BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

**PEN NO : 11/02/38 (BN)**

**EMBARGO: Not for publication or broadcast before 1800 hours on Wednesday, 27 November 2002**

# Highlights of the October 2002 Press Release

## Increase in Financing of the Economy

The ample liquidity and low interest rates environment have contributed to higher financing activities through bank lending, PDS issuance as well as initial public offerings (IPOs). Overall, bank lending activity continued its rising trend during the month. In particular, loan applications and disbursements to both businesses and households were higher compared with the previous month.

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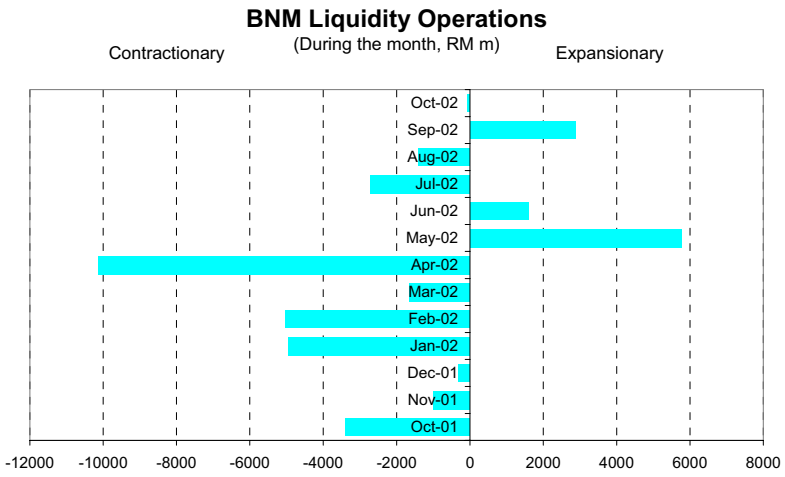
# PRESS RELEASE
# MONETARY AND FINANCIAL DEVELOPMENTS
# OCTOBER 2002

Monetary conditions remained stable in October. Average lending rates and deposit rates were unchanged in a low and stable interest rate environment. Liquidity was ample, allowing increased financing of private sector activities by both the banking system and the capital market. In particular, the rising trend in bank lending was seen in higher loans disbursements to both the business sector and households. Higher lending during the month contributed to a further expansion in the money supply.

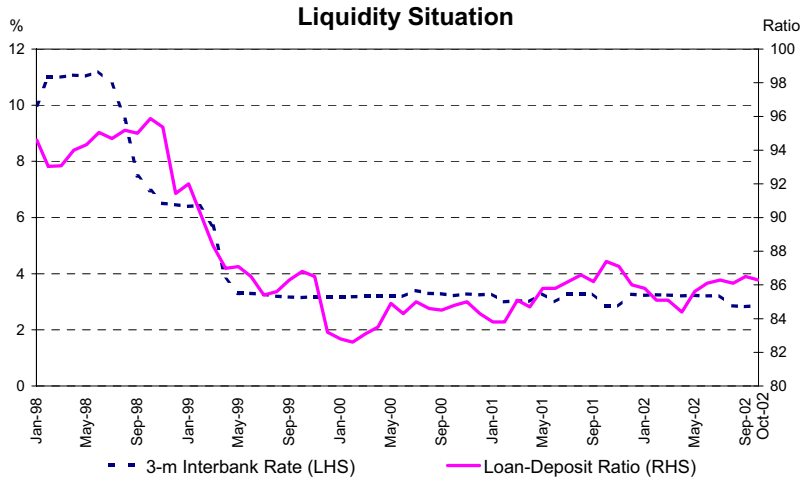
The banking system maintained its strong capital position and asset quality has improved. Under this environment of sustained credit growth and low inflation, the current accommodative monetary policy has contributed towards strengthening the growth process.

## *Low interest rates prevailed amidst ample liquidity*

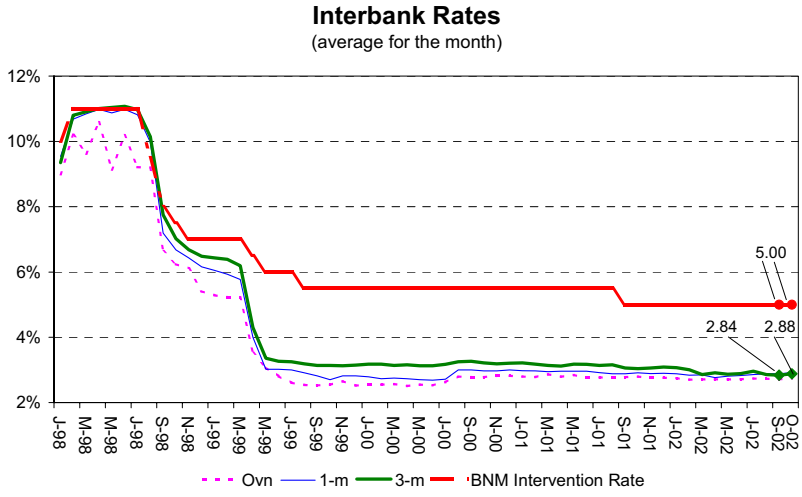
Consistent with the current accommodative monetary policy stance, the **interbank money market** rate continued to remain low and stable. BNM liquidity operations were neutral during the month. Prevailing liquidity in the banking system was adequate to support the underlying demand for financing by the private sector.




*BNM liquidity operations were to stabilise the overall liquidity situation of the banking system.*

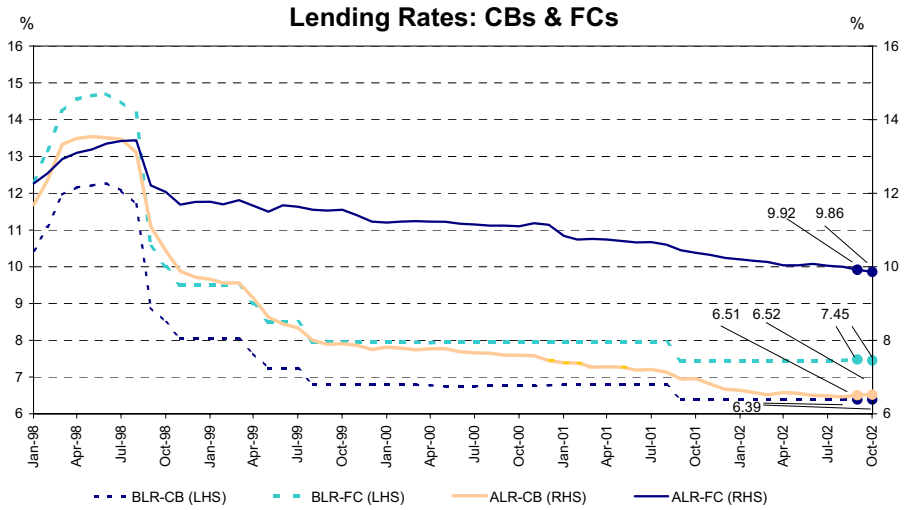



*Liquidity remained ample in October*



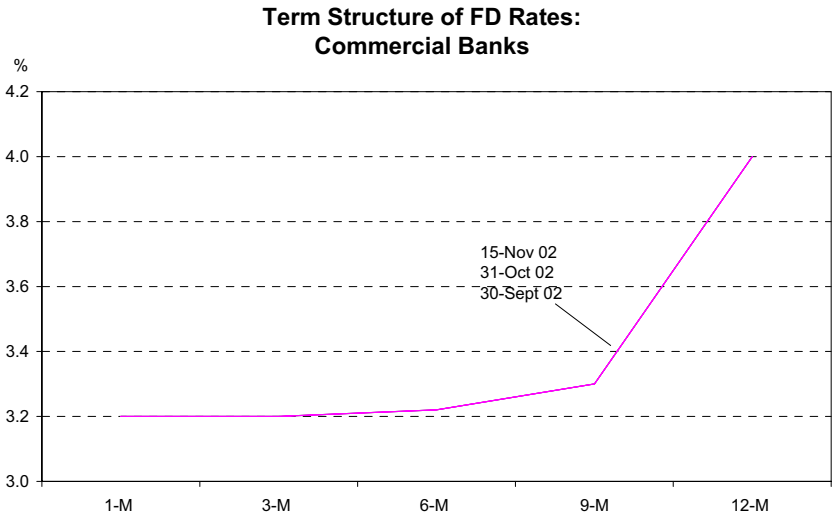

*Consistent with the present accommodative monetary policy stance, interbank rates remained low and steady*

The **average base lending rate (BLR)** of commercial banks (CBs) and finance companies (FCs) remained unchanged during the month. The **average lending rates (ALR)** of CB remained relatively stable at 6.52%, while the rate for FC declined slightly to 9.86% (6.51% and 9.92% respectively as at end-September).

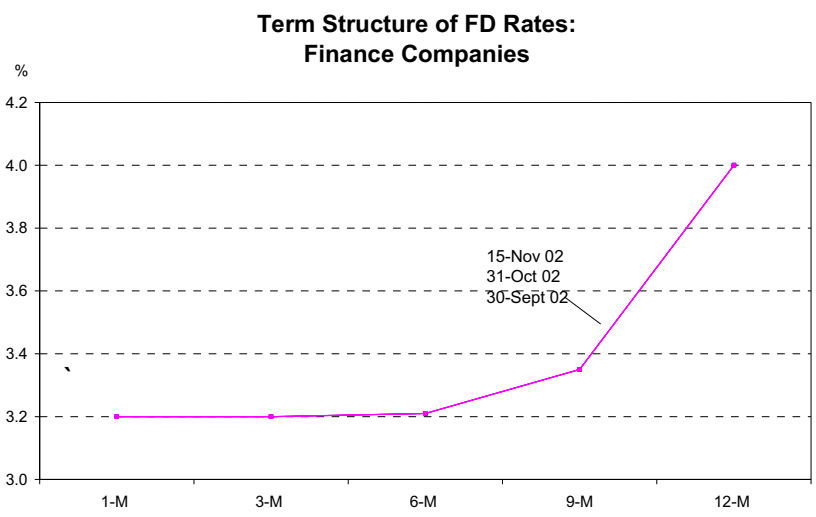



*BLR and ALR remained low and stable*

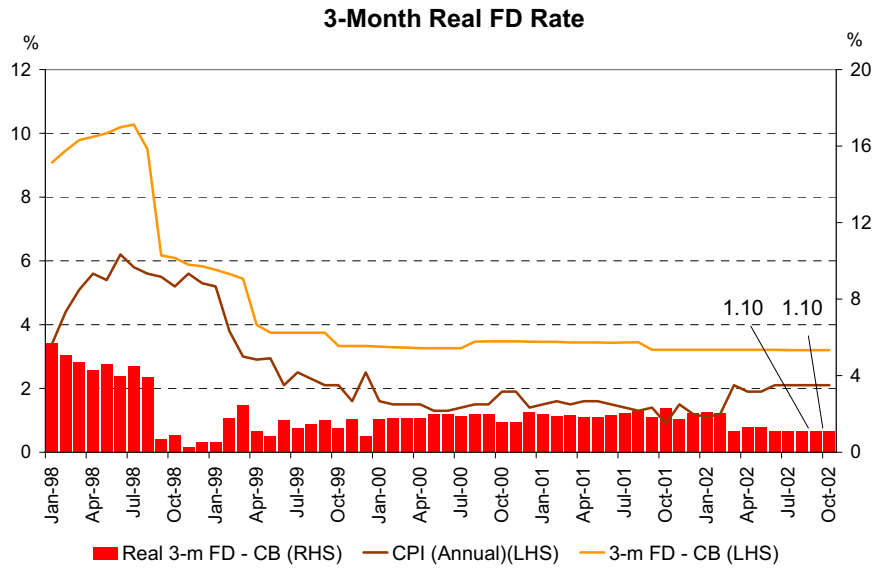
As at 15 November, the **term structure of average fixed deposit rates** of CBs and FCs, remained unchanged for all maturities.




*FD rate of CBs remained unchanged*



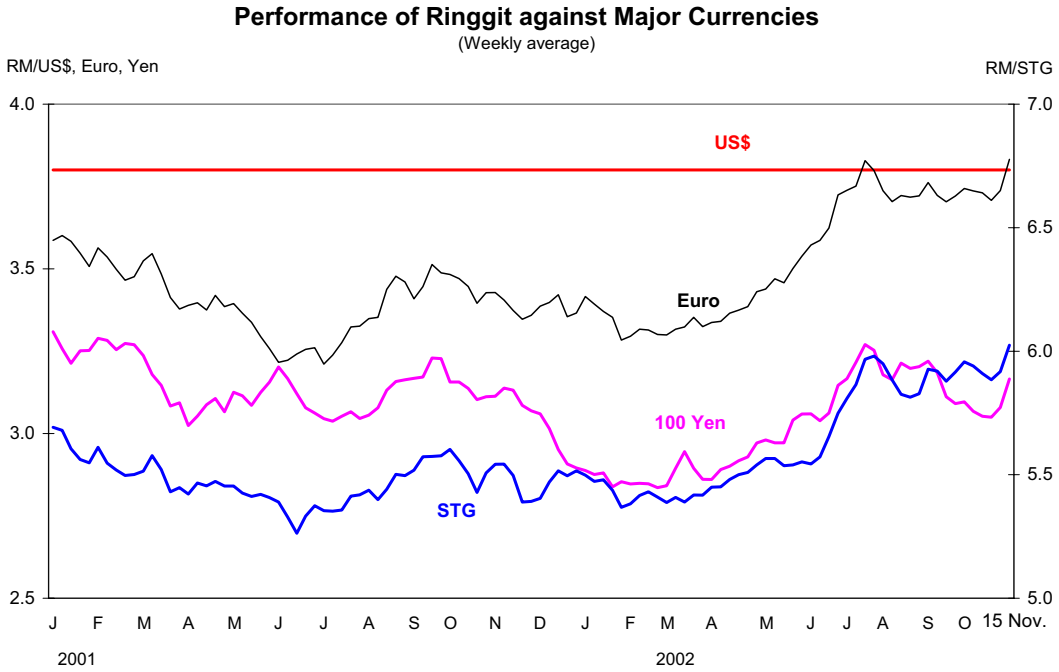

*...similarly, for FCs*




*The CB 3-month real FD rate remain unchanged in October*

## *The ringgit recorded a mixed performance against major and regional currencies in October*

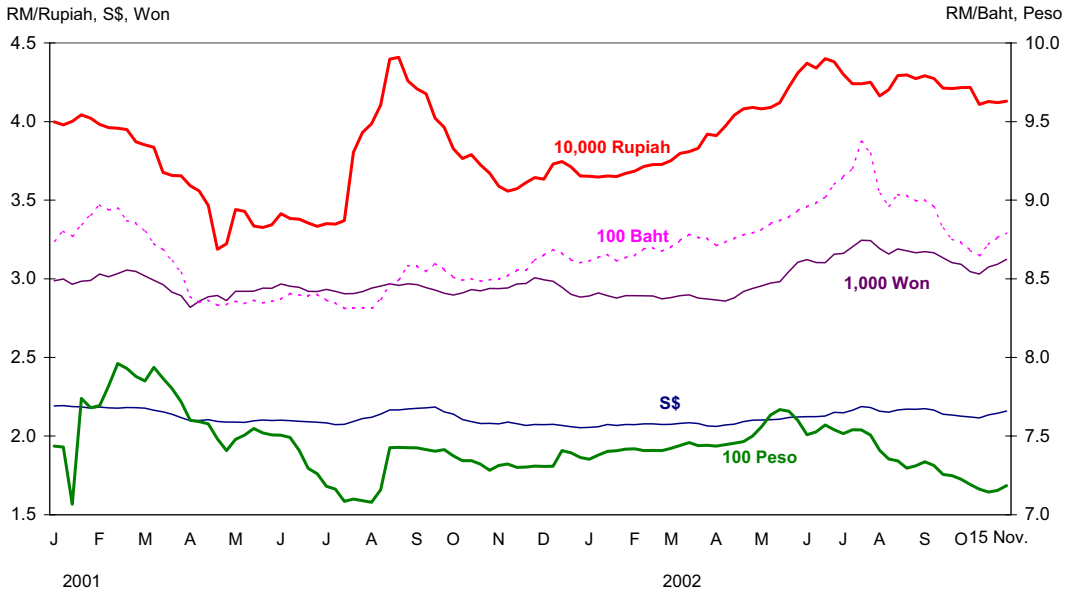
In October, the ringgit recorded a mixed performance against major currencies, in tandem with the movement of the US dollar in the international foreign exchange markets. The ringgit appreciated against the Japanese yen by 1.0% and the pound sterling by 0.3%, while depreciating against the euro by 0.4%. The US dollar weakened against the euro following the release of data indicating weaker-than-expected third quarter growth in the US economy. However, the Japanese yen weakened against the US dollar on market concerns over the near-term economic impact of a more aggressive approach to banking sector reform.




*The ringgit recorded a mixed performance against major currencies*

The **ringgit also recorded a mixed performance against regional currencies**. The ringgit depreciated against several regional currencies in the range of 0.2% - 0.6%, while appreciating against the Indonesian rupiah and Philippine peso by 2.4% and 1.4% respectively. The Indonesian rupiah was adversely affected in the aftermath of the Bali bomb blast, while the Philippine peso weakened following the bombing in Zamboanga and on market concerns over the fiscal deficit.

**Performance of Ringgit against Regional Currencies**
(Weekly average)




*The ringgit recorded a mixed performance against regional currencies*

In the period **1 – 15 November**, the ringgit weakened against major currencies while recording a mixed performance against regional currencies. The ringgit depreciated against the euro and Japanese yen by 1.6% respectively, and against the pound sterling by 1.2%. The US dollar was adversely affected by the release of weak US employment and manufacturing data, greater short-term interest rate differentials in favour of the euro area and the UK following the reduction in US interest rates and market concerns over tensions in the Middle East. These dollar-negative factors, together with the release of better-than-expected services sector data for the euro area, caused the euro to breach the parity level against the US dollar in early November. As at 15 November, the currency continued to remain above parity. Over the same period, the ringgit depreciated against several regional currencies in the range of 0.2% - 2.1%, while appreciating against the Thai baht and Philippine peso by 0.2% and 0.5% respectively.

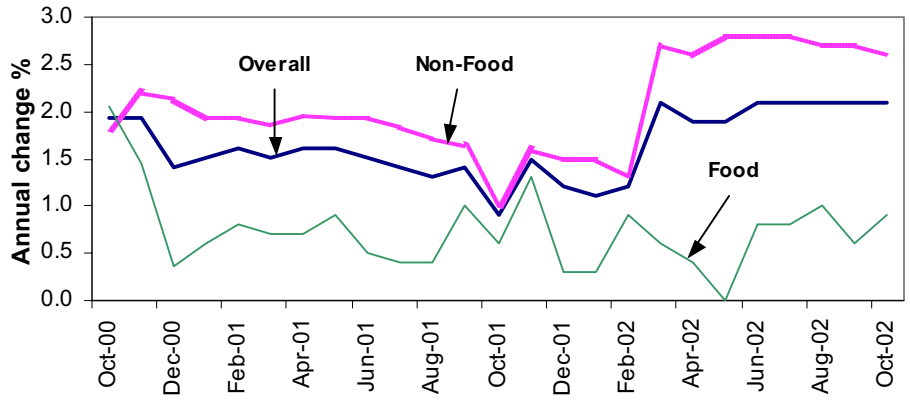
**Performance of Ringgit against Selected Currencies**

| RM per foreign currency | 2 September 1998 | End-Oct. 2002 | 15 Nov. 2002 | % Change | | | |
|---|---|---|---|---|---|---|---|
| | | | | October 2002 | End-Oct. - 15 Nov. 2002 | End-2001 - 15 Nov. 2002 | 2 Sep. 1998 - 15 Nov. 2002 |
| US dollar | 3.8000 | 3.8000 | 3.8000 | 0.0 | 0.0 | 0.0 | 0.0 |
| Euro | - | 3.7527 | 3.8135 | -0.4 | -1.6 | -11.7 | - |
| Pound Sterling | 6.3708 | 5.9303 | 6.0027 | 0.3 | -1.2 | -8.1 | 6.1 |
| 100 Japanese yen | 2.7742 | 3.0977 | 3.1476 | 1.0 | -1.6 | -8.0 | -11.9 |
| Singapore dollar | 2.1998 | 2.1515 | 2.1563 | -0.6 | -0.2 | -4.8 | 2.0 |
| 100 Thai baht | 9.3713 | 8.7811 | 8.7648 | -0.2 | 0.2 | -1.9 | 6.9 |
| 100 Philippine peso | 8.8302 | 7.1530 | 7.1208 | 1.4 | 0.5 | 3.4 | 24.0 |
| 100 Indonesian Rupiah | 0.0354 | 0.0412 | 0.0421 | 2.4 | -2.1 | -13.3 | -15.9 |
| 100 Korean won | 0.2827 | 0.3102 | 0.3142 | -0.3 | -1.3 | -8.2 | -10.0 |

## *Inflation remained subdued*

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

**Consumer Price Index**

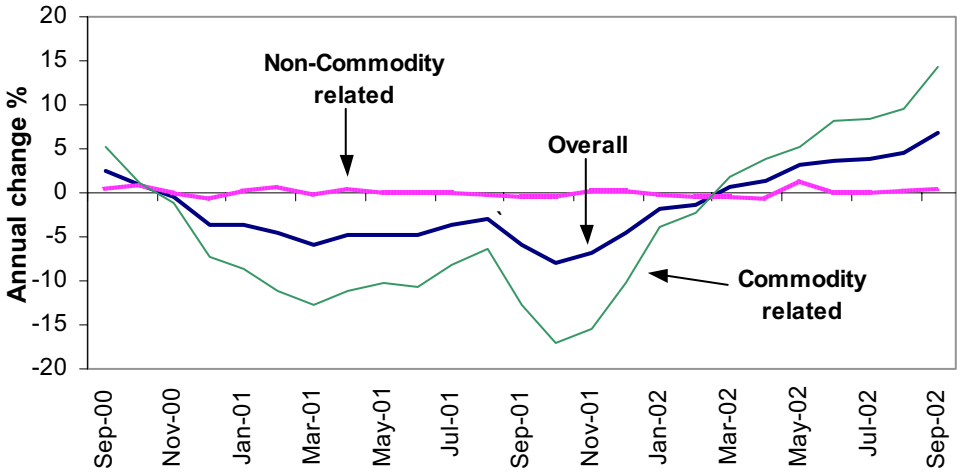



*Inflation remained unchanged*

## Producer prices continued to increase

Producer prices, as measured by the **Producer Price Index** (PPI) increased by 6.8% year-on-year in September (August: 4.5%). The increase in the PPI reflected higher prices of crude palm oil, crude oil and rubber. Excluding commodity-related products, the adjusted PPI increased by 0.5%.

**Producer Price Index**

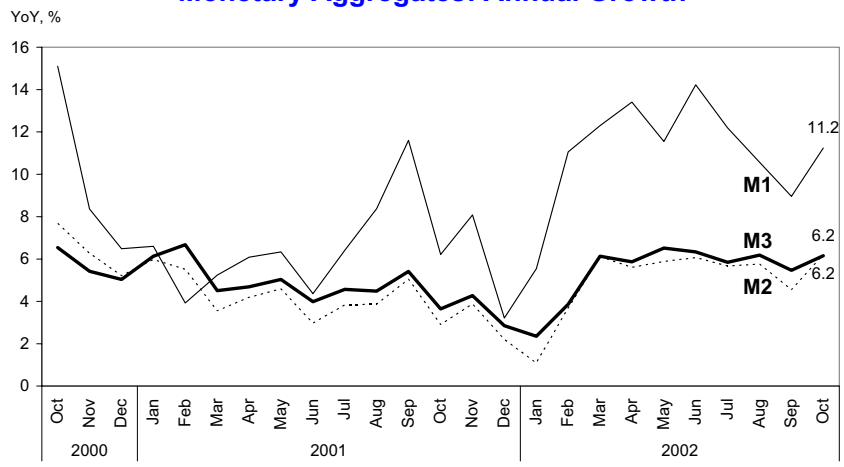



*Producer prices continued to increase*

## *Money supply increased further*

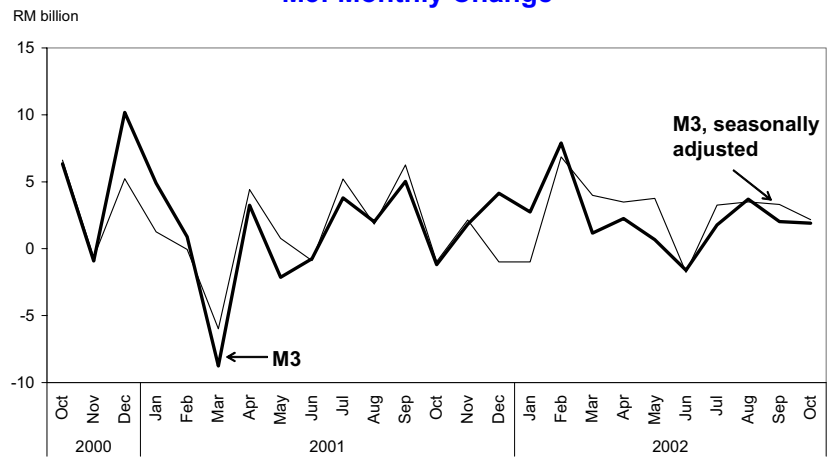
In October, M1 and M3 continued to increase by RM1.2 billion and RM1.9 billion respectively. Consequently, the annual growth rates of both aggregates rose at a faster rate of 11.2% and 6.2% respectively at end-October. During the month, higher bank financing activity via bank loans and investments in securities (+RM3.2 billion) as well as large withdrawals of deposits by Government (RM4.5 billion) provided the main impetus for the expansion in money supply. This was partly offset by the increase in EPF deposits with BNM.

**Monetary Aggregates: Annual Growth**




*All three monetary aggregates continued to expand in October…*

**M3: Monthly Change**




*M3 increased further on a monthly basis…*

**M3 Determinants**

(RM billion)

| | Change during period | | | |
|---|---|---|---|---|
| | 2002 | | | |
| | Aug | Sep | Oct | Jan - Oct |
| M3 | 3.7 | 2.0 | 1.9 | 22.6 |
| Net claims on Government | 3.3 | 1.0 | 3.1 | 13.5 |
| Claims on private sector | 3.9 | 4.5 | 3.2 | 21.6 |
| Net external operations [1] | -0.9 | -3.3 | 0.3 | 10.8 |
| Other influences | -2.6 | -0.2 | -4.7 | -23.4 |

1/ pre-revaluation

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

## *Stronger growth in deposits with banking system*

**Total deposits** mobilised by the banking system were higher by RM3.2 billion or 0.6% in October, mainly reflecting increases in deposits by business enterprises and individuals. On an annual basis, total deposits expanded by 4.6% at end-October.

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

| | 2002 | | |
|---|---|---|---|
| | **Aug.** | **Sep.** | **Oct.** |
| **Holder** | | | |
| Federal Government | -574 | 944 | -857 |
| State Governments | 100 | -7 | -230 |
| Statutory Authorities[1/] | -1,079 | -446 | -320 |
| Financial Institutions | 3,045 | -1,997 | 921 |
| Business Enterprises | 648 | 1,434 | 1,767 |
| Individuals | 1,578 | 172 | 1,869 |
| Others | -130 | -112 | 46 |
| **Total** | **3,587** | **-11** | **3,196** |

[1/] Include local Governments.

*Deposits by business enterprises and individuals increased*

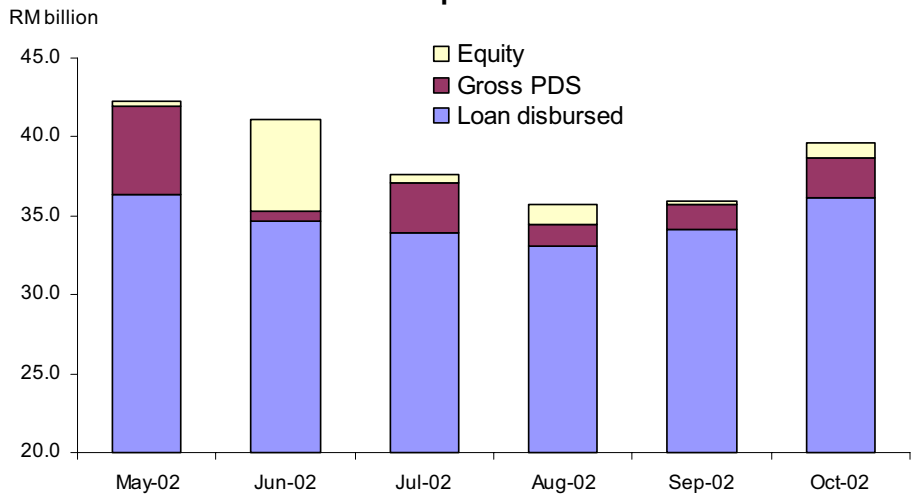
| Monthly Change in Deposits | | | (RM million) |
|---|---|---|---|
| | 2002 | | |
| | Aug. | Sep. | Oct. |
| **Type** | | | |
| Fixed deposits | -1,672 | 2,282 | 28 |
| NIDs | 1,515 | -782 | 2,514 |
| Demand deposits | 108 | 843 | 292 |
| Savings deposits | -163 | 24 | 213 |
| Repos | 3,914 | -1,610 | 28 |
| FX deposits | -260 | -143 | -302 |
| SPI deposits | 275 | -512 | 377 |
| Others | -130 | -112 | 46 |
| **Total** | **3,587** | **-11** | **3,196** |

*Except FX deposits, other categories of deposits increased*

## *Increased financing to the private sector to support growth in economic activity*

During the month, **total gross financing** through loans extended by banking system and capital market increased to RM39.7 billion (RM35.9 billion in September).

**Private Sector Gross Financing through Banking System and Capital Market**



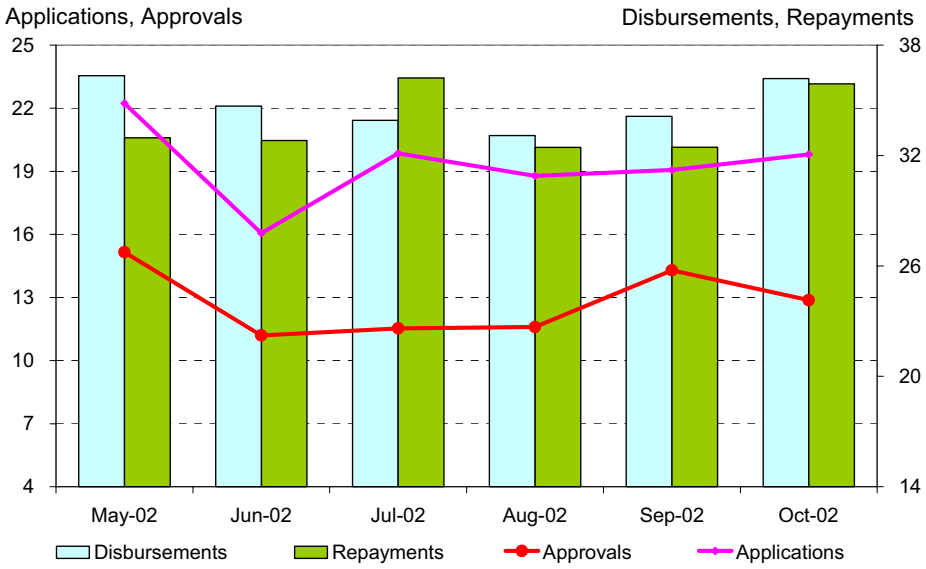

The rising trend in bank lending activity continued into October, with **loan disbursements** increasing by 6% to RM36.2 billion (September: RM34.1 billion). The increase was broad-based with higher disbursements to both the business and household sectors, in particular for retail sales, the manufacturing, agriculture, hunting, forestry and fishing and construction sectors. Disbursements to the business sector amounted to RM23.4 billion in October (September: RM22.3 billion), accounting for 65% of total disbursements. Meanwhile, disbursements to individuals

amounted to RM9.1 billion or 25% of total loans disbursed in October (September: RM8.2 billion).

Overall, **loans outstanding** continued to increase by RM1.9 billion (an annual growth of 3.7% at end-October; 3.8% at end-September). The bulk of the increase in loans outstanding continued to be retail-driven, for the purchase of residential property and passenger cars. Loans outstanding for the business sector, declined marginally due to higher repayments. Bank financing during the quarter financed mainly working capital requirements, while financing needs for investment activities were sourced mainly from the capital market.

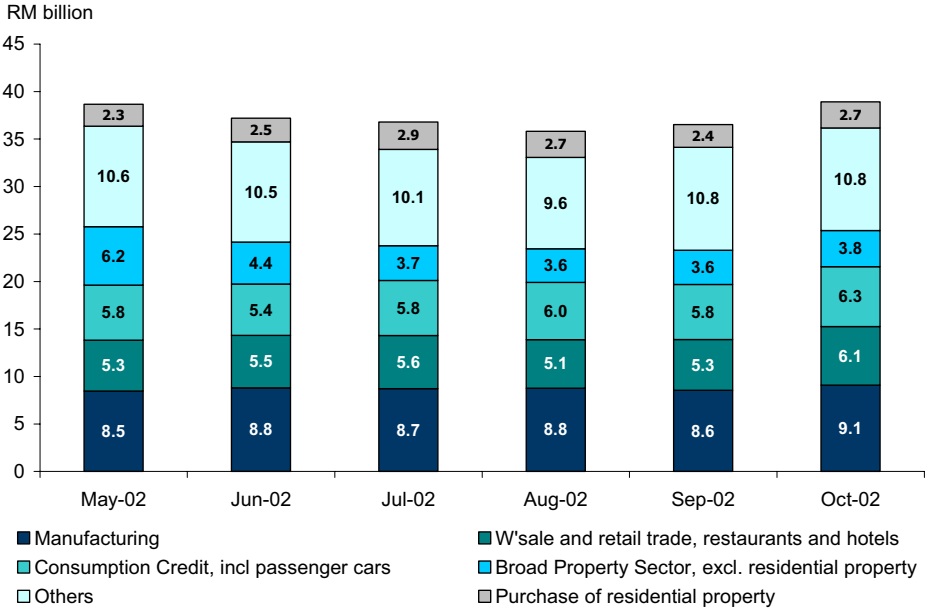
**Loan applications** amounted to RM19.8 billion in October (RM19.1 billion in September). Applications were broad-based, mainly for the purchase of residential property and passenger cars, as well as from the manufacturing, construction and finance, insurance and business services sectors.

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




*Loan applications, approvals and disbursements remained strong*

**Loan Disbursements to Selected Sectors**

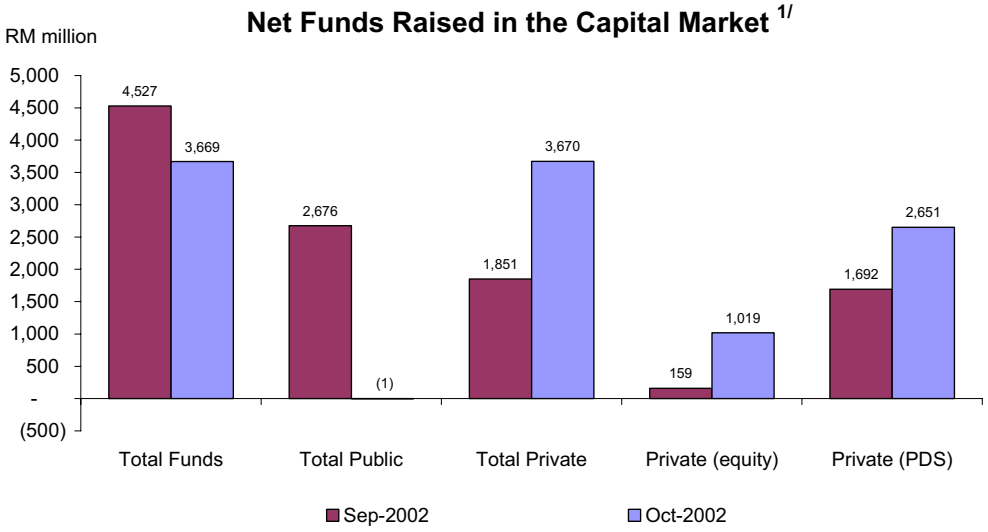



*Higher disbursements were registered in almost all economic sectors*

## *Higher net funds raised in the capital market*

**Total net funds raised in the capital market** rose in October, amounting to RM3.7 billion. This was due to higher net funds raised by the private sector through the private debt securities and equity markets which amounted to RM2.7 billion and RM1 billion respectively. There was no public sector issue of securities during the month.

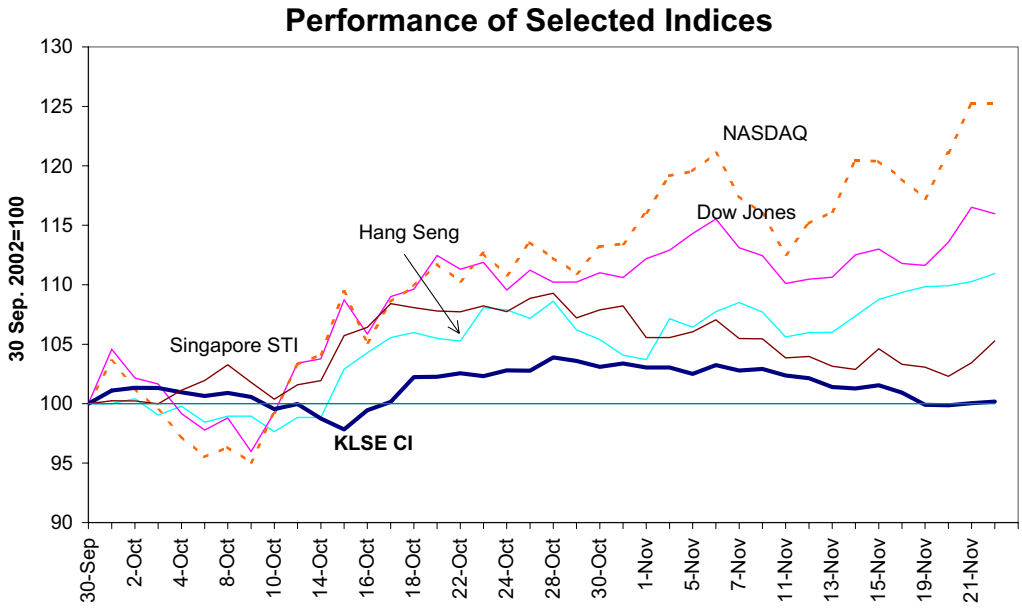
**Net Funds Raised in the Capital Market** [1/]




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 the first three weeks of October with sentiments affected by concerns over the weaker US economy, higher crude oil prices and continued tension in the Middle East. The market stabilised towards the end of the month following the improved performance of the US markets. As at 30 October, the KLSE CI closed at 659.57 points (+3.4% since end-September) with market capitalisation at RM489.94 billion (+2.9% since end-September). The daily average turnover was at 164.5 million units (138.6 million units in September).

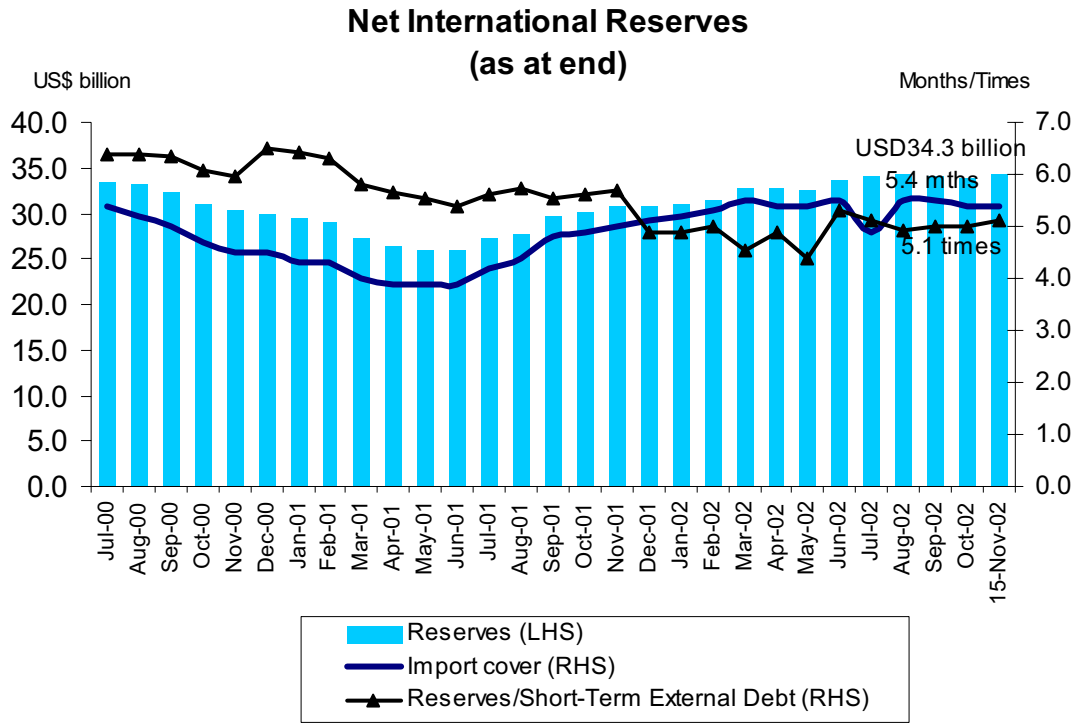



*KLSE CI trended lower*

For the first three weeks of November, the KLSE CI trended lower due to continue concerns over a slowdown in the US economy and the possibility of war in the Middle East. As at 22 November, the KLSE CI closed lower at 639.12 points (-3.1% since end-October) with market capitalisation at RM480.24 billion (-2.0% since end-October). The daily average turnover was at 149.98 million units.

### *International reserves*

International reserves of Bank Negara Malaysia amounted to RM128.9 billion or US$33.9 billion as at 31 October 2002. Inflows reflected mainly the repatriation of export earnings in addition to foreign direct investments. The outflows reflected payments for imports of goods and services, including dividend payments, and significant loan repayments of both principal and interest by the private sector, and some net portfolio outflows. Reserves increased by RM1.5 billion or US$0.4 billion during the first half of November to RM130.4 billion or US$34.3 billion as at 15 November 2002. There were large inflows of export proceeds and continued inflows of foreign direct investments, while net outflows of portfolio investments and payments for imports of goods and services were lower. Repayment of external debt was in line with the previous trends. The increase in reserves reflects the continued strength of Malaysia's balance of payments position. The reserves position is adequate to finance 5.4 months of retained imports and is 5.1 times the short-term external debt.



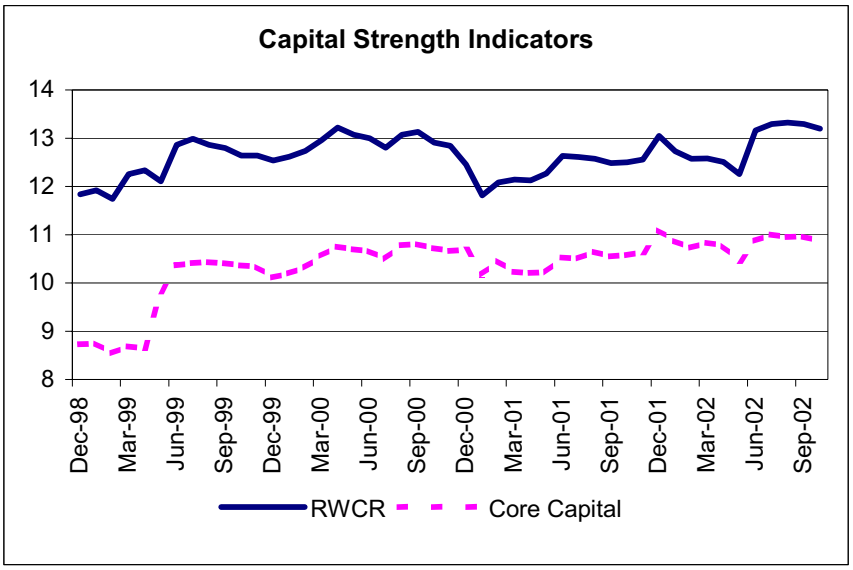

## *Banking system remained sound*

The sound financial position of the banking system was sustained in October 2002 with the risk-weighted capital ratio (RWCR) and core capital ratio at 13.2% and 10.9% respectively. While the net NPL ratio (6-month classification) remained at 7.7%, the net NPLs continued to decline.

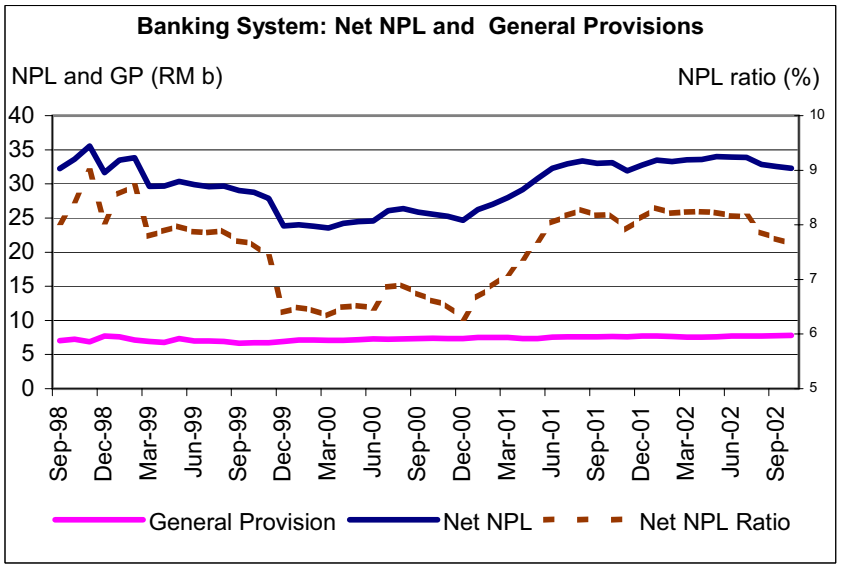
**Banking System Health Indicators***

| | 1998 | 1999 | 2000 | 2001 | | 2002 | | |
|---|---|---|---|---|---|---|---|---|
| | Dec. | Dec. | Dec. | Jun. | Dec. | Aug. | Sep. | Oct. |
| **Capital (%)** | | | | | | | | |
| Core capital ratio | 8.7 | 10.1 | 10.7 | 10.5 | 11.1 | 11.0 | 11.0 | 10.9 |
| RWCR | 11.8 | 12.5 | 12.5 | 12.6 | 13.0 | 13.3 | 13.3 | 13.2 |
| **Net NPL (6-month classification)** | | | | | | | | |
| % of net total loans | 8.1 | 6.4 | 6.3 | 8 | 8.1 | 7.9 | 7.7 | 7.7 |
| Amount (RM million) | 31,675 | 23,849 | 24,700 | 32,292 | 32,775 | 32,845 | 32,558 | 32,302 |
| **GP/Net total loans (6-month, %)** | 2 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.8 | 1.9 |

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




*….capital position remained strong with RWCR and core capital ratio at 13.2% and 10.9% respectively*




*…Net NPL ratio remained at 7.7%*

As at 30 September 2002, Danaharta has dealt with all of the NPLs (loan rights acquired of RM52.5 billion) in its portfolio with an expected recovery rate of 57% (49% for acquired loans and 63% for managed loans). Receipts of recoveries remained encouraging as reflected in the increase in proceeds to RM18.5 billion out of the total RM30 billion that it expects to recover from all managed/acquired loans. Out of the proceeds received, Danaharta has distributed RM10.9 billion in cash and 55,899,542 units of securities to 28 banking institutions and the Government.

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

Bank Negara Malaysia
27 November 2002

## Key Monetary and Banking Statistics

| | September 2002 | | October 2002 | |
|---|---|---|---|---|
| | Outstanding (RM billion) | Ann. growth (%) | Outstanding (RM billion) | Ann. growth (%) |
| **Monetary Aggregates** | | | | |
| Reserve money | 40.0 | 1.6 | 41.3 | 6.6 |
| M1 | 83.5 | 9.0 | 84.7 | 11.2 |
| M2 | 371.6 | 4.4 | 375.4 | 6.2 |
| M3 | 490.2 | 5.5 | 492.1 | 6.2 |
| **Banking System** | | | | |
| Total deposits | 491.7 | 3.0 | 494.9 | 4.6 |
| Total loans (including loans sold to Cagamas and Danaharta) | 487.8 | 3.8 | 489.7 | 3.7 |
| Total loans (excluding loans sold to Cagamas and Danaharta) | 425.8 | 3.5 | 427.3 | 3.3 |
| Loan-deposit ratio (%) | 86.6 | | 86.3 | |
| Loans approved during the month | 14.3 | | 12.9 | |
| Loans disbursed during the month | 34.1 | | 36.2 | |
| **Banking System Health** | | | | |
| Risk-weighted Capital Ratio (RWCR) (%) | 13.3 | | 13.2 | |
| Net NPLs: 6-month classification (%) | 7.7 | | 7.7 | |
| **International Reserves of BNM (end-period)** | | | | |
| Reserves in RM (billion) | 129.0 | | 128.9 | |
| Reserves in USD (billion) | 34.0 | | 33.9 | |
| Months of retained imports | 5.4 | | 5.4 | |
| | | | | |
| Interbank: 1-month | 2.98[2.88] | | 2.98[2.92] | |
| 3-month | 2.83[2.84] | | 2.87[2.88] | |
| 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) | 103.4 | 2.1 | 103.3 | 2.1 |
| Producer Price Index (PPI) (1989=100) | 134.1 | 6.8 | - | - |
| **Exchange Rates of Ringgit against Selected Currencies (end-period)** | | | | |
| Euro | 3.7379 | | 3.7527 | |
| Pound Sterling | 5.9464 | | 5.9303 | |
| Singapore dollar | 2.1384 | | 2.1515 | |
| 100 Japanese yen | 3.1280 | | 3.0977 | |
| 100 Thai Baht | 8.7608 | | 8.7811 | |
| 100 Philippine Peso | 7.2526 | | 7.1530 | |
| 100 Indonesian Rupiah | 0.0422 | | 0.0412 | |
| 100 Korean Won | 0.3093 | | 0.3102 | |
| **Capital Market** | | | | |
| Funds raised by: public sector (RM billion) | 2.7 | | 0.0 | |
| private sector (RM billion) | 1.9 | | 3.7 | |
| Kuala Lumpur Composite Index (end-period) | 638.01 | | 659.57 | |
| KLSE Market Capitalisation (RMb) (end-period) | 476.35 | | 489.94 | |