PRESS RELEASE ON
MONETARY AND FINANCIAL DEVELOPMENTS
NOVEMBER 1998

Monetary Situation

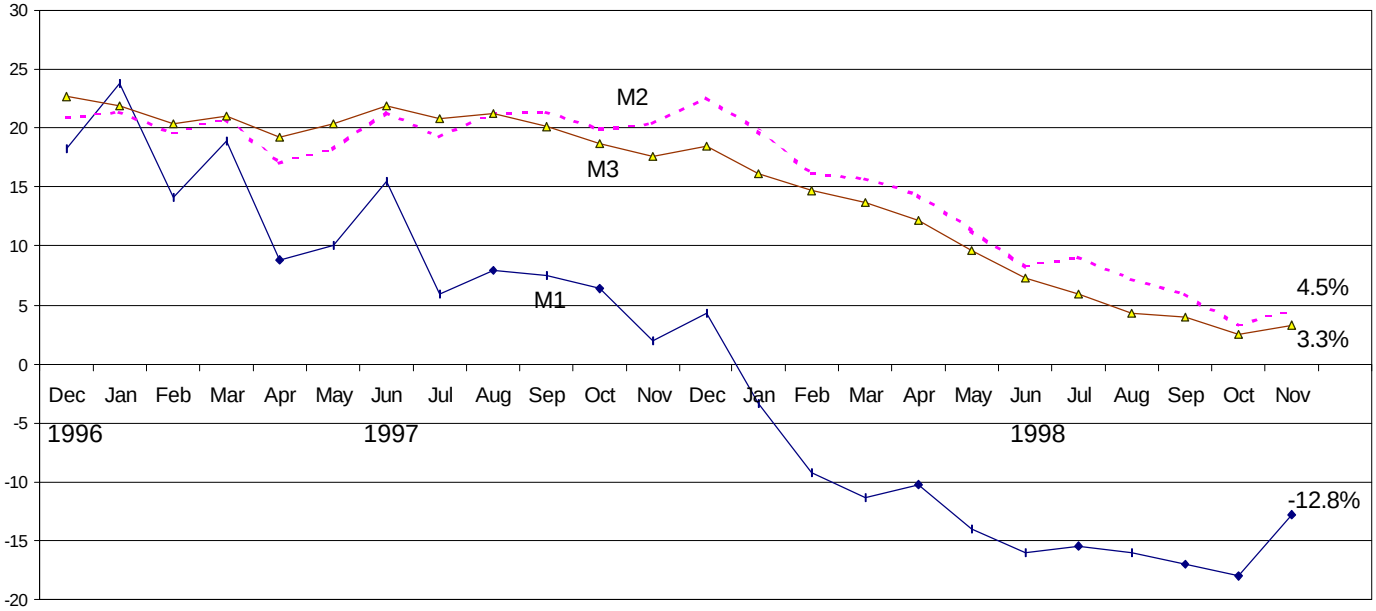
M3 continued to increase for the fourth consecutive month, rising by RM3.3 billion or 0.9% in November (+RM1 billion or 0.3% in October). On an annual basis, M3 registered a stronger increase of 3.3% (2.5% at end-October). In terms of components, transaction balances rose by RM1.7 billion. Demand deposits increased by RM1.8 billion, while currency in circulation recorded a small decline of RM117 million. Similarly, broad quasi-money increased by RM1.6 billion (RM2.1 billion in October). The increase reflected the expansion in NIDs (RM4.2 billion) and savings deposits (RM920 million). However, this was partially offset by the decline in fixed deposits (-RM3 billion) and repos (-RM233 million). The significant increase in NIDs during the month mainly reflected placements by business enterprises and domestic non-bank financial institutions (NBFIs), given its relatively higher rate of return vis-à-vis other types of deposits.

In terms of determinants, the increase in M3 was mainly contributed by higher claims on the private sector (RM1.2 billion). Loans extended to the private sector rose by RM503 million while holdings of securities increased by RM747 million. The latter reflected the issuance of Danaharta bonds to selected banking institutions, in exchange for their non-performing loans. All other determinants were also expansionary on M3. In the external sector, net external assets expanded by RM787 million contributed mainly by the increase in BNM's net international reserve of RM868 million. To a lesser

extent, net lending to the Government rose by RM495 million due primarily to the increase in the holdings of Government securities.

M3 Determinants (change during the period in RM billion)						
	1996	**1997**	**1998**			
			Sept.	**Oct.**	**Nov.**	**Jan. – Nov.**
M3	57.8	61.1	0.4	1.0	**3.3**	**1.3**
Of which:						
Claims on Government	-2.9	0.5	0.8	-6.7	**0.5**	**-11.5**
Claims on private sector	72.4	90.4	-1.8	7.1	**1.2**	**10.4**
External operations	1.5	-16.8	24.0	6.0	**0.8**	**46.3**
Net other influences	-13.3	-13.0	-22.6	-5.4	**0.8**	**-43.8**

Annual Growth of Monetary Aggregates



Banking System

Total deposits mobilised by the banking system turned around to increase by RM2.6 billion or 0.6% in November (-RM3.3 billion or –0.8% in October) as a result of an increase in deposits placed with commercial banks (RM4.5 billion). Total deposits placed with finance companies and merchant banks, however, decreased by RM1.1 billion and RM0.7 billion respectively. On an annual basis, however, the growth rate of deposits moderated further to 1.0% (end-October: 1.6%). In terms of holders, the bulk of the increase was in deposits placed by business enterprises (RM2.2 billion) and individuals (RM0.9 billion).

Meanwhile, total loans outstanding (including loans to Cagamas Berhad) extended by the banking system increased by RM177 million or 0.04% in November (+RM204 million or +0.05% in October) due to the increase in loans extended by commercial banks (+RM1.4 billion). Total loans extended by finance companies and merchant banks declined by RM1.1 billion and RM142 million respectively. However, the annual growth rate of total loans moderated further to 0.5% at the end of November (2.2% at end-October). The smaller increase in total loans outstanding was partly due to the sale of NPLs (RM823 million) to Danaharta. Including the NPLs, total loans outstanding actually increased by RM1 billion or 0.2% in November, while its annual growth increased by 0.7% instead of 0.5%. In terms of approval, the banking institutions continued to approve new loans amounting to RM7.6 billion in November (October: RM6 billion). By sector, the increase in loans outstanding was due mainly to higher loans extended to the electricity, gas and water supply (RM0.5 billion), broad property (RM0.4 billion), transport, storage and communication (RM0.4 billion), and manufacturing (RM0.2 billion) sectors. Higher loans to the broad property sector was due to the increase in loans mainly to the construction sub-sector.

As the increase in deposits outpaced that of loans, the banking system recorded a resource surplus of RM2.2 billion in November. The outstanding

resource surplus increased to RM19.5 billion at end-November from RM17.3 billion at end-October. The loan-deposit ratio decreased to 95.4% at the end of November (95.9% at end-October).

Deposits and Loans of the Banking System

	Monthly change		As at end of	
	1998		1998	
	October	November	October	November
	RM million			
Deposits				
Commercial banks	-1,977	4,465	294,223	298,688
Finance companies	-2,171	-1,147	97,324	96,177
Merchant banks	821	-736	26,390	25,654
Total	-3,327	2,582	417,937	420,519
Loans[1]				
Commercial banks	1,050	1,449	288,204	289,653
Finance companies	-750	-942	89,581	88,639
Merchant banks	205	-145	22,898	22,753
Total	505	362	400,683	401,045
Resource surplus (+)/gap (-)	-3,832	2,220	17,254	19,474
Loan-deposit ratio (%)			**95.9**	**95.4**

[1] Excluding housing loans sold to Cagamas Berhad

Loans by sector: Banking System				
	Monthly change		**As at end of**	
	1998		**1998**	
	October	**November**	**October**	**November**
	RM million			
Agriculture	-14	-78	7,720	7,642
Mining and quarrying	35	-110	1,880	1,770
Manufacturing	-585	191	64,567	64,758
Electricity	15	493	4,792	5,285
Wholesale, retail, restaurant & hotel	-352	-94	35,669	35,575
Broad property sector[1]	990	437	147,750	148,187
Construction	*268*	*390*	*44,188*	*44,578*
Residential property [1]	*462*	*-21*	*55,694*	*55,673*
Non-residential property	*-89*	*85*	*30,653*	*30,738*
Real estate	*349*	*-17*	*17,215*	*17,198*
Transport & storage	835	362	14,707	15,069
Finance, insurance and Business services	108	-72	36,917	36,845
Purchase of securities	-182	162	37,613	37,775
Consumption	-661	-183	49,373	49,190
Others	15	-931	18,773	17,842
Total Loans[1]	204	177	419,761	419,938

[1] Including housing loans sold to Cagamas Berhad.

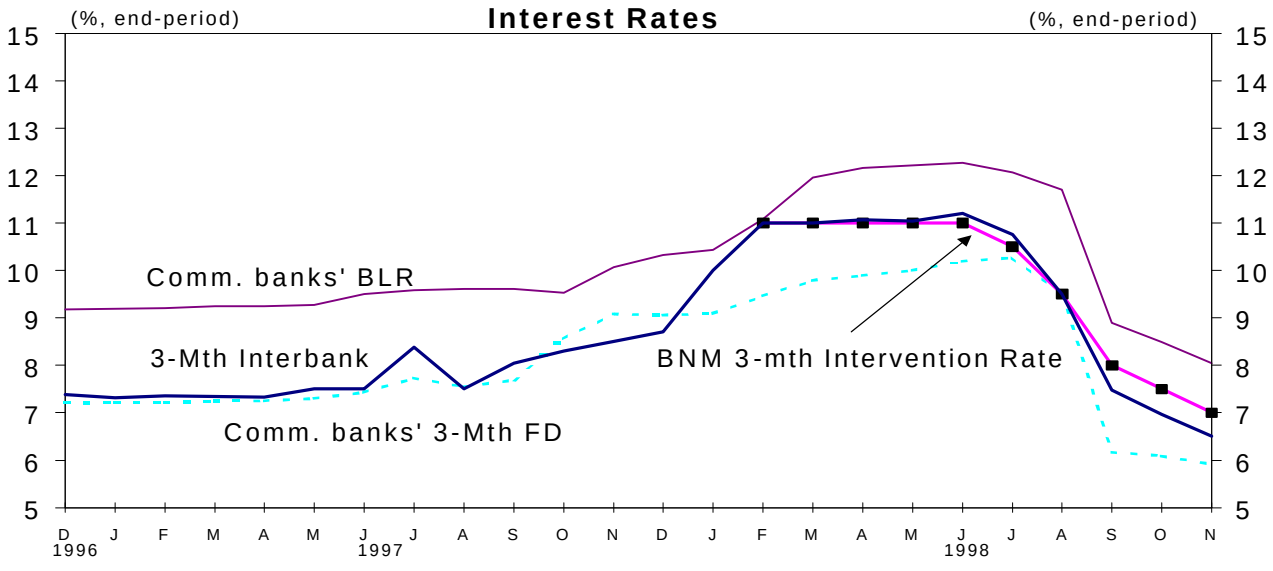
Interest Rates

Interbank rates declined further in November, following the reduction in the 3-month intervention rate from 7.5% to 7% on 9 November. The reduction represented a continuation of the monetary easing initiated in early August. Ample liquidity conditions persisted into December, causing interest rates to

ease further during the first two weeks of the month. Although there were several bond issues in November and December, it did not have a significant impact on bank liquidity. These bond issues included Danaharta bonds (RM0.7 billion), Malaysian Government Securities (RM2 billion), and Khazanah bonds (RM1 billion). Interbank rates were mostly unaffected by the bond issues due to the relatively liquid market. Nevertheless, the funds raised remained within the banking system, with the exception of the Malaysian Government Securities, for which the funds raised were kept in an account at Bank Negara Malaysia.

Following the 50 basis points reduction in the intervention rate on 9 November, the average base lending rates (BLR) of commercial banks and finance companies declined further by 45 and 50 basis points respectively to 8.04% and 9.50% at the end of November. As of 8 December, the average BLR of both commercial banks and finance companies remained unchanged.

Similarly, the average fixed deposit rates of commercial banks have also declined further by 21-24 basis points to 5.78-5.88% by the end of November. The corresponding average fixed deposit rates of finance companies declined by 13-23 basis points to 6.41-6.57%. The fixed deposit rates of both commercial banks and finance companies have remained unchanged from the end-November level during the first week of December.



Capital Market

In November, no new long-term funds were raised from the capital market. There was, in fact, a total redemption of RM1.2 billion, recorded mainly by the private sector.

Funds Raised in the Capital Market [p]

	1997	1998	
	Year	Oct	Nov
	RM million		
By Public Sector			
Net Funds Raised by the Public Sector	-1,407	5,999	-1
By Private Sector			
Shares	18,358	281	0
Debt Securities [1]	19,546	8,068	0
Less Redemptions	3,009	35	1,159
Equals Net Issues	16,537	8,033	-1,159
Net Funds Raised by the Private Sector	34,895	8,314	-1,159
Net Funds Raised from the Capital Market	33,488	14,313	-1,160
Net Issues of Short-Term Securities [2]	4,946	-550	150
Total	38,434	13,763	-1,010

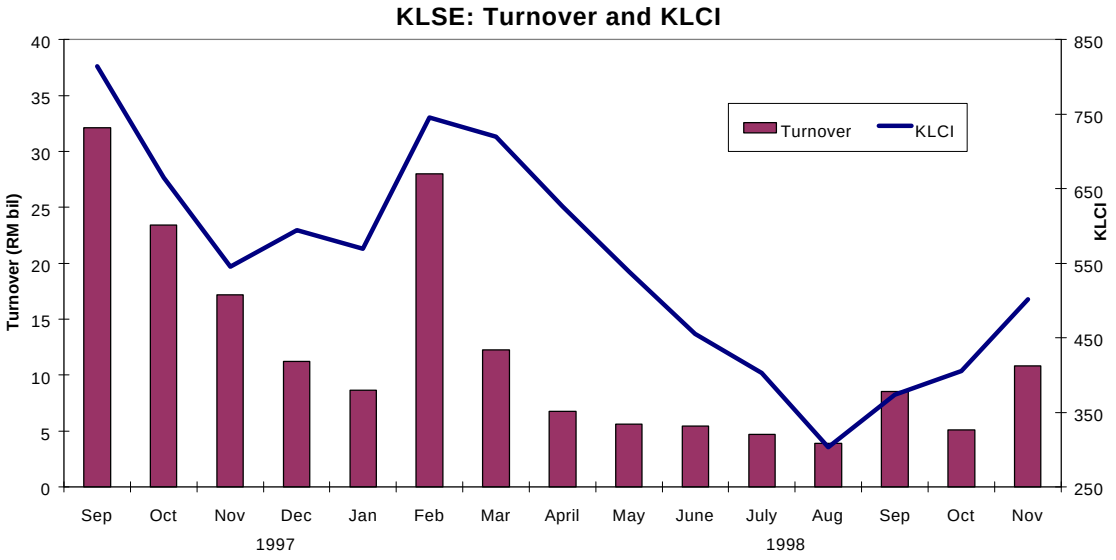
[p] Preliminary.

[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 was bullish during the month of November. The Kuala Lumpur Composite Index (KLCI) rose by 23.7% to close at 501.47 points, while the market capitalisation rose by 30.9% to end at RM348 billion. The positive sentiment on the KLSE was led initially by significant increases in the prices of warrants following the announcement that the exercise period for warrants would be extended to ten years from five years previously. The strong performance in the KLCI was supported by the further reduction in the

BNM 3-month intervention rate, news that Japan would assist in raising funds for Malaysia, as well as the announcement of the scheme to resolve the problems of troubled stockbroking companies. The bullish sentiment continued into the month of December. The market was influenced positively by news of a higher trade surplus of RM6.6 billion for the month of October. As at 21 December, the KLCI closed at 550.84 points, while the KLSE market capitalisation amounted to RM363 billion.



International reserves

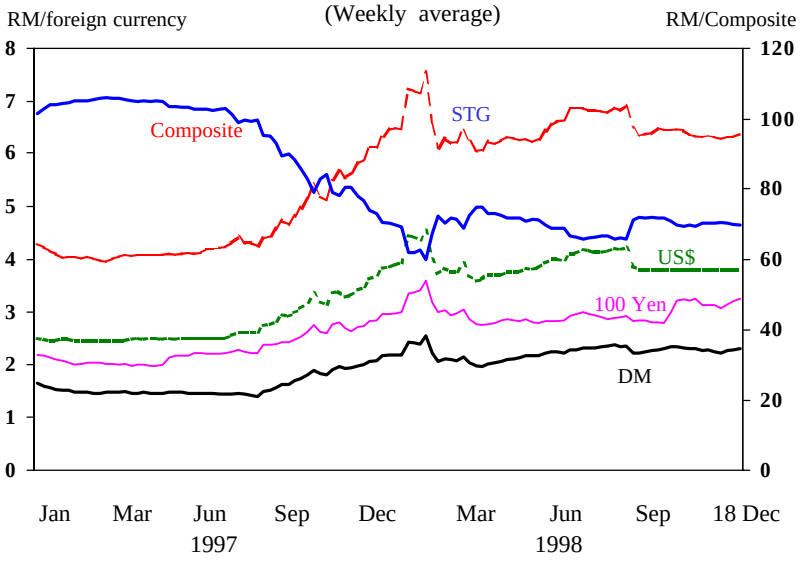
The international reserves held by BNM increased by RM0.9 billion from end-October to RM90.1 billion at end-November 1998. The United States dollar equivalent of international reserves as at 30 November 1998 was US$23.7 billion. Reserves increased further to RM93.8 billion or US$24.7 billion at 15 December. Since end-August, reserves rose by US$4.5 billion. This level of reserves was sufficient to finance 4.7 months of retained imports.

Exchange Rates

In November, the ringgit recorded an across-the-board appreciation against major currencies within the range of 1.7% to 6.9% in the foreign exchange market. The ringgit appreciated by 6.9% against the Japanese yen, 5.1% against the Swiss franc, 3.6% against the Deutsche Mark and 1.7% against the pound sterling. Hence, the ringgit appreciated by 1.6% against the composite index. This strengthening of the ringgit reflected the appreciation of the US dollar against the major currencies. The U.S. dollar's appreciation was attributable to safe haven buying of the currency following a build up of the United States armed forces in the Gulf region and 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 and mergers between financial institutions in the United States which boosted the Dow Jones stock index to above the 9000 level.

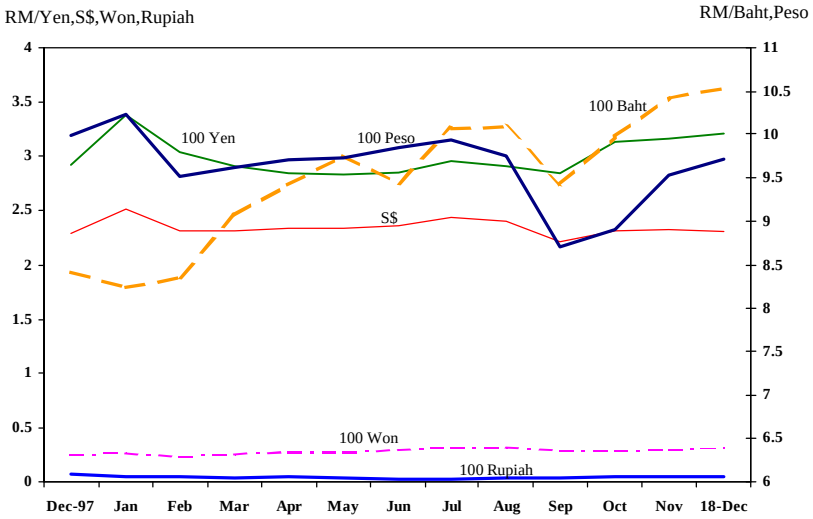
During the period 1-22 December, the ringgit depreciated against the major currencies within the range 1.9% to 6.4%, largely reflecting the bearish sentiment against the U.S. dollar. After recording a high of US$1=¥122.81 on 1 December, the U.S. dollar depreciated to US$1=¥115.76 on 22 December following the military action against Iraq, as well as the impeachment debate in the U.S. Sentiment towards the dollar was also affected by the weaker performance on the Dow Jones as concerns surfaced on the commitment of the Brazilian government to carry out financial reforms, as well as a year-on-year rise of 22% in Japan's October trade surplus to ¥1.34 trillion.

Exchange Rate of the Malaysian Ringgit against Major Currencies



In November, the ringgit continued to depreciate against the other regional currencies, except the Singapore dollar. The ringgit appreciated by 2.1% against the Singapore dollar but depreciated by 5% against the Korean won, 2.9% against the Indonesian rupiah, 2.5% against the Philippine peso and 1.9% against the Thai baht. The appreciation of regional currencies was caused by stronger portfolio inflows in the wake of encouraging developments in these economies as well as inflows of dollar funds from official lenders. During the period 1-22 December, the ringgit recorded a mixed performance against the other regional currencies. The ringgit appreciated against the Thai baht (0.2%) and Indonesian rupiah (4.3%) but depreciated against the Singapore dollar (0.2%), Philippine peso (0.9%) and Korean won (3.6%). The ringgit's depreciation was on account of the regional currencies moving in tandem with the yen which had strengthened against the U.S. dollar.

Performance of Ringgit against Regional Currencies
(Period average)



Inflation

The annual rate of inflation increased at a higher rate of 5.6% in November (5.2% in October). Higher increase in the Consumer Price Index (CPI, 1994=100) was mainly attributable to the higher prices in food (9.8% as against 8.5% in October); beverages and tobacco; and recreation, entertainment, education and cultural services. The markedly higher prices of beverages and tobacco (10.6%; as against 5.4% in October) represented a one-off increase in import duty and excise duty on cigarettes, tobacco products, and alcoholic beverages. In the food sub-index, higher price increases was mainly due to price increases for fruits and vegetables; sugar; coffee and tea; rice, bread and other cereals; fish, meat; and food consumed away from home. Increases in the prices of fruits and vegetables were supply related. Meanwhile, slower increases were recorded in the prices of gross rent, fuel and power; medical care and health expenses; miscellaneous goods and services; and furniture, furnishings and household equipment. Prices of transport and communication and clothing and footwear, which together accounted for 21.5% of the CPI basket, declined during the month. For the

first eleven months of 1998, the CPI rose by 5.3%, compared with 2.6% in the corresponding period of 1997.

Bank Negara Malaysia
28 December 1998

Key Monetary and Banking Statistics

	October 1998		November 1998	
	Outstanding (RM billion)	Annual (%)	Outstanding (RM billion)	Annual (%)
Monetary Aggregates				
Reserve money	35.3	*-54.6*	34.7	*-56.1*
M1	50.6	*-18.0*	52.3	*-12.8*
M2	284.3	*3.3*	288.9	*4.5*
M3	388.8	*2.5*	392.1	*3.3*
By determinants:				
Claims on the private sector	456.8	*3.2*	458	*2.3*
Claims on the Government	-20.9		-20.2	
External sector	88.9		90	
Other influences	-136.0		-135.4	
Banking System				
Total deposits	417.9	*1.6*	420.5	*1.0*
Total loans (including Cagamas)	419.8	*2.2*	419.9	*0.5*
Of which: Manufacturing	64.6	*7.4*	64.8	*4.7*
Broad property	147.8	*9.9*	148.2	*8.0*
Finance, insurance and business services	36.9	*1.6*	36.8	*1.0*
Consumption	49.4	*-9.0*	49.2	*-11.2*
Total loans (excluding loans sold to Cagamas)	400.7	*2.0*	401.0	*0.6*
Loan-deposit ratio (%)	95.9		95.4	
Loans approved during the month	6.0		7.6	
International Reserves of BNM	89.3		90.1	
Interest Rates				
	(percent per annum, end period)			
Interbank 1-month	6.74		6.37	
3-month	6.96		6.51	
Average fixed deposits of commercial banks:				
1-month	6.09		5.87	
3-month	6.09		5.88	
Average BLR of commercial banks	8.49		8.04	