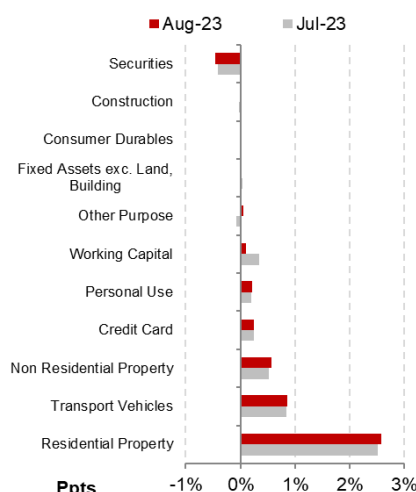


Malaysia Money & Credit

Loan growth stays at 4.2% in August while M3 growth hit a 46-month low

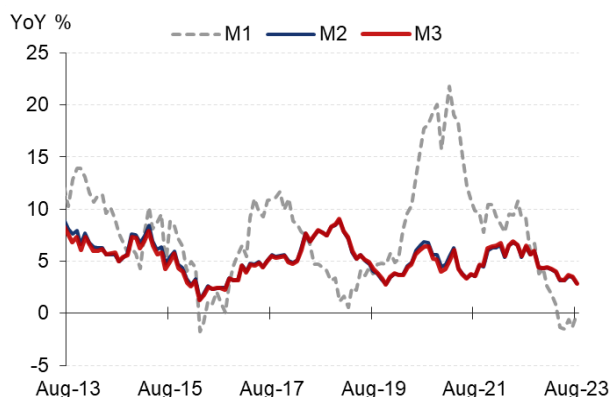
- Broad money (M3) growth slowed to 2.9% YoY in August (Jul: 3.5%), the lowest since November 2019, partly due to a higher base effect**
 - While the YoY growth was attributed to a sustained increase in foreign currency deposits (13.6%; Jul: 13.1%) and by an increase in fixed deposits (7.1%; Jul: 8.1%), albeit at a slower pace, it was largely weighed down by a 12th straight month of contraction in savings deposits (-6.3%; Jul: -7.6%). This was further dragged by a slowdown in demand deposits (-0.5%; Jul: -1.9%).
 - MoM: rebounded (0.2%; Jul: -0.3%) following a steep decline in the preceding month.
- Slower M3 growth is also due to a slower expansion in claims on the private sector as well as net foreign assets but partially supported by the higher growth in the claims on government**
 - Net claims on government (10.5%; Jul: 8.5%): hit a five-month high, contributing to the overall M3 growth by 1.4 ppts (Jul: 1.2 ppts).
 - Claims on the private sector (5.0%; Jul: 5.5%): growth slowed to a two-month low due to a slower expansion in securities (7.1%; Jul: 11.0%).
- Loan growth remained unchanged in August (4.2% YoY; Jul: 4.2%)**
 - By purpose: contributed by an expansion in residential property (7.1%; Jul: 6.9%), which registered a nine-month high. This was further supported by growth in transport vehicles (9.1%; Jul: 8.9%), a record high. Nevertheless, growth was partially weighed down by continued weakness in the purchase of securities (-9.8%; Jul: -8.8%), which dragged -0.5 ppts (Jul: -0.4 ppts) to overall growth.
 - By sector: credit growth was also supported by the household sector (5.5%; Jul: 5.4%), contributing 3.3 ppts (Jul: 3.2 ppts) to overall growth. This was further supported by expansion in the finance & insurance sector (15.3%; Jul: 14.0%). Overall, growth was partially weighed by the agriculture sector (-5.5%; Jul: 1.2%).
 - MoM: Growth expanded (0.7%; Jun: 0.2%) to an eight-month high.
- Deposit in the banking system moderated further (4.6% YoY; Jul: 5.3%) to a 22-month low due to high base effect, as MoM growth rebounded (0.6%; Jul: -0.5%) to a six-month high**
 - Slower growth was also attributable to a continued decline in savings (-6.3%; Jul: -7.6%) and demand deposits (-0.3%; Jul: -2.6%), albeit relatively smaller than the previous month. This was also weighed down by contraction in other deposits accepted (-5.9%; Jul: 1.2%).
- 2023 loan growth forecast is maintained at 4.0% - 4.5% (2022: 5.7%)**
 - An expectation of further improvement in consumer and business confidence amid resilient domestic demand will likely support the growth outlook. This is backed by steady labour market conditions underpinned by sustained expansion in the services sector driven by a gradual increase in tourist arrivals.
 - On the monetary policy outlook, we expect BNM to hold its overnight policy rate (OPR) steady at 3.00% this year and most likely in 2024, barring unforeseen circumstances. We believe BNM has reached its policy normalisation cycle target in its effort to deal with the uncertainty of the global economy while inflation remains under control.
 - Likewise, we maintain GDP growth projection for 2023 at 3.5% - 4.0% (2022: 8.7%) as we expect the momentum to slow in the 2H23 (3.1%; 1H23: 4.2%) due to the higher base recorded last year and the impact of global economic slowdown, particularly from China's weaker recovery and an impending US soft landing.

Graph 1: Loan Growth by Purpose (ppts)



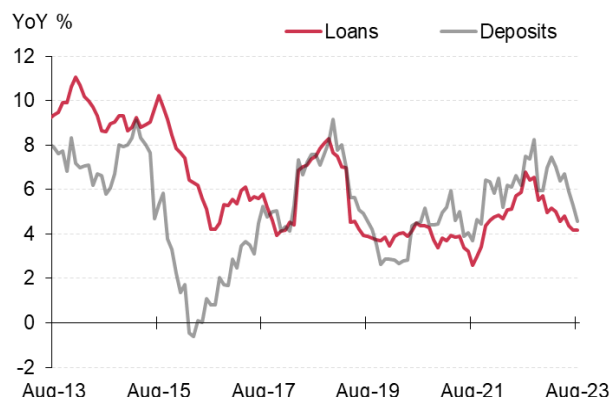
Source: BNM, Macrobond, Kenanga Research

Graph 2: Money Supply Growth



Source: BNM, Macrobond, Kenanga Research

Graph 3: Loan and Deposit Growth



Source: BNM, Macrobond, Kenanga Research

Table 1: Money Supply, Loan and Deposit Growth Trend

| | | 2020 | 2021 | 2022 | Aug-22 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 |
|----------------|------------|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|
| M1 | % MoM | | | | 0.1 | -0.2 | -0.3 | -0.2 | 1.4 | -1.5 | 1.3 |
| | Chg (RM b) | 71.1 | 54.6 | 24.7 | 0.3 | -1.0 | -1.7 | -1.0 | 8.5 | -9.2 | 7.5 |
| | % YoY | 15.7 | 10.4 | 4.3 | 9.2 | 0.9 | -1.3 | -1.5 | -0.6 | -1.3 | -0.1 |
| M2 | % MoM | | | | 0.8 | 0.0 | -0.2 | 0.4 | 0.4 | -0.3 | 0.2 |
| | Chg (RM b) | 86.9 | 128.3 | 92.5 | 18.6 | 1.0 | -5.0 | 9.4 | 9.4 | -6.3 | 5.2 |
| | % YoY | 4.5 | 6.3 | 4.3 | 6.4 | 4.0 | 3.1 | 3.1 | 3.6 | 3.5 | 2.9 |
| M3 | % MoM | | | | 0.9 | 0.0 | -0.2 | 0.5 | 0.4 | -0.3 | 0.2 |
| | Chg (RM b) | 79.4 | 130.8 | 93.9 | 19.2 | 0.6 | -4.6 | 10.5 | 8.4 | -6.0 | 5.4 |
| | % YoY | 4.0 | 6.4 | 4.3 | 6.5 | 4.0 | 3.3 | 3.2 | 3.6 | 3.5 | 2.9 |
| Loans | % MoM | | | | 0.7 | 0.5 | 0.0 | 0.5 | 0.2 | 0.2 | 0.7 |
| | Chg (RM b) | 59.6 | 84.5 | 109.0 | 14.0 | 9.2 | -0.1 | 10.5 | 4.7 | 3.5 | 14.1 |
| | % YoY | 3.4 | 4.6 | 5.7 | 6.8 | 5.0 | 4.6 | 4.8 | 4.4 | 4.2 | 4.2 |
| Deposit | % MoM | | | | 1.3 | -0.1 | -0.4 | 0.5 | 0.0 | -0.5 | 0.6 |
| | Chg (RM b) | 88.9 | 132.4 | 132.0 | 28.7 | -2.5 | -10.7 | 12.1 | 1.1 | -11.2 | 14.4 |
| | % YoY | 4.4 | 6.3 | 5.9 | 7.5 | 7.0 | 6.4 | 6.7 | 5.9 | 5.3 | 4.6 |
| LCR* | (%) | 148.2 | 153.4 | 154.0 | 141.1 | 155.1 | 153.0 | 150.1 | 154.4 | 154.8 | 149.3 |

Source: Bank Negara Malaysia, Macrobond, 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%.

For further information, please contact:

Wan Suhaimie Wan Mohd Saidie
Head of Economic Research
wansuhaimi@kenanga.com.my

Muhammad Saifuddin Sapuan
Economist
saifuddin.sapuan@kenanga.com.my

Afiq Asyraf Syazwan Abd. Rahim
Economist
afiqasyraf@kenanga.com.my

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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia

Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my