BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

# SIARAN AKHBAR

**Ref. No.: 12/14/06**

**EMBARGO: Not for publication or broadcast before 1700 hours on Wednesday, December 31, 2014**

## MONETARY AND FINANCIAL DEVELOPMENTS NOVEMBER 2014

**Price Conditions:** Headline inflation, as measured by the annual percentage change in Consumer Price Index (CPI), was higher at 3.0% in November (October: 2.8%) mainly due to the upward adjustments in cigarette prices during the month, which translated into higher inflation in the alcoholic beverages and tobacco sub-category (November: 10.5%; October: 0.2%). The increase in inflation was, however, partially mitigated by lower inflation in the transport category following the downward adjustment in the price of RON97 petrol during the month.

**Monetary Conditions:** Short-term interbank rates were broadly stable in November. Interbank rates of longer maturities, however, trended higher due to an increase in demand by banks for more stable funding, which led to competition among banks to attract corporate deposits by offering higher deposit rates. The resultant increase in funding cost was transmitted to lending rates in the interbank market. In terms of retail lending rates, the weighted average lending rate (ALR) of commercial banks was stable at 5.50%. Retail deposit rates were also stable over the period. The annual growth of broad money (M3) increased to 7.1% in November. 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 following net portfolio outflows during the month. Net financing to the private sector grew by 8.7% in

November, driven by higher growth in outstanding banking system loans amidst a moderation in the growth of net issuances of private debt securities (PDS). Outstanding business loans registered a higher annual growth rate with a larger volume of loans extended mainly to the real estate and transport, storage and communication sectors. The annual growth in outstanding household loans, however, continued to moderate to 10.2% in November. Overall loan demand was sustained with higher loan applications from businesses.

**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 15.3% respectively, marginally lower from the previous month following dividend payouts by several banks. The level of net impaired loans remained at 1.3% of net loans while the loan loss coverage ratio was 103.3%.

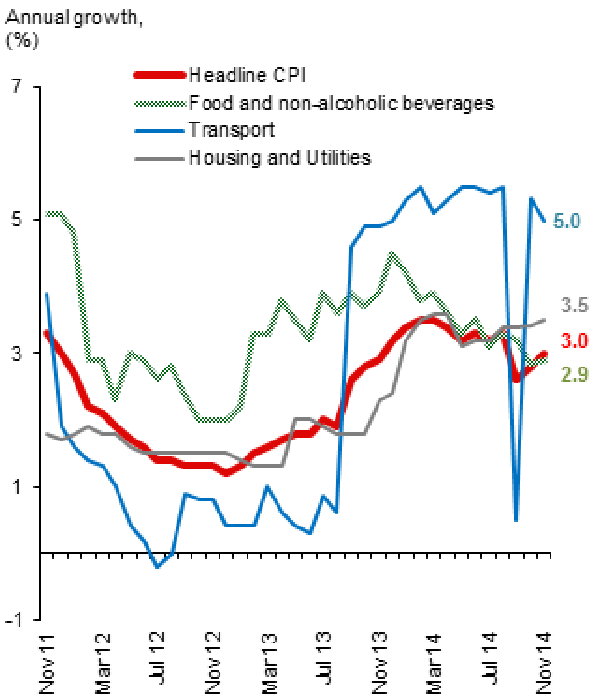
**Exchange Rates and International Reserves:** In November, the ringgit depreciated against the currencies of most of Malaysia's major trade partners. The ringgit, together with other regional currencies, depreciated against the US dollar during the month as concerns over the health of some key economies, such as Japan and China, led to a decline in investor interest in regional financial assets. Lower global oil prices also led to concerns over the economic outlook of some oil exporting countries. The ringgit further depreciated on 28 November following the sharp fall in global oil prices. The international reserves of Bank Negara Malaysia was RM394.1 billion (equivalent to USD120.7 billion) as at 15 December 2014, sufficient to finance 7.9 months of retained imports and is 1.1 times the short-term external debt[1].

**Bank Negara Malaysia**
**31 December 2014**

[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.

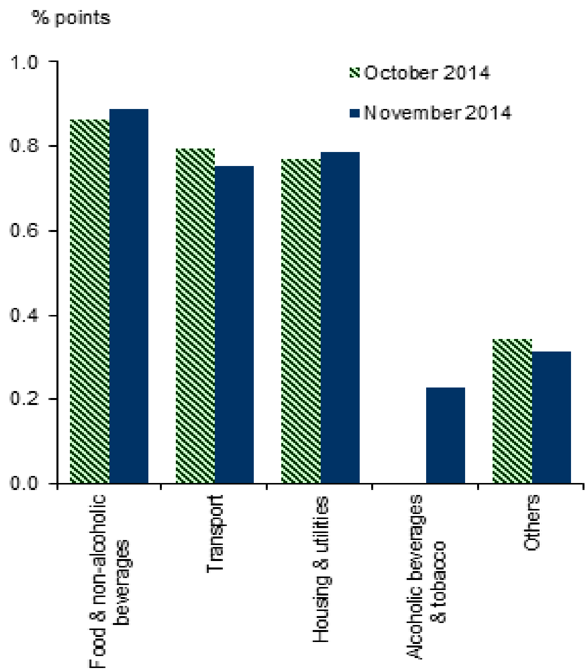
## Headline inflation increased slightly in November

**Headline Inflation**




*Source: Department of Statistics Malaysia*

**Headline Inflation: Component Contribution**

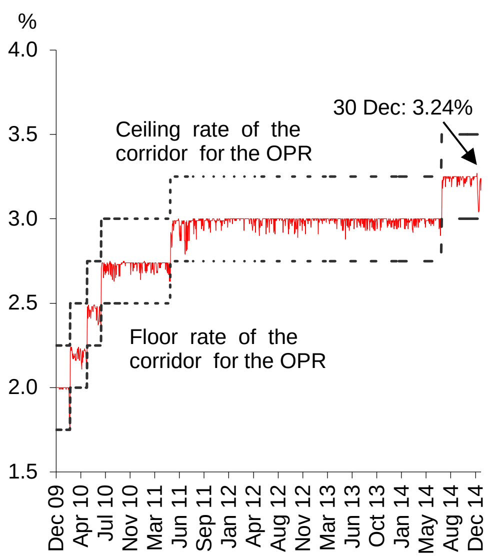



* Others include *restaurants and hotels; recreation services and culture; education; health; furnishings, household equipment and routine household maintenance; communication; clothing and footwear* and *miscellaneous goods and services.*

*Source: Bank Negara Malaysia*

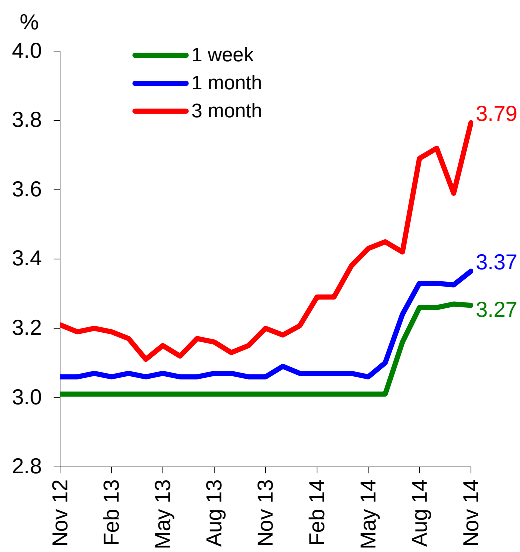
## Interest rates remained broadly stable

**Average Overnight Interbank Rate**



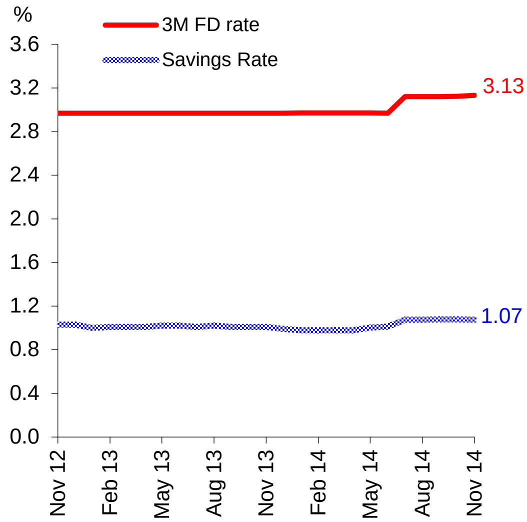

*Source: Bank Negara Malaysia*

**Average Interbank Rates**



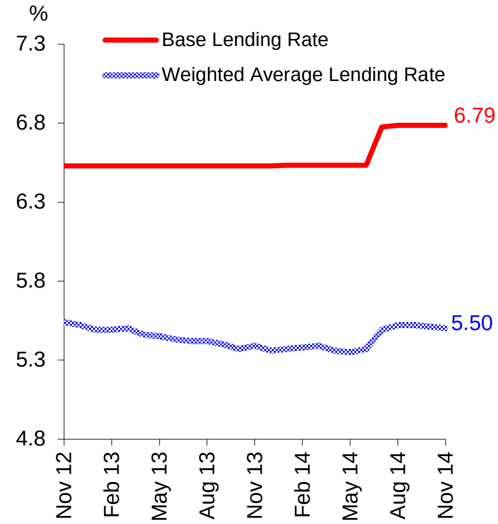

*Source: Bank Negara Malaysia*

**Deposit Rates of Commercial Banks**




*Source: Bank Negara Malaysia*

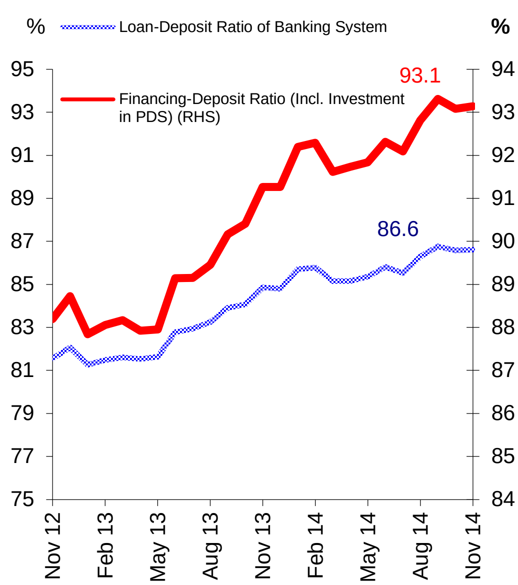
**Lending Rates of Commercial Banks**




*Source: Bank Negara Malaysia*

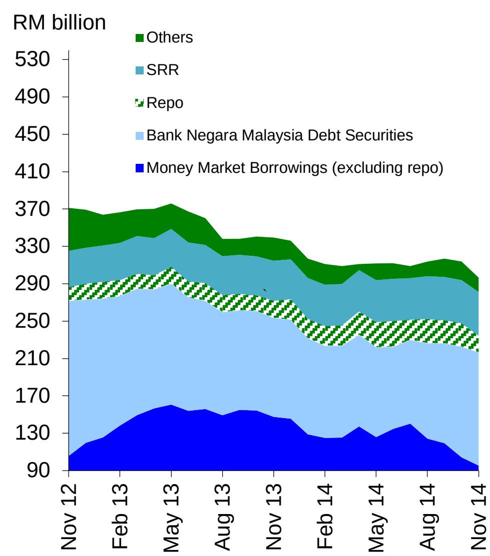
## Liquidity in the banking system remained ample

**Loan-Deposit Ratio and Financing-Deposit Ratio**




*Source: Bank Negara Malaysia*

**Outstanding Liquidity Placed With Bank Negara Malaysia**

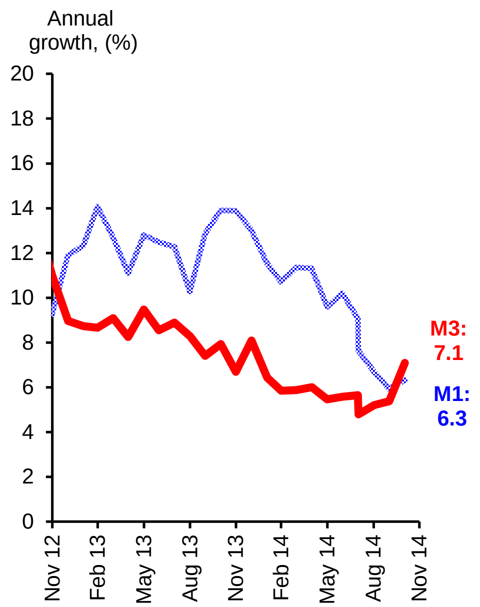



* *Money Market Borrowings (excluding repo) include Direct Borrowing, Wadiah Acceptances and Commodity Murabahah Programme (CMP)*

*Source: Bank Negara Malaysia*

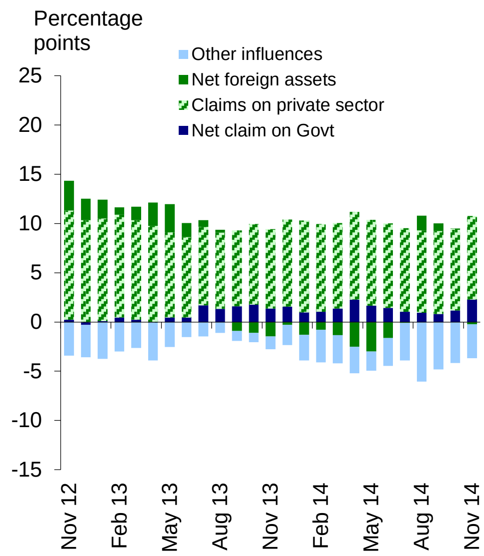
## Broad money growth increased in November

**M1 and M3**




*Source: Bank Negara Malaysia*

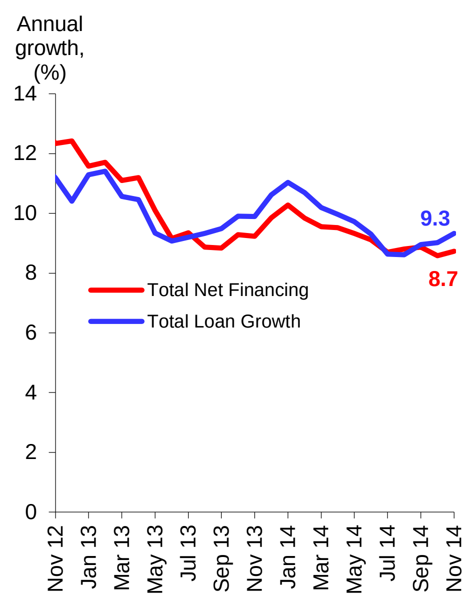
**Main Contributors of M3 Growth**




*Source: Bank Negara Malaysia*

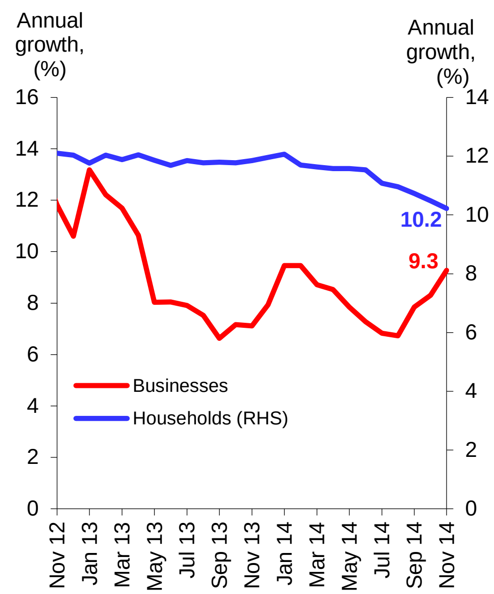
## Growth in net financing was sustained in November

**Net Financing and Loan Growth**



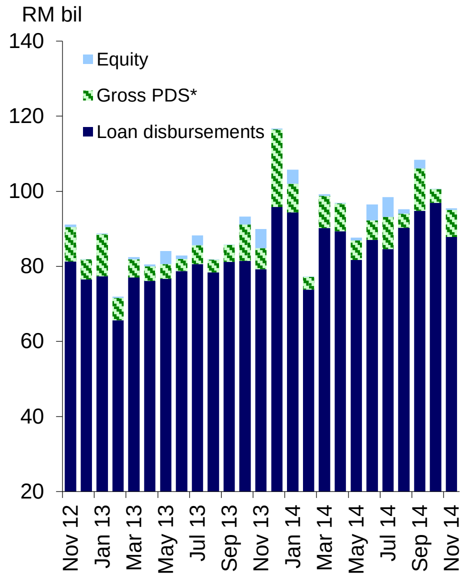

** Net financing comprises of outstanding banking system loans and private debt securities (PDS) (excludes issuances by non-residents and Cagamas)*
*Source: Bank Negara Malaysia*

**Outstanding Loans of the Banking System**




*Source: Bank Negara Malaysia*

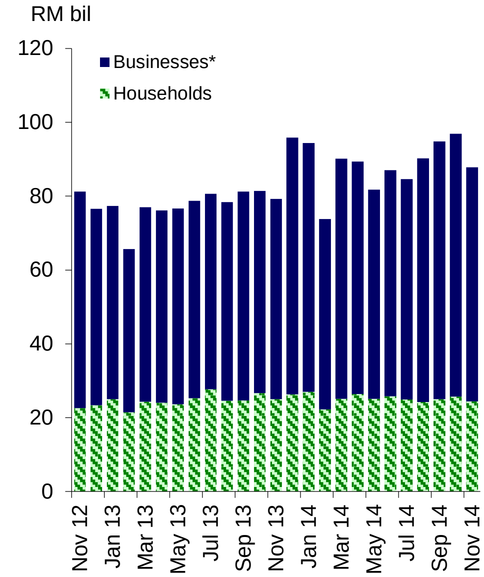
**Gross Private Sector Financing**




** Excludes issuances by non-residents and Cagamas*

*Source: Bank Negara Malaysia*

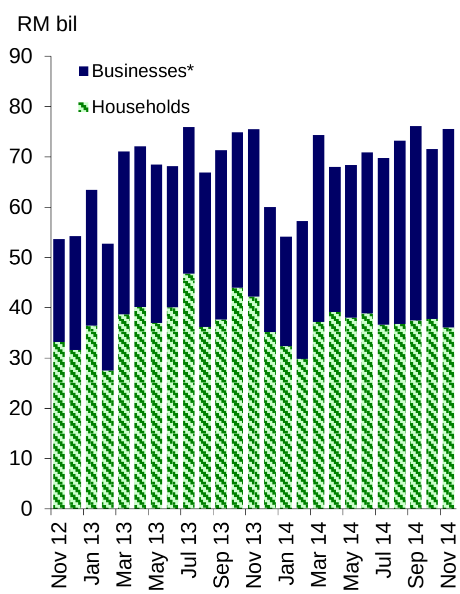
**Loan Disbursements by the Banking System**




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

*Source: Bank Negara Malaysia*

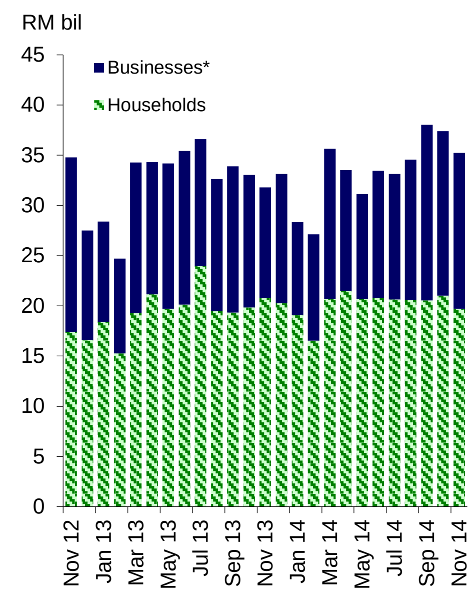
**Loan Applications to the Banking System**




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

*Source: Bank Negara Malaysia*

**Loan Approvals by the Banking System**

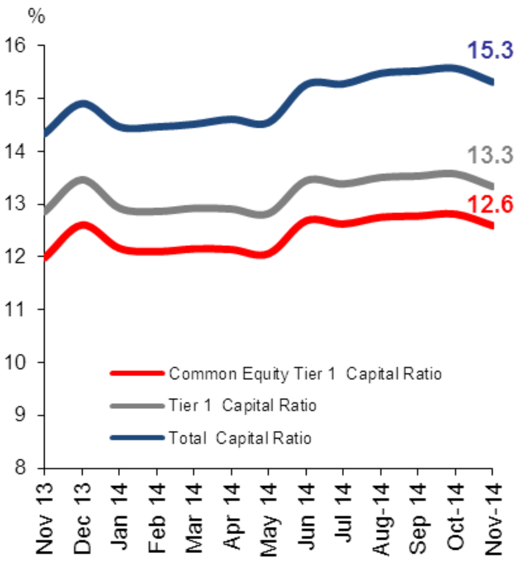



** Includes domestic financial institutions, government, domestic other entities and foreign entities*

*Source: Bank Negara Malaysia*

## Banking system capitalisation remained strong with stable loan quality

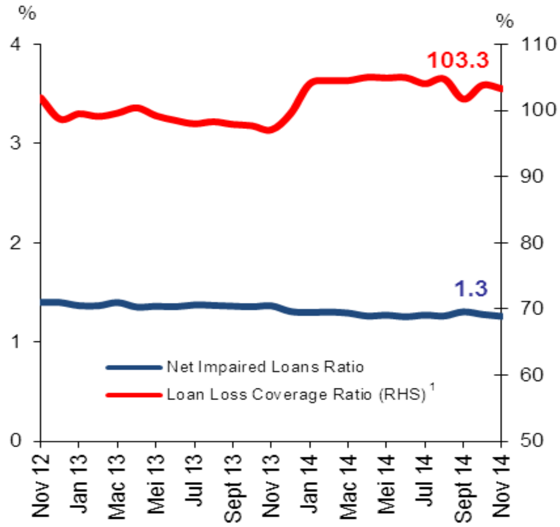
**Capital Strength**




** 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.*

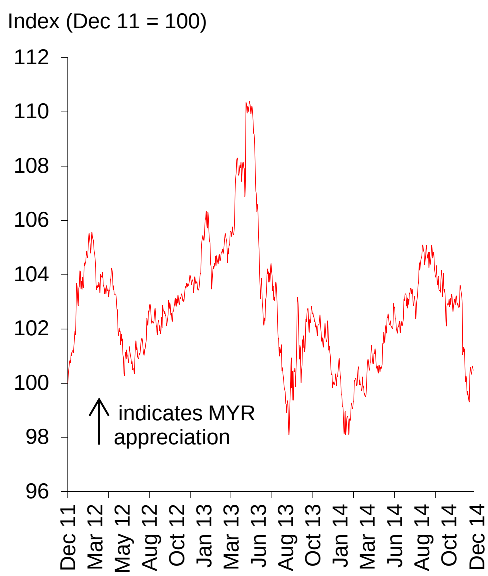
*[1] Refers to ratio of individual plus collective impairment provisions to total impaired loans.*

*Source: Bank Negara Malaysia*

---

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

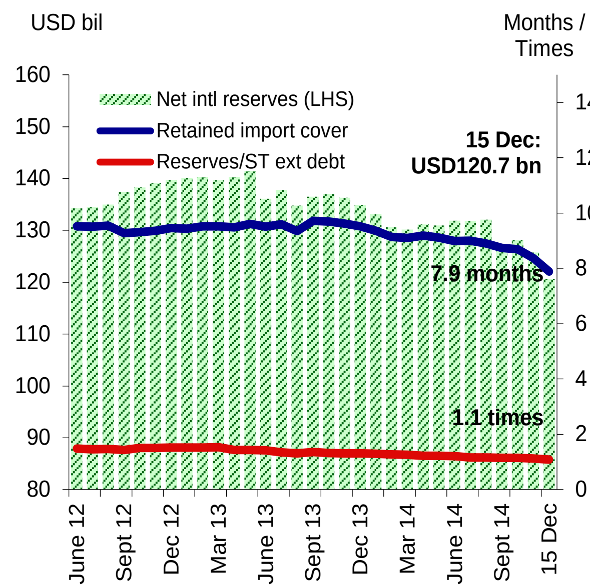
**Index of Ringgit Performance against Major Trade Partners***




** 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

| | | Sep 14 | | Oct 14 | | Nov 14 | |
|---|---|---|---|---|---|---|---|
| | | O/stg | Ann. growth | O/stg | Ann. growth | O/stg | Ann. growth |
| | | (RM bil) | (%) | (RM bil) | (%) | (RM bil) | (%) |
| **Monetary Aggregates** | | | | | | | |
| Reserve money | | 121.3 | 7.6 | 120.7 | 8.5 | 122.7 | 7.6 |
| M1 | | 330.4 | 6.7 | 327.5 | 6.0 | 331.2 | 6.3 |
| M2 | | 1,492.8 | 5.4 | 1,504.9 | 5.7 | 1,517.8 | 7.7 |
| M3 | | 1,503.9 | 5.2 | 1,516.5 | 5.4 | 1,527.8 | 7.1 |
| **Banking System** | | | | | | | |
| Net financing[1] | | 1,728.1 | 8.9 | 1,740.9 | 8.6 | 1,754.8 | 8.7 |
| Loan-deposit ratio (%) [2] | | 86.8 | | 86.6 | | 86.6 | |
| Financing-deposit ratio (%) [2&3] | | 93.3 | | 93.1 | | 93.1 | |
| Loans applied (during the period) | | 76.1 | 6.7 | 71.6 | -4.4 | 75.6 | 0.1 |
| Loans approved (during the period) | | 38.0 | 12.1 | 37.4 | 13.1 | 35.2 | 10.8 |
| Loans disbursed (during the period) | | 94.8 | 16.7 | 96.9 | 19.0 | 87.8 | 10.8 |
| Loans repaid (during the period) | | 83.8 | 16.6 | 89.1 | 21.8 | 80.2 | 6.8 |
| **Banking System Health** | | | | | | | |
| Total capital ratio (%) [4] | | 15.5 | | 15.6 | | 15.3 | |
| Tier 1 capital ratio (%) [4] | | 13.5 | | 13.6 | | 13.3 | |
| Common equity tier 1 capital ratio (%) [4] | | 12.8 | | 12.6 | | 12.6 | |
| Net impaired loans ratio (%) | | 1.3 | | 1.3 | | 1.3 | |
| **BNM International Reserves (end-period)** | | | | | | | |
| Net Reserves in RM billion | | 416.9 | | 419.7 | | 411.7 | |
| Net Reserves in USD billion (equivalent) | | 127.3 | | 128.1 | | 125.7 | |
| Months of retained imports | | 8.7 | | 8.7 | | 8.4 | |
| **Interest Rates at end-period [average for the month]** | | | | | | | |
| Overnight Policy Rate (OPR) | | 3.25 | | 3.25 | | 3.25 | |
| Interbank: | Overnight | 3.20 [3.24] | | 3.24 [3.23] | | 3.25 [3.24] | |
| | 1-week | 3.26 [3.26] | | 3.27 [3.27] | | 3.26 [3.27] | |
| | 1-month | 3.41 [3.33] | | 3.36 [3.33] | | 3.31 [3.37] | |
| Fixed deposits of commercial banks: | 1-month | 3.07 | | 3.07 | | 3.08 | |
| | 3-month | 3.12 | | 3.12 | | 3.13 | |
| BLR of commercial banks | | 6.79 | | 6.79 | | 6.79 | |
| Weighted ALR of commercial banks | | 5.52 | | 5.51 | | 5.50 | |
| **Prices** | | | | | | | |
| Consumer Price Index (CPI) (2010=100) | | 110.7 | 2.6 | 111.3 | 2.8 | 111.9 | 3.0 |

[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*