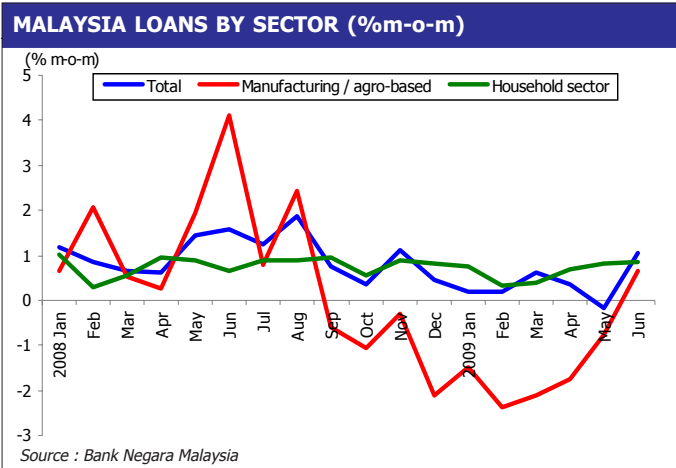


Malaysia: Bank credit leading the way

4 AUGUST 2009
2009/039



- The diverging trend of loan growth in May and the stabilization shown in domestic industrial production and external demand had been corrected in June, as we have pointed out previously that it was more of an aberration rather than a trend.

- Furthermore, the sharp reversal in Malaysia's monthly loan growth, 1.0% m-o-m in June against -0.2% in May, might be a tentative indicator that the economy is on the mend, as the broad based increase reflects continued resiliency by consumers while businesses are beginning to show signs of expansion. Annual growth however maintained its single digit performance (8.3% y-o-y) mainly due to high base effect recorded last year.

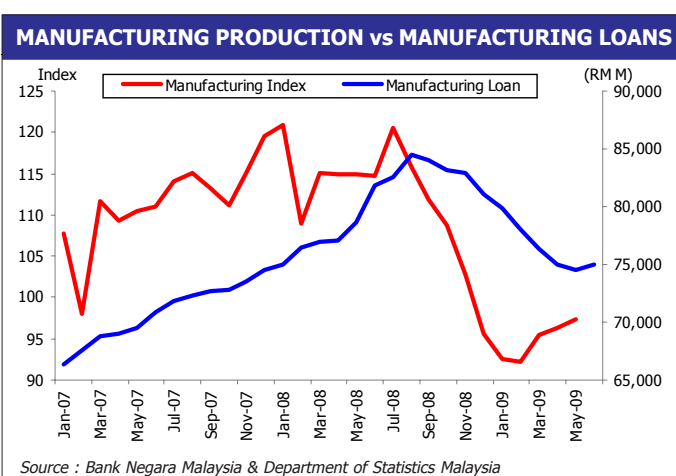
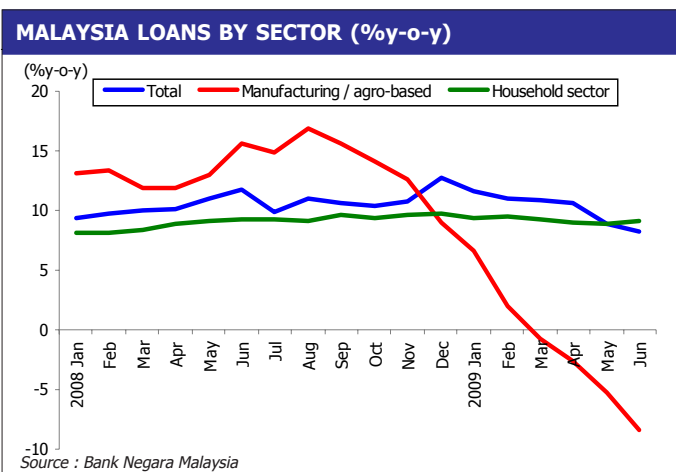
- The most encouraging data came from the manufacturing sector, where it recorded the first net disbursement since August last year, growing 0.7% m-o-m following nine straight months of decline. This improvement is in line with the smaller decline in domestic production while supporting our view of the beginning of a restocking cycle by producers as the recession is showing signs of abating.

- Similarly, there are no weakness shown in consumer demand for loans as household loan growth continued at a steady level of 0.8% m-o-m and 9.1% y-o-y. We believe that consumer confidence had been somewhat elevated in 2Q09 as the wealth factor for the economy was fairly encouraging. The stock market rose 19.7% during the quarter while crude palm oil prices gained 6.8%.

- The only sector which experienced net repayment was wholesale & retail trade, and hotels and restaurants (RM102.3M) but even this is showing smaller contraction as compared to the beginning of the year.

- Consequently, the flush liquidity in the banking system, low borrowing costs (interest rates in our view is expected to stay at current level for the rest of this year), steady non-performing loans ratio, and moderating retrenchment exercises would provide some comfort to financial institutions to continue extending credit to the businesses and household sectors.

- As the global economy starts to recover, we believe there would be more demand for credit from the manufacturers to keep pace with the growing orders. This, combined with the renewed consumer confidence is expected to boost loan growth further. As such, we are upgrading our loan growth forecast for this year to 4.0% to 5.0% from the initially projected 3.0% to 4.0%.



- As far as 2Q09 GDP is concerned, the encouraging one month rebound did not grant any reason for a change in our 2Q09 GDP forecast (currently -4.9% y-o-y) and also for the rest of the year (-4.0% for 2009). The impact will be lagging and contained domestically. However, the loan performance was mostly supportive of our view towards a production led recovery while a stronger growth would require strength in external demand.
- The development in the financial sector has provided some degree of comfort for Bank Negara while indicating that the current loose monetary stance is providing a conducive environment for the economy to recover in 2H09. Thus, the burden now is on the half of the fiscal side to provide the impetus and ensuring an effective implementation of the stimulus packages to boost growth. [PNB](#)

JUNE 2009 BANKING SYSTEM LOANS BY SECTOR

	2009 YEAR TO DATE		JUNE 2009			
	RMM	% share	RMM	% share	% mom	% yoy
TOTAL	16,222.6	100.0	7,606.16	100.0	1.0	8.3
Agriculture	1,226.0	7.6	505.70	6.6	3.0	14.6
Mining & quarrying	514.7	3.2	81.07	1.1	3.5	30.7
Manufacturing + agro-based	-6,179.3	-38.1	488.11	6.4	0.7	-8.4
Electricity, gas & water	589.8	3.6	324.98	4.3	6.7	27.2
Wholesale & retail trade, & hotels & restaurants	-1,908.2	-11.8	-102.26	-1.3	-0.2	-1.8
Construction	869.8	5.4	916.43	12.0	2.7	3.3
Real estate	3,173.3	19.6	533.28	7.0	1.9	26.1
Transport, storage & communications	-417.0	-2.6	154.48	2.0	0.7	27.5
Finance, insurance & business activities	1,668.9	10.3	1,654.49	21.8	3.4	15.1
Education, health & others	2,896.5	17.9	-18.56	-0.2	-0.1	128.0
Household sector	15,165.2	93.5	3,401.94	44.7	0.8	9.1
Other sector + individual businesses	-1,377.0	-8.5	-333.50	-4.4	-1.4	-1.5

Source : Bank Negara Malaysia