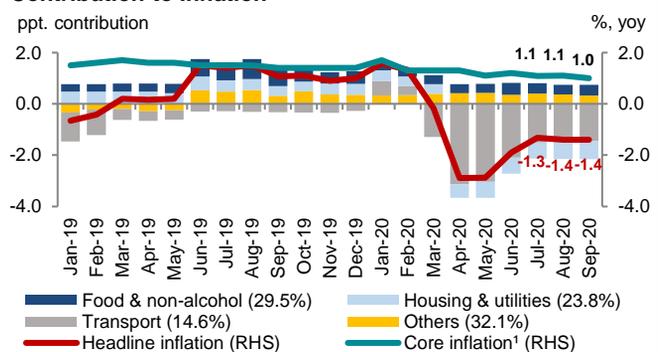


Headline inflation remained unchanged at -1.4% in September

Contribution to Inflation



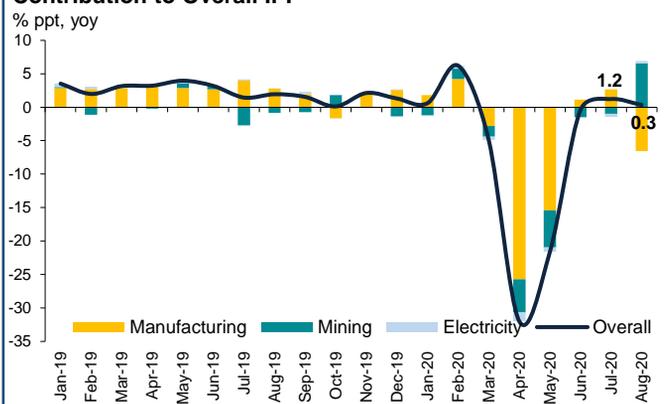
- The stable headline inflation during the month reflected higher fresh food inflation, which was offset by lower fuel inflation.
- Underlying inflation, as measured by core inflation, moderated slightly to 1.0% (August: 1.1%).
- The decline in core inflation was mainly due to lower inflation for recreation services and culture, and miscellaneous goods and services.

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, Bank Negara Malaysia estimates

Overall IPI moderated in August

Contribution to Overall IPI

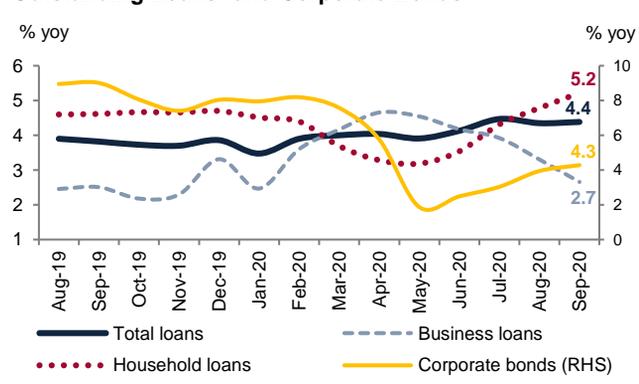


Source: Department of Statistics, Malaysia

- The overall Industrial Production Index (IPI) continued to expand in August 2020, albeit at a more moderate pace (0.3%; July: 1.2%). The manufacturing sector recorded positive growth, underpinned by the strong performance in the E&E industry and manufacture of transport equipments.
- The E&E industry continued to grow at 6.9%, which is above the long term average (2016–2019 average: 6.0%) as it is currently benefitting from order backlogs and frontloading activities due to the ongoing trade tensions. In addition, the strong performance in the manufacture of transport equipment is mainly due to the exemption of sales tax for passenger cars.

Continued increase in net financing growth

Outstanding Loans¹ and Corporate Bonds



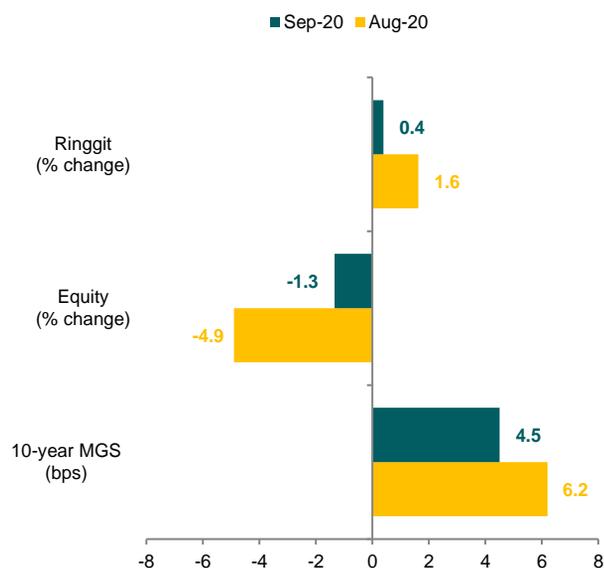
¹ Refers to outstanding loans of the banking system (excluding development financial institutions (DFIs)).

Source: Bank Negara Malaysia

- Net financing growth increased to 4.4% in September (August: 4.2%), driven mainly by the higher growth in outstanding corporate bonds (September: 4.3%, August: 3.9%). Corporate bond issuances rose during the month, reflecting large issuances by Government-related entities.
- Outstanding loans continued to expand at 4.4% (August: 4.4%), supported by the higher growth in household loans of 5.2% (August: 4.8%) given the continued loan disbursements for the purchase of residential properties and passenger cars.
- Outstanding business loan growth continued to moderate to 2.7% (August: 3.3%) as disbursements contracted at a faster pace than repayments.

Performance of domestic financial markets was mixed

Financial Markets Performance in September

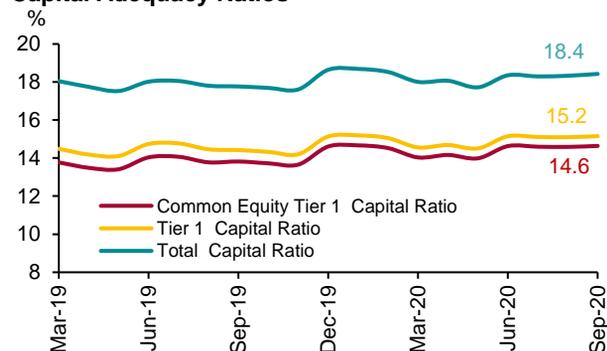


Source: Bank Negara Malaysia, Bursa Malaysia

- The mixed performance of domestic financial markets in September was driven by a confluence of global and domestic factors.
- Globally, expectations for prolonged accommodative monetary policy in the advanced economies broadly supported yield-seeking activities in the region. Consequently, this led to non-resident inflows to the domestic bond market and the exchange rate to appreciate by 0.4% during the month.
- While the government bond market remained supported by these inflows, the 10-year MGS yield increased marginally by 4.5 basis points.
- The FBM KLCI declined by 1.3% during the month, in line with broad-based declines in global equity markets. Equity market sentiments turned cautious amid expectations for a second round of movement restrictions in Europe and political gridlock over the US fiscal stimulus bill, which spurred concerns on the global economic recovery.

Banking system capitalisation remained strong

Capital Adequacy Ratios



¹Refers to total capital above the regulatory minimum, and includes the capital conservation buffer (2.5%) and bank-specific higher minimum requirements

Source: Bank Negara Malaysia

- The banking system remains well-positioned to withstand macroeconomic and financial shocks and continues to support intermediation activity with sustained strong capitalisation levels.
- Banks' excess capital buffers¹ stood at RM123.7 billion as at September 2020.



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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MONTHLY HIGHLIGHTS – SEPTEMBER 2020

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- The E&E industry continued to grow at 6.9%, which is above the long term average (2016–2019 average: 6.0%) as it is currently benefitting from order backlogs and frontloading activities due to the ongoing trade tensions. In addition, the strong performance in the manufacture of transport equipment is mainly due to the exemption of sales tax for passenger cars.

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- The banking system remains well-positioned to withstand macroeconomic and financial shocks and continues to support intermediation activity with sustained strong capitalisation levels.
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Bank Negara Malaysia 30 October 2020

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