

# Malaysia Money & Credit

M3 growth reached a 19-month low in June; loan and deposit growth moderated

- **M3 growth edged lower in June (3.4; May: 3.8%), its lowest level since November 2019**

- MoM: remained at 0.2% (May: 0.2%).
- Moderation was led by a persistent slowdown in M1 growth (12.2%; May: 15.1%), as demand deposits continued to slow (11.3%; May: 15.1%).

- **Softer growth in private sector spending and net external reserves, offset an expansion in public spending**

- Claims on the private sector (3.2%; May: 3.5%): continued to edge lower, due to a slowdown in private sector loans (3.3%; May: 3.8%).
- Net external reserves (1.5%; May: 2.0%): a greater decrease of foreign reserves in the banking system (-9.8%; May: -4.3%), outweighed a rise in central bank reserves (4.2%; May: 3.4%).
- Net claims on government (4.7%; May: 0.7%): rose to a 3-month high, amid an increase in credits extended to the government (9.0%; May: 7.5%) and a moderation in government deposits (22.5%; May: 32.3%).

- **Loan growth moderated to a 6-month low (3.4%; May: 3.9%)**

- By purpose: attributable to softer growth in loans for the purchase of residential property (6.8%; May: 7.4%) and transport vehicles (6.5%; May: 7.4%), as well as a further decline in credit card loans (-8.9%; May: -4.4%).
- By sector: driven by plummeting loans for the education, health & others sector (-5.1%; May: 24.3), a 13-month low, and a moderation in credit growth for the household sector (5.2%; May: 6.1%), despite a further rise in loans for the manufacturing sector (3.1%; May: 0.5%), which reached its highest level in 8 months.
- MoM: moderated slightly by 0.1% (May: 0.3%), amid a slightly higher weighted average lending rate of commercial banks (3.47%; May: 3.42%).

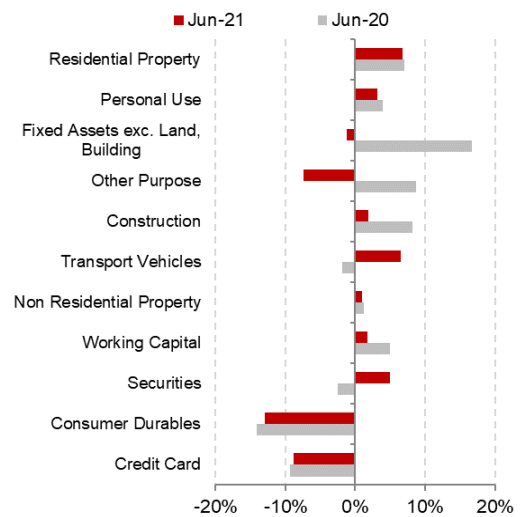
- **Deposit growth softened to 3.9% YoY (May: 5.0%), a 13-month low, but remained at 0.3% MoM (May: 0.3%)**

- A sustained slowdown in demand deposits (11.9%; May: 16.4%), a 13-month low, and a further decline in fixed deposits (-3.2%; May: -2.6%), outweighed a rise in foreign currency deposits (14.5%; May: 10.2%).

- **2021 loan growth forecast range retained at 3.5% - 4.5% (2020: 3.4%)**

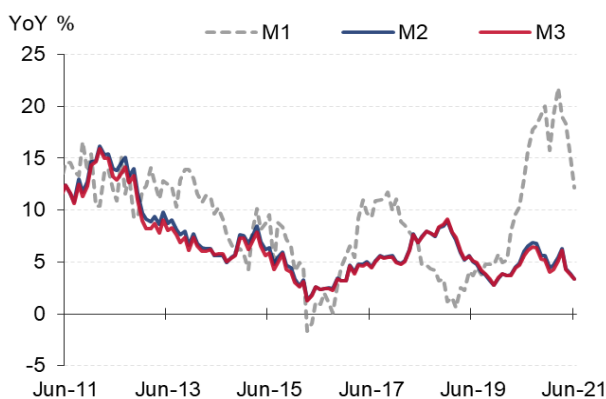
- Loan growth has been impacted by the extended lockdown measures since June 1, implemented due to persistently high domestic COVID-19 cases. However, we still project loan growth to moderately improve in 2H21, on the expectation that the Full Movement Control Order (FMCO) will be eased as Malaysia marches towards its vaccination targets.
- We continue to expect Bank Negara Malaysia to keep the policy rate unchanged at 1.75% for the rest of the year, despite soaring domestic COVID-19 cases and the ongoing MCO. This is based on the prospect that the economy will gradually reopen over 2H21, given the rise in vaccinations and the expectation that infection rates will ease.

Graph 1: Loan Growth by Purpose



Source: BNM, CEIC, Kenanga Research

Graph 2: Money Supply Growth



Source: BNM, CEIC, Kenanga Research

Graph 3: Loan and Deposit Growth



Source: BNM, CEIC, Kenanga Research

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**Table 1: Money Supply, Loan and Deposit Growth Trend**

		2018	2019	2020	Jun-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
<b>M1</b>	% MoM				1.8	2.2	1.1	1.6	0.4	0.0	-0.7
	Chg (RM b)	4.9	24.8	71.1	8.8	11.5	5.9	8.4	2.0	0.1	-3.9
	% YoY	1.2	5.8	15.7	13.1	19.1	21.8	19.0	18.3	15.1	12.2
<b>M2</b>	% MoM				0.7	0.3	0.6	1.4	-0.5	0.1	0.3
	Chg (RM b)	154.6	65.5	86.9	13.9	5.6	12.1	28.6	-10.2	2.9	5.7
	% YoY	8.9	3.5	4.5	6.1	4.7	5.5	6.3	4.4	3.8	3.4
<b>M3</b>	% MoM				0.7	0.2	0.6	1.5	-0.5	0.2	0.2
	Chg (RM b)	158.1	67.0	79.4	13.2	4.7	12.7	30.0	-9.4	3.8	5.1
	% YoY	9.1	3.5	4.0	5.6	4.3	5.1	6.1	4.3	3.8	3.4
<b>Loans</b>	% MoM				0.6	0.4	0.1	0.7	0.0	0.3	0.1
	Chg (RM b)	121.4	65.8	59.6	10.7	7.1	1.8	13.6	0.2	4.9	1.7
	% YoY	7.7	3.9	3.4	4.1	3.8	3.7	3.9	3.9	3.9	3.4
<b>Deposit</b>	% MoM				1.4	-0.2	0.6	1.5	-0.8	0.3	0.3
	Chg (RM b)	163.2	55.5	89.1	28.3	-4.0	11.5	32.4	-16.3	5.8	7.0
	% YoY	9.2	2.9	4.5	4.4	5.0	5.2	5.9	4.6	5.0	3.9
<b>LCR*</b>	(%)	143.2	149.1	148.2	149.2	147.6	147.1	145.1	151.9	137.3	149.1

Source: Bank Negara Malaysia, Kenanga Research

\*Liquidity Coverage Ratio (LCR) is based on Basel III requirement and was adopted since June 2015. As of 1 January 2018, the minimum requirement is set at 90%.

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