



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

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Friday, 31 October 2014**

MONETARY AND FINANCIAL DEVELOPMENTS **September 2014**

Price Conditions: Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), was lower at 2.6% in September 2014 (August: 3.3%), due to the lapse of the impact of price adjustments to RON95 petrol and diesel that were made in September 2013. Consequently, the lower inflation was mainly in the *transport* category, which declined to 0.5% (August: 5.5%). However, inflation in the *alcoholic beverages and tobacco* category rose to 14.8% (August: 11.6%), following the upward revision of cigarette prices by some tobacco producers in early September.

Monetary Conditions: Interbank rates were relatively stable in September. The average base lending rate (BLR) of commercial banks was stable at 6.79%. Retail deposit rates were also broadly unchanged over the period. On an annual basis, broad money (M3) grew by 5.2% in September. Although credit extended to the private sector by the banking system grew at a more moderate pace, it remained the main driver of M3 expansion. The expansion was, however, partially offset by the decline in net foreign assets following net financial outflows during the month. Net financing to the private sector grew by 8.9% in September, driven by higher growth in outstanding banking system loans amidst moderation in growth of net issuances of private debt securities (PDS). Outstanding business loans grew at a higher rate during the month with a larger volume of loans extended mainly to the *wholesale and retail trade, and restaurants and hotels; manufacturing; finance, insurance and business services and real estate* sectors. While the annual growth in outstanding household loans continued to moderate, overall loan demand by businesses increased as reflected in the higher loan applications.

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 September, the ringgit broadly depreciated against the currencies of Malaysia's major trade partners. The ringgit, together with other regional currencies, generally depreciated during the month as positive economic data releases in the US, and the consequential increased prospects for monetary policy normalisation by the Federal Reserve, moderated investor interest in regional financial assets. In the period between 1 and 16 October, the ringgit exhibited a mixed performance against the currencies of Malaysia's major trade partners. The international reserves of Bank Negara Malaysia amounted to RM416.3 billion (equivalent to USD127.1 billion) as at 15 October 2014, sufficient to finance 8.6 months of retained imports and are 1.2 times the short-term external debt¹.

Bank Negara Malaysia
31 October 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.

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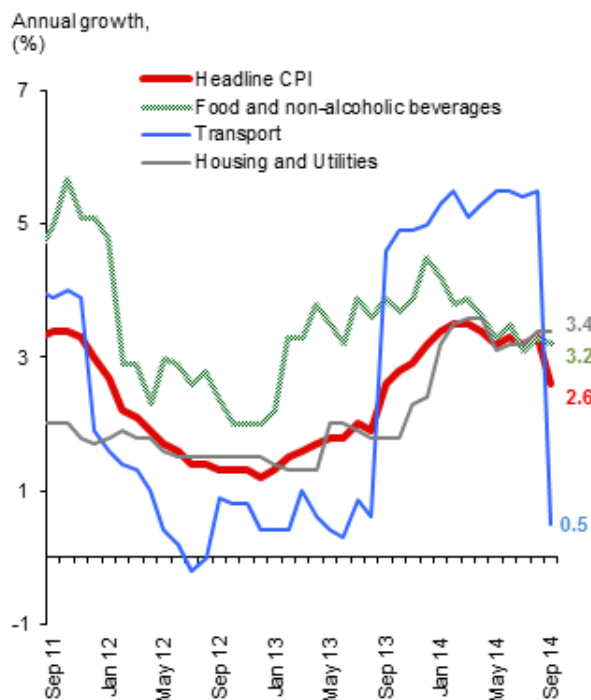
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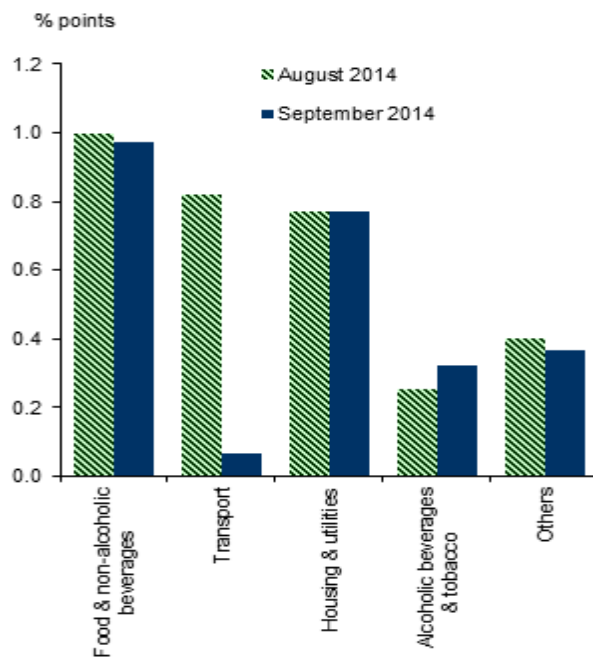
Headline inflation declined in September

Headline Inflation



Source: Department of Statistics Malaysia

Headline Inflation: Component Contribution

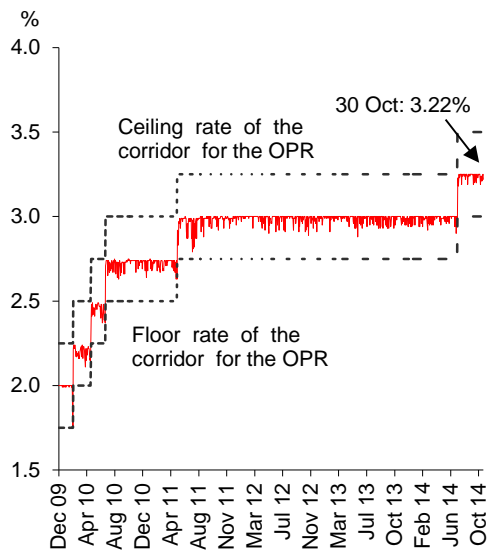


* Others include restaurants and hotels; recreation services and culture; education; health; furnishings, household equipment and routine household maintenance; communication; clothing and footwear and miscellaneous goods and services.

Source: Bank Negara Malaysia

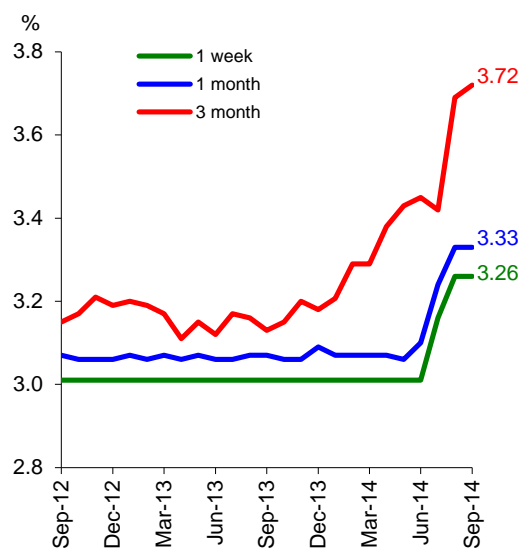
Interest rates remained broadly stable

Average Overnight Interbank Rate

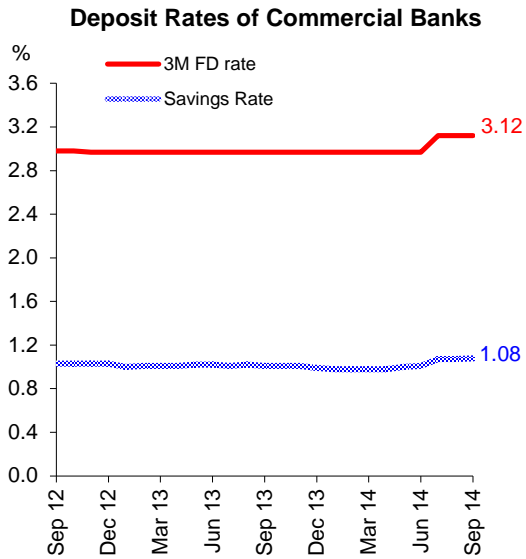


Source: Bank Negara Malaysia

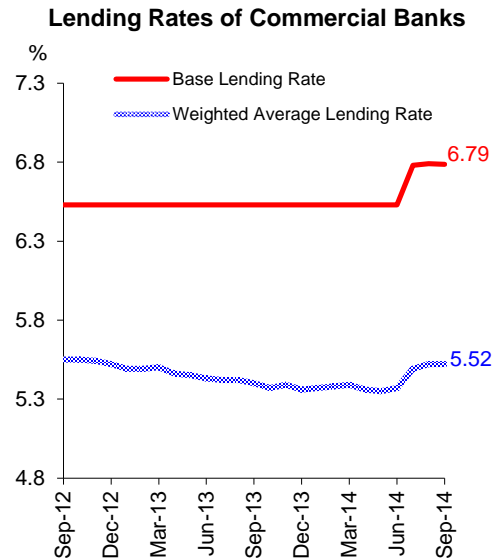
Average Interbank Rates



Source: Bank Negara Malaysia



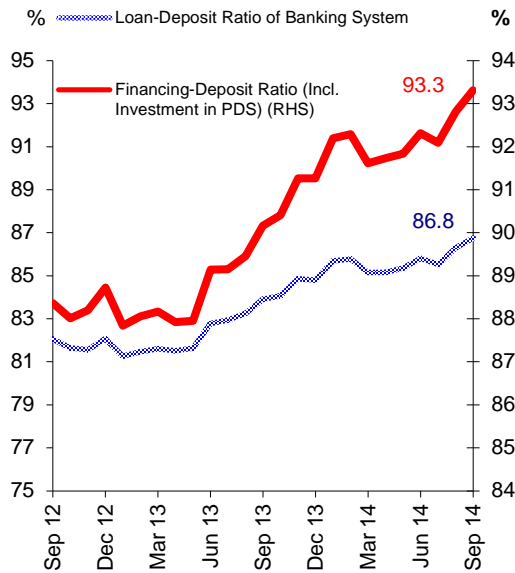
Source: Bank Negara Malaysia



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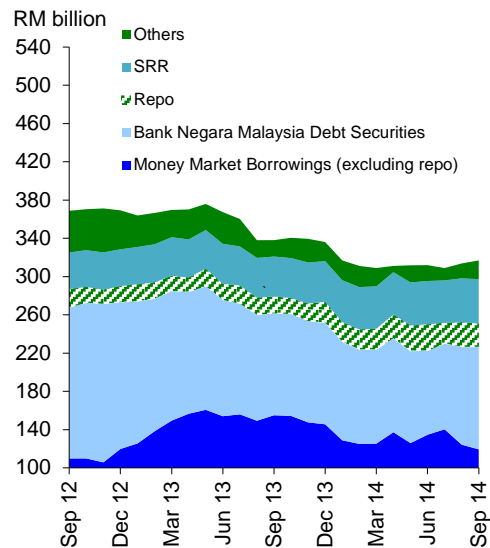
Liquidity in the banking system remained ample

Loan-Deposit Ratio and Financing-Deposit Ratio



Source: Bank Negara Malaysia

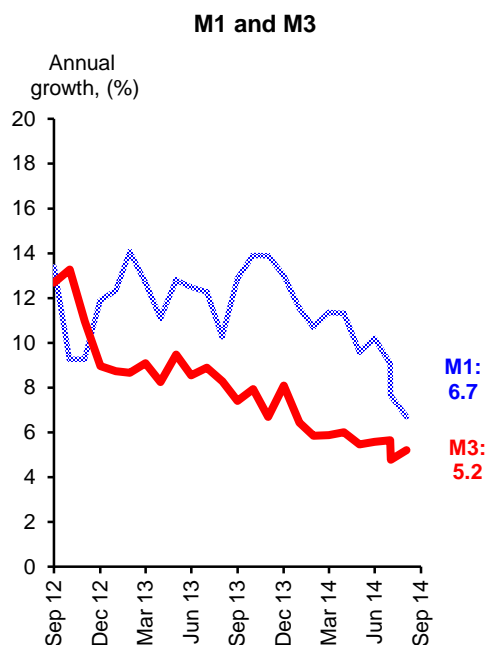
Outstanding Liquidity Placed With Bank Negara Malaysia



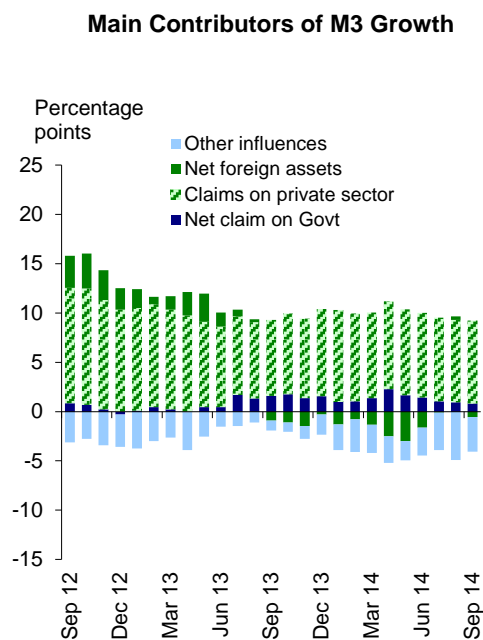
* Money Market Borrowings (excluding repo) include Direct Borrowing, Wadiah Acceptances and Commodity Murabahah Programme (CMP)

Source: Bank Negara Malaysia

Broad money growth was relatively stable in September

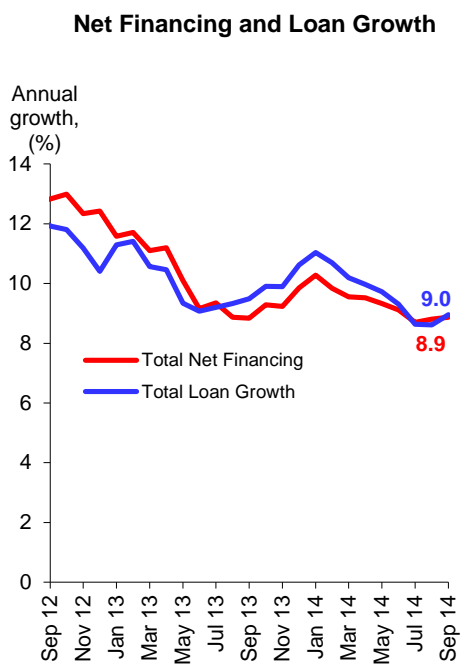


Source: Bank Negara Malaysia



Source: Bank Negara Malaysia

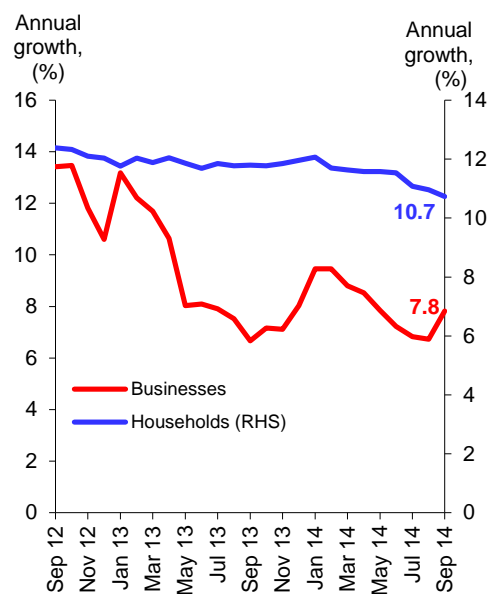
Growth in net financing picked up in September



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

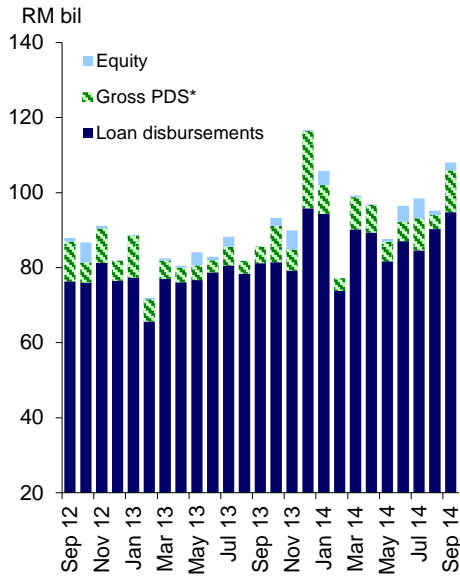
Source: Bank Negara Malaysia

Outstanding Loans of the Banking System



Source: Bank Negara Malaysia

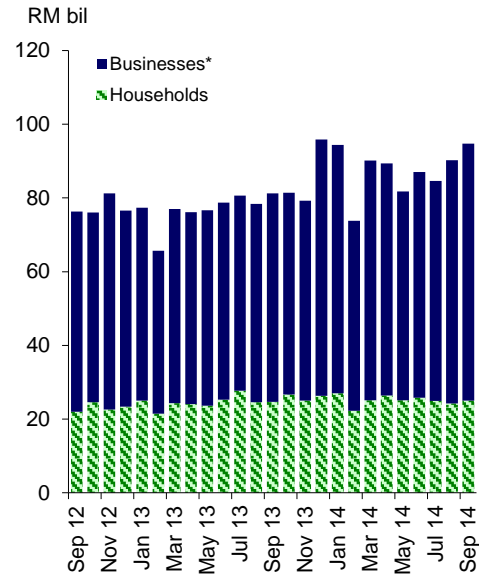
Gross Private Sector Financing



* Excludes foreign issuances

Source: Bank Negara Malaysia

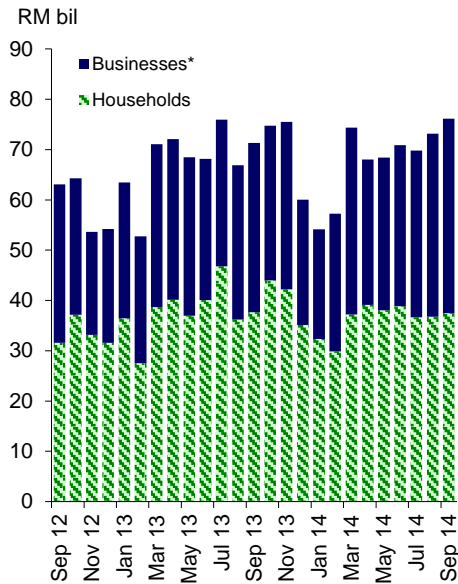
Loan Disbursements by the Banking System



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

Source: Bank Negara Malaysia

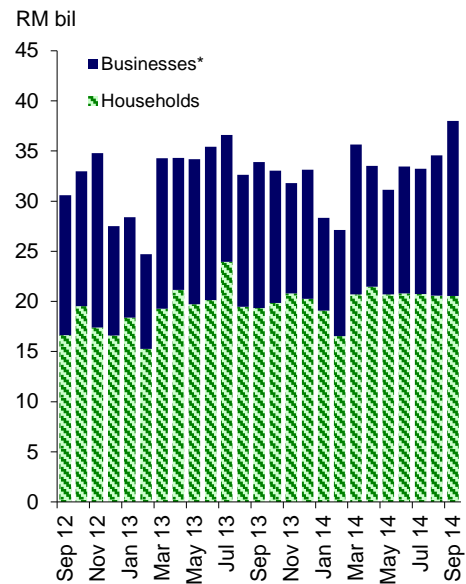
Loan Applications by the Banking System



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

Source: Bank Negara Malaysia

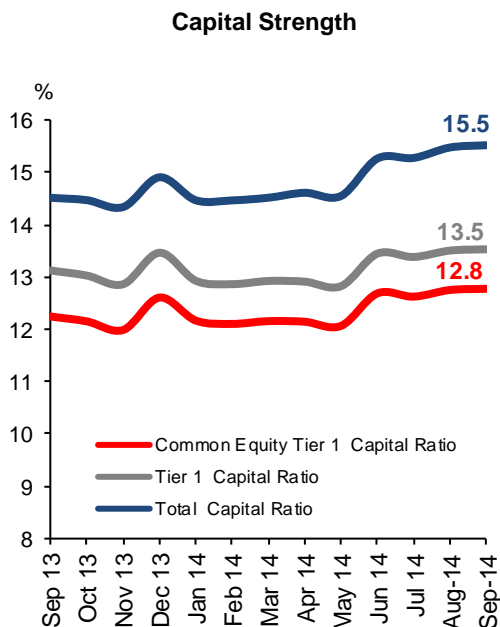
Loan Approvals by the Banking System



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

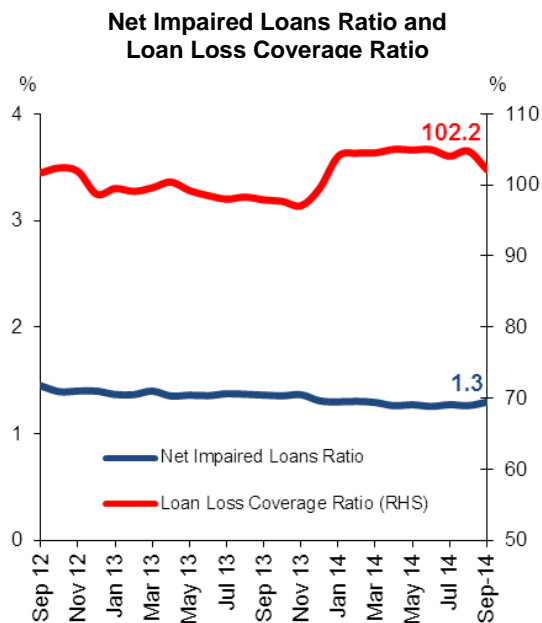
Source: Bank Negara Malaysia

Banking system capitalisation remained strong with stable loan quality



* 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.

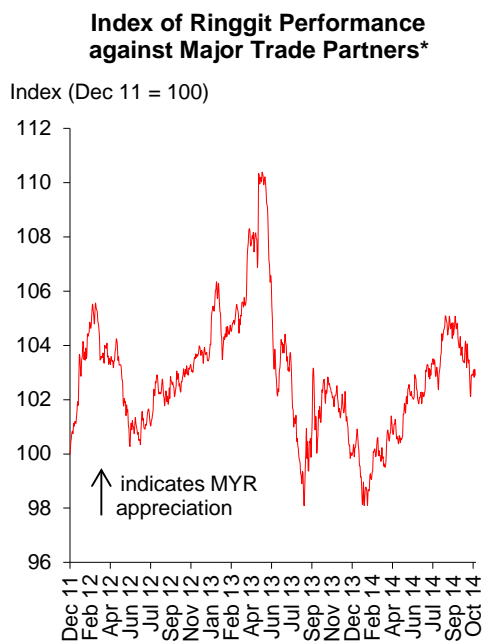
Source: Bank Negara Malaysia



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

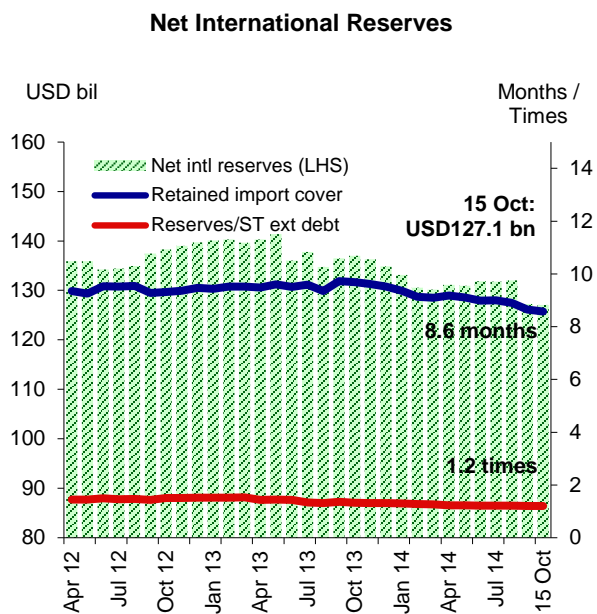
¹ Refers to ratio of individual plus collective impairment provisions to total impaired loans.
Source: Bank Negara Malaysia

The ringgit depreciated against major trade partner currencies in September



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

Source: Bank Negara Malaysia



Source: Bank Negara Malaysia

Key Monetary and Financial Statistics

	Jul 14		Aug 14		Sep 14	
	O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
	(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates						
Reserve money	123.9	8.6	122.1	8.1	121.3	7.6
M1	331.9	9.1	323.0	7.7	330.4	6.7
M2	1,489.3	5.6	1,480.7	5.0	1,492.9	5.4
M3	1,503.7	5.7	1,494.0	4.8	1,504.0	5.2
Banking System						
Net financing ¹	1,701.3	8.7	1,711.0	8.8	1,728.1	8.9
Loan-deposit ratio (%) ²	85.5		86.3		86.8	
Financing-deposit ratio (%) ^{2&3}	92.1		92.8		93.3	
Loans applied (during the period)	69.8	-8.1	73.2	9.4	76.1	6.7
Loans approved (during the period)	33.1	-9.4	34.6	5.9	38.0	12.1
Loans disbursed (during the period)	84.6	5.0	90.3	15.1	94.8	16.7
Loans repaid (during the period)	87.2	15.4	81.4	15.6	83.7	16.5
Banking System Health						
Total capital ratio (%) ⁴	15.3		15.5		15.5	
Tier 1 capital ratio (%) ⁴	13.4		13.5		13.5	
Common equity tier 1 capital ratio (%) ⁴	12.6		12.8		12.8	
Net impaired loans ratio (%)	1.3		1.3		1.3	
BNM International Reserves (end-period)						
Net Reserves in RM billion	423.5		424.1		416.9	
Net Reserves in USD billion (equivalent)	131.8		132.0		127.3	
Months of retained imports	9.0		8.9		8.7	
Interest Rates at end-period [average for the month]						
Overnight Policy Rate (OPR)	3.25		3.25		3.25	
Interbank:	Overnight	3.19 [3.13]	3.25 [3.24]		3.20 [3.24]	
	1-week	3.26 [3.16]	3.26 [3.26]		3.26 [3.26]	
	1-month	3.31 [3.24]	3.35 [3.33]		3.41 [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		6.78	6.79		6.79	
Weighted ALR of commercial banks		5.49	5.52		5.52	
Prices						
Consumer Price Index (CPI) (2010=100)	110.3	3.2	110.5	3.3	110.7	2.6

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