PRESS RELEASE ON
MONETARY AND FINANCIAL DEVELOPMENTS
JUNE 1998

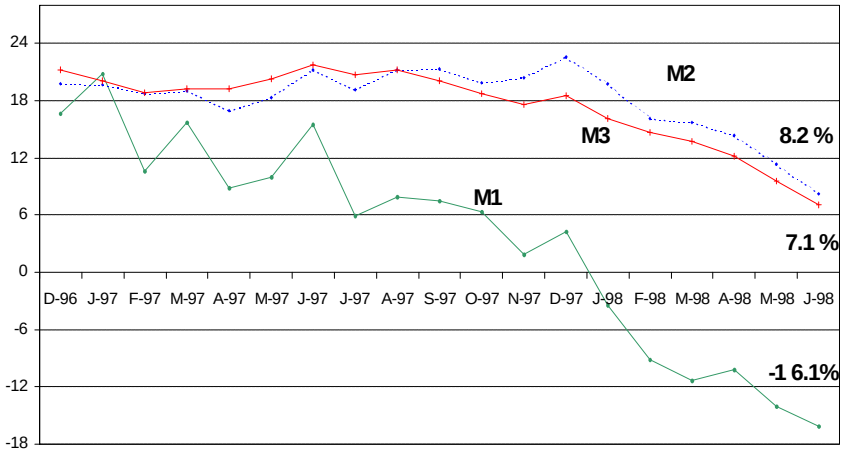
Monetary Situation

M3 registered a further decline of RM793 million in June (-RM2.8 billion in May), resulting in an annual growth rate of 7.1% (9.6% in May). Demand deposits recorded an encouraging increase of RM1.5 billion during the month, the first increase in 1998. Savings deposits also posted an increase of RM221 million. However, these increases were offset by declines in negotiable instrument of deposits (-RM778 million) and repurchase agreements (-RM746 million).

In terms of determinants, claims on the private sector turned around to record a modest increase of RM650 million in June (-RM1.3 billion in May). Loans by the banking institutions rose slightly by RM86 million, the first increase since January 1998, while holdings of securities grew by RM735 million. These were somewhat offset by a repayment of soft loans provided by BNM to the private sector via special funds (Entrepreneurs' Rehabilitation Fund) amounting to RM438 million. Net external assets were once again expansionary by RM1.9 billion on money supply (RM917 million in May) due to increases in the net international reserves of BNM (RM635 million) and in the net foreign assets of the banking system (RM1.3 billion). Further expansion in money supply was mitigated by Government budgetary operations (-RM1.8 billion) and net other influences (-RM1.6 billion). Federal Government deposits with BNM rose significantly by RM2.3 billion due to the drawdown of World Bank loans (USD300 million) for the financing of social safety net

facilities. Meanwhile, net other influences were contractionary on account of a further increase in the provision of bad and doubtful debt (RM1.9 billion).

Annual Growth of Monetary Aggregates (%)



Banking Situation

While there was an increase in demand deposits, total deposits mobilised by the banking system declined further by RM1.6 billion or 0.4% in June (-RM2.1 billion or -0.5% in May) as a result of the decline in deposits placed with finance companies (-RM2.1 billion) and merchant banks (-RM1.5 billion). Total deposits placed with the commercial banks, however, recorded an increase of RM1.9 billion during the month. The decline in deposits during the month reflected mainly the slowdown in economic activities. In terms of holders, the bulk of the withdrawals was made by financial institutions (-RM1.6 billion) and business enterprises (-RM1.2 billion). However, deposits placed by individuals increased by RM1.6 billion. On an annual basis, total deposits increased by 6% at the end of June (end-May: 10%).

The declining trend in loan growth since early 1998, reversed in June. Total loans (including loans sold to Cagamas) extended by the banking system increased by RM2 billion or 0.5% in June (-RM0.7 billion or -0.2% in May) due to the increase in loans extended by the commercial banks (+RM3.5 billion) and merchant banks (+RM0.1 billion). However, the annual growth rate of total loans moderated further to 10.3% at the end of June. In terms of approval, the banking institutions continued to

approve new loans (including rollovers and renewals) amounting to RM4.6 billion in June. The increase in total loans during the month was the first positive monthly increase in loans since January 1998. This development, however, needs to continue in subsequent months to confirm that there has in effect been a fundamental shift in market trend. The situation will continue to be monitored closely. By sectors, the increase was due mainly to higher loans to the broad property sector (+RM1 billion), wholesale, retail, restaurant and hotel (+RM0.8 billion) and for the purchase of securities (+RM0.7 billion). Higher loans to the broad property sector was attributed mainly to higher loans extended for the purchase of residential property (+RM0.6 billion).

As there was a decline in deposits and an increase in loans, the banking system recorded a resource gap of RM3.6 billion in June. The outstanding resource surplus of the banking system also declined to RM20.3 billion at end-June from RM23.9 billion at end-May. Consequently, the loan-deposit ratio increased to 95.2% (94.3% at end-May).

Deposits and Loans of the Banking System

	Monthly change		**As at end of**	
	1998		**1998**	
	May	**June**	**May**	**June**
	RM million			
Deposits				
Commercial banks	-1,977	1,938	288,392	290,330
Finance companies	-100	-2,080	108,428	106,348
Merchant banks	4	-1,478	25,642	24,164
Total	-2,073	-1,620	422,462	420,842
Loans[1]				
Commercial banks	531	3,489	279,076	282,565
Finance companies	-1,003	-1,533	96,834	95,301
Merchant banks	-71	55	22,610	22,665
Total	-543	2,011	398,520	400,531
Resource surplus (+)/gap (-)	-1,530	-3,631	23,942	20,311
Loan-deposit ratio (%)			**94.3**	**95.2**

[1] Excluding housing loans sold to Cagamas Berhad

Loans by the Banking System				
	Monthly change		As at end of	
	1998		1998	
	May	June	May	June
	RM million			
Agriculture	11	110	7,740	7,850
Mining and quarrying	1	-7	1,628	1,621
Manufacturing	-404	319	64,636	64,955
Electricity	129	-96	4,592	4,496
Wholesale, retail, restaurant & hotel	135	833	35,073	35,906
Broad property sector[1]	746	972	144,380	145,352
Transport & storage	191	232	13,443	13,675
Finance, insurance and Business services	321	356	35,922	36,278
Purchase of securities	-54	714	37,546	38,260
Consumption	-528	-1,540	53,417	51,877
Others	-1,254	71	20,386	20,457
Total Loans[1]	-706	1,964	418,763	420,727

[1] Including housing loans sold to Cagamas Berhad.

Interest Rates

The term structure of interest rates was flat at around 11% in the first half of June but steepened thereafter. The initially flat term structure was due to higher shorter term (overnight and 1-week) rates in anticipation of a 5-year Khazanah bond issue on 18 June amounting to RM1 billion. Subsequent to the issue, shorter term rates softened again.

As monetary policy remained unchanged with the BNM intervention rate being maintained at 11%, the reduction in the Statutory Reserve Requirement (SRR) resulted in stable interbank rates in the first half of July compared to the second half of June. The reduction in the SRR from 10% to 8% effective 1 July was aimed at reducing the cost of funds to banking institutions while maintaining liquidity for the system as a whole unchanged. The release of RM8 billion in SRR funds was fully

sterilised through BNM tender borrowing (RM5 billion) as well as the non-rollover of maturing BNM lending (RM3 billion) on 1 July.

Meanwhile, fixed deposit rates of commercial banks rose by 10-25 basis points to 10.04-10.24% while those of finance companies increased more modestly by 5-9 basis points to 10.81-10.97% in June. The term structure of fixed deposits rates was again upward sloping for commercial banks but remained inverted for finance companies. The average base lending rate (BLR) of the commercial banks increased marginally to 12.27% in June (12.21% in May). Similarly, the average BLR of finance companies increased to 14.70% (14.65% in May). However, following the reduction in the SRR, the average BLR of commercial banks and finance companies declined to 12.08% and 14.49% respectively as at 8 July.

Capital Market

In June, net long-term funds sourced from the capital market were lower, at RM402 million (RM601 million in May). Although more funds were raised by the public sector (RM175 million) and through the issue of shares by the private sector (RM479 million), the issue of private debt securities was significantly lower (RM100 million), while the level of redemption was higher (RM352 million).

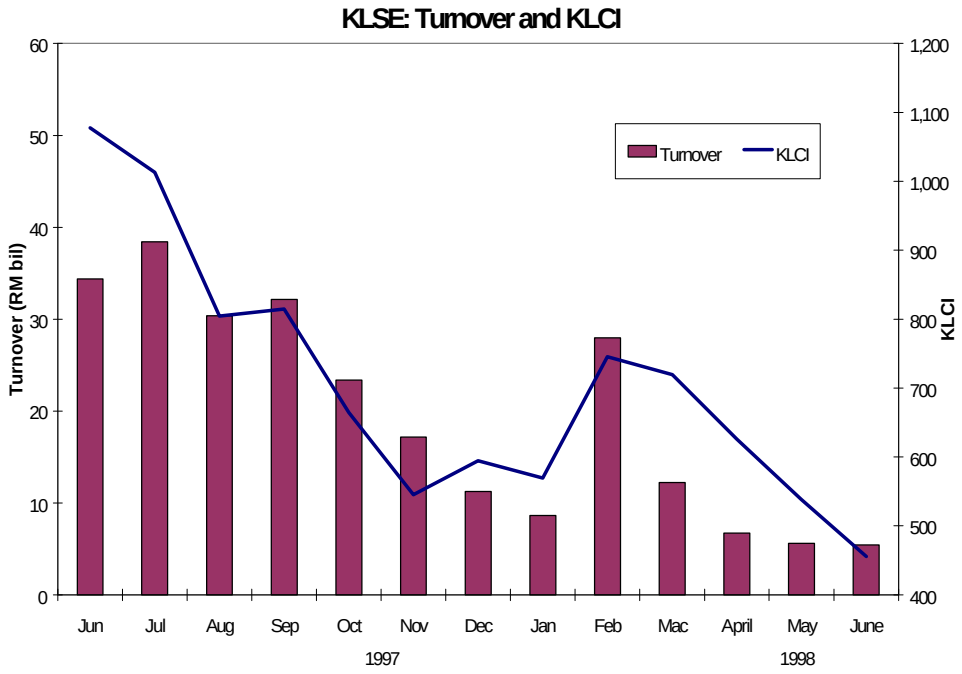
Funds Raised in the Capital Market [p]			
	1997	1998	
		May	June
	RM million		
By Public Sector			
Net Funds Raised by Public Sector	-1,407	-5	175
By Private Sector			
Shares	18,358	221	479
Debt Securities [1]	19,546	605	100
Less Redemptions	3,009	220	352
Equals Net Issues	16,537	385	-252
Net Funds Raised by Private Sector	34,895	606	227
Net Funds Raised from the Capital Market	33,488	601	402
Net Issue of Short-Term Securities [2]	4,946	-375	-100
Total	38,434	226	302

[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.

Market sentiment on the Kuala Lumpur Stock Exchange (KLSE) was bearish during the month, attributed mainly to concerns over the decline in the real gross domestic product in the first quarter and the future direction of domestic interest rates as well as the sharp depreciation of the yen against the U.S. dollar. Investors, however, reacted positively to the announcement of a 2% reduction in the Statutory Reserve Requirement. By the end of the month, the Kuala Lumpur Composite Index (KLCI) and KLSE market capitalisation had declined by 15.3% and 15.2% respectively to 455.64 points and RM286 billion respectively.

The bearish market sentiment continued into the first two weeks of July due to the further depreciation of the Japanese yen and the ringgit as well as concerns over the health of the domestic corporate sector. The market, however, strengthened

temporarily following the recovery of the ringgit and fell subsequently on the reemergence of concerns over corporate failures. As at 22 July 1998, the KLCI was at 421.91 points while market capitalisation stood at RM265 billion.



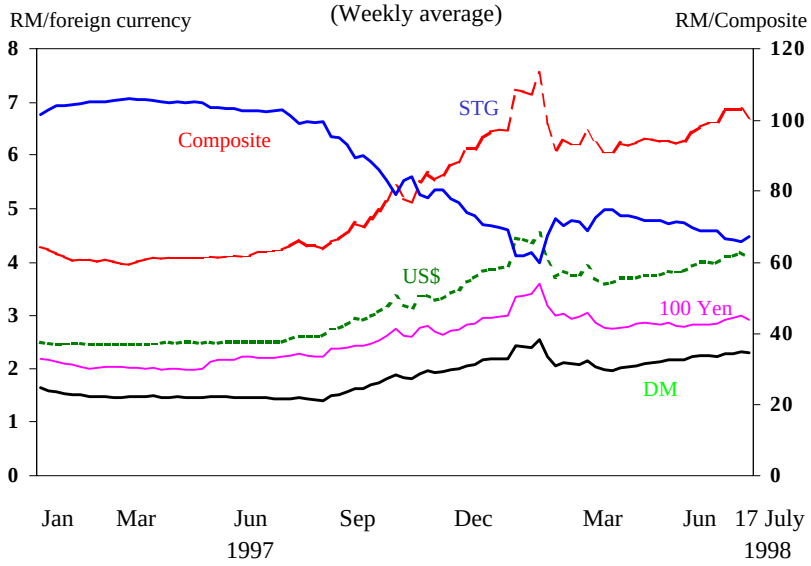
External Reserves

The international reserves held by Bank Negara Malaysia increased by RM635 million from the end-May level to RM58.2 billion as at 30 June 1998. Among the factors attributable to the increase in international reserves was the disbursement of USD300 million loan by the World Bank, which has been allocated to mitigate the social impact of the regional crisis. The United States dollar equivalent of the international reserves was USD20.5 billion, sufficient to finance 3.6 months of retained imports. As at 15 July 1998, the international reserves held by BNM stood at RM57.6 billion (equivalent to USD20.3 billion).

Performance of the ringgit

In June, the weakening of the Japanese yen continued to exert downward pressure on regional currencies, including the ringgit. On the international front, the yen came under significant bearish pressure as economic data indicated that the Japanese economy was in recession, and the market was concerned over the lack of substantial policy measures to strengthen the economy in 1998. As the yen weakened to an intra-day low of USD1=Y146.75 on 16 June, the lowest level recorded since 1991, the ringgit breached the RM4.0000 level to touch an intra-day low of USD1=RM4.0940 on 15 June but recovered thereafter to USD1=RM3.9400 on 18 June following intervention by the Bank of Japan and the Federal Reserve Board of the United States to support the yen. Nevertheless, against the renewed weakness of the yen towards the end of June, as well as concerns over the direction of domestic interest rates, the ringgit weakened to USD1=RM4.1750 on 30 June. For the month as a whole, the ringgit recorded a depreciation of 7.1% against the United States dollar and 6.7% against the composite.

Exchange Rate of the Malaysian Ringgit against Major Currencies



In the period 1-17 July, the ringgit recovered to record an appreciation of 2.1% against the United States dollar and 1.8% against the composite. Sentiment for regional currencies including the ringgit initially remained weak due to uncertainty

over Japan's political leadership. However, the ringgit appreciated from an intra-day low of USD1=RM4.2950 on 13 July to USD1=RM4.0900 on 17 July. The general sentiment towards regional currencies improved following positive development including the disbursement of a USD1 billion loan by the International Monetary Fund (IMF) to Indonesia as well as the commitment by candidates for the Japanese premiership to economic reforms. The announcement on fiscal and financial measures to stimulate and consolidate the economy in the light of Malaysia's revised outlook for 1998 also provided positive support for the ringgit.

Key Monetary and Banking Statistics

	May 1998		June 1998	
	Outstanding (RM billion)	**Annual growth (%)**	**Outstanding (RM billion)**	**Annual growth (%)**
Monetary Aggregates				
Reserve money	63.1	*-9.9*	61.6	*-15.0*
M1	51.2	*-14.0*	52.2	*-16.1*
M2	281.1	*11.4*	281.7	*8.2*
M3	389.3	*9.6*	388.5	*7.1*
By determinants:				
Claims on the private sector	448.5		449.2	
Claims on the Government	-9.1		-10.9	
External sector	54.1		56.0	
Other influences	-104.2		-105.8	
Banking System				
Total deposits	422.5	*10.0*	420.8	*6.0*
Total loans (including Cagamas)	418.8	*12.0*	420.7	*10.3*
of which: Manufacturing	64.6	*14.0*	65.0	*13.2*
Broad property	144.4	*21.7*	145.4	*19.8*
Finance, insurance and business services	35.9	*2.3*	36.3	*3.2*
Consumption	53.4	*9.9*	51.9	*5.3*
Total loans (excluding loans sold to Cagamas)	398.5	*11.0*	400.5	*9.5*
Loan-deposit ratio (%)	94.3		95.2	
Loans approved during the month	4.1		4.6	
International Reserves of BNM	57.6		58.2	
Interest Rates	**(percent per annum, end-period)**			
Interbank: 1-month	10.87		10.98	
3-month	11.04		11.07	
Average fixed deposits of commercial banks:				
1-month	9.79		10.04	
3-month	10.00		10.19	
Average BLR of commercial banks	12.21		12.27	

Bank Negara Malaysia
27 July 1998