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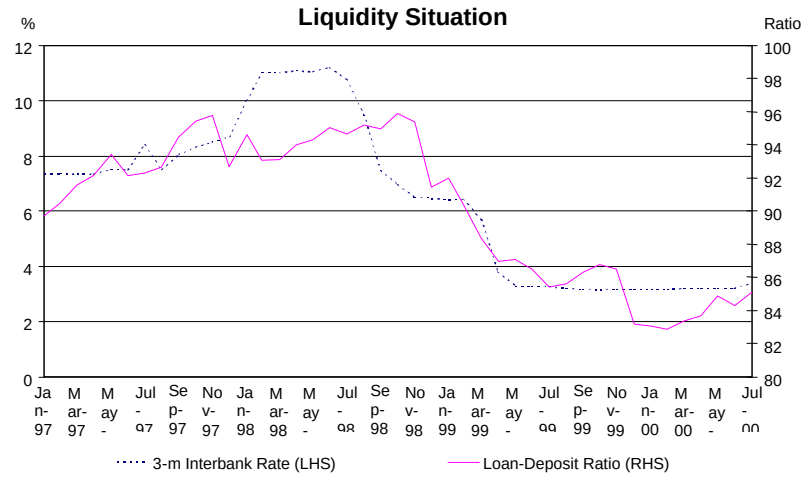
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PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS JULY 2000

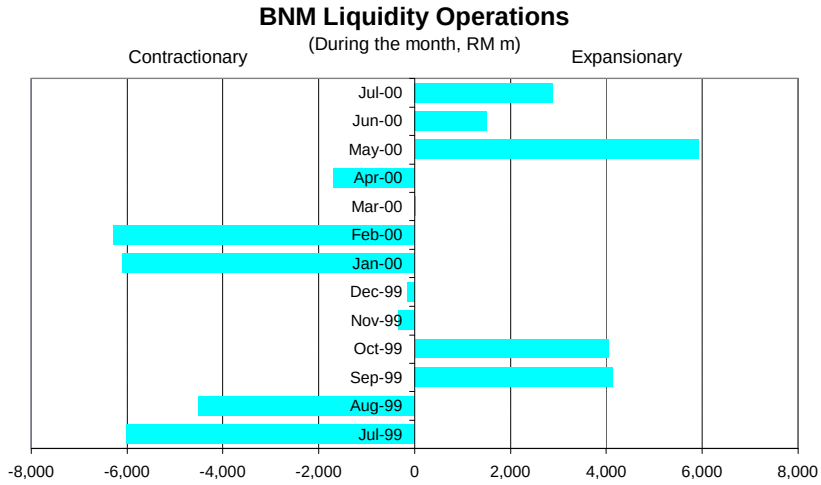
Monetary aggregates continued to expand in July in line with the expansionary government operations and higher loans growth. Inflation, however, remained low during the month. Interest rates were relatively stable. In early August, banking institutions increased deposit rates, raising the real rate of return further. Increased competition among banking institutions also resulted in slightly lower average lending rates.

Interbank rates edged upwards slightly

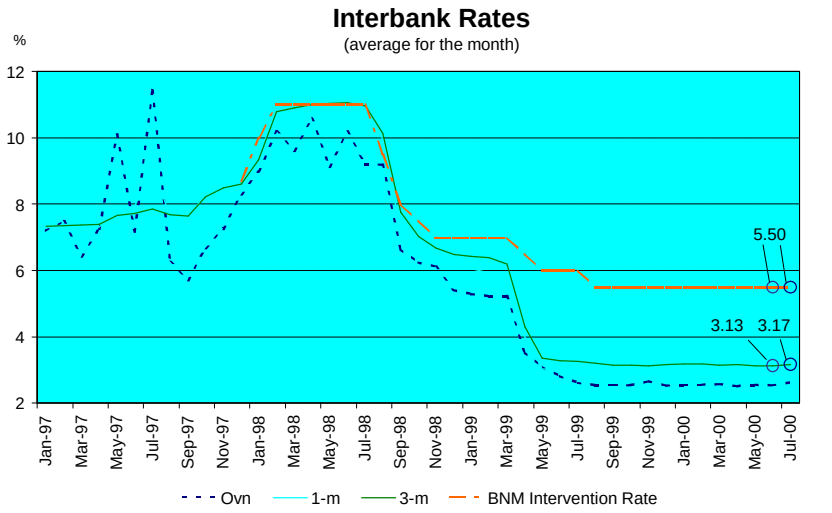
In the **interbank money market**, interbank rates edged upwards slightly at the end of July and the first three weeks of August. Liquidity nevertheless continued to remain ample.



Liquidity remained ample

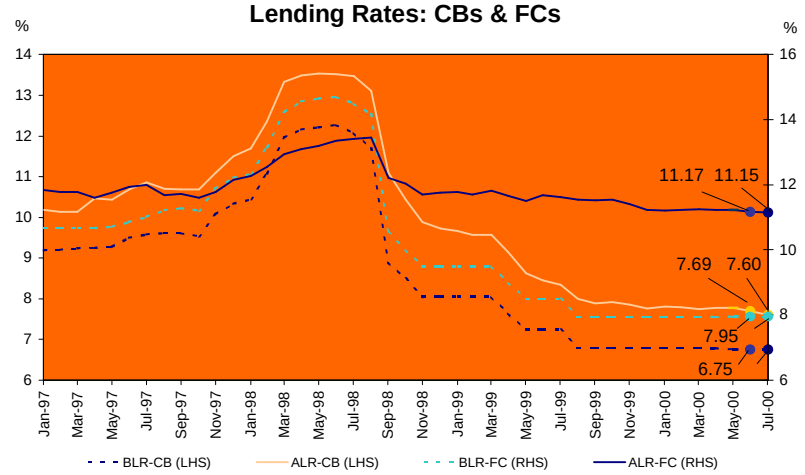


At end-July, BNM's liquidity operations were aimed to influence an increase in interbank rates



Interbank rates edged marginally higher in July

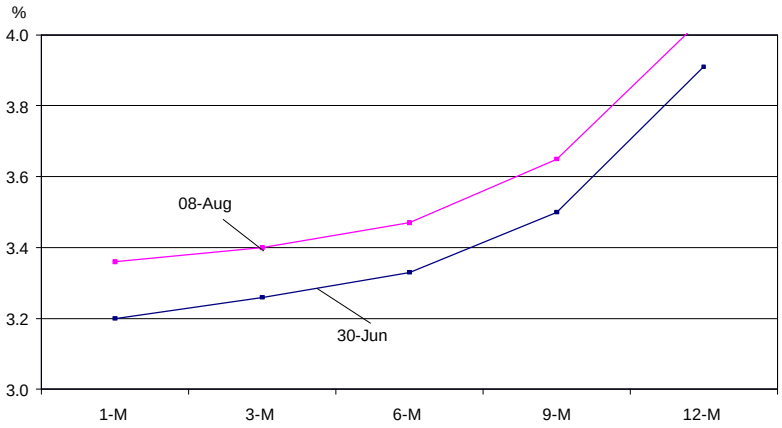
The **base lending rates** (BLR) of commercial banks (CBs) and finance companies (FCs) remained unchanged at end-July. However, increased competition among banking institutions saw their **average lending rates** (ALR) adjusting to 7.60% and 11.15% respectively at end-July.



CBs & FCs: BLR remained unchanged, while ALR declined further

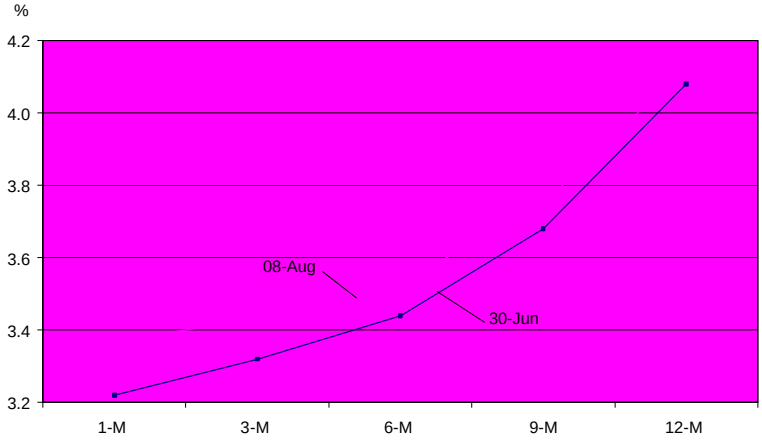
In early August, banking institutions also **raised their deposit rates**. On 8 August, the average **fixed deposits (FD) rates**, across various maturities of CBs and FCs were 14 to 16 basis points and 5 to 15 basis points higher, respectively, compared to end-June. In terms of **interest margin**, the margin of CBs narrowed marginally to 4.46% at end-July (4.56% at end-June) because while their average lending rate declined further, their average cost of funds remained unchanged. On the other hand, the interest margin of FCs widened during the month to 7.18% (7.11% at end-June) as their average cost of funds declined faster than their average lending rates.

Term Structure of FD Rates: Commercial Banks



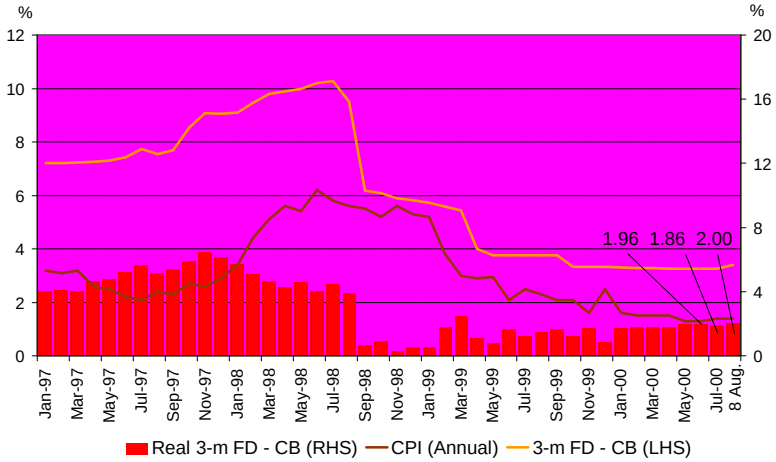
FD rates increased across all maturities

Term Structure of FD Rates: Finance Companies



FD rates increased across all maturities notably at the shorter-end

Real Interest Rates

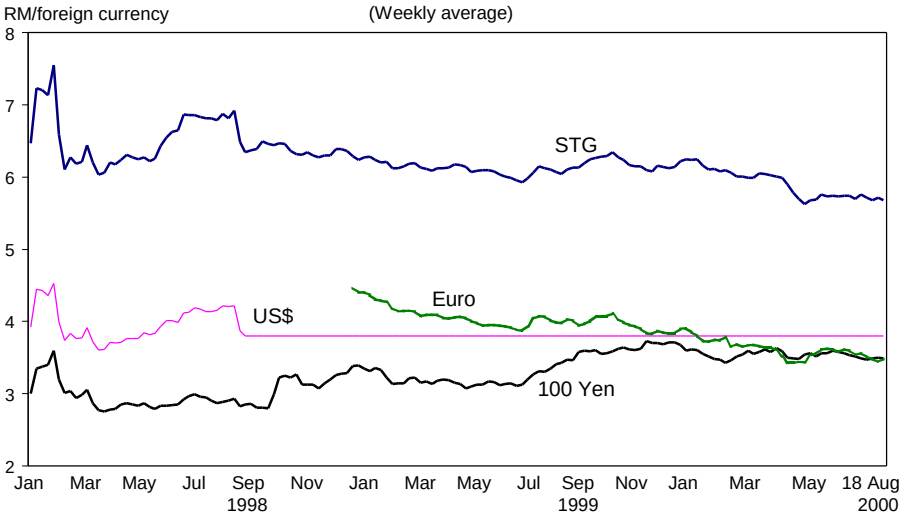


Real FD rates increased as nominal FD rates increased

Ringgit recorded a broad-based appreciation in July

In the month of July, the **ringgit recorded an across-the-board appreciation against both major currencies as well as regional currencies** as the US dollar strengthened in the international foreign exchange markets. The ringgit appreciated against the major currencies in the range of 1.0% - 3.7%. The US dollar was supported by improved performance in US equities during the month as well as higher expectations of a soft-landing scenario for the US economy.

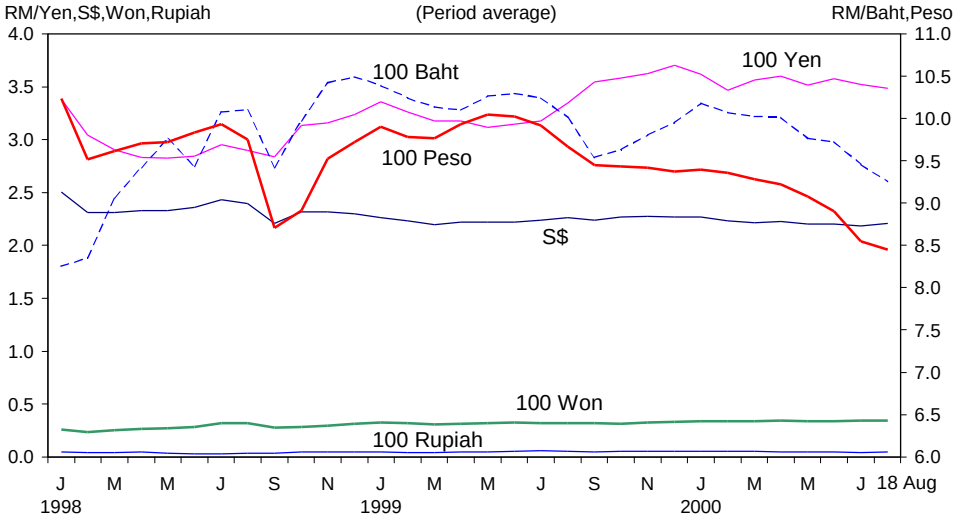
Performance of Ringgit against Major Currencies



Ringgit appreciated against major currencies in July

Meanwhile, the ringgit appreciated against the regional currencies in the range of 0.2% - 5.8%. The Indonesian rupiah depreciated due to fears of instability in some regions of the country. The peso and baht were slightly affected by the depreciating rupiah, while domestic developments in the respective countries caused the currencies to depreciate further. As a result, the ringgit appreciated against the Singapore dollar (+0.2%), Indonesian rupiah (+2.9%), Thai baht (+5.8%) and the Philippine peso (+3.8%).

Performance of Ringgit against Regional Currencies



Regional currencies depreciated against the ringgit in July, but turned around to appreciate slightly in early August

In the first three weeks of August, the ringgit recorded a mixed performance in tandem with the movements of the US dollar in the international foreign exchange markets. Against the major currencies, the ringgit appreciated against the pound sterling and the euro, but depreciated against the yen. A series of weak economic data from Germany placed further downward pressure on the euro. Meanwhile, most regional currencies appreciated against the ringgit. The appreciation was led by the Indonesian rupiah, which appreciated by 7.2% against the ringgit as favourable political developments emerged.

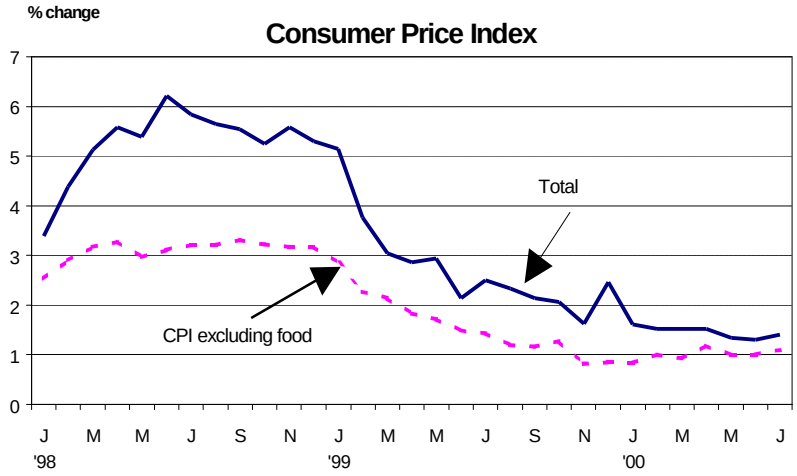
Performance of Ringgit against Selected Currencies

RM per foreign currency	End-June 1997	2 September 1998	18 August 2000	% change Since end-June 1997	% change Since 2 Sept. 1998	% change Since end-July 2000
US dollar	2.5235	3.8000	3.8000	-33.6	0.0	0.0
100 Japanese yen	2.2088	2.7742	3.4874	-36.7	-20.5	-0.5
Singapore dollar	1.7647	2.1998	2.2092	-20.1	-0.4	-0.7
100 Thai baht	9.7470	9.3713	9.2536	5.3	1.3	-0.9
100 Philippine peso	9.5878	8.8302	8.4477	13.5	4.5	0.2
100 Indonesian Rupiah	0.1038	0.0354	0.0455	128.1	-22.2	-7.2
100 Korean won	0.2842	0.2827	0.3409	-16.6	-17.1	-0.3

Domestic prices continued to remain low

In July, the annual rate of inflation as measured by the **Consumer Price Index** was 1.4%. Excluding food, the adjusted CPI was at 1.1%. Among the three dominant forces in the CPI, the transport and communication group recorded a higher price increase, albeit by a marginal 0.1 percentage point; the food group recorded a stable price increase, while the

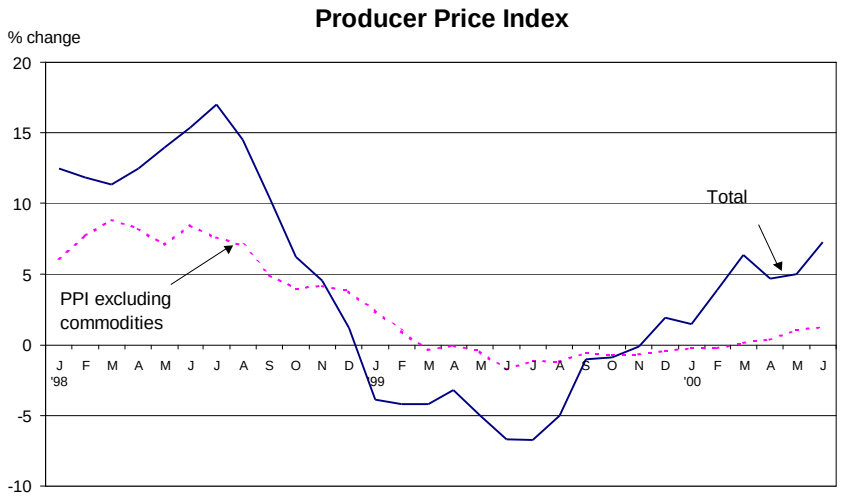
gross rent, fuel and power group recorded a lower price increase by a marginal 0.1 percentage point.



Consumer inflation remains low

At the producer level, the **Producer Price Index (PPI),** showed an increase of 7.3% for June (5% in May) entirely on account of the higher increase of 8.9% in prices of goods charged by domestic producers. On the other hand, prices paid by importers showed a lower increase of 0.9%. Excluding commodities (comprising inedible crude materials; mineral fuels, lubricants and related materials; and animal and vegetable oils and fats), the adjusted PPI showed a more moderate increase of 1.2% for June.

In terms of components, the increase in the PPI in June was due to higher price increases for two main components: mineral fuels, lubricants and related materials; and food and live animals. The increase in the former was due to the average price of crude oil per barrel having increased significantly to US$29 from US$16 a year ago. Nevertheless, the effect from these two components was mitigated to some extent by the slower price increases for inedible crude materials; machinery and transport equipment; manufactured goods as well as the continued decline in the price of animal and vegetable oils and fats.



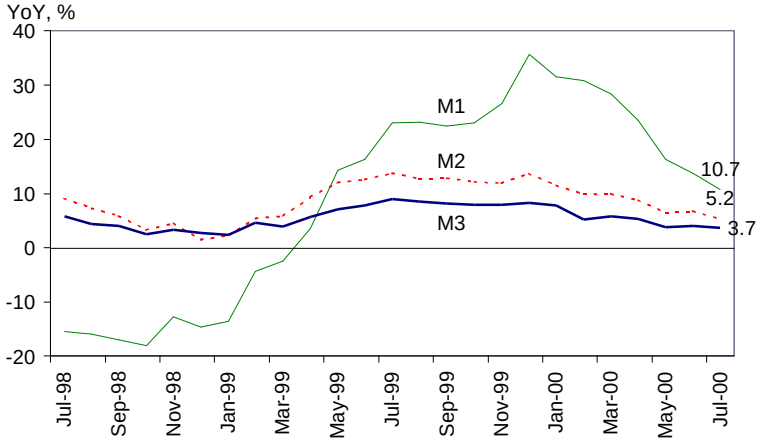
Adjusted PPI remains low at 1.2% in June

Broad money supply continued to expand

All three **monetary aggregates** expanded further on a year-on-year basis, albeit at a more moderate pace with M3 recording an annual growth of 3.7% as at end-July (4.1% at end-June). The moderation in the annual growth of M3 was due mainly to higher placement of deposits by a non-bank financial institution with BNM. On a month-on-month basis, M3 rose by RM1.2 billion or 0.3% in July (seasonally adjusted M3 rose by RM2.7 billion).

The main impetus to M3 growth emanated mainly from Government operations, reflecting deposit withdrawal from BNM and the banking system to finance its higher expenditure as well as redemption of two issues of MGS. Claims on the private sector were also expansionary on M3, as reflected in the higher loans extended by the banking system as well as higher holdings of private securities. Meanwhile, the external sector exerted a small expansionary impact. In terms of components, except for fixed deposits, there was an across-the-board increase in deposits, particularly repos.

Monetary Aggregates: Annual Growth



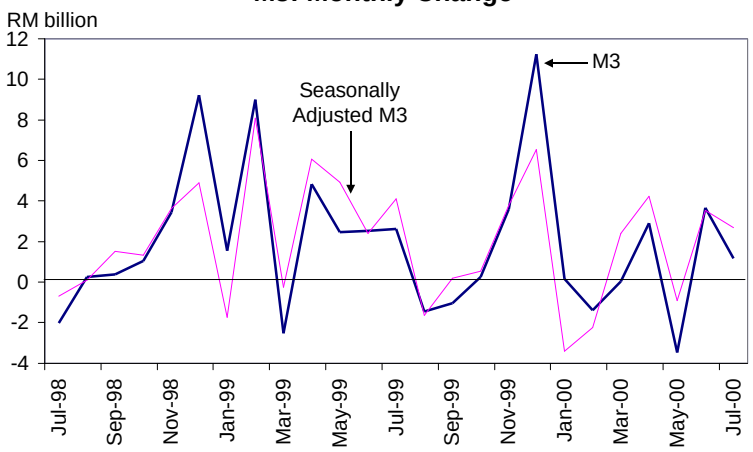
Broad monetary aggregates continued to expand in July

M3 Determinants

(RM billion)

	Outstanding	Change during the period			
		2000			
	July	May	June	July	Jan. - July
M3	437.7	-3.5	3.7	1.2	3.1
Claims on Government	-20.0	-0.1	-2.6	3.6	-1.3
Claims on private sector	455.0	1.1	5.0	1.3	10.1
External operations	135.4	-1.1	-1.2	0.9	10.7
Other influences	-132.7	-3.4	2.5	-4.6	-16.4

M3: Monthly Change



Increase in M3 due mainly to Government operations as well as higher claims on the private sector

Banking system deposits lower while loans increased

On a month-on-month basis, **total deposits** was lower by 0.6% in July. This reflected mainly the lower placements of deposits among banking institutions and net withdrawals by the Government sector and statutory authorities. In addition, there was also a large drawdown by a non-bank financial institution (NBFI) during the month. However, deposits by individuals and business enterprises continued to increase in July.

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

	2000		
	May	**Jun.**	**Jul.**
Holder			
Federal Government	73	1172	-1358
State Governments	-379	-313	-361
Statutory Authorities[1/]	-770	-1358	-400
Financial Institutions	-2977	2492	-2265
Business Enterprises	-413	2707	1185
Individuals	272	2642	233
Others	161	220	246
Total	**-4033**	**7563**	**-2719**

[1/] Include local Governments.

Decline due mainly to lower interplacement of deposits among banking institutions and withdrawals by the Government sector, statutory authorities and a NBFI

By type, the largest decline was observed in fixed deposits, reflecting to some extent, the shift by business enterprises from fixed deposits to other more liquid forms of deposits, including repos. There was also a decline in demand deposits as the Government drew down its deposits with the banking system. NIDs were also lower due to a decline in interplacements between banking institutions.

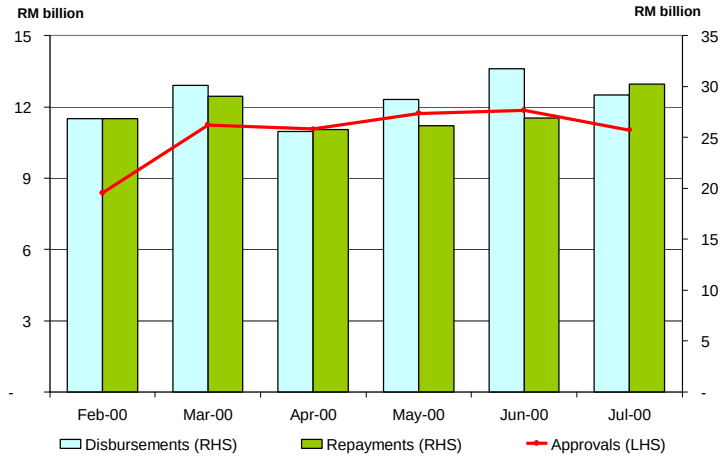
Monthly Change in Deposits **(RM million)**

	2000		
	May	**Jun.**	**Jul.**
Type			
Fixed deposits	-3013	1928	-3360
NIDs issued	817	1369	-408
Demand deposits	409	2300	-1688
Savings deposits	-739	1113	64
Repos	-1054	-208	1371
FX deposits	-54	388	526
SPI deposits	-525	443	519
Others	127	230	257
Total	**-4033**	**7563**	**-2719**

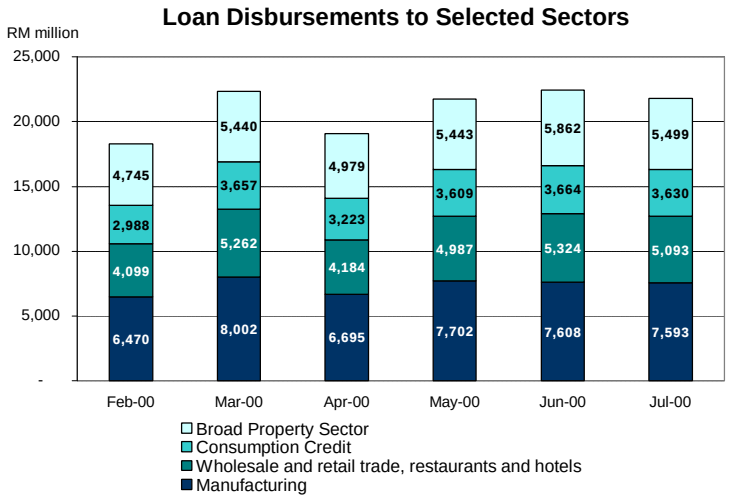
Main sources of decline were fixed and demand deposits

Total **loans approved** remained high at RM11 billion in July. The loan approvals were largely for the purchase of residential property (RM2.5 billion), manufacturing activities (RM1.8 billion) and the purchase of passenger cars (RM1.5 billion).

Loan Approvals, Disbursements and Repayments



Approvals and disbursements remained high



Bulk of disbursements for manufacturing activities, wholesale trade and the purchase of residential property

Similarly, **loans disbursed** remained significant in July (RM29.2 billion). The bulk of the disbursements were for manufacturing activities, wholesale trade, purchase of residential property and financial services.

Total loans outstanding (including loans sold to Cagamas and Danaharta) extended by the banking system continued on the up-trend, increasing by RM1.1 billion in July (+RM3.2 billion in June). The bulk of the increase was evident in loans extended for the purchase of residential property, manufacturing activities, the purchase of passenger cars, and for financial services. On an annual basis, total loans outstanding increased by 2.7% at end-July, with commercial banks recording a year-on-year growth rate of 4.1% and finance companies registering a positive growth rate (0.2%) for the first time since June 1998.

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

	2000		
	Monthly change		As at end
	Jun.	Jul.	Jul.
Agriculture, hunting, forestry and fishing	342	26	10,001
Mining and quarrying	-43	-16	1,666
Manufacturing	-184	629	68,064
Electricity, gas and water supply	554	-36	7,277
Wholesale and retail trade, restaurants and hotels	538	243	38,142
Broad property sector	1,541	1,090	145,009
Transport, storage and communication	127	-698	14,931
Finance, insurance and business services	858	137	32,747
Consumption	-107	654	52,662
Purchase of securities	-61	-412	33,178
Others	-403	-506	37,069
Loans sold to Cagamas	-534	-32	17,645
Total Loans [1/]	**3,161**	**1,110**	**440,746**

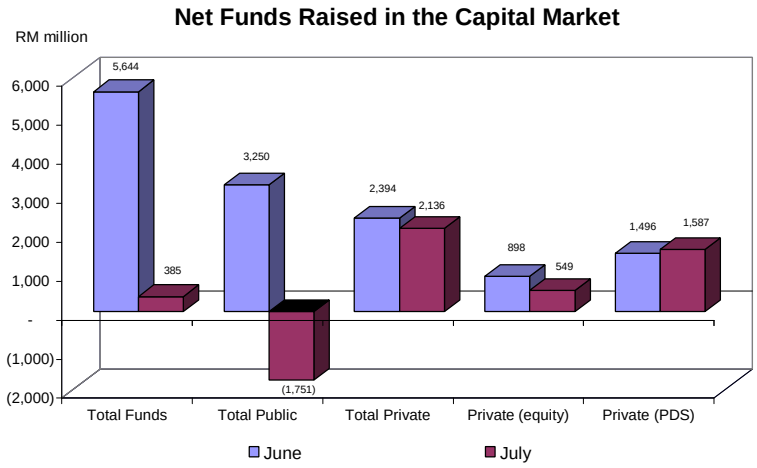
[1/] Including loans sold to Cagamas and Danaharta.

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

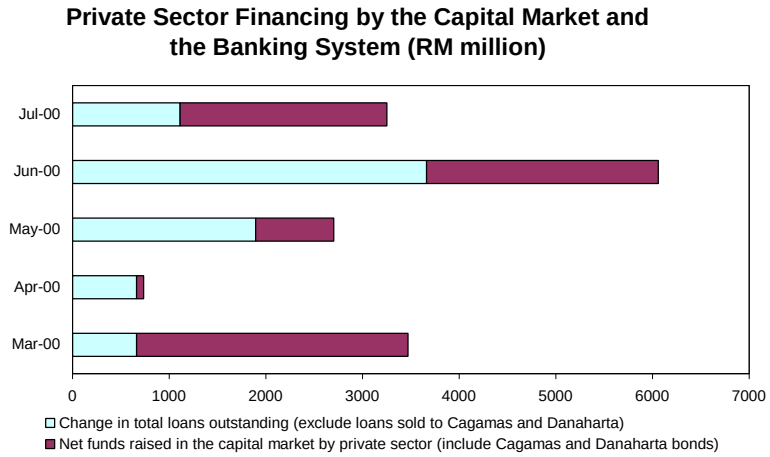
Loans outstanding has been on the up-trend since February 2000

Lower net funds raised in the capital market

Net funds raised in the capital market were lower in July, compared to June. This was due mainly to redemptions of two issues of Malaysian Government Securities. Meanwhile, net funds raised by the private sector was sustained at about the same level as in the previous month, with higher net issues of private debt securities and lower issues of shares.



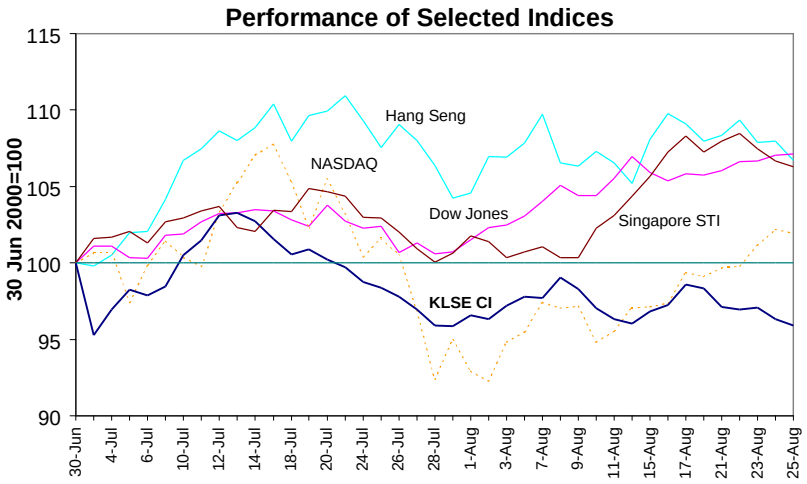
Net funds raised in the capital market were lower in July



Total private sector financing was lower in July

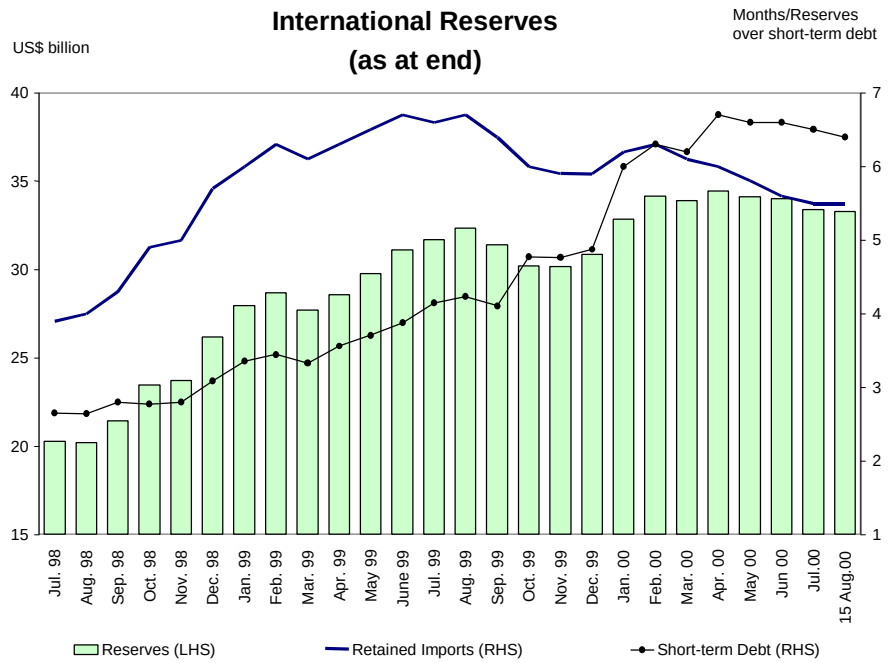
Market sentiment in the **Kuala Lumpur Stock Exchange (KLSE)** was mixed in July. In the first half of July, sentiment improved as investor concerns with regard to the CLOB issues were allayed. Sentiment improved further following the decision by the Federal Reserve Bank to maintain U.S. interest rates, better GDP forecasts by the private sector, and the prospect of ratings upgrade for Malaysia and for several Malaysian banks. Subsequently, however, the KLSE CI was adversely affected by profit taking activities. The KLSE CI ended the month lower at 798.83 points (-4.1% since end-June), while the KLSE market

capitalisation stood at RM558.29 billion (-2.4% since end-June). As at 25 August, the KLSE CI closed at 799.26 points, while the market capitalisation stood at RM556.46 billion.



International reserves remains strong

The **international reserves** of BNM remained strong at RM126.7 billion (US$33.4 billion) at the end of July. As at 15 August, reserves declined to RM126.4 billion (US$33.3 billion). The lower reserves reflected higher debt repayments and some outflows of portfolio capital. The level of reserves nevertheless remained strong, sufficient to finance 5.5 months of retained imports and 6.4 times the short-term external debt.



International reserves remained strong

Banking system remained strong

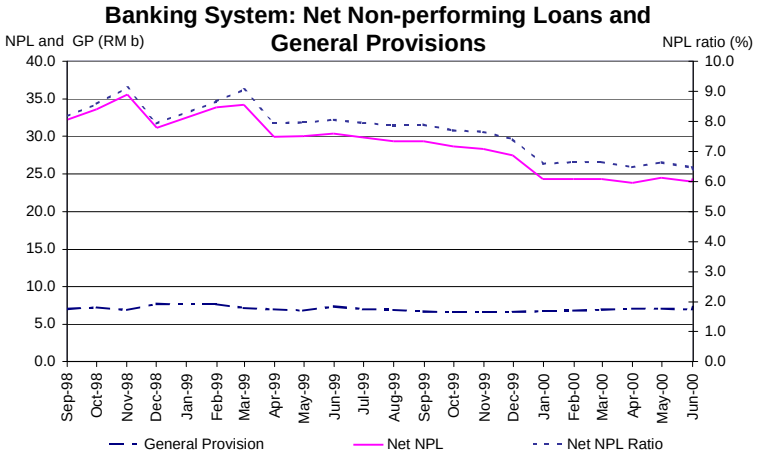
Net non-performing loans ratio of the banking system improved further to 6.4% as at end of June on a six-month classification. The **risk-weighted capital ratio (RWCR)** of the banking system remained unchanged at 12.8% as at end-July.

Banking System Health Indicators

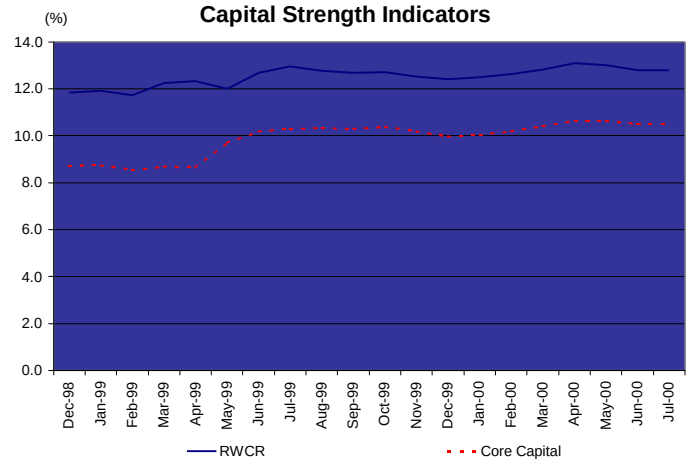
	1998	1999				2000			
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	May.	June.[1]	July.[1]
Capital									
Core-capital ratio (%)	8.7	8.7	10.2	10.3	10	10.4	10.6	10.5	10.5
RWCR (%)	11.8	12.3	12.7	12.7	12.3	12.9	13.0	12.8	12.8
Net NPL (6-month classification)									
Banking system (%)	7.5	7.9	7.9	7.7	6.6	6.5	6.5	6.4	n.a.
Banking system (RM million)	29,286	29,869	29,696	28,705	24,340	23,780	23,953	24,407	n.a.
GP/Net total loans (6-month,%)	2	1.8	1.8	1.8	1.8	1.9	1.9	1.9	n.a.

n.a. Not available

[1] Beginning July 2000 onwards, the figures includes Islamic Banks for capital items and June 2000 onwards for NPL items



Net NPL ratio of banking system improved further to 6.4%



….. risk-weighted capital ratio remain unchanged

Danaharta has not been acquiring any additional NPL and has since concentrated on managing the NPLs acquired. As at 31 July 2000, **NPLs managed by Danaharta** amounted to **RM36.6 billion**, representing approximately **43.6%** of total NPLs in the banking system**.** In managing the NPL, Danaharta has employed a number of mechanisms, such as loan restructuring, foreclosure of collateral and business, asset management through appointment of special administrators etc. Up to 30 June 2000, Danaharta has initiated recovery action on 99.6% of the NPLs where 6% has been fully settled and another 6% has turned performing. Danaharta had, on 24 August 2000, announced the results of the third property tender where it had received 116 successful bids out of the 300 properties offered. The properties will be sold to the successful bidders for a total consideration of RM208.67 million, representing 97% of the total indicative value.

As at 31 July 2000, capital injection by Danamodal into the banking sector remained at RM4.9 billion. On the same date, CDRC has received 75 applications of which 36 cases with debts totalling RM25.4 billion were resolved, 17 with debts totalling RM3.9 billion were rejected and 22 cases with debt totalling RM16.7 billion were currently being reviewed.

Bank Negara Malaysia
28 August 2000

Key Monetary and Banking Statistics

	June		July	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	36.9	5.7	37.6	6.4
M1	69.0	13.7	69.0	10.7
M2	338.6	6.8	338.1	5.2
M3	436.5	4.1	437.7	3.7
Banking System				
Total deposits	456.7	2.3	454.0	1.4
Total loans (including loans sold to Cagamas and Danaharta)	439.6	2.1	440.7	2.7
Total loans (excluding loans sold to Cagamas and Danaharta)	385.0	-0.3	386.1	1.0
Loan-deposit ratio (%)	84.3		85.1	
Loans approved during the month	11.9		11.0	
Loans disbursed during the month	31.7		29.2	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	12.8		12.8	
Net NPLs: 6-month classification (%)	6.4		n.a.	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	129.2		126.7	
Reserves in USD (billion)	34.0		33.4	
Months of retained imports	5.6		5.5	
Interest Rates (average rates at end-period)				
Interbank: 1-month	2.69		3.04	
3-month	3.19		3.40	
Fixed deposits of commercial banks: 1-month	3.20		3.20	
3-month	3.26		3.26	
BLR of commercial banks	6.75		6.75	
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.6186		3.5099	
Pound Sterling	5.7709		5.7150	
Singapore dollar	2.1976		2.1927	
100 Japanese yen	3.5998		3.4710	
100 Thai Baht	9.7050		9.1732	
100 Philippine Peso	8.7851		8.4661	
100 Indonesian Rupiah	0.0435		0.0423	
100 Korean Won	0.3407		0.3401	
Capital Market				
Funds raised by: public sector (RM million)	3,249.6		-1,750.9	
private sector (RM million)	2,394.4		2,136.0	
Kuala Lumpur Composite Index (end-period)	833.4		798.8	
KLSE Market Capitalisation (RMb) (end-period)	572.3		558.3	