Ref. No.: 08/09/09

EMBARGO: Not for publication or broadcast before 1800 hours on Wednesday, 26 August 2009

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

- Headline inflation declined to -2.4% in July 2009 (June: -1.4%), driven mainly by lower energy and food prices.

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

- The banking system remained healthy, with the risk-weighted capital ratio and core capital ratio remaining stable at 14.2% and 12.6%.

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MONETARY AND FINANCIAL DEVELOPMENTS

July 2009

Gross financing through the banking system and the capital market was higher at RM64.2 billion (June: RM60.7 billion) mainly on account of increased loan disbursements during the month. On a net basis, banking system loans and PDS outstanding expanded at a higher combined annual rate of 8.3% as at end-July (June: 8.0%). Overall, key loan indicators, namely loan applications, approvals, disbursements and repayments, increased especially for the purchase of *residential* and *non-residential properties*, *passenger cars* and *credit cards*.

Interbank rates for all maturities were relatively stable, while average fixed deposit rates were relatively unchanged. The average base lending rate (BLR) was unchanged at 5.53% as at 15 August, while the average lending rate (ALR) decreased to 4.96% as at end-July (5.02% in May, 5.04% in June).

Between 1 July and 25 August 2009, the ringgit appreciated against the U.S. dollar by 0.3%. The ringgit also appreciated against the pound sterling by 1.7%, but depreciated against Japanese yen (-1.8%) and euro (-0.7%). Against regional currencies, the ringgit depreciated between 0.2% and 2.2%. In particular, the Indonesian rupiah and Korean won had appreciated against the ringgit and other

regional currencies as these currencies rebounded from sharp depreciation in 2008 and early 2009.

Headline inflation continued to decline to -2.4% in July 2009 (June: -1.4%), driven mainly by lower energy and food prices. Prices in the *transport* category continued to decline (July: -19.9%, June: -18.0%, July 2008: +22.7%), reflecting the cumulative effect of the series of downward adjustments to administered fuel prices in the second half of 2008. In addition, lower inflation was observed in the *housing, water, gas, electricity and other fuels* category (July: 1.3%, June: 2.0%), following the lapse of the impact of the upward adjustment to electricity tariffs in July 2008. Inflation in the *food and non-alcoholic beverages* category also continued to moderate (July: 2.0%, June: 3.4%).

Broad money (M3) sustained an annual growth rate of 5.2% in July 2009 due to the higher credit by banks to the private sector.

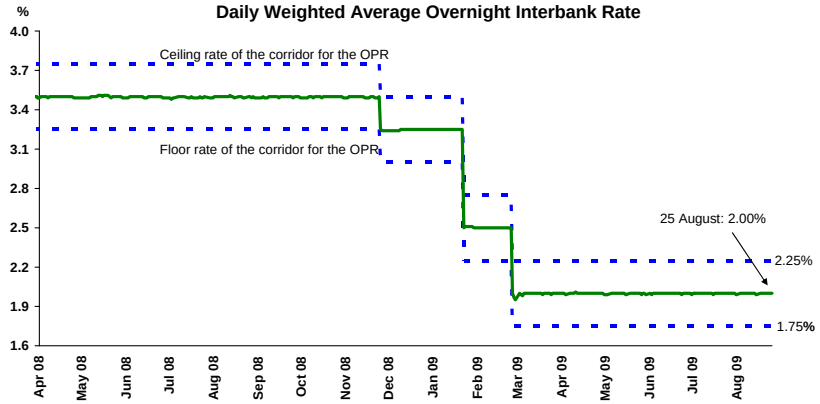
The banking system remained healthy, with the risk-weighted capital ratio and core capital ratio remaining stable at 14.4% and 12.6%.

Interest rates were stable in July

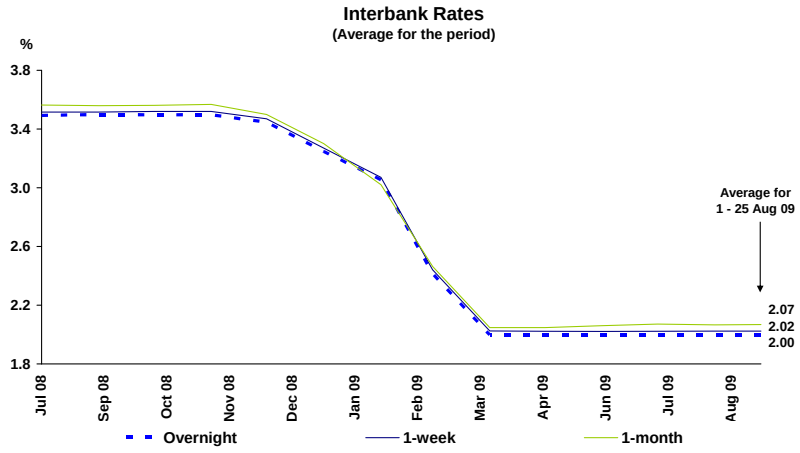
During the period 1 July – 25 August, the daily weighted average overnight interbank rate moved within a narrow range of 1.99% - 2.00%. Interbank rates of other maturities were also relatively stable.

The average fixed deposit rates of commercial banks were unchanged between July and August. As at 15 August, the average quoted fixed deposit rates for tenures between 1 and 12 months were within the range of 2.02% and 2.52%.

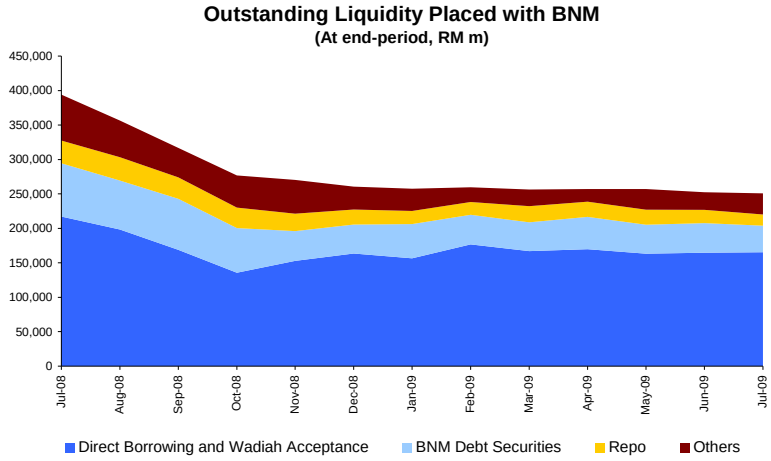
In terms of the commercial banks' lending rates, the average base lending rate (BLR) was unchanged at 5.53% on 15 August, while the average lending rate (ALR) decreased to 4.96% as at end-July (5.02% in May and 5.04% in June).



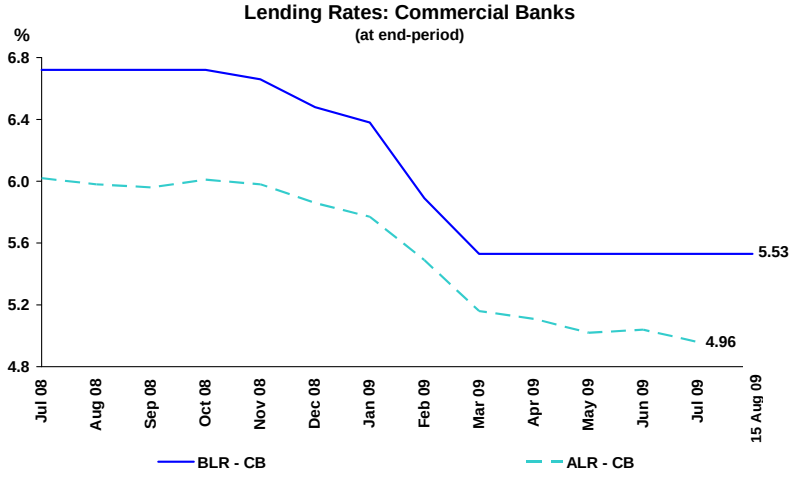
The average overnight interbank rate moved within a narrow range



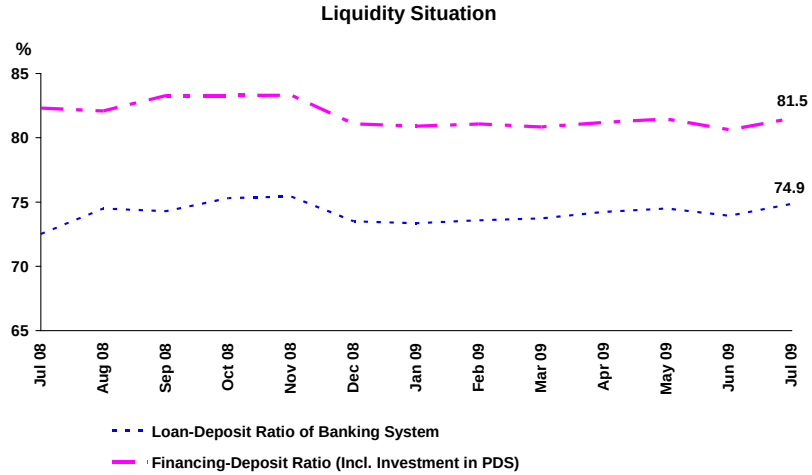
Other interbank rates were also relatively stable



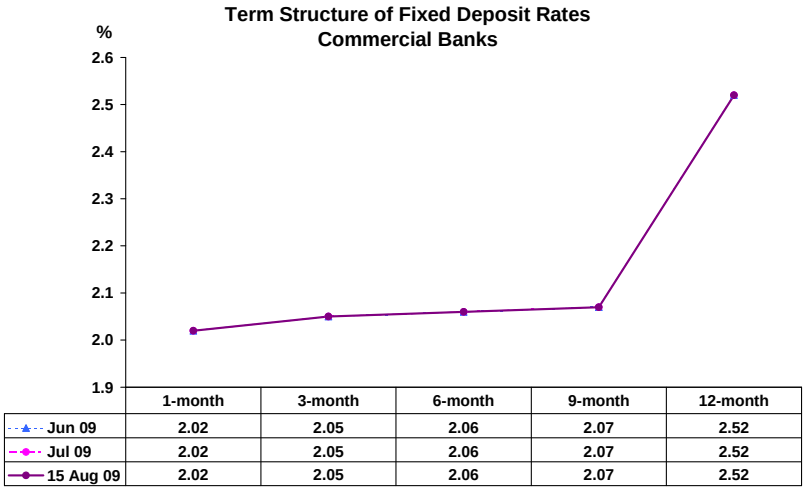
BNM continued to absorb excess liquidity



Commercial banks' BLR was unchanged, whereas the ALR decreased to 4.96%

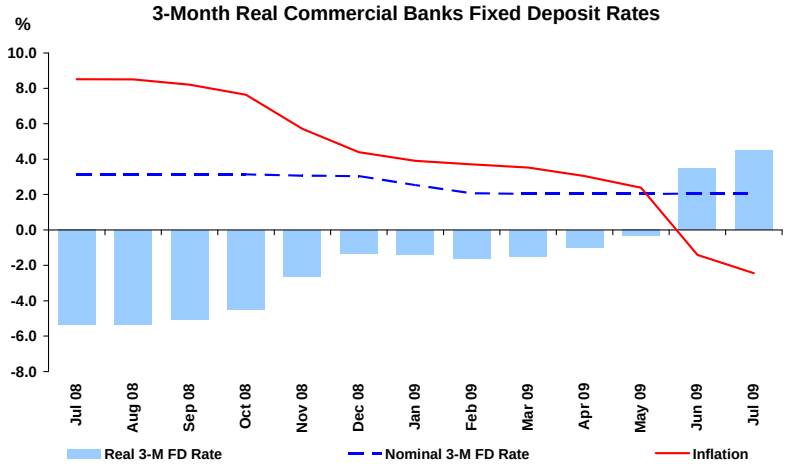


The loan-deposit and financing-deposit ratios increased in July, as the growth in loans outpaced the increase in deposits.



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

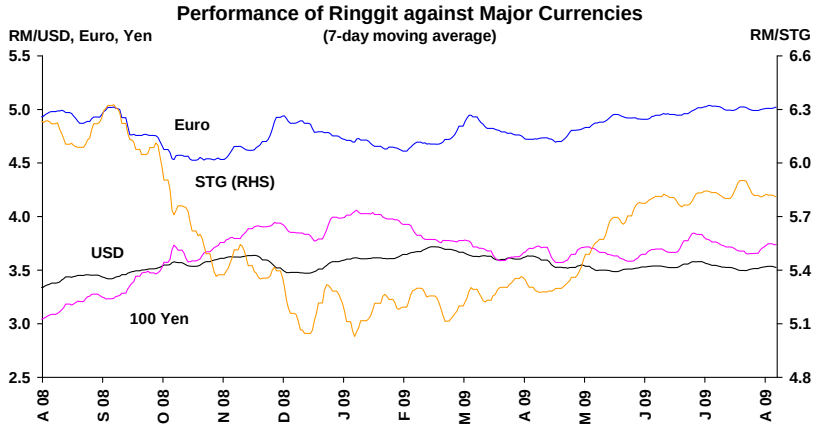
Average fixed deposit rates were unchanged between June and 15 August

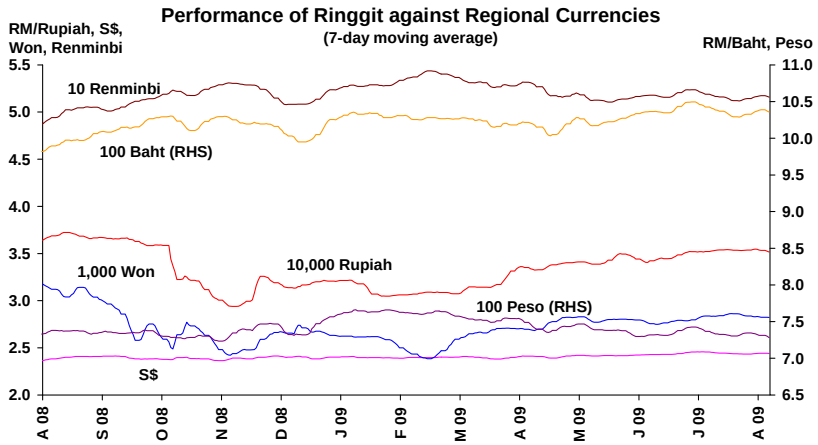


Real fixed deposit rates continued to increase

Ringgit appreciated against the U.S. dollar

Between 1 July and 25 August 2009, the ringgit appreciated against the U.S. dollar by 0.3%. The ringgit also appreciated against the pound sterling by 1.7%, but depreciated against Japanese yen (-1.8%) and euro (-0.7%). Against regional currencies, the ringgit depreciated between 0.2% and 2.2%. In particular, the Indonesian rupiah and Korean won had appreciated against the ringgit and other regional currencies as these currencies rebounded from sharp depreciation in 2008 and early 2009.



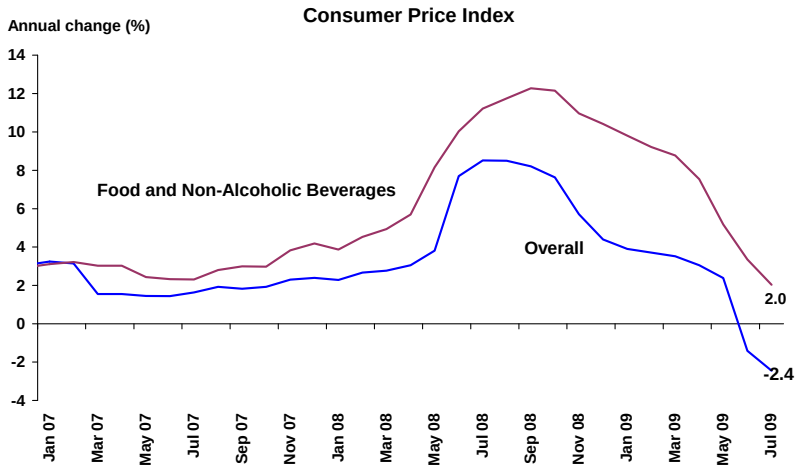


Performance of Ringgit against Selected Currencies

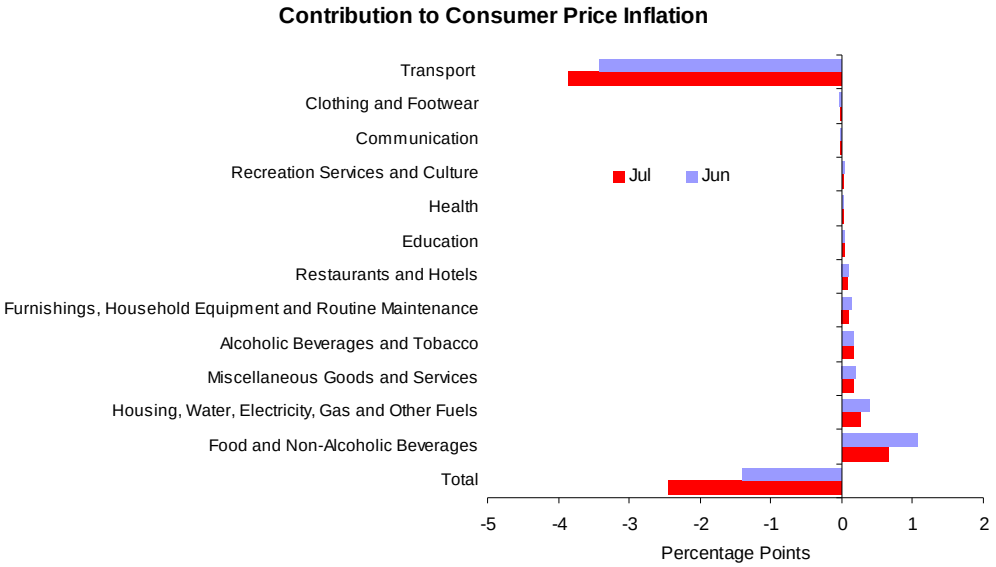
RM per foreign currency	End-period				% Change	
	Dec 08	Jun 09	Jul 09	25 Aug 09	End Dec 08 - 25 Aug 09	End Jun 09 - 25 Aug 09
US dollar	3.4640	3.5225	3.5200	3.5125	-1.4	0.3
Euro	4.8759	4.9699	4.9729	5.0232	-2.9	-1.1
Pound sterling	4.9989	5.8592	5.8150	5.7631	-13.3	1.7
100 Japanese yen	3.8327	3.6729	3.6919	3.7367	2.6	-1.7
Singapore dollar	2.4070	2.4302	2.4432	2.4359	-1.2	-0.2
100 Thai baht	9.9398	10.354	10.342	10.326	-3.7	0.3
100 Philippine peso	7.2774	7.3111	7.3249	7.2303	0.7	1.1
100 Indonesian rupiah	0.0316	0.0345	0.0355	0.0351	-9.8	-1.8
100 Korean won	0.2750	0.2754	0.2859	0.2816	-2.3	-2.2
Chinese renminbi	0.5076	0.5155	0.5152	0.5142	-1.3	0.3

Inflation declined in July

Headline inflation declined to -2.4% in July 2009 (June: -1.4%), driven mainly by lower energy and food prices. Prices in the *transport* category continued to decline (July: -19.9%, June: -18.0%, July 2008: +22.7%), reflecting the cumulative effect of the series of downward adjustments to administered fuel prices since in the second half of 2008. In addition, lower inflation was observed in the *housing, water, gas, electricity and other fuels* category (July: 1.3%, June: 2.0%), following the lapse of the impact of the upward adjustment to electricity tariffs in July 2008. Inflation in the *food and non-alcoholic beverages* category also continued to moderate (July: 2.0%, June: 3.4%).



Inflation declined to -2.4% in July…

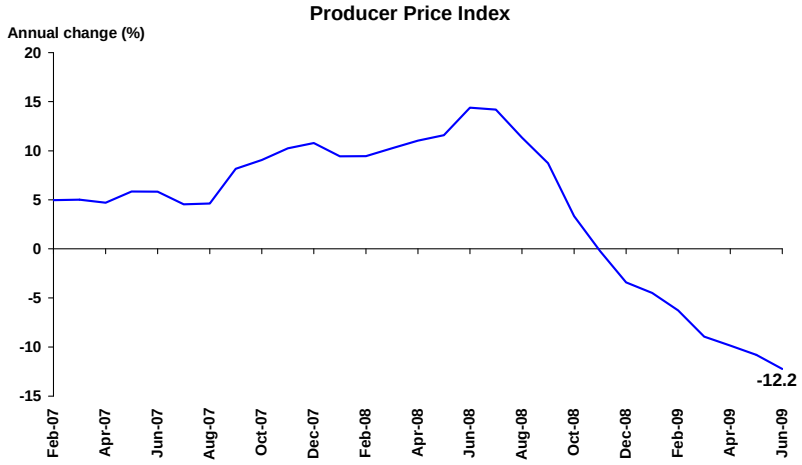


…driven mainly by price declines in the transport category

Producer prices continued to decline in June

The Producer Price Index (PPI) continued to decline by 12.2% on an annual basis in June (May: -10.8%). Prices in the commodity-related components of the PPI were lower by an average of 29.9% (May: -28.2%), due to the broad-based decline in all commodity-related components. Prices also declined at a faster rate of 2.7% (May: -2.0%) in the non-commodity-related components of the PPI. On a month-on-month basis, however, producer prices rose by 1.2% in June (May: 0.6%).

In terms of composition, prices in both the local and imported components of the PPI fell at a faster rate. Compared to their levels a year ago, prices in the local component of the PPI declined by 16.1% (May:-14.4%), while prices in the imported component declined by 3.4% (May: -3.0%).



Producer prices declined on an annual basis in June

M3 continued to grow in July

In July, broad money (M3) sustained an annual growth rate of 5.2%. On a monthly basis, M3 increased by RM10.0 billion. On the domestic side, the main impetus for the increase in broad money was higher credit by banks to the private sector. Net claims on Government declined marginally by RM0.1 billion due to a temporary deposit placement with Bank Negara. On the external side, net foreign asset of the banking system increased, which exerted an expansionary impact on broad money.

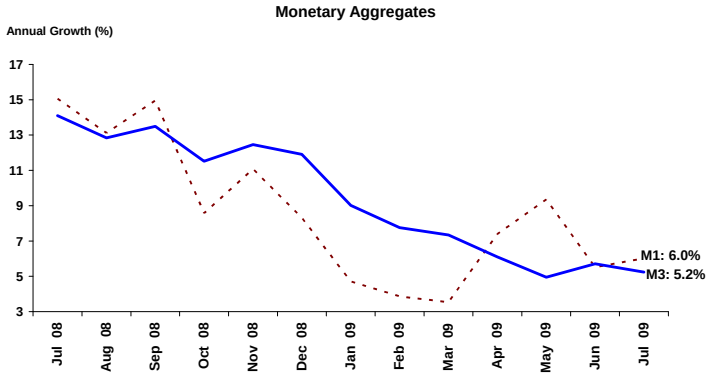
M3 Determinants

(RM billion)

	Change during period			
	Apr 09	**May 09**	**Jun 09**	**Jul 09**
M3	-1.2	-5.0	7.3	10.0
Net claims on Government	3.9	-6.5	8.4	-0.1
Claims on the private sector	2.8	-2.9	8.7	8.3
Loans	*3.1*	*-2.9*	*7.6*	*8.1*
Securities	*-0.3*	*0.0*	*1.1*	*0.2*
Net foreign assets*	5.8	0.6	-12.0	1.1
Other influences	-13.7	3.8	2.2	0.8

* 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 continued to increase on an annual basis

Banking system deposits increased in July

Total deposits placed with the banking system in July increased by RM0.9 billion from the preceding month (June: RM18.2 billion) to register an annual growth rate of 6.2% (June: 7.2%). Businesses, individuals, non-bank financial institutions and other depositors also increased their deposits during the month. The increase, however, was partially offset by maturing negotiable instrument of deposits (NIDs) placed by banking institutions. By type, the increase was mainly observed in the form of short-term money market deposits, as reflected in other deposits.

Deposits by Holder
(RM million)

	Change during period			
	Apr 09	**May 09**	**Jun 09**	**Jul 09**
Federal Government	300	1,505	1,739	81
State Governments	847	-1,083	561	-567
Statutory Authorities [1]	2,155	-2,388	1,729	28
Financial Institutions	-3,854	-3,186	13,575	-6,557
of which:				
Banking Institutions	*-677*	*618*	*8,173*	*-8,435*
Non-Bank Financial Institutions	*-2,345*	*-3,905*	*5,694*	*1,725*
Business Enterprises	182	1,682	-2,323	4,437
Individuals	-1,597	-1,674	2,012	2,246
Others [2]	862	-103	856	1,191
Total	-1,104	-5,247	18,151	859

1/ Include local Governments

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

Deposits by Type
(RM million)

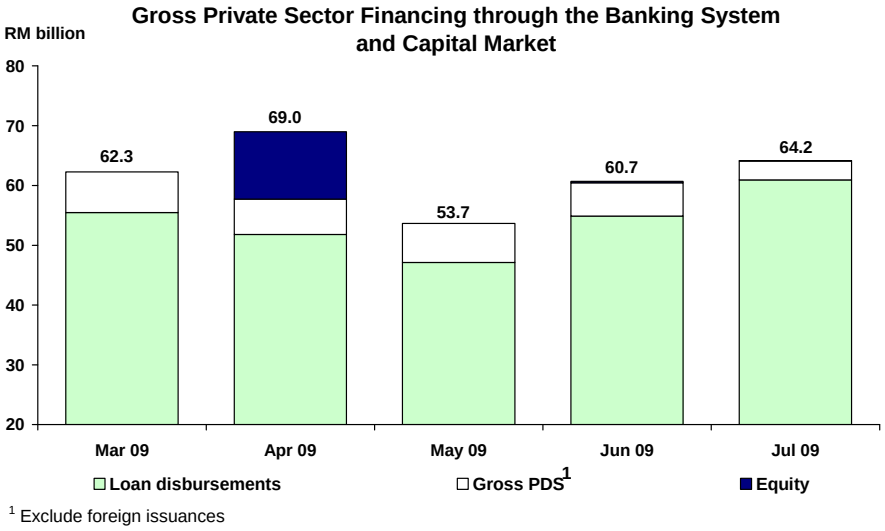
	Change during period			
	Apr 09	**May 09**	**Jun 09**	**Jul 09**
Fixed deposits	-6,553	2,259	-3	-3,124
NIDs	-2,347	-1,694	7,849	-10,188
Demand deposits	1,904	-819	4,795	-988
Savings deposits	1,832	-1,390	1,222	752
Repos	-538	-44	-26	17
FX deposits	3,134	716	-4,236	455
IBS deposits [1]	4,722	3,704	5,907	2,095
Others [2]	-3,258	-7,978	2,642	11,840
Total	-1,104	-5,247	18,151	859

1/ IBS deposits refers to Islamic banking system deposits

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

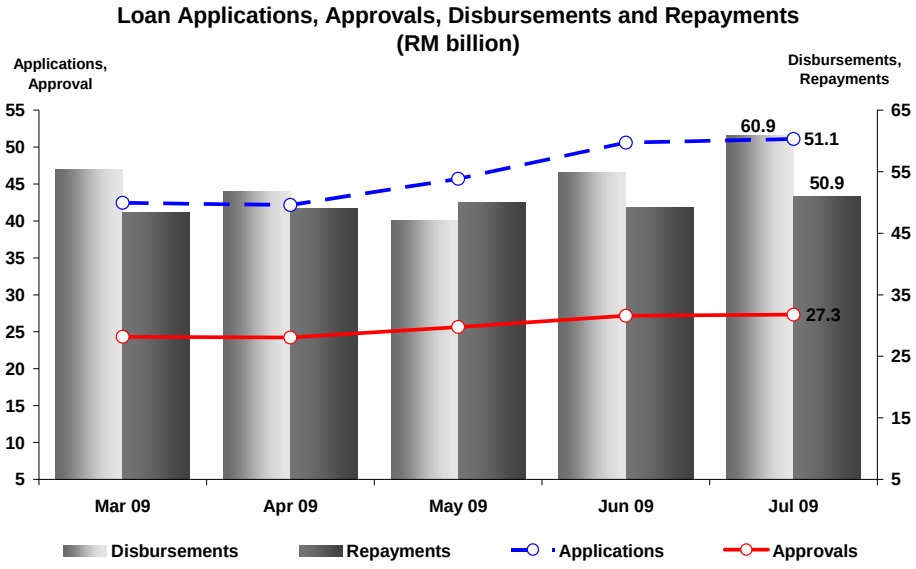
Demand for financing continued to increase

Gross financing through the banking system and the capital market was higher at RM64.2 billion (June: RM60.7 billion) driven mainly by the increase in loan disbursements during the month. On a net basis, banking system loans and PDS outstanding expanded at a higher combined annual rate of 8.3% as at end-July (June: 8%).



[1] Exclude foreign issuances

Higher gross financing driven by loan disbursements



Major loan indicators increased in July…

Bank lending indicators

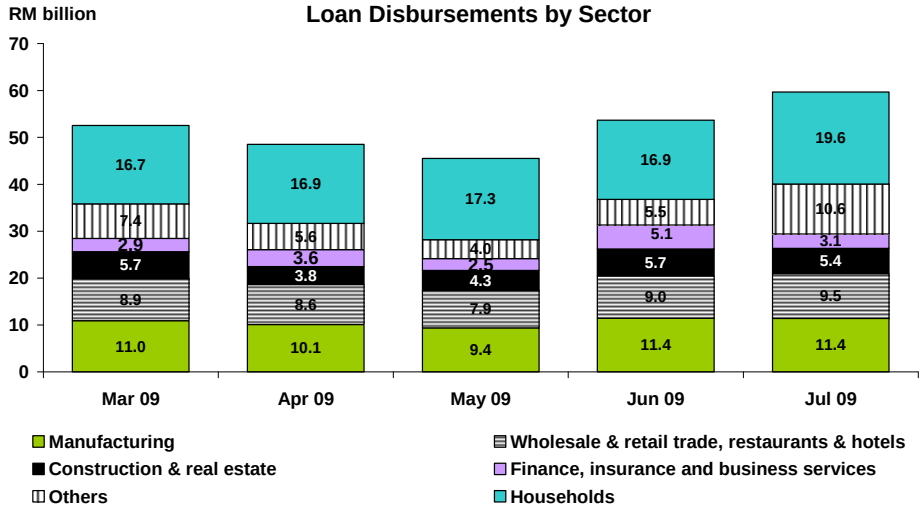
	RM billion			Annual Growth (%)		
	Jun-09	Jul-09	J-J 09	Jun-09	Jul-09	J-J 09
Overall						
Loan applications	50.6	51.1	297.7	18.3	18.5	5.7
Loan approvals	27.2	27.3	163.2	10.2	4.5	-8.4
Loan disbursements	54.9	60.9	362.9	0.7	5.6	-2.4
Chg in Loans Outstanding[1/]	7.6	9.8	26.0	8.3	8.4	8.4
Businesses						
Loan applications	25.2	23.7	140.0	16.7	14.3	-0.3
Loan approvals	12.6	11.9	72.7	6.4	2.6	-19.8
Loan disbursements	38.0	41.3	244.8	-4.0	-1.2	-7.2
Chg in Loans Outstanding[1/]	2.6	3.3	1.1	3.7	3.2	3.2
SMEs[2/]						
Loan applications	10.1	10.2	56.5	12.0	6.2	-8.1
Loan approvals	3.9	4.2	24.3	-29.2	-28.1	-29.5
Loan disbursements	12.5	12.8	82.1	-12.5	-12.7	-13.7
Chg in Loans Outstanding[1/3/]	0.9	1.0	-5.3	-2.9	-3.1	-3.1
Households						
Loan applications	25.4	27.4	157.7	19.8	22.4	11.7
Loan approvals	14.6	15.4	90.5	13.6	6.1	3.4
Loan disbursements	16.9	19.6	118.1	13.2	23.3	9.5
Chg in Loans Outstanding[1/]	3.4	3.2	18.3	9.1	9.0	9.0

[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 0.2% year-on-year as at end-July 2009.

…mainly attributable to the household sector



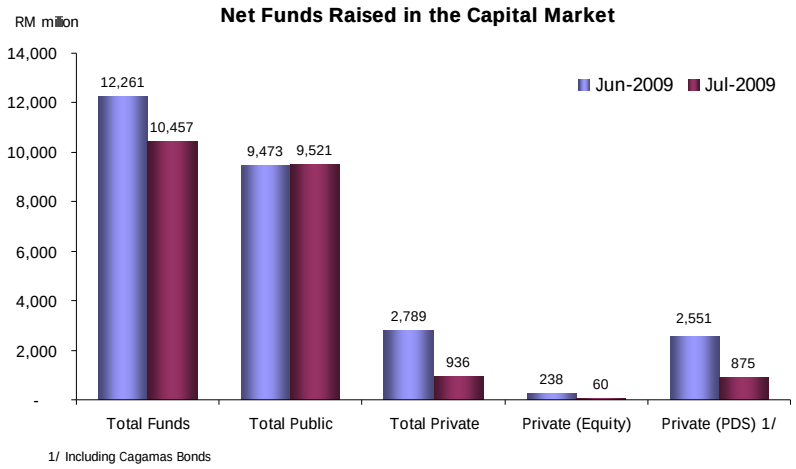
Loan disbursements remained broad-based

Demand for financing continued to improve in July. The household sector registered higher loan applications and approvals, mainly for the purchase of *residential* and *non residential properties*, *passenger cars* and *credit cards*. Loan disbursements have also increased, leading to a further expansion of household loans outstanding by an annual rate of 9% in July (June: 9.1%).

The demand for financing by the business sector during the month was accounted mainly by the *manufacturing* and *wholesale, retail trade, restaurants and hotels* sectors. Notwithstanding a large loan disbursed to the *electricity, gas and water supply* sector during the month, loan disbursements remained broad based. Higher loan disbursements had increased the business loans outstanding by RM3.3 billion on a month-on-month basis. On an annual basis, business loans outstanding grew at a more moderate rate of 3.2% in July (end-June: 3.7%).

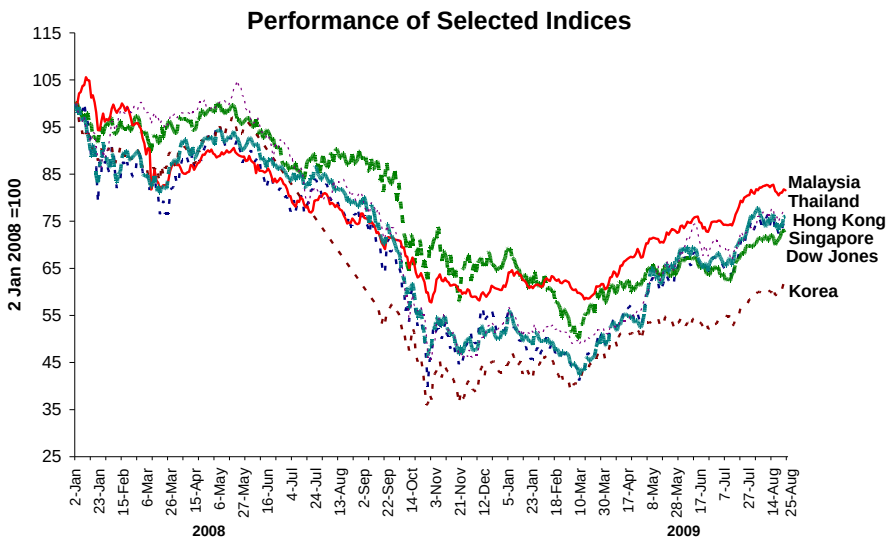
Active fund raising activity in the capital market

Net funds raised in the capital market amounted to RM10.5 billion in July (June: RM12.3 billion). The public sector raised funds totalling RM9.5 billion through the issuance of a 5-year Government Investment Issues (GII) and the re-opening of a 10-year Malaysian Government Securities (MGS). Meanwhile, gross funds raised by the private sector through issuances of private debt securities (PDS) amounted to RM3.2 billion. The bulk of PDS issuances were raised by firms in the finance, insurance, real estate and business services as well as the transport, storage and communications sectors. Funds were utilised mainly for working capital. After adjusting for redemptions, net funds raised in the PDS market totalled RM1.5 billion.



KLCI strengthened further in July

The FBM KLCI continued to trend upward in July to close at 1,174.9 (end-June: 1,074.3 points). It rose on positive sentiments due to the sustained increase in crude palm oil prices and investors' optimism over the prospects for global economic recovery. Market capitalisation increased to RM885.8 billion (since end-June: +8.3%). However, the daily average turnover declined to 1,002 million units (June: 1,666 million units).

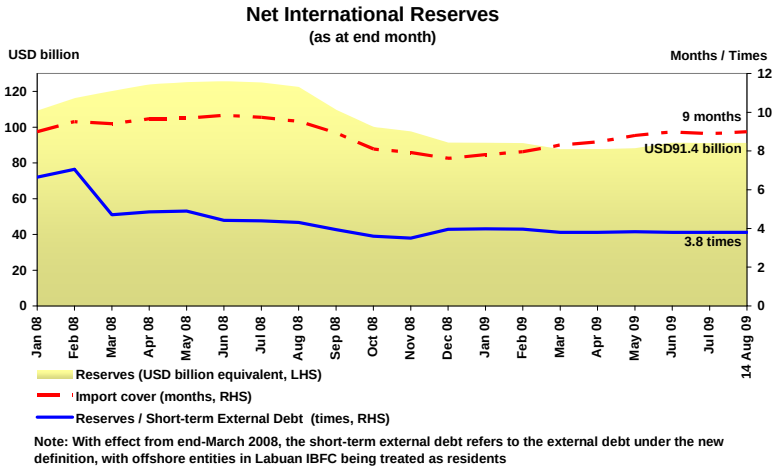


KLCI strengthened further in July

As at 25 August, the FBM KLCI ended lower at 1,171.1 (since end-July: -0.3 %). Overall market capitalisation rose to RM889 billion (since end-July: +0.4%) and trading activity was marginally lower with a daily average turnover of 982.7 million units.

International reserves

The net international reserves of Bank Negara Malaysia amounted to RM321.5 billion (equivalent to USD91.2 billion) as at 31 July 2009. As at 14 August 2009, the international reserves amounted to RM322.2 billion (equivalent to USD91.4 billion). The reserves position is sufficient to finance 9 months of retained imports and is 3.8 times the short-term external debt.



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

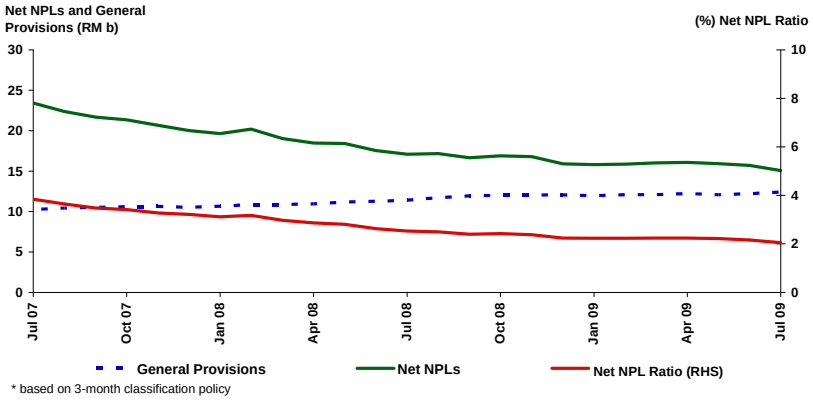
The level of capitalisation for the banking system remained sound, with the risk weighted capital ratio (RWCR) and core capital ratio (CCR) improving to 14.2% and 12.6% respectively. In July 2009, aggregate capital base had increased by 1.3% as a result of capital raising exercise by two banking institutions. Meanwhile, the net non-performing loans ratio improved to 2.1%, as non-performing loans turned lower. Absolute NPLs also continue to be on a reducing trend mainly on account of lower new NPLs. The aggregate loan loss coverage ratio strengthened to 92%.

Banking System Health Indicators *

	2002	2003	2004	2005	2006	2007	2008	May 09	Jun 09	Jul 09
Capital (%) **										
Core capital ratio	11.1	11.1	11.4	10.7	10.7	10.2	10.6	12.3	12.4	12.6
RWCR	13.2	13.8	14.4	13.7	13.5	13.2	12.6	14.2	14.1	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	2.1
Amount (RM million)	43,110	40,013	36,668	31,332	27,360	20,011	15,889	15,934	15,692	15,073
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

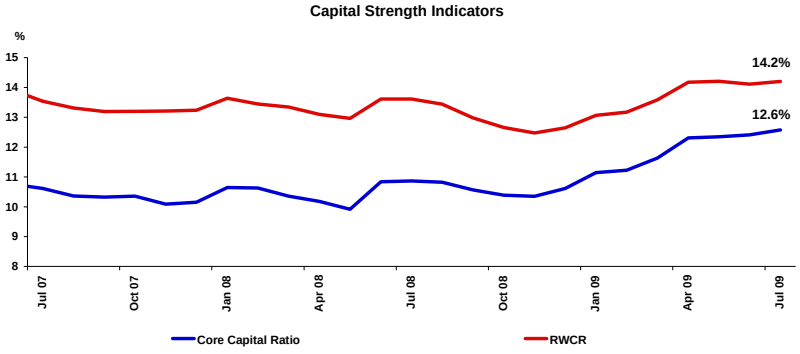
Banking System: Net NPLs and General Provisions



* based on 3-month classification policy

Banking system capitalisation remained strong…

Capital Strength Indicators



…while NPLs remained at a low level

Bank Negara Malaysia
26 August 2009

Key Monetary and Financial Statistics

		May 09		Jun 09		Jul 09	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		54.7	-18.8	54.7	-19.9	52.1	-21.8
M1		186.2	9.3	185.6	5.5	185.8	6.0
M2		913.0	5.3	922.7	6.3	932.7	5.8
M3		943.1	4.9	950.5	5.7	960.5	5.2
Banking System							
Total deposits		979.5	5.6	997.7	7.2	998.5	6.2
Total loans (including loans sold to Cagamas)		735.2	8.9	742.8	8.3	752.5	8.4
Loan-deposit ratio (%)		78.3		78.3		78.6	
Financing-deposit ratio [1] (%)		85.6		85.4		85.5	
Loans applied (during the period)		45.7	12.8	50.6	18.3	51.1	18.5
Loans approved (during the period)		25.6	-2.3	27.2	10.2	27.3	4.5
Loans disbursed (during the period)		47.1	-10.5	54.9	0.7	61.8	7.0
Loans repaid (during the period)		49.9	14.9	49.2	7.3	50.9	3.8
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		14.2		14.1		14.2	
Net NPLs: 3-month classification (%)		2.2		2.2		2.1	
Net Reserves in RM billion		322.4		322.8		321.5	
Net Reserves in USD billion (equivalent)		88.3		91.5		91.2	
Months of retained imports		8.8		9.0		8.9	
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	2.03 [2.02]		2.02 [2.02]		2.01 [2.02]	
	1-month	2.06 [2.06]		2.09 [2.07]		2.11 [2.07]	
Fixed deposits of commercial banks:	1-month	2.02		2.02		2.02	
	3-month	2.04		2.05		2.05	
BLR of commercial banks		5.53		5.53		5.53	
ALR of commercial banks		5.02		5.04		4.96	
Prices							
Consumer Price Index (CPI) (2005=100)		111.7	2.4	111.8	-1.4	111.9	-2.4
Producer Price Index (PPI) (2000=100)		129.7	-10.8	131.2	-12.2	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.5075		3.5225		3.5200	
Euro		4.9047		4.9699		4.9729	
Pound Sterling		5.5995		5.8592		5.8150	
100 Japanese yen		3.6415		3.6729		3.6919	
Singapore dollar		2.4182		2.4302		2.4432	
100 Thai Baht		10.202		10.354		10.342	
100 Philippine Peso		7.3850		7.3111		7.3249	
100 Indonesian Rupiah		0.0339		0.0345		0.0355	
100 Korean Won		0.2783		0.2754		0.2859	
Capital Market							
Net funds raised (in RMb) by:	public	13.7		9.5		9.5	
	private	2.9		2.8		0.9	
Bursa Malaysia Composite Index (end-period)		1,044.1		1,075.2		1,174.9	
Bursa Malaysia Market Capitalisation (RMb, end-period)		797.8		817.9		885.8	

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