BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 08/15/12

EMBARGO: Not for publication or broadcast before 1800 hours on Friday, August 28, 2015

MONETARY AND FINANCIAL DEVELOPMENTS JULY 2015

Price Conditions: Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), increased to 3.3% in July (June: 2.5%). The increase was due mainly to the upward adjustments to domestic fuel prices during the month. Prices in the *transport* category increased by 1.6% (June: -1.4%), as prices of RON97 and RON95 petrol were adjusted upwards by 20 sen and 10 sen per litre respectively. Inflation in the *food* and *non-alcoholic beverages* category was also higher at 3.8% (June: 3.4%) due to the decline in the supply of fresh vegetables caused by adverse weather conditions. On a month-on-month basis, the CPI increased by 0.8% (June: 0.6%).

Monetary Conditions: Interbank rates were stable in July. In terms of retail lending rates, the average base rate (BR) of commercial banks declined slightly to 3.85%. Retail deposit rates were unchanged during the month. Net financing to the private sector grew by 8.6% in July, due to stronger growth in outstanding banking system loans while the growth of net outstanding issuances of private debt securities (PDS) continued to moderate. Outstanding business loans registered a higher annual growth of 9.9% during the month, driven mainly by the year-on-year expansion in the outstanding loans to the *wholesale and retail trade, restaurants and hotels; construction;* and *primary agriculture* sectors. The annual growth of outstanding loans to households continued to moderate to 8.6%. Overall loan demand increased with higher loan applications, especially from businesses, during the month.

On an annual basis, broad money (M3) growth moderated to 3.9% in July. The moderation in M3 growth was driven mainly by the decline in net foreign assets due to net portfolio outflows. Nonetheless, M3 continued to expand, driven mainly by the extension of credit to the private sector by the banking system.

Banking System: Banking system capitalisation remained strong with the Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio at 12.5%, 13.3% and 15.4% respectively. The level of net impaired loans was sustained at 1.2% of net loans while the loan loss coverage ratio remained high at 97.3%.

Exchange Rates and International Reserves: In July, the ringgit exhibited a mixed performance against the currencies of Malaysia's major trade partners. During the month, the ringgit along with all major and regional currencies depreciated against the strong US dollar. The ringgit, however, appreciated against most regional currencies during the month. This was attributed partly to positive sentiments following a revision on the outlook of Malaysia's sovereign rating. The international reserves of Bank Negara Malaysia amounted to RM356.4 billion (equivalent to USD94.5 billion) as at 14 August 2015, sufficient to finance 7.5 months of retained imports and were 1.1 times the short-term external debt[1].

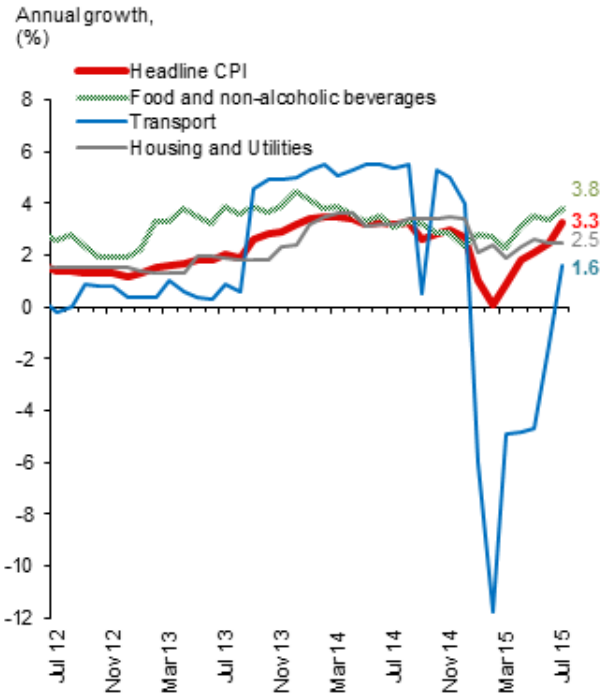
Bank Negara Malaysia
28 August 2015

[1] 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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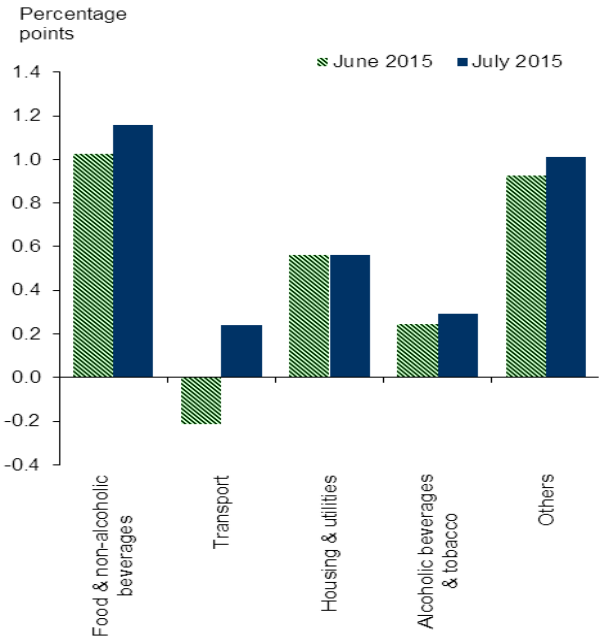
Headline inflation increased in July due mainly to upward adjustments to fuel prices

Headline Inflation



Source: Department of Statistics Malaysia

Headline Inflation: Component Contribution

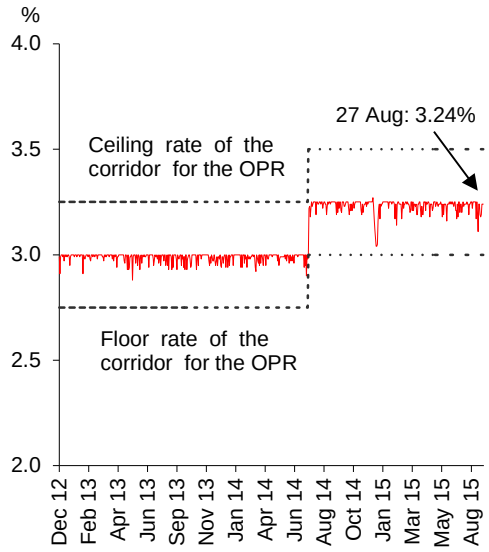


*Others include *restaurants and hotels; recreation services and culture; education; health; furnishings, household equipment and routine household maintenance; communication; clothing and footwear;* and *miscellaneous goods and services.*

Source: Bank Negara Malaysia

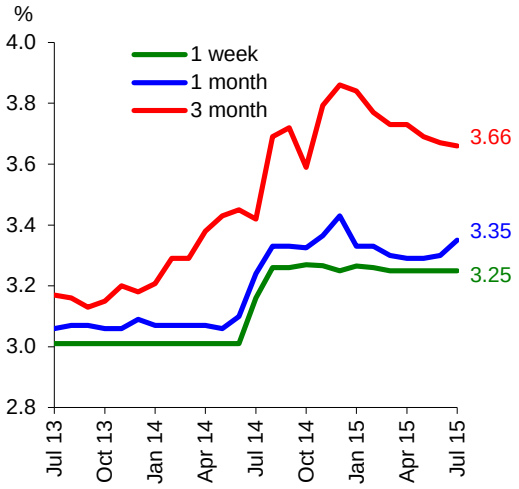
Interest rates remained stable in July

Average Overnight Interbank Rate



Source: Bank Negara Malaysia

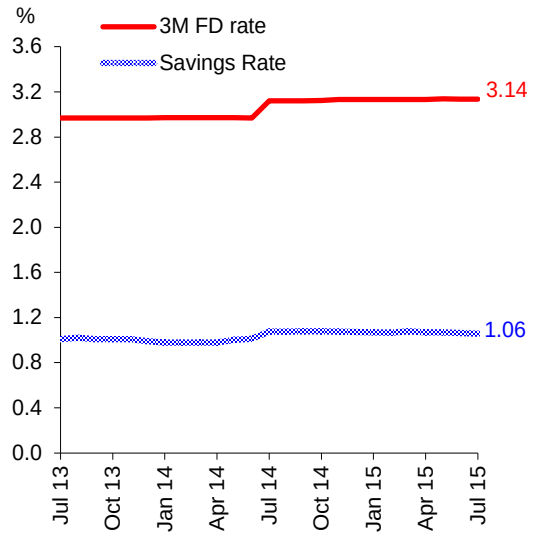
Average Interbank Rates



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

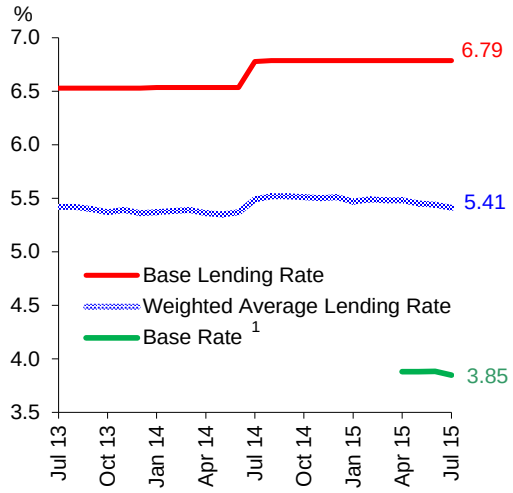
Source: Bank Negara Malaysia

Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

Lending Rates of Commercial Banks

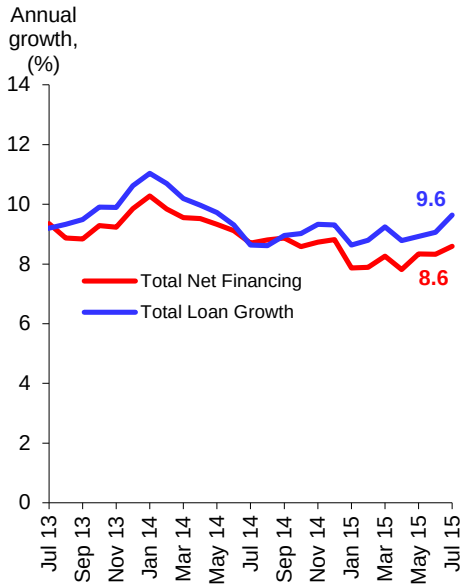


[1] On 2 January 2015, the Base Rate (BR) replaced the Base Lending Rate (BLR) as the reference rate for new retail floating-rate loans and financing facilities.

Source: Bank Negara Malaysia

Growth in net financing increased in July

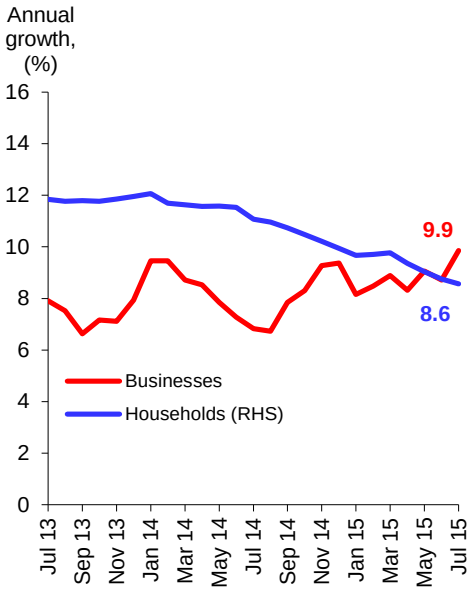
Net Financing and Loan Growth



* Net financing is comprised of banking system loans outstanding and private debt securities (PDS) outstanding (excludes issuances by non-residents and Cagamas)

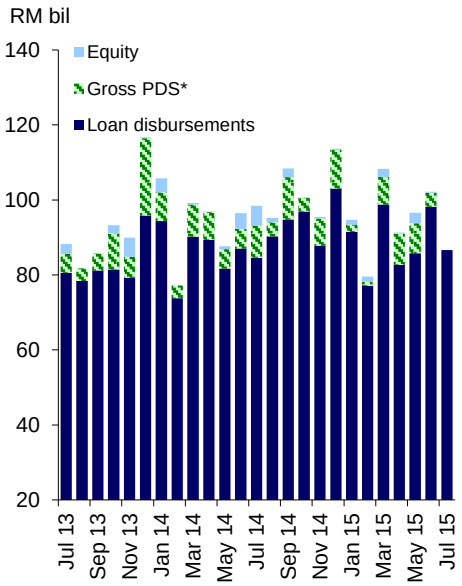
Source: Bank Negara Malaysia

Loans Outstanding of the Banking System



Source: Bank Negara Malaysia

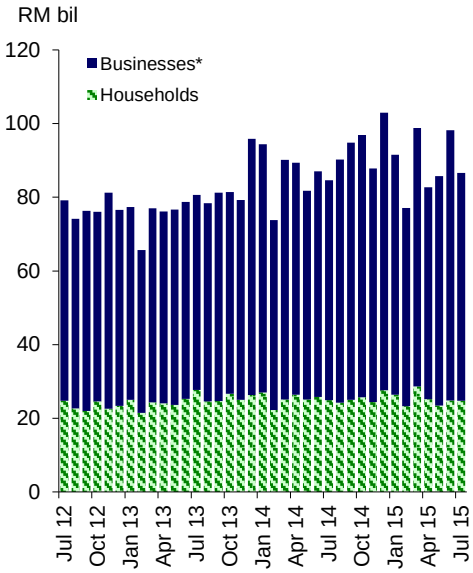
Gross Private Sector Financing



* Excludes foreign issuances

Source: Bank Negara Malaysia

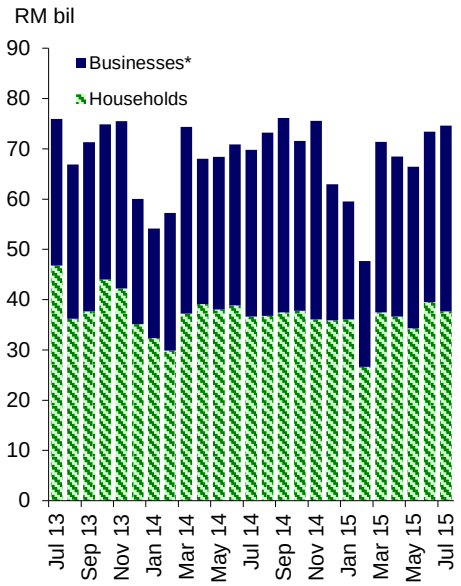
Loan Disbursements by the Banking System



* Includes domestic financial institutions, government, domestic other entities and foreign entities.

Source: Bank Negara Malaysia

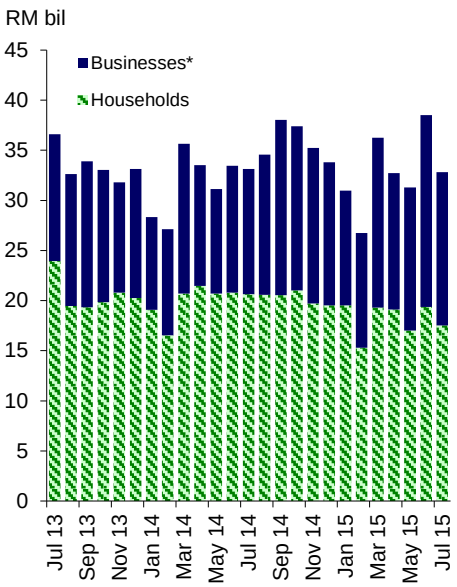
Loan Applications to the Banking System



* Includes domestic financial institutions, government, domestic other entities and foreign entities.

Source: Bank Negara Malaysia

Loan Approvals by the Banking System

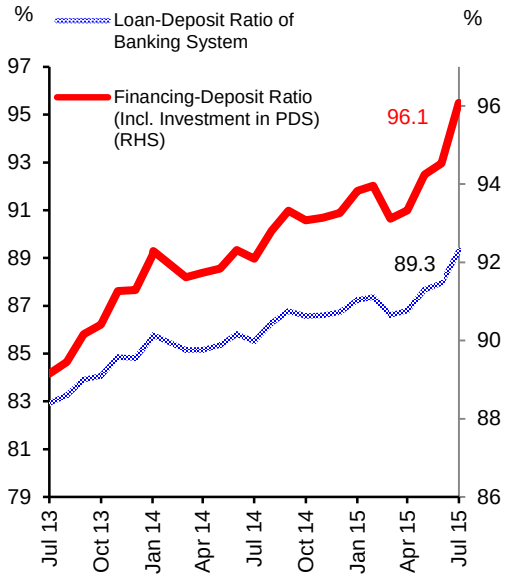


* Includes domestic financial institutions, government, domestic other entities and foreign entities.

Source: Bank Negara Malaysia

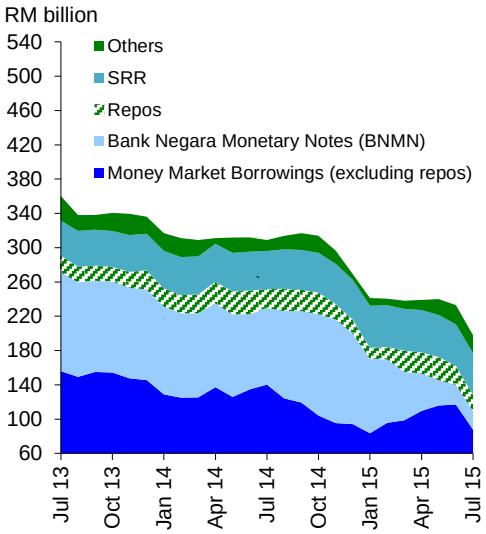
Banking system liquidity declined due to capital outflows but remained ample

Loan-Deposit Ratio and Financing-Deposit Ratio



Source: Bank Negara Malaysia

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

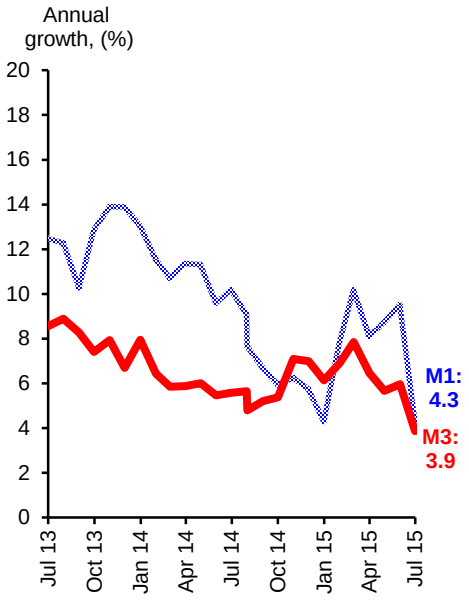


* Money Market Borrowings (excluding repos) include Direct Borrowing, Wadiah Acceptances and Commodity Murabahah Programme (CMP)

Source: Bank Negara Malaysia

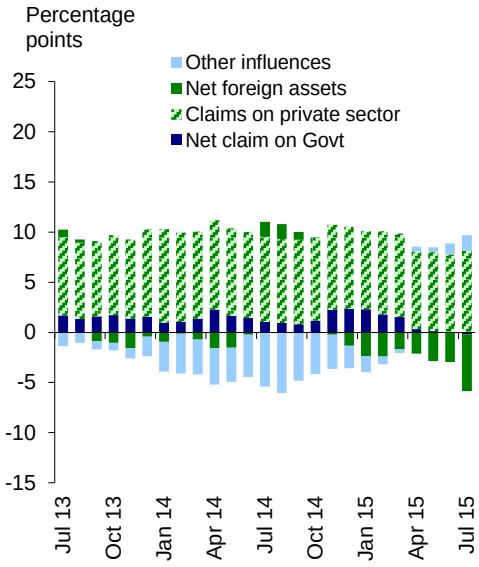
Broad money growth moderated in July

M1 and M3



Source: Bank Negara Malaysia

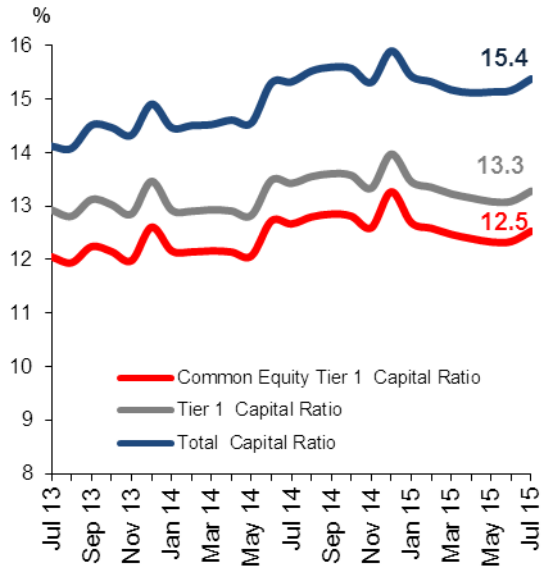
Main Contributors of M3 Annual Growth



Source: Bank Negara Malaysia

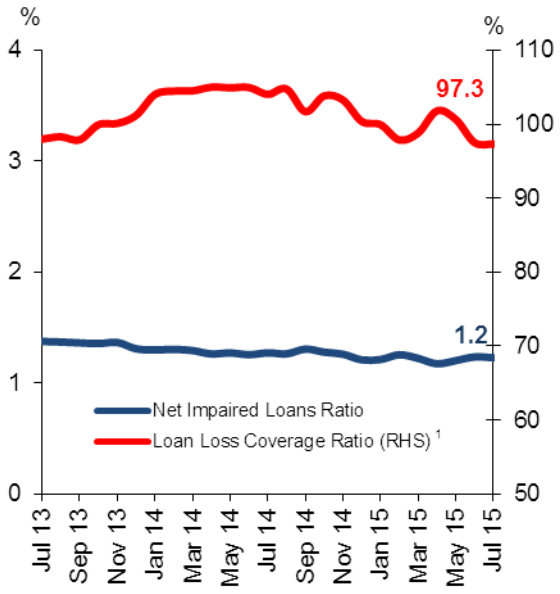
Banking system capitalisation remained strong with stable loan quality

Capital Strength



Source: Bank Negara Malaysia

Net Impaired Loans Ratio and Loan Loss Coverage Ratio

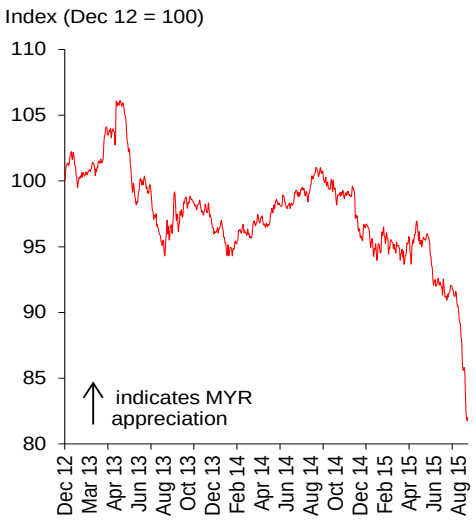


[1] Refers to ratio of individual plus collective impairment provisions to total impaired loans.

Source: Bank Negara Malaysia

The ringgit exhibited a mixed performance against the currencies of major trade partners

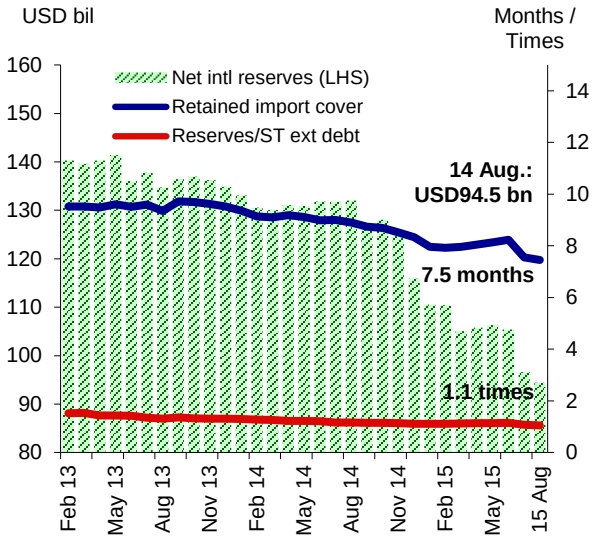
Index of Ringgit Performance against Major Trade Partners*



* Currencies in the index: 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

		May 15		Jun 15		Jul 15	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates							
Reserve money		131.3	9.7	132.4	9.7	132.8	7.2
M1		352.3	8.7	360.6	9.5	346.0	4.3
M2		1,567.7	6.2	1,575.1	6.5	1,554.6	4.4
M3		1,576.3	5.7	1,582.5	6.0	1,561.8	3.9
Banking System							
Net financing[1]		1,823.5	8.3	1,838.7	8.3	1,847.5	8.6
Loan-deposit ratio (%) [2]		87.7		88.0		89.3	
Financing-deposit ratio (%) [2&3]		94.2		94.5		96.1	
Loans applied (during the period)		66.4	-2.9	73.4	3.6	74.6	7.0
Loans approved (during the period)		31.3	0.6	38.5	15.1	32.9	-0.9
Loans disbursed (during the period)		82.8	1.3	98.2	12.9	86.7	2.4
Loans repaid (during the period)		74.7	-1.2	87.3	12.8	83.9	-3.8
Banking System Health							
Total capital ratio (%) [4]		15.1		15.2		15.4	
Tier 1 capital ratio (%) [4]		13.1		13.1		13.3	
Common equity tier 1 capital ratio (%) [4]		12.3		12.3		12.5	
Net impaired loans ratio (%)		1.2		1.2		1.2	
BNM International Reserves (end-period)							
Net Reserves in RM billion		394.3		398.1		364.7	
Net Reserves in USD billion (equivalent)		106.4		105.5		96.6	
Months of retained imports		8.1		8.2		7.6	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.25		3.25		3.25	
Interbank:	Overnight	3.19 [3.23]		3.24 [3.23]		3.25 [3.23]	
	1-week	3.26 [3.25]		3.25 [3.25]		3.24 [3.25]	
	1-month	3.28 [3.29]		3.48 [3.30]		3.45 [3.35]	
Fixed deposits of commercial banks:	1-month	3.09		3.08		3.08	
	3-month	3.14		3.14		3.14	
BLR of commercial banks		6.79		6.79		6.79	
Base Rate [5]		3.88		3.88		3.85	
Weighted ALR of commercial banks		5.45		5.44		5.41	
Prices							
Consumer Price Index (CPI) (2010=100)		112.3	2.1	113.0	2.5	113.9	3.3

[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.

[3] Financing comprises loans and banking institutions' holdings of PDS.

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

[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