BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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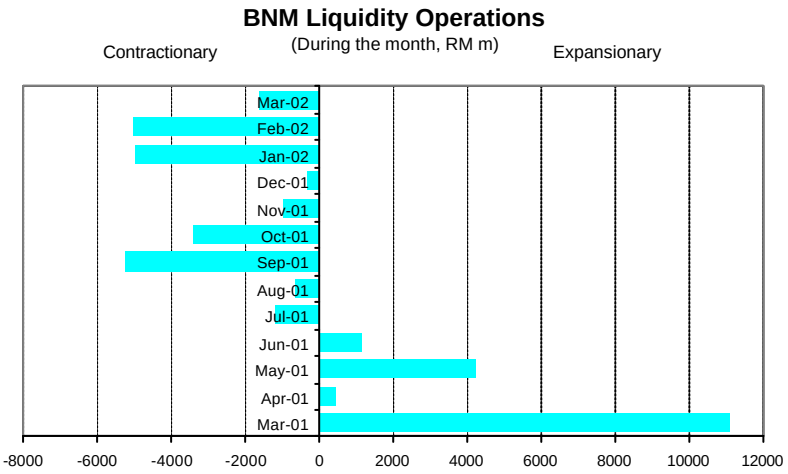
PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS MARCH 2002

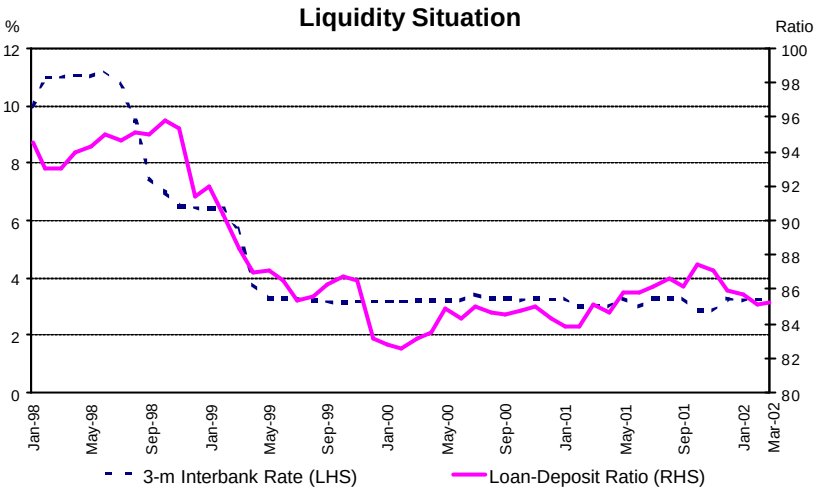
In March, the monetary and financial indicators pointed towards further improvement in economic activity and market confidence. Money supply, deposits and loans continued their rising trend. Positive developments in the corporate sector as well as renewed foreign interests contributed to improved investor confidence in the equity market. Although inflation rose in March, the increase reflected mainly the one-off price adjustment in telephone service charges. Overall, monetary policy continues to support the economic recovery.

Liquidity operations to stabilise interest rates

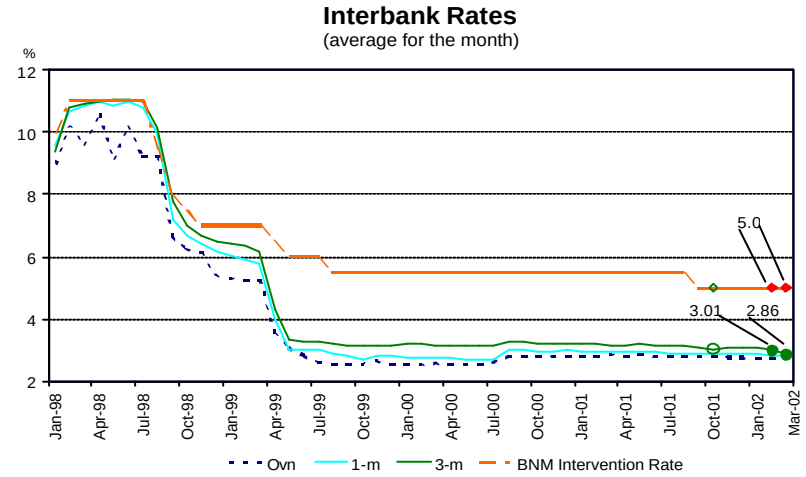
In March, BNM liquidity operations absorbed RM1.6 billion in excess liquidity due to the continued inflows from export earnings and portfolio funds. Consequently, **interbank money market rates** remained relatively stable and low during the month.



BNM liquidity operations were contractionary to maintain stable liquidity conditions

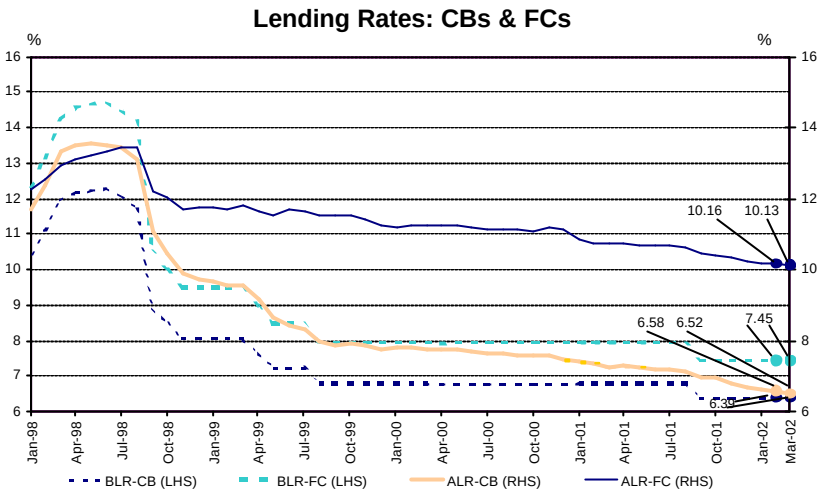


Liquidity remained ample



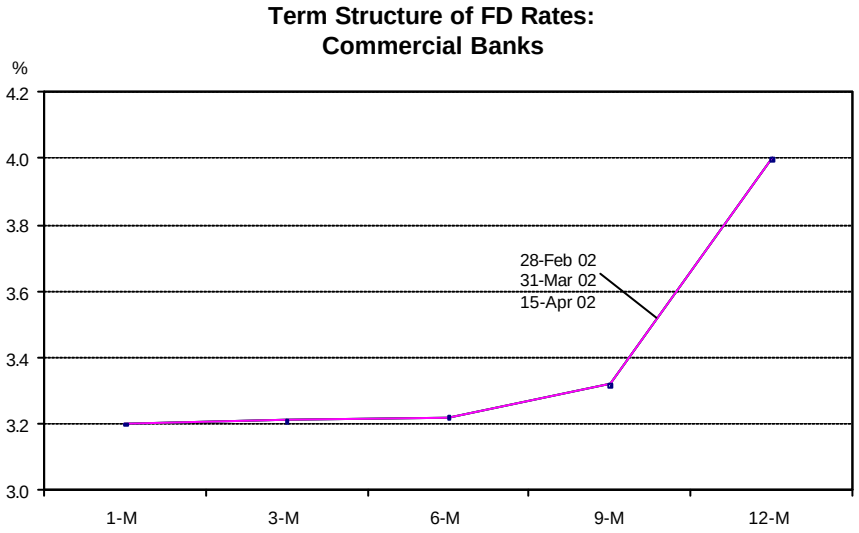
Interbank money market rates remained low

The **average lending rates** (ALR) of both commercial banks (CBs) and finance companies (FCs) continued to trend downward to 6.52% and 10.13% respectively at end-March (6.58% and 10.16% respectively at end-February). Meanwhile, the **average base lending rates** (BLR) of CBs and FCs remained unchanged in March.

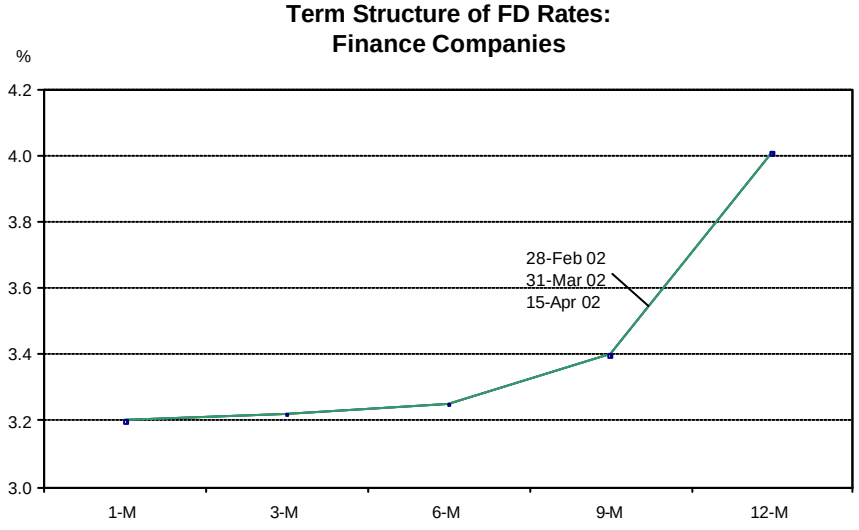


ALR continued to trend downward while BLR remained unchanged

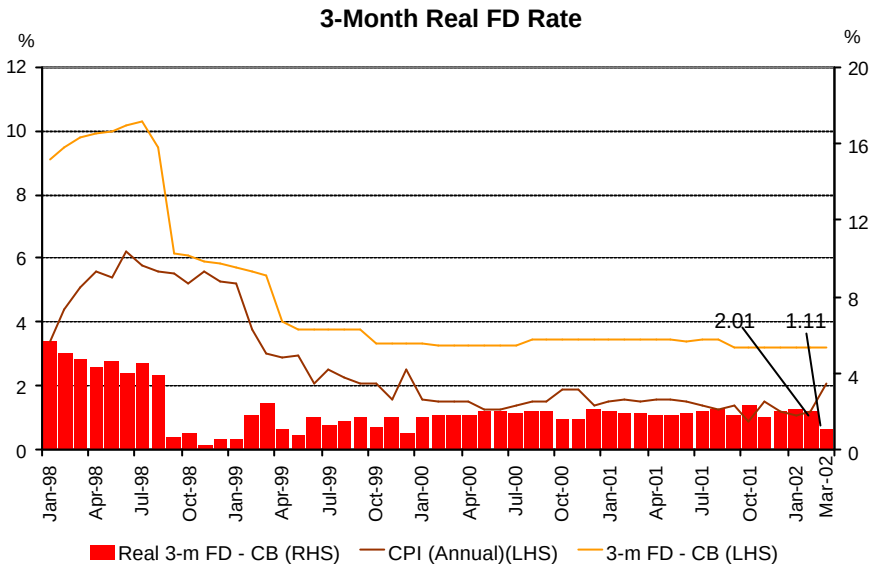
As at 15 April, the term structure of **average fixed deposit (FD) rates** for the 1-month to 12-month maturities of both CBs and FCs also remained unchanged from levels prevailing at the end of February.



FD rates of CBs remained unchanged



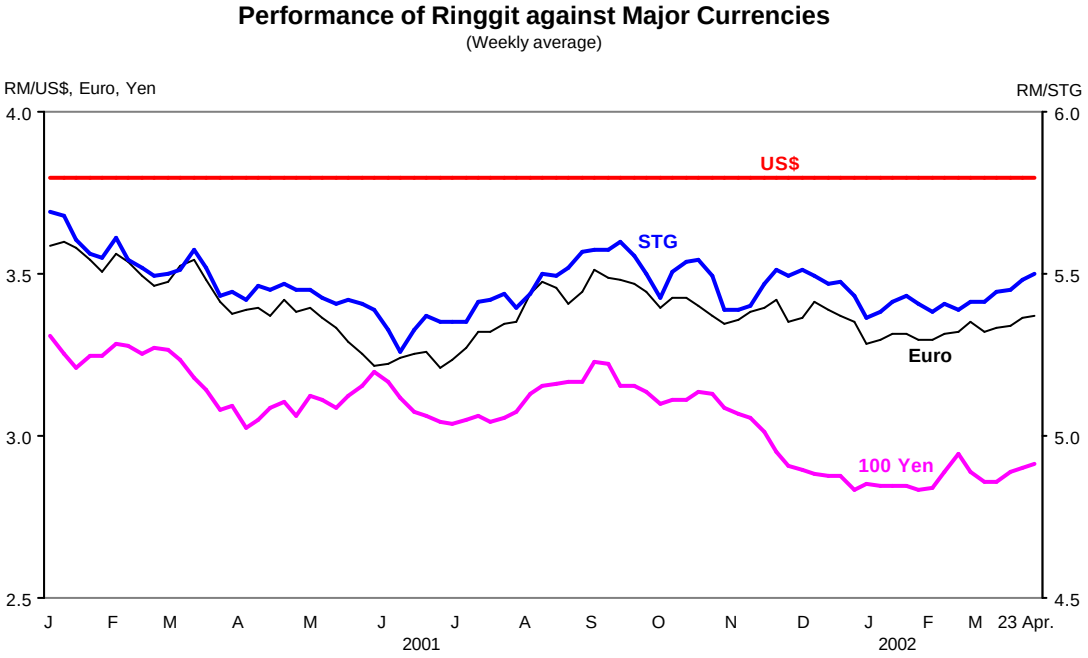
...as well as rates for FCs



Higher inflation in March led to lower 3-month real FD rates

The ringgit depreciated against major and regional currencies in March

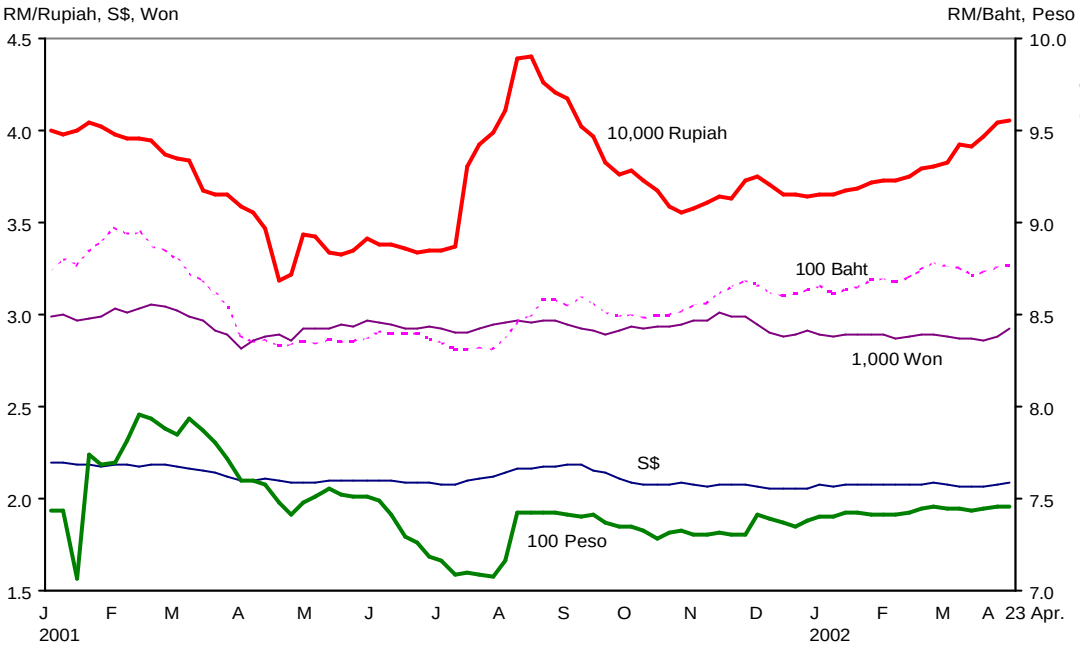
In March, the **ringgit depreciated** against the euro (0.8%), the pound sterling (0.4%) and the Japanese yen (0.8%), in tandem with the movements of the US dollar in the international foreign exchange markets. The yen appreciated against the US dollar following the repatriation of funds into Japan ahead of the end of the fiscal year in March. There were also equity-linked inflows of funds following 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 tensions in the Middle East.



The ringgit depreciated against major currencies

The **ringgit depreciated against most regional currencies** in the range of 0.2% - 3.6%, while appreciating against the Singapore dollar by 0.4%. Several regional currencies benefited from equity-linked capital inflows due to market optimism over the growth prospects for regional economies, in tandem with the expected rebound in the US economy.

Performance of Ringgit against Regional Currencies
(Weekly average)



The ringgit depreciated against regional currencies

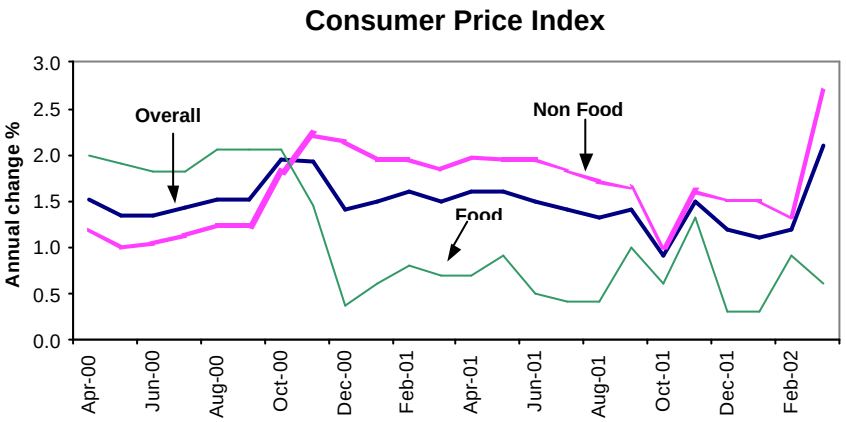
During the period **1 – 23 April 2002**, the ringgit continued to depreciate against major currencies. The ringgit depreciated against the euro by 1.9%, against the pound sterling by 1.7% and against the Japanese yen by 2.2%. The US dollar was adversely affected by the escalating tensions in the Middle East and the economic data indicating a higher than expected increase in unemployment in March. The Japanese yen benefited from equity-linked capital inflows with the improved performance of the Japanese stock market. Accordingly, the ringgit depreciated against most regional currencies in the range of 0.1% - 5.4%.

Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-Mar. 2002	23 April 2002	% Change March 2002	% Change End-2001. - 23 Apr. 2002	% Change 2 Sep. 1998 - 23 Apr. 2002
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0
Euro	-	3.3125	3.3757	-0.8	-0.3	-
Pound Sterling	6.3708	5.4146	5.5106	-0.4	0.1	15.6
100 Japanese yen	2.7742	2.8614	2.9257	-0.8	-1.0	-5.2
Singapore dollar	2.1998	2.0624	2.0934	0.4	-1.9	5.1
100 Thai baht	9.3713	8.7356	8.7800	-0.5	-2.0	6.7
100 Philippine peso	8.8302	7.4481	7.4576	-0.5	-1.2	18.4
100 Indonesian Rupiah	0.0354	0.0387	0.0409	-3.6	-10.8	-13.4
100 Korean won	0.2827	0.2874	0.2915	-0.2	-1.1	-3.0

Inflation increased in March

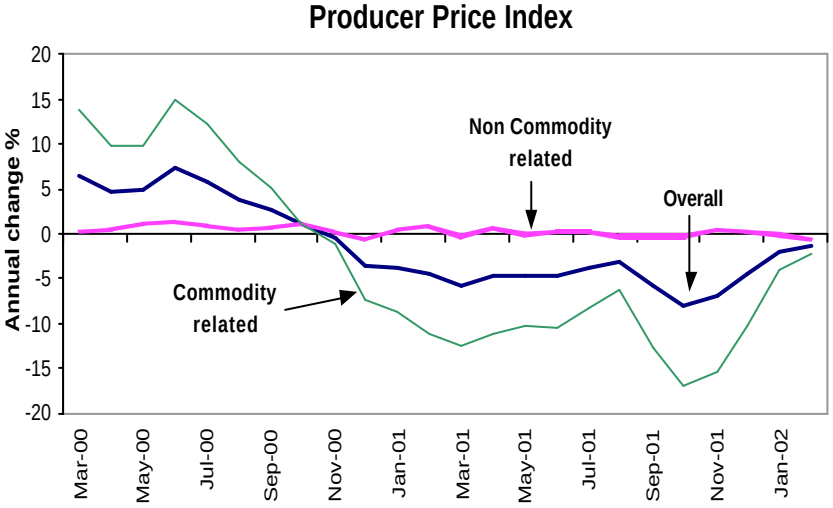
In March, the annual rate of inflation, as measured by the **Consumer Price Index (CPI)**, rose to 2.1% (February: 1.2%). This was mainly due to the significant increase in prices for transport and communication (7.7%), reflecting largely the one-off price adjustment in charges for telephone services, effective from 1 March 2002. Excluding these telephone charges, inflation remained low at 1.1%. On a quarterly basis, the average inflation rate was still lower at 1.4% in the first quarter of 2002 relative to the first quarter of 2001(1.5%).



Inflation increased in March

Producer prices continued to register a slower rate of decline

The declining trend in the **Producer Price Index (PPI) moderated in February, registering a decline of 1.3%** (January: -1.9%) supported mainly by the strong recovery in crude palm oil prices. Prices for crude petroleum continued to remain weak. Excluding commodity related products, the adjusted PPI decreased marginally by 0.5%.



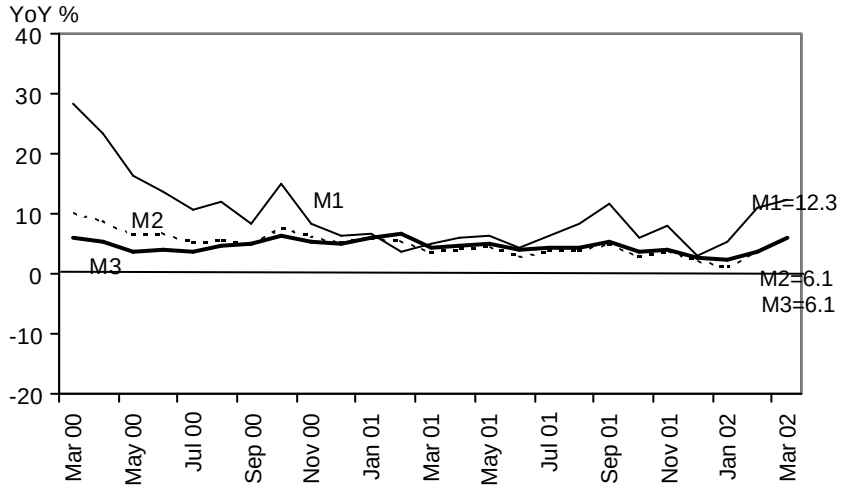
Producer prices continued to register a slower rate of decline

Money supply increased further

Money supply increased further during the month, with broad money, M3 growing by RM0.9 billion or 0.2%. Higher broad quasi-money more than offset lower transaction balances, which declined by RM2.5 billion or 2.9% largely attributed to a decline in demand deposits of business enterprises as well as some return of currency. On an annual basis, the growth rates of M1 and M3 edged up to 12.3% and 6.1% respectively as at end-March (11.1% and 3.9% respectively as at end-February), reflecting the low base in March 2001.

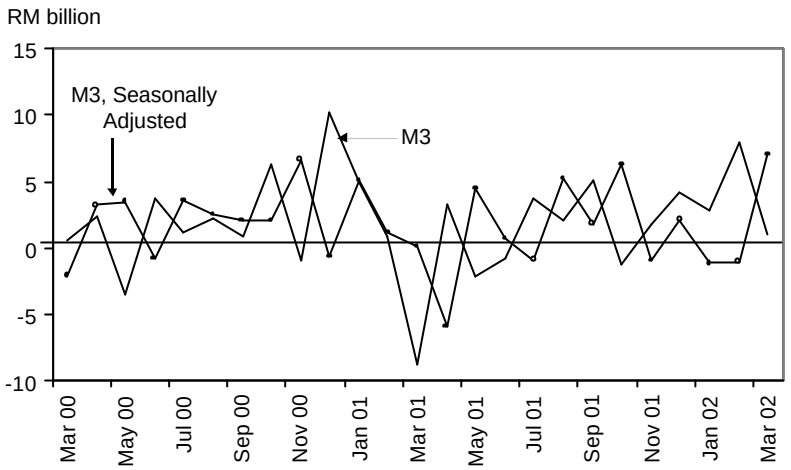
During the month, claims on the private sector were expansionary on money supply by RM2.5 billion, reflecting increases in bank lending. The withdrawal of deposits by a non-bank financial institution from BNM also contributed to the increase in money supply. Net external operations increased by RM1.7 billion, reflecting mainly the drawdown of proceeds from the reopening of the US$1 billion 7.5% Notes due 2011 by an additional US$750 million. This did not have an immediate impact on money supply, as there was a corresponding increase in Government deposits with BNM. Additionally, the increase in Government deposits also reflected the reopening of an MGS issue amounting to RM3 billion.

Monetary Aggregates: Annual Growth



Annual growth rates edged up…

M3: Monthly Change



...on a monthly basis, M3 increased further…

M3 Determinants
(RM billion)

	Change during period 2002			
	Jan	**Feb**	**Mar**	**Jan-Mar**
M3	2.8	7.9	0.9	11.7
Net claims on Government	4.2	2.9	-5.2	1.9
Claims on private sector	0.7	4.0	2.5	7.2
Net external operations[1/]	-1.3	4.7	1.7	5.2
Other influences	-0.8	-3.7	1.9	-2.5

1/ pre-revaluation

...due mainly to higher claims on the private sector

Banking system deposits and loans increased

On a month-on-month basis, **total deposits** expanded further by RM1.8 billion or 0.4% in March. The increase reflected higher placements by individuals, mainly in fixed deposits. The public sector, in particular the statutory authorities, also increased their deposits with the banking institutions. However, deposits of the business enterprises declined. On an annual basis, total deposits mobilised by the banking system rose by 4.5% as at end-March.

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

	2002		
	Jan.	**Feb.**	**Mar.**
Holder			
Federal Government	1,234	-1,620	183
State Governments	-172	232	175
Statutory Authorities[1/]	911	1,360	863
Financial Institutions	1,327	228	-230
Business Enterprises	-2,798	3,155	-740
Individuals	522	3,097	1,556
Others	27	-126	-2
Total	**1,051**	**6,326**	**1,805**

[1/] Include local Governments.

Deposits increased due to higher placements by individuals and the public sector

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

	2002		
	Jan.	**Feb.**	**Mar.**
Type			
Fixed deposits	-381	1,724	4,023
NIDs issued	449	620	554
Demand deposits	1,410	192	-2,301
Savings deposits	36	1,341	46
Repos	-3,203	1,645	643
FX deposits	-220	1,335	-1,937
SPI deposits	2,934	-405	779
Others	27	-126	-2
Total	**1,051**	**6,326**	**1,805**

By type, the increase in deposits was mainly in fixed deposits

Both loan approvals and disbursements increased in March. **Approvals** rose to RM10.7 billion and were mainly granted for the purchase of residential properties and passenger cars, and manufacturing activities. Meanwhile. **loan disbursements** increased to RM32.4 billion and continued to be channelled to a wide range of economic sectors.

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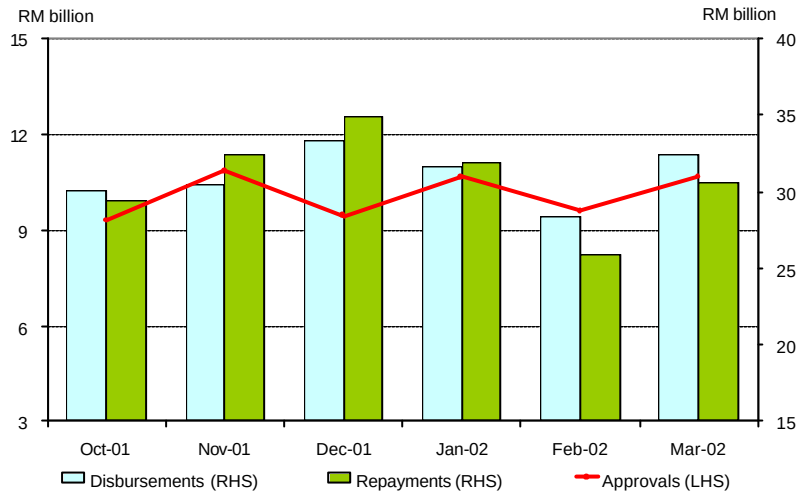
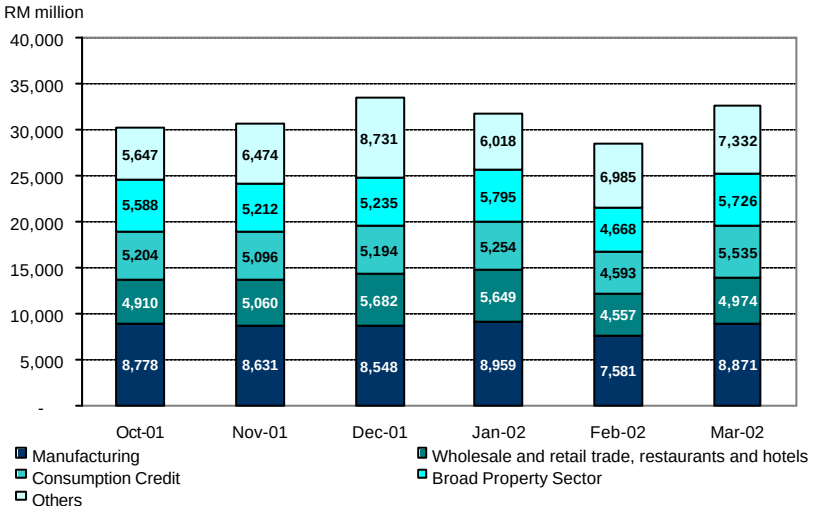
Loan Approvals, Disbursements and Repayments



Approvals, disbursements and repayments increased

Loan Disbursements to Selected Sectors



Loan disbursements continued to be channeled to a wide range of economic sectors

Loans outstanding extended by the banking system rose further by RM2.5 billion in March. The bulk of the increase was attributed to loans for the purchase of residential properties and passenger cars and to the manufacturing sector. On an annual basis, loans outstanding grew further by 4.6% at end-March.

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

	2002		
	Monthly change		As at end
	Feb.	Mar.	Mar.
Agriculture, hunting, forestry and fishing	-238	-88	12,054
Mining and quarrying	-141	-26	1,286
Manufacturing	44	698	69,511
Electricity, gas and water supply	273	-5	4,771
Wholesale and retail trade, restaurants and hotels	-33	-66	38,842
Broad property sector	899	1,399	178,525
of which:			
Purchase of residential property	*866*	*1,019*	*90,277*
Transport, storage and communication	242	-302	12,339
Finance, insurance and business services	412	123	35,581
Consumption	1,018	659	72,343
of which:			
Passenger cars	*841*	*749*	*48,164*
Credit cards	*93*	*-65*	*9,050*
Purchase of securities	385	-199	30,504
Others	81	347	20,721
Total Loans[1/]	**2,941**	**2,540**	**476,476**

[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.

Loans outstanding continued to expand

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 RM1.9 billion in March. On an annual basis, it increased by 6.9% at end-March (end-February: 6.2%).

Financing through banking system loans and PDS

	Change			Annual growth	
	2002			2002	
	Feb	Mar	Jan-Mar	Feb	Mar
	RM billion			%	
Financing by Banking System	**2.9**	**2.3**	**5.0**	**5.5**	**5.8**
Loans outstanding (1)	2.9	2.5	6.0	4.3	4.6
Holdings of PDS	...	-0.2	-1.1	35.0	36.0
Total PDS outstanding * (2)	**1.1**	**-0.7**	**-1.4**	**15.0**	**17.1**
Total (1) + (2)	**4.0**	**1.9**	**4.6**	**6.2**	**6.9**

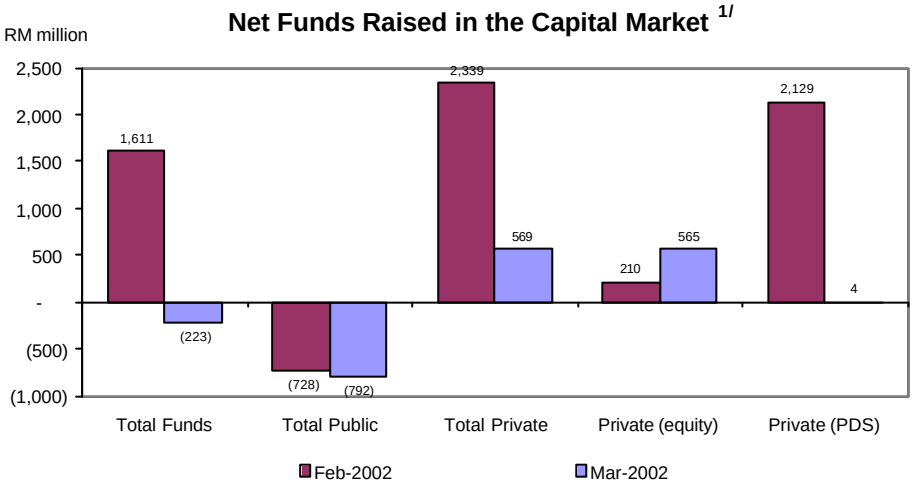
* Refers to total PDS issued by the private sector with original maturity period of more than one year. Exclude debt securities issued by banking institutions, Khazanah, BNM, Cagamas, Danaharta and Danamodal.

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

Gross funds raised through the capital market remained significant

On a gross basis, the total funds raised by the private sector through the equity and private debt securities (PDS) markets amounted to RM1.3 billion in March. However, due to the redemptions of PDS (RM743 million), the net funds raised by the private sector were lower at RM569 million. Meanwhile, the public sector recorded a net redemption of RM791.6 million following the higher redemption of Malaysian Government Securities. In total, the capital market recorded a net redemption of RM222.7 million.

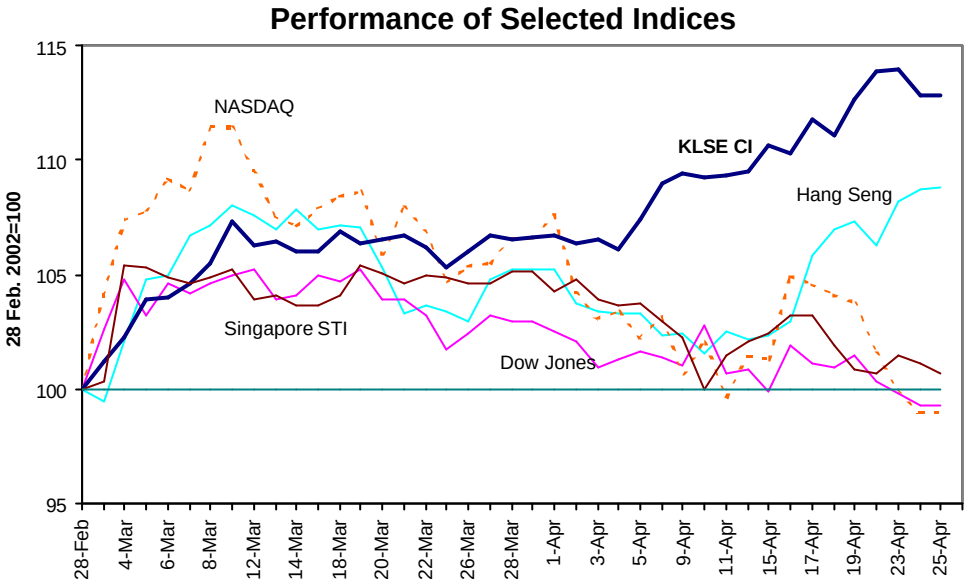
Net Funds Raised in the Capital Market [1/]



Net redemption in the capital market

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

The **Kuala Lumpur Stock Exchange Composite Index** (KLSE CI) rose in March following strong buying interest. Favourable market sentiments were also supported by the revision by Standard & Poor's on 4 March on the outlook for Malaysia from stable to positive. As at 29 March, the KLSE CI closed at 756.10 points (+6.7% since end-February), while the market capitalisation stood at RM517.85 billion (+8.1% since end-February). The daily average turnover, however, remained relatively stable at 275.1 million units (281.5 million units in February).

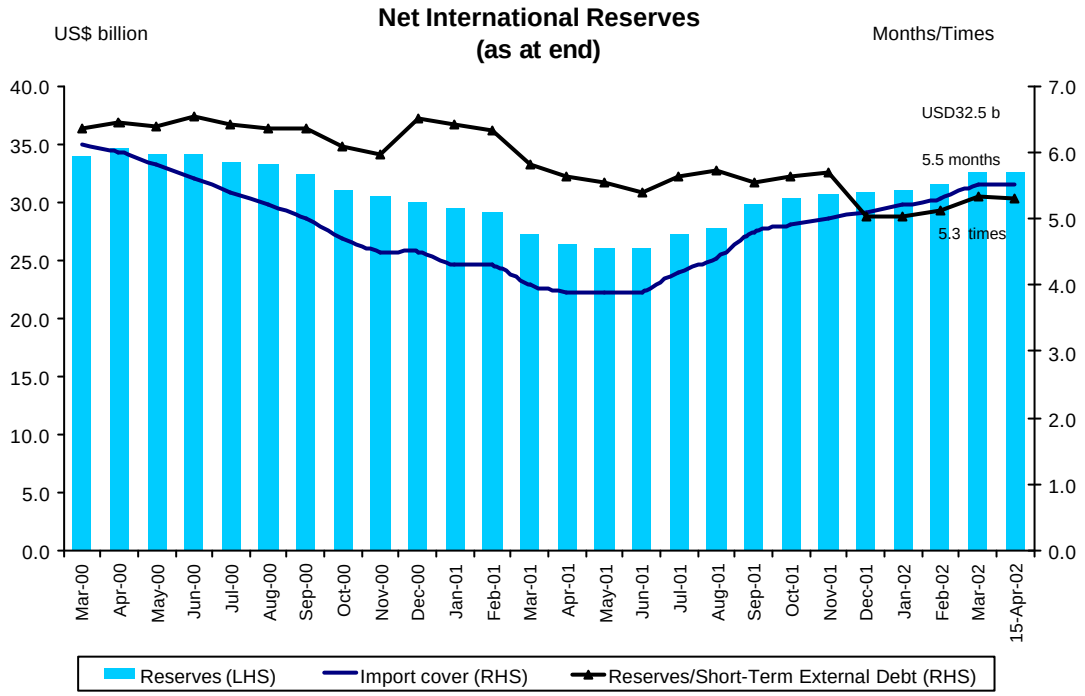


KLSE CI improved significantly in April

Prices on the KLSE continued its upward trend in the first three weeks of April with further evidence of improving market confidence in the Malaysian economy. During the period, two major international rating agencies upgraded their outlook for Malaysia. As at 23 April, the KLSE CI closed at 808.07 points (+6.9% since end-March), while the market capitalisation stood at RM563 billion (+8.8% since end-March). The daily average turnover rose significantly to 510.6 million units (275.1 million units in March).

International reserves

The **net international reserves of BNM** increased to RM124.4 billion or US$32.7 billion as at 30 March 2002 and stood at RM123.5 billion or US$32.5 billion as at 15 April 2002. Sustained repatriation of export earnings and net inflow of portfolio funds in the first half of April partially offset the outflows which mainly reflected repayments of private sector external debt, amounting to about US$680 million. The loan repayments were mainly a prepayment of the more expensive external loans. These repayments have resulted in a significant reduction in private sector external debt. The reserves position as at 15 April 2002 was adequate to finance 5.5 months of retained imports and was 5.3 times the short-term external debt.



Indicators showed a stronger banking system

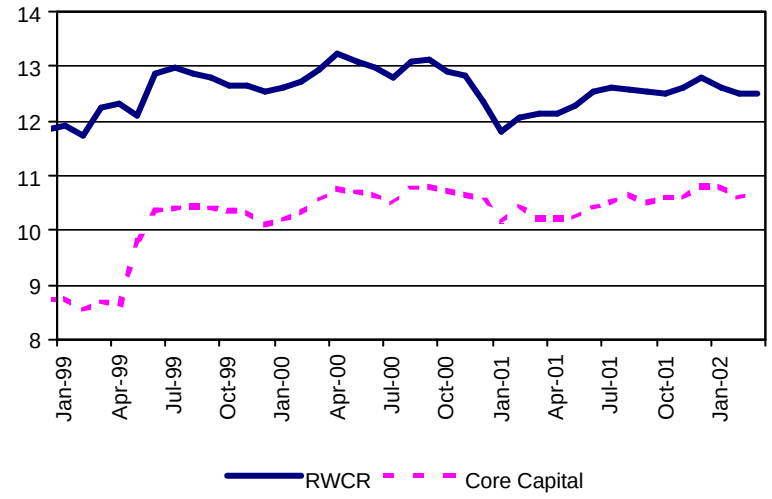
The banking system strengthened further in March as the risk-weighted capital ratio remained unchanged against a lower NPL ratio. The capital position of the banking system remained strong as at end-March with the risk-weighted capital ratio sustained at 12.5%, while the core capital ratio strengthened to 10.7%. The improvement in the core capital ratio reflected primarily the conversion of debt instrument into ordinary shares by one banking institution.

As at end March 2002, net non-performing loans and net NPL ratio declined by 1.1% and 10 basis points to RM32.9 billion and 8.1% respectively. The combination of higher repayments, successful debt restructuring by banking institutions and higher specific provisions contributed to the improvement.

Banking System Health Indicators							
	1998	1999	2000	2001		2002	
	Dec.	Dec.	Dec.	Jun.	Dec.	Feb.	Mar.
Capital							
Core-capital ratio (%)	8.7	10.1	10.7	10.5	10.8	10.6	10.7
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	8.2	8.1
Banking system (RM million)	31,675	23,849	24,700	32,292	32,775	33,272	32,899
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.9	1.9	1.9

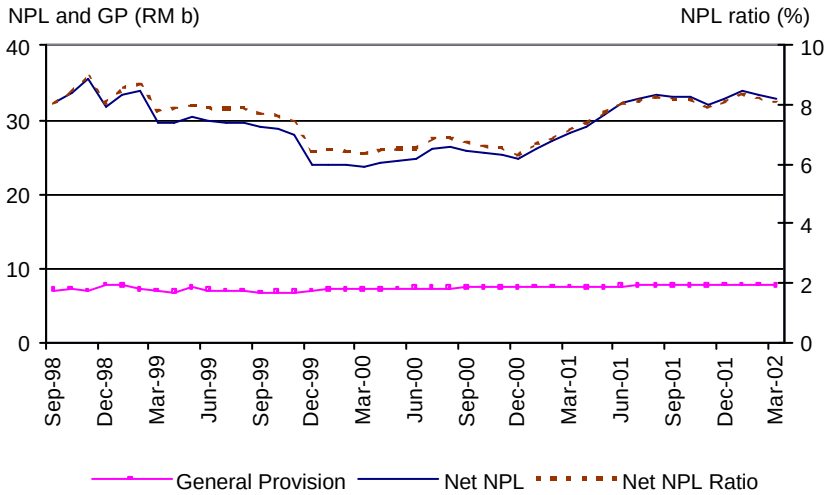
** Beginning June 1999 onwards, the figures include Islamic banks*

Banking System: Capital Strength Indicators



….RWCR remained at 12.5%

Banking System: Net NPL and General Provisions



…Net NPL ratio declined further to 8.1%

Danaharta pursued its recovery strategies over the NPLs it acquired or under its management. On 1 April 2002, Danaharta launched its sixth nation-wide property tender offering for sale 269 properties with a total indicative value of RM733.28 million. The properties offered under the tender were diverse with development land and industrial properties accounting for the biggest share both in value and in number. The property tender will close on 2 May 2002.

Up to end-December 2001, Danaharta has dealt with RM47.69 billion of the RM47.72 billion of total loan rights acquired. The anticipated recovery rate on the face value of the loan is 56%, on the assumption of a zero recovery rate on all defaulted loans.

Capital injection by Danamodal remained at RM2.1 billion at the end of March. As at mid-April, CDRC had resolved an additional 2 cases bringing the number of cases resolved to 43 with a total debt value of RM37.8 billion. The remaining 8 cases with total debts of RM16.8 billion are currently being looked into by CDRC and the restructuring of these loans are expected to be completed by July 2002.

Statistics of CDRC cases as at 16 April 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	**37,771**	**43**
Implemented	*28,714*	*24*
Pending implementation	*9,057*	*19*
Outstanding	**16,797**	**8**
Revised	-	-
Being restructured by CDRC	*16,797*	*8*

* Including non-banking and offshore institutions

Bank Negara Malaysia
29 April 2002

Key Monetary and Banking Statistics

	February 2002		March 2002	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	41.6	5.7	40.9	4.6
M1	84.0	11.1	81.6	12.3
M2	368.2	3.7	369.6	6.1
M3	480.2	3.9	481.2	6.1
Banking System				
Total deposits	486.4	2.3	488.2	4.5
Total loans (including loans sold to Cagamas and Danaharta)	473.9	4.3	476.5	4.6
Total loans (excluding loans sold to Cagamas and Danaharta)	413.9	3.9	415.9	4.1
Loan-deposit ratio (%)	85.1		85.2	
Loans approved during the month	9.6		10.7	
Loans disbursed during the month	28.4		32.4	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	12.5		12.5	
Net NPLs: 6-month classification (%)	8.2		8.1	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	119.6		124.4	
Reserves in USD (billion)	31.5		32.7	
Months of retained imports	5.2		5.5	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.95 [2.84]		2.74 [2.85]	
3-month	3.25 [3.01]		3.24 [2.86]	
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)	102.6	1.2	103.3	2.1
Producer price Index (PPI) (1989=100)	124.3	-1.3		
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.2872		3.3125	
Pound Sterling	5.3932		5.4146	
Singapore dollar	2.0716		2.0624	
100 Japanese yen	2.8378		2.8614	
100 Thai Baht	8.6947		8.7356	
100 Philippine Peso	7.4117		7.4481	
100 Indonesian Rupiah	0.0373		0.0387	
100 Korean Won	0.2868		0.2874	
Capital Market				
Funds raised by: public sector (RM billion)	-0.7		-0.7	
private sector (RM billion)	2.3		0.6	
Kuala Lumpur Composite Index (end-period)	708.91		756.10	
KLSE Market Capitalisation (RMb) (end-period)	479.21		517.85	