BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 12/16/14

EMBARGO: Not for publication or broadcast before 1500 hours on Friday, 30 December 2016

MONETARY AND FINANCIAL DEVELOPMENTS
November 2016

Price Conditions: Headline inflation increased to 1.8% in November, driven mainly by the higher inflation in the *food and non-alcoholic beverages* and *transport* categories. Inflation in the *food and non-alcoholic beverages category* was higher at 3.8% (October: 2.5%) following the removal of subsidy for cooking oil and due to shortages in the supply of vegetables as a result of the monsoon rains. During the month, prices of domestic fuel were also increased by 15 sen per litre, which resulted in a smaller negative contribution from the *transport* category to the overall inflation. Of note, inflation in the *alcoholic beverages and tobacco* category was lower at 1.9% (October: 19.8%) due to the lapse in the impact of higher cigarette prices in November 2015.

Monetary Conditions: Interbank rates for tenures 1-month and shorter were stable for the month. The 3-month interbank rate, however, increased amid greater competition for stable funding arising from net external outflows and banks seeking to improve their financial position towards the end of the year. In the retail market, the weighted average base rate (BR) of commercial banks was steady (November: 3.62%; October: 3.61%) and the weighted average lending rate (ALR) remained unchanged at 5.22%.

Net financing to the private sector registered an annual growth of 6.7% in November (October: 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 4.6% (October: 2.9%), with the growth driven by the year-on-year expansion in most major sectors such as the *manufacturing*; *real estate*; *wholesale and retail trade, restaurants and hotels*; *finance, insurance and business services;* and *transport, storage and communication* sectors. In particular, the annual growth in outstanding SME loans continued to increase to 9.3% (October: 8.9%). For households, outstanding loans of the banking system grew at a stable pace of 5.4% in November (October: 5.4%) amid sustained growth in outstanding loans for the *purchase of residential property* (November: 9.7%; October: 9.7%). Overall loan demand increased during the month with higher level of loan applications from both businesses and households (November: RM71.3 billion; October: RM69.0 billion).

On an annual basis, broad money (M3) growth moderated to 2.9% in November (October: 3.2%). 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 the continued growth of Islamic Investment Accounts, as reflected in *other influences,* and the decline in net foreign assets due to net capital outflows during the month.

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 1.2% of net loans while loan loss coverage ratio stood at 91.1%. Taking into account regulatory reserves for loans and financing, banks continue to have sufficient buffers to absorb potential credit losses.

Exchange Rates and International Reserves: In November, the ringgit depreciated against the currencies of most of Malaysia's major trade partners, including the US dollar. The ringgit depreciation against the US dollar was in line with most major and regional currencies and was driven mainly by uncertainties arising from the outcome of the US Presidential Election and expectations of a faster pace of policy rate normalisation by the US Federal Reserve. The ringgit, along with other currencies of commodity-exporting

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countries, was also affected by continued volatility in global crude oil prices during the month. The international reserves of Bank Negara Malaysia amounted to RM399.7 billion (equivalent to USD96.4 billion) as at 15 December 2016. This level remains ample to facilitate international transactions and is sufficient to finance 8.3 months of retained imports and is 1.2 times the short-term external debt[1].

Bank Negara Malaysia
30 December 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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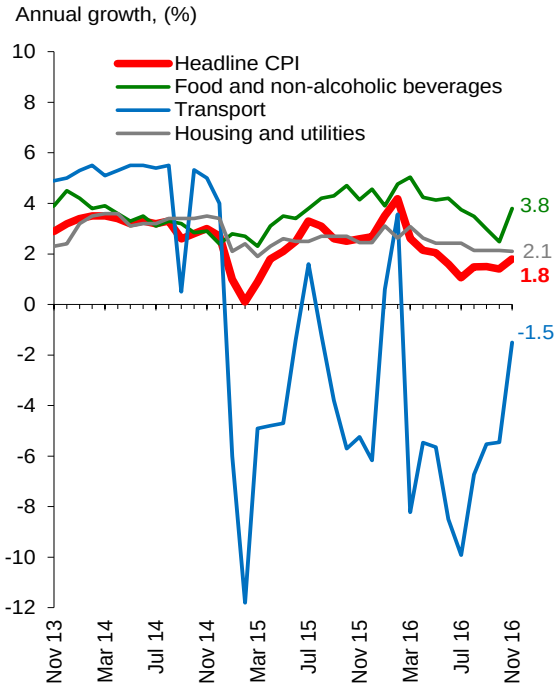
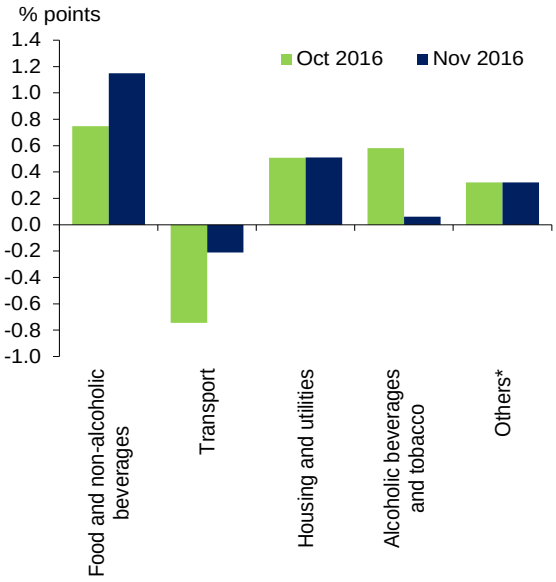
Headline inflation increased in November

Headline Inflation



Source: Department of Statistics Malaysia

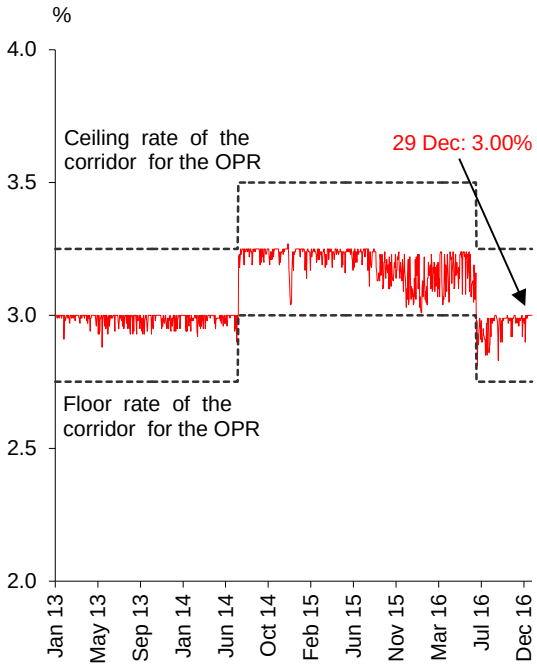
Headline Inflation: Component Contribution



*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

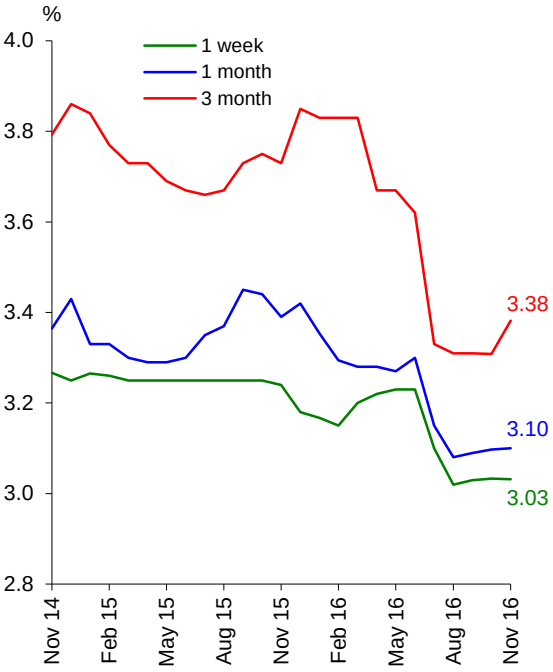
Interbank rates were stable in November

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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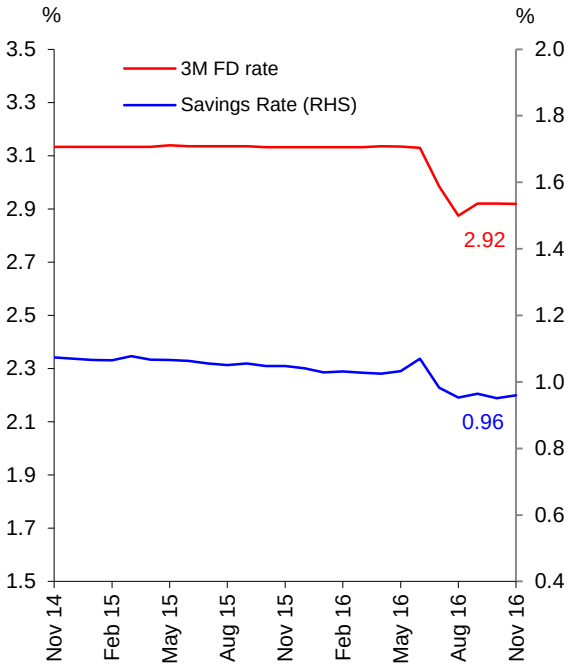
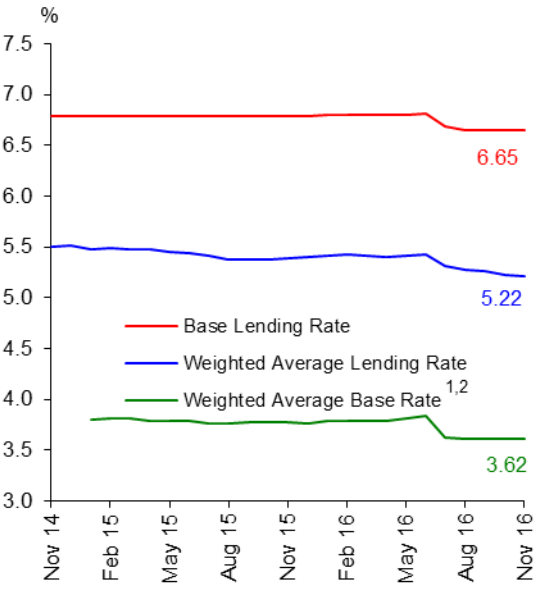
Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

Lending Rates of Commercial Banks

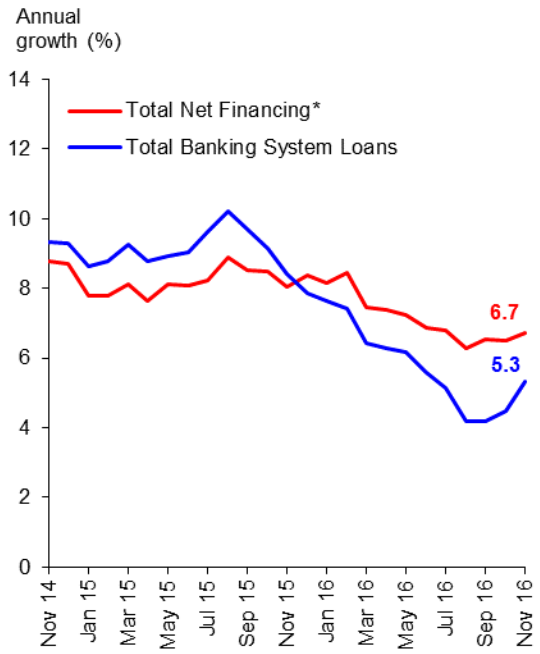


[1] On 2 January 2015, the Base Rate (BR) replaced the Base Lending Rate (BLR) as the reference rate for new retail floating-rate loans and financing facilities
[2] Weights are based on individual banks' share of all outstanding floating-rate loans

Source: Bank Negara Malaysia

Higher growth in net financing in November

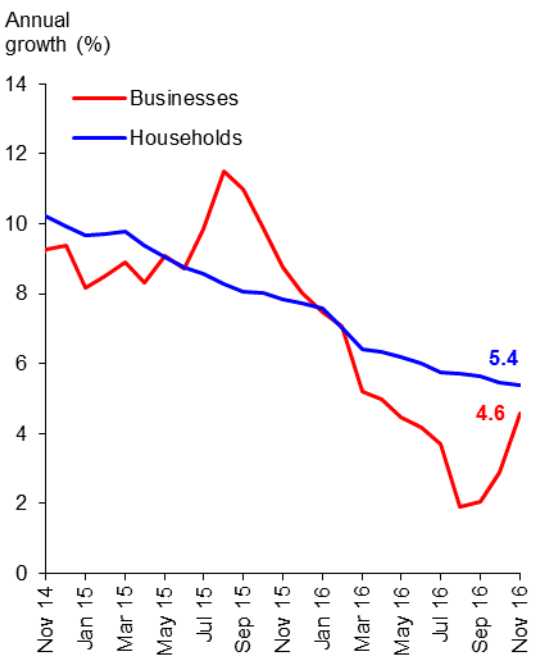
Net Financing and Outstanding Loans



* 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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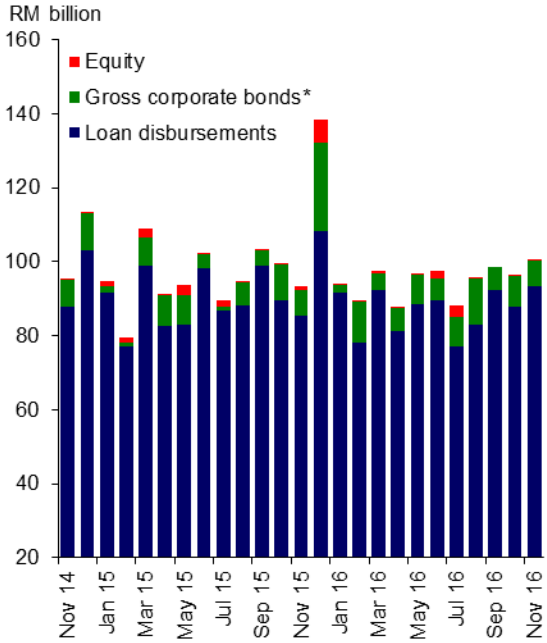
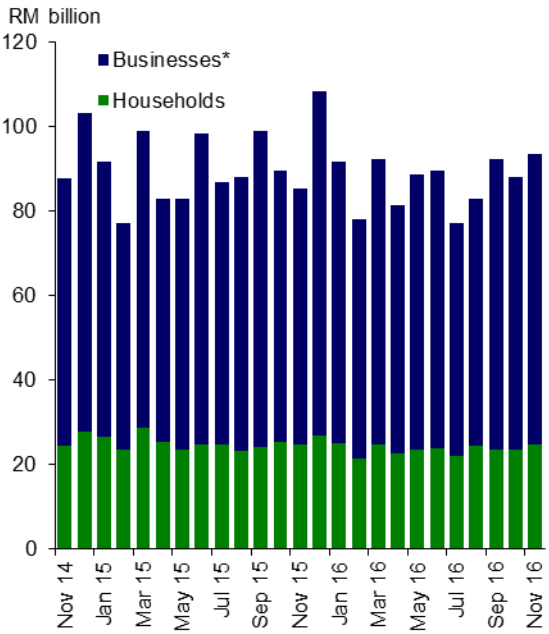
Gross Private Sector Financing



* Excluding Cagamas and non-residents issuances

Source: Bank Negara Malaysia

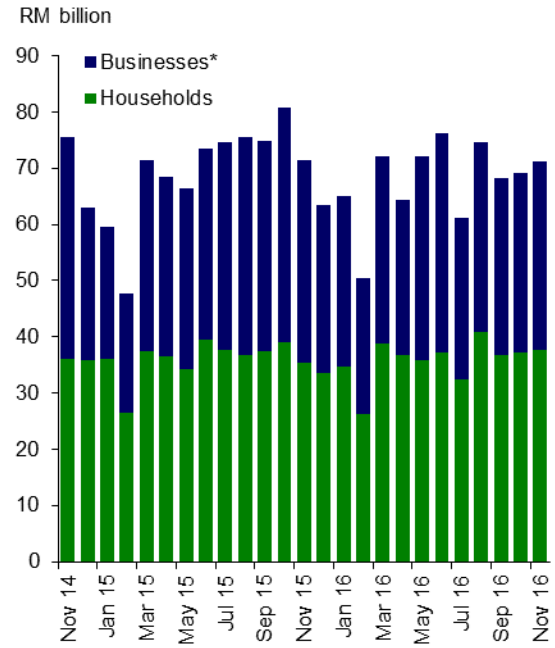
Loan Disbursements by the Banking System



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

Source: Bank Negara Malaysia

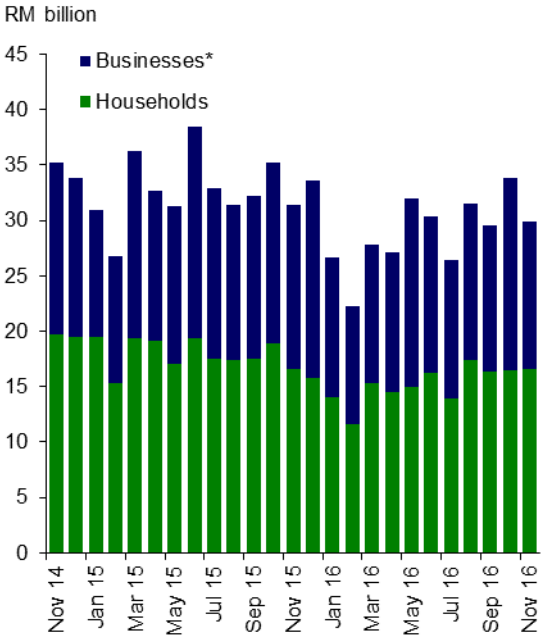
Loan Applications to the Banking System



* 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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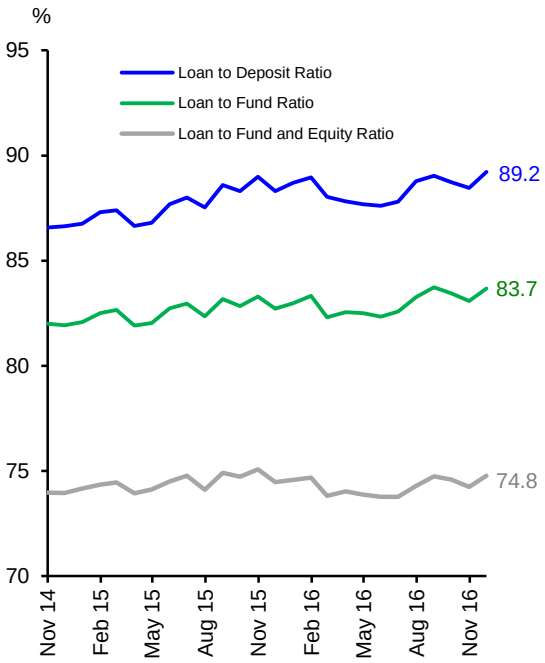
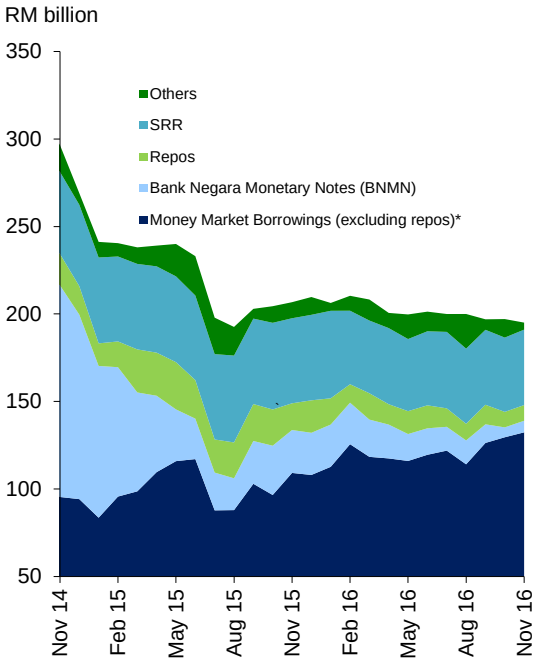
Liquidity in the banking system remained ample

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

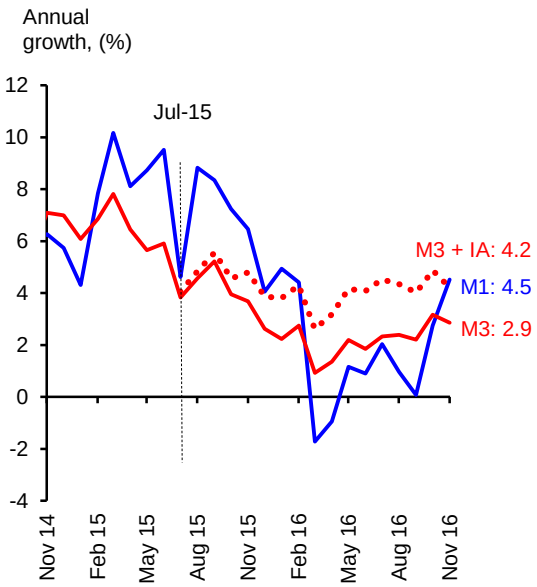
Outstanding Liquidity Placed with Bank Negara Malaysia (at end-period)



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

Broad money growth moderated in November

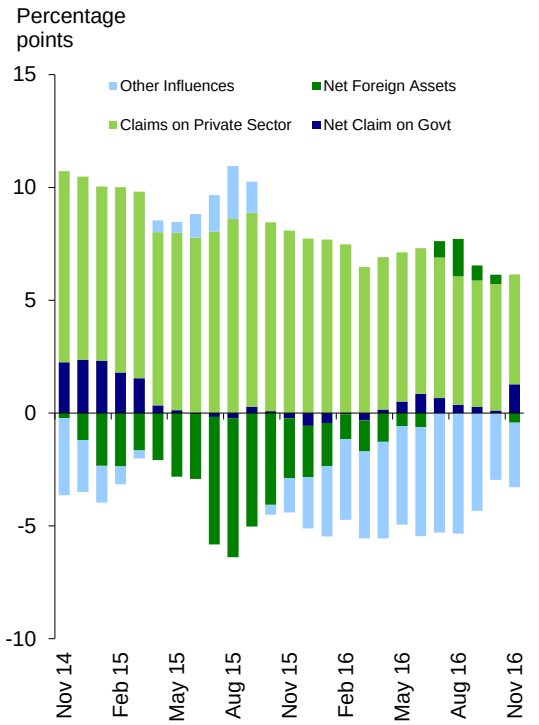
M1 and M3



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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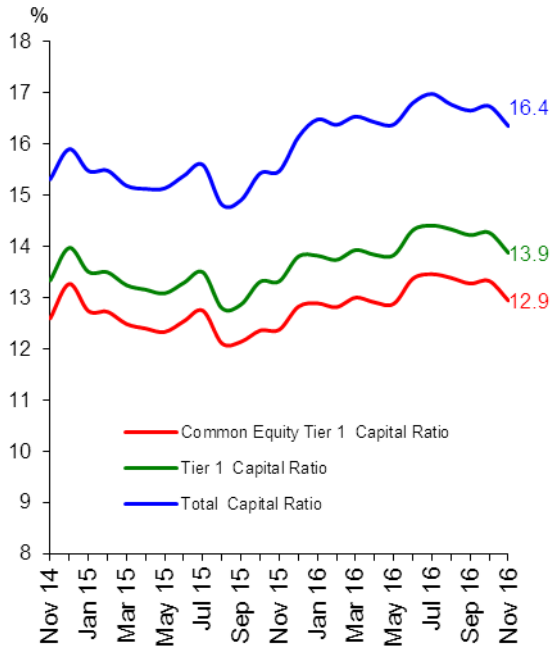
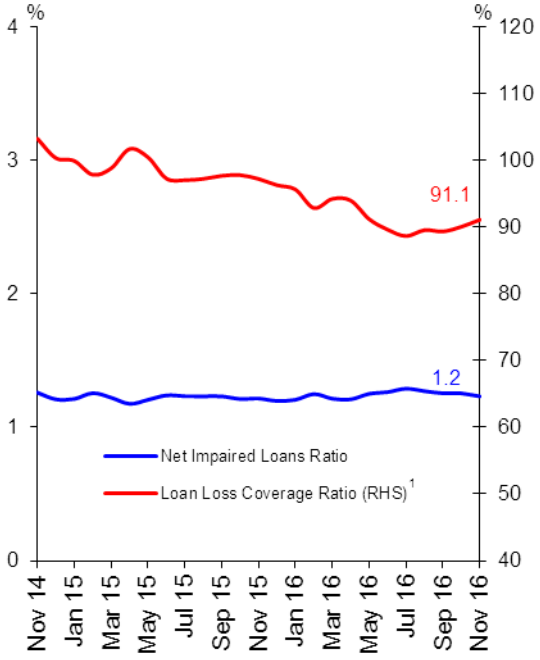
Banking system capitalisation remained strong with stable loan quality

Capital Strength



Source: Bank Negara Malaysia

Net Impaired Loans Ratio and Loan Loss Coverage Ratio

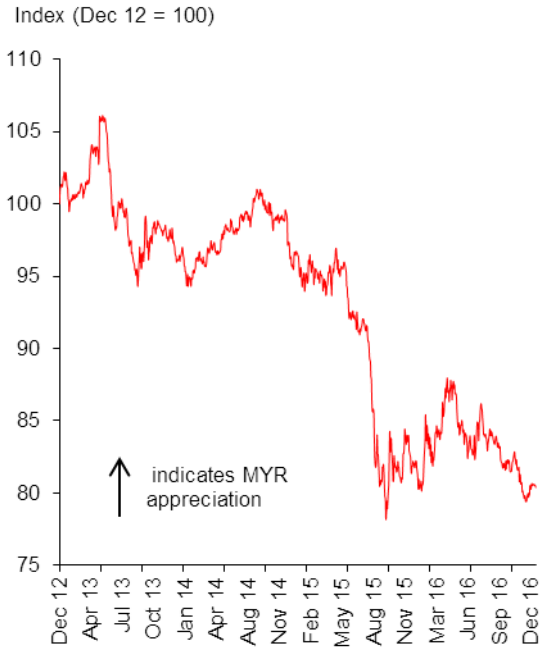


[1] Refers to ratio of individual plus collective impairment provisions to total impaired loans

Source: Bank Negara Malaysia

The ringgit appreciated against the currencies of most major trade partners in December

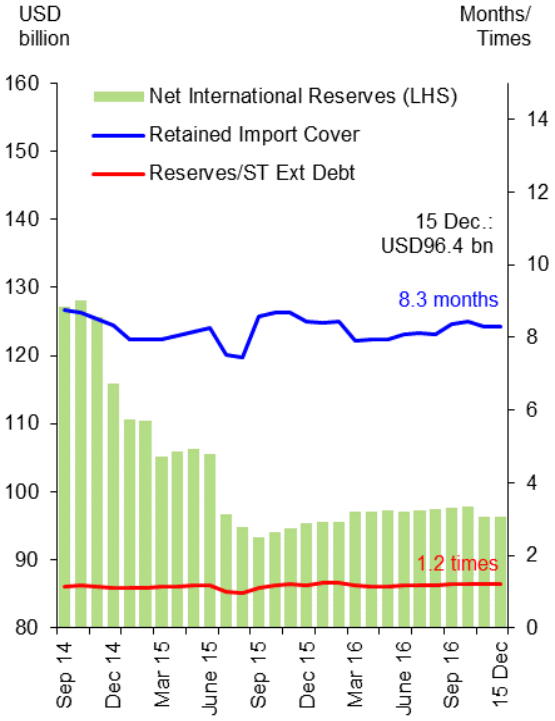
Index of Ringgit Performance against Major Trade Partners*



*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

		Sep 16		Oct 16		Nov 16	
		O/stg (RM bil)	Ann. growth (%)	O/stg (RM bil)	Ann. growth (%)	O/stg (RM bil)	Ann. growth (%)
Monetary Aggregates							
Reserve money		136.0	1.8	135.2	0.5	136.1	1.1
M1		358.3	0.1	360.9	2.7	368.3	4.5
M2		1,610.6	2.3	1,618.9	3.2	1,623.1	2.9
M3		1,617.5	2.2	1,626.5	3.2	1,629.4	2.9
Banking System							
Net financing[1]		2,145.6	6.5	2,160.2	6.5	2,173.6	6.7
Loan to deposit ratio (%) [2]		88.7		88.5		89.2	
Loan to fund ratio (%) [2&3]		83.4		83.1		83.7	
Loan to fund and equity ratio (%) [2,3&4]		74.6		74.2		74.8	
Loans outstanding in RM billion		1,483.8	4.2	1,493.4	4.5	1,507.6	5.3
Loans applied (during the period)		68.2	-8.7	69.0	-14.5	71.3	-0.3
Loans approved (during the period)		29.6	-8.2	33.8	-3.9	29.9	-4.6
Loans disbursed (during the period)		92.4	-6.5	87.9	-2.0	93.5	9.6
Loans repaid (during the period)		86.7	-6.6	83.9	-1.5	85.5	-0.4
Banking System Health							
Total capital ratio (%) [5]		16.7		16.7		16.4	
Tier 1 capital ratio (%) [5]		14.2		14.3		13.9	
Common equity tier 1 capital ratio (%) [5]		13.3		13.3		12.9	
Net impaired loans ratio (%)		1.3		1.3		1.2	
BNM International Reserves (end-period)							
Net Reserves in RM billion		404.9		405.5		399.6	
Net Reserves in USD billion (equivalent)		97.7		97.8		96.4	
Months of retained imports		8.4		8.4		8.3	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.00		3.00		3.00	
Interbank:	Overnight	2.99 [2.97]		2.92 [2.98]		2.99 [2.99]	
	1-week	3.03 [3.03]		3.03 [3.03]		3.05 [3.03]	
	1-month	3.08 [3.09]		3.19 [3.10]		3.08 [3.10]	
	3-month	3.37 [3.31]		3.38 [3.31]		3.40 [3.38]	
Fixed deposits of commercial banks:	1-month	2.87		2.87		2.87	
	3-month	2.92		2.92		2.92	
BLR of commercial banks		6.65		6.65		6.65	
Weighted Base Rate [6]		3.61		3.61		3.62	
Weighted ALR of commercial banks		5.27		5.22		5.22	
Prices							
Consumer Price Index (CPI) (2010=100), (%)		1.5		1.4		1.8	

[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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