



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 07/11/09

EMBARGO: Not for publication or broadcast before 1800 hours on Friday, 29 July 2011

MONETARY AND FINANCIAL DEVELOPMENTS **June 2011**

Price Developments: Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), increased to 3.5%. The main contributors to inflation during the month were the *food and non-alcoholic beverages* and *transport* categories. Higher food prices were mainly due to increased *fish and seafood* prices. Inflation in the *transport* category increased at a slower rate during the month, reflecting the downward adjustment in the price of RON97 from RM2.90/litre to RM2.80/litre. This was due to the decline in the global price of WTI crude oil in May. The direct impact of the increase in electricity tariffs in June on the CPI was minimal as the increase is confined to households with usage of more than 300kWh.

Monetary Conditions: Interbank rates were stable in June. In terms of retail rates, the average base lending rate (BLR) of commercial banks was unchanged at 6.54% as at end-month. Retail deposit rates were also stable. During the period 5-7 July 2011, the average overnight interbank rate traded lower and was close to the floor rate of the corridor for the Overnight Policy Rate (OPR). This was due mainly to exceptional interest shown by market participants in short-term placements with the Bank ahead of the July Monetary Policy Committee (MPC) meeting. Private sector liquidity, as measured by broad money (M3), expanded at a higher annual rate of 12.4% in June. The increase in M3 reflected credit extended by the banking system to the private sector and portfolio inflows. Net financing to the private sector expanded by RM24.1 billion in June, driven by higher private debt security (PDS) issuances. PDS issuances rose due to several large issuances, mainly by the *electricity, gas and water*, and *government and other services* sectors. While loans outstanding to both businesses and households moderated compared to the previous month, this was mainly due to large repayments from the *electricity, gas and water supply; manufacturing; and finance, insurance and business services* sectors. Meanwhile, loan demand remained robust with higher loan applications, particularly from the business sector.

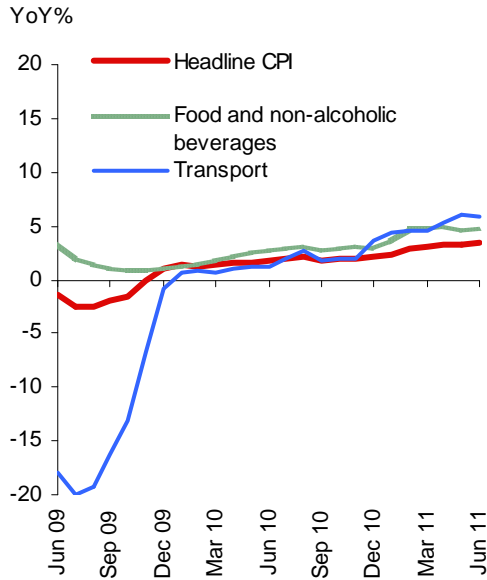
Banking System: The banking system remained well-capitalised with the risk-weighted capital ratio (RWCR) and core capital ratio (CCR) at 13.9% and 12.3% respectively. The decline in capital base was due to deduction for investments in subsidiaries by one financial institution. Impairment remained stable to account for 2% of net loans. Loan loss coverage improved to 94.5%.

Exchange Rates and International Reserves: In June, the ringgit broadly depreciated against the currencies of Malaysia's major trade partners. The ringgit's depreciation was in line with other regional currencies, reflecting the heightened global risk aversion amid concerns over the worsening sovereign debt crisis in the eurozone and ongoing uncertainty in the global economic outlook. In July, the ringgit exhibited a mixed performance. The ringgit strengthened against the US dollar, the euro and Chinese renminbi, but depreciated against the Japanese yen and Singapore dollar. The international reserves of Bank Negara Malaysia stood at RM407 billion (equivalent to USD134.6 billion) as at 15 July 2011, sufficient to finance 9.7 months of retained imports and is 4.5 times the short-term external debt.

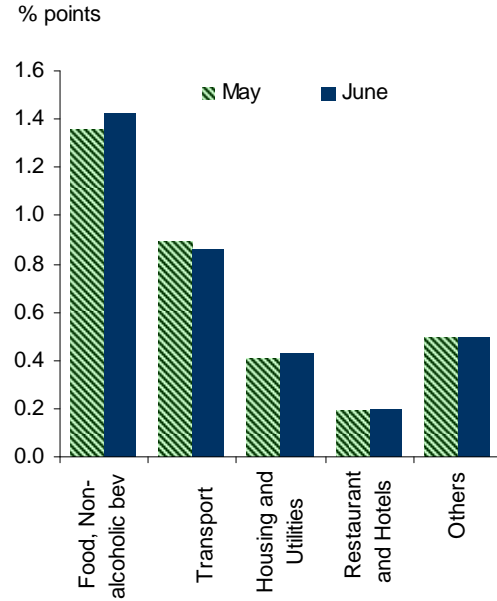
Bank Negara Malaysia
29 July 2011

Inflation rose in June

Headline Inflation



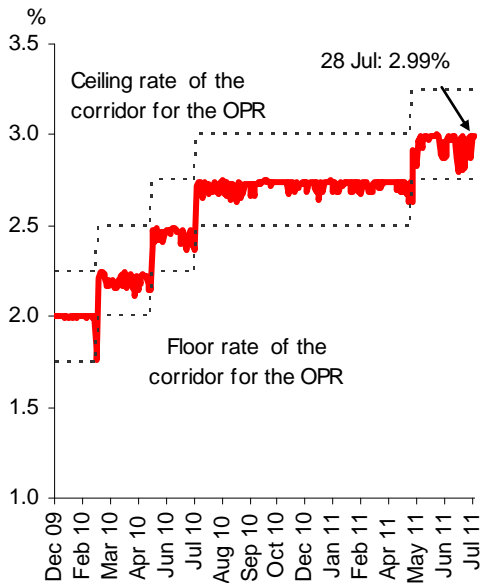
Headline Inflation: Component Contribution



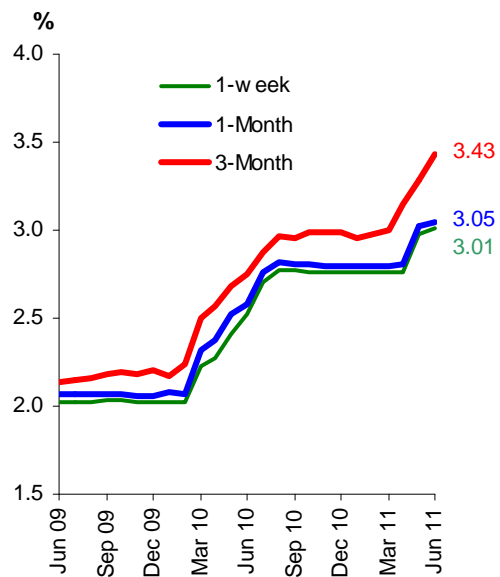
*Others include recreation services and culture; alcoholic beverages and tobacco; education; health; furnishings; household equipment and routine; communication clothing and footwear, and miscellaneous goods and services

Interest rates were stable

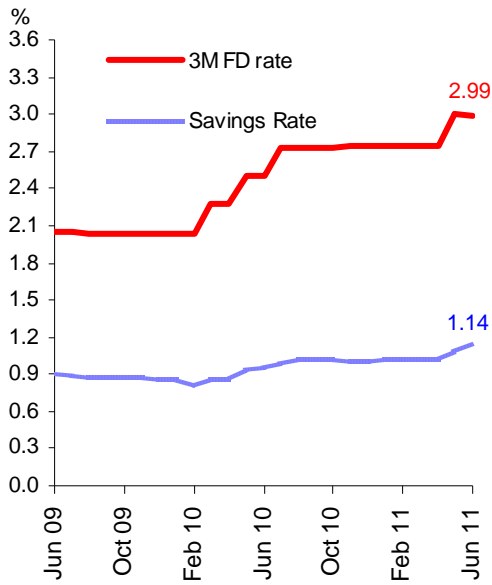
Average Overnight Interbank Rate



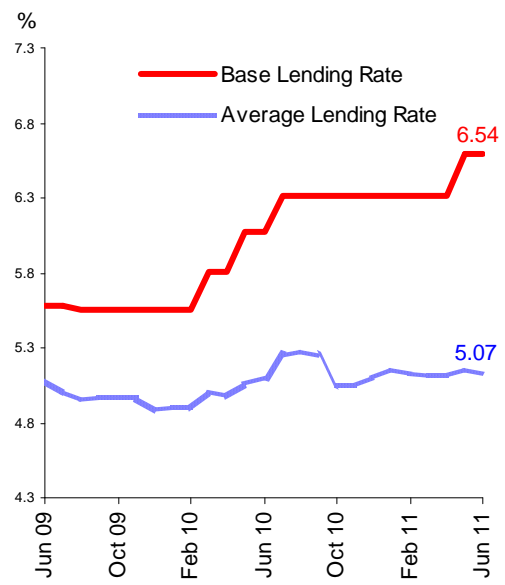
Average Interbank Rates



Deposit Rates of Commercial Banks

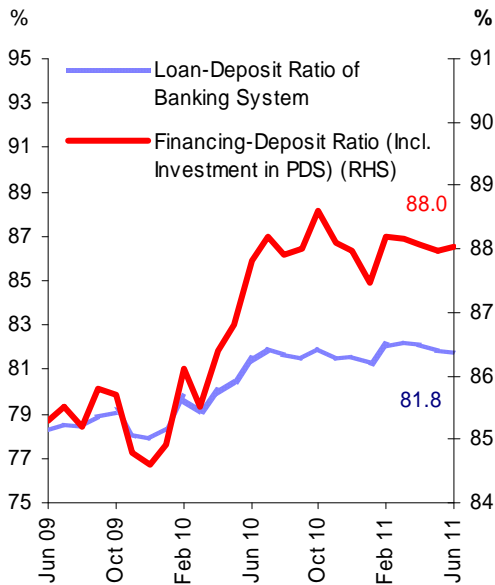


Lending Rates of Commercial Banks

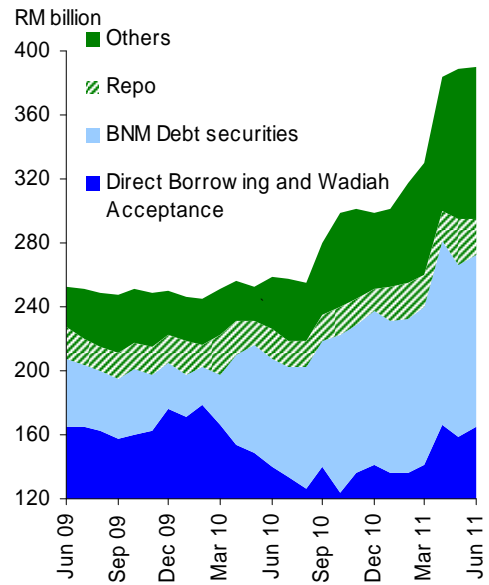


Liquidity in the banking system remains ample

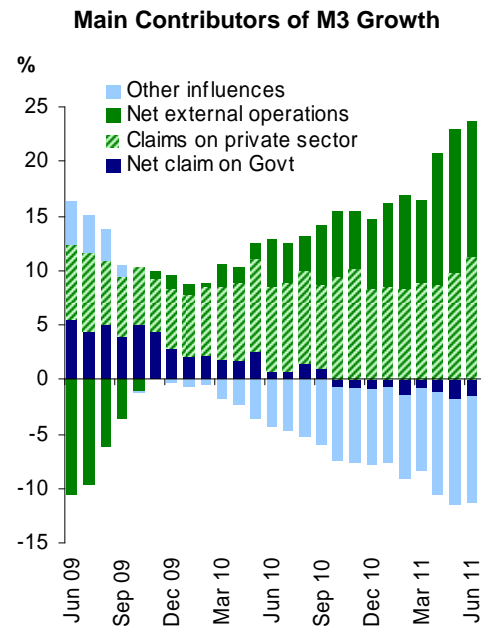
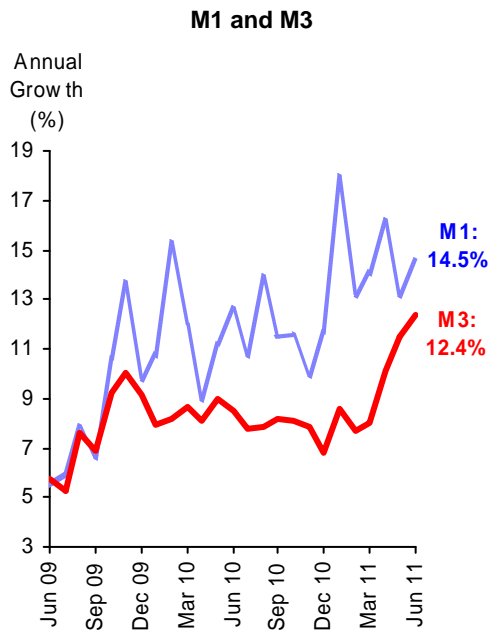
Loan-Deposit Ratio and Financing-Deposit Ratio



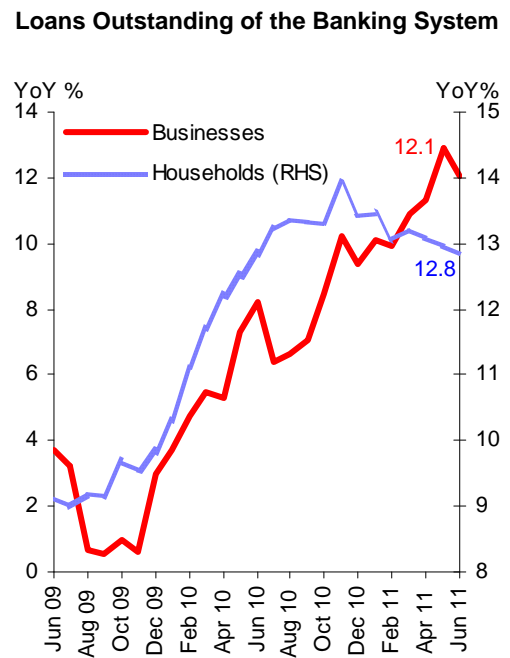
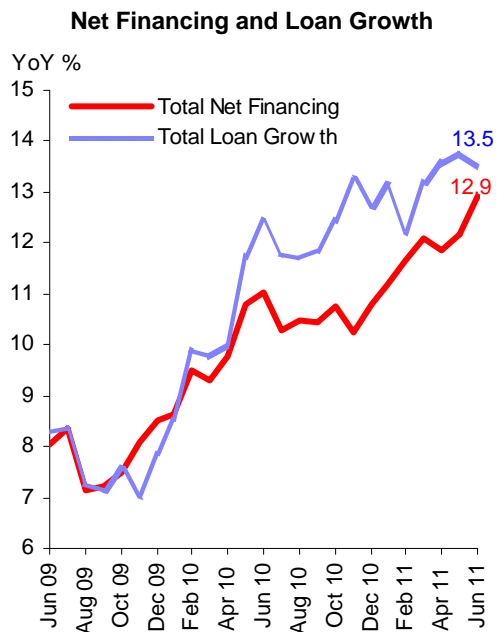
Outstanding Liquidity Placed With Bank Negara Malaysia



Broad money growth was higher

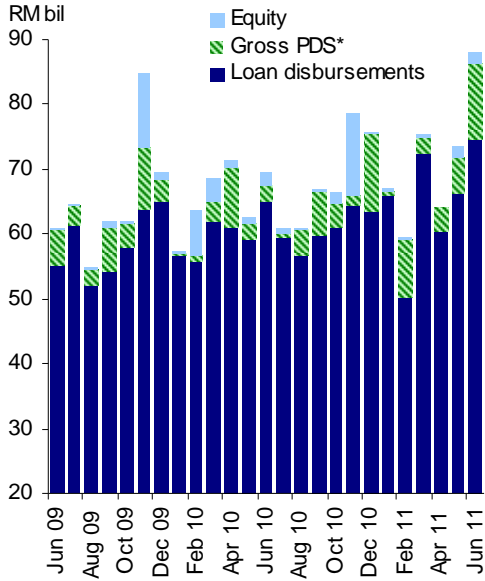


Financing activity remained strong in June



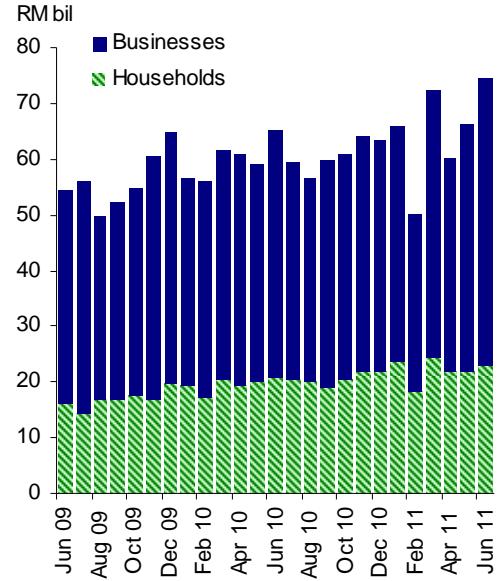
* Net financing comprises of banking system loans and private debt securities (PDS) outstanding (excluding non-residents and Cagamas)

Gross Private Sector Financing

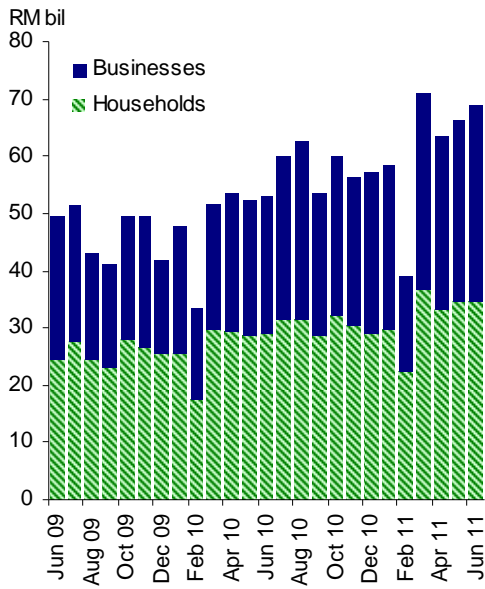


* Excludes foreign issuances

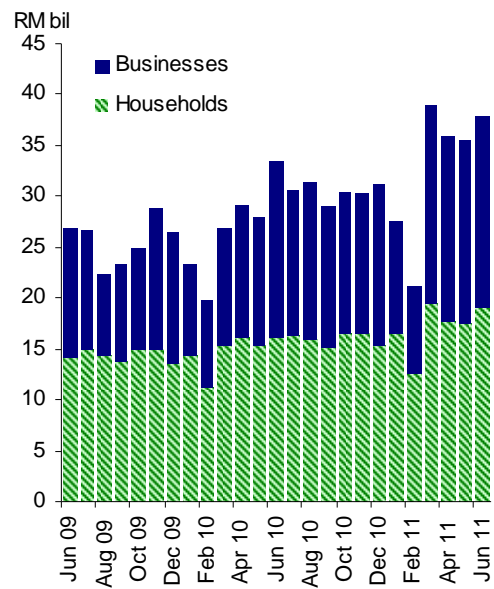
Loan Disbursements by the Banking System



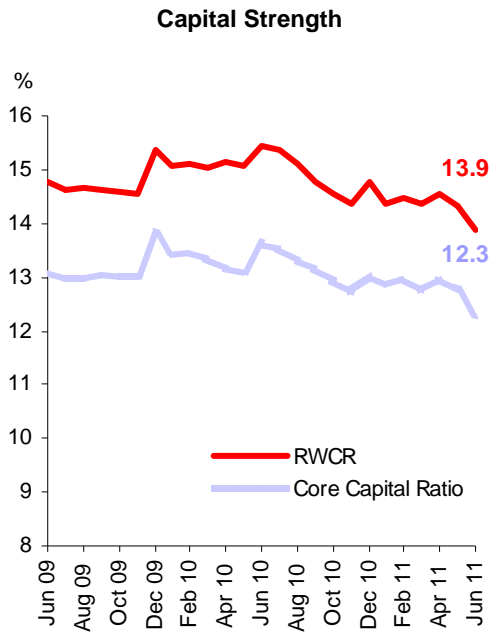
Loan Applications with the Banking System



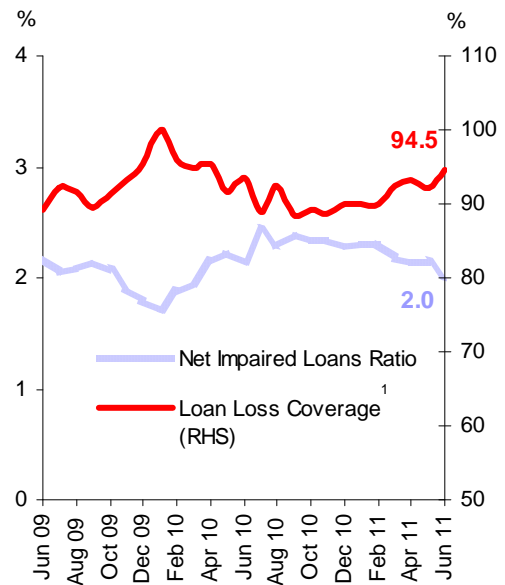
Loan Approvals by the Banking System



Banking system capitalisation remained strong with improving loan quality



Net Impaired Loans Ratio and Loan Loss Coverage

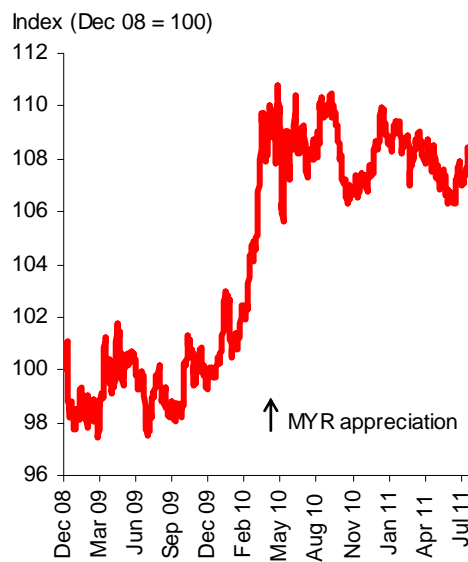


* Beginning January 2010, loans are reported based on FRS139. The adoption of FRS139 requirement is based on the financial year of the banks.

¹ Refers to ratio of general provisions/collective impairment provisions to total net loans.

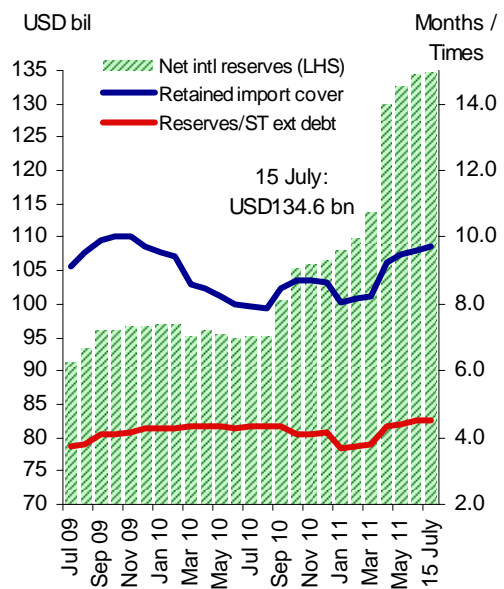
The ringgit depreciated against currencies of major trade partners

Index of Ringgit Performance against Major Trade Partners*



* Currencies in the index: USD, CNY, SGD, JPY, EUR
Each currency carries equal weight

Net International Reserves



Key Monetary and Financial Statistics

	Apr 11		May 11		Jun 11	
	O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates						
Reserve money	70.5	25.2	77.2	33.5	76.3	37.1
M1	231.0	16.2	234.0	13.1	239.4	14.5
M2	1,103.1	10.7	1,117.0	11.6	1,132.2	12.4
M3	1,129.3	10.1	1,145.4	11.5	1,159.1	12.4
Banking System						
Net financing ¹	10.6	11.9	17.5	12.2	24.2	12.9
Loan-deposit ratio (%) ²	82.1		81.8		81.8	
Financing-deposit ratio (%) ^{2&3}	88.1		88.0		88.0	
Loans applied (during the period)	63.7	19.5	66.5	27.2	68.9	29.9
Loans approved (during the period)	36.0	24.0	35.6	27.2	38.0	14.0
Loans disbursed (during the period)	60.3	-1.1	66.2	11.9	74.6	14.5
Loans repaid (during the period)	56.0	-2.0	54.1	6.6	63.6	18.3
Banking System Health						
Risk-weighted Capital Ratio (RWCR) (%)	14.6		14.3		13.9	
Net Impaired Loans Ratio (%)	2.2		2.1		2.0	
BNM International Reserves (end-period)						
Net Reserves in RM billion	393.2		401.4		406.2	
Net Reserves in USD billion (equivalent)	130.0		132.7		134.3	
Months of retained imports	9.3		9.5		9.6	
Interest Rates at end-period [average for the month]						
Overnight Policy Rate (OPR)	2.75		3.00		3.00	
Interbank:	Overnight	2.63 [2.72]	2.99 [2.91]	2.97 [2.96]		
	1-week	2.76 [2.76]	3.01 [2.98]	3.01 [3.01]		
	1-month	2.79 [2.81]	3.11 [3.02]	3.08 [3.05]		
Fixed deposits of commercial banks:	1-month	2.71	2.95	2.95		
	3-month	2.74	3.00	2.99		
BLR of commercial banks	6.27		6.54		6.54	
ALR of commercial banks	5.06		5.10		5.07	
Prices						
Consumer Price Index (CPI) (2010=100)	102.6	3.2	102.9	3.3	103.2	3.5

¹ Comprises of banking system loans outstanding and private debt securities (PDS) outstanding (excludes non-resident and Cagamas)

² Excludes transactions by financial institutions.

³ Refers to the ratio of loans and holdings of PDS by the banking system to deposits of the banking system.