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PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS MARCH 1998

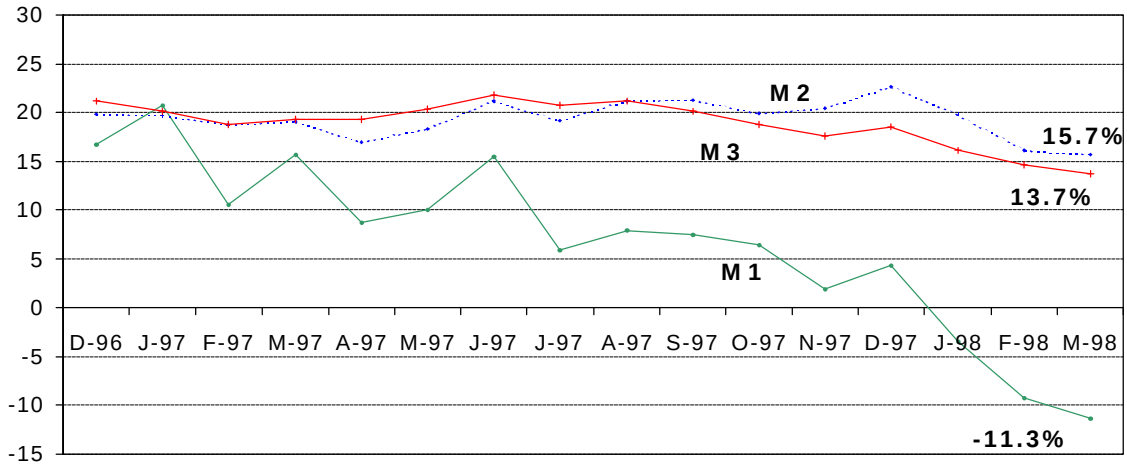
Monetary Situation

Money supply, M3, **recorded a marginal increase of RM48 million in March (+RM184 million in February**), leading to a further moderation in its annual growth to 13.7% (14.7% in February). The slower growth reflected a further slowdown in credit growth during the month. In terms of components, transaction balances declined further. Currency in circulation declined by RM1 billion (-RM5 billion in February) while demand deposits recorded a decrease of RM1.7 billion. As interest rates remained firm, there were further shifts from transaction balances to quasi-money, with the latter rising by RM2.7 billion.

In term of determinants, the expansionary impetus to monetary growth came primarily from the external sector (+RM2.2 billion). This was largely attributed to a decline of RM1.6 billion in the net foreign liabilities of the banking system, mainly resulting from the increase of RM2.5 billion in the short-term external assets of the banking system. Meanwhile, claims on the private sector recorded an increase of RM227 million (-RM5 billion in February). Domestic loans and advances of the banking system recorded a net repayment of RM622 million, which was offset by an increase of RM808 million in bank lending to Cagamas and higher holdings of Cagamas papers. Government budgetary operations were slightly expansionary by

RM361 million as compared with a significant contractionary impact of RM3.4 billion in February. This was largely accounted for by a withdrawal of Government deposits with BNM. On the other hand, net other influences were contractionary by RM2.7 billion due mainly to the increase in paid-up capital and reserves (RM606 million), higher provisioning for bad debt and interest-in-suspense by the banking system (RM1.1 billion and RM297 million respectively) and placements of EPF deposits with BNM (RM436 million).

Annual Growth of Monetary Aggregates (%)



Banking Situation

Total deposits mobilised by the banking system declined by RM1.3 billion or -0.3% in March (+RM2.1 billion or 0.5% in February) with the bulk of the withdrawals being made by business enterprises (RM3.1 billion) and financial institutions (RM2.7 billion). However, deposits placed by individuals, Federal Government and statutory authorities increased by RM3.7 billion, RM0.6 billion and RM0.5 billion respectively. On an annual basis, total deposits increased by 15.6% at the end of March (end-February: 15.9%).

Similarly, total loans (including loans sold to Cagamas) declined slightly by RM0.5 billion or –0.1% (-RM4.4 billion or –1% in February) due mainly to a slowing

down in economic activities. Consequently, the annual growth rate of total loans moderated to 16.9% at the end of the month. However, new loans approved by the banking institutions increased to RM5.7 billion (RM3.5 billion in February). By sectors, the decline in loans was due mainly to lower hire-purchase loans for passenger cars (-RM1.5 billion) and the purchase of securities (-RM1.2 billion). However, loans extended to the broad property (especially loans for residential properties) and manufacturing sectors increased by RM1.9 billion and RM0.7 billion respectively.

As the decline in deposits outpaced the decline in loans, the banking system recorded a resource gap of RM305 million in March. The outstanding resource surplus of the banking system declined marginally to RM29.7 billion at end-March from RM30 billion at end-February. Consequently, the loan-deposit ratio increased to 93.1% (93% at end-February).

Deposits and Loans of the Banking System

	Monthly change		**As at end of**	
	1998		**1998**	
	February	**March**	**February**	**March**
	RM million			
Deposits				
Commercial banks	994	-1,273	295,738	294,465
Finance companies	992	308	108,916	109,224
Merchant banks	133	-394	25,987	25,593
Total	2,119	-1,359	430,641	429,282
Loans[1]				
Commercial banks	-3,354	468	276,867	277,335
Finance companies	-1,122	-1,427	100,877	99,450
Merchant banks	-279	-95	22,928	22,833
Total	-4,755	-1,054	400,672	399,618
Resource surplus (+)/gap (-)	6,874	-305	29,969	29,664
Loan-deposit ratio (%)			**93.0**	**93.1**

[1] Excluding housing loans sold to Cagamas Berhad

Loans by the Banking System				
	Monthly change		As at end of	
	1998		1998	
	February	March	February	March
	RM million			
Agriculture	-86	62	7,645	7,707
Mining and quarrying	37	-53	1,468	1,415
Manufacturing	-550	724	64,771	65,495
Electricity	-120	-78	4,517	4,439
Wholesale, retail, restaurant & hotel	-352	-28	35,009	34,981
Broad property sector[1]	-21	1,925	140,861	142,786
Transport & storage	-215	26	13,126	13,152
Finance, insurance and business services	-1,009	428	35,886	36,314
Purchase of securities	-360	-1,181	38,812	37,631
Consumption	1,802	-1,699	56,138	54,439
Others	-3,516	-660	22,470	21,810
Total Loans[1]	-4,390	-534	420,703	420,169

[1] Including housing loans sold to Cagamas.

Interest Rates

Between mid-February and mid-April, interbank rates across all maturities remained relatively stable in the region of the 3-month intervention rate of 11%. Liquidity remained relatively tight as reflected by the high overnight rates and the relatively flat term structure of interest rates. The further flattening of the term structure of interest rates in mid-April was due to the net withdrawal of funds of RM1 billion through the issue of Malaysian Government Securities (MGS). This situation was due to the issue of RM2 billion of MGS on 16 April which more than offset the injection of RM1 billion from the maturity of MGS on 15 April.

Reflecting the continued tight liquidity and ongoing competition for funds, banking institutions, especially commercial banks, revised their fixed deposit rates upwards in March. Fixed deposit rates of commercial banks rose by 22-30 basis points to 9.56-9.90% while the rates of finance companies were revised upwards by

13-19 basis points to 10.67-10.85%. In addition, the term structure of fixed deposit rates remained upward sloping for commercial banks but inverted for finance companies. In line with the average 3-month interbank rate, the average base lending rate of the commercial banks also increased from 11.08% in February to 11.96% in March.

Capital Market

In March, the capital market registered a net redemption of RM124 million (+RM1.2 billion in February). A smaller amount of funds was sourced from the equity market. New issues of private debt securities were offset partially by larger redemptions of these securities.

Funds Raised in the Capital Market [p]

	1997	1998	
	Year	Feb.	Mar.
	RM million		
By Public Sector			
Net Funds Raised by Public Sector	-1,407	-555	156
By Private Sector			
Shares	18,225	398	40
Debt Securities [1]	19,546	1,373	622
Less Redemptions	2,998	46	942
Equals Net Issues	16,548	1,327	-320
Net Funds Raised by Private Sector	34,773	1,725	-280
Net Funds Raised from the Capital Market	33,366	1,170	-124
Net Issue of Short-Term Securities [2]	4,946	250	250
Total	38,312	1,420	127

[p] Preliminary.

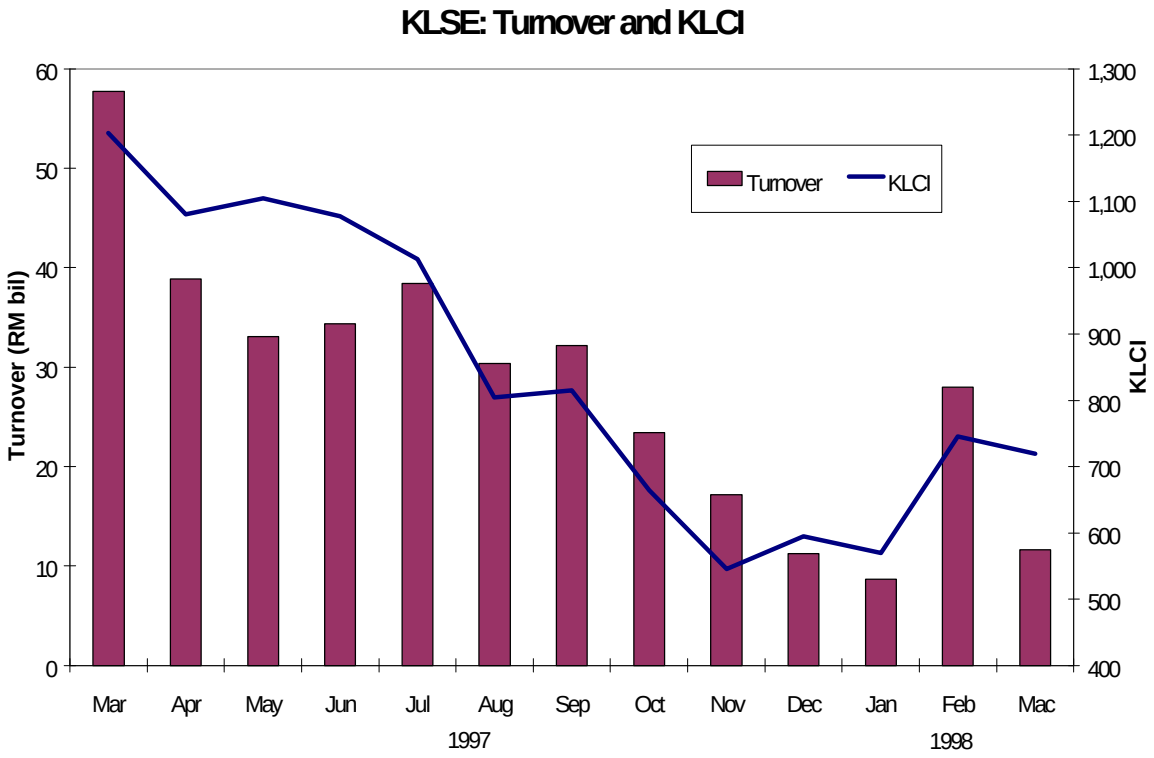
[1] Excludes debt securities issued by banking institutions.

[2] Refers to Cagamas Notes and Commercial Papers. For 1998, it refers to Cagamas Notes only.

Sentiment on the Kuala Lumpur Stock Exchange (KLSE) for the month March was mixed. The market was weak initially following concerns over the health of the

domestic banking system and the postponement of financial assistance by the International Monetary Fund to Indonesia. The market stabilised subsequently due to positive expectations on additional measures to be announced by the Government and encouraging news on the merger of banking institutions. Consequently, following reports of corporate failures, the Kuala Lumpur Composite Index (KLCI) and the market capitalisation declined by 3.5% and 5.2% respectively to close at 719.52 points and RM453 billion respectively at the end of the month.

In April, the KLCI remained bearish due to concerns over corporate balance sheets, the 5.1% rise in the Consumer Price Index for March and the 2.2% fall in the Industrial Production Index for February. The KLCI closed at 635 points on 24 April while the market capitalisation KLSE stood at RM394.6 billion.



External Reserves

The international reserves held by Bank Negara Malaysia increased by RM565 million from the end-February level to RM57.3 billion as at 31 March 1998. The United States dollar equivalent of the international reserves was US$20.4 billion, sufficient to finance 3.2 months of retained imports. As at 17 April 1998, the international reserves held by Bank Negara Malaysia stood at RM57.4 billion (equivalent to US$20.5 billion).

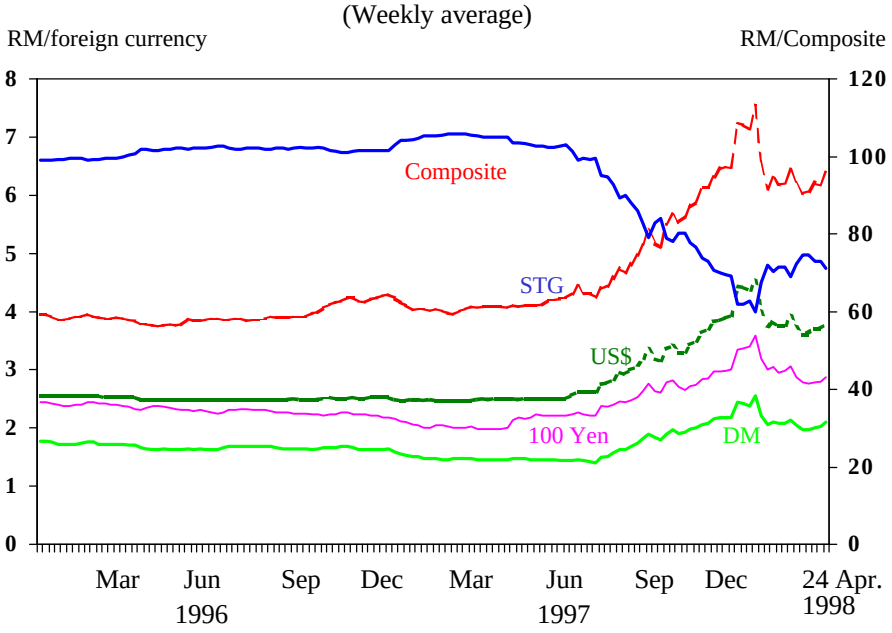
Performance of the Ringgit

The movement of the ringgit in March was influenced by regional and domestic developments. In the period 2-9 March sentiment for the ringgit weakened amidst regional concerns over the delay of the disbursement of IMF funds to Indonesia. On the domestic front, there was also concern over the banking system. The ringgit strengthened from US$1=RM4.1000 on 9 March to US$1=RM3.5900 on 24 March in anticipation of the announcement of policy measures by the Deputy Prime Minister. Following the announcement of stabilisation measures and the release of revised economic data by BNM, the ringgit stabilised, closing at US$1=RM3.5950 in the week ending 27 March. The ringgit, however, depreciated by 1.3% from 27 March to US$1=RM3.6430 on 31 March, reflecting the strengthening of the United States dollar in international foreign exchange markets. The strengthening of the United States dollar against the Japanese yen reflected expectations of continued stagnation in the Japanese economy despite the liberalisation of foreign exchange dealing and cross border transactions. For the month as a whole, the ringgit recorded an appreciation of 0.9% against the dollar. Against the composite, the ringgit depreciated by 4.9%.

In the period 1-24 April 1998, the ringgit weakened as the United States dollar strengthened further against the Japanese yen and exerted downward pressure on foreign exchange markets in the region. On the domestic front, market sentiment for the ringgit was dampened by concerns over the profitability of the Malaysian corporate sector. The ringgit closed at US$1=RM3.7575 on 24 April. For the period,

Exchange Rate of the Malaysian Ringgit against Major Currencies

(Weekly average)



the ringgit recorded a depreciation of 3.2% against the dollar but was stable against the composite.

Bank Negara Malaysia
29 April 1998

Key Monetary and Banking Statistics

	Feb. 1998		Mar. 1998	
	Outstanding (RM billion)	**Annual growth (%)**	**Outstanding (RM billion)**	**Annual growth (%)**
Monetary Aggregates				
Reserve money	68.1	*-3.6*	64.6	*-6.3*
M1	58.2	*-9.2*	55.1	*-11.3*
M2	290.4	*16.1*	288.6	*15.7*
M3	394.0	*14.7*	394.0	*13.7*
By determinants:				
Claims on the private sector	450.3		450.6	
Claims on the Government	-8.6		-8.2	
External sector	50.7		52.8	
Other influences	-98.4		-101.2	
Banking System				
Total deposits	430.6	*15.9*	429.3	*15.6*
Total loans (including Cagamas)	420.7	*20.1*	420.2	*16.9*
Of which: Manufacturing	64.8	*17.4*	65.5	*19.5*
Broad property	140.9	*26.8*	142.8	*27.5*
Finance, insurance and business services	35.9	*2.5*	36.3	*-7.4*
Consumption	56.1	*28.6*	54.4	*24.8*
Total loans (excluding loans sold to Cagamas)	400.7	*19.2*	399.6	*15.9*
Loan-deposit ratio (%)	*93.0*		93.1	
Loans approved during the month	3.5		5.7	
International Reserves of BNM	56.7		57.3	
Interest Rates	**(percent per annum)**			
Interbank: 1-month	10.90		10.94	
3-month	11.00		11.00	
Average fixed deposits of commercial banks:				
1-month	9.25		9.56	
3-month	9.46		9.79	
Average BLR of commercial banks	11.08		11.96	

Bank Negara Malaysia
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