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Press Release

Economic and Financial Developments in the Malaysian Economy in the Third Quarter of 2001

Overview

Against a deteriorating external environment, export-oriented industries in Malaysia registered further declines in production. Growth in domestic-oriented industries was much stronger in the third quarter. The effects of the expansionary fiscal and monetary policies have continued to filter through the economy, resulting in sustained growth in the construction and services sectors. Of significance, growth in the services sector was increasingly broad-based. However, growth in these sectors has only partially offset the downturn in the export-oriented industries. The agriculture sector also contracted due to the moderate growth in output of crude palm oil and the decline in output of the other major commodities. Against these developments, real output in the third quarter recorded a moderate increase of 0.8% compared with the preceding quarter. On year-on-year basis, real GDP declined by 1.3% in the third quarter of 2001. For the first three quarters of the year, real output growth has remained positive, increasing by 0.7%.

2. For Malaysia, the cumulative effects of the series of pro-growth policies and recent structural adjustments have strengthened Malaysia's position and ability to absorb and adjust to the more challenging environment. More

importantly, Malaysia's fundamentals continue to remain strong even after 11 September. The trade surplus remains large. Inflation stabilised at 1.4% during the quarter. FDI inflows have been sustained and there has been a net inflow of portfolio funds. The external reserves has increased steadily during the quarter while the external debt remained contained at 52% of GNP. Monetary conditions continued to support the expansion in domestic economic activities, with further increases in loan growth and higher issuance of PDS. The marginal increase in NPLs is supported by a strong capitalisation of the banking system. In addition, there has been an increase in the pace of restructuring by domestic corporations.

3. The global slowdown was already seen before September 2001. While the 11 September events in the United States have further dampened the near-term growth prospects, it is important to recognise that these events have not diminished the medium-term prospects for recovery and growth. Policy response across the globe to these events has been prompt. In the United States, the Federal Reserve Board (Fed) eased monetary policy further immediately following 11 September, bringing interest rates to their lowest level since the 1960s. The US Congress has also approved in principle a series of supplementary fiscal packages, amounting to about 1-2% of GDP. In a coordinated move, the other major central banks also reduced interest rates and agreed with the Federal Reserve Board to undertake swap arrangements to ensure orderly functioning of the financial markets. The central banks also injected additional liquidity into the banking system in order to mitigate the potential volatility in the financial markets. The main aim of these coordinated policy response is to support global growth and avoid a tailspin reaction that could lead into recession.

4. On the domestic front, several measures were implemented during the quarter. Bank Negara Malaysia reduced the 3-month intervention rate by 50 basis points to 5% on 20 September 2001 aimed at addressing the short-term developments that are biased towards weaker domestic economic activities. To further promote domestic activities and to provide the impetus for growth in investment, the lending rates for selected special funds, namely the Rehabilitation Fund For Small and Medium Industries (RFSMI), Fund For Small

and Medium Industries 2 (FSMI 2) and New Entrepreneurs Fund 2 (NEF 2) were reduced further, with effect from 15 October 2001, by 0.5 percentage point for existing and new borrowers. This was the second reduction for FSMI 2 and NEF 2 this year to further reduce the cost of doing business to counter the effects of the global economic slowdown.

5. On 25 September 2001, the Government announced an additional stimulus package of RM4.3 billion. The new stimulus package is mainly allocated for small projects for which funds can be disbursed immediately. The projects identified are small development projects in rural and selected urban areas, including upgrading of Government buildings, for training programmes and for tourism promotion. The early announcement of these measures was aimed at providing enough lead time for higher expenditure to sustain domestic sources of growth.

6. The Budget 2002 announced on 19 October 2001 contained further direct measures to stimulate the domestic economy. In addition to higher development expenditure, the focus of Budget 2002 was on raising disposable incomes via tax cuts and bonuses to stimulate private consumption, in addition to a salary increase for public sector employees. Prior to the Budget 2002, the Government had already implemented several other measures to encourage private investment. These included measures to reduce the property overhang (27 March 2001) and additional financing for the small- and medium-sized industries through special funds (27 March 2001). The additional stimulative measures announced after 11 September are aimed at raising further domestic sources of growth, given the diminished prospects for an early upturn in external demand. The strong fundamentals in place have accorded Malaysia with policy flexibility to implement these additional pre-emptive policies in response to further external shock to the economy.

7. Looking forward, the outturn for the fourth quarter would be dependent on three important factors, whether consumer spending continues to register stronger growth, whether the decline in the manufacturing sector moderates

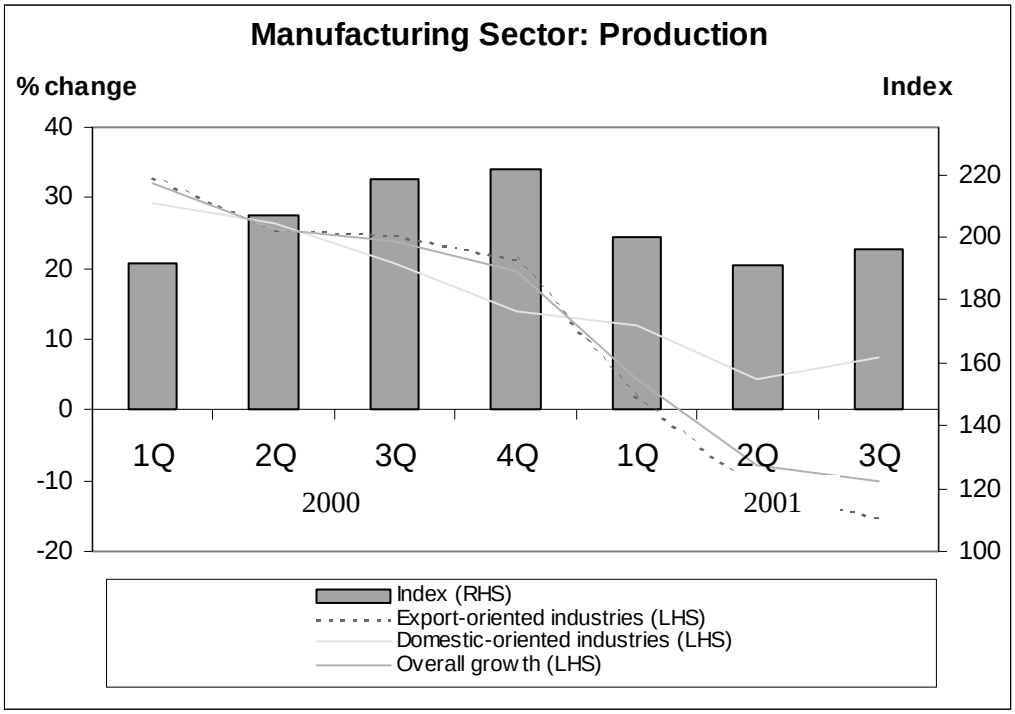
significantly and whether Government funds allocated for spending this year are disbursed completely.

8. The latest data for the third quarter has indicated that policy measures to manage the impact of the global slowdown on the Malaysian economy has begun to filter down to the domestic economy. In particular, consumption spending has been sustained in the current low growth environment. Hence, the services sector as a whole, which accounts for about 52% of GDP, has been more resilient. During the second and third quarters, consumers have responded positively to the direct policy measures introduced in October 2000 (for Budget 2001) and earlier this year to increase household disposable incomes. With new measures announced in Budget 2002 aimed at raising the disposable incomes, consumer spending is expected to be sustained in the fourth quarter. The two major festivals also falls in the fourth quarter and hence, the expectations are for a stronger consumer spending in this period.

9. For the first nine months of 2001, the Government's disbursement of the development expenditure amounted to RM18.3 billion, equivalent to 57% of total estimated development spending for the year as a whole (53% in 2000). A full disbursement of the remaining development expenditure already allocated for 2001 together with the quick-disbursing development expenditure announced on 25 September, should further support economic activity in the fourth quarter.

Sectoral Developments

10. Supported by the positive effects of the fiscal stimulus programme, industries dependent on domestic demand registered higher output in the third quarter. Of significance, output of the transport equipment industry continued to record a strong double-digit expansion, with the consequent favourable impact on demand for petroleum products. The production of construction-related materials, particularly non-metallic products, also expanded further. In tandem with the continued expansion in output, capacity utilisation in the domestic-oriented industries were sustained at the 80% level (2Q: 83%), reflecting mainly the high capacity utilisation in the transport equipment industry (96%).



11. The sustained strong performance of domestic-oriented industries provided some cushion to the continued contraction in output of export-oriented industries. Nevertheless, given the more adverse external demand, **value added in the manufacturing sector** declined by 8.4% in the third quarter (2Q: -6.7%). Production in the export-oriented industries declined by 15.2%, resulting in a decline in capacity utilisation to 68%. Lower capacity utilisation was most marked in the electronics industry, which declined to 62%. Activities in the electrical product industry, which were more resilient in the first half-year, also recorded negative growth in the third quarter. Electrical goods exports registered positive growth rates till June 2001. As lower demand for electrical goods only emerged in the third quarter, capacity utilisation in this sub-sector was relatively high at 75%. The Bank Negara Malaysia survey of major companies in the electrical and electronic sector indicate that inventory levels were, however, generally low and hence inventory adjustment would not be a constraint on growth in the future.

Table 1: Performance in the Manufacturing Sector

	2000				2001		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
	Annual change (%)						
Value-added (RM million at 1987 prices)	**27.3**	**20.9**	**20.3**	**16.4**	**3.7**	**-6.7**	**-8.4**
Overall Production	**32.1**	**25.7**	**23.8**	**19.7**	**4.2**	**-7.9**	**-10.2**
Export-oriented industries	33.0	25.5	24.7	21.3	2.0	-11.4	-15.2
of which:							
Non-resource based							
* *Electronics*	*49.8*	*46.9*	*46.4*	*37.8*	*-1.2*	*-25.3*	*-27.5*
* *Electrical*	*32.4*	*28.9*	*32.5*	*22.2*	*8.6*	*3.4*	*-10.6*
* *Textiles & wearing apparel*	*12.3*	*5.0*	*13.0*	*5.3*	*3.0*	*-9.7*	*-10.7*
Resource-based							
* *Chemicals and chemical products*	*25.6*	*17.1*	*10.2*	*9.2*	*-1.6*	*-7.2*	*-7.9*
* *Off-estate processing*	*46.5*	*0.5*	*-2.2*	*15.0*	*10.4*	*13.5*	*4.0*
* *Rubber products*	*7.0*	*0.8*	*3.8*	*4.7*	*10.8*	*4.2*	*3.3*
* *Wood and wood products*	*2.7*	*1.4*	*6.2*	*5.8*	*12.4*	*1.3*	*-2.3*
Domestic-oriented industries	29.2	26.4	20.7	14.1	12.1	4.3	7.5
of which:							
Non-resource based							
* *Transport equipment*	*33.8*	*22.8*	*13.2*	*10.9*	*18.9*	*18.4*	*23.5*
* *Fabricated metal products*	*41.8*	*35.8*	*38.2*	*22.6*	*10.6*	*6.4*	*8.8*
* *Iron & steel and non-ferrous metal*	*30.8*	*24.7*	*15.6*	*0.3*	*9.6*	*-7.3*	*-1.2*
Resource-based							
* *Non-metallic mineral products*	*27.4*	*20.7*	*22.2*	*13.7*	*15.4*	*9.7*	*4.6*
* *Petroleum products*	*15.1*	*39.3*	*15.2*	*12.1*	*21.0*	*8.7*	*19.7*
Total Manufactured Exports	**20.4**	**18.1**	**23.9**	**7.0**	**3.5**	**-9.1**	**-20.4**
* Electronics	18.2	15.1	21.2	7.0	-2.1	-18.5	-26.5
- *Semiconductors*	*9.7*	*4.6*	*9.3*	*10.7*	*15.1*	*-15.1*	*-30.4*
- *Electronic equipment and parts*	*24.6*	*24.4*	*31.9*	*4.2*	*-13.6*	*-21.0*	*-23.6*
* Electrical products	34.7	28.8	33.3	13.8	9.4	6.2	-16.9
* Wood and wood products	-5.3	0.4	-2.7	-3.1	-0.5	-9.1	-17.7
* Furniture & parts	34.5	24.3	13.1	-5.0	-9.9	-16.2	-16.9
* Textiles, clothing & footwear	19.0	7.3	13.2	3.1	-5.1	-8.3	-18.2
* Optical & scientific equipment	27.9	40.9	53.5	39.9	29.9	23.4	3.4
* Chemicals and chemical products	39.4	46.4	46.6	12.3	21.9	-1.8	-15.7
* Petroleum products	147.0	126.5	85.1	19.0	39.5	-2.5	-8.5

12. Value added growth in the **services sector** was sustained at a high level of 4.4% in the third quarter (2Q: 6.1%). Of significance, growth in the wholesale and retail trade sector, which has the largest contribution to the services sector, was stronger at 2.6% compared with 1.8% in the second quarter. This reflected mainly the positive response of consumers to policy measures and the sales promotion campaigns by the retailers. During this quarter, Malaysia also hosted the SEA Games. Growth in the finance, insurance, real estate and business services sub-sector was supported by higher bank lending activity and a stronger performance of the stock market. Value added in the transport, storage & communication sub-sector remained positive. While transport-related sectors felt the impact of the decline in the export sector, stronger performance in the telecommunication industry and increased transhipment trade contributed to the overall growth of this sector. The demand for electricity was sustained at a high level due to demand from domestic-oriented industries, particularly from the construction-related industries, households sector as well as services-related industry.

Table 2: Performance in the Services Sector
(Value added in RM million at 1987 prices)

	2000				2001		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
	Annual change in %						
Intermediate services	**10.9**	**4.7**	**3.0**	**5.5**	**5.0**	**11.2**	**5.4**
Transport, storage & communication	11.0	8.3	6.0	4.5	6.5	7.8	3.9
Finance, insurance, real estate & business services	10.9	2.5	1.2	6.2	2.9	11.6	6.3
Final Services	**5.2**	**4.9**	**3.9**	**2.4**	**2.3**	**3.0**	**3.8**
Electricity, gas & water	11.3	5.0	6.9	7.2	5.1	5.8	7.1
Wholesale & retail trade, hotels & restaurants	7.3	8.5	6.3	1.7	1.7	1.8	2.6
Government services	2.1	1.6	1.4	0.6	3.1	7.1	6.1
Other services	1.3	1.1	0.2	3.5	3.5	2.3	2.1
Total Services	**7.3**	**4.8**	**3.5**	**3.6**	**3.4**	**6.1**	**4.4**

Source: Department of Statistics

13. The **construction sector** continued to benefit from the fiscal stimulus programme and the low interest rate environment during the third quarter. Value added was sustained at 2.6%, reflecting increased spending by the public sector on infrastructure projects including roads and schools as well as continuing growth in construction activity in the residential sub-sector.

14. Value added of the **mining sector** expanded further by 2.1% in the third quarter (2Q: +0.8%) on account of higher crude oil and natural gas production. In the **agriculture sector**, the moderate increase in crude palm oil (CPO) production and declines in output of other major commodities led to a 2% contraction in overall agriculture output. The moderate expansion in CPO production reflected reduced usage of fertiliser in the second half of 2000 in response to unremunerative prices during the period. This has, however, reduced the build-up in palm oil stocks.

Table 3: Performance in the Mining Sector

	2000				2001		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
	Annual change in %						
Value Added (RM million at 1987 prices)	**3.9**	**5.6**	**2.7**	**0.6**	**-0.9**	**0.8**	**2.1**
Production							
of which							
Crude oil and condensates							
('000 barrels)	1.0	4.1	-5.4	-4.7	-4.2	-2.1	1.3
Natural gas							
(million standard cubic feet)	11.0	10.1	11.5	3.8	5.9	4.8	3.9
Exports (RM million)	**111.6**	**65.2**	**42.5**	**28.8**	**1.5**	**-3.7**	**-12.9**
of which:							
Crude oil							
('000 tonnes)	0.1	-10.9	-8.7	-4.1	-1.7	-4.6	-13.4
(US$/barrel)	118.6	78.5	56.2	33.3	3.7	-0.8	-16.4
(RM million)	118.8	59.0	42.6	27.9	2.0	-5.3	-27.7
Liquefied natural gas							
('000 tonnes)	4.8	0.8	4.3	-1.2	-3.1	1.8	7.0
(RM/tonne)	109.9	103.7	51.2	50.6	12.5	-7.8	1.1
(RM million)	119.9	105.3	57.7	48.8	9.1	-6.2	8.2

Source : Department of Statistics

Table 4: Performance in the Agriculture Sector

	2000				2001		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
	Annual change in %						
Value Added (RM million at 1987 prices)	**-0.7**	**-3.7**	**1.7**	**5.0**	**13.8**	**1.9**	**-2.0**
Production [1/]							
of which:							
Crude palm oil	25.5	-15.7	-2.2	11.8	27.6	17.2	2.4
Rubber	-29.1	-14.6	-15.5	-18.3	-11.7	-21.8	-7.0
Saw logs	20.8	5.3	1.5	-2.1	-15.3	-19.3	-22.0
Cocoa	-14.4	-17.5	-34.8	9.5	-9.5	-13.7	-25.2
Exports (RM million)	**-7.0**	**-19.0**	**-17.3**	**-22.7**	**-16.9**	**-17.6**	**-14.8**
of which:							
Palm oil							
('000 tonnes)	30.5	-11.9	-16.1	3.1	24.4	36.8	13.7
(RM/tonne)	-42.2	-30.8	-19.5	-30.3	-34.0	-29.8	-6.2
(RM million)	-24.5	-39.0	-32.4	-28.1	-17.9	-4.0	6.7
Rubber							
('000 tonnes)	4.1	-3.0	-0.8	-2.3	-6.5	-18.7	-21.6
(Sen/kg)	15.3	18.5	12.5	-3.4	-12.0	-15.1	-10.3
(RM million)	20.1	14.9	11.5	-5.6	-17.7	-31.0	-29.7
Saw logs							
('000 cu.metres)	10.4	4.1	-8.5	-16.0	-26.9	-31.7	-24.4
(RM/cu.metre)	0.8	-3.3	-2.5	-5.6	-7.6	-17.5	-23.8
(RM million)	11.3	0.7	-10.8	-20.7	-32.4	-43.6	-42.4

1/ In '000 tonnes, except for saw logs in '000 cubic metres
Source: Department of Statistics

Aggregate Demand

15. **Consumption spending** was significantly higher, increasing by 4.7% in the third quarter. Given the current environment, this growth level is a significant development as total consumption (public and private) accounts for about 60% of GDP. Hence, the direct policy measures introduced in Budget 2001 and earlier this year to increase household disposable incomes, including the higher tax rebates for individual taxpayers from low and middle-income groups and the increase in the eligible taxable income bracket for this tax rebate, from RM10,000 to RM35,000, as well as the temporary 2% reduction in employees' EPF contribution rate has contributed positively to consumer spending. Findings of the latest MIER consumer sentiment survey showed that Consumer Sentiment Index rose by 2.5 points to 98.7 points in the third quarter. Although the index is still below 100-points benchmark, the increase reflected an improvement in consumer confidence.

16. The cumulative effects of the lower external demand and previous expansion in capacity were reflected in a decline in private investment activity. **Gross fixed capital formation** declined by 9.3% in the third quarter, the first decline since the second quarter of 1999. Without the Government stimulus programme, the decline in capital formation would have been higher.

Table 5: GDP by Expenditure Components (at Constant 1987 prices)

	2000				2001		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	Annual change in %						
Consumption	12.7	13.4	6.6	7.8	5.2	2.5	4.7
Private sector	*14.5*	*13.4*	*11.3*	*9.9*	*4.1*	*1.6*	*2.1*
Public sector	*3.8*	*13.2*	*-8.0*	*1.3*	*11.5*	*5.9*	*14.6*
Gross Fixed Capital Formation	21.0	32.6	32.6	11.3	9.1	0.2	-9.3
Exports of Goods & NFS	21.0	16.8	19.9	8.3	6.1	-6.8	-18.1
Imports of Goods & NFS	25.7	27.7	32.0	12.8	6.8	-9.1	-21.3
Gross Domestic Product	11.7	8.0	7.6	6.3	3.1	0.5	-1.3

Federal Government Fiscal Position – Higher development spending

17. The Federal Government recorded an overall deficit of RM3 billion or –3.6% of GDP in the third quarter. Development spending was significantly higher by 29.5% against the preceding quarter and 10.4% year-on-year basis. In the first three quarters of 2001, total development spending disbursed amounted to RM18.3 billion or equivalent to 57% of total estimated development spending for the year as a whole (53% a year ago).

External Sector Developments

18. Malaysia's external position remained strong in the third quarter. Trade surplus was larger, the capital account was supported by inflows of foreign direct investment (FDI) and international reserves increased further. The current global economic slowdown and prolonged weak global demand for electronics

continued to dampen export performance during the quarter but this was cushioned by a corresponding decline in imports of goods, particularly imports of intermediate goods used mainly for the production of exports. Hence, the **trade account** registered a larger surplus of RM15.2 billion in the third quarter (2Q 2001: RM12.4 billion). The cumulative trade surplus in the first nine months of 2001 amounted to RM40.9 billion (RM43.8 billion in the same period of 2000).

Table 6: Trade Account

	2000				2001		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
	Annual change in %						
Gross Exports	22.1	16.9	21.6	5.7	1.6	-9.0	-19.2
Manufacturing	*20.4*	*18.1*	*23.9*	*7.0*	*3.5*	*-9.1*	-20.4
Agriculture	*-7.0*	*-19.0*	*-17.3*	*-22.7*	*-16.9*	*-17.6*	-14.8
Minerals	*111.6*	*65.2*	*42.5*	*28.8*	*1.5*	*-3.7*	-12.9
Gross Imports	27.3	32.0	33.8	11.7	6.7	-10.5	-22.8
Capital goods	*40.1*	*69.0*	*48.2*	*35.1*	*30.3*	*-11.3*	-28.5
Intermediate goods	*27.7*	*30.7*	*35.5*	*11.1*	*3.2*	*-11.0*	-24.9
Consumption goods	*28.0*	*24.4*	*16.0*	*4.4*	*2.7*	*-0.5*	-7.7
Trade balance (RM bn)	16.5	12.3	15.0	17.2	13.3	12.4	15.2

Source: Department of Statistics, Malaysia

19. The sustained confidence of foreign investors on the long-term prospects of the Malaysian economy was reflected in the continued inflows of FDI. The Cash BOP Reporting System of Bank Negara Malaysia showed that the **gross inflows of FDI** amounted to RM4.7 billion in the third quarter. These inflows were in the form of loans from related companies abroad as well as new equity for the setting up of strategic alliances with Malaysian partners. There were continued inflows of foreign direct investment into the traditional sectors such as the manufacturing and oil sectors as well as in the services sector, particularly in the financial services and telecommunications sectors. Meanwhile, overseas investment turned around to record a marginal net inflow in the third quarter of 2001. This was due to the liquidation of businesses abroad by some companies, as part of the corporate restructuring exercise, which more than offset the gross outflows for overseas investment.

20. The Cash BOP Reporting System indicated that the portfolio investment turned around to record a net inflow of RM3.8 billion in the third quarter, the first net inflow since the first quarter of 2000. Foreign portfolio investors became more upbeat on the outlook for Malaysian stocks following the better than expected growth in the second quarter and the improved perceptions on issues of corporate restructuring, corporate governance as well as transparency.

21. International reserves of Bank Negara Malaysia remained on a rising trend. As at 15 November, the net international reserves amounted to RM116.5 billion (US$30.7 billion), exceeding the end-2000 level of RM113.5 billion (US$29.9 billion). The increase in reserves reflected the overall strong fundamentals of the economy, with foreign exchange reserves generated mainly from trade and long-term capital inflows. With interest rate differentials with those abroad moving in Malaysia's favour, this has encouraged the early repatriation of export proceeds from abroad. There were continued inflows of foreign direct investment. An unrealised revaluation gain was also registered following the quarterly revaluation of reserves outstanding as at 29 September 2001. This unrealised gain has partially offset the unrealised revaluation loss recorded in the first half-year. Portfolio flows turned around to record a net inflow in the third quarter but reversed in recent weeks due to uncertainties following the 11 September events in the United States.

22. The international reserve position as at 15 November 2001 is adequate to finance 5 months of retained imports and is 6 times the short-term external debt. Short-term external debt remained low, accounting for 12% of total external debt. Malaysia's total external debt position also remained low, amounting to RM164.5 billion (US$43.3 billion) as at end-September, equivalent to about 52% of GNP.

23. Against an uncertain external environment, the stability accorded by the ringgit peg to the US dollar has provided a conducive environment for businesses. The pegged exchange rate remains consistent with the fundamentals and is well supported by a low inflation rate, continued surpluses in the current account and a high level of international reserves. External debt remains low with reserves exceeding short-term external debt by six times.

Consistent macroeconomic fundamentals and a strong and well capitalised banking sector also provide a strong foundation for the sustainability of the exchange rate.

Domestic Prices

24. Inflation remained low, underpinned by the moderation in domestic demand, coupled with stable exchange rate and low inflation abroad. The Consumer Price Index (CPI) moderated to 1.4% in the third quarter. Meanwhile, the Producer Price Index (PPI) continued to decline, albeit at a lower rate of 4.3%, due mainly to lower prices of commodity-related products arising from the continued weak prices for rubber and crude petroleum.

Labour Market Conditions

25. While the number of workers retrenched rose to 13,737 in the third quarter, flexible labour market practices helped to moderate the number of retrenchments. An increased numbers of employees accepted pay cuts and worked shorter hours due to cut-backs in production. Out of a total of 386 employers that retrenched workers during the quarter, 38.3% cited a reduction in demand for products as the reason for retrenchment. On a cumulative basis, retrenchments totalled 29,837 during the period January to September 2001, compared with a significantly larger number of 65,749 during the same period in 1998.

26. The Government has intensified efforts to encourage redeployment of labour to alternative activities. The Budget 2002 has allocated RM300 million for the establishment of nine schemes for skills training and higher education, which will benefit retrenched workers and unemployed graduates. These efforts will ensure that the period of economic slowdown is gainfully utilised to develop skills and to enhance mobility of the labour force in the changing global and domestic environment.

Monetary and Financial Conditions

27. In line with the sustained expansion in domestic-based activities, the broad monetary aggregate, M3, expanded further by 5.4% at end-September (4% at end-June). During the quarter, total loans outstanding extended by the banking system at end-September rose further by RM4.5 billion or 1% compared to the level at end-June. Inclusive of PDS issuance, the overall financing to the private sector remained strong, growing by RM12.8 billion during the quarter (RM13.9 billion in the preceding quarter) or an annual growth of 8.3% at end-September (7.6% annual growth at end-June). Also notable were loans extended to the small and medium enterprises (SMEs) which rose at an annual rate of 8.8% as at end-September. SMEs loans accounted for 18.5% of total loans outstanding at the end of the third quarter.

28. Total loans disbursed during the quarter remained strong at RM93.6 billion (RM93.1 billion in the second quarter). The bulk of the loans were disbursed to the manufacturing sector, wholesale and retail trade, purchase of residential properties and passenger cars, finance, insurance and business services and credit cards.

29. Net funds raised in the capital market was higher in the third quarter, amounting to RM12.2 billion (2Q: RM5.8 billion), reflecting mainly the net issuance of the RM5 billion Malaysian Government Securities and higher funds raised in the private debt securities (PDS) market to support new economic activities. In the equity market, market sentiment improved in July and August as reflected in rising KLSE CI following favourable market response to latest measures to accelerate corporate restructuring of several large corporations. Implementation of new listing requirements also resulted in enhanced confidence in the capital market.

30. The market consolidated following the events of 11 September in the US. In the first two weeks of November, the KLSE CI reversed its trend following the improved performance in the US and regional markets as well as earlier than

expected resolution to the conflict in Afghanistan. As at 21 November 2001, the KLSE CI closed at 632.91 points, an increase of 5.5% since end-October.

31. The banking sector remained resilient during the quarter as evident from the strong capitalisation levels which remained above 12.5% during the quarter. Net non-performing loans (NPL) ratio registered a marginal increase of 10 basis points to 8.1%. Although, net NPL of the banking sector increased marginally by 1.5% during the quarter to RM32.8 billion, the amount of new loans turning non-performing have declined from RM10.9 billion during the second quarter to RM7.8 billion during the third quarter, half of which were from the manufacturing and construction sectors.

32. While NPLs are expected to increase in view of the prevailing economic conditions, the banking system is expected to remain resilient given the strong capital position. Furthermore, the impending completion of the debt resolution of two large corporate borrowers is expected to reduce the gross NPL ratio by 1.1 percentage points. The stress tests conducted which incorporated losses on potential NPLs and high risk loans, also indicated that the banking system's RWCR will remain above 8%.

Bank Negara Malaysia
23 November 2001

Appendix

Major Indicators

	2000	2001	
	3rd Qtr	2nd Qtr	3rd Qtr
Output	Annual change in %		
Real GDP	**7.6**	**0.5**	**-1.3**
Agriculture	1.7	1.9	-2.0
Mining	2.7	0.8	2.1
Manufacturing	20.3	-6.7	-8.4
Export-oriented industries [1]	24.7	-11.4	-15.2
Domestic-oriented industries [1]	20.7	4.3	7.5
Construction	0.3	3.2	2.6
Services	3.5	6.1	4.4
Domestic Demand	14.8	1.5	-0.4
Total Consumption	6.6	2.5	4.7
Private Consumption	11.3	1.6	2.1
Public Consumption	-8.0	5.9	14.6
Gross Fixed Capital Formation	32.6	0.2	-9.3
Prices and Employment	Annual change in %		
Consumer Price Index	1.5	1.6	1.4
Producer Price Index	4.1	-4.7	-4.3
Unemployment Rate (%)	3.1	3.7	n.a
Federal Government Finance	RM billion		
Revenue	15.4	20.7	18.5
Operating expenditure	14.7	13.4	14.3
Current account	0.8	7.4	4.2
Net development expenditure	5.3	5.5	7.2
Overall balance	-4.6	1.8	-3.0
Balance of Payments	RM billion		
Gross exports (f.o.b)	101.7	82.9	82.1
Gross import (c.i.f)	86.8	70.4	67.0
Trade balance	15.0	12.4	15.2
International reserves (end-period)	122.8	98.8	112.9
- US$ billion equivalent	32.3	26.0	29.7
External Debt Outstanding	RM billion		
Medium & Long-term debt	139.0	140.7	145.1
Short-term debt	19.3	18.4	19.4
Total external debt	158.3	159.1	164.5
- US$ billion equivalent	41.7	41.9	43.3
Monetary Aggregates	Annual change in % at end of quarter		
M1	8.3	4.4	11.6
M2	4.9	3.0	5.0
M3	5.1	4.0	5.4
Banking System	Change during the quarter (RM billion)		
Loans[2]	5.3	10.2	4.5
Loans[3]	2.9	8.5	5.1
Deposits	2.1	6.2	3.6
Resource balance	-0.7	-2.3	-1.5
Loan-deposit ratio (%) (end-period)	84.5	85.8	86.2
Capital Market	RM billion		
Net funds raised by			
Public sector	2.0	0.3	5.2
Private sector	6.4	5.5	7.0
Total	8.5	5.8	12.2

1. Refer to production growth
2. Including loans sold to Cagamas dan Danaharta
3. Excluding loans sold to Cagamas and Danaharta