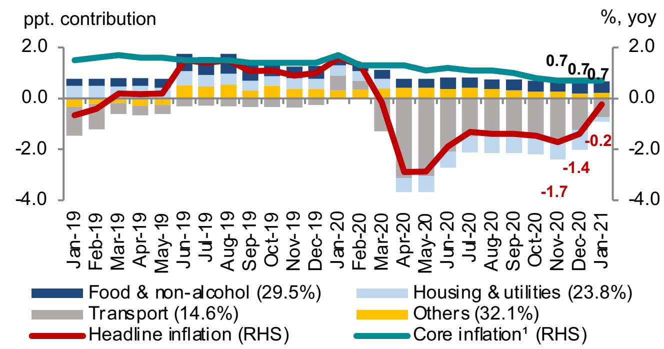
BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Monthly Highlights
January 2021

Headline inflation was less negative at -0.2%

Contribution to Inflation

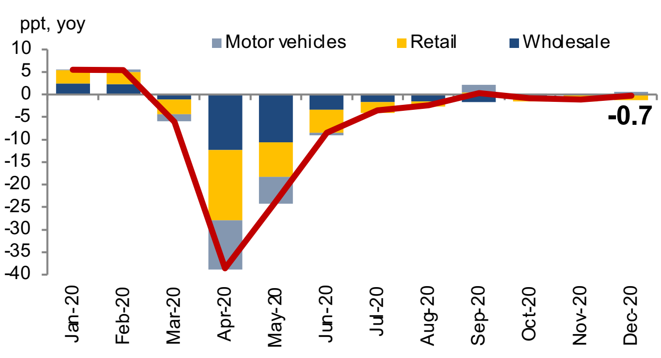


[1] Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of tax policy changes.
Source: Department of Statistics Malaysia (DOSM), Bank Negara Malaysia estimates

- The less negative headline inflation in January (December 2020: -1.4%) was driven mainly by the increase in electricity inflation and higher domestic retail fuel prices during the month.
- These increases reflected the lapse in the effect from the tiered electricity tariff rebate and the rise in global oil prices respectively.
- Underlying inflation, as measured by core inflation, remained stable at 0.7%.

IOWRT improved in December, with a smaller contraction

IOWRT: Contribution to growth

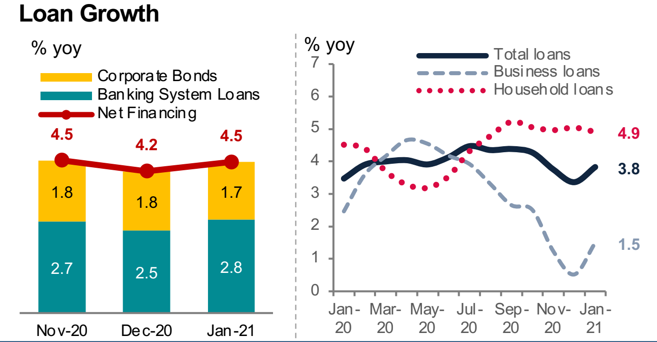


Source: Department of Statistics, Malaysia

- The Index of Wholesale and Retail Trade (IOWRT) improved in December 2020, recording a smaller annual contraction of 0.7% in December 2020 (November: -1.6%), due to the relaxation of CMCO, including the removal of restrictions on interstate travel and mobility on 9 December.
- The improvement was seen in wholesale trade, which declined marginally by 0.02% (Nov: -0.5%), while motor vehicles rose by 6.0% (Nov: 0.5%).
- Meanwhile, retail trade declined at a smaller rate (-2.9%; November: -3.2%).

Higher expansion in net financing

Contribution to Net Financing[1] Growth and Outstanding Loan Growth

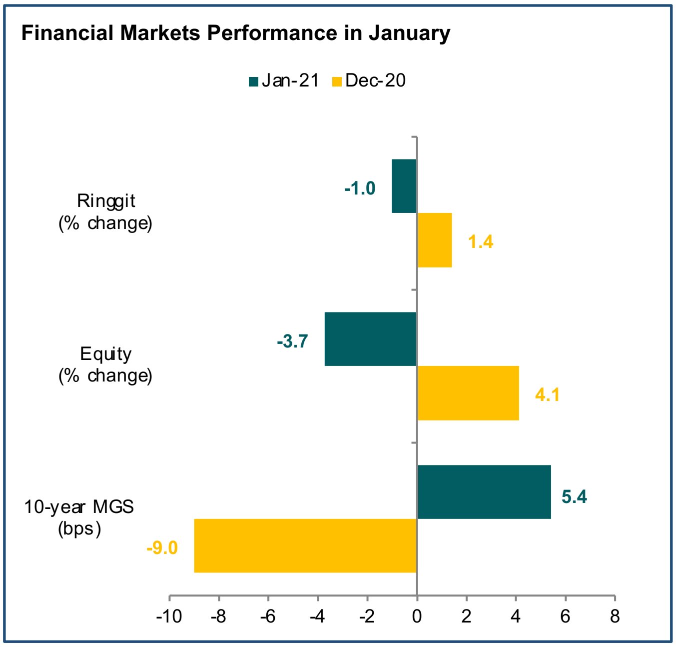


[1] Refers to outstanding loans of the banking system (excluding development financial institutions (DFIs)).
[2] High base effect due to disbursements of large-value loans in the manufacturing sector in December 2019
Source: Bank Negara Malaysia

- Net financing expanded at 4.5% amid higher outstanding loan growth (January: 3.8%, December: 3.4%) while outstanding corporate bond growth moderated slightly to 6.3% (December: 6.5%).
- Outstanding household loan growth was sustained at 4.9% (December: 5.0%) with disbursements remaining above historical average (January: RM28.8bn, 2017-19 monthly average: RM27.8bn).
- Outstanding business loan grew at 1.5% after a slower growth in December 2020[2]. The growth was contributed mainly by the SME segment.

Monthly Highlights
January 2021

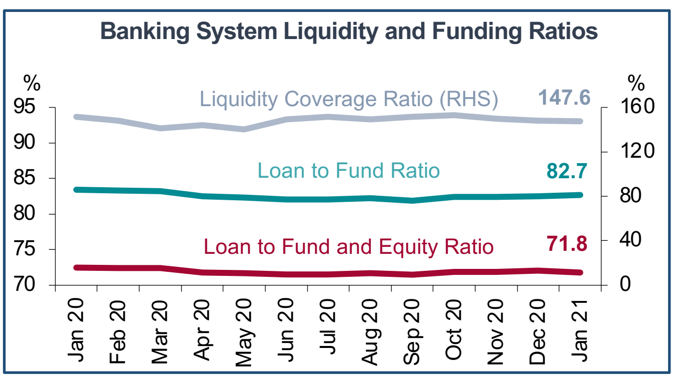
Performance of domestic financial markets declined during the month



Source: Bank Negara Malaysia, Bursa Malaysia

- In January, the performance of domestic financial markets was affected by a confluence of global and domestic factors.
- Globally, an uptick in US Treasury yields amid rising US inflation expectations pushed global bond yields higher, while supporting a broad strengthening of the US dollar. As a result, the 10-year MGS yield increased by 5.4 basis points and the ringgit depreciated by 1.0% against the US dollar, in line with regional trends.
- Domestically, investor sentiments were affected by the re-imposition of stricter containment measures to address rising COVID-19 infections. In particular, concerns on the impact of these restrictions to domestic corporate earnings weighed on equity market sentiments. As a result, the FBM KLCI declined by 3.7% during the month.

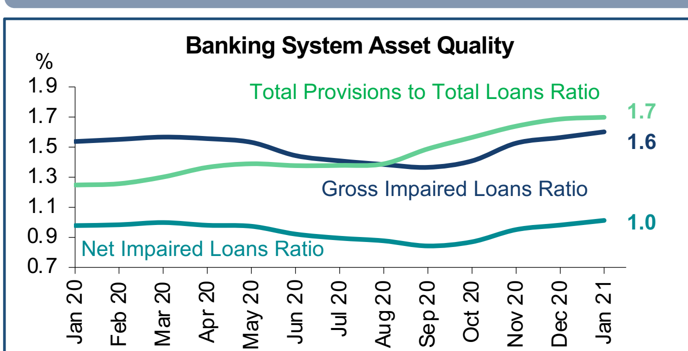
Banking system liquidity remained supportive of financial intermediation



Source: Bank Negara Malaysia

- Banking system liquidity coverage ratio (LCR) remained at a healthy level, despite a slight decline in January 2021 (Dec-20: 148.2%).
  - This was supported by higher holdings of marketable securities and placements with central banks.
- Banks' funding profile also remained stable amid sustained growth in deposits.

Banking system asset quality remains healthy



Source: Bank Negara Malaysia

- Gross impaired loans ratio increased marginally to 1.60% in January 2021 (December 2020: 1.56%).
- Banks continued to pre-emptively identify loans with higher credit risks and set aside additional provisions against future potential losses to ensure their continued resilience.

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MONTHLY HIGHLIGHTS – JANUARY 2021

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Bank Negara Malaysia
26 February 2021

[3] High base effect due to disbursements of large-value loans in the manufacturing sector in December 2019.