BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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PRESS RELEASE ON
MONETARY AND FINANCIAL DEVELOPMENTS
FEBRUARY 2002

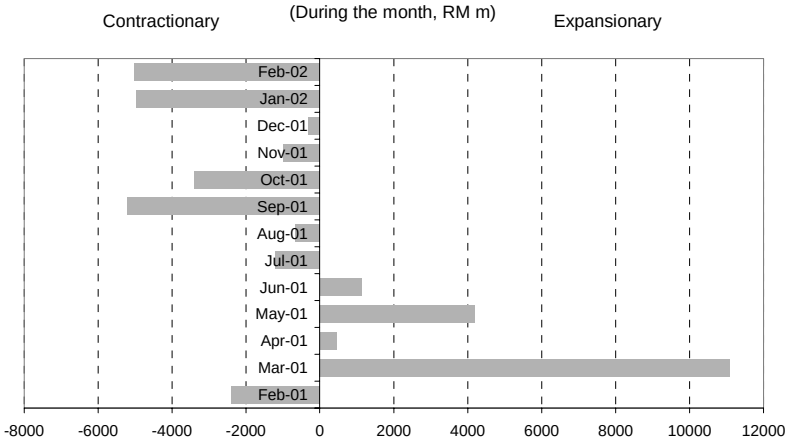
In February, the key monetary and financial indicators pointed towards improvements in economic activity and market confidence. Money supply, deposits, loans and the international reserves were higher in February. Meanwhile, interbank rates remained stable amid the low inflation environment. Current conditions favour monetary policy to remain accommodative to support the economic recovery.

Interest rate levels remained low and stable

During the month, the **interbank money market** rate remained low. BNM liquidity operations absorbed RM5 billion to offset the expansionary impact of withdrawals of deposits by the Government from BNM and the increase in net inflow of funds from trade and portfolio investment.

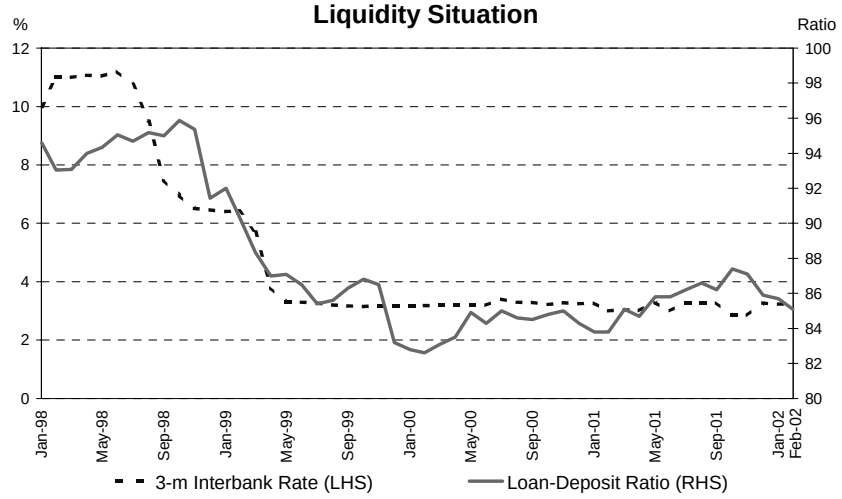
BNM Liquidity Operations

(During the month, RM m)



BNM liquidity operations aim at maintaining stable interbank rates

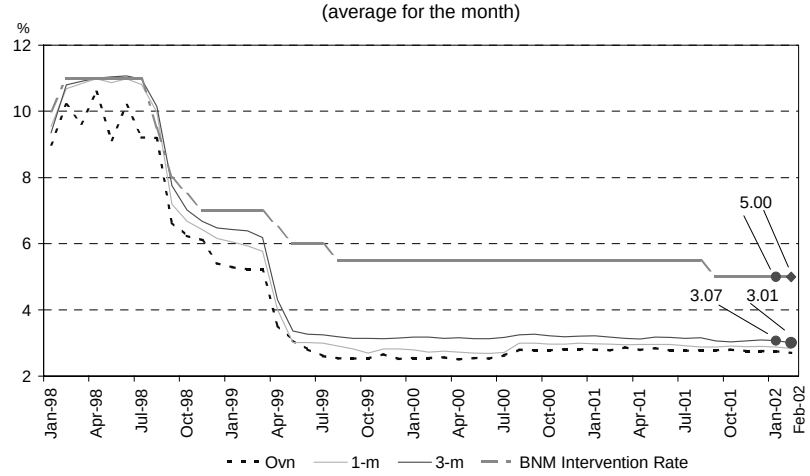
Liquidity Situation



Liquidity remained ample

Interbank Rates

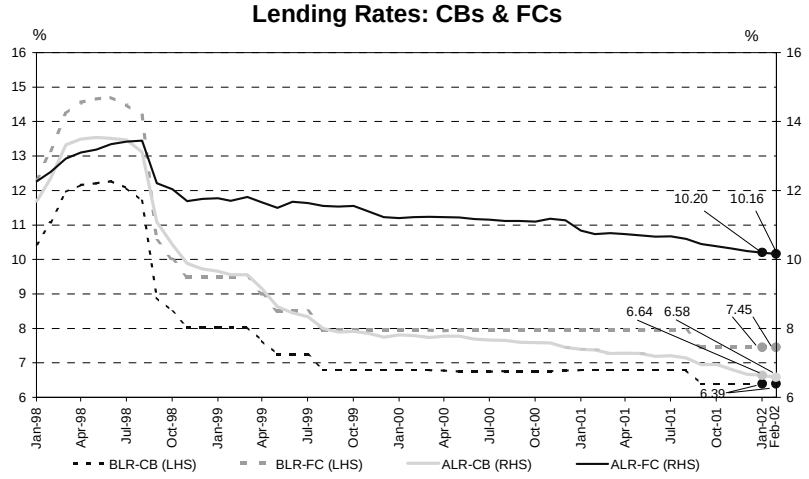
(average for the month)



Interbank money market rates remained stable

The **average base lending rate (BLR)** of commercial banks (CBs) and finance companies (FCs) remained unchanged during the month. Meanwhile, the **average lending rate (ALR)** of both CBs and FCs continued to decline to 6.58% and 10.16% respectively (end-January: 6.64% and 10.20% respectively).

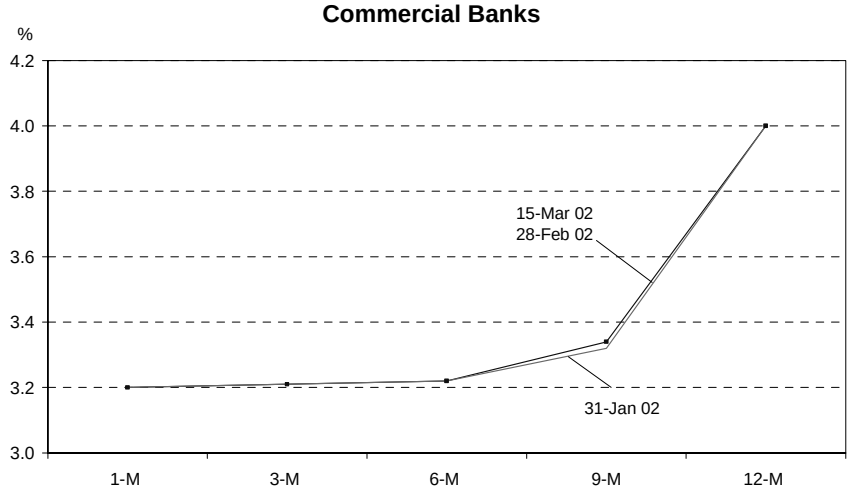
Lending Rates: CBs & FCs



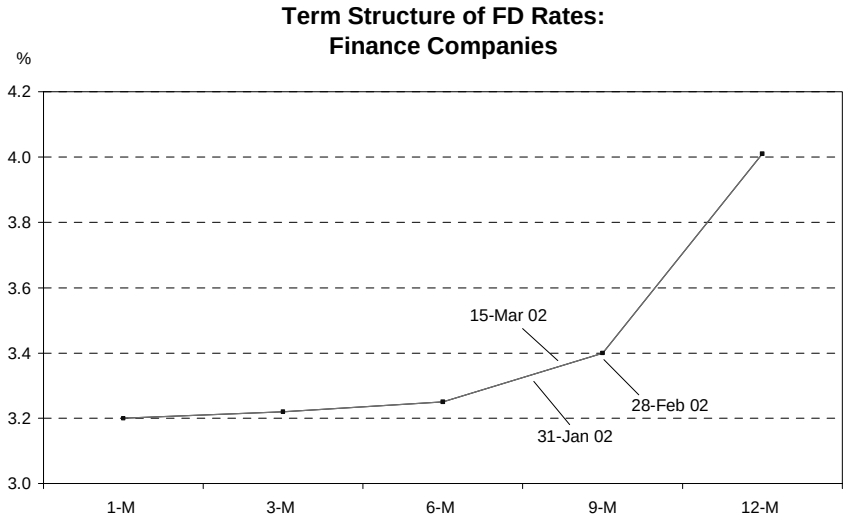
BLRs of CBs and FCs remained unchanged, while the ALRs of CBs and FCs continued to decline

As at 15 March, CBs and FCs' **average quoted fixed deposit (FD) rates** for the 1-month to 12-month maturities also remained unchanged, ranging from 3.20–4.00% and 3.20–4.01% respectively.

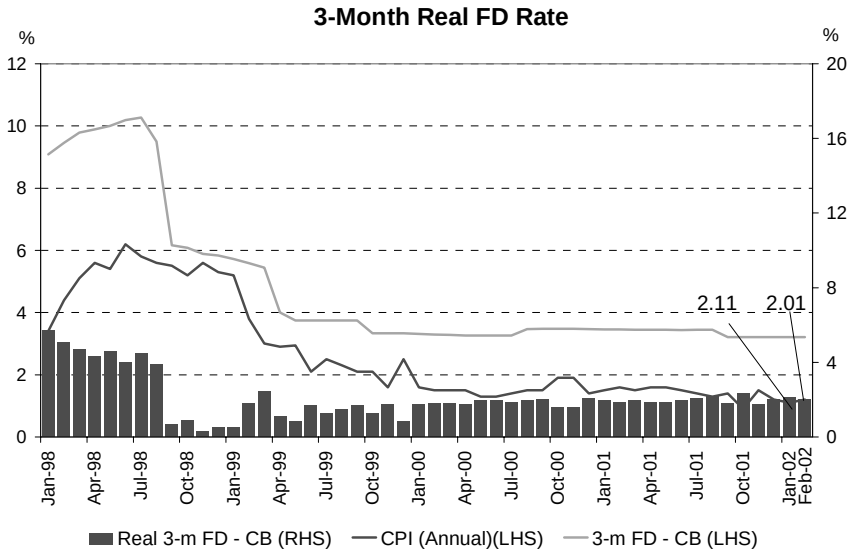
Term Structure of FD Rates: Commercial Banks



As at 15 March, FD rates of CBs remained stable…



… similarly, for FCs



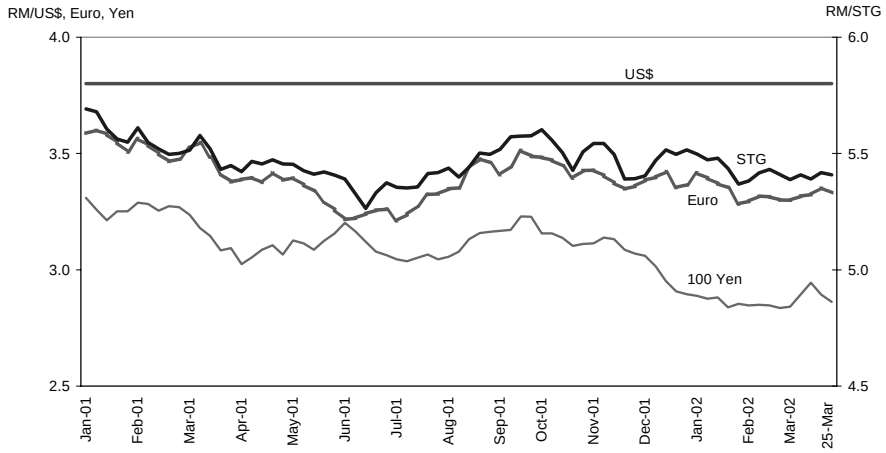
The 3-month real FD rate was marginally lower

The ringgit recorded a mixed performance against major and regional currencies in February

In February, the **ringgit recorded a mixed performance against major currencies**. The ringgit depreciated against the euro (0.3%) and the pound sterling (0.3%), while appreciated against the Japanese yen (0.8%), in tandem with the movements of the US dollar in the international foreign exchange markets. The US dollar was adversely affected by market concerns over corporate accounting practices in the US following the collapse of the energy

trading giant Enron. The Japanese yen depreciated against the US dollar following the ratings downgrade of several Japanese banks and life insurers, as well as market concerns over problems in Japan's financial sector.

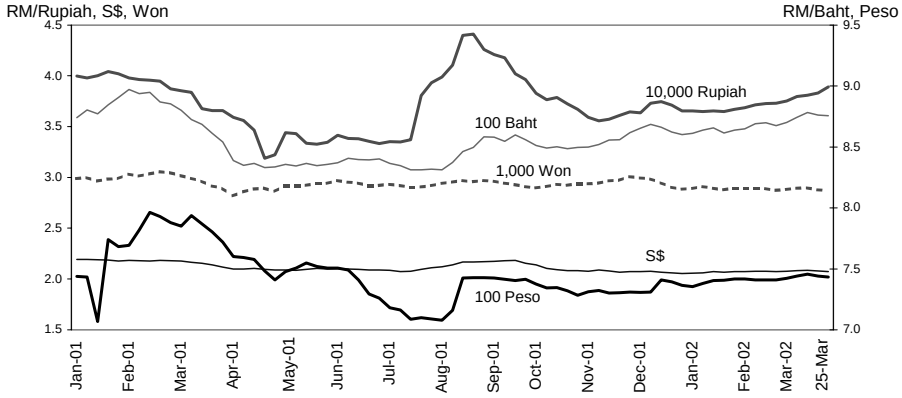
Performance of Ringgit against Major Currencies
(Weekly average)



The ringgit recorded a mixed performance against major currencies

The **ringgit recorded a mixed performance against regional currencies**. The ringgit appreciated against the Korean won (1.5%), the Singapore dollar (0.2%) and the Philippine peso (0.1%), while depreciated against the Indonesian rupiah and the Thai baht by 1.3% and 0.5% respectively. Movements in regional currencies were influenced mainly by domestic developments, as well as market optimism over the growth prospects for regional economies in line with the expected rebound in the US economy. The Philippine peso and the Thai baht benefited from equity-linked foreign fund inflows, while the Korean won weakened due to net capital outflows from the equity market.

Performance of Ringgit against Regional Currencies
(Weekly average)



The ringgit recorded a mixed performance against regional currencies

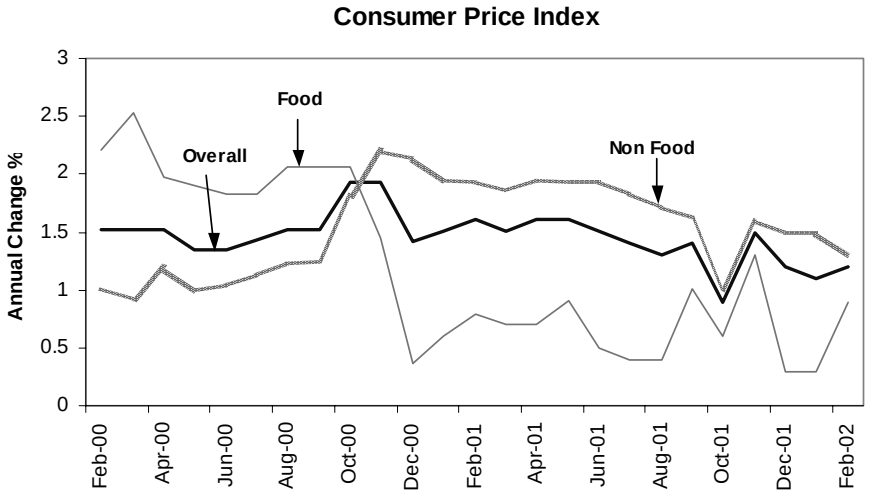
During the period **1–25 March 2002**, the ringgit depreciated against major currencies. The ringgit depreciated against the euro by 1.3%, against the pound sterling by 0.3% and against the Japanese yen by 0.9%. The yen appreciated against the US dollar following the repatriation of funds ahead of the end of the fiscal year in March, as well as the equity-linked fund inflows on the back of stricter regulatory measures on short-selling in the Japanese stock market. The euro and the Swiss franc also appreciated against the US dollar due to safe haven flows following market concerns over US tensions with Iraq. The ringgit also depreciated against regional currencies in the range of 0.1–4.1%.

Performance of Ringgit against Selected Currencies

				% Change		
RM per foreign currency	2 September 1998	End-Feb. 2002	25 March 2002	February 2002	End-2001. - 25 Mar. 2002	2 Sep. 1998 - 25 Mar. 2002
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0
Euro	-	3.2872	3.3303	-0.3	1.1	-
Pound Sterling	6.3708	5.3932	5.4085	-0.3	2.0	17.8
100 Japanese yen	2.7742	2.8378	2.8626	0.8	1.1	-3.1
Singapore dollar	2.1998	2.0716	2.0737	0.2	-1.0	6.1
100 Thai baht	9.3713	8.6947	8.7548	-0.5	-1.7	7.0
100 Philippine peso	8.8302	7.4117	7.4331	0.1	-0.9	18.8
100 Indonesian Rupiah	0.0354	0.0373	0.0389	-1.3	-6.2	-9.0
100 Korean won	0.2827	0.2868	0.2871	1.5	0.4	-1.5

Inflation increased marginally

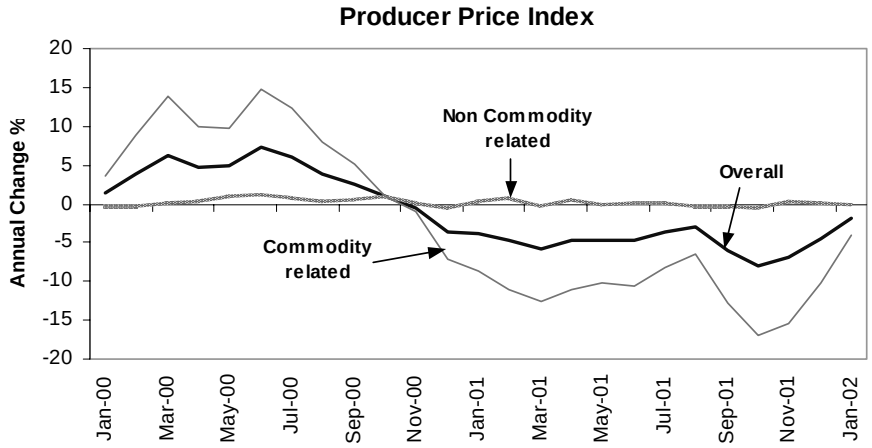
Inflation, as measured by the **Consumer Price Index** (CPI), increased marginally to 1.2% year-on-year in February (January: 1.1%). The increase in the annual growth of the CPI was mainly due to higher prices for food. However, the effect of the increase in food prices on overall CPI was somewhat offset by lower prices or lower price increases in other sub-groups.



Inflation increased marginally

Producer prices registered a slower rate of decline

Producer prices, as measured by the **Producer Price Index** (PPI), registered a slower annual rate of decline of 1.9% in January (December 2001: -4.5%). The slower rate of decline of the overall PPI was concomitant with the strong recovery in crude palm oil prices, amid the continued weak prices for rubber and crude petroleum. Excluding these commodity related products, the adjusted PPI decreased slightly by 0.2%.



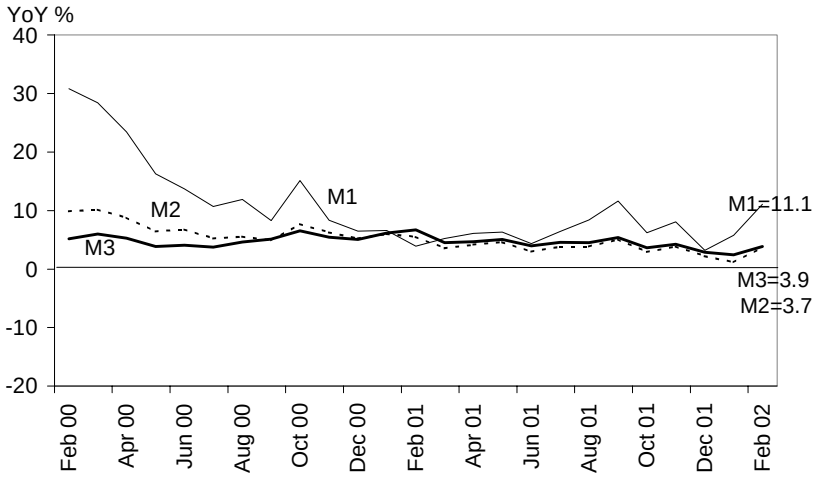
PPI registered a slower rate of decline

Significant expansion in money supply

All three **monetary aggregates** expanded in February. Broad money, M3, rose by RM7.7 billion or 1.6%, while M1 increased by RM0.4 billion or 0.5%. On an annual basis, M1, M2 and M3 continued to increase by 11.1%, 3.7% and 3.9% respectively.

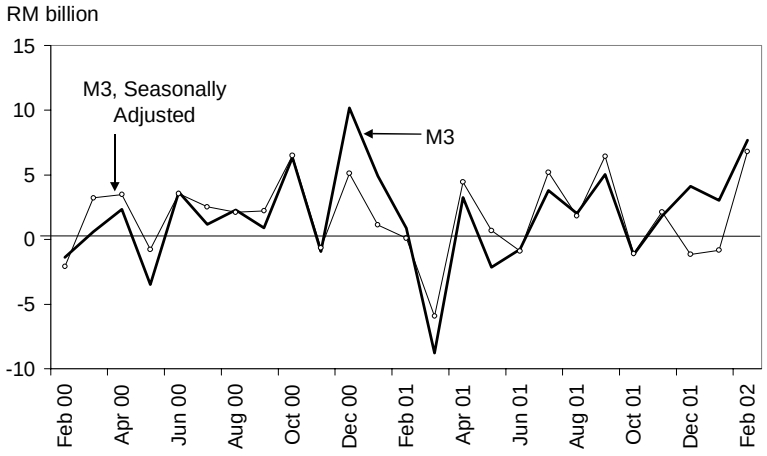
The increase in M3 in February was due to expansionary external operations (RM4.7 billion), reflecting mainly continued inflows from export earnings and net inflows of portfolio funds. Claims on the private sector were also higher (RM4.3 billion), attributed to higher loans and holdings of private debt securities by banking institutions. In addition, Government operations were also expansionary on money supply, reflecting the drawdown of deposits by the Government from BNM to finance its outlays.

Monetary Aggregates: Annual Growth



Annual growth rates edged up…

M3: Monthly Change



M3 increased on a monthly basis…

M3 Determinants
(RM billion)

	Change during period			
	2001	2002		
	Dec	Jan	Feb	Jan-Feb
M3	4.1	3.0	7.7	10.8
Net claims on Government	-1.8	4.2	2.9	7.1
Claims on private sector	1.1	0.7	4.3	5.0
Net external operations[1/]	1.4	-1.3	4.7	3.5
Other influences	3.5	-0.6	-4.2	-4.8

1/ pre-revaluation

… due to expansionary external and Government operations as well as higher claims on the private sector

Banking system deposits and loans increased

On a month-on-month basis, **total deposits** continued to expand by RM6.1 billion or 1.3% in February. The increase was attributed to higher placements of repos by business enterprises as well as higher fixed and savings deposits of individuals. On an annual basis, total deposits mobilised by the banking system rose by 2.3% as at end-February.

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

	2001	2002	
	Dec.	Jan.	Feb.
Holder			
Federal Government	-40	1,234	-1,620
State Governments	25	-172	232
Statutory Authorities[1/]	818	911	1,360
Financial Institutions	1,657	1,327	228
Business Enterprises	936	-2,604	2,961
Individuals	2,673	522	3,097
Others	-154	27	-126
Total	**5,916**	**1,245**	**6,132**

[1/] Include local Governments.

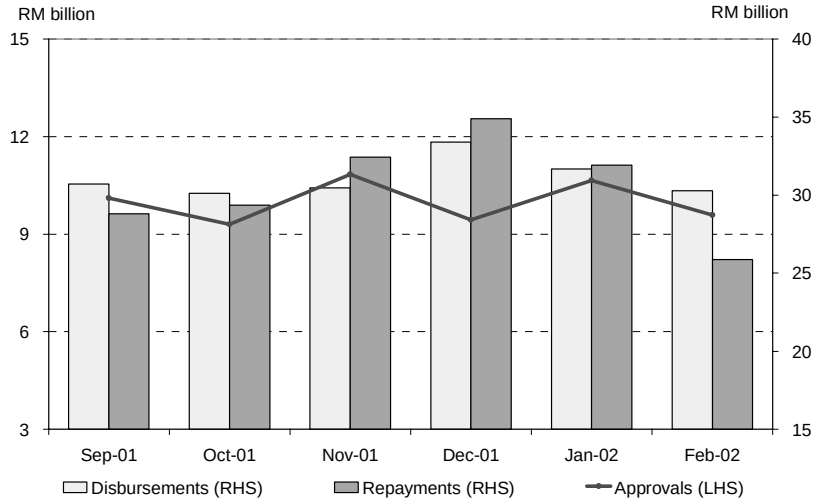
The increase in deposits was attributed to higher placements by individuals, business enterprises and statutory authorities

Monthly Change in Deposits			(RM million)
	2001	2002	
	Dec.	Jan.	Feb.
Type			
Fixed deposits	-2,712	-381	1,724
NIDs issued	327	449	620
Demand deposits	2,738	1,604	-2
Savings deposits	863	36	1,341
Repos	4,069	-3,203	1,645
FX deposits	-415	-220	1,335
SPI deposits	1,199	2,934	-405
Others	-154	27	-126
Total	**5,916**	**1,245**	**6,132**

By type, higher deposits were reflected in fixed and savings deposits as well as repos

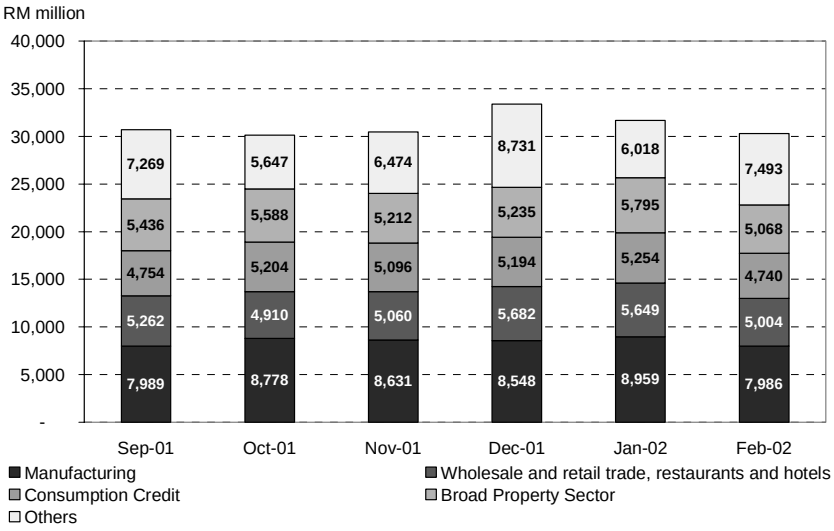
Loan approvals amounted to RM9.6 billion in February. The bulk of approvals continued to be granted for the purchase of residential properties and passenger cars. Meanwhile, **loan disbursements** remained high at RM30.3 billion. Disbursements continued to be broad-based and were channelled mainly to the manufacturing sector; wholesale and retail trade; as well as for the purchase of residential property and passenger cars.

Loan Approvals, Disbursements and Repayments



Loan approvals and disbursements remained high

Loan Disbursements to Selected Sectors



Loan disbursements continued to be broad-based

Loans outstanding extended by the banking system rose further by RM2.9 billion in February. On an annual basis, loans outstanding grew by 4.3% at end-February.

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

	2002		
	Monthly change		As at end
	Jan.	Feb.	Feb.
Agriculture, hunting, forestry and fishing	-13	-238	12,142
Mining and quarrying	-86	-141	1,311
Manufacturing	368	44	68,813
Electricity, gas and water supply	-813	273	4,777
Wholesale and retail trade, restaurants and hotels	50	-33	38,908
Broad property sector	405	899	177,127
of which:			
Purchase of residential property	*1,325*	*866*	*89,258*
Transport, storage and communication	-76	242	12,641
Finance, insurance and business services	-331	412	35,457
Consumption	1,252	1,018	71,684
of which:			
Passenger cars	*1,074*	*841*	*47,415*
Credit cards	*80*	*93*	*9,115*
Purchase of securities	-54	385	30,703
Others	-143	81	20,374
Total Loans[1/]	**561**	**2,941**	**473,936**

Loans outstanding increased further

[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 aggregate financing through banking system loans and PDS

Total financing through **loans extended by the banking system and PDS issued by the private sector** increased by RM4 billion in February. Consequently, the annual rate of growth rose to 6.3% at end-February (end-January: 5.7%).

Financing through banking system loans and PDS

	Change			Annual growth	
	2002			2002	
	Jan	Feb	Jan-Feb	Jan	Feb
	RM billion			%	
Financing by Banking System	**-0.3**	**2.9**	**2.6**	**5.0**	**5.5**
Loans outstanding (1)	0.6	2.9	3.5	3.7	4.3
Holdings of PDS	-0.9	0.0	-0.9	35.3	35.0
Total PDS outstanding * (2)	**-1.8**	**1.1**	**-0.7**	**14.6**	**15.1**
Total (1) + (2)	**-1.3**	**4.0**	**2.8**	**5.7**	**6.3**

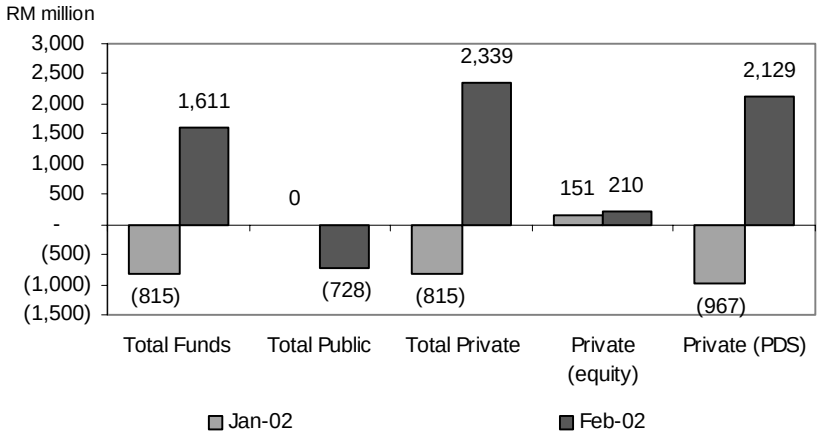
* Refers to total PDS issued by the private sector with original maturity period of more than one year. Exclude debt securities issued by banking institutions, Khazanah, BNM, Cagamas, Danaharta and Danamodal.

Note: Total may not add-up due to rounding.

Higher net funds raised in the capital market

Net funds raised in the capital market were higher in February amounting to RM1.6 billion. This was due to higher net funds raised by the private sector through the issuance of debt securities and shares. Meanwhile, the public sector recorded a net redemption of RM728 million following the higher redemption of MGS.

Net Funds Raised in the Capital Market [1/]

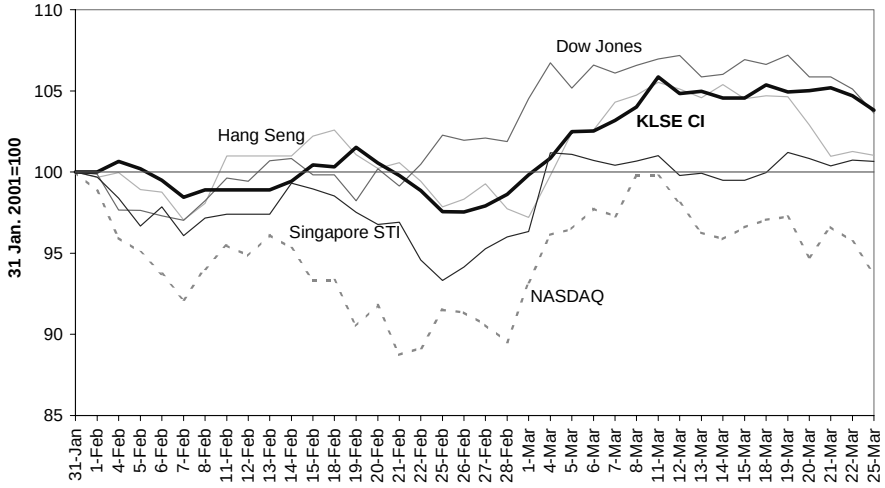


1/ Net funds raised in the capital market by private sector (include Cagamas and Danaharta bonds)

Higher net funds raised in the capital market

The **Kuala Lumpur Stock Exchange Composite Index** (KLSE CI) was slightly lower in February. The KLSE CI was higher in the first two weeks of the month with buying interest following news of improved corporate earnings and positive corporate restructuring developments. However, in the second half of the month, the performance of the KLSE was affected by profit-taking activities and the poor performance of global bourses. As at 28 February, the KLSE CI closed at 708.91 points (-1.4% since end-January), while the market capitalisation stood at RM479.21 billion (-1.4% since end-January). The daily average turnover was at 281.5 million units (January: 348.9 million units).

Performance of Selected Indices



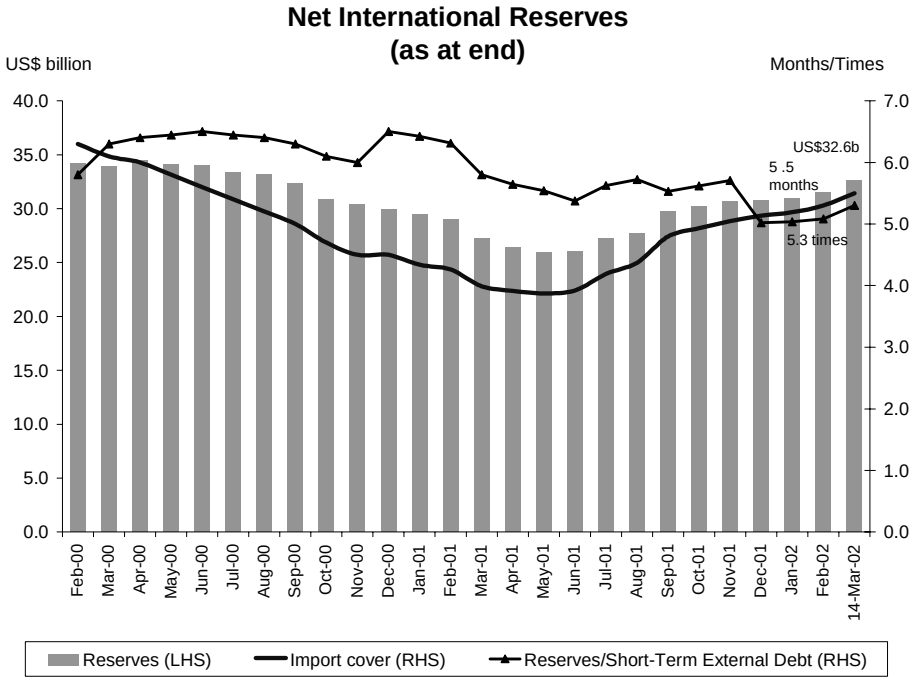
KLSE CI improved in March

The KLSE CI improved in March with strong buying interest following news of better corporate earnings and an improved outlook on the economy. As at 25 March, the KLSE CI closed at 746.26 points (+5.3% since end-February), while the market capitalisation stood at RM507 billion (+5.6% since end-February). The daily average turnover was at 273.8 million units (February: 281.5 million units).

International reserves

The **net international reserves of BNM** increased to RM119.6 billion or US$31.5 billion as at 28 February. The reserves increased further to RM124 billion or US$32.6 billion as at 14 March. The increase in reserves reflected the continued inflows from export earnings, net inflows of portfolio funds as well as the drawdown of the external loan proceeds. In March, the

Federal Government reopened its US$1 billion 7.5% Notes due 2011 by an additional US$750 million. The reserves position is adequate to finance 5.5 months of retained imports and is 5.3 times the short-term external debt.



Banking system remains strong

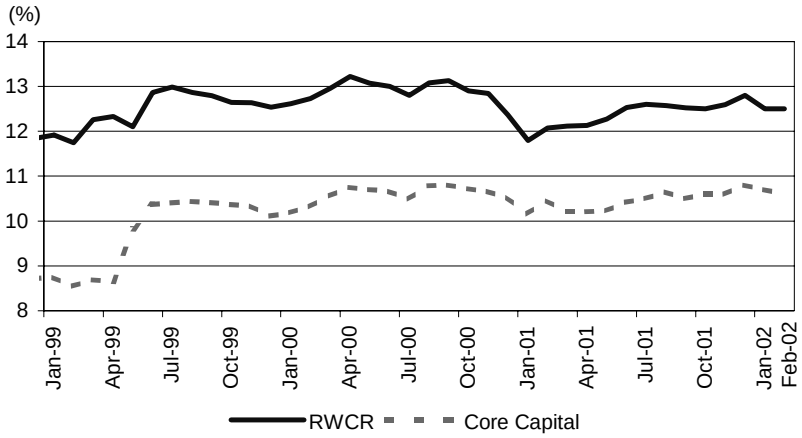
Despite the exclusion of the capital base of a foreign bank which has concluded its merger with another foreign bank in Malaysia during the month, the capital position of the banking system remained strong. The **risk-weighted capital ratio** (RWCR) and core capital ratio (CCR) stabilized at 12.5% and 10.6% respectively as at end-February.

The amount of net **non-performing loans** (NPL) declined by 1.7% to RM33.3 billion as at end-February following the successful restructuring of certain large borrowers. The lower amount of NPL coupled with a larger loan base during the month resulted in a lower net NPL ratio of 8.2%.

Banking System Health Indicators							
	1998	1999	2000	2001		2002	
	Dec.	Dec.	Dec.	Jun.	Dec.	Jan.	Feb.
Capital							
Core-capital ratio (%)	8.7	10.1	10.7	10.5	10.8	10.7	10.6
RWCR (%)	11.8	12.5	12.5	12.6	12.8	12.5	12.5
Net NPL (6-month classification)							
Banking system (%)	8.1	6.4	6.3	8.0	8.1	8.4	8.2
Banking system (RM million)	31,675	23,849	24,700	32,292	32,775	33,870	33,294
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.9	1.9	1.9

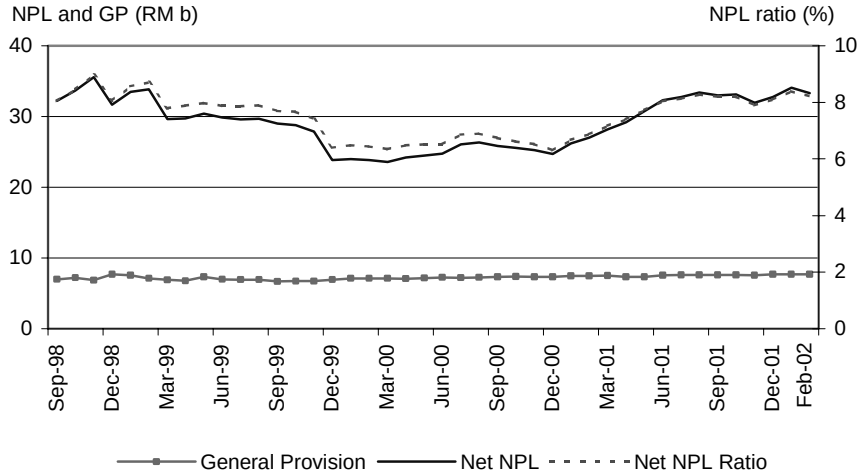
* Beginning June 1999 onwards, the figures include Islamic banks

Banking System: Capital Strength Indicators



….RWCR remained at 12.5%

Banking System: Net NPL and General Provisions



…Net NPL ratio moderated to 8.2%

Danaharta has restructured or approved for restructuring almost all (99.9%) of the NPLs under its management and is expected to focus on implementing approved recovery strategies until its targeted date of 2005.

In line with this, Danaharta has concluded a specific property tender in February, which involved 30 units of six-storey shop-offices with a total indicative value of RM31.9 million. Similar to the property open tenders regularly held by Danaharta, the specific tender is part of Danaharta's efforts to dispose properties to the market in a timely and structured manner, with the objective of maximising recovery value from the NPLs secured by these properties. The units have been fully sold for a total consideration of RM30.7 million, representing a 96% recovery over the total indicative value of the properties. Following the good response, Danaharta launched another specific property tender involving 327 acres of freehold land located in Melaka on 5 March. This specific tender will be closed on 4 April.

Capital injection by Danamodal remained at RM2.1 billion as at end-February. As at 22 March, CDRC had resolved 41 cases involving debts amounting to RM36.4 billion. Currently, CDRC is looking into the debt resolution schemes for the remaining 10 cases with total debts of RM18.2 billion, which CDRC expects to complete by mid-2002.

Statistics of CDRC cases as at 22 March 2002

	Total debt outstanding* (RM million)	**Number of accounts**
Received	**67,644**	**87**
Withdrawn / Rejected	**10,606**	**25**
Transferred to Danaharta	**2,470**	**11**
Cases accepted	**54,568**	**51**
Resolved	**36,373**	**41**
Implemented	*28,714*	*24*
Pending implementation	*7,659*	*17*
Outstanding	**18,195**	**10**
Revised	*1,025*	*1*
Being restructured by CDRC	*17,170*	*9*

* including non-banking and offshore institutions

Bank Negara Malaysia
28 March 2002

Key Monetary and Banking Statistics

	January 2002		February 2002	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	42.8	-0.5	41.6	5.7
M1	83.6	5.8	84.0	11.1
M2	360.4	1.2	368.2	3.7
M3	472.5	2.4	480.2	3.9
Banking System				
Total deposits	480.2	1.3	486.4	2.3
Total loans (including loans sold to Cagamas and Danaharta)	471.0	3.7	473.9	4.3
Total loans (excluding loans sold to Cagamas and Danaharta)	411.6	3.6	413.9	3.9
Loan-deposit ratio (%)	85.7		85.1	
Loans approved during the month	10.6		9.6	
Loans disbursed during the month	31.7		30.3	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	12.5		12.5	
Net NPLs: 6-month classification (%)	8.4		8.2	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	117.5		119.6	
Reserves in USD (billion)	30.9		31.5	
Months of retained imports	5.2		5.3	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.90 [2.88]		2.95 [2.84]	
3-month	3.23 [3.07]		3.25 [3.01]	
Fixed deposits of commercial banks: 1-month	3.20 [3.20]		3.20 [3.20]	
3-month	3.21 [3.21]		3.21 [3.21]	
BLR of commercial banks	6.39 [6.39]		6.39 [6.39]	
Prices				
Consumer price Index (CPI) (2000=100)	102.3	1.1	102.6	1.2
Producer price Index (PPI) (1989=100)	123.7	-1.9	-	-
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.2773		3.2872	
Pound Sterling	5.3753		5.3932	
Singapore dollar	2.0756		2.0716	
100 Japanese yen	2.8609		2.8378	
100 Thai Baht	8.6501		8.6947	
100 Philippine Peso	7.4197		7.4117	
100 Indonesian Rupiah	0.0368		0.0373	
100 Korean Won	0.2910		0.2868	
Capital Market				
Funds raised by: public sector (RM billion)	-		-0.7	
private sector (RM billion)	-0.8		2.3	
Kuala Lumpur Composite Index (end-period)	718.82		708.91	
KLSE Market Capitalisation (RMb) (end-period)	485.89		479.21	