BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

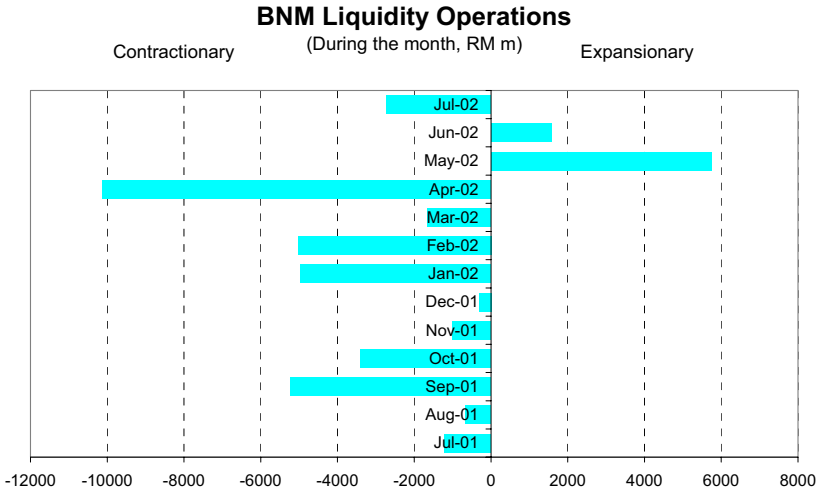
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PRESS RELEASE
MONETARY AND FINANCIAL DEVELOPMENTS
JULY 2002

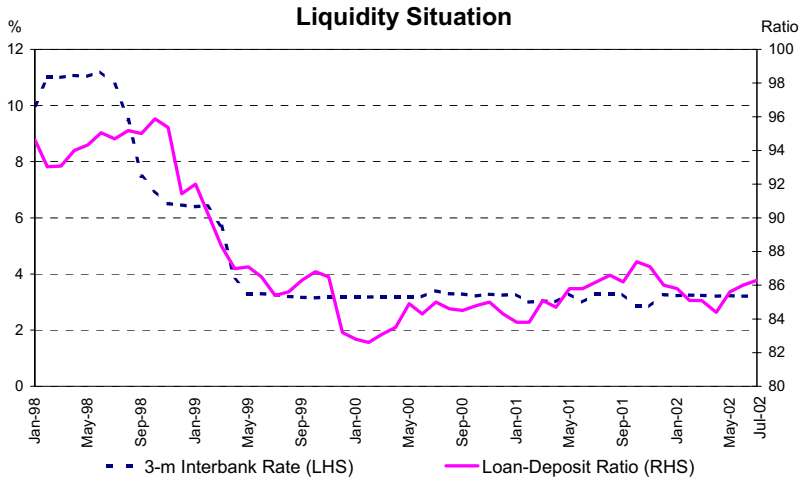
Monetary conditions remained stable in July. The low and stable interest rate environment, coupled with ample liquidity, provided the positive environment for sustained financing of the private sector by both the banking system and the capital market to support domestic economic activities. Low inflation has been maintained, while the banking system has strengthened further. Under these circumstances, the accommodative monetary policy continues to assist the forces of economic recovery.

Interest rates remained low and stable

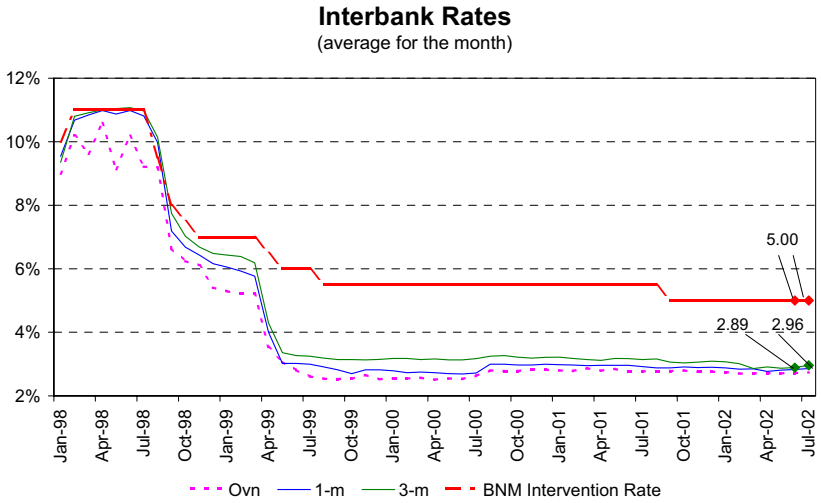
During the month, contractionary BNM's liquidity operations allowed the **interbank money market** rate to remain low and stable. The liquidity conditions were consistent with the underlying demand for financing by the private sector.



BNM liquidity operations absorbed RM2.7 billion from the market to offset the expansionary impact of withdrawals of deposits by a non bank financial institution (NBFI) from BNM, as well as trade and portfolio inflows

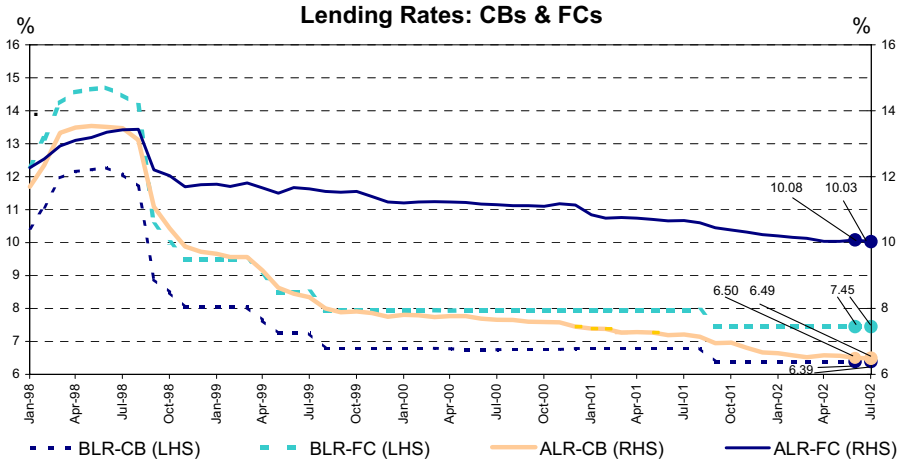


Ample liquidity prevailed



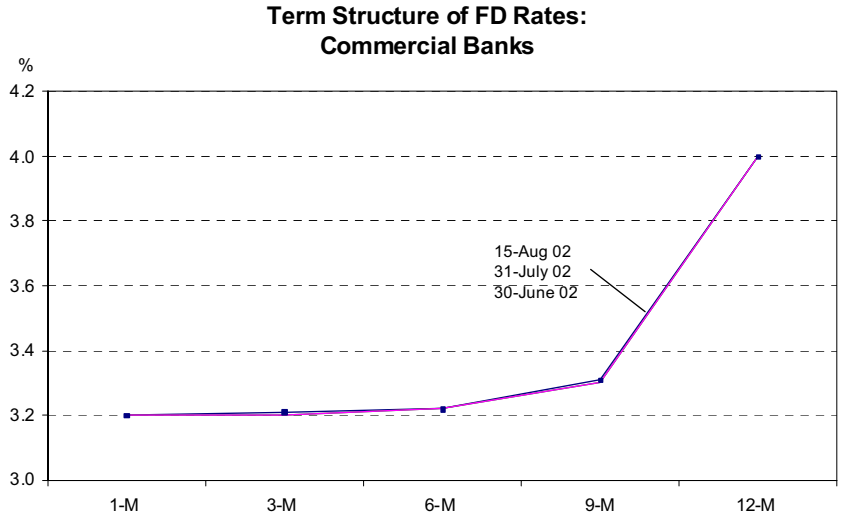
Money market rates remained unchanged

Base lending rates (BLR) and **average lending rates** (ALR) of commercial banks (CBs) and finance companies (FCs) remained low and stable. The ample liquidity situation has led to more competitive loan pricing among banking institutions, with selective loans priced lower than BLR.

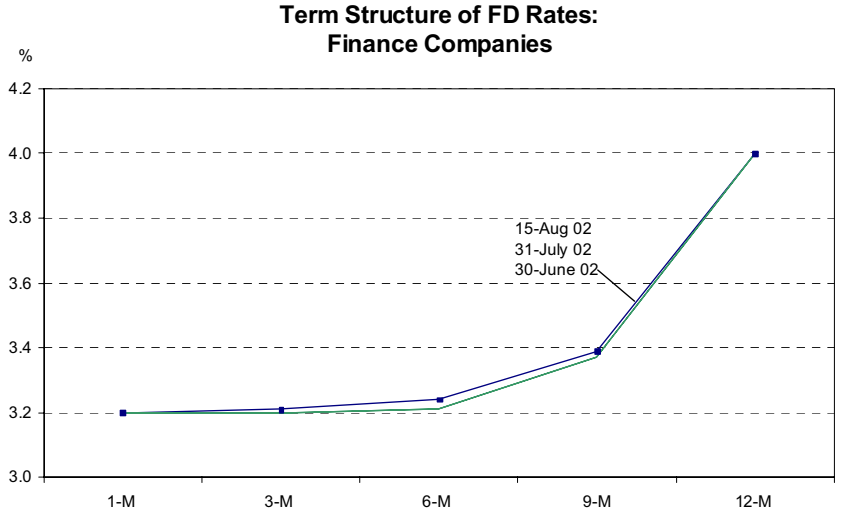


BLR and ALR remained low and stable

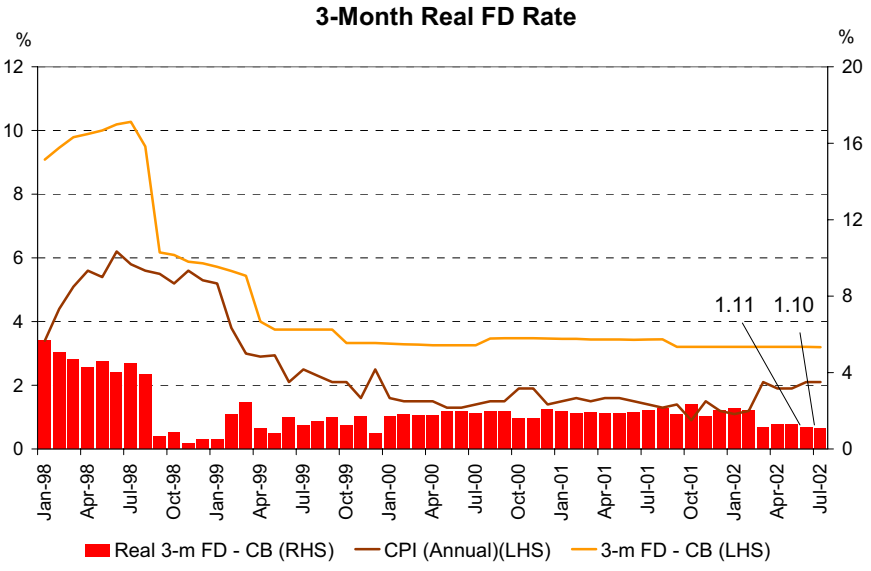
The **term structure of average fixed deposit rates** of CBs and FCs, as at 15 August, remained unchanged for all maturities.



FD rate of CBs remained virtually unchanged



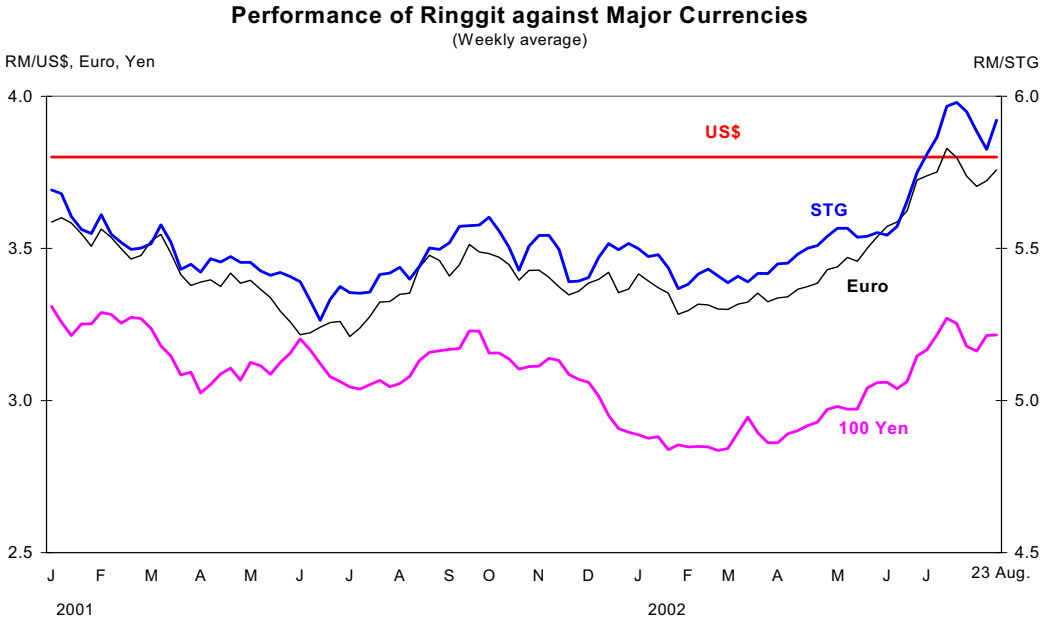
…similarly, for FCs



The CB 3-month real FD rate was stable in July

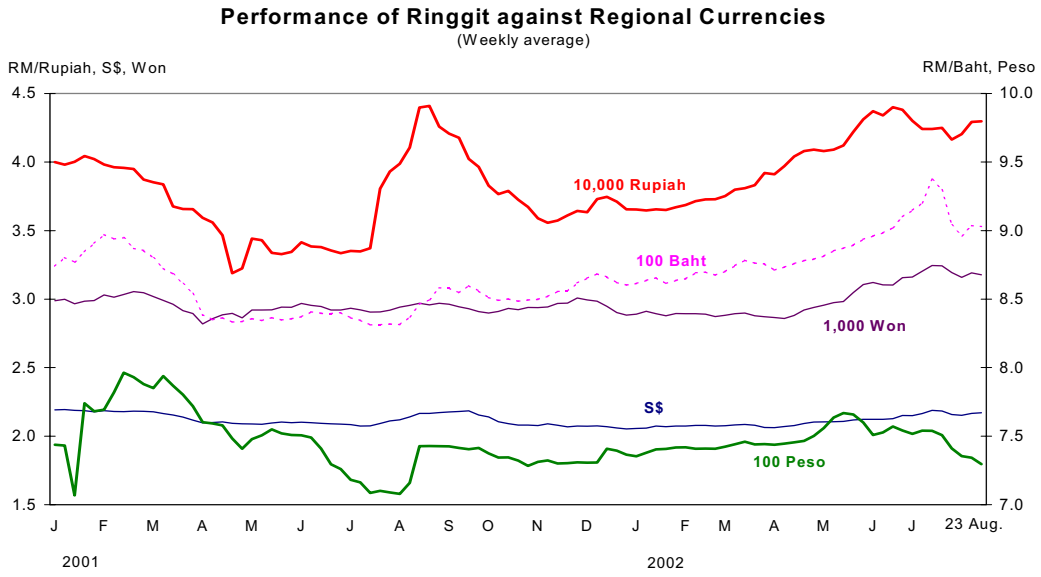
The ringgit depreciated against most major currencies and recorded a mixed performance against regional currencies in July

In July, the **ringgit depreciated against most major currencies**. In tandem with the movements of the US dollar in the international foreign exchange markets, the ringgit depreciated against the Japanese yen (0.3%) and the pound sterling (2.9%), while appreciating against the euro (0.1%). The US dollar continued to be adversely affected by market concerns over US corporate governance and accounting practices, as well as weak US stock market performance. The US trade deficit widened in May and preliminary data indicated weaker than expected consumer sentiments for July, thereby contributing to the weaker US currency.



The ringgit depreciated against most major currencies

The **ringgit recorded a mixed performance against regional currencies**. The ringgit strengthened against the Thai baht, Philippine peso and Indonesian rupiah in the range of 0.6% - 4.3%, while weakening against the Singapore dollar and the Korean won by 0.2% and 1.1%, respectively. The Philippine peso weakened due to market concerns over the Government's rising budget deficit, while the Indonesian rupiah depreciated following corporate demand for US dollars. On the other hand, the Singapore dollar strengthened on the back of better than expected economic growth for the second quarter of 2002.



The ringgit recorded a mixed performance against regional currencies

The ringgit, however, reversed direction and strengthened against the major currencies during the period **1 – 23 August 2002**, as the US dollar reversed trend. The ringgit appreciated against the euro by 1.8%, the pound sterling by 3.4% and the Japanese yen by 0.2%. The US dollar strengthened on the back of economic data indicating a greater than expected narrowing of the US current account deficit and encouraging preliminary data on consumer sentiment for August. The US dollar was also supported by strong demand for US corporate bonds and better stock market performance. Over the same period in August, the ringgit recorded a mixed performance against regional currencies. The ringgit appreciated against several regional currencies in the range of 1.0% - 2.2%, while depreciating against the Singapore dollar and Indonesian rupiah by 0.4% and 2.3%, respectively.

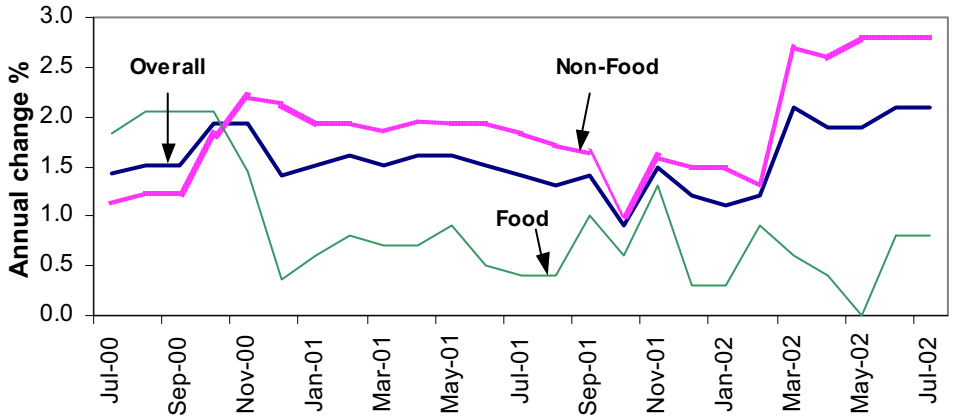
Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-July. 2002	23 Aug. 2002	% Change			
				July 2002	End-July - 23 Aug 2002	End-2001 - 23 Aug 2002	2 Sep. 1998 - 23 Aug. 2002
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	3.7402	3.6757	0.1	1.8	-8.4	-
Pound Sterling	6.3708	5.9690	5.7713	-2.9	3.4	-4.4	10.4
100 Japanese yen	2.7742	3.1701	3.1644	-0.3	0.2	-8.5	-12.3
Singapore dollar	2.1998	2.1546	2.1623	-0.2	-0.4	-5.1	1.7
100 Thai baht	9.3713	9.0638	8.9718	0.6	1.0	-4.1	4.5
100 Philippine peso	8.8302	7.4255	7.2637	1.5	2.2	1.4	21.6
100 Indonesian Rupiah	0.0354	0.0419	0.0429	4.3	-2.3	-14.9	-17.5
100 Korean won	0.2827	0.3190	0.3157	-1.1	1.0	-8.7	-10.5

Inflation remained unchanged

The annual rate of inflation, as measured by the **Consumer Price Index** (CPI, 2000=100), remained unchanged at 2.1% in July (June: 2.1%). On a monthly basis, the CPI also remained unchanged. The increase in the CPI was contributed largely by higher prices for transport and communication, mainly due to the one-off price adjustment in telephone charges in March 2002.

Consumer Price Index

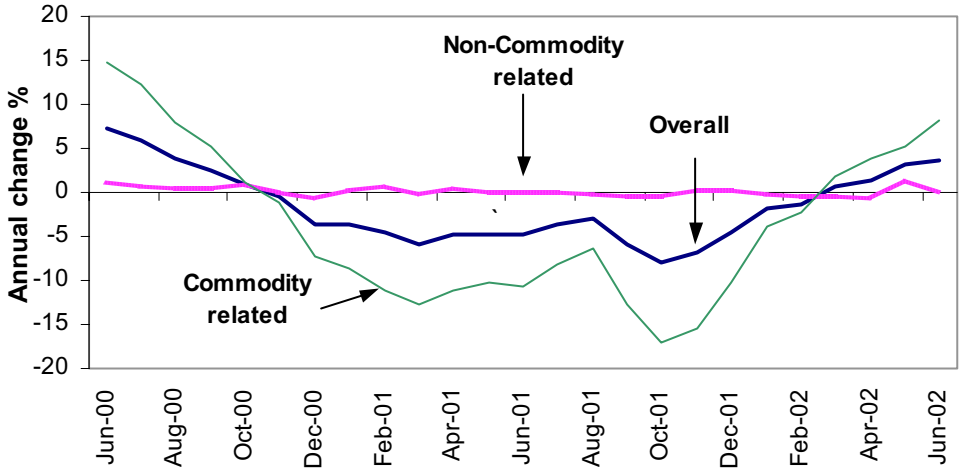


Inflation remained unchanged

Producer prices continued to increase

Producer prices, as measured by the **Producer Price Index** (PPI, 1989=100), increased by 3.6% year-on-year in June (May: 3.1%). The increase in the PPI was concomitant with the continued recovery in prices of crude palm oil and rubber. However, the increase in the PPI was partially offset by the decline in prices of crude oil. Meanwhile, excluding commodity related products, the adjusted PPI decreased marginally by 0.1%.

Producer Price Index

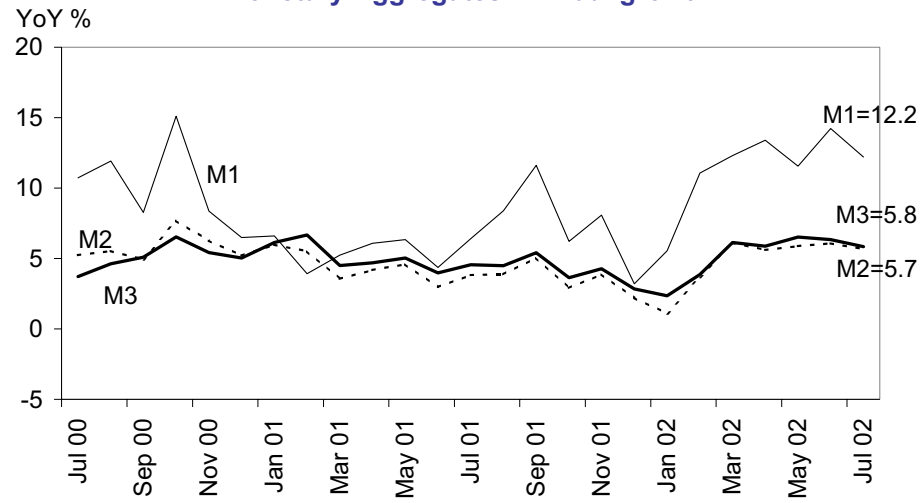


Producer prices continued to increase

Money supply continued to grow

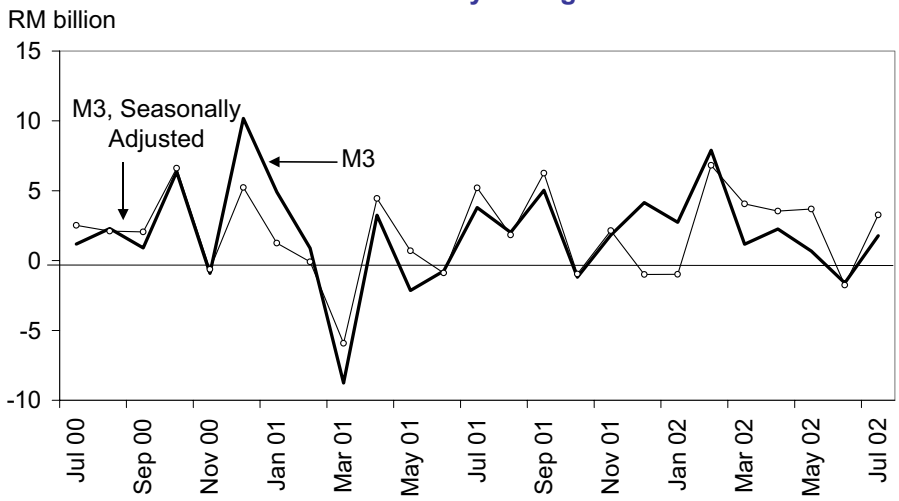
In July, M3 increased by RM1.8 billion or 0.4%, consistent with the underlying economic activities. On an annual basis, M3 expanded by 5.8% (6.3% as at end-June). The main impetus to the expansion emanated from the withdrawals of deposits placed with BNM by a non-bank financial institution, as well as the expansionary external operations. While financing of the private sector by the banking system were lower during the month, this reflected to some extent, the shift in the holdings of corporate bonds to Government papers by the banking institutions.

Monetary Aggregates: Annual growth



All three monetary aggregates continued to expand

M3: Monthly Change



On a monthly basis, M3 registered an increase…

M3 Determinants
(RM billion)

	Change during period			
	2002			
	May	Jun	Jul	Jan-Jul
M3	0.7	-1.6	1.8	14.9
Net claims on Government	-2.0	0.9	0.6	6.1
Claims on private sector	3.6	-0.6	-1.7	9.9
Net external operations[1/]	0.6	-1.8	1.2	5.5
Other influences	-1.6	-0.1	1.6	-6.6

1/ pre-revaluation

…due mainly to the withdrawals of deposits by a NBFI from BNM and expansionary external operations

Sustained underlying trend in deposits of the banking system

The underlying trend in deposits placed with the banking system was sustained, with business enterprises and individuals continuing to record further increases in July. This, nonetheless, was offset by net withdrawals of deposits by the Federal and state governments and lower deposits by the financial institutions. Consequently, **total deposits** declined by RM598 million or -0.1% in July. On an annual basis, total deposits expanded by 2.9% as at end-July.

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

	2002		
	May	Jun.	Jul.
Holder			
Federal Government	-853	94	-502
State Governments	62	286	-516
Statutory Authorities[1/]	447	-203	250
Financial Institutions	374	-1,088	-1,246
Business Enterprises	-2,454	45	487
Individuals	954	513	874
Others	56	-54	54
Total	**-1,414**	**-407**	**-598**

[1/] Include local Governments.

Deposits of business enterprises and individuals rose further

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

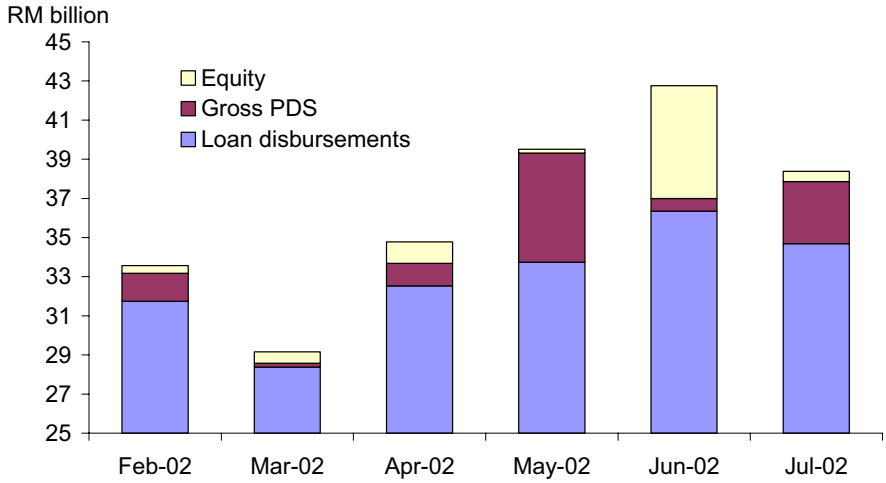
	2002		
	May	Jun.	Jul.
Type			
Fixed deposits	-223	-1,182	929
NIDs issued	302	-152	-873
Demand deposits	-1,782	1,628	-177
Savings deposits	77	-230	19
Repos	1,271	-2,238	178
FX deposits	416	-367	-84
SPI deposits	-1,531	2,189	-643
Others	56	-54	54
Total	**-1,414**	**-407**	**-598**

Fixed deposits increased, while lower deposits were mainly in NIDs and SPI deposits

Financing to the private sector remained high

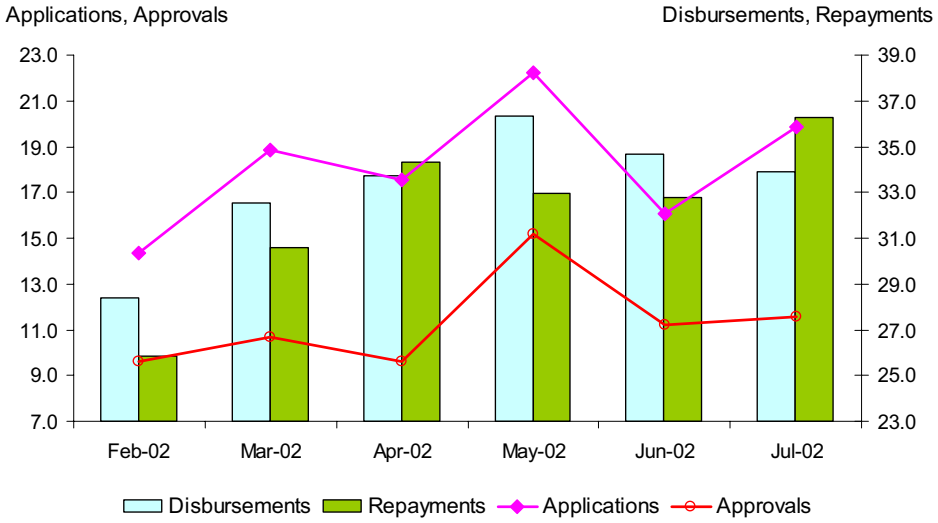
The low and stable interest rates environment, together with the ample liquidity situation continued to provide a conducive environment to support business activities. **Total gross financing** through loans extended by the banking system and funds raised in the capital market was sustained, in tandem with the stronger economic growth.

Private sector gross financing through banking system and capital market



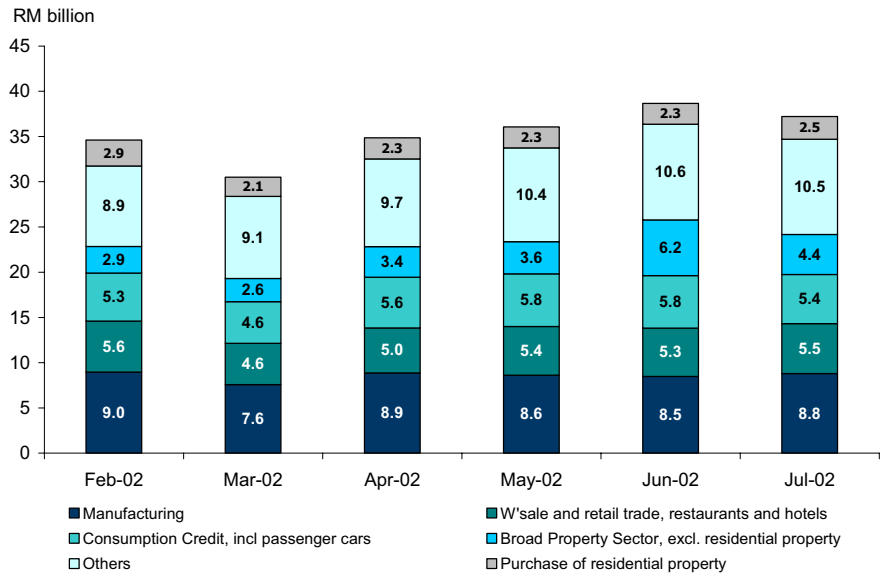
In terms of financing by the banks, all loan indicators continued to show sustained bank lending activities. **Loan disbursements** continued to be channelled to a wide range of economic sectors. Demand for credit from the household sector was sustained amid low and competitive interest rates, particularly for the purchase of residential properties and passenger cars. While this has somewhat increased the banks' exposure to retail loans, the risk of delinquent loans remains low as the default rate in these sectors has been the lowest compared with other types of loans.

Loan Applications, Approvals, Disbursements and Repayments (RM billion)



Sustained bank lending activity evident in loan approvals and disbursements. Meanwhile, repayments remained high during the month

Loan Disbursements to Selected Sectors

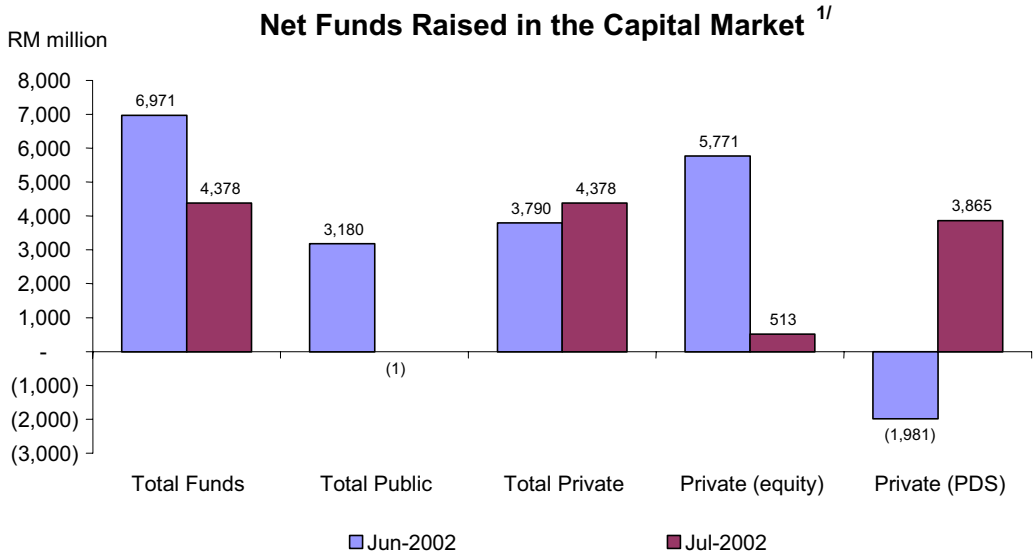


Loan disbursements continued to be channeled to a wide range of economic sectors

Loan disbursements remained high at RM33.9 billion in July. Repayments, however, was also high. The high repayments reflected the shorter maturity of loans as well as repayments associated with ongoing corporate restructuring. Loans by the corporate sector were mainly shorter-term to meet working capital needs. While the excess capacity situation has improved, investments remained modest. Loans outstanding recorded an increase of RM430 million in July (3.3% on an annual basis at end-July).

Net funds raised in the capital market remained significant

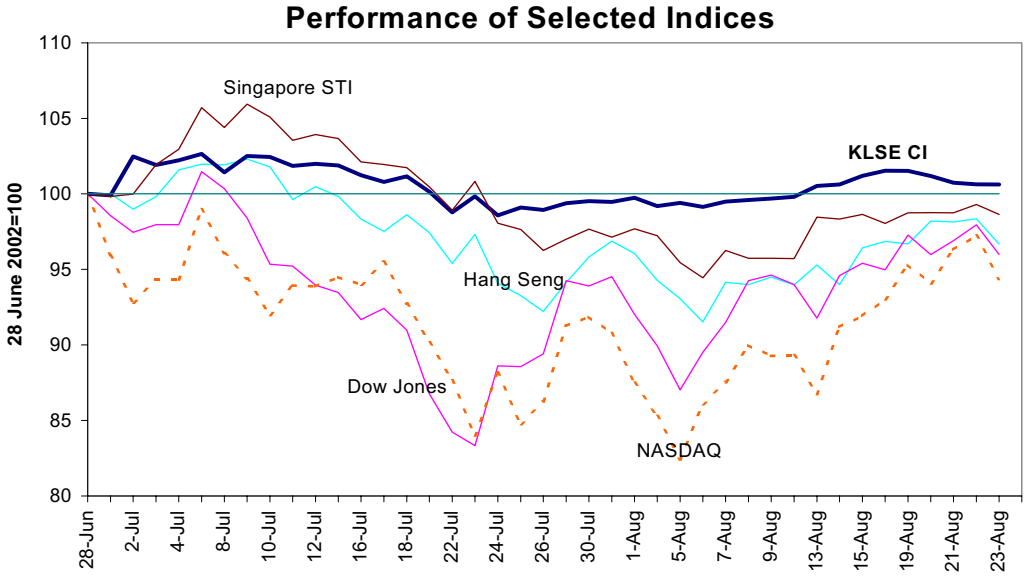
Total net funds raised in the capital market remained significant in July, amounting to RM4.4 billion. This was due to higher net funds raised by the private sector mainly through the issuance of debt securities, totalling RM3.9 billion. Meanwhile, the public sector recorded a net redemption of RM0.6 million during the month.



Net funds raised in the capital market remained significant

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) trended lower in July following the bearish performance of the global stock markets. Investors were concerned over the external developments, in particular, the risk of US economic recovery weakening. As at 31 July, the KLSE CI closed at 721.59 points (-0.5% since end-June) with market capitalisation at RM533.68 billion (+5.5% since end-June). The daily average turnover was higher at 193.1 million units (156.1 million units in June).

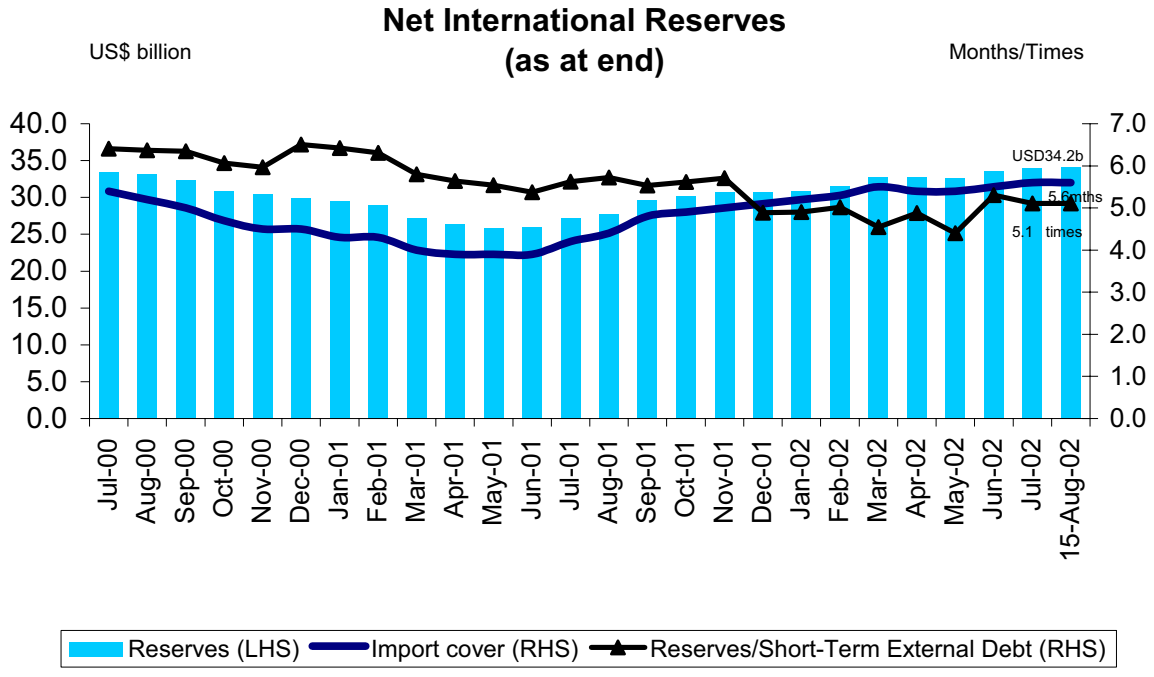


KLSE CI improved slightly in August

Tracking the recovery in the US stock markets and lifted by the improved ratings on Malaysia, the KLSE CI rose in the first three weeks of August. Upgrades of Malaysian sovereign ratings by credit rating agencies as well as favourable corporate results helped improve market sentiments. As at 23 August, the KLSE CI closed at 729.99 points (+1.2% since end-July) with market capitalisation at RM541 billion (+1.4% since end-July). Daily average turnover was, however, lower at 148.2 million units.

International reserves increased further

The **net international reserves of BNM** increased by RM1.6 billion (US$415 million) in the month of July to RM129.3 billion or US$34 billion as at 31 July 2002 and increased further to RM129.8 billion or US$34.2 billion as at 15 August 2002. Higher reserves reflected inflows from the repatriation of export earnings, net investment inflows as well as the drawdown of the proceeds from the US$600 million Global Islamic Trust Certificates issued by the Federal Government. These inflows were more than adequate to support outflows, which were mainly repayment of external loans by the private sector, payment for imports of goods and services as well as overseas investment by Malaysian corporations. The level of reserves as at 15 August is adequate to finance 5.6 months of retained imports and is 5.1 times the short-term external debt.



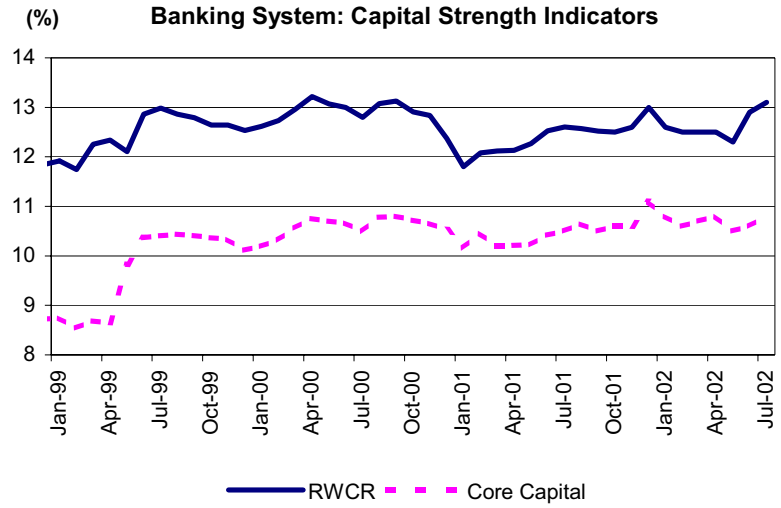
Banking system remains strong

The capital position of the banking system strengthened further in July with the risk-weighted capital ratio (RWCR) increasing to 13.1% whilst the core capital ratio improved to 10.8%. Improvement was mainly attributed to the inclusion of audited profits into the capital base and higher reserves. Net NPL ratio (6-month classification) moderated to 8.0%, primarily due to higher loan loss provisions, loans written-off and recoveries.

Banking System Health Indicators

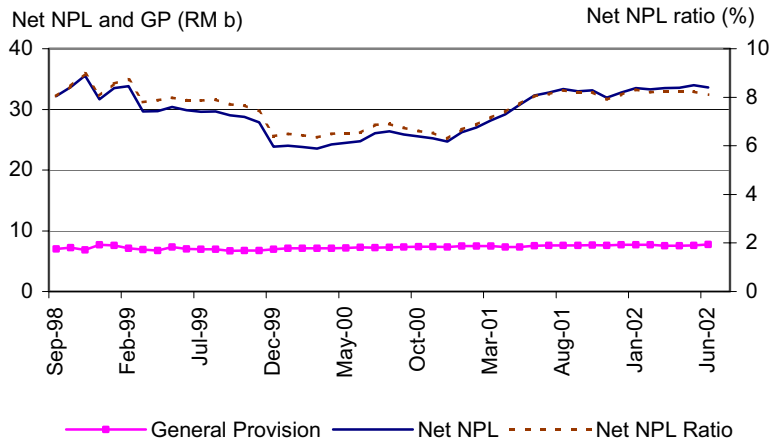
	1998	1999	2000	2001		2002	
	Dec.	Dec.	Dec.	Jun.	Dec.	Jun.	Jul.
Capital							
Core capital ratio (%)	8.7	10.1	10.7	10.5	11.1	10.6	10.8
RWCR (%)	11.8	12.5	12.5	12.6	13.0	12.9	13.1
Net NPL (6-month classification)							
% of net total loans	8.1	6.4	6.3	8.0	8.1	8.2	8.0
Amount (RM million)	31,675	23,849	24,700	32,292	32,775	33,924	33,292
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*



….RWCR strengthened further to 13.1%

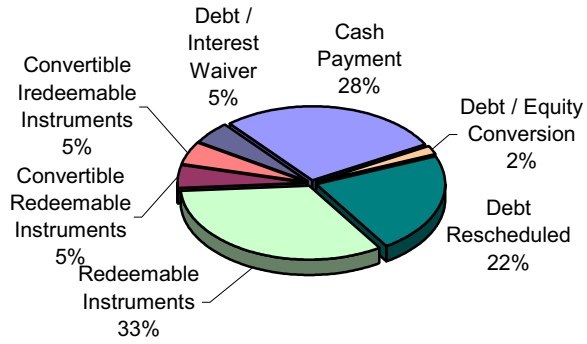
Banking System: Net NPL and General Provisions



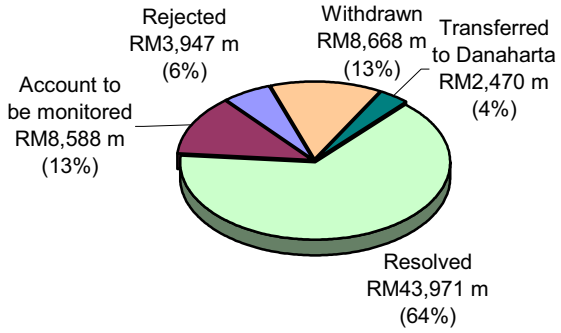
…Net NPL ratio improved to 8.0%, whilst GP to net loans ratio remained unchanged at 1.9%

CDRC has officially ceased operations on 15 August 2002, after successfully resolving 98% of cases accepted with total value of RM43.97 billion. The recovery profile of the resolved cases has shown that 61% of the recovery proceeds were in the form of cash and redeemable instruments while 22% took the form of rescheduled debts. The proportion of NPLs that have been restructured or approved for restructuring remained at 99.9% of NPLs under the purview of Danaharta. In this regard, Danaharta is targeting for closure by 2005. Capital injection by Danamodal into the banking institutions remained at RM2.1 billion as at end-July 2002.

CDRC : Recovery Profile



CDRC : Status of Debt Resolution



Bank Negara Malaysia
28 August 2002

Key Monetary and Banking Statistics

	June 2002		July 2002	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	40.9	6.3	40.6	4.6
M1	82.3	14.2	82.4	12.2
M2	369.9	6.1	370.9	5.7
M3	482.7	6.3	484.4	5.8
Banking System				
Total deposits	488.7	3.2	488.1	2.9
Total loans (including loans sold to Cagamas and Danaharta)	483.1	3.8	483.5	3.3
Total loans (excluding loans sold to Cagamas and Danaharta)	420.5	3.5	421.4	3.1
Loan-deposit ratio (%)	86.0		86.3	
Loans approved during the month	11.2		11.5	
Loans disbursed during the month	34.7		33.9	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	12.9		13.1	
Net NPLs: 6-month classification (%)	8.2		8.0	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	127.7		129.3	
Reserves in USD (billion)	33.6		34.0	
Months of retained imports	5.5		5.6	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.97[2.83]		2.97[2.86]	
3-month	3.21[2.89]		3.22[2.96]	
Fixed deposits of commercial banks: 1-month	3.20[3.20]		3.20[3.20]	
3-month	3.21[3.21]		3.20[3.20]	
BLR of commercial banks	6.39[6.39]		6.39[6.39]	
Prices				
Consumer Price Index (CPI) (2000=100)	103.4	2.1	103.4	2.1
Producer Price Index (PPI) (1989=100)	131.3	3.6	-	-
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.7421		3.7402	
Pound Sterling	5.7971		5.9690	
Singapore dollar	2.1509		2.1546	
100 Japanese yen	3.1613		3.1701	
100 Thai Baht	9.1182		9.0638	
100 Philippine Peso	7.5386		7.4255	
100 Indonesian Rupiah	0.0437		0.0419	
100 Korean Won	0.3156		0.3190	
Capital Market				
Funds raised by: public sector (RM billion)	3.2		…	
private sector (RM billion)	3.8		4.4	
Kuala Lumpur Composite Index (end-period)	725.44		721.59	
KLSE Market Capitalisation (RMb) (end-period)	505.89		533.68	