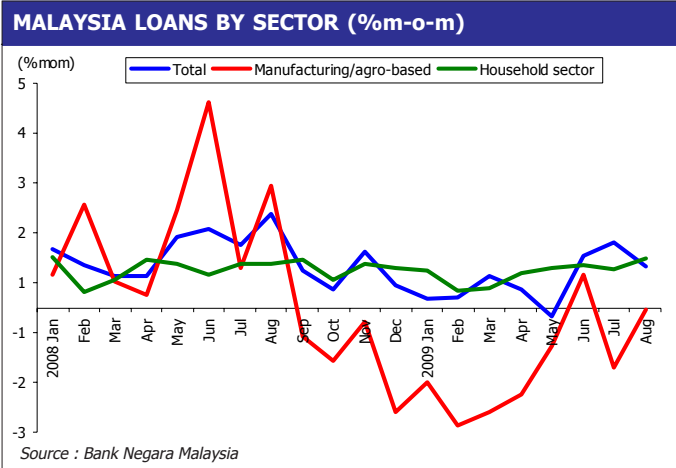
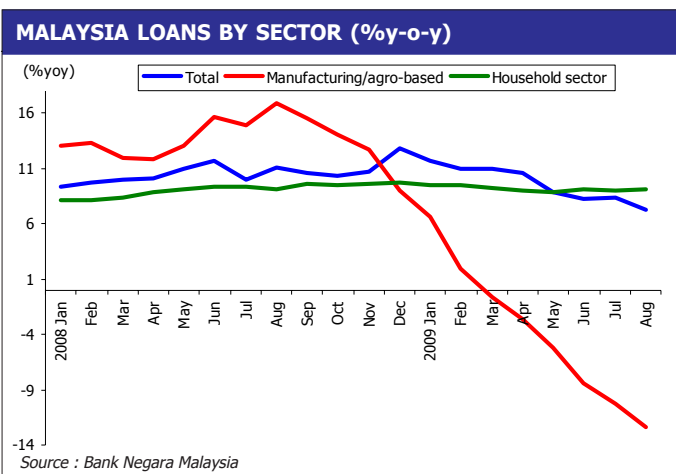


## Malaysia: Bank credit slowing down

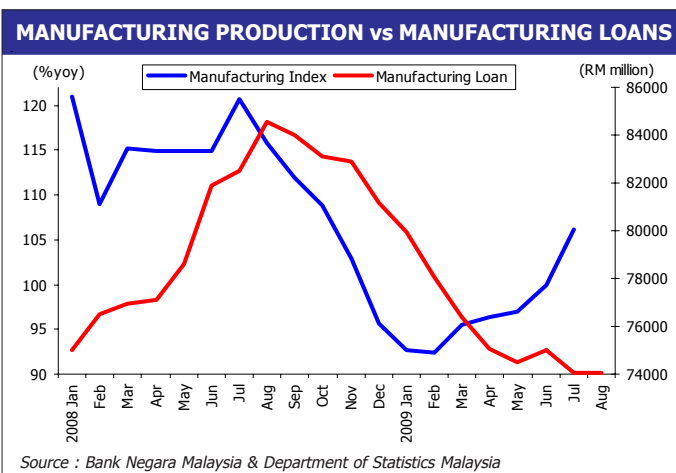
5 OCTOBER 2009  
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- Malaysia's credit performance continued to decelerate in August as the demand for business loans eased despite the rising expectation of a recovery in global economic activity. Loan growth on a y-o-y basis slowed down to 7.3% in August (Jul: +8.4%), marking its weakest pace recorded since June, 07.
- On a monthly basis, banking credit continued to record expansion, growing for the third consecutive month at 0.8%. The m-o-m figure however was down from a 1.3% gain in July and a 1.9% increase recorded in the preceding year, indicating that the slump in global activity continued to affect domestic demand.



- Looking closely at the loans outstanding by sectors, the main drag came from the manufacturing loans which posted a double-digit decline for the second consecutive month (Aug: -12.4%, Jul: -10.2%). On m-o-m, loans to manufacturing fell for the sixth straight month by 0.1% in August but moderating from -1.2% in July.
- The slide in August manufacturing loan sector was largely in response to sluggish demand for credit for working capital (loan by type). Loans outstanding for working capital fell by 1.4% y-o-y in August from a growth of 0.3% in July. Meanwhile, weakening businesses activity was showed by lower credit for purchase of non-residential property.



- Contraction in loans to wholesale & retail trade, finance, insurance and business activities and agriculture also weighed on the overall loan growth. The major drag also came from transport, storage & communications subsectors which saw loans grew by a sharply smaller 2.4% y-o-y in August from a 26.4% gain in July.
- On the positive side, loans to the household sector continued to show a steady expansion. Loans outstanding for household rose by 9.1% y-o-y (Jul: +9.0%) and 1.0% m-o-m (Jul: +0.8%) during the month.
- Generally, the positive trend in the household sector reflected the sustained consumer spending in the form of the purchase of passenger cars, credit cards, and purchase of residential

property, amidst low interest rates offered by financial institutions.

- Based on loan growth performance in August, it is too early to suggest an immediate recovery in the domestic industrial activities. The persistent decline in manufacturing credit showed producers are still wary over global demand conditions. Nevertheless, the sustained consumer demand could have further supported overall economic performance during the third quarter.

- At this juncture, the flush liquidity in the banking system, low borrowing costs, steady non-performing loans ratio and moderating retrenchment rate would provide some comfort to financial institutions to continue extending credit to the businesses and household sectors.
- Loans for the whole of 2009 could post a slower growth of between 6.0%-7.0% from 12.8% in 2008, but better than our earlier projection of 4.0%-5.0%. The projection came in tandem with the trend in economic performance with GDP to contract by 2.5% to -3.0%.

#### AUGUST 2009 BANKING SYSTEM LOANS BY SECTOR

	2009 YEAR TO DATE		AUGUST 2009			
	RMM	% share	RMM	% share	% mom	% yoy
<b>TOTAL</b>	<b>32229.4</b>	<b>100.0</b>	<b>6228.4</b>	<b>100.0</b>	<b>0.8</b>	<b>7.3</b>
Agriculture	1454.6	4.5	-40.5	-0.6	-0.2	10.4
Mining & Quarrying	2375.2	7.4	10.6	0.2	0.4	21.9
Manufacturing/agro-based	-7124.6	-22.1	-37.6	-0.6	-0.1	-12.4
Electricity, gas & water	2226.3	6.9	-39.4	-0.6	-0.6	64.8
Wholesale & retail trade, & hotels & restaurants	-821.4	-2.5	710.7	11.4	1.2	-4.0
Construction	1229.4	3.8	272.9	4.4	0.8	2.0
Real estate	3686.3	11.4	-151.4	-2.4	-0.5	24.1
Transport, storage & communications	498.4	1.5	358.4	5.8	1.5	2.4
Finance, insurance & business activities	2437.1	7.6	192.5	3.1	0.4	11.9
Education, health & others	5771.5	17.9	206.3	3.3	1.1	161.7
Household sector	22400.5	69.5	4056.9	65.1	1.0	9.1
Other sector + individual businesses	-8.7	0.0	689.0	11.1	2.9	5.1

Source : Bank Negara Malaysia