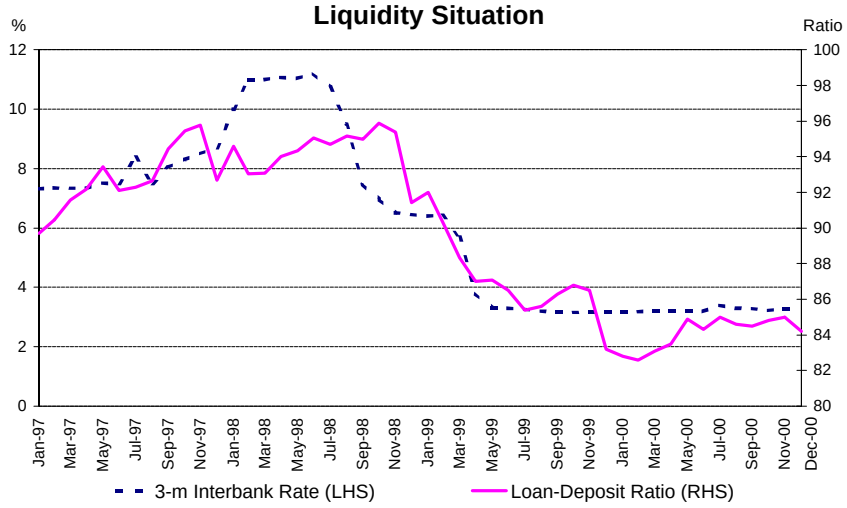
EMBARGO: Not for publication or broadcast before 1900 hours on Monday, 29 January 2001

PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS DECEMBER 2000

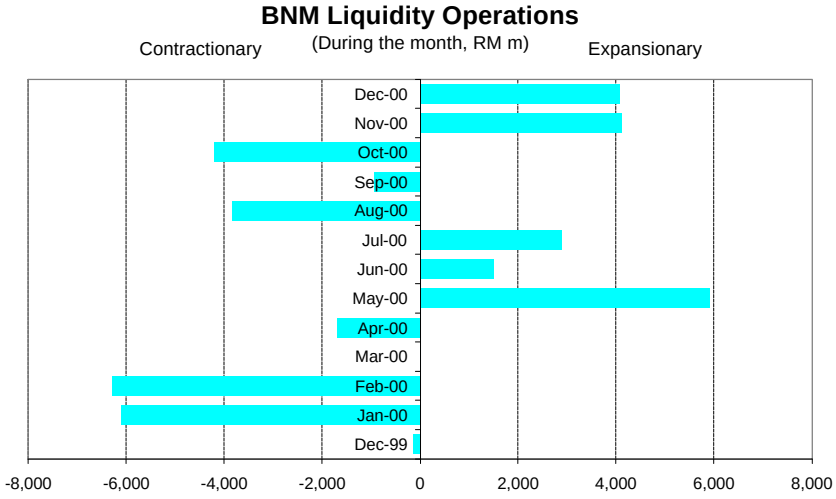
The monetary and financial conditions were favourable in December and continued to be supportive of economic growth. Money supply, M3, expanded significantly to record the largest monthly increase during the year, reflecting year-end festivities and broad-based expansion in loans. These developments took place in a low inflation environment. Hence, monetary policy remained accommodative, while interest rates were relatively stable amid ample liquidity in the banking system.

Interbank rates remained relatively stable

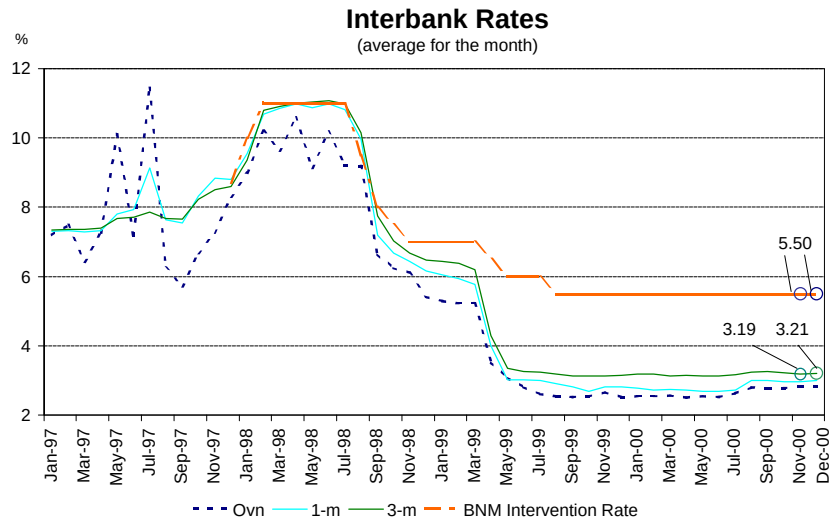
In the interbank money market, **interbank rates** in December and the first half of January remained relatively stable. During the month, BNM operations were expansionary on the system to mitigate the contractionary impact of the external operations as well as to meet higher demand for currency by the public. Meanwhile, liquidity in the banking system remained ample.



Liquidity remained ample



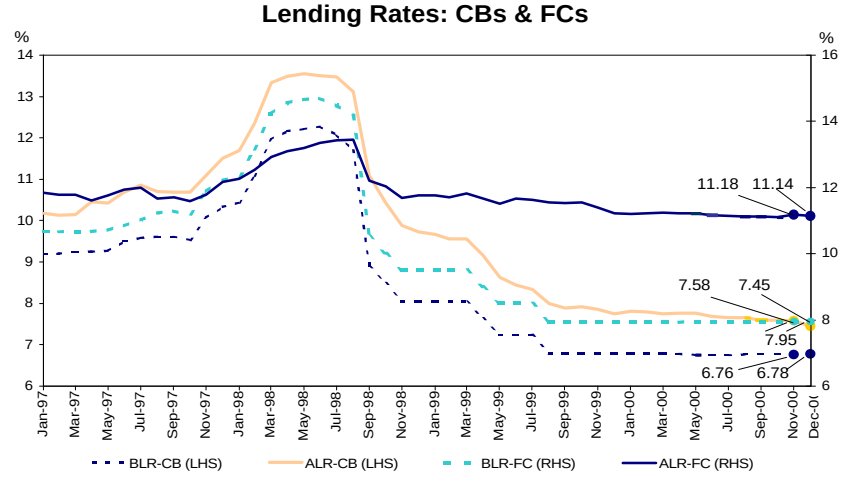
BNM's operations aimed to achieve stable liquidity conditions



Average interbank rates remained relatively stable in December

The average **base lending rates** (BLRs) of commercial banks (CBs) remained relatively stable at 6.78%, while that of the finance companies (FCs) remained unchanged at end-December. Meanwhile, competition among banking institutions in an environment of ample liquidity led to a decline in the **average lending rates** (ALRs) of the CBs and FCs to 7.45% and 11.14% respectively at end-December (7.58% and 11.18% respectively at end-November).

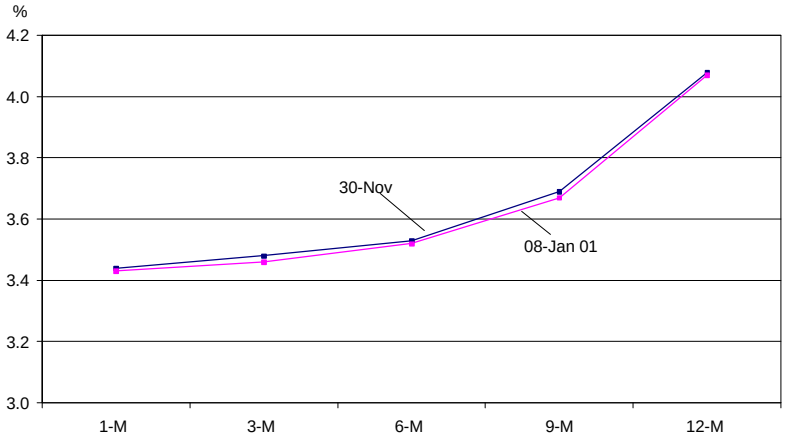
Lending Rates: CBs & FCs



CBs & FCs: ALR moderated further with BLR remaining relatively stable

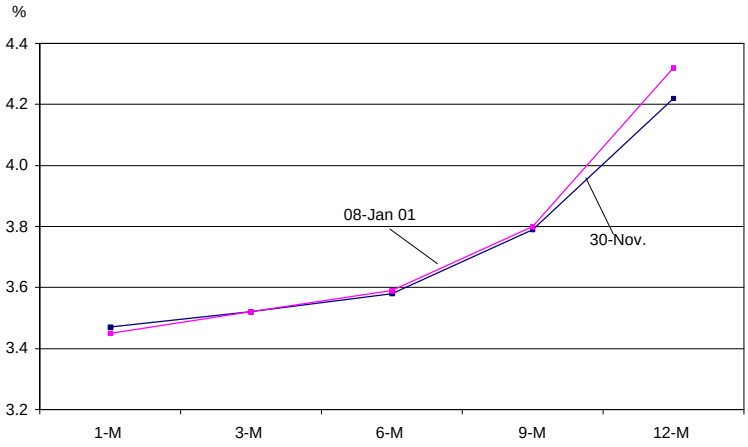
Meanwhile, the **average fixed deposit (FD) rates** of CBs and FCs remained relatively stable on 8 January 2001 compared with levels at end-November. The average 1-month to 12-month FD rates of CBs and FCs stood at 3.43-4.07% and 3.45-4.32% respectively (3.44-4.08% and 3.47-4.22% respectively at end-November). The slightly higher 12-month FD rate recorded for FCs was a result of a technical adjustment arising from the merger process, whereby FCs with lower rates were being merged into FCs with relatively stable rates. Thus, a simple average on the relatively stable rates of the merged entities has resulted in a higher FD rate. Consequently, the **interest margin** of both CBs and FCs were slighty lower at 4.29% and 7.08% respectively at end-December (4.35% and 7.11% at end-November).

Term Structure of FD Rates: Commercial Banks



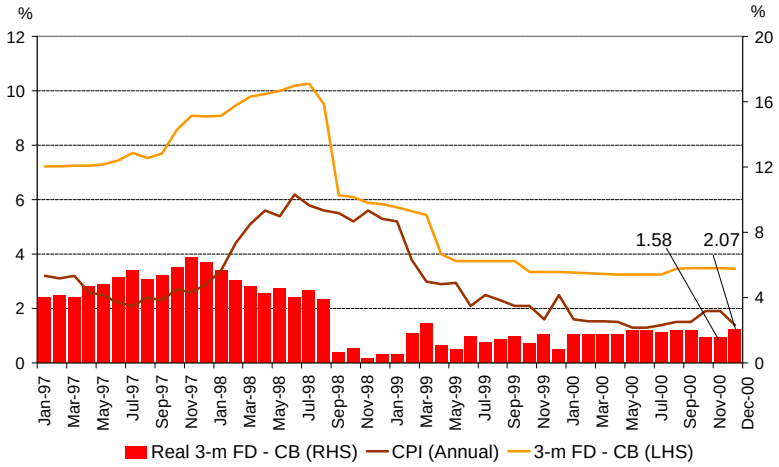
Relatively stable FD rates offered by CBs

Term Structure of FD Rates: Finance Companies



The FD rates offered by FCs remained relatively stable.

Real Interest Rates

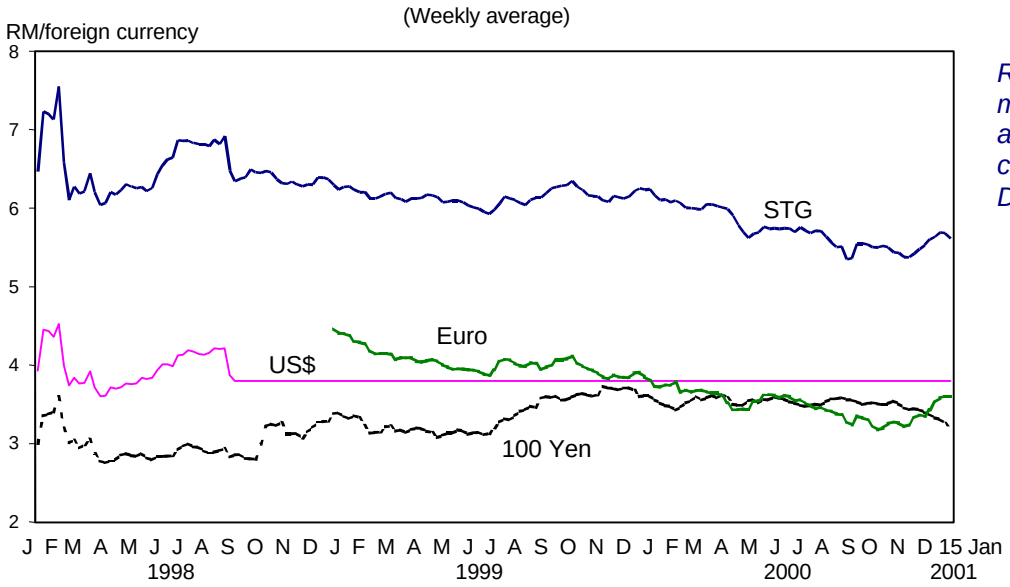


Real FD rates rose due to lower inflation rate

Ringgit recorded a mixed performance against both major and regional currencies

In December**, the ringgit recorded a mixed performance against major currencies.** The ringgit depreciated against the euro and the pound sterling by 7.7% and 4.7% respectively, but appreciated against the yen by 3.2%, in tandem with the movements of the US dollar in the international foreign exchange markets. The euro depreciated against the US dollar by about 20% during the first ten months of the year, but strengthened in November and December marking a significant shift in trend. This shift was brought about by signs of slowing growth in the US combined with increased volatility in the US equity markets, which put downward pressure on the US dollar. The yen, however, depreciated against the US dollar following the release of survey results which showed falling investor confidence in Japan.

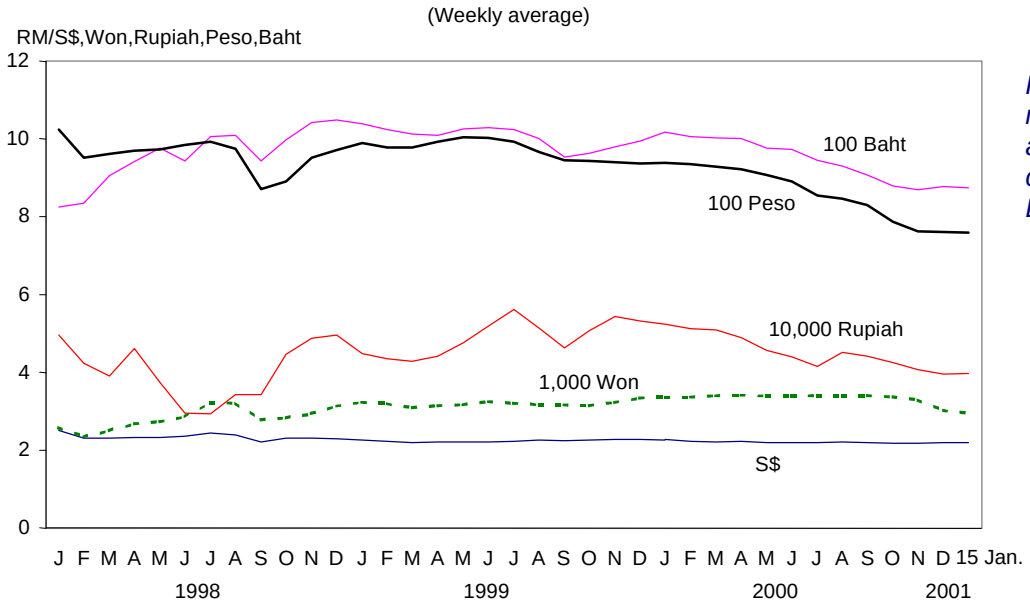
Performance of Ringgit against Major Currencies



Ringgit recorded a mixed performance against most major currencies in December

The ringgit also recorded a mixed performance against regional currencies**.** The ringgit appreciated against the Philippine peso, Indonesian rupiah and the Korean won in the range of 0.5%-3.8%. The Philippine peso and the Indonesian rupiah continued to depreciate against the US dollar as a result of domestic political developments. The ringgit, meanwhile, depreciated by 1.5% against both the Singapore dollar and the Thai baht.

Performance of Ringgit against Regional Currencies



Ringgit recorded a mixed performance against most regional currencies in December

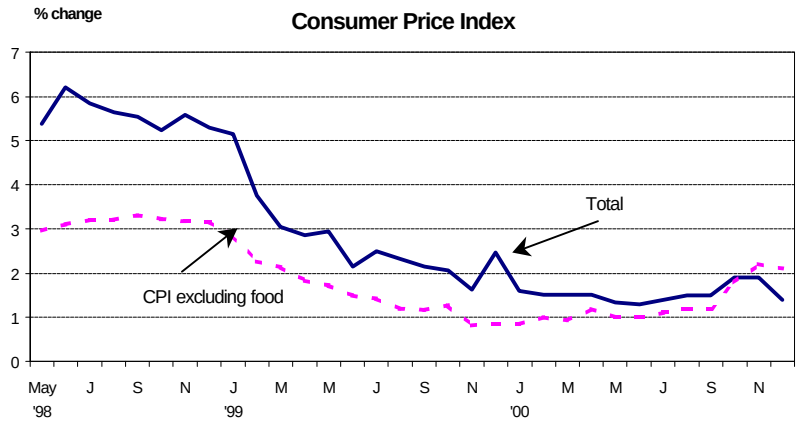
In the **first two weeks of January**, the ringgit recorded a **mixed performance against the major currencies**. The ringgit appreciated against the Japanese yen (+3.9%) and the pound sterling (+0.9%), but depreciated against the euro (-1.9%) in tandem with the movements of the US dollar. The Japanese yen continued to depreciate against the US dollar as investors continued to express concern over the strength of the Japanese economy. Meanwhile, the ringgit **appreciated against most regional currencies in the range of 0.2% to 4.2%.** Most regional currencies depreciated following concerns over the impact of a possible slowdown in the US economy on the growth prospects of the region. Domestic developments in selected regional economies also contributed to the depreciation of some of the regional currencies. The Indonesian rupiah, however, appreciated against the ringgit following Bank Indonesia's announcement of measures to curb speculation on the rupiah.

Performance of Ringgit against Selected Currencies

RM per foreign currency	End-June 1997	2 September 1998	15 January 2001	% change Since end-June 1997	% change Since 2 Sept. 1998	% change Since end-Dec. 2000
US dollar	2.5235	3.8000	3.8000	-33.6	0.0	0.0
Euro	-	-	3.6015	-	-	-1.9
Pound Sterling	4.1989	6.3708	5.6136	-25.2	13.5	0.9
100 Japanese yen	2.2088	2.7742	3.1886	-30.7	-13.0	3.9
Singapore dollar	1.7647	2.1998	2.1896	-19.4	0.5	0.2
100 Thai baht	9.7470	9.3713	8.7266	11.7	7.4	0.6
100 Philippine peso	9.5878	8.8302	7.3000	31.3	21.0	4.2
100 Indonesian Rupiah	0.1038	0.0354	0.0397	161.5	-10.8	-0.4
100 Korean won	0.2842	0.2827	0.2955	-3.8	-4.3	2.3

Consumer prices remained low

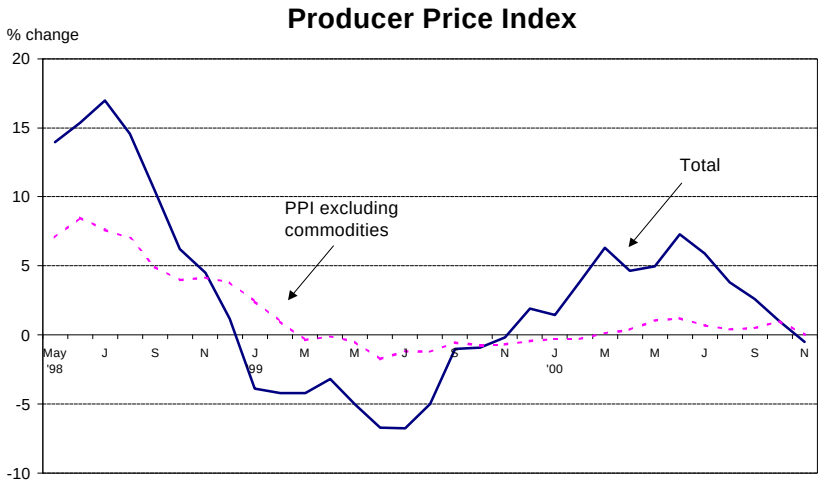
In December, the inflation rate, measured in terms of the **Consumer Price Index (CPI),** moderated by half a percentage point to **1.4%** year-on-year mainly on account of the high base effect. On a month-on-month basis, the increase in inflation was 0.5%. Higher seasonal demand, particularly for food, in conjunction with the festive celebrations led to the increase. For the year 2000 as a whole, the annual inflation rate was a low 1.6% and that for non-food, even lower at 1.3%. (1999: 2.8% and 1.6% respectively).



Inflation remained at low levels throughout the year

Producer prices declined

The **Producer Price Index (PPI),** which measures prices of both intermediate and final goods charged by domestic producers and paid by importers in the country, declined by 0.5% year-on-year in November 2000. The decline, the first in year 2000, was due mainly to the decrease in local production costs with the PPI for local production showing a 0.8% decline. At the same time, the PPI for imports recorded a lower rate of increase of 1.3%. Beverages and tobacco was the sole group in the PPI to record a higher increase during the month, albeit by a marginal 0.5%. The increase was due to the higher sales tax and import duties imposed on alcoholic beverages and cigarettes and tobacco in the 2001 Budget. There was no increase in the adjusted PPI in November 2000.



Producer prices declined in November

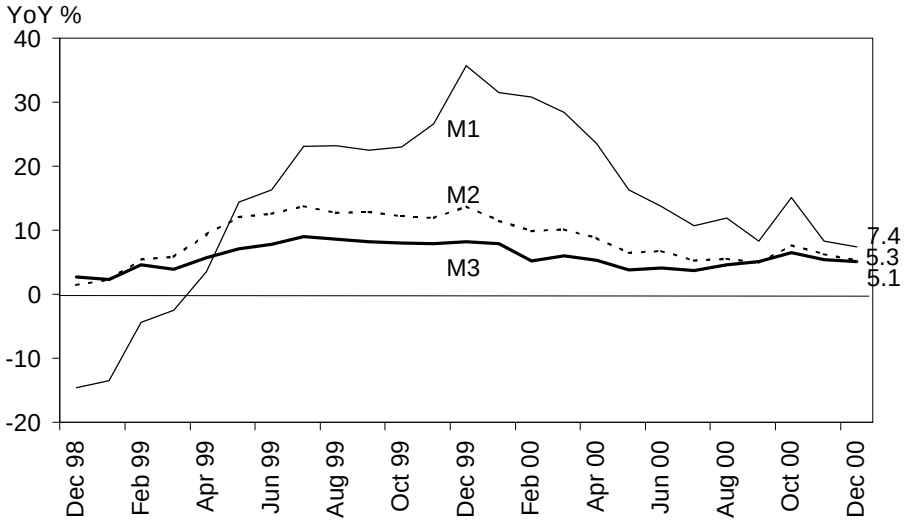
Monetary aggregates expanded significantly in December

In December, increased demand for transaction balances for consumption expenditure due to festivities contributed to a **sharp increase in money supply**. M1 and M2 increased by RM7.1 billion and RM11.3 billion respectively, while broad money, M3, rose by RM10.4 billion or 2.3% (-RM0.9 billion or -0.2% in November). The seasonally adjusted M3 also increased by RM5.5 billion. On an annual basis, however, M3 rose moderately by 5.1% at end-2000, reflecting the high base at end-1999.

The high growth of M3 in December reflected mainly the rise in claims on the private sector reflecting higher loans to the private sector amounting to RM4.5 billion and higher holdings of securities by the banks (+RM2 billion). Government operations were also expansionary, with an increase in holdings of Government securities by the banks (+RM1.4 billion) following the issuance of Government Investment Issues; and the net withdrawal of deposits placed with BNM to finance public sector expenditures. This expansionary impact was offset by contractionary external operations.

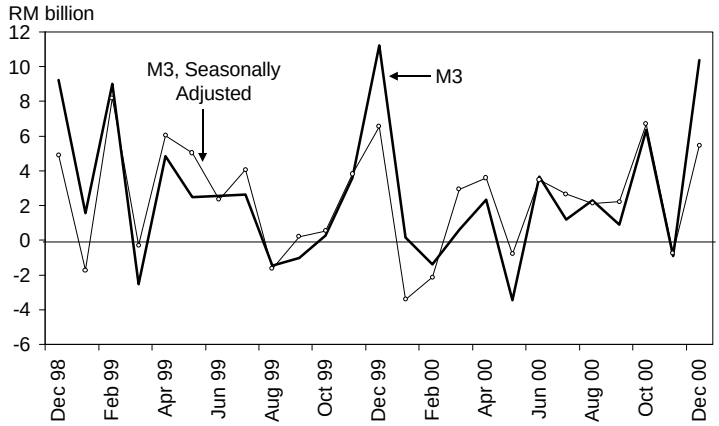
In terms of components, demand for transaction balances increased significantly by RM6.9 billion during the month on account of increase in demand deposits (+RM4.5 billion) and currency in circulation (+RM2.3 billion), due to the festive season in December. Similarly, broad quasi-money also registered an increase of RM3.5 billion, reflecting higher repos transactions, as well as increase in savings deposits and foreign currency deposits placed with the banking institutions.

Monetary Aggregates: Annual Growth



All monetary aggregates expanded further in December

M3: Monthly Change



Increase in M3 due to higher claims on the private sector and expansionary Government operations

M3 Determinants

(RM billion)

	Outstanding	Change during the period			
		2000			
	December	October	November	December	Jan. - Dec.
M3	456.7	6.4	-0.9	10.4	22.1
Claims on Government	-14.4	8.1	-1.5	1.6	4.3
Claims on private sector	470.5	5.4	0.9	6.5	25.6
External operations	127.3	-6.6	1.7	-1.1	2.6
Other influences	-126.7	-0.5	-2.0	3.4	-10.4

Banking system deposits and loans recorded significant end-year increase

On a month-on-month basis, total deposits increased by RM10.9 billion or 2.4% in December, as higher deposits were evident amongst most holders, especially the business enterprises, individuals and financial institutions. The increase during month reflected mainly an expansion of lending activities of the banking institutions, proceeds from external loans raised by the private sector, higher interplacement of funds between banking institutions and also bonus payments by the public sector. The sharp end-year increase in deposits had occurred annually since 1996.

Monthly Change in Deposits			(RM million)
	2000		
	Oct.	Nov.	Dec.
Holder			
Federal Government	-1438	-269	652
State Governments	-389	-42	1119
Statutory Authorities[1/]	377	-1260	-713
Financial Institutions	697	-805	1957
Business Enterprises	3892	-2099	4980
Individuals	436	2716	2916
Others	311	-39	-38
Total	**3887**	**-1797**	**10873**

[1/] Include local Governments.

Higher deposits were evident among most holders

By type, there was a substantial increase in demand deposits, mainly due to the large placements by business enterprises and, to a lesser extent, higher deposits by State Governments. Repos and foreign currency deposits were also higher due primarily to placements by business enterprises. Meanwhile, SPI deposits increased mainly in terms of placements by non-bank financial institutions, the Federal Government and business enterprises. The increase in individual deposits was apparent in savings and fixed deposits (FD).

Monthly Change in Deposits			(RM million)
	2000		
	Oct.	Nov.	Dec.
Type			
Fixed deposits	2208	-6224	523
NIDs issued	-906	292	-568
Demand deposits	1954	37	4909
Savings deposits	29	782	1311
Repos	-393	1535	1778
FX deposits	581	-127	1119
SPI deposits	101	1947	1839
Others	311	-39	-38
Total	**3887**	**-1797**	**10873**

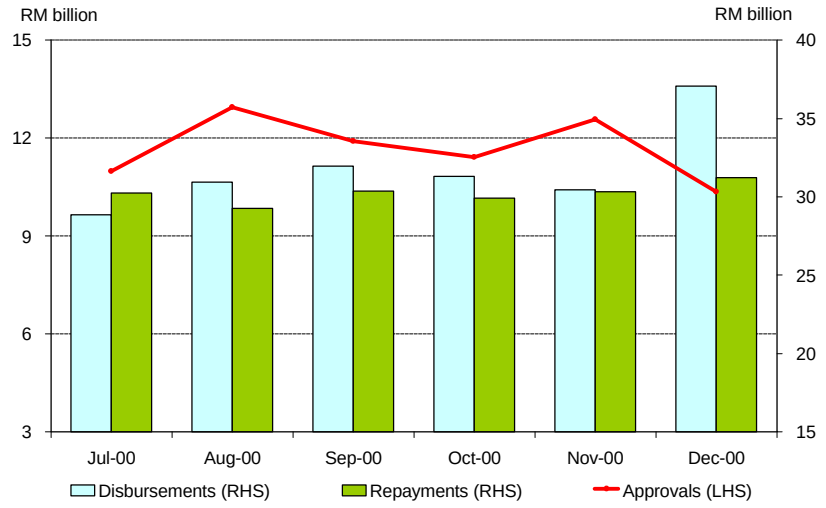
Most types of deposits were also higher

On an annual basis, total deposits increased by 3.5% as at end-December (4.7% at end-December 1999). For the year as a whole, total deposits increased by RM16 billion, with deposits by individuals and business enterprises increasing by RM12.7 billion and RM12.1 billion respectively, which more than offset the lower deposits by the public sector, as well as the decline in interplacement of funds between banking institutions during the year. By type, there was a notable increase in SPI deposits (+RM10 billion), in line with BNM's efforts to

promote Islamic banking. The increase also, to some extent, reflected a shift from conventional fixed deposits as the gap between the rate of return on SPI deposit and FD rates has narrowed. NIDs issued continued to decline, albeit at a moderating pace (-RM7.1 billion during the year; -RM28.6 billion in 1999) as there continued to be ample liquidity in the banking system, which softened the interest rates on NID contracts.

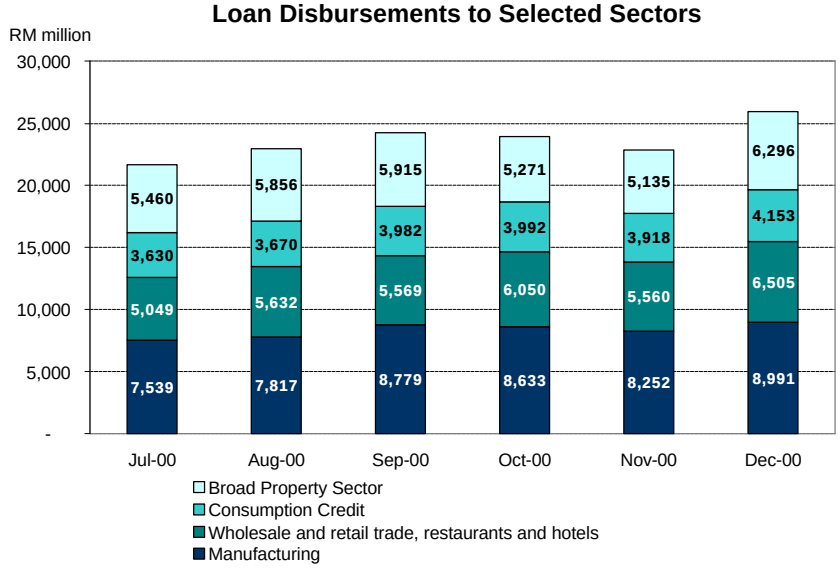
Loan approvals remained high at RM10.4 billion in December. The loan approvals were largely for the purchase of residential property (RM1.7 billion), manufacturing activities (RM1.7 billion) as well as for the purchase of passenger cars (RM1.4 billion). **Loans disbursed** were substantially higher, totaling RM37.1 billion in December. The bulk of the disbursements were mainly for manufacturing activities, wholesale trade, financial services, purchase of residential property, construction activities, the purchase of passenger cars and credit cards. In terms of **total loans outstanding**, there was also a significant increase of RM5.4 billion, the largest monthly increase since December 1998. The bulk of the increase was due to higher loans extended to the agriculture sector, purchase of residential property and the financial services sector.

Loan Approvals, Disbursements and Repayments



Loan disbursements were significantly higher in December

Loan Disbursements to Selected Sectors



Most of the disbursements were for manufacturing activities, wholesale trade and the purchase of residential property

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

	2000		
	Monthly change		As at end
	Nov.	Dec.	Dec.
Agriculture, hunting, forestry and fishing	160	1,461	11,968
Mining and quarrying	-211	70	1,695
Manufacturing	-529	-86	68,523
Electricity, gas and water supply	33	731	7,782
Wholesale and retail trade, restaurants and hotels	-233	135	38,117
Broad property sector	110	749	162,570
of which:			
Purchase of residential property	*539*	*1,165*	*73,685*
Transport, storage and communication	-172	-432	13,597
Finance, insurance and business services	469	1,150	34,532
Consumption	1,116	403	59,356
of which:			
Passenger cars	*960*	*340*	*37,530*
Credit cards	*177*	*225*	*7,350*
Purchase of securities	9	269	33,628
Others	9	938	21,195
Total Loans[1/]	**761**	**5,387**	**452,962**

[1/] Including loans sold to Danaharta and Cagamas (inclusive of property loans and hire purchase receivables).

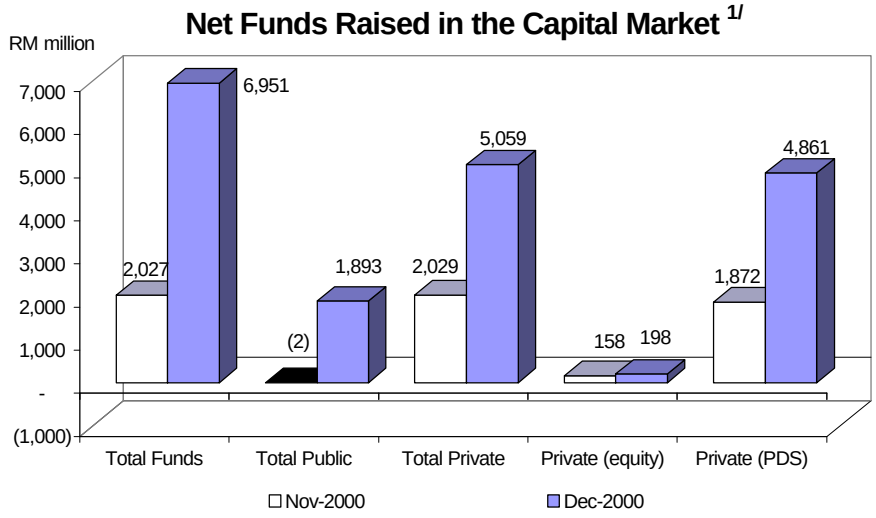
Note: Sub-total may not add up to grand total due to rounding.

Loans outstanding recorded a significant and broad-based increase

For the year as a whole, disbursements rose by 13.4%, with the bulk of the loans being channelled to the manufacturing sector (26.1%); the broad property sector (18.1%); the wholesale and retail trade, restaurants and hotels sector (17.4%); and for consumption credit (12.1%). Approvals were also higher, increasing by 27.5%. Meanwhile, repayments rose by 4.3%, to RM347.1 billion, almost matching disbursements in absolute terms, which moderated the growth in total loans outstanding. On an annual basis, growth in **total loans outstanding** was 5.4% at end-December with the commercial banks and finance companies recording growth rates of 6.4% and 4.4% respectively. For the year as whole, total loans outstanding turned around to increase by RM23.2 billion compared to a decline of RM221 million in 1999.

Higher net funds raised in the capital market

Net funds raised in the capital market was higher in December compared to November. This was due to higher net funds raised by the private sector, mainly through the issuance of private debt securities. Funds raised by the public sector were also higher during the month with the issuance of Government Investment Issues and Malaysian Government Securities.

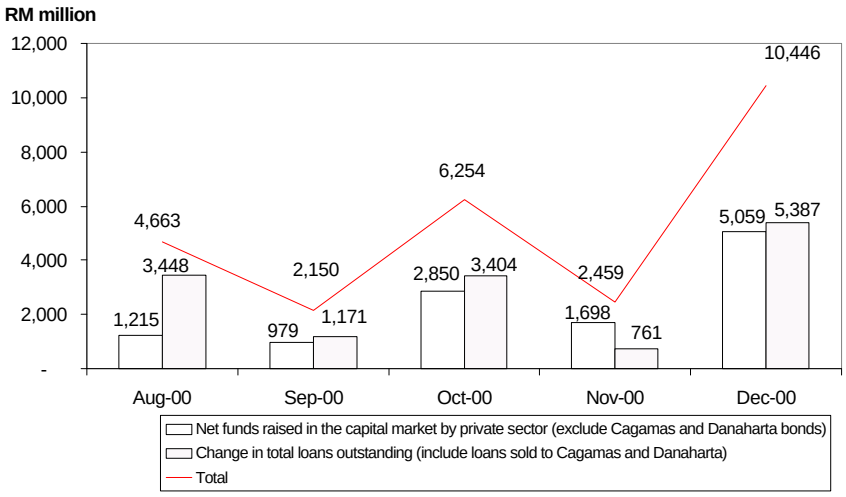


Net funds raised in the capital market were higher in December

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

Net private sector domestic financing from both the capital market and the banking system were higher in December, totalling RM10.4 billion.

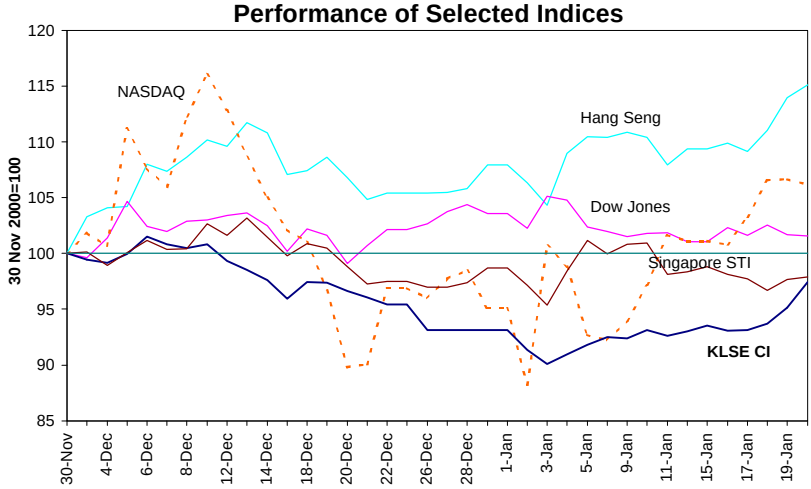
Private Sector Financing by the Capital Market and the Banking System



Financing by both the banking system and the capital market were higher in December

Market sentiment in the Kuala Lumpur Stock Exchange (KLSE) continued to be weak in December with continued concerns over corporate issues. Market sentiment was mainly dampened by the continued volatility of global bourses and the uncertainty over the US economy. KLSE CI ended the year 2000 at 679.64 points (-6.9% since end-November), while the market capitalisation stood at RM444.4 billion (-8.8% since end-November).

Performance of Selected Indices



The KLSE CI trended lower

In the first two week of January 2001, market sentiment generally improved. The KLSE CI increased slightly due to the recovery in the US market following the reduction in interest rates. However, the increasing trend in the KLSE was not sustained towards the end of the second week due to profit-taking activities as well as concerns over the global and domestic economic outlook. As at 22 January 2001, the KLSE CI closed at 711.04 points (4.6% since end-December), while market capitalisation stood at RM468 billion (5.3% since end-December).

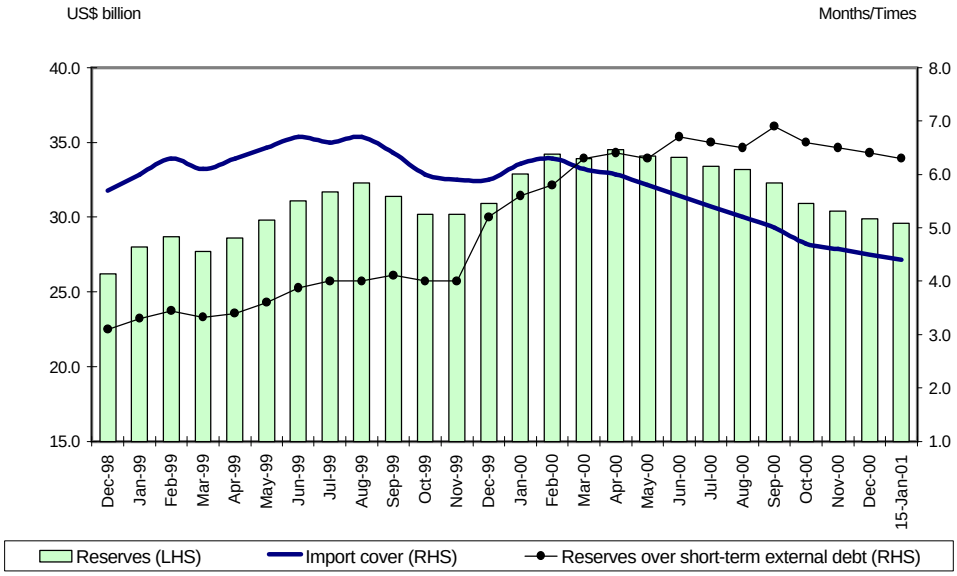
International Reserves

The **net international reserves of BNM** stood at RM113.5 billion (US$29.9 billion) at end-December compared to RM115.4 billion (US$30.4 billion) at the end of November. The lower reserves during the month reflected largely the repayment of external debt by both the public and private sectors; portfolio outflows; overseas investment by Malaysian companies; and repatriation of profits and dividends at year-end. The continued trade surplus and inflows of long-term capital have cushioned the outflows. There was also an accounting gain following foreign exchange revaluation at the end of the fourth quarter.

Compared with end-1999, reserves had declined by RM3.7 billion (US$974 million). In the first four months, reserves increased by RM13.7 billion (US$3.6 billion). However, from May to December, net outflows of RM17.4 billion (US$4.6 billion) were recorded. The outflows reflected a combination of factors, including overseas investment by Malaysian companies; repayment of external debt by the public and private sectors; some portfolio outflows; foreign exchange revaluation losses due to the appreciation of the ringgit against selected major currencies; and repatriation of profits and dividends towards year end. Nevertheless, these outflows have been cushioned to some extent by trade surpluses as well as long-term capital inflows. As at 15 January 2001, the net international reserves of BNM amounted to RM112.5 billion (US$29.6 billion), which is equivalent to 6.3 times the short-term external debt and sufficient to finance 4.4 months of retained imports.

Overall, the reserves position has remained strong, reflective of the overall strong fundamentals of the economy. The repayment of debt has further strengthened the external position of Malaysia. The higher overseas investment and strategic business decisions will provide greater synergy to Malaysian corporate activities as well as enhance prospects of future exports of goods and services. In addition, there remains ample liquidity domestically to finance investment in Malaysia.

Net International Reserves
(as at end)



International reserves remain strong

Banking system remained strong

The capital position of the banking system remained strong in December with a risk weighted capital ratio and core capital ratio of 12.4% and 10.5% respectively, slightly lower than the ratio of 12.8% and 10.7% recorded last month. The decline in the capital ratios was caused by the combined effect of a fall in capital base and an expansion in risk-weighted assets. The decline in capital base of RM1 billion was a temporary phenomenon in financial institutions undergoing merger activities pending the completion of the capital raising exercise by the anchor banks. The risk-weighted assets expanded by RM7.9 billion in December 2000 in tandem with the growth in loans outstanding. Nontheless, the capital position is expected to strengthen further during the coming months once the banking institutions have included their audited after-tax profits for the financial year ended 31 December 2000. As a matter of policy, Bank Negara Malaysia does not allow banking institutions to include their interim profits in the computation of their capital ratios. However, losses are recognised as and when they are incurred.

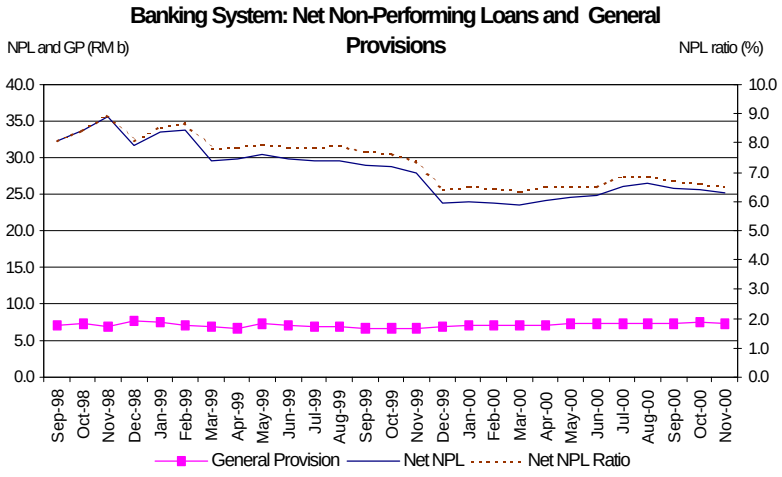
Net NPL further declined in the month of November, which resulted in an improvement in the Net NPL ratio from 6.6% to 6.5% as at 30 November 2000.

Banking System Health Indicators

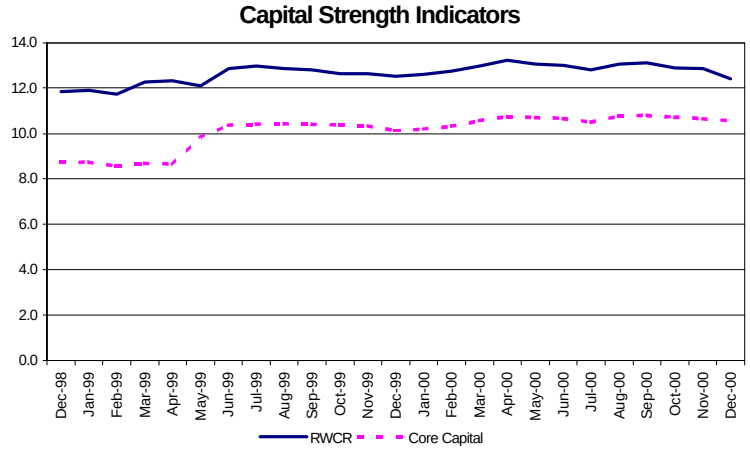
	1998	1999				2000			
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Oct.	Nov.	Dec.
Capital									
Core-capital ratio (%)	8.7	8.7	10.4	10.4	10.1	10.6	10.7	10.7	10.5
RWCR (%)	11.8	12.3	12.9	12.8	12.5	13.0	12.9	12.8	12.4
Net NPL (6-month classification)									
Banking system (%)	8.1	7.8	7.9	7.7	6.4	6.3	6.6	6.5	n.a.
Banking system (RM million)	31,675	29,636	29,889	29,005	23,849	23,553	25,541	25,256	n.a.
GP/Net total loans (6-month,%)	2.0	1.8	1.9	1.8	1.9	1.9	1.9	1.9	n.a.

n.a. Not available

**** Beginning June 1999 onwards, the figures include Islamic Banks.***



Net NPL ratio of banking system improved to 6.5%



….. risk-weighted capital ratio remained strong at 12.4%

As at 30 November 2000, loan rights acquired and managed by Danaharta remained at RM47.0 billion, of which RM37.0 billion were removed from the banking system. This represented 41.2% of the total NPL in the banking system. Danaharta is currently managing the NPL acquired through loan restructuring, and asset restructuring which involves the sale of collateral via foreclosure; and sale of business through appointment of Special Administrators. To date, Danaharta has conducted four property tenders involving a total of 449 properties, from which a total of 325 properties were sold. The fourth property tender, which closed on 13 December 2000, received 79 successful bids on the 197 properties offered. 58 of the successful bids were new properties offered, while the remaining 21 were unsold properties from the previous tender. The 79 properties will be sold to the successful bidders at 99% of their total indicative value of RM156.26 million.

As at 31 December 2000, capital injection by Danamodal declined to RM4.4 billion following the full repayment of the amount injected by one financial institution. The number of cases resolved by CDRC also increased to 42 cases with debts totaling RM27.3 billion from a total of 54 cases (total debts of RM39.4 billion) received and eligible for restructuring. Consequently, the number of cases still outstanding with CDRC declined to 12 cases with a loan value of RM12.1 billion.

Bank Negara Malaysia
29 January 2001

Key Monetary and Banking Statistics

	November		December	
	Outstanding (RM billion)	Ann. Growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	37.4	0.1	41.4	-9.4
M1	71.8	8.4	78.9	7.4
M2	343.6	6.3	354.9	5.3
M3	446.3	5.4	456.7	5.1
Banking System				
Total deposits	460.9	3.9	471.8	3.5
Total loans (including loans sold to Cagamas and Danaharta)	447.6	4.1	453.0	5.4
Total loans (excluding loans sold to Cagamas and Danaharta)	392.0	2.2	397.1	4.6
Loan-deposit ratio (%)	85.0		84.2	
Loans approved during the month	12.6		10.4	
Loans disbursed during the month	30.4		37.1	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	12.8		12.4	
Net NPLs: 6-month classification (%)	6.5		n.a	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	115.4		113.5	
Reserves in USD (billion)	30.4		29.9	
Months of retained imports	4.5		4.5	
Interest Rates (average rates at end-period)				
Interbank: 1-month	2.96		3.05	
3-month	3.28		3.25	
Fixed deposits of commercial banks: 1-month	3.44		3.44	
3-month	3.48		3.47	
BLR of commercial banks	6.76		6.78	
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.2627		3.5331	
Pound Sterling	5.4025		5.6662	
Singapore dollar	2.1613		2.1946	
100 Japanese yen	3.4182		3.3121	
100 Thai Baht	8.6472		8.7790	
100 Philippine Peso	7.6459		7.6053	
100 Indonesian Rupiah	0.0399		0.0395	
100 Korean Won	0.3137		0.3022	
Capital Market				
Funds raised by: public sector (RM million)	-2.4		1892.9	
private sector (RM million)	2029.3		5058.5	
Kuala Lumpur Composite Index (end-period)	730.0		679.64	
KLSE Market Capitalisation (RMb) (end-period)	487.1		444.35	