BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

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EMBARGO: Not for publication or broadcast before 1800 hours on Thursday, 31 March 2016

MONETARY AND FINANCIAL DEVELOPMENTS FEBRUARY 2016

Price Conditions: Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), increased to 4.2% in February (January 2016: 3.5%). This was due mainly to base effects from the larger decline in fuel prices in February 2015 compared to February 2016. The price of RON 95 petrol was reduced by 21 sen in February 2015, which is more than the 10 sen reduction in February 2016. Inflation in the *transport* category thus increased to 3.6% (January 2016: 0.6%). Inflation in the *food and non-alcoholic beverages* category was also higher at 4.8% in February (January 2016: 3.9%), reflecting the increase in prices of fresh vegetables by 10.1% (January: -1.4%). This was due to higher demand during the Chinese New Year festive season, amid lower supplies following adverse weather conditions. On a month-on-month basis, however, headline inflation was zero (January 2016: -0.3%).

Monetary Conditions: Interbank rates of all tenures continued their moderating trend in February following the decision on 21 January 2016 to reduce the Statutory Reserve Requirement (SRR) by 50 basis points. The average Base Rate (BR) of commercial banks, increased marginally to 3.88% in February (January 2016: 3.87%), reflecting the earlier increase in the Kuala Lumpur Interbank Offered Rates (KLIBOR) towards the end of 2015. Weighted average lending rates remained stable during the month. Net financing to the private sector grew at a stronger pace of 8.6% in February 2016 (January 2016: 8.3%), amidst a higher growth of net issuances of private debt securities (PDS). Outstanding banking system loans, however registered a more moderate growth. Business loans grew by 7.1% during the month (January 2016: 7.5%) with slower growth in outstanding loans

to the *finance, insurance and business services*; *transport, storage and communication*; and *real estate sectors*. The annual growth of loans to households moderated to 7.0% (January 2016: 7.6%). Loan applications and approvals were lower for February, compared to the previous month, given the fewer working days due to the Chinese New Year festive season. On an annual basis, broad money (M3) grew by 2.7% in February (January 2016: 2.2%). 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 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 12.7%, 13.7% and 16.3% respectively. The slight decline in capital ratios reflected seasonal dividend payment by a number of banking institutions. The level of net impaired loans was sustained at 1.2% of net loans, with loan loss coverage ratio stable at 92.8%.

Exchange Rates and International Reserves: In February, the ringgit depreciated against the currencies of Malaysia's major trade partners. During the month, continued uncertainty in the outlook of global crude oil prices placed downward pressure on the ringgit. Most regional currencies, however, appreciated against the US dollar due to expectations that the Federal Reserve may delay its pace of interest rate normalisation in 2016. The international reserves of Bank Negara Malaysia amounted to RM412.3 billion (equivalent to USD96.1 billion) as at 15 March 2016, sufficient to finance 8.4 months of retained imports and were 1.2 times the short-term external debt[1].

Bank Negara Malaysia
31 March 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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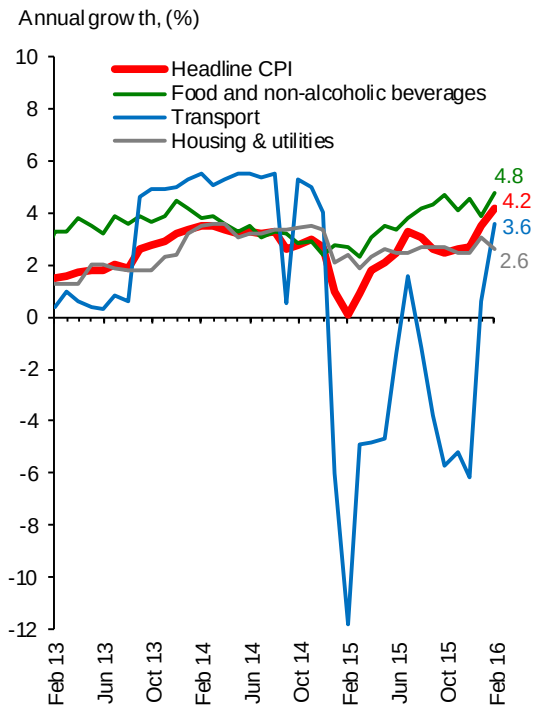
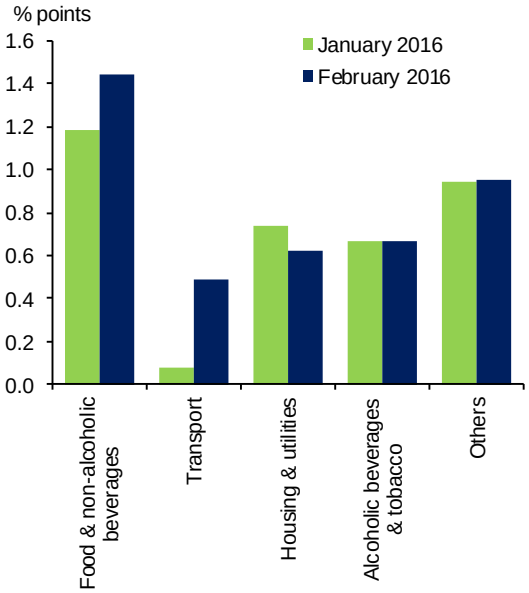
Headline inflation increased in February

Headline Inflation



Source: Department of Statistics Malaysia

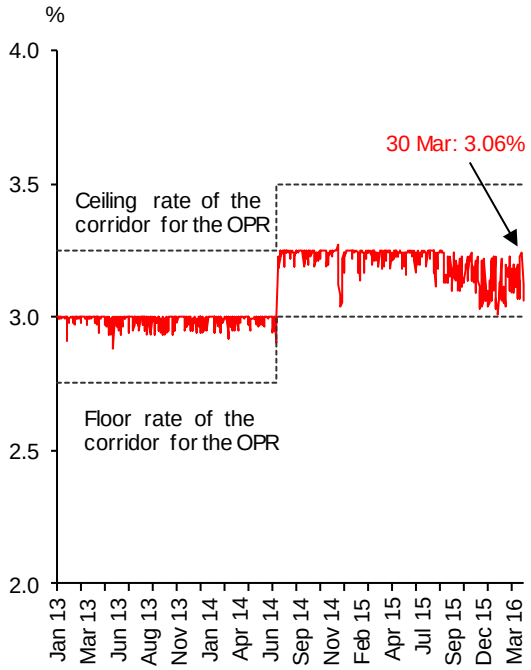
Headline Inflation: Component Contribution



*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

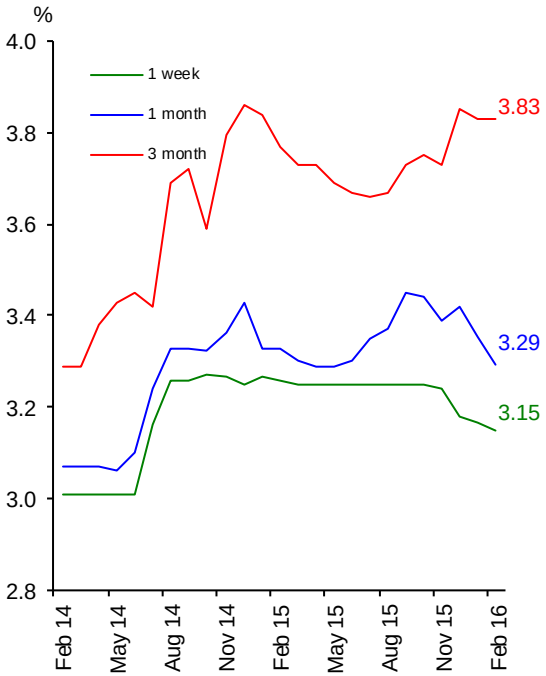
Interbank rates of all tenures continued their moderating trend in February following the announcement of the reduction in SRR

Daily Weighted Average Overnight Interbank Rate



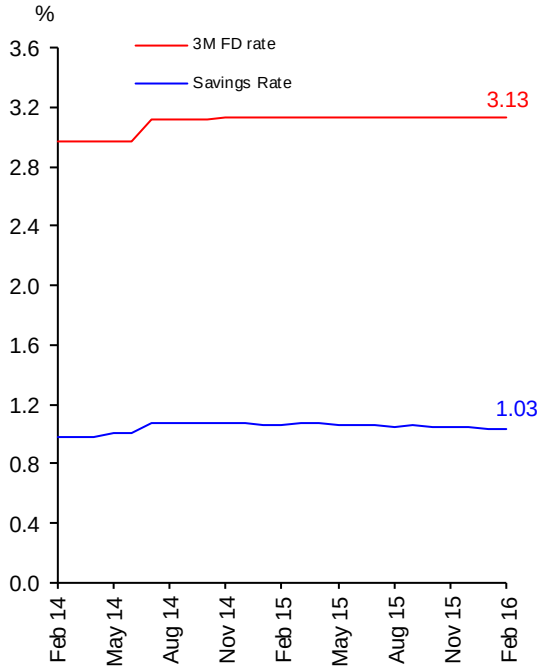
Source: Bank Negara Malaysia

Average Interbank Rate



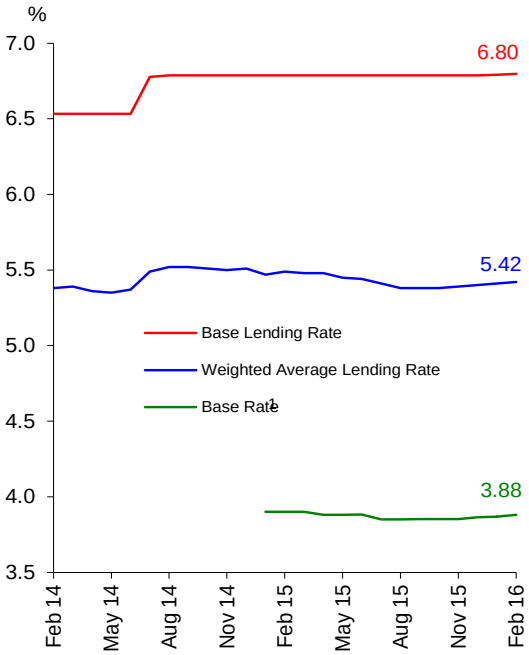
For periods w here no trades took place during the month, the last traded interbank rate is used
Source: Bank Negara Malaysia

Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

Lending Rates of Commercial Banks

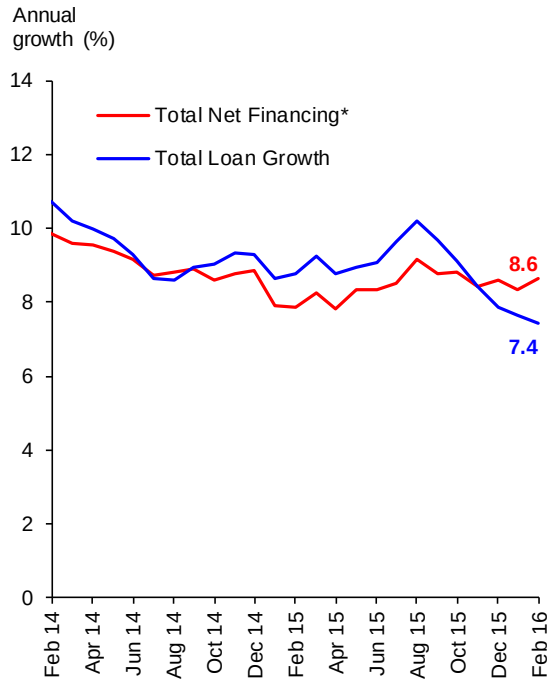


[1] On 2 January 2015, the Base Rate (BR) replaced the Base Lending Rate (BLR) as the reference rate for new retail floating-rate loans and financing facilities

Source: Bank Negara Malaysia

Growth in net financing increased in February

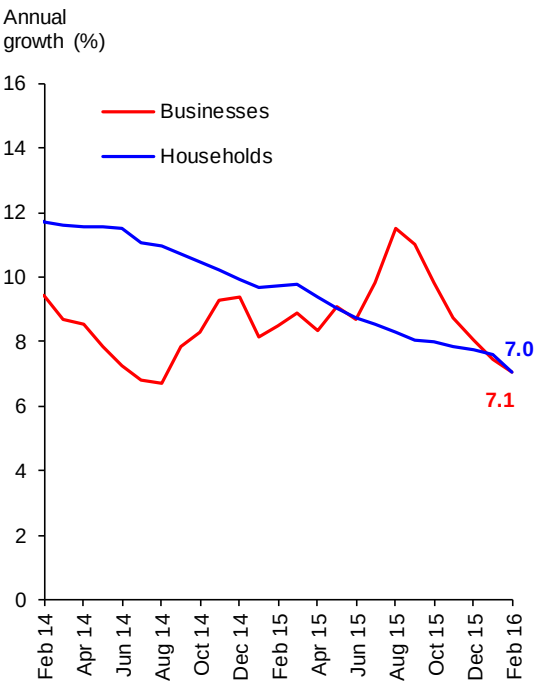
Net Financing and Loan Growth



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

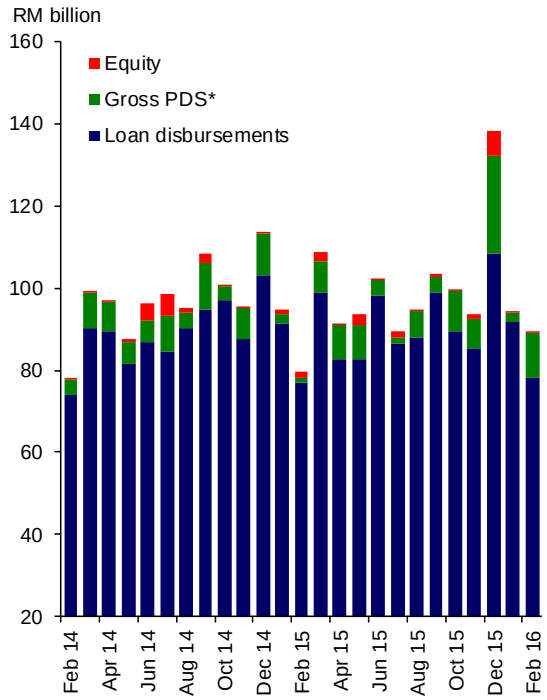
Source: Bank Negara Malaysia

Loans Outstanding of the Banking System



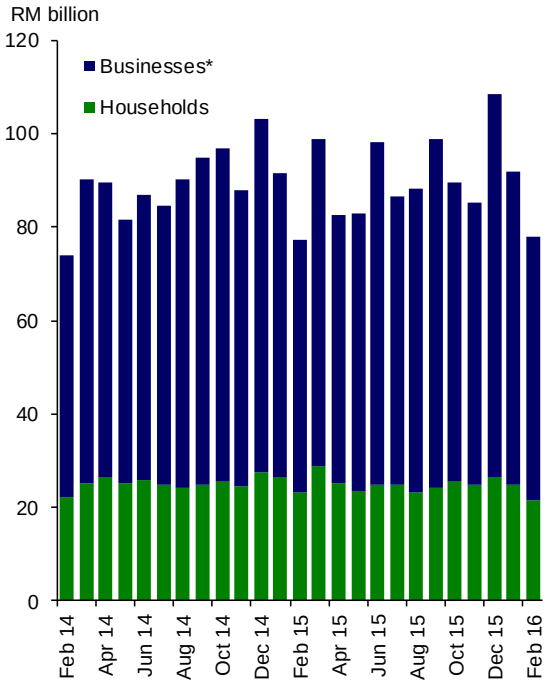
Source: Bank Negara Malaysia

Gross Private Sector Financing



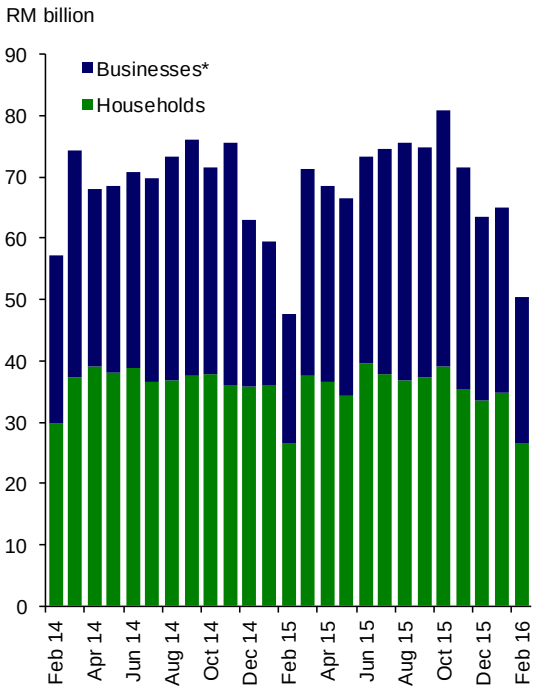
*Excludes foreign issuances
Source: Bank Negara Malaysia

Loan Disbursements by the Banking System



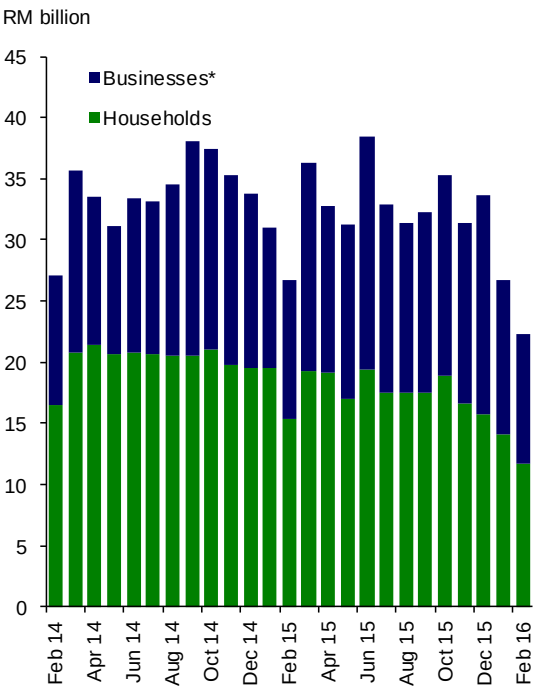
* Includes domestic financial institutions, goverment, other domestic entities and foreign entities
Source: Bank Negara Malaysia

Loan Applications to the Banking System



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

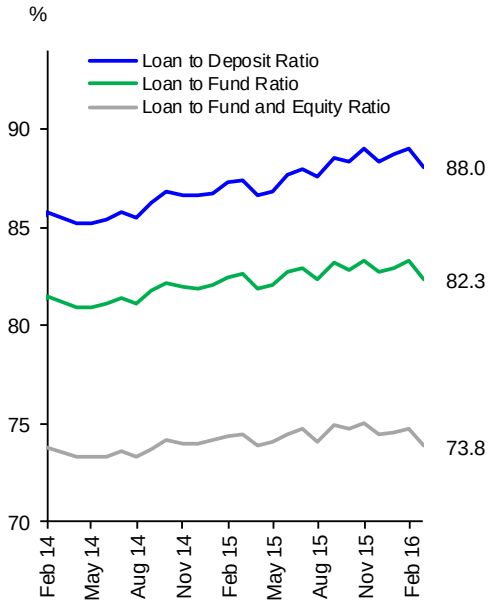
Loan Approvals by the Banking System



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

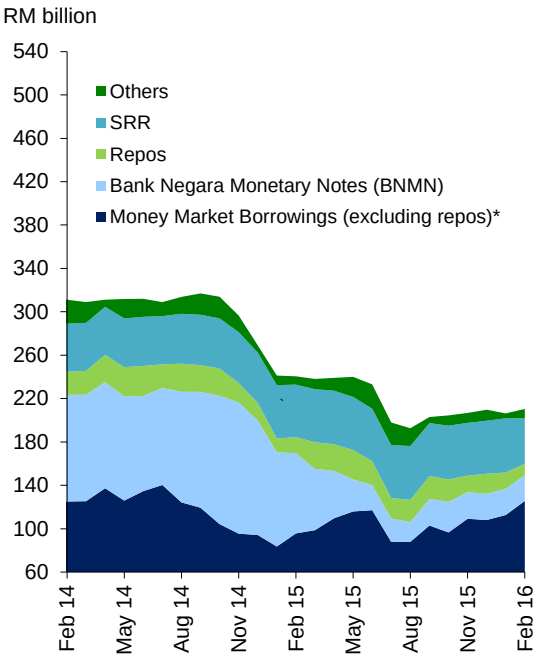
Liquidity in the banking system remained ample

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

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

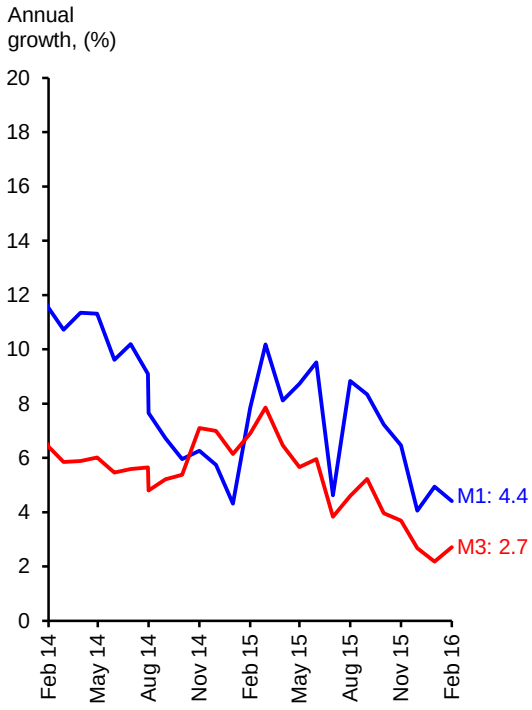


* Money Market Borrowings (excluding repos) include Direct Borrowing, Wadiah Acceptances and Commodity Murabahah Programme (CMP)

Source: Bank Negara Malaysia

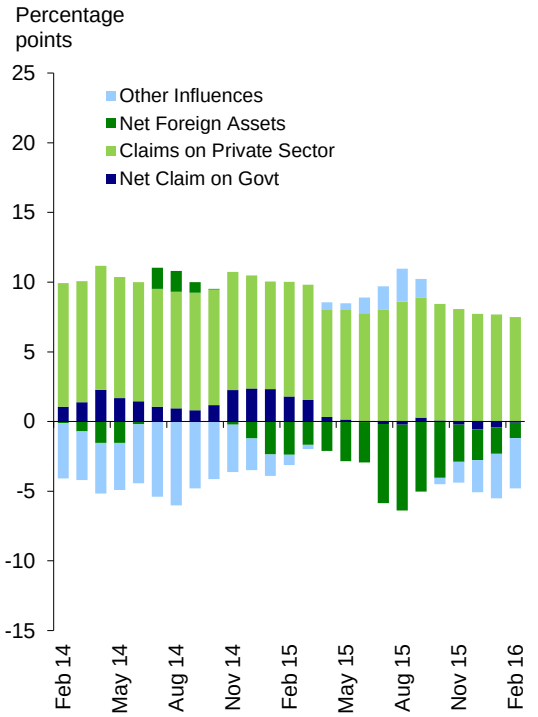
Broad money growth expanded in February

M1 and M3



Source: Bank Negara Malaysia

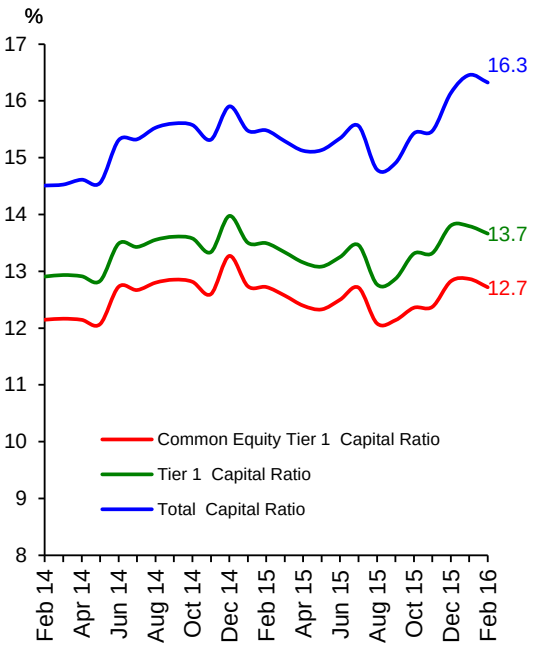
Main Contributors of M3 Annual Growth



Source: Bank Negara Malaysia

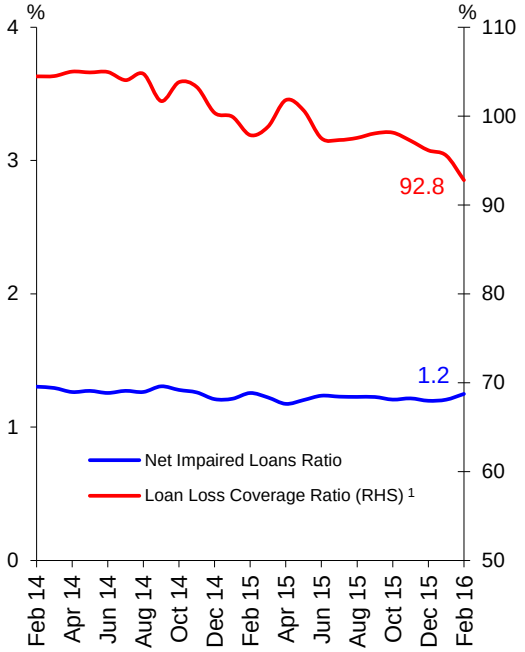
Banking system capitalisation remained strong with stable loan quality

Capital Strength



Source: Bank Negara Malaysia

Net Impaired Loans Ratio and Loan Loss Coverage Ratio

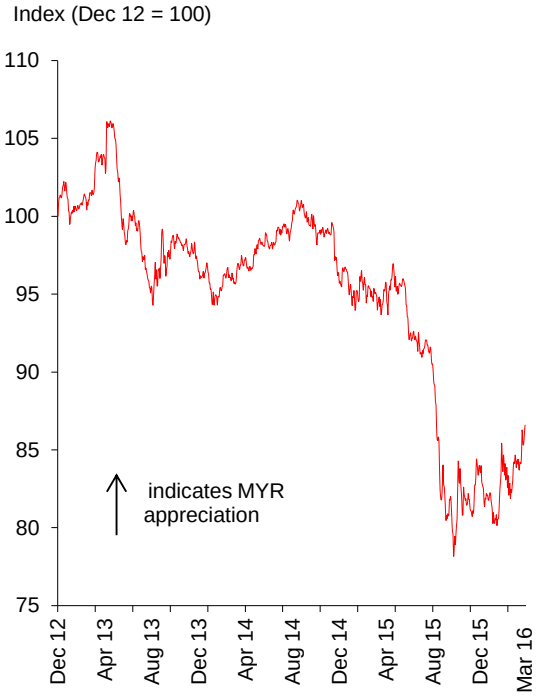


[1] Refers to ratio of individual plus collective impairment provisions to total impaired loans

Source: Bank Negara Malaysia

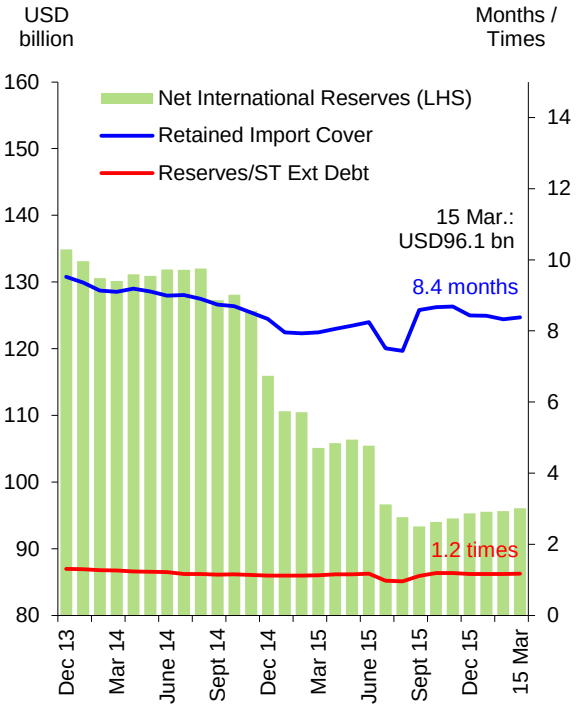
The ringgit depreciated against the currencies of major trade partners

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

		Dec 15		Jan 16		Feb 16	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates							
Reserve money		137.3	10.1	144.1	8.6	133.5	-0.1
M1		360.5	4.1	363.4	4.9	366.9	4.4
M2		1,589.2	2.9	1,581.1	2.2	1,595.7	2.8
M3		1,595.3	2.7	1,588.3	2.2	1,603.3	2.7
Banking System							
Net financing[1]		1,933.7	8.6	1,934.1	8.3	1,944.8	8.6
Loan to deposit ratio (%) [2]		88.7		89.0		88.0	
Loan to fund ratio (%) [2&3]		83.0		83.3		82.3	
Loan to fund and equity ratio (%) [2,3&4]		74.6		74.7		73.8	
Loans applied (during the period)		63.4	0.7	65.0	9.3	50.5	6.0
Loans approved (during the period)		33.6	-0.6	26.7	-14.0	22.3	-16.8
Loans disbursed (during the period)		108.4	5.2	91.8	0.3	78.0	1.1
Loans repaid (during the period)		95.9	7.5	92.7	1.8	79.8	6.8
Banking System Health							
Total capital ratio (%) [5]		16.1		16.5		16.3	
Tier 1 capital ratio (%) [5]		13.8		13.8		13.7	
Common equity tier 1 capital ratio (%) [5]		12.8		12.9		12.7	
Net impaired loans ratio (%)		1.2		1.2		1.2	
BNM International Reserves (end-period)							
Net Reserves in RM billion		409.1		410.1		410.4	
Net Reserves in USD billion (equivalent)		95.3		95.5		95.6	
Months of retained imports		8.4		8.4		8.3	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.25		3.25		3.25	
Interbank:	Overnight	3.05 [3.11]		3.07 [3.12]		3.19 [3.14]	
	1-week	3.13 [3.18]		3.14 [3.17]		3.16 [3.15]	
	1-month	3.45 [3.42]		3.50 [3.35]		3.41 [3.29]	
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		6.80	
Base Rate [6]		3.86		3.87		3.88	
Weighted ALR of commercial banks		5.40		5.41		5.42	
Prices							
Consumer Price Index (CPI) (2010=100)		114.8	2.7	114.5	3.5	114.5	4.2

[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