PEN:6/99/56(BN)

EMBARGO: Not for publication or broadcast before 1700 hours on Wednesday, 30 June 1999

PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS MAY 1999

Monetary Situation

The monetary situation improved in May. This reflected favourable developments in both the external sector and domestic economic conditions as well as improved market sentiment, which led to higher demand for transaction balances for trade and financial-related activities as well as higher demand for loans. After recording continuous declines since February 1999, total loans outstanding (including loans sold to Danaharta) turned around in May to increase by RM2 billion. In addition, total loan approvals and disbursements remained strong. Total deposits of the banking system increased further during the month.

M3 continued to trend upwards in May increasing by RM2.4 billion or 0.6% (RM4.8 billion or 1.2% in April). As such, the annual growth of M3 at end-May increased further to 7.1% (5.7% at end-April). In terms of components, transaction balances rose by another RM2.7 billion due entirely to the increase in demand deposits, reflecting improved economic activities as well as higher transactions in the stock market. Meanwhile, broad quasi-money recorded a marginal decline of RM273 million (+RM3.1 billion in April), reflecting the contraction in NIDs (-RM3.5 billion) and repos (-RM1.7 billion). This was partially offset by the increase in fixed deposits (RM3.9 billion) and savings deposits (RM1.3 billion).

M3 Determinants
(change during the period in RM billion)

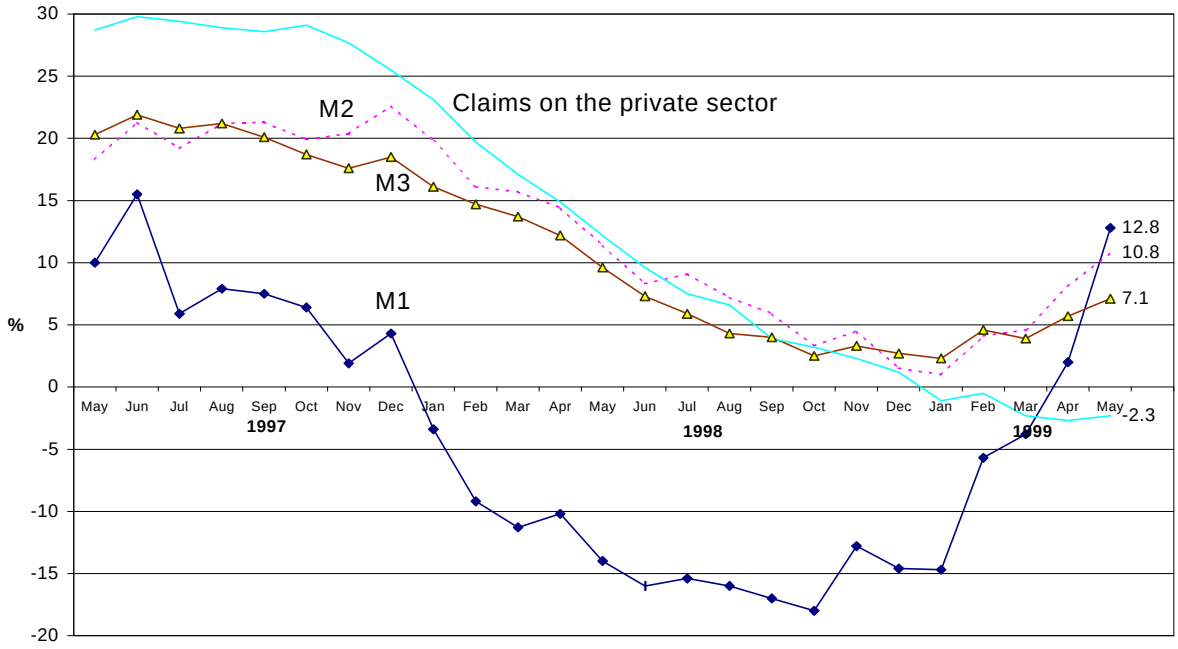
	1997	1998	1999			
			Mar.	Apr.	May	Jan.-May
M3	61.1	10.6	-2.5	4.8	2.4	**15.2**
Of which:						
Claims on Government	0.5	-12.3	-0.3	-0.5	-1.1	**0.2**
Claims on private sector	90.4	4.2	-8.3	-2.2	0.6	**-13.3**
External operations	-16.8	51.2 1/	-2.9 2/	6.7	3.5	**15.4**
Other influences	-13.0	-32.4 1/	9.0 2/	0.8	-0.6	**13.0**

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 reflects 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. Therefore, part of the decrease in the external assets in March reflected BNM's exchange revaluation loss for the first quarter 1999. The revaluation loss of BNM was also reflected in other influences.

In terms of determinants, the increase in M3 reflected mainly the expansion in external operations, while claims on the private sector increased marginally. In May, **net external assets** of BNM and the banking system expanded by RM3.5 billion. Net international reserves of BNM increased further by RM4.5 billion, reflecting the continued large surplus in the trade account. Meanwhile, the external assets of the banking system expanded by RM2 billion, contributed largely by the increase in commercial banks' placement with foreign banking institutions. However, the higher external assets were more than offset by the rise in the external liabilities of the banking system of RM2.9 billion, caused mainly by the higher foreign currency interbank borrowings from foreign banking institutions by commercial banks. During the month, **claims on the private sector** turned around to record an increase of RM642 million, after recording five successive months of declines since December 1998. Loans extended by the banking institutions increased by RM1.2 billion, while holdings of securities by the banking institutions decreased by RM584 million. Meanwhile, the **Government sector** exerted a contractionary impact of RM1.1 billion due mainly to the higher placements of Government deposits with banking institutions.

Annual Growth of Monetary Aggregates (in %)



Banking System

Total **deposits** mobilised by the banking system increased by RM1.6 billion or 0.4% in May (+RM3.5 billion or 0.8% in April) due to the increase in deposits placed with commercial banks (+RM3.8 billion). Deposits with finance companies and merchant banks, however, declined by RM2.1 billion and RM0.1 billion respectively. On an annual basis, total deposits of the banking system increased by 4.4% as at end-May (3.6% as at end-April). By type of deposits, the largest increase was in Islamic Banking (SPI) deposits (RM4.1 billion), the bulk of which was placed by business enterprises (+RM1.2 billion). Fixed deposits recorded a more moderate increase of RM1.4 billion partly reflecting lower interest rates across various maturities. In contrast, NIDs and repos declined by RM6.2 billion and RM1.8 billion respectively. By holder, the bulk of the increase in deposits was accounted by business enterprises (+RM1.1 billion) and the Federal Government (+RM1 billion).

Total **loans outstanding** (including NPLs sold to Danaharta) extended by the banking system increased by RM2 billion or 0.5% in May (-RM1.1 billion or -0.3% in April) due to the increase in loans extended by commercial banks (+RM3.8 billion). Loans extended by finance companies and merchant banks, however, decreased by RM1.8 billion and RM1.5 million respectively. On an annual basis, total loans

increased by 1.8% as at end-May (1.2% as at end-April), with commercial banks recording an increase of 8%. Meanwhile, loan approvals and disbursement were higher at RM7.6 billion and RM25.5 billion respectively in May (RM7.3 billion and RM25.4 billion respectively in April).

During the month, a total of RM0.6 billion of gross NPLs were sold to Danaharta (RM1.8 billion in April). Excluding these NPLs, total loans outstanding increased by RM1.4 billion or 0.3% in May (-RM2.9 billion or -0.7% in April), while the decline in the annual growth rate moderated to 4.3% (-4.8% as at end-April). In terms of loans by sector, the increase in loans was attributable to higher loans extended to the transport, storage and communication and wholesale, retail, restaurants and hotels sectors as well as for the purchase of residential properties.

As the increase in total loans (excluding loans sold to Cagamas and Danaharta) outpaced the increase in deposits, there was a decrease in resource surplus of RM0.2 billion in May. Thus, the outstanding resource surplus decreased slightly to RM57 billion at end-May. Consequently, the loan-deposit ratio increased by a small margin to 87.1% (87% at end-April).

Deposits and Loans of the Banking System

	Monthly change 1999		As at end of 1999	
	Apr.	May	Apr.	May
	RM million			
Deposits				
Commercial banks	5,246	3,789	318,042	321,831
Finance companies	-792	-2,063	94,694	92,631
Merchant banks	-918	-149	26,906	26,757
Total	3,536	1,577	439,642	441,218
Loans [1]				
Commercial banks	246	3,821	312,895	316,717
Finance companies	-1,555	-1,849	88,366	86,517
Merchant banks	230	-2	23,264	23,262
Total	-1,079	1,971	424,525	426,496
Loans [2]				
Commercial banks	-577	3,622	281,362	284,984
Finance companies	-2,080	-1,723	80,104	78,381
Merchant banks	-78	-137	20,988	20,852
Total	-2,735	1,762	382,455	384,217
Resource surplus (+)/gap (-) [2]	6,271	-185	57,187	57,002
Loan-deposit ratio (%) [2]			**87.0**	**87.1**

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

Loans by Sector: Banking System [1]

	Monthly change 1999		As at end of 1999	
	Apr.	May	Apr.	May
	RM million			
Agriculture	89	31	7,783	7,814
Mining and quarrying	78	11	1,576	1,587
Manufacturing	310	-330	59,973	59,643
Electricity	216	-66	6,046	5,980
Wholesale, retail, restaurant & hotel	-45	429	34,077	34,506
Broad property sector	-1,156	-485	142,254	141,768
Construction	*-324*	*-242*	*41,028*	*40,786*
Residential property	*328*	*576*	*57,517*	*58,093*
Non-residential property	*-826*	*-911*	*29,091*	*28,180*
Real estate	*-334*	*91*	*14,618*	*14,709*
Transport & storage	-348	856	14,529	15,386
Finance, insurance and business services	-427	-2,519	36,018	33,500
Consumption	103	-1,017	49,227	48,210
Purchase of securities	-867	169	29,118	29,286
Others	-881	4,276	18,725	23,001
Total Loans [1]	-2,928	1,354	399,327	400,681

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

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

Developments in the Banking System

The risk-weighted capital adequacy ratio of the banking system was 12.2% at the end of May 1999, well above the minimum level of 8%. The core capital ratio also remained relatively strong at 9.8%. Net non-performing loans at the end of April stabilised at 7.9% under the six-month classification and at 13.0% under the three-month classification.

Significant progress has also been made in the restructuring of the banking system. Total NPLs acquired and managed by Danaharta from the banking system amounted to RM25.8 billion at end-May or 30.7% of NPLs in the banking system. In addition, Danamodal has injected capital into 10 banking institutions totalling RM6.2 billion. Of these 10 institutions, Danamodal has signed Definitive Agreements with nine institutions for the conversion of the ESCL into permanent Tier-1 and/or Tier-2 capital. As at 31 May 1999, CDRC had accepted 53 applications with debts totalling RM30.1 billion.

Banking System Health Indicators

	1998			1999			
	Jun.	Sep.	Dec.	Feb.	Mar.	Apr.	May
	%						
Capital							
Core-capital ratio	9.2	8.5	8.6	8.5	8.7	8.6	9.8
RWCR	11.2	10.6	11.8	11.7	12.3	12.3	12.2
Net NPL (3-month classification)							
Banking system	8.9	12.8	13.4	14.4	13.0	13.0	n.a.
Banking system (RM million)	35,882	50,643	51,931	55,334	48,923	48,876	n.a.
Net NPL (6-month classification)							
Banking system	n.a.	8.1	7.5	8.8	7.9	7.9	n.a.
Banking system (RM million)	n.a.	32,216	29,286	34,041	29,869	29,726	n.a.
GP/Net total loans (3-months)	2.2	2.0	2.3	2.2	2.2	2.2	n.a.
GP/Net total loans (6-months)	n.a.	1.7	2.0	1.8	1.8	1.8	n.a.

Interest Rates

Interest rates in the **interbank money market** were generally lower in May as compared to April, due to the reduction in BNM's 3-month intervention rate from 6.50% to 6.00% on 3 May. Nevertheless, after the initial decline following the reduction in the intervention rate, the 3-month interbank rate has been relatively stable at around 3.3% from the second week of May onwards. Apart for the unchanged intervention rate during this latter period, the levelling off in interbank rates also reflects the pick-up in loans in May and market expectations that interest rates have bottomed, or are close to bottoming.

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

Tenure	**April**	Direction of Change	**May**	Direction of Change	**1 - 23 June**	Tenure
3-Mth	**4.30**	↘	**3.36**	↘	**3.27**	**3-Mth**
1-Mth	4.00	↘	3.02	→	3.02	1-Mth
1-Wk	3.76	↘	2.87	↘	2.80	1-Wk
O/night	3.53	↘	3.08	↘	2.74	O/night

Mirroring the 50-basis-point reduction in the BNM intervention rate, the average **base lending rates** (BLR) of commercial banks and finance companies declined by 40 and 50 basis points to 7.24% and 8.50% respectively as at end-May, and remained unchanged thereafter.

In line with the generally lower lending rates, the average **fixed deposit rates** of commercial banks and finance companies declined by 24-27 and 29-34 basis points respectively to 3.75-3.80% and 3.80-3.97% as at end-May. Nevertheless, as the inflation rate remained subdued, there continued to be a positive real rate of return for depositors. In June, the average fixed deposit rates of commercial banks were relatively unchanged, whereas those of finance companies declined slightly at the shorter tenures but increased marginally at the longer tenures, causing the term structure of finance companies' fixed deposit rates to steepen.

Capital Market

In May, the capital market continued to register a net redemption, totalling RM255 million (-RM469 million in April). While no new funds were raised by the public sector, the higher amount of funds raised by the private sector was more than offset by redemptions amounting to RM1.6 billion.

Funds Raised in the Capital Market [p]

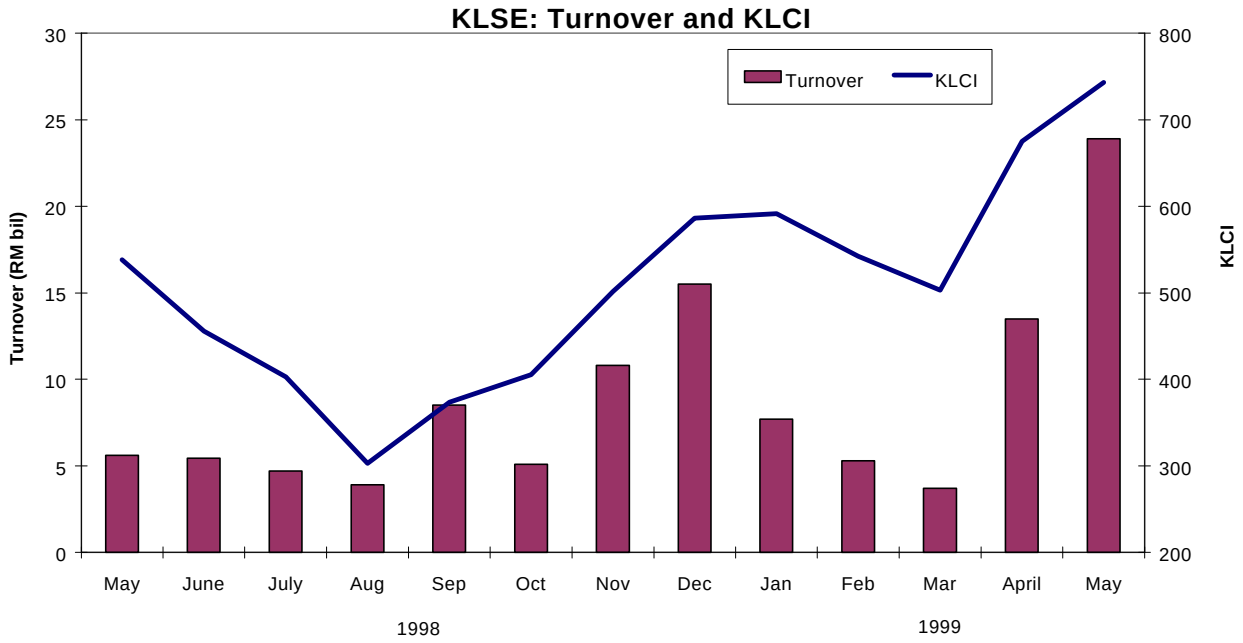
	1998	1999	
	Year	Apr	May
	RM million		
By Public Sector			
Net Funds Raised	9,804	0	0
By Private Sector			
Shares	1,788	34	635
Debt Securities [1]	14,152	17	700
Less Redemptions	7,976	520	1,590
Equals Net Issues	6,176	-503	-890
Net Funds Raised	7,964	-469	-255
Net Funds Raised in the Capital Market	17,768	-469	-255
Net Issues of Short-Term Securities [2]	-155	50	-175
Total	17,613	-419	-430

[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.

In May, sentiment on the Kuala Lumpur Stock Exchange (KLSE) strengthened further as the Kuala Lumpur Composite Index (KLCI) rallied to its highest closing recorded since 17 October 1997, at 780.29 points on 18 May. Market developments were influenced by the rise in the Dow Jones Industrial Average Index, low interest rate environment and success of the global bond issue by Malaysia. The KLCI, however, declined subsequently, due to profit taking activities and concerns over a possible interest rate hike in the United States.

The KLCI turned around to move upwards, starting from the second week of June. Sentiment was aided by the announcements of the 2.6% annual growth in the April Industrial Production Index (IPI) and Japan's better-than-expected first quarter GDP growth of 7.9%. Meanwhile, activities were also spurred by talks of general elections as well as positive signs of the country's economic recovery, evident from a

significantly lower contraction in the first quarter GDP. On 24 June, the KLCI breached the 800-point level and closed at 829.72 points on 29 June while the market capitalisation rose to RM541 billion.



International Reserves

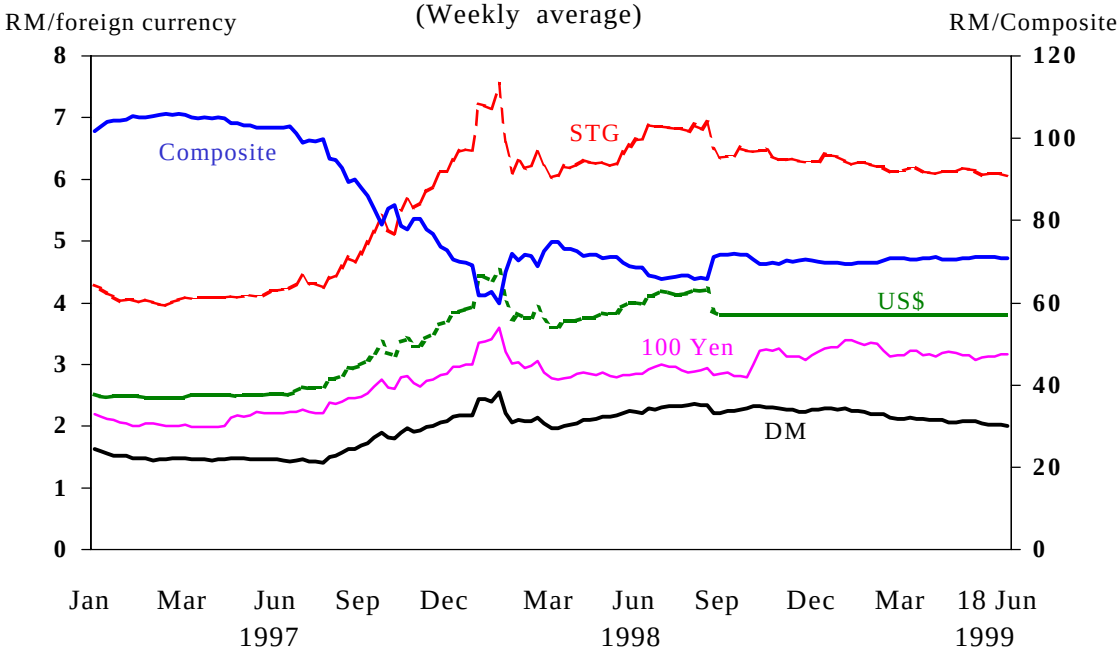
The international reserves held by BNM increased by RM4.5 billion from end-April to RM113.1 billion at end-May 1999. The United States dollar equivalent of international reserves at end-May was US$29.8 billion. Reserves increased further to RM118.8 billion or US$31.3 billion as at 15 June 1999, sufficient to finance 6.9 months of retained imports. Since end-August 1998, reserves had risen by US$11 billion.

Exchange Rates

In May, the ringgit recorded an across-the-board appreciation against the major currencies. The ringgit appreciated against the Swiss franc (0.3%), pound sterling (0.6%), Deutsche mark (1.6%), Euro (1.6%) and Japanese yen (1.9%). Against the composite index, the ringgit appreciated by 0.6%.

During the period 1-22 June 1999, the ringgit appreciated across-the-board against the major currencies within a range of 0.5-1.3%, reflecting the dollar's movements in the international foreign exchange markets. The dollar strengthened against the yen (0.5%) following official interventions by the Bank of Japan to stem the yen's rise. Sentiment towards the yen was supported in early June by positive economic data, which showed that first quarter GDP in Japan had grown by 7.9% on an annualised basis. Nevertheless, official interventions underlined the concern that a significant strengthening of the yen could reduce the external competitiveness of Japanese exports and jeopardise the prospects for a sustained economic revival in Japan.

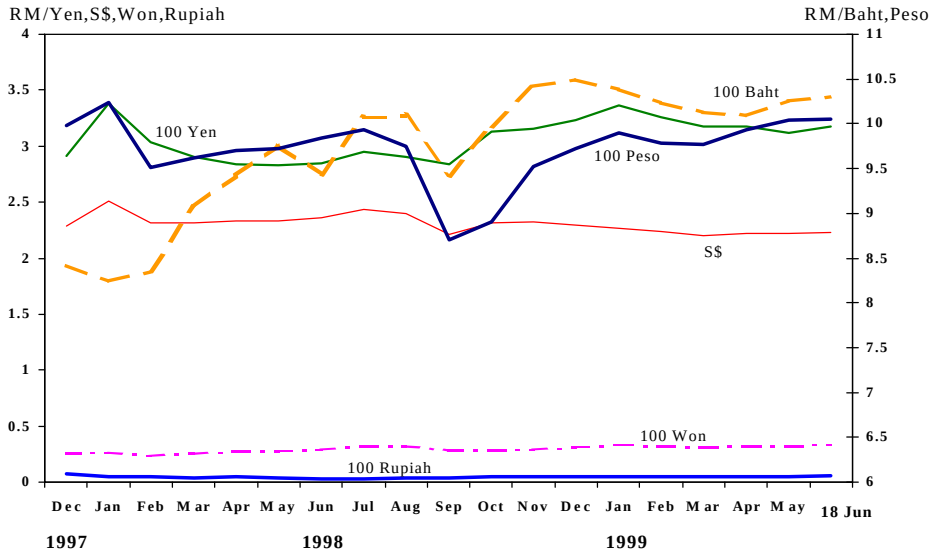
Exchange Rate of the Malaysian Ringgit against Major Currencies



Against selected regional currencies, the ringgit's performance was in tandem with movements of the US dollar. In May, with the exception of the Thai baht (-0.3%) and Indonesian rupiah (-1.4%), the ringgit appreciated against the Philippine peso (+0.2%), Korean won (+0.5%) and Singapore dollar (+1.6%). Meanwhile, during the period 1-22 June, the ringgit depreciated across-the-board against the other regional currencies within a range of 0.4-14.7%. The ringgit's largest depreciation was against

the Indonesian rupiah (-14.7%) on account of the rupiah's appreciation against the US dollar following the relatively peaceful elections.

Performance of Ringgit against Regional Currencies
(Period average)



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

RM per foreign currency	2 September 1999	End-May 1999	% Change
US dollar	3.8000	3.8000	0.0
Japanese yen	2.7742	3.1302	-11.4
Singapore dollar	2.1998	2.1988	0.0
100 Thai baht	9.3713	10.2358	-8.4
100 Philippine peso	8.8302	9.9968	-11.7
100 Indonesian rupiah	0.0354	0.0470	-24.7
100 Korean won	0.2827	0.3204	-11.8

[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, 1994=100) stabilised at 2.9% in May 1999. Higher price increases were recorded mainly in the sub-indices for food (4.9% as against 4.6% in April) and transport and communication (0.6% as against –0.5% in April). The increase in the food sub-group was due mainly to higher prices of fish; meat; and milk and eggs. Excluding the food sub-index, the adjusted CPI rose more moderately by 1.7%. The prices of beverages and tobacco increased further (9.5%), following higher import and excise duties on cigarettes, tobacco products and alcoholic beverages raised by the Government in the 1999 Budget. Nevertheless, the uptrend has decelerated. Price increases of other components in the CPI basket, particularly gross rent, fuel and power; and miscellaneous goods and services, recorded more moderate increases. Meanwhile, prices of clothing and footwear continued to decline, albeit moderately. For the first five months of 1999, the CPI moderated to 3.6% compared with 4.8% in the corresponding period of 1998.

Bank Negara Malaysia
30 June 1999