



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

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Friday, 26 August 2011**

MONETARY AND FINANCIAL DEVELOPMENTS **July 2011**

Price Conditions: Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), increased at a slower rate of 3.4% as the impact of the July 2010 adjustments on the prices of RON95 petrol and diesel lapses. The main contributors to inflation during the month were the *food and non-alcoholic beverages* and *transport* categories. Higher food prices were mainly due to the increase in *meat* and, *fish and seafood* prices. Prices of *meat* rose following higher chicken prices while higher *fish and seafood* prices were due to the increase in *prawn* and *fresh fish* prices. The increase in inflation was partially mitigated by falling prices in the *clothing and footwear* and *communication* categories.

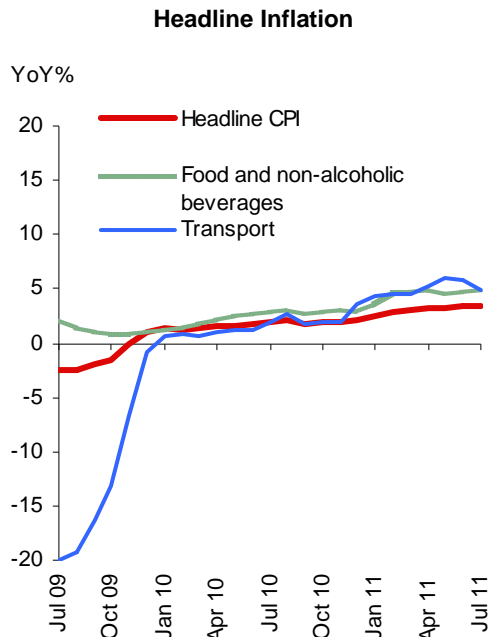
Monetary Conditions: Short-term interbank rates were stable in July. Medium and longer-term rates, including the 3 month interbank and interest rate swap rates, trended downwards as financial market participants revised their expectations for an OPR increase amid signs of weaker global growth. In terms of retail rates, the average base lending rate (BLR) of commercial banks was unchanged at 6.54% as at end of the month. Retail deposit rates were also stable. Broad money (M3) expanded at a slower annual rate of 11.6% in July. On a month-on-month basis, the expansionary impact of net foreign inflows on broad money was partially offset by the fund raising activities of the Government. Net financing to the private sector grew at a slower pace in July due to a moderation in outstanding loans and net issuances of private debt securities (PDS). The decrease in outstanding loans was largely due to lower loans extended to the “*other*” sector, which includes loans to the Government, other domestic non-banking financial institutions and foreign entities. While business loans outstanding moderated slightly due to large repayments during the month, loans disbursed to this sector remained high. Household loans outstanding continued to expand, driven mainly by loans for the *purchase of residential and non-residential properties*, and for *personal use*. Household demand for loans was sustained in July.

Banking System: Capitalisation remained strong with the risk-weighted capital ratio (RWCR) and core capital ratio (CCR) at 14.3% and 12.5% respectively. The level of net impaired loans remained stable to account for 2% of net loans. Loan loss coverage improved to 97%.

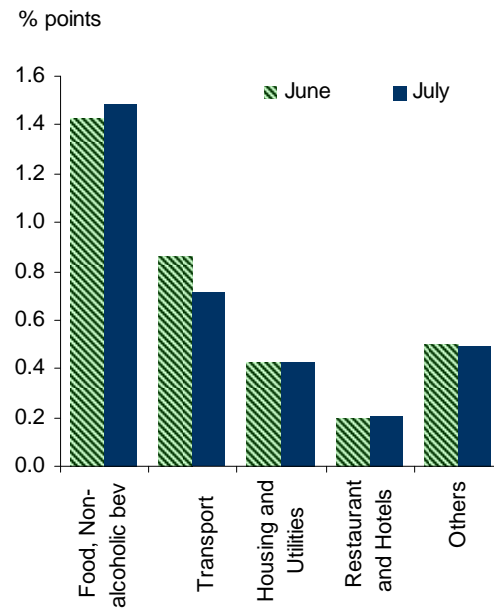
Exchange Rates and International Reserves: In July, the ringgit broadly appreciated against most of the currencies of Malaysia's major trade partners with the exception of the Japanese yen. The ringgit's appreciation against the US dollar was in line with the regional trend, reflecting broad US dollar weakness amid lingering uncertainty over the US debt agreement. In August, the ringgit broadly depreciated against the currencies of Malaysia's key trading partners as a result of heightened global risk aversion following concerns over the downgrade of the US sovereign credit rating and the ongoing sovereign debt crisis in Europe. The international reserves of Bank Negara Malaysia stood at RM411.6 billion (equivalent to USD136.1 billion) as at 15 August 2011, sufficient to finance 9.6 months of retained imports and is 4.5 times the short-term external debt.

Bank Negara Malaysia
26 August 2011

Inflation increased at a slower pace in July

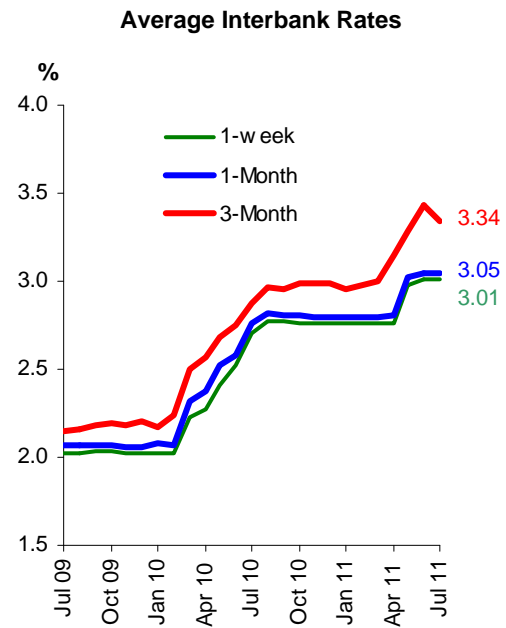
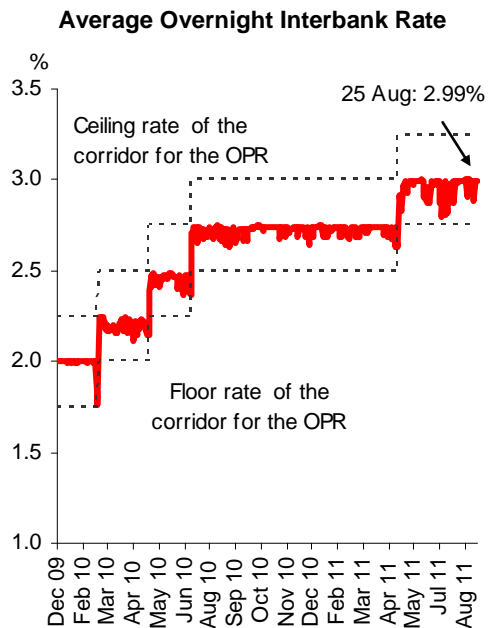


Headline Inflation: Component Contribution

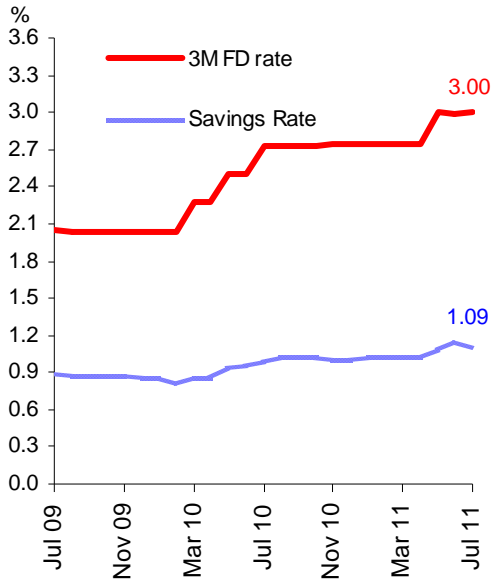


*Others include recreation services and culture; alcoholic beverages and tobacco; education; health; furnishings; household equipment and routine; communication clothing and footwear, and miscellaneous goods and services

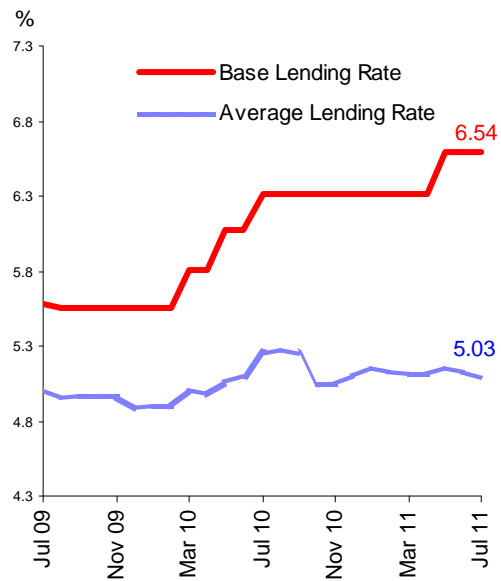
Interest rates were largely unchanged



Deposit Rates of Commercial Banks

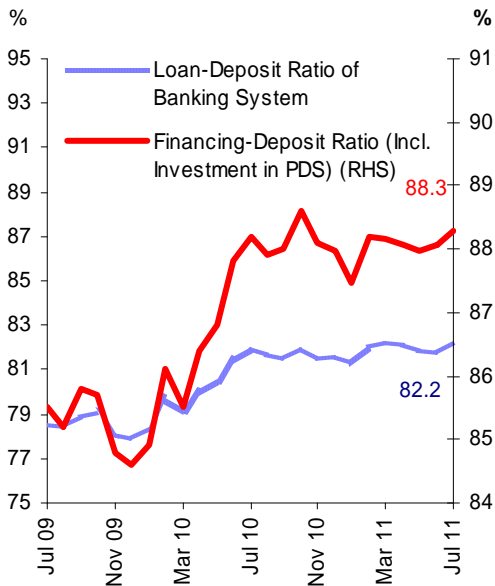


Lending Rates of Commercial Banks

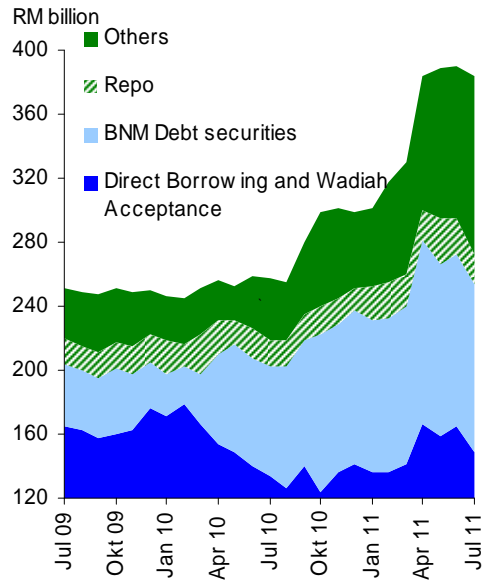


Liquidity in the banking system remained ample

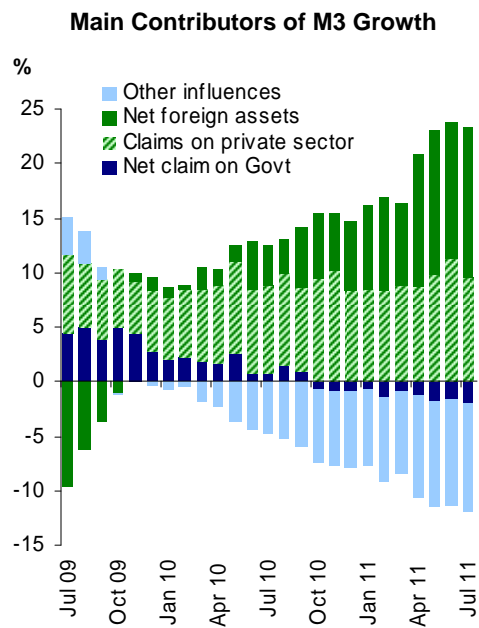
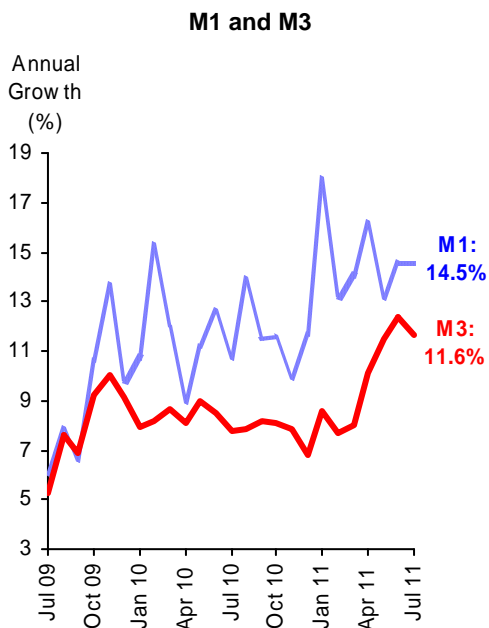
Loan-Deposit Ratio and Financing-Deposit Ratio



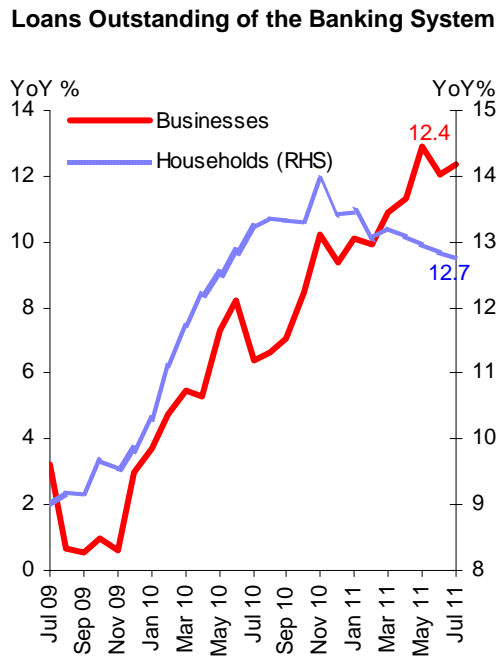
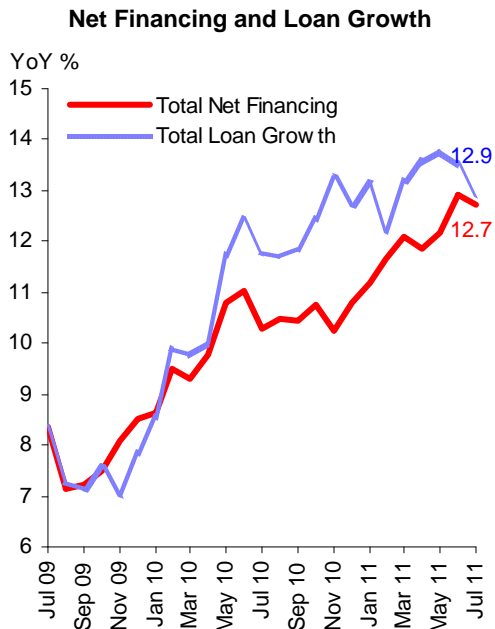
Outstanding Liquidity Placed With Bank Negara Malaysia



Broad money expanded at a slower pace

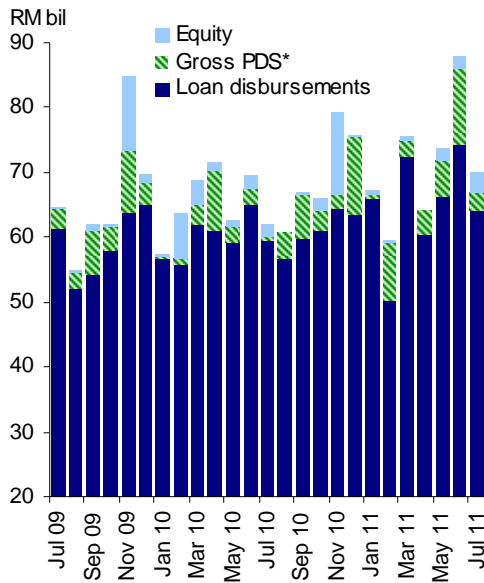


Financing activity remained strong in July



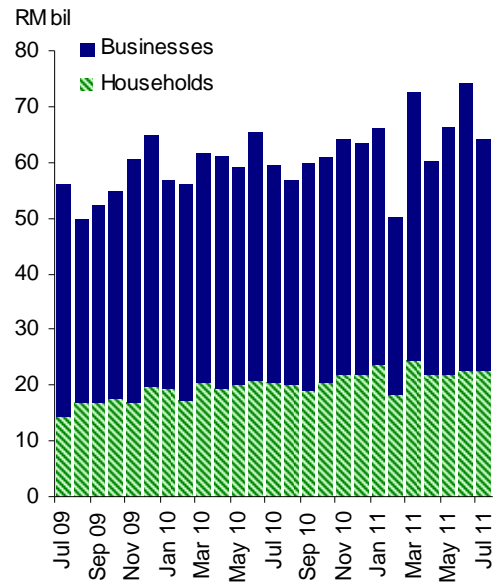
* Net financing comprises of banking system loans and private debt securities (PDS) outstanding (excluding non-residents and Cagamas)

Gross Private Sector Financing

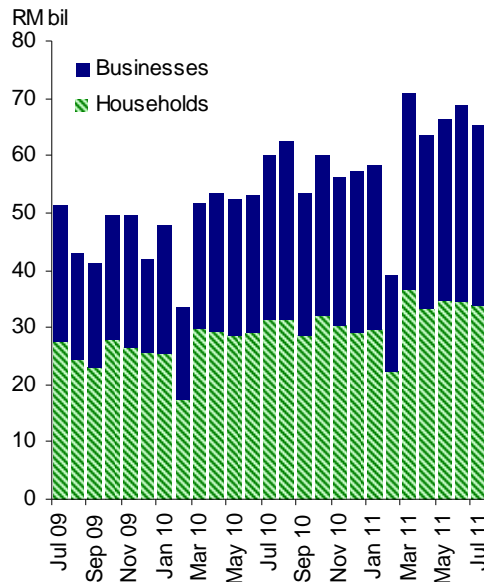


* Excludes foreign issuances

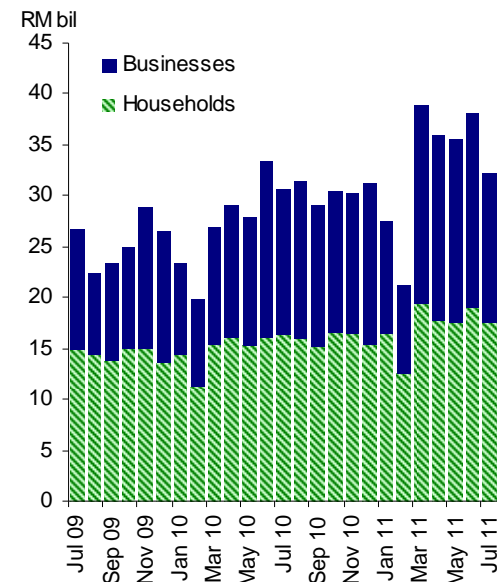
Loan Disbursements by the Banking System



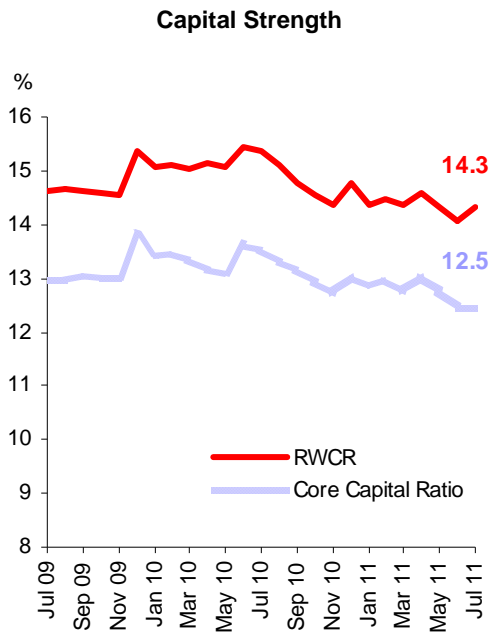
Loan Applications with the Banking System



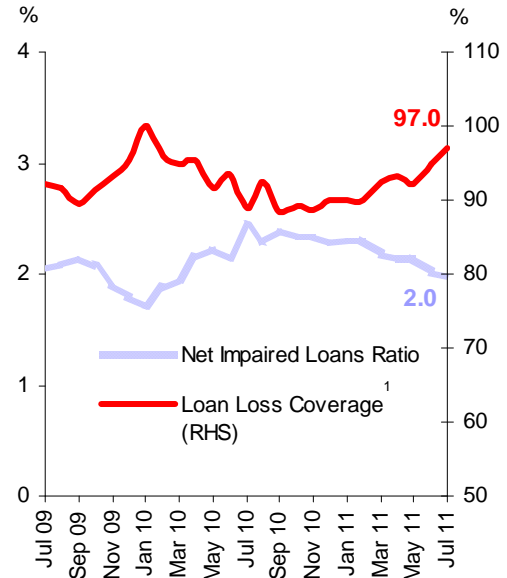
Loan Approvals by the Banking System



Banking system capitalisation remained strong with stable loan quality



Net Impaired Loans Ratio and Loan Loss Coverage

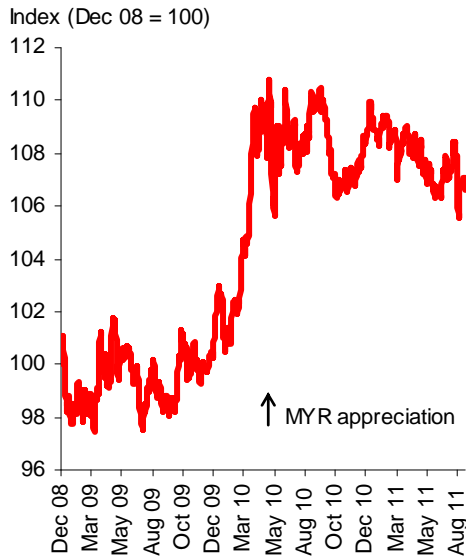


* Beginning January 2010, loans are reported based on FRS139. The adoption of FRS139 requirement is based on the financial year of the banks.

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

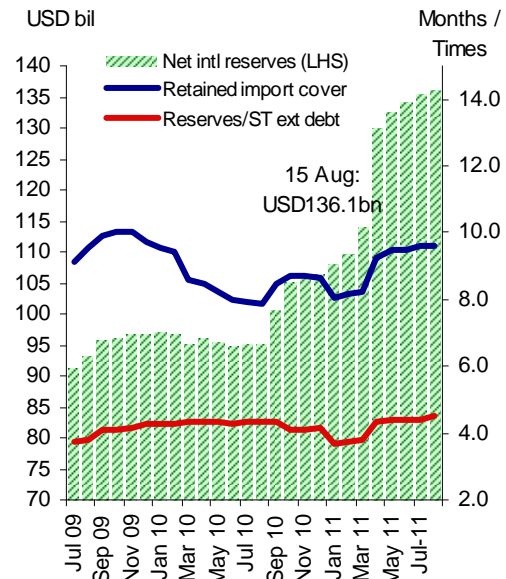
The ringgit depreciated against currencies of major trade partners

Index of Ringgit Performance against Major Trade Partners*



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

Net International Reserves



Key Monetary and Financial Statistics

	May 11		Jun 11		Jul 11		
	O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth	
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)	
Monetary Aggregates							
Reserve money	77.2	33.5	76.3	37.1	87.9	56.8	
M1	234.0	13.1	239.4	14.5	235.5	14.5	
M2	1,117.0	11.6	1,132.1	12.4	1,127.9	11.6	
M3	1,145.4	11.5	1,159.0	12.4	1,156.4	11.6	
Banking System							
Net financing ¹	1,238.7	12.2	1,262.8	12.9	1,265.4	12.7	
Loan-deposit ratio (%) ²		81.8		81.8		82.2	
Financing-deposit ratio (%) ^{2&3}		88.0		88.1		88.3	
Loans applied (during the period)	66.5	27.2	68.9	29.9	65.3	8.5	
Loans approved (during the period)	35.6	27.2	38.1	14.2	32.2	4.9	
Loans disbursed (during the period)	66.2	11.9	74.3	14.1	64.1	7.6	
Loans repaid (during the period)	54.1	6.6	63.6	18.3	63.3	11.3	
Banking System Health							
Risk-weighted Capital Ratio (RWCR) (%)		14.3		14.0		14.3	
Net Impaired Loans Ratio (%)		2.1		2.0		2.0	
BNM International Reserves (end-period)							
Net Reserves in RM billion		401.4		406.2		409.5	
Net Reserves in USD billion (equivalent)		132.7		134.3		135.4	
Months of retained imports		9.5		9.5		9.6	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.00		3.00		3.00	
Interbank:	Overnight	2.99 [2.91]		2.97 [2.96]		2.98 [2.93]	
	1-week	3.01 [2.98]		3.01 [3.01]		3.01 [3.01]	
	1-month	3.11 [3.02]		3.08 [3.05]		3.05 [3.05]	
Fixed deposits of commercial banks:	1-month	2.95		2.95		2.95	
	3-month	3.00		2.99		3.00	
BLR of commercial banks		6.54		6.54		6.54	
ALR of commercial banks		5.10		5.07		5.03	
Prices							
Consumer Price Index (CPI) (2010=100)		102.9	3.3	103.2	3.5	103.4	3.4

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.

Note: The source of all data in this publication is from Bank Negara Malaysia, with the exception of the inflation data which is sourced from the Department of Statistics Malaysia.