

20120201 Bank Negara Malaysia: Monetary and Financial Developments (December 2011)

Source: Bank Negara Malaysia

Price Conditions: Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), was lower at 3.0% in December. Inflation in the transport category was lower as the impact from the one-off adjustment to the prices of RON95 petrol, diesel and LPG in December 2010 wore off. Food inflation was unchanged during the month as higher inflation in the fish and seafood and rice, bread and other cereals sub-categories was mitigated by the slower increase of prices in the sugar, jam, honey, chocolate and confectionary and meat sub-categories. Higher inflation in the fish and seafood sub-category was due to supply shortages caused by adverse weather conditions while higher inflation in the rice, bread and other cereals sub-category was due to higher prices of fragrant and imported rice. Meat prices were lower as the Government implemented price controls on selected food produce during the festive season.

Monetary Conditions: Interbank rates were stable in December. In terms of retail rates, the average base lending rate (BLR) of commercial banks moderated slightly to 6.53% as at end-December. Retail deposit rates were stable. Broad money (M3) increased at a higher annual rate of 14.4% in December. The increase was mainly attributed to a rise in credit extended by the banking system to the private sector and higher capital inflows. Net financing to the private sector grew at a slower pace in December due mainly to lower net private debt security (PDS) issuances. The outstanding banking system loans, however, expanded by 13.6% during the month with a higher amount of loans being extended to businesses in the wholesale and retail, restaurants and hotels; manufacturing; transport, storage and communication and real estate sectors. Loan growth to households also rose significantly during the month due mainly to the base effect of lower loans extended for the purchase of pas senger cars during the same period in 2010. Loan demand remained strong with higher loan applications from both the business and household sectors.

Banking System: The banking system capitalisation remained strong with the risk-weighted capital ratio (RWCR) and core capital ratio (CCR) at 14.9% and 12.9% respectively. The level of net impaired loans improved amounting to 1.8% of net loans, while the loan loss coverage ratio remained high at 99.6%.

Exchange Rates and International Reserves: In December, the ringgit exhibited a mixed performance against the currencies of Malaysia's major trading partners. The ringgit depreciated against the US dollar, Chinese renminbi and Japanese yen, but strengthened against the euro and Singapore dollar. The ringgit's depreciation against the US dollar was in line with most regional currencies. In January, the ringgit broadly appreciated against the currencies of Malaysia's major trading partners. The international reserves of Bank Negara Malaysia stood at RM423.5 billion (equivalent to USD133.7 billion) as at 13 January 2012, sufficient to finance 9.6 months of retained imports and is 4 times the short-term external debt.

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