BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

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# MONETARY AND FINANCIAL DEVELOPMENTS JUNE 2016

**Price Conditions:** Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), declined to 1.6% in June (May: 2.0%), reflecting mainly the base effect from higher domestic fuel prices in June 2015. While domestic fuel prices were kept unchanged in June 2016, inflation in the *transport* category recorded a larger negative of -8.5% (May: -5.6%) due to a 10sen/litre increase in the base period of June 2015. Of note, food inflation remained high amid adverse weather conditions. Prices of fresh food, which accounts for 10% of the CPI basket, increased by 7.6% during the month (May: 7.0%) due to supply shortages.

**Monetary Conditions:** Interbank rates beyond the 1-month tenure continued to moderate as liquidity conditions continued to improve in the money market. However, the weighted average base rate (BR) of commercial banks rose by two basis points to 3.83% as two banks revised their BR upwards in June. Meanwhile, the weighted average lending rate (ALR) remained unchanged. Net financing to the private sector registered an annual growth of 6.9% in June (May: 7.2%) due to the moderation in the growth of loans extended by the banking system and development financial institutions (DFIs). Growth in net outstanding issuances of corporate bonds, however, was higher. The growth in outstanding business loans of the banking system was lower at 4.2% during the month (May: 4.5%) due mainly to the lower loan growth in the *manufacturing*; *education* and *wholesale and retail trade, and restaurants and hotels* sectors. Outstanding loans to households grew at a slower pace of 6.0% in June (May: 6.2%), reflecting continued moderation across most types of loans. Overall loan demand, however, increased during the month with higher level of loan applications from both businesses and households. On an annual basis, broad

money (M3) growth moderated slightly to 1.9% in June (May: 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 partially offset by other influences, reflecting the continued issuance of equity by financial institutions and the reclassification of Islamic Investment Accounts that took place in July 2015.

**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 12.9%, 13.9% and 16.4% respectively. Net impaired loans accounted for 1.3% of net loans while loan loss coverage ratio stood at 89.5%. Taking into account regulatory reserve for loans and financing, banking institutions maintain sufficient buffers for potential credit losses.

**Exchange Rates and International Reserves:** In June, the ringgit appreciated against the currencies of most of Malaysia's major trade partners. During the month, the ringgit, along with most regional currencies, appreciated against the US dollar. The appreciation was due mainly to expectations of a delay in US interest rate increase following the release of weaker-than-expected US labour market data during the month. This led to higher demand for regional financial assets. Towards the end of the month, however, the result of the UK's EU referendum led to increased global risk aversion and a temporary ringgit depreciation. The international reserves of Bank Negara Malaysia amounted to RM390.8 billion (equivalent to USD97.3 billion) as at 15 July 2016. This level remains ample to facilitate international transactions and is sufficient to finance 8.2 months of retained imports and is 1.2 times the short-term external debt[1].

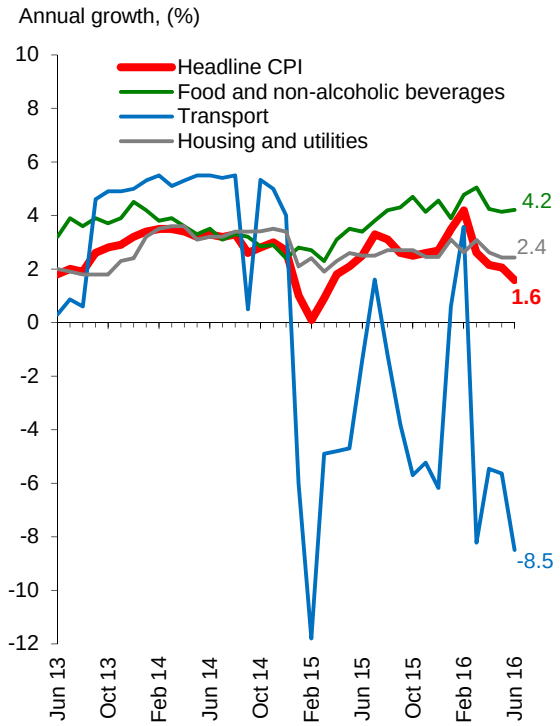
**Bank Negara Malaysia**
**29 July 2016**

[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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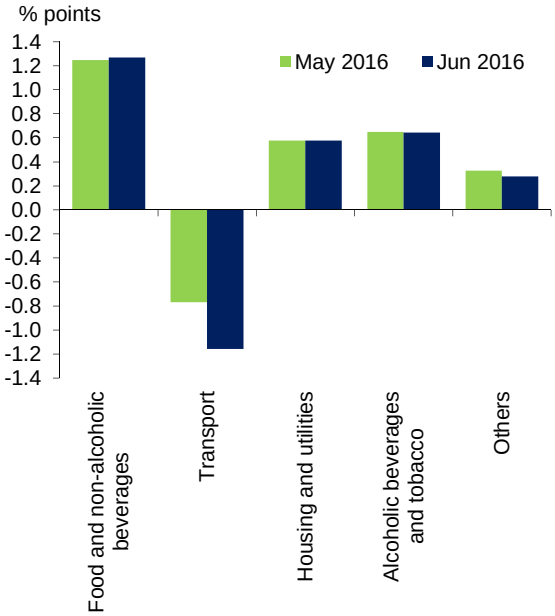
## Lower inflation in June

**Headline Inflation**




*Source: Department of Statistics Malaysia*

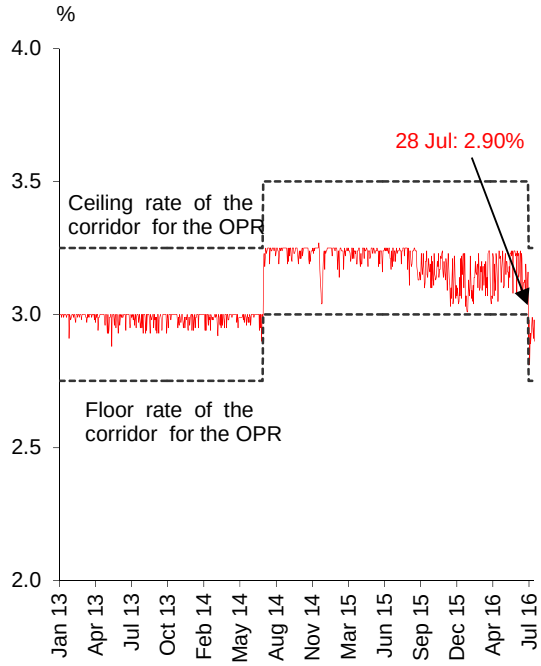
**Headline Inflation: Component Contribution**




*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*

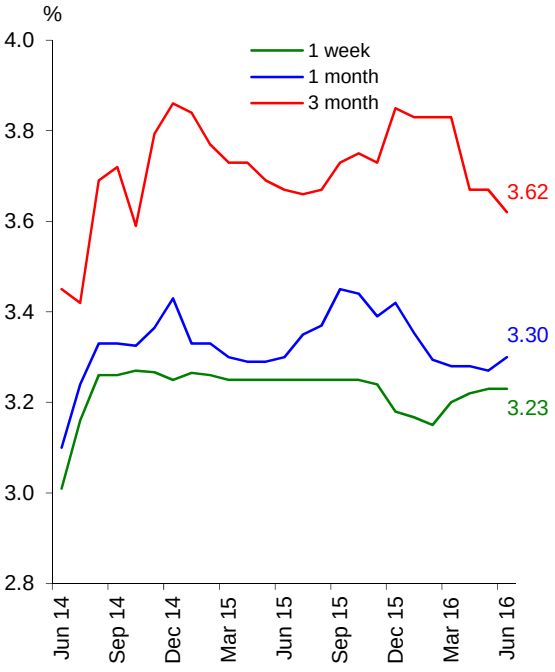
## Interbank rates beyond the 1-month tenure continued to moderate in June

**Daily Weighted Average Overnight Interbank Rate**




*Source: Bank Negara Malaysia*

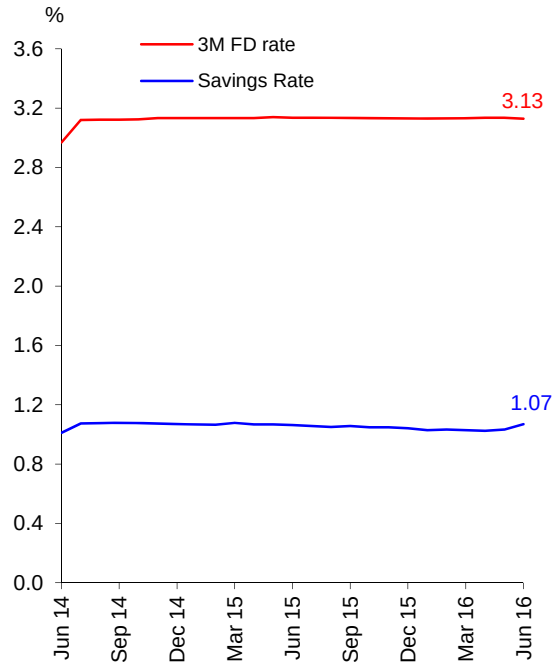
**Average Interbank Rate**




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

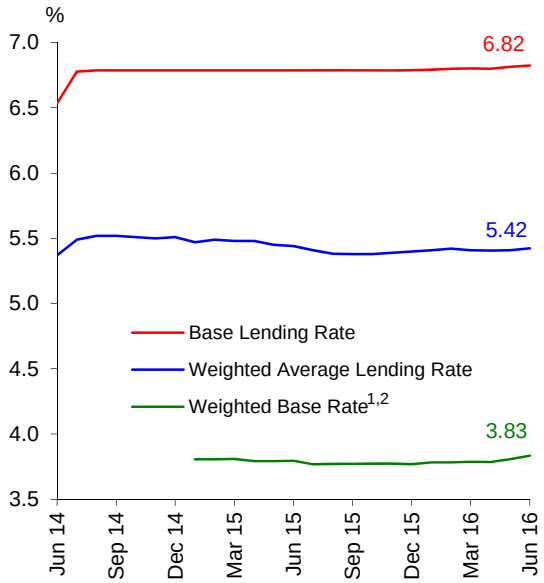
*Source: Bank Negara Malaysia*

**Deposit Rates of Commercial Banks**




*Source: Bank Negara Malaysia*

**Lending Rates of Commercial Banks**

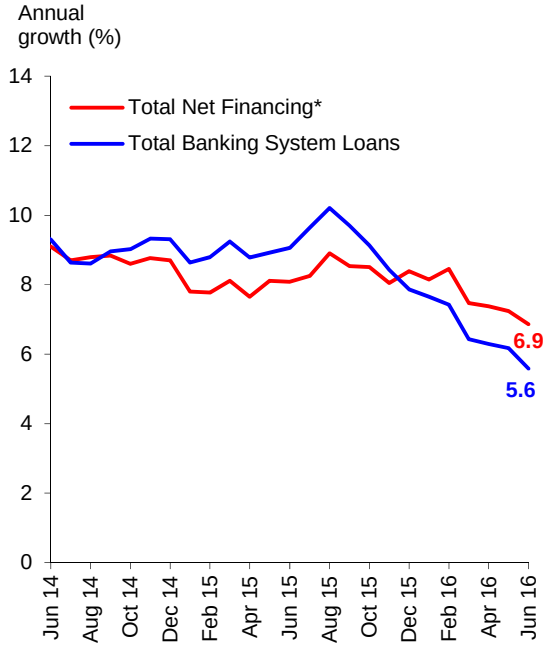



[1] On 2 January 2015, the Base Rate (BR) replaced the Base Lending Rate (BLR) as the reference rate for new retail floating-rate loans and financing facilities
[2] Weights are based on individual banks' share of all outstanding floating-rate loan

*Source: Bank Negara Malaysia*

## Growth in net financing moderated in June

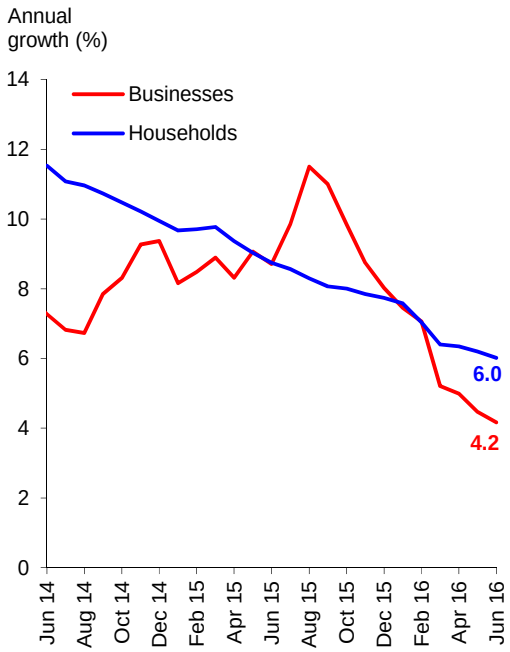
**Net Financing and Loan Growth**




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

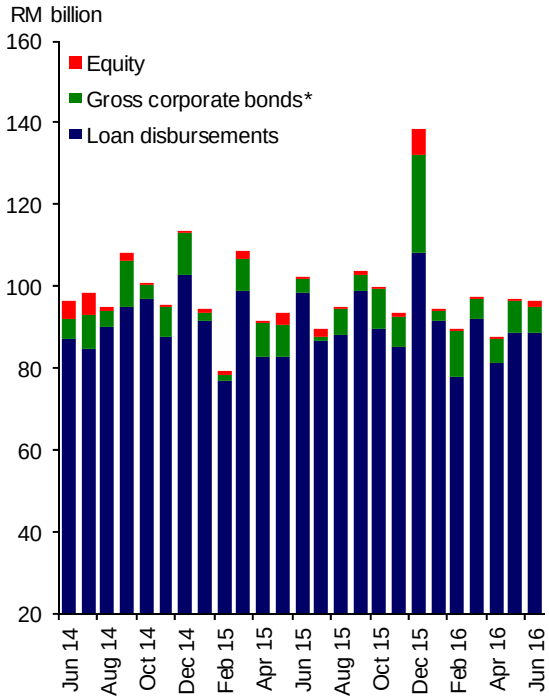
*Source: Bank Negara Malaysia*

**Outstanding Loans of the Banking System**



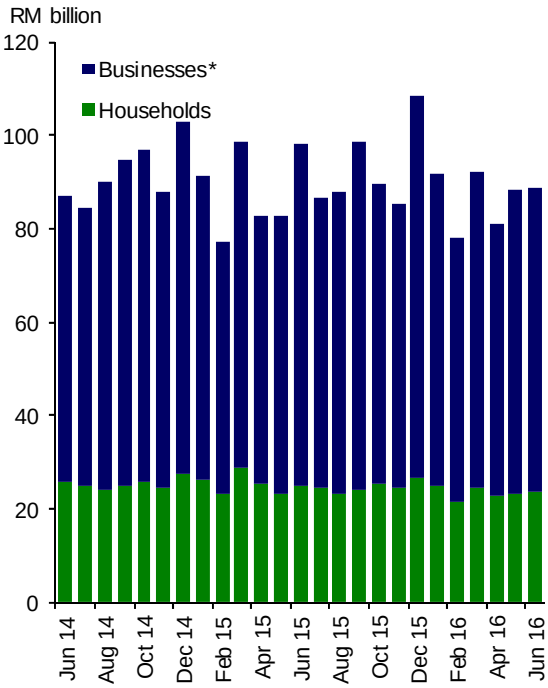

*Source: Bank Negara Malaysia*

**Gross Private Sector Financing**



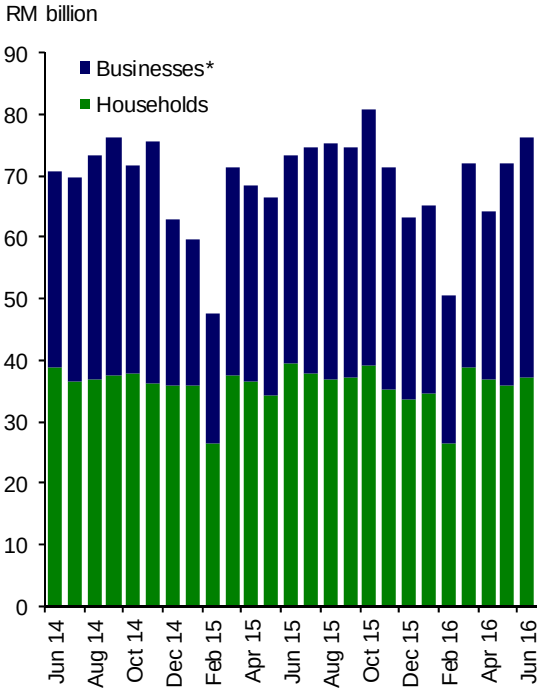

*Excludes foreign issuances
*Source: Bank Negara Malaysia*

**Loan Disbursements by the Banking System**



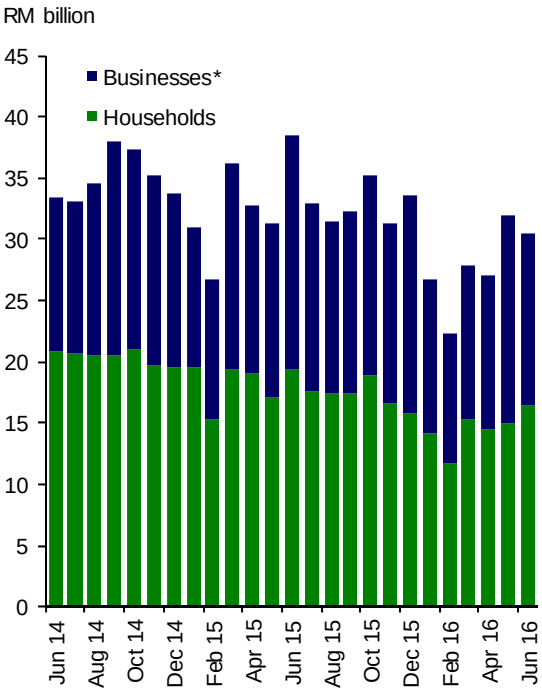

* Includes domestic financial institutions, Government, other domestic entities and foreign entities
*Source: Bank Negara Malaysia*

**Loan Applications to the Banking System**




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

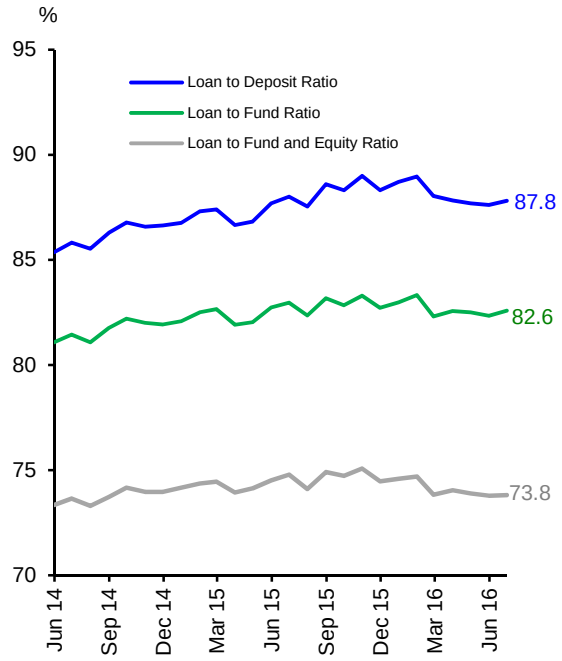
**Loan Approvals by the Banking System**




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

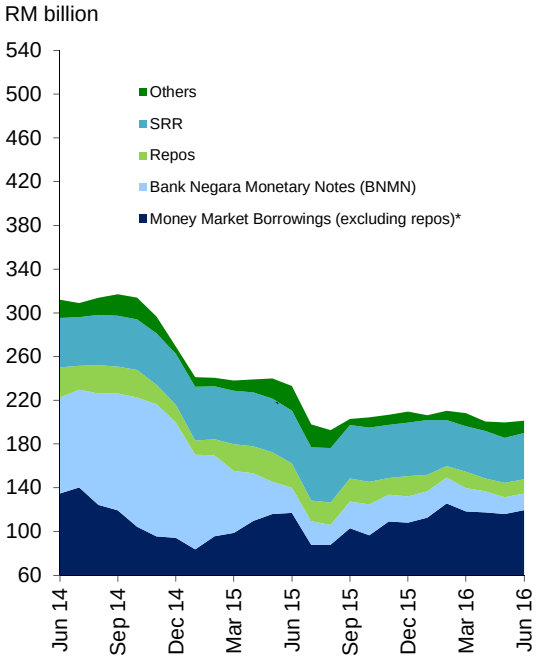
## Liquidity in the banking system remained ample

**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*

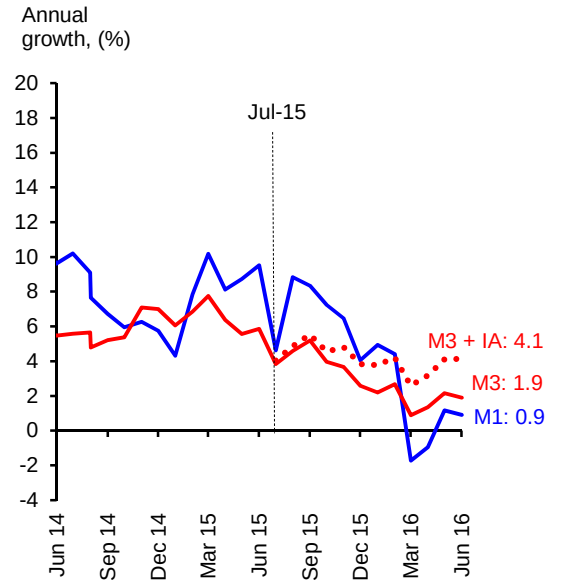
**Outstanding Liquidity Placed with Bank Negara Malaysia (at end-period)**




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

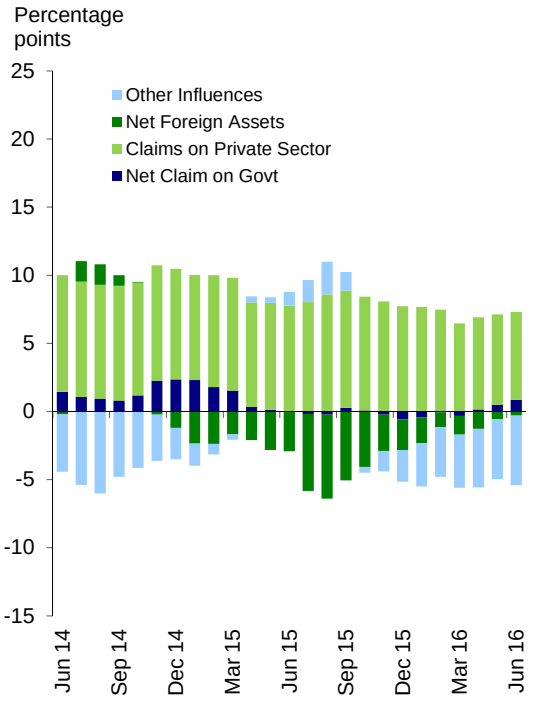
## Broad money growth moderated slightly in June

**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*

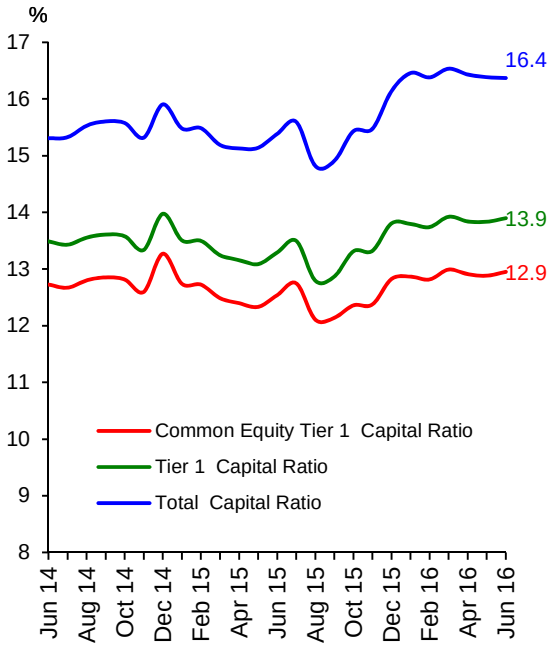
**Main Contributors to M3 Annual Growth**




*Source: Bank Negara Malaysia*

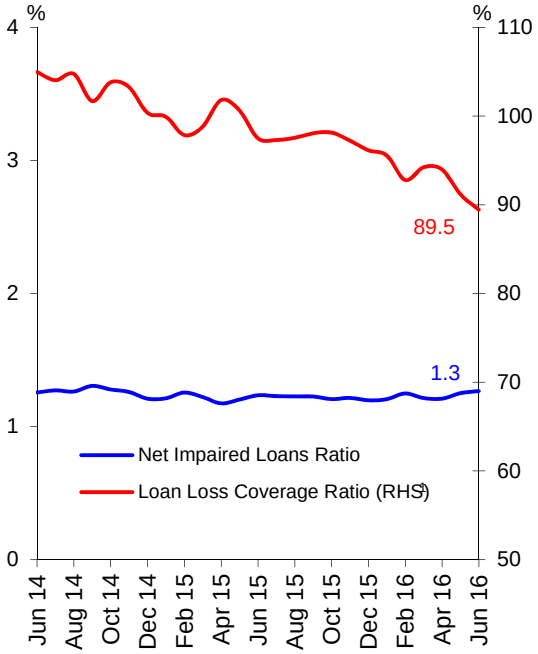
## Banking system capitalisation remained strong with stable loan quality

**Capital Strength**




*Source: Bank Negara Malaysia*

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

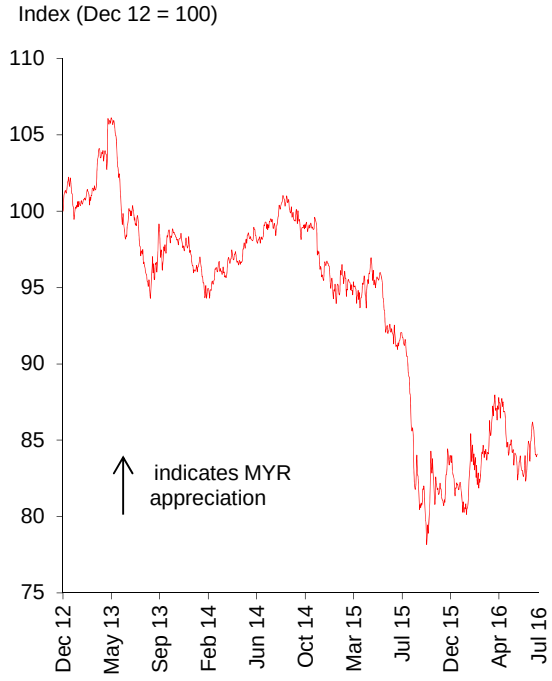



[1] Refers to ratio of individual plus collective impairment provisions to total impaired loans

*Source: Bank Negara Malaysia*

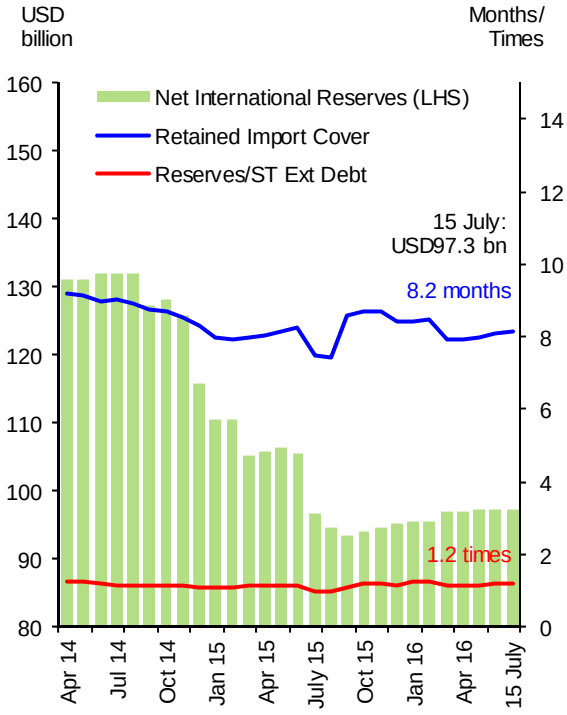
## The ringgit appreciated against the currencies of most major trade partners

**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*

## Key Monetary and Financial Statistics

| | | Apr 16 | | May 16 | | Jun 16 | |
|---|---|---|---|---|---|---|---|
| | | O/stg | Ann. growth | O/stg | Ann. growth | O/stg | Ann. growth |
| | | (RM bil) | (%) | (RM bil) | (%) | (RM bil) | (%) |
| **Monetary Aggregates** | | | | | | | |
| Reserve money | | 133.2 | 0.4 | 131.4 | 0.1 | 136.5 | 3.1 |
| M1 | | 348.6 | -0.9 | 356.4 | 1.2 | 363.9 | 0.9 |
| M2 | | 1,594.0 | 1.4 | 1,600.6 | 2.1 | 1,602.8 | 1.8 |
| M3 | | 1,601.4 | 1.4 | 1,610.7 | 2.2 | 1,611.0 | 1.9 |
| **Banking System** | | | | | | | |
| Net financing[1] | | 2,080.7 | 7.4 | 2,096.3 | 7.2 | 2,105.8 | 6.9 |
| Loan to deposit ratio (%) [2] | | 87.7 | | 87.6 | | 87.8 | |
| Loan to fund ratio (%) [2&3] | | 82.5 | | 82.3 | | 82.6 | |
| Loan to fund and equity ratio (%) [2,3&4] | | 73.9 | | 73.8 | | 73.8 | |
| Loans outstanding in RM billion | | 1,447.8 | 6.3 | 1,458.5 | 6.2 | 1,465.2 | 5.6 |
| Loans applied (during the period) | | 64.3 | -6.0 | 72.0 | 8.5 | 76.2 | 3.9 |
| Loans approved (during the period) | | 27.1 | -17.2 | 32.0 | 2.2 | 30.4 | -21.0 |
| Loans disbursed (during the period) | | 81.3 | -1.6 | 88.5 | 6.9 | 88.8 | -9.6 |
| Loans repaid (during the period) | | 85.5 | 5.0 | 83.2 | 11.4 | 84.8 | -2.8 |
| **Banking System Health** | | | | | | | |
| Total capital ratio (%) [5] | | 16.4 | | 16.4 | | 16.4 | |
| Tier 1 capital ratio (%) [5] | | 13.8 | | 13.8 | | 13.9 | |
| Common equity tier 1 capital ratio (%) [5] | | 12.9 | | 12.9 | | 12.9 | |
| Net impaired loans ratio (%) | | 1.2 | | 1.3 | | 1.3 | |
| **BNM International Reserves (end-period)** | | | | | | | |
| Net Reserves in RM billion | | 381.3 | | 382.6 | | 390.3 | |
| Net Reserves in USD billion (equivalent) | | 97.0 | | 97.2 | | 97.1 | |
| Months of retained imports | | 7.9 | | 8.0 | | 8.1 | |
| **Interest Rates at end-period [average for the month]** | | | | | | | |
| Overnight Policy Rate (OPR) | | 3.25 | | 3.25 | | 3.25 | |
| Interbank: | Overnight | 3.24 [3.16] | | 3.22 [3.17] | | 3.13 [3.18] | |
| | 1-week | 3.23 [3.22] | | 3.23 [3.23] | | 3.23 [3.23] | |
| | 1-month | 3.26 [3.28] | | 3.33 [3.27] | | 3.44 [3.30] | |
| Fixed deposits of commercial banks: | 1-month | 3.08 | | 3.07 | | 3.08 | |
| | 3-month | 3.14 | | 3.13 | | 3.13 | |
| BLR of commercial banks | | 6.80 | | 6.81 | | 6.82 | |
| Weighted Base Rate [6] | | 3.79 | | 3.81 | | 3.83 | |
| Weighted ALR of commercial banks | | 5.41 | | 5.41 | | 5.42 | |
| **Prices** | | | | | | | |
| Consumer Price Index (CPI) (2010=100) | | 114.3 | 2.1 | 114.6 | 2.0 | 114.8 | 1.6 |

[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 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. Weights are based on individuals banks' share of all outstanding floating-rate loans

*Source: Bank Negara Malaysia*