EMBARGO: Not for publication or broadcast before 1800 hours on Monday, 29 October 2001

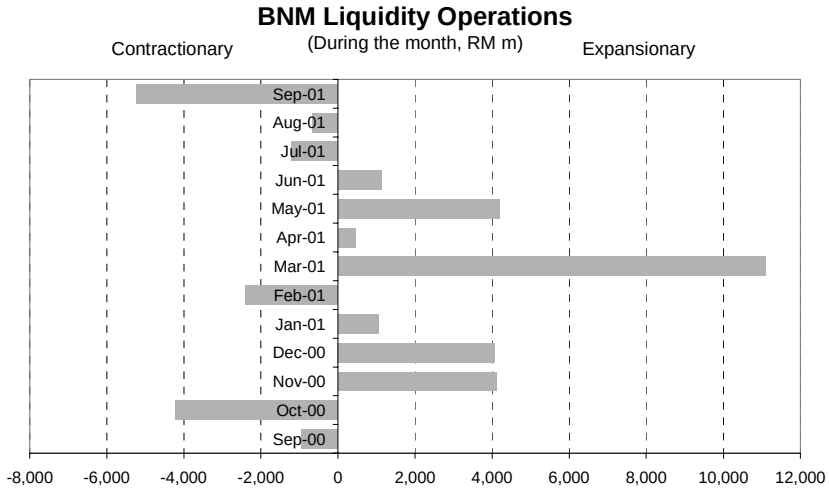
PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS SEPTEMBER 2001

In September, BNM announced the reduction in the 3-month BNM Intervention Rate to address heightened risks biased towards weaker domestic economic growth following the 11 September events in the US. The reduction in the Intervention Rate will contain the implications of the more adverse external environment on domestic business and consumer activity in the light of rising uncertainties amid an already weak global economic growth. Accordingly, lending rates declined in September, while BNM liquidity operations ensured interbank rates remained at prevailing low levels, thus resulting in limited adjustments to deposit rates. Amid the low interest rates and ample liquidity, bank lending activity was sustained. Broad money increased further, on the back of higher financing for the private sector as well as expansionary external operations arising from continued trade and capital inflows. Meanwhile, the KLSE CI recorded generally weak performance in September and for the greater part of October.

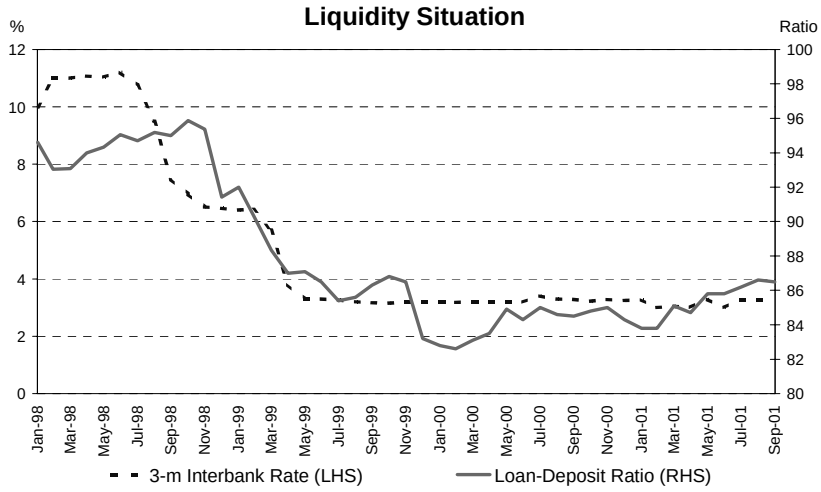
Intervention rate lowered to bolster consumer and business confidence

On 20 September, BNM lowered its Intervention Rate by 50 basis points to 5.00% to mitigate the potential adverse effects of the recent events in the US on the Malaysian economy. However, BNM liquidity operations continued to ensure that interbank money market rates stabilised at prevailing levels.

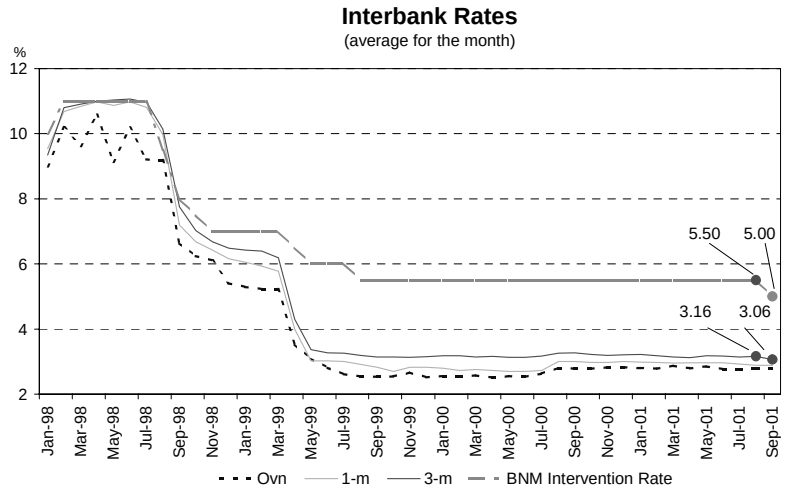
In September, **interbank money market rates** stayed relatively unchanged. With the aim of maintaining stable interbank rates, BNM liquidity operations were contractionary by RM5.2 billion to sterilise the substantial capital inflows.



BNM liquidity operations were mainly aimed at sterilising liquidity inflows to keep interest rates stable



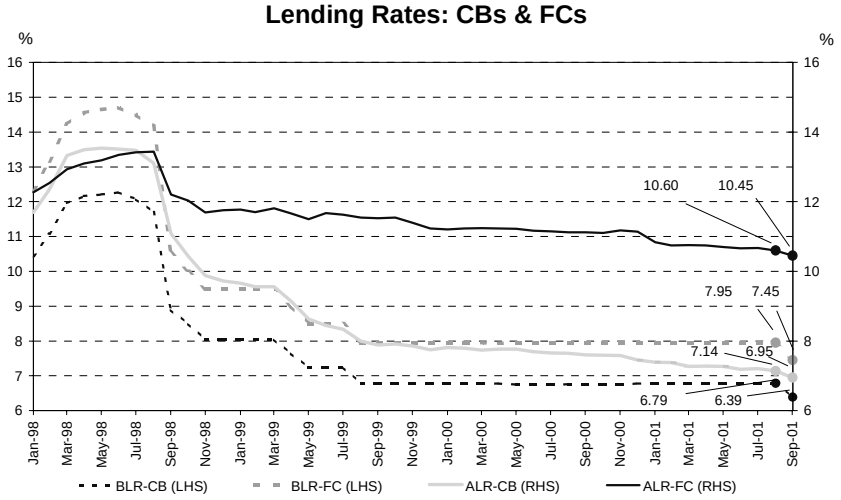
Ample liquidity continued to prevail



Intervention Rate was lowered by 50 basis points and interbank rates were kept at the prevailing range

The lowering of the Intervention Rate resulted in the concurrent declines in the **average base lending rates (BLR)** of commercial banks (CBs) and finance companies (FCs). The average BLR of CBs declined by 40 basis points to 6.39% while that of FCs declined by 50 basis points to 7.45% at the end of September (6.79% and 7.95% respectively at end-August). Correspondingly, the average lending rates (ALR) of CBs and FCs also fell to 6.95% and 10.45% respectively (7.14% and 10.60% respectively at end August).

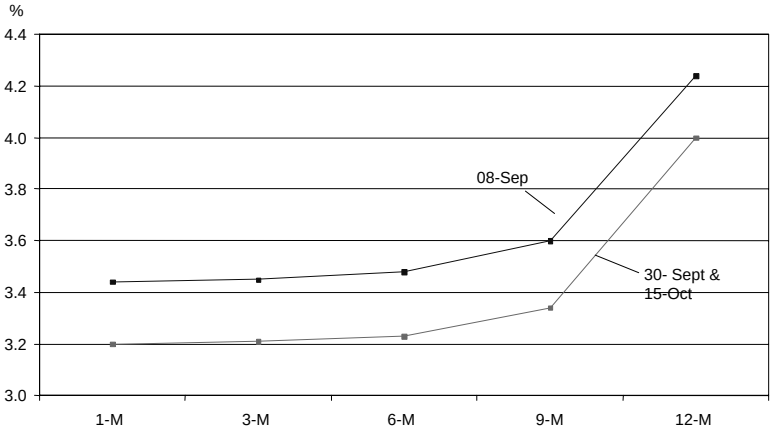
Lending Rates: CBs & FCs



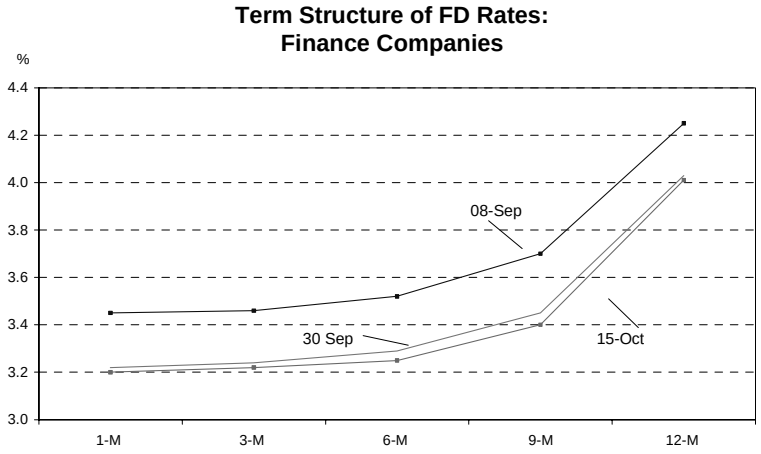
Both CBs' and FCs' BLRs declined. Correspondingly, the ALRs also declined

As at 15 October, the **average quoted fixed deposit (FD) rates** of 1-month to 12-month maturities of CBs and FCs were in the range of 3.20-4.00% and 3.20-4.01% respectively (3.20-4.00% and 3.22-4.03% respectively at 30 September).

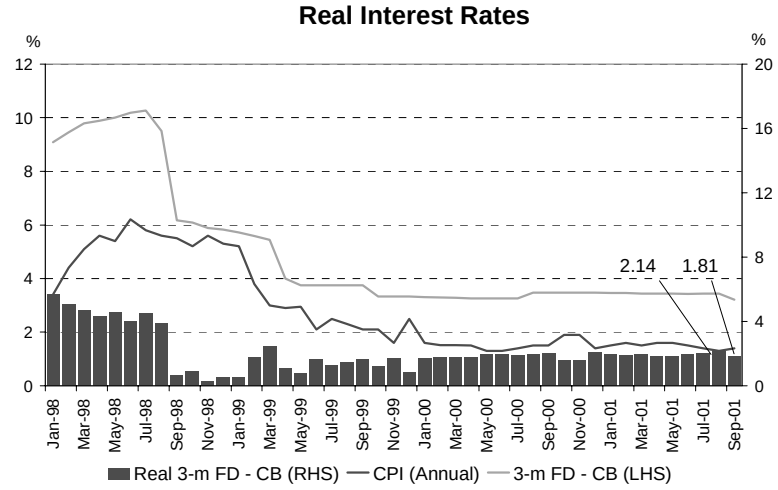
Term Structure of FD Rates: Commercial Banks



CBs' FD rates declined in September and remained stable in the first half of October…



…similarly for FCs.

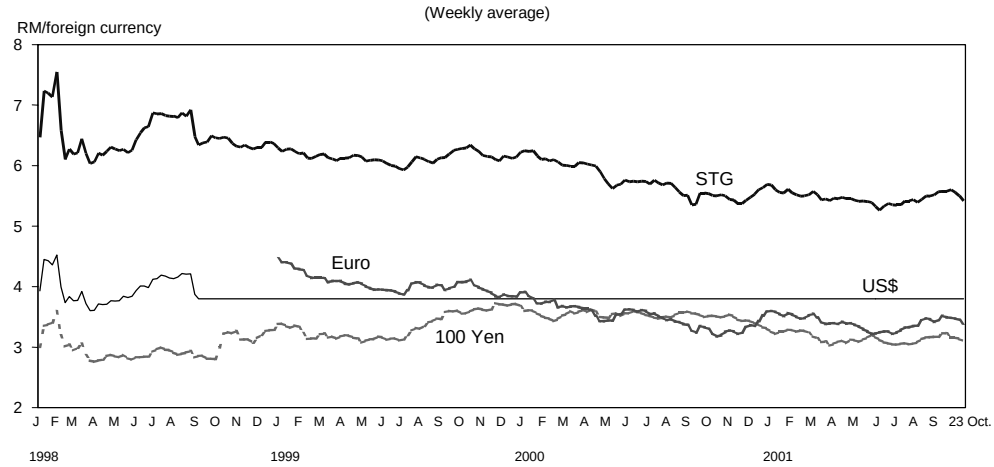


The 3-month real FD rate remained positive

The ringgit depreciated against major currencies while appreciating against regional currencies in September

In September, the **ringgit depreciated against major currencies**. The ringgit depreciated against the Japanese yen (0.6%), the euro (0.8%) and the pound sterling (1.6%), in tandem with the movements of the US dollar in the international foreign exchange markets. The US dollar weakened due to outflows into non-US dollar assets.

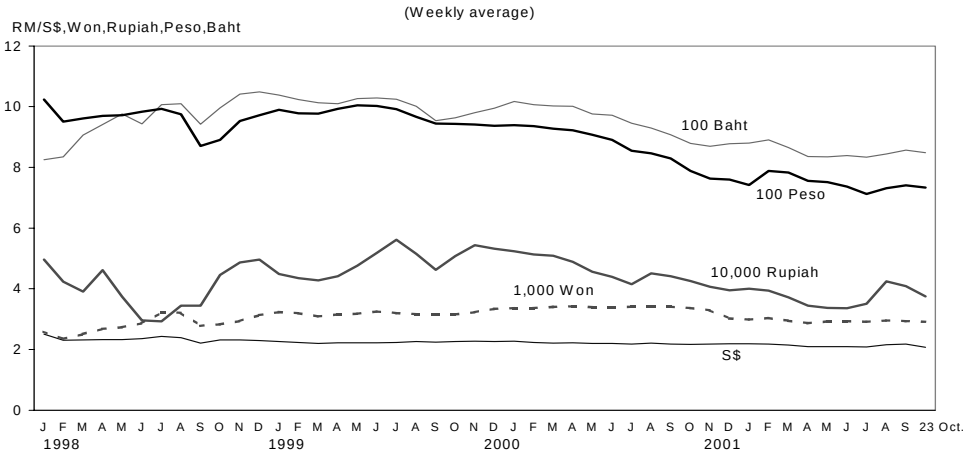
Performance of Ringgit against Major Currencies



The ringgit depreciated against major currencies in September

Despite the weakness of the US dollar during the month, regional currencies depreciated against the US dollar, and hence against the ringgit, due to adverse domestic developments as well as due to concerns about the future prospects of regional export-driven economies should the US enter a recession. Consequently, the **ringgit appreciated against regional currencies** in the range of 0.2% - 6.1%.

Performance of Ringgit against Regional Currencies



The ringgit appreciated against regional currencies in September

During the period **1 – 23 October**, the ringgit turned around to appreciate against major currencies, as the US dollar strengthened due to capital inflows into US asset markets. The ringgit appreciated against the Japanese yen by 2.8%, the euro by 2.6% and the pound sterling by 3.3%. The ringgit strengthened further against most regional currencies in the range of 0.1% - 4.7%, while depreciating against the Korean won by 0.4%.

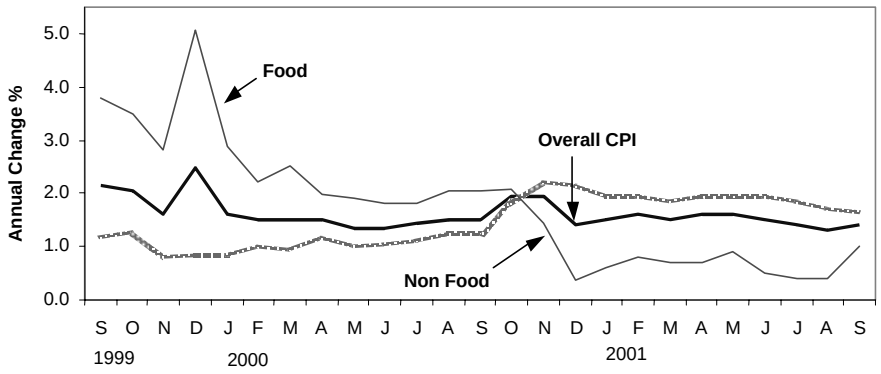
Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-Sept. 2001	23 October 2001	% Change September 2001	% Change Jan.-23 Oct. 2001	% Change 2 Sep. 1998-23 Oct. 2001
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0
Euro	-	3.4761	3.3871	-0.8	4.3	-
Pound Sterling	6.3708	5.5938	5.4158	-1.6	4.6	17.6
100 Japanese yen	2.7742	3.1867	3.1010	-0.6	6.8	-10.5
Singapore dollar	2.1998	2.1527	2.0805	0.8	5.5	5.7
100 Thai baht	9.3713	8.5518	8.4859	0.2	3.5	10.4
100 Philippine peso	8.8302	7.4006	7.3366	0.2	3.7	20.4
100 Indonesian Rupiah	0.0354	0.0393	0.0375	6.1	5.4	-5.6
100 Korean won	0.2827	0.2902	0.2913	1.9	3.7	-3.0

Inflation remained subdued

Inflation, as measured by the **Consumer Price Index** (CPI), increased marginally in September to 1.4% year-on-year (August: 1.3%). For the first nine months, the average annual change in the CPI remained at 1.5% (1.4% in the corresponding period of 2000). Excluding food, the adjusted inflation rate softened further to 1.6% in September (August: 1.7%). On a monthly basis, the overall CPI increased by 0.1%, mainly due to higher prices for food at home.

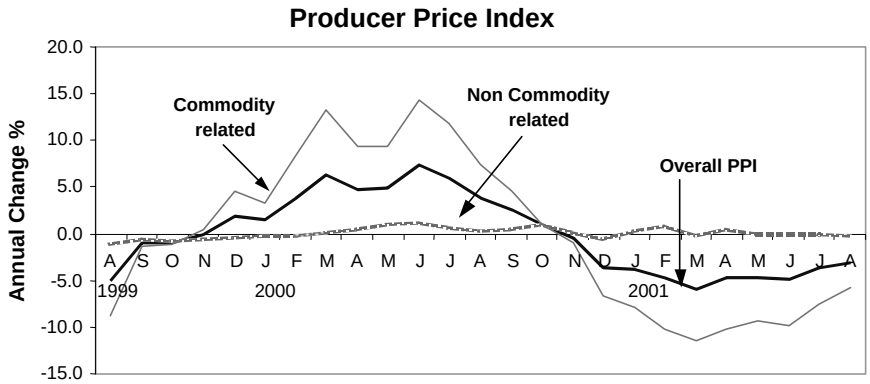
Consumer Price Index



Inflation remained stable

Producer prices continued to decline

The **Producer Price Index** (PPI) declined by 3% year-on-year in August (July: -3.7%). This was mainly due to lower prices charged by local producers (-3.6%), amid lower prices of major commodities such as rubber and crude petroleum. The negative influence was, however, partly offset by higher prices of crude palm oil. Excluding these commodities related sub-groups, the adjusted PPI declined at a slower pace of 0.3%. On a monthly basis, the PPI increased slightly by 0.7% in August, reflecting stronger crude palm oil prices.



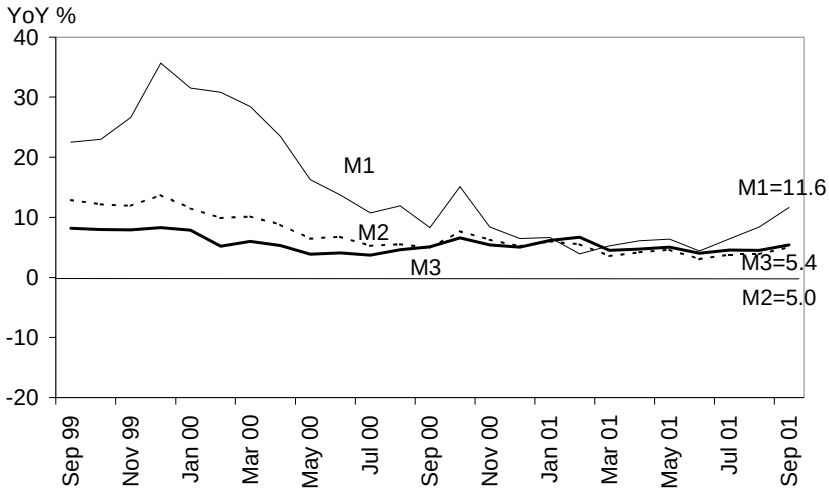
Producer prices continued to decline

Money supply expanded further in September

All three monetary aggregates continued to increase in September. **Broad money**, M3, rose by RM5 billion or 1.1%, while M1 increased by RM1.4 billion or 1.8%. On an annual basis, all three aggregates were higher, with M1 and M3 rising by 11.6% and 5.4% respectively as at end-September (8.4% and 4.5% respectively as at end-August).

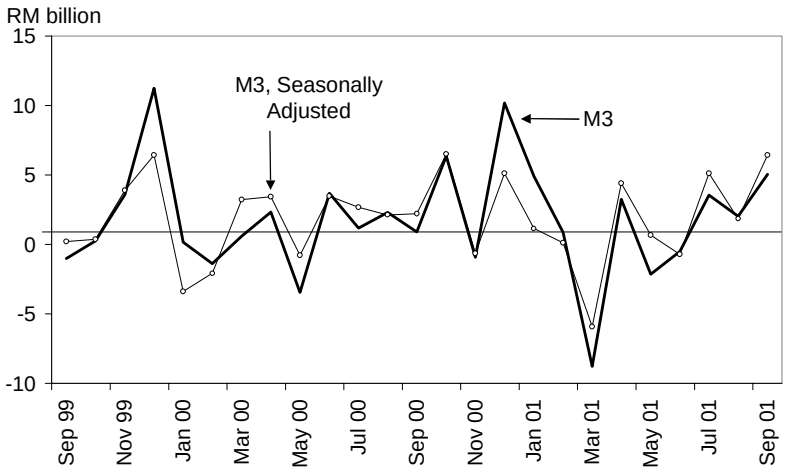
The increase in M3 in September reflected mainly higher claims on the private sector due to higher loans and holdings of private debt securities (RM3.6 billion). Net external operations were also expansionary (RM1.6 billion) reflecting continued trade and capital inflows. These factors were partially offset by lower net claims on the Government (-RM2 billion) as Government deposits with BNM increased, largely attributable to the placement of proceeds from the MGS issue.

Monetary Aggregates: Annual Growth



Monetary aggregates continued to expand on an annual basis…

M3: Monthly Change



...on a monthly basis, expansion in M3 due mainly to expansion in bank credit and expansionary external operations

M3 Determinants

(RM billion)

	Change during period			
	2001			
	Jul	**Aug**	**Sep**	**Jan-Sep**
M3	3.6	2.0	5.0	8.2
Net claims on Government	-1.9	1.0	-2.0	-5.6
Claims on private sector	4.4	1.0	3.6	16.8
External operations[1/]	3.4	1.8	1.6	8.4
Other influences	-2.5	-1.7	1.7	-11.4

1/ pre-revaluation

Banking system deposits increased

On a month-on-month basis, **total deposits** turned around to record an increase of RM4.0 billion or 0.8% in September, primarily due to higher placements by domestic business enterprises mainly in demand deposits, reflecting proceeds from a corporate bond issuance, as well as higher SPI deposits. In addition, there was also a significant increase in deposits placed by the Federal Government, particularly in SPI and fixed deposits, reflecting a portion of the proceeds received from the new issue of MGS amounting to RM5 billion in September. On the other hand, there was a decline in fixed deposits by the Statutory Authorities, attributable to the non-roll over of maturing deposits, as well as lower deposits by domestic non-bank financial institutions. On an annual basis, total deposits mobilised by the banking system rose by 4% as at end-September.

Monthly Change in Deposits			(RM million)
	2001		
	Jul.	Aug.	Sep.
Holder			
Federal Government	-669	-603	1,488
State Governments	-679	425	-195
Statutory Authorities[1/]	992	967	-786
Financial Institutions	-562	-1,478	-1,750
Business Enterprises	-29	-1,984	4,284
Individuals	1,602	1,629	885
Others	31	-10	46
Total	**685**	**-1,053**	**3,973**

[1/] Include local Governments.

Deposits rose due mainly to higher placements by business enterprises and the Federal Government

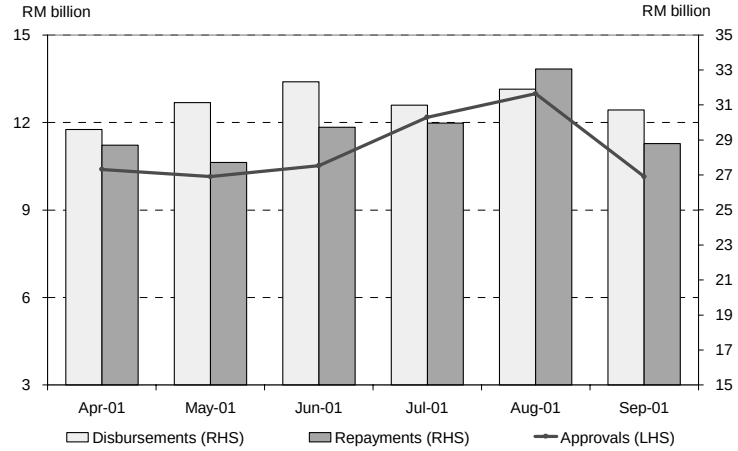
Monthly Change in Deposits			(RM million)
	2001		
	Jul.	Aug.	Sep.
Type			
Fixed deposits	-1,998	-4,199	-406
NIDs issued	-602	-518	-256
Demand deposits	298	1,158	975
Savings deposits	83	450	446
Repos	1,918	994	402
FX deposits	-208	376	-470
SPI deposits	1,163	696	3,236
Others	31	-10	46
Total	**685**	**-1,053**	**3,973**

Higher deposits were attributable mainly to SPI and demand deposits

Bank lending remained resilient

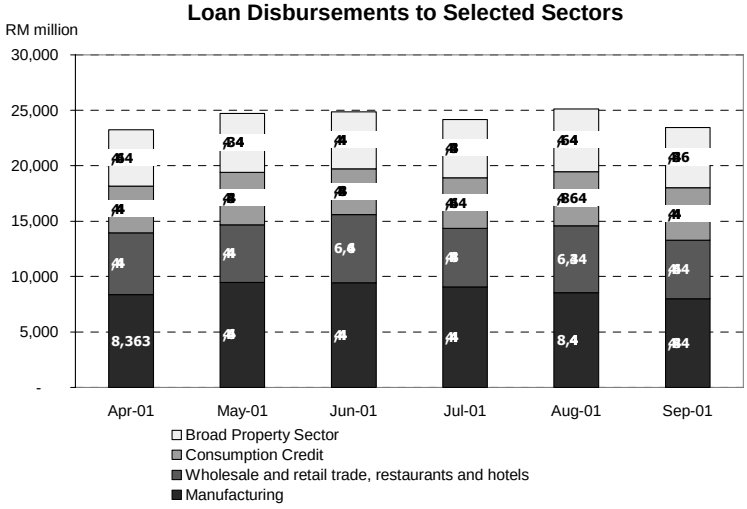
Loan approvals amounted to RM10.1 billion in September and were granted mainly for the purchase of residential property and passenger cars (RM2.4 billion and RM1.7 billion respectively) as well as manufacturing activities (RM1 billion). Meanwhile, **loan disbursements** remained significant, amounting to RM30.7 billion in September. Disbursements continued to be channelled to the manufacturing sector; wholesale trade; for the purchase of residential property and passenger cars; as well as finance, insurance and business services sector.

Loan Approvals, Disbursements and Repayments



Loan approvals, disbursement and repayments moderated

Loan Disbursements to Selected Sectors



Loans were disbursed mainly for manufacturing activities, wholesale trade as well as purchase of residential property and passenger cars

Total loans outstanding extended by the banking system increased further in September, rising by RM1.8 billion. The higher loans outstanding was due mainly to loans for the purchase of passenger cars and residential property as well as wholesale and retail trade. On an annual basis, loans outstanding continued to increase by 5.7% as at end-September.

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

	2001		
	Monthly change		As at end
	Aug.	Sep.	Sep.
Agriculture, hunting, forestry and fishing	-64	363	12,358
Mining and quarrying	-21	-8	1,624
Manufacturing	-479	-79	70,148
Electricity, gas and water supply	-1,594	11	5,931
Wholesale and retail trade, restaurants and hotels	247	412	38,609
Broad property sector	1,395	504	173,107
of which:			
Purchase of residential property	*1,299*	*324*	*82,803*
Transport, storage and communication	38	-263	14,494
Finance, insurance and business services	33	18	35,556
Consumption	1,038	761	65,943
of which:			
Passenger cars	*899*	*712*	*42,919*
Credit cards	*224*	*169*	*8,325*
Purchase of securities	-397	-282	30,908
Others	65	342	21,491
Total Loans[1/]	**260**	**1,779**	**470,170**

[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.

The increase in loans was attributed mainly to higher loans for the purchase of passenger cars and residential property as well as wholesale and retail trade

Financing through banking system loans and PDS remained robust

In September, the banking institutions continued to increase their holdings of PDS by RM1.3 billion. Coupled with higher loans extended during the month, the **overall financing provided by the banking system rose by RM3.1 billion**. On an annual basis, banking system financing grew by 7% at end-September (6.6% at end-August). Overall**, financing through loans extended by the banking system and PDS issued by the private sector** rose by RM4.1 billion in September or an annual growth of 8.3% (end-August: 8%).

Financing through banking system loans and PDS

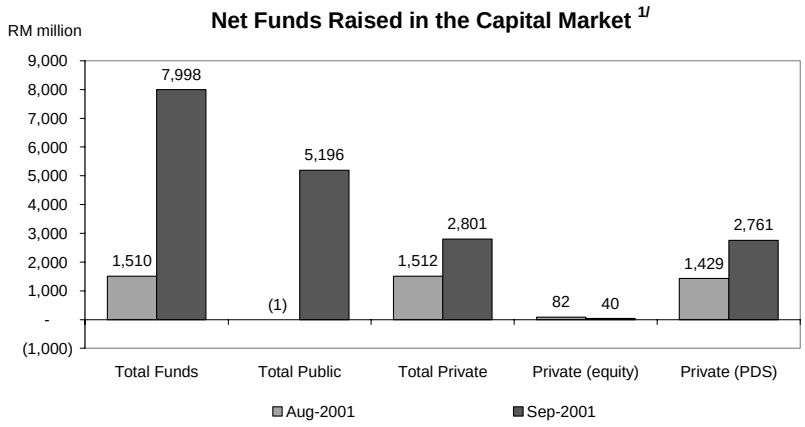
	Change			Annual growth	
	2001			2001	
	Aug	Sep	Jan.-Sep.	Aug	Sep
	RM billion			%	
Financing by Banking System	**1.4**	**3.1**	**20.2**	**6.6**	**7.0**
Loans outstanding (1)	0.3	1.8	16.2	5.6	5.7
Holdings of PDS	1.2	1.3	4.0	34.0	43.4
Total PDS outstanding * (2)	**4.2**	**2.3**	**10.6**	**19.4**	**20.9**
Total (1) + (2)	**4.4**	**4.1**	**26.8**	**8.0**	**8.3**

* 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.

Higher net funds raised in the capital market

Net funds raised in the capital market were higher in September, amounting to RM8 billion. This was mainly due to higher net funds raised by the public sector following a new issue of MGS amounting to RM5 billion and higher issues of debt securities by the private sector.

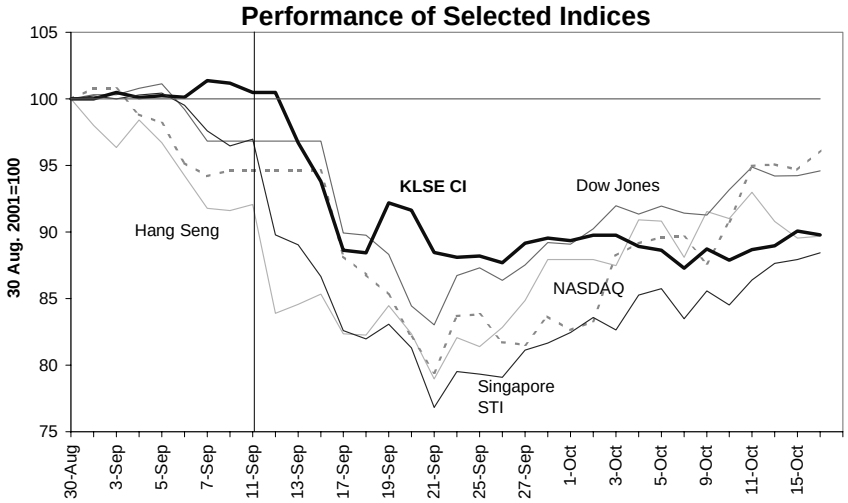


1/ Net funds raised in the capital market by private sector (include Cagamas and Danaharta bonds)

Net funds raised in the capital market were higher in September

The **Kuala Lumpur Stock Exchange Composite Index** (KLSE CI) declined in September following the 11 September events in the US and growing concerns over adverse impact on an already weak global economy. The market was suspended on 12 September in order to maintain the orderly functioning of the securities market and to provide investors with sufficient time to fully assess the situation. As at 28 September, the KLSE CI ended at

615.34 points (-10.5% since end-August). Market capitalisation was lower at RM411.35 billion (-11.8% since end-August), while the daily average turnover was lower at 297.3 million units (311.8 million units in August). The decline in the KLSE during September, however, was less severe compared with the decline in Taiwan, Singapore, Thailand and Hong Kong markets.



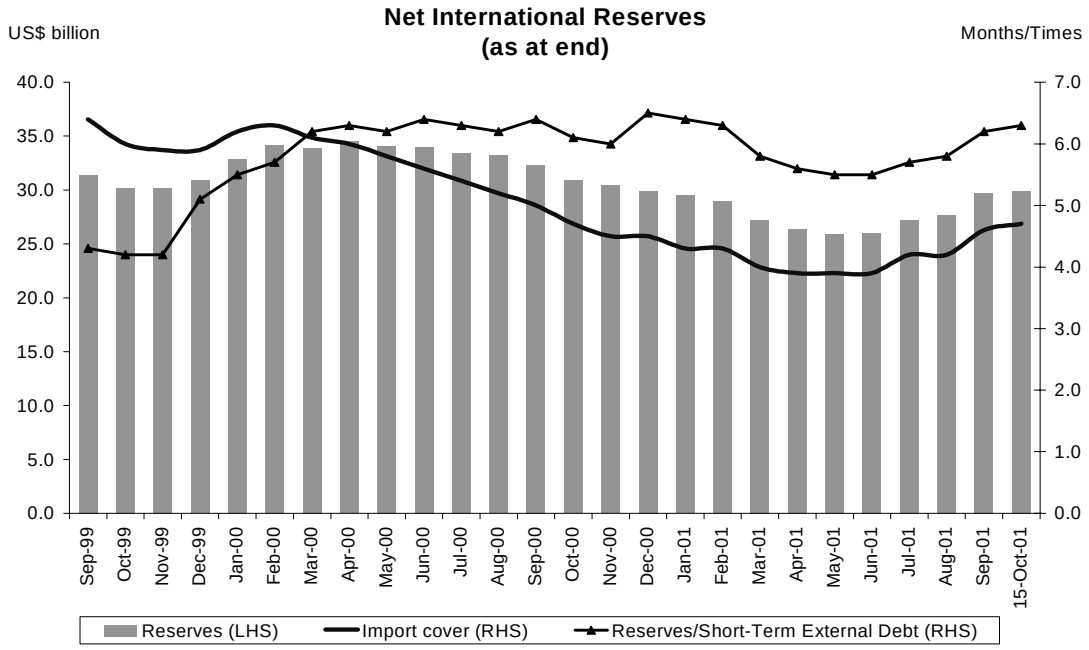
KLSE CI remained weak since the attack on the US

The KLSE remained weak in the first three weeks of October on concerns over economic uncertainties. As at 23 October, the KLSE CI closed at 613.62 points (-0.3% since end-September). Market capitalisation was slightly lower at RM410.63 billion (-0.2% since end-September), while the daily average turnover was 169.6 million units (297.3 million units in September).

International reserves

The **net international reserves of BNM** increased to RM112.9 billion (US$29.7 billion) as at end-September, compared with RM105.3 billion (US$27.7 billion) as at end-August. The reserves level increased further to RM113.6 billion or US$29.9 billion as at 15 October, about the level prevailing at end-2000. This level of reserves is adequate to cover 6.3 times the short-term external debt and finance 4.7 months of retained imports. The increase in reserves reflected significant inflows from both trade and foreign direct investment which more than offset the payment for services and repayment of external loans. During this period, inflows of portfolio funds were offset by outflows of a similar amount. The diversified currency composition of the international reserves of BNM contributed to a revaluation gain of US$0.8 billion following the quarterly revaluation undertaken at end-

September. This unrealised gain has partially offset the unrealised revaluation loss of US$1.2 billion recorded in the first-half year.



Banking system remains strong

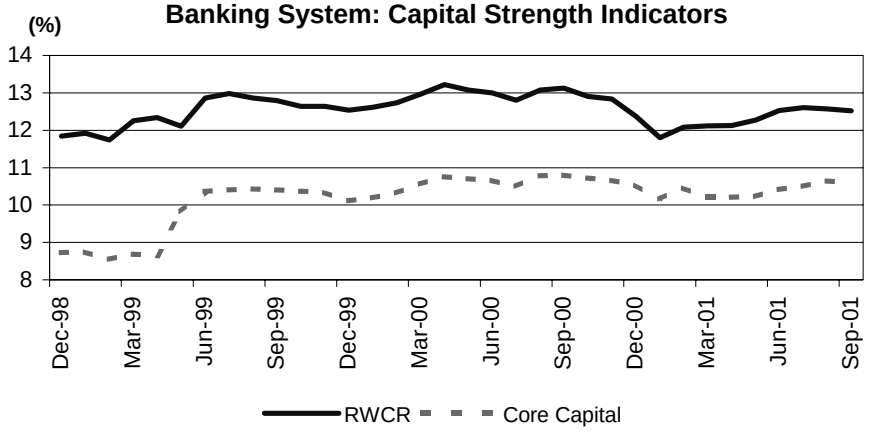
The banking system continued to maintain its strong capital position as at end-September despite a higher amount of risk-weighted assets brought about by an expansion in loans extended. The risk-weighted capital ratio (RWCR) of the banking system stood at 12.5% while the core capital ratio was maintained at the previous level of 10.6%.

The 6-month net NPL as at end-September reduced by 1.7% or RM0.6 billion which resulted in the reduction of net NPL ratio by 20 basis points to 8.1%. The reduction was due to a lower increase in gross NPL of RM0.8 billion, mainly as a result of a higher amount of recoveries, reclassification of NPL as performing and higher amount of loan loss provisions made during the month.

Banking System Health Indicators								
	1998	1999		2000		2001		
	Dec.	Jun.	Dec.	Jun.	Dec.	Jul.	Aug.	Sep.
Capital								
Core-capital ratio (%)	8.7	10.4	10.1	10.7	10.5	10.5	10.6	10.6
RWCR (%)	11.8	12.9	12.5	13.0	12.4	12.6	12.6	12.5
Net NPL (6-month classification)								
Banking system (%)	8.1	7.9	6.4	6.5	6.3	8.1	8.3	8.1
Banking system (RM million)	31,675	29,889	23,849	24,736	24,700	32,782	33,372	32,789
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9

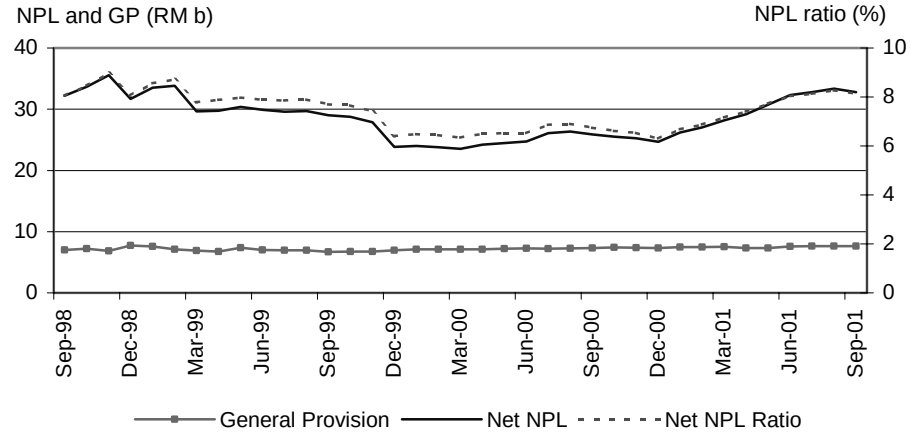
** Beginning June 1999 onwards, the figures include Islamic banks*

Banking System: Capital Strength Indicators



….RWCR remained strong at 12.5%

Banking System: Net NPL and General Provisions



….Net NPL declined to 8.1%

The loan portfolio (loan rights acquired) managed by Danaharta amounted to RM48 billion as at 30 June 2001, of which recovery actions on RM39.1 billion or 81% of the total portfolio have been initiated by Danaharta. Danaharta expects to resolve a significant portion of the RM8.9 billion unresolved NPLs by the end of 2001. Danaharta's NPL portfolio accounts for approximately 39.4% of the total NPLs of the banking system. As at 30 June 2001, Danaharta has distributed a total of RM6.5 billion (on cumulative basis) of surplus recovery from the loans acquired.

Capital injection by Danamodal remained at RM3.7 billion at end-September 2001. There was a total of 26 cases with total debts of RM28.2 billion outstanding with the Corporate Debt Restructuring Committee (CDRC) as at end-September 2001. Included in this total were 6 previously resolved cases, which are currently being revised, and 6 cases being restructured by Danaharta with debts totalling RM1.6 billion.

Statistics of CDRC cases as at 30 September 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 **	*22,991*	*21*
*pending implementation ****	*5,170*	*15*
Outstanding	**28,222**	**26**
Revised	*2,609*	*6*
Transferred to 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
29 October 2001

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Key Monetary and Banking Statistics

	August		September	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	39.6	4.8	39.4	3.9
M1	75.2	8.4	76.6	11.6
M2	352.9	3.9	355.9	5.0
M3	459.7	4.5	464.7	5.4
Banking System				
Total deposits	473.2	3.5	477.2	4.0
Total loans (including loans sold to Cagamas and Danaharta)	468.4	5.6	470.2	5.7
Total loans (excluding loans sold to Cagamas and Danaharta)	409.8	6.0	413.0	6.5
Loan-deposit ratio (%)	86.6		86.5	
Loans approved during the month	13.0		10.1	
Loans disbursed during the month	31.9		30.7	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	12.6		12.5	
Net NPLs: 6-month classification (%)	8.3		8.1	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	105.3		112.9	
Reserves in USD (billion)	27.7		29.7	
Months of retained imports	4.4		4.7	
Interest Rates (average rates at end-period)				
Interbank: 1-month	2.83		2.81	
3-month	3.28		3.28	
Fixed deposits of commercial banks: 1-month	3.42		3.20	
3-month	3.44		3.21	
BLR of commercial banks	6.79		6.39	
Prices				
Consumer price Index (CPI) (2000=100)	101.2	1.3	101.3	1.4
Producer price Index (PPI) (1989=100)	128.0	-3.0	-	-
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.4498		3.4761	
Pound Sterling	5.5068		5.5938	
Singapore dollar	2.1693		2.1527	
100 Japanese yen	3.1660		3.1867	
100 Thai Baht	8.5663		8.5518	
100 Philippine Peso	7.4190		7.4006	
100 Indonesian Rupiah	0.0417		0.0393	
100 Korean Won	0.2959		0.2902	
Capital Market				
Funds raised by: public sector (RM billion)	…		5.2	
private sector (RM billion)	1.5		2.8	
Kuala Lumpur Composite Index (end-period)	687.16		615.34	
KLSE Market Capitalisation (RMb) (end-period)	466.11		411.35	