MONETARY AND FINANCIAL DEVELOPMENTS
JUNE 1999

Monetary Developments

Monetary indicators continued the expansionary trend in June, in line with the revival of investor and consumer confidence. Sustained increases in demand as well as the return of portfolio investment led to the third successive month of expansion in transaction balances. Total loans outstanding, including loans sold to Cagamas and Danaharta, continued to expand further in June after recovering in May. Of significance was the substantial pick-up in loan approvals and acceleration in loan disbursements.

M3 continued its growth trend, increasing by RM1.4 billion or 0.3% in June (+RM2.5 billion or 0.6% in May). As such, the annual growth of M3 at end-June increased further to 7.5% (7.1% at end-May). In terms of components, transaction balances (comprising currency in circulation and demand deposits) rose by another RM2.5 billion, due entirely to the increase in demand deposits. Meanwhile, broad quasi-money recorded a decline of RM1.1 billion (-RM242 million in May), reflecting the contraction in NIDs (-RM3.3 billion) and repos (-RM0.2 billion). This was partially offset by the increase in savings deposits (RM1.6 billion) and fixed deposits (RM0.4 billion).

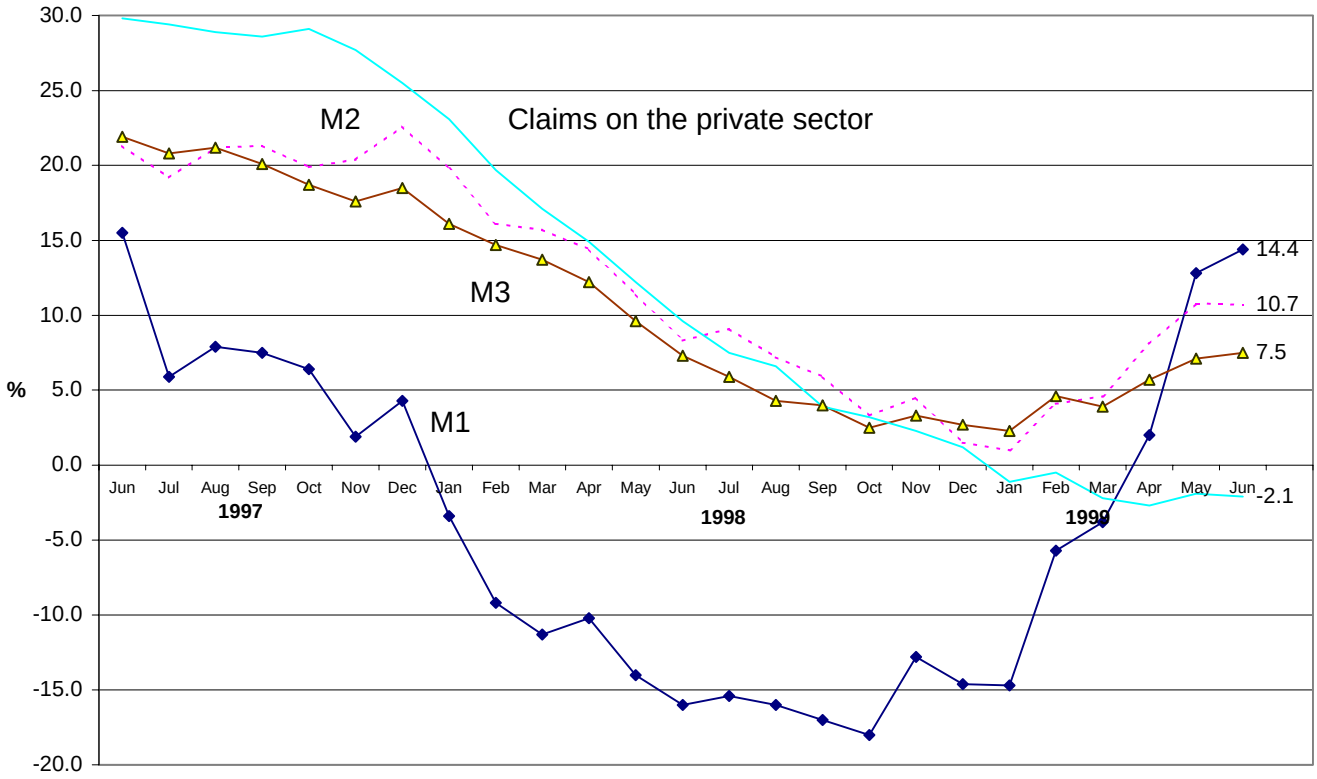
M3 Determinants
(change during the period in RM billion)

	1997	1998 1/	1999			
			Apr.	May	Jun. 2/	Jan.-Jun.
M3	61.1	10.6	4.8	2.5	1.4	**16.7**
Of which:						
Claims on Government	0.5	-12.3	-0.5	-1.1	-2.7	**-2.4**
Claims on private sector	90.4	4.2	-2.7	2.4	-0.6	**-12.3**
External operations	-16.8	51.2	6.8	3.2	5.3	**20.4**
Other influences	-13.0	-32.4	1.2	-2.0	-0.7	**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 reflects BNM's exchange revaluation gains. The revaluation gains of BNM were also reflected in other influences.

In terms of determinants, the increase in M3 reflected mainly the expansionary impact of external operations. In June, **net external assets** of BNM and the banking system expanded by RM5.3 billion. Net international reserves of BNM increased further by RM5.1 billion, reflecting mainly the proceeds of the Government Global Bond Issue (+RM3.7 billion) as well as the purchase of foreign currency from the commercial banks, arising mainly from the continued large trade surplus in the external account. This was partially offset by BNM's exchange revaluation losses for the second quarter of 1999. However, as the revaluation losses were also reflected in "other influences", it had a neutral impact on money supply. **Claims on the private sector** recorded a marginal decline of RM0.6 billion. During the month, loans extended by banking institutions (excluding loans sold to Cagamas and Danaharta) decreased by RM0.9 billion, due largely to the sale of NPLs to Danaharta (RM2.1 billion), while holdings of securities by banking institutions increased by RM0.3 billion. Meanwhile, the **Government sector** exerted a contractionary impact of RM2.7 billion. The higher placements of Government deposits with BNM reflected mainly the placement of the proceeds of the Government Global Bond Issue.

Annual Growth of Monetary Aggregates (in %)



Banking System

Total **deposits** mobilised by the banking system decreased slightly by RM0.5 billion or 0.1% in June (+RM1.5 billion or 0.4% in May) due to the decline in deposits placed with finance companies (-RM2.3 billion). Deposits with commercial banks and merchant banks, however, increased by RM0.6 billion and RM1.1 billion respectively. During the month, interplacements of funds between banking institutions declined by RM1.8 billion. Excluding these funds, the deposits placed by non-banking institutions increased by RM1.3 billion. On an annual basis, total deposits mobilised by the banking system increased by 4.7% as at end-June (4.4% as at end-May).

By type of deposits, NIDs declined by RM5 billion, due to lower issues to domestic business enterprises (-RM1.7 billion), commercial banks (-RM1.2 billion) and finance companies

Deposits and Loans of the Banking System

	Monthly change		As at end of	
	1999		1999	
	May	June	May	June
	RM million			
Deposits				
Commercial banks	3,789	647	321,831	322,478
Finance companies	-2,096	-2,269	92,598	90,329
Merchant banks	-149	1,085	26,757	27,842
Total	1,544	-537	441,185	440,648
Loans[1]				
Commercial banks	3,821	1,671	316,717	318,388
Finance companies	-1,861	-770	86,505	85,734
Merchant banks	-2	-63	23,262	23,200
Total	1,958	839	426,483	427,322
Loans[2]				
Commercial banks	3,622	103	284,984	285,088
Finance companies	-1,736	-1,398	78,368	76,970
Merchant banks	-137	-138	20,852	20,714
Total	1,749	-1,433	384,204	382,771
Resource surplus (+)/gap(-)[2]	-205	895	56,981	57,877
Loan-deposit ratio (%)[2]			**87.1**	**86.9**

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.

(–RM0.6 billion). Fixed deposits also recorded a decline, by RM1.8 billion, attributable mainly to a reduction in placements by individuals (-RM1.5 billion). On the other hand, demand deposits increased by RM2.6 billion, particularly placements by domestic business enterprises (+RM1 billion). SPI deposits also recorded an increase of RM1.5 billion. Savings deposits rose by RM1.5 billion, due almost entirely to deposits by individuals. The latter, to some extent, reflected a switch by individuals from fixed deposits to savings deposits in tandem with the increased demand for transaction balances.

Total **loans outstanding** (including NPLs sold to Danaharta) extended by the banking system increased by RM0.8 billion or 0.2% (+RM2 billion or 0.5% in May) due to the increase in loans extended by commercial banks (+RM1.7 billion). Loans extended by finance companies and merchant banks, however, decreased by RM0.8 billion and RM62.6 million respectively. On an annual basis, total loans extended by the banking system increased by 1.7% as at end-June (1.8% as at end-May), with commercial banks recording an increase of 7.4%. Meanwhile, loan approvals and disbursements were higher at RM10.1 billion and RM27.3 billion respectively in June (RM7.6 billion and RM25.5 billion respectively in May).

Loans by Sector: Banking System

	Monthly change		As at end of	
	1999		1999	
	May	June	May	June
	RM million			
Agriculture	38	-84	7,821	7,736
Mining and quarrying	16	-115	1,592	1,477
Manufacturing	-230	1,401	59,744	61,145
Electricity	-64	176	5,982	6,158
Wholesale, retail, restaurant & hotel	498	-481	34,575	34,094
Broad property sector	-125	384	142,129	142,513
Construction	*-105*	*-27*	*40,923*	*40,895*
Residential property	*707*	*494*	*58,223*	*58,718*
Non-residential property	*-838*	*-130*	*28,253*	*28,124*
Real estate	*112*	*47*	*14,730*	*14,776*
Transport & storage	938	-111	15,467	15,357
Finance, insurance and business services	-2,443	924	33,576	34,500
Consumption	-675	-188	48,552	48,364
Purchase of securities	317	-1613	29,434	27,822
Others	3,071	-1,593	21,796	20,203
Total loans[1]	1,341	-1,300	400,668	399,368

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

During the month, a total of RM2.1 billion of gross NPLs were sold to Danaharta (RM0.6 billion in May). Excluding these NPLs, total loans outstanding declined by RM1.3 billion or 0.3% in June (+RM1.3 billion or 0.3% in May), while the annual growth rate registered a contraction of 5% as at end-June (-4.3% as at end-May). By sector, loans to the manufacturing sector, which had generally been on a declining trend since September 1998, recorded an increase of RM1.1 billion in June, reflecting the recovery in the production of manufactured goods in recent months. Other sectors which recorded increases in loans were the finance, insurance and business services; and electricity sectors as well as for the purchase of residential properties. However, loans for the purchase of securities and passenger cars; and to the wholesale, retail, restaurant and hotel sector declined during the month.

As the decline in total loans (excluding loans sold to Cagamas and Danaharta) were larger than that in deposits, the banking system recorded a small resource surplus of RM0.9 billion during the month, widening slightly the outstanding resource surplus to RM57.9 billion. Consequently, the loan-deposit ratio fell further to 86.9% (87.1% at end-May).

Developments in the Banking System

The risk-weighted capital ratio of the banking system strengthened to 12.7% at the end of June 1999, well above the minimum level of 8%. The core capital ratio also remained relatively strong at 10.1%. Net non-performing loans at the end of May remained at 7.9% under the six-month classification.

Banking System Health Indicators

	1998			1999			
	Jun.	Sep.	Dec.	Mar.	Apr.	May	June
	%						
Capital							
Core-capital ratio	9.2	8.5	8.6	8.7	8.6	9.7	10.1
RWCR	11.2	10.6	11.8	12.3	12.3	12.0	12.7
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.	32,216	29,286	29,869	29,726	29,944	n.a.
GP/Net total loans (6-month)	n.a.	1.8	2.0	1.8	1.8	1,9	n.a.

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 billion at end-June or 32% of NPLs in the banking system. In addition, Danamodal has injected capital into 10 banking institutions totalling RM6.2 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 June 1999, CDRC had accepted 52 applications with debts totalling RM30 billion, of which 10 cases with debt amounting to RM10.2 billion are being implemented.

Interest Rates

Interest rates in the interbank money market were generally stable in June and the first three weeks of July, with the 3-month interbank rate hovering between 3.20-3.30%. Apart from the unchanged BNM intervention rate, the stability in interbank rates also reflected market expectations that interest rates have bottomed, or are close to bottoming. Given the unchanged BNM intervention rate, the average base lending rates (BLR) of the commercial banks and finance companies also remained unchanged at 7.24% and 8.50% respectively throughout June and the first three weeks of July.

The average **fixed deposit rates** of commercial banks and finance companies were also relatively unchanged, and ranged between 3.75-3.80% and 3.78-3.97% respectively as at end-June. In July, the average fixed deposit rates of commercial banks remained unchanged, whereas those of finance companies declined slightly at the shorter tenures but increased marginally at the longer tenures, causing the term structure of finance companies' fixed deposit

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

Tenure	**May**	Direction of Change	**June**	Direction of Change	**1 – 22 July**	Tenure
3-Mth	**3.36**	↘	**3.27**	↘	**3.25**	**3-Mth**
1-Mth	3.02	→	3.02	→	3.02	1-Mth
1-Wk	2.87	↘	2.83	↗	2.93	1-Wk
O/night	3.08	↘	2.81	↘	2.64	O/night

rates to steepen. Meanwhile, there was an improvement in the real rate of return to depositors due to the further moderation in the inflation rate in June.

Capital Market

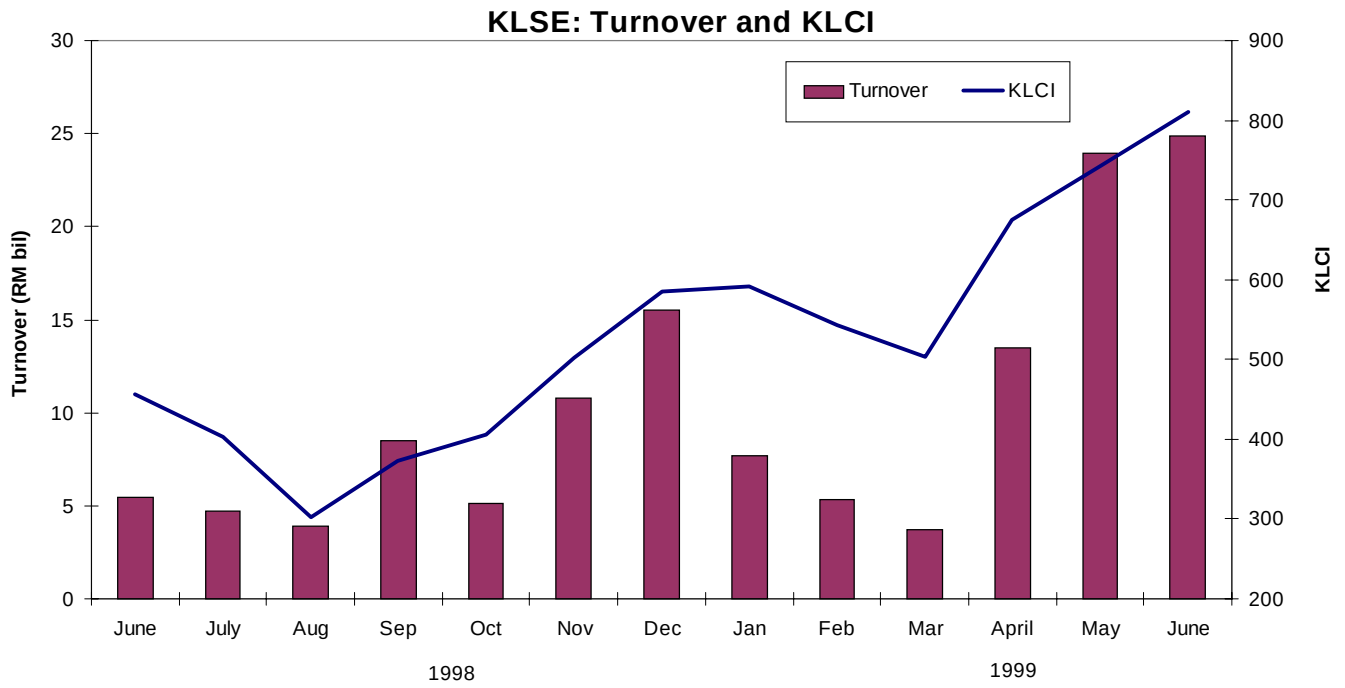
In June, the capital market recorded net funds raised for the second successive month, totalling RM4.3 billion (RM245 million in May). Both the private sector and public sector raised more funds during the month. The public sector raised a gross amount of RM4.8 billion attributed to the issuance of Malaysian Government Securities (RM2 billion), Khazanah bonds (RM757.2 million) and Government Investment Issues or GII (RM2 billion). The issuance of GII was to meet market demand following the redemption of the same amount during the month. Similarly, the private sector continued to raise higher funds, primarily through the issuance of private debt securities totalling RM2.7 billion (RM1.2 billion in May). Coupled with a lower redemption, net funds raised by the private sector amounted to RM1.6 billion.

In June, the Kuala Lumpur Composite Index (KLCI) moved upwards, starting from the second week. Sentiment was aided by the announcements of the 2.6% annual growth in the April Industrial Production Index, Japan's better-than-expected first quarter annualised GDP growth of 7.9%, talks of general elections in Malaysia as well as a significantly lower contraction

Funds Raised in the Capital Market [p]

	1998	1999	
	Year	May	June
	RM million		
By Public Sector			
Net Funds Raised	9,804	0	2,757
By Private Sector			
Shares	1,788	635	133
Debt Securities [1]	14,152	1,200	2,660
Less Redemptions	7,976	1,590	1,198
Equals Net Issues	6,176	-390	1,462
Net Funds Raised	7,964	245	1,595
Net Funds Raised in the Capital Market	17,768	245	4,352
Net Issues of Short-Term Securities [2]	-155	-175	-150
Total	17,613	70	4,202

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.



in the first quarter GDP. On 24 June, the KLCI breached the 800-point level with strong signs of further increases until fears of a higher-than-expected US interest rate increase dampened activities. The KLCI closed at 811.10 points at end-June, while the market capitalisation rose to RM532 billion.

The first three weeks of trading in July were extraordinary in that the daily volume of trade surpassed the one billion unit mark in almost every trading day. In addition, consecutive record daily highs were exceeded. The highest ever daily volume of 1.6 billion units was recorded on 12 July. Market sentiment was buoyed by overwhelming retail participation with strong local institutional involvement, against a backdrop of strengthening prospects of economic recovery. Nevertheless, in recent days, the market has trended downwards following news of a possible US interest rate increase as well as the China-Taiwan tension. The KLCI closed at 782.38 points on 28 July, while the market capitalisation stood at RM525 billion.

International Reserves

The international reserves held by BNM increased by RM5.1 billion from end-May to RM118.3 billion at end-June 1999. The United States dollar equivalent of the international reserves at end-June was US$31.1 billion. Reserves increased further to RM119.9 billion or

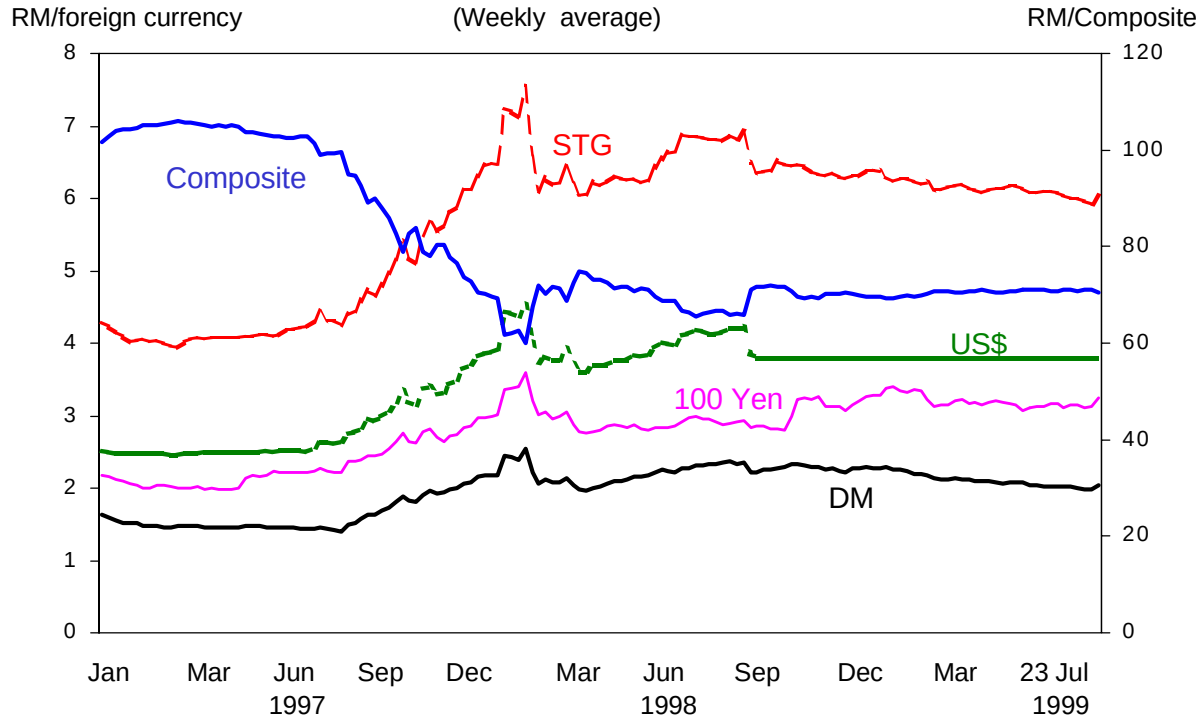
US$31.6 billion as at 15 July 1999, sufficient to finance 6.9 months of retained imports. Since end-August 1998, reserves have risen by US$11.4 billion.

Exchange Rates

In June, the ringgit recorded a mixed performance against the major currencies. The ringgit appreciated against the Swiss franc (1.8%), pound sterling (1.7%), Deutsche mark (1.2%), Euro (1.2%) but depreciated against the Japanese yen (0.7%). Against the composite index, the ringgit depreciated by 0.2%.

During the period 1-23 July 1999, the ringgit depreciated across-the-board against the major currencies within a range of 0.5-2.8%, reflecting the US dollar's movements in international foreign exchange markets. Despite the increase in the Federal fund's rate by 25 basis points to 5% on 30 June, the dollar weakened against the yen by 2.8%, as the yen was supported by inflows of foreign funds into Japanese assets. The optimism on the yen was also reinforced by the improving business sentiment in Japan as well as the announcement of a

Exchange Rate of the Malaysian Ringgit against Major Currencies



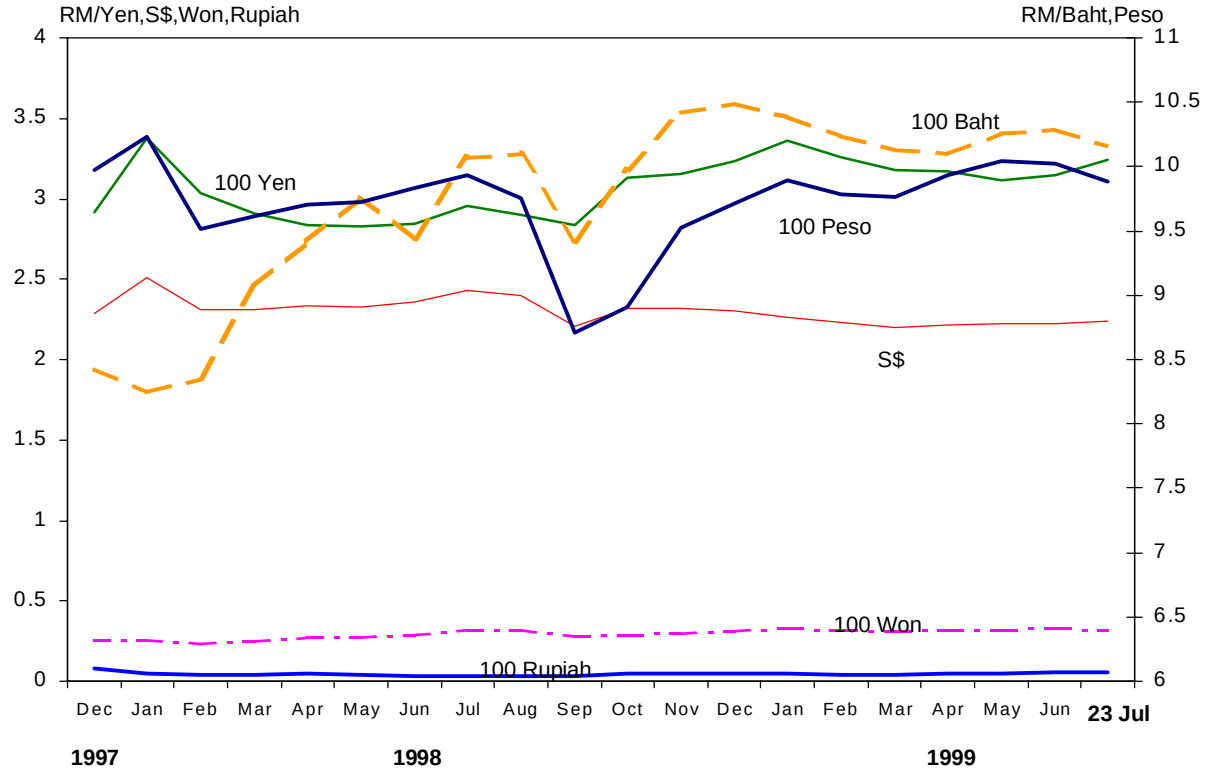
Performance of Ringgit against Selected Regional Currencies since 2 September 1998 1/			
RM per foreign currency	2 September 1998	End-June 1999	% Change
US dollar	**3.8000**	**3.8000**	**0.0**
100 Japanese yen	**2.7742**	**3.1509**	**-12.0**
Singapore dollar	**2.1998**	**2.2338**	**-1.5**
100 Thai baht	**9.3713**	**10.2912**	**-8.9**
100 Philippine peso	**8.8302**	**9.9988**	**-11.7**
100 Indonesian rupiah	**0.0354**	**0.0566**	**-37.5**
100 Korean won	**0.2827**	**0.3281**	**-13.8**

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

supplementary budget for January-March 2000. Nevertheless, during the period, official intervention had to some degree limited the yen's appreciation against the dollar.

Against selected regional currencies, the ringgit's performance was in tandem with movements of the US dollar. In June, the ringgit was stable against the Philippine peso (0.0%), but depreciated against the Thai baht (-0.5%), Singapore dollar (-1.6%), Korean won (-2.4%) and Indonesian rupiah (-16.9%). The strengthening of the regional currencies against the US dollar was on account of improvements in domestic economic fundamentals as well as the rally

Performance of Ringgit against Regional Currencies
(Period average)



in the stock markets. Meanwhile, during the period 1-23 July, with the exception of the Singapore dollar (-0.1%) the ringgit appreciated against the regional currencies within a range of 1.1-4.1%.

Inflation

The annual rate of inflation as measured by the Consumer Price Index (CPI, 1994=100) moderated further to 2.1% in June, compared with 2.9% in May. The moderation was due mainly to lower price increases in most of the items in the CPI basket, notably food (3.2% as against 4.9% in May); recreation, entertainment, education and cultural services; miscellaneous goods and services; beverages and tobacco; and medical care and health expenses. In the food sub-group, the moderation was due mainly to slower price increases in rice, bread and other cereals; fish; and food away from home, while prices of meat; and fruits and vegetables declined. The higher-than-average increase in prices in the sub-group of beverages and tobacco reflected mainly the import and excise duties on cigarettes, tobacco products and alcoholic beverages introduced in the 1999 Budget. Nevertheless, the price increase for this sub-group is also showing a moderating trend due to discounts given by the suppliers. Meanwhile, prices of clothing and footwear declined further by 2.6% (+1.1% in the corresponding period of 1998), reflecting promotion sales with attractive discounts in prices amidst weak demand. For the first-half of 1999, the CPI moderated to 3.3% compared with 5% in the corresponding period of 1998.

Bank Negara Malaysia
31 July 1999

Key Monetary and Banking Statistics

	May 1999		June 1999	
	Outstanding (RM billion)	**Annual growth (%)**	**Outstanding (RM billion)**	**Annual growth (%)**
Monetary Aggregates				
Reserve money	35.1	*-44.5*	35.0	*-43.3*
M1	57.7	*12.8*	59.7	*14.4*
M2	311.5	*10.8*	311.9	*10.7*
M3	416.8	*7.1*	418.2	*7.5*
By determinants:				
Claims on the private sector	440.1	*-1.9*	439.5	*-2.1*
Claims on the Government	-20.7	*127.0*	-23.4	*114.3*
External sector	109.7	*102.8*	115.0	*105.2*
Other influences	-112.2	*7.7*	-112.9	*7.8*
Banking System				
Total deposits	441.2	*4.4*	440.6	*4.7*
Total loans (including Cagamas)	400.7	*-4.3*	399.4	*-5.0*
Of which: Manufacturing	59.7	*-7.6*	61.1	*-6.0*
Broad property	142.1	*-1.6*	142.5	*-2.0*
Construction	40.9	*-4.8*	40.9	*-5.8*
Residential property	58.2	*7.9*	58.7	*7.7*
Non-residential property	28.2	*-5.0*	28.1	*-6.6*
Real estate	14.7	*-16.8*	14.8	*-15.1*
Finance, insurance and business services	33.6	*-6.5*	34.5	*-3.2*
Consumption	48.6	*-9.1*	48.4	*-6.8*
Total loans (including Cagamas and NPLs sold to Danaharta)	426.5	*1.8*	427.3	*1.7*
Total loans (excluding Cagamas and NPLs sold to Danaharta)	384.2	*-3.6*	382.7	*-4.3*
Loan-deposit ratio (%)	87.1		86.9	
Loans approved during the month	7.6		10.1	
International Reserves of BNM (RM billion)	113.1		118.3	
Reserves in USD (billion)	29.8		31.1	
Months of retained imports	6.5		6.8	
Interest Rates	**(average rates at end-period)**			
Interbank: 1-month	3.09		3.10	
3-month	3.30		3.30	
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	
	As at end-May		**As at end-June**	
Banking System Health				
Risk-weighted Capital Ratio (RWCR) (%)	12.0		12.7	
Net NPLs (%): 6-Months	7.9[1/]		7.9[2/]	
	As at end-May	**Monthly (%)**	**As at end-June**	**Monthly (%)**
Capital Market				
Kuala Lumpur Composite Index (KLCI)	743.04	10.1	811.10	9.2
KLSE Market Capitalisation (RM billion)	462.0	8.7	532.0	15.2

1/ Refers to end-April 1999
2/ Refers to end-May 1999