MONETARY policy in 2002 continued to be directed at providing a positive enabling environment to support domestic economic activity.

Given the uncertainty in the external environment, the basic thrust of monetary policy has been directed at sustaining the underlying economic fundamentals to ensure that the domestic sector remained sufficiently flexible, to deliver the necessary internal adjustment to sustain the recovery momentum, the Economic Report said.

Monetary policy responses have continued to leverage on areas of strong complementarities that exist between fiscal and monetary policies in order to avoid over dependence on a single policy.

The policy has also aimed to ensure that the levels of interest rates remain supportive of economic activities. Liquidity management during the course of 2002 ensured that interest rates remained low and stable, while providing a positive real rate of return on deposits.

On the external front, international interest rates have also been generally low due to monetary easing, in particular after the Sept 11, 2001 incident.

With interest rate differentials positive in favour of Malaysia, coupled with the nation’s strong economic fundamentals, the easier global interest rates have further accorded flexibility in maintaining the accommodative monetary stance to support the growth momentum.

The fixed exchange rate regime in place since Sept 1998, continues to benefit the economy.

The ringgit peg provides an environment of certainty and stability to facilitate planning, investment and pricing decisions to support economic activities.

The strong level of international reserves, low external indebtedness and the well capitalised banking system are also supportive of the ringgit peg.

The Government is committed to pursuing macroeconomic policies that are supportive of the fixed exchange rate to ensure that it remains consistent with the economic fundamentals.

In tandem with stronger economic growth, money supply expanded further in the first seven months of the year.

Reflecting increased demand for transactional balances, M1 or narrow money, consisting of currency in circulation and demand deposits, rose by an annualised rate of 12.2% at end-July 2002 (end-2001: 3.2%) or RM1,647mil during the period under review.

The broad monetary aggregate (M3) increased by 5.8% at end-July (end-2001: 2.9%) or RM14,924mil during the same period.

The main impetus to monetary expansion emanated from the higher financing of the private sector and expansionary external and government operations.

Exhibiting a similar trend, total deposits rose significantly by RM9,063mil in the first seven months (January-July 2001: RM3,861mil). Of significance is the RM9,187mil increase in deposits placed by individuals, with the bulk of the increase in total deposits being placed in fixed deposits (48%), Islamic Banking Scheme deposits (43%) and savings deposits (22%).

The accommodative monetary policy stance has allowed interest rates to remain low and stable.

The intervention rate was maintained at 5%, while the base lending rate (BLR) and deposit rates remained stable.

The prevailing ample liquidity situation led to a competitive credit market, prompting the banking institutions to price selective loans below the BLR.

Total gross private sector financing raised (loans disbursed, gross private debt securities issues and funds raised from the equity market) was higher, amounting to RM253,906mil in the first seven months of 2002 (Jan-July 2001: RM232,084mil).

Loan applications rose by 10.2% during the first seven months of 2002. Both loan approvals and disbursements rose by an annual rate of 7.4% and 7.5% respectively during the same period.