BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 06/16/08

EMBARGO: Not for publication or broadcast before 1800 hours on Thursday, 30 June 2016

MONETARY AND FINANCIAL DEVELOPMENTS
May 2016

Price Conditions: Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), was slightly lower at 2.0% in May (April: 2.1%). The decline was broad-based, with ten out of twelve categories recording lower inflation during the month. Inflation in the *housing, water, electricity, gas and other fuels* category was lower at 2.4% (April: 2.6%), reflecting the smaller increase in rental across all types of property. Inflation in the *food and non-alcoholic beverages* category moderated slightly to 4.1% (April: 4.2%). However, prices of fresh vegetables increased by a higher rate of 15.3% (April: 12.5%) due mainly to shortages of supplies amid the irregular weather conditions.

Monetary Conditions: Interbank rates beyond the 1-month tenure continued to moderate as the pressures arising from competition for stable funding and the uneven distribution of liquidity among banks eased in the money market in May. The weighted average Base Rate (BR) increased slightly from 3.81% in May (April: 3.79%), while the weighted average lending rates remained relatively unchanged during the month. Net financing to the private sector registered a slightly lower annual growth of 7.2% in May (April: 7.4%), due to a moderation in both the growth of loans extended by the banking system and development financial institutions (DFIs), and in net outstanding issuances of corporate bonds. Although business loans extended by the banking system registered a more moderate growth of 4.5% during the month (April: 5.0%), the level of loans disbursed to businesses increased during the month with a

larger volume of loans extended to *manufacturing; transport, storage and communication* and *wholesale and retail trade, and restaurants and hotels*. The level of loan applications and loan approvals for businesses also increased during the month. The annual growth of loans to households registered a growth of 6.2% in May (April: 6.3%), reflecting continued moderation across most purposes. On an annual basis, broad money (M3) growth increased to 2.2% in May (April: 1.4%). 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 *other influences*, reflecting the continued issuance of equity by banks. The reclassification of Islamic Investment Accounts that took place in July 2015, also had a negative impact on M3 and is reflected in *other influences*.

Banking System: The banking system maintained a strong capital position. The Common Equity Tier 1 Capital Ratio, Tier 1 Capital Ratio and Total Capital Ratio stood at 12.9%, 13.8% and 16.4%, respectively. Net impaired loans accounted for 1.2% of net loans. The loan loss coverage ratio declined slightly to 91.2%.

Exchange Rates and International Reserves: In May, the ringgit depreciated against the currencies of Malaysia's major trade partners. During the month, the ringgit, along with most regional currencies, depreciated against the US dollar. The depreciation was due mainly to the strengthening of the US dollar following heightened expectations for a policy rate increase by the Federal Reserve. Although other regional currencies also depreciated against the US dollar, the extent of the decline in the ringgit was the largest. This was due to the weaker sentiments following intermittent declines in Brent crude oil price earlier in the month, which led to capital outflows. The international reserves of Bank Negara Malaysia amounted to RM383.2 billion (equivalent to USD97.4 billion) as at 15 June 2016. This level remains ample

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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].

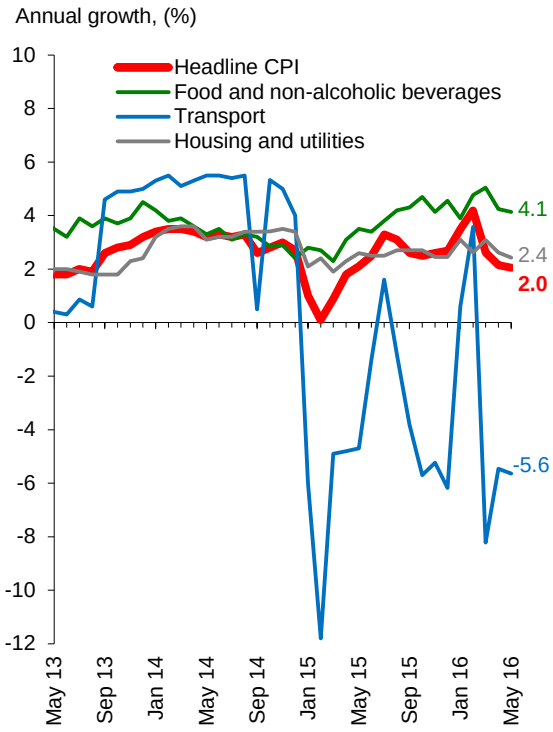
Bank Negara Malaysia
30 June 2016

[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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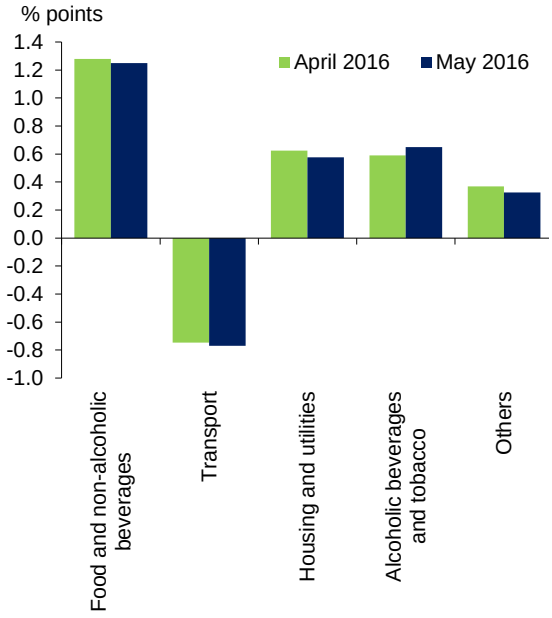
Lower headline inflation in May

Headline Inflation



Source: Department of Statistics Malaysia

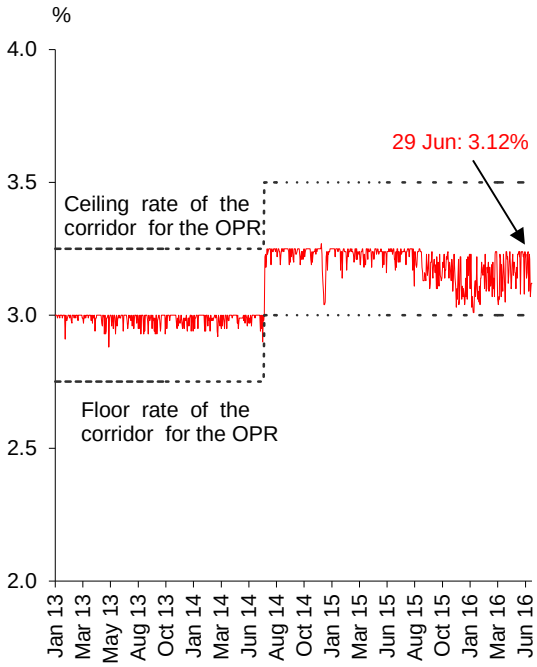
Headline Inflation: Component Contribution



*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

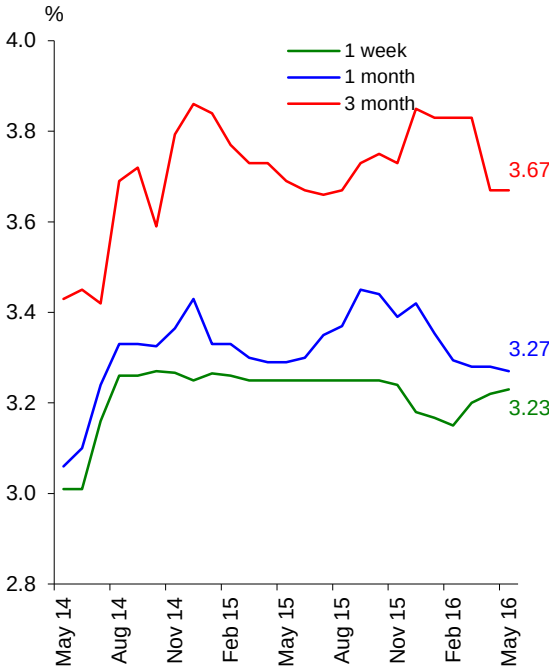
Interbank rates beyond the 1-month tenure continued to moderate in May

Daily Weighted Average Overnight Interbank Rate



Source: Bank Negara Malaysia

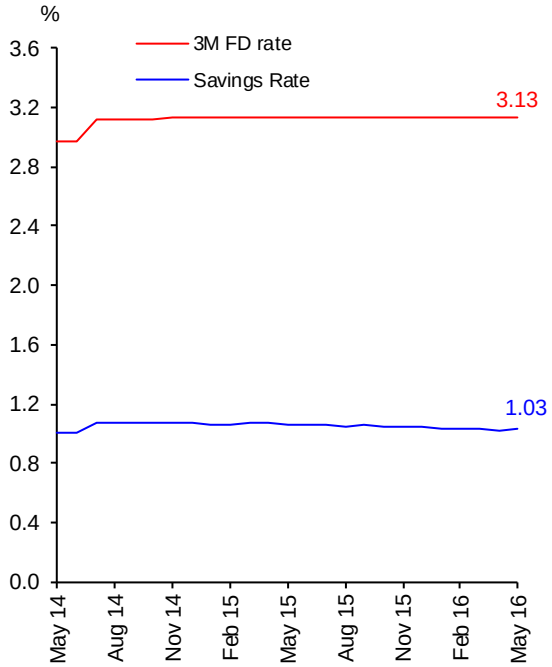
Average Interbank Rate



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

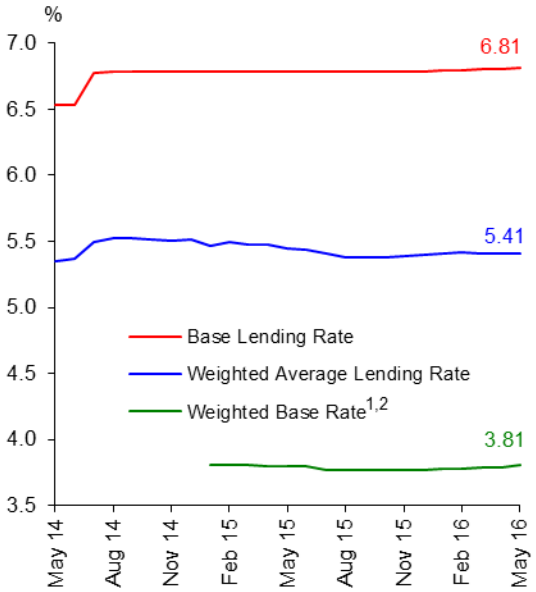
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Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

Lending Rates of Commercial Banks

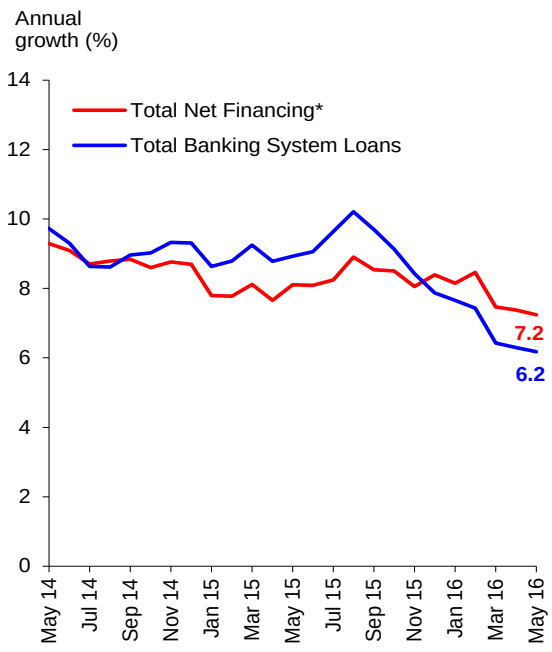


[1] On 2 January 2015, the Base Rate (BR) replaced the Base Lending Rate (BLR) as the reference rate for new retail floating-rate loans and financing facilities
[2] Weights are based on individual banks' share of all outstanding floating-rate loans

Source: Bank Negara Malaysia

Growth in net financing was stable in May

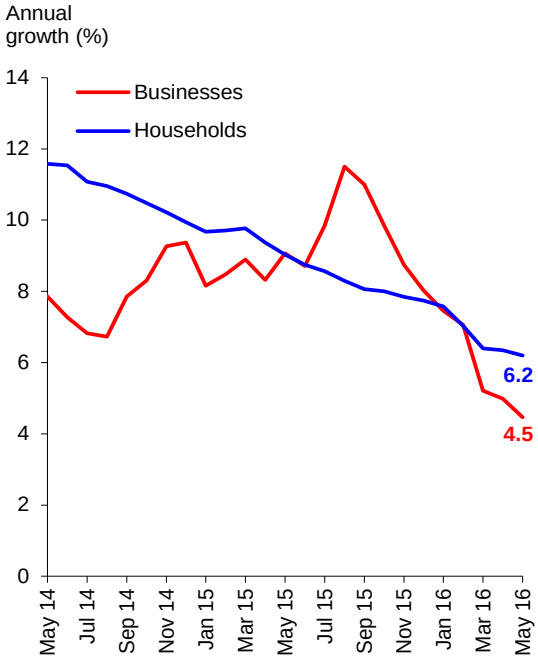
Net Financing and Loan Growth



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

Source: Bank Negara Malaysia

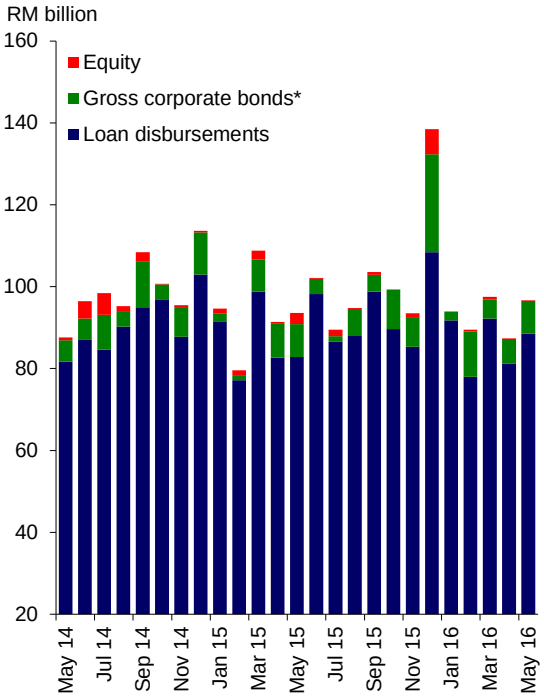
Outstanding Loans of the Banking System



Source: Bank Negara Malaysia

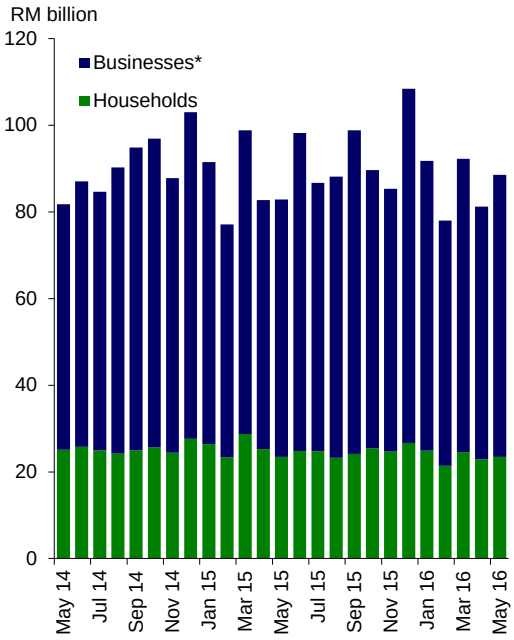
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Gross Private Sector Financing



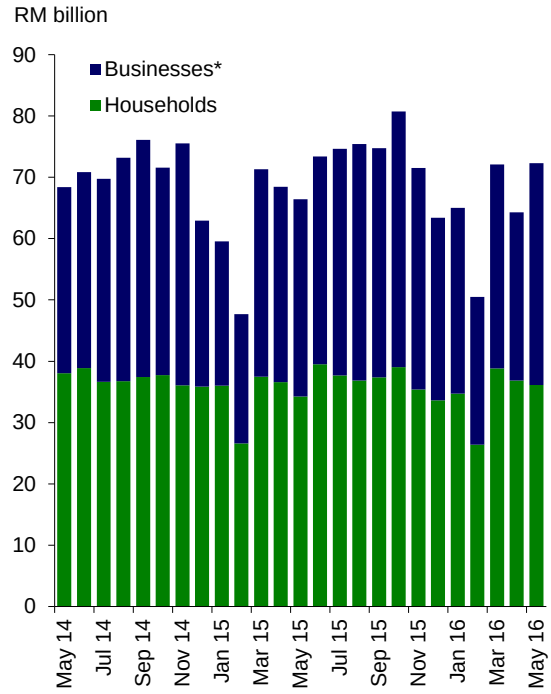
*Excludes foreign issuances
Source: Bank Negara Malaysia

Loan Disbursements by the Banking System



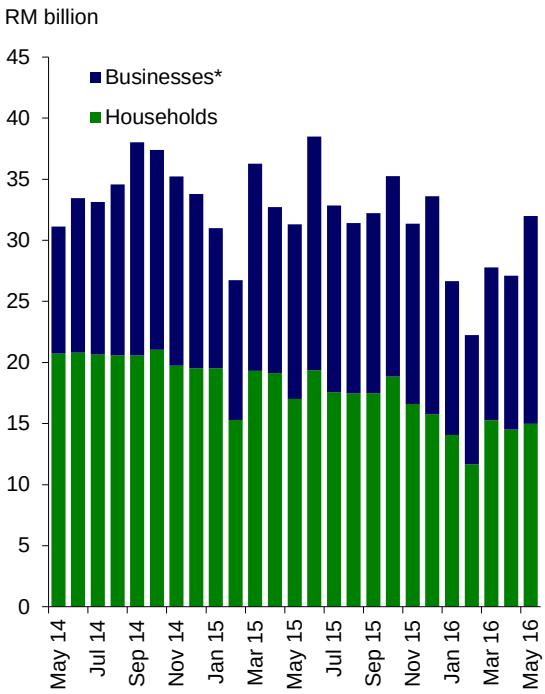
* Includes domestic financial institutions, Government, other domestic entities and foreign entities
Source: Bank Negara Malaysia

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

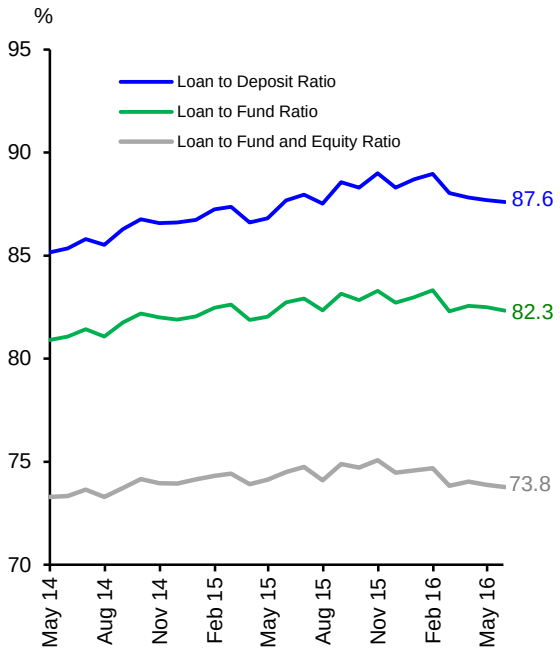


* Includes domestic financial institutions, Government, other domestic entities and foreign entities
Source: Bank Negara Malaysia

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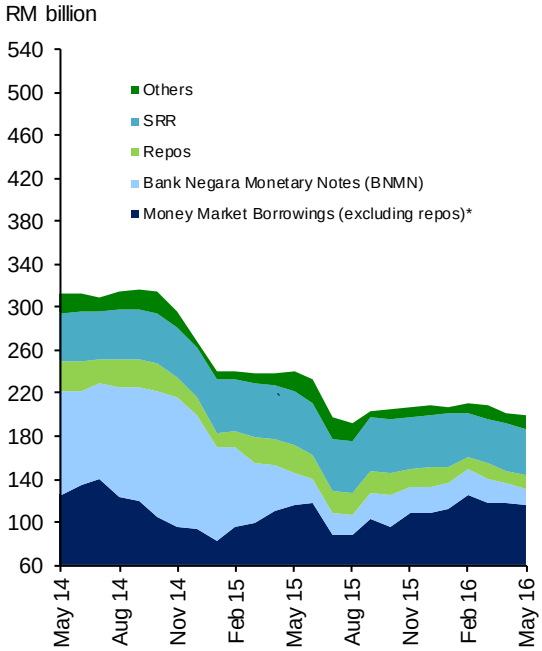
Liquidity in the banking system remained ample

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

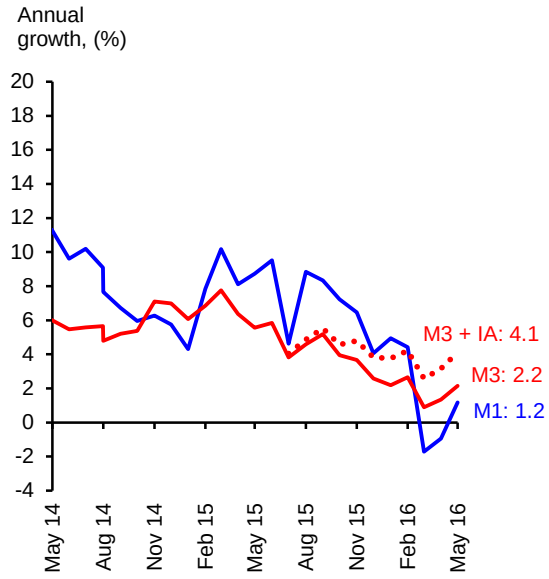
Outstanding Liquidity Placed with Bank Negara Malaysia (at end-period)



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

Broad money growth increased in May

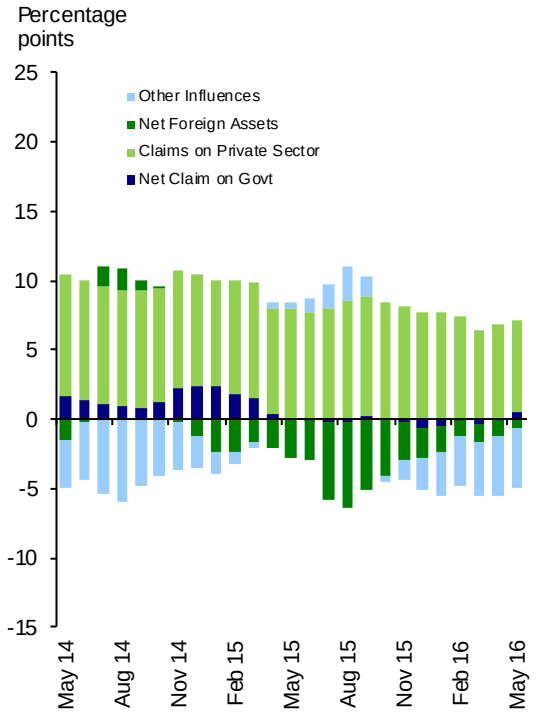
M1 and M3



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

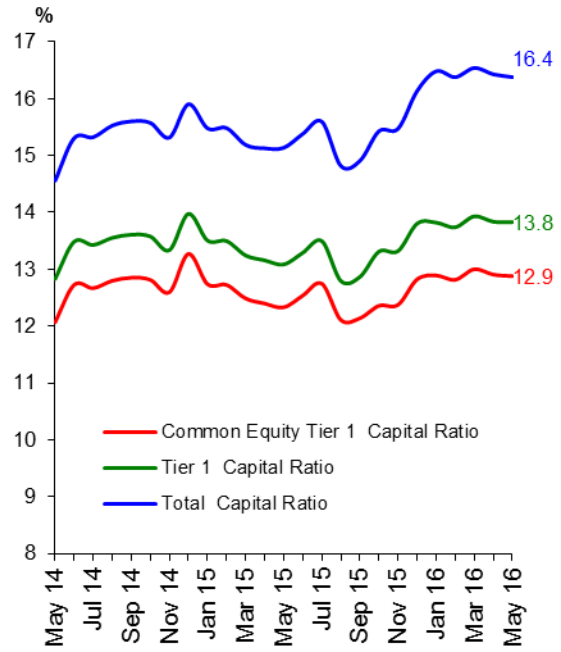


Source: Bank Negara Malaysia

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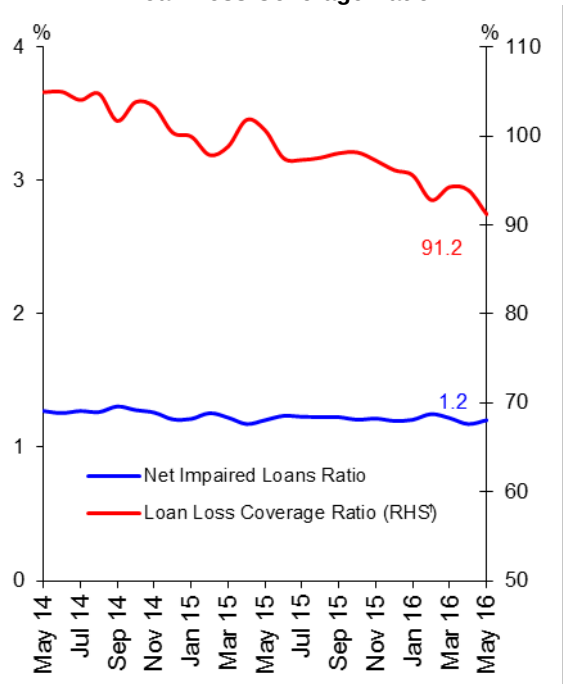
Banking system capitalisation remained strong with stable loan quality

Capital Strength



Source: Bank Negara Malaysia

Net Impaired Loans Ratio and Loan Loss Coverage Ratio

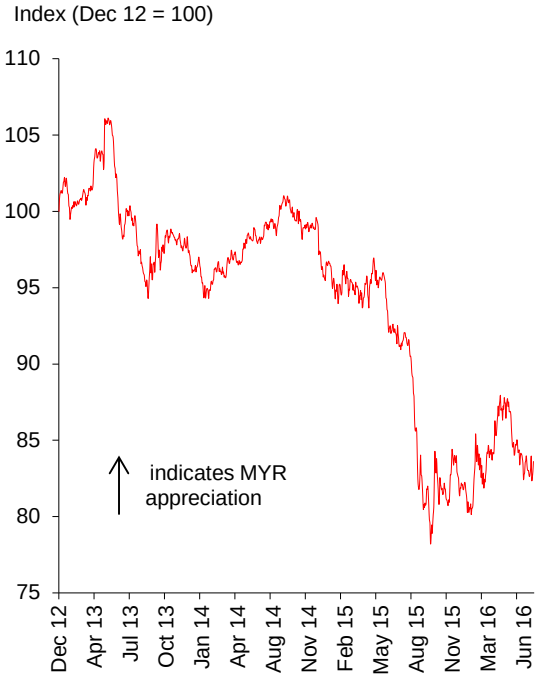


[1] Refers to ratio of individual plus collective impairment provisions to total impaired loans

Source: Bank Negara Malaysia

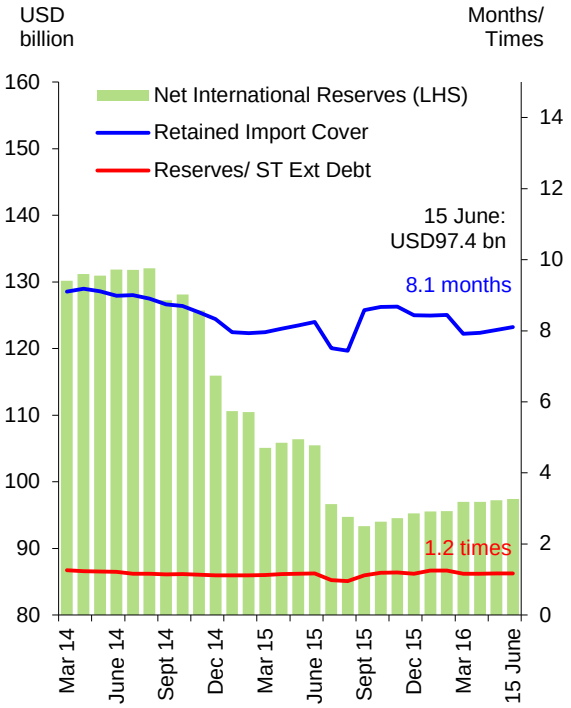
The ringgit depreciated against the currencies of Malaysia's major trade partners

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

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Key Monetary and Financial Statistics

		Mar 16		Apr 16		May 16	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates							
Reserve money		130.0	-1.1	133.2	0.4	131.4	0.1
M1		354.1	-1.7	348.6	-0.9	356.4	1.2
M2		1,597.0	0.8	1,594.0	1.4	1,600.6	2.1
M3		1,602.3	0.9	1,599.7	1.4	1,608.7	2.2
Banking System							
Net financing[1]		2,080.8	7.5	2,080.7	7.4	2,096.3	7.2
Loan to deposit ratio (%) [2]		87.8		87.7		87.6	
Loan to fund ratio (%) [2&3]		82.6		82.5		82.3	
Loan to fund and equity ratio (%) [2,3&4]		74.0		73.9		73.8	
Loans outstanding in RM billion		1,449.5	6.4	1,447.8	6.3	1,458.5	6.2
Loans applied (during the period)		72.1	1.1	64.3	-6.0	72.3	8.9
Loans approved (during the period)		27.8	-23.4	27.1	-17.2	32.0	2.2
Loans disbursed (during the period)		92.2	-6.7	81.2	-1.8	88.5	6.9
Loans repaid (during the period)		92.3	2.7	84.5	3.8	83.2	11.4
Banking System Health							
Total capital ratio (%) [5]		16.5		16.4		16.4	
Tier 1 capital ratio (%) [5]		13.9		13.8		13.8	
Common equity tier 1 capital ratio (%) [5]		13.0		12.9		12.9	
Net impaired loans ratio (%)		1.2		1.2		1.2	
BNM International Reserves (end-period)							
Net Reserves in RM billion		381.5		381.3		382.6	
Net Reserves in USD billion (equivalent)		97.0		97.0		97.2	
Months of retained imports		7.9		7.9		8.0	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.25		3.25		3.25	
Interbank:	Overnight	3.04 [3.15]		3.24 [3.16]		3.22 [3.17]	
	1-week	3.22 [3.20]		3.23 [3.22]		3.23 [3.23]	
	1-month	3.25 [3.28]		3.26 [3.28]		3.33 [3.27]	
Fixed deposits of commercial banks:	1-month	3.08		3.08		3.07	
	3-month	3.13		3.14		3.13	
BLR of commercial banks		6.80		6.80		6.81	
Weighted Base Rate [6]		3.79		3.79		3.81	
Weighted ALR of commercial banks		5.41		5.41		5.41	
Prices							
Consumer Price Index (CPI) (2010=100)		113.8	2.6	114.3	2.1	114.6	2.0

[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

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