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PRESS RELEASE ON MONETARY AND FINANCIAL DEVELOPMENTS JANUARY 1999

Monetary Situation

Monetary conditions remained relatively stable in January. M3 recorded a smaller increase of RM1.3 billion or 0.3% in January (RM9.2 billion or 2.4% in December). The annual growth of M3 moderated slightly to increase by 2.3% at end-January (2.7% at end-December). In terms of components, transaction balances rose by RM1.4 billion. During the month, demand deposits increased by RM789 million, while currency in circulation rose by RM642 million, attributable to the festive season. However, broad quasi-money recorded a marginal decline of RM146 million (+RM7.3 billion in December), as the significant decline in repos (RM2.4 billion), which was offset to a large extent by the increase in other components of broad quasi-money, namely NIDs (RM1.2 billion), fixed deposits (RM696 million) and savings deposits (RM420 million).

In terms of determinants, the increase in M3 reflected mainly the expansion in the external sector. Net external assets expanded by RM5.4 billion due to the increase in BNM's net international reserves of RM6.8 billion. Purchases of foreign currencies from commercial banks amounted to RM4.5 billion, while the inflow of a foreign currency loan to the Government was RM2 billion. Similarly, Government operations was also expansionary by RM3.2 billion due largely to the withdrawal of the Government's deposits placed with

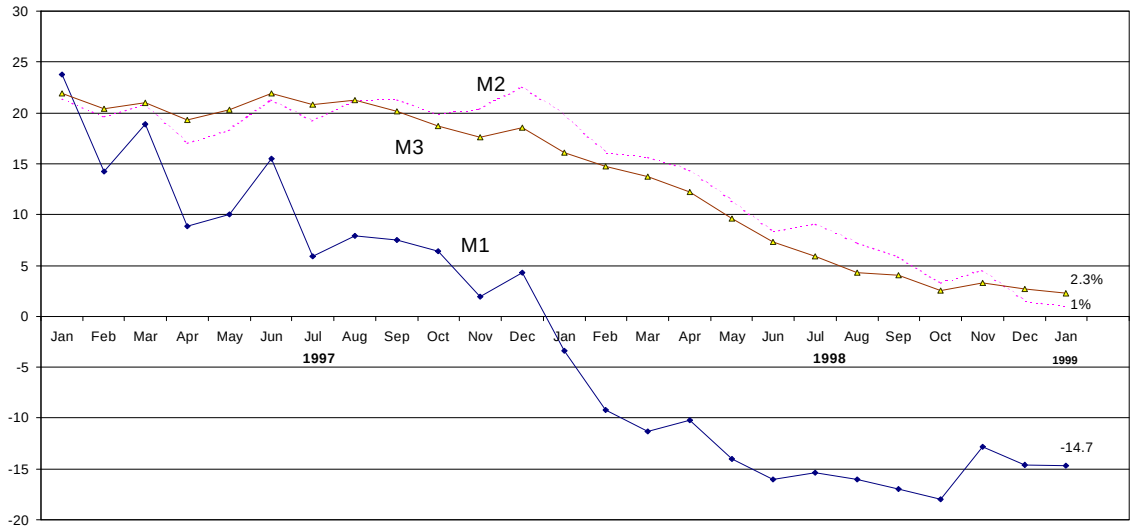
BNM. In contrast, net other influences and claims on the private sector exerted a contractionary impact on M3. During the month, net other influences contracted by RM5.8 billion, attributable mainly to the higher placement of deposits by EPF with BNM and provisions for bad and doubtful debt (RM739 million) and interest-in-suspense (RM432 million). To a lesser extent, claims on the private sector was also contractionary by RM1.6 billion, on account of the decline in both loans extended to the private sector (RM1.2 billion) and holdings of securities (RM310 million).

M3 Determinants
(change during the period in RM billion)

	1996	1997	1998			1999
			Nov.	Dec.	Jan. – Dec.	Jan.
M3	57.8	61.1	3.4	9.2	**10.6**	**1.3**
Of which:						
Claims on Government	-2.9	0.5	0.5	-0.8	**-12.3**	**3.2**
Claims on private sector	72.4	90.4	1.4	-5.3	**5.2**	**-1.6**
External operations	1.5	-16.8	0.8	4.3	**50.6** [1/]	**5.4**
Net other influences	-13.3	-13.0	0.8	11.0	**-32.8** [1/]	**-5.8**

1/ Effective 15 September 1998, following the fixing of the RM/US$ 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. The revaluation gains of the external assets are reflected in 'other influences'.

Annual Growth of Monetary Aggregates (%)



Banking System

Total deposits mobilised by the banking system declined by RM2.9 billion or 0.7% in January (+RM10.9 billion or 2.6% in December 1998) as a result of the decline in deposits placed with finance companies (-RM2.5 billion), merchant banks (-RM281 million) and commercial banks (-RM73.4 million). By type of deposits, the largest decline was recorded in repurchase agreements (-RM3 billion). In terms of holder, the bulk of the decline in deposits in January reflected drawdowns by the financial institutions (-RM3.2 billion) and business enterprises (-RM2.5 billion). In the case of the business enterprises, the decline was mainly in repos (-RM2 billion) and fixed deposits (-RM0.8 billion). However, deposits placed by statutory authorities and individuals increased by RM1.8 billion and RM1.6 billion respectively.

Meanwhile, total loans outstanding (including loans sold to Cagamas) extended by the banking system declined by RM0.4 billion or 0.1% in January (-RM5.3 billion or 1.3% in December). This reflected the decline in loans extended by finance companies (-RM1.9 billion) and merchant banks (-RM0.3 billion) which more than offset the increase in total loans extended by commercial banks (RM1.8 billion). The increase in loans extended by commercial banks was mainly due to the disbursement of a foreign currency

loan to the Federal Government by locally incorporated foreign banks and partly due to the absorption of two finance companies by their respective parent commercial banks. On an annual basis, total loans declined by 2.5% at end-January (-1.6% at end-December 1998). By sector, the decline in loans was due to lower loans extended to most major sectors, including manufacturing (-RM0.9 billion), wholesale, retail, restaurants and hotels (-RM0.8 billion), construction (-RM0.4 billion), electricity (-RM0.2 billion), finance, insurance & business services (-RM0.2 billion) sectors and also for the purchase of securities (-RM0.3 billion). During the month, about RM13 million of gross NPLs were sold to Danaharta. Including the NPLs, total loans outstanding would have remained relatively stable at about RM347 million lower than the level at end-December 1998. Meanwhile, loan approvals amounted to RM7.8 billion in January (RM9.9 billion in December).

As there was a larger decline in deposits vis-à-vis loans (excluding housing loans sold to Cagamas), the banking system recorded a resource gap of RM3.1 billion in January. The outstanding resource surplus of the banking system narrowed to RM32.8 billion at end-January from RM35.9 billion at end-December 1998. Consequently, the loan-deposit ratio increased to 92.3% (91.7% at end-December).

Deposits and Loans of the Banking System

	Monthly change		As at end of	
	1998 Dec.	1999 Jan.	1998 Dec.	1999 Jan.
	RM million			
Deposits				
Commercial banks	8,752	-73	307,439	307,366
Finance companies	1,465	-2,542	97,642	95,100
Merchant banks	683	-281	26,337	26,056
Total	10,899	-2,897	431,419	428,522
Loans[1]				
Commercial banks	-3,169	2,212	286,483	288,695
Finance companies	-1,793	-1,695	86,846	85,151
Merchant banks	-562	-306	22,191	21,886
Total	-5,525	210	395,521	395,731
Resource surplus (+)/gap (-)	16,424	-3,107	35,898	32,791
Loan-deposit ratio (%)			**91.7**	**92.3**

1/ Excluding housing loans sold to Cagamas Berhad.

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

Loans by Sector: Banking System

	Monthly change		As at end of	
	1998 Dec.	1999 Jan.	1998 Dec.	1999 Jan.
	RM million			
Agriculture	76	120	7,718	7,837
Mining and quarrying	-96	-26	1,674	1,648
Manufacturing	-954	-921	63,803	62,882
Electricity	598	-221	5,879	5,658
Wholesale, retail, restaurant & hotel	-404	-756	35,170	34,414
Broad property sector[1]	-1,799	615	146,388	147,003
Construction	*-1,279*	*-395*	*43,298*	*42,903*
Residential property[1]	*717*	*545*	*56,390*	*56,935*
Non-residential property	*-766*	*74*	*29,973*	*30,047*
Real Estate	*-471*	*392*	*16,727*	*17,119*
Transport & storage	-86	-87	14,983	14,896
Finance, insurance and business services	276	-159	37,122	36,963
Consumption	189	27	49,419	49,445
Purchase of securities	-5,211	-333	32,564	32,232
Others	2,124	1,382	19,931	21,313
Total Loans[1]	-5,288	-360	414,651	414,291

1/ Including housing loans sold to Cagamas Berhad.

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

Developments in the Banking System

At the end of January 1999, the risk-weighted capital adequacy ratio of the banking system was 11.9%, well above the minimum level of 8%, while net non-performing loans at the end of December 1998 have remained manageable at 8% under the six months classification and 13.6% under the three months classification.

Significant progress have also been made in the restructuring of the banking system. To date, total NPLs acquired and managed by **Danaharta** amounted to RM16.4 billion. **Danamodal** has also injected capital into nine banking institutions in the form of Exchangeable Subordinated Capital Loans (ESCL) amounting to RM4.55 billion. Of these nine institutions, Danamodal has signed Definitive Agreements with six for the conversion of the ESCL into permanent tier-1 and/or tier-2 capital. The **Corporate Debt Restructuring Committee**, in turn, has received 43 applications for debt restructuring, involving debt of RM22 billion.

BANKING SYSTEM HEALTH INDICATORS

	1997		1998		
	June	Dec.	June	Sep.	Dec. [P]
	%				
Capital					
Core-Capital ratio	10.40	8.76	9.19	8.51	8.7
RWCR	12.0	10.5	11.2	10.6	11.8
Net NPL (3-month classification)					
BANKING SYSTEM	n.a.	4.7	8.9	12.8	13.6
BANKING SYSTEM (RM million)	n.a.	19,559	35,882	50,642	53,186
Net NPL (6-month classification)					
BANKING SYSTEM	2.2	n.a.	n.a.	8.1	8.0
BANKING SYSTEM (RM million)	8,182	n.a.	n.a.	32,303	31,368
GP/Net total loans (3-months)	n.a.	2.0	2.2	2.0	2.2
GP/Net total loans (6-months)	1.9	n.a.	n.a.	1.7	2.0

[P] **Preliminary**

Interest Rates

Interest rates in the interbank money market continued to ease further in January and the first half of February, reflecting the ample liquidity in the banking system.

Movement of Interbank Rates
(average rates during period)

Tenure	**December**	Direction of Change	**January**	Direction of Change	**February 1-19**
3-Mth	**6.48**	↘	**6.43**	↘	**6.42**
1-Mth	6.16	↘	6.05	↘	5.92
1-Wk	5.85	↘	5.73	↘	5.43
O/nite	5.41	↘	5.29	↘	5.04

Following the softening in interbank rates, the average fixed deposit rates of commercial banks and finance companies declined by 8-11 basis points and 10-17 basis points to 5.66-5.72% and 6.18-6.47% respectively in January. The average fixed deposit rates declined further by 5-6 and 8-11 basis points respectively in the first week of February.

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

Capital Market

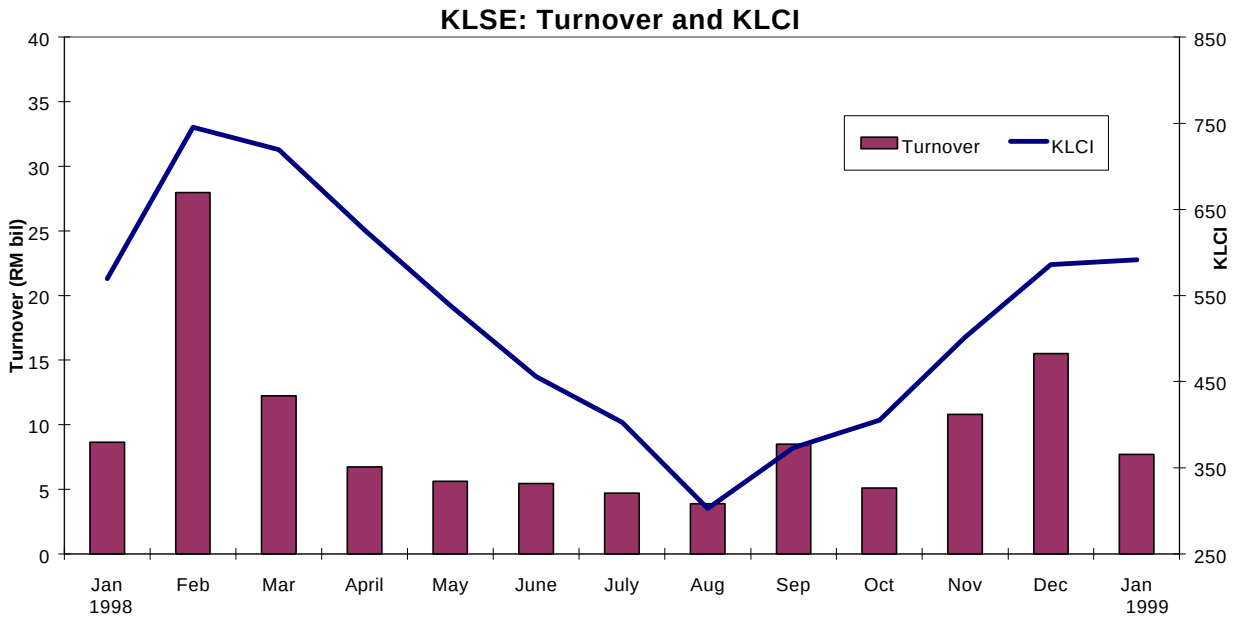
In January, there was a net redemption of funds amounting to RM2.1 million (+RM2.6 billion in December 1998) in the capital market. While the public sector did not raise any new funds, funds sourced by the private sector through an initial public offer (RM17.4 million) were offset by the higher redemption of private debt securities (RM19.4 million).

Funds Raised in the Capital Market [p]			
	1998		1999
	Year	Dec	Jan
	RM million		
By Public Sector			
Net Funds Raised	9,804	2,715	0
By Private Sector			
Shares	1,788	81	17
Debt Securities [1]	14,152	500	0
Less Redemptions	8,451	674	19
Equals Net Issues	5,701	-174	-19
Net Funds Raised	7,489	-93	-2
Net Funds Raised in the Capital Market	17,293	2,622	-2
Net Issues of Short-Term Securities [2]	-155	517	-380
Total	17,138	3,139	-382

[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 the equity market, the Kuala Lumpur Composite Index (KLCI) rose marginally by 0.9% to close at 591.43 points, while the market capitalisation of the Kuala Lumpur Stock Exchange increased by 3% to RM386 billion in January. The market fell initially on the announcement of the assumption of control of MBf Finance and Kewangan Bersatu by BNM. The KLCI rebounded subsequently following news of a trade surplus for November and appointments of the Deputy Prime Minister and Finance Minister I. The KLCI exceeded the 600-point level in the third week of January due to expectations of a relaxation in the exchange control measures.

Market sentiment, however, weakened in the following month. Of particular significance was the fall of 6% on 8 February due mainly to selling activities by foreign investors following the introduction of the levy on the early repatriation of capital, for lack of clear understanding of the measures. The market stabilised subsequently following clarification on the imposition of the levy. As at 19 February, the KLCI closed at 565.29 points while the market capitalisation amounted to RM365 billion.



International Reserves

The international reserves held by BNM increased by RM6.8 billion to RM106.2 billion (US$27.9 billion) at end-January 1999. Reserves increased further to RM108.1 billion (US$28.4 billion) on 15 February 1999. Since end-August, reserves rose by US$8.2 billion. This level of reserves was sufficient to finance 6.1 months of retained imports.

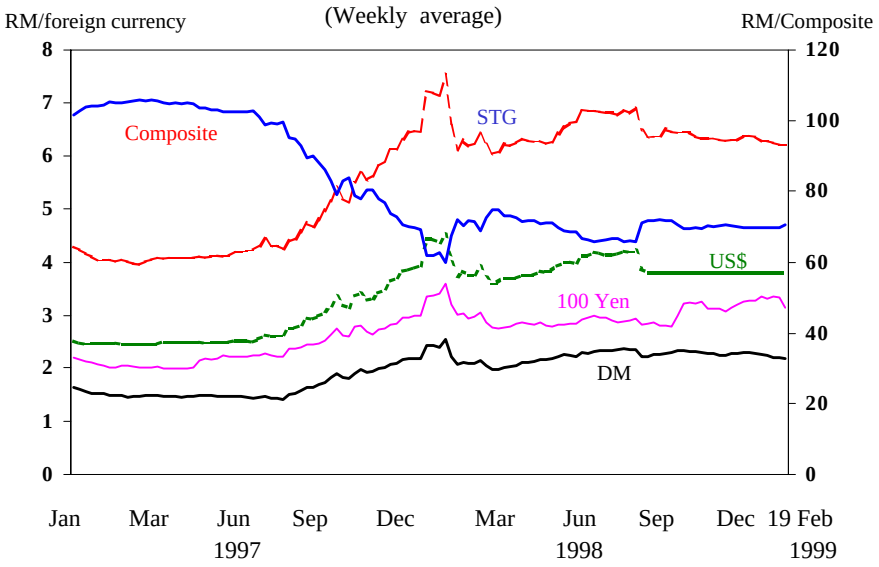
Exchange Rates

In January, the ringgit appreciated across-the-board against the major currencies within the range of 1.2% to 3.8%. The ringgit strengthened by 1.2% against the pound Sterling, 1.4% against the Japanese yen, 2% against the Swiss franc, 2.1% against the Deutsche mark and 3.8% against the Euro. The ringgit appreciated in tandem with the US dollar, which had strengthened against major currencies in the international foreign exchange markets. After weakening in the early part of January, the US dollar firmed against the yen towards the end of January. Sentiment towards the US dollar was not adversely affected by the depreciation of the Brazilian real as much of the risk associated with the Brazilian turmoil had already been priced in. In addition, positive economic data on the US economy indicating subdued inflationary pressures and sustained growth in consumer demand was also supportive of

the dollar. Expectations that the European Central Bank would lower interest rates in order to counter signs of economic slowdown in the Union was also positive for the dollar.

In the period 1-19 February, the ringgit continued to appreciate against major currencies within the range of 0.8% to 3.6%. The dollar strengthened against the yen and breached the US$1=¥120 level on 19 February. The reversal in the dollar-yen trend since late January was on account of heightened concerns in Japan that a stronger yen would be detrimental to Japan's competitiveness and would have an adverse impact on the prospects for an economic revival. This heightened the expectation that the Japanese policy stance would favour offsetting any significant appreciation of the yen.

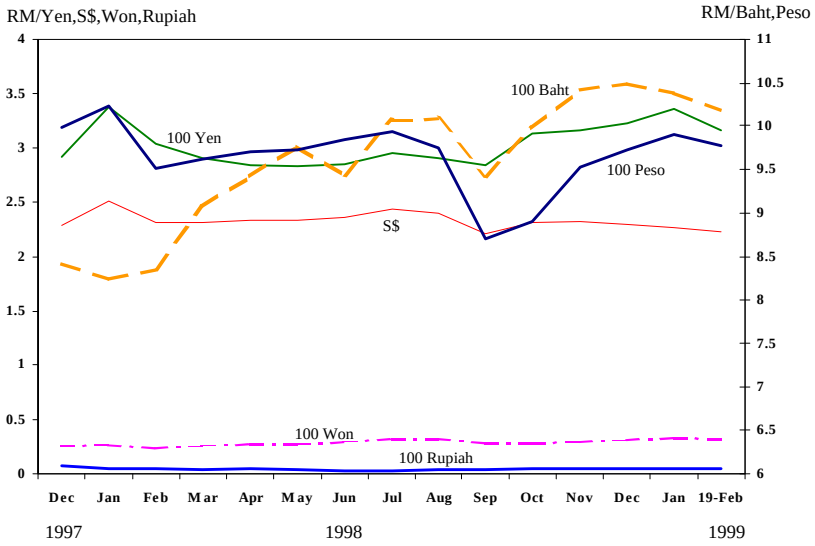
Exchange Rate of the Malaysian Ringgit against Major Currencies



Against selected regional currencies, the ringgit's performance in January was in tandem with the movements of the US dollar. With the exception of the Philippine peso (-1.8%) and Korean won (-1.4%), the ringgit appreciated against the Thai baht (0.5%), Singapore dollar (1.7%) and Indonesian rupiah (10.8%), as regional currencies were influenced by the yen's weakness against the dollar. During the period 1-19 February, the ringgit recorded an appreciation against the Singapore dollar (1%), Thai baht

(1.1%), Philippine peso (1.1%) and Korean won (1.8%). The ringgit depreciated against the Indonesian rupiah by 0.5%.

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 5.2% in January (5.3% in December and peak of 6.2% in June). Prices continued to decline in the sub-groups of transport and communication (-0.3%) and clothing and footwear (-1.3%), while slower price increases were recorded in the sub-groups of furniture, furnishing and household equipment (3.9%); miscellaneous goods and services (3.7%); and medical care and health expenses (5.4%). These improvements were partly offset by higher price increases in the sub-index of food (9% as against 8.6% in December), reflecting higher prices of fruits and vegetables; fish; meat; and milk and eggs, arising mainly from supply shortages due to the festive season as well as adverse seasonal weather conditions in the East Coast of Peninsular Malaysia.

Bank Negara Malaysia
27 February, 1999

Key Monetary and Banking Statistics

	December 1998		January 1999	
	Outstanding (RM billion)	Annual (%)	Outstanding (RM billion)	Annual (%)
Monetary Aggregates				
Reserve money	36.2	*-56.4*	37.1	*-58.1*
M1	54.1	*-14.6*	55.6	*-14.7*
M2	296.5	*1.5*	297.7	*1.0*
M3	401.5	*2.7*	402.7	*2.3*
By determinants:				
Claims on the private sector	452.8	*1.5*	451.2	*-0.9*
Claims on the Government	-21.0		-17.8	
External sector	94.1		99.5	
Other influences	-124.4		-130.2	
Banking System				
Total deposits	431.4	*-0.5*	428.5	*0.0*
Total loans (including Cagamas)	414.7	*-1.6*	414.3	*-2.5*
Of which: Manufacturing	63.8	*0.8*	62.9	*-3.8*
Broad property	146.4	*4.6*	147.0	*4.3*
Construction	43.3	*1.6*	42.9	*0.1*
Residential property	56.4	*10.9*	56.9	*9.9*
Non-residential property	30.0	*5.4*	30.0	*5.3*
Real estates	16.7	*-7.2*	17.1	*-3.4*
Finance, insurance and business services	37.1	*2.5*	37.0	*0.9*
Consumption	49.4	*-14.6*	49.4	*-13.7*
Total loans (including Cagamas and NPLs sold to Danaharta)	426.5	*1.3*	426.1	*0.2*
Total loans (excluding Cagamas)	395.5	*-1.6*	395.7	*-2.4*
Loan-deposit ratio (%)	91.7		92.3	
Loans approved during the month	9.9		7.8	
International Reserves of BNM	99.4		106.2	
Reserves in USD (billion)	26.2		27.9	
Months of retained imports	5.6		6.0	
Interest Rates	**(percent per annum, end period)**			
Interbank : 1-month	6.14		6.04	
3-month	6.46		6.40	
Average fixed deposits of commercial banks:				
1-month	5.82		5.72	
3-month	5.83		5.72	
Average BLR of commercial banks	8.04		8.04	

Banking System	**As at end December**	**As at end January**
Risk-weighted Capital Ratio (RWCR) (%)	11.8	11.9
Net NPLs (%): 6-Months	9.0 [1/]	8.0 [2/]
3-Months	14.9 [1/]	13.6 [2/]

Capital Market	**As at end December**	**Monthly (%)**	**As at end January**	**Monthly (%)**
Kuala Lumpur Composite Index (KLCI)	586.1	16.9	591.4	0.9
KLSE Market Capitalisation (RM billion)	374.5	7.6	385.8	3.0

[1/] Refers to end-November 1998

[2/] Refers to end-December 1998