PRESS RELEASE ON
MONETARY AND FINANCIAL DEVELOPMENTS
NOVEMBER 1999

Monetary Developments

The monetary situation improved in November reflecting favourable developments in both the external sector and domestic economic conditions. **M3 recorded an increase of RM3.6 billion** or 0.9% (+RM262 million or +0.1% in October). The annual growth of M3 at end-November stabilised at 7.9% (8% at end-October). In terms of **components**, transaction balances (comprising currency in circulation and demand deposits) increased by RM3.9 billion, due to both higher demand deposits (+RM2.8 billion) and currency in circulation (+RM1.1 billion). Broad quasi-money, on the other hand, recorded a smaller decline of RM306 million (+RM1.5 billion in October), reflecting mainly the decline in repos (-RM1.3 billion) and NIDs (-RM589 million) which more than offset the increase in savings deposits (+RM848 million) and fixed deposits (+RM322 million).

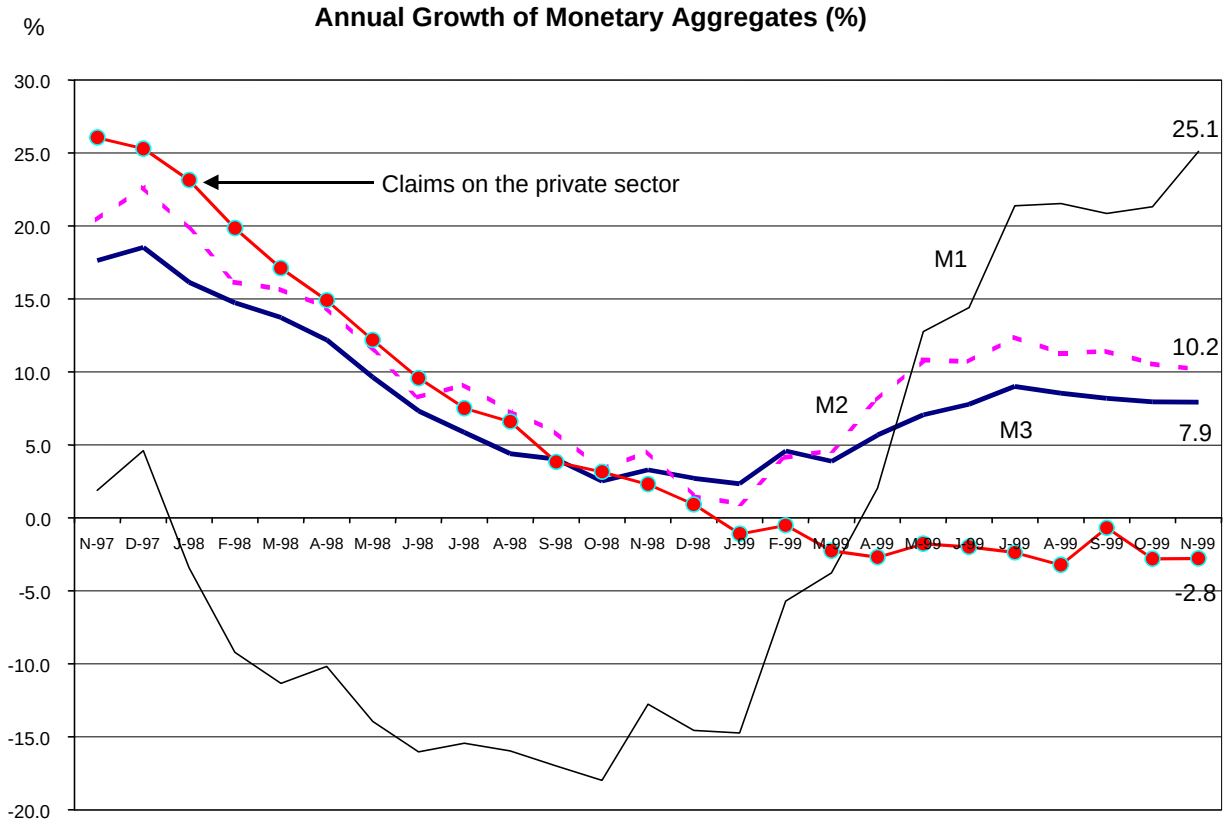
M3 Determinants
(change during the period in RM billion)

	1997	1998 [1/]	1999 [2/]			
			Sep	Oct	Nov	Jan.-Nov.
M3	61.1	10.6	-1.0	0.3	3.6	21.9
Of which:						
Claims on Government	0.5	-12.3	3.0	-1.5	1.9	1.1
Claims on private sector	90.4	4.1	9.6	-2.6	1.4	-6.4
External operations	-16.8	51.2	-1.3	-1.3	0.4	22.9
Other influences	-13.0	-32.4	-12.3	5.7	-0.1	4.3

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 reflected mainly the expansionary impact of the Government sector and claims on the private sector. The Government sector exerted an expansionary impact of RM1.9 billion as the Government drew down its deposits (RM2.1 billion) placed with BNM to finance its expenditure. Meanwhile, claims on the private sector increased by RM1.4 billion due solely to higher loans extended by the banking institutions.



Banking System

Total **deposits** mobilised by the banking system turned around to increase by RM3.3 billion or 0.8% in November (-RM3.7 billion or -0.8% in October), reflecting mainly higher deposits placed with commercial banks (+RM2.6 billion). On an annual basis, total deposits increased by 4.1% as at end-November (4% as at the end of October).

By type, the largest increase in deposits was in the form of demand deposits (+RM3 billion). The increase reflected the improved economic activities. At the same time, savings deposits and NIDs increased by RM0.8 billion and RM0.3 billion respectively, while repos declined by RM1.4 billion.

Reflecting improved economic activities, total **loans outstanding** (including NPLs sold to Danaharta) extended by the banking system turned around to increase by RM1.2 billion or 0.3% in November (-RM1.2 billion or –0.3% in October). On an annual basis, total loans outstanding increased by 1% at end-November, with commercial banks recording an annual growth of 4.8%.

Higher loans were extended for the purchase of residential property (+RM0.7 billion), to the finance, insurance and business services sector (+RM0.5 billion) and for the purchase of passenger cars (+RM0.5 billion). There was a decline in loans extended to the construction (-RM1.2 billion) and manufacturing (-RM0.3 billion) sectors.

Deposits and Loans of the Banking System (RM million)

	Monthly change 1999		As at end of 1999	
	Oct.	**Nov.**	**Oct.**	**Nov.**
Deposits				
Commercial banks	-5,842	2,598	320,161	322,759
Finance companies	1,583	777	89,028	89,805
Merchant banks	587	-119	25,374	25,255
Banking system	-3,672	3,255	434,564	437,819
Loans[1]				
Commercial banks	-848	902	317,542	318,444
Finance companies	-557	242	84,061	84,304
Merchant banks	219	103	22,161	22,264
Banking system	-1,186	1,247	423,764	425,011
Loans[2]				
Commercial banks	-944	1,244	283,765	285,009
Finance companies	-348	681	74,219	74,900
Merchant banks	184	51	19,465	19,516
Banking system	-1,107	1,976	377,449	379,425
Resource surplus (+)/gap(-)[2]	-2,565	1,279	57,114	58,394
Loan-deposit ratio (%)[2]			**86.9**	**86.7**

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, total **loans approved** by the banking system rose further to RM9.7 billion (RM9.3 billion in October), while total **loans disbursed** were higher at RM26.3 billion in November (RM25 billion in October). In the first eleven months of the year, total loans disbursed amounted to RM287.3 billion or a monthly average of RM26.1 billion, substantially higher than the monthly average of RM20.9 billion in 1998.

Banking System: Loans by Sector (RM million)

	Monthly change 1999		As at end of 1999	
	Oct.	Nov.	Oct.	Nov.
Agriculture	-155	295	7,999	8,294
Mining and quarrying	60	-30	1,515	1,484
Manufacturing	-631	-326	61,060	60,734
Electricity	11	122	5,613	5,735
Wholesale, retail, restaurant & hotel	-124	431	34,474	34,904
Broad property sector	-384	-635	144,403	143,768
Construction	*-794*	*-1,160*	*40,060*	*38,900*
Residential property	*795*	*661*	*61,765*	*62,426*
Non-residential property	*-131*	*-164*	*27,489*	*27,325*
Real estate	*-255*	*28*	*15,090*	*15,117*
Transport & storage	-214	40	14,798	14,838
Finance, insurance and business services	-536	457	29,463	29,920
Consumption	340	660	48,773	49,432
Purchase of securities	123	321	25,453	25,774
Others	-91	-139	21,086	20,946
Total loans outstanding[1]	-1,601	1,195	394,636	395,831

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

As total deposits increased by a larger amount than total loans (excluding loans sold to Cagamas and Danaharta), the banking system recorded a **resource surplus** of RM1.3 billion in November. Thus, the **loan-deposit ratio** declined to 86.7% (86.9% at end-October).

Developments in the Banking System

The **risk-weighted capital ratio** of the banking system remained strong at 12.5% at the end of November 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 system. Similarly, the core capital ratio of the banking system remained high at 10.2%. Net **non-performing loans** ratio of the banking system at the end of October 1999 was 7.9% based on six-month classification.

With regard to financial sector restructuring, Danaharta has acquired and is currently managing a total of RM30 billion worth of NPLs from the banking system. This amounts to approximately 36% of total NPLs of the banking system. As part of its loan and asset management process, Danaharta conducted its first open tender on 44 properties with total indicative value of RM122.6 million in November 1999. At the close of the tender on 9 December 1999, 24 bids were successful with total consideration of RM17.8 million. The remaining properties will be transferred to and managed by its asset subsidiary to maximise the recoveries. Following the success of its first restricted tender of foreign assets, Danaharta is currently conducting the second sale by restricted tender of foreign loan assets totalling USD251.7 million. The tender closes on 22 February 2000. Capital injection by Danamodal remained at RM4.6 billion as at 10 December 1999. As at 10 December 1999, CDRC has received 66 applications with debts totalling RM35.7 billion. Of these, 15 restructuring schemes amounting to RM12.8 billion have been completed and are in various stages of implementation, while 8 cases amounting to RM2.8 billion are being resolved by Danaharta. 15 cases involving debts worth RM3.5 billion have been rejected and the debt restructuring schemes for the remaining 28 cases amounting to RM16.7 billion are currently being worked out.

Banking System Health Indicators

	1998			1999			
	Jun.	**Sep.**	**Dec.**	**Aug.**	**Sep.**	**Oct.**	**Nov.**
Capital							
Core-capital ratio (%)	9.2	8.5	8.6	10.3	10.3	10.4	10.2
RWCR (%)	11.2	10.6	11.8	12.8	12.7	12.7	12.5
Net NPL (6-month classification)							
Banking system (%)	n.a.	8.1	7.5	7.9	7.7	7.9	n.a.
Banking system (RM million)	n.a.	32,214	29,286	29,370	28,705	29,144	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

Ample liquidity in the banking system continued to keep **interest rates** low in the inter-bank market. Although there was some slight upward pressure on interest rates in November, this had subsided in the first three weeks of December as interest rates moved back towards the end-October levels.

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

Tenure	**October**	Direction of Change	**November**	Direction of Change	**1-24 Dec.**	Tenure
3-Mth	**3.14**	↘	**3.13**	↗	**3.15**	**3-Mth**
1-Mth	2.70	↗	2.82	↘	2.81	1-Mth
1-Wk	2.60	↗	2.70	↘	2.61	1-Wk
O/night	2.54	↗	2.66	↘	2.52	O/night

Meanwhile, 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 November. Similarly, the average **fixed deposit rates** for commercial banks and finance companies were relatively unchanged and ranged between 3.24-3.95% and 3.31-4.06% respectively as at 8 December.

Capital Market

Net funds raised from the capital market was lower in November, amounting to RM1.2 billion (RM2.4 billion in October). The lower amount of funds raised was due to a net redemption of RM1.3 billion by the public sector (net funds raised of RM3.5 billion in the previous month). On the other hand, the private sector recorded higher net funds raised, amounting to RM2.5 billion (net redemption of RM1.1 billion in October), mainly through the issuance of new private debt securities.

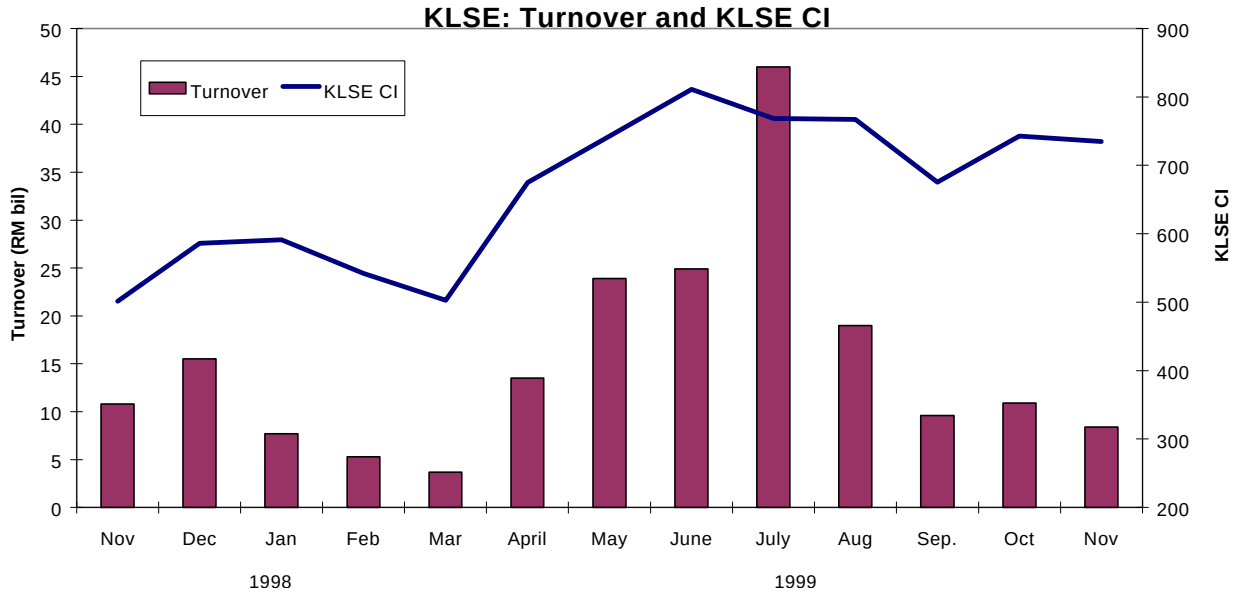
Funds Raised in the Capital Market [p] (RM million)

	1998	1999	
		Oct.	Nov.
By Public Sector			
Net Funds Raised	9,804	3,500	-1,300
By Private Sector			
Shares	1,788	381	619
Debt Securities [1]	14,152	101	2,558
Less Redemptions	7,976	1,590	670
Equals Net Issues	6,176	-1,489	1,888
Net Funds Raised	7,964	-1,108	2,507
Net Funds Raised in the Capital Market	**17,768**	**2,392**	**1,207**
Net Issues of Short-Term Securities [2]	-155	700	-825
Total	17,613	3,092	382

[p] Preliminary.
[1] Excludes debt securities issued by banking institutions.
[2] Refers to Cagamas Notes and commercial papers. For October-November 1999, refers to Cagamas Notes only.

In November, market sentiment was mixed. Sentiment was initially adversely affected by the announcement by Morgan Stanley Capital International (MSCI) to delay the reinstatement of Malaysia into its MSCI indices from February 2000 to May 2000. Sentiment, however, recovered somewhat following the announcement of the dissolution of Parliament and the anticipation of a pre-election rally. On 30 November, the KLSE CI closed lower as market participants were concerned over policy developments in the two opposition states. Compared to the previous month, the KLSE CI declined by 1.1% to 734.66 points, while the market capitalisation declined by 0.3% to RM499 billion at the end of November.

In the first three weeks of December, market sentiment was mixed. Initially, there were minimal movements in the KLSE CI as investors stayed away from the market, awaiting for the announcement of the new Cabinet. The KLSE CI, however, rose subsequently following the favourable response to the new Cabinet line up. As at 28 December, the KLSE CI closed at 797.69 points while the market capitalisation stood at RM542 billion.

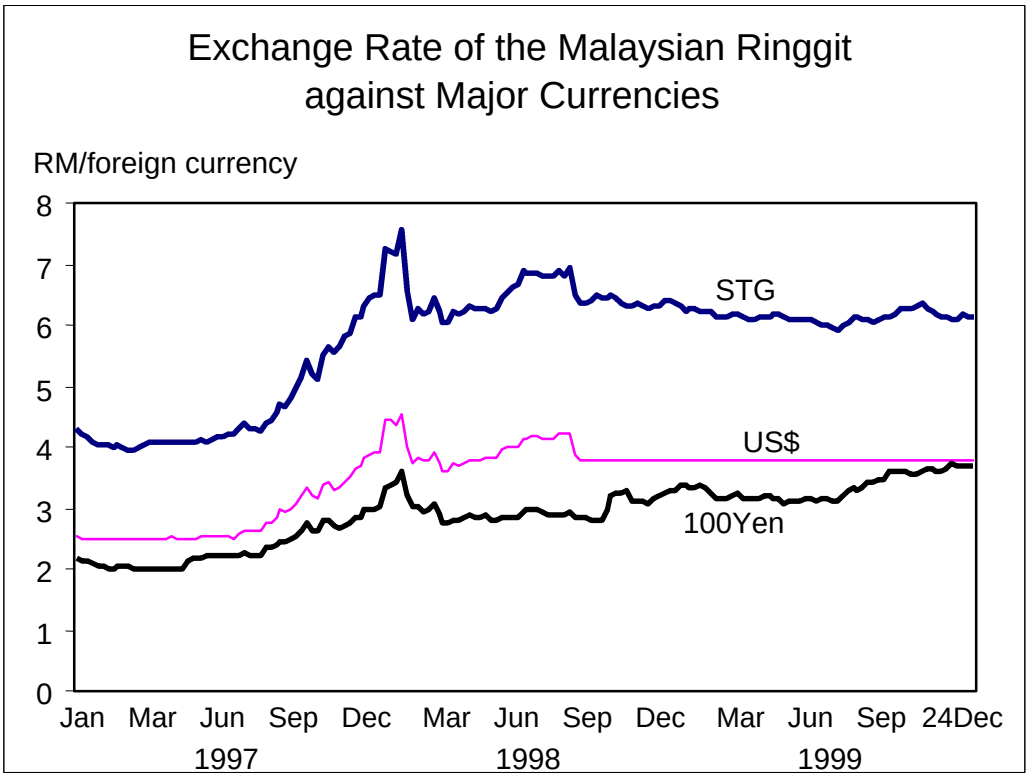


International Reserves

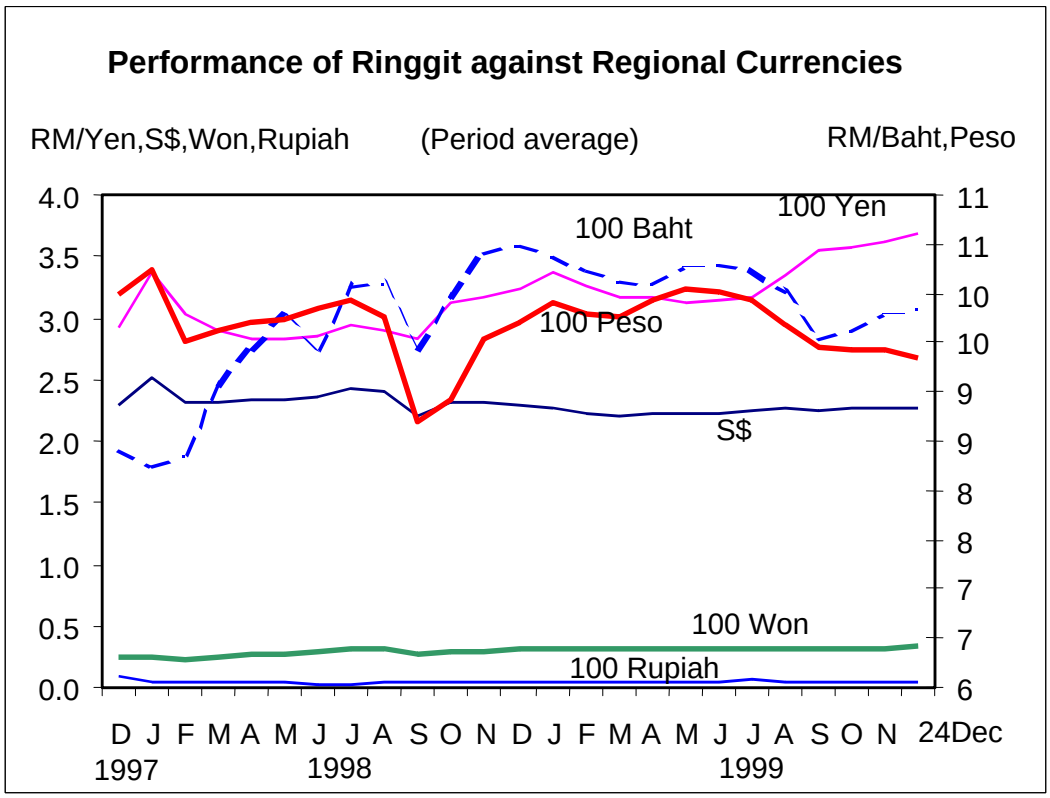
The **international reserves** held by BNM continued to remain strong at RM114.6 billion (US$30.16 billion) as at end-November 1999. As at 15 December, reserves increased to RM115.2 billion (US$30.3 billion), sufficient to finance 6 months of retained imports. Since end-August 1998, reserves have risen by US$10.1 billion.

Exchange Rates

In November, the **ringgit** appreciated against most major currencies in tandem with the movements of the US dollar. During the period, the dollar strengthened against the Euro on market expectations that interest rates had peaked in Europe following the interest rate hikes by the European Central Bank and the Bank of England. In contrast, the dollar weakened against the yen with the improved economic prospects in Japan. As such, the ringgit appreciated against the Euro (+4.2%) and the pound sterling (+2.1%) but depreciated against the Japanese yen (-3.0%).



During the month, the ringgit appreciated against most regional currencies, in line with the appreciation of the US dollar against these currencies. The ringgit appreciated against the Thai baht (+0.9%), Indonesian rupiah (+8.2%) and Philippine peso (+1.7%). However, the ringgit depreciated against the Korean won (-3.5%) as the Korean won strengthened against the dollar due to strong portfolio inflows.



During the period 1-24 December 1999, the ringgit depreciated against most major currencies following the movements of the dollar. The ringgit depreciated against the Euro (-0.3%) and the pound sterling (-0.7%), but appreciated against the yen (+0.8%). Against regional currencies, the ringgit depreciated against the Indonesian rupiah (-5.6%), Korean won (-2.4%) and Thai baht (-3.9%).

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

RM per foreign currency	2 September 1998	24 December 1999	% Change
US dollar	3.8000	3.8000	0.0
100 Japanese yen	2.7742	3.6965	-25.0
Singapore dollar	2.1998	2.2761	-3.4
100 Thai baht	9.3713	10.1118	-7.3
100 Philippine peso	8.8302	9.4645	-6.7
100 Indonesian Rupiah	0.0354	0.0541	-34.6
100 Korean won	0.2827	0.3356	-15.8

[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 further to 1.6% in November (2.1% in October). The lower increase in the CPI was due mainly to slower price increases in the sub-indices for food and beverages, while clothing and footwear sub-index continued to recorded price declines. The moderation in the food sub-group was mainly due to decline in prices of fruits and vegetables which more than offset the increase in prices for fish. Meanwhile, the slower price increases in beverages and tobacco were due to the higher base in November 1998, following the increase in prices as a result of the imposition of import and excise duties on tobacco products and alcoholic beverages. For the first eleven months of 1999, the CPI increased by 2.8%, compared with 5.3% in the corresponding period of 1998.

Bank Negara Malaysia
30 December 1999

Key Monetary and Banking Statistics

	October 1999		November 1999	
	Outstanding (RM billion)	Annual growth (%)	Outstanding (RM billion)	Annual growth (%)
Monetary Aggregates				
Reserve money	36.0	*1.9*	37.4	*7.8*
M1	61.4	*21.3*	65.4	*25.1*
M2	314.3	*10.6*	318.2	*10.2*
M3	419.8	*8.0*	423.4	*7.9*
By determinants:				
Claims on the private sector	443.9	*-2.8*	445.3	*-2.8*
Claims on the Government	-21.9	*5.6*	-19.9	*-1.6*
External sector	117.2	*31.7*	117.5	*31.0*
Other influences	-119.4	*-12.3*	-119.5	*-11.7*
Banking System				
Total deposits	434.6	*4.0*	437.8	*4.1*
Total loans (including Cagamas and excluding NPLs sold to Danaharta)	394.6	*-6.0*	395.8	*-5.7*
Of which: Manufacturing	61.1	*-5.5*	60.7	*-6.2*
Broad property	144.4	*-2.3*	143.8	*-3.1*
Construction	40.1	*-9.3*	38.9	*-12.7*
Residential property	61.8	*10.9*	62.4	*11.8*
Non-residential property	27.5	*-10.3*	27.3	*-11.1*
Real estate	15.1	*-12.3*	15.1	*-12.4*
Finance, insurance and business services	29.5	*-20.2*	29.9	*-18.8*
Consumption	48.8	*-1.2*	49.4	*0.4*
Total loans (including Cagamas and NPLs sold to Danaharta)	423.8	*1.0*	425.0	*1.0*
Total loans (excluding Cagamas and NPLs sold to Danaharta)	377.4	*-5.8*	379.4	*-5.4*
Loan-deposit ratio (%)	86.9		86.7	
Loans approved during the month	9.3		9.7	
Loans disbursed during the month	25.0		26.3	
International Reserves of BNM	**As at end-October**		**As at end-November**	
Reserves in RM (billion)	114.8		114.6	
Reserves in USD (billion)	30.2		30.2	
Months of retained imports	6.0		6.0	
Interest Rates	**(average rates at end-period)**			
Interbank: 1-month	2.74		2.86	
3-month	3.15		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-October**		**As at end-November**	
Risk-weighted Capital Ratio (RWCR) (%)	12.7		12.5	
Net NPLs (%): 6-Month	7.9		n.a.	
Capital Market	**As at end-October**	**Monthly (%)**	**As at end-November**	**Monthly (%)**
Kuala Lumpur Composite Index (KLSE CI)	742.87	*10.0*	734.66	*-1.1*
KLSE Market Capitalisation (RM billion)	500.45	*9.4*	499.09	*-0.3*