



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 06/10/14

**EMBARGO: Not for publication or
broadcast before 1800 hours on
Wednesday, 30 June 2010**

Monetary and Financial Developments in May 2010 **Highlights of the Press Release**

- Gross banking system loans and PDS outstanding grew at a higher annual rate of 11%
- Commercial banks' lending rates and average fixed deposit rates have increased following the 25 basis point increase in the OPR
- The Consumer Price Index (CPI) rose to 1.6%
- The banking system's capitalisation remained strong with the risk-weighted capital ratio (RWCR) and core capital ratio (CCR) at 15% and 13.1% respectively

Diterbitkan oleh:
Jabatan Komunikasi Korporat, Tingkat 14, Blok B, Bangunan Bank Negara Malaysia,
Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia.
Telefon: +60(3) 2698 8044 Faksimili: +60(3) 2693 6919
Web: www.bnm.gov.my



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MONETARY AND FINANCIAL DEVELOPMENTS

May 2010

Gross financing to the private sector through the banking system and the capital market increased at a higher annual rate of 11% as at end-May. All major loan indicators across both business and household sectors remained firm during the month.

Following the increase in the OPR to 2.5% on 13 May, the daily overnight interbank rate trended higher and interbank rates of other maturities also rose accordingly. In terms of the commercial banks' lending rates, both the average base lending rate and the average lending rate were higher as at end-May. The average fixed deposit rates have also increased.

For the period 1 May - 29 June 2010, the ringgit experienced higher volatility due to several major external developments. The ringgit depreciated in the first three weeks of May in line with regional currencies following heightened concerns over the European sovereign debt crisis and geopolitical tensions in East Asia. However, following PBOC's announcement on 19 June 2010 to allow greater flexibility in the renminbi exchange rate, the ringgit strengthened by 2.1% on 21 June 2010 before settling at 3.2315 on 29 June 2010. Between 1 May to 29 June 2010, the ringgit depreciated by 1.3% against the U.S. dollar. The ringgit also depreciated against the Japanese yen (-6.6%), but appreciated against the euro (6.7%) and pound sterling (0.5%). Against regional currencies, the ringgit appreciated against the Korean won (8.1%), Philippine peso (2.9%) and Singapore dollar (0.3%) but depreciated against other currencies in the range of 1 to 1.7%.

Headline inflation was higher at 1.6% in May. The increase in headline inflation was largely the result of price increases in the *food and non-alcoholic beverages* category.

Broad money (M3) rose at a faster annual rate of 9.5%. M3 also increased on a month-on-month basis, reflecting mainly higher credit extension by the banking system to the private sector.

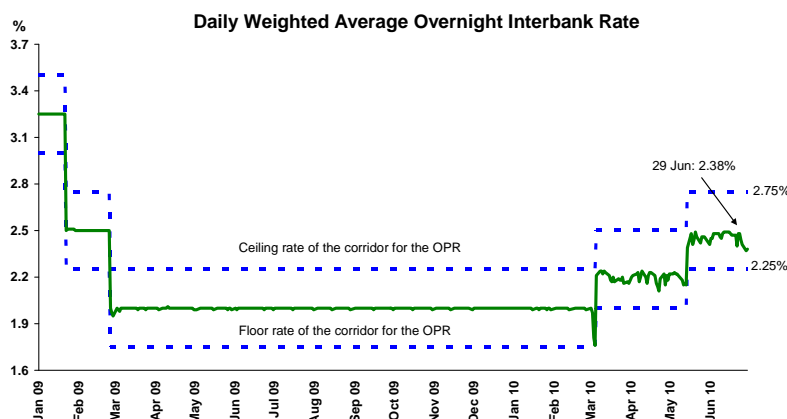
The banking system's capitalisation remained strong with the risk-weighted capital ratio and core capital ratio at 15% and 13.1% respectively.

Interest rates edged higher in response to the increase in the OPR

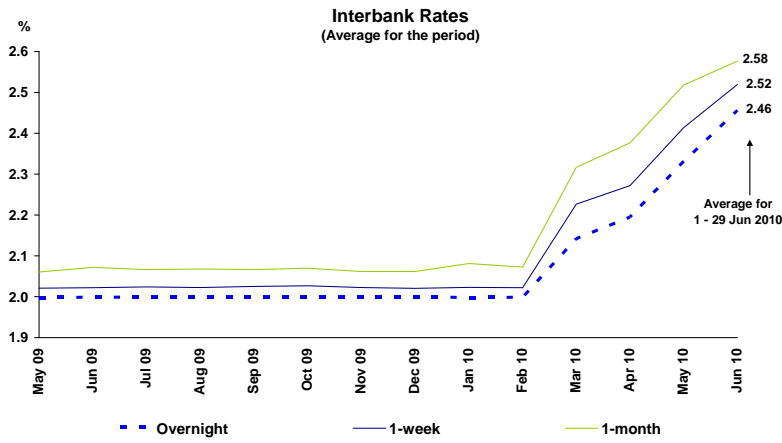
During the period 1 May - 13 May 2010 the daily weighted average overnight interbank rate traded within the range of 2.11% - 2.24%. Following the increase in the OPR to 2.50% on 13 May, the daily weighted average overnight interbank rate trended higher within the range of 2.37% - 2.49% during the period 14 May – 29 June. Interbank rates of other maturities also rose accordingly. Market conditions remained orderly as financial institutions transitioned to the new interest rate level.

In terms of the commercial banks' lending rates, the average base lending rate (BLR) was higher at 6.02% as at 15 June. Similarly, the average lending rate (ALR) trended higher to 5.01% as at end-May (4.93% in April and 4.96% in March).

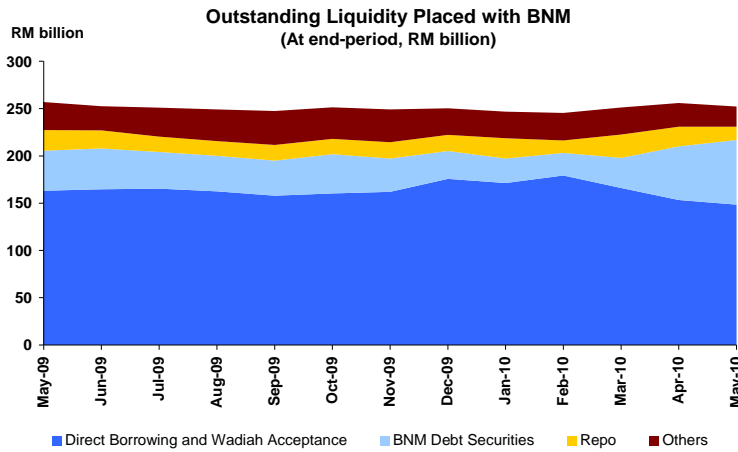
The average fixed deposit (FD) rates of commercial banks (CBs) also adjusted higher during this period. As at 15 June, the average quoted fixed deposit rates for tenures between 1 and 12 months were within a higher range of 2.47% and 2.81% (April: 2.25% - 2.65%).



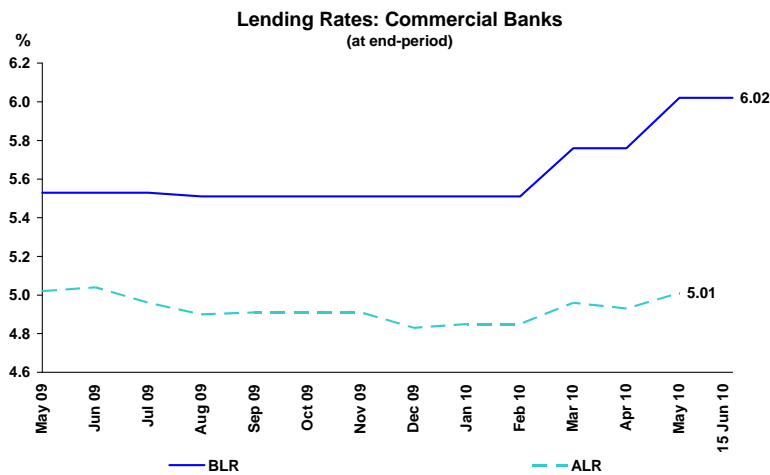
The average overnight interbank rate moved higher to reflect the increase in the OPR on 13 May



Other interbank rates also rose after the increase in the OPR

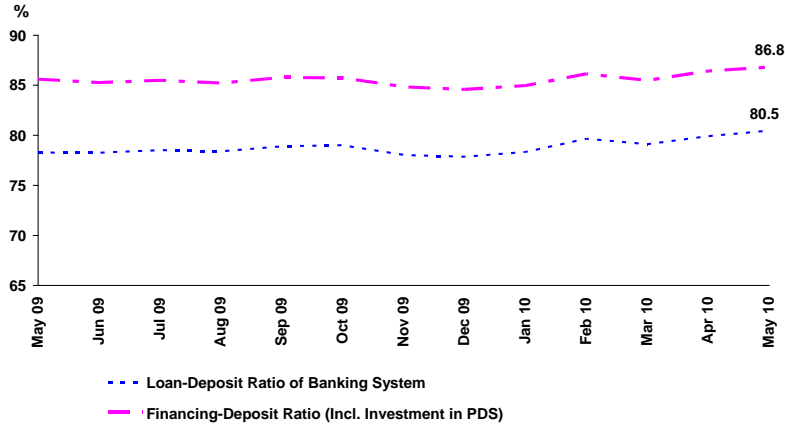


BNM continued to absorb excess liquidity



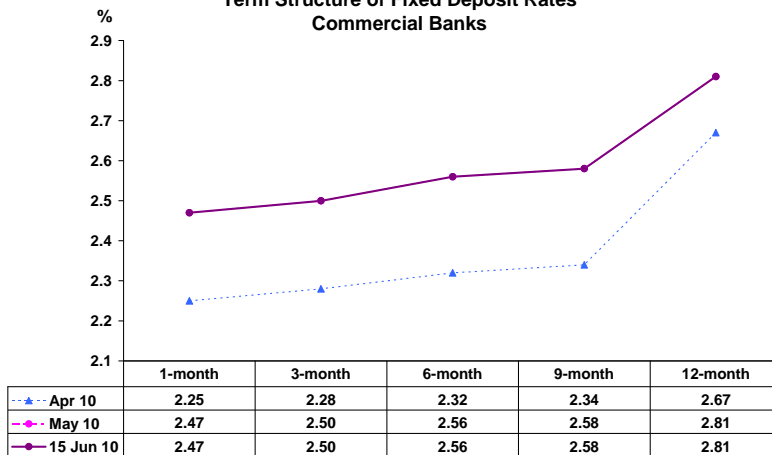
Commercial banks' lending rates adjusted upwards in May

Liquidity Situation



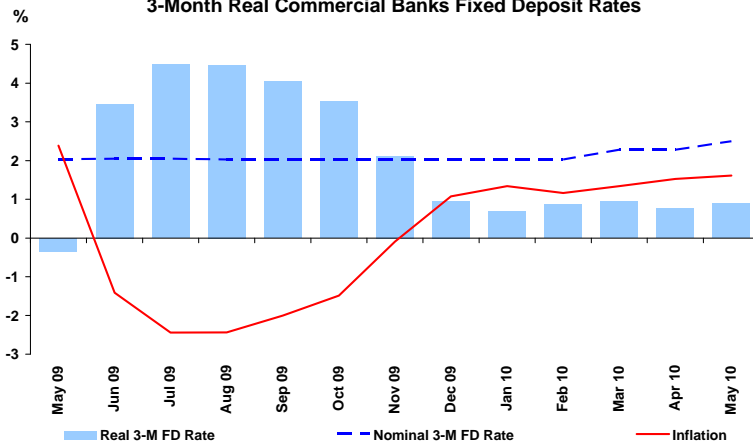
The loan-deposit and financing-deposit ratios increased in May, reflecting the sustained increase in financing

Term Structure of Fixed Deposit Rates Commercial Banks



Following the increase in the OPR, average fixed deposit rates also rose in May

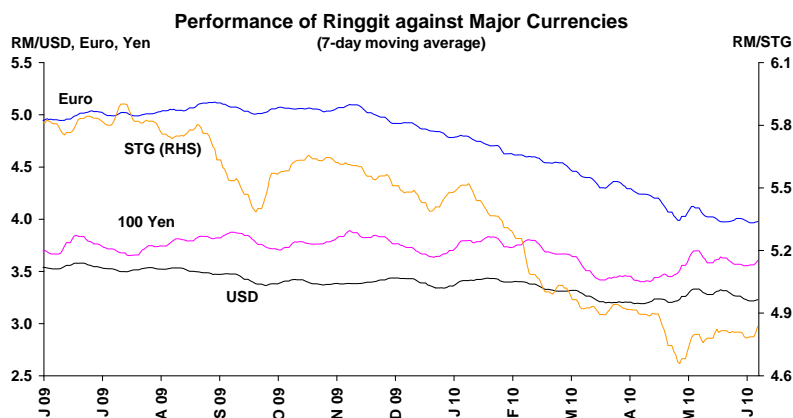
3-Month Real Commercial Banks Fixed Deposit Rates



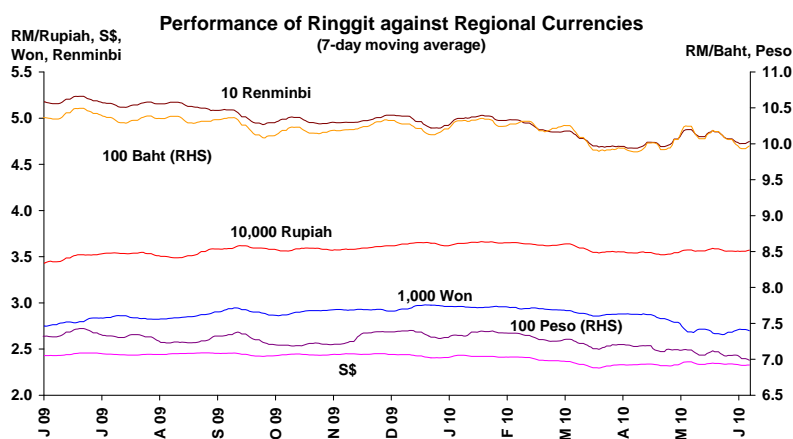
Real fixed deposit rates were higher

Volatility in the foreign exchange market due to external development

For the period 1 May - 29 June 2010, the ringgit experienced higher volatility due to several major external developments. The ringgit depreciated in the first three weeks of May in line with regional currencies following heightened concerns over the European sovereign debt crisis and geopolitical tensions in East Asia. However, following PBOC's announcement on 19 June 2010 to allow greater flexibility in the renminbi exchange rate, the ringgit strengthened by 2.1% on 21 June 2010 before settling at 3.2315 on 29 June 2010. Between 1 May to 29 June 2010, the ringgit depreciated by 1.3% against the U.S. dollar. The ringgit also depreciated against the Japanese yen (-6.6%), but appreciated against the euro (6.7%) and pound sterling (0.5%). Against regional currencies, the ringgit appreciated against the Korean won (8.1%), Philippine peso (2.9%) and Singapore dollar (0.3%) but depreciated against other currencies in the range of 1 to 1.7%.



The ringgit appreciated against the euro and pound sterling but depreciated against the US dollar and Japanese yen



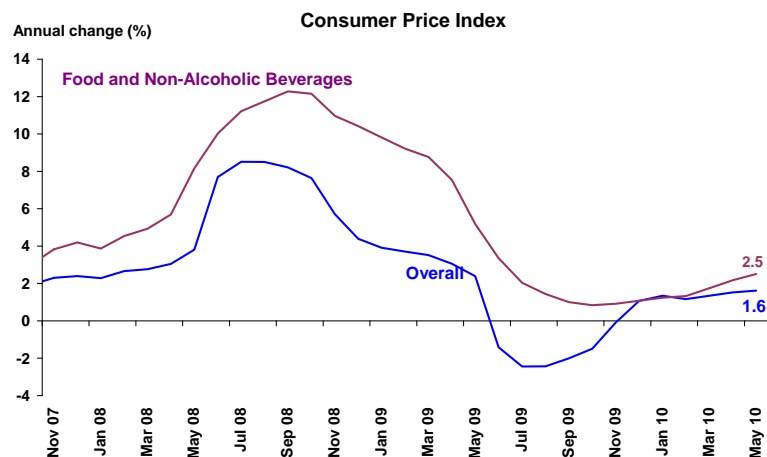
The ringgit's performance against regional currencies was mixed

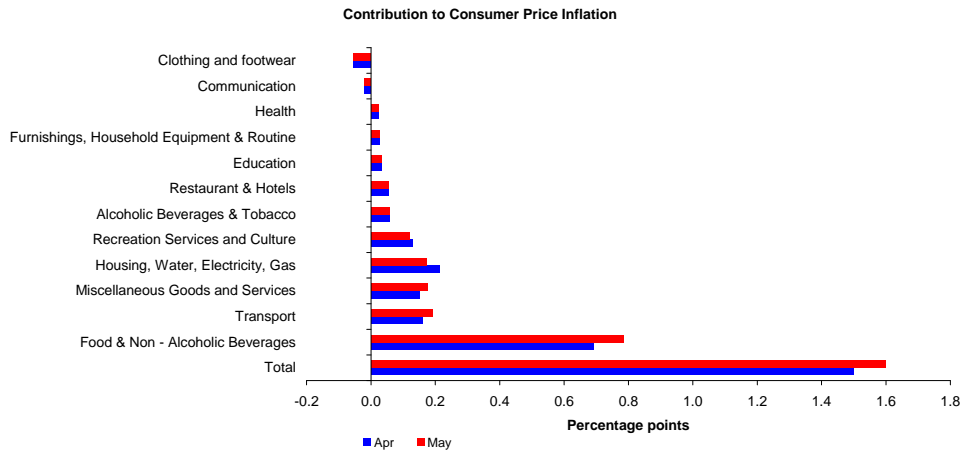
Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change	
	Dec 09	Apr 10	May 10	29 Jun 10	End Dec 09 - 29 Jun 10	End Apr 10 - 29 Jun 10
US dollar	3.4245	3.1905	3.2530	3.2315	6.0	-1.3
Euro	4.9191	4.2284	4.0077	3.9636	24.1	6.7
Pound sterling	5.5001	4.8981	4.7077	4.8758	12.8	0.5
100 Japanese yen	3.7076	3.3951	3.5601	3.6354	2.0	-6.6
Singapore dollar	2.4401	2.3322	2.3208	2.3246	5.0	0.3
100 Thai baht	10.271	9.8731	10.002	9.9753	3.0	-1.0
100 Philippine peso	7.4196	7.1632	7.0320	6.9584	6.6	2.9
100 Indonesian rupiah	0.0364	0.0354	0.0355	0.0358	1.8	-1.0
100 Korean won	0.2937	0.2880	0.2714	0.2663	10.3	8.1
Chinese renminbi	0.5016	0.4674	0.4764	0.4754	5.5	-1.7

Consumer price inflation edged higher in May

Headline inflation, as measured by the Consumer Price Index (CPI), recorded an annual increase of 1.6% in May (April: 1.5%). This was largely the result of higher prices in the *food and non-alcoholic beverages* category, which rose by 2.5% in May (April: 2.2%). The increase in food prices during the month was primarily due to the substantial increase of 12.4% (April: 6.6%) in the *vegetables* sub-category, arising from disruptions to the supply of imported vegetables and lower local production. On a month-on-month basis, however, inflation for the *vegetables* sub-category is more modest at 1.7%. Prices in the *transport* and *miscellaneous goods and services* categories also increased on an annual basis by 1.2% and 2.9% respectively during the month (April: 1.0%, 2.5%).

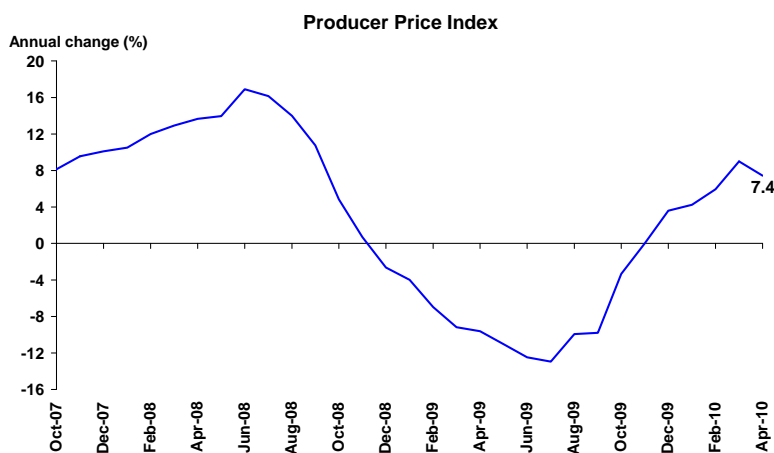




Producer price inflation decelerated in April

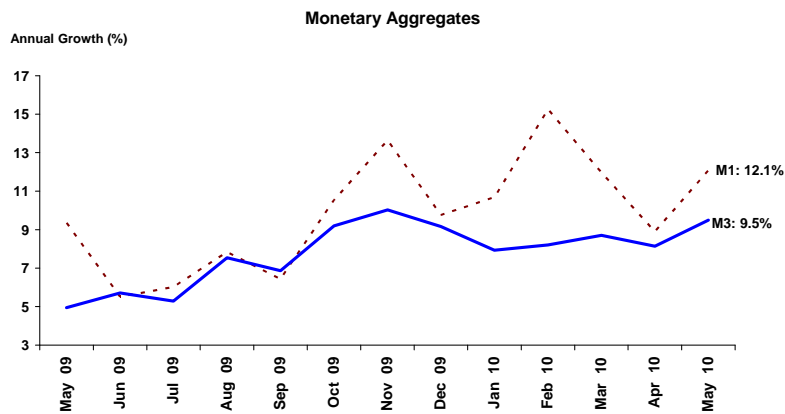
Producer prices, as reflected by the Producer Price Index (PPI), increased at a slower rate of 7.4% in April (March: 9.0%). The moderation in producer price inflation was driven mainly by the commodity-related components, which increased at a more modest rate of 20.8% during the month (March: 26.5%). Inflation in the non-commodity-related components of the PPI also recorded a slower increase of 3.8% (March: 4.4%). On a month-on-month basis, producer prices declined by -0.4% (March: 1.5%).

In terms of composition, inflation in the local component of the PPI moderated to 10.5% (March: 12.3%). This mainly reflected the lower prices of *crude materials, inedible* and *animal and vegetable oils and fats*. The imported component of the PPI also recorded a slower increase of 1.2% (March: 2.1%).



M3 rose on an annual basis

In May, broad money (M3) grew at a faster annual rate of 9.5%. On a month-on-month basis, M3 increased by RM7.3 billion. The increase in broad money reflected mainly higher credit extension by the banking system to the private sector. The increase in M3 was also supported by higher Government spending. Meanwhile, net foreign assets of the banking system registered a modest decline in May, reflecting net foreign outflows.



M3 Determinants (RM billion)

	Change during period			
	Feb 10	Mar 10	Apr 10	May 10
M3	0.7	10.3	-6.6	7.3
Net claims on Government	0.4	-2.3	1.8	1.7
Claims on the private sector	6.8	4.5	8.2	10.6
Loans	8.8	4.7	4.2	10.6
Securities	-2.0	-0.2	4.0	0.0
Net foreign assets*	-4.9	16.6	1.2	-1.8
Other influences	-1.6	-8.5	-17.9	-3.3

* Pre-revaluation of the international reserves

M3 has been revised to include *Other Deposits* from December 1999 onwards. *Other Deposits* were previously excluded from the compilation of M3.

Total banking system deposits increased in May

Total deposits placed with the banking system grew by a faster annual rate of 9% in May (April: 8.1%). On a monthly basis, total deposits expanded by RM3.2 billion (April: -RM4 billion). The increase in deposits was due to higher demand and FX deposits by business enterprises. Islamic banking system deposits held by businesses and statutory authorities also increased significantly during the period.

Deposits by Holder

(RM million)

	Change during period			
	Feb 10	Mar 10	Apr 10	May 10
Federal Government	-1,389	-2,319	51	242
State Governments	1,634	1,662	329	28
Statutory Authorities ¹	549	1,876	-836	1,801
Financial Institutions	-2,970	16,221	3,818	-2,241
of which:				
<i>Banking Institutions</i>	-7,385	6,573	786	-2,734
<i>Non-Bank Financial Institutions</i>	4,341	8,646	2,769	2,066
Business Enterprises	-9,619	5,716	-8,577	2,774
Individuals	287	3,518	1,963	-299
Others ²	1,684	-6,648	-758	885
Total	-9,825	20,026	-4,010	3,189

1/ Include local Governments

2/ Consist of domestic other entities and foreign non-bank entities

Deposits by Type

(RM million)

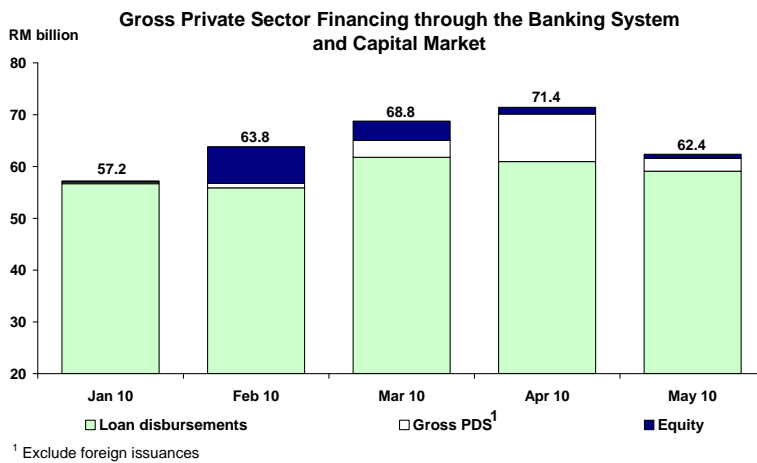
	Change during period			
	Feb 10	Mar 10	Apr 10	May 10
Fixed deposits	810	-866	1,080	-1,100
NIDs	-4,957	4,193	0	-5,801
Demand deposits	946	-3,071	-1,808	8,715
Savings deposits	-167	417	-512	-3,438
Repos	-640	644	919	-1,095
FX deposits	318	4,404	-6,094	1,917
IBS deposits ¹	-1,873	2,173	294	5,577
Others ²	-4,263	12,131	2,111	-1,586
Total	-9,825	20,026	-4,010	3,189

1/ IBS deposits refers to Islamic banking system deposits

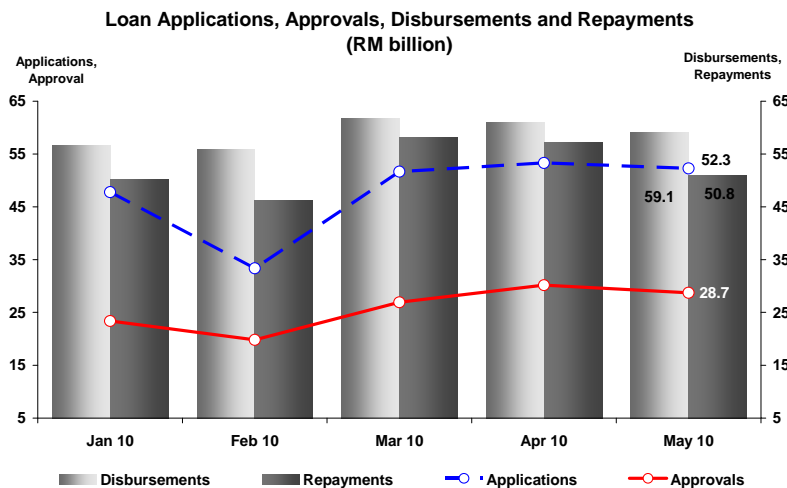
2/ Other deposits comprised mainly of short-term money market deposits

Net financing expanded at a faster pace

Gross financing to the private sector through the banking system and the capital market was lower at RM62.4 billion in May (April: RM71.4 billion). The decline was mainly due to lower PDS issuances during the month. PDS issuances advanced significantly in the previous month due to several large issuances mainly by financial institutions. Net financing through banking system loans and PDS, however, rose at a higher annual rate of 11% (April: 10%).



Gross financing was lower in May



Loan applications and approvals stabilised

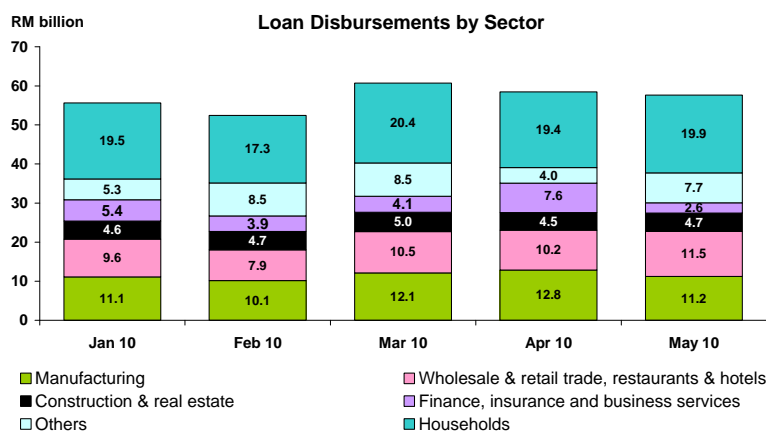
Loan applications and approvals to businesses stabilised during the month. Higher loan applications and approvals, however, were registered for the *finance, insurance and business services* sector and for the purpose of purchase of securities. Business loans outstanding expanded at a higher annual growth rate of 6.1% as at end May (end April: 3.9%). Despite steady business loan disbursements, there was a moderation in repayments after expanding significantly for two consecutive months, which consequently lifted the annual growth rate of loans outstanding.

	Bank lending indicators					
	RM billion			Annual Growth (%)		
	Apr-10	May-10	J-M 10	Apr-10	May-10	J-M 10
Overall						
Loan applications	53.3	52.3	238.4	26.8	15.1	22.2
Loan approvals	30.2	28.7	129.0	26.7	14.2	20.5
Loan disbursements	61.0	59.1	294.4	17.5	25.1	19.0
Chg in Loans Outstanding ^{1/}	4.5	11.2	37.9	10.0	11.7	11.7
Businesses						
Loan applications	23.9	23.6	107.5	40.2	7.1	18.0
Loan approvals	13.5	12.7	55.4	32.4	6.0	14.9
Loan disbursements	41.6	39.2	197.9	19.0	31.5	19.5
Chg in Loans Outstanding ^{1/}	-0.1	2.1	6.5	3.9	6.1	6.1
SMEs^{2/}						
Loan applications	11.7	11.8	51.4	38.3	54.5	41.6
Loan approvals	5.4	4.4	22.6	62.0	7.9	39.6
Loan disbursements	12.6	11.4	59.5	11.7	5.4	4.8
Chg in Loans Outstanding ^{1/ 3/}	1.0	-3.9	-0.6	4.5	1.0	1.0
Households						
Loan applications	29.4	28.7	130.8	17.7	22.5	25.9
Loan approvals	16.7	16.1	73.6	22.5	21.6	25.2
Loan disbursements	19.4	19.9	96.5	14.5	14.2	18.0
Chg in Loans Outstanding ^{1/}	5.0	4.8	23.8	12.2	12.5	12.5

^{1/} The annual growth in outstanding amount as at end-period.

^{2/} Include loans to individual businesses.

^{3/} The smaller increase in SME loans outstanding partly reflected the exclusion of a number of companies from the SME classification, as they have grown beyond the definition of SME. Without this exclusion, SME loans outstanding would have increased by 8.0% year-on-year as at end-May 2010.

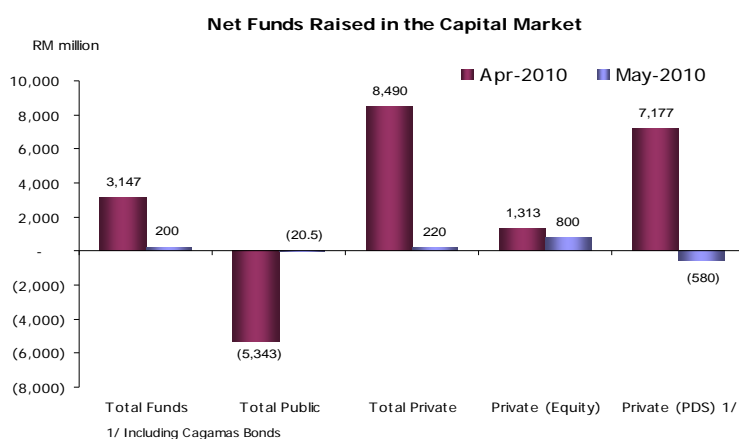


Loan disbursements remained broad-based

After two consecutive months of high growth, loan applications and approvals to the household sector moderated slightly in May. Demand for loans was mainly for the purchase of residential and non-residential properties, personal use and for the purchase of passenger cars. Household loans outstanding rose further by 12.5% on an annual basis as at end-May (end April: 12.2%).

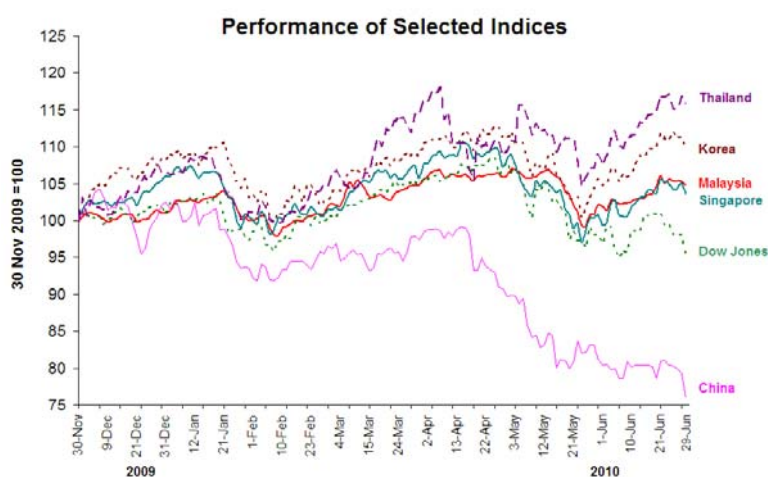
Fund raising activity remained favourable in May

The private sector raised RM3.3 billion of gross funds in May. The bulk of these funds were raised through the PDS market, which amounted to RM2.5 billion (April: RM9.1 billion). The funds were mostly utilised for working capital and general corporate purposes. In the equity market, funds raised amounted to RM0.8 billion (April: RM1.3 billion). Most of the funds raised in the equity market was accounted by an initial public offering by a firm in the services sector. After adjusting for redemptions, net funds raised in the capital market amounted to RM0.2 billion in May.



KLCI declined in May

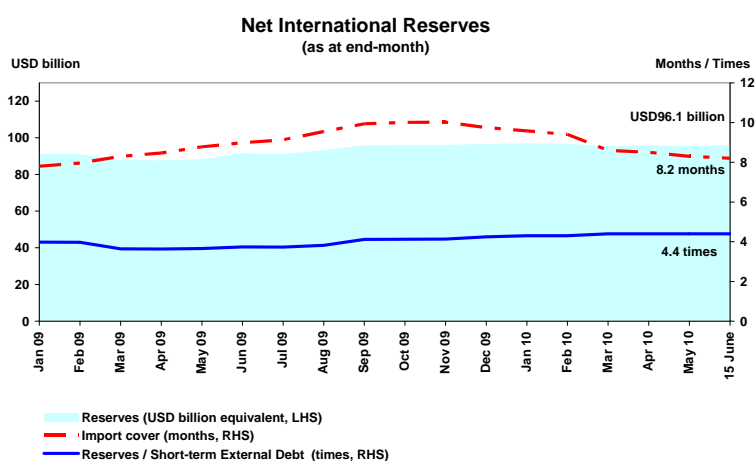
In May, the FBM KLCI underwent a market correction to close at 1,285.0 (since end-April: -4.6%). The correction was largely attributable to external developments, especially on concerns over the European sovereign debt crisis. Market capitalisation declined to RM1.03 trillion (since end-April: -4.8%) and the daily average turnover slowed to 858.65 million units (April: 1.02 billion units).



As at 29 June, the FBM KLCI closed higher at 1,319.9 (since end-May: +2.7%) with market capitalisation increasing to RM1.05 trillion (since end-May: +1.9%). Equity markets around the region experienced a lift after China's decision to allow more flexibility in its exchange rate policy.

International reserves

The international reserves of Bank Negara Malaysia stood at RM314.3 billion (equivalent to USD96.1 billion) as at 15 June 2010. The reserves position is sufficient to finance 8.2 months of retained imports and is 4.4 times the short-term external debt.



Banking system capitalisation remained strong

The banking system remained well-capitalised with the risk-weighted capital ratio (RWCR) at 15% and core capital ratio at 13.1%. The level of non-performing loans (NPLs) including impaired loans accounted for 2% of net loans while loan loss coverage remained above 90%.

Banking System Health Indicators ¹

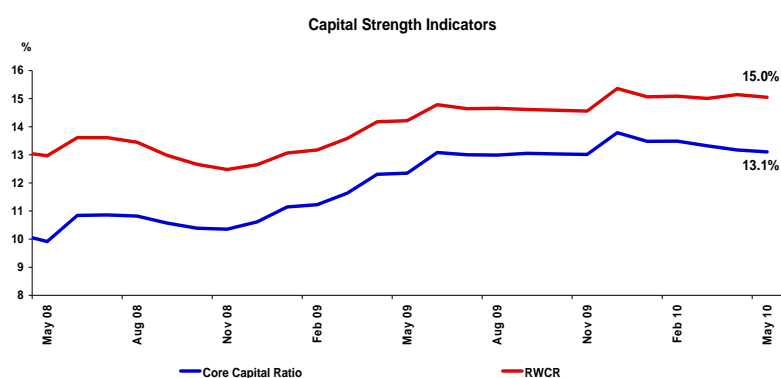
	2003	2004	2005	2006	2007	2008	2009	Mar 10	Apr 10	May 10
Capital (%)²										
Core capital ratio	11.1	11.4	10.7	10.7	10.2	10.6	13.8	13.3	13.2	13.1
RWCR	13.8	14.4	13.7	13.5	13.2	12.6	15.4	15.0	15.1	15.0
Net Non-Performing Loans ³										
% of net total loans	8.9	7.5	5.8	4.8	3.2	2.2	1.8	1.8	1.8	2.0
Amount (RM million)	40,013	36,668	31,332	27,360	20,011	15,889	13,788	14,312	14,219	15,969
General Provisions ⁴ / Net loans ³										
(%)	2.0	1.9	1.8	1.7	1.7	1.7	1.6	1.7	1.7	1.7

¹ Figures include Islamic banks.

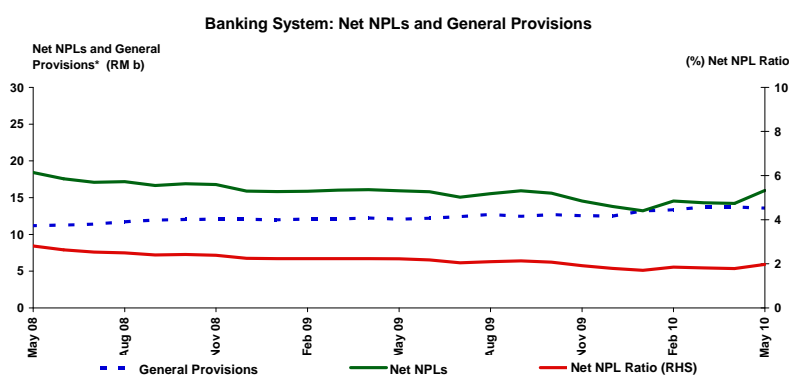
² Beginning January 2008, RWCR and CCR are computed based on Basel II for banking institutions that have adopted the standardised approach

³ Beginning January 2010, loans are reported based on FRS139. The adoption of FRS139 requirement is based on the financial year of the banks.

⁴ For banks that have adopted FRS139, the figures from January onwards reflect the collective impairment provisions.



Banking system capitalisation remained strong...



* Beginning January 2010, loans are reported based on FRS139. The adoption of FRS139 requirement is based on the financial year of the banks. For banks that have adopted FRS139, the figures from January onwards reflect the collective impairment provisions.

...whilst net NPL ratio was at 2% of net loans

Bank Negara Malaysia
30 June 2010

Key Monetary and Financial Statistics

	Mar 10		Apr 10		May 10	
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates						
Reserve money	56.5	4.5	56.3	4.7	57.9	5.7
M1	201.2	12.0	198.9	8.9	208.7	12.1
M2	1,002.8	8.8	996.5	8.5	1,002.4	9.8
M3	1,031.9	8.7	1,025.3	8.1	1,032.6	9.5
Banking System						
Total deposits	1,068.8	8.4	1,064.8	8.1	1,068.0	9.0
Total loans (including loans sold to Cagamas)	805.7	9.8	810.2	10.0	821.4	11.7
Loan-deposit ratio (%) ¹		79.1		79.9		80.5
Financing-deposit ratio (%) ^{1 & 2}		85.5		86.4		86.8
Loans applied (during the period)	51.6	22.5	53.3	26.8	52.3	15.1
Loans approved (during the period)	26.9	12.9	30.2	26.7	28.7	14.2
Loans disbursed (during the period)	61.8	11.4	61.0	17.5	59.1	25.1
Loans repaid (during the period)	58.1	19.9	57.2	16.4	50.8	1.4
Banking System Health						
Risk-weighted Capital Ratio (RWCR) (%)		14.9		15.1		15.0
Net NPLs: 3-month classification (%)		1.8		1.8		2.0
BNM International Reserves (end-period)						
Net Reserves in RM billion		311.6		313.9		312.2
Net Reserves in USD billion (equivalent)		95.3		96.0		95.5
Months of retained imports		8.6		8.5		8.3
Interest Rates at end-period [average for the month]						
Overnight Policy Rate (OPR)		2.25		2.25		2.50
Interbank:	Overnight	2.18 [2.14]		2.22 [2.20]		2.41 [2.33]
	1-week	2.26 [2.23]		2.26 [2.27]		2.52 [2.41]
	1-month	2.35 [2.32]		2.56 [2.37]		2.57 [2.52]
Fixed deposits of commercial banks:	1-month	2.25		2.25		2.47
	3-month	2.28		2.28		2.50
BLR of commercial banks		5.76		5.76		6.02
ALR of commercial banks		4.96		4.93		5.01
Prices						
Consumer Price Index (CPI) (2005=100)		113.2	1.3	113.2	1.5	113.5
Producer Price Index (PPI) (2005=100)		117.6	9.0	117.1	7.4	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)						
US dollar		3.2730		3.1905		3.2530
Euro		4.3850		4.2284		4.0077
Pound Sterling		4.9326		4.8981		4.7077
100 Japanese yen		3.5017		3.3951		3.5601
Singapore dollar		2.3354		2.3322		2.3208
100 Thai Baht		10.111		9.8731		10.002
100 Philippine Peso		7.2236		7.1632		7.0320
100 Indonesian Rupiah		0.0359		0.0354		0.0355
100 Korean Won		0.2889		0.2880		0.2714
Capital Market						
Net funds raised (in RMb) by:	public	3.5		-5.3		0.0
	private	5.6		8.5		0.2
Bursa Malaysia Composite Index (end-period)		1,320.6		1,346.4		1,285.0
Bursa Malaysia Market Capitalisation (RMb, end-period)		1,061.1		1,079.7		1,027.9

¹ Exclude financial institutions transaction.

² Refers to the ratio of loans and holdings of PDS by the banking system to deposits of the banking system.