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PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS JULY 1999

Monetary Developments

The monetary situation continued to improve in July reflecting the favourable developments in both the external sector as well as improved domestic economic conditions. This resulted in the fourth consecutive month of sustained increase in transaction balances for trade and financial-related activities. While total loans outstanding (including loans sold to Danaharta) decreased in July, total loan approvals and disbursements remained strong.

M3 Determinants
(change during the period in RM billion)

	1997	1998 [1/]	1999			
			May	June [2/]	July	Jan.-Jul.
M3	61.1	10.6	2.1	2.6	2.8	**20.4**
Of which:						
Claims on Government	0.5	-12.3	-1.2	-2.7	2.7	**0.1**
Claims on private sector	90.4	4.2	2.9	-0.4	-2.3	**-13.9**
External operations	-16.8	51.2	3.2	5.3	3.0	**23.4**
Other influences	-13.0	-32.4	-2.8	0.4	-0.6	**10.8**

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 had 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.

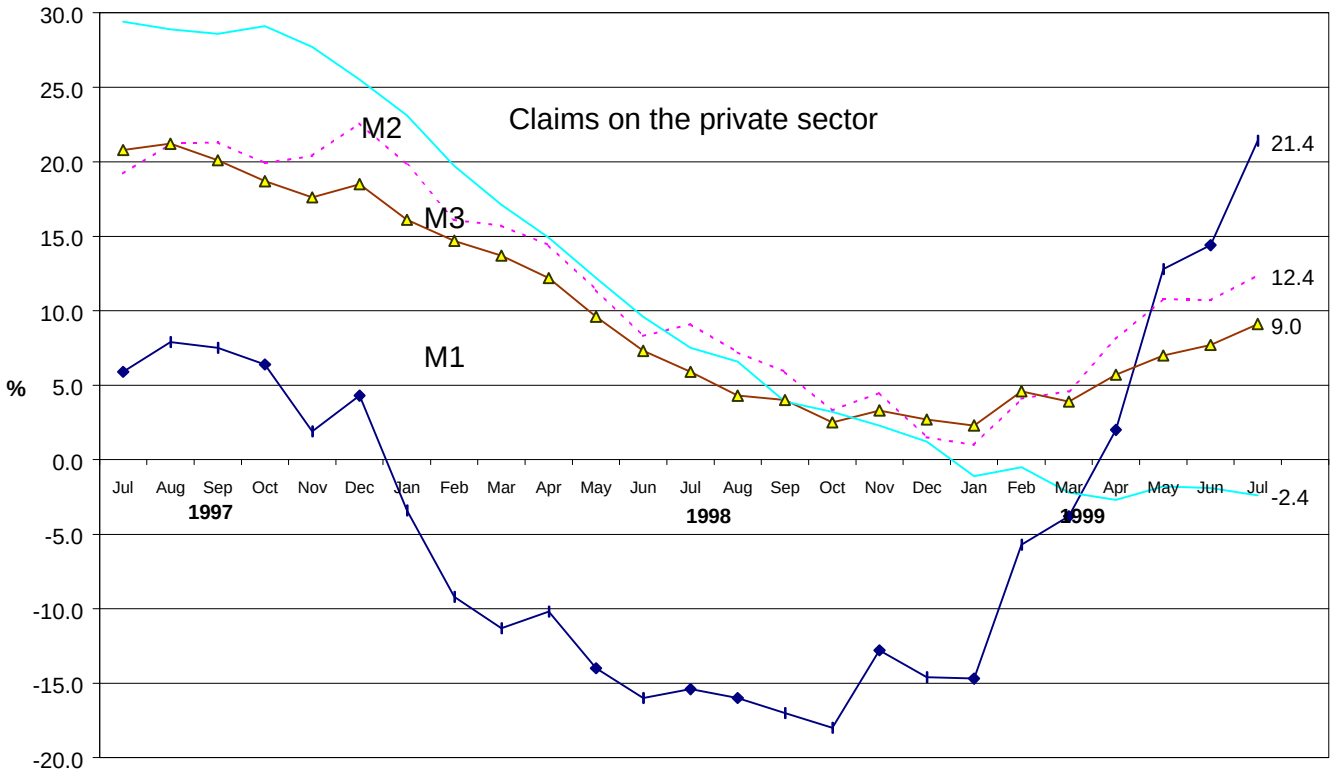
2/ Effective 1 January 1999, all foreign currency assets and liabilities are only revalued at the end of each quarter. Therefore, part of the increase in the external assets in June was offset by BNM's exchange revaluation loss for the second quarter of1999. The revaluation loss of BNM was also reflected in other influences.

M3 continued its growth trend, increasing by RM2.8 billion or 0.7% in July (+RM2.6 billion or 0.6% in June). As such, the annual growth rate of M3 at end-July increased further to 9% (7.7% at end-June). In terms of components, transaction balances (comprising currency in circulation and demand deposits) rose by another RM1.8 billion, due mainly to the increase in

demand deposits in line with the recovery in private sector activities. Meanwhile, broad quasi-money recorded an increase of RM1 billion (-RM180 million in June), reflecting the expansion in all types of deposits except NIDs (-RM2.9 billion). Fixed deposits increased by RM2.4 billion during the month.

In terms of determinants, the expansion in M3 reflected mainly the expansionary impact of external operations and Government activities, which more than offset the contractionary impact from claims on the private sector. The **net external assets** of BNM and the banking system expanded by RM3 billion. The net international reserves of BNM increased further by RM2.1 billion, reflecting mainly the large trade surplus in the external account. Meanwhile, the **Government sector** exerted an expansionary impact of RM2.7 billion, reflecting the drawdown of deposits placed with BNM (-RM3.4 billion) for loan redemption as well as to finance higher development expenditure. During the month, **claims on the private sector** declined by RM2.3 billion due to the decline in credit extended to the private sector (-RM3.2 billion). The decline was due to the exceptionally higher repayments and the sale of NPLs to Danaharta (RM0.7 billion). Holdings of securities by banking institutions, however, increased by RM0.9 billion.

Annual Growth of Monetary Aggregates (in %)



Banking System

Total **deposits** mobilised by the banking system turned around to increase by RM1.9 billion or 0.4% in July (-RM0.5 billion or -0.1% in June). This was due to the increase in deposits placed with commercial banks (+RM3.2 billion), while placements of deposits with finance companies remained relatively unchanged and that with merchant banks declined by RM1.3 billion. During the month, interplacements of funds between banking institutions declined by RM0.8 billion. Excluding these funds, total deposits would have increased by RM2.7 billion. On an annual basis, total deposits mobilised by the banking system increased by 4.8% as at end-July (4.7% as at end-June). By type of deposits, the largest increase in deposits was placed in the form of fixed deposits (+RM3.7 billion), the bulk of which was by business enterprises (+RM2.8 billion) and non-bank financial institutions (+RM1.6 billion). Meanwhile, the increase in demand deposits (+RM1.3 billion) was attributable to an increase in placements by various holders, particularly individuals and statutory authorities (+RM0.4 billion each). On the other hand, NIDs continued to decline (-RM3.2 billion), mainly in terms of those issued to business enterprises (-RM1.9 billion), commercial banks (-RM0.7 billion) and non-bank financial institutions (-RM0.5 billion). SPI deposits also recorded a decline of RM1.1 billion.

Deposits and Loans of the Banking System (RM million)

	Monthly change 1999		As at end of 1999	
	June	**July**	**June**	**July**
Deposits				
Commercial banks	647	3,184	322,478	325,662
Finance companies	-2,269	50	90,329	90,378
Merchant banks	1,085	-1,337	27,842	26,505
Total	-537	1,897	440,648	442,545
Loans[1]				
Commercial banks	1,577	-1,143	318,222	317,079
Finance companies	-771	44	85,733	85,777
Merchant banks	-120	-1,091	23,142	22,051
Total	686	-2,190	427,098	424,908
Loans[2]				
Commercial banks	102	-2,216	285,086	282,870
Finance companies	-1,399	-1,048	76,969	75,921
Merchant banks	-195	-1,158	20,656	19,498
Total	-1,492	-4,423	382,711	378,289
Resource surplus (+)/gap(-)[2]	955	6,319	57,937	64,256
Loan-deposit ratio (%)[2]			**86.9**	**85.5**

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 declined by RM2.2 billion or 0.5% in July (+RM0.7 billion or 0.2% in June) due to the decline in loans extended by commercial banks and merchant banks (-RM1.1 billion each respectively) while loans extended by finance companies increased marginally. The decline, despite higher disbursement during the month, reflected mainly a large repayment by a single borrower and write-off of loans by a merchant bank. Excluding these two factors, total loans outstanding would have declined by only RM0.5 billion during the month. On an annual basis, total loans increased by 1.2% as at end-July (1.6% as at end-June), with commercial banks recording an increase of 5%.

Loans by Sector: Banking System (RM million)

	Monthly change 1999		As at end of 1999	
	June	**July**	**June**	**July**
Agriculture	-91	61	7,735	7,796
Mining and quarrying	-117	-47	1,478	1,431
Manufacturing	1,192	-480	61,038	60,558
Electricity	178	-226	6,158	5,933
Wholesale, retail, restaurant & hotel	-475	255	34,096	34,351
Broad property sector	329	782	142,542	143,324
Construction	*-54*	*-461*	*40,973*	*40,512*
Residential property	*592*	*1,119*	*58,738*	*59,857*
Non-residential property	*-253*	*-304*	*28,055*	*27,752*
Real estate	*44*	*428*	*14,776*	*15,204*
Transport & storage	53	-271	15,358	15,086
Finance, insurance and business services	753	-2,295	34,508	32,213
Consumption	-138	-494	48,498	48,003
Purchase of securities	-1,357	-624	27,787	27,163
Others	-1,686	472	20,109	20,581
Total loans[1]	-1,359	-2,868	399,308	396,440

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

During the month, a total of RM0.7 billion of gross NPLs were sold to Danaharta (RM2 billion in June). Excluding these NPLs, total loans outstanding declined by RM2.9 billion or 0.7% in July (-RM1.4 billion or -0.3% in June), while the annual growth rate registered a contraction of 5.6% as at end-July (-5% as at end-June). By sector, total loans outstanding extended to the finance, insurance and business services sector and for the purchase of securities (-RM2.3 billion and –RM0.6 billion respectively) as well as to the manufacturing sector (-RM0.5 billion) declined. The decline in the loans outstanding extended to the three sectors was mainly due to high loan repayments as well as the sale of NPLs to Danaharta. However, loans extended for

the purchase of residential properties and to the wholesale, retail, restaurants and hotels; and real estate sectors increased during the month.

Overall, the outstanding loans of the banking system in recent months have been influenced by several factors including sales of NPLs to Danaharta, significant repayments, the write-off of loans and conversions of loans into bonds or equities. As such, data on disbursements and approvals would provide a better representation of lending activities of the banking system. In this regard, disbursements of loans have improved substantially in the first seven months of 1999 with a monthly average of RM26.2 billion (RM27.7 billion in July) compared with only RM20.9 billion in 1998. New loans approved by the banking system also rose to RM8 billion a month in the first seven months (RM10.3 billion in July) compared to RM5.2 billion a month in 1998.

As total loans (excluding loans sold to Cagamas and Danaharta) declined while deposits increased, the banking system recorded a resource surplus of RM6.3 billion during the month, widening the outstanding resource surplus to RM64.3 billion. Consequently, the loan-deposit ratio fell further to 85.5% (86.9% at end-June).

Developments in the Banking System

The risk-weighted capital ratio of the banking system strengthened to 13% at the end of July 1999, well above the minimum level of 8%. The core capital ratio also remained relatively strong at 10.3%. Net non-performing loans at the end of June remained at 7.9% under the six-month classification.

Banking System Health Indicators (%)

	1998			1999			
	Jun.	**Sep.**	**Dec.**	**Apr.**	**May**	**Jun.**	**Jul.**
Capital							
Core-capital ratio	9.2	8.5	8.6	8.6	9.7	10.2	10.3
RWCR	11.2	10.6	11.8	12.3	12.0	12.7	13.0
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	29,726	29,944	29,693	n.a.
GP/Net total loans (6-months)	n.a.	1.8	2.0	1.8	1.9	1.8	n.a.

n.a Not available

Significant progress has also been made in the restructuring of the banking system. Total NPLs acquired by Danaharta from the banking system and managed by Danaharta amounted to RM28.5 billion at end-July or 35% of NPLs in the banking system. Danaharta has also started its loan and asset management process, as well as begun to dispose of some of the assets acquired from financial institutions. On 1 July, Danaharta Managers announced the sale by restricted tender offer for its foreign currency loan assets. The exercise was successfully completed on 16 August with a recovery rate of 55%. Since its inception, Danamodal has injected capital into 10 banking institutions totalling RM6.4 billion. As at end-July 1999, Danamodal's capital injection was reduced to RM5.9 billion with the repayment of capital by some banking institutions. As at 31 July 1999, CDRC had received 62 applications with debts totalling RM34.9 billion, of which 10 restructuring schemes involving debts of RM10.2 billion have been completed and are in the process of being implemented, while 11 cases involving debts of RM2.9 billion have been rejected.

As part of the measures to further strengthen the banking system, a consolidation and rationalisation exercise for the domestic banking institutions was announced on 29 July 1999 with the objective of creating a strong and competitive banking system to meet future challenges. The consolidation exercise would create six large and strong domestic financial groups which would reduce the number of domestic commercial banks, finance companies and merchant banks to six each respectively, one for each group.

Interest Rates

Interest rates in the **interbank money market** remained unchanged in July, with the average 3-month interbank rate ranging between 3.19-3.30%. However, interbank rates declined slightly in August following the reduction in the BNM intervention rate on 9 August from 6.00% to 5.50%. During the period 10-21 August, the 1-week, 1-month and 3-month interbank rates were marginally lower by an average of 7-9 basis points as compared with the average rates between 1-9 August. This was because the previous market rates were already reflective of prevailing liquidity conditions.

The average **base lending rates** (BLR) of the commercial banks and finance companies were unchanged in July at 7.24% and 8.50% respectively. However, in line with the reduction in the intervention rate in August, the average BLRs of the commercial banks and finance companies declined by 45 and 55 basis points respectively to 6.79% and 7.95% as at 20 August 1999. The current average BLRs are, therefore, at a historical low. The previous lows for

commercial banks and finance companies were 6.79% in November 1994 and 8.40% in December 1994 respectively.

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

Tenure	June	Direction of Change	July	Direction of Change	1 – 21 August	Tenure
3-Mth	**3.27**	↘	**3.25**	↘	**3.18**	**3-Mth**
1-Mth	3.02	↘	3.00	↘	2.92	1-Mth
1-Wk	2.83		2.87	↘	2.66	1-Wk
O/night	2.81	↘	2.61	↘	2.51	O/night

Meanwhile, the average **fixed deposit rates** of commercial banks were relatively unchanged in July and August, and ranged between 3.75-3.79% as at 20 August. In contrast, the fixed deposit rates of finance companies continued to decline slightly at the shorter tenure but increased at the longer tenure, 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 3.77-4.03% as at end-July (end-June: 3.78-3.97%). The range of average fixed deposit rates of finance companies broadened further to 3.77-4.13% as at 20 August.

Capital Market

In July, after two consecutive months of increase in net funds raised, the capital market returned to record a net redemption of RM1.2 billion (net funds raised of RM4.3 billion in June).

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

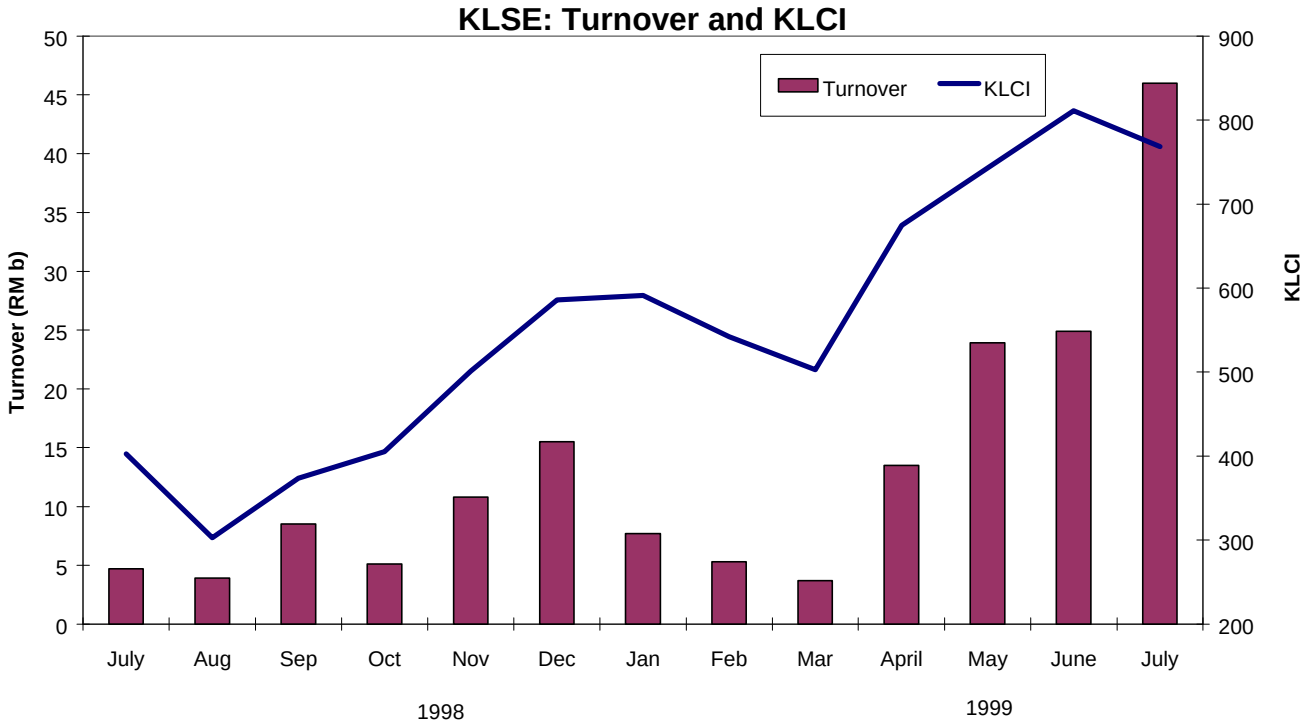
	1998	1999	
		June	July
By Public Sector			
Net Funds Raised	9,804	2,757	-2,000
By Private Sector			
Shares	1,788	134	249
Debt Securities [1]	14,152	2,660	1,052
Less Redemptions	7,976	1,268	520
Equals Net Issues	6,176	1,392	532
Net Funds Raised	7,964	1,526	781
Net Funds Raised in the Capital Market	17,768	4,283	-1,219
Net Issues of Short-Term Securities [2]	-155	-150	375
Total	17,613	4,133	-844

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

This was due to the absence of fund-raising activities by the public sector in the market as well as lower funds raised by the private sector. In fact, the public sector recorded a net redemption of Malaysian Government Securities totalling RM2 billion during the month. In the case of the private sector, the lower net funds raised was attributed primarily to the lower funds raised through private debt securities (RM1.1 billion compared to RM2.7 billion in June).

Trading activity on the Kuala Lumpur Stock Exchange in the first half of July was extraordinary in that the daily volume of trade surpassed the one billion unit mark in almost every trading day. Activity was buoyed by overwhelming retail participation with strong local institutional involvement. The Kuala Lumpur Composite Index (KLCI), however, began to trend downwards from 15 July to close at 768.69 points at the end of July, 5.2% lower than the level at the end of June. Factors that contributed to the downward trend included the declines in the regional stock markets, fears of an interest rate hike in the United States and forced selling on margin positions by retail investors.

Sentiment in the first three weeks of 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 that Malaysia would be included 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 market to close lower at 772.29 points on 21 August, while the market capitalisation stood at RM512 billion.



International Reserves

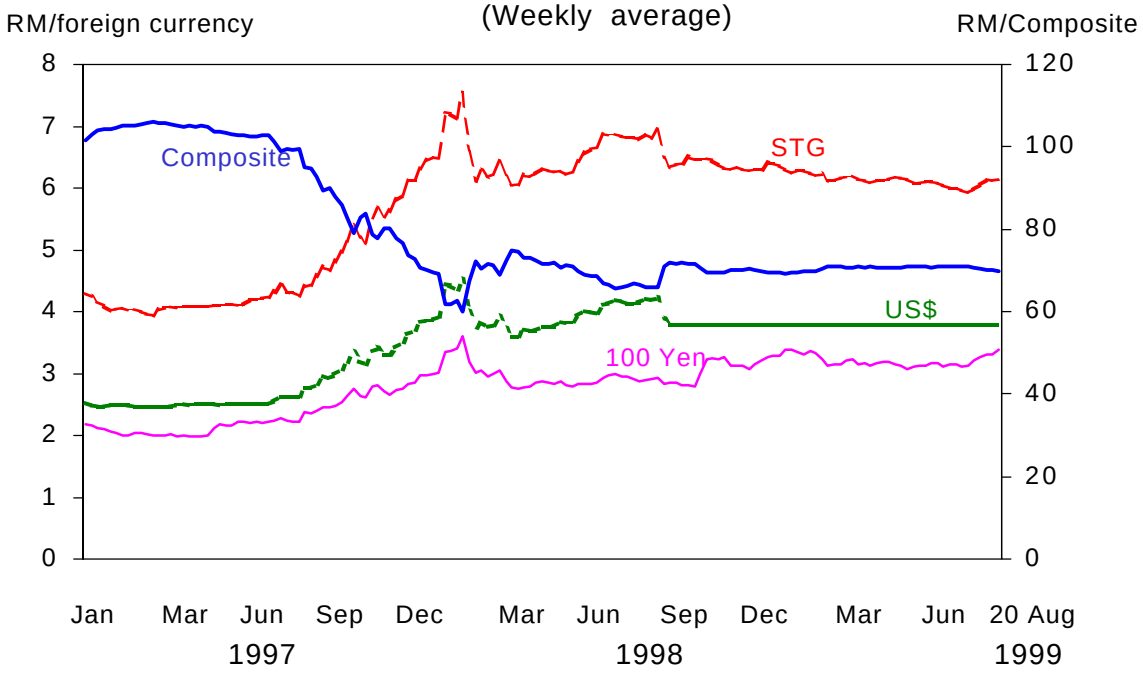
During the month, the international reserves held by BNM increased by RM2.1 billion to RM120.4 bilion as at end-July 1999. The United States dollar equivalent of international reserves at end-July was US$31.7 bilion. Reserves increased further to RM121.1 billion or US$31.9 billion as at 14 August 1999, sufficient to finance 6.8 months of retained imports. Since end-August 1998, reserves have risen by US$11.6 billion.

Exchange Rates

In July, the ringgit depreciated across-the-board against the major currencies. The ringgit depreciated against the pound sterling (-2.4%), Euro (-3.5%), Swiss franc (-3.9%) and Japanese yen (-4.4%). Against the composite index, the ringgit depreciated by 1.1%.

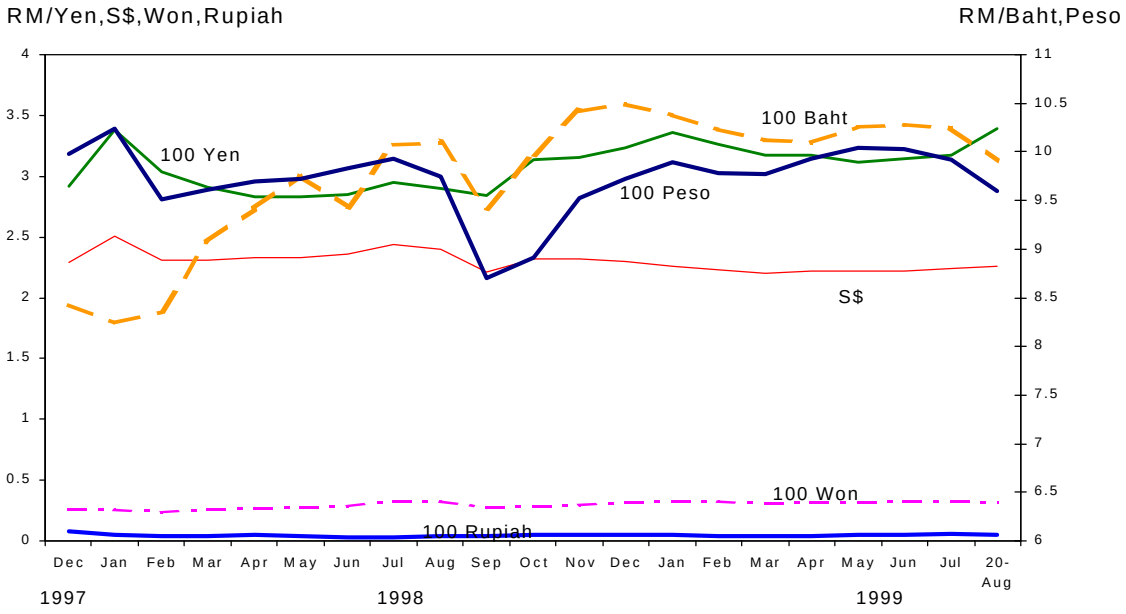
During the period 1-20 August 1999, with the exception of the euro (+0.6%), the ringgit depreciated against the major currencies within a range of 0.2-2.8%, reflecting the US dollar's movements in international foreign exchange markets. The dollar weakened against the yen (-2.8%) as expectations of an interest rate hike and the impact of such a move on the US asset markets, as well as a widening trade deficit recorded in June (US$23.63 billion or 3.4% of GDP), weighed down on the dollar. Meanwhile, apart from the sale of export proceeds by Japanese exporters, the strengthening of the yen was also induced by continued inflows of funds into Japanese assets.

Exchange Rate of the Malaysian Ringgit against Major Currencies



Against selected regional currencies, the ringgit depreciated against the Singapore dollar (-0.8%) but appreciated against the Thai baht (0.6%), Philippine peso (1.2%), Indonesian rupiah (2.2%) and Korean won (4.2%). This reflected the strengthening of the US dollar against these currencies following heightened tensions between China and Taiwan as well as concerns over the private sector corporate debt in Korea. Meanwhile, during the period 1-20 August, with the exception of the Korean won (-0.4%) and Singapore dollar (-0.5%), the ringgit appreciated against the regional currencies within a range of 2.9-7.5%.

Performance of Ringgit against Regional Currencies (Period average)



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

RM per foreign currency	2 September 1998	End-July 1999	% Change
US dollar	3.8000	3.8000	0.0
Japanese yen	2.7742	3.2969	-15.9
Singapore dollar	2.1998	2.2517	-2.3
100 Thai baht	9.3713	10.2303	-8.4
100 Philippine peso	8.8302	9.8811	-10.6
100 Indonesian Rupiah	0.0354	0.0554	-36.1
100 Korean won	0.2827	0.3148	-10.2

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

Inflation

The annual rate of inflation as measured by the Consumer Price Index (CPI, 1994=100) moderated from a high of 6.2% in June 1998 to 2.1% in June 1999. In July, the rate increased slightly to 2.5% reflecting the higher price increases in the food sub-group (4.2% as against 3.2% in June); gross rent, fuel and power; and transport and communications. The higher increase in the food sub-group was due mainly to higher prices of fish as well as fruits and vegetables, due to adverse weather conditions. Meanwhile, the higher price of transportation was due mainly to the increase in toll charges and taxi fares (in Penang). However, the increases in these sub-indices were partly offset by slower increases in the prices of furniture, furnishings and household equipment (0.8%); recreation, entertainment, education and cultural services (1.9%); and miscellaneous goods and services (0.4%). In contrast, prices of clothing and footwear continued to decline by 2.5%. For the first seven months of 1999, the inflation rate moderated to 3.1% compared with 5.2% in the corresponding period of 1998.

Bank Negara Malaysia
30 August 1999

Key Monetary and Banking Statistics

	June 1999		July 1999	
	Outstanding (RM billion)	Annual growth (%)	Outstanding (RM billion)	Annual growth (%)
Monetary Aggregates				
Reserve money	35.0	*-43.3*	35.3	*-35.3*
M1	59.7	*14.4*	61.5	*21.4*
M2	311.9	*10.7*	317.3	*12.4*
M3	419.1	*7.7*	421.9	*9.0*
By determinants:				
Claims on the private sector	440.1	*-1.9*	437.8	*-2.4*
Claims on the Government	-23.6	*115.8*	-20.9	*55.1*
External sector	115.0	*105.2*	118.0	*100.6*
Other influences	-112.5	*7.5*	-113.1	*5.9*
Banking System				
Total deposits	440.6	*4.7*	442.5	*4.8*
Total loans (including Cagamas)	399.3	*-5.0*	396.4	*-5.6*
Of which: Manufacturing	61.0	*-6.1*	60.6	*-7.3*
Broad property	142.5	*-2.0*	143.3	*-1.9*
Construction	41.0	*-5.6*	40.5	*-7.0*
Residential property	58.7	*7.8*	59.9	*9.3*
Non-residential property	28.1	*-6.8*	27.8	*-8.7*
Real estate	14.8	*-15.1*	15.2	*-12.0*
Finance, insurance and business services	34.5	*-3.2*	32.2	*-11.0*
Consumption	48.5	*-6.5*	48.0	*-6.7*
Total loans (including Cagamas and NPLs sold to Danaharta)	427.1	*1.6*	424.9	*1.2*
Total loans (excluding Cagamas and NPLs sold to Danaharta)	382.7	*-4.3*	378.3	*-5.4*
Loan-deposit ratio (%)	86.9		85.5	
Loans approved during the month	10.1		10.3	
International Reserves of BNM				
Reserves in RM (billion)	118.3		120.4	
Reserves in USD (billion)	31.1		31.7	
Months of retained imports	6.7		6.8	
Interest Rates	(average rates at end-period)			
Interbank: 1-month	3.10		2.95	
3-month	3.30		3.27	
Fixed deposits of commercial banks:				
1-month	3.75		3.75	
3-month	3.75		3.75	
BLR of commercial banks:	7.24		7.24	
Banking System Health	**As at end-June**		**As at end-July**	
Risk-weighted Capital Ratio (RWCR) (%)	12.7		13.0	
Net NPLs (%): 6-Month	7.9[1]		7.9[2]	
Capital Market	**As at end-June**	**Monthly (%)**	**As at end-July**	**Monthly (%)**
Kuala Lumpur Composite Index (KLCI)	811.10	9.2	768.69	-5.2
KLSE Market Capitalisation (RM billion)	532.0	15.2	515.7	-3.1

[1] Refers to end-May 1999
[2] Refers to end-June 1999