BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

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EMBARGO: Not for publication or broadcast before 1500 hours on Friday, 31 March 2017

MONETARY AND FINANCIAL DEVELOPMENTS FEBRUARY 2017

Price Conditions: Headline inflation, as measured by the Consumer Price Index (CPI), increased to 4.5% in February (January: 3.2%) driven mainly by higher inflation in the *transport* category. Following the increase in global oil prices, domestic fuel prices for RON97 petrol, RON95 petrol and diesel were raised to RM2.60, RM2.30 and RM2.15, respectively. These prices were significantly higher than those prevailing in the base period of February 2016, when they were reduced to RM2.05, RM1.75, RM1.35, respectively. This resulted in a significantly higher inflation in the *transport* category at 17.9% in February (January: 8.3%). Prices of both *fresh food* and *food away from home* were also higher during the month due mainly to higher poultry prices caused by temporary supply disruptions. *Rental* inflation also increased during the month. With the higher inflation for *food away from home* and *rental*, core inflation increased to 2.5% in February 2017 (January: 2.3%).

Monetary Conditions: Short-term interbank and retail lending rates were relatively stable in February. The weighted average base rate (BR) of commercial banks remained unchanged at 3.62%, while the weighted average lending rate (ALR) on outstanding loans was stable at 5.21% (January 2017: 5.20%).

Net financing to the private sector registered an annual growth of 5.4% in February (January: 5.8%). This was driven by a moderation in both the growth of loans extended by the banking system and development financial institutions (DFIs), and in net outstanding issuances of corporate bonds during the month. Outstanding business loans of the banking system grew at a stable pace of 5.4% (January: 5.4%),

with the growth driven by the year-on-year expansion in the *manufacturing*; *finance, insurance and business services* and *transport, storage and communication* sectors. For households, outstanding loans from the banking system grew at a slightly slower pace of 5.1% in February (January: 5.2%). Overall loan demand increased during the month with a higher level of loan applications, especially from businesses.

On an annual basis, broad money (M3) grew at a more moderate pace of 3.6% in February (January: 4.4%). The expansion in broad money continued to be supported by the extension of credit to the private sector and higher net claims on the Government. This expansion, however, was partially offset by the decline in net foreign assets due to net capital outflows during the month and the continued growth of Islamic Investment Accounts, as reflected in *other influences.*

Banking System: The banking system maintained strong capitalisation. The Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio stood at 13.1%, 13.9% and 16.9%, respectively. The level of net impaired loans was sustained at 1.2% of net loans, with loan loss coverage ratio at 90.8%. Taking into account regulatory reserves for loans and financing, banks maintain sufficient buffers for potential credit losses.

Exchange Rates and International Reserves: In February, the ringgit depreciated against the currencies of Malaysia's major trade partners. While the currencies of most regional economies appreciated against the US dollar amid recovery in portfolio flows following an improvement in sentiments, the ringgit was affected by non-resident portfolio outflows during the month. The outflows reflected primarily the maturing of government securities in February. Continued uncertainty in the direction of global crude oil prices also affected sentiments on the currencies of commodity exporting countries. The international reserves of Bank Negara Malaysia amounted to USD94.9 billion (equivalent to RM425.5 billion) as at 15 March 2017. This level remains ample to facilitate international transactions and is sufficient to finance 8.3 months of retained imports and is 1.1 times the short-term external debt.

Bank Negara Malaysia
31 March 2017

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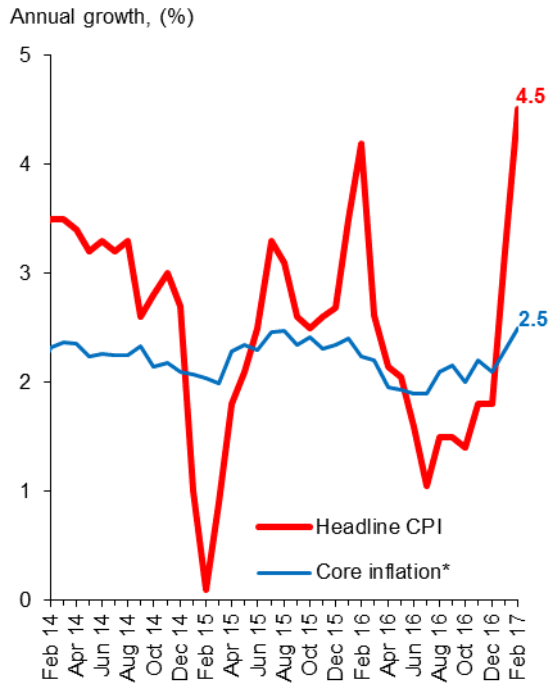
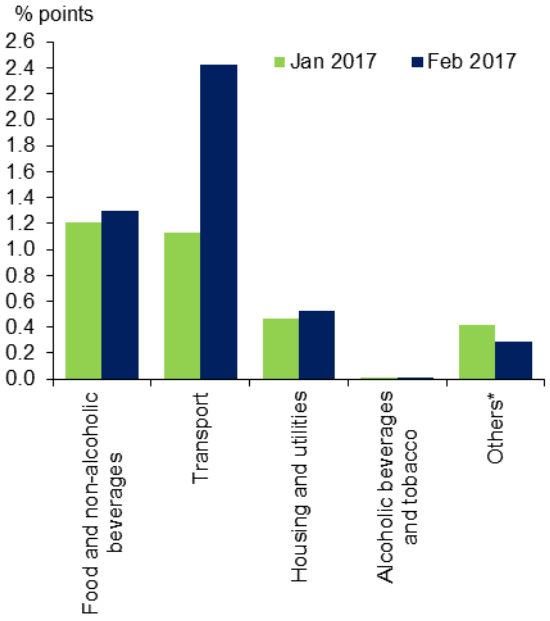
Headline inflation rose sharply in February

Headline Inflation



*Core inflation excludes GST impact
Source: Department of Statistics Malaysia, Bank negara Malaysia

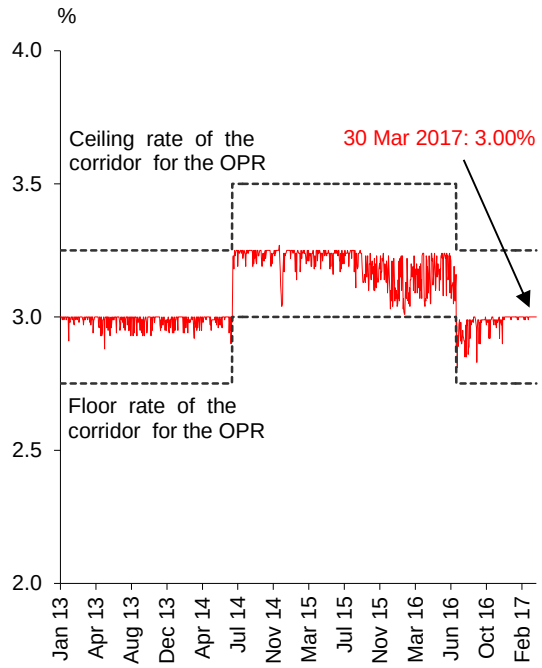
Headline Inflation: Component Contribution



*Others includes *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

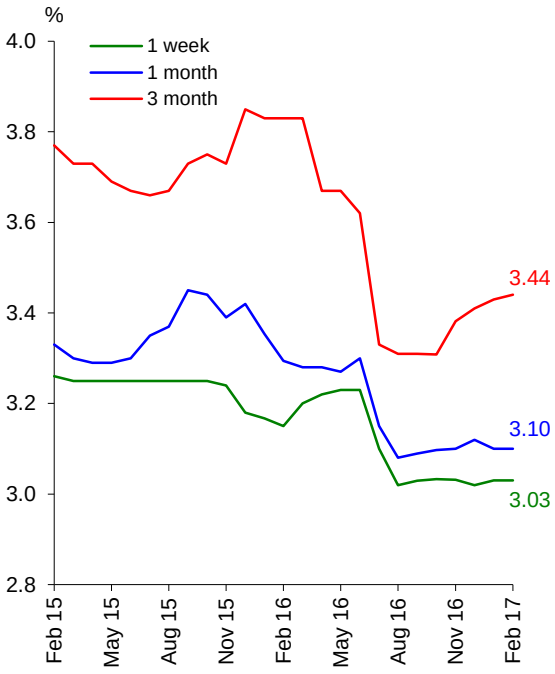
Short-term interbank rates were stable in February

Daily Weighted Average Overnight Interbank Rate



Source: Bank Negara Malaysia

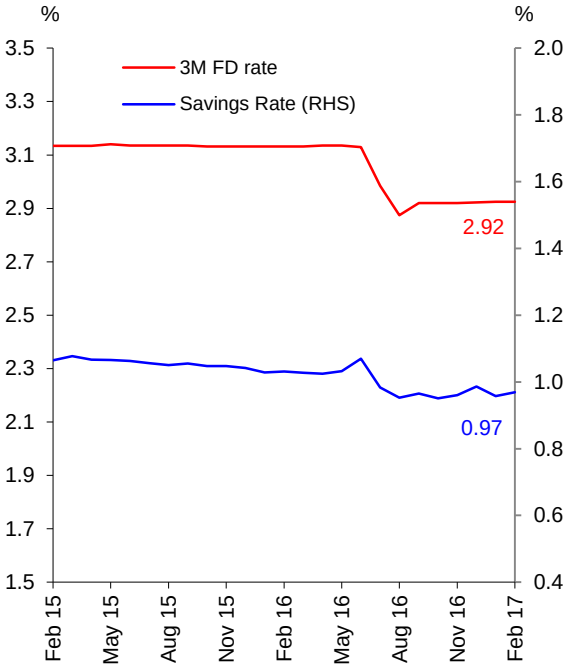
Average Interbank Rate



Note: For periods during the month where no trade took place, the last traded interbank rate is used

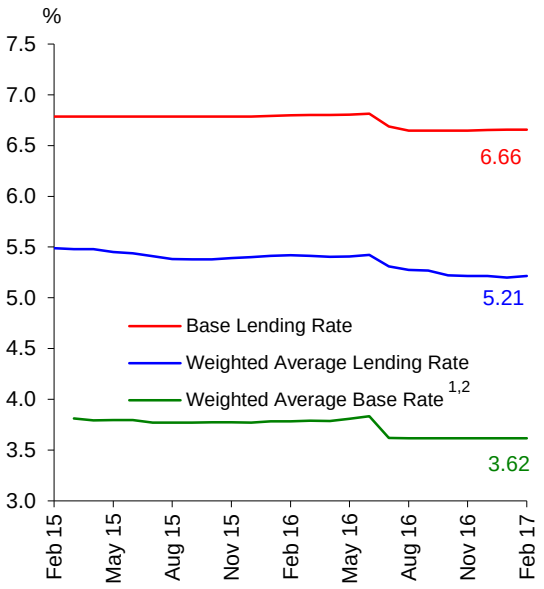
Source: Bank Negara Malaysia

Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

Lending Rates of Commercial Banks

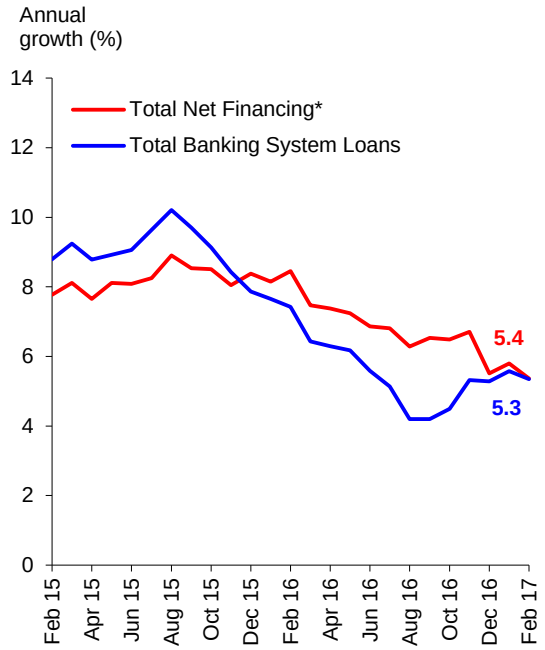


[1] On 2 January 2015, the Base Rate (BR) replaced the Base Lending Rate (BLR) as the reference rate for new retail floating-rate loans and financing facilities
[2] Weights are based on individual banks' share of all outstanding floating-rate loans

Source: Bank Negara Malaysia

Lower growth of net financing in February

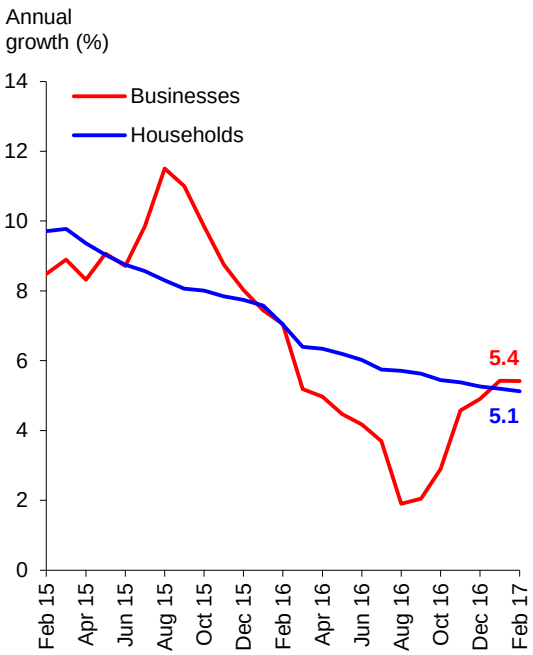
Net Financing and Outstanding Loans



* Net financing comprises banking system and DFI loans, and corporate bonds outstanding (excluding Cagamas and non-residents issuances)

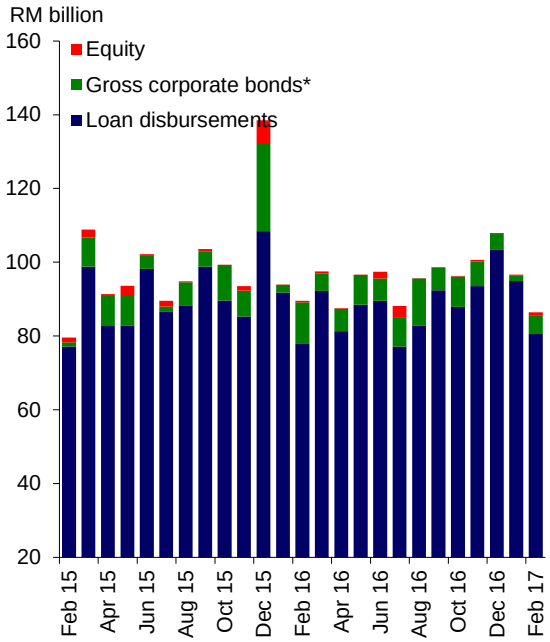
Source: Bank Negara Malaysia

Outstanding Loans of the Banking System



Source: Bank Negara Malaysia

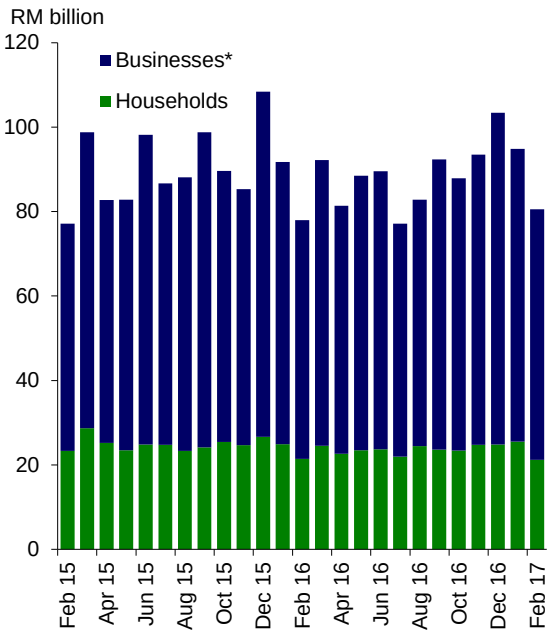
Gross Private Sector Financing



* Excluding Cagamas and non-residents issuances

Source: Bank Negara Malaysia

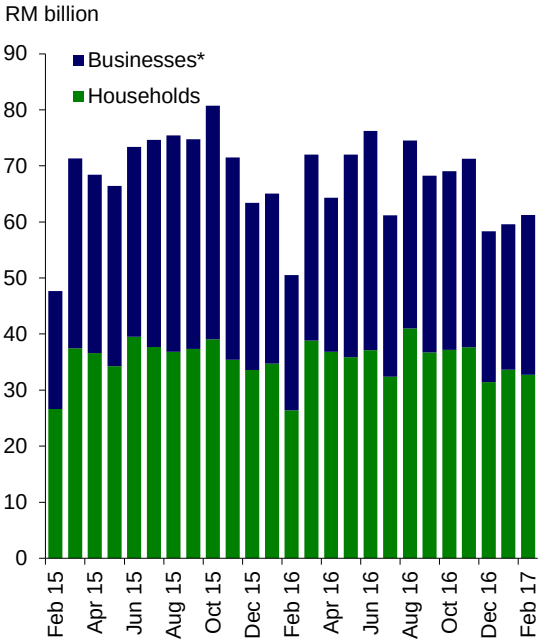
Loan Disbursements by the Banking System



* Includes domestic non-bank financial institutions, Government, domestic financial institutions, other domestic entities and foreign entities

Source: Bank Negara Malaysia

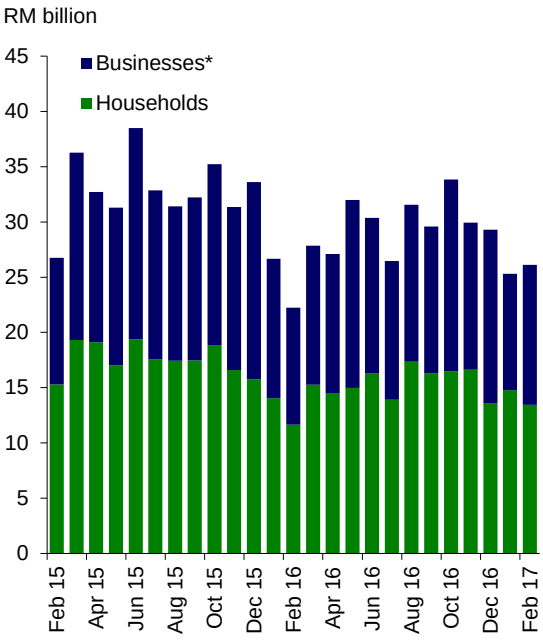
Loan Applications to the Banking System



* Includes domestic non-bank financial institutions, Government, domestic financial institutions, other domestic entities and foreign entities

Source: Bank Negara Malaysia

Loan Approvals by the Banking System

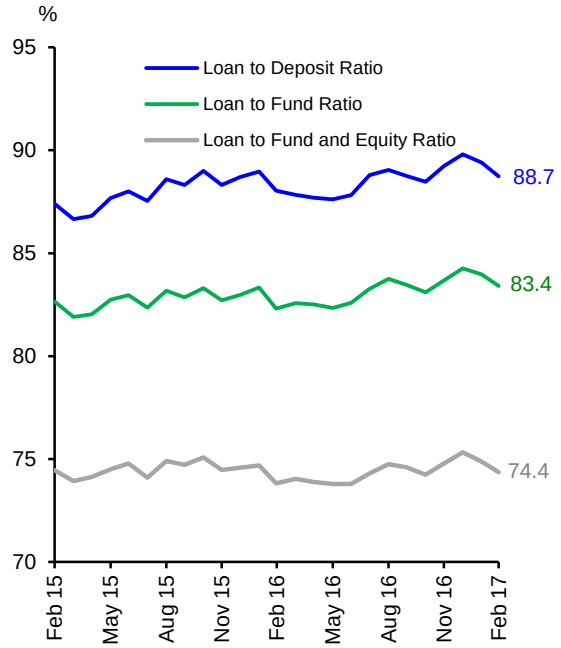


* Includes domestic non-bank financial institutions, Government, domestic financial institutions, other domestic entities and foreign entities

Source: Bank Negara Malaysia

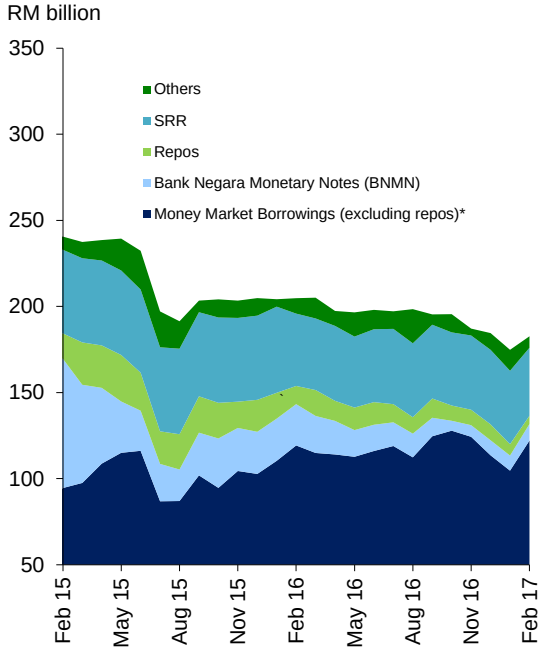
Sufficient liquidity in the banking system

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



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

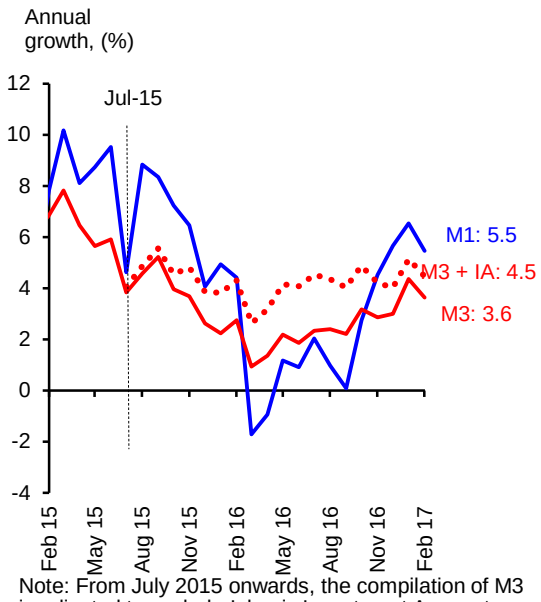
Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia (at end-period)



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

Broad money growth moderated in February

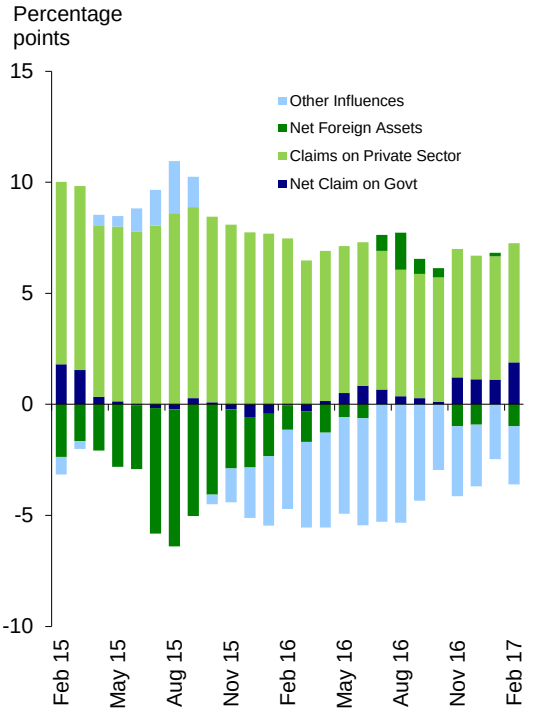
M1 and M3



Note: From July 2015 onwards, the compilation of M3 is adjusted to exclude Islamic Investment Accounts (IA) due to a data reclassification exercise. This is reflected as a negative contribution through '*other influences*'. The dotted line represents M3 growth had this reclassification not taken place.

Source: Bank Negara Malaysia

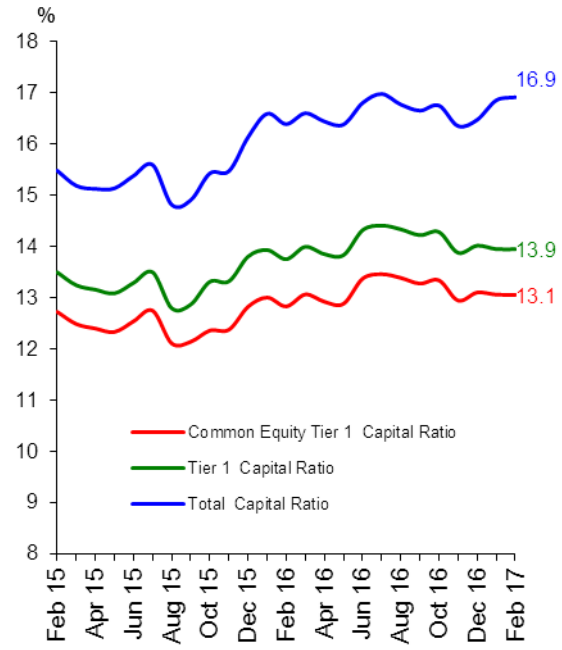
Main Contributors to M3 Annual Growth



Source: Bank Negara Malaysia

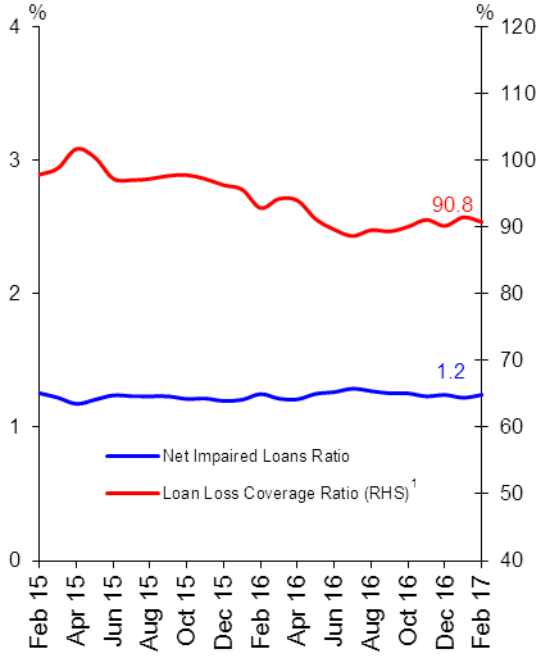
Banking system capitalisation remained strong with stable loan quality

Capital Strength



Source: Bank Negara Malaysia

Net Impaired Loans Ratio and Loan Loss Coverage Ratio

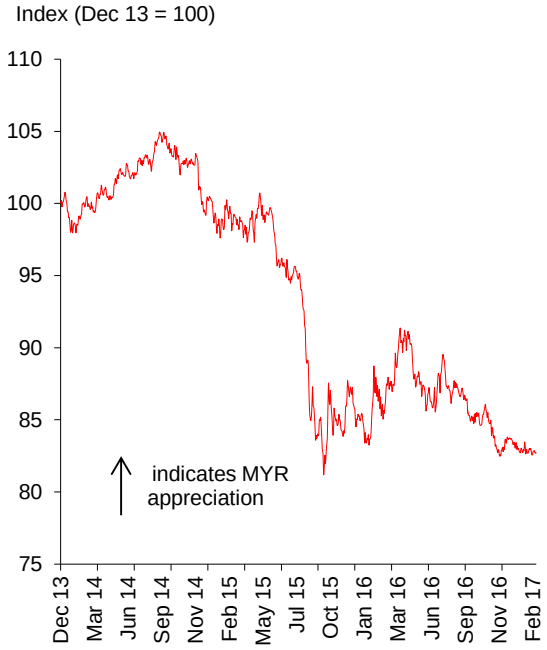


[1] Refers to ratio of individual plus collective impairment provisions to total impaired loans

Source: Bank Negara Malaysia

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

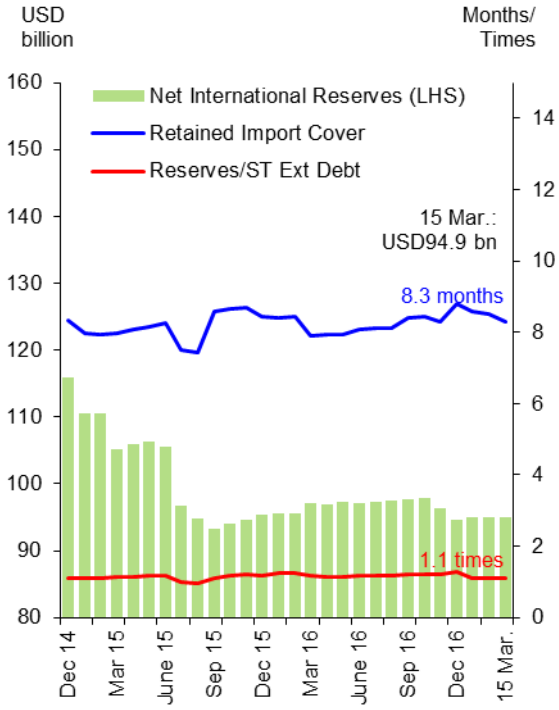
Index of Ringgit Performance against Major Trade Partners*



*Currencies: USD, CNY, SGD, JPY, EUR
Each currency carries equal weight

Source: Bank Negara Malaysia

Net International Reserves



Source: Bank Negara Malaysia

Key Monetary and Financial Statistics

		Dec 16		Jan 17		Feb 17	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.00		3.00		3.00	
Interbank:	Overnight	3.00 [2.99]		2.99 [3.00]		3.00 [3.00]	
	1-week	3.02 [3.02]		3.02 [3.03]		3.03 [3.03]	
	1-month	3.10 [3.12]		3.10 [3.10]		3.08 [3.10]	
	3-month	3.41 [3.41]		3.43 [3.43]		3.49 [3.44]	
Fixed deposits of commercial banks:	1-month	2.86		2.87		2.87	
	3-month	2.92		2.92		2.92	
BLR of commercial banks		6.65		6.66		6.66	
Weighted Base Rate [6]		3.61		3.62		3.62	
Weighted ALR of commercial banks		5.21		5.20		5.21	
Banking System							
Net financing[1]		2,183.3	5.5	2,190.4	5.8	2,193.8	5.4
Loan to deposit ratio (%) [2]		89.8		89.4		88.7	
Loan to fund ratio (%) [2&3]		84.3		84.0		83.4	
Loan to fund and equity ratio (%) [2,3&4]		75.3		74.9		74.4	
Loans outstanding in RM billion		1,521.5	5.3	1,527.9	5.6	1,527.3	5.3
Loans applied (during the period)		58.3	-8.0	59.6	-8.4	61.2	21.2
Loans approved (during the period)		29.3	-12.8	25.3	-5.1	26.1	17.4
Loans disbursed (during the period)		103.4	-4.6	94.9	3.4	80.5	3.3
Loans repaid (during the period)		95.5	-0.5	92.0	-0.7	85.4	7.1
Monetary Aggregates							
Reserve money		141.3	2.9	148.1	2.8	139.8	4.7
M1		380.8	5.7	387.1	6.5	387.0	5.5
M2		1,636.3	3.0	1,651.2	4.4	1,657.1	3.8
M3		1,642.4	3.0	1,657.5	4.4	1,661.7	3.6
Banking System Health							
Total capital ratio (%) [5]		16.5		16.9		16.9	
Tier 1 capital ratio (%) [5]		14.0		14.0		13.9	
Common equity tier 1 capital ratio (%) [5]		13.1		13.1		13.1	
Net impaired loans ratio (%)		1.2		1.2		1.2	
BNM International Reserves (end-period)							
Net Reserves in RM billion		423.9		425.9		426.3	
Net Reserves in USD billion (equivalent)		94.5		95.0		95.0	
Months of retained imports		8.7		8.7		8.5	
Prices							
Consumer Price Index (CPI) (2010=100), (%)		1.8		3.2		4.5	

[1] Comprises banking system and development financial institutions (DFI) loans outstanding and corporate bond 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 comprises 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. Weights are based on individuals banks' share of all outstanding floating-rate loans

Source: Bank Negara Malaysia