BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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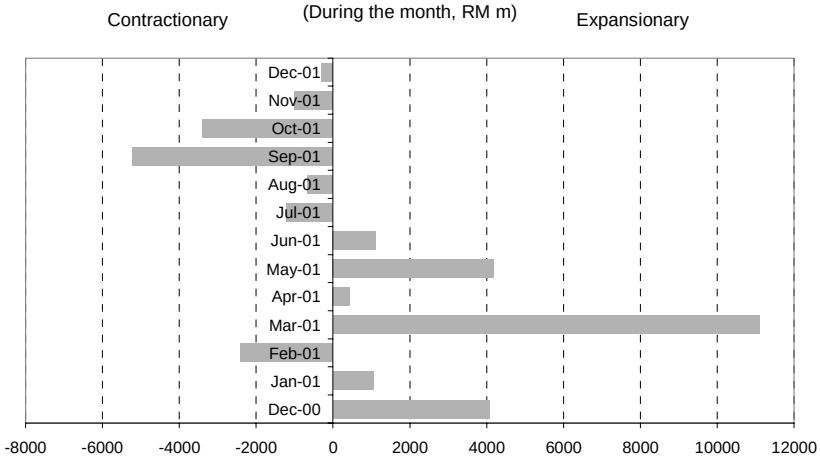
PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS DECEMBER 2001

In December, total financing of the private sector continued to expand, underpinned by the ample liquidity situation and competitive interest rates environment. Funds raised in the private debt securities market remained high, while bank lending activity was sustained. Money supply also increased substantially arising from higher claims on the private sector and expansionary net external operations. Reflecting the sustained trade flows, the international reserves increased further in December and the first half of January 2002.

Interbank rates continued to remain low and stable

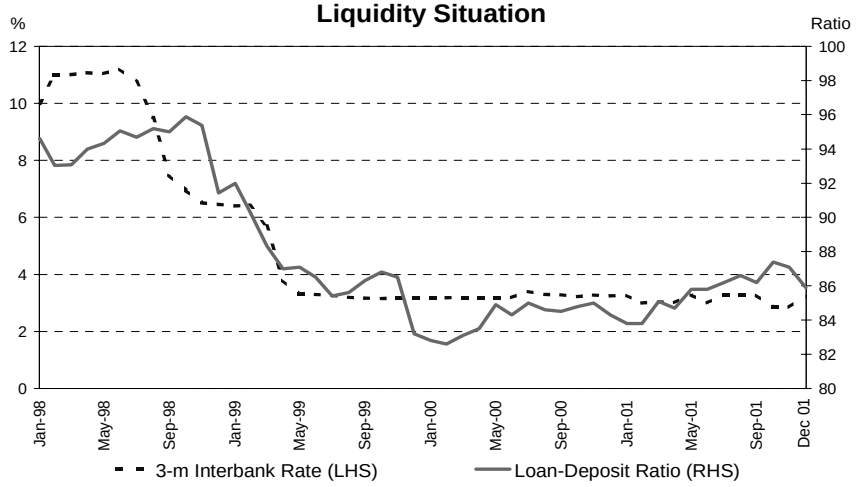
The **interbank money market rates** remained relatively stable in December. BNM liquidity operations were marginally contractionary (-RM0.3 billion). The expansionary influence of the withdrawal of deposits by a non-bank financial institution (NBFI) from BNM and the sustained trade and long-term capital inflows were partly offset by higher placements of Federal Government deposits with BNM following the reopening of an MGS issue during the month.

BNM Liquidity Operations



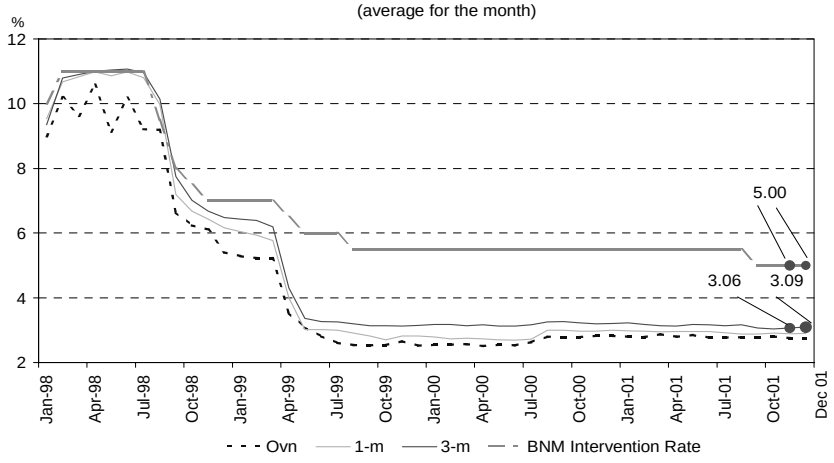
BNM liquidity operations aimed at maintaining stable interbank rates

Liquidity Situation



Ample liquidity continued to prevail

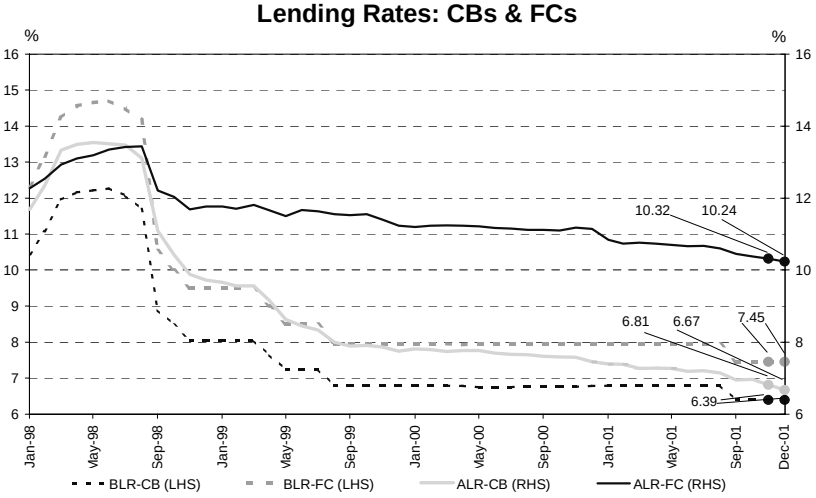
Interbank Rates
(average for the month)



Interbank rates in December also remained stable

The **average base lending rates** (BLR) of commercial banks (CBs) and finance companies (FCs) remained unchanged, while the **average lending rates** (ALR) continued to decline.

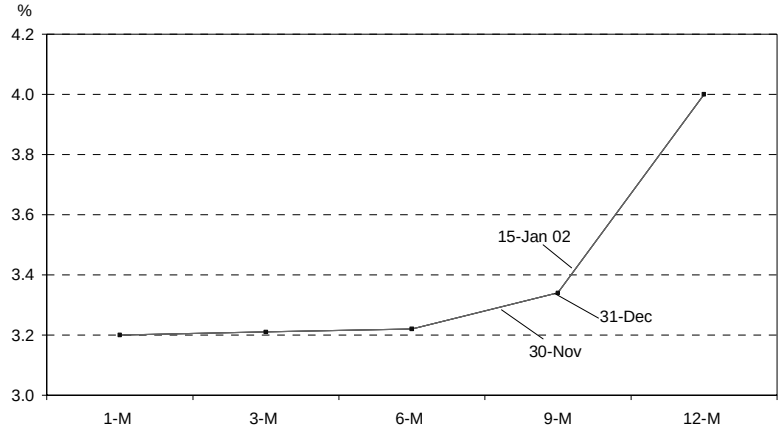
Lending Rates: CBs & FCs



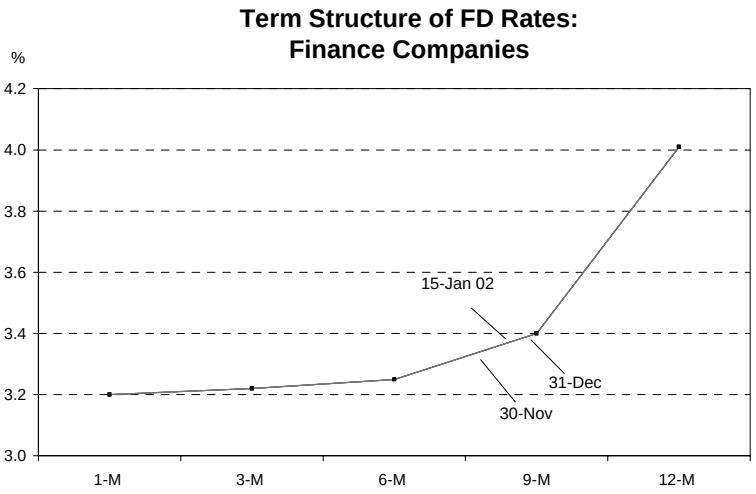
BLRs of CBs and FCs remained unchanged. However, the ALRs of CBs and FCs continued to decline

As at 15 January 2002, the **average quoted fixed deposit (FD) rates** of CBs and FCs for the 1-month and 12-month maturities remained unchanged at 3.20-4.00% and 3.20-4.01% respectively.

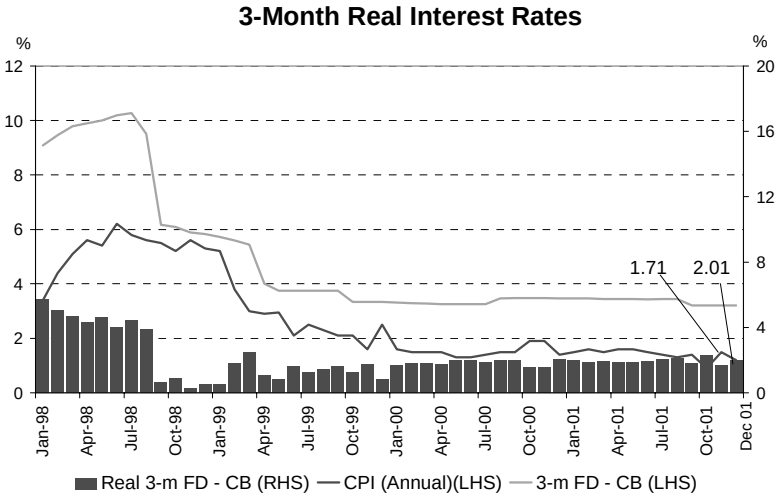
Term Structure of FD Rates: Commercial Banks



FD rates of CBs remained unchanged



...similarly, for FCs



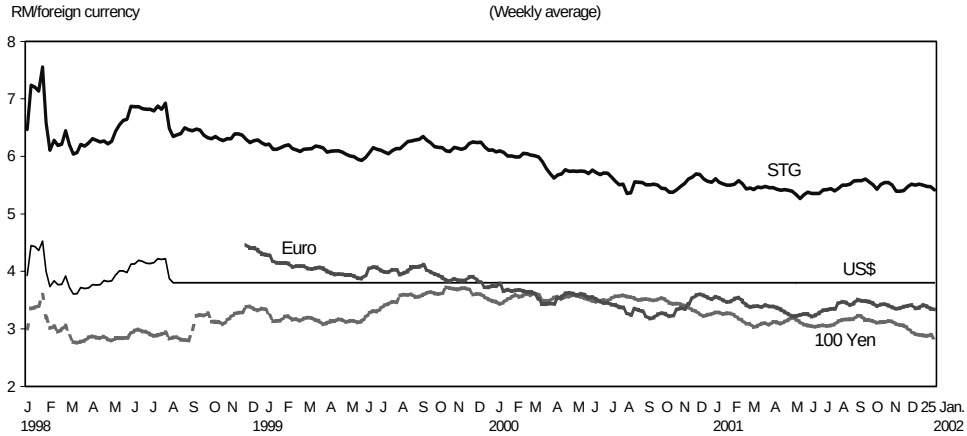
Slightly lower inflation in December led to a higher 3-month real FD rates

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

In December, the **ringgit recorded a mixed performance against major currencies**. The ringgit appreciated against the Japanese yen (5.9%) and the euro (0.1%), while depreciating against the Pound Sterling (-1.8%), in tandem with the movements of the US dollar in the international foreign exchange markets. The US dollar strengthened against the euro and the Japanese yen on the back of economic data indicating an increase in US consumer confidence. The Japanese yen weakened against the US dollar on market pessimism over the growth prospects for the Japanese economy, and the perception that the Japanese Government favoured a weaker currency. The euro weakened against

the US dollar due to some concern over the potential systemic implications of Argentina's debt default on the euro-zone.

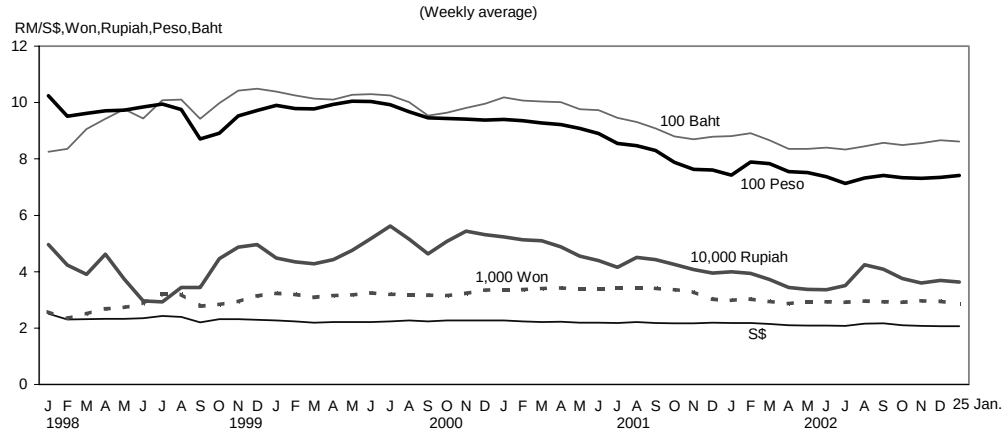
Performance of Ringgit against Major Currencies



The ringgit recorded a mixed performance against major currencies in December

The **ringgit also recorded a mixed performance against regional currencies**. The ringgit appreciated against several regional currencies in the range of 0.5% - 4.3%, while depreciating against the Philippine peso and the Indonesian rupiah by 0.7% and 0.5% respectively. Following the depreciation of the Japanese yen, a few regional currencies also depreciated against the US dollar and the ringgit. However, the Indonesian rupiah and Philippine peso appreciated against the US dollar, following inflows from remittances by overseas workers.

Performance of Ringgit against Regional Currencies



The ringgit recorded a mixed performance against regional currencies in December

During the period **1 – 25 January 2002**, the ringgit appreciated against the major currencies. The ringgit appreciated against the Japanese yen by 2.8%, against the euro by 1.0% and the Pound sterling by 1.8%. The US dollar appreciated against the major currencies mainly due to market optimism over US economic growth prospects. The euro weakened against the US dollar on market concerns over the impact of Argentina's peso devaluation on the euro area, given the exposure of European banks in Argentina. The ringgit also depreciated against several regional currencies in the range of 0.1% - 0.8% over the same period. Despite these recent developments, the ringgit continues to maintain a fair valuation and is supported by the strengthened macroeconomic fundamentals. Rising reserves, low inflation, a well-capitalised banking system and the low foreign debt levels are among some of these fundamentals.

Performance of Ringgit against Selected Currencies

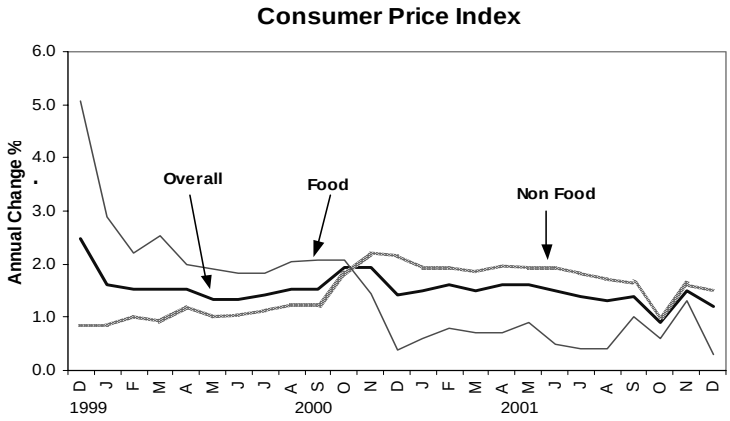
				% Change		
RM per foreign currency	2 September 1998	End-Dec. 2001	25 January 2002	December 2001	1-25 Jan. 2002	2 Sep. 1998-25 Jan. 2002
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0
Euro	-	3.3662	3.3339	0.1	1.0	-
Pound Sterling	6.3708	5.5161	5.4169	-1.8	1.8	17.6
100 Japanese yen	2.7742	2.8955	2.8174	5.9	2.8	-1.5
Singapore dollar	2.1998	2.0529	2.0686	1.1	-0.8	6.3
100 Thai baht	9.3713	8.6022	8.6119	0.5	-0.1	8.8
100 Philippine peso	8.8302	7.3644	7.4052	-0.7	-0.6	19.2
100 Indonesian Rupiah	0.0354	0.0365	0.0363	-0.5	0.6	-2.5
100 Korean won	0.2827	0.2883	0.2867	4.3	0.6	-1.4

Inflation remained low

Inflation, as measured by the **Consumer Price Index (CPI)**, was lower at 1.2% year-on-year in December (November: 1.5%). For the year as a whole, inflation moderated to 1.4% (1.6% in 2000).

On a monthly basis, the CPI increased slightly by 0.1% in December. The marginal increase was due mainly to higher prices for food taken at home, while prices for other sub-groups remained relatively stable. The higher prices for food taken at home, including fish, meat, and milk and eggs, reflected relatively higher demand concomitant with the festive season as well as supply shortages of fish

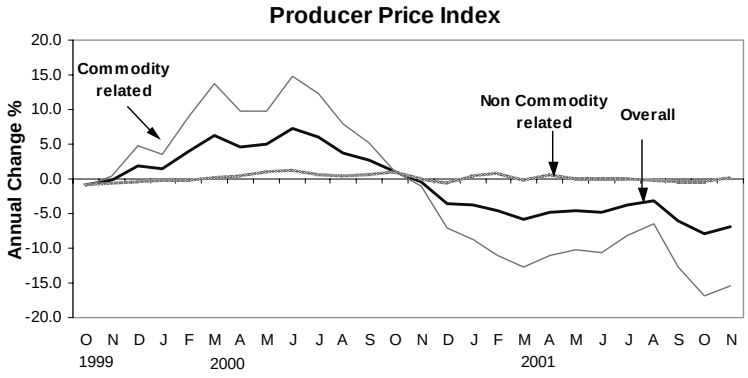
following adverse weather conditions in the east coast of Peninsular Malaysia.



Inflation was lower in December

Producer prices continued to decline

Meanwhile, the **Producer Price Index** (PPI) declined by 6.8% year-on-year in November (October: -7.9%). Lower producer prices were mainly attributable to lower commodity prices, namely crude petroleum and rubber. Excluding the latter, non-commodity PPI increased slightly by 0.3%. On a month-to-month basis, the PPI increased by 1.0% in November.



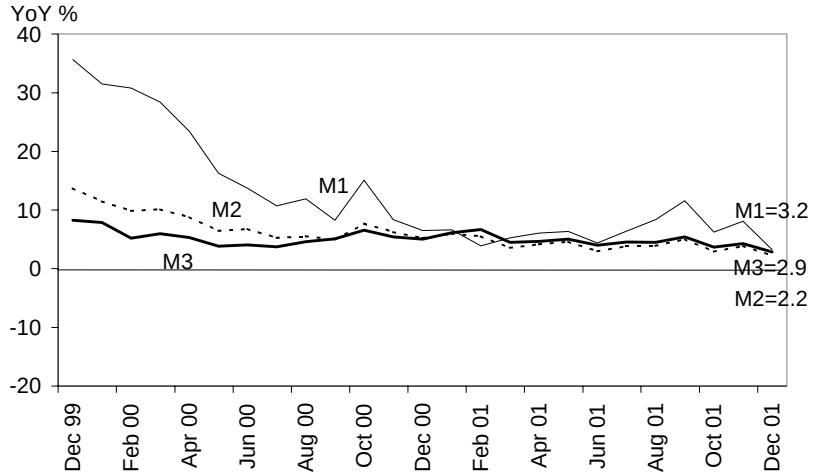
PPI continued to decline

Monetary aggregates expanded further in December

All three **monetary aggregates** continued to expand in December. Broad money, M3 rose by RM4.2 billion or 0.9%, while M1 recorded an increase of RM3.2 billion or 4.1%. On an annual basis, M1, M2 and M3 increased by 3.2%, 2.2% and 2.9% respectively. The moderation in the annual growth rates was attributable to the high base of December 2000, as well as a build up in Government deposits with BNM in the month under review.

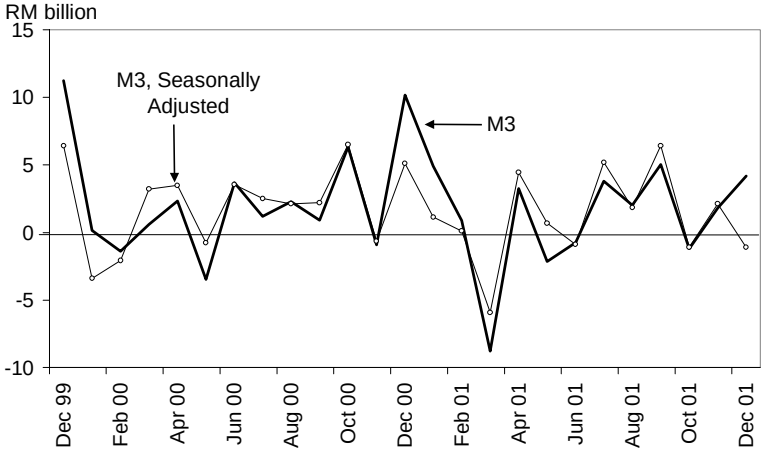
The increase in M3 in December was mainly attributable to higher claims on the private sector, reflecting higher holdings of securities and other investments by banking institutions. The external operations were also expansionary on money supply with BNM's international reserves continuing to increase. Government operations were, however, contractionary as deposits with BNM recorded an increase arising from the placement of proceeds from the reopening of an MGS issue of RM6.5 billion and the raising of a syndicated foreign loan of US$540 million. Nonetheless, the latter had a neutral impact on money supply, as it had been captured as an increase in BNM's international reserves.

Monetary Aggregates: Annual Growth



Monetary aggregates continued to expand, albeit at a more moderate rate

M3: Monthly Change



...on a monthly basis, M3 increased due to higher claims on the private sector and expansionary external operations

M3 Determinants

(RM billion)

	Change during period			
	2001			
	Oct	Nov	Dec	Jan-Dec
M3	-1.2	1.8	4.2	13.0
Net claims on Government	3.9	2.0	-1.8	-1.5
Claims on private sector	1.1	1.3	1.2	20.4
Net external operations[1/]	-1.2	-0.9	1.4	7.6
Other influences	-5.0	-0.5	3.4	-13.5

1/ pre-revaluation

Banking system deposits recorded significant increase, while lending activity was sustained

On a month-on-month basis, **total deposits** increased by RM6 billion or 1.3%. There was a broad-based increase in deposits during the month. Deposits by individuals continued to increase strongly by RM2.7 billion, in particular savings, demand and fixed deposits, partly reflecting year-end bonuses. Deposits by financial institutions also turned around to increase by RM1.7 billion, due mainly to the increase in deposits by non-bank financial institutions in the form of repos and SPI deposits. At the same time, deposits placed by business enterprises were higher mainly in terms of demand deposits and repos. The latter, to some extent, reflected a shift from fixed deposits to repos. On an annual basis, total deposits mobilised by the banking system rose by 1.8% as at end-December (3.2% as at end-December 2000).

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

	2001		
	Oct.	Nov.	Dec.
Holder			
Federal Government	-997	-586	-40
State Governments	-206	62	25
Statutory Authorities[1/]	39	-476	818
Financial Institutions	-3,136	-1,580	1,660
Business Enterprises	-1,867	-1,177	982
Individuals	2,025	3,810	2,673
Others	130	-110	-154
Total	**-4,012**	**-58**	**5,964**

[1/] Include local Governments.

Broad-based increase in deposits except for deposits of the Federal and State Governments, which remained relatively stable

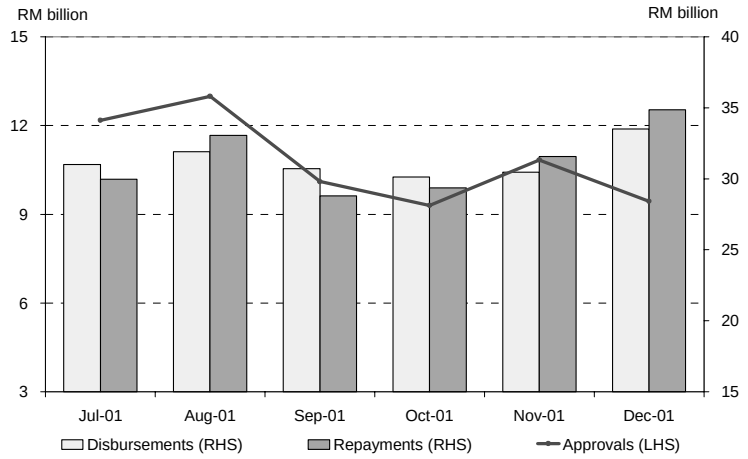
Monthly Change in Deposits			(RM million)
	2001		
	Oct.	Nov.	Dec.
Type			
Fixed deposits	406	-1,975	-2,712
NIDs issued	-1,456	-642	327
Demand deposits	-553	826	2,738
Savings deposits	360	294	863
Repos	-2,818	1,085	4,082
FX deposits	287	4	-379
SPI deposits	-368	459	1,199
Others	130	-110	-154
Total	**-4,012**	**-58**	**5,964**

The significant increase in deposits was attributed to higher repos, demand, SPI and savings deposits

For the year as a whole, total deposits increased by RM8.6 billion (RM14.6 billion in 2000), with deposits by individuals increasing by RM17 billion, which more than offset the lower deposits by other holders. By type, SPI deposits showed a notable increase during the year (RM11.3 billion). The increase was mainly in special investment deposits (SID) and general investment deposits (GID) totalling RM8.9 billion, reflecting partly a shift from conventional fixed deposits. The latter declined by RM12.5 billion. Other deposits, in particular savings, repos and demand deposits, were also higher.

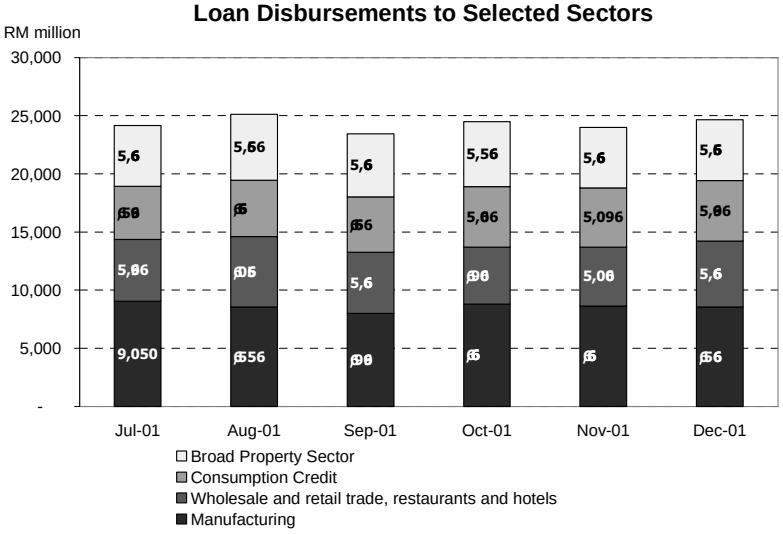
Loan approvals amounted to RM9.4 billion in December and continued to be granted mainly for the purchase of residential properties and passenger cars. Meanwhile, **loan disbursements** increased substantially in December, totalling RM33.5 billion and were channelled to a wide range of activities including manufacturing; wholesale and retail trade; finance, insurance and business services sectors; for the purchase of residential property and passenger cars; as well as credit cards.

Loan Approvals, Disbursements and Repayments



Loan disbursements increased substantially in December…

Loan Disbursements to Selected Sectors



...and were channelled mainly to the manufacturing sector, wholesale and retail trade as well as for the purchase of residential properties and passenger cars

Nonetheless, arising from higher repayments, **loans outstanding** extended by the banking system declined slightly by RM112 million in December. This was attributable mainly to the refinancing of loans amounting to RM1.3 billion by one of the utility companies via the issuance of PDS. Excluding the latter, loans would have increased by RM1.2 billion in December. Meanwhile, there continued to be higher loans extended for the purchase of residential properties and passenger cars.

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

	2001		
	Monthly change		As at end
	Nov.	Dec.	Dec.
Agriculture, hunting, forestry and fishing	224	-289	12,393
Mining and quarrying	-140	22	1,538
Manufacturing	-1,466	-38	68,326
Electricity, gas and water supply	407	-935	5,317
Wholesale and retail trade, restaurants and hotels	242	-1	38,990
Broad property sector	143	1,168	175,929
of which:			
Purchase of residential property	*1,199*	*1,290*	*87,067*
Transport, storage and communication	-1,996	-369	12,339
Finance, insurance and business services	22	-207	35,358
Consumption	940	1,149	69,410
of which:			
Passenger cars	*759*	*718*	*45,496*
Credit cards	*246*	*323*	*8,942*
Purchase of securities	-65	-252	30,372
Others	102	-361	20,452
Total Loans[1/]	**-1,587**	**-112**	**470,424**

[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.

The decline in loans outstanding in December reflected mainly the refinancing of loans through the issuance of debt securities

For the year as a whole, loan disbursements rose by 3.1% to RM372 billion, with the bulk of the loans being channelled to the manufacturing sector (27.9% of total disbursements); wholesale and retail trade (17.2%); the purchase of residential properties and passenger cars (7.7% and 6.3% respectively); finance, insurance and business services (7.7%) and construction (5.6%) sectors; as well as for credit cards (5.3%). Repayments also rose by 4.7% to RM363.4 billion, almost matching disbursements, which moderated the growth in total loans outstanding. For the year as a whole, total loans outstanding increased further by RM16.4 billion or 3.6% as at end-December 2001. Excluding the restructuring of debt in November and refinancing of loans in December, loans outstanding would have increased by RM20.6 billion or 4.5% at end-2001.

Aggregate financing through banking system loans and PDS increased

Total financing through loans extended by the banking system and PDS issued by the private sector increased by RM2.8 billion in December. For the year as a whole, it expanded by RM33.5 billion or 6% as at end-2001.

Financing through banking system loans and PDS

	Change			Annual growth	
	2001			2001	
	Nov	Dec	Jan-Dec	Nov	Dec
	RM billion			%	
Financing by Banking System	**0.9**	**-0.1**	**22.9**	**6.3**	**4.8**
Loans outstanding (1)	-1.6	-0.1	16.4	4.8	3.6
Holdings of PDS	2.5	…	6.5	46.9	35.9
Total PDS outstanding * (2)	**6.9**	**3.0**	**17.1**	**19.8**	**17.0**
Total (1) + (2)	**5.3**	**2.8**	**33.5**	**7.5**	**6.0**

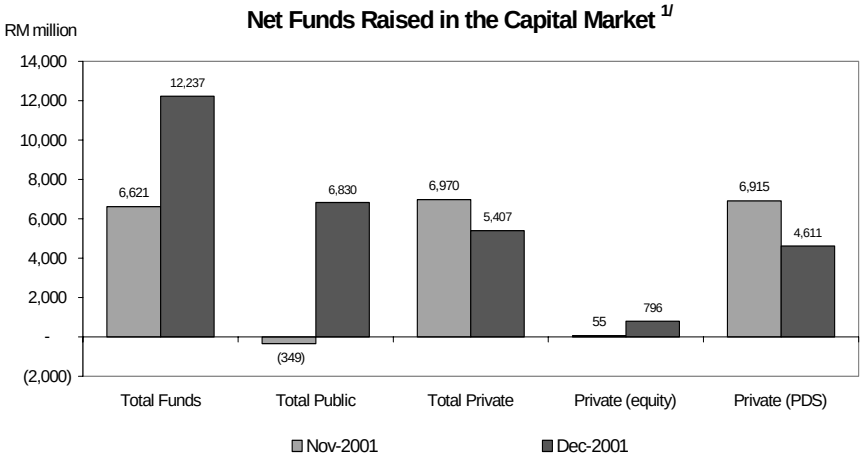
* Refers to total PDS issued by the private sector with original maturity period of more than one year. Exclude debt securities issued by banking institutions, Khazanah, BNM, Cagamas, Danaharta and Danamodal.

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 December totalling RM12.2 billion. Funds raised by the public sector were higher due to the reopening of Malaysian Government Securities (MGS) of RM6.5 billion, while there were lower net issues of debt securities by the private sector.

Net Funds Raised in the Capital Market [1/]

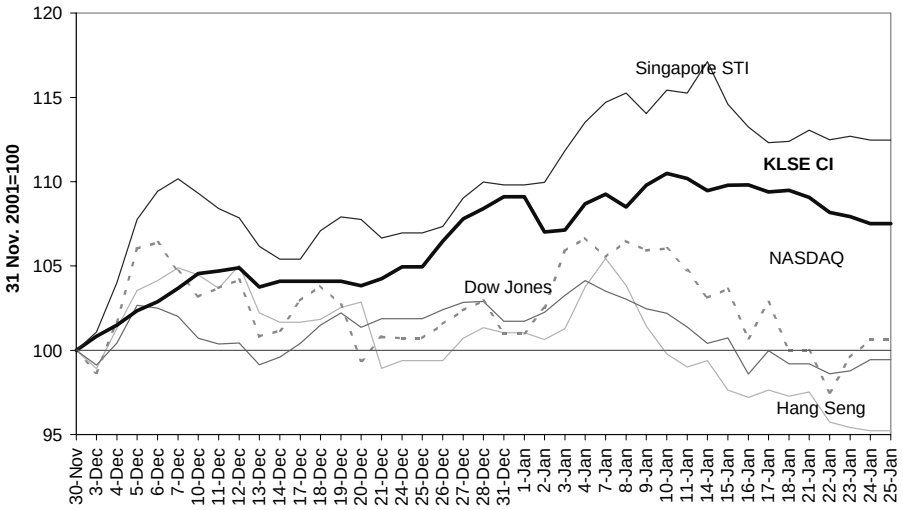


1/ Net funds raised in the capital market by private sector (include Cagamas and Danaharta bonds)

Higher net funds raised in the capital market in December

The **Kuala Lumpur Stock Exchange Composite Index** (KLSE CI) continued its positive trend in December in line with developments in the US markets. In addition, positive reports from several foreign research houses on Malaysia contributed to boost sentiments. Meanwhile, the implementation of the Morgan Stanley Capital International free-float index was largely a non-event as investors had already discounted its impact. As at 31 December, the KLSE CI closed at 696.09 points (+9.1% since end-November and +2.4% compared to end-2000), while the market capitalisation stood at RM464.99 billion (+6.7% since end-November and +4.6% compared to end-2000). The daily average turnover was at 322.7 million units (371.7 million units in November and 204.4 million units in 2001).

Performance of Selected Indices



KLSE CI trended lower

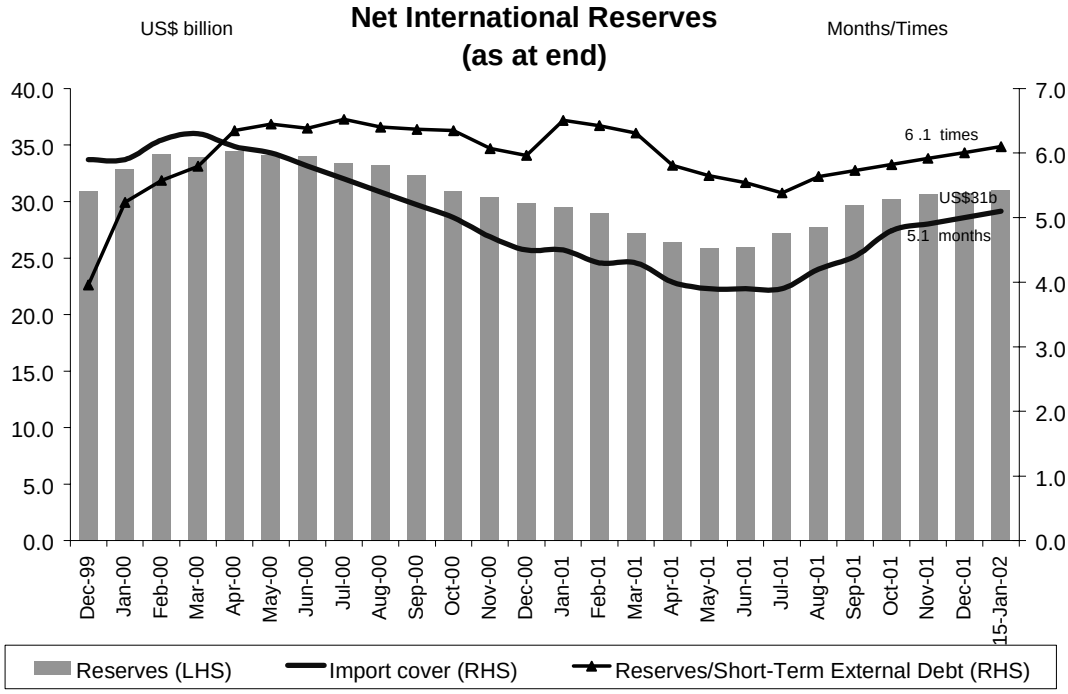
In the first three weeks of January 2002, market performance remained relatively stable. Initially, the KLSE CI increased slightly due to positive reports on the prospects for the Malaysian economy. However, the encouraging trend was not sustained towards the end of the period due to profit-taking activities and volatility of global bourses. As at 25 January, the KLSE CI closed at 693.58 points (-0.4% since end-December), while the market capitalisation stood at RM470 billion (+1.1% since end-December). The daily average turnover was higher at 351.8 million units (322.7 million units in December).

International reserves

The **net international reserves of BNM** increased to RM117.2 billion or US$30.8 billion as at 31 December 2001 and increased further to RM117.8 billion or US$31 billion by 15 January 2002, The reserves position is adequate to finance 5.1 months of retained imports and is 6.1 times the short-term external debt. Sustained trade and long-term capital inflows were more than adequate to finance movements in funds related to year-end repatriation of profits and dividends as well as portfolio adjustments.

The reserves at the end of December 2001 had taken into account the quarterly adjustment of the unrealised foreign exchange revaluation loss amounting to US$612 million mainly as a result of the depreciation of the Euro and the yen against the US dollar during the quarter. Total net revaluation loss for the year 2001 amounted to RM4.1 billion or US$1.1 billion.

Reserves had increased by RM4.2 billion or US$1.1 billion since end-2000. Reserves have been on a rising trend since end-June, reversing the decline in early 2001. Since end-June, net international reserves had increased by RM18.9 billion or US$5 billion. With interest rate differentials in Malaysia's favour in the second half of 2001, this has encouraged the early repatriation of export proceeds from abroad. Inflows of foreign direct investment remained significant during this period, reflecting inflows from strategic business alliances with foreign partners. While portfolio capital recorded strong inflows from July onwards, this trend reversed towards the second half of September following the uncertainties associated with the September 11 developments in the United States. Repayments of external loans during the period also partially offset the drawdown of external loans.



Banking system remained strong

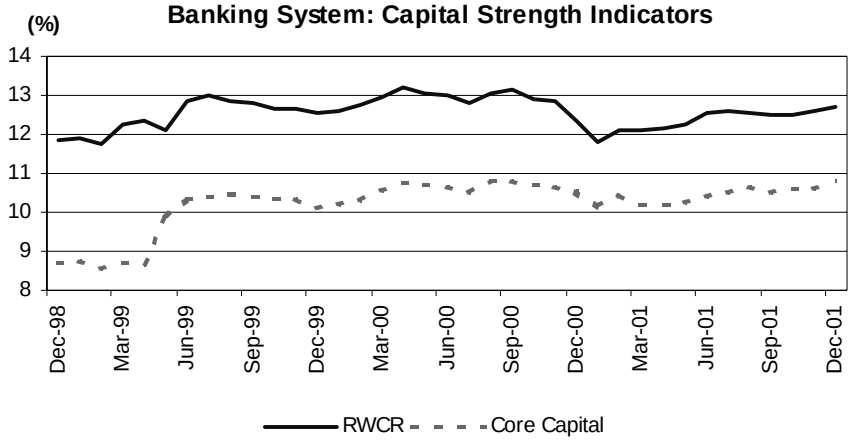
The capital strength of the banking system improved further during December 2001 with the risk-weighted capital ratio (RWCR) and core capital ratio (CCR) rising to 12.7% and 10.8% respectively. The increase in the capital ratios is attributed to the increase in capital by 3 institutions to comply with the minimum capital requirements. However, this increase was partially offset by an increase in investment in subsidiaries following the takeover of a finance company in conjunction with the merger exercise.

The net NPL ratio increased to 8.1% at the end of December 2001 (7.9% as at end-November 2001) with net NPLs amounting to RM32.6 billion. This increase was due to a marginal increase in gross NPLs by RM0.6 billion coupled with a slight decline in the outstanding loans of the banking system.

Banking System Health Indicators								
	1998	1999		2000		2001		
	Dec.	Jun.	Dec.	Jun.	Dec.	Oct.	Nov.	Dec.
Capital								
Core-capital ratio (%)	8.7	10.4	10.1	10.7	10.5	10.6	10.6	10.8
RWCR (%)	11.8	12.9	12.5	13.0	12.4	12.5	12.6	12.7
Net NPL (6-month classification)								
Banking system (%)	8.1	7.9	6.4	6.5	6.3	8.2	7.9	8.1
Banking system (RM million)	31,675	29,889	23,849	24,736	24,700	33,121	31,934	32,586
GP/Net total loans (6-month, %)	2.0	1.8	1.9	1.9	1.9	1.9	1.9	1.9

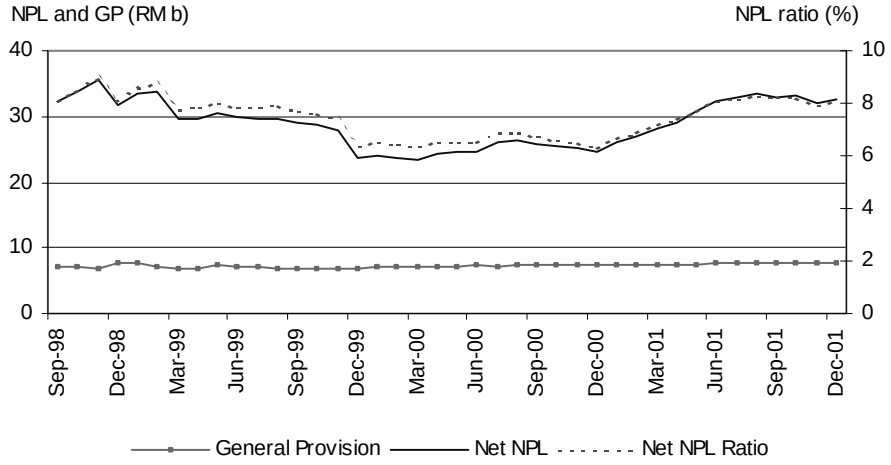
** Beginning June 1999 onwards, the figures include Islamic banks*

Banking System: Capital Strength Indicators



…RWCR strengthened to 12.7%

Banking System: Net NPL and General Provisions



…Net NPL ratio increased marginally to 8.1%

As at 30 November 2001, total loan rights acquired and managed by Danaharta amounted to RM47.5 billion of which RM39.5 billion were from the banking system. Loans acquired by Danaharta from the banking system accounted for 39.3% of the banking system's total NPL. Of the total loan rights acquired, RM41.9 billion (gross value of RM45.0 billion) or 88.2% has been dealt with and the recovery rate of these NPLs is expected to be at 56%[1].

Capital injection by Danamodal reduced to RM2.1 billion at the end of December 2001 following the repayment by a financial institution. During the month, the Corporate Debt Restructuring Committee (CDRC) resolved another 3 cases. However, one of the cases which was previously resolved but pending implementation has been withdrawn from CDRC at the request of its' creditors. This brings the total number of resolved cases to 42 with debt totalling RM35.4 billion and the number of rejected or withdrawn cases to 23 cases. As at 31 December 2001, 21 cases with debts totalling RM21.4 billion have yet to be resolved, inclusive of 3 revised cases previously resolved and 6 other cases which have been transferred to Danaharta.

[1] Assumed zero recovery on default cases.

Statistics of CDRC cases as at 31 December 2001		
	Total debt outstanding* (RM million)	**Number of accounts**
Received	66,813	86
Withdrawn / Rejected	10,069	23
Cases accepted	56,744	63
Resolved	**35,386**	**42**
*Implemented ** *	*28,971*	*25*
*Pending implementation *** *	*6,415*	*17*
Outstanding	**21,358**	**21**
Revised	*1,747*	*3*
Being restructured by Danaharta	*1,573*	*6*
Being restructured by CDRC	*18,038*	*12*

* including non-banking and offshore institutions
** including 2 transferred to Danaharta
*** including 3 transferred to Danaharta

Bank Negara Malaysia
28 January 2002

Key Monetary and Banking Statistics

	November		December	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	39.8	6.4	40.0	-3.3
M1	77.6	8.1	80.7	3.2
M2	356.9	3.9	362.5	2.2
M3	465.4	4.3	469.5	2.9
Banking System				
Total deposits	473.1	2.6	479.0	1.8
Total loans (including loans sold to Cagamas and Danaharta)	470.5	4.8	470.4	3.6
Total loans (excluding loans sold to Cagamas and Danaharta)	412.1	5.2	411.6	3.8
Loan-deposit ratio (%)	87.1		85.9	
Loans approved during the month	10.8		9.4	
Loans disbursed during the month	30.5		33.5	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	12.6		12.7	
Net NPLs: 6-month classification (%)	7.9		8.1	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	116.5		117.2	
Reserves in USD (billion)	30.7		30.8	
Months of retained imports	5.0		5.1	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.99 [2.89]		2.97 [2.90]	
3-month	2.85 [3.06]		3.27 [3.09]	
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)	102.0	1.5	102.1	1.2
Producer price Index (PPI) (1989=100)	122.0	-6.8	-	-
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.3708		3.3662	
Pound Sterling	5.4158		5.5161	
Singapore dollar	2.0756		2.0529	
100 Japanese yen	3.0674		2.8955	
100 Thai Baht	8.6462		8.6022	
100 Philippine Peso	7.3148		7.3644	
100 Indonesian Rupiah	0.0363		0.0365	
100 Korean Won	0.3006		0.2883	
Capital Market				
Funds raised by: public sector (RM billion)	-0.3		6.8	
private sector (RM billion)	6.9		5.4	
Kuala Lumpur Composite Index (end-period)	638.02		696.09	
KLSE Market Capitalisation (RMb) (end-period)	435.98		464.99	