BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 07/09/13

EMBARGO: Not for publication or broadcast before 1800 hours on Friday, 31 July 2009

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

- The average lending rate (ALR) stabilised at 5.04% at end-June.

- Headline inflation registered a decline of -1.4% in June (May: 2.4%), reflecting mainly the high base effect of the sharp rise in the price level in June 2008 arising from fuel price adjustments.

- Gross financing increased on a month-on-month basis due mainly to higher loan disbursements in June by the banking system.

- The banking system remained healthy, with the risk-weighted capital ratio (RWCR) and core capital ratio remaining stable at 14.0% and 12.3% respectively.

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MONETARY AND FINANCIAL DEVELOPMENTS

June 2009

Gross financing through the banking system and the capital market was higher at RM60.7 billion (May: RM53.7 billion) mainly on account of increased loan disbursements during the month. On a net basis, banking system loans and PDS outstanding expanded at a combined annual rate of 8.0% as at end-June (May: 9.1%). Key loan indicators, namely loan applications, approvals, disbursements and repayments, increased for both business and household sectors.

Interbank rates for all maturities were relatively stable, while real fixed deposit rates turned positive due to negative inflation. The average base lending rate (BLR) was unchanged at 5.53% as of 15 June, while the average lending rate (ALR) stabilised at 5.04% at end-June (5.13% in April and 5.02% in May).

Between 1 June and 30 July 2009, the ringgit depreciated against the U.S. dollar by 0.9%. Against other major currencies, the ringgit depreciated against the pound sterling (-3.4%), the Japanese yen (-2.4%). And the euro (-1.4%). The ringgit also depreciated against other regional currencies between 0.9% and 4.2%.

Headline inflation became negative at -1.4% in June (May: 2.4%), reflecting mainly the high base effect of the sharp rise in the price level in June 2008 due to fuel price adjustments. Prices in the *transport* category declined significantly by 18.0% (May: -2.5%, Jun 2008: 19.6%). The moderation in inflation in the *food and non-alcoholic beverages* category to 3.4% in June (May: 5.2%) also led to the overall decline in prices during the month. Another contributing factor was the decline in prices of the *clothing and footwear* category, with prices falling by 1.1% in June (May: -0.7%).

Broad money (M3) grew at a faster annual growth rate of 5.8% in June 2009 due to credit expansion. This included higher financing by the banking system to the private sector and to the Government.

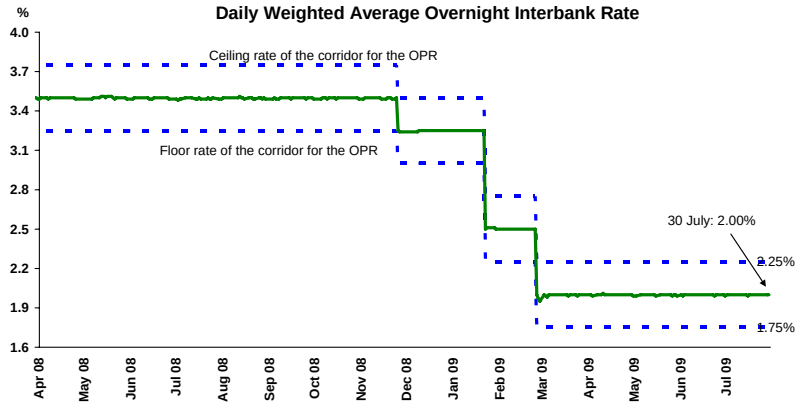
The risk-weighted capital ratio (RWCR) and core capital ratio remained stable at 14.0% and 12.3% respectively. Loan quality remained sound with the net non-performing loans ratio unchanged at 2.2% since end-2008.

Real FD rates turned positive in June

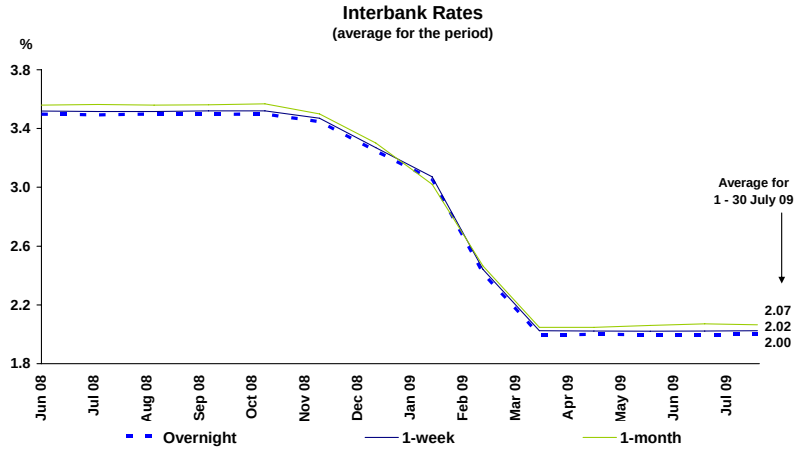
During the period 1 June – 30 July, the daily weighted average overnight interbank rate moved within a narrow range of 1.99% - 2.01%. Interbank rates of other maturities were also relatively stable.

The average fixed deposit (FD) rates of commercial banks (CBs) were unchanged between June and July. As at 15 July, the average quoted FD rates for tenures between 1 and 12 months were within the range of 2.02% and 2.52%. With negative inflation in June, real FD rates have turned positive.

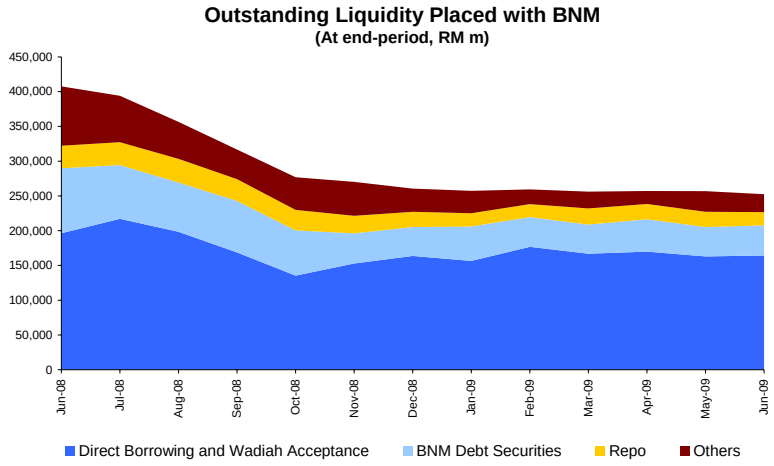
In terms of the CBs' lending rates, the average base lending rate (BLR) was unchanged at 5.53% on 15 July, while the average lending rate (ALR) stabilised at 5.04% at end-June (5.13% in April and 5.02% in May).



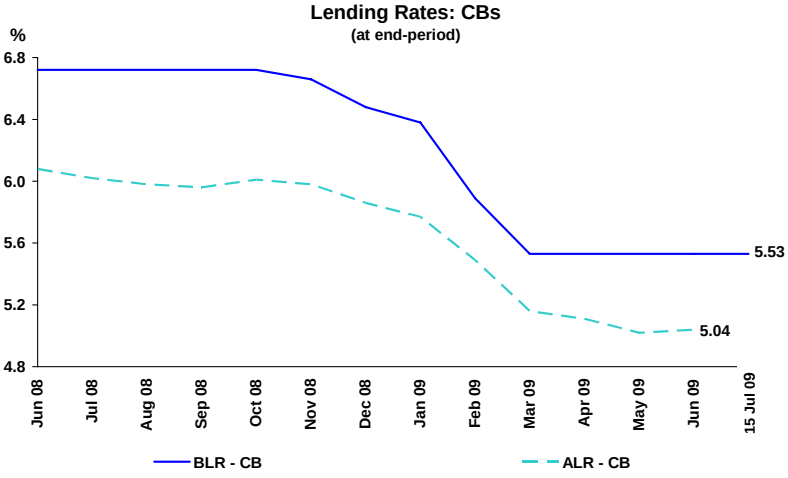
The average overnight interbank rate moved within a narrow range



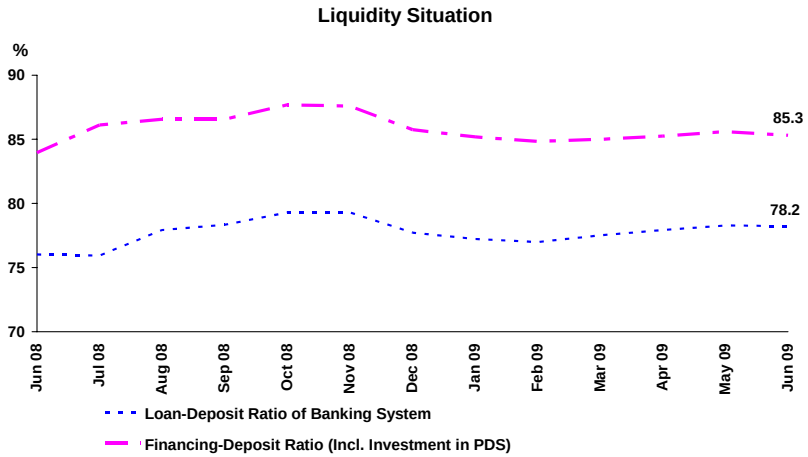
Other interbank rates were also relatively stable



BNM continued to absorb excess liquidity

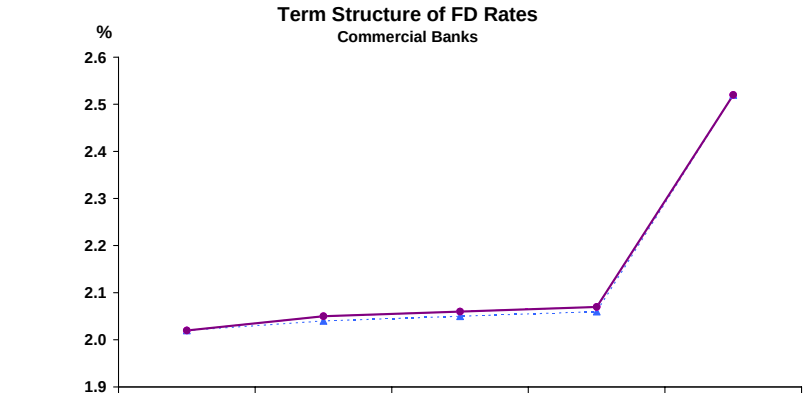


CBs' BLR was unchanged, whereas the ALR was relatively stable



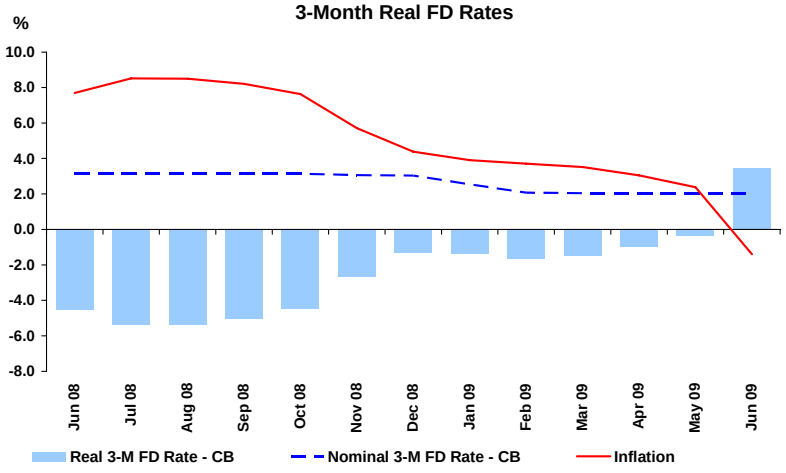
The loan-deposit and financing-deposit ratios decreased slightly in June, as the increase in deposits outpaced the growth in loans.

**The series has been revised to exclude deposits and loans placed between banking institutions*



	1-month	3-month	6-month	9-month	12-month
May 09	2.02	2.04	2.05	2.06	2.52
Jun 09	2.02	2.05	2.06	2.07	2.52
15 Jul 09	2.02	2.05	2.06	2.07	2.52

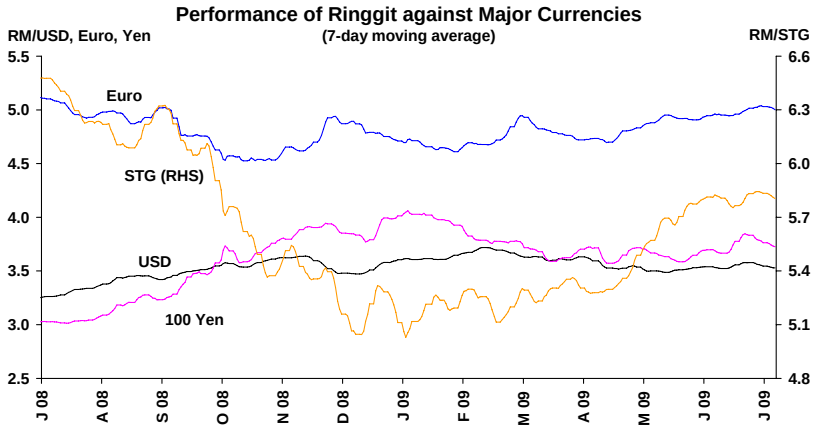
Average FD rates were relatively unchanged between May and 8 July



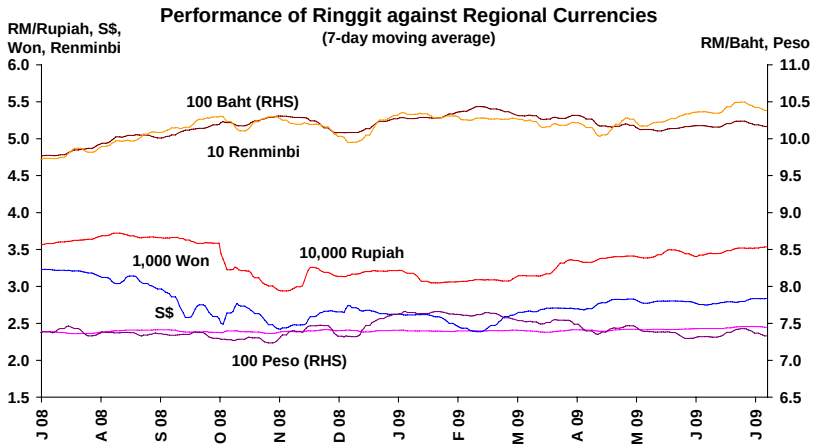
Real FD rates have turned positive as inflation became negative

Ringgit depreciated against the U.S. dollar

Between 1 June and 30 July 2009, the ringgit depreciated against the U.S. dollar by 0.9%. Against other major currencies, the ringgit depreciated against the pound sterling (-3.4%), the Japanese yen (-2.4%) and the euro (-1.4%). The ringgit also depreciated against other regional currencies between 0.9% and 4.2%.



The ringgit depreciated against major currencies



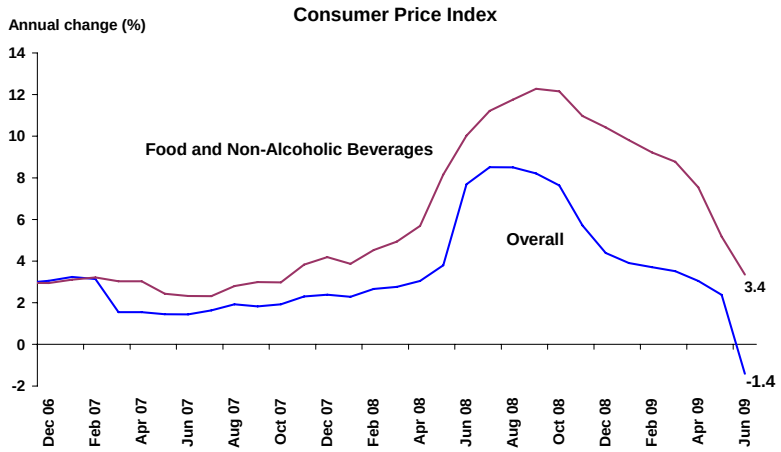
The ringgit was also broadly weaker against regional currencies

Performance of Ringgit against Selected Currencies

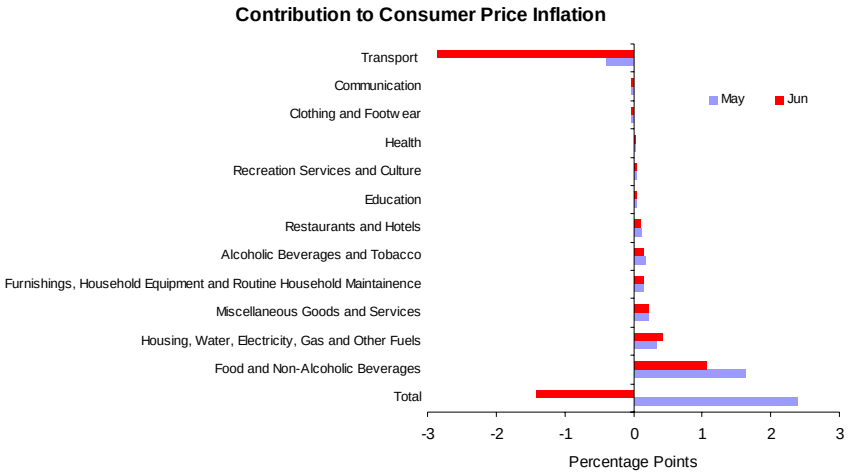
RM per foreign currency	End-period				% Change	
	Dec 08	May 09	Jun 09	30 Jul 09	End Dec 08 - 30 Jul 09	End May 09 - 30 Jul 09
US dollar	3.4640	3.5075	3.5225	3.5400	-2.1	-0.9
Euro	4.8759	4.9047	4.9699	4.9756	-2.0	-1.4
Pound sterling	4.9989	5.5995	5.8592	5.7975	-13.8	-3.4
100 Japanese yen	3.8327	3.6415	3.6729	3.7314	2.7	-2.4
Singapore dollar	2.4070	2.4182	2.4302	2.4475	-1.7	-1.2
100 Thai baht	9.9398	10.202	10.354	10.392	-4.4	-1.8
100 Philippine peso	7.2774	7.3850	7.3111	7.3520	-1.0	0.4
100 Indonesian rupiah	0.0316	0.0339	0.0345	0.0354	-10.7	-4.2
100 Korean won	0.2750	0.2783	0.2754	0.2851	-3.5	-2.4
Chinese renminbi	0.5076	0.5137	0.5155	0.5181	-2.0	-0.9

Inflation turned negative in June

Headline inflation became negative at -1.4% in June (May: 2.4%), reflecting mainly the high base effect of the sharp rise in the price level in June 2008 due to fuel price adjustments. Prices in the *transport* category declined significantly by 18.0% (May: -2.5%, Jun 2008: 19.6%). The moderation in inflation in the *food and non-alcoholic beverages* category to 3.4% in June (May: 5.2%) also led to the overall decline in prices during the month. Another contributing factor was the decline in prices of the *clothing and footwear* category by 1.1% in June (May: -0.7%).



Inflation declined to -1.4% in June

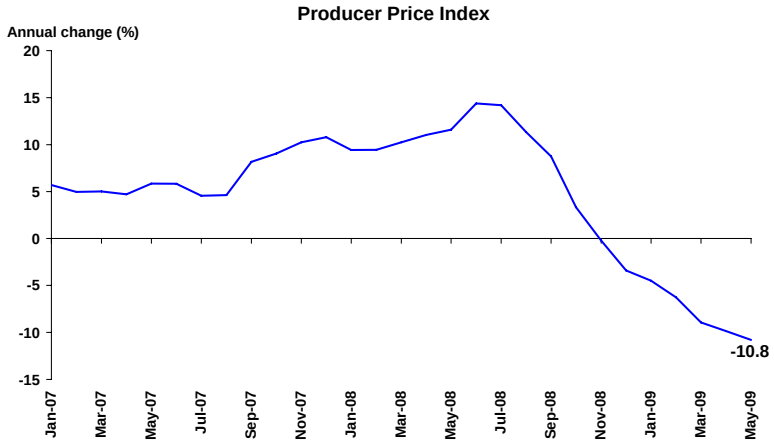


Sharp moderation in transport and food components of the CPI

Producer prices continued to decline in May

The Producer Price Index (PPI) continued to decline by 10.8% on an annual basis in May (April: -9.9%). Prices in the commodity-related components of the PPI declined by 28.2% in May (April: -26.9%). In the non-commodity-related components of the PPI, prices also declined at a faster rate of 2.0% (April: -1.4%). On a month-on-month basis, producer prices increased by 0.6% in May.

In terms of composition, both the local and imported components of the PPI recorded declining prices. Compared to their levels a year ago, prices in the local component of the PPI declined by 14.4% (April:-13.0%), while prices in the imported component declined by 3.0% (April: -3.0%).



Producer prices declined on a yearly basis in May

M3 grew at a faster pace in June

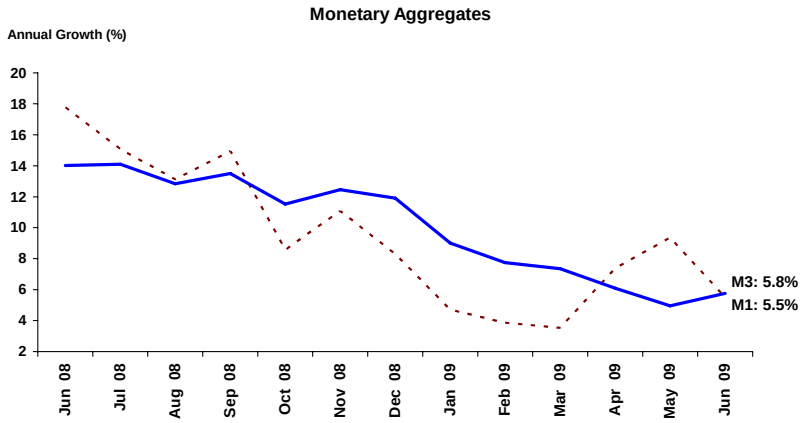
In June, broad money (M3) experienced a faster annual growth rate of 5.8%. Despite a decrease in the net foreign assets of the banking system, broad money increased by RM7.8 billion on a monthly basis, owing to expansionary domestic factors. These included the higher Government spending that was financed through the issuance of Government securities, some of which were taken up by the banking system. Broad money also expanded due to an increase in bank credit extended to both businesses and households.

M3 Determinants
(RM billion)

	Change during period			
	Mar 09	**Apr 09**	**May 09**	**Jun 09**
M3	5.1	-1.2	-5.0	7.8
Net claims on Government	1.6	3.9	-6.5	8.3
Claims on the private sector	1.7	2.8	-2.9	8.7
Loans	*1.0*	*3.1*	*-2.9*	*7.6*
Securities	*0.7*	*-0.3*	*0.0*	*1.1*
Net foreign assets*	-1.0	5.8	0.6	-11.7
Other influences	3.0	-13.7	3.8	2.5

* 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.



M1 and M3 recorded faster annual growth rates

Banking system deposits increased in June

Total deposits placed with the banking system increased by RM18.2 billion or 7.2% in June (May: -RM5.2 billion, 5.6%). The increase in deposits was attributed partly to higher payment of Government outlays during the month. The increase in deposits by the financial institutions was mainly from higher placements by banks and non-bank financial institutions. Other type of deposits, namely Islamic banking system (IBS) deposits and demand deposits have also increased significantly during the month.

Deposits by Holder
(RM million)

	Change during period			
	Mar 09	**Apr 09**	**May 09**	**Jun 09**
Federal Government	-2,612	300	1,505	1,739
State Governments	305	847	-1,083	561
Statutory Authorities [1]	-323	2,155	-2,388	1,729
Financial Institutions [2]	7,251	-3,854	-3,186	13,615
Business Enterprises	3,657	182	1,682	-2,348
Individuals	1,580	-1,597	-1,674	2,012
Others [3]	-532	862	-103	841
Total	9,326	-1,104	-5,247	18,150

1/ Include local Governments

2/ Comprises deposits placed by non-bank financial institutions and banking institutions

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

Deposits by Type
(RM million)

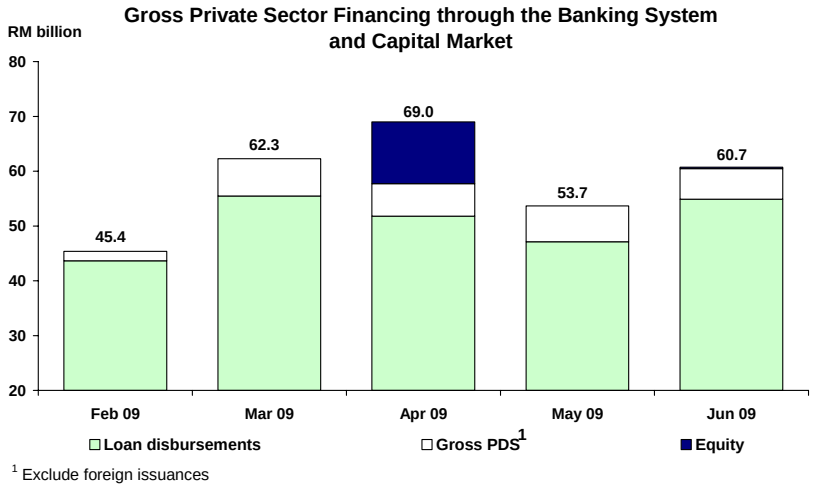
	Change during period			
	Mar 09	**Apr 09**	**May 09**	**Jun 09**
Fixed deposits	-38	-6,553	2,259	-3
NIDs	3,769	-2,347	-1,694	7,849
Demand deposits	-157	1,904	-819	4,795
Savings deposits	736	1,832	-1,390	1,222
Repos	560	-538	-44	-26
FX deposits	-645	3,134	716	-4,236
IBS deposits [1]	3,170	4,722	3,704	5,906
Others [2]	1,962	-3,258	-7,978	2,642
Total	9,326	-1,104	-5,247	18,150

1/ IBS deposits refers to Islamic banking system deposits

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

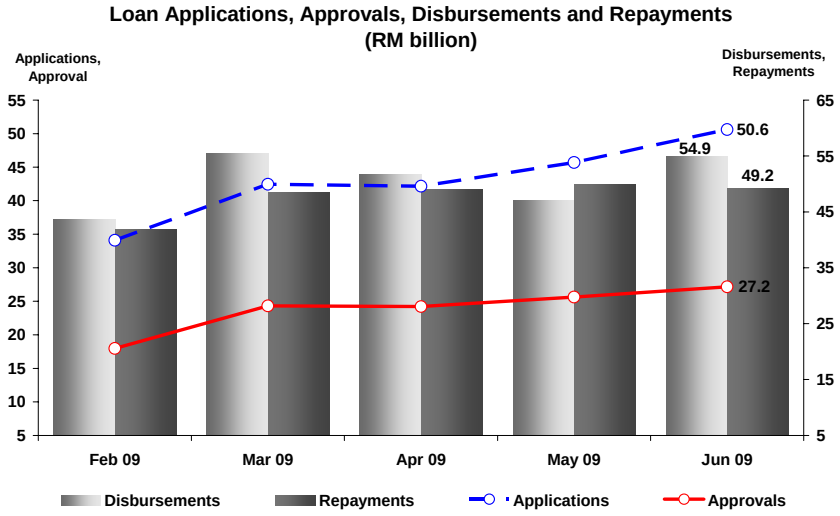
Key loan indicators increased for both business and households

Gross financing through the banking system and the capital market was higher at RM60.7 billion (May: RM53.7 billion) mainly on account of increased loan disbursements during the month. On a net basis, banking system loans and PDS outstanding expanded at a combined annual rate of 8.0% as at end-June (May: 9.1%).



[1] Exclude foreign issuances

Gross financing increased mainly driven by higher loan disbursements



Key loan indicators increased in June…

Bank lending indicators

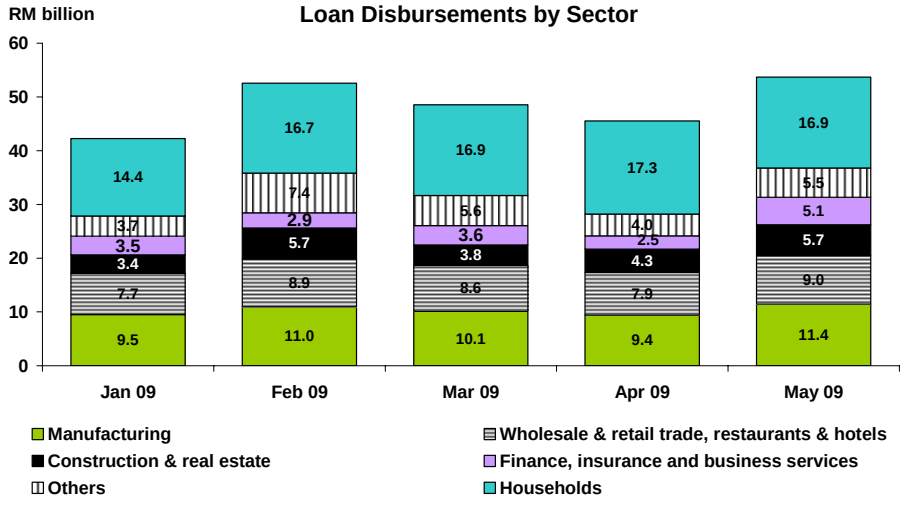
	RM billion			Annual Growth (%)		
	May-09	Jun-09	J-J 09	May	Jun-09	J-J 09
Overall						
Loan applications	45.7	50.6	246.6	12.8	18.3	3.4
Loan approvals	25.6	27.2	135.9	-2.3	10.2	-10.6
Loan disbursements	47.1	54.9	302.0	-10.5	0.9	-3.8
Chg in Loans Outstanding[1/]	-1.3	7.6	16.2	8.9	8.3	8.3
Businesses						
Loan applications	22.0	25.2	116.3	9.2	16.7	-2.8
Loan approvals	12.0	12.6	60.8	-11.1	6.4	-23.0
Loan disbursements	29.8	38.0	203.5	-19.3	-3.7	-8.3
Chg in Loans Outstanding[1/]	-3.8	2.6	-2.2	5.7	3.7	3.7
SMEs[2/]						
Loan applications	7.6	10.1	46.4	-15.1	12.0	-10.7
Loan approvals	4.0	3.9	20.1	-14.6	-29.2	-29.8
Loan disbursements	10.8	12.5	69.3	-17.7	-12.5	-13.8
Chg in Loans Outstanding[1/3/]	0.2	0.9	-6.3	-1.7	-2.9	-2.9
Households						
Loan applications	23.6	25.4	130.3	16.3	19.8	9.6
Loan approvals	13.6	14.6	75.1	7.0	13.6	2.9
Loan disbursements	17.3	16.9	98.4	10.0	13.2	7.1
Chg in Loans Outstanding[1/]	3.1	3.2	14.3	8.4	8.6	8.6

[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 expanded by 0.4% year-on-year as at end-Jun 2009.

…for both business and households



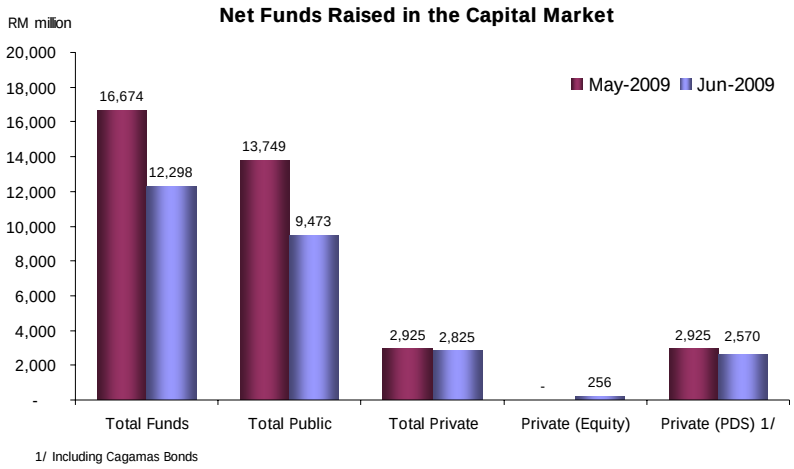
Loan disbursements remained broad-based

Most of the loan indicators were higher compared with the previous month. In June, demand for loans from the business sector increased and registered positive annual growth rates across large corporations and SMEs. Business loan disbursements also increased, with funds mainly channeled to the *finance, insurance and business services; manufacturing*; and *wholesale, retail, restaurants and hotels* sectors. As at end-June, business loans expanded at an annual rate of 5.7% (end-May: 3.7%).

For the household sector, demand for financing continued to increase mainly on account of higher loans for the purchase of residential properties and the extension of personal loans. Meanwhile, loan disbursements to the household sector declined slightly during the month. On an annual basis, household loans outstanding expanded by 8.6% at end-June (end-May: 8.4%).

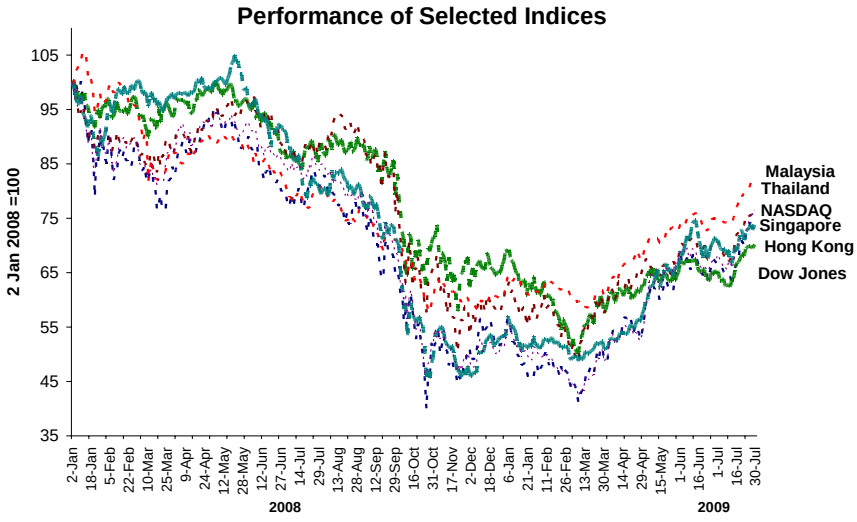
Active fund raising activity in the capital market

Net funds raised in the capital market amounted to RM12.3 billion in June. A total of RM9.5 billion was raised by the public sector through the issuance of a 5.5-year Government Investment Issues (GII) and the re-opening of a 3-year Malaysian Government Securities (MGS). In the private sector, gross funds raised through private debt securities (PDS) issuances amounted to RM6.6 billion. PDS were raised by firms in the finance, real estate and business services sector, mainly for financing working capital. During the month, there was an issuance by a non-resident financial institution totalling RM1 billion. After adjusting for redemptions, net funds raised in the PDS market amounted to RM2.6 billion. Meanwhile, funds raised in the equity market in June were through two initial public offerings (IPOs) following improved market sentiments.



KLCI rose in June

The KLCI continued to trend upward in June to close at 1075.2 (end-May: 1,044.1 points). Market capitalisation rose to RM817.9 billion (since end-May: +2.5%) but the daily average turnover moderated to 1,667 million units (May: 2,195 million units).

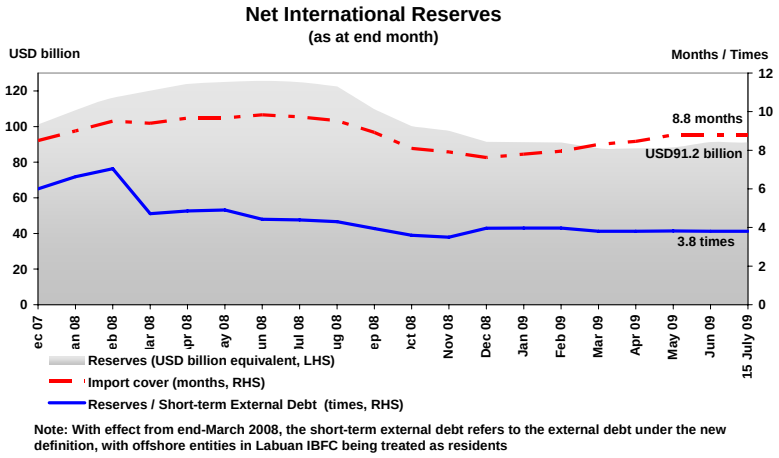


KLCI rose in June

On 6 July, the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) replaced the KLCI as the new benchmark index. Under the FBM KLCI, the number of companies representing the benchmark index has been reduced from 100 to 30. As at 30 July, the FBM KLCI was higher at 1,160.7 (since end-June: +7.9%). Overall market capitalisation rose further to RM878.1 billion (since end-June: +7.4%) while the daily average turnover declined to 990.4 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM322.8 billion (equivalent to USD91.5 billion) as at 30 June 2009. As at 15 July 2009, the net international reserves amounted to RM321.7 billion (equivalent to USD91.2 billion). The reserves position is sufficient to finance 8.8 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

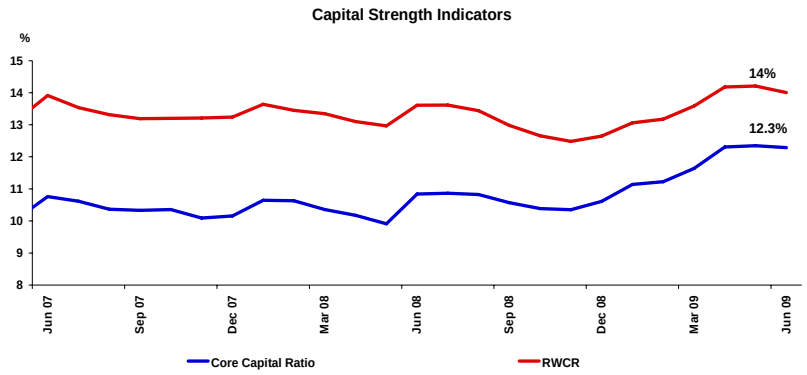
Strong capitalisation and stable non-performing loan levels in the banking system

The level of capitalisation for the banking system remained healthy as evidenced by both the risk weighted capital ratio (RWCR) and core capital ratio (CCR) which stood at 14% and 12.3% respectively. For the month of June 2009, aggregate capital base had increased by 1% as a result of capital management exercises by several institutions. The net non-performing loans ratio remained stable at 2.2% while the aggregate loan loss coverage ratio also remained high at 89.5%.

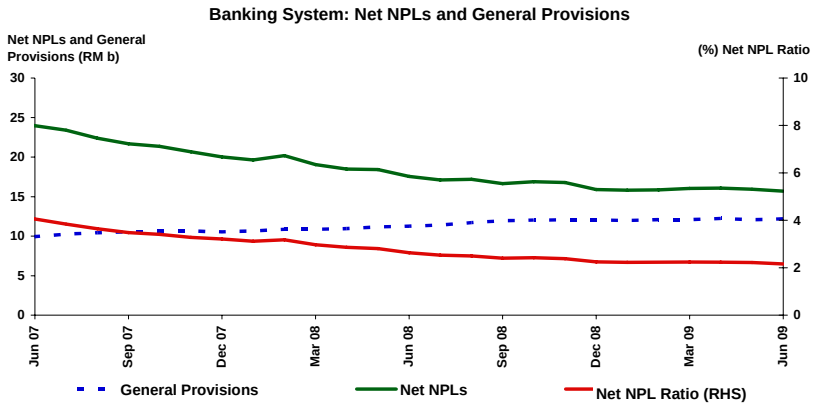
Banking System Health Indicators *

	2002	2003	2004	2005	2006	2007	2008	Apr 09	May 09	Jun 09
Capital (%) **										
Core capital ratio	11.1	11.1	11.4	10.7	10.7	10.2	10.6	12.3	12.3	12.3
RWCR	13.2	13.8	14.4	13.7	13.5	13.2	12.6	14.2	14.2	14.0
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	2.2	2.2
Amount (RM million)	43,110	40,013	36,668	31,332	27,360	20,011	15,889	16,076	15,934	15,692
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…



…while NPL levels remained low.

Bank Negara Malaysia
31 July 2009

Key Monetary and Financial Statistics

		Apr 09		May 09		Jun 09	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		53.8	-17.7	54.7	-18.8	54.7	-19.9
M1		182.6	7.4	186.2	9.3	185.6	5.5
M2		918.8	6.6	913.0	5.3	923.2	6.4
M3		948.1	6.1	943.1	4.9	951.0	5.8
Banking System							
Total deposits		984.8	6.2	979.5	5.6	997.7	7.2
Total loans (including loans sold to Cagamas)		736.5	10.6	735.2	8.9	742.8	8.3
Loan-deposit ratio [1] (%)		77.9		78.3		78.2	
Financing-deposit ratio [1, 2] (%)		85.3		85.6		85.3	
Loans applied (during the period)		42.2	-4.5	45.7	12.8	50.6	18.3
Loans approved (during the period)		24.2	-17.9	25.6	-2.3	27.2	10.2
Loans disbursed (during the period)		51.8	-6.4	47.1	-10.5	54.9	0.9
Loans repaid (during the period)		49.1	-2.8	49.9	14.9	49.2	7.6
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		14.2		14.2		14.0	
Net NPLs: 3-month classification (%)		2.2		2.2		2.2	
Net Reserves in RM billion		320.4		322.4		322.8	
Net Reserves in USD billion (equivalent)		87.7		88.3		91.5	
Months of retained imports		8.5		8.8		8.5	
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]		2.03 [2.02]		2.02 [2.02]	
	1-month	2.06 [2.05]		2.06 [2.06]		2.09 [2.07]	
Fixed deposits of commercial banks:	1-month	2.02		2.02		2.02	
	3-month	2.04		2.04		2.05	
BLR of commercial banks		5.53		5.53		5.53	
ALR of commercial banks		5.11		5.02		5.04	
Prices							
Consumer Price Index (CPI) (2005=100)		111.5	3.0	111.7	2.4	111.8	-1.4
Producer Price Index (PPI) (2000=100)		128.9	-9.9	129.7	-10.8	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.5610		3.5075		3.5225	
Euro		4.7404		4.9047		4.9699	
Pound Sterling		5.2804		5.5995		5.8592	
100 Japanese yen		3.6570		3.6415		3.6729	
Singapore dollar		2.4076		2.4182		2.4302	
100 Thai Baht		10.091		10.202		10.354	
100 Philippine Peso		7.3620		7.3850		7.3111	
100 Indonesian Rupiah		0.0334		0.0339		0.0345	
100 Korean Won		0.2754		0.2783		0.2754	
Capital Market							
Net funds raised (in RMb) by:	public	1.5		13.7		9.5	
	private	15.3		2.9		2.8	
Bursa Malaysia Composite Index (end-period)		990.7		1,044.1		1,075.2	
Bursa Malaysia Market Capitalisation (RMb, end-period)		754.2		797.8		817.9	

[1] The series have been revised to exclude deposits and loans placed between the banking institutions.

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