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PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS August 2001

Monetary conditions remained relatively stable in August. The prevailing low interest rates together with ample liquidity ensured that bank lending was sustained to support domestic economic activities, thereby mitigating the effects of weak external demand. Money supply continued to increase during the month, bolstered by higher international reserves, rising Government outlays and sustained lending activity. The KLSE CI rose further in August. Recent developments in the US, however, has dampened stock market sentiments in the third week of September.

On 20 September, BNM announced the reduction in the 3-month BNM intervention rate by 50 basis points to 5.00%. Accordingly, the ceiling base lending rates (BLR) of commercial banks and finance companies declined to 6.42% and 7.46% respectively (from 6.83% and 7.98% respectively). BNM liquidity operations are being directed at maintaining the interbank rates at the current prevailing range. This has resulted in limited adjustments to deposit rates.

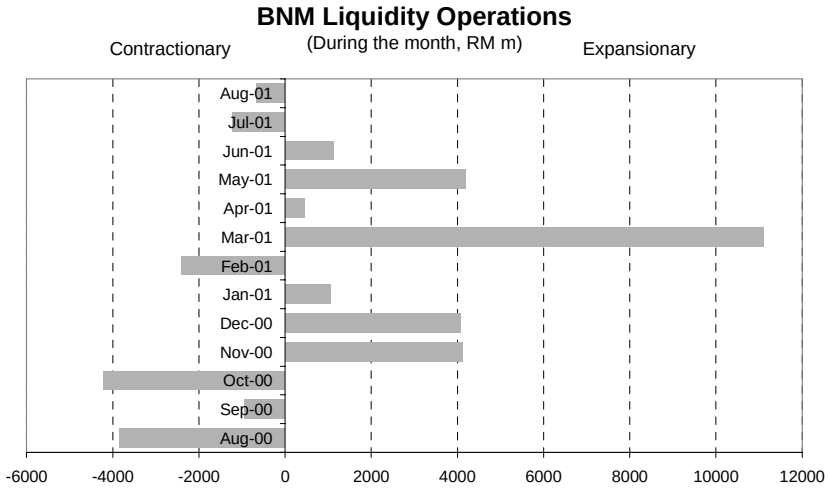
The recent developments in the US are expected to weigh against an already weak world economic growth and would further dampen global confidence. Against this backdrop, while Malaysia's economic fundamentals remain strong with rising external reserves and inflationary conditions remaining subdued, the reduction in the intervention rate is aimed at addressing the short-term risks that are biased towards weaker domestic economic growth.

In particular, the reduction in the intervention rate will serve to enhance domestic business and consumer sentiment to support domestic economic activity while mitigating the adverse impact of recent external developments.

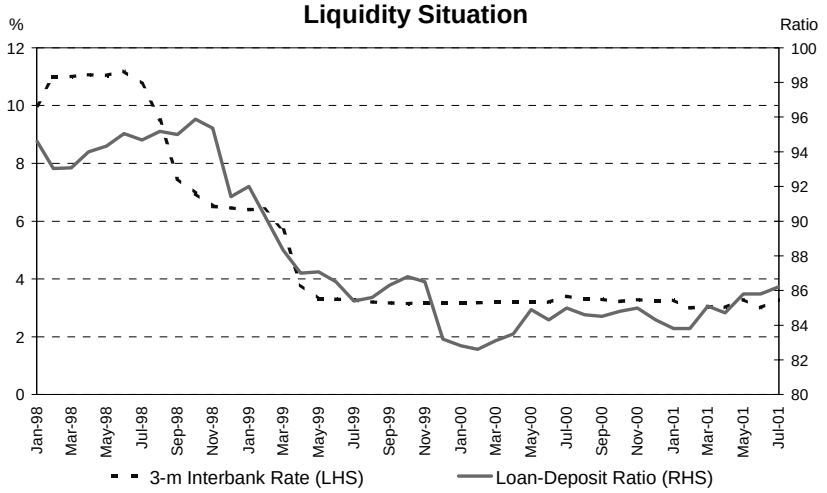
Going forward, BNM will continue to monitor all developments and will take further pre-emptive steps should they be considered necessary to mitigate the effects of the external developments on the economy.

Interbank rates remained relatively stable

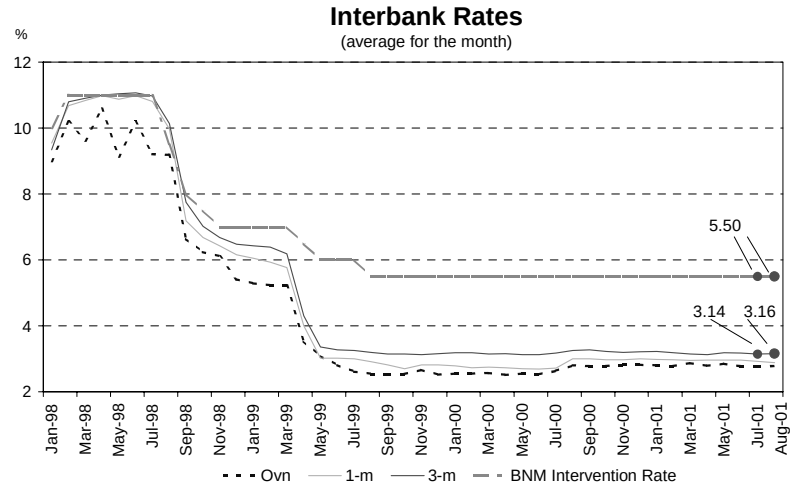
Low and stable **interbank money market rates** continued to prevail during the month. In August, BNM absorbed excess liquidity amounting to RM670 million, following a further increase in capital inflows into Malaysia as well as Government withdrawals of deposits from BNM to finance outlays.



BNM liquidity operations were aimed at stabilising liquidity conditions to keep interest rates low and stable

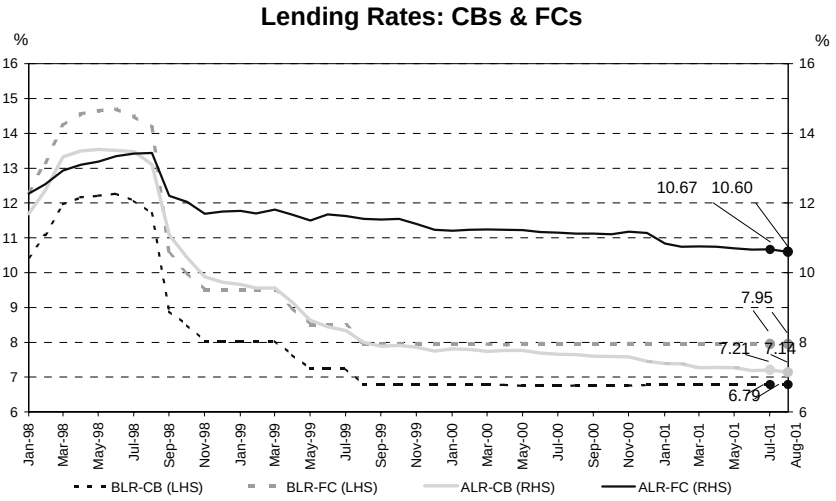


Ample liquidity continued to prevail



Interbank rates remained low and relatively stable in August

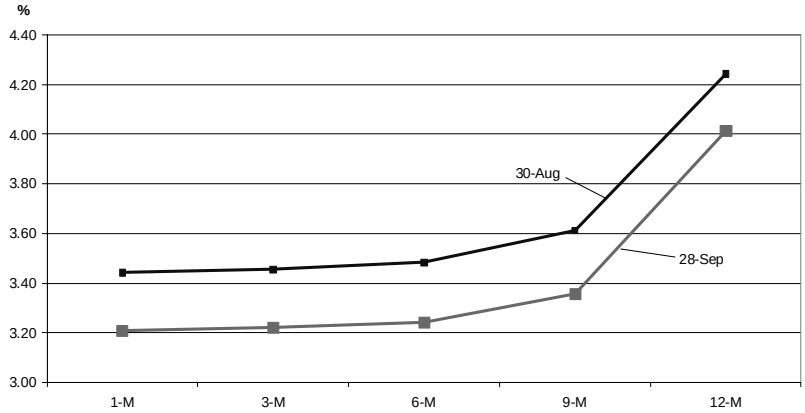
Commercial banks (CBs) and finance companies' **average base lending rates (BLR)** remained unchanged from the previous month. Meanwhile, the **average lending rates (ALR)** of CBs and FCs declined slightly to 7.14% and 10.60% at end-August (7.21% and 10.67% at end-July). The lowering of the BNM intervention rate on 20 September led to a corresponding reduction in the BLRs of banking institutions. As at 28 September, all CBs and FCs have reduced their BLRs to 6.40% and 7.45% or below respectively.



Both CBs' and FCs' BLRs remained stable, while ALRs declined slightly in August

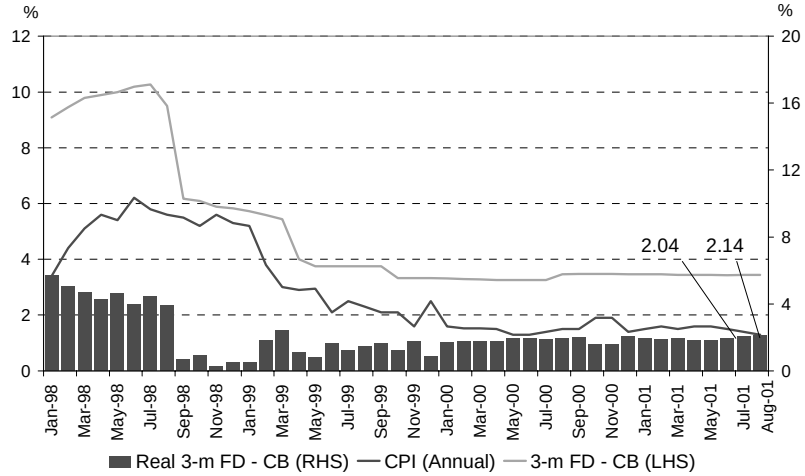
The **average fixed deposit (FD) rates** of CBs and FCs, as at 15 September, remained virtually unchanged from the previous month for 1-month to 12-month maturities ranging from 3.43-4.08% and 3.45-4.21% respectively (virtually similar rates as at end-July). As at 28 September, most CBs and FCs have reduced their quoted fixed deposit rates for the 1-month to 12-month by 10-25 basis points.

Term Structure of Average Quoted FD Rates: Commercial Banks



As at 28 September, the average quoted FD rates of CBs have declined

Real Interest Rates

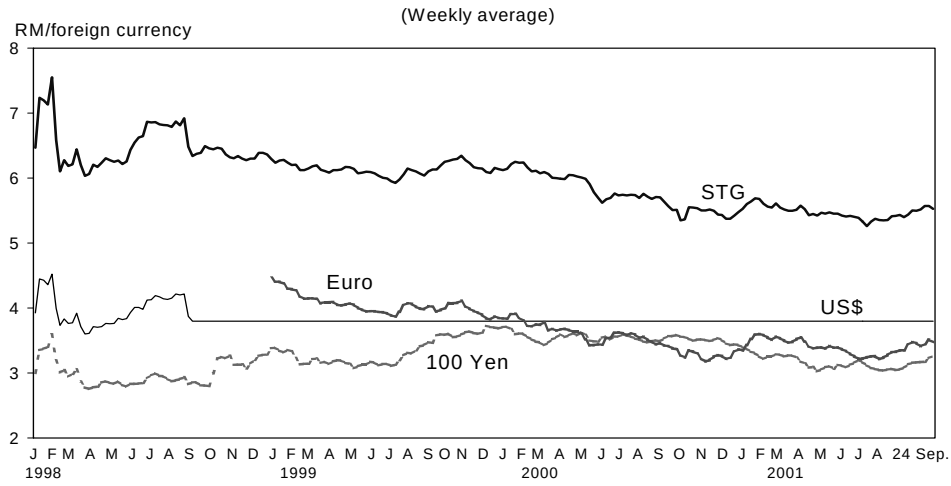


The 3-month real FD rate increased in August

The Ringgit depreciated against major and regional currencies in August

In August, the **ringgit depreciated** against the Japanese yen (-3.9%), the euro (-3.5%) and the Pound Sterling (-1.4%), in tandem with the movements of the US dollar in the international foreign exchange markets. The US dollar weakened following the release of data indicating further weakness of the US economy. The Japanese yen also strengthened due to the repatriation of funds by Japanese corporations for book closing at the end of September.

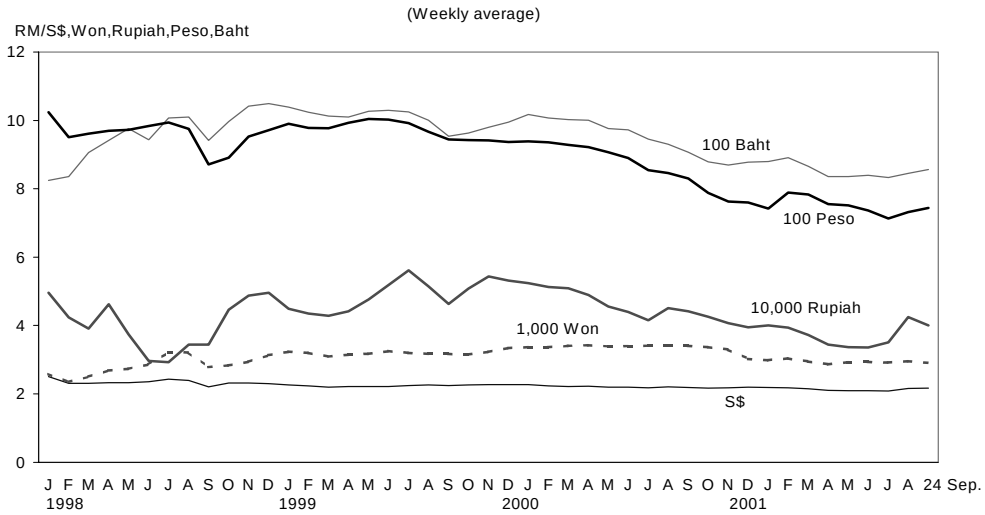
Performance of Ringgit against Major Currencies



The ringgit depreciated against major currencies in August

The **ringgit also depreciated against regional currencies** in the range of 1.4% - 4.4%. Weakness of the US dollar also led to the strengthening of regional currencies. The Philippine peso appreciated following the tightening of monetary policy by Bangko Sentral ng Pilipinas, while the Thai baht strengthened following the measures introduced by the Bank of Thailand pertaining to non-resident baht trade. The Indonesian rupiah continued to strengthen on market optimism that the new administration would be able to implement economic changes to spur economic growth.

Performance of Ringgit against Regional Currencies



The ringgit depreciated against regional currencies in August

During the period **1 – 24 September**, the ringgit continued to depreciate against the non-dollar major currencies, as the US dollar weakened following the terrorist attacks in the United States. The ringgit depreciated against the Japanese yen by 3.0%, the euro by 0.7% and the Pound sterling by 0.4%. The ringgit recorded a mixed performance against regional

currencies during this period. The ringgit strengthened against regional currencies in the range of 0.1% - 4.3%, while depreciating against the Philippine peso by 0.3%.

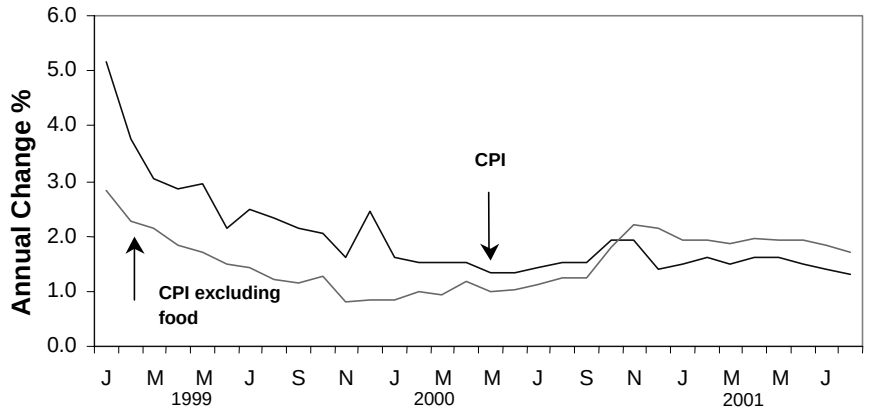
Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-August 2001	24 September 2001	% Change August 2001	% Change Jan.-24 Sep. 2001	% Change 2 Sep. 1998-24 Sep. 2001
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0
Euro	-	3.4498	3.4726	-3.5	1.7	-
Pound Sterling	6.3708	5.5068	5.5290	-1.4	2.5	15.2
100 Japanese yen	2.7742	3.1660	3.2636	-3.9	1.5	-15.0
Singapore dollar	2.1998	2.1693	2.1672	-2.8	1.3	1.5
100 Thai baht	9.3713	8.5663	8.5677	-2.9	2.5	9.4
100 Philippine peso	8.8302	7.4190	7.4377	-4.4	2.3	18.7
100 Indonesian Rupiah	0.0354	0.0417	0.0400	-3.8	-1.3	-11.5
100 Korean won	0.2827	0.2959	0.2906	-1.4	4.0	-2.7

Inflation moderated slightly

Inflation, as measured by the **Consumer Price Index (CPI)**, continued to moderate in August to 1.3% year-on-year (July: 1.4%). For the first eight months of 2001, 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 also moderated to 1.7% in August (July: 1.8%). On a monthly basis, the overall CPI declined by 0.1%. This was mainly due to lower prices for food as well as clothing and footwear. These were partly offset by higher prices for transport and communication; and gross rent, fuel and power. Prices for food declined further by 0.3%, mainly on account of lower prices for food at home while prices for food away from home remained relatively stable.

Consumer Price Index

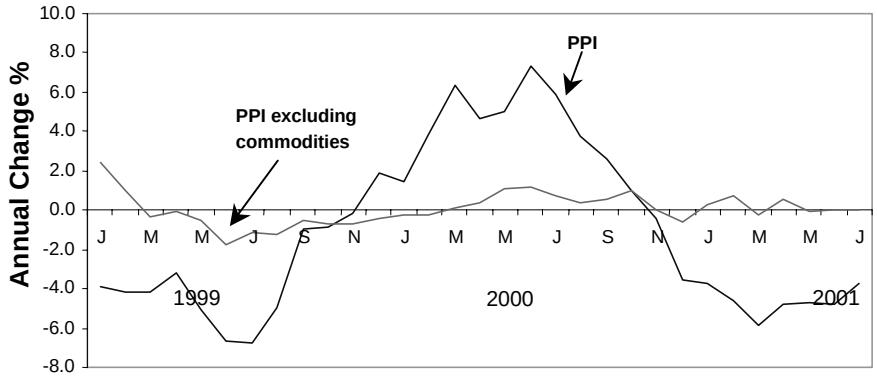


Inflation continued to trend downwards

Producer prices continued to decline

On an annual basis, the **Producer Price Index (PPI)** declined by 3.7% in July. This was due mainly to lower prices charged by local producers (-4.6%), amid a slight reduction in prices paid by importers (-0.2%). Lower producer prices followed the decline in prices for inedible crude materials; mineral fuels, lubricants, and other related materials; as well as a continued decline in prices for animal and vegetable oils and fats. This primarily reflected the weakening of prices for rubber, crude petroleum and crude palm oil. Excluding these sub-groups, the adjusted PPI remained stable. On a monthly basis, however, the PPI increased by 0.3% in July. This was largely caused by higher prices for animal and vegetable oils and fats, reflecting the increase in crude palm oil prices in July compared to June.

Producer Price Index



Producer prices continued to decline

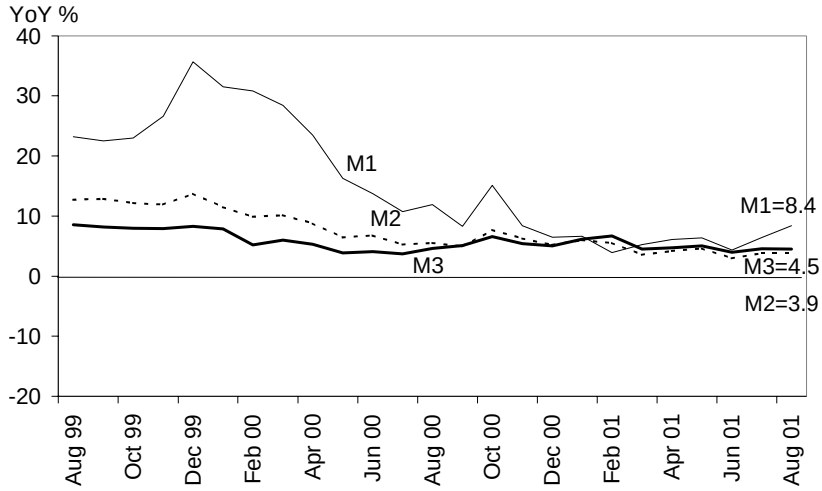
Money supply continued to expand in August

Money supply continued to increase in August with all three aggregates expanding on a monthly basis. **Broad money**, M3, increased by RM2 billion or 0.4% while M1 also recorded a marked increase of RM1.8 billion or 2.5%, partly attributable to a stronger performance in the stock market. On an annual basis, M1 and M3 rose by 8.4% and 4.5% respectively as at end-August (6.4% and 4.6% respectively as at end-July).

The increase in M3 in August mainly reflected the expansionary impact of the increase in net international reserves of BNM (RM1.8 billion) as well as higher net claims on the Government (RM1 billion). The Government withdrew deposits from BNM and the banking institutions to finance its expenditure while the banking institutions increased their holdings of Government securities. Meanwhile, claims on the private sector also increased (RM1.8

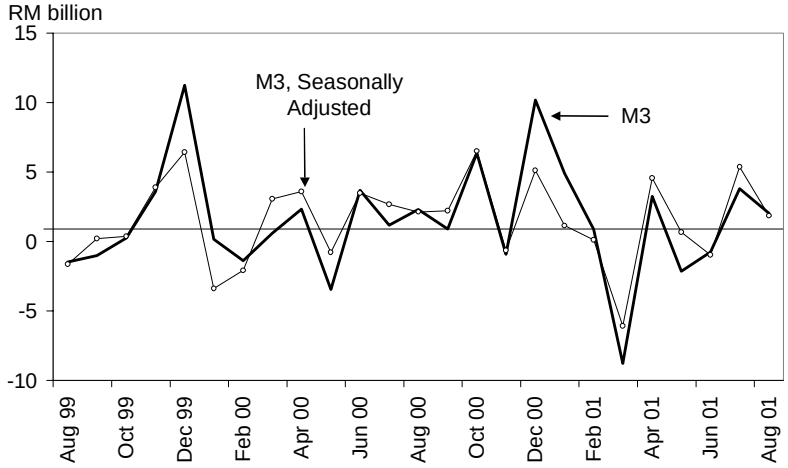
billion) mainly due to the buy back of some loans sold to Cagamas Berhad earlier. These expansionary factors were partially offset by the increase in placements of deposits with BNM.

Monetary Aggregates: Annual Growth



Monetary aggregates continued to expand on an annual basis

M3: Monthly Change



...on a monthly basis, expansion in M3 was due to higher international reserves and expansionary Government operations

M3 Determinants

(RM billion)

	Change during period			
	2001			
	June	July	August	Jan-Aug
M3	-0.8	3.8	2.0	3.2
Net claims on Government	-5.8	-1.9	1.0	-3.6
Claims on private sector	2.0	4.4	1.8	11.8
External operations[1/]	0.2	3.4	1.8	6.7
Other influences	2.9	-2.2	-2.5	-11.7

1/ pre-revaluation

Banking system deposits were lower

On a month-on-month basis, **total deposits** declined by RM1.1 billion or -0.2% in August, primarily due to withdrawals by business enterprises mainly in the form of fixed deposits as well as lower interplacements among banking institutions (-RM1.2 billion). The lower deposits of business enterprises reflected largely withdrawals for the payment of petroleum royalty. In addition, there was also a large drawdown by the Federal Government to finance higher expenditure. On the other hand, placements by individuals continued to increase, in particular fixed, demand and savings deposits, while deposits of the statutory authorities were also higher. On an annual basis, total deposits mobilised by the banking system rose by 3.5% as at end-August.

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

	2001		
	Jun.	Jul.	Aug.
Holder			
Federal Government	1,019	-669	-603
State Governments	510	-679	425
Statutory Authorities[1/]	-232	992	967
Financial Institutions	1,206	-562	-1,478
Business Enterprises	-370	214	-1,984
Individuals	434	1,602	1,629
Others	-233	31	-10
Total	**2,334**	**928**	**-1,053**

[1/] Include local Governments.

Lower deposits reflected mainly withdrawals by business enterprises partly for the payment of petroleum royalty as well as lower interplacements among banking institutions

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

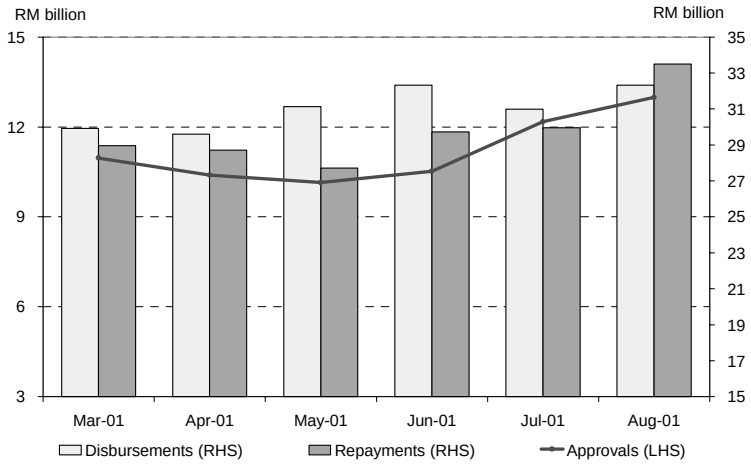
	2001		
	Jun.	Jul.	Aug.
Type			
Fixed deposits	-1,326	-1,754	-4,199
NIDs issued	951	-602	-518
Demand deposits	654	316	1,158
Savings deposits	586	83	450
Repos	-80	1,899	994
FX deposits	619	-208	376
SPI deposits	1,163	1,163	696
Others	-233	31	-10
Total	**2,334**	**928**	**-1,053**

Lower deposits were attributable mainly to the decline in fixed deposits

Bank lending activities continued to remain strong

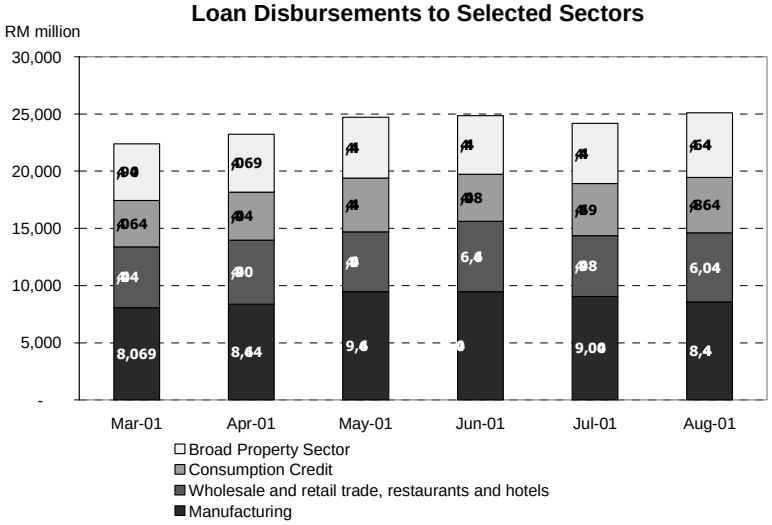
Loan approvals increased further to RM13 billion in August. Approvals were granted mainly for the purchase of residential property and passenger cars (RM3 billion and RM2 billion respectively) as well as for manufacturing activities (RM1.2 billion). Similarly, **loan disbursements** had also risen, amounting to RM31.9 billion in August. Disbursements continued to be broad based with a large portion being disbursed for manufacturing activities, wholesale trade, for the purchase of residential property and passenger cars as well as to the finance, insurance and business services sector.

Loan Approvals, Disbursements and Repayments



Loan approvals and disbursements were higher in August

Loan Disbursements to Selected Sectors



Meanwhile, disbursements continued to be broad based

Despite the higher disbursements, total **loans outstanding** extended by the banking system stabilised in August, rising by RM260 million. This was due to the significantly higher **repayments** during the month, reflecting mainly the maturity of loans extended to the utility companies. Excluding the electricity, gas and water sector, loans extended to other sectors

increased by RM1.9 billion in August. Meanwhile, there continued to be higher loans extended for the purchase of residential property and passenger cars. On an annual basis, loans outstanding continued to increase by 5.6% as at end-August.

The increase in loans was moderated by the exceptionally higher repayments in August

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

	2001		
	Monthly change		As at end
	Jul.	Aug.	Aug.
Agriculture, hunting, forestry and fishing	47	-64	11,995
Mining and quarrying	65	-21	1,632
Manufacturing	116	-479	70,227
Electricity, gas and water supply	-7	-1,594	5,920
Wholesale and retail trade, restaurants and hotels	-720	247	38,198
Broad property sector	1,433	1,395	172,603
of which:			
Purchase of residential property	*1,464*	*1,299*	*82,479*
Transport, storage and communication	562	37	14,757
Finance, insurance and business services	491	33	35,537
Consumption	796	1,038	65,183
of which:			
Passenger cars	*740*	*899*	*42,208*
Credit cards	*115*	*224*	*8,156*
Purchase of securities	-131	-397	31,190
Others	-99	65	21,149
Total Loans[1/]	**2,552**	**260**	**468,391**

[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.

Financing through banking system loans and PDS remained robust

In addition to the increase in banking system loans in August, the banking institutions also continued to increase their holdings of PDS by RM1.2 billion. As a result, the **overall financing provided by the banking system rose by RM1.4 billion**. On an annual basis, financing by the banking system grew by 6.6% at end-August (7.3% at end-July). Overall**, financing through loans extended by the banking system and PDS issued by the private sector** rose by RM4.4 billion in August or an annual growth of 8% (end-July: 7.9%).

Financing through banking system loans and PDS

	Change			Annual growth	
	2001			2001	
	Jul	Aug	Jan.-Aug	Jul	Aug
	RM billion			%	
Financing by Banking System	**3.8**	**1.4**	**17.1**	**7.3**	**6.6**
Loans outstanding (1)	2.6	0.3	14.4	6.4	5.6
Holdings of PDS	1.2	1.2	2.7	33.6	34.0
Total PDS outstanding * (2)	1.8	4.2	8.3	15.3	19.4
Total (1) + (2)	**4.3**	**4.4**	**22.7**	**7.9**	**8.0**

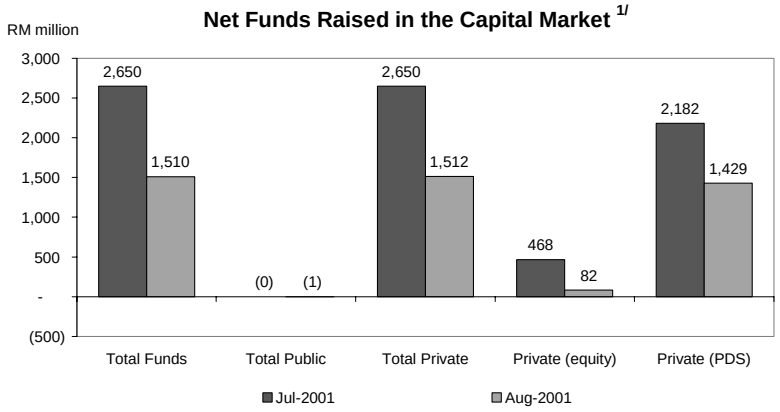
* Refers to total PDS issued by the private sector with original maturity period of more than one year. Exclude debt securities issued by banking institutions, Khazanah, BNM, Cagamas, Danaharta and Danamodal.

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

Lower net funds raised in the capital market

Net funds raised in the capital market were lower in August, amounting to RM1.5 billion. This was mainly due to the lower funds raised through the equity market and higher redemption of Cagamas Bonds in the private debt securities market. The net funds raised by the private sector were through both the issuance of private debt securities and shares.

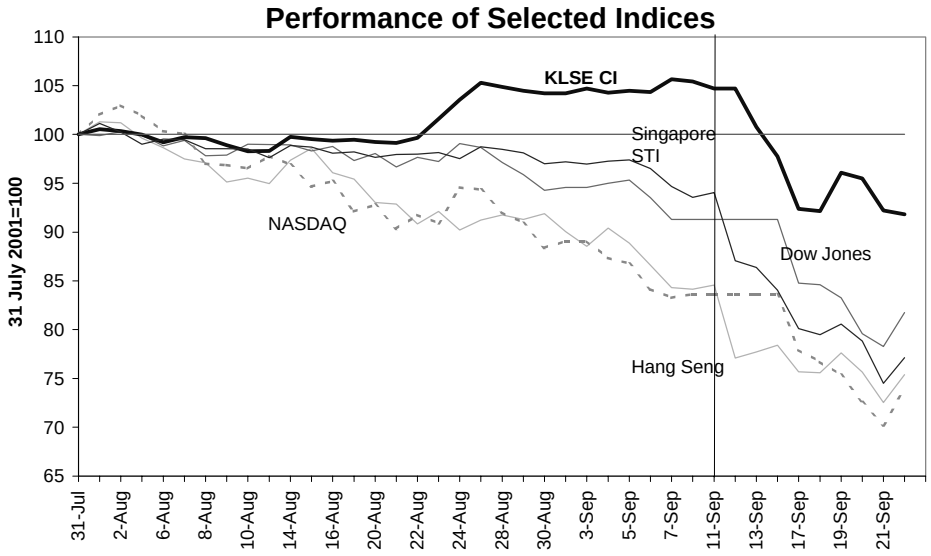
Net Funds Raised in the Capital Market [1/]



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 August

The **Kuala Lumpur Stock Exchange Composite Index** (KLSE CI) rose further in August following local buying interests. As at 31 August, the KLSE CI ended higher at 687.16 points (+4.2% since end-July). Market capitalisation increased to RM466.11 billion (+3.2% since end-July), while the daily average turnover was 311.8 million units (309.9 million units in July).

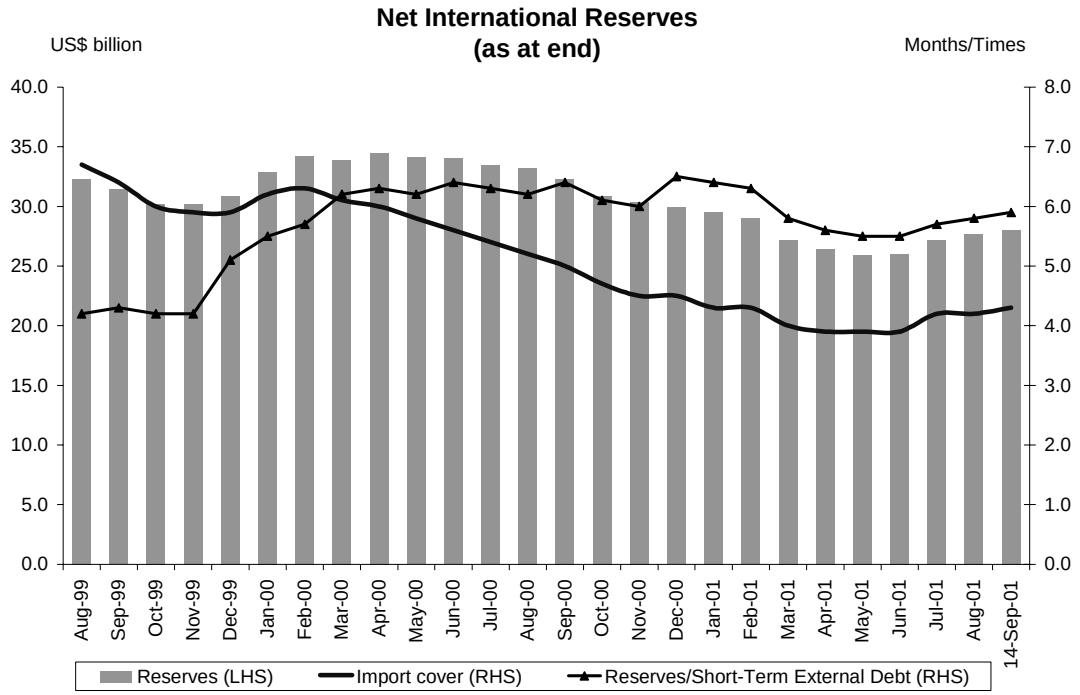


KLSE CI rose in the second half of August but declined after the market reopened following the attacks in the US on September 11

The KLSE CI recorded a significant decline in September on concerns over a possible global economic recession following the terrorist attacks in the US. The market was suspended on 12 September in order to maintain the orderly functioning of the market and to provide investors with sufficient time to fully assess the situation. As at 24 September, the KLSE CI closed lower at 605.44 points (-11.9% since end-August). Market capitalisation was lower at RM401.69 billion (-13.8% since end-August), while daily average turnover was 326.1 million units (311.8 million units in August). The decline in the KLSE was, however, less severe than in Taiwan, Singapore, Thailand and Hong Kong markets.

International reserves

The net international reserves of BNM increased to RM105.3 billion (US$27.7 billion) as at end-August, compared with RM103.5 billion (US$27.2 billion) as at end-July. The reserves level increased further to RM106.5 billion or US$28 billion as at 14 September. This level of reserves is adequate to cover 5.9 times the short-term external debt and to finance 4.3 months of retained imports. The increase reflected the continued inflows from trade and foreign direct investment as well as net inflows of portfolio funds which were more than adequate to finance the payments for services and repayment of external loans.



Banking system remains strong

The banking system maintained its strong capital position as at end-August with the risk-weighted capital ratio remaining at 12.6% and core capital increasing slightly to 10.6%.

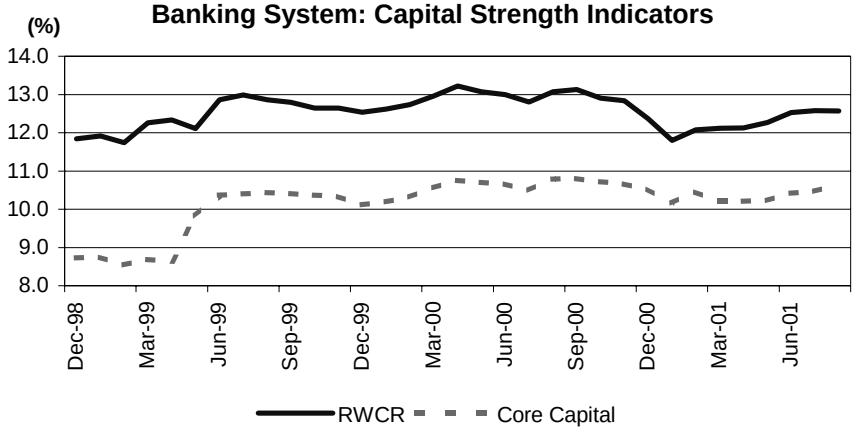
The 6-month net NPL increased marginally by RM0.6 billion in the month of August. However, net loans[1] declined by 0.04% or RM0.1 billion to RM403.2 billion due to the significantly higher repayments during the month. Consequently, the net NPL ratio, which had remained at 8.1% in June and July 2001, increased to 8.3%.

[1] Net of interest-in-suspense and specific provisions.

Banking System Health Indicators								
	1998	1999		2000		2001		
	Dec.	Jun.	Dec.	Jun.	Dec.	Jun.	Jul.	Aug.
Capital								
Core-capital ratio (%)	8.7	10.4	10.1	10.7	10.5	10.4	10.5	10.6
RWCR (%)	11.8	12.9	12.5	13.0	12.4	12.5	12.6	12.6
Net NPL (6-month classification)								
Banking system (%)	8.1	7.9	6.4	6.5	6.3	8.1	8.1	8.3
Banking system (RM million)	31,675	29,889	23,849	24,736	24,700	32,579	32,782	33,432
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9

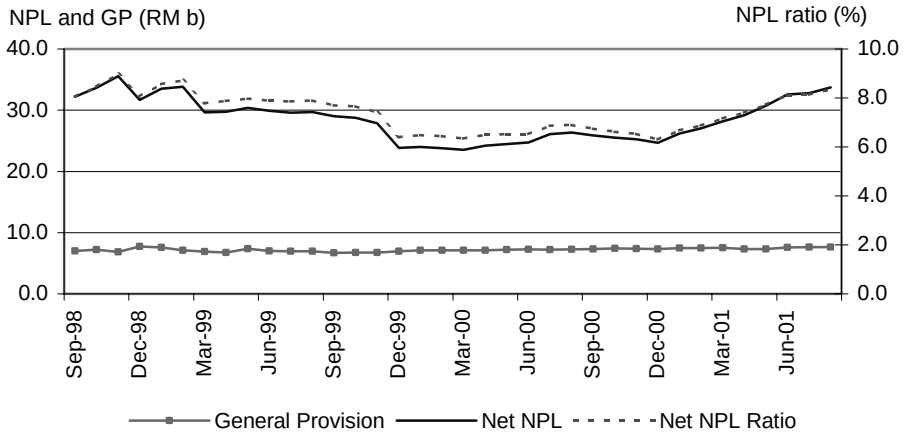
** Beginning June 1999 onwards, the figures include Islamic banks*

Banking System: Capital Strength Indicators



….RWCR remained at 12.6%

Banking System Net NPL and General Provisions



….Net NPL increased to 8.3%

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 the bulk of the RM8.9 billion unresolved NPLs by the end of 2001. Danaharta's NPL portfolio accounts for approximately 39.7% of the total NPLs of the banking system.

The recovery from the NPLs (net of default) is expected to be around RM23.2 billion (gross value terms) representing a recovery rate of 57%. The expected recovery includes the RM8.2 billion cash repayment received, with the remainder comprising restructured loans, securities and properties.

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-August 2001. The number of cases outstanding with the Corporate Debt Restructuring Committee (CDRC) remained at 27 with total debts of RM29 billion. This includes the restructuring of 7 previously completed cases which are currently being revised and 6 cases being restructured by Danaharta with debts totalling RM1.6 billion.

Statistics of CDRC cases		
	Total debt outstanding* (RM million)	**Number of accounts**
Withdrawn / Rejected	9,516	22
Transferred to Danaharta	2,470	11
- *implemented*	*334*	*2*
- *pending implementation*	*563*	*3*
- *outstanding*	*1573*	*6*
Resolved	26,482	30
Revised	3,391	7
Outstanding	24,040	14
TOTAL	**65,899**	**84**

* including non-banking and offshore institutions

Bank Negara Malaysia
28 September 2001

Key Monetary and Banking Statistics

	July		August	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	38.8	3.4	39.6	4.8
M1	73.4	6.4	75.2	8.4
M2	351.0	3.8	352.9	3.9
M3	457.7	4.6	459.7	4.5
Banking System				
Total deposits	474.3	4.5	473.2	3.5
Total loans (including loans sold to Cagamas and Danaharta)	468.1	6.4	468.4	5.6
Total loans (excluding loans sold to Cagamas and Danaharta)	408.8	6.0	409.8	6.0
Loan-deposit ratio (%)	86.2		86.6	
Loans approved during the month	12.2		13.0	
Loans disbursed during the month	31.0		31.9	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	12.6		12.6	
Net NPLs: 6-month classification (%)	8.1		8.3	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	103.5		105.3	
Reserves in USD (billion)	27.2		27.7	
Months of retained imports	4.2		4.2	
Interest Rates (average rates at end-period)				
Interbank: 1-month	2.97		2.83	
3-month	3.28		3.28	
Fixed deposits of commercial banks: 1-month	3.42		3.42	
3-month	3.44		3.44	
BLR of commercial banks	6.79		6.79	
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.3275		3.4498	
Pound Sterling	5.4293		5.5068	
Singapore dollar	2.1094		2.1693	
100 Japanese yen	3.0439		3.1660	
100 Thai Baht	8.3151		8.5663	
100 Philippine Peso	7.0942		7.4190	
100 Indonesian Rupiah	0.0401		0.0417	
100 Korean Won	0.2917		0.2959	
Capital Market				
Funds raised by: public sector (RM billion)	...		-	
private sector (RM billion)	2.6		1.5	
Kuala Lumpur Composite Index (end-period)	659.40		687.16	
KLSE Market Capitalisation (RMb) (end-period)	451.61		466.11	