BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 05/09/11

EMBARGO: Not for publication or broadcast before 1800 hours on Wednesday, 27 May 2009

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

- The average lending rate (ALR) declined to a historic low of 5.13%.

- Net financing to the private sector from the banking system and capital market expanded at a combined annual rate of 10.6%.

- Headline inflation moderated to 3.0% due to the slower rate of price increase in most categories, particularly in the *food and non-alcoholic beverages* category.

- The banking system remained resilient with the risk-weighted capital ratio (RWCR) and core capital ratio improving to 14.2% and 12.3% respectively.

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MONETARY AND FINANCIAL DEVELOPMENTS

April 2009

Growth in gross financing to the private sector increased significantly in April. On a net basis, banking system loans and PDS outstanding expanded at a combined annual rate of 10.6%. Total loans outstanding expanded at an annual rate of 10.6%.

During the period 1 April – 26 May, 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. Fixed deposit (FD) rates were unchanged between April and May, with the average quoted FD rates for tenures of between 1 and 12 months remaining within the range of 2.02% and 2.52%. In terms of the CBs' lending rates, the average base lending rate (BLR) was unchanged at 5.53% as at 15 May, while the average lending rate (ALR) declined to a historic low of 5.13% as at end-April (5.49% in February and 5.16% in March).

The ringgit appreciated against the U.S. dollar by 4.5% between 1 April and 26 May amidst better market sentiments. Against other major currencies, the ringgit appreciated against the Japanese yen (0.5%), but depreciated against the pound sterling (-5.8%) and the euro (-0.9%). Against regional currencies, the ringgit appreciated against the Chinese renminbi (4.4%), the Philippine peso (2.0%), and

the Thai baht (1.2%). The ringgit however depreciated against the Singapore dollar (-0.4%), the Indonesian rupiah (-6.9%) and the Korean won (-5.1%).

Headline inflation moderated to 3.0% due to the slower rate of price increase in most categories, particularly in the *food and non-alcoholic beverages* category.

Broad money, or M3 decreased on a month-on-month basis due to a temporary contraction in non-bank private sector liquidity following additional capital raising exercises by banks as well as increased holdings of BNM securities during the month.

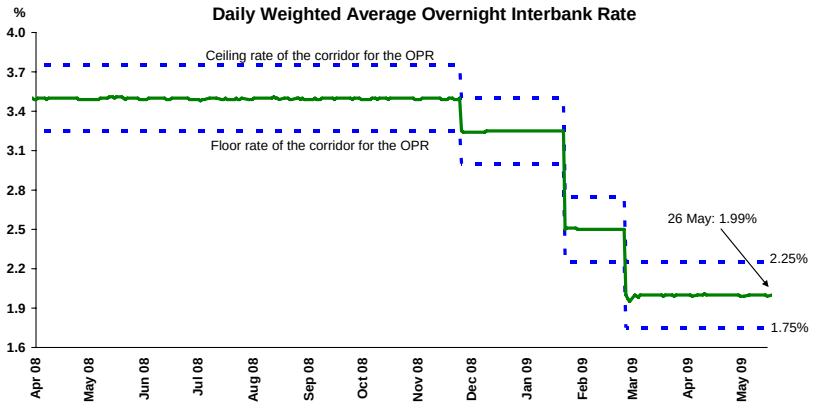
The banking system remained resilient with the risk-weighted capital ratio (RWCR) and core capital ratio improving to 14.2% and 12.3% respectively. Meanwhile, the net non-performing loans ratio remained stable at 2.2% of total net loans since December 2008.

Interest rates remained stable

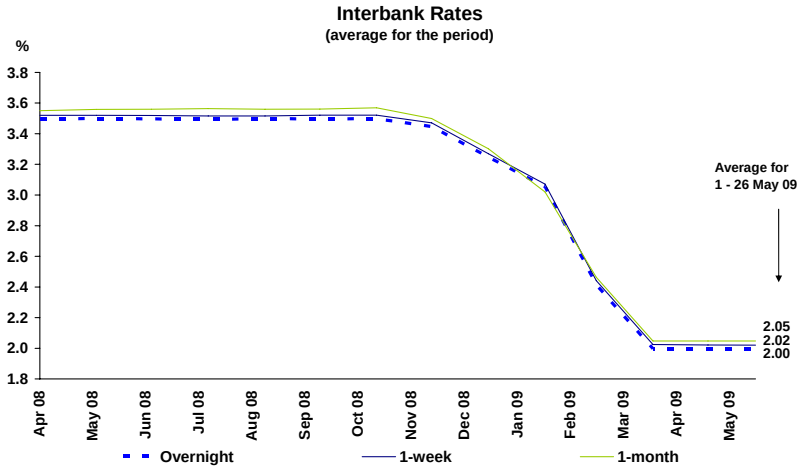
During the period 1 April –26 May, the daily weighted average overnight interbank rate moved within a narrow range of 1.99% - 2.01%. Interbank rates of other maturities were also relatively stable.

The average fixed deposit (FD) rates of commercial banks (CBs) were unchanged between April and May. As at 15 May, the average quoted FD rates for tenures between 1 and 12 months were within the range of 2.02% and 2.52%.

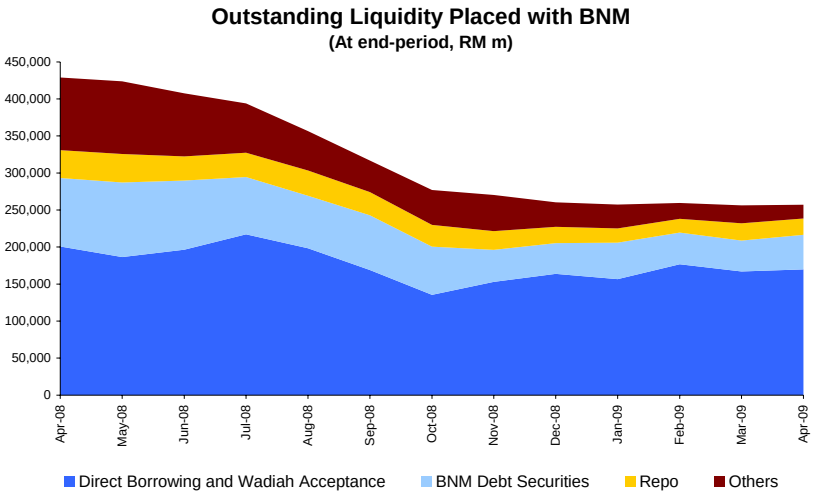
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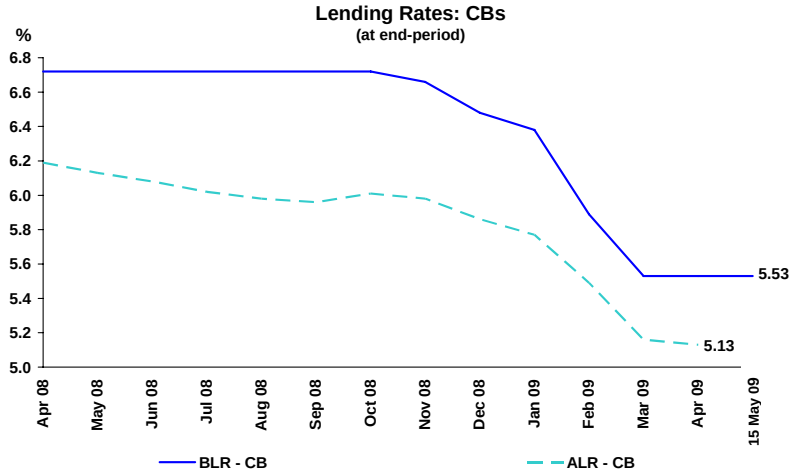
The average overnight interbank rate moved within a narrow range



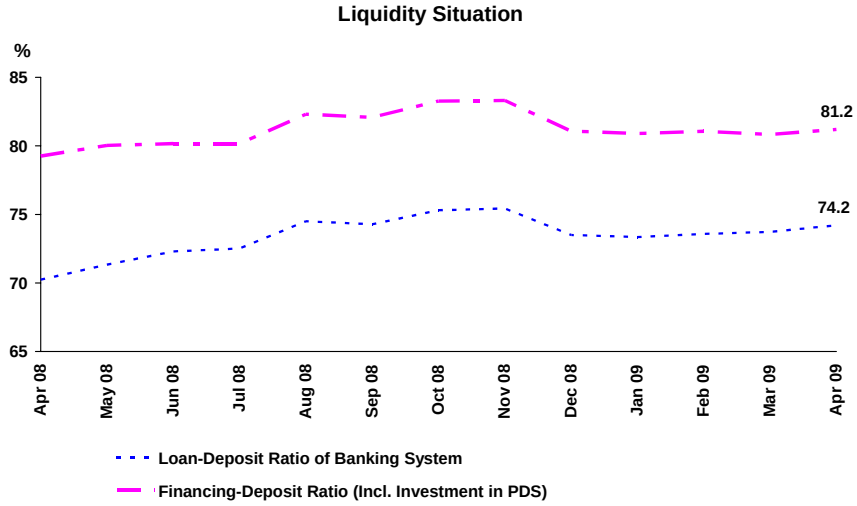
Other interbank rates were also relatively stable



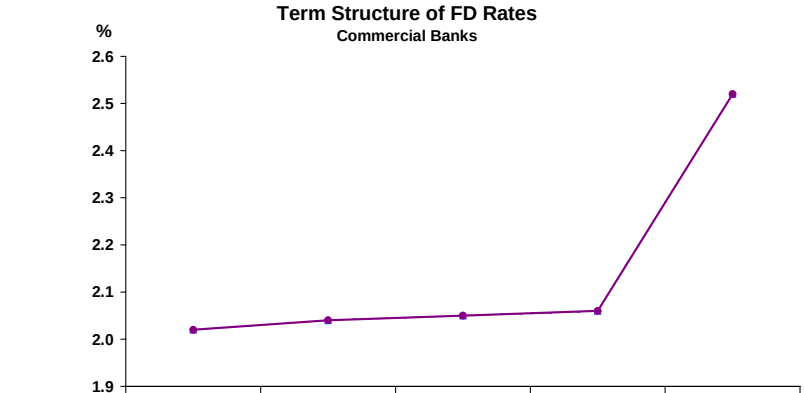
BNM continued to absorb excess liquidity



CBs' BLR was unchanged, whereas the ALR trended lower

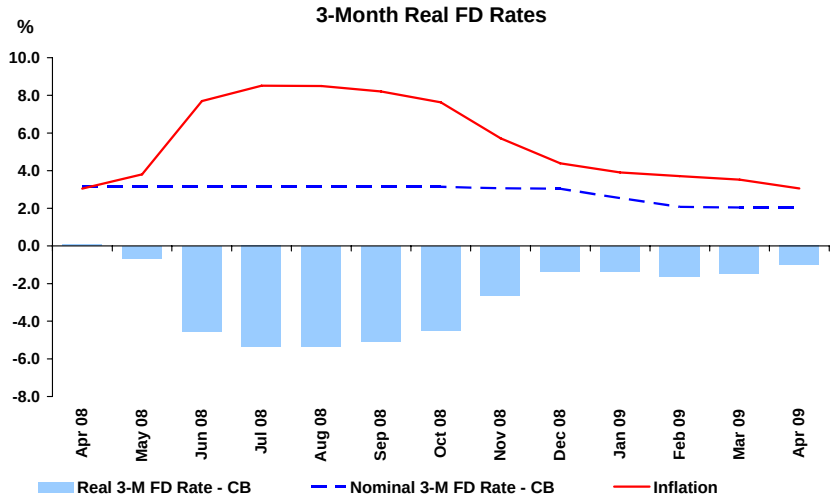


The loan-deposit and financing-deposit ratios increased in April. This reflected an increase in loans, while deposits placed with the banking system declined slightly.



	1-month	3-month	6-month	9-month	12-month
Mar 09	2.02	2.04	2.05	2.06	2.52
Apr 09	2.02	2.04	2.05	2.06	2.52
15 May 09	2.02	2.04	2.05	2.06	2.52

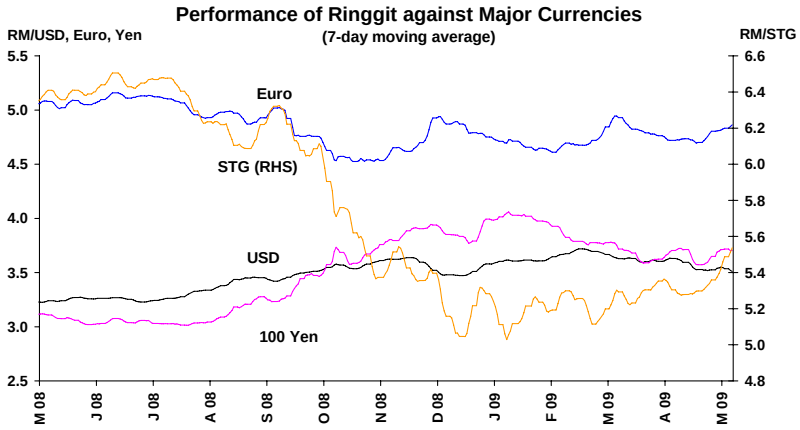
Average FD rates were unchanged between March and 15 May



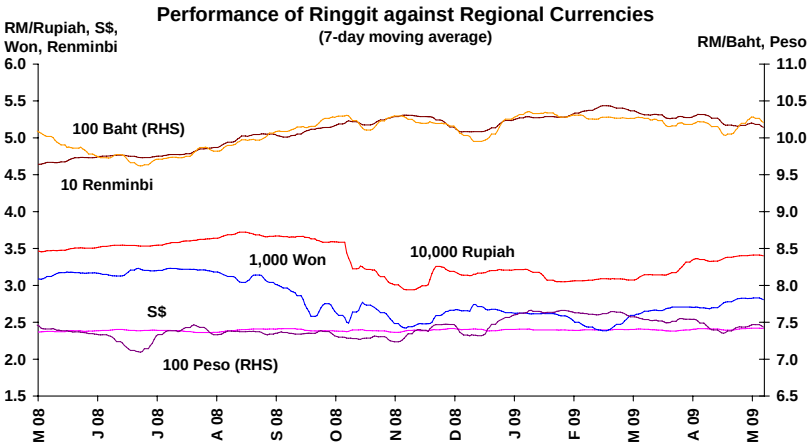
Real FD rates remained negative

The ringgit appreciated against the U.S. dollar

The ringgit appreciated against the U.S. dollar by 4.5% between 1 April and 26 May. This was broadly in line with the regional trend as continued improvements in investor risk appetite sustained the rally in emerging market equities. The ringgit was further supported by expectations that the domestic fiscal stimulus and monetary easing undertaken earlier in the year would stabilise economic conditions in the second half of the year. Against other major currencies, the ringgit appreciated against the Japanese yen (0.5%), but depreciated against the pound sterling (-5.8%) and the euro (-0.9%). Against regional currencies, the ringgit appreciated against the Chinese renminbi (4.4%), the Philippine peso (2.0%) and the Thai baht (1.2%). The ringgit however depreciated against the Indonesian rupiah (-6.9%), Korean won (-5.1%) and the Singapore dollar (-0.4%).



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



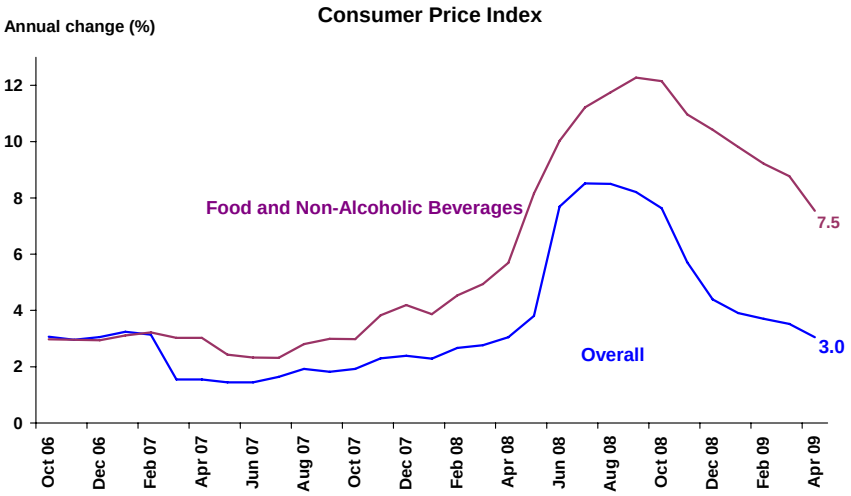
The ringgit recorded a mixed performance against regional currencies

Performance of Ringgit against Selected Currencies

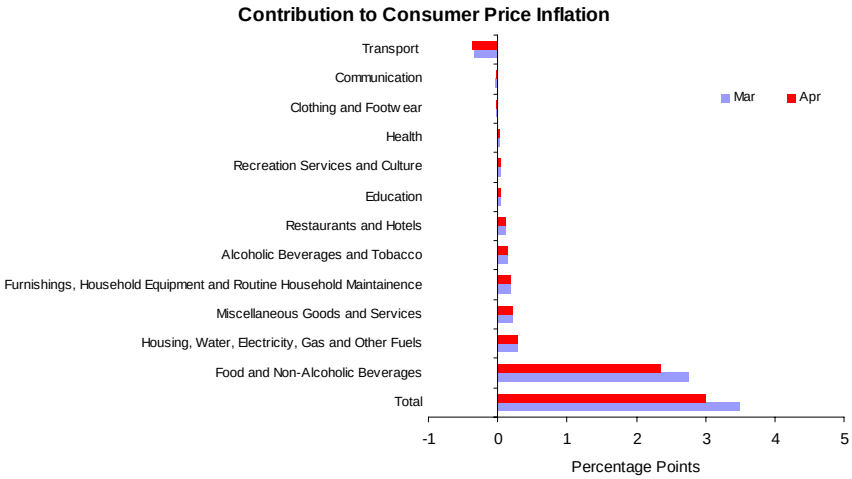
RM per foreign currency	End-period				% Change	
	Dec 08	Mar 09	Apr 09	26 May 09	End Dec 08 - 26 May 09	End Mar 09 - 26 May 09
US dollar	3.4640	3.6470	3.5610	3.4915	-0.8	4.5
Euro	4.8759	4.8348	4.7404	4.8787	-0.1	-0.9
Pound sterling	4.9989	5.2203	5.2804	5.5443	-9.8	-5.8
100 Japanese yen	3.8327	3.7091	3.6570	3.6902	3.9	0.5
Singapore dollar	2.4070	2.4008	2.4076	2.4103	-0.1	-0.4
100 Thai baht	9.9398	10.266	10.091	10.142	-2.0	1.2
100 Philippine peso	7.2774	7.5343	7.3620	7.3871	-1.5	2.0
100 Indonesian rupiah	0.0316	0.0315	0.0334	0.0338	-6.3	-6.9
100 Korean won	0.2750	0.2630	0.2754	0.2770	-0.7	-5.1
Chinese renminbi	0.5076	0.5335	0.5218	0.5113	-0.7	4.4

Inflation moderated further

Headline inflation moderated to 3.0% in April (March: 3.5%). As in the previous months, the moderation in inflation was due to the slower rate of price increase in most categories, particularly the *food and non-alcoholic beverages* category (April: 7.5%; March: 8.8%). This was due mainly to a sharp decline in inflation in the *vegetables* (April: 0.8%; March: 6.8%) and *meat* (April: 6.5%; March: 9.5%) sub-categories. Prices in the *transport* category declined at a slightly faster rate of 2.3% (March: -2.1%)



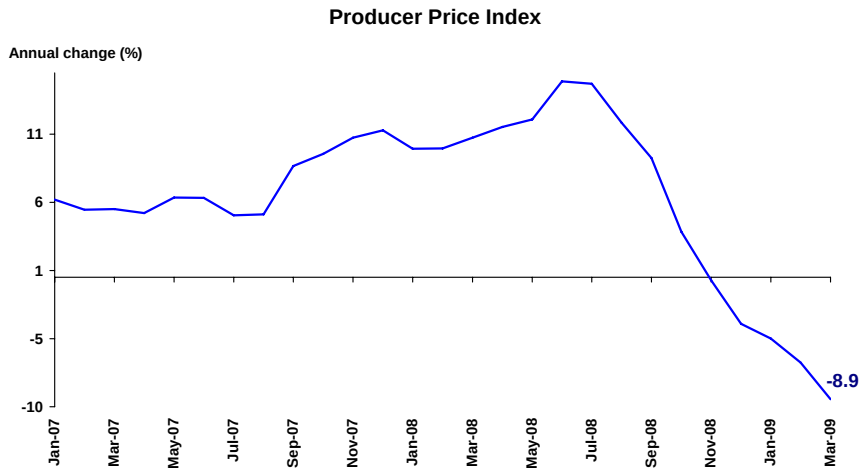
Inflation moderated to 3.0% in April



Producer prices continued to decline in March

The Producer Price Index (PPI) declined by 8.9% in March (February: -6.3%). The decline was due mainly to the significantly lower prices of the commodity-related components of the PPI. Prices in the commodity-related components of the PPI continued to decline rapidly, falling by 25.3% in March (February: -18.8%). In the non-commodity-related components of the PPI, prices also declined at a faster rate of 1.2% (February: -0.5%).

In terms of composition, prices in both the local and imported components of the PPI continued to decline at a faster rate. Prices in the local component of the PPI declined by 11.7% (February: -8.1%), while prices in the imported component declined by 3.0% (February: -2.4%).



Producer prices continued to decline in March

M3 growth moderated

In April, broad money, or M3, registered a slower annual growth rate of 6.1%. On a month-on-month basis, M3 decreased by RM1.2 billion. To a large extent, this reflected a temporary contraction in non-bank private sector liquidity following the capital raising exercise by banks as well as increased holdings of BNM securities during the month. The contractionary impact of these factors, captured under the *other influences* category, was partially offset by the increase in the net foreign assets of the banking system, higher Government spending and the provision of credit by banks.

Narrow money or M1, increased by RM2.9 billion, to expand at a faster annual growth rate of 7.4%. The increase in M1 was underpinned by an increase in the holding of demand deposits.

M3 Determinants

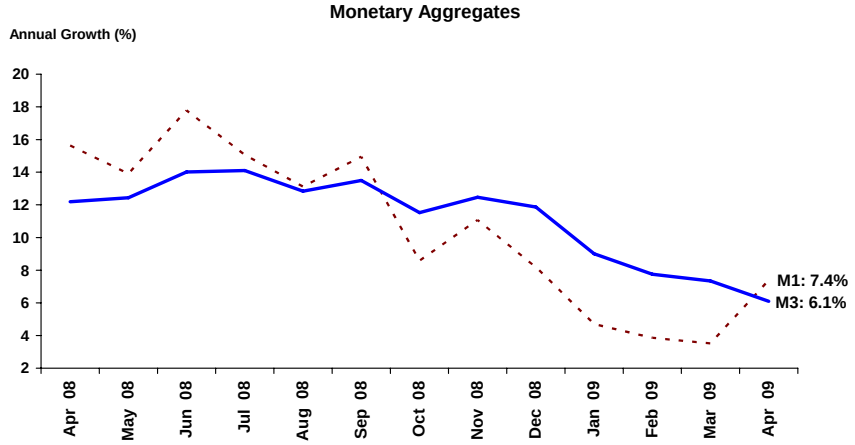
(RM billion)

	Change during period			
	Jan 09	**Feb 09**	**Mar 09**	**Apr 09**
M3	14.2	-1.7	5.1	-1.2
Net claims on Government	5.6	-1.3	1.6	3.9
Claims on the private sector	2.9	0.7	1.3	3.2
Loans	*2.1*	*1.3*	*1.0*	*3.1*
Securities	*0.8*	*-0.6*	*0.3*	*0.1*
Net foreign assets*	3.1	1.9	-1.2	5.7
Other influences	2.5	-3.0	3.5	-14.0

* Pre-revaluation of the international reserves

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

Monetary Aggregates



Banking system deposits declined in April

Total deposits placed with the banking system declined by RM1.1 billion or 6.2% on an annual basis in April (March: +RM9.3 billion, 8.0%), reflecting payments for the purchase of equity issued by the banking institutions. The decline, however, was partially offset by payments for Government outlays during the month. By customer, lower deposits were mainly observed for financial institutions and individuals. By type, the decrease in deposits was mainly in the form of fixed deposits, short-term money market deposits and negotiable instruments of deposits (NIDs).

Deposits by Holder
(RM million)

	Change during period			
	Jan 09	**Feb 09**	**Mar 09**	**Apr 09**
Federal Government	-604	2,709	-2,612	300
State Governments	-588	1,542	305	847
Statutory Authorities [1]	-2,134	627	-323	2,155
Financial Institutions	-4,056	-3,533	7,251	-3,854
Business Enterprises	6,673	-5,075	3,660	183
Individuals	4,857	2,433	1,580	-1,597
Others [2]	391	1,016	-532	862
Total	4,540	-280	9,328	-1,104

1/ Include local Governments

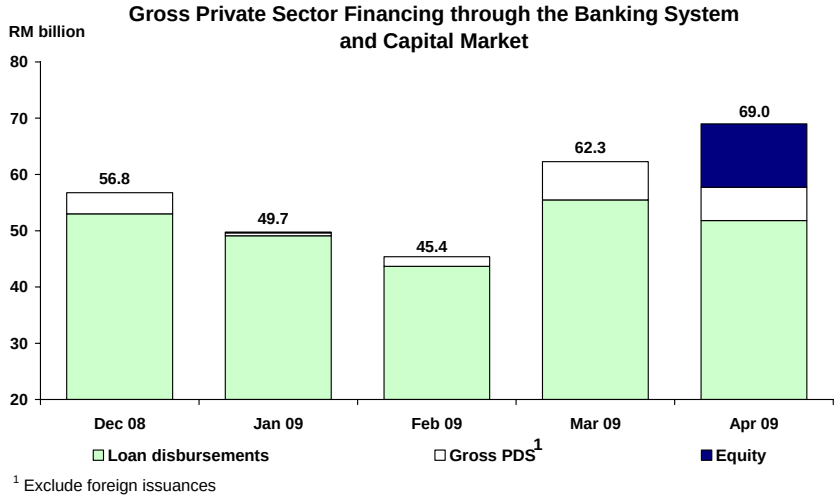
2/ Consist of domestic other entities and foreign non-bank entities

Deposits by Type
(RM million)

	Change during period			
	Jan 09	**Feb 09**	**Mar 09**	**Apr 09**
Fixed deposits	9,864	2,193	-38	-6,553
NIDs	-4,316	-4,643	3,769	-2,347
Demand deposits	-1,834	252	-155	1,905
Savings deposits	523	1,968	736	1,832
Repos	41	-30	560	-538
FX deposits	2,947	466	-645	3,134
IBS deposits[1]	-2,460	1,433	3,170	4,722
Others[2]	-226	-1,976	1,962	-3,258
Total	4,540	-280	9,328	-1,104

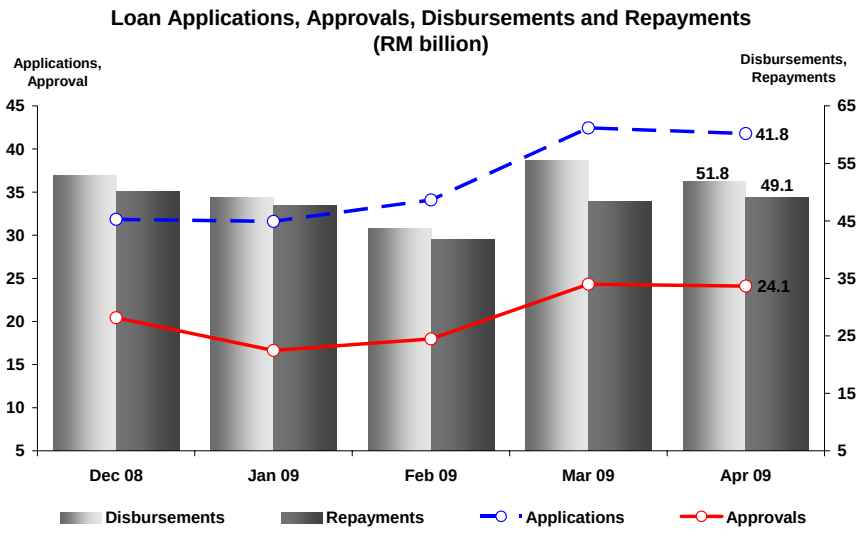
Significant increase in gross financing

Growth in gross financing to the private sector through the banking system and the capital market increased significantly in April. The increase was due mainly to rights issues in the equity market. On a net basis, banking system loans and PDS outstanding expanded at a combined annual rate of 10.6% as at end-April (March: 10.7%).



[1] Exclude foreign issuances

Gross financing increased significantly in April



Loan applications and approvals remained relatively stable during the month …

Bank lending indicators

	RM billion			Annual Growth (%)		
	Mar-09	Apr-09	J-A 09	Mar-09	Apr-09	J-A 09
Overall						
Loan applications	42.4	41.8	149.9	5.8	-5.4	-3.4
Loan approvals	24.3	24.1	83.0	-0.7	-18.2	-17.9
Loan disbursements	55.5	51.8	200.0	9.0	-6.4	-3.3
Chg in Loans Outstanding[1/]	4.6	2.6	10.0	10.9	10.6	10.6
Businesses						
Loan applications	18.6	17.0	69.1	-9.2	-24.2	-11.3
Loan approvals	11.1	10.1	36.2	-13.0	-35.0	-32.5
Loan disbursements	38.8	34.9	135.8	7.8	-10.9	-6.7
Chg in Loans Outstanding[1/]	-0.2	0.2	-1.0	9.5	9.2	9.2
SMEs[2/]						
Loan applications	7.9	8.5	28.7	-7.4	-14.2	-15.6
Loan approvals	3.4	3.3	12.2	-25.4	-41.2	-33.9
Loan disbursements	11.5	11.3	45.9	-11.0	-17.7	-14.2
Chg in Loans Outstanding[1/3/]	-0.1	-0.6	-7.4	-0.4	-1.2	-1.2
Households						
Loan applications	23.8	24.8	80.9	21.5	14.1	4.6
Loan approvals	13.2	14.0	46.8	12.6	0.7	-1.4
Loan disbursements	16.7	16.9	64.2	11.9	4.4	4.8
Chg in Loans Outstanding[1/]	1.4	2.6	7.9	8.8	8.5	8.5

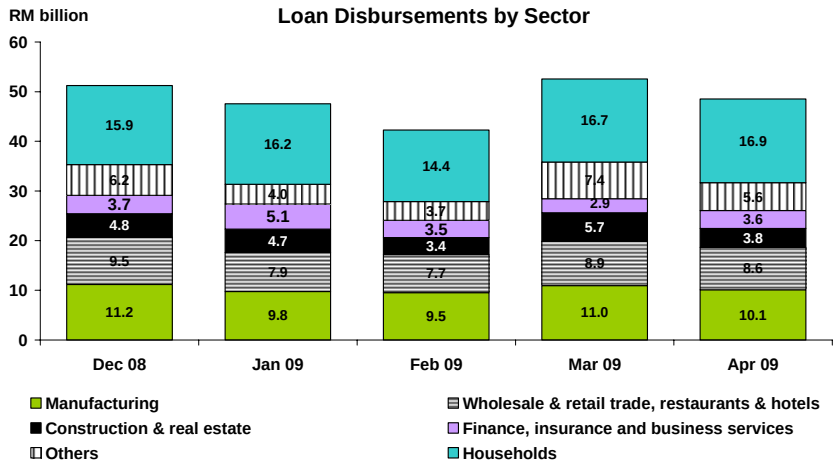
[1/] The annual growth in outstanding amount as at end-period.

[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 2.2% year-on-year as at end-April 2009.

…due mainly to higher demand for financing from households

Loan disbursements remained broad-based

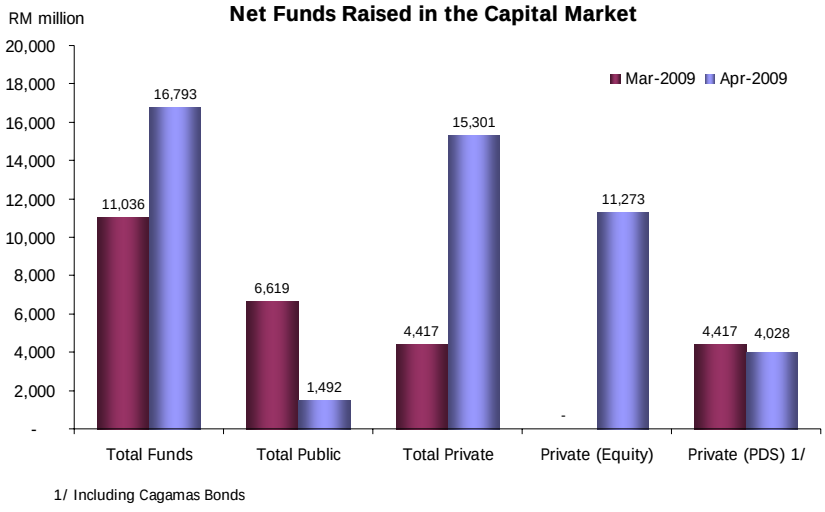


Demand for financing from the household sector was stronger during the month. Loan applications and approvals rose due mainly to higher loans for the purchase of residential properties and passenger cars. The increase in loan disbursements during the month led to a further expansion in loans outstanding of the household sector. On an annual basis, household loans outstanding expanded by 8.5% as at end-April (end-March: 8.8%).

For the business sector, while loan applications, approvals and disbursements were lower than in the previous month, the overall growth of business loans was sustained at an annual rate of 9.2% (end-March: 9.5%).

Active fund raising activity in the capital market

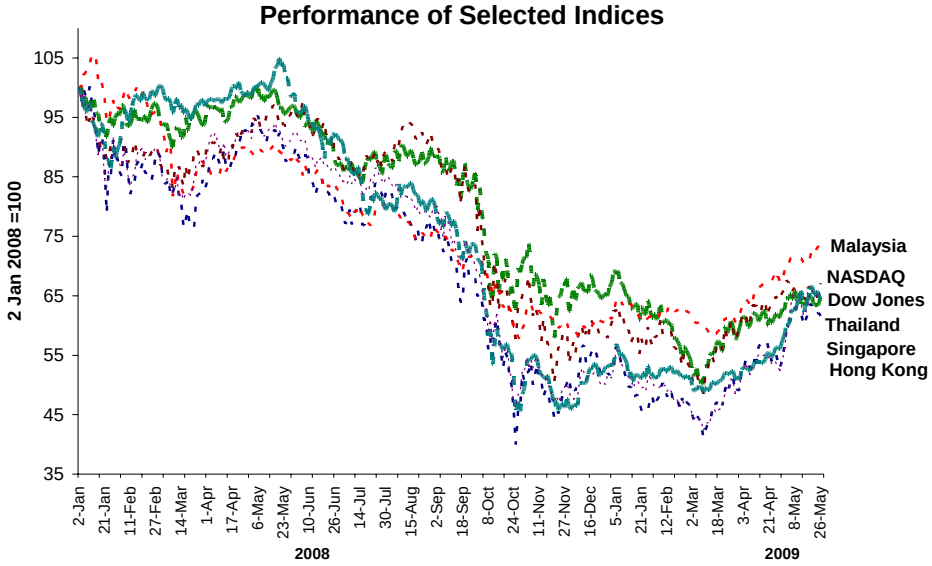
Net funds raised in the capital market rose from RM11 billion in March to RM16.8 billion in April, driven mainly by rights issues totaling RM11.3 billion. Funds were raised by a telecommunications and a finance corporation for the purposes of debt repayment and working capital financing. In the PDS market, funding activity was sustained at RM6.2 billion. After adjusting for redemptions, net funds raised in the PDS market totalled RM4 billion. Meanwhile, in the public sector, net funds raised amounted to RM1.5 billion. Funds were raised through the issuance of a 3-year Government Investment Issues (GII).



1/ Including Cagamas Bonds

KLCI rose significantly in April

In April, the KLCI ended higher to close at 990.7 (end-March: 872.6 points) in line with the performance of other regional markets. Domestic market sentiments improved following the announcement of the liberalisation of domestic services and financial sectors, and the sustained rise in crude palm oil prices. Market capitalisation rose to RM754.2 billion (since end-March: +13.9%) and the daily average turnover increased to 1,232.8 million units (March: 444.6 million units).

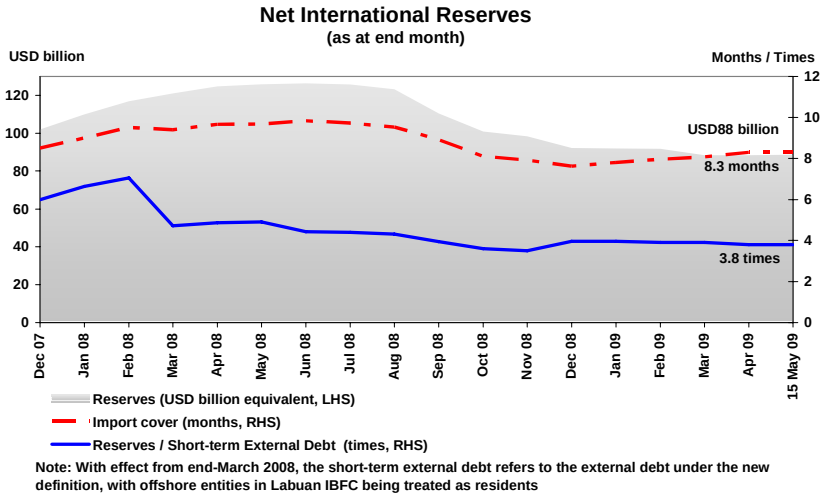


KLCI rose in April

As at 26 May, the KLCI ended higher at 1,051.6 (since end-April: +6.2 %). Overall market capitalisation was higher at RM805.6 billion (since end-April: +6.8%) and the daily average turnover rose further to 2,324.4 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM320.4 billion (equivalent to USD87.7 billion) as at 30 April 2009. As at 15 May 2009, the international reserves amounted to RM321.5 billion (equivalent to USD88 billion). The reserves position is sufficient to finance 8.3 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

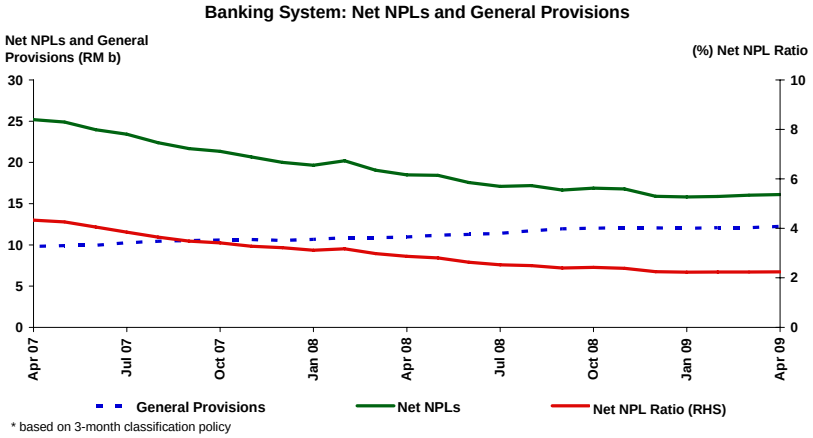
Well-capitalisation and stable non-performing loans in the banking system

Capitalisation of the banking system strengthened substantially following capital raising exercises by banking institutions. The risk-weighted capital ratio (RWCR) edged up 0.7 percentage points to 14.2%, while the core capital ratio strengthened to 12.3%. This resulted in excess capital of RM5.1 billion to absorb potential losses and to continue supporting operations. Meanwhile, the net non-performing loans ratio was unchanged at 2.2% since December 2008 with the loan loss coverage ratio remaining at 88.5%. Banking institutions have been building strong reserves during times when business conditions were favourable to strengthen their capacity to deal with the current more difficult times.

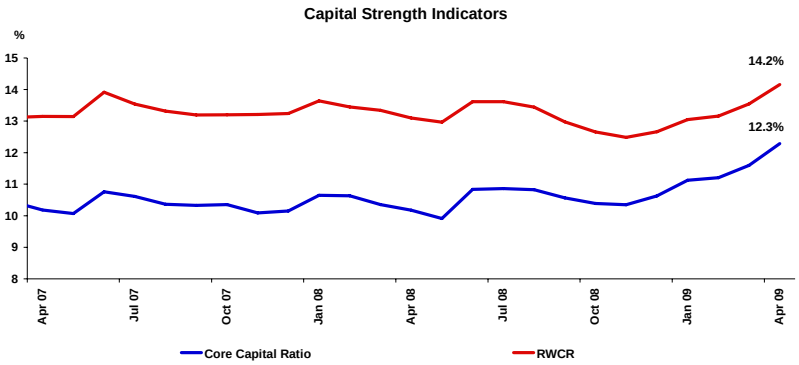
Banking System Health Indicators *

	2002	2003	2004	2005	2006	2007	2008	Feb 09	Mar 09	Apr 09
Capital (%) **										
Core capital ratio	11.1	11.1	11.4	10.7	10.7	10.2	10.6	11.2	11.6	12.3
RWCR	13.2	13.8	14.4	13.7	13.5	13.2	12.7	13.2	13.5	14.2
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	15,864	16,029	16,093
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 March 2008, RWCR and CCR are computed based on Basel II for banking institutions that have adopted the standardised approach



Banking system capitalisation remained strong…



…and NPLs remained at a low level

Key Monetary and Financial Statistics

		Feb 09		Mar 09		Apr 09	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		60.5	-10.6	54.1	-17.5	53.8	-17.7
M1		179.2	3.9	179.7	3.5	182.6	7.4
M2		914.7	9.5	921.9	9.3	918.8	6.6
M3		944.2	7.8	949.3	7.3	948.1	6.1
Banking System							
Total deposits		976.5	8.3	985.9	8.0	984.8	6.2
Total loans (including loans sold to Cagamas)		729.3	10.9	733.9	10.9	736.5	10.6
Loan-deposit ratio (%)		73.6		73.7		74.2	
Financing-deposit ratio [1] (%)		81.1		80.8		81.2	
Loans applied (during the period)		34.1	8.9	42.4	5.8	41.8	-5.4
Loans approved (during the period)		18.0	-15.9	24.3	-0.7	24.1	-18.2
Loans disbursed (during the period)		43.6	-5.4	55.5	9.0	51.8	-6.4
Loans repaid (during the period)		41.8	-3.4	48.4	4.8	49.1	-2.8
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.2		13.5		14.2	
Net NPLs: 3-month classification (%)		2.2		2.2		2.2	
Net Reserves in RM billion		315.9		320.7		320.4	
Net Reserves in USD billion (equivalent)		91.1		87.8		87.7	
Months of retained imports		8.0		8.3		8.3	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		2.00		2.00		2.00	
Interbank:	Overnight	1.99 [2.42]		2.00 [2.00]		1.99 [2.00]	
	1-week	2.03 [2.44]		2.03 [2.02]		2.02 [2.02]	
	1-month	2.06 [2.46]		2.06 [2.05]		2.06 [2.05]	
Fixed deposits of commercial banks:	1-month	2.05		2.02		2.02	
	3-month	2.07		2.04		2.04	
BLR of commercial banks		5.89		5.53		5.53	
ALR of commercial banks		5.49		5.16		5.13	
Prices							
Consumer Price Index (CPI) (2005=100)		111.9	3.7	111.7	3.5	111.5	3.0
Producer Price Index (PPI) (2000=100)		130.3	-6.3	128.4	-8.9	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.6925		3.6470		3.5610	
Euro		4.6952		4.8348		4.7404	
Pound Sterling		5.2699		5.2203		5.2804	
100 Japanese yen		3.7862		3.7091		3.6570	
Singapore dollar		2.3956		2.4008		2.4076	
100 Thai Baht		10.248		10.266		10.091	
100 Philippine Peso		7.5829		7.5343		7.3620	
100 Indonesian Rupiah		0.0308		0.0315		0.0334	
100 Korean Won		0.2428		0.2630		0.2754	
Capital Market							
Net funds raised (in RMb) by:	public	-1.5		6.6		1.5	
	private	-2.4		4.4		15.3	
Bursa Malaysia Composite Index (end-period)		890.7		872.6		990.7	
Bursa Malaysia Market Capitalisation (RMb, end-period)		667.4		662.1		754.2	

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

Bank Negara Malaysia
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