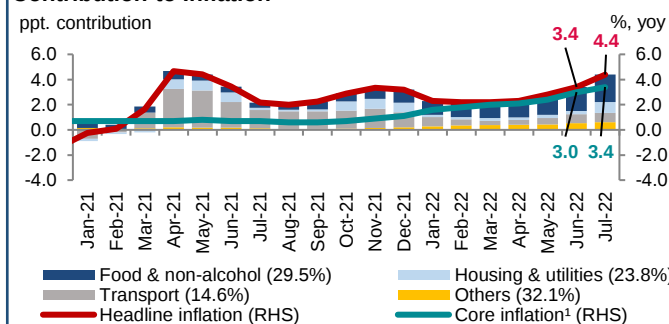


Headline inflation increased to 4.4% in July

Contribution to Inflation

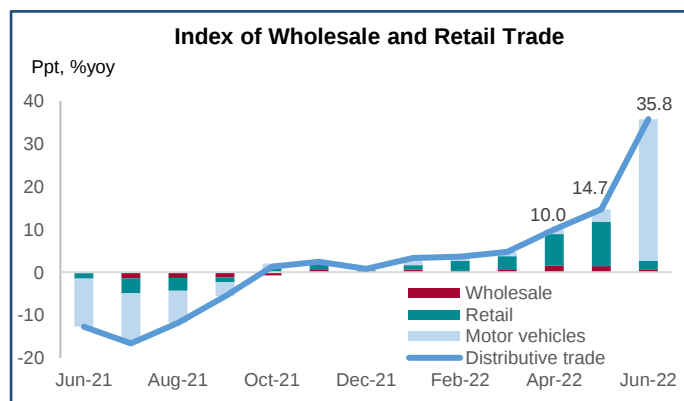


¹ Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of tax policy changes.

Source: Department of Statistics Malaysia (DOSM), Bank Negara Malaysia estimates

- Headline inflation rose to 4.4% in July (June: 3.4%). As anticipated, this largely reflected the base effect from the discount on electricity tariffs implemented in 3Q 2021, which contributed 0.5 ppt to headline inflation. Food & non-alcoholic beverages also contributed to higher inflation, increasing by 6.9% during the month.
- Core inflation also increased to 3.4% in July (June: 3.0%). The increase largely reflected higher prices for discretionary services, such as food away from home (7.8%), due to improving demand amid the high-cost environment.

Wholesale and Retail Trade expanded in June

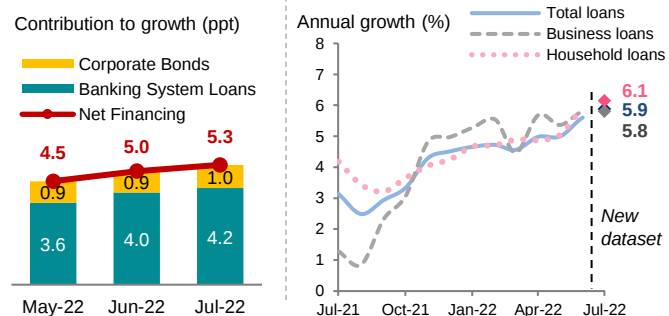


Source: Department of Statistics Malaysia

- The Index of Wholesale and Retail Trade (IOWRT) grew by 35.8% in June 2022 (May: 14.7%). The higher growth was driven mainly by the motor vehicle segment. This was on account of accelerated purchases ahead of the expiration of Sales and Services Tax exemption on 30 June and the low base in June 2021, when showrooms were closed during the implementation of the full movement control order (FMCO).
- On a month-on-month seasonally adjusted (m-o-m SA) basis, growth continued to decelerate to -2.3% (May: -0.7%) from the strong m-o-m SA increase in April of 7.9%.

Continued increase in net financing growth

Contribution to Net Financing¹ Growth and Outstanding Loan Growth



¹ Refers to outstanding loans of the banking system (excluding development financial institutions (DFIs)) and outstanding corporate bonds. Data on outstanding loans for July 2022 are based on the new set of loan/financing data reflecting the latest requirements. Figures may not add up due to rounding.

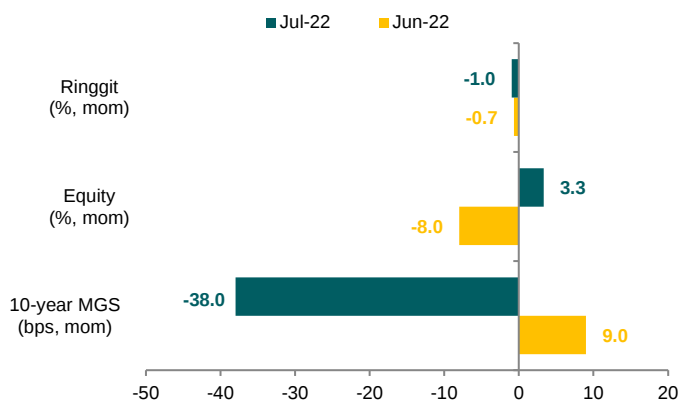
Source: Bank Negara Malaysia

- Net financing grew by 5.3% (June: 5.0%) driven by higher growth in both outstanding loans (5.9%; June: 5.6%) and corporate bonds (3.7%; June: 3.4%).
- Outstanding household loan growth stood at 6.1% as the growth in loan disbursements outpaced that of loan repayments. Credit flows to households continued to be mainly for the purchase of houses and cars.
- For businesses, outstanding loans grew by 5.8%, mainly driven by lending to SMEs. By purpose, working capital loans remained the key driver, although the growth in loan repayments outpaced that of disbursements, likely reflecting the continued lapse in repayment assistance.



10Y MGS yields declined, in line with lower global bond yields

Financial Markets Performance in July 2022



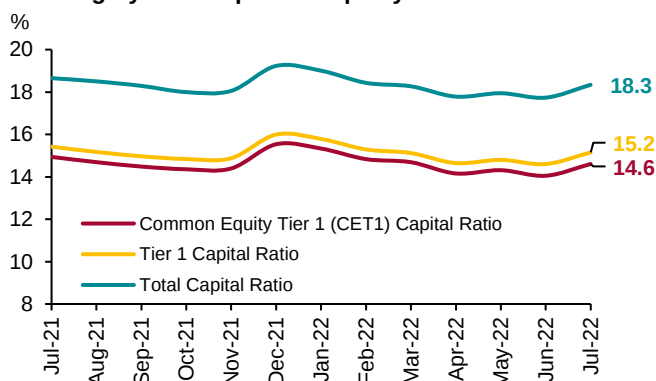
Source: Bank Negara Malaysia, Bursa Malaysia

*Regional countries include Singapore, Thailand, Philippines, Indonesia and Korea

- Global financial market conditions eased noticeably in July, reflecting expectations of slower global growth. Domestic financial market adjustments had remained orderly and was also supported by healthy trading volumes.
- The 10-year MGS yield fell by 38.0 bps alongside the 10-year US Treasury yield (-36.4 bps) and other regional* bond yields (average: -39.7 bps).
- The FBM KLCI rose by 3.3% (regional* average: 2.5%), supported by positive domestic growth prospects while the ringgit weakened by 1.0% against the US dollar, in line with the movement in regional* currencies (average: -0.6%).

Banks remain well-capitalised to support economic recovery

Banking System Capital Adequacy



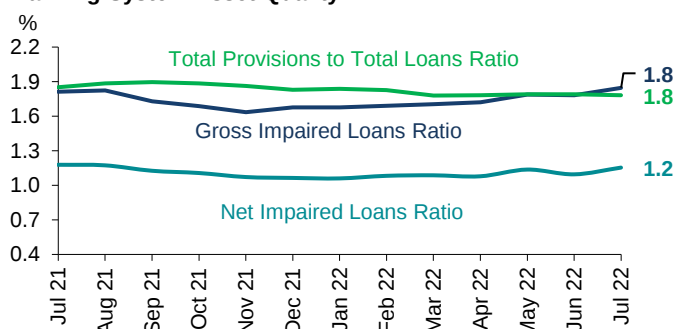
Source: Bank Negara Malaysia

- Banks' capital position remained strong to withstand potential stress and continue supporting credit flows to the economy.
- Banking system capital ratios improved in July, driven by half-yearly recognition of profits and valuation gains on available-for-sale financial instruments as bond yields reversed marginally.
- As at end-July 2022, the banking system recorded RM129.6 billion excess capital buffers¹.

¹ Refers to total capital above the regulatory minimum, which includes the capital conservation buffer (2.5%) and bank-specific higher minimum requirements

The resilience of banks continued to be underpinned by sound asset quality

Banking System Asset Quality



Source: Bank Negara Malaysia

- Overall gross and net impaired loans ratio increased slightly to 1.85% (Jun-22: 1.78%) and 1.2% (Jun-22: 1.1%), respectively.
- Loan loss coverage ratio (including regulatory reserves) remains at a prudent level of 112.8% of impaired loans, with total provisions accounting for 1.8% of total loans.
- As of end-July 2022, the banking system recorded RM 41.1 billion of total provisions and regulatory reserves.



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PRESS RELEASE

Ref. No.: 08/22/09

**EMBARGO: Not for publication or
broadcast before 1500 hours on
Tuesday, 30 August 2022**

Monthly Highlights – July 2022

Headline inflation increased to 4.4% in July

- Headline inflation rose to 4.4% in July (June: 3.4%). As anticipated, this largely reflected the base effect from the discount on electricity tariffs implemented in 3Q 2021, which contributed 0.5 ppt to headline inflation. Food & non-alcoholic beverages also contributed to higher inflation, increasing by 6.9% during the month.
- Core inflation¹ also increased to 3.4% in July (June: 3.0%). The increase largely reflected higher prices for discretionary services, such as food away from home (7.8%), due to improving demand amid the high-cost environment.

Wholesale and Retail Trade expanded in June

- The Index of Wholesale and Retail Trade (IOWRT) grew by 35.8% in June 2022 (May: 14.7%). The higher growth was driven mainly by the motor vehicle segment. This was on account of accelerated purchases ahead of the expiration of Sales and Services Tax exemption on 30 June and the low base in June 2021, when showrooms were closed during the implementation of the full movement control order (FMCO).

¹ Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of tax policy changes.

- On a month-on-month seasonally adjusted (m-o-m SA) basis, growth continued to decelerate to -2.3% (May: -0.7%) from the strong m-o-m SA increase in April of 7.9%.

Continued increase in net financing growth

- Net financing² grew by 5.3% (June: 5.0%) driven by higher growth in both outstanding loans (5.9%; June: 5.6%) and corporate bonds (3.7%; June: 3.4%).
- Outstanding household loan growth stood at 6.1% as the growth in loan disbursements outpaced that of loan repayments. Credit flows to households continued to be mainly for the purchase of houses and cars.
- For businesses, outstanding loans grew by 5.8%, mainly driven by lending to SMEs. By purpose, working capital loans remained the key driver, although the growth in loan repayments outpaced that of disbursements, likely reflecting the continued lapse in repayment assistance.

10Y MGS yields declined, in line with lower global bond yields

- Global financial market conditions eased noticeably in July, reflecting expectations of slower global growth. Domestic financial market adjustments had remained orderly and was also supported by healthy trading volumes.
- The 10-year MGS yield fell by 38.0 bps alongside the 10-year US Treasury yield (-36.4 bps) and other regional* bond yields (average: -39.7 bps).
- The FBM KLCI rose by 3.3% (regional³ average: 2.5%), supported by positive domestic growth prospects while the ringgit weakened by 1.0% against the US dollar, in line with the movement in regional* currencies (average: -0.6%).

² Refers to outstanding loans of the banking system (excluding development financial institutions (DFIs)) and outstanding corporate bonds. Data on outstanding loans for July 2022 are based on the new set of loan/financing data reflecting the latest requirements. Figures may not add up due to rounding.

³ Regional countries include Singapore, Thailand, Philippines, Indonesia and Korea

Banks remain well-capitalised to support economic recovery

- Banks' capital position remained strong to withstand potential stress and continue supporting credit flows to the economy.
- Banking system capital ratios improved in July, driven by half-yearly recognition of profits and valuation gains on available-for-sale financial instruments as bond yields reversed marginally.
- As at end-July 2022, the banking system recorded RM129.6 billion excess capital buffers⁴.

The resilience of banks continued to be underpinned by sound asset quality

- Overall gross and net impaired loans ratio increased slightly to 1.85% (Jun-22: 1.78%) and 1.2% (Jun-22: 1.1%), respectively.
- Loan loss coverage ratio (including regulatory reserves) remains at a prudent level of 112.8% of impaired loans, with total provisions accounting for 1.8% of total loans.
- As of end-July 2022, the banking system recorded RM 41.1 billion of total provisions and regulatory reserves.

Bank Negara Malaysia
30 August 2022

⁴ Refers to total capital above the regulatory minimum, which includes the capital conservation buffer (2.5%) and bank-specific higher minimum requirements