



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

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MONETARY AND FINANCIAL DEVELOPMENTS **July 2010**

Price Conditions: Headline inflation, as measured by the Consumer Price Index (CPI), was higher in July, at 1.9% on an annual basis. This was largely the result of price increases in the *food and non-alcoholic beverages* and *transport* categories. The increase in food prices was due mainly to a rise in the *meat* and *vegetables* sub-categories, while the increase in prices of *transport* was a result of the 5 sen/litre increase in retail petrol and diesel prices, arising from the subsidy rationalisation programme by the Government.

Monetary Conditions: Interbank rates edged higher in response to the increase in the OPR by 25bps on 8 July. In terms of retail rates, the average base lending rate (BLR) of commercial banks (CBs) was increased by 25bps to 6.27%. Retail deposit rates were also revised upwards. Broad money (M3) increased during the month, reflecting mainly portfolio related inflows. The increase in M3 was also supported by higher credit extension by the banking system to the private sector. Net financing to the private sector grew at a slower pace in July due mainly to the decline in outstanding banking system loans to the business sector and lower PDS issuances during the month. Business loans outstanding declined as repayments increased sharply during the month amidst lower disbursements. The decline in PDS issuances can be attributed to the lack of large-scale issuances during the month. Loan applications, however, continued to increase in July, driven mainly by higher

loan demand from businesses in the *construction, real estate* and *finance* sectors. Household loans continued to expand as demand for loans remained strong.

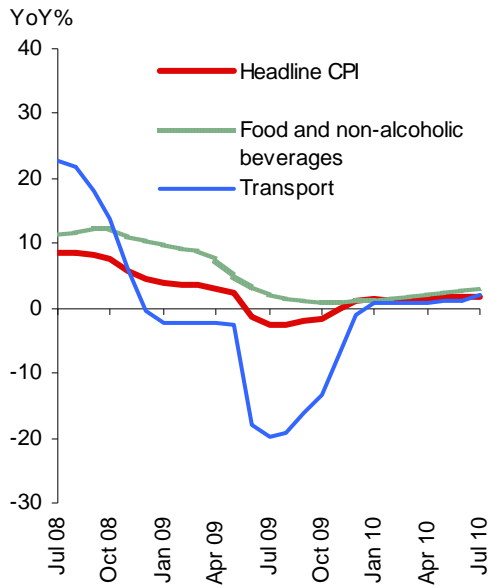
Banking System: Banking system capitalisation remained strong with the risk-weighted capital ratio (RWCR) and core capital ratio sustained at 15.1% and 13.2% respectively. The level of non-performing loans (NPLs) including impaired loans remained stable to account for 2.1% of net loans. Loan loss coverage remained stable above 90%.

Exchange Rates and International Reserves: In July, the ringgit exhibited a mixed performance against the currencies of our major trade partners. The ringgit appreciated against the US dollar as uncertainty surrounding the sustainability of growth momentum in the US caused it to depreciate against most currencies. Ringgit weakened against the Singapore dollar but strengthened against the Chinese renminbi. After strengthening earlier in June, the ringgit depreciated against the euro following the authorities' announcements of measures to resolve the European debt crisis. In August, the ringgit recorded a stronger performance, especially against the US dollar, following the release of better second quarter Malaysian economic data. The international reserves of Bank Negara Malaysia stood at RM310.8 billion (equivalent to USD95.1 billion) as at 13 August 2010, sufficient to finance 7.8 months of retained imports and is 4.3 times the short-term external debt.

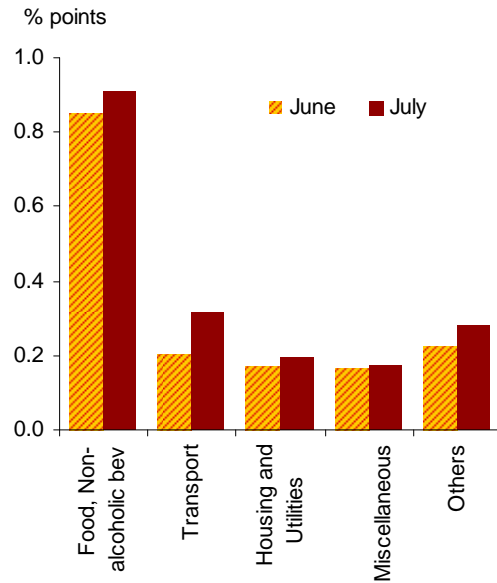
Bank Negara Malaysia
27 August 2010

Inflation edged upwards in July

Headline Inflation



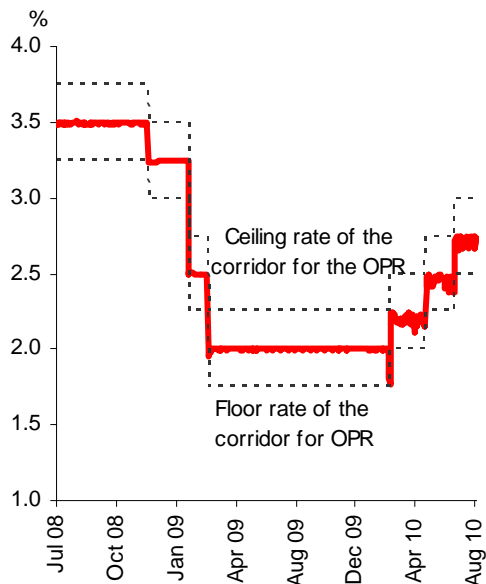
Headline Inflation: Component Contribution



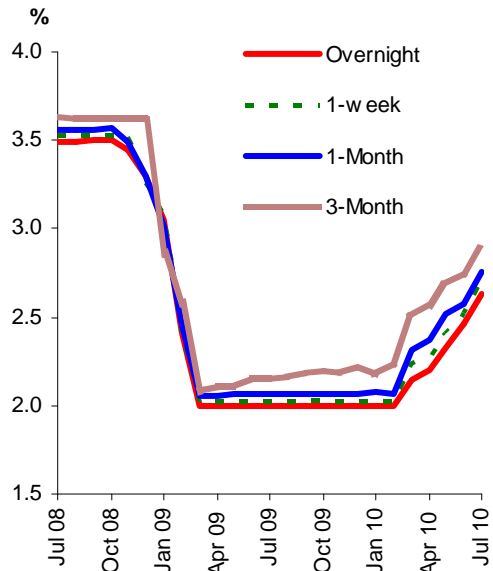
* Others include recreation services and culture, alcoholic beverages and tobacco, restaurant and hotels, education, health, furnishings, household equipment and routine, communication, and clothing and footwear

Interest rates higher in response to the increase in the OPR

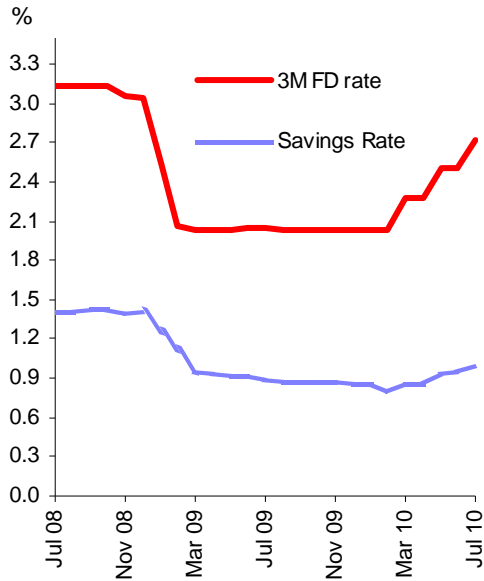
Average Overnight Interbank Rate



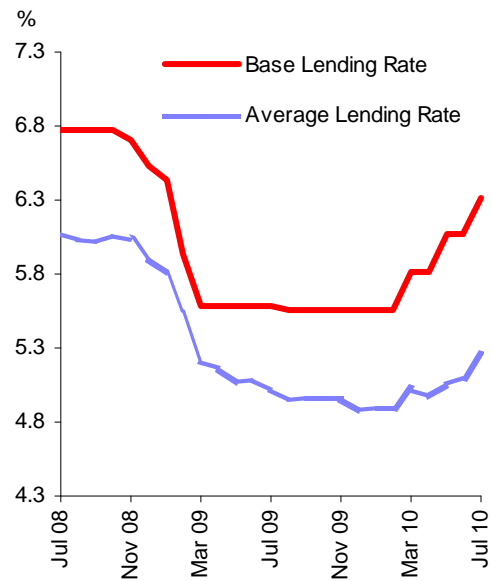
Average Interbank Rates



Deposit Rates of Commercial Banks

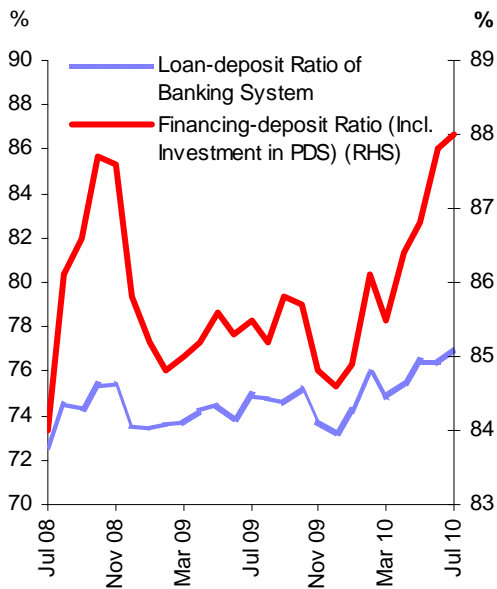


Lending Rates of Commercial Banks

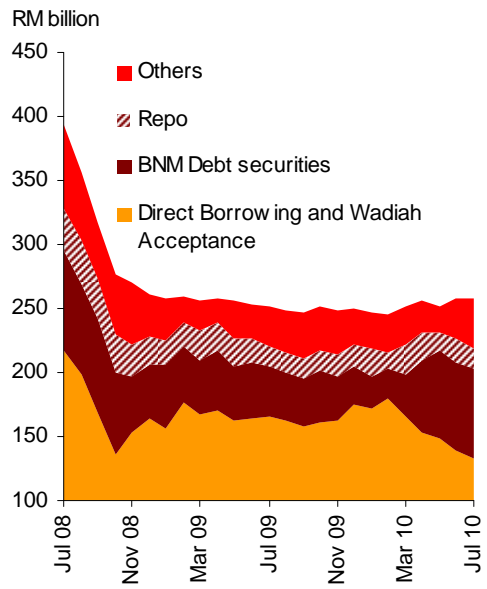


Liquidity in the banking system remains ample

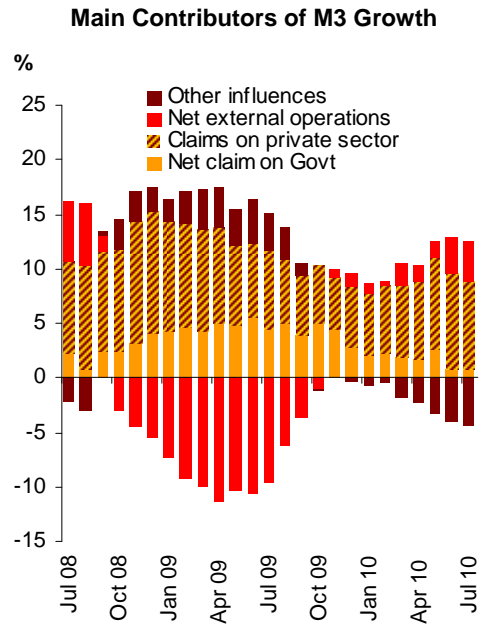
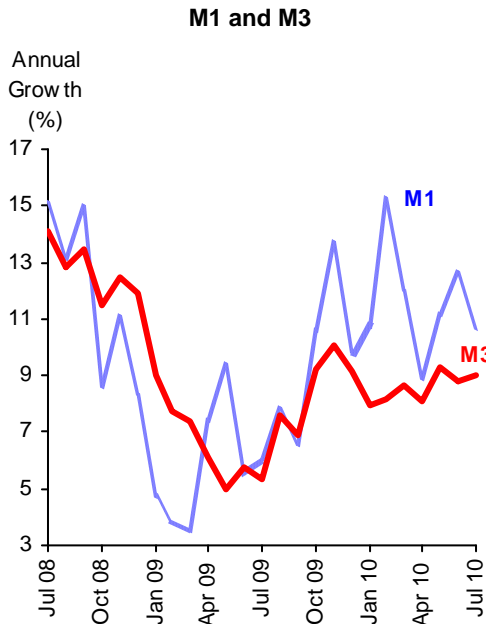
Loan-Deposit Ratio and Financing-Deposit Ratio



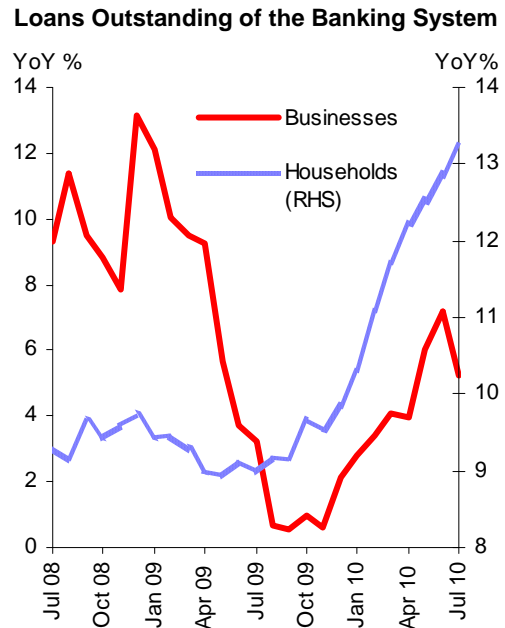
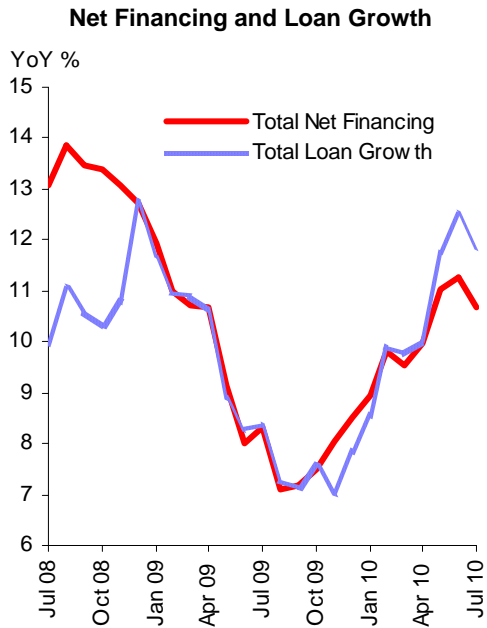
Outstanding Liquidity Placed With Bank Negara Malaysia



Broad money growth moderated

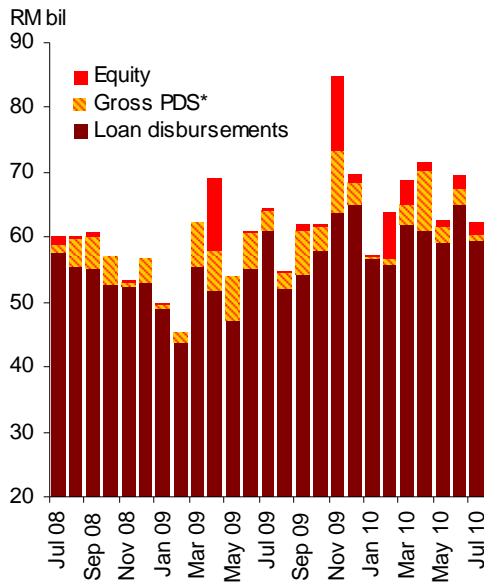


Financing activity sustained at high levels in July



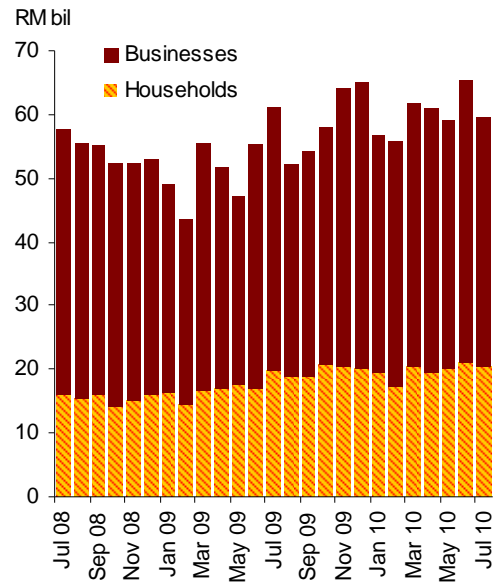
* Net financing comprised of banking system loans outstanding and private debt securities (PDS) outstanding (exclude non residents and Cagamas)

Gross Private Sector Financing

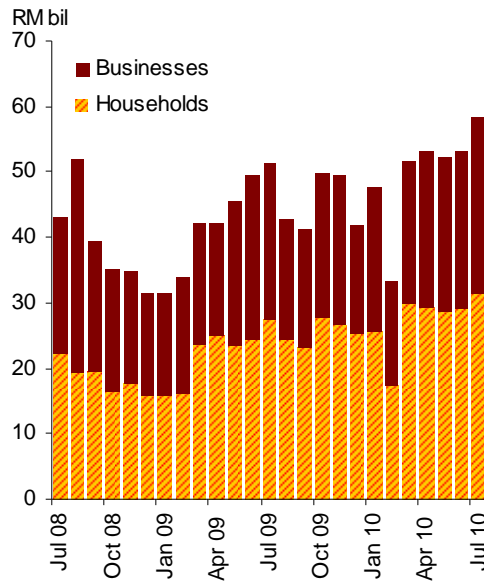


* Excludes foreign issuances

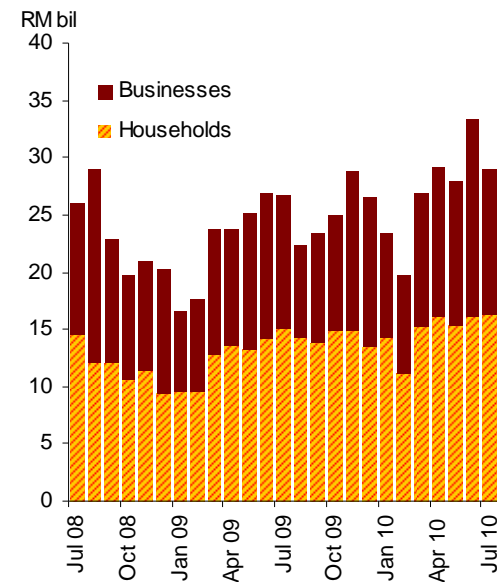
Loan Disbursements by the Banking System



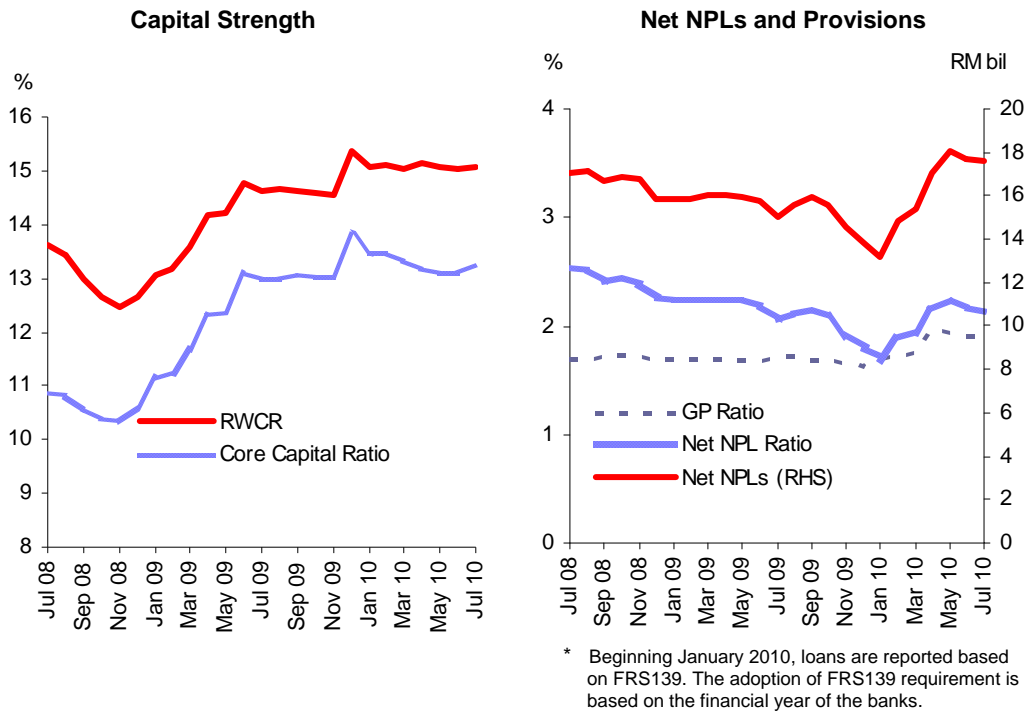
Loan Applications with the Banking System



Loan Approvals by the Banking System



Banking system capitalisation remained strong with stable loan quality



Healthy levels of international reserves while ringgit's performance against major currencies was mixed

