BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

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MONETARY AND FINANCIAL DEVELOPMENTS
May 2014

Price Conditions: In May 2014, headline inflation was lower at 3.2% on a year-on-year basis (April: 3.4%). Inflation in the *housing, water, electricity, gas and other fuels* category declined to 3.1% (April: 3.6%), reflecting the slower increase in rentals across most types of property during the month. The *food and non-alcoholic beverages* category also recorded lower inflation of 3.3% (April: 3.6%), due mainly to improvements in the supply of food. However, inflation in the *transport* category increased to 5.5% (April: 5.3%) due largely to the base effect of the reduction in the price of RON97 petrol by 20 sen/ litre a year earlier.

Monetary Conditions: Interbank rates were on average stable in May. The 3-month interbank rate, however, continued to increase during the month due to the preference of interbank lenders for shorter-term lending. In terms of retail lending rates, the average base lending rate (BLR) of commercial banks remained unchanged at 6.53%. Retail deposit rates were also relatively stable during the period. On an annual basis, broad money or M3 growth moderated to 5.5% in May. The growth in M3 was mainly driven by credit extension to the private sector by the banking system. The expansion, however, was partially offset by the decline in net foreign assets. Net financing to the private sector grew at a slower pace of 9.3% in May, amidst a moderation in the growth of outstanding banking system loans and stable growth in net issuances of private debt securities (PDS). The annual growth of outstanding business loans moderated during the month due to the stronger growth in loan repayments relative to disbursements. The annual growth in outstanding household loans was relatively stable during the month. Overall loan demand from businesses and households, as reflected by loan applications, was sustained during the period.

Banking System: Banking system capitalisation remained strong with the Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio at 12.1%, 12.8% and 14.5% respectively. The level of net impaired loans was sustained at 1.3% of net loans while the loan loss coverage ratio was above 100%.

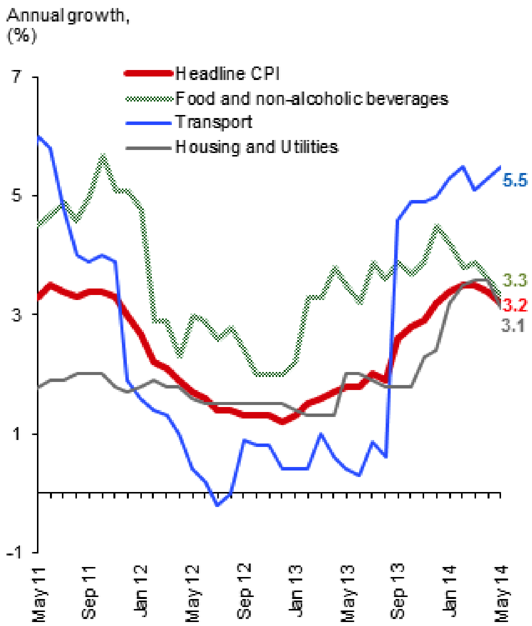
Exchange Rates and International Reserves: In May, the ringgit appreciated against the currencies of Malaysia's major trade partners. Externally, this was driven by renewed interest in regional financial markets during the month following improved regional growth prospects. Domestically, the stronger-than-expected first quarter GDP growth also contributed to the demand for ringgit financial assets. In the period between 1 and 16 June, the ringgit exhibited a mixed performance against the currencies of Malaysia's major trade partners. The international reserves of Bank Negara Malaysia amounted to RM427.6 billion (equivalent to USD131.1 billion) as at 13 June 2014, sufficient to finance 9.1 months of retained imports and are 1.3 times the short-term external debt[1].

Bank Negara Malaysia
30 June 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.

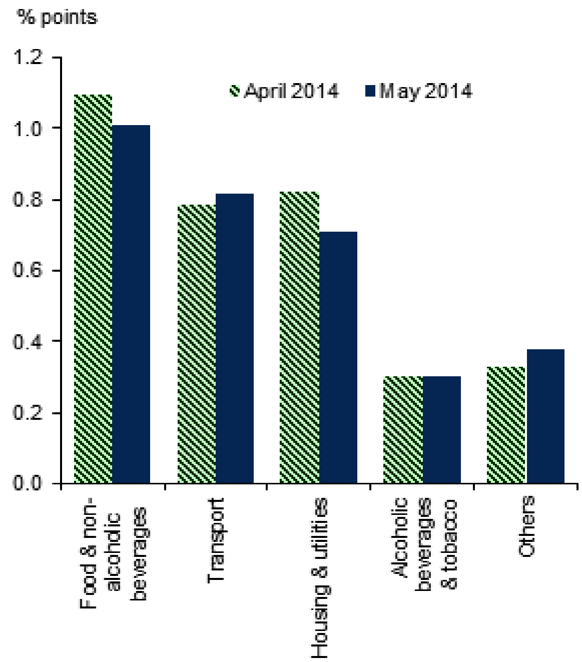
Headline inflation continued to decline in May

Headline Inflation



Source: Department of Statistics Malaysia

Headline Inflation: Component Contribution

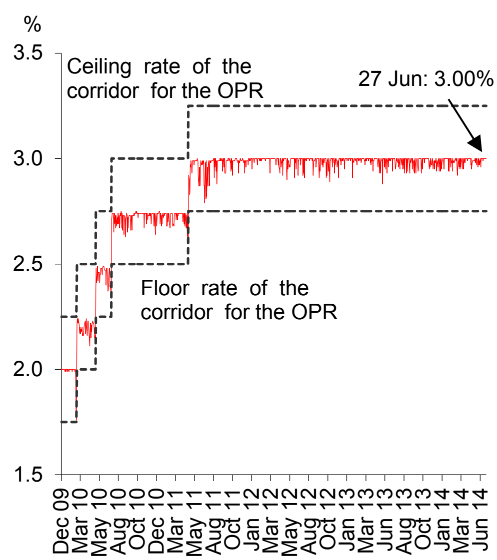


* Others include *restaurants and hotels; recreation services and culture; education; health; furnishings, household equipment and routine household maintenance; communication; clothing and footwear* and *miscellaneous goods and services.*

Source: Bank Negara Malaysia

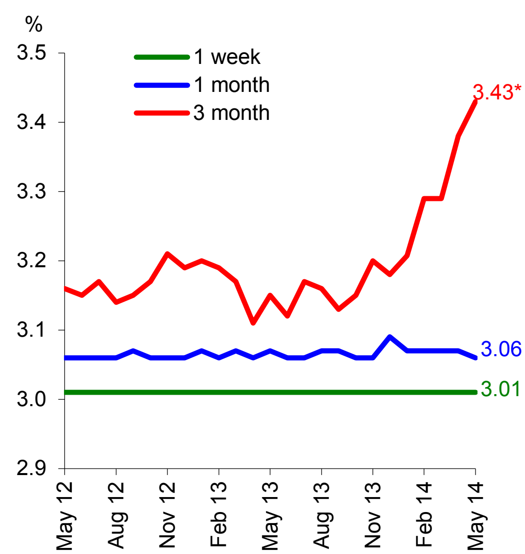
With the exception of the 3-month interbank rate, interest rates remained stable during the month

Average Overnight Interbank Rate



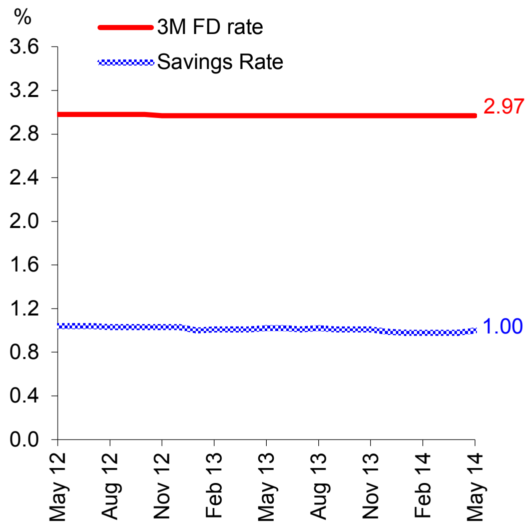
Source: Bank Negara Malaysia

Average Interbank Rates



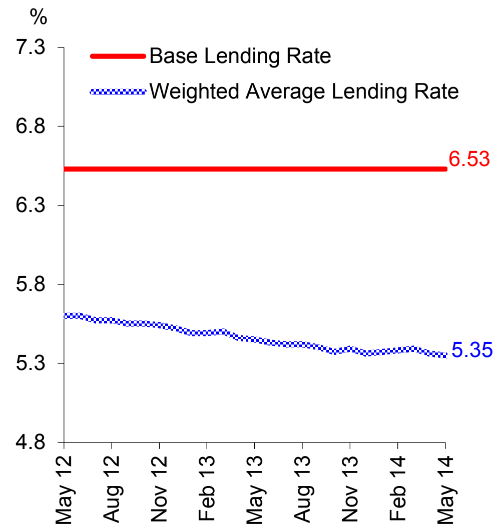
* *The 3-month interbank rate continued to increase during the month due to the preference of interbank lenders for shorter-term lending.*

Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

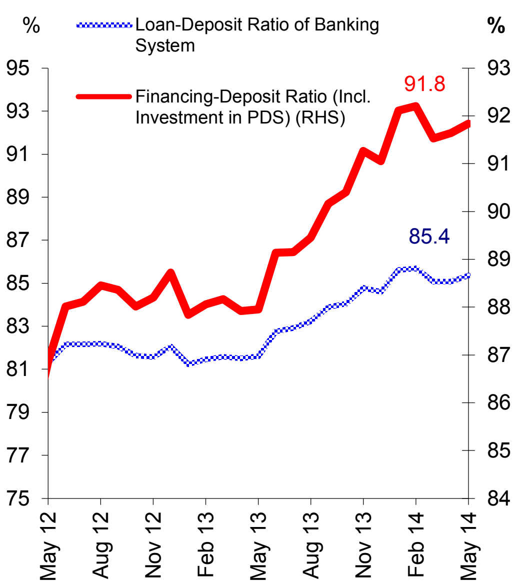
Lending Rates of Commercial Banks



Source: Bank Negara Malaysia

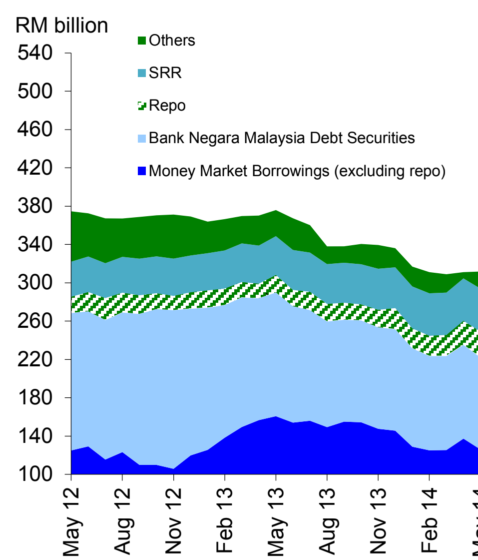
Liquidity in the banking system remained ample

Loan-Deposit Ratio and Financing-Deposit Ratio



Source: Bank Negara Malaysia

Outstanding Liquidity Placed With Bank Negara Malaysia

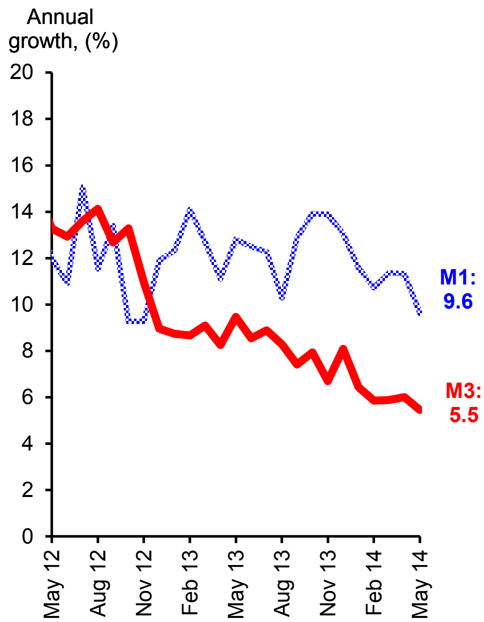


* *Money Market Borrowings (excluding repo) include Direct Borrowing, Wadiah Acceptances and Commodity Murabahah Programme (CMP)*

Source: Bank Negara Malaysia

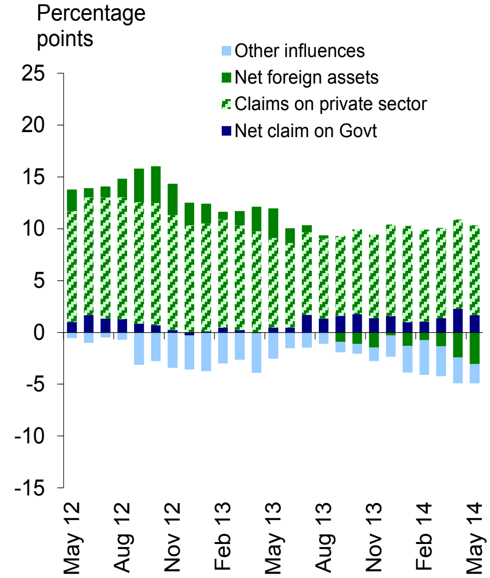
Broad money growth moderated in May

M1 and M3



Source: Bank Negara Malaysia

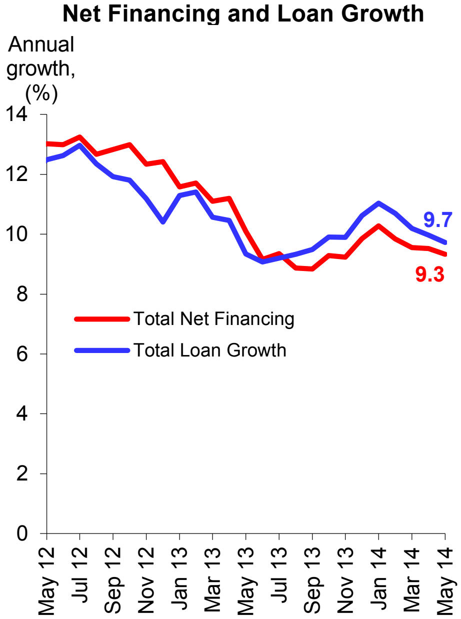
Main Contributors of M3 Growth



Source: Bank Negara Malaysia

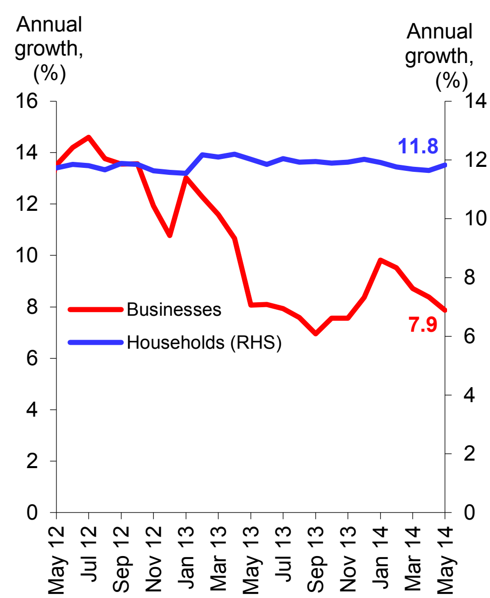
Financing activity moderated in May

Net Financing and Loan Growth



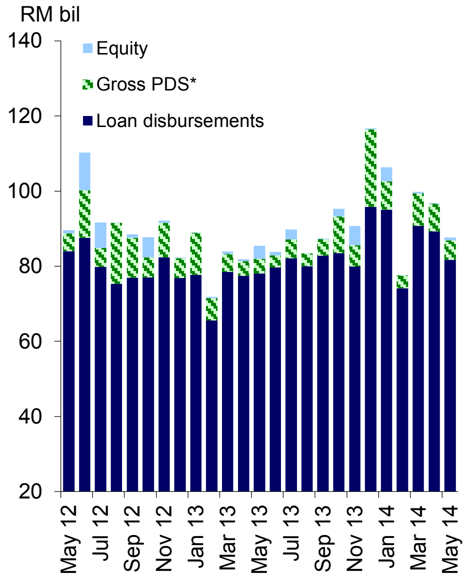
** Net financing comprises of banking system loans and private debt securities (PDS) outstanding (excluding non-residents and Cagamas)*
Source: Bank Negara Malaysia

Outstanding Loans of the Banking System



Source: Bank Negara Malaysia

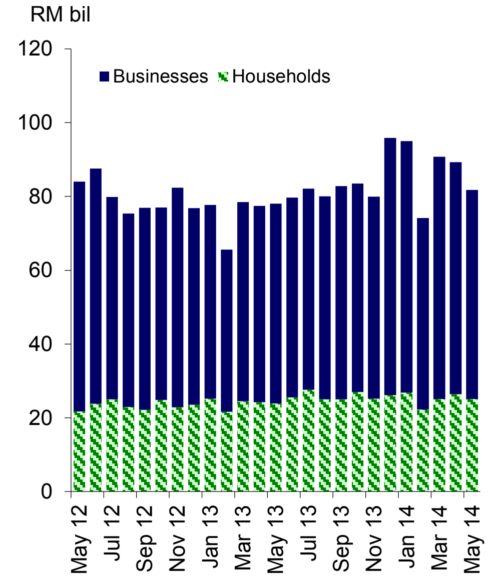
Gross Private Sector Financing



** Excludes foreign issuances*

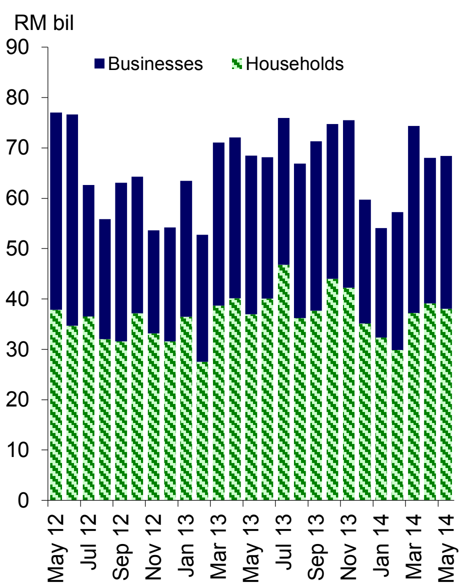
Source: Bank Negara Malaysia

Loan Disbursements by the Banking System



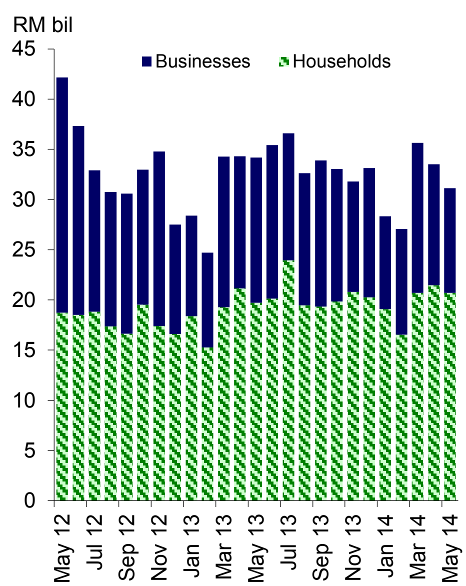
Source: Bank Negara Malaysia

Loan Applications by the Banking System



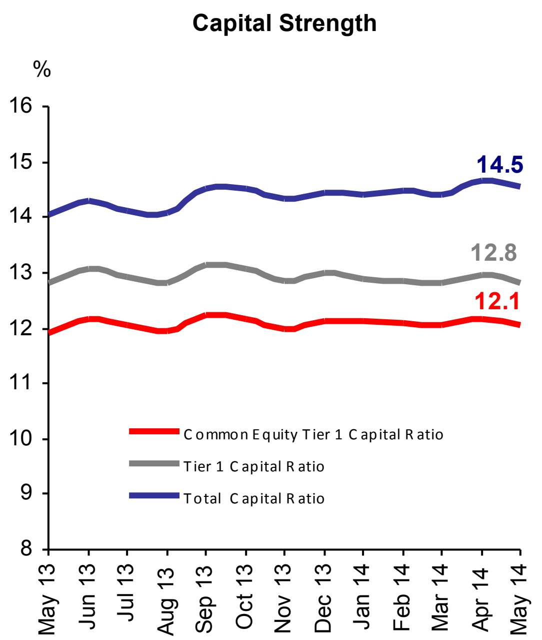
Source: Bank Negara Malaysia

Loan Approvals by the Banking System



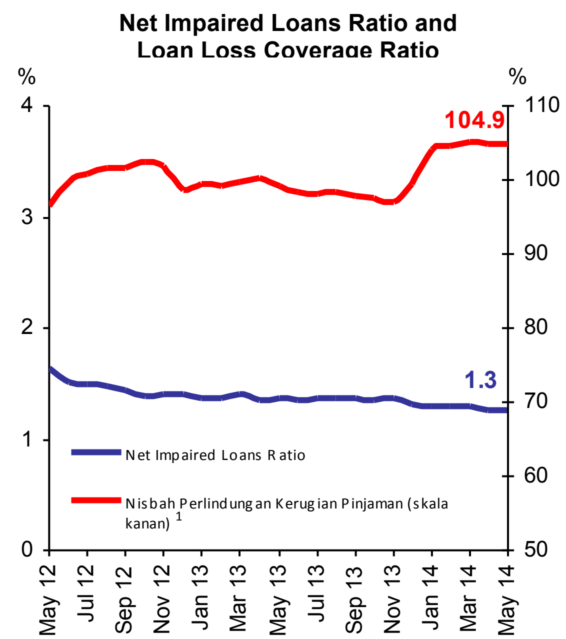
Source: Bank Negara Malaysia

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

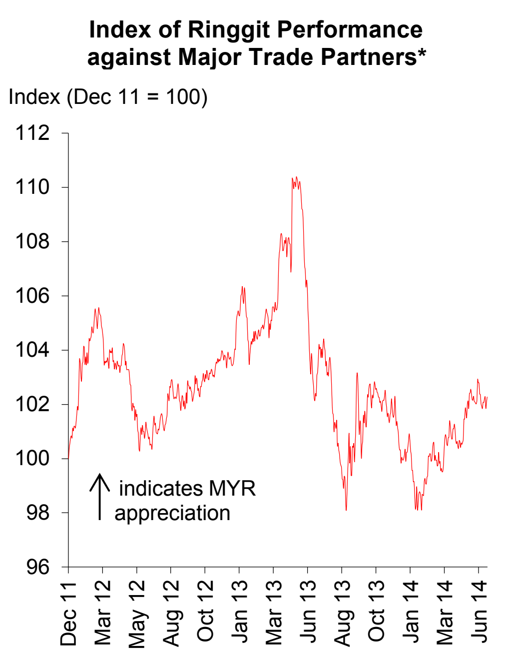


* *Beginning January 2010, loans are reported based on FRS139. The adoption of FRS139 requirement is based on the financial year of the banks.*

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

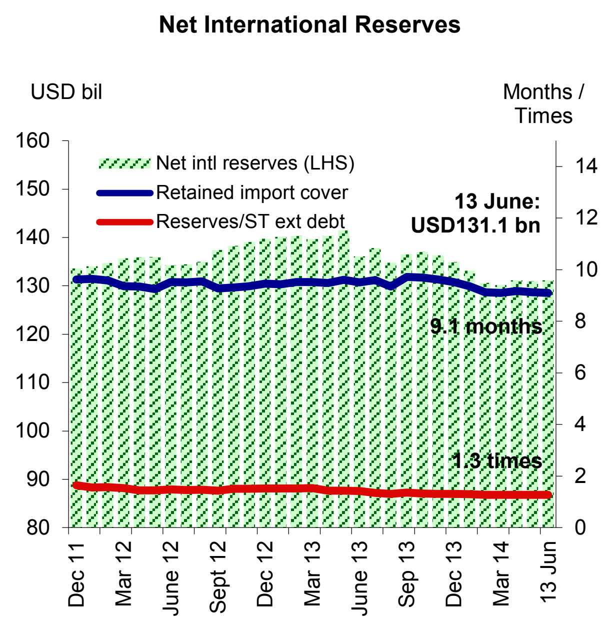
Source: Bank Negara Malaysia

The ringgit strengthened against the currencies of Malaysia's major trade partners



* *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

		Mar 14		Apr 14		May 14	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates							
Reserve money		119.9	8.0	119.1	7.7	119.7	8.0
M1		327.1	11.4	325.5	11.3	324.0	9.6
M2		1,459.9	6.3	1,469.7	6.3	1,476.7	5.6
M3		1,474.0	5.9	1,484.0	6.0	1,491.9	5.5
Banking System							
Net financing[1]		1,668.5	9.6	1,676.8	9.5	1,683.3	9.3
Loan-deposit ratio (%) [2]		85.1		85.1		85.4	
Financing-deposit ratio (%) [2&3]		91.5		91.6		91.8	
Loans applied (during the period)		74.3	4.6	68.0	-5.6	68.4	-0.1
Loans approved (during the period)		35.7	4.0	33.5	-2.3	31.1	-8.9
Loans disbursed (during the period)		90.7	15.6	89.3	15.3	81.7	4.8
Loans repaid (during the period)		88.4	24.0	87.8	17.7	75.6	7.8
Banking System Health							
Total capital ratio (%) [4]		14.4		14.6		14.5	
Tier 1 capital ratio (%) [4]		12.8		12.9		12.8	
Common equity tier 1 capital ratio (%) [4]		12.1		12.2		12.1	
Net impaired loans ratio (%)		1.3		1.3		1.3	
BNM International Reserves (end-period)							
Net Reserves in RM billion		424.6		427.7		427.0	
Net Reserves in USD billion (equivalent)		130.2		131.2		130.9	
Months of retained imports		9.1		9.2		9.1	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.00		3.00		3.00	
Interbank:	Overnight	3.00 [2.98]		2.97 [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 [3.07]		3.06 [3.06]	
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		5.39		5.36		5.35	
Prices							
Consumer Price Index (CPI) (2010=100)		109.9	3.5	109.9	3.4	110.0	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