PRESS RELEASE ON
MONETARY AND FINANCIAL DEVELOPMENTS
DECEMBER 1999

Monetary Developments

The monetary situation improved in December in line with favourable developments in the domestic economic conditions and continued strong export performance. **M3 recorded an increase of RM11.3 billion or 2.7%** (+RM3.6 billion or +0.9% in November). This was the largest monthly increase in 1999. Consequently, the annual growth of M3 at end-December increased to 8.3% (7.9% at end-November and 2.7% at end-1998). In terms of **components**, transaction balances (comprising currency in circulation and demand deposits) increased by RM6.5 billion, due to the increase in currency in circulation (+RM4.2 billion) and demand deposits (+RM2.3 billion). Besides reflecting higher transactions in the economy, there was also a discernible shift from other types of deposits into currency due to Y2K concerns. Nevertheless, broad quasi-money recorded an increase of RM4.8 billion (-RM306 million in November), reflecting mainly the increase in fixed deposits (+RM3.7 billion) and repos (+RM1.8 billion).

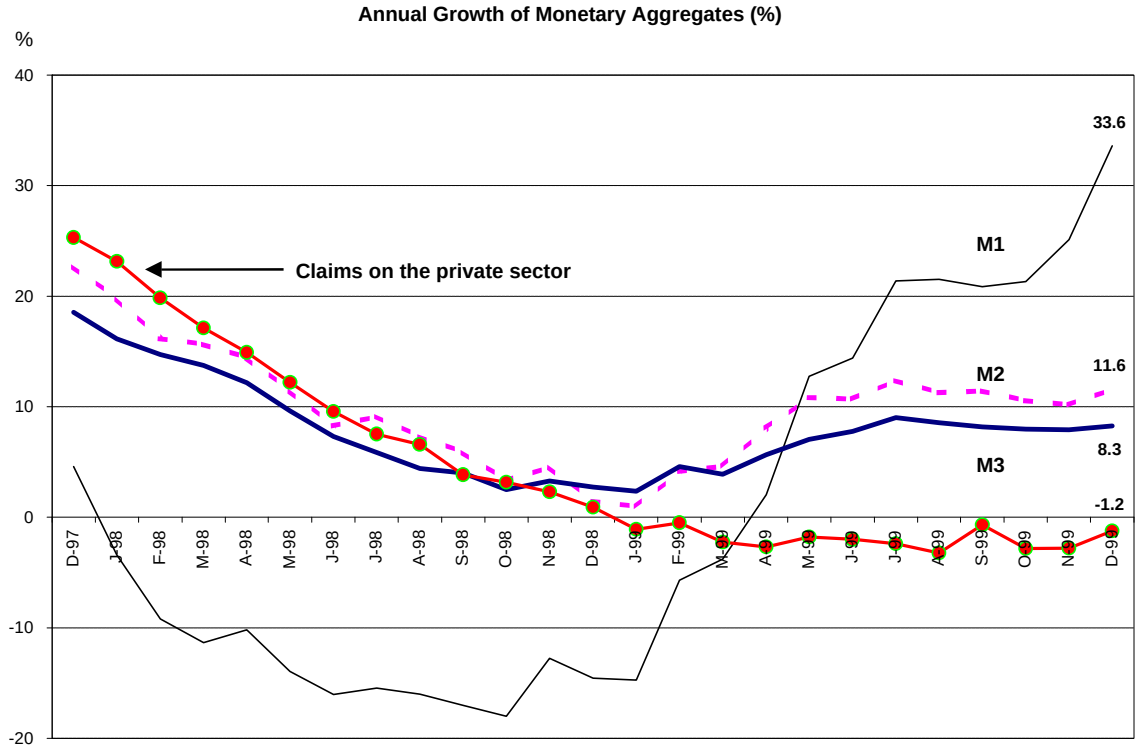
M3 Determinants
(change during the period in RM billion)

	1997	1998 1/	1999 2/			
			Oct.	Nov.	Dec.	Jan.-Dec.
M3	61.1	10.6	0.3	3.6	11.3	33.2
Of which:						
Claims on Government	0.5	-12.3	-1.5	2.0	0.8	1.9
Claims on private sector	90.4	4.1	-2.6	1.4	0.9	-5.6
External operations	-16.8	51.2	-1.3	0.4	6.2	29.1
Other influences	-13.0	-32.3	5.7	-0.2	3.4	7.8

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 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 due mainly to the expansionary impact of external operations reflecting the large trade surplus in the external account. Net external assets of BNM and the banking system expanded by RM6.2 billion. Meanwhile, claims on the private sector increased by RM0.9 billion reflecting improved economic activities. The Government sector also exerted an expansionary impact of RM0.8 billion as the Government drew down its deposits (-RM3.7 billion) placed with BNM to finance its expenditure, which more than offset the decline in holdings of Government securities by the banking institutions (-RM2.2 billion).



Banking System

Total **deposits** mobilised by the banking system increased further by RM11.3 billion or 2.6% in December (+RM3.3 billion or 0.8% in November), as a result of higher deposits placed with commercial banks (+RM9.8 billion), finance companies (+RM0.8 billion) and merchant banks (+RM0.6 billion). The significant increase in total deposits reflected mainly interplacement of deposits between banking institutions (RM3.9 billion); increase in Federal Government deposits with the banking institutions; and a favourable trade balance.

By type, NIDs increased by RM2.9 billion mainly as a result of interplacements between banking institutions. At the same time, fixed deposits, demand deposits and repos increased by RM2.8 billion, RM2.7 billion and RM1.9 billion respectively.

For the year as a whole, total deposits increased by 4.1% or RM17.7 billion compared with a decline of 0.5% or RM2.1 billion in 1998. Total deposits placed with commercial banks increased at an annual rate of 8.2%, whilst deposits placed with finance companies and merchant banks declined at annual rates of 7.2% and 1.8% respectively.

Reflecting the improved economic activity, total **loans outstanding** (including NPLs sold to Danaharta) extended by the banking system increased further by RM2.4 billion or 0.6% in December (+RM1.2 billion or 0.3% in November). The increase was due to higher loans extended by commercial banks (+RM2.5 billion) and finance companies (+RM0.3 billion). Meanwhile, loans extended by merchant banks declined by RM0.4 billion.

Deposits and Loans of the Banking System (RM million)

	Monthly change 1999		1999 Change	1999 As at end
	Nov.	Dec.	Jan.- Dec.	Dec.
Deposits				
Commercial banks	2,598	9,809	25,128	332,568
Finance companies	777	823	-7,014	90,629
Merchant banks	-119	618	-463	25,874
Banking system	3,255	11,251	17,651	449,070
Loans[1]				
Commercial banks	902	2,522	10,672	320,966
Finance companies	242	273	-8,495	84,577
Merchant banks	103	-353	-1,290	21,910
Banking system	1,247	2,442	887	427,453
Loans[2]				
Commercial banks	1,244	-1,614	-2,281	283,395
Finance companies	681	500	-11,154	75,400
Merchant banks	51	-646	-3,320	18,871
Banking system	1,976	-1,759	-16,756	377,666
Resource surplus (+)/gap(-)[2]	1,279	13,010	34,407	71,404
Loan-deposit ratio (%)[2]				**84.1**

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.

During the month, a total of RM4.4 billion of gross NPLs were sold to Danaharta. Excluding these NPLs, total loans outstanding declined by RM2 billion or 0.5% in December (+RM1.2 billion or 0.3% in November). By sector, there was an increase in the volume of

loans extended to the electricity, gas and water sector (+RM1.3 billion); for the purchase of residential property (+RM0.9 billion); the finance, insurance and business services sector (+RM0.7 billion); the agriculture sector (+RM0.4 billion); and for the purchase of passenger cars (+RM0.3 billion). On the other hand, there was a decline in loans extended to the construction; and transport, storage and communication sectors (-RM1.2 billion and –RM1 billion respectively), as well as for the purchase of securities (-RM0.5 billion). The latter was mainly attributable to high repayments during the month.

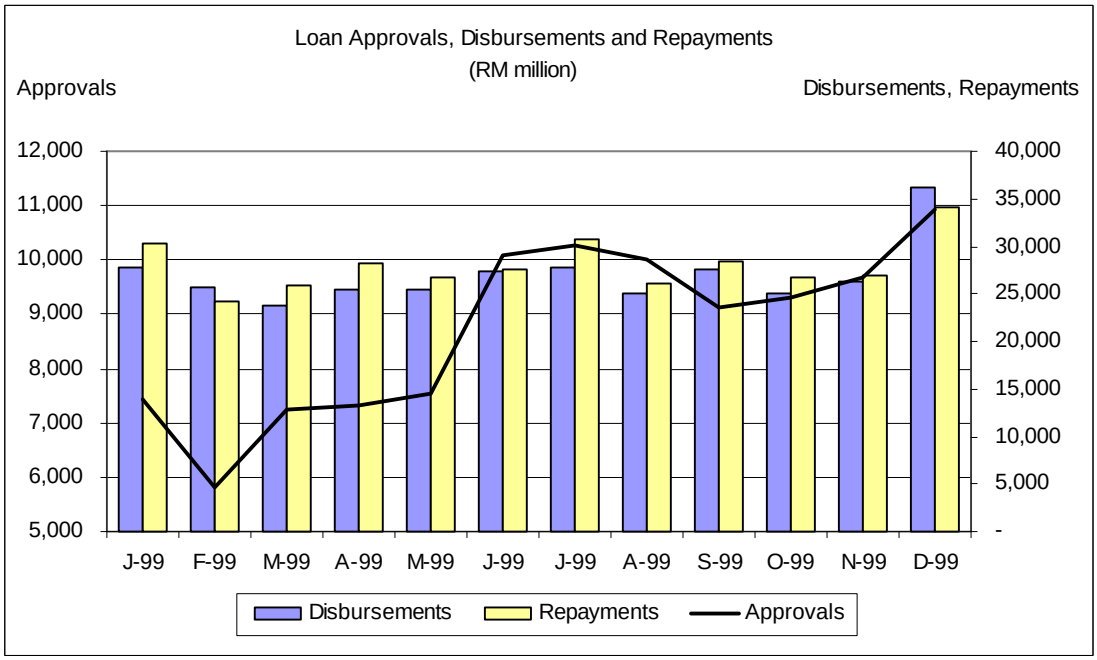
Banking System: Loans by Sector (RM million)

	Monthly change 1999		1999	
	Nov.	Dec.	Change Jan.-Dec.	As at end Dec.
Agriculture	295	400	976	8,694
Mining and quarrying	-30	-56	-246	1,428
Manufacturing	-193	-148	-2,615	60,586
Electricity, gas and water	122	1,308	1,204	7,044
Wholesale, retail, restaurant & hotel	431	-256	-463	34,648
Broad property sector	-635	-571	-2,856	143,197
Construction	*-1,160*	*-1,203*	*-5,412*	*37,697*
Residential property	*661*	*926*	*6,970*	*63,351*
Non-residential property	*-164*	*-96*	*-2,738*	*27,230*
Real estate	*28*	*-197*	*-1,677*	*14,920*
Transport & storage	40	-985	-1,130	13,853
Finance, insurance and business services	457	737	-6,460	30,657
Consumption	660	446	460	49,878
Purchase of securities	321	-519	-7,201	25,254
Others	-273	-2,320	-1,331	18,626
Total loans outstanding[1]	1,195	-1,965	-19,661	393,866
NPLs sold to Danaharta	52	4,407	20,548	33,587
Total loans outstanding[2]	1,247	2,442	887	427,453

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

For 1999 as a whole, total loans outstanding (including NPLs sold to Danaharta) increased by RM0.9 billion or 0.2%, with commercial banks recording an increase of RM10.7 billion or 3.4%. While loan approvals and disbursements increased markedly by 60.9% and 28.8% respectively, the subdued growth in total loans outstanding was due mainly to high repayments. Some loans were also written-off and converted into bonds. High repayments occurred as many borrowers took the opportunity to repay their loans following an improvement in business conditions and higher earnings of individuals and business enterprises. Consequently, repayments rose to a monthly average of RM28 billion, compared with a monthly average of RM22.5 billion in 1998. Disbursements of loans recorded a monthly average of RM27 billion (RM20.9 billion in 1998), while new loans approved by the banking system averaged RM8.7 billion a month compared with RM5.4

billion in 1998. Hence, for 1999, disbursements and approvals of loans provided a better indication of lending activities rather than loans outstanding. While loans outstanding slowed down following the crisis and the subsequent restructuring of the banking sector, the situation has now reversed following the strengthening of the recovery of the economy.



As total deposits increased substantially while loans (excluding loans sold to Cagamas and Danaharta) declined, the banking system recorded a **resource surplus** of RM13 billion in December. Thus, the **loan-deposit ratio** declined to 84.1% (86.7% at end-November).

Developments in the Banking System

The **risk-weighted capital ratio** of the banking system remained strong at 12.5% at the end of December 1999, well above the minimum requirement of 8%. This provides the banking system with a more than sufficient cushion to absorb any potential shocks to the economy. Similarly, the core capital ratio of the banking system remained high at 10.0%. Net **non-performing loans** ratio of the banking system at the end of November 1999 was 7.4% on a six-month classification.

With regard to the financial sector restructuring, Danaharta has acquired and is currently managing a total of RM34 billion worth of NPLs from the banking system. This amounts to approximately 40% of total NPLs of the banking system. Capital injection by Danamodal stood at RM5.25 billion as at 18 January 2000, whilst CDRC has received 66 applications with debts totalling RM35.7 billion. Of these, 17 restructuring schemes amounting to RM13.2 billion have been completed and are in various stages of implementation, while 10 cases amounting to RM3.3 billion are being resolved by Danaharta. A total of 14 cases involving debts worth RM3.3 billion have been rejected and the debt restructuring schemes for the remaining 25 cases with a value of RM15.9 billion are currently being worked out.

Banking System Health Indicators

	1998			1999			
	Jun.	**Sep.**	**Dec.**	**Sep.**	**Oct.**	**Nov.**	**Dec.**
Capital							
Core-capital ratio (%)	9.2	8.5	8.6	10.3	10.4	10.2	10.0
RWCR (%)	11.2	10.6	11.8	12.7	12.7	12.5	12.5
Net NPL (6-month classification)							
Banking system (%)	n.a.	8.1	7.5	7.7	7.7	7.4	n.a.
Banking system (RM million)	n.a.	32,214	29,286	28,706	28,362	27,485	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

Interest Rates

The ample liquidity in the banking system continued to keep **interest rates** low in the inter-bank market in December and the first half of January 2000. During this period, trading in the 3-month tenure averaged around 3.15% - 3.18%.

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

Tenure	**November**	Direction of Change	**December**	Direction of Change	**1-19 Jan.**	Tenure
3-Mth	**3.13**	↗	**3.15**	↗	**3.18**	**3-Mth**
1-Mth	2.82		2.82		2.80	1-Mth
1-Wk	2.70		2.62		2.61	1-Wk
O/night	2.66		2.52	↗	2.53	O/night

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 December. Similarly, the average **fixed deposit rates** for commercial banks and finance companies were relatively unchanged and ranged between 3.23-3.94% and 3.35-4.13% respectively as at 8 January 2000.

Capital Market

Net funds raised from the capital market amounted to RM1.1 billion in December, approximately half of the amount raised in November (RM2 billion). The lower amount of funds raised was due to the lower funds mobilised by the private sector. Net funds raised by the private sector amounted to RM693 million compared with RM2.9 billion in the previous month. Meanwhile, the public sector recorded net funds raised of RM405 million (a net redemption of RM923 million in November).

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

	1998	1999	
		Nov.	Dec.
By Public Sector			
Net Funds Raised	9,804	-923	405
By Private Sector			
Shares	1,788	900	723
Debt Securities [1]	14,152	2,708	565
Less Redemptions	7,976	670	595
Equals Net Issues	6,176	2,038	-30
Net Funds Raised	7,964	2,938	693
Net Funds Raised in the Capital Market	**17,768**	**2,015**	**1,098**
Net Issues of Short-Term Securities [2]	-155	-825	200
Total	17,613	1,190	1,298

[p] Preliminary.

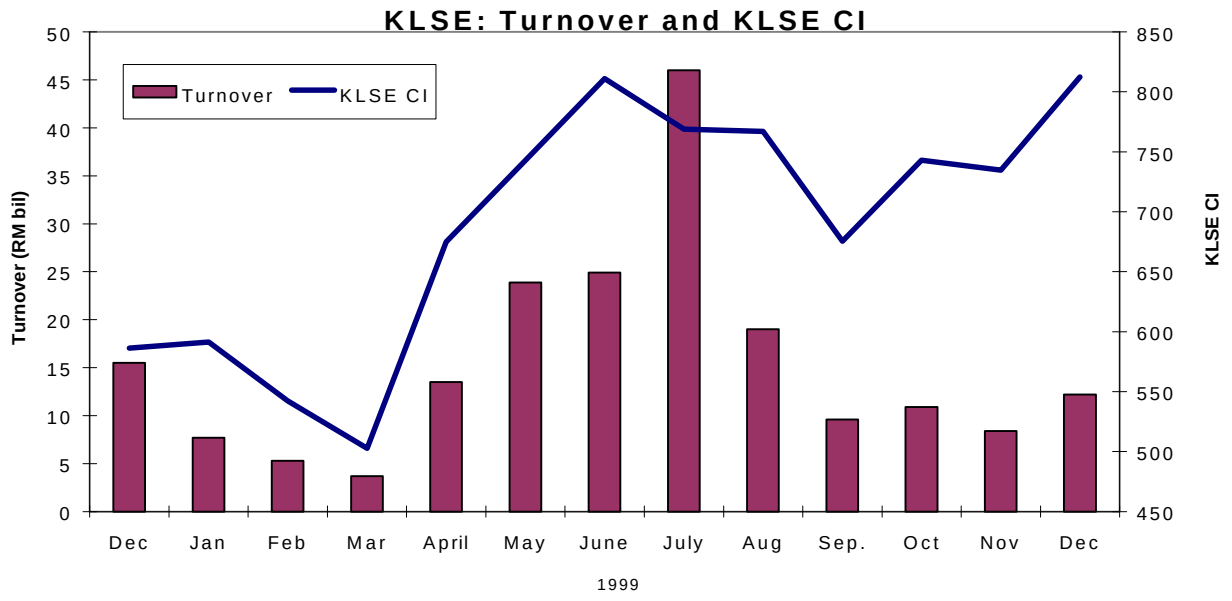
[1] Excludes debt securities issued by banking institutions.

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

In December, market sentiment was generally positive. Following the announcement of the new Cabinet, market sentiment turned positive, with the Kuala Lumpur Stock Exchange Composite Index (KLSE CI) rising by 3.4% on 13 December. By the end of the month, the KLSE CI rose by 10.6% compared to end-November to close at 812.33 points. The KLSE's market capitalisation increased by 10.7% to RM553 billion.

In January, market sentiment was bullish. Investors' confidence in the Malaysian market increased following the smooth Y2K rollover and the release of positive Industrial Production Index and manufacturing output figures for November. The return of market

confidence was reflected by reports of foreign fund managers relocating their funds into Malaysia. In addition, foreign funds were seen buying into the market ahead of the reinstatement of Malaysia into the Morgan Stanley Capital International indices. As at 28 January, the KLSE CI closed significantly higher (15.2%) at 935.57 points while the KLSE's market capitalisation amounted to RM642 billion. Since end-August 1998, the KLSE CI was the best performer among the regional indices (208.9%), followed by Korea (203.6%), Singapore (166.8%) and Thailand (122.6%).

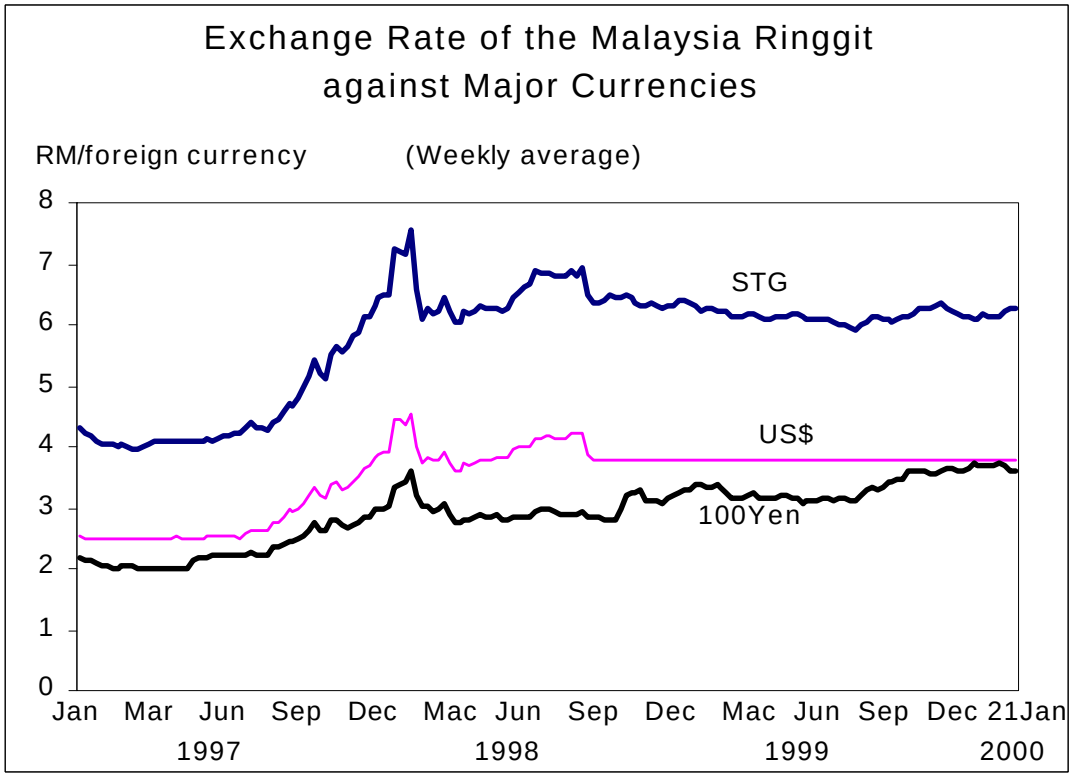


International Reserves

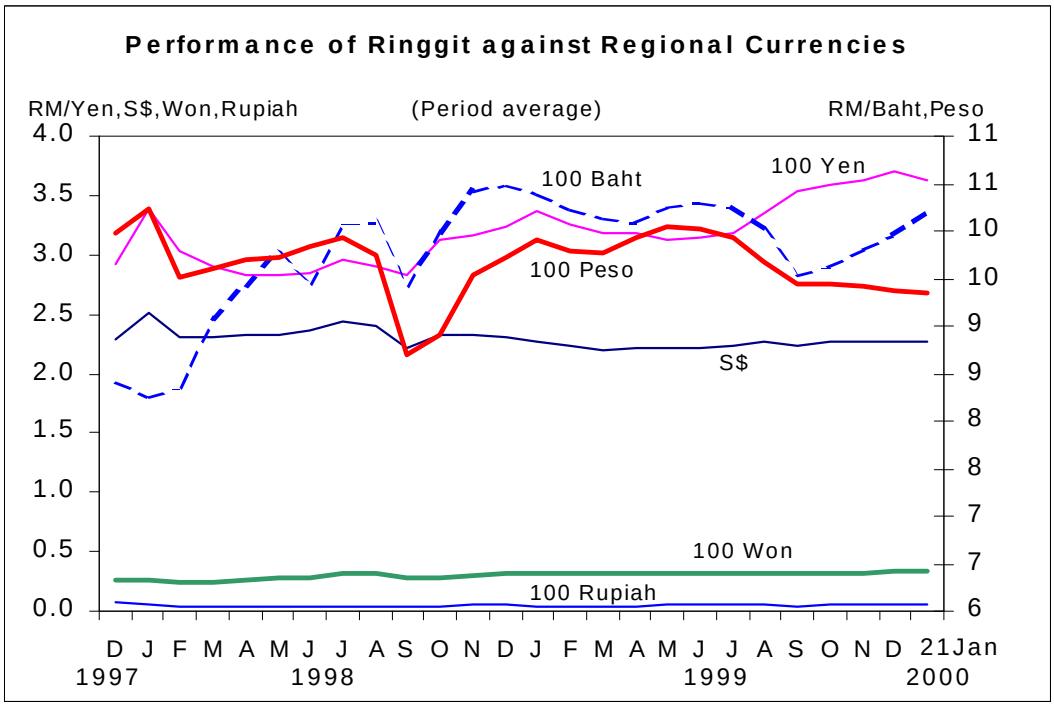
The net **international reserves** increased by RM2.7 billion to RM117.2 billion (US$30.85 billion) as at end-December 1999. Reserves increased further to RM117.6 billion (US$30.94 billion) as at 14 January 2000, sufficient to finance 6.0 months of retained imports.

Exchange Rates

The ringgit recorded a mixed performance against most major currencies in the month of December in tandem with the movements of the US dollar. The dollar appreciated against the Euro and the Japanese yen, supported by the rally in the US stock market while interventions by the Bank of Japan in the foreign exchange markets dampened the appreciation of the yen. Meanwhile, the dollar depreciated against the pound sterling following consistent signs of a pick-up in the British economy. As a result, the ringgit appreciated against the Euro (+0.2%) and the Japanese yen (+0.4%), but depreciated against the pound sterling (-0.7%).



Against regional currencies (with the exception of the yen), the ringgit recorded an across-the-board depreciation of between 1.0% and 5.8% in December. Robust third quarter GDP data in Thailand and strong portfolio flows into Indonesia and Korea supported the appreciation of the baht, rupiah and won respectively.



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

RM per foreign currency	2 September 1998	21 January 2000	% Change
US dollar	3.8000	3.8000	0.0
100 Japanese yen	2.7742	3.6208	-23.4
Singapore dollar	2.1998	2.2697	-3.1
100 Thai baht	9.3713	10.2082	-8.2
100 Philippine peso	8.8302	9.3504	-5.6
100 Indonesian Rupiah	0.0354	0.0522	-32.2
100 Korean won	0.2827	0.3374	-16.2

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

In the period 1-21 January 2000, the ringgit recorded a mixed performance against both major currencies as well as regional currencies. The ringgit appreciated against the Japanese yen (+2.5%), the Singapore dollar (+0.5%) and Indonesian rupiah (+3.7%) while depreciating against the pound sterling (-2.3%), Euro (-0.8%) and Korean won (-0.6%) following the movements of the dollar in the foreign exchange markets.

Inflation

The annual rate **of inflation** as measured by the Consumer Price Index (CPI) rose by 2.5% in December, compared with 1.6% in November 1999. The higher increase in the CPI was due mainly to higher price increases in the sub-indices for food; beverages and tobacco; and transport and communication. The clothing and footwear sub-index, however, declined further. The higher rate of increase in the food sub-group was primarily due to the adverse weather conditions and the festive season resulting in higher increases in prices of fish; fruits and vegetables; meat; and milk and eggs. For 1999 as a whole, the CPI increased by 2.8%, compared with 5.3% in 1998.

Bank Negara Malaysia
31 January 2000

Key Monetary and Banking Statistics

	November 1999		December 1999	
	Outstanding (RM billion)	Annual growth (%)	Outstanding (RM billion)	Annual growth (%)
Monetary Aggregates				
Reserve money	37.4	*7.8*	45.7	*26.3*
M1	65.4	*25.1*	72.3	*33.6*
M2	318.3	*10.2*	330.9	*11.6*
M3	423.4	*7.9*	434.7	*8.3*
By determinants:				
Claims on the private sector	445.3	*-2.8*	446.1	*-1.2*
Claims on the Government	-19.9	*1.6*	-19.1	*9.0*
External sector	117.5	*31.0*	123.8	*30.8*
Other influences	-119.5	*11.7*	-116.1	*6.3*
Banking System				
Total deposits	437.8	*4.1*	449.1	*4.1*
Total loans (including Cagamas and excluding NPLs sold to Danaharta)	395.8	*-5.7*	393.9	*-4.8*
Of which: Manufacturing	60.7	*-6.2*	60.6	*-4.1*
Broad property	143.8	*-3.1*	143.2	*-2.0*
Construction	38.9	*-12.7*	37.7	*-12.6*
Residential property	62.4	*11.8*	63.4	*12.4*
Non-residential property	27.3	*-11.1*	27.2	*-9.1*
Real estate	15.1	*-12.1*	14.9	*-10.1*
Finance, insurance and business services	29.9	*-18.8*	30.7	*-17.4*
Consumption	49.4	*0.4*	49.9	*0.9*
Total loans (including Cagamas and NPLs sold to Danaharta)	425.0	*1.0*	427.5	*0.2*
Total loans (excluding Cagamas and NPLs sold to Danaharta)	379.4	*-5.4*	377.7	*-4.2*
Loan-deposit ratio (%)	86.7		84.1	
Loans approved during the month	9.7		10.9	
Loans disbursed during the month	26.4		36.2	
International Reserves of BNM	**As at end-November**		**As at end-December**	
Reserves in RM (billion)	114.6		117.2	
Reserves in USD (billion)	30.2		30.9	
Months of retained imports	5.9		6.0	
Interest Rates	**(average rates at end-period)**			
Interbank: 1-month	2.86		2.83	
3-month	3.18		3.18	
Fixed deposits of commercial banks:				
1-month	3.24		3.24	
3-month	3.33		3.33	
BLR of commercial banks	6.79		6.79	
Banking System Health	**As at end-November**		**As at end-December**	
Risk-weighted Capital Ratio (RWCR) (%)	12.5		12.5	
Net NPLs (%): 6-Month	7.4		n.a.	
Capital Market	**As at end-November**	**Monthly (%)**	**As at end-December**	**Monthly (%)**
Kuala Lumpur Composite Index (KLSE CI)	734.66	*-1.1*	812.33	*10.6*
KLSE Market Capitalisation (RM billion)	499.1	*-0.3*	552.7	*10.7*