BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 10/15/13

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MONETARY AND FINANCIAL DEVELOPMENTS SEPTEMBER 2015

Price Conditions: Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), moderated further to 2.6% in September (August: 3.1%) mainly reflecting the downward adjustments to domestic fuel prices during the month. Prices of RON97 and RON95 petrol were both reduced by 10 sen per litre while diesel was reduced by 15 sen per litre following the decline in global oil prices. As a result, inflation in the *transport* category registered a larger decline during the month (-3.8%; August: -1.2%). Inflation in the *alcoholic beverages and tobacco* category was also lower at 9.8% (August: 13.4%) due to the lapse of the impact of the upward revision to the prices of cigarettes in September 2014.

Monetary Conditions: Interbank rates below the 1-month tenure were stable in September, while rates beyond the 1-month tenure trended higher. This reflected the shift in liquidity from the longer tenures toward the shorter tenures given the greater preference of corporates and banks for shorter-term placements amidst external sector outflows. In terms of retail lending rates, the average base rate (BR) of commercial banks remained unchanged at 3.85%. Retail deposit rates were also steady during the month. Net financing to the private sector grew by 8.8% in September (August: 9.2%), driven by stable growth in net outstanding issuances of private debt securities (PDS) amidst a moderation in the growth of banking system loans. Business loans grew at 11.0% during the month (August: 11.5%), with a larger volume of

loans disbursed to businesses, particularly to the *manufacturing; wholesale and retail trade, restaurants and hotels; construction* and *agriculture* sectors. The annual growth of loans to households continued to moderate to 8.1% (August: 8.3%). Overall loan demand was stable with a sustained level of loan applications during the month. On an annual basis, broad money (M3) growth increased to 5.3% in September. 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 the 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 12.1%, 12.8% and 14.8% respectively. The level of net impaired loans was sustained at 1.2% of net loans, with loan loss coverage ratio stable at 98.1%.

Exchange Rates and International Reserves: In September, the ringgit depreciated against the currencies of Malaysia's major trade partners. Most regional currencies depreciated against the US dollar during the month following strong portfolio outflows from regional financial markets. This was triggered by uncertainty on the timing of interest rate normalisation in the US in the period leading up to the FOMC meeting. In addition, regional growth concerns due to signs of weaker growth in PR China also contributed to the negative sentiments. The ringgit, however, faced larger adjustments during the month due to volatile crude oil prices and domestic factors. The international reserves of Bank Negara Malaysia amounted to RM418.0 billion (equivalent to USD94.1 billion) as at 15 October 2015, sufficient to finance 8.8 months of retained imports and were 1.2 times the short-term external debt[1].

Bank Negara Malaysia
30 October 2015

[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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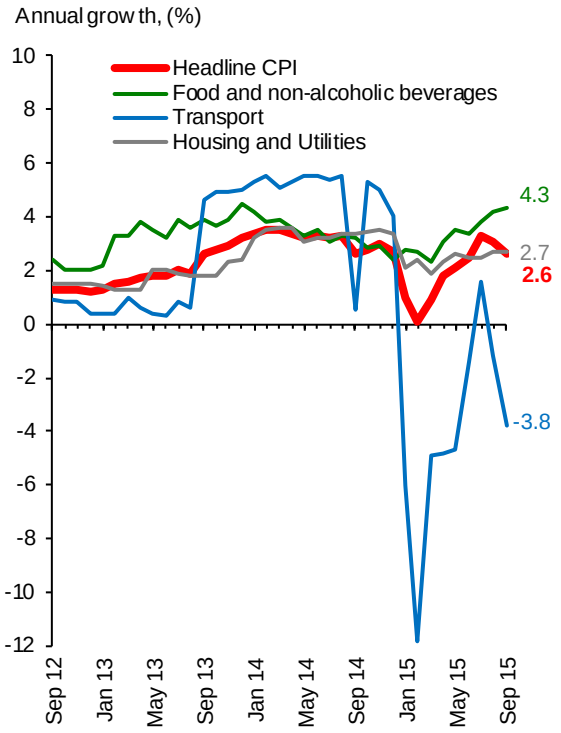
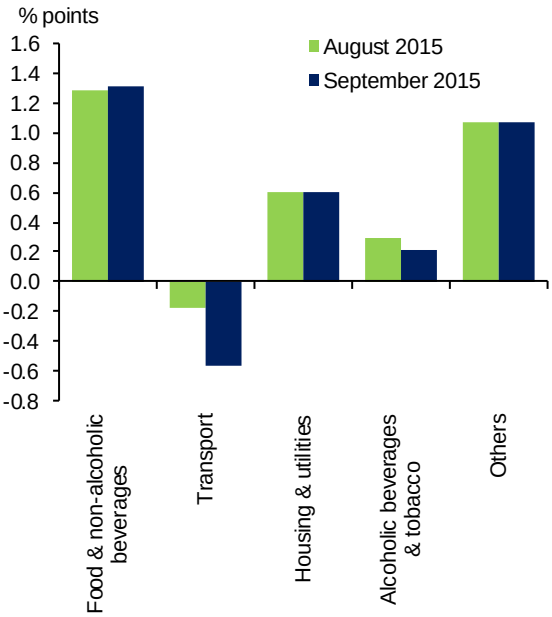
Headline inflation continued to moderate in September, mainly reflecting the downward adjustments to domestic fuel prices

Headline Inflation



Source: Department of Statistics Malaysia

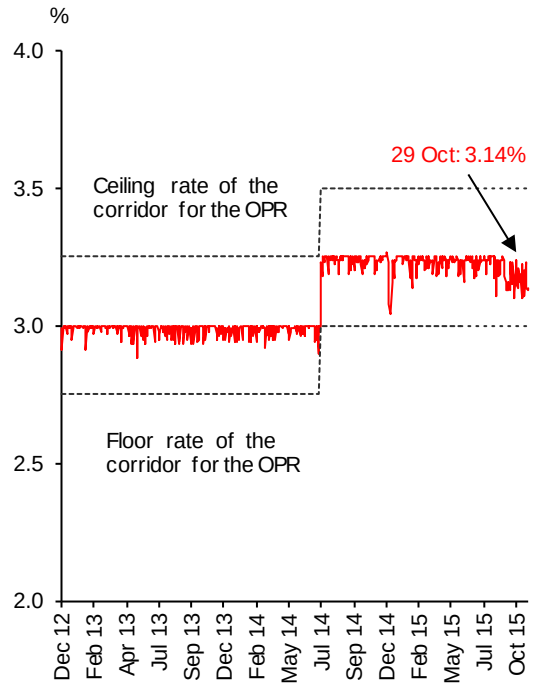
Headline Inflation: Component Contribution



*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

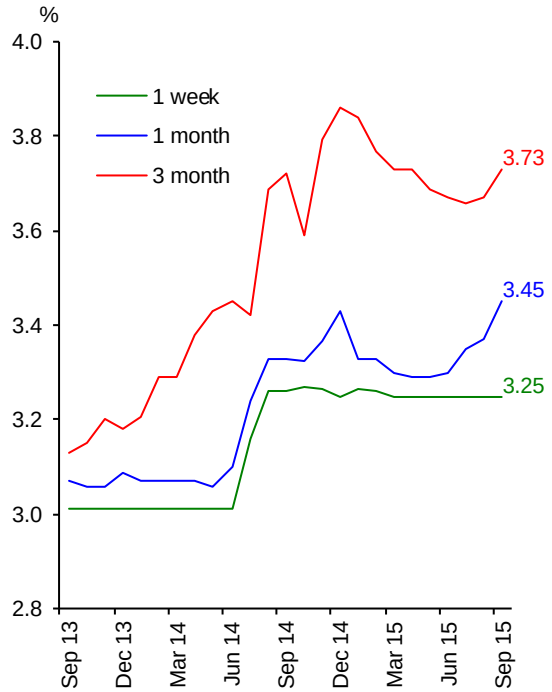
Interbank rates beyond 1-month trended higher, reflecting a shift in liquidity towards shorter tenures, while retail lending rates remained stable

Daily Weighted Average Overnight Interbank Rate



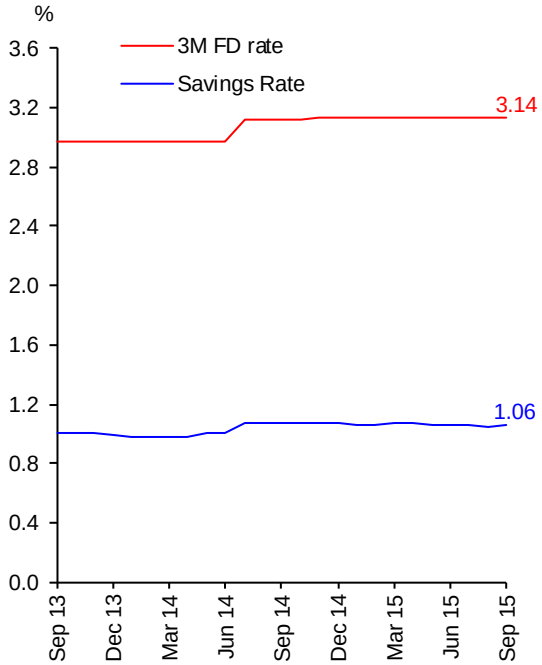
Source: Bank Negara Malaysia

Average Interbank Rate



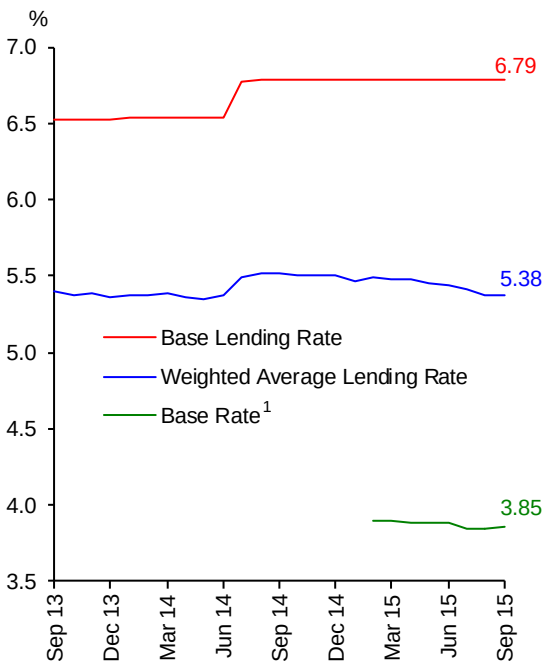
For periods where no trades took place during the month, the last traded interbank rate is used
Source: Bank Negara Malaysia

Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

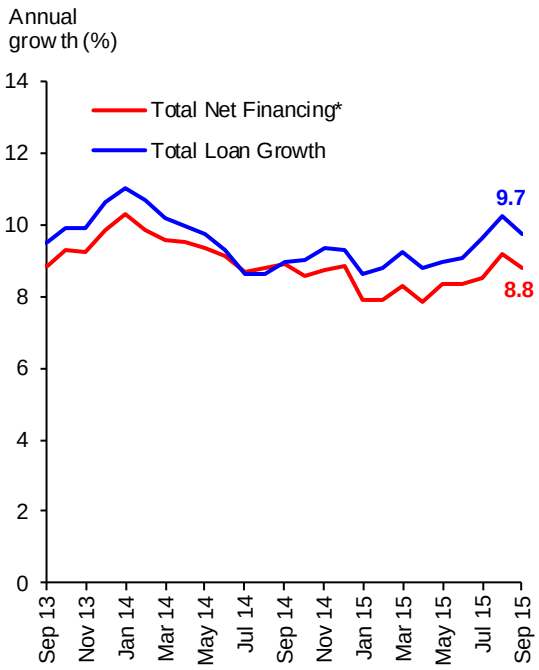
Lending Rates of Commercial Banks



[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.
Source: Bank Negara Malaysia

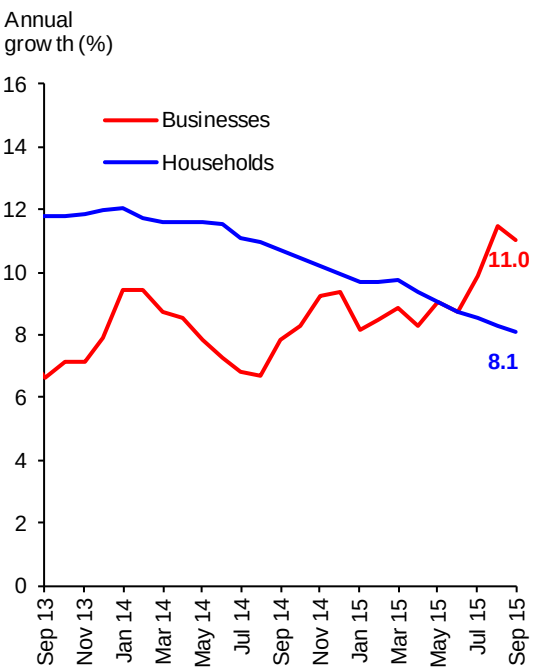
Growth in net financing moderated slightly in September

Net Financing and Loan Growth



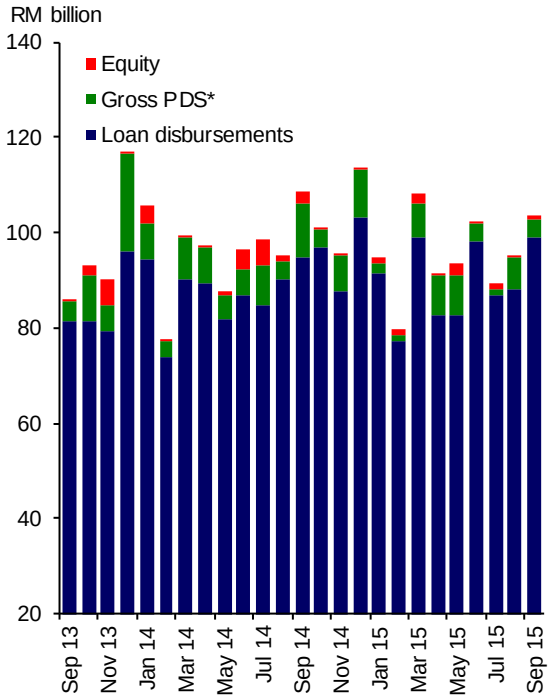
* Net financing comprises of banking systems loans and private debt securities (PDS) outstandings (excluding non-residents and Cagamas)
Source: Bank Negara Malaysia

Loans Outstanding of the Banking System



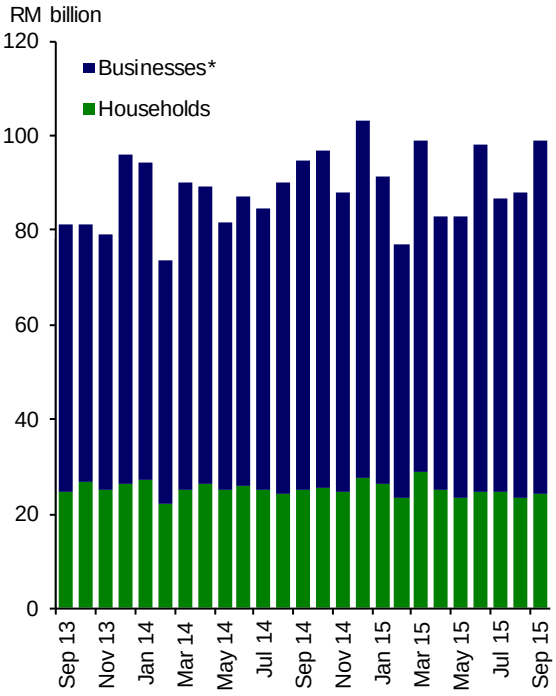
Source: Bank Negara Malaysia

Gross Private Sector Financing



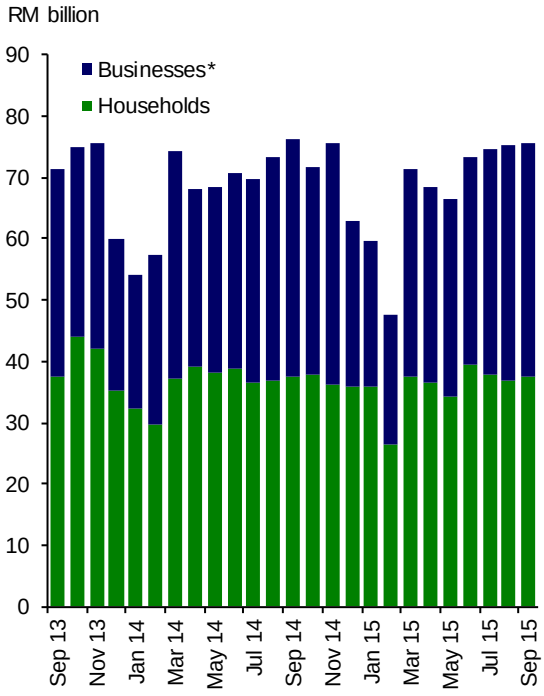
*Excludes foreign issuances
Source: Bank Negara Malaysia

Loan Disbursements by the Banking System



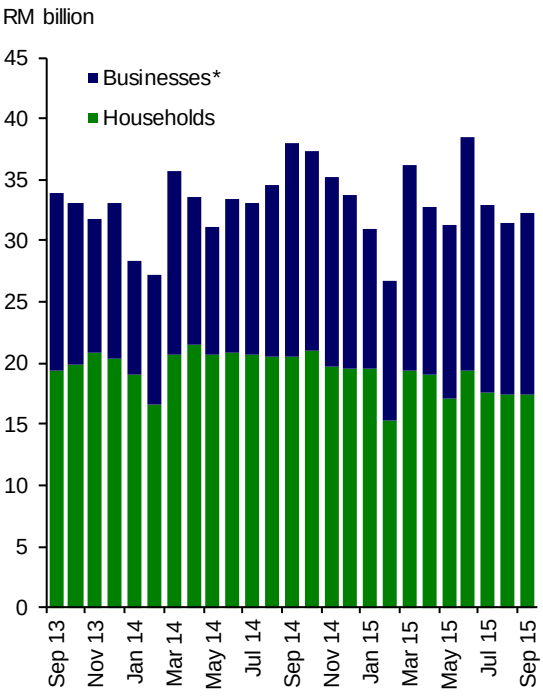
* Includes domestic financial institutions, goverment, domestic other entities.
Source: Bank Negara Malaysia

Loan Applications to the Banking System



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

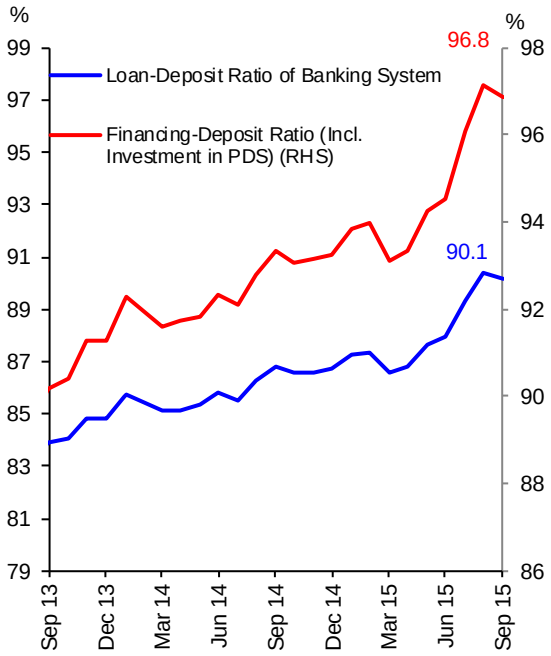
Loan Approvals by the Banking System



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

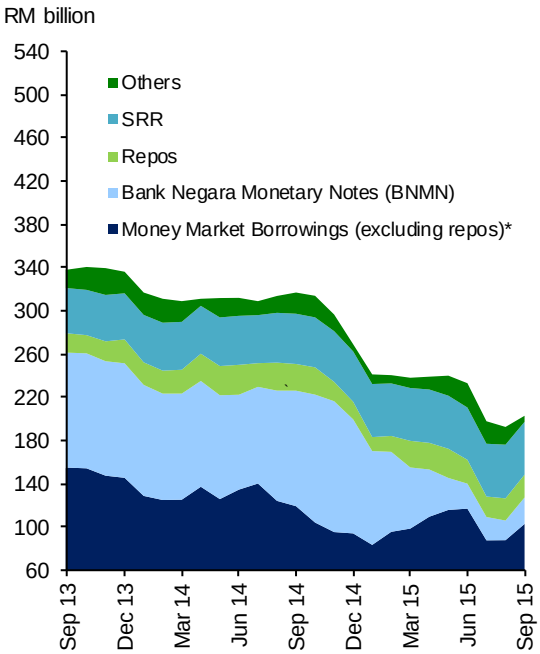
Liquidity in the banking system remained ample

Loan-Deposit Ratio and Financing-Deposit Ratio



Source: Bank Negara Malaysia

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

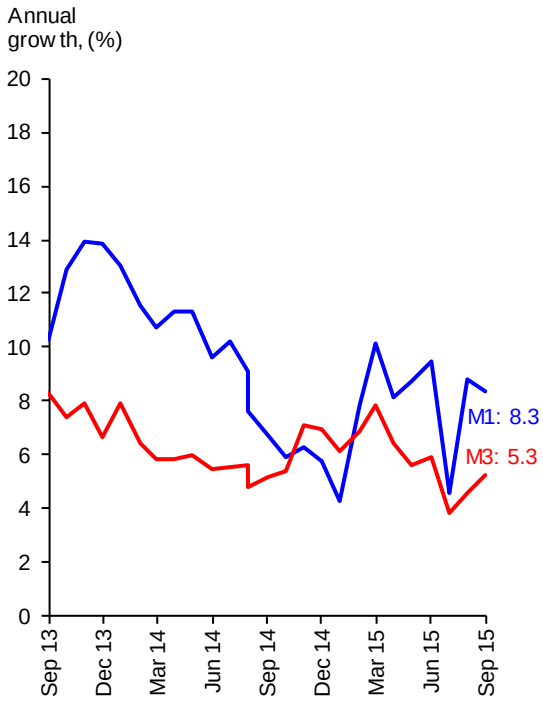


* Money Market Borrowings (excluding repos) include Direct Borrowing, Wadiah Acceptances and Commodity Murabahah Programme (CMP)

Source: Bank Negara Malaysia

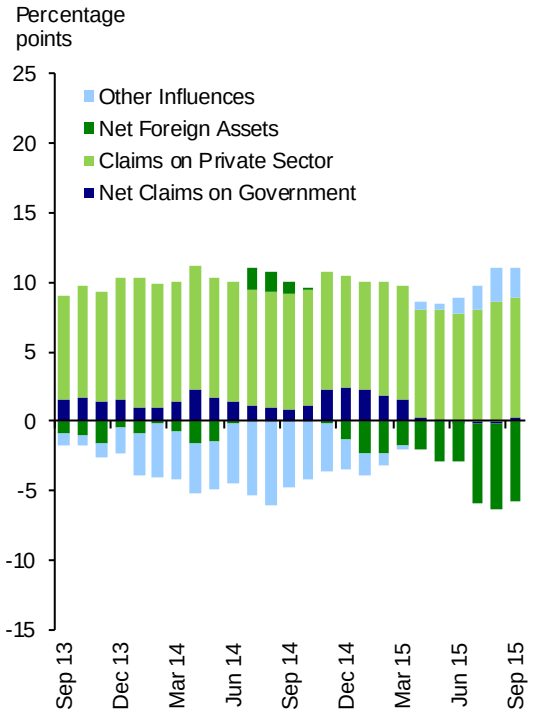
Broad money growth increased in September

M1 and M3



Source: Bank Negara Malaysia

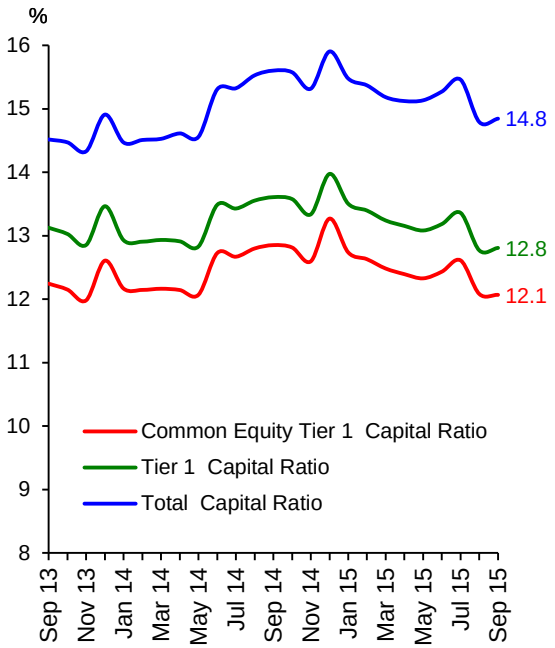
Main Contributors of M3 Annual Growth



Source: Bank Negara Malaysia

Banking system capitalisation remained strong with stable loan quality

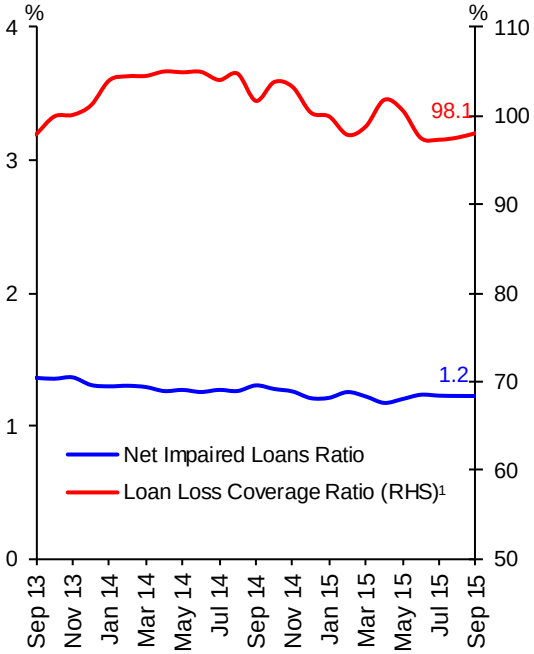
Capital Strength



Beginning January 2013, capital components are reported based on Basel III Capital Adequacy Framework.

Source: Bank Negara Malaysia

Net Impaired Loans Ratio and Loan Loss Coverage Ratio

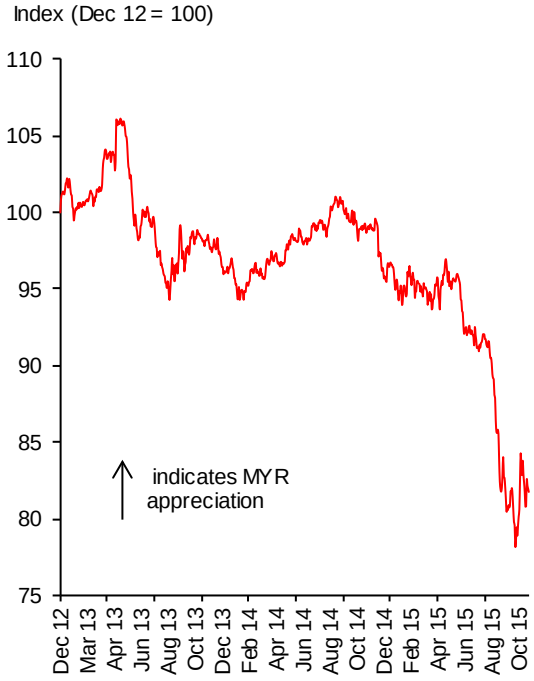


[1] Refers to ratio of individual plus collective impairment provisions to total impaired loans.

Source: Bank Negara Malaysia

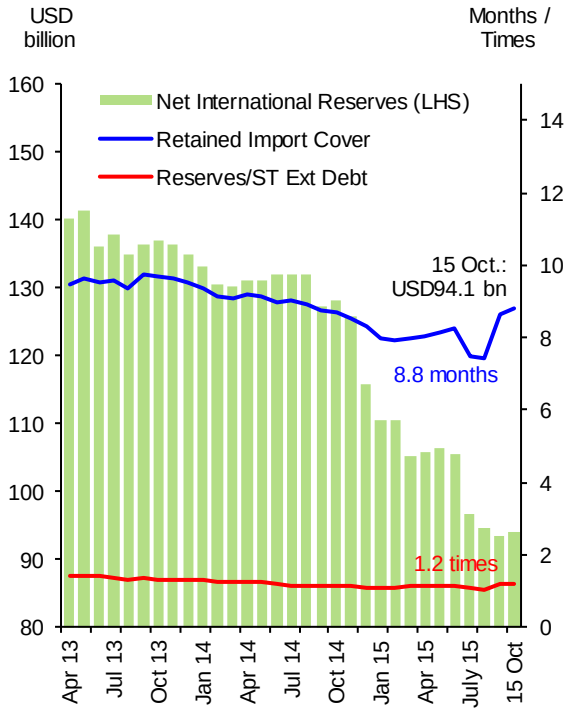
The ringgit depreciated against the currencies of major trade partners

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

		Jul 15		Aug 15		Sep 15	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Monetary Aggregates							
Reserve money		132.8	7.2	134.8	10.4	133.7	10.2
M1		347.2	4.6	351.5	8.8	358.0	8.3
M2		1,555.4	4.4	1,556.2	5.1	1,575.1	5.5
M3		1,561.3	3.8	1,563.2	4.6	1,583.0	5.3
Banking System							
Net financing[1]		1,846.2	8.5	1,867.6	9.2	1,880.0	8.8
Loan-deposit ratio (%) [2]		89.4		90.4		90.1	
Financing-deposit ratio (%) [2&3]		96.1		97.1		96.8	
Loans applied (during the period)		74.6	7.0	75.4	3.1	75.8	-0.5
Loans approved (during the period)		32.9	-0.9	31.4	-9.1	32.2	-15.2
Loans disbursed (during the period)		86.7	2.4	88.1	-2.4	98.8	4.2
Loans repaid (during the period)		83.9	-3.8	78.5	-3.6	92.8	10.7
Banking System Health							
Total capital ratio (%) [4]		15.5		14.8		14.8	
Tier 1 capital ratio (%) [4]		13.4		12.7		12.8	
Common equity tier 1 capital ratio (%) [4]		12.6		12.1		12.1	
Net impaired loans ratio (%)		1.2		1.2		1.2	
BNM International Reserves (end-period)							
Net Reserves in RM billion		364.7		357.7		415.1	
Net Reserves in USD billion (equivalent)		96.6		94.7		93.3	
Months of retained imports		7.5		7.4		8.6	
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.25		3.25		3.25	
Interbank:	Overnight	3.25 [3.23]		3.25 [3.22]		3.12 [3.18]	
	1-week	3.24 [3.25]		3.25 [3.25]		3.24 [3.25]	
	1-month	3.45 [3.35]		3.35 [3.37]		3.60 [3.45]	
Fixed deposits of commercial banks:	1-month	3.08		3.08		3.08	
	3-month	3.14		3.14		3.14	
BLR of commercial banks		6.79		6.79		6.79	
Base Rate [5]		3.85		3.85		3.85	
Weighted ALR of commercial banks		5.41		5.38		5.38	
Prices							
Consumer Price Index (CPI) (2010=100)		113.9	3.3	113.9	3.1	113.6	2.6

[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.

[3] Financing comprises loans and banking institutions' holdings of PDS.

[4] Beginning January 2013, capital components are reported based on Basel III Capital Adequacy Framework.

[5] 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.