# MONETARY AND FINANCIAL DEVELOPMENTS
# FEBRUARY 1999

Monetary and financial developments showed encouraging trends in early 1999. There is now greater stability in the currency and stock markets and the financial system. Meanwhile, the ample liquidity in the banking system has ensured funds are available to borrowers at reasonable costs. In this regard, the higher loan approvals from the second half of 1998 would have a positive impact on loan performance and generate increased activities in the real sector in 1999.

## Monetary Situation

**M3** continued to expand in February, recording a **large increase of RM8.5 billion or 2.1%** (RM1.6 billion or 0.4% in January). As such, the annual growth of M3 at end-February improved markedly to 4.4% (2.3% at end-January). During the month, demand deposits decreased by RM1.2 billion, while currency in circulation rose by RM838 million, attributable to the festive season in February. In contrast, broad quasi-money recorded a strong increase of RM8.9 billion (+RM80 million in January), following the expansion in fixed deposits (RM10.7 billion), savings deposits (RM659 million) and foreign currency deposits (RM532 million). The large expansion in fixed deposits in February was due mainly to higher placements by domestic non-bank financial institutions (NBFIs). In contrast, repos and NIDs declined by RM1.8 billion and RM1.2 billion respectively, mainly attributable to the withdrawals by business enterprises.

In terms of **determinants**, the increase in M3 reflected the expansion in the external sector. Net external assets expanded by RM2.6 billion. The net international reserves of Bank Negara Malaysia rose by RM2.8 billion. At the same time, net other influences also exerted an expansionary impact on M3 (RM9.1 billion), reflecting mainly the withdrawals of deposits placed with BNM by a statutory authority. In contrast, claims on the private sector and net lending to the Government exerted a contractionary impact on M3. During the month, claims on the private sector contracted by RM1.8 billion. This was

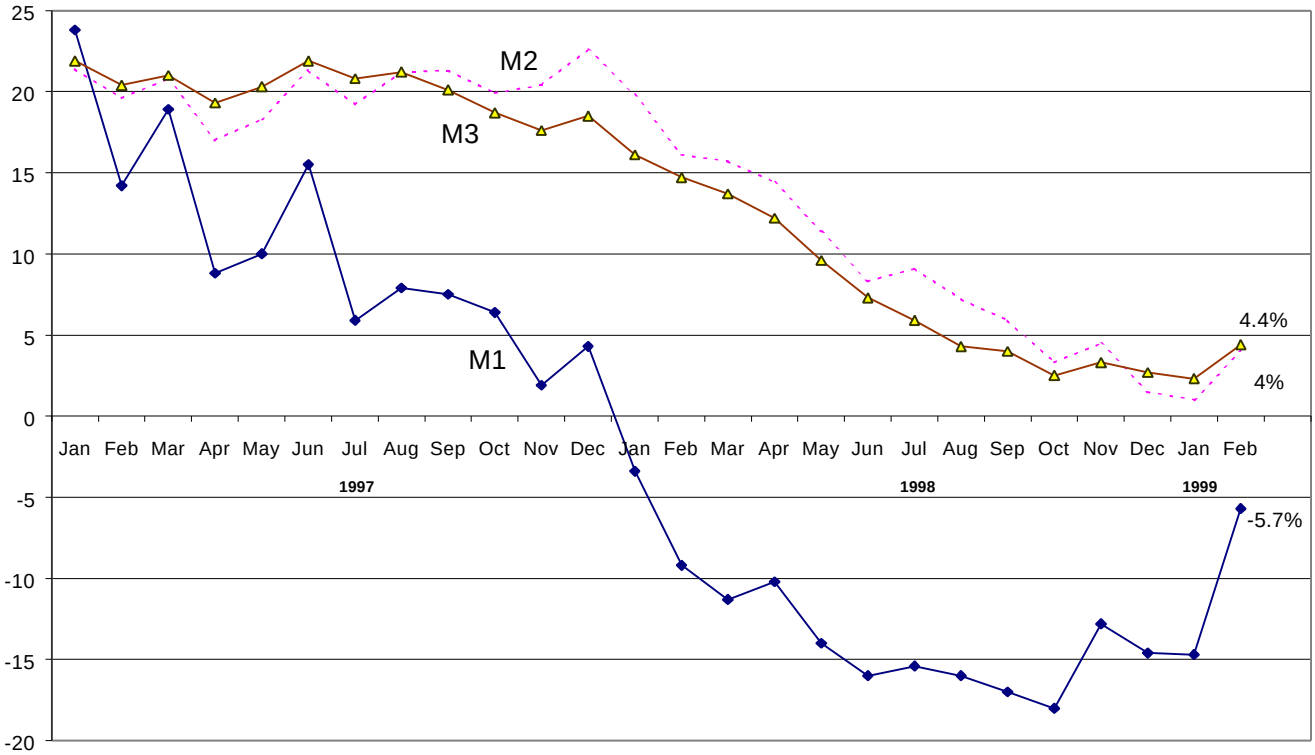
**M3 Determinants**

**(change during the period in RM billion)**

| | 1997 | 1998 | 1999 | | |
|---|---|---|---|---|---|
| | | | Jan. | Feb. | Jan.-Feb. |
| **M3** | 61.1 | 10.6 | 1.6 | 8.5 | **10.0** |
| **Of which:** | | | | | |
| **Claims on Government** | 0.5 | -12.3 | 3.2 | -1.4 | **1.8** |
| **Claims on private sector** | 90.4 | 4.2 | -1.4 | -1.8 | **-3.2** |
| **External operations** | -16.8 | 51.2 | 5.4 | 2.6 | **8.1** |
| **Net other influences** | -13.0 | -32.4 | -5.6 | 9.1 | **3.4** |

attributable to the decline in loans of RM2.8 billion, which mainly reflected the sales of non-performing loans (NPLs) to Danaharta amounting to RM2.2 billion. However, this was offset partially by the higher holding of securities by RM977 million. Meanwhile, net lending to Government declined by RM1.4 billion following the increase in Government deposits placed with Bank Negara Malaysia.

**Annual Growth of Monetary Aggregates**



**Banking System**

Total **deposits mobilised by the banking system** increased by RM4.6 billion or 1.1% in February (-RM2.9 billion or –0.7% in January) as a result of the increase in deposits placed with commercial banks (RM2.9 billion), finance companies (RM1.1 billion) and merchant banks (RM0.6 billion). On an annual basis, total deposits increased by 0.6% as at end-February (unchanged as at end-January). By type of deposits, the largest increase was in fixed deposits (RM9.7 billion), of which the bulk was placement by domestic non-bank financial institutions (RM4.3 billion). NIDs, however, declined by RM4.3 billion in February, mainly those issued to commercial banks, reflecting the overall decline in the interplacement of funds between banking institutions. By holder, the bulk of the increase was from individuals (RM2.9 billion) mostly in the form of fixed deposits. Deposits placed by statutory authorities also increased by RM1.7 billion.

**Deposits and Loans of the Banking System**

| | **Monthly change** | | **As at end of** | |
|---|---|---|---|---|
| | **1999** | | **1999** | |
| | **Jan.** | **Feb.** | **Jan.** | **Feb.** |
| | **RM million** | | | |
| Deposits | | | | |
| Commercial banks | -73 | 2,921 | 307,366 | 310,287 |
| Finance companies | -2,542 | 1,123 | 95,100 | 96,223 |
| Merchant banks | -281 | 542 | 26,056 | 26,598 |
| Total | -2,897 | 4,586 | 428,522 | 433,108 |
| Loans[1] | | | | |
| Commercial banks | 2,361 | -805 | 288,127 | 287,322 |
| Finance companies | -1,623 | -1,771 | 84,931 | 83,159 |
| Merchant banks | -306 | -223 | 21,886 | 21,662 |
| Total | 432 | -2,800 | 394,944 | 392,144 |
| Resource surplus (+)/gap (-) | -3,329 | 7,386 | 33,578 | 40,964 |
| **Loan-deposit ratio (%)** | | | **92.2** | **90.5** |

1/ Excluding housing loans sold to Cagamas Berhad

Note: Sub-total may not necessarily add up to grand total due to rounding

Meanwhile, **total loans** outstanding (including loans sold to Cagamas) extended by the banking system declined by RM3.2 billion or 0.8% in February (-RM0.1 billion or 0.03% in January) due to the decrease in loans extended by the finance companies (-RM1.9 billion), commercial banks (-RM1.1 billion) and merchant banks (-RM0.2 billion). On an annual basis, total loans declined by 2.5% as at end-February (-2.7% as at end-January). By sector, the decline in loans was due to lower loans extended to all major sectors except to the agriculture sector and for the purchase of residential and non-residential properties. Meanwhile, loan approvals were lower at RM5.8 billion in February (RM7.4 billion in January).

**Loans by Sector: Banking System**

| | **Monthly change** | | **As at end of** | |
|---|---|---|---|---|
| | **1999** | | **1999** | |
| | **Jan.** | **Feb.** | **Jan.** | **Feb.** |
| | **RM million** | | | |
| Agriculture | 120 | 21 | 7,837 | 7,859 |
| Mining and quarrying | -26 | -26 | 1,648 | 1,621 |
| Manufacturing | -882 | -831 | 62,318 | 61,487 |
| Electricity | -221 | -19 | 5,658 | 5,639 |
| Wholesale, retail, restaurant & hotel | -697 | -156 | 34,414 | 34,258 |
| Broad property sector[1] | 737 | -1,063 | 146,885 | 145,822 |
| *Construction* | *-299* | *-245* | *42,899* | *42,654* |
| *Residential property[1]* | *548* | *139* | *56,935* | *57,074* |
| *Non-residential property* | *79* | *45* | *30,047* | *30,092* |
| *Real estate* | *408* | *-1,002* | *17,004* | *16,002* |
| Transport & storage | -87 | -211 | 14,896 | 14,685 |
| Finance, insurance and business services | -150 | -71 | 36,967 | 36,896 |
| Consumption | 23 | -31 | 49,442 | 49,411 |
| Purchase of securities | -334 | -551 | 32,126 | 31,575 |
| Others | 1,383 | -260 | 21,313 | 21,053 |
| Total Loans[1] | -135 | -3,198 | 413,503 | 410,306 |

1/ Including housing loans sold to Cagamas Berhad.

Note: Sub-total may not necessarily add up to grand total due to rounding

During the month, a total of RM2.2 billion of gross NPLs were sold to Danaharta (January: RM0.3 billion). Including these loans, total loans outstanding would have declined by RM1 billion or 0.2% in February (+RM0.1 billion or 0.03% in January), while the annual growth would have increased by 1.2% as at end-February (0.4% as at end-January). It is of significance to note that including the NPLs, loans extended by the commercial banks would have increased by 7.2% on an annual basis.

As there was an increase in deposits and a decline in loans, the banking system recorded a resource surplus of RM7.4 billion in February. The outstanding resource surplus thus increased to RM41 billion at end-February from RM33.6 billion at end-January. Consequently, the loan-deposit ratio decreased to 90.5% (92.2% at end-January).

## Developments in the Banking System

The risk-weighted capital adequacy ratio of the banking system was 11.7% at the end of February 1999, well above the minimum level of 8%. Net non-performing loans at the end of January 1999, meanwhile, remained manageable at 8.6% under the six-month classification and 13.9% under the three-month classification.

**Banking System Health Indicators**

| | 1998 | | | 1999 | |
|---|---|---|---|---|---|
| | Jun. | Sep. | Dec. | Jan. | Feb. |
| | % | | | | |
| **Capital** | | | | | |
| Core-Capital ratio | 9.2 | 8.5 | 8.6 | 8.7 | 8.5 |
| RWCR | 11.2 | 10.6 | 11.8 | 11.9 | 11.7 |
| **Net NPL (3-month classification)** | | | | | |
| Banking system | 8.9 | 12.8 | 13.2 | 13.8 | n.a. |
| Banking system (RM million) | 35,882 | 50,643 | 51,164 | 53,643 | n.a. |
| **Net NPL (6-month classification)** | | | | | |
| Banking system | n.a. | 8.1 | 7.6 | 8.6 | n.a. |
| Banking system (RM million) | n.a. | 32,216 | 29,514 | 33,543 | n.a. |
| **GP/Net total loans (3-month)** | 2.2 | 2.0 | 2.3 | 2.1 | n.a. |
| **GP/Net total loans (6-month)** | n.a. | 1.7 | 2.0 | 1.7 | n.a. |

Progress made in the restructuring of the banking system is well-advanced, with total NPLs acquired and managed by **Danaharta** from the banking system amounting to RM15.1 billion as at 15 March 1999 or about 20% 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 RM6.15 billion. Of these 10 institutions, Danamodal has signed Definitive Agreements with seven for the conversion of the ESCL into permanent tier-1 and/or tier-2 capital. As at 15 March 1999, the **Corporate Debt Restructuring Committee** (CDRC), in turn, has received 48 applications, with debt totalling RM22.7 billion. On 8 March 1999, CDRC announced the restructuring plan of a major conglomerate involving debts of RM8.4 billion.

**Interest Rates**

**Interest rates** in the **interbank money market** continued to ease further in February, reflecting the ample liquidity situation associated with the resource surplus experienced by the banking system during the month. Although overnight and 1-week rates rose slightly towards the end of February, the downward trend in interest rates continued into the second week of March.

**Movement of Interbank Rates**
(average rates during period)

| Tenure | **January** | Direction of Change | **February** | Direction of Change | **March 1-19** |
|---|---|---|---|---|---|
| **3-Mth** | **6.43** | ↘ | **6.39** | ↘ | **6.32** |
| 1-Mth | 6.05 | ↘ | 5.93 | ↘ | 5.86 |
| 1-Wk | 5.73 | ↘ | 5.51 | ↗ | 5.68 |
| O/nite | 5.29 | ↘ | 5.23 | ↗ | 5.41 |

Following the softening in interbank rates, the average **fixed deposit rates** of commercial banks and finance companies declined by 12-14 and 27-34 basis points to 5.53-5.59% and 5.91-6.13% respectively in February. The average fixed deposit rates declined further by 2-4 and 5-7 basis points respectively in the first week of March.

The average base lending rates (BLR) of commercial banks and finance companies remained unchanged throughout February and the first week of March, at 8.04% and 9.50% respectively.

**Capital Market**

In February, there was a larger net redemption of funds amounting to RM725 million (-RM2 million in January) in the **capital market**. While the public sector did not raise any new funds, funds sourced by the private sector notably through the issuance of Cagamas bonds (RM500 million) were offset by the larger redemption of private debt securities (RM1.3 billion).

**Funds Raised in the Capital Market** [p]

| | 1998 | 1999 | |
|---|---|---|---|
| | Year | Jan | Feb |
| | RM million | | |
| **By Public Sector** | | | |
| Net Funds Raised | 9,804 | 0 | 0 |
| **By Private Sector** | | | |
| Shares | 1,788 | 17 | 76 |
| Debt Securities [1] | 14,152 | 0 | 500 |
| *Less* Redemptions | 7,916 | 19 | 1,301 |
| *Equals* Net Issues | 6,235 | -19 | -801 |
| Net Funds Raised | 8,023 | -2 | -725 |
| Net Funds Raised in the Capital Market | 17,827 | -2 | -725 |
| Net Issues of Short-Term Securities [2] | -155 | -380 | 375 |
| **Total** | 17,672 | -382 | -350 |

[p] Preliminary.

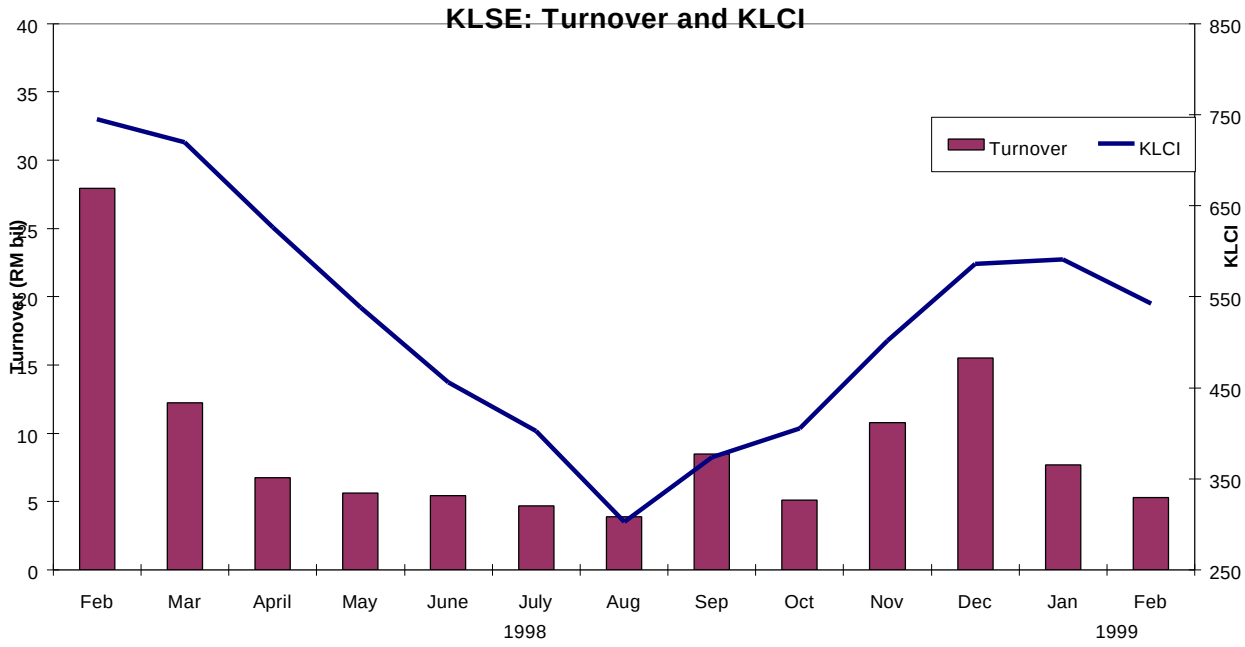
[1] Excludes debt securities issued by banking institutions.

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

The Kuala Lumpur Composite Index (KLCI) fell by 8.3% to close at 542.23 points at the end of February, while the market capitalisation of the

Kuala Lumpur Stock Exchange declined by 9.4% to RM349 billion. The market fell initially following the introduction of the levy on the early repatriation of capital when stocks were sold based on the misperception that profits repatriated before 15 February would be exempted from tax. There was a mild recovery preceding the Chinese New Year break although market sentiment remained weak as there was a lack of fresh and positive news in the market.

Market sentiment continued to remain weak in the first three weeks of March. Investors were generally cautious awaiting the outcome of the Sabah state elections, resolution of the issue of the trading of CLOB shares in the KLSE and the direction of the economy ahead of the BNM Annual Report. Meanwhile, the market witnessed a temporary respite on 9 March following the announcement of the new restructuring plan for a large conglomerate. As at 22 March, the KLCI closed at 507.55 points, while the market capitalisation stood at RM320 billion.




**International Reserves**

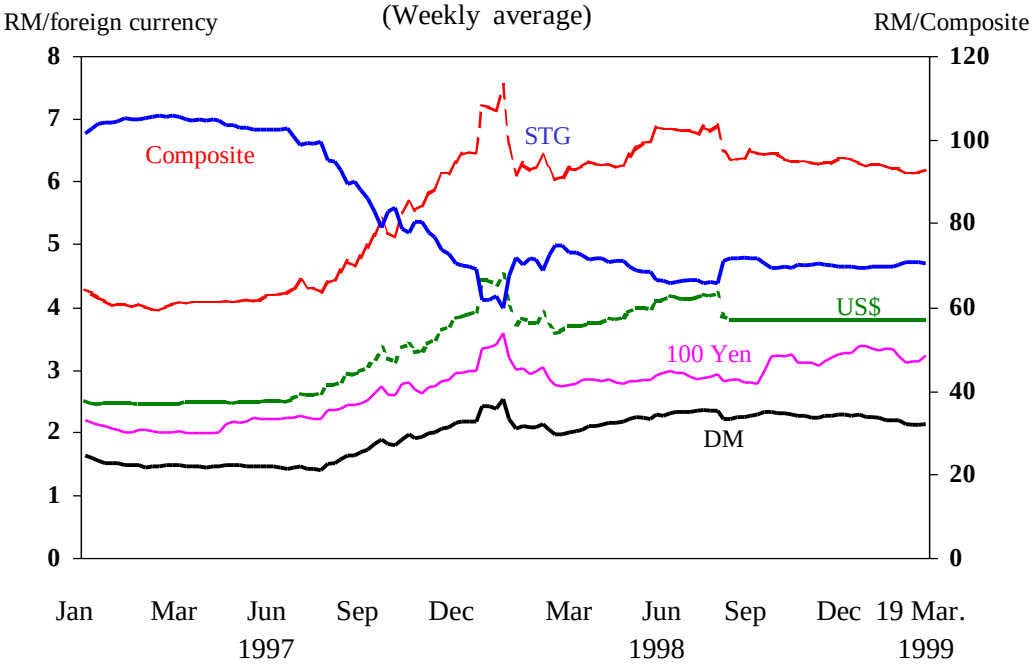
The **international reserves** held by BNM increased by RM2.8 billion to RM109 billion at end-February 1999. The United States dollar equivalent of international reserves at end-February was US$28.7 billion. Reserves stabilised at RM108.8 billion or US$28.6 billion at 15 March 1999. Since end-

August, reserves rose by US$8.4 billion. This level of reserves was sufficient to finance 6.2 months of retained imports.

## Exchange Rates

In February, the **ringgit** recorded an across-the-board appreciation against the major currencies within a range of 2.9-3.8%. The ringgit strengthened by 2.9% against the pound sterling, 2.6% against the Swiss franc, and 3.8% respectively against the Deutsche Mark, euro and Japanese yen. Against the composite index, the ringgit appreciated by 1.2%. The ringgit rose in tandem with the strengthening of the US dollar in the international foreign exchange markets. The release of economic data during the month which indicated continued growth in the US economy (4Q 1998 GDP: +6.1%) whilst inflationary pressures remained subdued, were positive towards the dollar. In addition, the easing of interest rates to near zero in Japan on 17 February, caused the yen to weaken to US$1=¥121.45 on 25 February. Meanwhile, expectations of an interest rate cut by the European Central Bank (ECB) in the first quarter of 1999 following the release of weak economic data from the core member countries, namely Germany, France and Italy was supportive towards the dollar. Sentiment towards the sterling was also adversely affected by the lower British interest rates and indications

**Exchange Rate of the Malaysian Ringgit against Major Currencies**

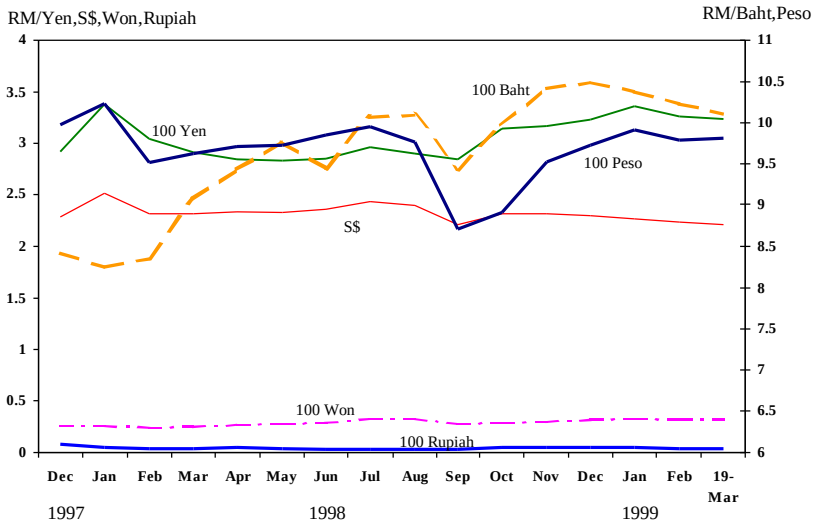


from British authorities on joining the European Monetary Union, causing the sterling to fall to a 16-month low, below £1=US$1.60 on 24 February.

In the period 1-19 March, the ringgit recorded an appreciation against the Deutsche mark, euro and Swiss franc within a range of 0.1-0.6% but depreciated against the pound sterling and yen by 1.7 and 2.8% respectively. The ringgit's mixed performance was on account of the dollar's movements against the major currencies. Of significance was the reversal of trend against the yen, as the yen strengthened against the dollar to US$1=¥117.25 on 19 March. Among the contributory factors was the repatriation of Japanese funds ahead of fiscal year ending in March 1999 as well as the inflow of US funds into the Japanese stock market.

Against selected regional currencies, the ringgit's performance was in tandem with movements of the US dollar. With the exception of the Indonesian rupiah (-0.9%), the ringgit appreciated against the Philippine peso (+1.6%), Thai baht (+1.7%), Singapore dollar (+2.1%) and Korean won (+3.9%), as the yen's weakness against the US dollar had exerted a downward influence on these regional currencies. During the period 1-19 March, the ringgit appreciated against the Thai baht (+0.2%) and Indonesian rupiah (+1%) but depreciated against the Korean won (-0.1%), Singapore dollar (-0.2%) and Philippine peso (-0.9%).

**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 further to 3.8% in February (5.2% in January). The moderation was reflected in almost all items in the CPI basket particularly in the sub-groups of food (6.4% as against 9% in January); gross rent, fuel and power; furniture, furnishing and household equipment; recreation, entertainment, education and cultural services; and miscellaneous goods and services. In the food sub-index, lower price increases were recorded mainly for fruits and vegetables; meat; rice, bread and other cereals; and food away from home which more than offset the higher price of fish. Meanwhile, the prices of clothing and footwear declined further by 2.5% (-1.3% in January), while the prices of transport and communication stabilised during the month. Excluding the food sub-index, the adjusted CPI rose more moderately by 2.8%. For the first two months of 1999, the CPI increased by 4.5%, compared with 5.3% in 1998.

## Key Monetary and Banking Statistics

| | January 1999 Outstanding (RM billion) | January 1999 Annual growth (%) | February 1999 Outstanding (RM billion) | February 1999 Annual growth (%) |
|---|---|---|---|---|
| **Monetary Aggregates** | | | | |
| Reserve money | 37.1 | *-58.4* | 37.5 | *-44.9* |
| M1 | 55.6 | *-14.7* | 54.9 | *-5.7* |
| M2 | 297.7 | *1.0* | 302.1 | *4.0* |
| M3 | 403.0 | *2.3* | 411.5 | *4.4* |
| By determinants: | | | | |
| Claims on the private sector | 450.3 | *-1.1* | 448.5 | *-0.5* |
| Claims on the Government | -17.8 | | -19.2 | |
| External sector | 100.1 | | 102.7 | |
| Other influences | -129.6 | | -120.5 | |
| **Banking System** | | | | |
| Total deposits | 428.5 | *0.0* | 433.1 | *0.6* |
| Total loans (including Cagamas) | 413.5 | *-2.7* | 410.3 | *-2.5* |
| Of which: Manufacturing | 62.3 | *-4.6* | 61.5 | *-5.1* |
| Broad property | 146.9 | *4.2* | 145.8 | *3.5* |
| Construction | 42.9 | *0.1* | 42.7 | *1.3* |
| Residential property | 56.9 | *9.9* | 57.1 | *9.1* |
| Non-residential property | 30.0 | *5.3* | 30.1 | *4.2* |
| Real estate | 17.0 | *-4.1* | 16.0 | *-8.8* |
| Finance, insurance and business services | 37.0 | *0.9* | 36.9 | *2.6* |
| Consumption | 49.4 | *-13.7* | 49.4 | *-12.4* |
| Total loans (including Cagamas and NPLs sold to Danaharta) | 426.8 | *0.4* | 425.8 | *1.2* |
| Total loans (excluding Cagamas) | 394.9 | *-2.6* | 392.1 | *-2.1* |
| Loan-deposit ratio (%) | 92.2 | | 90.5 | |
| Loans approved during the month | 7.4 | | 5.8 | |
| **International Reserves of BNM** | 106.2 | | 109.0 | |
| Reserves in USD (billion) | 27.9 | | 28.7 | |
| Months of retained imports | 6.0 | | 6.2 | |
| **Interest Rates** | **(average rates at end-period)** | | | |
| Interbank : 1-month | 6.04 | | 5.96 | |
| 3-month | 6.40 | | 6.42 | |
| Fixed deposits of commercial banks: | | | | |
| 1-month | 5.72 | | 5.58 | |
| 3-month | 5.72 | | 5.59 | |
| BLR of commercial banks: | 8.04 | | 8.04 | |

| **Banking System Health** | **As at end-January** | **As at end-February** |
|---|---|---|
| Risk-weighted Capital Ratio (RWCR) (%) | 11.9 | 11.7 |
| Net NPLs (%): 6-Months | 7.6[1/] | 8.6[2/] |
| 3-Months | 13.2[1/] | 13.8[2/] |

| **Capital Market** | **As at end-January** | **Monthly (%)** | **As at end-February** | **Monthly (%)** |
|---|---|---|---|---|
| Kuala Lumpur Composite Index (KLCI) | 591.4 | 0.9 | 542.2 | -8.3 |
| KLSE Market Capitalisation (RM billion) | 385.8 | 3.0 | 349.4 | -9.4 |

[1/] Refers to end-December 1998

[2/] Refers to end-January 1999