BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 11/16/19

EMBARGO: Not for publication or broadcast before 1500 hours on Wednesday, 30 November 2016

MONETARY AND FINANCIAL DEVELOPMENTS
October 2016

Price Conditions: Headline inflation moderated slightly to 1.4% in October 2016 due mainly to the lower food inflation during the month. Inflation in the *food and non-alcoholic beverages* category declined to 2.5% in October 2016 (September 2016: 3.0%), reflecting continued improvements in supply conditions. Inflation in the *transport* category remained unchanged at -5.5% despite a 10 sen/litre increase in petrol prices during the month, due to an equivalent increase of 10 sen/litre during the base period in October 2015.

Monetary Conditions: Interbank rates for all tenures were relatively stable for this month. The weighted average base rate (BR) of commercial banks remained unchanged at 3.60% while the weighted average lending rate (ALR) declined to 5.23% in October (September: 5.27%). Net financing to the private sector registered an annual growth of 6.4% in October (September: 6.5%). This was driven by the higher growth of loans extended by the banking system and development financial institutions (DFIs) amid some moderation in the growth of net outstanding corporate bonds during the month. Outstanding business loans of the banking system recorded a higher annual growth of 2.9% (September: 2.0%), with the growth driven mainly by the year-on-year expansion in the *construction*; *finance, insurance and business services*; and *wholesale and retail trade, restaurants and hotels* sectors. In addition, there were also a number of large one-off repayments by a small number of firms in prior months. Excluding these repayments, the annual growth of outstanding business loans would have been higher. Of note, the annual growth in

outstanding SME loans continued to improve. For households, outstanding loans of the banking system grew at a slower pace of 5.4% in October (September: 5.6%), reflecting the moderation in the annual growth of outstanding loans for the *purchase of residential property; passenger cars;* and *non-residential property*. The level of loan applications and loan approvals increased during the month for both businesses and households to RM69.0 billion and RM33.8 billion, respectively (September: RM68.2 billion and RM29.6 billion, respectively). Broad money (M3) growth recorded an annual growth of 3.2% in October (September: 2.2%). The expansion in M3 was driven mainly by the continued extension of credit to the private sector by the banking system. The expansion, however, was offset by the issuance of equity by banks during the year 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 13.3%, 14.3% and 16.7% respectively. Net impaired loans accounted for 1.2% of net loans while loan loss coverage ratio stood at 90.5%. Taking into account regulatory reserves for loans and financing, banks maintain sufficient buffers for potential credit losses.

Exchange Rates and International Reserves: In October, the ringgit appreciated against the currencies of most of Malaysia's major trade partners. The ringgit, however, depreciated against the US dollar, along with most major and regional currencies. The ringgit depreciated against the US dollar due to market expectation of an impending US policy rate increase by the end of 2016 and concerns over the depreciation of the renminbi, which led to higher risk aversion towards regional financial markets. The ringgit was also affected by the decline in global crude oil prices which affected sentiments towards the currencies of commodity exporting countries. The international reserves of Bank Negara Malaysia amounted to RM407.8 billion (equivalent to USD98.3 billion) as at 15 November 2016. This level remains ample to

Diterbitkan oleh:
Jabatan Komunikasi Strategik, Tingkat 14, Blok B, Bangunan Bank Negara Malaysia,
Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia.
Telefon: +60(3) 2698 8044 Faksimili: +60(3) 2693 6919
Web: www.bnm.gov.my

facilitate international transactions and is sufficient to finance 8.4 months of retained imports and is 1.2 times the short-term external debt[1].

Bank Negara Malaysia
30 November 2016

[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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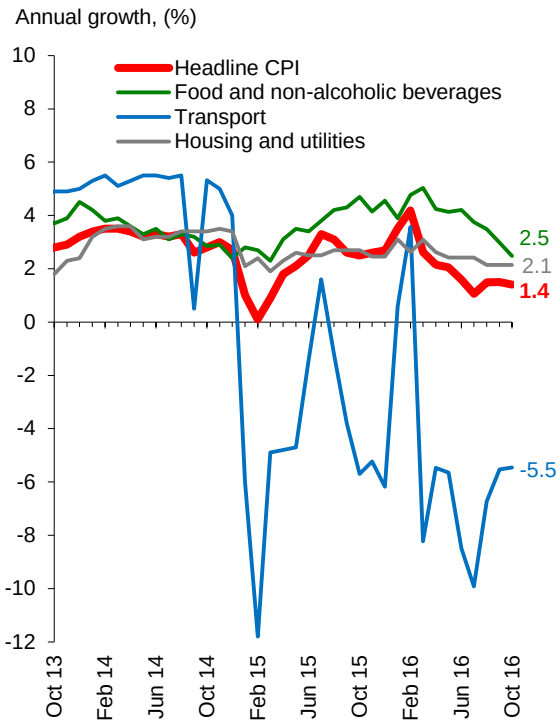
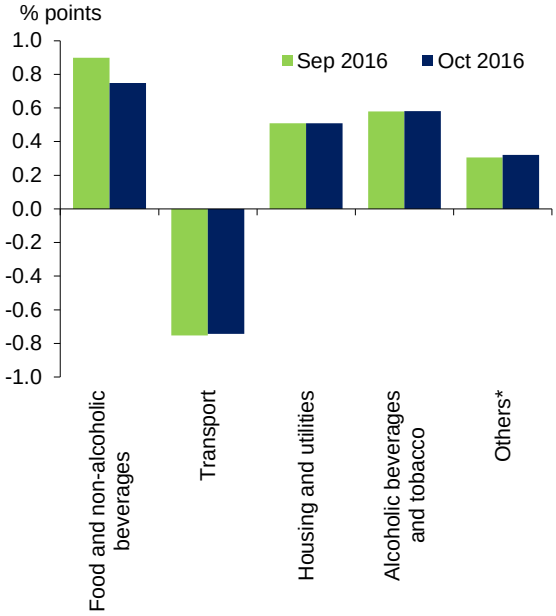
Headline inflation moderated slightly in October

Headline Inflation



Source: Department of Statistics Malaysia

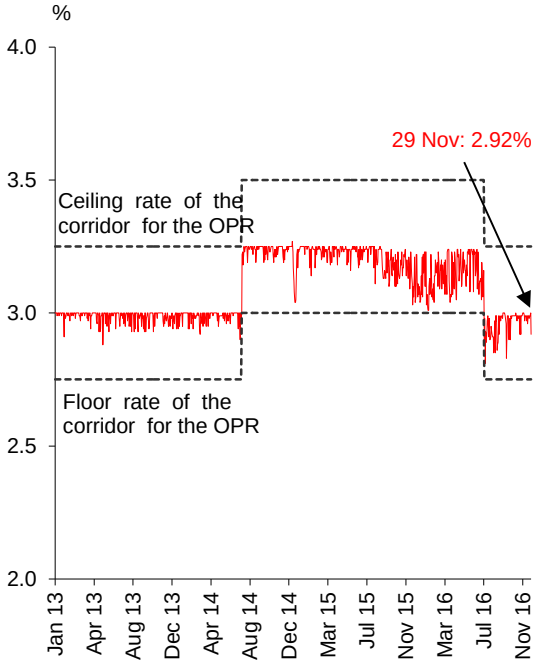
Headline Inflation: Component Contribution



*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

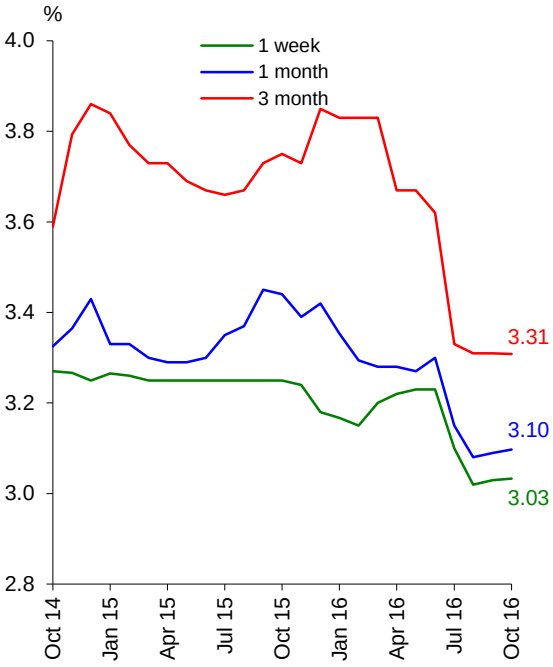
Interbank rates were stable in October

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

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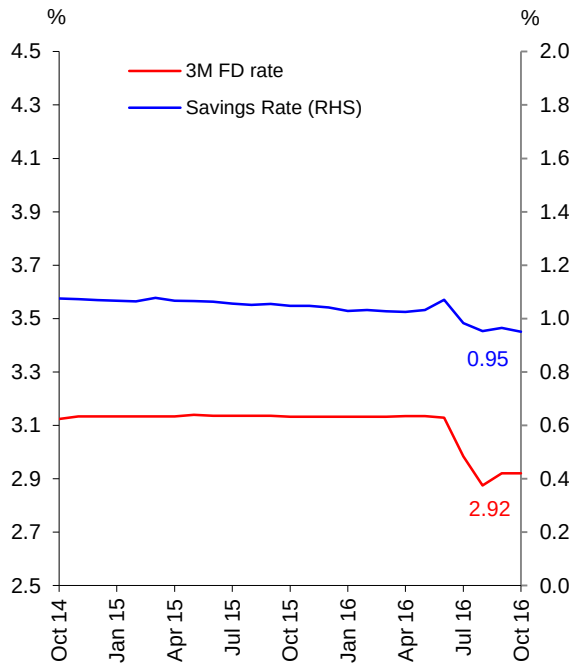
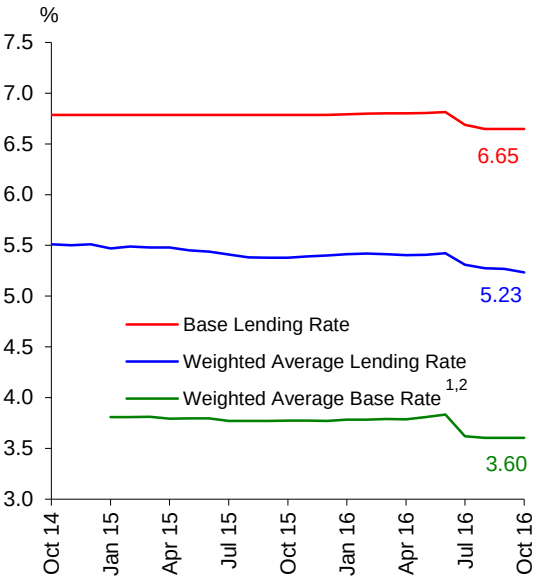
Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

Lending Rates of Commercial Banks

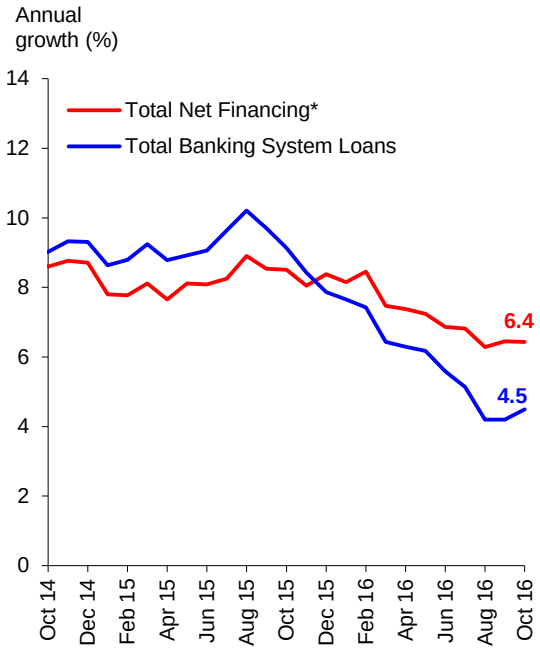


[1] On 2 January 2015, the Base Rate (BR) replaced the Base Lending Rate (BLR) as the reference rate for new retail floating-rate loans and financing facilities
[2] Weights are based on individual banks' share of all outstanding floating-rate loans

Source: Bank Negara Malaysia

Sustained growth in net financing in October

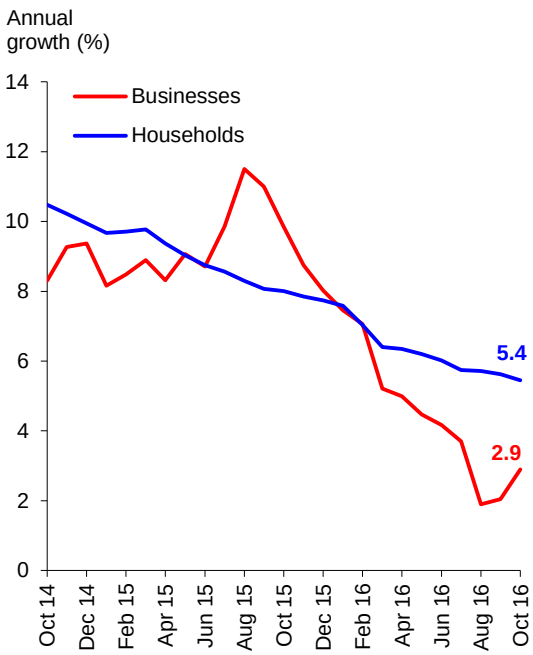
Net Financing and Outstanding Loans



* 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

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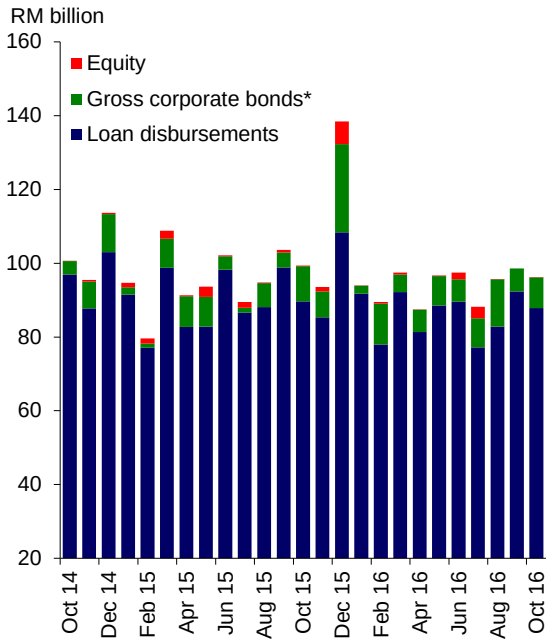
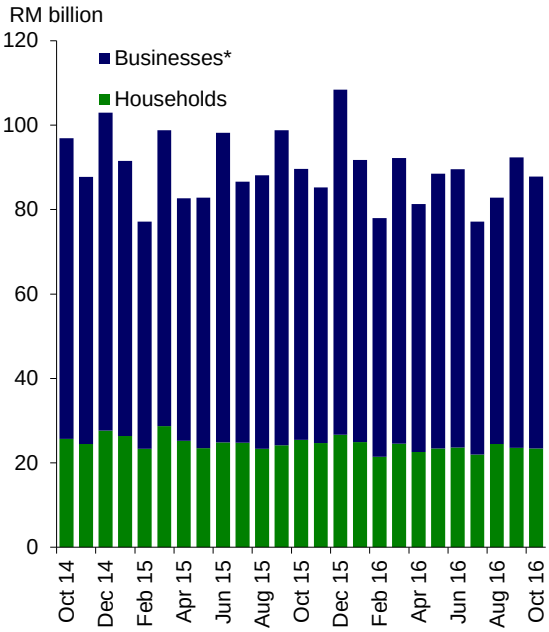
Gross Private Sector Financing



* Excluding Cagamas and non-residents issuances

Source: Bank Negara Malaysia

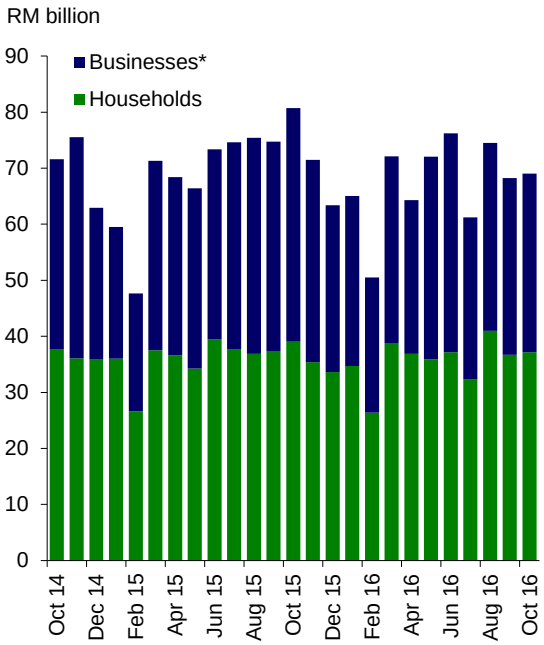
Loan Disbursements by the Banking System



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

Source: Bank Negara Malaysia

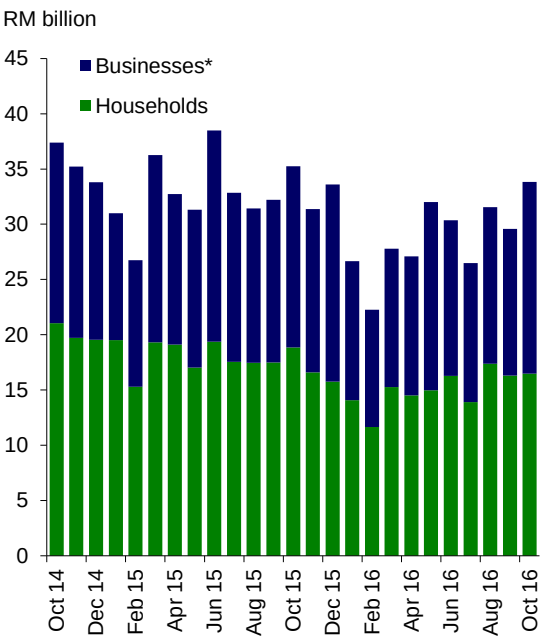
Loan Applications to the Banking System



* 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

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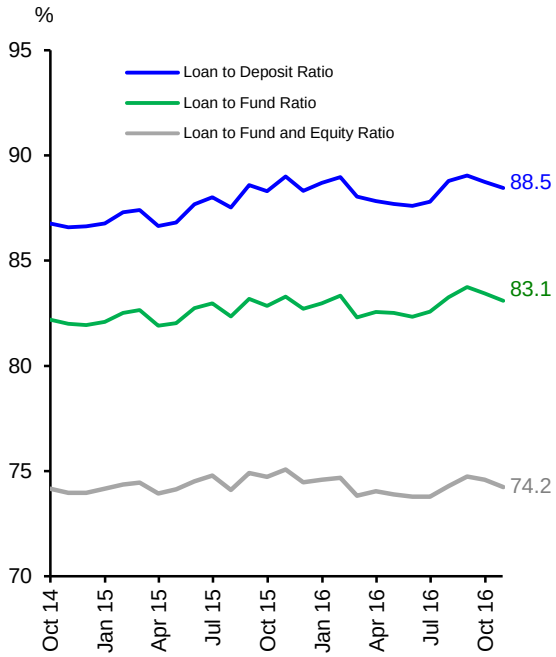
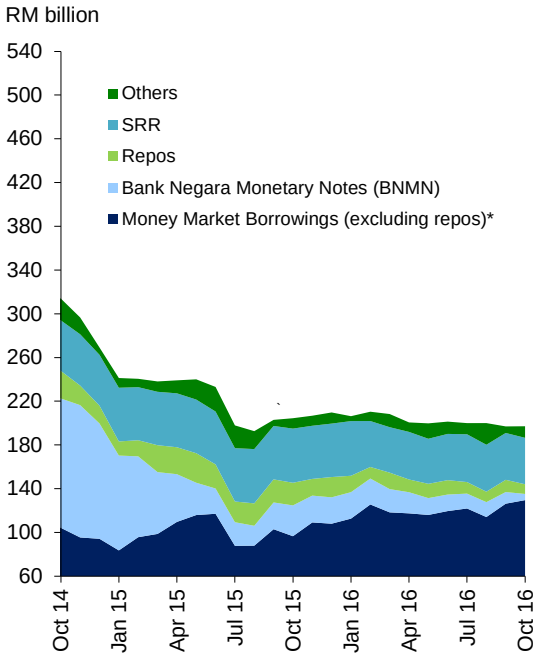
Liquidity in the banking system remained ample

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

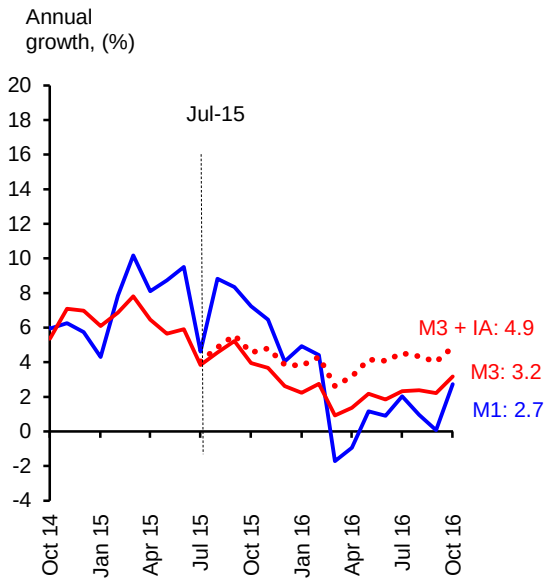
Outstanding Liquidity Placed with Bank Negara Malaysia (at end-period)



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

Broad money growth was higher in October

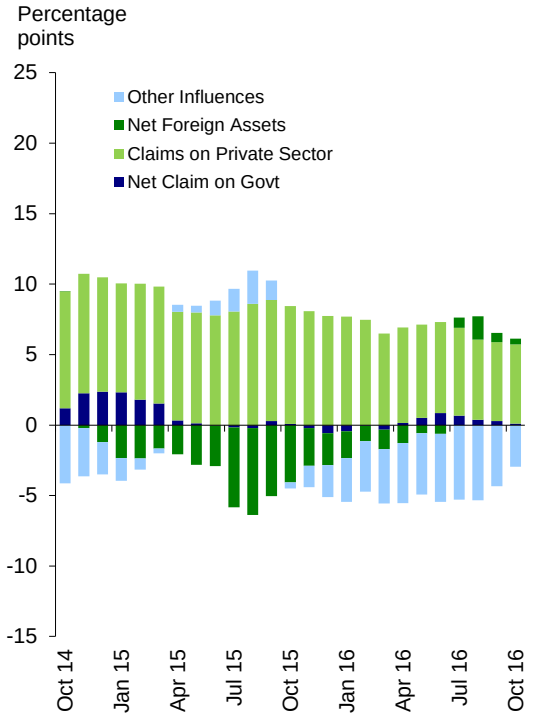
M1 and M3



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

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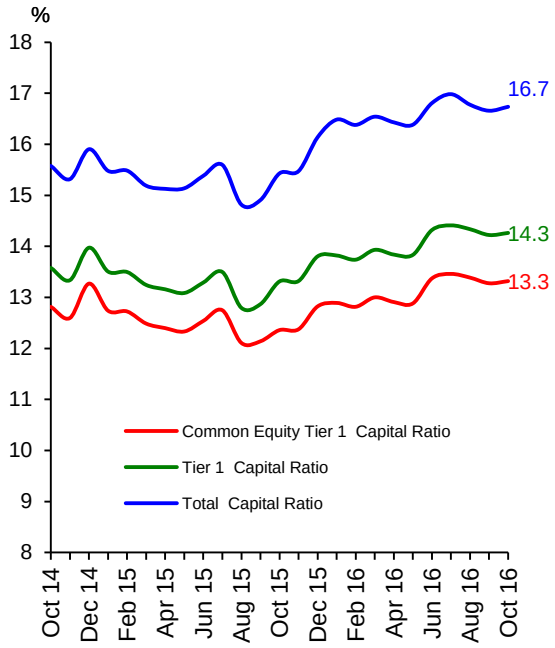
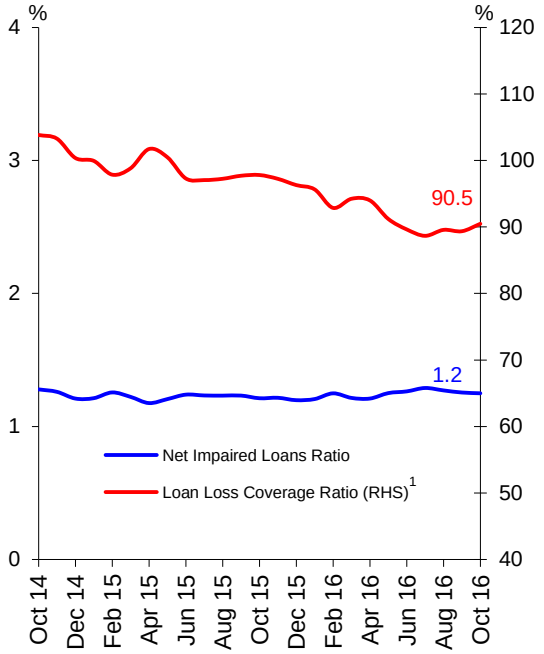
Banking system capitalisation remained strong with stable loan quality

Capital Strength



Source: Bank Negara Malaysia

Net Impaired Loans Ratio and Loan Loss Coverage Ratio

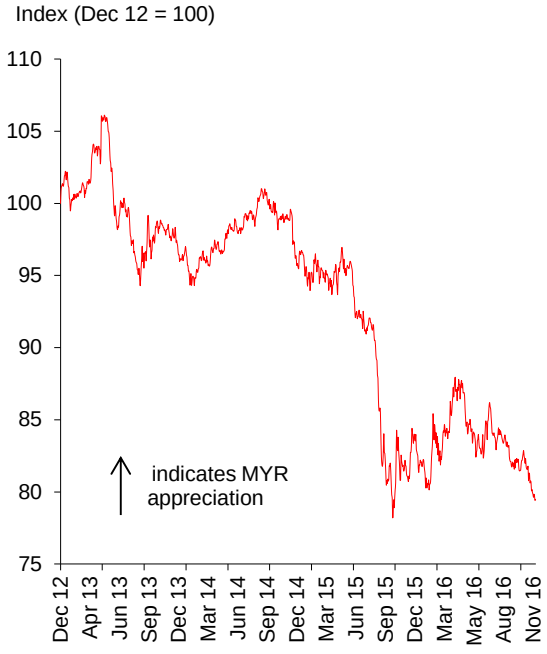


[1] Refers to ratio of individual plus collective impairment provisions to total impaired loans

Source: Bank Negara Malaysia

The ringgit appreciated against the currencies of most major trade partners in October, but reversed in November

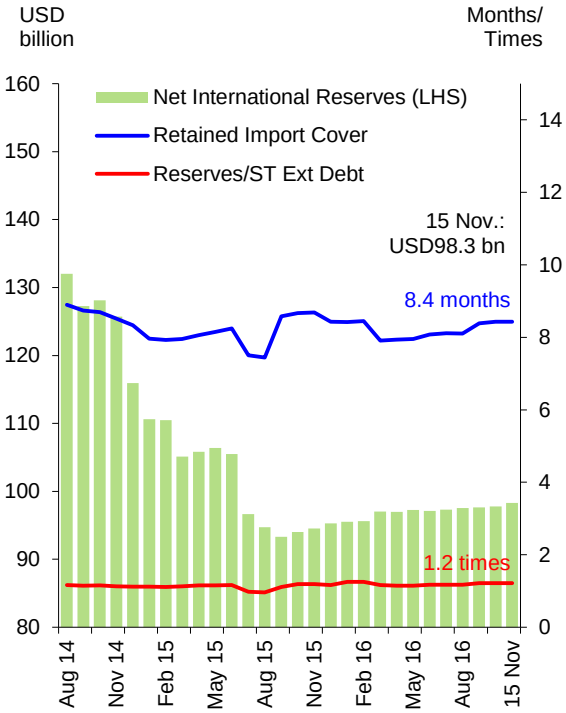
Index of Ringgit Performance against Major Trade Partners*



*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

		Aug 16		Sep 16		Oct 16	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates							
Reserve money		134.2	-0.4	136.0	1.8	135.2	0.5
M1		354.9	1.0	358.3	0.1	360.9	2.7
M2		1,591.7	2.3	1,609.7	2.2	1,618.1	3.1
M3		1,599.8	2.4	1,617.5	2.2	1,626.5	3.2
Banking System							
Net financing[1]		2,127.5	6.3	2,144.0	6.5	2,159.0	6.4
Loan to deposit ratio (%) [2]		89.0		88.7		88.5	
Loan to fund ratio (%) [2&3]		83.7		83.4		83.1	
Loan to fund and equity ratio (%) [2,3&4]		74.7		74.6		74.2	
Loans outstanding in RM billion		1,472.1	4.2	1,483.8	4.2	1,493.4	4.5
Loans applied (during the period)		74.5	-1.2	68.2	-8.7	69.0	-14.5
Loans approved (during the period)		31.5	0.4	29.6	-8.2	33.8	-4.0
Loans disbursed (during the period)		82.8	-6.0	92.4	-6.5	87.9	-2.0
Loans repaid (during the period)		82.3	4.9	86.7	-6.6	83.9	-1.5
Banking System Health							
Total capital ratio (%) [5]		16.8		16.7		16.7	
Tier 1 capital ratio (%) [5]		14.3		14.2		14.3	
Common equity tier 1 capital ratio (%) [5]		13.4		13.3		13.3	
Net impaired loans ratio (%)		1.3		1.3		1.2	
BNM International Reserves (end-period)							
Net Reserves in RM billion		391.9		404.9		405.5	
Net Reserves in USD billion (equivalent)		97.5		97.7		97.8	
Months of retained imports		8.1		8.4		8.4	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.00		3.00		3.00	
Interbank:	Overnight	2.98 [2.93]		2.99 [2.97]		2.92 [2.98]	
	1-week	3.03 [3.02]		3.03 [3.03]		3.03 [3.03]	
	1-month	3.08 [3.08]		3.08 [3.09]		3.19 [3.10]	
Fixed deposits of commercial banks:	1-month	2.87		2.87		2.87	
	3-month	2.87		2.92		2.92	
BLR of commercial banks		6.65		6.65		6.65	
Weighted Base Rate [6]		3.60		3.60		3.60	
Weighted ALR of commercial banks		5.28		5.27		5.23	
Prices							
Consumer Price Index (CPI) (2010=100)		115.6	1.5	115.3	1.5	115.7	1.4

[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

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