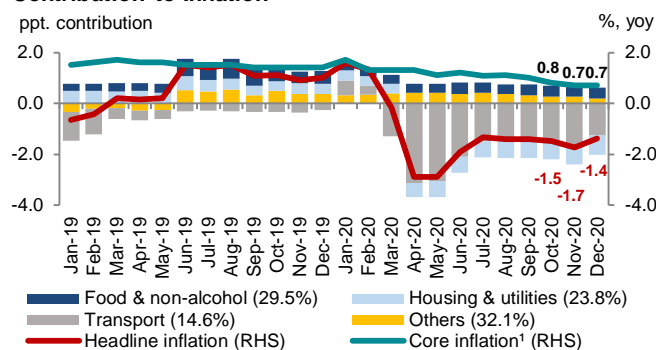


Headline inflation was less negative at -1.4% in December

Contribution to Inflation



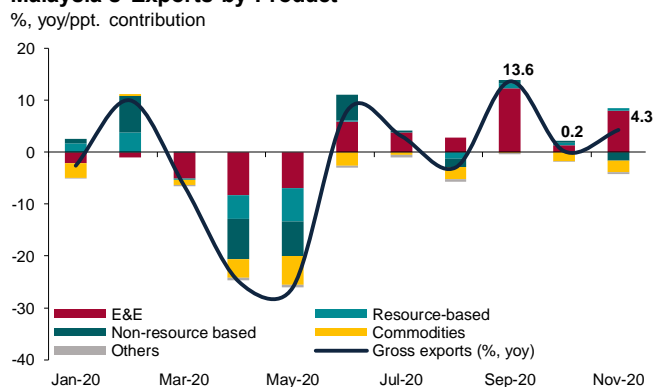
- The less negative headline inflation at -1.4% during the month (November 2020: -1.7%) was due mainly to higher domestic retail fuel prices.
- Underlying inflation, as measured by core inflation, remained stable at 0.7%.
- For 2020 as a whole, average headline inflation was lower at -1.2% (2019: 0.7%) mainly reflecting the substantially lower global oil prices. Core inflation remained positive, averaging at 1.1% (2019: 1.5%).

¹ Core 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 estimates

Export growth improved in November

Malaysia's Exports by Product

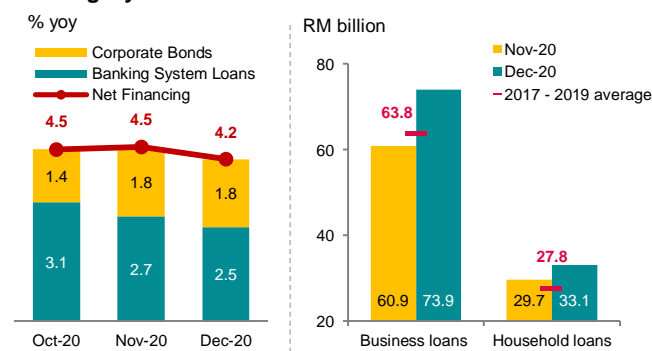


- Export growth improved to 4.3% in November 2020 (October 2020: 0.2%), due mainly to stronger E&E exports. By destination, the stronger E&E export performance was driven by higher exports to PR China, Hong Kong SAR and Singapore.
- Looking ahead, exports are expected to be supported by the recovery in global growth, continued demand for electronics exports and higher commodity prices. Nonetheless, the trade outlook remains contingent on global developments surrounding the COVID-19 pandemic.

Source: Department of Statistics, Malaysia (DOSM), MATRADE

Continued expansion in net financing

Contribution to Net Financing¹ Growth and Level of Banking System Loan Disbursements



- Net financing continued to expand amid a moderation in total outstanding loan growth (December 2020: 3.4%, November 2020: 3.8%) while outstanding corporate bond growth was sustained at 6.5% (November 2020: 6.7%).
- Outstanding household loan growth was sustained at 5.0% (November 2020: 5.0%) as loan disbursements increased and remained higher than the historical average (December 2020: RM33.1 billion, November 2020: RM29.7 billion).
- Outstanding business loan growth declined (December 2020: 0.5%, November 2020: 1.2%) due to a high base effect² in December 2019. However, disbursements increased driven by higher working capital loans.

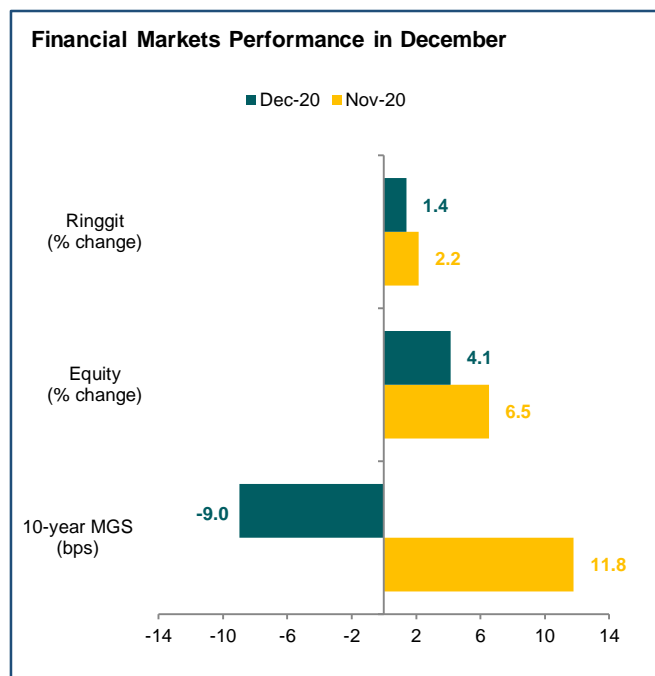
¹ Refers to outstanding loans of the banking system (excluding development financial institutions (DFIs)).

² Due to disbursements of large-value loans in the manufacturing sector. The growth would have been 1.3% excluding the base effect.

Note: Figures may not necessarily add up due to rounding

Source: Bank Negara Malaysia

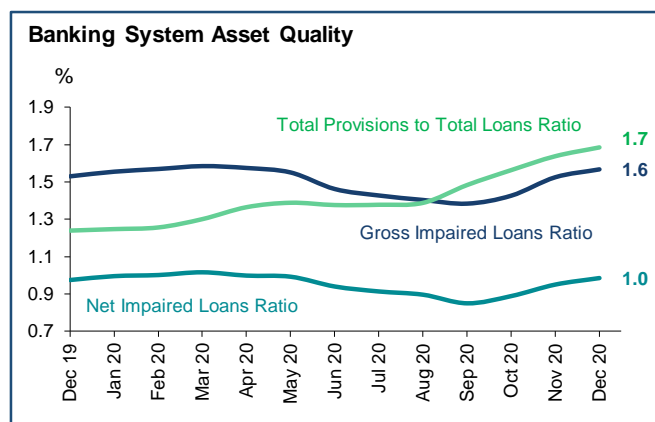
Performance of domestic financial markets improved significantly



Source: Bank Negara Malaysia, Bursa Malaysia

- In December, global investor sentiments continued to improve amid expectations for an eventual normalisation of economic activities, following government authorisations on the use of COVID-19 vaccines by major economies. This occurred despite some concerns on the potential slowing down of the global economic recovery, as several major economies introduced additional lockdown measures amid surges in COVID-19 infections during the month.
- Consequently, global and regional equity indices recorded gains, reflecting higher investor risk appetite for riskier assets. Similarly, the FBM KLCI increased by 4.1%.
- The improved investor risk appetite also led to non-resident portfolio inflows into the domestic bond market amid yield-seeking activities by global investors. As a result, the 10-year MGS declined by 9 basis points, and the ringgit appreciated by 1.4% against the US dollar.

Banking system asset quality remains healthy despite rising impairments



Source: Bank Negara Malaysia

- Gross impaired loans ratio continued to inch upwards, returning to levels comparable to 2019 (December 2020: 1.6%; November 2020: 1.5%).
- Banks continued to set aside additional provisions as a precaution against future credit losses with the total provisions to total loans ratio increasing to 1.7% in December (November 2020: 1.6%).
- Borrowers that remain affected by the challenging conditions continue to receive needed support from banks, through targeted repayment assistance.



SIARAN AKHBAR

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MONTHLY HIGHLIGHTS – DECEMBER 2020

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- Underlying inflation, as measured by core inflation¹, remained stable at 0.7%.
- For 2020 as a whole, average headline inflation was lower at -1.2% (2019: 0.7%) mainly reflecting the substantially lower global oil prices. Core inflation remained positive, averaging at 1.1% (2019: 1.5%).

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- Export growth improved to 4.3% in November 2020 (October 2020: 0.2%), due mainly to stronger E&E exports. By destination, the stronger E&E export performance was driven by higher exports to PR China, Hong Kong SAR and Singapore.
- Looking ahead, exports are expected to be supported by the recovery in global growth, continued demand for electronics exports and higher commodity prices. Nonetheless, the trade outlook remains contingent on global developments surrounding the COVID-19 pandemic.

Continued expansion in net financing

- Net financing² continued to expand amid a moderation in total outstanding loan growth (December 2020: 3.4%, November 2020: 3.8%) while outstanding corporate bond growth was sustained at 6.5% (November 2020: 6.7%).

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Performance of domestic financial markets improved significantly

- In December, global investor sentiments continued to improve amid expectations for an eventual normalisation of economic activities, following government authorisations on the use of COVID-19 vaccines by major economies. This occurred despite some concerns on the potential slowing down of the global economic recovery, as several major economies introduced additional lockdown measures amid surges in COVID-19 infections during the month.
- Consequently, global and regional equity indices recorded gains, reflecting higher investor risk appetite for riskier assets. Similarly, the FBM KLCI increased by 4.1%.
- The improved investor risk appetite also led to non-resident portfolio inflows into the domestic bond market amid yield-seeking activities by global investors. As a result, the 10-year MGS declined by 9 basis points, and the ringgit appreciated by 1.4% against the US dollar.

Banking system asset quality remains healthy despite rising impairments

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Bank Negara Malaysia
29 January 2021

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