MONETARY AND FINANCIAL DEVELOPMENTS
AUGUST 1999

Monetary Developments

The monetary situation remained relatively stable in August 1999. **M3** recorded a small decline of RM1.5 billion or 0.3% (+RM2.8 billion or +0.7% in July). As a result, the annual growth of M3 moderated to 8.5% at end-August (9% at end-July). In terms of **components**, transaction balances declined slightly by RM0.2 billion, due solely to the decline in demand deposits. At the same time, broad quasi-money also declined by RM1.3 billion (+RM1 billion in July), reflecting mainly the contraction in NIDs (-RM3.7 billion) due to the maturity of contracts. This was partially offset by the increase in fixed deposits (RM1.1 billion), repos (RM0.8 billion) and savings deposits (RM0.7 billion).

M3 Determinants
(change during the period in RM billion)

	1997	1998 [1/]	1999			
			June [2/]	July	August	Jan.-Aug.
M3	61.1	10.6	2.6	2.8	-1.5	18.9
Of which:						
Claims on Government	0.5	-12.3	-2.7	2.7	-2.8	-2.7
Claims on private sector	90.4	4.1	-0.5	-2.3	-0.6	-14.5
External operations	-16.8	51.2	5.3	3.0	1.7	25.1
Other influences	-13.0	-32.3	0.5	-0.6	0.2	11.0

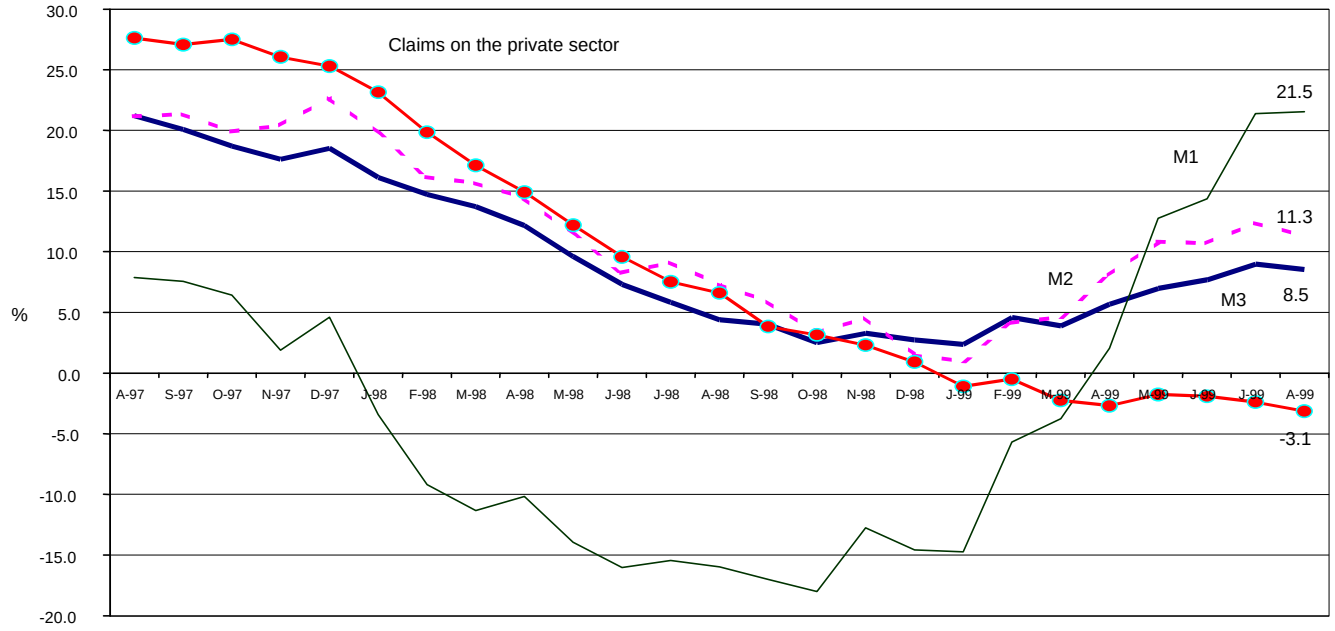
1/ Effective 15 September 1998, following the fixing of the Ringgit/United States dollar exchange rate at RM3.80, all foreign currency assets and liabilities have been revalued into ringgit at rates of exchange prevailing on the reporting date. Therefore, part of the increase in the external assets reflected 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. Therefore, part of the increase in the external assets in June was offset by BNM's exchange revaluation loss for the second quarter of 1999. The revaluation loss of BNM was also reflected in other influences.

In terms of **determinants**, the decline in M3 reflected mainly the decline in claims on the Government and private sector, which more than offset the expansionary influence of the external operations. The claims on the Government declined by RM2.8 billion reflecting the temporary placement of deposits with BNM (RM1.8 billion) following the issuance of Malaysian Government Securities (MGS) in August, and the reduction in holdings of Government securities by the banking institutions (-RM1 billion) through the secondary market. During the month, claims on the private sector also exerted a contractionary impact on money supply (-RM0.6 billion). Loans extended by the banking institutions (excluding loans sold to Cagamas and Danaharta) declined by RM0.4 billion, due mainly to the sale of NPLs to Danaharta (RM0.2

billion); some corporate restructuring exercise involving the conversion of certain loans into bonds; as well as high repayment of bank loans. At the same time, holdings of private debt securities by the banking institutions decreased by RM0.2 billion. In contrast, net external assets of BNM and the banking system expanded by RM1.7 billion as net international reserves of BNM increased further by RM2.5 billion, reflecting mainly the continued large trade surplus in the external account.

Annual Growth of Monetary Aggregates (in %)



Banking System

Total **deposits** mobilised by the banking system declined by RM1.9 billion or 0.4% in August (+RM1.9 billion or +0.4% in July). This was due to the decrease in deposits placed with finance companies (-RM1.3 billion) and merchant banks (-RM1.2 billion), while placements of deposits with commercial banks increased by RM0.6 billion. Nevertheless, on an annual basis, total deposits mobilised by the banking system increased by 4.2% as at end-August (4.8% as at end-July).

The decline in deposits in August was partly attributed to a decline in deposits by non-residents (-RM0.4 billion) as well as a decline in interplacement of funds between banking institutions (-RM0.3 billion). By type of deposits, the largest decline in deposits was in the form of NIDs (-RM3.6 billion), mainly in terms of those issued to business enterprises (-RM2.6 billion) and non-bank financial institutions (-RM0.9 billion). Meanwhile, the decline in demand deposits

(-RM0.8 billion) was attributable to a decrease in placements by non-bank financial institutions (-RM0.6 billion). On the other hand, fixed deposits continued to increase, mainly in terms of placements by non-bank financial institutions (+RM1.0 billion) and business enterprises (+RM0.6 billion). Savings deposits also recorded an increase of RM0.7 billion. By holder, the decline was due mainly to lower deposits by statutory authorities (-RM1 billion) and business enterprises (-RM1 billion). However, deposits placed by individuals increased by RM0.6 billion.

Deposits and Loans of the Banking System (RM million)

	Monthly change 1999		As at end of 1999	
	July	**August**	**July**	**August**
Deposits				
Commercial banks	3,181	559	325,662	326,221
Finance companies	50	-1,311	90,378	89,067
Merchant banks	-1,337	-1,177	26,505	25,327
Banking system	1,894	-1,929	442,545	440,616
Loans[1]				
Commercial banks	-1,046	412	317,079	317,491
Finance companies	44	-933	85,777	84,844
Merchant banks	-1,091	-191	22,069	21,878
Banking system	-2,092	-712	424,926	424,214
Loans[2]				
Commercial banks	-2,119	958	282,870	283,828
Finance companies	-1,048	-1,248	75,921	74,673
Merchant banks	-1,158	-266	19,498	19,232
Banking system	-4,326	-556	378,289	377,732
Resource surplus (+)/gap(-)[2]	6,219	-1,373	64,256	62,883
Loan-deposit ratio (%)[2]			**85.5**	**85.7**

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.

Total **loans outstanding** (including NPLs sold to Danaharta) extended by the banking system recorded a smaller decline of RM0.7 billion or 0.2% in August (-RM2.1 billion or -0.5% in July) due to the decline in loans extended by finance companies and merchant banks (-RM0.9 billion and –RM0.2 billion respectively) as loans extended by commercial banks increased by RM0.4 billion. On an annual basis, total loans outstanding increased by 0.5% as at end-August (1.2% as at end-July), with commercial banks recording an annual growth of 5.2%.

During the month, a total of RM0.2 billion of gross NPLs were sold to Danaharta (RM0.7 billion in July). Excluding these NPLs, total loans outstanding declined by RM0.9 billion or 0.2% in August (-RM2.8 billion or -0.7% in July), while the annual growth rate registered a contraction

of 6.3% as at end-August (-5.6% as at end-July). The decline in loans was due mainly to high repayments relative to disbursements as well as the conversion of some loans into bonds. By sector, total loans outstanding extended to the finance, insurance and business services sector and for the purchase of securities declined by RM1.5 billion and RM0.8 billion respectively. However, loans extended to the manufacturing; wholesale, retail, restaurants and hotels; and construction sectors increased by RM0.6 billion, RM0.3 billion and RM0.2 billion respectively. Loans for consumption purposes also increased by RM0.2 billion.

Banking System: Loans by Sector (RM million)

	Monthly change 1999		As at end of 1999	
	July	**August**	**July**	**August**
Agriculture	61	145	7,796	7,941
Mining and quarrying	-47	31	1,431	1,462
Manufacturing	-480	641	60,558	61,199
Electricity	-226	-278	5,933	5,654
Wholesale, retail, restaurant & hotel	184	336	34,280	34,616
Broad property sector	873	523	143,415	143,938
Construction	*-461*	*246*	*40,512*	*40,758*
Residential property	*1,324*	*103*	*60,062*	*60,164*
Non-residential property	*-390*	*17*	*27,666*	*27,683*
Real estate	*399*	*157*	*15,176*	*15,333*
Transport & storage	-271	22	15,086	15,108
Finance, insurance and business services	-2,297	-1,529	32,213	30,684
Consumption	-519	249	47,979	48,228
Purchase of securities	-615	-830	27,172	26,342
Others	566	-232	20,577	20,345
Total loans outstanding[1]	-2,771	-922	396,440	395,518

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

During the month, total **loans approved** by the banking system remained high at RM10 billion (RM10.3 billion in July). Total **loans disbursed** was lower at RM25 billion in August (RM27.7 billion in July). Nevertheless, in the first eight months of the year, total loans disbursed amounted to RM208.3 billion or a monthly average of RM26 billion, higher than the monthly average of RM20.9 billion in 1998.

As total deposits declined by a larger amount than total loans (excluding loans sold to Cagamas and Danaharta), the banking system recorded a **resource gap** of RM1.4 billion during the month, narrowing the outstanding resource surplus to RM62.9 billion. Consequently, the **loan-deposit ratio** increased marginally to 85.7% (85.5% at end-July).

Developments in the Banking System

Given the improved economic conditions, the health of the banking system remained strong during the month. The **risk-weighted capital ratio** (RWCR) of the banking system stood at 12.8% at the end of August 1999, well above the minimum requirement of 8%. This provides the banking system with more than sufficient cushion to absorb any potential shocks in the economy. In tandem with the strong capital position, the core capital ratio also remained strong at 10.3%. Net **non-performing loans** (NPLs) of the banking system at the end of July 1999 remained at the previous month's level of 7.9% under the six-month classification.

Banking System Health Indicators

	1998			1999			
	Jun.	**Sep.**	**Dec.**	**May**	**Jun.**	**Jul.**	**Aug.**
Capital							
Core-capital ratio (%)	9.2	8.5	8.6	9.7	10.2	10.3	10.3
RWCR (%)	11.2	10.6	11.8	12.0	12.7	13.0	12.8
Net NPL (6-month classification)							
Banking system (%)	n.a.	8.1	7.5	7.9	7.9	7.9	n.a.
Banking system (RM million)	n.a.	32,214	29,286	29,944	29,696	29,343	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

The progress of financial sector restructuring has been commendable. Danaharta has acquired and is currently managing a total of RM30 billion worth of NPLs from the banking system. This amounts to approximately 34% of total NPLs of the banking system. The loan and asset management process, which began in July 1999, has also progressed well. Consistent with the 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 50% have reverted to Danaharta on their loan workout plans. Another 3% of the borrowers have also fully settled or regularised their accounts representing approximately 5% of total NPLs under the management of Danaharta. Capital injection by Danamodal has been reduced further to RM5.7 billion as at the end of August 1999 arising from the repayments of Exchangeable Subordinated Capital Loans by several banking institutions. As at end-August 1999, CDRC has received 62 applications with debts totaling RM34.9 billion. Of these, 11 restructuring schemes involving debts of RM11.2 billion have been completed and are in various stages of implementation, while 12 cases involving debts worth RM2.9 billion have been rejected.

Interest Rates

Interest rates in the **interbank money market** declined marginally in August following the reduction in BNM intervention rate on 9 August to 5.50%. Although the policy rate was reduced by 50 basis points, interbank rates in August were lower by an average of 6-22 basis points over their July levels. In September, interbank rates remained relatively unchanged from their end-August levels.

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

Tenure	**July**	Direction of Change	**August**	Direction of Change	**1 – 24 Sept.**	Tenure
3-Mth	**3.25**	↘	**3.19**	↘	**3.15**	**3-Mth**
1-Mth	3.00	↘	2.91	↘	2.82	1-Mth
1-Wk	2.87	↘	2.65		2.66	1-Wk
O/night	2.61	↘	2.54	↘	2.53	O/night

Following the intervention rate reduction in August, the average **base lending rates** (BLR) of the commercial banks and finance companies declined by 45 and 55 basis points to 6.79% and 7.95% respectively, and had remained unchanged up till mid-September. The current average BLRs are at their historical lows. The previous lows for commercial banks and finance companies were 6.79% (November 1994) and 8.40% (December 1994) respectively.

The average **fixed deposit** rates of commercial banks were unchanged in August and the first half of September, and ranged between 3.75-3.79% as at 15 September. Meanwhile, the fixed deposit rates of finance companies continued to increase at the longer tenure in August, causing the term structure of finance companies fixed deposit rates to steepen further. As a result, the average fixed deposit rates of finance companies were in a broader range of 3.78-4.04% as at end-August (end-July: 3.77-3.99%). However, fixed deposit rates of finance companies stabilised in September at their end-August levels.

Capital Market

In August, **net funds** raised from the capital market amounted to RM2.4 billion compared to a net redemption of RM1.2 billion in July. The higher amount of funds raised was mainly due

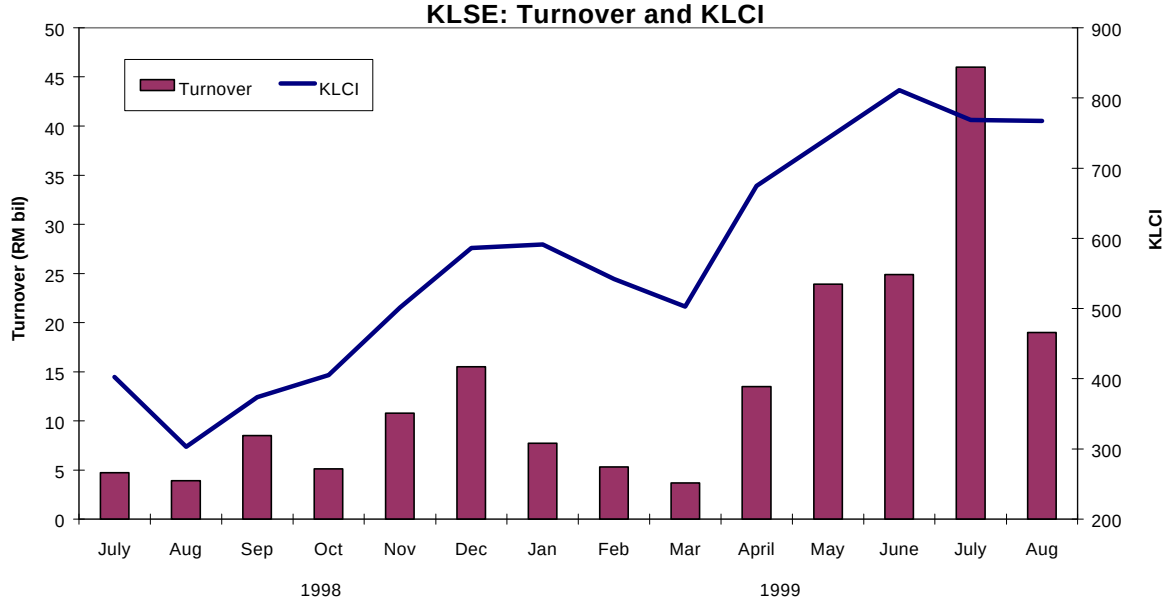
to the RM2 billion issuance of Malaysian Government Securities, as the net amount of funds sourced by the private sector was lower.

Funds Raised in the Capital Market [p] (RM million)

	1998	1999	
		Jul.	Aug.
By Public Sector			
Net Funds Raised	9,804	-2,000	2,000
By Private Sector			
Shares	1,788	249	21
Debt Securities [1]	14,152	1,052	1,300
Less Redemptions	7,976	520	942
Equals Net Issues	6,176	532	358
Net Funds Raised	7,964	781	379
Net Funds Raised in the Capital Market	17,768	-1,219	2,379
Net Issues of Short-Term Securities [2]	-155	375	275
Total	17,613	-844	2,654

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

Sentiment in the **stock market** in August was mixed. Initially, sentiment was weak due to continued selling by foreign and retail players but rebounded strongly on 12 and 13 August following news of the potential reinstatement of Malaysia in the Morgan Stanley Capital International Indices in February 2000. This was, however, short-lived as profit-taking activities and the non-committal attitude of investors ahead of 1 September led the Kuala Lumpur Composite Index (KLCI) and market capitalisation to close lower at 767.06 points and RM514.4 billion respectively.



The weak sentiment in late August continued into the first three weeks of September, with the KLCI falling by 9.5% to close at 694.22 points on 24 September. Although the decline was relatively large, there were no signs of panic selling. After declining on the first two trading days of September due to concerns over capital outflows, the KLCI picked up temporarily, following the release of information on the small net capital outflows and announcements of better-than-expected corporate earnings. The KLCI, however, trended downwards after 9 September, adversely affected by the strengthening of the Japanese yen and fears over the possibility of a United States interest rate hike. The fall in the KLCI was in tandem with the declines in the regional markets. As at 24 September, the market capitalisation was lower, totalling RM471.4 billion.

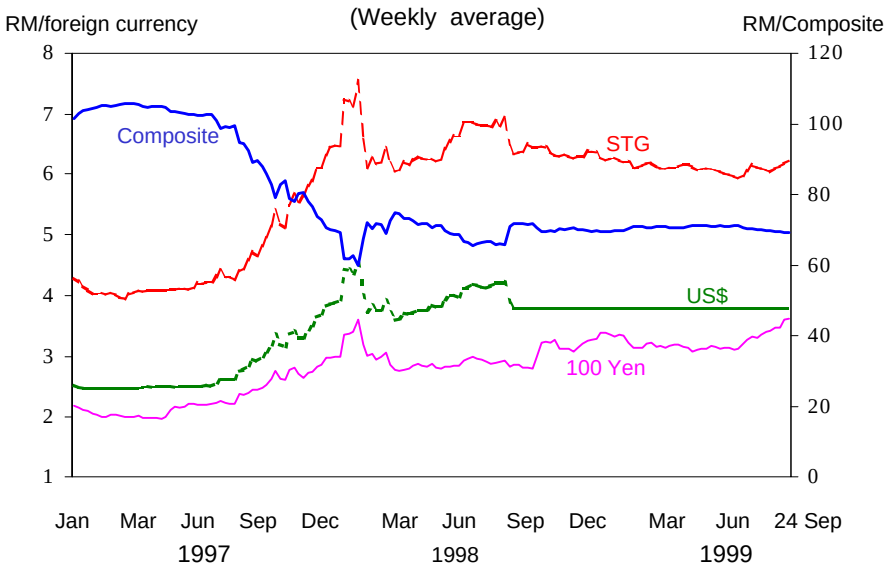
International Reserves

During the month, the **international reserves** held by BNM increased by RM2.5 billion to RM122.9 billion as at end-August 1999. The United States dollar equivalent of the international reserves at end-August was US$32.3 billion. Reserves declined somewhat to RM119.9 billion or US$31.6 billion as at 15 September 1999, sufficient to finance 6.6 months of retained imports. Since end-August 1998, reserves have risen by US$11.3 billion.

Exchange Rates

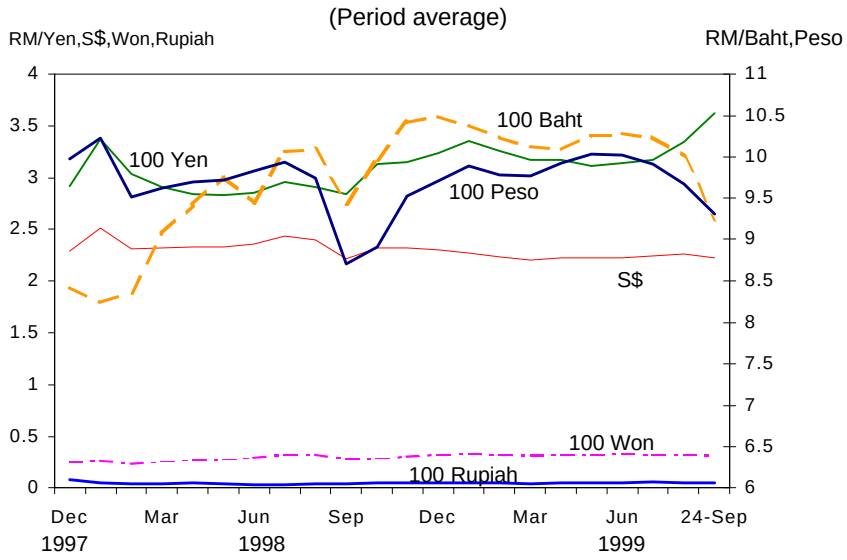
In August, with the exception of the Japanese yen (-3.8%), the **ringgit** appreciated against the other major currencies. The ringgit appreciated against the pound sterling (+1.5%), Euro (+2.2%) and Swiss franc (+2.6%). Against the composite index, the ringgit depreciated by 0.6%.

Exchange Rate of the Malaysian Ringgit against Major Currencies



During the period 1-24 September 1999, the ringgit depreciated across-the-board against the major currencies within a range of 0.2-5.4%, reflecting the US dollar's movements in international foreign exchange markets. Prior to intervention by the Bank of Japan to reduce the yen's excessive rise, the dollar had weakened to a three-year intra day low of US$1=¥103.20 on 15 September. On the domestic front, the yen's rise was supported by better-than-expected economic data for Japan while external factors included concern over the direction of monetary policy in the US which placed bearish pressure on the dollar.

Performance of Ringgit against Regional Currencies



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

RM per foreign currency	2 September 1998	End-August 1999	% Change
US dollar	3.8000	3.8000	0.0
Japanese yen	2.7742	3.4280	-19.1
Singapore dollar	2.1998	2.2525	-2.3
100 Thai baht	9.3713	9.9257	-5.6
100 Philippine peso	8.8302	9.5834	-7.9
100 Indonesian Rupiah	0.0354	0.0496	-28.6
100 Korean won	0.2827	0.3209	-11.9

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

Against selected regional currencies, the ringgit's performance was in tandem with movements of the US dollar. In August, the ringgit was relatively stable against the Singapore dollar but depreciated against the Korean won (-1.9%). Meanwhile, the ringgit appreciated

against the Thai baht (+3.1%), Philippine peso (+3.1%) and Indonesian rupiah (+11.8%). During the period 1-24 September, the ringgit appreciated across-the-board against the regional currencies within a range of 1.4-12.9%.

Inflation

The annual rate of **inflation** as measured by the Consumer Price Index (CPI, 1994=100) moderated to 2.3% in August (2.5% in July). The moderation reflected lower price increases in all items in the CPI basket except for medical care and health expenses which stabilised at 2.5%. The slower price increase in the food sub-group was due to lower increase in all food categories except fish and vegetables. Nevertheless, the lower price of meat more than offset the higher price of fish and fruits and vegetables. For the first eight months of 1999, the CPI moderated to 3.1%, compared with 5.2% in the corresponding period of 1998, reflecting price stability in the economies of Malaysia's major trading partners as well as the stability of the ringgit against the United States dollar.

Bank Negara Malaysia
30 September 1999

Key Monetary and Banking Statistics

	July 1999		August 1999	
	Outstanding (RM billion)	Annual growth (%)	Outstanding (RM billion)	Annual growth (%)
Monetary Aggregates				
Reserve money	35.3	*-35.3*	35.5	*-34.0*
M1	61.5	*21.4*	61.2	*21.5*
M2	317.3	*12.4*	317.9	*11.3*
M3	421.9	*9.0*	420.4	*8.5*
By determinants:				
Claims on the private sector	437.8	*-2.4*	437.2	*-3.1*
Claims on the Government	-20.9	*55.1*	-23.7	*59.4*
External sector	118.0	*100.6*	119.8	*103.2*
Other influences	-113.1	*5.9*	-112.9	*4.4*
Banking System				
Total deposits	442.5	*4.8*	440.6	*4.2*
Total loans (including Cagamas and excluding NPLs sold to Danaharta)	396.4	*-5.6*	395.5	*-6.3*
Of which: Manufacturing	60.6	*-7.3*	61.2	*-6.4*
Broad property	143.4	*-1.8*	143.9	*-2.6*
Construction	40.5	*-7.0*	40.8	*-8.2*
Residential property	60.1	*9.6*	60.2	*8.9*
Non-residential property	27.7	*-9.0*	27.7	*-10.1*
Real estate	15.2	*-12.2*	15.3	*-11.7*
Finance, insurance and business services	32.2	*-11.0*	30.7	*-16.7*
Consumption	48.0	*-6.7*	48.2	*-4.8*
Total loans (including Cagamas and NPLs sold to Danaharta)	424.9	*1.2*	424.2	*0.5*
Total loans (excluding Cagamas and NPLs sold to Danaharta)	378.3	*-5.4*	377.7	*-6.1*
Loan-deposit ratio (%)	85.5		85.7	
Loans approved during the month	10.3		10.0	
Loans disbursed during the month	27.7		25.0	
International Reserves of BNM	**As at end-July**		**As at end-August**	
Reserves in RM (billion)	120.4		122.9	
Reserves in USD (billion)	31.7		32.3	
Months of retained imports	6.6		6.8	
Interest Rates	**(average rates at end-period)**			
Interbank: 1-month	2.95		2.96	
3-month	3.27		3.20	
Fixed deposits of commercial banks:				
1-month	3.75		3.75	
3-month	3.75		3.75	
BLR of commercial banks	7.24		6.79	
Banking System Health	**As at end-July**		**As at end-August**	
Risk-weighted Capital Ratio (RWCR) (%)	13.0		12.8	
Net NPLs (%): 6-Month	7.9		n.a.	
Capital Market	**As at end-July**	**Monthly (%)**	**As at end-August**	**Monthly (%)**
Kuala Lumpur Composite Index (KLCI)	768.69	-5.2	767.06	-0.2
KLSE Market Capitalisation (RM billion)	515.7	-3.1	514.4	-0.3