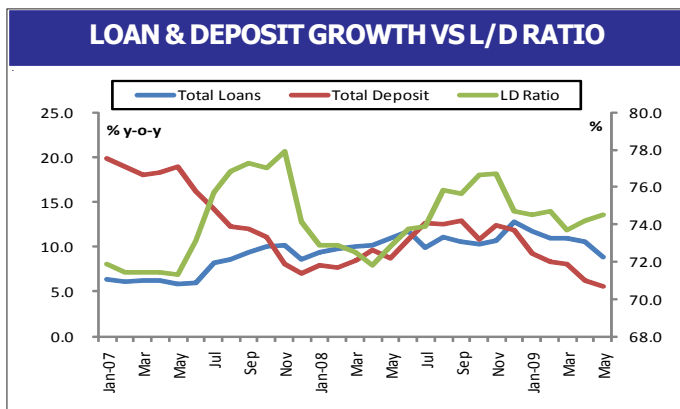
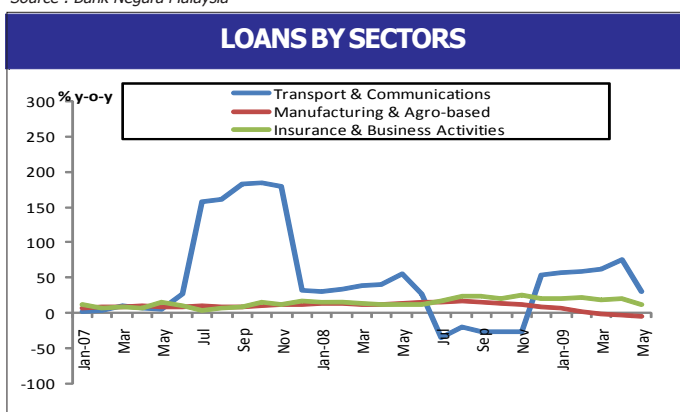


## Malaysia: Bank credit gives way to falling demand?

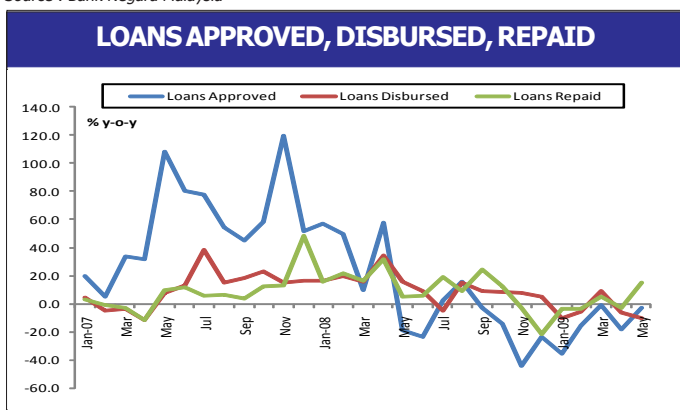
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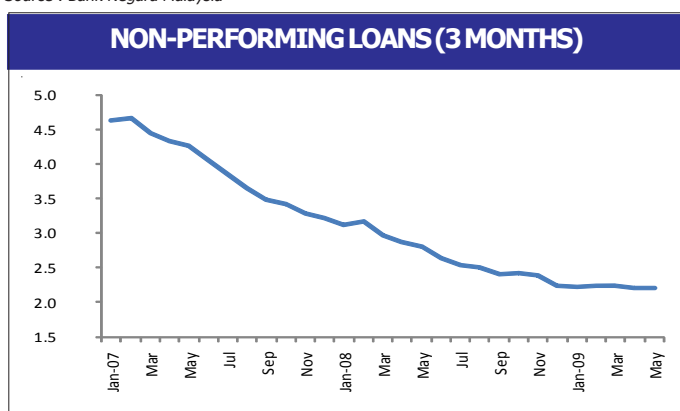
Source : Bank Negara Malaysia



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- While the rapid fall in domestic industrial production and external demand appeared to have displayed some semblance of stability in recent months, May bank credit registered its first monthly contraction since December 08 by 0.2% (-RM735.2B). As a result, the annualized loan growth decelerated to a single digit of 8.9% during the month after expanding at a double-digit rate of 10-11% for more than a year.
- Why was the diverging trend? Is it true that bank credit had only begun succumbing to the economic crunch?
- While it is true that demand for credit has moderated and repayment of loans has intensified as businesses demand for working capital has subsided drastically amidst low borrowing cost, we would like to believe that the May credit development was an aberration rather than a trend.
- Looking closely at loan demand by sector, it was observed that there was a large net repayment of RM5.2B or 18.8% drop in the transport, storage and communications subsector. On the flip side of the coin (loan by purpose), there was also a net repayment of RM4.2B for working capital, which we believe could be attributed by the same transport, storage and communications subsector.
- Otherwise, the extension of credit to the consumer sector, particularly for the purchase of automobile, residential property, personal use and credit card spending appear to have behaved normally, albeit moderating.
- On the aggregate, net lending to the household subsector rose 0.8% m-o-m or a staggering RM3.2B in May, and certainly much larger than the monthly average of RM2.1B chartered in Jan-Apr 09.
- It was also comforting to note that positive developments in several other sub-sectors during the month. Manufacturing, for instance, posted a much slower net repayment of RM570M (-0.8% m-o-m) after registering monthly net repayments averaging RM1.5B between Dec 08-Apr 09. Additionally, lending to the wholesale & retail trade, and hotels and restaurants in turn posted an increase of RM294M in May after falling for eight consecutive months.
- Going forward, we believe that loan demand would continue to expand in the remaining months of this year on the back of sustained household income along with some recovery in the external sector. The reversal in loan applications, especially from the business sector during the month appears to indicate a probable change in sentiment.

- 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 a result, overall loan growth in 2009 is not expected to contract but instead may expand, albeit at a moderate 2-3% before rising to 5-6% in the coming year. While we are hoping for a general economic recovery in 2010, the better credit performance next year could also come from the positive impact of the Government liberalization measures implemented this year, and the likelihood of another year of fiscal expansion in 2010.