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PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS OCTOBER 1998

Monetary Situation

In October, M3 increased further by RM1.1 billion or 0.3% (+RM371 million or 0.1% in September). On an annual basis, however, M3 continued to trend downwards, expanding by only 2.5% at end-October (4% at end-September). Statistically, the slowdown in the annual growth rate of M3 was partly due to the large increase of RM6.5 billion in October 1997 (base period). In terms of components, transaction balances declined by RM1 billion. During the month, demand deposits decreased by RM843 million, while currency in circulation fell by RM196 million. In contrast, broad quasi-money expanded by RM2.1 billion (-RM952 million in September). The increase reflected the expansion in repos (RM1.8 billion), fixed deposits (RM686 million) and savings deposits (RM508 million). However, NIDs continued to decline by RM973 million, reflecting excess liquidity in the banking system.

In terms of determinants, claims on the private sector increased by RM7.2 billion, reflecting higher holdings of securities by the banking system (RM6.5 billion), and the increase in loans and advances (RM670 million). The large increase in securities represented holdings of Danamodal bonds by banking institutions, which was first issued during the month. The bulk of this bond proceeds was injected back by Danamodal into the banking system in the form of capital. This injection of capital neutralised the expansionary impact of the banking system's holdings of Danamodal bonds as reflected in the contraction of 'other influences'. During the month, external operations exerted an expansionary impact on M3 by RM6 billion. This reflected mainly the increase in the external reserves of Bank Negara Malaysia (BNM) of RM7.8 billion during the month.

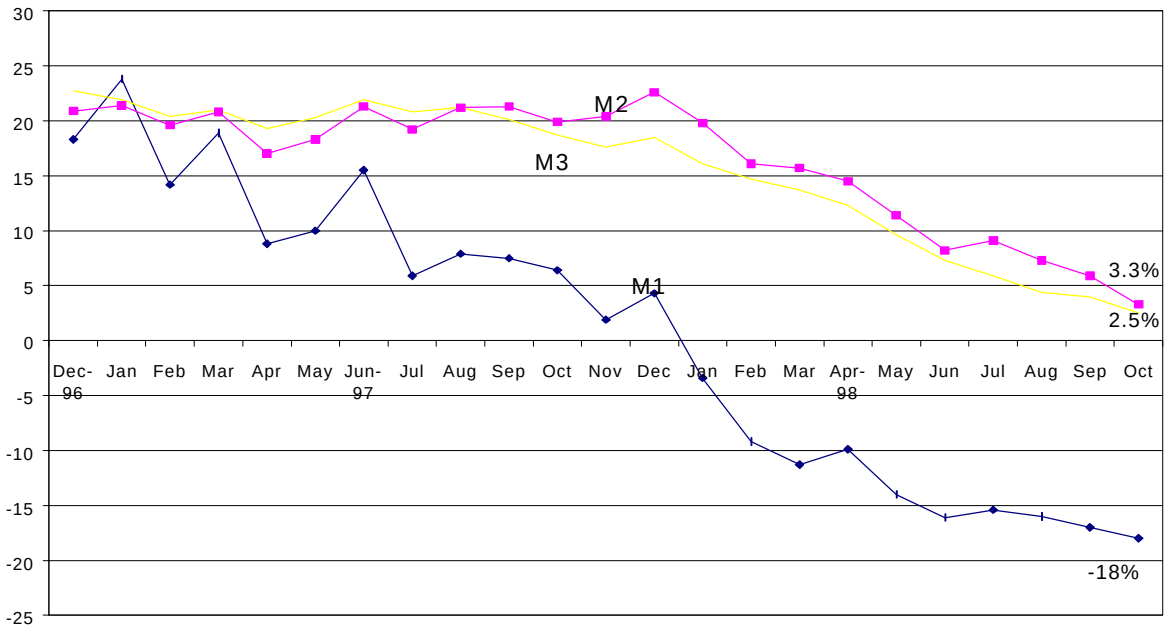
Meanwhile, net lending to the Government contracted by RM6.9 billion, as the Federal Government increased its deposits with BNM by RM5.8 billion, following the issuance of the Malaysian Government Securities (MGS) of RM6 billion to the Employees' Provident Fund. Similarly, net `other influences' were contractionary on M3 by RM5.2 billion, mainly as a result of an increase in provisioning for bad debts and the injection of capital by Danamodal.

M3 Determinants

(change during the period in RM billion)

	1996	1997	1998			
			Aug.	Sept.	Oct.	Jan. – Oct.
M3	57.8	61.1	0.3	0.4	**1.1**	**-2.0**
Of which:						
Claims on Government	-2.8	0.5	-1.4	0.8	**-6.9**	**-12.2**
Claims on private sector	72.4	90.4	2.9	-1.8	**7.2**	**9.2**
External operations	1.5	-16.8	0.1	24.0	**6.0**	**45.5**
Net other influences	-13.3	-13.0	-1.3	-22.6	**-5.2**	**-44.5**

Annual Growth of Monetary Aggregates



Banking System

Total deposits mobilised by the banking system declined by RM3.3 billion or 0.8% in October (-RM1.6 billion or –0.4% in September) as a result of a decline in deposits placed with finance companies (-RM2.2 billion) and commercial banks (-RM2 billion). Total deposits placed with merchant banks, however, increased by RM0.8 billion. As a result, the annual growth of deposits moderated further to 1.6% (end-September: 3.4%). In terms of holders, the bulk of the decline represented deposits placed by financial institutions (-RM5.8 billion), especially interplacement of funds between banking institutions. In contrast, deposits placed by individuals and the Federal Government increased by RM0.6 billion and RM0.7 billion respectively. Excluding the interplacement of funds, total deposits increased by RM1.6 billion.

Meanwhile, total loans outstanding (including loans sold to Cagamas Berhad) extended by the banking system turned around to increase by RM211 million or 0.05% in October (-RM2.5 billion or -0.6% in September) due to the increase in loans extended by commercial banks (+RM0.8 billion) and merchant banks (+RM0.2 billion). Total loans extended by finance companies declined by RM0.8 billion. However, the annual growth rate of total loans moderated further to 2.2% at the end of October (4.5% at end-September). In terms of approval, the banking institutions continued to approve new loans (including rollovers and renewals) amounting to RM5.9 billion in October (RM5 billion in September). Total loans disbursed by the banking system during the month also increased from RM19.9 billion to RM23.8 billion in October. The increase in loans was channelled mainly to the broad property (+RM1 billion), transport, storage and communication (+RM0.8 billion), and finance, insurance and business services (+RM108 million) sectors. Higher loans to the broad property sector were due to the increase in loans to all sub-sectors except for the purchase of non-residential property.

As a result of the decline in deposits and the increase in loans, the banking system recorded a resource gap of RM3.8 billion in October. The outstanding resource surplus declined to RM17.3 billion at end-October from RM21.1 billion at end-September. The loan-deposit ratio increased to 95.9% (95% at end-September).

Deposits and Loans of the Banking System				
	Monthly change		As at end of	
	1998		1998	
	September	October	September	October
	RM million			
Deposits				
Commercial banks	748	-1,977	296,200	294,223
Finance companies	-3,069	-2,171	99,495	97,324
Merchant banks	766	821	25,569	26,390
Total	-1,555	-3,327	421,264	417,937
Loans[1]				
Commercial banks	-711	1,050	287,154	288,204
Finance companies	-1,576	-750	90,331	89,581
Merchant banks	43	205	22,693	22,898
Total	-2,244	505	400,178	400,683
Resource surplus (+)/gap (-)	689	-3,832	21,087	17,254
Loan-deposit ratio (%)			**95.0**	**95.9**

[1] Excluding housing loans sold to Cagamas Berhad

Loans by Sector: Banking System				
	Monthly change		As at end of	
	1998		1998	
	September	October	September	October
	RM million			
Agriculture	-63	-14	7,734	7,720
Mining and quarrying	74	35	1,845	1,880
Manufacturing	-254	-581	65,148	64,567
Electricity	170	15	4,777	4,792
Wholesale, retail, restaurant & hotel	-231	-351	36,020	35,669
Broad property sector[1]	-1,185	991	146,759	147,750
Construction	*-566*	*268*	*43,920*	*44,188*
Residential property[1]	*-58*	*462*	*55,232*	*55,694*
Non-residential property	*-55*	*-89*	*30,742*	*30,653*
Real Estate	*-506*	*350*	*16,865*	*17,215*
Transport & storage	300	835	13,872	14,707
Finance, insurance and Business services	-111	108	36,809	36,917
Purchase of securities	-124	-169	37,782	37,613
Consumption	-600	-661	50,034	49,373
Others	-459	3	18,770	18,773
Total Loans[1]	-2,483	211	419,550	419,761

[1] Including housing loans sold to Cagamas Berhad.

Interest Rates

Interbank rates continued on a downward trend in October and November, following the reduction in the 3-month intervention rate from 8% to 7.5% on 5 October and subsequently to 7% on 9 November. These reductions represent a continuation of monetary policy easing since early August. The further easing of monetary policy in October and November was to reflect the continued downward trend in inflationary expectations as well as to sustain the recent positive developments in the economy. As a result of the monetary policy easing, liquidity was ample in the banking system. Meanwhile, there was a 5-year Danamodal bond issuance of RM7.7 billion (nominal amount of RM11 billion) on 21 October. Banking institutions were able to subscribe to the Danamodal bonds following injection of funds through the reduction in the Statutory Reserve Requirement (SRR) from 6% to 4% in September. Since the funds raised remained within the banking system, interbank rates were not affected by the bond issuance.

In line with the 50 basis points intervention rate reduction in October, the average base lending rates (BLR) for commercial banks and finance companies declined by 40 and 54 basis points respectively to 8.49% and 10.00% at the end of October. Following the further 50 basis points reduction in the intervention rate on 9 November, by 22 November, the average BLRs declined further by 45 and 50 basis points to 8.04% and 9.50% for commercial banks and finance companies respectively.

Unlike in the case of the money market and retail lending rates, the average fixed deposit rates of commercial banks declined by only 8-11 basis points to 6.01-6.09% at the end of October. Similarly, the average fixed deposit rates of finance companies declined by just 3-15 basis points to 6.64-6.72%. Following the further 50 basis points intervention rate reduction in November, by 22 November, the average commercial bank fixed deposit rates declined further by 18-19 basis points to 5.83-5.91%, while those of finance companies declined by 5-10 basis points to 6.54-6.67%. The smaller decline in fixed deposit rates in October and November compensated for the downward overshooting of fixed deposit rates in September. This overshooting could be seen from the sharp drop in fixed deposit rates by 323-

338 basis points and 311-328 basis points for commercial banks and finance companies respectively earlier in September, in response to the intervention rate reductions on 27 August (50 basis points) and 3 September (150 basis points).

Capital Market

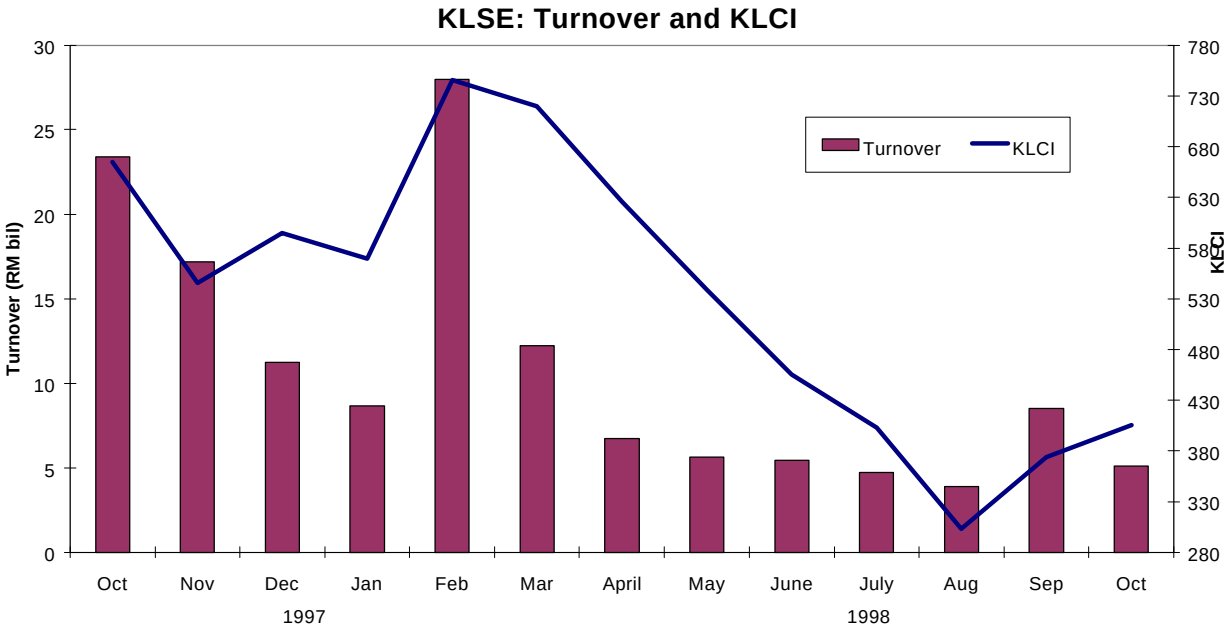
In October, net funds raised from the capital market was the highest since the onset of the crisis in July 1997, amounting to RM14.3 billion. This was partly due to two new issues of Malaysian Government Securities totalling RM6 billion, issued by way of private placement, mainly for the purpose of financing economic activities in line with the Government's objective to lead the economic recovery process. The private sector also recorded a turnaround, raising RM8.3 billion from the market after three consecutive months of net redemptions. The bulk of the funds was sourced through issues of Danamodal bonds (RM7.7 billion).

The Kuala Lumpur Composite Index (KLCI) strengthened in October, closing higher by 8.5% at 405.33 points, while the market capitalisation of the Kuala Lumpur Stock Exchange increased by 6.8% to RM266.1 billion from the levels at the end of September. This rise was attributed to announcements of a further reduction in the 3-month interbank rate, abolition of the 60% margin of financing for selected properties and expectations of an expansionary 1999 Budget. The appreciation of the yen and strengthening of the regional markets also helped to improve the performance of the domestic market. Nevertheless, profit-taking activities towards the end of October halted the rise in the KLCI, as investors realised gains following the run-up to the 1999 Budget announcement.

Funds Raised in the Capital Market [p]			
	1997	1998	
	Year	Sep	Oct
	RM million		
By Public Sector			
Net Funds Raised by Public Sector	-1,407	1,637	5,999
By Private Sector			
Shares	18,358	0	277
Debt Securities [1]	19,546	2	8,068
Less Redemptions	3,009	1,639	35
Equals Net Issues	16,537	-1,637	8,032
Net Funds Raised by Private Sector	34,895	-1,637	8,309
Net Funds Raised from the Capital Market	33,488	0	14,308
Net Issue of Short-Term Securities [2]	4,946	650	-550
Total	38,434	650	13,758

[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 KLSE, however, recovered strongly in early November, led by significant increases in the prices of warrants following the announcement that the exercise period for warrants would be extended to 10 years from five years previously. The strong performance in the KLCI was also helped by the overall improvement in the region's stock markets, the announcement of a scheme to resolve the problems of troubled stockbroking companies, news that Singapore would assist Malaysia to raise funds, the signing of an agreement between Danaharta and 11 financial institutions to take over their non-performing loans and the reduction in the 3-month intervention rate by 50 basis points to 7%. As at 18 November, the KLCI closed at 458.34 points while the KLSE market capitalisation amounted to RM305 billion.



International Reserves

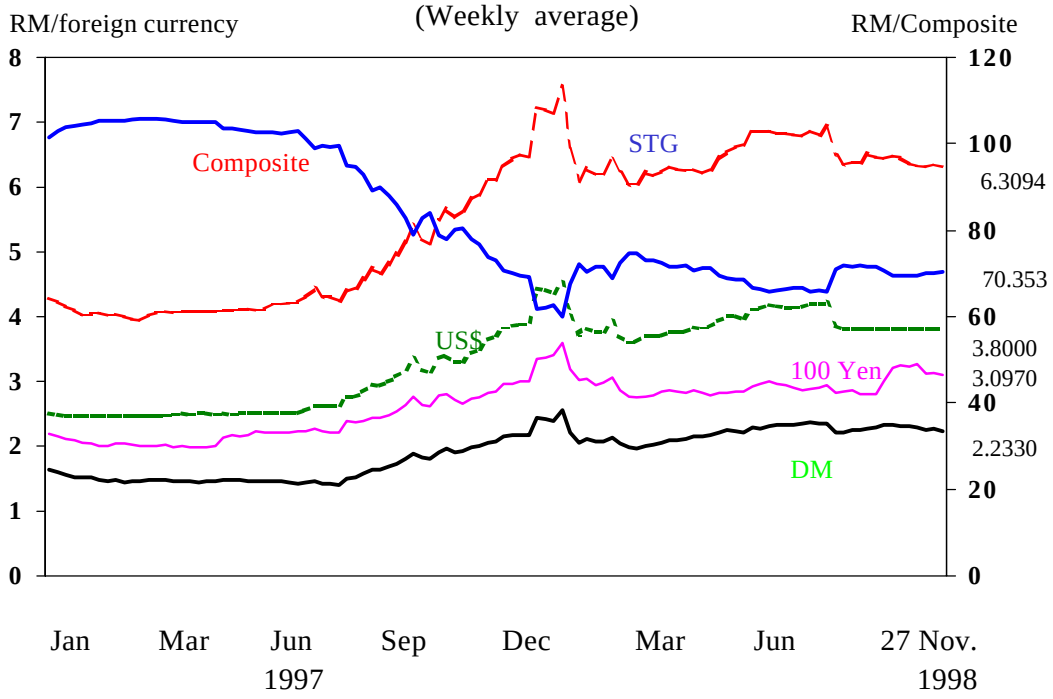
The international reserves held by BNM increased by RM7.8 billion from end-September to RM89.2 billion at end of October 1998. The United States dollar equivalent of international reserves as at 31 October 1998 was US$23.5 billion. Reserves increased further to RM89.8 billion or US$23.6 billion at 14 November. Since end-August, reserves rose by US$3.4 billion. This level of reserves was sufficient to finance 4.5 months of retained imports.

Exchange Rates

In October 1998, most major currencies, with the exception of the pound sterling, appreciated against the ringgit in the foreign exchange market. The Japanese yen recorded the most significant appreciation of 17% against the ringgit followed by the Singapore dollar (3.9%), the Swiss Franc (3.2%), and the Deutsche Mark (1.2%). The pound sterling depreciated by 1.7% against the ringgit. Hence, the composite index appreciated by 3.1% against the ringgit. The appreciation of the currencies against the ringgit was in tandem with the weakening of the United States dollar following concerns over the exposure of the American economy to the

contagion from the Asian financial crisis as well as the potential systemic risks arising from the near collapse of a major hedge fund. In the period 1-27 November 1998, the major currencies depreciated within the range 1.1 to 5.7% against the ringgit. The depreciation of major currencies was attributable to "safe haven" buying of the United States dollar following a build up of United States armed forces in the Gulf region and the threat of possible confrontation between the United States and Iraq. The dollar's strength was also attributable to signs of stability in the financial markets after the announcement of a US$41.5 billion package of financial assistance for Brazil.

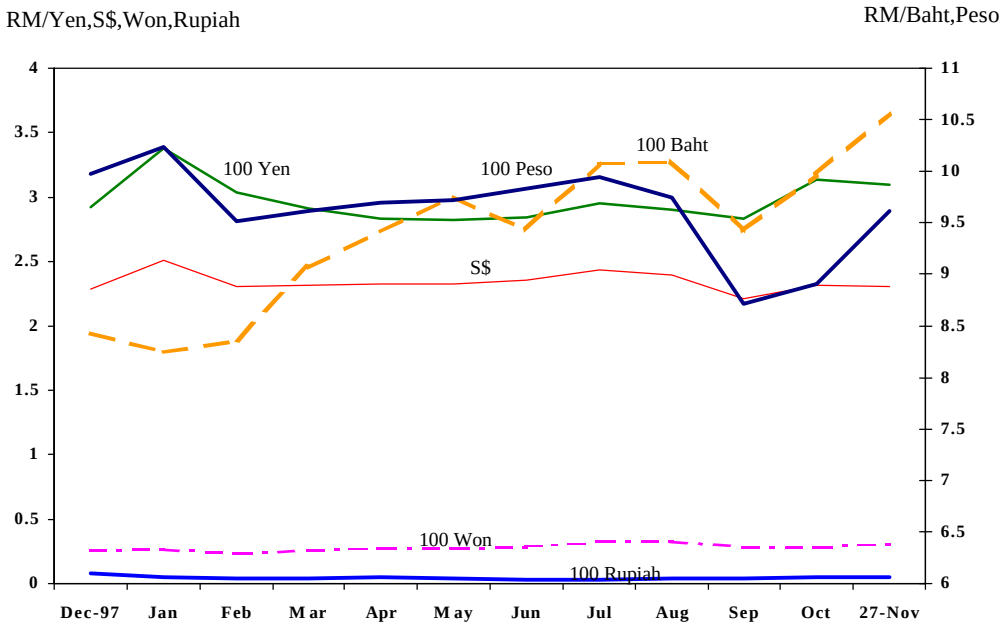
Exchange Rate of the Malaysian Ringgit against Major Currencies



Reflecting the weakening of the United States dollar, other regional currencies also appreciated against the ringgit in October 1998. The Indonesian rupiah recorded the most significant appreciation of 41%, followed by Philippines peso (9%), Thai baht (6.5%), Singapore dollar (3.9%) and Korean won (3.3%). The significant appreciation of the Indonesian rupiah reflected the marked strengthening of the currency against the United States dollar (41%), due mainly to inflow of dollar funds from official lenders. During the period 1-27 November, other regional

currencies, except Singapore dollar, continued to appreciate against the ringgit, albeit at lower rates, within the range of 2.1% to 7.7%. The Singapore dollar depreciated by 1.8% against the ringgit.

Performance of Ringgit against Regional Currencies
(Period average)



Inflation

The rate of increase in the Consumer Price Index (CPI, 1994=100) eased further to 5.2% in October (5.5% in September). This encouraging development was attributable to slower price increases registered in most sub-groups, in particular food (8.5%; 9.2% in September); gross rent, fuel and power; furniture, furnishings and household equipment; and miscellaneous goods and services; and lower prices of transport and communication. Meanwhile, prices of medical care and health expenses stabilised at a relatively high level of 6.9%. In the food sub-index, the improvement was due to slower price increases for fruits and vegetables; meat; milk and eggs; oils and fats; coffee and tea; and food consumed away from home (accounting for 23% of the CPI basket). On the other hand, prices of beverages and

tobacco; and clothing and footwear rose at a faster rate. For the first ten months of 1998, the CPI rose by 5.2%, compared with 2.6% in the corresponding period of 1997.

Bank Negara Malaysia
28 November 1998

Key Monetary and Banking Statistics

	Sep-1998		Oct-1998	
	Outstanding (RM billion)	Annual growth (%)	Outstanding (RM billion)	Annual growth (%)
Monetary Aggregates				
Reserve money	36.9	*-51.7*	35.3	*-54.6*
M1	51.8	*-17.0*	50.6	*-18.0*
M2	286.1	*5.9*	284.4	*3.3*
M3	387.7	*4.0*	388.8	*2.5*
By determinants:				
Claims on the private sector	449.6	*3.8*	456.8	*3.2*
Claims on the Government	-14.0		-20.9	
External sector	83.0		88.9	
Other influences	-130.8		-136.0	
Banking System				
Total deposits	421.3	*3.4*	417.9	*1.6*
Total loans (including Cagamas)	419.6	*4.5*	419.8	*2.2*
Of which: Manufacturing	65.1	*10.2*	64.6	*7.4*
Broad property	146.8	*11.6*	147.8	*9.9*
Finance, insurance and business services	36.8	*5.8*	36.9	*1.6*
Consumption	50.0	*-1.7*	49.4	*-9.0*
Total loans (excluding loans sold to Cagamas)	400.2	*4.0*	400.7	*2.0*
Loan-deposit ratio (%)	95.0		95.9	
Loans approved during the month	5.0		5.9	
International Reserves of BNM	57.9		81.5	
Interest Rates				
	(percent per annum, end period)			
Interbank: 1-month	7.20		6.74	
3-month	7.48		6.96	
Average fixed deposits of commercial banks:				
1-month	6.19		6.09	
3-month	6.17		6.09	
Average BLR of commercial banks	8.89		8.49	

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