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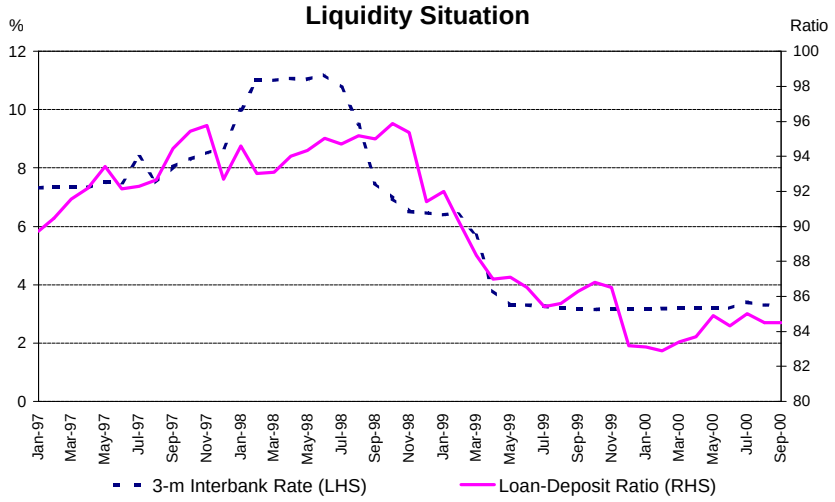
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PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS SEPTEMBER 2000

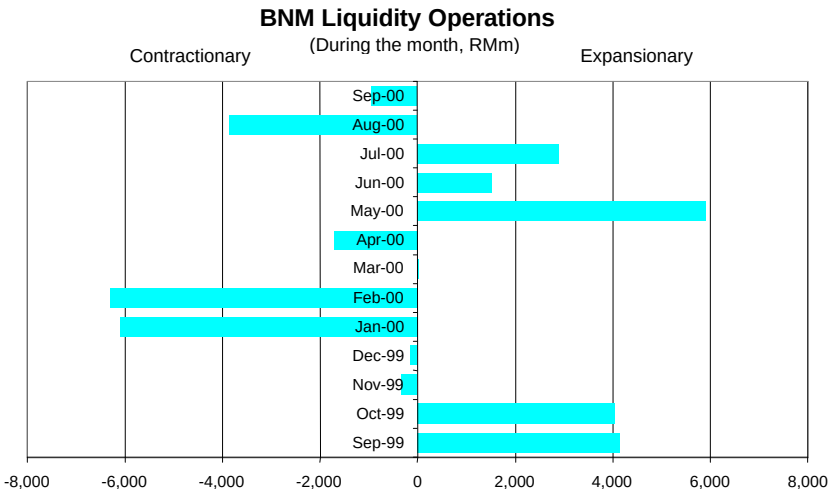
Monetary conditions remained stable in September. The stronger loan growth contributed to the further expansion of broad money supply. Interest rates, generally remained unchanged amid an ample liquidity situation while inflation continued to remain low.

Interbank rates remained relatively unchanged

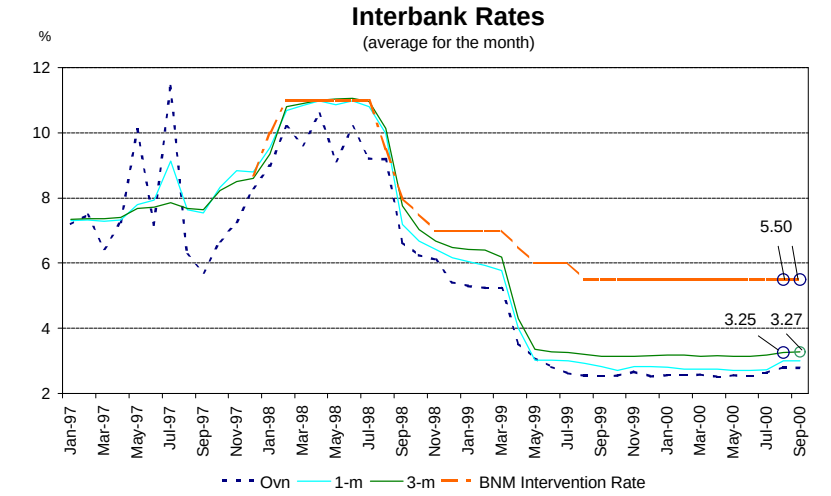
In the **interbank money market**, interbank rates in September and the first two weeks of October remained relatively unchanged as in August. In addition, liquidity in the banking system continued to remain ample.



Liquidity remained ample

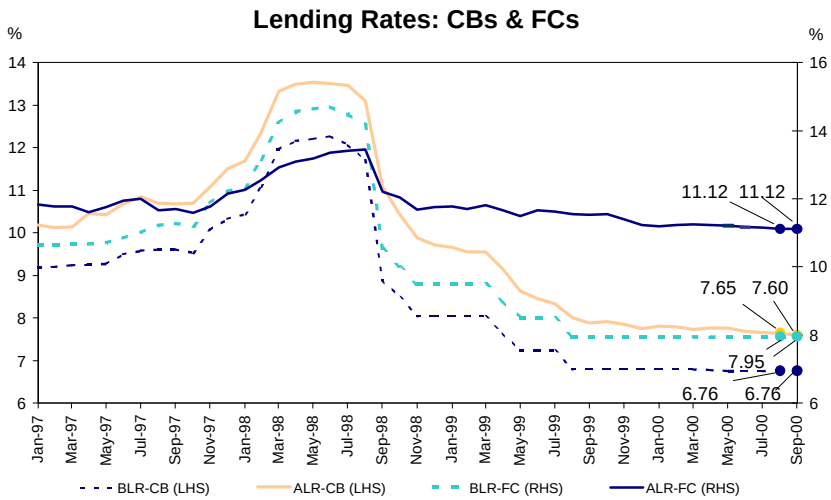


BNM's operations aimed to achieve stable liquidity conditions



Average interbank rates remained relatively stable in September

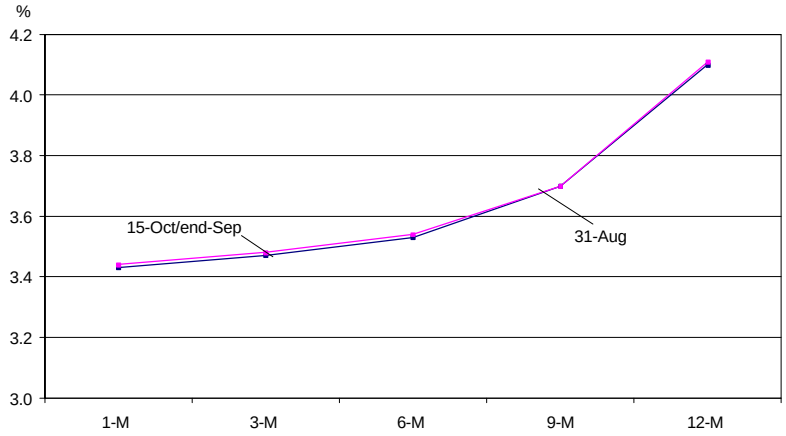
The **base lending rates** (BLRs) of commercial banks (CBs) and finance companies (FCs) remained unchanged at end-September. However, the continued competition among banking institutions in an environment of ample liquidity saw their **average lending rates** (ALRs) stabilising at 7.60% and 11.12% respectively at end-September (7.65% and 11.12% respectively at end-August).



CBs & FCs: BLR and ALR were relatively stable

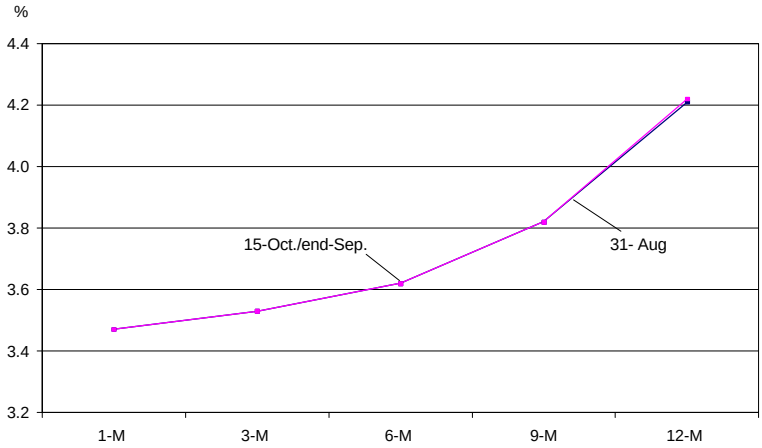
On 15 October, the **average fixed deposit (FD) rates** of both CBs and FCs remained largely unchanged as at end-August, where the 1-month to 12-month FD rates ranged from 3.44-4.11% and 3.47-4.22% respectively. In terms of **interest margin**, with the increase in deposit rates amid stable lending rates, the margin of both CBs and FCs declined to 4.34% and 7.19% respectively at end-September (4.50% and 7.23% at end-August).

Term Structure of FD Rates: Commercial Banks



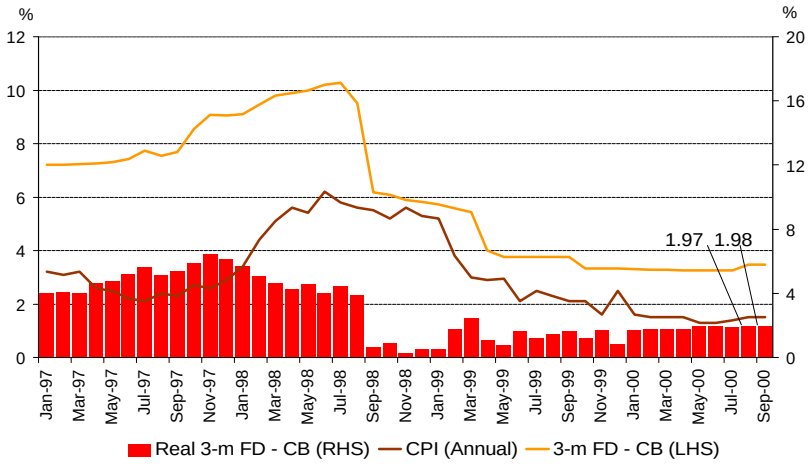
FD rates remained stable

Term Structure of FD Rates: Finance Companies



FD rates remained stable

Real Interest Rates

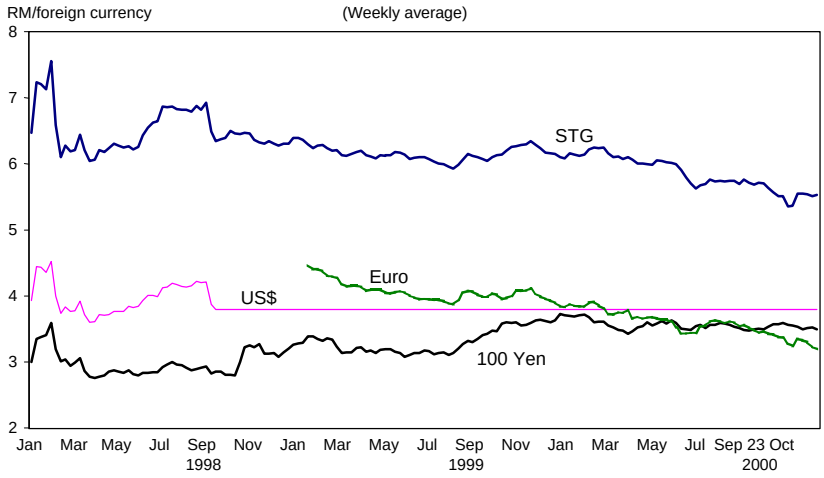


Real FD rates were also relatively stable as both the nominal FD rates and inflation rate remained relatively unchanged

Ringgit recorded a mixed performance against major currencies, while appreciating against regional currencies

In September, the ringgit recorded a mixed performance against major currencies while broadly appreciating against regional currencies. The ringgit appreciated against the euro (1.4%) and the yen (1.5%) while depreciating slightly against the pound sterling by 0.7%. The Euro continued its depreciating trend against the US dollar in September, despite a joint intervention by central banks to support the currency. The depreciation of the yen, meanwhile, was caused by lack of positive economic data and concerns over a possible MSCI reweighting of Japanese stocks.

Performance of Ringgit against Major Currencies



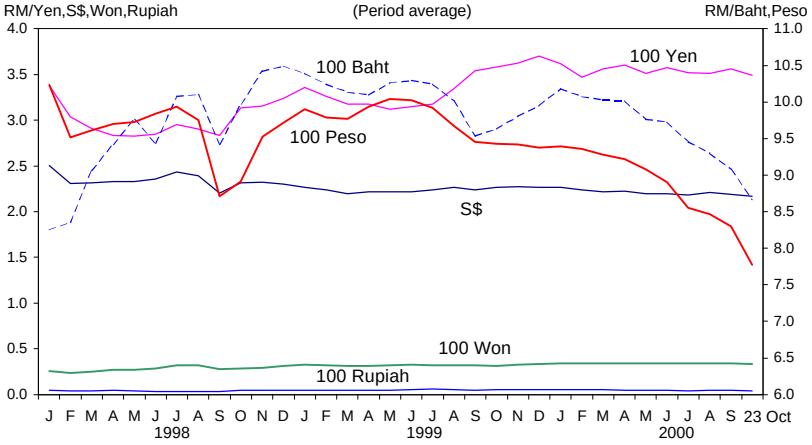
The ringgit recorded a mixed performance against major currencies in September

Meanwhile, **the ringgit appreciated against all regional currencies** in the range of 0.6% - 4.9%. Domestic developments affected the Philippine Peso and Indonesian Rupiah, while the decline in the Korean stock market affected the Korean Won.

In the first three weeks of October, the ringgit appreciated against all major as well as regional currencies. The ringgit appreciated against the pound sterling, the Japanese yen and the euro in the range of 0.6% - 4.9%. The euro continued to depreciate against the US dollar to a record low. Meanwhile, the yen depreciated slightly against the US dollar due to concern over the recovery of the Japanese corporate sector. During the same period, the ringgit recorded a broad appreciation against all regional currencies in the range of 0.8% - 5.7%. The Philippine peso experienced a sharp decline following market concerns over domestic developments, which prompted the authorities to increase their policy rate by

4 percentage points. The Thai baht, meanwhile, continued to depreciate against the ringgit reflecting domestic developments.

Performance of Ringgit against Regional Currencies



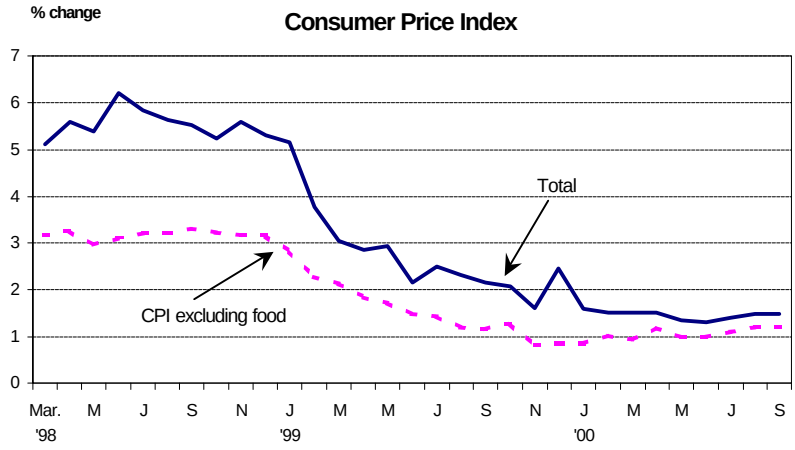
Most regional currencies depreciated further against the ringgit

Performance of Ringgit against Selected Currencies

RM per foreign currency	End-June 1997	2 September 1998	23 October 2000	% change Since end-June 1997	% change Since 2 Sept. 1998	% change Since end-Sep. 2000
US dollar	2.5235	3.8000	3.8000	-33.6	0.0	0.0
Euro	-	-	3.1918	-	-	4.9
Pound Sterling	4.1989	6.3708	5.5286	-24.1	15.2	0.6
100 Japanese yen	2.2088	2.7742	3.4893	-36.7	-20.5	0.9
Singapore dollar	1.7647	2.1998	2.1654	-18.5	1.6	0.8
100 Thai baht	9.7470	9.3713	8.6669	12.5	8.1	3.7
100 Philippine peso	9.5878	8.8302	7.7781	23.3	13.5	5.7
100 Indonesian Rupiah	0.1038	0.0354	0.0425	144.2	-16.7	1.7
100 Korean won	0.2842	0.2827	0.3355	-15.3	-15.7	1.5

Consumer prices continued to remain low

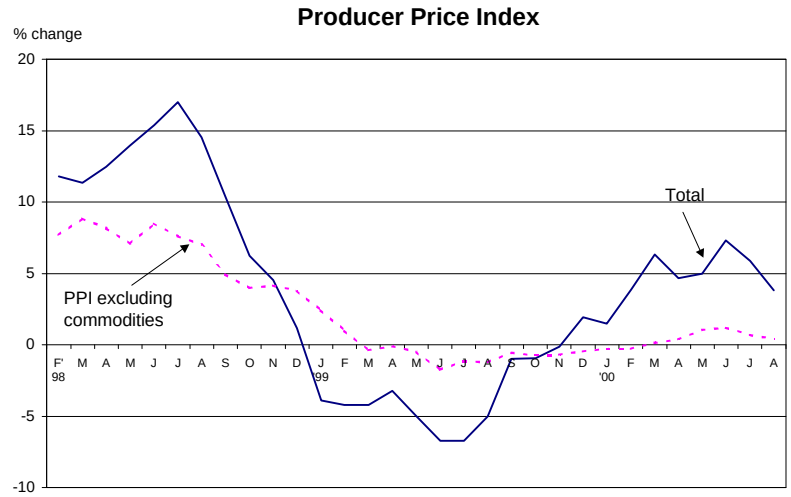
In September, the annual rate of inflation as measured by the **Consumer Price Index** was stable at 1.5%. Excluding food, the adjusted CPI was also stable rising by a more moderate annual rate of 1.2%. The stable inflation situation was on account of the two largest groups in the CPI: food; and gross rent, fuel and power, recording stable price increases during the month.



Inflation remained benign in the first nine months

At the producer level, the **Producer Price Index (PPI)**, continued to increase but at a significantly slower rate of 3.9% in August (5.9% in July). The moderation in the rate of increase in the PPI was due entirely to the lower rate of increase in prices of goods charged by domestic producers (4.4% in August compared with 7.2% in July). On the other hand, prices paid by importers increased at a higher rate of 1.1% (0.9% in July). Excluding commodities (comprising inedible crude materials; mineral fuels, lubricants and related materials; and animal and vegetable oils and fats), the adjusted PPI rose marginally at an annual rate of 0.4% in August.

In terms of components, the moderation in the increase in the PPI in August was due either to lower price increases, larger price declines or stable prices recorded by all the main groups, except two, namely, chemicals and related products; and miscellaneous manufactured items. The higher rate of increase in prices paid by importers was due to four main groups recording marginally higher price increases, that is, mineral fuels; food and live animals; manufactured goods; and crude materials.



Adjusted PPI increased marginally by 0.4% in the first eight months

Growth in broad money supply accelerated further

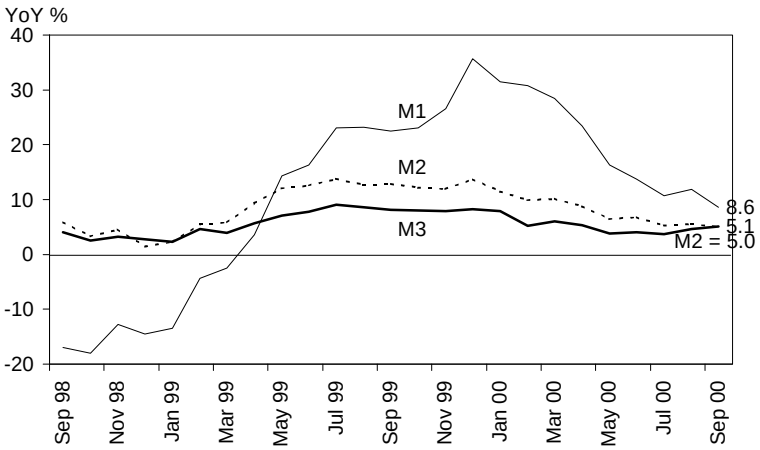
In September, broad money supply, M3, continued to increase by RM1.1 billion or 0.2% (seasonally adjusted M3 rose by RM2.4 billion). Consequently, the annual growth of M3 accelerated further to 5.1% at end-September (4.6% at end-August).

The increase in M3 was due partly to higher claims on the private sector. This reflected mainly the higher loans extended by the banking system to the private sector which more than offset the decline in the holdings of private securities. Other influences were also expansionary on M3, reflecting the net withdrawal of deposits by a non-bank financial institution from BNM.

Meanwhile, the Government operations exerted a contractionary impact on the money supply, reflecting the placement of the proceeds from the reopening of the existing Malaysian Government Securities (MGS) 1/2000 by RM5 billion as well as the reopening of the US$1 billion notes due 2009 by US$500 million, with BNM. During the month, the external operations were contractionary on M3. This reflected some debt repayments and outflows of portfolio capital and the quarterly foreign exchange revaluation loss. However, the revaluation losses is also reflected in “other influences”, and therefore would have a neutral impact on money supply.

In terms of components, the expansion in M3 reflected mainly higher placements of fixed deposits by domestic non-bank financial institutions and non-financial public enterprises.

Monetary Aggregates: Annual Growth



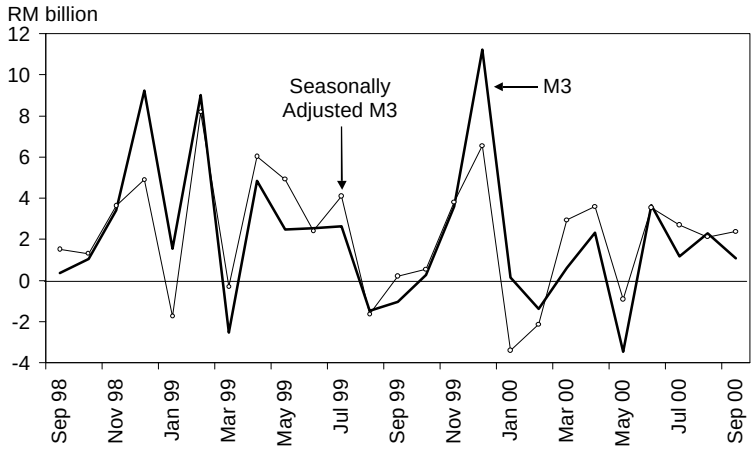
M3 increased further in September

M3 Determinants

(RM billion)

	Outstanding	Change during the period			
		2000			
	September	July	August	September	Jan. - Sep.
M3	441.1	1.2	2.3	1.1	6.5
Claims on Government	-22.6	3.6	3.0	-5.5	-3.8
Claims on private sector	458.1	1.7	2.2	0.6	13.2
External operations	133.2	0.9	-0.9	-1.3	8.6
Other influences	-127.6	-5.0	-2.0	7.3	-11.5

M3: Monthly Change



Increase in M3 due mainly to higher claims on the private sector as well as deposits withdrawal by a non-bank financial institution

Further increase in banking system deposits and loans

On a month-on-month basis, **total deposits** increased by RM1.9 billion or 0.4% in September. This reflected mainly higher deposits by individuals, a non-bank financial institution (NBFI) and the Federal Government which more than offset the decline in deposits of business enterprises and statutory authorities. On an annual basis, total deposits increased by 3.5% as at end-September (2.5% at end-August).

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

	2000		
	Jul.	**Aug.**	**Sep.**
Holder			
Federal Government	-1358	541	1222
State Governments	-361	-389	377
Statutory Authorities[1/]	-400	648	-840
Financial Institutions	-2094	1539	1408
Business Enterprises	1014	185	-2518
Individuals	233	334	1972
Others	246	218	303
Total	**-2719**	**3076**	**1923**

[1/] Include local Governments.

Deposits increased due to higher placements by individuals, an NBFI, and the Federal Government

All deposits, with the exception of repos and NIDs, were higher in September. By type, the significant increase in fixed deposits reflected mainly higher placements by individuals and an NBFI. Meanwhile, there was a substantial decline in repos due to the maturing of contracts with business enterprises.

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

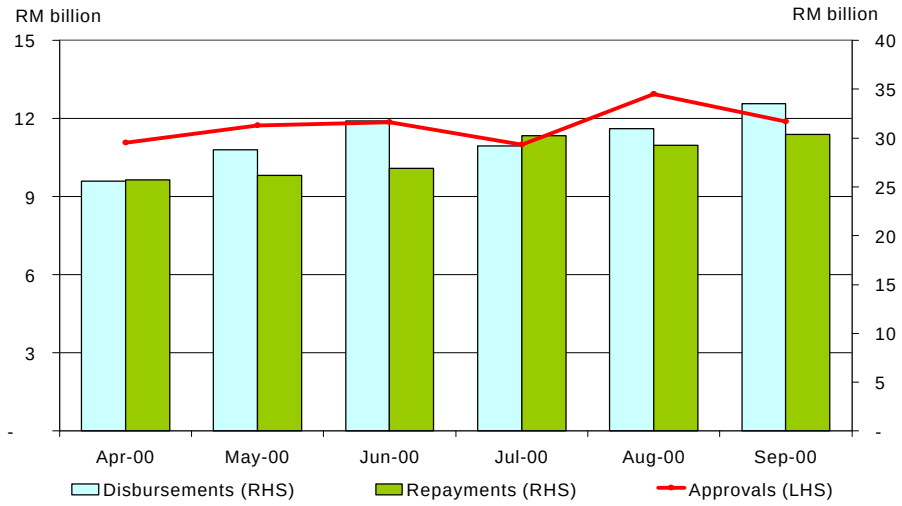
	2000		
	Jul.	**Aug.**	**Sep.**
Type			
Fixed deposits	-3360	1618	3680
NIDs issued	-408	233	-254
Demand deposits	-1688	-361	191
Savings deposits	64	230	68
Repos	1371	-58	-2460
FX deposits	526	-460	120
SPI deposits	519	1684	269
Others	257	189	309
Total	**-2719**	**3076**	**1923**

Main source of increase was fixed deposits

Loans approvals increased to RM11.9 billion in September (average of RM10.8 billion in the first eight months). The loan approvals were largely for manufacturing activities (RM2 billion), the purchase of residential property (RM1.9 billion), the purchase of passenger cars (RM1.5 billion) and financial services (RM1.2 billion).

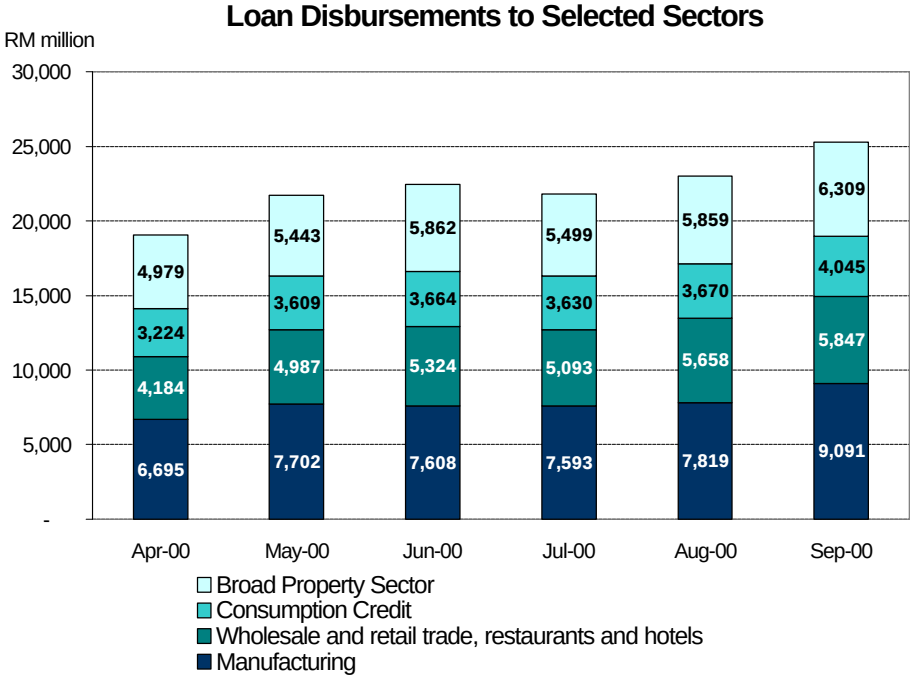
Loans disbursed were also significantly higher in September (RM33.5 billion), mainly for manufacturing activities, wholesale trade, construction activities, and the purchase of residential property.

Loan Approvals, Disbursements and Repayments



There was a significant increase in loan disbursements, amid higher loan approvals

Loan Disbursements to Selected Sectors



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

Total loans outstanding (including loans sold to Cagamas and Danaharta) extended by the banking system increased for the eighth consecutive month by RM1.5 billion in September (+RM3.1 billion in August). On an annual basis, total loans outstanding increased by 3.6% at end-September, with commercial banks recording a year-on-year growth rate of 4.5%. The bulk of the increase was evident in loans extended for the purchase of residential property; electricity, gas and water supply; and construction activities.

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

	2000		
	Monthly change		As at end
	Aug.	Sep.	Sep.
Agriculture, hunting, forestry and fishing	168	118	10,266
Mining and quarrying	10	-107	1,568
Manufacturing	682	0	68,773
Electricity, gas and water supply	-518	472	7,231
Wholesale and retail trade, restaurants and hotels	64	-177	38,028
Broad property sector	1,552	1,302	162,084
of which:			
Purchase of residential property	1,413	1,139	71,371
Transport, storage and communication	-548	-26	14,326
Finance, insurance and business services	143	2	32,894
Consumption	912	136	57,012
of which:			
Passenger cars	969	-73	35,261
Credit cards	*197*	*230*	*6,888*
Purchase of securities	31	-422	32,778
Others	571	214	20,405
Total Loans[1/]	**3,067**	**1,512**	**445,366**

Loans outstanding increased for the eighth successive month

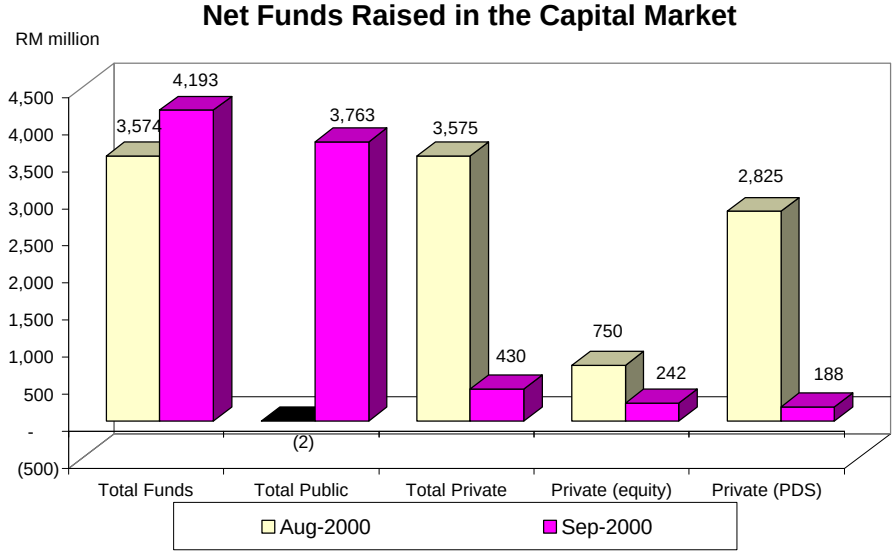
[1/] Including loans sold to Danaharta and Cagamas (inclusive of property loans and hire purchase receivables).

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

Higher net funds raised in the capital market

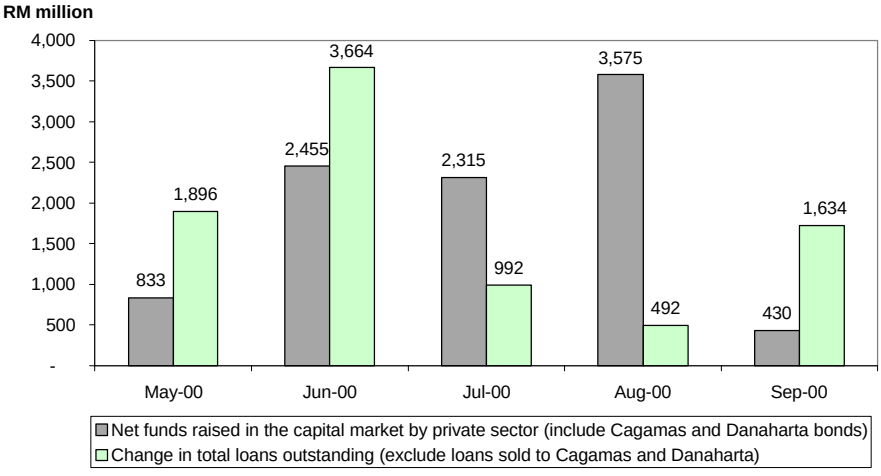
Net funds raised in the capital market was also higher in September compared to August. This was due to the higher net funds raised by the public sector, through the re-opening of an existing Malaysian Government Securities issue and a new issue of Khazanah Bonds. Funds raised by the private sector were lower, with lower net issuance of equity and debt securities.

Net Funds Raised in the Capital Market



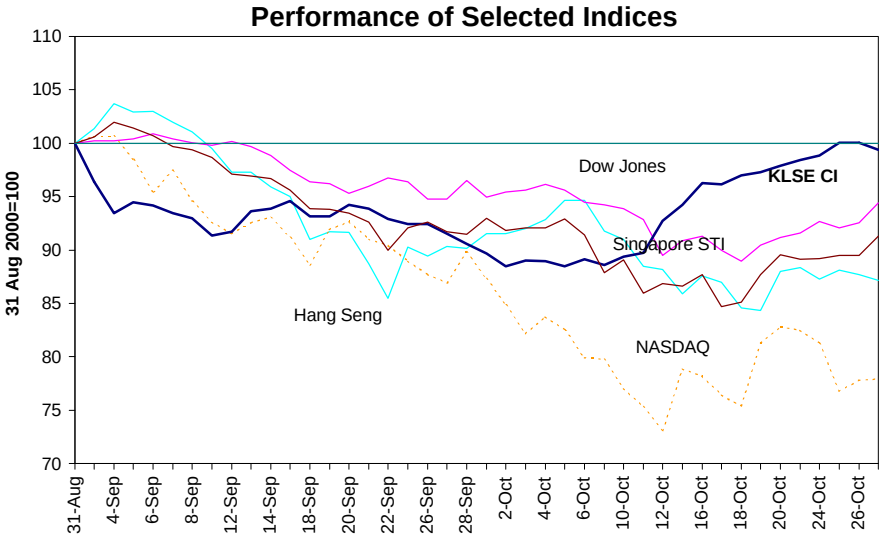
Net funds raised in the capital market were higher in September

Private Sector Financing by the Capital Market and the Banking System



Total private sector financing was lower in September

Prices and trading volume on the KLSE declined in September. Weak sentiments throughout September reflected implications of changes in MSCI to a free-float methodology which would result in a lower weightage for Malaysia. Weak sentiments were also due to the spillover effects from the US markets arising from lower than expected earnings from prominent global IT companies and concerns over rising oil prices. The KLSE CI closed at 713.5 points in September (-10.3% since end-August), while the market capitalisation stood at RM488.8 billion (-11.6% since end-August).

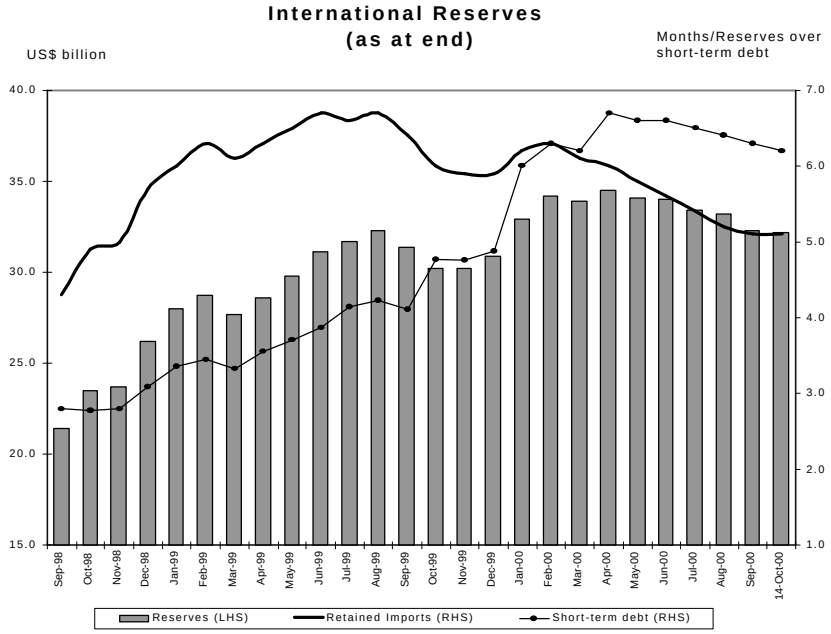


The KLSE CI fared better against other markets in first half of October

Performance in the KLSE turned favourable in the first half of October when market sentiments improved. Despite continued global fears of lower earnings in the technology sector, the KLSE fared better than the Hong Kong, Singapore and US markets. Expectations of a favourable 2001 Budget and buying support by local institutional funds contributed to the improved sentiment. As at 27 October, KLSE CI closed at 791.1 points (+10.9% since end-September), while the market capitalisation stood at RM523.8 billion (+7.2% since end-September). The average daily trading volume also increased to 177.1 million units (RM509.8 million) in October from 105 million units (RM321 million) in September.

International reserves remain strong

The international reserves of BNM amounted to RM122.8 billion (US$32.3 billion) as at end-September compared to RM126.1 billion (US$33.2 billion) at the end of August. The decrease was mainly due to the quarterly foreign exchange revaluation loss arising from the strengthening of the ringgit against most major foreign currencies during the third quarter. There were also some debt repayments and outflows of portfolio capital. As at 14 October, reserves remained strong at RM122.2 billion (US$32.2 billion), sufficient to finance 5.1 months of retained imports, and is 6.2 times the short-term external debt.



International reserves remains strong

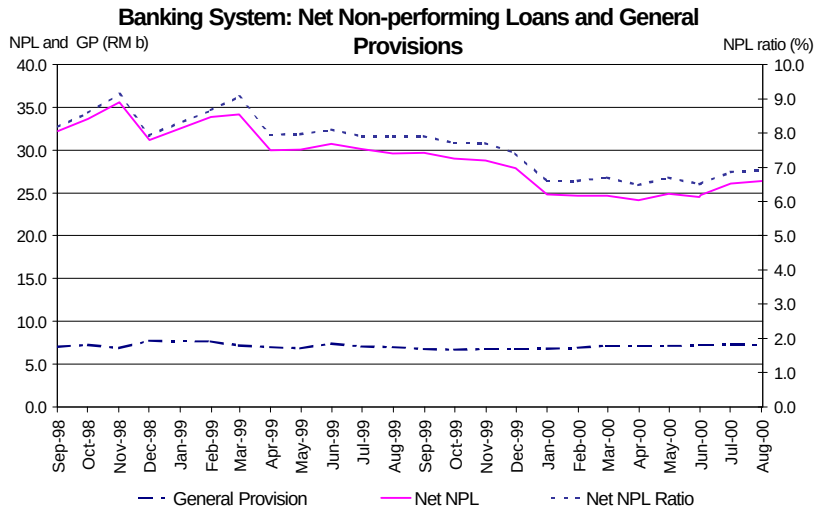
Banking system remained strong

The capital position of the banking system remained strong with a RWCR of 13.0% as at end-September 2000 (13.1% as at end-August 2000). The marginal decline in the ratio was mainly due to the increase in risk-weighted assets in line with the increase in total outstanding loans in the banking system. The net NPL ratio at the end of August remained unchanged at 6.9%.

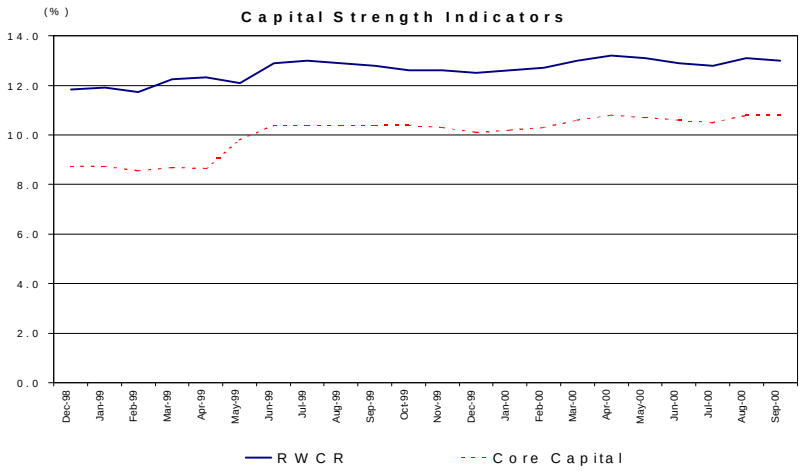
Banking System Health Indicators									
	1998	1999				2000			
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Aug.	Sep.
Capital									
Core-capital ratio (%)	8.7	8.7	10.4	10.4	10.1	10.6	10.6	10.8	10.8
RWCR (%)	11.8	12.3	12.9	12.8	12.5	13.0	12.9	13.1	13.0
Net NPL (6-month classification)									
Banking system (%)	7.5	7.8	7.9	7.7	6.6	6.5	6.5	6.9	n.a.
Banking system (RM million)	29,466	29,635	29,888	29,005	24,677	24,125	24,736	26,365	n.a.
GP/Net total loans (6-month,%)	1.8	1.8	1.9	1.8	1.9	1.9	1.9	1.9	n.a.

n.a. Not available

* Beginning June 1999 onwards, the figures include Islamic Banks



Net NPL ratio of banking system remained at 6.9%



….. risk-weighted capital ratio was 13.0%

As at 30 September 2000, NPLs managed by Danaharta remained at **RM37 billion** representing approximately 42.2% of the total NPLs in the banking system. Currently, Danaharta is actively managing the NPLs acquired through loan restructuring, foreclosure of collateral and business and asset management through appointment of special administrators. Up to 30 June 2000, Danaharta has initiated recovery action on 97% of the NPLs and have conducted the following tender exercises:

Type	No. of tenders	No. of accounts/ Properties offered	Successful tenders		Total Recovery Rate (%)
			No	Consideration	
Foreign loans and assets	3	86	81	USD292.2m	65.8
Property	3	428	209	RM332.9m	99

As at 30 September 2000, capital injection by Danamodal into the banking sector remained at RM4.9 billion. CDRC has resolved a total of 38 cases totalling RM25.7 billion from the 58 cases (total debts of RM42.0 billion) received and eligible for restructuring. Another 20 cases with a valuation of RM16.3 billion are currently being reviewed by CDRC.

Bank Negara Malaysia
30 October 2000

Key Monetary and Banking Statistics

	August		September	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	37.8	6.5	37.9	8.7
M1	69.4	11.9	68.8	8.6
M2	339.8	5.5	339.0	5.0
M3	440.0	4.6	441.1	5.1
Banking System				
Total deposits	457.1	2.5	459.0	3.5
Total loans (including loans sold to Cagamas and Danaharta)	443.9	3.6	445.4	3.6
Total loans (excluding loans sold to Cagamas and Danaharta)	386.5	1.3	388.1	1.4
Loan-deposit ratio (%)	84.6		84.6	
Loans approved during the month	12.9		11.9	
Loans disbursed during the month	31.0		33.5	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	13.1		13.0	
Net NPLs: 6-month classification (%)	6.9		n.a.	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	126.1		122.8	
Reserves in USD (billion)	33.2		32.3	
Months of retained imports	5.2		5.1	
Interest Rates (average rates at end-period)				
Interbank: 1-month	3.00		3.00	
3-month	3.30		3.29	
Fixed deposits of commercial banks: 1-month	3.43		3.44	
3-month	3.47		3.48	
BLR of commercial banks	6.76		6.76	
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.3944		3.3484	
Pound Sterling	5.5208		5.5611	
Singapore dollar	2.2076		2.1824	
100 Japanese yen	3.5721		3.5197	
100 Thai Baht	9.2785		8.9835	
100 Philippine Peso	8.4257		8.2251	
100 Indonesian Rupiah	0.0453		0.0432	
100 Korean Won	0.3427		0.3407	
Capital Market				
Funds raised by: public sector (RM million)	-1.8		3762.6	
private sector (RM million)	3,575.4		429.9	
Kuala Lumpur Composite Index (end-period)	795.8		713.5	
KLSE Market Capitalisation (RMb) (end-period)	553.2		488.8	