3 months of retained imports and is 4.4 times the short-term external debt.



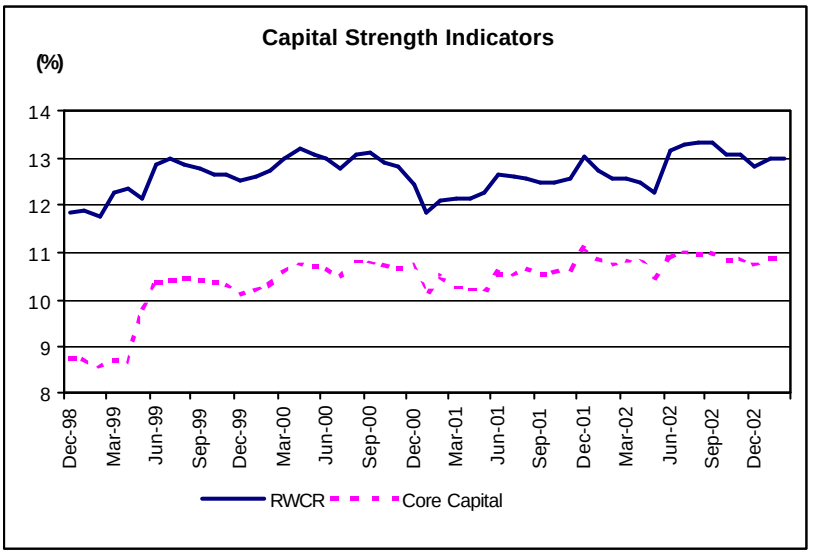
Net international reserves continued its upward trend

Banking system remained resilient

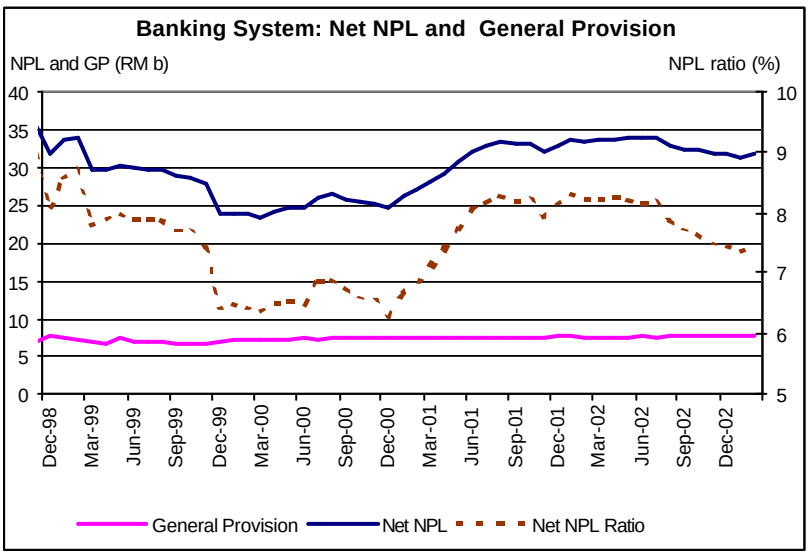
The risk-weighted capital ratio (RWCR) and core capital ratio was sustained at 13% and 10.9% respectively. Net NPLs (6-month classification) increased marginally by RM0.4 billion to RM31.8 billion or 7.5% of net loans. The increase in NPL ratio was the result of the combined effects of the slight increase in net NPL and fall in outstanding loans.

Banking System Health Indicators*	1998 Dec.	1999 Dec.	2000 Dec.	2001 Dec.	2002 Nov.	2002 Dec.	2003 Jan.	2003 Feb.
Capital (%)								
Core capital ratio	8.7	10.1	10.7	11.1	10.9	10.7	10.9	10.9
RWCR	11.8	12.5	12.5	13.0	13.1	12.8	13.0	13.0
Net NPLs (6-month classification)								
% of net total loans	8.1	6.4	6.3	8.1	7.5	7.5	7.3	7.5
Amount (RM million)	31,675	23,849	24,700	32,775	31,803	31,703	31,359	31,770
GP/Net total loans (6-month, %)	2	1.9	1.9	1.9	1.8	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% and 10.9% respectively



..Net NPL ratio increased marginally to 7.5%

As at 31 December 2002, Danaharta has dealt with all the NPLs (loan rights acquired of RM52.5 billion) in its portfolio and expects to recover RM30.2 billion, an average recovery rate of 57% (50% for acquired loans and 63% for managed loans). Receipt of recoveries remained encouraging. Total recovery collection rose to RM18.9 billion at end-2002 from RM17.35 billion at end-June 2002. This represents 63% of the total RM30.2 billion that it expects to recover from its portfolio. Of this, Danaharta has distributed RM11.3 billion in cash and 55,899,542 units of securities to 30 financial institutions and the Government. Danaharta has fully settled its borrowing from Khazanah Nasional Berhad, reducing its outstanding borrowing to RM0.4 billion. In addition, the amount of outstanding Danaharta bonds declined to RM11.1 billion at end-2002 following the redemption of its first tranche of zero-coupon bonds.

Bank Negara Malaysia
26 March 2003

Key Monetary and Banking Statistics

	January 2003		February 2003	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	47.9	12.0	43.4	4.3
M1	92.9	11.4	89.1	6.0
M2	389.0	8.0	390.1	6.0
M3	509.0	7.8	510.8	6.4
Banking System				
Total deposits	507.8	5.8	512.9	5.5
Total loans (including loans sold to Cagamas and Danaharta)	492.8	4.6	492.3	3.9
Total loans (excluding loans sold to Cagamas and Danaharta)	430.6	4.6	429.7	3.8
Loan-deposit ratio (%)	84.8		83.8	
Loans approved during the month	13.1	23.0	9.2	-3.8
Loans disbursed during the month	38.0	8.2	27.4	-10.6
Loans repaid during the month	37.0	3.4	28.0	-2.5
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	13.0		13.0	
Net NPLs: 6-month classification (%)	7.3		7.5	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	131.5		132.3	
Reserves in USD (billion)	34.6		34.8	
Months of retained imports	5.4		5.4	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.99[2.99]		2.87[2.98]	
3-month	2.91[2.91]		2.86[2.89]	
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)	104.0	1.7	104.2	1.6
Producer Price Index (PPI) (1989=100)	139.7	12.9	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	4.1110		4.0867	
Pound Sterling	6.2858		6.0021	
Singapore dollar	2.1868		2.1865	
100 Japanese yen	3.1939		3.2281	
100 Thai Baht	8.8868		8.9087	
100 Philippine Peso	7.0579		6.9744	
100 Indonesian Rupiah	0.0428		0.0427	
100 Korean Won	0.3265		0.3196	
Capital Market				
Net funds raised by: public sector (RM billion)	2.0		5.0	
private sector (RM billion)	0.4524		4.658	
Kuala Lumpur Composite Index (end-period)	664.77		646.80	
KLSE Market Capitalisation (RMb) (end-period)	498.37		485.76	