PRESS RELEASE ON
MONETARY AND FINANCIAL DEVELOPMENTS
MARCH 2000

Monetary conditions improved in March, in line with the stronger economic activities. Broad money growth was sustained, inflation remained low and the liquidity situation was stable. Loan growth in the banking system continued to pick up, and the loan-deposit ratio was also higher. Improved private investment activity was reflected in the higher issues of private debt securities.

Monetary Developments

On an annual basis, the growth of **broad money, M3** increased to 5.8% at end-March from 5.2% at end-February in line with further expansion of economic activities. On a monthly basis, however, M3 recorded a marginal decline of RM11 million in March.

In terms of **components**, transaction balances were lower by RM3.5 billion. This reflected the return of currency to BNM after the festive season, resulting in a decline in

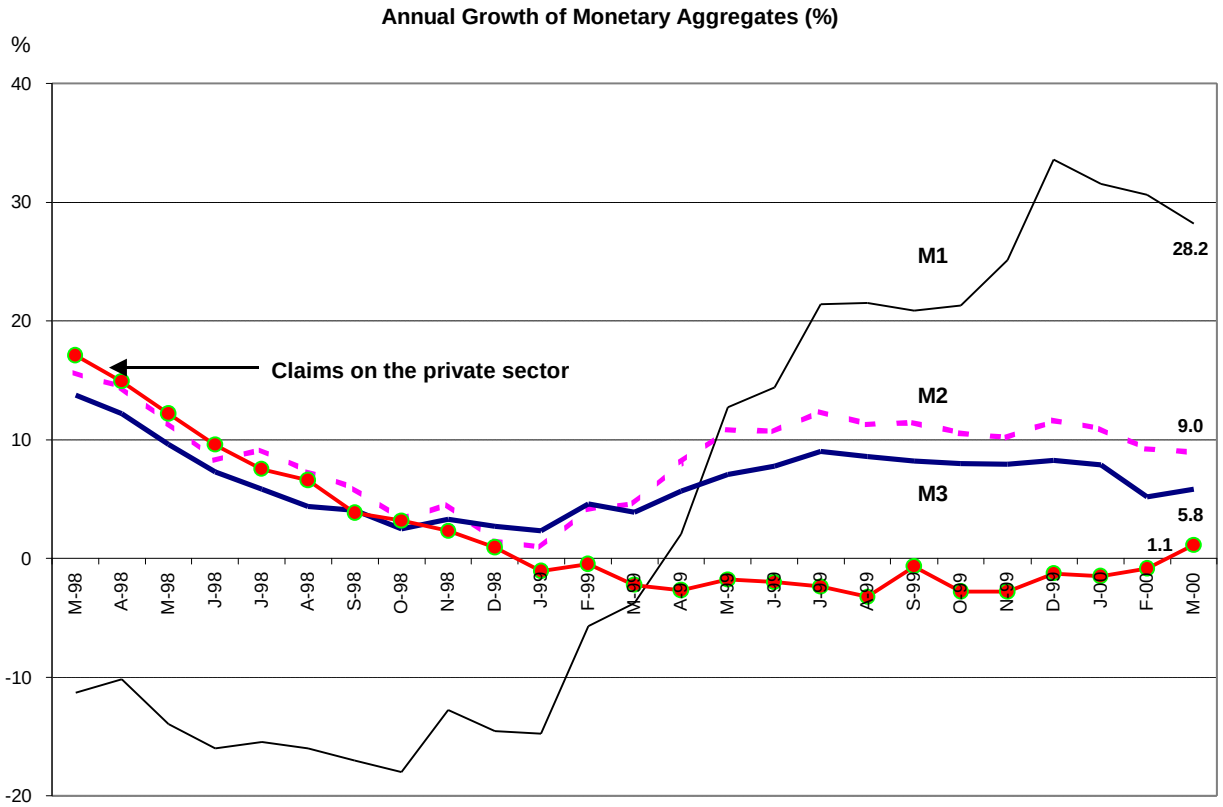
M3 Determinants
(change during the period in RM billion)

	1999		2000		
	Nov.	**Dec.**	**Jan.**	**Feb.**	**Mar.**
M3	3.6	11.2	0.1	-1.4	...
Of which:					
Claims on Government	2.0	1.1	1.8	-1.0	-2.0
Claims on private sector	1.4	0.7	-2.4	1.2	0.6
External operations	0.4	6.1	6.5	5.4	-1.4
Other influences	-0.1	3.4	-5.8	-7.0	2.8

* Effective 1 January 1999, all foreign currency assets and liabilities are only revalued at the end of each quarter.

currency in circulation (-RM615 million). Demand deposits were also lower by RM2.9 billion reflecting the consolidation in the stock market activities and the shift into fixed deposits by domestic business enterprises. Broad quasi-money recorded an increase of RM3.5 billion (-RM38 million in February), reflecting mainly an increase in fixed deposits (+RM3.1 billion) and repos (+RM1.7 billion) which more than offset the decline in NIDs (-RM0.6 billion).

In terms of **determinants**, the marginal decline in M3 was due entirely to the contractionary impact exerted by the Government operations (RM2 billion). The Government increased its deposits placed with BNM by RM4.2 billion following the issuance of MGS of RM2.9 billion. At the same time, holdings of Government securities by the banking institutions also increased by RM2.2 billion. The Government operations offset the expansionary impact from both the external sector and claims on the private sector. After adjusting for revaluation losses in the first quarter, the net external assets of BNM and the banking institutions exerted a small expansionary impact on M3, while claims on the private sector increased by RM590 million following higher loans extended by the banking system.



Banking System

On an annual basis, total **deposits** mobilised by the banking system increased by 2.3% as at end-March. On a month-on-month basis, however, deposits declined by 0.7% or RM3 billion in March (+0.3% or +RM1.5 billion in February), due to the decline in interplacements of deposits between banking institutions (-RM2.2 billion) and withdrawals by statutory authorities and the Government. Deposits placed by the private sector, on the other hand, increased by RM1 billion reflecting higher deposits by business enterprises although this was partially offset by lower deposits by individuals.

By type, NIDs registered a net redemption (-RM3.3 billion), a substantial portion of which was due to the maturing of contracts previously issued by a few banking institutions among themselves. In addition, there was a decline in demand deposits (-RM2.9 billion), with net withdrawals by business enterprises (-RM1 billion), individuals (-RM0.6 billion), non-bank financial institutions (-RM0.5 billion) and statutory authorities (-RM0.4 billion). On the other hand, deposits in the form of repos were higher by RM1.7 billion as funds accepted from business enterprises increased by RM1.4 billion. There was also an increase in SPI deposits and fixed deposits by RM1.2 billion and RM0.9 billion respectively.

Deposits and Loans of the Banking System (RM million)

	Monthly change 2000		As at end of 2000	
	Feb.	Mar.	Feb.	Mar.
Deposits				
Commercial banks	3,400	-1,919	336,242	334,323
Finance companies	-1,525	-1,306	88,269	86,962
Merchant banks	-344	224	24,746	24,970
Banking system	1,531	-3,001	449,256	446,256
Loans[1]				
Commercial banks	926	1,902	320,096	321,998
Finance companies	185	-360	84,624	84,264
Merchant banks	26	-222	21,259	21,037
Banking system	1,136	1,319	425,979	427,299
Loans[2]				
Commercial banks	427	1,343	281,573	282,917
Finance companies	203	-552	74,656	74,104
Merchant banks	-81	-261	18,038	17,777
Banking system	549	531	374,267	374,797
Resource surplus (+)/gap(-)[2]	982	-3,531	74,990	71,458
Loan-deposit ratio (%)[2]			**83.3**	**84.0**

[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.

Reflecting the continued improvement in economic activities, total **loans approved** by the banking system was significantly higher at RM11.2 billion in March (RM8.4 billion in February) with higher approvals to almost all sectors. Total **loans disbursed** was also substantially higher at RM30 billion (RM26.8 billion in February). Larger disbursements were recorded to almost all sectors, particularly the manufacturing sector; wholesale, retail, restaurants and hotels sector; and for the purchase of residential property. Meanwhile, repayment of loans remained high at RM29 billion (RM26.8 billion in February).

Total **loans outstanding** (including loans sold to Cagamas and Danaharta) extended by the banking system increased further by RM1.3 billion or 0.3% in March (+RM1.1 billion or 0.3% in February). Loans extended by commercial banks rose by RM1.9 billion, while both, the finance companies and merchant banks recorded a decline in loans outstanding (-RM0.4 billion and –RM0.2 billion respectively). By sector, higher loans outstanding were recorded for the purchase of residential property (+RM1.1 billion); consumption credit (+RM0.5 billion); wholesale, retail, restaurants and hotels sector (+RM0.4 billion) and electricity, gas and water supply sector (+RM0.3 billion). On the other hand, lower loans were extended to the finance,

Banking System: Loans by Sector (RM million)

	Monthly change 2000		As at end of 2000	
	Feb.	Mar.	Feb.	Mar.
Agriculture	24	229	9,165	9,394
Mining and quarrying	-29	-64	1,790	1,725
Manufacturing	-145	-125	65,185	65,061
Electricity	-298	327	6,534	6,861
Wholesale, retail, restaurants and hotels	1	352	36,228	36,579
Broad property sector	-97	1,143	154,429	155,572
Construction	*-551*	*68*	*42,250*	*42,318*
Residential property	*633*	*1,092*	*65,362*	*66,454*
Non-residential property	*58*	*-87*	*28,628*	*28,541*
Real estate	*-235*	*70*	*18,190*	*18,260*
Transport , storage and communications	157	-228	15,575	15,347
Finance, insurance and business services	611	-1,177	33,802	32,625
Consumption	547	457	50,290	50,747
Purchase of securities	155	139	33,488	33,627
Others	211	267	19,493	19,760
Total loans outstanding[1]	1,136	1,319	425,979	427,299

[1] Including loans sold to Cagamas and Danaharta.

insurance and business services sector (-RM1.2 billion), and transport, storage and communications sector (-RM0.2 billion). On an annual basis, total loans outstanding rose by 0.4% at end-March with commercial banks recording an annual growth of 3%.

As deposits declined and loans increased, the banking system recorded a **resource gap** of RM3.5 billion in March. The **loan-deposit ratio** increased to 84% (83.3% at end-February).

Interest Rates

In March and in the first half of April, ample liquidity in the money market continued to keep **interest rates** low in the interbank market.

The average **base lending rates** (BLRs) of the commercial banks and finance companies remained unchanged at 6.79% and 7.95% respectively at the end of March. There was a marginal easing in the **average lending rate** (ALR) of commercial banks to 7.74% (7.79% at end-February), but the ALR of finance companies remained relatively stable at 11.24% (11.23% at end-February).

The average **fixed deposit (FD) rates** for the commercial banks were slightly lower, with the one to 12-month FD rates ranging between 3.21-3.91% on 15 April (3.22-3.94% at end-February). For the finance companies, the FD rates ranged between 3.26-4.12% (3.31-4.08% at end-February). The **interest margin** of the commercial banks remained relatively stable at 4.54% (4.55% at end-February), while that of the finance companies declined marginally to 6.87% at end-March (6.91% at end-February).

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

Tenure	February	Direction of Change	March	Direction of Change	1-17 April	Tenure
3-Mth	**n.t.**	**-**	**3.14**	✍	**3.16**	**3-Mth**
1-Mth	2.73	✍	2.75	✍	2.74	1-Mth
1-Wk	2.59	✍	2.63	✍	2.61	1-Wk
O/night	2.55	✍	2.57	✍	2.52	O/night

n.t. refers to no trading

Developments in the Banking System

The **banking system** continued to exhibit a risk-weighted capital ratio of 12.8% at the end of March, well above the minimum requirement of 8%, with the core capital ratio improving further to 10.4%. Net non-performing loans ratio of the banking system continued to decline marginally to 6.6% as at end of February on a six-month classification.

Banking System Health Indicators

	1998	1999				2000		
	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.	Feb.	Mar.
Capital								
Core-capital ratio (%)	8.7	8.7	10.2	10.3	9.9	10.0	10.2	10.4
RWCR (%)	11.8	12.3	12.7	12.7	12.3	12.5	12.8	12.8
Net NPL (6-month classification)								
Banking system (%)	7.5	7.9	7.9	7.7	6.6	6.7	6.6.	n.a.
Banking system (RM million)	29,286	29,869	29,696	28,705	24,340	24,384	24,356	n.a.
GP/Net total loans (6-month,%)	2.0	1.8	1.8	1.8	1.8	1.9	1.9	n.a.

n.a Not available

With regard to the financial sector restructuring, Danaharta has acquired and is currently managing a total of RM35.1 billion worth of NPLs from the banking system, representing approximately 42% of total NPLs in the banking system**.** On 29 March, Danaharta launched its second sale of foreclosed properties, involving 123 properties with a combined indicative value of RM276.43 million. Danaharta had appointed 124 real estate agents for the property sale. The tender offer closed on 28 April. Danaharta also issued bonds with a nominal value of RM328.6 million on 31 March under its Bonds Issuance Programme, bringing the total amount of bonds issued by Danaharta to RM11.1 billion.

Capital injection by Danamodal remained at RM5.2 billion as at end-March. To date, CDRC has received 68 applications with debts totalling RM36.5 billion, of which 19 restructuring schemes amounting to RM14.1 billion have been completed and are in various stages of implementation. Nine cases amounting to RM1.8 billion are being resolved by Danaharta. Thirteen cases involving debts worth RM2.8 billion have been rejected and the debt restructuring schemes for the remaining 27 cases amounting to RM17.9 billion are

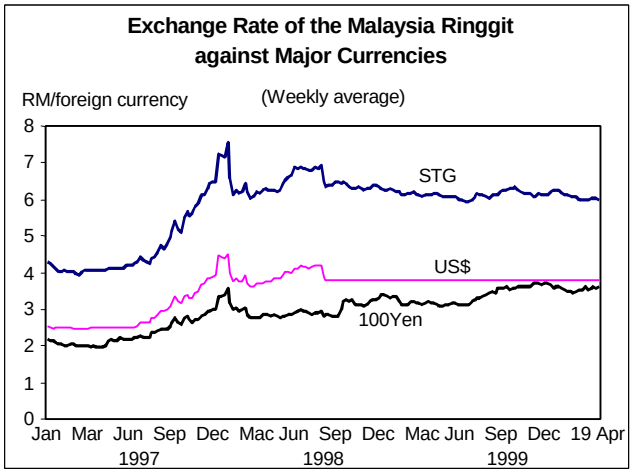
currently being worked out and are expected to be completed by the third quarter of this year.

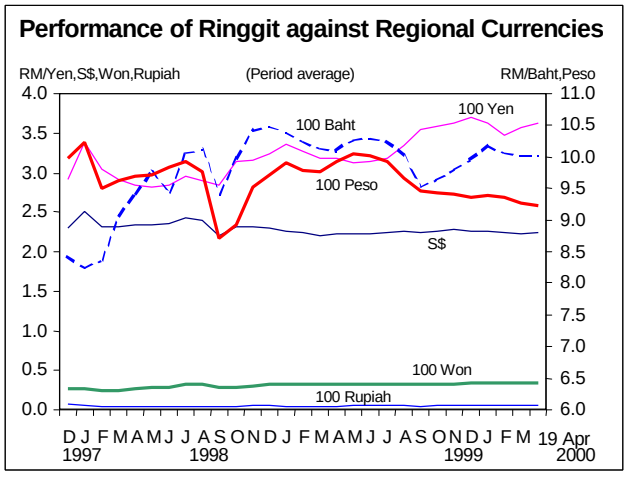
International Reserves

The **international reserves** held by BNM amounted to RM128.9 billion (US$33.9 billion) at the end of March. As at 14 April, reserves increased to RM130.9 billion (US$34.4 billion), sufficient to finance 6.3 months of retained imports and was 5.6 times the short-term external debt.

Exchange Rates

In March, the **ringgit** appreciated against **most major currencies**, with the exception of the Japanese yen, in tandem with the movements of the United States dollar in the international foreign exchange markets. The dollar weakened against the yen due to the repatriation of funds by Japanese institutions as well as renewed confidence over the Japanese recovery following the release of strong industrial production data. Meanwhile, the dollar remained strong against the Euro and the pound sterling following expectations of less aggressive monetary tightening by the Bank of England and the European Central Bank (ECB). As a result, the ringgit appreciated against the euro (+1.3%) and the pound sterling (+0.3%), while depreciating against the yen (-4.3%).





Meanwhile, the ringgit recorded a mixed performance against **regional currencies**, in tandem with the movements of the United States dollar. The ringgit appreciated against the Singapore dollar (+0.3%), Philippine peso (+0.3%) and Indonesian rupiah (+1.6%), while depreciating against the Thai baht (-0.4%) and the Korean won (-2.4%). The peso and the rupiah were undermined by domestic developments while strong portfolio inflows into Korea strengthened the won.

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

RM per foreign currency	2 September 1998	19 April 2000	% Change
US dollar	3.8000	3.8000	0.0
100 Japanese yen	2.7742	3.6218	-23.4
Singapore dollar	2.1998	2.2386	-1.7
100 Thai baht	9.3713	10.0290	-6.6
100 Philippine peso	8.8302	9.2233	-4.3
100 Indonesian Rupiah	0.0354	0.0488	-27.5
100 Korean won	0.2827	0.3427	-17.5

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

In the period 1-19 April, the ringgit appreciated further against the pound sterling (+1.1%) and the euro (+1.4%) while depreciating further against the Japanese yen. The ringgit appreciated against most of the regional currencies in the range of 0.1 – 2.4% with the exception of the Singapore dollar, which appreciated against the ringgit by 1.2%.

Inflation

The annual rate of **inflation** as measured by the Consumer Price Index (CPI) remained unchanged at 1.5% in March. Higher price increases for sub-indices of food (mainly fish); recreation, entertainment, education and cultural services; and furniture, furnishings and household equipment were offset by lower price increases in the sub-indices of medical care and health expenses and transport and communication and further decline in the prices of clothing and footwear. For the first three months of 2000, the CPI rose by 1.5% compared with 4% in the corresponding period of 1999.

Capital Market

Net funds raised from the capital market were higher in March, amounting to RM6 billion (February: RM1.2 billion), reflecting the higher net funds raised by both the public and private sectors. The public sector raised a net amount of RM3.6 billion in March, compared to a net redemption of RM2 million in February. The bulk of the funds raised by the public sector was made through the net issuance of Malaysian Government Securities (RM2.9 billion), while the balance was raised via a Khazanah bond issue. Net funds raised by the private sector amounted to RM2.5 billion, about twice the level of RM1.2 billion raised in February, due largely to the higher net issuance of private debt securities (RM1.9 billion; February: RM429 million).

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

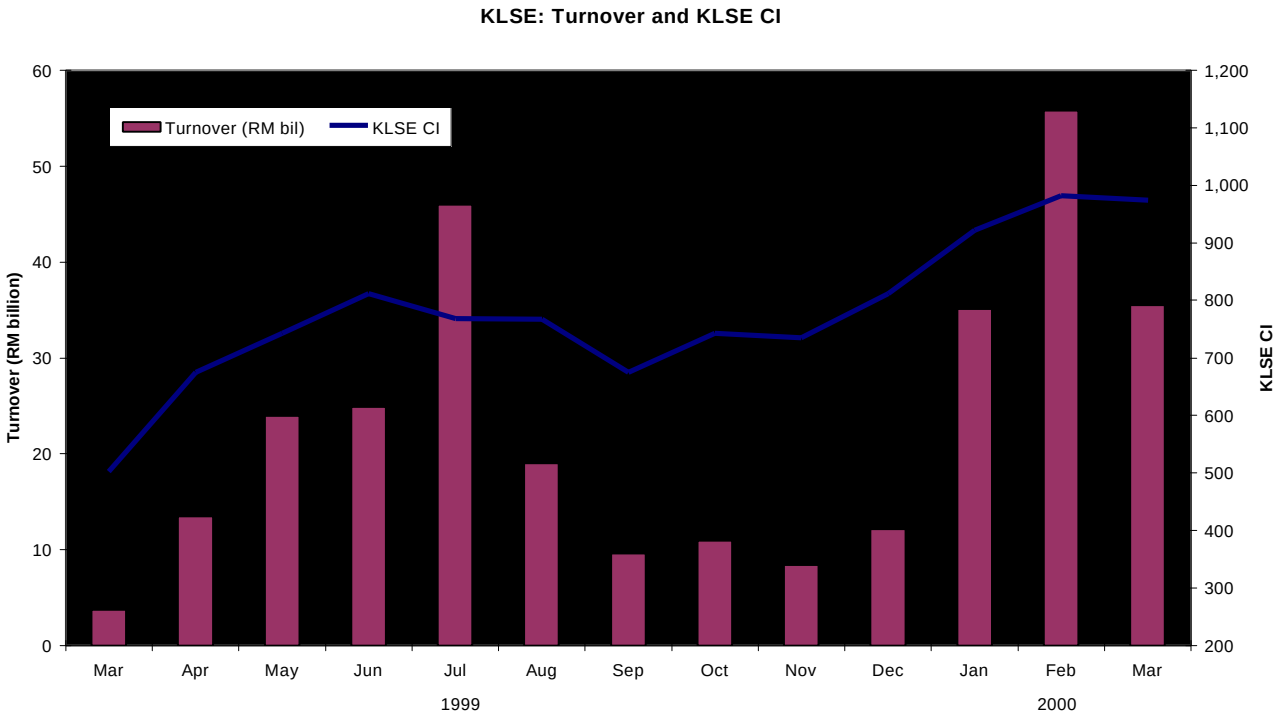
	1999	2000	
		Feb.	Mar.
By Public Sector			
Net Funds Raised	6,297	-2	3,579
By Private Sector			
Shares	6,087	765	538
Debt Securities [1]	17,553	1,356	1,937
Less Redemptions	12,750	927	14
Equals Net Issues	4,803	429	1,923
Net Funds Raised	10,890	1,195	2,462
Net Funds Raised in the Capital Market	**17,187**	**1,192**	**6,041**

[p] Preliminary.
[1] Excludes debt securities issued by banking institutions.

Sentiment on the **Kuala Lumpur Stock Exchange (KLSE)** remained weak in the first half of March as a result of concerns over possible U.S. interest rate increases. In addition, there were some profit-taking activities, and certain stockbroking companies had imposed trading limits and shortened the settlement period. The KLSE Composite Index (KLSE CI) was also affected by the weak sentiment in the regional markets, which in turn was affected by the sell down on technology stocks and concerns over the political situation in Taiwan. Nevertheless, expectations of a higher-than-expected weighting upon the reinstatement of Malaysia in the Morgan Stanley Capital International indices, lifted sentiment towards the end of the month. As at 31 March, the KLSE CI closed at 974.38 points (-0.8% since end-February), while the KLSE market capitalisation amounted to RM703 billion.

In the period 1-20 April, market sentiment remained weak, with the KLSE CI declining following the declines in the U.S. and regional stock markets. There was a sharp decline

(-5.8%) of the KLSE CI on 17 April to 874.97 points. This followed the significant fall in the U.S. stock markets on 14 April subsequent to the release of higher-than-expected U.S. CPI data and fear of U.S. interest rate increases. The market, however, recovered from these levels. As at 27 April, the KLSE CI closed at 904.25 points (-7.2% since end-March), while the KLSE market capitalisation amounted to RM641 billion.



Bank Negara Malaysia
28 April 2000

Key Monetary and Banking Statistics

	February		March	
	Outstanding (RM billion)	Annual growth (%)	Outstanding (RM billion)	Annual growth (%)
Monetary Aggregates				
Reserve money	39.3	*4.8*	37.1	*3.3*
M1	71.7	*30.6*	68.0	*28.2*
M2	330.4	*9.2*	329.0	*9.0*
M3	433.4	*5.2*	433.4	*5.8*
By determinants:				
Claims on the private sector	444.7	*-0.8*	445.3	*1.1*
Claims on the Government	-17.9	*-5.1*	-19.9	*4.0*
External sector	135.5	*31.9*	134.1	*34.4*
Other influences	-128.9	*7.2*	-126.1	*13.1*
Banking System				
Total deposits	449.3	*3.7*	446.3	*2.3*
Total loans (including loans sold to Cagamas and Danaharta)	426.0	*0.0*	427.3	*0.4*
Of which: Manufacturing	65.2	*2.3*	65.1	*2.3*
Broad property	154.4	*2.5*	155.6	*3.0*
Construction	42.2	*-5.8*	42.3	*-6.1*
Residential property	65.4	*14.4*	66.5	*15.9*
Non-residential property	28.6	*-8.1*	28.5	*-8.4*
Real estate	18.2	*3.5*	18.3	*4.2*
Finance, insurance and business services	33.8	*-11.4*	32.6	*-14.8*
Consumption	50.3	*1.5*	50.7	*2.8*
Total loans (including loans sold to Cagamas and excluding loans sold to Danaharta)	391.2	*-4.7*	392.2	*-2.5*
Total loans (excluding loans sold to Cagamas and Danaharta)	374.3	*-4.6*	374.8	*-2.7*
Loan-deposit ratio (%)	83.3		84.0	
Loans approved during the month	8.4		11.2	
Loans disbursed during the month	26.8		30.0	
International Reserves of BNM	**As at end-February**		**As at end-March**	
Reserves in RM (billion)	129.8		128.9	
Reserves in USD (billion)	34.2		33.9	
Months of retained imports	6.3		6.2	
Interest Rates	**(average rates at end-period)**			
Interbank: 1-month	2.74		2.75	
3-month	3.18*		3.19	
Fixed deposits of commercial banks:				
1-month	3.22		3.22	
3-month	3.29		3.28	
BLR of commercial banks	6.79		6.79	
Banking System Health	**As at end-February**		**As at end-March**	
Risk-weighted Capital Ratio (RWCR) (%)	12.8		12.8	
Net NPLs (%): 6-Month	6.6		n.a.	
Capital Market	**As at end-February**	**Monthly (%)**	**As at end-March**	**Monthly (%)**
Kuala Lumpur Composite Index (KLSE CI)	982.24	*6.52*	974.38	*-0.8*
KLSE Market Capitalisation (RM billion)	699.63	*10.67*	707.34	*1.1*

* Refers to end-January number as there was no trading in February