BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 08/16/13

EMBARGO: Not for publication or broadcast before 1700 hours on Tuesday, 30 August 2016

MONETARY AND FINANCIAL DEVELOPMENTS JULY 2016

Price Conditions: Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), was lower at 1.1% in July (June: 1.6%). Inflation in the *transport* category recorded a larger decline of -9.9% (June: -8.5%) due mainly to base effects from relatively higher domestic fuel prices in July 2015. While domestic fuel prices were revised upwards by 5 sen in July 2016, the price increase in July 2015 was larger at 20 sen and 10 sen for RON97 and RON95 petrol, respectively. Inflation in the *food and non-alcoholic beverages* category moderated to 3.8% (June: 4.2%) reflecting the slower increase in the prices of fresh food prices during the month. Prices of fresh food items, which account for 10% of the CPI basket, increased at a slower pace of 6.6% (June: 7.6%) due to higher production, which helped improve supply conditions.

Monetary Conditions: Following the reduction of the OPR by 25 basis points to 3.00% on 13 July 2016, interbank rates declined during the month. Correspondingly, the weighted average base rate (BR) of commercial banks decreased by 21 basis points to 3.62% as at end-July, with downward revisions of BR by most banks ranging from 20 to 25 basis points. The weighted average lending rate (ALR) was also lower at 5.31% (June: 5.42%). In addition, fixed deposit (FD) rates declined during the month by an average of 18 basis points for tenures 1-year and below. Net financing to the private sector registered an annual growth of 6.8% in July (June: 6.9%). This was driven by the higher growth in net outstanding corporate bonds during the month amid continued moderation in the growth of loans extended by the banking system and development financial institutions (DFIs). The growth in outstanding business loans of the banking system was lower at 3.7% during the

month (June: 4.2%) due mainly to the lower loan growth in the *construction*; *education* and *wholesale and retail trade, and restaurants and hotels* sectors. Outstanding loans to households grew at a slower pace of 5.7% in July (June: 6.0%), reflecting continued moderation across most types of loans. Overall loan demand also declined during the month with a lower level of loan applications from both businesses and households. On an annual basis, growth of broad money (M3) increased to 2.3% in July (June: 1.9%). The expansion in M3 was driven mainly by the continued extension of credit to the private sector by the banking system and the increase in net foreign assets amid net portfolio inflows for the month as a whole. The expansion, however, was partially offset by *other influences*, reflecting the continued issuance of equity by banks and the reclassification of Islamic Investment Accounts.

Banking System: The banking system continues to maintain strong capitalisation. The Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio stood at 13.3%, 14.3% and 16.9%, respectively. Net impaired loans accounted for 1.3% of net loans while loan loss coverage ratio stood at 88.7%. Taking into account regulatory reserves for loans and financing, banks maintain sufficient buffers for potential credit losses.

Exchange Rates and International Reserves: In July, the ringgit depreciated against the currencies of Malaysia's major trade partners. The depreciation of the ringgit was due to portfolio outflows towards the end of the month, which mainly reflected the decline in global crude oil prices following signs of recovery in shale production in the US and an increase in US crude and gasoline inventories. The international reserves of Bank Negara Malaysia amounted to RM391.9 billion (equivalent to USD97.5 billion) as at 15 August 2016. This level remains ample to facilitate international transactions and is sufficient to finance 8.1 months of retained imports and is 1.2 times the short-term external debt[1].

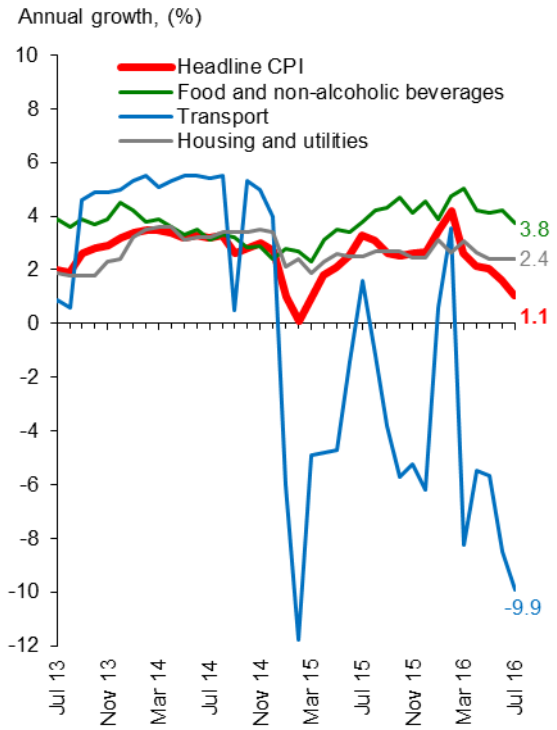
Bank Negara Malaysia
30 August 2016

[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.

Diterbitkan oleh:
Jabatan Komunikasi Strategik, Tingkat 14, Blok B, Bangunan Bank Negara Malaysia,
Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia.
Telefon: +60(3) 2698 8044 Faksimili: +60(3) 2693 6919
Web: www.bnm.gov.my

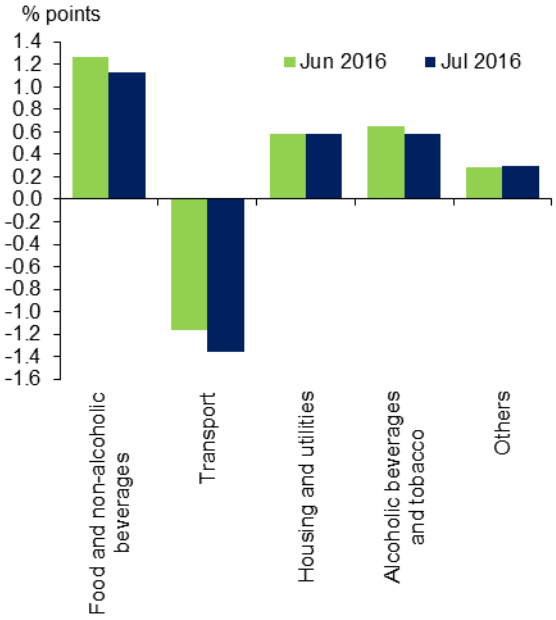
Lower headline inflation in July

Headline Inflation



Source: Department of Statistics Malaysia

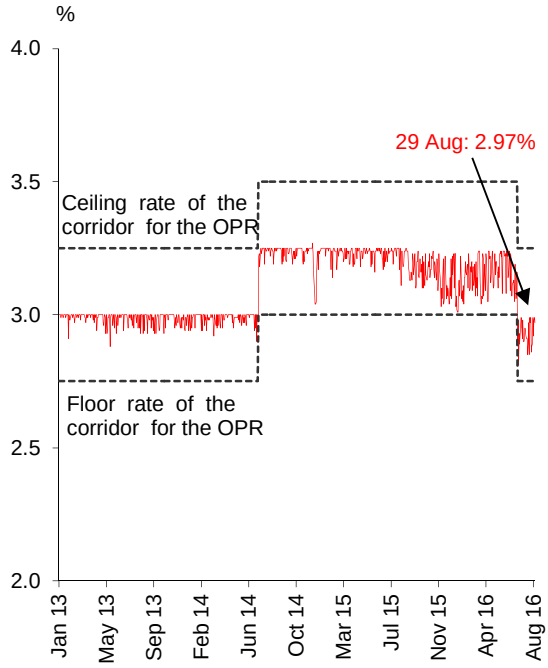
Headline Inflation: Component Contribution



*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

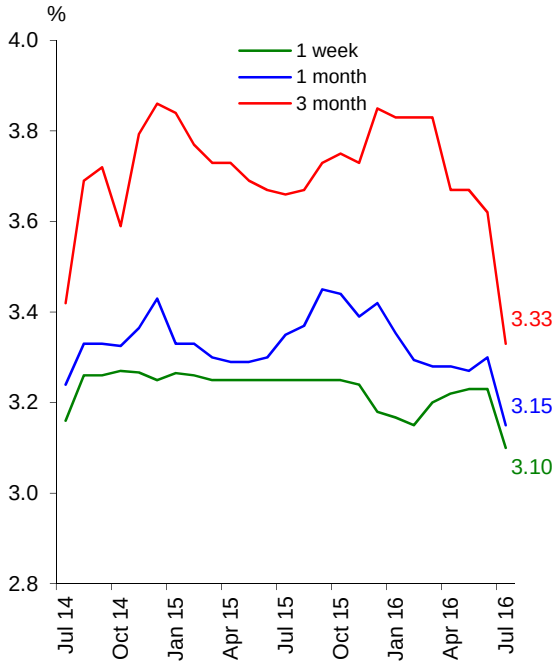
Interbank rates declined in July following the reduction in OPR

Daily Weighted Average Overnight Interbank Rate



Source: Bank Negara Malaysia

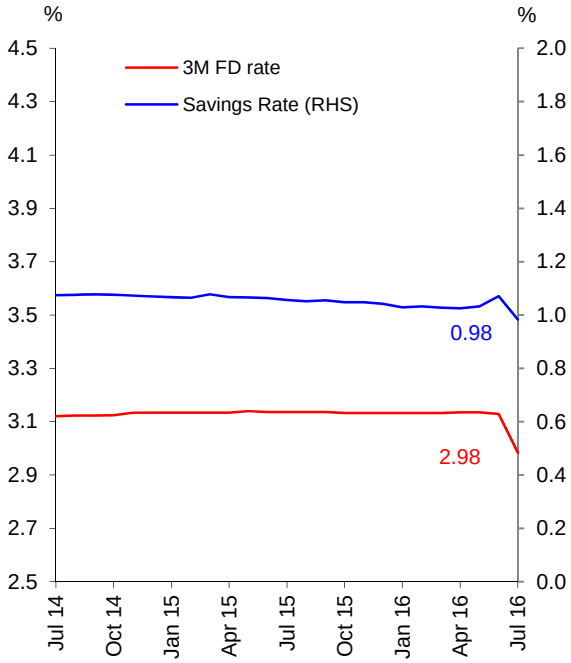
Average Interbank Rate



For periods where no trades took place during the month, the last traded interbank rate is used

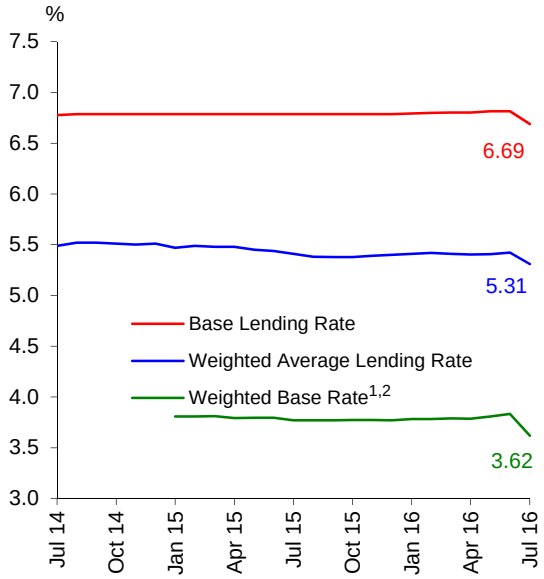
Source: Bank Negara Malaysia

Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

Lending Rates of Commercial Banks

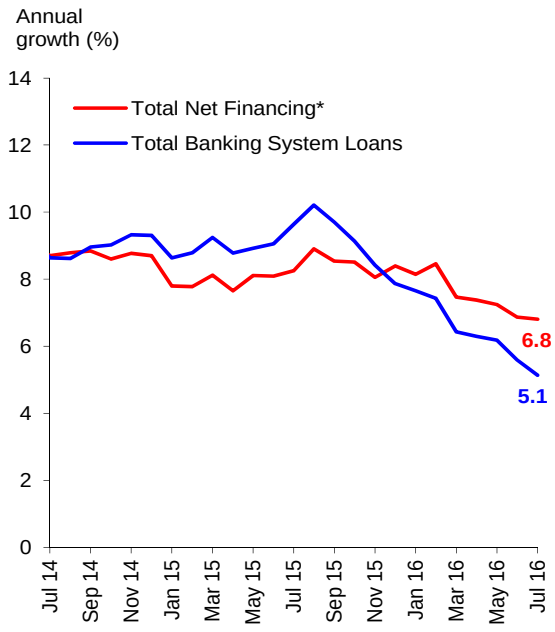


[1] On 2 January 2015, the Base Rate (BR) replaced the Base Lending Rate (BLR) as the reference rate for new retail floating-rate loans and financing facilities
[2] Weights are based on individual banks' share of all outstanding floating-rate loan

Source: Bank Negara Malaysia

Sustained growth in net financing in July

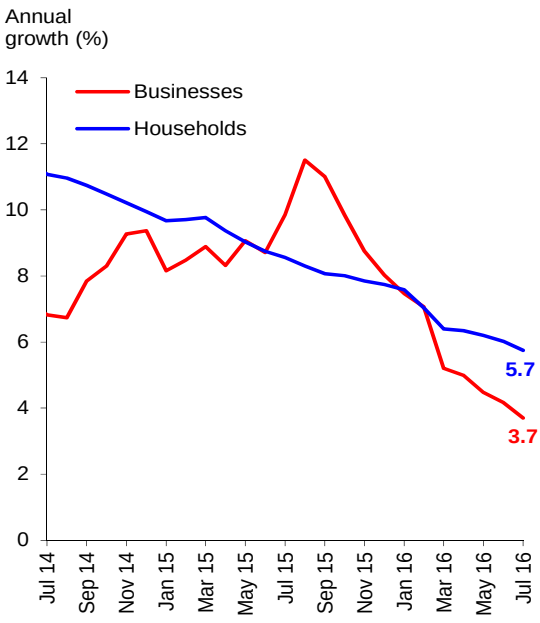
Net Financing and Loan Growth



* Net financing comprises banking system and DFI loans, and corporate bonds outstanding (excluding non-residents and Cagamas)

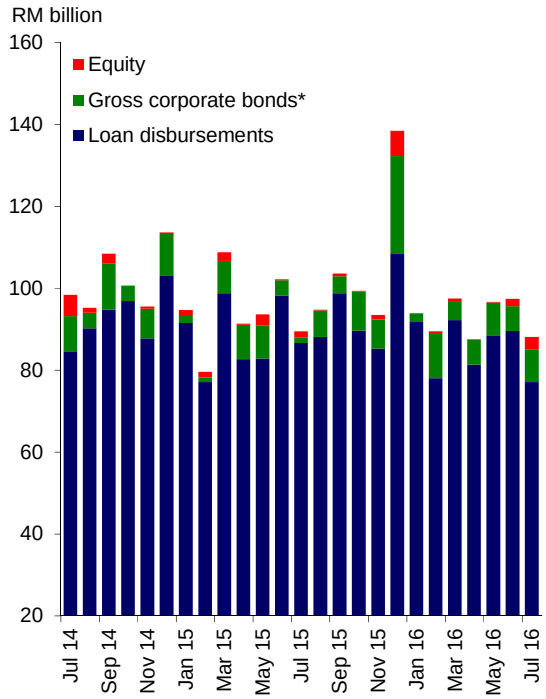
Source: Bank Negara Malaysia

Outstanding Loans of the Banking System



Source: Bank Negara Malaysia

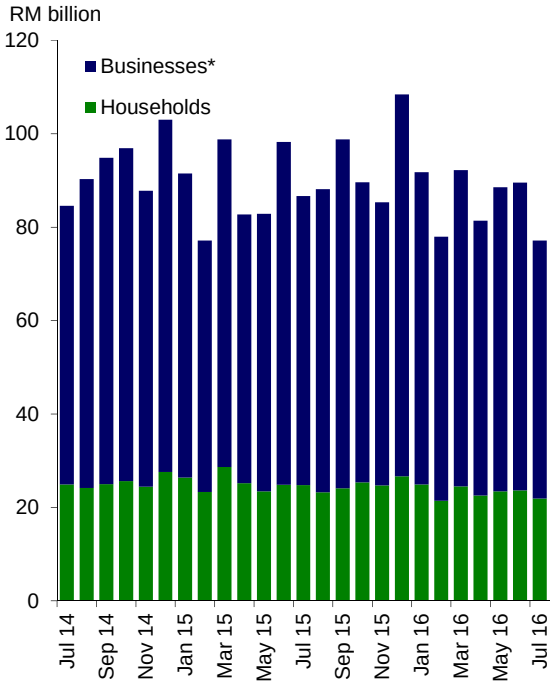
Gross Private Sector Financing



* Excludes foreign issuances

Source: Bank Negara Malaysia

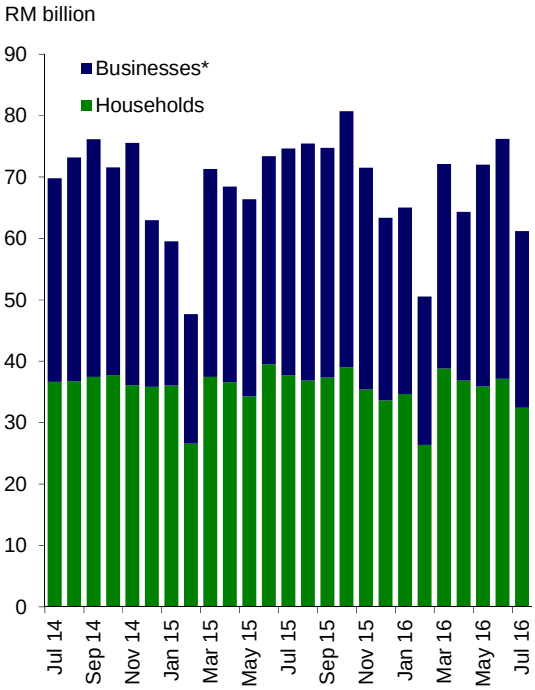
Loan Disbursements by the Banking System



* Includes domestic financial institutions, Government, other domestic entities and foreign entities

Source: Bank Negara Malaysia

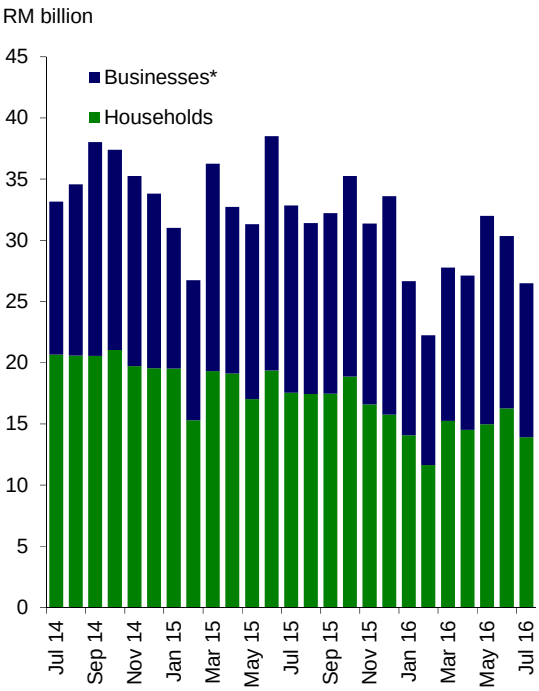
Loan Applications to the Banking System



* Includes domestic financial institutions, Government, other domestic entities and foreign entities

Source: Bank Negara Malaysia

Loan Approvals by the Banking System

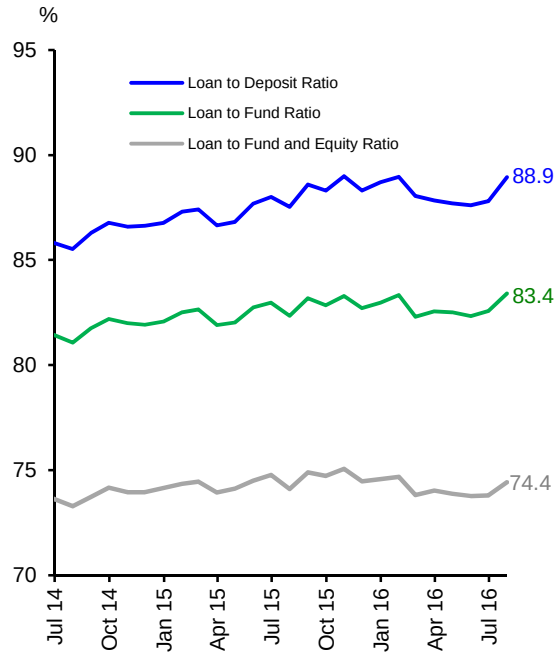


* Includes domestic financial institutions, Government, other domestic entities and foreign entities

Source: Bank Negara Malaysia

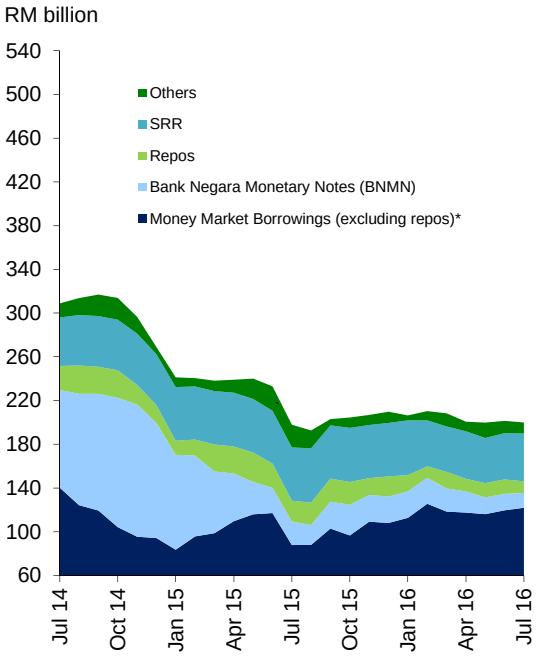
Liquidity in the banking system remained ample

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



Note: From July 2015 onwards, loans exclude financing funded by Islamic Investment Accounts
Source: Bank Negara Malaysia

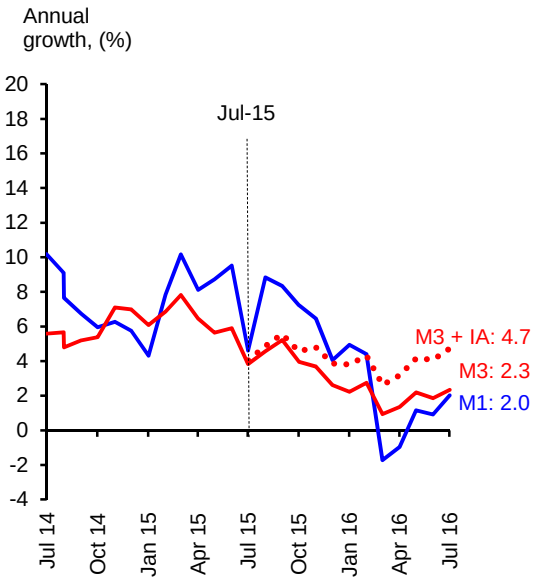
Outstanding Liquidity Placed with Bank Negara Malaysia (at end-period)



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

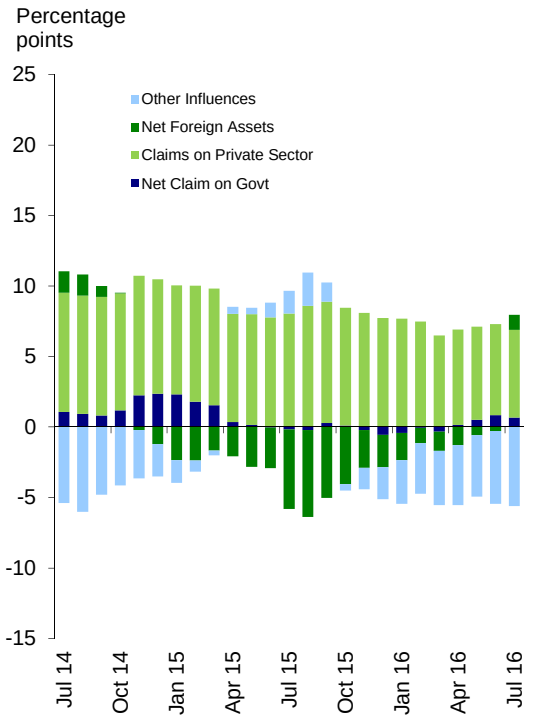
Broad money growth increased in July

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.

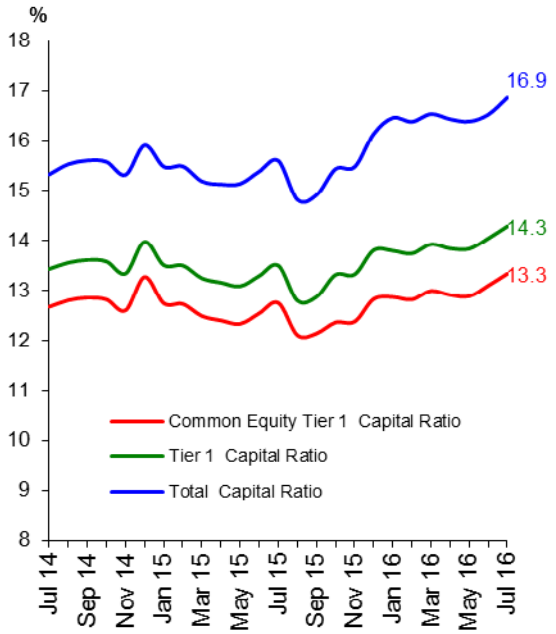
Main Contributors to M3 Annual Growth



Source: Bank Negara Malaysia

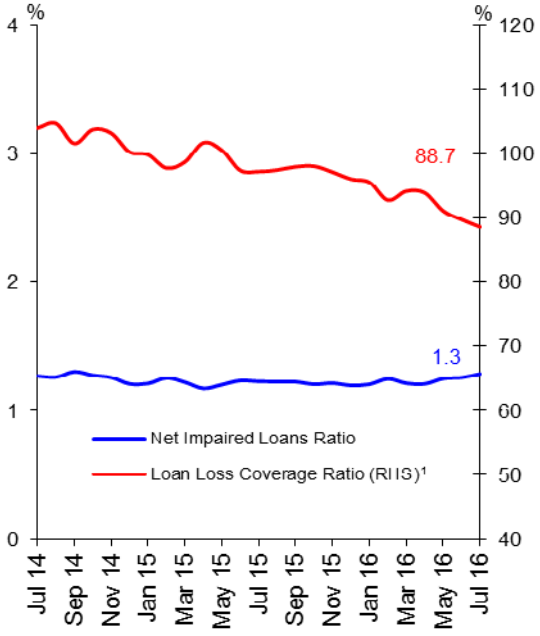
Banking system capitalisation remained strong with stable loan quality

Capital Strength



Source: Bank Negara Malaysia

Net Impaired Loans Ratio and Loan Loss Coverage Ratio

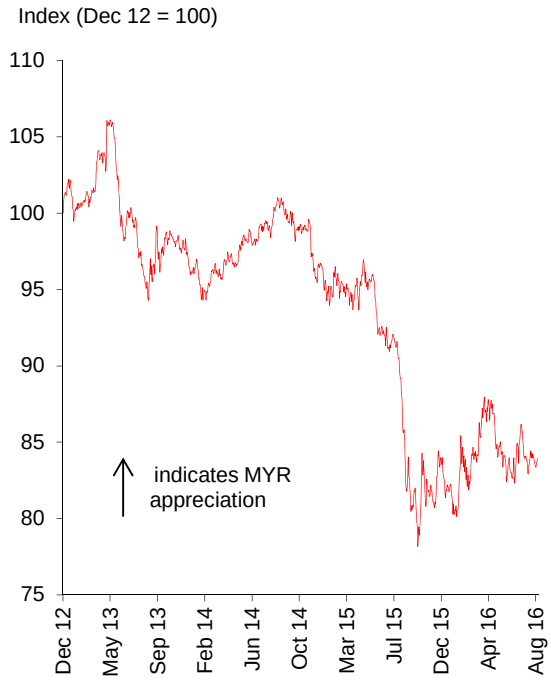


[1] Refers to ratio of individual plus collective impairment provisions to total impaired loans

Source: Bank Negara Malaysia

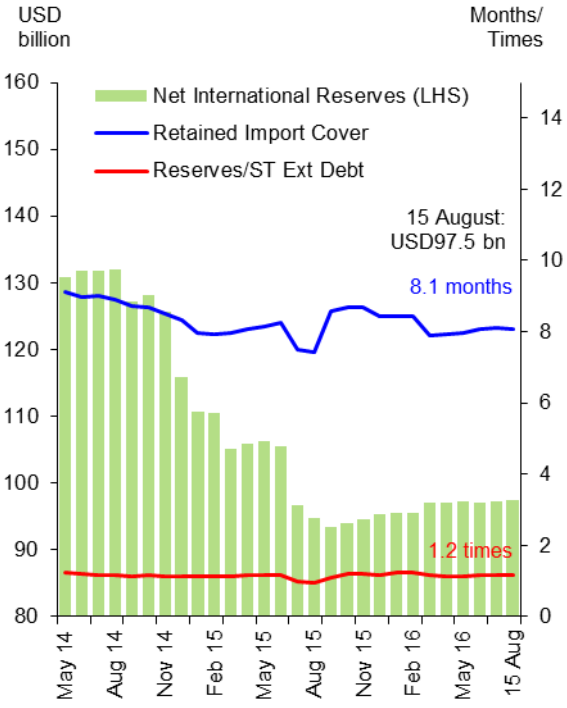
The ringgit depreciated against the currencies of major trade partners

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

		May 16		Jun 16		Jul 16	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates							
Reserve money		131.4	0.1	136.5	3.1	135.3	1.9
M1		356.4	1.2	363.9	0.9	354.2	2.0
M2		1,600.6	2.1	1,602.8	1.8	1,586.6	2.0
M3		1,610.7	2.2	1,611.0	1.9	1,597.8	2.3
Banking System							
Net financing[1]		2,096.3	7.2	2,105.8	6.9	2,113.3	6.8
Loan to deposit ratio (%) [2]		87.6		87.8		88.8	
Loan to fund ratio (%) [2&3]		82.3		82.6		83.3	
Loan to fund and equity ratio (%) [2,3&4]		73.8		73.8		74.3	
Loans outstanding in RM billion		1,458.5	6.2	1,465.2	5.6	1,467.3	5.1
Loans applied (during the period)		72.0	8.5	76.2	3.9	61.2	-18.0
Loans approved (during the period)		32.0	2.2	30.4	-21.1	26.5	-19.4
Loans disbursed (during the period)		88.5	6.9	89.6	-8.8	77.1	-11.0
Loans repaid (during the period)		83.2	11.4	85.6	-1.9	78.4	-6.5
Banking System Health							
Total capital ratio (%) [5]		16.4		16.5		16.9	
Tier 1 capital ratio (%) [5]		13.8		14.0		14.3	
Common equity tier 1 capital ratio (%) [5]		12.9		13.1		13.3	
Net impaired loans ratio (%)		1.3		1.3		1.3	
BNM International Reserves (end-period)							
Net Reserves in RM billion		382.6		390.3		391.0	
Net Reserves in USD billion (equivalent)		97.2		97.1		97.3	
Months of retained imports		8.0		8.1		8.1	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.25		3.25		3.00	
Interbank:	Overnight	3.22 [3.17]		3.13 [3.18]		2.94 [2.99]	
	1-week	3.23 [3.23]		3.23 [3.23]		3.02 [3.10]	
	1-month	3.33 [3.27]		3.44 [3.30]		3.06 [3.15]	
Fixed deposits of commercial banks:	1-month	3.07		3.08		2.90	
	3-month	3.13		3.13		2.98	
BLR of commercial banks		6.80		6.81		6.69	
Weighted Base Rate [6]		3.81		3.83		3.62	
Weighted ALR of commercial banks		5.41		5.42		5.31	
Prices							
Consumer Price Index (CPI) (2010=100)		114.6	2.0	114.8	1.6	115.1	1.1

[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 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. Weights are based on individuals banks' share of all outstanding floating-rate loans

Source: Bank Negara Malaysia