

## Monetary and Financial Developments in July 2025

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### Headline inflation increased, while core inflation remained unchanged

- In July, headline inflation increased slightly to 1.2% (June: 1.1%), while core inflation<sup>[1]</sup> remained unchanged at 1.8% (June: 1.8%).
- The higher headline inflation reflected sustained core inflation and increases in selected non-core components, such as fresh vegetables and air fares.
- This was partly offset by a decline in electricity CPI, reflecting the restructuring of electricity tariffs during the month. In particular, electricity bills were lower for most households following lower domestic tariff rates and rebates for lower electricity usage under the Energy Efficiency Incentive.

### Export growth turned positive, while import growth moderated in July

- Gross exports grew by 6.8% (June: -3.6%), primarily driven by a strong growth of electrical and electronic (E&E) exports. Non-E&E exports contracted mainly due to petroleum and chemical products, while lower commodity exports were driven by palm oil and liquefied natural gas (LNG).
- Imports growth moderated to 0.6% (June: 1.2%) amid the decline of intermediate imports.
- Going forward, moderating external demand is expected to continue weighing on exports.

### Higher growth in credit to the private non-financial sector

- Credit to the private non-financial sector grew by 5.5% (June: 5.2%), driven by higher growth in outstanding business loans (4.9%; June: 4.5%) and outstanding corporate bonds (4.8%; June: 4.3%).
- Growth of outstanding business loans increased, driven by higher loan growth for investment-related<sup>[2]</sup> purposes among the non-SMEs. SME loan growth increased following the higher growth of working capital loans.
- Household loan growth remained steady at 6% (June: 6%), with sustained loan growth across most purposes.

### Domestic financial market developments were influenced by US monetary policy expectations and trade uncertainties

- Ongoing tariff developments continued to weigh on global financial markets. Moreover, an uptick in US inflation in June, alongside stronger-than-expected US economic data, prompted market participants to reduce expectations for a policy rate cut by the US Federal Reserve (Fed) in September.
- Against this backdrop, the ringgit depreciated by 0.9% against the US dollar (NEER: 0.3%; regional average<sup>[3]</sup>: -1.9%). Meanwhile, the 10-year MGS yield decreased by 10.0

bps (regional average<sup>3</sup>: -7.2 bps) amid the OPR cut in July MPC and a positive fiscal outlook.

- On the other hand, the FBM KLCI declined by 1.3% (regional average<sup>3</sup>: 6.2%) amid foreign equity outflows.

#### **Banks remain well-capitalised to support economic growth**

- Banks' capital remains strong at 18.4%, ensuring continued support to credit intermediation and the ability to withstand potential shocks in the economy.
- The banking system recorded excess capital buffers<sup>[4]</sup> of RM143.3 billion as of July 2025.

#### **Asset quality in the banking system remained stable**

- Gross and net impaired loans ratios remained low at 1.4% and 0.9% respectively, as borrowers' repayment capacity continued to be sustained.
- Loan loss coverage ratio (including regulatory reserves) remained prudent at 128.9% of gross impaired loans (June: 130.4%).