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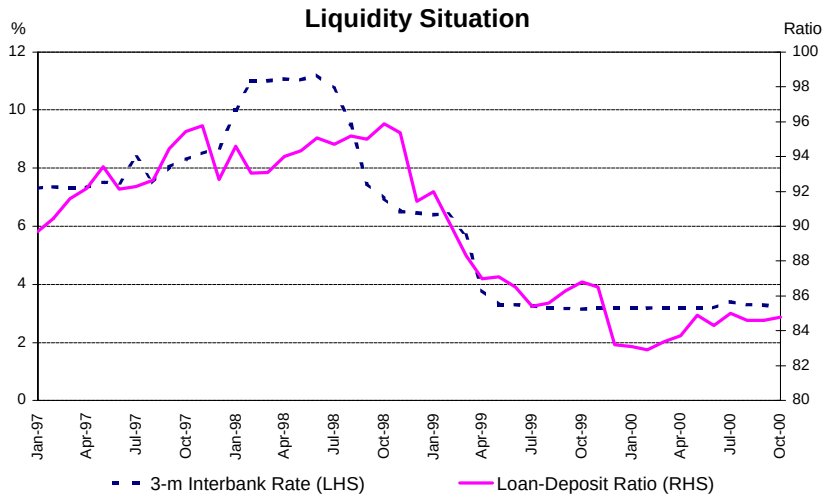
PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS OCTOBER 2000

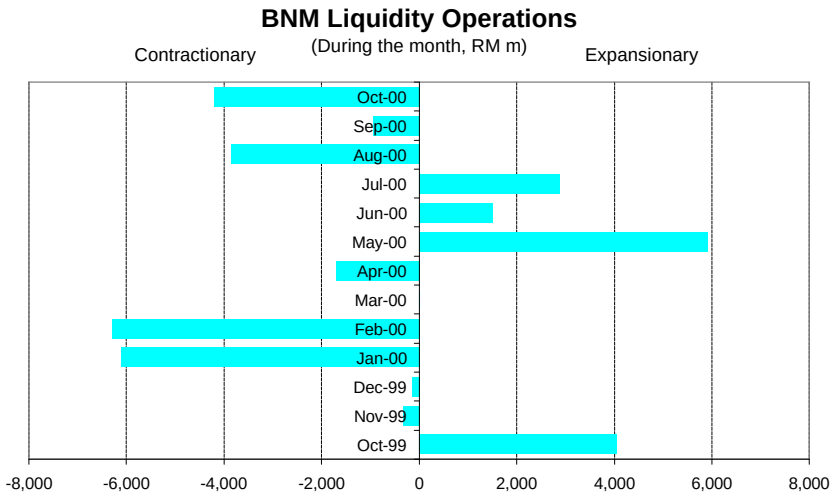
In tandem with the robust economic performance, all monetary aggregates registered stronger growth in October due to higher loan growth. Inflation continued to remain subdued, although there was a slight increase in October due mainly to higher prices of petroleum products and bus fares. Meanwhile, conditions in the domestic financial market remained stable during the month. Amid ample liquidity, interest rates remained relatively unchanged.

Interbank rates remained relatively stable

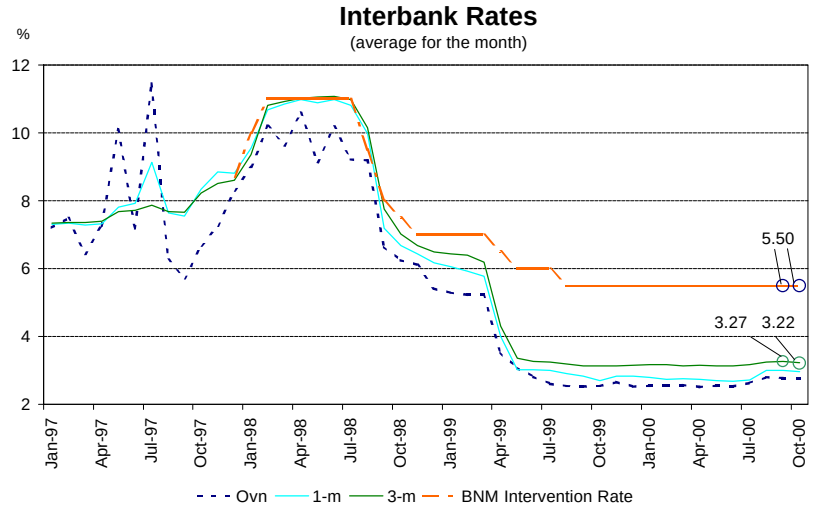
In the **interbank money market**, interbank rates in October and the first two weeks of November remained relatively stable. Liquidity conditions in the banking system also remained stable.



Liquidity remained ample

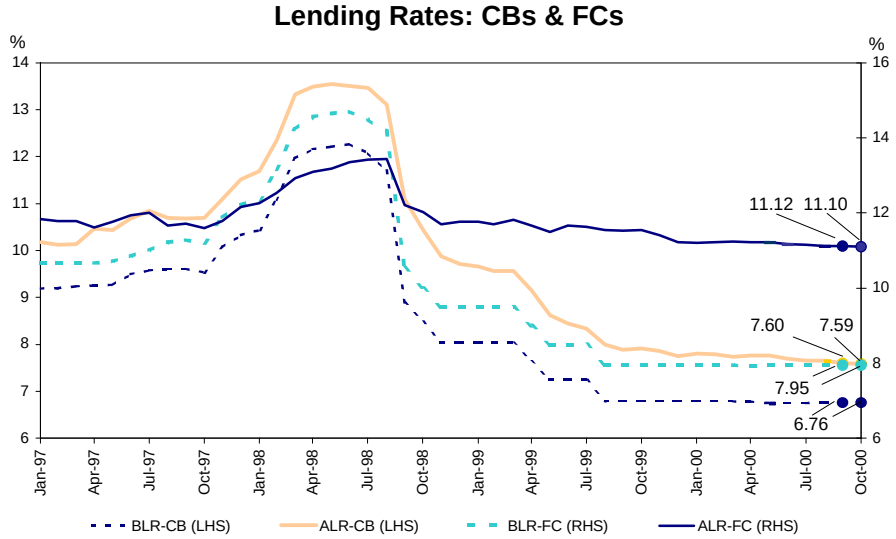


BNM's operations aimed to achieve stable liquidity conditions



Average interbank rates remained relatively stable in October

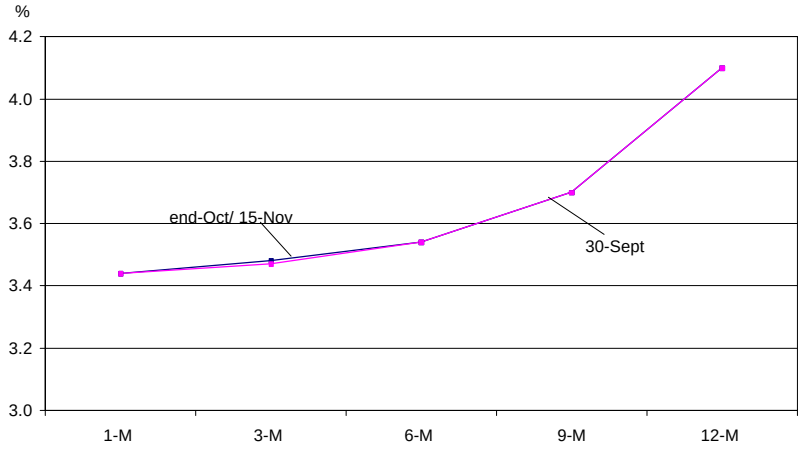
The **base lending rates** (BLRs) of commercial banks (CBs) and finance companies (FCs) remained unchanged at end-October. Meanwhile, continued competition among banking institutions in an environment of ample liquidity saw their **average lending rates** (ALRs) stabilising at 7.59% and 11.10% respectively at end-October (7.60% and 11.12% respectively at end-September).



CBs & FCs: BLR and ALR remained relatively stable

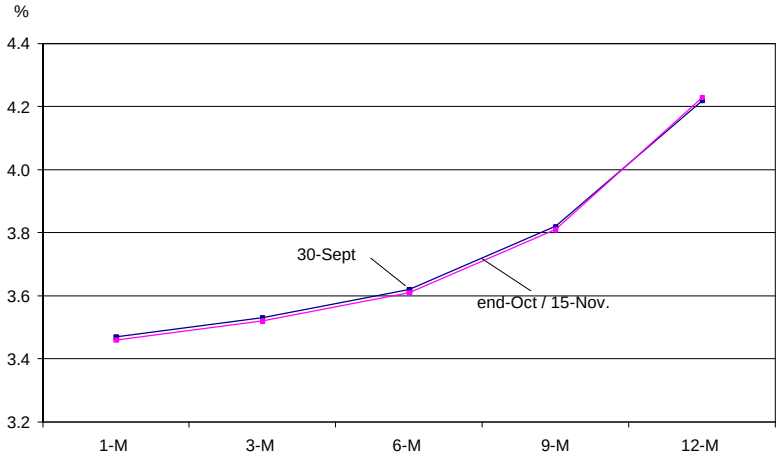
The **average fixed deposit (FD) rates** of both CBs and FCs remained largely unchanged on 15 November as at end-September, where the 1-month to 12-month FD rates ranged from 3.44-4.10% and 3.46-4.23% respectively. In terms of **interest margin**, with the slight increase in the cost of funds amid stable lending rates, the margin of both CBs and FCs declined slightly to 4.29% and 7.13% respectively at end-October (4.34% and 7.19% at end-September).

Term Structure of FD Rates: Commercial Banks



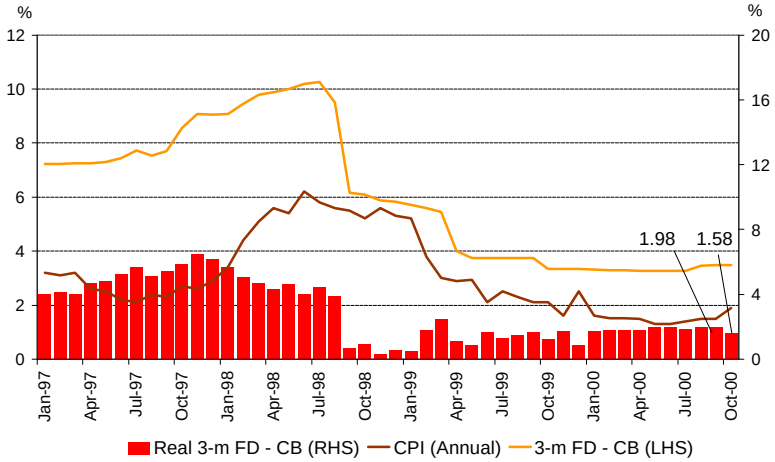
FD rates remained stable

Term Structure of FD Rates: Finance Companies



FD rates remained stable

Real Interest Rates

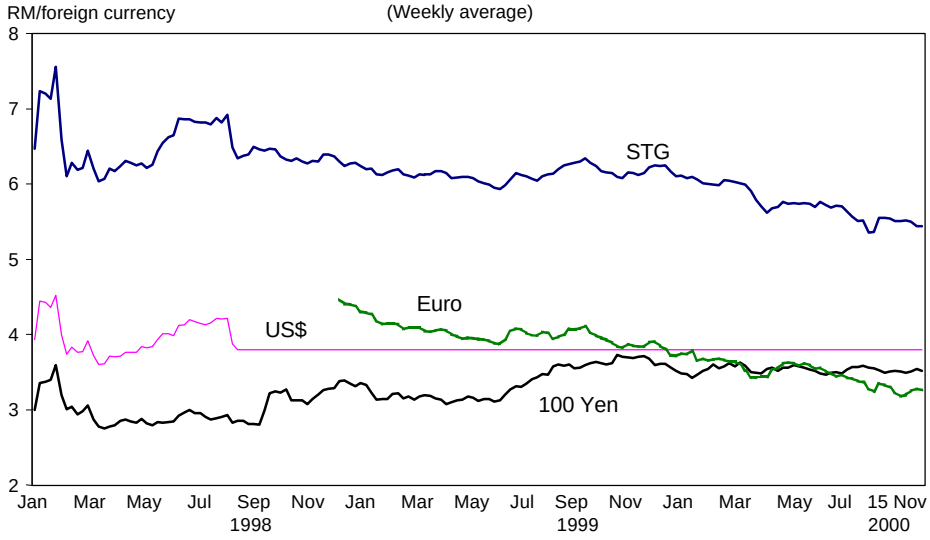


Real FD rates declined because of slight increase in CPI, following the increase in prices of petroleum products

Ringgit recorded an appreciation against major currencies and regional currencies

In the month of October**, the ringgit recorded an appreciation against all major and regional currencies,** in tandem with the movements of the US dollar in the international foreign exchange markets. The ringgit appreciated against the pound sterling, the Japanese yen and the euro in the range of 0.9% - 4.7%. During the month, the euro continued to depreciate against the US dollar to reach a record low. Meanwhile, the yen depreciated slightly against the US dollar due to concern over the recovery of the Japanese corporate sector. During the same period, the ringgit also recorded a broad appreciation against all regional currencies in the range of 0.9% - 10.5%. The Philippine peso experienced a sharp decline following market concerns over domestic political developments. The Thai baht, meanwhile, continued to depreciate reflecting domestic developments in Thailand.

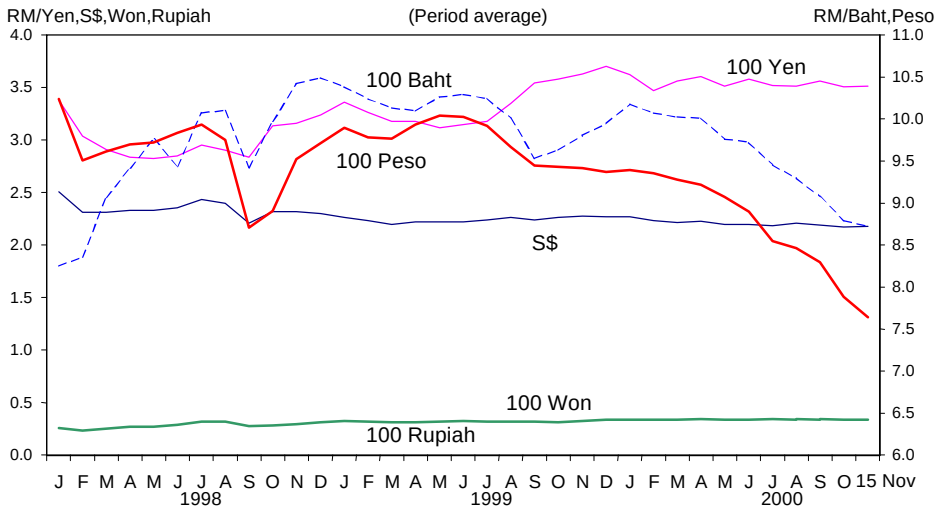
Performance of Ringgit against Major Currencies



The ringgit recorded an appreciation against major currencies in October

In the first two weeks of November**, the ringgit depreciated against most major as well as regional currencies,** in tandem with the movements of the US dollar in the international foreign exchange markets. The ringgit depreciated against the euro and the Japanese yen by 2.0% and 0.8% respectively. The euro appreciated against the US dollar during this period following several unilateral interventions by the European Central Bank in early November to support the euro. Meanwhile, the pound sterling depreciated slightly against the US dollar due to the market perception that there would be no more interest rate increases in the UK. During the same period, the ringgit recorded a broad depreciation against all regional currencies in the range of 0.6% - 2.6%. The Philippine peso experienced the largest appreciation following signs of favourable domestic developments.

Performance of Ringgit against Regional Currencies



Regional currencies depreciated further against the ringgit in October, but strengthened slightly in November

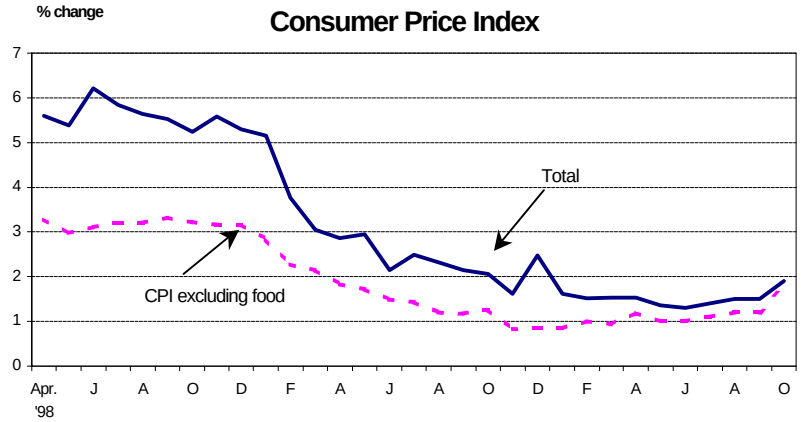
Performance of Ringgit against Selected Currencies

RM per foreign currency	End-June 1997	2 September 1998	15 November 2000	% change Since end-June 1997	% change Since 2 Sept. 1998	% change Since end-Oct. 2000
US dollar	2.5235	3.8000	3.8000	-33.6	0.0	0.0
Euro	-	-	3.2633	-	-	-2.0
Pound Sterling	4.1989	6.3708	5.4397	-22.8	17.1	1.3
100 Japanese yen	2.2088	2.7742	3.5149	-37.2	-21.1	-0.8
Singapore dollar	1.7647	2.1998	2.1795	-19.0	0.9	-0.8
100 Thai baht	9.7470	9.3713	8.7226	11.7	7.4	-1.0
100 Philippine peso	9.5878	8.8302	7.6420	25.5	15.5	-2.6
100 Indonesian Rupiah	0.1038	0.0354	0.0406	155.7	-12.8	-0.8
100 Korean won	0.2842	0.2827	0.3350	-15.2	-15.6	-0.6

Consumer prices continued to remain low

The inflation rate, measured in terms of the **Consumer Price Index (CPI),** increased to **1.9%** on an annual basis in October. Increases in the retail price of petrol, diesel and liquefied petroleum gas, effective 1 October 2000 as well as bus fares, in line with the implementation of the zoning system in Kuala Lumpur and its surrounding areas, effective 15 October 2000, led to increases in two main groups of the CPI: "**transport and communication**" and "**gross rent, fuel and power**". Among the other main groups of the CPI, price declines were recorded for the "miscellaneous goods and services" and "clothing

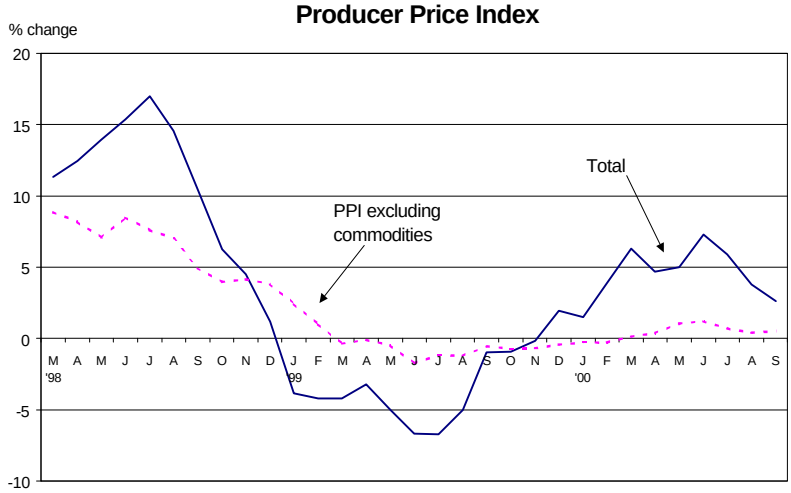
and footwear" groups. All other groups, including food, recorded stable price increases. For the first ten months of 2000, the increase in the overall CPI as well as CPI, excluding food, remained relatively stable at 1.5% and 1.1% respectively.



Inflation remained relatively stable in the first ten months

Producer prices moderated further

At the producer level, the annual rate of increase in the **Producer Price Index (PPI)** moderated further to 2.6% in September (3.8% in August). The moderation was on account of the continued and larger price decline recorded for the "animal and vegetable oils and fats" group, particularly palm oil, as well as the significantly lower price increase recorded for the "inedible crude materials, excluding fuels" group. Excluding commodities (comprising inedible crude materials; mineral fuels, lubricants and related materials; and animal and vegetable oils and fats), the adjusted PPI rose at a marginal annual rate of 0.5% in September.



Producer prices moderated further

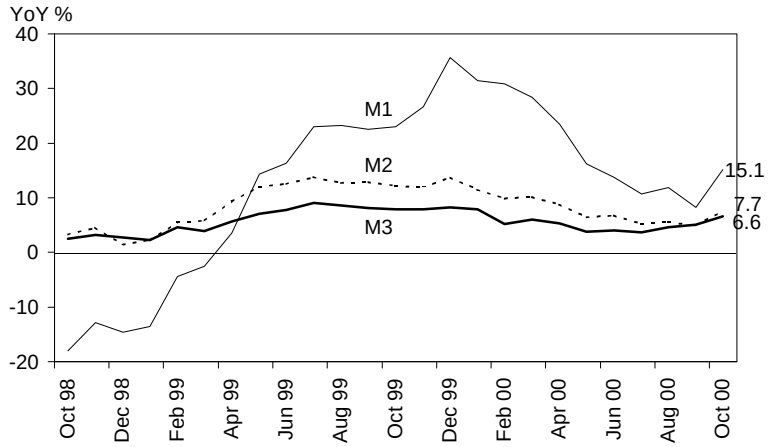
Growth in money supply accelerated

In October, broad money supply, M3, continued to increase by RM6.4 billion or 1.5% (seasonally adjusted M3 rose by RM6.7 billion). Consequently, the annual growth of M3 increased to 6.6% at end-October (5.1% at end-September).

The increase in M3 during the month emanated mainly from the expansionary Government operations and higher claims on the private sector. The impact of Government operations on money supply amounted to RM8.1 billion reflecting the drawdown of deposits placed with BNM to finance public sector expenditures as well as repayment of external debt. Meanwhile, higher claims on the private sector reflecting mainly higher loans (RM4.5 billion), contributed further to monetary expansion. External operations, on the other hand, were contractionary on money supply by RM6.6 billion due mainly to loan repayments, overseas investment by the Malaysian corporate sector as well as outflow of portfolio funds.

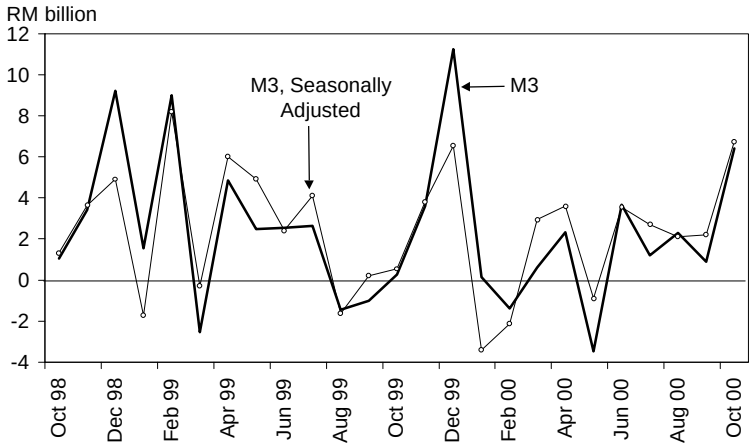
In terms of components, the expansion in M3 reflected mainly higher placements of fixed deposits and demand deposits by business enterprises.

Monetary Aggregates: Annual Growth



Money supply accelerated in October

M3: Monthly Change



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

M3 Determinants

(RM billion)

	Outstanding	Change during the period			
		2000			
	October	August	September	October	Jan. - Oct.
M3	447.3	2.3	0.9	6.4	12.7
Claims on Government	-14.5	3.0	-5.5	8.1	4.3
Claims on private sector	463.3	2.5	0.2	5.5	18.4
External operations	126.6	-0.9	-1.3	-6.6	1.9
Other influences	-128.1	-2.3	7.5	-0.6	-11.9

Significant increase in banking system deposits and loans

On a month-on-month basis, **total deposits** increased by RM3.9 billion or 0.9% in October. This reflected primarily an increase in deposits by business enterprises. In addition, deposits by individuals, non-bank financial institutions as well as statutory authorities were also higher. On an annual basis, total deposits increased by 5.2% as at end-October (3.5% at end-September).

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

	2000		
	Aug.	Sep.	Oct.
Holder			
Federal Government	541	1222	-1438
State Governments	-389	377	-389
Statutory Authorities[1/]	648	-840	360
Financial Institutions	1567	1392	629
Business Enterprises	772	-946	3791
Individuals	-253	241	667
Others	189	307	309
Total	**3076**	**1752**	**3929**

[1/] Include local Governments.

Deposits increased due to higher placements by business enterprises, individuals, non-bank financial institutions and statutory authorities

All deposits, with the exception of repos and NIDs, were higher in October. By type, the increase in fixed deposits was due mainly to higher placements by a business enterprise, statutory authorities and individuals, while higher demand and foreign currency deposits were due to placements by business enterprises. NIDs were lower as there was a decline in interplacements between banking institutions.

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

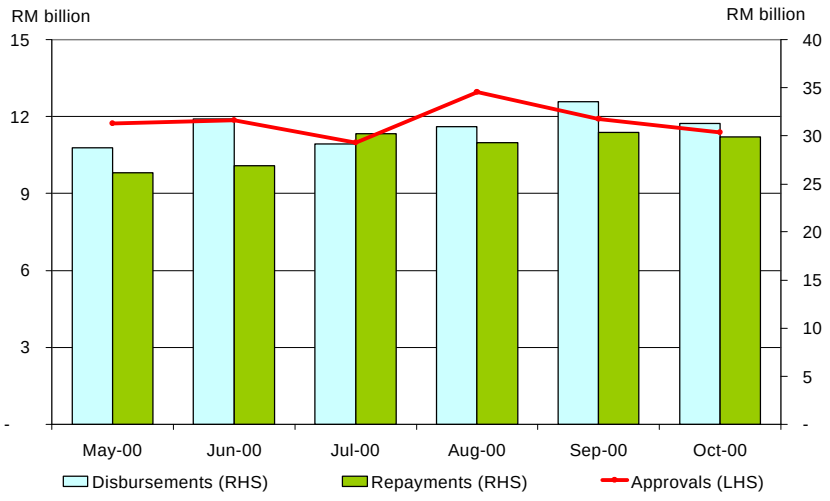
	2000		
	Aug.	**Sep.**	**Oct.**
Type			
Fixed deposits	1618	3680	2239
NIDs issued	233	-254	-906
Demand deposits	-361	14	1959
Savings deposits	230	71	30
Repos	-58	-2460	-393
FX deposits	-460	120	581
SPI deposits	1684	272	109
Others	189	307	309
Total	**3076**	**1752**	**3929**

Deposits increased due mainly to higher fixed and demand deposits

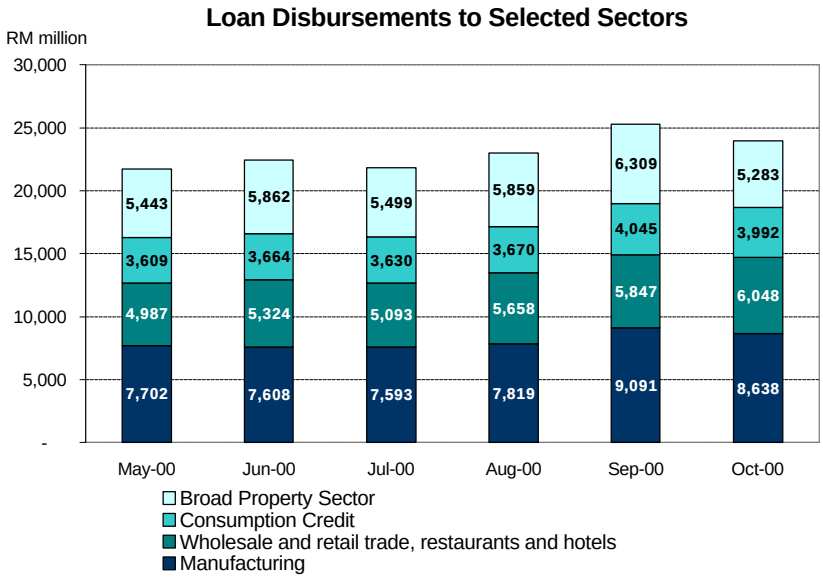
Loan approvals remained high at RM11.4 billion in October (average of RM11 billion in the first nine months). The loan approvals were largely for the purchase of residential property (RM1.9 billion), manufacturing activities (RM1.7 billion) as well as for the purchase of passenger cars (RM 1.5 billion).

Loans disbursed amounted to RM31.3 billion in October. The bulk of the disbursements were mainly for manufacturing activities, wholesale trade, purchase of residential property, construction activities and the purchase of passenger cars.

Loan Approvals, Disbursements and Repayments



The high level of approvals and disbursements were sustained in October



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

A significant increase of RM3.5 billion was recorded in **total loans outstanding** (including loans sold to Cagamas and Danaharta) extended by the banking system in October (+RM1.3 billion in September). On an annual basis, total loans outstanding increased by 4.3% at end-October, the highest rate since September 1998, with commercial banks recording a year-on-year growth rate of 5%. The bulk of the increase was evident in loans extended for the purchase of residential property and securities as well as for manufacturing activities.

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

	2000		
	Monthly change		As at end
	Sep.	Oct.	Oct.
Agriculture, hunting, forestry and fishing	75	165	10,379
Mining and quarrying	-107	269	1,836
Manufacturing	-92	541	69,096
Electricity, gas and water supply	461	-211	7,019
Wholesale and retail trade, restaurants and hotels	-196	204	38,119
Broad property sector	1,399	282	161,633
of which:			
Purchase of residential property	*1,140*	*1,111*	*71,994*
Transport, storage and communication	-84	-96	14,197
Finance, insurance and business services	-25	0	32,832
Consumption	136	661	57,258
of which:			
Passenger cars	*-73*	*391*	*35,651*
Credit cards	*230*	*138*	*6,948*
Purchase of securities	-447	710	33,350
Others	205	977	21,262
Total Loans[1/]	**1,326**	**3,503**	**446,981**

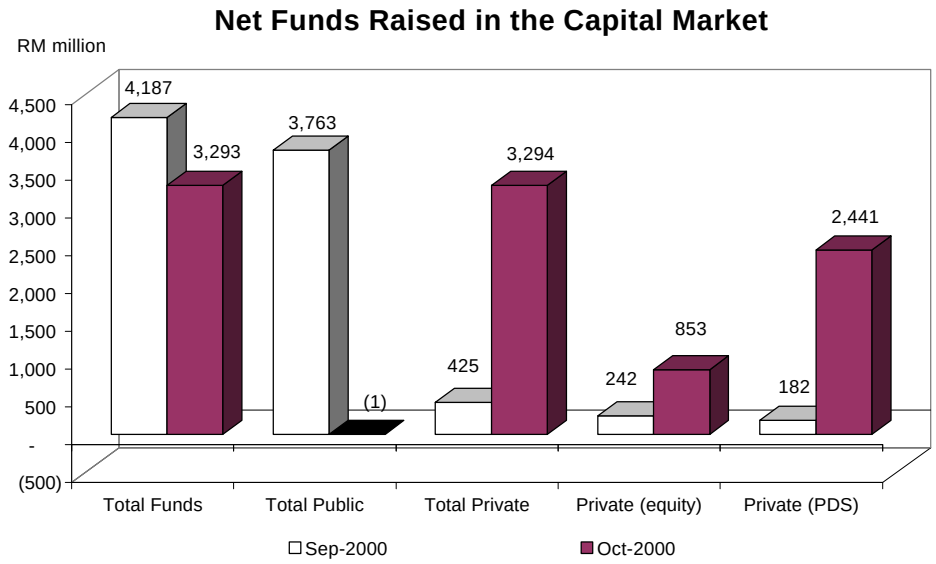
[1/] Including loans sold to Danaharta and Cagamas (inclusive of property loans and hire purchase receivables).

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

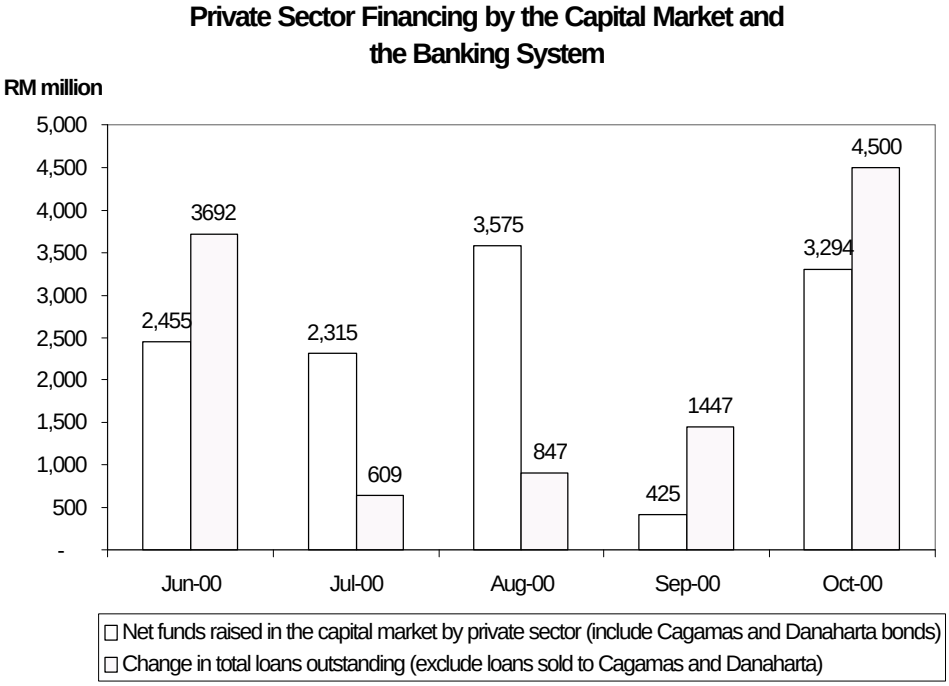
Loans outstanding increased substantially

Lower net funds raised in the capital market

Net funds raised in the capital market was lower in October compared to September. While the public sector did not resort to any financing from the capital market, net funds raised by the private sector, through the private debt securities and the equity markets, was higher in October.

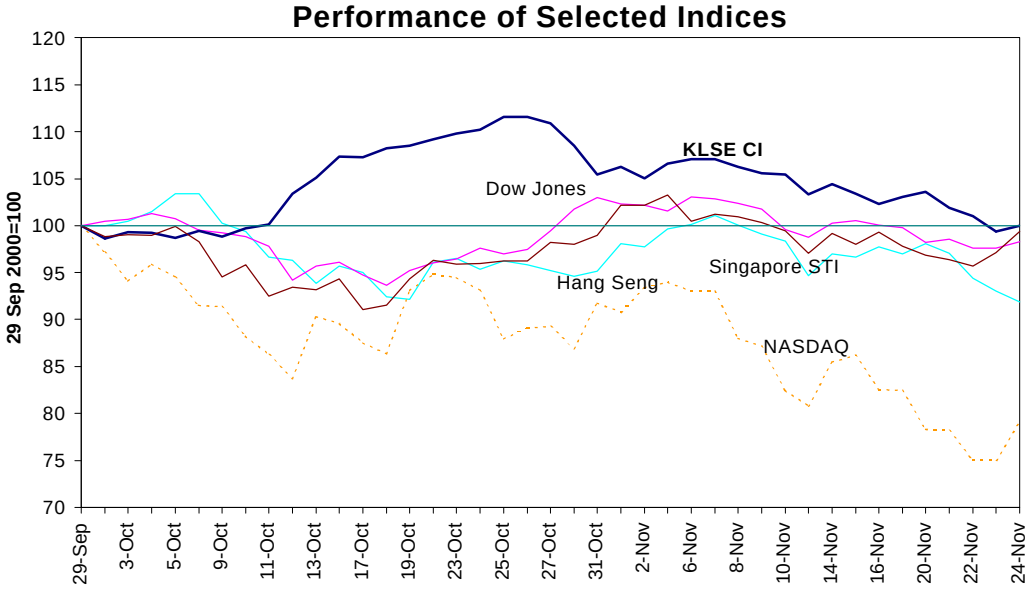


Net funds raised in the capital market were lower in October



Total private sector financing was higher in October

Market sentiments on the Kuala Lumpur Stock Exchange (KLSE) improved slightly in October. The KLSE composite index (KLSE CI) improved on expectations of favourable proposals in the 2001 Budget. Despite declines in Hong Kong, Singapore and the US markets owing to global concerns of lower earnings in the technology sector, the KLSE CI remained positive. The improved market performance was also attributed to strong buying support of the local institutional funds on the KLSE CI counters. As at 31 October, the KLSE CI closed at 752.4 points (5.4% since end-September), while the market capitalisation stood at RM502 billion (2.7% since end-September).



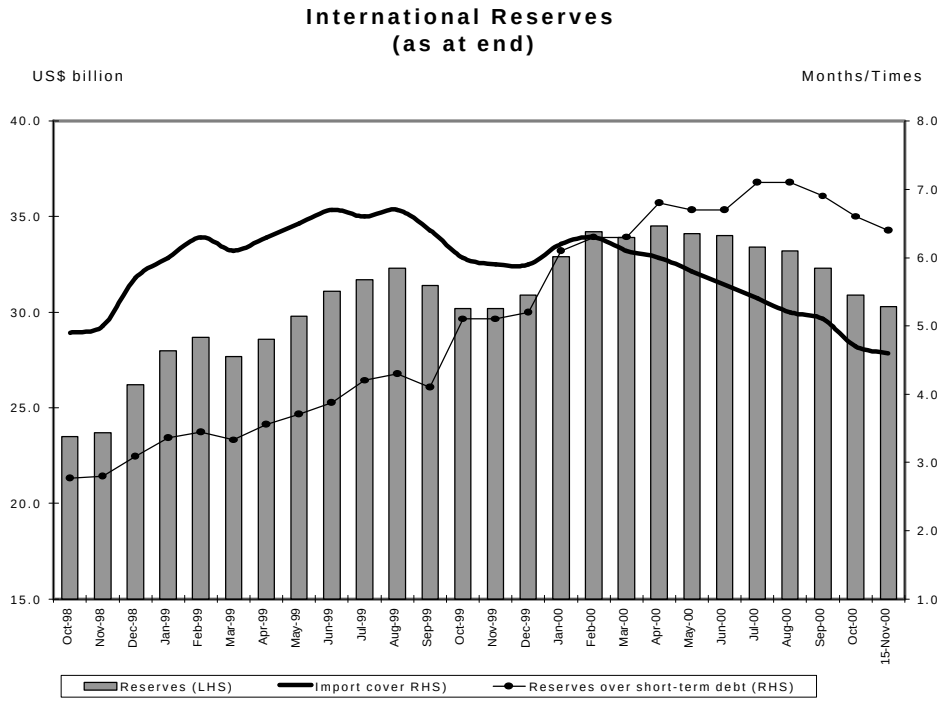
Performance of KLSE CI fared better against the other markets in October

Market sentiment in the first half of November was weak with the absence of fresh leads as well as selling pressure due to profit taking activities. Like most markets in the region, the weak performance of KLSE CI was also attributed to the concerns over the uncertainty of the outcome of the US presidential election and continued earnings downgrade for major technology companies. As at 24 November, KLSE CI closed at 713.6 points (-5.2% since end-October), while the market capitalisation stood at RM478.1 billion (-4.8% since end-October).

International reserves lower but remain strong

The international reserves of BNM amounted to RM117.4 billion (US$30.9 billion) as at end-October compared to RM122.8 billion (US$32.3 billion) at the end of September. The decrease in international reserves reflected mainly higher loan repayments arising from the repayment of US$617.7 million of the US$650 million floating rate notes issued by the Government in 1985. In addition, it also reflected overseas investment by the Malaysian

corporate sector as well as outflow of portfolio funds. The decline also reflected increase in foreign currency deposits in the domestic financial institutions. Strong trade and other capital inflows had provided sufficient cushion to accommodate the outflows. As at 15 November, reserves remained strong at RM115.1 billion (US$30.3 billion), sufficient to finance 4.6 months of retained imports and is 6.4 times the short-term external debt. Since August 1998, reserves increased by US$10.1 billion.



International reserves remain at a comfortable level

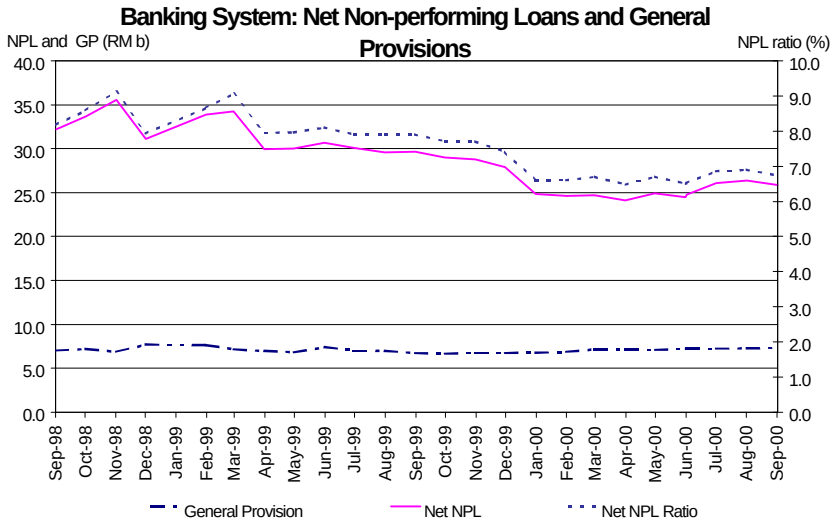
Banking system remained strong

The banking system remained strong with a risk weighted capital ratio (RWCR) of 13.0% as at the end of October 2000 and the core capital ratio of the banking system remained at the previous level of 10.8%. The NPL ratio of the banking system has also improved from 6.9% in August to 6.7% at the end of September 2000, following higher loan repayments received during the month.

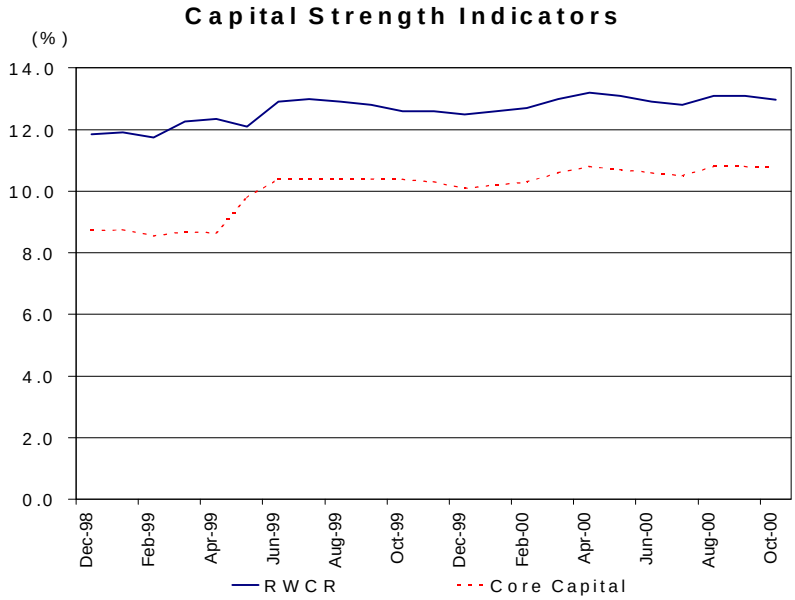
Banking System Health Indicators									
	1998	1999				2000			
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Oct.
Capital									
Core-capital ratio (%)	8.7	8.7	10.4	10.4	10.1	10.6	10.7	10.8	10.8
RWCR (%)	11.8	12.3	12.9	12.8	12.5	13.0	13.0	13.1	13.0
Net NPL (6-month classification)									
Banking system (%)	7.5	7.8	7.9	7.7	6.6	6.5	6.5	6.7	n.a.
Banking system (RM million)	29,466	29,635	29,888	29,005	24,677	24,125	24,736	25,858	n.a.
GP/Net total loans (6-month,%)	1.8	1.8	1.9	1.8	1.9	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 improved to 6.7%



….. risk-weighted capital ratio remained strong at 13.0%

As at 31 October 2000, NPLs managed by Danaharta remained at approximately RM37 billion representing approximately 42.2% of the total NPLs in the banking system. Danaharta is currently managing the NPLs acquired through loan restructuring, foreclosure of collateral and business and asset management through appointment of special administrators. Up to 30 September 2000, Danaharta has restructured or disposed of loans and assets with a gross value of RM35.3 billion where 17.0% has been fully settled and another 7.0% has turned performing. Danaharta also launched its fourth property tender involving 197 properties with a total indicative value of RM555.1 million on 7 November 2000. The tender closes on 13 December 2000.

As at 31 October 2000, capital injection by Danamodal into the banking sector remained at RM4.9 billion. On the other hand, CDRC has resolved a total of 39 cases totalling RM25.9 billion from the 57 cases (total debts of RM41.9 billion) received and eligible for restructuring. Another 18 cases with a loan value of RM16.0 billion are currently being reviewed by CDRC.

Bank Negara Malaysia
28 November 2000

Key Monetary and Banking Statistics

	September		October	
	Outstanding (RM billion)	Ann. Growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	37.9	8.7	38.0	5.8
M1	68.7	8.3	71.6	15.1
M2	338.8	4.9	343.5	7.7
M3	440.9	5.1	447.3	6.6
Banking System				
Total deposits	458.8	3.5	462.7	5.2
Total loans (including loans sold to Cagamas and Danaharta)	443.5	3.2	447.0	4.3
Total loans (excluding loans sold to Cagamas and Danaharta)	387.9	1.4	392.4	2.8
Loan-deposit ratio (%)	84.6		84.8	
Loans approved during the month	11.9		11.4	
Loans disbursed during the month	33.5		31.3	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	13.1		13.0	
Net NPLs: 6-month classification (%)	6.7		n.a.	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	122.8		117.4	
Reserves in USD (billion)	32.3		30.9	
Months of retained imports	5.0		4.7	
Interest Rates (average rates at end-period)				
Interbank: 1-month	3.00		2.97	
3-month	3.29		3.22	
Fixed deposits of commercial banks: 1-month	3.44		3.44	
3-month	3.48		3.48	
BLR of commercial banks	6.76		6.76	
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.3484		3.1969	
Pound Sterling	5.5611		5.5104	
Singapore dollar	2.1824		2.1630	
100 Japanese yen	3.5197		3.4866	
100 Thai Baht	8.9835		8.6373	
100 Philippine Peso	8.2251		7.4437	
100 Indonesian Rupiah	0.0432		0.0403	
100 Korean Won	0.3407		0.3329	
Capital Market				
Funds raised by: public sector (RM million)	3762.6		-0.7	
private sector (RM million)	424.8		3293.9	
Kuala Lumpur Composite Index (end-period)	713.5		752.4	
KLSE Market Capitalisation (RMb) (end-period)	488.8		502.0	