BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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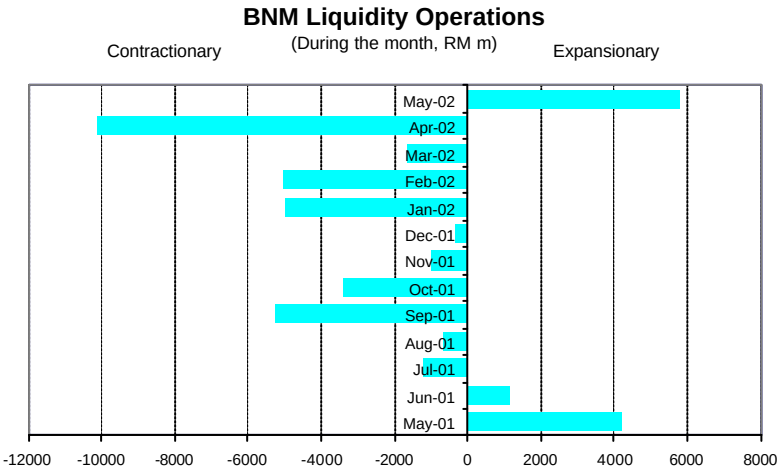
PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS May 2002

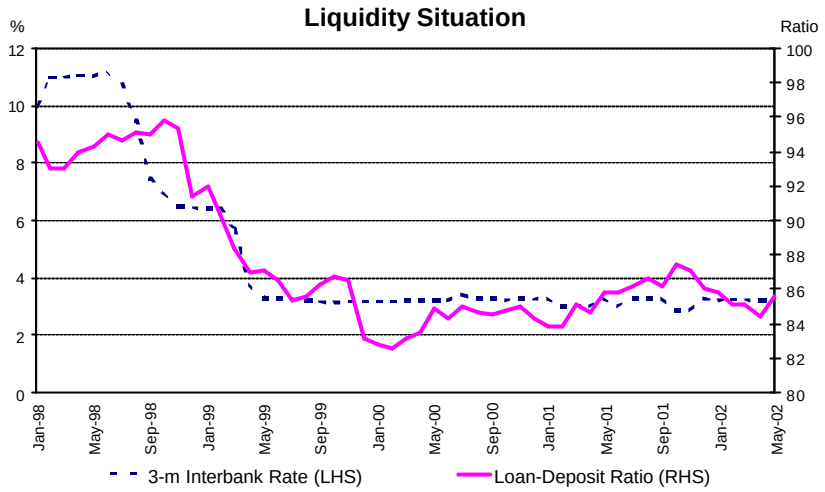
Amidst low inflation, the low and stable interest rate environment and ample liquidity situation continued to support economic recovery. In May, both loan approvals and disbursements continued to increase at a faster pace, contributing to further loan expansion and increases in broad money supply. Going forward, with the continued strengthening of the banking system, the current accommodative monetary policy stance will continue to inject greater positive monetary impulses towards promoting economic growth.

Interest rate levels continued to remain low and stable

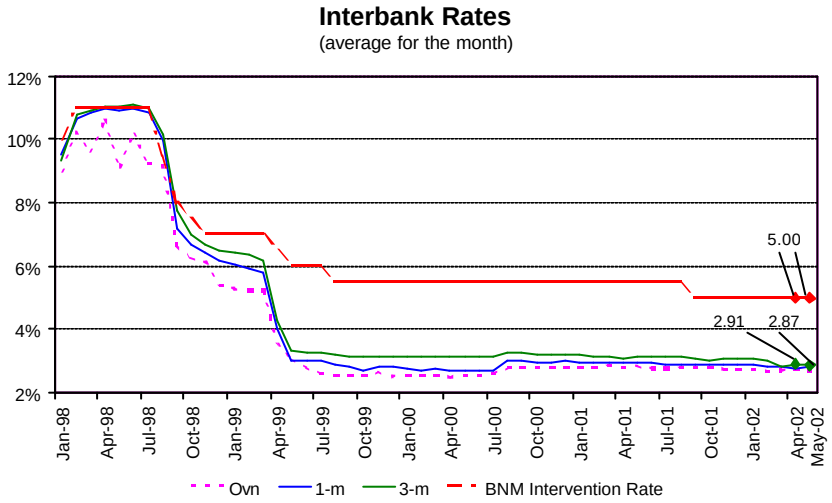
In May, the **interbank money market** rates remained low and relatively stable, following BNM liquidity operations to inject RM5.8 billion into the market to offset the contractionary impact from the Government and external operations.



BNM liquidity operations were expansionary to maintain stable liquidity conditions

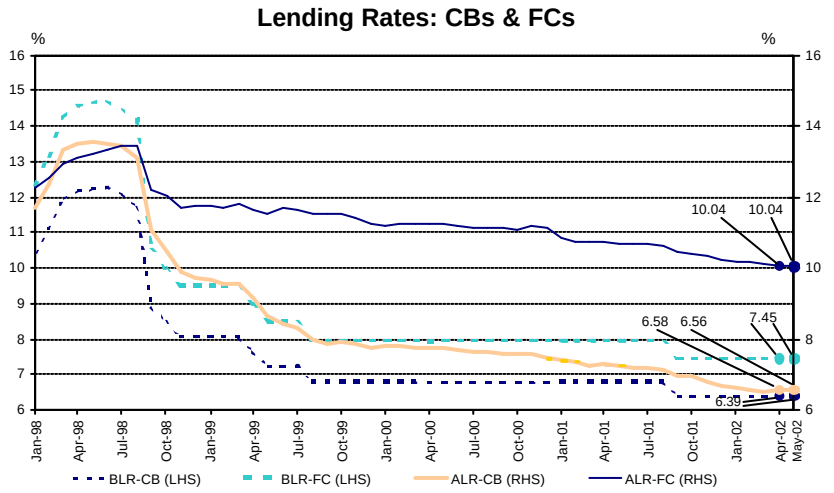


Liquidity remained ample



Interbank money market rates remained low

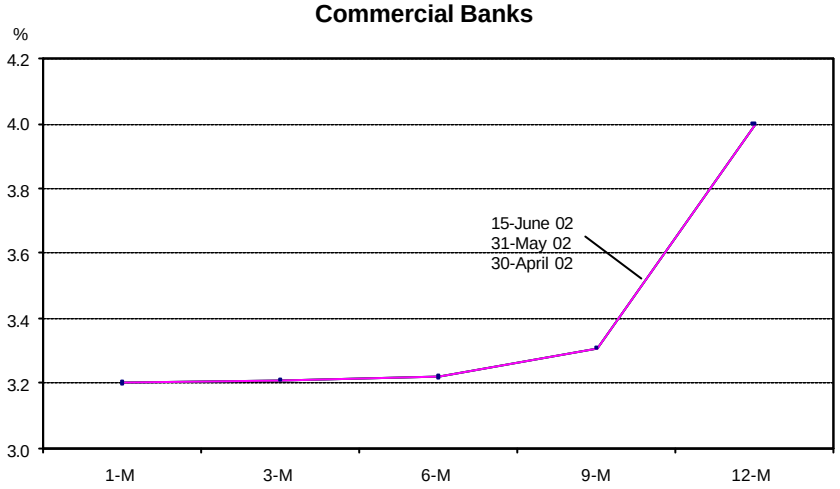
The **average lending rates** (ALR) of both commercial banks (CBs) and finance companies (FCs) remained relatively stable at 6.56% and 10.04% respectively (6.58% and 10.04% respectively at end-April). Meanwhile, the **average base lending rates** (BLR) of CBs and FCs remained unchanged in May.



ALR remained relatively stable during the month while BLR remained unchanged.

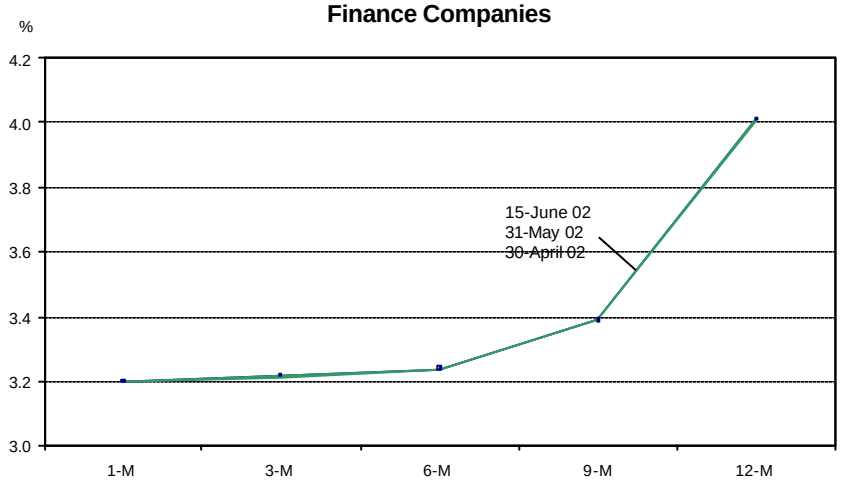
As at 15 June, the term structure of **average fixed deposit (FD) rates** for the 1-month to 12-month maturities of both CBs and FCs also remained unchanged from levels at the end of May.

Term Structure of FD Rates: Commercial Banks



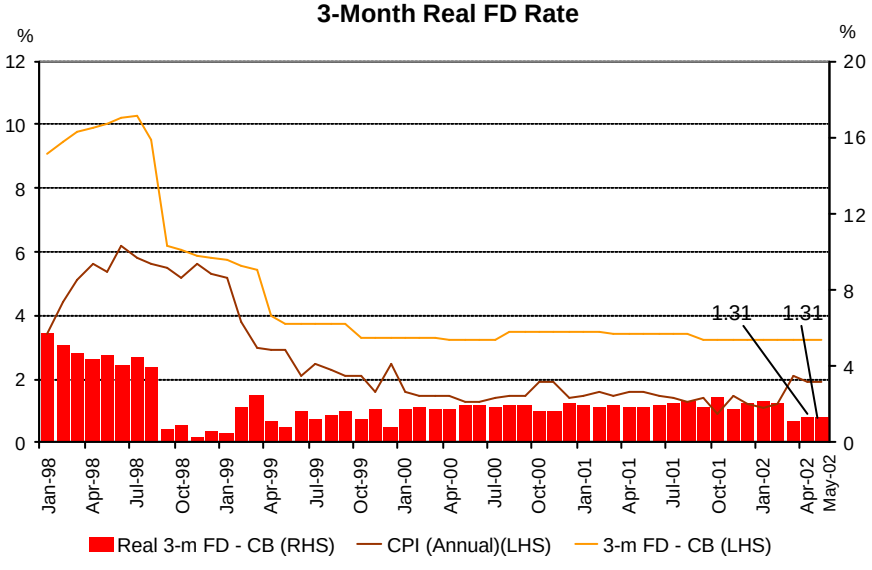
FD rate of CBs remained unchanged

Term Structure of FD Rates: Finance Companies



…similarly, for FCs

3-Month Real FD Rate

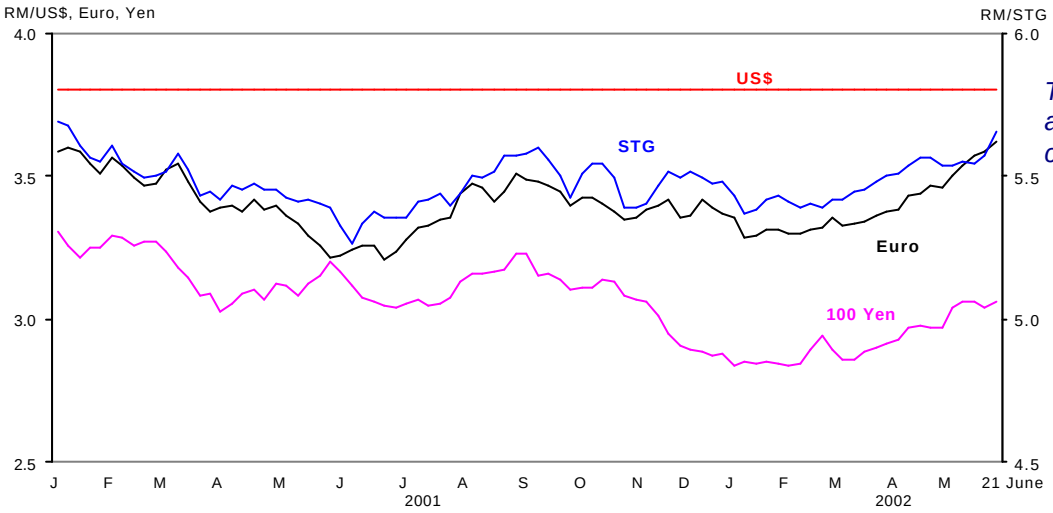


3-month real FD rate remained unchanged

The ringgit depreciated against major and regional currencies in May

In May, the **ringgit depreciated against the major currencies**. The ringgit depreciated against the euro (3.7%), the pound sterling (0.6%) and the Japanese yen (3.5%), in tandem with the movements of the US dollar in the international foreign exchange markets. The US dollar was adversely affected by weak US stock market performance; market concerns over the pace of US economic recovery and the widening current account deficit, developments in the Middle East and the conflict between India and Pakistan. The Japanese yen benefited from equity-linked capital inflows following an extended rally in the Japanese stock market and market optimism that the slump in the Japanese economy has bottomed-out.

Performance of Ringgit against Major Currencies
(Weekly average)

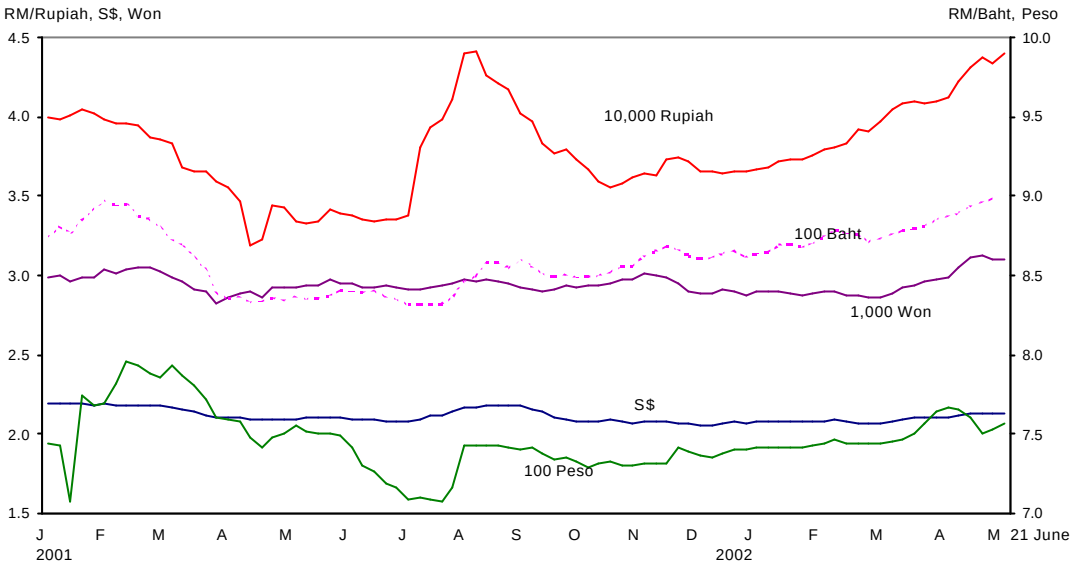


The ringgit depreciated against major currencies

The **ringgit depreciated against the regional currencies** in the range of 0.9%-5.9%. Regional currencies benefited from US dollar sales by local exporters as well as equity-linked capital inflows due to improved market optimism over the growth prospects of regional economies. The Philippines peso was also supported by remittances from overseas workers, while the Indonesian rupiah received support from fund inflows on positive market sentiment over government asset sales.

Performance of Ringgit against Regional Currencies

(Weekly average)



The ringgit depreciated against regional currencies

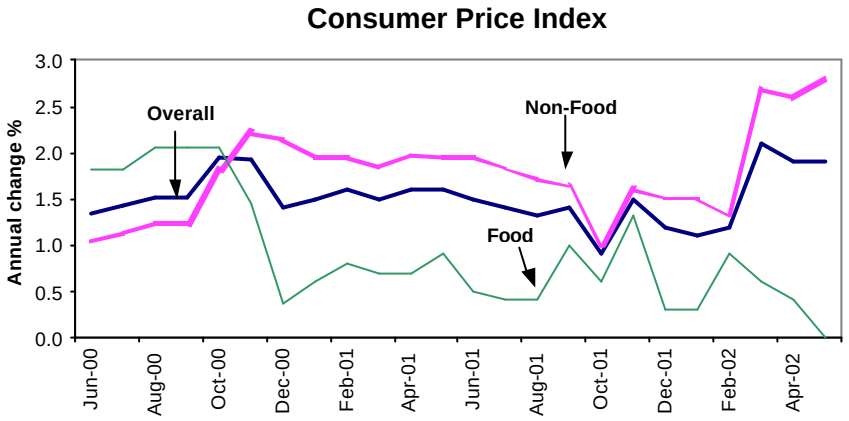
During the period **1 – 21 June**, the ringgit recorded a mixed performance against the major currencies. The ringgit depreciated against the euro by 2.8% and the pound sterling by 2.3%, while remaining relatively unchanged against the Japanese yen. The US dollar weakened further following the release of weaker than expected US retail sales data for May and the stronger than expected decline in consumer sentiment for June. The US dollar was also negatively affected by market concerns over the widening US current account deficit in April, weak stock market performance, poor earnings prospect and stretched valuations, as well as concerns over further assaults on the US following the bombing of the US consulate in Pakistan. The ringgit depreciated against most regional currencies in the range of 0.2% - 2.0%.

Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-May. 2002	21 June 2002	% Change			
				May 2002	End-May - 21 June 2002	End-2001 - 21 June 2002	2 Sep. 1998 - 21 June 2002
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0	0.0
Euro	-	3.5665	3.6683	-3.7	-2.8	-8.2	-
Pound Sterling	6.3708	5.5727	5.7010	-0.6	-2.3	-3.2	11.7
100 Japanese yen	2.7742	3.0801	3.0808	-3.5	0.0	-6.0	-10.0
Singapore dollar	2.1998	2.1295	2.1405	-1.4	-0.5	-4.1	2.8
100 Thai baht	9.3713	8.9623	9.0433	-1.9	-0.9	-4.9	3.6
100 Philippine peso	8.8302	7.5773	7.5750	-0.9	0.0	-2.8	16.6
100 Indonesian Rupiah	0.0354	0.0432	0.0441	-5.6	-2.0	-17.2	-19.7
100 Korean won	0.2827	0.3121	0.3128	-5.9	-0.2	-7.8	-9.6

Inflation remained stable in May

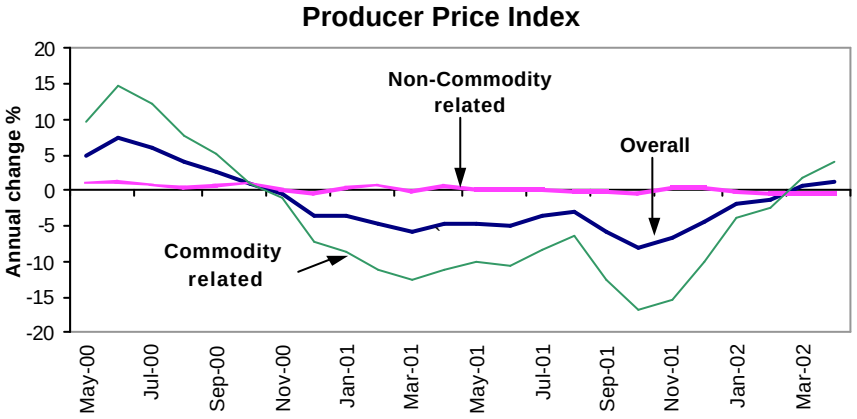
The annual rate of inflation, as measured by the **Consumer Price Index** (CPI, 2000=100), remained stable at 1.9% in May (April: 1.9%). The rise in CPI was contributed largely by the increase in prices for transport and communication; and beverages and tobacco. On a month-on-month basis, the CPI increased marginally by 0.1%.



Inflation remained stable in May

Producer prices increased in April

Producer prices, as measured by the **Producer Price Index** (PPI, 1989=100), was higher by 1.4% year-on-year in April (March: 0.6%). The increase in the PPI was mainly due to the recovery in prices of crude palm oil and rubber, while prices of crude oil continued to decline at a slower rate. Excluding commodity related products, the adjusted PPI decreased marginally by 0.6%.



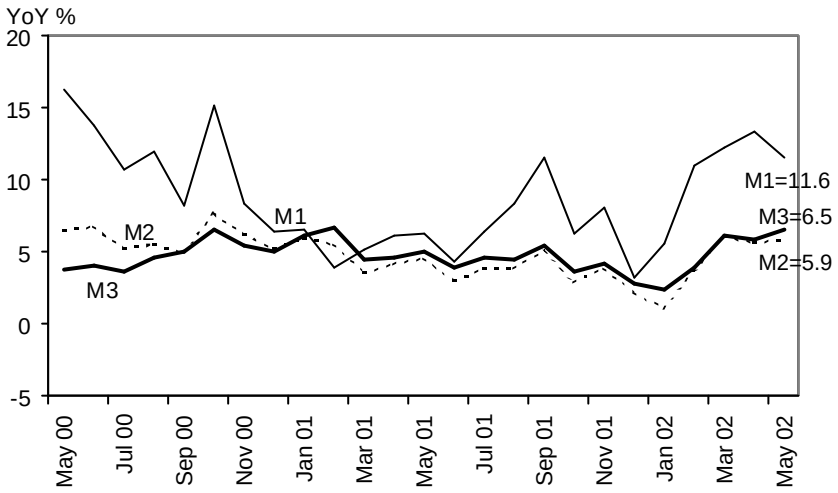
Producer prices increased in April

Broad money continued to increase

On a month-on-month basis, M3 continued to expand by RM0.7 billion or 0.1% in May. Consequently, the annual growth rate of M3 rose at a faster rate to 6.5% at end-May.

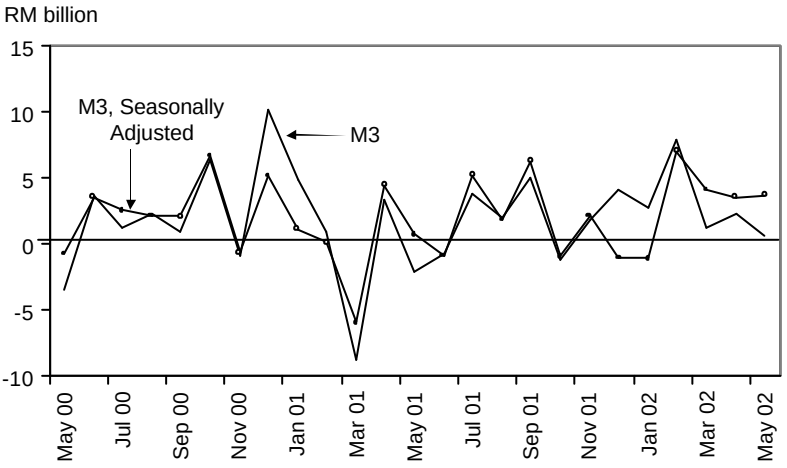
During the month, higher claims on the private sector (RM3.6 billion), on account of the significant increase in loans, provided the main impetus for the expansion in money supply. Meanwhile, Government operations were contractionary on money supply reflecting the increase in deposits with BNM (RM2.7 billion) partly reflecting the higher collection of petroleum income tax.

Monetary Aggregates: Annual Growth



All three monetary aggregates continued to grow on an annual basis…

M3: Monthly Change



...on a monthly basis, M3 continued to increase…

M3 Determinants
(RM billion)

	Change during period			
	2002			
	Mar	Apr	May	Jan-May
M3	0.9	2.4	0.7	14.7
Net claims on Government	-5.2	4.6	-2.0	4.5
Claims on private sector	2.3	1.6	3.6	12.2
Net external operations[1/]	1.7	-0.5	0.9	5.5
Other influences	2.2	-3.3	-1.8	-7.4

1/ pre-revaluation

...due mainly to high bank lending activity

Net withdrawals in banking system deposits while loans continued to increase

On a month-on-month basis, **total deposits** declined by RM1.4 billion or -0.3% in May. The decline reflected mainly lower placements by business enterprises. On an annual basis, total deposits continued to expand by 3.8% as at end-May.

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

	2002		
	Mar.	Apr.	May
Holder			
Federal Government	184	643	-853
State Governments	175	-68	62
Statutory Authorities[1/]	863	-168	447
Financial Institutions	-229	-758	374
Business Enterprises	-741	956	-2,454
Individuals	1,555	1,670	954
Others	-2	64	56
Total	**1,804**	**2,340**	**-1,414**

[1/] Include local Governments.

Deposits declined due to lower placements by business enterprises

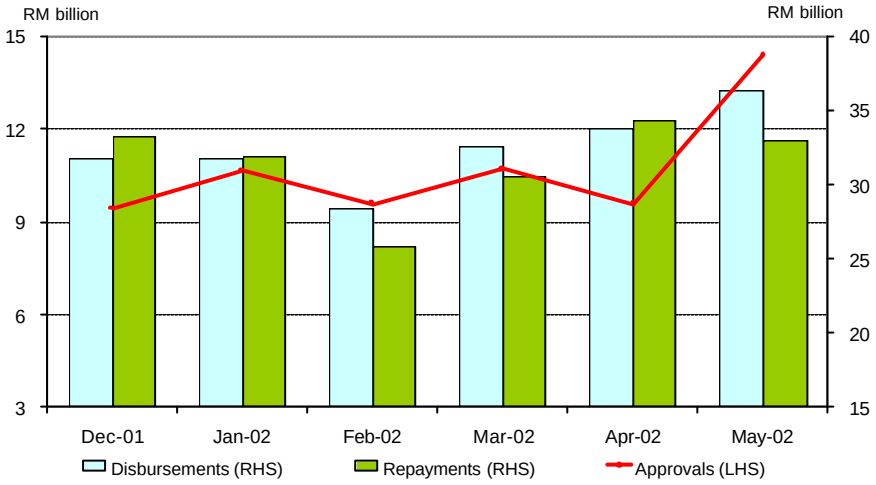
Monthly Change in Deposits **(RM million)**

	2002		
	Mar.	Apr.	May
Type			
Fixed deposits	4,023	-567	-223
NIDs issued	554	-518	302
Demand deposits	-2,302	1,222	-1,782
Savings deposits	46	735	77
Repos	643	635	1,271
FX deposits	-1,937	-13	416
SPI deposits	779	781	-1,531
Others	-2	64	56
Total	**1,804**	**2,340**	**-1,414**

By type, the decline in deposits was mainly in demand and SPI deposits

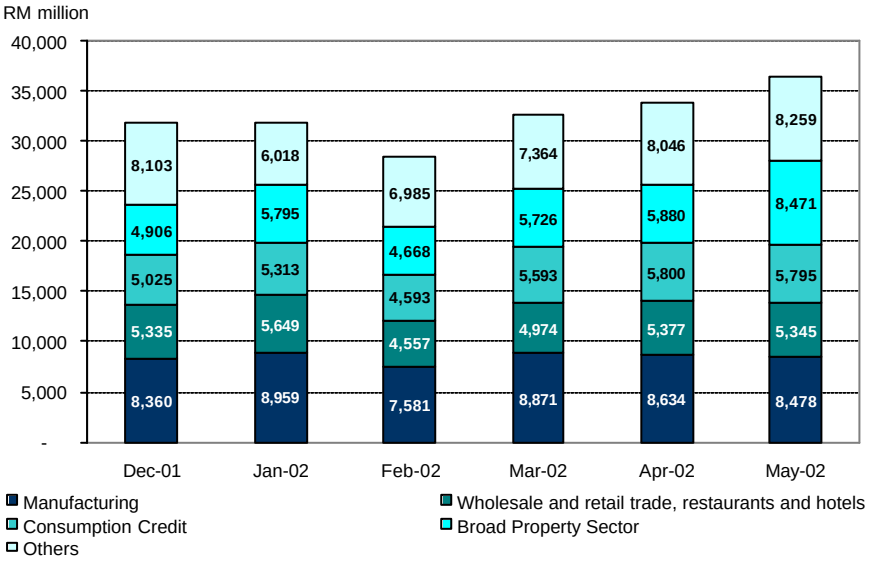
Loan approvals accelerated to RM14.4 billion in May (RM9.6 billion in April) and were granted mainly for the purchase of residential properties and passenger cars; as well as to the construction and the transport, storage and communication sectors. At the same time, **loan disbursements** also increased at a faster pace to RM36.3 billion (April: RM33.7 billion) and continued to be channelled to a wide range of economic sectors.

Loan Approvals, Disbursements and Repayments



Approvals and disbursements were higher while repayments moderated

Loan Disbursements to Selected Sectors



Loan disbursements continued to be channeled to a wide range of economic sectors

Loans outstanding extended by the banking system rose significantly by RM4.6 billion in May. The increase was attributed mainly to higher loans channelled for the purchase of residential properties and passenger cars. On an annual basis, loans outstanding grew by 4.1 % at end-May.

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

	2002		
	Monthly change		As at end
	Apr.	May.	May.
Agriculture, hunting, forestry and fishing	154	-44	12,165
Mining and quarrying	62	-49	1,298
Manufacturing	-837	-458	68,157
Electricity, gas and water supply	49	330	5,148
Wholesale and retail trade, restaurants and hotels	356	176	39,351
Broad property sector	174	2,778	181,399
of which:			
Purchase of residential property	*1,150*	*1,070*	*92,498*
Transport, storage and communication	474	489	13,300
Finance, insurance and business services	-369	85	35,294
Consumption	1,046	1,172	74,550
of which:			
Passenger cars	*909*	*879*	*49,952*
Credit cards	*91*	*176*	*9,306*
Purchase of securities	-441	-41	30,040
Others	82	126	20,917
Total Loans[1/]	**752**	**4,564**	**481,619**

[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 expanded significantly

Aggregate financing through banking system loans and PDS

Notwithstanding the increase in loans extended by the banking system, total financing through **loans extended by the banking system and PDS issued by the private sector** were lower in May by RM2.4 billion. This, however, mainly reflected the early redemptions of PDS issued by infrastructure companies as part of their debt restructuring exercise. On an annual basis, total financing increased by 4.6% at end-May (end-April: 6.3%).

Financing through banking system loans and PDS

	Change			Annual growth	
	2002			2002	
	Apr	May	Jan-May	Apr	May
	RM billion			%	
Financing by Banking System	**1.0**	**2.9**	**8.6**	**5.7**	**5.1**
Loans outstanding (1)	0.8	4.6	11.1	4.3	4.1
Holdings of PDS	0.2	-1.7	-2.5	38.4	30.9
Total PDS outstanding * (2)	**-0.8**	**-7.0**	**-9.2**	**16.5**	**7.1**
Total (1) + (2)	**…**	**-2.4**	**1.9**	**6.3**	**4.6**

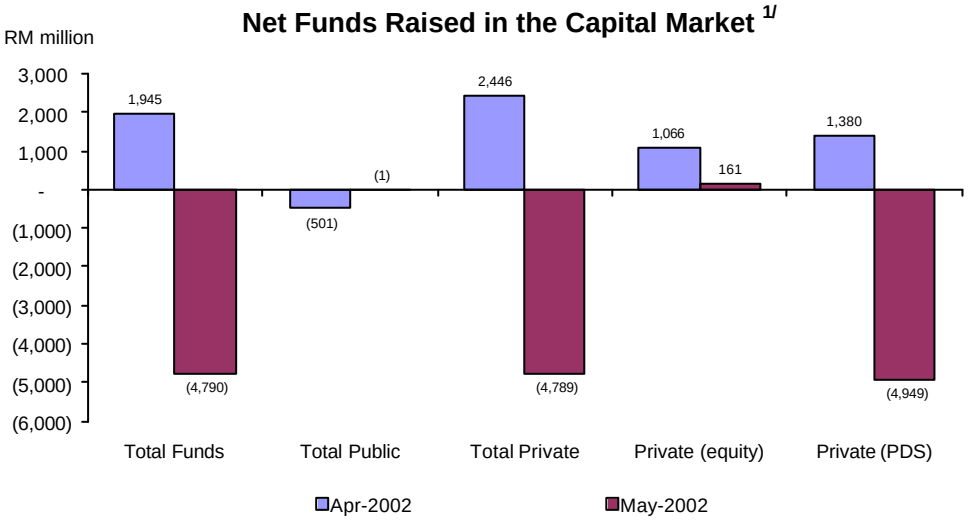
* Refers to total PDS issued by the private sector with original maturity period of more than one year. Exclude debt securities issued by banking institutions, Khazanah, BNM, Cagamas, Danaharta and Danamodal.

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

Net Redemptions in the Capital Market

On a gross basis, the PDS market raised a sizeable amount of RM7.1 billion in May, mainly by a company in the infrastructure sector. The funds mobilised by the company, however was used to redeem the company's outstanding bonds as part of the debt restructuring process, contributing to higher aggregate net redemptions of RM4.9 billion in the PDS market. On the other hand, the equity market raised a lower amount of funds, while the public sector recorded net redemptions. In total, the capital market recorded net redemptions of RM4.8 billion in May.

Net Funds Raised in the Capital Market [1/]

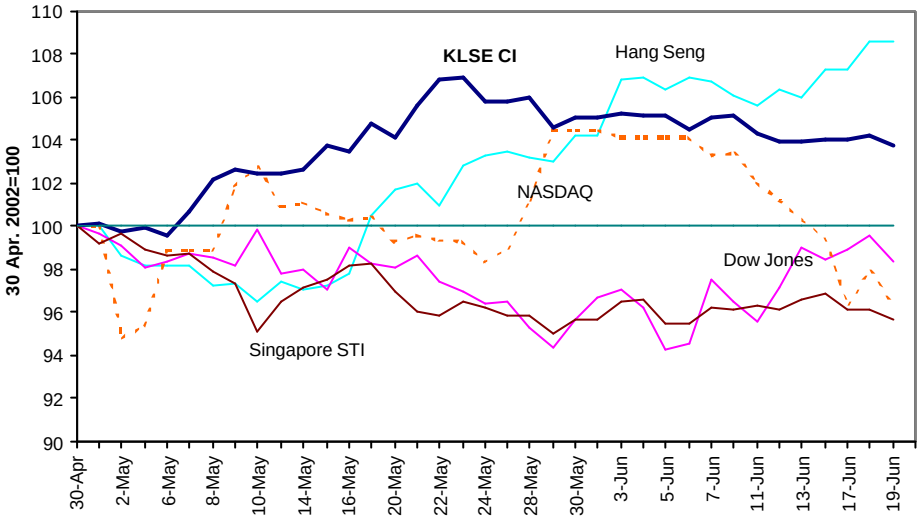


Net redemptions in the capital market

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

The **Kuala Lumpur Stock Exchange Composite Index** (KLSE CI) was lower in May. The absence of fresh leads, investors' concerns on the strength of recovery in the US economy and corporate earnings prospect, as well as over the international developments such as the tension in the Middle East and the India-Pakistan conflict, contributed to the poor performances of the global and regional bourses. As at 31 May, the KLSE CI closed at 741.76 points (-6.6% since end-April) with market capitalisation at RM518.41 billion (-6.1% since end-April). The daily average turnover was lower at 245.4 million units (489.4 million units in April).

Performance of Selected Indices

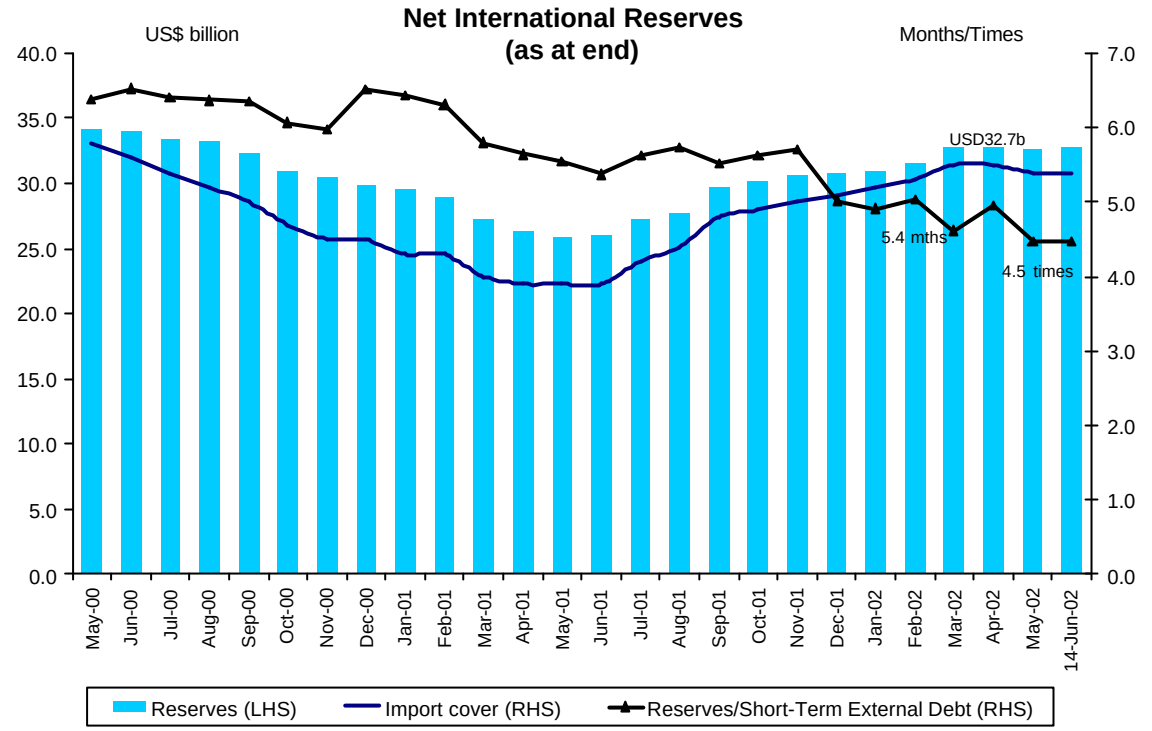


KLSE CI improved slightly in June

Thus far in June, the KLSE CI improved slightly due to buying interests on selected bluechip stocks. As at 19 June, the KLSE CI closed at 743.90 points (0.3% since end-May) with market capitalisation at RM521 billion (0.5% since end-May). Meanwhile, the daily average turnover was lower at 134.4 million units.

International reserves

The **net international reserves of BNM** amounted to RM123.7 billion or US$32.6 billion as at 31 May and increased further to RM124.1 billion or US$32.7 billion as at 14 June. Continued inflows from the repatriation of export earnings were more than sufficient to finance the repayment of external loans and payments for imports of goods and services. The reserves position as at 14 June is adequate to finance 5.4 months of retained imports and is 4.5 times cover of short-term external debt.



Banking system remained strong and resilient

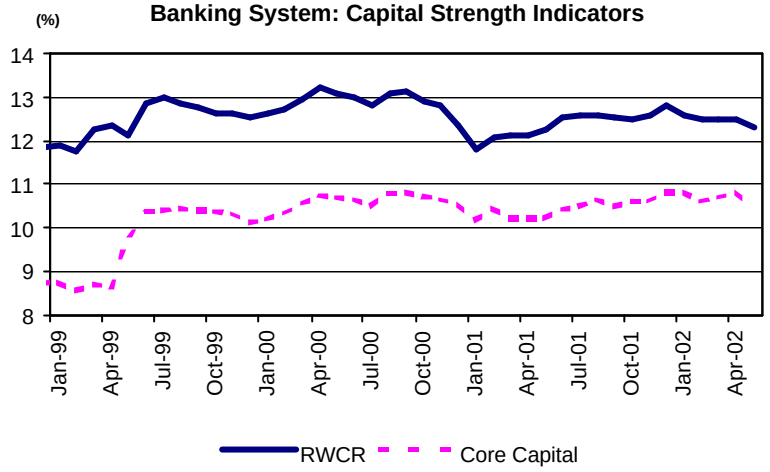
The risk-weighted capital ratio (RWCR) and core capital ratio (CCR) decreased by 20 and 30 basis points respectively at end May. This is due to the increase in loans extended by the banking system of RM4.6 billion or 1% during the month, mainly to the construction sector and for consumer-related activities (i.e. loans for purchase of residential property and transport vehicles). Meanwhile, the net NPL ratio remained stable at 8.2%. With adequate provisioning maintained by the banking institutions and high capital adequacy ratio, the banking system remained resilient.

Banking System Health Indicators

	1998	1999	2000	2001		2002	
	Dec.	Dec.	Dec.	Jun.	Dec.	Apr.	May
Capital							
Core-capital ratio (%)	8.7	10.1	10.7	10.5	10.8	10.8	10.5
RWCR (%)	11.8	12.5	12.5	12.6	12.8	12.5	12.3
Net NPL (6-month classification)							
Banking system (%)	8.1	6.4	6.3	8.0	8.1	8.2	8.2
Banking system (RM million)	31,675	23,849	24,700	32,292	32,775	33,576	33,993
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.9	1.9	1.8

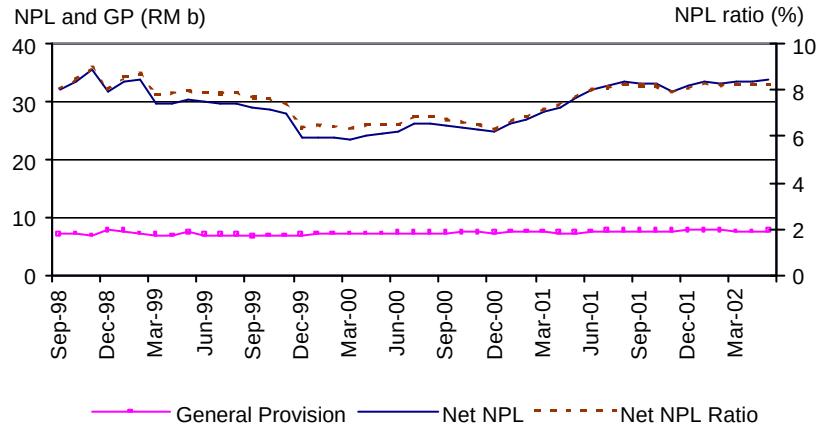
** Beginning June 1999 onwards, the figures include Islamic banks*

Banking System: Capital Strength Indicators



….RWCR marginally reduced to 12.3%

Banking System: Net NPL and General Provisions



…Net NPL ratio stabilised at 8.2%

The 6th property tender conducted by Danaharta was completed on 2 May. Of the 265 properties offered for sale, a total of 141 successful bids were received, representing 53% of the total number of properties offered. This is the highest sales level, both in terms of number and value, that Danaharta has achieved in its nationwide property tenders that have been held so far.

These properties were sold for a total consideration of RM326 million, representing a 12% surplus over the sold properties' total indicative value of RM290.1 million. Industrial properties represented the highest number of properties sold (33 bids or 23%) followed by agricultural land (28 bids or 20%), development land (27 bids or 19%) and commercial properties (26 bids or 18%).

With the completion of the 6th property tender, Danaharta had offered a total of 803 properties worth RM1.8 billion to the market via primary and secondary sales. Of these, 699 properties or approximately 83%, were sold for a total consideration of RM1.2 billion.

Capital injection by Danamodal into the banking institutions remained at RM2.1 billion as at end-May. Meanwhile, CDRC has resolved another debt restructuring case during the month, reducing the number of outstanding cases to 7 with outstanding debts amounting to RM12.6 billion.

Statistics of CDRC cases as at 31 May 2002

	Total debt outstanding* (RM million)	**Number of accounts**
Received	**67,644**	**87**
Withdrawn / Rejected	10,606	25
Transferred to Danaharta	2,470	11
Cases accepted	**54,568**	**51**
Resolved	**41,991**	**44**
Implemented	*28,714*	*24*
Pending implementation	*13,277*	*20*
Outstanding	**12,577**	**7**

* Including non-banking and offshore institutions

Bank Negara Malaysia
28 June 2002

Key Monetary and Banking Statistics

	April 2002		May 2002	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	40.8	4.9	41.0	6.8
M1	82.2	13.4	80.7	11.6
M2	371.9	5.6	371.4	5.9
M3	483.6	5.9	484.3	6.5
Banking System				
Total deposits	490.5	4.1	489.1	3.8
Total loans (including loans sold to Cagamas and Danaharta)	477.1	4.3	481.6	4.1
Total loans (excluding loans sold to Cagamas and Danaharta)	414.1	3.8	418.7	3.7
Loan-deposit ratio (%)	84.4		85.6	
Loans approved during the month	9.6		14.4	
Loans disbursed during the month	33.7		36.3	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	12.5		12.3	
Net NPLs: 6-month classification (%)	8.2		8.2	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	124.4		123.7	
Reserves in USD (billion)	32.7		32.6	
Months of retained imports	5.4		5.4	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.76 [2.77]		2.97 [2.81]	
3-month	3.21 [2.91]		3.23 [2.87]	
Fixed deposits of commercial banks: 1-month	3.20 [3.20]		3.20 [3.20]	
3-month	3.21 [3.21]		3.21 [3.21]	
BLR of commercial banks	6.39 [6.39]		6.39 [6.39]	
Prices				
Consumer price Index (CPI) (2000=100)	103.2	1.9	103.3	1.9
Producer price Index (PPI) (1989=100)	127.9	1.4	-	-
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.4346		3.5665	
Pound Sterling	5.5395		5.5727	
Singapore dollar	2.1003		2.1295	
100 Japanese yen	2.9710		3.0801	
100 Thai Baht	8.7892		8.9623	
100 Philippine Peso	7.5117		7.5773	
100 Indonesian Rupiah	0.0408		0.0432	
100 Korean Won	0.2938		0.3121	
Capital Market				
Funds raised by: public sector (RM billion)	-0.5		0.0	
private sector (RM billion)	2.4		-4.8	
Kuala Lumpur Composite Index (end-period)	793.99		741.76	
KLSE Market Capitalisation (RMb) (end-period)	551.83		518.41	