BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 02/09/15

EMBARGO: Not for publication or broadcast before 1800 hours on Friday, 27 February 2009

Monetary and Financial Developments January 2009
Highlights of the Press Release

- The OPR was reduced by 50bps on 24 February 2009. The further reduction in the OPR was prompted by the sharper deterioration of the global economy in the fourth quarter and the increased risk of contraction of the domestic economy. The Statutory Reserve Requirement (SRR) was also adjusted downwards from 2.0% to 1.0% effective 1 March 2009 to further reduce the cost of intermediation.

- In January, net financing to the private sector from the banking system and capital market expanded at a combined annual rate of 10.7%.

- Headline inflation continued to moderate to 3.9% in January, due mainly to the decline in retail fuel prices and slower increases in food prices.

- The banking system remained resilient, with the risk-weighted capital ratio (RWCR) and core capital ratio remaining stable at 12.6% and 10.7% respectively.

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PRESS RELEASE

MONETARY AND FINANCIAL DEVELOPMENTS
January 2009

In January, gross financing raised by the private sector was lower at RM42.9 billion (December: RM58.8 billion). On a net basis, financing to the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 10.7%. Total loans outstanding expanded at an annual growth rate of 11.7%.

During the period 1 – 21 January, the daily weighted average overnight interbank rate moved within a narrow range of 3.24% - 3.25%. Following the reduction in the OPR to 2.50% on 21 January, the daily weighted average overnight interbank rate traded lower within a range of 2.50% - 2.51% during the period 22 January – 24 February. With the OPR reduced to 2.00% on 24 February, the daily weighted average overnight interbank rate trended lower at 2.00% on 25 February. Interbank rates of other maturities also declined in tandem with the reductions in the OPR. Meanwhile, the average base lending rate (BLR) was at a historic low of 5.91% as at 15 February (6.38% in January), while the average lending rate (ALR) decreased to a historic low of 5.77% in January (5.86% in December).

From 1 January to 24 February 2009, the ringgit depreciated against the U.S. dollar (-5.6%) and the pound sterling (-6.4%), but appreciated against the euro (4.5%). Against regional currencies, the ringgit depreciated against the Chinese renminbi (-5.4%), the Philippine peso (-4.3%), the Thai baht (-3.1%) and the

Japanese yen (-0.7%), but appreciated against other regional currencies in the range of 0.4% to 13.2%.

Headline inflation continued to moderate to 3.9% in January, due mainly to the decline in retail fuel prices and slower increases in food prices.

Broad money, or M3, expanded at an annual growth rate of 9.0% in January, supported by Government spending, net inflows of foreign assets and the provision of credit by banks.

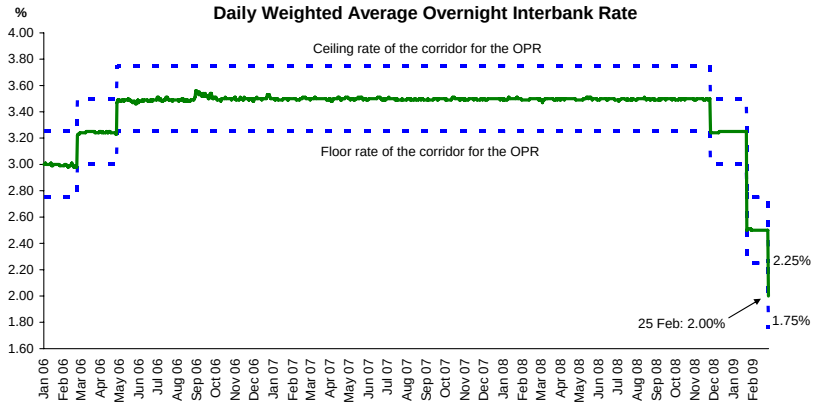
The banking system remained resilient, with the risk-weighted capital ratio (RWCR) and core capital ratio remaining stable at 12.6% and 10.7% respectively.

Interest rates decreased in response to reductions in the OPR

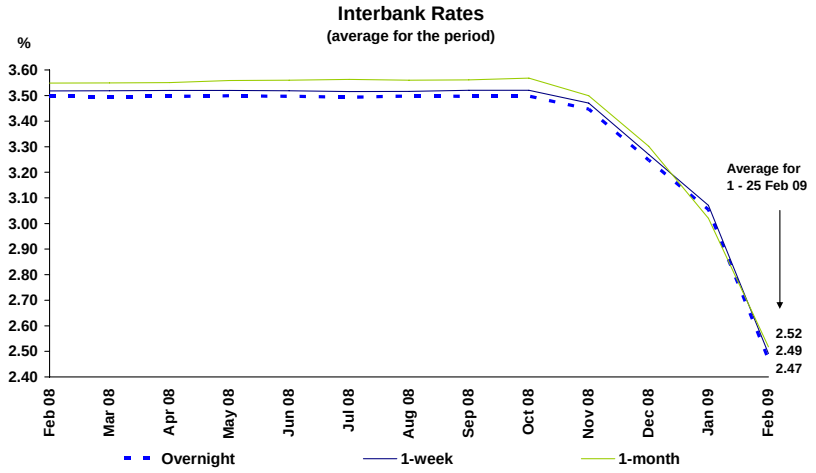
Interbank rates traded within three distinct ranges between 1 January and 28 February, reflecting the prevailing levels of the Overnight Policy Rate (OPR). During the period 1 – 21 January, the daily weighted average overnight interbank rate moved within a narrow range of 3.24% - 3.25%. Following the reduction in the OPR to 2.50% on 21 January, the daily weighted average overnight interbank rate trended lower within a range of 2.50% - 2.51% during the period 22 January – 24 February. With the OPR reduced further to 2.00% on 24 February, the daily weighted average overnight interbank rate trended lower at 2.00% on 25 February. Interbank rates of other maturities also declined in tandem with the reductions in the OPR.

The average fixed deposit (FD) rates of commercial banks (CBs) declined in January and February. As at 15 February, the average quoted FD rates for tenures between 1 and 12 months were within a lower range of 2.50% and 3.00%.

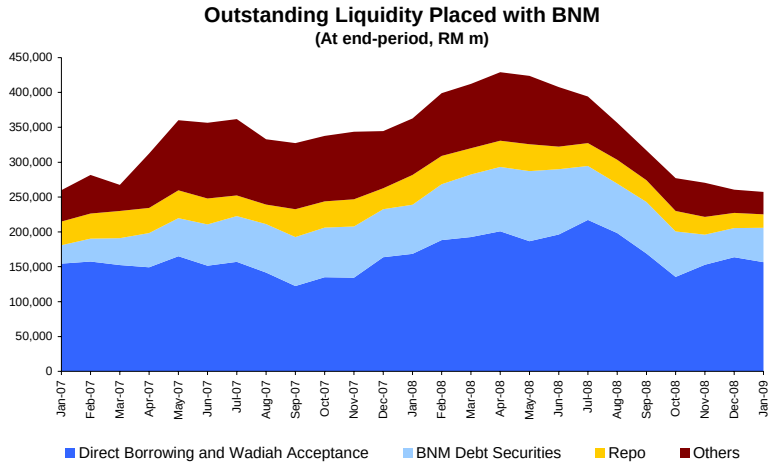
In terms of the CBs' lending rates, the average base lending rate (BLR) was lower at a historic low of 5.91% as at 15 February (6.38% in January), while the average lending rate (ALR) decreased to a historic low of 5.77% in January (5.86% in December). The ALR is expected to decrease further following the reduction in the OPR on 24 February.



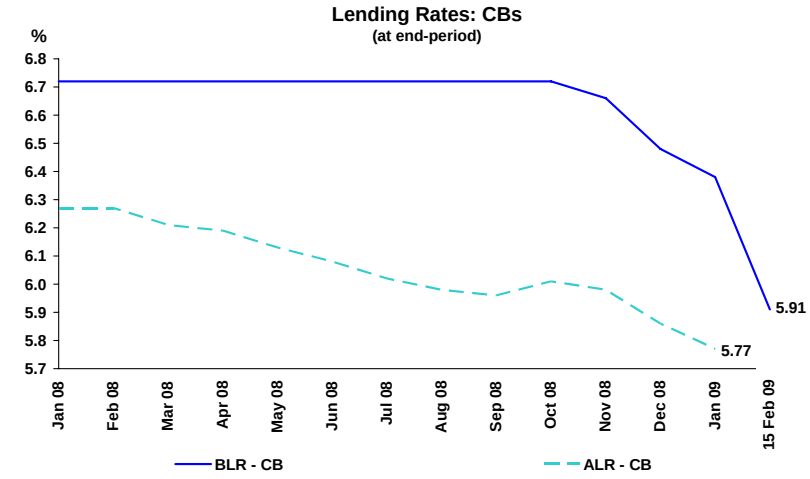
The average overnight interbank rate was lower following the reduction in the OPR



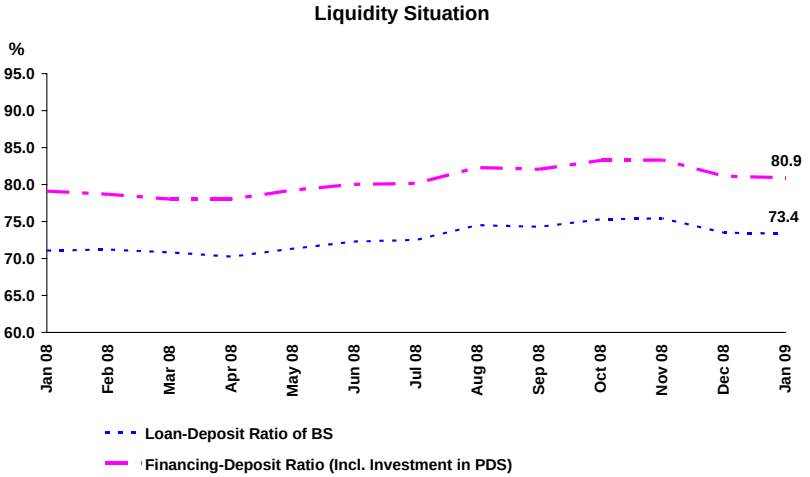
Other interbank rates also fell after the reduction in the OPR



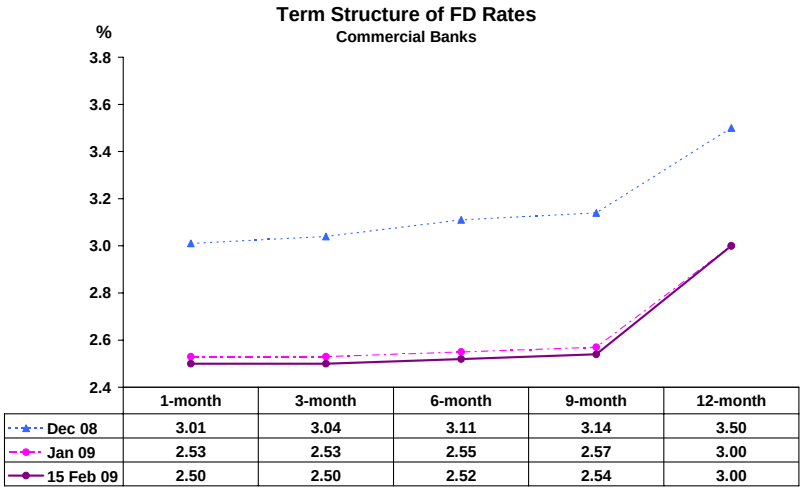
BNM continued to mop up excess liquidity



CBs' ALR and BLR trended lower in January, reflecting the cut in the OPR

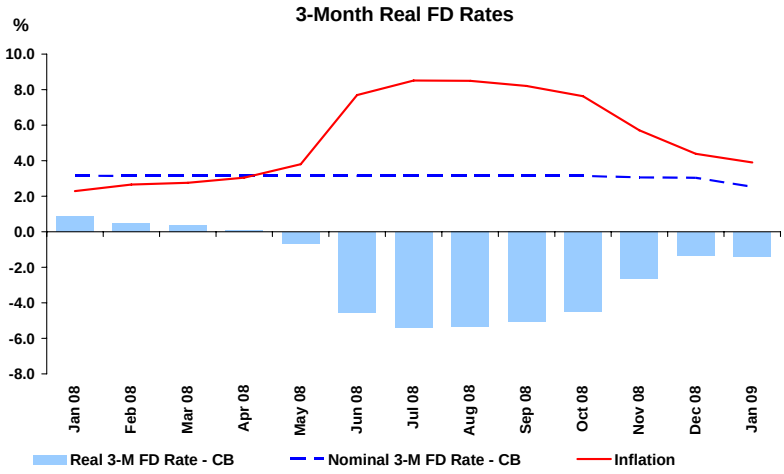


The loan-deposit and financing-deposit ratios were relatively unchanged in January



	1-month	3-month	6-month	9-month	12-month
Dec 08	3.01	3.04	3.11	3.14	3.50
Jan 09	2.53	2.53	2.55	2.57	3.00
15 Feb 09	2.50	2.50	2.52	2.54	3.00

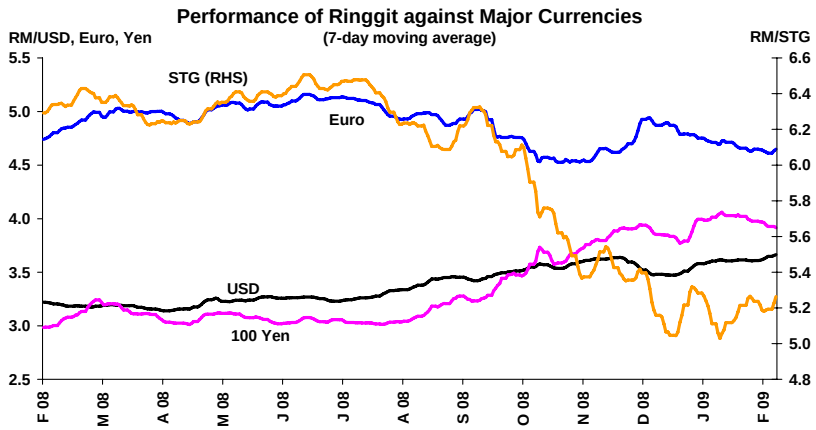
Average FD rates were lower in February



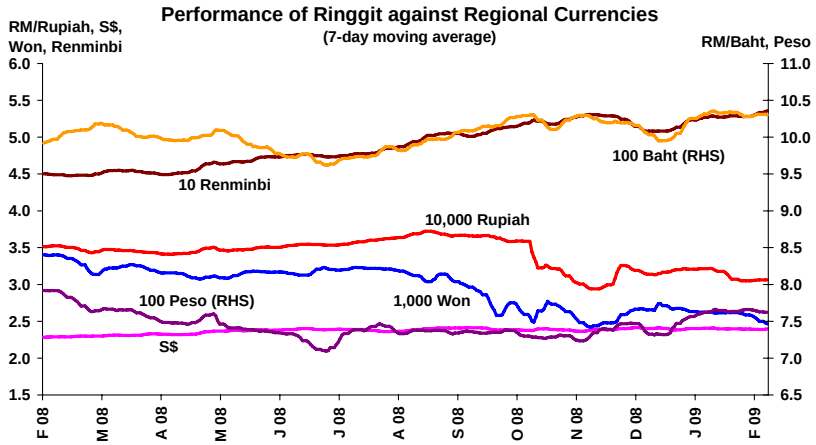
Real FD rates were relatively unchanged as the decline in nominal deposit rates were offset by lower inflation

The ringgit depreciated against the U.S. dollar

From 1 January to 24 February 2009, the ringgit depreciated by 5.6% against the U.S. dollar. In January, the U.S. dollar broadly strengthened against regional currencies as protracted uncertainties in the international financial markets and the deepening global recession led to the further deleveraging activities by U.S. and global financial institutions. Against other major currencies, the ringgit appreciated against the euro (4.5%), but depreciated against the pound sterling (-6.4%) and the Japanese yen (-0.7%). Against regional currencies, the ringgit depreciated against the Chinese renminbi (-5.4%), the Philippine peso (-4.3%) and the Thai baht (-3.1%) but appreciated against other regional currencies in the range of 0.4% to 13.2%.



The ringgit appreciated against the euro, but depreciated against the U.S. dollar and other major currencies



The ringgit recorded a mixed performance against regional currencies

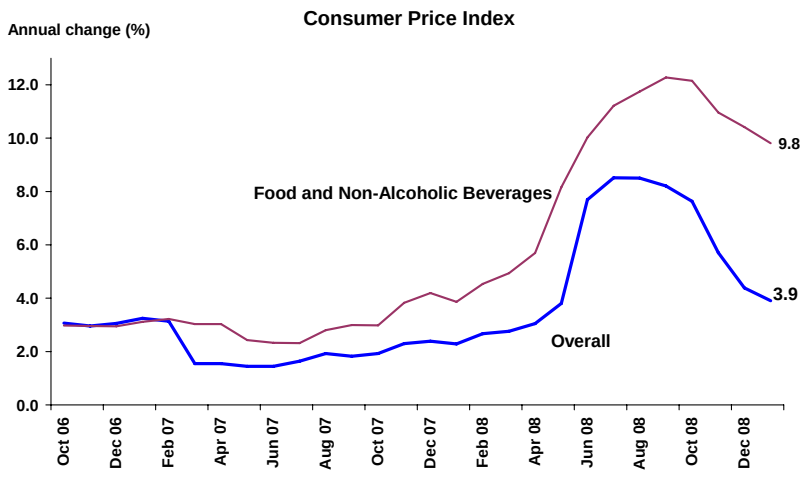
Performance of Ringgit against Selected Currencies

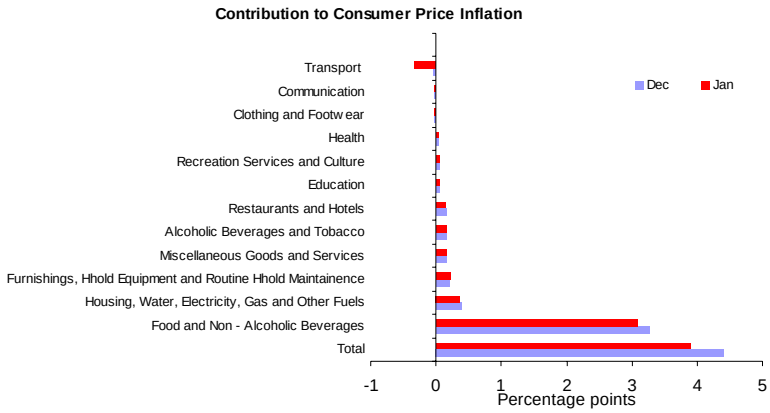
RM per foreign currency	End-period				% Change	
	Dec 07	Dec 08	Jan 09	24 Feb 09	End Dec 07 - 24 Feb 09	End Dec 08 - 24 Feb 09
US dollar	3.3065	3.4640	3.6085	3.6705	-9.9	-5.6
Euro	4.8756	4.8759	4.6517	4.6676	4.5	4.5
Pound sterling	6.6070	4.9989	5.1259	5.3420	23.7	-6.4
100 Japanese yen	2.9534	3.8327	4.0379	3.8612	-23.5	-0.7
Singapore dollar	2.2938	2.4070	2.3923	2.3967	-4.3	0.4
100 Thai baht	9.8159	9.9398	10.331	10.263	-4.4	-3.1
100 Philippine peso	8.0158	7.2774	7.6193	7.6080	5.4	-4.3
100 Indonesian rupiah	0.0352	0.0316	0.0318	0.0307	14.7	3.0
100 Korean won	0.3532	0.2750	0.2609	0.2430	45.3	13.2
Chinese renminbi	0.4527	0.5076	0.5276	0.5366	-15.6	-5.4

Inflation continued to moderate

Headline inflation continued to moderate to 3.9% in January (December 2008: 4.4%). Most of the moderation in inflation in January was attributed to slower inflation in the *food and non-alcoholic beverages* and *transport* categories. Prices in the transport category declined by 2.1% in January (December 2008: -0.2%). This was due to the fact that the average RON97 fuel price in January (RM1.80) was actually lower than the average price in December 2008 (RM1.85). Meanwhile, inflation in the *food and non-alcoholic beverages* category also continued to moderate to 9.8% in January (December 2008: 10.4%), as more than 80% of the sub-components registered slower increases in prices.

Inflation moderated to 3.9% in January

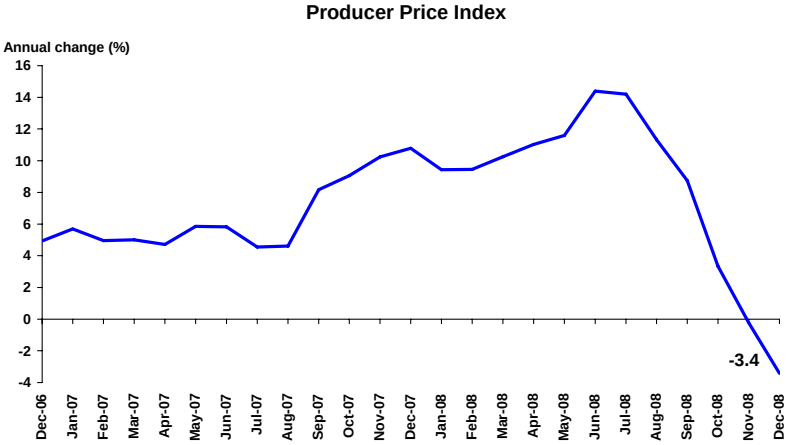




Overall decline in producer prices in December 2008

Producer prices continued to decline in December by 3.4% (November 2008: -0.2%). Five out of the nine components in the PPI registered lower prices, with all three commodity-related components recording negative inflation rates. As a result, producer prices in the commodity-based component of the PPI declined by 10.4% (November 2008: -2.3%). In the non-commodity-based component of the PPI, prices declined by a more modest 0.4% (November 2008: 0.7%).

In terms of composition, both the local and imported components of the PPI registered lower prices compared to the year before. In December, prices in the local component declined by 4.1% (November 2008: -0.2%) while prices in the imported component declined by 1.8% (November 2008: -0.2%).



Producer prices continued to decline in December 2008

Monetary aggregates expanded in January

In January, broad money or M3, increased by RM13.8 billion, to expand at an annual growth rate of 9.0%. All the determinants of broad money increased during the month. The main factor underpinning this increase was Government spending. In contrast to previous months, net foreign assets of the banking sector also increased, reflecting mainly trade inflows. M3 also expanded due to the provision of credit by banks.

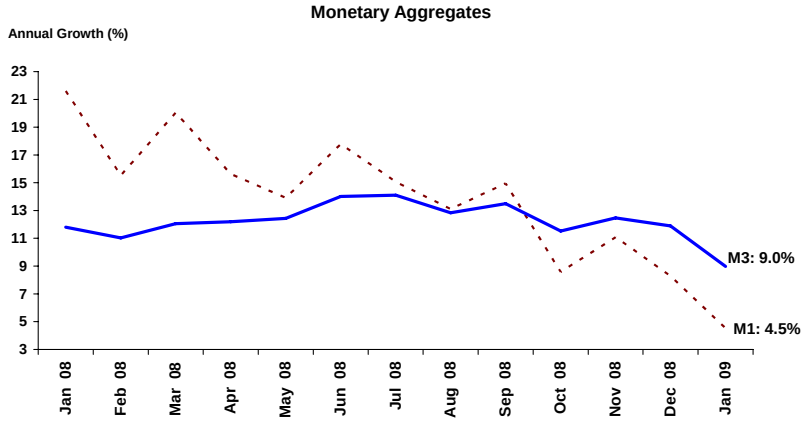
M3 Determinants

(RM billion)

	Change during period			
	Oct 08	**Nov 08**	**Dec 08**	**Jan 09**
M3	-12.3	8.8	22.5	13.8
Net claims on Government	-3.7	5.2	21.6	5.5
Claims on the private sector	5.4	10.9	2.7	2.1
Loans	*1.8*	*7.5*	*1.6*	*2.3*
Securities	*3.6*	*3.4*	*1.1*	*-0.2*
Net foreign assets*	-22.7	-12.1	-4.0	4.3
Other influences	8.6	4.8	2.3	1.9

* 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.



Banking system deposits increased further

In January, total deposits with the banking system increased by RM4.4 billion or 9.2% on an annual basis. Net inflows from the external trade sector, as well as the payment of outlays by the Government, contributed to the increase in total deposits during the month. By customer, higher deposits were placed by individuals and business enterprises. By type, the increase in deposits was mainly in the form of fixed and FX deposits.

Deposits by Holder
(RM million)

	Change during period			
	Oct 08	**Nov 08**	**Dec 08**	**Jan 09**
Federal Government	-884	1,847	622	-312
State Governments	-111	-354	230	-592
Statutory Authorities [1]	617	2,517	-1,272	-2,150
Financial Institutions	-7,080	-642	13,789	-4,271
Business Enterprises	-1,050	2,797	13,348	5,154
Individuals	356	2,814	5,039	6,263
Others [2]	-530	623	-2,453	288
Total	-8,682	9,603	29,303	4,380

1/ Include local Governments

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

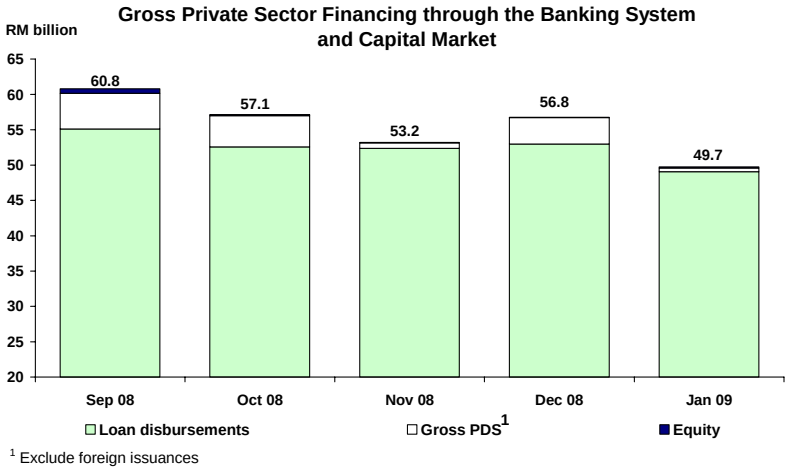
Deposits by Type
(RM million)

	Change during period			
	Oct 08	**Nov 08**	**Dec 08**	**Jan 09**
Fixed deposits	3,686	629	4,423	9,864
NIDs	-532	1,415	4,913	-4,316
Demand deposits	-3,057	466	6,118	-1,834
Savings deposits	-593	-258	2,047	523
Repos	-2,661	-808	-12	41
FX deposits	837	316	-995	2,947
SPI deposits	651	6,327	4,934	-2,619
Others[1]	-7,013	1,515	7,876	-226
Total	-8,682	9,603	29,303	4,380

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

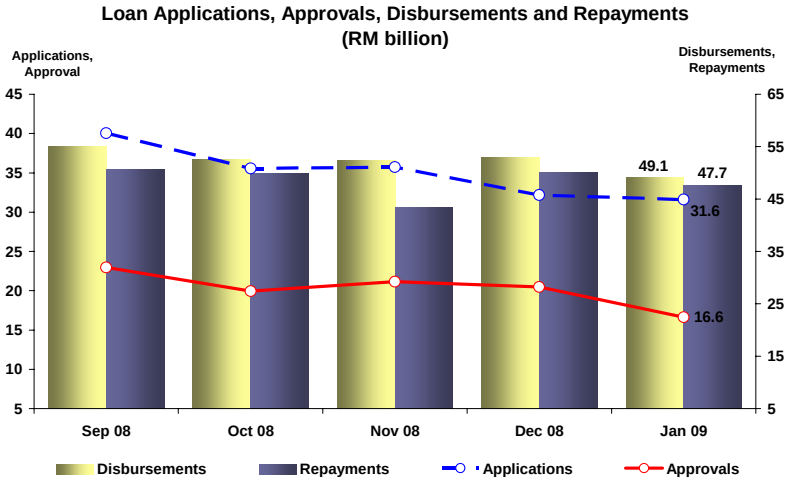
Lower gross financing activity in January

On a net basis, financing to the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 10.7% in January (December 2008: 12.7%). Gross financing raised by the private sector from the banking system and the capital market was lower at RM49.7 billion during the month (December 2008: RM56.8 billion).



[1] Exclude foreign issuances

Gross financing was lower during the month



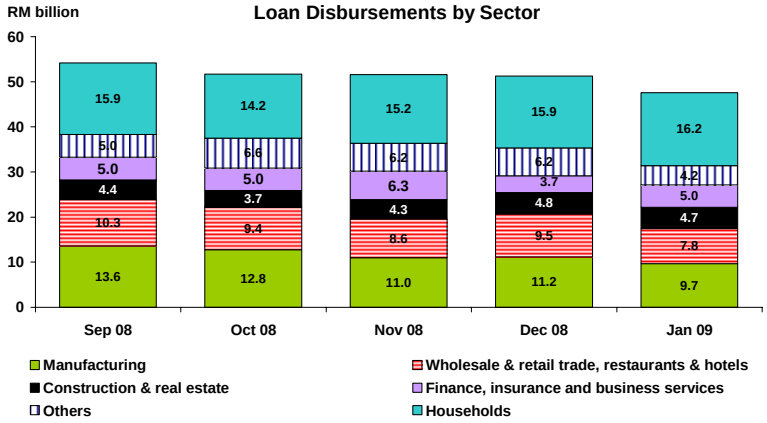
Moderation in loan indicators

Bank lending indicators

	RM billion		Annual Growth (%)	
	Dec-08	Jan-09	Dec-08	Jan-09
Overall				
Loan applications	32.2	31.6	-18.8	-21.0
Loan approvals	20.5	16.6	-23.7	-35.6
Loan disbursements	53.0	49.1	0.6	-10.0
Chg in Loans Outstanding[1/]	3.2	1.4	12.8	11.7
Businesses				
Loan applications	15.6	15.8	-33.7	-21.1
Loan approvals	10.8	6.9	-37.9	-50.9
Loan disbursements	37.1	32.9	-2.7	-14.2
Chg in Loans Outstanding[1/]	-0.4	-1.4	13.2	11.8
SMEs[2/]				
Loan applications	6.0	5.8	-18.1	-29.3
Loan approvals	4.1	2.5	4.3	-44.9
Loan disbursements	13.4	11.9	8.2	-13.9
Chg in Loans Outstanding[1/]	-0.5	-4.6	9.4	4.5
Households				
Loan applications	16.5	15.8	3.2	-20.8
Loan approvals	9.7	9.8	2.3	-17.6
Loan disbursements	15.9	16.2	9.3	0.0
Chg in Loans Outstanding[1/]	3.0	3.5	9.1	9.1

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

[2/] Include loans to individual businesses.

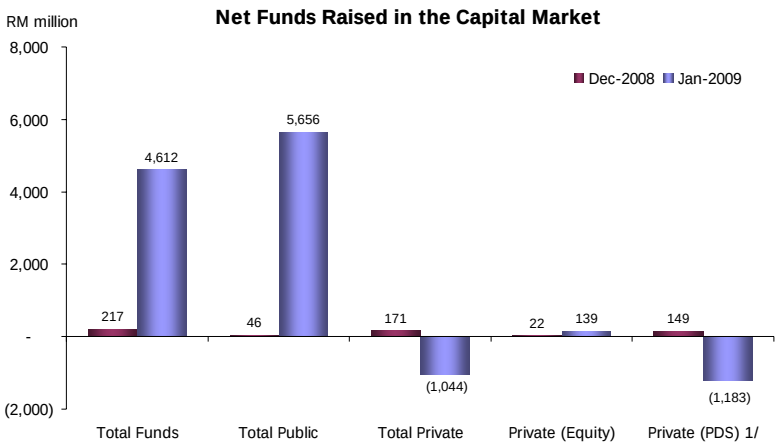


The major loan indicators registered a moderating trend in January. In the business sector, loan applications, approvals and disbursements moderated slightly. Loan applications from the *transport, storage and communication* and *finance, insurance and business services* sectors were sustained, reflecting steady demand for financing from these sectors. As at end-January, loans outstanding to the business sector expanded at an annual growth rate of 11.8% (end-December 2008: 13.2%).

For households, loan applications slowed but loan approvals and disbursements, especially for the purchase of passenger cars were higher. Loans outstanding to the household sector expanded by 9.1% as at end-January (end-December 2008: 9.1%).

Higher financing from the capital market

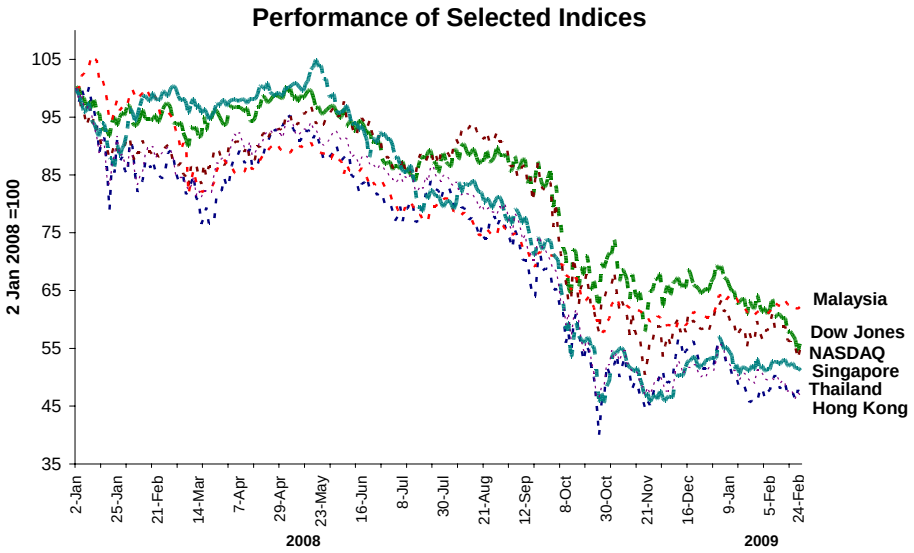
In January, net funds raised in the capital market rose to RM4.6 billion. The public sector raised net funds of RM5.6 billion through the re-opening of the 5-year Malaysian Government Securities. Meanwhile, funds raised through the issuance of private debt securities (PDS) were lower at RM524 million (December 2008: RM3.8 billion). The decline was due largely to issuers delaying their issuances as businesses evaluated the credit conditions in an environment of highly volatile global financial conditions. After adjusting for redemptions, net funds raised in the private sector recorded a net redemption of RM1 billion.



1/ Including Cagamas Bonds

KLCI rose marginally in January

The KLCI rose slightly to close at 884.5 points in January (since end-December: 0.9%). Despite market concerns over the health of the global economy, the KLCI was supported by plantation-related stocks, following the higher crude palm oil prices. Market capitalisation increased to RM667.9 billion (since end-December 2008: 0.6%), while the daily average turnover increased to 520.7 million units (December: 393.6 million units).

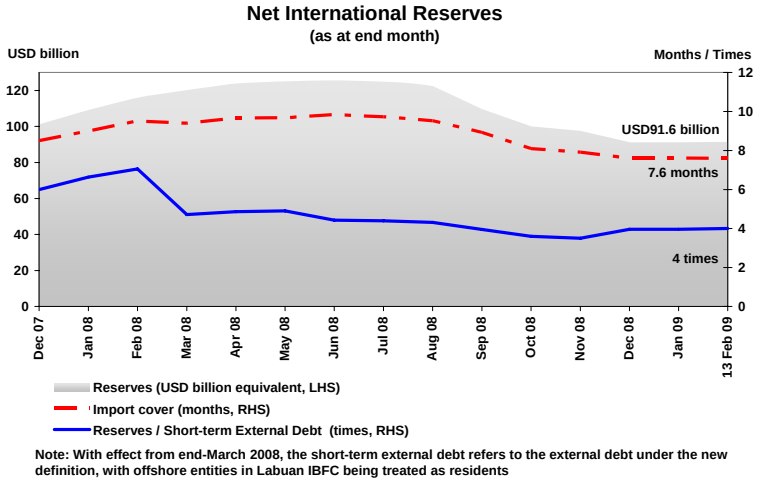


KLCI rose slightly in January

As at 24 February, the KLCI ended higher at 894.1 points (since end-January: 1.1%). While market capitalisation was higher at RM670.2 billion (since end-January: 0.3%), the daily average turnover declined to 395.8 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM316.7 billion (equivalent to USD91.3 billion) as at 30 January 2008. As at 13 February 2009, the international reserves amounted to RM317.7 billion (equivalent to USD91.6 billion). The reserves position is sufficient to finance 7.6 months of retained imports and is 4 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

Banking system remained resilient

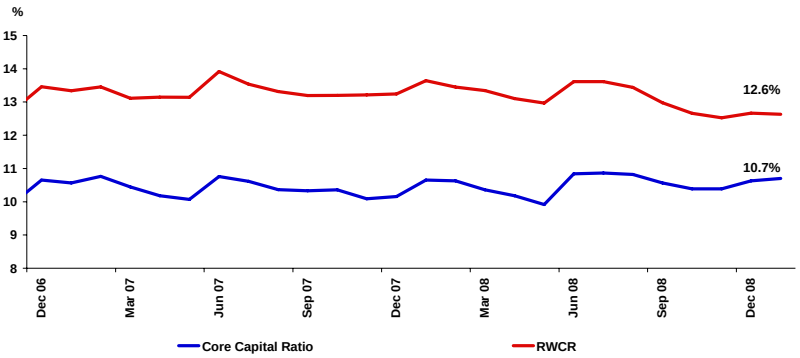
The banking system remained resilient, with the risk-weighted capital ratio (RWCR) and core capital ratio remaining stable at 12.6% and 10.7% respectively. Net non-performing loans (NPLs) declined by 1.1%, with the continued restructuring efforts by banking institutions and the reclassification to performing status. The net NPL to total loans ratio was sustained at 2.2%.

Banking System Health Indicators *

	2001	2002	2003	2004	2005	2006	2007	Nov 08	Dec 08	Jan 09
Capital (%) **										
Core capital ratio	11.1	11.1	11.1	11.4	10.7	10.7	10.2	10.4	10.6	10.7
RWCR	13.0	13.2	13.8	14.4	13.7	13.5	13.2	12.5	12.7	12.6
Net NPLs (3-month classification)										
% of net total loans	11.5	10.2	8.9	7.5	5.8	4.8	3.2	2.4	2.2	2.2
Amount (RM million)	46,254	43,110	40,013	36,668	31,332	27,360	20,011	16,780	15,812	15,639
GP / Net total loans (3-month, %)	2.1	2.1	2.0	1.9	1.8	1.7	1.7	1.7	1.7	1.7

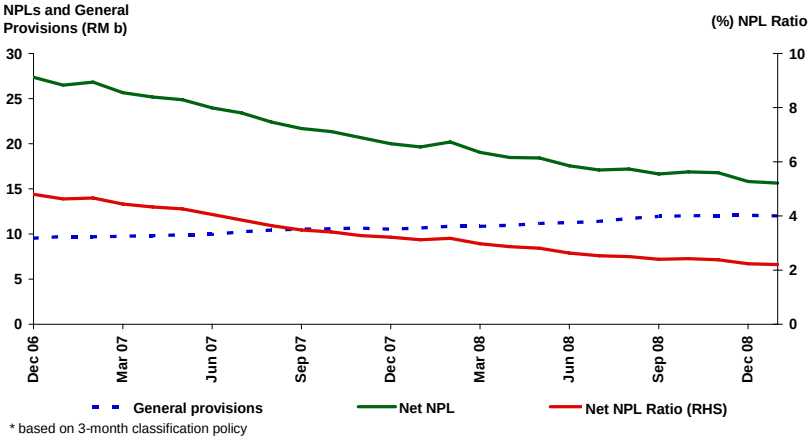
* Figures include Islamic banks.
** Beginning March 2008, RWCR and CCR are computed based on Basel II for banking institutions that have adopted the standardised approach

Capital Strength Indicators



Banking system capitalisation remained strong…

Banking System: Net NPLs and General Provisions



* based on 3-month classification policy

…whilst NPLs remained at a low level

Key Monetary and Financial Statistics

		Nov 08		Dec 08		Jan 09	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		69.1	10.3	68.5	7.2	73.7	5.8
M1		176.2	11.1	183.0	8.3	183.6	4.5
M2		880.9	14.4	903.4	13.4	916.5	10.7
M3		909.2	12.5	931.8	11.9	945.6	9.0
Banking System							
Total deposits		943.1	12.4	972.4	11.9	976.8	9.2
Total loans (including loans sold to Cagamas)		723.4	10.7	726.5	12.8	728.0	11.7
Loan-deposit ratio (%)		75.4		73.5		73.4	
Financing-deposit ratio [1] (%)		83.3		81.1		80.9	
Loans applied (during the period)		35.7	-32.6	32.2	-18.8	31.6	-21.0
Loans approved (during the period)		21.2	-44.0	20.5	-23.7	16.6	-35.6
Loans disbursed (during the period)		52.4	7.4	53.0	0.6	49.1	-10.0
Loans repaid (during the period)		43.3	-2.5	50.2	-22.9	47.7	-3.5
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		12.5		12.7		12.6	
Net NPLs: 3-month classification (%)		2.4		2.2		2.2	
International Reserves of BNM (end-period)							
Net Reserves in RM billion		336.4		316.8		316.7	
Net Reserves in USD billion (equivalent)		97.7		91.3		91.3	
Months of retained imports		7.9		7.6		7.6	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.25		3.25		2.50	
Interbank:	Overnight	3.24 [3.45]		3.25 [3.30]		2.50 [3.05]	
	1-week	3.27 [3.52]		3.27 [3.27]		2.52 [3.07]	
	1-month	3.31 [3.49]		3.30 [3.30]		2.56 [3.02]	
Fixed deposits of commercial banks:	1-month	3.03		3.01		2.53	
	3-month	3.06		3.04		2.53	
BLR of commercial banks		6.66		6.48		6.38	
ALR of commercial banks		5.98		5.86		5.77	
Prices							
Consumer Price Index (CPI) (2005=100)		112.9	5.7	111.8	4.4	111.7	3.9
Producer Price Index (PPI) (2000=100)		136.5	-0.2	132.9	-3.4	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.6175		3.4640		3.6085	
Euro		4.6660		4.8759		4.6517	
Pound Sterling		5.5684		4.9989		5.1259	
100 Japanese yen		3.7965		3.8327		4.0379	
Singapore dollar		2.4003		2.4070		2.3923	
100 Thai Baht		10.200		9.940		10.3307	
100 Philippine Peso		7.4038		7.2774		7.6193	
100 Indonesian Rupiah		0.0297		0.0316		0.0318	
100 Korean Won		0.2480		0.2750		0.2609	
Capital Market							
Net funds raised (in RMb) by:	public	6.3		0.05		5.7	
	private	-1.6		0.2		-1.0	
Bursa Malaysia Composite Index (end-period)		866.1		876.8		884.5	
Bursa Malaysia Market Capitalisation (RMb, end-period)		656.6		663.8		667.9	

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