BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS OCTOBER 2001

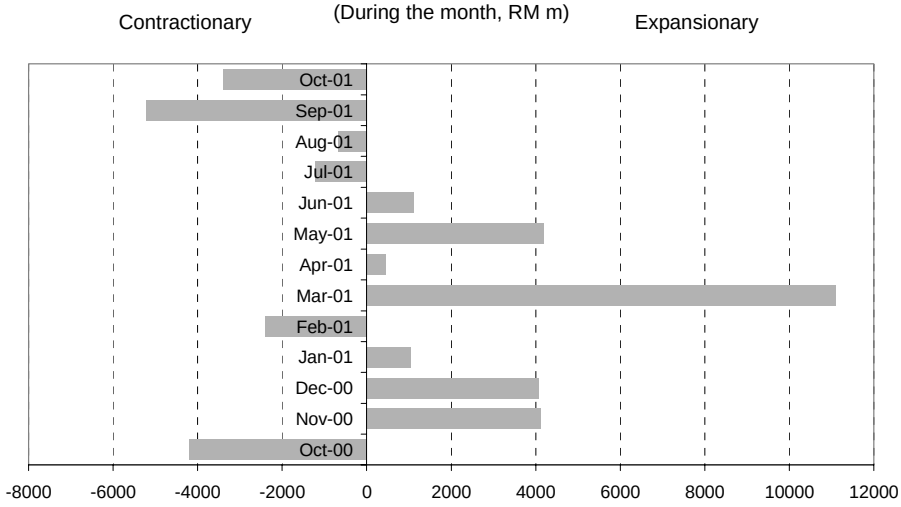
In October, BNM's liquidity operations continued to aim at stabilising interest rates at their current low levels amid the low inflation environment to provide a positive environment for domestic economic activity. Amidst the competitive interest rate environment, bank lending activity was sustained. There was also a significant increase in the international reserves position in October and the first half of November. Meanwhile, the Kuala Lumpur Stock Exchange Composite Index (KLSE CI) remained weak in October before improving in the first three weeks of November.

Interbank rates remained low and relatively stable

The **interbank money market rates** remained relatively stable during the month. To maintain stable interbank rates, BNM liquidity operations were contractionary by RM3.4 billion in October following a further increase in capital inflows as well as Government withdrawals of deposits from BNM to finance outlays.

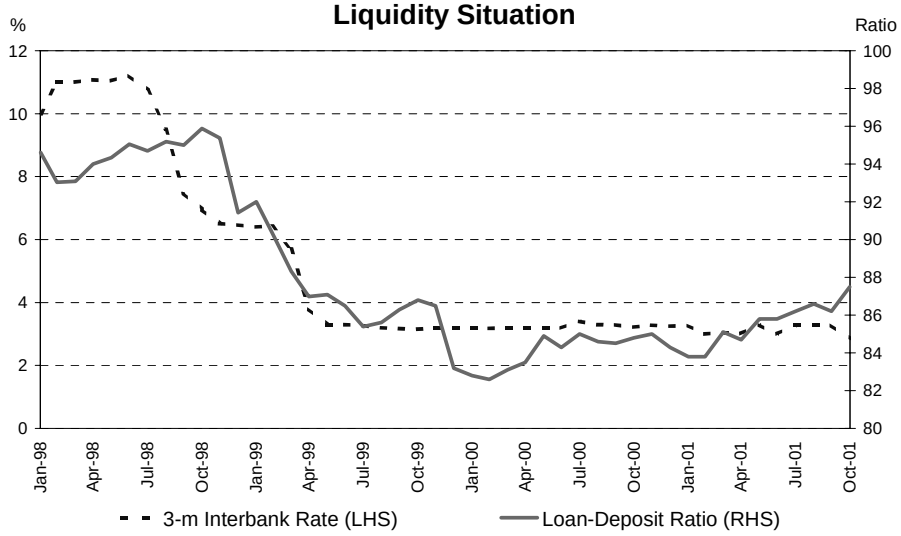
BNM Liquidity Operations

(During the month, RM m)



BNM liquidity operations were contractionary to sterilise the expansionary impact of capital inflows and the Government operations

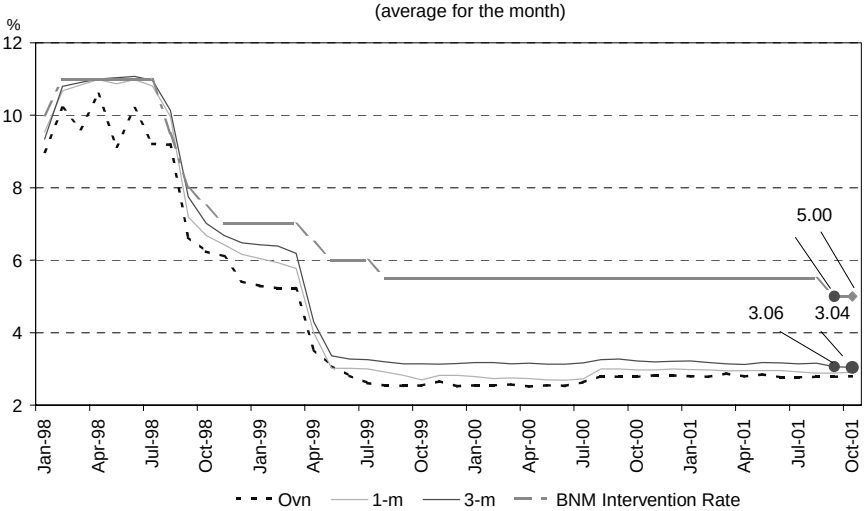
Liquidity Situation



Liquidity continued to remain ample in the banking system

Interbank Rates

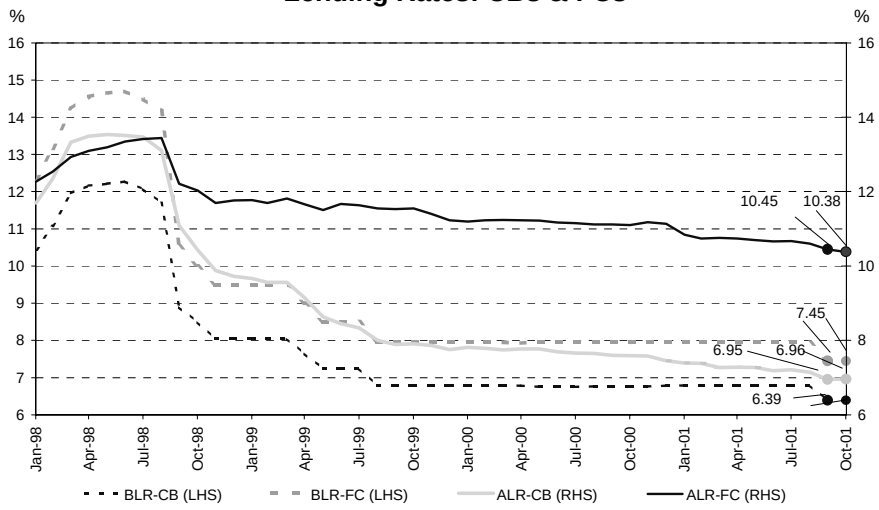
(average for the month)



Interbank rates remained low and relatively stable in October

The **average base lending rates (BLR)** of commercial banks (CBs) and finance companies (FCs) were unchanged at 6.39% and 7.45% respectively at end-October. Meanwhile, the average lending rates (ALR) of CBs remained stable at 6.96% while that of FCs continued to decline to 10.38% at end-October (6.95% and 10.45% respectively at end-September).

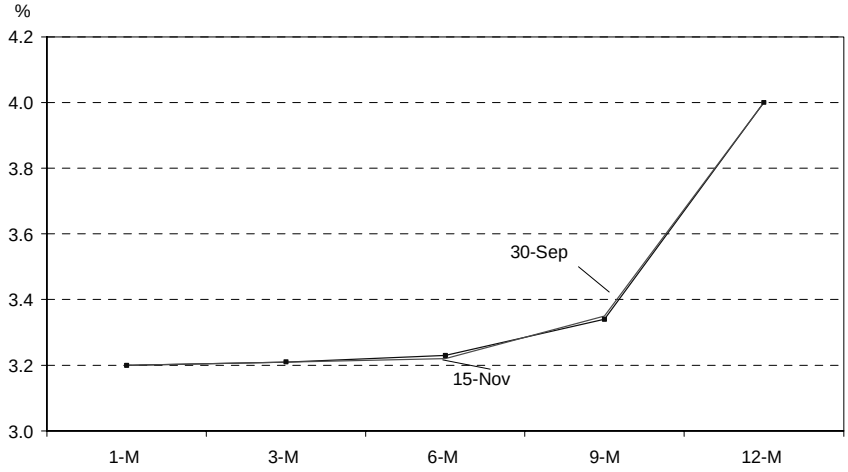
Lending Rates: CBs & FCs



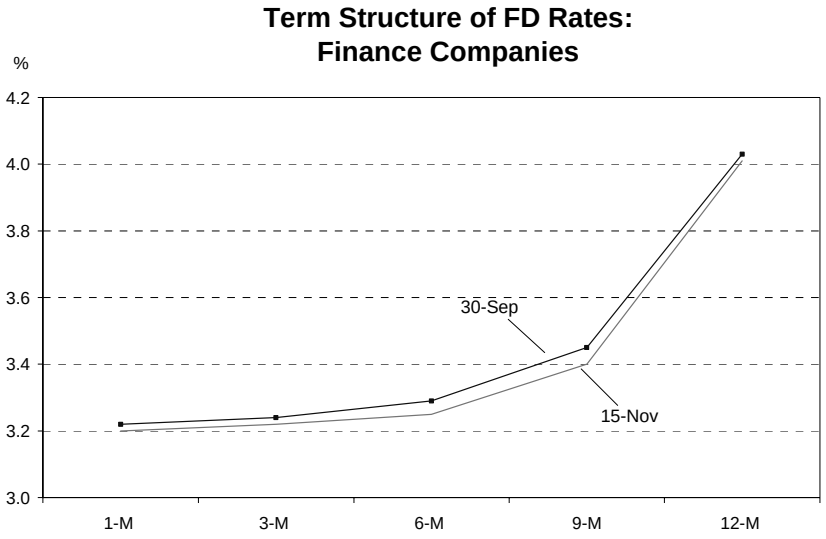
BLRs for CB and FC remained unchanged. ALR for CB remained stable while that of FC declined

As at 15 November, the **average quoted fixed deposit (FD) rates** of CBs for the 1-month to 12-month maturities remained unchanged at 3.20-4.00%, while that of FCs remained stable at 3.20-4.01% (3.22-4.03% at end-September).

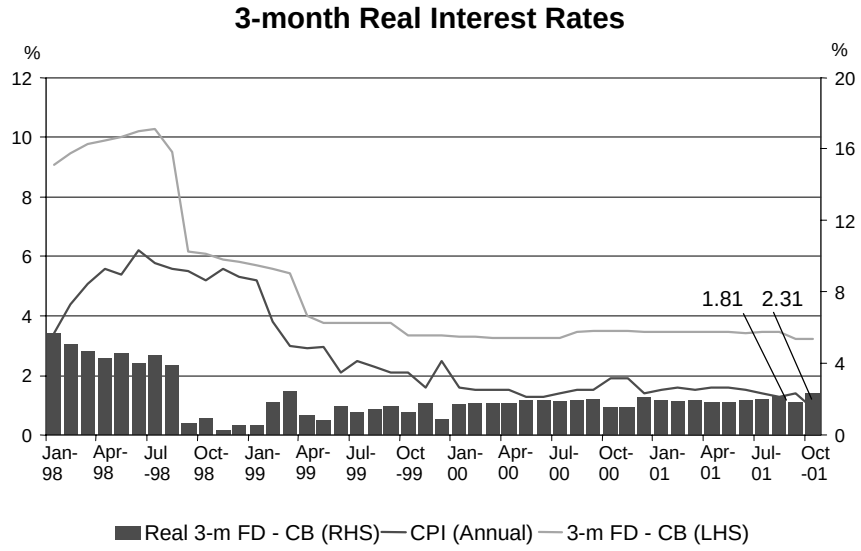
Term Structure of FD Rates: Commercial Banks



FD rates for CB remained unchanged as at 15 November



Similarly, FD rates in FC were also relatively stable

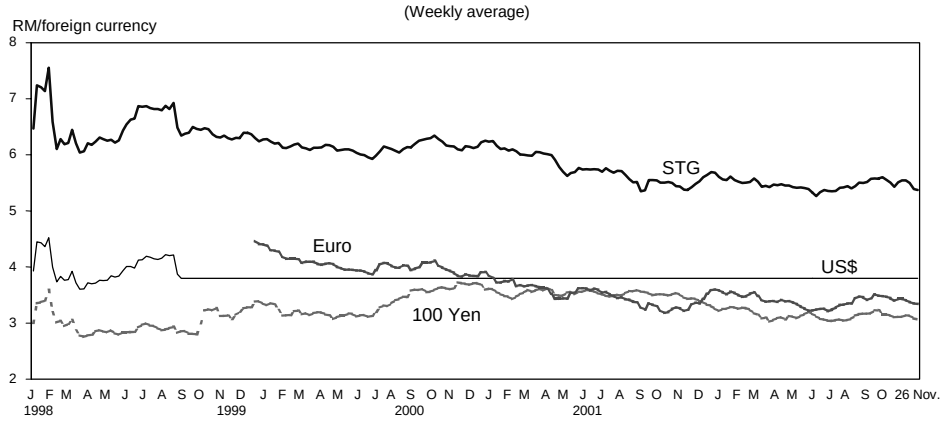


In real terms, however, FD rate was higher as inflation moderated

The ringgit appreciated against the major currencies and against regional currencies in October

In October, the **ringgit appreciated against major currencies**. The ringgit appreciated against the Japanese yen (2.2%), the euro (1.0%) and the Pound Sterling (1.3%), in tandem with the movements of the US dollar in the international foreign exchange markets. The US dollar strengthened following market optimism over the prospect of a US economic recovery.

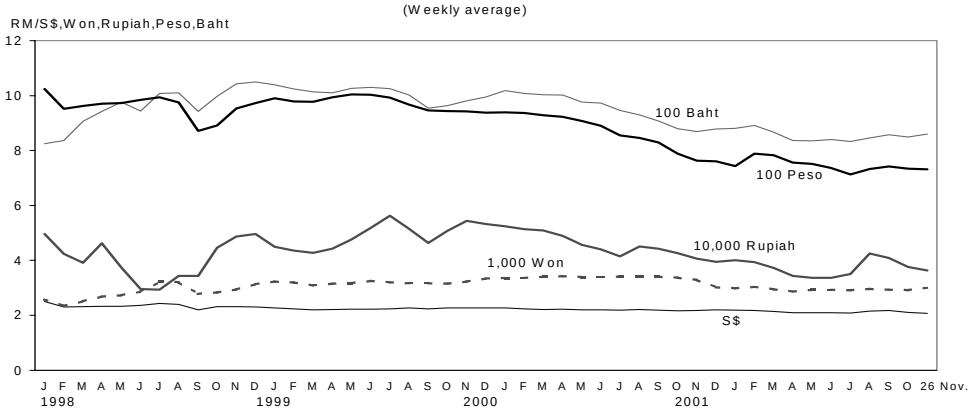
Performance of Ringgit against Major Currencies



The ringgit appreciated against major currencies in October

The **ringgit also appreciated against most regional currencies** in the range of 0.5% - 7.9%, while depreciating against the Korean won by 1.2%. Movements were influenced mainly by market concerns over the weak growth prospects for regional economies. Currency movements were also caused by commercial demand as well as adverse domestic developments in some countries. In particular, the Indonesian rupiah depreciated by 7.9% on market concerns over possible Indonesian activist reaction following US military action in Afghanistan, while the Korean won appreciated, benefiting from equity-linked capital inflows.

Performance of Ringgit against Regional Currencies



The ringgit appreciated against most regional currencies in October

During the period **1 – 26 November**, the ringgit continued to appreciate against the major currencies, as the US dollar strengthened on market confidence over the prospect of a US economic rebound and renewed optimism for a swift and favourable conclusion to the conflict in Afghanistan. The ringgit appreciated against the Japanese yen by 1.8%, the euro by 3.0% and the Pound sterling by 2.8%. The ringgit depreciated against most regional

currencies in the range of 0.1% - 2.2%, while appreciating against the Singapore dollar by 0.5%. Since end-2000, the ringgit appreciated against the Japanese yen by 8.2%, the euro by 5.7% and the Pound sterling by 5.4%, as well as against all regional currencies in the range of 0.6% - 8.6%.

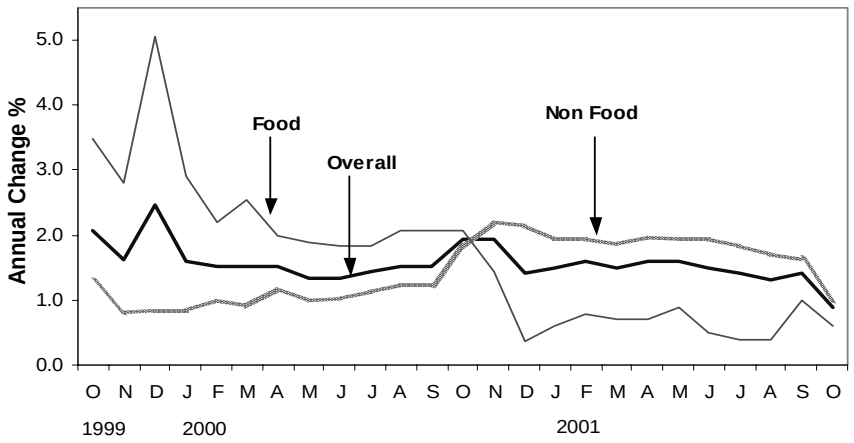
Performance of Ringgit against Selected Currencies

					% Change		
RM per foreign currency	2 September 1998	End-Dec. 2000	End-Oct. 2001	26 November 2001	October 2001	Jan.-26 Nov. 2001	2 Sep. 1998-26 Nov. 2001
US dollar	3.8000	3.8000	3.8000	3.8000	0.0	0.0	0.0
Euro	-	3.5331	3.4426	3.3427	1.0	5.7	-
Pound Sterling	6.3708	5.6662	5.5237	5.3749	1.3	5.4	18.5
100 Japanese yen	2.7742	3.3121	3.1168	3.0624	2.2	8.2	-9.4
Singapore dollar	2.1998	2.1946	2.0839	2.0728	3.3	5.9	6.1
100 Thai baht	9.3713	8.7790	8.5097	8.5924	0.5	2.2	9.1
100 Philippine peso	8.8302	7.6053	7.3119	7.3175	1.2	3.9	20.7
100 Indonesian Rupiah	0.0354	0.0395	0.0364	0.0364	7.9	8.6	-2.7
100 Korean won	0.2827	0.3022	0.2939	0.3004	-1.2	0.6	-5.9

Inflation was lower in October

Inflation, as measured by the **Consumer Price Index** (CPI), was lower in October (0.9% year-on-year; September: 1.4%). The lower inflation rate was due mainly to lower price increases for food; transport and communication as well as gross rent, fuel and power. For the first ten months of 2001, the average annual change in the CPI also moderated to 1.4% (1.5% in the corresponding period of 2000). Excluding food, the adjusted inflation rate also moderated to 1.0% in October (September: 1.6%). On a monthly basis, the overall CPI declined by 0.1% mainly due to lower prices for food at home.

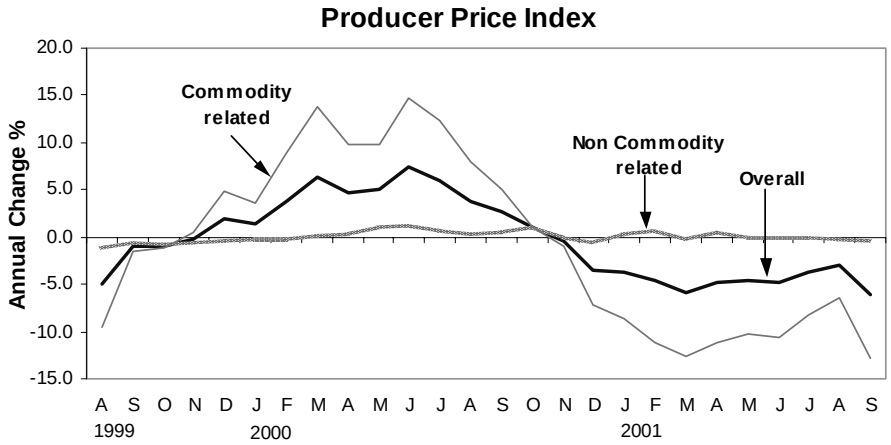
Consumer Price Index



Inflation was lower in October

Producer prices declined at a faster pace

The **Producer Price Index** (PPI) registered a larger decline of 6% year-on-year in September (August: -3%). This was contributed mainly by lower prices charged by local producers (-7.2%), following lower prices for commodity-related products. This was in line with weak commodity prices, namely rubber and crude petroleum. The negative influence was, however, partly offset by higher prices of crude palm oil. Excluding these commodity related sub-groups, the adjusted PPI declined at a slower pace of 0.3%. On a monthly basis, the PPI declined by 1.9% in September.



Producer prices declined at a faster pace

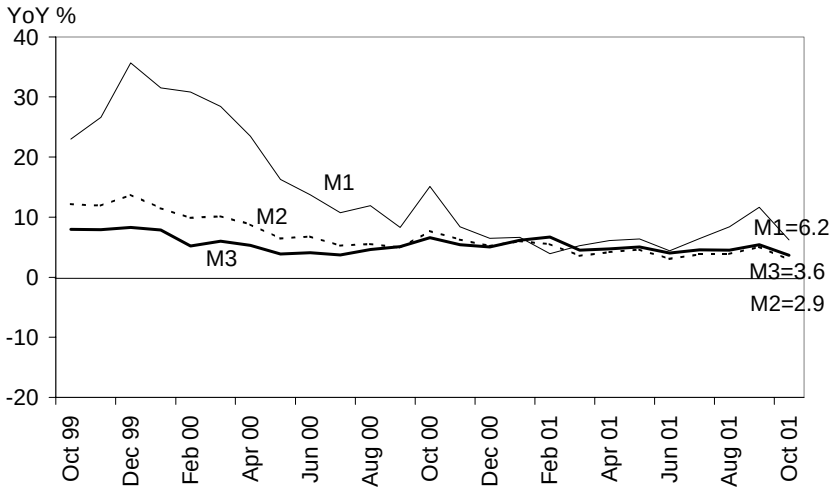
More moderate expansion of monetary aggregates

On an annual basis, all three **monetary aggregates** continued to grow, albeit at a more moderate pace, with M1 and M3 rising by 6.2% and 3.6% respectively as at end-October (11.6% and 5.4% respectively as at end-September). The more moderate growth was attributable to the large placements of deposits by a non-bank financial institution (NBFI) with the Central Bank as well as the base effect of October 2000.

On a monthly basis, broad money, M3, was lower by RM1.2 billion. Excluding placements by the NBFI, which exerted a significant contractionary impact on money supply, M3 would have increased by RM1.8 billion. During the month, Government operations was notably expansionary (RM3.9 billion), mainly due to the large withdrawal of deposits from BNM to finance outlays and the redemption of Malaysian Government Securities. Claims on the private sector also increased, as loans extended by banking institutions were higher in October, although this was partially offset by lower bank holdings of securities. While net external reserves of BNM rose substantially in October, net external operations were contractionary on money supply as this increase in reserves were offset by the decline in net

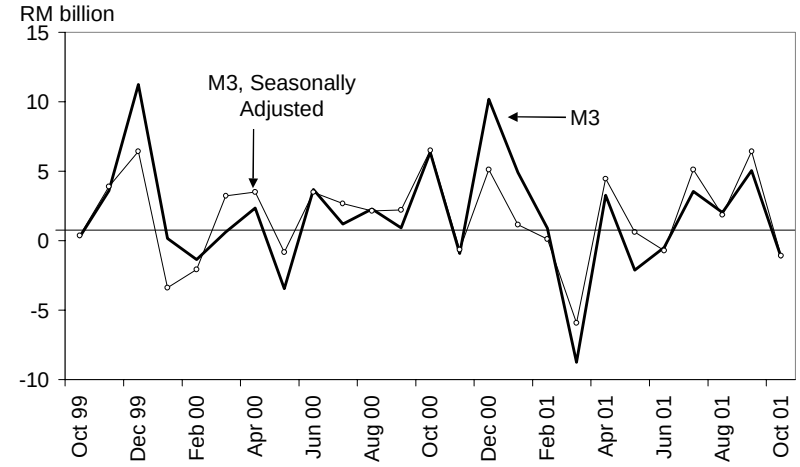
external assets of the banking system. This was seen in a low net assets position of commercial banks following maturity of their foreign currency interbank placements overseas.

Monetary Aggregates: Annual Growth



Moderate expansion of monetary aggregates on an annual basis…

M3: Monthly Change



...on a monthly basis, M3 declined, reflecting mainly large placements of deposits by a NBFI with BNM

M3 Determinants

(RM billion)

	Change during period			
	2001			
	Aug	**Sep**	**Oct**	**Jan-Oct**
M3	2.0	5.0	-1.2	7.1
Net claims on Government	1.0	-2.0	3.9	-1.7
Claims on private sector	1.0	3.6	1.1	18.0
External operations[1/]	1.8	1.6	-1.2	7.2
Other influences	-1.7	1.8	-5.0	-16.4

1/ pre-revaluation

Banking system deposits were lower while loans continued to increase

On a month-on-month basis, **total deposits** was lower by 0.8% in October. This was primarily due to the lower interplacements among financial institutions, reflecting the non-roll over of repurchase agreements and NIDs issued as well as a large net withdrawal by a non-bank financial institution. In addition, deposits by domestic business enterprises were also lower with the non-roll over of maturing deposits amid higher debt repayments, including PDS redemptions. Meanwhile, there was also a decline in deposits placed by the Federal and State Governments, particularly SPI and fixed deposits, to finance expenditure outlays. In contrast, deposits by individuals continued to increase strongly by RM2 billion, in particular fixed and savings deposits. On an annual basis, total deposits mobilised by the banking system rose by 2.3% as at end-October.

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

	2001		
	Aug.	**Sep.**	**Oct.**
Holder			
Federal Government	-603	1,488	-997
State Governments	425	-195	-206
Statutory Authorities[1/]	967	-786	39
Financial Institutions	-1,478	-1,750	-2,923
Business Enterprises	-1,984	4,286	-2,080
Individuals	1,629	883	2,025
Others	-10	16	130
Total	**-1,053**	**3,942**	**-4,012**

[1/] Include local Governments.

Deposits declined due mainly to lower interplacements among financial institutions as well as net withdrawals by business enterprises and the Federal and State Governments

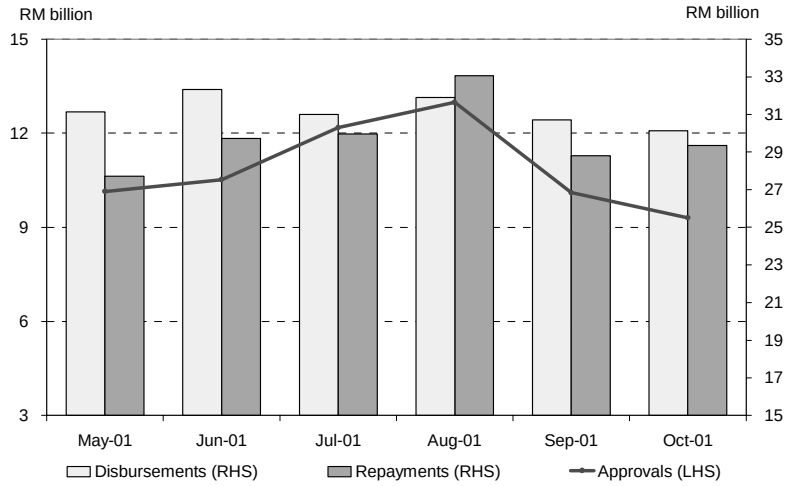
Monthly Change in Deposits **(RM million)**

	2001		
	Aug.	**Sep.**	**Oct.**
Type			
Fixed deposits	-4,199	-406	406
NIDs issued	-518	-256	-1,456
Demand deposits	1,158	975	-553
Savings deposits	450	442	360
Repos	994	402	-2,818
FX deposits	376	-470	287
SPI deposits	696	3,240	-368
Others	-10	16	130
Total	**-1,053**	**3,942**	**-4,012**

Lower deposits were attributable mainly to lower repos and NIDs issued

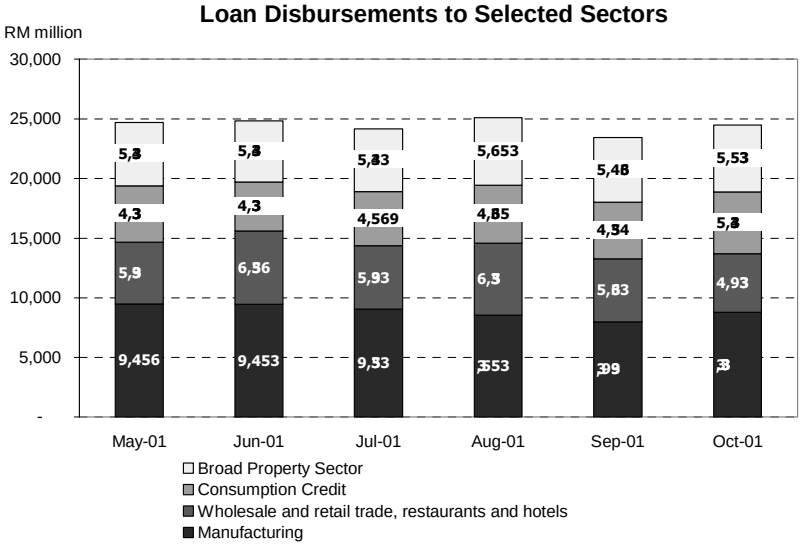
Loan approvals amounted to RM9.3 billion in October and continued to be granted mainly for the purchase of residential property and passenger cars (RM2.2 billion and RM2 billion respectively). Meanwhile, **loan disbursements** remained stable at RM30.1 billion in October and were channelled mainly to the manufacturing sector; wholesale and retail trade; as well as for the purchase of residential property and passenger cars.

Loan Approvals, Disbursements and Repayments



Loan disbursements were sustained while loan approvals moderated

Loan Disbursements to Selected Sectors



The bulk of the disbursements were for manufacturing activities, wholesale and retail trade, purchase of residential property and passenger cars

Total loans outstanding extended by the banking system increased further by RM2 billion in October, notwithstanding the higher loan repayments. On an annual basis, loans outstanding increased by 5.4% as at end-October.

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

	2001		
	Monthly change		As at end
	Sep.	Oct.	Oct.
Agriculture, hunting, forestry and fishing	363	101	12,459
Mining and quarrying	-8	32	1,656
Manufacturing	-79	-319	69,829
Electricity, gas and water supply	111	-187	5,844
Wholesale and retail trade, restaurants and hotels	412	139	38,749
Broad property sector	931	1,084	174,618
of which:			
Purchase of residential property	*727*	*1,372*	*84,578*
Transport, storage and communication	-263	210	14,704
Finance, insurance and business services	-21	27	35,543
Consumption	776	845	66,804
of which:			
Passenger cars	*712*	*583*	*43,502*
Credit cards	*169*	*48*	*8,373*
Purchase of securities	-282	-219	30,688
Others	-204	284	21,229
Total Loans[1/]	**1,735**	**1,998**	**472,123**

[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 increase in October

Aggregate financing through banking system loans and PDS was lower due to large redemptions of PDS

Arising from the large redemptions of PDS in October, aggregate **financing through loans extended by the banking system and PDS issued by the private sector** declined by RM2.4 billion. Consequently, the annual rate of growth moderated to 6.8% at end-October (end-September: 8.3%). Meanwhile, the **overall financing provided by the banking system remained resilient, rising by RM1.4 billion** due mainly to higher loans extended during the month. However, the increase in loans was partly offset by net redemption of PDS held by banking institutions amounting to RM0.6 billion. As a result, banking system financing rose by 6.5% year-on-year as at end-October (7.1% at end-September).

Financing through banking system loans and PDS

	Change			Annual growth	
	2001			2001	
	Sep	Oct	Jan.-Oct.	Sep	Oct
	RM billion			%	
Financing by Banking System	**3.6**	**1.4**	**22.1**	**7.1**	**6.5**
Loans outstanding (1)	1.7	2.0	18.1	5.7	5.4
Holdings of PDS	1.8	-0.6	4.0	46.9	38.8
Total PDS outstanding * (2)	**2.3**	**-4.4**	**6.2**	**20.9**	**13.6**
Total (1) + (2)	**4.1**	**-2.4**	**24.3**	**8.3**	**6.8**

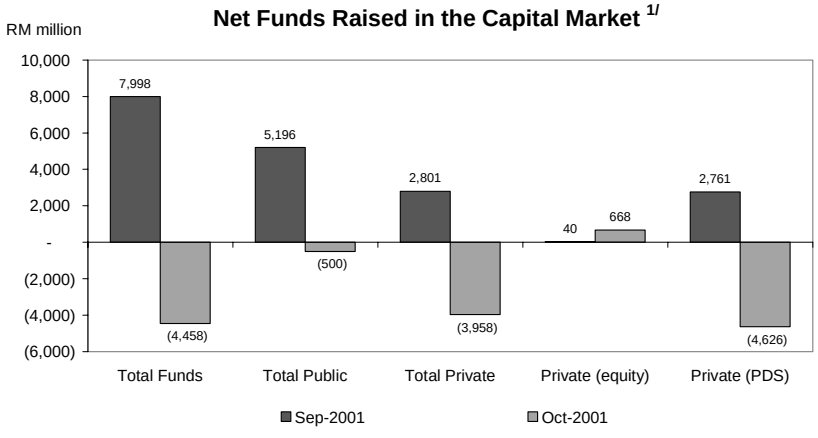
* Refers to total PDS issued by the private sector with original maturity period of more than one year. Exclude debt securities issued by banking institutions, Khazanah, BNM, Cagamas, Danaharta and Danamodal.

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

Net redemption in the capital market

On a gross basis, total funds raised by the private sector through the equity and private debt securities market amounted to RM970.9 million in October. However, due to higher redemption of private debt securities and Cagamas Bonds (RM4.9 billion), the private sector recorded a net redemption of RM4 billion. Similarly, the public sector recorded a net redemption of RM500 million with redemption of Malaysian Government Securities. In total, the capital market recorded a net redemption of RM4.5 billion

Net Funds Raised in the Capital Market [1/]

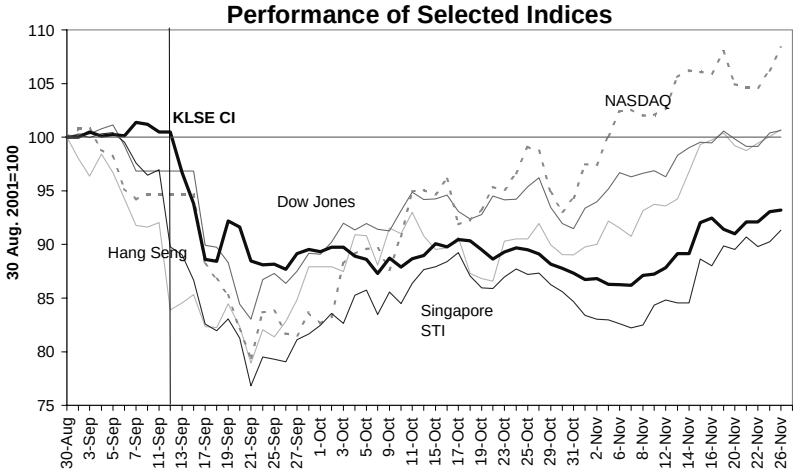


1/ Net funds raised in the capital market by private sector (include Cagamas and Danaharta bonds)

Net redemption in the capital market during the month of October

The **Kuala Lumpur Stock Exchange Composite Index** (KLSE CI) remained subdued in October on concerns over economic uncertainties and lack of fresh leads to encourage buying interest. As at end-October, the KLSE CI closed at 600.07 points (-2.5% since end-September). Market capitalisation was lower at RM404.88 billion (-1.6% since end-

September), while the daily average turnover was 159.3 million units (297.4 million units in September).

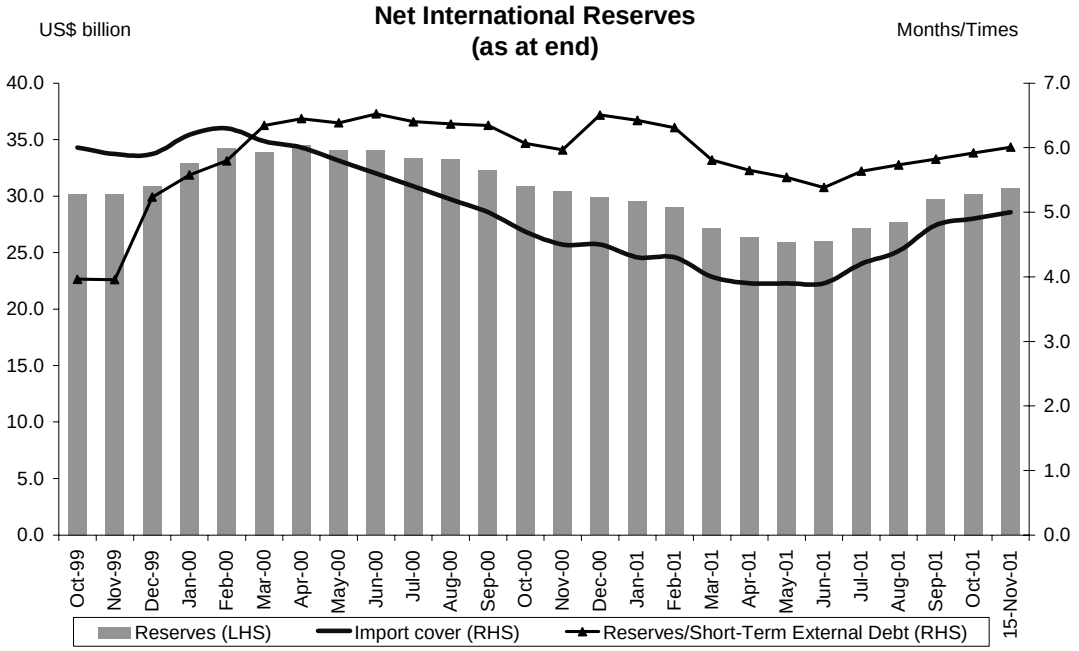


KLSE CI remained subdued

The KLSE CI improved in the first three weeks of November following the better performance in the US and regional markets. On the domestic front, positive investor response to news on corporate restructuring has also helped to improve market sentiment. As at 26 November, the KLSE CI closed at 640.48 points (+6.7% since end-October). Market capitalisation stood at RM439 billion (+8.4% since end-October), while the daily average turnover was significantly higher at 367.1 million units (159.3 million units in October).

International reserves

The **net international reserves** of BNM increased to RM114.8 billion (US$30.2 billion) as at end-October 2001, compared with RM112.9 billion (US$29.7 billion) as at end-September 2001. The reserves level increased further to RM116.5 billion or US$30.7 billion as at 15 November 2001. This level of reserves is adequate to cover 6 times the short-term external debt and to finance 5 months of retained imports. The increase in reserves reflected sustained repatriation of export earnings and inflows of foreign direct investment which more than offset the payment for services and overseas investment by Malaysian corporations. Meanwhile, portfolio funds which recorded a net inflow during the third quarter reversed to register net outflows in the recent weeks due to uncertainties following the 11 September events in the United States. However, this net outflow moderated during the first half of November following the improved performance of the Kuala Lumpur Stock Exchange.



Banking system remains strong

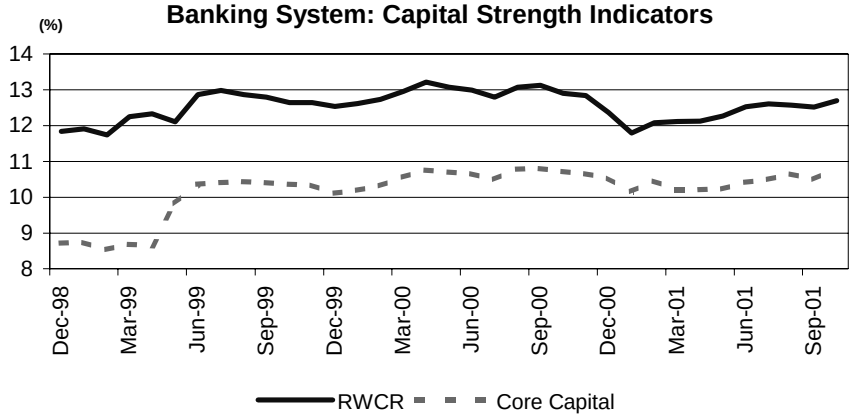
The banking system strengthened further as at end-October 2001, mainly due to additional capital injected by banking institutions and slight reduction of 0.4% in the risk-weighted assets of banking institutions due to the reduction in the interbank placements. The risk-weighted capital ratio (RWCR) and core capital ratio of the banking system improved from 12.5% and 10.5% from September 2001 respectively to 12.7% and 10.8% in October.

The outstanding amount of net NPL on a 6-month classification rose marginally by 0.8% (+RM0.3 billion) to RM33 billion while the net NPL ratio on the 6-month classification increased slightly by 10 basis points to 8.2%.

Banking System Health Indicators								
	1998	1999		2000		2001		
	Dec.	Jun.	Dec.	Jun.	Dec.	Aug.	Sep.	Oct.
Capital								
Core-capital ratio (%)	8.7	10.4	10.1	10.7	10.5	10.6	10.5	10.8
RWCR (%)	11.8	12.9	12.5	13.0	12.4	12.6	12.5	12.7
Net NPL (6-month classification)								
Banking system (%)	8.1	7.9	6.4	6.5	6.3	8.3	8.1	8.2
Banking system (RM million)	31,675	29,889	23,849	24,736	24,700	33,373	32,779	33,039
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9

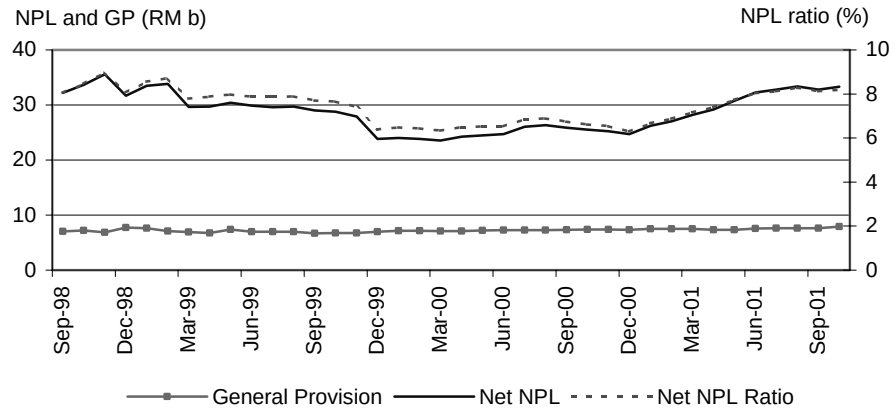
** Beginning June 1999 onwards, the figures include Islamic banks*

Banking System: Capital Strength Indicators



….RWCR strengthened to 12.7%

Banking System: Net NPL and General Provisions



….Net NPL ratio increased marginally to 8.2%

Total loan rights acquired by Danaharta amounted to RM48.1 billion as at 30 September 2001 out of which recovery actions have been initiated on RM40.05 billion (gross value of RM42.02 billion) or 83% of the total portfolio. The expected recovery rate for these NPLs is 57%. A bulk of the remaining NPLs will be restructured by the end of this year. Up to 30 September 2001, Danaharta has distributed on an accumulated basis RM7 billion in cash and 36.6 million units of securities at par value to financial institutions.

Capital injection by Danamodal remained at RM3.7 billion at end-October 2001. At the same time, there are 26 outstanding cases with total debts of RM28.2 billion with the Corporate Debt Restructuring Committee (CDRC) of which 6 are previously resolved cases but currently being revised and 6 cases being restructured by Danaharta.

Statistics of CDRC cases as at 31 October 2001

	Total debt outstanding* (RM million)	**Number of accounts**
Received	65,899	84
Withdrawn / Rejected	9,516	22
Cases accepted	56,383	62
Resolved	**28,161**	**36**
Implemented **	*23,408*	*22*
Pending implementation ***	*4,573*	*14*
Outstanding	**28,222**	**26**
Revised	*2,609*	*6*
Being restructured by Danaharta	*1,573*	*6*
Being restructured by CDRC	*24,040*	*14*

* including non-banking and offshore institutions
** including 2 transferred to Danaharta
*** including 3 transferred to Danaharta

Bank Negara Malaysia
28 November 2001

Key Monetary and Banking Statistics

	September		October	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	39.4	3.9	38.8	1.8
M1	76.6	11.6	76.1	6.2
M2	355.9	5.0	353.5	2.9
M3	464.7	5.4	463.5	3.6
Banking System				
Total deposits	477.2	4.0	473.1	2.3
Total loans (including loans sold to Cagamas and Danaharta)	470.1	5.7	472.1	5.4
Total loans (excluding loans sold to Cagamas and Danaharta)	411.5	6.1	413.8	5.5
Loan-deposit ratio (%)	86.2		87.5	
Loans approved during the month	10.1		9.3	
Loans disbursed during the month	30.7		30.1	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	12.5		12.7	
Net NPLs: 6-month classification (%)	8.1		8.2	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	112.9		114.8	
Reserves in USD (billion)	29.7		30.2	
Months of retained imports	4.8		4.9	
Interest Rates (average rates at end-period)				
Interbank: 1-month	2.81		2.99	
3-month	3.28		2.85	
Fixed deposits of commercial banks: 1-month	3.20		3.20	
3-month	3.21		3.21	
BLR of commercial banks	6.39		6.39	
Prices				
Consumer price Index (CPI) (2000=100)	101.3	1.4	101.2	0.9
Producer price Index (PPI) (1989=100)	125.6	-6.0	-	-
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.4761		3.4426	
Pound Sterling	5.5938		5.5237	
Singapore dollar	2.1527		2.0839	
100 Japanese yen	3.1867		3.1168	
100 Thai Baht	8.5518		8.5097	
100 Philippine Peso	7.4006		7.3119	
100 Indonesian Rupiah	0.0393		0.0364	
100 Korean Won	0.2902		0.2939	
Capital Market				
Funds raised by: public sector (RM billion)	5.2		-0.5	
private sector (RM billion)	2.8		-4.0	
Kuala Lumpur Composite Index (end-period)	615.34		600.07	
KLSE Market Capitalisation (RMb) (end-period)	411.35		404.88	