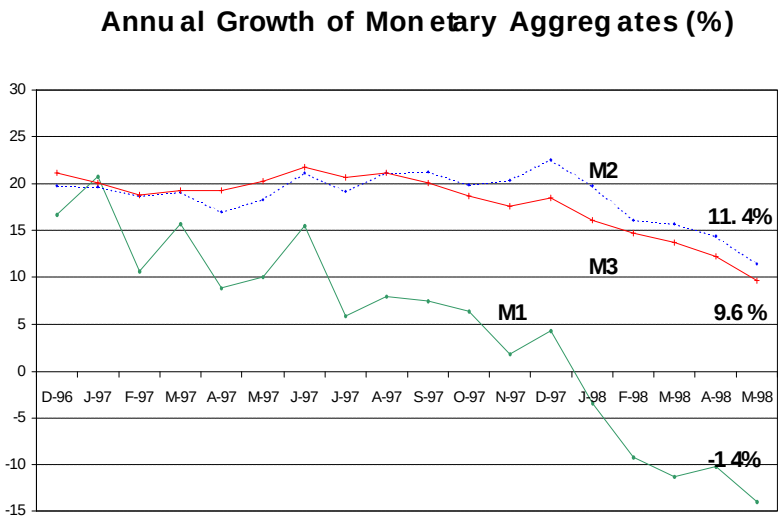
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PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS MAY 1998

Monetary Situation

M3 recorded a decline of RM2.9 billion in May (-RM1.9 billion in April), causing its annual growth to decelerate to 9.6% (12.2% in April). In terms of components, both transaction balances and broad quasi-money were lower during the month. Demand deposits and currency in circulation declined by RM2 billion and RM242 million respectively. The continuous downward trend in transaction balances reflected the effect of the overall slowdown in real sector activities, particularly the contraction in consumption spending by the private sector. For broad quasi-money, apart from fixed deposits, which recorded a modest increase of RM1 billion, all other components experienced negative growth.

In terms of determinants, the decline in M3 reflected a further slowdown in claims on the private sector. During the month, loans and advances recorded a net repayment of RM497 million while holdings of securities declined by RM735 million. In addition, Government budgetary operations contracted by RM1.9 billion due mainly to a large build-up of Federal Government deposits with Bank Negara Malaysia (BNM). Meanwhile, external operations had an expansionary impact on M3. As in the preceding four months of 1998, net external assets increased by another RM928 million in May, as banking institutions reduced their foreign interbank borrowings and foreign customers withdrew their deposits.



Banking Situation

Total deposits mobilised by the banking system continued to decline, albeit at a slower rate of RM2.1 billion or 0.5% in May (-RM4.7 billion or –1.1% in April) as a result of the large decline in deposits placed with commercial banks (-RM2 billion). In term of holders, the bulk of the withdrawals were made by the individuals (-RM2.3 billion) and business enterprises (-RM1 billion). However, deposits placed by financial institutions increased by RM1.4 billion. On an annual basis, total deposits increased by 10% at the end of May (end-April: 11.5%).

Similarly, total loans (including loans sold to Cagamas) extended by the banking system declined by RM0.7 billion or 0.2% in May (-RM0.7 billion or -0.2% in April) due mainly to a slowing down in economic activities. Consequently, the annual growth rate of total loans moderated further to 12% at the end of May. Total loans approved by the banking institutions also slowed down to RM4.1 billion in May (April: RM4.5 billion). By sectors, the decline in loans was due mainly to lower hire-purchase loans for passenger cars (-RM0.4 billion) and manufacturing sector (-RM0.4 billion). However, loans extended to the broad property sector increased by RM0.7 billion due

mainly to higher loans for the purchase of residential properties (RM0.4 billion) and the real estate sector (RM0.3 billion).

As the decline in deposits outpaced the decline in loans, the banking system recorded a resource gap of RM1.6 billion in May. The outstanding resource surplus of the banking system also declined to RM23.9 billion at the end of May from RM25.5 billion at the end of April. Consequently, the loan-deposit ratio increased to 94.3% (94% at end-April).

Deposits and Loans of the Banking System

	Monthly change		**As at end of**	
	1998		**1998**	
	April	**May**	**April**	**May**
	RM million			
Deposits				
Commercial banks	-4,096	-1,977	290,369	288,392
Finance companies	-696	-100	108,528	108,428
Merchant banks	45	4	25,638	25,642
Total	-4,747	-2,073	424,535	422,462
Loans[1]				
Commercial banks	1,207	569	278,545	279,114
Finance companies	-1,613	-1,004	97,838	96,834
Merchant banks	-152	-70	22,680	22,610
Total	-558	-505	399,063	398,558
Resource surplus (+)/gap (-)	-4,189	-1,568	25,472	23,904
Loan-deposit ratio (%)			**94.0**	**94.3**

[1] Excluding housing loans sold to Cagamas Berhad

Loans by the Banking System				
	Monthly change		As at end of	
	1998		1998	
	April	May	April	May
	RM million			
Agriculture	24	11	7,729	7,740
Mining and quarrying	214	1	1,627	1,628
Manufacturing	-499	-404	65,040	64,636
Electricity	24	129	4,463	4,592
Wholesale, retail, restaurant & hotel	-66	135	34,938	35,073
Broad property sector[1]	768	746	143,634	144,380
Transport & storage	99	191	13,252	13,443
Finance, insurance and Business services	-786	321	35,601	35,922
Purchase of securities	-380	-54	37,600	37,546
Consumption	-527	-528	53,945	53,417
Others	426	-1,216	21,640	20,424
Total Loans[1]	-703	-668	419,469	418,801

[1] Including housing loans sold to Cagamas Berhad.

Interest Rates

The term structure of interbank rates steepened in May. This was due to the decline in the average overnight and 1-week rates to 9.13% and 10.25% in May (10.59% and 10.97% in April). At the same time, the longer term (1- and 3-month) rates remained stable at around the 3-month BNM intervention rate of 11%.

Meanwhile, fixed deposit rates of commercial banks rose by 10-14 basis points to 9.79-10.14% while those of finance companies were more stable, adjusting by between –2 to +6 basis points to 10.74-10.91% in May. The term structure of fixed deposit rates was again upward sloping for commercial banks but remained inverted for finance companies. A higher average 3-month interbank rate in April led to an increase in the average base

lending rate (BLR) of the commercial banks to 12.21% in May (12.16% in April). Similarly, the average BLR of finance companies increased to 14.65% (14.56% in April).

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 ± 2% of the prescribed SRR rate from the previous band of ± 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

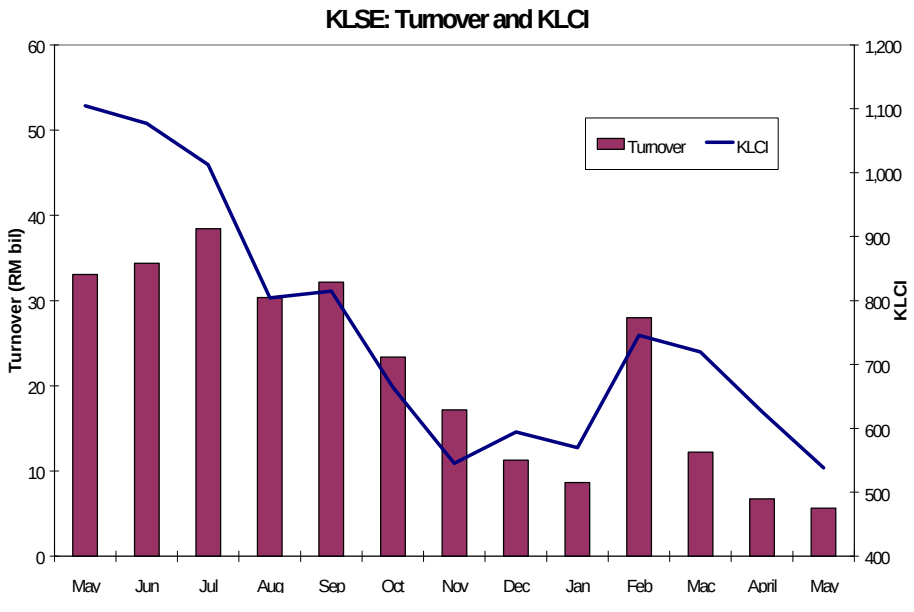
Net long-term funds raised from the capital market were lower in May, totalling RM602 million (RM2.3 billion in April) on account of the net redemption of RM5 million by the public sector, and a much smaller issue of debt securities by the private sector.

In May, sentiment on the Kuala Lumpur Stock Exchange was generally bearish. Domestically, the market was adversely affected by concerns over the health of the stockbroking industry, fears of further corporate bankruptcies and the anticipation of lower economic growth. On the foreign front, the market was depressed by the escalation of widespread social unrest in Indonesia, the fall in regional stock markets following the fall of the Dow Jones Industrial Average Index and the weakening of the Japanese yen. Some positive developments during the month that helped to improve market sentiment temporarily were the announcement of the setting up of an asset management company to acquire non-performing loans and assets of financial institutions and extension of tax exemption on the remittance of individuals' earnings from abroad. The Kuala Lumpur Composite Index (KLCI) closed at 538.24 points with market capitalisation at RM337 billion at the end of the month.

Funds Raised in the Capital Market [p]			
	1997	1998	
	Year	Apr.	May
	RM million		
By Public Sector			
Net Funds Raised by Public Sector	-1,407	820	-5
By Private Sector			
Shares	18,358	37	221
Debt Securities [1]	19,546	1,639	605
Less Redemptions	2,998	210	220
Equals Net Issues	16,548	1,429	385
Net Funds Raised by Private Sector	34,906	1,466	607
Net Funds Raised from the Capital Market	33,499	2,287	602
Net Issue of Short-Term Securities [2]	4,946	-140	-375
Total	38,445	2,147	227

[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.

The bearish sentiment persisted into June due to the announcement of a decline of 1.8% in real gross domestic product in the first quarter and concerns over the future direction of domestic interest rates. In addition, the



sharp depreciation of the yen caused the KLCI to fall substantially. As at 15 June 1998, the KLCI was at 452.24 points while market capitalisation stood at RM293 billion.

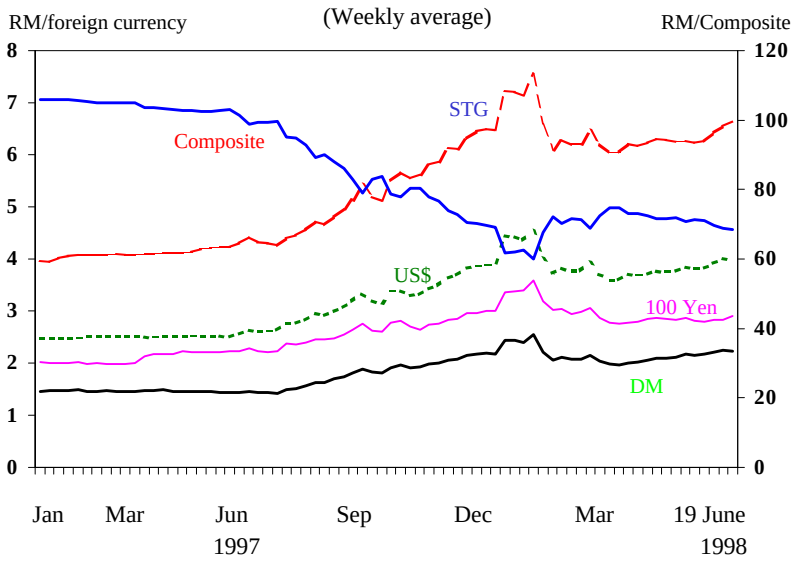
External Reserves

The international reserves held by BNM increased by RM222 million from the end-April level to RM57.5 billion as at 31 May 1998. The United States dollar equivalent of the international reserves was US$20.4 billion, sufficient to finance 3.3 months of retained imports. As at 15 June 1998, the international reserves held by BNM stood at RM57.3 billion (equivalent to US$20 billion).

Performance of the Ringgit

In May, the ringgit continued to weaken against a background of turbulent international and regional developments. On the international front, the continued weakening of the Japanese yen against the United States dollar exerted downward pressure on regional currencies, including the ringgit. The Japanese yen weakened to US$1=Y139.23 on 29 May, the lowest level since

Exchange Rate of the Malaysian Ringgit against Major Currencies



August 1991 following concerns over the rise in unemployment and Japan's exposure to the protracted Asian financial crisis. On the regional front, the social and political unrest in Indonesia, the international economic sanctions imposed against India and Pakistan in the aftermath of their nuclear tests, the suspension of all foreign exchange transactions by Pakistan as well as negative first quarter growth in Hong Kong, exerted pressure on regional currencies, including the ringgit. Against these developments and concerns over the growing share of non-performing loans of Malaysian commercial banks and the threat of stagflation, positive market reaction towards larger trade surplus in March for Malaysia as well as the announcement of the establishment of the Asset Management Company (AMC) was not sustained. For the month as a whole, the ringgit depreciated by 3.7% against the United States dollar and 2% against the composite.

In the period 1-19 June, movements in regional currencies were volatile as the Japanese yen continued to decline against the United States dollar following the release of economic data, which confirmed that the Japanese economy was in a recession. The depreciation of the Japanese yen in turn fuelled speculation on China's commitment to maintain its stance against devaluing the renminbi. The Japanese yen breached an intra-day low of US$1=Y146.75 on 16 June. However, concerted intervention by the Bank of Japan and the Federal Reserve Board of the United States aided the yen's recovery to US$1=Y136.90 on 19 June. On the domestic front, market sentiment towards the ringgit was dampened by the contraction in first quarter growth and concern over the direction of domestic interest rates. Nevertheless, the ringgit which touched US$1=RM4.0940 on 15 June, strengthened to US$1=RM3.9810 on 19 June following the recovery of the yen. During the period 1-19 June, the ringgit recorded a depreciation of 2.6% against the United States dollar and 2.9% against the composite.

Bank Negara Malaysia
26 June 1998

Key Monetary and Banking Statistics

	Apr. 1998		May 1998	
	Outstanding (RM billion)	**Annual growth (%)**	**Outstanding (RM billion)**	**Annual growth (%)**
Monetary Aggregates				
Reserve money	64.1	*-9.0*	63.1	*-9.9*
M1	53.5	*-10.2*	51.2	*-14.0*
M2	284.2	*14.4*	281.1	*11.4*
M3	392.1	*12.2*	389.2	*9.6*
By determinants:				
Claims on the private sector	449.8		448.6	
Claims on the Government	-7.3		-9.2	
External sector	53.2		54.1	
Other influences	-103.6		-104.3	
Banking System				
Total deposits	424.5	*11.5*	422.5	*10.0*
Total loans (including Cagamas)	419.5	*14.7*	418.8	*12.0*
of which: Manufacturing	65.0	*18.5*	64.6	*14.0*
Broad property	143.6	*25.2*	144.4	*21.7*
Finance, insurance and business services	35.6	*3.2*	35.9	*2.3*
Consumption	53.9	*13.9*	53.4	*9.9*
Total loans (excluding loans sold to Cagamas)	399.1	*13.6*	398.6	*11.0*
Loan-deposit ratio (%)	94.0		94.3	
Loans approved during the month	4.5		4.1	
International Reserves of BNM	57.3		57.5	

Interest Rates	**(percent per annum, end-period)**	
Interbank: 1-month	11.04	10.98
3-month	11.07	11.04
Average fixed deposits of commercial banks:		
1-month	9.65	9.79
3-month	9.89	10.00
Average BLR of commercial banks	12.16	12.21

Bank Negara Malaysia
26 June 1998