

27 AUG 1998
2ND QTR GDP-MINUS 6.8 PCT
M'SIAN ECONOMY DECLINES 6.8 PCT IN 2ND QTR

KUALA LUMPUR, Aug 27 (Bernama) -- Malaysia's Gross Domestic Product (GDP) growth declined by 6.8 percent in the second quarter of this year from a revised first quarter figure of minus 2.8 percent, Bank Negara Malaysia (BNM) said today.

In releasing detailed figures on the performance of the Malaysian economy, the central bank said there was a marked decline of 22 percent in the growth of the construction sector, a 9.6 percent dip in agriculture and a 9.2 percent fall in manufacturing during the period under review, and all this led to a further contraction of the economy.

Earlier during a meet-the-people session in Kuching, Prime Minister Datuk Seri Dr Mahathir Mohamad revealed that the country's second quarter GDP had declined by about 7.0 percent.

Bank Negara said the first quarter GDP was earlier estimated at minus 1.8 percent but was revised to - 2.8 percent as the impact of regional financial developments on the economy was more significant than earlier anticipated.

The central bank said inflation continued to rise with the Consumer Price Index (CPI) rising faster by 5.7 percent from 4.3 percent as the pass-through effect from the weaker ringgit on import prices continued to be felt on domestic prices.

Net international reserves held by the central bank rose by RM913 million to RM58.2 billion at end-June, an amount sufficient to finance 3.6 months of retained imports. The US dollar equivalent was US\$20.5 billion at the end of the period under review.

As at Aug 15, 1998, the net international reserves stood at RM57.8 billion or US\$20.2 billion.

Money supply or M3 decelerated further to 5.9 percent in July this year or RM2 billion compared with 7.3 percent decline or RM182 million in June, reflecting the contraction in overall economic activity.

Bank Negara also said its three-month intervention rate would be reduced to 9.5 percent with immediate effect from 10 percent while the Statutory Reserves Ratio (SRR) of commercial banks, finance companies and merchant banks would be further reduced to 6.0 percent effective Sept 1, 1998 from 8.0 percent currently.

As part of efforts to support the economy, the intervention rate and SRR cut would ease liquidity in the banking system, making available more loans to borrowers at cheaper rates.

Bank Negara also said the maximum Base Lending Rate (BLR) of the commercial banks and finance companies is expected to moderate to 10.34 percent and 12.36 percent respectively.

This, coupled with a revision in the formula to compute the BLR, would enable lending rates to be lowered almost immediately following the reduction in the intervention rate and SRR.

The net Non-Performing Loans (NPL) ratio of the banking system rose to 8.9 percent at end-June from 7.0 percent at end-March while the risk-weighted capital ratio rose to 11.2 percent at end-June from 11.1 percent.

Bank Negara said the ratio of the gross NPL to total loans for commercial banks, finance companies and merchant banks rose to 10.9 percent, 17.3 percent and 13.2 percent respectively at end-June from end-March levels of 7.7 percent, 14.1 percent and 7.9 percent respectively.

The bulk of the increase in NPL was due to the higher incidence of NPLs on loans granted to the broad property sector and share financing, which together accounted for more than half (54 percent) of the total increase in NPLs.

In the light of the weaker-than expected outturn in the first two quarters, Bank Negara said the latest official estimates of a decline of 1.0 to 2.0 percent in the overall GDP growth for 1998 as a whole (announced in July) would need to be reviewed.

However, barring any other adverse developments in the regional and industrial countries, the contraction in domestic output is expected to moderate as the year progressed, it added.

Economic activity, in particular, should pick up as the effects of the fiscal stimulus package, lower interest rates and other policy measures to promote recovery and the initiatives to strengthen the banking system filters through the economy.

"Activity should therefore show a slight improvement, particularly in the fourth quarter," Bank Negara said, adding that the revival in growth could be more significant if the expected recovery in the global electronics industry materialised by end-1998.

The nation's external debt outstanding in ringgit terms increased by RM15.4 billion to RM170.2 billion due mainly to the revaluation loss arising from the depreciation of the ringgit.

The federal government's fiscal position worsened with the current account surplus narrowing to RM2 billion while the overall account surplus reverted to a small deficit of RM383 million due to a 12.3 percent decline in revenue collection and more expansionary operations.

Its total debt rose by 3.6 percent from the end-March level to RM91 billion at end-June 1998 with domestic debt rising marginally by 0.8 percent to RM77.3 billion following the net issue of Malaysian Government Securities (MGS).

External debt rose by RM2.6 billion to RM13.7 billion at end-June, reflecting both net inflows of external borrowing and a net exchange revaluation loss arising from the ringgit's weakening.--BERNAMA

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