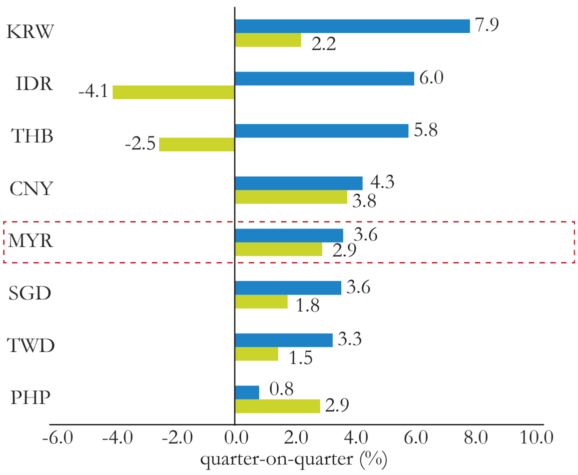
Monetary and Financial Developments

HIGHLIGHTS

- Ringgit strengthened amid improvements in both bond and equity markets.
- Interest rates remained stable during the quarter.
- Credit continued to expand to meet the financing needs of the economy.

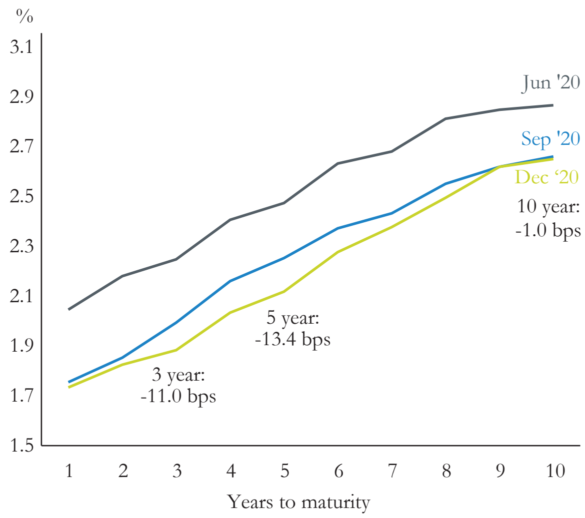
Improvement in domestic financial market conditions amid rising global risk appetite

Chart 19: Performance of Regional Currencies Against the US Dollar (1 October - 31 December 2020)



Source: Bank Negara Malaysia and Reuters

Chart 20: Trend in MGS Yields

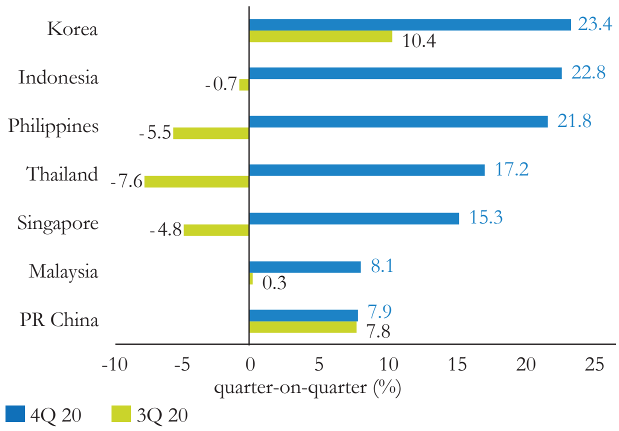


Source: Bank Negara Malaysia

Conditions in the domestic financial markets improved in the fourth quarter of 2020, as positive global developments buoyed investor sentiments. Of significance, investor risk appetite improved during the quarter amid positive developments on the approval and deployment of COVID-19 vaccines and greater clarity on US policy direction following the outcome of the US presidential election.

As a result, the domestic financial markets experienced broad-based improvements across asset markets, in line with the regional trend. In in the fourth quarter of 2020, domestic financial markets experienced continued non-resident portfolio inflows, which led to an appreciation of the ringgit against the US dollar by 3.6% amid broad US dollar weakening. These inflows were mainly into the domestic bond market, which contributed to the decline of the 3-year, 5-year and 10-year MGS yields by 11.0, 13.4 and 1.0 basis points, respectively. While Fitch Ratings downgraded Malaysia's sovereign rating to BBB+ in December 2020, the impact to the domestic bond market from this downgrade was muted.

Chart 21: Performance of Regional Equity Markets (1 October - 31 December 2020)

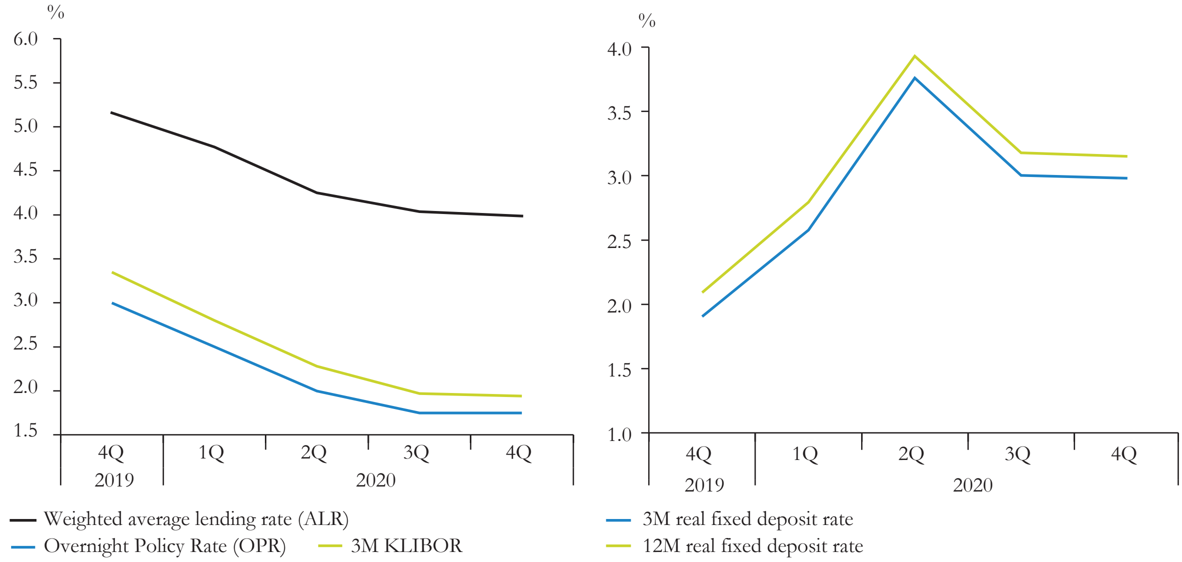


Source: Bloomberg

The domestic equity markets also trended higher during the quarter. Notably, the improved outlook for the global deployment of COVID-19 vaccines in 2021 more than offset financial market concerns on the impact from renewed containment measures to address rising COVID-19 infections globally. This led to recoveries in equity prices of sectors which were more severely affected by the pandemic, as investors priced in expectations for an eventual normalisation of economic activities. As at end-December, the FBM KLCI increased by 8.1% to close at 1,627.2 points (end-September: 1,504.8 points).

Interest rates remained stable during the quarter

Chart 22: Interest Rates (at end-period)



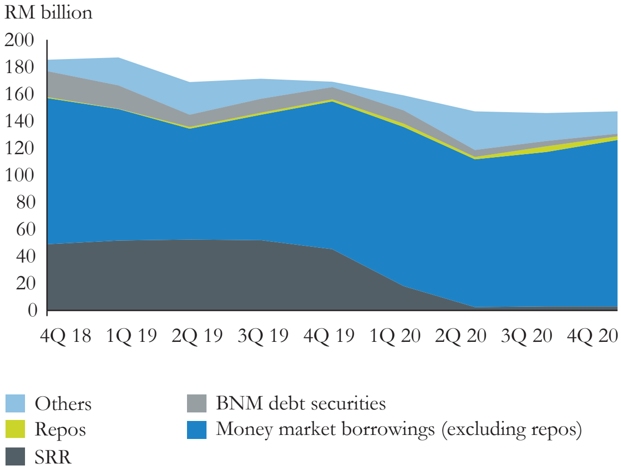
Source: Bank Negara Malaysia and Bloomberg

Nominal interest rates in the wholesale and retail markets were broadly stable throughout the quarter. The benchmark 3-month KLIBOR declined marginally by 3 basis points to 1.94% (3Q 2020: 1.97%). In the retail market, the weighted average base rate (BR) was unchanged at 2.43% (3Q 2020: 2.43%) while the weighted average lending rate (ALR) on outstanding loans decreased marginally to 3.99% (3Q 2020: 4.03%).

Real fixed deposit (FD) rates were also stable in the fourth quarter, given the steady headline inflation in December. In particular, the real 3-month and 12-month FD rates remained broadly unchanged at 3.00% (3Q 2020: 3.00%) and 3.20% (3Q 2020: 3.20%), respectively.

Banking system liquidity remained sufficient to facilitate financial intermediation

Chart 23: Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia (at end-period)

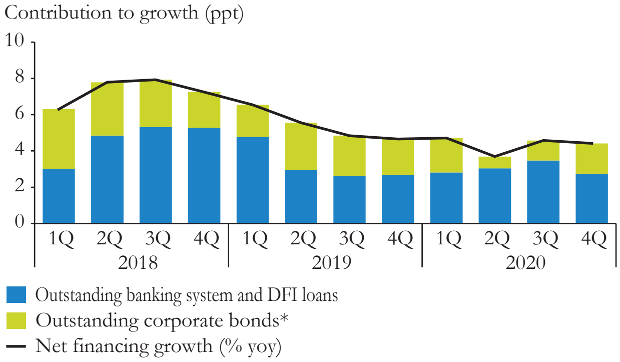


Source: Bank Negara Malaysia

Banking system liquidity remained sufficient at both the institutional and system-wide levels to facilitate financial intermediation activity. Reflecting the net inflows during the quarter, the level of surplus liquidity placed with the Bank increased marginally by RM1.3 billion. At the institutional level, all banks maintained surplus liquidity positions with the Bank as at end-December 2020.

Credit continued to expand to meet the financing needs of the economy

Chart 24: Contribution to Net Financing Growth



*Excludes issuances by Cagamas and non-residents
Source: Bank Negara Malaysia

In fourth quarter of 2020, net financing expanded by 4.4% on an annual basis (3Q 2020: 4.6%), supported by the continued expansion of outstanding corporate bonds[4] and loans[5]. Outstanding corporate bond growth increased during the quarter (6.5%; 3Q 2020: 4.3%) due mainly to issuances from Government-related entities and financial institutions.

Total outstanding loans recorded 3.7% growth on an annual basis (3Q 2020: 4.7%), with outstanding business loans registering a modest growth (0.9%, 3Q 2020: 2.9%) due to two factors: First, there was a high base effect in the fourth quarter of 2019 due to the disbursement of an exceptionally large-value loan in the manufacturing sector[6]. Second, business loan repayments growth outpaced disbursements during the quarter. In level terms, both disbursements and repayments increased mainly for loans for working capital purposes[7]. Business loan applications and approvals increased during the quarter, especially for the investment-related loans (Investment loan applications: 4Q 2020: RM36.9 bn; 3Q 2020: RM29.7 bn, Investment loan approvals: 4Q 2020: RM16.6 bn; 3Q 2020: RM12.1 bn).

Outstanding loans to households recorded annual growth of 5.4% (3Q 2020: 5.6%). Disbursements remained robust during the quarter (RM99.5 bn; 3Q 2020: RM99.1 bn), while repayments recovered to pre-crisis level across most loan purposes (RM94.6 bn, average 2019: RM91.8 bn). Demand for household loans remained forthcoming, mainly for the purchase of residential properties and passenger cars amid lower interest rates and economic stimulus measures.

[4] Excludes issuances by Cagamas and non-residents.
[5] Loans from the banking system and development financial institutions (DFIs).
[6] Without the base effect, growth in outstanding business loans would have been 1.6%.
[7] Classification of business loans by purpose is only available for the banking system, which makes up 92% of total outstanding loans extended to businesses.