MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates remained stable

The Monetary Policy Committee (MPC) decided to maintain the Overnight Policy Rate (OPR) at 3.25% during the first quarter of 2015. At the prevailing level of the OPR, monetary conditions remained supportive of economic activity.

Reflecting the unchanged OPR, the average overnight interbank rate was relatively stable during the quarter, moving within a range of 3.14% to 3.25% between 1 January and 31 March 2015. Interbank rates of other short-term maturities (less than 1 month) were also relatively stable. Interbank rates of longer maturities continued to be elevated in January, reflecting the increase in funding cost of banks due to higher competition for stable funding amid slower growth in deposits due to net external outflows. However, following BNM's announcement on 30 January 2015 on the arrangements to facilitate transition to the full implementation of the Liquidity Coverage Ratio (LCR) by 2019, a moderation of the Kuala Lumpur Interbank Offered Rates (KLIBOR) was observed. These arrangements include broadening the scope of recognition of high-quality liquid assets (HQLA) and further clarification on the treatment of banks' expected cash outflows, which have helped to ease funding pressures. For the quarter as a whole, 3-month KLIBOR decreased from 3.86% to 3.73%. Rates on interest rate swaps and the 3-month KLIBOR futures were lower in the first quarter, as earlier expectations for an interest rate increase continued to ease.

Retail deposit rates were stable during the quarter. The average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. The average fixed deposit (FD) rates of commercial banks for the tenures 1 to 12 months ranged from 3.08% to 3.30%, respectively.

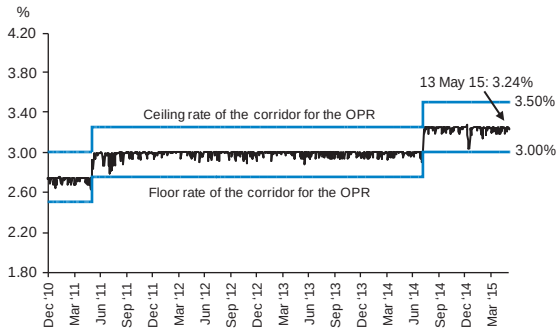
Borrowing costs to the economy were broadly stable throughout the quarter. On 2 January 2015, the Base Rate (BR) replaced the base lending rate (BLR) as the main reference rate for new retail floating rate loans and financing facilities. Upon introduction, the average BR of banks stood at 3.90% where it remained as at 31 March 2015. The transition to BR was neutral on retail lending rates, with most major banks maintaining the same effective lending rates under the BLR and the BR. This was reflected by the stable average lending rate of commercial banks at 5.48% at the end of the first quarter.

Interest Rates

	2014		2015
	1Q	4Q	1Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.00	3.25	3.25
Interbank rates			
Overnight	3.00	3.23	3.24
1-month	3.06	3.38	3.28
Base lending rate (BLR)			
Commercial banks	6.53	6.79	6.79
Base rate (BR)			
Commercial banks	-	-	3.90
Weighted average lending rate			
Commercial banks	5.39	5.51	5.48
Fixed deposit rates			
Commercial banks			
1-month	2.91	3.08	3.08
12-month	3.15	3.31	3.30

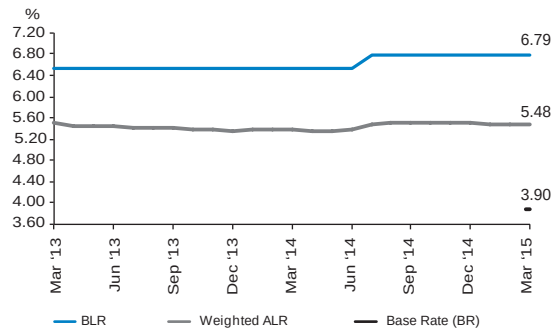
Source: Bank Negara Malaysia

Daily Weighted Average Overnight Interbank Rate



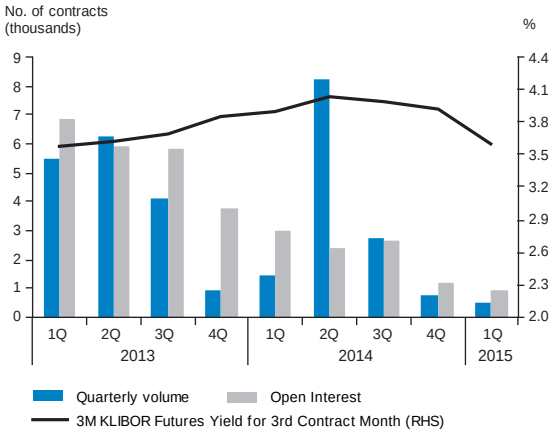
Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (At end-period)



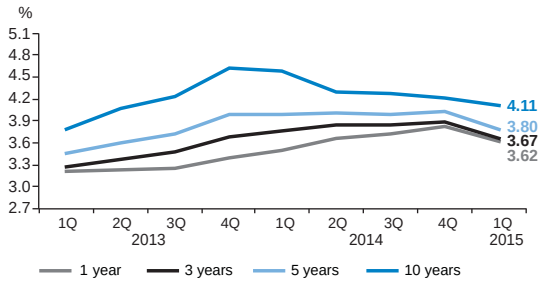
Source: Bank Negara Malaysia

3 Month KLIBOR Futures



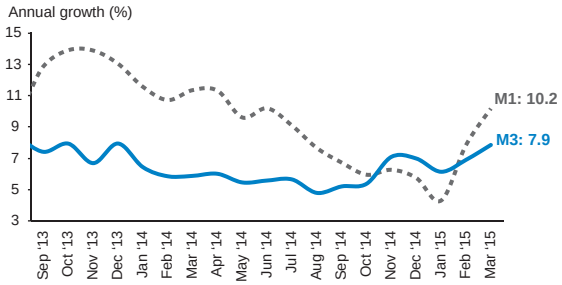
Source: Bursa Malaysia

Interest Rate Swap: Rates



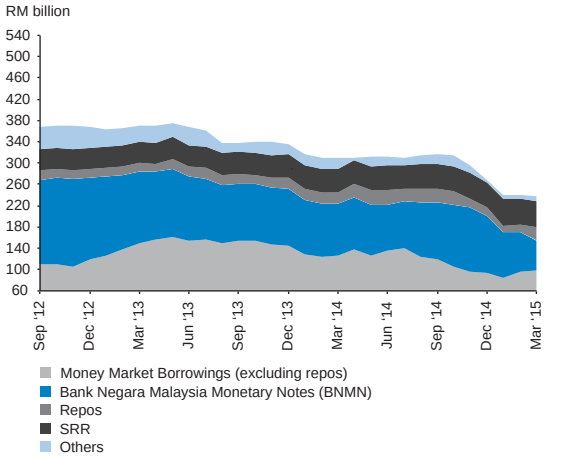
Source: Bloomberg

Monetary Aggregates



Source: Bank Negara Malaysia

Outstanding Liquidity Placed with Bank Negara Malaysia (At end-period, RM billion)



Source: Bank Negara Malaysia

M3 continued to expand

The monetary aggregates continued to expand in the first quarter. M1, or narrow money, increased by RM13.9 billion during the quarter. On an annual basis, M1 expanded by 10.2% as at end-March (end-December 2014: 5.7%). M3, or broad money, increased by RM35.9 billion on a quarter-on-quarter basis to record an annual growth rate of 7.9% as at end-March (end-December 2014: 7.0%).

The increase in M3 during the quarter was driven mainly by the continued expansion in credit extended to the private sector by the banking system. The expansion in broad money, however, was moderated somewhat by lower net claims on the Government and lower net foreign assets.

In the banking system, liquidity conditions remained ample at both the institutional and system-wide levels. The level of surplus liquidity placed with BNM was marginally lower during the quarter due to external sector outflows.

Determinants of Broad Money, M3

	Change during the period			
	2014			2015
	1Q	4Q	Year	1Q
	RM billion			
M3	**21.7**	**49.9**	**101.5**	**35.9**
Net claims on Government	7.0	18.2	34.3	-4.6
Claims on private sector	24.3	40.8	118.0	28.3
Loans	*24.6*	*38.4*	*111.4*	*25.2*
Securities	*-0.3*	*2.4*	*6.6*	*3.1*
Net foreign assets[1]	3.8	-28.1	-19.3	-1.9
BNM	*-18.0*	*-28.5*	*-44.1*	*-25.0*
Banking System	*21.8*	*0.4*	*24.8*	*23.1*
Other influences	-13.5	19.0	-31.5	14.2

[1] Pre-revaluation

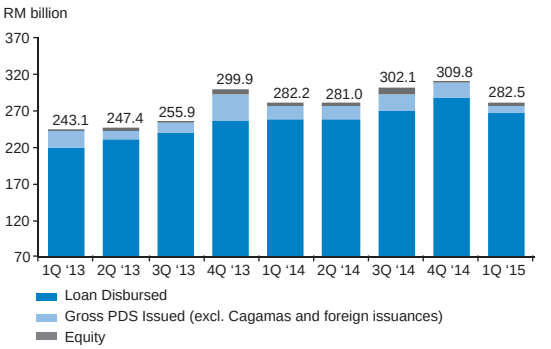
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Private sector financing activity was sustained in the first quarter

In the first quarter, total gross financing raised by the private sector through the banking system and the capital market amounted to RM282.5 billion (4Q 2014: RM309.8 billion). On a net basis, outstanding banking system loans and PDS expanded by 8.3% as at end-March (end-December 2014: 8.8%).

Gross Private Sector Financing through the Banking System and Capital Market

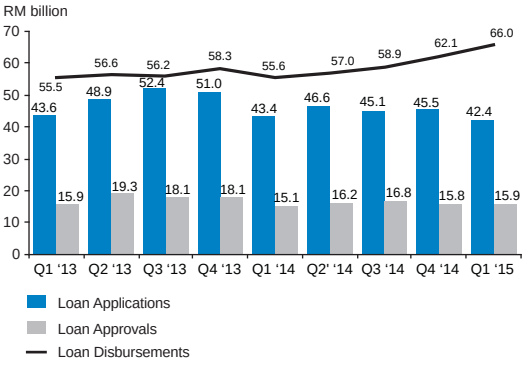


Source: Bank Negara Malaysia

Net lending to businesses by the banking system expanded by RM9.8 billion during the quarter (4Q 2014: RM17.7 billion). On an annual basis, outstanding business loans grew at a slower pace of 8.9% as at end-March (end-December 2014: 9.4%). Notwithstanding that, loan disbursement to businesses during the quarter remained steady, with higher level of credit extended mainly to the *finance, insurance and business services; mining and quarrying;* and *education, health and others* sectors. In particular, financing for SMEs continued to be strong, with outstanding SME loans growing at 17.2% as at end-March (end-December 2014: 14.0%). In addition, the level of loans disbursed to SMEs remained high, with loans disbursed being RM3.9 billion more than the previous quarter.

Net financing to the household sector expanded by RM16.3 billion during the quarter (4Q 2014: RM17.9 billion). On an annual basis, outstanding household loans growth remained stable at 9.8% as at end-March (end-December 2014: 9.9%).

Bank Lending to SMEs



Source: Bank Negara Malaysia

Financing of the Private Sector through the Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)			
	2014			2015	2014			2015
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
Gross total financing	**282.2**	**309.8**	**1,175.2**	**282.5**	**16.1**	**3.3**	**12.3**	**0.1**
Loans disbursed	258.4	287.7	1,073.9	267.3	17.4	12.2	13.2	3.5
Gross PDS[1]	19.6	21.2	82.1	10.5	-11.1	-41.2	0.0	-46.5
Equity	4.2	1.0	19.2	4.7	320.7	-87.1	19.6	11.3
Net total financing (A)+(B)	**32.3**	**52.4**	**144.2**	**26.0**	**9.6**	**8.8**	**8.8**	**8.3**
Banking system	22.1	44.3	121.3	23.7	9.7	9.2	9.2	9.2
*Loans outstanding (A)**	*21.0*	*41.6*	*114.1*	*22.2*	*10.2*	*9.3*	*9.3*	*9.2*
Holding of PDS	*1.1*	*2.7*	*7.3*	*1.5*	*3.4*	*7.9*	*7.9*	*8.2*
PDS outstanding (B)	11.3	10.8	30.1	3.8	7.7	7.3	7.3	5.4
Memorandum item								
Gross PDS[2]	20.5	21.6	85.5	10.9	-9.1	-40.1	2.0	-46.8

* Banking systems loans include loans sold to Cagamas
[1] Excluding Cagamas and foreign issuances
[2] Including Cagamas and foreign issuances
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)				Annual growth (%)			
	2014			2015	2014			2015
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
Total								
Loan applications	185.7	210.1	822.1	178.5	-0.8	-0.2	0.2	-3.9
Loan approvals	91.2	106.4	401.4	94.0	4.3	8.6	2.3	3.1
Loan disbursements	258.4	287.7	1,073.9	267.3	17.4	12.2	13.2	3.5
Loan repayments	245.9	258.5	996.5	255.5	18.4	12.8	15.6	3.9
Change in loans outstanding*	21.0	41.6	114.1	22.2	10.2	9.3	9.3	9.2
Of which:								
Business enterprises[1,2]								
Loan applications	86.3	100.4	386.2	78.4	1.9	12.7	7.6	-9.1
Loan approvals	34.8	46.1	160.0	39.9	0.9	24.5	3.4	14.5
Loan disbursements	184.0	209.9	770.3	189.0	23.3	17.6	18.6	2.7
Loan repayments	179.5	192.3	735.5	187.8	24.4	16.7	21.1	4.6
Change in loans outstanding*	11.0	17.7	42.3	9.8	8.7	9.4	9.4	8.9
SMEs[1]								
Loan applications	43.4	45.5	180.7	42.4	-0.5	-10.8	-7.8	-2.4
Loan approvals	15.1	15.8	63.8	15.9	-5.3	-12.8	-10.6	5.6
Loan disbursements	55.6	62.1	233.7	66.0	0.2	6.5	3.1	18.9
Loan repayments	52.7	57.5	222.5	60.3	2.1	7.7	5.9	14.4
Change in loans outstanding*	7.1	10.0	27.8	14.6	13.0	14.0	14.0	17.2
Large corporations[2]								
Loan applications	42.8	54.9	205.5	36.1	4.5	44.1	26.1	-15.8
Loan approvals	19.8	30.4	96.2	24.0	6.3	60.2	15.3	21.3
Loan disbursements	128.4	147.8	536.6	122.9	37.0	23.0	26.9	-4.3
Loan repayments	126.8	134.8	513.0	127.5	36.9	20.9	29.1	0.5
Change in loans outstanding*	3.9	7.6	14.5	-4.8	5.5	5.7	5.7	2.3
Households								
Loan applications	99.4	109.7	435.9	100.1	-3.1	-9.6	-5.6	0.7
Loan approvals	56.3	60.3	241.4	54.1	6.5	-1.1	1.6	-3.9
Loan disbursements	74.4	77.8	303.6	78.3	5.1	-0.3	1.6	5.3
Loan repayments	66.3	66.2	261.0	67.7	4.7	2.9	2.4	2.1
Change in loans outstanding*	15.9	17.9	68.9	16.3	11.6	9.9	9.9	9.8

* The annual growth is for end-period.
[1] Include loans to individual businesses.
[2] Include domestic financial institutions, government, domestic other entities and foreign entities, except for loan outstanding which refers to businesses only.
Note: Numbers do not add up due to rounding

Source: Bank Negara Malaysia

Loans by Sector

	Loans disbursed					Loans out-standing
	During the period (RM billion)				Share of total	Share of total
					(%)	
	1Q 14	4Q 14	2014	1Q 15		
Business enterprises[1,*]	**184.0**	**209.9**	**770.3**	**189.0**	**70.7**	**42.9**
Large corporations[1]	*128.4*	*147.8*	*536.6*	*122.9*	*46.0*	*25.2*
*SMEs**	*55.6*	*62.1*	*233.7*	*66.0*	*24.7*	*17.7*
Selected sectors[1]						
Agriculture, hunting, forestry and fishing	8.7	8.4	31.3	8.8	3.3	2.4
Mining and quarrying	3.5	2.9	12.2	7.0	2.6	0.8
Manufacturing	54.4	54.7	213.4	50.4	18.9	7.3
Construction	16.8	19.2	65.5	17.4	6.5	4.3
Real estate	12.9	14.3	51.6	13.3	5.0	6.5
Electricity, gas and water supply	2.6	2.1	14.0	1.8	0.7	0.8
Wholesale and retail trade, restaurants and hotels	53.7	59.8	221.1	47.0	17.6	7.3
Transport, storage and communication	5.7	7.2	27.0	6.1	2.3	2.5
Finance, insurance and business services	18.9	29.0	96.2	24.9	9.3	6.8
Households	**74.4**	**77.8**	**303.6**	**78.3**	**29.3**	**57.1**
Purchase of residential properties	19.7	21.7	81.4	21.0	7.9	27.8
Consumption credit	40.3	43.9	167.7	44.3	16.6	17.5
Of which:						
Credit cards	*24.2*	*26.3*	*99.3*	*26.3*	*9.8*	*2.6*
Purchase of passenger cars	*9.0*	*9.8*	*37.8*	*10.8*	*4.0*	*10.5*
Others	14.4	12.1	54.6	13.0	4.9	11.9
Total	**258.4**	**287.7**	**1,073.9**	**267.3**	**100.0**	**100.0**

* Include loans to individual businesses.
[1] Include domestic financial institutions, government, domestic other entities and foreign entities.
Note: Numbers do not add up due to rounding

Source: Bank Negara Malaysia

Lower net funds raised in the capital market

Net funds raised in the capital market moderated to RM21.0 billion in the first quarter (4Q 2014: RM26.4 billion). The decline was due mainly to lower net issuances of government and private debt securities.

In the public sector, net funds raised moderated to RM13.2 billion (4Q 2014: RM15.3 billion) given the higher redemptions of government securities amounting to RM13.8 billion (4Q 2014: RM7.5 billion). Funds were raised through new issuances of a 7-year and 10-year Malaysian Government Security (MGS) and 5-year, 7-year and 15-year Government Investment Issue (GII), as well as the re-opening of a 3-year and 15-year MGS. Additionally, funds were raised via a RM4.0 billion issuance of the Government Housing Sukuk.

In the private sector, net funds raised were also lower at RM7.8 billion (4Q 2014: RM11.2 billion), due mainly to lower net issuances of private debt securities (PDS). Funds raised in the PDS market were mainly driven by issuances in the *finance, insurance, real estate and business services* sector, which were used to finance new activities. Meanwhile, equity issuances during the quarter were higher amounting to RM4.7 billion (4Q 2014: RM1.0 billion).

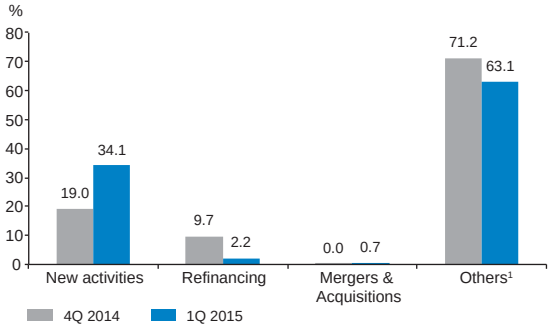
Net Funds Raised in the Capital Market

	2014			2015
	1Q	4Q	Year	1Q
	RM billion			
By Public Sector	**24.0**	**15.3**	**49.9**	**13.2**
Government securities, Gross	27.5	22.8	96.8	27.0
Malaysian Government Securities	14.5	12.7	51.4	13.5
Government Investment Issues	9.0	6.6	33.9	9.5
Sukuk Pinjaman Perumahan Kerajaan	4.0	3.4	11.5	4.0
Less: Redemptions	3.5	7.5	46.9	13.8
Malaysian Government Securities	-	2.0	26.4	11.8
Government Investment Issues	3.5	5.5	20.5	2.0
Sukuk Pinjaman Perumahan Kerajaan	-	-	-	-
By Private Sector	**15.4**	**11.2**	**50.2**	**7.8**
Shares	4.2	1.0	19.2	4.7
Private Debt Securities, Net	11.2	10.2	31.0	3.1
Private Debt Securities, Gross	*20.5*	*21.6*	*85.5*	*10.9*
Less: Redemptions	*9.4*	*11.4*	*54.5*	*7.8*
Total	**39.4**	**26.4**	**100.1**	**21.0**

Note: Numbers may not add up to total due to rounding

Source: Bank Negara Malaysia and Bursa Malaysia

Private Debt Securities Issued by Purpose (% of total)



[1] Includes issuance by non-residents & Cagamas and for the purpose of working capital and general business activities

Source: Bank Negara Malaysia

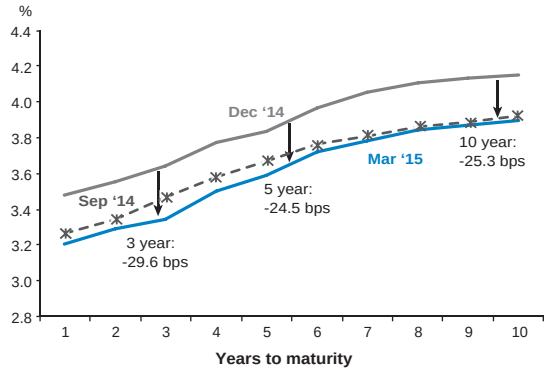
Bond yields declined in the first quarter

MGS yields were on a declining trend in the first quarter amid the resumption of non-resident inflows amounting to RM6.1 billion into the MGS market during the quarter. For the quarter as a whole, yields on the 3-year, 5-year and 10-year MGS declined by 30, 25, 25 basis points respectively. In the PDS market, corporate yields remained relatively stable on account of sustained demand by domestic investors.

Secondary trading in the bond market increased

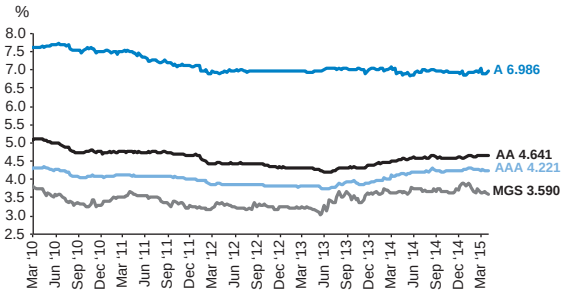
Total trading in the secondary market increased to RM238.4 billion during the quarter (4Q 2014: RM181.2 billion), reflecting increased and steady trading activities by financial institutions and non-resident investors. The increase in turnover was mainly concentrated in the trading of MGS and GII which registered higher liquidity ratio of 0.42 and 0.38 respectively. The liquidity ratio in the PDS segment remained relatively unchanged at 0.06.

Trend in MGS Yields



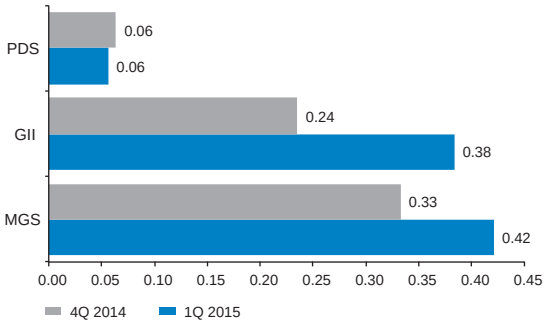
Source: Bank Negara Malaysia

5 year MGS and 5 year Corporate Bond Yield



Source: Bank Negara Malaysia

Liquidity Ratio: Value of Bond Traded / Outstanding

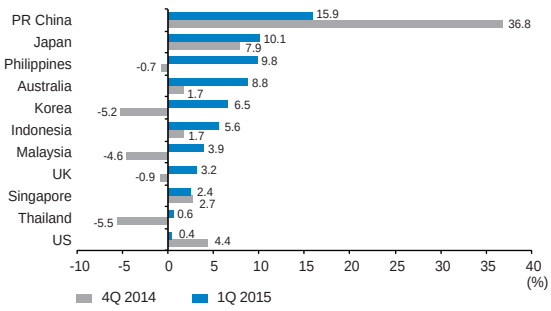


Source: Bank Negara Malaysia

FBM KLCI increased during the quarter, in tandem with regional markets

In the first quarter, the FBM (FTSE Bursa Malaysia) KLCI increased by 3.9% to close at 1,830.8 points (end-Dec 2014: 1,761.3 points). The increase was driven mainly by higher demand by domestic investors, supported by the announcement of strong corporate earnings for 4Q 2014. In line with the trends in global and regional markets, the index was further lifted by renewed interest from foreign investors amid the announcement of additional monetary stimulus by the European Central Bank.

Performance of Selected Global and Regional Equity Markets in 2015 (% growth QoQ)



Source: Bloomberg and Bank Negara Malaysia calculations

Overall, market capitalisation increased to RM1.74 trillion as at end-March 2015 (end-December 2014: RM1.65 trillion) while the daily average turnover increased to 2.11 billion units (4Q 2014: 1.94 billion units) during the quarter.

On 13 May 2015, the FBM KLCI ended lower at 1,803.0 points (since end-Mar 2015: -1.5%), with market capitalisation of RM1.72 trillion (since end-Mar 2015: -0.8%).

Bursa Malaysia: Selected Market Indicators

	2014			2015
	As at end			
	Mar	Dec	Year	Mar
Price Indices				
Composite	1,849.2	1,761.3	1,761.3	1,830.8
FBMEMAS[1]	12,797.6	12,066.3	12,066.3	12,563.4
ACE Market[2]	6,661.3	5,653.4	5,653.4	7,120.2
Market capitalisation				
(RM billion)	1,719.1	1,651.2	1,651.2	1,737.5
No. of companies listed	907	906	906	903
	During the period			
	1Q	4Q	Year	1Q
Average daily turnover				
Volume (million units)	2,046.4	1,944.4	2,157.1	2,107.4
Value (RM million)	2,158.8	1,999.9	2,161.8	2,177.4

[1] FBMEMAS stands for FTSE Bursa Malaysia EMAS Index
[2] From 3 August 2009, MESDAQ market was replaced with ACE Market

Source: Bursa Malaysia

Bursa Malaysia: Market Turnover

	2014						2015	
	1Q		4Q		Year		1Q	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	120.7	127.4	122.5	126.0	530.7	531.8	124.3	128.5
Of which:								
Main Board	91.3	119.7	85.5	117.3	397.1	501.2	75.8	117.7
Of which								
Consumer Products	8.4	7.1	5.3	5.2	29.6	26.3	7.4	6.4
Industrial Products	18.9	13.1	13.3	11.2	72.0	52.2	12.8	11.1
Construction	4.0	5.9	3.4	5.7	19.0	26.3	3.7	5.9
Trading/Services	33.9	51.9	42.0	56.7	172.0	219.0	32.7	55.4
Finance	3.4	18.8	3.1	18.7	13.9	84.9	3.5	21.3
Properties	10.5	7.8	6.1	6.3	41.0	34.6	5.4	4.8
Plantations	1.7	5.4	1.2	3.6	6.3	19.8	1.0	3.5
Infrastructure	1.5	4.7	1.3	4.4	5.4	17.2	1.0	4.4
ACE Market[1]	26.8	7.0	30.3	7.3	115.6	27.1	41.2	8.7

[1]From 3 August 2009, MESDAQ market was replaced with ACE Market

Source: Bursa Malaysia

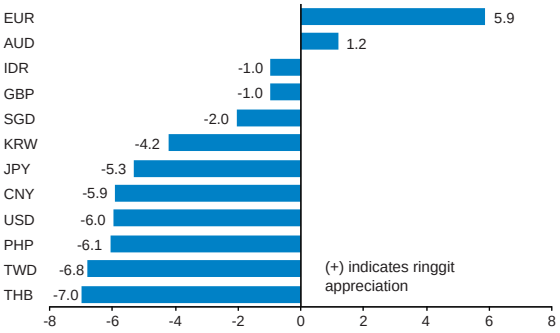
Ringgit depreciated against most major and regional currencies

The ringgit and other regional currencies continued to face volatility in the first quarter due to uncertainty in global monetary conditions, which led to portfolio investment outflows. Concerns on global economic outlook, following downward revisions of 2015 global growth projections by international financial institutions also affected sentiment. The ringgit was also affected by concerns over the impact of lower global crude oil prices on the Malaysian economy. Depreciation pressure on the ringgit was also mainly due to the unwinding of BNM bills by international investors.

Overall, the ringgit depreciated by 6.0% against the US dollar during the quarter. Against other major currencies, the ringgit appreciated against the euro (5.9%) and the Australian dollar (1.2%) but depreciated against the pound sterling (-1.0%), and the Japanese yen (-5.3%). Against regional currencies, the ringgit depreciated by between 1.0% and 7.0%.

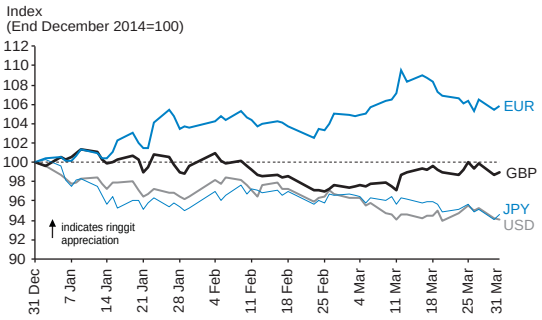
Between 1 Apr and 13 May 2015, the ringgit appreciated against the US dollar by 3.1%. The ringgit also appreciated against the Japanese yen (2.8%), but depreciated against the euro (-0.9%), the Australian dollar (-1.5%) and the pound sterling (-2.8%). The ringgit appreciated against most regional currencies.

Summary of Ringgit Performance against Selected Currencies Percent Change (1 January - 31 March 2015)



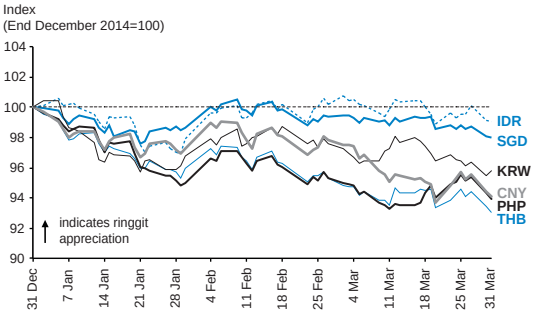
Source: Bank Negara Malaysia

Ringgit Performance against Major Currencies



Source: Bank Negara Malaysia

Ringgit Performance against Regional Currencies



Source: Bank Negara Malaysia

Activity in the foreign exchange derivatives market remained subdued while corporate hedging activities increased

In the first quarter of 2015, foreign exchange derivatives activity decreased by 5.6% compared to the previous quarter mainly contributed by the decline in interbank swap market activities. The implied cost of raising ringgit in the foreign exchange market reduced as the 5-year USD/RM cross-currency swap trended higher from 73 bps in December 2014 to 83 bps in March 2015. This is partly due to the decline in ringgit funding requirement for banks through the swap market as most banks have complied with the Basel III minimum Liquidity Coverage Ratio requirements by end-March 2015.

Despite the fall in overall derivatives volume, resident corporates' hedging activities were more vibrant in 1Q 2015. Importers increased their foreign exchange hedging activities via forwards, options, and swaps, driven by anticipation of rising volatilities in regional currencies including ringgit.

Performance of Ringgit against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	1Q 14	4Q 14	1Q 15	21 Jul 05	1Q 14	4Q 14
US dollar	3.8000	3.2685	3.4950	3.7165	2.2	12.1	-6.0
Euro	4.6212	4.4934	4.2513	4.0153	15.1	11.9	5.9
Pound sterling	6.6270	5.4354	5.4396	5.4935	20.6	-1.1	-1.0
Australian dollar	2.8823	3.0173	2.8664	2.8329	1.7	6.5	1.2
100 Japanese yen	3.3745	3.1770	2.9255	3.0903	9.2	2.8	-5.3
Singapore dollar	2.2570	2.5927	2.6449	2.6997	-16.4	-4.0	-2.0
100 Thai baht	9.0681	10.077	10.627	11.423	-20.6	-11.8	-7.0
100 Philippine peso	6.8131	7.2795	7.8066	8.3111	-18.0	-12.4	-6.1
100 Indonesian rupiah	0.0386	0.0288	0.0281	0.0284	36.1	1.3	-1.0
100 Korean won	0.3665	0.3065	0.3201	0.3342	9.7	-8.3	-4.2
100 New Taiwan dollar	11.890	10.727	11.068	11.874	0.1	-9.7	-6.8
Chinese renminbi	0.4591	0.5251	0.5637	0.5993	-23.4	-12.4	-5.9

* (+) indicates appreciation of ringgit against respective currency and (-) indicates depreciation.

Source: Bank Negara Malaysia