BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Pen. No.: 10/09/11

EMBARGO: Not for publication or broadcast before 1800 hours on Friday, 30 October 2009

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

- Headline inflation improved in September but remained low at -2.0% reflecting the base effects of higher commodity and food prices last year.

- Gross financing by the banking system and the capital market increased due mainly to the higher private debt securities (PDS) issuances during the month.

- The risk weighted capital ratio (RWCR) and core capital ratio (CCR) remained stable at 14.5% and 12.9% respectively.

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MONETARY AND FINANCIAL DEVELOPMENTS

September 2009

Gross financing by the banking system and the capital market increased in September to RM61.8 billion (August: RM54.6 billion) due mainly to the higher private debt securities (PDS) issuances during the month. On a net basis, banking system loans and PDS outstanding expanded at a combined annual rate of 7.2% as at end-September (August: 7.1%). Loan approvals and disbursements for the business sector registered improvements, while loan applications and approvals for the household sector were sustained. With steady loan disbursement, loans outstanding of the household sector continued to expand at an annual rate of 9.1%.

Interbank rates for all maturities were relatively stable, while the average fixed deposit rate across all tenures were unchanged. The average base lending rate (BLR) was also unchanged at 5.51% as at 15 October, while the average lending rate (ALR) remained relatively stable at 4.91% as at end-September (4.90% in August).

From 1 September to 29 October 2009, the ringgit appreciated by 2.6% against the U.S. dollar. The ringgit also appreciated against the pound sterling (1.9%) and the euro (0.1%), but depreciated against the Japanese yen (-1.1%). Against regional currencies, the ringgit appreciated against the Chinese renminbi (2.6%),

Thai baht (1.1%) and Philippine peso (0.4%), but depreciated against the Indonesian rupiah (-1.6%), Korean won (-1.1%), and Singapore dollar (-0.1%).

Headline inflation, as measured by the Consumer Price Index (CPI), increased in September but remained low at -2.0% (August: -2.4%). Prices in the *transport* category declined at a slower rate in September at -16.2% (August:-19.3%). On the other hand, inflation in the *food and non-alcoholic beverages* category continued its moderating trend at 1.0% in September (August: 1.4%). The moderation occurred across all food subcomponents. Lower inflation was also observed in the *alcoholic beverages and tobacco* category (September: 0.1%, August: 8.0%).

Broad money (M3) rose at an annual pace of 6.8%. On a monthly basis, M3 increased by RM2.2 billion due mainly to higher financing by the banking system to the private sector and to the Government.

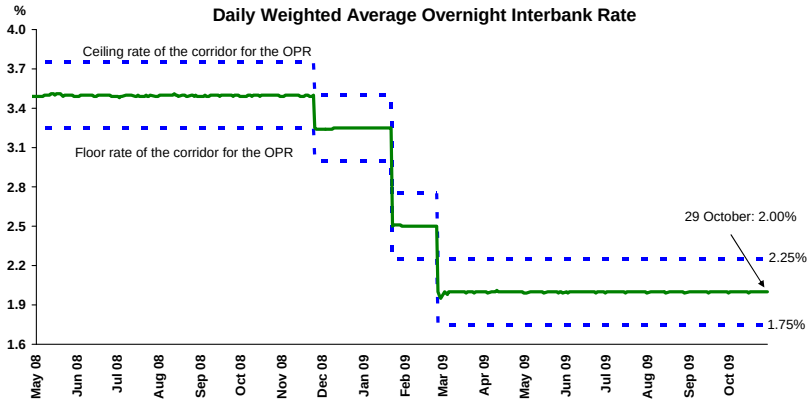
The risk weighted capital ratio (RWCR) and core capital ratio (CCR) remained stable at 14.5% and 12.9% respectively, whilst non-performing loans remained unchanged at 2.1%.

Interest rates were stable in September

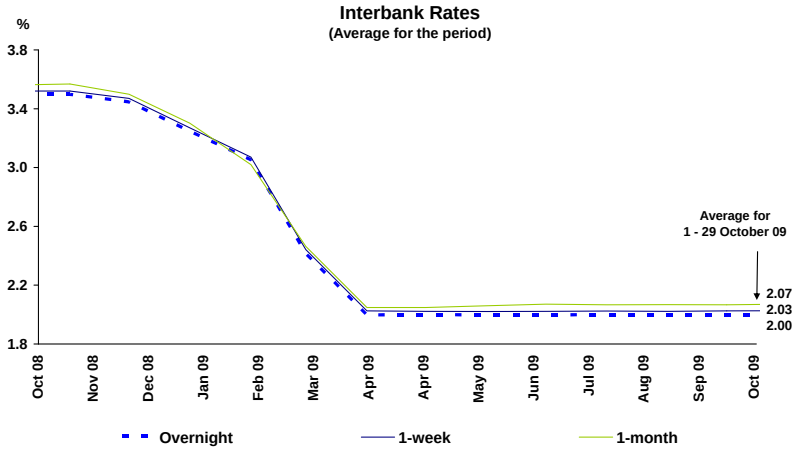
During the period 1 September – 29 October, the daily weighted average overnight interbank rate moved within a narrow range of 1.99% - 2.00%. Interbank rates of other maturities were also relatively stable.

The average fixed deposit rates of commercial banks were unchanged between August and October. As at 15 October, the average quoted fixed deposit rates for tenures between 1 and 12 months were within the range of 2.00% and 2.50%.

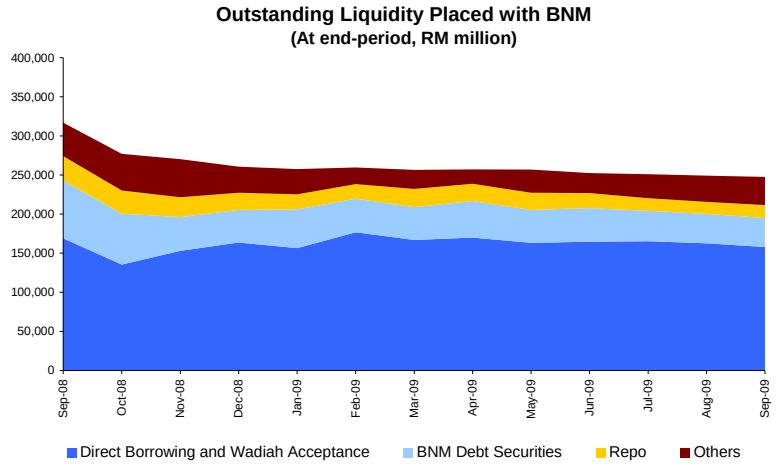
In terms of the commercial banks' lending rates, the average base lending rate (BLR) is unchanged at 5.51% as at 15 October. The average lending rate (ALR) also remained relatively stable at 4.91% as at end-September (4.90% in August and 4.96% in July).



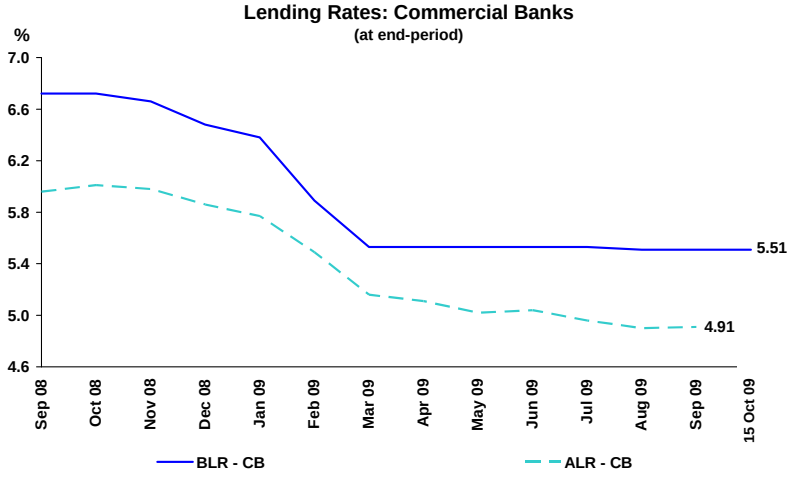
The average overnight interbank rate moved within a narrow range



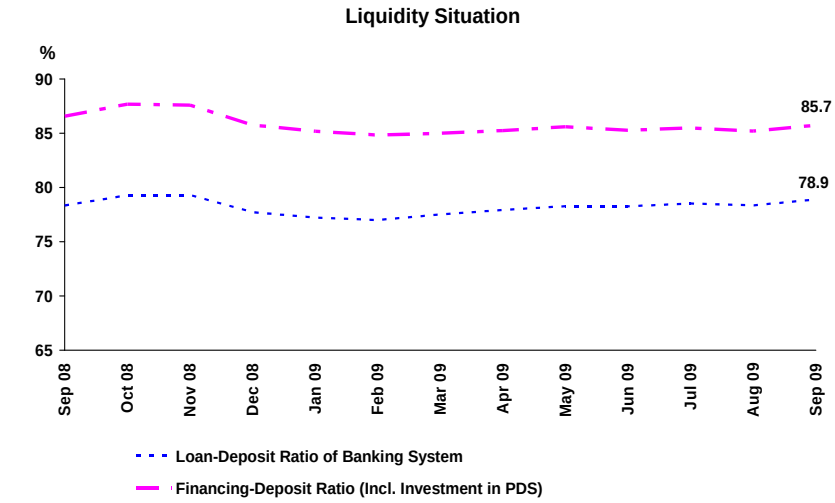
Other interbank rates were also relatively stable



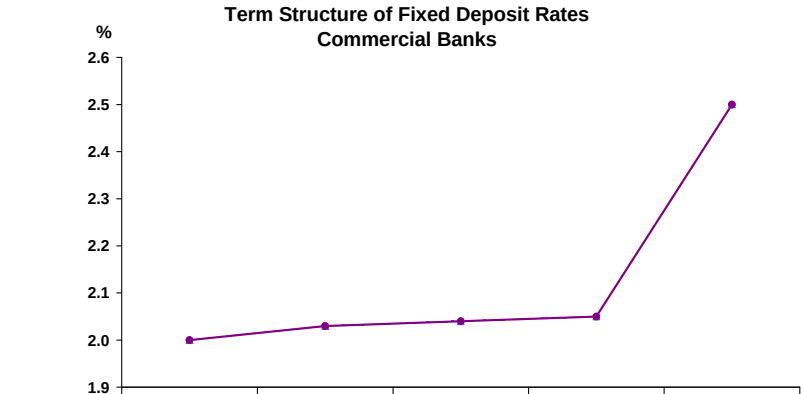
BNM continued to absorb excess liquidity



Commercial banks' BLR and ALR remained stable

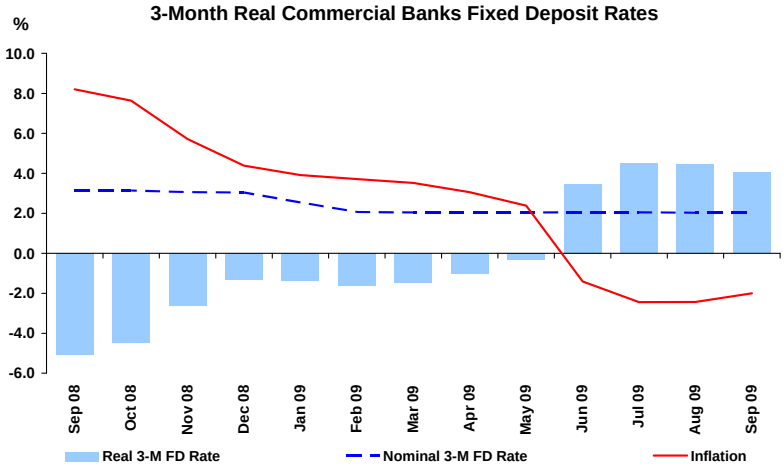


The loan-deposit and financing-deposit ratios were relatively unchanged



	1-month	3-month	6-month	9-month	12-month
Aug 09	2.00	2.03	2.04	2.05	2.50
Sep 09	2.00	2.03	2.04	2.05	2.50
15 Oct 09	2.00	2.03	2.04	2.05	2.50

Average fixed deposit rates were unchanged

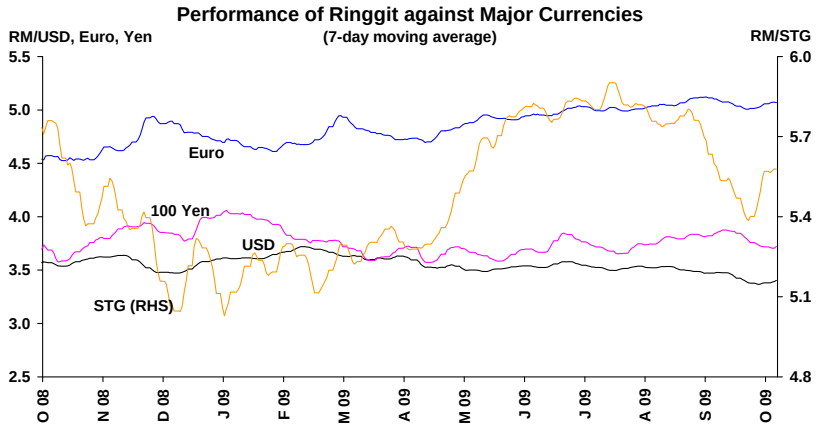


Real fixed deposit rates moderated slightly

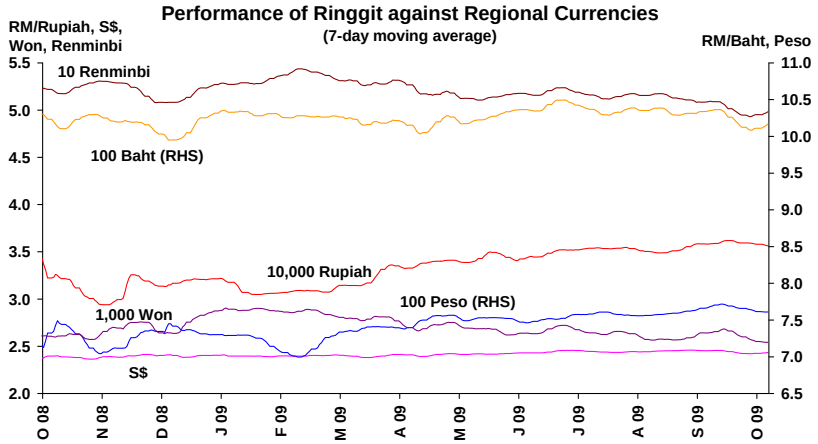
The ringgit appreciated against the U.S. dollar

From 1 September to 29 October 2009, the ringgit appreciated by 2.6% against the U.S. dollar. The ringgit reached its strongest level during the year as the prospect of continued improvements in domestic demand and trade indicators in the region drew investor interest towards assets in regional markets. The ringgit also appreciated against the pound sterling (1.9%) and the euro (0.1%), but depreciated against the Japanese yen (-1.1%). Against regional currencies, the ringgit appreciated against the Chinese renminbi (2.6%), Thai baht (1.1%) and

Philippine peso (0.4%), but depreciated against the Indonesian rupiah (-1.6%), Korean won (-1.1%), and Singapore dollar (-0.1%).



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



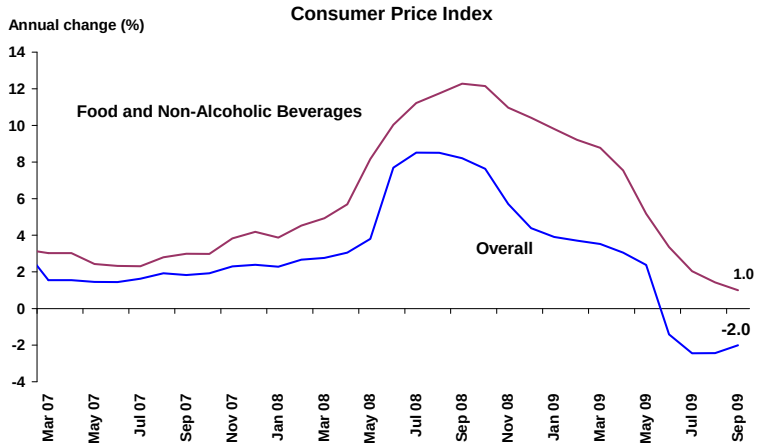
The ringgit registered a mixed performance against regional currencies

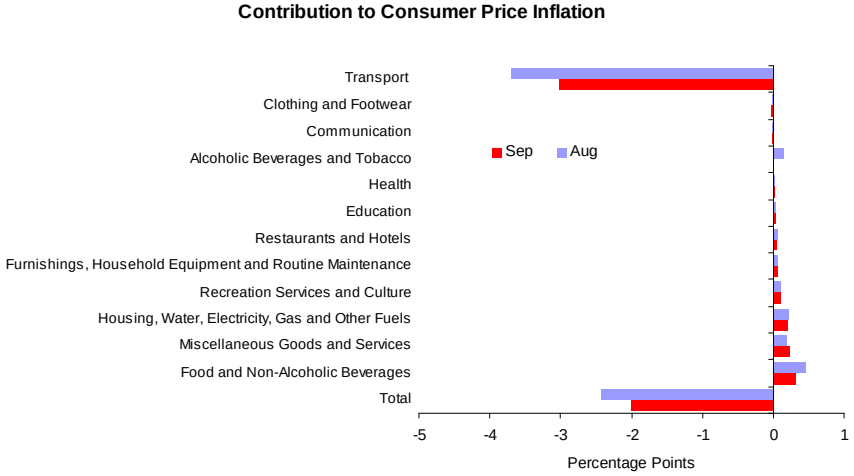
Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change	
	Dec 08	Aug 09	Sep 09	29 Oct 09	End Dec 08 - 29 Oct 09	End Aug 09 - 29 Oct 09
US dollar	3.4640	3.5260	3.4745	3.4365	0.8	2.6
Euro	4.8759	5.0621	5.0799	5.0582	-3.6	0.1
Pound sterling	4.9989	5.7356	5.5679	5.6259	-11.1	1.9
100 Japanese yen	3.8327	3.7631	3.8698	3.8033	0.8	-1.1
Singapore dollar	2.4070	2.4441	2.4573	2.4477	-1.7	-0.1
100 Thai baht	9.9398	10.364	10.361	10.257	-3.1	1.1
100 Philippine peso	7.2774	7.2221	7.3325	7.1961	1.1	0.4
100 Indonesian rupiah	0.0316	0.0349	0.0359	0.0355	-10.8	-1.6
100 Korean won	0.2750	0.2833	0.2946	0.2865	-4.0	-1.1
Chinese renminbi	0.5076	0.5162	0.5089	0.5032	0.9	2.6

Improvement in consumer price inflation

Headline inflation, as measured by the Consumer Price Index (CPI), improved in September but remained low at -2.0% (August: -2.4%). Prices in the *transport* category declined at a slower rate in September at -16.2% (August: -19.3%), reflecting the upward adjustment to retail petrol prices which took effect on 1 Sept 2009 and the lapse of the effect of the adjustment to retail fuel prices last year. On the other hand, inflation in the *food and non-alcoholic beverages* category continued its moderating trend (September: 1.0%, August: 1.4%). All food subcomponents recorded lower inflation during the month. Lower inflation was also observed in the *alcoholic beverages and tobacco* category (September: 0.1%, August: 8.0%) following the lapse of the effect of the imposition of cigarette taxes in September 2008.

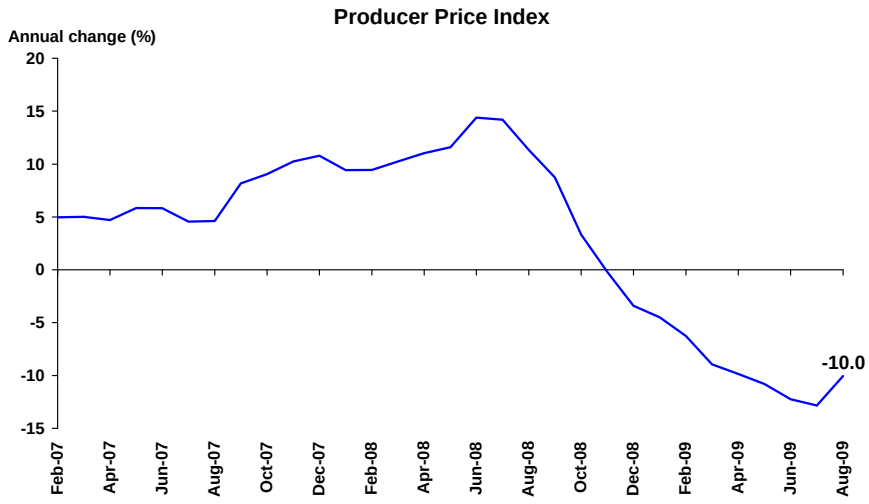




Slower rate of decline in producer prices in August

The Producer Price Index (PPI) declined at a slower rate of 10.0% annually in August (July: -12.8%), as the base effect of high commodity prices in the first half of 2008 began to wear off. This was reflected in the slower rate of price declines in the commodity-related components of the PPI at -24.0% in August (July: -30.8%). In the non-commodity-related components of the PPI, prices were lower by 3.1% (July: -3.3%). On a month-on-month basis however, producer prices increased by 1.0% (July: -0.6%), reflecting the rebound in commodity prices in August.

In terms of composition, prices for both the local and imported components of the PPI also declined at a slower rate. Compared to their levels a year ago, prices for the local component of the PPI declined by 13.3% (July:-16.8%), while prices for the imported component declined by 2.9% (July: -3.9%).



Slower rate of decline in producer prices in August

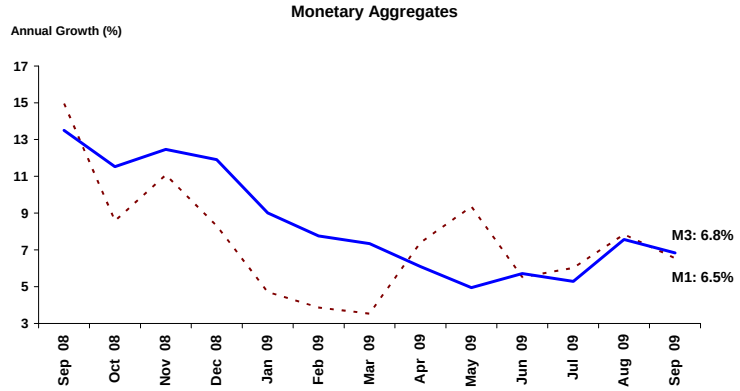
M3 continued to expand in September

In September, broad money (M3) grew at an annual pace of 6.8%. On a monthly basis, M3 increased by RM2.2 billion due mainly to higher financing by the banking system to the private sector and to the Government. The expansion in broad money, however, was partially offset by a decline in the net foreign assets of the banking institutions.

M3 Determinants
(RM billion)

	Change during period			
	Jun 09	**Jul 09**	**Aug 09**	**Sep 09**
M3	7.3	10.5	12.1	2.2
Net claims on Government	8.4	-0.1	-0.2	1.0
Claims on the private sector	5.6	11.5	4.2	5.0
Loans	*7.6*	*8.1*	*5.5*	*5.8*
Securities	*-2.1*	*3.4*	*-1.3*	*-0.8*
Net foreign assets*	-10.5	-0.4	11.2	-0.9
Other influences	3.9	-0.4	-3.1	-2.8

* 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 continued to increase in September

In September, total deposits placed with the banking system increased by RM9.7 billion from the preceding month (Aug: +RM10.1 billion) to register an annual growth rate of 8.1% (Aug: 8.1%). The increase in deposits mainly reflected higher placements by financial institutions, largely in the form of Negotiable Instruments of Deposits (NIDs) and demand deposits.

Deposits by Holder
(RM million)

	Change during period			
	Jun 09	**Jul 09**	**Aug 09**	**Sep 09**
Federal Government	1,739	81	599	-1,196
State Governments	561	-567	1,194	-341
Statutory Authorities [1]	1,729	28	981	-2,169
Financial Institutions	13,575	-6,557	3,454	13,107
of which:				
Banking Institutions	*8,173*	*-8,862*	*-894*	*8,552*
Non-Bank Financial Institutions	*5,694*	*2,152*	*4,239*	*3,396*
Business Enterprises	-2,323	4,437	4,179	-1,050
Individuals	2,012	2,246	-1,434	-67
Others [2]	856	1,191	1,079	1,423
Total	18,151	859	10,052	9,708

1/ Include local Governments

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

Deposits by Type
(RM million)

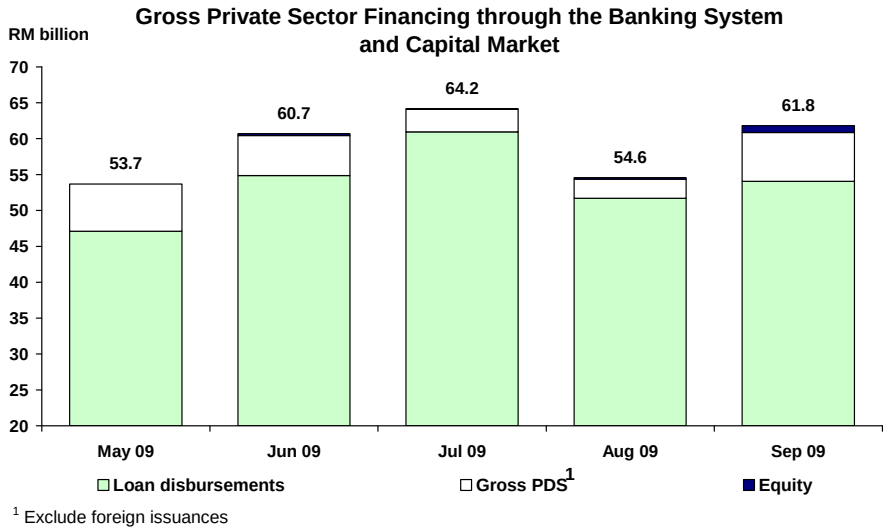
	Change during period			
	Jun 09	**Jul 09**	**Aug 09**	**Sep 09**
Fixed deposits	-3	-3,124	-162	681
NIDs	7,849	-10,188	-935	7,029
Demand deposits	4,795	-988	1,350	2,650
Savings deposits	1,222	752	-578	546
Repos	-26	17	-136	555
FX deposits	-4,236	455	7,117	-469
IBS deposits [1]	5,907	2,095	-785	-214
Others [2]	2,642	11,840	4,183	-1,070
Total	18,151	859	10,052	9,708

1/ IBS deposits refers to Islamic banking system deposits

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

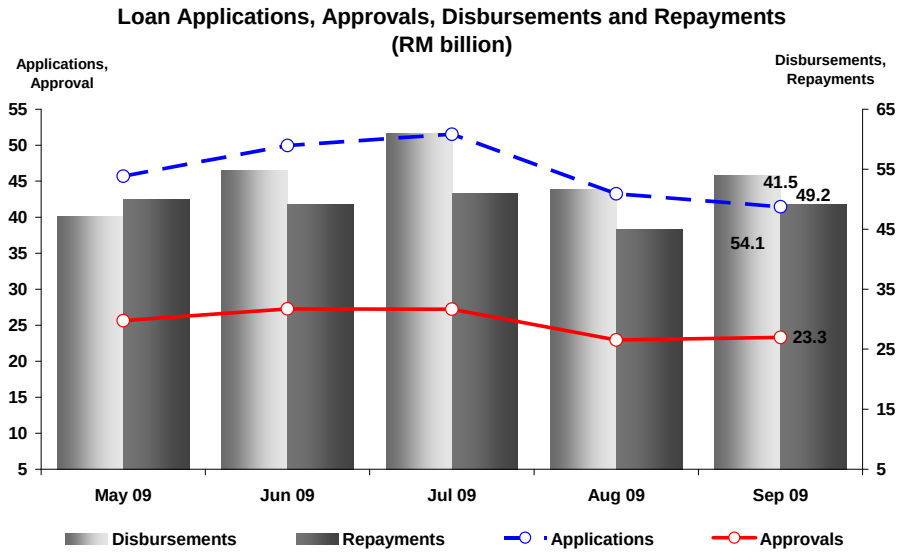
Higher gross financing to the private sector in September

Gross financing by the banking system and the capital market increased in September to RM61.8 billion (August: RM54.6 billion) due mainly to the higher private debt securities (PDS) issuances during the month. On a net basis, banking system loans and PDS outstanding expanded at a combined annual rate of 7.2% as at end-September (August: 7.1%).



[1] Exclude foreign issuances

Higher PDS issuances in September



Most loan indicators improved slightly from the previous month…

Bank lending indicators

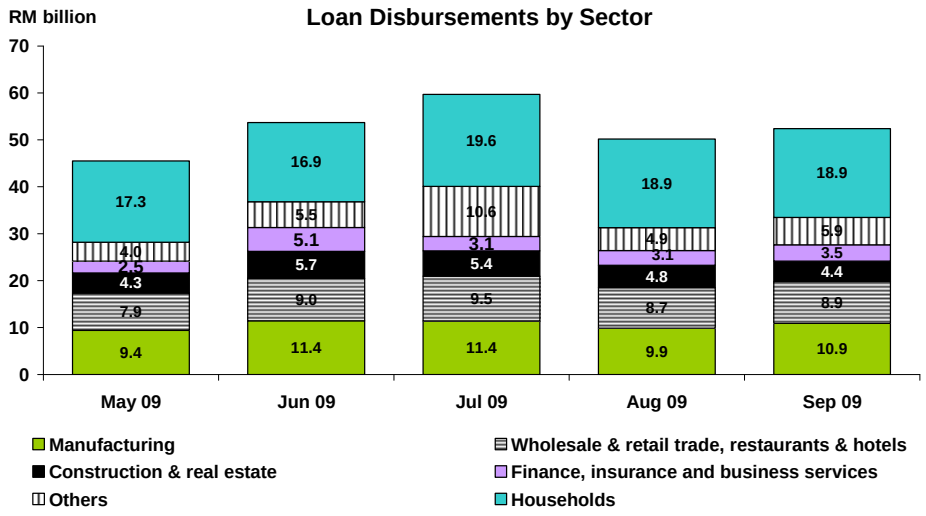
	RM billion			Annual Growth (%)		
	Aug-09	Sep-09	J-S 09	Aug-09	Sep-09	J-S 09
Overall						
Loan applications	43.3	41.5	382.2	-16.8	5.1	2.5
Loan approvals	23.0	23.3	209.5	-21.1	1.5	-9.0
Loan disbursements	51.7	54.1	468.7	-6.9	-1.9	-2.8
Chg in Loans Outstanding[1/]	6.2	5.0	37.2	7.2	7.2	7.2
Businesses						
Loan applications	18.2	18.2	176.5	-44.3	-8.2	-8.5
Loan approvals	8.1	9.7	90.5	-52.0	-11.2	-23.5
Loan disbursements	32.8	35.1	312.8	-18.0	-10.4	-8.8
Chg in Loans Outstanding[1/]	1.3	0.6	3.0	0.6	0.5	0.5
SMEs[2/]						
Loan applications	9.4	8.8	74.8	-1.8	-5.1	-7.0
Loan approvals	3.8	4.4	32.6	-10.9	18.0	-23.3
Loan disbursements	11.2	11.8	105.0	-21.5	-17.2	-15.0
Chg in Loans Outstanding[1/3/]	-0.3	0.3	-5.4	-5.2	-4.3	-4.3
Households						
Loan applications	25.0	23.2	205.6	30.2	18.5	14.2
Loan approvals	14.8	13.6	119.0	21.6	12.9	6.4
Loan disbursements	18.9	18.9	155.8	21.9	19.1	11.9
Chg in Loans Outstanding[1/]	4.1	4.1	26.4	9.1	9.1	9.1

[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 declined by a smaller magnitude of 1% year-on-year as at end-September 2009.

…particularly for the business sector



Loan disbursements remained broad-based

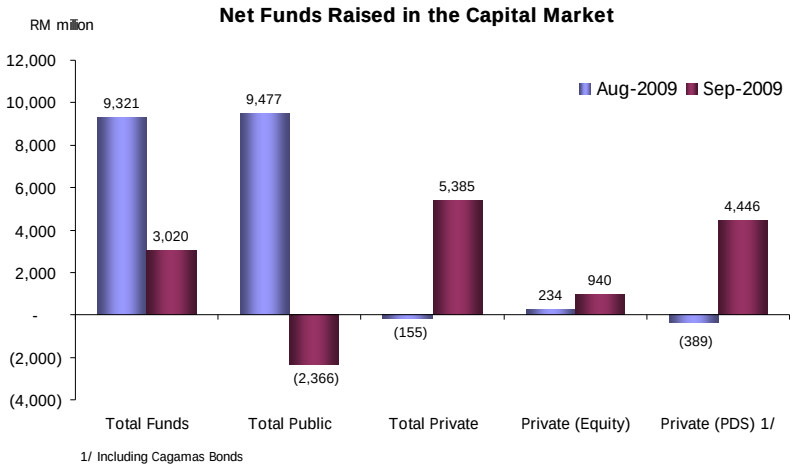
Loans approved to the business sector have increased mainly to the *construction*, *real estate*, *manufacturing* as well as *wholesale and retail trade* sectors. Loan disbursements, which were mainly disbursed to finance working capital requirements have also increased. As a result, business loans

outstanding continued to expand on a monthly basis and registered an annual growth rate of 0.5% as at end-September (end-August: 0.6%)

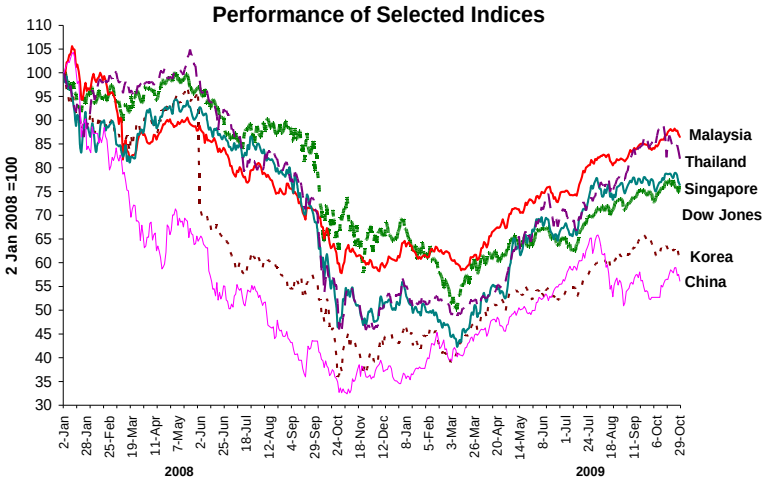
In the household sector, demand for financing was sustained with loan applications amounting to RM23.2 billion in September (January – August 2008 monthly average: RM22.8 billion). The loans applied were mainly to finance the purchase of residential property and passenger cars as well as for credit cards. With stable loan disbursements, loans outstanding of the household sector continued to expand at an annual rate of 9.1% as at end-September (end-August: 9.1%)

Increased fund raising activity in the capital market

Net funds raised in the capital market amounted to RM3.0 billion in September. In the PDS market, gross funds raised totalled RM7.7 billion, which were largely raised by government-linked entities to fund working capital and general business activities. Additionally, there were issuances by two non-resident issuers amounting to RM725 million. After adjusting for redemptions, net funds raised in the PDS market amounted to RM4.4 billion. In the public sector, RM4 billion was raised through the issuance of the 3.5-year Government Investment Issues (GII). Nevertheless, the public sector recorded net redemption of RM2.4 billion due to a larger amount of redemption during the month. Meanwhile, RM940 million was raised in the equity market. Most of the funds were raised through rights issues by firms in the plantation and technology sectors.



KLCI higher in September



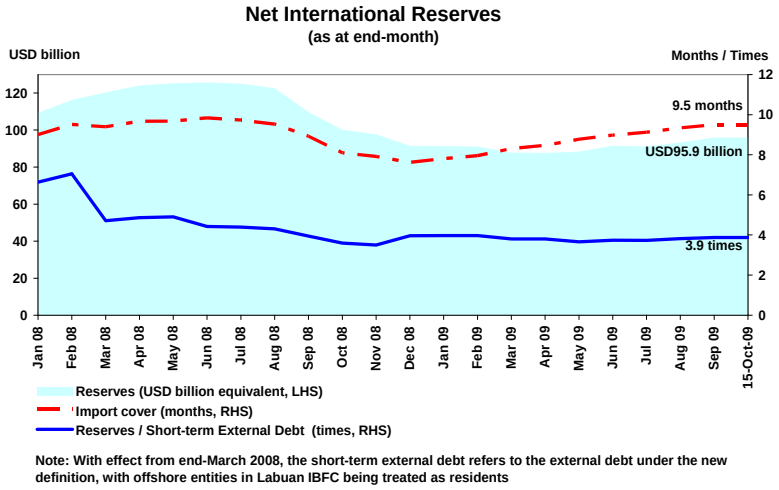
KLCI higher in September

The FBM KLCI ended higher in September to close at 1,202.08 (end-August: 1,174.27). Improved market sentiments following renewed confidence for a global economic recovery drove the index higher. Market capitalisation increased to RM910.5 billion (since end-August: +2%). Meanwhile the daily average turnover declined to 719 million units (August: 936 million units).

As at 29 October, the FBM KLCI was higher at 1,241.8 (since end-September: +3.3%). Overall market capitalisation increased to RM933.8 billion (since end-September: +2.6%) and the daily average turnover rose to 949.7 million units.

International reserves

The net international reserves of Bank Negara Malaysia stood at RM334.3 billion (equivalent to USD95.9 billion) as at 30 September 2009. The reserves position as at 30 September 2009 has taken into account the quarterly adjustment for the foreign exchange revaluation gains, following the strengthening of several major currencies against the ringgit during the quarter. As at 15 October 2009, the international reserves amounted to RM334.2 billion (equivalent to USD95.9 billion). The reserves position is sufficient to finance 9.5 months of retained imports and is 3.9 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

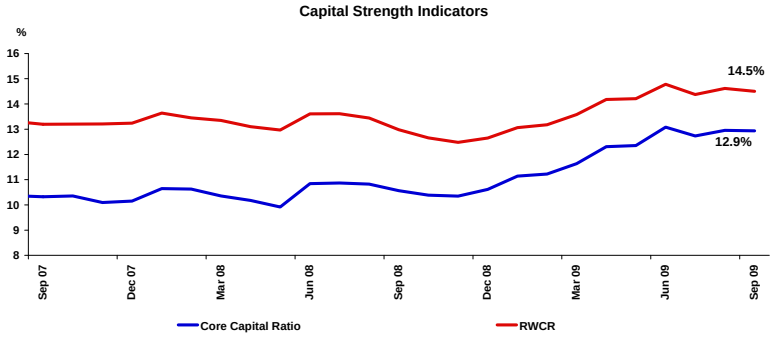
Banking system capitalisation and non-performing loans remained resilient

The banking system capitalisation remained healthy with the risk weighted capital ratio (RWCR) and core capital ratio (CCR) stable at 14.5% and 12.9% respectively. The quality of loan portfolio remained satisfactory despite the slight increase in gross non-performing loans (NPLs). Net NPL ratio remained unchanged at 2.1% whilst the loan loss coverage ratio continued to be high at 89.6%.

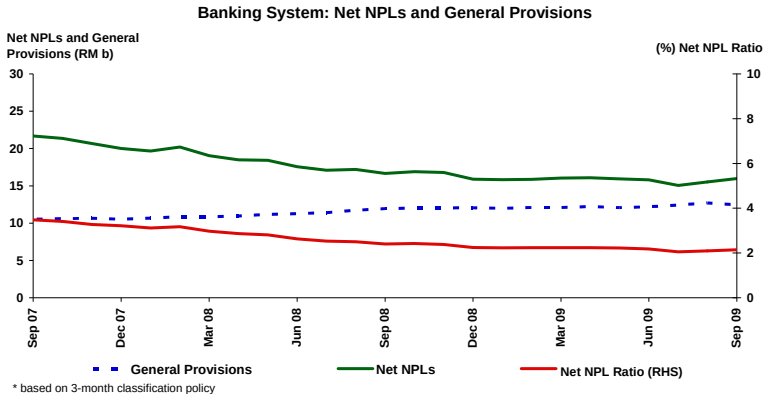
Banking System Health Indicators *

	2002	2003	2004	2005	2006	2007	2008	Jul 09	Aug 09	Sep 09
Capital (%) **										
Core capital ratio	11.1	11.1	11.4	10.7	10.7	10.2	10.6	12.7	13.0	12.9
RWCR	13.2	13.8	14.4	13.7	13.5	13.2	12.6	14.4	14.6	14.5
Net NPLs (3-month classification)										
% of net total loans	10.2	8.9	7.5	5.8	4.8	3.2	2.2	2.1	2.1	2.1
Amount (RM million)	43,110	40,013	36,668	31,332	27,360	20,011	15,889	15,057	15,532	15,979
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 resilient…



…whilst NPLs remained at a low level

Bank Negara Malaysia
30 October 2009

Key Monetary and Financial Statistics

		Jul 09		Aug 09		Sep 09	
		Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
		(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates							
Reserve money		52.1	-21.8	54.1	-22.0	55.8	-24.2
M1		185.8	6.0	188.2	7.8	191.4	6.5
M2		933.1	5.9	945.5	8.4	949.8	7.5
M3		960.9	5.3	973.0	7.6	975.2	6.8
Banking System							
Total deposits		998.5	6.2	1,008.6	8.1	1,018.3	8.1
Total loans (including loans sold to Cagamas)		752.5	8.4	758.9	7.3	763.7	7.2
Loan-deposit ratio (%)		78.5		78.4		78.9	
Financing-deposit ratio [1] (%)		85.5		85.2		85.7	
Loans applied (during the period)		51.5	19.5	43.3	-16.8	41.5	5.1
Loans approved (during the period)		27.2	4.3	23.0	-21.1	23.3	1.5
Loans disbursed (during the period)		60.9	5.6	51.7	-6.9	54.1	-1.9
Loans repaid (during the period)		50.9	3.8	45.0	-2.7	49.2	-2.8
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		14.4		14.6		14.5	
Net NPLs: 3-month classification (%)		2.1		2.1		2.1	
Net Reserves in RM billion		321.5		329.1		334.3	
Net Reserves in USD billion (equivalent)		91.2		93.3		95.9	
Months of retained imports		9.1		9.3		9.5	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		2.00		2.00		2.00	
Interbank:	Overnight	1.99 [2.00]		1.99 [2.00]		1.99 [2.00]	
	1-week	2.01 [2.02]		2.00 [2.02]		2.03 [2.03]	
	1-month	2.11 [2.07]		2.07 [2.07]		2.07 [2.07]	
Fixed deposits of commercial banks:	1-month	2.02		2.00		2.00	
	3-month	2.05		2.03		2.03	
BLR of commercial banks		5.53		5.51		5.51	
ALR of commercial banks		4.96		4.90		4.91	
Prices							
Consumer Price Index (CPI) (2005=100)		111.9	-2.4	112.1	-2.4	112.4	-2.0
Producer Price Index (PPI) (2000=100)		130.4	-12.8	131.7	-10.0	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)							
US dollar		3.5200		3.5260		3.4745	
Euro		4.9729		5.0621		5.0799	
Pound Sterling		5.8150		5.7356		5.5679	
100 Japanese yen		3.6919		3.7631		3.8698	
Singapore dollar		2.4432		2.4441		2.4573	
100 Thai Baht		10.342		10.364		10.361	
100 Philippine Peso		7.3249		7.2221		7.3325	
100 Indonesian Rupiah		0.0355		0.0349		0.0359	
100 Korean Won		0.2859		0.2833		0.2946	
Capital Market							
Net funds raised (in RMb) by:	public	9.5		9.5		-2.4	
	private	1.5		-0.2		5.4	
Bursa Malaysia Composite Index (end-period)		1,174.9		1,174.3		1,202.1	
Bursa Malaysia Market Capitalisation (RMb, end-period)		885.8		893.9		910.5	

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