EMBARGO: Not for Publication or Broadcast
Before 1700 Hours on
Wednesday, 28 October 1998

PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS SEPTEMBER 1998

Monetary Situation

In September, M3 increased by RM564 million (+RM75 million in August), the second consecutive monthly increase. Nevertheless, the annual growth of M3 continued to trend downwards during the month as M3 grew by 4% at end-September (4.3% at end-August). In terms of components, transaction balances turned around to record an increase of RM1.3 billion (a decline of RM327 million in August) as the large increase in demand deposits (RM3.4 billion) was only partially offset by the decline in currency in circulation (RM2.1 billion). The increase in demand deposits reflected mainly the increased placements by domestic business enterprises (RM2.1 billion) and individuals (RM610 million). In contrast, broad quasi-money declined by RM759 million (+RM402 million in August), reflecting a decrease in holdings of NIDs (RM1.8 billion) by business enterprises and the decline in foreign currency deposits (RM722 million). These declines more than offset the increase in savings deposits (RM1.6 billion), repos (RM135 million) and fixed deposits (RM128 million).

In terms of determinants, the increase in M3 was due mainly to higher net lending to the Government (RM843 million), as the banking system increased its holdings of Government securities. At the same time, the Government also withdrew its deposits placed with the banking system (-RM196 million). During the month, the net external assets of Bank Negara Malaysia (BNM) and the banking system increased by RM24 billion. This was the result of an increase in external assets of about RM20 billion and a

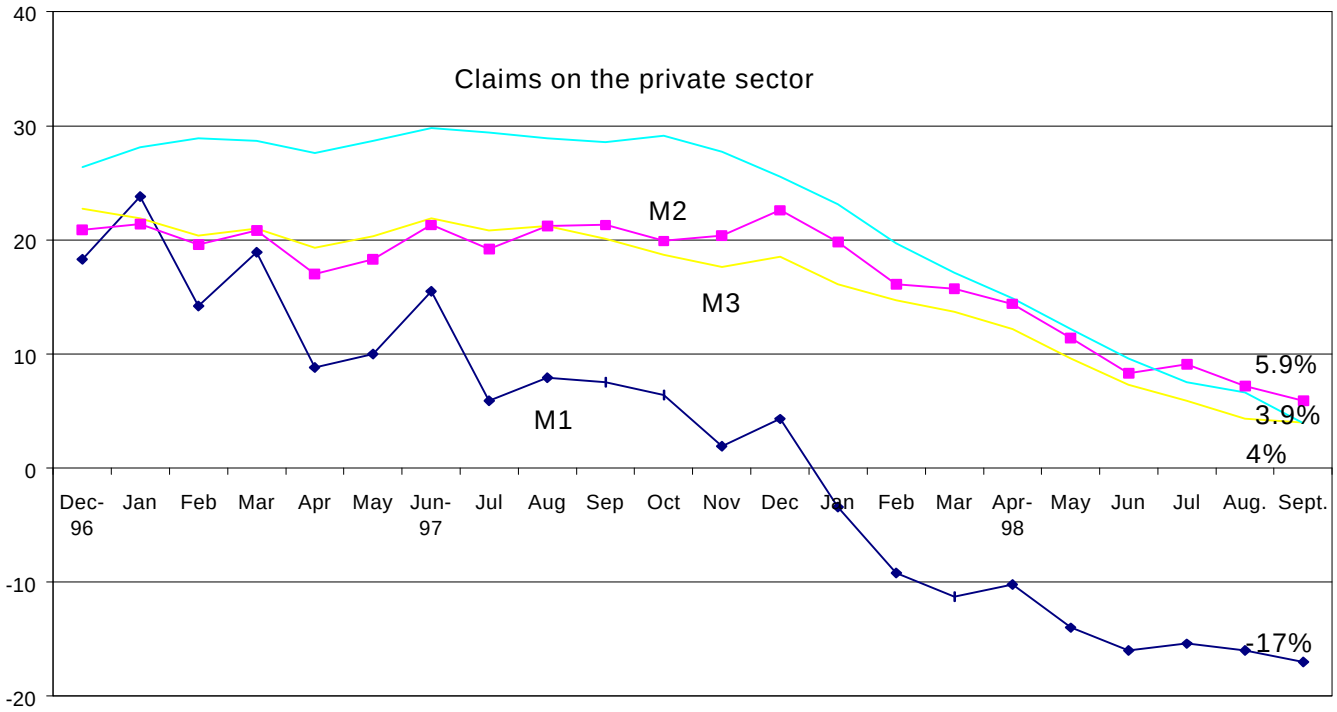
concurrent decline of RM4.1 billion in external liabilities. It should be noted, effective 15 September 1998, following the fixing of the Ringgit/United States dollar exchange rate at RM3.80, all foreign currency assets and liabilities have been revalued into ringgit at rates of exchange prevailing on the reporting date. Therefore, part of the increase in the external assets reflects BNM's exchange revaluation gains. The revaluation gains were also reflected in other influences, which recorded a sharp decline of RM22.6 billion**. As a result, the exchange revaluation gains have a neutral impact on money supply.**

Meanwhile, lending activity slowed down during the month. Total credit to the private sector declined by RM1.7 billion. In September, loans and advances by the banking system declined by RM1.9 billion, while the banking system increased its holdings of securities by RM251 million. It should be noted that there was an acquisition of a finance company, Kewangan Industri by its parent company, Bank Industri Berhad (non-banking institution). As a result, the bulk of its loans were sold to Bank Industri and its subsidiary which are included in the category of non-banking institutions, thereby, partly contributing to the decline in total loans and advances during the month.

M3 Determinants
(change during the period in RM billion)

	1996	**1997**	**1998**			
			July	**Aug.**	**Sept.**	**Jan. –Sept.**
M3	57.8	60.9	-2.0	0.1	**0.6**	**-2.8**
Of which:						
Claims on Government	-2.9	0.4	-2.5	-1.4	**0.8**	**-5.3**
Claims on private sector	72.4	91.1	-0.2	2.9	**-1.7**	**2.3**
External operations	1.5	-16.8	2.8	0.1	**24.0**	**39.5**
Net other influences	-13.3	-13.9	-2.1	-1.5	**-22.6**	**-39.3**

Annual Growth of Monetary Aggregates



Banking Situation

Total deposits mobilised by the banking system declined by RM1.6 billion or 0.4% in September (+RM0.4 billion or +0.1% in August) as a result of the decline in deposits placed with finance companies (-RM3.1 billion). Total deposits placed with commercial banks and merchant banks, however, recorded an increase of RM0.7 billion and RM0.8 billion respectively. The decline in deposits placed with finance companies was due partly to the acquisition of Kewangan Industri by its parent company, Bank Industri so that such deposits were no longer included in the banking system. In terms of holders, the bulk of the withdrawals was made by financial institutions (-RM2.8 billion), reflecting mainly the interplacements of deposits among banking institutions. However, deposits placed by individuals and business enterprises increased by RM1 billion and RM0.5 billion respectively. On an annual basis, total deposits increased by 3.4% at the end of September (end-August: 4.1%). Excluding the impact of the acquisition and interplacements

of deposits, total deposits increased by RM1.9 billion instead of a decline of RM1.6 billion.

Similarly, total outstanding loans (including loans sold to Cagamas) extended by the banking system turned around to decline by RM2.4 billion or 0.6% in September (+RM2.1 billion or +0.5% in August) due to the decline in loans extended by commercial banks (-RM0.8 billion) and finance companies (-RM1.7 billion). As a result, the annual growth rate of total loans moderated further to 4.5% at the end of September. The decline in loans was partly due to the acquisition of Kewangan Industri, by its parent company, Bank Industri (non-banking institutions). Excluding this effect, total loans outstanding declined by RM1.4 billion or 0.3% instead of a decline of RM2.4 billion or 0.6%. In addition, the decline was also due to the larger repayment (RM21.9 billion) than disbursement (RM19.6 billion) during the month. In terms of approval, the banking institutions continued to approve new loans (including rollovers and renewals) amounting to RM5 billion in September (RM4.9 billion in August). By sectors, the decline in loans was due mainly to lower loans extended to the broad property (-RM1.1 billion), manufacturing (-RM0.2 billion) and wholesale, retail, restaurants and hotels (-RM0.2 billion) sectors as well as consumption credit (-RM0.6 billion). Lower loans to the broad property sector were attributed mainly to the decline in loans extended to the construction (-RM0.4 billion) and real estate (-RM0.5 billion) sectors.

As the decline in loans outpaced the decline in deposits, the banking system recorded a resource surplus of RM0.6 billion in September. The outstanding resource surplus of the banking system also increased to RM21 billion at end-September from RM20.4 billion at end-August. Consequently, the loan-deposit ratio declined to 95.0% (95.2% at end-August).

Deposits and Loans of the Banking System				
	Monthly change		As at end of	
	1998		1998	
	Aug.	Sep.	Aug.	Sep.
	RM million			
Deposits				
Commercial banks	2,567	748	295,453	296,201
Finance companies	-2,004	-3,069	102,564	99,495
Merchant banks	-187	766	24,803	25,569
Total	376	-1,555	422,820	421,265
Loans[1]				
Commercial banks	2,719	-604	287,865	287,261
Finance companies	-414	-1,576	91,907	90,331
Merchant banks	115	43	22,650	22,693
Total	2,420	-2,137	402,422	400,285
Resource surplus (+)/gap (-)	-2,044	582	20,398	20,980
Loan-deposit ratio (%)			**95.2**	**95.0**
1/ Excluding housing loans sold to Cagamas Berhad				

Loans by Sector: Banking System				
	Monthly change		As at end of	
	1998		1998	
	Aug.	Sep.	Aug.	Sep.
	RM million			
Agriculture	-166	-63	7,797	7,734
Mining and quarrying	86	74	1,771	1,845
Manufacturing	53	-206	65,402	65,196
Electricity	29	170	4,604	4,774
Wholesale, retail, restaurant & hotel	186	-235	36,251	36,016
Broad property sector[1]	1,912	-1,037	147,944	146,907
Transport & storage	-135	179	13,572	13,751
Finance, insurance and business services	719	-127	36,920	36,793
Consumption	-810	-600	50,634	50,034
Purchase of securities	807	-79	37,906	37,827
Others	-568	-451	19,232	18,781
Total Loans[1]	2,113	-2,375	422,033	419,658
1/ Including housing loans sold to Cagamas Berhad.				

Interest Rates

Improvement in the medium-term outlook for inflation, together with the imposition of selective new exchange controls and fixed exchange rates allowed BNM to ease monetary policy further in September. After reducing the 3-month intervention rate by 150 basis points in August, the intervention rate was reduced further by 150 basis points to 8% on 3 September and again by 50 basis points to 7.5% on 5 October. 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 and increasing access to funds at a lower rate to borrower, with the ultimate objective of supporting the economic recovery process.

In line with the reduction in the interbank money market rates, fixed deposit rates also declined significantly in September. The average fixed deposit rates of commercial banks declined by 323-338 basis points to 6.12-6.19%, while those of finance companies declined by 311-328 basis points to 6.71-6.79%. Following the latest reduction in the intervention rate on 5 October, the average fixed deposit rates of commercial banks declined slightly further by 8-11 basis points to 6.02-6.09%, while those of finance companies declined by 1-7 basis points to 6.70-6.76% since 15 October 1998.

Similarly, the average base lending rates (BLR) for commercial banks and finance companies declined sharply by 281 and 363 basis points to 8.89% and 10.54% respectively in September. This was due to the 150 basis point reduction in the intervention rate from 9.5% to 8% on 3 September, as well as the reduction in the SRR from 8% to 6% on 1 September and to 4% on 16 September. By 11 October, the average BLRs declined further by 39 and 50 basis points to 8.50% and 10.04% for commercial banks and finance companies respectively, due to the latest reduction in the intervention rate.

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. 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. The lower spread would also encourage banking institutions to further intensify their efforts to improve operational efficiency.

Capital Market

In September, no new long-term funds were raised from the capital market (net redemption of RM1.2 billion in August), reflecting the continued slowdown in economic activities. Although the public sector sourced funds through issues of Malaysian Government Securities and Khazanah Bonds, these funds raised were offset by net redemptions by the private sector. Including the net issues of short-term papers and notes, total net funds raised in the capital market were higher at RM650 million.

Funds Raised in the Capital Market [p]			
	1997	1998	
	Year	Aug	Sep.
	RM million		
By Public Sector			
Net Funds Raised by Public Sector	-1,407	-751	1,637
By Private Sector			
Shares	18,358	43	0
Debt Securities [1]	19,546	450	2
Less Redemptions	3,009	970	1,639
Equals Net Issues	16,537	-520	-1,637
Net Funds Raised by Private Sector	34,895	-477	-1,637
Net Funds Raised from the Capital Market	33,488	-1,228	0
Net Issue of Short-Term Securities [2]	4,946	125	650
Total	38,434	-1,103	650

[p] Preliminary.

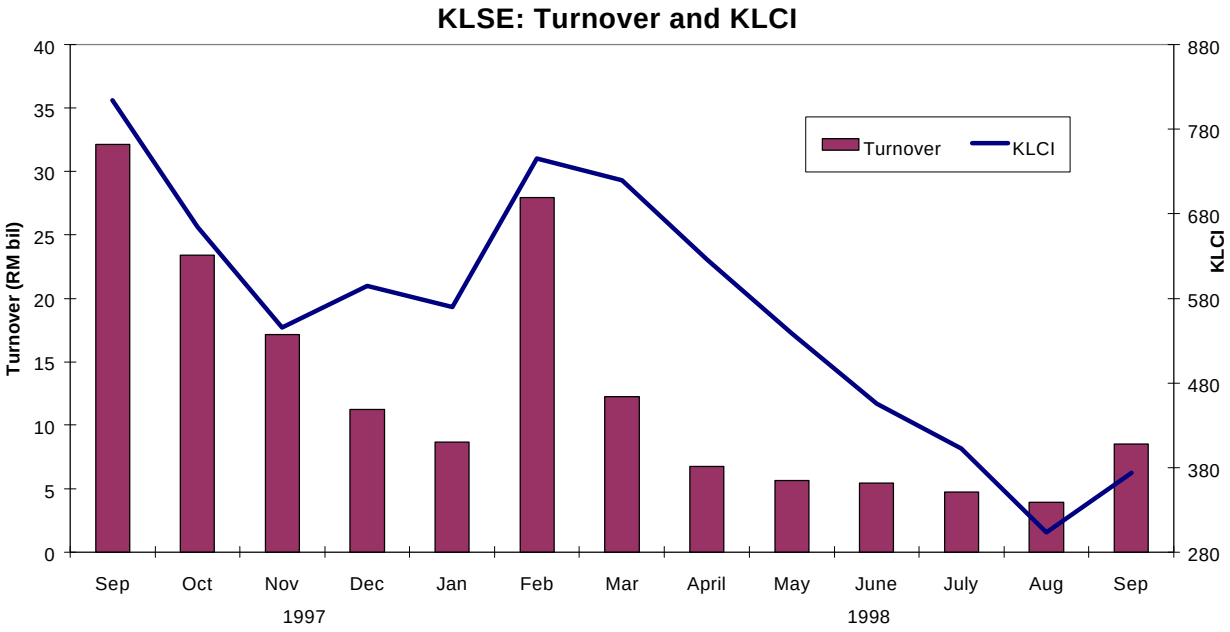
[1] Excludes debt securities issued by banking institutions.

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

The Kuala Lumpur Stock Exchange (KLSE) staged a recovery in September, with the Kuala Lumpur Composite Index (KLCI) and market capitalisation increasing by 23.3% and 24.5% respectively to 373.52 points and RM249 billion respectively at the end of the month. Movements in the KLCI were less volatile, influenced initially by the series of measures announced by the Government to minimise the risks and vulnerabilities of external developments to the Malaysian economy. Measures to accelerate the economic recovery process, improved performance of the Hong Kong market and expectations of a reduction in the United States Federal funds rate also helped to improve sentiment.

The KLCI remained stable in early October despite the fall in other regional markets due to the disappointment over the small reduction in the

Federal funds rate. The KLCI strengthened subsequently, following announcements of a further reduction in the Bank Negara Malaysia 3-month intervention rate, abolition of the 60% margin of financing for selected properties and expectations of an expansionary budget. The appreciation of the yen and strengthening of the regional markets also caused the domestic market to pick up. As at 26 October, the KLCI closed at 419.11 points, while the market capitalisation stood at RM274 billion.



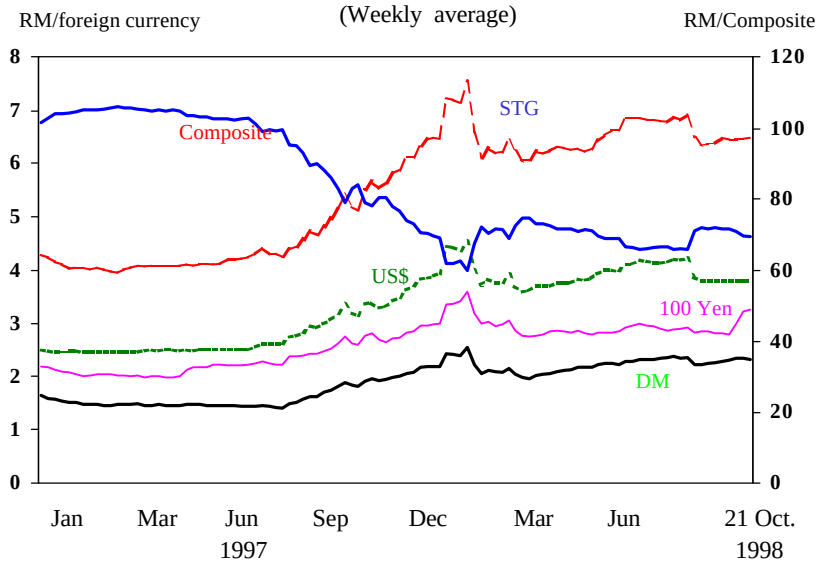
International Reserves

The **international reserves** held by BNM increased by RM23.6 billion from end-August to RM81.5 billion at the end of September 1998 as, effective 15 September 1998, all foreign currency assets have been revalued at exchange rates prevailing on the reporting date. The United States dollar equivalent of international reserves as at 30 September was US$21.4 billion, sufficient to finance 4 months of retained imports. As at 15 October 1998, the international reserves held by BNM stood at RM86 billion. The United States equivalent was US$22.6 billion, an increase of US$1.2 billion in the first half of October. Reserves are sufficient to finance 4.3 months of retained imports.

Exchange Rates

In September, the ringgit recorded an across-the-board appreciation against the major currencies in the foreign exchange market. The ringgit rose by 11.1% against the United States dollar, 7.6% against the pound sterling, 6.2% against the Japanese yen, 4.1% against the Swiss franc and 3.2% against the Deutsche mark. 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 selective 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.

Exchange Rate of the Malaysian Ringgit against Major Currencies



For the period 1-26 October 1998, the ringgit appreciated against the pound sterling but depreciated against other major currencies in the foreign exchange market. The ringgit appreciated by 1.6% against the pound sterling but depreciated by 1.5% against the Deutsche mark, 3.1% against the Swiss franc and 12.3% against the Japanese yen. Against the composite, the ringgit depreciated by 2.6%. The ringgit's depreciation was in tandem with movements of the United States dollar which had weakened following

concerns over the exposure of the American economy to the contagion from the Asian financial crisis as well as vulnerability of the banking system to hedge fund activities.

Inflation

The rate of increase in the Consumer Price Index (CPI, 1994=100) stabilised at 5.5% in September (5.6% in August). The prices of food; miscellaneous goods and services; clothing and footwear; and recreation, entertainment, education and cultural services increased at a slightly slower pace during the month, while prices of transport and communication declined for the fourth consecutive month. Meanwhile, the increase in prices of gross rent, fuel and power stabilised at a relatively high rate. The food items which recorded slower price increases during September were fruits and vegetables; meat; fish; milk and eggs; and food consumed away from home (accounted for 26% of the CPI basket). For the first nine months of 1998, the CPI rose by 5.2%, compared with 2.6% in the corresponding period of 1997.

BANK NEGARA MALAYSIA
28 October 1998

Key Monetary and Banking Statistics

	Aug. 1998		Sept. 1998	
	Outstanding (RM billion)	**Annual growth (%)**	**Outstanding (RM billion)**	**Annual growth (%)**
Monetary Aggregates				
Reserve money	53.8	*-28.6*	36.9	*-51.7*
M1	50.3	*-16.0*	51.8	*-17.0*
M2	285.4	*7.2*	286.1	*5.9*
M3	387.2	*4.3*	387.7	*4.0*
By determinants:				
Claims on the private sector	451.4	*6.6*	449.7	*3.9*
Claims on the Government	-14.9		-14.0	
External sector	58.9		83.0	
Other influences	-108.3		-130.9	
Banking System				
Total deposits	422.8	*4.2*	421.3	*3.4*
Total loans (including Cagamas)	422.0	*7.5*	419.7	*4.5*
Of which: Manufacturing	65.4	*13.9*	65.2	*10.3*
Broad property	147.9	*15.9*	146.9	*11.7*
Finance, insurance and business services	36.9	*7.2*	36.8	*5.7*
Consumption	50.6	*2.0*	50.0	*-1.7*
Total loans (excluding loans sold to Cagamas)	402.4	*7.0*	400.3	*4.0*
Loan-deposit ratio (%)		*95.2*		*95.0*
Loans approved during the month	4.9		5.0	
International Reserves of BNM	57.9		81.5	
Interest Rates	**(percent per annum)**			
Interbank: 1-month	9.33		7.20	
3-month	9.50		7.48	
Average fixed deposits of commercial banks:				
1-month	9.42		6.19	
3-month	9.50		6.17	
Average BLR of commercial banks	11.70		8.89	

Bank Negara Malaysia
28 October 1998