BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PRESS RELEASE

Ref. No.: 09/09/08

EMBARGO: Not for publication or broadcast before 1730 hours on Wednesday, 30 September 2009

Monetary and Financial Developments in August 2009
Highlights of the Press Release

- Headline inflation was unchanged at -2.4% in August 2009. The slower decline in the *transport* category and the higher inflation in the *recreation services and culture* category were mitigated by moderating inflation in several other categories of the CPI.

- Gross financing by the banking system and the capital market moderated. Nevertheless, demand for financing in the household sector was sustained.

- The risk weighted capital ratio (RWCR) and core capital ratio (CCR) improved to 14.6% and 13.0% respectively. Meanwhile, the net non-performing loans ratio remained unchanged at 2.1%.

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PRESS RELEASE

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MONETARY AND FINANCIAL DEVELOPMENTS

August 2009

Gross financing by the banking system and the capital market moderated in August to RM54.5 billion (July: RM64.2 billion) due to lower loan disbursements and private debt securities (PDS) issuances during the month. On a net basis, banking system loans and PDS outstanding expanded at a combined annual rate of 7.1% as at end-August (July: 8.3%). Demand for financing in the household sector was sustained with loan applications amounting to RM25 billion in August (January – July 2009 monthly average: RM22.5 billion). With relatively high loan disbursements, loans outstanding of the household sector rose by an annual rate of 9.1% as at end-August (end-July: 9.0%). On the other hand, loan applications by, approvals and disbursements to the business sector have moderated.

Interbank rates for all maturities were relatively stable, while the average fixed deposit rate recorded a marginal decrease in August. The average base lending rate (BLR) decreased to 5.51% as at end-August (5.53% in July), reflecting lower BLR by one foreign bank. Meanwhile, the average lending rate (ALR) continued to decrease to 4.84% as at end-August (5.04% in June and 4.96% in July).

From 1 August to 29 September 2009, the ringgit appreciated by 0.9% against the U.S. dollar. The ringgit also appreciated against the pound sterling (4.7%), but depreciated against the Japanese yen (-4.7%) and the euro (-2.5%). Against regional currencies, the ringgit appreciated against the Chinese renminbi (0.9%) but depreciated against other regional currencies between 0.6% and 2.6%.

Headline inflation, as measured by the Consumer Price Index (CPI), remained unchanged at -2.4% in August 2009 (July: -2.4%). Prices in the *transport* category declined at a slower rate in August following the upward revision to bus and taxi fares (August: -19.3%; July: -19.9%). Higher inflation was also observed in the *recreation services and culture* category (August: 2.6%; July: 0.7%). These price increases were however mitigated by moderating inflation in several other categories of the CPI, most notably in the *food and non-alcoholic beverages* category (August: 1.4%; July: 2.0%).

Broad money (M3) rose at a faster annual pace of 7.6% due mainly to an increase in net foreign assets of the banking system.

The risk weighted capital ratio (RWCR) and core capital ratio (CCR) improved to 14.6% and 13.0% respectively. Meanwhile, the net non-performing loans ratio remained unchanged at 2.1%.

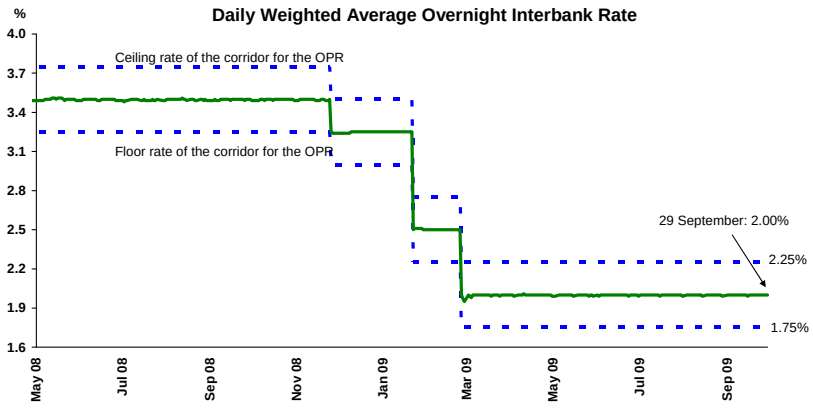
Interest rates were stable in August

During the period 1 August – 29 September, the daily weighted average overnight interbank rate moved within a narrow range of 1.99% - 2.00%. Interbank rates of other maturities were also relatively stable.

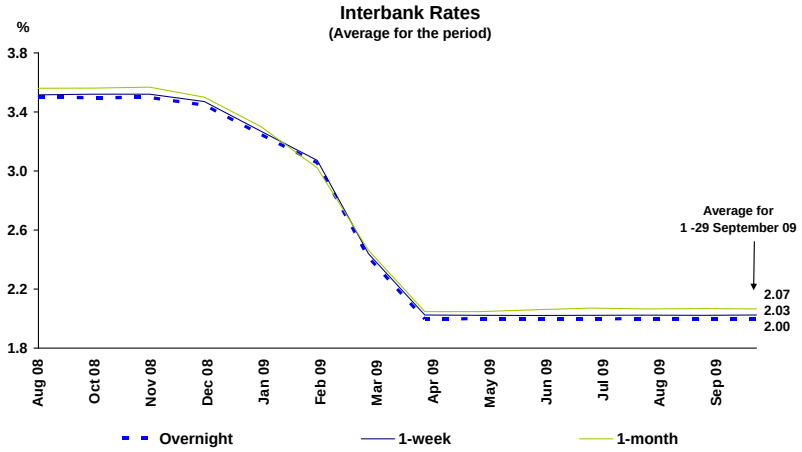
The average fixed deposit (FD) rate of commercial banks registered a marginal decrease in August, reflecting the lowering of FD rates by one foreign bank. As at 15 September, the average quoted fixed deposit rates for tenures between 1 and 12 months were within the range of 2.00% and 2.50%.

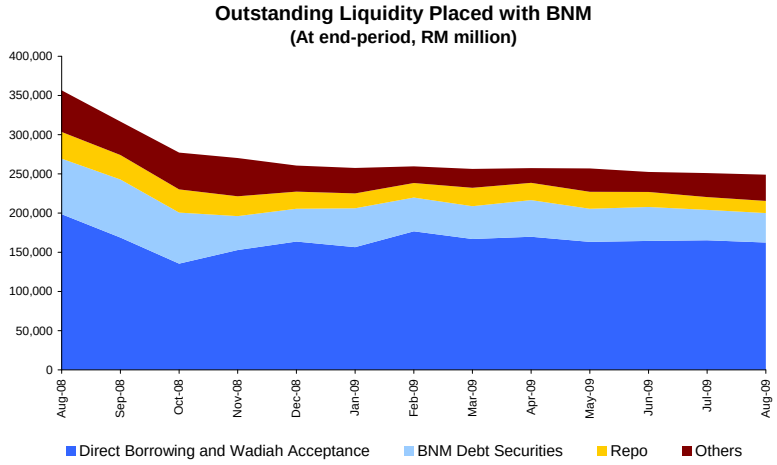
In terms of the commercial banks' lending rates, the average base lending rate (BLR) decreased to 5.51% as at end-August (5.53% in July), reflecting lower BLR by one foreign bank. Meanwhile, the average lending rate (ALR) continued to decrease to 4.84% as at end-August (5.04% in June and 4.96% in July).

The average overnight interbank rate moved within a narrow range

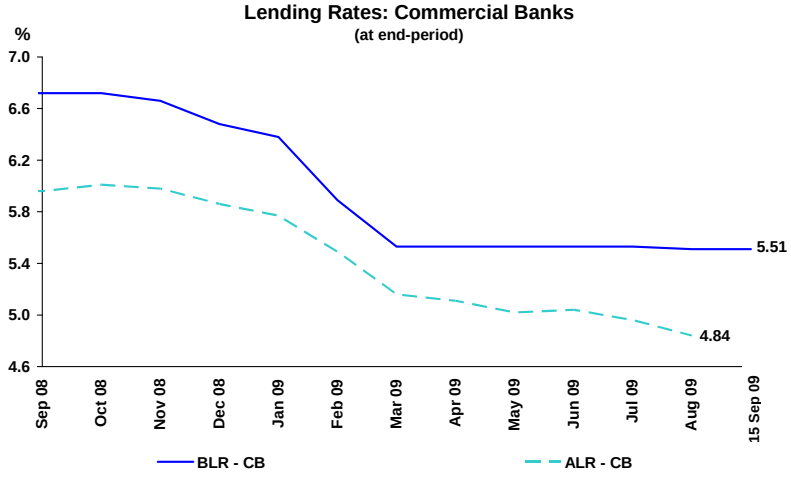


Other interbank rates were also relatively stable

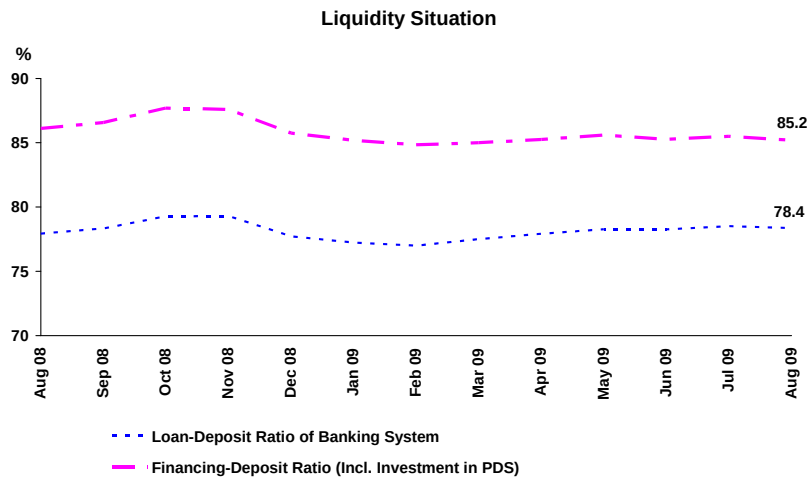




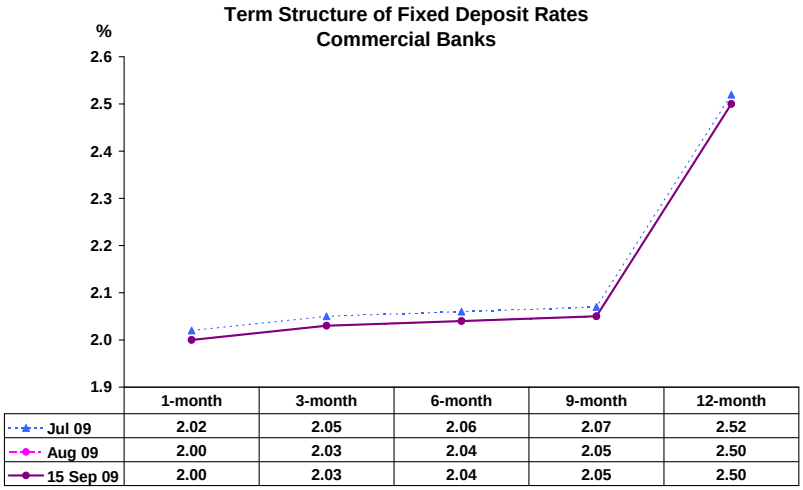
BNM continued to absorb excess liquidity



Commercial banks' BLR and ALR trended lower in August

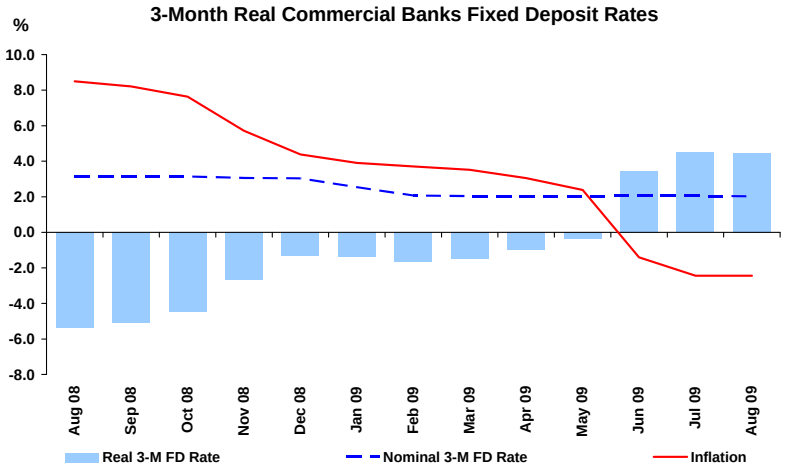


The loan-deposit and financing-deposit ratios were relatively unchanged



	1-month	3-month	6-month	9-month	12-month
Jul 09	2.02	2.05	2.06	2.07	2.52
Aug 09	2.00	2.03	2.04	2.05	2.50
15 Sep 09	2.00	2.03	2.04	2.05	2.50

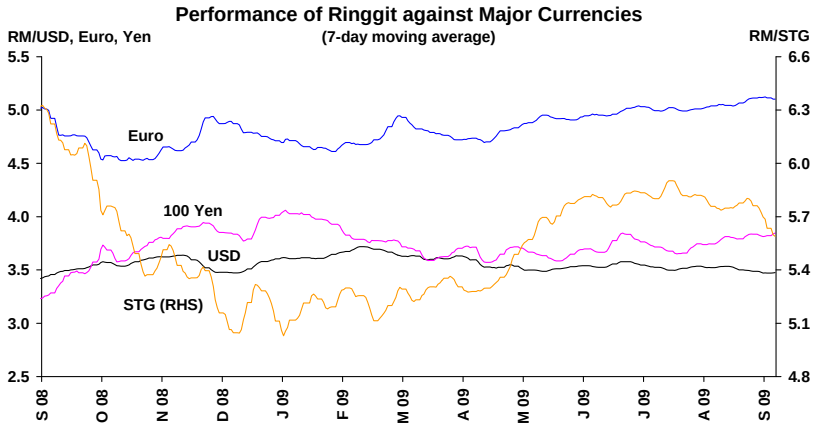
Average fixed deposit rates registered a modest decrease in August



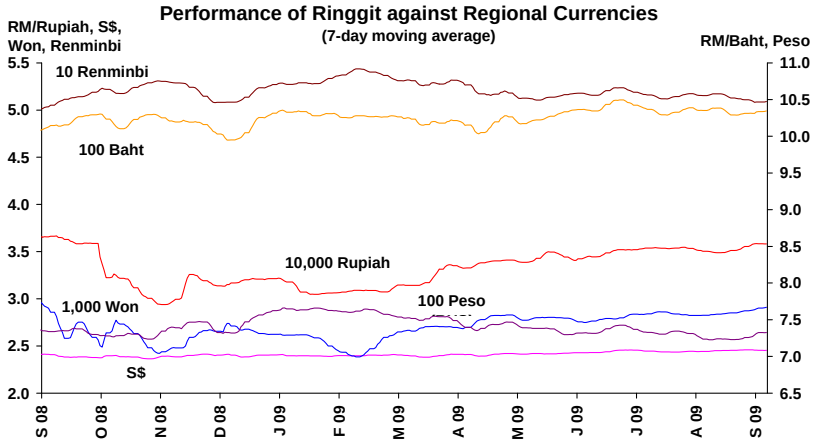
Real fixed deposit rates were relatively unchanged

The ringgit appreciated against the U.S. dollar

From 1 August to 29 September 2009, the ringgit appreciated by 0.9% against the U.S. dollar. The ringgit was supported by favourable investor sentiment and improved risk appetite towards the region following incipient signs of recovery in the global and regional economies. The positive sentiment was also abetted by the announcement by the G20 finance ministers to maintain stimulus measures to support global growth. The ringgit also appreciated against the pound sterling (4.7%), but depreciated against the Japanese yen (-4.7%) and the euro (-2.5%). Against regional currencies, the ringgit appreciated against the Chinese renminbi (0.9%) but depreciated against other regional currencies between 0.6% and 2.6%.



The ringgit appreciated against the dollar and pound sterling but depreciated against the yen and euro



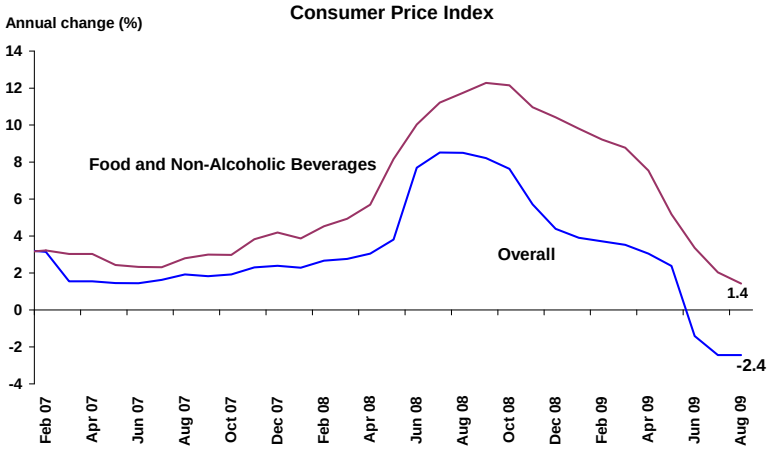
The ringgit registered a mixed performance against regional currencies

Performance of Ringgit against Selected Currencies

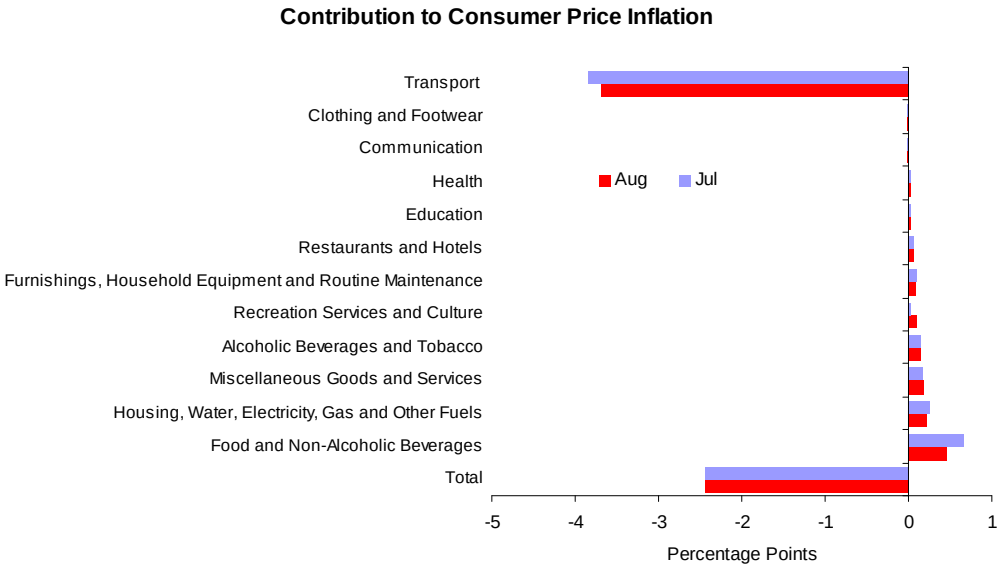
RM per foreign currency	End-period				% Change	
	Dec 08	Jul 09	Aug 09	29 Sep 09	End Dec 08 - 29 Sep 09	End Jul 09 - 29 Sep 09
US dollar	3.4640	3.5200	3.5260	3.4875	-0.7	0.9
Euro	4.8759	4.9729	5.0621	5.1010	-4.4	-2.5
Pound sterling	4.9989	5.8150	5.7356	5.5545	-10.0	4.7
100 Japanese yen	3.8327	3.6919	3.7631	3.8741	-1.1	-4.7
Singapore dollar	2.4070	2.4432	2.4441	2.4590	-2.1	-0.6
100 Thai baht	9.9398	10.342	10.364	10.378	-4.2	-0.3
100 Philippine peso	7.2774	7.3249	7.2221	7.3313	-0.7	-0.1
100 Indonesian rupiah	0.0316	0.0355	0.0349	0.0358	-11.7	-1.1
100 Korean won	0.2750	0.2859	0.2833	0.2936	-6.3	-2.6
Chinese renminbi	0.5076	0.5152	0.5162	0.5108	-0.6	0.9

Inflation remained unchanged in August

Headline inflation, as measured by the Consumer Price Index (CPI), remained unchanged at -2.4% in August 2009 (July: -2.4%). Prices in the *transport* category declined at a slower rate in August following the upward revision to bus and taxi fares (August: -19.3%; July: -19.9%). Higher inflation was also observed in the *recreation services and culture* category (August: 2.6%; July: 0.7%). This was partly due to the increase in satellite television subscription fees. These price increases were however mitigated by moderating inflation in several other categories of the CPI, most notably in the *food and non-alcoholic beverages* category (August: 1.4%; July: 2.0%).



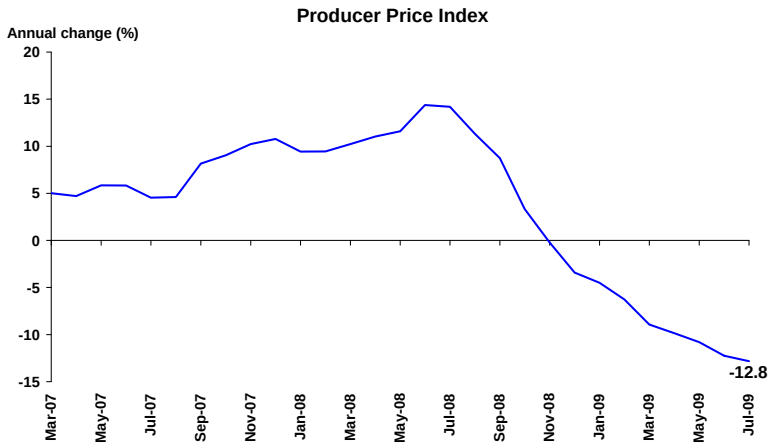
Inflation remained unchanged at -2.4% in August



Producer prices continued to decline in July

The Producer Price Index (PPI) declined by 12.8% on an annual basis in July (June: -12.2%). Prices in the commodity-related components of the PPI were lower by 30.8% (June: -29.9%). In the non-commodity-related components of the PPI, prices were lower by 3.3% (June: -2.7%) On a month-on-month basis, producer prices also declined by 0.6% in July (June: 1.2%). This was driven mainly by price declines in the commodity-related components, which fell by 1.8% on a month-on-month basis in line with the moderation in global crude oil prices (June: 4.1%).

In terms of composition, prices for both the local and imported components of the PPI fell at a faster rate. Compared to their levels a year ago, prices for the local component of the PPI declined by 16.8% (June:-16.1%), while prices for the imported component declined by 3.9% (June: -3.4%).



Producer prices declined on an annual basis in July

M3 grew at a faster annual pace in August

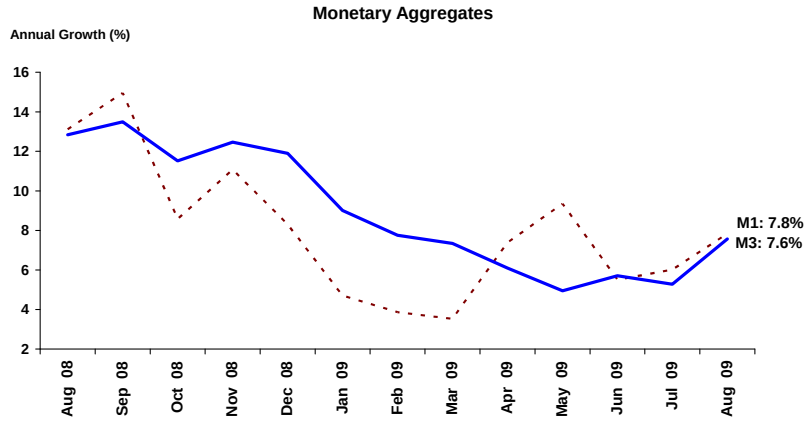
In August, broad money (M3) grew at a faster annual pace of 7.6%. On a monthly basis, M3 increased by RM12.1 billion. Growth in M3 was underpinned by an increase in the net foreign assets of the banking system. This reflected mainly portfolio inflows arising from external fund raising activity by one large *Non-Financial Public Enterprise.* The increase in M3 was also supported by the higher provision of credit by banks.

M3 Determinants
(RM billion)

	Change during period			
	May 09	**Jun 09**	**Jul 09**	**Aug 09**
M3	-5.0	7.3	10.5	12.1
Net claims on Government	-6.5	8.4	-0.1	-0.2
Claims on the private sector	-2.9	5.6	11.5	4.2
Loans	*-2.9*	*7.6*	*8.1*	*5.6*
Securities	*0.0*	*-2.1*	*3.4*	*-1.3*
Net foreign assets*	0.6	-10.5	-0.4	11.2
Other influences	3.8	3.9	-0.5	-3.1

* Pre-revaluation of international reserves

M3 has been revised to include *other deposits* from December 1999 onwards. *Other deposits* were previously excluded from the compilation of M3.



Banking system deposits increased in August

Total deposits placed with the banking system in August increased by RM10.1 billion from the preceding month (July: +RM0.9 billion) to register an annual growth rate of 8.1% (July: 6.2%). The increase was partly attributed to net inflows by residents and non-residents. By customer, the higher deposits reflected placements by non-banking financial institutions and businesses. By type, the increase was mainly observed in the form of FX deposits and short-term money market deposits.

Deposits by Holder
(RM million)

	Change during period			
	May 09	**Jun 09**	**Jul 09**	**Aug 09**
Federal Government	1,505	1,739	81	599
State Governments	-1,083	561	-567	1,194
Statutory Authorities [1]	-2,388	1,729	28	981
Financial Institutions	-3,186	13,575	-6,557	3,454
of which:				
Banking Institutions	*618*	*8,173*	*-8,862*	*-894*
Non-Bank Financial Institutions	*-3,905*	*5,694*	*2,152*	*4,239*
Business Enterprises	1,682	-2,323	4,437	4,179
Individuals	-1,674	2,012	2,246	-1,434
Others [2]	-103	856	1,191	1,079
Total	-5,247	18,151	859	10,052

1/ Include local Governments

2/ Consist of domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

	Change during period			
	May 09	**Jun 09**	**Jul 09**	**Aug 09**
Fixed deposits	2,259	-3	-3,124	-162
NIDs	-1,694	7,849	-10,188	-935
Demand deposits	-819	4,795	-988	1,350
Savings deposits	-1,390	1,222	752	-578
Repos	-44	-26	17	-136
FX deposits	716	-4,236	455	7,117
IBS deposits [1]	3,704	5,907	2,095	-785
Others [2]	-7,978	2,642	11,840	4,183
Total	-5,247	18,151	859	10,052

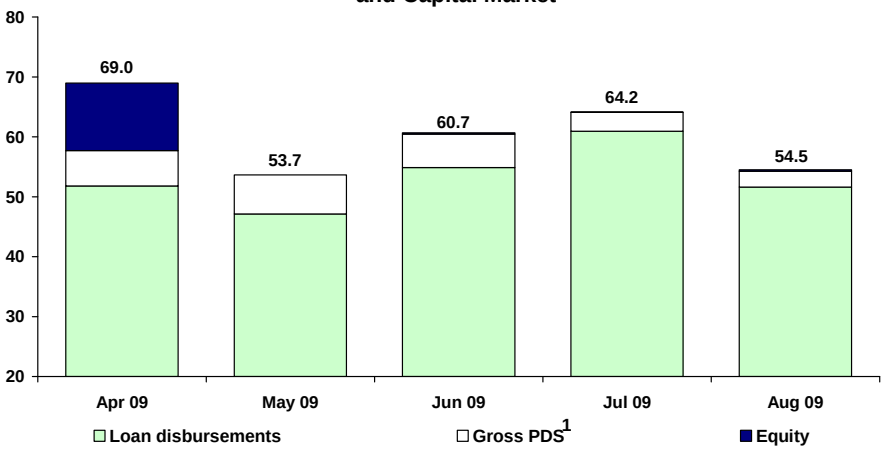
1/ IBS deposits refers to Islamic banking system deposits

2/ Other deposits comprised mainly of short-term money market deposits

Gross financing to the private sector moderated in August

Gross financing by the banking system and the capital market moderated in August to RM54.5 billion (July: RM64.2 billion) due to lower loan disbursements and private debt securities (PDS) issuances during the month. On a net basis, banking system loans and PDS outstanding expanded at a combined annual rate of 7.1% as at end-August (July: 8.3%).

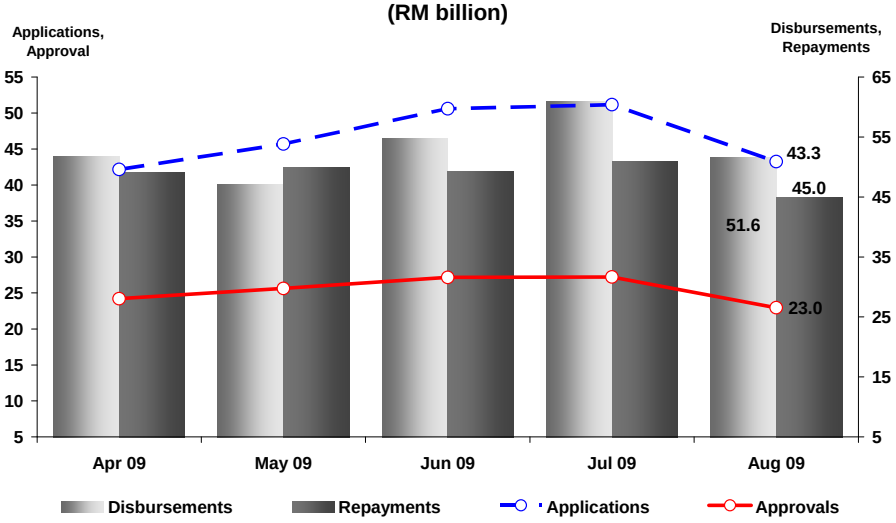
Gross Private Sector Financing through the Banking System and Capital Market



[1] Exclude foreign issuances

Loans disbursed and PDS issuances were lower in August

Loan Applications, Approvals, Disbursements and Repayments (RM billion)



Major loan indicators were lower …

Bank lending indicators

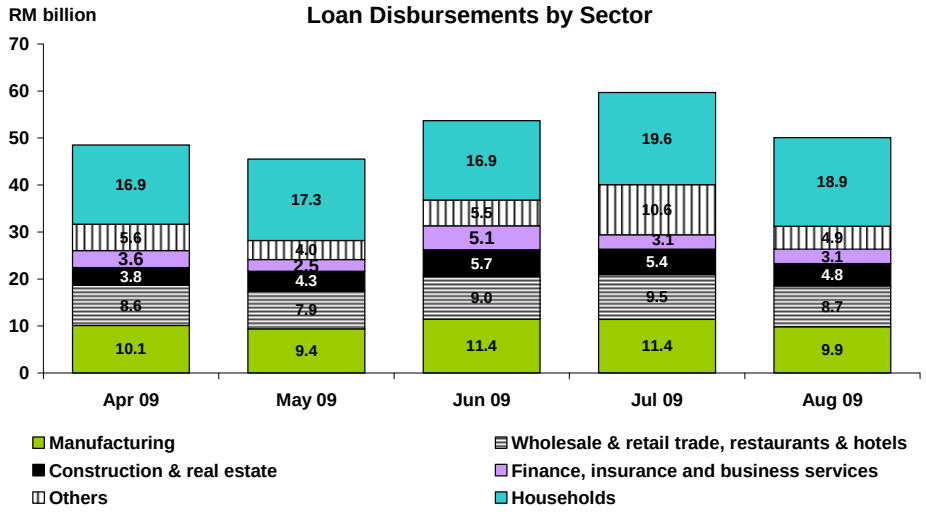
	RM billion			Annual Growth (%)		
	Jul-09	Aug-09	J-A 09	Jul-09	Aug-09	J-A 09
Overall						
Loan applications	51.2	43.3	341.0	18.7	-16.8	2.2
Loan approvals	27.2	23.0	186.1	4.3	-21.1	-10.2
Loan disbursements	60.9	51.6	414.5	5.6	-7.0	-3.0
Chg in Loans Outstanding[1/]	9.8	6.2	32.2	8.4	7.3	7.3
Businesses						
Loan applications	23.8	18.2	158.3	14.6	-44.3	-8.6
Loan approvals	11.8	8.1	80.8	2.0	-52.0	-24.9
Loan disbursements	41.3	32.8	277.6	-1.2	-18.2	-8.6
Chg in Loans Outstanding[1/]	3.3	1.3	2.4	3.2	0.6	0.6
SMEs[2/]						
Loan applications	10.2	9.4	65.9	6.2	-1.8	-7.2
Loan approvals	4.2	3.8	28.1	-28.1	-10.9	-27.5
Loan disbursements	12.8	11.2	93.3	-12.7	-21.5	-14.7
Chg in Loans Outstanding[1/3/]	1.0	-0.3	-5.6	-3.1	-5.2	-5.2
Households						
Loan applications	27.4	25.0	182.7	22.4	30.2	13.9
Loan approvals	15.4	14.8	105.4	6.1	21.6	5.6
Loan disbursements	19.6	18.9	136.9	23.3	21.9	11.0
Chg in Loans Outstanding[1/]	3.2	4.1	22.4	9.0	9.1	9.1

[1/] The annual growth in outstanding amount as at end-period.

[2/] Include loans to individual businesses.

[3/] The decline in SME loans outstanding partly reflected the exclusion of a number of companies from the SME classification, as they have grown beyond the definition of SME. Without such exclusion, SMEs loans outstanding would have declined by a smaller magnitude of 2% year-on-year as at end-August 2009.

…mainly in the business sector



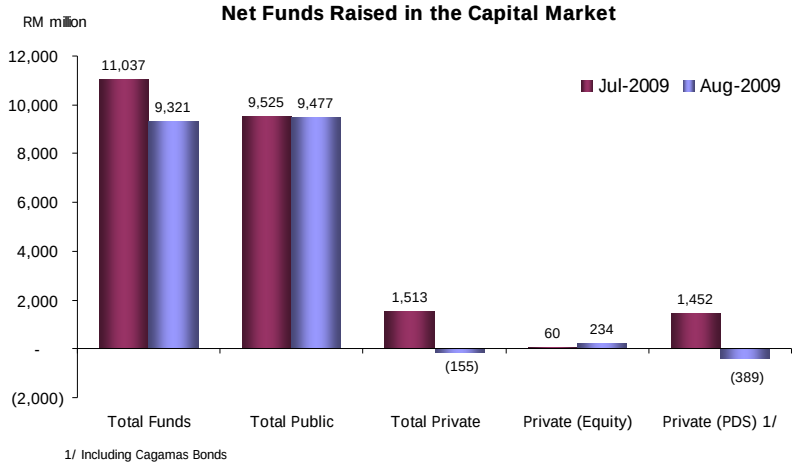
Loan disbursements remained broad-based

Demand for financing in the household sector was sustained with loan applications amounting to RM25 billion in August (January – July 2009 monthly average: RM22.5 billion). Loans applied were mainly to finance purchase of residential property and passenger cars. With relatively high loan disbursements, loans outstanding of the household sector rose by an annual rate of 9.1% as at end-August (end-July: 9.0%).

On the other hand, loan applications, approvals and disbursements to the business sector have moderated. Loans outstanding of the business sector expanded at a slower annual rate of 0.6% (end-July: 3.2%).

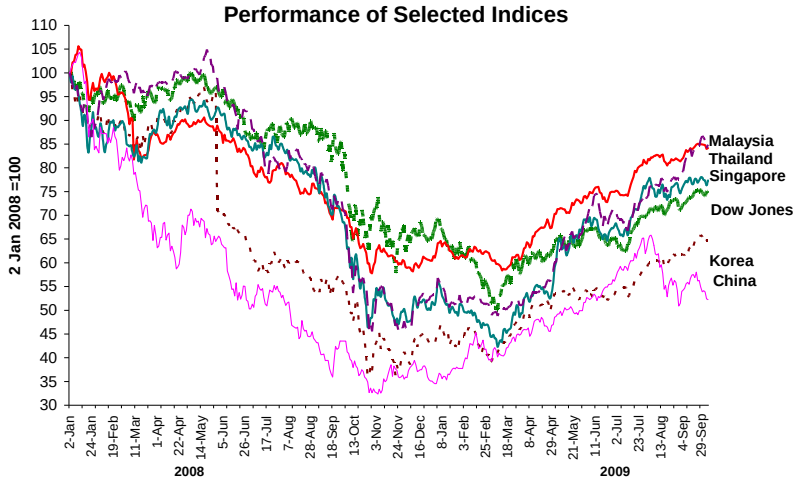
Sustained fund raising activity in the capital market

Net funds raised in the capital market amounted to RM9.3 billion in August. A sizeable portion of the funds was raised by the public sector through the issuance of a 2.5-year and a 5.5-year Malaysian Government Securities (MGS). Meanwhile, in the private sector, funds raised through PDS were lower at RM2.6 billion. Issuances were mainly driven by a government-linked entity for general investment purposes. Reflecting the large amount of redemptions during the period, funds raised in the PDS market recorded a net redemption of RM389 million. In the equity market, RM234 million were raised via two initial public offerings (IPOs) by companies in the consumer products and industrial products sectors.



KLCI relatively unchanged in August

The FBM KLCI started on a positive note but underwent a correction in mid-August on concerns over the sustainability of Asia's economic growth. The market recovered to close at 1,174.27 as at end- August (end-July: 1,174.9) due to positive sentiment following improved prospects for global economic recovery. Market capitalisation increased to RM893.9 billion (since end-July: +0.9%), while the daily average turnover declined to 936 million units (July: 1,005 million units).

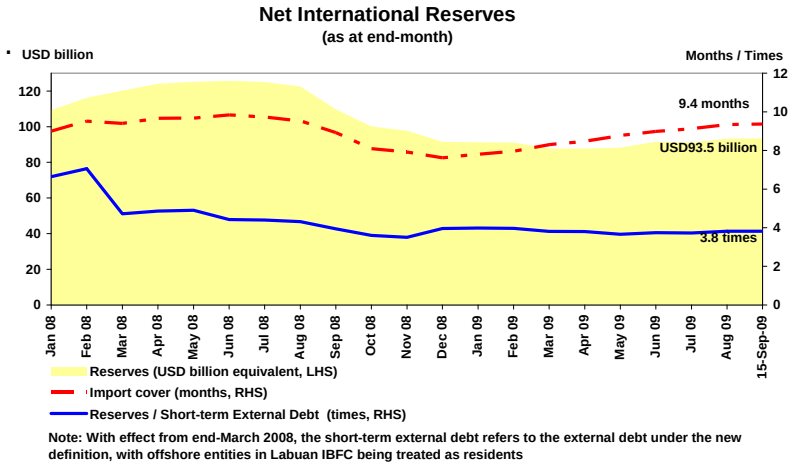


KLCI unchanged in August

As at 29 September, the FBM KLCI was higher at 1,208.21 (since end-August: +2.9%). Overall market capitalisation increased to RM915 billion (since end-August: +2.4%). Trading activity was lower with a daily average turnover of 717 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM329.1 billion (equivalent to USD93.3 billion) as at 28 August 2009. As at 15 September 2009, the international reserves amounted to RM329.9 billion (equivalent to USD93.5 billion). The reserves are sufficient to finance 9.4 months of retained imports and is 3.8 times the short-term external debt.



Note: With effect from end-March 2008, the short-term external debt refers to the external debt under the new definition, with offshore entities in Labuan IBFC being treated as residents

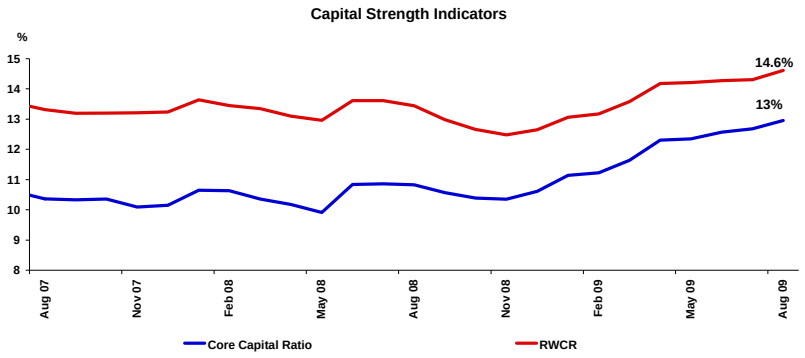
Strong capitalisation and stable non-performing loans in the banking system

The level of capitalisation for the banking system remained sound, with the risk weighted capital ratio (RWCR) and core capital ratio (CCR) improving to 14.6% and 13.0% respectively, underpinned by a 2.0% increase in capital base. Gross non-performing loans increased marginally by 1.0% in August. Nevertheless, loan asset quality remained strong, with the net non-performing loans ratio remaining unchanged at 2.1% while the loan loss coverage ratio strengthened further to 91.6%.

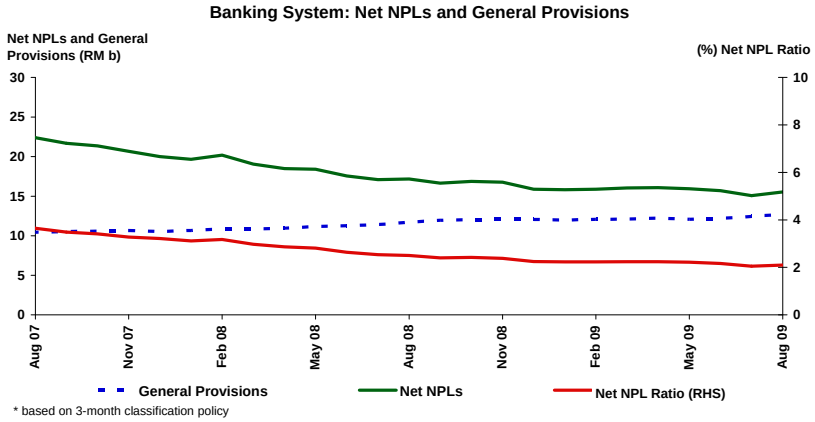
Banking System Health Indicators *

	2002	2003	2004	2005	2006	2007	2008	Jun 09	Jul 09	Aug 09
Capital (%) **										
Core capital ratio	11.1	11.1	11.4	10.7	10.7	10.2	10.6	12.6	12.7	13.0
RWCR	13.2	13.8	14.4	13.7	13.5	13.2	12.6	14.3	14.3	14.6
Net NPLs (3-month classification)										
% of net total loans	10.2	8.9	7.5	5.8	4.8	3.2	2.2	2.2	2.1	2.1
Amount (RM million)	43,110	40,013	36,668	31,332	27,360	20,011	15,889	15,692	15,073	15,532
General Provisions / Net total loans (3-month, %)	2.1	2.0	1.9	1.8	1.7	1.7	1.7	1.7	1.7	1.7

* Figures include Islamic banks.
** Beginning January 2008, RWCR and CCR are computed based on Basel II for banking institutions that have adopted the standardised approach



Banking system capitalisation remained strong…



…whilst NPLs remained at a low level

Bank Negara Malaysia
30 September 2009

Key Monetary and Financial Statistics

		Jun 09		Jul 09		Aug 09	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		54.7	-19.9	52.1	-21.8	54.1	-22.0
M1		185.6	5.5	185.8	6.0	188.2	7.8
M2		922.7	6.3	933.1	5.9	945.5	8.4
M3		950.5	5.7	960.9	5.3	973.0	7.6
Banking System							
Total deposits		997.7	7.2	998.5	6.2	1,008.6	8.1
Total loans (including loans sold to Cagamas)		742.8	8.3	752.5	8.4	758.8	7.3
Loan-deposit ratio (%)		78.3		78.5		78.4	
Financing-deposit ratio [1] (%)		85.3		85.5		85.2	
Loans applied (during the period)		50.6	18.3	51.2	18.7	43.3	-16.8
Loans approved (during the period)		27.2	10.2	27.2	4.3	23.0	-21.1
Loans disbursed (during the period)		54.9	0.7	60.9	5.6	51.6	-7.0
Loans repaid (during the period)		49.2	7.3	50.9	3.8	45.0	-2.8
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		14.3		14.3		14.6	
Net NPLs: 3-month classification (%)		2.2		2.2		2.1	
Net Reserves in RM billion		322.8		321.5		329.1	
Net Reserves in USD billion (equivalent)		91.5		91.2		93.3	
Months of retained imports		9.0		9.1		9.3	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		2.00		2.00		2.00	
Interbank:	Overnight	1.99 [2.00]		1.99 [2.00]		1.99 [2.00]	
	1-week	2.02 [2.02]		2.01 [2.02]		2.00 [2.02]	
	1-month	2.09 [2.07]		2.11 [2.07]		2.07 [2.07]	
Fixed deposits of commercial banks:	1-month	2.02		2.02		2.00	
	3-month	2.05		2.05		2.03	
BLR of commercial banks		5.53		5.53		5.51	
ALR of commercial banks		5.04		4.96		4.84	
Prices							
Consumer Price Index (CPI) (2005=100)		111.8	-1.4	111.9	-2.4	112.1	-2.4
Producer Price Index (PPI) (2000=100)		131.2	-12.2	130.4	-12.8	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.5225		3.5200		3.5260	
Euro		4.9699		4.9729		5.0621	
Pound Sterling		5.8592		5.8150		5.7356	
100 Japanese yen		3.6729		3.6919		3.7631	
Singapore dollar		2.4302		2.4432		2.4441	
100 Thai Baht		10.354		10.342		10.364	
100 Philippine Peso		7.3111		7.3249		7.2221	
100 Indonesian Rupiah		0.0345		0.0355		0.0349	
100 Korean Won		0.2754		0.2859		0.2833	
Capital Market							
Net funds raised (in RMb) by:	public	9.5		9.5		9.5	
	private	2.8		1.5		-0.2	
Bursa Malaysia Composite Index (end-period)		1,075.2		1,174.9		1,174.3	
Bursa Malaysia Market Capitalisation (RMb, end-period)		817.9		885.8		893.9	

[1] Refers to the ratio of loans and holdings of PDS by the banking system to deposits of the banking system.