CHAPTER 3

Monetary and Financial Developments

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Overview

Financial market withstands external headwinds

Domestic financial market remains orderly and financial intermediation continues to support the economic recovery despite external headwinds. The banking sector continues to be prudent given sufficient domestic liquidity and strong capital buffers. Likewise, monetary policy continues to remain accommodative and supportive of economic growth in an environment of price stability. Despite domestic financial markets continue to be subjected by episodes of volatility, spillovers to financial intermediation activities are expected to remain broadly contained, supported by Malaysia's healthy external position and robust banking system. Nonetheless, persistent downside risks may affect overall financial market performance. The risks include ongoing geopolitical tensions particularly the Russia-Ukraine conflict, expectation of weaker global growth, slower growth in China, continued disruption of the global supply chain and tightening global financial conditions.

Monetary Developments

Monetary policy adjustment in line with the strength of the economy

The degree of monetary accommodation was reduced amid strong domestic growth prospects and the unprecedented conditions during the COVID-19 crisis that necessitated the extraordinary monetary policy support have since abated. This was reflected in the Overnight Policy Rate (OPR), being raised by a cumulative of 75 basis points (bps) for three consecutive times from May to September 2022. The OPR was increased by 25 bps for the first time on 11 May 2022 from its historical low of 1.75% held since 7 July 2020 to 2.00% followed by a second hike to 2.25% on 6 July 2022 and the third hike to 2.50% on 8 September 2022. Decisions regarding the OPR were made independently by the Monetary Policy Committee (MPC) of Bank Negara Malaysia (BNM) upon consideration that the Malaysian economy is on a firmer footing with the increase in the OPR conducted gradually to allow various sectors in the economy to adjust accordingly. Notwithstanding the adjustments to the OPR, the stance of monetary policy in 2022 remains accommodative and supportive of economic growth.

The interest rates in the banking system were mostly stable for the first four months of 2022 before the rates were adjusted upwards in tandem with the increase in the OPR. As at end-July 2022, the commercial banks' average lending rate (ALR) and weighted average base rate (BR) increased to 4.31% and 2.91%, respectively. Similarly, the saving deposit rate rose to 0.69%, while the average fixed deposits rates for the tenures of 1-month to 12-month increased within the range of 1.91% to 2.20%. With the objective of improving comparability and transparency for consumers, effective 1 August 2022, the BR was replaced by Standardised Base Rate (SBR) as the reference rate for all financial institutions for the pricing of new retail floating-rate loans and the refinancing of existing loans.

In terms of liquidity, the reduction of the Statutory Reserve Requirement (SRR) ratio by 100 bps to 2.00% since March 2020 and the flexibility given to banking institutions to incorporate their holdings of the Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII) as part of SRR compliance have released approximately RM46 billion worth of liquidity into the banking system. Given the current economic recovery and transitioning to the endemic phase, the flexibility to use MGS and MGII as part of SRR compliance will end on 31 December 2022.

Monetary aggregates continued to expand during the first seven months of 2022. M1 or narrow money, grew by 9.3% to RM602.2 billion as at end-July 2022, mainly driven by higher demand deposits, which edged up by 8.9%. Meanwhile, M3, or broad money recorded a growth of 5.5% to RM2,222.1 billion, supported by higher net claims on the private sector mainly through loans and higher net claims on the Government. Nevertheless, the growth of M3 was moderated by the lower net foreign assets in the financial sector.

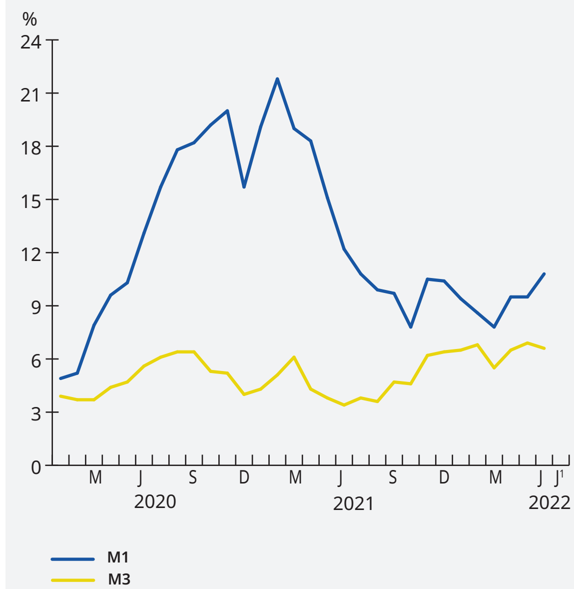
Future monetary policy stance will continue to be guided by the MPC's assessment of evolving conditions and their implications on the overall outlook to domestic inflation and growth. The MPC will continue to conduct monetary policy in Malaysia in order to achieve the goal of price stability and sustainable economic growth over a longer term.

TABLE 3.1. *Factors Affecting M3, January – July 2021 and 2022*

	CHANGE (RM BILLION)	
	2021	2022
M3	**65.4**	**50.3**
Net claims on Government	9.5	29.3
Claims on Government	31.2	37.5
Less: Government deposits	21.7	8.2
Claims on private sector	30.1	64.6
Loans	28.8	73.8
Securities	1.2	-9.2
Net foreign assets[1]	35.9	-23.4
Bank Negara Malaysia	29.3	-6.2
Banking system	6.7	-17.2
Other influences	-10.1	-20.1

[1] Includes exchange rate revaluation losses/gains
Note: Total may not add up due to rounding
Source: Bank Negara Malaysia

FIGURE 3.1. *Monetary Aggregates (% change)*



[1] End-July 2022
Source: Bank Negara Malaysia

Performance of Ringgit

Pushed down by stronger greenback

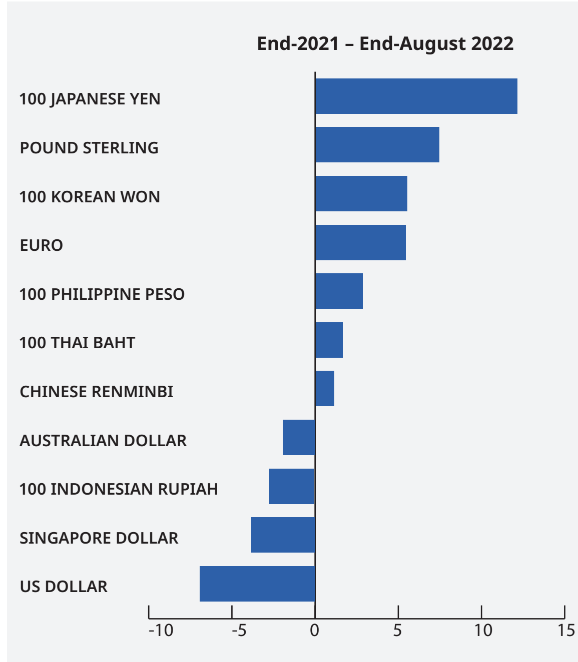
The ringgit traded at the 4.1000 level against the US dollar at the start of the year. During the first quarter of 2022, sentiments in the financial markets were dampened by developments surrounding the rise of the Omicron variant globally, and the prospect of sooner-than-expected rate hikes by the US Federal Reserve (Fed). The volatile movements of most major and regional currencies including the ringgit became more apparent, compounded by the onset of Russia-Ukraine conflict in February 2022 causing the ringgit to trade surpassing the 4.2000 level. Moreover, the interest rate hike by the Fed on 16 March 2022 for the first time since 2018 indicated a faster-than-expected tightening path for the year to address the rising US inflation. The imposition of strict lockdown measures in Shanghai following the COVID-19 outbreak in the same month had dampened hopes for a smooth global economic recovery. These developments resulted in higher investor risk aversion and led global portfolio managers to reallocate their investments into safe haven assets such as in the US. The confluence of these factors contributed to the ringgit depreciating by 0.7% against the US dollar as at end-March 2022.

The pressure to hasten the tightening of policy rates by the Fed was triggered by the 40-year high inflation in the US in May 2022. This resulted in the ringgit sliding to the 4.4000 level on 19 May 2022. Moreover, the anticipation of more aggressive US interest rate hikes coupled with the weakening of the Chinese yuan had impacted the ringgit further. Thus, the first half of the year saw the ringgit depreciating by 5.2% against the US dollar.

The downward trend continued in July and August 2022, as the ringgit was trading between 4.4000 to 4.5000 level, in line with the depreciation of other major and regional currencies, which reflected the broad-based strengthening of the US dollar. The strong US dollar was contributed by several factors such as the aggressive interest rate hikes by the Fed, heightened geopolitical tensions, and a slower-than-expected pace of global growth, particularly in China, which exacerbated international investors' risk aversion. Thus, as at end-August 2022, the ringgit depreciated by 6.9% against the US dollar. Nonetheless, the ringgit appreciated against most major and regional currencies such as the Japanese yen (12.1%), pound sterling (7.4%), Korean won (5.5%), the euro (5.4%) and the Philippine peso (2.8%) within the same period.

Moving forward, following uncertainties in the global economic and financial market outlook, the flexibility of the ringgit is a key mechanism to help the Malaysian economy adjust to the changing global economic and financial developments. Over the medium-term, ongoing efforts for structural reforms are expected to strengthen Malaysia's economic fundamentals, and this would naturally support the ringgit.

FIGURE 3.2. *Performance of Ringgit against Selected Currencies (% change)*



Source: Bank Negara Malaysia

Banking Sector Performance

The banking sector remains on sound footing

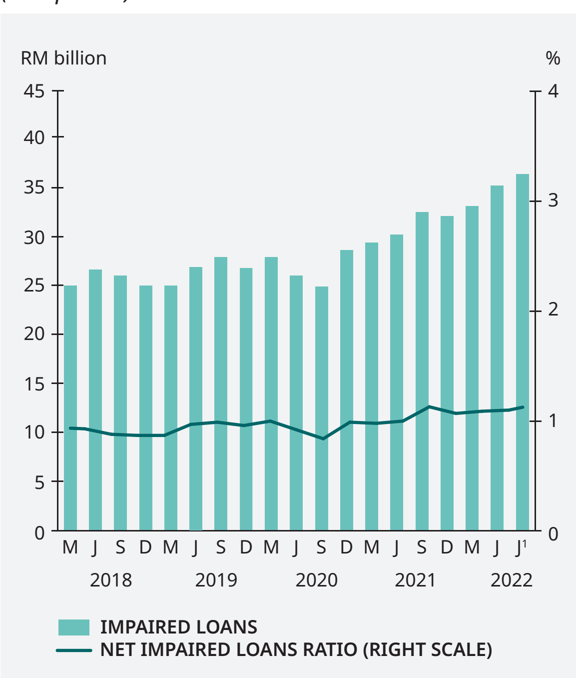
The banking system remains well-capitalised to support economic recovery amid heightened volatility in global financial markets. This was reflected by strong capital position of banks, which recorded RM129.6 billion of excess capital buffers[1] and healthy capital ratios as at end-July 2022. The Common Equity Tier 1 Capital (CET1 Capital), Tier 1 Capital, and Total Capital ratios remained stable at 14.6%, 15.2% and 18.3%, respectively, exceeding the

[1] Excess total capital buffer refers to the total capital above the banks' regulatory minima, which also includes the capital conservation buffer (2.5% of risk-weighted assets) and bank-specific higher minimum requirements.

Basel III minimum regulatory levels of 4.5%, 6%, and 8%, respectively, of risk-weighted assets. These buffers safeguard banks against potential unexpected losses that may occur amid a challenging operating environment while supporting households' and businesses' financing needs. Furthermore, the Liquidity Coverage Ratio maintained its healthy position at 151% to support intermediation activities, which is well above the 100% minimum requirement.

The ability of banks to withstand setbacks arising from the potential risks of loan impairments remain manageable, despite the end of most repayment assistance in December 2021. As at-end July 2022, banks' asset quality continues to support the resilience of banks albeit slight increment of the overall gross and net impaired loan ratios to 1.85% and 1.2%, respectively. Banks continued to set aside total provisions including regulatory reserves of RM41.1 billion. The loan loss coverage ratio (including regulatory reserves) was also

FIGURE 3.3. *Banking System: Impaired Loans and Net Impaired Loans Ratio (End-period)*



[1] End-July 2022
Source: Bank Negara Malaysia

maintained at a prudent level of 112.8%, with total provisions accounting for 1.8% of total loans within the same period.

The banking system's pre-tax profit improved to RM20.9 billion as at end-June 2022 amid moderation in credit cost due to the pre-emptive build-up of provisions in 2020 and 2021 as well as the gradual tapering of loan loss provisions as repayment activities picked up. The overall profitability of banks is expected to remain robust supported by improvements in loan growth as the country recovers from the prolonged effects of the COVID-19 pandemic.

As at end-July 2022, total outstanding banking system loans expanded by 5.9% to RM1,974 billion, contributed by higher growth in business and household segments. Meanwhile, the demand for loans remained high as loan applications recorded an uptick by 20.1% to RM775.3 billion following the normalisation of economic activities. Similarly, loan approvals increased in tandem with loan applications by 27.8% to RM382 billion for the first seven months of 2022.

Lending activities to businesses recorded an improvement as reflected in the outstanding business loans, which grew by 5.9% to RM696.5 billion, accounting for 35.3% of total loans outstanding as at end-July 2022. The bulk of the loans outstanding were mainly for small and medium enterprises (SMEs) financing, amounting to RM350.5 billion or 17.8% of total loans outstanding, particularly for working capital. The loan disbursements were mainly channelled to manufacturing (21.8%), followed by wholesale and retail trade, restaurants and hotels (17.7%), and finance, insurance and business activities (12.6%) sectors.

Meanwhile, household borrowings remained strong, with outstanding household loans registering 6.1% growth, amounting to RM1,162.9 billion as at end-July 2022, reflecting higher growth across most purposes. Loan disbursements rose by 23.4% to RM236.9 billion, particularly for the purchase of residential properties and passenger cars. Loan repayments increased by 11.8% to RM229.6 billion amid the lapse in repayment assistance programmes. Overall, banks are observed to have gradually reversed the previous tightening of credit availability during the crisis, in view of improvements in the labour market and economic outlook.

TABLE 3.2. *Banking System: Loan Indicators, January – July 2021 and 2022*

	RM BILLION		CHANGE (%)	
	2021	2022[1]	2021	2022
Total[2]				
Loans applications	523.0	775.3	*16.8*	*20.1*
Loans approvals	215.4	382.0	*16.1*	*27.8*
Loans disbursements	803.4	1,319.5	*22.3*	*15.5*
Loans repayments	807.9	1,322.1	*23.5*	*14.1*
Loans outstanding[3,4]	1,862.8	1,974.0	*3.1*	*5.9*
of which:				
Business Sector				
Loans applications	180.2	291.4	*-10.3*	*14.6*
Loans approvals	78.3	158.6	*-3.1*	*17.6*
Loans disbursements	524.2	933.8	*21.6*	*10.9*
Loans repayments	523.5	944.5	*20.9*	*11.6*
Loans outstanding[4]	642.2	696.5	*1.3*	*5.9*
of which:				
SMEs				
Loans applications	99.2	162.3	*-9.6*	*21.8*
Loans approvals	37.8	82.7	*10.4*	*21.7*
Loans disbursements	170.9	310.9	*24.7*	*27.8*
Loans repayments	172.0	306.3	*28.1*	*25.4*
Loans outstanding[4]	292.4	350.5	*3.8*	*4.9*
Households				
Loans applications	380.7	461.9	*32.4*	*21.3*
Loans approvals	126.9	204.0	*41.6*	*31.3*
Loans disbursements	184.7	236.9	*10.5*	*23.4*
Loans repayments	194.0	229.6	*17.1*	*11.8*
Loans outstanding[4]	1,094.9	1,162.9	*4.2*	*6.1*

[1] Statistical table related to loans/financing has been revised and expanded with a new format beginning July 2022
[2] Includes foreign entities, other domestic entities, Government and others
[3] Includes loans sold to Cagamas
[4] As at end-period
Note: Total may not add up due to rounding
Source: Bank Negara Malaysia

TABLE 3.3. *Banking System: Loans Outstanding by Sector, End-July 2021 and 2022*

	RM BILLION		SHARE (%)	
	2021	2022[1]	2021	2022
Businesses	**642.2**	**696.5**	***34.5***	***35.3***
Non-SMEs[2]	349.7	344.3	*18.8*	*17.4*
SMEs	292.4	350.5	*15.7*	*17.8*
Selected sectors				
Primary agriculture	32.7	30.8	*1.8*	*1.6*
Mining and quarrying	8.9	10.3	*0.5*	*0.5*
Manufacturing[3]	129.0	130.4	*6.9*	*6.6*
Electricity, gas and water supply	14.5	20.5	*0.8*	*1.0*
Wholesale and retail trade, restaurants and hotels	142.9	164.8	*7.7*	*8.3*
Construction	91.0	91.2	*4.9*	*4.6*
Real estate	108.6	105.5	*5.8*	*5.3*
Transport, storage and communication	38.4	51.1	*2.1*	*2.6*
Finance, insurance and business activities	50.1	64.3	*2.7*	*3.3*
Households	**1,094.9**	**1,162.9**	***58.8***	***58.9***
of which:				
Purchase of residential properties	640.7	705.8	*34.4*	*35.8*
Purchase of non-residential properties	79.1	80.3	*4.2*	*4.1*
Purchase of passenger cars	151.8	161.9	*8.1*	*8.2*
Consumption credit	131.4	141.7	*7.1*	*7.2*
of which:				
Credit cards	31.4	35.0	*1.7*	*1.8*
Personal use	100.0	106.7	*5.4*	*5.4*
Purchase of securities	68.8	72.1	*3.7*	*3.7*
Others	0.4	1.1	*0.0*	*0.1*
Other sectors	**125.7**	**0.1**	***6.7***	***0.0***
Total[4]	**1,862.8**	**1,974.0**	***100.0***	***100.0***

[1] Statistical table related to loans/financing has been revised and expanded with a new format beginning July 2022
[2] Non-SMEs refers to large corporations, including foreign entities, other domestic entities, Government and others
[3] Including agro-based
[4] Total = Businesses + Households + Other sectors
Note: Total may not add up due to rounding
Source: Bank Negara Malaysia

Banking institutions continue to assist affected individuals and SME borrowers facing financial difficulties. The Financial Management and Resilience Programme (URUS), a collaborative initiative by the banking industry and the Credit Counselling and Debt Management Agency (AKPK) was introduced as a holistic debt management and financial planning solution in the longer term. URUS aims to provide appropriate support to eligible bottom 50% income group (B50) borrowers so that they could meet their loan obligations and return to a firmer financial footing. The application window for URUS, effective from 15 November 2021 to 31 March 2022 was extended until 31 July 2022 with a total of 7,302 approvals. However, the extension was applicable only for B50 customers who were affected by the major floods and had applied for the participating banks' flood relief assistance programmes.

As at end-June 2022, the total household debt[2] was valued at RM1,409 billion. Growth in household debt during the first half of 2022 was mainly driven by various public and private home ownership incentives as well as Sales Tax and Service Tax (SST) exemption on vehicle purchases. However, the household debt-to-GDP ratio declined to 84.5% as at end-June 2022 (end-2021: 89.1%) following a solid economic growth during the first half of 2022. A significant proportion of the aggregate household debt was intended for fixed assets and wealth accumulation, such as the purchase of residential properties (59.4%), non-residential properties (5.7%) and investment in securities (5.3%).

Overall, households' financial resilience remains supported by healthy debt servicing capacity and ample financial buffers. The debt service ratio (DSR) for outstanding loans remains prudent, underpinned by sound debt underwriting standards. Aggregate household financial assets[3] worth RM2,901.9 billion continue to outpace household debt by 2.1 times, providing a significant financial buffer for households to weather adverse economic conditions. The healthy debt servicing capacity of households is expected to prevail amid an improving labour market condition, rising income and positive economic outlook in 2022.

Capital Market Performance

Modest fundraising activities

During the first seven months of 2022, the gross funds raised in the capital market grew by 1.4% to RM165.2 billion. The moderate increase was contributed mainly by the public sector's gross fundraising activities, which recorded an expansion of 5.7% to RM102.9 billion. In contrast, gross funds raised by the private sector declined by 5% to RM62.3 billion within the same period.

For the public sector, the issuances of MGS and MGII increased by 9.3% and 2.1%, respectively, during the first seven months of 2022. The gross funds raised from MGS recorded RM53 billion, while MGII stood at RM49.9 billion. The funds were mainly utilised for development expenditures and commitments for the COVID-19 Fund as stipulated by the Act 830. Meanwhile, non-resident holdings of both outstanding MGS and MGII stood at 35.5% and 8.9%, respectively, as at end-July 2022.

For the private sector, gross funds raised were primarily via new issuances of corporate bonds and sukuk composed mainly from medium-term notes at RM59.4 billion, followed by Islamic bonds (RM453.1 million) and straight bonds (RM222.3 million). Most of the funds were raised by companies within the finance, insurance, real estate and business services (52.9%), followed by electricity, gas and water (15.9%), as well as manufacturing (8.5%) sectors. The funds were mainly used to finance infrastructure projects, new business activities and working capital. Meanwhile, gross funds raised via the domestic equity market recorded RM2.3 billion, exclusively contributed via Initial Public Offerings (IPOs) which expanded by 27.6%. The highest proportion of the overall IPOs proceeds came from the industrial products and services, as well as consumer products and services sectors in the Main Market. The IPOs of newly listed companies continue to receive substantial support from domestic investors.

[2] Extended by both banks and non-bank financial institutions such as hire purchase and leasing companies.
[3] Assets held by households including deposits, investments in unit trust funds and equities, insurance/takaful policies and Employees Provident Fund (EPF).

TABLE 3.4. *Funds Raised in the Capital Market, January – July 2021 and 2022*

	RM MILLION	
	2021	**2022**
Public Sector		
Government securities		
Malaysian Government Securities	48,482.7	53,010.8
Malaysian Government Investment Issues	48,895.2	49,912.5
New issues of debt securities	**97,377.9**	**102,923.3**
Less: Redemptions	39,000.0	47,478.8
Net funds raised by the public sector	**58,377.9**	**55,444.5**
Private Sector		
Shares[1]/Warrants		
Initial Public Offers	1,775.9	2,265.7
Rights Issues	-	-
Warrants	-	-
New issues of shares/warrants	**1,775.9**	**2,265.7**
Debt securities[2]		
Straight bonds	780.0	222.3
Convertible bonds	-	-
Islamic bonds	1,056.2	453.1
Medium-term notes	62,012.9	59,382.9
New issues of debt securities	**63,849.2**	**60,058.3**
Less: Redemptions	45,045.7	52,839.3
Net issues of debt securities	**18,803.5**	**7,219.0**
Net funds raised by the private sector	**20,579.4**	**9,484.7**
Total net funds raised in the capital market	**78,957.2**	**64,929.3**

[1] Excludes funds raised by the exercise of Employee Share Option Scheme, Transferable Subscription Rights, Warrants and Irredeemable Convertible Unsecured Loan Stocks
[2] Excludes short-term papers in conventional and Islamic principles
Note: Total may not add up due to rounding
Source: Bank Negara Malaysia

During the first seven months of 2022, the MGS and corporate bond yields generally trended upwards across all tenures. The higher yield environment was due to upward adjustment of the OPR by a cumulative of 50 bps, supported by encouraging domestic GDP growth and a favourable labour market condition. Moreover, the domestic yield movements were influenced by the global debt market response to external monetary developments, particularly concerning aggressive monetary policy tightening undertaken by central banks of advanced economies to curb persistently high inflationary pressures.

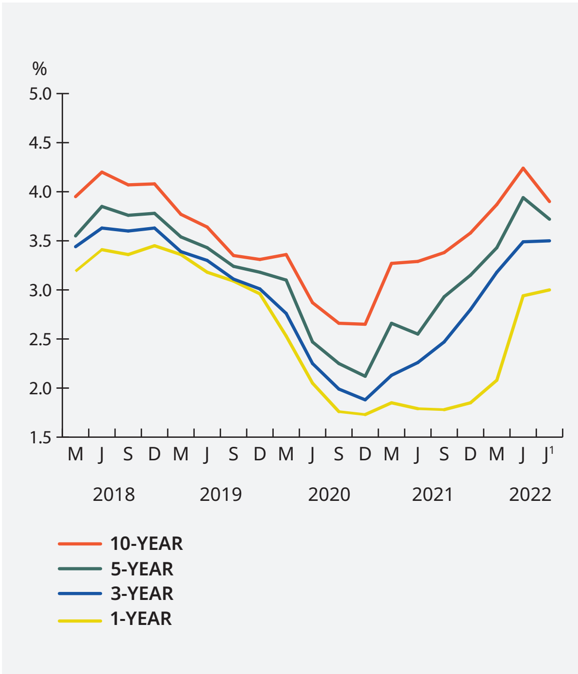
TABLE 3.5. *New Issuance of Corporate Bonds by Sector, January – July 2021 and 2022*

	RM MILLION		SHARE (%)	
	2021	**2022**	**2021**	**2022**
Agriculture, forestry and fishing	1,939.2	2,119.6	*3.0*	*3.5*
Manufacturing	45.0	5,102.0	*0.1*	*8.5*
Construction	5,490.7	4,428.6	*8.6*	*7.4*
Electricity, gas and water	13,505.4	9,520.3	*21.2*	*15.9*
Transport, storage and communication	1,400.0	2,100.0	*2.2*	*3.5*
Finance, insurance, real estate and business services	35,605.0	31,747.3	*55.8*	*52.9*
Government and other services	5,195.0	4,270.5	*8.1*	*7.1*
Wholesale and retail trade, restaurant and hotels	668.9	270.0	*1.0*	*0.4*
Mining and quarrying	0.0	500.0	*0.0*	*0.8*
Total	**63,849.2**	**60,058.3**	***100.0***	***100.0***

Note: Includes corporate bonds issued by Cagamas and non-resident corporations
Total may not add up due to rounding
Source: Bank Negara Malaysia

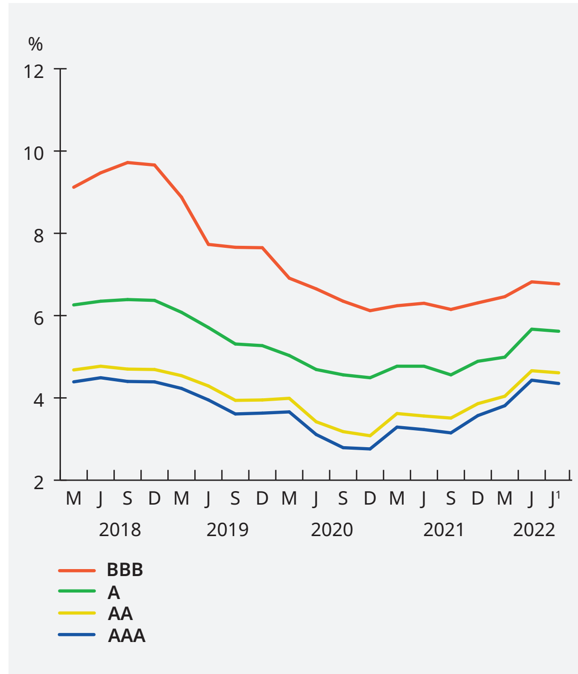
Overall, government and corporate bond yields generally increased across all tenures from end-December 2021 to end-July 2022. The Government Securities yield rose steadily with the 1-year, 3-year, 5-year, and 10-year MGS yields increasing within the range of 32 bps to 114 bps. Meanwhile, the corporate bond yields on the 5-year AAA-rated, AA-rated and A-rated securities increased within the range of 74 bps to 78 bps during the same period. The yield trend in the corporate debt market reflects higher capital cost and a greater required rate of return amid rising interest rates.

FIGURE 3.4. *Malaysian Government Securities Indicative Yields (End-period)*



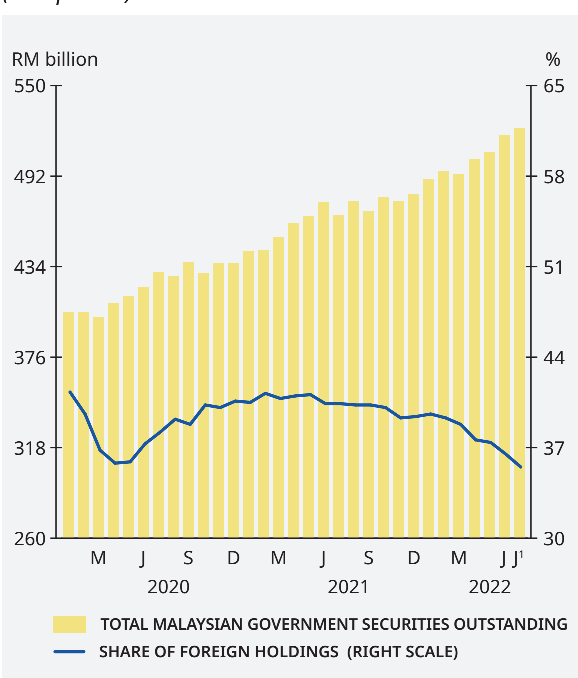
[1] End-July 2022
Source: Bank Negara Malaysia

FIGURE 3.6. *5-Year Corporate Bond Yields (End-period)*



[1] End-July 2022
Source: Bank Negara Malaysia

FIGURE 3.5. *Share of Foreign Holdings in Total Malaysian Government Securities Outstanding (End-period)*



[1] End-July 2022
Source: Bank Negara Malaysia

The global financial volatility has significantly increased since late December 2021. The heightened volatility is due to anxiety over tighter monetary conditions following persistently high inflation, slowing global growth momentum and heightened geopolitical risk, leading to cautious sentiment among equity investors especially in the emerging markets. These developments have led the FBM KLCI to start the year on a softer note by trading below 1,550 points and closed at 1,512.27 points as at end-January 2022 (end-December 2021: 1,567.53 points).

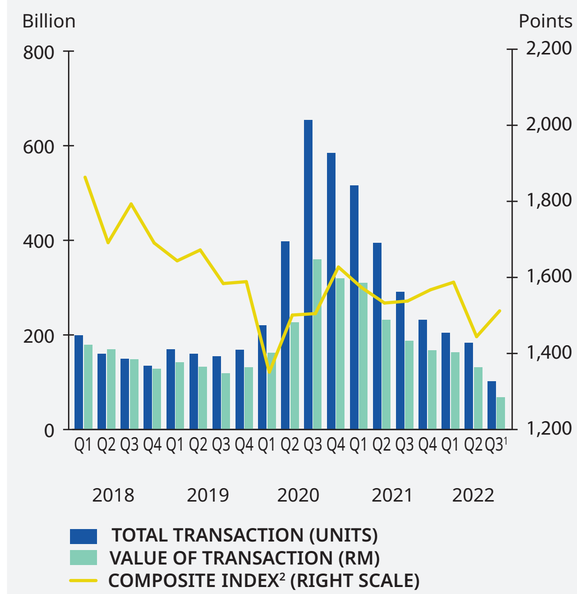
Heightened tensions in Eastern Europe and the military conflict which erupted on 24 February 2022 resulted in higher world oil prices due to supply disruption concerns and increased global financial market volatility. However, the spillover to domestic financial market and broader financial conditions were contained, reflecting positive investor sentiments, given Malaysia's position as a net commodities exporter. The positive sentiment was also exhibited by the local equity market receiving a net foreign inflow of RM2.8 billion coupled with the plantation sectors' strong performance following high commodities prices. In addition, risk-off sentiment and sanctions on Russia have initiated assets relocation into commodity-producing countries, including Malaysia. This led to FBM KLCI entering into a bullish trend, breaching the 1,600 psychological level, closing at 1,608.28 points as at end-February 2022.

In March, the Fed's first interest rate hike by 25 bps to rein in inflation had affected global financial market sentiments. In addition, the escalating conflict in Ukraine compounded uncertainties in worldwide stock markets, prompted investors to relocate funds into safe-haven investments as risk-off mode continued to prevail. Hence, the FBM KLCI registered 1,587.36 points as at end-March 2022.

The transition towards endemicity and the reopening of Malaysia's international borders on 1 April 2022 boosted economic activities and increased prospects of growth. This development accelerated private consumption against a backdrop of global geopolitical uncertainties and monetary policy tightening. Supported by improved prospects for the domestic economy, the FBM KLCI closed higher at 1,600.43 points as at-end April 2022.

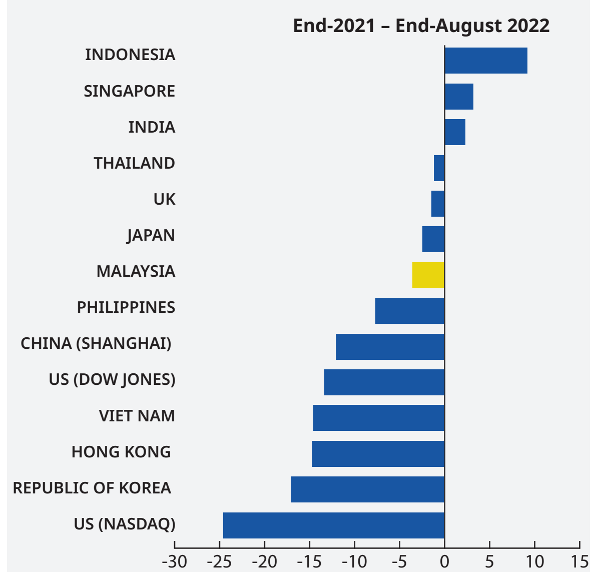
The flow of capital into emerging market economies and its effects on the stock market performance, including Malaysia, are primarily influenced by the Fed Fund Rate decision and monetary policy of advanced economies. The 50 bps hike by the Fed on 4 May 2022 had prompted investors to continue investing in US dollar denominated assets. The FBM KLCI fell to 1,570.10 points alongside regional peers as at end-May 2022, despite Malaysia strong GDP growth in the first quarter of 2022. Global investors' sentiment in equity markets were further dampened by a contraction in the US economic growth as well as another round of benchmark interest rate hike by the Fed in mid-June, the most aggressive hike since 1994. Tracking the Wall Street's poor performance, the FBM KLCI plummeted to a 19-month low closing at 1,444.22 points as at end-June 2022.

FIGURE 3.7. *Performance of Bursa Malaysia*



[1] July-August 2022
[2] As at end-period
Source: Bursa Malaysia

FIGURE 3.8. *Performance of Selected Stock Markets (% change)*



Source: Bloomberg

Global equities staged a rebound in the middle of July 2022 coinciding with the earnings season in the US where investors reacted positively to the earnings reports. With the local market mirroring better Wall Street's performance and the Fed increasing interest rate at a slower-than-expected pace, investors' risk appetite improved, supporting the local bourse, which rose to 1,492.23 points as at-end July 2022. The FBM KLCI edged up to 1,506.19 points on 12 August 2022, following the release of Malaysia's second quarter GDP expansion of 8.9%. Backed by strong domestic economic growth prospects, coupled with China's move to spur growth via infrastructure spending, the local bourse increased further to 1,512.05 points as at end-August 2022. Moving forward, investors are expected to remain cautious following the Fed's indication of further interest rate hikes to curb high inflation. The hawkish stance could undermine the local equity market's performance. Nonetheless, this could be partly offset by continued inflows of foreign funds into Malaysia's equity market coupled with initiatives under Budget 2023.

As at end-August 2022, the market capitalisation declined by 6.9% to RM1,706.3 billion. However, the overall market remains steady, with market transacted value recording RM363.2 billion, while the total volume of shares traded was 489.4 billion units. The market velocity recorded 30.7%, while market volatility stood at 9.6%. Meanwhile, the foreign holdings based on market capitalisation in the local bourse stood at 20.1% during the same period. Overall, the domestic capital market remains robust, with the equity market recording net foreign inflows amounting to RM8.2 billion and purchase of shares by local retail investors worth RM1.8 billion from January – August 2022. Going forward, the continuous development of the local equity market will provide wider opportunities for alternative savings and investment instruments to the retail segment, encouraging greater public participation in the equity market.

TABLE 3.6. *Bursa Malaysia: Selected Indicators, End-August 2021 and 2022*

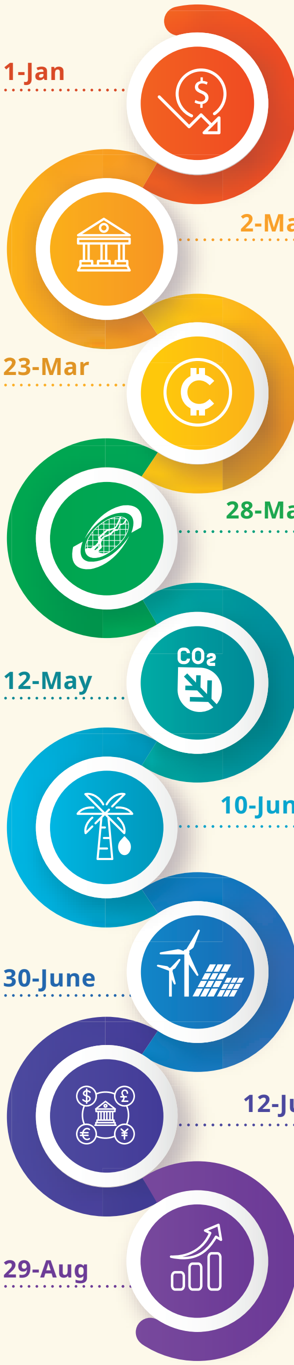
	2021	2022
Indices		
FBM KLCI	1,601.38	1,512.05
FBM EMAS	11,627.87	10,697.65
FBM 100	11,342.91	10,449.43
FBM SCAP	15,945.83	14,380.26
FBM ACE	7,244.90	4,910.44
Total turnover[1]		
Volume (million units)	1,101,881.45	489,373.45
Value (RM million)	660,303.45	363,183.71
Average daily turnover[1]		
Volume (million units)	6,843.98	3,020.82
Value (RM million)	4,101.26	2,241.87
Market capitalisation (RM billion)	**1,832.10**	**1,706.31**
Total number of listed companies		
Main Market	762	764
ACE Market	142	156
LEAP Market	41	46
Market liquidity		
Turnover value/market capitalisation (%)	*36.0*	*21.3*
Market concentration		
10 highest capitalised stocks/market capitalisation (%)	*31.2*	*34.1*

[1] Based on market transactions and direct business transactions between January and August
Source: Bursa Malaysia

INFORMATION BOX 3.1

Key Capital Market Measures

Several key capital market measures were undertaken by Securities Commission Malaysia and Bursa Malaysia in the first eight months of 2022 to enhance the liquidity and efficiency of Malaysia's capital market. The measures are as follows:



1-Jan

Resumption of Intraday Short Selling (IDSS) and Intraday Short Selling by Proprietary Day Traders (PDT Short Sale) with Enhanced Control Measures

Ensures stable and orderly trading by permitting IDSS and PDT Short Sale as per the 'at-tick rule'. PDT Short Sale will be allowed on Approved Securities in the Main Market if PDT has an existing agreement to borrow Day Trading Eligible Securities.

2-Mar

Launching of Public Listed Companies (PLCs) Transformation Programme by Bursa Malaysia

Helps guide PLCs to improve their company's practices, performance and value through information sharing (digital guidebooks), enhanced engagement and greater transparency.

23-Mar

Registration of Two Initial Exchange Offering (IEO) Operators

Promotes responsible innovation in the digital asset space by registering two IEO operators, namely Kapital DX and Pitch Platforms. These IEO operators will operate an electronic platform that hosts an initial exchange offering of digital tokens, providing an alternative avenue for eligible companies to raise funds via digital tokens in Malaysia.

28-Mar

Launching of Bursa Research Incentive Scheme (Bursa RISE)

Complements and supports the PLCs' transformation programme by improving participating PLCs' trading velocity and corporate profile through research coverage and marketing activities.

12-May

Memorandum of Understanding (MoU) between Bursa Malaysia and Verra, World's Leading Greenhouse Gas Crediting Programme Manager

Enables the establishment of a Voluntary Carbon Market (VCM) that can be scaled up, serving a wide variety of market participants and allowing businesses to offset their carbon footprints via digitally standardised contracts of high-quality carbon credits in a transparent and orderly manner.

10-June

Completion of First Physical Delivery of East Malaysia Crude Palm Oil Futures Contract (FEPO) in Sarawak by Bursa Malaysia Derivatives Berhad

Provides an effective instrument via FEPO for physical players and participants in the East Malaysian palm oil market to manage price risk, particularly in a highly volatile environment.

30-June

The Launching of Sustainable and Responsible Investment linked (SRI – linked) Sukuk Framework to Facilitate Companies' Transition to Net Zero Carbon

Addresses sustainability concerns such as climate change or social agenda, with features related to sukuk issuer's sustainability performance commitments. Furthermore, it enables companies to transit into a low carbon or net-zero economy and meets the increasing global demand for sustainable financing.

12-Jul

Bursa Malaysia Derivatives Berhad Inks Strategic Partnership MoU with Shanghai Futures Exchange and Shanghai International Energy Exchange

Enhances sharing of information and best practices regarding product development and market operations in areas of common interest. The partnership indirectly supports and contributes to the China-Malaysia economic trade, which will complement existing product offerings and meet the needs of increasingly sophisticated customers.

29-Aug

Bursa Malaysia Launches FTSE Bursa Malaysia Top 100 ESG Low Carbon Select Index (FBM100LC) and FTSE Bursa Malaysia Top 100 ESG Low Carbon Select Shariah Index (FBM100LS)

Two new ESG themed indices under the FTSE Bursa Malaysia Index Series were launched to cater to the evolving investors' demand for low carbon and climate risk index.

Islamic Banking and Capital Market Performance

Islamic banking and capital market remain dynamic to support economic growth

The Islamic banking industry remains resilient and dynamic supported by continuous innovation of Shariah-compliant products. As at-end July 2022, total Islamic banking assets grew by 5.7% to RM1,196.7 billion[4], constituting 35.7% of total banking assets. Meanwhile, total Islamic financing expanded by 12% to RM774.1 billion. The growth was primarily contributed by household sector financing, which increased by 11.8% to RM491.3 billion as at end-July 2022, accounting for 63.5% share of the total Islamic financing. The financing was mainly for the purchase of residential properties (51.9%), and purchase of transport vehicles, particularly passenger cars (19.8%).

The introduction of the Malaysia Islamic Overnight Rate (MYOR-i) on 25 March 2022, a fully Shariah-compliant benchmark rate, is expected to boost the development of more innovative Shariah-compliant financial products. The MYOR-i will enhance transparency by enabling market players to negotiate and standardise their financial contracts, thus achieving efficient pricing across all financial instruments. The establishment of MYOR-i will help deepen the onshore Islamic financial market and enhance the role of Shariah-compliant financing for domestic economic activities.

The Islamic Capital Market (ICM) in Malaysia serves as an essential and attractive platform for the Government and corporate entities to raise funds for various economic, business and infrastructure development needs. However, the size of ICM declined marginally by 1.2% as at end-July 2022 due to a reduction in the total market capitalisation of Shariah-compliant securities. The size of ICM was valued at RM2,226.6 billion, representing 63.4% of Malaysia's total capital market.

TABLE 3.7. *Islamic Banking: Key Indicators[1], End-July 2021 and 2022*

	RM BILLION		CHANGE (%)	
	2021	2022[2]	2021	2022
Assets	**935.7**	**995.1**	***8.9***	***6.3***
Financing	**691.1**	**774.1**	***6.3***	***12.0***
Primary agriculture	16.6	16.2	*-10.4*	*-2.6*
Mining and quarrying	4.7	3.0	*9.7*	*-35.3*
Manufacturing[3]	34.4	36.0	*13.7*	*4.6*
Electricity, gas and water supply	6.1	11.8	*11.9*	*94.1*
Wholesale and retail trade, restaurants and hotels	36.2	42.7	*13.0*	*18.2*
Construction	32.2	43.3	*-8.7*	*34.3*
Real estate	31.3	31.8	*-0.7*	*1.5*
Transport, storage and communication	18.3	22.7	*-8.8*	*24.3*
Finance, insurance and business activities	38.2	46.4	*13.0*	*21.5*
Education, health and others	27.8	16.3	*-17.6*	*-41.4*
Households	439.6	491.3	*10.0*	*11.8*
Others	5.7	12.4	*-0.7*	*118.4*
Liabilities	**868.6**	**923.8**	***9.4***	***6.4***
Deposits and Investment Account	**799.3**	**869.3**	***9.5***	***8.8***
Investment account	113.5	133.5	*16.9*	*17.6*
Investment	0.4	0.3	*-22.2*	*-22.1*
Savings	71.2	75.1	*22.4*	*5.5*
Demand	116.0	134.9	*16.3*	*16.3*
Others	498.2	525.5	*5.0*	*5.5*

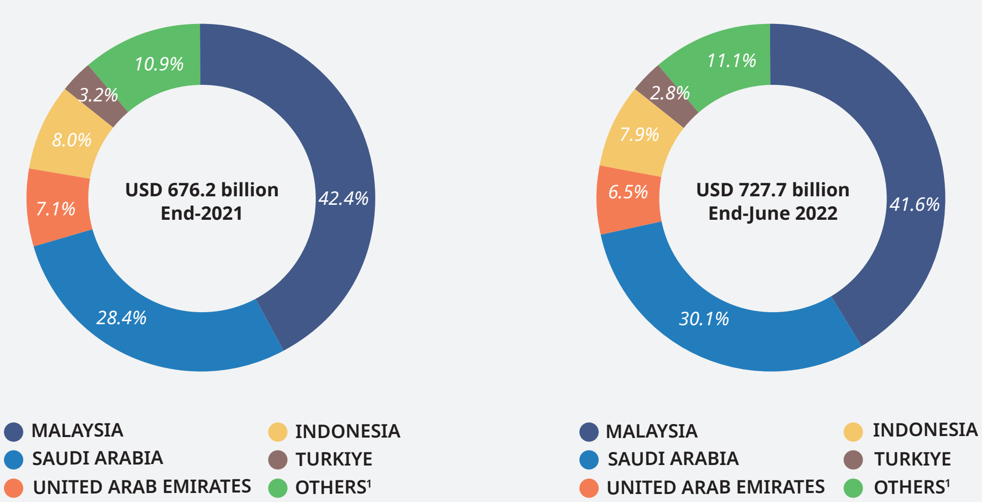
[1] Excluding DFIs
[2] Statistical table related to loans/financing has been revised and expanded with a new format beginning July 2022
[3] Including agro-based
Note: Total may not add up due to rounding
Source: Bank Negara Malaysia

[4] Includes Development Financial Institutions (DFIs).

Bursa Malaysia being one of the leading exchanges in the emerging market, offers a wide range of Shariah-compliant securities products. As at end-July 2022, a total of 754 Public Listed Companies adhere to the Shariah principles. The Shariah-compliant securities were valued at RM1,080.9 billion, which accounts for 63.8% of the overall market capitalisation of listed companies on Bursa Malaysia. During the first seven months of 2022, Malaysia's sukuk issuances amounted to RM151.9 billion or 65.9% of the total bond and sukuk issuances. Total corporate sukuk issuances reached RM46.9 billion during the same period, representing 76.3% of overall corporate bonds and sukuk issued in Malaysia. As at end-June 2022, Malaysia continued to record the largest share of global sukuk outstanding at 41.6%, notwithstanding a moderation in the overall domestic ICM performance.

Meanwhile, Malaysia continues to issue Sustainable and Responsible Investment (SRI) sukuk to meet the financing requirements of projects which complies with the Sustainable Development Goals (SDGs). Recognising the importance of SDGs, the Securities Commission Malaysia launched the SRI-linked Sukuk Framework on 30 June 2022. The framework enables corporates to engage in fundraising activities which addresses sustainability concerns such as climate change or social agenda. The SRI-linked sukuk will also encourage and facilitate the transition of corporates into low-carbon economic activities.

FIGURE 3.9. *Global Sukuk Outstanding by Country (% share)*



[1] Others include Bahrain, Bangladesh, Brunei, Gambia, Hong Kong, Ivory Coast, Jordan, Kuwait, Luxembourg, Maldives, Mauritius, Nigeria, Oman, Pakistan, Qatar, Senegal, Singapore, South Africa, UK and US

Note: Total may not add up due to rounding

Source: Bank Negara Malaysia

Conclusion

Monetary policy is anticipated to remain supportive and accommodative of growth in an environment of moderate inflationary pressures. Future monetary policy stance will continue to be guided by the MPC's assessment of evolving conditions and their implications on the overall outlook to domestic inflation and growth. Financial institutions are expected to continue to be robust backed by prudent management, sufficient liquidity and strong capital buffers. Similarly, the capital market is expected to remain resilient, underpinned by sound macroeconomic fundamentals, ample domestic liquidity, and comprehensive capital market infrastructure.

The transition towards endemicity, reopening of international borders, strong domestic growth momentum and ongoing strategic projects among others, will provide the impetus for better overall financial market performance in 2022. Nonetheless, weaker global growth prospects, aggressive pace of monetary policy tightening by the Fed, heightened volatility in global financial conditions, prolonged conflict in Ukraine and strict measures to curb COVID-19 in China pose as headwinds. In light of these challenges, the Capital Market Masterplan 3 (2021 – 2025) and Financial Sector Blueprint (2022 – 2026) will encourage greater diversity and increase dynamism in the financial market in tandem with the evolving economic and financial landscapes. Hence, the resilience of Malaysia's financial market will be enhanced while safeguarding financial stability and integrity.

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