BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

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MONETARY AND FINANCIAL DEVELOPMENTS
June 2014

Price Conditions: Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), edged slightly higher to 3.3% in June 2014 (May: 3.2%). The *food and non-alcoholic beverages* category recorded higher inflation of 3.5% (May: 3.3%) due mainly to higher prices of *fresh fish and seafood,* and *vegetables.* However, inflation in the *alcoholic beverages and tobacco* category was lower at 11.6% (May: 14.1%) due to base effects, as the impact from the increase in tobacco prices in June 2013 lapsed.

Monetary Conditions: Market expectations for an increase in the Overnight Policy Rate (OPR) in July contributed to higher interbank rates for tenures 1 month and longer. Shorter tenured interbank rates remained stable. In terms of retail lending rates, the average base lending rate (BLR) of commercial banks remained unchanged at 6.53% in June, while retail deposit rates were also relatively stable during the period. Following the Monetary Policy Committee's (MPC) decision to raise the OPR by 25 basis points to 3.25% on 10 July 2014, interbank rates across all maturities trended higher. Retail lending and deposit rates were also revised upwards. On an annual basis, broad money or M3 growth was relatively stable at 5.6% in June. The expansion in M3 was mainly on account of credit extension to the private sector by the banking system. The expansion, however, was partially offset by a decline in net foreign assets. Net financing to the private sector grew at a slower pace of 9.1% in June, due to a moderation in the growth of outstanding banking system loans. The annual growth of outstanding business loans moderated during the month amid stronger growth in loan repayments relative to disbursements. The growth in outstanding household loans continued its gradual moderating trend. Overall loan demand, however, increased with higher loan applications particularly from the business sector.

Banking System: Banking system capitalisation remained strong with the Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio at 12.2%, 13% and 14.8% respectively. The level of net impaired loans sustained at 1.3% of net loans while the loan loss coverage ratio was above 100%.

Exchange Rates and International Reserves: In June, the ringgit depreciated against the currencies of most of Malaysia's major trade partners, with the exception of the US dollar, against which the ringgit was relatively unchanged. Favourable data releases in the US, which led to higher investor expectations for an earlier-than-expected policy rate increase, as well as geopolitical developments in the Middle East, affected demand for regional financial assets, including ringgit. In the period between 1 and 16 July, the ringgit appreciated against the currencies of Malaysia's major trade partners. The international reserves of Bank Negara Malaysia amounted to RM423.8 billion (equivalent to USD131.9 billion) as at 14 July 2014, sufficient to finance 8.9 months of retained imports and is 1.3 times the short-term external debt[1].

Bank Negara Malaysia
31 July 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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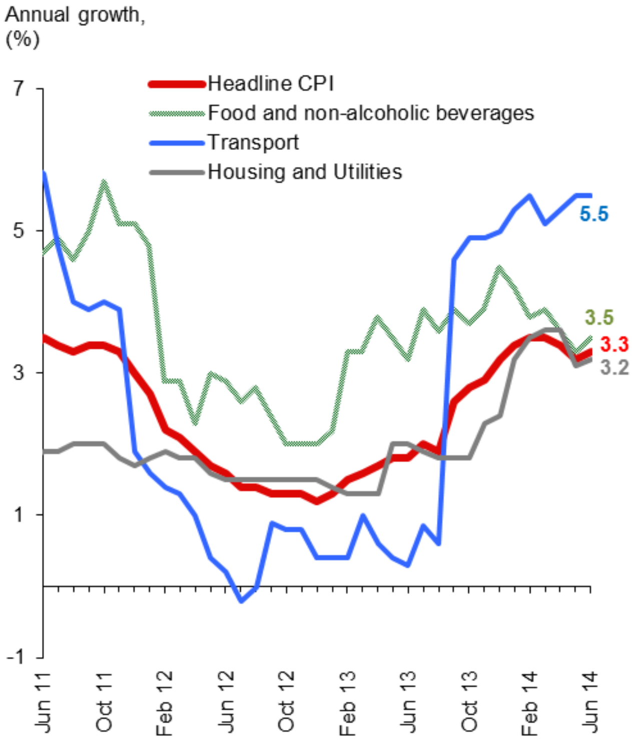
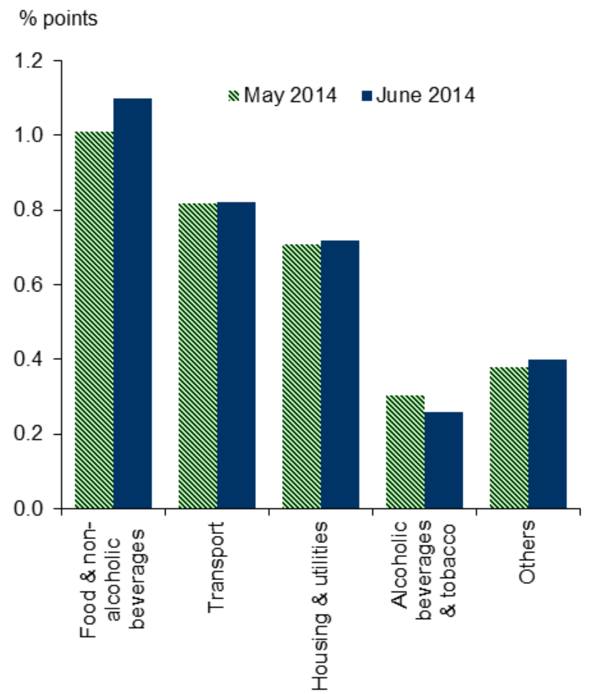
Headline inflation rose slightly in June

Headline Inflation



Source: Department of Statistics Malaysia

Headline Inflation: Component Contribution

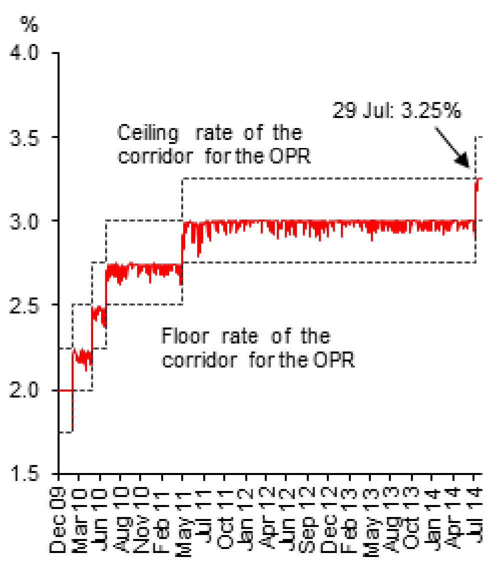


* Others include *restaurants and hotels; recreation services and culture; education; health; furnishings, household equipment and routine household maintenance; communication; clothing and footwear* and *miscellaneous goods and services.*

Source: Bank Negara Malaysia

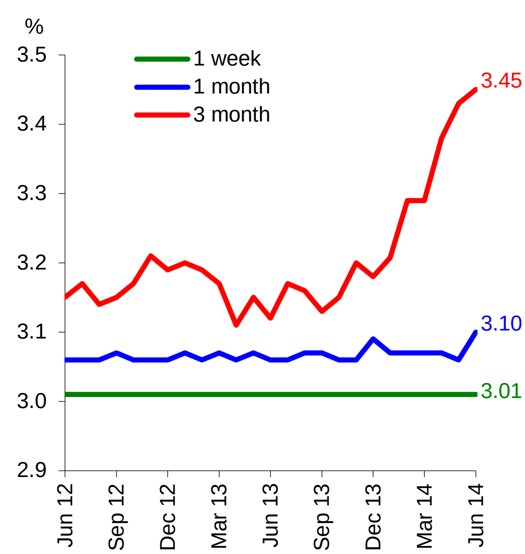
Increase in some money market interest rates amid stable retail lending and deposit rates

Average Overnight Interbank Rate



Source: Bank Negara Malaysia

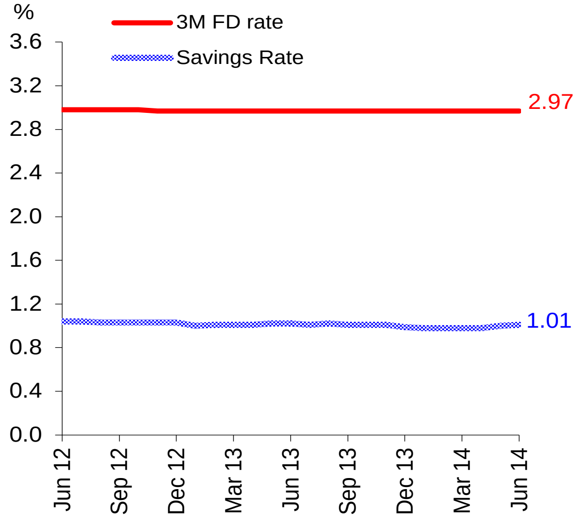
Average Interbank Rates



* *The 3-month interbank rate continued to increase during the month due to the preference of interbank lenders for shorter-term lending.*

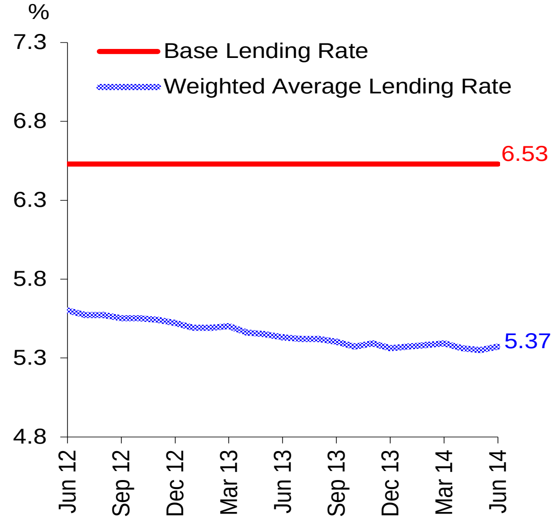
Source: Bank Negara Malaysia

Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

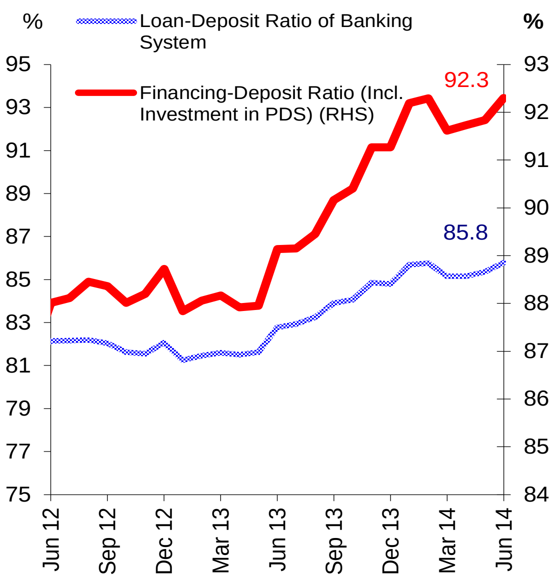
Lending Rates of Commercial Banks



Source: Bank Negara Malaysia

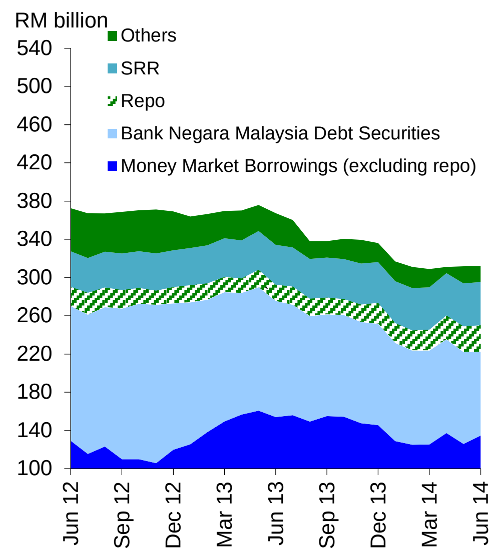
Liquidity in the banking system remained ample

Loan-Deposit Ratio and Financing-Deposit Ratio



Source: Bank Negara Malaysia

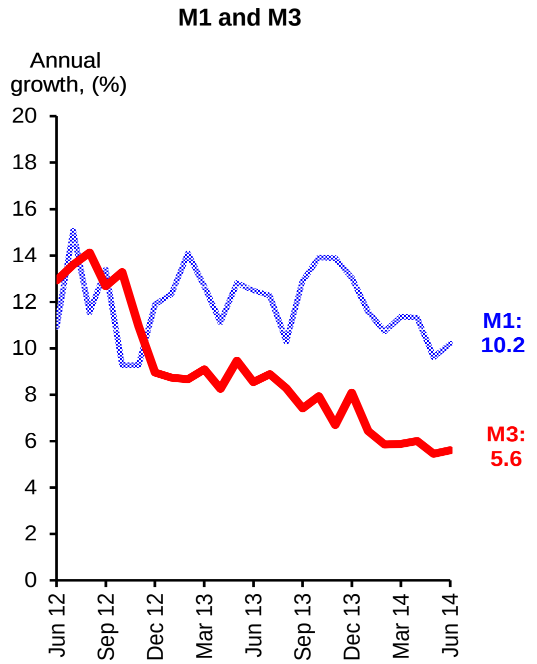
Outstanding Liquidity Placed With Bank Negara Malaysia



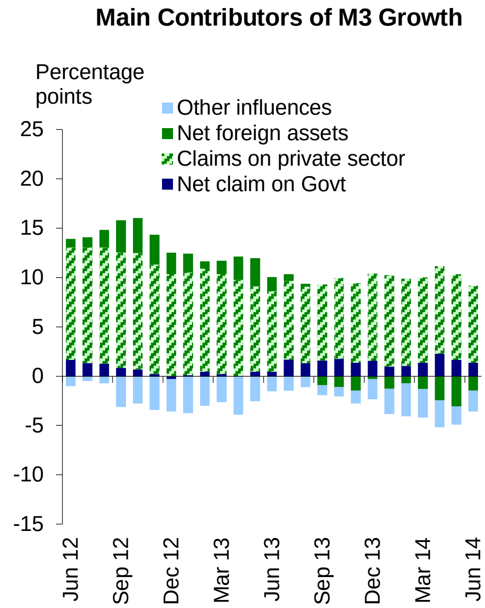
** Money Market Borrowings (excluding repo) include Direct Borrowing, Wadiah Acceptances and Commodity Murabahah Programme (CMP)*

Source: Bank Negara Malaysia

Broad money growth was relatively stable in June

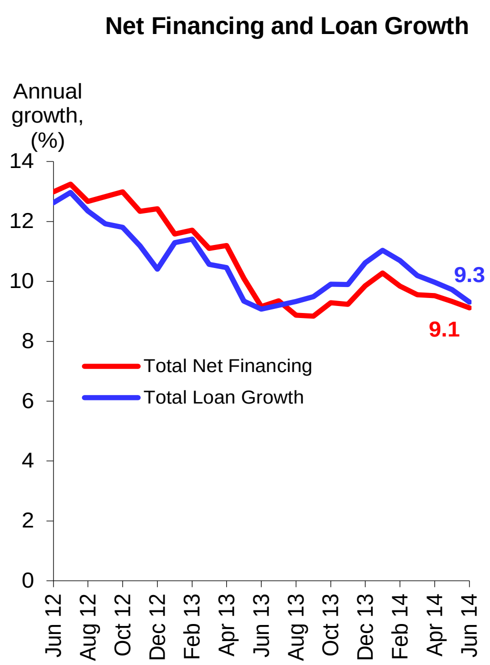


Source: Bank Negara Malaysia

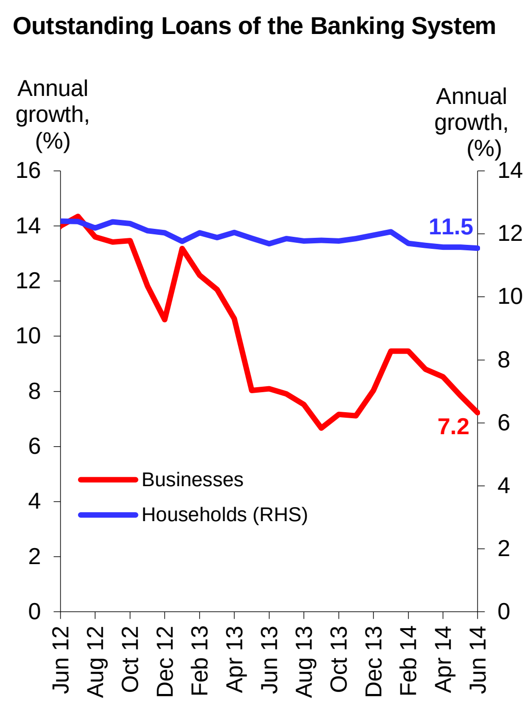


Source: Bank Negara Malaysia

Financing activity moderated in June

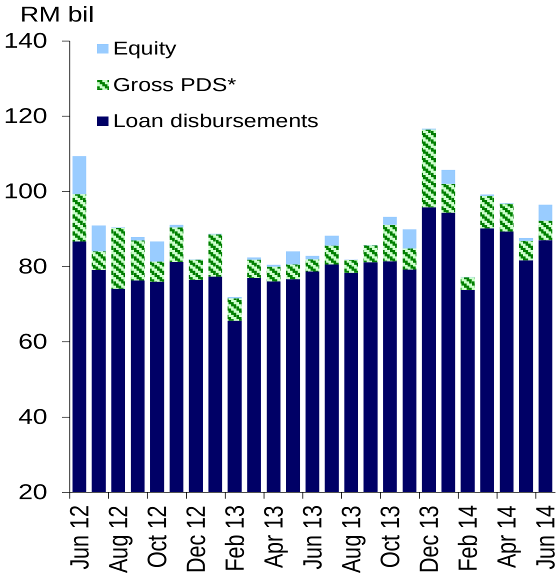


** Net financing comprises of banking system loans and private debt securities (PDS) outstanding (excluding non-residents and Cagamas)*
Source: Bank Negara Malaysia



Source: Bank Negara Malaysia

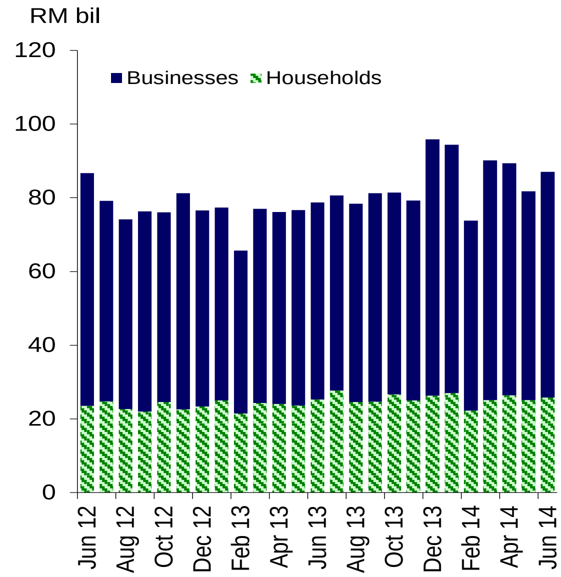
Gross Private Sector Financing



** Excludes foreign issuances*

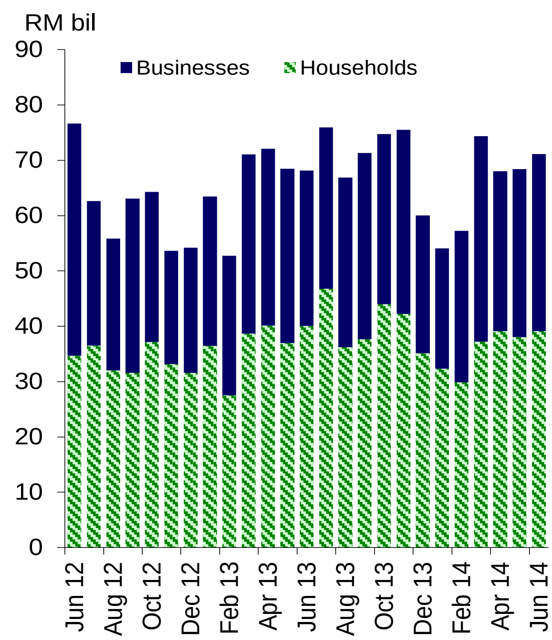
Source: Bank Negara Malaysia

Loan Disbursements by the Banking System



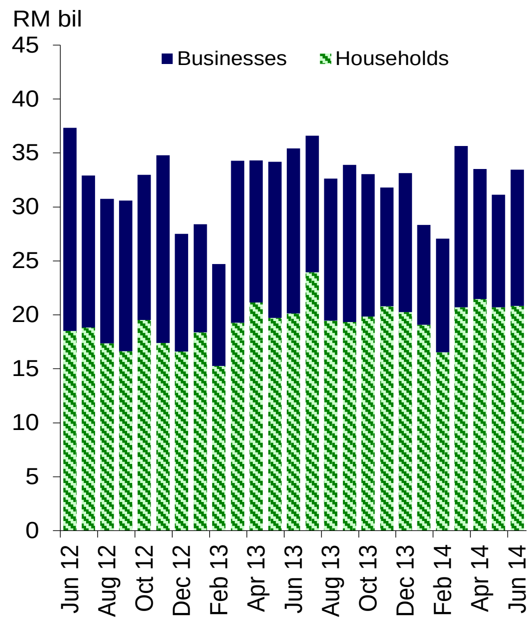
Source: Bank Negara Malaysia

Loan Applications by the Banking System



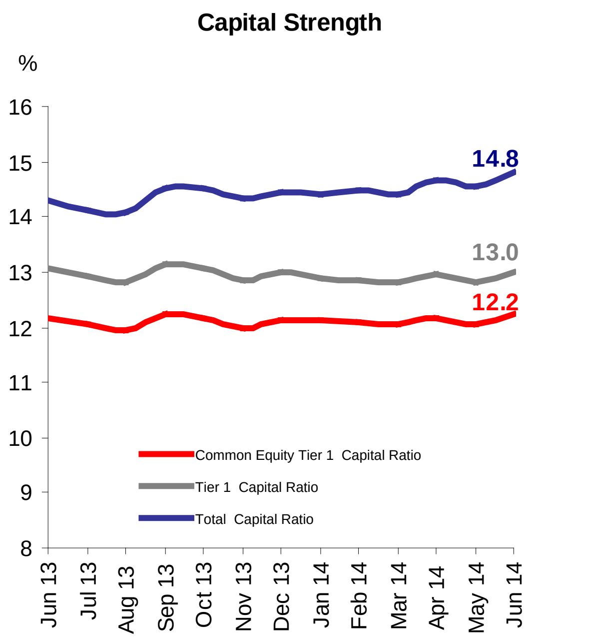
Source: Bank Negara Malaysia

Loan Approvals by the Banking System



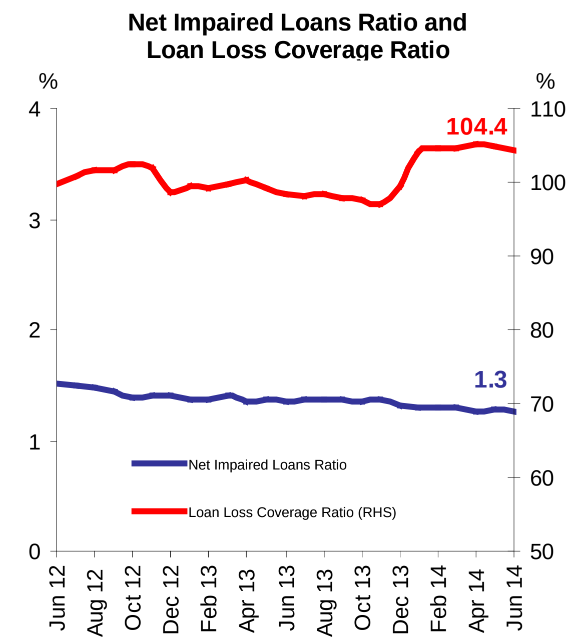
Source: Bank Negara Malaysia

Banking system capitalisation remained strong with stable loan quality



* Beginning January 2013, capital components are reported based on Basel III Capital Adequacy Framework.

Source: Bank Negara Malaysia

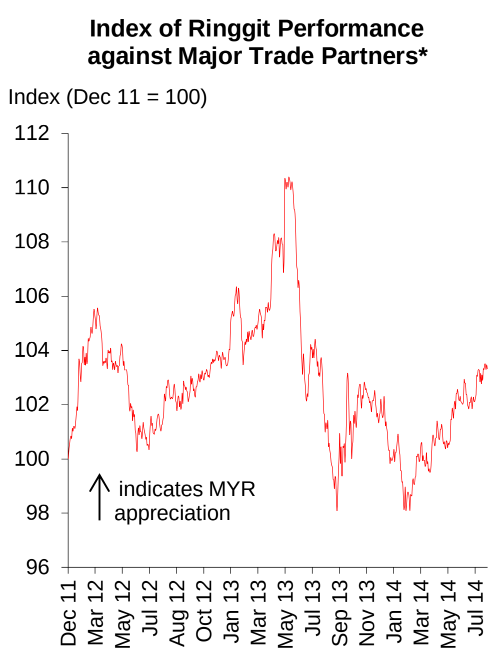


* Beginning January 2010, loans are reported based on FRS139. The adoption of FRS139 requirement is based on the financial year of the banks.

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

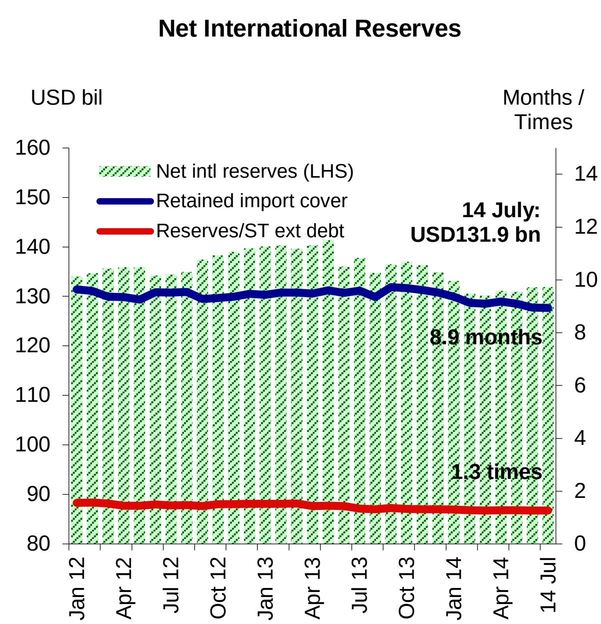
Source: Bank Negara Malaysia

The ringgit was relatively unchanged against the US dollar in June



* 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

		Apr 14		May 14		Jun 14	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates							
Reserve money		119.1	7.7	119.7	8.0	120.6	8.0
M1		325.5	11.3	324.0	9.6	329.3	10.2
M2		1,469.7	6.3	1,476.7	5.6	1,479.5	5.6
M3		1,484.0	6.0	1,491.9	5.5	1,493.8	5.6
Banking System							
Net financing[1]		1,676.8	9.5	1,683.3	9.3	1,697.4	9.1
Loan-deposit ratio (%) [2]		85.2		85.4		85.8	
Financing-deposit ratio (%) [2&3]		91.7		91.8		92.3	
Loans applied (during the period)		68.0	-5.6	68.4	-0.1	71.1	4.3
Loans approved (during the period)		33.5	-2.3	31.1	-8.9	33.5	-5.5
Loans disbursed (during the period)		89.4	17.4	81.7	6.6	87.0	10.5
Loans repaid (during the period)		86.8	18.9	75.6	10.7	77.4	16.7
Banking System Health							
Total capital ratio (%) [4]		14.6		14.6		14.8	
Tier 1 capital ratio (%) [4]		12.9		12.8		13.0	
Common equity tier 1 capital ratio (%) [4]		12.1		12.1		12.2	
Net impaired loans ratio (%)		1.3		1.3		1.3	
BNM International Reserves (end-period)							
Net Reserves in RM billion		427.7		427.0		423.6	
Net Reserves in USD billion (equivalent)		131.2		130.9		131.9	
Months of retained imports		9.2		9.1		9.0	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.00		3.00		3.00	
Interbank:	Overnight	2.97 [2.99]		3.00 [2.99]		3.00 [2.99]	
	1-week	3.01 [3.01]		3.01 [3.01]		3.01 [3.01]	
	1-month	3.06 [3.07]		3.06 [3.06]		3.54 [3.10]	
Fixed deposits of commercial banks:	1-month	2.91		2.91		2.91	
	3-month	2.97		2.97		2.97	
BLR of commercial banks		6.53		6.53		6.53	
Weighted ALR of commercial banks		5.36		5.35		5.37	
Prices							
Consumer Price Index (CPI) (2010=100)		109.9	3.4	110.0	3.2	110.2	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