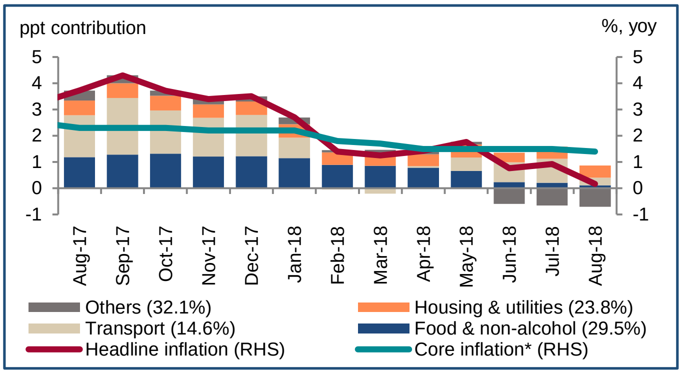
BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Monthly Highlights
August 2018

Inflation was lower in August

Contribution to Inflation



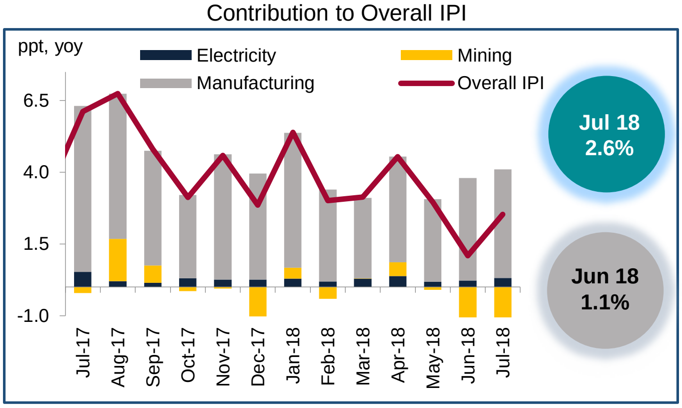
*Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of the GST zerorisation.

Source: Department of Statistics, Malaysia and staff estimates

- Headline inflation declined to 0.2% in August (July: 0.9%) due mainly to lower *transport* inflation, reflecting base effect.
- The pass-through from the zerorisation of the Goods and Services Tax (GST) rate was marginally higher in August at 46% (July: 45%).
- Excluding the impact of the GST zerorisation, core inflation remained stable at 1.4% (July: 1.5%).

Higher overall IPI growth in July

Contribution to Overall IPI

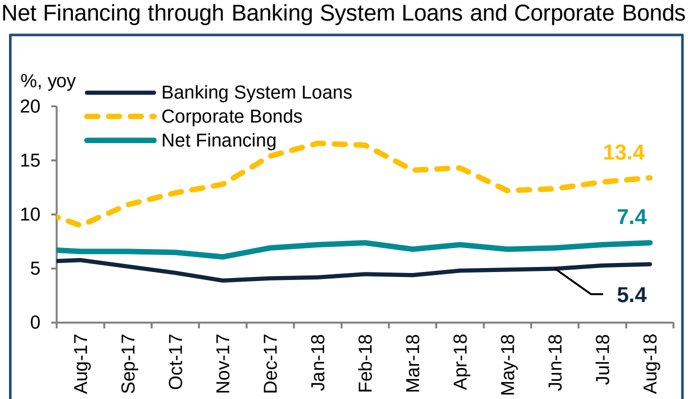


Source: Department of Statistics, Malaysia

- The overall industrial production index (IPI) increased by 2.6% in July (June: 1.1%), amid stronger growth in manufacturing and electricity output, as well as smaller contraction in the mining sub-sector.
- The higher growth in the manufacturing sector (July: 5.2%; June: 4.5%) was mainly due to stronger performance in the production of E&E products and transport equipment.

Net financing growth continued to support economic activity

Net Financing through Banking System Loans and Corporate Bonds



[1] Net financing refers to outstanding loans of the banking system (excluding development financial institutions (DFIs)), and outstanding corporate bonds.
[2] 3-month moving average.
Source: Bank Negara Malaysia

- Net financing[1] growth increased to 7.4% in August (July: 7.2%). The outstanding corporate bond growth increased to 13.4% (July: 13.0%) while outstanding banking system loan growth was sustained at 5.4% (July: 5.3%).
- Outstanding loan growth was stable for both businesses (August: 3.8%; July: 3.7%) and households (August: 6.1%; July: 6.0%).
- The growth[2] of household loan applications and approvals for the *purchase of passenger cars* continued to increase to 27.7% and 52.0%, respectively, following the zerorisation of the GST rate (July: 24.8% and 39.1%, respectively).

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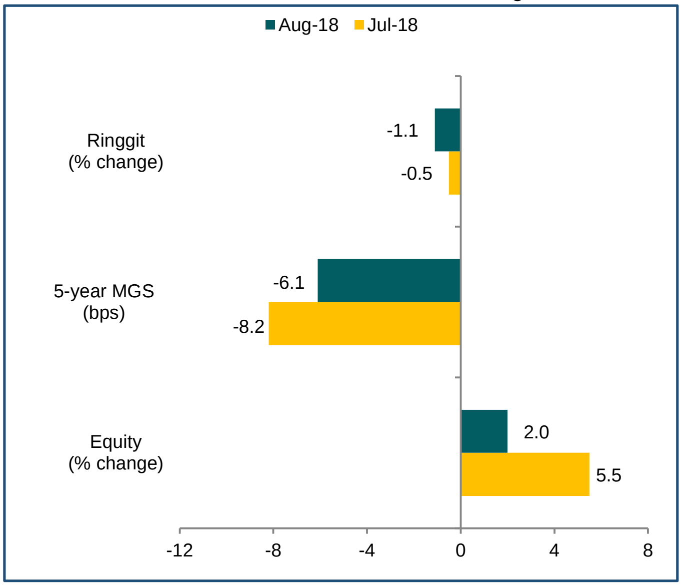
Positive financial markets performance amid ringgit depreciation

Financial Markets Performance in August

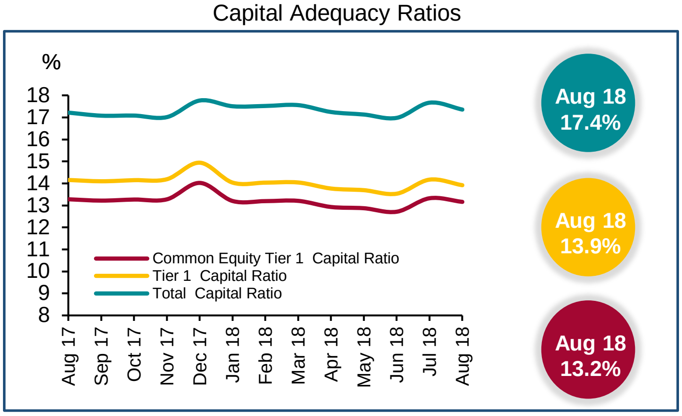


Source: Bank Negara Malaysia, Bursa Malaysia

- The ringgit depreciated by 1.1% in August as a result of non-resident portfolio outflows. The outflows were driven mainly by risk-off sentiments in the region amid concerns over rising contagion risk, especially following the sharp decline in Turkish lira.
- The bond and equity markets, however, improved amid continued support by domestic institutional investors.
  - The KLCI increased by 2.0% during the month, driven mainly by positive earnings results in selected large-cap companies and higher global oil prices.
  - The 5-year MGS yield declined by 6.1 basis points amid active buying by domestic institutional investors, which increased their MGS holdings by RM1.7 billion during the month.

Banking system capitalisation remained strong

Capital Adequacy Ratios



[1] Refers to capital in excess of the minimum total capital requirement of 8% of risk-weighted assets.

Source: Bank Negara Malaysia

- Financial institutions are well-positioned to withstand severe macroeconomic and financial shocks, with excess capital buffers[1] of RM146.1 billion as at August 2018.
- The slight moderation in capital between July and August 2018 was largely attributable to dividend payments and the gradual phasing out of Basel II capital instruments under Bank Negara Malaysia's Basel III transitional arrangements.

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MONTHLY HIGHLIGHTS – AUGUST 2018

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Bank Negara Malaysia
28 September 2018

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