

Monetary and Financial Developments

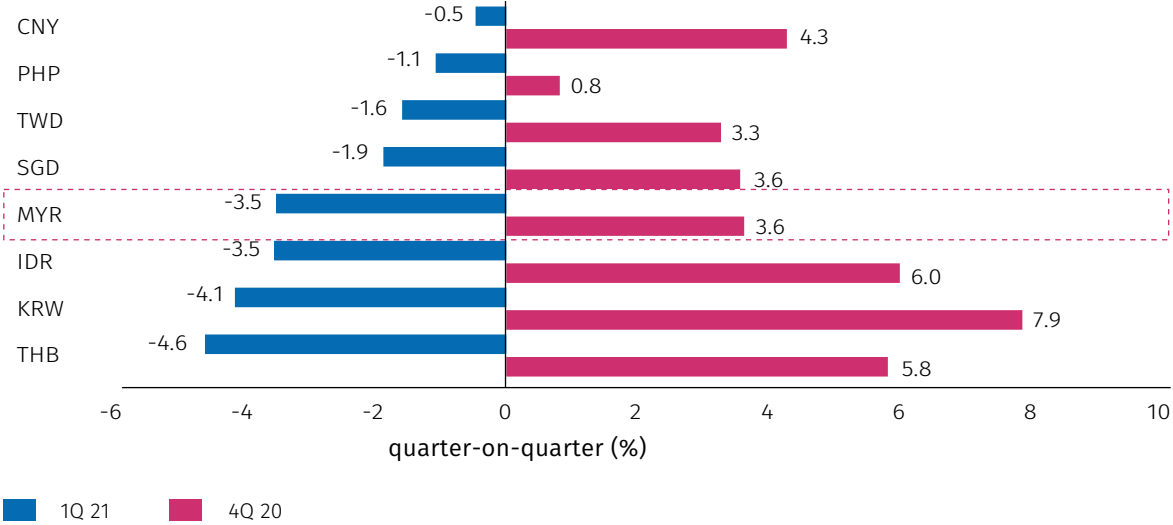
Highlights

- Decline in the bond and equity markets while the exchange rate depreciated
- Nominal interest rates remained broadly stable during the quarter
- Continued growth in net financing during the quarter

Domestic financial markets were affected by external and domestic factors

In the first quarter of 2021, conditions in the domestic financial markets were affected by both external and domestic developments. On the external front, the rise in long-term US Treasury yields during this period led to shifts in international portfolio flows, resulting in financial asset price adjustments globally.

C19 Performance of Regional Currencies Against the US Dollar



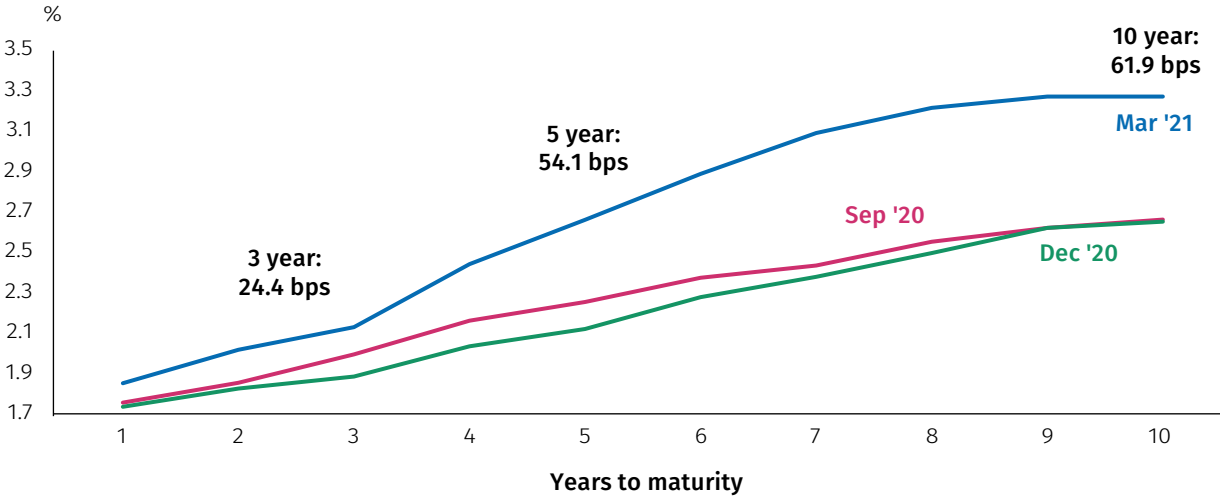
Source: Bank Negara Malaysia and Reuters

The surge in US Treasury yields, driven mainly by expectations for higher inflation in anticipation of a faster economic recovery in the US, led to the steepening of government bond yield curves in other advanced and emerging market economies. Furthermore, the improved US economic outlook and higher treasury yields supported the rebalancing of portfolio investments towards US financial assets and contributed to a strengthening of the US dollar. As a result, there was a broad-based weakening of regional currencies against the US dollar, including the ringgit.

Consequently, domestic bond yields rose in tandem with yield movements in

regional markets and US Treasury securities. In particular, 10-year MGS yields increased to its peak in mid-March before declining towards the end of the month as volatility in US Treasury yields subsided. The domestic bond market was further supported by the positive news on Malaysia’s retention in the FTSE World Government Bond Index (WGBI). Overall, the government bond market continued to record inflows as non-resident holdings increased to 25.0% of outstanding government bonds (4Q 2020: 24.2%). For the quarter, the 3-year, 5-year and 10-year MGS yields increased by 24.4, 54.1 and 61.9 basis points, respectively, while the ringgit depreciated against the US dollar by 3.5%, in line with the movements of regional currencies.

C20 Trend in MGS Yields

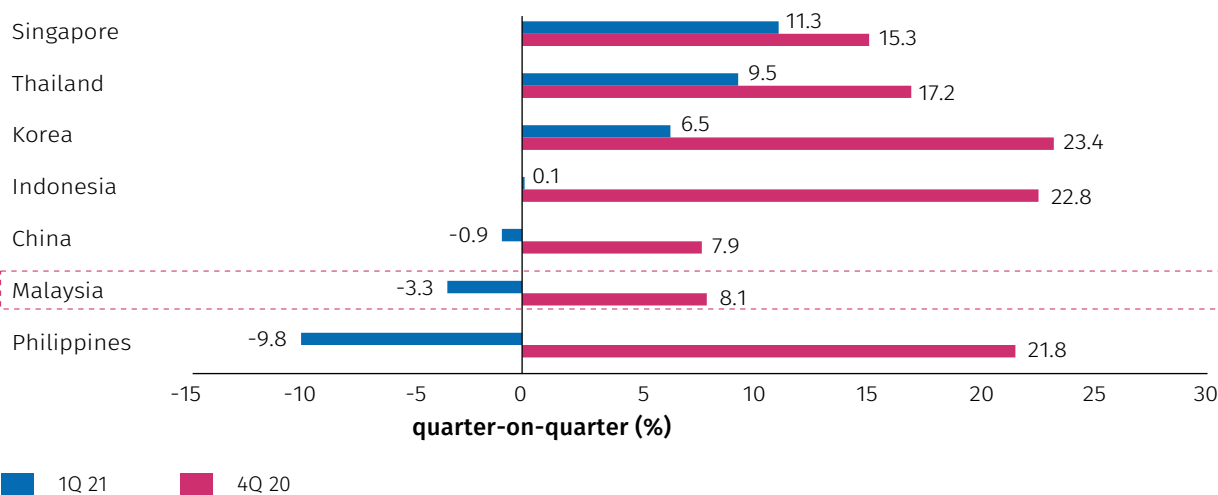


Source: Bank Negara Malaysia

The decline in the domestic equity market was due mainly to developments surrounding COVID-19 cases, and the re-imposition of containment measures domestically, which

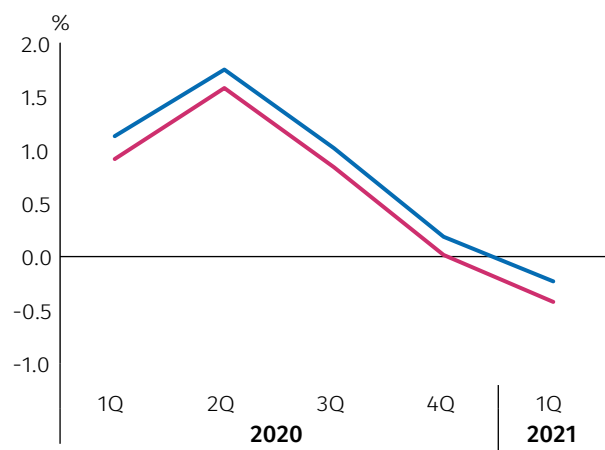
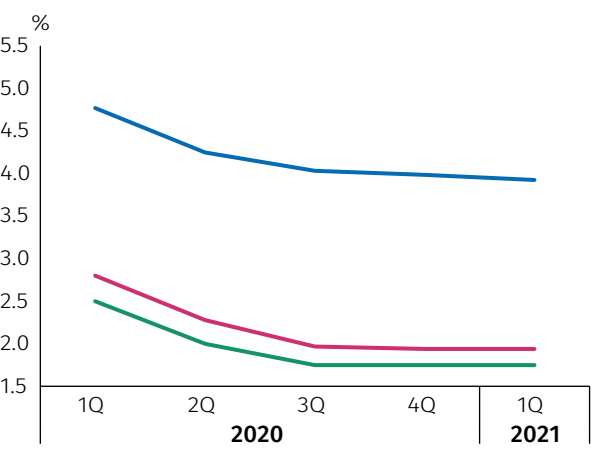
posed concerns on the corporate earnings outlook. As at end-March, the FBM KLCI declined by 3.3% to close at 1,573.5 points (end-December: 1,627.2 points).

C21 Performance of Regional Equity Markets



Source: Bloomberg

C22 Interest Rates (at end-period)



— Weighted average lending rate (ALR)
 — Overnight Policy Rate (OPR)
 — 3M KLIBOR
 — 3M real fixed deposit rate
 — 12M real fixed deposit rate

Source: Bank Negara Malaysia, Bloomberg and Consensus Economics

Nominal interest rates remained broadly stable during the quarter

Nominal interest rates in the wholesale and retail markets were stable throughout the quarter. The benchmark 3-month KLIBOR remained unchanged at 1.94% (4Q 2020: 1.94%), while in the retail market, the weighted average base rate (BR) was also unchanged at 2.43% (4Q 2020: 2.43%). More broadly, the weighted average lending rate (ALR) on outstanding loans declined to 3.93% (4Q 2020: 3.99%), following the maturity of fixed-rate loans with higher rates.

Nominal fixed deposit (FD) rates were also stable during the quarter, across tenures of 1 to 12 months. However, real 3-month and

12-month FD rates⁷ turned negative given expectations of higher inflation. This was due, in part, to the base effect from the low and negative inflation last year.

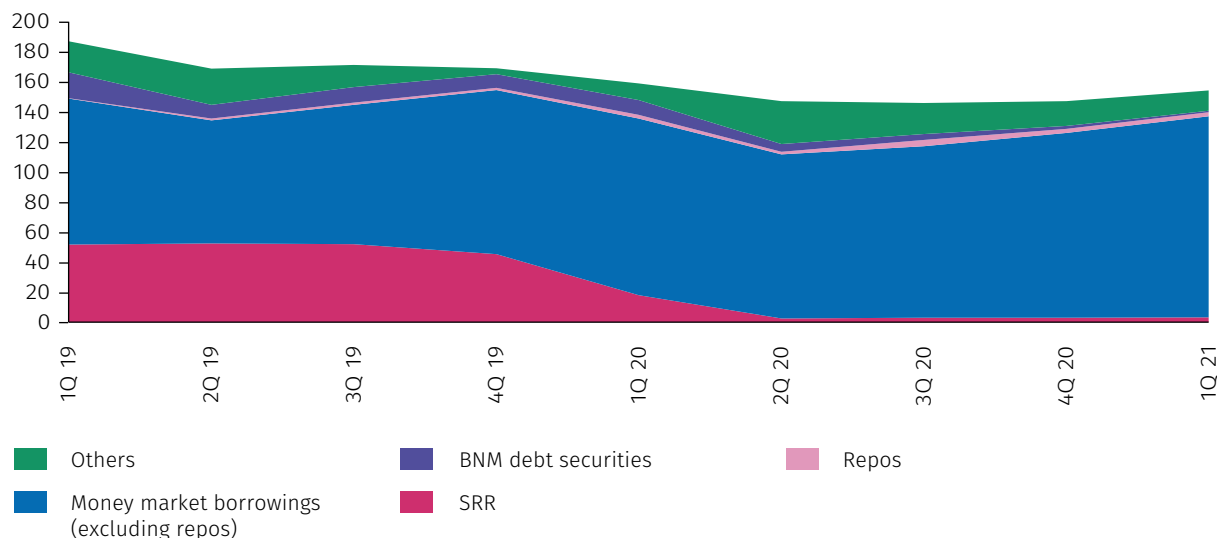
Banking system liquidity remained sufficient to facilitate financial intermediation

Banking system liquidity remained sufficient at both the institutional and system-wide levels to facilitate financial intermediation activity. The level of surplus liquidity placed with the Bank increased by RM7.2 billion, reflecting the net inflows during the quarter. At the institutional level, almost all banks maintained surplus liquidity positions with the Bank as at end-March 2021.

C23

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

RM billion



Source: Bank Negara Malaysia

⁷ The measurement of inflation in the computation of real deposit rates has been updated to the average expected inflation (based on data from Consensus Economics) over the next 12 months, rather than using the concurrent headline inflation. This measure is intended to reflect inflation expectations, which is the more relevant indicator for saving decisions. This measure is approximated by an average of the forecasts for the current and next calendar year weighted by their share in the forecasting horizon of 12 months ahead, which is comparable to the use of fixed-horizon forecasts in the literature, including Dovern et al. (2012) and Siklos (2013).

Continued growth in net financing during the quarter

In first quarter of 2021, net financing expanded by 4.7% on an annual basis (4Q 2020: 4.4%), contributed by the higher outstanding loan⁸ growth (4.3%, 4Q 2020: 3.7%), while outstanding corporate bond⁹ growth moderated slightly during the quarter (5.9%; 4Q 2020: 6.5%).

Both business loan disbursements and repayments remained above their historical average levels, due mainly to loans for working capital purposes¹⁰ (Disbursements: RM195.9 bn, 2017-19 quarterly average: RM158.7 bn; Repayments: RM187.7 bn, 2017-19 quarterly average: RM157.8 bn). Meanwhile, total demand for business loans moderated slightly (RM73.9 bn, 4Q 2020: RM77.5 bn) while approval rates remained relatively stable during the quarter.

For the household segments, outstanding loans recorded an annual growth of 6.0% (4Q 2020:

5.4%) as disbursements growth outpaced that of repayments. Loans for the purchase of residential properties and passenger cars continued to be the main drivers of household loan expansion (contribution to growth: 5.5 percentage points). In addition, the demand for household loans remained forthcoming (RM139.8 bn; 2017-19 quarterly average: RM119.2 bn), amid the accommodative monetary policy environment and various stimulus measures.

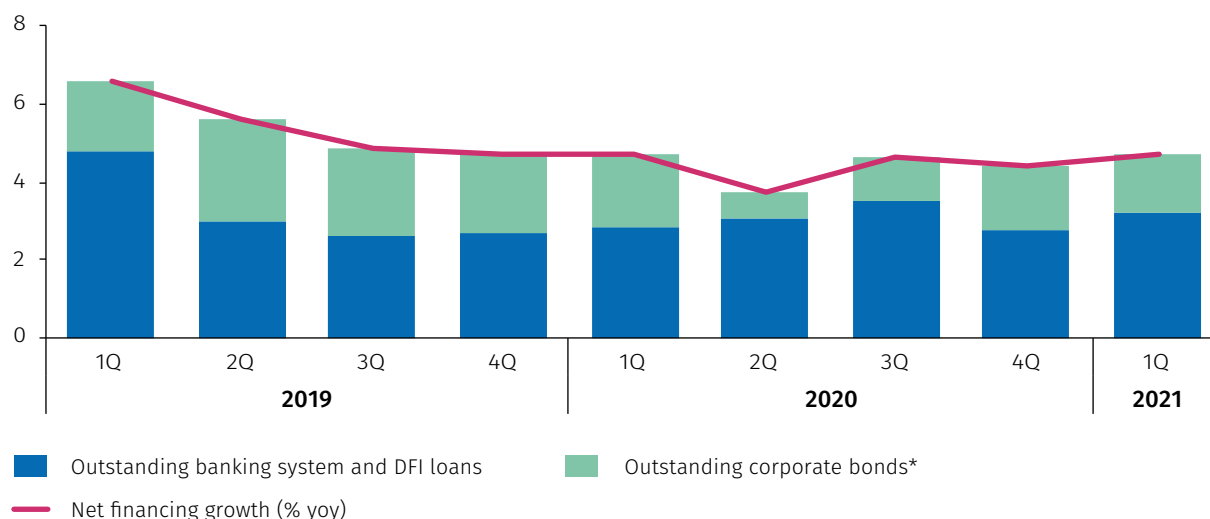
References

Dovern, J., Fritsche, U., & Slacalek, J. (2012). "Disagreement Among Forecasters in G7 Countries," *The Review of Economics and Statistics*. MIT Press, vol. 94(4), pages 1081-1096.

Siklos, Pierre L. (2013). "Sources of disagreement in inflation forecasts: An international empirical investigation," *Journal of International Economics*. Elsevier, vol. 90(1s), pages 218-231.

C24 Contribution to Net Financing Growth

Contribution to growth (ppt)



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

⁸ Loans from the banking system and development financial institutions (DFIs).
⁹ Excludes issuances by Cagamas and non-residents.
¹⁰ Classification of business loans by purpose is only available for the banking system.