BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 01/17/10

EMBARGO: Not for publication or broadcast before 1500 hours on Tuesday, 31 January 2017

MONETARY AND FINANCIAL DEVELOPMENTS DECEMBER 2016

Price Conditions: Headline inflation was unchanged at 1.8% in December (November: 1.8%). While the negative contribution from the *transport* category was smaller during the month, lower inflation in some other categories, particularly the *alcoholic beverages and tobacco* category helped to keep inflation unchanged. The *transport* category recorded a smaller negative inflation of -0.6% (November: -1.5%) despite a 5 sen/litre reduction in petrol prices during the month, due to a larger reduction of 10 sen/litre during the base period of December 2015. Conversely, inflation in the *alcoholic beverages and tobacco* category was lower at 0.1% (November: 1.9%) following the lapse in the impact of further adjustments to cigarette prices in December 2015.

Monetary Conditions: Short-term interbank rates were relatively stable for the month. In the retail market, the weighted average base rate (BR) of commercial banks remained steady (December: 3.61%; November: 3.62%) and the weighted average lending rate (ALR) on outstanding loans was stable at 5.21% (November: 5.22%).

Net financing to the private sector registered an annual growth of 5.5% in December (November: 6.7%). This was due to the moderation in the growth of net outstanding corporate bonds amid stable growth of loans extended by the banking system and development financial institutions (DFIs) during the month. The moderation in the growth of corporate bond issuances in December 2016 was mostly due to the higher base recorded in December 2015 given large one-off issuances by a few companies.

Outstanding business loans of the banking system, however, recorded a higher annual growth of 5.0% (November: 4.6%), with the growth driven by the year-on-year expansion of loans to most major sectors such as the *wholesale and retail trade, restaurants and hotels*; *finance, insurance and business services;* and *transport, storage and communication* sectors. For households, outstanding loans of the banking system grew at a slightly slower pace of 5.3% in December (November: 5.4%). While the level of loan approvals for both businesses and households remained stable at RM29.3 billion (November: RM29.9 billion), the level of loan applications moderated slightly during the month.

Broad money (M3) recorded a stable annual growth of 3.0% in December (November: 2.9%). The expansion in broad money continued to be driven mainly by the 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 13.1%, 14.0% and 16.5% respectively. The level of net impaired loans was sustained at 1.2% of net loans, with loan loss coverage ratio at 90.2%.Taking into account regulatory reserves for loans and financing, banks maintain sufficient buffer for potential credit losses.

Exchange Rates and International Reserves: In December, the ringgit appreciated against the currencies of most of Malaysia's major trade partners. The ringgit, however, depreciated against the US dollar, along with most major and regional currencies amid the broad strengthening of the US dollar following the US Federal Reserve's decision to increase interest rate and the forecast for a steeper path of interest rate increase in 2017. The ringgit's strength against the currencies of other trade partners was supported by the increase in global crude oil prices following OPEC's agreement to cut oil production, which led to increased demand for assets of commodity exporting countries, including Malaysia. The international reserves of Bank Negara Malaysia amounted to USD94.3 billion (equivalent to RM422.9 billion)

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

as at 13 January 2017. This level remains ample to facilitate international transactions and is sufficient to finance 8.7 months of retained imports and is 1.3 times the short-term external debt[1].

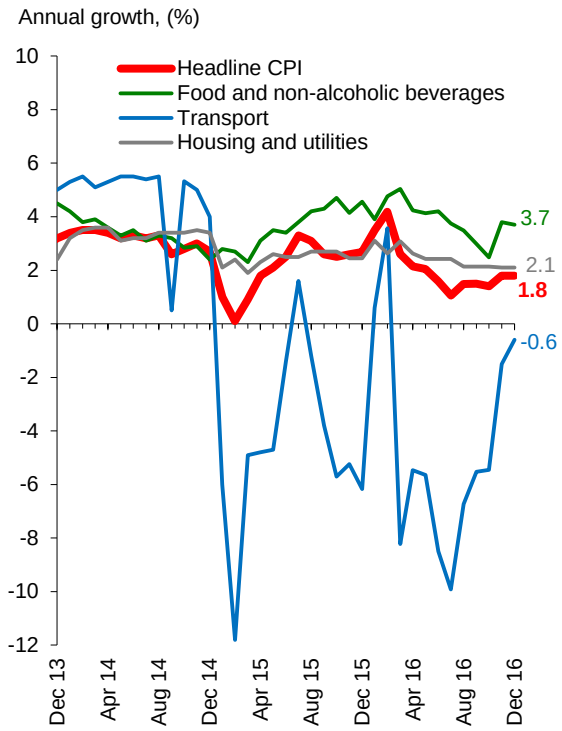
Bank Negara Malaysia
31 January 2017

[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

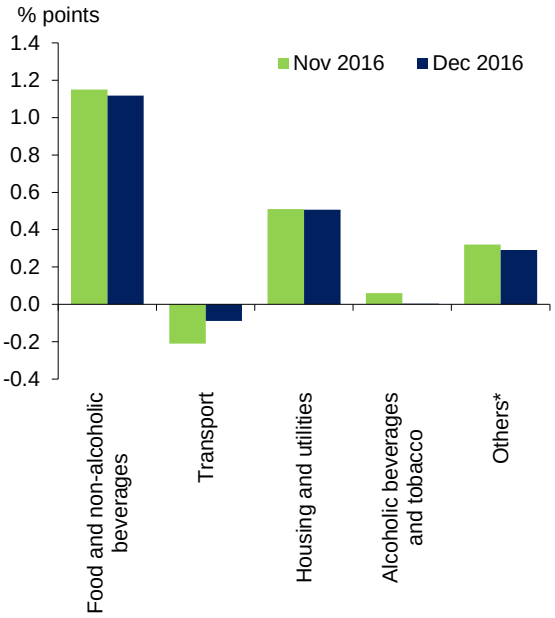
Headline inflation was unchanged in December

Headline Inflation



Source: Department of Statistics Malaysia

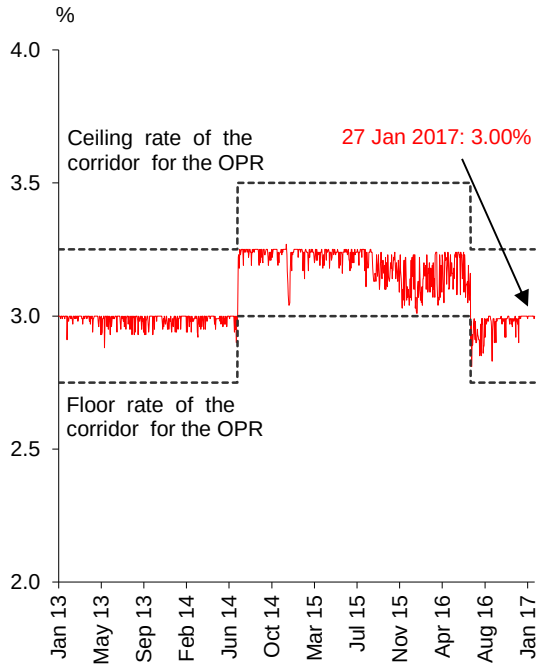
Headline Inflation: Component Contribution



*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

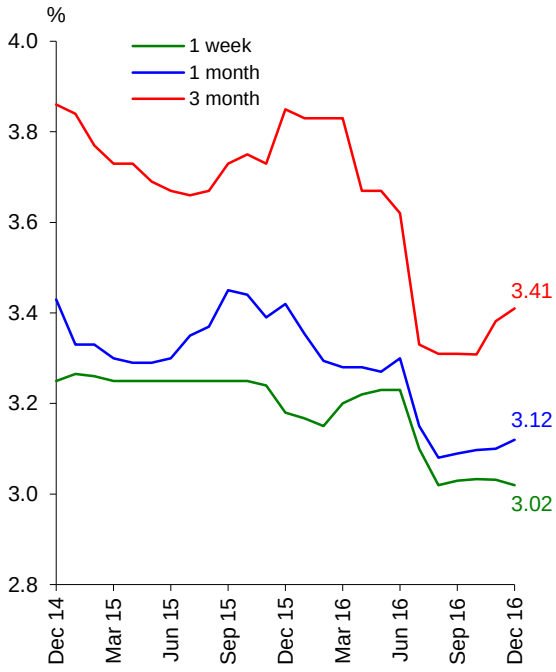
Short-term interbank rates were stable in December

Daily Weighted Average Overnight Interbank Rate



Source: Bank Negara Malaysia

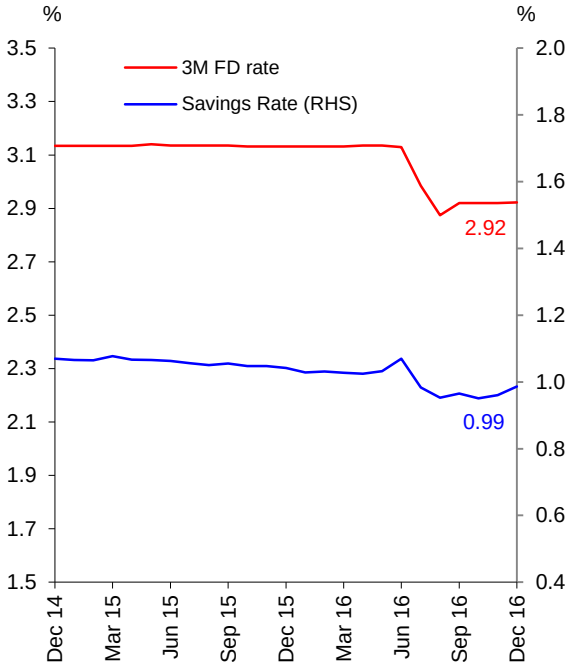
Average Interbank Rate



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

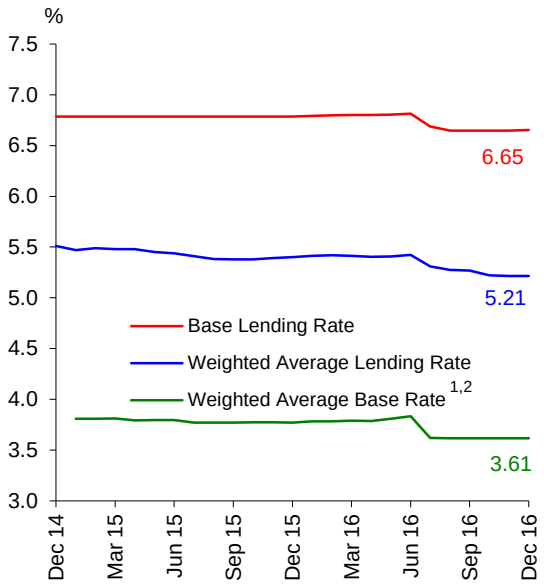
Source: Bank Negara Malaysia

Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

Lending Rates of Commercial Banks

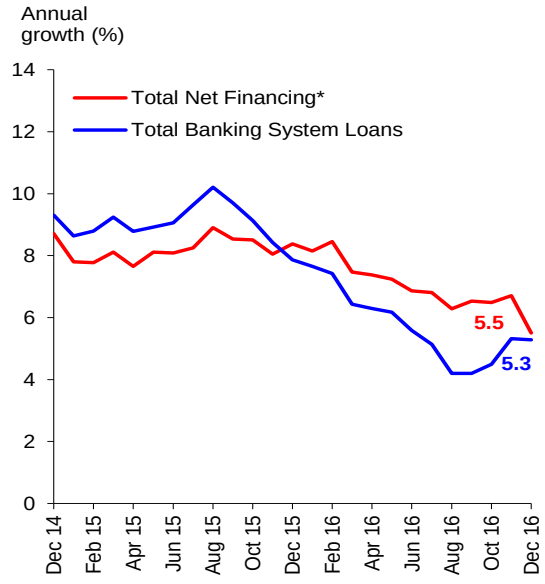


[1] On 2 January 2015, the Base Rate (BR) replaced the Base Lending Rate (BLR) as the reference rate for new retail floating-rate loans and financing facilities
[2] Weights are based on individual banks' share of all outstanding floating-rate loans

Source: Bank Negara Malaysia

Lower growth of net financing in December due to base effect

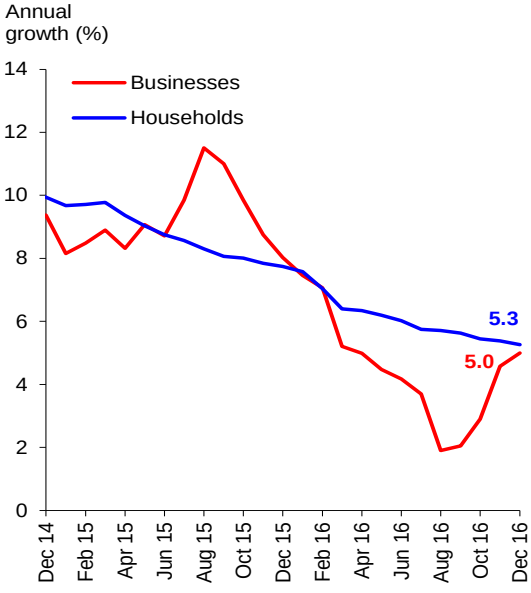
Net Financing and Outstanding Loans



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

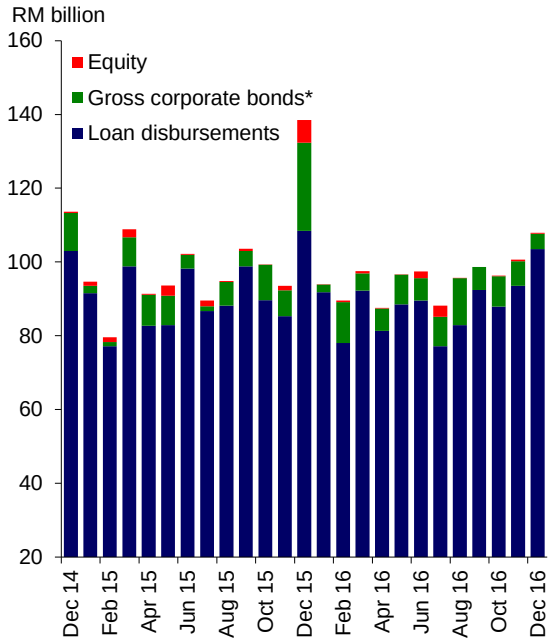
Source: Bank Negara Malaysia

Outstanding Loans of the Banking System



Source: Bank Negara Malaysia

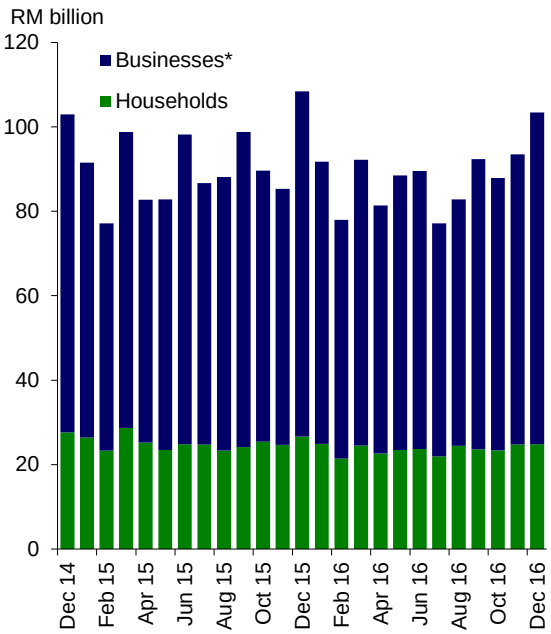
Gross Private Sector Financing



* Excluding Cagamas and non-residents issuances

Source: Bank Negara Malaysia

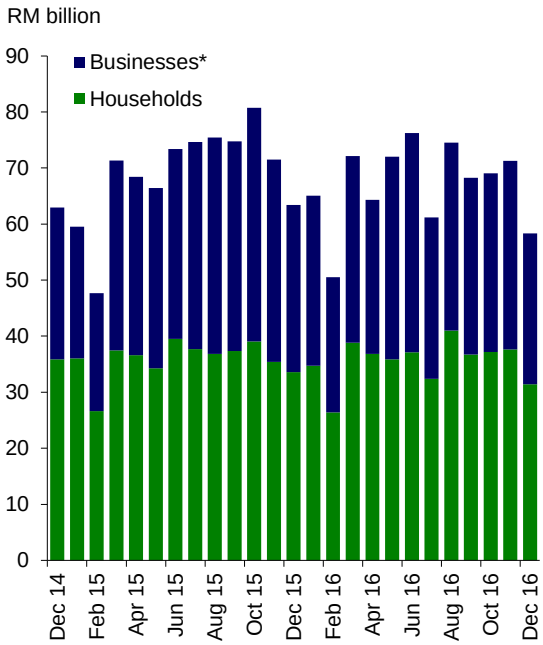
Loan Disbursements by the Banking System



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

Source: Bank Negara Malaysia

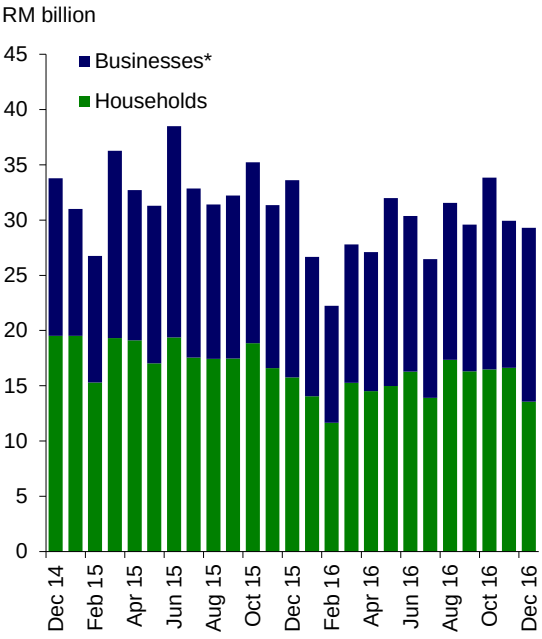
Loan Applications to the Banking System



* 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

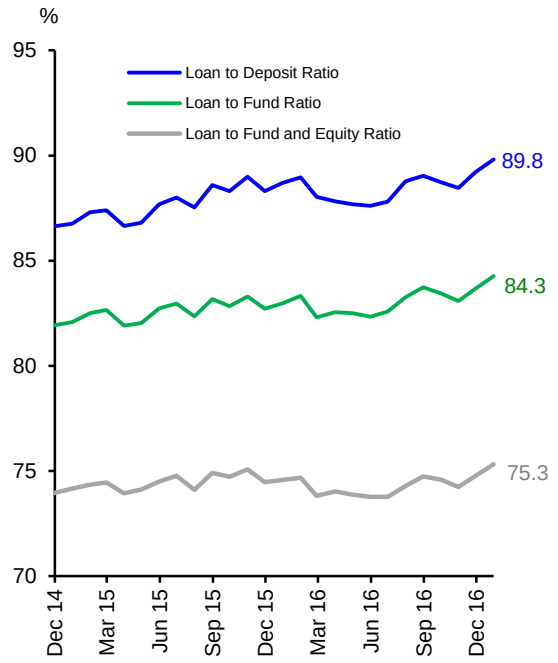


* Includes domestic non-bank financial institutions, Government, domestic financial institutions, other domestic entities and foreign entities

Source: Bank Negara Malaysia

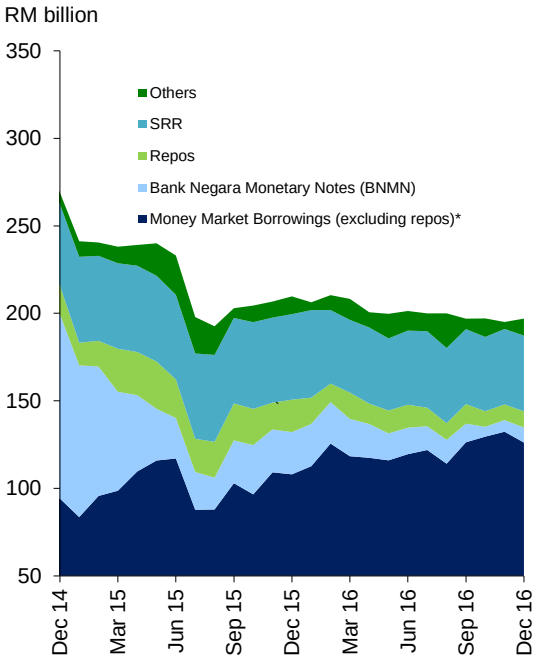
Liquidity in the banking system remained ample

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

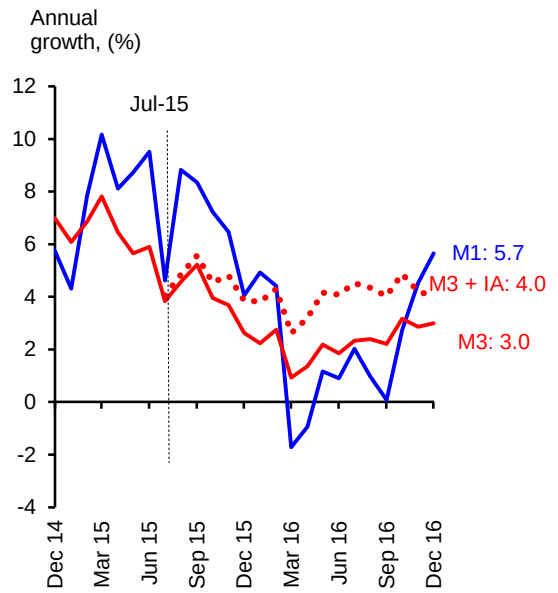
Outstanding Liquidity Placed with Bank Negara Malaysia (at end-period)



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

Broad money growth was stable in December

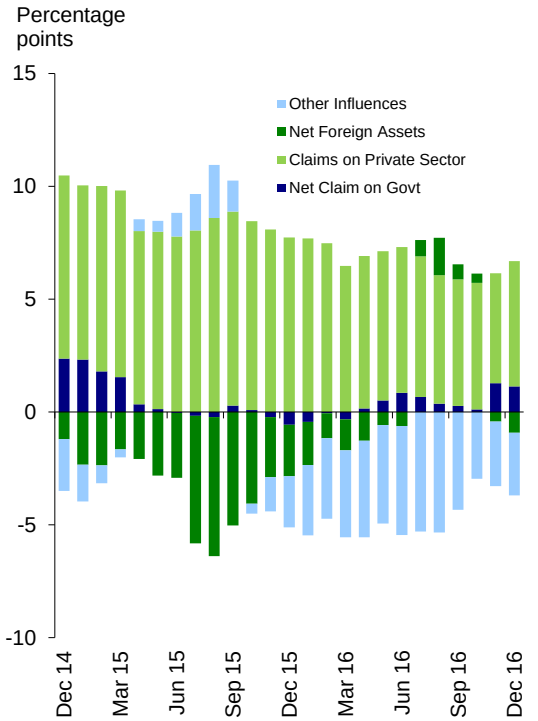
M1 and M3



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

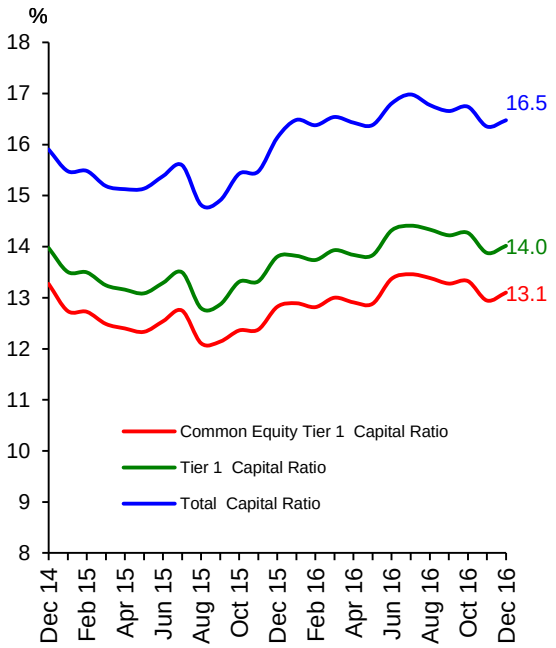
Main Contributors to M3 Annual Growth



Source: Bank Negara Malaysia

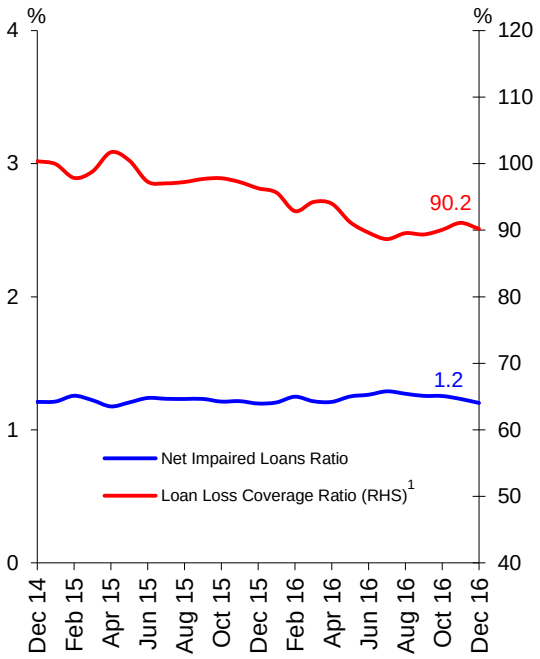
Banking system capitalisation remained strong with stable loan quality

Capital Strength



Source: Bank Negara Malaysia

Net Impaired Loans Ratio and Loan Loss Coverage Ratio

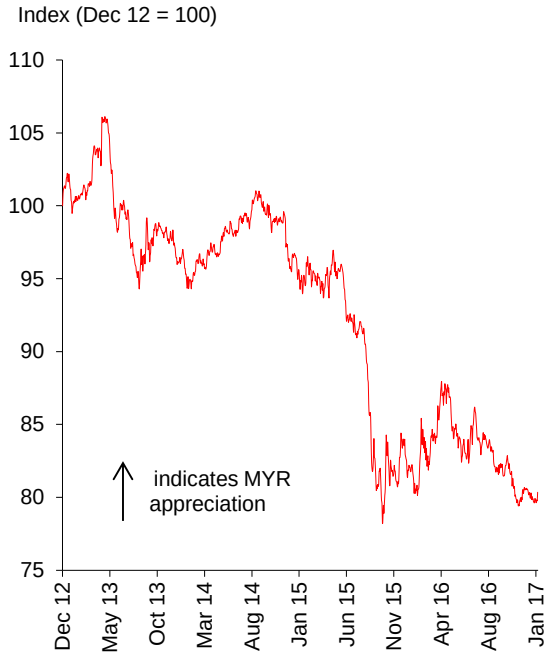


[1] Refers to ratio of individual plus collective impairment provisions to total impaired loans

Source: Bank Negara Malaysia

The ringgit appreciated against the currencies of most major trade partners

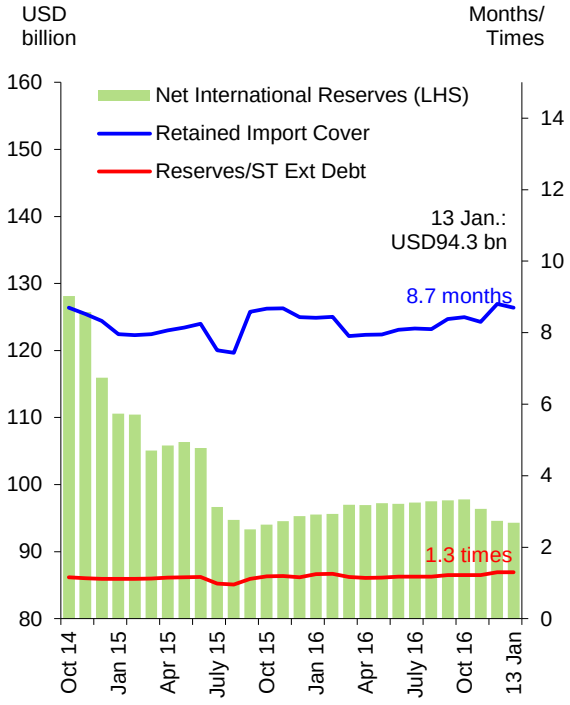
Index of Ringgit Performance against Major Trade Partners*



*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

		Oct 16		Nov 16		Dec 16	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates							
Reserve money		135.2	0.5	136.1	1.1	141.3	2.9
M1		360.9	2.7	368.3	4.5	380.8	5.7
M2		1,618.9	3.2	1,623.1	2.9	1,636.3	3.0
M3		1,626.5	3.2	1,629.4	2.9	1,642.4	3.0
Banking System							
Net financing[1]		2,160.2	6.5	2,173.6	6.7	2,183.3	5.5
Loan to deposit ratio (%) [2]		88.5		89.2		89.8	
Loan to fund ratio (%) [2&3]		83.1		83.7		84.3	
Loan to fund and equity ratio (%) [2,3&4]		74.2		74.8		75.3	
Loans outstanding in RM billion		1,493.4	4.5	1,507.6	5.3	1,521.5	5.3
Loans applied (during the period)		69.0	-14.5	71.3	-0.3	58.3	-8.0
Loans approved (during the period)		33.8	-3.9	29.9	-4.6	29.3	-12.8
Loans disbursed (during the period)		87.9	-2.0	93.5	9.6	103.4	-4.6
Loans repaid (during the period)		83.9	-1.5	85.5	-0.4	95.5	-0.5
Banking System Health							
Total capital ratio (%) [5]		16.7		16.4		16.5	
Tier 1 capital ratio (%) [5]		14.3		13.9		14.0	
Common equity tier 1 capital ratio (%) [5]		13.3		12.9		13.1	
Net impaired loans ratio (%)		1.3		1.2		1.2	
BNM International Reserves (end-period)							
Net Reserves in RM billion		405.5		399.6		424.1	
Net Reserves in USD billion (equivalent)		97.8		96.4		94.5	
Months of retained imports		8.4		8.3		8.8	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.00		3.00		3.00	
Interbank:	Overnight	2.92 [2.98]		2.99 [2.99]		3.00 [2.99]	
	1-week	3.03 [3.03]		3.05 [3.03]		3.02 [3.02]	
	1-month	3.19 [3.10]		3.08 [3.10]		3.10 [3.12]	
	3-month	3.38 [3.31]		3.40 [3.38]		3.41 [3.41]	
Fixed deposits of commercial banks:	1-month	2.87		2.87		2.86	
	3-month	2.92		2.92		2.92	
BLR of commercial banks		6.65		6.65		6.65	
Weighted Base Rate [6]		3.61		3.62		3.61	
Weighted ALR of commercial banks		5.22		5.22		5.21	
Prices							
Consumer Price Index (CPI) (2010=100), (%)		1.4		1.8		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