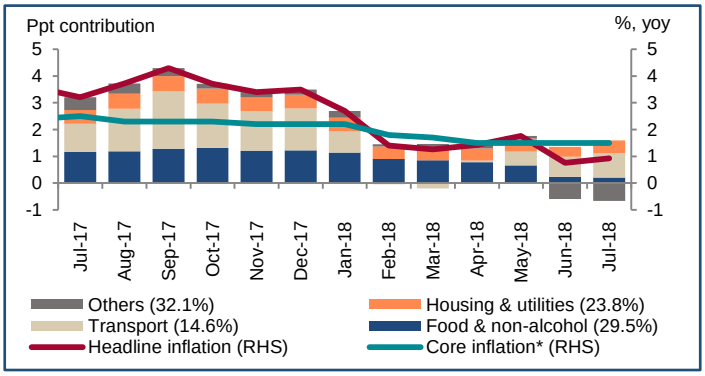
BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Monthly Highlights
July 2018

Inflation remained low in July

Contribution to Inflation

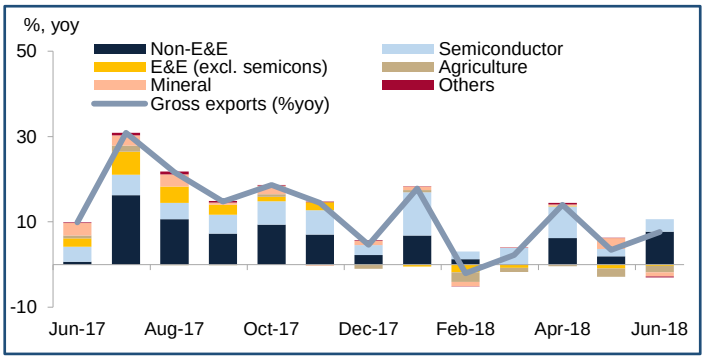


*Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of the GST.
Source: Department of Statistics, Malaysia and staff estimates

- Headline inflation rose slightly to 0.9% in July (June: 0.8%) due mainly to higher inflation in the *transport* and *housing, water, electricity, gas and other fuels* categories.
- The pass-through from the zerorisation of GST rate was marginally higher in July at 45% (June: 40%).
- Excluding the impact of GST zerorisation, core inflation remained stable at 1.5% in July (June: 1.5%).

Exports improved in June 2018

Malaysia's Exports by Product

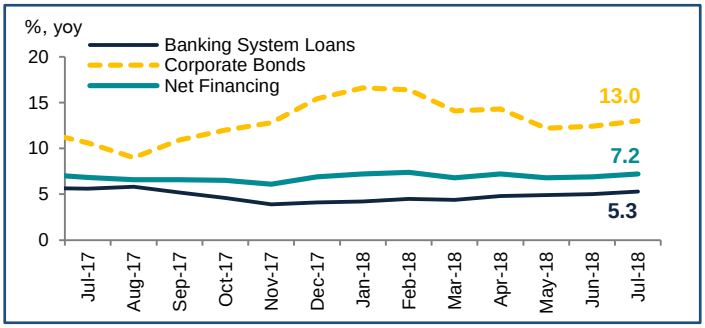


Source: Department of Statistics Malaysia (DOSM), MATRADE

- Export growth picked up to 7.6% in June 2018 (May: 3.4%). The improvement was supported mainly by strong growth in semiconductor and non-E&E exports such as chemicals, metal manufactures and petroleum products.
- Export growth in 2H 2018 is expected to be sustained, supported by continued firm external demand as indicated by positive forward-looking indicators such as the global manufacturing PMI.

Net financing growth continued to support economic activity

Net Financing through Banking System Loans and Corporate Bonds



[1] Net financing refers to outstanding loans of the banking system (excluding development financial institutions (DFIs)), and outstanding corporate bonds.
[2] 3-month moving average.
[3] The 1 June – 31 August 2018 period during which the GST was zerorised from 6%, and prior to the reinstatement of the Sales and Services Tax (SST) from September 2018.
Source: Bank Negara Malaysia

- Net financing[1] growth increased to 7.2% in July (June: 6.9%), driven by the increase in growth of both outstanding corporate bonds (July: 13.0%; June: 12.4%) and outstanding banking system loans (July: 5.3%; June: 5.0%).
- The outstanding loan growth increased in July for both businesses (July: 3.7%; June: 3.0%) and households (July: 6.0%; June: 5.8%).
- In particular, the growth[2] of household loan applications and approvals for the *purchase of passenger cars* continued to increase in July to 24.8% and 39.1%, respectively, due mainly to the tax holiday period[3] (June: 15.3% and 21.9%, respectively).

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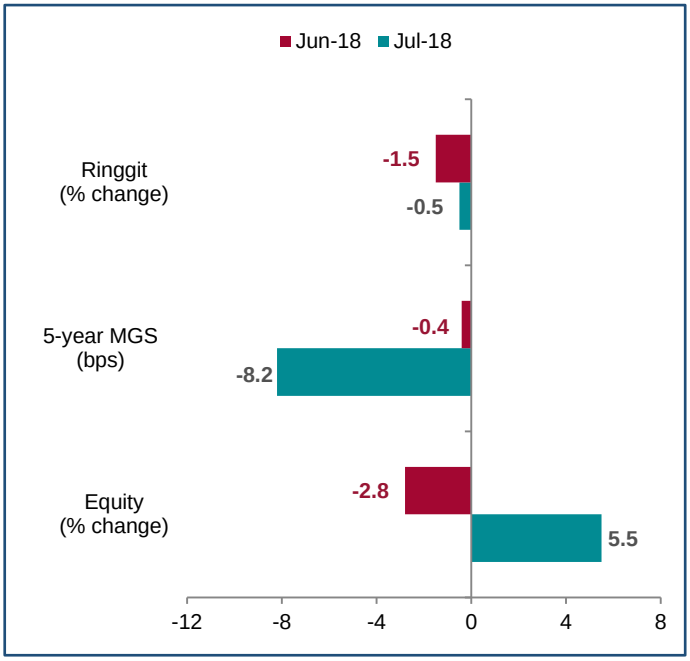
Domestic financial markets continued to be supported by DIIs in July

Financial Markets Performance

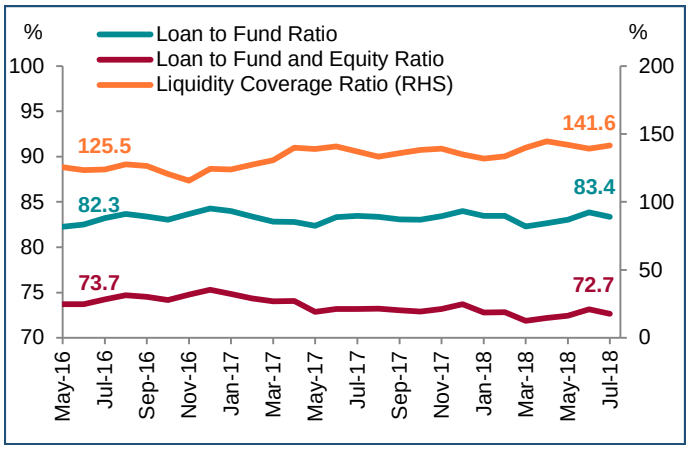


Source: Bank Negara Malaysia, Bursa Malaysia

- The ringgit depreciated by 0.5% in July amid non-resident portfolio outflows, due mainly to lingering concerns over the escalating global trade tensions and expectations of a faster pace of US monetary policy normalisation.
- Nevertheless, the bond and equity markets improved amid continued interest from domestic institutional investors (DIIs).
  - The bond market experienced a resumption of non-resident inflows during the month. Along with sustained demand from DIIs, this led to an 8 basis points decline in the 5-year MGS yield.
  - The FBM KLCI increased by 5.5% despite continued non-resident outflows. Construction stocks registered a strong recovery, supported by DII buying interest amid some clarity on the status of infrastructure projects.

Banks maintain sufficient liquidity to support intermediation and meet exigent needs

Banking System Liquidity and Funding Ratios



- Banking system liquidity coverage ratio (LCR) stood at 141.6%, with all banks recording LCR levels above 100%, despite full implementation[1] only coming into effect on 1 January 2019.
- Funding profile of the banks was stable. The loan-to-fund ratio (LTF) and the loan-to-fund-and-equity (LTFE) ratio stood at 83.4% and 72.7%, respectively.

[1] The Basel III LCR has been phased in since June 2015, with initial compliance set at 60% and progressive increments of 10% each year until 100% with effect from 2019. As of 1 January 2018, the minimum requirement is set at 90%.

Source: Bank Negara Malaysia

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MONTHLY HIGHLIGHTS – JULY 2018

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Bank Negara Malaysia
30 August 2018

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