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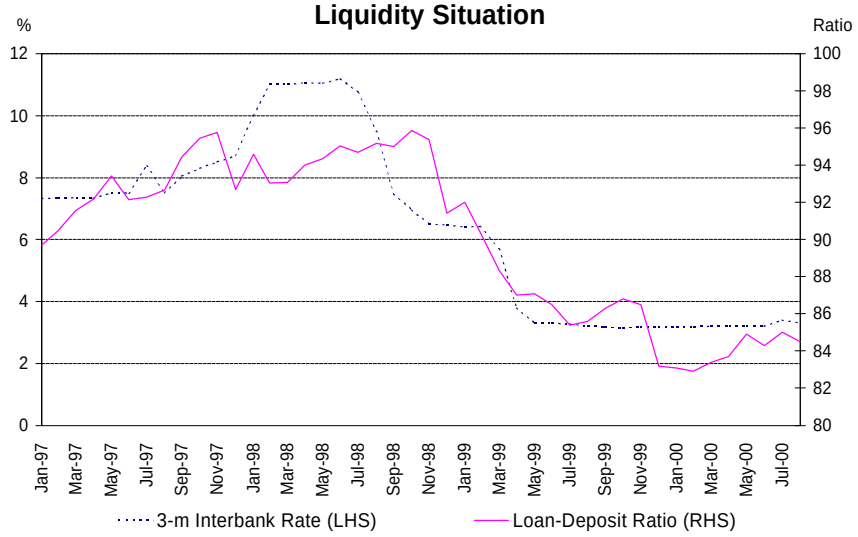
PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS AUGUST 2000

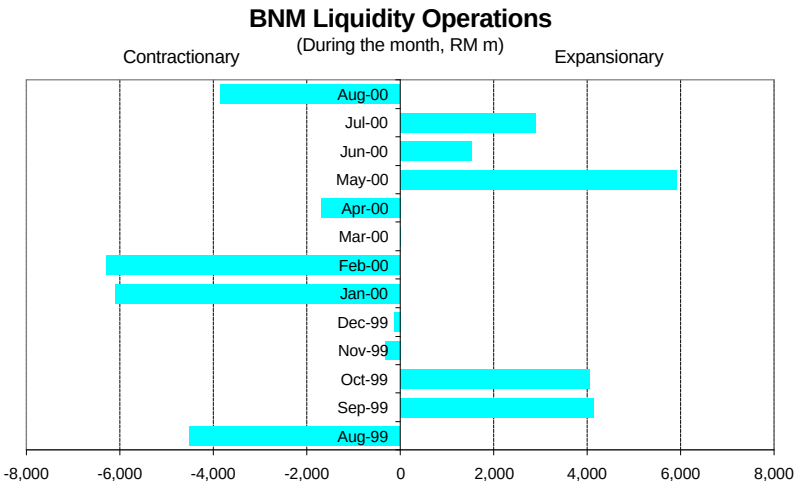
In August, all monetary aggregates expanded further reflecting the expansion in Government operations and higher loan growth. Inflation continued to remain low. Banking institutions increased deposit rates, raising the real rate of return on savings. Competition among banking institutions ensured that average lending rates continue to remain stable amid ample liquidity.

Interbank rates were relatively unchanged

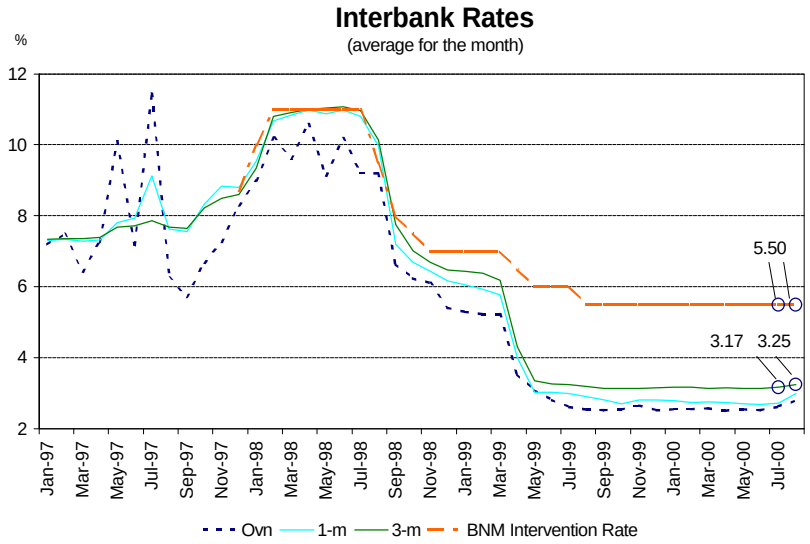
In the **interbank money market**, interbank rates in August and the first three weeks of September remained relatively unchanged as at end-July. Meanwhile, liquidity in the banking system continued to remain ample.



Liquidity remained ample

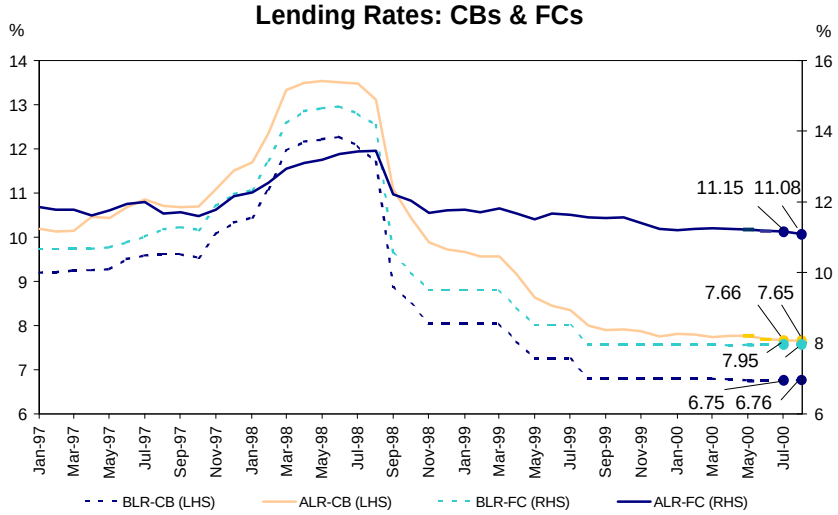


BNM's operations were aimed to achieve stable liquidity conditions



Average monthly interbank rates edged higher in August following the increase at end-July

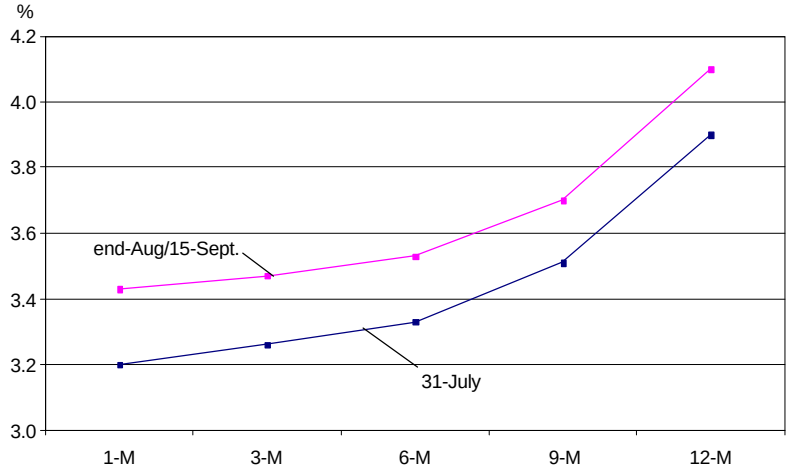
The **base lending rates** (BLRs) of commercial banks (CBs) and finance companies (FCs) remained relatively unchanged at end-August. However, the continued competition among banking institutions in an environment of ample liquidity saw their **average lending rates** (ALRs) stabilise at 7.65% and 11.08% respectively at end-August compared to 7.66% and 11.15% respectively at end-July.



CBs & FCs: BLR remained relatively stable; while ALR declined further

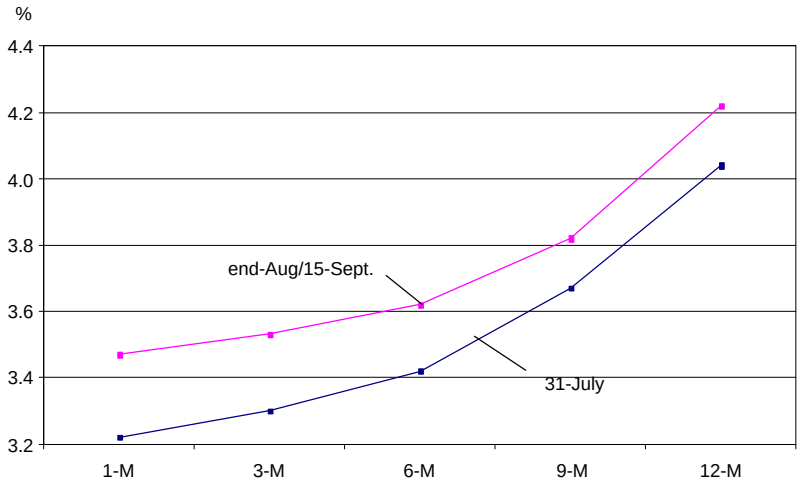
Banking institutions raised their deposit rates in August. As at end-August, the **average fixed deposit (FD) rates** of CBs was 20 to 23 basis points while that for FCs was 17 to 25 basis points higher compared to end-July. The increase was larger at the shorter-tenure notably for FCs. On 15 September, the FD rates remained relatively unchanged as at end-August. In terms of **interest margin**, the margin of both CBs and FCs narrowed marginally to 4.50% and 7.09% respectively at end-August (4.52% and 7.18% at end-July).

Term Structure of FD Rates: Commercial Banks

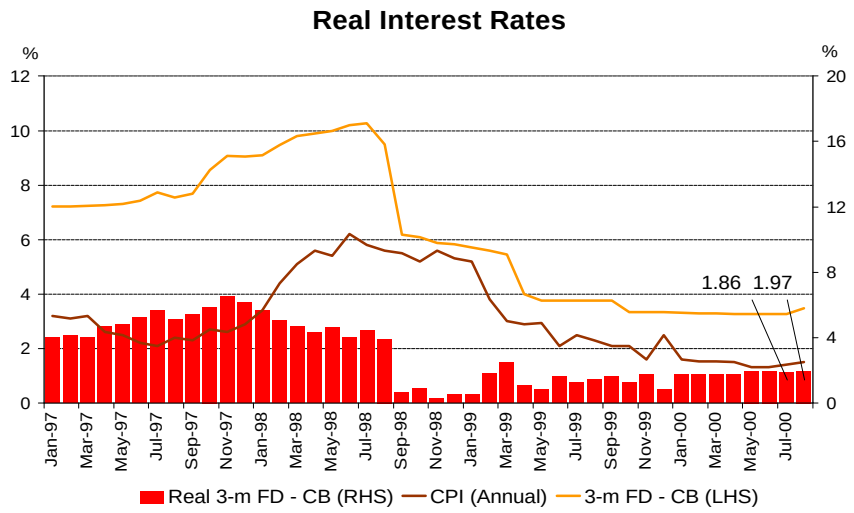


FD rates increased across all maturities

Term Structure of FD Rates: Finance Companies



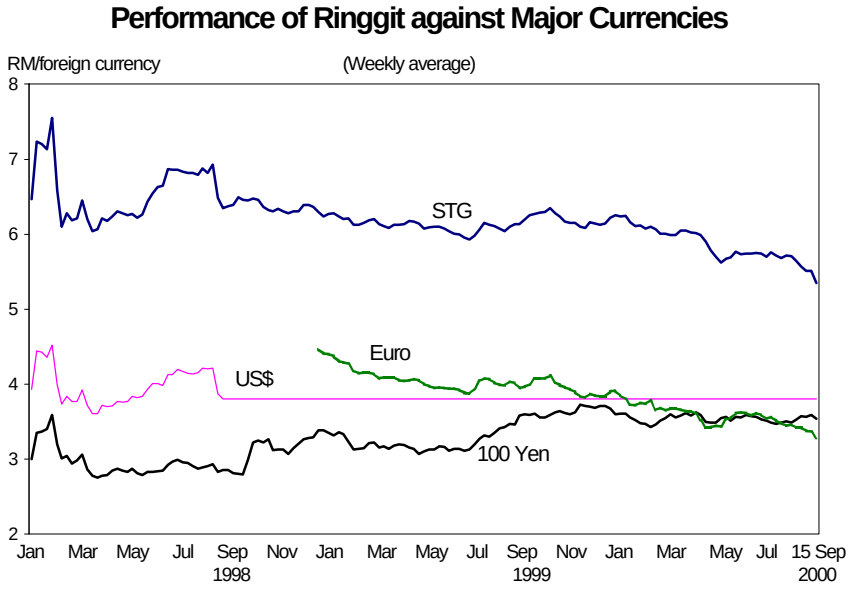
FD rates increased across all maturities notably at the shorter-end



Real FD rates increased mainly due to the increase in nominal FD rates

Ringgit recorded a mixed performance in August

In August, the **ringgit recorded a mixed performance against major currencies, while depreciating against most regional currencies** in tandem with the developments of the US dollar in the international foreign exchange markets.



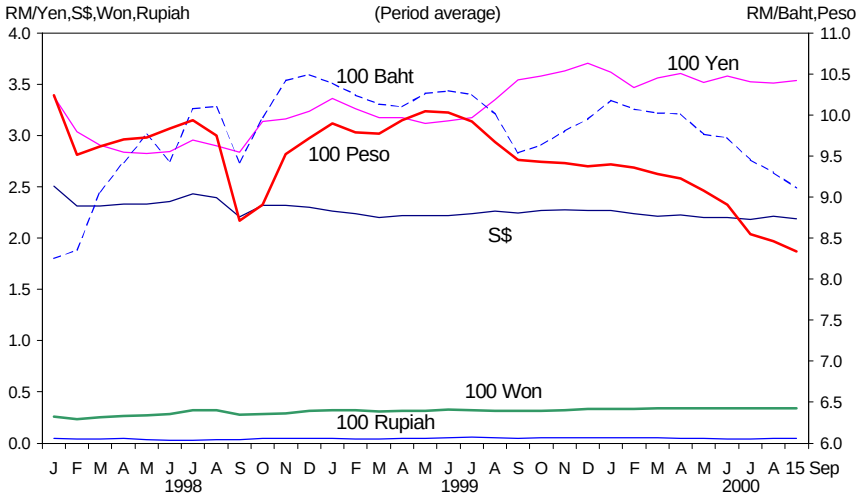
Ringgit appreciated against major currencies in the period 1 – 15 September

Against the major currencies, the **ringgit appreciated against the pound sterling and the euro, but depreciated against the yen**. A series of weak economic data from Germany placed further downward pressure on the euro during the month. Increasing interest rate differentials in favour of the euro led investors away from sterling-denominated assets causing the pound to depreciate by 3.5% against the US dollar, and hence, against

the ringgit. Meanwhile, the Japanese yen appreciated slightly due to improved market sentiment regarding the Japanese recovery following the release of positive economic data.

Meanwhile, **all regional currencies, except the Philippine peso appreciated against the ringgit** during the month. The appreciation was led by the Indonesian rupiah, which appreciated by 6.7% against the ringgit as favourable political developments emerged in Indonesia. The Thai baht also recorded an appreciation (1.1%) following the release of strong trade surplus data. The Philippine peso, however, continued to face downward pressure due to domestic developments and depreciated against the ringgit by 0.5%.

Performance of Ringgit against Regional Currencies



…. the ringgit also appreciated against regional currencies in the first half of September

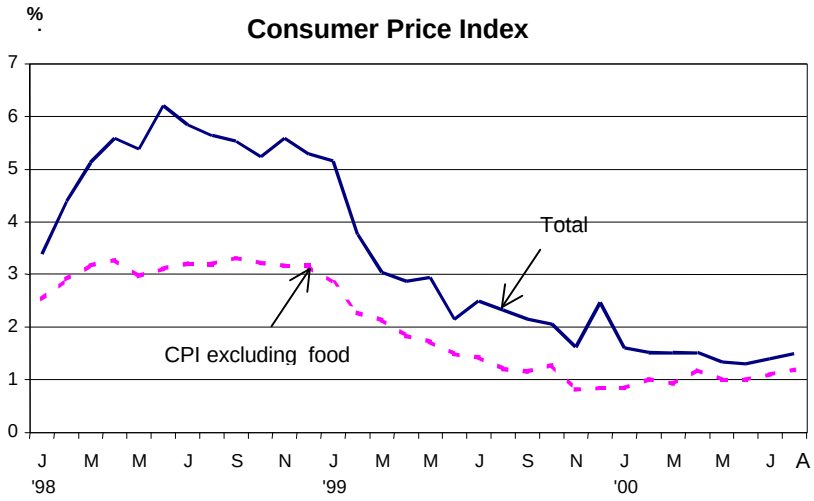
In the period 1-15 September, the ringgit recorded an across-the-board appreciation against both the major currencies as well as the regional currencies. The ringgit appreciated against the pound sterling, the euro and the yen in the range of 1% to 3.3%, and against all the regional currencies in the range of 0.2% to 2%. The euro faced downward pressure due to concern over the negative impact on growth in the Eurozone as a result of higher oil prices. Meanwhile, domestic developments in Indonesia led the rupiah to depreciate by 2% against the ringgit.

Performance of Ringgit against Selected Currencies

RM per foreign currency	End-June 1997	2 September 1998	15 September 2000	% change		
				Since end-June 1997	Since 2 Sept. 1998	Since end-Aug. 2000
US dollar	2.5235	3.8000	3.8000	-33.6	0.0	0.0
Euro	-	-	3.2853	-	-	3.3
Pound Sterling	4.1989	6.3708	5.3479	-21.5	19.1	3.2
100 Japanese yen	2.2088	2.7742	3.5375	-37.6	-21.6	1.0
Singapore dollar	1.7647	2.1998	2.1876	-19.3	0.6	0.9
100 Thai baht	9.7470	9.3713	9.1094	7.0	2.9	1.9
100 Philippine peso	9.5878	8.8302	8.3379	15.0	5.9	1.1
100 Indonesian Rupiah	0.1038	0.0354	0.0444	133.8	-20.3	2.0
100 Korean won	0.2842	0.2827	0.3402	-16.5	-16.9	0.7

Consumer prices continued to remain low

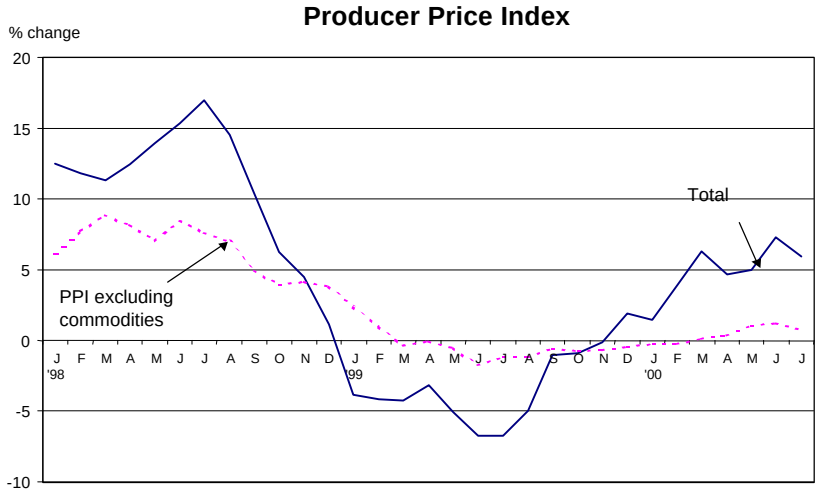
In August, the annual rate of inflation as measured by the **Consumer Price Index (CPI)** was 1.5%. Excluding food, the adjusted CPI rose more moderately by 1.2%. Among the three dominant forces in the CPI, the transport and communication; and food groups contributed most to the increase in the CPI. The remaining dominant group, that is, gross rent, fuel and power recorded a marginal increase. Overall, the combined increase in these three dominant groups, to some extent, was mitigated by the price declines or lower price increases in the other remaining groups in the CPI.



Consumer prices remained benign in the first eight months

At the producer level, the **Producer Price Index (PPI)**, showed a slower rate of increase of 5.9% for July (7.3% in June) entirely on account of the lower rate of increase of 7.2% in the prices of goods charged by domestic producers. Prices paid by importers were stable in July. Excluding commodities (comprising inedible crude materials; mineral fuels, lubricants and related materials; and animal and vegetable oils and fats), the adjusted PPI rose only by a marginal 0.7% for July.

In terms of components, the moderation in the increase in the PPI in July was due to lower price increases for three main groups: food and live animals; mineral fuels, lubricants and related materials; and chemicals and products of chemical industries as well as the continued and larger price decline recorded by two other main groups: animal and vegetable oils and fats; and machinery and transport equipment. The effects from these developments more than offset the higher price increases noted during the month for two groups, namely, manufactured goods and crude materials.

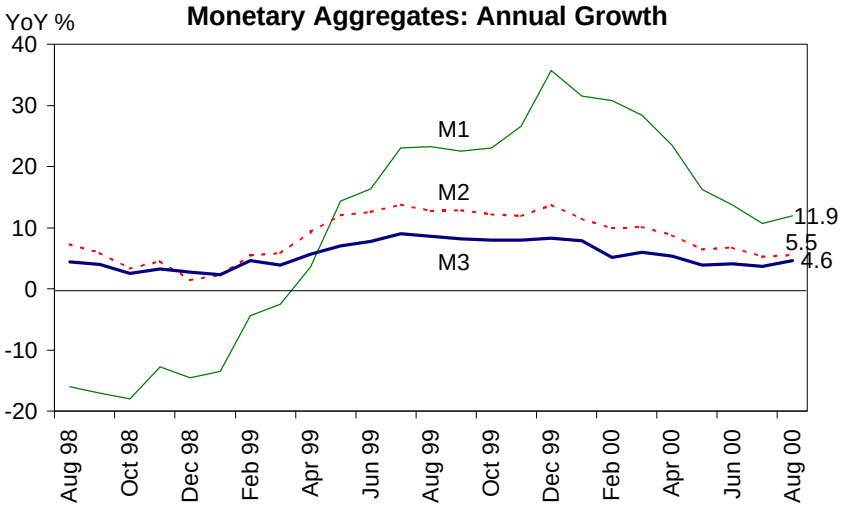


Adjusted PPI increased marginally by 0.7% in the first seven months 2000

Money supply increased further

In August, all three **monetary aggregates** increased further, with M3 rising by RM2.3 billion or 0.5% (seasonally adjusted M3 rose by RM2.1 billion). Consequently, the annual growth of M1, M2 and M3 accelerated to 11.9%, 5.5% and 4.6% respectively at end-August (10.7%, 5.2% and 3.7% respectively at end-July).

The main impetus to M3 growth emanated mainly from Government operations, reflecting the withdrawal of deposits from BNM and the banking system to finance its expenditure. Claims on the private sector were also expansionary on M3, as reflected in the higher holdings of private securities and higher loans extended by the banking system to the private sector. Meanwhile, the external sector exerted a small contractionary impact on the system. In terms of components, the expansion in M3 reflected mainly higher placements of fixed deposits by domestic non-bank financial institutions, individuals, and business enterprises.



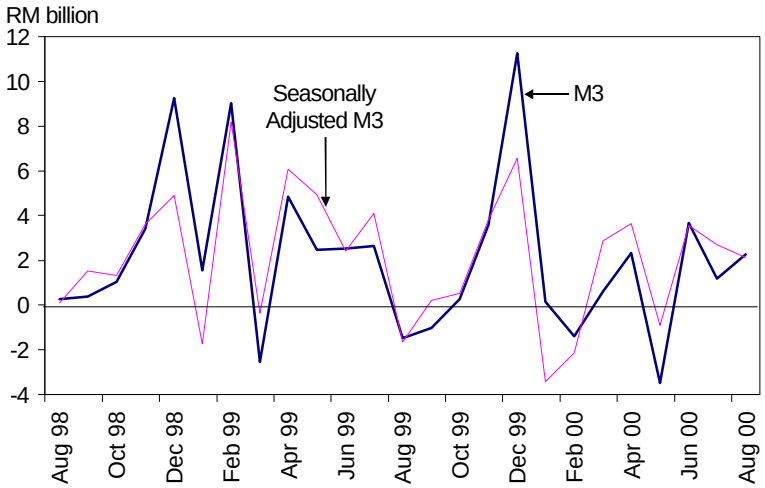
Annual growth of all monetary aggregates accelerated in August

M3 Determinants

(RM billion)

	Outstanding	Change during the period			
		2000			
	August	June	July	August	Jan. - Aug.
M3	440.0	3.7	1.2	2.3	5.4
Claims on Government	-17.0	-2.6	3.6	3.0	1.8
Claims on private sector	457.5	4.9	1.7	2.1	12.6
External operations	134.5	-0.3	0.9	-0.9	9.8
Other influences	-135.0	1.7	-5.0	-1.9	-18.8

M3: Monthly Change



Increase in M3 due mainly to expansionary to Government operations as well as higher claims on the private sector

Banking system deposits and loans increased

On a month-on-month basis, **total deposits** turned around to increase by RM3.1 billion or 0.7% in August. The increase reflected mainly higher placements of deposits by financial institutions, statutory authorities and the Federal Government. Deposits placed by individuals and business enterprises continued to increase in August. On an annual basis, total deposits increased by 2.5% as at end-August (1.4% at end-July).

Monthly Change in Deposits			(RM million)
	2000		
	Jun.	Jul.	Aug.
Holder			
Federal Government	1172	-1358	541
State Governments	-313	-361	-389
Statutory Authorities	-1358	-400	
Financial Institutions	2492		1539
Business Enterprises		1014	185
	2642	233	
Others	220		218
Total		**-2719**	**3076**

[1/] Include local Governments.

Deposits increased due to higher placements by all depositors except State Governments

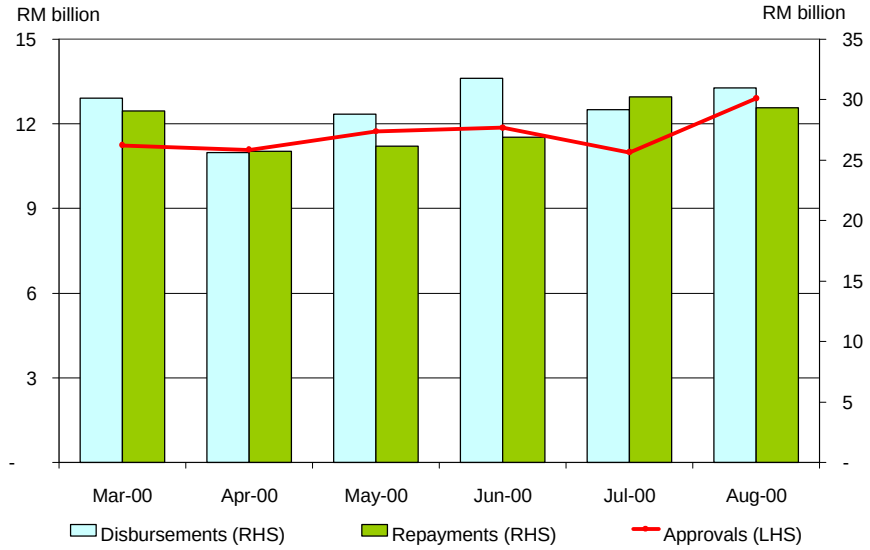
By type, the SPI deposits were higher, reflecting mainly higher placements by individuals and the Federal Government. There was also an increase in fixed deposits, with higher deposits by an NBFI and individuals. On the other hand, both FX deposits and demand deposits were lower.

Monthly Change in Deposits			(RM million)
	2000		
	Jun.	Jul.	Aug.
Type			
Fixed deposits	1928	-3360	1618
NIDs issued	1369	-408	233
Demand deposits	2300	-1688	-361
Savings deposits	1113	64	230
Repos	-208	1371	-58
FX deposits	388	526	-460
SPI deposits	443	519	1684
Others	230	257	189
Total	**7563**	**-2719**	**3076**

Main sources of increase were SPI and fixed deposits

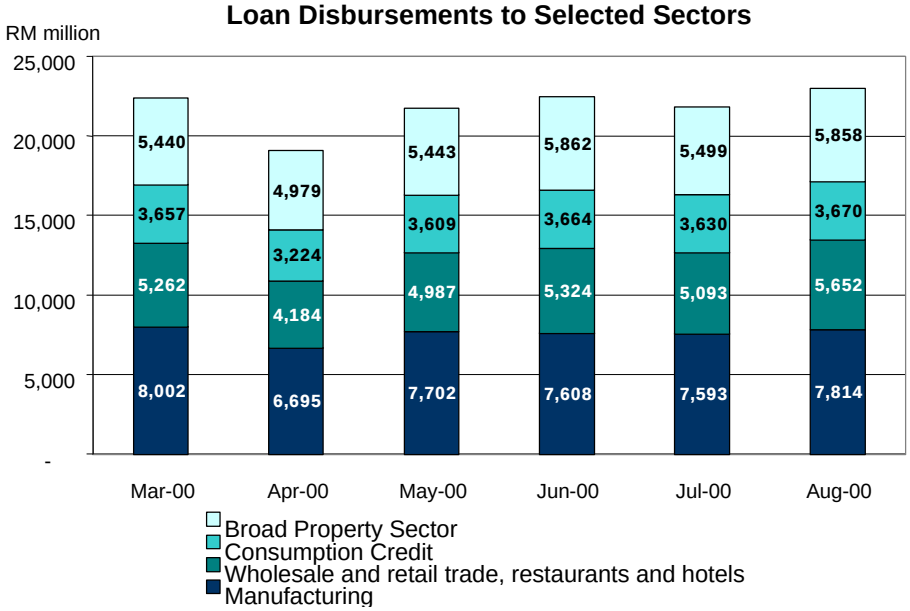
Total **loans approved** were higher in August, amounting to RM12.9 billion (July: RM11 billion). The loan approvals were largely for the purchase of residential property (RM2.2 billion), manufacturing activities (RM2 billion) and the purchase of passenger cars (RM1.5 billion).

Loan Approvals, Disbursements and Repayments



Approvals and disbursements were higher in August

Loan Disbursements to Selected Sectors



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

Similarly, **loans disbursed** were also higher in August (RM31 billion). The bulk of the disbursements were for manufacturing activities, wholesale trade, purchase of residential property, construction activities and financial services.

Total loans outstanding (including loans sold to Cagamas and Danaharta) extended by the banking system continued on the up-trend, increasing by RM3.1 billion in August (+RM1 billion in July). The bulk of the increase was evident in loans extended for the purchase of residential property, manufacturing activities, and the purchase of passenger cars. On an annual basis, total loans outstanding increased by 3.6% at end-August, with

commercial banks recording an annual growth rate of 4.7%. Finance companies also registered a higher positive annual growth rate of 2.1% at the end of August.

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

	2000		
	Monthly change		As at end
	Jul.	Aug.	Aug.
Agriculture, hunting, forestry and fishing	12	168	10,148
Mining and quarrying	-16	10	1,675
Manufacturing	610	682	68,773
Electricity, gas and water supply	-36	-518	6,759
Wholesale and retail trade, restaurants and hotels	243	64	38,205
Broad property sector	1,080	1,552	160,833
of which:			
Purchase of residential property	*933*	*1,413*	*70,232*
Transport, storage and communication	-729	-548	14,352
Finance, insurance and business services	137	143	32,893
Consumption	592	912	56,875
of which:			
Passenger cars	*416*	*969*	*35,333*
Credit cards	*103*	*197*	*6,658*
Purchase of securities	-429	31	33,201
Others	-477	571	20,191
Total Loans[1/]	**987**	**3,067**	**443,906**

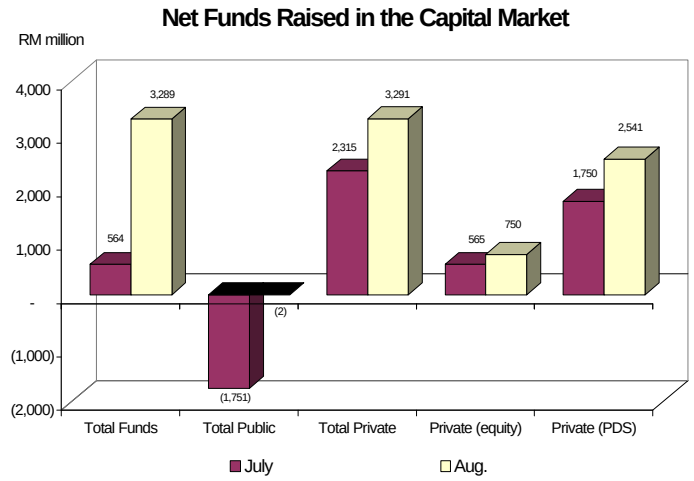
[1/] Including loans sold to Danaharta and Cagamas (inclusive of property loans and hire purchase receivables).

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

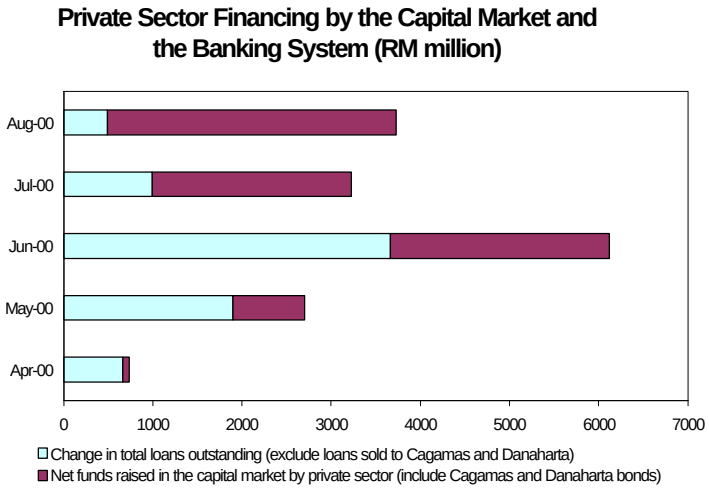
Loans outstanding continued to pick up in August

Higher net funds raised in the capital market

Net funds raised in the capital market were higher in August compared to July. This was due mainly to the higher net funds raised by the private sector and the lower net redemptions by the public sector. The higher net funds raised by the private sector were due to both higher issues of equities and higher net issues of private debt securities.

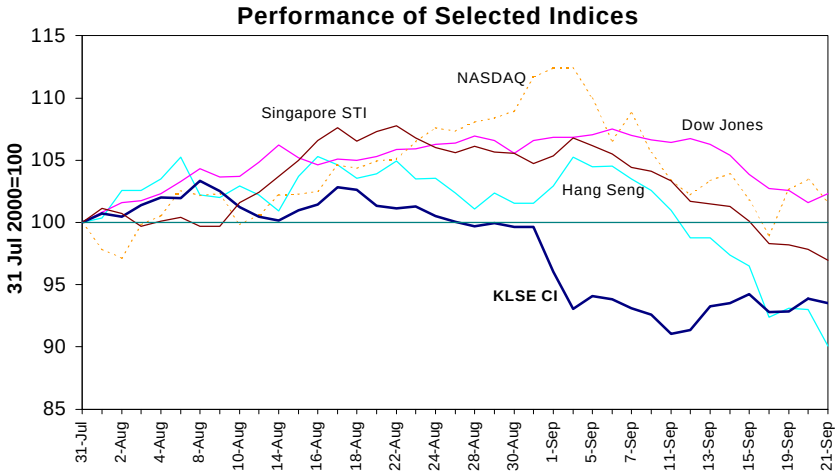


Net funds raised in the capital market were higher in August



Total private sector financing was higher in August

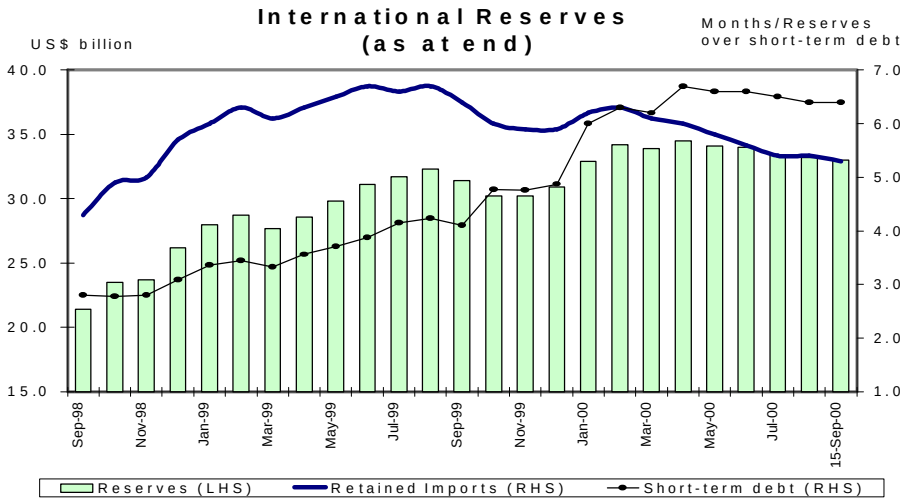
Market sentiment in the **Kuala Lumpur Stock Exchange (KLSE)** was mixed in August. Market sentiment improved in the beginning of August but weakened subsequently, influenced by concerns over a possible petrol price increase, and announcement of lower than expected corporate earnings. The KLSE Composite Index (KLSE CI) ended the month slightly lower at 795.84 points (-0.4% since end-July), while the KLSE market capitalisation stood at RM553.16 billion (-0.9% since end-July).



Market sentiment weakened in the first half of September, which was attributed to a sell-down by foreign funds and the declines in the U.S. and regional markets. Due to bargain hunting activities, the KLSE CI recovered slightly towards the end of the second week of September. As at 21 September, the KLSE CI closed at 747.16 points (-6.1% since end-August), while the market capitalisation stood at RM 513.36 billion (-7.2% since end-August).

International reserves remain strong

The **international reserves** of BNM remained strong at RM126.1 billion (US$33.2 billion) at the end of August. As at 15 September, reserves stood at RM125.2 billion (US$33 billion), sufficient to finance 5.3 months of retained imports, and is 6.4 times the short-term external debt. On 15 September, the Federal Government reopened its US$1 Billion Notes due 2009 by US$500 million, bringing the total issue size to US$1.5 billion. The proceeds will be credited in the second half of September.



International reserves remain strong

Banking system remained strong

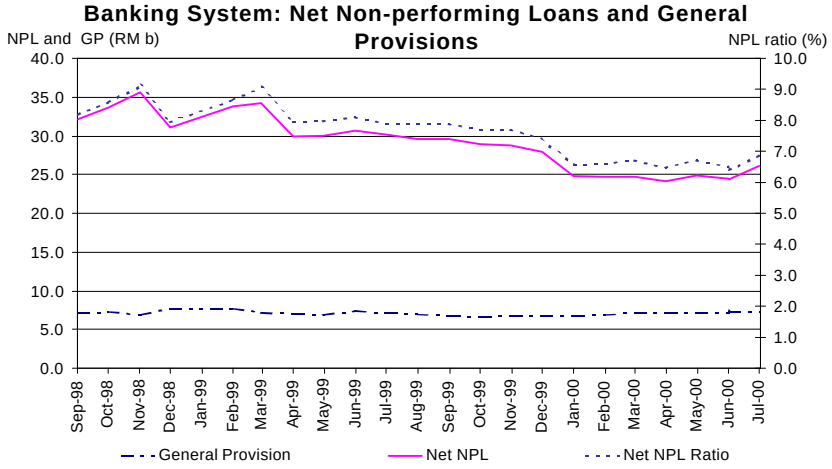
The banking system remained strong albeit with a slight increase in NPLs. As at end-August, the **risk-weighted capital ratio (RWCR)** of the banking system, which measures the adequacy of capitalization by banking institutions rose further to 13.1%. NPL ratio increased marginally to 6.9% at end-July due to the classification of certain restructured debts to non-performing. Of the total debts referred to CDRC amounting to RM45.9 billion, 38 cases with debts totalling RM25.7 billion or 56% of the debts have been successfully restructured, while another 20 cases amounting to RM16.3 billion are being reviewed.

Banking System Health Indicators

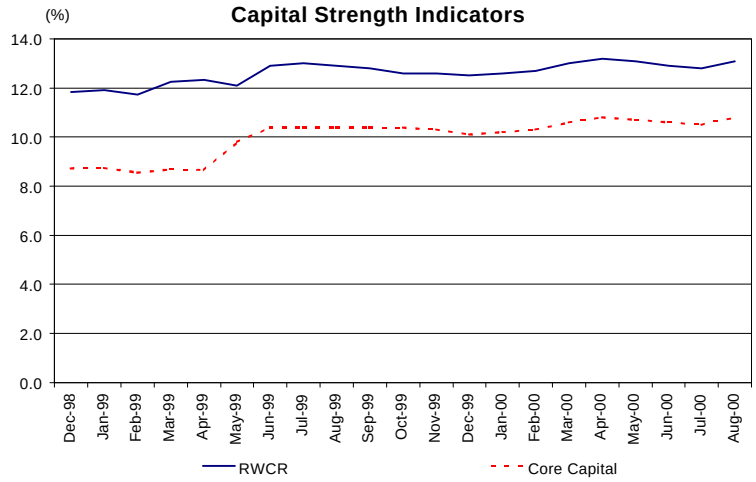
	1998	1999				2000			
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Jul.	Aug.
Capital									
Core-capital ratio (%)	8.7	8.7	10.4	10.4	10.1	10.6	10.6	10.5	10.8
RWCR (%)	11.8	12.3	12.9	12.8	12.5	13.0	12.9	12.8	13.1
Net NPL (6-month classification)									
Banking system (%)	7.5	7.9	7.9	7.7	6.7	6.5	6.5	6.9	n.a.
Banking system (RM million)	29,286	29,981	30,129	29,000	24,818	24,125	24,736	26,067	n.a.
GP/Net total loans (6-month,%)	2	1.8	1.9	1.8	1.8	1.9	1.9	1.9	n.a.

n.a. Not available

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



Net NPL ratio of banking system remains low



….. risk-weighted capital ratio rose to 13.1%

Danaharta has not been acquiring any additional NPL and has since concentrated on managing the NPLs acquired. As at 31 August 2000, **NPLs managed by Danaharta** amounted to **RM37.0 billion**, representing approximately **42.6%** of total NPLs in the banking system**.** In managing the NPL, Danaharta has employed a number of mechanisms, such as loan restructuring, foreclosure of collateral and business and asset management through appointment of special administrators. Up to 30 June 2000, Danaharta has initiated recovery action on 97.0% of the NPLs where 6.4% has been fully settled and another 5.3% had turned performing. From the recently concluded third property tender exercise, Danaharta has received 116 successful bids out of a total of 300 properties offered. The properties will be sold to the successful bidders for a total consideration of RM208.67 million, representing 97% of the total indicative value. As at 31 August 2000, capital injection by Danamodal into the banking sector remained at RM4.9 billion.

Bank Negara Malaysia
28 September 2000

Key Monetary and Banking Statistics

	July		August	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	37.6	6.4	37.8	6.5
M1	69.0	10.7	69.4	11.9
M2	338.1	5.2	339.8	5.5
M3	437.7	3.7	440.0	4.6
Banking System				
Total deposits	454.0	1.4	457.1	2.5
Total loans (including loans sold to Cagamas and Danaharta)	440.8	2.7	443.9	3.6
Total loans (excluding loans sold to Cagamas and Danaharta)	386.0	1.0	386.5	1.3
Loan-deposit ratio (%)	85.0		84.6	
Loans approved during the month	11.0		12.9	
Loans disbursed during the month	29.2		31.0	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	12.8		13.1	
Net NPLs: 6-month classification (%)	6.9		n.a	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	126.7		126.1	
Reserves in USD (billion)	33.4		33.2	
Months of retained imports	5.4		5.4	
Interest Rates (average rates at end-period)				
Interbank: 1-month	3.04		3.00	
3-month	3.40		3.30	
Fixed deposits of commercial banks: 1-month	3.20		3.43	
3-month	3.26		3.47	
BLR of commercial banks	6.75		6.76	
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.5099		3.3944	
Pound Sterling	5.7150		5.5208	
Singapore dollar	2.1927		2.2076	
100 Japanese yen	3.4710		3.5721	
100 Thai Baht	9.1732		9.2785	
100 Philippine Peso	8.4661		8.4257	
100 Indonesian Rupiah	0.0423		0.0453	
100 Korean Won	0.3401		0.3427	
Capital Market				
Funds raised by: public sector (RM million)	-1,750.9		-1.8	
private sector (RM million)	2,314.7		3,291.0	
Kuala Lumpur Composite Index (end-period)	798.8		795.8	
KLSE Market Capitalisation (RMb) (end-period)	558.3		553.2	