

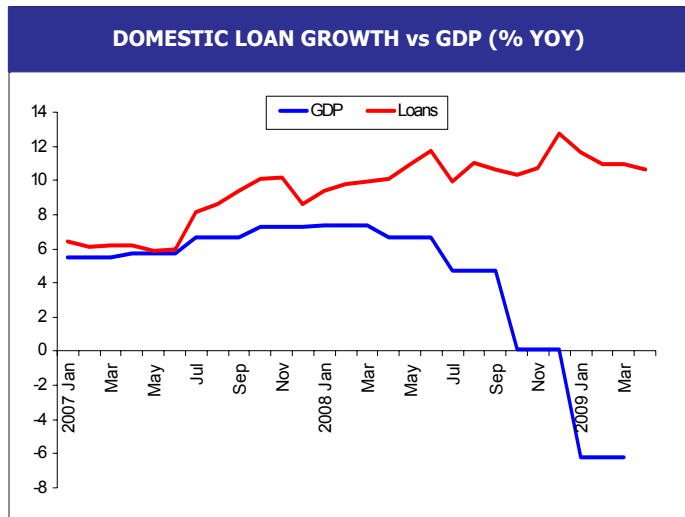
Malaysia: Bank loans - slow and steady growth

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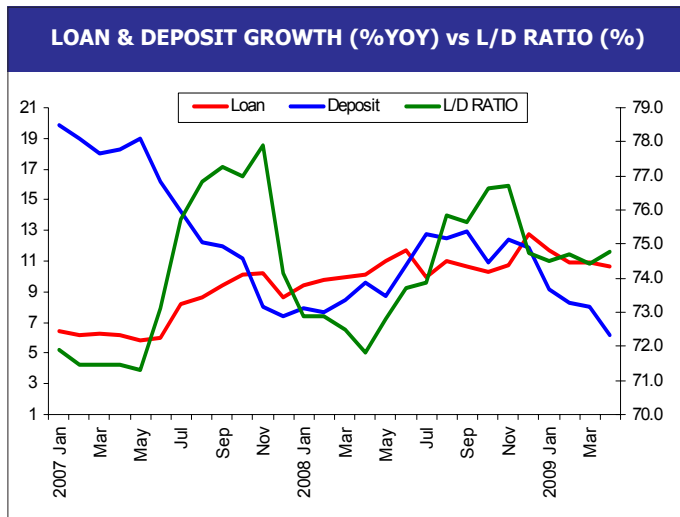
- In spite of the sharp pull-back in Malaysia's manufacturing (-17.6% y-o-y in real terms), exports (-15.2%) and real GDP (-6.2%) performance during the 1Q 09, loan growth was seemingly healthy and growing steadily.
- Bank Negara's statistics showed that bank lending continued to expand at double-digit rate of 10.6% in April 09, a shade lower than the 11.0% registered a year ago. On a year-to-date basis, however, net new loans disbursed were halved to RM10.0 billion as against RM21.5 billion in Jan-April 08.
- By sector, a big chunk of the net new loans in Jan-April 09 were largely disbursed to consumer sub-sector (RM8.5 billion), and education and health (RM2.8 billion).
- Even then, real private consumption in the GDP contracted by 0.7% (+2.7% in nominal terms) and contributed negatively to the overall GDP performance in 1Q09.
- On the other hand, manufacturing (-RM6.1 billion), wholesale and retail trade, hotel and restaurant (-RM2.1 billion) subsectors experienced net repayment as demand for working and capital expenditure subsided drastically following intense reduction in sales and business activities and a sharp drop in capacity utilization.
- The current credit environment differs significantly from that of the 1997/98 crisis.
- First, liquidity is abundant at the present moment so much that the excess removed from the system amounted to almost RM170 billion, as reflected by financial institutions deposits parked at Bank Negara (including the almost RM6.0 in the form of statutory reserves).
- Including the Bank Negara debt securities, repurchase agreement (repos) and other instruments, outstanding excess liquidity placed with the monetary authority at present amounted to around RM270 billion (but down from an estimated RM430 billion in April 08).
- In 1997/98, with the massive outflow of liquidity from the domestic system following the collapse of the equity market and exchange rate, and the removal of liquidity to support the currency, the banking system was extremely tight that resulted in a sharp and rapid increase of interest rate.
- Even with the mopping activity, the banking system is now still sufficiently liquid with the loan-deposit ratio averaging 74.6%. With the additional new deposit of RM12.5 billion, the banking system still had a surplus of RM2.6 billion in Jan-Apr 09.
- Secondly, the ample liquidity had enabled Bank Negara to quickly reduce interest rates to support bank borrowing and lending. With the Overnight Policy Rate (OPR) reduced by 75 basis points in Jan 09, and a further 50 basis points in Feb 09 (bringing the OPR to 2.00%), the banks' base lending rate (BLR) was correspondingly reduced to 5.55% from 7.70%. In the 1997/98 crisis, the BLR was at double-digit rate.
- Thirdly, unlike in 1997/98 when the depreciation of the Ringgit had contributed to a sharp spike in domestic prices and interest rates, the quick easing of inflationary pressures in the current environment had provided much comfort and room to the monetary authority to reduce interest rates.
- Headline inflation is currently at 2.4% as against 5.0-6.0% in 1997/98. With domestic demand expected to remain in a depressed mode, inflation is expected to only average 0.5-1.0% for the whole of this year, which suggests that interest rate would likely remain at low levels in the medium term (six months to a year).
- Finally, banking institutions are now in a much better position, unlike to the situation in 1997/98 when it was bogged down by tight liquidity, insufficient capital and non-performing and bad assets.
- The banking sector is presently much more resilient, supported by strong capitalization and stable credit quality. Although profitability has been shaved by the weak conditions in the economy, the net non-performing loans ratio remained stable at 2.2% of total net loans since Dec 08.
- The risk-weighted capital ratio (RWCR) and core capital ratio meanwhile had improved to 14.2% and 12.3% respectively.
- While bank lending policy possibly has been made more stringent, the strong reserves that the banking system has built during good times have strengthened their capacity to extend credit and deal with the current difficult times.

- Going forward, while the domestic economic conditions are likely to remain weak (but stabilizing) in the 2Q09 and 3Q09, we foresee continuing demand for credit from consumers which could moderate the fall in commercial and industrial loans.
- For the entire year we are looking at a loan growth of just 3.0% annualized (+RM22.0 billion net new loans as against 12.8% or +RM80.0 billion in 2008) on the back of our real GDP growth forecast of minus 4.0%.

- The healthy trend in loan approval, disbursement and repayment, along with the steady asset quality, which we are seeing thus far, would only suggest that the banking sector is not likely to experience the tragic episode of the 1997/98 crisis.
- Additionally, the favorable equity and commodity markets performance of late, and a possible turnaround of the general economy in 4Q09 would help to cushion the banking system from any further adverse effects of the present global economic downturn and maintain its profitability albeit reduced drastically.



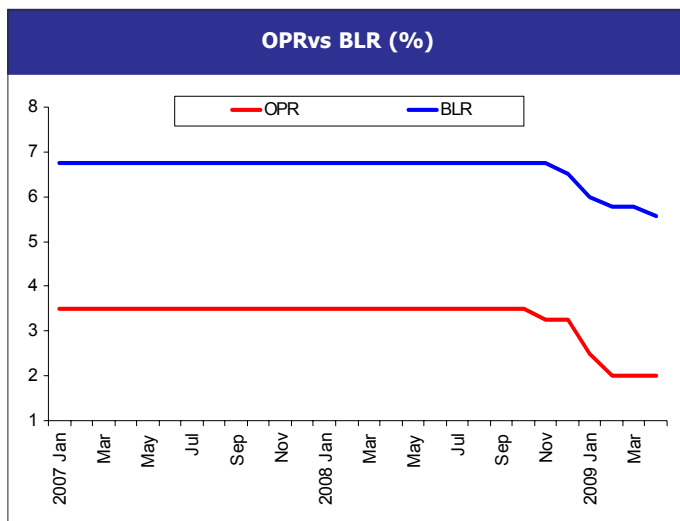
Source : Bank Negara Malaysia & Department of Statistics Malaysia



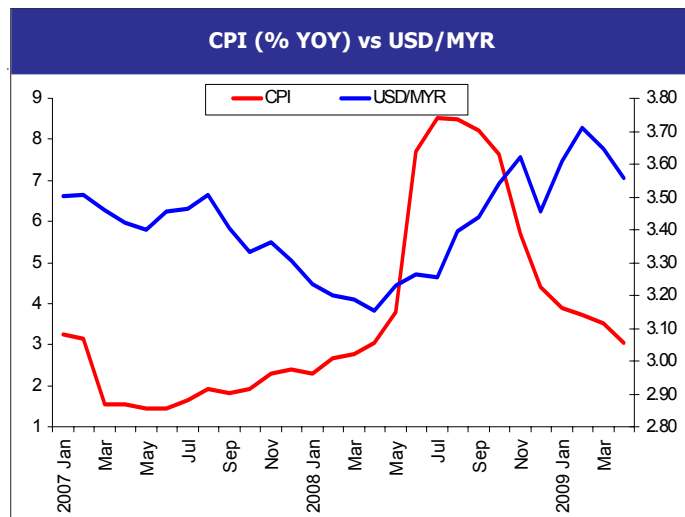
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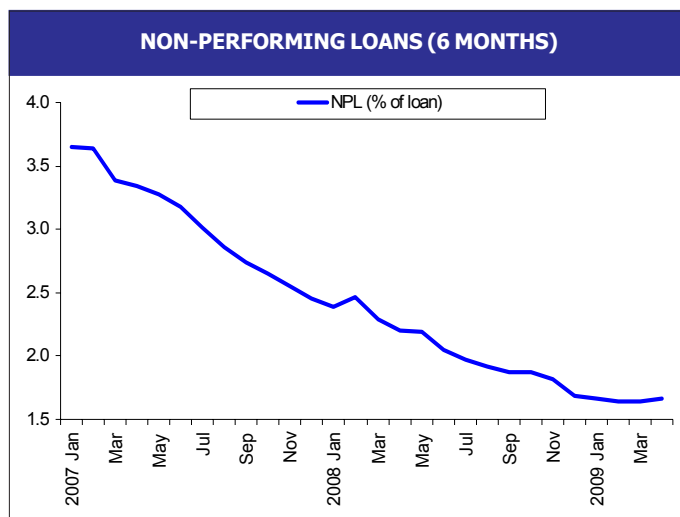
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