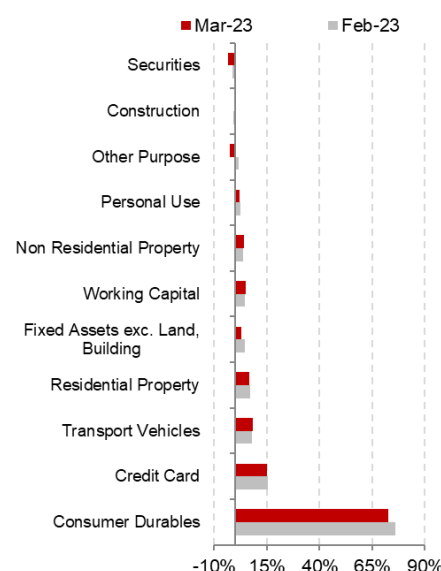


Malaysia Money & Credit

Loan and deposit growth moderated in March, signalling a growth slowdown

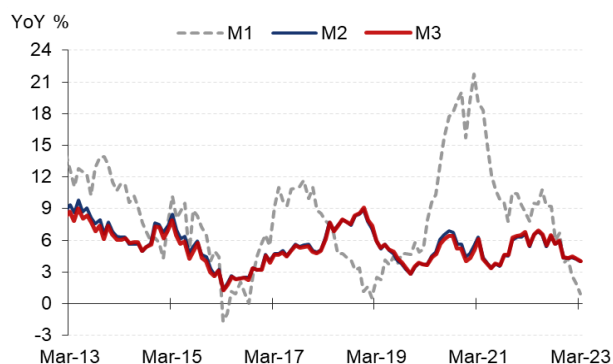
- M3 growth eased to 4.0% YoY in March (Feb: 4.3%), a 19-month low**
 - MoM: relatively stagnant (0.0%; Feb: 0.7%).
 - Slower growth due to a contraction in demand deposits (-0.4%; Feb: 0.9%), hitting a 50-month low as well as a decline in other deposits (-6.2%; Feb: -3.7%) but was partially mitigated by a surge in fixed deposits (7.4%; Feb: 6.0%), a 47-month high.
- The slower M3 growth was also attributed to slower expansion in net claims on government but partially mitigated by higher claims on the private sector and net external reserves**
 - Net claims on government (12.9%; Feb: 17.9%): growth moderated to a four-month low as expansion in government deposits (18.0%; Feb: 12.5%) outpaced growth in government claims (14.0%; Feb: 16.6%).
 - Net external reserves (4.8%; Feb: -0.3%): rebounded due to expansion in foreign currency reserves held by BNM (5.1%; Feb: 4.2%) and a rebound in foreign currency reserves held by the banking system (3.4%; Feb: -17.1%).
- Loan growth moderated slightly in March (5.0% YoY; Feb: 5.2%)**
 - By purpose: slower growth due to a larger contraction in the purchase of securities (-3.6%; Feb: -1.3%) and other purposes (-2.7%; Feb: 1.6%). Nevertheless, growth was supported by an expansion in working capital (4.9%; Feb: 4.5%) and higher purchase of non-residential property (4.1%; Feb: 3.8%) which hit a 70-month high.
 - By sector: mainly due to moderation in the household sector (5.4%; Feb: 5.7%), with its share of the overall loan edged down slightly to 59.1% (Feb: 59.2%).
 - MoM: growth relatively unchanged (0.4%; Feb: 0.4%), but relatively lower than average growth of March (0.6% MoM) in the previous three years.
- Deposit in the banking system slowed (7.0% YoY; Feb: 7.5%), with MoM growth falling slightly (-0.1%; Feb: 1.7%)**
 - Growth moderation was mainly due to a slowdown in demand deposits (0.3%; Feb: 2.6%) but partially mitigated by a 49-month high fixed deposits growth (8.9%; Feb: 7.2%) amid relatively higher deposits rate by commercial banks.
- 2023 loan growth forecast retained between 4.5% - 5.0% (2022: 5.7%)**
 - We maintain our outlook that loan growth will moderate further by the end of the year amid the impact of tighter financial conditions by Bank Negara Malaysia's (BNM) cumulative rate tightening since a year ago. This also takes into account the waning lower base effect and the normalisation of economic activities post-pandemic. However, we believe loan growth will be supported by the resilient household sector on the back of improved income and steady labour market conditions, as reflected in the lower unemployment rate.
 - On the monetary policy front, we expect BNM to maintain its OPR at 2.75% at tomorrow's MPC meeting and the rest of the year, barring an exceptional risk to GDP growth and inflation outlook. Nevertheless, there is room for further monetary policy adjustment by +25 bps if inflationary pressure remains elevated due to a stronger-than-expected household spending. However, given the uncertainty of the global growth outlook with the relatively weak external trade and commodity prices, we see a limited probability for BNM to further hike rates this year.

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

02 May 2023

Table 1: Money Supply, Loan and Deposit Growth Trend

		2020	2021	2022	Mar-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
M1	% MoM				0.8	0.1	1.0	0.0	-0.4	-0.4	-0.2
	Chg (RM b)	71.1	54.6	24.7	4.6	0.8	5.7	-0.2	-2.1	-2.2	-1.0
	% YoY	15.7	10.4	4.3	7.8	6.7	3.8	4.3	2.6	1.9	0.9
M2	% MoM				0.3	0.1	0.0	0.4	0.4	0.7	0.0
	Chg (RM b)	86.9	128.3	92.5	5.9	1.4	0.7	9.1	8.3	16.2	1.0
	% YoY	4.5	6.3	4.3	5.4	5.9	4.4	4.3	4.4	4.2	4.0
M3	% MoM				0.2	0.1	0.0	0.3	0.4	0.7	0.0
	Chg (RM b)	79.4	130.8	93.9	5.1	2.3	0.8	7.7	10.0	15.8	0.6
	% YoY	4.0	6.4	4.3	5.5	6.0	4.4	4.3	4.4	4.3	4.0
Loans	% MoM				0.6	0.6	-0.1	0.7	-0.1	0.4	0.4
	Chg (RM b)	59.6	84.5	108.5	11.5	12.7	-1.6	13.6	-2.9	7.3	8.6
	% YoY	3.4	4.6	5.7	4.7	6.5	5.5	5.7	4.9	5.2	5.0
Deposit	% MoM				0.3	0.4	-0.5	1.0	0.3	1.7	-0.1
	Chg (RM b)	88.9	132.4	132.0	6.5	8.9	-11.0	22.5	7.3	39.0	-2.5
	% YoY	4.4	6.3	5.9	5.2	8.3	5.9	5.9	7.0	7.5	7.0
LCR*	(%)	148.2	153.4	154.0	150.5	141.2	146.7	154.1	147.1	152.7	157.4

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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