BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 11/14/17

EMBARGO: Not for publication or broadcast before 1800 hours on Friday, 28 November 2014

MONETARY AND FINANCIAL DEVELOPMENTS
October 2014

Price Conditions: Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), was 2.8% in October 2014 (September: 2.6%). The increase mainly reflected the upward adjustments to prices of RON95 petrol and diesel during the month, which translated into a 5.3% price increase in the *transport* category (September: 0.5%). However, the increase in inflation was partially mitigated by lower inflation in the *tobacco* sub-category, following the downward revision in the prices of cigarette, as well as the slower increase in prices of *food at home*, which partly reflected the implementation of the festive season price control scheme by the Government.

Monetary Conditions Interbank rates were relatively stable in October. 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 (M3) grew by 5.4% in October. M3 grew mainly on account of credit extension to the private sector by the banking system. Net financing to the private sector grew at a slower pace of 8.6% in October, due to a moderation in the growth of net issuances of private debt securities (PDS) amidst stable growth in outstanding banking system loans. The annual growth of outstanding business loans increased during the month with a larger volume of loans extended mainly to the *construction; manufacturing* and *finance, insurance and business services* sectors. The annual growth in outstanding household loans, however, continued to moderate. Overall loan demand remained relatively stable with sustained loan applications from households.

Banking System: Banking system capitalisation remained at strong levels with the Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio at 12.8%, 13.5% and 15.5% respectively. The level of net impaired loans was sustained at 1.3% of net loans while the loan loss coverage ratio remained above 100%.

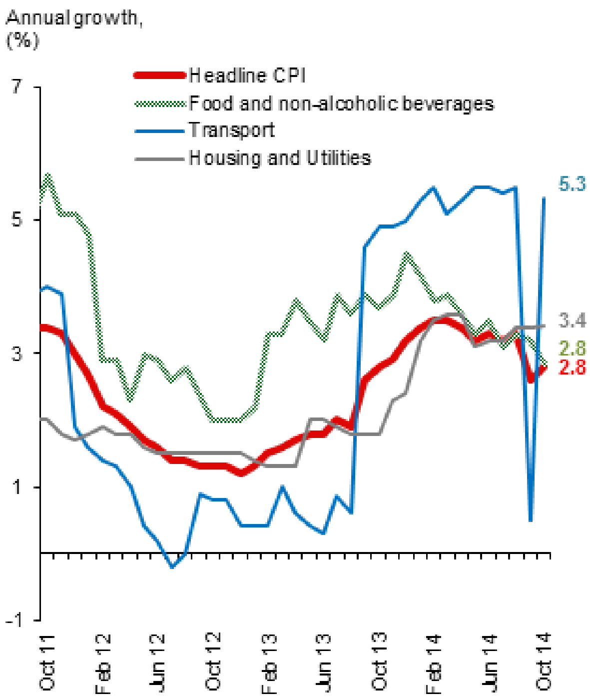
Exchange Rates and International Reserves: In October, the ringgit exhibited a mixed performance against the currencies of Malaysia's major trade partners. The ringgit, together with other regional currencies, depreciated against the US dollar during the month following a sharp increase in global risk aversion, which led to some unwinding of foreign holdings of regional financial assets. The heightened market uncertainty was mainly driven by concerns over the global growth momentum as the IMF and some national authorities revised their growth outlook lower. In the period between 1 and 14 November, the ringgit exhibited a mixed performance against the currencies of Malaysia's major trade partners. The international reserves of Bank Negara Malaysia amounted to RM414.5 billion (equivalent to USD126.6 billion) as at 14 November 2014, sufficient to finance 8.7 months of retained imports and are 1.1 times the short-term external debt[1].

Bank Negara Malaysia
28 November 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.

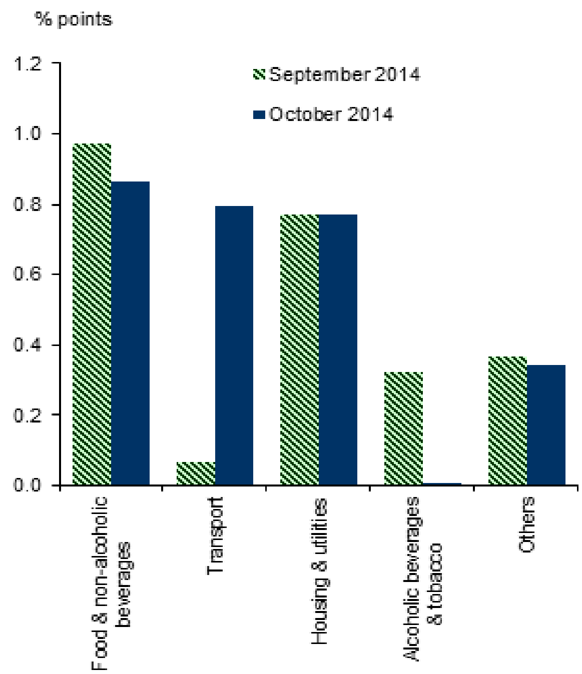
Headline inflation increased slightly in October

Headline Inflation



Source: Department of Statistics Malaysia

Headline Inflation: Component Contribution

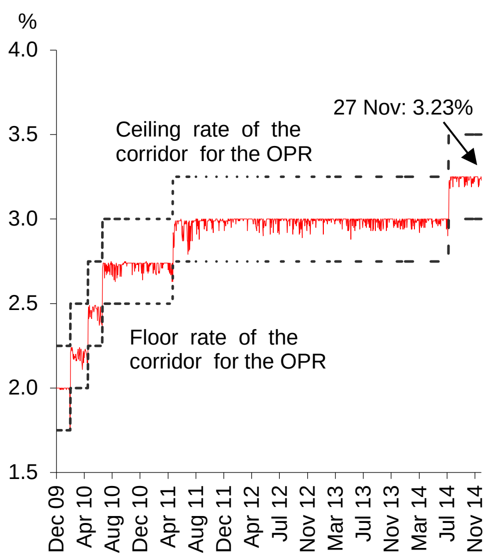


* Others include *restaurants and hotels; recreation services and culture; education; health; furnishings, household equipment and routine household maintenance; communication; clothing and footwear* and *miscellaneous goods and services.*

Source: Bank Negara Malaysia

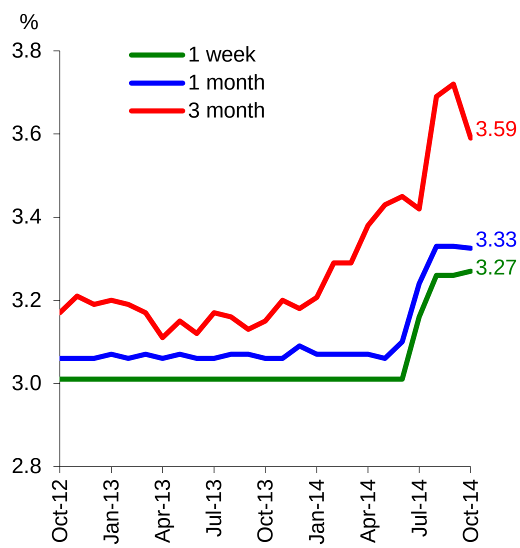
Interest rates remained broadly stable

Average Overnight Interbank Rate



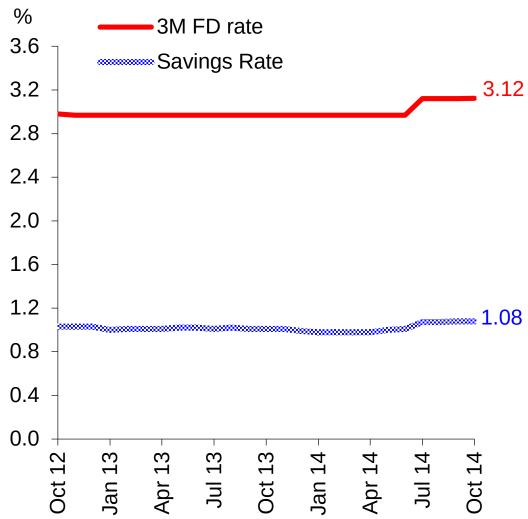
Source: Bank Negara Malaysia

Average Interbank Rates



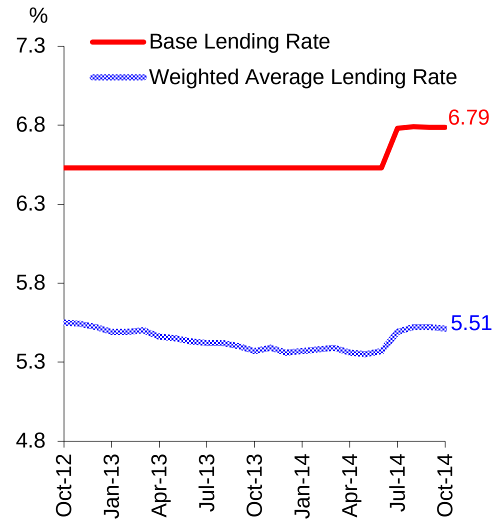
Source: Bank Negara Malaysia

Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

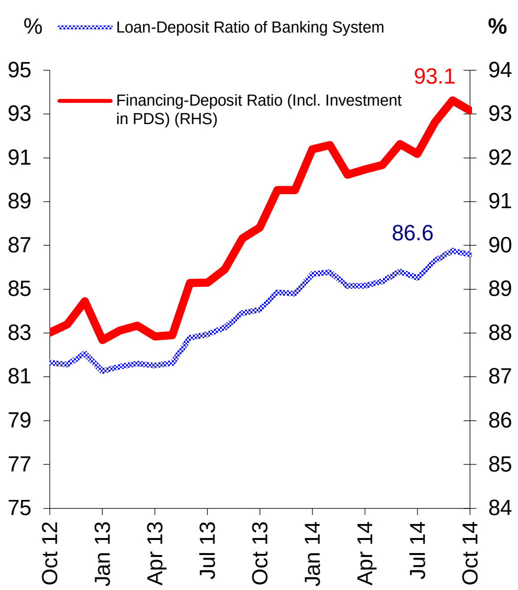
Lending Rates of Commercial Banks



Source: Bank Negara Malaysia

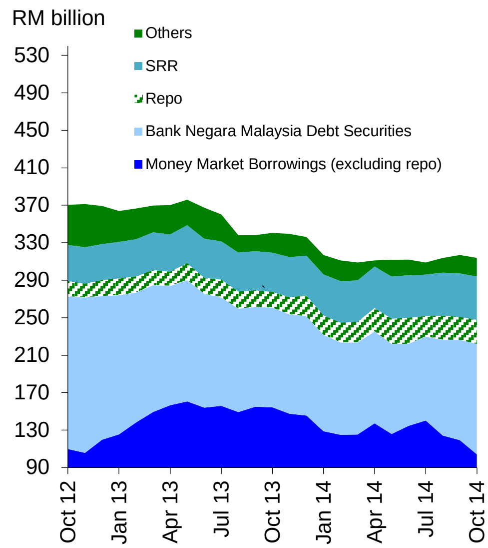
Liquidity in the banking system remained ample

Loan-Deposit Ratio and Financing-Deposit Ratio



Source: Bank Negara Malaysia

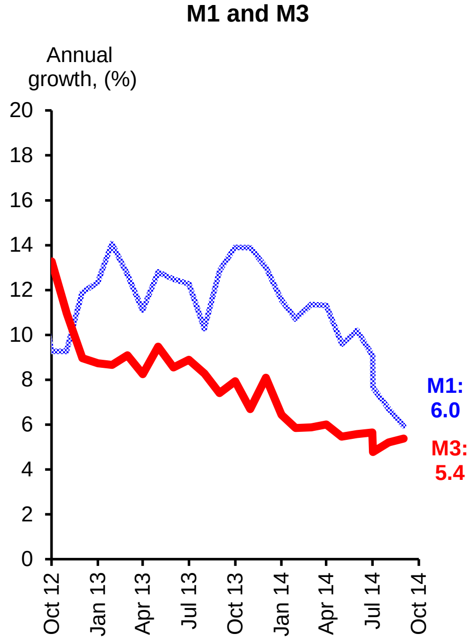
Outstanding Liquidity Placed With Bank Negara Malaysia



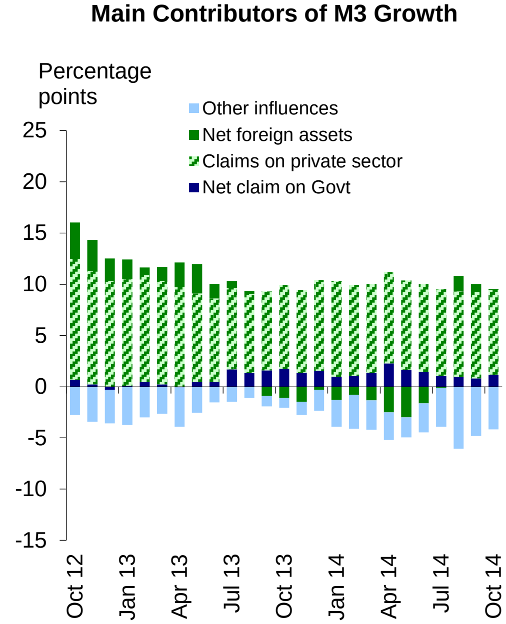
* *Money Market Borrowings (excluding repo) include Direct Borrowing, Wadiah Acceptances and Commodity Murabahah Programme (CMP)*

Source: Bank Negara Malaysia

Broad money growth was relatively stable in October

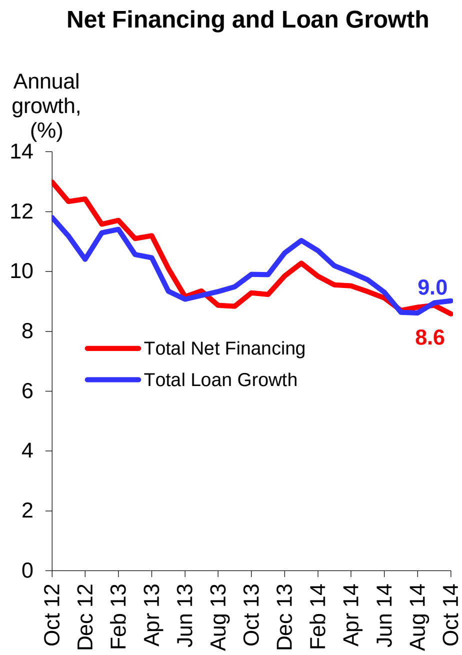


Source: Bank Negara Malaysia

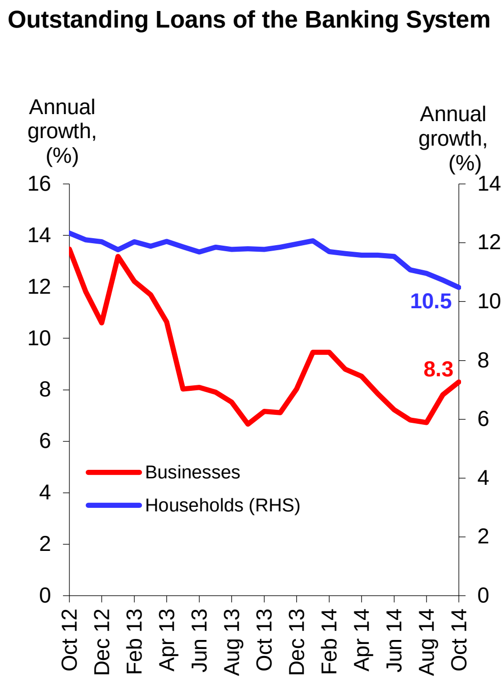


Source: Bank Negara Malaysia

Growth in net financing moderated slightly in October

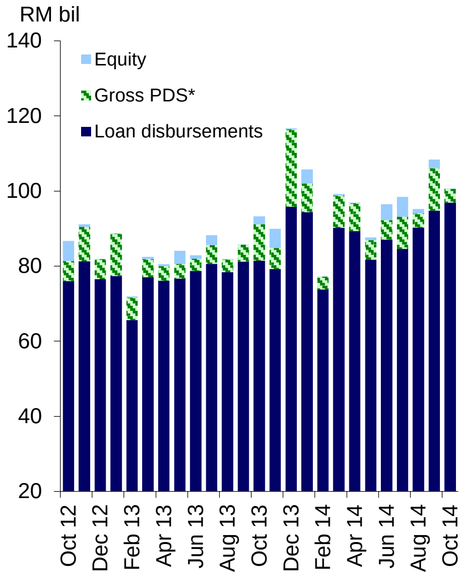


* *Net financing comprises of banking system loans and private debt securities (PDS) outstanding (excluding non-residents and Cagamas)*
Source: Bank Negara Malaysia



Source: Bank Negara Malaysia

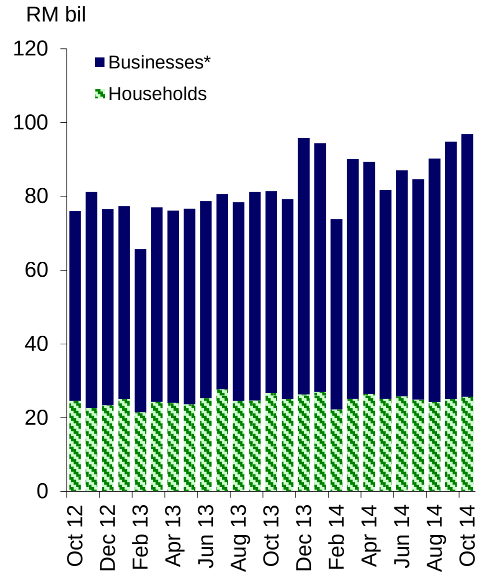
Gross Private Sector Financing



** Excludes foreign issuances*

Source: Bank Negara Malaysia

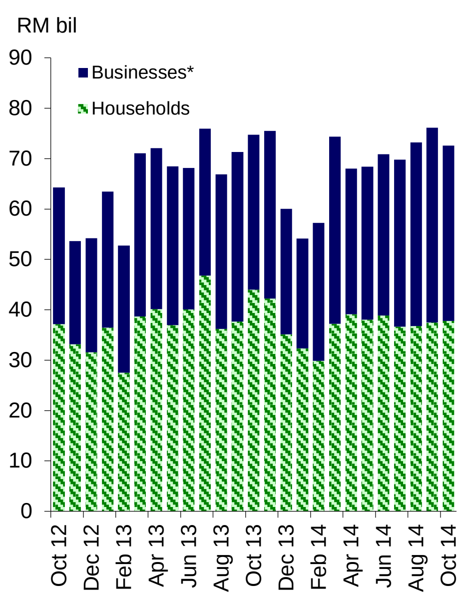
Loan Disbursements by the Banking System



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

Source: Bank Negara Malaysia

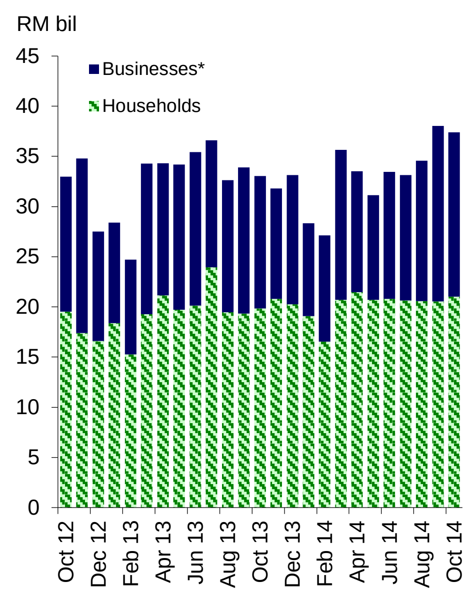
Loan Applications to the Banking System



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

Source: Bank Negara Malaysia

Loan Approvals by the Banking System

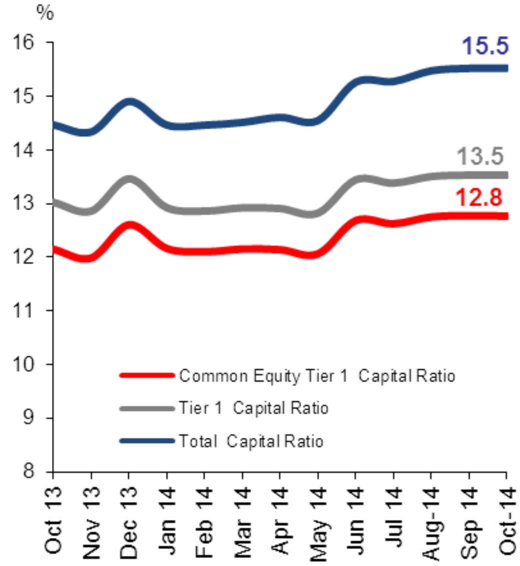


** Includes domestic financial institutions, government, domestic other entities and foreign entities*

Source: Bank Negara Malaysia

Banking system capitalisation remained strong with stable loan quality

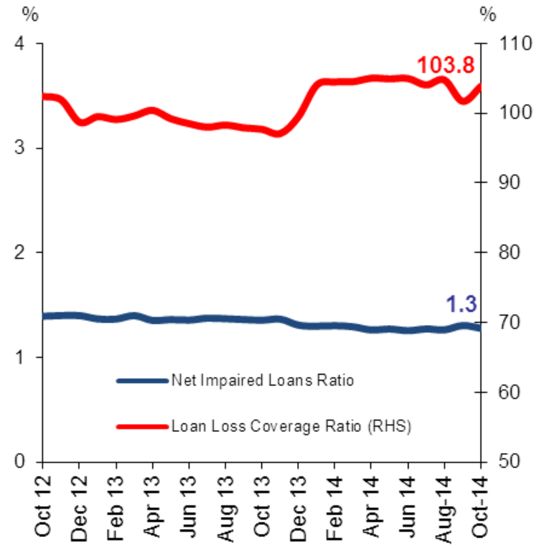
Capital Strength



** 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



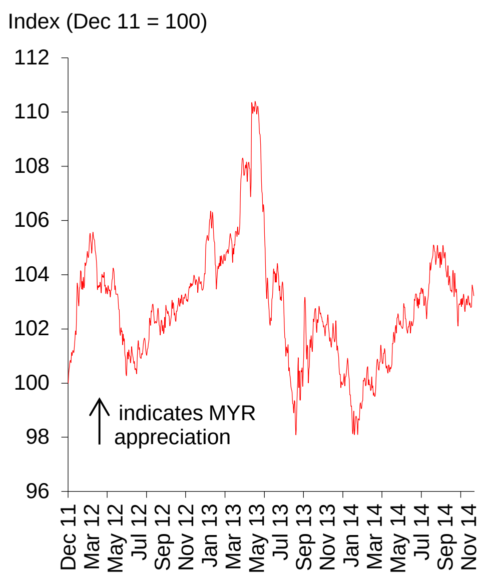
** Beginning January 2010, loans are reported based on FRS139. The adoption of FRS139 requirement is based on the financial year of the banks.*

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

Source: Bank Negara Malaysia

The ringgit exhibited a mixed performance against the currencies of Malaysia's major trade partners

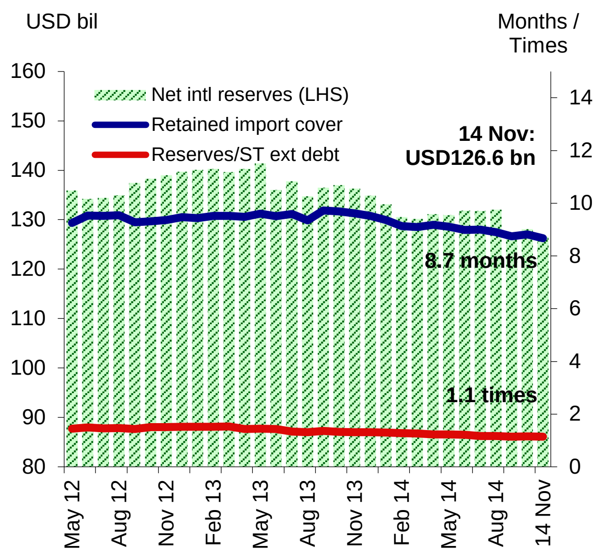
Index of Ringgit Performance against Major Trade Partners*



** 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

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Key Monetary and Financial Statistics

		Aug 14		Sep 14		Oct 14	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates							
Reserve money		122.1	8.1	121.3	7.6	120.7	8.5
M1		323.0	7.7	330.4	6.7	327.5	6.0
M2		1,480.7	5.0	1,492.9	5.4	1,504.9	5.7
M3		1,494.0	4.8	1,504.0	5.2	1,516.5	5.4
Banking System							
Net financing[1]		1,711.0	8.8	1,728.1	8.9	1,740.9	8.6
Loan-deposit ratio (%) [2]		86.3		86.8		86.6	
Financing-deposit ratio (%) [2&3]		92.8		93.3		93.1	
Loans applied (during the period)		73.2	9.4	76.1	6.7	72.6	-2.9
Loans approved (during the period)		34.6	5.9	38.0	12.1	37.4	13.1
Loans disbursed (during the period)		90.3	15.1	94.8	16.7	96.9	19.0
Loans repaid (during the period)		81.4	15.6	83.8	16.6	89.1	21.8
Banking System Health							
Total capital ratio (%) [4]		15.5		15.5		15.5	
Tier 1 capital ratio (%) [4]		13.5		13.5		13.5	
Common equity tier 1 capital ratio (%) [4]		12.8		12.8		12.8	
Net impaired loans ratio (%)		1.3		1.3		1.3	
BNM International Reserves (end-period)							
Net Reserves in RM billion		424.1		416.9		419.7	
Net Reserves in USD billion (equivalent)		132.0		127.3		128.1	
Months of retained imports		8.9		8.7		8.8	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.25		3.25		3.25	
Interbank:	Overnight	3.25 [3.24]		3.20 [3.24]		3.24 [3.23]	
	1-week	3.26 [3.26]		3.26 [3.26]		3.27 [3.27]	
	1-month	3.35 [3.33]		3.41 [3.33]		3.36 [3.33]	
Fixed deposits of commercial banks:	1-month	3.07		3.07		3.07	
	3-month	3.12		3.12		3.12	
BLR of commercial banks		6.79		6.79		6.79	
Weighted ALR of commercial banks		5.52		5.52		5.51	
Prices							
Consumer Price Index (CPI) (2010=100)		110.5	3.3	110.7	2.6	111.3	2.8

[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