BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

**Ref. No.: 02/16/11**

**EMBARGO: Not for publication or broadcast before 1800 hours on Monday, 29 February 2016**

# MONETARY AND FINANCIAL DEVELOPMENTS
# January 2016

**Price Conditions:** Headline inflation increased to 3.5% in January (December 2015: 2.7%), largely reflecting the base effect from the larger decline in fuel prices in January 2015. The price of RON95 petrol was reduced by 10 sen per litre in January 2016, which is less than the 35 sen per litre reduction in January 2015. As a result, inflation in the *transport* category increased to 0.6% (December 2015: -6.2%). The *housing, water, electricity, gas and other fuels* and *alcoholic beverages and tobacco* categories also contributed to the higher inflation during the month. The tariff rebate for electricity usage was reduced in January 2016, which resulted in an increase in the effective electricity tariff for Peninsular Malaysia. The higher inflation during the month, however, was partly offset by the lower inflation in the *food and non-alcoholic beverages* and *communication* category. During the month, prices of fresh vegetables were lower following favourable supply conditions, while the effective price of prepaid call charges was lower due to the GST rebate given to prepaid users.

**Monetary Conditions:** Interbank rates of all tenures remained elevated in January due to continued competition among banks for stable funding. As the Base Rate (BR) is benchmarked off the 3-month KLIBOR for most banks, the average BR of commercial banks increased slightly to 3.87% (December 2015: 3.86%). However, interbank rates began to moderate following the decision on 21 January 2016 to reduce the Statutory Reserve Requirement

(SRR) by 50 basis points. Retail lending rates remained steady during the month of January. Net financing to the private sector grew by 8.3% in January 2016 (December 2015: 8.6%), with a slight moderation in the growth of both net issuances of private debt securities (PDS) and outstanding banking system loans. Business loans grew by 7.5% during the month (December 2015: 8.0%) with slower growth in outstanding loans to the mining and quarrying; education, health and others; and primary agriculture sectors. The annual growth of loans to households continued to moderate to 7.6% (December 2015: 7.7%). Overall loan demand was stable with a sustained level of loan applications during the month. On an annual basis, broad money (M3) grew by 2.2% in January (December 2015: 2.7%). 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 a 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 13.0%, 13.9% and 16.6% respectively. The level of net impaired loans was sustained at 1.2% of net loans, with loan loss coverage ratio at 95.6%.

**Exchange Rates and International Reserves:** In January, the ringgit appreciated against the currencies of Malaysia's major trade partners. The ringgit appreciated against the US dollar following the increase in Brent crude oil prices towards the end of the month. The strength of the ringgit was also partly due to positive sentiments following the 2016 Budget Recalibration announcement, in which Malaysia's fiscal deficit target remained at 3.1% of GDP. Currencies of most regional countries, however, depreciated during the month due to rising concerns of a potential further slowdown in PR China amidst weak economic data releases. The international reserves of Bank Negara Malaysia amounted to RM410.2 billion (equivalent to USD95.6 billion)

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as at 15 February 2016, sufficient to finance 8.2 months of retained imports and were 1.2 times the short-term external debt[1].

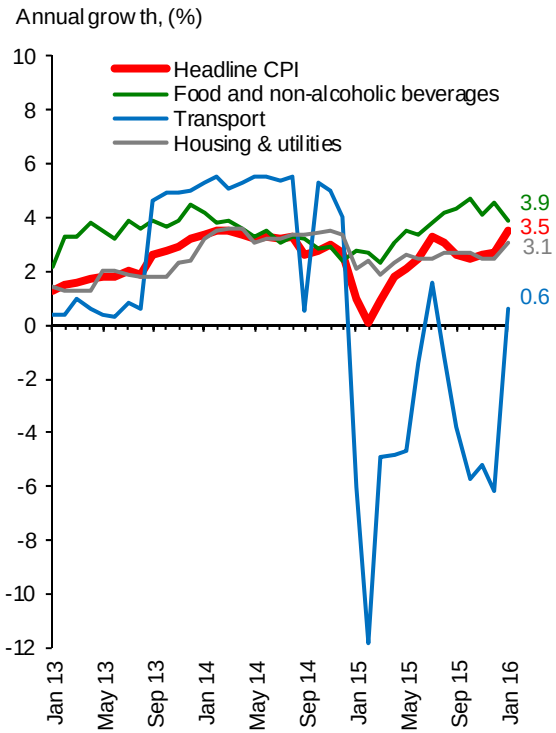
**Bank Negara Malaysia**
**29 February 2016**

[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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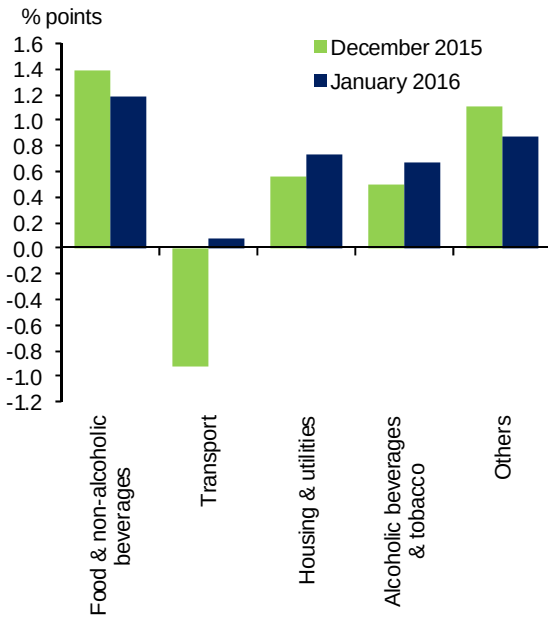
## Headline inflation increased in January

**Headline Inflation**




*Source: Department of Statistics Malaysia*

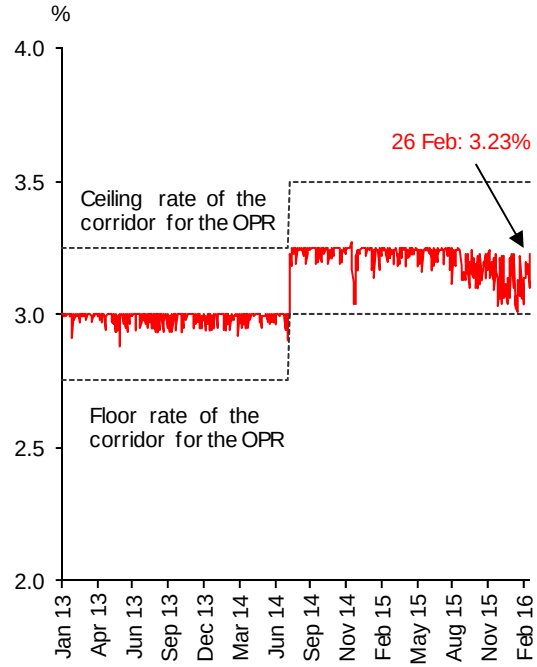
**Headline Inflation: Component Contribution**




*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*

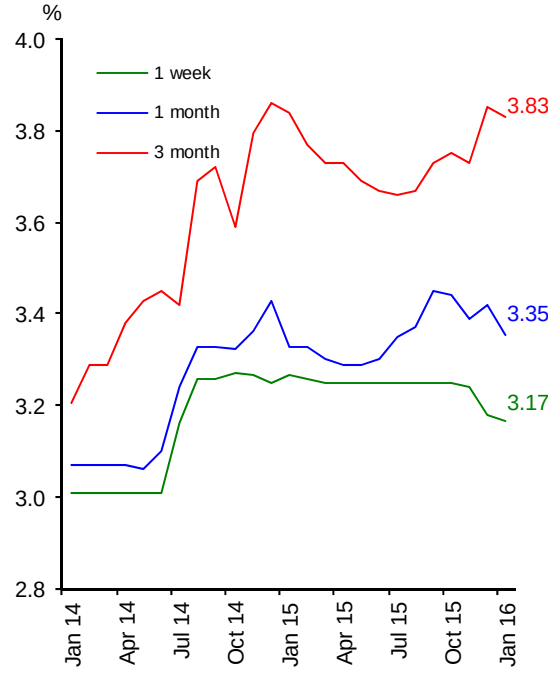
## Interbank rates beyond 1 month trended lower after the announcement of the reduction in SRR

**Daily Weighted Average Overnight Interbank Rate**




*Source: Bank Negara Malaysia*

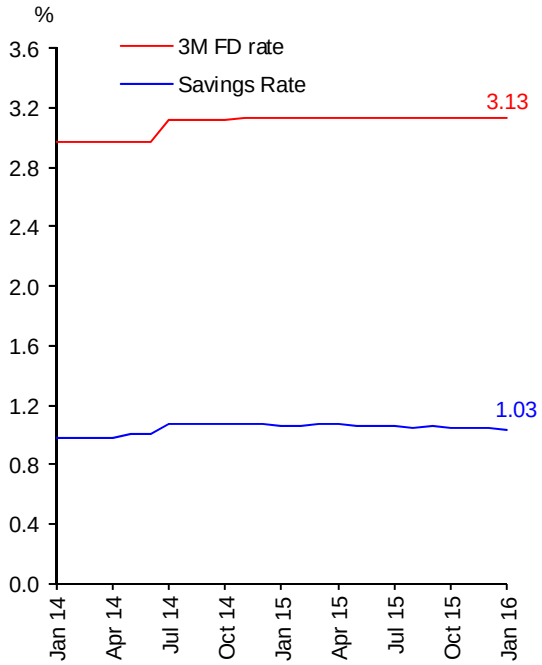
**Average Interbank Rate**




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

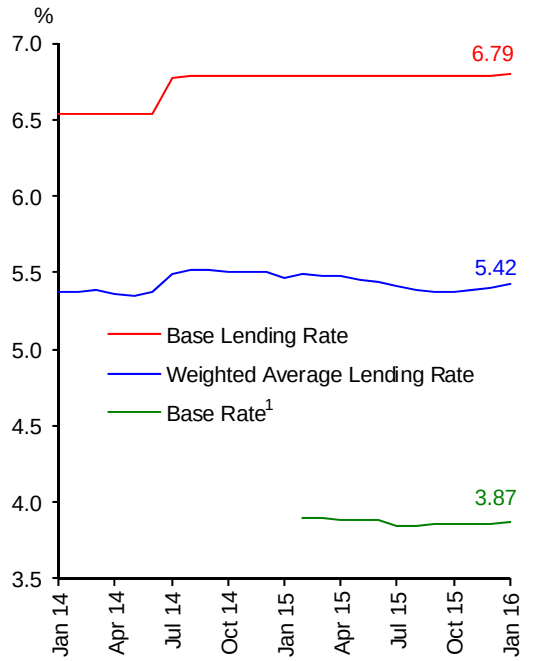
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**Deposit Rates of Commercial Banks**




*Source: Bank Negara Malaysia*

**Lending Rates of Commercial Banks**

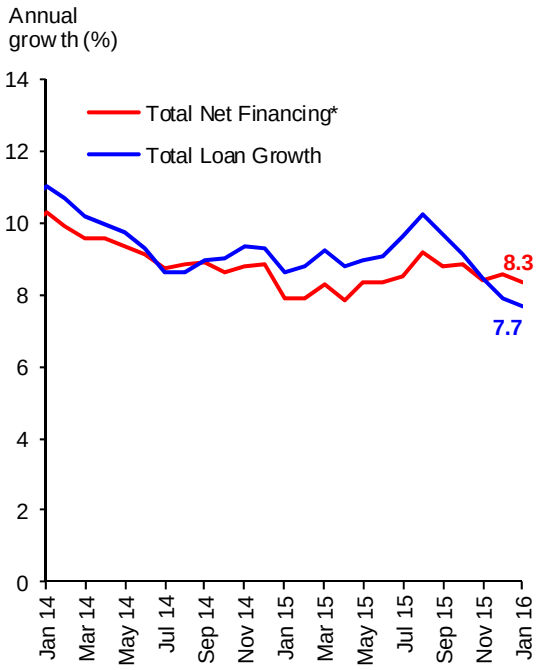



[1] On 2 January 2015, the Base Rate (BR) replaced the Base Lending Rate (BLR) as the reference rate for new retail floating-rate loans and financing facilities

*Source: Bank Negara Malaysia*

## Growth in net financing moderated slightly in January

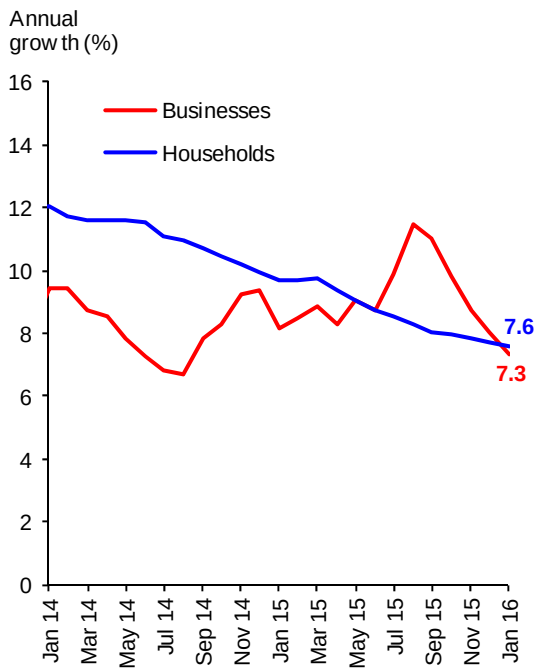
**Net Financing and Loan Growth**




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

*Source: Bank Negara Malaysia*

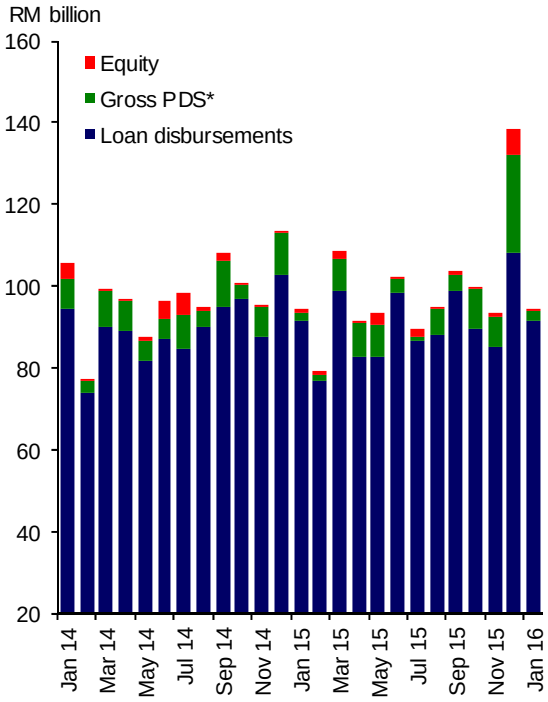
**Loans Outstanding of the Banking System**




*Source: Bank Negara Malaysia*

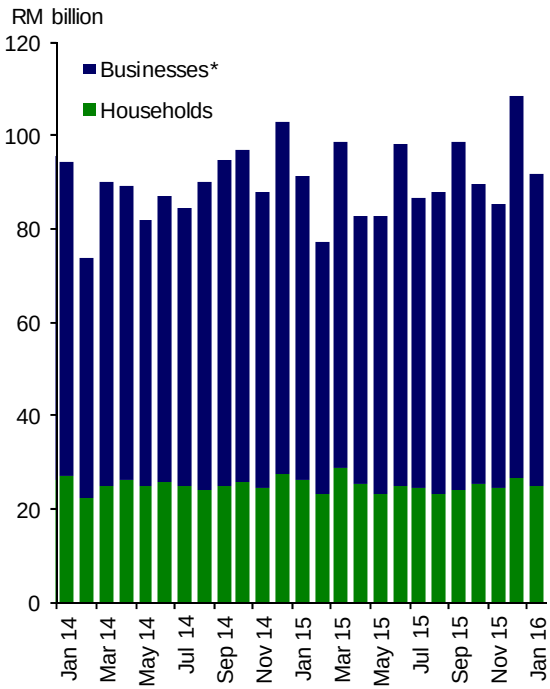
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**Gross Private Sector Financing**



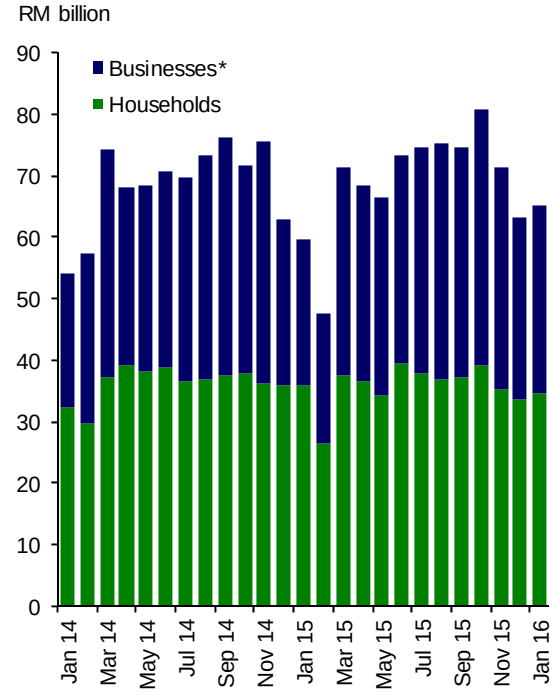

*Excludes foreign issuances
*Source: Bank Negara Malaysia*

**Loan Disbursements by the Banking System**



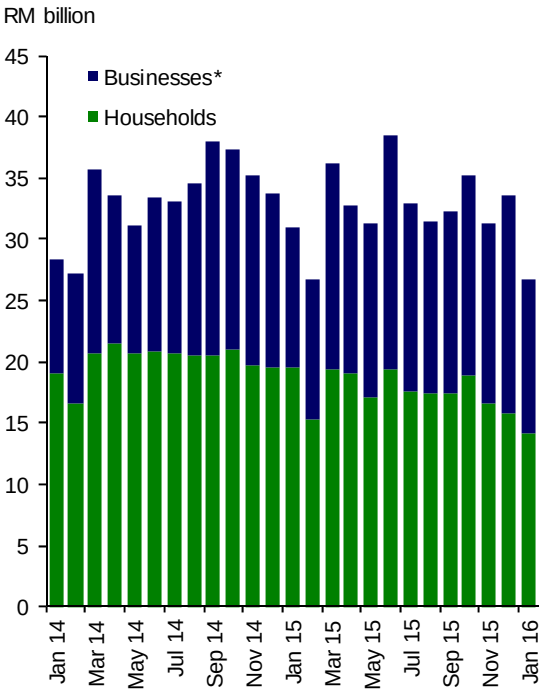

* Includes domestic financial institutions, goverment, other domestic entities and foreign entities
*Source: Bank Negara Malaysia*

**Loan Applications to the Banking System**




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

**Loan Approvals by the Banking System**

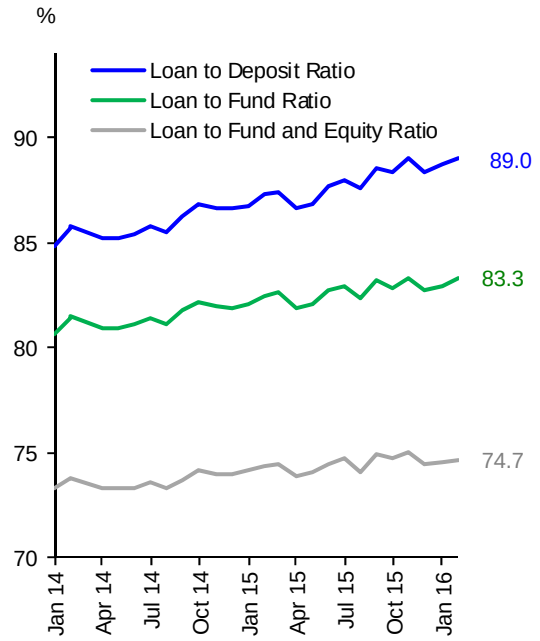



* Includes domestic financial institutions, goverment, other domestic entities and foreign entities
*Source: Bank Negara Malaysia*

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## Liquidity in the banking system remained ample

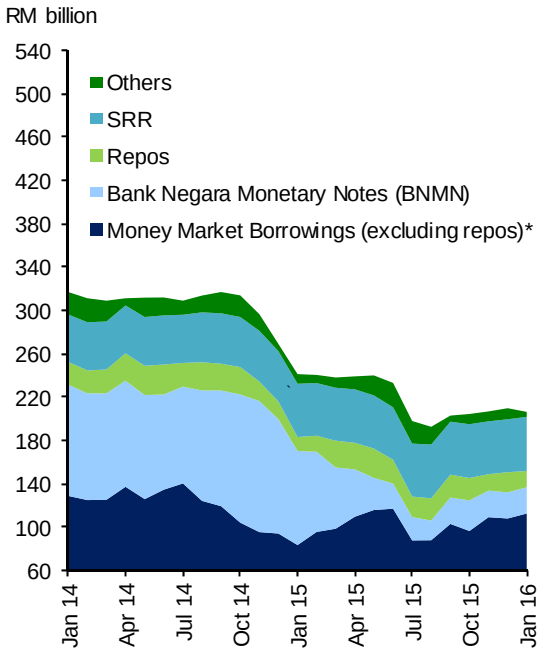
**Loan to Deposit, Loan to Fund and Loan to Fund and Equity Ratios**




* 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)**

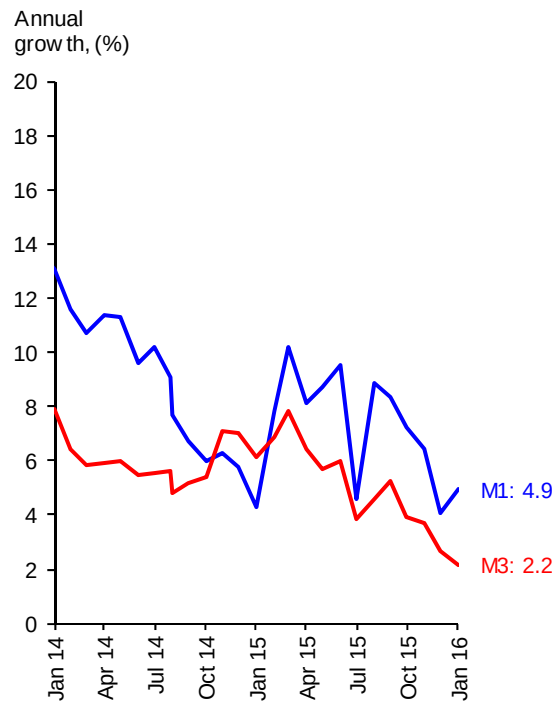



* Money Market Borrowings (excluding repos) include Direct Borrowing, Wadiah Acceptances and Commodity Murabahah Programme (CMP)

*Source: Bank Negara Malaysia*

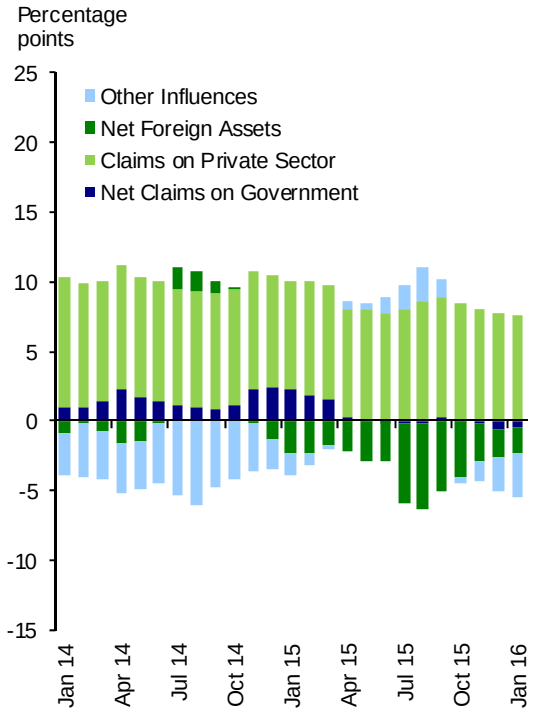
## Broad money growth moderated in January

**M1 and M3**




*Source: Bank Negara Malaysia*

**Main Contributors of M3 Annual Growth**

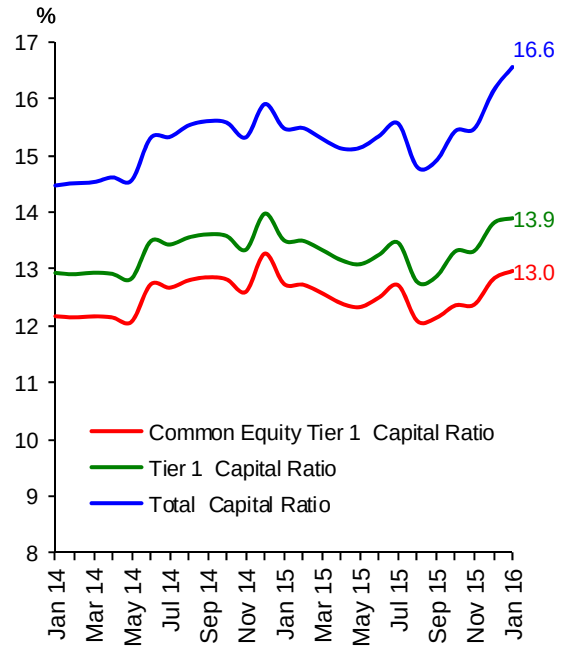



*Source: Bank Negara Malaysia*

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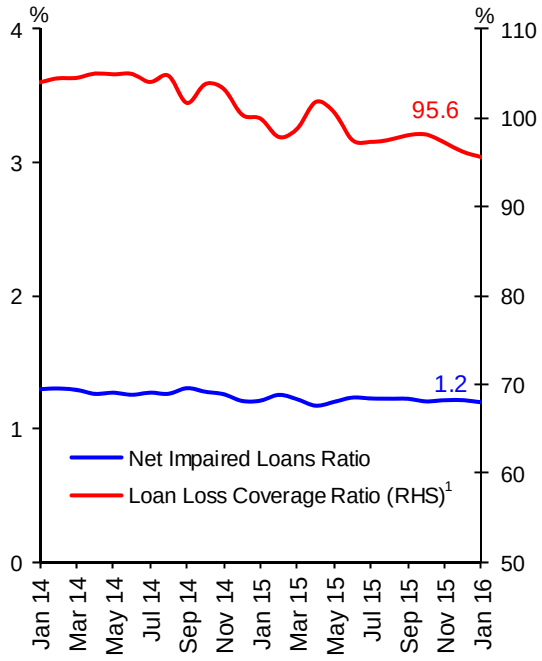
## Banking system capitalisation remained strong with stable loan quality

**Capital Strength**




*Source: Bank Negara Malaysia*

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

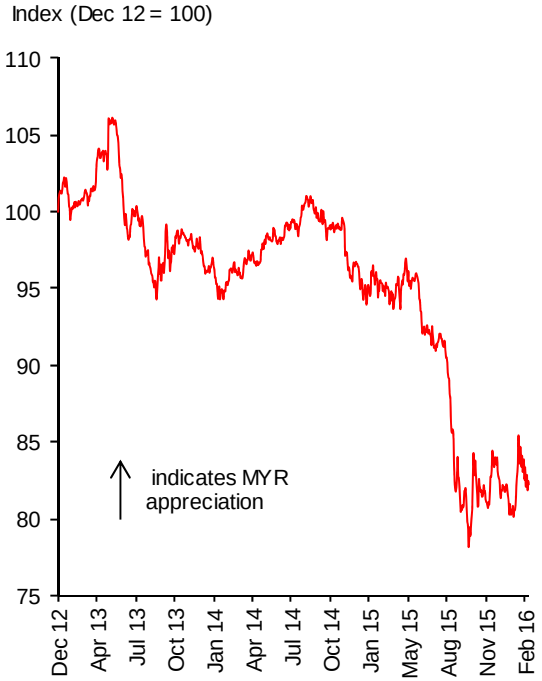



[1] Refers to ratio of individual plus collective impairment provisions to total impaired loans

*Source: Bank Negara Malaysia*

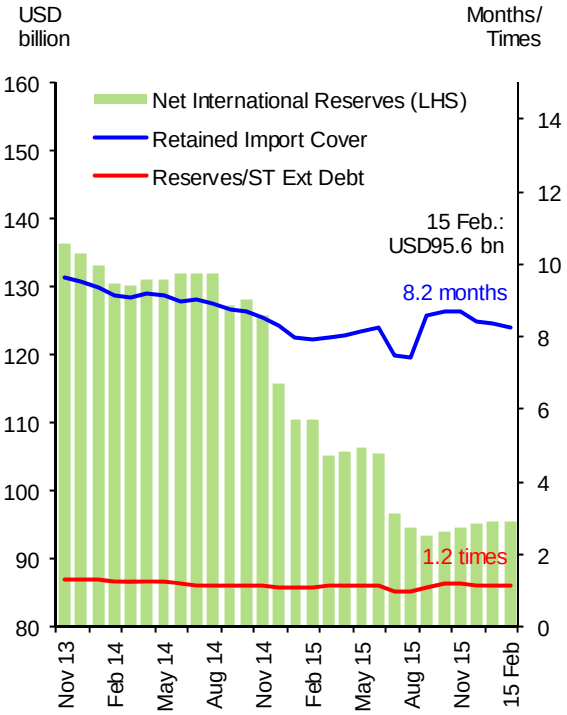
## The ringgit appreciated against the currencies of major trade partners

**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*

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## Key Monetary and Financial Statistics

| | | Nov 15 | | Dec 15 | | Jan 16 | |
|---|---|---|---|---|---|---|---|
| | | O/stg | Ann. growth | O/stg | Ann. growth | O/stg | Ann. growth |
| | | (RM bil) | (%) | (RM bil) | (%) | (RM bil) | (%) |
| **Monetary Aggregates** | | | | | | | |
| Reserve money | | 134.6 | 9.7 | 137.3 | 10.1 | 144.1 | 8.6 |
| M1 | | 352.3 | 6.5 | 360.5 | 4.1 | 363.4 | 4.9 |
| M2 | | 1,577.9 | 4.0 | 1,589.2 | 2.9 | 1,581.1 | 2.2 |
| M3 | | 1,584.1 | 3.7 | 1,595.3 | 2.7 | 1,588.3 | 2.2 |
| **Banking System** | | | | | | | |
| Net financing[1] | | 1,902.8 | 8.4 | 1,933.7 | 8.6 | 1,934.1 | 8.3 |
| Loan to deposit ratio (%) [2] | | 88.3 | | 88.7 | | 89.0 | |
| Loan to fund ratio (%) [2&3] | | 82.7 | | 83.0 | | 83.3 | |
| Loan to fund and equity ratio (%) [2,3&4] | | 74.5 | | 74.6 | | 74.7 | |
| Loans applied (during the period) | | 71.5 | -5.4 | 63.4 | 0.7 | 65.0 | 9.3 |
| Loans approved (during the period) | | 31.4 | -11.0 | 33.6 | -0.6 | 26.7 | -14.0 |
| Loans disbursed (during the period) | | 85.3 | -2.8 | 108.4 | 5.2 | 91.8 | 0.3 |
| Loans repaid (during the period) | | 85.8 | 7.0 | 95.9 | 7.5 | 92.7 | 1.8 |
| **Banking System Health** | | | | | | | |
| Total capital ratio (%) [5] | | 15.5 | | 16.1 | | 16.6 | |
| Tier 1 capital ratio (%) [5] | | 13.3 | | 13.8 | | 13.9 | |
| Common equity tier 1 capital ratio (%) [5] | | 12.4 | | 12.8 | | 13.0 | |
| Net impaired loans ratio (%) | | 1.2 | | 1.2 | | 1.2 | |
| **BNM International Reserves (end-period)** | | | | | | | |
| Net Reserves in RM billion | | 420.1 | | 409.1 | | 410.1 | |
| Net Reserves in USD billion (equivalent) | | 94.6 | | 95.3 | | 95.5 | |
| Months of retained imports | | 8.7 | | 8.4 | | 8.4 | |
| **Interest Rates at end-period [average for the month]** | | | | | | | |
| Overnight Policy Rate (OPR) | | 3.25 | | 3.25 | | 3.25 | |
| Interbank: | Overnight | 3.15 [3.18] | | 3.05 [3.11] | | 3.07 [3.12] | |
| | 1-week | 3.22 [3.24] | | 3.13 [3.18] | | 3.14 [3.17] | |
| | 1-month | 3.45 [3.39] | | 3.45 [3.42] | | 3.50 [3.35] | |
| Fixed deposits of commercial banks: | 1-month | 3.08 | | 3.08 | | 3.08 | |
| | 3-month | 3.13 | | 3.13 | | 3.13 | |
| BLR of commercial banks | | 6.79 | | 6.79 | | 6.79 | |
| Base Rate [6] | | 3.85 | | 3.86 | | 3.87 | |
| Weighted ALR of commercial banks | | 5.39 | | 5.40 | | 5.42 | |
| **Prices** | | | | | | | |
| Consumer Price Index (CPI) (2010=100) | | 114.8 | 2.6 | 114.8 | 2.7 | 114.5 | 3.5 |

[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. 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

*Source: Bank Negara Malaysia*

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