PRESS RELEASE ON
MONETARY AND FINANCIAL DEVELOPMENTS
JULY 1998

Monetary Situation

Monetary developments in July reflected the contraction in overall economic activity. While total deposits increased during the month, total loans declined marginally due to lower loans extended for the purchase of securities and consumption credit. Excluding such loans, total loans recorded a small increase during the month. As a result of the increase in deposits and the decline in loans, the banking system experienced a resource surplus, after recording resource gaps since March this year. If this trend continues in the coming months, then it would help support the revival of economic activity both through lower lending rates and also through the ready availability of funds.

M3 recorded another decline of RM2 billion in July (-RM182 million in June) causing its annual growth to decelerate further to 5.9% (7.3% in June). Even though total deposit of the banking system during the month expanded by RM1.6 billion, the bulk of the increase comprised interplacements among banking institutions, (particularly in the form of NIDs) while deposits of the non-bank private sector declined further. In July, demand deposits and currency in circulation declined by RM1.6 billion and RM19 million

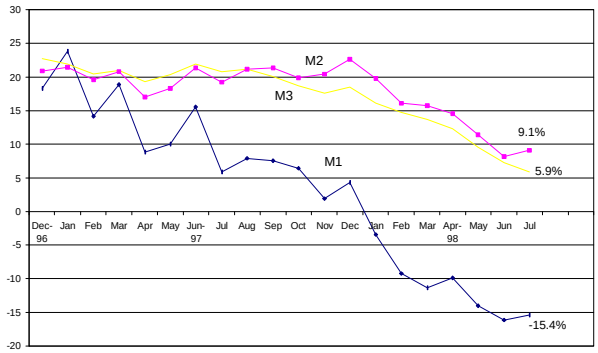
respectively. Similarly, all components of broad quasi-money experienced negative growth except for repos and foreign currency deposit, which recorded modest increases of RM345 million and RM841 million respectively.

In terms of determinants, external operations continued to exert an expansionary impact on M3, increasing by RM3.6 billion in July. During the month, total external liabilities of the banking system declined by RM2.6 billion, as banking institutions continued to reduce their foreign interbank borrowings, whereas their external assets increased by RM1.1 billion. However, this was offset by declines in other determinants. During the month, claims on the private sector declined by RM633 million, reflecting mainly the decline in outstanding loans of the banking system. Similarly, the Government's budgetary operations contracted by RM2.5 billion, on account of an increase in its deposits as well as lower holdings of Malaysian Government Securities (MGS) by banking institutions. Net other influences continued to be contractionary on M3, primarily because of increases in provisioning for bad debts.

M3 Determinants
(change during the period in RM billion)

	1996	**1997**	**1998**			
			May	**Jun**	**Jul**	**Jan. – Jul**
M3	57.8	60.9	-2.8	-0.2	**-2.0**	**-3.5**
Claims on Government	-2.9	0.4	-1.9	-1.8	**-2.5**	**-4.7**
Claims on private sector	72.4	91.1	-1.3	0.7	**-0.6**	**1.2**
Net external operations	1.5	-16.8	0.9	2.0	**3.6**	**16.2**
Net other influences	-13.3	-13.9	-0.6	-1.0	**-2.5**	**-16.1**

Annual Growth of Monetary Aggregates



Banking Situation

Total deposits mobilised by the banking system increased by RM1.6 billion or 0.4% in July (-RM1.6 billion or –0.4% in June) as a result of an increase in deposits placed with commercial banks (RM2.6 billion) and merchant banks (RM0.8 billion). Total deposits with finance companies, however, declined by RM1.8 billion. The annual growth of deposits moderated further to 5.6% (end June: 6%). In terms of holders, the bulk of the increases in deposits were among financial institutions (RM4.1 billion), individuals (RM1.1 billion) and the Federal Government (+RM0.9 billion). However, deposits placed by business enterprises declined by RM4.3 billion. Other notable developments were an increase in the amount of deposits placed by foreign customers (RM0.3 billion) and increases in foreign currency deposits (RM0.8 billion).

Meanwhile, total loans (including loans to Cagamas Berhad) extended by the banking system declined by RM0.9 billion or 0.2% in July (+RM2.1 billion or +0.5% in June) due to the decline in loans extended by finance

companies (-RM3 billion) and merchant banks (-RM0.1 billion) while loans extended by commercial banks increased by RM2.3 billion. As a result, the annual growth rate of total loans moderated further to 8.8% at the end of July (10.3% at the end of June). The decline in loans reflected the slowdown in economic activities. In terms of approval, the banking institutions continued to approve new loans (including rollovers and renewals) amounting to RM4.5 billion in July. By sectors, the decline in loans was reflected mainly in lower loans extended for the purchase of securities (-RM1.2 billion) and consumption credit (-RM0.5 billion). Meanwhile, loans extended to the manufacturing and wholesale, retail, restaurants and hotels sectors increased by RM0.4 billion and RM0.2 billion respectively. Loans to the broad property sector continued to increase by RM0.6 billion due to the increase in loans to the construction sector and residential properties. Excluding loans extended for the purchase of securities and consumption credit, total loans extended by the banking system recorded an increase of RM0.7 billion in July.

As a result of the increase in deposits and the decline in loans, the banking system recorded a resource surplus of RM2.2 billion in July. The outstanding resource surplus also increased to RM22.4 billion at end-July from RM20.2 billion at end June. The loan-deposit ratio declined to 94.7% at the end of July (95.2% at end-June).

Deposits and Loans of the Banking System

	Monthly change		As at end of	
	1998		1998	
	June	July	June	July
	RM million			
Deposits				
Commercial banks	1,938	2,556	290,330	292,886
Finance companies	-2,081	-1,780	106,347	104,567
Merchant banks	-1,478	826	24,164	24,990
Total	-1,621	1,602	420,841	422,443
Loans[1]				
Commercial banks	3,581	2,489	282,657	285,146
Finance companies	-1,543	-2,971	95,292	92,321
Merchant banks	56	-130	22,665	22,535
Total	2,094	-612	400,614	400,002
Resource surplus (+)/gap (-)	-3,715	2,214	20,227	22,441
Loan-deposit ratio (%)			**95.2**	**94.7**

[1] Excluding housing loans sold to Cagamas Berhad

Loans by the Banking System

	Monthly change		As at end of	
	1998		1998	
	June	July	June	July
	RM million			
Agriculture	111	112	7,851	7,963
Mining and quarrying	-7	65	1,621	1,686
Manufacturing	345	368	64,981	65,349
Electricity	-96	79	4,496	4,575
Wholesale, retail, restaurant & hotel	833	160	35,906	36,066
Broad property sector[1]	1,040	612	145,420	146,032
Transport & storage	239	25	13,682	13,707
Finance, insurance and Business services	403	-125	36,326	36,201
Purchase of securities	711	-1,159	38,258	37,099
Consumption	-1,549	-427	51,868	51,441
Others	27	-610	20,411	19,801
Total Loans[1]	2,057	-900	420,820	419,920

[1] Including housing loans sold to Cagamas Berhad.

Interest Rates

Interbank rates were stable in the first half of July at around their end-June levels. This reflected an unchanged monetary policy stance with the 3-month intervention rate being maintained at 11% during the month, even though the Statutory Reserve Requirement (SRR) was reduced from 10% to 8% on 1 July. The reduction in the SRR was aimed at reducing the cost of funds to banking institutions while keeping liquidity conditions unchanged. The release of RM8 billion in SRR funds was fully sterilised through BNM tender borrowings (RM5 billion) as well as the non-rollover of maturing BNM lending (RM3 billion) on 1 July. Despite the stability of interest rates in the first half of July, there was some upward pressure on the overnight and 1-week rates in mid-July following a RM2.5 billion Malaysian Government Securities issue on 15 July. Short-term rates declined thereafter, as liquidity conditions improved in line with the improvement in the resource surplus of the banking system during the month.

Meanwhile, the average fixed deposit rates of commercial banks edged upwards marginally across the board by 4-10 basis points to 10.14-10.28%. In the case of finance companies, the short-term FD rates declined while the long-term rates increased slightly. For example, the average 1-month FD rate of finance companies declined by 7 basis points while the average 12-month rate increased by 2 basis points. As a result, although the range of finance companies FD rates have not changed much, at 10.82-10.92%, its term structure has flattened in July from a previously inverted position observed since December 1997. The average base lending rate (BLR) of commercial banks declined by 20 basis points to 12.07% in July, following the reduction of the SRR from 10% to 8%. Similarly, the average BLR of finance companies declined by 21 basis points to 14.49% in July.

During the month, there was a cautious easing of monetary policy as reflected in the reduction in the BNM's 3-month intervention rate from 11% to 10.5% on 3 August, and further to 10% on 10 August. Following this, the average base lending rate of the commercial banks has declined from 12.07% at end-July to 11.85% as at 15 August, and it is expected to decline further in September.

Capital Market

In July, the capital market registered a net redemption of RM497 million (+RM402 million in June). Both the public and private sectors recorded redemptions of RM352 million and RM145 million respectively. In terms of the composition of private sector funds, equities issued were lower, amounting to RM51 million while net redemptions of private debt securities totalled RM196 million. Meanwhile, the new issue of Malaysian Government Securities (MGS) by the public sector was offset by larger redemptions of MGS.

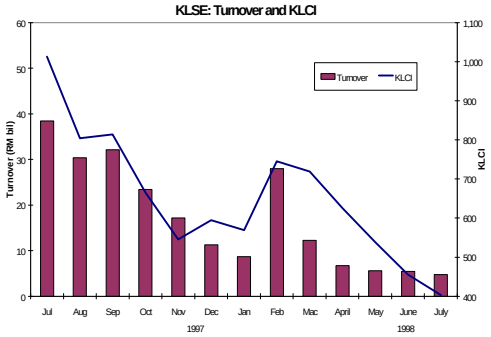
Funds Raised in the Capital Market [p]

	1997	1998	
	Year	June	July
	RM million		
By Public Sector			
Net Funds Raised by Public Sector	-1,407	175	-352
By Private Sector			
Shares	18,358	479	51
Debt Securities [1]	19,546	100	4
Less Redemptions	3,009	352	200
Equals Net Issues	16,537	-252	-196
Net Funds Raised by Private Sector	34,895	227	-145
Net Funds Raised from the Capital Market	33,488	402	-497
Net Issue of Short-Term Securities [2]	4,946	-100	-10
Total	38,434	302	-507

[p] Preliminary.
[1] Excludes debt securities issued by banking institutions.
[2] Refers to Cagamas Notes and commercial papers. For 1998, refers to Cagamas Notes only.

Sentiment on the Kuala Lumpur Stock Exchange (KLSE) was bearish in July, with the Kuala Lumpur Composite Index (KLCI) declining by 11.6% to end the month at 402.65 points. The depressed market sentiment was attributed mainly to concerns over the decline in the growth of real gross domestic product forecast for the year and health of the corporate sector as well as the postponement of the issuance of foreign currency bonds by the Government. Regionally, market sentiment was adversely affected by the depreciation of the yen due to uncertainties over the political and financial developments in Japan. Reflecting these developments, the KLSE market capitalisation fell by 10.3% to RM256 billion at the end of July.

The weak market sentiment continued into the first half of August, mainly due to the depreciation of the yen, pressures on the Hong Kong dollar and the Chinese yuan as well as announcements of poor financial results of several utilities companies. The market, strengthened somewhat subsequently in line with the improved performance of some regional markets. As at 24 August 1998, the KLCI was at 317.20 points while market capitalisation stood at RM207 billion.



External Reserves

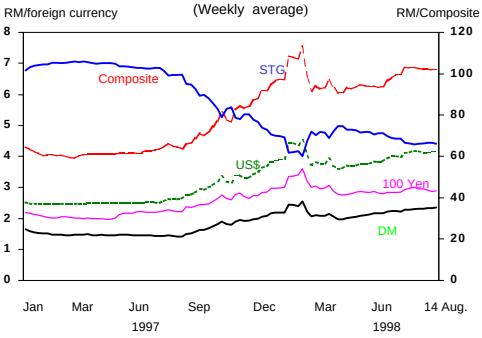
The **international reserves** held by Bank Negara Malaysia declined by RM430 million from the end-June level to RM57.8 billion at the end of July. The United States dollar equivalent of international reserves as at 31 July was US$20.3 billion, sufficient to finance 3.5 months of retained imports. As at 15 August 1998, the international reserves held by BNM stood at RM57.8 billion (equivalent to USD20.2 billion).

Performance of the ringgit

In July, the ringgit came under pressure but strengthened marginally towards the end of the month. For the month as a whole, the ringgit rose by 0.8% against the United States dollar and 1.3% against the composite. Although the weakening of the Japanese yen had affected regional currencies, sentiment for the ringgit was affected by concerns over the direction of monetary policy following the announcement of a Statutory Reserve Requirement (SRR) reduction on June 27. The ringgit weakened to an intra-day low of US$1=RM4.3260 on 10 July amidst market expectations that monetary policy would be eased. Nevertheless, the ringgit gained support following the announcement of fiscal and financial measures to stimulate and consolidate the economy in the light of the revised outlook for 1998. Announcements of foreign capital investments in Malaysian companies contributed to a strengthening of ringgit to US$1=RM4.1425 on 31 July.

During the period 1-20 August, the ringgit recorded a marginal depreciation of 1% against the United States dollar. Although the yen's weakness exerted downward pressure on regional currencies, the ringgit's decline was less pronounced compared with other regional currencies. The ringgit was supported by announcements of several foreign investors indicating their willingness to make long-term investment commitments in Malaysia. The ringgit was also supported by the pre-emptive measures taken by Malaysia which included the setting-up of Danamodal Nasional Berhad for the recapitalisation of financial institutions as well as a Steering Committee to expedite and co-ordinate corporate debt restructuring to assist

Exchange Rate of the Malaysian Ringgit against Major Currencies



viable businesses to continue to receive financing for their operations. The ringgit was traded at US$1=RM4.1850 on 20 August.

Inflation

In July, inflation as measured by the Consumer Price Index (CPI, 1994=100) increased at a slower rate of 5.8%, compared with 6.2% in June. This was mainly attributable to the moderation in the increase in prices of food (10.4%; 11.5% in June); medical care and health expenses; and clothing and footwear, as well as the continued decline in the prices of transport and communication. However, higher price increases were registered in four sub-indices, namely, miscellaneous goods and services; furniture, furnishings and household equipment; recreation, entertainment, education and cultural services; and beverages and tobacco. During the month, the slower increase in food prices was due mainly to lower price increases in two major sub-indices, namely, fruits and vegetables; and fish.

Key Monetary and Banking Statistics

	June 1998		July 1998	
	Outstanding (RM billion)	Annual growth (%)	Outstanding (RM billion)	Annual growth (%)
Monetary Aggregates				
Reserve money	61.6	*-15.0*	54.6	*-25.4*
M1	52.2	*-16.1*	50.6	*-15.4*
M2	281.7	*8.2*	282.4	*9.1*
M3	389.1	*7.3*	387.1	*5.9*
By determinants:				
Claims on the private sector	449.2		448.6	
Net Claims on the Government	-10.9		-13.5	
External sector	56.1		59.7	
Net Other influences	-105.2		-107.7	
Banking System				
Total deposits	420.8	*6.0*	422.4	*5.6*
Total loans (including Cagamas)	420.8	*10.3*	419.9	*8.8*
of which: Manufacturing	65.0	*13.2*	65.3	*16.9*
Broad property	145.4	*19.8*	146.0	*17.7*
Finance, insurance and business services	36.3	*3.3*	36.2	*7.7*
Consumption	51.9	*5.3*	51.4	*5.3*
Total loans (excluding loans sold to Cagamas)	400.6	*9.5*	400.0	*8.1*
Loan-deposit ratio (%)	95.2		94.7	
Loans approved during the month	4.6		4.5	
International Reserves of BNM	58.2		57.8	
Interest Rates	**(percent per annum, end-period)**			
Interbank: 1-month	10.98		10.81	
3-month	11.07		10.97	
Average fixed deposits of commercial banks:				
1-month	10.04		10.14	
3-month	10.19		10.27	
Average BLR of commercial banks	12.27		12.07	

Bank Negara Malaysia
27 August 1998