BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

**Ref. No.: 04/16/13**

**EMBARGO: Not for publication or broadcast before 1800 hours on Friday, 29 April 2016**

# MONETARY AND FINANCIAL DEVELOPMENTS
# March 2016

**Price Conditions:** Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), moderated to 2.6% in March (February: 4.2%), reflecting the lower fuel prices during the month. The price of RON95 petrol was reduced by 15 sen to RM1.60 per litre in March 2016 (February: RM 1.75; March 2015: RM1.95 per litre). As a result, inflation in the *transport* category declined significantly in March 2016 to -8.2% (February: 3.6%). The decline in transport inflation has more than offset the increase in inflation in the *food and non-alcoholic* beverages category, which averaged 5.0% in March (February: 4.8%; average 2011-2015: 3.7%). Most food sub-categories, especially *vegetables*, *fish and seafood*, and *fruits*, registered higher inflation following the warm weather condition and the lack of rainfall since late-February.

**Monetary Conditions:** Interbank rates continued their moderating trend in March following the reduction of the Statutory Reserve Requirement (SRR) by 50 basis points on 1 February 2016. The average BR of commercial banks remained relatively stable at 3.89% in March (February: 3.88%)[1]. Net financing to the private sector grew at a slower pace of 7.6% in March (February: 8.6%), amidst a moderation in the growth of both net issuances of private debt securities (PDS) and outstanding banking system loans. Business loans grew by 5.2% during the month (February: 7.1%) reflecting the stronger annual growth in loan repayments relative to disbursements. The annual

[1] The slight increase in the average BR reflects a lagged adjustment to conditions in the KLIBOR market given banks' review practices.

growth of loans to households continued to moderate to 6.4% (February: 7.0%). The higher levels of loan applications from businesses and households were matched by higher levels of approvals during the month. On an annual basis, broad money (M3) grew by 0.9% in March (February: 2.7%). The slower expansion in M3 mainly reflects the moderation in the extension of credit to the private sector by the banking system. The annual expansion in M3 was also partially offset by a decline in net foreign assets.

**Banking System:** Banking system remained well-capitalised with the Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio at 13.0%, 13.9% and 16.5% respectively. The level of net impaired loans was sustained at 1.2% of net loans, with loan loss coverage ratio stable at 94.3%.

**Exchange Rates and International Reserves:** In March, the ringgit appreciated against the currencies of Malaysia's major trade partners. During the month, the ringgit, along with other regional currencies, appreciated against the US dollar. This was mainly due to expectations that the increase in US interest rates would be deferred, which led to increased investment into regional financial markets. The ringgit, however, appreciated more than other regional currencies. This was partly due to the increase in global crude oil prices during the month. The international reserves of Bank Negara Malaysia amounted to RM382.1 billion (equivalent to USD97.2 billion) as at 15 April 2016, sufficient to finance 8.1 months of retained imports and were 1.1 times the short-term external debt[2].

**Bank Negara Malaysia**
**29 April 2016**

[2] 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 titled '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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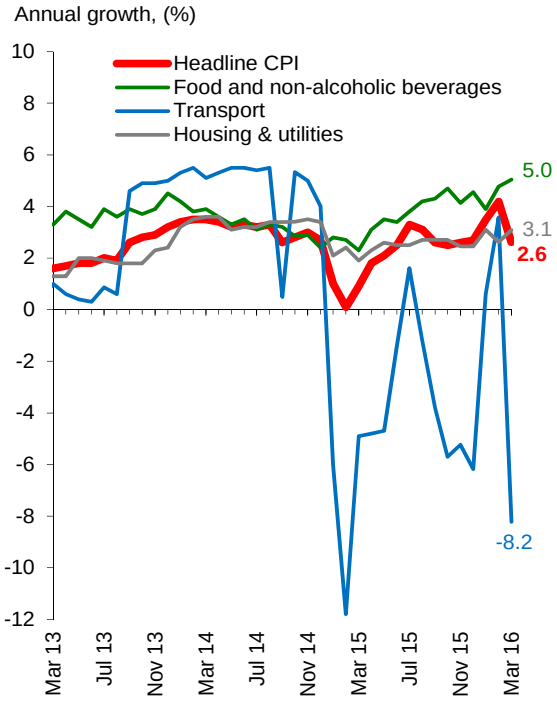
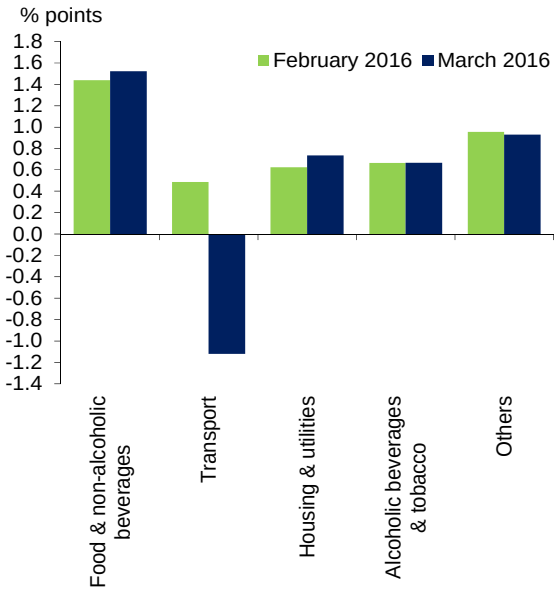
## Headline inflation declined in March

**Headline Inflation**




*Source: Department of Statistics Malaysia*

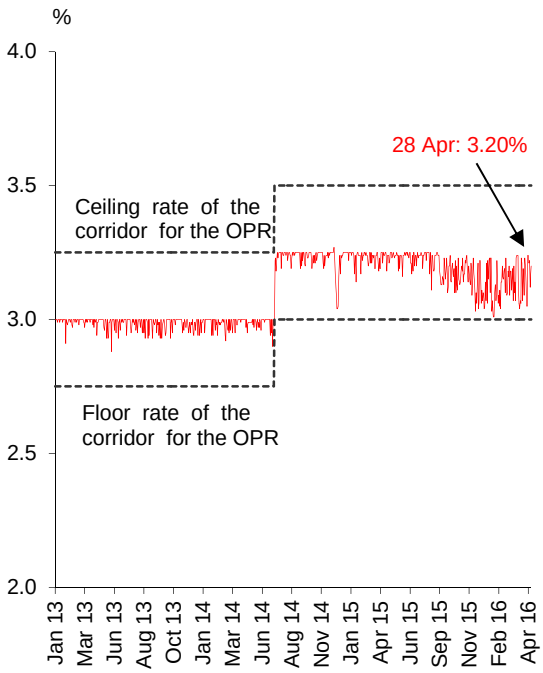
**Headline Inflation: Component Contribution**




*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*

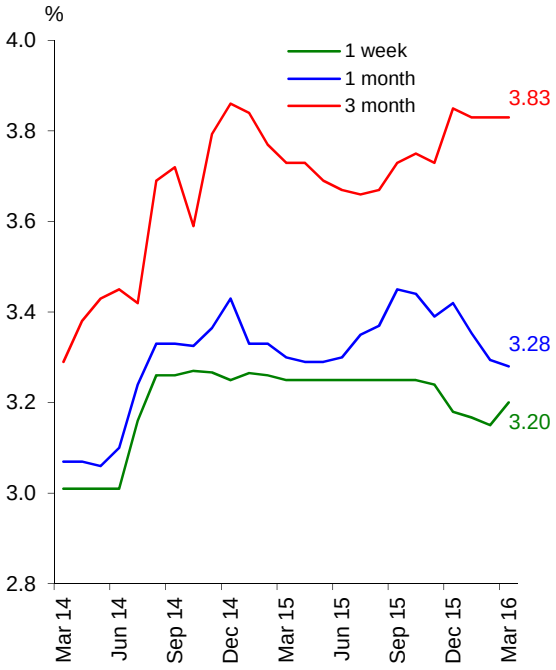
## Interbank rates continued their moderating trend in March following the reduction in the SRR

**Daily Weighted Average Overnight Interbank Rate**




*Source: Bank Negara Malaysia*

**Average Interbank Rate**




For periods where no trades took place during the month, the last traded interbank rate is used
*Source: Bank Negara Malaysia*

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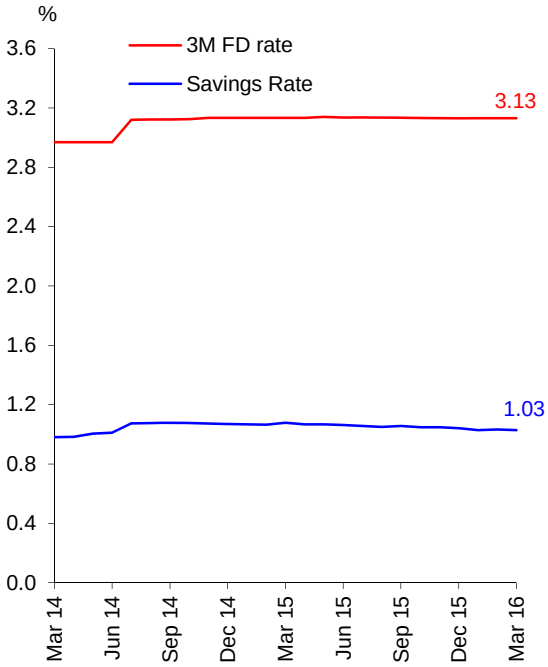
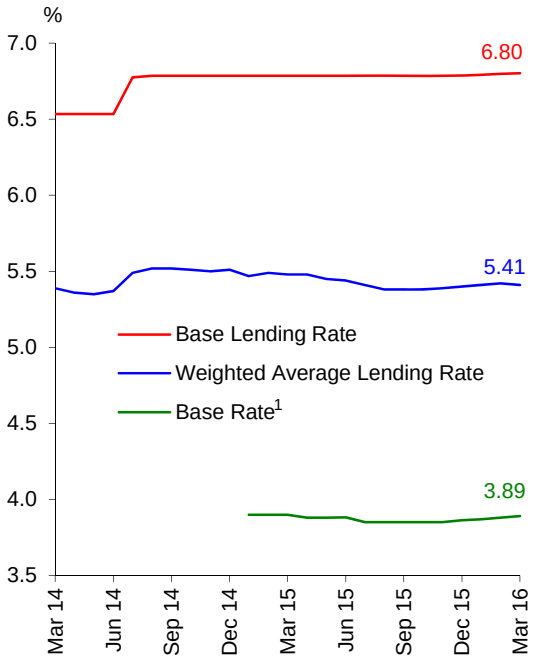
**Deposit Rates of Commercial Banks**




*Source: Bank Negara Malaysia*

**Lending Rates of Commercial Banks**

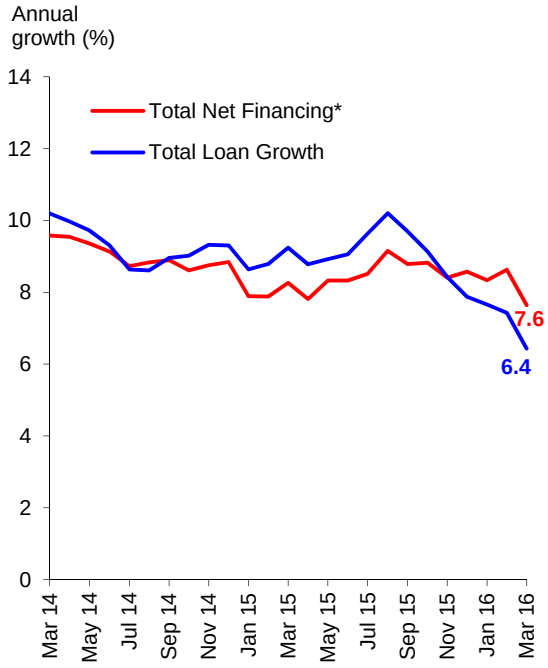



[1] On 2 January 2015, the Base Rate (BR) replaced the Base Lending Rate (BLR) as the reference rate for new retail floating-rate loans and financing facilities

*Source: Bank Negara Malaysia*

## Growth in net financing moderated in March

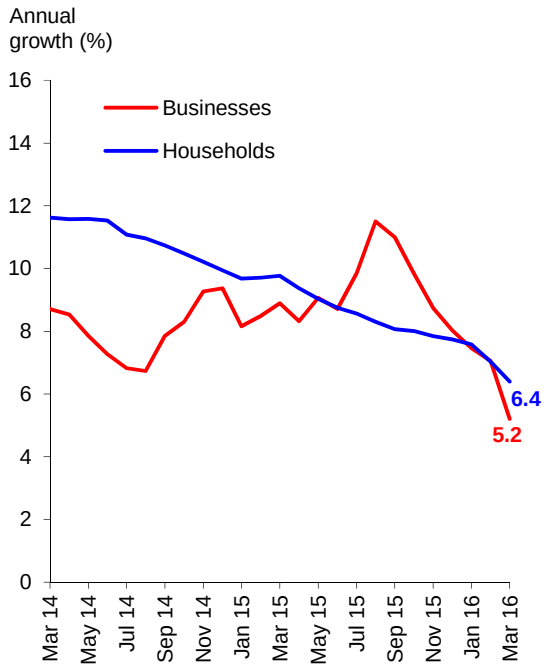
**Net Financing and Loan Growth**




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

*Source: Bank Negara Malaysia*

**Loans Outstanding of the Banking System**




*Source: Bank Negara Malaysia*

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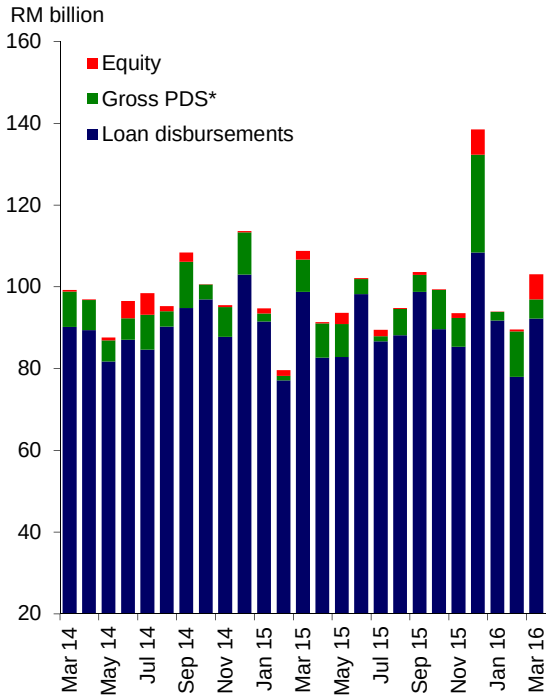
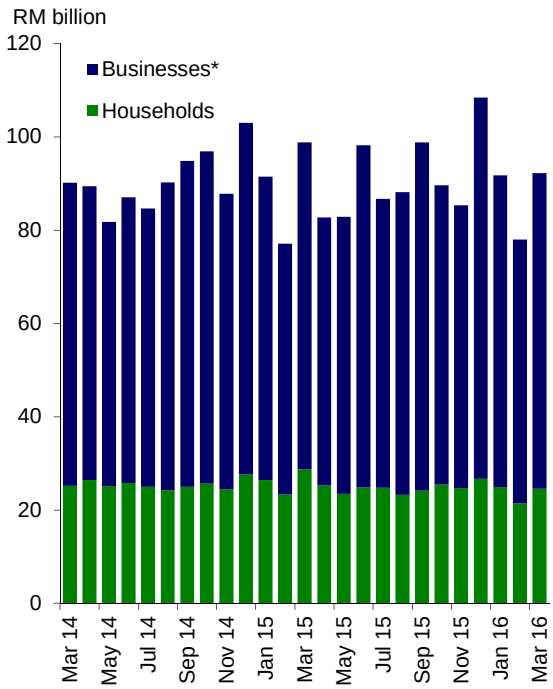
**Gross Private Sector Financing**



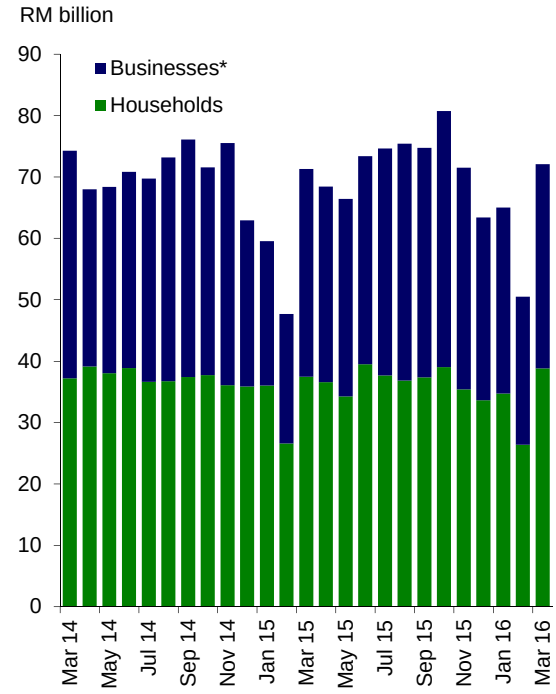

*Excludes foreign issuances
*Source: Bank Negara Malaysia*

**Loan Disbursements by the Banking System**



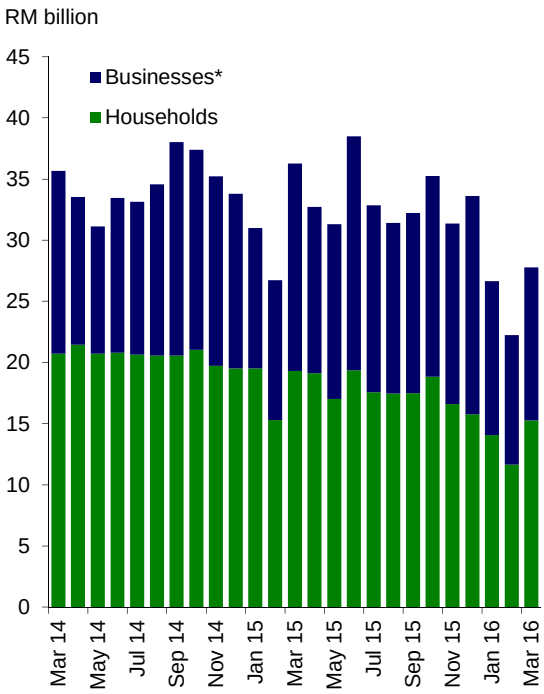

* Includes domestic financial institutions, goverment, other domestic entities and foreign entities
*Source: Bank Negara Malaysia*

**Loan Applications to the Banking System**




* Includes domestic financial institutions, goverment, other domestic entities and foreign entities
*Source: Bank Negara Malaysia*

**Loan Approvals by the Banking System**

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*Source: Bank Negara Malaysia*

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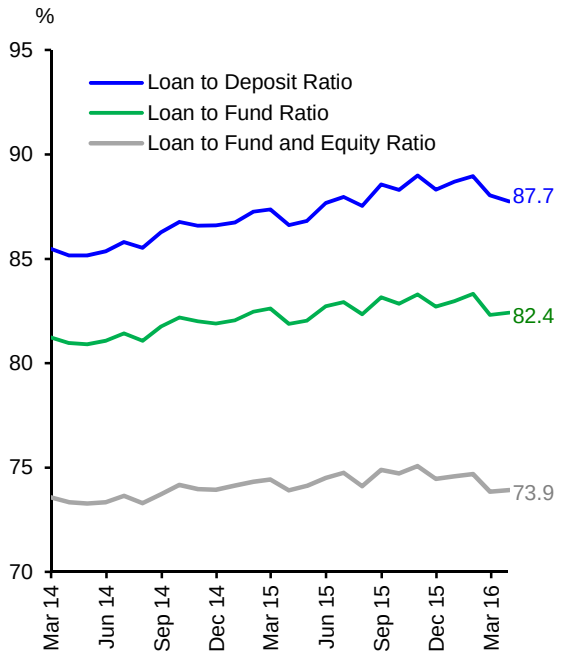
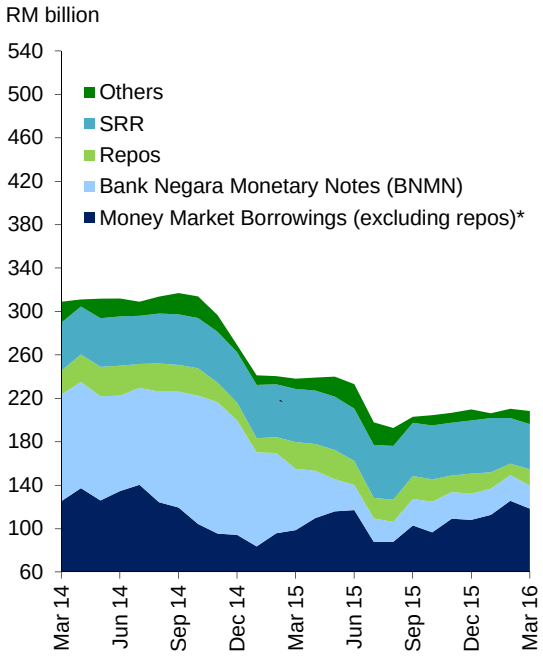
## Liquidity in the banking system remained ample

**Loan to Deposit, Loan to Fund and Loan to Fund and Equity Ratios**




* From July 2015 onwards, loans exclude financing funded by Islamic Investment Accounts
*Source: Bank Negara Malaysia*

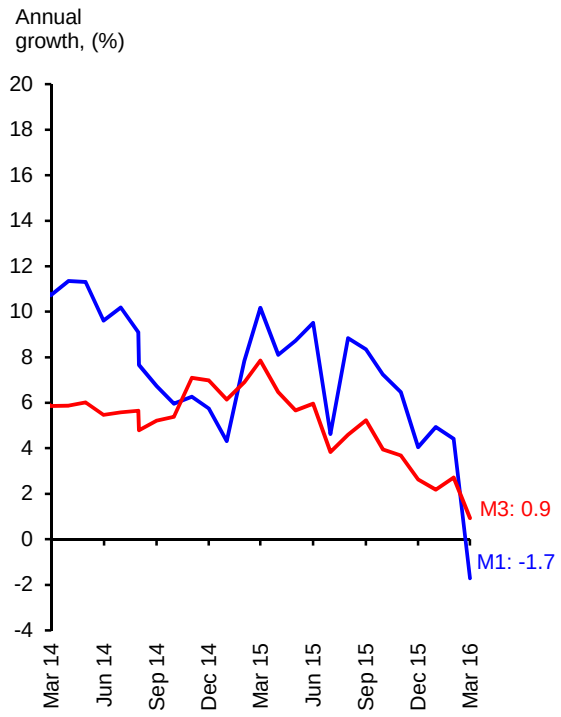
**Outstanding Liquidity Placed with Bank Negara Malaysia (at end-period)**




* Money Market Borrowings (excluding repos) include Direct Borrowing, Wadiah Acceptances and Commodity Murabahah Programme (CMP)
*Source: Bank Negara Malaysia*

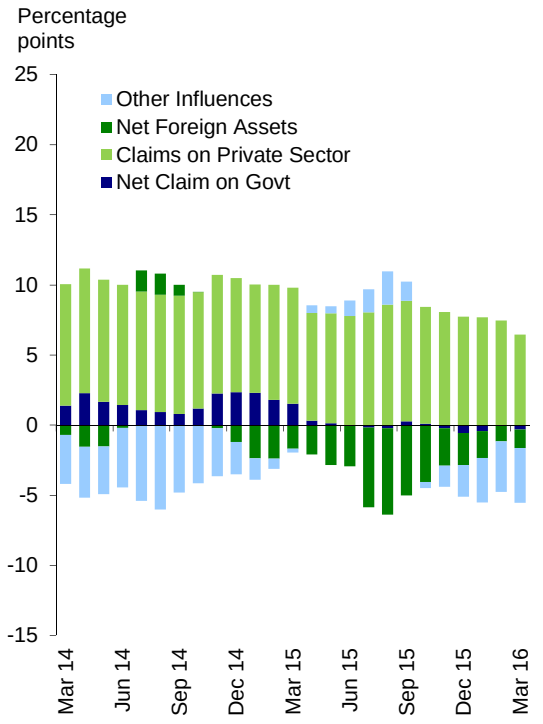
## Growth of monetary aggregates moderated in March

**M1 and M3**




*Source: Bank Negara Malaysia*

**Main Contributors of M3 Annual Growth**




*Source: Bank Negara Malaysia*

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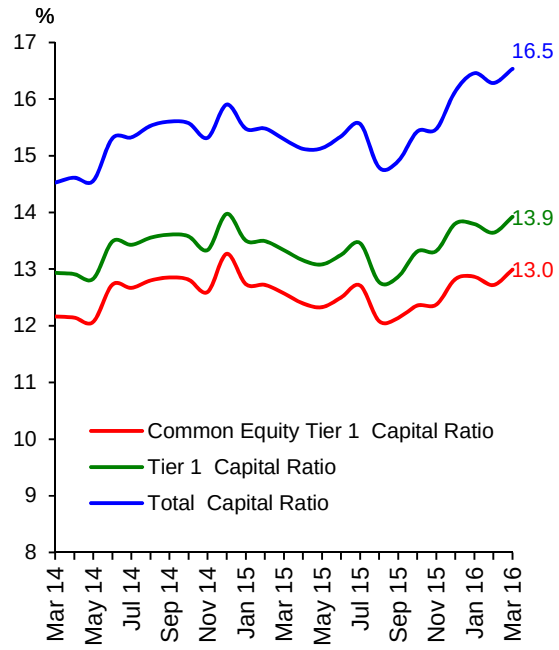
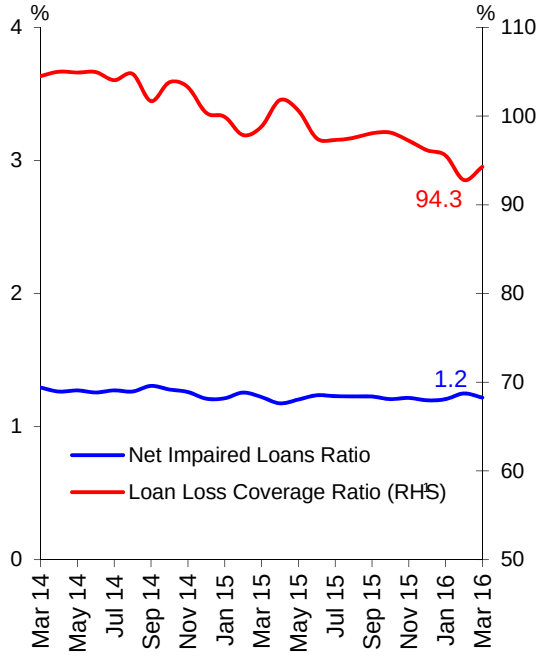
## Banking system capitalisation remained strong with stable loan quality

**Capital Strength**




*Source: Bank Negara Malaysia*

**Net Impaired Loans Ratio and Loan Loss Coverage Ratio**

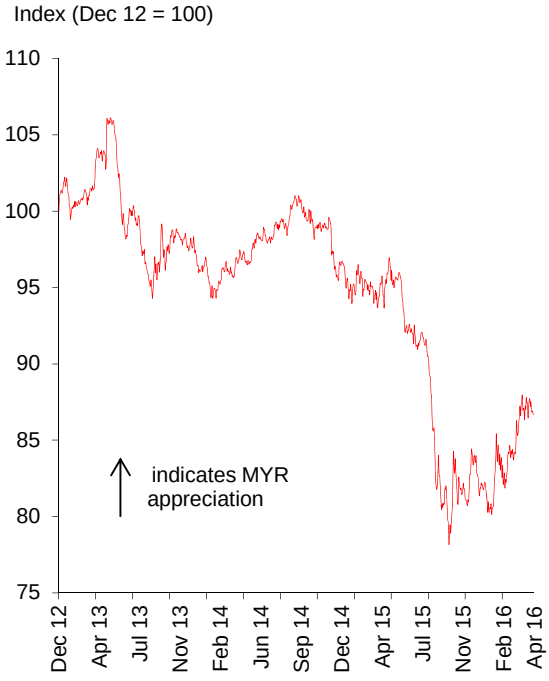



[1] Refers to ratio of individual plus collective impairment provisions to total impaired loans

*Source: Bank Negara Malaysia*

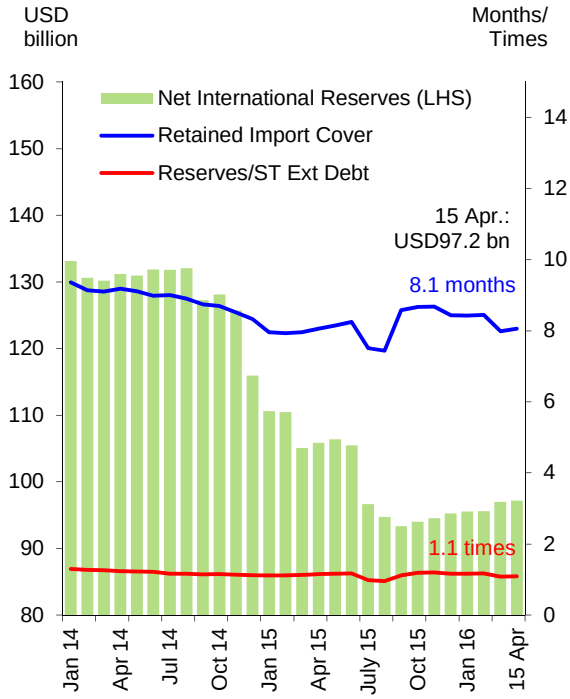
## The ringgit appreciated against the currencies of major trade partners

**Index of Ringgit Performance against Major Trade Partners***




*Currencies: USD, CNY, SGD, JPY, EUR
Each currency carries equal weight
*Source: Bank Negara Malaysia*

**Net International Reserves**




*Source: Bank Negara Malaysia*

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## Key Monetary and Financial Statistics

| | | Jan 16 | | Feb 16 | | Mar 16 | |
|---|---|---|---|---|---|---|---|
| | | O/stg | Ann. growth | O/stg | Ann. growth | O/stg | Ann. growth |
| | | (RM bil) | (%) | (RM bil) | (%) | (RM bil) | (%) |
| **Monetary Aggregates** | | | | | | | |
| Reserve money | | 144.1 | 8.6 | 133.5 | -0.1 | 130.0 | -1.1 |
| M1 | | 363.4 | 4.9 | 366.9 | 4.4 | 354.1 | -1.7 |
| M2 | | 1,581.1 | 2.2 | 1,595.7 | 2.8 | 1,597.4 | 0.9 |
| M3 | | 1,588.3 | 2.2 | 1,603.3 | 2.7 | 1,604.4 | 0.9 |
| **Banking System** | | | | | | | |
| Net financing[1] | | 1,934.1 | 8.3 | 1,944.8 | 8.6 | 1,945.0 | 7.6 |
| Loan to deposit ratio (%) [2] | | 89.0 | | 88.0 | | 87.7 | |
| Loan to fund ratio (%) [2&3] | | 83.3 | | 82.3 | | 82.4 | |
| Loan to fund and equity ratio (%) [2,3&4] | | 74.7 | | 73.8 | | 73.9 | |
| Loans applied (during the period) | | 65.0 | 9.3 | 50.5 | 6.0 | 72.1 | 1.1 |
| Loans approved (during the period) | | 26.7 | -14.0 | 22.3 | -16.8 | 27.8 | -23.4 |
| Loans disbursed (during the period) | | 91.8 | 0.3 | 78.0 | 1.1 | 92.2 | -6.7 |
| Loans repaid (during the period) | | 92.7 | 1.8 | 79.8 | 6.8 | 92.3 | 2.7 |
| **Banking System Health** | | | | | | | |
| Total capital ratio (%) [5] | | 16.5 | | 16.3 | | 16.5 | |
| Tier 1 capital ratio (%) [5] | | 13.8 | | 13.6 | | 13.9 | |
| Common equity tier 1 capital ratio (%) [5] | | 12.9 | | 12.7 | | 13.0 | |
| Net impaired loans ratio (%) | | 1.2 | | 1.2 | | 1.2 | |
| **BNM International Reserves (end-period)** | | | | | | | |
| Net Reserves in RM billion | | 410.1 | | 410.4 | | 381.5 | |
| Net Reserves in USD billion (equivalent) | | 95.5 | | 95.6 | | 97.0 | |
| Months of retained imports | | 8.4 | | 8.4 | | 8.0 | |
| **Interest Rates at end-period [average for the month]** | | | | | | | |
| Overnight Policy Rate (OPR) | | 3.25 | | 3.25 | | 3.25 | |
| Interbank: | Overnight | 3.07 [3.12] | | 3.19 [3.14] | | 3.04 [3.15] | |
| | 1-week | 3.14 [3.17] | | 3.16 [3.15] | | 3.22 [3.20] | |
| | 1-month | 3.50 [3.35] | | 3.41 [3.29] | | 3.25 [3.28] | |
| Fixed deposits of commercial banks: | 1-month | 3.08 | | 3.08 | | 3.08 | |
| | 3-month | 3.13 | | 3.13 | | 3.13 | |
| BLR of commercial banks | | 6.79 | | 6.80 | | 6.80 | |
| Base Rate [6] | | 3.87 | | 3.88 | | 3.89 | |
| Weighted ALR of commercial banks | | 5.41 | | 5.42 | | 5.41 | |
| **Prices** | | | | | | | |
| Consumer Price Index (CPI) (2010=100) | | 114.5 | 3.5 | 114.5 | 4.2 | 113.8 | 2.6 |

[1] Comprises banking system loans outstanding and private debt securities (PDS) outstanding (excludes non-resident and Cagamas issuances)

[2] Deposits exclude deposits accepted from banking institutions. Loans exclude loans sold to Cagamas and loans extended to banking institutions. Beginning July 2015, loans exclude financing funded by Islamic Investment accounts

[3] Funds comprise deposits and all debt instruments (including subordinated debt, debt certificates/sukuk issued, commercial paper and structured notes)

[4] Equity comprise ordinary and preferred shares, share premium and retained earnings

[5] Beginning January 2013, capital components are reported based on Basel III Capital Adequacy Framework

[6] On 2 January 2015, the Base Rate (BR) replaced the Base Lending Rate (BLR) as the main reference rate for new retail floating-rate loans and financing facilities

*Source: Bank Negara Malaysia*

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