BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 01/15/09

EMBARGO: Not for publication or broadcast before 1800 hours on Friday, 30 January 2015

MONETARY AND FINANCIAL DEVELOPMENTS
December 2014

Price Conditions: Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), was lower at 2.7% in December (November: 3.0%). For the year as a whole, inflation averaged 3.2% (2013: 2.1%). In December, inflation in the *transport* category was lower at 4.0% (Nov: 5.0%), following the downward adjustments to petrol pump prices. Prices of RON97 and RON95 petrol were revised downwards by 9 sen and 4 sen, respectively. Inflation in the *food and non-alcoholic beverages* category was also lower at 2.4% (Nov: 2.9%).

Monetary Conditions: Interbank rates were relatively stable in December. In terms of retail lending rates, the average base lending rate (BLR) of commercial banks was stable at 6.79%. Retail deposit rates were broadly unchanged over the period. On an annual basis, broad money or M3 growth was relatively stable at 7.0% in December. M3 grew mainly on account of credit extension to the private sector by the banking system and higher net claims on the Government. The expansion, however, was partially offset by the decline in net foreign assets. Net financing to the private sector grew at a slower pace of 8.4% in December, amidst a moderation in the growth of outstanding banking system loans and higher growth in net issuances of private debt securities (PDS). While outstanding loans to households and large corporations grew more moderately during the month, the growth rate of outstanding loans to SMEs increased further. Overall loan demand moderated due mainly to large corporations while loan applications from SMEs remained relatively stable.

Banking System: Banking system capitalisation remained strong with the Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio at 12.6%, 13.3% and 15.2%, respectively. The level of net impaired loans improved to 1.2% of net loans while the loan loss coverage ratio remained above 100%.

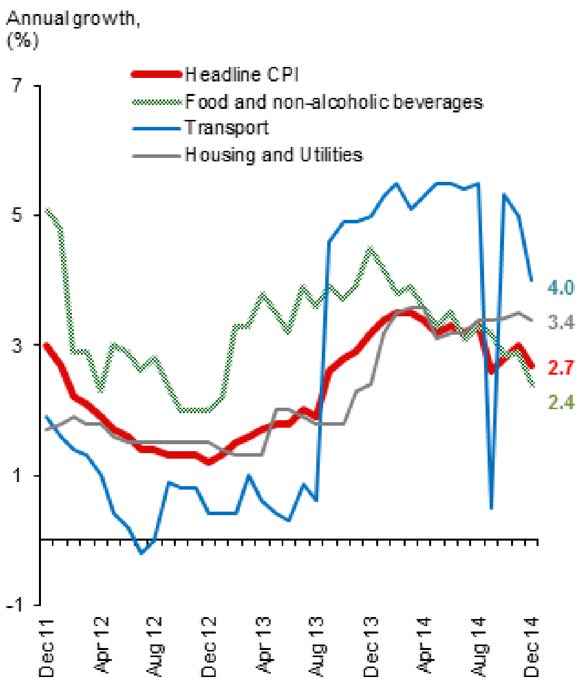
Exchange Rates and International Reserves: In December, the ringgit depreciated against the currencies of Malaysia's major trade partners. The ringgit, together with most regional currencies, depreciated against the US dollar during the month mainly due to the strengthening of the US dollar, which was driven by the expectations of interest rate normalisation by the Federal Reserve amid the recovery in the US economy. This led to the rebalancing of portfolio investment towards financial assets in the US. Concerns over the negative impact of the sharp fall in global crude oil and commodity prices on the economic outlook for commodity exporting countries also affected Malaysia, with the unwinding of some non-resident financial investments. This contributed to the ringgit depreciation against the US dollar. The international reserves of Bank Negara Malaysia amounted to RM388.6 billion (equivalent to USD111.2 billion) as at 15 January 2015, sufficient to finance 8.1 months of retained imports and are 1.1 times the short-term external debt[1].

Bank Negara Malaysia
30 January 2015

[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 entitled 'The Redefinition of External Debt' in the Quarterly Bulletin on Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2014.

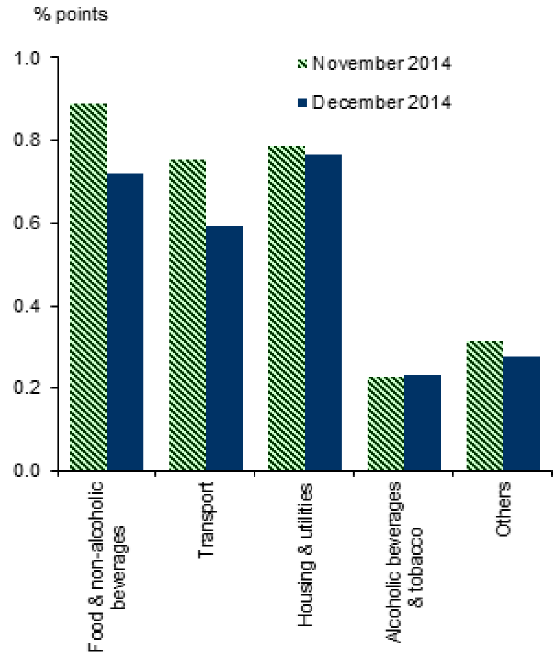
Headline inflation was lower in December

Headline Inflation



Source: Department of Statistics Malaysia

Headline Inflation: Component Contribution

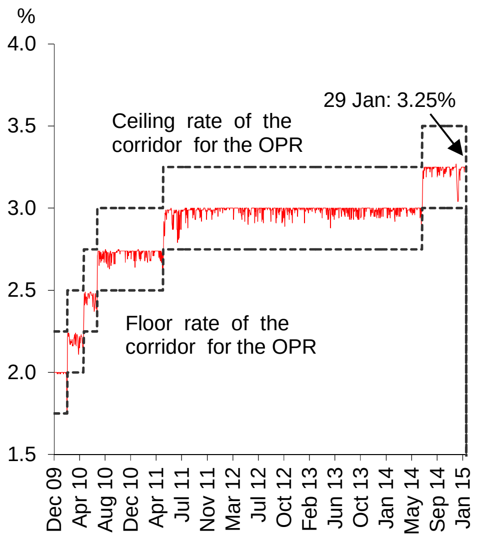


* Others include *restaurants and hotels; recreation services and culture; education; health; furnishings, household equipment and routine household maintenance; communication; clothing and footwear* and *miscellaneous goods and services.*

Source: Bank Negara Malaysia

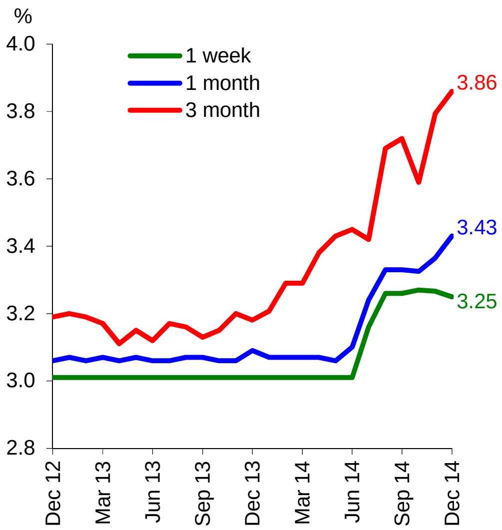
Interest rates remained broadly stable

Average Overnight Interbank Rate



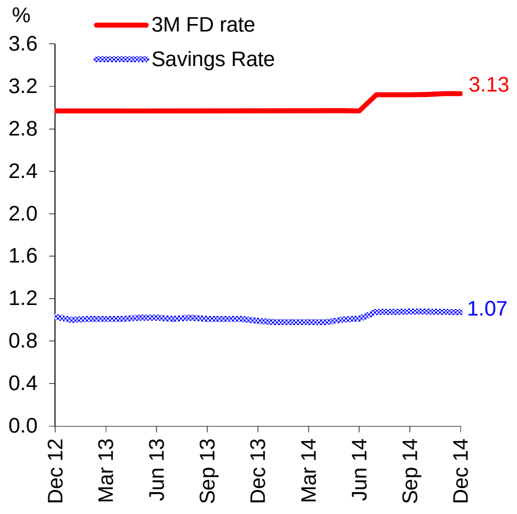
Source: Bank Negara Malaysia

Average Interbank Rates



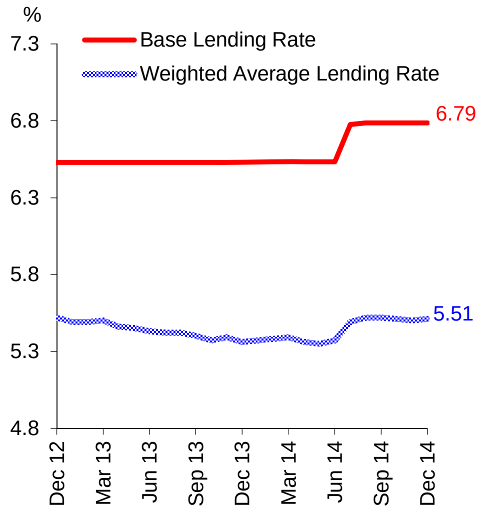
Source: Bank Negara Malaysia

Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

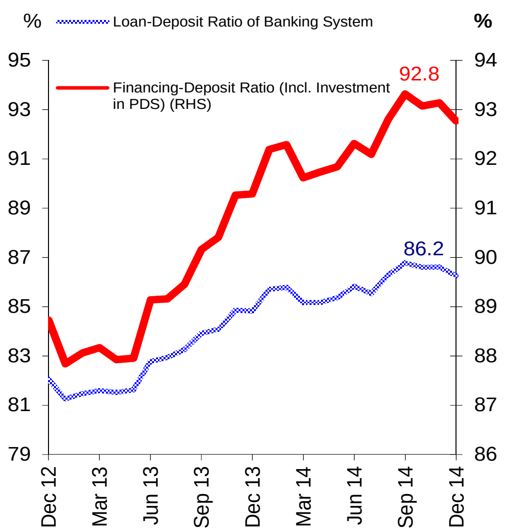
Lending Rates of Commercial Banks



Source: Bank Negara Malaysia

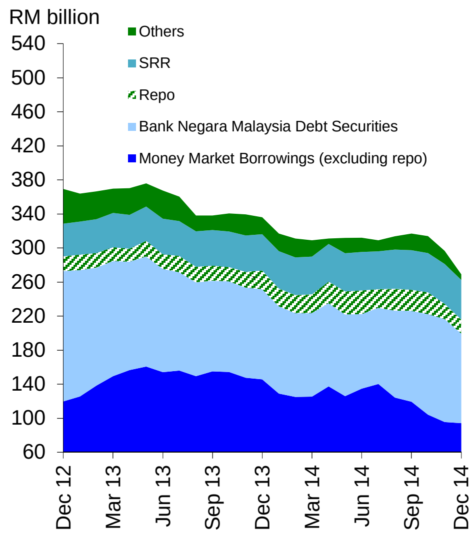
Liquidity in the banking system remained ample

Loan-Deposit Ratio and Financing-Deposit Ratio



Source: Bank Negara Malaysia

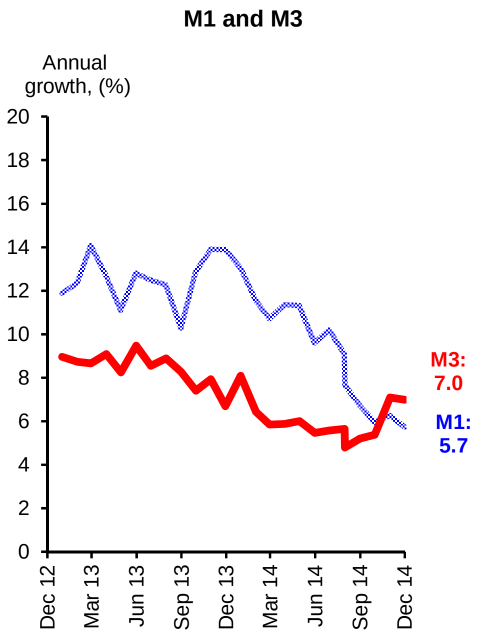
Outstanding Liquidity Placed With Bank Negara Malaysia



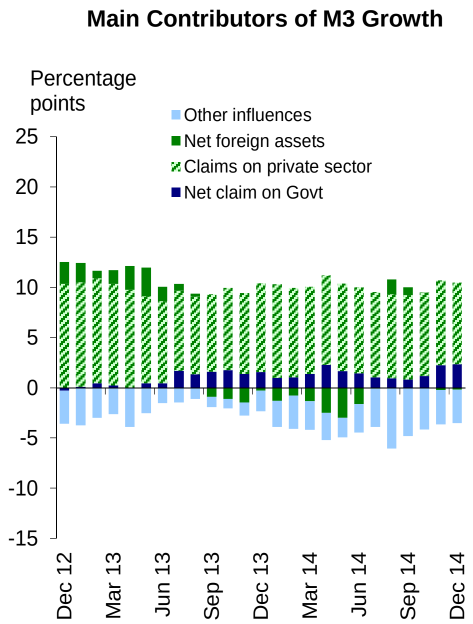
* *Money Market Borrowings (excluding repo) include Direct Borrowing, Wadiah Acceptances and Commodity Murabahah Programme (CMP)*

Source: Bank Negara Malaysia

Broad money growth was relatively stable in December

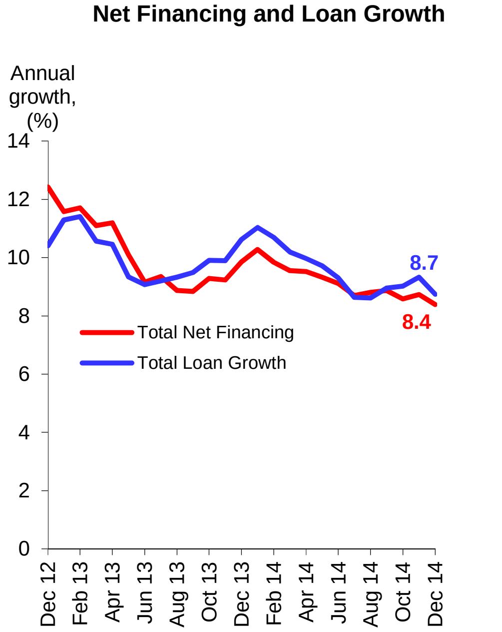


Source: Bank Negara Malaysia

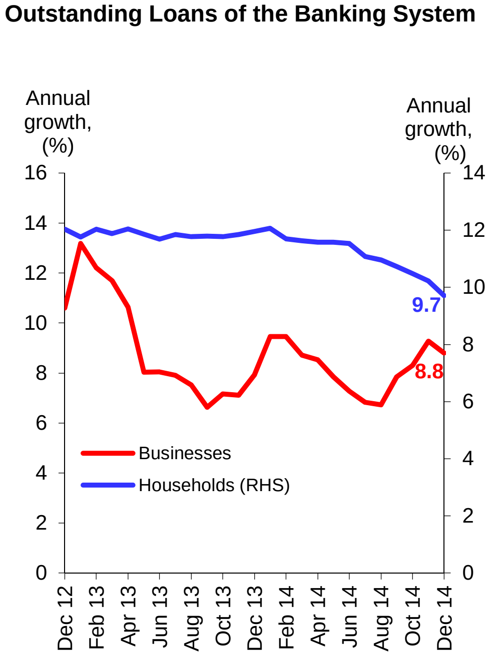


Source: Bank Negara Malaysia

Growth in net financing moderated slightly in December

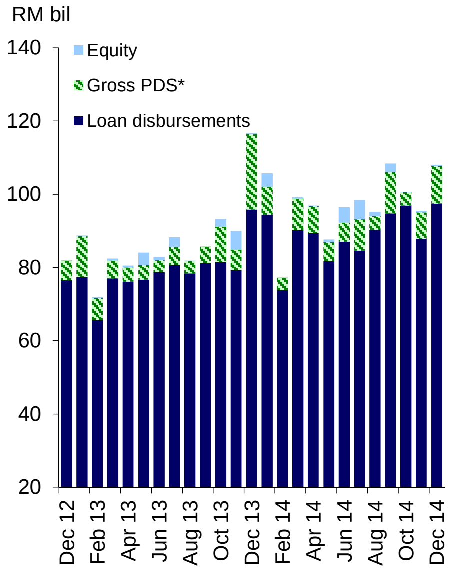


** Net financing comprises of outstanding banking system loans and private debt securities (PDS) (excludes issuances by non-residents and Cagamas)*
Source: Bank Negara Malaysia



Source: Bank Negara Malaysia

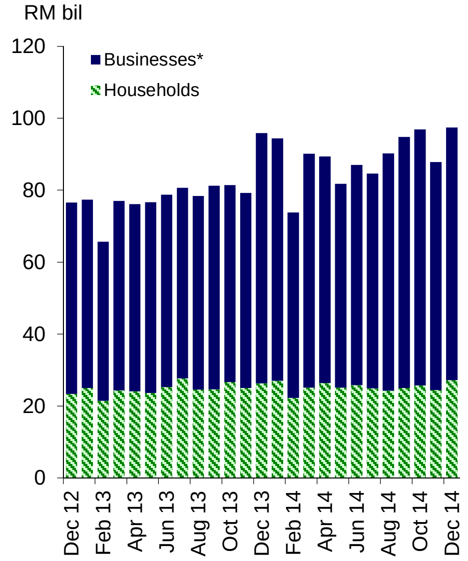
Gross Private Sector Financing



* *Excludes issuances by non-residents and Cagamas*

Source: Bank Negara Malaysia

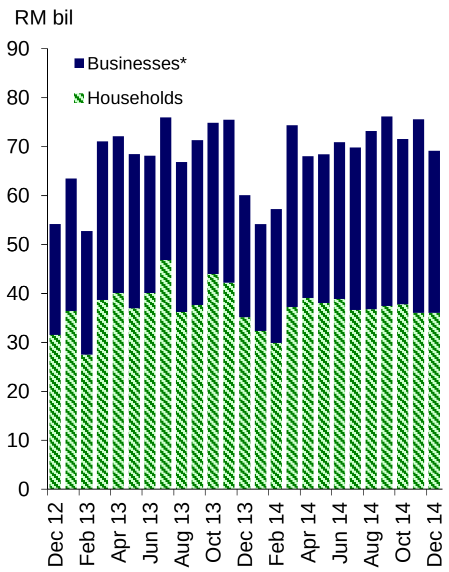
Loan Disbursements by the Banking System



** Includes domestic financial institutions, government, domestic other entities and foreign entities.*

Source: Bank Negara Malaysia

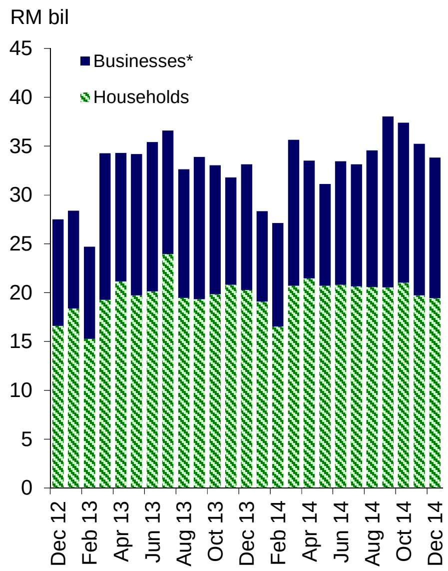
Loan Applications to the Banking System



** Includes domestic financial institutions, government, domestic other entities and foreign entities*

Source: Bank Negara Malaysia

Loan Approvals by the Banking System

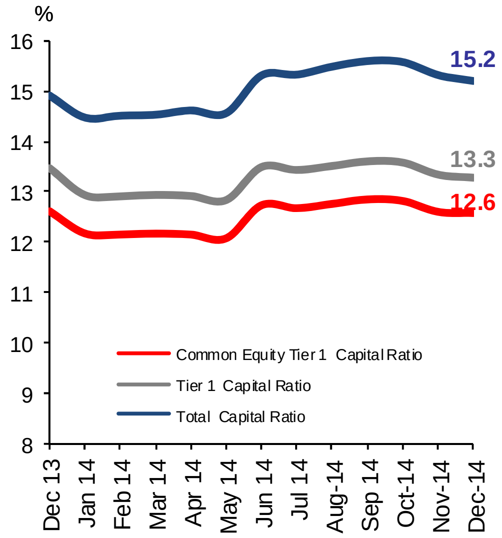


** Includes domestic financial institutions, government, domestic other entities and foreign entities*

Source: Bank Negara Malaysia

Banking system capitalisation remained strong with stable loan quality

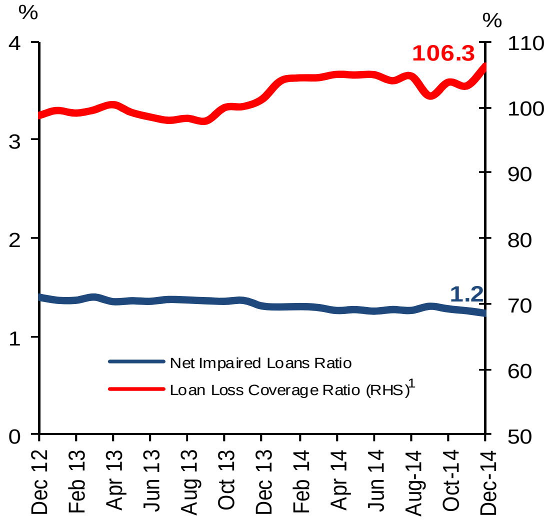
Capital Strength



** Beginning January 2013, capital components are reported based on Basel III Capital Adequacy Framework. Selected Additional Tier 1 and Tier 2 capital instruments are subject to gradual phase-out treatment.*

Source: Bank Negara Malaysia

Net Impaired Loans Ratio and Loan Loss Coverage Ratio



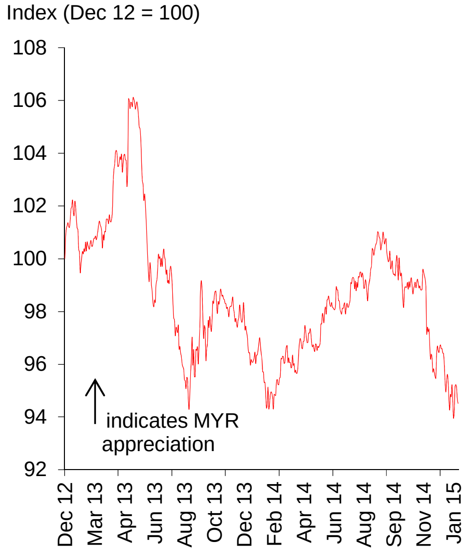
** Beginning January 2010, loans are reported based on FRS139. The adoption of FRS139 requirement is based on the financial year of the banks.*

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

Source: Bank Negara Malaysia

The ringgit depreciated against the currencies of Malaysia's major trade partners

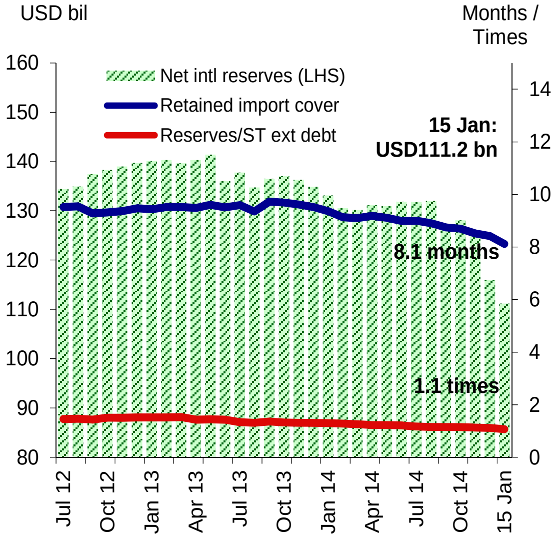
Index of Ringgit Performance against Major Trade Partners*



** Currencies in the index: 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

		Oct 14		Nov 14		Dec 14	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates							
Reserve money		120.7	8.5	122.7	7.6	124.8	7.7
M1		327.5	6.0	330.9	6.3	346.4	5.7
M2		1,504.9	5.7	1,517.6	7.7	1,544.7	7.5
M3		1,516.5	5.4	1,527.8	7.1	1,553.8	7.0
Banking System							
Net financing[1]		1,740.9	8.6	1,754.8	8.7	1,773.5	8.4
Loan-deposit ratio (%) [2]		86.6		86.6		86.2	
Financing-deposit ratio (%) [2&3]		93.1		93.1		92.8	
Loans applied (during the period)		71.6	-4.4	75.6	0.1	69.1	15.1
Loans approved (during the period)		37.4	13.1	35.2	10.8	33.8	2.1
Loans disbursed (during the period)		96.9	19.0	87.8	10.8	97.5	1.7
Loans repaid (during the period)		89.1	21.8	80.2	6.8	86.3	6.5
Banking System Health							
Total capital ratio (%) [4]		15.6		15.3		15.2	
Tier 1 capital ratio (%) [4]		13.6		13.3		13.3	
Common equity tier 1 capital ratio (%) [4]		12.8		12.6		12.6	
Net impaired loans ratio (%)		1.3		1.3		1.2	
BNM International Reserves (end-period)							
Net Reserves in RM billion		419.7		411.6		405.5	
Net Reserves in USD billion (equivalent)		128.1		125.7		116.0	
Months of retained imports		8.7		8.5		8.4	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.25		3.25		3.25	
Interbank:	Overnight	3.24 [3.23]		3.25 [3.24]		3.23 [3.19]	
	1-week	3.27 [3.27]		3.26 [3.27]		3.30 [3.25]	
	1-month	3.36 [3.33]		3.31 [3.37]		3.38 [3.43]	
Fixed deposits of commercial banks:	1-month	3.07		3.08		3.08	
	3-month	3.12		3.13		3.13	
BLR of commercial banks		6.79		6.79		6.79	
Weighted ALR of commercial banks		5.51		5.50		5.51	
Prices							
Consumer Price Index (CPI) (2010=100)		111.3	2.8	111.9	3.0	111.8	2.7

[1] Comprises of banking system loans outstanding and private debt securities (PDS) outstanding (excludes non-resident and Cagamas)

[2] Excludes transactions by financial institutions.

[3] Refers to the ratio of loans and holdings of PDS by the banking system to deposits of the banking system.

[4] Beginning January 2013, capital components are reported based on Basel III Capital Adequacy Framework.

Source: Bank Negara Malaysia and Department of Statistics Malaysia