



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 03/10/10

**EMBARGO: Not for publication or
broadcast before 1800 hours on
Wednesday, 31 March 2010**

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

- Headline inflation moderated to 1.2% in February 2010.
- Banking system loans and PDS outstanding were higher on a net basis with a combined annual growth rate of 9.9% as at end-February.
- The banking system's capitalisation remained strong with the risk-weighted capital ratio (RWCR) and core capital ratio (CCR) at 15.1% and 13.5% respectively.



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 03/10/10

**EMBARGO: Not for publication or
broadcast before 1800 hours on
Wednesday, 31 March 2010**

MONETARY AND FINANCIAL DEVELOPMENTS **February 2010**

Gross financing by the banking system and the capital market was higher at RM64.5 billion in February. On a net basis, banking system loans and PDS outstanding expanded at a higher combined annual rate of 9.9% as at end-February. Annual growth in overall loan disbursements increased during the month, while other major loan indicators remained firm.

In February, the daily weighted average overnight interbank rate (AOIR) moved within a narrow range of 1.99% - 2.00%. Following the increase in the OPR from 2.00% to 2.25% on 4 March, the AOIR traded higher and interbank rates of other maturities also rose accordingly. As at 15 March, both the average fixed deposit (FD) rates and the average base lending rate (BLR) of commercial banks had increased.

The ringgit continued its appreciating trend against the U.S. dollar, strengthening by 4.8% between 1 February and 30 March 2010. The ringgit also appreciated against the pound sterling (12.8%), euro (8.4%) and Japanese yen (7.4%). The pound sterling depreciated against most currencies following political developments in the U.K. Against regional currencies, the ringgit recorded an appreciation within the range of 1.5% to 4.7%

The Consumer Price Index (CPI) moderated to 1.2% in February on an annual basis (January: 1.3%). The moderation in inflation was due mainly to the slower rate of price increase across a number of product categories in the CPI basket.

Broad money (M3) grew at a higher annual rate of 8.2%. The increase in broad money was supported by higher credit extension by the banking system to the private sector. This, however, was partially offset by capital outflows which were reflected in a decline in the net foreign assets of the banking system.

The banking system's capitalisation remained strong with the risk-weighted capital ratio (RWCR) and core capital ratio (CCR) at 15.1% and 13.5% respectively.

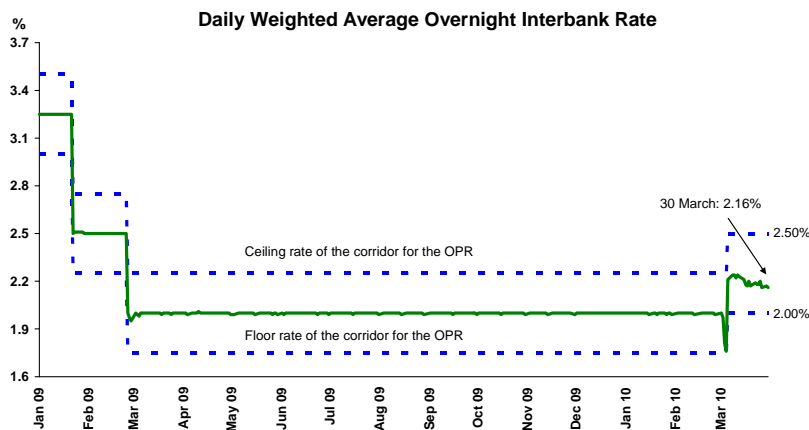
Interest rates edged higher in response to the increase in the OPR

In February, the daily weighted average overnight interbank rate (AOIR) moved within a narrow range of 1.99% - 2.00%. Interbank rates of other maturities were also stable during the month. Subsequently, between 1 and 4 March 2010, the AOIR traded lower and close to the floor rate of the corridor for the Overnight Policy Rate (OPR). This was due mainly to exceptional interest by market participants for overnight placements with the Bank ahead of the March Monetary Policy Committee meeting. Following the increase in the OPR from 2.00% to 2.25% on 4 March, the daily weighted average overnight interbank rate traded higher within a range of 2.16% - 2.24% from 5 to 30 March 2010. Interbank rates

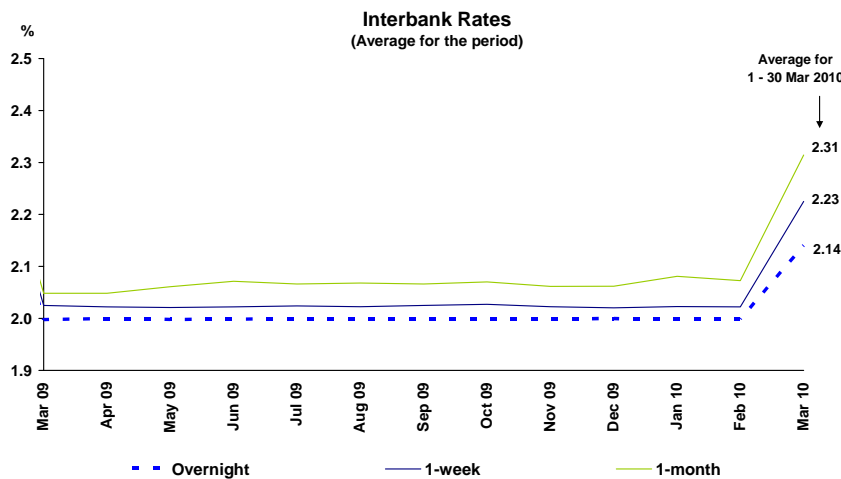
of other maturities also rose accordingly. Market conditions remained orderly as the financial institutions transitioned to the new interest rate level.

In terms of the commercial banks' lending rates, the average lending rate (ALR) was unchanged at 4.85% as at end-February (4.85% in January and 4.83% in December 2009). The average base lending rate (BLR) was higher by 25bps to 5.76% as at 15 March (5.51% in February).

The average fixed deposit (FD) rates of commercial banks (CBs) also rose in March. As at 15 March, the average quoted fixed deposit rates for tenures between 1 and 12 months were within a higher range of 2.25% and 2.65%.

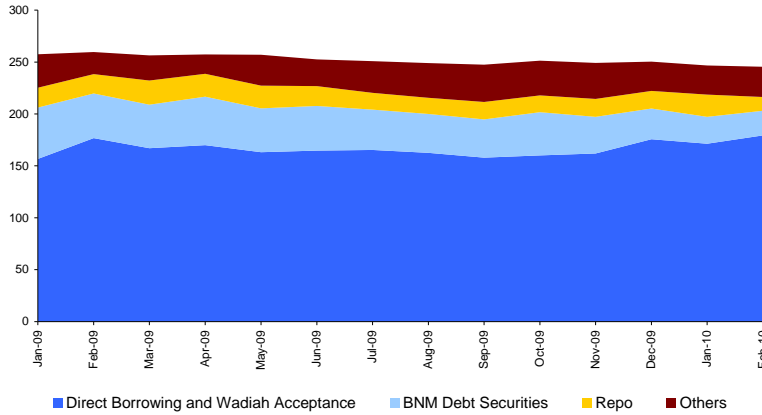


The average overnight interbank rate moved higher to reflect the increase in the OPR



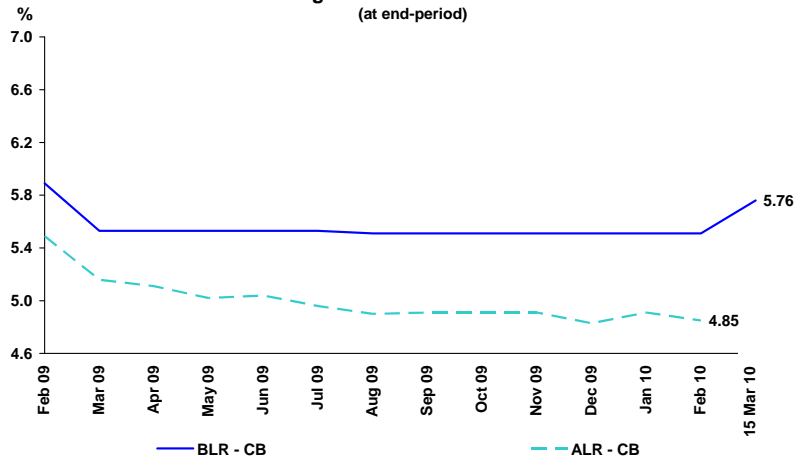
Other interbank rates also rose after the increase in the OPR

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



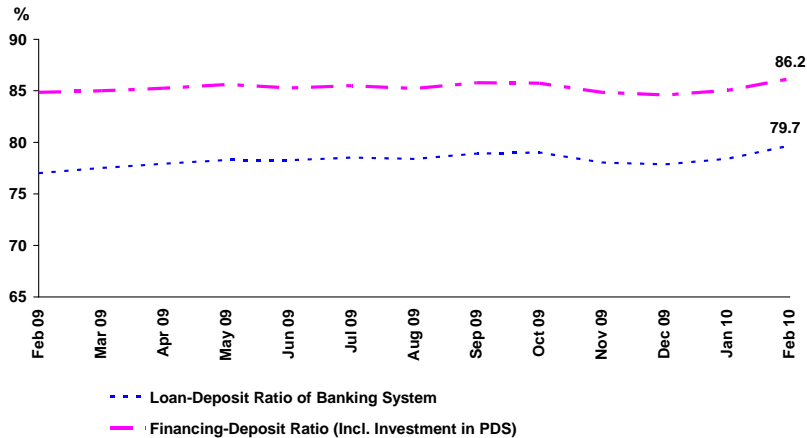
BNM continued to absorb excess liquidity

Lending Rates: Commercial Banks
(at end-period)

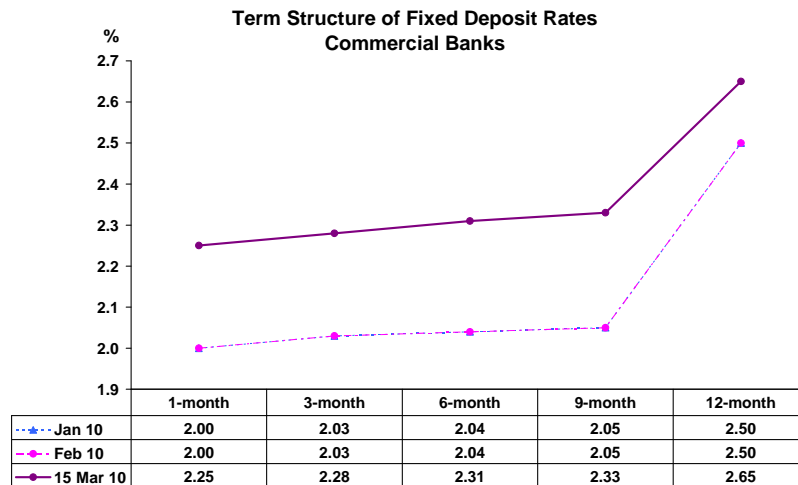


Commercial banks' BLR was stable in February, but increased in March

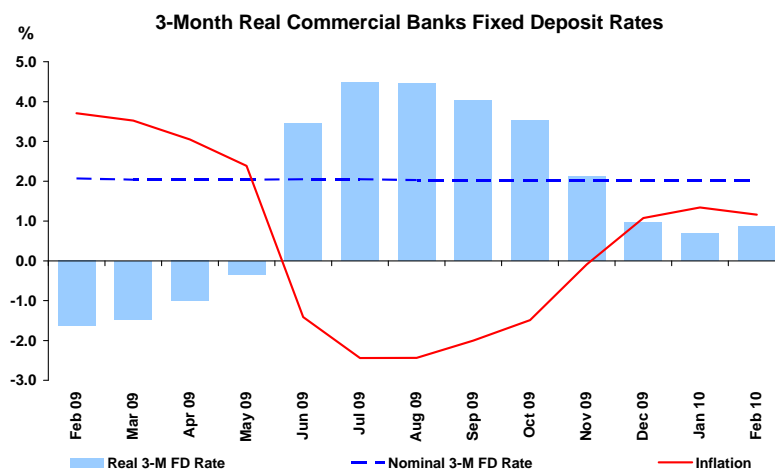
Liquidity Situation



The loan-deposit and financing-deposit ratios increased in February, as loans continued to increase while deposits moderated



Average fixed deposit rates rose in March following the increase in the OPR

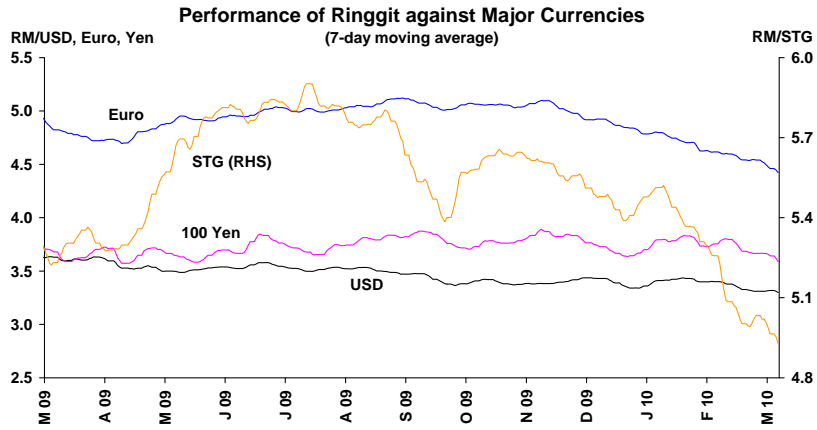


Real fixed deposit rates are expected to increase following the increase in interest rates

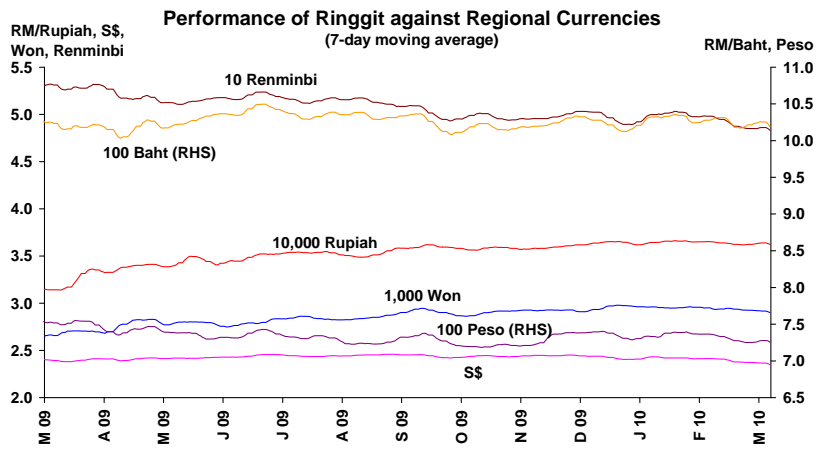
The ringgit appreciated against the U.S. dollar

The ringgit continued its appreciating trend against the U.S. dollar, strengthening by 4.8% between 1 February and 30 March 2010. This was broadly in line with the regional trend as continued improvements in regional economic fundamentals sustained foreign investor interest in regional equities. The ringgit also appreciated against the pound sterling (12.8%), euro (8.4%) and Japanese yen (7.4%). The pound sterling depreciated against most currencies due to

political developments in the U.K. Against regional currencies, the ringgit recorded an appreciation within the range of 1.5% to 4.7%.



The ringgit appreciated against major currencies



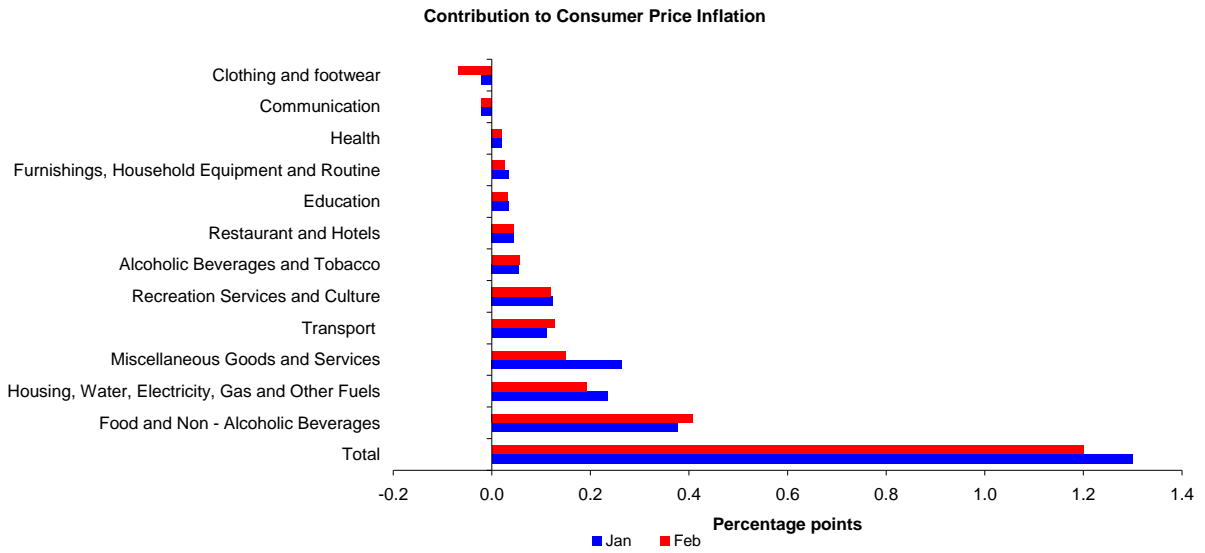
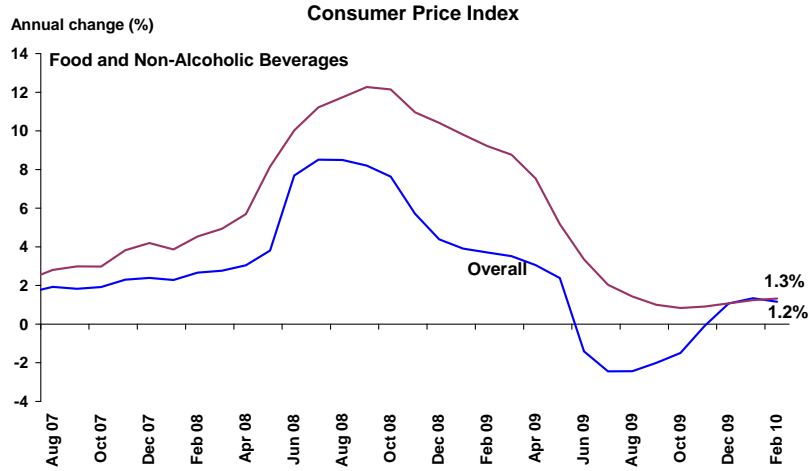
The ringgit also strengthened against regional currencies

Performance of Ringgit against Selected Currencies

RM per foreign currency	End-period				% Change	
	Dec 09	Jan 10	Feb 10	30 Mar 10	End Dec 09 - 30 Mar 10	End Jan 10 - 30 Mar 10
US dollar	3.4245	3.4130	3.4090	3.2580	5.1	4.8
Euro	4.9191	4.7625	4.5943	4.3949	11.9	8.4
Pound sterling	5.5001	5.5106	5.2359	4.8868	12.5	12.8
100 Japanese yen	3.7076	3.7943	3.8047	3.5338	4.9	7.4
Singapore dollar	2.4401	2.4299	2.4149	2.3316	4.7	4.2
100 Thai baht	10.271	10.303	10.318	10.073	2.0	2.3
100 Philippine peso	7.4196	7.3162	7.3652	7.2048	3.0	1.5
100 Indonesian rupiah	0.0364	0.0365	0.0365	0.0359	1.5	1.5
100 Korean won	0.2937	0.2955	0.2937	0.2881	1.9	2.6
Chinese renminbi	0.5016	0.4999	0.4993	0.4773	5.1	4.7

The Consumer Price Index moderated in February

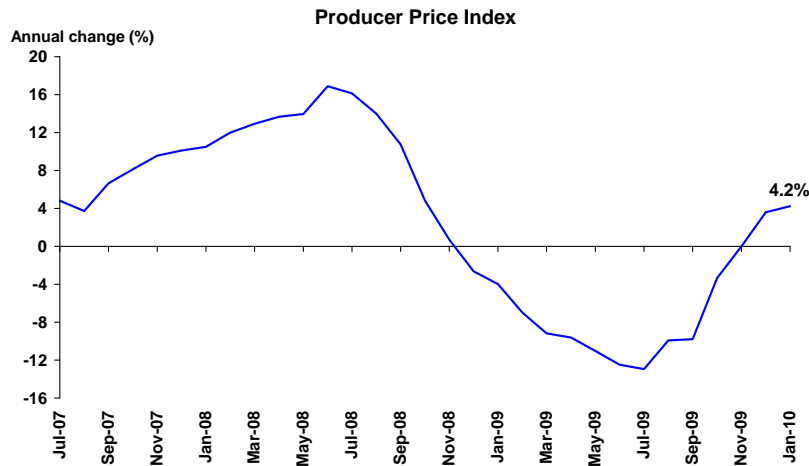
The Consumer Price Index (CPI) moderated to 1.2% in February on an annual basis (January: 1.3%). The moderation in inflation was due mainly to the slower rate of price increase in the *miscellaneous goods and services* category (February: 2.5%, January: 4.4%), and the faster decline in the *clothing and footwear* category. Prices in the *food and non-alcoholic beverages* category increased to 1.3% in February (January: 1.2%) mainly due to price increases in the *fish and seafood* and *vegetables* sub-categories.



Producer prices increased in January

Producer prices, as reflected by the Producer Price Index (PPI), increased by 4.2% on an annual basis in January (December: 3.6%). The rise was driven mainly by improvement in the prices of the commodity-related components, which increased by 12% during the month (December: 9.8%). In the non-commodity-related components of the PPI, prices increased by 2.1% (December: 1.8%). On a month-on-month basis, producer prices increased by 0.3% (December: 1%).

In terms of composition, prices for both the local and imported components of the PPI have turned positive in January. Compared to their levels a year ago, prices for the local components of the PPI increased by 5.1% (December: 4.2%), while prices for the imported components increased by 2.4% (December: 2.0%).



M3 expanded in February

In February, broad money (M3) grew at a higher annual rate of 8.2%. On a month-on-month basis, M3 increased by RM0.9 billion. The increase in broad money was supported by higher credit extension by the banking system to the private sector. This, however, was partially offset by capital outflows which were reflected in the decline in net foreign assets of the banking system.

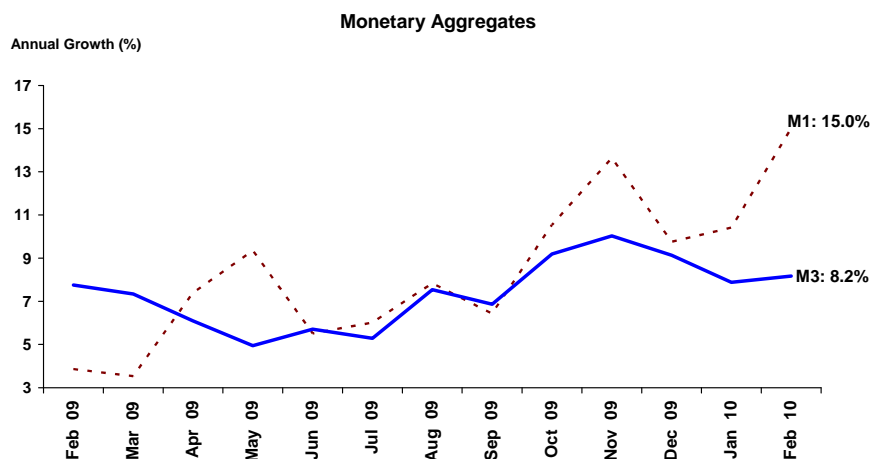
M3 Determinants

(RM billion)

	Change during period			
	Nov 09	Dec 09	Jan 10	Feb 10
M3	17.2	16.6	3.4	0.9
Net claims on Government	1.1	6.8	-0.3	0.0
Claims on the private sector	5.3	10.3	5.9	7.0
<i>Loans</i>	0.4	9.7	7.0	8.7
<i>Securities</i>	4.9	0.7	-1.1	-1.7
Net foreign assets*	3.6	2.3	-0.2	-4.7
Other influences	7.2	-2.8	-1.9	-1.4

* 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.



Lower banking system deposits in February

Total deposits placed with the banking system in February declined by RM9.4 billion on a month-on-month basis (January: -RM4.3 billion), but expanded by 7.4% (January: 8.4%) on an annual basis. The decline in the banking institutions' deposits during the month partly reflected the higher withdrawal of funds by a non-financial public enterprise (NFPE).

Deposits by Holder (RM million)

	Change during period			
	Nov 09	Dec 09	Jan 10	Feb 10
Federal Government	2,131	-482	1,128	-1,377
State Governments	-440	-162	140	1,966
Statutory Authorities ¹	741	-292	-169	741
Financial Institutions	-2,792	15,149	-11,095	-3,192
<i>of which:</i>				
<i>Banking Institutions</i>	6,796	4,735	-6,691	-7,423
<i>Non-Bank Financial Institutions</i>	-10,308	8,405	-4,569	4,157
Business Enterprises	25,451	-945	2,728	-7,436
Individuals	354	5,340	3,250	737
Others ²	-25	1,243	-294	-860
Total	25,419	19,850	-4,312	-9,420

^{1/} Include local Governments

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

Deposits by Type (RM million)

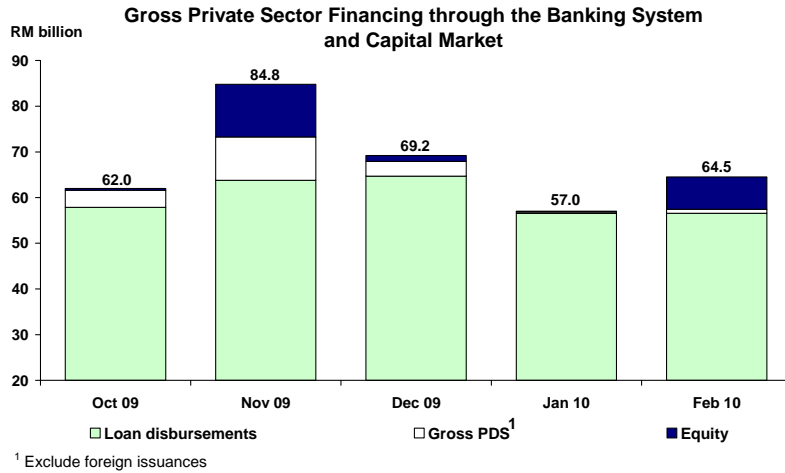
	Change during period			
	Nov 09	Dec 09	Jan 10	Feb 10
Fixed deposits	1,376	-97	982	810
NIDs	2,835	3,276	-9,343	-4,957
Demand deposits	6,804	-336	1,059	946
Savings deposits	479	1,912	468	-167
Repos	368	480	829	-640
FX deposits	2,460	2,453	55	318
IBS deposits ¹	5,846	5,181	2,472	-1,467
Others ²	5,250	6,981	-834	-4,265
Total	25,419	19,850	-4,312	-9,420

^{1/} IBS deposits refers to Islamic banking system deposits

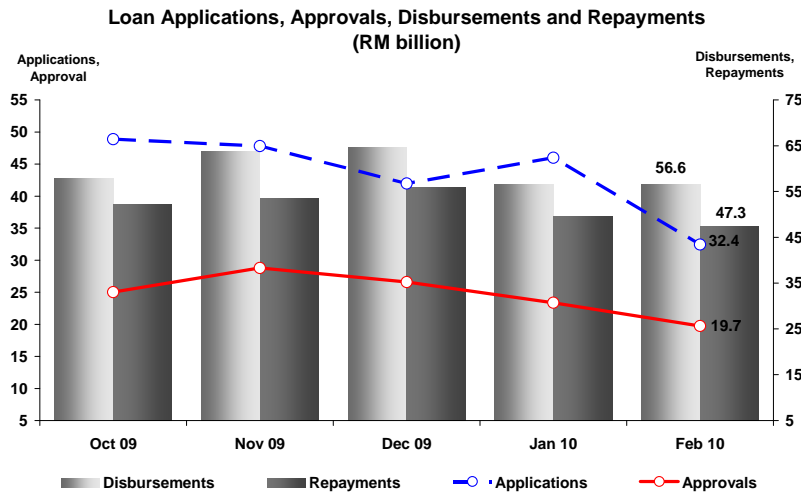
^{2/} Other deposits comprised mainly of short-term money market deposits

Higher gross financing activity in February

Gross financing provided by the banking system and the capital market was higher at RM64.5 billion in February (January: RM57 billion). On a net basis, banking system loans and PDS outstanding expanded at a higher combined annual rate of 9.9% as at end-February (January: 9%).



Higher gross financing during the month



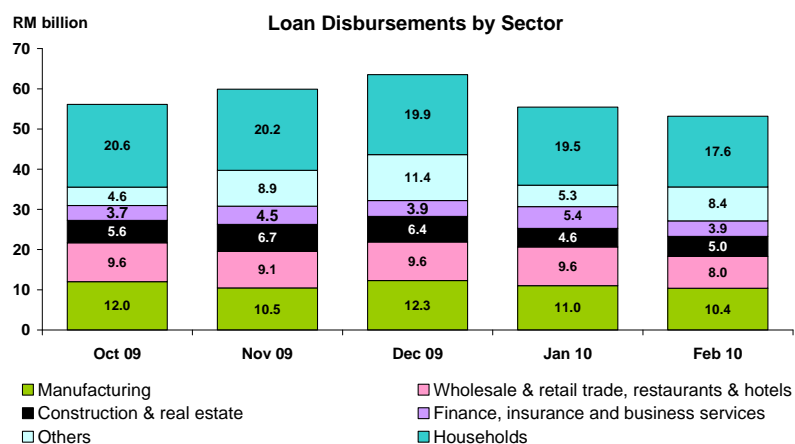
Applications and approvals were lower due to the fewer working days in February

Bank lending indicators						
	RM billion			Annual Growth (%)		
	Jan-10	Feb-10	J-F 10	Jan-10	Feb-10	J-F 10
Overall						
Loan applications	46.0	32.4	78.4	45.8	-4.2	19.9
Loan approvals	23.4	19.7	43.1	41.5	11.5	26.0
Loan disbursements	56.5	56.6	113.1	15.2	29.5	21.9
Chg in Loans Outstanding ^{1/}	7.2	11.5	18.7	8.6	10.0	10.0
Businesses						
Loan applications	22.3	15.9	38.2	41.0	-9.4	14.4
Loan approvals	9.0	8.6	17.5	29.0	6.8	17.1
Loan disbursements	37.1	39.0	76.1	12.8	33.3	22.4
Chg in Loans Outstanding ^{1/}	2.0	1.5	3.5	3.5	4.2	4.2
SMEs^{2/}						
Loan applications	9.6	7.5	17.0	66.3	12.7	37.6
Loan approvals	4.9	3.1	7.9	96.1	3.6	45.8
Loan disbursements	11.6	11.1	22.7	-2.7	-1.1	-1.9
Chg in Loans Outstanding ^{1/3/}	0.6	0.6	1.2	-0.1	2.0	2.0
Households						
Loan applications	23.7	16.5	40.2	50.6	1.6	25.7
Loan approvals	14.4	11.2	25.6	50.6	15.4	32.9
Loan disbursements	19.5	17.6	37.0	20.0	21.8	20.8
Chg in Loans Outstanding ^{1/}	5.3	4.5	9.8	10.4	11.1	11.1

^{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 6.1% year-on-year as at end-February 2010.



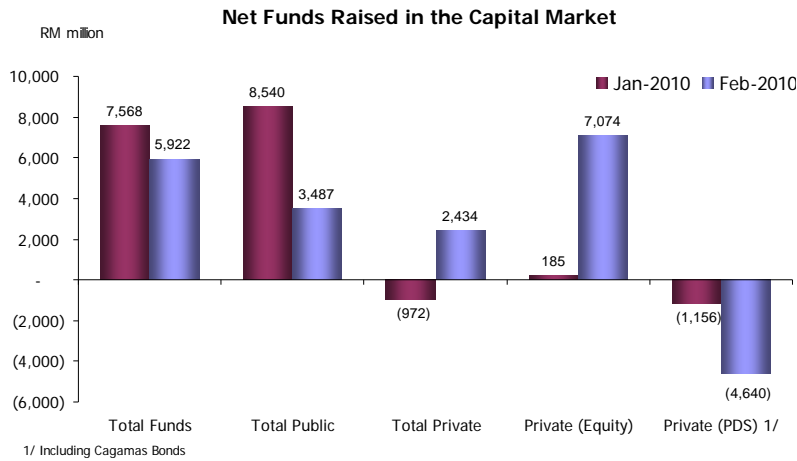
Loan disbursements remained broad-based

On a month-on-month basis, with the exception of loan disbursements, major loan indicators moderated due to the fewer working days in February on account of the Chinese New Year holidays. In the business sector, the slower demand was across the board, except for the *manufacturing* sector. Nevertheless, loan disbursements increased during the month. As at end-February, business loans outstanding expanded at an annual rate of 4.2% (end-January: 3.5%).

In the household sector, demand for financing during the month was mainly to finance the purchase of residential and non-residential properties as well as passenger cars. Loan disbursements remained firm. Household loans outstanding rose by an annual rate of 11.1% as at end-February (end-January: 10.4%).

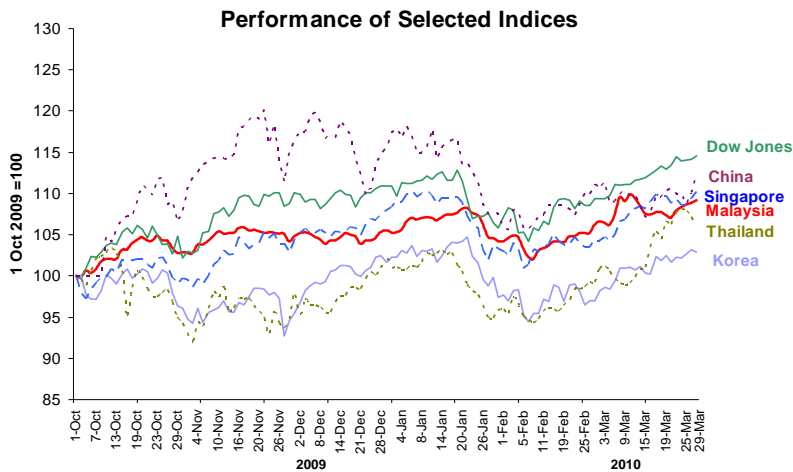
Higher fund raising activity

Net funds raised in the capital market amounted to RM5.9 billion in February. The bulk of funds (69% of total gross funds raised) were raised by the private sector. The funds were mainly raised from the equity market, and included a large rights issue by a firm in the transport industry and an initial public offering (IPO) by a firm in the technology industry. Although gross funds raised increased to RM875 million (January: RM330 million), a net repayment of RM4.6 billion was recorded in the private debt securities (PDS) market. This was due to a large redemption by a telecommunications firm. Funds were raised mainly for the financing of new activity and for working capital. Meanwhile, in the public sector, gross funds of RM3.5 billion were raised through the new issuance of a 5.5-year Malaysian Government Securities (MGS).



KLCI trended upward in February

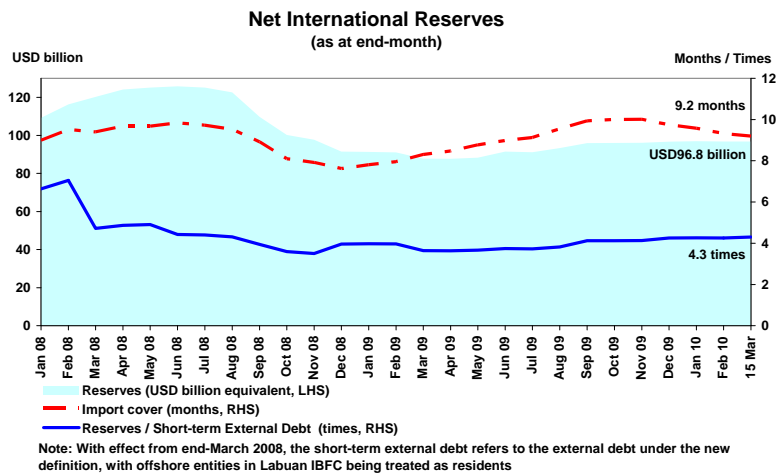
The FBM KLCI ended higher at 1270.78 (end-January: 1,259.2) in line with other regional markets. Announcements of favourable corporate earnings for 4Q 2009 and better prospects going forward provided support to the local bourse. Market capitalisation was higher at RM1.016 trillion (since end-January: +1.4%), while the average daily turnover declined to 740 million units (January: 1,382 million units).



As at 29 March, the FBM KLCI increased to 1,319.21 (since end-February: +3.81%) and market capitalisation was higher at RM1.06 trillion.

International reserves

The net international reserves of Bank Negara Malaysia stood at RM331.7 billion (equivalent to USD96.8 billion) as at 15 March 2010. The reserves position is sufficient to finance 9.2 months of retained imports and is 4.3 times the short-term external debt.



Strong capitalisation and stable non-performing loans in the banking system

Capital ratios strengthened during the month following the inclusion of year-end profits by several banks. The risk-weighted capital ratio (RWCR) improved to 15.1% whilst core capital ratio increased to 13.5%. Impaired loans amounted to 1.9% of net loans. The level of loans-in-arrears of below 3 months remained stable, accounting for just below 5% of total loans. The level of non-performing and impaired loans of the banking system may fluctuate slightly, particularly in the first half of 2010, as banks transition towards the adoption of the Financial Reporting Standards (FRS) 139 effective from their respective financial year end during the period.

Banking System Health Indicators ¹

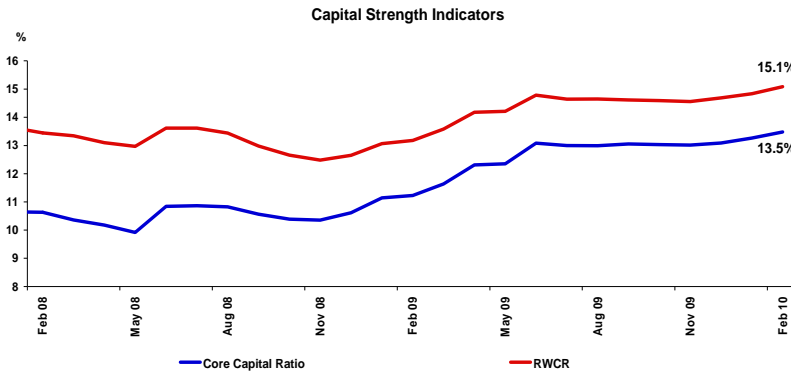
	2002	2003	2004	2005	2006	2007	2008	Dec 09	Jan 10	Feb 10
Capital (%) ²										
Core capital ratio	11.1	11.1	11.4	10.7	10.7	10.2	10.6	13.1	13.3	13.5
RWCR	13.2	13.8	14.4	13.7	13.5	13.2	12.6	14.7	14.8	15.1
Net Non-Performing Loans ³										
% of net total loans	10.2	8.9	7.5	5.8	4.8	3.2	2.2	1.8	1.7	1.9
Amount (RM million)	43,110	40,013	36,668	31,332	27,360	20,011	15,889	13,859	13,397	15,040
General Provisions ⁴ / Net loans ³										
(%)	2.1	2.0	1.9	1.8	1.7	1.7	1.7	1.6	1.6	1.7

¹ Figures include Islamic banks.

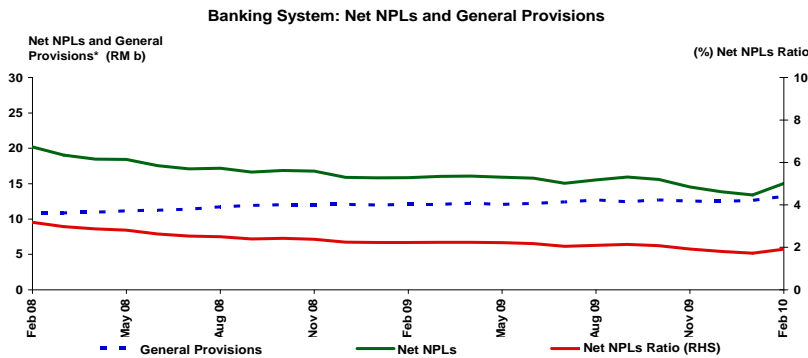
² Beginning January 2008, RWCR and CCR are computed based on Basel II for banking institutions that have adopted the standardised approach

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...



...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.

Key Monetary and Financial Statistics

	Dec 09		Jan 10		Feb 10	
	Outs.	Ann. growth	Outs.	Ann. growth	Outs.	Ann. growth
	(RM b)	(%)	(RM b)	(%)	(RM b)	(%)
Monetary Aggregates						
Reserve money	54.8	-20.0	58.5	-20.6	59.7	-1.3
M1	200.9	9.8	203.0	10.4	206.1	15.0
M2	989.1	9.5	991.2	8.1	991.4	8.4
M3	1,017.0	9.1	1,020.4	7.9	1,021.3	8.2
Banking System						
Total deposits	1,062.9	9.3	1,058.6	8.4	1,048.8	7.4
Total loans (including loans sold to Cagamas)	783.4	7.8	790.6	8.6	802.2	10.0
Loan-deposit ratio (%) ¹		77.9		78.4		79.7
Financing-deposit ratio (%) ^{1&2}		84.6		85.0		86.2
Loans applied (during the period)	42.0	33.3	46.0	45.8	32.2	-5.0
Loans approved (during the period)	26.6	31.6	23.4	41.5	19.8	11.8
Loans disbursed (during the period)	64.7	22.1	56.5	15.2	56.4	29.2
Loans repaid (during the period)	56.0	11.6	49.6	4.0	46.8	11.6
Banking System Health						
Risk-weighted Capital Ratio (RWCR) (%)		14.7		14.8		15.1
Net NPLs: 3-month classification (%)		1.8		1.7		1.9
BNM International Reserves (end-period)						
Net Reserves in RM billion		331.3		332.2		331.8
Net Reserves in USD billion (equivalent)		96.7		97.0		96.8
Months of retained imports		9.7		9.6		9.3
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	2.07 [2.06]		2.08 [2.08]		2.10 [2.07]
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		4.83		4.85		4.85
Prices						
Consumer Price Index (CPI) (2005=100)		113.0	1.1	113.2	1.3	113.2
Producer Price Index (PPI) (2005=100)		115.4	3.6	115.8	4.2	n.a.
Exchange Rates of Ringgit against Selected Currencies (end-period)						
US dollar		3.4245		3.4130		3.4090
Euro		4.9191		4.7625		4.5943
Pound Sterling		5.5001		5.5106		5.2359
100 Japanese yen		3.7076		3.7943		3.8047
Singapore dollar		2.4401		2.4299		2.4149
100 Thai Baht		10.271		10.303		10.318
100 Philippine Peso		7.4196		7.3162		7.3652
100 Indonesian Rupiah		0.0364		0.0365		0.0365
100 Korean Won		0.2937		0.2955		0.2937
Capital Market						
Net funds raised (in RMb) by:	public	2.0		8.5		3.5
	private	2.3		-1.0		2.4
Bursa Malaysia Composite Index (end-period)		1,272.8		1,259.2		1,270.8
Bursa Malaysia Market Capitalisation (RMb, end-period)		999.5		1,001.7		1,015.7

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.