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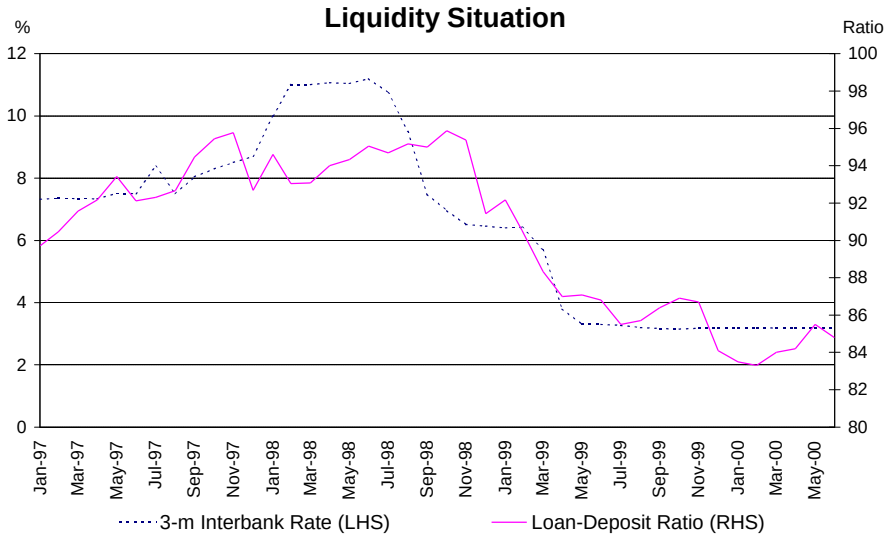
PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS JUNE 2000

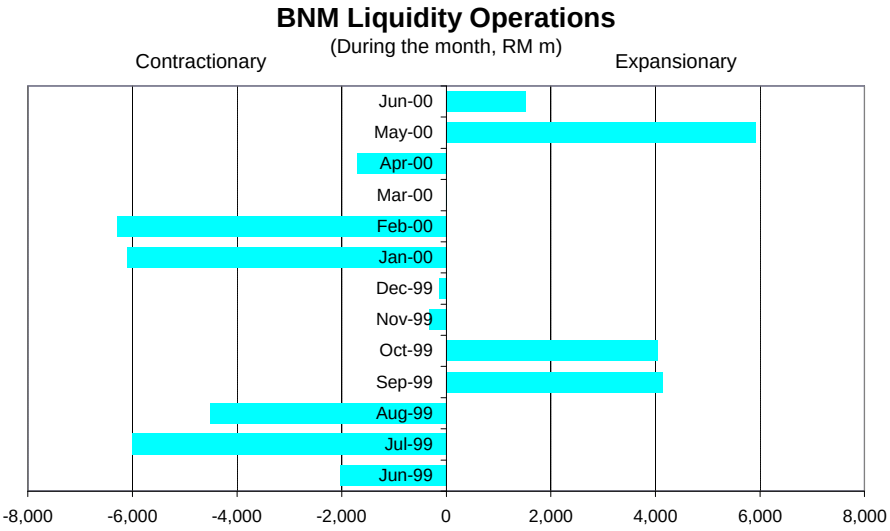
Conditions in the domestic financial markets remained stable in June. Most interest rates remained unchanged in June, although greater competition for loans resulted in slightly lower lending rates. The strong trade surplus as well as stronger loans growth resulted in the expansion of monetary aggregates. Inflation, however, remained low. Monetary policy therefore remained accommodative.

Stable interest rates and ample liquidity

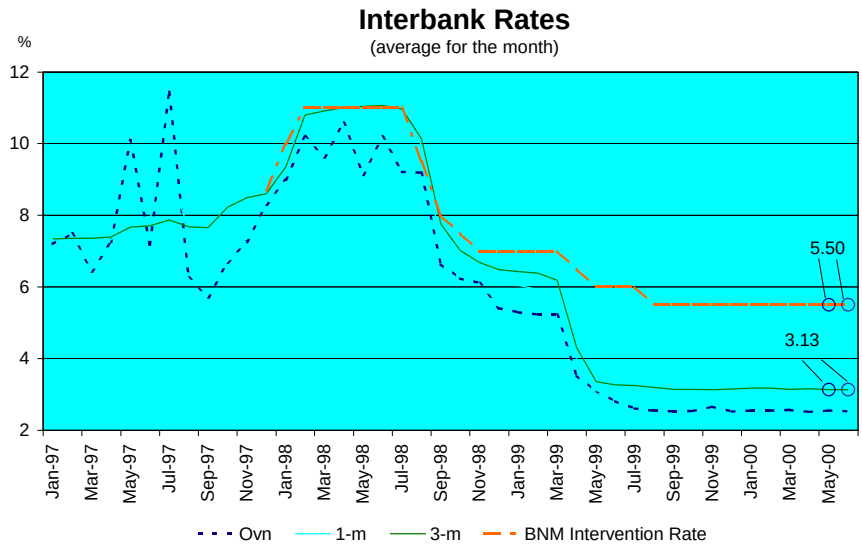
In the **interbank money market**, interbank rates remained stable in June and the first three weeks of July, amidst the ample liquidity situation.



Liquidity remained ample

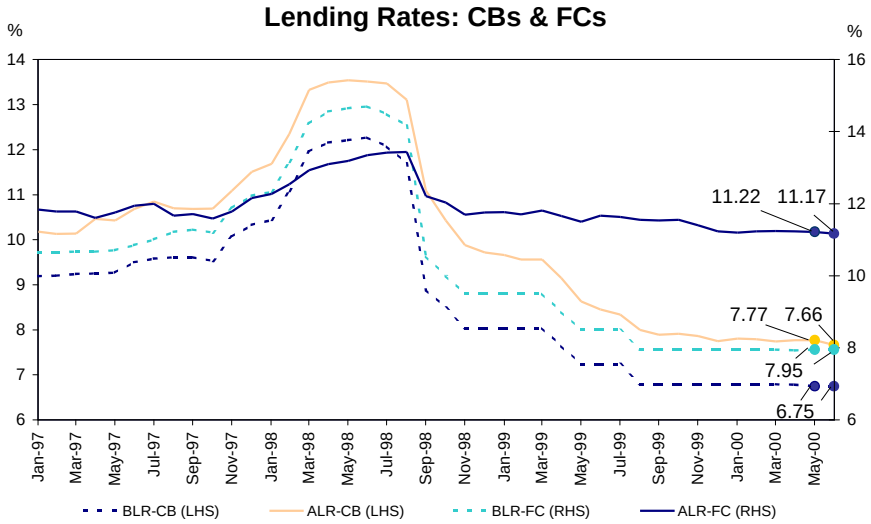


BNM's operations were aimed to achieve stable liquidity conditions



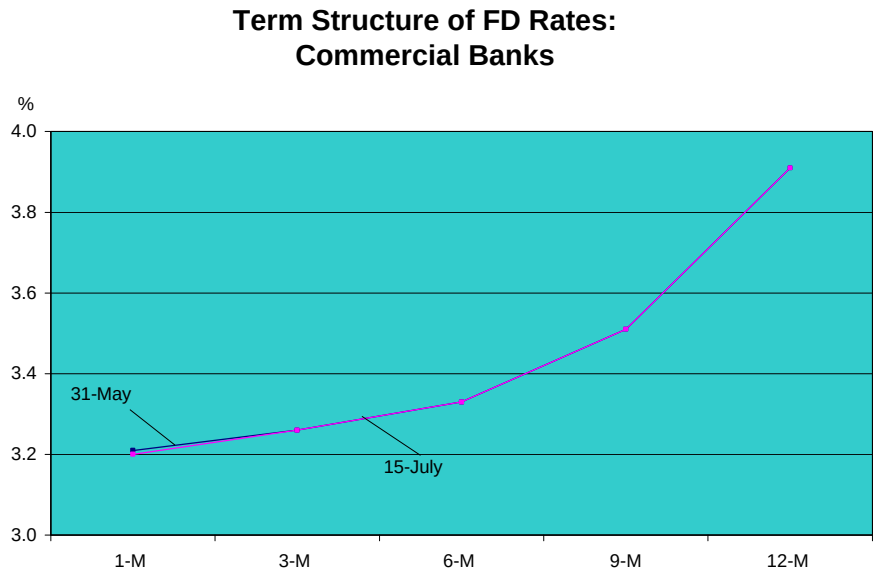
Interbank rates remained unchanged

The **base lending rates** (BLR) of commercial banks (CBs) and finance companies (FCs) remained unchanged at end-June. However, increased competition among banking institutions amidst an environment of ample liquidity saw their **average lending rates** (ALR) declining to 7.66% and 11.17% respectively at end-June.



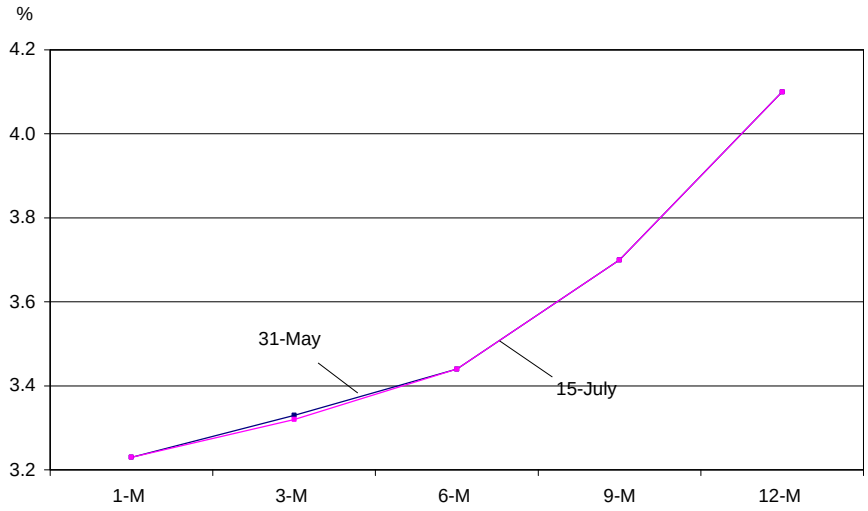
CBs & FCs: BLR remained unchanged, while ALR declined

In terms of **fixed deposits (FD) rates**, the ample liquidity situation also led to a marginal decline in the FD rates by one basis point at the shorter-end maturity. On the other hand, the **interest margins** of both CBs and FCs also narrowed during the month as their average lending rates declined faster than their average cost of funds. The interest margin of CBs and FCs stood at 4.53% and 7.11% respectively at end-June (4.63% and 7.14% respectively at end-May).



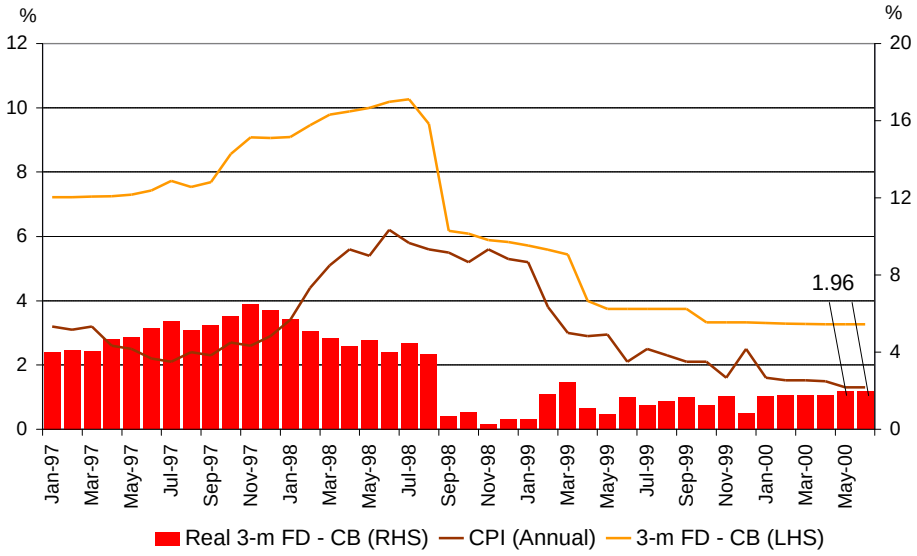
FD rates eased slightly at the 1-month tenure

Term Structure of FD Rates: Finance Companies



FD rates eased slightly at the 3-month tenure

Real Interest Rates



Real rates remained stable as both the FD rate and inflation rate remained unchanged

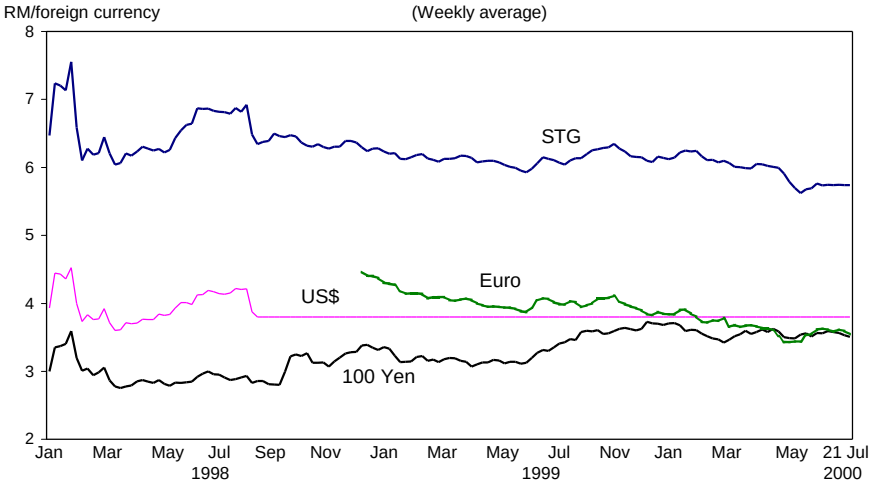
Ringgit depreciated against major currencies

In June, the **ringgit depreciated in the range of 0.8% to 2.2% against the major currencies** in tandem with the movements of the US dollar. The US dollar depreciated due to signs of slowing growth in the US and the decision by the Federal Reserve to leave interest rates unchanged.

Meanwhile, the **ringgit recorded a mixed performance against the regional currencies** in June. The ringgit appreciated against the Philippine peso (+1.4%) and the Indonesian rupiah (+1.4%) while depreciating against the Singapore dollar (-0.1%) and the Korean won (-1.3%). The Korean won continued to be supported by strong portfolio flows

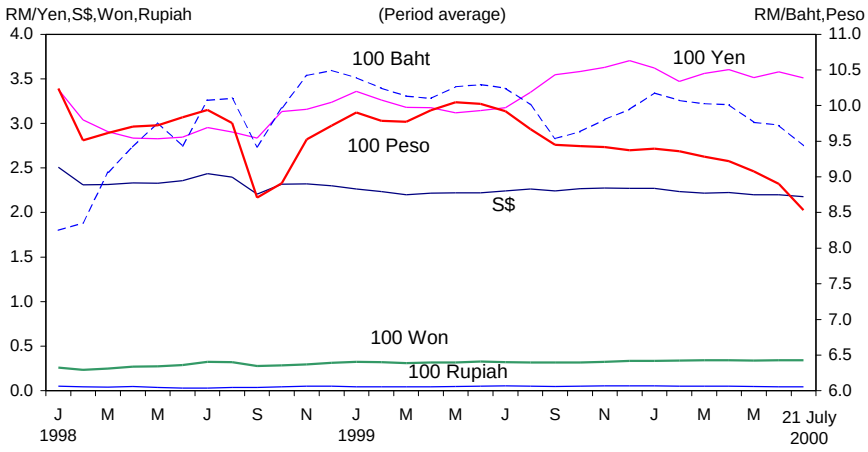
into Korea while the peso and the rupiah were affected by domestic and political developments.

Performance of Ringgit against Major Currencies



Ringgit depreciated against major currencies in June, but appreciated in the first three weeks of July

Performance of Ringgit against Regional Currencies



... mixed performance against regional currencies in June, but broadly an appreciation in the first three weeks of July

In the **first three weeks of July, the ringgit appreciated against the major currencies** in the range of 0.1% to 3.0% following the movements of the US dollar in the international foreign exchange markets. The **ringgit also appreciated against most regional currencies** in the range of 1.1% to 3.4%. The Indonesian rupiah depreciated further due mainly to political developments. While the peso and baht were slightly affected by the depreciating rupiah, domestic developments in the respective countries caused the currencies to depreciate further. The Korean won, however, continued to remain resilient and appreciated by 0.2% against the ringgit.

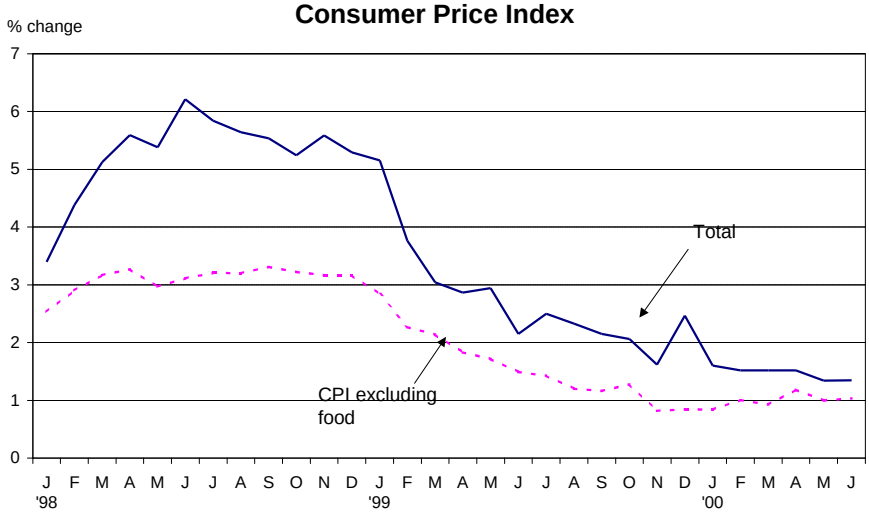
Performance of Ringgit against Selected Currencies

RM per foreign currency	End-June 1997	2 September 1998	24 July 2000	% change Since end-June 1997	% change Since 2 Sept. 1998	% change Since end-June 2000
US dollar	2.5235	3.8000	3.8000	-33.6	0.0	0.0
100 Japanese yen	2.2088	2.7742	3.5998	-38.6	-22.9	3.0
Singapore dollar	1.7647	2.1998	2.1976	-19.7	0.1	1.1
100 Thai baht	9.7470	9.3713	9.7050	0.4	-3.4	3.4
100 Philippine peso	9.5878	8.8302	8.7851	9.1	0.5	2.9
100 Indonesian Rupiah	0.1038	0.0354	0.0435	138.6	-18.6	1.7
100 Korean won	0.2842	0.2827	0.3407	-16.6	-17.0	-0.2

Domestic prices continued to remain low

In June, the annual rate of inflation as measured by the **Consumer Price Index (CPI)** stabilised at 1.3%. Excluding food, the CPI was also stable at 1%.

Consumer Price Index

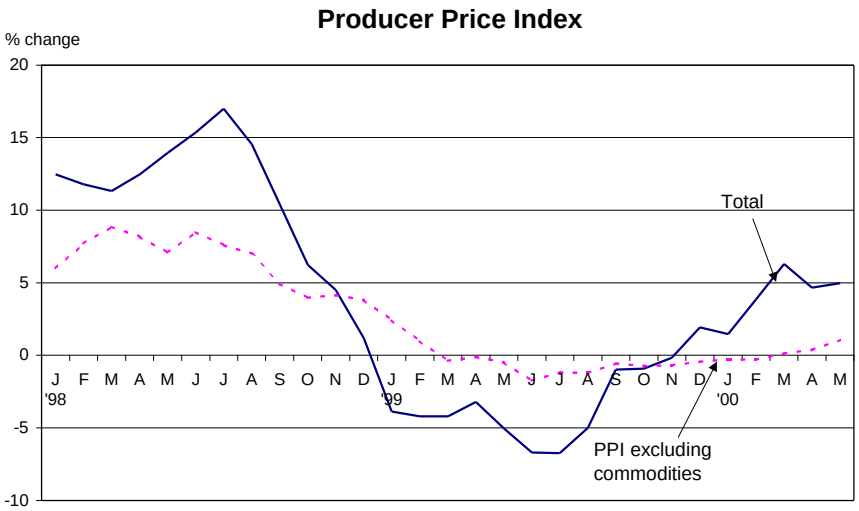


Consumer inflation remains low …

The stable inflation situation can be attributed to the performance of three dominant components: gross rent, fuel and power; transport and communication; and food which together account for 74% of the CPI basket. No additional price pressures emanated from the **gross rent, fuel and power** group as it recorded a stable price increase of 1.5% in June. The **transport and communication** group recorded a marginally higher price increase. However, this effect was offset by the **food** group where all items, except meat recorded either lower price increases or price declines due to the better weather conditions. The increase in the price of meat reflected lower supplies of pork as pig farms were converted to poultry farming.

At the producer level, the **Producer Price Index (PPI)** increased marginally to 5% in May (4.7% in April) entirely on account of the higher increase in prices of goods charged by

domestic producers (5.8%). The increase in prices paid by importers remained stable (1.2%).



Adjusted PPI remains low at 1% in May

The increase in the PPI in May was due to price increases for two main components, namely mineral fuels, lubricants and related materials; and food and live animals. The increase in the former was due to higher crude oil prices (average of US$28 a barrel in May compared with only US$16 a barrel a year ago). The **food and live animals** group, which had been experiencing price declines since March 1999 recorded a price increase in May. Nevertheless, the effect from these two components was moderated by the slower price increases for inedible crude materials; machinery and transport equipment; manufactured goods as well as the continued and larger decline in the price of animal and vegetable oils and fats. Excluding commodities (comprising inedible crude materials; mineral fuels, lubricants and related materials; and animal and vegetable oils and fats), the adjusted PPI increased by 1% in May.

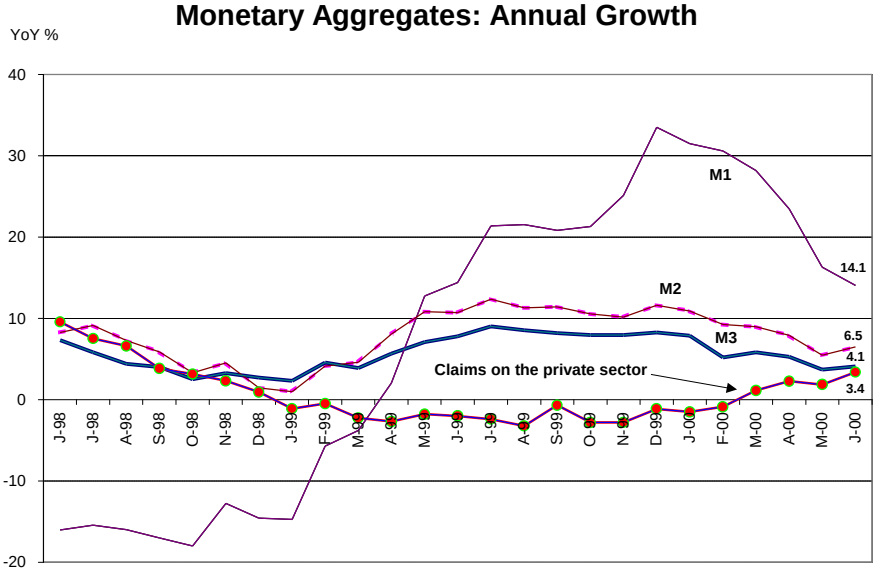
Broad money supply expanded at a faster pace

All three monetary aggregates expanded further on a year-on-year basis with M3 increasing at a faster pace of 4.1% at end-June (3.7% at end-May). On a month-on-month basis, M3 rose by RM4.3 billion or 1% in June (seasonally adjusted M3 rose by RM4.2 billion).

The main impetus to M3 growth reflected mainly the expansionary impact of claims on the private sector due to higher loans extended by the banking sector. This more than offset the contractionary influences of the Government operations, following the placement of proceeds with the banking system from the reopening of the existing MGS 4/99. A lower net

external assets was also recorded during the month. In terms of components, there was an across-the-board increase in all types of deposits, particularly savings and fixed deposits.

Monetary Aggregates: Annual Growth



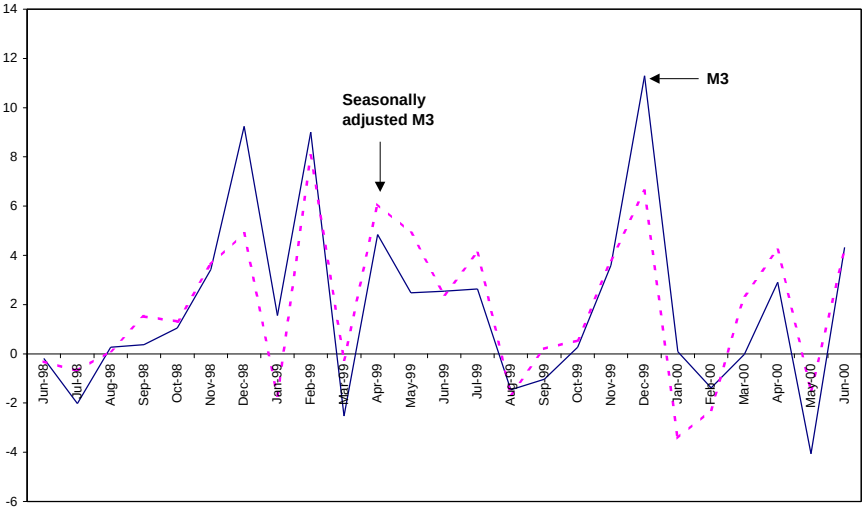
Broad monetary aggregates expanded at faster pace

M3 Determinants

(RM billion)

	Outstanding	Change during the period			
		2000[1/]			
	Jun.	Apr.	May	Jun.	Jan.-Jun.
M3	436.5	2.9	-4.1	4.3	1.9
Of which:					
Claims on Government	-24.2	-1.0	-0.2	-3.0	-5.4
Claims on private sector	454.6	2.3	1.1	5.8	8.0
External operations	135.1	2.0	-1.1	-0.6	10.7
Other influences	-129.0	-0.4	-3.9	2.1	-11.5

M3: Monthly Change



M3 higher due to higher claims on the private sector

Banking system deposits and loans increase

Deposits recorded a strong turnaround to increase by RM7.9 billion or 1.8% in June due mainly to higher deposits by business enterprises, individuals, financial institutions and the Federal Government. Generally, improved economic activities as well as the expansion in credit contributed to the increase in deposits. In addition, the 10% salary adjustment for civil servants, effective June and backdated to January, partly contributed to the increase in individual deposits. The higher Federal Government deposits reflected mainly the receipt of proceeds from the issuance of Government papers through the reopening of the existing MGS 4/99.

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

	2000		
	Apr.	**May**	**Jun.**
Holder			
Federal Government	-557	56	1234
State Governments	-116	-433	-305
Statutory Authorities[1/]	-157	-748	-1353
Financial Institutions	-3477	-3001	2603
Business Enterprises	2600	-473	2906
Individuals	512	129	2622
Others[2/]	627	156	183
Total	**-569**	**-4313**	**7890**

Increase due to higher placements by business enterprises, individuals, financial institutions and the Federal Government

[1/] Include local Governments.

[2/] Include Special Deposits, Housing Development Account deposits and RM Eligible Liabilities (EL) Exempt deposits.

By type, the largest increase was observed in demand deposits due to higher placements by the Federal Government and individuals. In addition, there was an increase in fixed and savings deposits, while NIDs increased due to higher interplacement between banking institutions. However, repos continued to decline in June.

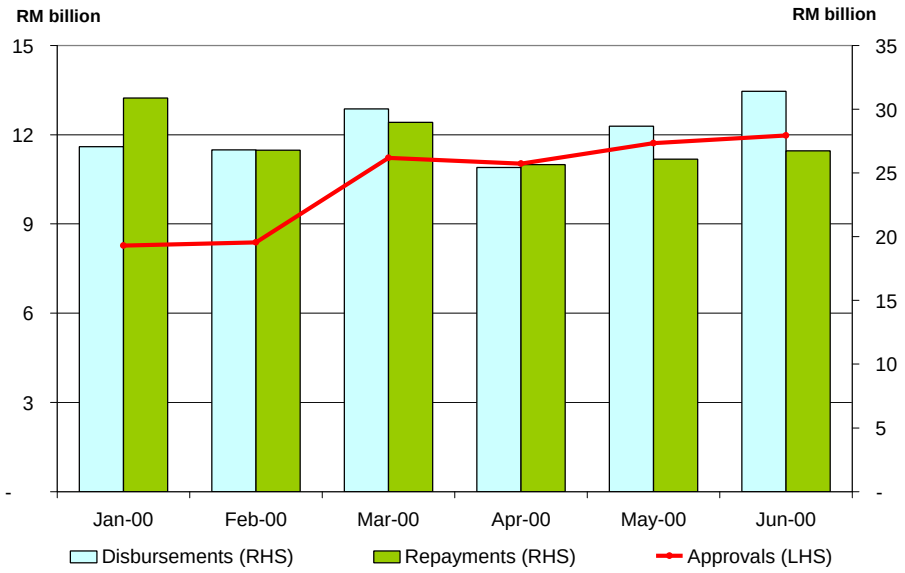
Monthly Change in Deposits **(RM million)**

	2000		
	Apr.	**May**	**Jun.**
Type			
Fixed deposits	2393	-3013	1928
NIDs issued	-2310	817	1369
Demand deposits	-1106	409	2327
Savings deposits	-814	-739	1110
Repos	-131	-1054	-208
FX deposits	1083	-54	388
SPI deposits	-390	-806	784
Others[1/]	706	127	192
Total	**-569**	**-4313**	**7890**

Main sources of increase were demand and fixed deposits

[1/] Include Special Deposits, Housing Development Account deposits and RM Eligible Liabilities (EL) Exempt deposits.

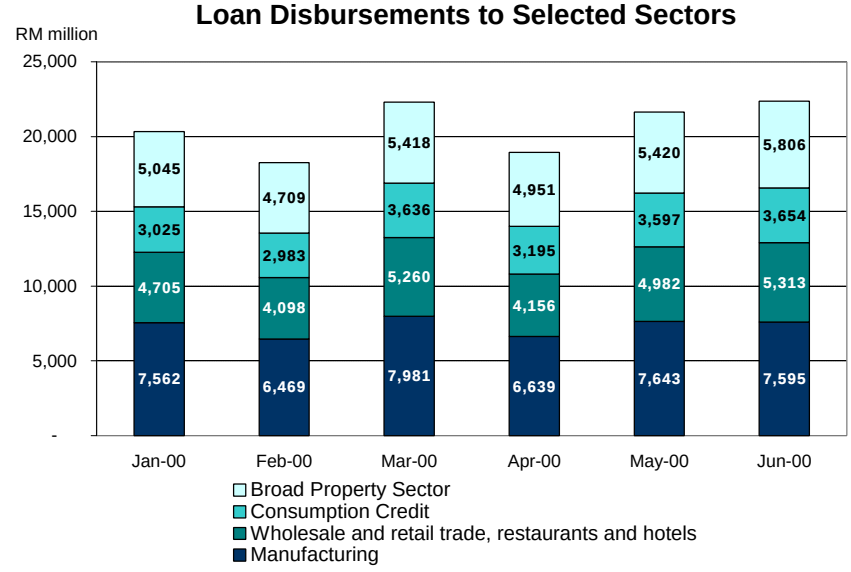
Loan Approvals, Disbursements and Repayments



Approvals and disbursements increased further, while repayments remained relatively unchanged

Concomitant with the expanding economic activities, **loans approved** by the banking system were higher at RM12 billion in June. The loan approvals were largely for manufacturing activities (RM2.8 billion), the purchase of residential property (RM2.3 billion), the purchase of passenger cars (RM1.2 billion) and finance, insurance and business services (RM1.1 billion).

Loan Disbursements to Selected Sectors



Disbursements to the manufacturing sector and for the purchase of residential property remained high

Loans disbursed were substantially higher in June (RM31.4 billion). The bulk of the disbursements were for manufacturing activities, wholesale trade, financial services and the purchase of residential property. Meanwhile, loan repayments remained relatively stable at RM26.7 billion.

Total loans outstanding (including loans sold to Cagamas and Danaharta) extended by the banking system continued to increase unabated since February (+RM3.3 billion in June). The bulk of the increase was evident in loans extended to the broad property sector, specifically for the purchase of residential property; to the wholesale and retail trade, restaurants and hotels sector; for finance, insurance and business services; and to the electricity, gas and water supply sector. On an annual basis, total loans outstanding increased by 2% at end-June, the highest annual growth rate registered since October 1998, with commercial banks recording a year-on-year growth rate of 3.5%.

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

	2000		
	Monthly change		As at end
	May	Jun.	Jun.
Agriculture, hunting, forestry and fishing	-10	347	9,823
Mining and quarrying	-103	-11	1,646
Manufacturing	1,285	-81	66,771
Electricity, gas and water supply	-174	511	7,136
Wholesale and retail trade, restaurants and hotels	738	630	37,793
Broad property sector	2,153	1,149	159,624
Transport, storage and communication	92	78	15,499
Finance, insurance and business services	-504	612	32,264
Consumption	213	38	51,834
Purchase of securities	-160	-64	33,482
Others	-488	44	19,451
Total Loans[1/]	3,041	3,252	435,325

[1/] Including loans sold to Cagamas and Danaharta.

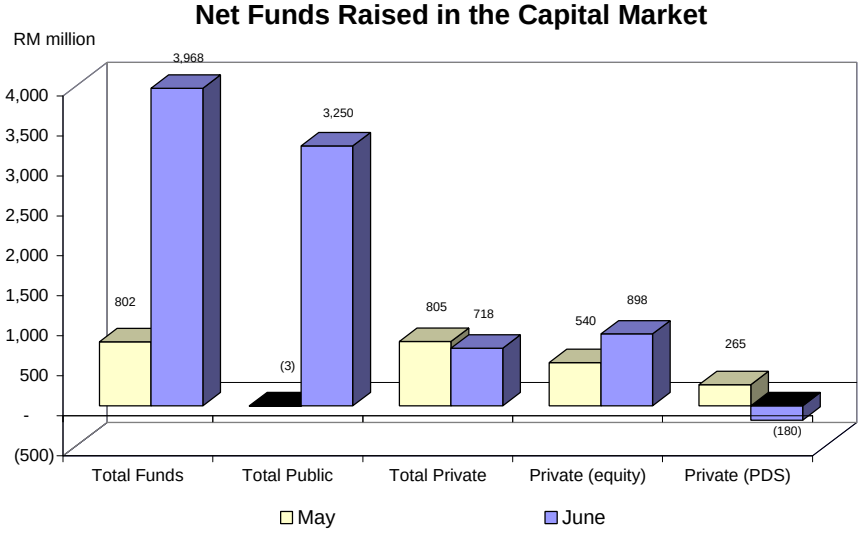
Note: Sub-total may not add up to grand total due to rounding

Loans outstanding continued to increase unabated since February

Higher net funds raised in the capital market

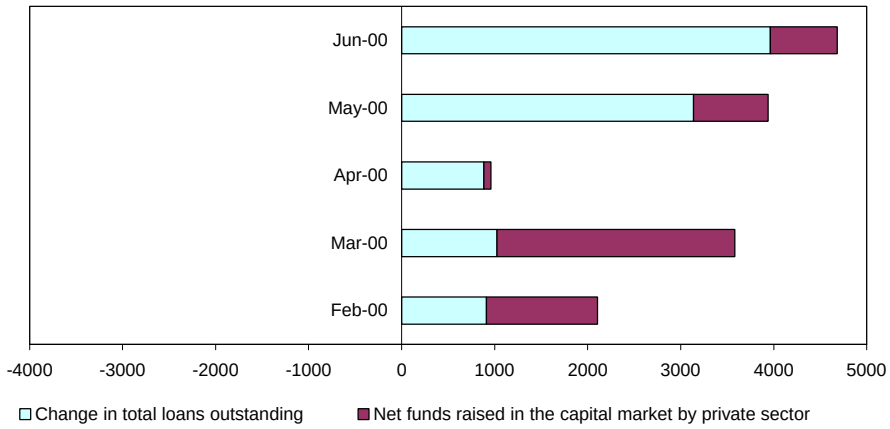
Net funds raised in the capital market were higher in June compared to May. This was attributed mainly to the reopening of the existing MGS 4/99, in contrast with the preceding month when no MGS was issued. In the case of the private sector, the total amount of funds raised (on a net basis) in June was slightly lower compared to May. This reflected the net redemption of private debt securities (PDS).

Net Funds Raised in the Capital Market



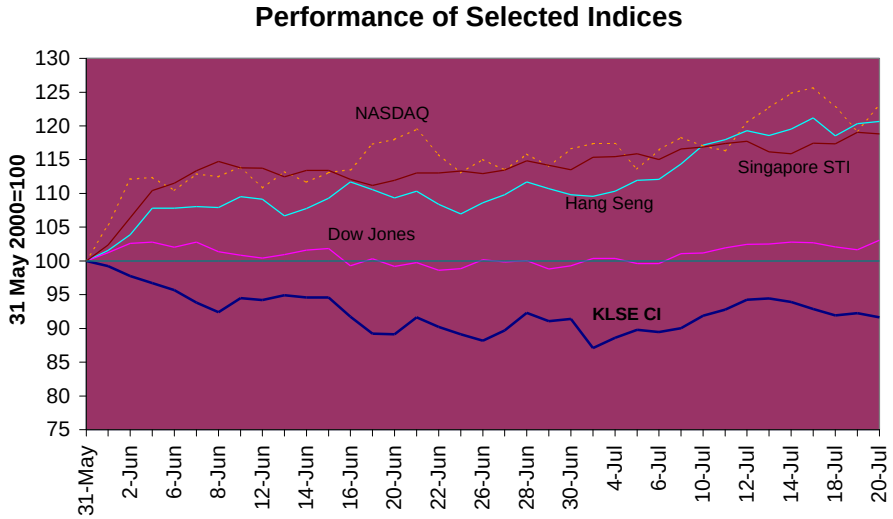
Higher net funds raised in the capital market in June

Private Sector Financing by the Capital Market and the Banking System (RM million)



Total private sector financing was higher in June

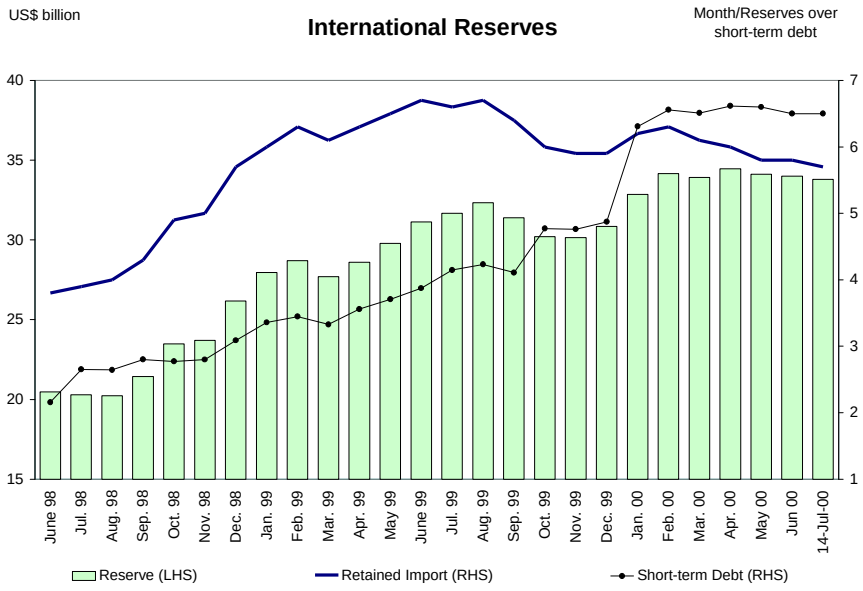
Market sentiment in the **Kuala Lumpur Stock Exchange (KLSE)** was weak in June mainly attributable to investors' concerns over the implications of the staggered release of shares formerly traded on CLOB as well as profit-taking by fund managers. As a result, the KLSE CI declined by 8.6% in June to 833.37 points, while the KLSE market capitalisation declined by 10% to RM572.3 billion. In the first half of July, sentiment improved as investors concerns with regard to the CLOB issue were allayed. Sentiment improved further following the Federal Reserve's decision to maintain U.S. interest rates, better GDP forecasts by the private sector, and the prospect of ratings upgrade for Malaysia and for several Malaysian banks. Subsequently, the KLSE CI was adversely affected by profit taking activities. As at 21 July, the KLSE CI closed at 831.08 points (-0.3% since end-June), while the KLSE market capitalisation stood at RM583.17 billion (+1.9% since end-June).



International reserves remained strong

The international reserves of BNM remained strong at RM129.2 billion (US$34 billion) as at 30 June. A revaluation loss was recorded during the month arising from the strengthening of the ringgit against most major foreign currencies. As at 14 July, reserves amounted to RM128.4 billion (US$33.8 billion). The level of reserves was sufficient to finance 5.7 months of retained imports and was 6.5 times the short-term external debt.

The lower reserves in the first half of July reflected debt repayments and some outflows of portfolio capital. Such fluctuations in the flows of portfolio capital can be expected to take place in response to specific developments that occur from time to time. The underlying reserves position, however, remains strong. The strong reserves position reflects Malaysia's strengthened underlying economic and financial conditions.



International reserves remained strong

Banking system remained strong

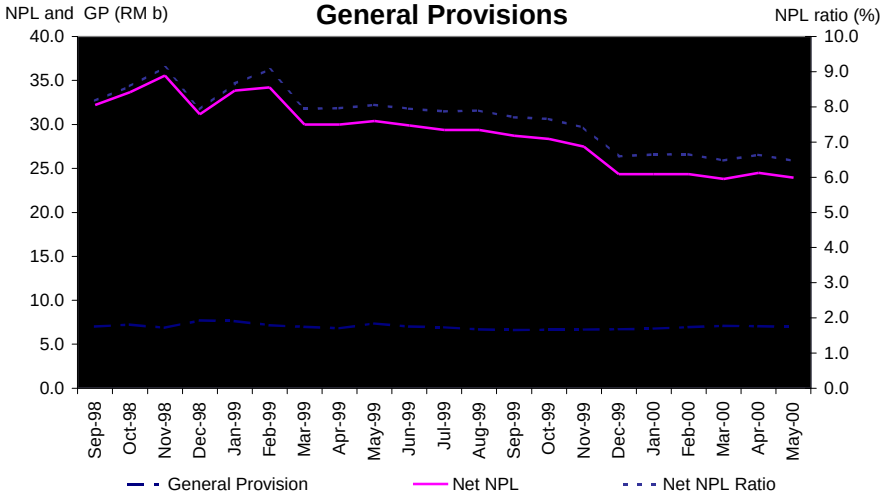
Net non-performing loans ratio of the banking system declined marginally to 6.5% as at end of May on a six-month classification. Although the risk-weighted capital ratio (RWCR) of the banking system declined marginally to 12.9% as at end-June, the RWCR is still well above the minimum requirement of 8%.

Banking System Health Indicators

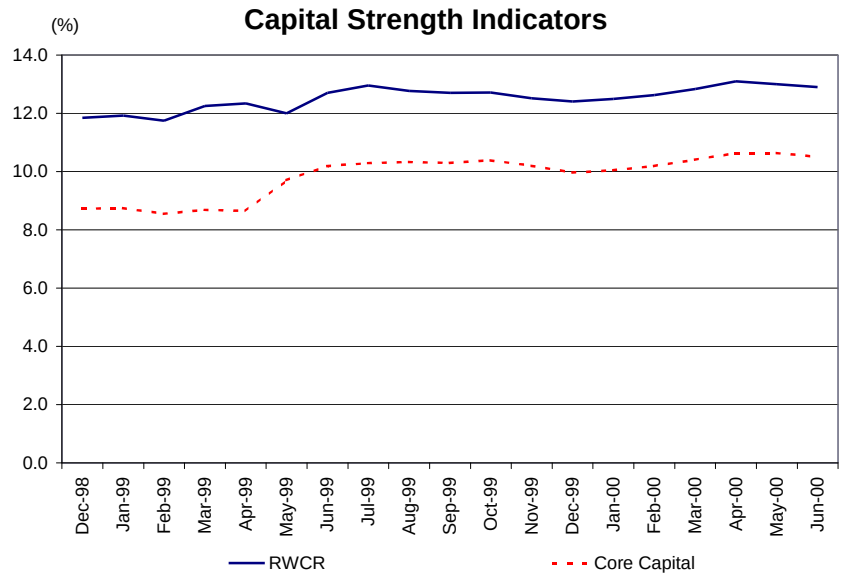
	1998	1999				2000			
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Apr.	May.	June
Capital									
Core-capital ratio (%)	8.7	8.7	10.2	10.3	10	10.4	10.6	10.6	10.5
RWCR (%)	11.8	12.3	12.7	12.7	12.3	12.8	13.1	13.0	12.9
Net NPL (6-month classification)									
Banking system (%)	7.5	7.9	7.9	7.7	6.6	6.5	6.6	6.5	n.a.
Banking system (RM million)	29,286	29,869	29,696	28,705	24,340	23,780	24,472	23,953	n.a.
GP/Net total loans (6-month,%)	2	1.8	1.8	1.8	1.8	1.9	1.9	1.9	n.a.

n.a Not available

Banking System: Net Non-performing Loans and General Provisions



Net NPL ratio of banking system decreased marginally from 6.6% to 6.5%



…… risk-weighted capital ratio eased slightly due to increase in investments

Danaharta has not been acquiring any additional NPL and has since concentrated on managing the NPLs acquired. As at 30 June 2000, NPLs managed by Danaharta amounted to **RM36.6 billion**, representing approximately **43%** of total NPLs in the banking system. In managing the NPL, Danaharta employed a number of mechanisms, such as loan restructuring, foreclosure of collateral and business, asset management through appointment of special administrators etc. Danaharta has also, launched its third property sale, involving 300 properties by way of tender with a total indicative value of RM808.4 million on 11 July 2000. The tender closes on 8 August 2000.

Capital injection by Danamodal into the banking sector remained at RM4.9 billion as at end June 2000. As at 30 June 2000, CDRC has resolved 34 of the 71 applications received with debts totaling RM20.2 billion, while 16 with debts totaling RM3.8 billion were rejected by CDRC.

Bank Negara Malaysia
28 July 2000

Key Monetary and Banking Statistics

	May		June	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	37.1	5.7	36.9	5.7
M1	67.1	16.3	68.1	14.1
M2	328.5	5.4	332.2	6.5
M3	432.2	3.7	436.5	4.1
Banking System				
Total deposits	441.4	0.0	449.3	2.0
Total loans (including loans sold to Cagamas and Danaharta)	432.1	1.3	435.3	2.0
Total loans (excluding loans sold to Cagamas and Danaharta)	377.3	-1.8	380.9	-0.4
Loan-deposit ratio (%)	85.5		84.8	
Loans approved during the month	11.7		12.0	
Loans disbursed during the month	28.7		31.4	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	13.0		12.9	
Net NPLs: 6-month classification (%)	6.5		n.a.	
International Reserves of BNM				
Reserves in RM (billion)	129.6		129.2	
Reserves in USD (billion)	34.1		34.0	
Months of retained imports	5.8		5.8	
Interest Rates (average rates at end-period)				
Interbank: 1-month	2.70		2.69	
3-month	3.19		3.19	
Fixed deposits of commercial banks: 1-month	3.21		3.20	
3-month	3.26		3.26	
BLR of commercial banks	6.75		6.75	
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.5401		3.6186	
Pound Sterling	5.6954		5.7709	
Singapore dollar	2.1956		2.1976	
100 Japanese yen	3.5714		3.5998	
100 Thai Baht	9.7025		9.7050	
100 Philippine Peso	8.9092		8.7851	
100 Indonesian Rupiah	0.0441		0.0435	
100 Korean Won	8.3364		0.3407	
Capital Market				
Funds raised by: public sector (RM million)	-3.44		3,249.62	
private sector (RM million)	805.10		718.25	
Kuala Lumpur Composite Index (end-period)	911.51		833.37	
KLSE Market Capitalisation (RMb) (end-period)	636.11		572.31	