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PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS AUGUST 1998

Monetary Situation

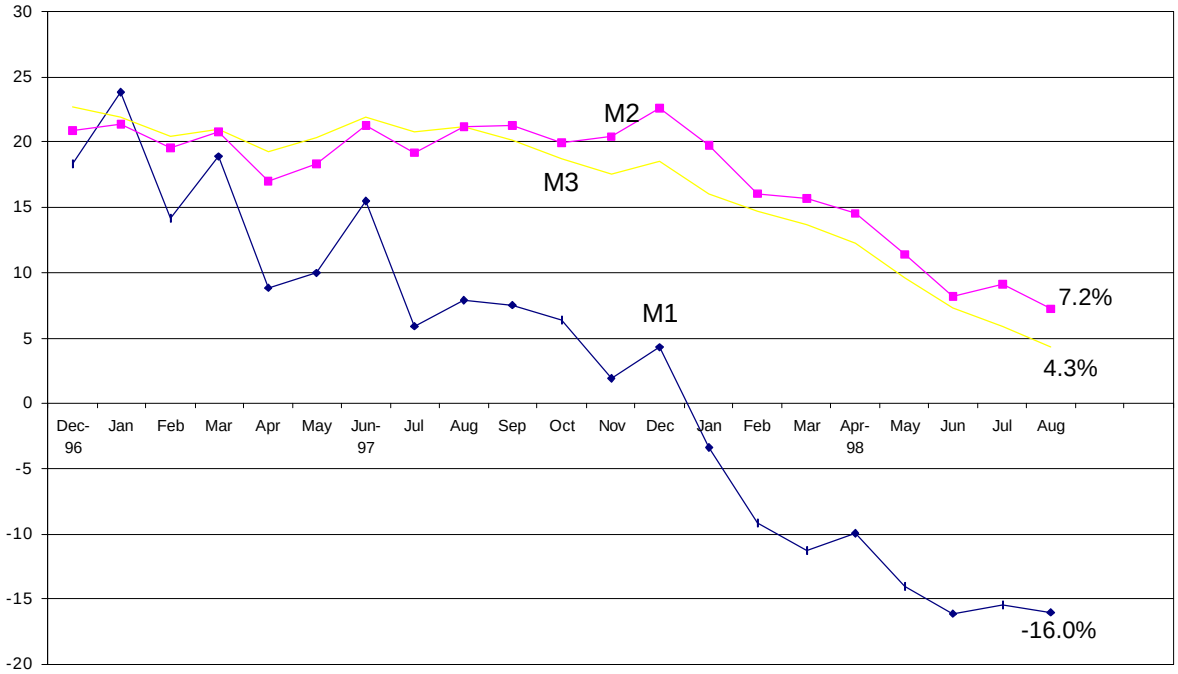
After contracting continuously since April 1998, M3 turned around in August to record a small increase of RM75 million (-RM2 billion in July). Nevertheless, the annual growth of M3 continued to trend downwards to 4.3% at end-August (5.9% at end-July). In terms of components, the turnaround in monetary growth was reflected in transaction balances which recorded a more moderate decrease in August. The significantly smaller decline in demand deposits of RM755 million (-RM1.6 billion in July) offset the increase in currency in circulation of RM428 million (-RM18.7 million in July). Broad quasi-money increased by RM402 million after declining for the last four consecutive months, due mainly to the increase in fixed deposits of RM3.4 billion. Other deposit instruments recorded declines in August: negotiable instruments of deposit (-RM2.4 billion), savings deposit (-RM465 million) and repurchase agreements (-RM347 million).

In terms of determinants, the main sources of the expansion in M3 emanated from claims on the private sector which increased by RM2.9 billion. Loans extended by the banking system rose by RM1.9 billion and holdings of private securities increased by RM1 billion. `Other influences' were

contractionary on M3 by RM1.5 billion, primarily because of increases in provisioning for bad debts. Similarly, the Government's budgetary operations contracted by RM1.4 billion on account of an increase in its deposits as well as lower holdings of Government securities.

M3 Determinants						
	1996	1997	1998			
			June	July	Aug.	Jan. – Aug.
	Change during the period in (RM billion)					
M3	57.8	60.9	-0.2	-2.0	**0.1**	**-3.4**
Determinants:						
Net Claims on Government	-2.9	0.4	-1.8	-2.5	**-1.4**	**-6.2**
Claims on private sector	72.4	91.1	0.7	-0.6	**2.9**	**4.0**
Net external operations	1.5	-16.8	2.0	3.6	**0.1**	**15.5**
Net other influences	-13.3	-13.9	-1.0	-2.5	**-1.5**	**-16.7**

Annual Growth of Monetary Aggregates



Banking Situation

Total deposits mobilised by the banking system continued to increase for the second consecutive month by RM0.2 billion or 0.04% in August (RM1.6 billion or 0.4% in July) as a result of the increase in deposits placed with commercial banks (+RM2.4 billion). Total deposits placed with finance companies and merchant banks, however, recorded a decline of RM2 billion and RM0.2 billion respectively. In terms of holders, the bulk of the increase came from business enterprises (+RM0.8 billion) and individuals (+RM0.5 billion). However, deposits placed by financial institutions declined by RM1.1 billion. On an annual basis, total deposits increased by 4.1% at the end of August (end-July: 5.6%).

Another encouraging development was the increase in total outstanding loans. Total outstanding loans (including loans sold to Cagamas) extended by the banking system turned around to increase by RM2.1 billion or 0.5% in August (-RM0.9 billion or -0.2% in July) due to the increase in loans extended by the commercial banks (+RM2.7 billion) and merchant banks (+RM0.1 billion). However, the annual growth rate of total loans moderated further to 7.5% at the end of August. Statistically, the slowdown in the annual growth rate was partly contributed by the large increase of RM7 billion in total loans in August 1997 (base period). In terms of approval, the banking institutions continued to approve new loans (including rollovers and renewals) amounting to RM4.9 billion in August (RM4.5 billion in July). The increase in loans was channelled mainly to the broad property sector (+RM1.9 billion), finance, insurance and business services sector (+RM0.7 billion) and for the purchase of securities (+RM0.8 billion). Higher loans to the broad property sector were attributed mainly to the increase in loans to the construction sub-sector (+RM0.9 billion) and for the purchase of residential properties (+RM0.5 billion).

As the increase in loans outpaced the increase in deposits, the banking system recorded a resource gap of RM2.2 billion in August. The outstanding resource surplus of the banking system also declined to RM20.2 billion at

end-August from RM22.4 billion at end-July. Consequently, the loan-deposit ratio increased to 95.2% (94.7% at end-July).

Deposits and Loans of the Banking System

	Monthly change		As at end of	
	1998		1998	
	July	August	July	August
	RM million			
Deposits				
Commercial banks	2,556	2,374	292,886	295,260
Finance companies	-1,779	-2,003	104,567	102,564
Merchant banks	826	-187	24,990	24,803
Total	1,603	184	422,443	422,627
Loans[1]				
Commercial banks	2,488	2,719	285,146	287,865
Finance companies	-2,971	-414	92,321	91,907
Merchant banks	-130	115	22,535	22,650
Total	-613	2,420	400,002	402,422
Resource surplus (+)/gap (-)	2,216	-2,236	22,441	20,205
Loan-deposit ratio (%)			**94.7**	**95.2**

[1] Excluding housing loans sold to Cagamas Berhad

Loans by Sector: Banking System

	Monthly change		As at end of	
	1998		1998	
	July	August	July	August
	RM million			
Agriculture	113	-166	7,963	7,797
Mining and quarrying	64	85	1,686	1,771
Manufacturing	368	53	65,349	65,402
Electricity	79	29	4,575	4,604
Wholesale, retail, restaurant & hotel	160	185	36,066	36,251
Broad property sector[1]	612	1,912	146,032	147,944
Transport & storage	25	-135	13,707	13,572
Finance, insurance and business services	-124	719	36,201	36,920
Consumption	-423	-811	51,445	50,634
Purchase of securities	-1,158	807	37,099	37,906
Others	-616	-565	19,797	19,232
Total Loans[1]	-900	2,113	419,920	422,033

[1] Including housing loans sold to Cagamas Berhad.

Interest Rates

Improvements in the medium-term outlook for inflation allowed BNM to ease monetary policy by reducing its 3-month intervention rate from 11% to 10.5% on 3 August, to 10% on 10 August, and further to 9.50% on 28 August. The intervention rate was reduced further by 150 basis points to 8% on 3 September, following the imposition of selected new exchange controls. In addition, the Statutory Reserve Requirement (SRR) was reduced from 8% to 6% on 1 September, and further to 4% on 16 September. The reductions in interest rates and the SRR were aimed at easing liquidity in the banking system, making available more loanable funds to borrowers, and at a lower rate, with the ultimate objective of supporting the economic recovery process.

In line with the drop in the interbank money market rates, fixed deposit rates also declined significantly in August. The average fixed deposit rates of commercial banks declined by 72-82 basis points to 9.42-9.51%, while those of finance companies declined by 84-96 basis points to 9.90-10.02%. The declines were even sharper between 1-15 September, namely by 302-325 and 292-313 basis points for commercial banks and finance companies respectively. As a result, as at 15 September, the average fixed deposit rates of the commercial banks declined to between 6.24-6.40%, while those of finance companies ranged between 6.87-6.98%.

As was the case with fixed deposit rates, the average base lending rates (BLR) for commercial banks and finance companies declined by 37 and 32 basis points to 11.70% and 14.17% respectively in August, due to the lower cost of funds. Between 1-24 September, the average BLR for commercial banks and finance companies declined further by 280 and 362 basis points to 8.90% and 10.55% respectively. This was due to a further 150 basis point reduction in the intervention rate from 9.5% to 8%, as well as the reduction in the SRR from 8% to 6% on 1 September and to 4% on 16 September.

Effective 1 September 1998, the BLR framework was revised to allow a faster transmission of changes in monetary policy to interest rate levels. Essentially, the formula for computation of the ceiling BLR is now based on the prevailing BNM 3-month intervention rate instead of the previous month's average KLIBOR. In relation to this, banking institutions are now required to adjust their BLR within one week of any revision in the computed BLR arising from a change in the intervention rate or the SRR.

In addition, to promote greater operational efficiency among banking institutions, the fixed administrative margin of banking institutions in the BLR formula was reduced from 2.50% to 2.25% on 1 September. To complement this, beginning 14 September, the banking institutions were required to reduce the maximum margin over the quoted BLR from 4 percentage points to 2.5 percentage points. This was not expected to have a material impact on the profitability of banking institutions as the average spread between average lending rate and the average BLR was slightly less than 2% for the commercial banks. In fact, the lower lending rates resulting from the smaller margin would improve the overall business environment and the risk profile of borrowers, thereby lowering the incidence of loan defaults. The lower spread would also spur banking institutions to further intensify their efforts to improve their operational efficiency.

Capital Market

In August, the capital market registered another net redemption, totalling RM478 million (-RM497 million in July). The private sector recorded a significantly larger redemption of RM477 million compared with the public sector (RM1 million) due to a larger amount of maturing Cagamas bonds. In terms of the composition of private sector funds, equities issued amounted to RM43 million, while net redemptions of private debt securities issued totalled RM520 million.

Funds Raised in the Capital Market [p]			
	1997	1998	
	Year	July	Aug.
	RM million		
By Public Sector			
Net Funds Raised by Public Sector	-1,407	-352	-1
By Private Sector			
Shares	18,358	51	43
Debt Securities [1]	19,546	4	450
Less Redemptions	3,009	200	970
Equals Net Issues	16,537	-196	-520
Net Funds Raised by Private Sector	34,895	-145	-477
Net Funds Raised from the Capital Market	33,488	-497	-478
Net Issue of Short-Term Securities [2]	4,946	-10	125
Total	38,434	-507	-353

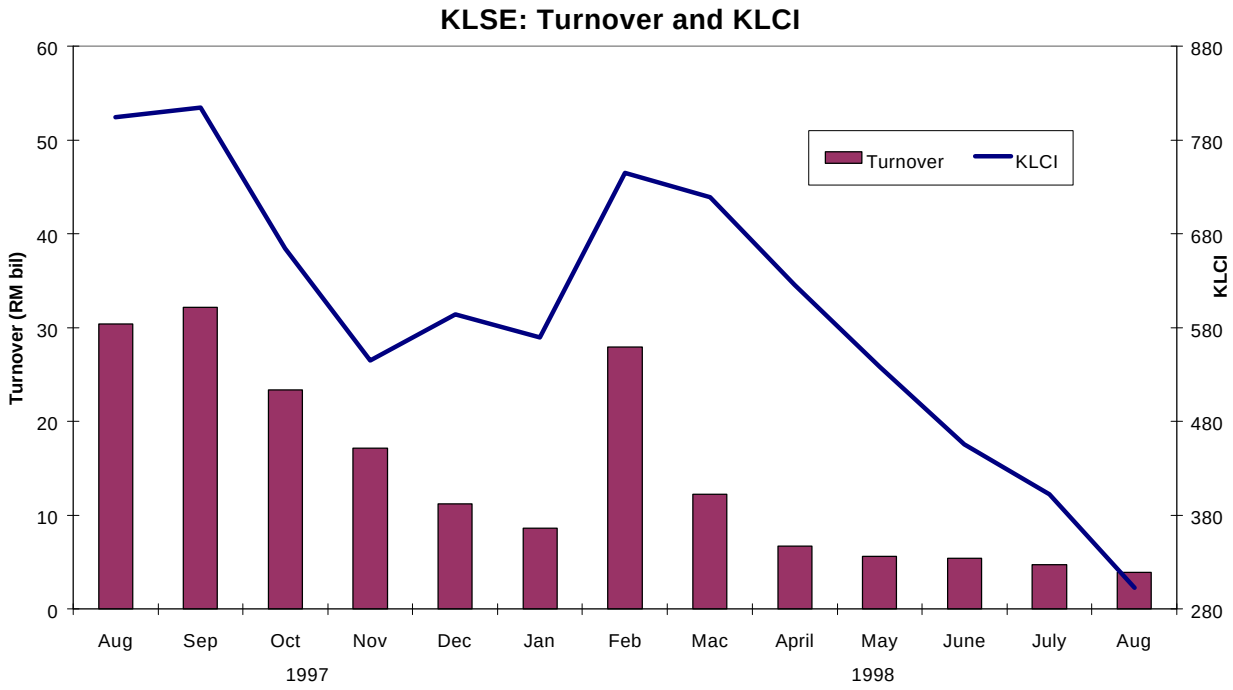
[p] Preliminary.

[1] Excludes debt securities issued by banking institutions.

[2] Refers to Cagamas Notes and commercial papers. For 1998, refers to Cagamas Notes only.

In August, market sentiment deteriorated significantly, affected by negative developments within and outside the country. Domestically, sentiment weakened on the announcement of a 6.8% contraction in the economy for the second quarter of 1998 and further depreciation of the ringgit. Meanwhile, external developments, including the further depreciation of the yen, pressures on the Hong Kong dollar and the Chinese yuan, as well as the volatile movements of the Dow Jones Index, caused sentiment to remain weak for most periods of the month. Thus, while the market strengthened temporarily in the third week, following the announcement of possible Government intervention to support the market as well as the improvement in the Hong Kong market, the KLCI fell by 24.8% to close at 302.91 points at the end of August, while market capitalisation stood at RM200 billion.

The first three weeks in September recorded a recovery in the KLSE following a series of measures announced by the Government to minimise the risks and vulnerabilities of external developments on the Malaysian economy, as well as to accelerate the economic recovery process. In addition, sentiment was also helped by the improved market sentiment in the Hong Kong market and the strengthening of the yen. At 23 September, the KLCI rose by 24.2% to close at 376.26 points, while market capitalisation stood at RM250.2 billion.



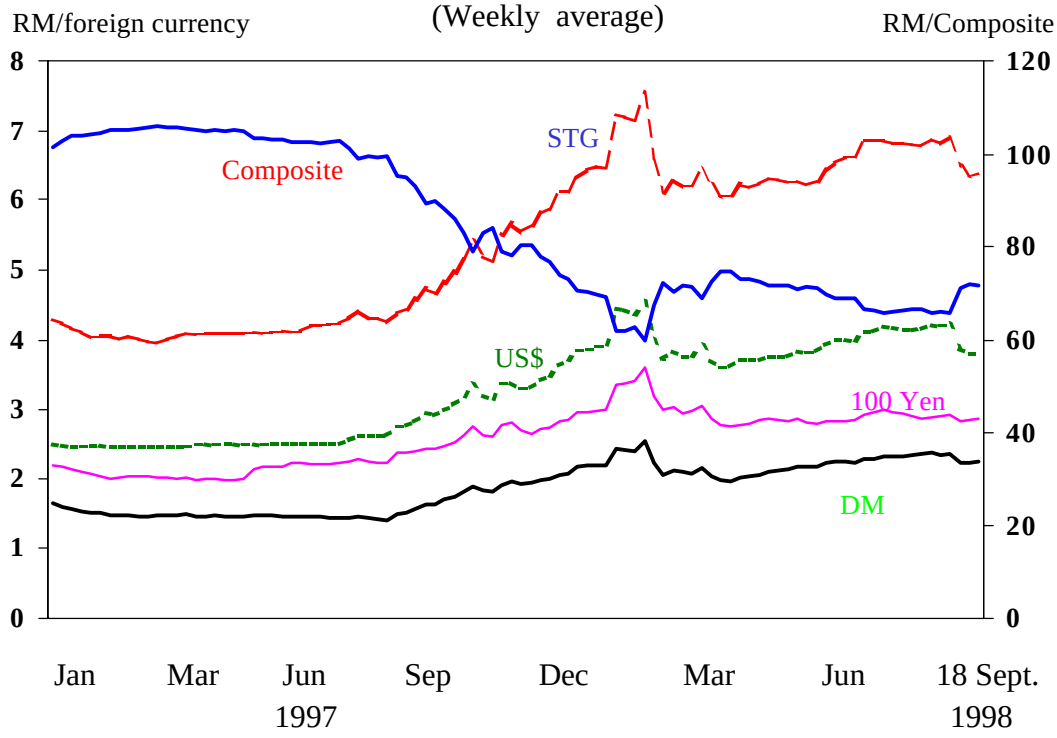
International Reserves

The international reserves held by BNM increased by RM100 million from end-July to RM57.9 billion at the end of August 1998. The United States dollar equivalent of international reserves as at 29 August was US$20.2 billion, sufficient to finance 3.5 months of retained imports. As at 15 September 1998, the international reserves held by BNM stood at RM80.5 billion, as all assets in foreign currency had been revalued at exchange rates prevailing on the reporting date. The United States dollar equivalent was US$21.3 billion.

Exchange Rates

In August, sentiment for the ringgit was bearish as the weakening Japanese yen continued to exert pressures on regional currencies, including the ringgit. The yen's depreciation against the US dollar coupled with increased speculative attacks on the Hong Kong dollar fuelled concerns over China's commitment to maintain the yuan's current value. These regional developments were significant factors affecting the ringgit. In the third week

Exchange Rate of the Malaysian Ringgit against Major Currencies



of August, the market shifted its focus to domestic developments where the initial stock market rally following the injection of institutional funds was not sustained and speculation on the possibility of capital controls exerted downward pressure on the ringgit. The ringgit weakened to US$1=RM4.2200 on 28 August. For the month as a whole, the ringgit depreciated by 1.8% against the United States dollar and 1.7% against the composite.

For the period 1-18 September, the ringgit recorded an across-the-board appreciation against major currencies in the foreign exchange market. The ringgit rose by 3.7% against the Japanese yen, 4.2% against the Swiss franc, 4.5% against the Deutsche Mark, 9.2% against the pound sterling and 11.1% against the United States dollar. On 1 September 1998, the ringgit strengthened by 10.5% from the end-August level to an intra-day high of US$1=RM3.82 following the introduction of selected exchange control measures. The ringgit appreciated further to US$1=RM3.80 after which the ringgit's rate was fixed at that rate, effective 11 a.m. on 2 September 1998.

Inflation

After registering the year's peak of 6.2% in June, the annual rate of inflation as measured by the Consumer Price Index (CPI, 1994=100) continued to moderate to 5.6% in August (5.8% in July). The moderation was mainly attributable to slower price increases in the sub-indices of food (9.9% as against 10.4% in July); gross rent, fuel and power; beverages and tobacco as well as the continued decline in the prices of transport and communication. In particular, the prices of fish, fruits and vegetables, and meat (accounting for 14% of the total CPI basket) recorded slower price increases. For the first eight months of 1998, the CPI rose by 5.2%, compared with 2.6% in the corresponding period of 1997.

Bank Negara Malaysia
25 September 1998

Key Monetary and Banking Statistics

	July 1998		August 1998	
	Outstanding (RM billion)	Annual growth (%)	Outstanding (RM billion)	Annual growth (%)
Monetary Aggregates				
Reserve money	54.6	*-25.4*	53.8	*-28.6*
M1	50.6	*-15.4*	50.3	*-16.0*
M2	282.4	*9.1*	285.4	*7.2*
M3	387.1	*5.9*	387.2	*4.3*
By determinants:				
Claims on the private sector	448.5		451.4	
Net claims on the Government	-13.5		-14.9	
External sector	58.9		59.0	
Net other influences	-106.8		-108.3	
Banking System				
Total deposits	422.4	*5.6*	422.6	*4.1*
Total loans (including Cagamas)	419.9	*8.9*	422.0	*7.5*
of which: Manufacturing	65.3	*16.9*	65.4	*14.1*
Broad property	146.0	*17.7*	147.9	*16.0*
Finance, insurance and business services	36.2	*7.7*	36.9	*6.6*
Consumption	51.4	*5.3*	50.6	*3.0*
Total loans (excluding loans sold to Cagamas)	400.0	*8.3*	402.4	*7.0*
Loan-deposit ratio (%)	94.7		95.2	
Loans approved during the month	4.5		4.9	
International Reserves of BNM	57.8		57.9	
Interest Rates	**(percent per annum, end-period)**			
Interbank: 1-month	10.73		9.33	
3-month	10.75		9.50	
Average fixed deposits of commercial banks:				
1-month	10.14		9.42	
3-month	10.27		9.50	
Average BLR of commercial banks	12.07		11.70	

Bank Negara Malaysia
25 September 1998