



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 02/10/06

**EMBARGO: Not for publication or
broadcast before 1830 hours on
Wednesday, 24 February 2010**

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

- Headline inflation was at 1.3% in January 2010.
- Banking system loans and PDS outstanding were higher on a net basis with a combined annual growth rate of 9% as at end-January.
- The risk-weighted capital ratio (RWCR) and core capital ratio (CCR) increased marginally to 14.8% and 13.3% respectively.



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MONETARY AND FINANCIAL DEVELOPMENTS **January 2010**

Net banking system loans and PDS outstanding continued to expand at a combined annual rate of 9% as at end-January. Overall loan applications and approvals registered strong annual growth rates.

Interbank rates for all maturities were relatively stable and average fixed deposit rates across all tenures were unchanged. The average base lending rate (BLR) was unchanged at 5.51% as at 15 February. The average lending rate (ALR) also remained relatively stable at 4.85% as at end January (4.83% in December and 4.91% in November).

From 1 January to 23 February 2010, the ringgit firmed by 0.8% against the U.S. dollar. The ringgit also appreciated against the euro (6.3%) and pound sterling (4.3%), but depreciated against the Japanese yen (-0.7%). Against regional currencies, the ringgit appreciated against the Singapore dollar (1.1%), Chinese renminbi (0.8%), Philippine peso (0.8%) and Thai baht (0.1%), but depreciated against the Korean won (-0.7%) and Indonesian rupiah (-0.2%).

The Consumer Price Index (CPI) registered an increase of 1.3% in January on an annual basis (December: 1.1%). Headline inflation was largely the result of price increases in the *food and non-alcoholic beverages* and *transport* categories. Prices in the *transport* category, which contributed to the negative headline inflation since June 2009, registered an increase of 0.7% in January (December: -0.9%).

In January, broad money (M3) grew at an annual rate of 7.9%. On a monthly basis, M3 increased by RM3.4 billion due to sustained credit by banks to the private sector. Meanwhile, net claims on Government and foreign assets of the banking system declined slightly during the month.

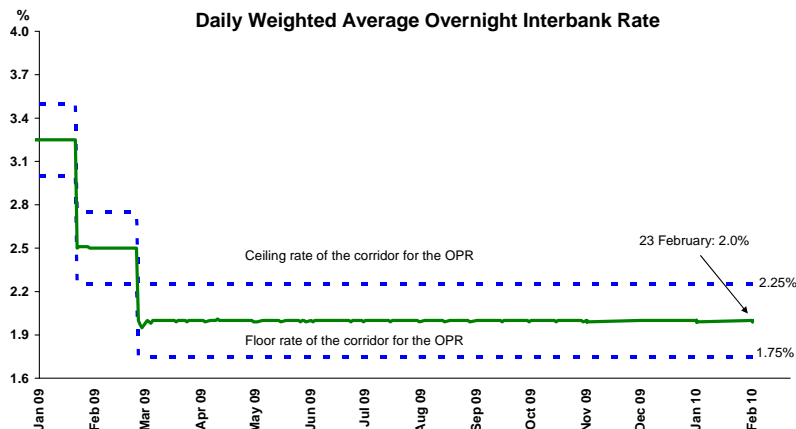
The banking system remains well-capitalised with the risk-weighted capital ratio (RWCR) and core capital ratio (CCR) at 14.8% and 13.3% respectively. The level of impaired loans in the banking system remained stable with loan loss provisioning at about 90%.

Interest rates were stable in January

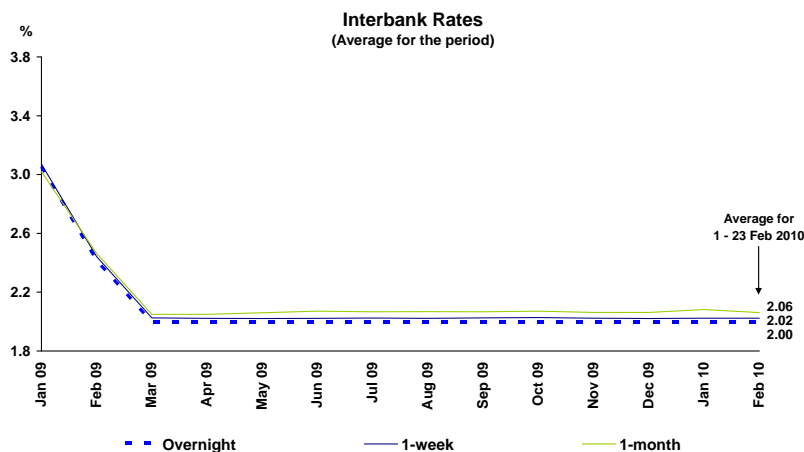
During the period 1 January 2010 – 23 February 2010, the daily weighted average overnight interbank rate moved within a narrow range of 1.99% - 2.00%. Interbank rates of other maturities were also stable.

The average fixed deposit rates of commercial banks were unchanged between December and January. As at 15 February, the average quoted fixed deposit rates for tenures of between 1 and 12 months were within the range of 2.00% and 2.50%.

In terms of the commercial banks' lending rates, the average base lending rate (BLR) was unchanged at 5.51% as at 15 February. The average lending rate (ALR) also remained relatively stable at 4.85% as at end January (4.83% in December and 4.91% in November).

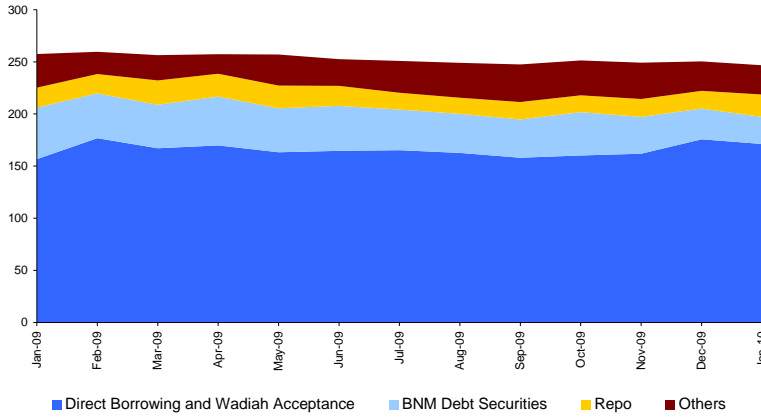


The average overnight interbank rate moved within a narrow range



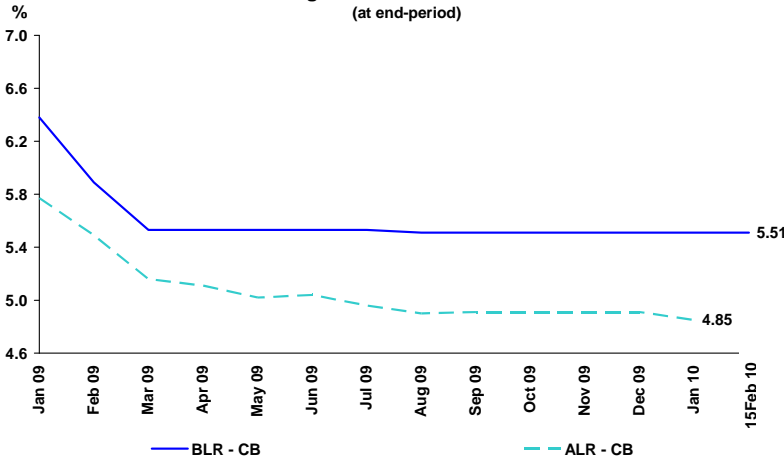
Other interbank rates were also relatively stable

Outstanding Liquidity Placed with BNM
(At end-period, RM billion)



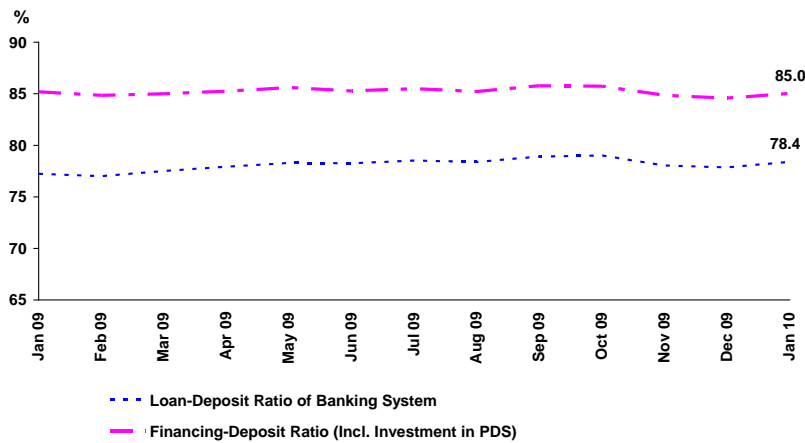
BNM continued to absorb excess liquidity

Lending Rates: Commercial Banks
(at end-period)



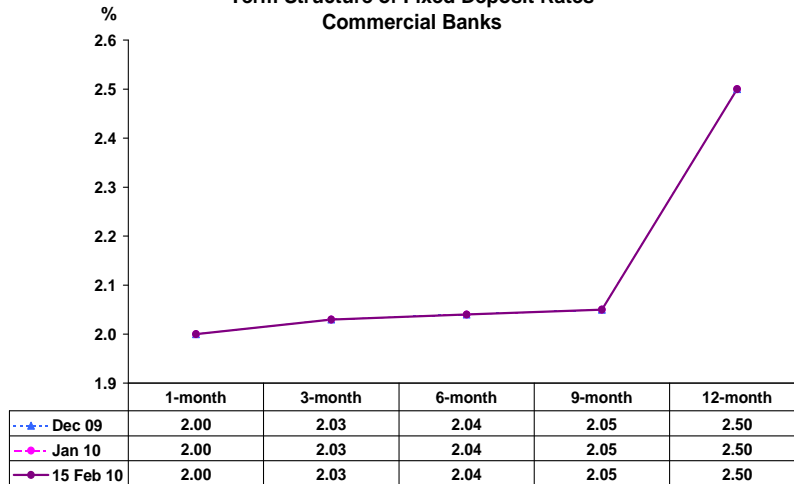
Commercial banks' ALR and average BLR were relatively unchanged

Liquidity Situation



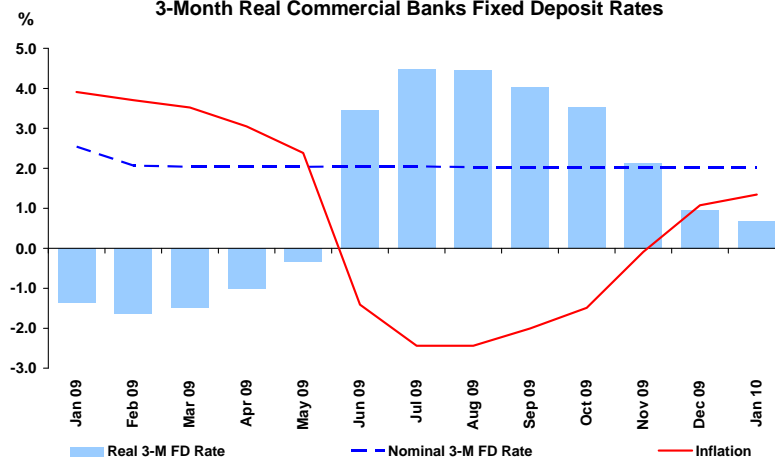
The loan-deposit and financing-deposit ratios increased in January, as loans and total financing rose at a faster pace than deposits

**Term Structure of Fixed Deposit Rates
Commercial Banks**



Average fixed deposit rates were unchanged

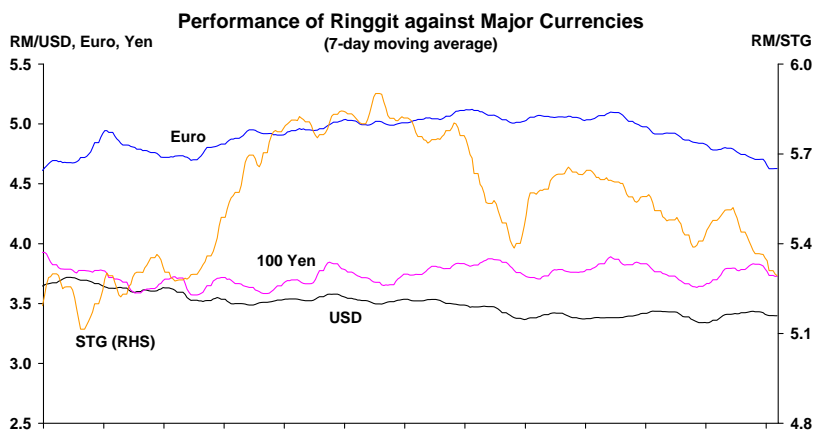
3-Month Real Commercial Banks Fixed Deposit Rates



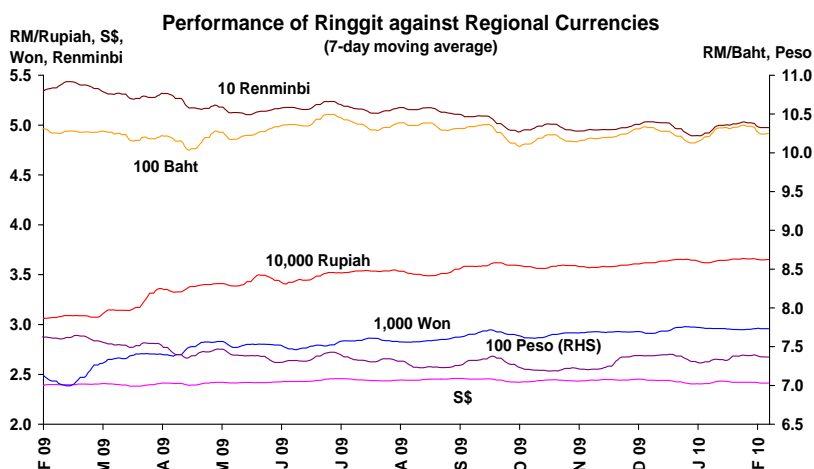
Real fixed deposit rates moderated further, in line with the rise in inflation

The ringgit appreciated against the U.S. dollar

From 1 January to 23 February 2010, the ringgit firmed by 0.8% against the U.S. dollar. The ringgit initially appreciated against the U.S. dollar in the first half of January as further signs of global and regional economic recovery contributed to favourable investor sentiments towards regional financial markets. However, the initial appreciation was moderated by the sovereign debt crisis in Greece, which led to the increase in investor risk aversion towards the euro and some emerging market currencies. The ringgit also appreciated against the euro (6.3%) and pound sterling (4.3%), but depreciated against the Japanese yen (-0.7%). Against regional currencies, the ringgit appreciated against the Singapore dollar (1.1%), Chinese renminbi (0.8%), Philippine peso (0.8%) and Thai baht (0.1%), but depreciated against the Korean won (-0.7%) and Indonesian rupiah (-0.2%).



The ringgit appreciated against most major currencies



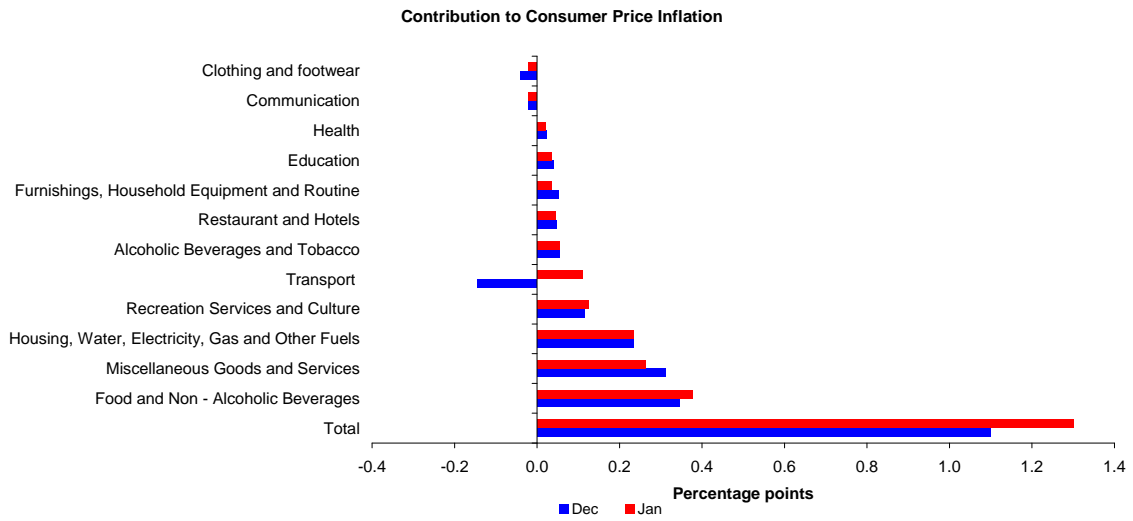
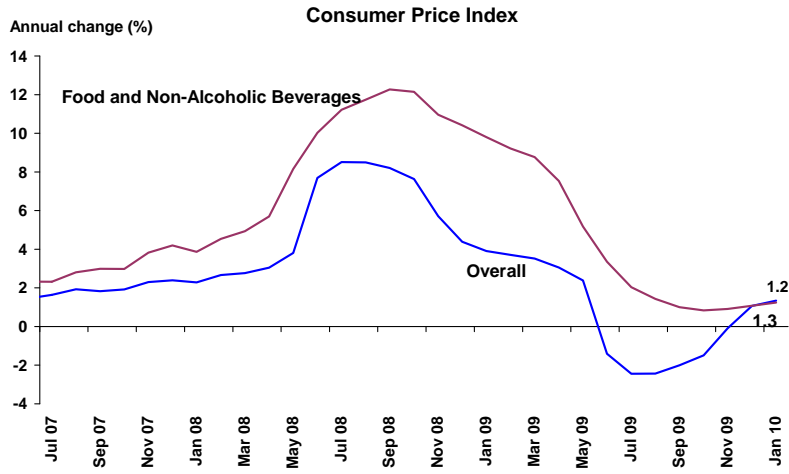
Ringgit performance was mixed against regional currencies

Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change	
	Dec 08	Dec 09	Jan 10	23 Feb 10	End Dec 08 - 23 Feb 10	End Dec 09 - 23 Feb 10
US dollar	3.4640	3.4245	3.4130	3.3990	1.9	0.8
Euro	4.8759	4.9191	4.7625	4.6282	5.4	6.3
Pound sterling	4.9989	5.5001	5.5106	5.2752	-5.2	4.3
100 Japanese yen	3.8327	3.7076	3.7943	3.7341	2.6	-0.7
Singapore dollar	2.4070	2.4401	2.4299	2.4144	-0.3	1.1
100 Thai baht	9.9398	10.271	10.303	10.261	-3.1	0.1
100 Philippine peso	7.2774	7.4196	7.3162	7.3611	-1.1	0.8
100 Indonesian rupiah	0.0316	0.0364	0.0365	0.0365	-13.4	-0.2
100 Korean won	0.2750	0.2937	0.2955	0.2958	-7.0	-0.7
Chinese renminbi	0.5076	0.5016	0.4999	0.4976	2.0	0.8

The Consumer Price Index edged up in January

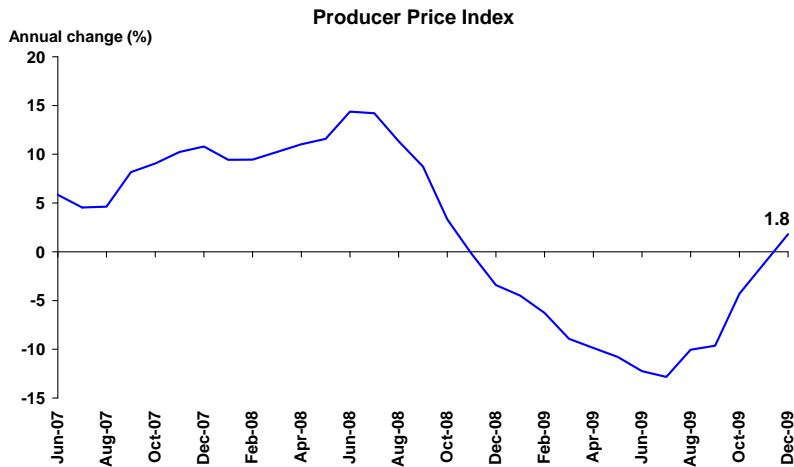
The Consumer Price Index (CPI) registered an increase of 1.3% in January on an annual basis (December: 1.1%). Headline inflation was largely the result of price increases in the *food and non-alcoholic beverages* and *transport* categories. Prices in the *transport* category, which contributed to the negative headline inflation since June 2009, registered an increase of 0.7% in January (December: -0.9%). Prices in the *food and non-alcoholic beverages* category increased slightly to 1.2% during the month (December: 1.1%). This was mainly due to the reduction in sugar subsidies by the Government and higher prices for bread, meat and fruits. The increase however was somewhat offset by lower prices for dairy products, vegetables and oil and fats.



Modest increase in producer prices in December

Producer prices, as reflected by the Producer Price Index (PPI), increased by 1.8% in December (November: -1.2%). This is the first increase since October 2008. The rise was driven mainly by the improvement in prices for the commodity-related components which increased by 7.8% during the month (November: -0.7%). In the non-commodity-related components of the PPI, prices declined at a slower rate of 0.5% (November: -1.5%). On a month-on-month basis, producer prices increased by 0.4% (November: 1.0%).

In terms of composition, prices for both the local and imported components of the PPI have turned positive in December. Compared to their levels a year ago, prices for the local components of the PPI increased by 2.2% (November: -1.8%), while prices for the imported components increased by 0.9% (November: -0.2%).



M3 expanded in January

In January, broad money (M3) grew at an annual rate of 7.9%. On a monthly basis, M3 increased by RM3.4 billion due to sustained credit by banks to the private sector. Meanwhile, net claims on Government and foreign assets of the banking system declined slightly during the month.

M3 Determinants

(RM billion)

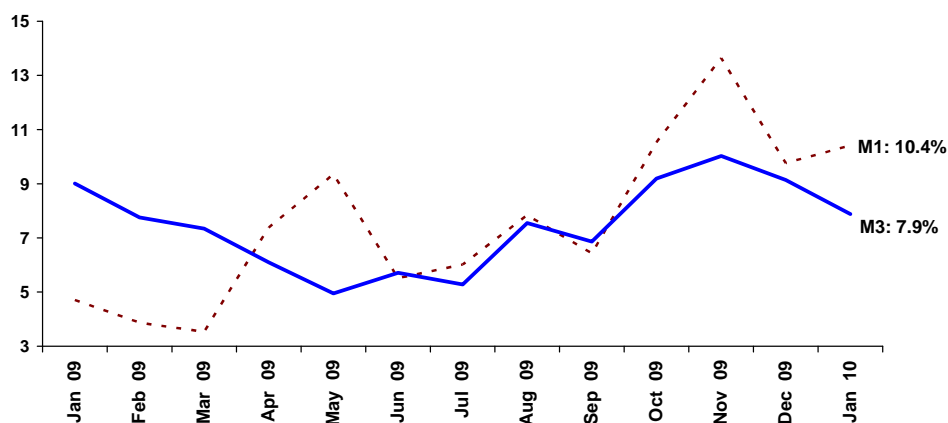
	Change during period			
	Oct 09	Nov 09	Dec 09	Jan 10
M3	7.8	17.2	16.6	3.4
Net claims on Government	5.6	1.1	6.8	-0.3
Claims on the private sector	4.3	5.3	10.3	5.9
<i>Loans</i>	5.3	0.4	9.7	7.0
<i>Securities</i>	-1.0	4.9	0.7	-1.1
Net foreign assets*	0.6	3.6	2.3	-0.3
Other influences	-2.7	7.2	-2.8	-1.9

* 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.

Monetary Aggregates

Annual Growth (%)



Banking system deposits lower in January

After rising significantly in November and December 2009, total deposits placed with the banking system in January declined by RM4.3 billion on a month-on-month basis (December: +RM19.8 billion). On an annual basis, total deposits rose by 8.4% (December: 9.3%). By customer, the decline in deposits was mainly driven by the financial institutions. This partly reflects the maturity of negotiable instrument of deposits (NIDs) placed by banking institutions. On the other hand, deposits placed by business enterprises increased during the month, attributed partly to higher payment of outlays by the Government. Meanwhile the *Islamic Banking System (IBS)* deposits and *demand* deposits increased in January.

Deposits by Holder (RM million)

	Change during period			
	Oct 09	Nov 09	Dec 09	Jan 10
Federal Government	-2,373	2,131	-482	1,128
State Governments	-695	-440	-162	140
Statutory Authorities ¹	453	741	-292	-169
Financial Institutions	-7,349	-2,792	15,149	-11,095
<i>of which:</i>				
<i>Banking Institutions</i>	-5,496	6,796	4,735	-6,691
<i>Non-Bank Financial Institutions</i>	-1,077	-10,308	8,405	-4,569
Business Enterprises	9,062	25,451	-945	2,728
Individuals	447	354	5,340	3,250
Others ²	-176	-25	1,243	-294
Total	-630	25,419	19,850	-4,312

1/ Include local Governments

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

Deposits by Type (RM million)

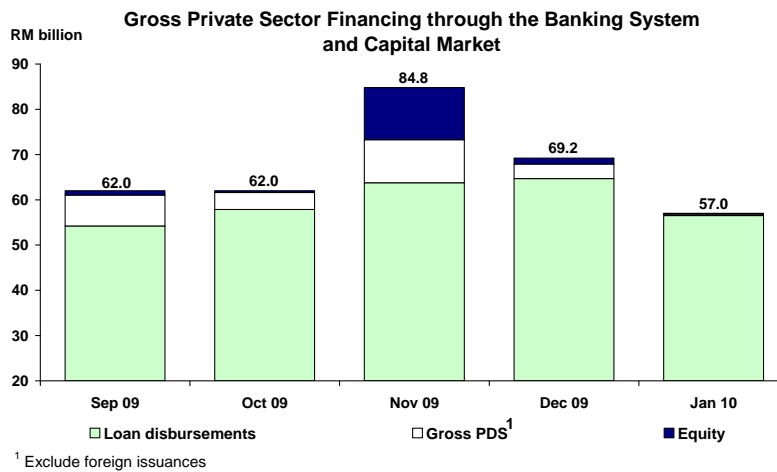
	Change during period			
	Oct 09	Nov 09	Dec 09	Jan 10
Fixed deposits	-1,336	1,376	-97	982
NIDs	-8,008	2,835	3,276	-9,343
Demand deposits	-987	6,804	-336	1,059
Savings deposits	-335	479	1,912	468
Repos	-348	368	480	829
FX deposits	-462	2,460	2,453	55
IBS deposits ¹	4,690	5,846	5,181	2,472
Others ²	6,155	5,250	6,981	-834
Total	-630	25,419	19,850	-4,312

1/ IBS deposits refers to Islamic banking system deposits

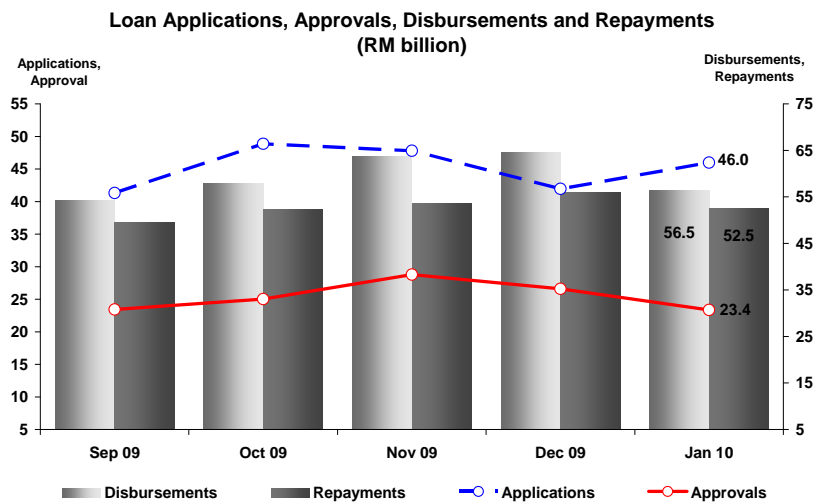
2/ Other deposits comprised mainly of short-term money market deposits

Net financing activity continued to expand

On a net basis, banking system loans and PDS outstanding continued to expand at a combined annual rate of 9% as at end-January (December: 8.5%). Gross financing from the banking system and the capital market during the month amounted to RM57 billion, which was lower than the RM69.2 billion extended in December 2009. The lower financing reflected lower loan disbursements and issuances of private debt securities during the month.



Gross financing were lower during the month



Demand for financing increased

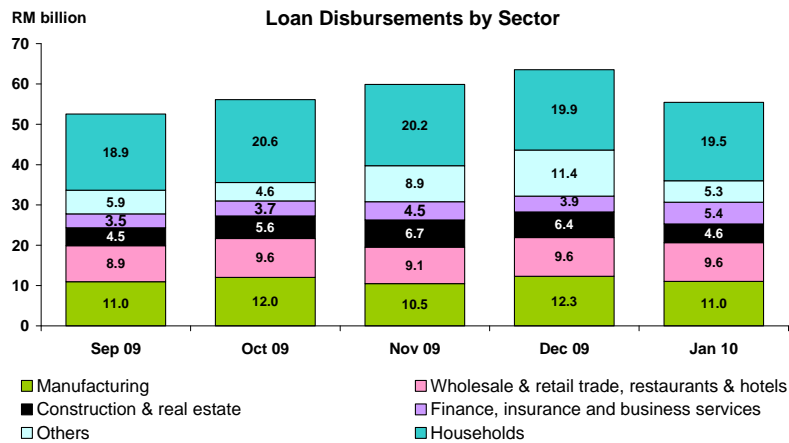
Bank lending indicators

	RM billion		Annual Growth (%)	
	Dec-09	Jan-10	Dec-09	Jan-10
Overall				
Loan applications	42.0	46.0	33.3	45.8
Loan approvals	26.6	23.4	31.6	41.5
Loan disbursements	64.7	56.5	22.1	15.2
Chg in Loans Outstanding ^{1/}	9.4	7.2	7.8	8.6
Businesses				
Loan applications	16.5	22.3	5.0	41.0
Loan approvals	13.1	9.0	21.1	29.0
Loan disbursements	44.8	37.1	20.8	12.8
Chg in Loans Outstanding ^{1/}	5.6	2.0	2.6	3.5
SMEs^{2/}				
Loan applications	8.7	9.6	45.5	66.3
Loan approvals	4.3	4.9	5.4	96.1
Loan disbursements	14.0	11.6	4.7	-2.7
Chg in Loans Outstanding ^{1/ 3/}	1.4	0.6	-4.5	-0.1
Households				
Loan applications	25.5	23.7	61.4	50.6
Loan approvals	13.5	14.4	43.7	50.6
Loan disbursements	19.9	19.5	25.2	20.0
Chg in Loans Outstanding ^{1/}	4.5	5.3	9.8	10.4

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

^{2/} Include loans to individual businesses.

^{3/} The decline in SME loans outstanding partly reflects 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 7.2% year-on-year as at end-January 2010.



Loan disbursements remained broad-based

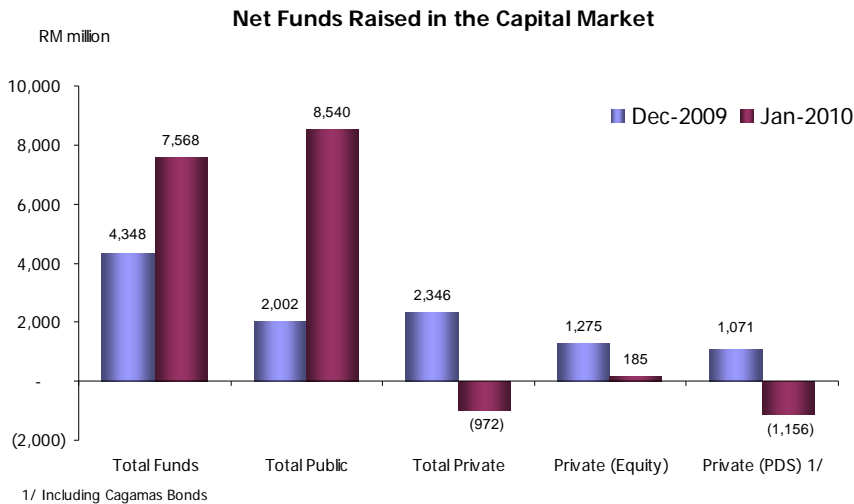
While continuing to record strong annual growth, there was a moderation in the major loan indicators in January. The exception was loan applications, which increased during the month. In the business sector, demand for financing picked up. Loan applications rose, mainly from the *construction* and the *finance, insurance and business services* sectors for funding of working capital requirements as well as for merger and acquisition activity. Loan disbursements continued to remain high, notwithstanding a decline during the month. As at end-January, business loans outstanding expanded further at an annual rate of 3.5% (end-December: 2.6%).

Financing to SMEs via the banking system remains strong. The approval rate for SME financing improved to 83.8% in January (December 09: 81.5%) and SME financing approvals grew at an annual rate of +96.1% (+11.9% on a monthly basis). In 2009, financing to some SMEs were excluded from the SME financing data because these companies had grown beyond the definition of SMEs. Without this exclusion, financing outstanding to SMEs expanded at an annual rate of 7.2%.

In the household sector, demand for financing was higher for the purchase of passenger cars and securities. With steady loan disbursements, household loans outstanding expanded by an annual rate of 10.4% as at end-January (end-December: 9.8%).

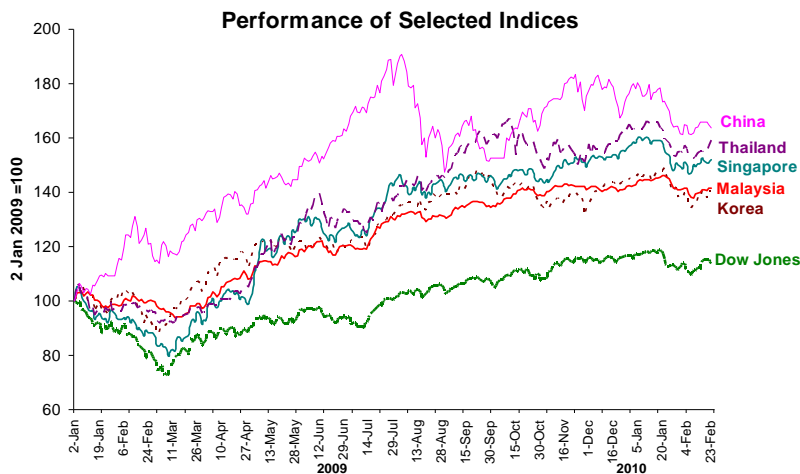
Net funds raised in the capital market increased

Net funds raised in the capital market increased to RM7.6 billion in January, primarily due to the public sector. Gross funds of RM8.7 billion were raised through the new issuance of a 3.5-year Government Investment Issues bond, as well as the re-opening of the 10-year Malaysian Government Securities. Meanwhile, in the private debt securities (PDS) market, gross funds raised declined to RM330 million (Dec 09: RM3.2 billion). Some issuers were delaying their issuances in anticipation of more favourable market conditions to raise funds as signs of receding risk premia amid improving credit conditions became more visible. Most of the funds were raised via the issuance of medium-term notes.



KLCI lower in January

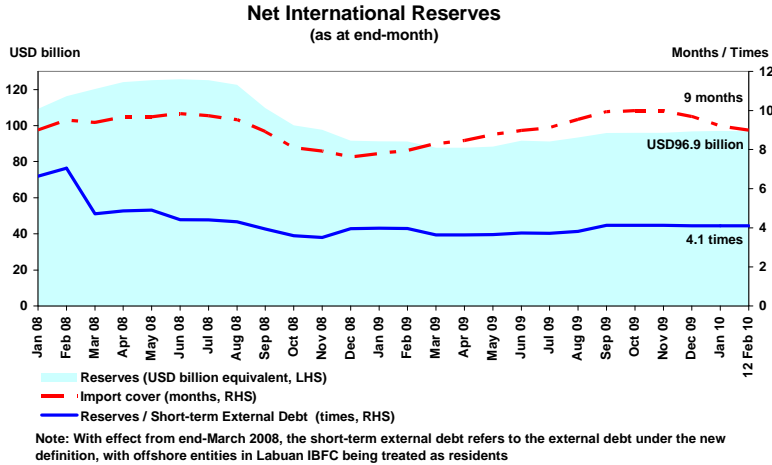
The FBM KLCI trended lower in January to 1,259.2 (end-December: 1,272.1) following a regional sell-down in the equity markets. China's recent measures to limit credit expansion triggered investors' concerns about the potential impact of slower growth in the region. Market capitalisation was slightly higher at RM1 trillion (since end-December: +0.2%) and the daily average turnover increased to 1,382 million units (December: 657 million units). As at 23 February, the FBM KLCI increased to 1,266.4 (since end-January: +0.5%) and market capitalization was higher at RM1.012 trillion. As at 23 February, the FBM KLCI increased to 1,266.4 (since end-January: +0.5%) and market capitalization was higher at RM1.012 trillion.



KLCI declined in January

International reserves

The net international reserves of Bank Negara Malaysia stood at RM332.1 billion (equivalent to USD96.9 billion) as at 12 February 2010. The reserves position is sufficient to finance 9 months of retained imports and is 4.1 times the short-term external debt.



Banking system capitalisation and asset quality remained strong

The banking system remains well-capitalised with the risk-weighted capital ratio (RWCR) and core capital ratio (CCR) at 14.8% and 13.3% respectively. The increase in capital base of 2% was due to the inclusion of year-end profits by a few banks. With the implementation of the Financial Reporting Standards (FSR) 139, beginning January 2010, loans and financing are classified based on impairment methodology, whilst provisions are assessed either individually or collectively. The level of impaired loans in the banking system remained stable with loan loss provisioning at about 90%.

Banking System Health Indicators ¹

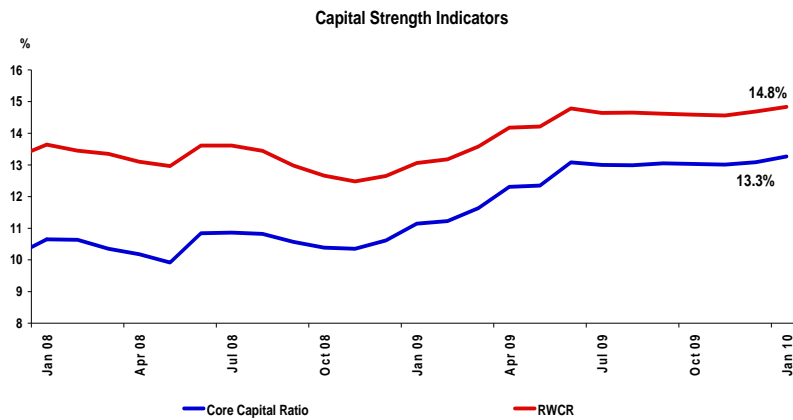
	2002	2003	2004	2005	2006	2007	2008	Nov 09	Dec 09	Jan 10
Capital (%)²										
Core capital ratio	11.1	11.1	11.4	10.7	10.7	10.2	10.6	13.0	13.1	13.3
RWCR	13.2	13.8	14.4	13.7	13.5	13.2	12.6	14.6	14.7	14.8
Net Non-Performing Loans ³										
% of net total loans	10.2	8.9	7.5	5.8	4.8	3.2	2.2	1.9	1.8	1.7
Amount (RM million)	43,110	40,013	36,668	31,332	27,360	20,011	15,889	14,538	13,859	13,397
General Provisions ⁴ / Net loans ³										
(%)	2.1	2.0	1.9	1.8	1.7	1.7	1.7	1.7	1.6	1.6

¹ Figures include Islamic banks.

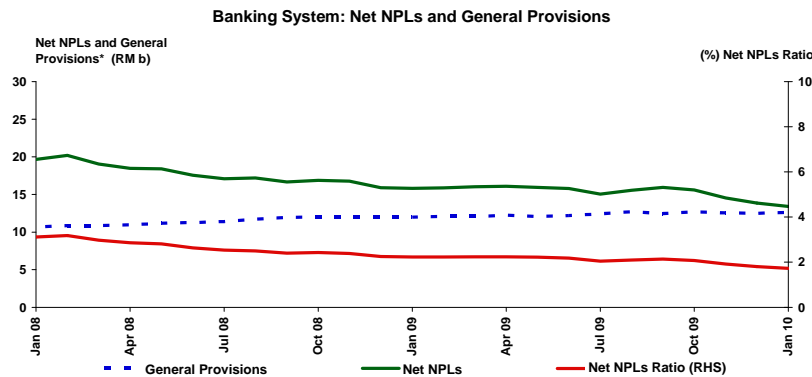
² Beginning January 2008, RWCR and CCR are computed based on Basel II for banking institutions that have adopted the standardised approach.

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...



... whilst the level of NPLs remain stable

* 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.

Bank Negara Malaysia
24 February 2010

Key Monetary and Financial Statistics

	Nov 09		Dec 09		Jan 10	
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates						
Reserve money	55.2	-20.1	54.8	-20.0	58.5	-20.6
M1	200.2	13.6	200.9	9.8	203.0	10.4
M2	972.7	10.4	989.1	9.5	991.2	8.1
M3	1,000.4	10.0	1,017.0	9.1	1,020.4	7.9
Banking System						
Total deposits	1,043.1	10.6	1,062.9	9.3	1,058.6	8.4
Total loans (including loans sold to Cagamas)	774.0	7.0	783.4	7.8	790.6	8.6
Loan-deposit ratio (%) ¹	78.0		77.9		78.4	
Financing-deposit ratio (%) ^{1&2}	84.8		84.6		85.0	
Loans applied (during the period)	47.8	36.8	42.0	33.3	46.0	45.8
Loans approved (during the period)	28.8	37.8	26.6	31.6	23.4	41.5
Loans disbursed (during the period)	63.8	21.7	64.7	22.1	56.5	15.2
Loans repaid (during the period)	53.6	23.7	56.0	11.6	52.5	10.1
Banking System Health						
Risk-weighted Capital Ratio (RWCR) (%)	14.6		14.7		14.8	
Net NPLs: 3-month classification (%)	1.9		1.8		1.7	
Interest Rates at end-period [average for the month]						
Overnight Policy Rate (OPR)	2.00		2.00		2.00	
Interbank:						
Overnight	1.99 [2.00]		1.99 [2.00]		1.99 [2.00]	
1-week	2.02 [2.02]		2.02 [2.02]		2.02 [2.02]	
1-month	2.06 [2.06]		2.07 [2.06]		2.08 [2.08]	
Fixed deposits of commercial banks:						
1-month	2.00		2.00		2.00	
3-month	2.03		2.03		2.03	
BLR of commercial banks	5.51		5.51		5.51	
ALR of commercial banks	4.91		4.83		4.85	
Prices						
Consumer Price Index (CPI) (2005=100)	112.8	-0.1	113.0	1.1	113.2	1.3
Producer Price Index (PPI) (2000=100)	134.8	-1.2	135.3	1.8	n.a.	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)						
US dollar	3.3875		3.4245		3.4130	
Euro	5.1026		4.9191		4.7625	
Pound Sterling	5.6165		5.5001		5.5106	
100 Japanese yen	3.9087		3.7076		3.7943	
Singapore dollar	2.4497		2.4401		2.4299	
100 Thai Baht	10.202		10.271		10.303	
100 Philippine Peso	7.2151		7.4196		7.3162	
100 Indonesian Rupiah	0.0358		0.0364		0.0365	
100 Korean Won	0.2920		0.2937		0.2955	
Capital Market						
Net funds raised (in RMb) by:						
public	6.5		2.0		8.5	
private	18.8		2.3		-1.0	
Bursa Malaysia Composite Index (end-period)	1,259.1		1,272.8		1,259.2	
Bursa Malaysia Market Capitalisation (RMb, end-period)	986.3		999.5		1,001.7	

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.