



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

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MONETARY AND FINANCIAL DEVELOPMENTS **August 2010**

Price Conditions: Headline inflation, as measured by the Consumer Price Index (CPI), rose by 2.1% on an annual basis in August. This was largely the result of price increases in the *food and non-alcoholic beverages* and *transport* categories. The increase in food prices was primarily due to a rise in the *sugar, jam, honey, chocolate and confectionary* and *fruits* sub-categories. The increase in prices of *transport* reflects the full impact of the adjustment on retail petrol and diesel prices in mid-July, arising from the subsidy rationalisation program by the Government.

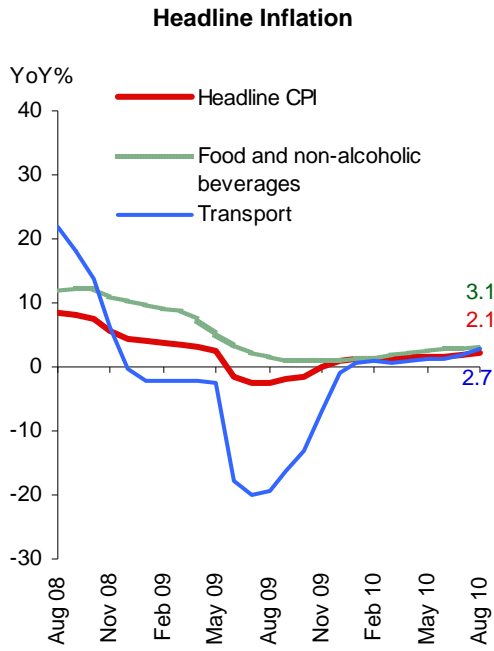
Monetary Conditions: Interbank rates were stable in August. In terms of retail rates, the average base lending rate (BLR) of commercial banks was unchanged at 6.27%. Retail deposit rates were also stable. Broad money (M3) increased during the month, reflecting mainly higher Government spending. The increase in M3 was also supported by higher credit extension by the banking system to the private sector, as well as foreign inflows. Net financing to the private sector expanded on a month-on-month basis in August by RM8.1 bil due mainly to higher PDS issuances and an increase in banking system loans during the month. PDS issuances increased due to several large issuances, mainly by financial institutions. Business loans outstanding were higher mainly on account of the increase in loans to the *real estate; wholesale and retail trade, restaurants and hotels* and *electricity, gas and water supply* sectors. Household loans also rose further particularly for the *purchase of residential and non-residential properties*, and *passenger cars*. Loan applications continued to increase in August, driven mainly by higher loan demand from businesses.

Banking System: The banking system remained well-capitalised with the risk-weighted capital ratio (RWCR) and core capital ratio at 15.1% and 13.3% respectively. The level of non-performing loans (NPLs) including impaired loans remained stable to account for 2.1% of net loans. Loan loss coverage remained above 90%.

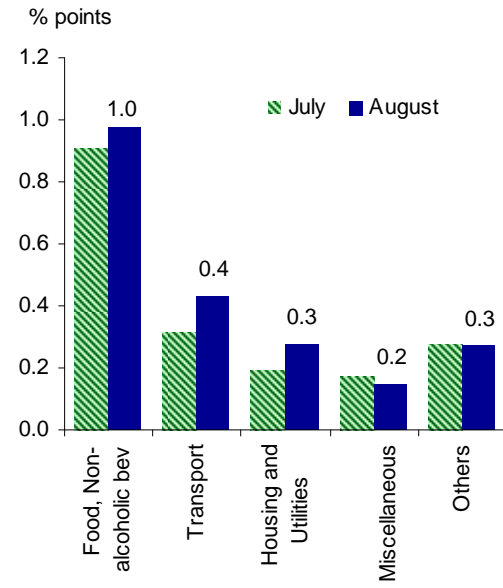
Exchange Rates and International Reserves: In August, the ringgit strengthened against the currencies of our major trade partners. The rise in ringgit reflected the positive growth outlook in Asia relative to the developed economies, which boosted investor sentiments towards the regional economies and financial markets. Domestically, stronger-than-expected second quarter GDP growth and announcements on liberalization of foreign exchange administrative rules also lifted sentiments towards Malaysia. In September, the ringgit's performance was mixed. While ringgit strengthened further against the US dollar and Japanese yen, it depreciated against the Chinese renminbi, Singapore dollar and the euro. The strong performance of the euro was supported by news that the sovereign debt crisis was abating. The international reserves of Bank Negara Malaysia stood at RM313.3 billion (equivalent to USD95.9 billion) as at 15 September 2010, sufficient to finance 8.4 months of retained imports and is 4.3 times the short-term external debt.

Bank Negara Malaysia
30 September 2010

Inflation edged upwards in August

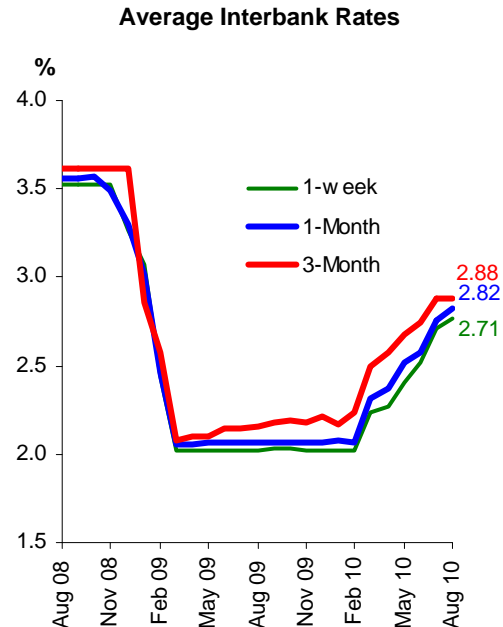
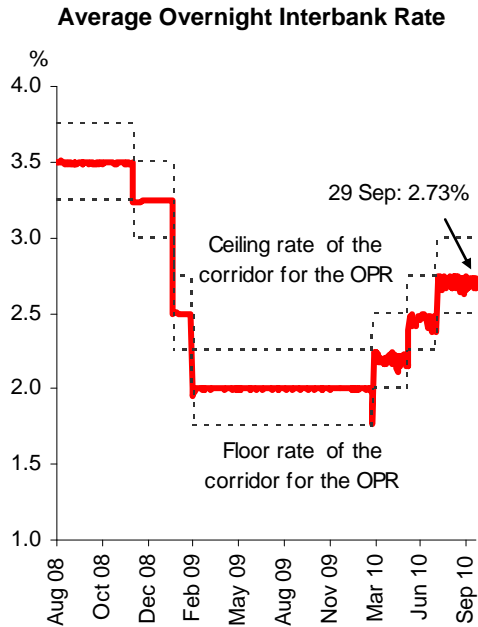


Headline Inflation: Component Contribution

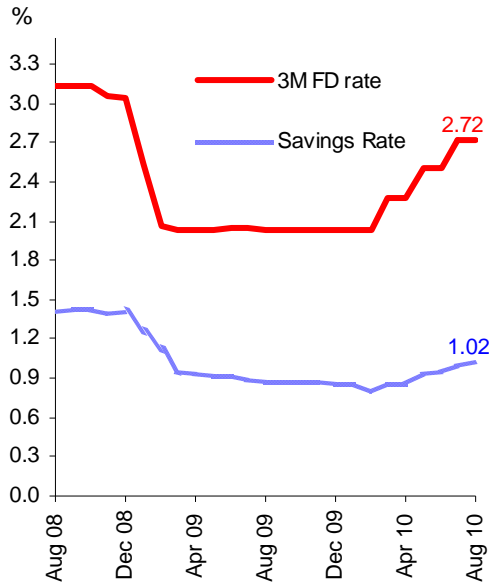


* Others include recreation services and culture, alcoholic beverages and tobacco, restaurant and hotels, education, health, furnishings, household equipment and routine, communication, and clothing and footwear

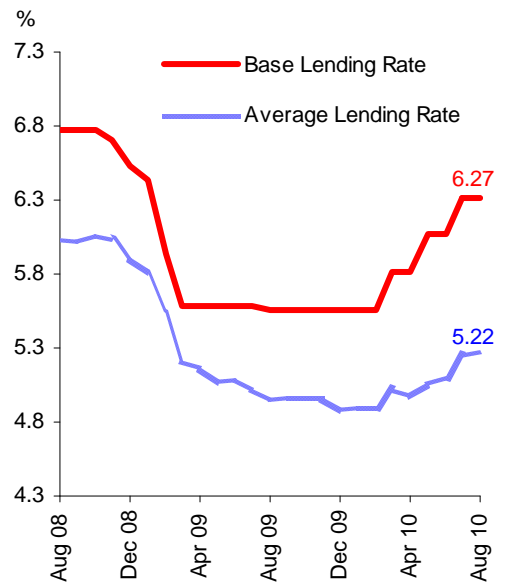
Interest rates were higher



Deposit Rates of Commercial Banks

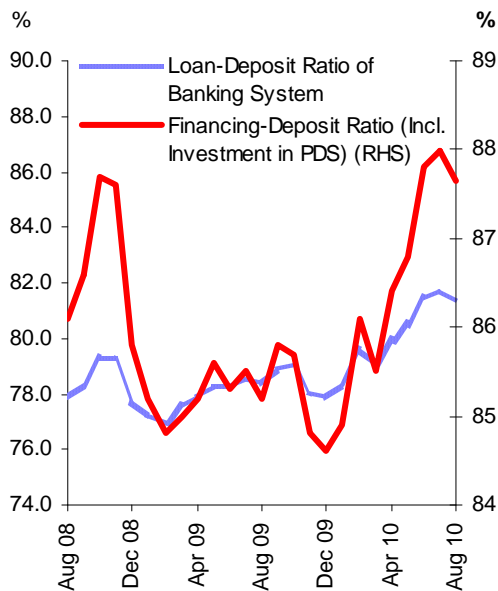


Lending Rates of Commercial Banks

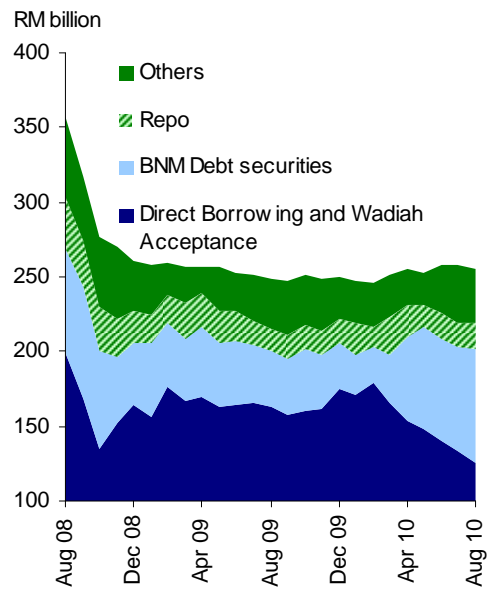


Ample liquidity in the banking system

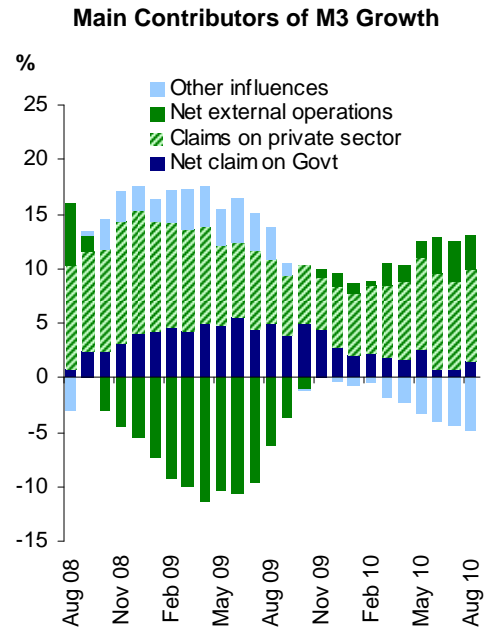
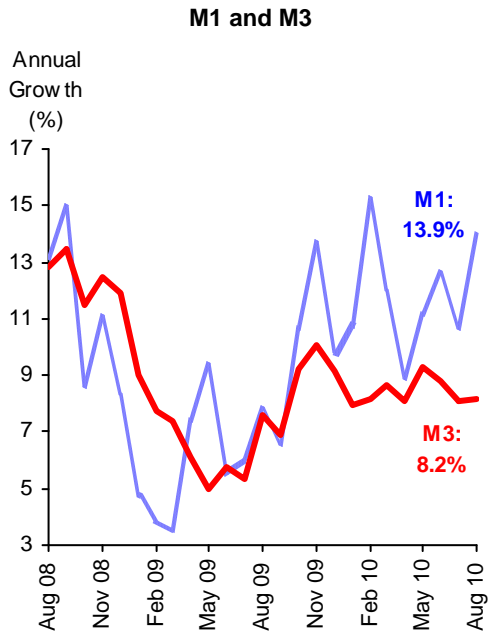
Loan-Deposit Ratio and Financing-Deposit Ratio



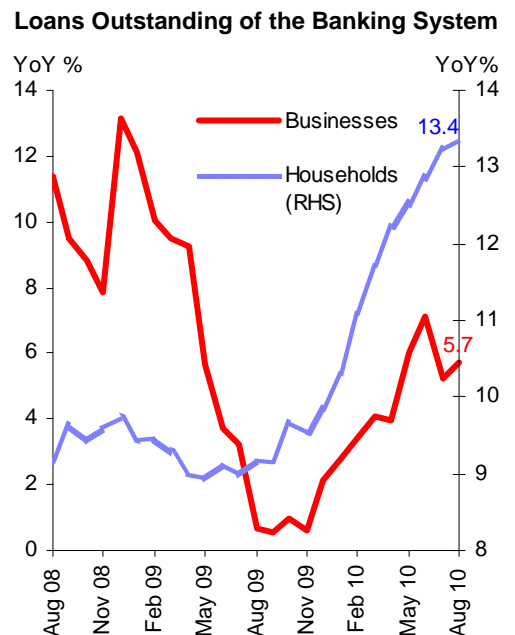
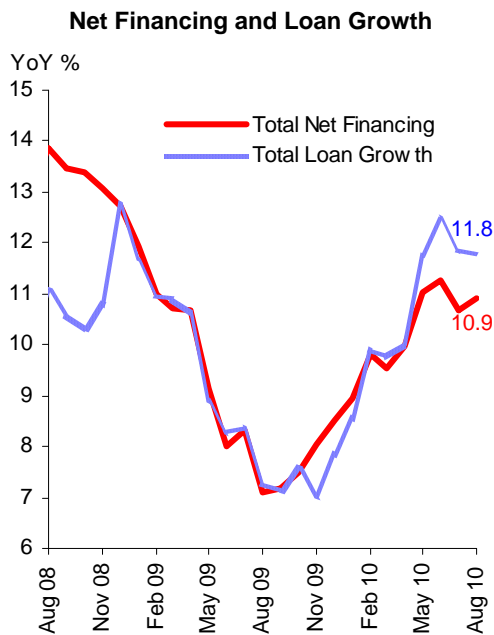
Outstanding Liquidity Placed With Bank Negara Malaysia



Broad money growth was sustained

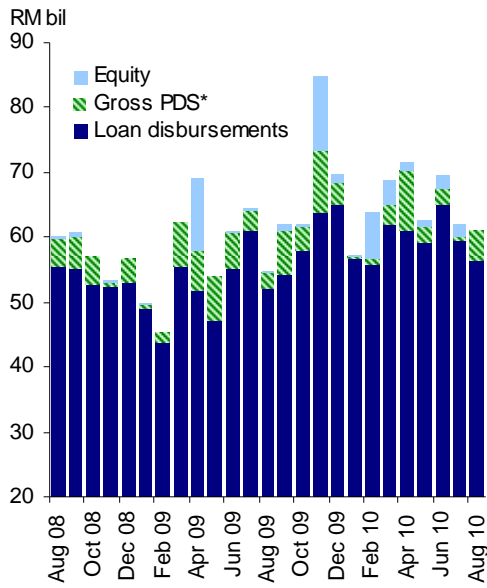


Financing activity improved in August



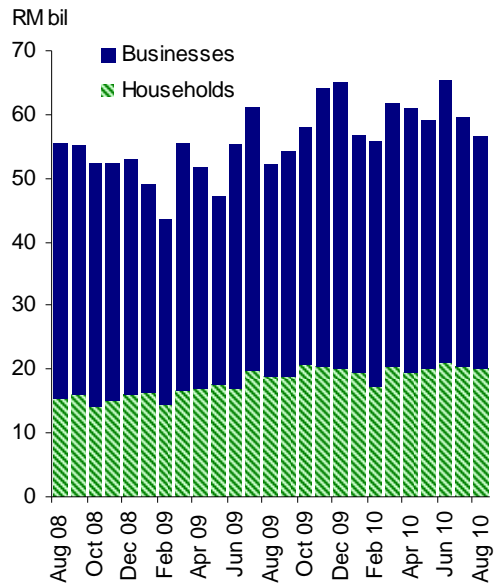
* Net financing comprised of banking system loans outstanding and private debt securities (PDS) outstanding (exclude non residents and Cagamas)

Gross Private Sector Financing

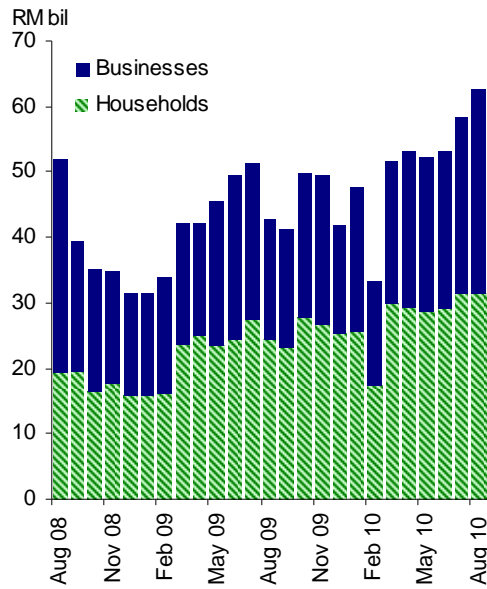


* Excludes foreign issuances

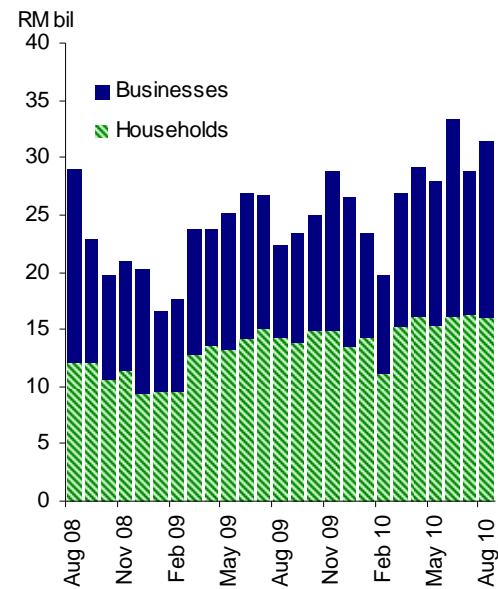
Loan Disbursements by the Banking System



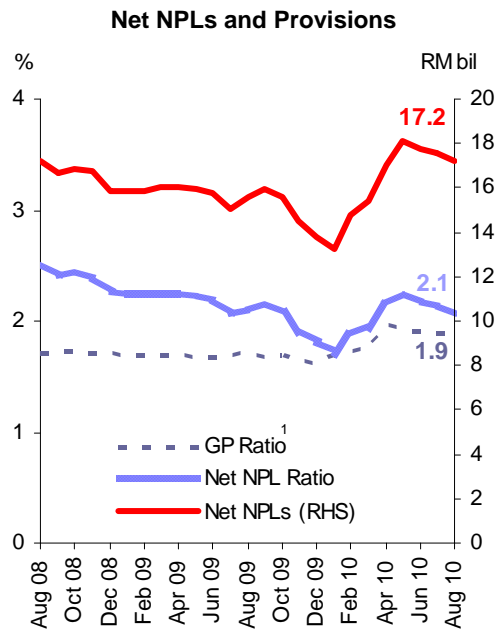
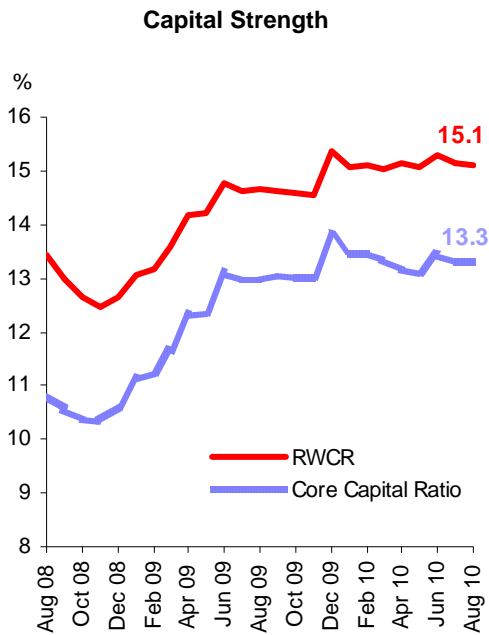
Loan Applications with the Banking System



Loan Approvals by the Banking System



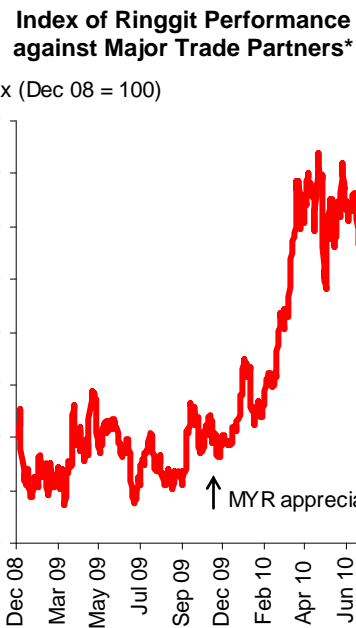
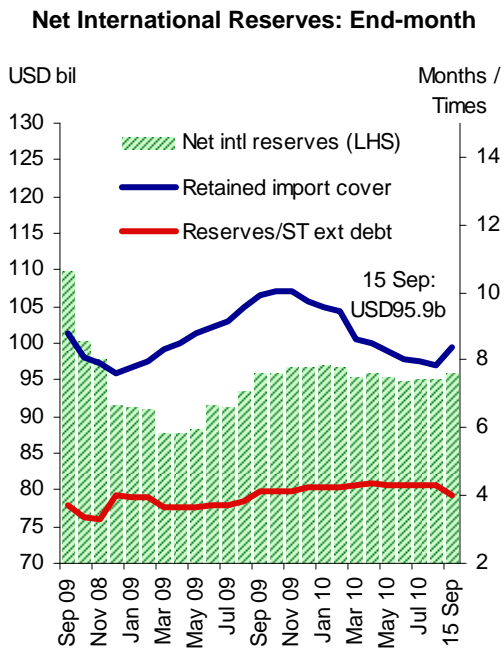
Banking system capitalisation remained strong with stable loan quality



* 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, while international reserves remained at a healthy level



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

Key Monetary and Financial Statistics

	Jun 10		Jul 10		Aug 10	
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates						
Reserve money	55.7	1.7	56.0	7.7	60.3	11.6
M1	209.0	12.6	205.6	10.7	214.4	13.9
M2	1,007.4	9.2	1,011.1	8.3	1,023.0	8.2
M3	1,034.6	8.8	1,039.0	8.1	1,052.5	8.2
Banking System						
Net financing ¹	15.1	11.3	6.0	10.7	8.1	10.9
Loan-deposit ratio (%) ²	81.4		81.7		81.4	
Financing-deposit ratio (%) ^{2&3}	87.8		88.0		87.6	
Loans applied (during the period)	53.1	7.0	58.4	13.6	62.6	46.0
Loans approved (during the period)	33.3	24.2	28.9	7.9	31.4	40.1
Loans disbursed (during the period)	65.1	17.9	59.6	-2.5	56.5	8.7
Loans repaid (during the period)	53.8	8.5	56.9	11.6	52.7	16.4
Banking System Health						
Risk-weighted Capital Ratio (RWCR) (%)	14.8		15.1		15.1	
Net NPLs: 3-month classification (%)	2.2		2.1		2.1	
BNM International Reserves (end-period)						
Net Reserves in RM billion	309.8		310.6		311.3	
Net Reserves in USD billion (equivalent)	94.8		95.0		95.2	
Months of retained imports	8.0		7.9		7.8	
Interest Rates at end-period [average for the month]						
Overnight Policy Rate (OPR)	2.50		2.75		2.75	
Interbank:	Overnight	2.43 [2.46]	2.72 [2.63]		2.72 [2.71]	
	1-week	2.53 [2.52]	2.77 [2.71]		2.75 [2.77]	
	1-month	2.71 [2.58]	2.81 [2.76]		2.83 [2.82]	
Fixed deposits of commercial banks:	1-month	2.48	2.70		2.70	
	3-month	2.51	2.72		2.72	
BLR of commercial banks	6.02		6.27		6.27	
ALR of commercial banks	5.05		5.19		5.22	
Prices						
Consumer Price Index (CPI) (2005=100)	113.7	1.7	114.0	1.9	114.4	2.1

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.