MONETARY AND FINANCIAL DEVELOPMENTS
MARCH 1999

Latest economic indicators continue to show encouraging prospects of economic recovery. Positive trends, include recovery in investor and consumer confidence; a pick up in stock market activity; and improved export performance in the first two months of 1999. Meanwhile, in the **banking sector**, total deposits increased further in March. The decline in total loans outstanding moderated in March, and loan growth continued to show marginal increases compared to a year ago. Loan approvals, however, increased further. The ample liquidity in the banking system as well as lower costs of borrowings should lead to a pick up of disbursement in the near term.

Monetary Situation

M3 contracted by RM2.5 billion or 0.6% in March (an increase of RM9 billion or 2.2% in February). As a result, the annual growth of M3 moderated slightly to 3.9% at end-March (4.6% at end-February). In terms of components, transaction balances declined by RM2.1 billion, due

M3 Determinants
(change during the period in RM billion)

	1997	1998	1999			
			Jan.	Feb.	Mar.	Jan.-Mar.
M3	61.1	10.6	1.5	9.0	-2.5	**8.0**
Of which:						
Claims on Government	0.5	-12.3	3.2	-1.1	-0.3	**1.8**
Claims on private sector	90.4	4.2	-1.4	-1.8	-8.3	**-11.5**
External operations	-16.8	51.2[1]	5.4	2.6	-2.9[2]	**5.1**[2]
Net other influences	-13.0	-32.4[1]	-5.7	9.3	9.0[2]	**12.6**[2]

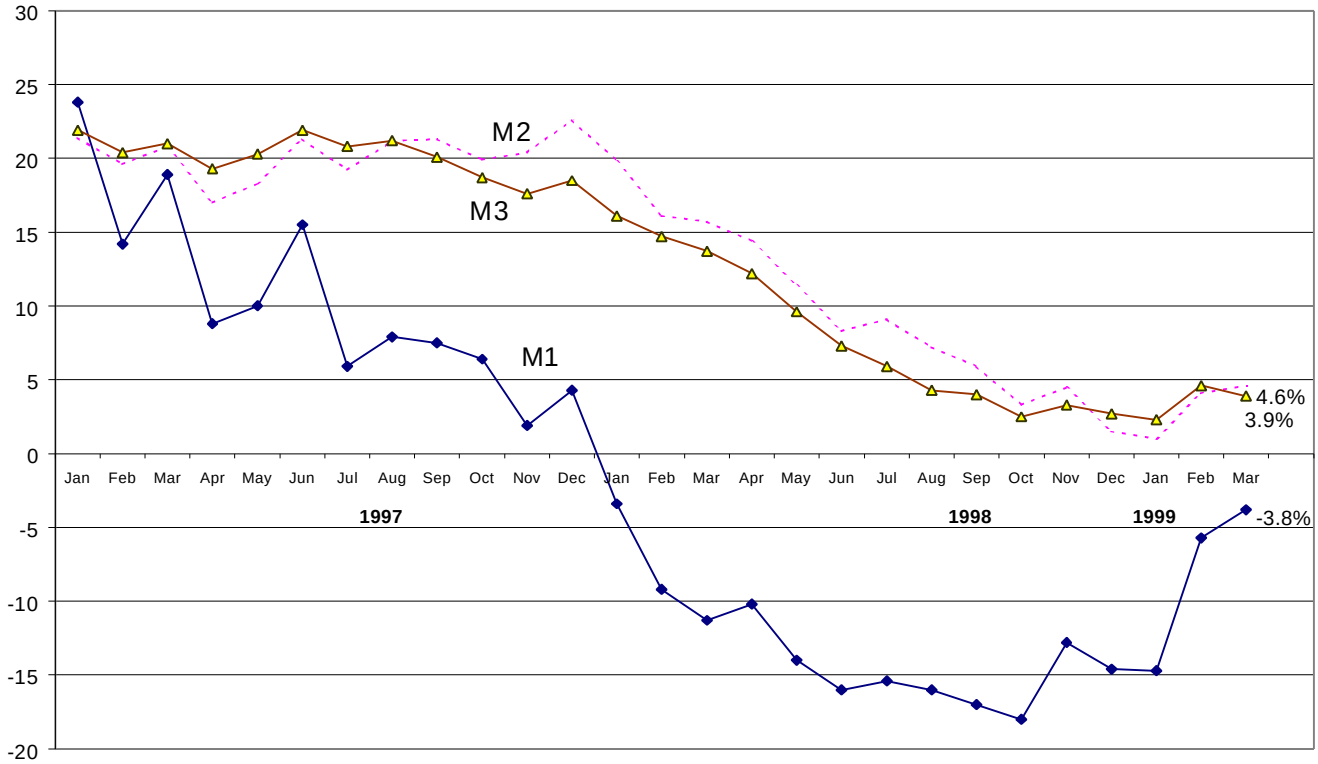
1/ Effective 15 September 1998, following the fixing of the Ringgit/United States dollar exchange rate at RM3.80, all foreign currency assets and liabilities have been revalued into ringgit at rates of exchange prevailing on the reporting date. Therefore, part of the increase in the external assets reflects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

2/ Effective 1 January 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 reflects BNM's exchange revaluation losses for the first quarter of 1999. These revaluation losses were also reflected in other influences.

to declines in both demand deposits (-RM767 million) and currency in circulation (-RM1.3 billion). The latter was attributable to the return of currency to Bank Negara Malaysia (BNM) after the festive season in February. At the same time, broad quasi-money recorded a marginal decline of RM451 million (+RM9.4 billion in February), reflecting the contraction in fixed deposits (-RM1.8 billion) and NIDs (-RM1.7 billion). In contrast, there was a large increase in repos (RM3.2 billion) contributed mainly by higher placements by business enterprises.

In terms of determinants, the decrease in M3 reflected mainly the contraction in both claims on the private sector as well as external operations. During the month, **claims on the private sector** contracted by RM8.3 billion, attributable to the decline in loans of RM7.1 billion and lower holdings of securities by banking institutions of RM1.2 billion. The decline in loans reflected mainly the sales of NPLs to Danaharta amounting to RM7.5 billion, while the lower amount of securities held was attributed mainly to the redemption of Cagamas bonds during the month. **Net external assets** also exerted a contractionary impact of RM2.9 billion on money supply due largely to the decrease in BNM's net international reserves of RM3.8 billion. Part of the decrease in the international reserves in March reflected BNM's exchange revaluation

Annual Growth of Monetary Aggregates



losses for the first quarter of 1999. The lower external assets was partially offset by the decline in the external liabilities of the banking institutions of RM1.2 billion, due largely to the repayment of interbank borrowings to foreign banking institutions. Meanwhile, **net other influences** increased subtantially by RM9 billion, reflecting partly revaluation losses on external reserves as well as the "expected proceeds" from the sale of banking institutions' NPLs to Danaharta. Overall, both the exchange revaluation losses as well as sales of NPLs to Danaharta had a relatively neutral impact on money supply.

Banking System

Total deposits mobilised by the banking system increased further by RM3 billion or 0.7% in March (RM4.6 billion or 1.1% in February) as a result of the increase in deposits placed with commercial banks (RM2.5 billion) and merchant banks (RM1.2 billion). Deposits placed with finance companies declined by RM0.7 billion. On an annual basis, total deposits increased by 1.6% as at end-March (0.6% as at end-February). By type of deposits, the largest increase was in repos (RM3.6 billion), of which the bulk was transacted by business enterprises (RM2.3 billion). NIDs, however, continued to decline by RM0.8 billion in March, especially NIDs issued to domestic business enterprises. By holder, the bulk of the increase in deposits was accounted by the Federal Government (RM1.2 billion), mostly in the form of fixed deposits. Deposits placed by financial institutions also increased by RM1 billion in March, mostly in the form of repos with commercial banks.

Total loans outstanding (including NPLs sold to Danaharta) extended by the banking system declined marginally by RM0.5 billion or 0.1% in March (-RM0.9 billion or -0.2% in February) due to the decrease in loans extended by finance companies (-RM1 billion) and merchant banks (-RM0.3 billion). Loans extended by commercial banks increased by RM0.7 billion. On an annual basis, total loans increased by 1.3% as at end-March (1.2% as at end-February), with commercial banks recording an increase of 7.1%. Meanwhile, loan approvals were higher at RM7.1 billion in March (RM5.8 billion in February).

During the month, a total of RM7.5 billion of gross NPLs was sold to Danaharta (February: RM2.3 billion). Excluding these NPLs, total loans outstanding declined by RM8.1

Deposits and Loans of the Banking System				
	Monthly change		As at end of	
	1999		1999	
	Feb.	Mar.	Feb.	Mar.
	RM million			
Deposits				
Commercial banks	2,921	2,508	310,287	312,795
Finance companies	1,123	-736	96,223	95,486
Merchant banks	542	1,225	26,598	27,823
Total	4,586	2,997	433,108	436,104
Loans[1]				
Commercial banks	-390	731	312,007	312,738
Finance companies	-614	-960	90,881	89,921
Merchant banks	71	-275	22,981	22,706
Total	-934	-504	425,869	425,365
Loans[2]				
Commercial banks	-805	-5,602	287,322	281,720
Finance companies	-1,771	-975	83,159	82,184
Merchant banks	-223	-596	21,662	21,067
Total	-2,800	-7,173	392,144	384,971
Resource surplus (+)/gap (-) [2]	7,386	10,170	40,964	51,134
Loan-deposit ratio (%) [2]			**90.5**	**88.3**

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

billion or 2% in March (-RM3.2 billion or -0.8% in February), while the annual growth declined by 4.2% (-2.5% as at end-February). In terms of loans by sector, the decline in loans was due to lower loans extended to all major sectors except to the transport, storage and communication; and electricity sectors as well as for the purchase of residential property and passenger cars.

As there was an increase in deposits and a decline in loans (excluding loans sold to Cagamas and Danaharta), the banking system recorded a resource surplus of RM10.2 billion in March. The outstanding resource surplus of the banking system also increased to RM51.1 billion at end-March from RM41 billion at end-February. Consequently, the loan-deposit ratio declined to 88.3% (90.5% at end-February).

Loans by Sector: Banking System [1]				
	Monthly change		As at end of	
	1998		1998	
	Feb.	Mar.	Feb.	Mar.
	RM million			
Agriculture	21	-164	7,859	7,694
Mining and quarrying	-26	-123	1,621	1,498
Manufacturing	-828	-1,827	61,490	59,663
Electricity	-19	191	5,639	5,830
Wholesale, retail, restaurant & hotel	-155	-136	34,259	34,122
Broad property sector	-1,066	-2,295	145,819	143,524
Construction	*-263*	*-1,284*	*42,636*	*41,352*
Residential property	*122*	*243*	*57,057*	*57,300*
Non-residential property	*75*	*-201*	*30,121*	*29,920*
Real estate	*-1,000*	*-1,053*	*16,004*	*14,951*
Transport & storage	-211	192	14,685	14,877
Finance, insurance and business services	-74	-447	36,893	36,445
Consumption	0	-322	49,445	49,124
Purchase of securities	-550	-1,592	31,577	29,985
Others	-290	-1,527	21,019	19,492
Total Loans [1]	-3,198	-8,051	410,306	402,255

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 March 1999, well above the minimum level of 8%. Net non-performing loans at the end of February 1999, meanwhile, remained manageable at 11% under the six-month classification and 12.3% under the three-month classification.

Progress in the restructuring of the banking system is well-advanced, with total NPLs acquired and managed by Danaharta from the banking system amounting to RM23.1 billion as at 31 March 1999 or about 28% 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 31 March 1999, the Corporate Debt Restructuring Committee (CDRC), has 48 applications outstanding, with debts totalling RM25.2 billion. On 8 March 1999, CDRC announced the restructuring plan of a major conglomerate involving debts of RM8.4 billion.

Banking System Health Indicators						
	1998			1999		
	Jun.	Sep.	Dec.	Jan.	Feb.	Mar.
Capital						
Core-Capital ratio	9.2	8.5	8.6	8.7	8.5	9.2
RWCR	11.2	10.6	11.8	11.9	11.7	12.3
Net NPL (3-month classification)						
Banking system	8.9	12.8	13.4	13.9	12.3	n.a.
Banking system (RM million)	35,882	50,643	51,931	53,920	47,120	n.a.
Net NPL (6-month classification)						
Banking system	n.a.	8.1	7.5	8.6	11.0	n.a.
Banking system (RM million)	n.a.	32,216	29,286	33,543	43,881	n.a.
GP/Net total loans (3-months)	2.2	2.0	2.3	2.1	2.2	n.a.
GP/Net total loans (6-months)	n.a.	1.8	2.0	1.7	2.2	n.a.

Interest Rates

Interest rates in the **interbank money market** continued to ease in March, reflecting the persistence of excess liquidity in the banking system during the month. Reflecting the surplus liquidity, the average 3-month interbank rate fell significantly in the second half of March. Interbank rates continued to decline further in April following the reduction of the BNM intervention rate from 7.00% to 6.50% on 5 April to reflect the downward trend in the expected inflation rate as well as to sustain the recent positive developments in the economy. While the BNM 3-month intervention rate was reduced by 50 basis points, the average 3-month interbank rate had declined by more than 200 basis points since mid-March to around 4% by mid-April.

In line with the softening in interbank rates, the average **fixed deposit rates** of commercial banks and finance companies declined by 12-19 and 20-23 basis points to 5.39-5.44% and 5.69-5.90% respectively in March. In April, fixed deposit rates declined even more

significantly, shadowing the fall in the interbank and intervention rates. The average fixed deposit rates of commercial banks and finance companies declined by 80-87 and 100-103 basis points to 4.55-4.60% and 4.69-4.89% respectively between 1-15 April.

Movement of Interbank Rates
(average rates during period)

Tenure	**February**	Direction of Change	**March**	Direction of Change	**April 1-22**
3-Mth	**6.39**	↘	**6.19**	↘	**4.44**
1-Mth	5.93		5.77		4.21
1-Wk	5.51		5.49		3.94
O/night	5.23		5.23		3.67

The average **base lending rates** (BLR) of commercial banks and finance companies remained unchanged throughout March at 8.04% and 9.50% respectively. However, following the 50 basis points reduction in the BNM intervention rate, the average BLR of both institutions declined by 40 and 50 basis points to 7.64% and 9.00% respectively as at 15 April.

Capital Market

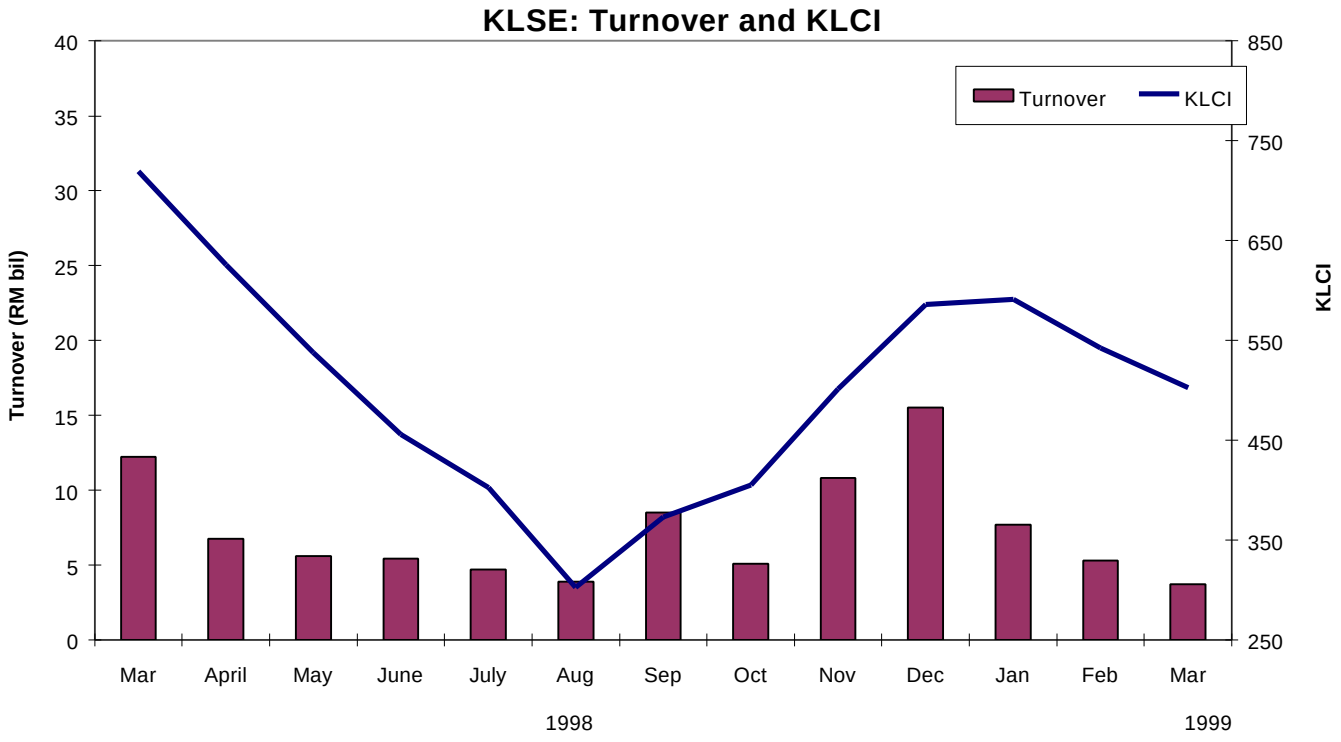
In March, the capital market registered a net redemption of funds, totalling RM1.4 billion (-RM725 million in February), due to the net redemption of funds by the private sector. During the month, the public sector issued Malaysian Government Securities of RM2 billion and Khazanah Bonds of RM635.4 million. After adjusting for redemptions, the total net funds raised by the public sector amounted to RM485 million.

Sentiment on the Kuala Lumpur Stock Exchange (KLSE) remained weak in March due to investors' concerns over the outcome of the Sabah state election, the direction of the economy ahead of the BNM Annual Report as well as the unfavourable corporate results announced during the month. Trading was thin with the average daily turnover volume and value recorded at 79.9 million units and RM169.1 million respectively (compared with 140.1 million units valued at RM330.5 million in the previous month). Reflecting the bearish market sentiment during the

Funds Raised in the Capital Market [p]			
	1998	1999	
	Year	Feb	Mar
	RM million		
By Public Sector			
Net Funds Raised	9,804	0	485
By Private Sector			
Shares	1,788	76	0
Debt Securities [1]	14,152	500	142
Less Redemptions	7,916	1,301	1,988
Equals Net Issues	6,235	-801	-1,846
Net Funds Raised	8,023	-725	-1,846
Net Funds Raised in the Capital Market	17,827	-725	-1,361
Net Issues of Short-Term Securities [2]	-155	375	-80
Total	17,672	-350	-1,441

[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.

The KLCI strengthened by 24.7 points or 4.9% on 1 April following the market's favourable response to the economic forecast by BNM, news on the success of Malaysia to secure loans from Japan and the upgrading of Malaysia's outlook from negative to stable by an international credit rating agency. In addition, the reduction of BNM 3-month intervention rate,



the announcement of a lower inflation rate of 3% for March and renewed foreign interest in the market also helped to improve market sentiment. As a result of these developments, the index strengthened to close at 621.53 points while the market capitalisation of the KLSE improved to RM389 billion on 20 April.

International Reserves

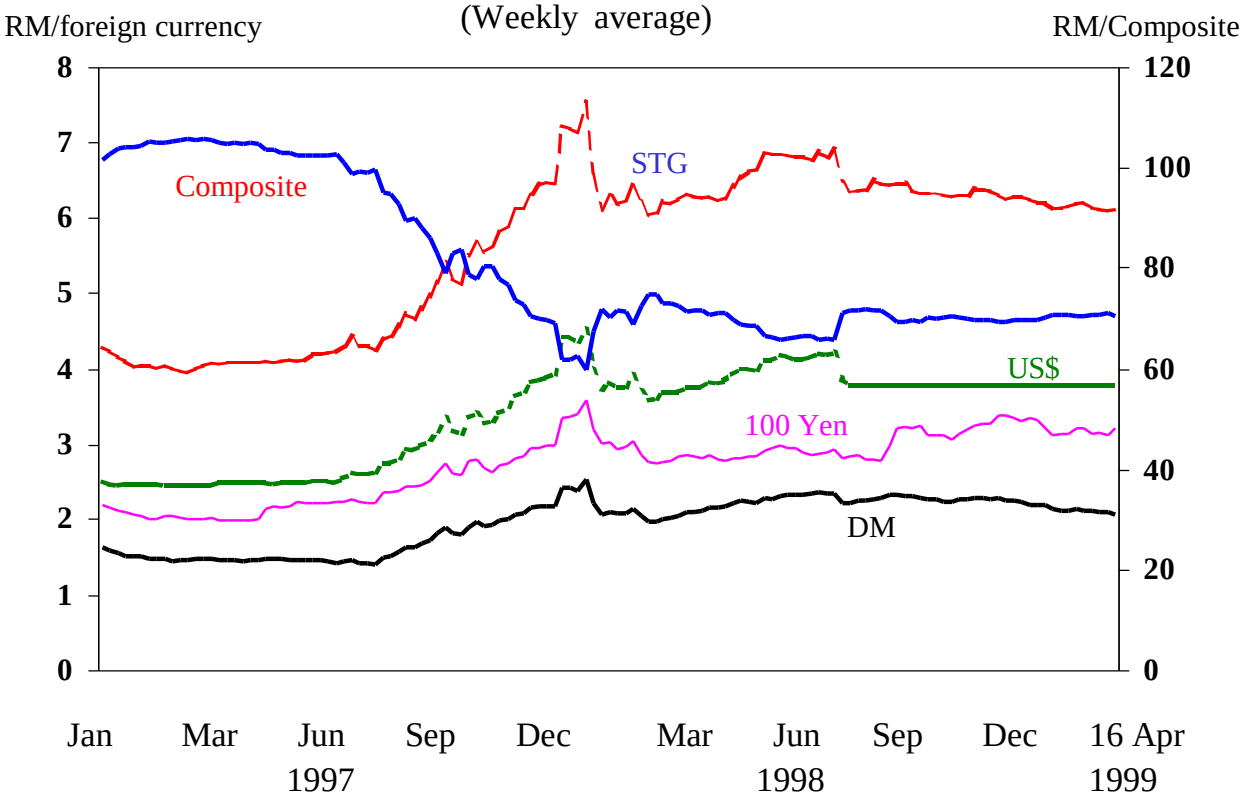
The international reserves held by BNM declined by RM3.7 billion to RM105.3 billion at end-March 1999. The United States dollar equivalent of international reserves at end-March was US$27.7 billion. With effect from 1 January 1999, BNM's policy has been to revalue all its foreign assets and liabilities at the end of each quarter. The decline in reserves reflected primarily the revaluation losses for the three-month period ending 31 March 1999. The revaluation losses were due to the strengthening of the ringgit against most major foreign currencies. Meanwhile, international reserves increased in the first two weeks of April by RM1.5 billion to RM106.8 billion or US$28.1 billion as at 15 April 1999. This level of reserves was sufficient to finance 6.1 months of retained imports.

Exchange Rates

In March, the ringgit recorded a mixed performance against the major currencies. The ringgit appreciated against the Deutsche mark (2.7%), euro (2.7%), and Swiss franc (2.9%), but depreciated against the yen (-0.2%) and pound sterling (-0.7%). Against the composite index, the ringgit appreciated by 0.1%. During the month, the ringgit continued to be influenced by the movements of the US dollar in international foreign exchange markets. The repatriation of capital by Japanese investors to meet financial year-end obligations and the inflow of foreign funds into the Japanese stock market exerted downward pressure on the dollar. However, the pressure on the dollar was reduced somewhat by supportive economic factors, namely the strength of the US economy and the rally in the US stock market. As a result, the dollar recorded only a marginal depreciation of 0.2% against the Japanese yen. Meanwhile, rising military friction in Kosovo and weaker economic growth from the core euro-11 members exerted positive impact on the dollar.

During the period 1-16 April, the ringgit appreciated against most major currencies with the exception of the Japanese yen (-1.8%), within the range of 0.4-1%. The dollar weakened against the yen on speculation that Japanese institutional investors would reduce their holdings of US bonds in favour of investments in Japanese assets. Meanwhile, the dollar gained support against the euro and pound sterling following the reduction of interest rates by the European Central Bank and Bank of England to stave off signs of economic slowdown in their economies. In addition, the escalating conflict in Yugoslavia also boosted the dollar as a safe haven currency.

Exchange Rate of the Malaysian Ringgit against Major Currencies



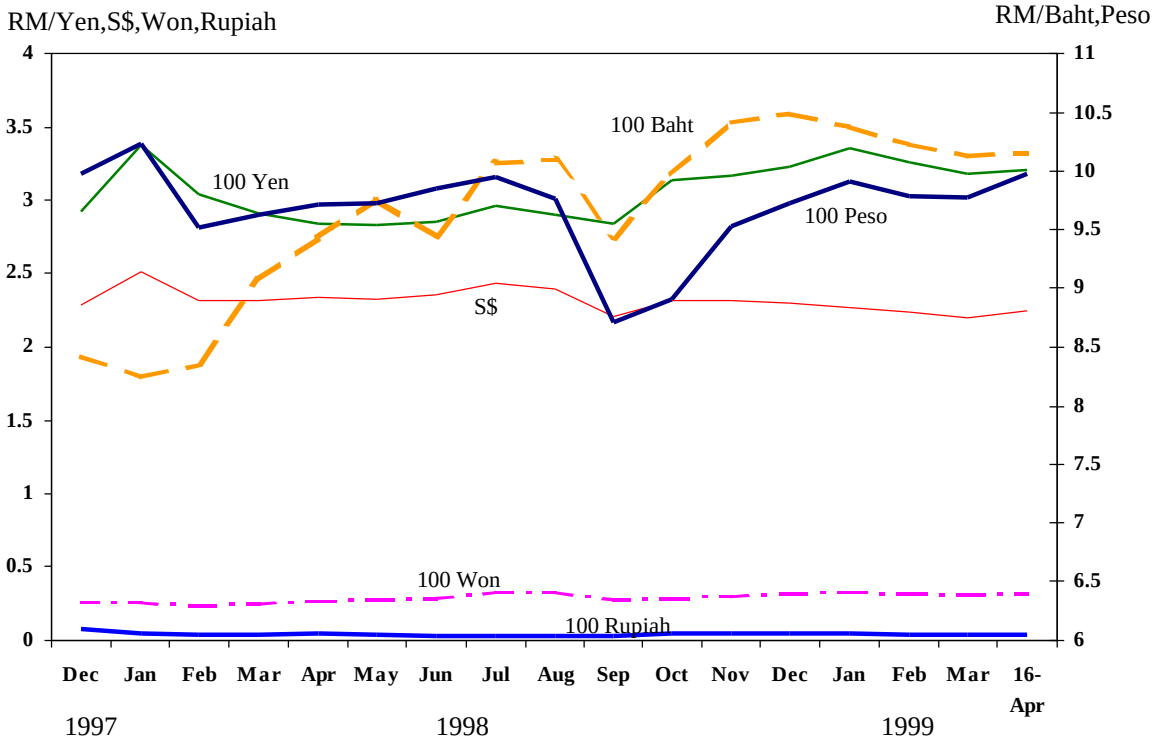
Against selected regional currencies, the ringgit's performance was in tandem with movements of the US dollar. In March, the ringgit appreciated by 0.4% respectively against the Thai baht, Singapore dollar, and Korean won, but depreciated against the Indonesian rupiah (-0.5%) and Philippine peso (-0.7%). During the period 1-16 April, the ringgit depreciated across-the-board against selected regional currencies. The ringgit depreciated against the Thai baht (-0.6%), Korean won (-0.6%), Indonesian rupiah (-0.9%), Philippine peso (-1.6%) and Singapore dollar (-2.1%). The appreciation of these regional currencies against the US dollar was influenced by yen's strengthening against the US dollar.

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

RM per foreign currency	2 Sept. 1998	End-March 1999	% Change
US dollar	3.8000	3.8000	0.0
100 Japanese yen	2.7742	3.1560	-12.1
Singapore dollar	2.1998	2.1938	+0.3
100 Thai baht	9.3713	10.0971	-7.2
100 Philippine peso	8.8302	9.7977	-9.9
100 Indonesian rupiah	0.0354	0.0436	-18.8
100 Korean won	0.2827	0.3101	-8.8

[1/] Rates quoted are the average of buying and selling 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 to 3% in March (3.8% in February). The continued moderation was reflected in almost all items in the CPI basket, particularly in the sub-group of food (4.6% as against 6.4% in February); furniture, furnishing and household equipment; and miscellaneous goods and

services. In the food sub-index, lower price increases were recorded for fruits and vegetables; fish; rice, bread and other cereals; and food away from home, which more than offset the higher price increase for meat. Excluding the food sub index, the adjusted CPI increased more moderately by 2.1%. Meanwhile, the prices of clothing and footwear declined further by 1.3%, while the price increase for gross rent, fuel and power stabilised at 2.3%. The increase in toll charges, with effect from 1 March 1999 resulted in slightly higher prices for transport and communications (0.2%). For January-March 1999, the CPI rose by 4% compared with 4.3% in the corresponding period of 1998.

Key Monetary and Banking Statistics

	February 1999 Outstanding (RM billion)	February 1999 Annual growth (%)	March 1999 Outstanding (RM billion)	March 1999 Annual growth (%)
Monetary Aggregates				
Reserve money	37.5	*-44.9*	35.9	*-44.4*
M1	54.9	*-5.7*	53.0	*-3.8*
M2	302.4	*4.1*	301.9	*4.6*
M3	412.0	*4.6*	409.5	*3.9*
By determinants:				
Claims on the private sector	448.5	*-0.5*	440.2	*-2.3*
Claims on the Government	-18.9		-19.2	
External sector	102.7		99.8	
Other influences	-120.3		-111.3	
Banking System				
Total deposits	433.1	*0.6*	436.1	*1.6*
Total loans (including Cagamas)	410.3	*-2.5*	402.3	*-4.2*
Of which: Manufacturing	61.5	*-5.1*	59.7	*-8.9*
Broad property	145.8	*3.5*	143.5	*0.4*
Construction	42.7	*1.3*	41.4	*-3.2*
Residential property	57.1	*9.1*	57.3	*7.4*
Non-residential property	30.1	*4.2*	29.9	*2.3*
Real estate	16.0	*-8.8*	15.0	*-15.0*
Finance, insurance and business services	36.9	*2.6*	36.4	*0.1*
Consumption	49.4	*-12.4*	49.1	*-10.1*
Total loans (including Cagamas and NPLs sold to Danaharta)	425.8	*1.2*	425.4	*1.3*
Total loans (excluding Cagamas)	392.1	*-2.1*	385.0	*-3.7*
Loan-deposit ratio (%)	90.5		88.3	
Loans approved during the month	5.8		7.1	
International Reserves of BNM	109.0		105.3	
Reserves in USD (billion)	28.7		27.7	
Months of retained imports	6.3		6.1	
Interest Rates	**(average rates at end-period)**			
Interbank : 1-month	5.96		5.40	
3-month	6.42		5.70	
Fixed deposits of commercial banks:				
1-month	5.58		5.39	
3-month	5.59		5.44	
BLR of commercial banks:	8.04		8.04	
Banking System Health	**As at end-February**		**As at end-March**	
Risk-weighted Capital Ratio (RWCR) (%)	11.7		12.3	
Net NPLs (%): 6-Months	8.6[1/]		11.0[2/]	
3-Months	13.9[1/]		12.3[2/]	
Capital Market	**As at end-February**	**Monthly (%)**	**As at end-March**	**Monthly (%)**
Kuala Lumpur Composite Index (KLCI)	542.2	-8.3	502.8	-7.3
KLSE Market Capitalisation (RM billion)	349.4	-9.4	317.9	-9.0

[1/] Refers to end-January 1999

[2/] Refers to end-February 1999