

03 October 2022

Malaysia Money & Credit

M3, loan, and deposit growth expanded in August on strong domestic growth

- **M3 grew 6.5% YoY in August (Jul: 5.5%) backed by a 0.9% MoM growth rebound (Jul: -0.1%), its fastest pace in 9-months**

- Faster growth was primarily driven by a greater increase in other deposits (5.4%; Jul: 0.2%), foreign currency deposits (16.6%; Jul: 15.9%), and fixed deposits (4.4%; Jul: 3.0%) on the back of rising interest rates and the depreciating ringgit.

- **Higher growth in private sector spending outweighed a slowdown in government spending and a contraction in net external reserves**

- Claims on the private sector (6.6%; Jul: 5.4%): rose to its highest level in over 3-years, on higher private sector loans (7.9%; Jul: 6.9%).
- Net claims on government (14.9%; Jul: 19.1%): slowed to a 6-month low, amid an increase in government deposits (4.6%; Jul: -4.6%).
- Net external reserves (-3.3%; Jul: -1.7%): contraction deepened as foreign reserves of both the banking system (-10.3%; Jul: -7.8%) and BNM (-1.4%; Jul: -0.3%) continued to decline.

- **Loan growth rose to 6.8% in August, a 41-month high (Jul: 5.9%)**

- By purpose: driven mainly by greater loans growth for working capital (9.4%; Jul: 6.9%), transport vehicles (8.1%; Jul: 6.3%), and for the purchase of residential property (7.5%; Jul: 7.2%).
- By sector: primarily led by higher credit growth for the household sector (6.5%; Jul: 6.1%), a sustained increase in loans for other sectors (35.3%; Jul: 19.3%), as well as higher credit growth for finance & insurance (11.3%; 8.0%) and transport & storage (23.1%; Jul: 18.8%).
- MoM: increased by 0.7% (Jul: 0.3%), on a higher weighted average lending rate of commercial banks (4.24%; Jul: 4.09%).

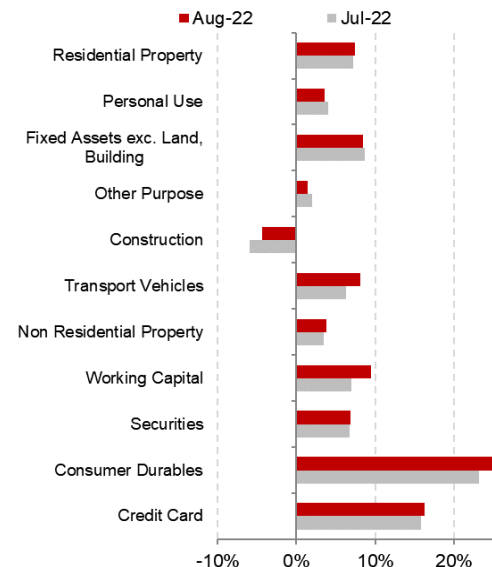
- **Deposit growth rose to 7.5% YoY (Jul: 6.2%), increasing by 1.3% MoM (Jul: 0.1%) its fastest pace in 9-months**

- Expansion was driven by greater growth of fixed deposits (5.0%; Jul: 3.5%), other deposits (6.7%; Jul: 1.9%), and foreign currency deposits (10.0%; Jul: 6.9%), which outpaced lower saving deposits (0.6%; Jul: 2.5%).

- **2022 loan growth forecast range raised slightly to 5.0% - 5.5% from 4.5% - 5.0% previously (2021: 4.5%)**

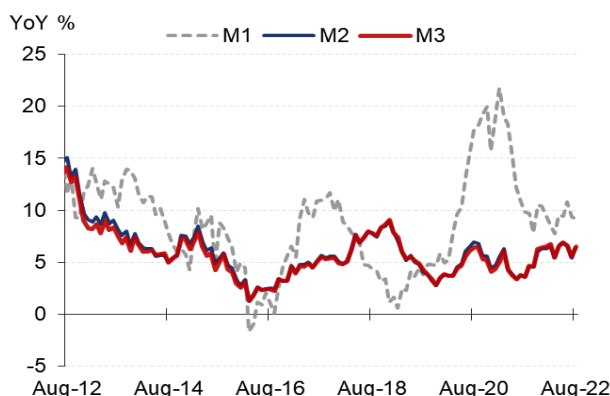
- Loan growth may find strong support for the remainder of the year, in line with our raised 2022 GDP forecast of 6.5% - 7.0% from a previous 5.5% - 6.0% (2021: 3.1%). Downside risks persist from an increasingly probable global economic slowdown, amid further tightening by major central banks, but the impact will likely be felt in 2023 rather than in the near-term.
- BNM is expected to raise the overnight policy rate by 25 bps at its final meeting of this year, to remain in line with global policy tightening trends, bringing the year-end rate to 2.75%. However, we only assign a 50.0% probability of another 25 bps hike in 1Q23, on expectations of slower domestic economic growth and a potential global recession in 2023.

Graph 1: Loan Growth by Purpose



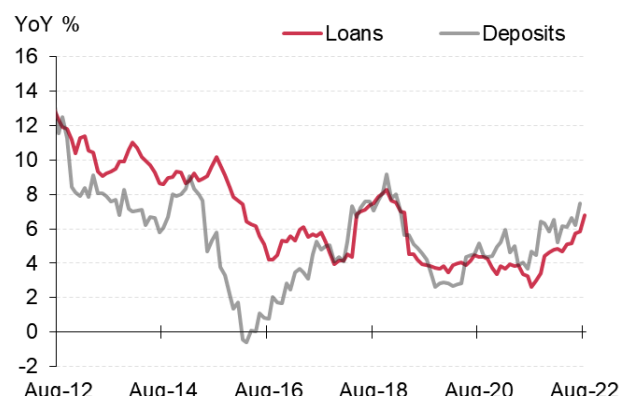
Source: BNM, CEIC, Kenanga Research

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

		2019	2020	2021	Aug-21	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
M1	% MoM				0.2	0.8	2.0	0.0	0.5	-0.8	0.1
	Chg (RM b)	24.8	71.1	54.6	1.0	4.6	11.7	0.0	3.0	-4.7	0.3
	% YoY	5.8	15.7	10.4	9.9	7.8	9.5	9.5	10.8	9.3	9.2
M2	% MoM				-0.1	0.3	0.6	0.4	0.0	-0.2	0.8
	Chg (RM b)	65.5	86.9	128.3	-1.3	5.9	13.1	9.0	-0.5	-3.8	18.6
	% YoY	3.5	4.5	6.3	3.5	5.4	6.5	6.8	6.5	5.4	6.4
M3	% MoM				-0.1	0.2	0.5	0.5	-0.1	-0.1	0.9
	Chg (RM b)	67.0	79.4	130.8	-1.5	5.1	12.0	11.6	-1.3	-3.1	19.2
	% YoY	3.5	4.0	6.4	3.6	5.5	6.5	6.9	6.6	5.5	6.5
Loans	% MoM				-0.1	0.6	0.4	0.3	0.7	0.3	0.7
	Chg (RM b)	65.8	59.6	54.6	-2.6	11.5	7.9	5.8	12.9	6.8	14.0
	% YoY	3.9	3.4	10.4	2.6	4.7	5.1	5.1	5.7	5.9	6.8
Deposit	% MoM				0.1	0.3	0.1	0.2	0.8	0.1	1.3
	Chg (RM b)	55.5	89.1	132.4	1.2	6.5	3.4	4.8	18.1	3.1	28.7
	% YoY	2.9	4.5	6.3	3.7	5.2	6.2	6.1	6.6	6.2	7.5
LCR*	(%)	149.1	148.2	153.7	150.0	150.5	156.8	149.3	148.3	150.1	141.2

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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