

EMBARGO: Not for Publication or
Broadcast before 1800 hours
on Tuesday, 26 May 1998.

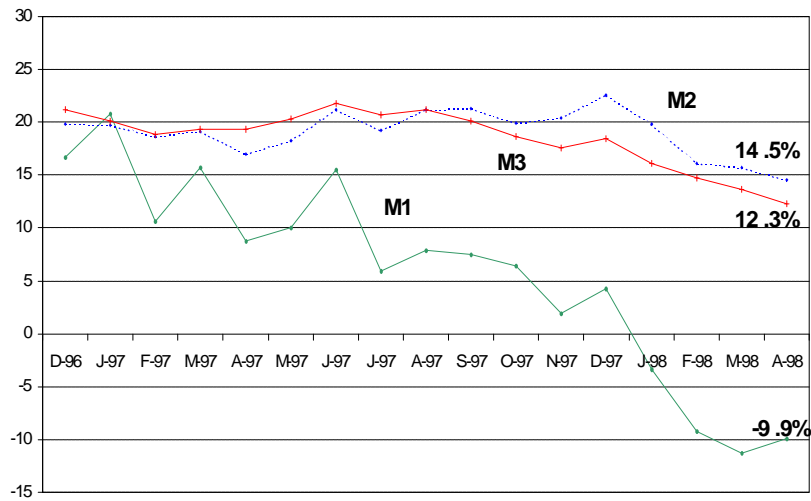
**PRESS RELEASE ON
MONETARY AND FINANCIAL DEVELOPMENTS
APRIL 1998**

Monetary Situation

Growth in M3 declined by RM1.7 billion in April (+RM48 million in March). On an annual basis, M3 growth decelerated markedly to 12.3% (13.7% in March). Both the transaction balances and broad quasi-money were lower during the month. Apart from fixed deposits and foreign currency deposits, which recorded modest increases, all other components of broad quasi-money registered declines.

In terms of determinants, **claims on the private sector decreased by RM762 million** as a result of declines of RM677 million and RM85 million in loans and advances extended by the banking system and its holdings of securities, respectively. In contrast, Government budgetary operations were expansionary on M3 (+RM900 million). These were largely accounted by the higher holdings of MGS by the banking institutions following the net issue of MGS of RM1 billion in April. At the same time, external operations were slightly expansionary on money supply (RM0.3 billion), arising mainly from an increase in the net external assets of the banking system. The external liabilities of the banking system declined by RM864 million due mainly to the repayment of external borrowings by local banks to the foreign banking institutions. Net other influences, on the other hand, were contractionary by RM2.2 billion, reflecting an increase of RM1.9 billion in provisions for bad and doubtful debts and RM1.1 billion in shareholders' funds.

Annual Growth of Monetary Aggregates (%)



Banking Situation

Total deposits mobilised by the banking system declined further by RM4.6 billion or -1.1% in April (-RM1.4 billion or -0.3% in March). The bulk of the withdrawals were made by financial institutions (-RM5.1 billion) and business enterprises (-RM3.3 billion). However, deposits placed by individuals and the Federal Government increased by RM2.9 billion and RM0.5 billion respectively. On an annual basis, total deposits increased by 11.5% at the end of April (end-March: 14%).

Total loans (including loans sold to Cagamas) also continued to decline by RM0.7 billion or -0.2% in April (-RM0.5 billion or -0.1% in March) reflecting the slowdown in economic activities. Consequently, the annual growth rate of loans extended by the banking system moderated further to 14.7% at the end of the month. However, banking institutions approved new loans amounting to RM4.5 billion in April (RM5.7 billion in March). By sectors, loans extended to the manufacturing and finance, insurance and business services sectors declined by RM0.7 billion and RM0.7 billion respectively. Loans extended for consumption purposes also declined due to lower hire-purchase loans for passenger cars (-RM0.4 billion). However, loans extended to the broad property sector increased due mainly to higher loans for the purchase of non-residential properties (RM0.5 billion) and the construction sector (RM0.4 billion).

As the decline in deposits outpaced the decline in loans, the banking system recorded a larger resource gap of RM4 billion in April. The outstanding resource surplus of the banking system also declined to RM25.6 billion at end-April from RM29.7 billion at end-March. Consequently, the loan-deposit ratio increased to 94% (93.1% at end-March).

| Deposits and Loans of the Banking System | | | | |
|---|-----------------------|---------------|---------------------|----------------|
| | Monthly change | | As at end of | |
| | 1998 | | 1998 | |
| | March | April | March | April |
| | RM million | | | |
| Deposits | | | | |
| Commercial banks | -1,273 | -3,927 | 294,465 | 290,538 |
| Finance companies | 308 | -696 | 109,224 | 108,528 |
| Merchant banks | -394 | 45 | 25,593 | 25,638 |
| Total | -1,359 | -4,578 | 429,282 | 424,704 |
| Loans ¹ | | | | |
| Commercial banks | 470 | 1,207 | 277,338 | 278,545 |
| Finance companies | -1,427 | -1,612 | 99,450 | 97,838 |
| Merchant banks | -95 | -153 | 22,833 | 22,680 |
| Total | -1,052 | -558 | 399,621 | 399,063 |
| Resource surplus (+)/gap (-) | -307 | -4,020 | 29,661 | 25,641 |
| Loan-deposit ratio (%) | | | 93.1 | 94.0 |
| ¹ Excluding housing loans sold to Cagamas Berhad | | | | |

| Loans by the Banking System | | | | |
|--|-----------------------|--------------|---------------------|----------------|
| | Monthly change | | As at end of | |
| | 1998 | | 1998 | |
| | March | April | March | April |
| | RM million | | | |
| Agriculture | 60 | 22 | 7,705 | 7,727 |
| Mining and quarrying | -56 | 214 | 1,413 | 1,627 |
| Manufacturing | 768 | -714 | 65,539 | 64,825 |
| Electricity | -78 | 24 | 4,439 | 4,463 |
| Wholesale, retail, restaurant & hotel | -5 | 157 | 35,004 | 35,161 |
| Broad property sector ¹ | 2,006 | 790 | 142,867 | 143,657 |
| Transport & storage | 27 | 92 | 13,152 | 13,244 |
| Finance, insurance and Business services | 501 | -679 | 36,388 | 35,709 |
| Purchase of securities | -832 | -350 | 37,980 | 37,630 |
| Consumption | -1,666 | -533 | 54,471 | 53,938 |
| Others | -1,256 | 275 | 21,214 | 21,489 |
| Total Loans¹ | -531 | -702 | 420,172 | 419,470 |
| ¹ Including housing loans sold to Cagamas Berhad. | | | | |

Interest Rates

Interbank rates across all maturities were stable in April at about the 3-month BNM intervention rate of 11%. Liquidity remained relatively tight as reflected by the high overnight rates, the reduction in the outstanding resource surplus of the banking institutions and the consequent increase in the loan-deposit ratio. There was also a net withdrawal of RM1 billion from the system following the issue of RM2 billion Malaysian Government Securities (MGS) on 16 April which more than offset the maturity of RM1 billion of MGS on the preceding day.

Meanwhile, fixed deposit rates increased slightly in April, especially for the longer tenures. FD rates of commercial banks rose by 9-15 basis points to 9.65-10.03%, while those of finance companies were revised upwards by 0-10 basis points to 10.76-10.85% in April. The term structure of FD rates was again upward sloping for commercial banks but remained inverted for finance companies. A higher average 3-month interbank rate in March led to an increase in the average base lending rate (BLR) of the commercial banks to 12.16% in April (11.96% in March). Similarly, the average BLR of finance companies increased to 14.56% (14.23% in March).

As part of BNM's efforts to enhance transparency and promote efficient liquidity management by financial institutions, BNM introduced a new procedure for its money market operations on 30 April 1998. A forecast of the cash flows of the financial system is provided by BNM at regular intervals during the day, from which market participants can assess the surplus or deficit of liquidity in the system. BNM's money market activities are included in the forecast, with details on the withdrawal of funds through the maturity of BNM lending and the injection of funds through the tender-based lending. Information on other major factors affecting liquidity are also provided, including Government operations, opening balances in Day-1 current accounts, as well as surplus Statutory Reserve Requirement balances over current requirement.

In addition, the new operational procedure features the announcement of either a competitive or non-competitive tender for BNM lending to the market. A competitive tender would be conducted if the range of bids by market participants is in line with BNM's interest rate policy, whereas a non-competitive tender would be conducted if the opposite is true. In the case of the latter, BNM would set the interest rate as a signal of its monetary policy and distribute tendered funds on a pro-rata basis. All tenders are conducted through the Principal Dealers.

Effective 1 May 1998, the band for the permissible daily variation in the average balances that are required to meet the Statutory Reserve Requirement (SRR) was widened to $\pm 2\%$ of the prescribed SRR rate from the previous band of $\pm 0.5\%$. The SRR for all banking institutions will continue to be observed on the basis of the average amount of statutory reserve held by each institution during a fortnightly reserve maintenance period. The widening of the SRR band would accord banking institutions greater flexibility in managing their daily liquidity operations.

Capital Market

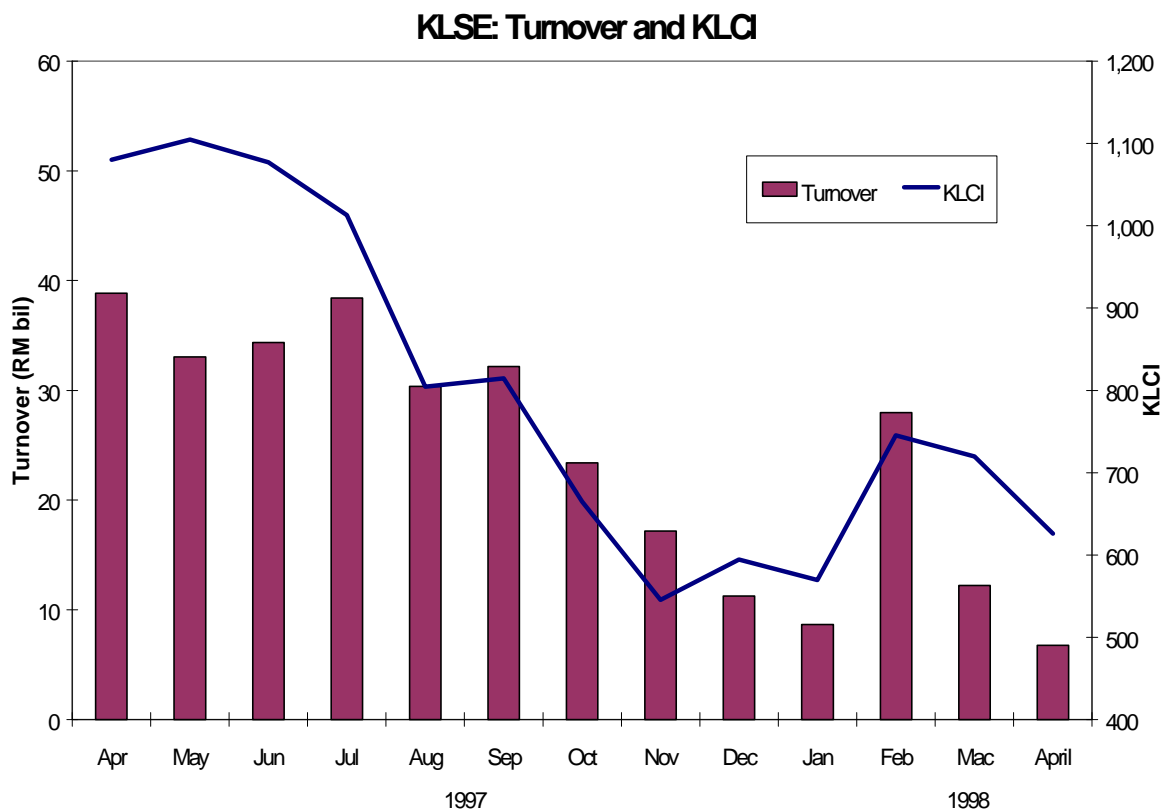
Net long-term funds raised from the capital market were higher in April, totalling RM2.3 billion (a net redemption of RM124 million in March). Of significance was the increased private sector activity, in terms of mobilising funds in the form of debt securities. Meanwhile, the public sector raised funds through the issue of Malaysian Government Securities.

| Funds Raised in the Capital Market ^P | | | |
|---|-------------|-------------|-------------|
| | 1997 | 1998 | |
| | Year | Mar. | Apr. |
| RM million | | | |
| By Public Sector | | | |
| Net Funds Raised by Public Sector | -1,407 | 156 | 820 |
| By Private Sector | | | |
| Shares | 18,358 | 40 | 37 |
| Debt Securities ¹ | 19,546 | 622 | 1,639 |
| Less Redemptions | 2,998 | 942 | 210 |
| <i>Equals</i> Net Issues | 16,548 | -320 | 1,429 |
| Net Funds Raised by Private Sector | 34,906 | -280 | 1,466 |
| Net Funds Raised from the Capital Market | 33,499 | -124 | 2,287 |
| Net Issue of Short-Term Securities ² | 4,946 | 620 | -140 |
| Total | 38,445 | 497 | 2,147 |
| ^P Preliminary. | | | |
| ¹ Excludes debt securities issued by banking institutions. | | | |
| ² Refers to Cagamas Notes and Commercial Papers. | | | |

Sentiment on the Kuala Lumpur Stock Exchange (KLSE) in April was generally bearish. The market fell initially, influenced by concerns over the health of the corporate sector. The market then strengthened temporarily on the recovery of the ringgit but was subsequently depressed by the 2.2% fall in the Industrial

Production Index for February and a 5.1% increase in the Consumer Price Index for March. On a monthly basis, the Kuala Lumpur Composite Index (KLCI) declined by 13% to 625.97 points, while market capitalisation was RM389.5 billion.

In May, sentiment remained bearish due to concerns over the health of stockbroking industry and the corporate sector, and the escalation of widespread social unrest in Indonesia. As at 25 May, the KLCI was at 570.55 points and market capitalisation amounted to RM352.5 billion.



External Reserves

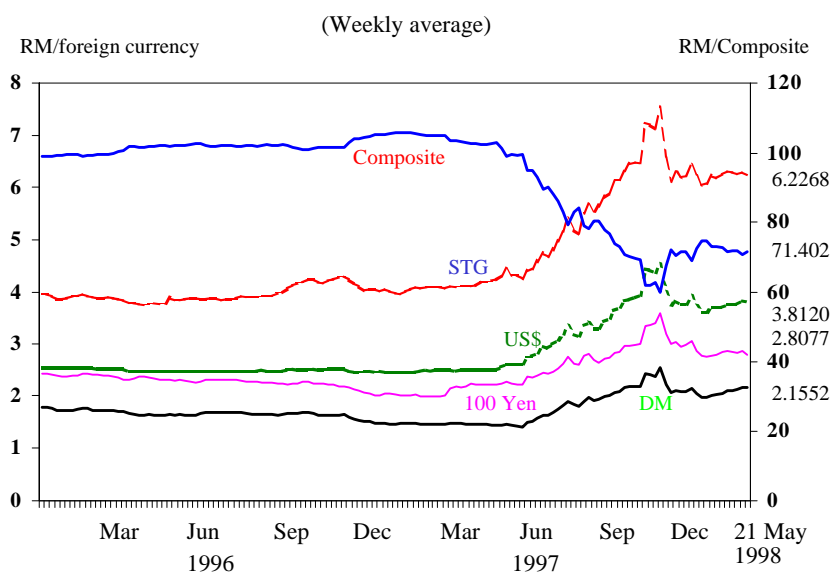
The international reserves held by Bank Negara Malaysia increased by RM55 million from the end-March level to RM57.3 billion as at 30 April 1998. The United States dollar equivalent of the international reserves was US\$20.5 billion, sufficient to finance 3.4 months of retained imports. As at 15 May 1998, the international reserves

held by Bank Negara Malaysia rose slightly to RM57.4 billion (equivalent to US\$20.5 billion).

Performance of the Ringgit

The ringgit, which appreciated in the first quarter of 1998, was subject to bouts of volatility in April due to both developments abroad and at home. The weakening of the Japanese yen vis-à-vis the United States dollar exerted downward pressure on the Asian regional currencies, including the ringgit. The depreciation of the yen reflected subdued business sentiment following the lack of indications of a pick-up in economic activity. On the domestic front, lingering concerns over the performance of the corporate sector coupled with the market perception of a slowdown in economic activity following the release of selected economic data, contributed to the bearish sentiment for the ringgit. The ringgit weakened from US\$1=RM3.6600 on 1 April to US\$1=RM3.7800 on 27 April, a depreciation of 3.2%. Nevertheless, the market reacted positively to the release of financial data towards end-month, which showed that loan growth had moderated to 17% at the end of March, compared to 20% in February. Subsequently, the ringgit strengthened to US\$1=RM3.7365 on 30 April. For the month as a whole, the ringgit recorded a depreciation of 2.5% against the United States dollar. Against the composite, the ringgit depreciated by 2.8%.

Exchange Rate of the Malaysian Ringgit against Major Currencies



In the period 1-25 May 1998, the Japanese yen continued to weaken against the United States dollar resulting in further downward pressures on regional currencies, including the ringgit. Another significant factor that influenced the regional currencies during the period was the escalating social and political unrest in Indonesia. Consequently, the ringgit breached an intra-day low of US\$1=RM4.0750 on 7 May. Thereafter, the release of data showing a larger trade surplus in March for Malaysia as well as the announcement of the establishment of an agency to manage non-performing loans and assets of banking institutions strengthened the ringgit to US\$1=RM3.8025 on 25 May. For the period as a whole, the ringgit depreciated by 1.7% against the dollar and 0.7% against the composite.

Key Monetary and Banking Statistics

| | Mar. 1998 | | Apr. 1998 | |
|--|-----------------------------|-------------------------|-----------------------------|-------------------------|
| | Outstanding (RM billion) | Annual growth (%) | Outstanding (RM billion) | Annual growth (%) |
| Monetary Aggregates | | | | |
| Reserve money | 64.6 | -6.3 | 64.2 | -9.0 |
| M1 | 55.1 | -11.3 | 53.6 | -9.9 |
| M2 | 288.6 | 15.7 | 284.3 | 14.5 |
| M3 | 394.0 | 13.7 | 392.4 | 12.3 |
| By determinants: | | | | |
| Claims on the private sector | 450.6 | | 449.8 | |
| Claims on the Government | -8.2 | | -7.3 | |
| External sector | 52.8 | | 53.2 | |
| Other influences | -101.2 | | -103.3 | |
| Banking System | | | | |
| Total deposits | 429.3 | 14.0 | 424.7 | 11.5 |
| Total loans (including Cagamas) | 420.2 | 16.9 | 419.5 | 14.7 |
| of which: Manufacturing | 65.5 | 19.5 | 64.8 | 18.1 |
| Broad property | 142.9 | 27.5 | 143.7 | 25.2 |
| Finance, insurance and business services | 36.4 | -7.2 | 35.7 | 3.5 |
| Consumption | 54.5 | 24.8 | 53.9 | 13.9 |
| Total loans (excluding loans sold to Cagamas) | 399.6 | 15.9 | 399.1 | 13.6 |
| Loan-deposit ratio (%) | 93.1 | | 94.0 | |
| Loans approved during the month | 5.7 | | 4.5 | |
| International Reserves of BNM | | | | |
| | 57.3 | | 57.3 | |
| Interest Rates (percent per annum, end-period) | | | | |
| Interbank: 1-month | 10.94 | | 11.04 | |
| 3-month | 11.00 | | 11.07 | |
| Average fixed deposits of commercial banks: | | | | |
| 1-month | 9.56 | | 9.65 | |
| 3-month | 9.79 | | 9.89 | |
| Average BLR of commercial banks | 11.08 | | 12.16 | |