BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Ref. No.: 06/09/06

EMBARGO: Not for publication or broadcast before 1800 hours on Tuesday, 30 June 2009

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

- The average lending rate (ALR) declined further to a new historic low of 5.02%.

- Net financing to the private sector from the banking system and capital market expanded at a combined annual rate of 8.9%.

- Headline inflation moderated to 2.4% in May (April: 3.0%) due mainly to the slower rate of price increase in the *food and non-alcoholic beverages* category and the continued decline in prices in the *transport* category.

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

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MONETARY AND FINANCIAL DEVELOPMENTS

May 2009

On a net basis, banking system loans and PDS outstanding expanded at a combined annual rate of 8.9% in May. Overall loan applications and approvals were higher during the month, due mainly to higher demand for financing from the business sector.

Interbank rates for all maturities were relatively stable, while fixed deposit (FD) rates remained unchanged. The average base lending rate (BLR) was unchanged at 5.53% as at 15 June, while the average lending rate (ALR) declined further to a new historic low of 5.02% as at end-May (5.16% in March and 5.13% in April).

From 1 May to 29 June 2009, the ringgit appreciated against the U.S. dollar by 0.7%. In the foreign exchange markets, exchange rates remained relatively volatile, reflecting the changing sentiments of investors in response to economic and financial developments. Against other major currencies, the ringgit depreciated against the pound sterling (-9.3%), the euro (-4.4%) and the Japanese yen (-1.2%). The pound sterling strengthened amid signs of economic stabilisation in the U.K. Against regional currencies, the ringgit appreciated against the Chinese renminbi (0.9%), the Philippine peso (0.6%) and the Korean won (0.3%), but depreciated against the Indonesian rupiah (-3.1%), the Thai baht (-2.7%), and the Singapore dollar (-0.9%).

Headline inflation moderated to 2.4% in May (April: 3.0%) due mainly to the slower rate of price increase in the *food and non-alcoholic beverages* category and the continued decline in prices in the *transport* category.

Broad money, or M3, registered a slower annual growth rate of 4.9% (April: 6.1%). On a month-on-month basis, M3 decreased by RM5.1 billion. The decrease in M3 was underpinned mainly by a temporary increase in Government deposits placed with Bank Negara Malaysia and a decrease in the banking system's claims on the private sector.

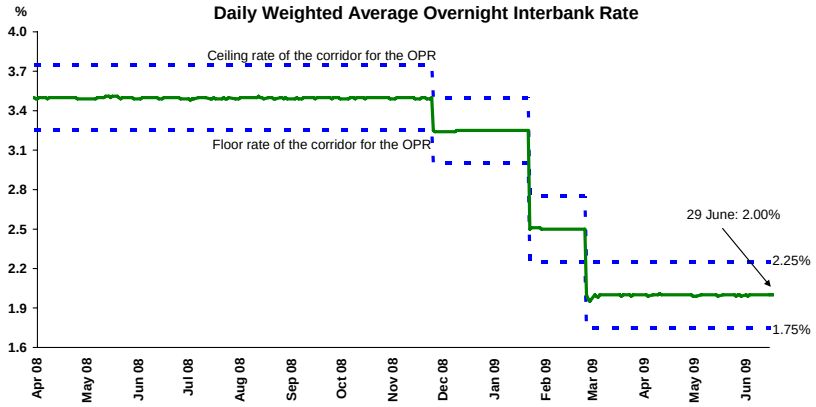
The risk-weighted capital ratio (RWCR) and core capital ratio remained stable at 14.2% and 12.3% respectively. Loan quality remained sound with the net non-performing loans ratio unchanged at 2.2% since end-2008.

Average lending rates declined further

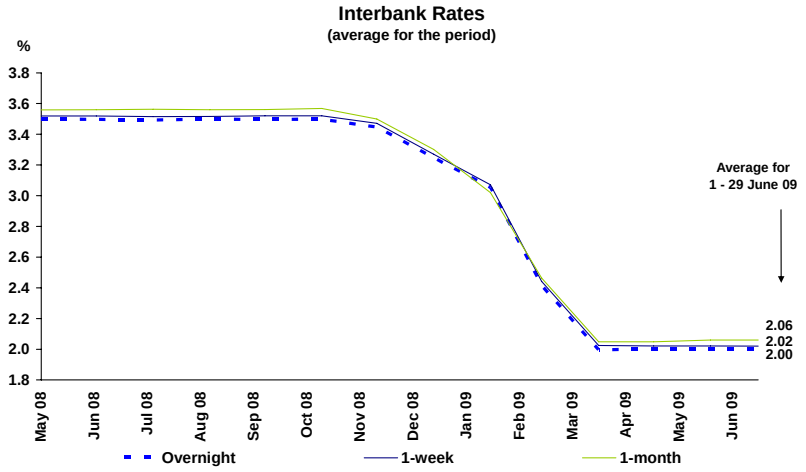
During the period 1 May – 29 June, the daily weighted average overnight interbank rate moved within a narrow range of 1.99% - 2.01%. Interbank rates of other maturities were also relatively stable.

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

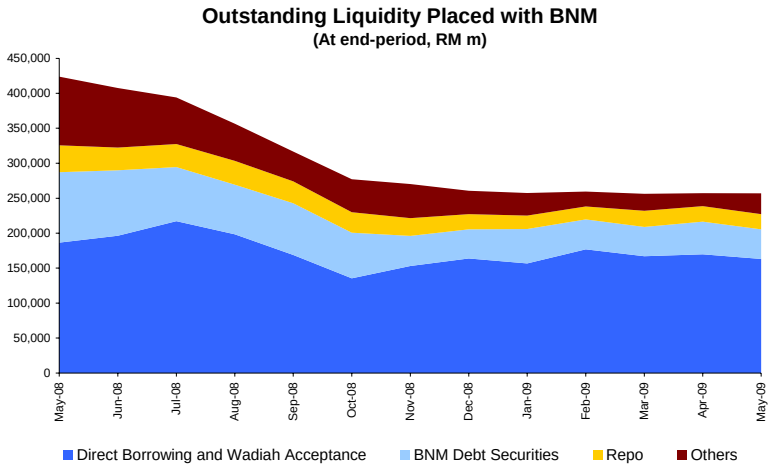
In terms of the CBs' lending rates, the average base lending rate (BLR) was unchanged at 5.53% as at 15 June, while the average lending rate (ALR) declined further to a historic low of 5.02% as at end-May (5.16% in March and 5.13% in April).



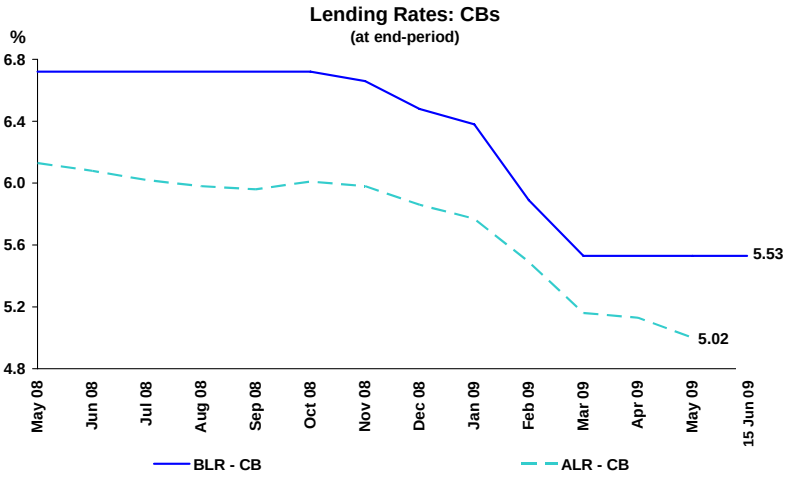
The average overnight interbank rate moved within a narrow range



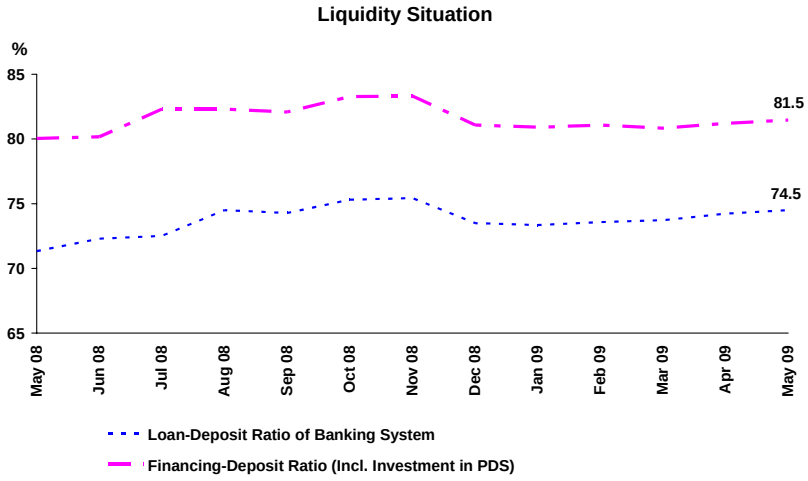
Other interbank rates were also relatively stable



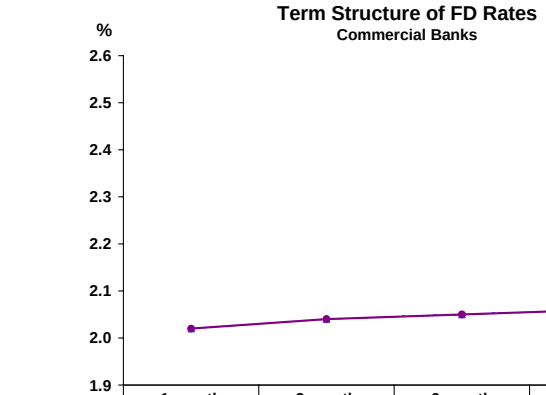
BNM continued to absorb excess liquidity



CBs' BLR was unchanged, whereas the ALR trended lower

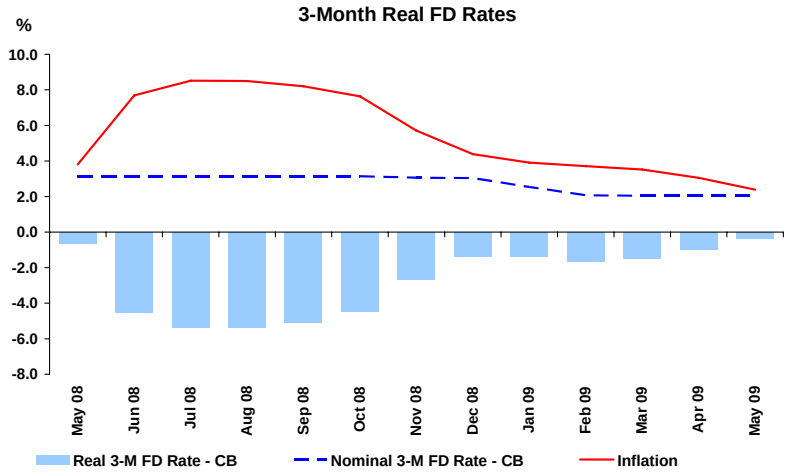


The loan-deposit and financing-deposit ratios increased in May, as deposits moderated at a faster pace compared to loans.



	1-month	3-month	6-month	9-month	12-month
Apr 09	2.02	2.04	2.05	2.06	2.52
May 09	2.02	2.04	2.05	2.06	2.52
08 Jun 09	2.02	2.04	2.05	2.06	2.52

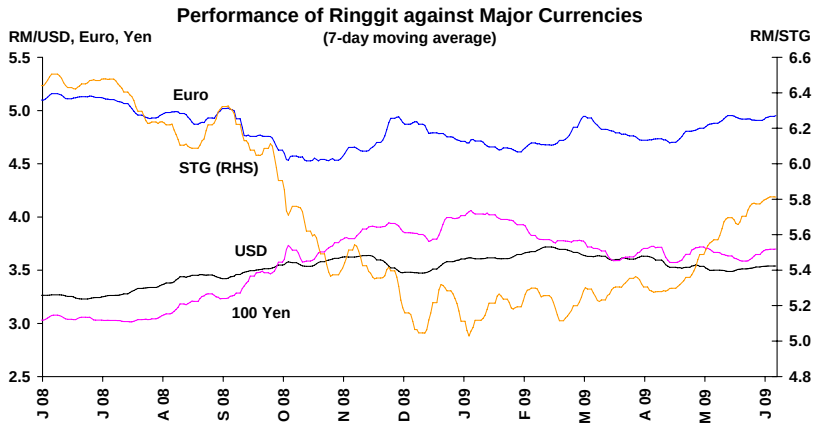
Average FD rates were relatively unchanged between March and 15 June



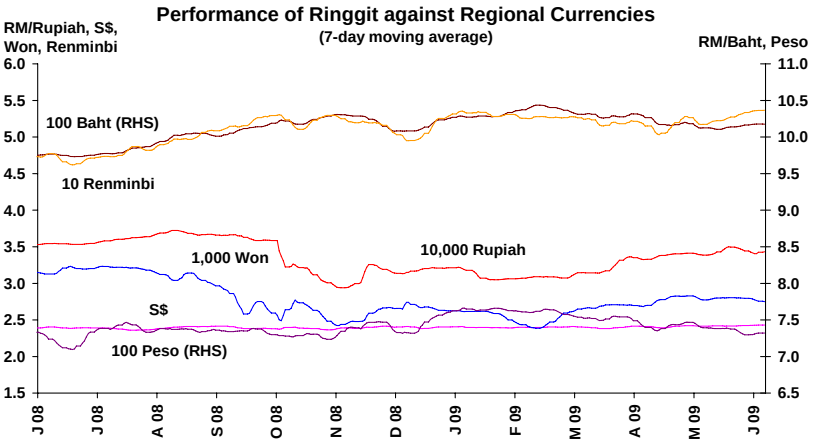
Real FD rates closer to turning positive

Ringgit appreciated against the U.S. dollar

From 1 May to 29 June 2009, the ringgit appreciated against the U.S. dollar by 0.7%. In the foreign exchange markets, exchange rates remained relatively volatile, reflecting the changing sentiments of investors in response to economic and financial developments. Against other major currencies, the ringgit depreciated against the pound sterling (-9.3%), the euro (-4.4%) and the Japanese yen (-1.2%). The pound sterling strengthened amid signs of economic stabilisation in the U.K. Against regional currencies, the ringgit appreciated against the Chinese renminbi (0.9%), the Philippine peso (0.6%) and the Korean won (0.3%), but depreciated against the Indonesian rupiah (-3.1%), the Thai baht (-2.7%), and the Singapore dollar (-0.9%).



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



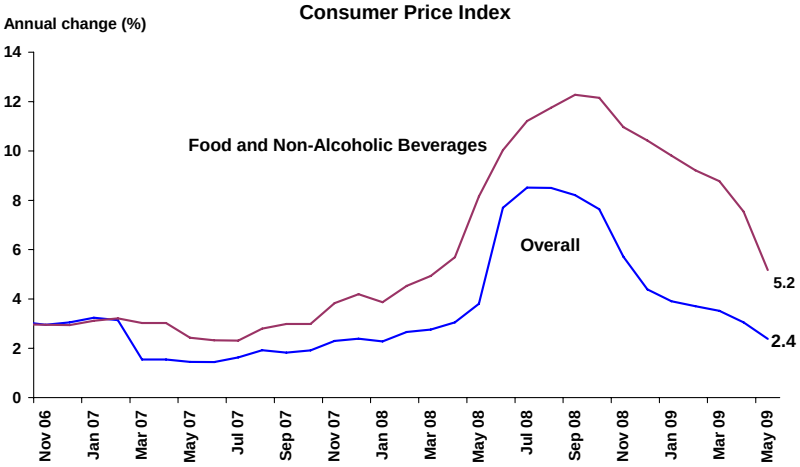
The ringgit recorded a mixed performance against regional currencies

Performance of Ringgit against Selected Currencies

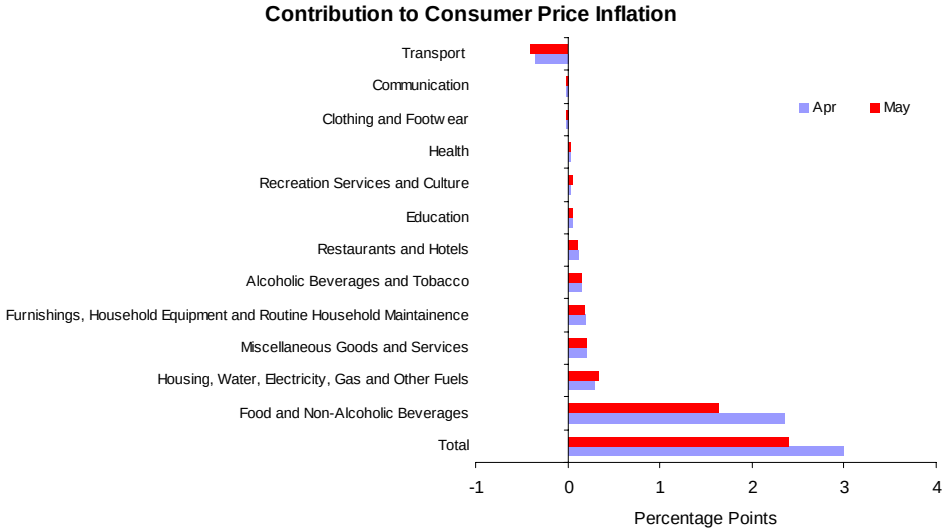
RM per foreign currency	End-period				% Change	
	Dec 08	Apr 09	May 09	29 Jun 09	End Dec 08 - 29 Jun 09	End Apr 09 - 29 Jun 09
US dollar	3.4640	3.5610	3.5075	3.5345	-2.0	0.7
Euro	4.8759	4.7404	4.9047	4.9582	-1.7	-4.4
Pound sterling	4.9989	5.2804	5.5995	5.8229	-14.2	-9.3
100 Japanese yen	3.8327	3.6570	3.6415	3.7022	3.5	-1.2
Singapore dollar	2.4070	2.4076	2.4182	2.4301	-1.0	-0.9
100 Thai baht	9.9398	10.091	10.202	10.373	-4.2	-2.7
100 Philippine peso	7.2774	7.3620	7.3850	7.3189	-0.6	0.6
100 Indonesian rupiah	0.0316	0.0334	0.0339	0.0345	-8.3	-3.1
100 Korean won	0.2750	0.2754	0.2783	0.2746	0.2	0.3
Chinese renminbi	0.5076	0.5218	0.5137	0.5172	-1.8	0.9

Inflation moderated further

Headline inflation moderated to 2.4% in May (April: 3.0%). The faster rate of decline in inflation compared to previous months was mostly explained by the slower rate of price increase in the *food and non-alcoholic beverages* category (May: 5.2%; April: 7.5%) and the continued decline in prices in the *transport* category (May: -2.5%; April: -2.3%). The moderation in inflation in the *food and non-alcoholic beverages* category was due mainly to the sharp decline in inflation in the *rice, bread and other cereals* (May: 4.2%; April: 15.6%) sub-category. The decline in food inflation was however partly mitigated by the increase in inflation in the *meat* sub-category (May: 7.7%; April: 6.5%).



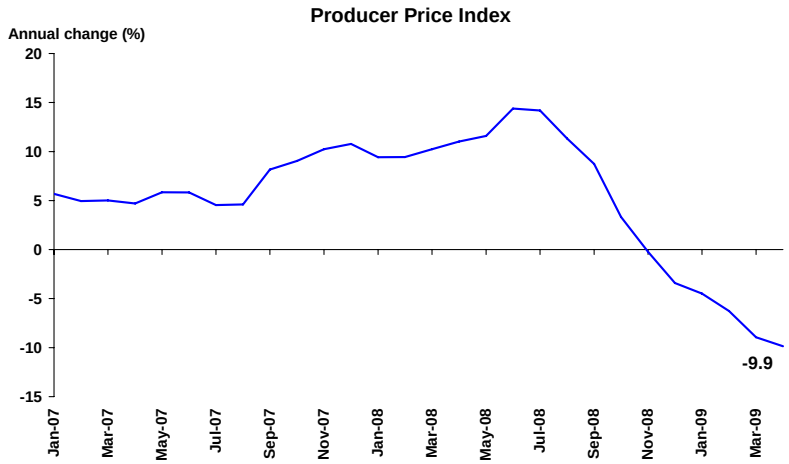
Inflation moderated to 2.4% in May



Producer prices continued to decline on a yearly basis in April

The Producer Price Index (PPI) declined by 9.9% on a yearly basis in April (March: -8.9%). As in the previous months, the decline was due mainly to the significantly lower prices in the commodity-related components of the PPI. Prices in the commodity-related components of the PPI continued to decline rapidly on a yearly basis, falling by 26.9% in April (March: -25.3%). In the non-commodity-related components of the PPI, prices also declined at a faster rate of 1.4% (March: -1.2%). Despite declining by 9.9% on a yearly basis, overall producer prices increased by 0.4% in April on a month-on-month basis after eight months of consecutive declines.

In terms of composition, both the local and imported components of the PPI continued to record declining prices. Compared to their levels a year ago, prices in the local component of the PPI declined at a faster rate of 13.0% (March: -11.7%), while prices in the imported component declined at the same rate of 3.0% (March: -3.0%).



Producer prices continued to decline on a yearly basis in April

M3 growth moderated

In May, broad money, or M3, registered a slower annual growth rate of 4.9% (April: 6.1%) On a month-on-month basis, M3 decreased by RM5.1 billion. The decrease in M3 was underpinned mainly by a temporary increase in Government deposits placed with Bank Negara Malaysia to finance its future outlays. The banking system's claims on the private sector also decreased, reflecting a large loan repayment from the *transport, storage and communications* sector in May. On the other hand, net foreign assets of the banking system registered a slight increase, due mainly to net portfolio inflows. This exerted an expansionary impact on broad money.

Narrow money or M1, increased by RM3.6 billion, to expand at a faster annual growth rate of 9.3% (April: 7.4%). The increase in M1 was underpinned by an increase in holdings of demand deposits.

M3 Determinants

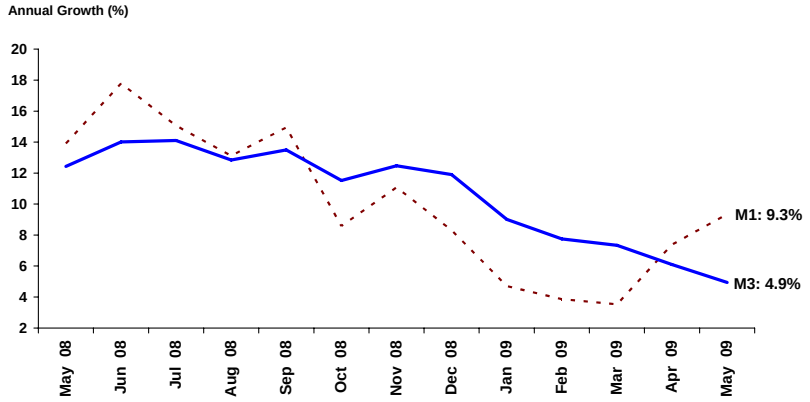
(RM billion)

	Change during period			
	Feb 09	**Mar 09**	**Apr 09**	**May 09**
M3	-1.7	5.1	-1.2	-5.1
Net claims on Government	-1.3	1.6	3.9	-6.5
Claims on the private sector	0.7	1.3	3.2	-2.9
Loans	*1.3*	*1.0*	*3.1*	*-2.9*
Securities	*-0.6*	*0.3*	*0.1*	*0.0*
Net foreign assets*	1.8	-1.5	6.3	0.6
Other influences	-2.9	3.8	-14.6	3.7

* 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.

Monetary Aggregates



Banking system deposits declined on withdrawals to purchase new Government saving instruments

Total deposits placed with the banking system declined by RM5.3 billion in May. (April: -RM1.1 billion), and registered a slower pace of growth of 5.6% on an annual basis (April: +6.2%). The decline in deposits mainly reflected withdrawals to purchase new issuances of Government securities including the Sukuk Simpanan Rakyat. By customer, lower deposits were observed mainly for financial institutions, statutory authorities, individuals and to a lesser extent, state governments. By type, the decrease in deposits was mainly in the form of short-term money market deposits, negotiable instruments of deposits (NIDs), and savings deposits.

Deposits by Holder
(RM million)

	Change during period			
	Feb 09	**Mar 09**	**Apr 09**	**May 09**
Federal Government	2,709	-2,612	300	1,505
State Governments	1,542	305	847	-1,083
Statutory Authorities [1]	627	-323	2,155	-2,388
Financial Institutions	-3,533	7,251	-3,854	-2,450
Business Enterprises	-5,079	3,657	182	845
Individuals	2,433	1,580	-1,597	-1,674
Others [2]	1,016	-532	862	-103
Total	-285	9,326	-1,104	-5,347

1/ Include local Governments

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

Deposits by Type
(RM million)

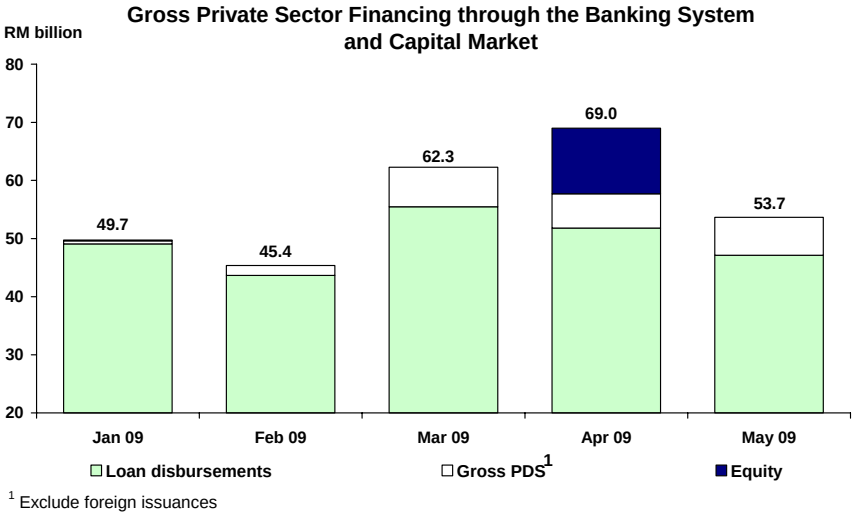
	Change during period			
	Feb 09	**Mar 09**	**Apr 09**	**May 09**
Fixed deposits	2,193	-38	-6,553	2,259
NIDs	-4,643	3,769	-2,347	-1,701
Demand deposits	248	-157	1,904	-819
Savings deposits	1,968	736	1,832	-1,390
Repos	-30	560	-538	-44
FX deposits	466	-645	3,134	616
IBS deposits[1]	1,433	3,170	4,722	3,704
Others[2]	-1,976	1,962	-3,258	-7,971
Total	-285	9,326	-1,104	-5,347

1/ IBS deposits refers to Islamic banking system deposits

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

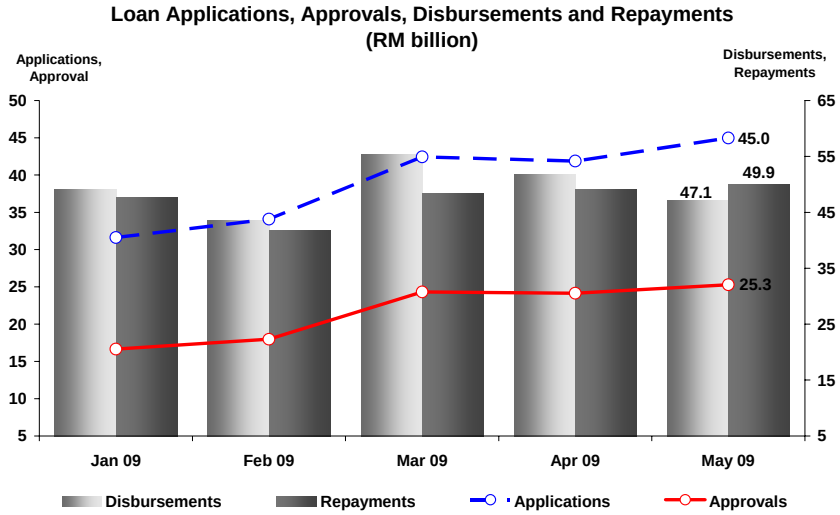
Demand for business loans increased in May

On a net basis, banking system loans and PDS outstanding expanded at a combined annual rate of 8.9% as at end-May (April: 10.6%). Meanwhile, gross financing through the banking system and the capital market moderated to RM53.7 billion (April: RM69.0 billion) during the month following lower loan disbursements.



[1] Exclude foreign issuances

Gross financing amounted to RM53.7 billion in May



Loan applications and approvals increased during the month…

… due mainly to higher demand of financing from the business sector

Bank lending indicators

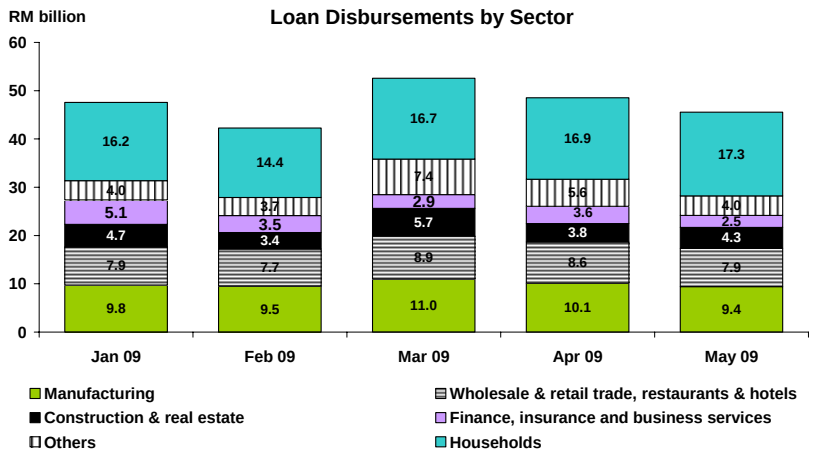
	RM billion			Annual Growth (%)		
	Apr-09	May-09	J-M 09	Apr-09	May-09	J-M 09
Overall						
Loan applications	41.9	45.0	195.0	-5.2	11.0	-0.3
Loan approvals	24.2	25.4	108.5	-18.1	-3.2	-14.8
Loan disbursements	51.8	47.1	247.1	-6.4	-10.5	-4.8
Chg in Loans Outstanding[1/]	2.6	-1.3	8.6	10.6	8.9	8.9
Businesses						
Loan applications	17.0	22.0	91.1	-24.2	9.2	-7.1
Loan approvals	10.1	12.0	48.2	-35.0	-11.1	-28.2
Loan disbursements	34.9	29.8	165.6	-10.9	-19.3	-9.3
Chg in Loans Outstanding[1/]	0.2	-3.8	-4.8	9.2	5.7	5.7
SMEs[2/]						
Loan applications	8.5	7.6	36.3	-14.2	-15.1	-15.5
Loan approvals	3.3	4.0	16.2	-41.2	-14.6	-29.9
Loan disbursements	11.3	10.8	56.7	-17.7	-18.7	-15.1
Chg in Loans Outstanding[1/3/]	-0.6	0.2	-7.2	-1.2	-1.7	-1.7
Households						
Loan applications	24.8	22.9	103.9	14.5	12.7	6.4
Loan approvals	14.0	13.4	60.3	1.0	5.1	0.1
Loan disbursements	16.9	17.3	81.5	4.4	10.0	5.9
Chg in Loans Outstanding[1/]	2.6	3.1	11.0	8.5	8.4	8.4

[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 1.7% year-on-year as at end-May 2009.

Loan disbursements remained broad-based

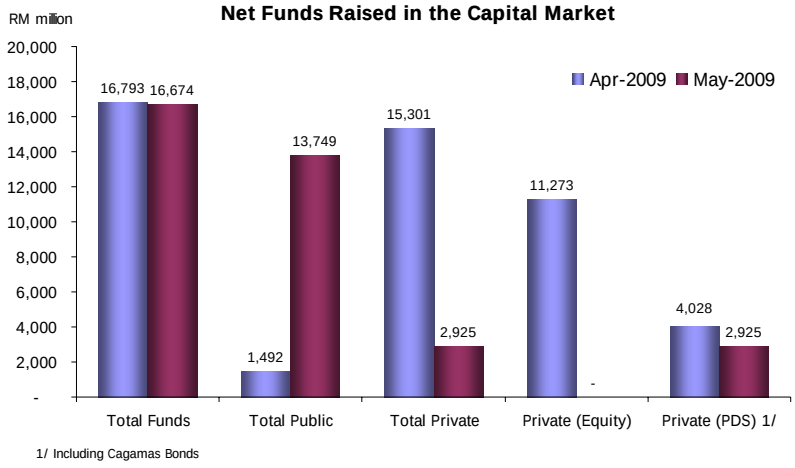


Overall loan applications and approvals were higher during the month, accounted for mainly by the business sector to finance higher working capital requirements. A large loan repayment from the *transport, storage and communication* sector, coupled with lower loan disbursements, nevertheless, contributed to a significant decline in business loans outstanding. On an annual basis, loans outstanding of the business sector expanded at a slower growth rate of 5.7% at end-May (end-April: 9.2%).

Loan applications and approvals to the household sector remained firm. Loan disbursements were higher during the month mainly reflecting increased loans for the purchase of securities and the usage of credit cards. On an annual basis, loans outstanding of the household sector expanded by 8.4% at end-May (end-April: 8.5%).

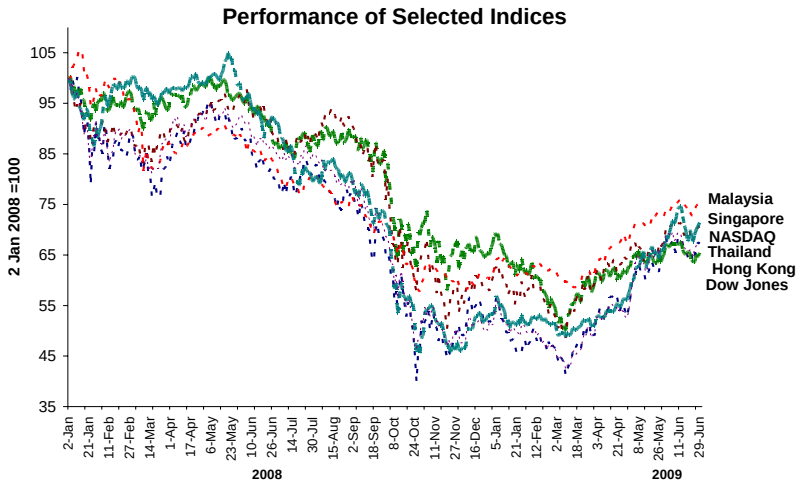
Active fund raising activity by the public sector

Net funds raised in the capital market remained high at RM16.7 billion in May. The bulk of the funds were raised by the public sector through the issuance of a 10.5-year Malaysian Government Securities (MGS), re-opening of the 5-year MGS as well as the issuance of Sukuk Simpanan Rakyat. Sukuk Simpanan Rakyat was issued as part of the Government's fund raising activities under the Second Stimulus Package. Meanwhile, in the private sector, gross funds raised through private debt securities (PDS) were slightly higher at RM6.6 billion. A significant portion of the amount was raised by a recently established state-owned sovereign fund and a special purpose vehicle (SPV) for a construction company. After adjusting for redemptions, net funds raised by the private sector totalled RM2.9 billion.



KLCI continued to rise in May

In May, the KLCI ended higher to close at 1044.1 (end-April: 990.7 points). The rise was due to positive sentiments about the global economic recovery. The increase in crude palm oil prices also encouraged greater interest in plantation stocks. Market capitalisation rose to RM797.8 billion (since end-April: +5.8%) and the daily average turnover increased to 2,195.8 million units (April: 1,232.8 million units).

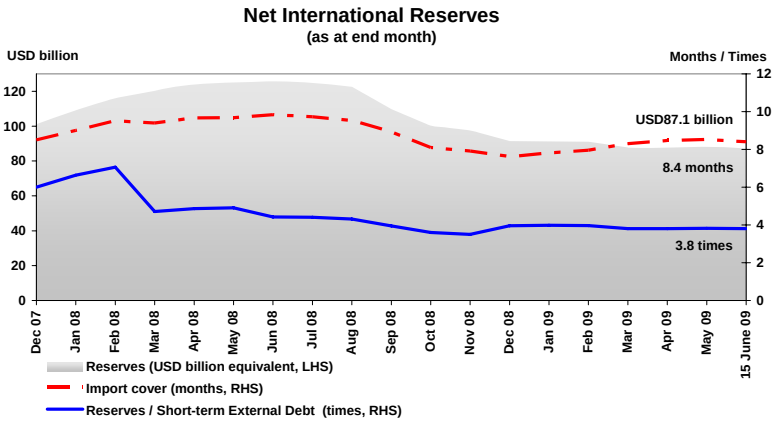


KLCI rose in May

As at 29 June, the KLCI ended higher at 1,075.8 (since end-May:+3.04%). Overall market capitalisation was higher at RM818.74 billion (since end-May: +2.62%) but the daily average turnover moderated to 1,683.99 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM322.4 billion (equivalent to USD88.3 billion) as at 29 May 2009. As at 15 June 2009, the international reserves amounted to RM318.4 billion (equivalent to USD87.1 billion). The reserves position is sufficient to finance 8.4 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

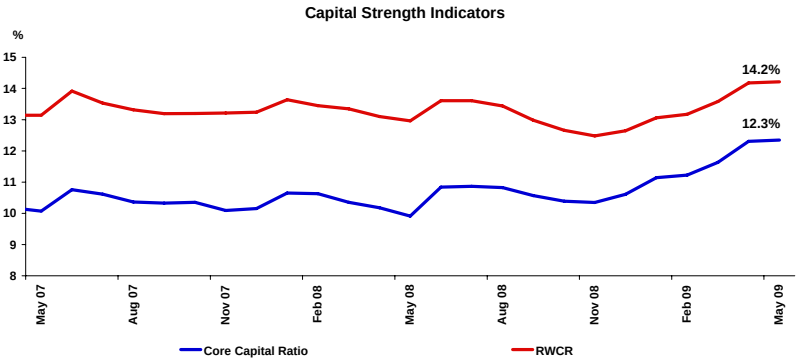
Strong capitalisation and stable non-performing loans in the banking system

The risk-weighted capital ratio (RWCR) and core capital ratio remained stable at 14.2% and 12.3% respectively. Loan quality remained sound with the net non-performing loans ratio unchanged at 2.2% since end-2008.

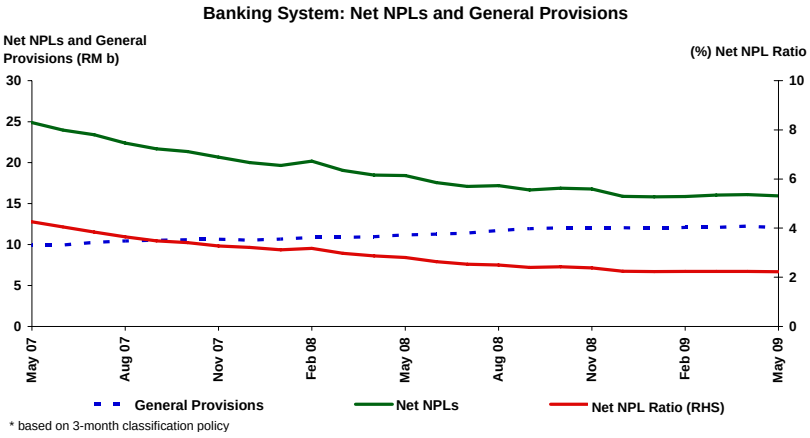
Banking System Health Indicators *

	2002	2003	2004	2005	2006	2007	2008	Mar 09	Apr 09	May 09
Capital (%) **										
Core capital ratio	11.1	11.1	11.4	10.7	10.7	10.2	10.6	11.6	12.3	12.3
RWCR	13.2	13.8	14.4	13.7	13.5	13.2	12.6	13.6	14.2	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	16,029	16,093	15,934
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…



* based on 3-month classification policy

…and net NPLs remained at a low level

Bank Negara Malaysia
30 June 2009

Key Monetary and Financial Statistics

		Mar 09		Apr 09		May 09	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		54.1	-17.5	53.8	-17.7	54.7	-18.8
M1		179.7	3.5	182.6	7.4	186.2	9.3
M2		921.9	9.3	918.8	6.6	912.9	5.3
M3		949.3	7.3	948.1	6.1	943.0	4.9
Banking System							
Total deposits		985.9	8.0	984.8	6.2	979.4	5.6
Total loans (including loans sold to Cagamas)		733.9	10.9	736.5	10.6	735.2	8.9
Loan-deposit ratio (%)		73.7		74.2		74.5	
Financing-deposit ratio [1] (%)		80.8		81.2		81.5	
Loans applied (during the period)		42.4	5.8	41.9	-5.2	45.0	11.0
Loans approved (during the period)		24.3	-0.7	24.2	-18.1	25.4	-3.2
Loans disbursed (during the period)		55.5	9.0	51.8	-6.4	47.1	-10.5
Loans repaid (during the period)		48.4	4.8	49.1	-2.8	49.9	14.9
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		13.6		14.2		14.2	
Net NPLs: 3-month classification (%)		2.2		2.2		2.2	
Net Reserves in RM billion		320.7		320.4		322.4	
Net Reserves in USD billion (equivalent)		87.8		87.7		88.3	
Months of retained imports		8.3		8.5		8.5	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		2.00		2.00		2.00	
Interbank:	Overnight	2.00 [2.00]		1.99 [2.00]		1.99 [2.00]	
	1-week	2.03 [2.02]		2.02 [2.02]		2.03 [2.02]	
	1-month	2.06 [2.05]		2.06 [2.05]		2.06 [2.06]	
Fixed deposits of commercial banks:	1-month	2.02		2.02		2.02	
	3-month	2.04		2.04		2.04	
BLR of commercial banks		5.53		5.53		5.53	
ALR of commercial banks		5.16		5.11		5.02	
Prices							
Consumer Price Index (CPI) (2005=100)		111.7	3.5	111.5	3.0	111.7	2.4
Producer Price Index (PPI) (2000=100)		128.4	-8.9	128.9	-9.9	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.6470		3.5610		3.5075	
Euro		4.8348		4.7404		4.9047	
Pound Sterling		5.2203		5.2804		5.5995	
100 Japanese yen		3.7091		3.6570		3.6415	
Singapore dollar		2.4008		2.4076		2.4182	
100 Thai Baht		10.266		10.091		10.202	
100 Philippine Peso		7.5343		7.3620		7.3850	
100 Indonesian Rupiah		0.0315		0.0334		0.0339	
100 Korean Won		0.2630		0.2754		0.2783	
Capital Market							
Net funds raised (in RMb) by:	public	6.6		1.5		13.7	
	private	4.4		15.3		2.9	
Bursa Malaysia Composite Index (end-period)		872.6		990.7		1,044.1	
Bursa Malaysia Market Capitalisation (RMb, end-period)		662.1		754.2		797.8	

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