**Monthly Highlights**

**May 2019**

**Headline inflation remained unchanged in May 2019**

Headline inflation was unchanged at 0.2% in May (April: 0.2%) amid continued negative contribution from transport inflation.

Food inflation was relatively stable (May: 1.2%; April: 1.1%), with some fresh food items exhibiting higher inflation, mainly due to unfavourable weather conditions.

Excluding the impact of the changes in the consumption tax policy, core inflation¹ was stable at 1.6%.

**Overall IPI grew by 4.0% in April 2019**

The latest overall Industrial Production Index (IPI) recorded a higher annual growth rate of 4.0% in April (March: 3.1%) amid improvement across all sectors.

The manufacturing sector recorded a higher growth of 4.3% in April (March: 4.1%) due to a broad-based improvement across most sub-sectors. In particular, improvement in the production of E&E products tracks similar rebound in other countries along the electronics global value chain such as Korea and Taiwan.

**Net financing continued to support economic activity**

Net financing¹ expanded by 6.3% in May (April: 5.1%), driven mainly by higher outstanding corporate bond growth (May: 11.1%; April: 6.8%) amid sustained growth in outstanding loans (May: 4.6%; April: 4.5%). Higher bond issuance in May was mainly in the finance, insurance, real estate and business services sector.

Total loans disbursed by the banking system remained steady (May: RM101.5 bn; April: RM101.6 bn), significantly higher than the historical monthly average of RM93.0 bn. The positive trend is observed across both the business and household segments.

Outstanding business loans grew by 3.4% (April: 3.2%), while outstanding household loan growth was stable at 5.3% (April: 5.2%).

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¹Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of tax policy changes.

Source: Department of Statistics Malaysia (DOSM), Bank Negara Malaysia staff estimates

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¹Net financing refers to outstanding loans of the banking system (excluding development financial institutions (DFIs)), and outstanding corporate bonds.

Source: Bank Negara Malaysia
Domestic financial markets experienced mixed performance in May

- The domestic financial markets experienced non-resident portfolio outflows, driven by cautious investor sentiments against the backdrop of escalating global trade tensions. As a result, the ringgit depreciated by 1.5% against the US dollar, in line with most regional currencies (between -0.5% to -2.2%), and the 10-year MGS yield increased marginally by 0.4 basis points.

- The FBM KLCI, however, gained 0.5%, driven by the strong corporate earnings performance across various sectors. Investor sentiments were also supported by upgrades to the outlook for the Malaysian equity market.

Banks maintain sufficient liquidity to support intermediation and meet exigent needs

- Banking system liquidity remained ample, with liquidity coverage ratio (LCR) at 155.2%\(^1\) in May (Apr-19: 159.9%). The recent slight decline was due to lower placements with BNM.

- Funding profile of the banks remained stable. The loan to fund ratio and the loan to fund and equity ratio stood at 82.2% and 71.8%, respectively.

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\(^1\) 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 2019, the minimum requirement is set at 100%.
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**Bank Negara Malaysia**

28 June 2019

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