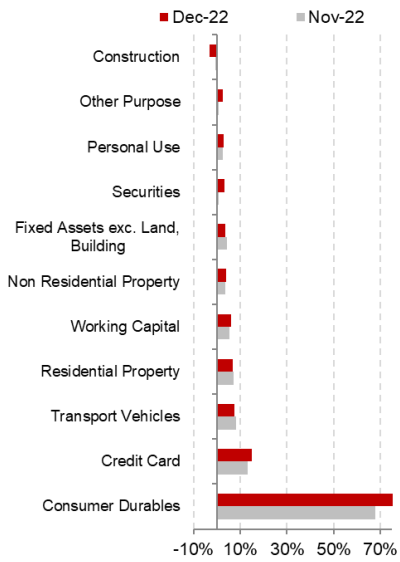
Malaysia Money & Credit

Loan growth edged up to 5.7% in December; M3 slowed to 4.3%

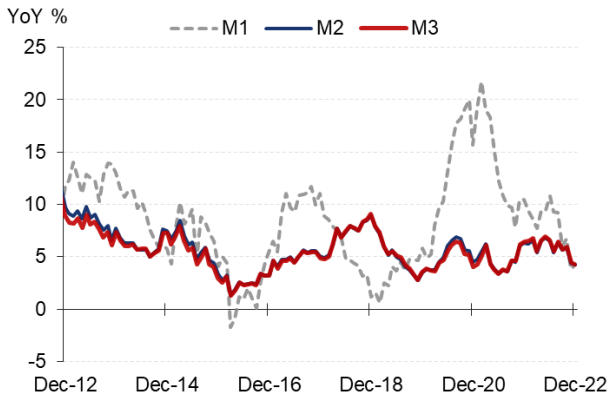
- **M3 growth eased to 4.3% YoY in December (Nov: 4.4%), its lowest level since August 2021**
  - MoM: expanded to a 3-month high of 0.3% (Nov: 0.04%).
  - The growth moderation was due to slower growth in other deposits (-2.9%; Nov: 1.7%) and weak saving deposits (-5.7%; Nov: -3.6%).
- **The slowdown was also attributed to subdued net external reserves but partially mitigated by higher private and public spending**
  - Net external reserves (-2.2%; Nov: 1.0%): fell to a four-month low due to moderate growth in foreign currency reserves held by BNM (3.6%; Nov: 4.3%) and a sharp contraction in foreign currency reserves held by banking system (-24.9%; Nov: -12.9%).
  - Net claims on government (14.8%; Nov: 11.6%): growth expanded as government deposits (7.2%; Nov: 23.6%) slowed sharply.
  - Claims on the private sector (5.2%; Nov: 4.9%): expanded due to an expansion in private sector loans (5.7%; Nov: 5.6%) and securities (1.2%; Nov: 0.7%).
- **Loan growth edged up slightly in December (5.7% YoY; Nov: 5.5%)**
  - By purpose: the expansion was driven by higher growth of loans for working capital (6.1%; Nov: 5.5%) and the purchase of securities (3.2%; Nov: 0.9%). Nonetheless, loan growth remained underpinned by loans for the purchase of residential property (6.9%; Nov: 7.3%) which constitute of 36.4% share of the overall loan.
  - By sector: higher credit growth in the electricity, gas, steam and air cond supply (41.3%; Nov: 36.6%) and manufacturing sector (2.6%; Nov: 0.2%). Nonetheless, growth remained anchored by the household sector (5.9%; Nov: 6.0%), contributing 59.1% share to overall loan.
  - MoM: rebounded (0.7%; Nov: -0.1%) to a four-month high, following a contraction in the previous month.
- **Deposit growth was unchanged in December (5.9% YoY; Nov: 5.9%), but it rebounded by 1.0% MoM (Nov: -0.5%)**
  - Growth was primarily attributable to an increase in fixed deposits (6.5%; Nov: 5.2%) but was partially capped by a weak saving deposit (-5.7%; Nov: -3.6%).
- **2023 loan growth to moderate between 4.5% - 5.0% (2022: 5.7%)**
  - In line with the moderation in the domestic growth outlook and the impact of the previous BNM's cumulative rate hikes, we expect loan growth to be further moderate in 2023. This is also partly due to the normalisation of economic activities post-pandemic and as the lower base effect dissipated.
  - Following a surprised pause by BNM in January's Monetary Policy Committee (MPC) meeting, we believe that the BNM has reached the end of the rate hike cycle for now. This is likely due to the heightened uncertainty of global growth outlook with the prospect of recession in some developed economies, which could weigh on domestic growth recovery. Meanwhile, domestic inflation is expected to trend lower over the coming months due to expected government policy measures under the revised Budget 2023 and as domestic demand is expected to slow.

Graph 1: Loan Growth by Purpose



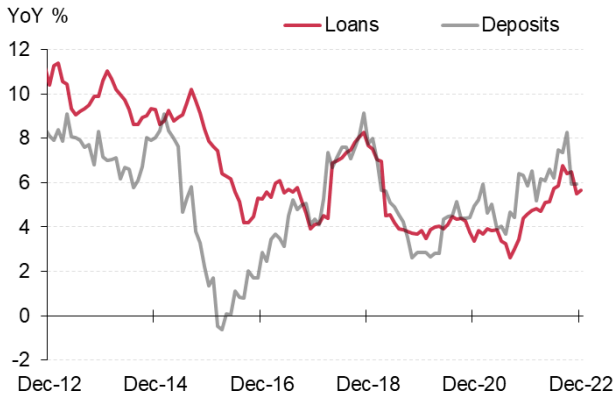
Source: BNM, CEIC, Kenanga Research

Graph 2: Money Supply Growth



Source: BNM, CEIC, Kenanga Research

Graph 3: Loan and Deposit Growth



Source: BNM, CEIC, Kenanga Research

Table 1: Money Supply, Loan and Deposit Growth Trend

		2020	2021	2022	Dec-21	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
	% MoM				-0.4	-0.8	0.1	-1.0	0.1	1.0	0.0
M1	Chg (RM b)	71.1	54.6	24.7	-2.5	-4.7	0.3	-5.8	0.8	5.7	-0.2
	% YoY	15.7	10.4	4.3	10.4	9.3	9.2	6.0	6.7	3.8	4.3
	% MoM				0.5	-0.2	0.8	0.6	0.1	0.0	0.4
M2	Chg (RM b)	86.9	128.3	92.5	11.2	-3.8	18.6	14.5	1.4	0.7	9.1
	% YoY	4.5	6.3	4.3	6.3	5.4	6.4	5.6	5.9	4.4	4.3
	% MoM				0.4	-0.1	0.9	0.6	0.1	0.0	0.3
M3	Chg (RM b)	79.4	130.8	93.9	9.5	-3.1	19.2	13.5	2.3	0.8	7.7
	% YoY	4.0	6.4	4.3	6.4	5.5	6.5	5.7	6.0	4.4	4.3
	% MoM				0.5	0.3	0.7	0.6	0.6	-0.1	0.7
Loans	Chg (RM b)	59.6	84.5	108.5	10.0	6.8	14.0	11.5	12.8	-1.6	13.6
	% YoY	3.4	4.6	5.7	4.6	5.9	6.8	6.4	6.5	5.5	5.7
	% MoM				1.0	0.1	1.3	1.5	0.4	-0.5	1.0
Deposit	Chg (RM b)	88.9	132.4	132.0	21.3	3.1	28.7	35.1	8.9	-11.0	22.5
	% YoY	4.4	6.3	5.9	6.3	6.2	7.5	7.4	8.3	5.9	5.9
LCR*	(%)	148.2	153.4	154.0	153.4	149.8	141.1	152.0	141.2	146.7	154.0

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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