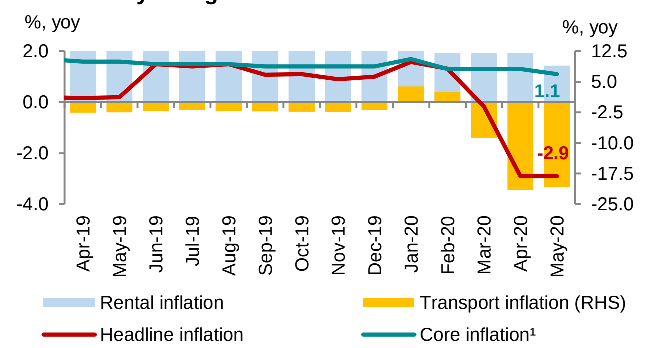
BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Monthly Highlights
May 2020

Headline inflation remained unchanged while core inflation moderated

Inflation by Categories

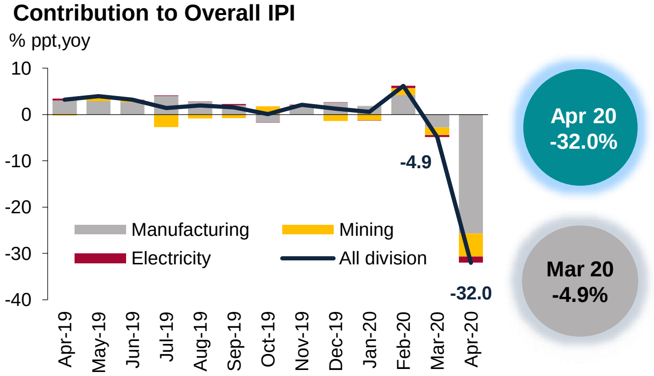


[1] Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of tax policy changes.
Source: Department of Statistics, Malaysia (DOSM), Bank Negara Malaysia estimates

- Headline inflation was unchanged at -2.9% in May 2020 as the increase in fuel prices during the month was offset in part by the lower rental inflation. It remained in negative territory mainly due to the substantially lower fuel prices compared to last year, in addition to electricity bill discounts.
- The risk of deflation remains limited. While underlying inflation, as measured by core inflation, moderated to 1.1% (April: 1.3%), the number of CPI items that recorded monthly price increases was higher in May (Share of CPI items with monthly price increases; May: 36%; April: 10%; March: 29%; 2010-2018 Average: 46%), suggesting some normalisation of price pressures.

Overall IPI contracted sharply in April 2020

Contribution to Overall IPI

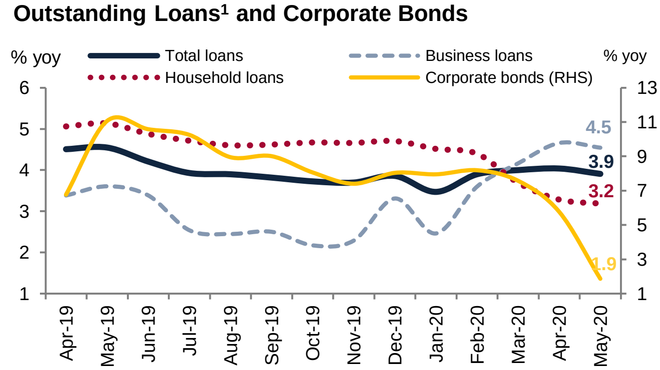


Source: MATRADE

- The Overall Industrial Production Index (IPI) contracted sharply in April 2020 (-32.0%, Mar 2020: -4.9%) as all industries (manufacturing, mining and electricity) recorded double-digit contractions in the month due to the Movement Control Order.
- The manufacturing sector contracted by -37.2% in April 2020 (Mar 2020: -4.1%).

Sustained loan growth, with continued lower levels of disbursements and repayments

Outstanding Loans[1] and Corporate Bonds

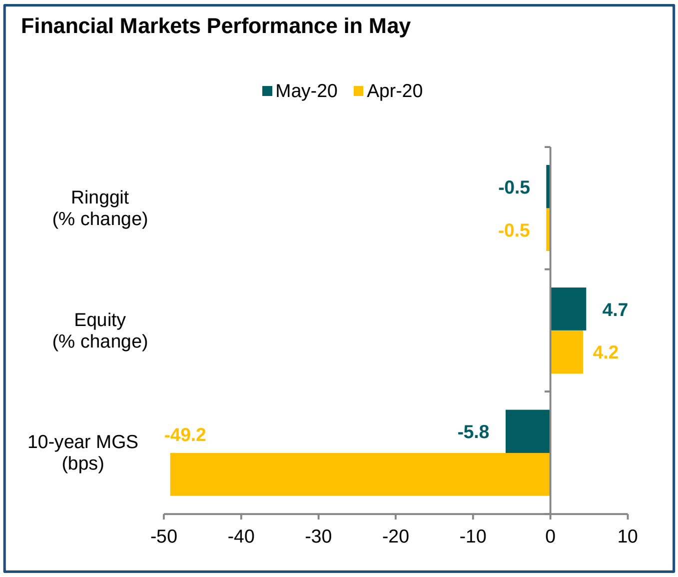


[1] Refers to outstanding loans of the banking system (excluding development financial institutions (DFIs)).
Source: Bank Negara Malaysia

- Outstanding loan growth was sustained at 3.9% (April: 4.0%), supported by sustained growth in outstanding household loans (May: 3.2%, April: 3.3%). Meanwhile, outstanding business loan growth recorded a slight moderation (May: 4.5%, April: 4.7%) as disbursements contracted at a faster pace than repayments.
- Disbursements and repayments levels remained subdued across most business sectors and all household loan purposes amid the different phases of Movement Control Order and moratorium on loan repayment during the month.
- Growth in outstanding corporate bonds declined to 1.9% (March: 5.8%), due mainly to a high base effect from a one-off large issuance in May 2019.

Monthly Highlights
May 2020

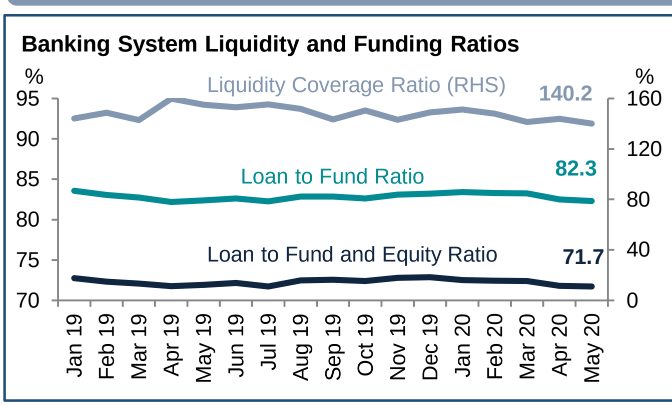
Performance of domestic financial markets were mixed



Source: Bank Negara Malaysia, Bursa Malaysia

- The domestic financial markets recorded a mixed performance in May as external factors continued to affect investor sentiments. Total non-resident portfolio outflows amounted to USD0.3 billion, mainly from the equity market, and led to the marginal depreciation of the ringgit by 0.5% against the US dollar.
- However, the FBM KLCI increased by 4.7% amid continued support from domestic investors, particularly institutional investors. Sentiments of domestic investors were partly lifted following the release of better-than-expected 1Q GDP growth, which provided the catalyst for higher demand for domestic equities.
- The 10-year MGS yield declined by 5.8 basis points, driven in part by the OPR cut in early May amid a resumption in non-resident inflows.

Banks maintain sufficient liquidity to support intermediation

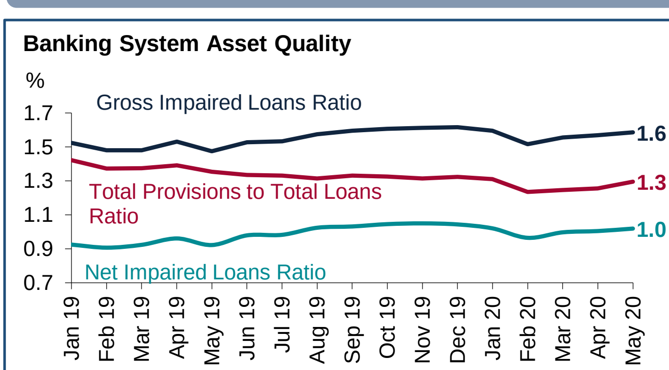


Source: Bank Negara Malaysia

- Banking system liquidity coverage ratio (LCR) stood at 140.2%[1] in May 2020 (Apr-20: 143.9%).
- Deposit growth remained stable at 2.8%, supported by the steady growth of deposits from individuals. The loan to fund ratio and the loan to fund and equity ratio stood at 82.3% and 71.7%, respectively.

[1] Beginning 25 March 2020, banking institutions may temporarily operate below minimum requirement of 100%.

Banking system asset quality remains healthy



Source: Bank Negara Malaysia

- Overall gross and net impaired loans ratio was sustained at 1.6% and 1.0%, respectively.
- Banks continue to set aside ample provisions to buffer against potential losses based on forward looking assessments.

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