PRESS RELEASE ON
MONETARY AND FINANCIAL DEVELOPMENTS
SEPTEMBER 1999

Monetary Developments

The monetary situation remained relatively stable in September with M3 recording a moderating growth during the month. On 1 September 1999, the 12-month holding period on portfolio funds automatically expired so that short-term portfolio capital that were invested in Malaysia prior to September 1998 are no longer subject to a levy upon repatriation. During the month, there was a net outflow of portfolio funds of US$1.3 billion, resulting in a decline in the net international reserves and lower deposits. Reserves, however, remained high at US$31.4 billion as at end-September. Consequently, the impact on the banking system liquidity was marginal, given the large prevailing stock of liquidity in the market. As a result, interbank rates remained relatively stable during the month.

In September, **M3** recorded a modest decline of RM1 billion or 0.2% (-RM1.5 billion or -0.3% in August). As such, the annual growth of M3 at end-September moderated to 8.2% (8.5% at end-August). In terms of **components**, transaction balances (comprising currency in circulation and demand deposits) increased by RM1.5 billion due solely to the increase in demand deposits in line with the recovery in private sector activities. This was more than offset by the decline in broad quasi-money of RM2.5 billion (-RM1.3 billion in August), reflecting mainly the contraction in NIDs (-RM2 billion) and fixed deposits (-RM1.4 billion).

M3 Determinants
(change during the period in RM billion)

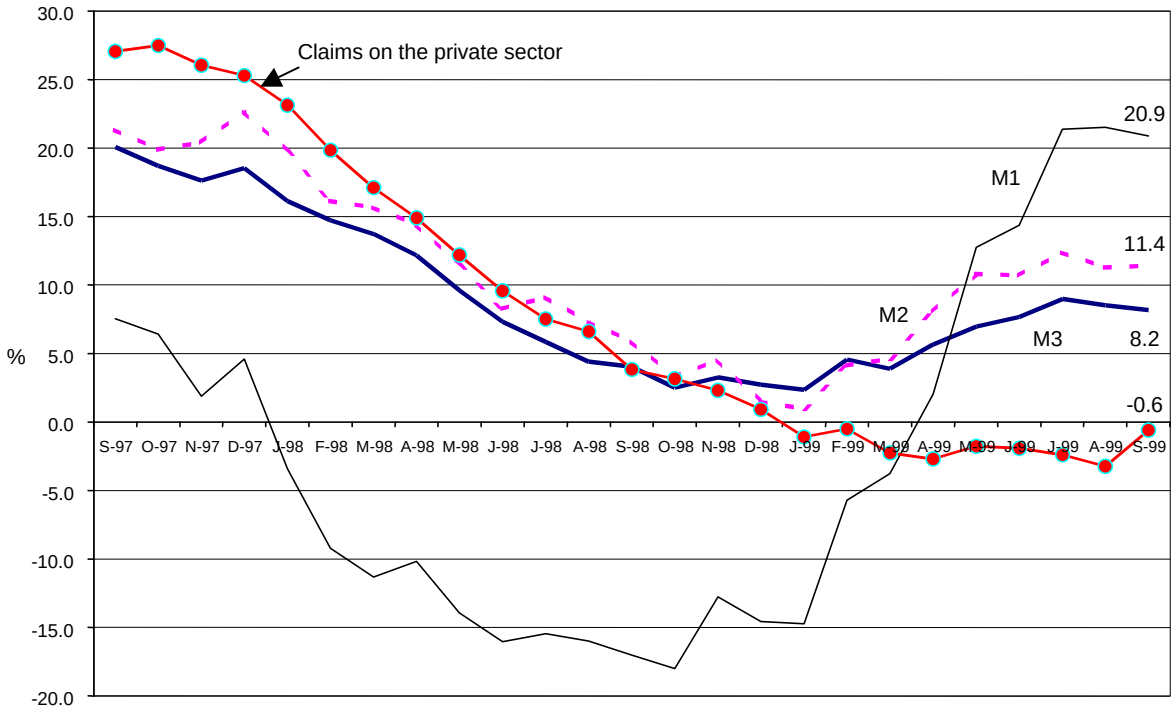
	1997	1998 1/	1999 2/			
			Jul.	Aug.	Sep.	Jan.-Sep.
M3	61.1	10.6	2.8	-1.5	-1.0	17.9
Of which:						
Claims on Government	0.5	-12.3	2.7	-2.4	3.0	0.7
Claims on private sector	90.4	4.1	-2.3	-1.0	10.1	-4.7
External operations	-16.8	51.2	3.0	1.7	-1.3	23.8
Other influences	-13.0	-32.3	-0.6	0.2	-12.8	-1.9

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 decline in M3 essentially reflected the contractionary impact of external operations. During the month, the net external assets of BNM and the banking system contracted by RM1.3 billion reflecting mainly the decline in the net international reserves of BNM (-RM3.6 billion). On the other hand, the Government sector exerted an expansionary impact of RM3 billion as the Government drew down its deposits (RM3 billion) with BNM to finance its expenditure. Meanwhile, claims on the private sector recorded an increase of RM10.1 billion. During the month, loans extended by the banking institutions (excluding loans sold to Cagamas and Danaharta) increased by RM2 billion, while holdings of private debt securities by banking institutions increased by RM8.1 billion. The latter was due mainly to the issuance of Danaharta bonds to the commercial banks in exchange for NPLs sold previously. However, this transaction had a neutral impact on M3 as the counter entry was reflected in "other influences". Meanwhile, other influences exerted a contractionary impact on M3 during the month.

Annual Growth of Monetary Aggregates (in %)



Banking System

Total **deposits** mobilised by the banking system declined by RM2.4 billion or 0.5% in September (-RM1.9 billion or -0.4% in August). This was due to the decline in deposits placed with all three groups of banking institutions; finance companies (-RM1.6 billion), merchant banks (-RM0.5 billion) and commercial banks (-RM0.2 billion). The lower deposits were due mainly to the decline in deposits by non-residents (-RM2.5 billion) and the interplacement of deposits between banking institutions (-RM2.1 billion). Excluding the reduction in interplacements, the deposits placed with the banking system would have only declined by RM0.3 billion. Nevertheless, on an annual basis, total deposits mobilised by the banking system increased by 4% as at end-September (4.2% as at end-August).

By type of deposits, the largest decline in deposits was in the form of NIDs (-RM3.8 billion), mainly in terms of interplacements between banking institutions (-RM1.8 billion) and those issued to business enterprises (-RM1.5 billion). The decline in NIDs could be attributed to declining rates which have resulted in maturing contracts not being rolled over and the transfer of funds to other types of deposits such as fixed deposits. On the other hand, demand deposits turned around to increase by RM1 billion, mainly in terms of placements by business enterprises (+RM1.8 billion), which were partially offset by a reduction in deposits by individuals, specifically non-residents (-RM0.9 billion). Fixed deposits also recorded an increase of RM0.8 billion. By holder, the decline was due mainly to lower deposits by financial institutions (-RM3.5 billion) and individuals (-RM1.9 billion), mainly non-residents (-RM2.3 billion). However, deposits placed by business enterprises increased by RM1.7 billion.

Deposits and Loans of the Banking System (RM million)

	Monthly change 1999		As at end of 1999	
	Aug.	**Sep.**	**Aug.**	**Sep.**
Deposits				
Commercial banks	559	-222	326,221	325,999
Finance companies	-1,311	-1,622	89,067	87,445
Merchant banks	-1,177	-540	25,327	24,787
Banking system	-1,929	-2,384	440,616	438,232
Loans[1]				
Commercial banks	412	891	317,494	318,385
Finance companies	-933	-197	84,844	84,647
Merchant banks	-191	64	21,878	21,942
Banking system	-712	757	424,217	424,974
Loans[2]				
Commercial banks	958	875	283,828	284,703
Finance companies	-1,248	-77	74,673	74,596
Merchant banks	-266	50	19,232	19,282
Banking system	-556	848	377,732	378,581
Resource surplus (+)/gap(-)[2]	-1,373	-3,232	62,883	59,651
Loan-deposit ratio (%)[2]			**85.7**	**86.4**

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.

Total **loans outstanding** (including NPLs sold to Danaharta) extended by the banking system turned around to increase by RM0.8 billion or 0.2% in September (-RM0.7 billion or -0.2% in August) mainly attributable to the increase in loans extended by commercial banks (+RM0.9 billion). Meanwhile, loans extended by finance companies declined (-RM0.2 billion) and that of merchant banks increased marginally. On an annual basis, total loans outstanding

increased by 1.3% as at end-September (0.5% as at end-August), with commercial banks recording an annual growth of 5.8%.

Excluding the NPLs, total loans outstanding registered a contraction of 5.6% as at end-September (-6.3% as at end-August). By sector, total loans outstanding extended for the purchase of residential properties and to the manufacturing sector increased by RM0.6 billion and RM0.5 billion respectively during the month. However, loans extended for the purchase of securities declined by RM1 billion during the month due mainly to large repayments.

Banking System: Loans by Sector (RM million)

	Monthly change 1999		As at end of 1999	
	Aug.	**Sep.**	**Aug.**	**Sep.**
Agriculture	145	212	7,941	8,153
Mining and quarrying	31	-7	1,462	1,455
Manufacturing	641	476	61,199	61,675
Electricity	-278	-52	5,654	5,602
Wholesale, retail, restaurant & hotel	288	7	34,568	34,575
Broad property sector	899	619	144,227	144,845
Construction	*294*	*47*	*40,805*	*40,853*
Residential property	*431*	*564*	*60,406*	*60,969*
Non-residential property	*17*	*-59*	*27,683*	*27,624*
Real estate	*157*	*67*	*15,333*	*15,399*
Transport & storage	22	-96	15,108	15,013
Finance, insurance and business services	-1,733	-685	30,567	29,882
Consumption	249	205	48,228	48,433
Purchase of securities	-830	-981	26,342	25,361
Others	-355	1,045	20,222	21,267
Total loans outstanding[1]	-922	743	395,518	396,261

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

During the month, total **loans approved** by the banking system was lower at RM9.1 billion (RM10 billion in August). Total **loans disbursed,** however, was higher at RM27.5 billion in September (RM25.1 billion in August). In the first nine months of the year, total loans disbursed amounted to RM235.8 billion or a monthly average of RM26.2 billion, higher than the monthly average of RM20.9 billion in 1998.

As total deposits declined while total loans (excluding loans sold to Cagamas and Danaharta) increased, the banking system recorded a **resource gap** of RM3.2 billion during the month, narrowing the outstanding resource surplus to RM59.7 billion. Consequently, the **loan-deposit ratio** increased marginally to 86.4% (85.7% at end-August).

Developments in the Banking System

Given the improved economic conditions, the health of the banking system remained strong during the month. The **risk-weighted capital ratio** (RWCR) of the banking system stood at 12.7% at the end of September 1999, well above the minimum requirement of 8%. This provides the banking system with more than sufficient cushion to absorb any potential shocks in the economy. The core capital ratio also remained strong at 10.3%. Net **non-performing loans** (NPLs) of the banking system at the end of August 1999 remained at the previous month's level of 7.9% based on six-month classification.

Banking System Health Indicators

	1998			1999			
	Jun.	**Sep.**	**Dec.**	**Jun.**	**Jul.**	**Aug.**	**Sep.**
Capital							
Core-capital ratio (%)	9.2	8.5	8.6	10.2	10.3	10.3	10.3
RWCR (%)	11.2	10.6	11.8	12.7	13.0	12.8	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.	32,214	29,286	29,696	29,343	29,370	n.a.
GP/Net total loans (6-month,%)	n.a.	1.8	2.0	1.8	1.9	1.8	n.a.

n.a Not available

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 35% of total NPLs of the banking system. Consistent with its objective to maximise recovery through the management and rehabilitation of the NPLs, Danaharta has met with most of the borrowers whose accounts are under its management, of which 52% have reverted to Danaharta on their loan workout plans. Another 3% of the borrowers have also fully settled or regularised their accounts representing approximately 6% of total NPLs under the management of Danaharta. Capital injection by Danamodal has been reduced further to RM5.1 billion as at the end of September 1999 arising from the repayments of Exchangeable Subordinated Capital Loans by several banking institutions. As at end-September 1999, CDRC has received 63 applications with debts totaling RM35 billion. Of these, 15 restructuring schemes have been completed and are in various stages of implementation, while 15 cases involving debts worth RM3.5 billion have been rejected.

Interest Rates

Interest rates in the interbank money market had remained relatively unchanged since the last reduction in the BNM intervention rate on 9 August. However, due to the excess liquidity in the banking system, there has been some downward pressures on interbank rates, especially at the 1-month tenure (see table below).

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

Tenure	**August**	Direction of Change	**September**	Direction of Change	**1 – 21 Oct.**	Tenure
3-Mth	**3.19**	↘	**3.14**	↘	**3.13**	**3-Mth**
1-Mth	2.91	↘	2.82	↘	2.70	1-Mth
1-Wk	2.65		2.66	↘	2.59	1-Wk
O/night	2.54	↘	2.53	↘	2.51	O/night

Meanwhile, the average **base lending rates** (BLRs) of commercial banks and finance companies remained unchanged at 6.79% and 7.95% respectively since the last intervention rate reduction in August. Similarly, the **fixed deposit rates** of commercial banks and finance companies were relatively unchanged in August and September at between 3.75-3.79% and 3.77-4.08%. However, in October, the term structure of fixed deposit rates steepened and, as a result, fixed deposit rates were in a broader range of 3.25-3.94% and 3.37-4.06% respectively as at 15 October.

Capital Market

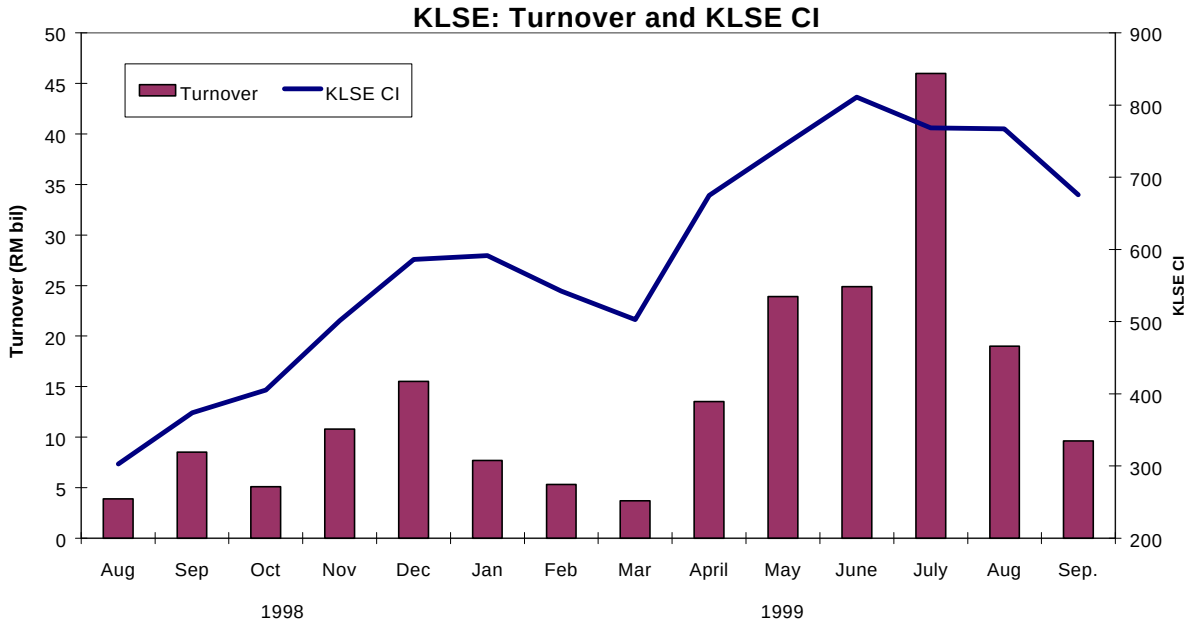
Net funds raised from the capital market was higher in September, amounting to RM9 billion compared to RM2.4 billion in August. New issues were raised primarily by the private sector (RM9 billion, compared with RM379 million in the previous month). A big portion of the funds raised was from a large issue of bonds as part of a debt-restructuring scheme of a conglomerate that was facilitated by the Corporate Debt Restructuring Committee. Meanwhile, net funds raised by the public sector was lower in September, amounting to RM74 million as a result of the redemption of RM526 million worth of Malaysian Government Securities. A notable development in September was the issuance by Khazanah Nasional Berhad of a ten-year bond that raised RM600 million.

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

	1998	1999	
		Aug.	Sep.
By Public Sector			
Net Funds Raised	9,804	2,000	74
By Private Sector			
Shares	1,788	21	2,429
Debt Securities [1]	14,152	1,300	7,660
Less Redemptions	7,976	942	1,124
Equals Net Issues	6,176	358	6,536
Net Funds Raised	7,964	379	8,965
Net Funds Raised in the Capital Market	**17,768**	**2,379**	**9,039**
Net Issues of Short-Term Securities [2]	-155	275	-175
Total	17,613	2,654	8,864

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

Sentiment on the **Kuala Lumpur Stock Exchange (KLSE)** was mixed in September. After declining on the first two trading days due to concerns over potential capital outflows, the KLSE Composite Index (KLSE CI) picked up temporarily, following the release of information on the small amount of net capital outflows and the announcements of better-than-expected corporate earnings. However, the downtrend of the KLSE CI resumed subsequently, adversely affected by the strengthening of the Japanese yen and fears of the possibility of an interest rate hike in the United States. The KLSE CI then turned around on 21 September (+4.1%), following the announcement that a flat 10% levy would replace the two-tier levy system. However, downward pressures persisted towards end month, with the KLSE CI 11.9% lower at 675.45 points, while the market capitalisation of the KLSE declined by 11.1% to RM457.6 billion by end-September.



Market sentiment turned positive in the first two weeks of October, buoyed by expectations of a "pro-growth" budget. The market fell temporarily on 15 and 18 October, together with the fall in the regional markets, following the comments by the U.S. Federal Reserve of a potential correction of the Dow Jones Industrial Average Index. As at 22 October, the KLSE CI closed at 739 points, while the market capitalisation amounted to RM496.2 billion.

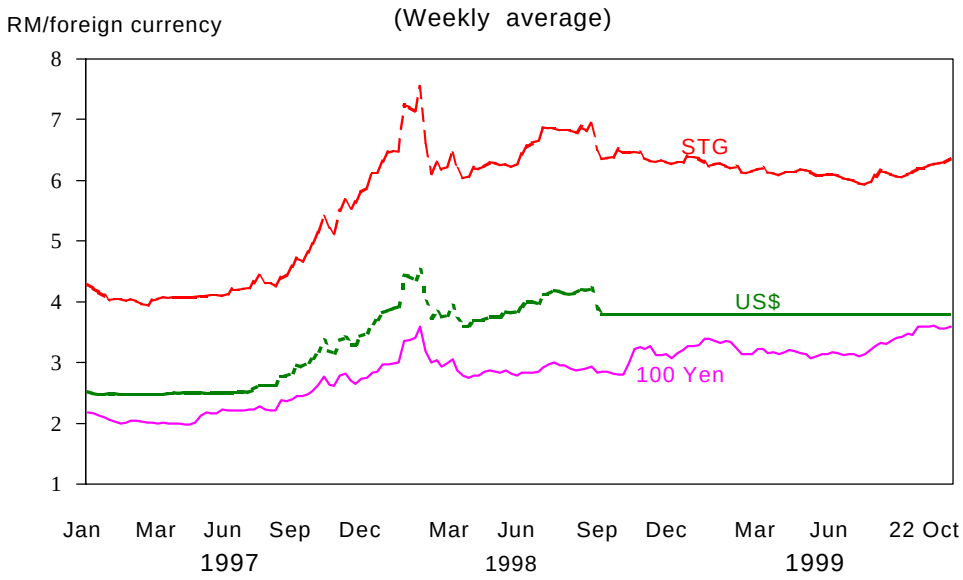
International Reserves

During the month, the **international reserves** held by BNM declined by RM3.6 billion to RM119.3 billion as at end-September 1999 due mainly to the outflow of foreign funds as short-term portfolio funds that came into Malaysia on or before September 1 1998 could be repatriated without any levy. The United States dollar equivalent of the international reserves at end-September was US$31.4 billion. Reserves declined further to RM113.9 billion or US$30 billion as at 15 October 1999 due to the repayment of foreign debts (US$800 million) and outflow of portfolio funds (US$400 million). This level of reserves is US$9.8 billion higher than the level at end August 1998 and sufficient to finance 6.2 months of retained imports.

Exchange Rates

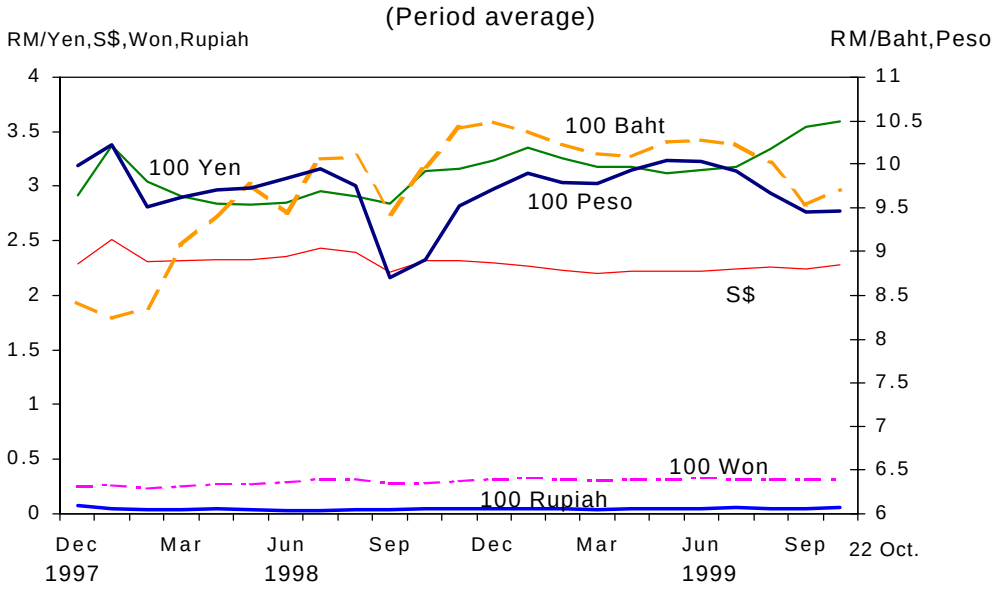
In September, the **ringgit** depreciated against the other major currencies in tandem with the US dollar's movements. The ringgit depreciated against the Euro (-1.6%), Swiss franc (-1.6%), pound sterling (-3.3%) and Japanese yen (-3.7%).

Exchange Rate of the Malaysian Ringgit against Major Currencies



During the period 1-22 October 1999, the ringgit continued to depreciate across the board against the major currencies within a range of 1.1-1.9%, reflecting the US dollar's movements in international foreign exchange markets. During the period, downward bias on the US dollar was on account of uncertainty over the tightening of US monetary policy and its potential impact on US asset markets. The dollar was also affected by positive sentiment towards the yen following the release of data that pointed towards improving business activities in Japan. Meanwhile, optimism over strengthening economic fundamentals in the Euro zone was supportive of the Euro.

Performance of Ringgit against Regional Currencies



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

RM per foreign currency	2 September 1998	End-September 1999	% Change
US dollar	3.8000	3.8000	0.0
100 Japanese yen	2.7742	3.5582	-22.0
Singapore dollar	2.1998	2.2317	-1.4
100 Thai baht	9.3713	9.2548	+1.3
100 Philippine peso	8.8302	9.2966	-5.0
100 Indonesian Rupiah	0.0354	0.0453	-21.8
100 Korean won	0.2827	0.3123	-9.5

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

Against selected regional currencies, the ringgit's performance was in tandem with movements of the US dollar. In September, the ringgit appreciated against the Singapore dollar (+0.9%), Korean won (+2.7%), Philippine peso (+3.1%), Thai baht (+7.2%) and Indonesian rupiah (+9.5%). Among the factors that contributed towards the dollar's strength was the increased corporate demand for the US dollar for debt repayment purposes. During the period 1-22 October, the ringgit depreciated against the regional currencies within a range of 1.8-18.4%.

Inflation

The annual rate of **inflation** as measured by the Consumer Price Index (CPI, 1994=100) moderated to 2.1% in September from 2.3% in August. Lower price increases were recorded mainly in the sub-indices for food; beverages and tobacco; and furniture, furnishings and household equipment. The slower price increase in the food sub-group was attributable mainly to lower increases in the price of rice, bread and other cereals; fish; milk and eggs; and further decline in the price of meat. For the first nine months of 1999, the CPI increased moderately by 3%, compared with 5.2% in the corresponding period of 1998.

Bank Negara Malaysia
30 October 1999

Key Monetary and Banking Statistics

	August 1999		September 1999	
	Outstanding (RM billion)	Annual growth (%)	Outstanding (RM billion)	Annual growth (%)
Monetary Aggregates				
Reserve money	35.5	*-34.0*	34.9	*-5.6*
M1	61.2	*21.5*	62.6	*20.9*
M2	317.9	*11.3*	318.8	*11.4*
M3	420.4	*8.5*	419.4	*8.2*
By determinants:				
Claims on the private sector	436.9	*-3.2*	447.0	*-0.6*
Claims on the Government	-23.3	*56.8*	-20.3	*45.0*
External sector	119.8	*103.2*	118.5	*42.8*
Other influences	-112.9	*4.4*	-125.7	*-3.9*
Banking System				
Total deposits	440.6	*4.2*	438.2	*4.0*
Total loans (including Cagamas and excluding NPLs sold to Danaharta)	395.5	*-6.3*	396.3	*-5.6*
Of which: Manufacturing	61.2	*-6.4*	61.7	*-5.3*
Broad property	144.2	*-2.5*	144.8	*-1.3*
Construction	40.8	*-8.1*	40.9	*-7.0*
Residential property	60.4	*9.3*	61.0	*10.4*
Non-residential property	27.7	*-10.1*	27.6	*-10.1*
Real estate	15.3	*-11.7*	15.4	*-8.7*
Finance, insurance and business services	30.6	*-17.0*	29.9	*-18.8*
Consumption	48.2	*-4.8*	48.4	*-3.2*
Total loans (including Cagamas and NPLs sold to Danaharta)	424.2	*0.5*	425.0	*1.3*
Total loans (excluding Cagamas and NPLs sold to Danaharta)	377.7	*-6.1*	378.6	*-5.4*
Loan-deposit ratio (%)	85.7		86.4	
Loans approved during the month	10.0		9.1	
Loans disbursed during the month	25.1		27.5	
International Reserves of BNM	**As at end-August**		**As at end-September**	
Reserves in RM (billion)	122.9		119.3	
Reserves in USD (billion)	32.3		31.4	
Months of retained imports	6.7		6.5	
Interest Rates	**(average rates at end-period)**			
Interbank: 1-month	2.96		2.82	
3-month	3.20		3.17	
Fixed deposits of commercial banks:				
1-month	3.75		3.75	
3-month	3.75		3.75	
BLR of commercial banks	6.79		6.79	
Banking System Health	**As at end-August**		**As at end-September**	
Risk-weighted Capital Ratio (RWCR) (%)	12.8		12.7	
Net NPLs (%): 6-Month	7.9		n.a.	
Capital Market	**As at end-August**	**Monthly (%)**	**As at end-September**	**Monthly (%)**
Kuala Lumpur Composite Index (KLCI)	767.06	-0.2	675.45	-11.9
KLSE Market Capitalisation (RM billion)	514.42	-0.3	457.55	-11.1