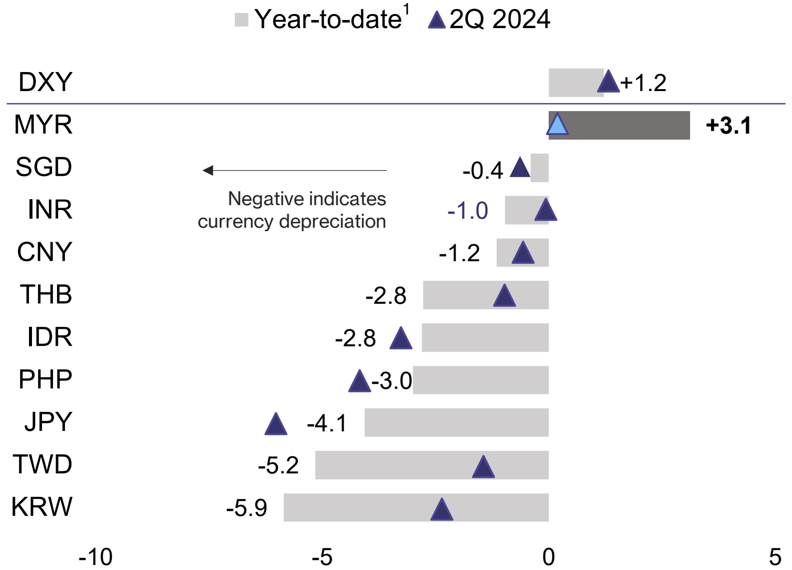
Financial Markets and Exchange Rate

Ringgit appreciated during the quarter despite US dollar strength

Pressure on the ringgit was cushioned in part due to coordinated actions taken by the Government and BNM to encourage more consistent and timely inflows into the foreign exchange market

Performance of the US Dollar Index and regional currencies against the US Dollar,
% year-to-date and quarter-on-quarter



Ringgit appreciated against major trading partners

NEER 2Q 2024: +1.6%
1Q 2024: -0.4%

[1] YTD as of 13 August 2024. Numbers in the bar chart are the YTD figures.
Note: NEER refers to the nominal effective exchange rate.

Source: Bank Negara Malaysia and Bloomberg

Domestic financial markets benefitted from positive economic prospects

Bond yields were relatively stable

reflecting investor confidence on the Government's commitment to fiscal reforms

MGS 10Y Yield
+1 bps
(1Q 2024: +11 bps)

Equity markets rose

from improved earnings prospects as economic master plans continue to take shape

KLCI
+3.5% QoQ
(1Q 2024: +5.6%)

Key factors

Expectations for the Federal Funds Rate to stay high for longer and ongoing geopolitical tensions continued to drive US dollar strength during the quarter, leading to depreciation pressure on regional currencies

Nevertheless, steady improvement in the economy and positive impacts from the implementation of domestic structural reforms continue to be supportive of domestic financial markets

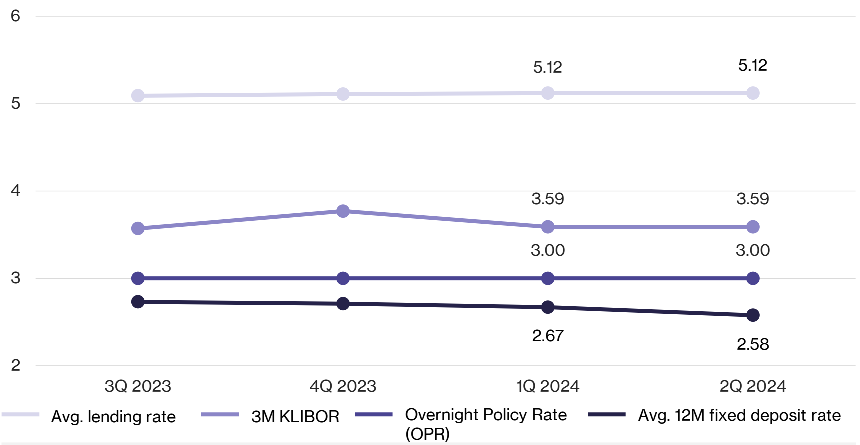
Coordinated actions that are being undertaken by the Government and BNM to encourage timely repatriation and conversion of foreign investment income by GLCs and GLICs have helped to cushion the pressure on the foreign exchange market

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, %

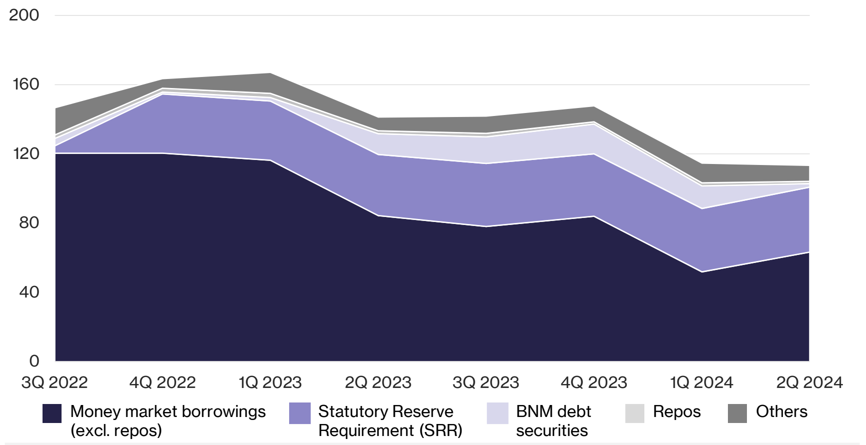


- **The 3M KLIBOR was unchanged** at 3.59%, while interbank rates across maturities remained broadly stable during the quarter.
- **Fixed deposit (FD) rates declined** by 4 to 10 basis points across tenures of 1 to 12 months as banks continued to adjust their funding strategy to manage cost of funds.
- **Average lending rate (ALR) on outstanding loans was stable** during the quarter.

Source: Bank Negara Malaysia and Bloomberg

Total banking system liquidity remains supportive of financial intermediation

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



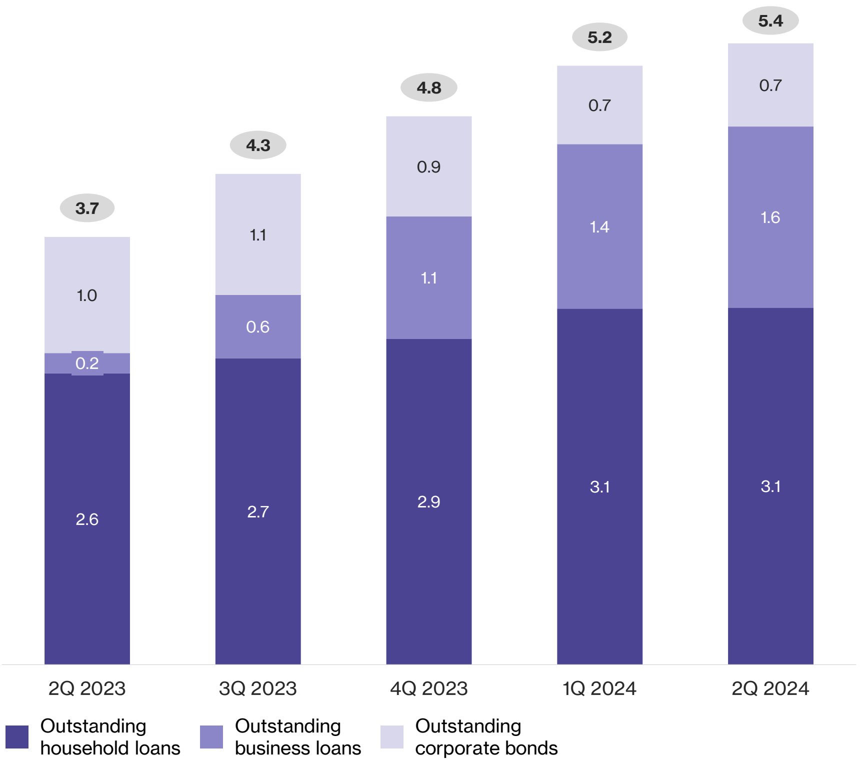
- **Total banking system liquidity at the end of the quarter declined** slightly amid net outflows.
- Banking system liquidity remained sufficient to support financial intermediation. At the institutional level, most banks continued to maintain surplus overnight placement with BNM as at end-June 2024.

Source: Bank Negara Malaysia

Credit Conditions

Higher credit growth following an increase in the growth of outstanding loans

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]

5.4%
1Q 2024: 5.2%

- Outstanding loans[3] expanded by 6% as at end-2Q 2024 (1Q 2024: 5.8%), following a higher loan growth for businesses.
- Growth in outstanding corporate bonds was also higher at 3.4% (1Q 2024: 3.2%).

Business Loans

5.6%
1Q 2024: 5.1%

- Outstanding business loan growth increased amid higher growth in both investment-related[4] and working capital loans.
- By sector, the stronger growth was recorded in the construction and manufacturing sectors.

Household Loans

6.2%
1Q 2024: 6.2%

- Growth in household loans was sustained across most loan purposes.
- Demand for credit continued to be forthcoming amid higher loan applications, particularly for the purchase of housing.

[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