

**PRESS RELEASE ON
MONETARY AND FINANCIAL DEVELOPMENTS
OCTOBER 1999**

Monetary Developments

After two consecutive months of decline, **M3 turned around to record an increase of RM288 million or 0.1%** (-RM1 billion or -0.2% in September). The annual growth of M3 at end-October, amounted to 7.9% (8.2% at end-September). In terms of **components**, transaction balances (comprising currency in circulation and demand deposits) declined by RM1.3 billion, due solely to the decline in demand deposits. Broad quasi-money, on the other hand, recorded an increase of RM1.6 billion (-RM2.5 billion in September), reflecting mainly the increase in fixed deposits (+RM1.9 billion) and savings deposits (+RM0.4 billion) which more than offset the decline in NIDs (-RM1.1 billion).

**M3 Determinants
(change during the period in RM billion)**

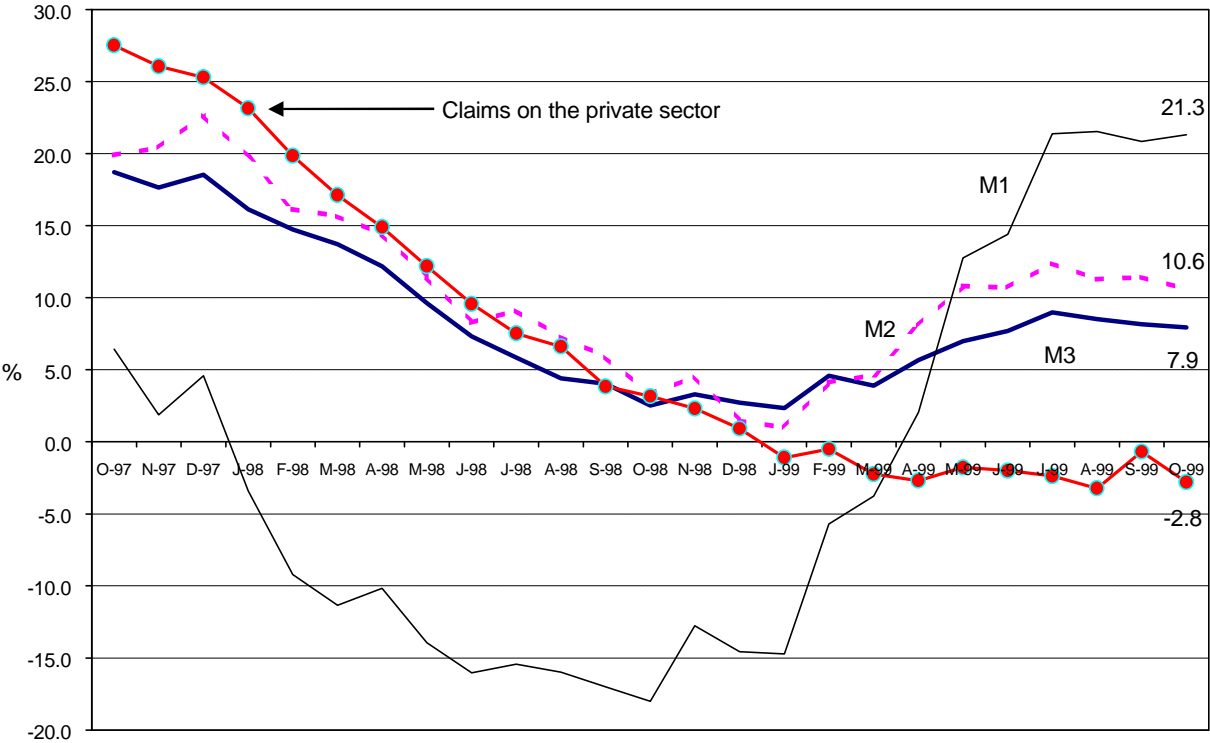
	1997	1998 ^{1/}	1999 ^{2/}			
			Aug.	Sep.	Oct.	Jan.-Oct.
M3	61.1	10.6	-1.5	-1.0	0.3	18.2
Of which:						
Claims on Government	0.5	-12.3	-2.4	3.0	-1.5	-0.9
Claims on private sector	90.4	4.1	-1.0	9.6	-2.6	-7.8
External operations	-16.8	51.1	1.7	-1.3	-1.3	22.6
Other influences	-13.0	-32.3	0.2	-12.3	5.7	4.3

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. Therefore, part of the increase in the external assets reflected BNM's exchange revaluation gains. The revaluation gains of BNM were also reflected in other influences.

2/ Effective 1 January 1999, all foreign currency assets and liabilities are only revalued at the end of each quarter.

In terms of **determinants**, the increase in M3 reflected mainly the expansionary impact of other influences which more than offset the contractionary impact from the other determinants. "Other influences" exerted an expansionary impact of RM5.7 billion on M3 due primarily to the withdrawal of deposits placed with BNM by a statutory authority (RM3.1 billion) for the purchase of MGS. The impact on money supply, however, was offset partially by increases in Government deposits with BNM arising from the proceeds of the sales of MGS. Consequently, the Government sector exerted a net contractionary impact of RM1.5 billion. During the month, claims on the private sector declined by RM2.6 billion. This reflected mainly the decline in loans extended by the banking system (RM1.9 billion) due mainly to higher repayments vis-à-vis loan disbursements and the sales of NPLs to Danaharta. At the same time, holdings of securities by banking institutions decreased by RM714 million. Meanwhile, net external assets of BNM and the banking system contracted by RM1.3 billion in October, reflecting the repayment of foreign debt and, to a lesser extent, the outflow of portfolio funds.

Annual Growth of Monetary Aggregates (in %)



Banking System

On an annual basis, total **deposits** mobilised by the banking system increased by 4% as at end-October, the same as at end-September. On a month-on-month basis, total deposits mobilised by the banking system declined by RM3.7 billion or 0.8% in October (-RM2.4 billion or -0.5% in September) as interplacement of deposits between banking institutions declined by RM1.4 billion, on account of reduced demand for funds given the ample liquidity in the banking system. Deposits of non-residents also declined by RM0.8 billion. While deposits placed with commercial banks experienced a monthly decline of RM5.8 billion, on an annual basis, there was an increase of RM26 billion. Placements of deposits with finance companies and merchant banks, however, increased by RM1.6 billion and RM0.6 billion respectively.

By type of deposits, NIDs issued declined by RM2.6 billion, mainly in terms of interplacements between banking institutions (-RM1.5 billion) and those issued to business enterprises, by -RM0.7 billion. Fixed deposits, on the other hand, increased by RM0.6 billion, mainly in terms of placements by the Government (+RM1 billion) and non-bank financial institutions (+RM0.3 billion) which were offset by a decline in deposits by individuals (-RM0.8 billion). Savings deposits also increased by RM0.4 billion.

Deposits and Loans of the Banking System (RM million)

	Monthly change 1999		As at end of 1999	
	Sep.	Oct.	Sep.	Oct.
Deposits				
Commercial banks	-217	-5,842	326,003	320,161
Finance companies	-1,622	1,583	87,445	89,028
Merchant banks	-540	587	24,787	25,374
Banking system	-2,380	-3,672	438,236	434,564
Loans ¹				
Commercial banks	896	-853	318,390	317,537
Finance companies	-227	-557	84,618	84,061
Merchant banks	64	219	21,942	22,161
Banking system	733	-1,190	424,950	423,760
Loans ²				
Commercial banks	880	-944	284,708	283,765
Finance companies	-106	-348	74,567	74,219
Merchant banks	50	184	19,282	19,465
Banking system	824	-1,107	378,557	377,449
Resource surplus (+)/gap(-) ²	-3,204	-2,565	59,679	57,114
Loan-deposit ratio (%)²			86.4	86.9

1/ Including loans sold to Cagamas and Danaharta.

2/ Excluding loans sold to Cagamas and Danaharta.

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

On an annual basis, total **loans outstanding** increased by 1% as at end-October (+1.3% as at end-September), with commercial banks recording an annual growth of 5.2%. On a month-on-month basis, total loans outstanding (including NPLs sold to Danaharta) extended by the banking system declined by RM1.2 billion or 0.3% in October (+RM0.7 billion or +0.2% in September) reflecting higher repayments relative to disbursements. Some loans were also written off during the month. Loans extended by commercial banks and finance companies declined by RM0.8 billion and RM0.6 billion respectively. Meanwhile, loans extended by merchant banks increased by RM0.2 billion.

Excluding the NPLs, loans outstanding was lower by 6% as at end-October (-5.6% as at end-September). By sector, total loans outstanding extended to the construction; manufacturing; and finance, insurance and business services sector declined by RM0.8 billion, RM0.6 billion and RM0.5 billion respectively. However, loans extended for the purchase of residential property increased by RM0.8 billion.

During the month, total **loans approved** by the banking system were slightly higher at RM9.3 billion (RM9.1 billion in September), but total **loans disbursed** were lower at RM25 billion in October (RM27.6 billion in September). However, in the first ten months of the year, total loans disbursed amounted to RM260.9 billion or a monthly average of RM26.1 billion, substantially higher than the monthly average of RM20.9 billion in 1998.

Banking System: Loans by Sector (RM million)

	Monthly change 1999		As at end of 1999	
	Sep.	Oct.	Sep.	Oct.
Agriculture	212	-155	8,153	7,999
Mining and quarrying	-7	60	1,455	1,515
Manufacturing	492	-631	61,691	61,060
Electricity	-52	11	5,602	5,613
Wholesale, retail, restaurant & hotel	29	-124	34,597	34,474
Broad property sector	561	-384	144,788	144,403
<i>Construction</i>	49	-794	40,854	40,060
<i>Residential property</i>	564	795	60,969	61,765
<i>Non-residential property</i>	-63	-131	27,620	27,489
<i>Real estate</i>	12	-255	15,344	15,090
Transport & storage	-96	-214	15,013	14,798
Finance, insurance and business services	-568	-536	29,999	29,463
Consumption	205	340	48,433	48,773
Purchase of securities	-1,013	123	25,329	25,453
Others	955	-92	21,177	21,085
Total loans outstanding ¹	719	-1,601	396,237	394,636

1/ Including loans sold to Cagamas and excluding NPLs sold to Danaharta.

The banking system recorded a **resource gap** of RM2.6 billion in October, reducing the outstanding resource surplus to RM57.1 billion. Consequently, the **loan-deposit ratio** increased to 86.9% (86.4% at end-September).

Developments in the Banking System

The **risk-weighted capital ratio** of the banking system remained at 12.7% at the end of October 1999, well above the minimum requirement of 8%. This provides the banking system with a sufficient cushion to absorb any potential shocks to the economy. The core capital ratio also remained strong at 10.4%. Net **non-performing loans** of the banking system at the end of September 1999 improved from the previous month's level of 7.9% to 7.8% based on six-month classification.

Banking System Health Indicators

	1998			1999			
	Jun.	Sep.	Dec.	Jul.	Aug.	Sep.	Oct.
Capital							
Core-capital ratio (%)	9.2	8.5	8.6	10.3	10.3	10.3	10.4
RWCR (%)	11.2	10.6	11.8	13.0	12.8	12.7	12.7
Net NPL (6-month classification)							
Banking system (%)	n.a.	8.1	7.5	7.9	7.9	7.8	n.a.
Banking system (RM million)	n.a.	32,214	29,286	29,343	29,370	28,936	n.a.
GP/Net total loans (6-month,%)							
	n.a.	1.8	2.0	1.9	1.8	1.9	n.a.

n.a Not available

With regard to financial sector restructuring, Danaharta has acquired and is currently managing a total of RM30 billion worth of NPLs from the banking system. This amounts to approximately 36% of total NPLs of the banking system. Consistent with its objective to maximise recovery through the management and rehabilitation of the NPLs, Danaharta has met with most of the borrowers whose accounts are under its management, of which 59% have reverted to Danaharta on their loan workout plans. Another 3% of the borrowers have also fully settled or regularised their accounts representing approximately 6% of total NPLs under the management of Danaharta. Capital injections by Danamodal were reduced further to RM4.6 billion as at 12 November 1999 arising from repayments of Exchangeable Subordinated Capital Loans by some of the banking institutions. As at 12 November 1999, CDRC has received 65 applications with debts totaling RM35.6 billion. Of these, 15 restructuring schemes amounting

to RM12.8 billion have been completed and are in various stages of implementation, while 8 cases amounting to RM2.8 billion are being resolved by Danaharta. 15 cases involving debts worth RM3.5 billion have been rejected and the remaining 27 cases amounting to RM16.6 billion are currently outstanding.

Interest Rates

Ample liquidity in the banking system continued to keep **interest rates** low in the inter-bank market. However, BNM operations at the short-end of the money market have maintained interest rates for overnight to 1-month tenures in the region of 2.5- 2.8%.

Movement of Interbank Rates
(average rates during period, % per annum)

Tenure	September	Direction of Change	October	Direction of Change	1 – 19 Nov.	Tenure
3-Mth	3.14	→	3.14	↘	3.12	3-Mth
1-Mth	2.82	↘	2.70		2.81	1-Mth
1-Wk	2.66	↘	2.60		2.73	1-Wk
O/night	2.53		2.54		2.74	O/night

Meanwhile, the average **base lending rates** (BLRs) of commercial banks and finance companies remained unchanged at 6.79% and 7.95% respectively. In October, the term structure of fixed deposit rates steepened. As a result, the average **fixed deposit rates** for commercial banks and finance companies extended over a broader range of 3.23-4.01% and 3.28-4.11% respectively as at 17 November.

Capital Market

Net funds raised from the capital market was lower in October, amounting to RM2.3 billion compared with RM9 billion in September. The lower amount of funds raised was due to a net redemption of RM1.2 billion by the private sector (net funds raised of RM9 billion in the previous month). Meanwhile, net funds raised by the public sector was higher, amounting to RM3.5 billion (RM74 million in September), on account of two new issues of Malaysian Government Securities.

Funds Raised in the Capital Market ^P (RM million)

	1998	1999	
		Sep.	Oct.
By Public Sector			
Net Funds Raised	9,804	74	3,500
By Private Sector			
Shares	1,788	2,429	314
Debt Securities ¹	14,152	7,660	100
<i>Less</i> Redemptions	7,976	1,124	1,590
<i>Equals</i> Net Issues	6,176	6,536	-1,490
Net Funds Raised	7,964	8,965	-1,176
Net Funds Raised in the Capital Market	17,768	9,039	2,324
Net Issues of Short-Term Securities ²	-155	-175	700
Total	17,613	8,864	3,024

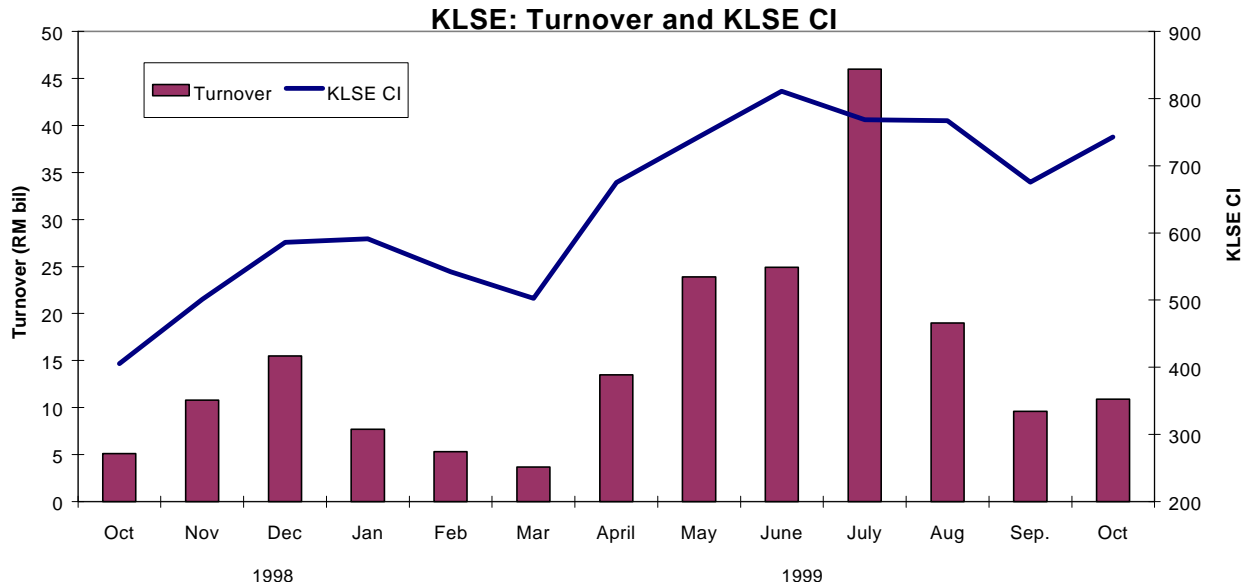
^P Preliminary.

¹ Excludes debt securities issued by banking institutions.

² Refers to Caqamas Notes and commercial papers. For September-October 1999. refers to Caqamas Notes only.

Sentiment on the **Kuala Lumpur Stock Exchange (KLSE)** was generally positive for the month of October. The KLSE Composite Index (KLSE CI) was on the rising trend in the first two weeks of October, buoyed by expectations of a pro-growth Budget. The market fell temporarily on 15 and 18 October, following the fall in the regional markets, as a reaction to the comments by the U.S. Federal Reserve of a potential correction of the Dow Jones Industrial Average Index. Market sentiment was subsequently buoyed by positive expectations over the budget and the KLSE CI ended 10% higher to close at 742.87 points, while market capitalisation stood at RM500 billion. Reflecting the positive market sentiment, prices of the three newly listed companies in October, closed at premiums above their offer prices on the first day of listing.

In the first three weeks of November, market sentiment was mixed. Sentiment was adversely affected by the announcement by Morgan Stanley Capital International (MSCI) to delay the reinstatement of Malaysia into its MSCI indices from February 2000 to May 2000. Sentiment, however, recovered somewhat following the announcement of the dissolution of Parliament and the anticipation of a pre-election rally. As at 19 November, the KLSE CI closed at 733.29 points, while the market capitalisation stood at RM493 billion.



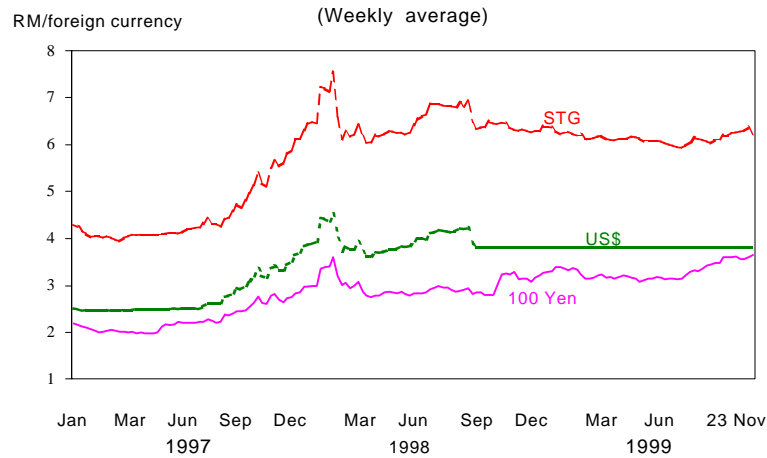
International Reserves

The **international reserves** held by BNM continued to remain strong at RM114.8 billion (US\$30.21 billion) as at end-October 1999. As at 15 November, reserves increased to RM114.9 billion (US\$30.24 billion), sufficient to finance 6.1 months of retained imports. In October, the movement in reserves was affected by the repayment of foreign debt (US\$0.8 billion) and an outflow of portfolio funds (US\$0.4 billion). In the first three weeks of November, however, portfolio flows recorded a net inflow of US\$0.1 billion.

Exchange Rates

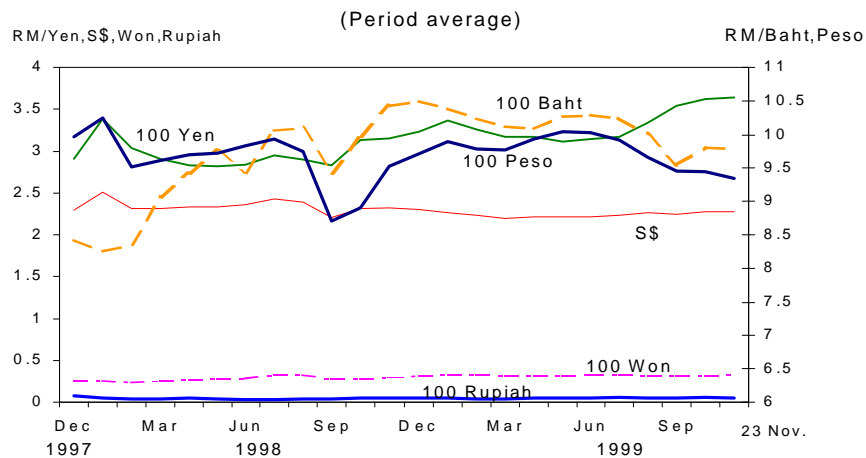
In October, the **ringgit** appreciated against most major currencies in tandem with the US dollar's movements. The ringgit appreciated against the Euro (1.1%), Swiss franc (1.3%) and pound sterling (0.4%). However, the ringgit depreciated against the Japanese yen (-1.6%).

Exchange Rate of the Malaysian Ringgit against Major Currencies



During the period 1-23 November 1999, the ringgit continued to appreciate against most **major currencies** in a range of 0.1-2.1% with the exception of the Japanese yen (-0.5%), reflecting the US dollar's movements in international foreign exchange markets. During the period, the US dollar strengthened following the strong performance of the stock market. Meanwhile, the dollar also strengthened against the Euro following the release of data pointing towards weak business sentiment in the Euro zone. In contrast, the dollar weakened against the yen with the improved economic prospects in Japan.

Performance of Ringgit against Regional Currencies



**Performance of Ringgit against Selected Currencies since
2 September 1998 ^{1/}**

RM per foreign currency	2 September 1998	23 November 1999	% Change
US dollar	3.8000	3.8000	0.0
100 Japanese yen	2.7742	3.6341	-23.7
Singapore dollar	2.1998	2.2741	-3.3
100 Thai baht	9.3713	9.8014	-4.4
100 Philippine peso	8.8302	9.3412	-5.5
100 Indonesian Rupiah	0.0354	0.0536	-34.0
100 Korean won	0.2827	0.3245	-12.9

^{1/} Rates quoted are the average of buying and selling in the Kuala Lumpur interbank foreign exchange market at noon.

In October, the ringgit depreciated against most **regional currencies**, including the Singapore dollar (-1.9%), Thai baht (-5.7%), Philippine peso (-1.5%), Indonesian rupiah (-18.0%) and Korean won (-1.3%). Regional currencies generally trended higher against the US dollar in October, broadly influenced by improved domestic developments. During the period 1-23 November, the ringgit appreciated against most regional currencies within a range of 0.1-3.0%.

Inflation

The **inflation** rate stabilised at a relatively low level of 2.1% in October. Of significance, was the continued decline in the prices of clothing and footwear, while slower price increases were recorded in the sub-indices for food; furniture, furnishings and household equipment; and recreation, entertainment, education and cultural services. The lower rate of increase in the prices of the food sub-group was due largely to the slower increase in the prices of rice, bread and other cereals; fish; and milk and eggs; and the continued decline in prices of meat. For the first ten months of 1999, the CPI increased moderately by 2.9% compared with 5.2% in the corresponding period of 1998.

Bank Negara Malaysia
30 November 1999

Key Monetary and Banking Statistics

	September 1999		October 1999	
	Outstanding (RM billion)	Annual growth (%)	Outstanding (RM billion)	Annual growth (%)
Monetary Aggregates				
Reserve money	34.9	-5.6	36.0	1.9
M1	62.6	20.9	61.4	21.3
M2	318.8	11.4	314.3	10.6
M3	419.4	8.2	419.7	7.9
By determinants:				
Claims on the private sector	446.5	-0.7	443.9	-2.8
Claims on the Government	-20.4	45.0	-21.9	5.6
External sector	118.5	42.8	117.2	31.7
Other influences	-125.2	-4.3	-119.5	-12.2
Banking System				
Total deposits	438.2	4.0	434.6	4.0
Total loans (including Cagamas and excluding NPLs sold to Danaharta)	396.2	-5.6	394.6	-6.0
Of which: Manufacturing	61.7	-5.3	61.1	-5.5
Broad property	144.8	-1.3	144.4	-2.3
Construction	40.9	-7.0	40.1	-9.3
Residential property	61.0	10.4	61.8	10.9
Non-residential property	27.6	-10.2	27.5	-10.3
Real estate	15.3	-9.0	15.1	-12.3
Finance, insurance and business services	30.0	-18.5	29.5	-20.2
Consumption	48.4	-3.2	48.8	-1.2
Total loans (including Cagamas and NPLs sold to Danaharta)	424.9	1.3	423.8	1.0
Total loans (excluding Cagamas and NPLs sold to Danaharta)	378.6	-5.4	377.4	-5.8
Loan-deposit ratio (%)	86.4		86.9	
Loans approved during the month	9.1		9.3	
Loans disbursed during the month	27.6		25.0	
International Reserves of BNM				
	As at end-September		As at end-October	
Reserves in RM (billion)	119.3		114.8	
Reserves in USD (billion)	31.4		30.2	
Months of retained imports	6.4		6.1	
Interest Rates (average rates at end-period)				
Interbank: 1-month	2.82		2.70	
3-month	3.14		3.14	
Fixed deposits of commercial banks:				
1-month	3.75		3.24	
3-month	3.75		3.33	
BLR of commercial banks	6.79		6.79	
Banking System Health				
	As at end-September		As at end-October	
Risk-weighted Capital Ratio (RWCR) (%)	12.7		12.7	
Net NPLs (%): 6-Month	7.8		n.a.	
Capital Market				
	As at end-September	Monthly (%)	As at end-October	Monthly (%)
Kuala Lumpur Composite Index (KLSE CI)	675.45	-11.9	742.87	10.0
KLSE Market Capitalisation (RM billion)	457.55	-11.1	500.45	9.4

