BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 08/14/12

EMBARGO: Not for publication or broadcast before 1700 hours on Friday, 29 August 2014

MONETARY AND FINANCIAL DEVELOPMENTS
July 2014

Price Conditions: Headline inflation, as measured by the annual percentage change in Consumer Price Index (CPI), remained stable at 3.2% in July 2014 (June: 3.3%). Inflation in the *food and non-alcoholic beverages* category was lower at 3.1% (June: 3.5%) due to lower inflation in the *fresh meat* sub-category. However, this was partially offset by higher inflation in the *fresh vegetables* sub-category as the warmer weather affected the supply of non-leafy vegetables. Meanwhile, inflation in the *miscellaneous goods and services category* increased to 1.4% (June: 1.2%) as a result of the higher prices of *gold jewellery* during the month and a low base in July 2013.

Monetary Conditions: Following the Monetary Policy Committee's (MPC) decision to raise the Overnight Policy Rate (OPR) by 25 basis points to 3.25% on 10 July 2014, interbank rates of shorter tenures trended higher. Retail lending and deposit rates were also revised upwards. The average BLR of commercial banks increased to 6.78%, with most commercial banks revising their BLRs by 25 basis points. Depositors also received a higher rate of return on their savings following the increase in the OPR. The average quoted fixed deposit (FD) rates rose between 15 to 17 basis points, to range between 3.07% and 3.30% as at end-July. On an annual basis, broad money (M3) grew by 5.7% in July. Although credit extended to the private sector by the banking system grew at a more moderate pace, it nevertheless remained the main driver of M3 expansion along with higher net claims on the government. Net financing to the private sector grew at a slower pace of 8.7% in July, due to a moderation in the growth of outstanding banking system loans. While the growth of outstanding business loans moderated following higher repayments during the month, the level of loans disbursed to businesses remained healthy. Similarly, while the growth in outstanding household loans continued to moderate during the month, loans disbursements were sustained. Overall loan demand remained relatively stable with higher loans applications from businesses amidst lower loans 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 12.4%, 13.2% and 15.1%, respectively. The level of net impaired loans was sustained at 1.3% of net loans while the loan loss coverage ratio remained above 100%.

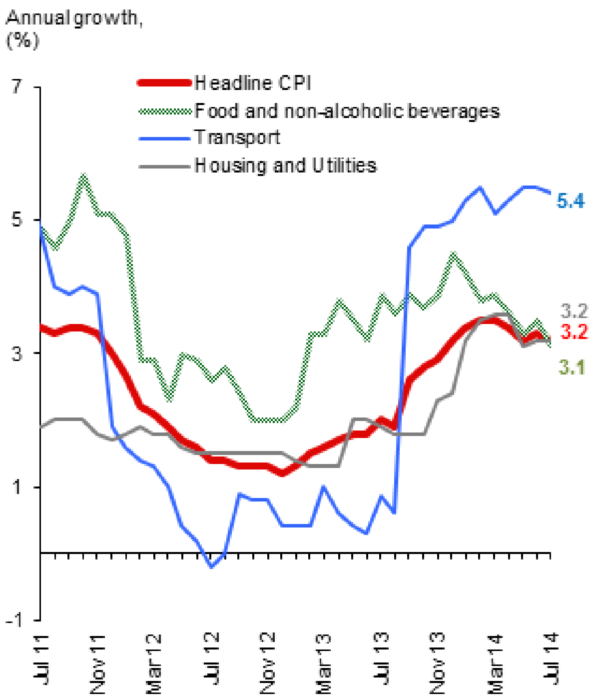
Exchange Rates and International Reserves: In July, the ringgit appreciated against the currencies of Malaysia's major trade partners. The ringgit continued to appreciate against the currencies of Malaysia's major trade partners in the period between 1 and 18 August. The international reserves of Bank Negara Malaysia amounted to RM422.7 billion (equivalent to USD131.6 billion) as at 15 August 2014, sufficient to finance 8.9 months of retained imports and are 1.2 times the short-term external debt[1].

Bank Negara Malaysia
29 August 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.

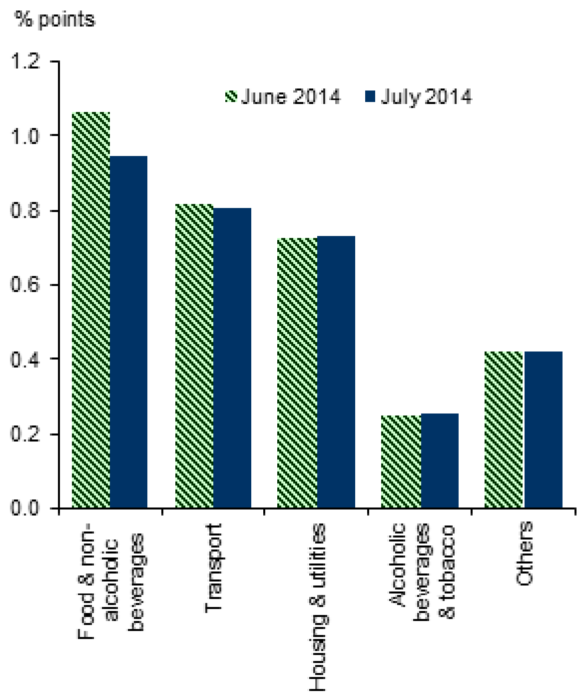
Headline inflation remained relatively stable in July

Headline Inflation



Source: Department of Statistics Malaysia

Headline Inflation: Component Contribution

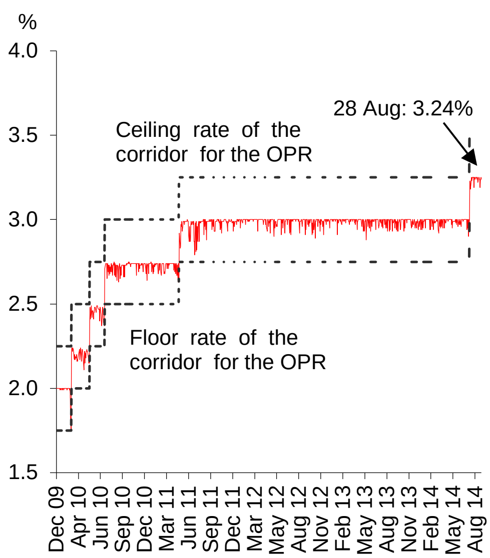


* Others include *restaurants and hotels; recreation services and culture; education; health; furnishings, household equipment* and *routine household maintenance; communication; clothing and footwear* and *miscellaneous goods and services.*

Source: Bank Negara Malaysia

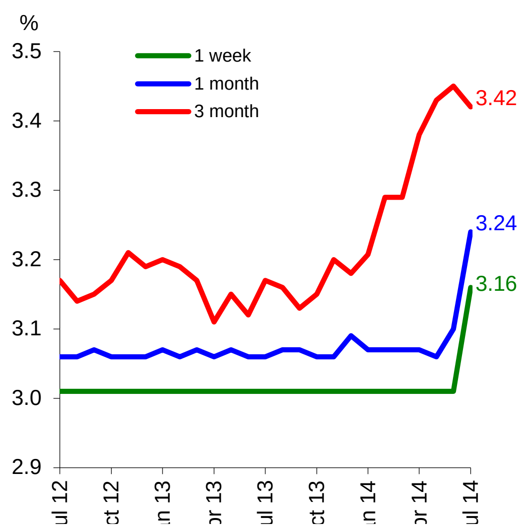
Interest rates trended higher in July following the OPR increase

Average Overnight Interbank Rate



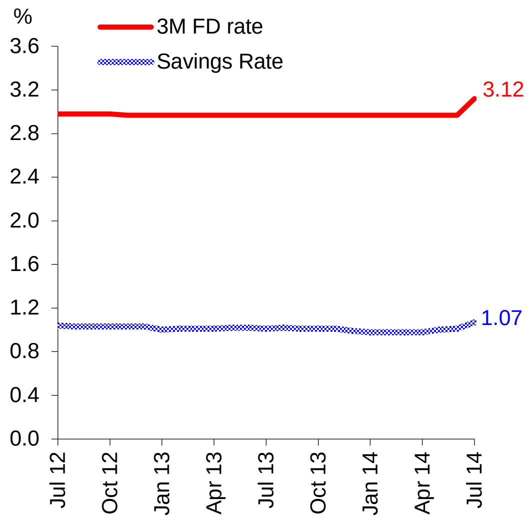
Source: Bank Negara Malaysia

Average Interbank Rates



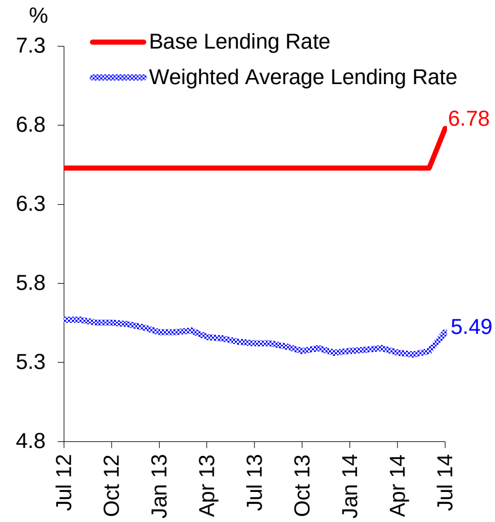
Source: Bank Negara Malaysia

Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

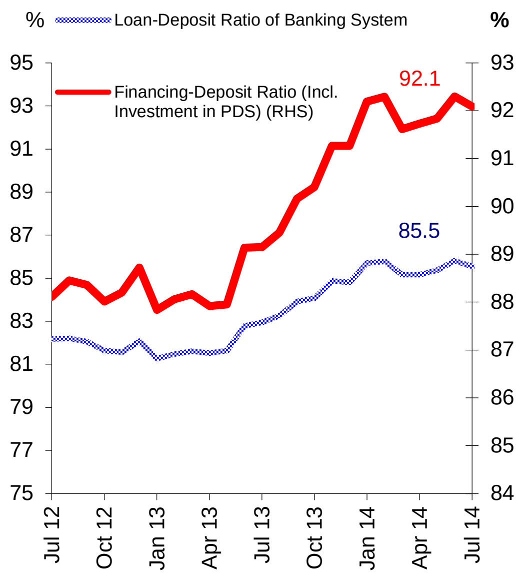
Lending Rates of Commercial Banks



Source: Bank Negara Malaysia

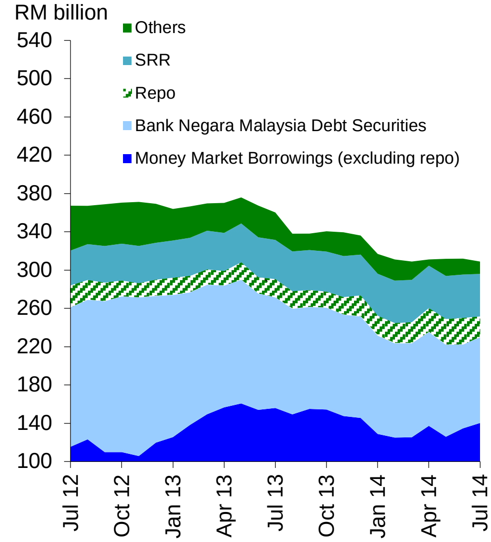
Liquidity in the banking system remained ample

Loan-Deposit Ratio and Financing-Deposit Ratio



Source: Bank Negara Malaysia

Outstanding Liquidity Placed With Bank Negara Malaysia

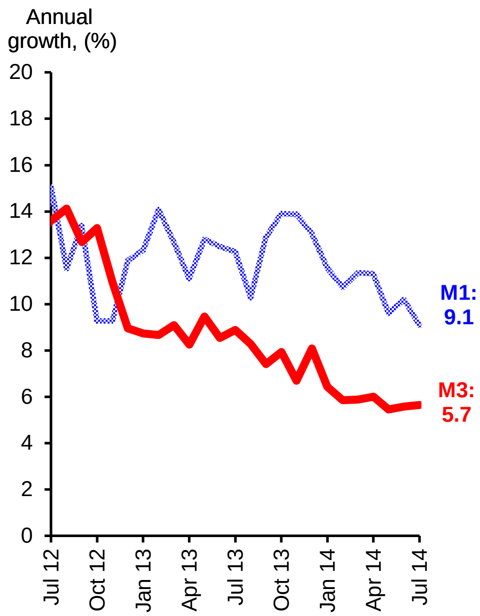


* *Money Market Borrowings (excluding repo) include Direct Borrowing, Wadiah Acceptances and Commodity Murabahah Programme (CMP)*

Source: Bank Negara Malaysia

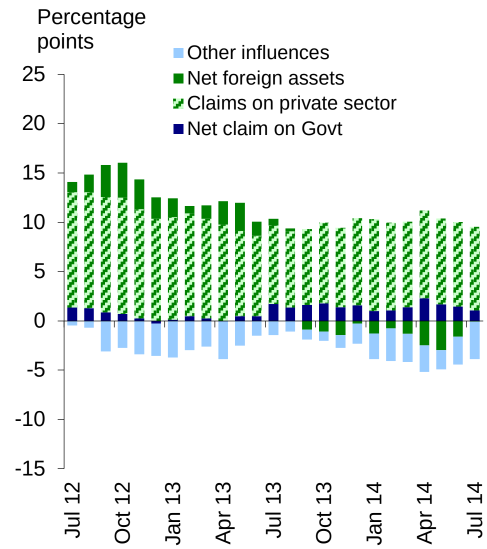
Broad money growth was relatively stable in July

M1 and M3



Source: Bank Negara Malaysia

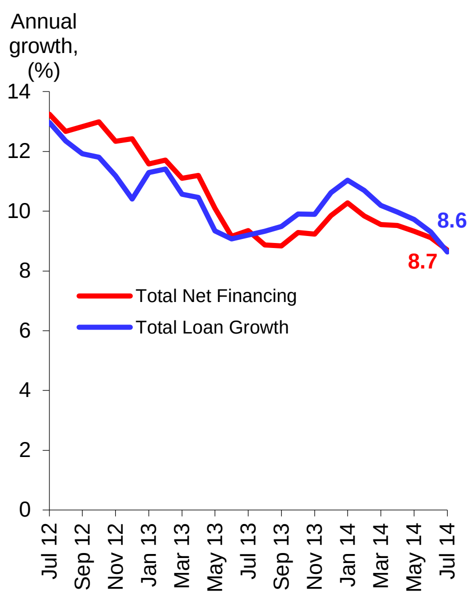
Main Contributors of M3 Growth



Source: Bank Negara Malaysia

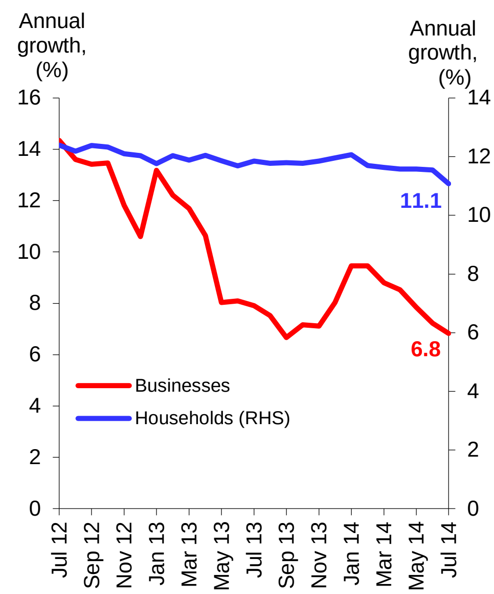
Financing growth moderated in July

Net Financing and Loan Growth



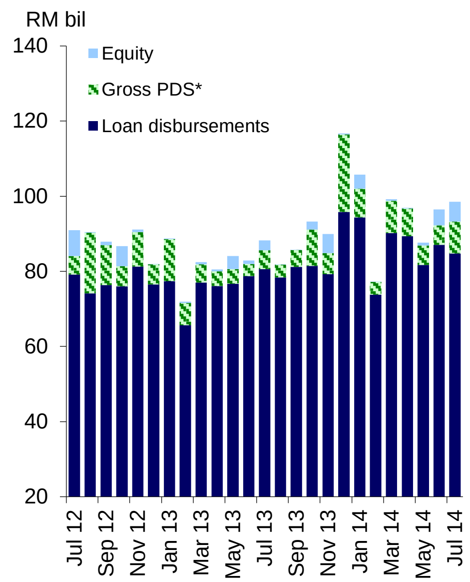
** Net financing comprises of banking system loans and private debt securities (PDS) outstanding (excluding non-residents and Cagamas)*
Source: Bank Negara Malaysia

Outstanding Loans of the Banking System



Source: Bank Negara Malaysia

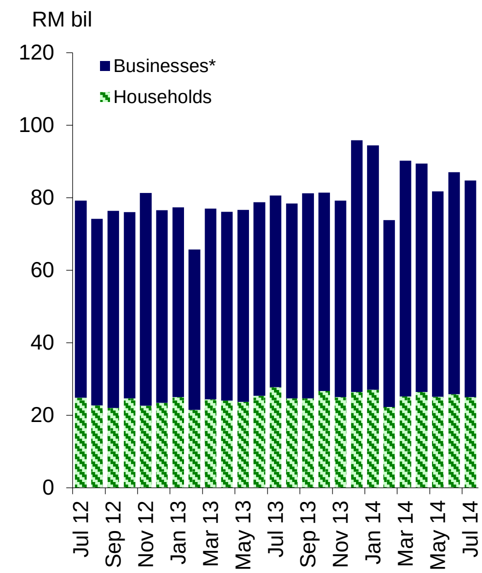
Gross Private Sector Financing



** Excludes foreign issuances*

Source: Bank Negara Malaysia

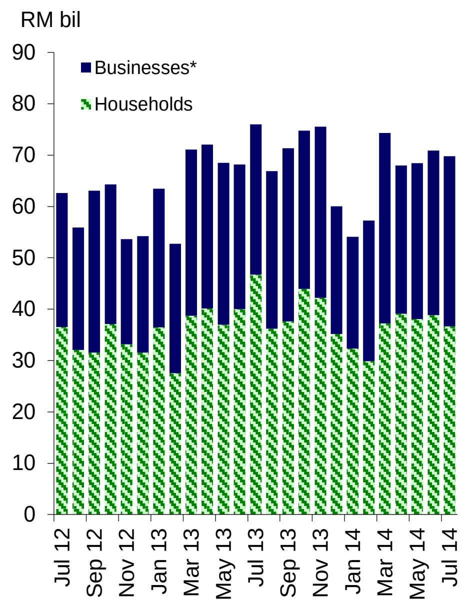
Loan Disbursements by the Banking System



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

Source: Bank Negara Malaysia

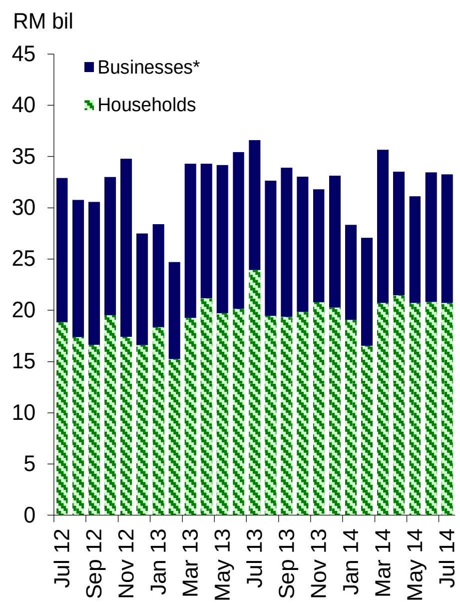
Loan Applications by the Banking System



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

Source: Bank Negara Malaysia

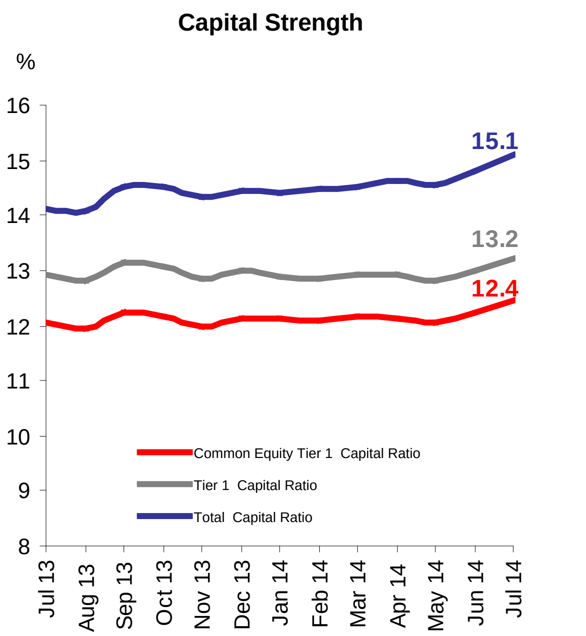
Loan Approvals by the Banking System



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

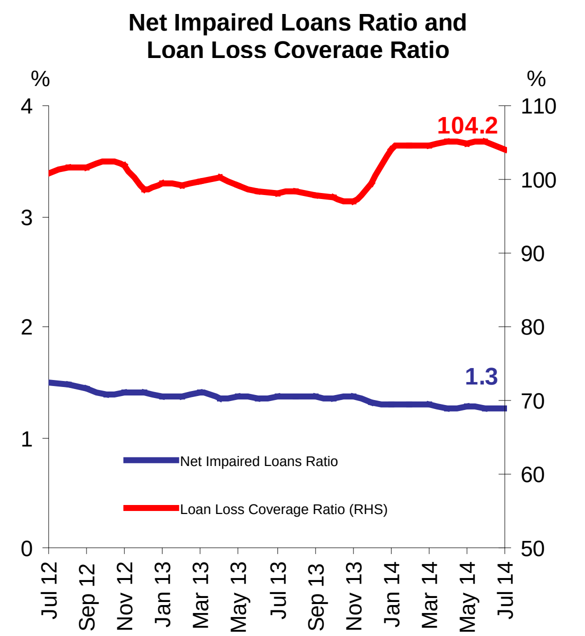
Source: Bank Negara Malaysia

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

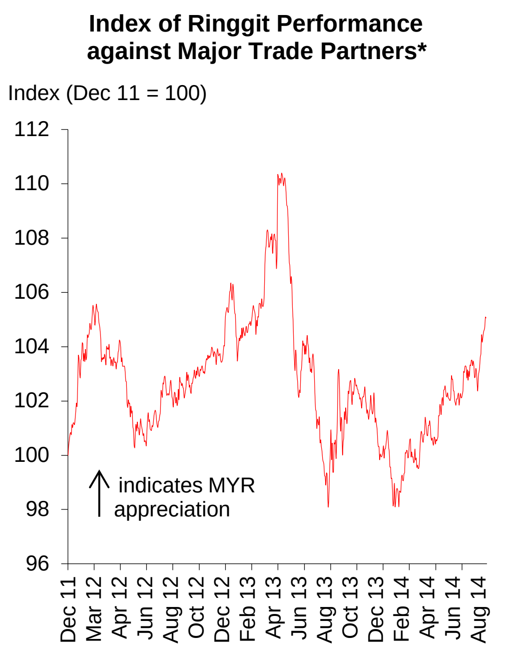


* *Beginning January 2010, loans are reported based on FRS139. The adoption of FRS139 requirement is based on the financial year of the banks.*

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

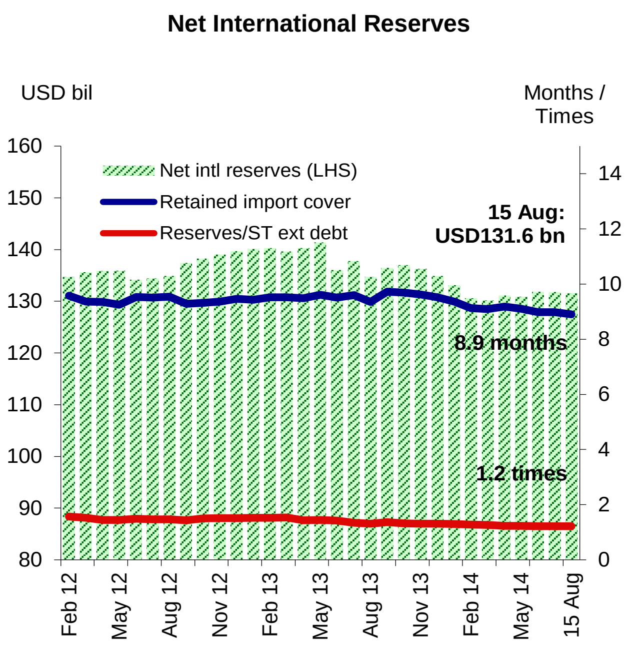
Source: Bank Negara Malaysia

The ringgit appreciated against major trade partner currencies in July



* *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

		May 14		Jun 14		Jul 14	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates							
Reserve money		119.7	8.0	120.6	8.0	123.9	8.6
M1		324.0	9.6	329.3	10.2	331.9	9.1
M2		1,476.7	5.6	1,479.5	5.6	1,489.3	5.6
M3		1,491.9	5.5	1,493.5	5.6	1,503.7	5.7
Banking System							
Net financing[1]		1,683.3	9.3	1,697.4	9.1	1,701.3	8.7
Loan-deposit ratio (%) [2]		85.4		85.8		85.5	
Financing-deposit ratio (%) [2&3]		91.8		92.3		92.1	
Loans applied (during the period)		68.4	-0.1	70.9	3.9	69.8	-8.1
Loans approved (during the period)		31.1	-8.9	33.5	-5.6	33.3	-9.1
Loans disbursed (during the period)		81.7	6.6	87.0	10.5	84.7	5.1
Loans repaid (during the period)		75.6	10.7	77.4	16.7	87.3	15.5
Banking System Health							
Total capital ratio (%) [4]		14.6		14.8		15.1	
Tier 1 capital ratio (%) [4]		12.8		13.0		13.2	
Common equity tier 1 capital ratio (%) [4]		12.1		12.2		12.4	
Net impaired loans ratio (%)		1.3		1.3		1.3	
BNM International Reserves (end-period)							
Net Reserves in RM billion		427.0		423.6		423.5	
Net Reserves in USD billion (equivalent)		130.9		131.9		131.8	
Months of retained imports		9.1		9.0		9.0	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.00		3.00		3.25	
Interbank:	Overnight	3.00 [2.99]		3.00 [2.99]		3.19 [3.13]	
	1-week	3.01 [3.01]		3.01 [3.01]		3.26 [3.16]	
	1-month	3.06 [3.06]		3.54 [3.10]		3.31 [3.24]	
Fixed deposits of commercial banks:	1-month	2.91		2.91		3.07	
	3-month	2.97		2.97		3.12	
BLR of commercial banks		6.53		6.53		6.78	
Weighted ALR of commercial banks		5.35		5.37		5.49	
Prices							
Consumer Price Index (CPI) (2010=100)		110.0	3.2	110.2	3.3	110.3	3.2

[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