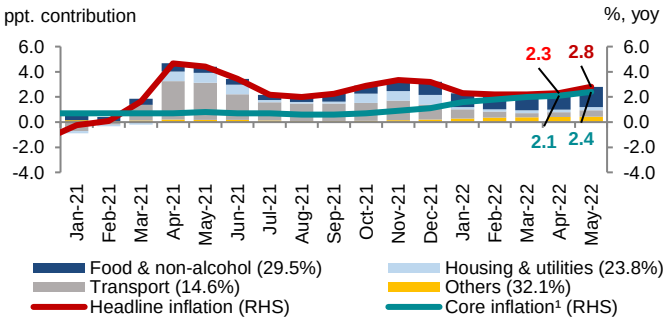
BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Monthly Highlights
May 2022

Headline inflation increased to 2.8% in May

Contribution to Inflation



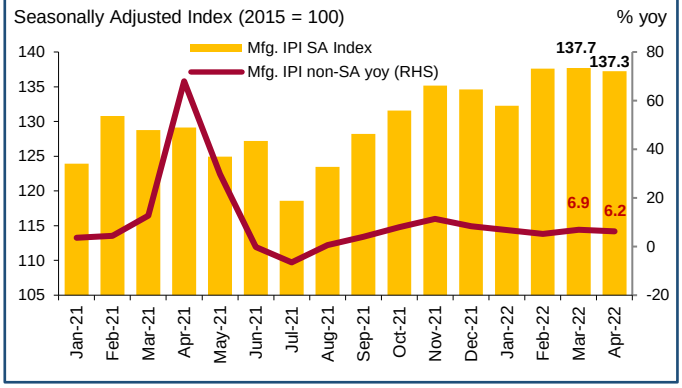
[1] Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of tax policy changes.

Source: Department of Statistics Malaysia (DOSM), Bank Negara Malaysia estimates

- Headline inflation increased to 2.8% (April: 2.3%), reflecting the continued uptrend in core inflation in line with improvement in economic activity amid lingering cost pressures.
- As expected, core inflation was higher at 2.4% (April: 2.1%), due mainly to higher inflation for both food away and food at home, rental, and repair and maintenance for personal transport.
- This uptick occurred amid costlier imported food inputs, mainly due to war in Ukraine and inclement weather conditions, an increase in demand during the festive season and the reopening of Malaysia's international borders.

Continued strength in manufacturing production in April 2022

Manufacturing IPI

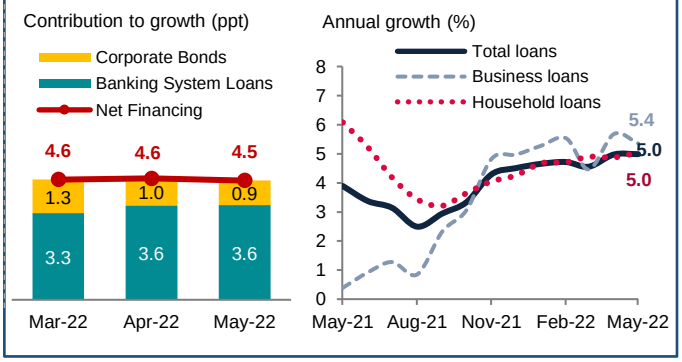


Source: Department of Statistics Malaysia (DOSM)

- Manufacturing IPI continued to expand above long-term average in April 2022 at 6.2% (2011-2019 avg: 4.8%).
- Growth was driven mainly by the E&E cluster which recorded double-digit growth for the 8th consecutive month since Sep 2021 amid strong demand globally.
- The consumer-related cluster, particularly motor vehicle production, also supported growth as producers fulfil backlogs post-FMCO.

Slight moderation in net financing growth

Contribution to Net Financing[2] Growth and Outstanding Loan Growth



[2] Refers to outstanding loans of the banking system (excluding development financial institutions (DFIs)) and outstanding corporate bonds.

Source: Bank Negara Malaysia

- Net financing growth moderated slightly to 4.5% (April: 4.6%), due to slower growth in outstanding corporate bonds (3.4%; April: 3.7%), while outstanding loan growth was sustained at 5.0%.
- For households, outstanding loan growth was slightly higher (5.0%; April: 4.9%). This reflected the strong growth in loan disbursements (17.8%; April: 10.8%), with continued higher growth in loan repayments observed (9.1%; April: 8.5%).
- Outstanding business loans registered slower growth (5.4%; April: 5.7%), as loan repayments growth outpaced that of disbursements. Although the growth in loan disbursements moderated across most purposes, it remained elevated (20.8%; April: 37.2%; 2017-19 average: 5.0%).

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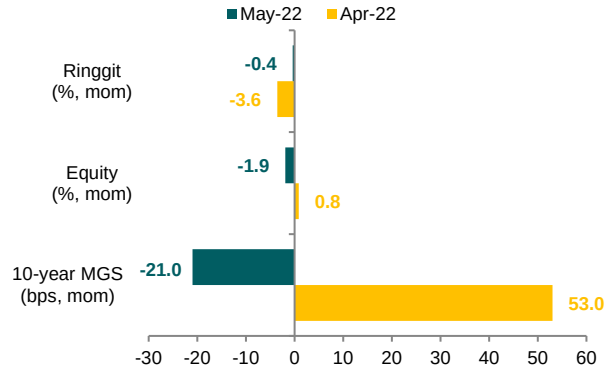
Adjustments in domestic financial markets remained orderly

Financial Markets Performance in May 2022

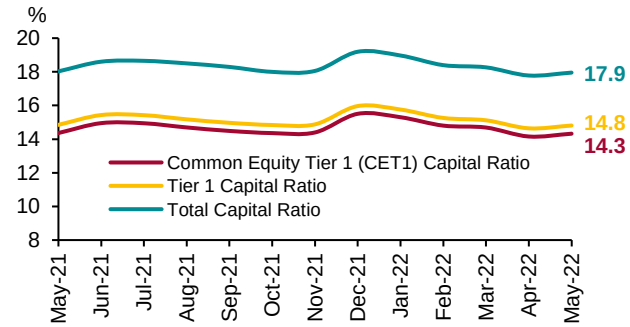


Source: Bank Negara Malaysia, Bursa Malaysia
*Regional countries include Singapore, Thailand, Indonesia and Korea

- Global financial conditions tightened significantly due to expectations for faster and larger policy rate hikes by advanced economies, especially the US, amid higher and more prolonged inflationary pressures. Nonetheless, domestic financial market adjustments remained orderly.
- Notably, the 10-year MGS yield fell by 21.0 bps during the month, supported by foreign portfolio inflows into the domestic bond market. By contrast, regional bond yields rose by 24.5 bps on average.
- The ringgit depreciated marginally by 0.4% in May while the FBM KLCI declined by 1.9%, in line with regional* equities (between -0.2% and -3.7%) due to investors' risk aversion amid the lockdowns in China.

Banks remained well-capitalised to support economic recovery

Banking System Capital Adequacy

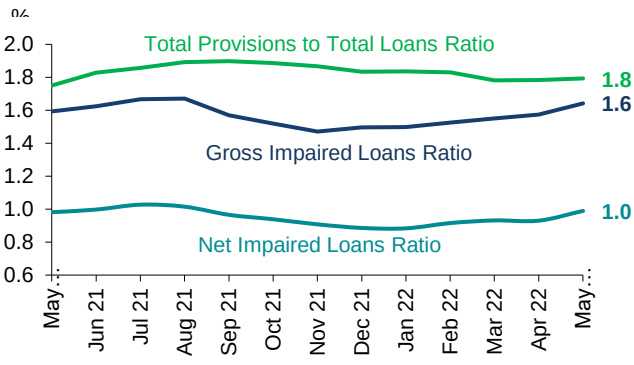


- Capital ratios rose marginally in May, driven by valuation gains on available-for-sale financial instruments as bond yields eased temporarily during the period.
- As at end-May 2022, the banking system recorded RM121.5 billion excess capital buffers[3].

[3] Refers to total capital above the regulatory minimum, which includes the capital conservation buffer (2.5%) and bank-specific higher minimum requirements
Source: Bank Negara Malaysia

The resilience of banks continued to be underpinned by sound asset quality

Banking System Asset Quality



- Overall gross and net impaired loans ratios remained broadly stable at 1.6% and 1.0%, respectively. This reflected the marginal increase in impairments from the business and household segments, following the tapering of repayment assistance measures since Q1.
- Total provisions remained at prudent level accounting for 1.8% of total banking system loans and 109.1% of impaired loans.
- As of end-May 2022, total provisions and regulatory reserves stood at RM 40.7 billion (end-April: RM 40.2 billion).

Source: Bank Negara Malaysia