BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 04/17/11

EMBARGO: Not for publication or broadcast before 1500 hours on Friday, 28 April 2017

MONETARY AND FINANCIAL DEVELOPMENTS
March 2017

Price Conditions: Headline inflation, as measured by the Consumer Price Index (CPI), increased to 5.1% in March (February: 4.5%) driven mainly by higher inflation in the *transport* category. While domestic fuel prices were kept unchanged during the month, these prices were significantly higher than the levels recorded during the corresponding period of 2016 (Price of RON95 petrol – March 2017: RM 2.30 per litre, March 2016: RM 1.60 per litre). This resulted in higher inflation of 23% in the *transport* category in March (February: 17.9%). Food inflation, however, declined to 4.1% (February: 4.3%) as supply conditions improved after the monsoon season. After recording increases for four consecutive months since November 2016, the month-on-month change of the *food and non-alcoholic beverages* category recorded a decline of 0.3% in March. Core inflation remained unchanged at 2.5%.

Monetary Conditions: Short-term interbank and retail lending rates were relatively stable in March. The weighted average base rate (BR) of commercial banks remained unchanged at 3.62%, while the weighted average lending rate (ALR) on outstanding loans was stable at 5.20% (February 2017: 5.21%). Net financing to the private sector registered an annual growth of 6.8% in March (February: 5.4%). This was driven by an increase in both the growth in loans extended by the banking system and development financial institutions (DFIs), and growth in net outstanding issuances of corporate bonds during the month. Outstanding business loans of the banking system recorded a higher annual growth of 7.2% in March (February: 5.4%), with the

growth driven by the bigger expansion in loans to the *manufacturing*; *construction*; *agriculture;* and *transport, storage and communication* sectors. For households, outstanding loans of the banking system recorded a growth of 5.2% (February: 5.1%). The level of loan applications and approvals for both businesses and households also increased during the month. On an annual basis, broad money (M3) grew at a higher rate of 4.5% in March (February: 3.6%). The expansion in broad money was mainly driven by the extension of credit to the private sector through the banking system and the bond market, and higher net claims on the Government. This expansion, however, was partially offset by the decline in net foreign assets due to net capital outflows during the month.

Banking System: The banking sector maintained its strong capacity to absorb losses, supported by high levels of capitalisation. Common equity tier-1, tier-1 and total capital ratios of banks remained well above the minimum regulatory levels at 13.1%, 13.9% and 17%, respectively. The level of net impaired loans sustained at 1.2% of net loans with loan loss coverage ratio at 89.1%. Taking into account regulatory reserves for loans and financing, banks maintained sufficient buffer for potential credit losses.

Exchange Rates and International Reserves: In March, the ringgit and most major and regional currencies appreciated against the US dollar amid the broad weakening of the US currency. The ringgit's performance against the currencies of other major trade partners was mixed. The international reserves of Bank Negara Malaysia amounted to USD95.7 billion (equivalent to RM423.2 billion) as at 14 April 2017. This level remains ample to facilitate international transactions and is sufficient to finance 8.2 months of retained imports and is 1.1 times the short-term external debt[1].

Bank Negara Malaysia
28 April 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.

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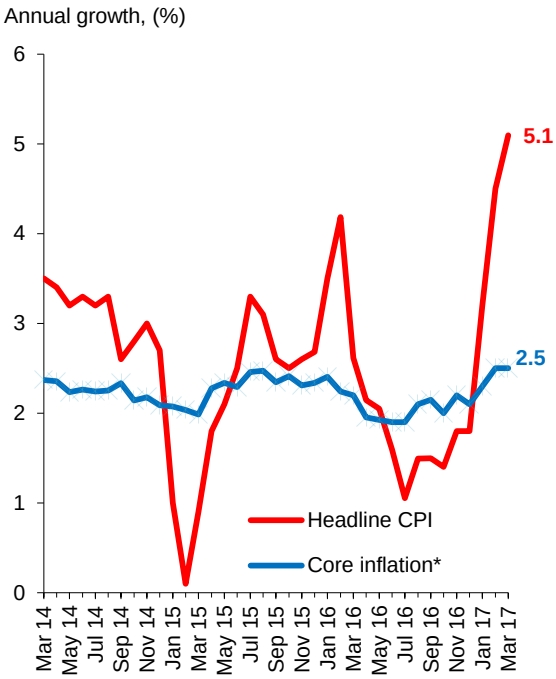
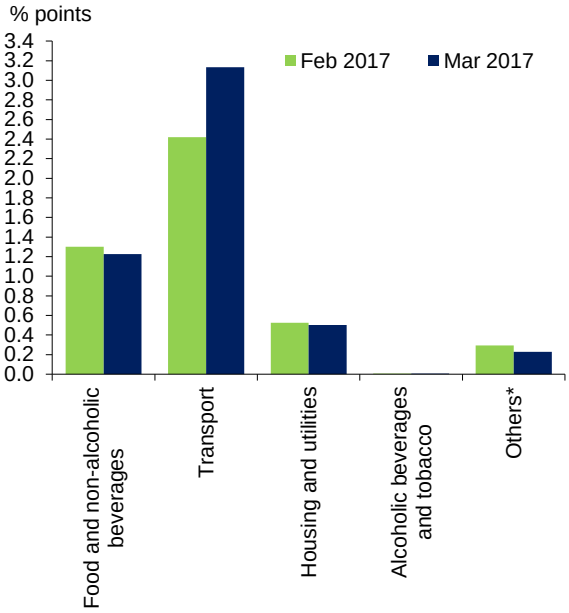
Headline inflation increased to 5.1% in March

Headline Inflation



*Core inflation excludes GST impact
Source: Department of Statistics Malaysia, Bank Negara Malaysia

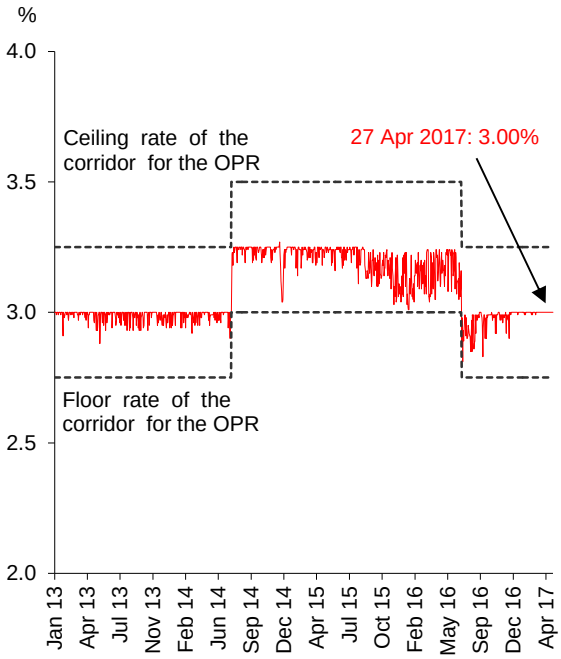
Headline Inflation: Component Contribution



*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

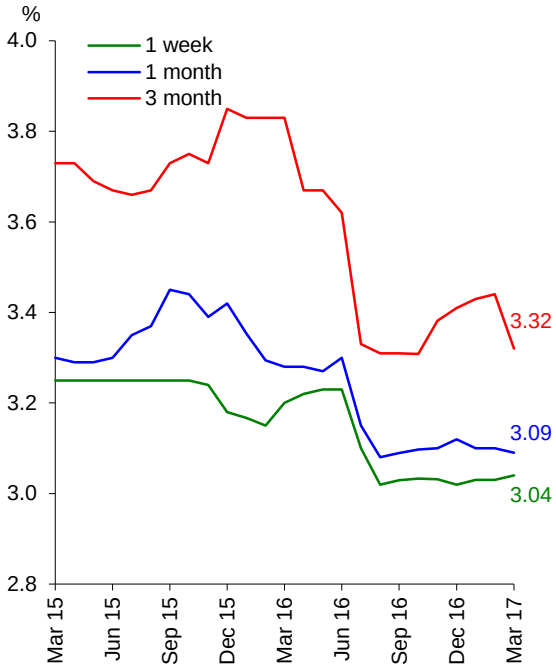
Short-term interbank rates were stable in March

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

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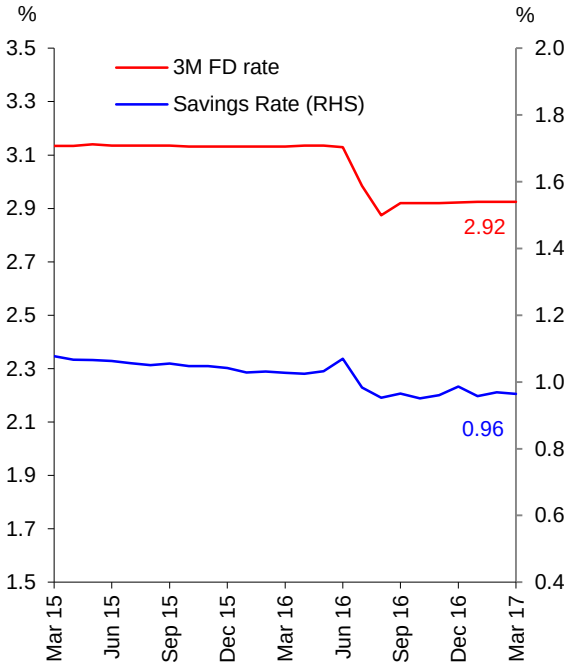
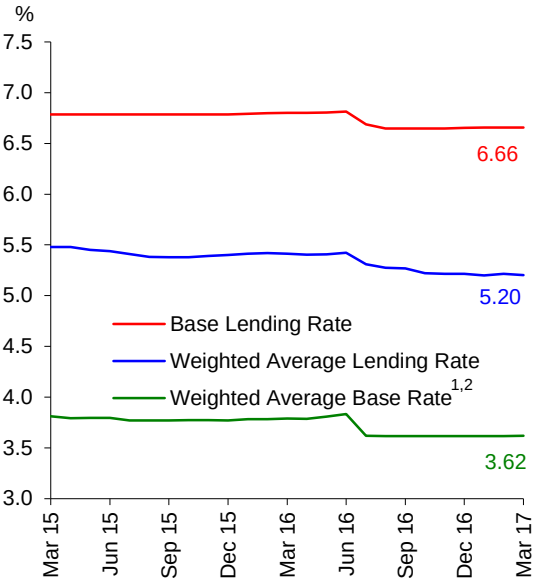
Deposit Rates of Commercial Banks



Source: Bank Negara Malaysia

Lending Rates of Commercial Banks

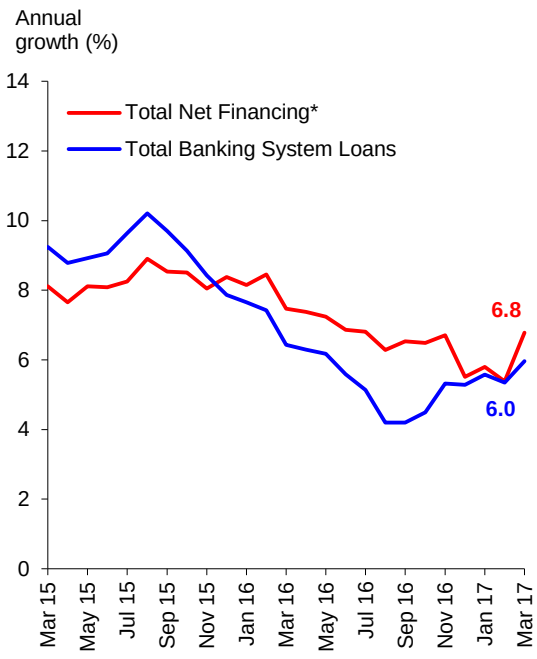


[1] On 2 January 2015, the Base Rate (BR) replaced the Base Lending Rate (BLR) as the reference rate for new retail floating-rate loans and financing facilities
[2] Weights are based on individual banks' share of all outstanding floating-rate loans

Source: Bank Negara Malaysia

Higher growth of net financing in March

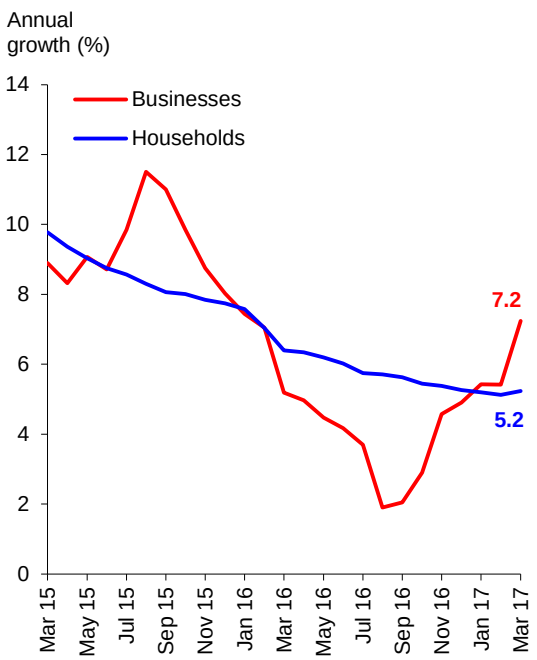
Net Financing and Outstanding Loans



* 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

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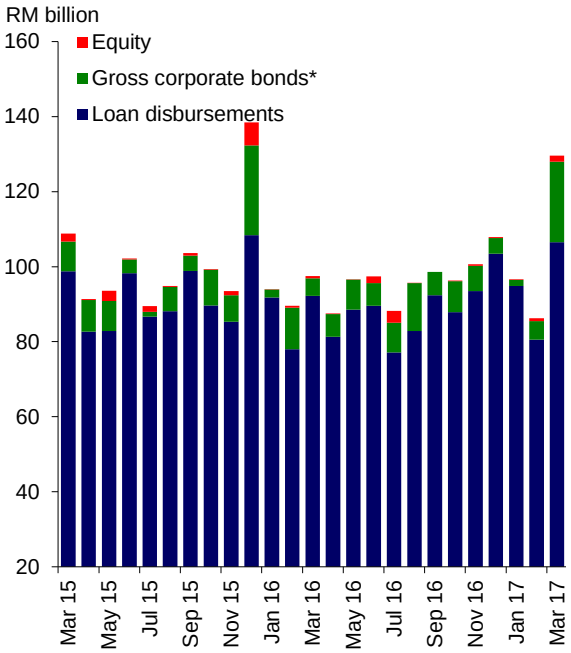
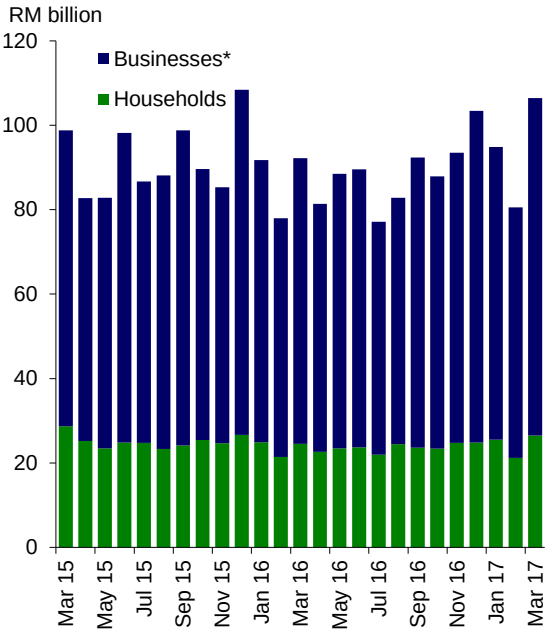
Gross Private Sector Financing



* Excluding Cagamas and non-residents issuances

Source: Bank Negara Malaysia

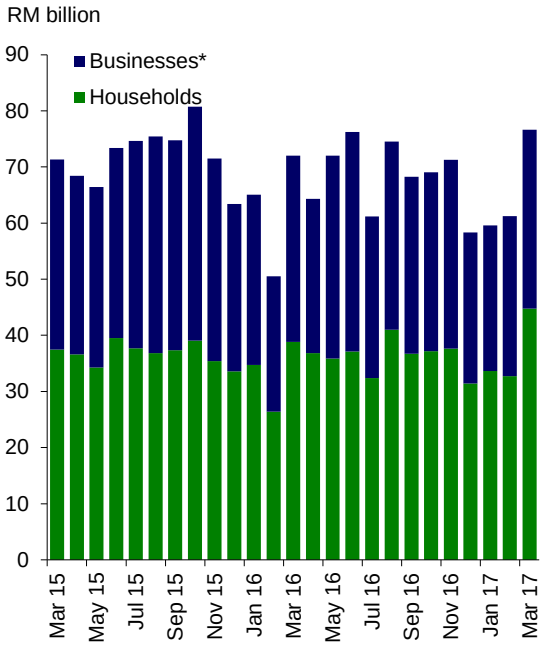
Loan Disbursements by the Banking System



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

Source: Bank Negara Malaysia

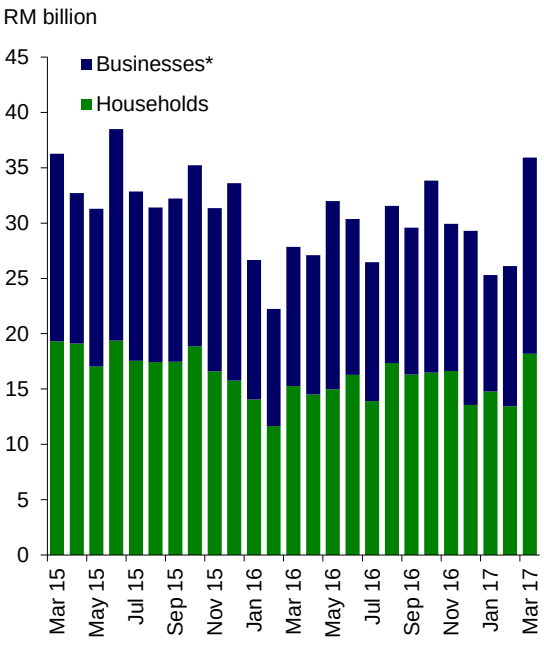
Loan Applications to the Banking System



* 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

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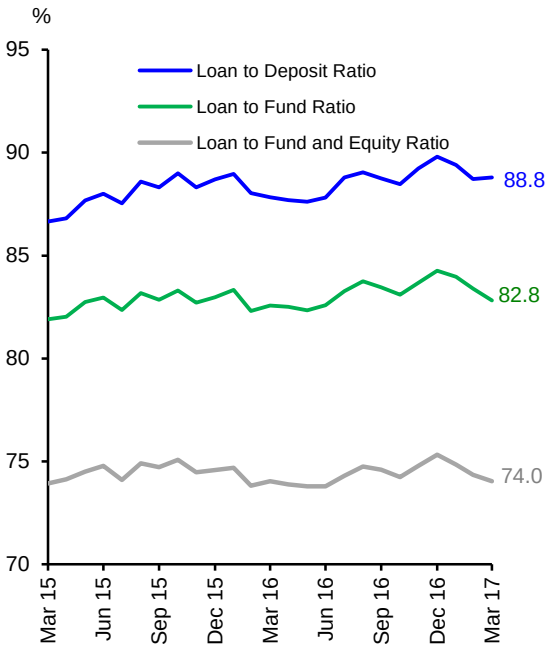
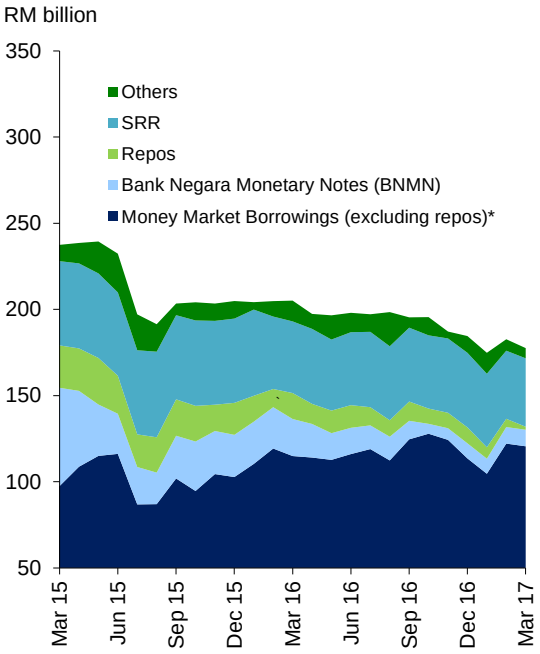
Liquidity in the banking system remained sufficient

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

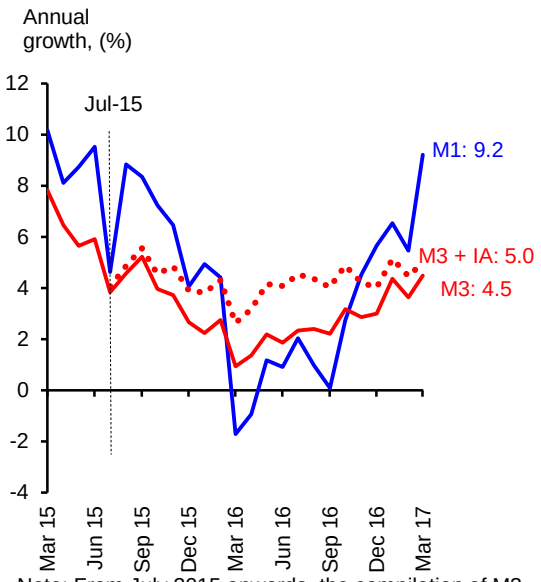
Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia (at end-period)



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

Broad money growth increased in March

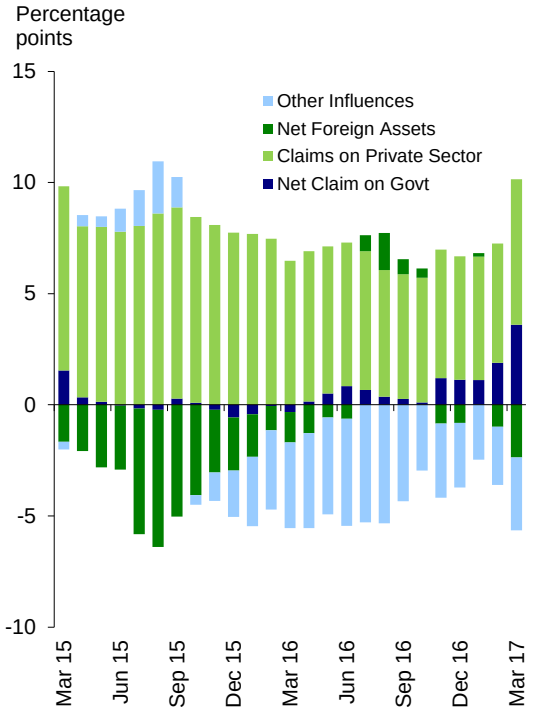
M1 and M3



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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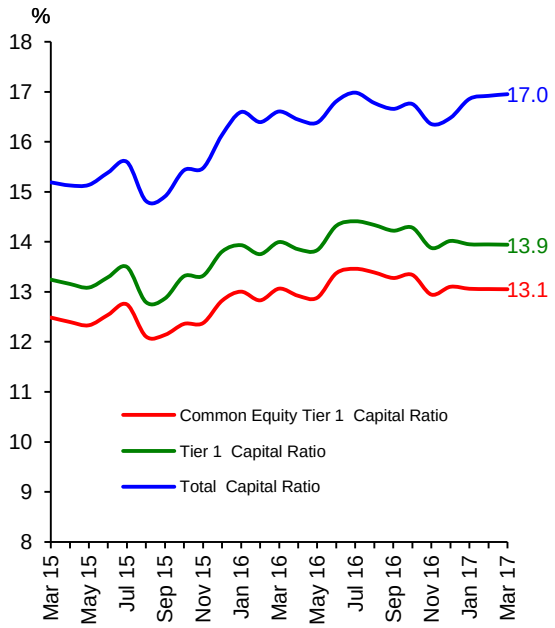
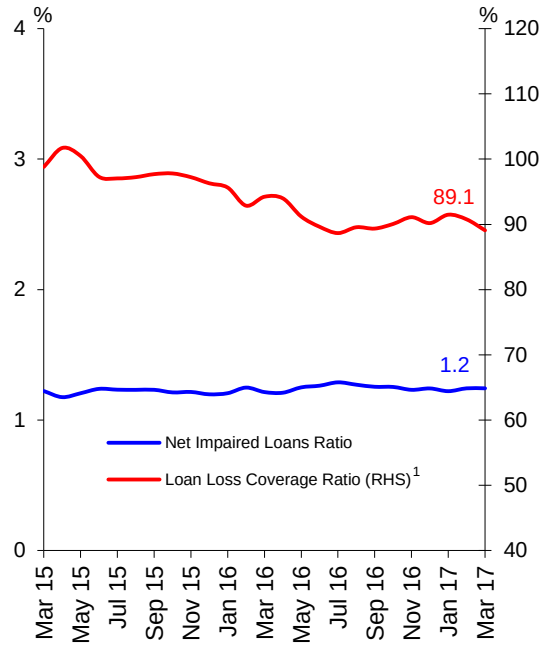
Banking system capitalisation remained strong with stable loan quality

Capital Strength



Source: Bank Negara Malaysia

Net Impaired Loans Ratio and Loan Loss Coverage Ratio[1]

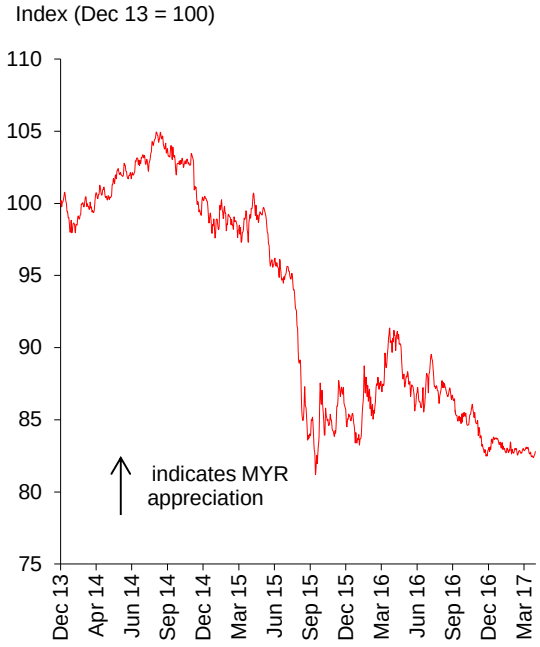


[1] Refers to ratio of individual plus collective impairment provisions to total impaired loans

Source: Bank Negara Malaysia

The ringgit's performance against the currencies of other major trade partners was mixed

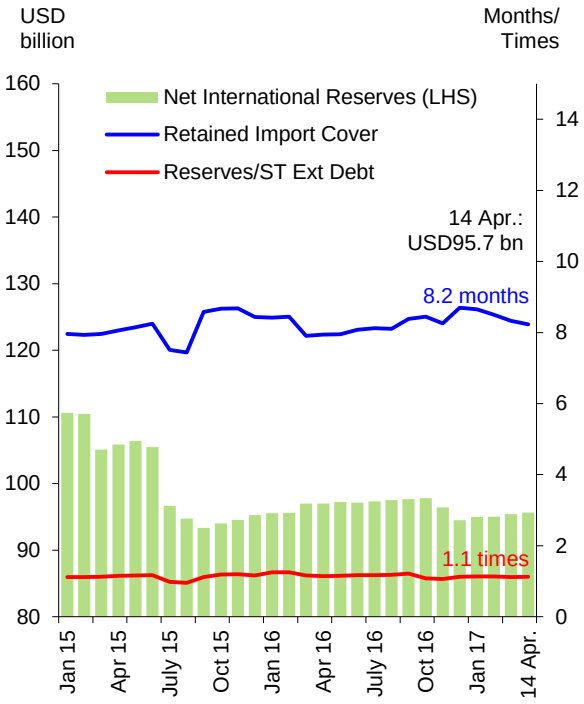
Index of Ringgit Performance against Major Trade Partners*



*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

		Jan 17		Feb 17		Mar 17	
		O/stg	Ann. growth	O/stg	Ann. growth	O/stg	Ann. growth
		(RM bil)	(%)	(RM bil)	(%)	(RM bil)	(%)
Interest Rates at end-period [average for the month]							
Overnight Policy Rate (OPR)		3.00		3.00		3.00	
Interbank:	Overnight	2.99 [3.00]		3.00 [3.00]		3.00 [3.00]	
	1-week	3.02 [3.03]		3.03 [3.03]		3.04 [3.04]	
	1-month	3.10 [3.10]		3.08 [3.10]		3.08 [3.09]	
	3-month	3.43 [3.43]		3.49 [3.44]		3.38 [3.32]	
Fixed deposits of commercial banks:	1-month	2.87		2.87		2.87	
	3-month	2.92		2.92		2.92	
BLR of commercial banks		6.66		6.66		6.66	
Weighted Base Rate [6]		3.62		3.62		3.62	
Weighted ALR of commercial banks		5.20		5.21		5.20	
Banking System							
Net financing[1]		2,190.4	5.8	2,194.3	5.4	2,222.0	6.8
Loan to deposit ratio (%) [2]		89.4		88.7		88.8	
Loan to fund ratio (%) [2&3]		84.0		83.4		82.8	
Loan to fund and equity ratio (%) [2,3&4]		74.9		74.4		74.0	
Loans outstanding in RM billion		1,527.9	5.6	1,527.3	5.3	1,535.8	6.0
Loans applied (during the period)		59.6	-8.4	61.2	21.2	76.6	6.4
Loans approved (during the period)		25.3	-5.1	26.1	17.4	35.9	28.9
Loans disbursed (during the period)		94.9	3.4	80.5	3.3	106.4	15.4
Loans repaid (during the period)		92.0	-0.7	85.4	7.1	101.9	10.4
Monetary Aggregates							
Reserve money		148.1	2.8	139.8	4.7	139.4	7.2
M1		387.1	6.5	387.0	5.5	386.8	9.2
M2		1,651.2	4.4	1,657.1	3.8	1,670.6	4.6
M3		1,657.5	4.4	1,661.7	3.6	1,676.0	4.5
Banking System Health							
Total capital ratio (%) [5]		16.9		16.9		17.0	
Tier 1 capital ratio (%) [5]		14.0		13.9		13.9	
Common equity tier 1 capital ratio (%) [5]		13.1		13.1		13.1	
Net impaired loans ratio (%)		1.2		1.2		1.2	
BNM International Reserves (end-period)							
Net Reserves in RM billion		425.9		426.2		422.1	
Net Reserves in USD billion (equivalent)		95.0		95.0		95.4	
Months of retained imports		8.7		8.5		8.3	
Prices							
Consumer Price Index (CPI) (2010=100), (%)		3.2		4.5		5.1	

[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 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

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