



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

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MONETARY AND FINANCIAL DEVELOPMENTS December 2010

Price Conditions: Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), increased to 2.2% in December. Inflation during the month was mainly from price increases in the *transport* category, which reflected the upward fuel price adjustments in December following the implementation of Government's subsidy rationalisation programme and the global increase in oil prices. Food inflation was lower due mainly to a smaller increase in the prices of *fish and seafood* and *vegetables* sub-categories. However, the *sugar, jam, honey, chocolate and confectionery* sub-category exhibited higher prices during the month as a result of the 20 sen/kg upward adjustment in the retail price of sugar, which was also part of the subsidy rationalisation programme.

Monetary Conditions: Interbank rates were stable in December. In terms of retail rates, the average base lending rate (BLR) of commercial banks was unchanged at 6.27%. Retail deposit rates were also stable. Broad money (M3) expanded at a more moderate pace in December. The increase in M3 reflected higher Government spending to finance its outlays and higher credit extension by the banking system to the private sector. These factors, however, were partially mitigated by the drawdown of deposits by the private sector to finance the purchase of Bank Negara Malaysia securities from the banking system. Net financing to the private sector increased by RM17.7

billion on a month-on-month basis, driven mainly by higher PDS issuances. PDS issuances rose mainly on account of a large issuance by a construction company. Loans outstanding increased moderately during the month. The expansion in business loans outstanding in December compared to the previous month reflected mainly the increased investment and working capital needs of firms in the *real estate; manufacturing* and *construction* sectors. Meanwhile, the pace of expansion for household loans moderated. Overall loan demand, nevertheless, increased during the month following a slight moderation in November, supported mainly by the business sector.

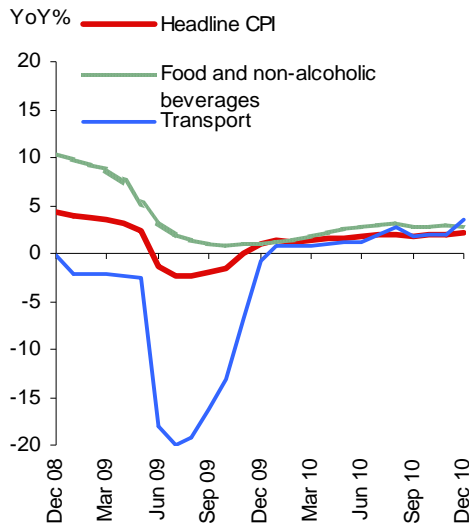
Banking System: The banking system remained well-capitalised with the risk-weighted capital ratio (RWCR) and core capital ratio at 14.6% and 12.8% respectively. The level of non-performing loans (NPLs) including impaired loans remained stable to account for 2% of net loans. Loan loss coverage remained above 90%.

Exchange Rates and International Reserves: In December, the ringgit appreciated against the currencies of all of Malaysia's major trade partners, except the Japanese yen. The ringgit's strength was in line with most regional currencies following optimism about the growth outlook for Asia, which boosted investor sentiments towards regional financial markets. In January 2011, the ringgit continued to strengthen against the currencies of all our major trading partners. The international reserves of Bank Negara Malaysia stood at RM329.9 billion (equivalent to USD106.9 billion) as at 14 January 2011, sufficient to finance 8.8 months of retained imports and were 4.1 times the short-term external debt.

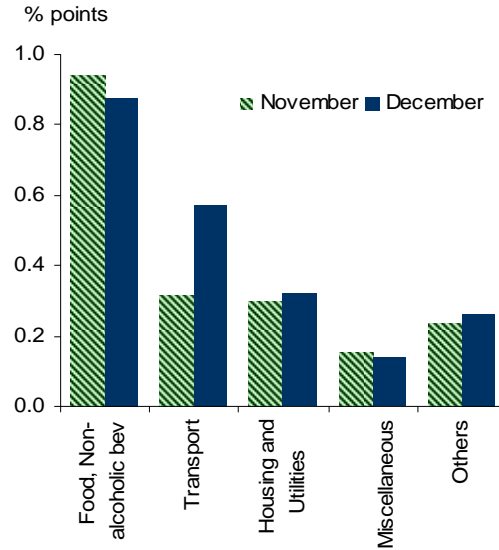
Bank Negara Malaysia
28 January 2011

Inflation edged higher in December

Headline Inflation



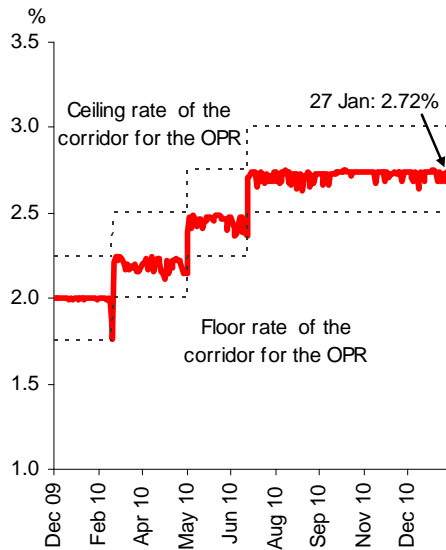
Headline Inflation: Component Contribution



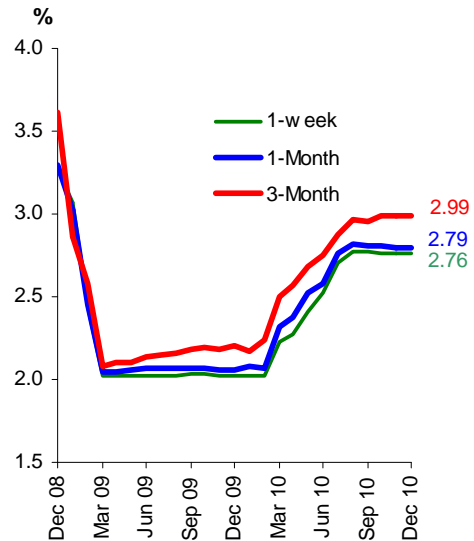
* Others include recreation services and culture, alcoholic beverages and tobacco, restaurant and hotels, education, health, furnishings, household equipment and routine, communication, and clothing and footwear

Interest rates were stable

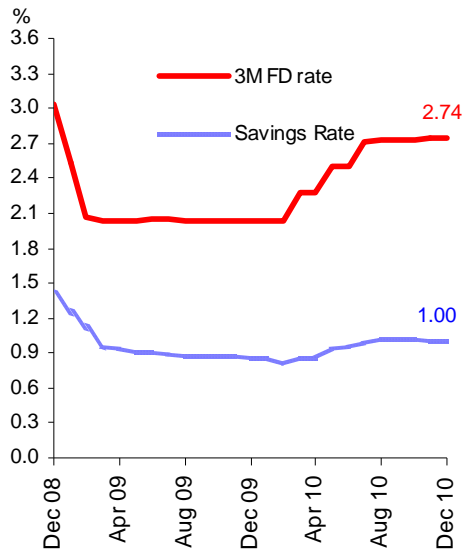
Average Overnight Interbank Rate



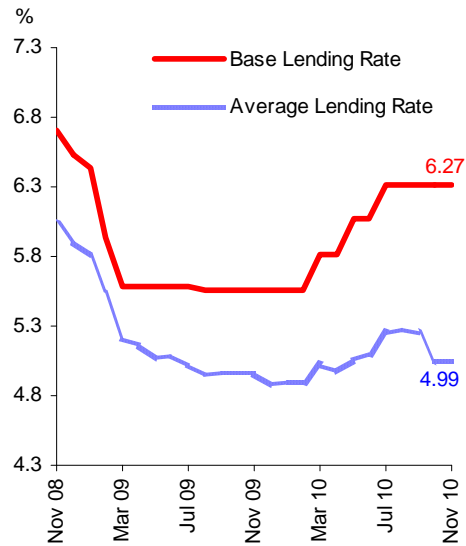
Average Interbank Rates



Deposit Rates of Commercial Banks

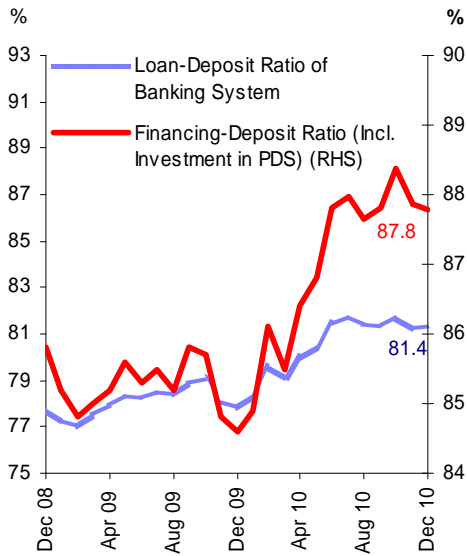


Lending Rates of Commercial Banks

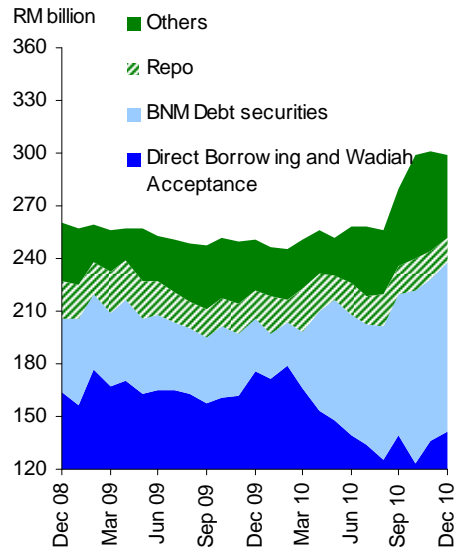


Liquidity in the banking system remains ample

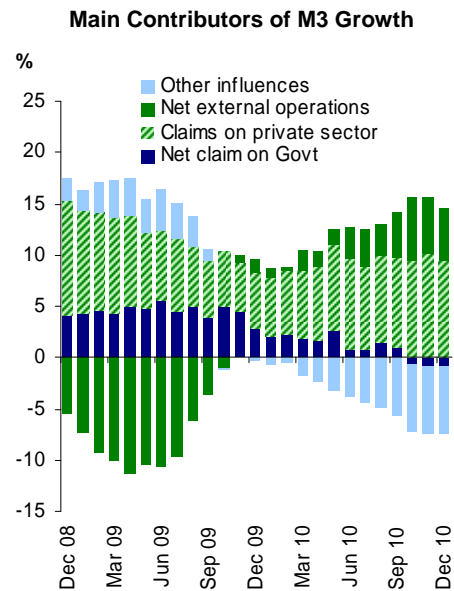
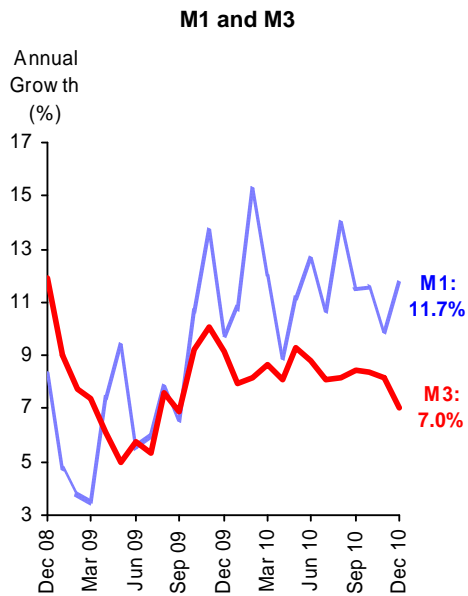
Loan-Deposit Ratio and Financing-Deposit Ratio



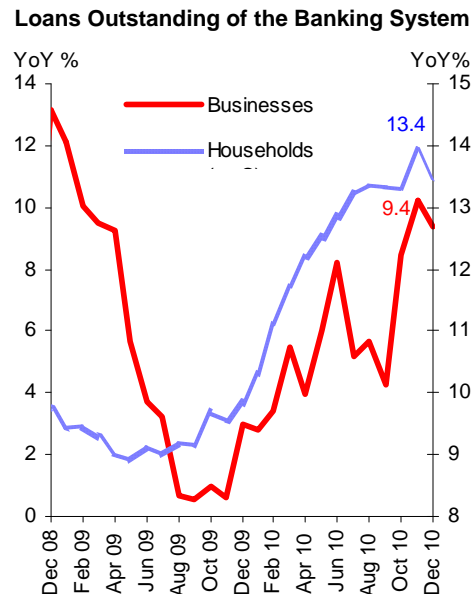
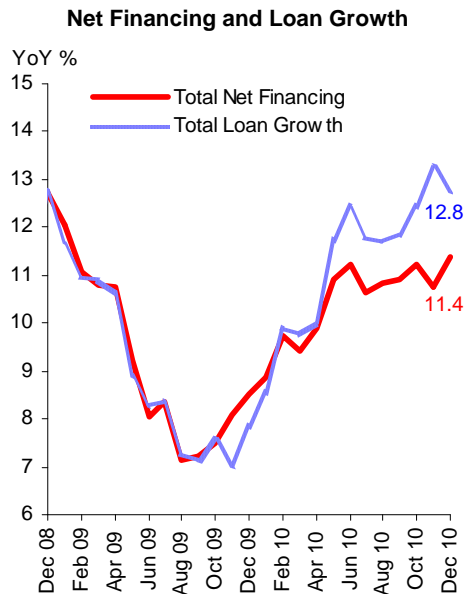
Outstanding Liquidity Placed With Bank Negara Malaysia



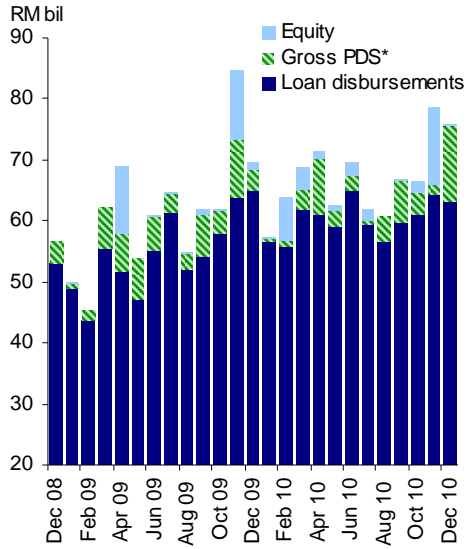
Moderate growth in broad money



Financing activity remained strong in December

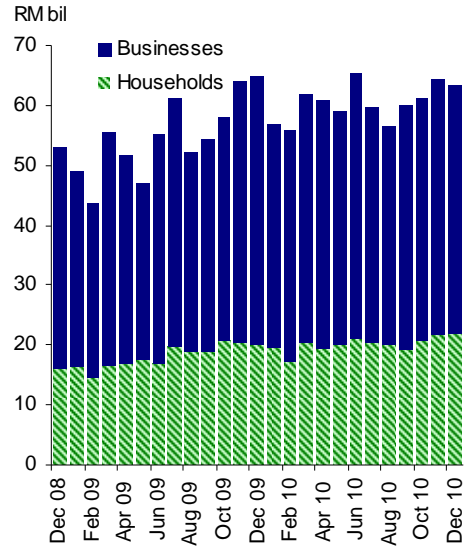


Gross Private Sector Financing

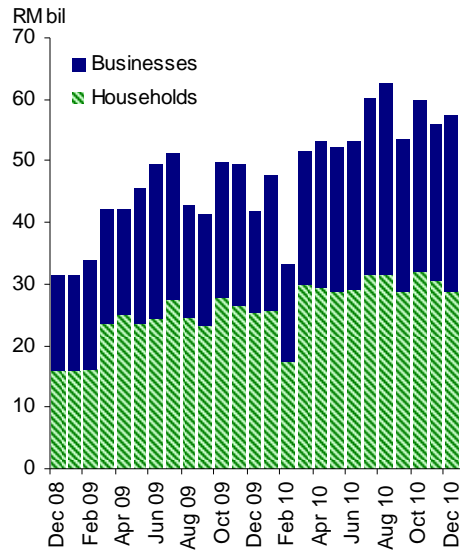


* Excludes foreign issuances

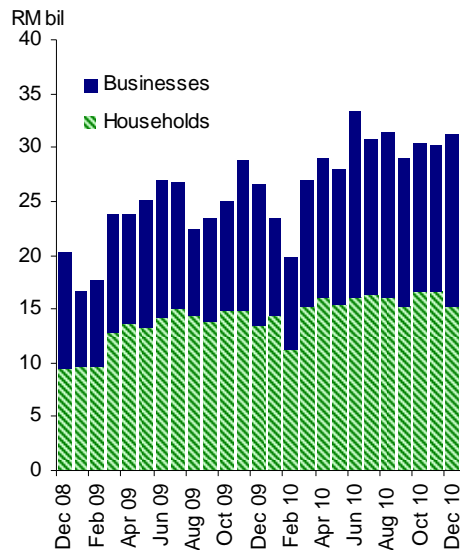
Loan Disbursements by the Banking System



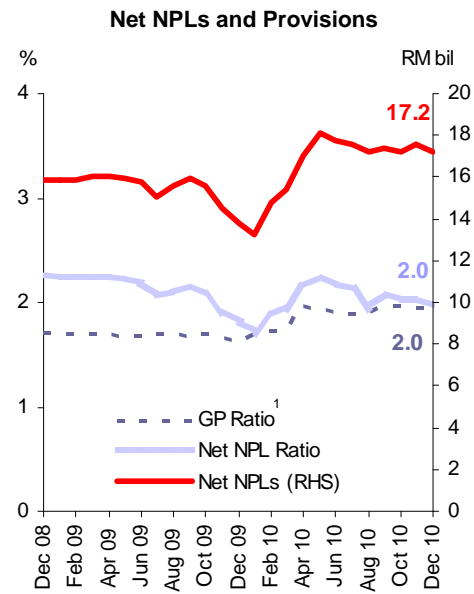
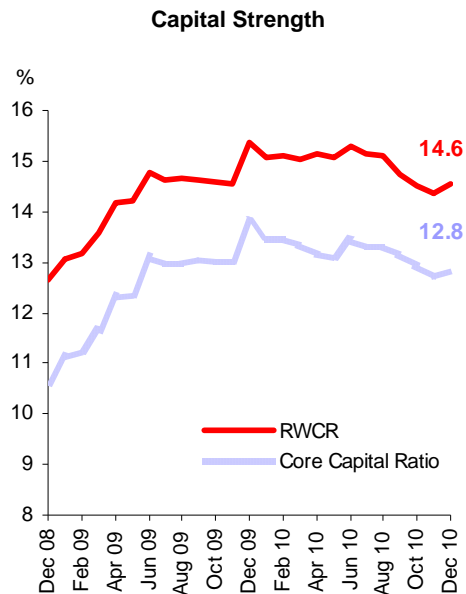
Loan Applications with the Banking System



Loan Approvals by the Banking System



Banking system capitalisation remained strong with stable loan quality

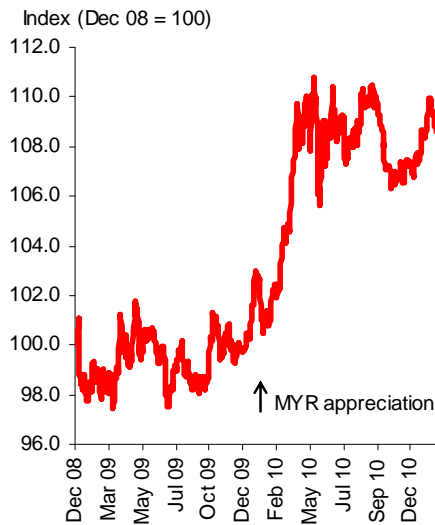


* Beginning January 2010, loans are reported based on FRS139. The adoption of FRS139 requirement is based on the financial year of the banks.

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

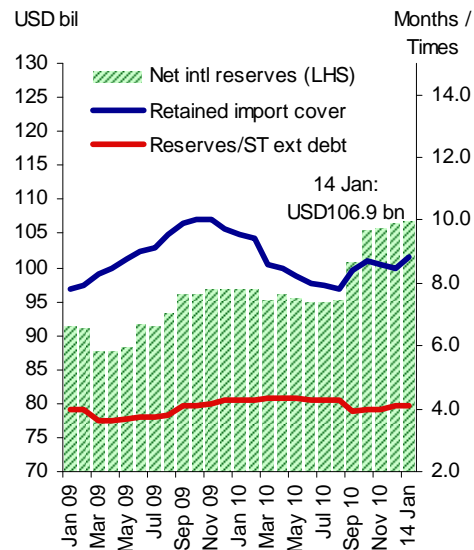
Ringgit strengthened against currencies of major trade partners

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



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Key Monetary and Financial Statistics

	Oct 10		Nov 10		Dec 10	
	O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates						
Reserve money	58.5	11.1	57.6	4.3	61.3	11.8
M1	213.1	11.6	220.0	9.9	224.4	11.7
M2	1,035.9	8.4	1,051.5	8.1	1,060.0	7.1
M3	1,065.7	8.4	1,082.2	8.2	1,088.8	7.0
Banking System						
Net financing ¹	11.7	11.2	8.8	10.8	17.7	11.4
Loan-deposit ratio (%) ²		81.7		81.3		81.4
Financing-deposit ratio (%) ^{2&3}		88.4		87.9		87.8
Loans applied (during the period)	60.1	20.8	56.0	13.2	57.3	36.6
Loans approved (during the period)	30.4	21.4	30.2	4.7	31.2	17.4
Loans disbursed (during the period)	61.1	5.4	64.4	0.8	63.3	-2.8
Loans repaid (during the period)	53.4	1.8	57.4	6.8	57.4	2.0
Banking System Health						
Risk-weighted Capital Ratio (RWCR) (%)		14.5		14.3		14.6
Net NPLs: 3-month classification (%)		2.0		2.0		2.0
BNM International Reserves (end-period)						
Net Reserves in RM billion		324.9		326.4		328.6
Net Reserves in USD billion (equivalent)		105.3		105.8		106.5
Months of retained imports		8.7		8.6		8.5
Interest Rates at end-period [average for the month]						
Overnight Policy Rate (OPR)		2.75		2.75		2.75
Interbank:	Overnight	2.74 [2.74]		2.73 [2.73]		2.72 [2.73]
	1-week	2.77 [2.76]		2.76 [2.76]		2.77 [2.76]
	1-month	2.78 [2.81]		2.79 [2.79]		2.83 [2.79]
Fixed deposits of commercial banks:	1-month	2.71		2.71		2.71
	3-month	2.73		2.74		2.74
BLR of commercial banks		6.27		6.27		6.27
ALR of commercial banks		4.99		4.99		5.05
Prices						
Consumer Price Index (CPI) (2005=100)		114.7	2.0	115.0	2.0	115.5

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.