BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 01/16/08

EMBARGO: Not for publication or broadcast before 1830 hours on Friday, 29 January 2016

MONETARY AND FINANCIAL DEVELOPMENTS
December 2015

Price Conditions: Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), was relatively stable at 2.7% in December (November: 2.6%). Inflation in the *food and non-alcoholic beverages* category increased to 4.6% (November: 4.1%) reflecting higher prices across most food sub-categories especially for fresh meat and vegetables. The higher inflation, however, was offset by the lower inflation in the *transport* category (December: -6.2%; November: -5.2%) following the downward adjustment to the price of RON95 petrol by 10 sen during the month. For 2015 as a whole, inflation averaged lower at 2.1% (2014: 3.2%).

Monetary Conditions: Short-term interbank rates (less than 1 month) were broadly stable in December. Interbank rates of longer maturities, however, trended higher due to greater demand by banks for more stable funding. This led to competition among banks to attract deposits by offering higher deposit rates, and the resultant increase in funding cost was transmitted to lending rates in the interbank market. As the Base Rate (BR) is benchmarked off the 3-month KLIBOR for most banks, the average BR of commercial banks increased slightly to 3.86% (November: 3.85%)[1]. Nevertheless, the average BR of the banking system still remained lower than at the beginning of the year as the BR of some banks had earlier been reduced when the KLIBOR moderated in the middle of 2015. Net financing to the private sector grew by 8.6% in December (November: 8.4%), driven by higher growth in net outstanding issuances of private debt securities (PDS) amidst a moderation in the growth of banking system loans. While the growth of outstanding business loans moderated to 8.0% during the month (November: 8.7%), the level of

[1] For more details on the BR, refer to the white box article titled "The New Reference Rate Framework" in the 2014 BNM Annual Report.

loans disbursed to businesses continued to remain healthy with larger volume of loans extended across most sectors. Loans to households also registered a marginally slower annual growth of 7.7% (November: 7.8%). Although loan applications from both business and household sectors moderated, loan approvals remained strong, especially for the business sector. On an annual basis, broad money (M3) grew by 2.7% in December (November: 3.7%). The expansion in M3 was driven mainly by the extension of credit to the private sector by the banking system. The expansion, however, was partially offset by the 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 12.8%, 13.8% and 16.1% respectively. The level of net impaired loans was sustained at 1.2% of net loans, with loan loss coverage ratio stable at 96.2%.

Exchange Rates and International Reserves: In December, the ringgit depreciated against the currencies of most of Malaysia's major trade partners, including the US dollar. However, the ringgit, and other regional currencies, did not experience significant adjustments despite uncertainties leading to the eventual interest rate adjustment by the Federal Reserve in December given that the normalisation was already anticipated. The international reserves of Bank Negara Malaysia amounted to RM408.5 billion (equivalent to USD95.1 billion) as at 15 January 2016, sufficient to finance 8.5 months of retained imports and were 1.1 times the short-term external debt[2].

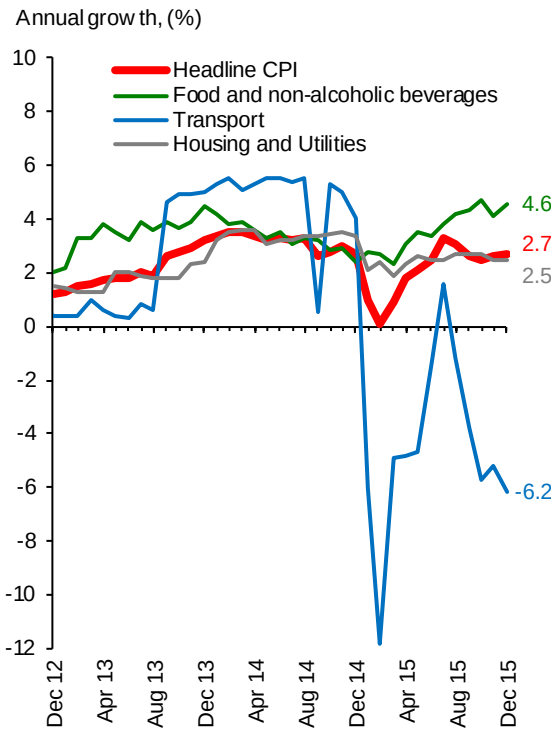
Bank Negara Malaysia
29 January 2016

[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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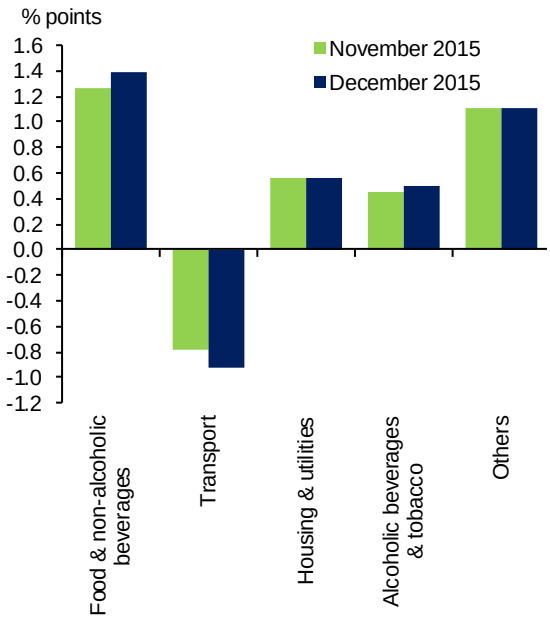
Headline inflation was relatively stable in December

Headline Inflation



Source: Department of Statistics Malaysia

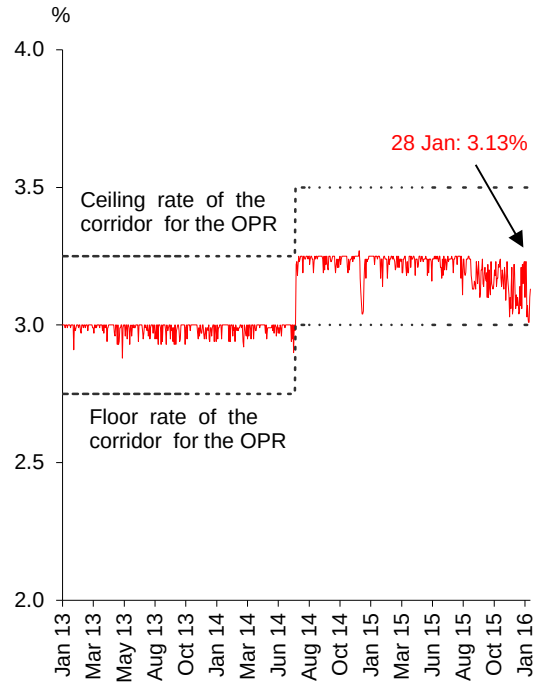
Headline Inflation: Component Contribution



*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

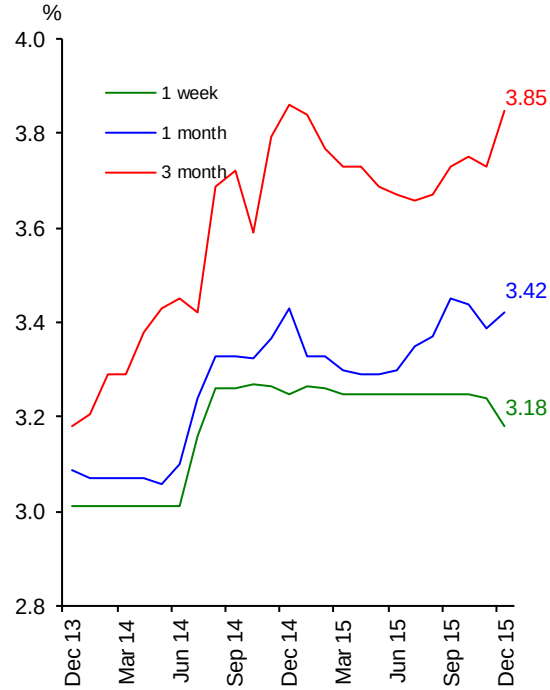
Interbank rates beyond 1 month trended higher, while retail lending rates remained stable

Daily Weighted Average Overnight Interbank Rate



Source: Bank Negara Malaysia

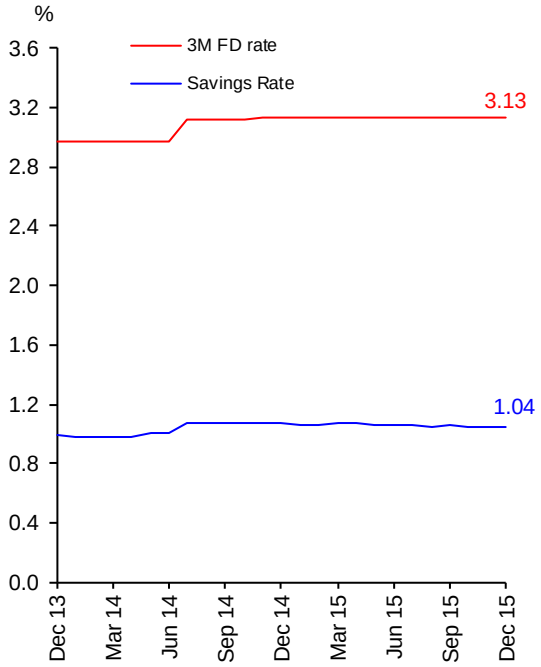
Average Interbank Rate



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

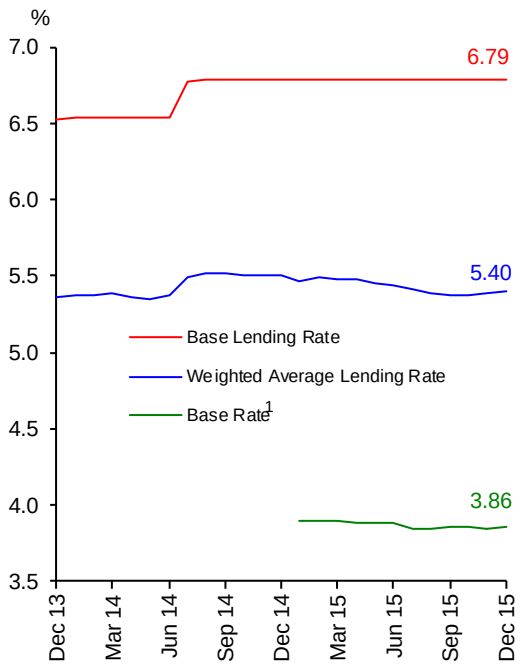
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Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

Lending Rates of Commercial Banks

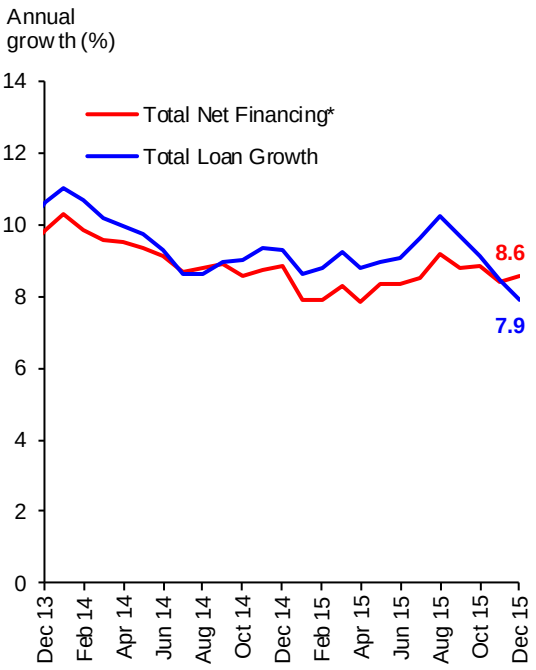


[1] On 2 January 2015, the Base Rate (BR) replaced the Base Lending Rate (BLR) as the reference rate for new retail floating-rate loans and financing facilities

Source: Bank Negara Malaysia

Growth in net financing increased slightly in December

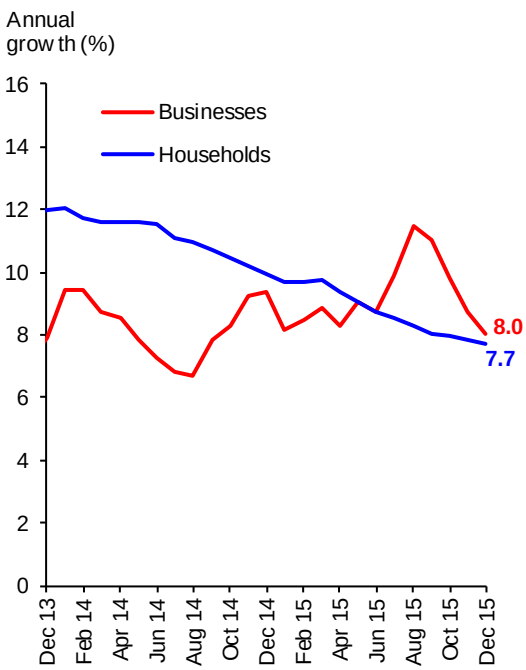
Net Financing and Loan Growth



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

Source: Bank Negara Malaysia

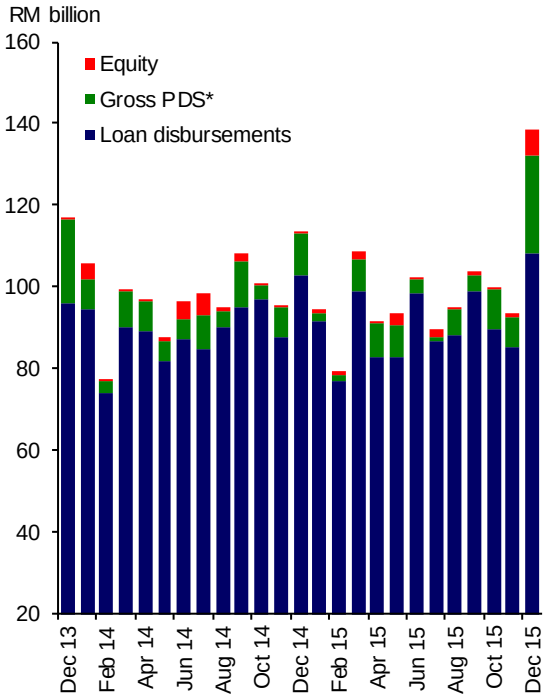
Loans Outstanding of the Banking System



Source: Bank Negara Malaysia

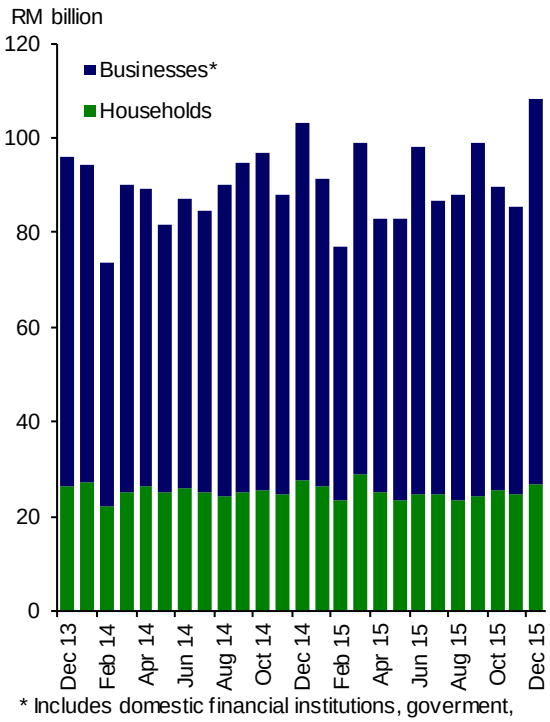
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Gross Private Sector Financing



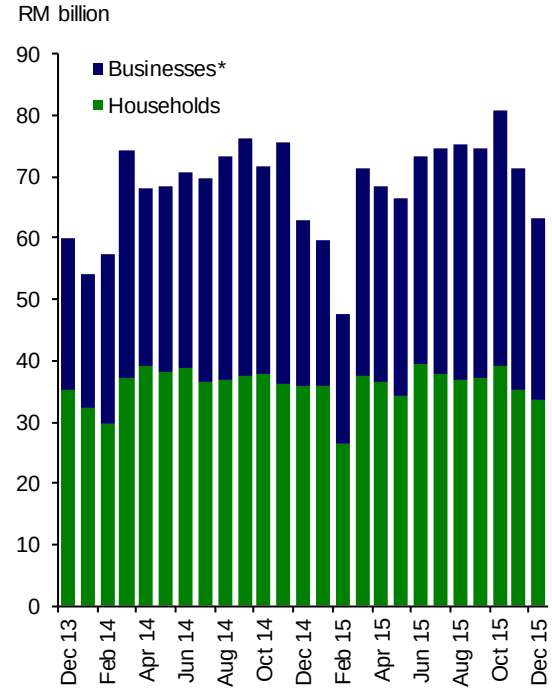
*Excludes foreign issuances
Source: Bank Negara Malaysia

Loan Disbursements by the Banking System



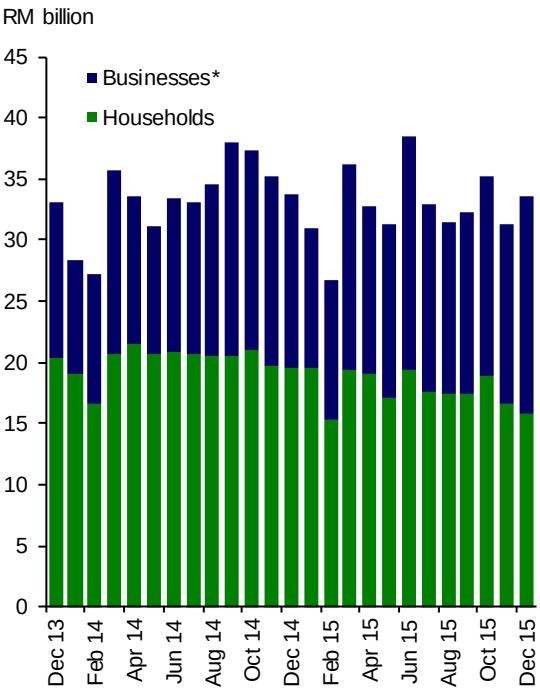
* Includes domestic financial institutions, goverment, other domestic entities and foreign entities
Source: Bank Negara Malaysia

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

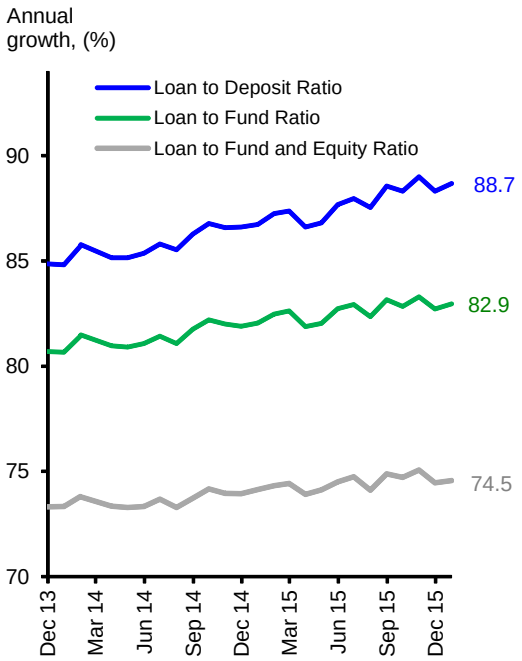


* Includes domestic financial institutions, goverment, other domestic entities and foreign entities
Source: Bank Negara Malaysia

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Liquidity in the banking system remained ample

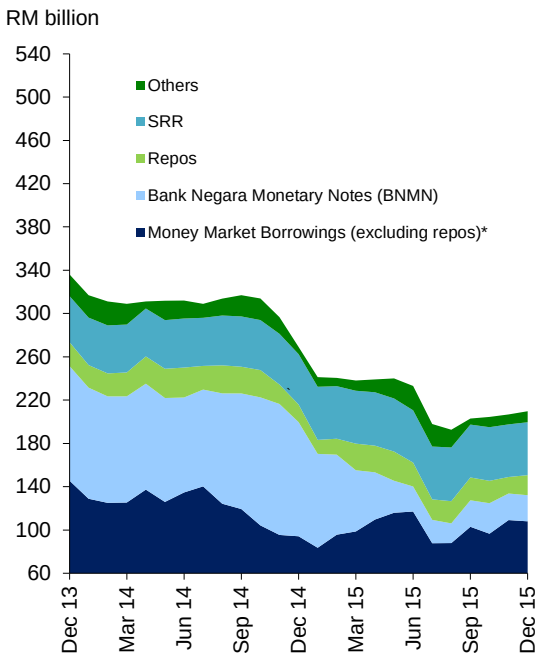
Loan to Deposit, Loan to Fund and Loan to Fund and Equity Ratios



* 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)

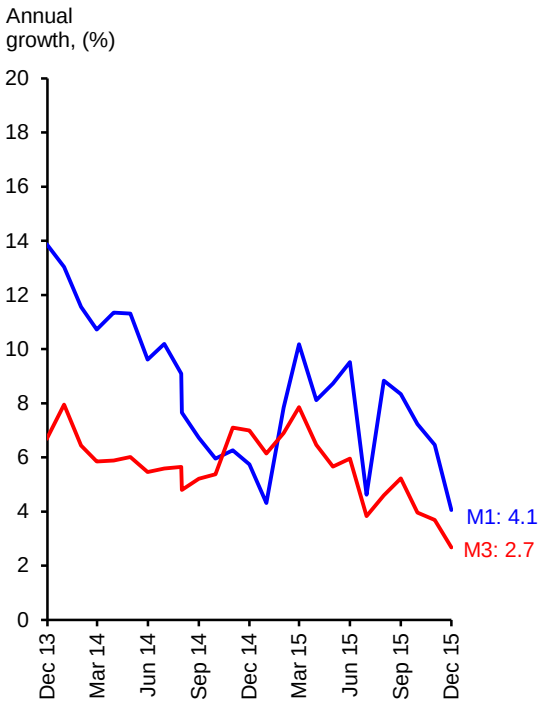


* Money Market Borrowings (excluding repos) include Direct Borrowing, Wadiah Acceptances and Commodity Murabahah Programme (CMP)

Source: Bank Negara Malaysia

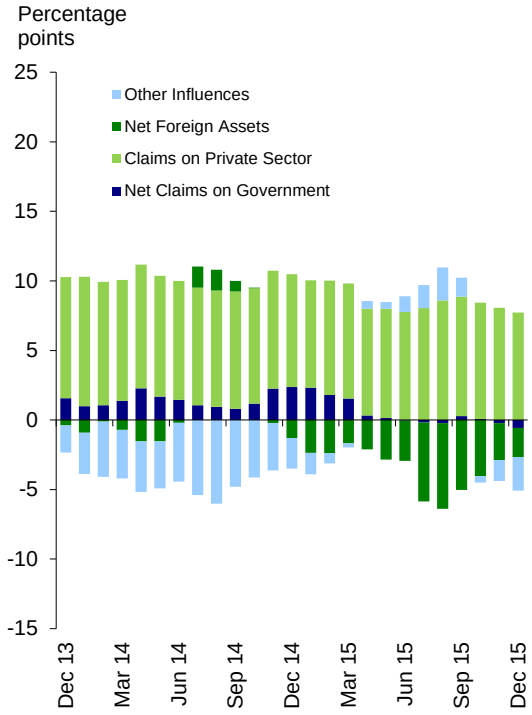
Broad money growth moderated in December

M1 and M3



Source: Bank Negara Malaysia

Main Contributors of M3 Annual Growth

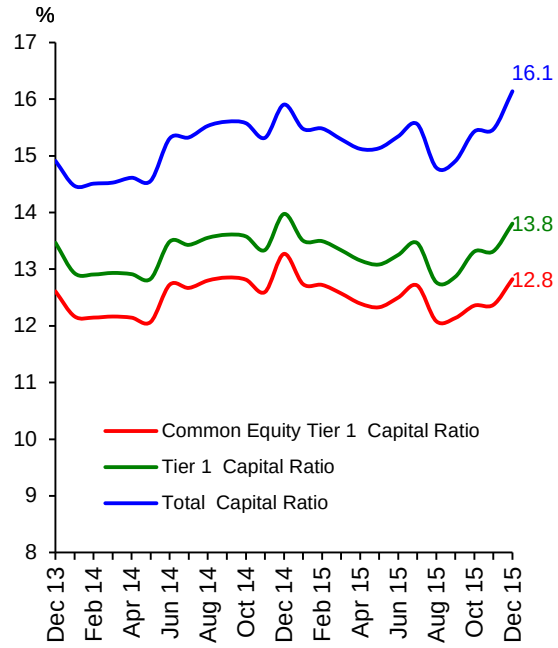


Source: Bank Negara Malaysia

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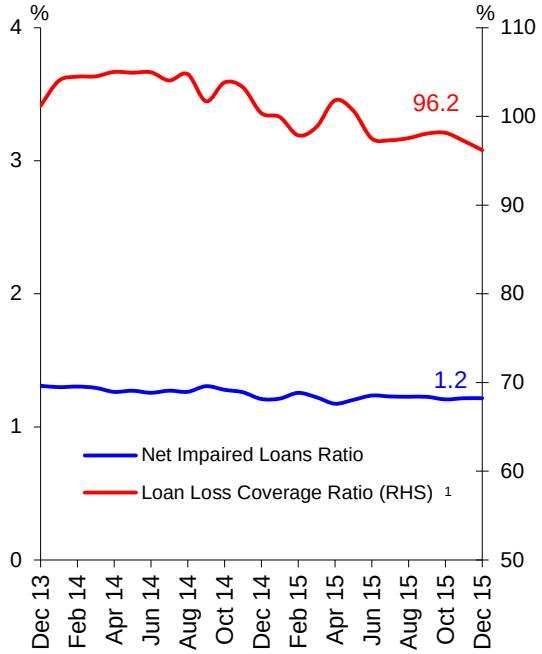
Banking system capitalisation remained strong with stable loan quality

Capital Strength



Source: Bank Negara Malaysia

Net Impaired Loans Ratio and Loan Loss Coverage Ratio

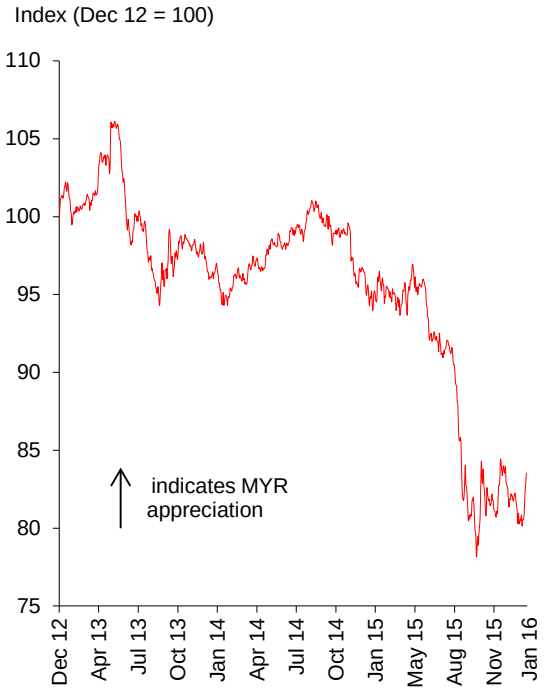


[1] Refers to ratio of individual plus collective impairment provisions to total impaired loans

Source: Bank Negara Malaysia

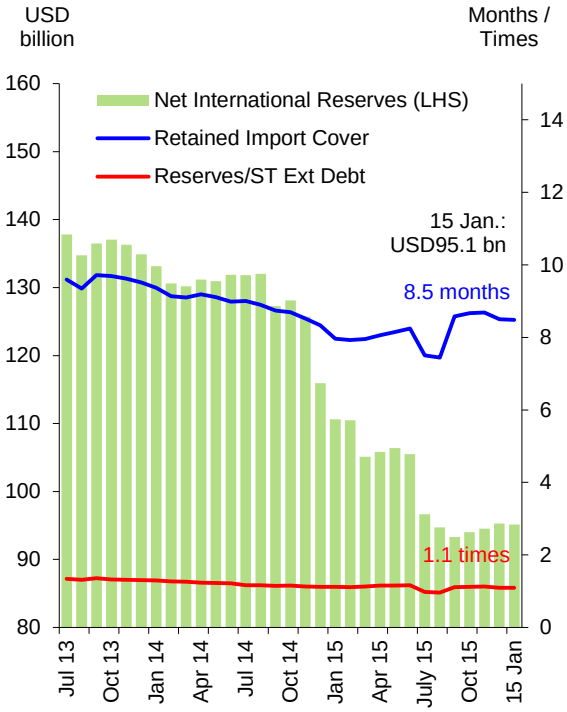
The ringgit depreciated against the currencies of most major trade partners

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

		Oct 15		Nov 15		Dec 15	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates							
Reserve money		134.6	11.5	134.6	9.7	137.3	10.1
M1		351.2	7.2	352.3	6.5	360.5	4.1
M2		1,569.3	4.3	1,577.9	4.0	1,589.2	2.9
M3		1,576.5	4.0	1,584.1	3.7	1,595.3	2.7
Banking System							
Net financing[1]		1,894.5	8.8	1,902.3	8.4	1,933.2	8.6
Loan to deposit ratio (%) [2]		89.0		88.3		88.7	
Loan to fund ratio (%) [2,3]		83.3		82.7		83.0	
Loan to fund and equity ratio (%) [2,3,4]		75.1		74.5		74.6	
Loans applied (during the period)		80.7	12.8	71.5	-5.4	63.4	0.7
Loans approved (during the period)		35.2	-5.7	31.4	-11.0	33.6	-0.6
Loans disbursed (during the period)		89.6	-7.5	85.3	-2.8	108.4	5.2
Loans repaid (during the period)		85.1	-4.5	85.8	7.0	95.9	7.5
Banking System Health							
Total capital ratio (%) [4]		15.4		15.5		16.1	
Tier 1 capital ratio (%) [4]		13.3		13.3		13.8	
Common equity tier 1 capital ratio (%) [4]		12.4		12.4		12.8	
Net impaired loans ratio (%)		1.2		1.2		1.2	
BNM International Reserves (end-period)							
Net Reserves in RM billion		417.9		420.1		409.1	
Net Reserves in USD billion (equivalent)		94.0		94.6		95.3	
Months of retained imports		8.7		8.7		8.5	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.25		3.25		3.25	
Interbank:	Overnight	3.18 [3.17]		3.15 [3.18]		3.05 [3.11]	
	1-week	3.26 [3.25]		3.22 [3.24]		3.13 [3.18]	
	1-month	3.64 [3.44]		3.45 [3.39]		3.45 [3.42]	
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		6.79		6.79	
Base Rate [5]		3.85		3.85		3.86	
Weighted ALR of commercial banks		5.38		5.39		5.40	
Prices							
Consumer Price Index (CPI) (2010=100)		114.1	2.5	114.8	2.6	114.8	2.7

[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] 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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