BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PEN: 02/02/54 (BN)

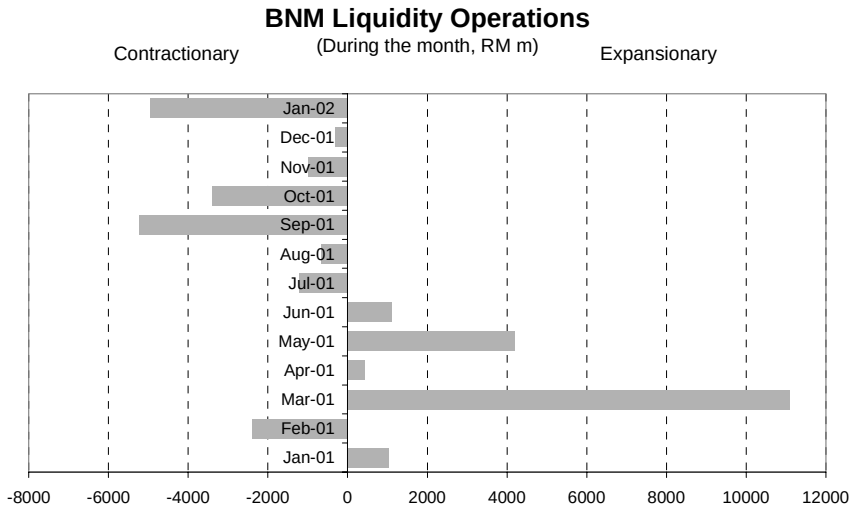
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PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS JANUARY 2002

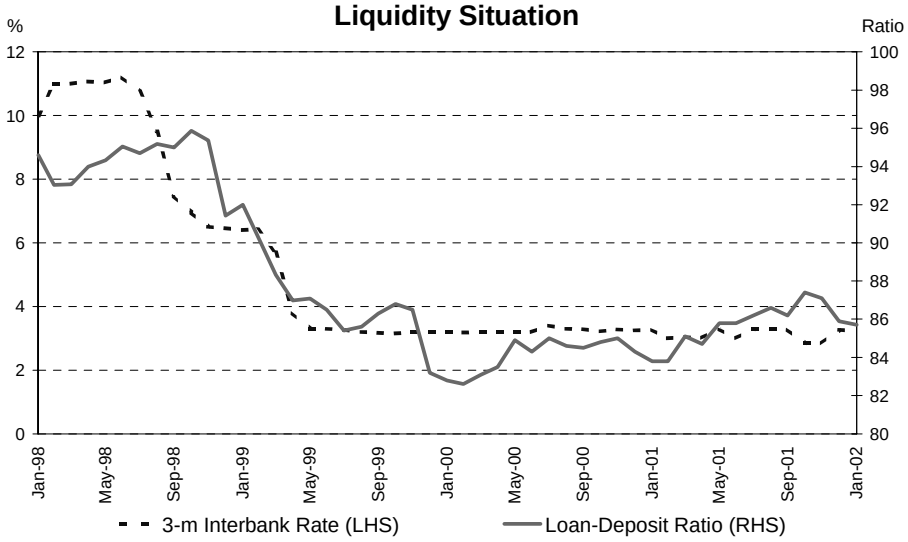
Monetary and financial conditions in January 2002 reflected the improvement in economic activity and market confidence. Money supply, deposits, loans and international reserves continued to grow. These trends were also reflected in the performance of the stock market. Meanwhile, BNM's liquidity operations continued to aim at maintaining stable interbank rates amid the low inflation environment. Going forward, monetary policy will continue to be accommodative to support the economic recovery.

Prevailing interest rate levels remained low and stable

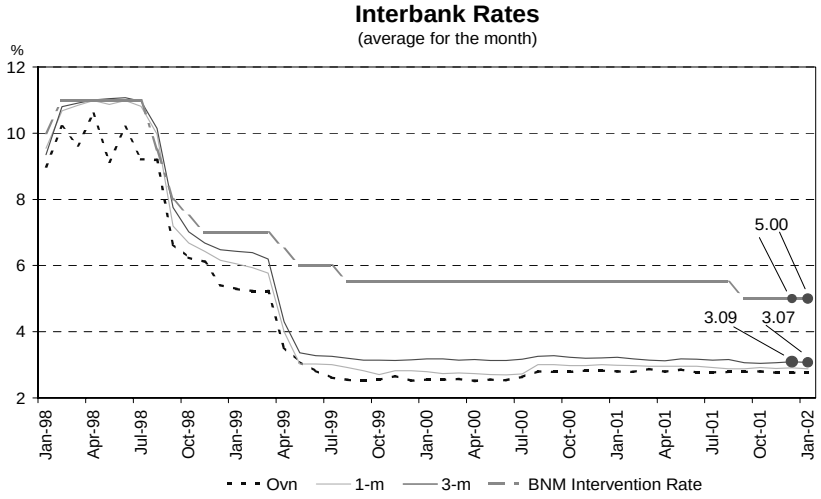
In an environment of ample liquidity, the **interbank money market rates** continued to remain low. In January, BNM liquidity operations were contractionary by RM4.9 billion in order to offset the expansionary impact of withdrawals of deposits by the Government as well as by a non-bank financial institution (NBFI) from BNM.



BNM liquidity operations were contractionary to mitigate the expansionary impact of Government and NBFI withdrawals of deposits from BNM



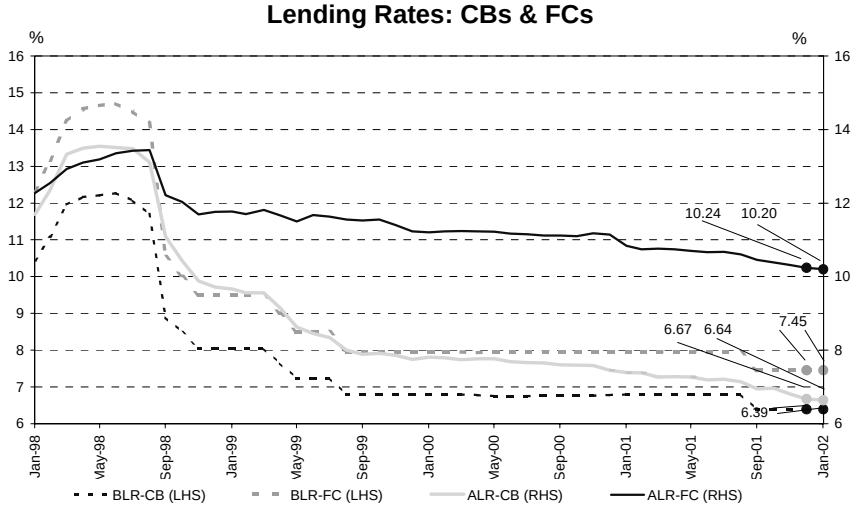
Ample liquidity continued to prevail



Interbank money market rates continued to remain low and 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 6.64% and 10.20% respectively (6.67% and 10.24% at end-December 2001).

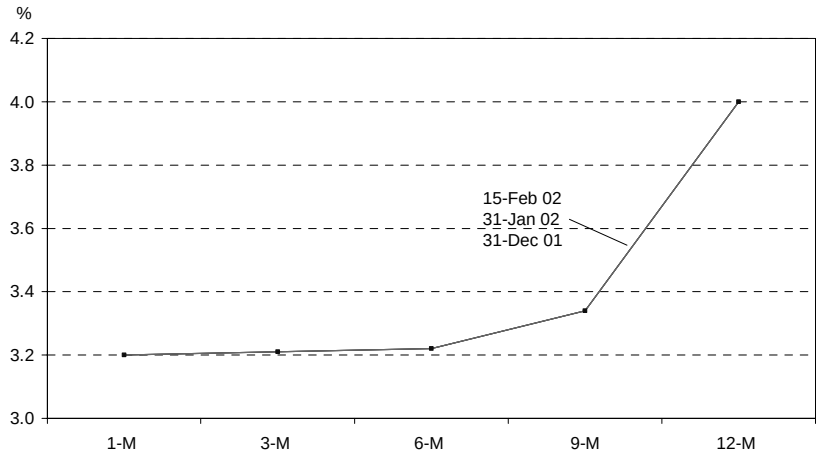
Lending Rates: CBs & FCs



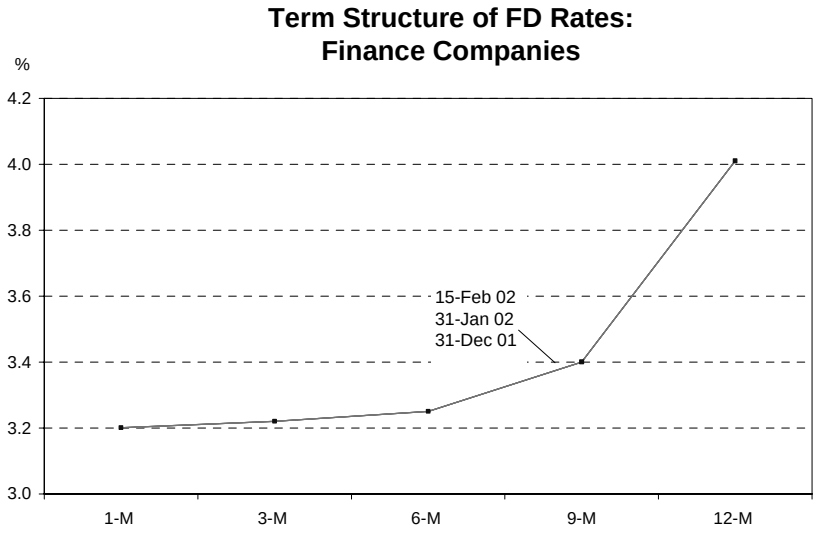
BLRs of CBs and FCs remained unchanged, while the ALRs of CBs and FCs declined

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

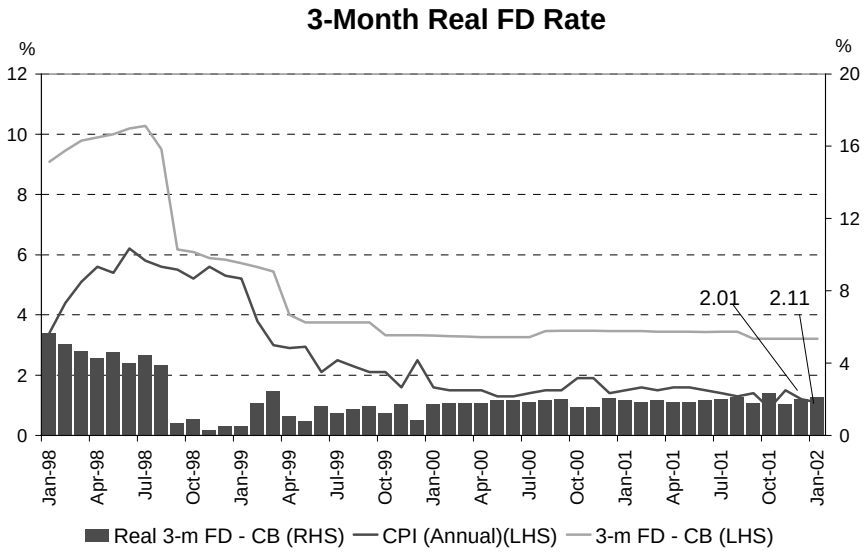
Term Structure of FD Rates: Commercial Banks



As at 15 February, FD rates of CBs remained unchanged



… similarly, for FCs



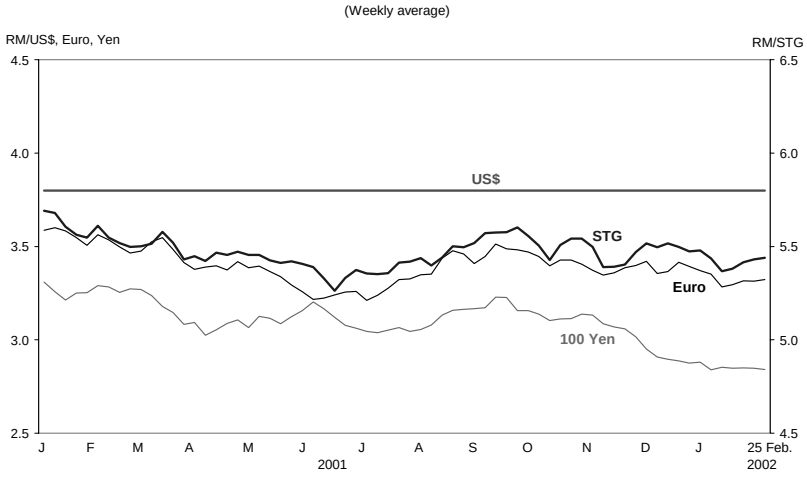
As inflation was slightly lower, the 3-month real FD rate increased

The ringgit appreciated against major currencies and depreciated against regional currencies in January

In January, the **ringgit appreciated against major currencies**. The ringgit appreciated against the Japanese yen (1.2%), the euro (2.7%) and the pound sterling (2.6%), 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 prompted by data releases reflecting the recovery of the US economy. The Japanese yen depreciated against the US dollar on market pessimism over the growth prospects for the Japanese economy, while the euro weakened

against the US dollar due to concerns over the potential implications of Argentina's peso devaluation on the euro-zone, given the large exposure of European banks in Argentina.

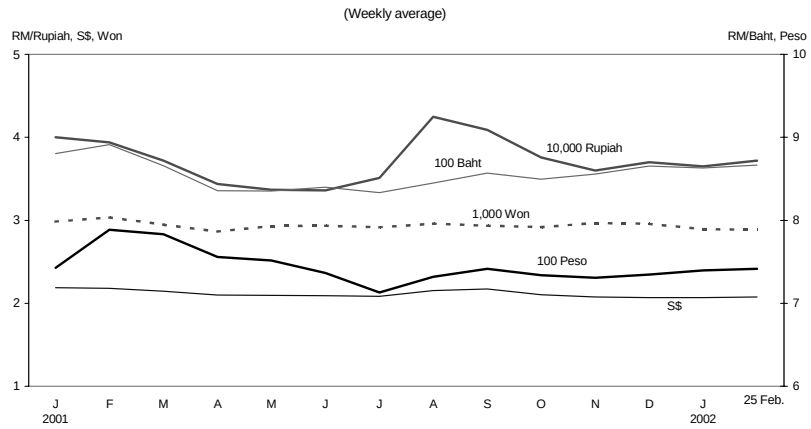
Performance of Ringgit against Major Currencies



The ringgit appreciated against major currencies in January

Meanwhile, the **ringgit depreciated against regional currencies** in the range of 0.6% - 1.1%. Movements in regional currencies were influenced mainly by domestic developments, as well as market optimism over the growth prospects for regional economies in tandem with the expected recovery in the US economy. The Korean won, the Thai baht and the Philippine peso also benefited from equity-linked foreign fund inflows.

Performance of Ringgit against Regional Currencies



The ringgit depreciated against regional currencies in January

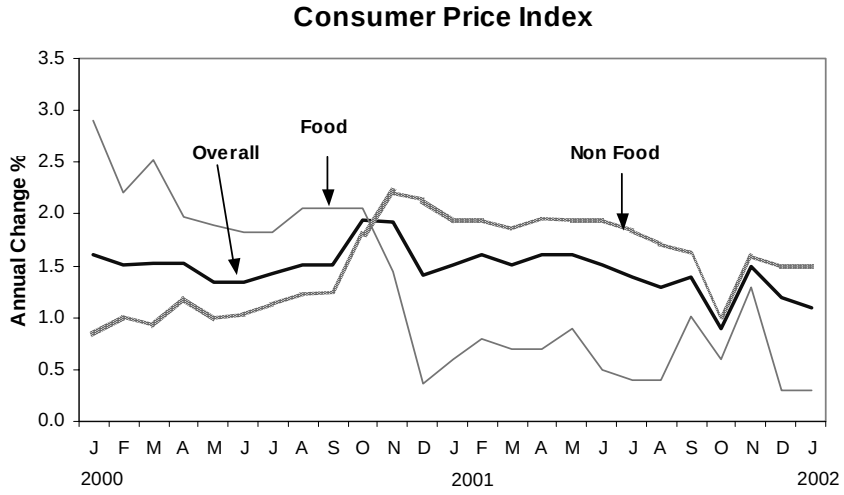
During the period **1 – 25 February 2002**, the ringgit depreciated against most major currencies. The ringgit depreciated against the euro and the pound sterling by 1.4% and 1.2% respectively, while appreciating against the Japanese yen by 0.7%. The US dollar was adversely affected by market concerns over corporate accounting practices in the US following the collapse of the energy trading giant Enron. The euro appreciated against the US dollar on the back of economic data suggesting improved prospects for economic recovery in the euro zone. However, 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. The ringgit recorded a mixed performance against regional currencies, appreciating against the Philippine peso (0.1%) and the Korean won (0.9%), while depreciating against the Thai baht (-0.2%) and the Indonesian rupiah (-1.1%). The ringgit was unchanged against the Singapore dollar.

Performance of Ringgit against Selected Currencies

				% Change		
RM per foreign currency	2 September 1998	End-Jan. 2002	25 February 2002	January 2002	End-2001. - 25 Feb. 2002	2 Sep. 1998 - 25 Feb. 2002
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0
Euro	-	3.2773	3.3237	2.7	1.3	-
Pound Sterling	6.3708	5.3753	5.4391	2.6	1.4	17.1
100 Japanese yen	2.7742	2.8609	2.8408	1.2	1.9	-2.3
Singapore dollar	2.1998	2.0756	2.0754	-1.1	-1.1	6.0
100 Thai baht	9.3713	8.6501	8.6649	-0.6	-0.7	8.2
100 Philippine peso	8.8302	7.4197	7.4146	-0.7	-0.7	19.1
100 Indonesian Rupiah	0.0354	0.0368	0.0372	-0.8	-1.9	-4.8
100 Korean won	0.2827	0.2910	0.2885	-0.9	-0.1	-2.0

Inflation moderated

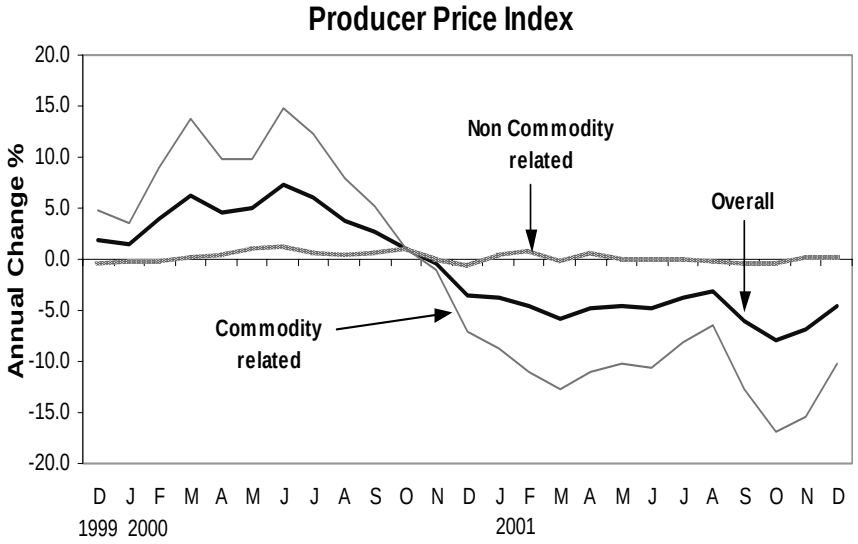
Inflation, as measured by the **Consumer Price Index (CPI)**, moderated to 1.1% year-on-year in January (December 2001: 1.2%). This was driven primarily by lower increases in the prices for food; gross rent, fuel and power; and transport and communication. In particular, food, which accounts for one-third of the CPI basket, registered a lower increase of 0.3% in January (0.6% in January 2001).



Inflation moderated

Producer prices continued to decline

Producer prices, as measured by the **Producer Price Index (PPI),** declined further by 4.5% in December 2001, largely due to lower prices for commodity-related products following weak commodity prices, namely crude petroleum and rubber. Excluding these commodity related products, the adjusted PPI increased slightly by 0.2%. For the year as a whole, the PPI declined by 5%.



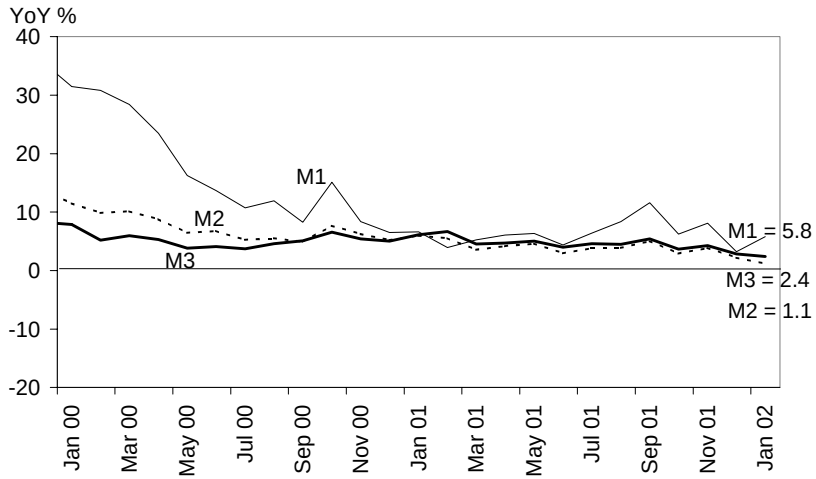
PPI continued to decline

Continued monetary expansion

In January, narrow money, M1, increased by RM2.9 billion or 3.6%, reflecting largely higher demand deposits of business enterprises, while broad money, M3, increased by RM3 billion or 0.6%. On an annual basis, M1 and M3 continued to expand, by 5.8% and 2.4% respectively.

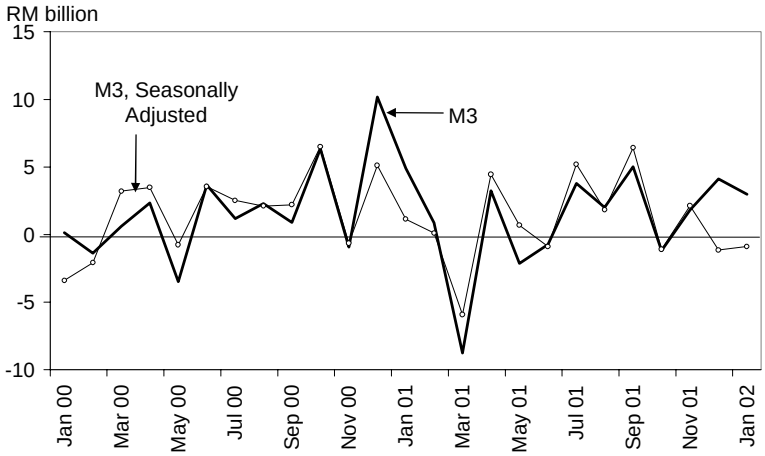
During the month, money supply continued to expand on the back of strong Government operations, reflecting mainly the drawdown of deposits by the Government from BNM (-RM6.6 billion) to finance its outlays. Higher claims on the private sector, reflecting both higher lending and higher holding of private securities by the banking institutions, also contributed to the increase in M3 during the month.

Monetary Aggregates: Annual Growth



Monetary aggregates continued to expand on an annual basis…

M3: Monthly Change



M3 increased on a monthly basis ...

M3 Determinants

(RM billion)

	Change during period			
	2001			2002
	Nov	Dec	Jan-Dec	Jan
M3	1.8	4.1	13.0	3.0
Net claims on Government	2.0	-1.8	-1.5	4.2
Claims on private sector	1.3	1.1	20.3	0.7
Net external operations[1/]	-0.9	1.4	7.6	-1.3
Other influences	-0.6	3.4	-13.4	-0.6

1/ pre-revaluation

... due to expansionary Government operations and higher claims on the private sector

Banking system deposits and loans increased

On a month-on-month basis, **total deposits** increased by RM1.2 billion or 0.3% in January. Deposits by financial institutions continued to rise, increasing by RM1.3 billion, due mainly to the increase in deposits by non-bank financial institutions in the form of fixed and demand deposits. Deposits by Federal Government and Statutory Authorities also increased significantly, mainly in terms of SPI deposit. Similarly, deposits by individuals also increased. Meanwhile, the lower deposits by business enterprises reflected the non-rollover of matured fixed deposit and repos, which were, however, partially offset by higher demand and SPI deposits. On an annual basis, total deposits mobilised by the banking system rose by 1.3% as at end-January.

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

	2001		2002
	Nov.	Dec.	Jan.
Holder			
Federal Government	-586	-40	1,234
State Governments	62	25	-172
Statutory Authorities[1/]	-476	818	911
Financial Institutions	-1,580	1,657	1,327
Business Enterprises	-1,177	936	-2,604
Individuals	3,810	2,673	522
Others	-110	-154	27
Total	**-58**	**5,916**	**1,245**

[1/] Include local Governments.

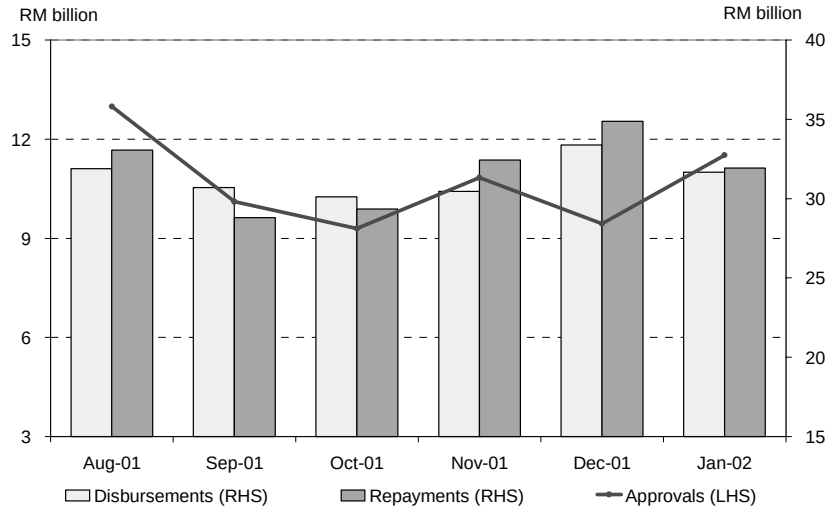
The increase in deposits by financial institutions, Federal Government, Statutory Authorities and individuals were more than sufficient to offset the lower deposits by business enterprises

Monthly Change in Deposits			(RM million)
	2001		2002
	Nov.	Dec.	Jan.
Type			
Fixed deposits	-1,975	-2,712	-381
NIDs issued	-642	327	449
Demand deposits	826	2,738	1,604
Savings deposits	294	863	36
Repos	1,085	4,069	-3,203
FX deposits	4	-415	-220
SPI deposits	459	1,199	2,934
Others	-110	-154	27
Total	**-58**	**5,916**	**1,245**

The increase in deposits was attributed to higher SPI and demand deposits

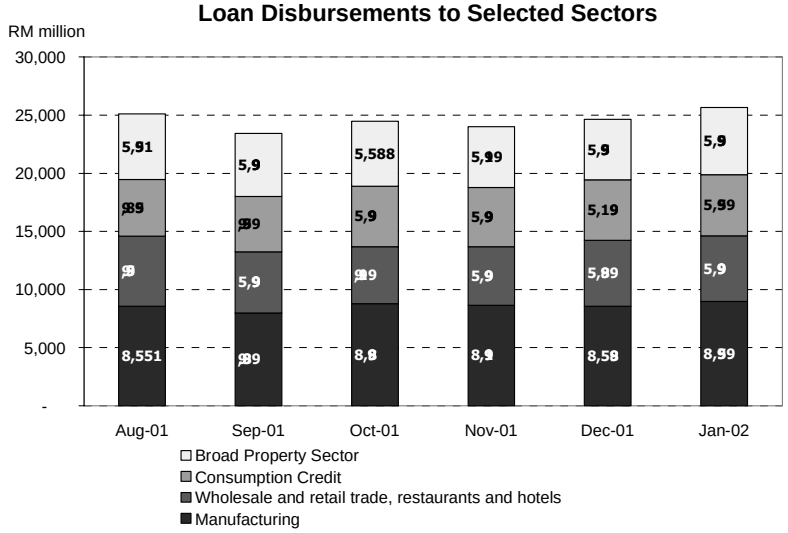
Loan approvals increased substantially, expanding to RM10.6 billion in January. Approvals continued to be granted mainly for the purchase of residential properties and passenger cars, reflecting sustained demand for consumer loans. At the same time, **loan disbursements** remained high, amounting to RM31.7 billion. Disbursements continued to be broad-based, being channelled mainly to the manufacturing and finance, insurance and business services sectors; wholesale and retail trade; as well as for the purchase of residential property and passenger cars.

Loan Approvals, Disbursements and Repayments



Loan approvals rose substantially

Loan Disbursements to Selected Sectors



Meanwhile, disbursements remained high and were channeled to a wide range of economic sectors

Loans outstanding extended by the banking system turned around to register an increase of RM554 million in January. By sector, higher loans continued to be channelled for the purchase of residential properties and passenger cars. Nonetheless, these large increases were partly offset by the decline in loans for the electricity, gas and water supply sector on account of high repayments arising from refinancing of loans by several utility companies through the issuance of private debt securities. On an annual basis, loans outstanding grew further by 3.7% at end-January.

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

	2001	2002	
	Monthly change		As at end
	Dec.	Jan.	Jan.
Agriculture, hunting, forestry and fishing	-289	-13	12,380
Mining and quarrying	22	-86	1,452
Manufacturing	38	544	68,945
Electricity, gas and water supply	-935	-813	4,504
Wholesale and retail trade, restaurants and hotels	-101	74	38,964
Broad property sector	1,061	112	175,934
of which:			
Purchase of residential property	*1,290*	*1,012*	*88,079*
Transport, storage and communication	-233	-44	12,431
Finance, insurance and business services	-189	-331	35,045
Consumption	1,153	1,230	70,643
of which:			
Passenger cars	*721*	*1,074*	*46,574*
Credit cards	*323*	*80*	*9,022*
Purchase of securities	-252	-54	30,318
Others	-378	-65	20,371
Total Loans[1/]	**-103**	**554**	**470,988**

[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 turned around to register an increase

Aggregate financing through banking system loans and PDS increased further

On an annual basis, aggregate **financing through loans extended by the banking system and PDS issued by the private sector** rose further by 5.7%. On a monthly basis, aggregate financing declined by RM1.3 billion as a result of large PDS redemptions during the month.

Financing through banking system loans and PDS

	Change		Annual growth	
	2001 Dec	2002 Jan	2001 Dec	2002 Jan
	RM billion		%	
Financing by Banking System	**1.6**	**-0.3**	**5.2**	**5.0**
Loans outstanding (1)	-0.1	0.6	3.6	3.7
Holdings of PDS	1.7	-0.9	45.1	35.3
Total PDS outstanding * (2)	**3.0**	**-1.8**	**17.0**	**14.6**
Total (1) + (2)	**2.9**	**-1.3**	**6.0**	**5.7**

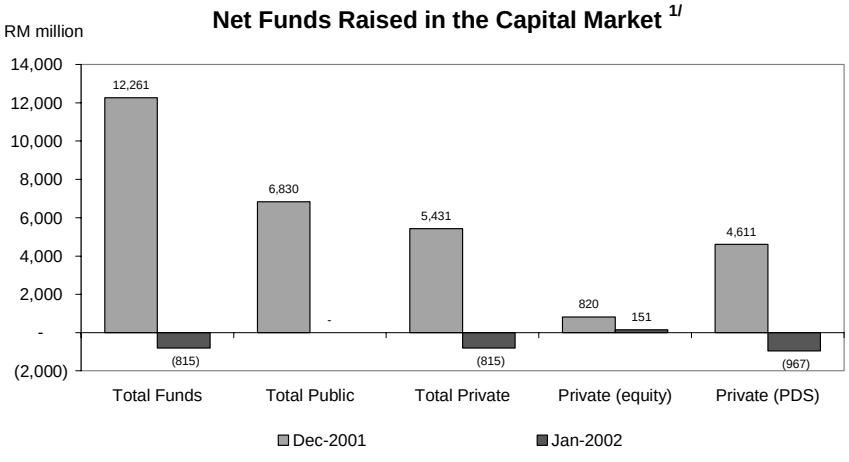
* Refers to total PDS issued by the private sector with original maturity period of more than one year. Exclude debt securities issued by banking institutions, Khazanah, BNM, Cagamas, Danaharta and Danamodal.

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

Gross funds raised through the capital market remained significant

On a gross basis, total **funds raised** by the private sector through the equity and private debt securities markets amounted to RM944 million in January. However, due to higher redemption of private debt securities (-RM1.8 billion), the private sector recorded a net redemption of RM815 million. Meanwhile, the public sector did not raise any new funds during the month.

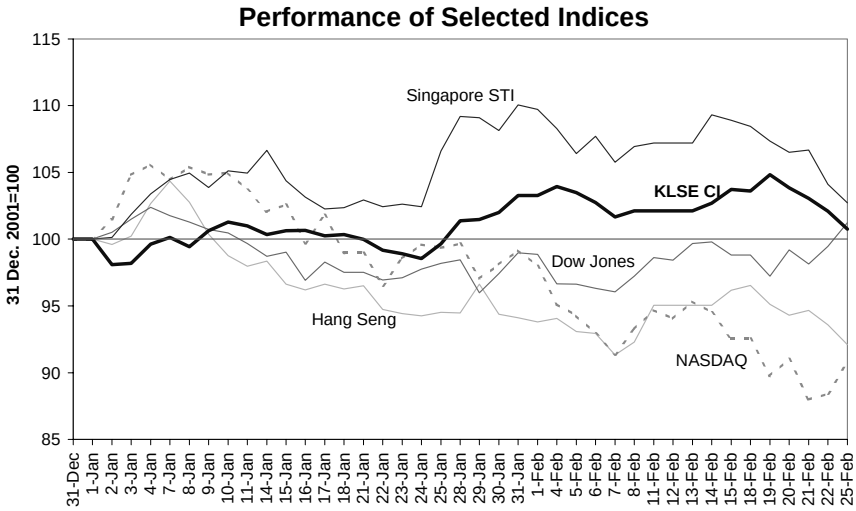
Net Funds Raised in the Capital Market [1/]



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) improved further in January as investors viewed positively the developments on restructuring by a number of corporations. As at 31 January, the KLSE CI closed at 718.82 points (+3.3% since end-December), while the market capitalisation stood at RM485 billion (+4.3% since end-December). The daily average turnover was higher at 348.9 million units (322.7 million units in December).

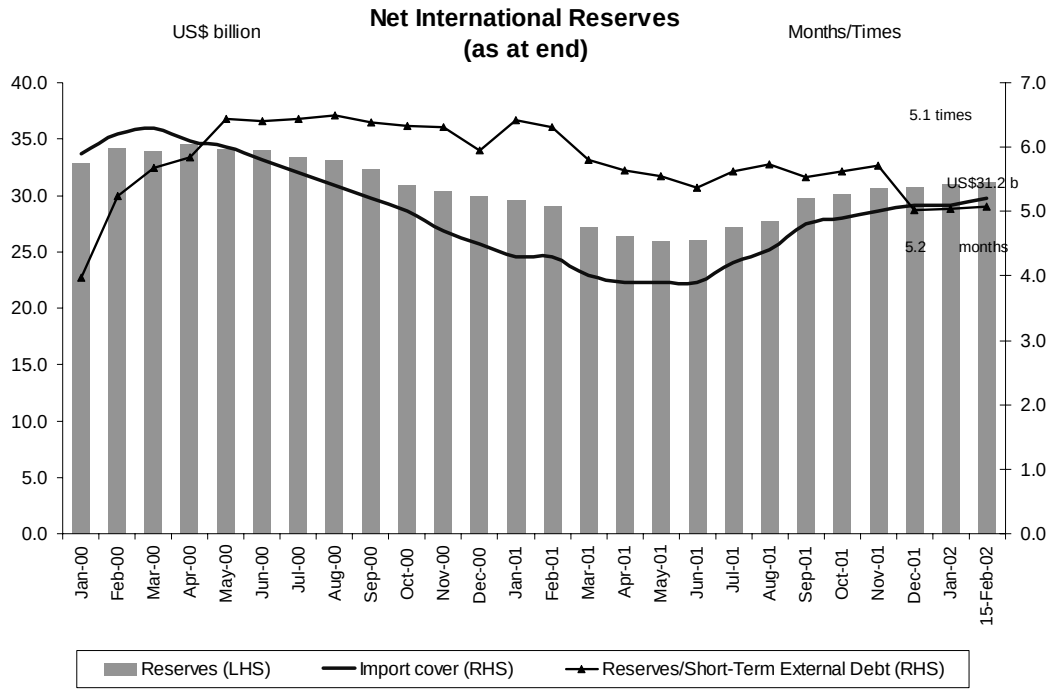


KLSE CI generally on the upward trend

The KLSE CI continued its upward trend in the first two weeks of February with buying interests following news of better corporate earnings and positive corporate restructuring developments. However, in the third week of the month, the KLSE performance was affected by profit-taking activities and poor performance of global bourses. As at 25 February, the KLSE CI closed at 701.31 points (-2.4% since end-January), while the market capitalisation stood at RM474 billion (-2.4% since end-January). The daily average turnover was at 297 million units (348.9 million units in January).

International reserves

The **net international reserves of BNM** increased to RM117.5 billion or US$30.9 billion as at 31 January 2002. The reserves increased further to RM118.6 billion or US$31.2 billion by 15 February 2002 and is adequate to finance 5.2 months of retained imports and 5.1 times the short-term external debt. The increase in reserves reflected the increased repatriation of export earnings and net inflows of portfolio funds.



Banking system remained strong

The risk weighted capital ratio (RWCR) and core capital ratio (CCR) of the banking system declined marginally from their previous levels of 12.8% and 10.8% in December 2001 to 12.5% and 10.7% respectively in January 2002. The reduction in the capital ratios was primarily attributed to an increase in 'investment in subsidiaries'[1] following the merger of two foreign banking institutions in Malaysia. The decline is expected to be temporary, as the 'investment in subsidiaries' will be written down to a nominal amount after the merger is completed.

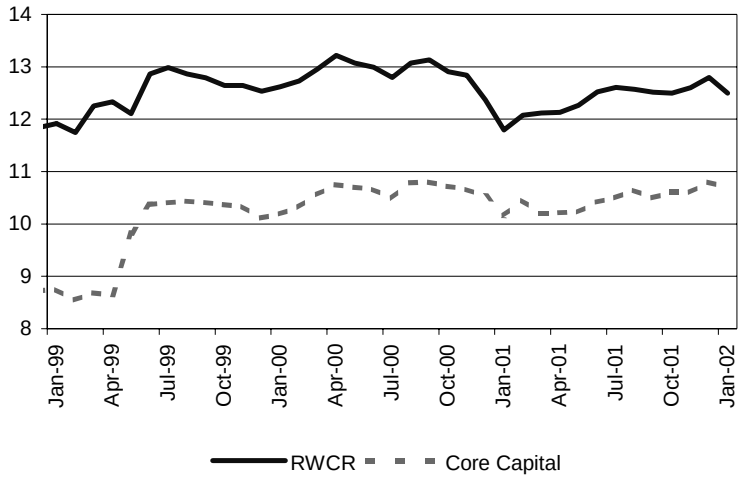
Although the net NPL ratio rose to 8.4% at the end of January 2002, NPLs, nevertheless, remain at levels that can be absorbed by the banking system given the strong capital adequacy ratio.

[1] Based on BIS convention, 'investment in subsidiaries' is deducted from the capital base of banking institutions.

Banking System Health Indicators								
	1998	1999	2000	2001				2002
	Dec.	Dec.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.
Capital								
Core-capital ratio (%)	8.7	10.1	10.7	10.2	10.5	10.5	10.8	10.7
RWCR (%)	11.8	12.5	12.5	12.1	12.6	12.5	12.8	12.5
Net NPL (6-month classification)								
Banking system (%)	8.1	6.4	6.3	7.1	8.0	8.2	8.1	8.4
Banking system (RM million)	31,675	23,849	24,700	27,989	32,292	32,995	32,775	34,048
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9

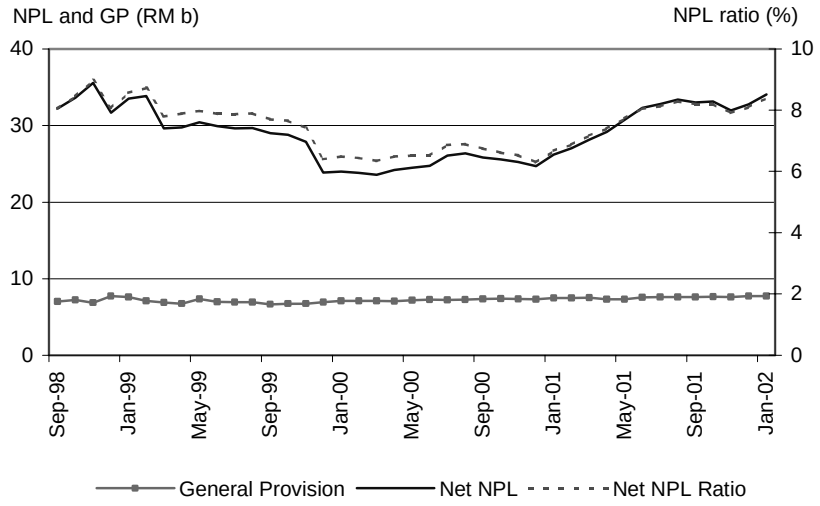
** Beginning June 1999 onwards, the figures include Islamic banks*

(%) **Banking System: Capital Strength Indicators**



….RWCR declined to 12.5%

Banking System: Net NPL and General Provisions



…Net NPL ratio rose to 8.4%

Total NPLs acquired and managed by Danaharta in terms of loan rights acquired amounted to RM47.7 billion at the end of December 2001, of which RM39.8 billion or 83.4% were NPLs from the banking system. Danaharta has restructured or approved for restructuring nearly all (99.9%) of the NPLs under its management. Danaharta is expected to now focus on implementing approved recovery strategies until its targeted closure date of 2005. The average recovery rate on these loans is expected to be 56%, on the assumption of a zero recovery rate on all defaulted loans.

To maximize the recovery value of the assets under its management, Danaharta launched its' sixth property tender in January 2002. The property tender involved 30 units of six-storey shopoffices with a total indicative value of RM31.9 million. The tender will close on 28 February 2002.

Capital injection by Danamodal remained at RM2.1 billion at the end of January 2002. Forty one cases with debts totalling RM35.2 billion were resolved by CDRC as at 31 January 2001. An additional case with debts totaling RM609 million was brought under CDRC's purview during the month while two cases were discharged by CDRC. Twenty one cases with debts totalling RM21.8 billion have yet to be resolved.

Statistics of CDRC cases as at 31 January 2002		
	Total debt outstanding* (RM million)	**Number of accounts**
Received	67,644	87
Withdrawn / Rejected	10,606	25
Cases accepted	57,038	62
Resolved	**35,213**	**41**
*Implemented ** *	*29,048*	*26*
*Pending implementation *** *	*6,165*	*15*
Outstanding	**21,825**	**21**
Revised	*1,595*	*2*
Being restructured by Danaharta	*1,746*	*7*
Being restructured by CDRC	*18,484*	*12*

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

Bank Negara Malaysia
28 February 2002

Key Monetary and Banking Statistics

	December 2001		January 2002	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	40.0	-3.3	42.8	-0.5
M1	80.7	3.2	83.6	5.8
M2	362.5	2.2	360.4	1.1
M3	469.5	2.8	472.5	2.4
Banking System				
Total deposits	479.0	1.8	480.2	1.3
Total loans (including loans sold to Cagamas and Danaharta)	470.4	3.6	471.0	3.7
Total loans (excluding loans sold to Cagamas and Danaharta)	411.6	3.8	411.6	3.6
Loan-deposit ratio (%)	85.9		85.7	
Loans approved during the month	9.4		10.6	
Loans disbursed during the month	33.4		31.7	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	12.8		12.5	
Net NPLs: 6-month classification (%)	8.1		8.4	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	117.2		117.5	
Reserves in USD (billion)	30.8		30.9	
Months of retained imports	5.1		5.1	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.97 [2.90]		2.90 [2.88]	
3-month	3.27 [3.09]		3.23 [3.07]	
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)	102.1	1.2	102.3	1.1
Producer price Index (PPI) (1989=100)	121.7	-4.5	-	-
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.3662		3.2773	
Pound Sterling	5.5161		5.3753	
Singapore dollar	2.0529		2.0756	
100 Japanese yen	2.8955		2.8609	
100 Thai Baht	8.6022		8.6501	
100 Philippine Peso	7.3644		7.4197	
100 Indonesian Rupiah	0.0365		0.0368	
100 Korean Won	0.2883		0.2910	
Capital Market				
Funds raised by: public sector (RM billion)	6.8		-	
private sector (RM billion)	5.4		-0.8	
Kuala Lumpur Composite Index (end-period)	696.09		718.82	
KLSE Market Capitalisation (RMb) (end-period)	465.0		485.0	