

Credit extended by the banking system grew stronger in August, pointing towards a sustained domestic demand for the third quarter. More loans were channeled to the business sector during the month, which slipped in July. Household loan, which accounts for more than 50% of total loans, continued to show strong growth. Despite the steadier loan expansion, we expect BNM to retain the OPR at the prevailing rate of 3.00% given the heightened uncertainties in the external sector.

- **Credit growth reversed its July's deceleration.** Loan growth accelerated to 13.3% yoy in August after moderating to 12.9% in July but remained slower compared with the 13.5% pace in June. **Increased credit extension to business segment had accelerated the overall loan growth in August, amidst sustained expansion in the household sector.**

Chart 1: Total Loan Outstanding

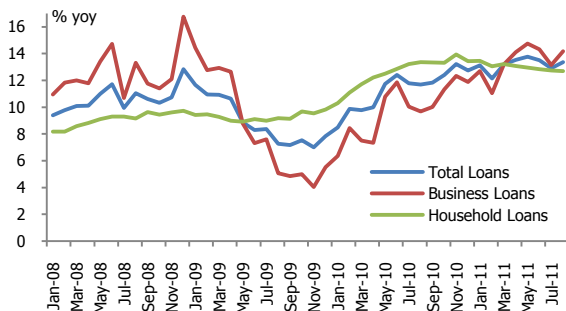
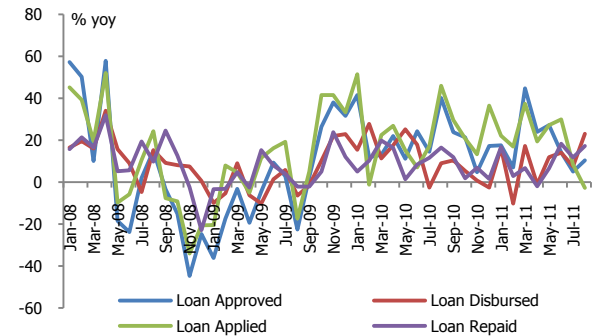


Chart 2: Loan disbursement, approval, application and repayment



- **Business loans improved, mainly supported by a higher net disbursement to the manufacturing sub-sectors.** After charting a monthly net repayment of RM702 million or 0.8% to RM89.2 billion in July, credit extended to manufacturing segment reverted to a net disbursement of RM1.7 billion or 2.0% to RM91.0 billion in August. As a result, the sector saw a higher loan growth of 14.6% yoy in August from 12.1% yoy in July. **This was also reflected in the increase of working capital** (loans by type) from 10.2% yoy in July to 11.3% in August.
- Except for the electricity, gas, water and construction sub-sectors, **other sectors charted a net disbursement during the month, supporting the upward trend in overall loan growth.** In August, business loans continued to outpace household loans when it grew faster by 14.2% from 13.1% in July.
- **Credit for the household sector**, which accounts for 55.2% of total loans, **was also sustained at a strong growth pace of 12.7% yoy in August**, thanks to the higher net disbursement for personal use, purchase of securities and passenger cars. Loans disbursed for the purchase of residential property also saw a continuing strong increase of 12.8% yoy in August.

- **However, loans applications continued to show a slide.** Loan applications in August had dropped for the second consecutive month by 6.7% mom (July:-5.3%).
- The lower loan applications may suggest that **businesses are cautious over the rising uncertainties** in the economic outlook. Consequently, **we expect the overall loan growth to ease slightly to 11-12% this year** from 12.7% in 2010.
- The faster loan extension in August on the other hand is an indication of continuing strong domestic demand over the third quarter. Total consumption credit, an indicator for private spending, **grew stronger by 1.1% mom in August** from 0.4% to 0.7% in Jan-July this year. On yoy, credit for consumption rose by 9.0% in August (July: 8.9% yoy).
- Other private consumption indicators such as **car sales and imports of consumption good** are also pointing to **sustained domestic demand, thus continuing expansion in GDP during 3Q11**, amidst the gloomy outlook in the export sector.
- Despite the uptrend in loan growth, **we expect the OPR to be maintained during the final BNM MPC meeting in Nov'11.** While consumption performance would remain encouraging, the global downside risks have increased, stemming from the credit crisis in Europe and the US. The inflationary pressures are also subsiding given the slide in oil prices.

Table 1: Total Outstanding Banking System Loans								
	AUGUST 2011				JULY 2011			
	RMmIn	% mom	%yoy	% share	RMmIn	% mom	% yoy	% share
TOTAL	960,906	1.2	13.3	100	949,864	0.2	12.9	100
BY SECTOR								
Agriculture	20,724	1.0	4.7	2.2	20,526	-0.2	3.4	2.2
Mining/quarrying	3,377	0.3	18.5	0.4	3,367	-0.6	16.7	0.4
Manufacturing/agro-based	90,951	2.0	14.6	9.5	89,174	-0.8	12.1	9.4
Electricity, gas & water	10,460	-4.2	17.5	1.1	10,920	-0.4	27.9	1.1
Wholesale/retail trade/hotels/restaurants	70,842	0.6	8.6	7.4	70,440	1.7	8.3	7.4
Construction	38,113	-1.0	5.8	4.0	38,506	-1.0	6.4	4.1
Real Estate	45,210	4.0	26.2	4.7	43,467	0.4	24.0	4.6
Transport, storage & communications	26,521	0.9	-6.3	2.8	26,278	-3.2	-6.3	2.8
Finance/insurance/bussiness activities	70,744	0.2	26.7	7.4	70,598	-1.7	28.8	7.4
Education/health/others	36,276	3.4	17.3	3.8	35,070	-2.8	11.1	3.7
Household sector	530,825	1.1	12.7	55.2	524,878	1.0	12.7	55.3
Other sector + individual businesses	16,864	1.3	23.9	1.8	16,640	-1.3	18.5	1.8
BY PURPOSE								
Purchase of securities	43,653	1.0	19.1	4.5	43,236	0.1	18.4	4.6
Purchase of transport vehicles	140,365	0.9	8.0	14.6	139,110	0.5	8.0	14.6
of which: purchase of passenger cars	128,945	0.8	5.7	13.4	127,935	0.4	5.8	13.5
Purchase of residential property	257,570	1.1	12.8	26.8	254,657	1.2	12.8	26.8
Purchase of non-residential property	102,588	1.6	20.2	10.7	100,939	1.4	20.2	10.6
Purchase of other fixed assets	9,138	0.1	2.0	1.0	9,130	1.3	2.3	1.0
Personal use	47,778	2.0	18.2	5.0	46,837	1.4	16.5	4.9
Credit card	31,491	1.1	10.1	3.3	31,150	1.2	11.4	3.3
Purchase of consumer durables	83	-1.9	-14.8	0.0	84	-1.2	-11.2	0.0
Construction	22,808	-0.4	14.0	2.4	22,902	-2.5	18.3	2.4
Working capital	244,517	0.8	11.3	25.4	242,490	-1.2	10.2	25.5
Other purpose	60,915	2.7	22.8	6.3	59,329	-0.6	19.7	6.2