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PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS DECEMBER 1998

Monetary Situation

M3 increased for the fifth consecutive month, rising by RM8.6 billion or 2.2% in December (+RM3.4 billion or 0.9% in November). This was the largest monthly increase in 1998. Nevertheless, on an annual basis, M3 increased by only 2.5% compared with 18.5% in 1997. In terms of components, transaction balances rose by RM1.8 billion. During the month, demand deposits increased by RM1.4 billion, while currency in circulation rose by RM479 million. Similarly, broad quasi-money increased by RM6.8 billion (+RM1.7 billion in November). In December, all components of broad quasi-money recorded increases, namely NIDs (RM2.7 billion), savings deposits (RM1.6 billion), repos (RM1.8 billion), fixed deposits (RM567 million) and FX deposits (RM179 million). As in the previous month, the increase in NIDs reflected placements by business enterprises and domestic non-bank financial institutions (NBFIs) given the relatively higher rate of return vis-a-vis other types of deposits.

In terms of determinants, the increase in M3 was due mainly to capital inflows. Net external assets rose by RM5.1 billion evident mainly in the accumulation of BNM's net international reserves following the inflows of foreign currency loans to the Government of RM5.2 billion. Meanwhile, claims on the private sector declined by RM3.9 billion. During the month, loans extended to the private sector contracted by RM5.2 billion, while holdings of

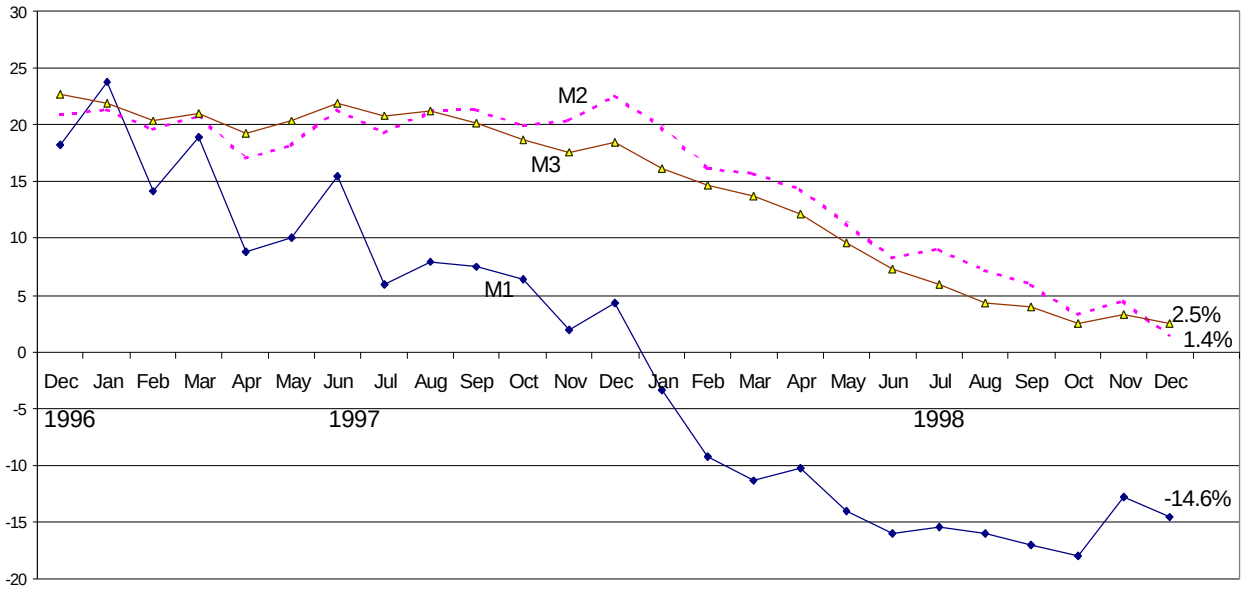
securities increased by RM1.3 billion, reflecting another issuance of Danaharta bonds to selected banking institutions, in exchange for non-performing loans. Similarly, net lending to the Government exerted a small contractionary impact of RM900 million.

M3 Determinants
(change during the period in RM billion)

	1996	1997	1998			
			Oct.	Nov.	Dec.	Jan. – Dec.
M3	57.8	61.1	1.0	3.4	**8.6**	**9.9**
Of which:						
Claims on Government	-2.8	0.5	-6.7	0.5	**-0.9**	**-12.4**
Claims on private sector	72.4	90.4	7.1	1.4	**-3.9**	**6.6**
External operations	1.5	-16.8	6.0	0.8	**5.1**	**51.4**[1/]
Net other influences	-13.3	-13.0	-5.4	0.8	**8.3**	**-35.6**[1/]

1/ 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. The revaluation gains of the external assets are reflected in other influences.

Annual Growth of Monetary Aggregates (%)



Banking System

Total deposits mobilised by the banking system rose further by RM10.9 billion or 2.6% in December (+RM2.6 billion or 0.6% in November) as a result of the increase in deposits placed with commercial banks (RM8.8 billion), finance companies (RM1.4 billion) and merchant banks (RM0.7 billion). During the month, interplacement of funds between banking institutions increased by RM2.6 billion. Excluding interplacement, deposits increased by RM8.3 billion or 2.0% in December. For the year as a whole, deposits fell by 0.5% compared with an increase of 21.2% in 1997. Total deposits placed with commercial banks increased marginally at an annual rate of 2.3%, whilst deposits placed with finance companies and merchant banks decreased at an annual rate of 8.4% and 0.2% respectively. By type of deposits, the largest increase was in NIDs issued (RM4.4 billion), of which the bulk was issued to financial institutions (RM2.5 billion) and business enterprises (RM595 million). By holder, the bulk of the increase in deposits in December was by business enterprises (RM5.2 billion), the majority of which was in the form of fixed deposits and repos.

In December, total loans outstanding (including loans sold to Cagamas) extended by the banking system declined by RM2.3 billion or 0.6% (+RM177 million or 0.04% in November) due to the decline in loans extended by commercial banks (-RM0.7 billion), finance companies (-RM1.2 billion) and merchant banks (-RM364 million). The annual growth of total loans also declined by 0.9% at end-December. The decline in total loans during December was due mainly to the gross NPLs of RM8.2 billion sold to Danaharta (November: RM823 million). By type of institution, commercial banks recorded an annual increase of 4.4% at end-December while the annual growth for finance companies and merchant banks declined by 14.4% and 2.9% respectively. By sector, the decline in loans was due to lower loans extended for the purchase of securities (-RM3 billion), and non-residential property (-RM0.7 billion), as well as to the construction (-RM1.1 billion),

manufacturing (-RM0.8 billion) and real estate (-RM0.3 billion) sectors. Including the NPLs, total loans outstanding would have increased by RM5.9 billion or 1.4% in December, while the annual increase was 1.3%. Meanwhile, loan approvals continued their rising trend, amounting to RM9.9 billion in December (RM7.5 billion in November).

As the deposits increased and loans declined, the banking system recorded a resource surplus of RM13.4 billion in December. The outstanding resource surplus of the banking system also increased to RM32.9 billion at end-December from RM19.5 billion at end-November. Consequently, the loan-deposit ratio declined to 92.4% (95.4% at end-November).

Deposits and Loans of the Banking System

	Monthly change		As at end of	
	1998		1998	
	Nov.	Dec.	Nov.	Dec.
	RM million			
Deposits				
Commercial banks	4,464	8,755	298,688	307,442
Finance companies	-1,147	1,446	96,177	97,623
Merchant banks	-736	683	25,654	26,337
Total	2,582	10,883	420,519	431,403
Loans[1]				
Commercial banks	1,449	-668	289,652	288,985
Finance companies	-942	-1,532	88,639	87,107
Merchant banks	-145	-364	22,754	22,390
Total	362	-2,564	401,046	398,482
Resource surplus (+)/gap (-)	2,219	13,447	19,474	32,921
Loan-deposit ratio (%)			**95.4**	**92.4**

1/ Excluding housing loans sold to Cagamas Berhad

Note: Sub-total may not necessarily add up to grand total due to rounding

Loans by Sector: Banking System				
	Monthly change		As at end of	
	1998		1998	
	Nov.	Dec.	Nov.	Dec.
	RM million			
Agriculture	-78	190	7,642	7,832
Mining and quarrying	-110	-97	1,770	1,673
Manufacturing	191	-840	64,757	63,917
Electricity	493	598	5,281	5,879
Wholesale, retail, restaurant & hotels	-94	-325	35,575	35,250
Broad property sector[1]	437	-1,567	148,187	146,620
Construction	*389*	*-1,127*	*44,578*	*43,450*
Residential property[1]	*-21*	*569*	*55,673*	*56,242*
Non-residential property	*85*	*-735*	*30,738*	*30,004*
Real estate	*-17*	*-274*	*17,198*	*16,924*
Transport & storage	362	-22	15,069	15,047
Finance, insurance and bus. services	-72	198	36,846	37,044
Consumption	-144	175	49,229	49,404
Purchase of securities	162	-3,007	37,775	34,768
Others	-970	2,369	17,807	20,176
Total Loans[1]	177	-2,327	419,939	417,612

1/ Including housing loans sold to Cagamas Berhad.

Note: Sub-total may not necessarily add up to grand total due to rounding

Interest Rates

Reflecting the ample liquidity in the banking system, interest rates in the interbank money market continued their downward drift in December and the first half of January. The bond issues in December did not have a significant impact on liquidity and interest rates. These bond issues included Malaysian Government Securities (RM2 billion) and Khazanah bonds of RM716 million (nominal amount of RM1 billion).

Following the softening in interbank rates, the average fixed deposit rates of commercial banks and finance companies declined slightly by 4-5 and 0-7 basis points to 5.74-5.83% and 6.35-6.57% respectively in December. The average fixed deposit rates declined further by 1-3 and 3-10 basis points respectively in the first week of January.

Movement of Interbank Rates (average rates during period)					
Tenure	**November**	Direction of Change	**December**	Direction of Change	**January 1-22**
3-Mth	**6.68**	–	**6.48**	–	**6.43**
1-Mth	6.43	–	6.16	–	6.06
1-Wk	6.30	–	5.85	–	5.78
O/nite	6.11	–	5.41	–	5.27

The average base lending rates (BLR) of commercial banks and finance companies remained unchanged throughout December and the first week of January, at 8.04% and 9.50%, respectively.

Capital Market

In December, net long-term funds raised from the capital market turned positive, amounting to RM2.9 billion compared with a net redemption of RM1.2 billion in November. The bulk of the funds was sourced from issues of Malaysian Government Securities and Khazanah bonds, worth RM2 billion and RM716 million respectively. Meanwhile, net private debt securities issued totalled RM500 million, the highest amount raised in the private debt market (excluding the amount raised by Danamodal Berhad) since May 1998. For the year as a whole, net funds sourced from the capital market (RM18.7 billion) were about 56% of the amount of funds raised in 1997, reflecting the slowdown in economic activities during the year. The participation of the public sector was more evident (RM9.8 billion), accounting for more than half of the total funds raised, indicative of its lead role to revive the economy.

Funds Raised in the Capital Market [p]				
	1997	1998		1998
	Year	Nov.	Dec.	Year
	RM Million			
By Public Sector				
Net Funds Raised by Public Sector	-1,407	-1	2,715	9,804
By Private Sector				
Shares	18,358	0	81	1,971
Debt securities [1]	19,546	0	500	14,152
Less Redemptions	3,009	1,159	373	7,240
Equals Net issues	16,537	-1,159	127	6,912
Net Funds Raised by Private Sector	34,895	-1,159	208	8,883
Net Funds Raised in the Capital Market	33,488	-1,160	2,923	18,687
Net issue of Short-term Securities [2]	4,946	289	360	-312
Total	38,434	-871	3,283	18,375

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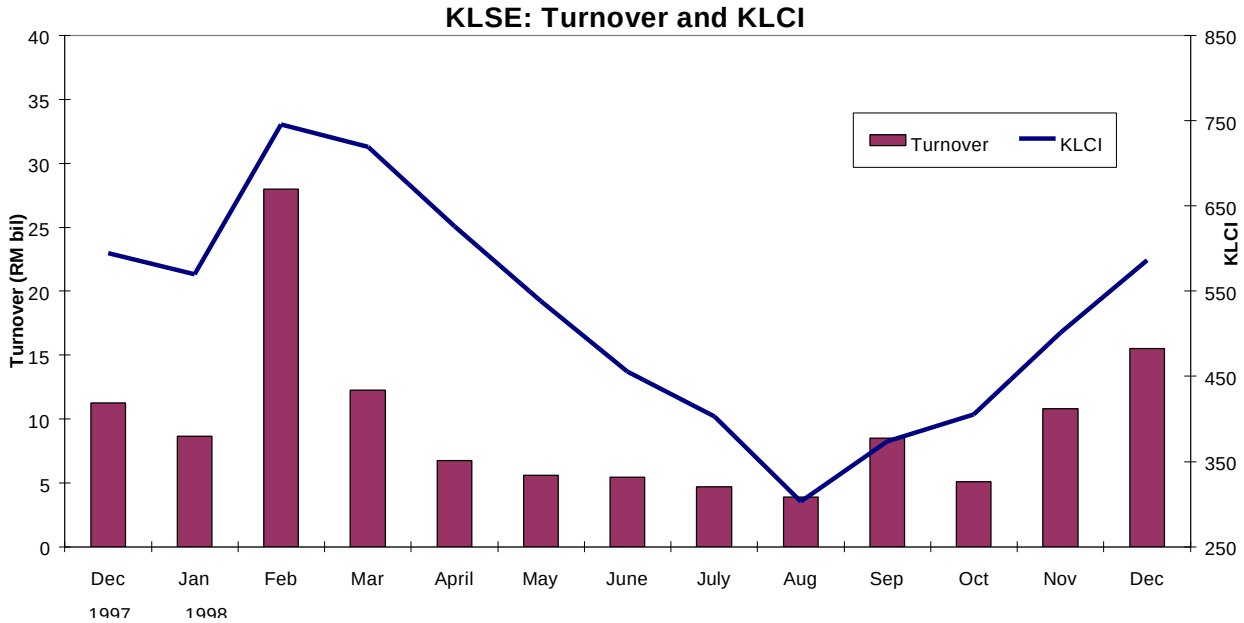
1 Excludes debt securities issued by banking institutions.

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

Sentiment on the Kuala Lumpur Stock Exchange (KLSE) was bullish during the month of December. The improvement in the KLSE reflected a series of positive developments during the month. In particular, the release of a higher trade surplus of RM6.7 billion for the month of October and the higher current account surplus of RM29 billion for the first nine months of 1998; the success of Malaysia in sourcing financial assistance from Japan and 12 foreign-owned banks operating in Malaysia; and the expectation of the possibility of fine-tuning the exchange control measures, particularly the one-year rule on the repatriation of funds by non-residents. Towards year-end, the Kuala Lumpur Composite Index (KLCI) rose further to close at 586.13 points, an increase of 16.9% during the month and 93.5% since the end of August 1998. The market capitalisation rose by 7.6% during the month to RM375 billion. On a yearly basis, the decline in the KLCI of 1.4% was smaller than in Singapore (-9%), Hong Kong (-6.3%) and Thailand (-4.5%), but was significantly lower than the improvement in Korea (49.5%).

In January 1999, the market fell temporarily due to the announcement of the assumption of control of MBf Finance and Kewangan Bersatu by BNM.

The KLCI rebounded subsequently following clarification on the exchange control measures, including allowing non-residents to repatriate profits arising from contra transactions, appointments of the Deputy Prime Minister and Finance Minister I, and news of a trade surplus of RM6.5 billion for the month of November. As at 26 January, the KLCI closed at 610.88 points, while the market capitalisation amounted to RM397 billion.



International Reserves

The international reserves held by BNM increased significantly by RM9.3 billion from end-November to RM99.4 billion at end-December 1998. The United States dollar equivalent of international reserves as at 31 December 1998 was US$26.2 billion. Reserves increased further to RM104.2 billion or US$27.4 billion at 15 January 1999. Since end-August, reserves rose by US$7.2 billion. This level of reserves was sufficient to finance 5.8 months of retained imports.

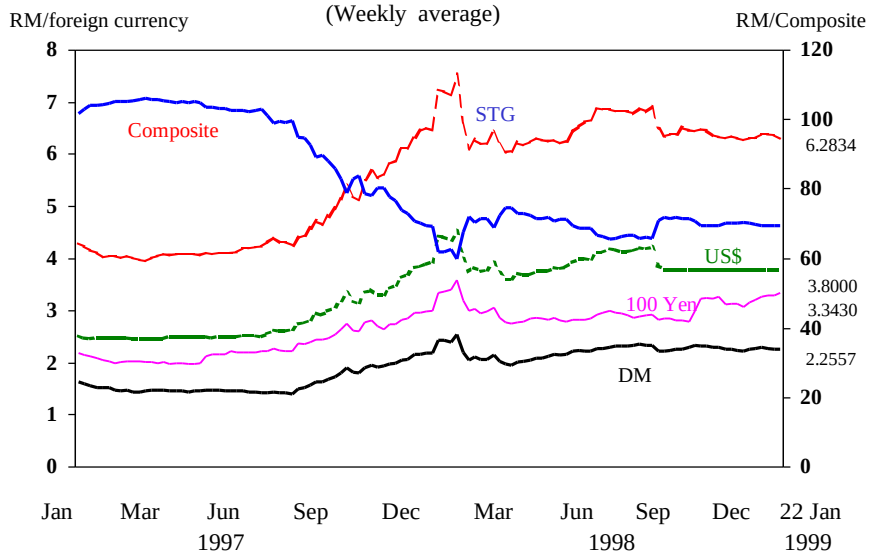
Exchange Rates

In December, the ringgit depreciated against the major currencies within the range of 0.9% to 7.3%, largely reflecting movements in the US dollar. The ringgit depreciated by 0.9% against the pound Sterling, 1.9% against the Deutsche mark, 2.1% against the Swiss franc and 7.3% against the Japanese yen. After recording a high of US$1=¥122.81 on 1 December, the US dollar depreciated to US$1=¥114.67 on 31 December on account of escalated tensions in the Gulf region and the joint military action led by the US against Iraq, as well as the impeachment debate on the US President. Sentiment towards the dollar was also affected by concerns over the commitment of the Brazilian Government to carry out financial reforms and the exposure of the US economy to potential financial instability in Latin America, in light of the region's strong trade and investment links with the US. The Japanese yen also gained support following a year-on-year rise of 22% in Japan's October trade surplus to ¥1.34 trillion; higher yields in Japanese government bonds; and repatriation of capital to Japan. Meanwhile, preparations for the launch of the Euro at the end of 1998 was positive to the Deutsche Mark.

In the period 1-22 January 1999, the ringgit continued to be influenced by the movements of the US dollar in international foreign exchange markets. With the exception of the Japanese yen and Swiss franc, the ringgit appreciated within a range of 0.4-0.8% against the major currencies. The ringgit depreciated by 0.9% against the yen, following downward pressure on the dollar which fell to a 27-month low of US$1=¥109.77 on 7 January. Official intervention by the Bank of Japan limited the dollar's decline and supported the dollar to US$1=¥111.24 on 12 January. Sentiment towards the dollar was not adversely affected by the devaluation of the Brazilian real as the US economy continues to exhibit indications of sustained growth in domestic demand as reflected by the lower unemployment rate (4.3% for December

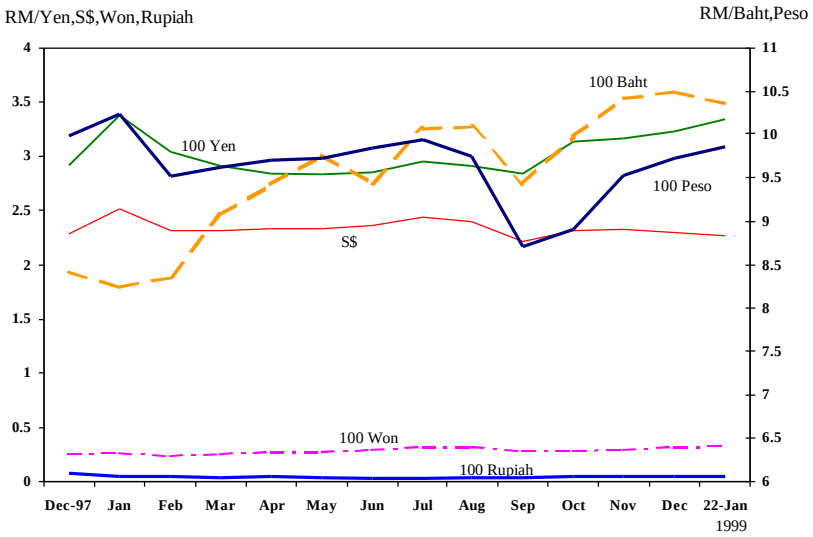
1998) and bullish stock market. Nevertheless, lingering concerns remain over the dollar's vulnerability to risk of contagion in Latin America.

Exchange Rate of the Malaysian Ringgit against Major Currencies



The ringgit recorded a mixed performance against other regional currencies in December. The ringgit appreciated against the Singapore dollar (0.4%), Thai baht (1.5%) and Indonesian rupiah (8%) but depreciated by 0.5% and 4.6% against the Philippine peso and Korean won respectively. The ringgit's depreciation was on account of the other regional currencies moving in tandem with the resurgence of the yen. During the period 1-22 January, the ringgit appreciated against the Singapore dollar (0.8%) and Indonesian rupiah (11.2%) but depreciated against the Thai baht (0.1%), Philippine peso (1.5%) and Korean won (1.5%).

Performance of Ringgit against Regional Currencies
(Period average)



Inflation

The annual rate of inflation moderated to 5.3% in December (5.6% in November). The moderation in the Consumer Price Index (CPI, 1994=100) was recorded in most sub-groups, mainly in the sub-group of food (8.6% as against 9.8% in November); furniture, furnishings and household equipment; medical care and health expenses; recreation, entertainment, education and cultural services; and miscellaneous goods and services. In the food sub-index, slower price increases were mainly evident in the prices of fruits and vegetables; rice, bread and other cereals; and food away from home. Meanwhile, the price of beverages and tobacco stabilised at a relatively high rate of 10.6%.

For the whole of 1998, the CPI rose by 5.3%, lower than the earlier expectation of 7-8% (2.7% in 1997). Weak domestic demand and excess capacity in the product and labour markets more than offset the effects of the depreciation of the ringgit against the currencies of major trading partners. In addition, the Government intensified its efforts during the year to ensure

adequate supply of essential goods, curbed unjustified price increases and improved the flow of information on prices of essential goods.

Bank Negara Malaysia
30 January 1999

Key Monetary and Banking Statistics

	November 1998		December 1998	
	Outstanding (RM billion)	Annual (%)	Outstanding (RM billion)	Annual (%)
Monetary Aggregates				
Reserve money	34.7	*-56.1*	36.2	*-56.4*
M1	52.3	*-12.8*	54.1	*-14.6*
M2	288.9	*4.5*	296.3	*1.4*
M3	392.1	*3.3*	400.8	*2.5*
By determinants:				
Claims on the private sector	458.1	*2.3*	454.2	*1.5*
Claims on the Government	-20.2		-21.1	
External sector	90.0		94.9	
Other influences	-135.4		-127.1	
Banking System				
Total deposits	420.5	*1.0*	431.4	*-0.5*
Total loans (including Cagamas)	419.9	*0.5*	417.6	*-0.9*
Of which: Manufacturing	64.8	*4.7*	63.9	*1.0*
Broad property	148.2	*8.0*	146.6	*4.8*
Construction	44.6	*7.6*	43.5	*2.0*
Residential property	55.7	*11.4*	56.2	*10.6*
Non-residential property	30.7	*11.1*	30.0	*5.5*
Real estates	17.2	*-5.3*	16.9	*-6.1*
Finance, insurance and business services	36.9	*1.0*	37.0	*2.3*
Consumption	49.2	*-11.1*	49.4	*-14.6*
Total loans (including Cagamas and NPLs sold to Danaharta)	420.8	*0.7*	426.6	*1.3*
Total loans (excluding Cagamas)	401.1	*0.6*	398.5	*-0.8*
Loan-deposit ratio (%)	95.4		92.4	
Loans approved during the month	7.5		9.9	
International Reserves of BNM	90.1		99.4	
Reserves in USD (billion)	23.7		26.2	
Months of retained imports	5.0		5.5	
Interest Rates	**(percent per annum, end period)**			
Interbank : 1-month	6.37		6.14	
3-month	6.51		6.46	
Average fixed deposits of commercial banks:				
1-month	5.87		5.82	
3-month	5.88		5.83	
Average BLR of commercial banks	8.04		8.04	

Banking System Health	**As at end November**		**As at end December**	
Risk-weighted Capital Ratio (RWCR) (%)	11.6		11.7	
Net NPLs (%): 6-Months	8.5	1/	9.0	2/
3-Months	13.9	1/	14.9	2/

Capital Market	**As at end November**	**Monthly (%)**	**As at end December**	**Monthly (%)**
Kuala Lumpur Composite Index (KLCI)	501.5	23.7	586.1	16.9
KLSE Market Capitalisation (RM billion)	348.2	30.9	374.5	7.6

1/ Refers to end October.
2/ Refers to end November.