



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

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MONETARY AND FINANCIAL DEVELOPMENTS JANUARY 2017

Price Conditions: Headline inflation, as measured by the Consumer Price Index (CPI), increased to 3.2% in January (December 2016: 1.8%) due mainly to higher inflation in the *transport* category. Inflation in the *transport* category increased significantly to 8.3% in January (December 2016: -0.6%) reflecting the increase in domestic fuel prices during the month. Prices of RON97 petrol, RON95 petrol and diesel were raised by 15 sen, 20 sen and 20 sen, respectively. Inflation in the *food and non-alcoholic beverages* category was also slightly higher at 4.0% (December 2016: 3.7%) due mainly to base effects from the decline in prices of fresh vegetables in January 2016 and higher prices of fish and other seafood following the lower supplies during the monsoon season. Excluding price-volatile and price-administered items, underlying inflation, as reflected by the core inflation, also increased to 2.3% in January (December 2016: 2.1%).

Monetary Conditions: Short-term interbank rates were relatively stable for the month. In the retail market, the weighted average base rate (BR) of commercial banks remained steady (January: 3.62%; December 2016: 3.61%) and the weighted average lending rate (ALR) on outstanding loans was stable at 5.20% (December 2016: 5.21%).

Net financing to the private sector registered an annual growth of 5.8% in January (December 2016: 5.5%). This was driven by the higher growth in net outstanding corporate bonds and loans extended by the banking system and development

financial institutions (DFIs) during the month. Outstanding business loans of the banking system recorded a higher annual growth of 5.4% (December 2016: 4.9%), with the growth driven by the year-on-year expansion in loans to the *construction; manufacturing; and transport, storage and communication* sectors. For households, outstanding loans of the banking system grew at a slightly slower pace of 5.2% in January (December 2016: 5.3%). While the level of loan approvals moderated during the month, the level of loan applications remained stable for both businesses and households.

Broad money (M3) recorded a higher annual growth of 4.4% in January (December 2016: 3.0%). The expansion in broad money continued to be supported by the extension of credit to the private sector by the banking system and higher net claims on the Government. The expansion, however, was partially offset by the continued growth of Islamic Investment Accounts, as reflected in *other influences*.

Banking System: The banking system maintained strong capitalisation. The Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio stood at 13.1%, 14.0% and 16.9% respectively. The level of net impaired loans was sustained at 1.2% of net loans, with loan loss coverage ratio at 91.5%. Taking into account regulatory reserves for loans and financing, banks maintain sufficient buffer for potential credit losses.

Exchange Rates and International Reserves: In January, the ringgit exhibited a mixed performance against the currencies of Malaysia's major trade partners. The ringgit, along with most major and regional currencies, appreciated against the US dollar during the month amid the broad weakening of the US dollar. The weakness of the US dollar was driven mainly by uncertainties surrounding the policies of the new administration in the US. Firmer and more stable global crude oil prices during the month also supported the demand for Malaysia's financial assets, which lent stability to the ringgit. The international reserves of Bank Negara Malaysia amounted to USD95.0 billion (equivalent to RM426.2 billion) as at 15 February 2017. This level

remains ample to facilitate international transactions and is sufficient to finance 8.4 months of retained imports and is 1.1 times the short-term external debt¹.

Bank Negara Malaysia
28 February 2017

¹ Refers to the redefined short-term external debt, which includes short-term offshore borrowing, non-resident holdings of short-term ringgit debt securities, non-resident deposits with the banking system and other short-term debt. For more information, please refer to the box article titled 'The Redefinition of External Debt' in the Quarterly Bulletin on Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2014.

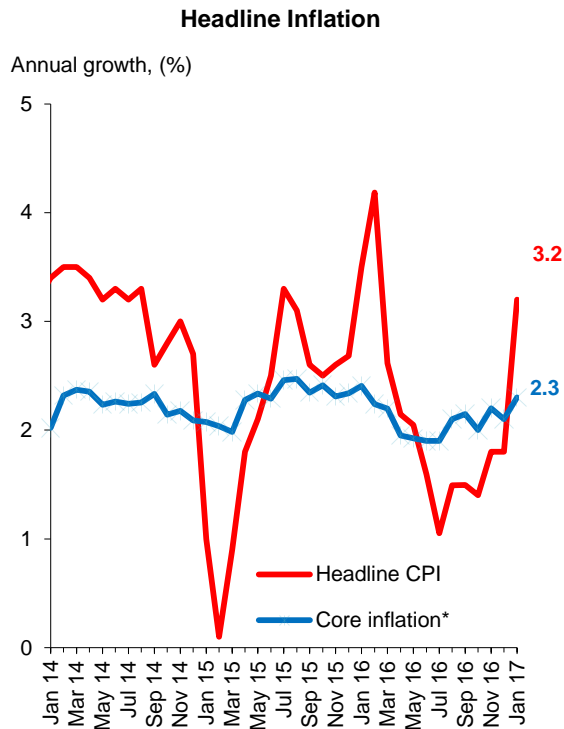
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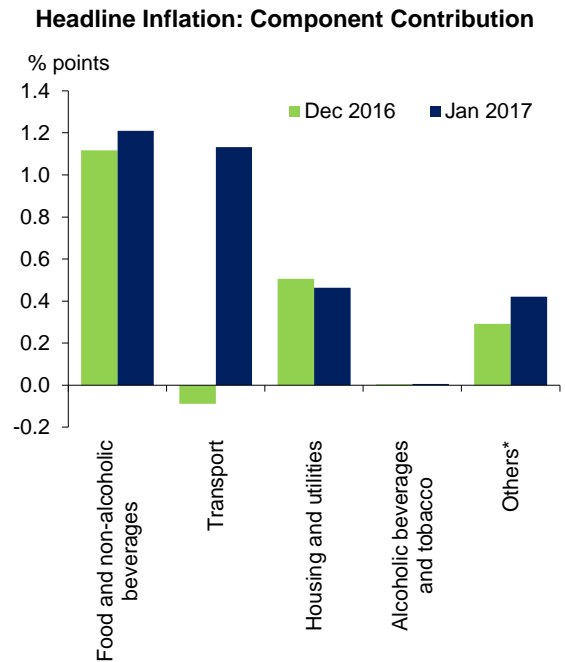
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Headline inflation was higher in January



*Core inflation excludes GST impact

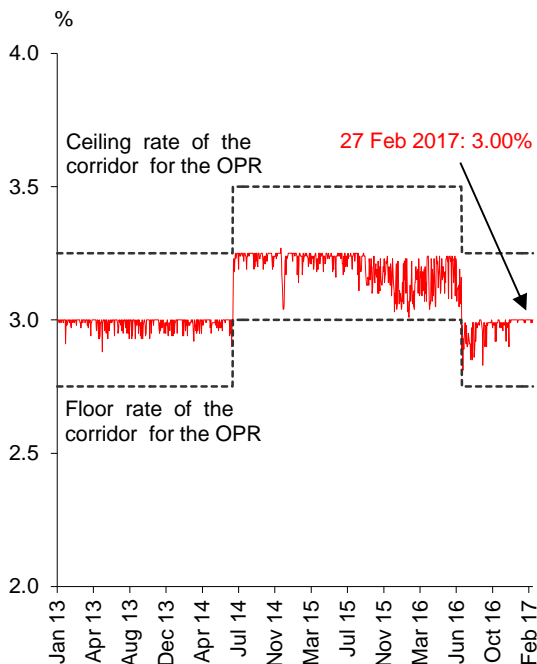
Source: Department of Statistics Malaysia, Bank Negara Malaysia



*Others includes restaurants and hotels; recreation services and culture; education; health; furnishings, household equipment and routine household maintenance; communication; clothing and footwear; and miscellaneous goods and services
Source: Bank Negara Malaysia

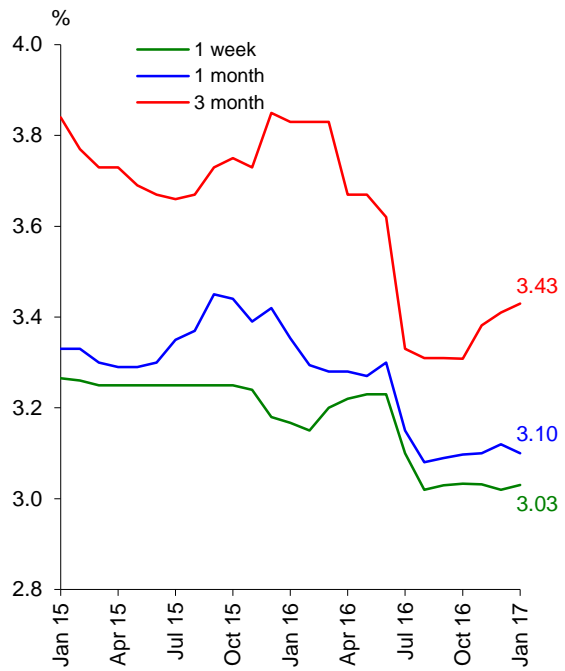
Short-term interbank rates were stable in January

Daily Weighted Average Overnight Interbank Rate



Source: Bank Negara Malaysia

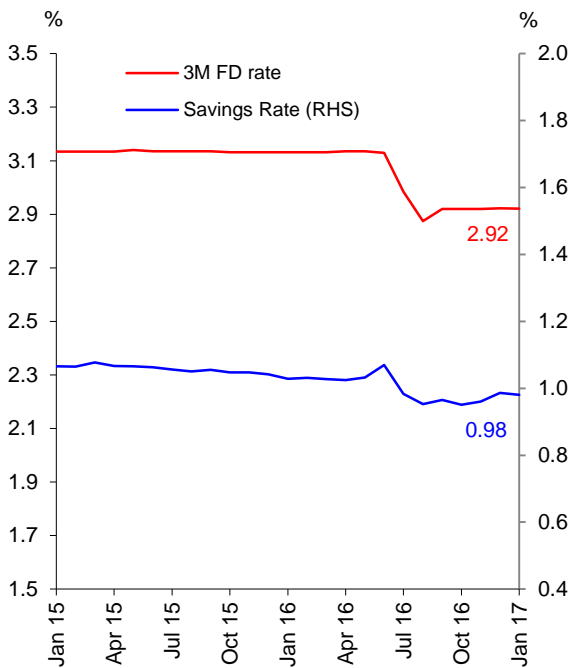
Average Interbank Rate



Note: For periods during the month where no trade took place, the last traded interbank rate is used

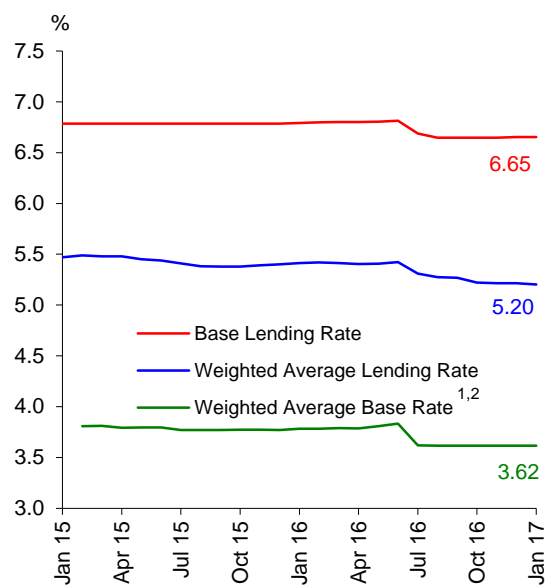
Source: Bank Negara Malaysia

Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

Lending Rates of Commercial Banks

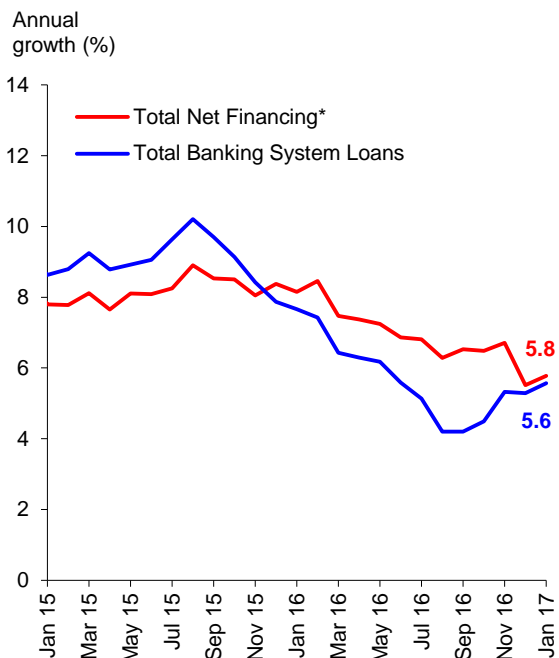


¹ On 2 January 2015, the Base Rate (BR) replaced the Base Lending Rate (BLR) as the reference rate for new retail floating-rate loans and financing facilities
² Weights are based on individual banks' share of all outstanding floating-rate loans

Source: Bank Negara Malaysia

Higher growth of net financing in January

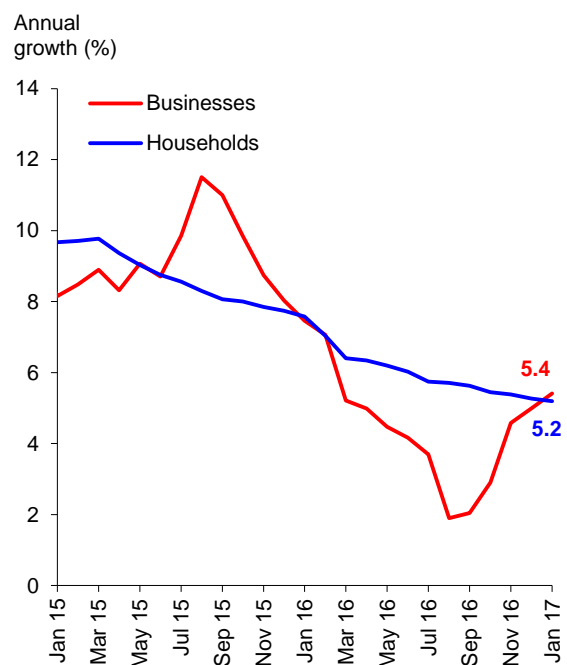
Net Financing and Outstanding Loans



* Net financing comprises banking system and DFI loans, and corporate bonds outstanding (excluding Cagamas and non-residents issuances)

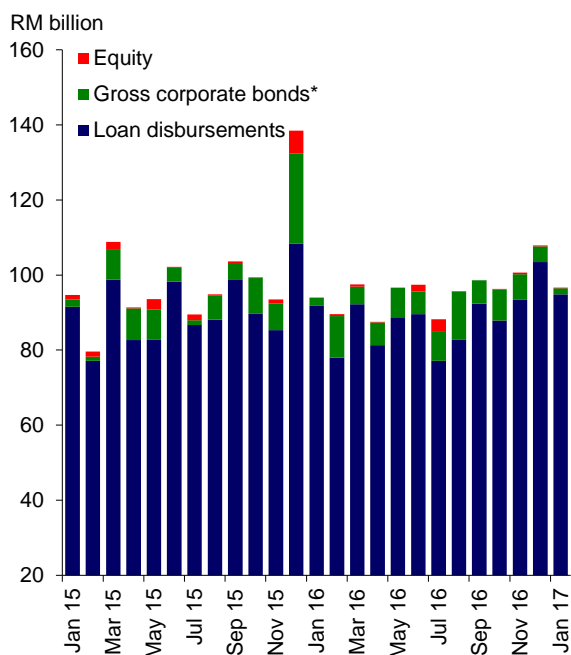
Source: Bank Negara Malaysia

Outstanding Loans of the Banking System



Source: Bank Negara Malaysia

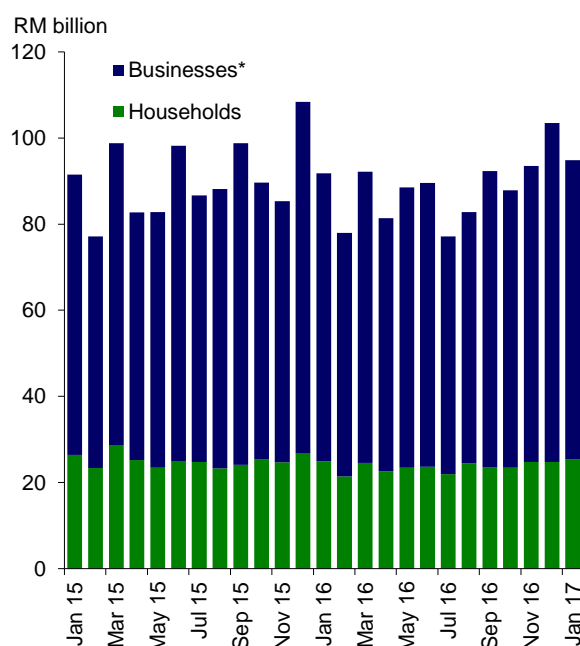
Gross Private Sector Financing



* Excluding Cagamas and non-residents issuances

Source: Bank Negara Malaysia

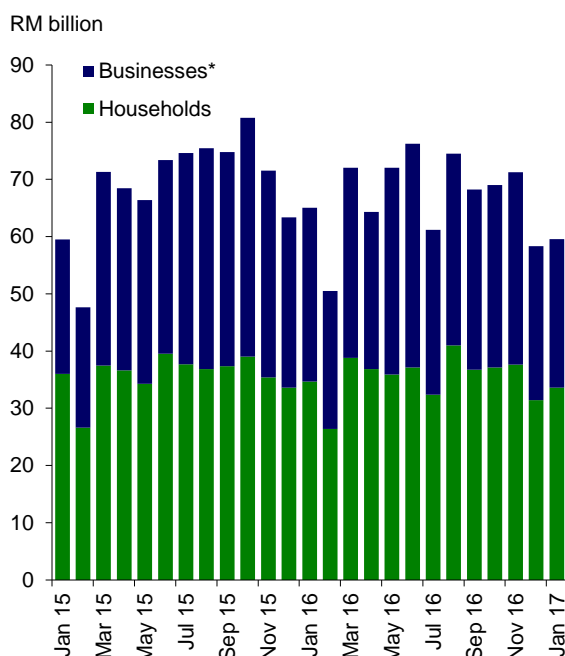
Loan Disbursements by the Banking System



* Includes domestic non-bank financial institutions, Government, domestic financial institutions, other domestic entities and foreign entities

Source: Bank Negara Malaysia

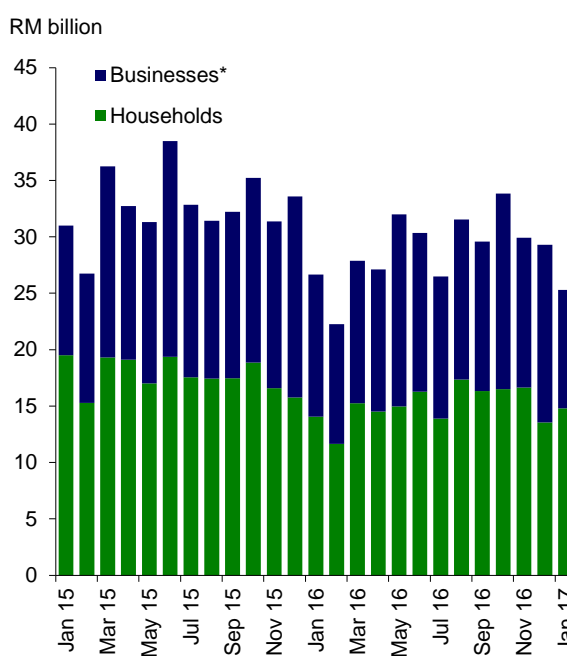
Loan Applications to the Banking System



* Includes domestic non-bank financial institutions, Government, domestic financial institutions, other domestic entities and foreign entities

Source: Bank Negara Malaysia

Loan Approvals by the Banking System

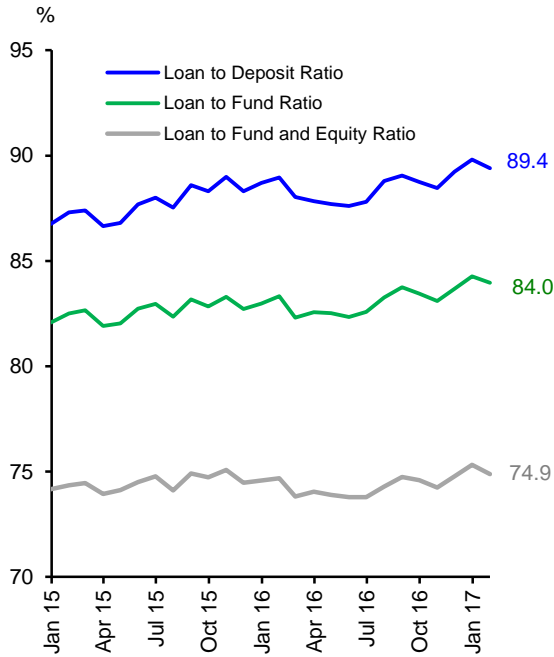


* Includes domestic non-bank financial institutions, Government, domestic financial institutions, other domestic entities and foreign entities

Source: Bank Negara Malaysia

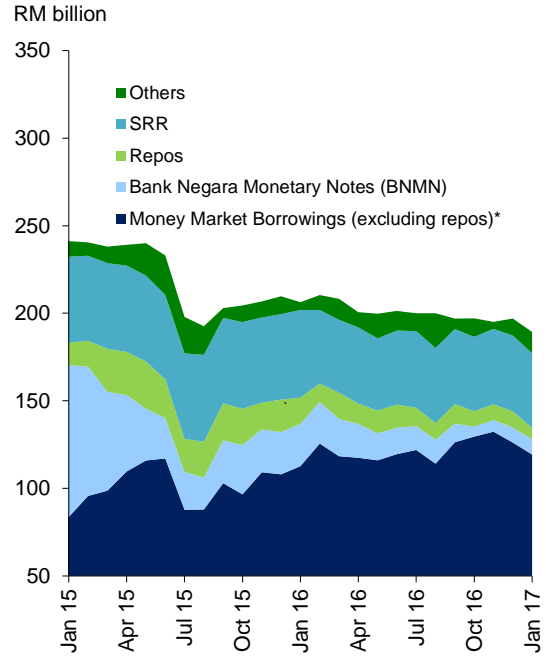
Liquidity in the banking system remained sufficient

Loan to Deposit, Loan to Fund and Loan to Fund and Equity Ratios



Note: From July 2015 onwards, loans exclude financing funded by Islamic Investment Accounts
Source: Bank Negara Malaysia

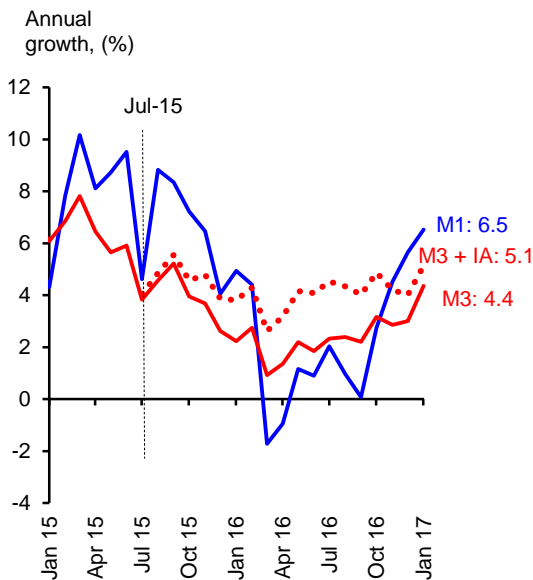
Outstanding Liquidity Placed with Bank Negara Malaysia (at end-period)



* Money Market Borrowings (excluding repos) include Direct Borrowing, Wadiah Acceptances and Commodity Murabahah Programme (CMP)
Source: Bank Negara Malaysia

Broad money growth was higher in January

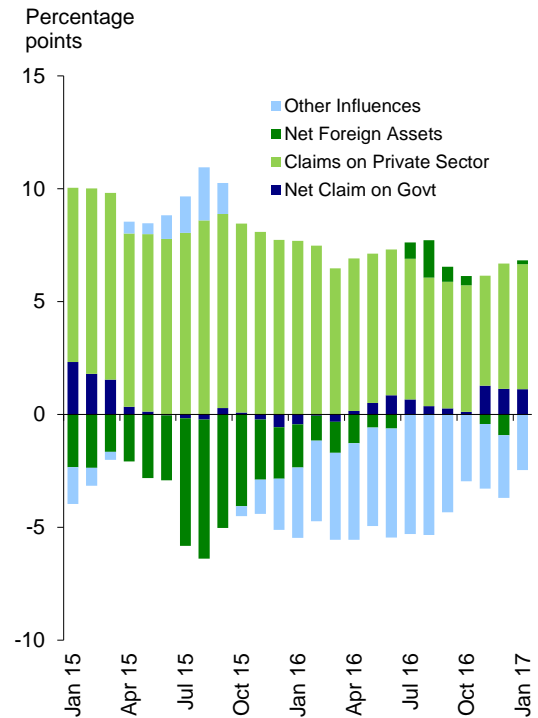
M1 and M3



Note: From July 2015 onwards, the compilation of M3 is adjusted to exclude Islamic Investment Accounts (IA) due to a data reclassification exercise. This is reflected as a negative contribution through 'other influences'. The dotted line represents M3 growth had this reclassification not taken place.

Source: Bank Negara Malaysia

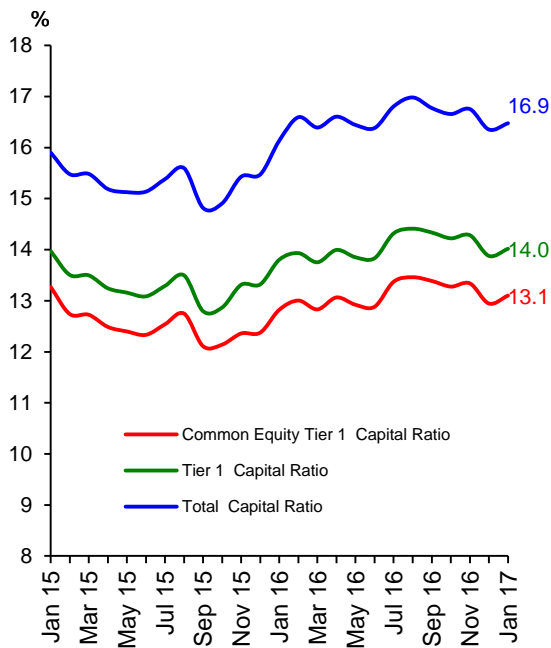
Main Contributors to M3 Annual Growth



Source: Bank Negara Malaysia

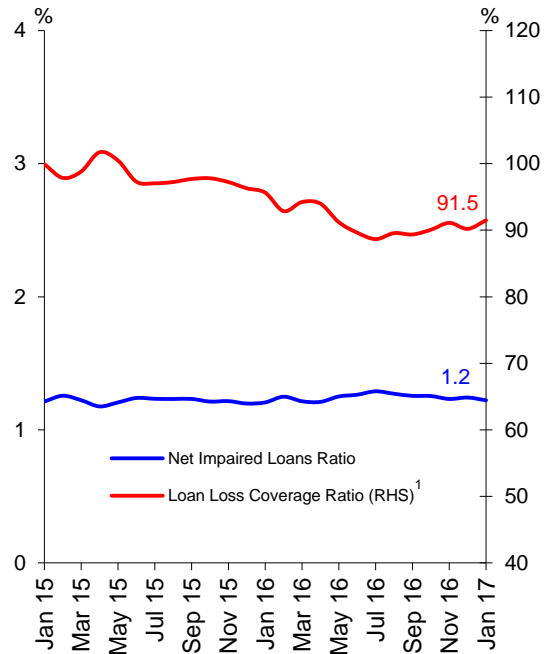
Banking system capitalisation remained strong with stable loan quality

Capital Strength



Source: Bank Negara Malaysia

Net Impaired Loans Ratio and Loan Loss Coverage Ratio

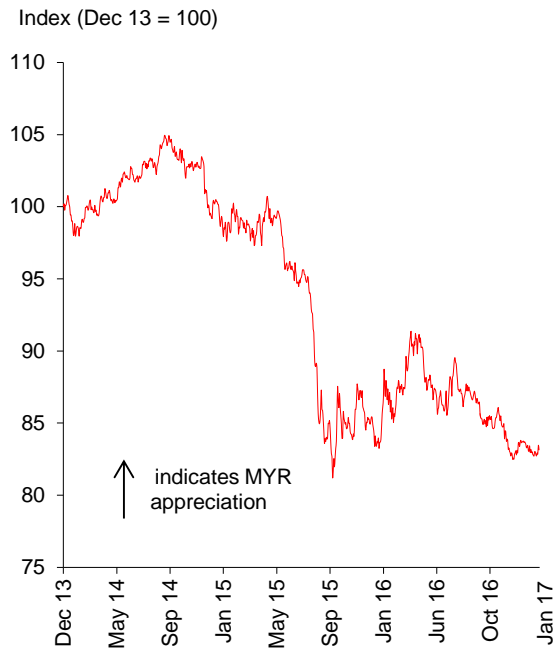


¹ Refers to ratio of individual plus collective impairment provisions to total impaired loans

Source: Bank Negara Malaysia

Ringgit exhibited mixed performance against currencies of major trade partners

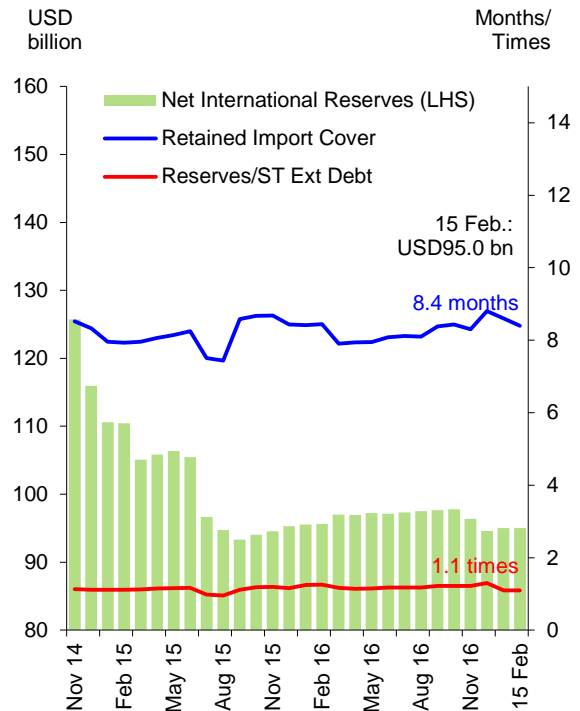
Index of Ringgit Performance against Major Trade Partners*



*Currencies: USD, CNY, SGD, JPY, EUR
Each currency carries equal weight

Source: Bank Negara Malaysia

Net International Reserves



Source: Bank Negara Malaysia

Key Monetary and Financial Statistics

	Nov 16		Dec 16		Jan 17	
	O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
	(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates						
Reserve money	136.1	1.1	141.3	2.9	148.1	2.8
M1	368.3	4.5	380.8	5.7	387.1	6.5
M2	1,623.1	2.9	1,636.3	3.0	1,651.2	4.4
M3	1,629.4	2.9	1,642.4	3.0	1,657.5	4.4
Banking System						
Net financing ¹	2,173.6	6.7	2,183.3	5.5	2,189.9	5.8
Loan to deposit ratio (%) ²	89.2		89.8		89.4	
Loan to fund ratio (%) ^{2&3}	83.7		84.3		84.0	
Loan to fund and equity ratio (%) ^{2,3&4}	74.8		75.3		74.9	
Loans outstanding in RM billion	1,507.6	5.3	1,521.5	5.3	1,527.9	5.6
Loans applied (during the period)	71.3	-0.3	58.3	-8.0	59.6	-8.4
Loans approved (during the period)	29.9	-4.6	29.3	-12.8	25.3	-5.1
Loans disbursed (during the period)	93.5	9.6	103.4	-4.6	94.9	3.4
Loans repaid (during the period)	85.5	-0.4	95.5	-0.5	92.0	-0.7
Banking System Health						
Total capital ratio (%) ⁵	16.4		16.5		16.9	
Tier 1 capital ratio (%) ⁵	13.9		14.0		14.0	
Common equity tier 1 capital ratio (%) ⁵	12.9		13.1		13.1	
Net impaired loans ratio (%)	1.2		1.2		1.2	
BNM International Reserves (end-period)						
Net Reserves in RM billion	399.6		423.9		425.9	
Net Reserves in USD billion (equivalent)	96.4		94.5		95.0	
Months of retained imports	8.3		8.7		8.6	
Interest Rates at end-period [average for the month]						
Overnight Policy Rate (OPR)	3.00		3.00		3.00	
Interbank:						
Overnight	2.99 [2.99]		3.00 [2.99]		2.99 [3.00]	
1-week	3.05 [3.03]		3.02 [3.02]		3.02 [3.03]	
1-month	3.08 [3.10]		3.10 [3.12]		3.10 [3.10]	
3-month	3.40 [3.38]		3.41 [3.41]		3.43 [3.43]	
Fixed deposits of commercial banks:						
1-month	2.87		2.86		2.87	
3-month	2.92		2.92		2.92	
BLR of commercial banks	6.65		6.65		6.65	
Weighted Base Rate ⁶	3.62		3.61		3.62	
Weighted ALR of commercial banks	5.22		5.21		5.20	
Prices						
Consumer Price Index (CPI) (2010=100), (%)	1.8		1.8		3.2	

¹ Comprises banking system and development financial institutions (DFI) loans outstanding and corporate bond outstanding (excludes non-resident and Cagamas issuances)

² Deposits exclude deposits accepted from banking institutions. Loans exclude loans sold to Cagamas and loans extended to banking institutions.
Beginning July 2015, loans exclude financing funded by Islamic Investment accounts

³ Funds comprise deposits and all debt instruments (including subordinated debt, debt certificates/ sukuk issued, commercial paper and structured notes)

⁴ Equity comprises ordinary and preferred shares, share premium and retained earnings

⁵ Beginning January 2013, capital components are reported based on Basel III Capital Adequacy Framework

⁶ On 2 January 2015, the Base Rate (BR) replaced the Base Lending Rate (BLR) as the main reference rate for new retail floating-rate loans and financing facilities. Weights are based on individuals banks' share of all outstanding floating-rate loans

Source: Bank Negara Malaysia