BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 06/12/11

EMBARGO: Not for publication or broadcast before 1700 hours on Friday, 29 June 2012

MONETARY AND FINANCIAL DEVELOPMENTS
May 2012

Price Conditions: Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI) moderated to 1.7% in May. The drop in inflation was largely due to the *housing, water, electricity, gas and other fuels* category, where prices rose by a slower rate of 1.6% in May due to lower inflation in the *actual rental for housing* sub-category. Furthermore, the *transport* category registered a lower inflation rate as the impact from the May 2011 increase in RON97 petrol price have dissipated. However, inflation in the *food and non-alcoholic beverages* category rose to 3.0% in May, as the oversupply of food items has been reduced.

Monetary Conditions: Interbank rates were stable in May. In terms of retail lending rates, the average base lending rate (BLR) of commercial banks remained unchanged at 6.53% as at end of the month. Retail deposit rates were also relatively stable during the period. The annual growth in broad money (M3) moderated to 13.2% in May. On a monthly basis, the contraction of M3 was attributed to higher Government fundraising activities and net foreign outflows during the month. The contraction of M3, however, was partly mitigated by the increase of credit extended to the private sector. Net financing to the private sector expanded by RM22.3 billion in May, mainly through banking system loans. Banking system loans to businesses grew for most sectors during the month, with an increase in loans extended particularly to the *real estate, finance, insurance and business services; manufacturing* and *construction* sectors. Household loans outstanding also continued to rise steadily, driven mainly by loans for the *purchase of residential and non-residential properties*, *purchase of passenger cars* and *personal loans*. Loan demand increased in May, with higher loan applications from both businesses and households.

Banking System: The banking system remained well-capitalised with risk-weighted capital ratio (RWCR) and core capital ratio (CCR) at 14.6% and 12.8% respectively. The level of net impaired loans improved, amounting to 1.6% of net loans due to continued recoveries and write-offs by some banks. Loan loss coverage remained high at 93.2%.

Exchange Rates and International Reserves: In May, the ringgit depreciated against most currencies of Malaysia's major trading partners. The ringgit appreciated against the euro, but depreciated against the Japanese yen, US dollar, Chinese renminbi and Singapore dollar. The ringgit and other regional currencies broadly depreciated against the US dollar as heightened uncertainties over the European sovereign debt crisis prompted international investors to unwind their holdings of emerging market assets. In June, the ringgit along with other currencies appreciated against the US dollar, reflecting positive developments in Europe after the Greek elections, which revived demand for emerging market assets. The international reserves of Bank Negara Malaysia stood at RM417.3 billion (equivalent to USD136 billion) as at 15 June 2012, sufficient to finance 9.3 months of retained imports and are 4.1 times the short-term external debt.

Bank Negara Malaysia
29 June 2012

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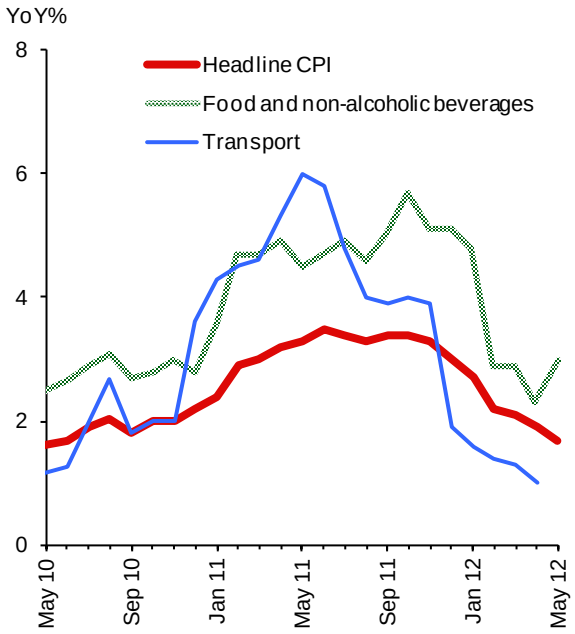
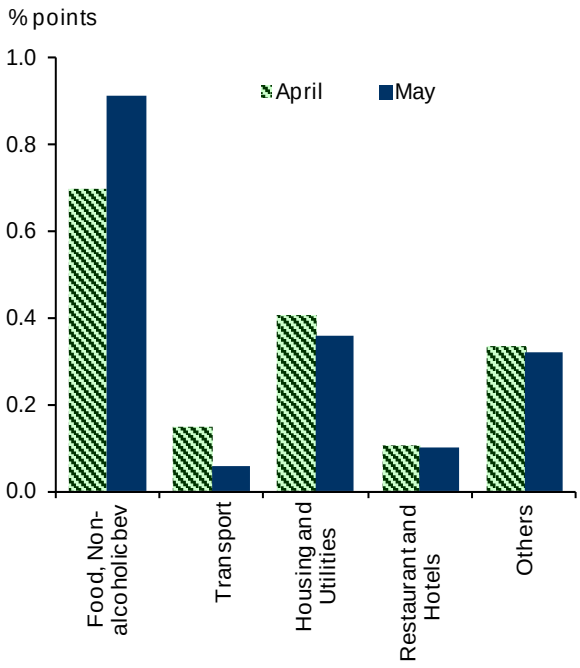
Headline inflation continued to moderate in May

Headline Inflation



Source: Department of Statistics Malaysia

Headline Inflation: Component Contribution

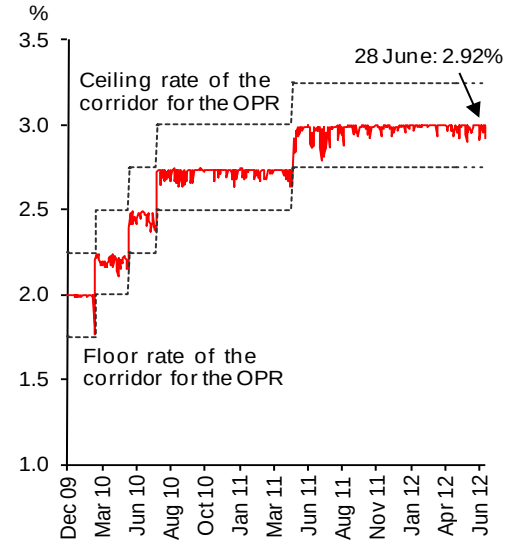


** Others include recreation services and culture; alcoholic beverages and tobacco; education; health; furnishings; household equipment and routine; communication clothing and footwear, and miscellaneous goods and services*

Source: Bank Negara Malaysia

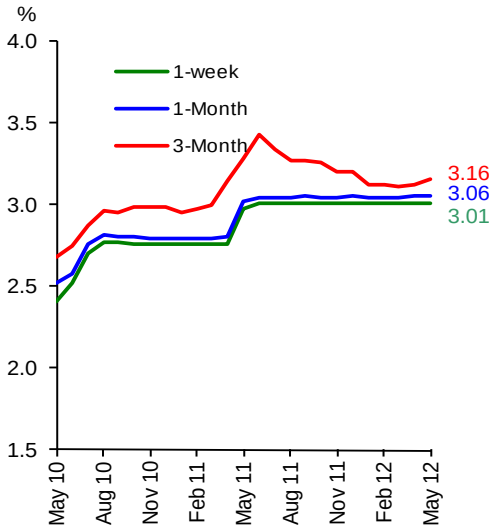
Interest rates remained stable

Average Overnight Interbank Rate



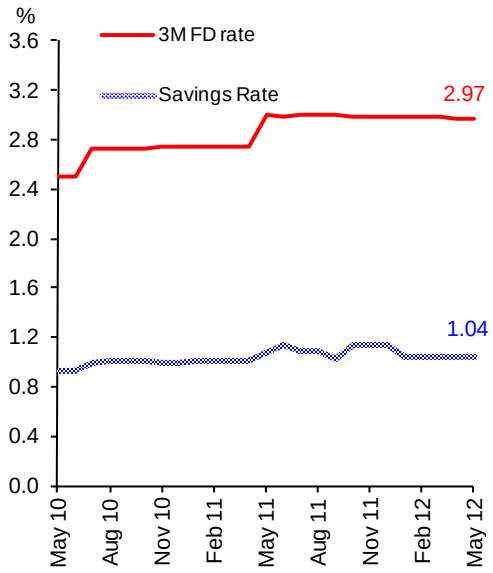
Source: Bank Negara Malaysia

Average Interbank Rates



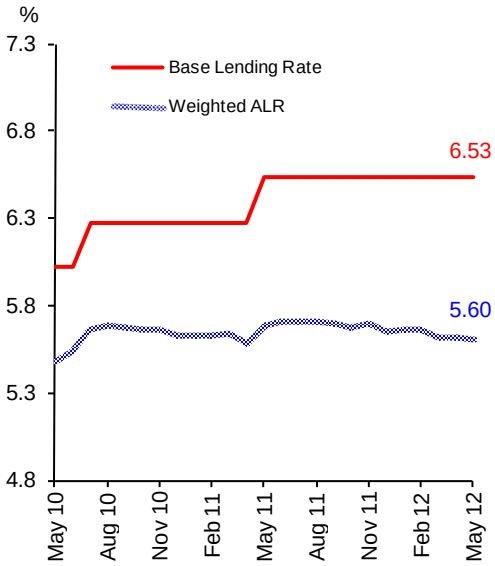
Source: Bank Negara Malaysia

Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

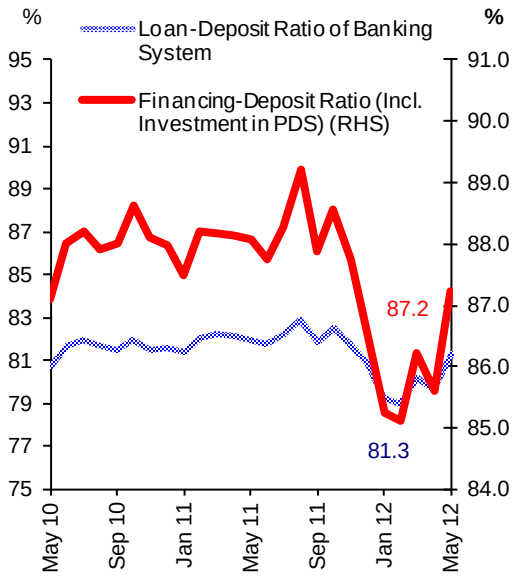
Lending Rates of Commercial Banks



Source: Bank Negara Malaysia

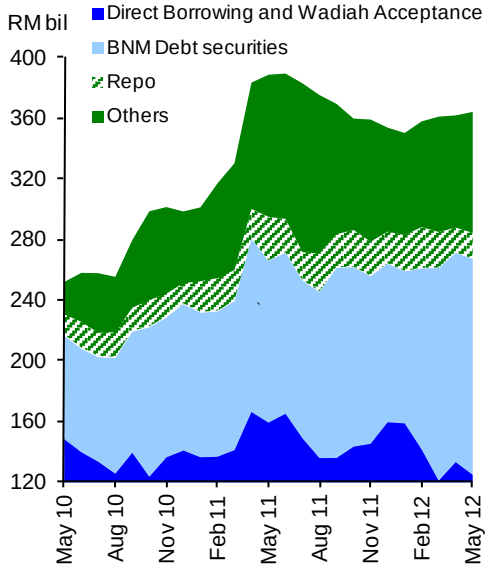
Liquidity in the banking system remained ample

Loan-Deposit Ratio and Financing-Deposit Ratio



Source: Bank Negara Malaysia

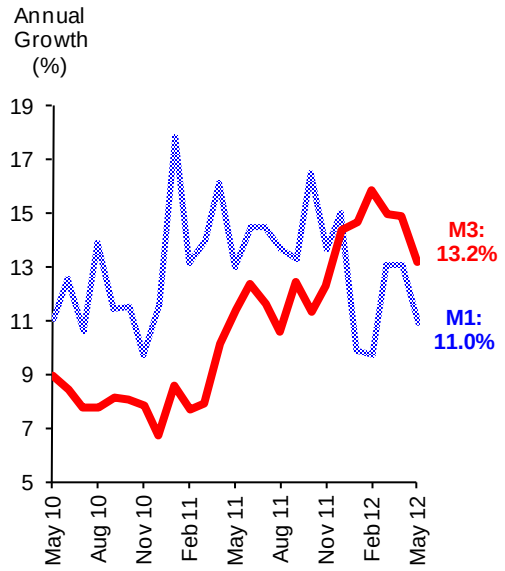
Outstanding Liquidity Placed With Bank Negara Malaysia



Source: Bank Negara Malaysia

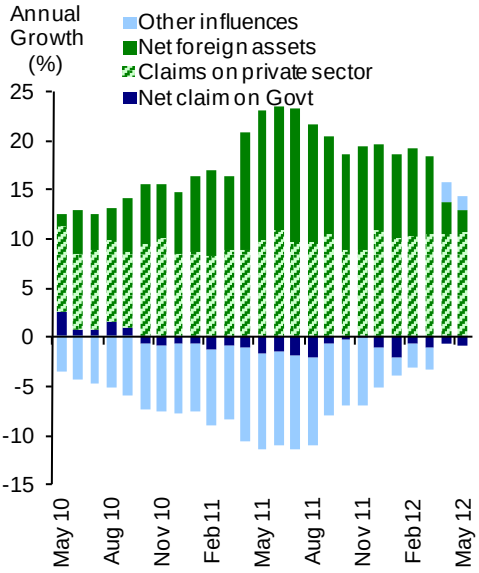
Broad money growth moderated

M1 and M3



Source: Bank Negara Malaysia

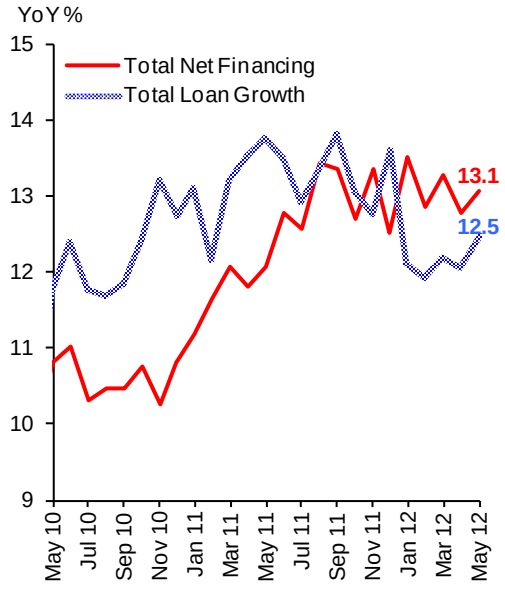
Main Contributors of M3 Growth



Source: Bank Negara Malaysia

Financing activity was sustained in May

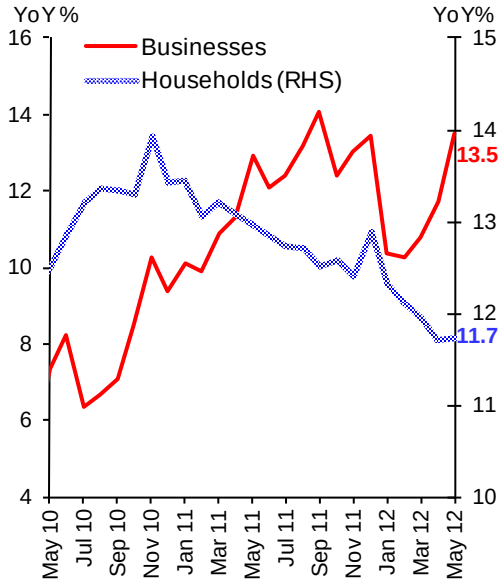
Net Financing and Loan Growth



* Net financing comprises of banking system loans and private debt securities (PDS) outstanding (excluding non-residents and Cagamas)

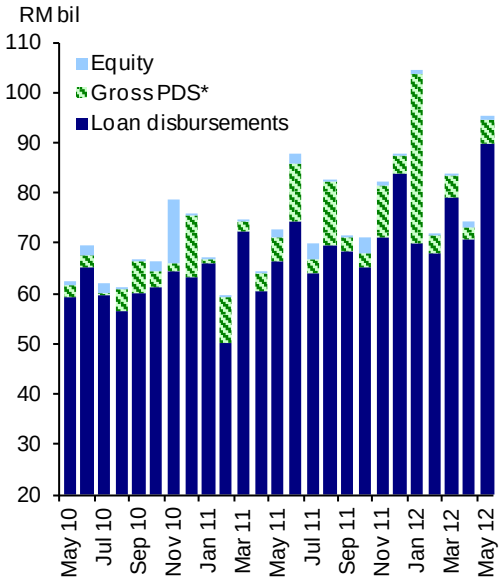
Source: Bank Negara Malaysia

Loans Outstanding of the Banking System



Source: Bank Negara Malaysia

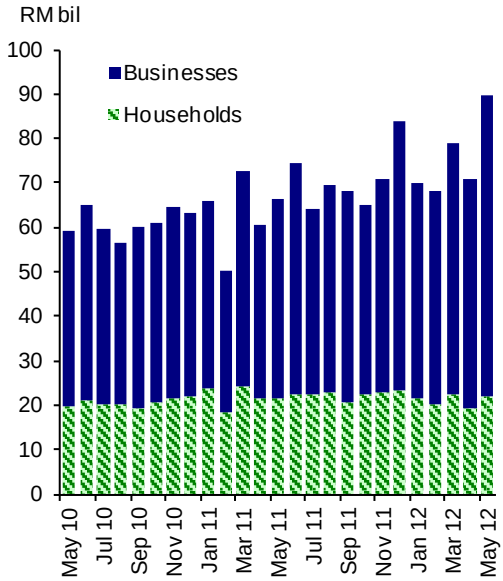
Gross Private Sector Financing



* Excludes foreign issuances

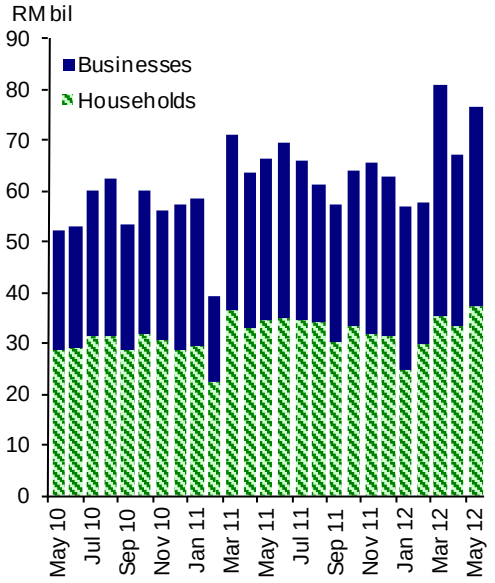
Source: Bank Negara Malaysia

Loan Disbursements by the Banking System



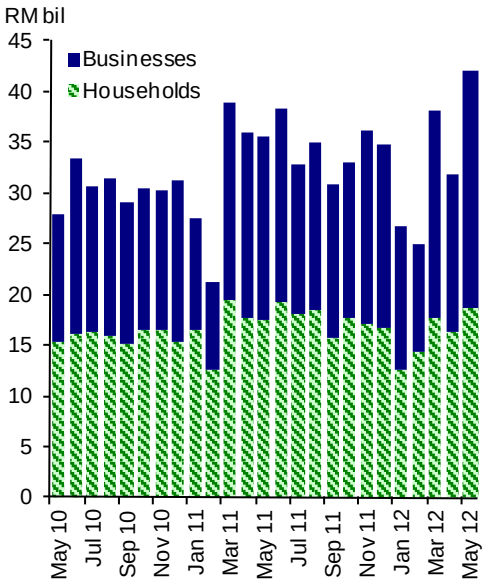
Source: Bank Negara Malaysia

Loan Applications with the Banking System



Source: Bank Negara Malaysia

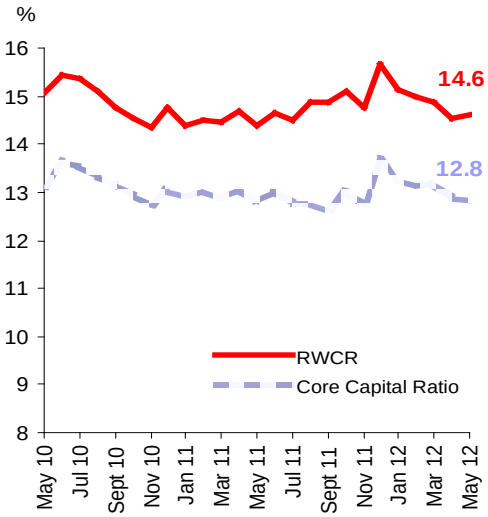
Loan Approvals by the Banking System



Source: Bank Negara Malaysia

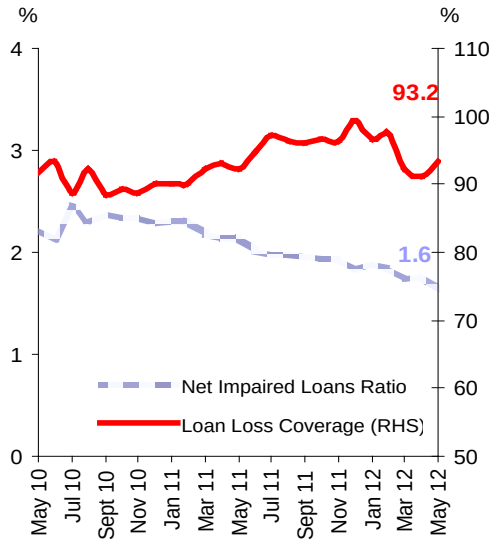
Banking system capitalisation remained strong with stable loan quality

Capital Strength



Source: Bank Negara Malaysia

Net Impaired Loans Ratio and Loan Loss Coverage



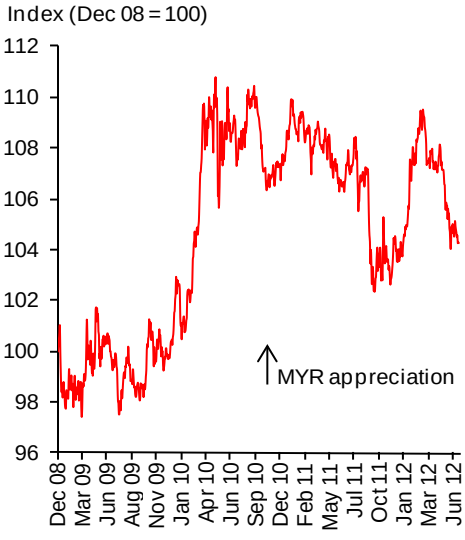
* Beginning January 2010, loans are reported based on FRS139. The adoption of FRS139 requirement is based on the financial year of the banks.

[1] Refers to ratio of general provisions/collective impairment provisions to total net loans.

Source: Bank Negara Malaysia

Ringgit depreciated against the currencies of Malaysia's major trading partners

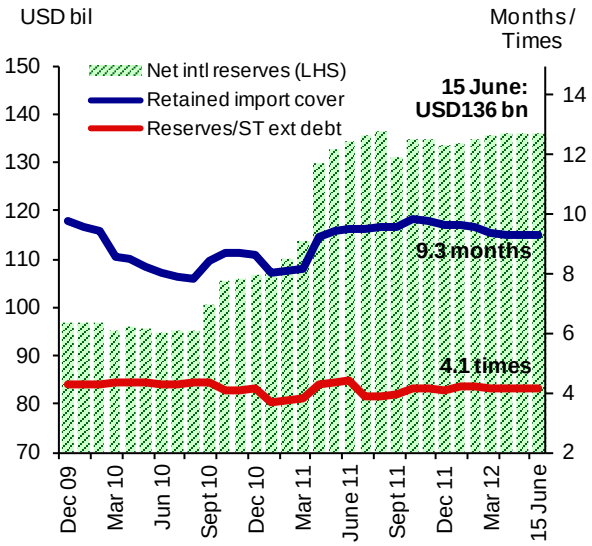
Index of Ringgit Performance against Major Trade Partners*



* Currencies in the index: USD, CNY, SGD, JPY, EUR
Each currency carries equal weight

Source: Bank Negara Malaysia

Net International Reserves



Source: Bank Negara Malaysia

Key Monetary and Financial Statistics

		Mar 12		Apr 12		May 12	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates							
Reserve money		97.6	57.6	99.5	41.1	99.3	28.6
M1		259.5	13.2	261.4	13.2	259.8	11.0
M2		1,254.6	15.2	1,270.9	15.2	1,271.2	13.8
M3		1,281.2	15.0	1,298.1	15.0	1,296.7	13.2
Banking System							
Net financing[1]		1,370.5	13.3	1,376.6	12.8	1,398.9	13.1
Loan-deposit ratio (%) [2]		80.2		79.6		81.3	
Financing-deposit ratio (%) [2&3]		86.2		85.6		87.2	
Loans applied (during the period)		81.0	14.1	67.4	5.8	76.6	15.1
Loans approved (during the period)		38.1	-2.2	31.9	-11.4	42.1	18.2
Loans disbursed (during the period)		79.0	8.9	70.9	17.6	89.7	35.4
Loans repaid (during the period)		65.3	5.2	67.9	21.1	69.2	27.8
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		14.9		14.5		14.6	
Net Impaired Loans Ratio (%)		1.8		1.7		1.6	
BNM International Reserves (end-period)							
Net Reserves in RM billion		416.1		416.8		417.0	
Net Reserves in USD billion (equivalent)		135.7		135.9		135.9	
Months of retained imports		9.3		9.3		9.3	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.00		3.00		3.00	
Interbank:	Overnight	3.00	[3.00]	2.98	[2.98]	2.99	[2.98]
	1-week	3.01	[3.01]	3.01	[3.01]	3.01	[3.01]
	1-month	3.06	[3.05]	3.06	[3.06]	3.07	[3.06]
Fixed deposits of commercial banks:	1-month	2.93		2.92		2.91	
	3-month	2.98		2.97		2.97	
BLR of commercial banks		6.53		6.53		6.53	
Weighted ALR of commercial banks		5.62		5.62		5.60	
Prices							
Consumer Price Index (CPI) (2010=100)		104.5	2.1	104.5	1.9	104.7	1.7

[1] Comprises of banking system loans outstanding and private debt securities (PDS) outstanding (excludes non-resident and Cagamas)

[2] Excludes transactions by financial institutions.

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

Source: Bank Negara Malaysia and Department of Statistics Malaysia