BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 11/15/16

EMBARGO: Not for publication or broadcast before 1800 hours on Monday, 30 November 2015

MONETARY AND FINANCIAL DEVELOPMENTS OCTOBER 2015

Price Conditions: Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), moderated further to 2.5% in October (September: 2.6%). Although the price of RON97, RON95 and diesel fuels were adjusted upwards by 10 sen each during the month, inflation in the transport category declined further to -5.7% (September: -3.8%). This decline was mainly due to the higher base in October 2014 following the upward adjustments to RON95 and diesel prices during that period. Inflation in food and non-alcoholic beverages category continued to increase to 4.7% (September: 4.3%) amid shortages in the supply of vegetables due to adverse weather conditions. On a month-on-month basis, headline inflation increased by 0.4% in October (September: -0.3%).

Monetary Conditions: Interbank rates were stable in October. In terms of retail lending rates, the average base rate (BR) of commercial banks remained unchanged at 3.85%. Retail deposit rates were also steady during the month. Net financing to the private sector grew by 8.8% in October (September: 8.8%), driven by higher growth in private debt securities (PDS) amidst a moderation in the growth of banking system loans. Business loans grew at a slower pace of 9.8% during the month (September: 11.0%) due to the slower growth in outstanding loans to the *wholesale and retail trade, and restaurants and hotels*; *manufacturing*; and *construction* sectors. The annual growth of loans to households continued to moderate to 8.0%

(September: 8.1%). Overall loan demand increased with higher levels of loan applications and approvals especially from businesses during the month. On an annual basis, broad money (M3) grew by 4.0% in October (September: 5.2%). 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 12.3%, 13.3% and 15.4% respectively. The level of net impaired loans was sustained at 1.2% of net loans, with loan loss coverage ratio stable at 98.1%.

Exchange Rates and International Reserves: In October, the ringgit appreciated against the currencies of Malaysia's major trade partners. Most regional currencies appreciated against the US dollar during the month following strong portfolio inflows into the regional financial markets. Increased interest in regional financial assets was due to weak economic data releases from the US which led to expectations of a further delay in US interest rate normalisation. The ringgit appreciated more than most regional currencies due to the sharp increase in global crude oil prices in the first week of October, and better-than-expected Malaysian trade data. The international reserves of Bank Negara Malaysia amounted to RM417.2 billion (equivalent to USD93.9 billion) as at 13 November 2015, sufficient to finance 8.6 months of retained imports and is 1.1 times the short-term external debt[1].

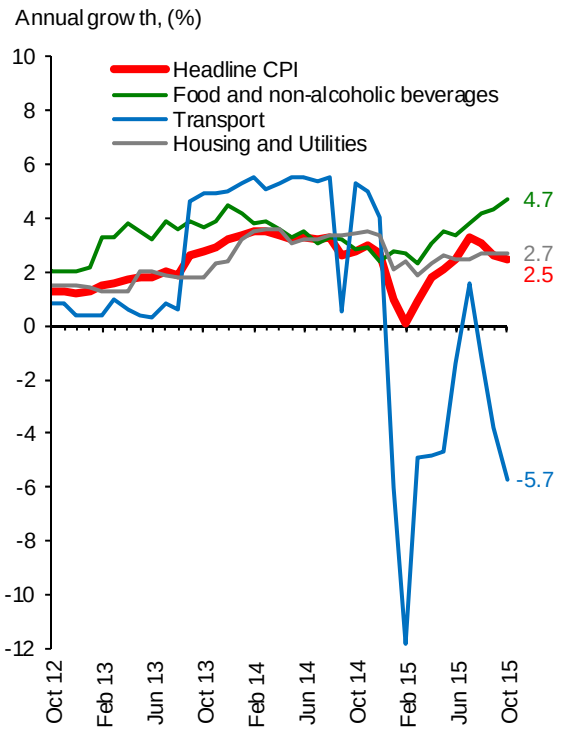
Bank Negara Malaysia
30 November 2015

[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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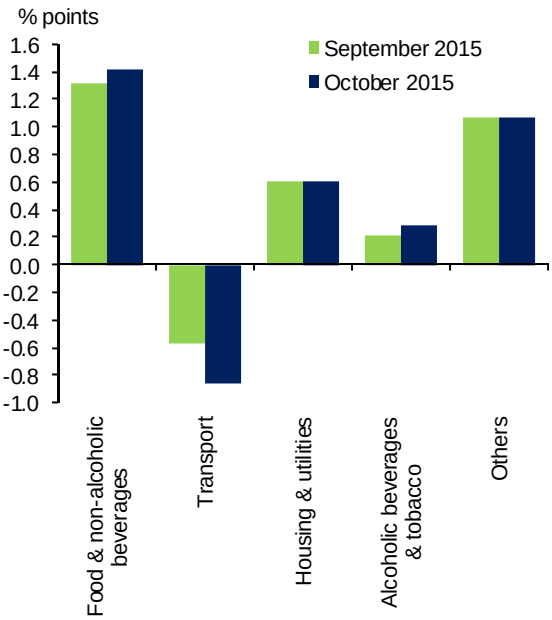
Headline inflation continued to moderate in October, reflecting mainly the high base in October 2014

Headline Inflation



Source: Department of Statistics Malaysia

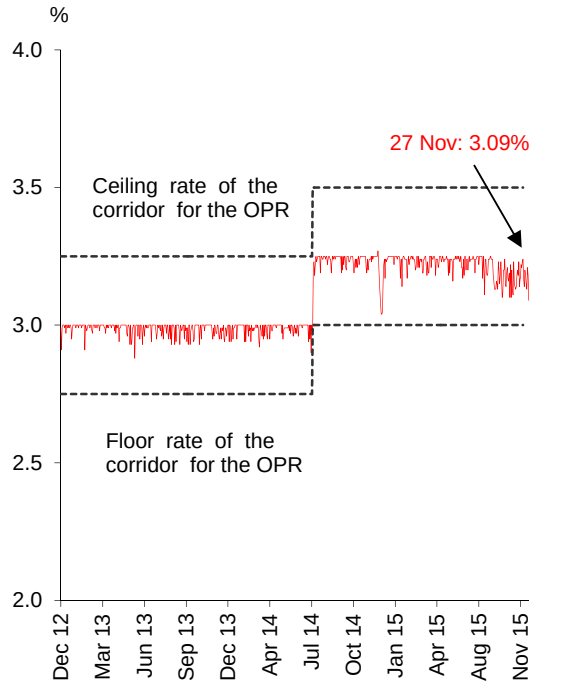
Headline Inflation: Component Contribution



*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

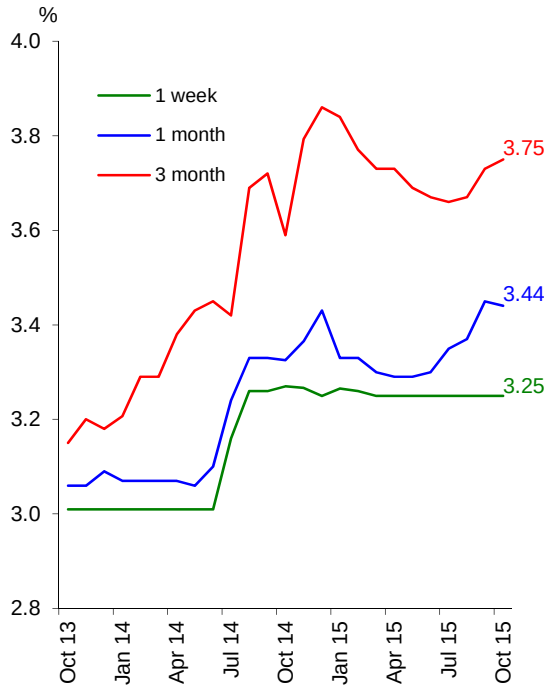
Interbank rates remained stable in October

Daily Weighted Average Overnight Interbank Rate



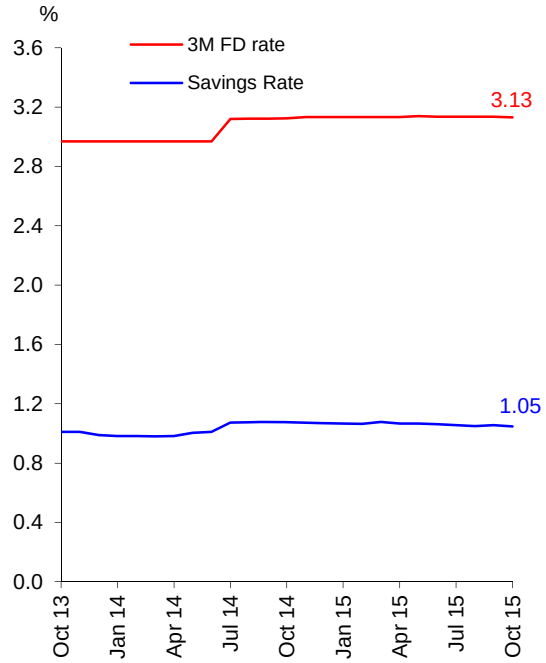
Source: Bank Negara Malaysia

Average Interbank Rate



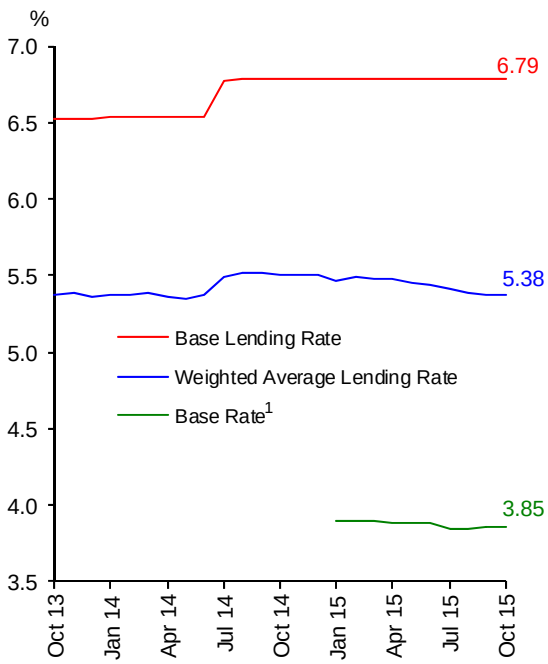
For periods where no trades took place during the month, the last traded interbank rate is used
Source: Bank Negara Malaysia

Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

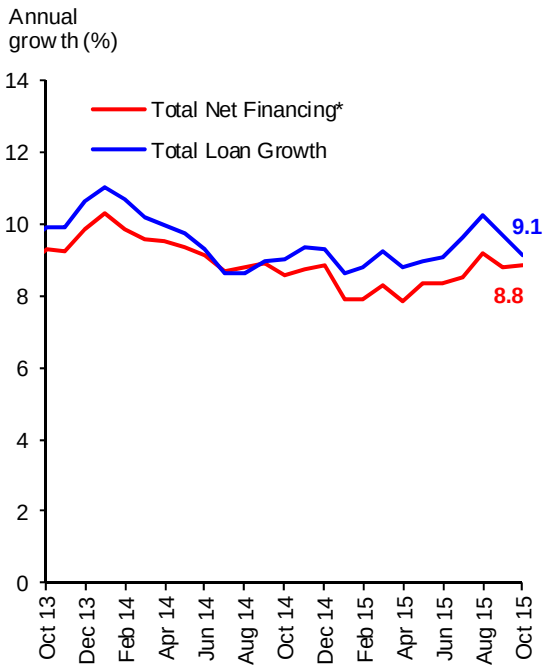
Lending Rates of Commercial Banks



[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.
Source: Bank Negara Malaysia

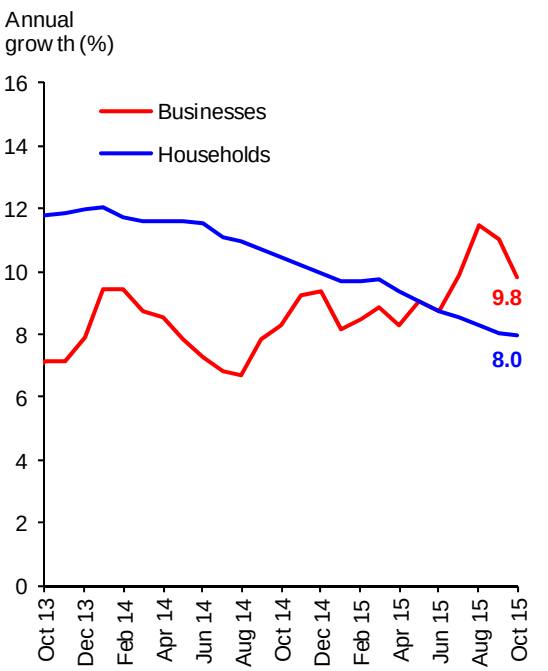
Growth in net financing remained relatively stable in October

Net Financing and Loan Growth



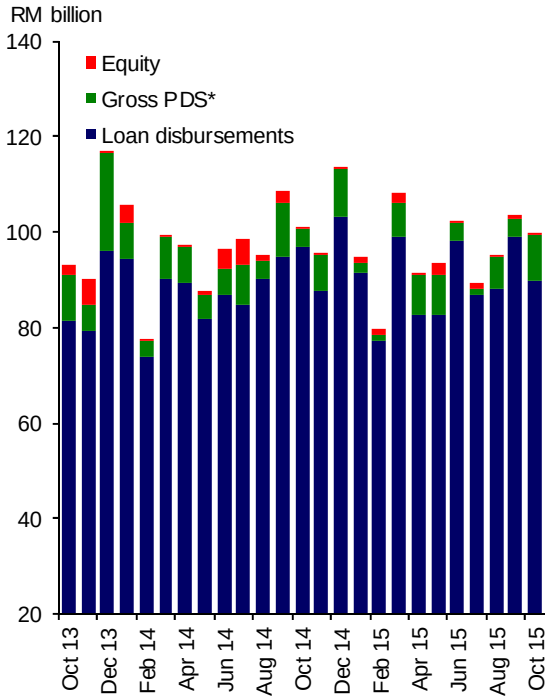
* Net financing comprises of banking systems loans and private debt securities (PDS) outstandings (excluding non-residents and Cagamas)
Source: Bank Negara Malaysia

Loans Outstanding of the Banking System



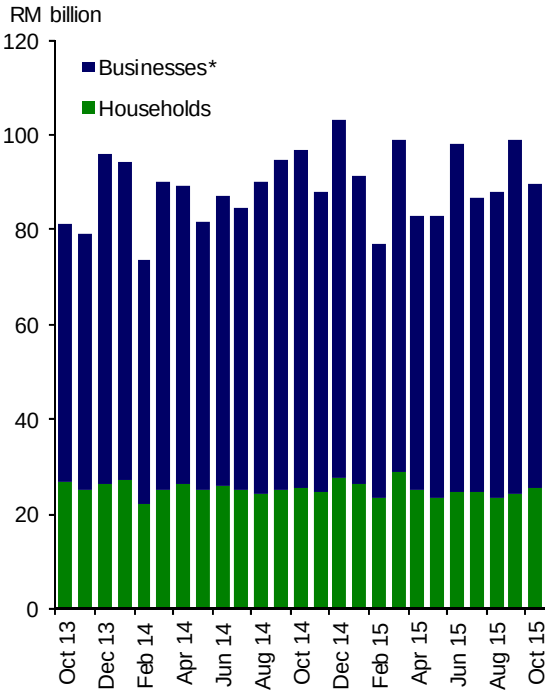
Source: Bank Negara Malaysia

Gross Private Sector Financing



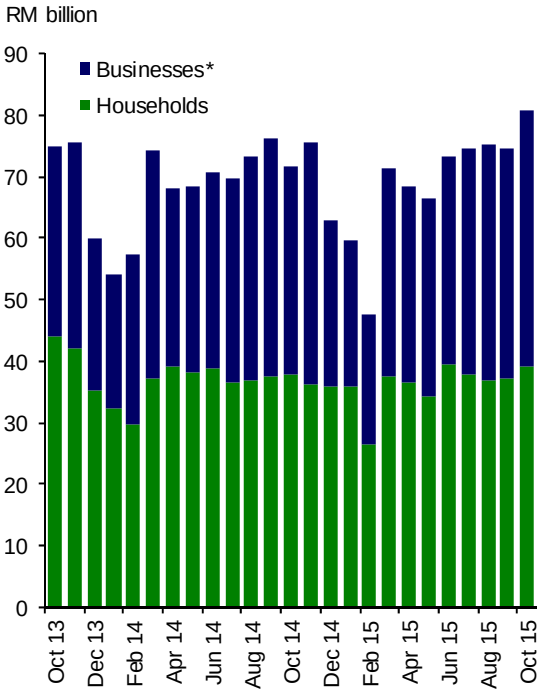
*Excludes foreign issuances
Source: Bank Negara Malaysia

Loan Disbursements by the Banking System



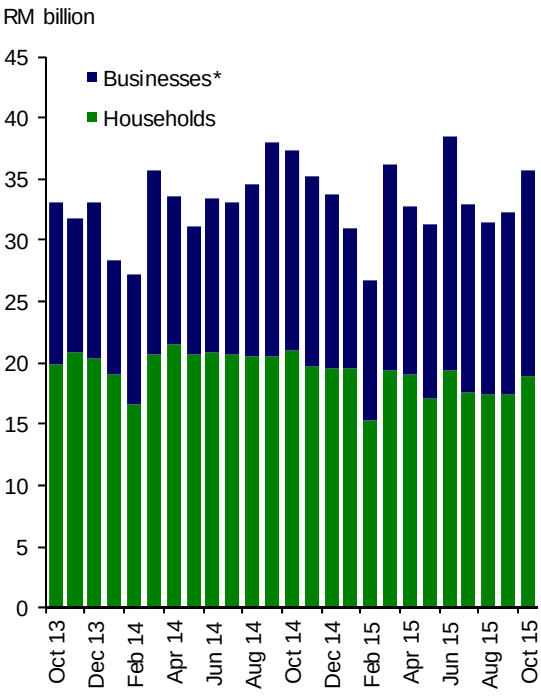
* Includes domestic financial institutions, goverment, domestic other entities.
Source: Bank Negara Malaysia

Loan Applications to the Banking System



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

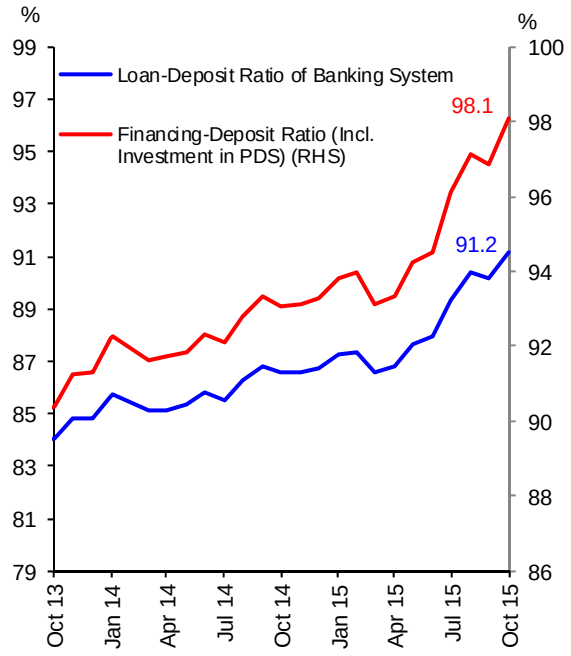
Loan Approvals by the Banking System



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

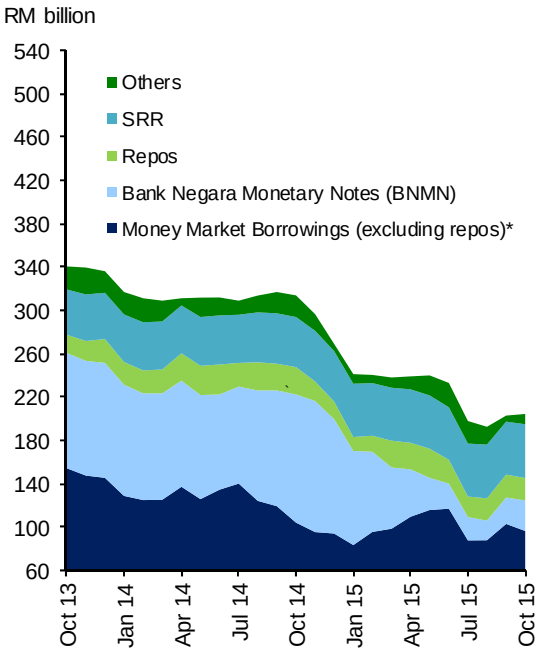
Liquidity in the banking system remained ample

Loan-Deposit Ratio and Financing-Deposit Ratio



Source: Bank Negara Malaysia

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

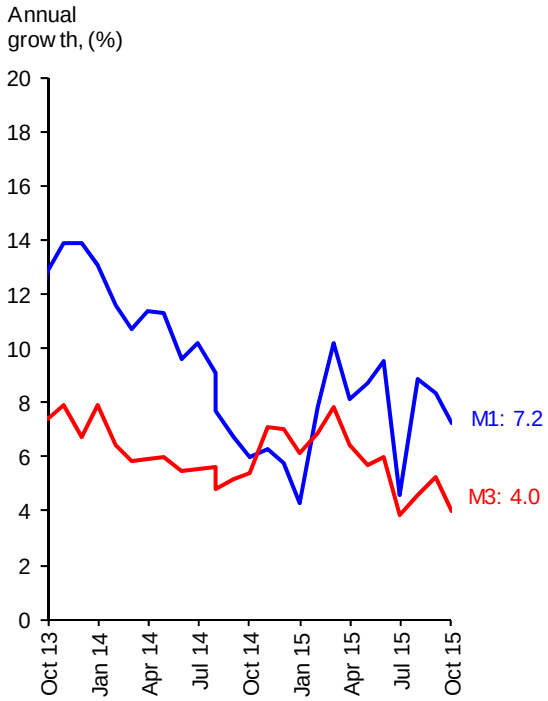


* Money Market Borrowings (excluding repos) include Direct Borrowing, Wadiah Acceptances and Commodity Murabahah Programme (CMP)

Source: Bank Negara Malaysia

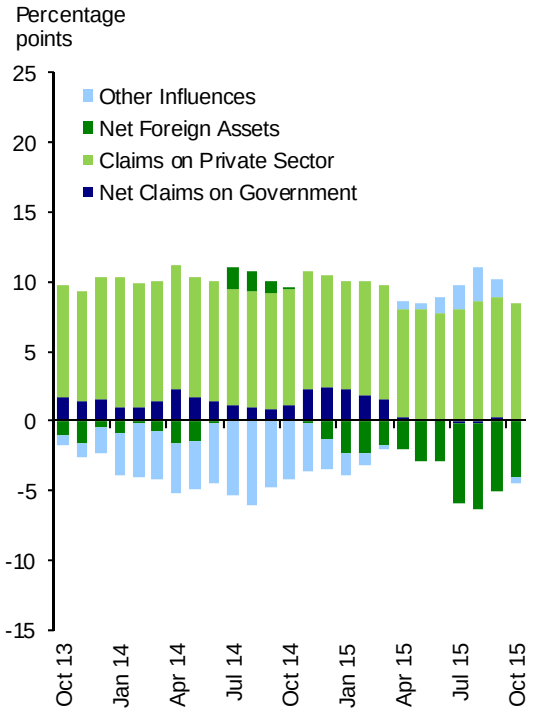
Broad money growth moderated in October

M1 and M3



Source: Bank Negara Malaysia

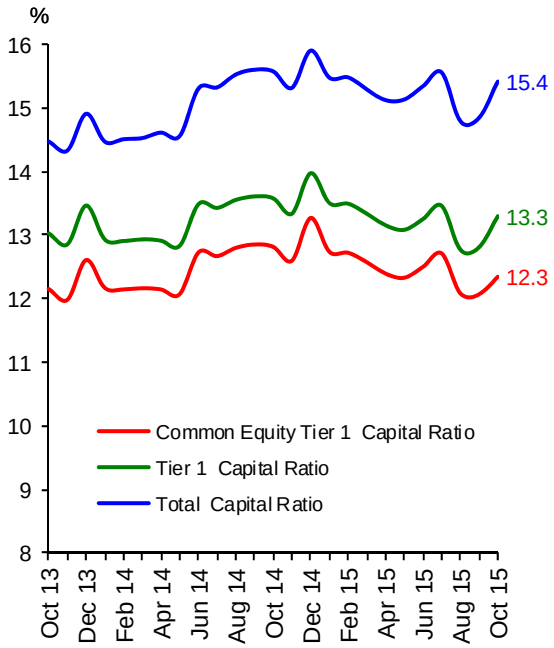
Main Contributors of M3 Annual Growth



Source: Bank Negara Malaysia

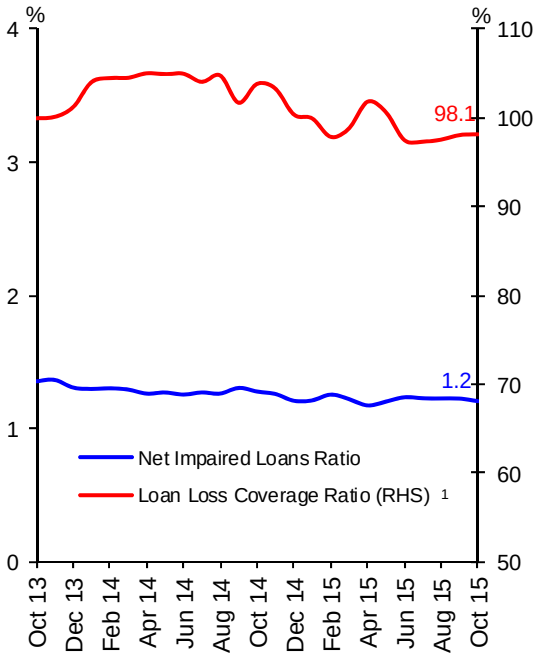
Banking system capitalisation remained strong with stable loan quality

Capital Strength



Source: Bank Negara Malaysia

Net Impaired Loans Ratio and Loan Loss Coverage Ratio

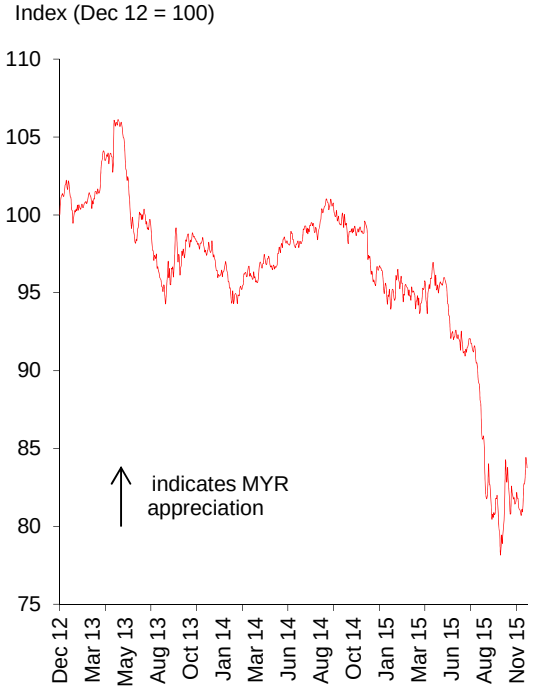


[1] Refers to ratio of individual plus collective impairment provisions to total impaired loans.

Source: Bank Negara Malaysia

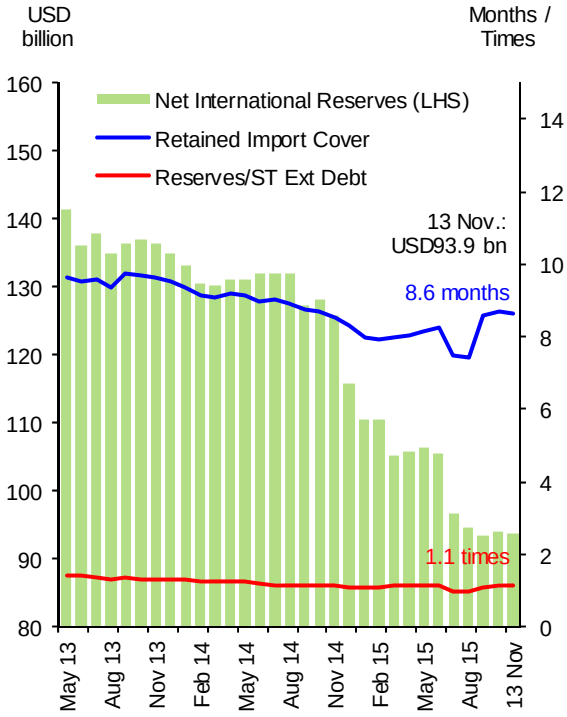
The ringgit appreciated against the currencies of major trade partners

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

		Aug 15		Sep 15		Oct 15	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates							
Reserve money		134.8	10.4	133.7	10.2	134.6	11.5
M1		351.5	8.8	358.0	8.3	351.2	7.2
M2		1,556.2	5.1	1,574.5	5.5	1,569.5	4.3
M3		1,562.9	4.6	1,582.5	5.2	1,576.7	4.0
Banking System							
Net financing[1]		1,867.6	9.2	1,879.9	8.8	1,894.5	8.8
Loan-deposit ratio (%) [2]		90.4		90.1		91.2	
Financing-deposit ratio (%) [2&3]		97.1		96.8		98.1	
Loans applied (during the period)		75.4	3.1	74.8	-1.8	80.7	12.8
Loans approved (during the period)		31.4	-9.1	32.2	-15.2	35.7	-4.4
Loans disbursed (during the period)		88.1	-2.4	98.8	4.2	89.6	-7.5
Loans repaid (during the period)		78.5	-3.6	92.9	10.8	85.1	-4.5
Banking System Health							
Total capital ratio (%) [4]		14.8		14.8		15.4	
Tier 1 capital ratio (%) [4]		12.8		12.8		13.3	
Common equity tier 1 capital ratio (%) [4]		12.1		12.1		12.3	
Net impaired loans ratio (%)		1.2		1.2		1.2	
BNM International Reserves (end-period)							
Net Reserves in RM billion		357.7		415.1		417.9	
Net Reserves in USD billion (equivalent)		94.7		93.3		94.0	
Months of retained imports		7.4		8.6		8.7	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.25		3.25		3.25	
Interbank:	Overnight	3.25 [3.22]		3.12 [3.18]		3.18 [3.17]	
	1-week	3.25 [3.25]		3.24 [3.25]		3.26 [3.25]	
	1-month	3.35 [3.37]		3.60 [3.45]		3.64 [3.44]	
Fixed deposits of commercial banks:	1-month	3.08		3.08		3.08	
	3-month	3.14		3.14		3.13	
BLR of commercial banks		6.79		6.79		6.79	
Base Rate [5]		3.85		3.85		3.85	
Weighted ALR of commercial banks		5.38		5.38		5.38	
Prices							
Consumer Price Index (CPI) (2010=100)		113.9	3.1	113.6	2.6	114.1	2.5

[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