

**PRESS RELEASE ON
MONETARY AND FINANCIAL DEVELOPMENTS
FEBRUARY 2000**

Latest economic indicators continued to show robust economic performance at the beginning of the year. These included low inflation, continued surplus in the trade account, as well as the return of foreign funds from portfolio investment amounting to RM6.9 billion in the first two months of the year. Meanwhile, in the banking sector, total deposits turned around to increase in February, while total loans disbursed remained strong.

Monetary Developments

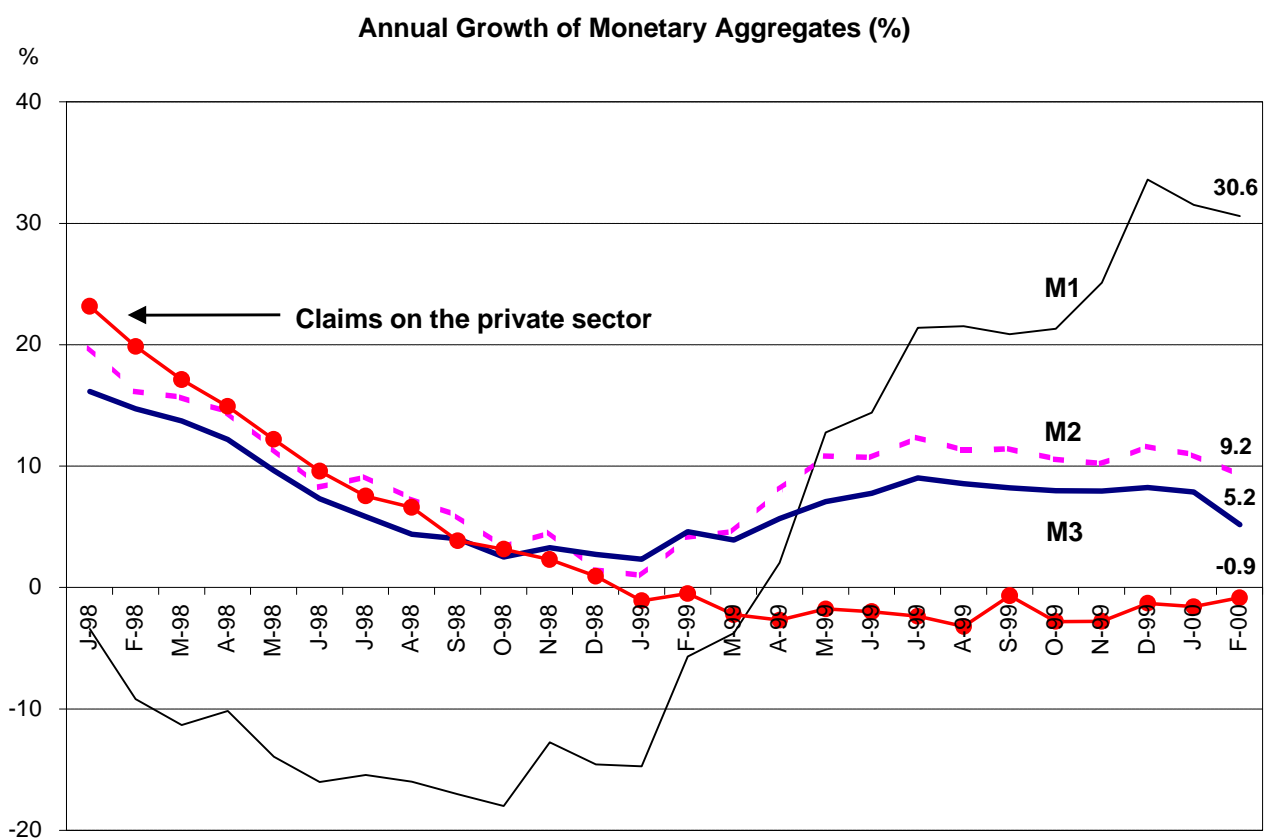
The monetary situation remained relatively stable in February 2000. M3 recorded a marginal decline of 0.3% or RM1.4 billion in February (+RM176 million in January). The annual growth of M3 increased by 5.2% at end-February (7.9% at end-January). Following the lower demand for currency in the post-festive period, transaction balances were lower by RM1.3 billion, reflecting the decline in currency in circulation (-RM1.8 billion) as demand deposits rose by RM516 million. Broad quasi-money was relatively stable (-RM38 million), with the increase in savings deposits and repurchase agreements being offset by the net withdrawals of other types of deposits notably fixed deposits and negotiable instruments of deposits (NIDs).

**M3 Determinants
(change during the period in RM billion)**

	1999		2000	
	Nov.	Dec.	Jan.	Feb.
M3	3.6	11.2	0.2	-1.4
Of which:				
Claims on Government	1.9	1.1	1.9	-1.0
Claims of private sector	1.4	0.5	-2.6	1.5
External operations	0.4	6.1	6.5	5.4
Other influences	-0.1	3.5	-5.6	-7.3

Note: Effective 1 January 1999, all foreign currency assets and liabilities are revalued at the end of each quarter.

In terms of **determinants**, the marginal decline in M3 reflected mainly the contractionary impact of the decline in net claims on the Government and other influences. The decline in net claims on the Government (-RM959 million) was due largely to higher state governments' deposits placed with the banking institutions, arising from the provision of Federal grants and transfers to the state governments. In addition, there was also lower holding of Government securities by the banking institutions. The contracting impact of other influences during the month reflected placements of deposits by a statutory authority with BNM. These developments offset the expansionary influences from claims on the private sector (+RM1.5 billion) and the external operations of both BNM and the banking institutions (+RM5.4 billion).



Banking System

Total **deposits** mobilised by the banking system turned around to increase by RM1.5 billion or 0.3% in February (-RM0.9 billion or -0.2% in January), as a result of higher deposits placed with commercial banks (+RM3.4 billion) while deposits placed with finance companies and merchant banks declined by RM1.5 billion and RM0.3 billion respectively. On an annual basis, total deposits increased by 3.7% as at end-February (4.5% as at end-January).

By type, the increase in deposits was due to higher placements in saving deposits (+RM1.4 billion), repos (+RM0.6 billion), demand deposits (+RM0.5 billion) and deposits placed under the Sistem Perbankan Islam (+RM2.2 billion), which more than offset the decline in fixed deposits and NIDs. The increase in savings deposits was solely due to placements by individuals, while the higher repos were contributed by domestic enterprises. By holder, total Government deposits (Federal Government, state governments and statutory authorities) recorded the highest increase of RM1.3 billion followed by financial institutions (+RM0.7 billion) and individuals (+RM0.1 billion). Meanwhile, deposits placed by business enterprises declined by RM0.8 billion mainly in the form of fixed and demand deposits.

Deposits and Loans of the Banking System (RM million)

	Monthly change 2000		As at end of 2000	
	Jan.	Feb.	Jan.	Feb.
Deposits				
Commercial banks	242	3,401	332,841	336,242
Finance companies	-395	-1,525	89,794	88,269
Merchant banks	-784	-344	25,089	24,746
Banking system	-938	1,532	447,724	449,256
Loans ¹				
Commercial banks	-2,038	926	319,171	320,096
Finance companies	-118	190	84,435	84,625
Merchant banks	-450	-223	21,480	21,257
Banking system	-2,606	893	425,085	425,978
Loans ²				
Commercial banks	-2,085	427	281,146	281,574
Finance companies	-929	208	74,449	74,657
Merchant banks	-504	-329	18,367	18,038
Banking system	-3,518	306	373,962	374,268
Resource surplus (+)/gap(-) ²	2,580	1,226	73,762	74,989
Loan-deposit ratio (%)²			83.5	83.3

¹ Including loans sold to Cagamas and Danaharta.

² Excluding loans sold to Cagamas and Danaharta.

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

Reflecting the improved economic activities, total **loans approved** by the banking system rose further to RM8.4 billion in February (RM8.3 billion in January), while total **loans disbursed** remained strong at RM26.8 billion (RM27.1 billion in January). Higher loans were disbursed for the purchase of residential property and securities and to the finance, insurance and business services and electricity, gas and water supply sectors. Repayment of loans continued to be high at RM26.7 billion (RM30.9 billion in January), moderating loan growth in February.

Banking System: Loans by Sector (RM million)

	Monthly change 2000		As at end of 2000	
	Jan.	Feb.	Jan.	Feb.
Agriculture	-40	21	9,144	9,165
Mining and quarrying	240	-29	1,819	1,790
Manufacturing	-715	-179	65,360	65,181
Electricity	-256	-298	6,832	6,534
Wholesale, retail, restaurant & hotel	-92	-2	36,230	36,228
Broad property sector	757	-239	154,711	154,472
<i>Construction</i>	-227	-590	42,882	42,292
<i>Residential property</i>	1,381	633	64,729	65,362
<i>Non-residential property</i>	-407	58	28,571	28,628
<i>Real estate</i>	10	-339	18,529	18,190
Transport & storage	-103	146	15,430	15,575
Finance, insurance and business services	-167	611	33,190	33,802
Consumption	-499	547	49,743	50,290
Purchase of securities	-655	150	33,341	33,491
Others	-1,076	165	19,285	19,450
Total loans outstanding¹	-2,606	893	425,085	425,978

¹ Including loans sold to Cagamas and Danaharta.

Total loans outstanding (including NPLs sold to Danaharta) extended by the banking system increased by RM0.9 billion or 0.2% in February (-RM2.6 billion or -0.6% in January) with commercial banks recording an annual growth of 2.6%. Higher loans were extended for residential property (+RM0.6 billion), consumption credit (+RM0.5 billion) and purchase of securities (+RM0.2 billion) as well as to the finance, insurance and business services (+RM0.6 billion) and transport and storage (+RM0.1 billion) sectors. On the other hand, there was a slowdown in loans extended for construction and to the real estate and electricity sectors.

As the increase in total deposits outpaced the increase in total loans (excluding loans sold to Cagamas and Danaharta), the banking system recorded a **resource surplus** of RM1.2 billion in February. The **loan-deposit ratio** declined to 83.3% (83.5% at end-January).

Interest Rates

In February and the first half of March, ample liquidity in the money market continued to keep interest rates relatively stable.

Movement of Interbank Rates
(average rates during period, % per annum)

Tenure	January	Direction of Change	February	Direction of Change	1-17 Mar.	Tenure
3-Mth	3.18	-	n.t.	-	3.15	3-Mth
1-Mth	2.79	↘	2.73	↗	2.76	1-Mth
1-Wk	2.60	↘	2.59	↗	2.64	1-Wk
O/night	2.55	→	2.55	↗	2.59	O/night

n.t. refers to no trading

The average **base lending rates** (BLRs) of commercial banks and finance companies remained unchanged at 6.79% and 7.95% respectively at the end of February. While, the **average lending rates** (ALR) of commercial banks and finance companies stood at 7.79% and 11.23 % respectively (7.81% and 11.20% respectively at end-January). The average **fixed deposit (FD) rates** for commercial banks and finance companies eased marginally especially for the longer-end tenure. For commercial banks, the 1 and 12-month FD rates ranged between 3.22-3.92% on 8 March (3.23-3.94% at end-January). Over the same period, the finance companies' 1 and 12-month FD rates ranged between 3.30-4.07% (3.34-4.13% at end-January). In terms of **interest margin**, commercial banks' interest margin remained unchanged at 4.55%, while that of finance companies increased marginally to 6.91% at end-February (6.83% at end-January).

Developments in the Banking System

The **risk-weighted capital ratio** of the banking system remained strong at 12.8% at the end of February 2000, well above the minimum requirement of 8%. Similarly, the core capital ratio of the banking system remained high at 10.2%. Net non-performing loans ratio of the banking system at the end of January 2000 was 6.7% on six-month classification.

With regard to the financial sector restructuring, Danaharta has acquired and is currently managing a total of RM34 billion worth of NPLs from the banking system, representing approximately 42% of total NPLs in the banking system. The overall weighted average discount on the total loans acquired by Danaharta was 56%. In terms of loan and asset management, Danaharta has restructured or disposed a total of RM17.6 billion worth of loans, with a recovery rate of 80.2% (excluding RM2.6 billion debts which are awaiting approval from the appointed special administrators). Capital injection by Danamodal

declined further to RM5.2 billion as at end-February 2000 following repayment by one banking institution during the month. As at end-February 2000, CDRC has received 68 applications with debts totalling RM36.5 billion. Of these, 19 restructuring schemes amounting to RM14.1 billion have been completed and are in various stages of implementation, while 10 cases amounting to RM3.3 billion are being resolved by Danaharta. Thirteen cases involving debts worth RM2.8 billion have been rejected and the debt restructuring schemes for the remaining 26 cases amounting to RM16.4 billion are currently being worked out and are expected to be completed by the third quarter of this year.

Banking System Health Indicators

	1998			1999		2000	
	Jun.	Sep.	Dec.	Sep.	Dec.	Jan.	Feb.
Capital							
Core-capital ratio (%)	9.2	8.5	8.6	10.3	9.9	10.0	10.2
RWCR (%)	11.2	10.6	11.8	12.7	12.3	12.4	12.8
Net NPL (6-month classification)							
Banking system (%)	n.a.	8.1	7.5	7.7	6.6	6.7	n.a.
Banking system (RM million)	n.a.	32,214	29,286	28,706	24,340	24,384	n.a.
GP/Net total loans (6-month,%)	n.a.	1.8	2.0	1.8	1.8	1.9	n.a.

n.a Not available

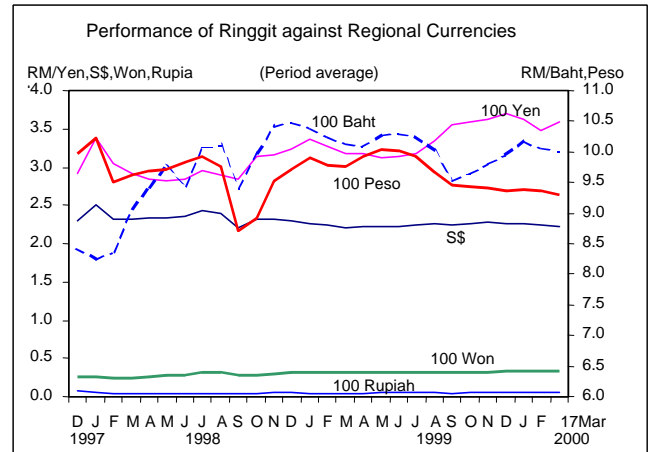
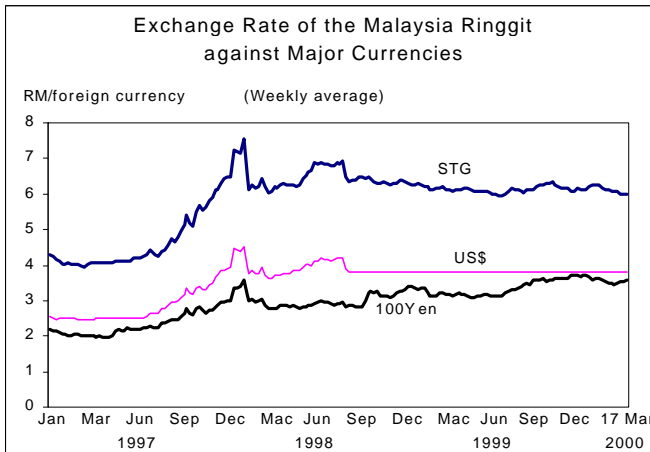
International Reserves

The net **international reserves** increased by RM4.9 billion to RM129.8 billion (US\$34.2 billion) as at end-February 2000. As at 15 March, reserves increased further to RM130.8 billion (US\$34.4 billion), sufficient to finance 6.4 months of retained imports and 5.7 times short-term external debt.

Exchange Rates

In February 2000, the ringgit appreciated against the **major currencies** in tandem with the movements of the US dollar in the international foreign exchange markets. The robust growth performance of the United States economy supported the appreciation of the dollar against the yen as well as the euro. As a result, the ringgit appreciated against the euro (+1.0%), the Japanese yen (+3.2%) and the pound sterling (+1.4%).

The strong performance of the dollar in February also led to an appreciation of the ringgit against **regional currencies**. The ringgit appreciated against the Singapore dollar (+0.5%), the Korean won (+0.6%) and the Thai baht (+1.3%).



The performance of the ringgit against the major currencies during the period **1-17 March** was more mixed, with the ringgit appreciating against the euro (+0.2%) and the pound sterling (+1.5%), while depreciating against the yen (-4.0%). Renewed confidence in the Japanese economy as well as a strong performance in the Nikkei led to an appreciation of the yen in the international foreign exchange markets. Meanwhile, during the same period, the ringgit depreciated against regional currencies in the range of -0.1% to -1.4%, reflecting the movements of the United States dollar.

Performance of Ringgit against Selected Currencies since 2 September 1998¹

RM per foreign currency	2 September 1998	17 March 2000	% Change
US dollar	3.8000	3.8000	0.0
100 Japanese yen	2.7742	3.5883	-22.7
Singapore dollar	2.1998	2.2220	-1.0
100 Thai baht	9.3713	10.0264	-6.5
100 Philippine peso	8.8302	9.2841	-4.9
100 Indonesian Rupiah	0.0354	0.0510	-30.6
100 Korean won	0.2827	0.3400	-16.9

¹ Rates quoted are the average of buying and selling in the Kuala Lumpur interbank foreign exchange market at noon.

Inflation

The annual rate of inflation, as measured by the Consumer Price Index (CPI) stabilised at **1.5% in February 2000** (1.6% in January). The lower increase in the sub-indices of food (fish and meat) and transport and communication and the decline in the

clothing and footwear sub-index offset higher prices for gross rent, fuel and power; recreation, entertainment, education and cultural services; miscellaneous goods and services; and beverages and tobacco. In the food sub-group, the price for fruits and vegetables, oil and fats; milk and eggs and sugar declined. For the first two months of 2000, the annual rate of increase in the CPI moderated to 1.6% compared with 4.5% in the corresponding period of 1999.

Capital Market

Net funds raised from the capital market were lower in February, amounting to RM747 million (January: RM899 million). The total amount of funds raised was solely by the private sector. The bulk of the net funds raised were from the equity market (RM505 million). Although new issues of private debt securities (PDS) were high (RM1.3 billion) than equity issues, after taking into account redemptions, net funds raised from the PDS market amounted to RM242 million.

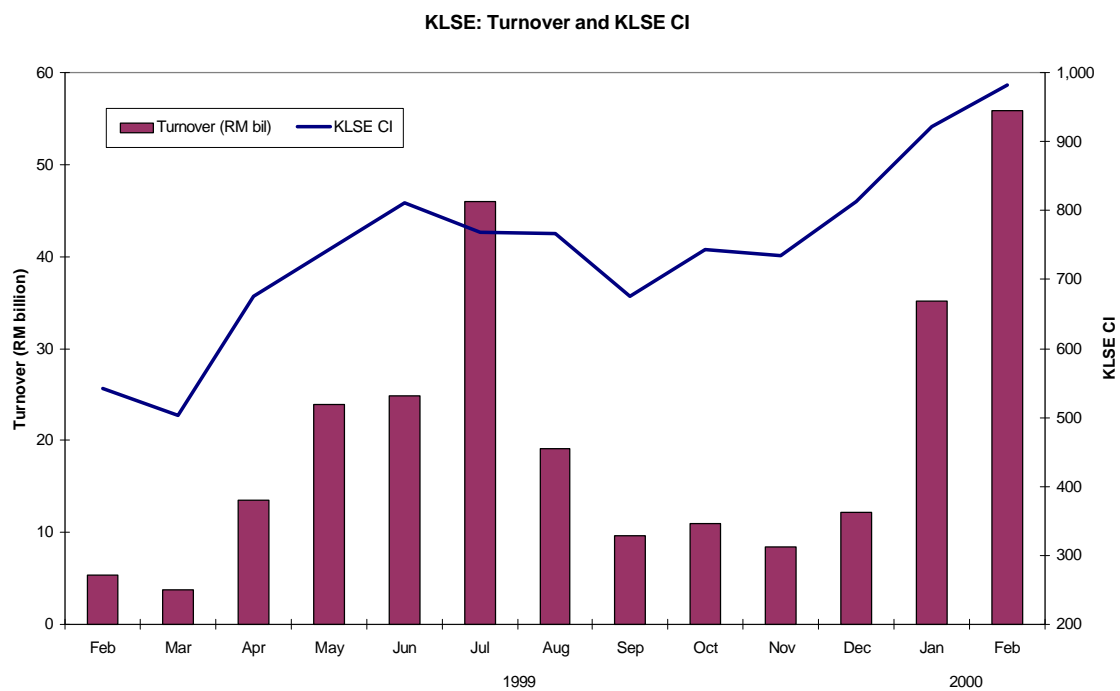
Funds Raised in the Capital Market ^P (RM million)			
	1999	2000	
		Jan.	Feb.
By Public Sector			
Net Funds Raised	6,297	-3	0
By Private Sector			
Shares	6,087	10	505
Debt Securities ¹	17,553	1,354	1,254
<i>Less</i> Redemptions	12,750	463	1,013
<i>Equals</i> Net Issues	4,803	891	242
Net Funds Raised	10,890	901	747
Net Funds Raised in the Capital Market	17,187	899	747

^P Preliminary.

¹ Excludes debt securities issued by banking institutions.

Market sentiment on the Kuala Lumpur Stock Exchange (KLSE) was bullish in the first three weeks of February, but weakened thereafter. The KLSE Composite Index (KLSE CI) strengthened in the first half of the month, breaching and remaining above the 1,000-point level in the period from 17-25 February. The positive market sentiment reflected the strong buying interest in banking and technology stocks. However, the KLSE CI dropped subsequently, following the significant decline in the US market following fears of an interest rate hike in the US. Reflecting these developments, the KLSE CI increased by 9.9% in the period from 1-18 February to peak at 1,013.27 points, declining subsequently by 3.1% to end the month at 982.24 points (+6.5% for February as a whole). Meanwhile the KLSE's market capitalisation amounted to RM700 billion at end-February (RM632 billion at end-January).

Sentiment remained weak in the first half of March as a result of the continued concerns over possible US interest rate increases. In addition, there were some profit-taking activities, and certain stockbroking companies had imposed trading limits and shortened the settlement period. The KLSE CI was affected by the weak sentiment in the regional markets, which reflected the sell down on technology stocks and concerns over the political situation in Taiwan. Nevertheless, expectation that Malaysia could carry a higher-than-expected weighting upon reinstatement in the Morgan Stanley Capital International indices lifted the market sentiment. As at 23 March, the KLSE CI closed at 971.91 points (-1.1% since end-February), while the market capitalisation stood at RM696 billion.



Bank Negara Malaysia
28 March 2000

Key Monetary and Banking Statistics

	January		February	
	Outstanding (RM billion)	Annual growth (%)	Outstanding (RM billion)	Annual growth (%)
Monetary Aggregates				
Reserve money	42.2	13.8	39.3	4.8
M1	73.1	31.5	71.7	30.6
M2	330.2	10.9	330.4	9.2
M3	434.7	7.9	433.4	5.2
By determinants:				
Claims on the private sector	443.1	-1.6	444.7	-0.9
Claims on the Government	-17.0	4.6	-17.9	-5.1
External sector	130.1	30.0	135.5	31.9
Other influences	-121.5	6.2	-128.9	7.2
Banking System				
Total deposits	447.7	4.5	449.3	3.7
Total loans (including Cagamas and excluding NPLs sold to Danaharta)	390.9	-5.5	391.2	-4.7
Of which: Manufacturing	65.4	1.7	65.2	2.3
Broad property	154.7	2.8	154.5	2.5
Construction	42.9	-4.5	42.3	-5.7
Residential property	64.7	13.6	65.4	14.4
Non-residential property	28.6	-7.9	28.6	-8.1
Real estate	18.5	5.1	18.2	3.4
Finance, insurance and business services	33.2	-12.4	33.8	-11.4
Consumption	49.7	0.4	50.3	1.5
Total loans (including Cagamas and NPLs sold to Danaharta)	425.1	-0.4	426.0	-
Total loans (excluding Cagamas and NPLs sold to Danaharta)	374.0	-5.3	374.3	-4.6
Loan-deposit ratio (%)	83.5		83.3	
Loans approved during the month	8.3		8.4	
Loans disbursed during the month	27.1		26.8	
International Reserves of BNM				
	As at end-January		As at end-February	
Reserves in RM (billion)	124.9		129.8	
Reserves in USD (billion)	32.9		34.2	
Months of retained imports	6.1		6.4	
Interest Rates (average rates at end-period)				
Interbank: 1-month	2.77		2.74	
3-month	3.18		3.18*	
Fixed deposits of commercial banks:				
1-month	3.23		3.22	
3-month	3.31		3.29	
BLR of commercial banks	6.79		6.79	
Banking System Health				
	As at end-January		As at end-February	
Risk-weighted Capital Ratio (RWCR) (%)	12.4		12.8	
Net NPLs (%): 6-Month	6.7		n.a.	
Capital Market				
	As at end-January	Monthly (%)	As at end-February	Monthly (%)
Kuala Lumpur Composite Index (KLSE CI)	922.10	13.51	982.24	6.52
KLSE Market Capitalisation (RM billion)	632.16	14.38	699.63	10.67

* Refers to end-January number as there was no trading in February.

