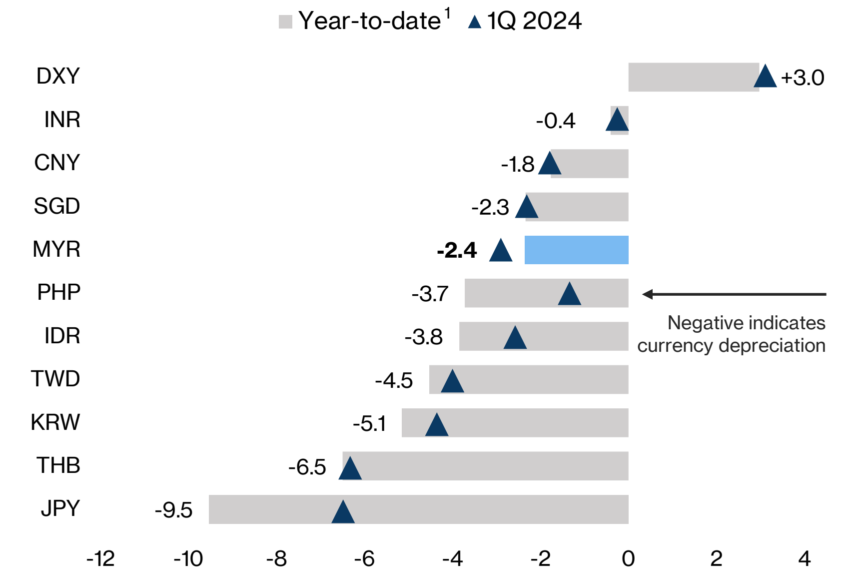
Financial Markets and Exchange Rate

Ringgit depreciated amid strong US dollar

Ringgit's depreciation was in line with major trade partners amid extended US dollar strength

Performance of the US dollar Index and regional currencies against the US dollar,
% year-to-date and QoQ



Ringgit depreciated against major trading partners

NEER 1Q 2024: -0.4%
4Q 2023: -0.9%

[1] YTD as of 15 May 2024.
Note: NEER refers to the nominal effective exchange rate.
Source: Bank Negara Malaysia and Bloomberg

Domestic financial market developments were driven mainly by external factors

Bond yields increased
in line with regional peers on expectations of later and fewer US policy interest rate reductions

MGS 10Y Yield +11 bps
(4Q 2023: -23 bps)

Equity markets rose
amid purchases by local institutional investors towards the end of the quarter

KLCI +5.6% QoQ
(4Q 2023: +2.1%)

Key factors

Shifting expectations of major economies' monetary policy paths and ongoing geopolitical tensions have led to heightened volatility in both capital flows and exchange rates across the region, including the ringgit

Steady improvement in the economy and positive impacts from the implementation of domestic structural reforms are expected to continue to be supportive of domestic financial markets

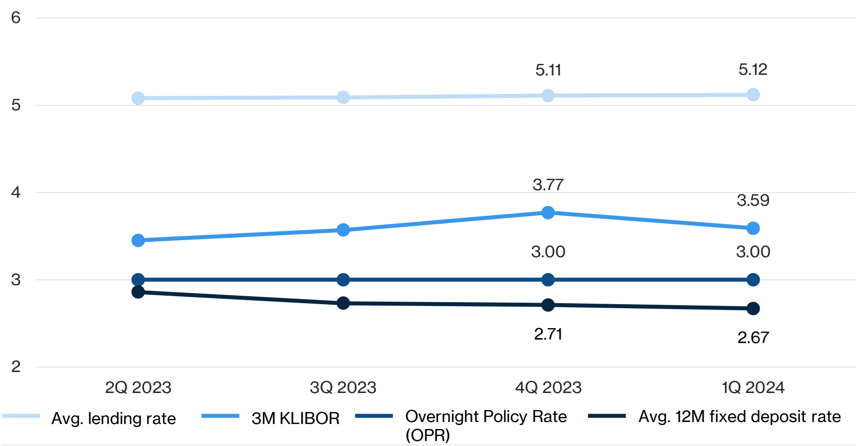
The coordinated actions that are being undertaken by the Government and BNM to encourage repatriation and conversion of foreign investment income by GLCs and GLICs have helped to cushion the pressure on the foreign exchange market

Source: Bank Negara Malaysia, ETP, Bursa Malaysia and Bloomberg

Interest Rates and Liquidity

Interbank rates and fixed deposit rates declined during the quarter

Interest rates,
End-period, %

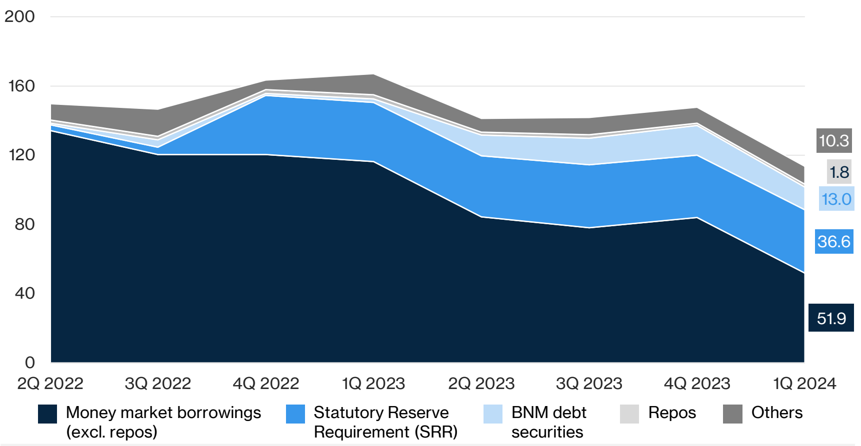


- **The 3M KLIBOR declined,** reflecting easing interbank funding cost pressure as the seasonal year-end deposit competition in 2023 subsided.
- **Fixed deposit (FD) rates declined** by 3 and 5 basis points across tenures of 1 to 12 months as banks continued to adjust their funding strategy to manage cost of funds.
- **Average lending rate (ALR) on outstanding loans was broadly stable** during the quarter.

Source: Bank Negara Malaysia and Bloomberg

Financial intermediation remains supported by current level of banking system liquidity

Outstanding ringgit liquidity placed with BNM,
End-period, RM billion



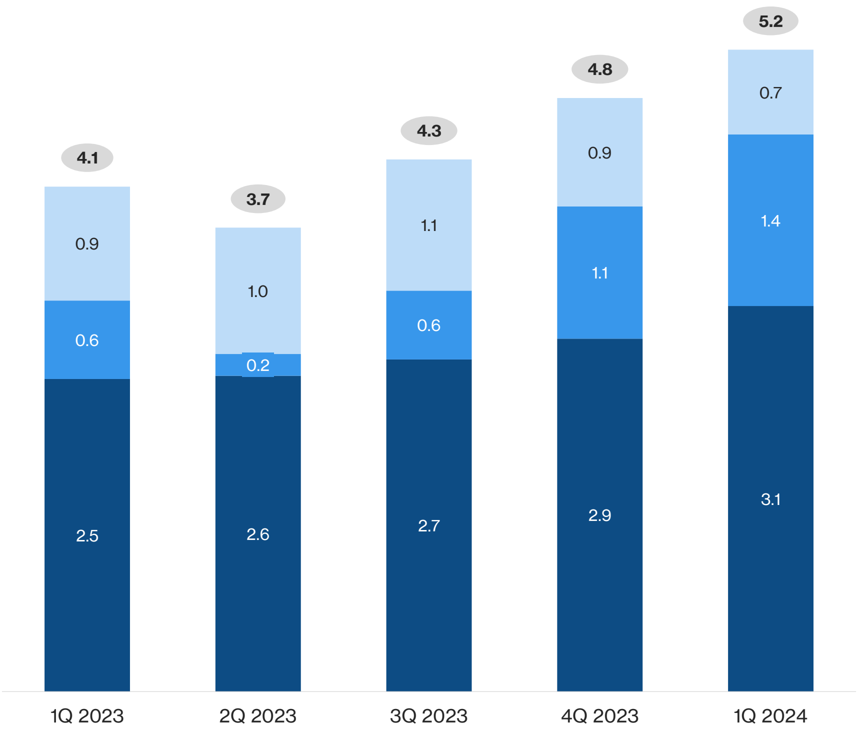
- **Total banking system liquidity declined** amid net outflows and increase in currency in circulation following higher demand for cash during the festive season in the quarter.
- Notwithstanding this, banking system liquidity remained sufficient, and banks continued to have access to liquidity from the interbank market and BNM's reverse repurchase agreement (reverse repo) facility.

Source: Bank Negara Malaysia

Credit Conditions

Credit growth increased, driven by greater expansion in loans for both businesses and households

Credit to the Private Non-Financial Sector[1],
Contribution to growth, ppt



[1] Consists of outstanding corporate bonds and outstanding loans to businesses and households.
Source: Bank Negara Malaysia

Key developments

Credit to the Private Non-Financial Sector[2]

5.2%
4Q 2023: 4.8%

- Outstanding loans[3] expanded by 5.7% as at end-1Q 2024 (4Q 2023: 5%), supported by higher loan growth for both businesses and households.
- Outstanding corporate bonds grew at a more moderate pace (3.2%; 4Q 2023: 4.2%).

Business Loans

4.9%
4Q 2023: 3.7%

- Outstanding business loan growth was higher, driven mainly by higher growth in investment-related loans.[4]
- By sector, the stronger growth was supported by the construction and services sectors.

Household Loans

6.2%
4Q 2023: 5.7%

- Outstanding household loan growth was higher across most loan purposes.
- Demand for household loans remained forthcoming, especially loans for the purchase of housing and cars.

[2] All numbers quoted are in terms of annual change.
[3] Refers to loans from the banking system and development financial institutions (DFIs).
[4] Comprises loans for the purchase of non-residential properties, residential properties for business use and fixed assets, as well as for construction purposes.

Source: Bank Negara Malaysia