PEN: 06/2001/64

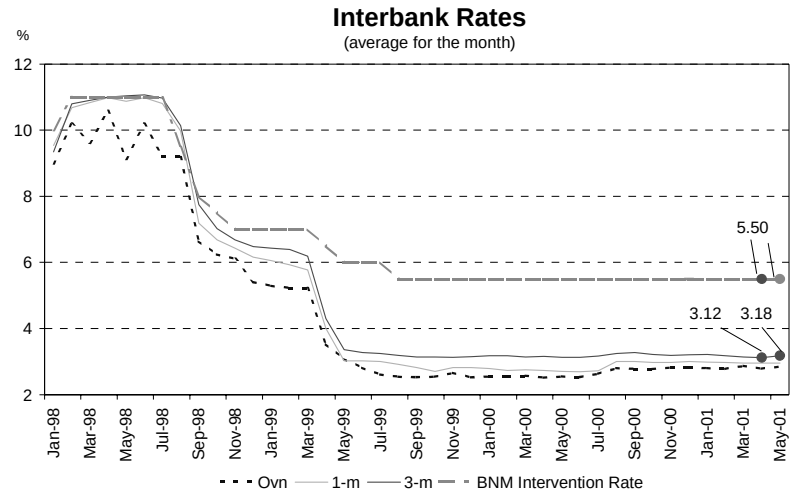
EMBARGO: Not for publication or broadcast before 2000 hours on Thursday, 28 June 2001

PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS May 2001

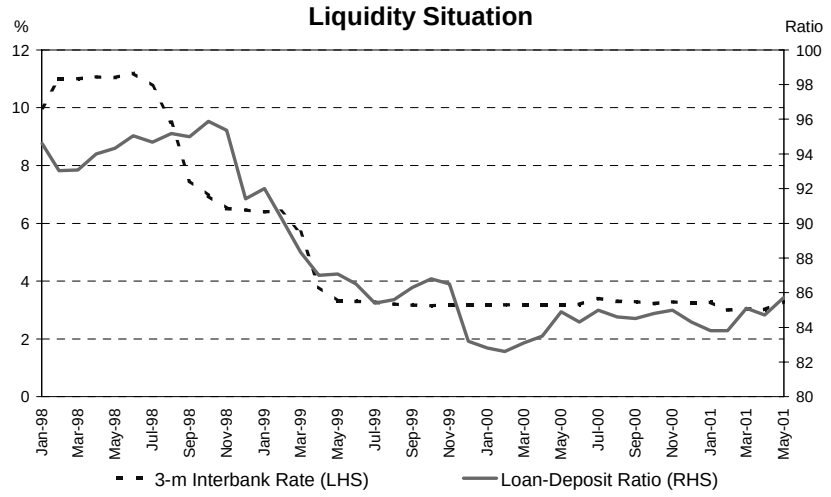
In May, money supply moderated partly reflecting higher placements of Government deposits with BNM following higher tax payments by corporations. The drawdown of these balances by the Government in the coming months to finance its expenditure will cause money supply to revert to its trend line. The liquidity operations of BNM was expansionary during the month to offset the higher placement of funds at BNM by the Government. Hence, liquidity remained ample and interest rates were stable at low levels amid a low inflation environment. Amid conducive monetary and financial conditions, there was a significant increase in loans during the month.

Interbank rates remained relatively stable

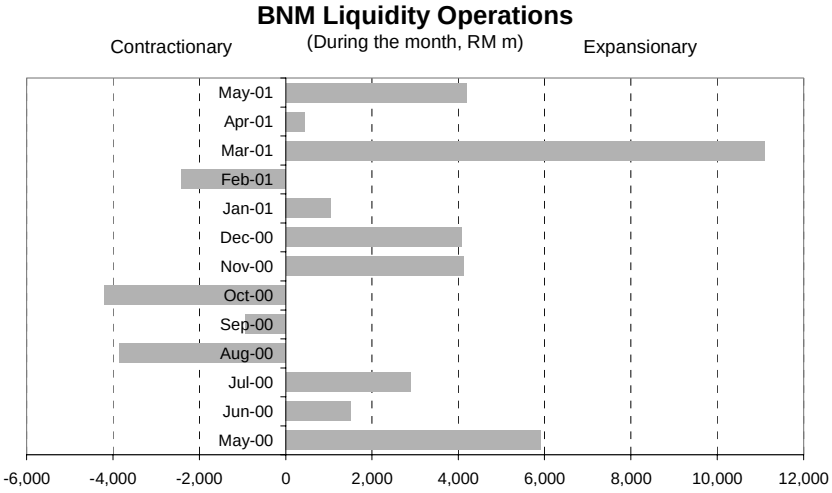
Interest rates in the **interbank money market** remained relatively stable in May amidst an environment of ample liquidity. BNM operations were expansionary so as to offset the contractionary impact due to Government and external operations.



In May, average interbank rates remained relatively stable

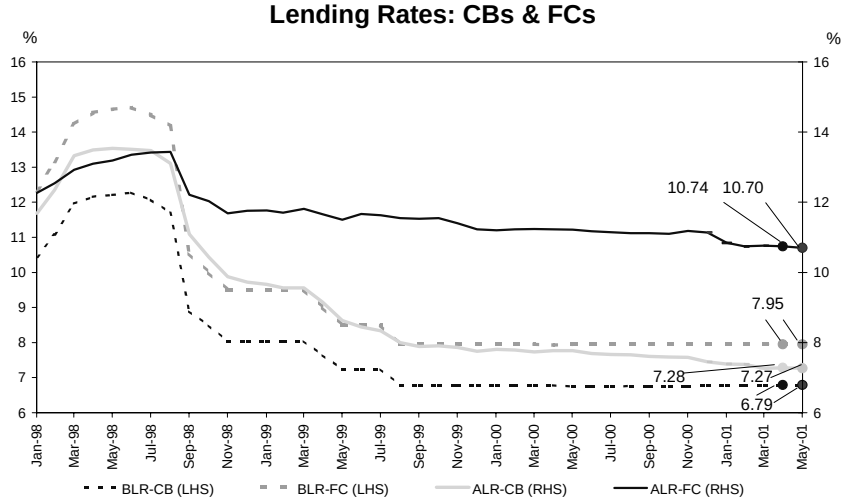


Stable liquidity conditions following expansionary BNM operations



Expansionary BNM operations aimed at achieving stable liquidity conditions and to offset placement of funds at BNM by Government

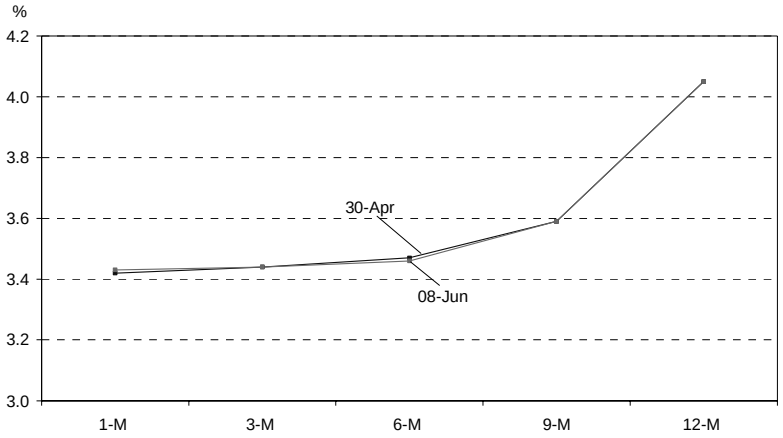
The average **base lending rates** (BLRs) of commercial banks (CBs) and finance companies (FCs) remained unchanged at 6.79% and 7.95% respectively. Meanwhile, the average lending rates (ALRs) of CBs and FCs were relatively stable at 7.27% and 10.70% respectively (7.28% and 10.74% respectively at end-April).



BLRs of CBs and FCs remained unchanged, while ALRs were relatively stable.

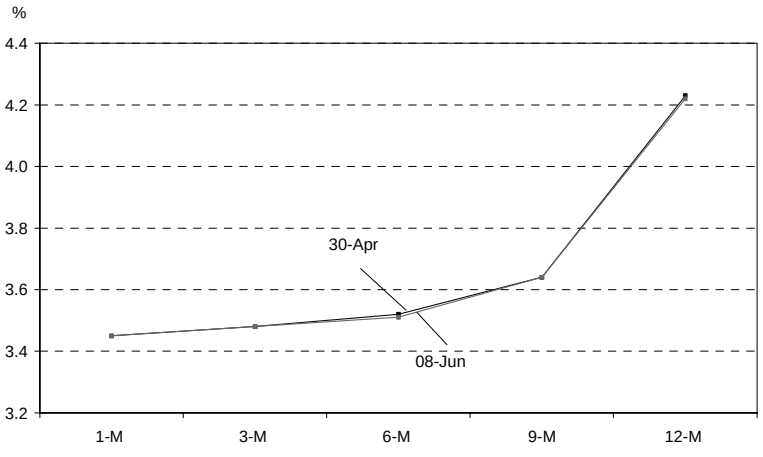
The average **fixed deposit (FD) rates** of CBs and FCs as at 8 June, remained stable compared with levels at end-April. The average range for 1-month to 12-month FD rates of CBs and FCs stood at 3.43-4.05% and 3.45-4.22% respectively (3.42-4.05% and 3.45-4.23% respectively at end-April). CBs' interest margin remained unchanged at 4.25% at end-May, while that of FCs stabilised at 6.65% (6.66% at end-April).

Term Structure of FD Rates: Commercial Banks



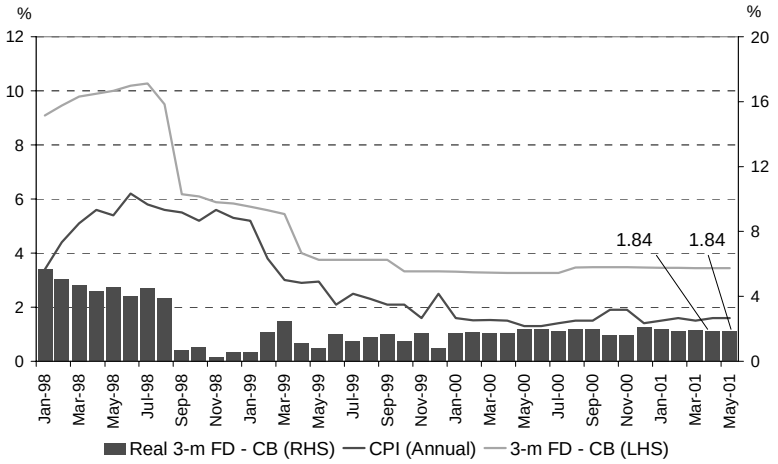
FD rates offered by CBs remained stable

Term Structure of FD Rates: Finance Companies



Similarly, FD rates offered by FCs were also relatively stable

Real Interest Rates

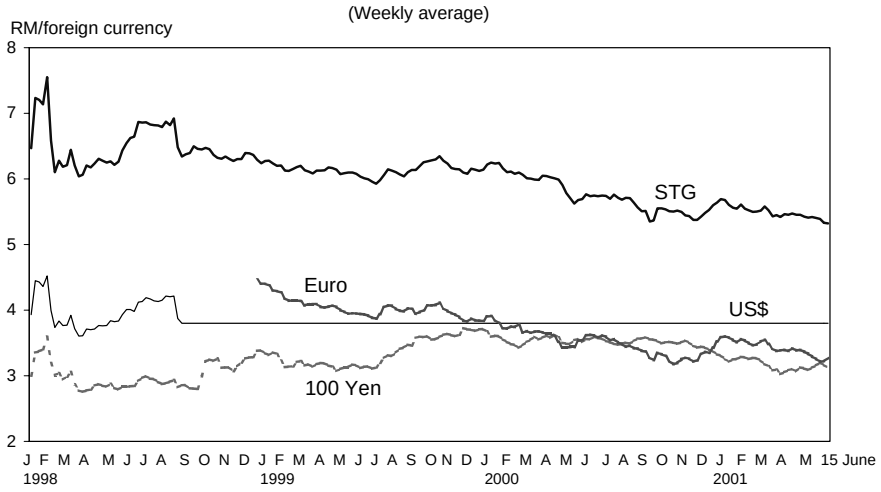


Real FD rates remained unchanged in May

Ringgit recorded a mixed performance against major currencies in May while depreciating against most regional currencies

In May, **the ringgit recorded a mixed performance against major currencies.** The ringgit depreciated against the yen by 3.3%, while appreciating against the euro and the pound sterling by 4.1% and 0.6% respectively, in tandem with the movements of the US dollar in the international foreign exchange markets. The euro hit a six-month low against the US dollar following strong inflation data from Germany and signs of slowing euro zone growth. The yen appreciated in the early half of the month following the market's optimism over the proposed economic reforms by the new administration. In the latter half of the month, the yen continued to appreciate to a three-month high following the repatriation of funds from the Euro region by Japanese investors.

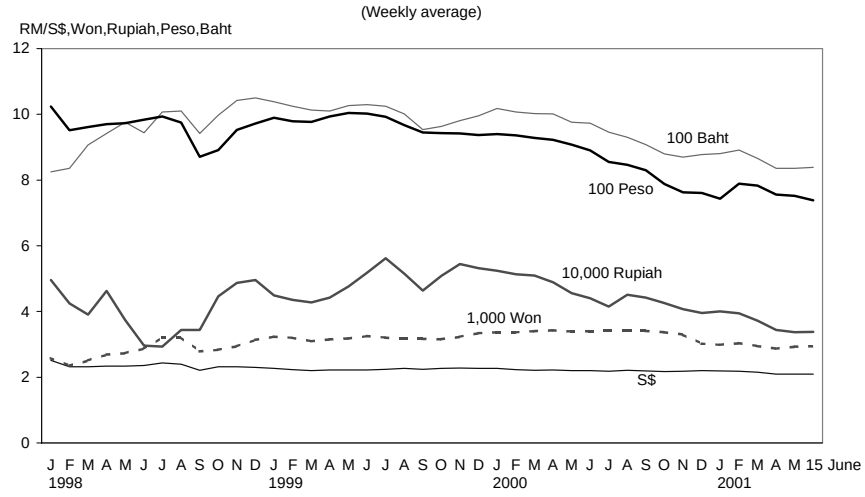
Performance of Ringgit against Major Currencies



The ringgit recorded a mixed performance against major currencies in May

The ringgit depreciated against most regional currencies in the range of 0.6% to 6.0% during this period. The Philippine peso appreciated during this period following the easing of domestic political tensions. Meanwhile, the Singapore dollar appreciated by 0.6%. The New Taiwan dollar depreciated during the month following the release of a report that showed a slowdown in economic growth during the first quarter.

Performance of Ringgit against Regional Currencies



The ringgit depreciated against most regional currencies in May

During the period **1-15 June, the ringgit again recorded a mixed performance against the major currencies.** The ringgit appreciated against the yen and pound sterling by 1.5% and 1.8% respectively, while depreciating against the euro by 0.8%. The Japanese yen depreciated against the US dollar in the second week of June following the release of data which showed a contraction of the Japanese economy in the first quarter. Meanwhile, **the ringgit appreciated against all regional currencies in the range of 0.3% to 2% during this period.** The Philippine peso depreciated due to domestic developments, while concern over rising political tensions led to a decline in the Indonesian rupiah.

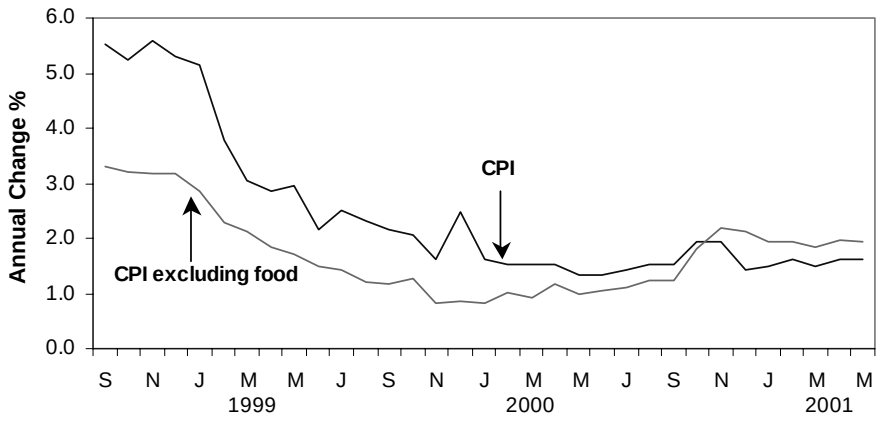
Performance of Ringgit against Selected Currencies

RM per foreign currency	End-June 1997	2 September 1998	15 June 2001	% change as at 15 June 2001		
				Since end-June 1997	Since 2 Sept. 1998	Since end-May 2001
US dollar	2.5235	3.8000	3.8000	-33.6	0.0	0.0
Euro	-	-	3.2766	-	-	-0.8
Pound Sterling	4.1989	6.3708	5.3238	-21.1	19.7	1.8
100 Japanese yen	2.2088	2.7742	3.1242	-29.3	-11.2	1.5
Singapore dollar	1.7647	2.1998	2.0950	-15.8	5.0	0.3
100 Thai baht	9.7470	9.3713	8.3857	16.2	11.8	0.0
100 Philippine peso	9.5878	8.8302	7.3815	29.9	19.6	2.0
100 Indonesian Rupiah	0.1038	0.0354	0.0338	207.1	4.7	1.4
100 Korean won	0.2842	0.2827	0.2941	-3.4	-3.9	0.2

Inflation remained low and stable

In May, **inflation** continued to remain low. The inflation rate, measured in terms of the **Consumer Price Index (CPI),** increased marginally by 0.1% month-on-month, while on an annual basis, the increase in the CPI remained unchanged at 1.6%. Excluding food, the increase in the adjusted CPI moderated slightly to 1.9%, from 2.0% in April. The increase in the CPI was due primarily to higher prices for food; as well as gross rent, fuel and power. This was partly offset by price declines for clothing and footwear as well as recreation, entertainment, education and cultural services. Prices for beverages and tobacco; furniture, furnishings and household equipment and operation; and transport and communication remained stable.

Consumer Price Index

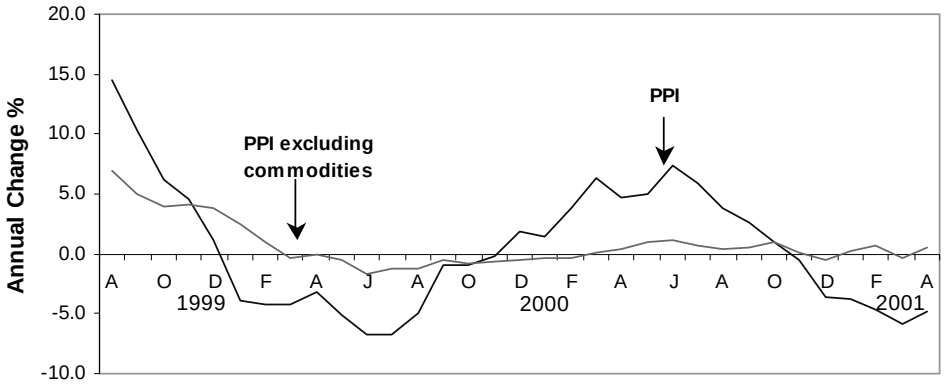


Inflation was at a low level

Producer prices continued to decline

The **Producer Price Index (PPI)**, which measures the average rate of change in prices of goods charged by domestic producers and paid by importers, has been declining since October 2000. On an annual basis, the PPI declined by 4.8% in April (-5.9% in March). The decline was on account of lower prices charged by domestic producers (–5.9%), as prices paid by importers remained stable. The most significant reductions were recorded for prices for animal and vegetable oil and fats; inedible crude materials except fuels; and machinery and transport equipment. Excluding commodities, the adjusted PPI in April, however, showed a marginal increase of 0.5% (-0.3% in March).

Producer Price Index



Producer prices continued to decline

Money supply moderated partly due to a build-up in Government deposits

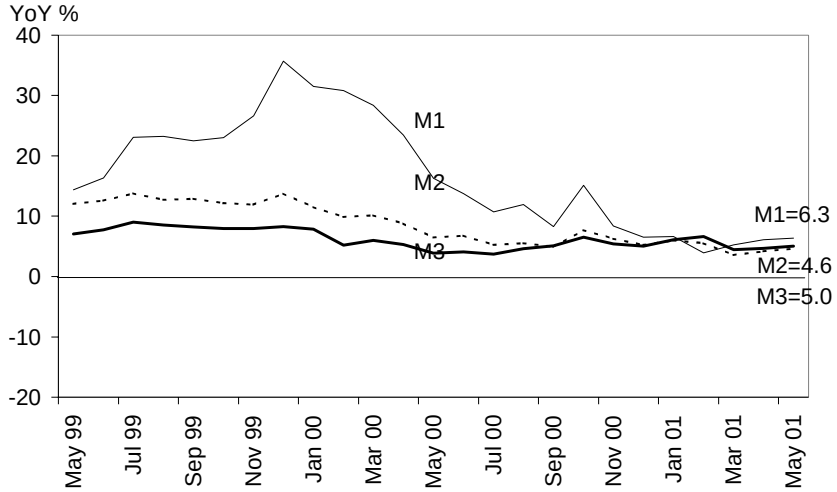
On a month-on-month basis, **broad money**, M3 declined by RM2 billion or 0.4% in May. However, on an annual basis, all three monetary aggregates edged upwards with M1 and M3 growing by 6.3% and 5% respectively at the end of the month.

The moderation in M3 was due mainly to specific factors during the month. These included lower net claims on the Government due to the build-up in deposits with BNM arising mainly from the significant increase in revenue collection. The higher revenue was attributable to the sharp increase in income tax collection during the month, particularly petroleum income tax. In addition, there was a net reduction in the holdings of Malaysian Government Securities (MGS) by the banking institutions as the Government redeemed MGS amounting to RM1.3 billion during the month. The Government operations are likely to exert an expansionary impact in the coming months as deposits are drawn down to finance

spending. Meanwhile, the placement of deposits by a non-bank financial institution (NBFI) with BNM also contributed to the moderation in money supply.

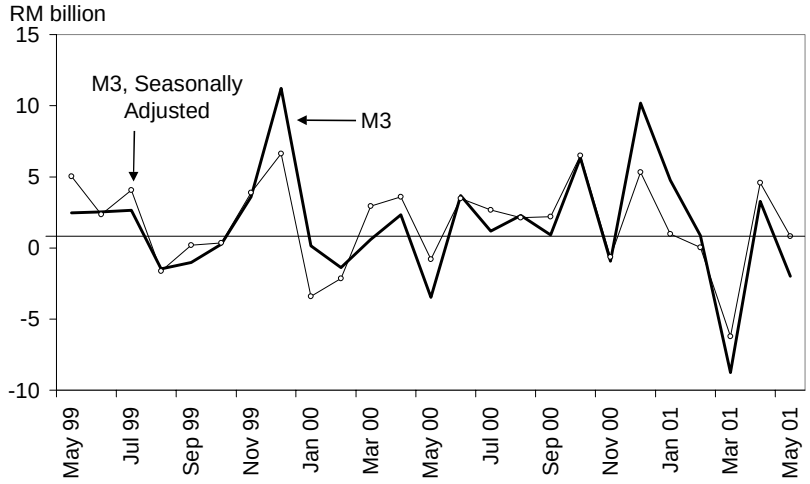
The above specific factors and the decline in external operations were, nevertheless, partly offset by the higher claims on the private sector. The latter reflected mainly the substantially higher loans extended by the banking institutions to the private sector.

Monetary Aggregates: Annual Growth



On an annual basis, all monetary aggregates increased further in May . . .

M3: Monthly Change



... on a monthly basis, M3 declined as the higher claims on the private sector were more than offset by other contractionary factors

M3 Determinants

(RM billion)

	Change during period			
	2001			
	March	**April**	**May**	**Jan-May**
M3	-8.8	3.3	-2.0	-1.8
Claims on Government	-8.0	1.6	-1.5	3.2
Claims on private sector	-1.6	1.6	2.5	3.4
External operations[1/]	-1.7	1.9	-1.0	1.4
Other influences	2.5	-1.8	-2.0	-9.9

1/ pre-revaluation

Banking system deposits stabilised while loans increased significantly

On a month-on-month basis, **total deposits** virtually stagnated, declining slightly by 0.04% or RM176 million due mainly to lower deposits of business enterprises and statutory authorities, while deposits placed by other holders were higher. The lower deposits of business enterprises reflected partly seasonal withdrawals for the payment of income tax, as evident by the significantly higher income tax collection by the Government during the month. Meanwhile, the statutory authorities recorded net withdrawals because of higher expenditure in May, especially for education. On an annual basis, total deposits mobilised by the banking system increased further by 4.9% as at end-May 2001.

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

	2001		
	Mar.	**Apr.**	**May.**
Holder			
Federal Government	148	-113	195
State Governments	-157	-265	31
Statutory Authorities[1/]	-560	477	-744
Financial Institutions	-4,220	1,836	263
Business Enterprises	-2,754	1,696	-1,004
Individuals	-583	84	784
Others	-15	104	298
Total	**-8,140**	**3,819**	**-176**

[1/] Include local Governments.

Net withdrawals by business enterprises and statutory authorities more than offset higher deposits by other holders

By type, the main source of decline was repos with the non-roll over of contracts by business enterprises. SPI deposits were also lower due to net withdrawals by non-bank financial institutions. On the other hand, foreign currency deposits and NIDs were higher, reflecting mainly higher placements by business enterprises.

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

	2001		
	Mar.	**Apr.**	**May.**
Type			
Fixed deposits	-4,010	1,978	-186
NIDs issued	266	134	986
Demand deposits	-2,090	-352	422
Savings deposits	54	150	-238
Repos	-2,215	347	-1,896
FX deposits	-1,404	715	1,186
SPI deposits	1,274	744	-748
Others	-15	104	298
Total	**-8,140**	**3,819**	**-176**

Lower deposits were attributable to declines in repos and SPI deposits

Total **loans outstanding** extended by the banking system rose markedly by RM5 billion in May, the largest increase since December 2000. The increase in loans was broad based, with the bulk of the increase being channelled to the manufacturing sector, for the purchase of residential property, construction activities and the purchase of passenger cars. On an annual basis, loans outstanding rose by 6% as at end-May.

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

	2001		
	Monthly change		As at end
	Apr.	May	May
Agriculture, hunting, forestry and fishing	-151	93	12,191
Mining and quarrying	102	-46	1,614
Manufacturing	878	1,358	70,328
Electricity, gas and water supply	-386	222	7,103
Wholesale and retail trade, restaurants and hotels	-27	207	37,959
Broad property sector	965	1,903	168,819
of which:			
Purchase of residential property	*1,168*	*1,200*	*79,054*
Transport, storage and communication	42	-25	13,771
Finance, insurance and business services	446	18	34,285
Consumption	497	644	62,721
of which:			
Passenger cars	*459*	*422*	*40,348*
Credit cards	*81*	*172*	*7,663*
Purchase of securities	-707	-51	32,054
Others	333	703	21,506
Total Loans[1/]	**1,993**	**5,025**	**462,350**

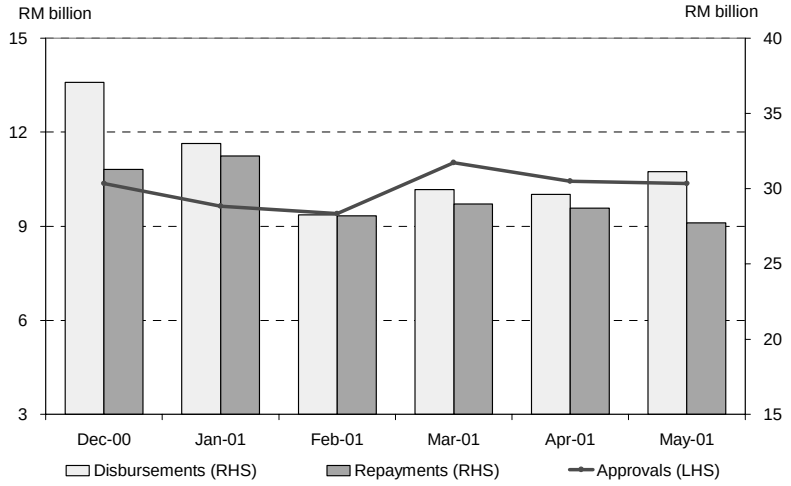
[1/] Including loans sold to Danaharta and Cagamas (inclusive of property loans and hire purchase receivables).

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

Loans outstanding recorded the largest increase since December 2000

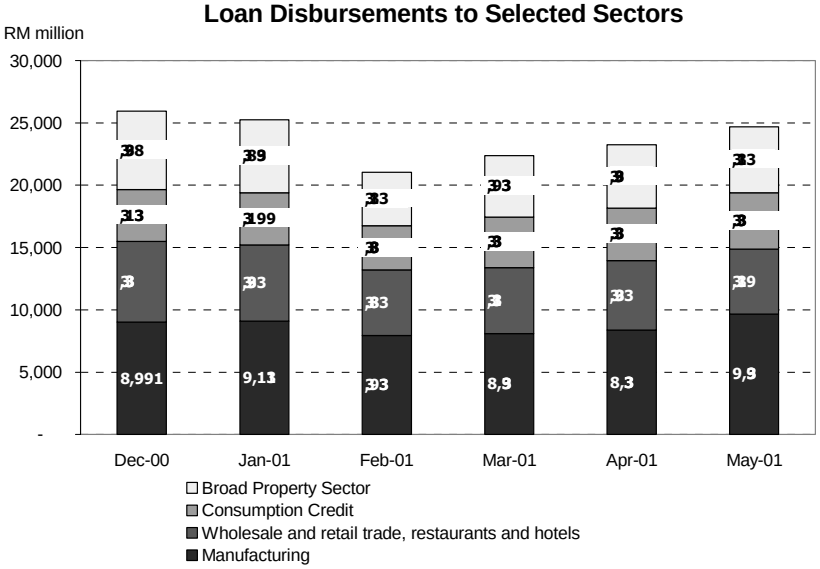
Loan approvals remained stable at RM10.4 billion in May. The approvals were granted largely for the purchase of residential property (RM2.5 billion), purchase of passenger cars (RM1.7 billion) and for manufacturing activities (RM1.2 billion). Meanwhile, after moderating in April, **loan disbursements** picked up in May, amounting to RM31.1 billion. The disbursements were channelled mainly to the manufacturing sector, wholesale trade, for the purchase of residential property, construction activities and for the purchase of passenger cars.

Loan Approvals, Disbursements and Repayments



Loan disbursements picked up in May . . .

Loan Disbursements to Selected Sectors

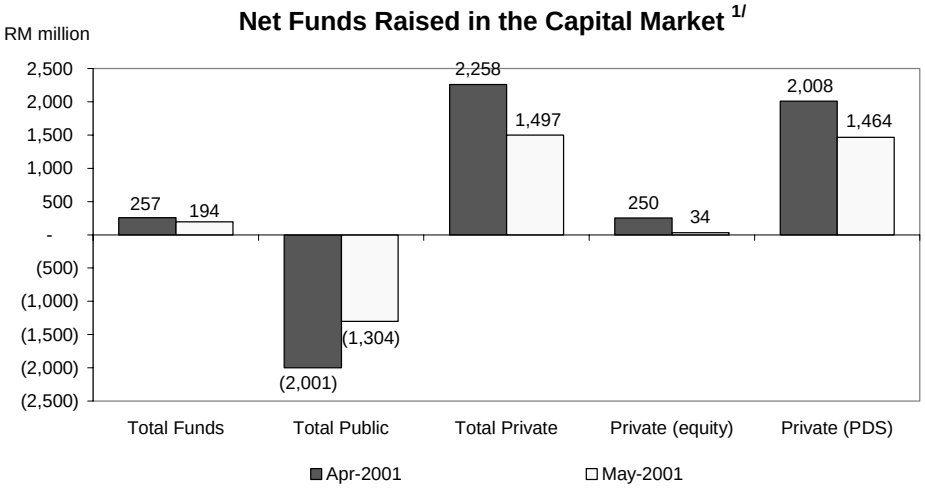


. . . and were channelled mainly to the manufacturing sector, wholesale trade and for the purchase of residential property

Lower net funds raised in the capital market

High redemption of MGS and Cagamas Bonds in May resulted in lower **net funds** of RM194 million raised in the **capital market**. Nevertheless, there continued to be positive net issues of private debt securities during the month. New funds raised through the equity market were lower due to the weak market performance.

Net Funds Raised in the Capital Market [1/]

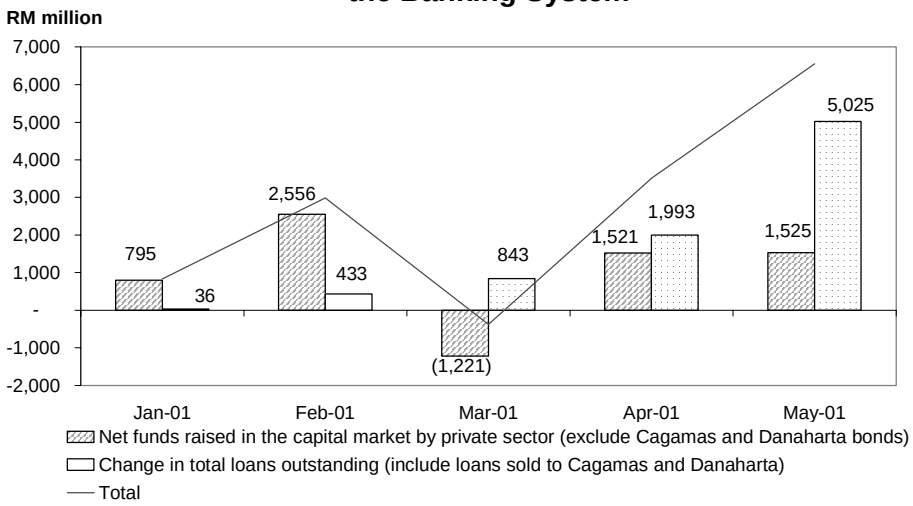


1/ Net funds raised in the capital market by private sector (include Cagamas and Danaharta bonds)

Net funds raised in the capital market were lower in May

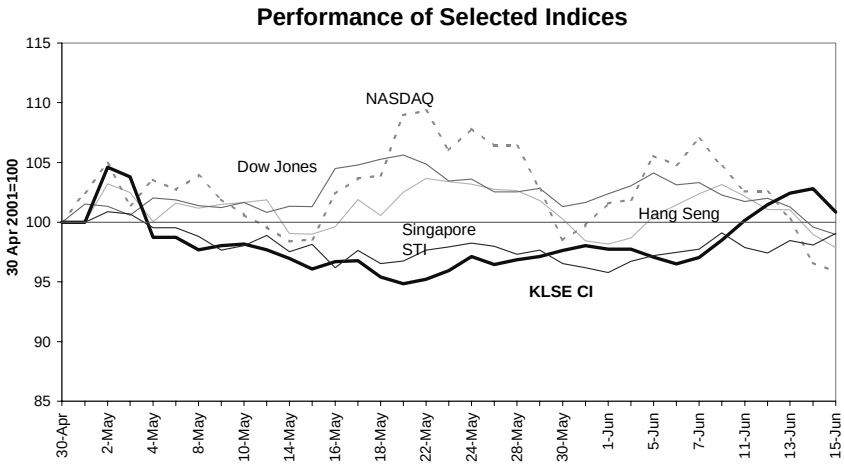
In May, total private sector domestic financing from both the capital market and the banking system increased significantly by RM6.6 billion. In particular, total loans outstanding (including loans sold to Cagamas and Danaharta) were higher amounting to RM5 billion compared to RM2 billion in April.

Private Sector Financing by the Capital Market and the Banking System



Total financing from both the banking system and capital market increased sharply in May

The KLSE CI improved slightly in early May following the abolishment of the 10% exit levy on portfolio profit repatriated within one year. However, due to the lack of fresh leads, the encouraging trend was not sustained. The impact on the KLSE after the MSCI's announcement of the new weightage on 19 May was minimal with the KLSE CI declining by 3.3 points on 21 May. As at 31 May, the KLSE CI closed at 572.88 points (-2.0% since end-April) and market capitalisation stood at RM395.08 billion (+0.1% since end-April). Nevertheless, the daily average turnover was higher at 132.3 million units (102 million units in April).

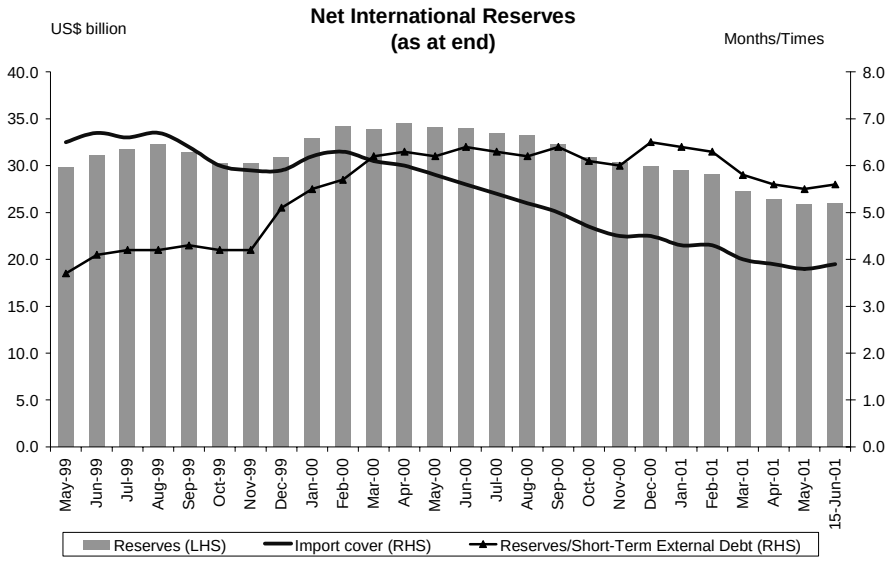


KLSE CI trended lower

Thus far in June, the KLSE CI improved with local buying interests. As at 19 June, the KLSE CI closed at 589.93 points (+3% since end-May). Market capitalisation was higher at RM402.94 billion (+2% since end-May) while daily average turnover rising to 144.6 million units (132.3 million units in May).

International Reserves

The **net international reserves of BNM** amounted to RM98.5 billion (US$25.9 billion) as at end-May 2001 compared with RM100.4 billion (US$26.4 billion) as at end-April 2001. As at 15 June 2001, the net international reserves of BNM stood at RM98.9 billion or US$26 billion. This level of reserves is adequate to cover 5.6 times the short-term external debt and to finance 3.9 months of retained import. Following the narrowing of interest rate differentials, forward purchases for payments of goods and services and loan repayments have tapered off. Since mid-April, the reserves level has stabilised in the region of US$26 billion.



Banking system remains strong

The capital position of the banking system strengthened in May 2001 with a higher risk-weighted capital ratio of 12.3% compared with 12.1% as at end April. The capital base of banking institutions was higher following the completion of capital raising exercises by two banking institutions. The core capital ratio remained at 10.2%.

The net NPL ratio based on the 6-month classification edged up slightly to 7.4%. The newly classified loans were mainly from the construction and the real estate sectors as well as from investment holding operations. Further, the reclassification into NPL of loans which indulgence expired also contributed to the increase in NPL. As at 30 April 2001, another RM2.3 billion worth of loans granted indulgence from NPL classification have yet to be classified as NPL. Although these loans were granted indulgence from being classified as NPL, banking institutions are required to recognise interest income on these loans on a cash basis, a treatment that is similar to the one stipulated for an NPL account.

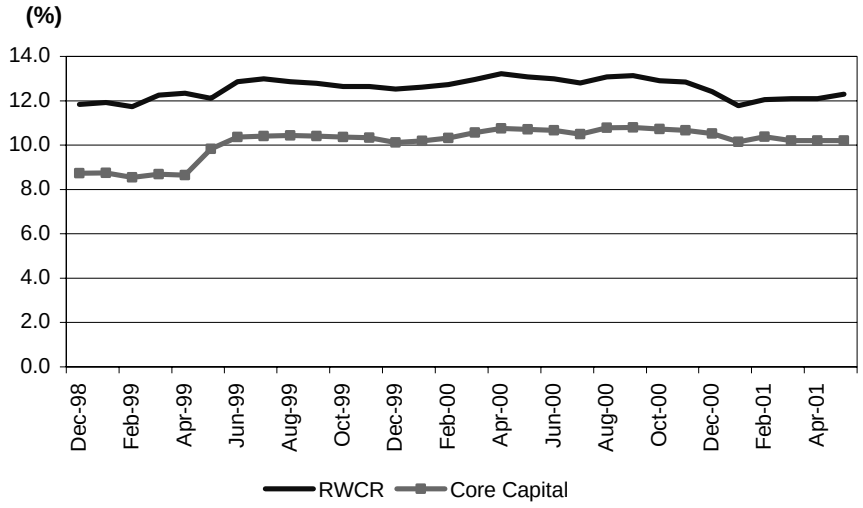
Banking System Health Indicators

	1998	1999		2000			2001	
	Dec.	Jun.	Dec.	Jun.	Dec.	Mar.	Apr.	May
Capital								
Core-capital ratio (%)	8.7	10.4	10.1	10.7	10.5	10.2	10.2	10.2
RWCR (%)	11.8	12.9	12.5	13.0	12.4	12.1	12.1	12.3
Net NPL (6-month classification)								
Banking system (%)	8.1	7.9	6.4	6.5	6.3	7.2	7.4	n.a.
Banking system (RM million)	31,675	29,889	23,849	24,736	24,605	28,270	29,203	n.a.
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.9	1.9	1.9	n.a.

n.a. Not available

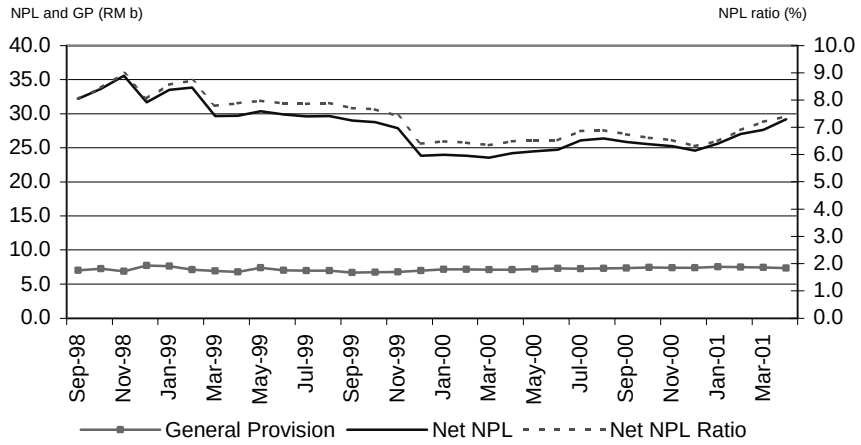
** Beginning June 1999 onwards, the figures include Islamic banks*

Capital Strength Indicators



RWCR improved to 12.3%

Banking System: Net NPL and General Provisions



. . . Net NPL ratio increased to 7.4%

Danaharta has continued to actively manage the NPLs within its portfolio. Methods employed in the loan recovery process include loan restructuring and asset restructuring (e.g. through foreclosure of collateral and appointment of Special Administrators to manage businesses and assets). As at end April 2001, Danaharta is managing loans valued at RM48 billion of which RM38.2 billion have been acquired from the banking system representing 41.5% of the total NPLs of the banking system.

On 5 June 2001, Danaharta launched its fifth property tender offering 278 properties with a total indicative value of RM841.75 million. Development land accounts for 60% (in value terms) of the total amount offered in this tender. The fifth tender closes on the 4 July 2001.

As at 31 May 2001, capital injection by Danamodal in three banking institutions remained at RM3.7 billion. The number of cases resolved by the CDRC also remained unchanged at 46 cases valued at RM30.3 billion from the 54 cases (valued at RM39.6 billion) eligible for restructuring. The number of outstanding cases stood at 8 cases with total loans of RM9.2 billion.

Bank Negara Malaysia
28 June 2001

Key Monetary and Banking Statistics

	April		May	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	38.9	5.3	38.4	3.6
M1	72.5	6.1	72.4	6.3
M2	352.2	4.2	350.7	4.6
M3	456.7	4.7	454.7	5.0
Banking System				
Total deposits	471.2	4.0	471.0	4.9
Total loans (including loans sold to Cagamas and Danaharta)	457.3	5.5	462.3	6.0
Total loans (excluding loans sold to Cagamas and Danaharta)	399.2	5.5	403.8	5.9
Loan-deposit ratio (%)	84.7		85.7	
Loans approved during the month	10.4		10.4	
Loans disbursed during the month	29.6		31.1	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	12.1		12.3	
Net NPLs: 6-month classification (%)	7.4		n.a.	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	100.4		98.5	
Reserves in USD (billion)	26.4		25.9	
Months of retained imports	3.9		3.8	
Interest Rates (average rates at end-period)				
Interbank: 1-month	2.98		3.00	
3-month	3.01		3.29	
Fixed deposits of commercial banks: 1-month	3.42		3.43	
3-month	3.44		3.44	
BLR of commercial banks	6.79		6.79	
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.3858		3.2515	
Pound Sterling	5.4511		5.4182	
Singapore dollar	2.0896		2.1017	
100 Japanese yen	3.0665		3.1709	
100 Thai Baht	8.3361		8.3839	
100 Philippine Peso	7.4081		7.5262	
100 Indonesian Rupiah	0.0322		0.0343	
100 Korean Won	0.2862		0.2948	
Capital Market				
Funds raised by: public sector (RM million)	-2,000.5		-1,303.6	
private sector (RM million)	2,257.6		1,497.2	
Kuala Lumpur Composite Index (end-period)	584.50		572.88	
KLSE Market Capitalisation (RMb) (end-period)	394.49		395.08	