BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

# SIARAN AKHBAR

**Ref. No.: 03/14/10**

**EMBARGO: Not for publication or broadcast before 1800 hours on Monday, 31 March 2014**

## MONETARY AND FINANCIAL DEVELOPMENTS February 2014

**Price Conditions:** Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), increased to 3.5% in February (January: 3.4%). The increase in inflation during the month was driven mainly by higher inflation in the *housing, water, electricity, gas and other fuels* category (February: 3.5%, January: 3.2%), due to higher rental prices, particularly for houses. The *food and non-alcoholic beverages* category, on the other hand, recorded lower inflation during the month (February: 3.8%, January: 4.2%). The *fish and seafood* and *vegetables* sub-categories registered lower inflation as supply conditions improved after the monsoon season, which more than offset the higher inflation in the *meat* sub-category.

**Monetary Conditions:** Interbank rates were stable in February. Bank Negara Malaysia reduced the maximum tenure of its Range Maturity Auction (RMA) operations from 3 to 2 months. The shorter maturity will allow banks' surplus liquidity with Bank Negara Malaysia to mature more frequently, thereby ensuring that it can be drawn upon during periods of anticipated capital outflows. While placement between banks was stable compared to previous months, the absence of trade with Bank Negara Malaysia at the 3-month maturity resulted in a higher average 3-month interbank rate. 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. The financing-deposit ratio increased as deposit growth moderated amidst relatively stable growth in credit. Liquidity in the banking system, nevertheless, remained ample. Net financing to the private sector grew at a slower pace of 9.9% in February, due to a moderation in the growth of both outstanding banking system loans and net issuances of private debt securities (PDS). The growth of outstanding business loans moderated due to lower loan disbursements to the *construction; wholesale and retail trade, restaurants and hotels; manufacturing;* and *education, health and others* sectors. Outstanding household loan growth was stable during the month. Overall loan demand was sustained with higher loan applications from businesses. On an annual basis, broad money (M3) growth moderated to 6.1% in February. 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 the decline in net foreign assets following net trade and financial outflows during the month.

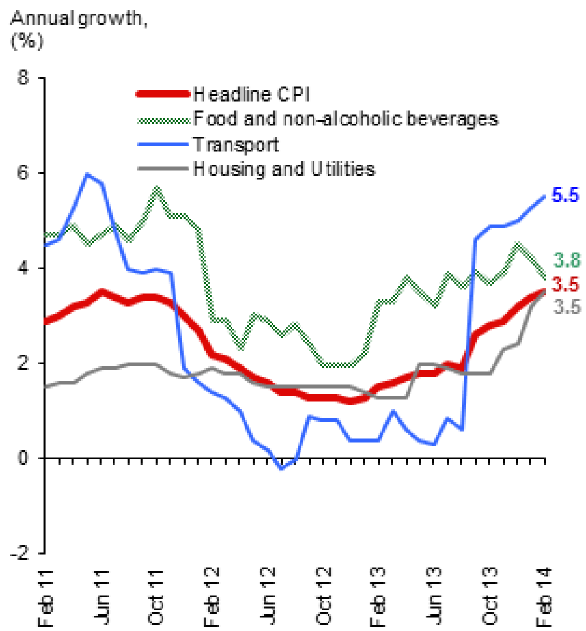
**Banking System:** Banking system capitalisation remained strong with the Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio at 12.1%, 12.8% and 14.4% respectively. Net impaired loans remained at 1.3% of net loans while the loan loss coverage ratio was above 100%.

**Exchange Rates and International Reserves:** In February, the ringgit and most other regional currencies appreciated against the US dollar following expectations for a more gradual scale-back in monetary intervention by the US Federal Reserve. The release of positive Malaysian economic data also contributed to renewed interest in domestic financial markets. The ringgit also appreciated against the currencies of Malaysia's other major trading partners. In the period between 1 and 17 March, however, the ringgit depreciated against the currencies of most of Malaysia's major trade partners. The international reserves of Bank Negara Malaysia amounted to RM424.2 billion (equivalent to USD129.6 billion) as at 14 March 2014, sufficient to finance 8.9 months of retained imports and are 3.3 times the short-term external debt.

**Bank Negara Malaysia**
**31 March 2014**

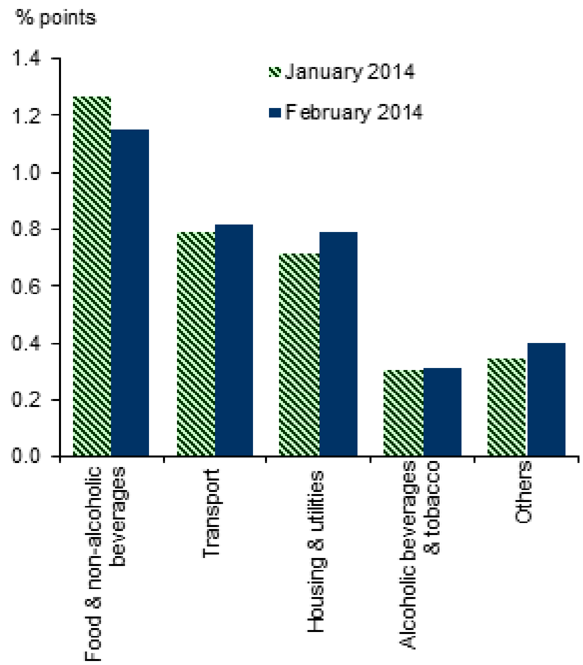
## Headline inflation increased in February

**Headline Inflation**




*Source: Department of Statistics Malaysia*

**Headline Inflation: Component Contribution**

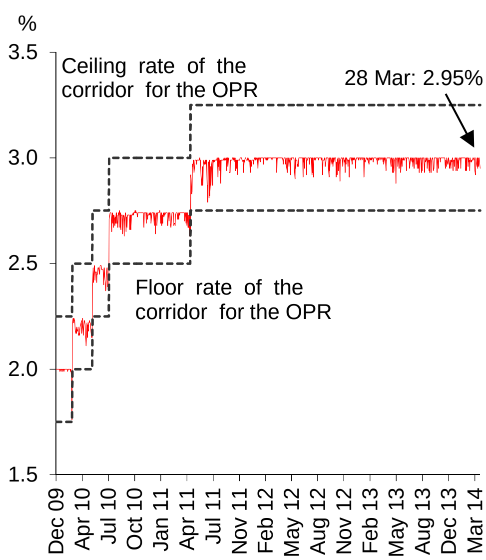



* Others include *restaurants and hotels; recreation services and culture; education; health; furnishings, household equipment and routine household maintenance; communication; clothing and footwear* and *miscellaneous goods and services.*

*Source: Bank Negara Malaysia*

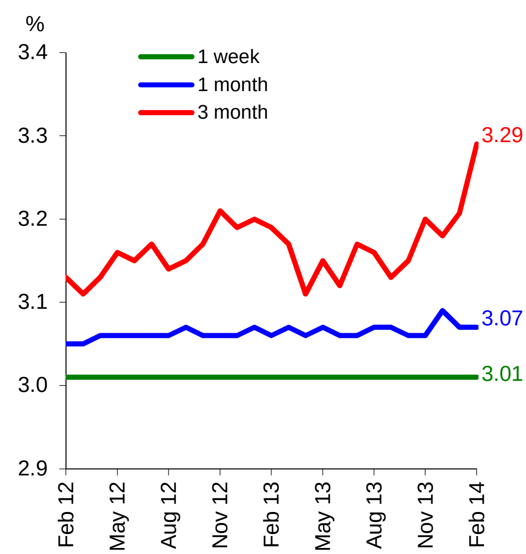
## Interest rates remained broadly stable

**Average Overnight Interbank Rate**

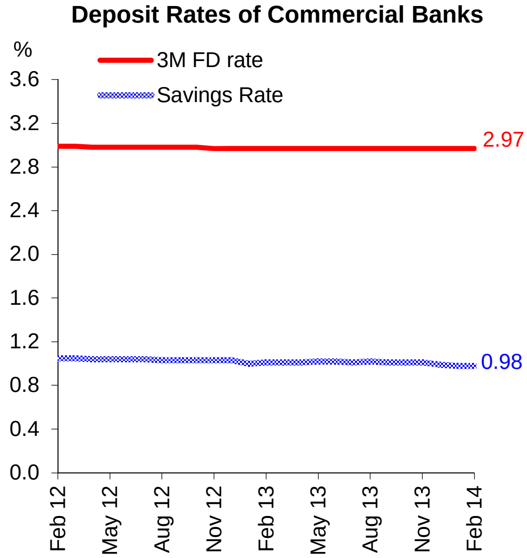



*Source: Bank Negara Malaysia*

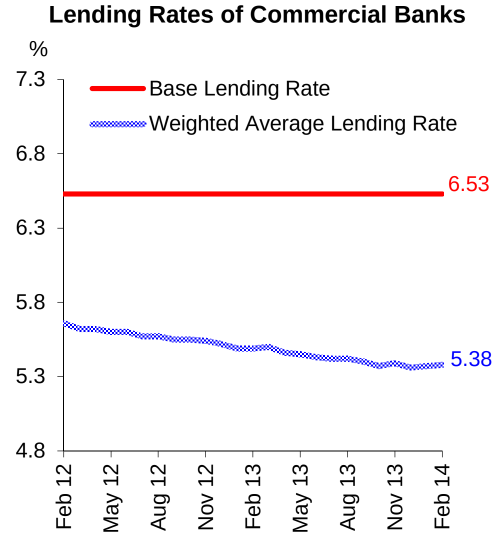
**Average Interbank Rates**




*Source: Bank Negara Malaysia*

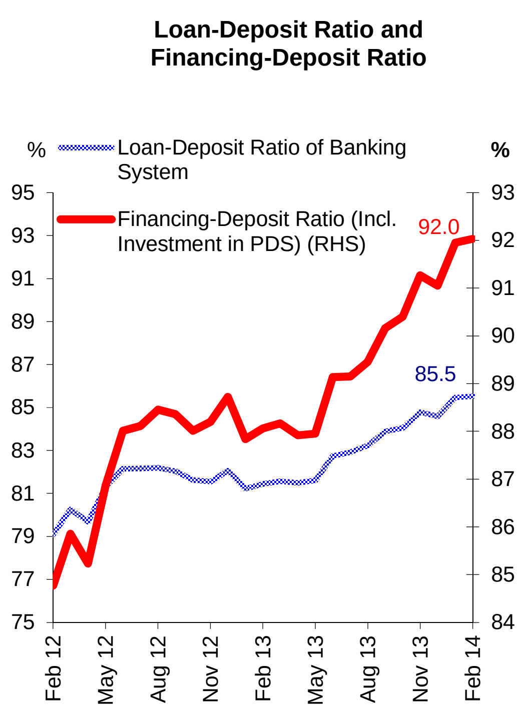



Source: Bank Negara Malaysia

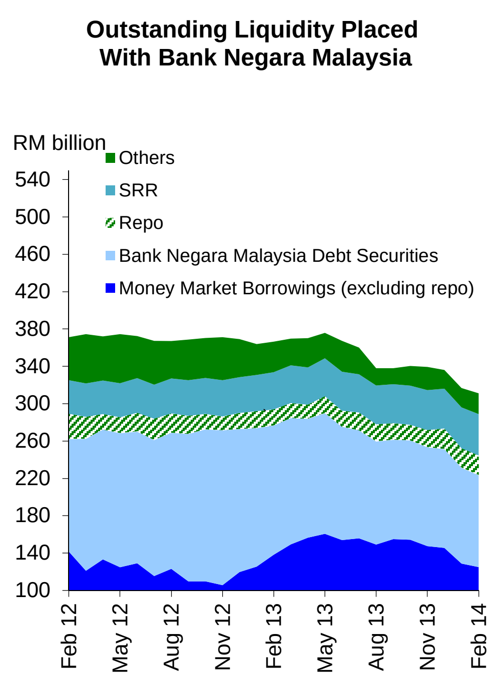



Source: Bank Negara Malaysia

## Liquidity in the banking system remained ample



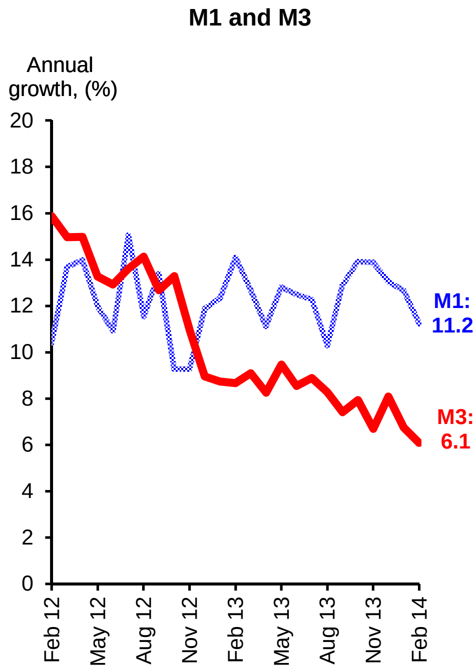

Source: Bank Negara Malaysia



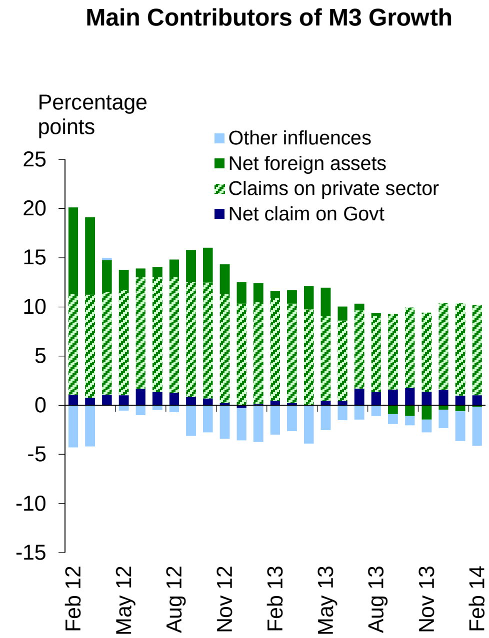

* Money Market Borrowings (excluding repo) include Direct Borrowing, Wadiah Acceptances and Commodity Murabahah Programme (CMP)

Source: Bank Negara Malaysia

## Broad money growth moderated in February

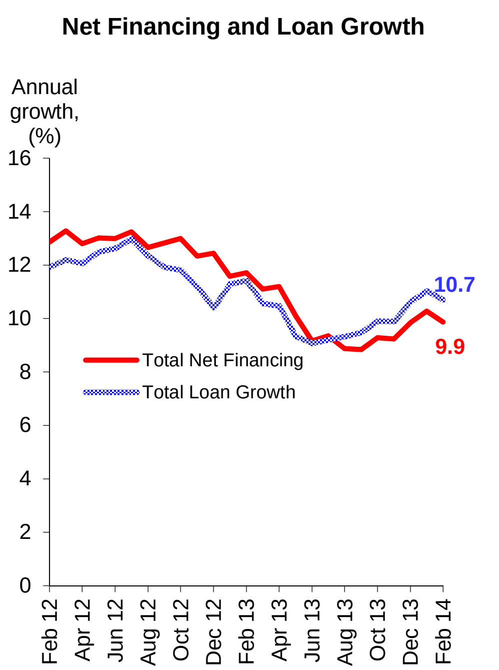



*Source: Bank Negara Malaysia*



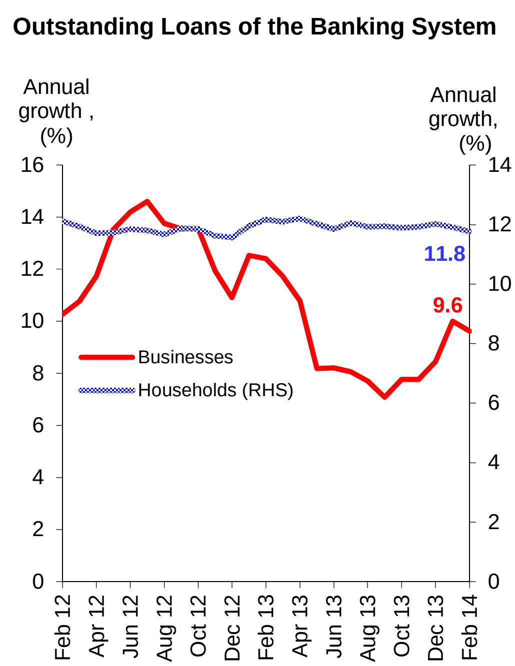

*Source: Bank Negara Malaysia*

## Financing activity moderated in February



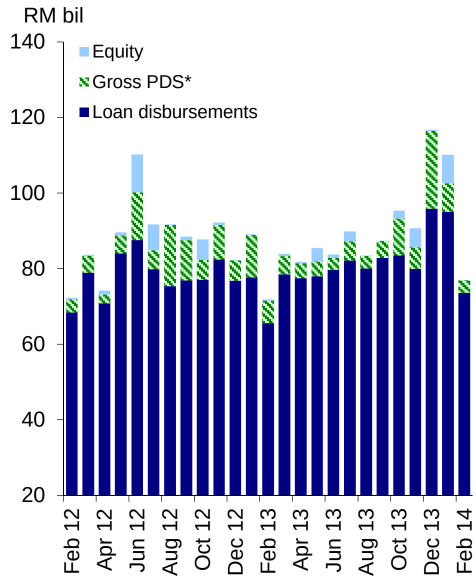

* Net financing comprises of banking system loans and private debt securities (PDS) outstanding (excluding non-residents and Cagamas)

*Source: Bank Negara Malaysia*




*Source: Bank Negara Malaysia*

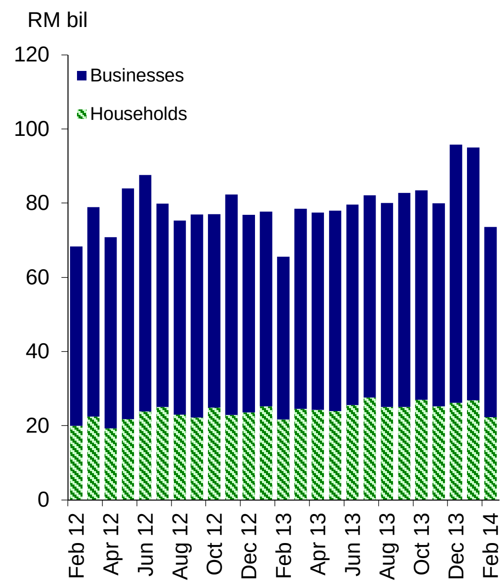
**Gross Private Sector Financing**




* Excludes foreign issuances

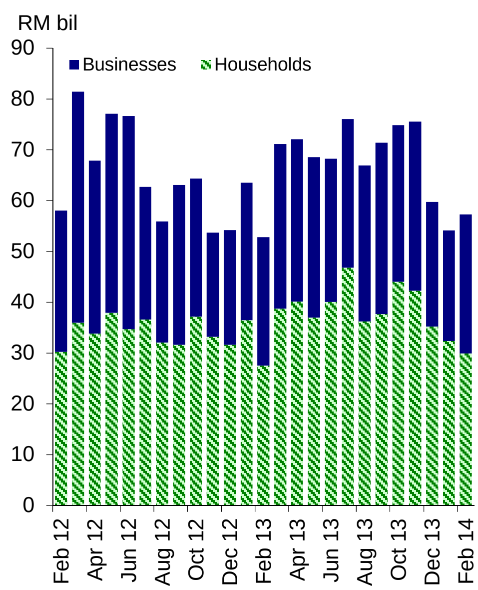
*Source: Bank Negara Malaysia*

**Loan Disbursements by the Banking System**



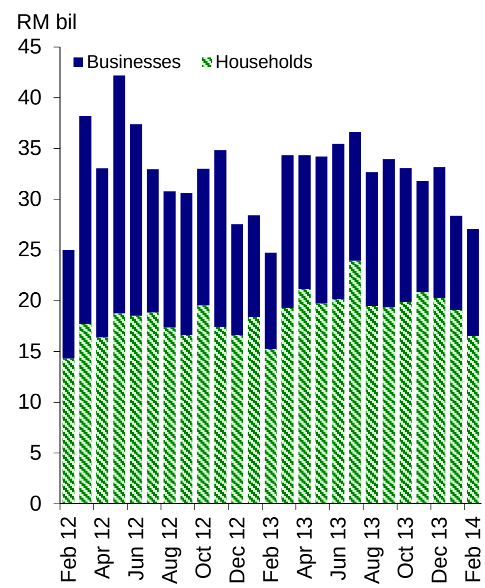

*Source: Bank Negara Malaysia*

**Loan Applications by the Banking System**



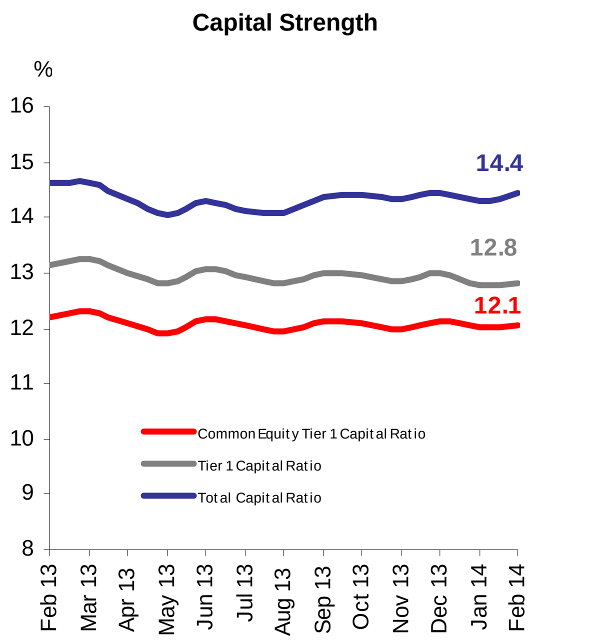

*Source: Bank Negara Malaysia*

**Loan Approvals by the Banking System**



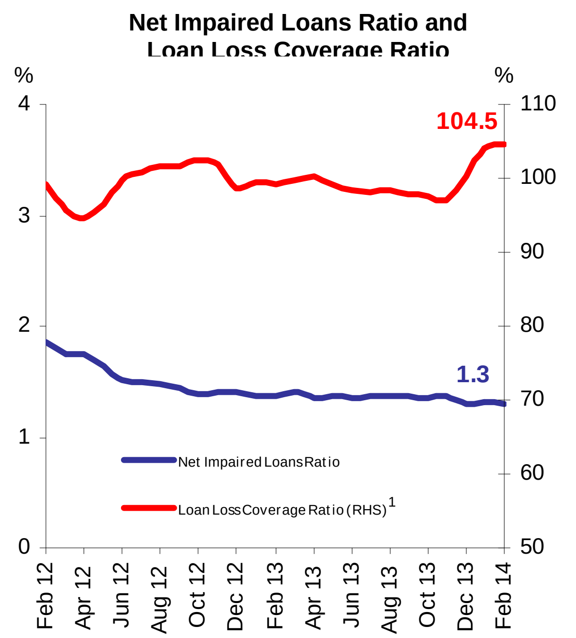

*Source: Bank Negara Malaysia*

## 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*

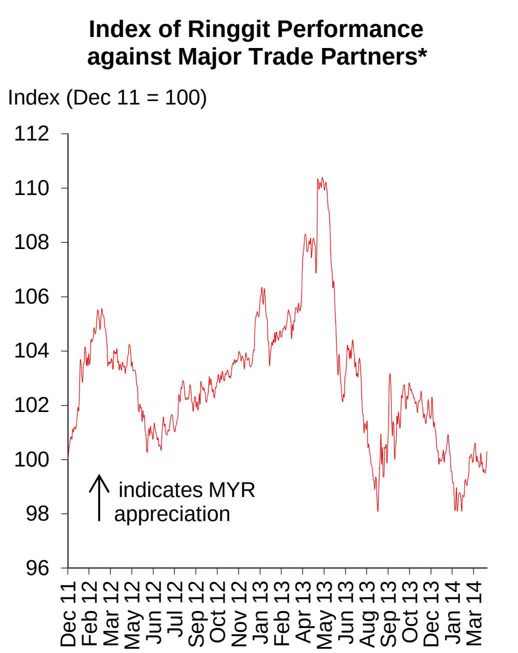



* Beginning January 2010, loans are reported based on FRS139. The adoption of FRS139 requirement is based on the financial year of the banks.

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

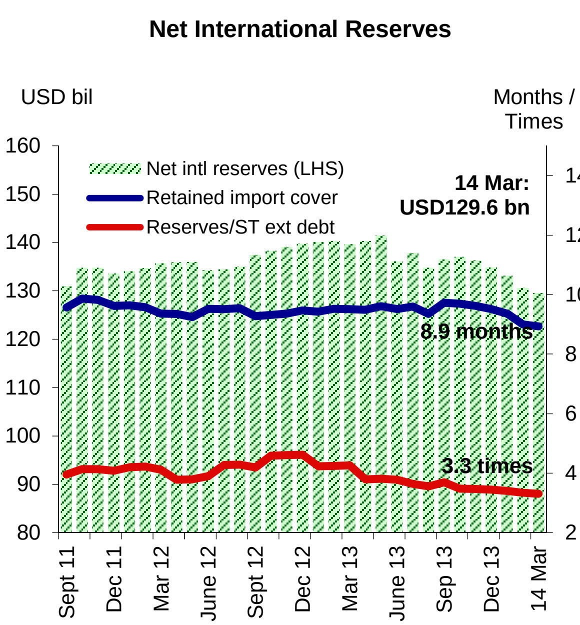
*Source: Bank Negara Malaysia*

## The ringgit appreciated against major trade partners in February




* 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

| | | Dec 13 | | Jan 14 | | Feb 14 | |
|---|---|---|---|---|---|---|---|
| | | O/stg | Ann. growth | O/stg | Ann. growth | O/stg | Ann. growth |
| | | (RM bil) | (%) | (RM bil) | (%) | (RM bil) | (%) |
| **Monetary Aggregates** | | | | | | | |
| Reserve money | | 115.8 | 9.4 | 126.9 | 13.1 | 120.9 | 9.0 |
| M1 | | 327.5 | 13.0 | 332.3 | 12.6 | 325.8 | 11.2 |
| M2 | | 1,444.9 | 8.4 | 1,450.7 | 7.2 | 1,447.4 | 6.6 |
| M3 | | 1,462.4 | 8.1 | 1,466.9 | 6.7 | 1,462.7 | 6.1 |
| **Banking System** | | | | | | | |
| Net financing[1] | | 1,636.2 | 9.8 | 1,654.6 | 10.3 | 1,659.4 | 9.9 |
| Loan-deposit ratio (%) [2] | | 84.6 | | 85.5 | | 85.5 | |
| Financing-deposit ratio (%) [2&3] | | 91.1 | | 91.9 | | 92.0 | |
| Loans applied (during the period) | | 59.7 | 10.1 | 54.1 | -14.8 | 57.3 | 8.5 |
| Loans approved (during the period) | | 33.1 | 20.4 | 28.4 | -0.1 | 27.1 | 9.5 |
| Loans disbursed (during the period) | | 95.8 | 24.7 | 95.0 | 22.3 | 73.6 | 12.2 |
| Loans repaid (during the period) | | 81.8 | 14.6 | 88.2 | 15.8 | 73.5 | 16.8 |
| **Banking System Health** | | | | | | | |
| Total capital ratio (%) [4] | | 14.4 | | 14.3 | | 14.4 | |
| Tier 1 capital ratio (%) [4] | | 13.0 | | 12.8 | | 12.8 | |
| Common equity tier 1 capital ratio (%) [4] | | 12.1 | | 12.0 | | 12.1 | |
| Net impaired loans ratio (%) | | 1.3 | | 1.3 | | 1.3 | |
| **BNM International Reserves (end-period)** | | | | | | | |
| Net Reserves in RM billion | | 441.9 | | 435.9 | | 427.6 | |
| Net Reserves in USD billion (equivalent) | | 134.8 | | 133.1 | | 130.6 | |
| Months of retained imports | | 9.5 | | 9.4 | | 9.0 | |
| **Interest Rates at end-period [average for the month]** | | | | | | | |
| Overnight Policy Rate (OPR) | | 3.00 | | 3.00 | | 3.00 | |
| Interbank: | Overnight | 2.99 [2.98] | | 3.00 [2.99] | | 2.99 [2.98] | |
| | 1-week | 3.02 [3.01] | | 3.02 [3.01] | | 3.01 [3.01] | |
| | 1-month | 3.20 [3.09] | | 3.06 [3.07] | | 3.07 [3.07] | |
| 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 | | 5.37 | | 5.38 | |
| **Prices** | | | | | | | |
| Consumer Price Index (CPI) (2010=100) | | 108.9 | 3.2 | 109.5 | 3.4 | 109.8 | 3.5 |

[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*