PRESS RELEASE ON
MONETARY AND FINANCIAL DEVELOPMENTS
APRIL 1999

Monetary Situation

Monetary conditions improved in April. **M3 expanded** by RM4.8 billion or 1.2% in April (a decline of RM2.5 billion or 0.6% in March). As such, the annual growth of M3 rose to 5.7% at end-April (3.9% at end-March). In terms of components, transaction balances increased by RM1.8 billion. During the month, demand deposits increased by RM1.9 billion, while currency in circulation fell marginally by RM93 million. At the same time, broad quasi-money expanded by RM3.1 billion (-RM441 million in March). During the month, large expansion was recorded in fixed deposits (RM6.4 billion) and savings deposits (RM1.3 billion). However, this was partially offset by the decreases in NIDs (-RM2.7 billion) and repos (-RM2.6 billion).

M3 Determinants
(change during the period in RM billion)

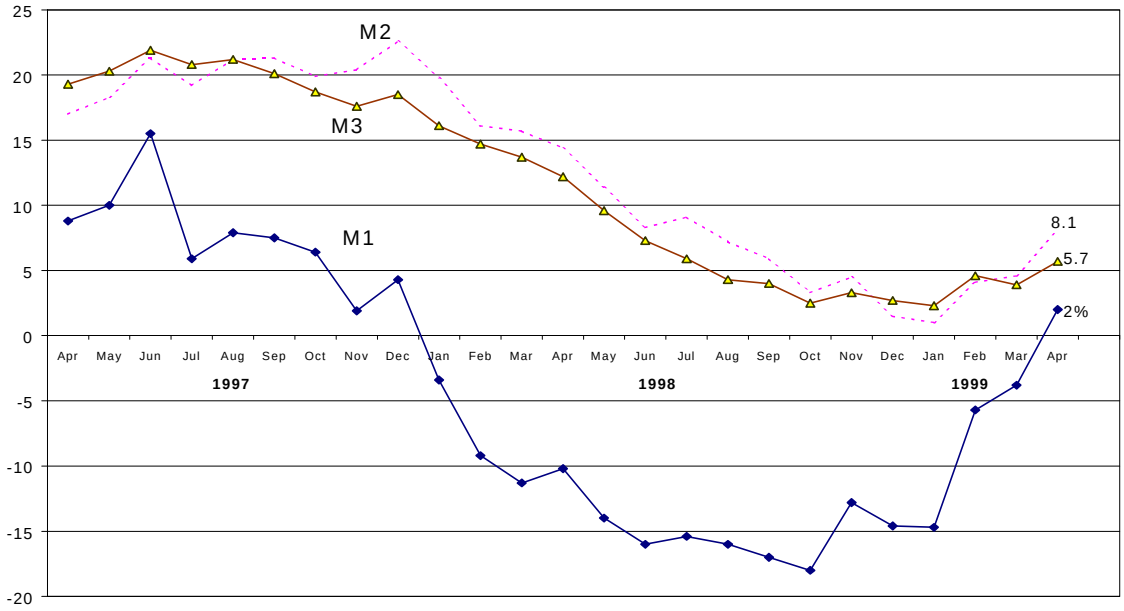
	1997	1998	1999			
			Feb.	Mar.	Apr.	Jan.-Apr.
M3	61.1	10.6	9.0	-2.5	4.8	**12.9**
Of which:						
Claims on Government	0.5	-12.3	-1.1	-0.3	-0.5	**1.3**
Claims on private sector	90.4	4.2	-1.8	-8.3	-2.2	**-13.8**
External operations	-16.8	51.2[1]	2.6	-2.9[2]	6.7	**11.9**
Net other influences	-13.0	-32.4[1]	9.3	9.0[2]	0.8	**13.5**

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 reflects BNM's exchange revaluation gains. The revaluation gains of BNM were also reflected in other influences.

2/ Effective 1999, all foreign currency assets and liabilities are only revalued at the end of each quarter. Therefore, part of the decrease in the external assets in March reflected BNM's exchange revaluation loss for the first quarter 1999. The revaluation loss of BNM was also reflected in other influences.

In terms of determinants, the increase in M3 reflected mainly the expansion in external operations. During the month, **net external assets** expanded by RM6.7 billion due mainly to the increase in BNM's net international reserves of RM3.4 billion. At the same time, net external liabilities of the banking system declined by RM3.3 billion, due largely to the net repayment of short-term interbank borrowings from abroad by banking institutions. Meanwhile, **claims on the private sector** recorded a smaller contraction of RM2.2 billion. During the month, loans extended to the private sector declined by RM2.4 billion while the holdings of securities by the banking institutions increased marginally by RM118 million. As in the previous months, the decline in loans in April reflected mainly the sale of NPLs to Danaharta amounting to RM1.7 billion.

Annual Growth of Monetary Aggregates



Banking System

Despite lower deposit rates, **total deposits outstanding** mobilised by the banking system increased further by RM3.5 billion or 0.8% in April (RM3 billion or 0.7% in March). This reflected higher placement of deposits with commercial banks (RM5.2 billion), while deposits placed with finance companies and merchant banks declined by RM0.8 billion and RM0.9 billion respectively. On an annual basis, total deposits increased by 3.6% at end-

April (1.6% at end-March). By type of deposits, the largest increase was in fixed deposits (RM4.2 billion), while NIDs and repos declined by RM1.6 billion and RM3.3 billion respectively. By holder, the bulk of the increase in deposits was accounted by domestic business enterprises (RM3.6 billion), mostly in the form of fixed deposits. Deposits placed by individuals also increased during the month by RM2.2 billion, mainly in the form of savings deposits.

Total loans outstanding (including NPLs sold to Danaharta) extended by the banking system declined by RM1.3 billion or 0.3% in April (a decline of RM0.5 billion or 0.1% in March) due to the decrease in loans extended by finance companies (-RM1.6 billion). Loans extended by commercial banks and merchant banks, however, increased by RM86.5 million and RM229.7 million respectively. On an annual basis, total loans increased by 1.1% at end-April (1.3% at end-March), with commercial banks recording an annual increase of 6.8%. Meanwhile, total loans disbursed were higher at RM25.4 billion in April (RM23.9 billion in March), while loan approvals were relatively stable at RM7.1 billion (RM7.2 billion in March).

During the month, a total of RM1.7 billion of gross NPLs were sold to Danaharta (RM7.5 billion in March). Excluding these NPLs, total loans outstanding declined by RM2.9 billion or 0.7% in April (-RM8.1 billion or -2% in March), while the annual growth declined by 4.8% (-4.2% as at end-March). In terms of loans by sector, the decline in loans was due to lower loans extended to most of the sectors, in particular for the purchase of securities and non-residential properties, and to the finance, insurance and business services sector. However, loans extended to the manufacturing and electricity sectors as well as for the purchase of residential property were higher during the month.

As deposits increased and loans (excluding loans sold to Cagamas and Danaharta) declined, the banking system recorded a resource surplus of RM6 billion in April. The outstanding resource surplus increased to RM57.2 billion at end-April. Consequently, the loan-deposit ratio declined to 87% (88.3% at end-March).

Deposits and Loans of the Banking System				
	Monthly change		As at end of	
	1999		1999	
	Mar.	Apr.	Mar.	Apr.
	RM million			
Deposits				
Commercial banks	2,509	5,246	312,796	318,042
Finance companies	-736	-792	95,486	94,694
Merchant banks	1,225	-918	27,823	26,906
Total	2,998	3,536	436,106	439,642
Loans [1]				
Commercial banks	731	86	312,738	312,825
Finance companies	-960	-1,580	89,921	88,342
Merchant banks	-275	230	22,706	22,935
Total	-504	-1,263	425,365	424,102
Loans [2]				
Commercial banks	-5,602	-351	281,720	281,369
Finance companies	-976	-2,080	82,184	80,104
Merchant banks	-596	-78	21,067	20,988
Total	-7,173	-2,509	384,971	382,462
Resource surplus (+)/gap (-) [2]	10,171	6,045	51,135	57,180
Loan-deposit ratio (%) [2]			**88.3**	**87.0**

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

Loans by Sector: Banking System [1]				
	Monthly change		As at end of	
	1999		1999	
	Mar.	Apr.	Mar.	Apr.
	RM million			
Agriculture	-164	89	7,694	7,783
Mining and quarrying	-123	78	1,498	1,576
Manufacturing	-1,827	314	59,663	59,977
Electricity	191	216	5,830	6,046
Wholesale, retail, restaurant & hotel	-136	-40	34,122	34,083
Broad property sector	-2,190	-1,378	143,629	142,251
Construction	*-1,284*	*-327*	*41,352*	*41,025*
Residential property	*351*	*108*	*57,409*	*57,517*
Non-residential property	*-204*	*-826*	*29,917*	*29,091*
Real estate	*-1,053*	*-334*	*14,951*	*14,618*
Transport & storage	192	-348	14,877	14,529
Finance, insurance and business services	-447	-427	36,445	36,018
Consumption	-322	89	49,124	49,213
Purchase of securities	-1,592	-867	29,985	29,118
Others	-1,632	-646	19,387	18,741
Total Loans [1]	-8,051	-2,921	402,255	399,334

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

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

Developments in the Banking System

The risk-weighted capital adequacy ratio of the banking system was 12.3% at the end of April, well above the minimum level of 8%. The core capital ratio also remained relatively strong at 8.6% level. Net non-performing loans at the end of March moderated to 7.9% (8.8% at end-February) under the six-month classification and to 14.2% (14.3% at end-February) under the three-month classification.

Significant progress has also been made in the restructuring of the banking system. Total NPLs acquired and managed by Danaharta from the banking system amounted to RM24.8 billion at end-April or 29.9% of NPLs in the banking system. In addition, Danamodal has injected capital into 10 banking institutions in the form of Exchangeable Subordinated Capital Loans (ESCL) totalling RM6.43 billion. Of these 10 institutions, Danamodal has signed Definitive Agreements with nine institutions for the conversion of the ESCL into permanent Tier-1 and/or Tier-2 capital. As at 30 April 1999, the Corporate Debt Restructuring Committee (CDRC) has 50 applications outstanding, with debts totalling RM28.9 billion.

Banking System Health Indicators						
	1998			**1999**		
	Jun.	**Sep.**	**Dec.**	**Feb.**	**Mar.**	**Apr.**
Capital						
Core-capital ratio	9.2	8.5	8.6	8.5	8.7	8.6
RWCR	11.2	10.6	11.8	11.7	12.3	12.3
Net NPL (3-month classification)						
Banking system	8.9	12.8	13.4	14.3	14.2	n.a.
Banking system (RM million)	35,882	50,643	51,931	55,303	53,578	n.a.
Net NPL (6-month classification)						
Banking system	n.a.	8.1	7.5	8.8	7.9	n.a.
Banking system (RM million)	n.a.	32,216	29,286	34,010	29,869	n.a.
GP/Net total loans (3-month)	2.2	2.0	2.3	2.2	2.2	n.a.
GP/Net total loans (6-month)	n.a.	1.8	2.0	1.8	1.8	n.a.

Interest Rates

Interest rates in the **interbank money market** eased in April, reflecting the persistence of excess liquidity in the banking system. Interbank rates continued to decline further in April following the reduction in BNM's intervention rate from 7.00% to 6.50% on 5 April. While the BNM 3-month intervention rate was reduced by 50 basis points, the average 3-month interbank rate declined by more than 200 basis points since mid-March to around 4% in mid-April. The intervention rate was reduced further by another 50 basis points to 6.00% on 3 May, and resulted in the average 3-month interbank rate falling further to as low as 3.2% in the third week of May.

In line with the softening in interbank rates, the average **fixed deposit rates** of commercial banks and finance companies declined significantly in April, shadowing the fall in the interbank and intervention rates. The average fixed deposit rates of commercial banks and finance companies declined by 134-144 basis points and 158-165 basis points respectively to 3.99-4.06% and 4.11-4.26% in April.

Movement of Interbank Rates
(average rates during period)

Tenure	**March**	Direction of Change	**April**	Direction of Change	**1-22 May**
3-Mth	**6.19**	↘	**4.30**	↘	**3.39**
1-Mth	5.77	↘	4.00	↘	3.01
1-Wk	5.49	↘	3.76	↘	2.85
O/night	5.23	↘	3.53	↘	2.91

Following the reduction in the BNM intervention rate to 6.50% in April, the average **base lending rates** (BLR) of commercial banks and finance companies declined by 40 and 50 basis points to 7.64% and 9.00% respectively as at end-April. The average BLR of commercial banks and finance companies declined further to 7.25% and 8.50% respectively on 21 May, reflecting the reduction in the intervention rate to 6.00% on 3 May.

Capital Market

In April, the capital market continued to register a net redemption, totalling RM493 million (-RM1.3 billion in March). While no new funds were raised by the public sector, the small amount of funds raised by the private sector was more than offset by redemptions amounting to RM520 million.

Funds Raised in the Capital Market [p]

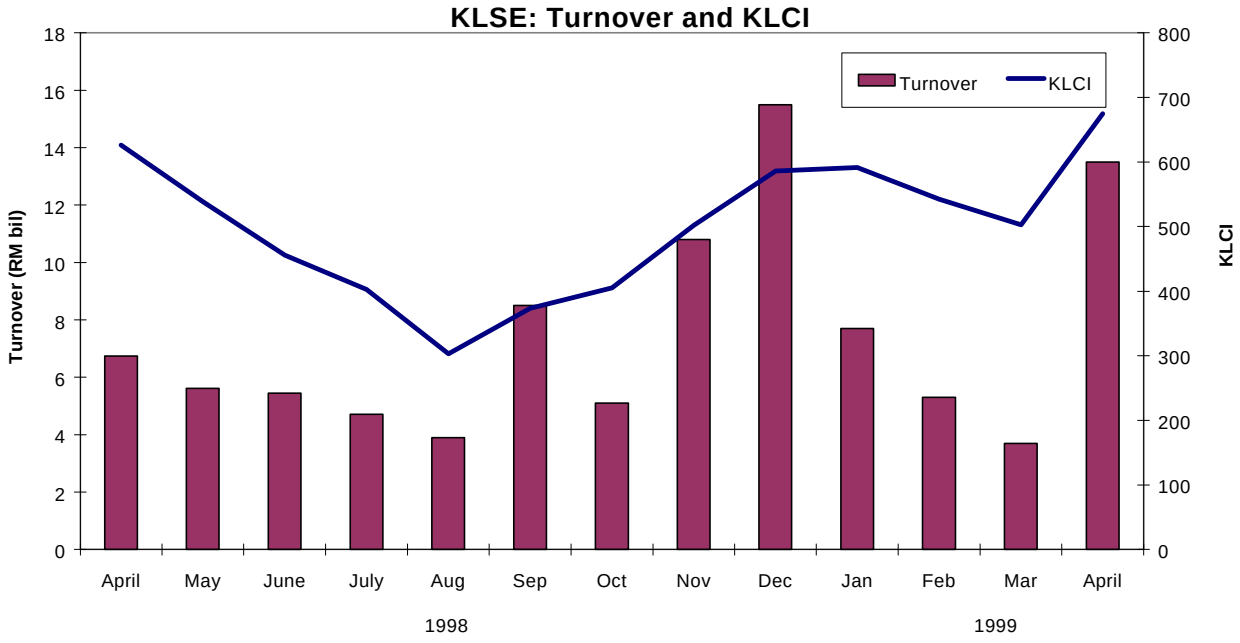
	1998	1999	
	Year	Mar	Apr
	RM million		
By Public Sector			
Net Funds Raised	9,804	485	0
By Private Sector			
Shares	1,788	0	10
Debt Securities [1]	14,152	142	17
Less Redemptions	8,061	1,937	520
Equals Net Issues	6,091	-1,795	-503
Net Funds Raised	7,879	-1,795	-493
Net Funds Raised in the Capital Market	17,683	-1,310	-493
Net Issues of Short-Term Securities [2]	-155	-80	50
Total	17,528	-1,390	-443

[p] Preliminary.
[1] Excludes debt securities issued by banking institutions.
[2] Refers to Cagamas Notes and commercial papers. For 1999, refers to Cagamas Notes only.

Sentiment on the Kuala Lumpur Stock Exchange (KLSE) improved significantly in April, reflected by the increase of 34.2% in the Kuala Lumpur Composite Index (KLCI) which closed at 674.96 points on 30 April. Similarly, the market capitalisation rose by 33.8% to RM425 billion. This improvement reflected the market's favourable response to BNM's economic forecast for 1999, the reduction in the intervention rate, the upgrading of Malaysia's

outlook by international credit agencies and renewed foreign interest in the stock market.

In the first three weeks of May, the market strengthened further to breach the 700-point level on 5 May and the 750-point level on 14 May. Market developments were influenced by the Dow Jones Industrial Average Index which reached the 11,000-point level for the first time on 3 May, a further reduction in the intervention rate, the Government's planned global bond issue and overall positive sentiment in the region. On 24 May, the KLCI closed at 743.34 points while market capitalisation stood at RM469 billion.



International Reserves

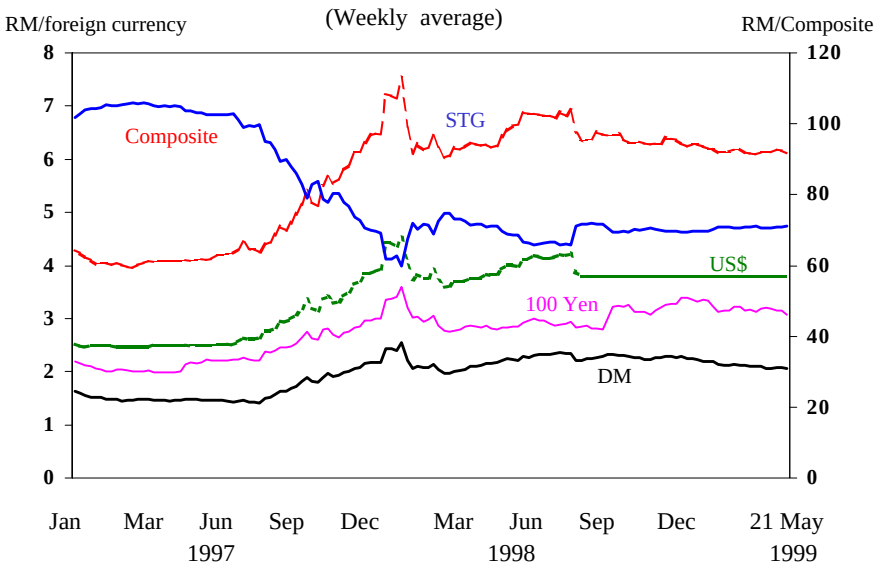
The international reserves held by BNM increased by RM3.4 billion from end-March to RM108.7 billion at end-April 1999. The United States dollar equivalent of international reserves at end-April was US$28.6 billion. Reserves increased further to RM112.7 billion or US$29.7 billion as at 15 May 1999. Since end-August, reserves rose by US$9.5 billion. This level of reserves was sufficient to finance 6.5 months of retained imports.

Exchange Rates

In April, the ringgit recorded a mixed performance against the major currencies. The ringgit appreciated against the Deutsche mark (0.7%), euro (0.7%) and Swiss franc (1.8%), but depreciated against the yen (-1%) and remained stable against the pound sterling. Against the composite index, the ringgit depreciated by 0.4%.

During the period 1-21 May, with the exception of the Swiss franc (-0.4%), the ringgit appreciated against most major currencies within the range of 0.1-3.9%. The dollar strengthened against the yen (+3.9%) on indications that US monetary policy would lean towards a tighter stance in order to dampen inflationary pressures following the 0.7% month-on-month increase in the consumer price index in April. Meanwhile, the dollar's gain over the yen was further underscored by disappointment over the lack of additional fiscal stimulus measures from the Japanese government to revive the stagnant economy. Indications of weak business confidence in Germany and a sharp decline in Italy's industrial orders against a backdrop of strong economic prospects for the US were also positive for the dollar.

Exchange Rate of the Malaysian Ringgit against Major Currencies



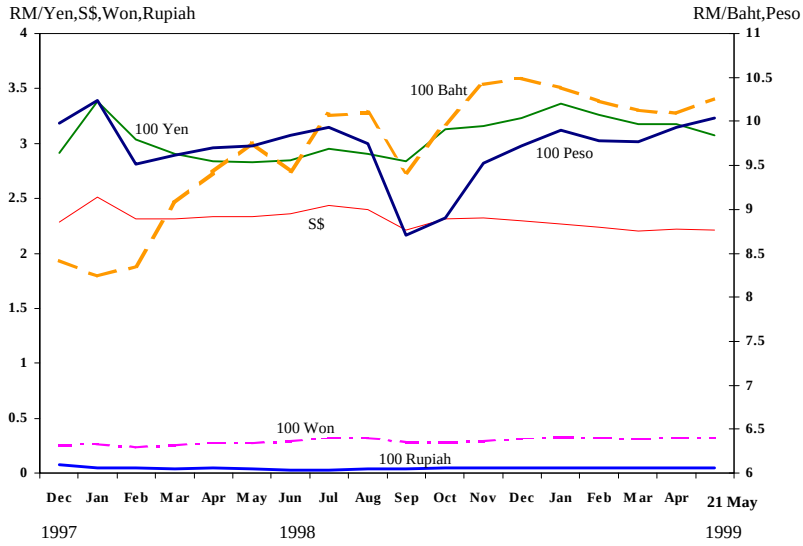
Against selected regional currencies, the ringgit's performance was in tandem with movements of the US dollar. In April, the ringgit depreciated against the Thai baht (-1.0%), Singapore dollar (-1.8%), Philippine peso (-2.1%), Korean won (-3.7%) and Indonesian rupiah (-6.1%). The performance of these regional currencies was influenced by the yen's strengthening against the US dollar as well as foreign inflows into their domestic equity markets. Meanwhile, the ringgit's performance against regional currencies during the period 1-21 May was mixed. The ringgit appreciated against the Korean won (0.8%) and Singapore dollar (1.1%), but depreciated against the other regional currencies within a range of 0.3-1.3%.

Performance of Ringgit against Selected Regional Currencies since 2 September 1998 [1/]

RM per foreign currency	2 September 1998	End-April 1999	% Change
US dollar	3.8000	3.8000	0.0
Japanese yen	2.7742	3.1887	-13.0
Singapore dollar	2.1998	2.2333	-1.5
100 Thai baht	9.3713	10.2042	-8.2
100 Philippine peso	8.8302	10.0122	-11.8
100 Indonesian Rupiah	0.0354	0.0464	-23.7
100 Korean won	0.2827	0.3221	-12.2

[1/] Rates quoted are the average of buying and selling rates in the Kuala Lumpur interbank foreign exchange market at noon.

Performance of Ringgit against Regional Currencies
(Period average)



Inflation

The annual rate of inflation as measured by the Consumer Price Index (CPI, 1994=100) moderated slightly to 2.9% in April from 3% in March. The continued moderation in the CPI reflected mainly declines in the prices of transport and communication; and clothing and footwear as well as further moderation in price increases for furniture, furnishings and household equipment; miscellaneous goods and services; and medical care and health expenses. The decline in the price of transport was due mainly to lower petrol prices offered by the oil companies. Meanwhile, price increases for food; gross rent, fuel and power; and recreation, entertainment, education and cultural services stabilised at 4.6%, 2.3% and 3.7% respectively during the month. For the first four months of 1999, the CPI increased by 3.8%, compared with 4.6% in the corresponding period of 1998.

Bank Negara Malaysia
25 May 1999