



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

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MONETARY AND FINANCIAL DEVELOPMENTS September 2010

Price Conditions: Headline inflation, as measured by the Consumer Price Index (CPI), moderated in September, increasing at a slower rate of 1.8% on an annual basis. This was primarily driven by slower price increases in the *food and non-alcoholic beverages* and *transport* categories. The moderation in food prices was attributed to the slower rate of increase in prices of *food at home* category following more moderate price increases in the *vegetables* and *fish and seafood* sub-categories given the Government enforcement of Festive Season Price Control Scheme during the Ramadhan and Aidilfitri season. Meanwhile, prices in the *transport* category also moderated as the effect of the upward fuel price adjustment in September 2009 lapsed.

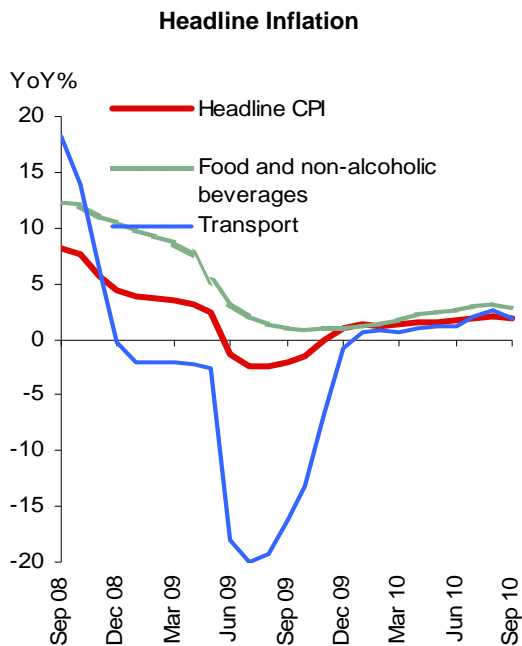
Monetary Conditions: Interbank rates were stable in September. In terms of retail interest rates, the average base lending rate (BLR) of commercial banks was unchanged at 6.27%. Retail deposit rates were also stable. Broad money (M3) increased during the month, reflecting mainly higher credit extension by the banking system to the private sector. The increase in M3 was also supported by foreign inflows. Net financing to the private sector increased by RM10.4 billion in September due mainly to higher PDS issuances and loan disbursements during the month. PDS issuances increased due mainly to a large scale issuance by a telecommunications company. Loans outstanding to businesses expanded reflecting mainly higher loans extended to the *construction, manufacturing* and *finance, insurance and business services* sectors. Household loans also continued to increase. Meanwhile, loan applications from businesses and households moderated from their relatively high levels in September.

Banking System: The banking system remained well-capitalised with the risk-weighted capital ratio (RWCR) and core capital ratio at 14.8% and 13.1% respectively. The level of non-performing loans (NPLs) including impaired loans improved in September 2010 to account for 2% of net loans, attributable to lower amount of new defaults and management of impaired assets by a banking institution. Loan loss coverage remained above 90%.

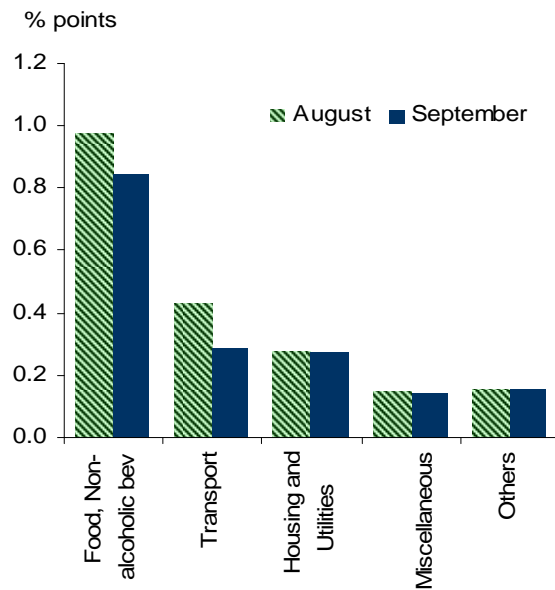
Exchange Rates and International Reserves: In September, the ringgit's performance against the currencies of Malaysia's major trade partners was mixed. The ringgit appreciated against the US dollar and Japanese yen, but depreciated against the Chinese renminbi, Singapore dollar and the euro. The positive growth outlook for Asia relative to the developed economies provided impetus to the appreciation of regional currencies against the US dollar. Investor expectations for further monetary easing by the US Federal Reserve also lifted sentiments towards regional financial markets. Domestically, the FTSE Group's upgrading of Malaysia's capital market from "secondary emerging" classification to "advanced emerging" also further enhanced sentiments towards Malaysia. In October, however, ringgit depreciated against Malaysia's major trading partners as country specific factors led to a greater appreciation of these currencies against the ringgit. The international reserves of Bank Negara Malaysia stood at RM322.7 billion (equivalent to USD104.6 billion) as at 15 October 2010, sufficient to finance 8.7 months of retained imports and are 4.5 times the short-term external debt.

Bank Negara Malaysia
29 October 2010

Inflation moderated in September

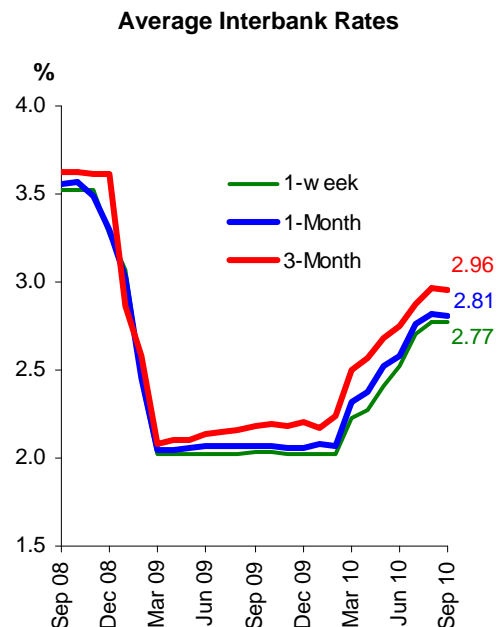
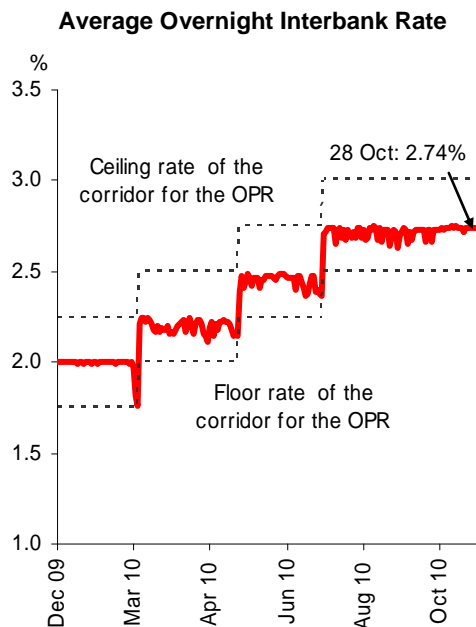


Headline Inflation: Component Contribution

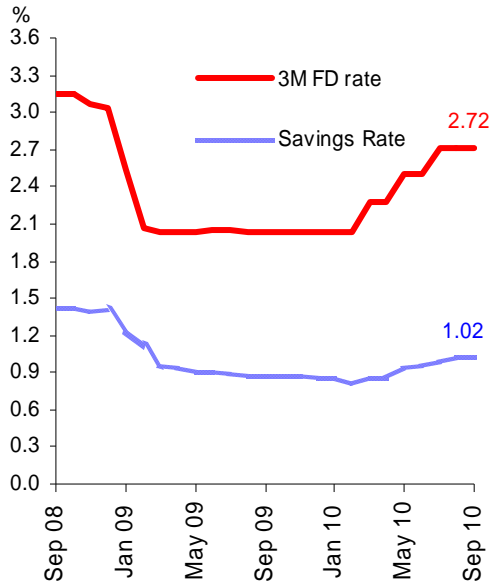


* Others include recreation services and culture, alcoholic beverages and tobacco, restaurant and hotels, education, health, furnishings, household equipment and routine, communication, and clothing and footwear

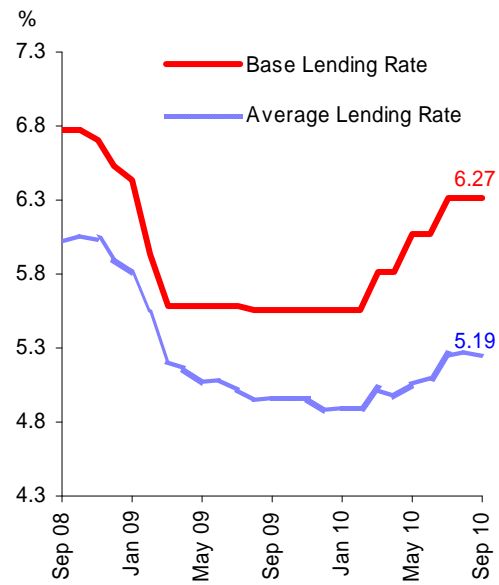
Interest rates were stable



Deposit Rates of Commercial Banks

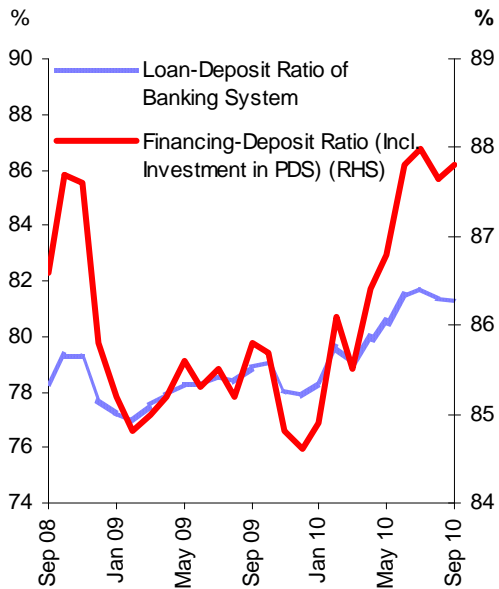


Lending Rates of Commercial Banks

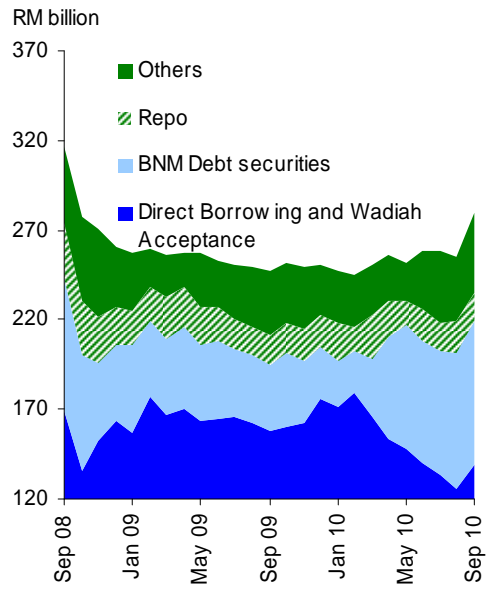


Liquidity in the banking system remains ample

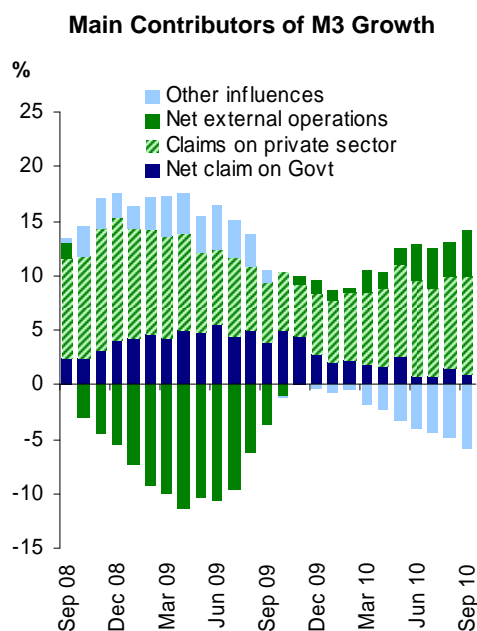
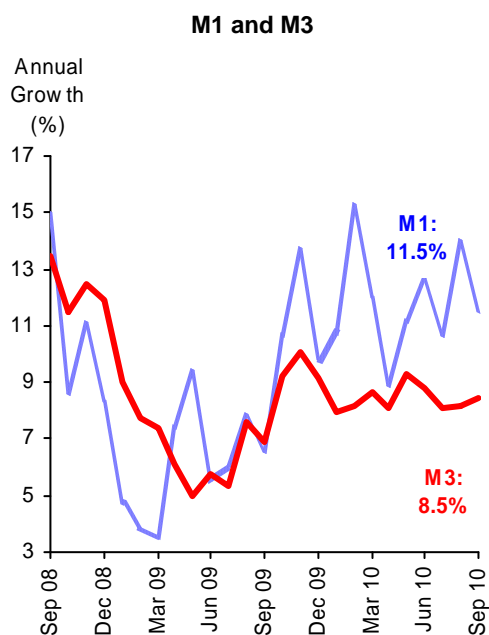
Loan-Deposit Ratio and Financing-Deposit Ratio



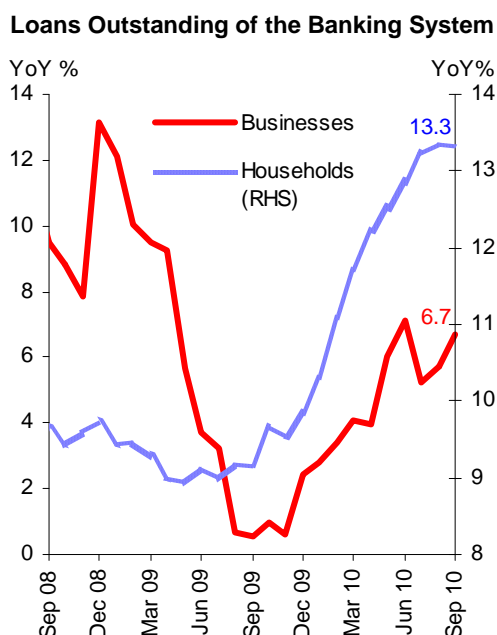
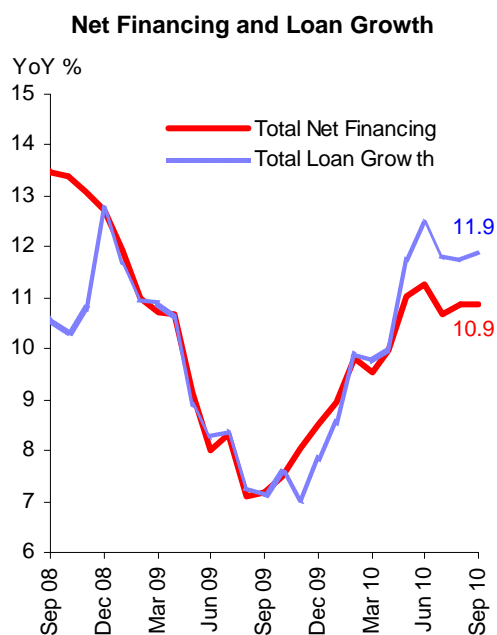
Outstanding Liquidity Placed With Bank Negara Malaysia



Broad money growth was sustained

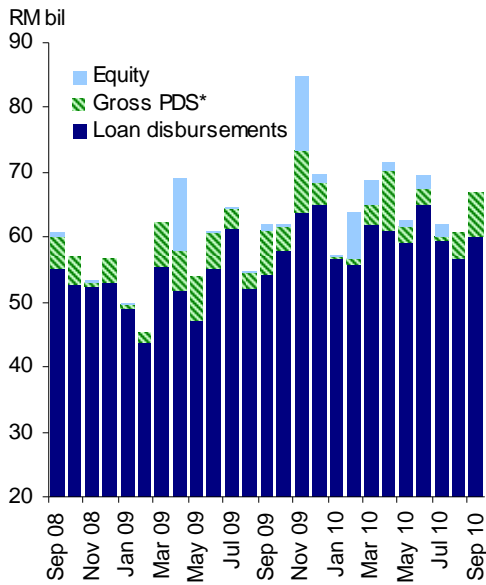


Financing activity stabilised at high levels in September



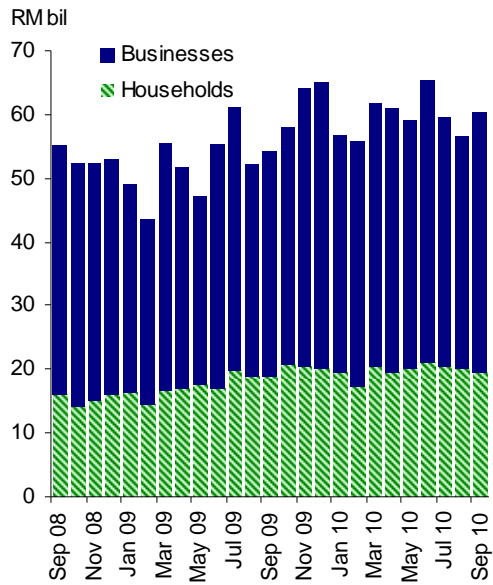
* Net financing comprised of banking system loans outstanding and private debt securities (PDS) outstanding (exclude non residents and Cagamas)

Gross Private Sector Financing

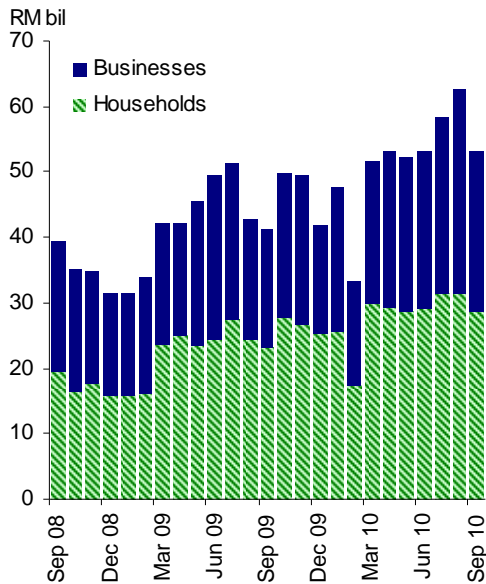


* Excludes foreign issuances

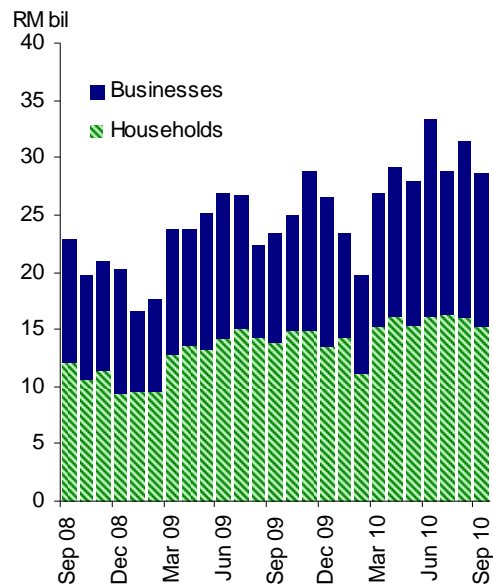
Loan Disbursements by the Banking System



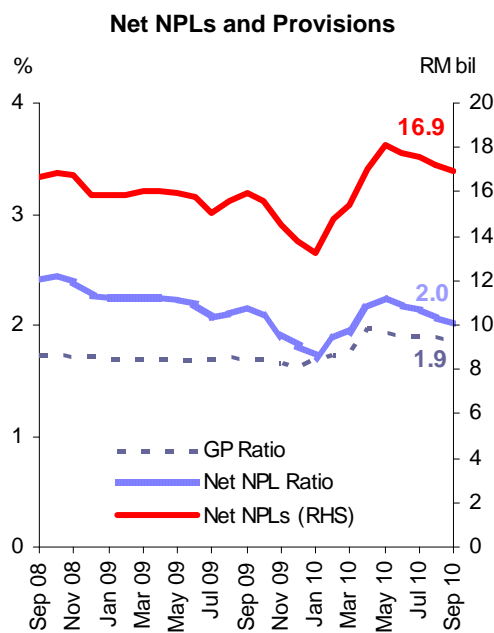
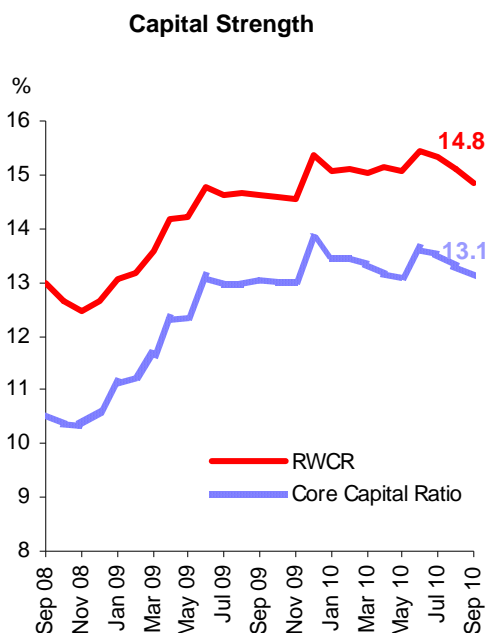
Loan Applications with the Banking System



Loan Approvals by the Banking System



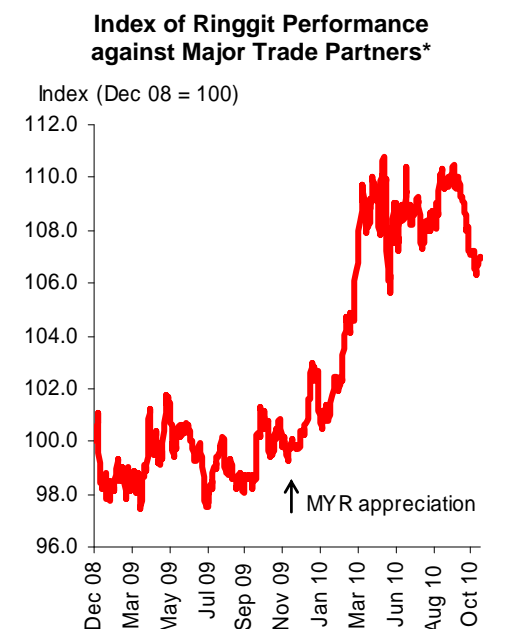
Banking system capitalisation remained strong with stable loan quality



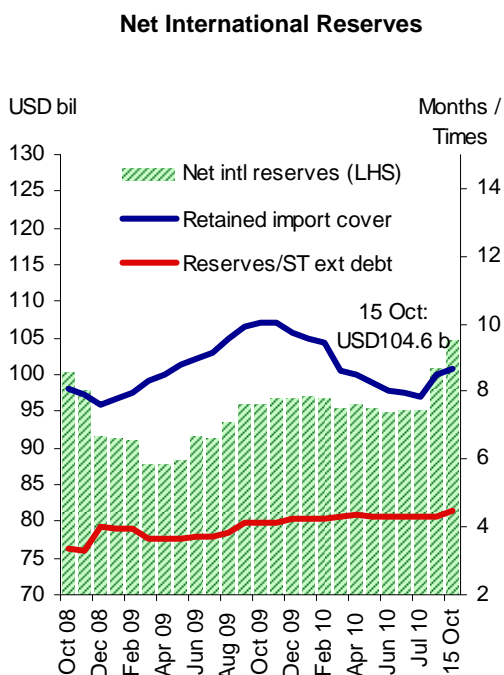
* Beginning January 2010, loans are reported based on FRS139. The adoption of FRS139 requirement is based on the financial year of the banks.

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

Ringgit's performance was mixed



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



Key Monetary and Financial Statistics

	Jul 10		Aug 10		Sep 10	
	O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates						
Reserve money	56.0	7.7	60.3	11.6	57.6	3.2
M1	205.6	10.7	214.4	13.9	213.4	11.5
M2	1,011.1	8.3	1,023.0	8.2	1,028.8	8.3
M3	1,039.0	8.1	1,052.5	8.2	1,058.5	8.5
Banking System						
Net financing ¹	5.8	10.7	7.9	10.9	10.4	10.9
Loan-deposit ratio (%) ²		81.7		81.4		81.3
Financing-deposit ratio (%) ^{2&3}		88.0		87.6		87.8
Loans applied (during the period)	58.4	13.6	62.6	46.0	53.2	28.8
Loans approved (during the period)	28.9	7.9	31.4	40.1	28.7	22.5
Loans disbursed (during the period)	59.6	-2.9	56.7	9.0	60.2	10.9
Loans repaid (during the period)	56.9	11.9	52.8	16.6	55.3	11.6
Banking System Health						
Risk-weighted Capital Ratio (RWCR) (%)		14.8		15.1		14.8
Net NPLs: 3-month classification (%)		2.2		2.1		2.0
BNM International Reserves (end-period)						
Net Reserves in RM billion		310.6		311.3		310.7
Net Reserves in USD billion (equivalent)		95.0		95.2		100.7
Months of retained imports		7.9		7.9		8.5
Interest Rates at end-period [average for the month]						
Overnight Policy Rate (OPR)		2.75		2.75		2.75
Interbank:	Overnight	2.72 [2.63]		2.72 [2.71]		2.73 [2.71]
	1-week	2.77 [2.71]		2.75 [2.77]		2.76 [2.77]
	1-month	2.81 [2.76]		2.83 [2.82]		2.81 [2.81]
Fixed deposits of commercial banks:	1-month	2.70		2.70		2.70
	3-month	2.72		2.72		2.72
BLR of commercial banks		6.27		6.27		6.27
ALR of commercial banks		5.19		5.22		5.19
Prices						
Consumer Price Index (CPI) (2005=100)		114.0	1.9	114.4	2.1	114.4

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.