BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

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MONETARY AND FINANCIAL DEVELOPMENTS
August 2014

Price Conditions: Headline inflation, as measured by the annual percentage change in Consumer Price Index (CPI), averaged at 3.3% in August 2014 (July: 3.2%). Inflation in the *food and non-alcoholic beverages* category was slightly higher at 3.3% (July: 3.1%) due mainly to a base effect, as prices of *fresh meat* and *fresh vegetables* declined during the corresponding period last year. Inflation in the *housing, water, electricity, gas and other fuels* category was also higher at 3.4% (July: 3.2%) following the increase in *rental* across most types of properties.

Monetary Conditions: Short-term interbank rates (one month and less) were stable in August. Long-term interbank rates, however, trended higher due to increased expectation for a further Overnight Policy Rate (OPR) increase in the second half of the year. In terms of retail lending rates, the average base lending rate (BLR) of commercial banks was relatively stable at 6.79%. Retail deposit rates were unchanged over the period. On an annual basis, broad money (M3) grew by 4.8% in August. Credit extended to the private sector by the banking system remained the main driver of M3 expansion together with higher net claims on the government. Net financing to the private sector grew at a relatively stable pace of 8.8% in August, due to higher growth in outstanding private debt securities (PDS) amidst stable growth of outstanding banking system loans. The annual growth of outstanding business loans moderated due to slightly stronger growth in loan repayments relative to disbursements. The annual growth in outstanding household loans also continued to moderate. The stable growth in total outstanding banking system loans, however, was contributed by loans extended to other borrowers, namely domestic non-bank financial institutions. Overall loan demand increased slightly with higher loan applications from businesses.

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 August, the ringgit appreciated against the currencies of Malaysia's major trade partners. The ringgit's strength during the month was mostly driven by the release of stronger than expected economic data domestically, which led to higher demand for Malaysian financial assets. In the period between 1 and 17 September, the ringgit exhibited a mixed performance against the currencies of Malaysia's major trade partners. The international reserves of Bank Negara Malaysia amounted to RM422.3 billion (equivalent to USD131.5 billion) as at 15 September 2014, sufficient to finance 8.9 months of retained imports and were 1.2 times the short-term external debt[1].

Bank Negara Malaysia
30 September 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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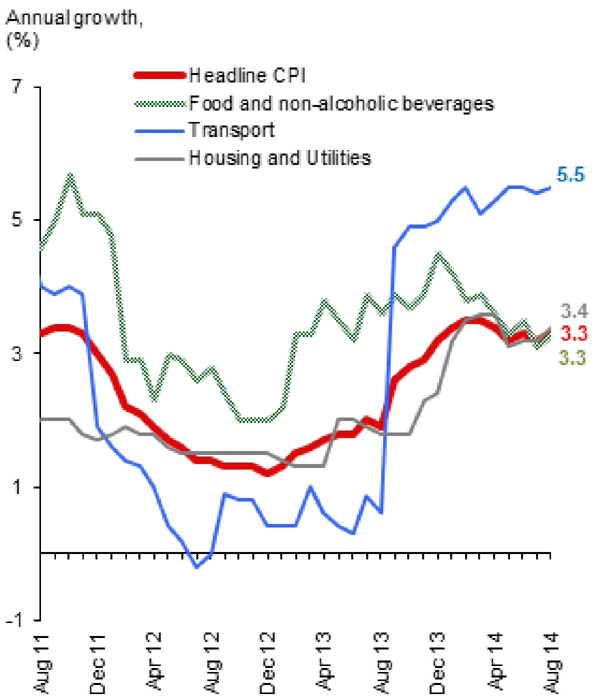
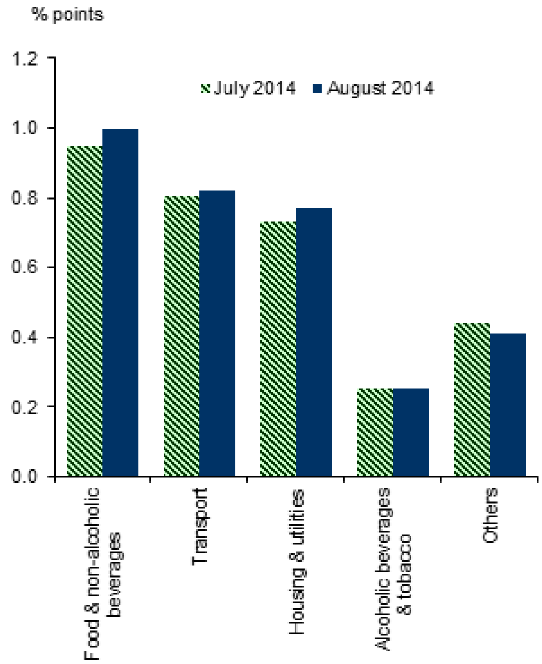
Headline inflation remained relatively stable in August

Headline Inflation



Source: Department of Statistics Malaysia

Headline Inflation: Component Contribution

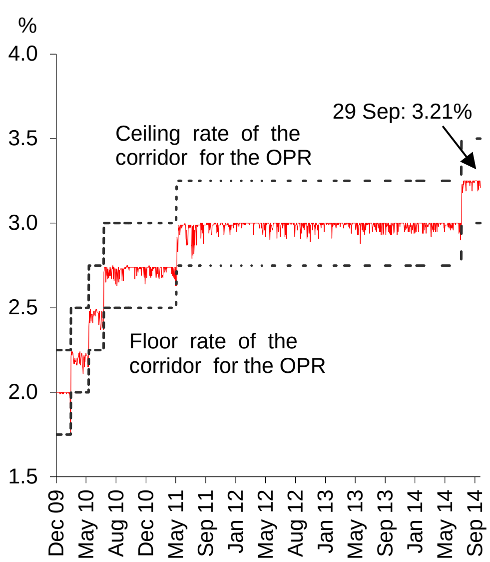


* Others include *restaurants and hotels; recreation services and culture; education; health; furnishings, household equipment and routine household maintenance; communication; clothing and footwear* and *miscellaneous goods and services.*

Source: Bank Negara Malaysia

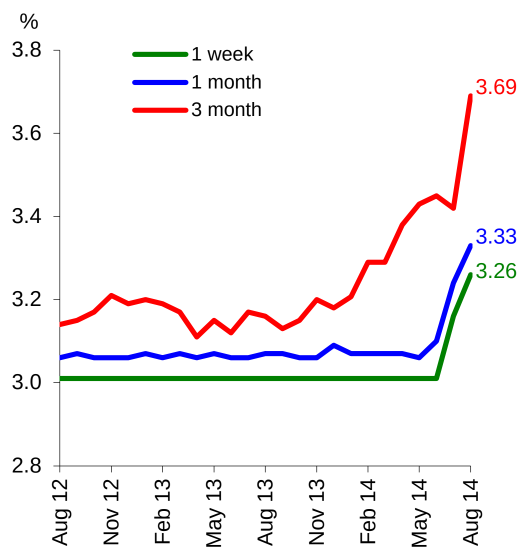
Interest rates were broadly stable, but long-term interbank rates trended higher due to increased expectation for a further OPR increase

Average Overnight Interbank Rate



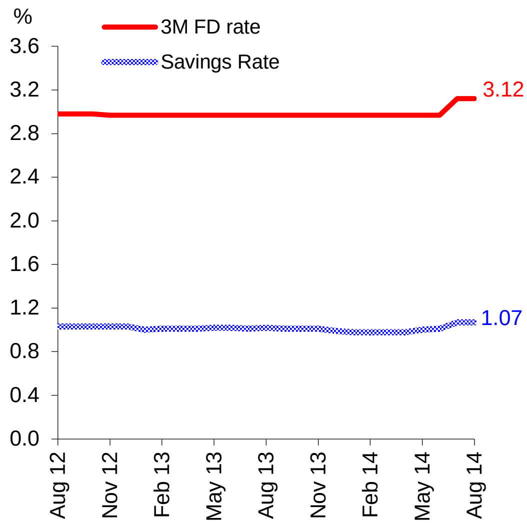
Source: Bank Negara Malaysia

Average Interbank Rates



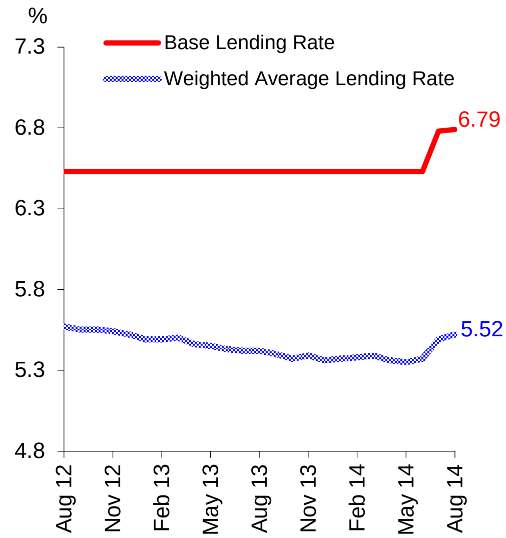
Source: Bank Negara Malaysia

Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

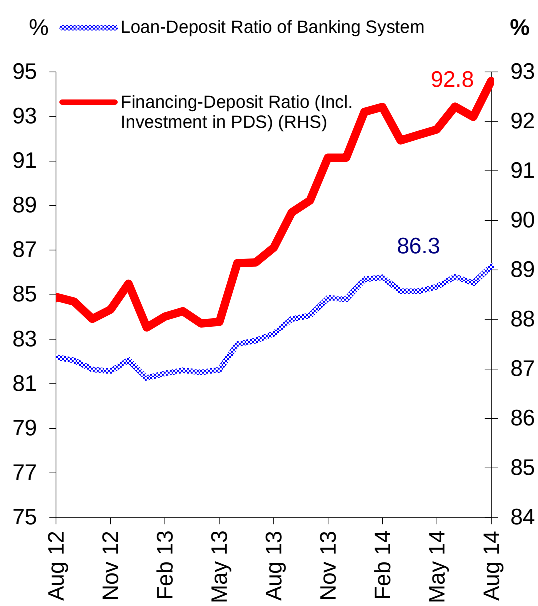
Lending Rates of Commercial Banks



Source: Bank Negara Malaysia

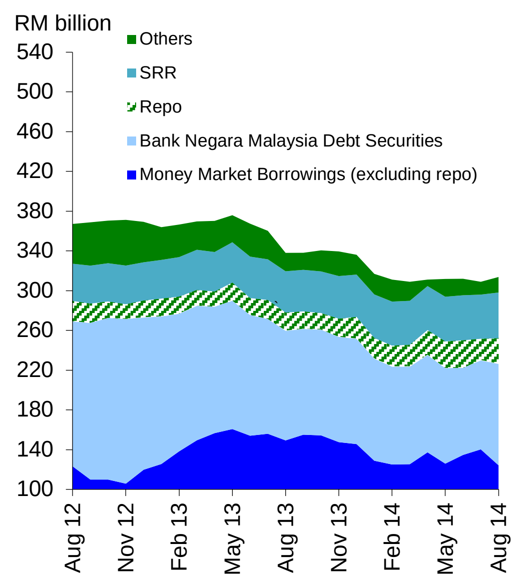
Liquidity in the banking system remained ample

Loan-Deposit Ratio and Financing-Deposit Ratio



Source: Bank Negara Malaysia

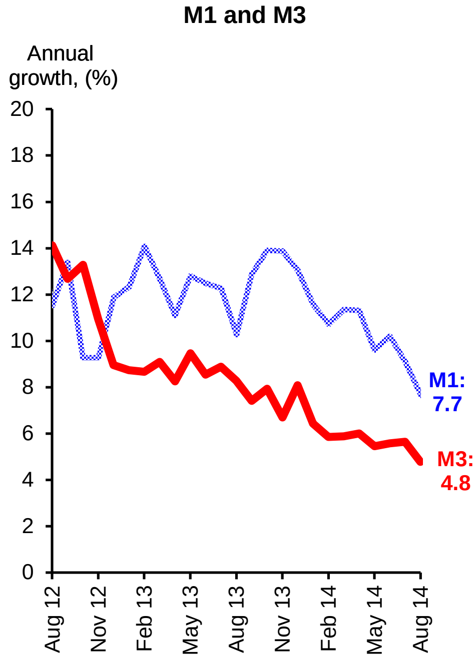
Outstanding Liquidity Placed With Bank Negara Malaysia



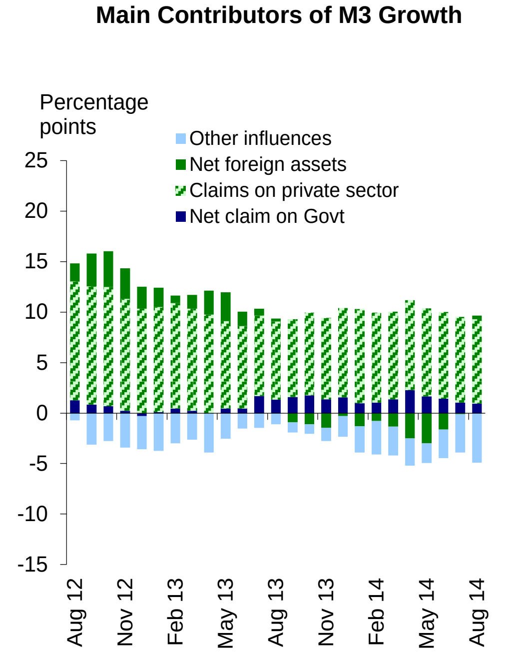
* *Money Market Borrowings (excluding repo) include Direct Borrowing, Wadiah Acceptances and Commodity Murabahah Programme (CMP)*

Source: Bank Negara Malaysia

Broad money growth moderated in August

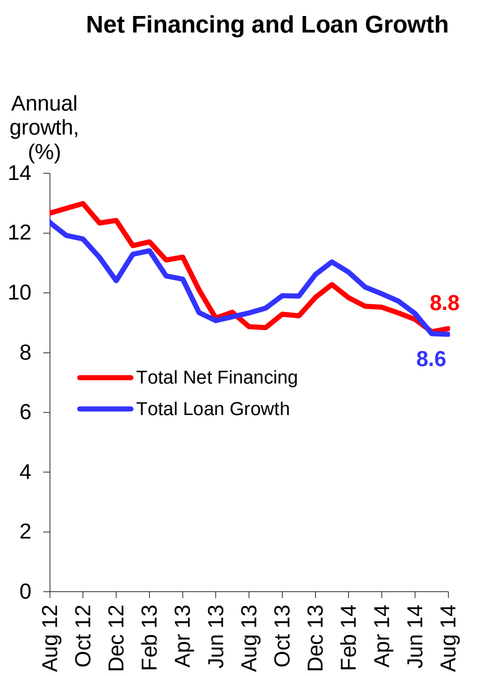


Source: Bank Negara Malaysia

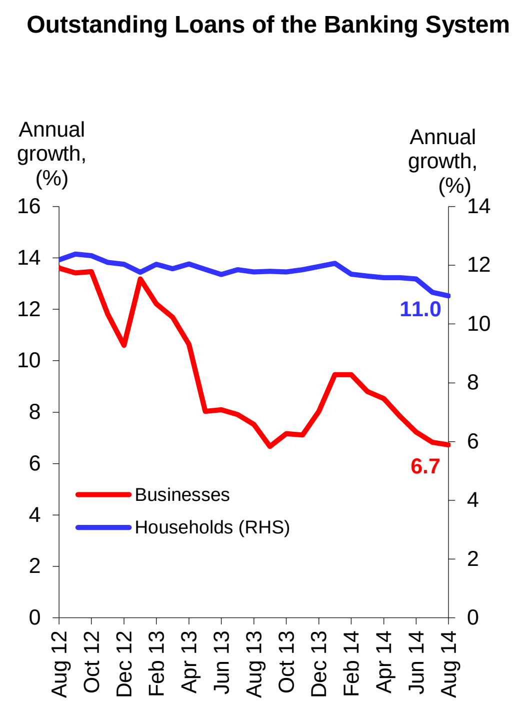


Source: Bank Negara Malaysia

Growth in net financing stabilised in August

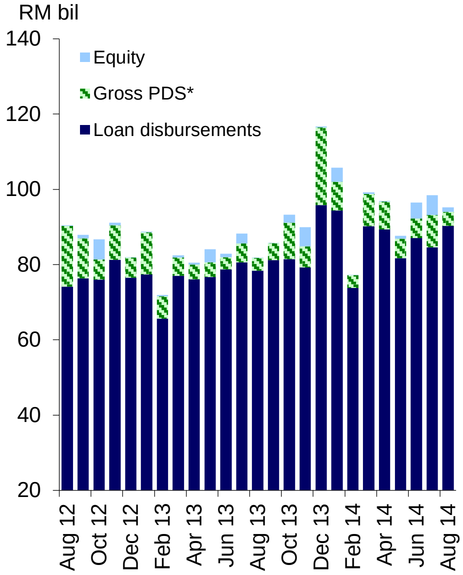


* Net financing comprises of banking system loans and private debt securities (PDS) outstanding (excluding non-residents and Cagamas)
Source: Bank Negara Malaysia



Source: Bank Negara Malaysia

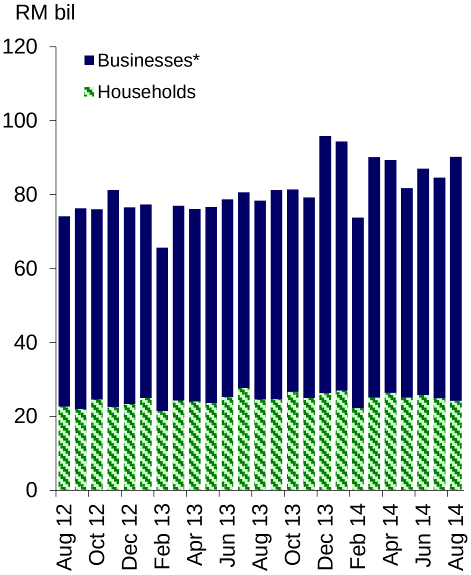
Gross Private Sector Financing



** Excludes foreign issuances*

Source: Bank Negara Malaysia

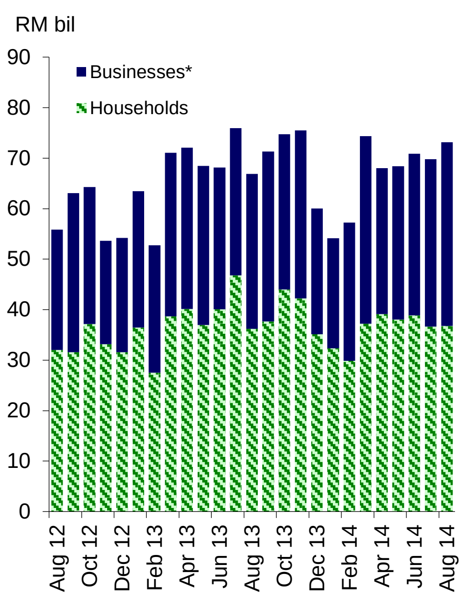
Loan Disbursements by the Banking System



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

Source: Bank Negara Malaysia

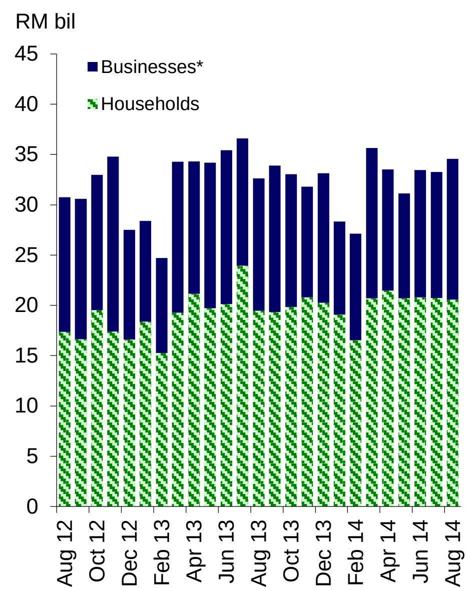
Loan Applications by the Banking System



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

Source: Bank Negara Malaysia

Loan Approvals by the Banking System

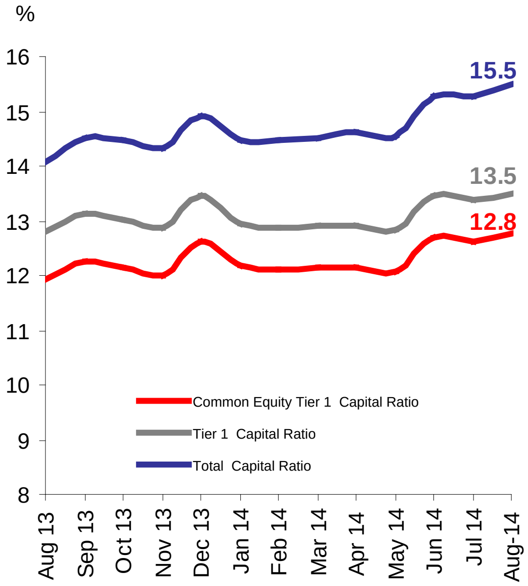


** Includes domestic financial institutions, government, domestic other entities and foreign entities*

Source: Bank Negara Malaysia

Banking system capitalisation remained strong with stable loan quality

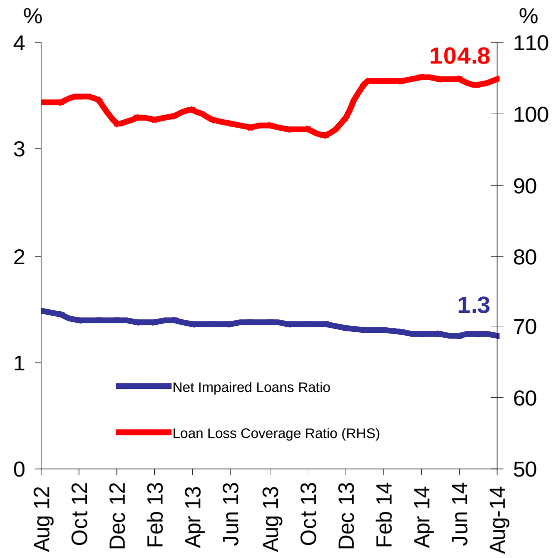
Capital Strength



** 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



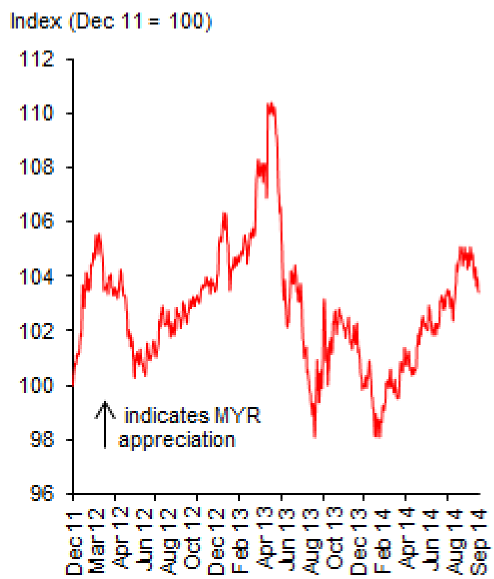
** Beginning January 2010, loans are reported based on FRS139. The adoption of FRS139 requirement is based on the financial year of the banks.*

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

Source: Bank Negara Malaysia

The ringgit appreciated against major trade partner currencies in August

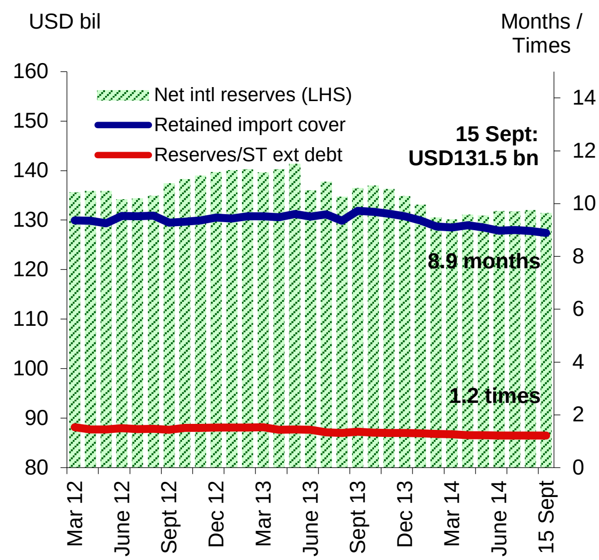
Index of Ringgit Performance against Major Trade Partners*



** 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

		Jun 14		Jul 14		Aug 14	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates							
Reserve money		120.6	8.0	123.9	8.6	122.1	8.1
M1		329.3	10.2	331.9	9.1	323.0	7.7
M2		1,479.6	5.7	1,489.3	5.6	1,480.7	5.0
M3		1,493.5	5.6	1,503.7	5.7	1,494.0	4.8
Banking System							
Net financing[1]		1,697.3	9.1	1,701.3	8.7	1,711.0	8.8
Loan-deposit ratio (%) [2]		85.8		85.5		86.3	
Financing-deposit ratio (%) [2&3]		92.3		92.1		92.8	
Loans applied (during the period)		70.9	3.9	69.8	-8.1	73.2	9.4
Loans approved (during the period)		33.5	-5.6	33.3	-9.1	34.6	5.9
Loans disbursed (during the period)		87.0	10.5	84.6	5.0	90.3	15.1
Loans repaid (during the period)		77.4	16.7	87.2	15.4	81.4	15.6
Banking System Health							
Total capital ratio (%) [4]		15.3		15.3		15.5	
Tier 1 capital ratio (%) [4]		13.4		13.4		13.5	
Common equity tier 1 capital ratio (%) [4]		12.7		12.6		12.8	
Net impaired loans ratio (%)		1.3		1.3		1.3	
BNM International Reserves (end-period)							
Net Reserves in RM billion		423.6		423.5		424.1	
Net Reserves in USD billion (equivalent)		131.9		131.8		132.0	
Months of retained imports		9.0		9.0		9.0	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.00		3.25		3.25	
Interbank:	Overnight	3.00 [2.99]		3.19 [3.13]		3.25 [3.24]	
	1-week	3.01 [3.01]		3.26 [3.16]		3.26 [3.26]	
	1-month	3.54 [3.10]		3.31 [3.24]		3.35 [3.33]	
Fixed deposits of commercial banks:	1-month	2.91		3.07		3.07	
	3-month	2.97		3.12		3.12	
BLR of commercial banks		6.53		6.78		6.79	
Weighted ALR of commercial banks		5.37		5.49		5.52	
Prices							
Consumer Price Index (CPI) (2010=100)		110.2	3.3	110.3	3.2	110.5	3.3

[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