PRESS RELEASE ON
MONETARY AND FINANCIAL DEVELOPMENTS
JANUARY 2000

Monetary Developments

Reflecting the favourable developments in both the external sector and strengthening domestic economic conditions, **M3 recorded an increase of RM290 million or 0.1% in January 2000 (+RM11.2 billion or +2.6% in December 1999)**. The annual growth of M3 rose by 7.9% at end-January (8.2% at end-December 1999). In terms of **components**, the movements in transaction balances and the broad quasi money reflected in part the shift of funds out of currency into both demand and savings deposits. The increase in demand deposits (+RM3.3 billion) led to an increase in transaction balances of RM1.6 billion, in line with stronger consumer expenditure. Currency in circulation declined by RM1.7 billion due to the successful rollover of Y2K. Broad quasi-money recorded a decline of RM1.3 billion (+RM4.5 billion in December), reflecting mainly a decline in repos (-RM3.2 billion) which more than offset the increase in savings deposits (+RM2.4 billion).

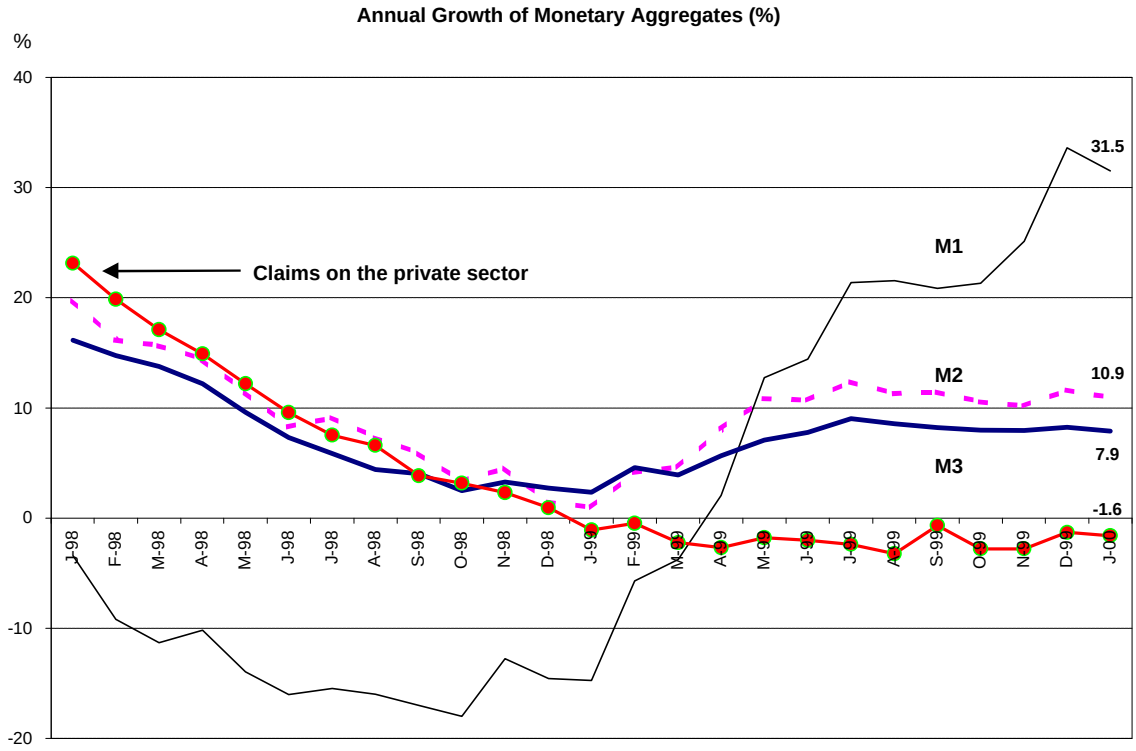
M3 Determinants
(change during the period in RM billion)

	1998 1/	1999 2/	1999 2/		2000
			Nov.	Dec.	Jan.
M3	10.6	33.1	3.6	11.2	0.3
Of which:					
Claims on Government	-12.3	2.2	2.0	1.1	1.8
Claims on private sector	4.1	-5.9	1.4	0.5	-2.8
External operations	51.2	29.0	0.4	6.1	6.5
Other influences	-32.3	7.9	-0.1	3.6	-5.3

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 was attributed mainly to inflows of funds and Government operations. The expansionary impact of the external sector (RM6.5 billion) reflected mainly the large trade and portfolio inflows. The Government sector exerted an expansionary impact of RM1.8 billion as the Government drew down its deposits placed with BNM to finance its development expenditure. On the other hand, claims on the private sector declined by RM2.8 billion reflecting higher repayments vis-à-vis loan disbursement and sales of NPLs to Danaharta.



Banking System

Total **deposits** mobilised by the banking system declined marginally by RM0.8 billion or 0.2% in January (+RM10.8 billion or 0.8% in December 1999) due mainly to net withdrawals by business enterprises and the Government as well as lower interplacements of deposits between banking institutions (-RM0.8 billion). By group of banking institutions, deposits placed with commercial banks increased by RM0.2 billion or 0.1% while deposits with finance companies and merchant banks declined by RM0.3 billion or 0.3% and RM0.8 billion or 3% respectively. On an annual basis, total deposits mobilised by the banking system increased by 4.5% as at end-January (4% as at end-December 1999).

Deposits and Loans of the Banking System (RM million)

	Monthly change		As at end of	
	1999 Dec.	2000 Jan.	1999 Dec.	2000 Jan.
Deposits				
Commercial banks	9,840	242	332,599	332,841
Finance companies	384	-278	90,189	89,912
Merchant banks	618	-784	25,874	25,090
Banking system	10,843	-820	448,662	447,842
Loans[1]				
Commercial banks	2,358	-2,012	320,802	318,790
Finance companies	249	-48	84,553	84,504
Merchant banks	-353	-450	21,945	21,495
Banking system	2,254	-2,510	427,299	424,790
Loans[2]				
Commercial banks	-1,778	-2,058	283,231	281,173
Finance companies	478	-861	75,378	74,517
Merchant banks	-646	-504	18,871	18,367
Banking system	-1,945	-3,423	377,480	374,057
Resource surplus (+)/gap(-)[2]	12,788	2,603	71,182	73,785
Loan-deposit ratio (%)[2]			**84.1**	**83.5**

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.

By type of deposits, the main source of decline was repos (-RM3.3 billion) and fixed deposits (RM2.3 billion) due to net withdrawals by business enterprises. Issues of NIDs was also lower by RM1 billion, primarily the result of lower interplacements. Demand deposits and savings deposits, however, were significantly higher, increasing by RM2.8 billion and RM2.3 billion respectively, mainly due to higher deposits by individuals. By holder, deposits by individuals increased by RM5.4 billion. Deposits by business enterprises and financial institutions declined by RM3.4 billion and RM1.4 billion respectively while Government deposits with the banking system was lower by RM1.5 billion.

During the month, total **loans approved** and **disbursed** by the banking system remained high. Total loans approved amounted to RM8.3 billion in January while disbursements of loans totalled RM27.6 billion. The bulk of loans were disbursed to the manufacturing; wholesale, retail, restaurants and hotels sectors and for consumption credit. However, total **repayment** of loans was also higher, at RM30.9 billion, contributing to the decline in total loans outstanding at the end of January.

By sector, lower loans outstanding were extended to the manufacturing and construction sectors (-RM0.7 billion each) as well as for the purchase of securities (-RM0.5 billion). On the other hand, loans outstanding extended for the purchase of residential property and to the mining and quarrying sector increased by RM1.4 billion and RM0.2 billion respectively.

Banking System: Loans Ourstanding by Sector (RM million)

	Monthly change		As at end of	
	1999 Dec.	2000 Jan.	1999 Dec.	2000 Jan.
Agriculture	637	-45	9,181	9,136
Mining and quarrying	17	227	1,574	1,801
Manufacturing	829	-723	66,061	65,338
Electricity, gas and water	1,314	-256	7,088	6,832
Wholesale, retail, restaurant & hotel	-57	-108	36,318	36,210
Broad property sector	35	375	153,631	154,006
Construction	*-820*	*-659*	*42,819*	*42,160*
Residential property	*745*	*1,389*	*63,348*	*64,737*
Non-residential property	*37*	*-366*	*28,969*	*28,603*
Real estate	*72*	*10*	*18,495*	*18,506*
Transport, storage and communication	137	-131	15,499	15,367
Finance, insurance and business services	1,184	-170	33,362	33,192
Consumption	402	-86	50,236	50,150
Purchase of securities	-430	-535	33,991	33,456
Others	-1,814	-1,057	20,358	19,301
Total loans outstanding[1]	2,254	-2,510	427,299	424,790

1/ Including loans sold to Cagamas and Danaharta.

The banking system recorded an increase in **resource surplus** of RM2.6 billion in January, increasing the outstanding resource surplus to RM73.8 billion. Consequently, the **loan-deposit ratio** declined marginally to 83.5% (84.1% at end-December 1999).

Interest Rates

In January and the first half of February 2000, interbank rates continued to be influenced by the ample liquidity conditions in the money market. During this period, interbank rates remained relatively stable.

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

Tenure	**December**	Direction of Change	**January**	Direction of Change	**1-17 Feb.**	Tenure
3-Mth	**3.15**	↗	**3.18**	**-**	**n.t.**	**3-Mth**
1-Mth	2.82		2.79		2.73	1-Mth
1-Wk	2.62		2.60		2.60	1-Wk
O/night	2.52	↗	2.55		2.55	O/night

n.t. refers to no trading

The average **base lending rates** (BLRs) of commercial banks and finance companies remained unchanged at 6.79% and 7.95% respectively at the end of January. Similarly, the average **fixed deposit rates** for commercial banks and finance companies were virtually unchanged and ranged between 3.23-3.94% and 3.34-4.12% respectively as at 15 February.

Developments in the Banking System

The **risk-weighted capital ratio** of the banking system remained strong at 12.4% at the end of January 2000, well above the minimum requirement of 8%. Similarly, the core capital ratio of the banking system remained high at 10%. This provides the banking system with a more than sufficient cushion to absorb any potential shocks to the economy. The net **non-performing loans (NPLs)** of the banking system showed a marked decrease in December 1999 due to a general decline in the level of NPLs of banking institutions and the removal of a large amount of NPLs from one commercial bank by Danaharta. As at the end of December 1999, the net NPL ratio of the banking system declined to 6.6% on a six-month classification, from 7.4% as at end-November 1999.

With regard to the financial sector restructuring, Danaharta has acquired and is currently managing a total of RM35.7 billion worth of NPLs from the banking system. This amounts to approximately 43% of total NPLs of the banking system. In addition, Danaharta has recently completed the second restricted tender exercise on its foreign currency loan assets amounting to USD251.8 million. The tender exercise was very successful as it had achieved an average recovery rate of 71%.

Capital injection by Danamodal stood at RM5.3 billion as at end-January 2000, following repayments by a few banking institutions. CDRC has received 67 applications with debts totalling RM36.3 billion. Of these, 19 restructuring schemes amounting to RM14.1 billion have been completed and are in various stages of implementation, while 10 cases amounting to RM3.3 billion are being resolved by Danaharta. 13 cases involving debts worth RM2.8 billion have been rejected/withdrawn and the debt restructuring schemes for the remaining 25 cases amounting to RM16.2 billion are currently being worked out.

Banking System Health Indicators

	1998			1999			2000
	Jun.	**Sep.**	**Dec.**	**Sep.**	**Nov.**	**Dec.**	**Jan**
Capital							
Core-capital ratio (%)	9.2	8.5	8.6	10.3	10.2	10.0	10.0
RWCR (%)	11.2	10.6	11.8	12.7	12.5	12.5	12.4
Net NPL (6-month classification)							
Banking system (%)	n.a.	8.1	7.5	7.7	7.4	6.6	n.a.
Banking system (RM million)	n.a.	32,214	29,286	28,706	27,485	24,340	n.a.
GP/Net total loans (6-month,%)	n.a.	1.8	2.0	1.8	1.8	1.8	n.a.

n.a Not available

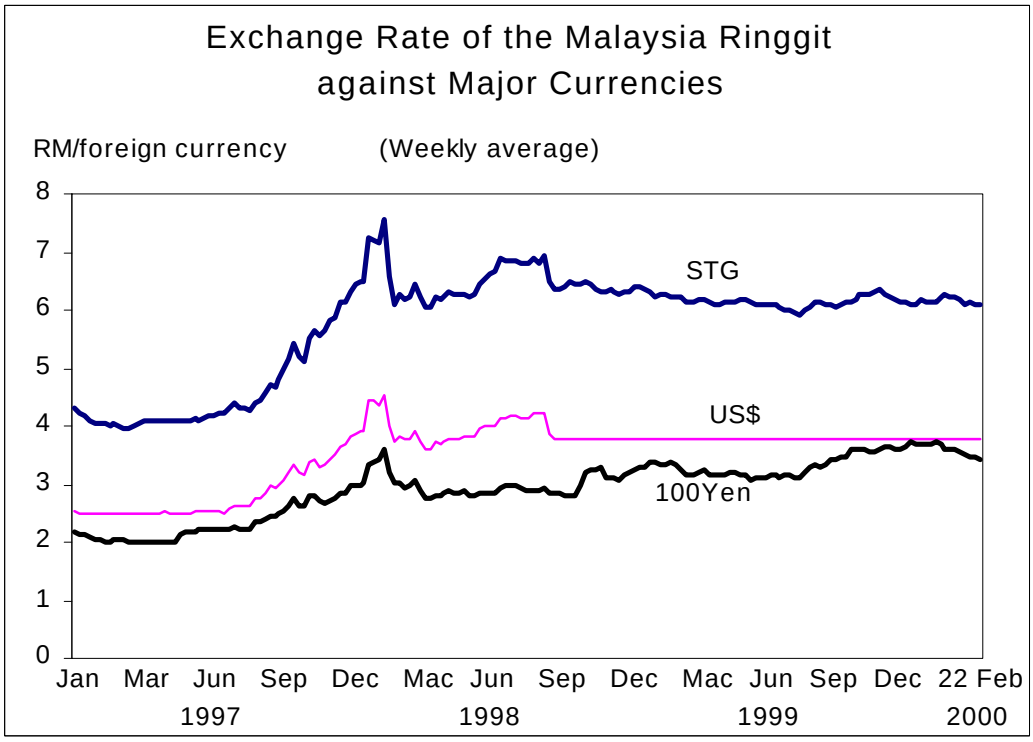
International Reserves

The net **international reserves** increased by RM7.6 billion to RM124.9 billion (US$32.9 billion) as at end-January 2000 due to strong trade and portfolio capital inflows. As at 15 February, reserves increased further to RM127.1 billion (US$33.5 billion), sufficient to finance 6.4 months of retained imports and 5.6 times short-term debt.

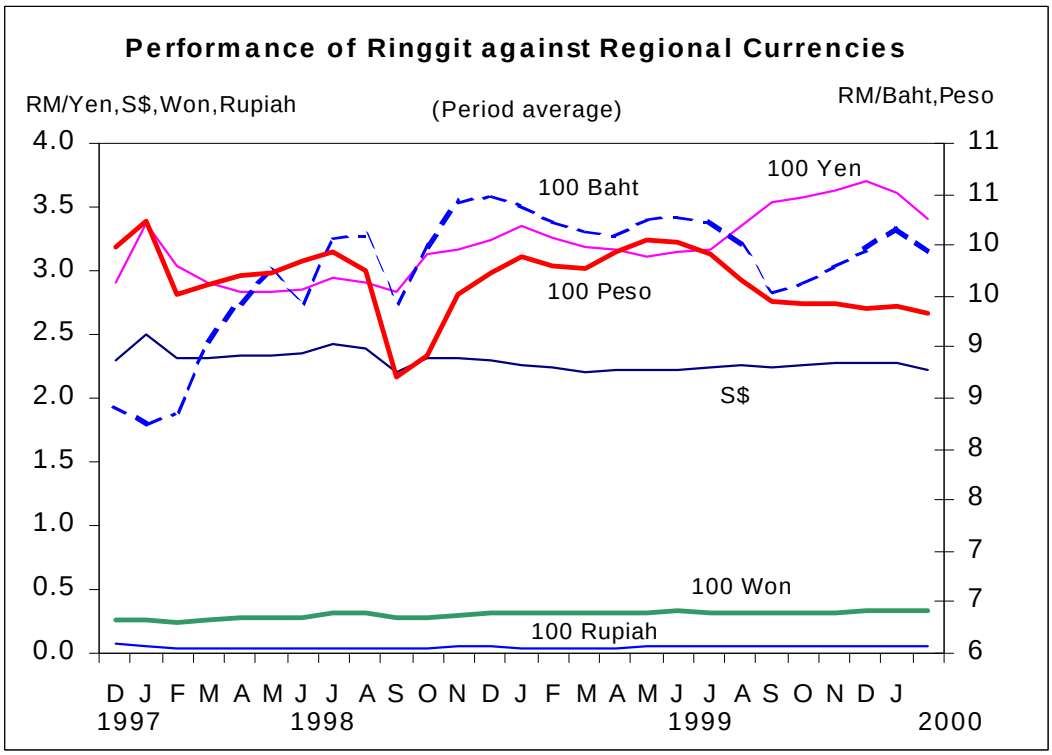
Exchange Rates

In January 2000, the ringgit appreciated against most **major currencies**, with the exception of the pound sterling, in tandem with the movements of the United States dollar in the international foreign exchange markets. The dollar appreciated against the Euro and the yen, buoyed by the robust performance of the US stock market. In contrast, the pound sterling appreciated against the dollar due to expectations of a more aggressive monetary

tightening in the UK. As a result, the ringgit appreciated against the Euro (+2.8%) and the yen (+4.4%), but depreciated against the pound sterling (-0.4%).



The performance of the ringgit against the **regional currencies** was mixed in January. The ringgit depreciated against the New Taiwanese dollar (-2.0%) and the Korean won (-0.6%) supported by strong portfolio flows into Taiwan and heavy purchases of the Korean won by offshore financial institutions. Meanwhile, the ringgit appreciated against the Singapore dollar (+2.4%) and the Indonesian rupiah (+5.9%). Movements in the rupiah was undermined by domestic developments.



In the period **1-22 February 2000**, the ringgit appreciated against most major currencies in the range of 0.9 – 4.5%, except for the Euro, which appreciated against the ringgit by 1.2%. Meanwhile, the ringgit recorded an across-the-board appreciation against the regional currencies in the range of 0.1 – 1.8% during the same period. The movements of the ringgit reflected the movements of the US dollar in the international foreign exchange markets.

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

RM per foreign currency	2 September 1998	22 February 2000	% Change
US dollar	3.8000	3.8000	0.0
100 Japanese yen	2.7742	3.4041	-18.5
Singapore dollar	2.1998	2.2255	-1.2
100 Thai baht	9.3713	9.9437	-5.8
100 Philippine peso	8.8302	9.3349	-5.4
100 Indonesian Rupiah	0.0354	0.0510	-30.6
100 Korean won	0.2827	0.3348	-15.6

[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) moderated from 2.5% in December 1999 to **1.6% in January 2000,** the same rate of increase as in November 1999. Although the moderation in prices is partly due to the high base effect (5.2% in January 1999), this development, nevertheless, confirms the view that the higher rate of increase in December 1999 was mainly on account of temporary supply shortages due to the adverse weather conditions coupled with increased demand due to the various festivities during that month. The lower increase in the CPI in January 2000 was due mainly to moderate, albeit higher than the annual growth of CPI for the month, increases in three sub-indices, that is, food (fish and meat); beverages and tobacco; and medical care and health services. The clothing and footwear sub-index continued to decline for the twelfth consecutive month. In the food sub-group, prices for fruits and vegetables; oil and fats; and sugar declined.

Capital Market

Net funds raised from the capital market amounted to RM849 million in January (December 1999: RM1.2 billion). The lower amount of funds raised, reflected redemptions by the public sector (net funds raised of RM405 million in December), and the absence of new equity issues by the private sector (equity issuance of RM854 million in December). In effect, all of the funds raised in January was through the net issuance of private debt securities (PDS) (net PDS redemption of RM30 million in December).

In January, market sentiment on the Kuala Lumpur Stock Exchange (KLSE) was bullish. Investor confidence increased following the smooth Y2K rollover and the release of positive Industrial Production Index and manufacturing output figures for November 1999. The increased market confidence was reflected by reports of foreign fund managers reinvesting in Malaysia, ahead of the reinstatement of Malaysia into the Morgan Stanley Capital International (MSCI) indices. As at 31 January, the KLSE Composite Index (KLSE CI) closed significantly higher at 922.10 points (+13.5% since end-December 1999) while the KLSE's market capitalisation amounted to RM632 billion (RM553 billion as at end-December 1999).

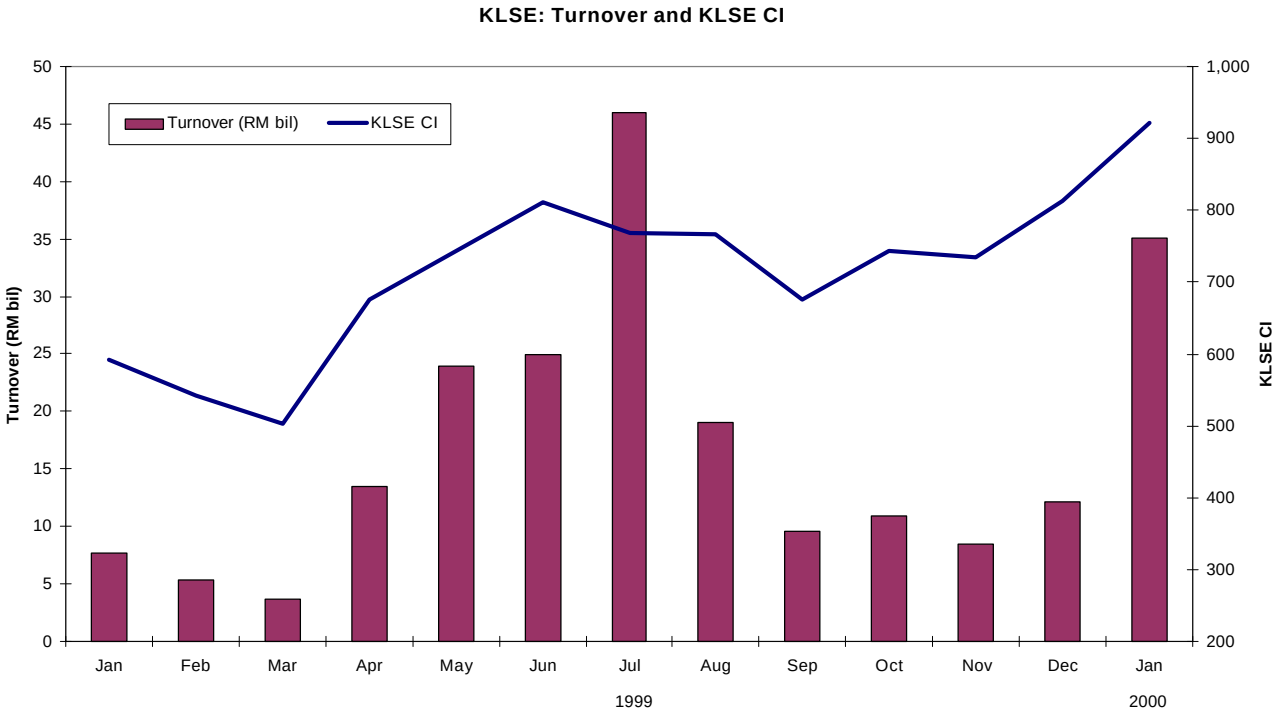
Funds Raised in the Capital Market [p] (RM million)

	1998	1999 Dec.	2000 Jan.
By Public Sector			
Net Funds Raised	9,804	405	-3
By Private Sector			
Shares	1,788	854	0
Debt Securities [1]	14,152	565	1,315
Less Redemptions	7,976	595	463
Equals Net Issues	6,176	-30	852
Net Funds Raised	7,964	824	852
Net Funds Raised in the Capital Market	**17,768**	**1,229**	**849**
Net Issues of Short-Term Securities [2]	-155	200	-450
Total	17,613	1,429	399

[p] Preliminary.

[1] Excludes debt securities issued by banking institutions.

[2] Refers to Cagamas Notes and commercial papers. For November-December 1999, refers to Cagamas Notes only.



Market sentiment on the KLSE remained bullish in the first three weeks of February despite the drop in most of the regional markets. The KLSE CI strengthened further to breach the 1,000-point level at 1,006.82 points on 17 February. The positive market sentiment was helped by the strong buying interest in banking and technology stocks. As at 23 February, the KLSE CI closed at 1,009.21 points (+9.4% since end-January), while the market capitalisation stood at RM727 billion. Since end-August 1998, the KLSE CI has been the best performer among the regional indices (+233.2%), followed by Korea (+183.9%), Singapore (+149.6%) and Hong Kong (+125.1%).

Bank Negara Malaysia
28 February 2000

Key Monetary and Banking Statistics

	December 1999		January 2000	
	Outstanding (RM billion)	Annual growth (%)	Outstanding (RM billion)	Annual growth (%)
Monetary Aggregates				
Reserve money	45.7	*26.3*	42.2	*13.8*
M1	72.3	*33.6*	73.1	*31.5*
M2	330.9	*11.6*	330.2	*10.9*
M3	434.6	*8.2*	434.8	*7.9*
By determinants:				
Claims on the private sector	445.8	*-1.3*	443.0	*-1.6*
Claims on the Government	-18.8	*10.3*	-17.0	*4.4*
External sector	123.6	*30.6*	130.1	*30.0*
Other influences	-116.0	*6.4*	-121.3	*6.4*
Banking System				
Total deposits	448.7	*4.0*	447.8	*4.5*
Total loans (including Cagamas and excluding NPLs sold to Danaharta)	393.7	*-4.8*	390.9	*-5.5*
Of which: Manufacturing	66.1	*-1.4*	65.3	*1.7*
Broad property	153.6	*-2.7*	154.0	*2.3*
Construction	42.8	*-5.0*	42.2	*-6.1*
Residential property	63.3	*12.2*	64.7	*13.6*
Non-residential property	29.0	*-6.4*	28.6	*-7.9*
Real estate	18.5	*-8.1*	18.5	*4.9*
Finance, insurance and business services	33.4	*-12.3*	33.2	*-12.4*
Consumption	50.2	*1.5*	50.2	*1.3*
Total loans (including Cagamas and NPLs sold to Danaharta)	427.3	*0.2*	424.8	*-0.5*
Total loans (excluding Cagamas and NPLs sold to Danaharta)	377.5	*-4.3*	374.1	*-5.3*
Loan-deposit ratio (%)	84.1		83.5	
Loans approved during the month	10.9		8.3	
Loans disbursed during the month	35.9		27.6	

International Reserves of BNM	**As at end-December '99**	**As at end-January '00**
Reserves in RM (billion)	117.2	124.9
Reserves in USD (billion)	30.9	32.9
Months of retained imports	5.9	6.2

Interest Rates	**(average rates at end-period)**	
Interbank: 1-month	2.83	2.77
3-month	3.18	3.18
Fixed deposits of commercial banks:		
1-month	3.24	3.23
3-month	3.33	3.31
BLR of commercial banks	6.79	6.79

Banking System Health	**As at end-December '99**	**As at end-January '00**
Risk-weighted Capital Ratio (RWCR) (%)	12.5	12.4
Net NPLs (%): 6-Month	6.6	n.a.

Capital Market	**As at end-December '99**	**Monthly (%)**	**As at end-January '00**	**Monthly (%)**
Kuala Lumpur Composite Index (KLSE CI)	812.33	*10.6*	922.10	*13.51*
KLSE Market Capitalisation (RM billion)	552.7	*10.7*	632.16	*14.38*