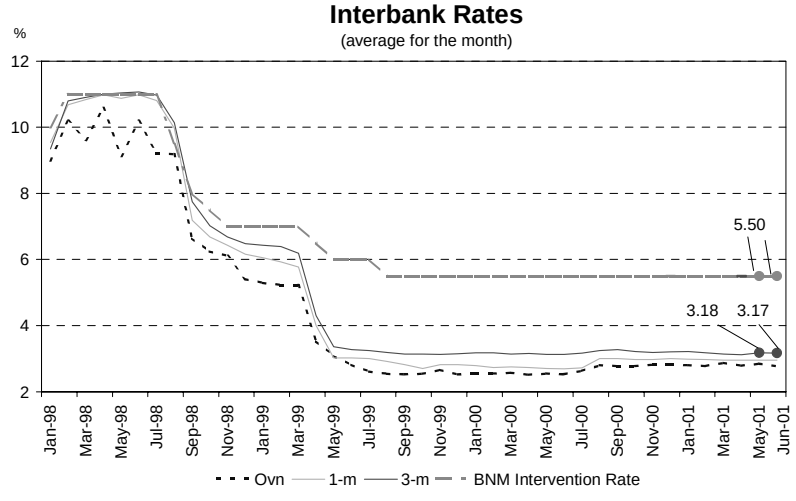
EMBARGO: Not for publication or broadcast before 1700 hours on Monday, 30 July 2001

PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS June 2001

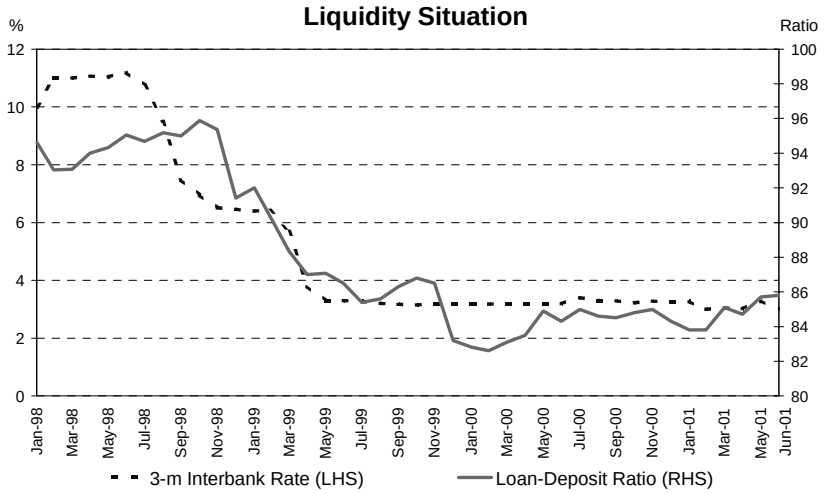
In June, loan growth continued to remain strong and broad-based, reflecting sustained domestic economic activity despite a moderation in external demand. This has led to a turnaround in the growth of broad money, M3, during the month. Meanwhile, liquidity remained ample and interest rates were stable at low levels amid a low inflation environment. There was also an improvement in the stock market sentiment as reflected by the increase in the Kuala Lumpur Stock Exchange Composite Index during the month. The increasing trend in the Index continued into July.

Interbank rates remained relatively stable

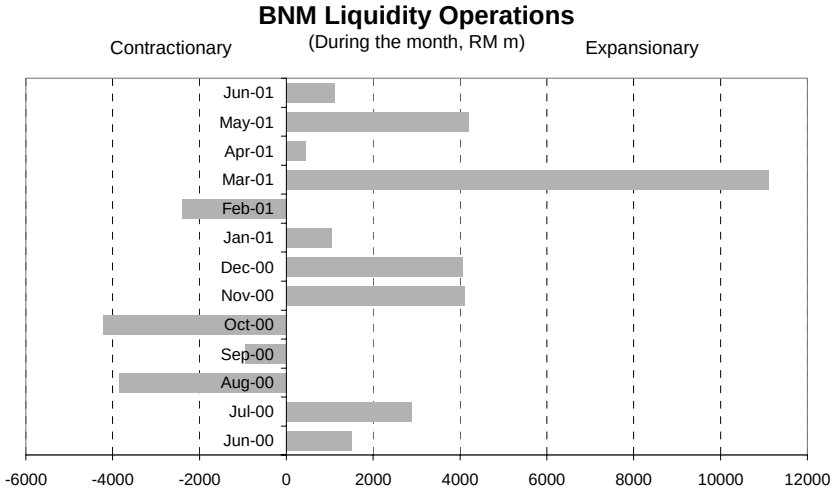
BNM liquidity operations were slightly expansionary in June to offset the contractionary impact due to Government operations. The **interbank money market rates** continued to remain stable during the month.



Stable interbank rates continued to prevail in June

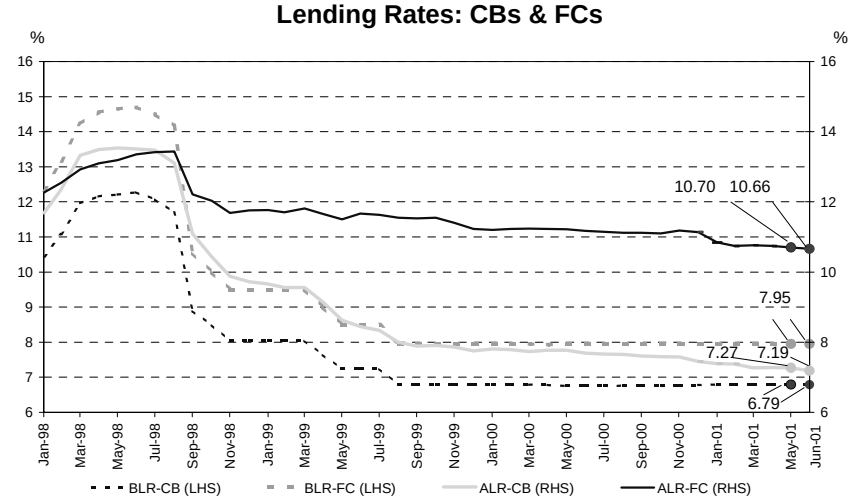


Liquidity continued to remain ample



BNM operations were slightly expansionary to offset the increase in Government deposits with BNM

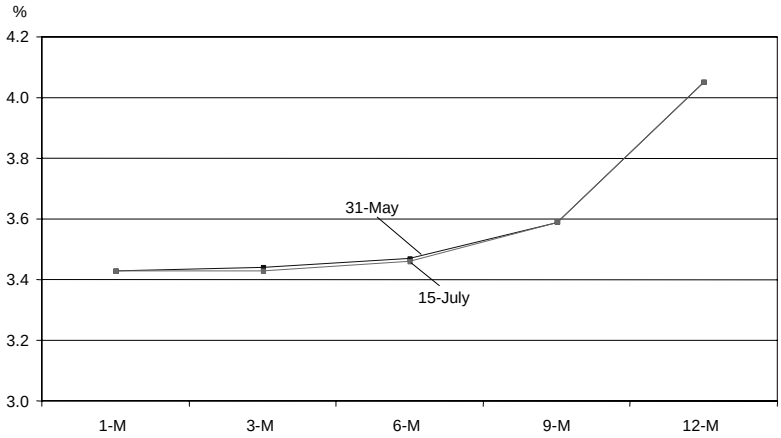
The **average base lending rates (BLR)** of both the commercial banks (CBs) and finance companies (FCs) remained unchanged at 6.79% and 7.95% respectively at end-June. Nevertheless, the CBs' **average lending rate (ALR**) moderated to 7.19%, while that of FCs stabilised at 10.66% (7.27% and 10.70% respectively at end-May).



BLRs of CBs and FCs remained unchanged. CBs' ALR moderated, while FCs' ALR stabilised

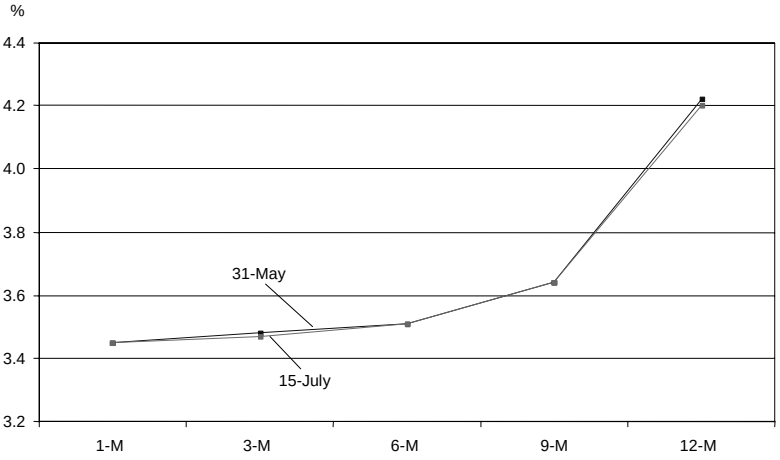
As at 15 July, both the CBs and FCs' **average fixed deposit (FD) rates** remained stable with the average for 1-month to 12-month rates ranging from 3.43-4.05% and 3.45-4.20% respectively (3.43-4.05% and 3.45-4.22% respectively at end-May).

Term Structure of FD Rates: Commercial Banks



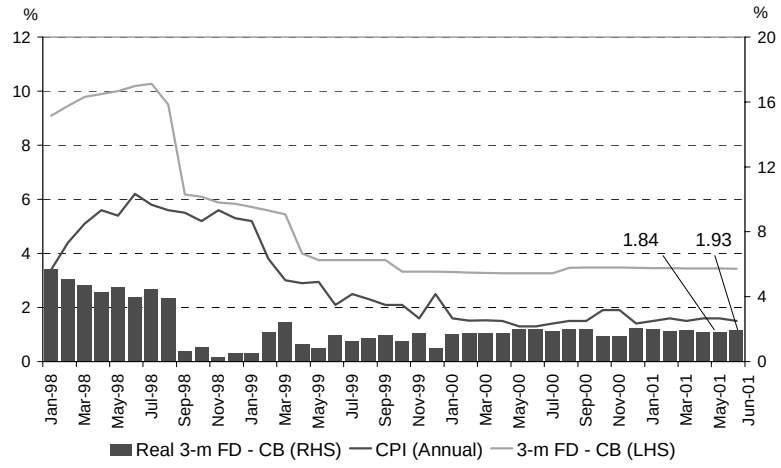
The average FD rates for CBs remained stable

Term Structure of FD Rates: Finance Companies



…similarly, the average FD rates of FCs were also relatively stable

Real Interest Rates

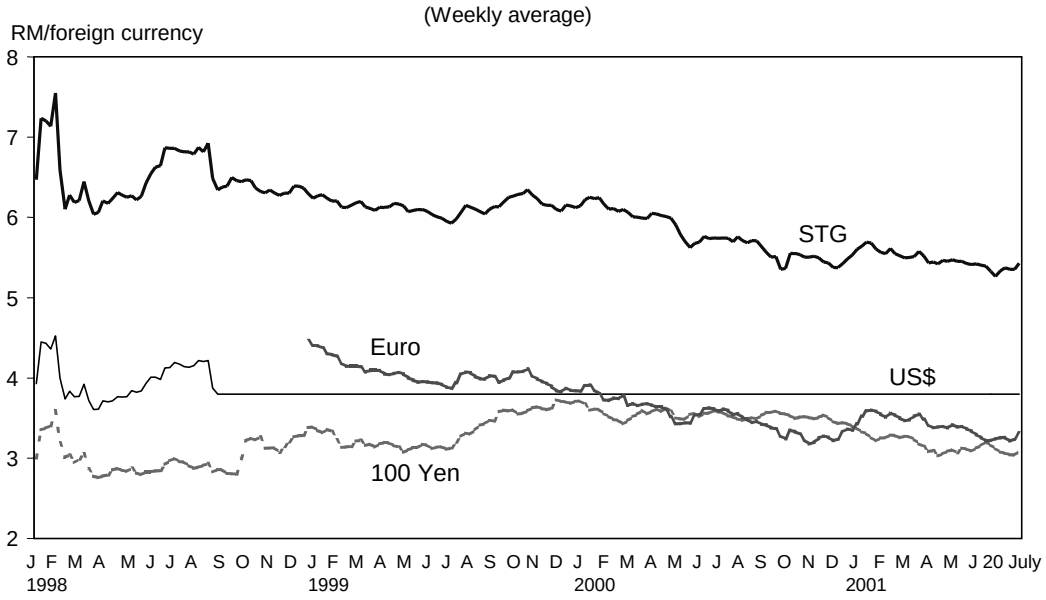


The 3-month real FD rate rose due to lower inflation rate

Ringgit appreciated against major currencies as well as most regional currencies in June

In June, **the ringgit appreciated against major currencies**. The ringgit appreciated against the Japanese yen (3.5%), the euro (1.2%) and the pound sterling (1.2%), in tandem with the movements of the US dollar in the international foreign exchange markets. The yen weakened against the US dollar following the release of data which showed a contraction in the Japanese economy in the first quarter, while the euro weakened on the back of reports showing falling consumer and business confidence in the euro zone. The dollar also gained against the yen and the euro on expectations of improved growth prospects for the US economy in the second half of 2001.

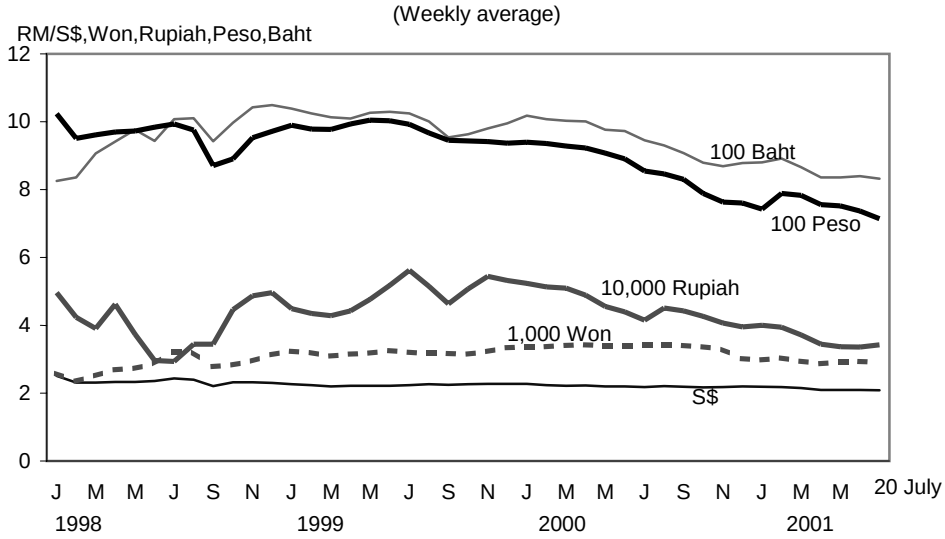
Performance of Ringgit against Major Currencies



The ringgit appreciated against major currencies in June

The **ringgit appreciated against most regional currencies** in the range of 0.7% to 3.9%, and depreciated against the Thai baht by 0.1%. Weakness in the Korean won, New Taiwan dollar and the Singapore dollar can be attributed to concerns on their deteriorating export performance and the consequent impact on their overall economic performance. The Philippine peso and Indonesian rupiah continued to be affected adversely by domestic developments.

Performance of Ringgit against Regional Currencies



The ringgit appreciated against most regional currencies in June

During the period **1-20 July 2001,** the ringgit **depreciated against major currencies**. The ringgit depreciated against the euro by 0.3%, the Japanese yen by 0.8% and the pound sterling by 1.4%. The US dollar weakened against major currencies on concerns over the continuing weakness of the US economy. The ringgit **appreciated against most regional currencies** in the range of 0.2% and 1.5%. The Singapore dollar weakened following the release of advance estimates indicating that the Singapore economy contracted in the second quarter of 2001, while the New Taiwan dollar depreciated on the back of reports showing that its exports had fallen for the fourth month in June.

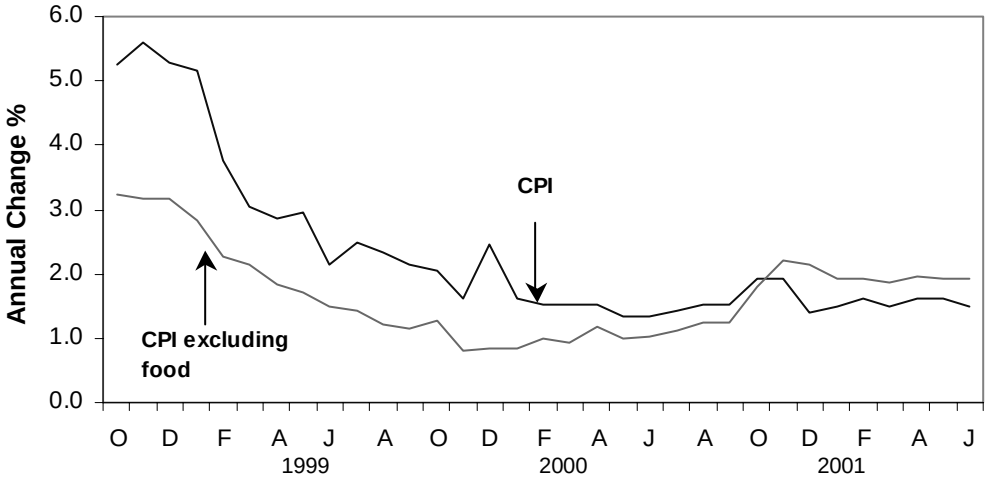
Performance of Ringgit against Selected Currencies

RM per foreign currency	2 September 1998	End-June 2001	20 July 2001	% Change		
				June 2001	Jan.-20 July 2001	2 Sep. 1998-20 July 2001
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0
Euro	-	3.2142	3.3138	1.2	6.6	-
Pound Sterling	6.3708	5.3555	5.4291	1.2	4.4	17.3
100 Japanese yen	2.7742	3.0627	3.0882	3.5	7.3	-10.2
Singapore dollar	2.1998	2.0877	2.0832	0.7	5.3	5.6
100 Thai baht	9.3713	8.3950	8.3197	-0.1	5.5	12.6
100 Philippine peso	8.8302	7.2460	7.1415	3.9	6.5	23.6
100 Indonesian Rupiah	0.0354	0.0332	0.0342	3.3	15.5	3.5
100 Korean won	0.2827	0.2923	0.2916	0.9	3.6	-3.1

Inflation remained low and stable

Inflation, as measured by the **Consumer Price Index (CPI)** remained subdued in June. The CPI declined by 0.1% month-on-month, while on an annual basis, the increase in the CPI moderated to 1.5% (1.6% in May). Excluding food, the increase in the adjusted CPI in June stabilised at 1.9%. The decline in the month-on-month CPI was primarily due to lower prices for food at home, while prices for food away from home remained stable.

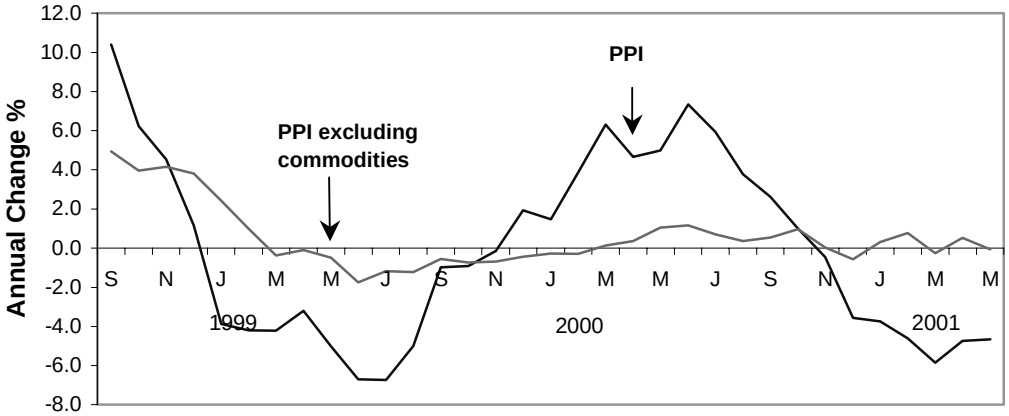
Consumer Price Index



Inflation remained at a low level

In May, the **Producer Price Index (PPI)**, which measures the average rate of change in prices of goods charged by domestic producers and those paid by importers, increased by 0.3% month-on-month. The increase in the month-on-month PPI was mainly contributed by higher prices for mineral fuels, lubricants and related materials; and inedible crude materials. The increase in the prices for these sub-groups was, however, mitigated by lower prices of animal and vegetable oils and fats; machinery and transport equipment; and food and live animals. On an annual basis, however, the PPI continued to register a decline of 4.7% (-4.8% in April). Excluding commodities, the adjusted PPI declined by 0.1% (+0.5% in April).

Producer Price Index

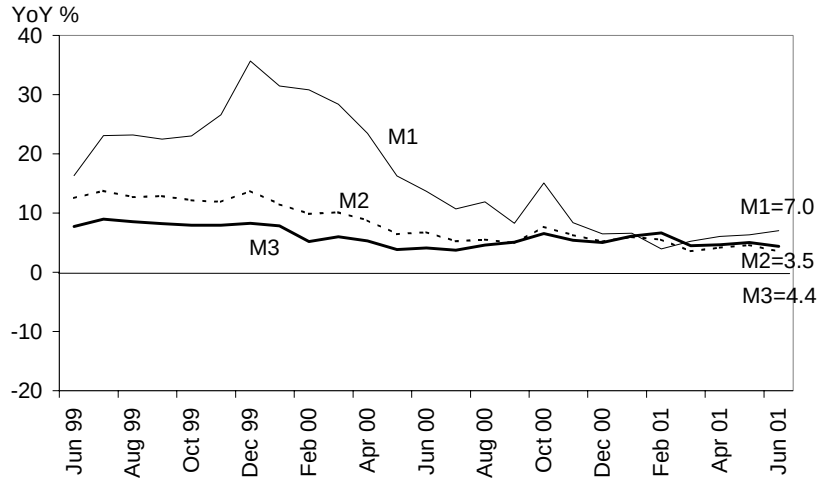


M3 recorded positive growth

On a month-on-month basis, broad money, M3 turned around to increase by RM1.1 billion or 0.2% in June (-RM2 billion or –0.4% in May). On an annual basis, M3 rose by 4.4% at the end of June.

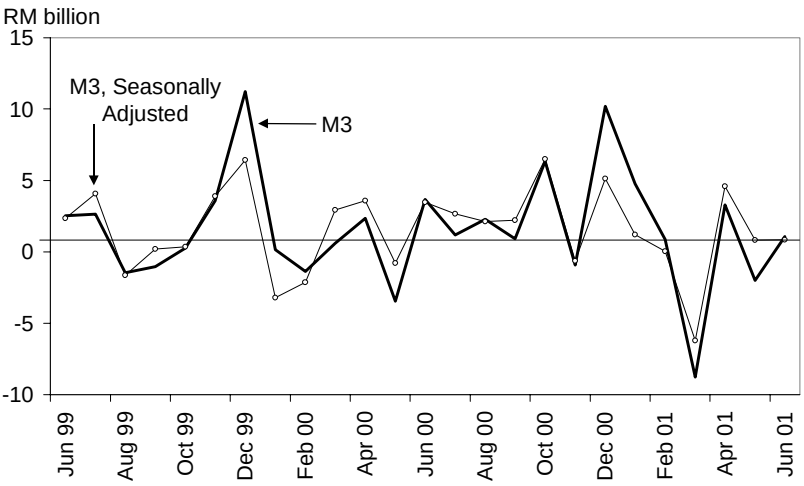
The increase in M3 in June reflected mainly the expansionary impact of higher claims on the private sector and the withdrawal of deposits from BNM by a non-bank financial institution (NBFI). There was a substantial increase in loans extended by the banking institutions (RM3.1 billion). Meanwhile, net claims on the Government exerted a contractionary impact on money supply as the Government deposits with BNM increased by RM4.3 billion during the month, arising from the proceeds received from the reopening of an MGS issue amounting to RM5 billion. The Government is expected to draw down these balances in the coming months to finance its expenditure.

Monetary Aggregates: Annual Growth



Monetary aggregates continued to expand on an annual basis...

M3: Monthly Change



...on a monthly basis, M3 increased on account of higher claims on the private sector and the withdrawal of deposits by a NBFI from BNM

M3 Determinants

(RM billion)

	Change during period			
	2001			
	April	May	June	Jan-Jun
M3	3.3	-2.0	1.1	-0.8
Claims on Government	1.6	-1.5	-4.0	-0.9
Claims on private sector	1.6	2.5	2.0	5.4
External operations[1/]	1.9	-1.1	0.2	1.6
Other influences	-1.8	-1.9	2.9	-6.9

1/ Pre-revaluation

Substantial increase in banking system deposits and loans

On a month-on-month basis, **total deposits** rose by RM2.7 billion or 0.6% in June. This reflected mainly higher deposit placements by non-bank financial institutions, the Federal Government and individuals which more than offset the net withdrawals by state governments, business enterprises and statutory authorities. On an annual basis, total deposits mobilised by the banking system rose by 3.7% as at end-June.

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

	2001		
	Apr.	May	Jun.
Holder			
Federal Government	-107	221	484
State Governments	-265	31	-802
Statutory Authorities[1/]	281	-800	-323
Financial Institutions	1,800	295	3,167
Business Enterprises	1,788	-914	-370
Individuals	223	691	408
Others	100	300	136
Total	**3,819**	**-176**	**2,700**

[1/] Include local Governments.

The increase in deposits was mainly due to higher placements by financial institutions, the Federal Government and individuals

All types of deposits with the exception of fixed deposits and repos were higher in June. The increase in SPI deposits was due mainly to higher placements by non-bank financial institutions, while the increase in NIDs reflected higher interplacements by commercial banks. Meanwhile, fixed deposits were lower attributable to the non-roll over of maturing deposits of business enterprises.

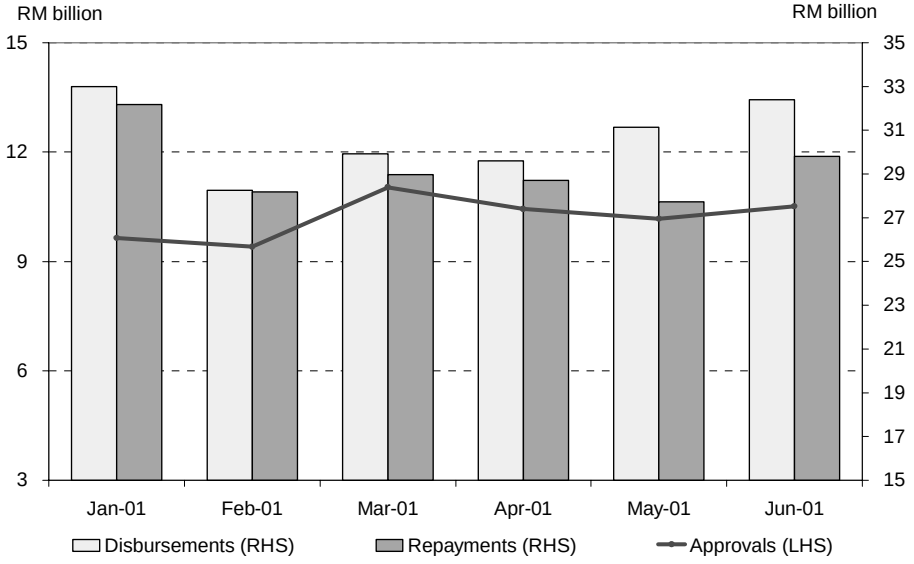
Monthly Change in Deposits **(RM million)**

	2001		
	Apr.	May.	Jun.
Type			
Fixed deposits	1,978	-186	-1,326
NIDs issued	134	986	951
Demand deposits	-352	422	654
Savings deposits	150	-238	586
Repos	347	-1,896	-80
FX deposits	715	1,186	618
SPI deposits	744	-748	1,163
Others	104	298	134
Total	**3,819**	**-176**	**2,700**

With the exception of fixed deposits and repos, all other deposits were higher in June

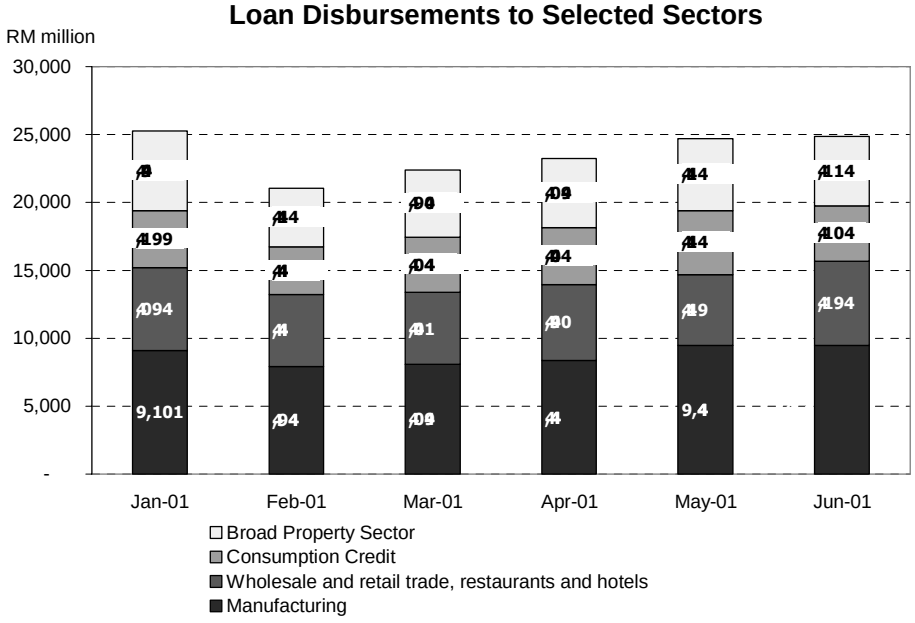
In June, both loan approvals and disbursements were notably higher. **Loan approvals** increased to RM10.5 billion and were mainly granted for the purchase of residential property and passenger cars (RM2.1 billion and RM1.6 billion respectively) as well as for manufacturing activities (RM1.3 billion). Meanwhile, **loan disbursements** rose to RM32.4 billion in June. Loan disbursements were broad based and mainly channelled to the manufacturing sector, wholesale trade, for the purchase of residential property, financial services, construction activities and for the purchase of passenger cars.

Loan Approvals, Disbursements and Repayments



Loan disbursements, which increased further in June, were broad based…..

Loan Disbursements to Selected Sectors



..... and were mainly channelled to the manufacturing sector, wholesale trade and for the purchase of residential property

Reflecting the higher loan disbursements, notwithstanding the increase in loan repayments, total **loans outstanding** extended by the banking system continued to increase by RM3.1 billion in June. Loans were extended for the purchase of residential property and for finance, insurance and business services, as well as for the wholesale and retail trade, restaurants and hotels sector. On an annual basis, loans outstanding rose by 5.9% as at end-June.

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

	2001		
	Monthly change		As at end
	May	Jun.	Jun.
Agriculture, hunting, forestry and fishing	93	-171	12,020
Mining and quarrying	-46	-28	1,586
Manufacturing	1,358	248	70,576
Electricity, gas and water supply	222	427	7,530
Wholesale and retail trade, restaurants and hotels	207	544	38,502
Broad property sector	1,903	1,394	170,212
of which:			
Purchase of residential property	*1,200*	*1,387*	*80,441*
Transport, storage and communication	-25	424	14,195
Finance, insurance and business services	18	878	35,163
Consumption	644	275	62,997
of which:			
Passenger cars	*422*	*90*	*40,438*
Credit cards	*172*	*154*	*7,817*
Purchase of securities	179	-558	31,726
Others	472	-339	20,936
Total Loans[1/]	**5,025**	**3,093**	**465,443**

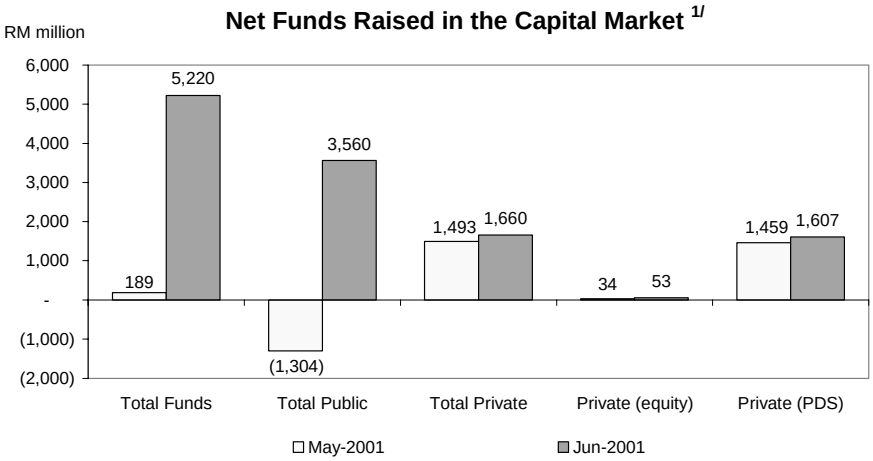
Loans outstanding increased substantially in June

[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.

Higher net funds raised in the capital market

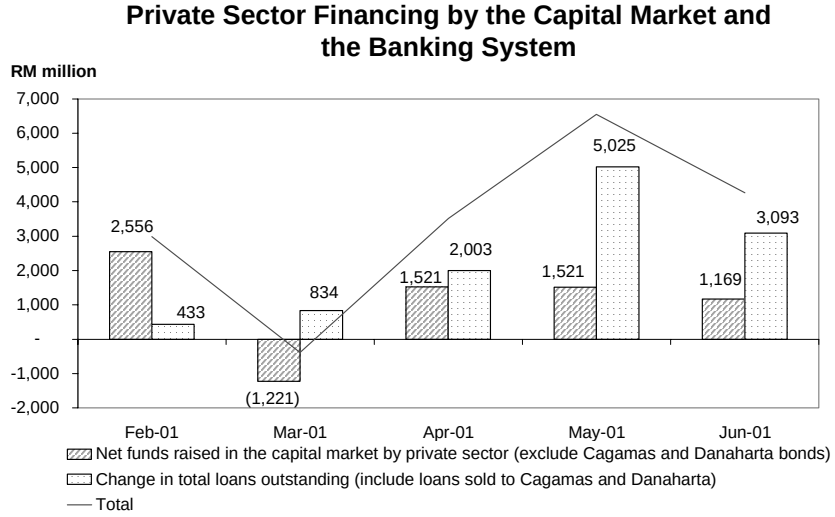
Net funds raised in the capital market were significantly higher in June, amounting to RM5.2 billion. This reflected partly higher net funds raised by the public sector through the reopening of the MGS issue by RM5 billion during the month. Net funds raised by the private sector were also higher mainly through the issuance of private debt securities.



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

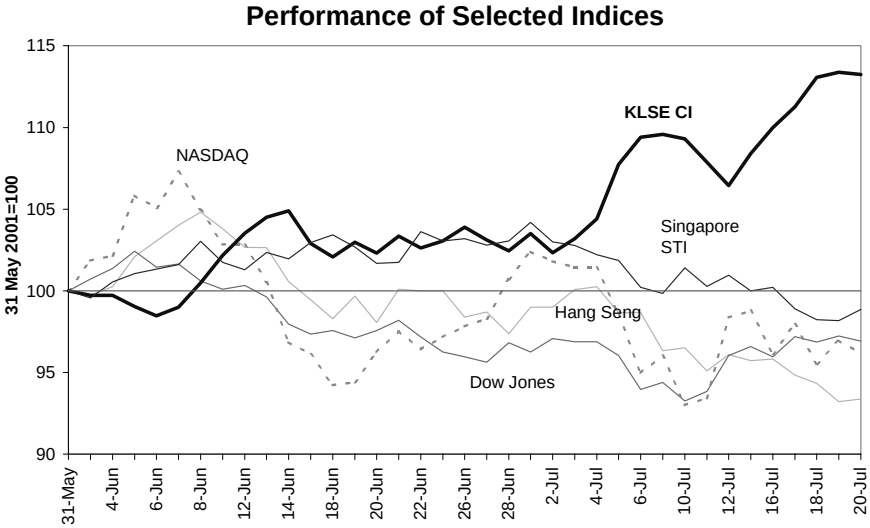
Net funds raised in the capital market were significantly higher in June

Total private sector domestic financing from both the capital market and the banking system remained significant at RM4.3 billion in June (RM6.5 billion in May).



Total financing from both the banking system and capital market remained significant in June.

In June, the **KLSE CI** improved marginally with local buying interests. As at 29 June, the KLSE CI closed at 592.99 points (+3.5% since end-May). Market capitalisation was higher at RM403.49 billion (+2.1% since end-May), while daily average turnover was 130.6 million units (132.3 million units in May).

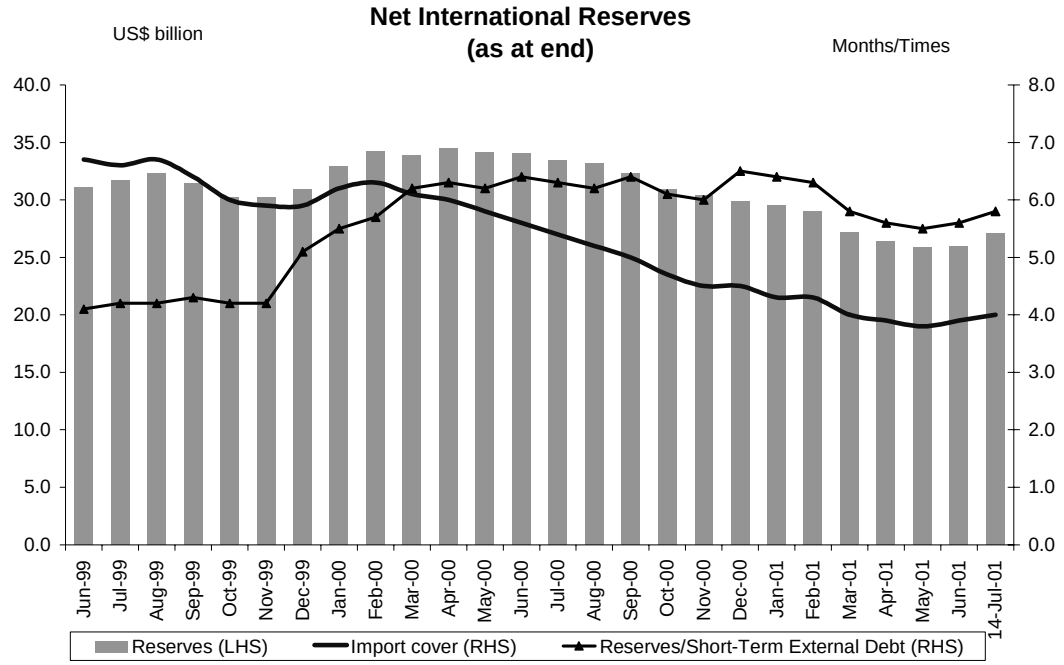


KLSE CI trended higher

Market sentiment improved further in the first half of July following positive reports on the Malaysian economy by some foreign research houses. The success of the Government in raising the US$1 billion 10-year Notes also boosted confidence in the stock market. As at 20 July, the KLSE CI ended at 648.78 points (+9.4% since end-June). The daily average turnover rose markedly to 262 million units (130.6 million units in June), while market capitalisation was higher at RM440.66 billion (+9.2% since end-June).

International reserves

The **net international reserves of BNM** increased by RM300 million (US$79 million) to RM98.8 billion (US$26 billion) as at end-June 2001 compared with RM98.5 billion (US$25.9 billion) as at end-May 2001. The net international reserves increased further by RM3.95 billion or US$1.04 billion to RM102.8 billion or US$27 billion as at 14 July 2001. This level of reserves is adequate to cover 5.8 times the short-term external debt and 4 months of retained imports. The increase in reserves during the first half of July was due mainly to the drawdown of the proceeds from the US$1 billion 10-year Notes issued by the Federal Government on 29 June 2001 and the continued inflows of foreign direct investment and net inflows of portfolio funds. The inflows were more than adequate to finance the payments for the import of goods and services and overseas investments by Malaysian corporations.



Banking system remains strong

The capital position of the banking system improved further in June 2001 with risk-weighted capital ratio increasing by 10 basis points to 12.4% following the improvement in capital base. Similarly, the core capital ratio improved to 10.3%.

The net NPL ratio based on the 6-month classification increased slightly to 7.8% as at the end of May 2001. The increase was mainly due to reclassification of loans which were previously granted indulgence from the NPL classification. The reclassification of the loans to NPL accounted for about half of the increase for the month of May. Following the reclassification of these loans, the amount of loans that have been granted the indulgence and yet to be classified as NPL has been reduced to RM217.4 million.

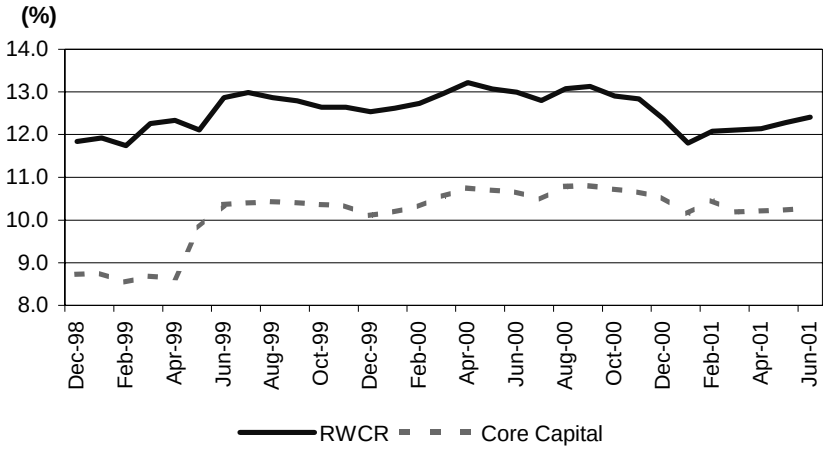
Banking System Health Indicators

	1998	1999		2000			2001	
	Dec.	Jun.	Dec.	Jun.	Dec.	Apr.	May.	Jun.
Capital								
Core-capital ratio (%)	8.7	10.4	10.1	10.7	10.5	10.2	10.2	10.3
RWCR (%)	11.8	12.9	12.5	13.0	12.4	12.1	12.3	12.4
Net NPL (6-month classification)								
Banking system (%)	8.1	7.9	6.4	6.5	6.3	7.4	7.8	n.a.
Banking system (RM million)	31,675	29,889	23,849	24,736	24,605	29,166	30,879	n.a.
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.9	1.9	1.8	n.a.

n.a. Not available

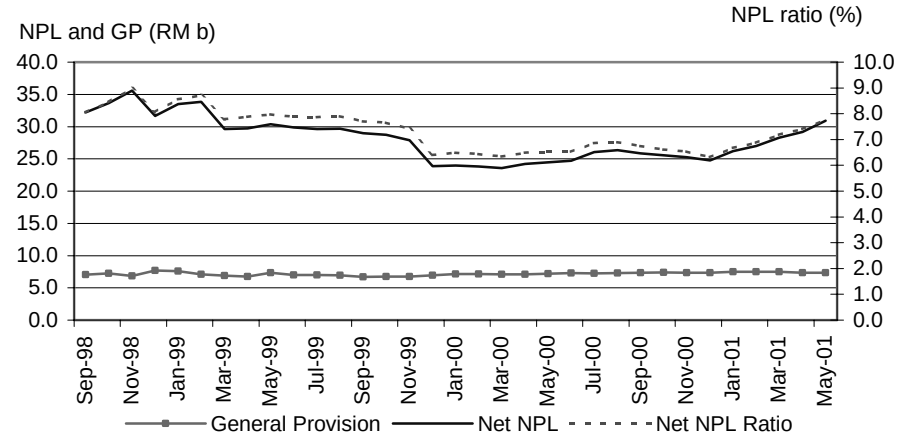
** Beginning June 1999 onwards, the figures include Islamic banks*

Capital Strength Indicators



….RWCR improved to 12.4%

Banking System Net NPL and General Provisions



….Net NPL ratio increased to 7.8%

Danaharta remained active in managing the NPLs within its portfolio. As at end-May, Danaharta were managing loans valued at RM48.1 billion, of which RM39.9 billion were acquired from the banking system representing 41.2% of the total NPLs of the banking system. On 5 June 2001, Danaharta launched its fifth property tender offering 278 properties with a total indicative value of RM841.75 million. Development land accounts for 60% (in value terms) of the total amount offered in this tender. The fifth tender closed on 4 July 2001.

As at 30 June 2001, capital injection by Danamodal in three banking institutions remained at RM3.7 billion. The number of cases resolved by the CDRC also remained unchanged at 46 cases valued at RM30.3 billion from the 54 cases (valued at RM39.6 billion) eligible for restructuring. The number of outstanding cases stood at 8 cases with total loans of RM9.2 billion.

Bank Negara Malaysia
30 July 2001

Key Monetary and Banking Statistics

	May		June	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	38.4	3.6	38.5	4.2
M1	72.4	6.3	73.9	7.0
M2	350.7	4.6	350.5	3.5
M3	454.7	5.0	455.7	4.4
Banking System				
Total deposits	471.0	4.9	473.7	3.7
Total loans (including loans sold to Cagamas and Danaharta)	462.3	6.0	465.4	5.9
Total loans (excluding loans sold to Cagamas and Danaharta)	403.8	5.9	406.2	5.5
Loan-deposit ratio (%)	85.7		85.8	
Loans approved during the month	10.2		10.5	
Loans disbursed during the month	31.1		32.4	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	12.3		12.4	
Net NPLs: 6-month classification (%)	7.8		n.a.	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	98.5		98.8	
Reserves in USD (billion)	25.9		26.0	
Months of retained imports	3.9		3.9	
Interest Rates (average rates at end-period)				
Interbank: 1-month	3.00		2.99	
3-month	3.29		3.00	
Fixed deposits of commercial banks: 1-month	3.43		3.43	
3-month	3.44		3.43	
BLR of commercial banks	6.79		6.79	
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.2515		3.2142	
Pound Sterling	5.4182		5.3555	
Singapore dollar	2.1017		2.0877	
100 Japanese yen	3.1709		3.0627	
100 Thai Baht	8.3839		8.3950	
100 Philippine Peso	7.5262		7.2460	
100 Indonesian Rupiah	0.0343		0.0332	
100 Korean Won	0.2948		0.2923	
Capital Market				
Funds raised by: public sector (RM million)	-1,303.6		3,560.2	
private sector (RM million)	1,492.5		1,659.7	
Kuala Lumpur Composite Index (end-period)	572.88		592.99	
KLSE Market Capitalisation (RMb) (end-period)	395.08		403.49	