BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

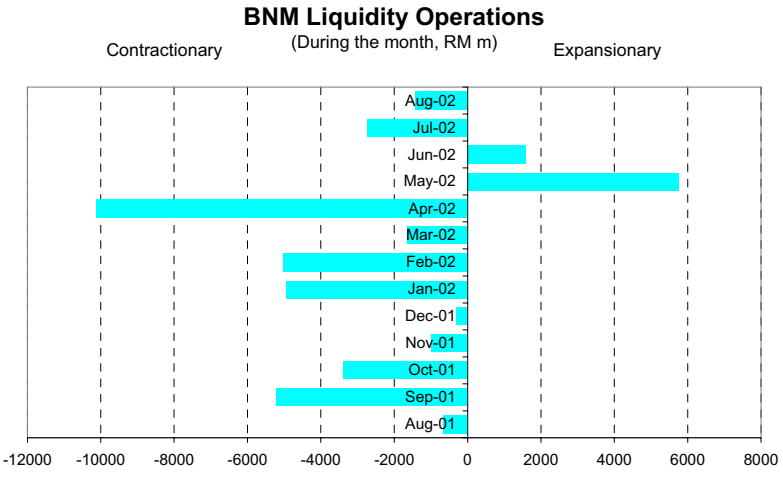
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PRESS RELEASE
MONETARY AND FINANCIAL DEVELOPMENTS
AUGUST 2002

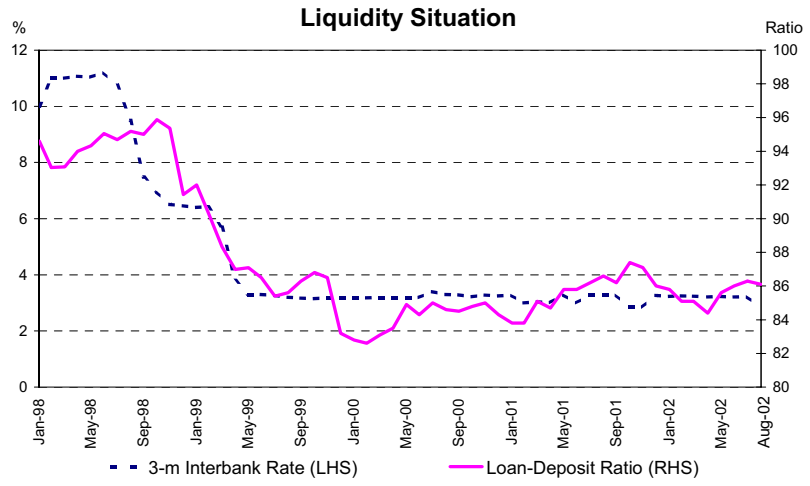
In August, the low and stable interest rate environment and ample liquidity situation amidst low inflation contributed towards the continued expansion in financing activities of the private sector. Both loan approvals and disbursements were sustained, while broad money supply increased further. Together with the strengthening of the banking system, the current accommodative monetary policy continued to stimulate growth in economic activities.

Interest rates remained low and stable

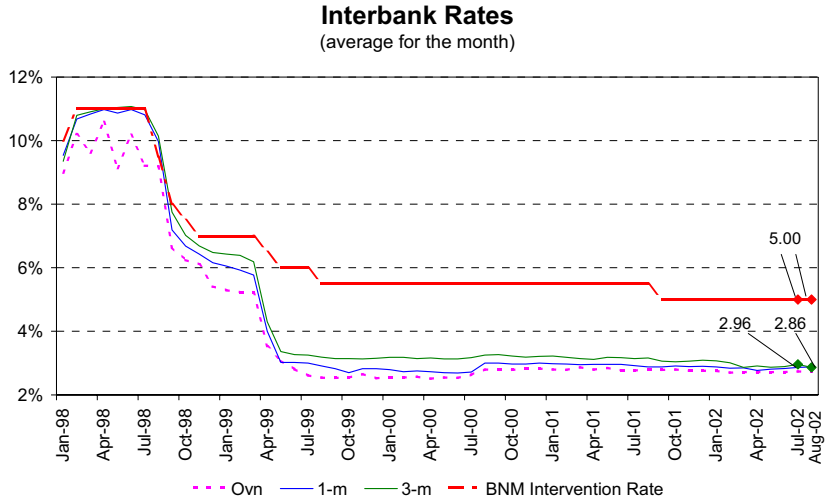
The **interbank money market** rate remained low and stable during the month. BNM liquidity operations were contractionary, aimed at balancing liquidity in line with overall demand, and hence ensuring stable interest rates in the market.



BNM liquidity operations absorbed RM1.4 billion from the market to offset the expansionary impact of withdrawals of deposits by Government from BNM, as well as from trade and portfolio inflows

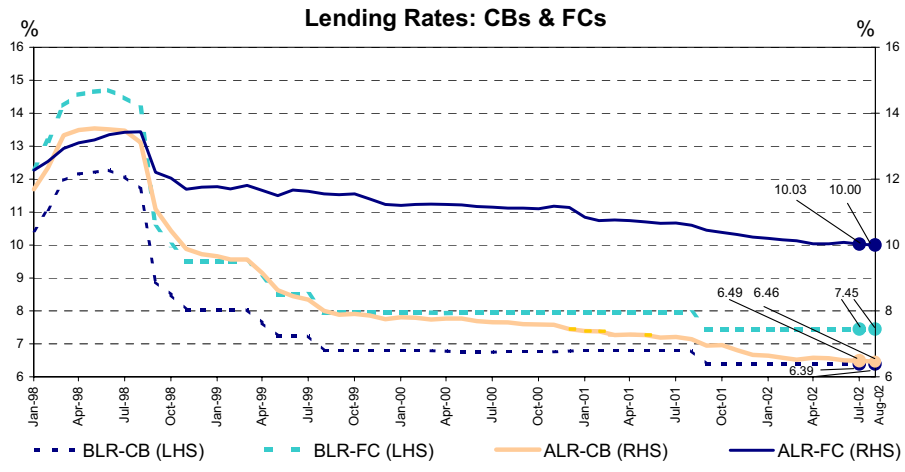


Ample liquidity prevailed



Interbank rates continued to remain low and stable during the month

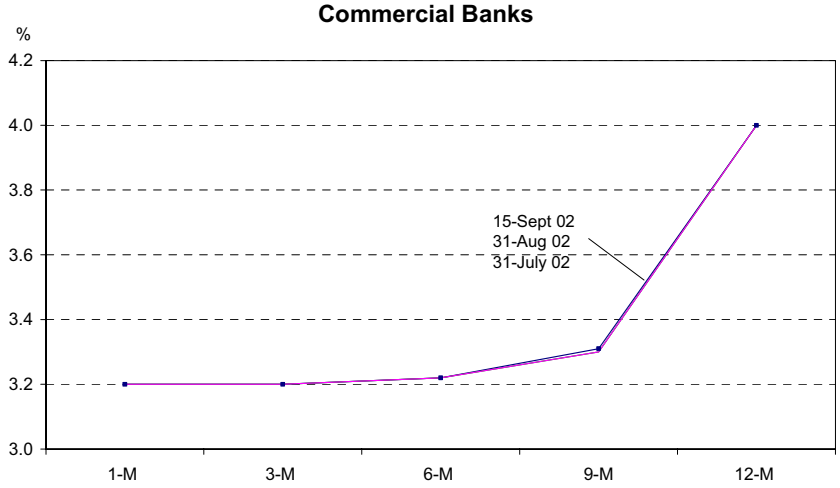
The **average base lending rate (BLR)** of commercial banks (CBs) and finance companies (FCs) remained unchanged during the month. Similar trends were observed in the **average lending rates** (ALR) of CBs and FCs (6.46% and 10% respectively as at end-August: 6.49% and 10.03% respectively as at end-July).



BLR and ALR remained low and stable

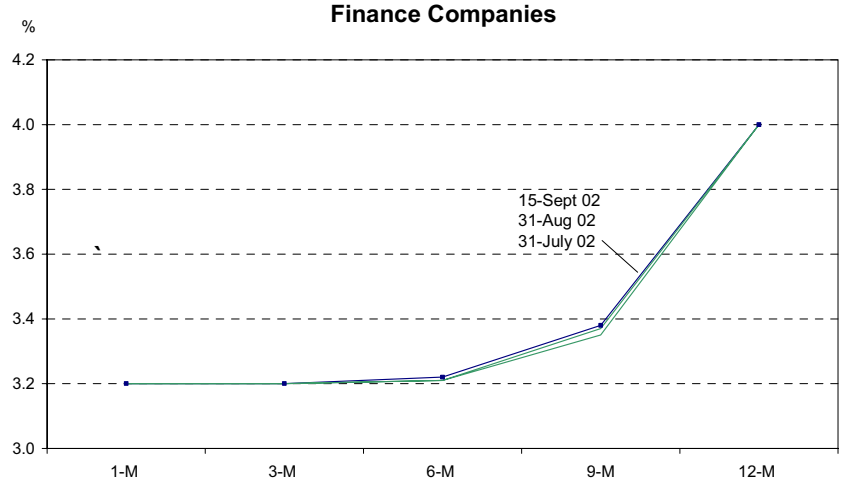
The **term structure of average fixed deposit rates** of CBs and FCs, as at 15 September, remained unchanged for all maturities.

Term Structure of FD Rates: Commercial Banks



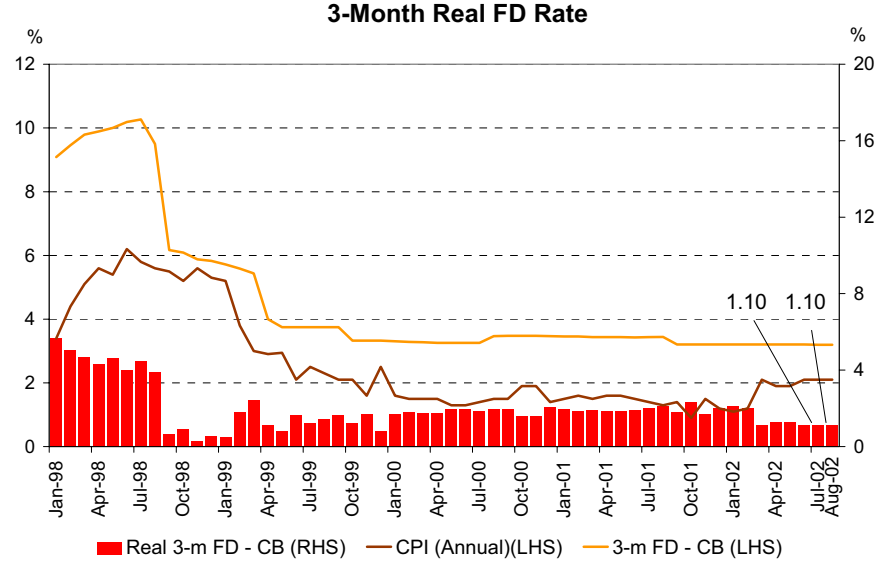
FD rate of CBs remained virtually unchanged

Term Structure of FD Rates: Finance Companies



...similarly, for FCs

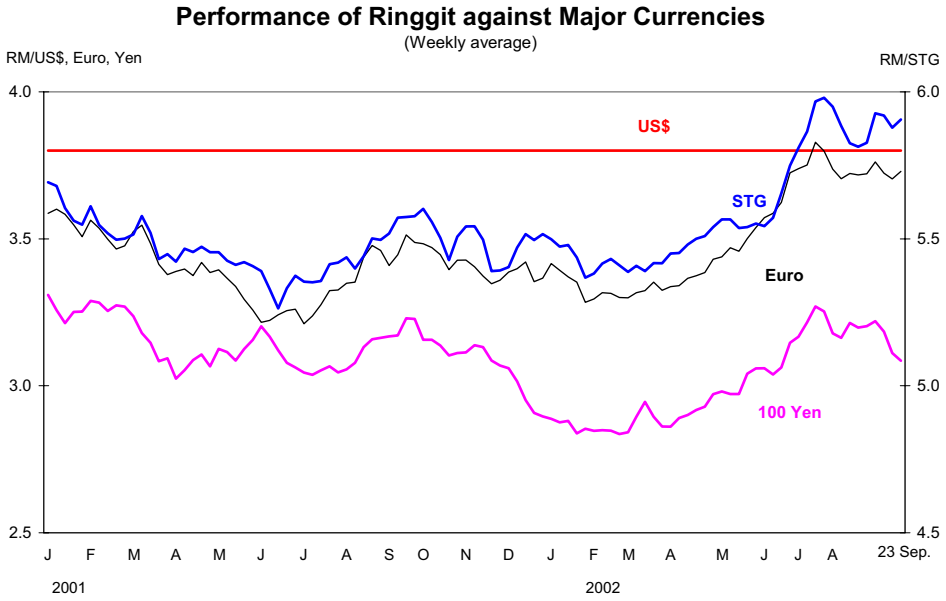
3-Month Real FD Rate



The CB 3-month real FD rate remained positive and unchanged in August

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

In August, 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 (-1.6%) and the euro (-0.1%), while appreciating against the pound sterling (1.5%). The US dollar was adversely affected by weak US stock market performance, market anxiety ahead of the anniversary of the 11 September incident and growing concerns over the possibility of US military action in the Middle East. Preliminary data indicating weaker than expected American consumer confidence for August further contributed to the weaker US currency.

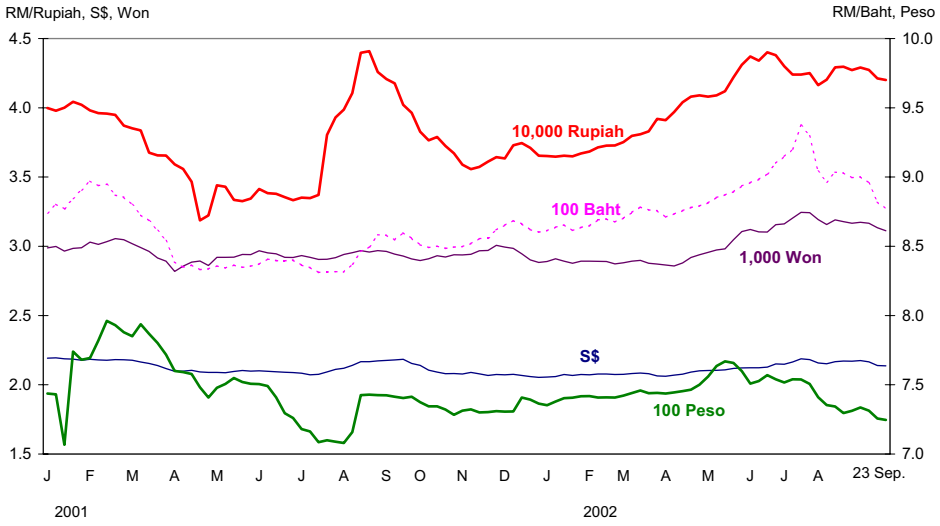


The ringgit depreciated against most major currencies

The **ringgit recorded a mixed performance against regional currencies**. The ringgit strengthened against the Thai baht, Philippine peso and Korean won in the range of 0.6% - 1.2%, while weakening against the Singapore dollar and the Indonesian rupiah by 0.9% and 2.3% respectively. The Philippine peso weakened due to market concerns over the Government budget deficit. On the other hand, the Singapore dollar strengthened following the release of stronger than expected data for non-oil exports and manufacturing production for July, while the Indonesian rupiah received support from positive market sentiment over the draft 2003 budget.

Performance of Ringgit against Regional Currencies

(Weekly average)



The ringgit recorded a mixed performance against regional currencies

During the period **1 – 23 September 2002**, the ringgit strengthened against most major and all regional currencies. The ringgit appreciated against the euro by 0.4% and the Japanese yen by 4.4%, while depreciating against the pound sterling by 0.4%. The US dollar strengthened on the back of economic data indicating better than expected employment and retail sales in August, reaffirming market belief on the better health of the US economy relative to Japan and Europe. In contrast, the euro depreciated following the release of data indicating a slow second quarter economic growth and the unexpected fall in German industrial output in July. The Japanese yen was weighed down by renewed market anxiety over Japan's troubled financial system and under performing economy. Over the same period, the ringgit also appreciated against regional currencies in the range of 1.2% - 2.7%.

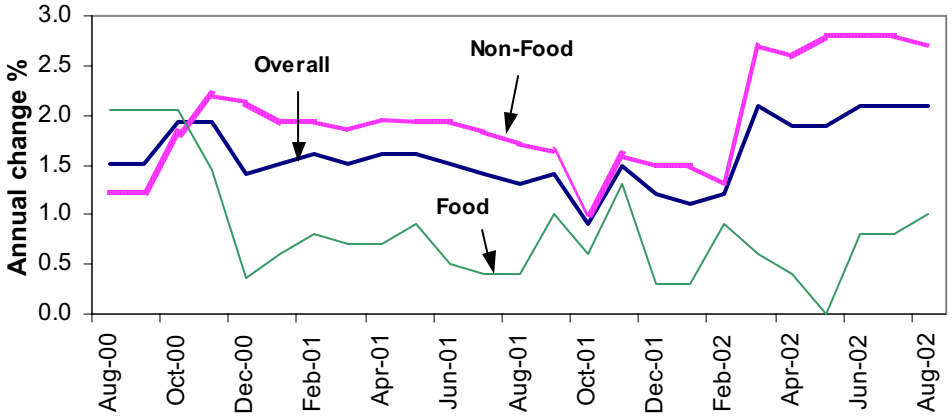
Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-Aug. 2002	23 Sep. 2002	% Change			
				Aug. 2002	End-Aug - 23 Sep. 2002	End-2001 - 23 Sep. 2002	2 Sep. 1998 - 23 Sep. 2002
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	3.7430	3.7295	-0.1	0.4	-9.7	-
Pound Sterling	6.3708	5.8822	5.9060	1.5	-0.4	-6.6	7.9
100 Japanese yen	2.7742	3.2213	3.0853	-1.6	4.4	-6.2	-10.1
Singapore dollar	2.1998	2.1733	2.1364	-0.9	1.7	-3.9	3.0
100 Thai baht	9.3713	9.0069	8.7719	0.6	2.7	-1.9	6.8
100 Philippine peso	8.8302	7.3348	7.2464	1.2	1.2	1.6	21.9
100 Indonesian Rupiah	0.0354	0.0429	0.0420	-2.3	2.1	-13.1	-15.8
100 Korean won	0.2827	0.3167	0.3112	0.7	1.8	-7.4	-9.2

Inflation remained unchanged

The annual rate of inflation, as measured by the **Consumer Price Index** (CPI, 2000=100), remained unchanged at 2.1% in August (July: 2.1%). 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. On a monthly basis, the CPI declined marginally by 0.1%.

Consumer Price Index

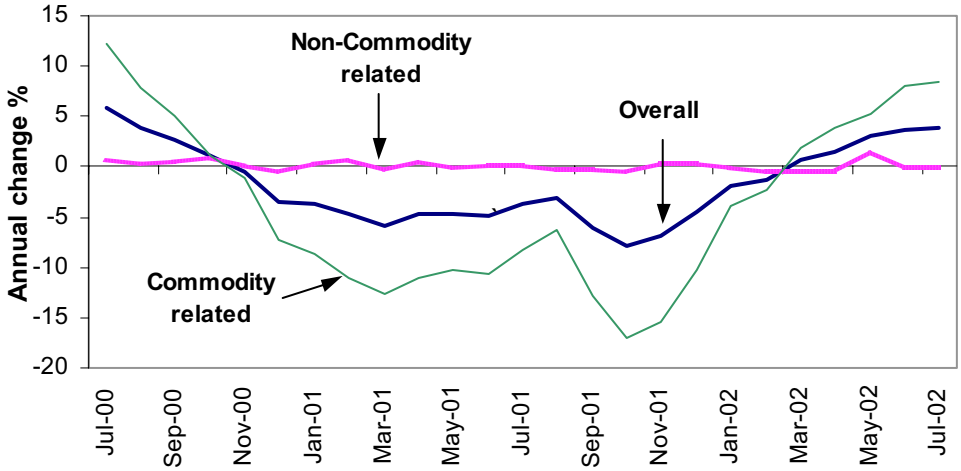


Inflation remained unchanged

Producer prices continued to increase

Producer prices, as measured by the **Producer Price Index** (PPI), increased by 3.8% year-on-year in July (June: 3.6%). The increase in the PPI reflected the continued stronger 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



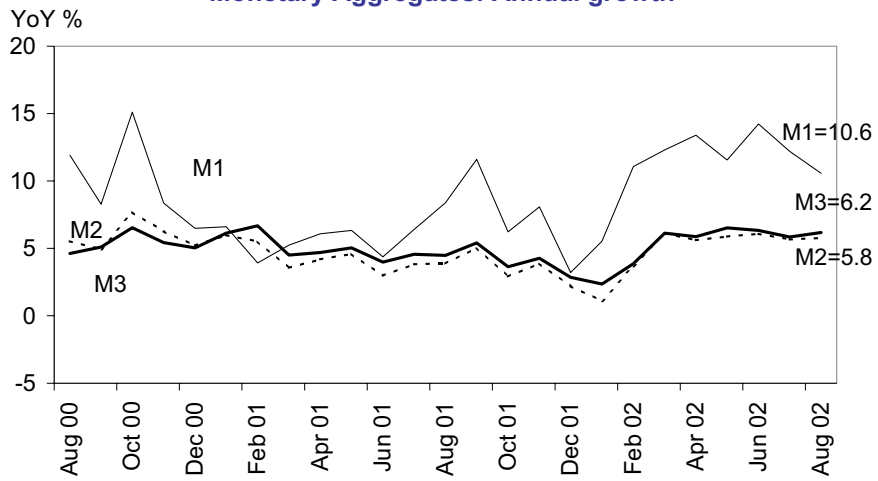
Producer prices continued to increase

M3 increased further

In August, monetary aggregates increased further, in tandem with the growth in economic activity. Narrow money, M1 expanded by RM0.8 billion or 1%, reflecting largely increased demand for currency due to higher consumer spending. Higher deposits of businesses and individuals as well as the non-bank financial institutions (NBFIs) with the banking institutions led to a further increase in M3, which expanded by RM3.7 billion or 0.8%. On an annual basis, M1 and M3 grew by 10.6% and 6.2% respectively as at end-August (12.2% and 5.8% as at end-July).

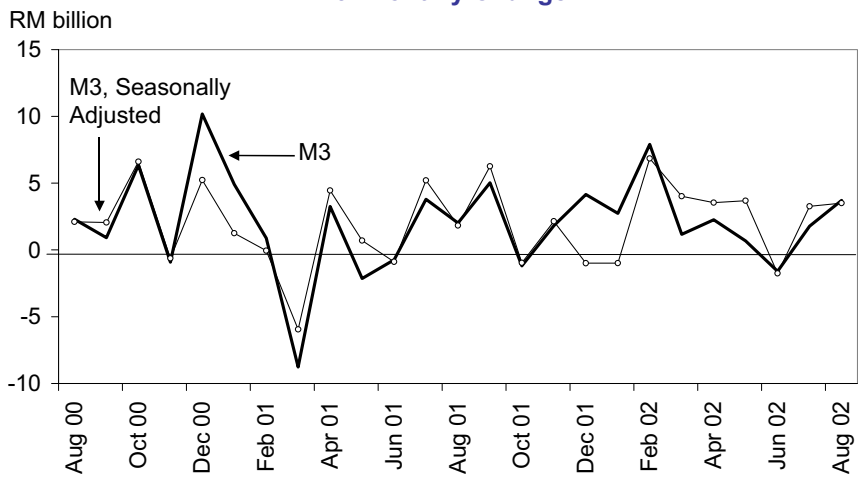
The expansion in M3 emanated from higher bank financing activity of the private sector and expansionary fiscal disbursements. However, the increase was moderated by higher deposits placed by a NBFI with BNM.

Monetary Aggregates: Annual growth



All three monetary aggregates continued to increase on an annual basis

M3: Monthly Change



…on a monthly basis, M3 increased further

M3 Determinants
(RM billion)

	Change during period			
	2002			
	Jun	Jul	Aug	Jan-Aug
M3	-1.6	1.8	3.7	18.6
Net claims on Government	0.9	0.6	3.3	9.4
Claims on private sector	-0.3	-2.0	4.0	13.9
Net external operations[1/]	-1.8	1.2	-0.9	4.6
Other influences	-0.4	1.9	-2.6	-9.2

1/ pre-revaluation

Expansion in M3 reflected higher bank lending and Government operations

Stronger banking system deposits

Total deposits mobilised by the banking system were significantly higher (+RM3.6 billion or 0.7%) in August, reflecting increases in deposits by business enterprises and individuals. On an annual basis, total deposits expanded by 3.9% at end-August.

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

	2002		
	Jun.	Jul.	Aug.
Holder			
Federal Government	94	-502	-574
State Governments	286	-516	100
Statutory Authorities[1/]	-203	250	-1,079
Financial Institutions	-1,088	-1,246	3,045
Business Enterprises	45	487	648
Individuals	513	874	1,578
Others	-54	54	-130
Total	**-407**	**-598**	**3,587**

[1/] Include local Governments.

Deposits by individuals and business enterprises increased

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

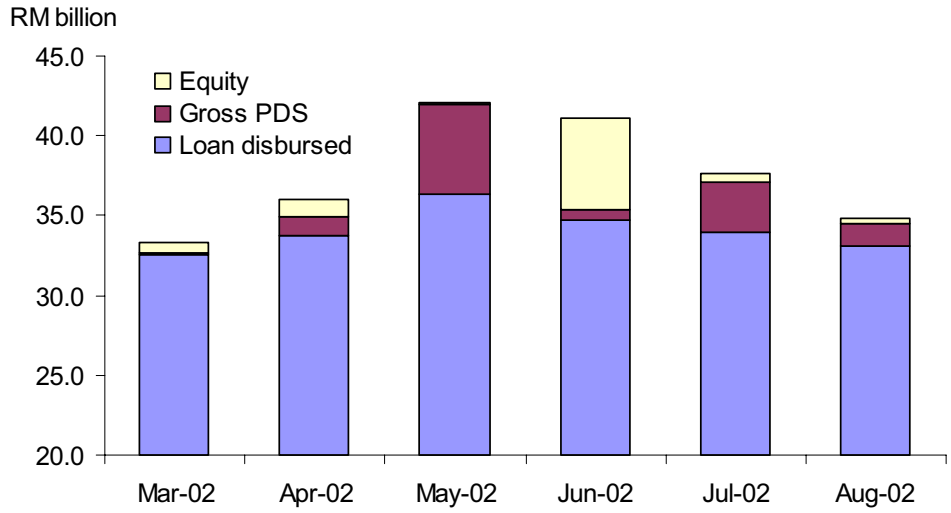
	2002		
	Jun.	Jul.	Aug.
Type			
Fixed deposits	-1,182	929	-1,660
NIDs	-152	-873	1,515
Demand deposits	1,628	-177	108
Savings deposits	-230	19	-163
Repos	-2,238	178	3,914
FX deposits	-367	-84	-260
SPI deposits	2,189	-643	275
Others	-54	54	-130
Total	**-407**	**-598**	**3,587**

Repos and NIDs increased, while lower deposits mainly in fixed deposits

Financing to the private sector remained high

The low and stable interest rates environment, together with ample liquidity provided a conducive environment for sustaining domestic economic growth. During the month, **total gross financing** through loans extended by the banking system and capital market was supportive, totalling RM34.8 billion.

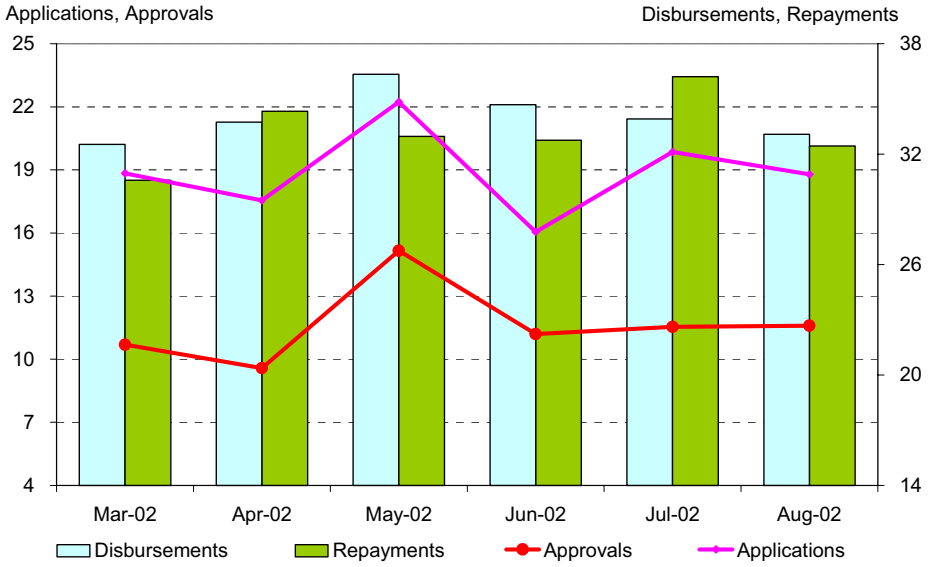
Private Sector Gross Financing through Banking System and Capital Market



The underlying trend in bank lending activities was sustained during the month. **Loan disbursements** (RM33.1 billion) were channeled to a wide range of economic sectors. Disbursements to the business sector remained high at RM20.5 billion in August (July: RM21.2 billion), accounting for 62% of total loan disbursements during the month. Meanwhile, disbursements to individuals amounted to RM8.8 billion or 26.5% of total loans disbursed in August (July: RM8.7 billion).

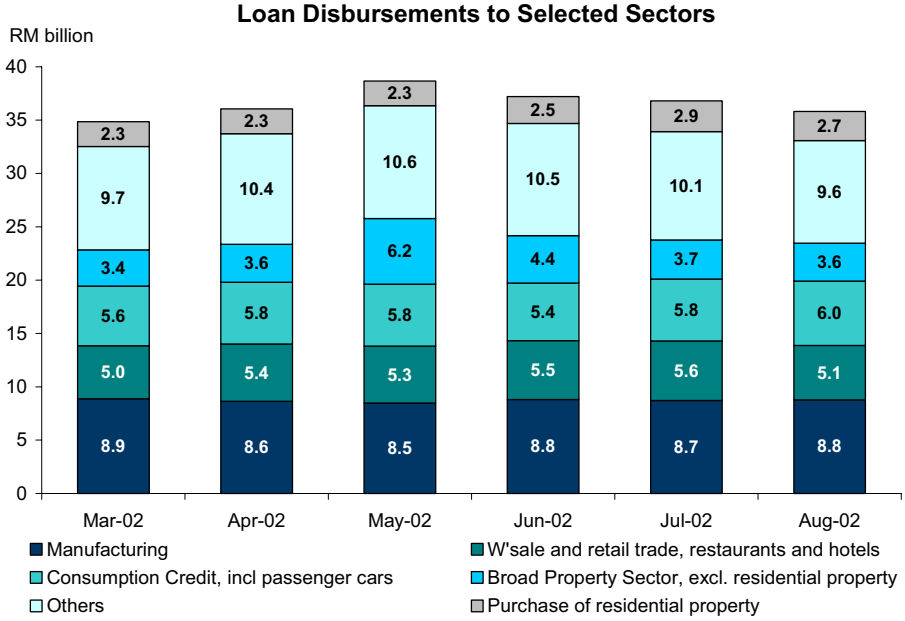
Loans outstanding increased further by RM1.6 billion, leading to improved annual growth of 3.6% at end-August compared with 3.3% at end-July. The major portion of the expansion in loans continued to be retail-driven, and was largely for the purchase of residential property and passenger cars. Loans extended to the business sector remained short-term in nature, mainly to meet working capital needs.

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



Sustained lending evident in loan approvals and disbursements

Loan Disbursements to Selected Sectors

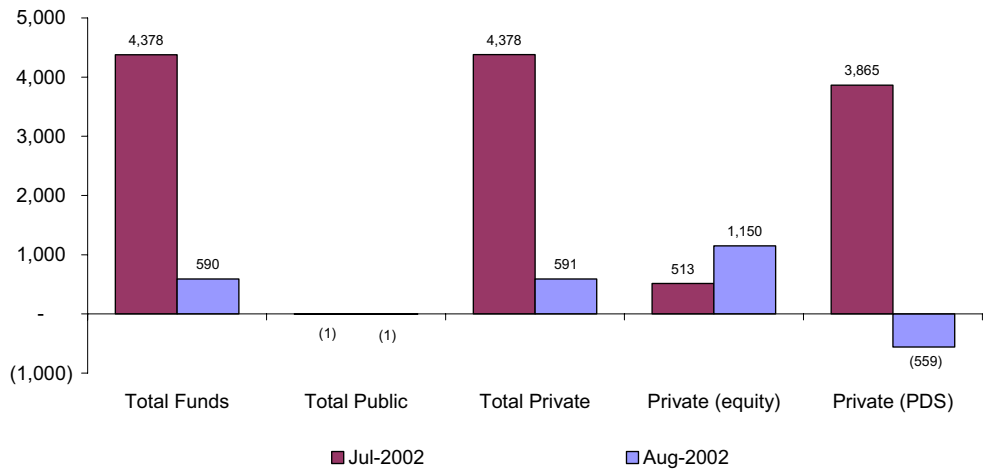


Loan disbursements continued to be channeled to a wide range of economic sectors

Lower net funds raised in the capital market

On a gross basis, the total funds raised by the private sector in the equity and private debt securities (PDS) markets amounted to RM2.6 billion in August. However, due to the higher redemption of Cagamas bonds (RM2 billion), the net funds raised by the private sector were lower at RM591 million. Meanwhile, the public sector recorded a net redemption of RM1.3 million due to the redemption of Malaysian Saving Bonds. In total, the **net funds raised in the capital market** were lower at RM590 million.

Net Funds Raised in the Capital Market [1/]

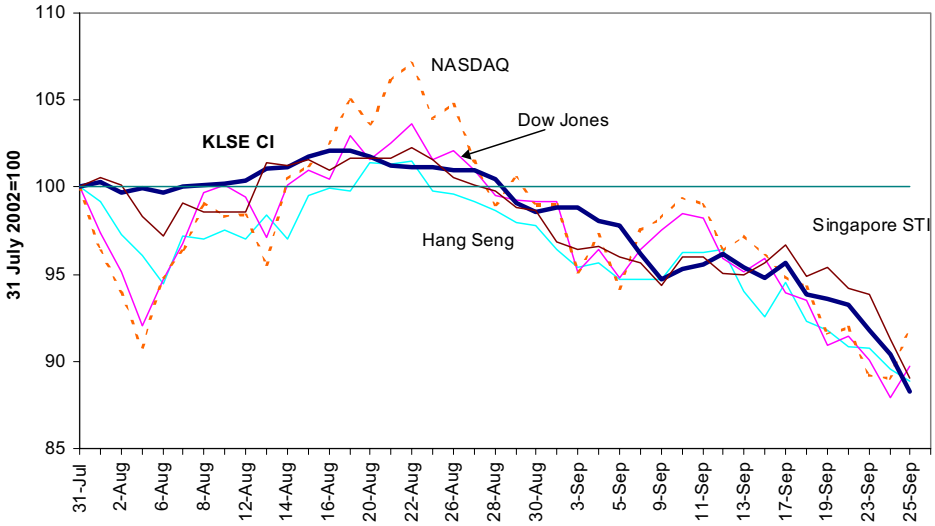


Lower net funds raised in the capital market

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 slightly in the first three weeks of August following recovery of the US stock markets as well as improved ratings on Malaysia. Upgrades of Malaysian sovereign ratings by credit rating agencies as well as favourable corporate results helped improve market sentiments. However, the KLSE CI declined towards the end of the month due mainly to the tensions in the Middle East. As at 30 August, the KLSE CI closed at 711.36 points (-1.4% since end-July) with market capitalisation at RM529.53 billion (-0.8% since end-July). Daily average turnover was lower at 143.2 million units (193.1 million units in July).

Performance of Selected Indices

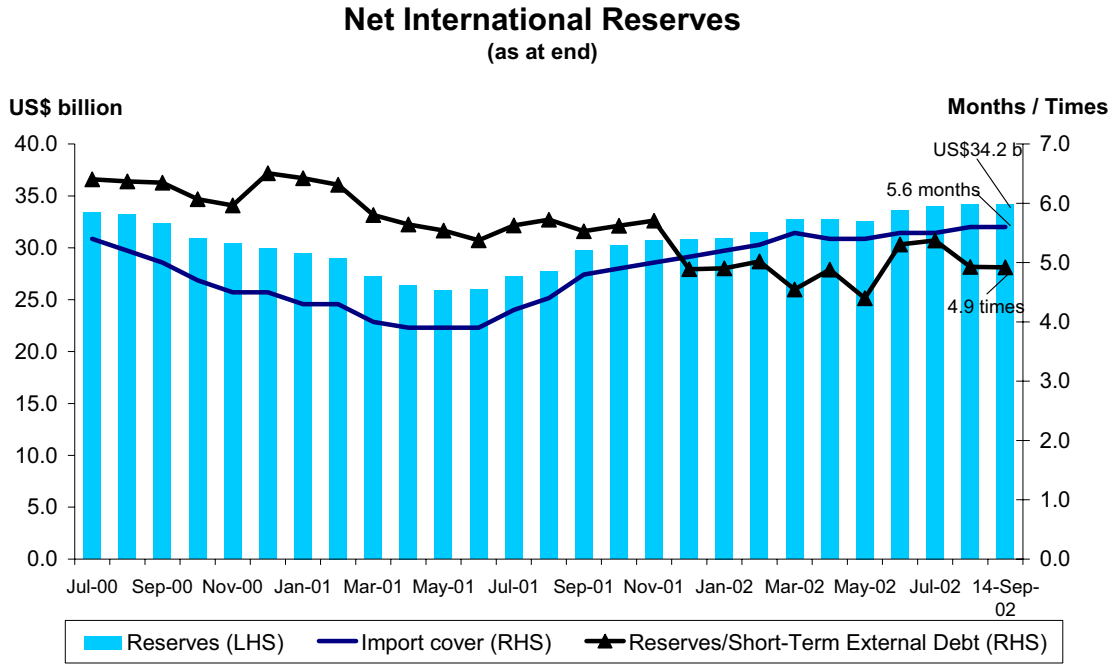


KLSE CI trended lower

The KLSE CI continued its lacklustre performance in the first three weeks of September on concerns over the 11 September anniversary and US-Iraq tensions. Meanwhile, the absence of fresh leads in the local market has also contributed to the weak market performance. As at 25 September, the KLSE CI closed at 636.75 points (-10.5% since end-August) with market capitalisation at RM477 billion (-9.9% since end-August). Meanwhile, the daily average turnover dropped to 137.3 million units.

International reserves

The **net international reserves of BNM** increased by RM828 million (US$218 million) in the month of August to RM130.1 billion or US$34.2 billion as at 30 August 2002. Continued repatriation of export earnings was the main factor accounting for the increase in reserves, reflecting the underlying strength of Malaysia's balance of payments position. Reserves stabilised at US$34.2 billion as at 14 September 2002. Inflows from the repatriation of export earnings were sustained during this period, offsetting outflows that mainly reflected the payments for imports of goods and services. In addition, portfolio inflows were marginally offset by outflows during this period. The reserves position as at 14 September is adequate to finance 5.6 months of retained imports and is 4.9 times the short-term external debt.



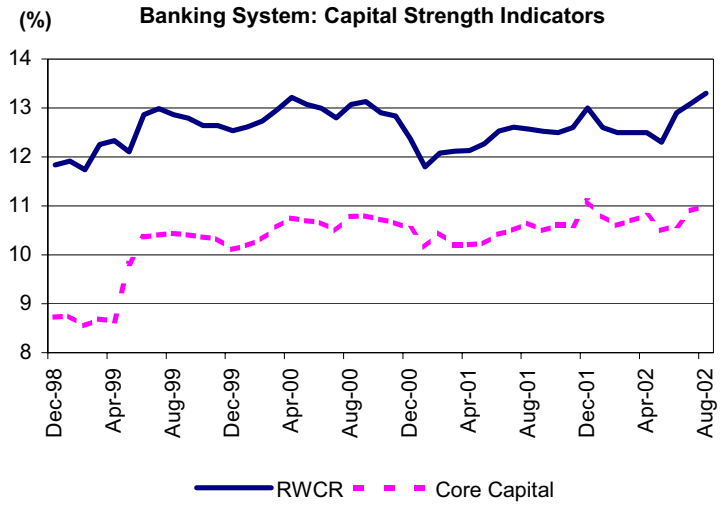
Resilience of banking system preserved

Financial position of the banking system strengthened further on the back of improvements in capital position and moderation in NPL level. The risk-weighted capital ratio (RWCR) of the banking system improved further to 13.3% whilst the core capital ratio rose to 11.0% as a result of the inclusion of audited profits in the capital base. Net NPL ratio (6-month classification) moderated further to 7.9%, attributed mainly to the implementation of the debt restructuring scheme of a large corporation resolved under the CDRC framework.

Banking System Health Indicators*

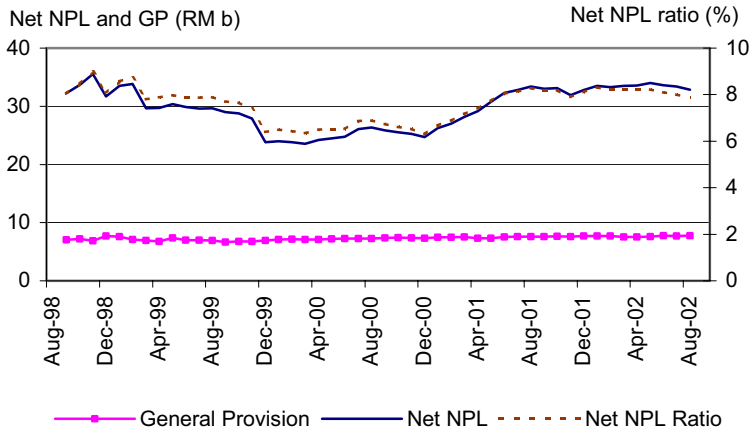
	1998	1999	2000	2001		2002	
	Dec.	Dec.	Dec.	Jun.	Dec.	Jul.	Aug.
Capital (%)							
Core capital ratio	8.7	10.1	10.7	10.5	11.1	10.9	11.0
RWCR	11.8	12.5	12.5	12.6	13.0	13.1	13.3
Net NPL (6-month classification)							
% of net total loans	8.1	6.4	6.3	8.0	8.1	8.0	7.9
Amount (RM million)	31,675	23,849	24,700	32,292	32,775	33,397	32,845
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 and core capital ratio increased further to 13.3% and 11.0% respectively

Banking System: Net NPL and General Provisions



…Net NPL ratio improved to 7.9%, whilst GP to net loans ratio remained at 1.9%

Recovery efforts by Danaharta continued to be commendable with the overall expected recovery rate of 57% (50% for acquired loans and 62% for managed loans). To date, Danaharta has received a total of RM17.4 billion in recoveries, of which RM9.6 billion has been distributed to the banking institutions. As at 30 June 2002, Danaharta had a balance of cash and cash equivalents of RM6.0 billion which would be used in part to redeem Danaharta issued bonds and for operational requirements.

As at end-August 2002, the outstanding balance of capital injection by Danamodal remained at RM2.1 billion. Danamodal is expected to close its operations in 2003.

Bank Negara Malaysia
30 September 2002

Key Monetary and Banking Statistics

	July 2002		August 2002	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	40.6	4.6	40.5	2.4
M1	82.4	12.2	83.2	10.6
M2	370.9	5.7	373.3	5.8
M3	484.4	5.8	488.1	6.2
Banking System				
Total deposits	488.1	2.9	491.7	3.9
Total loans (including loans sold to Cagamas and Danaharta)	483.5	3.3	485.2	3.6
Total loans (excluding loans sold to Cagamas and Danaharta)	421.4	3.1	423.3	3.3
Loan-deposit ratio (%)	86.3		86.1	
Loans approved during the month	11.5		11.6	
Loans disbursed during the month	33.9		33.1	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	13.1		13.3	
Net NPLs: 6-month classification (%)	8.0		7.9	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	129.3		130.1	
Reserves in USD (billion)	34.0		34.2	
Months of retained imports	5.5		5.6	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.97 [2.86]		2.97 [2.88]	
3-month	3.22 [2.96]		2.86 [2.86]	
Fixed deposits of commercial banks: 1-month	3.20 [3.20]		3.20 [3.20]	
3-month	3.20 [3.20]		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	103.3	2.1
Producer Price Index (PPI) (1989=100)	131.9	3.8	-	-
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.7402		3.7430	
Pound Sterling	5.9690		5.8822	
Singapore dollar	2.1546		2.1733	
100 Japanese yen	3.1701		3.2213	
100 Thai Baht	9.0638		9.0069	
100 Philippine Peso	7.4255		7.3348	
100 Indonesian Rupiah	0.0419		0.0429	
100 Korean Won	0.3190		0.3167	
Capital Market				
Funds raised by: public sector (RM billion)	…		…	
private sector (RM billion)	4.4		0.6	
Kuala Lumpur Composite Index (end-period)	721.59		711.36	
KLSE Market Capitalisation (RMb) (end-period)	533.68		529.53	