BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS NOVEMBER 2001

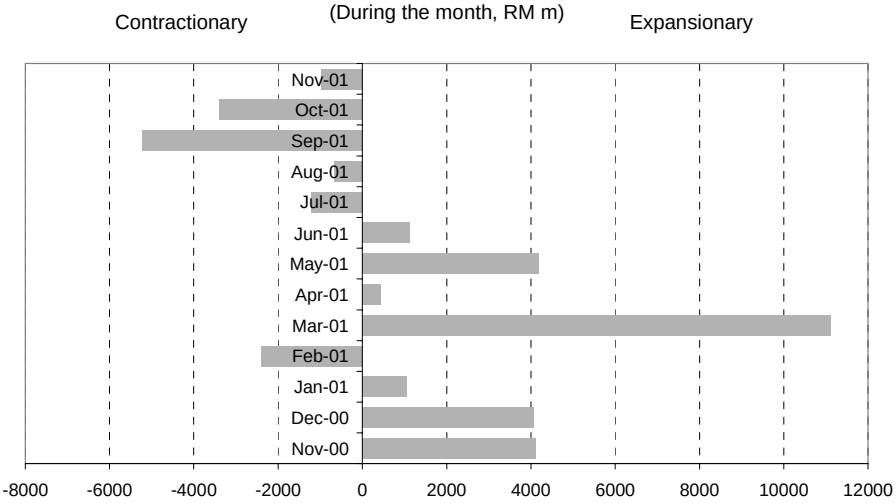
In November, interest rates remained stable at their current low levels. The competitive interest rate environment together with ample liquidity contributed towards sustained bank lending activity. Higher financing for the private sector and expansionary Government operations supported the expansion in monetary aggregates during the month. Meanwhile, the international reserves increased further in November and the first half of December. The Kuala Lumpur Stock Exchange Composite Index (KLSE CI) also continued its positive trend in November and the first three weeks of December.

Interbank rates remained relatively stable

The **interbank money market rates** remained relatively stable during the month. BNM absorbed excess liquidity amounting to RM1 billion in November, following further increase in net inflows of funds from trade and foreign direct investment.

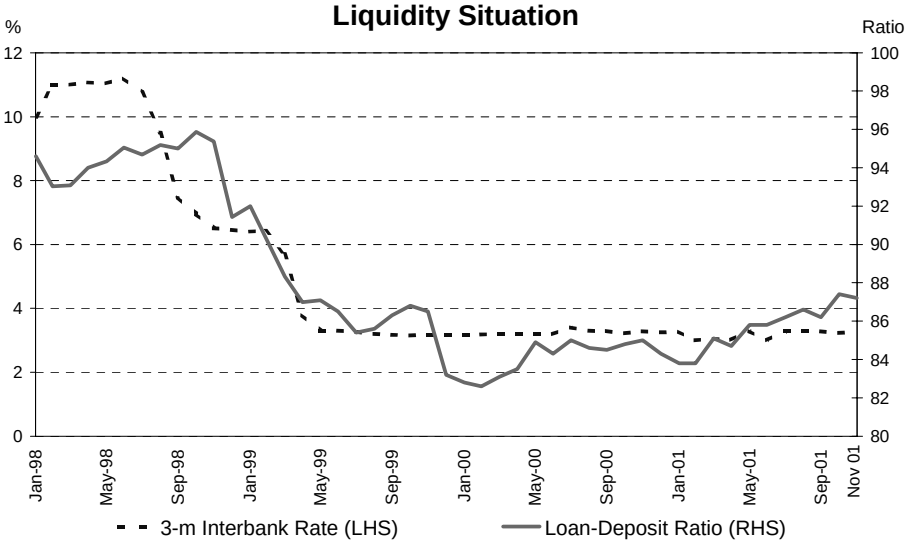
BNM Liquidity Operations

(During the month, RM m)



BNM liquidity operations were aimed at maintaining stable interbank rates

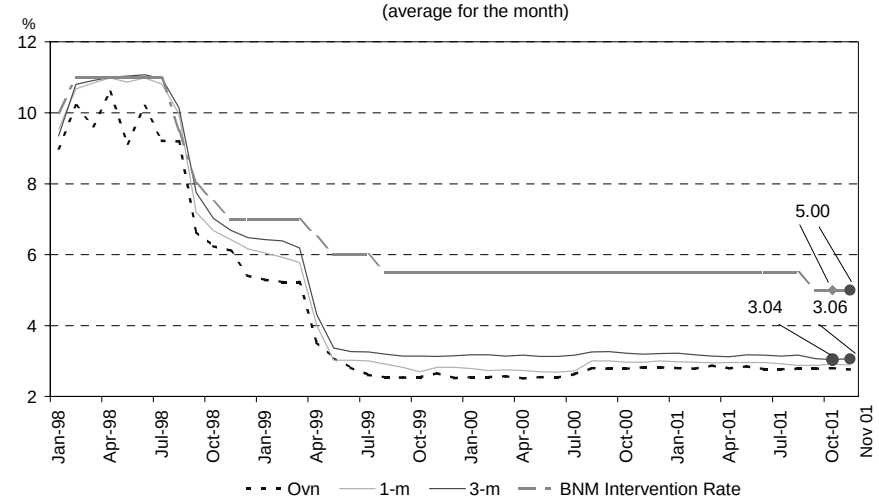
Liquidity Situation



Liquidity continued to remain ample in the banking system

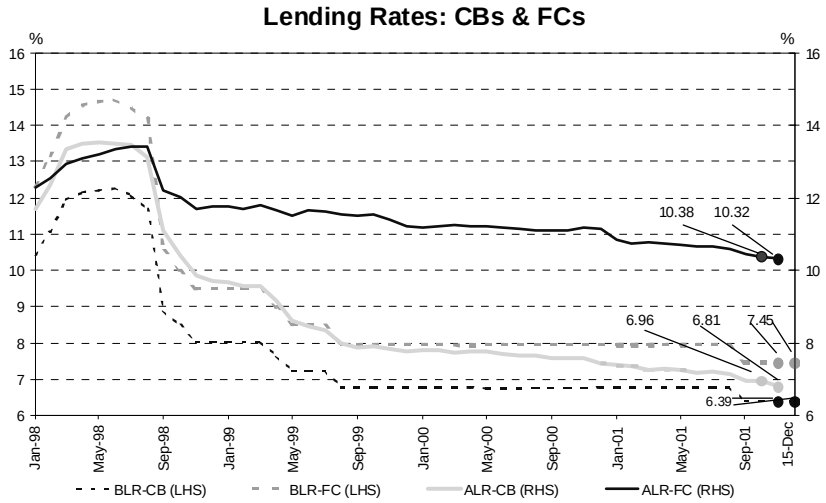
Interbank Rates

(average for the month)



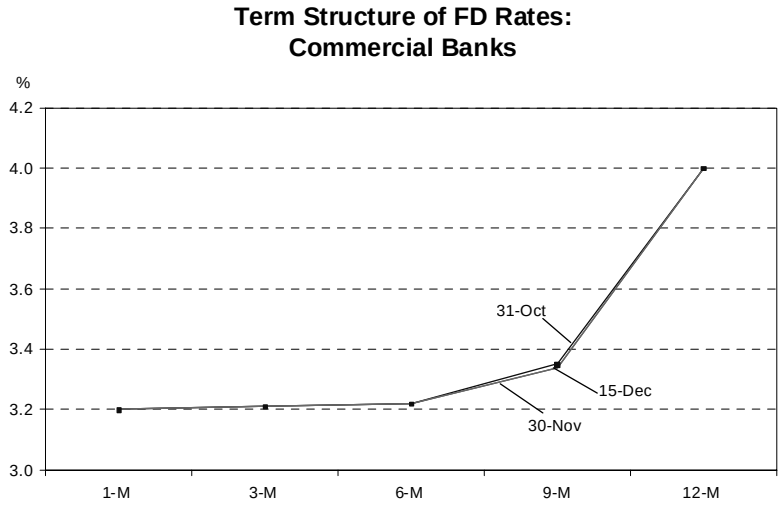
In November, interbank rates remained low and stable

Meanwhile, the **average base lending rates** (BLR) of commercial banks (CBs) and finance companies (FCs) remained unchanged in November. However, the **average lending rates** (ALR) of CBs and FCs continued to trend downwards to 6.81% and 10.32% at end-November respectively (6.96% and 10.38% at end-October respectively).

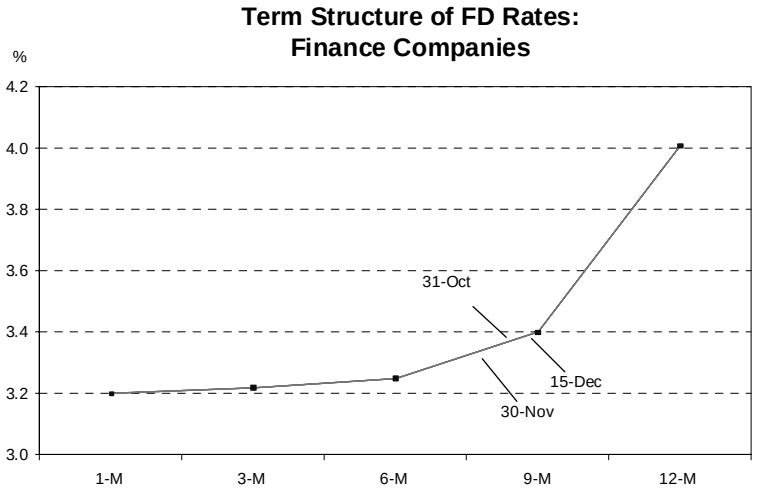


BLRs of CB and FC remained unchanged. However, the ALRs of CB and FC declined

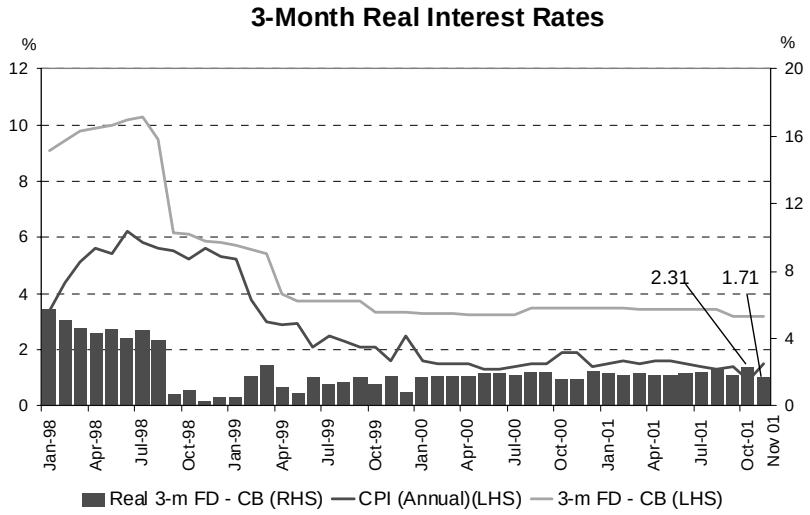
As at 15 December, the **average quoted fixed deposit (FD) rates** of CBs and FCs for the 1-month to 12-month maturities remained unchanged at 3.20-4.00% and 3.20-4.01% respectively.



FD rates of CB remained unchanged



...similarly, for FC

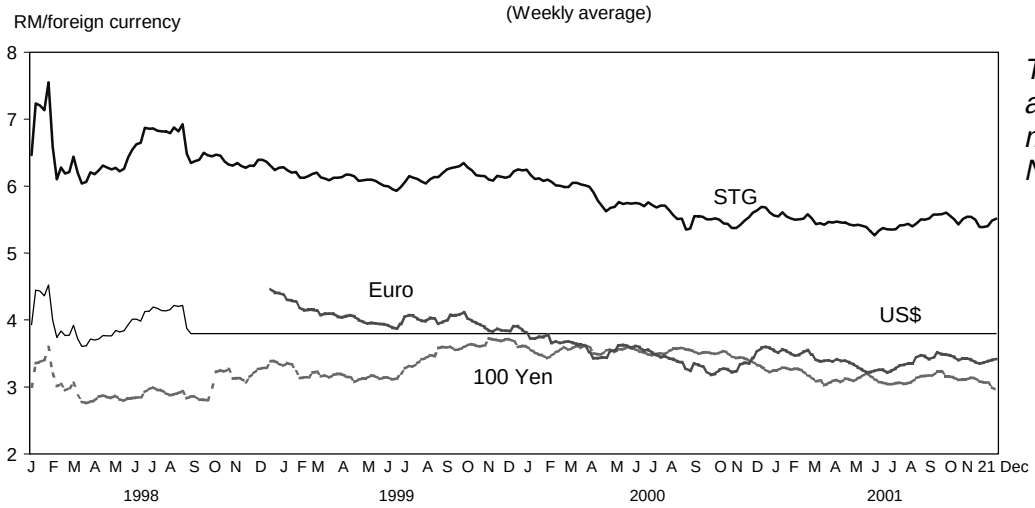


The 3-month real FD rate was lower due to slightly higher inflation in November

The ringgit appreciated against the major currencies while recording a mixed performance against regional currencies in November

In November, the **ringgit appreciated against major currencies**. The ringgit appreciated against the Japanese yen (1.6%), the euro (2.1%) and the Pound Sterling (2.0%), in tandem with the movements of the US dollar in the international foreign exchange markets. The US dollar strengthened on market confidence over the prospect of a US economic rebound and renewed optimism for an early conclusion to the conflict in Afghanistan.

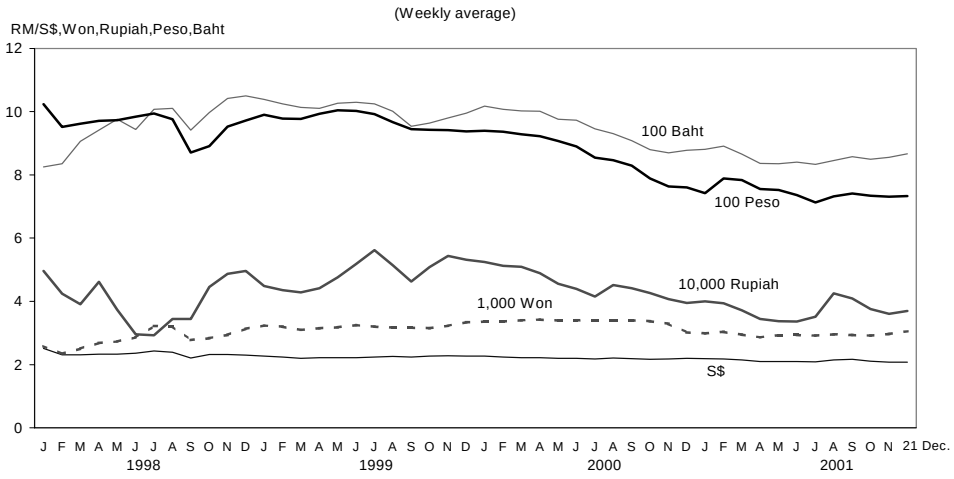
Performance of Ringgit against Major Currencies



The ringgit appreciated against major currencies in November

The **ringgit recorded a mixed performance against regional currencies**. The ringgit appreciated against the Singapore dollar by 0.4% and the Indonesian rupiah by 0.2%, while depreciating against the Thai baht and the Korean won by 1.6% and 2.2% respectively. Currency movements were influenced by commercial demand as well as domestic developments. The Korean won and Thai baht appreciated, benefiting from portfolio inflows.

Performance of Ringgit against Regional Currencies



The ringgit recorded a mixed performance against regional currencies in November

During the period **1 – 21 December**, the ringgit recorded a mixed performance against the major currencies. The ringgit appreciated against the Japanese yen by 4.4% on market pessimism over the growth prospects for the Japanese economy. However, the ringgit depreciated against the euro by 1.5% and the Pound sterling by 1.8% due to the high rate of return on European assets relative to the US. The ringgit depreciated against some regional currencies in the range of 0.1% - 2.4%, while appreciating against the Singapore dollar and the Korean won by 0.6% and 2.5% respectively. Since

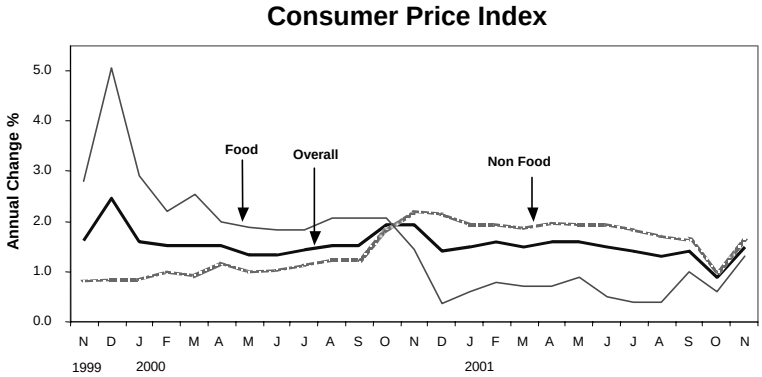
end-2000, the ringgit appreciated against the Japanese yen by 12.8%, the euro by 3.2% and the Pound sterling by 2.8%, as well as against regional currencies in the range of 1.5% - 6.4%. Despite the appreciation of the ringgit against the major and regional currencies in 2001, the ringgit continues to maintain a fair valuation and is supported by the strengthened macroeconomic fundamentals. Rising reserves, low inflation and a well-capitalised banking system are among some of these fundamentals.

Performance of Ringgit against Selected Currencies

				% Change		
RM per foreign currency	2 September 1998	End-Nov. 2001	21 December 2001	November 2001	Jan.-21 Dec. 2001	2 Sep. 1998-21 Dec. 2001
US dollar	3.8000	3.8000	3.8000	0.0	0.0	0.0
Euro	-	3.3708	3.4236	2.1	3.2	-
Pound Sterling	6.3708	5.4158	5.5144	2.0	2.8	15.5
100 Japanese yen	2.7742	3.0674	2.9372	1.6	12.8	-5.5
Singapore dollar	2.1998	2.0756	2.0623	0.4	6.4	6.7
100 Thai baht	9.3713	8.6462	8.6501	-1.6	1.5	8.3
100 Philippine peso	8.8302	7.3148	7.4233	0.0	2.5	19.0
100 Indonesian Rupiah	0.0354	0.0363	0.0372	0.2	6.2	-4.8
100 Korean won	0.2827	0.3006	0.2934	-2.2	3.0	-3.6

Inflation remained low

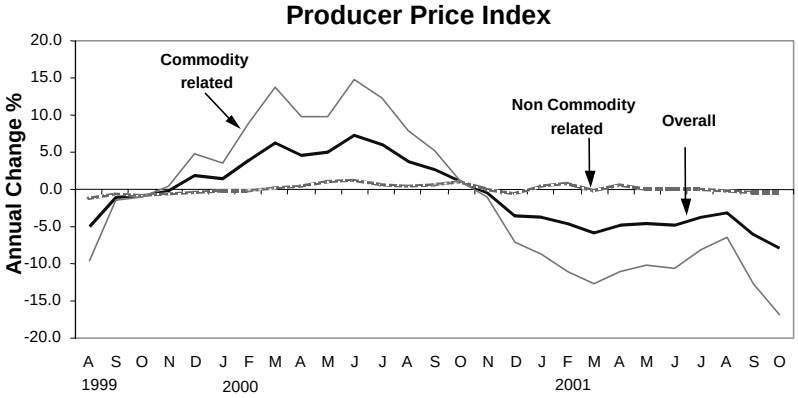
Inflation, as measured by the **Consumer Price Index** (CPI), increased to 1.5% year-on-year in November (October: 0.9%). On a monthly basis, the overall CPI increased by 0.8%. The higher consumer inflation was due primarily to higher price increases for transport and communication, food, as well as beverages and tobacco. Higher price increases for transport and communication, and beverages and tobacco largely reflected the impact of the higher petrol prices and the increase in import and excise duty on cigarettes and tobacco that were announced in the 2002 Budget. Meanwhile, higher price increases for food taken at home – particularly meat, fish and shellfish, and fruits and vegetables – were partly due to relatively higher demand concomitant with the Deepavali festival and a slight shortage of supply of fish and shellfish following adverse weather conditions in the east coast.



Inflation increased in November

Producer prices declined further

The **Producer Price Index** (PPI) declined further by 7.9% year-on-year in October (September: -6.0%). This was mainly due to lower prices charged by local producers (-9.6%), amid lower prices for commodity-related products. This was concomitant with weaker prices for rubber and crude petroleum. The decline was, however, partly offset by higher prices of crude palm oil. Excluding these commodity related sub-groups, non-commodity related PPI declined at a slower pace of 0.5%. On a monthly basis, the PPI declined by 3.8% in October.



Producer prices declined further

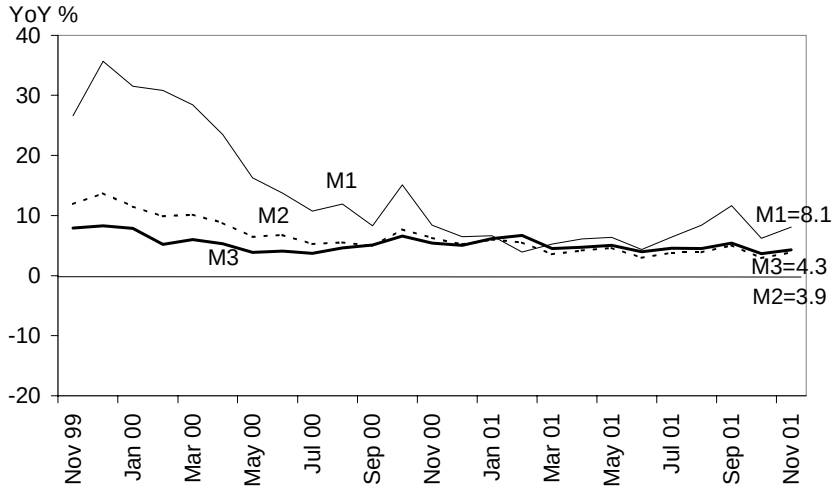
Money supply expanded

All three **monetary aggregates** expanded in November. Broad money, M3 rose by RM1.8 billion or 0.4%, while M1 recorded an increase of RM1.5 billion or 1.9%. On an annual basis, M1, M2 and M3 increased by 8.1%, 3.9% and 4.3% respectively.

The increase in M3 in November mainly reflected expansionary Government operations as the Government continued to draw down its

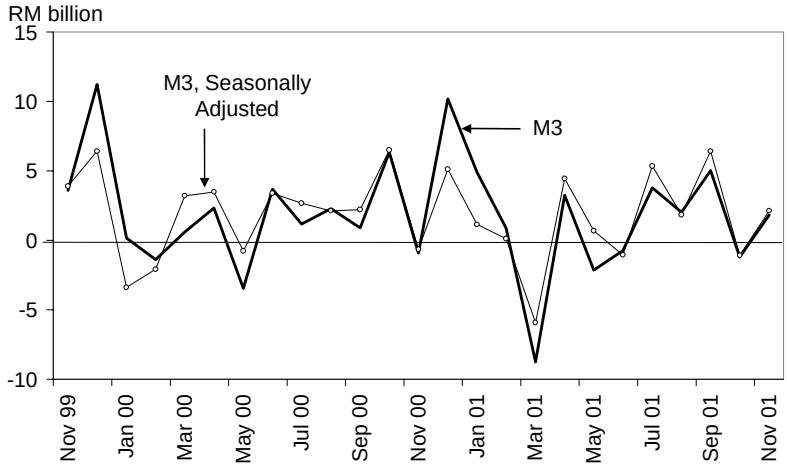
deposits to finance outlays. In addition, claims on the private sector were higher, reflecting higher holdings of private debt securities by banking institutions (+RM2.5 billion). While net international reserves of BNM rose in November, net external operations were contractionary on money supply as the increase in reserves was offset by the continued reduction in net external assets of the commercial banks. The decline in net external assets was mainly due to the maturity of foreign currency interbank placements overseas.

Monetary Aggregates: Annual Growth



Monetary aggregates continued to expand on an annual basis…

M3: Monthly Change



...on a monthly basis, M3 increased due to the expansionary Government operations and higher claims on the private sector

M3 Determinants

(RM billion)

	Change during period			
	2001			
	Sep	**Oct**	**Nov**	**Jan-Nov**
M3	5.0	-1.2	1.8	8.9
Net claims on Government	-2.0	3.9	2.0	0.3
Claims on private sector	3.6	1.1	1.1	19.1
External operations[1/]	1.6	-1.2	-0.9	6.2
Other influences	1.8	-5.0	-0.4	-16.8

1/ pre-revaluation

Banking system deposits stabilised, while lending remained resilient

On a month-on-month basis, **total deposits** remained relatively unchanged. Deposits by individuals continued to increase strongly by RM3.8 billion, in particular fixed and SPI deposits. Nonetheless, this was partly offset by lower deposits by financial institutions and business enterprises. The lower deposits by financial institutions reflected mainly a large net withdrawal by a non-bank financial institution in the form of fixed deposits. At the same time, deposits placed by the Federal Government and Statutory Authorities continued to decline, particularly SPI and fixed deposits. On an annual basis, total deposits mobilised by the banking system rose by 2.6% as at end-November.

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

	2001		
	Sep.	**Oct.**	**Nov.**
Holder			
Federal Government	1,488	-997	-586
State Governments	-195	-206	62
Statutory Authorities[1/]	-786	39	-476
Financial Institutions	-1,750	-3,136	-1,580
Business Enterprises	4,286	-1,867	-1,177
Individuals	883	2,025	3,810
Others	16	130	-110
Total	**3,942**	**-4,012**	**-58**

[1/] Include local Governments.

Higher deposits by individuals and State Governments were offset by net withdrawals by other holders

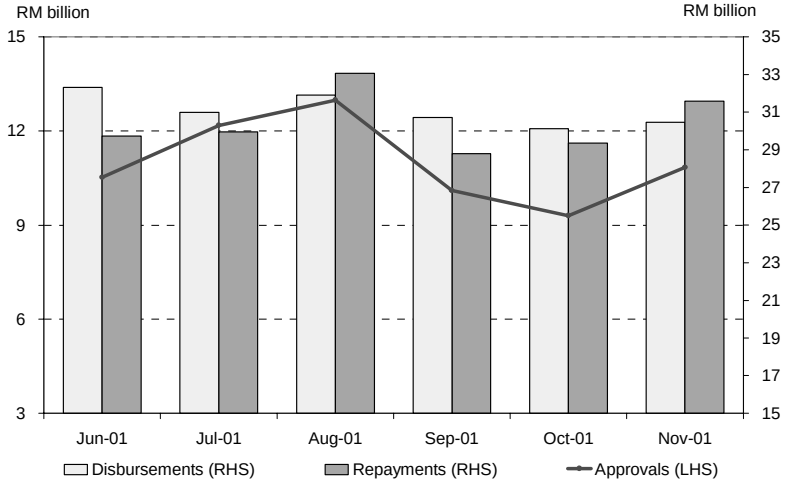
Monthly Change in Deposits **(RM million)**

	2001		
	Sep.	**Oct.**	**Nov.**
Type			
Fixed deposits	-406	406	-1,975
NIDs issued	-256	-1,456	-642
Demand deposits	975	-553	826
Savings deposits	442	360	294
Repos	402	-2,818	1,085
FX deposits	-470	287	4
SPI deposits	3,240	-368	459
Others	16	130	-110
Total	**3,942**	**-4,012**	**-58**

Lower deposits were attributed to declines in fixed deposits and NIDs

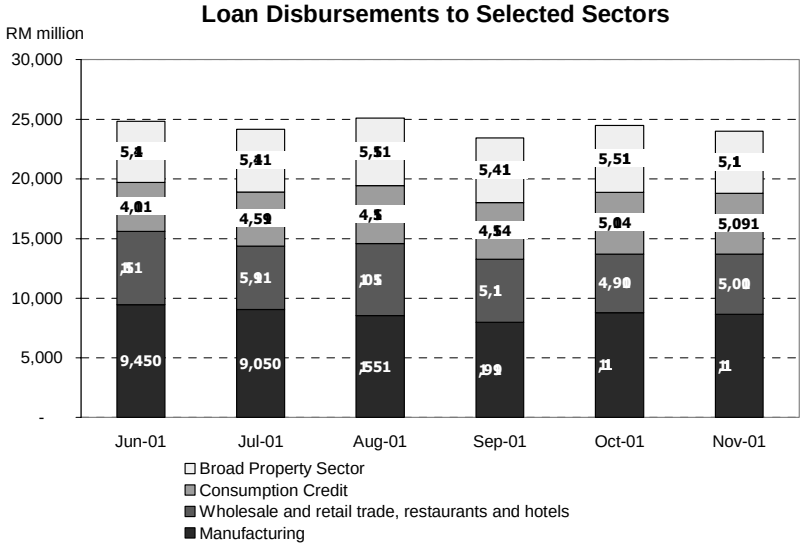
Loan approvals picked up in November to record a significantly higher level of RM10.8 billion. Approvals were granted mainly for the purchase of residential property and passenger cars (RM2.4 billion and RM1.9 billion respectively) as well as manufacturing activities (RM1.1 billion). Meanwhile, **loan disbursements** remained strong at RM30.5 billion in November and were channelled mainly to the manufacturing; wholesale and retail trade; finance, insurance and business services sectors; and for the purchase of residential property and passenger cars.

Loan Approvals, Disbursements and Repayments



Loan approvals, disbursements and repayments were higher

Loan Disbursements to Selected Sectors



Disbursements continued to be channelled mainly to the manufacturing sector, wholesale and retail trade, as well as for the purchase of residential property and passenger cars

Despite the higher disbursements, **loans outstanding** extended by the banking system declined by RM1.4 billion in November. The decline in loans outstanding largely reflected the completion of the debt restructuring scheme for the light rail transit companies by the Corporate Debt Restructuring

Committee (CDRC). RM2.9 billion of non-performing loans were restructured and removed from the loan book of the banking system. Excluding the restructured loans, loans outstanding would have increased by RM1.5 billion. Meanwhile, there continued to be higher loans extended for the purchase of residential property and passenger cars. On an annual basis, loans outstanding continued to expand by 4.9% as at end-November.

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

	2001		
	Monthly change		As at end
	Oct.	Nov.	Nov.
Agriculture, hunting, forestry and fishing	101	225	12,684
Mining and quarrying	32	-138	1,518
Manufacturing	-319	-1,533	68,295
Electricity, gas and water supply	-187	407	6,252
Wholesale and retail trade, restaurants and hotels	139	242	38,991
Broad property sector	1,056	130	174,748
of which:			
Purchase of residential property	*1,372*	*1,199*	*85,778*
Transport, storage and communication	210	-1,870	12,834
Finance, insurance and business services	27	22	35,565
Consumption	1,362	1,028	68,349
of which:			
Passenger cars	*1,100*	*759*	*44,779*
Credit cards	*48*	*246*	*8,619*
Purchase of securities	-219	-65	30,624
Others	-206	161	20,873
Total Loans[1/]	**1,998**	**-1,391**	**470,732**

[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 declined in November, reflecting the completion of the debt restructuring scheme for the light rail transit companies

Aggregate financing through banking system loans and PDS increased

Total financing through loans extended by the banking system and PDS issued by the private sector increased by RM5 billion in November. Consequently, the annual rate of growth rose to 7.1% at end-November (end-October: 6.7%).

Financing through banking system loans and PDS

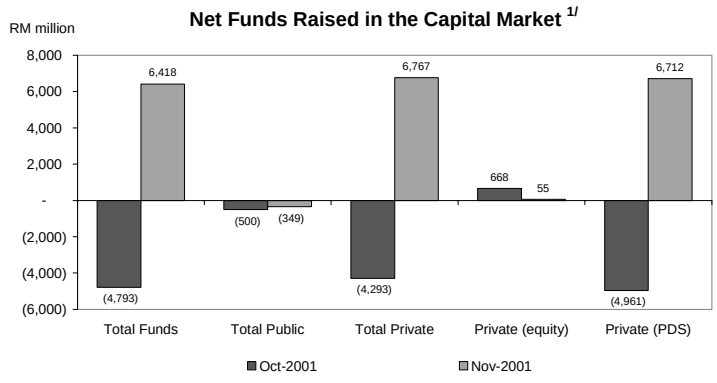
	Change			Annual growth	
	2001			2001	
	Oct	Nov	Jan.-Nov.	Oct	Nov
	RM billion			%	
Financing by Banking System	**1.4**	**0.7**	**22.8**	**6.5**	**6.3**
Loans outstanding (1)	2.0	-1.4	16.7	5.4	4.9
Holdings of PDS	-0.6	2.1	6.1	38.8	44.5
Total PDS outstanding * (2)	**-4.8**	**6.3**	**12.2**	**13.3**	**17.7**
Total (1) + (2)	**-2.8**	**5.0**	**28.9**	**6.7**	**7.1**

* 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.

Higher net funds raised in the capital market

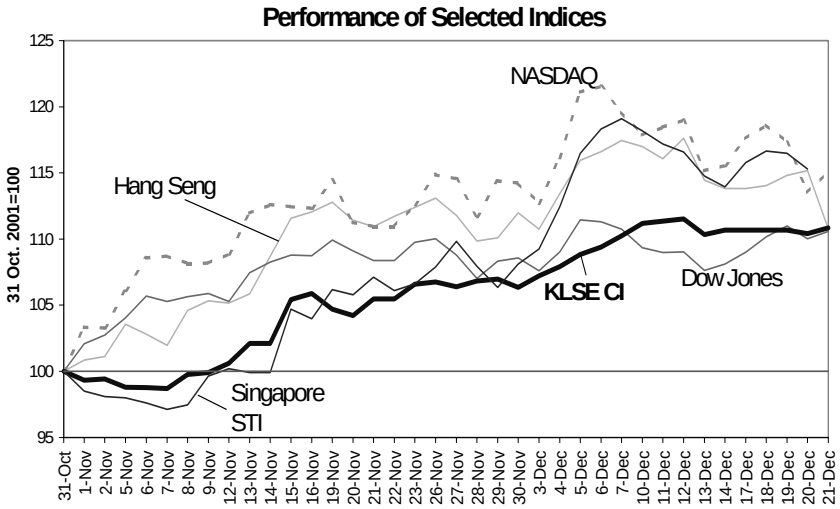
Net **funds raised in the capital market** were higher in November, contributed mainly by the private debt securities (PDS) market. Funds raised in the PDS market rose significantly due to the large issuance of PDS by a special purpose vehicle company for restructuring purposes. Meanwhile, funds raised from the equity market remained low, while the public sector recorded a net redemption following the maturity of the second series of the Malaysia Savings Bond.



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

Higher net funds raised in the capital market during the month of November

The **Kuala Lumpur Stock Exchange Composite Index** (KLSE CI) improved in November tracking the better performance in the US and regional markets. On the domestic front, investors responded positively to news regarding restructuring of some large corporations. As at 30 November, the KLSE CI closed at 638.02 points (+6.3% since end-October), while the market capitalisation stood at RM435.98 billion (+7.7% since end-October). The daily average turnover was significantly higher at 371.7 million units (159.3 million units in October).



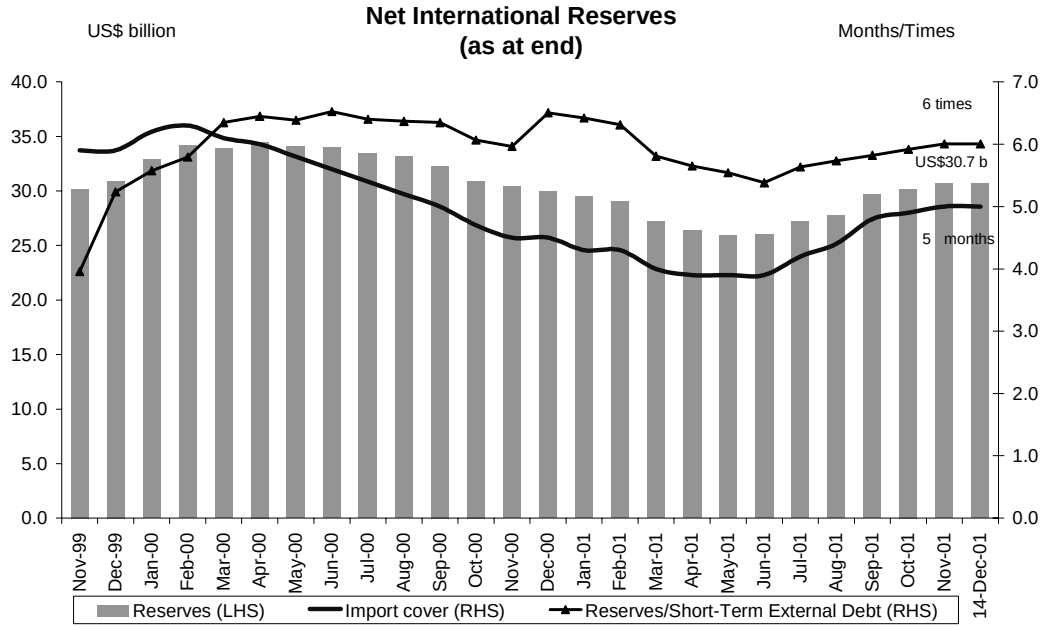
KLSE CI continued its upward trend

The KLSE CI continued its positive trend in December following improvement in the US market. The implementation of the Morgan Stanley Capital International free-float index was largely a non-event as investors had already discounted its impact. As at 21 December, the KLSE CI closed at 665.05 points (+4.2% since end-November), while the market capitalisation stood at RM448.12 billion (+2.8% since end-November). The daily average turnover was higher at 380 million units (371.7 million units in November).

International reserves

The **net international reserves of BNM** increased to RM116.5 billion (US$30.7 billion) as at end-November 2001, compared with RM114.8 billion (US$30.2 billion) as at end-October 2001. The reserves level remained relatively stable (RM116.7 billion or US$30.7 billion) as at 14 December 2001. This level of reserves is adequate to cover 6 times the short-term external debt and to finance 5 months of retained imports. The sustained increase in reserves level reflected continued net inflows from both trade and foreign

direct investment. These inflows were more than adequate to finance payment for services, year-end repatriation of profits and dividends and higher external debt repayments. While a rising inflow of portfolio funds was observed during the period following the more favourable performance of the Kuala Lumpur Stock Exchange, profit-taking activities resulted in a net outflow of portfolio capital.



Banking system remains strong

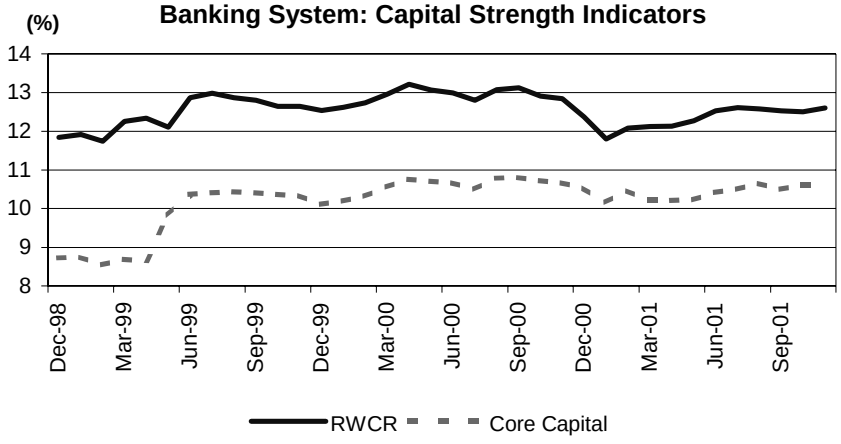
The capital position of the banking system remained strong in November 2001 with the risk-weighted capital ratio increasing by 10 basis points to 12.6% while the core capital ratio remained at 10.6%.

On a 6-month classification, the outstanding amount of net NPL decreased by RM1 billion (-3%) to RM32.1 billion following the successful resolution of the debt restructuring of the large borrowers by the Corporate Debt Restructuring Committee during the month. As a result, the net NPL ratio declined by 20 basis points to 8.0%.

Banking System Health Indicators								
	1998	1999		2000		2001		
	Dec.	Jun.	Dec.	Jun.	Dec.	Sep.	Oct.	Nov.
Capital								
Core-capital ratio (%)	8.7	10.4	10.1	10.7	10.5	10.5	10.6	10.6
RWCR (%)	11.8	12.9	12.5	13.0	12.4	12.5	12.5	12.6
Net NPL (6-month classification)								
Banking system (%)	8.1	7.9	6.4	6.5	6.3	8.2	8.2	8.0
Banking system (RM million)	31,675	29,889	23,849	24,736	24,700	32,995	33,121	32,142
GP/Net total loans (6-month, %)	2.0	1.9	1.9	1.9	1.9	1.9	1.9	1.9

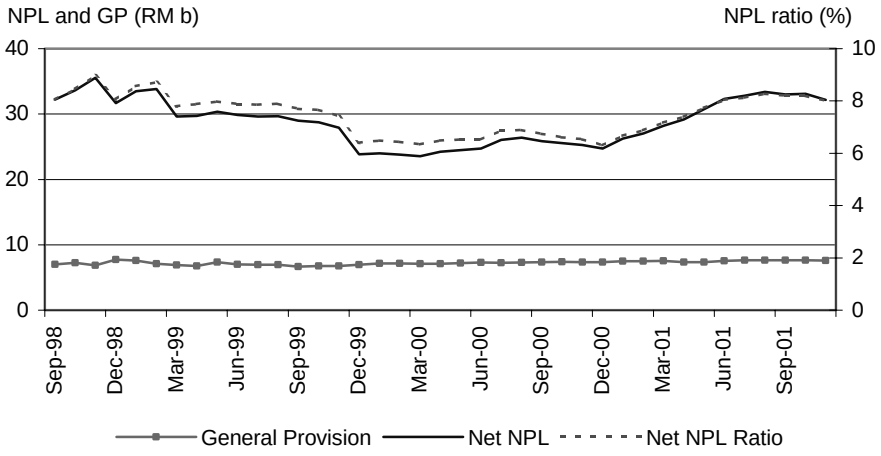
** Beginning June 1999 onwards, the figures include Islamic banks*

Banking System: Capital Strength Indicators



….RWCR strengthened to 12.6%

Banking System: Net NPL and General Provisions



….Net NPL ratio declined to 8.0%

As at 31 October 2001, total loan rights acquired by Danaharta amounted to RM47.8 billion of which RM39.6 billion were from the banking system. Loans removed from the banking system accounted for 38.8% of the banking system's total NPL. Of the total loan rights acquired, RM40.7 billion or 85.1% has been dealt with and the recovery rate of these NPLs is expected to be at 57%[1].

On 10 December 2001, Danaharta completed the first securitisation exercise of its performing loans through its special purpose vehicle, Securita ABS One Berhad (Securita). The securitisation exercise involved the issuance of RM310 million triple-A rated Senior Notes with a coupon rate of 3.875%. The yield for the transaction was priced at 4%. The Senior Notes are asset-backed securities comprising collateralised loan obligations, i.e. backed by approximately RM595 million worth of performing loans that have been sold to Securita by Danaharta Group companies. The funds raised from the securitisation exercise will be used to redeem Danaharta's bonds as well as for its operational needs.

Capital injection by Danamodal remained at RM3.7 billion at end-November 2001. During the month, the Corporate Debt Restructuring Committee (CDRC) accepted the debt restructuring of a new case and completed the debt restructuring of four cases. This brings the total number of cases accepted and resolved to 63 and 40 respectively. The number of outstanding cases was reduced to 23. Among this number are five previously resolved cases but currently being revised and six cases being restructured by Danaharta.

[1] Assumed zero recovery on default cases.

Statistics of CDRC cases as at 30 November 2001		
	Total debt outstanding* (RM million)	**Number of accounts**
Received	66,180	85
Withdrawn / Rejected	9,516	22
Cases accepted	56,664	63
Resolved	**33,963**	**40**
*Implemented **	*28,971*	*25*
*Pending implementation ****	*4,992*	*15*
Outstanding	**22,701**	**23**
Revised	*2,557*	*5*
Being restructured by Danaharta	*1,573*	*6*
Being restructured by CDRC	*18,571*	*12*

* including non-banking and offshore institutions
** including 2 transferred to Danaharta
*** including 3 transferred to Danaharta

Bank Negara Malaysia

28 December 2001

Key Monetary and Banking Statistics

	October		November	
	Outstanding (RM billion)	Ann. growth (%)	Outstanding (RM billion)	Ann. growth (%)
Monetary Aggregates				
Reserve money	38.8	1.8	39.8	6.4
M1	76.1	6.2	77.6	8.1
M2	353.5	2.9	356.9	3.9
M3	463.5	3.6	465.4	4.3
Banking System				
Total deposits	473.1	2.3	473.1	2.6
Total loans (including loans sold to Cagamas and Danaharta)	472.1	5.4	470.7	4.9
Total loans (excluding loans sold to Cagamas and Danaharta)	413.6	5.4	412.3	5.2
Loan-deposit ratio (%)	87.5		87.2	
Loans approved during the month	9.3		10.8	
Loans disbursed during the month	30.1		30.5	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	12.5		12.6	
Net NPLs: 6-month classification (%)	8.2		8.0	
International Reserves of BNM (end-period)				
Reserves in RM (billion)	114.8		116.5	
Reserves in USD (billion)	30.2		30.7	
Months of retained imports	4.9		5.0	
Interest Rates at end-period [average for the month]				
Interbank: 1-month	2.99 [2.91]		2.99 [2.89]	
3-month	2.85 [3.04]		2.85 [3.06]	
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)	101.2	0.9	102.0	1.5
Producer price Index (PPI) (1989=100)	120.8	-7.9	-	-
Exchange Rates of Ringgit against Selected Currencies (end-period)				
Euro	3.4426		3.3708	
Pound Sterling	5.5237		5.4158	
Singapore dollar	2.0839		2.0756	
100 Japanese yen	3.1168		3.0674	
100 Thai Baht	8.5097		8.6462	
100 Philippine Peso	7.3119		7.3148	
100 Indonesian Rupiah	0.0364		0.0363	
100 Korean Won	0.2939		0.3006	
Capital Market				
Funds raised by: public sector (RM billion)	-0.5		-0.3	
private sector (RM billion)	-4.3		6.8	
Kuala Lumpur Composite Index (end-period)	600.07		638.02	
KLSE Market Capitalisation (RMb) (end-period)	404.88		435.98	