

Average lending rates fall to new historic low of 5.02%

Decline due to lag effect in repricing of loans and more intense competition

by **Yong Yen Nie**

FD@bizedge.com

KUALA LUMPUR: The banking system's average lending rates (ALR) in the country fell to a historic low of 5.02% as at end-May, according a recent Bank Negara Malaysia (BNM) monetary and financial developments report.

The ALR had declined further to a historical low of level as at end-May, compared with 5.16% in March and 5.13% in April.

Nevertheless, the average base lending rate (BLR) was unchanged at 5.53% as at June 15, BNM said.

AmResearch deputy research head Fiona Leong said the drop in the ALR in May was mainly caused by a lag effect in banks' repricing of loans, following an overnight policy rate cut in February. The lower ALR was also attributable to more intense competition among banks to get customers.

"Although there is going to be slight squeeze in banks' margins because of the lower ALR, banks in general will still be able to be profitable from their lending activities," she told *The Edge Financial Daily* here recently.

She said in the first quarter of calendar year 2009, most banks had shown that they were able to maintain their margins or faced slight pressure in net interest margins. The pressure, she said, would be even lesser in the second quarter, as lending rates improved.

She added that the lower gross interest income from lower ALR would nonetheless be offset by lower deposit rates as well. Nevertheless, Leong said how well these banks were in holding up their net interest margins depended on their ability



Its Indonesian operations would help Maybank offset its compressed margins here, says an analyst. Photo by Bloomberg

in managing cost of funds.

A banking analyst from a local research house said the impact on banks' margins would rely on whether the bulk of financial institutions' loans consisted of variable-rates loans or not.

"Fixed-rate loans are not affected compared with variable-rate loans. However, with the HP (hire-purchase) rates back up, that should help banks' margins," she said.

The analyst said generally, banks would see more pressure on their margins, but Bumiputra-Commerce Holdings Bhd and Malayan Banking Bhd (Maybank), both of which have operations in Indonesia, would be better positioned to mitigate its impact.

"Given Indonesia's less competitive banking landscape, these banks' operations there would be able to offset the compressed margins of banks' operations here better," she said.

The analyst added that despite the low ALR, corporate loan rates were still holding up, which in turn would continue to boost banks' margins.

In BNM's monthly statistical bulletin in May 2009, the central bank said lending in the domestic banking industry continued to decelerate into the month, underpinned by the month-on-month (m-o-m) 0.2% contraction in industry loans for the first time since December 2007.

However, lending indicators remained positive with applications rising 7% m-o-m to RM45 million from RM42 million in April, on the back of loan applications from the business segment.

Loan approvals were also 5% higher m-o-m, with banks having approved RM25.4 billion new loans in May, mainly due to a 19% m-o-m jump in loan approvals for the business segment.