CHAPTER 3

# Monetary and Financial Developments


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CHAPTER 3

# Monetary and Financial Developments

## Overview

*Financial market resilience amid external turbulence*

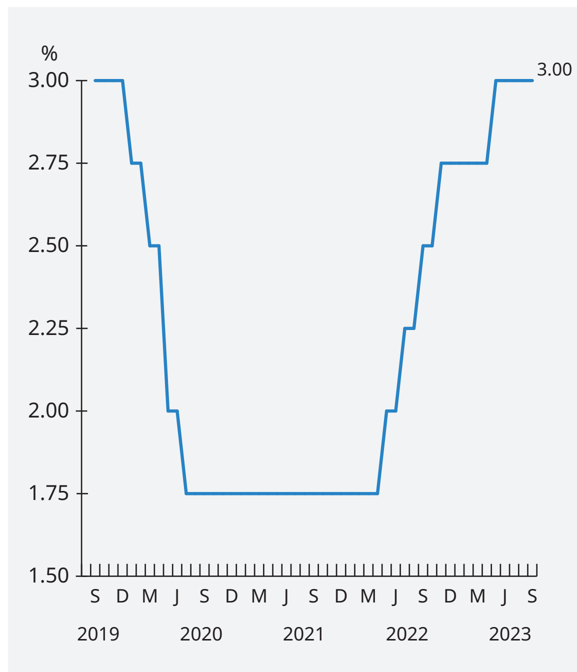
Monetary and financial conditions remain supportive of financial intermediation activities with demand for financing continues to be sustained, supported by steady economic growth and improved labour market conditions. Banks' lending capacity remains sound backed by strong capital and liquidity buffers. The capital market exhibits resilience underpinned by a deep and broad market, and initiatives undertaken to enhance its efficiency and competitiveness. Monetary policy has been normalised to its pre-pandemic level. At the Overnight Policy Rate (OPR) of 3.00%, the policy remains supportive of sustainable economic growth while ensuring an environment of price stability. Nevertheless, the domestic financial market performance is confronted by challenges, mainly emanating from external factors. These factors include the pace of monetary policy tightening by global central banks, the banking distress in the US and Europe, the US debt ceiling debacle, geopolitical tensions and China's flagging economic recovery.

## Monetary Developments

*Policy rate returns to the pre-pandemic level*

Monetary policy resumed its normalisation path in 2023 amid resilient domestic growth. The OPR was adjusted in May with an increment of 25 basis points (bps), bringing the OPR to its pre-pandemic level of 3.00%. This increment was commensurate with the health of the economy and signified the withdrawal of monetary stimulus provided during the COVID-19 crisis to support economic recovery. The OPR was subsequently maintained at 3.00% until September.

**FIGURE 3.1.** *Overnight Policy Rate Level (%)*

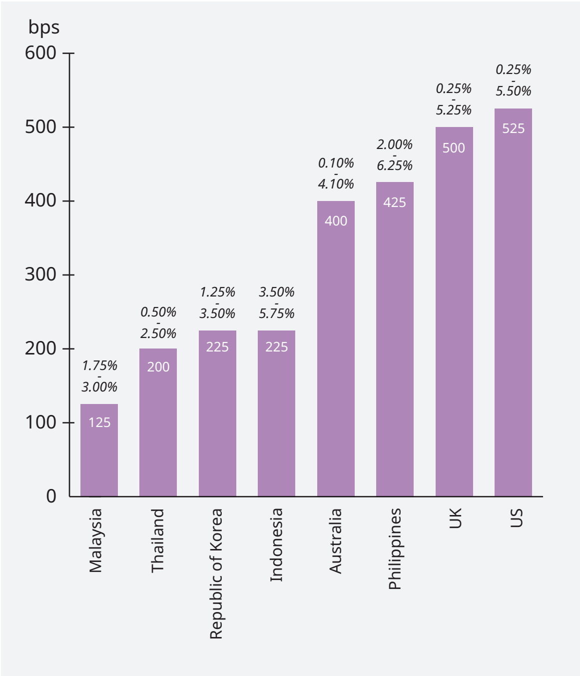



Source: Bank Negara Malaysia

At the global level, the policy normalisation exercise which commenced in 2022 witnessed central banks tightening monetary policies at varying paces. Bank Negara Malaysia (BNM) took a more prudent approach in normalising monetary policy, which was done gradually and at a measured pace compared to other major and regional central banks which increased their policy rates quickly and by larger magnitudes to manage soaring inflation.

From January 2022 to September 2023, total increase of policy rate in Malaysia was relatively low at 125 bps compared with other major economies, particularly the US (525 bps) and the UK (500 bps), as well as regional economies such as the Philippines (425 bps) and Indonesia (225 bps).

**FIGURE 3.2.** *Comparison of Interest Rates among Central Banks, January 2022 – September 2023 (basis points, bps)*




Source: Bank Negara Malaysia and Bloomberg

The interest rates in the banking system remained steady for the first four months of 2023 prior to the upward adjustment of the OPR in May. In tandem with the increase, the weighted average lending rate (ALR) trended higher by 21 bps to 5.07% as at end-July. Higher OPR also led to an increase in the average saving deposit rate, which increased by 9 bps to 0.96% during the same period. Similarly, returns to depositors increased by between 20 to 29 bps, with average nominal fixed deposit rates ranging from 2.71% to 2.94% across all tenures of 1-month to 12-month.

Monetary policy will continue to be guided by the mandate of achieving price stability and sustainable economic growth in the long term. In carrying out this mandate, the Monetary Policy Committee (MPC) remains vigilant to ongoing developments and how evolving domestic and global conditions will impact the overall outlook of domestic inflation and growth.

## Performance of Ringgit

### *External factors suppressing the ringgit*

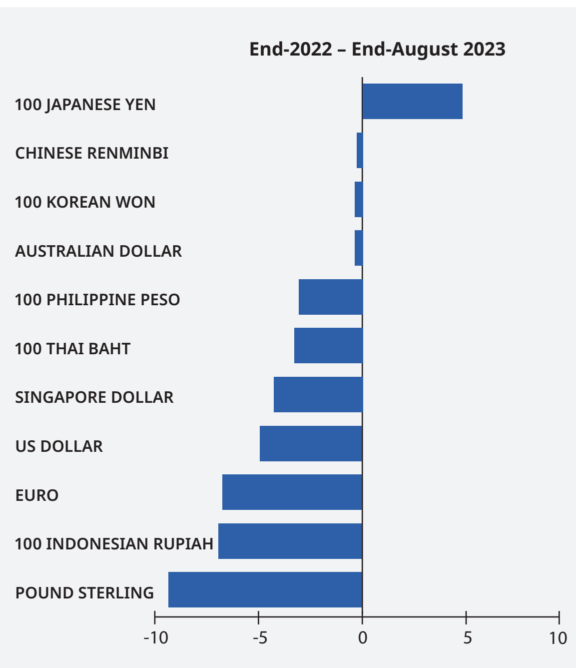
The movement of the ringgit in the first eight months of 2023 was mainly driven by global factors, particularly development in the US and weaker-than-expected recovery of China's economy. The ringgit began the year on a strong note, appreciating by 3.2% to close at RM4.2677 against the US dollar as at end-January. The strong performance was buoyed by expectations that the US Federal Reserve (Fed) will reach its terminal interest rate soon and optimism surrounding China's reopening.

Nevertheless, the ringgit began to experience a series of depreciations from the middle of February until August. The depreciation was attributed to the change in narrative towards a hawkish tone regarding US policy rate increases during this period. The ringgit was also compounded by the slowdown of China's economic recovery where the People's Bank of China announced surprise rate cuts in June and August, which weakened the renminbi and this continued to affect sentiments surrounding the ringgit.

During the same period, foreign exchange markets were also affected by the collapse of Silicon Valley Bank (SVB) and the US debt ceiling crisis. Despite these incidents, the US dollar remained favourable among investors as a safe-haven currency. Furthermore, the rapid and large adjustments in US interest rates by 100 bps and expectations of future policy rate increases provided additional support to the US dollar. Thus, the ringgit depreciated by 4.9% to close at RM4.6385 against the US dollar as at end-August, in tandem with other major and regional currencies which also declined against the greenback.

Moving forward, in addition to Malaysia's good economic fundamentals, expectations of the US Fed reaching the end of its hiking cycle and China's economic recovery may provide support for the ringgit. Since Malaysia adopts a flexible exchange rate regime, the value of the local currency will continue to be market-determined, and its performance will be influenced by global and domestic developments.

**FIGURE 3.3.** *Performance of Ringgit against Selected Currencies*
*(% change)*




Source: Bank Negara Malaysia

## Banking Sector Performance

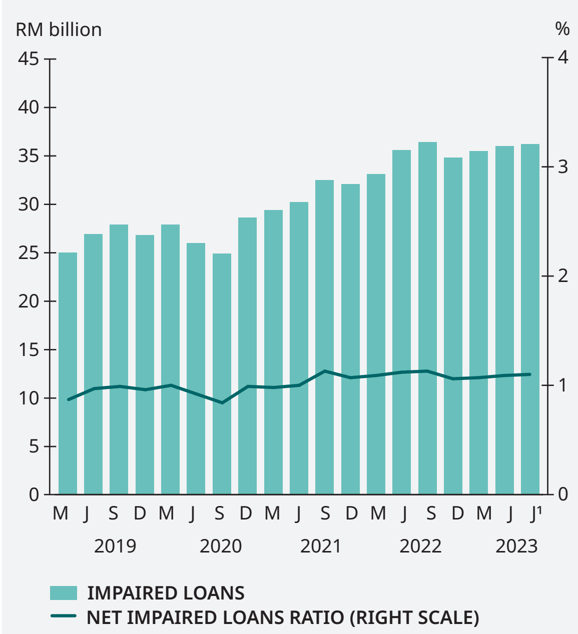
*Banking sector remains sound amid a more challenging operating environment*

The capital position of the banking system remains strong to withstand potential shocks in the economy and provide sufficient credit to support economic activities. The excess capital buffers[1] stood at RM142.3 billion as at end-July 2023 while the Common Equity Tier 1 Capital (CET1), Tier 1 Capital, and Total Capital ratios remain stable at 15.1%, 15.6% and 18.8%, respectively, well above the Basel III minimum regulatory levels[2]. Similarly, banks continued to maintain sufficient liquidity with a healthy Liquidity Coverage Ratio (LCR) of 154.8% and supportive of credit intermediation activities with a stable aggregate loan-to-fund ratio of 82%.

The banks continued to set aside adequate provisions against potential credit losses, with total provisions including regulatory reserves of RM33.2 billion as at end-July. Similarly, the loan loss coverage ratio (including regulatory reserves) remained at a prudent level of 115.8% of impaired loans, with total provisions accounting for 1.6% of total loans within the same period. This was further supported by the assets quality of the banking system, which remained intact, where the net impaired loan ratio was steady at 1.1%. The slight increase in impairments remains manageable amid the environment of uneven recovery, high input costs and rising cost of living.

[1] Excess total capital buffer refers to total capital above the regulatory minimum, which includes the capital conservation buffer (2.5% of risk-weighted assets – RWA) and bank-specific higher minimum requirements.
[2] The Basel III minimum regulatory levels of CET1 Capital (4.5%), Tier 1 Capital (6%), and Total Capital ratios (8%), respectively, of RWA.

**FIGURE 3.4.** *Banking System: Impaired Loans and Net Impaired Loans Ratio (End-period)*




[1] End-July 2023
Source: Bank Negara Malaysia

The banking sector maintained prudent lending activities amid tighter financial conditions during the first seven months of 2023. As at end-July 2023, the growth in total loan outstanding moderated by 4.2% to RM2,056.3 billion mainly due to the slower growth in the business segment. Meanwhile, financing activities in the banking system in all categories for both business and household segments such as loan applications, approvals, and disbursements expanded at a slower pace of 3.6%, 7%, and 5.2%, respectively.

In the business segment, loan applications and approvals expanded by 6.8% to RM310.3 billion and 12.4% to RM183.5 billion, respectively, following the expansion in economic activity. However, the total loan outstanding slowed by 0.2% to RM700.1 billion due to slower growth in working capital loans. Likewise, loan disbursements moderated by 0.5%, reflecting lower growth mainly in the commodity-related segments and the high base effect in the second quarter of 2022. Financing to SMEs remained strong with the availability of various financing offered by the banking system, amounting to RM347.3 billion or 49.6% of total loans outstanding in the business segment.

**TABLE 3.1.** *Banking System: Loan Indicators[1], January – July 2022 and 2023*

| | RM BILLION | | CHANGE (%) | |
|---|---|---|---|---|
| | **2022** | **2023** | **2022** | **2023** |
| **Total[2]** | | | | |
| Loans applications | 769.5 | 797.5 | *20.1* | *3.6* |
| Loans approvals | 386.4 | 413.6 | *26.7* | *7.0* |
| Loans disbursements | 1,319.2 | 1,388.0 | *15.5* | *5.2* |
| Loans repayments | 1,311.9 | 1,396.0 | *13.2* | *6.4* |
| Loans outstanding[2,3] | 1,973.8 | 2,056.3 | *5.9* | *4.2* |
| *of which:* | | | | |
| **Business Sector** | | | | |
| Loans applications | 290.7 | 310.3 | *17.6* | *6.8* |
| Loans approvals | 163.2 | 183.5 | *18.0* | *12.4* |
| Loans disbursements | 928.1 | 933.0 | *15.9* | *0.5* |
| Loans repayments | 929.4 | 944.5 | *15.3* | *1.6* |
| Loans outstanding[3] | 698.4 | 700.1 | *5.4* | *0.2* |
| *of which:* | | | | |
| **SMEs** | | | | |
| Loans applications | 156.7 | 180.7 | *8.7* | *15.4* |
| Loans approvals | 80.1 | 95.0 | *9.2* | *18.5* |
| Loans disbursements | 277.9 | 291.7 | *32.7* | *5.0* |
| Loans repayments | 273.6 | 283.9 | *31.0* | *3.8* |
| Loans outstanding[3] | 325.7 | 347.3 | *6.3* | *6.6* |
| **Households** | | | | |
| Loans applications | 454.2 | 466.0 | *20.5* | *2.6* |
| Loans approvals | 201.5 | 212.7 | *30.5* | *5.5* |
| Loans disbursements | 237.1 | 266.4 | *23.7* | *12.4* |
| Loans repayments | 231.1 | 265.8 | *11.9* | *15.0* |
| Loans outstanding[3] | 1,163.1 | 1,226.0 | *6.2* | *5.4* |

[1] Loans for all segments include data from the banking system and development financial institutions (DFIs)
[2] Refer to the sum of outstanding business and household loans, and excludes loans to Government, financial institutions, non-bank financial institutions and other entities
[3] As at end-period
Note: Total may not add up due to rounding
Source: Bank Negara Malaysia

In the household segment, total loans outstanding grew by 5.4% as at end-July. Household borrowings were mostly supported by continued demand for consumption-related credit, mainly for the purchase of residential properties and passenger cars. Loan applications and approvals moderated to 2.6% and 5.5%, respectively. Nonetheless, the volume of loan repayments of the segment continued to record double-digit growth, increasing further by 15% in the first seven months of 2023 supported by improvements in employment and income growth. The strong performance was also backed by ongoing support from the banking system, which provided assistance such as rescheduling and restructuring of loans, and advisory support by Credit Counselling and Debt Management Agency (AKPK) to borrowers who face difficulties in meeting their repayment obligations.

Moving forward, the Second Financial Inclusion Framework (2023 – 2026), a four-year strategic roadmap launched in June 2023 will further advance financial inclusion by elevating the people's financial well-being and standard of living. This Framework complements the Financial Sector Blueprint 2022 – 2026 (FSBP) and takes into consideration new emerging growth angles in financial services and the aspirations of SDG and ESG propositions.

Household debt grew at a moderate pace of 5.1% as at June 2023, primarily driven by the purchase of residential properties facilitated by homeownership incentive programmes and the purchase of motor vehicles following the extension of the Sales Tax exemption[3] and new vehicle registration period. Despite the moderate pace of household debt growth, the debt-to-GDP ratio increased to 81.9% as at June due to the modest expansion in nominal GDP over the same period. The bulk of household

**TABLE 3.2.** *Banking System: Loans Outstanding by Sector, End-July 2022 and 2023*

| | RM BILLION | | SHARE (%) | |
|---|---|---|---|---|
| | 2022 | 2023 | 2022 | 2023 |
| **Businesses** | **698.4** | **700.1** | ***35.4*** | ***34.0*** |
| Non-SMEs[1] | 369.4 | 350.3 | *18.7* | *17.0* |
| SMEs | 325.7 | 347.3 | *16.5* | *16.9* |
| *Selected sectors* | | | | |
| Primary agriculture | 32.5 | 31.7 | *4.6* | *4.5* |
| Mining and quarrying | 10.6 | 9.2 | *1.5* | *1.3* |
| Manufacturing | 131.1 | 126.6 | *18.8* | *18.1* |
| Construction | 89.1 | 89.7 | *12.8* | *12.8* |
| Electricity, gas and water supply | 23.3 | 21.2 | *3.3* | *3.0* |
| Wholesale and retail trade | 141.0 | 145.0 | *20.2* | *20.7* |
| Hotels and restaurants | 19.6 | 19.4 | *2.8* | *2.8* |
| Transport and storage | 29.0 | 30.9 | *4.2* | *4.4* |
| Information and communication | 19.5 | 22.0 | *2.8* | *3.1* |
| Finance, insurance and business activities | 170.0 | 171.2 | *24.3* | *24.5* |
| **Households** | **1,163.1** | **1,226.0** | ***58.9*** | ***59.6*** |
| *of which:* | | | | |
| Purchase of residential properties | 705.8 | 755.2 | *60.7* | *61.6* |
| Purchase of non-residential properties | 80.3 | 80.8 | *6.9* | *6.6* |
| Purchase of passenger cars | 162.1 | 175.4 | *13.9* | *14.3* |
| Credit cards | 35.5 | 40.3 | *3.1* | *3.3* |
| Personal use | 106.7 | 110.6 | *9.2* | *9.0* |
| Purchase of securities | 72.3 | 63.3 | *6.2* | *5.2* |
| Others | 0.3 | 0.3 | *0.0* | *0.0* |
| **Other sectors** | **112.3** | **130.3** | ***5.7*** | ***6.3*** |
| **Total[2]** | **1,973.8** | **2,056.3** | ***100.0*** | ***100.0*** |

[1] Non-SMEs refer to large corporations, including foreign entities, other domestic entities, Government and others
[2] Refer to the sum of outstanding business and household loans, and excludes loans to Government, financial institutions, non-bank financial institutions and other entities
Note: Total may not add up due to rounding
Source: Bank Negara Malaysia

[3] The Sales Tax exemption was extended until June 2022, while new vehicle registration until March 2023.

debt is intended for wealth accumulation which constituted 60.3% for residential properties, non-residential properties (5.5%), and investment in securities (4.5%).

Household financial resilience was supported by healthy debt servicing capacity and strong financial buffers. The debt service ratios (DSRs) for outstanding and newly-approved loans remained sound owing to prudent debt underwriting standards. Overall, the household financial assets[4] totalled RM3,036 billion as at end-June and exceeded total household debt by 2.05 times. With improvements in income and employment conditions, most borrowers have exited the repayment assistance programme and resumed loan payments. These developments will augur well for household financial position.

The Ministry of Finance together with BNM and Securities Commission Malaysia (SC) are in the process of formulating the Consumer Credit Act (CCA) which will strengthen protection for credit consumers in Malaysia by providing a comprehensive regulatory framework for credit business and credit service business, ensuring proper conduct of entities carrying out such businesses and promoting a fair, efficient and transparent credit industry. Through CCA, non-bank credit providers and credit service providers offering credit products or credit services such as Buy-Now-Pay-Later, leasing and factoring companies, debt collection agencies, impaired loan buyers and debt counselling and management agencies will be subjected to authorisation, governance and proper conduct requirements. Regulated entities are expected to adhere to among others responsible lending practices, transparency and disclosure information and fair treatment of credit consumers. These will strengthen consumer protection in Malaysia and heighten the level of professionalism within the industry.

## Capital Market Performance

*Fundraising activities remain steadfast*

Gross funds raised in the capital market during the first seven months of 2023 rose by 11.4% to RM184.1 billion. The commendable performance was attributed to increased fundraising activities by the public and private sectors, which grew by 10.8% and 12.4% to RM114 billion and RM70.1 billion, respectively.

The private sector's gross funds raised through new corporate bonds grew by 11.8% to RM67.1 billion despite the tighter financing environment. The funds were primarily raised via medium-term notes valued at RM65.3 billion, followed by straight bonds (RM1,005.8 million) and Islamic bonds (RM865.6 million). Most of the funds were raised by finance, insurance, real estate, and business services accounting for 55.6%; electricity, gas and water (21.8%); and construction (9.3%) sectors. These funds were primarily used to finance working capital, new projects and refinancing.

Meanwhile, funds raised via the domestic equity market during the same period recorded RM2.9 billion, with the growth driven by IPOs. The new issuances under both Main and ACE markets comprise of consumer and industrial products and services, construction, technology, property and healthcare counters. The increasing number of businesses planning to list in the near term will enhance investment opportunities and boost domestic equity market vibrancy.

For the public sector, Malaysian Government Securities (MGS) issuances increased by 8.3% to RM57.4 billion, while Malaysian Government Investment Issues (MGII) increased by 13.5% to RM56.6 billion. The issuances take into consideration of the Government's financial requirement and maturity profile. Meanwhile,

[4] Assets held by households including deposits, investments in unit trust and equities, insurance/takaful policies and Employee Provident Fund (EPF).

foreign holdings of MGS and MGII outstanding stood at 36.6% and 10.2%, respectively, as at end-July. Malaysia's debt market continued to be supported by diverse group of institutional and foreign investors, complemented by the deep and liquid secondary bond market.

**TABLE 3.3.** *Funds Raised in the Capital Market, January – July 2022 and 2023*

| | RM MILLION | |
|---|---|---|
| | **2022** | **2023** |
| **Public Sector** | | |
| **Government securities** | | |
| Malaysian Government Securities | 53,010.8 | 57,402.9 |
| Malaysian Government Investment Issues | 49,912.6 | 56,633.9 |
| **New issues of debt securities** | **102,923.4** | **114,036.8** |
| Less: Redemptions | 47,478.8 | 58,370.0 |
| **Net funds raised by the public sector** | **55,444.6** | **55,666.8** |
| **Private Sector** | | |
| **Shares[1]/Warrants** | | |
| Initial Public Offers | 2,265.7 | 2,912.3 |
| Rights Issues | - | - |
| Warrants | - | - |
| **New issues of shares/warrants** | **2,265.7** | **2,912.3** |
| **Debt securities[2]** | | |
| Straight bonds | 222.3 | 1,005.8 |
| Convertible bonds | - | - |
| Islamic bonds | 453.1 | 865.6 |
| Medium-term notes | 59,382.9 | 65,267.3 |
| **New issues of debt securities** | **60,058.3** | **67,138.7** |
| Less: Redemptions | 52,839.3 | 45,894.4 |
| **Net issues of debt securities** | **7,219.0** | **21,244.3** |
| **Net funds raised by the private sector** | **9,484.7** | **24,156.6** |
| **Total net funds raised** | **64,929.3** | **79,823.5** |

[1] Excludes funds raised by the exercise of Employee Share Option Scheme, Transferable Subscription Rights, Warrants and Irredeemable Convertible Unsecured Loan Stocks
[2] Excludes short-term papers in conventional and Islamic principles
Note: Total may not add up due to rounding
Source: Bank Negara Malaysia

The increase in gross funds raised in the capital market by the public and private sectors was primarily supported by economic recovery initiatives to boost economic growth. With the implementation of various measures such as tax reform, access to credit, and additional stimulus packages, the public and private sectors have more opportunities to raise capital. Additionally, foreign and domestic direct investments have increased significantly, thus unlocking more capital and creating more opportunities for investors to invest in a wide range of projects.

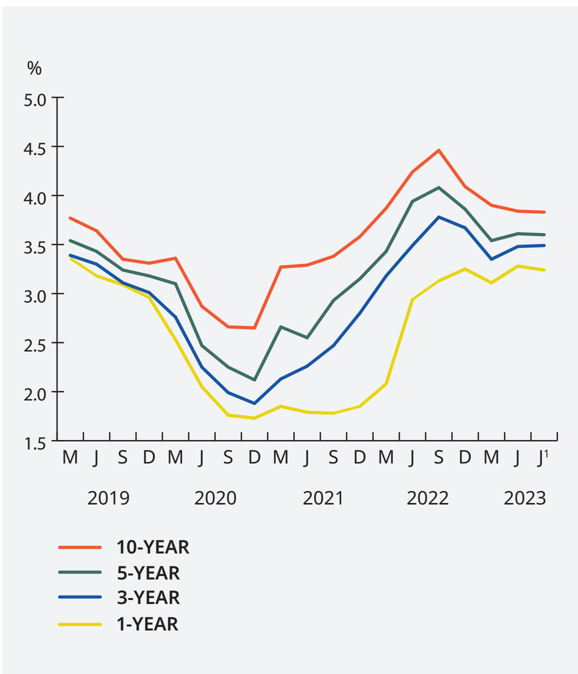
**TABLE 3.4.** *New Issuance of Corporate Bonds by Sector, January – July 2022 and 2023*

| | RM MILLION | | SHARE (%) | |
|---|---|---|---|---|
| | **2022** | **2023** | **2022** | **2023** |
| Agriculture, forestry and fishing | 2,119.6 | 348.0 | *3.5* | *0.5* |
| Manufacturing | 5,102.0 | 836.0 | *8.5* | *1.2* |
| Construction | 4,428.6 | 6,250.4 | *7.4* | *9.3* |
| Electricity, gas and water | 9,520.3 | 14,632.2 | *15.9* | *21.8* |
| Transport, storage and communication | 2,100.0 | 2,785.5 | *3.5* | *4.1* |
| Finance, insurance, real estate and business services | 31,747.3 | 37,358.2 | *52.9* | *55.6* |
| Government and other services | 4,270.5 | 4,535.8 | *7.1* | *6.8* |
| Wholesale and retail trade, restaurant and hotels | 270.0 | 392.5 | *0.4* | *0.6* |
| Mining and quarrying | 500.0 | 0.0 | *0.8* | *0.0* |
| **Total** | **60,058.3** | **67,138.7** | ***100.0*** | ***100.0*** |

Note: Includes corporate bonds issued by Cagamas and non-resident corporations
Total may not add up due to rounding
Source: Bank Negara Malaysia

During the first seven months of 2023, MGS and corporate bond yields broadly declined across all tenures. The yields on 1-year, 3-year, 5-year, and 10-year MGS decreased by 2 bps, 18 bps, 26 bps, and 26 bps, respectively. The decline in benchmark yields was mainly driven by market expectations of the policy rate reaching its peak. This trend was also influenced by global macro developments, including easing inflationary expectations in the US, as well as the subdued global banking turmoil. As at end-July, the 1-year, 3-year, 5-year and 10-year MGS yields closed at 3.24%, 3.49%, 3.60% and 3.83%, respectively.

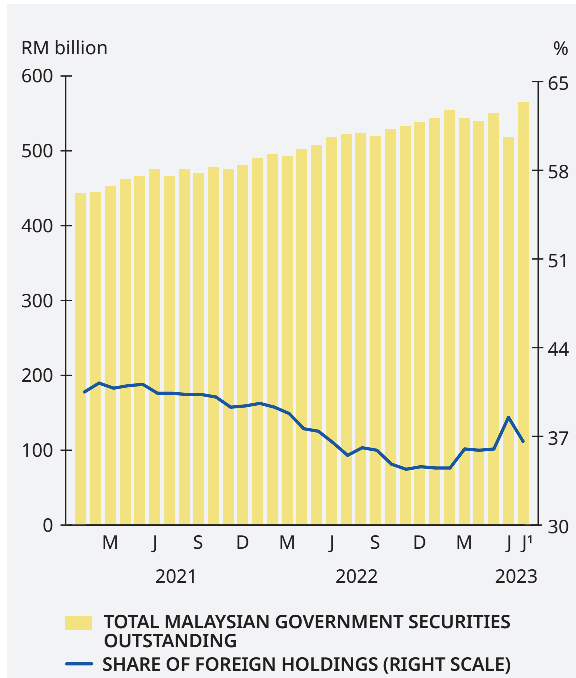
**FIGURE 3.5.** *Malaysian Government Securities Indicative Yields (End-period)*




[1] End-July 2023
Source: Bank Negara Malaysia

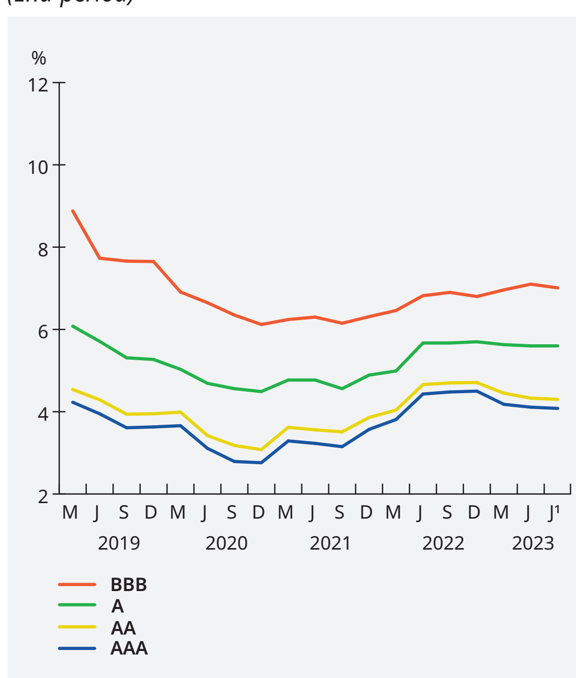
Meanwhile, the corporate bond yields on the 5-year AAA-rated, AA-rated and A-rated securities decreased by 42 bps, 42 bps and 10 bps, respectively. However, BBB-rated corporate bond yield increased by 21 bps during the same period and closed at 7.01%. Nonetheless, Malaysia's BBB-rated corporate bond yield trended slightly higher driven by investors seeking corporate bonds with relatively safer credit ratings in light of risk-off sentiment following US banking distress. Overall, the yield trend in the corporate debt market generally points towards the expectation of

**FIGURE 3.6.** *Share of Foreign Holdings in Total Malaysian Government Securities Outstanding (End-period)*




[1] End-July 2023
Source: Bank Negara Malaysia

**FIGURE 3.7.** *5-Year Corporate Bond Yields (End-period)*




[1] End-July 2023
Source: Bank Negara Malaysia

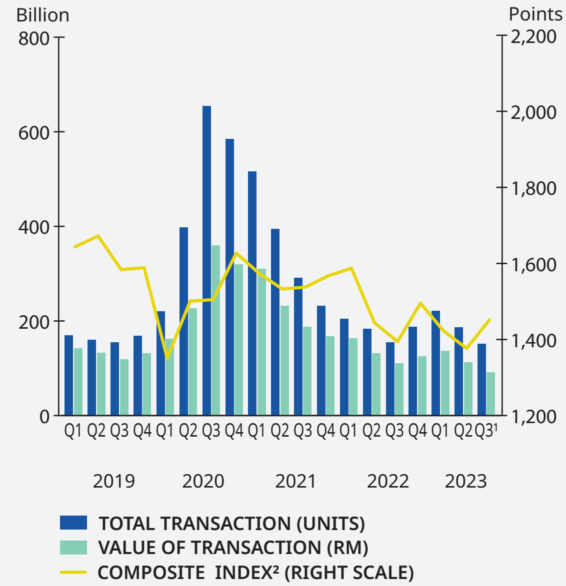
lower interest rates, signalling lower borrowing costs, which will be an advantage to many businesses.

It is envisaged that local sukuk and bonds will play a vital role as the financing instruments for programmes and projects featured in the National Energy Transition Roadmap (NETR), the New Industrial Master Plan 2030 (NIMP 2030) and the Mid-Term Review of the Twelfth Malaysia Plan (MTR of the Twelfth Plan). Overall, the outlook for MGS, MGII as well as corporate bonds and sukuk remains positive, buoyed by expectations of sustained economic growth, manageable inflation levels, and the anticipated conclusion of BNM's rate hiking cycle this year. Nonetheless, external factors such as the US Fed rate hike uncertainties, the banking sector turmoil and geopolitical tensions could pose as short-term market volatility risks.

The local equity market continued to be affected by external challenges during the first eight months of 2023. In early 2023, the US Fed hinted of possible small interest rate hikes due to easing inflationary pressures. Meanwhile, China reopened its borders, giving hope of a positive global economic spillover. These factors improved risk sentiments but were not sufficient to propel the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) to close the month at a higher level with the Index declining by 0.7% to 1,485.50 points as at end-January (end-December 2022: 1,495.49 points). The lacklustre performance can be attributed to various factors including uncertainties surrounding global economic growth which affected investor sentiment.

The FBM KLCI decreased by 6.8% (year-to-date) to close at 1,393.83 points on 14 March, which was below the psychological level of 1,400 points, as market sentiment was affected by the banking sector turmoil in the US and

**FIGURE 3.8.** *Performance of Bursa Malaysia*

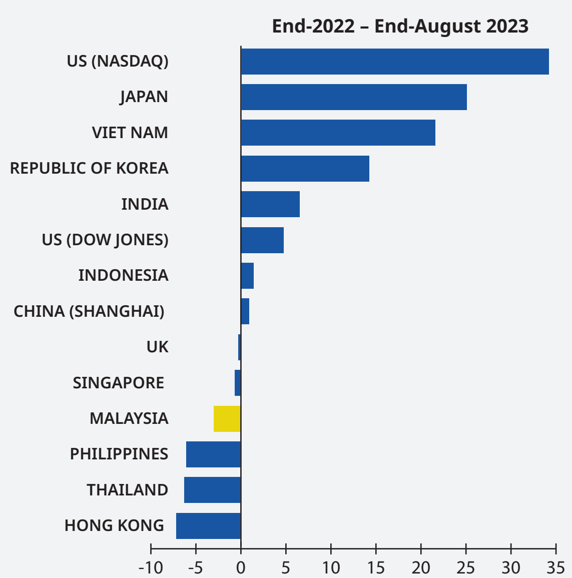



[1] End-August 2023
[2] As at end-period
Source: Bursa Malaysia

Switzerland. Although early interventions by the authorities managed to prevent the incident from spreading to other financial institutions, investors were still cautious of the potential contagion effect within the sector. In May, the OPR was increased coincident with the US Fed's decision. Meanwhile, fears over the lingering US banking crisis, US debt ceiling negotiations and Malaysia's six-state election led to more defensive investment approach and profit-taking activities. In addition, slower economic activity in Europe and weak domestic corporate earnings compounded these fears. Consequently, the FBM KLCI closed lower at 1,387.12 points at the end of May.

Effective 13 July, the Government reduced the stamp duty rate on shares traded on Bursa Malaysia from 0.15% to 0.10% as one of the measures to reinvigorate the domestic capital market. The measure aims at increasing trading volumes and liquidity among retail investors, motivating SMEs to pursue IPOs due to the expedited listing process while encouraging foreign investors to participate in Malaysia's stock market. Consequently, the FBM KLCI recovered, to close higher at 1,459.43 points as at end-July, buoyed by strong foreign buying interest and backing from local institutions as well as higher bargain-hunting activities. The recovery was further supported by the launching of the Ekonomi MADANI framework. The market sentiment continued to improve, supported by foreign buying interest and impending policy announcements with the index rising to close at 1,462.03 points on 9 August. Subsequently, with improved local job openings data and stimulus measures announced by China, the FBM KLCI ended the month to close at 1,451.94 points. Likewise, the accumulated net equity inflows for July and August recorded RM1,555 million.

**FIGURE 3.9.** *Performance of Selected Stock Markets (% change)*




Source: Bloomberg

**TABLE 3.5.** *Bursa Malaysia: Selected Indicators, End-August 2022 and 2023*

| | 2022 | 2023 |
|---|---|---|
| **Indices** | | |
| FBM KLCI | 1,512.05 | 1,451.94 |
| FBM EMAS | 10,697.65 | 10,740.70 |
| FBM 100 | 10,449.43 | 10,412.03 |
| FBM SCAP | 14,380.26 | 16,072.89 |
| FBM ACE | 4,910.44 | 5,217.97 |
| **Total turnover[1]** | | |
| Volume (million units) | 489,373.45 | 559,605.08 |
| Value (RM million) | 363,183.71 | 340,020.02 |
| **Average daily turnover[1]** | | |
| Volume (million units) | 3,020.82 | 3,475.81 |
| Value (RM million) | 2,241.87 | 2,111.93 |
| **Market capitalisation (RM billion)** | **1,706.31** | **1,776.33** |
| **Total number of listed companies** | | |
| Main Market | 764 | 773 |
| ACE Market | 156 | 167 |
| LEAP Market | 46 | 48 |
| **Market liquidity** | | |
| Turnover value/market capitalisation (%) | *21.3* | *19.1* |
| **Market concentration** | | |
| 10 highest capitalised stocks/market capitalisation (%) | *34.1* | *33.0* |

[1] Based on market transactions and direct business transactions between January and August
Source: Bursa Malaysia

INFORMATION BOX 3.1

## Key Capital Market Measures

Several key measures were undertaken by the Securities Commission Malaysia (SC) and Bursa Malaysia in the first eight months of 2023 to enhance the liquidity and efficiency of Malaysia's capital market. The measures are as follows:

**3-Jan**

**Amendments to Business Rules and Listing Requirements**
Business Rules and Listing Requirements were amended, effective 10 January 2023, to facilitate continued operations on non-gazetted holidays. On such holidays, Bursa Malaysia will ensure all transactions can and will be delivered and settled as scheduled.

**16-Feb**

**Launching of New Data Connectivity Services**
Bursa Connectivity Services was launched as a universal connectivity solution allowing global users access to Bursa's data pool quickly and seamlessly, which enables users to create new financial products, analyse trading opportunities and meet the growing demand of investors.

**17-Mar**

**Bursa Carbon Exchange's Inaugural Carbon Auction**
Bursa Carbon Exchange (BCX), the world's first Shariah-compliant carbon exchange, successfully carried out the nation's inaugural carbon credit auction on 16 March 2023.
The BCX enables the trading of standardised contracts with Verra-registered carbon credits from climate-friendly projects and solutions, which corporates can use to offset their emission footprint and meet climate goals. The BCX will also facilitate engagements between the public and private sectors toward developing conducive policies to support the emerging voluntary carbon market.

**22-Mar**

**Commencement of Centralised Sustainability Platform (Platform)**
Bursa Malaysia, in collaboration with the London Stock Exchange Group, has developed and tested the Platform that will serve as a repository for listed companies' ESG disclosures. The Platform will enable Malaysian corporates to meet regulatory requirements as well as facilitate greater transparency and consistency in sustainability disclosures.
It will also assist banks to develop green financing products and services, incentivising and encouraging decarbonisation of the corporate sector and their supply chain.

**27-Mar**

**Enhancement of Listing Requirements to Facilitate Offering of Islamic REITs and ETFs with *Waqf* Feature**
The Main Market Listing Requirements were enhanced to facilitate the offering of listed Islamic Real Estate Investment Trusts (REITs) and Exchange-traded Funds (ETFs) with the *Waqf* feature effective 3 April 2023.
These enhancements will promote the growth of *Waqf* and Sustainable and Responsible Investment (SRI) assets, further bolstering Bursa's position as a leading global Islamic finance marketplace.

**31-Mar**

**New Transfer of Listing Framework from LEAP Market to ACE Market**
The ACE Market Listing Requirements were amended to facilitate eligible LEAP Market-listed corporations to graduate to the ACE Market and further increase the accessibility and attractiveness.
With these amendments, SMEs will have better access to the capital market and provide a clearer roadmap for LEAP companies aiming to list on the ACE Market.

**10-Apr**

**Memorandum of Understanding (MoU) to Develop Capital Market Graduate Programme (CMGP)**
Ministry of Higher Education and SC signed an MoU to develop CMGP, which aims to improve the knowledge and employability of 9,000 public and private university graduates to address shortage of skilled manpower in the capital market industry. The three-year programme is partially funded through the Capital Market Development Fund.

**18-Apr**

**New E-Payment Platform (e-PATH)**
Beginning 1 May 2023, e-PATH was introduced to provide an efficient, secure and effortless way for market participants and the public to make online payments to SC, such as application fees for IPOs, transfers of listing, as well as takeovers and mergers.

**12-June**

**Expansion of Approved Securities Criteria**
Criteria for Approved Securities were expanded by reducing the daily market capitalisation requirement from RM500 million to RM200 million to allow investors manage their portfolios while boosting market vibrancy in Securities Borrowing and Lending, and short-selling activities.

**19-June**

**Measures to Boost Capital Market Vibrancy and Competitiveness**
The Honourable Prime Minister announced short- and medium-term measures to drive Malaysia's economic growth and capital market competitiveness, among others, reducing the stamp duty rate for the trading of listed shares from 0.15% to 0.10% and promoting corporate venturing to drive greater domestic direct investment.

**27-June**

**FIKRA ACE to Spur Islamic Fintech Innovation, Growth for ICM**
The FIKRA ACE, an enhanced version of Islamic fintech accelerator programme was launched to enable companies with fintech solutions to nurture, grow, and connect with the Islamic Capital Market (ICM) ecosystem by facilitating the development of Islamic fintech through a structured approach.
The programme consists of three components, namely FIKRA ACE - Accelerator, FIKRA ACE - Circle and FIKRA ACE - Excel.

**29-Aug**

**Widens Access, Offers More Choices in Fund Management**
In line with measures to liberalise the fund management industry, SC introduced the Foreign Exempt Scheme (FES) framework, providing high-net-worth entities and institutional investors greater onshore access to foreign investment funds. The SC also introduced flexibility to wholesale fund managers seeking to invest in alternative investment products beyond conventional assets, such as securities, derivatives, money market instruments and deposits.
These measures are to enhance the depth and breadth of the capital market.

## Islamic Banking and Capital Market Performance

*Islamic banking and capital market thrive amid resilient economic growth*

Islamic banking continues to support economic and social needs in line with principles of value-based finance via diverse and innovative Shariah-compliant solutions. As at end-July 2023, the total assets of Islamic banking[5] expanded by 8.1% to RM1,293.2 billion, accounting for 36.4% of the market share. Meanwhile, the total Islamic financing outstanding grew by 9.1% to RM844.1 billion as at end-July which outpaced the growth trend in the conventional banking sector. The demand for household financing remained strong, accounting for the largest share of 63.1% of the total financing, mainly for residential properties and passenger cars.

The outlook for Islamic banking remains promising, supported by a mature ecosystem that promotes social and financial inclusion. This ecosystem encapsulates regulations enacted by the Islamic Financial Services Act 2013 [Act 759], diversified and innovative products and services, resilient industry players, progressive digitalisation strategy as well as strong foundation in value-based intermediation (VBI) financing. In addition, Malaysia's strong commitment to the social finance agenda is reflected in the anticipated 3rd cohort of the Value-based Intermediation Financing and Investment Impact Assessment Framework (VBIAF) Sectoral Guides[6] to be released by the year-end that integrates ESG risk considerations in financing and investment decisions. The integration of VBI and social finance will further position the nation as a frontier in addressing sustainability goals through Shariah-compliant financing that balances social and environmental needs with economic development.

**TABLE 3.6.** *Islamic Banking: Key Indicators[1], End-July 2022 and 2023*

| | RM BILLION | | CHANGE (%) | |
|---|---|---|---|---|
| | 2022 | 2023 | 2022 | 2023 |
| **Assets** | **995.1** | **1,081.4** | ***6.3*** | ***8.7*** |
| **Financing** | **774.1** | **844.1** | ***12.0*** | ***9.1*** |
| Primary agriculture | 16.2 | 20.9 | *-2.6* | *23.1* |
| Mining and quarrying | 3.0 | 3.2 | *-35.3* | *-29.1* |
| Manufacturing | 36.0 | 33.7 | *4.6* | *-4.0* |
| Electricity, gas and water supply | 11.8 | 8.5 | *94.1* | *3.6* |
| Wholesale and retail trade, restaurants and hotels | 42.7 | 54.0 | *18.2* | *17.8* |
| Construction | 43.3 | 44.6 | *34.3* | *-3.5* |
| Real estate | 31.8 | 35.3 | *1.5* | *10.3* |
| Transport, storage and communication | 22.7 | 27.5 | *24.3* | *21.0* |
| Finance, insurance and business activities | 46.4 | 35.9 | *21.5* | *11.7* |
| Education, health and others | 16.3 | 8.4 | *-41.4* | *14.2* |
| Households | 491.3 | 532.7 | *11.8* | *9.0* |
| Others | 12.4 | 39.3 | *118.4* | *17.5* |
| **Liabilities** | **923.8** | **1,001.0** | ***6.4*** | ***8.4*** |
| **Deposits and Investment Account** | **869.3** | **934.8** | ***8.8*** | ***7.5*** |
| Investment | 0.3 | 0.3 | *-22.1* | *-11.7* |
| Savings | 75.1 | 71.6 | *5.5* | *-4.6* |
| Demand | 134.9 | 132.7 | *16.3* | *-1.6* |
| Investment account | 133.5 | 142.9 | *17.6* | *7.1* |
| Others | 525.5 | 587.3 | *5.5* | *11.8* |

[1] Excluding DFIs
Note: Total may not add up due to rounding
Source: Bank Negara Malaysia

[5] Includes DFIs.
[6] This framework is a continuation from the 1st and 2nd cohort Sectoral Guides issued in 2021 and 2022 covering palm oil, renewable energy, energy efficiency, oil & gas, construction and infrastructure and manufacturing sectors. The 3rd cohort covers agriculture, mining & quarrying, road transportation and waste management.

INFORMATION BOX 3.2

## An update: Bolstering Islamic Finance in Malaysia

### The Evolution of Islamic Finance in Malaysia

Islamic finance has progressed significantly in Malaysia over the last four decades. It has undergone three broad phases of development and evolved into one of the most developed Islamic finance ecosystems globally as depicted in Figure 3.2.1. The solidification of the industry is the culmination of efforts from the Government, financial regulators, and industry players, which have continued to pursue a multi-pronged approach towards sustaining and sharpening Malaysia's proposition as a global leader in Islamic finance. These efforts include providing a conducive and enabling legal and regulatory environment; advancing structural reforms that address market frictions and industry competitiveness; as well as enhancing the dynamism of institutions and talent.

**FIGURE 3.2.1.** *Phases of Development and Current Ecosystem in Islamic Finance*

**Early Phases of Islamic Finance**

| Building foundation | Mainstreaming | Driving diversification and innovation |
|---|---|---|
| | Financial Sector Masterplan 2001 – 2010 | Financial Sector Blueprint 2011 – 2020 |

**Strategic Intents**

| | | |
|---|---|---|
| • Promote financial inclusion for Muslims<br>• Provide alternative solutions | • Broaden range of solutions beyond Muslim community<br>• Achieve scale, enhance capacity and widen solutions | • Address ecosystem gaps and global expansion<br>• Drive innovative solutions and diversification |

**Current Strategic Thrusts of Islamic Financial Sector and Capital Market**

**Financial Sector Blueprint 2022 – 2026**

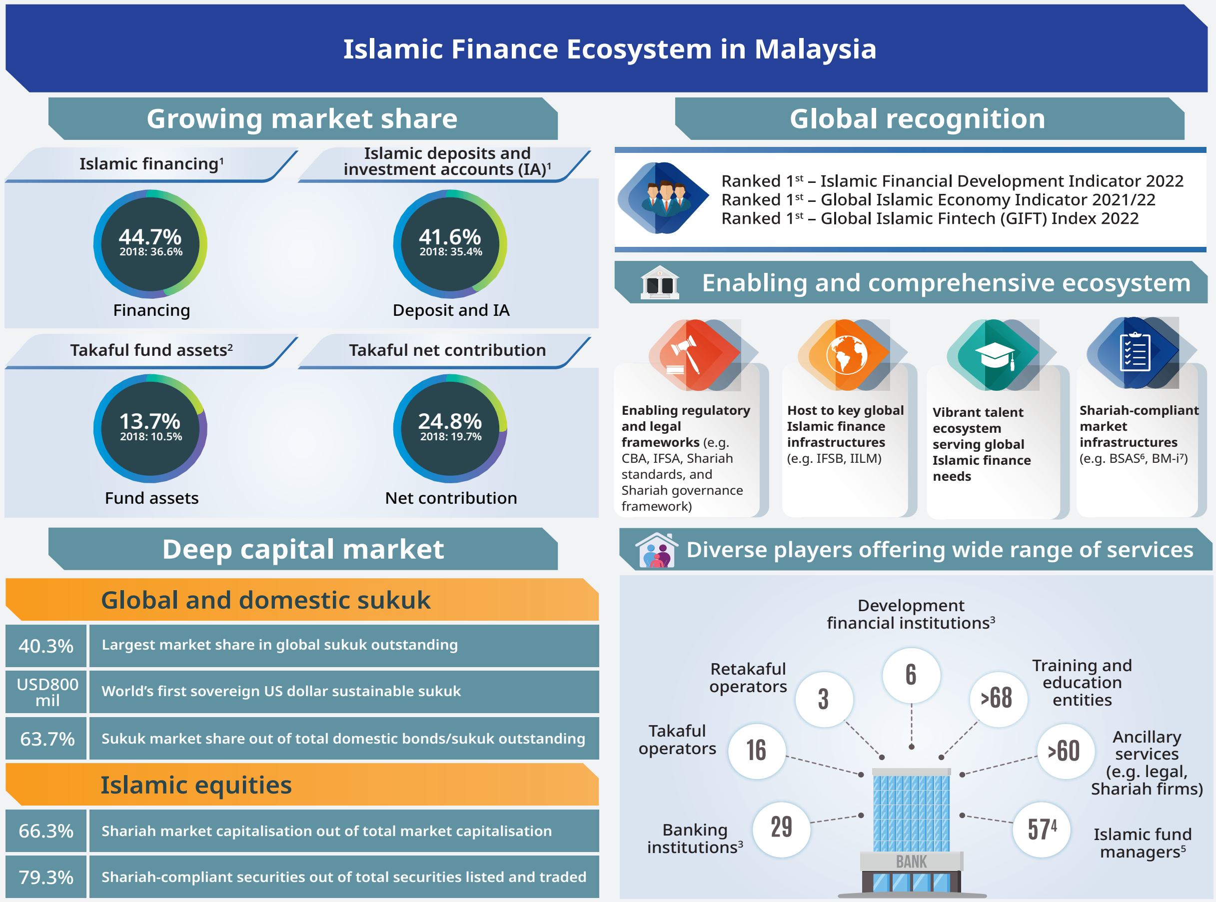
Advance value-based finance through Islamic finance leadership

- A Sharpen Malaysia's proposition as an international gateway for Islamic finance
- B Strengthen policy enablers of value-based finance for greater impact
- C Mainstream social finance

**Capital Market Masterplan 3, 2021 – 2025**

Shaping a stakeholder economy with SRI and ICM

| Relevant to broader halal MSMEs | Relevant to environment | Relevant to society |
|---|---|---|
| Facilitate access for MSMEs in the halal economy | Empower investors and businesses that are responsible and sustainable | Enable socio-economic development of the nation, leveraging Islamic social finance |



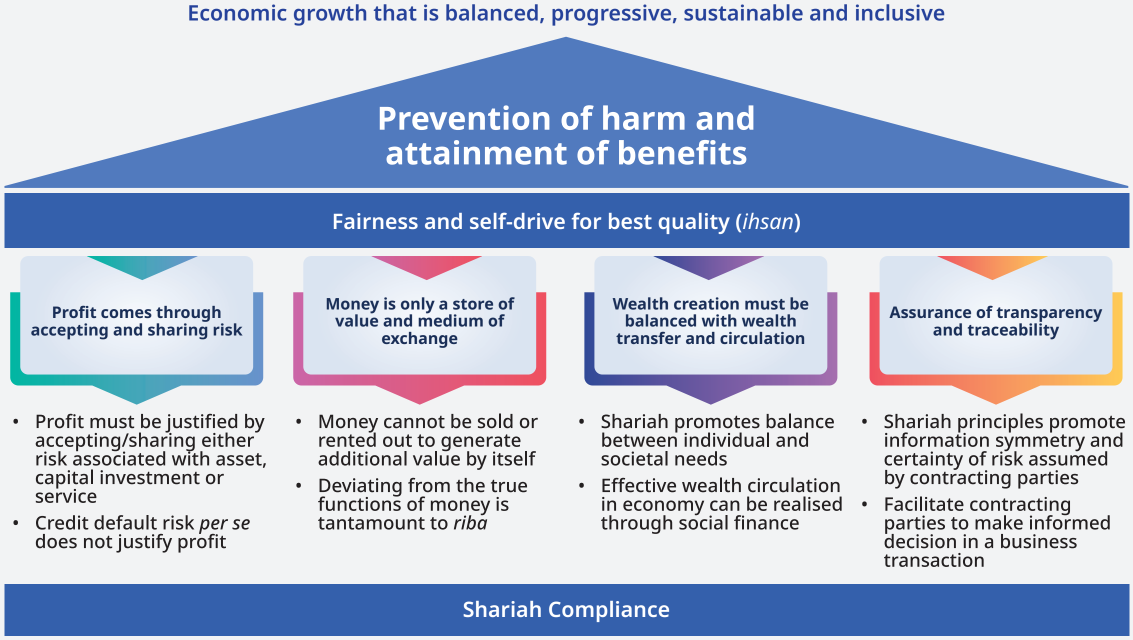

Note:
[1] Includes Development Financial Institutions (DFIs)
[2] Not inclusive of the shareholders' fund assets
[3] Inclusive of Islamic windows of commercial and investment banks
[4] As of Dec 2022
[5] Inclusive of Islamic windows of fund managers
[6] Bursa Suq Al-Sila` (BSAS) is a commodity trading platform specifically dedicated to facilitate Islamic liquidity management and financing by Islamic financial institutions
[7] Bursa Malaysia-i (BM-i) is a fully integrated Islamic securities exchange platform with a comprehensive range of exchange related facilities, that incorporate Shariah-compliant features

Source: Bank Negara Malaysia, Securities Commission Malaysia and Bursa Malaysia

### Strengthening the value and impact of Islamic finance

Under the framework of Ekonomi MADANI, Islamic finance is envisioned to intermediate more diverse forms of capital that contribute to an inclusive and just economic system. Islamic finance in Malaysia is called upon to not just embrace the value of Halal but also embrace the value of the *Tayyib* principle. This aspiration aligns closely with the intrinsic values of Shariah applied in Islamic finance as outlined in Figure 3.2.2. that are intended to promote a balanced distribution of wealth, eradicate poverty, foster collaboration and encourage sustainable development. These values are universal and can shape a more sustainable and inclusive financial system in Malaysia.

**FIGURE 3.2.2.** *Shariah Principles underpinning Islamic Finance Development Effort*




Source: Bank Negara Malaysia

### Strategies under Financial Sector Blueprint 2022 – 2026 are aligned with Ekonomi MADANI Aspirations

The Financial Sector Blueprint 2022 – 2026 (FSBP) sets out visions for financial sector development to ensure the sector is agile, dynamic and resilient to support the transition of the nation to its next stage of development. The Blueprint consists of five strategic thrusts, where one of the thrusts, "advance value-based finance through Islamic finance leadership", envisions a financial system that can deliver tangible socio-economic impact and ultimately demonstrate the values and full potential of Islamic finance, including realising *Maqasid Shariah*[1].

The thrust encapsulates three main strategies, namely:

i. Sharpen Malaysia's proposition as an international gateway for Islamic finance;
ii. Strengthen policy enablers of value-based finance for greater impact; and
iii. Mainstream social finance.

As Malaysia aims to strengthen its role as a global gateway for Islamic finance markets in Asia and Organisation of Islamic Cooperation (OIC) countries, the Blueprint outlines key strategic priorities that will build upon the strength of the industry's ecosystem. These strategic priorities are further supported by concerted efforts and initiatives by various stakeholders in the ecosystem. These initiatives include reviewing regulatory frameworks to spur innovation, developing a strong and sustainable pool of quality talent, pursuing scalable and impactful pilot programmes in collaboration with industry as well as partnering with global stakeholders as depicted in Figure 3.2.3.

[1] *Maqasid Shariah* means the objective of Shariah, the deeper meanings and inner aspects of wisdom considered by the lawgiver in all or most of the areas and circumstances of legislation. (The Malaysian Islamic Financial Market Report 2023, Bank Negara Malaysia)

**FIGURE 3.2.3.** *Key Development Priorities and Industry Players Initiatives*

| Key development priorities in the FSBP 2022 – 2026 | | Ecosystem-wide initiatives |
|---|---|---|
| Sharpen Malaysia's proposition as an international gateway for Islamic finance | i. Strengthen gateway-critical capabilities in Malaysia's Islamic financial industry<br>ii. Promote greater industry leadership<br>iii. Facilitate further deepening of Malaysia's Islamic financial and capital markets | • Formation of MIFC Leadership Council (MLC) provides a collaborative platform for the industry to drive MIFC priorities<br>• Pioneering a global network of Shariah scholars known as the Centralised Shariah Advisory Authorities (CSAA) to strengthen global connectivity and foster mutual respect on Shariah views<br>• Formation of Islamic Financial Market Subcommittee (IFMC) to formulate and implement strategies on Islamic financial market |
| Strengthen policy enablers of value-based finance for greater impact | i. Develop a more conducive regulatory environment to facilitate the application of diverse Shariah contracts<br>ii. Support the industry's innovation efforts in developing new value-based business models, solutions, and practices<br>iii. Facilitate greater stakeholder activism through higher quality disclosures | • Intermediated RM302.2 billion in VBI-aligned initiatives between 2017 and 2021 (16% share out of total key product segments – i.e. financing, investment, deposit and investment account)<br>• Collaboration on value-based solutions pilot programmes in mainstreaming value-based finance<br>• Modernising Shariah contract-based regulatory framework to spur innovation |
| Mainstream social finance | i. Elevate social finance as an integral part of the Islamic finance ecosystem | • Innovation using Islamic social finance concepts e.g. myWakaf, myZakat, iTEKAD (blended finance programme for low-income microentrepreneurs)<br>• Over RM65.2 million has been distributed under the Islamic social finance tools from October 2020 until September 2021 |

Source: Bank Negara Malaysia, AIBIM Value-based Intermediation (VBI) Preview Report 2017 – 2020 and Full Report 2021 (based on member banks' submission), ICD – Refinitiv Islamic Finance Development Indicator Report 2022

The Malaysia International Islamic Financial Centre (MIFC) Leadership Council (MLC), established by Bank Negara Malaysia (BNM) and Securities Commission Malaysia (SC) in October 2022 serves as an important enabler to position Malaysia as a global marketplace and international gateway for Islamic finance. The MLC as an industry-led platform is guided by the aspirations outlined in the FSBP and the Capital Market Masterplan 3 (CMP3).

The Council which comprises ten prominent local and international industry figures has since actively engaged the industry players and key partners, as well as participated in various domestic and international platforms as part of its strategic and advocacy roles in advancing Islamic finance and its impact creation. As part of its immediate priorities, MLC will strive to unlock impactful innovations and collaboration towards delivering outcomes in positioning Malaysia as the preferred Islamic fundraising and investment destination, addressing inequality, advancing sustainability, elevating relevant human capital and knowledge initiatives in Islamic finance as well as strengthening digital empowerment.

Value-based Intermediation (VBI) is one of the key catalysts towards developing a more balanced, progressive, sustainable and inclusive financial system. VBI aims to deliver the intended outcomes of Shariah that generate positive and sustainable impacts on the economy, community and environment. Since the introduction of VBI in 2017, the Islamic finance industry has facilitated a total of RM302.2 billion in VBI-aligned initiatives. Presently, efforts are also directed towards facilitating innovative value-based solutions that support wider intermediation of capital and support the digital transformation of the financial sector.

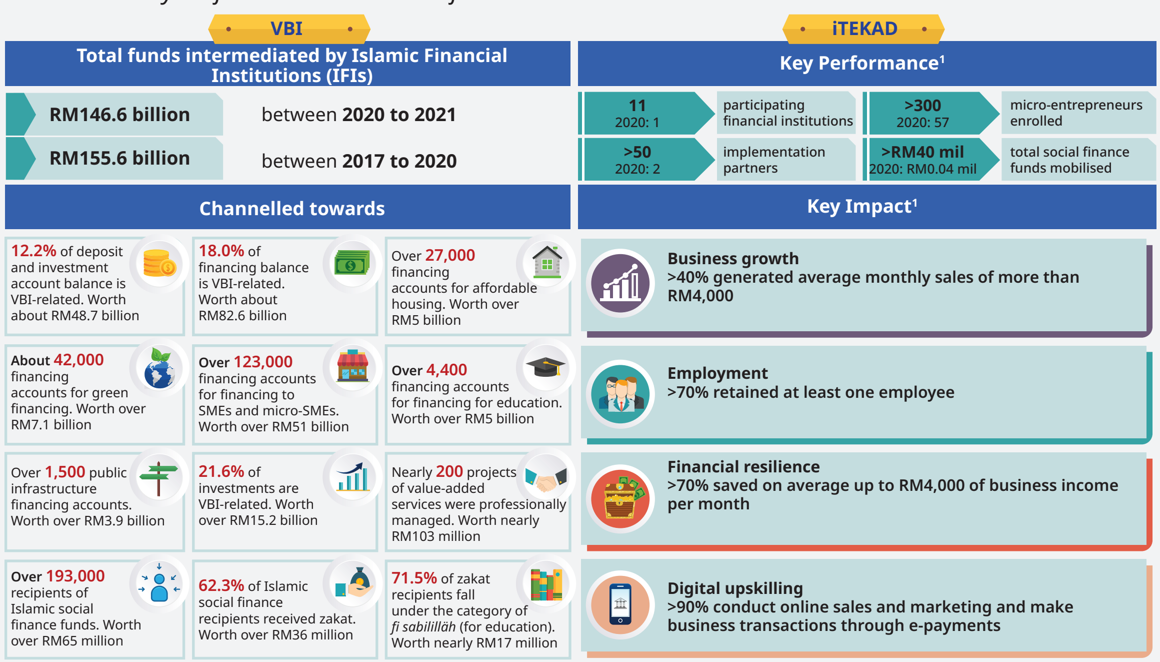
The announcement of two Islamic digital banks[2] in 2022 and intensification of digitalisation efforts undertaken by existing Islamic banks will further enhance access to affordable and quality financial solutions, particularly for the underserved and unserved market segments. Furthermore, greater

[2] In 2022, BNM announced the five successful applicants for the digital bank licences of which two are licensed under the Islamic Financial Services Act 2013 (IFSA). The successful applicants will undergo a period of operational readiness.

digitalisation in the takaful sector, propelled by the Licensing and Regulatory Framework for Digital Insurers and Takaful (DITO), also presents opportunities to reduce critical protection gaps in Malaysia.

Ongoing efforts are being undertaken to facilitate innovative value-based solutions that support the wider intermediation of capital. In supporting implementation towards SDG, social finance is also envisioned to play a greater role in complementing public sector finance, commercially-driven financial solutions, and corporate social responsibility (CSR) activities of financial institutions to promote greater social resilience. This goal is pursued by incorporating instruments such as zakat, *waqf*, and *sadaqah* as integral parts of Islamic financial products and services. For example, iTEKAD, a blended social finance programme introduced in 2020, provides financial and non-financial components in the form of seed capital, microfinance, and structured training. The programme targets low-income segment of aspiring and existing microentrepreneurs. The iTEKAD has expanded to include 11 participating banks which have onboarded more than 3,000 participants while mobilising over RM40 million of diverse social finance funds (donations, social impact investment, and zakat) in 2023. The key performance indicators of VBI and iTEKAD are listed in Figure 3.2.4.

**FIGURE 3.2.4.** *Key Performance Indicators of VBI and iTEKAD*




Note: [1]Figures are as of August 2023 and derived from sample of iTEKAD participants
Source: Bank Negara Malaysia, participating financial institutions of iTEKAD, AIBIM Value-based Intermediation 2021 Full Report

## Conclusion

Collectively, the efforts undertaken thus far will further advance Malaysia's Islamic finance system and strengthen the nation's position as a prominent leader in the global Islamic economy. The culmination of efforts from the Government, particularly through BNM and SC, alongside various stakeholders in the industry is poised to boost the value proposition of Islamic finance. In addition, Malaysia is widely recognised as a global thought leader in this domain. Hence, the nation is well-positioned to spearhead in charting the future of Islamic finance, given the rapidly evolving financial and economic landscapes while striking a balance between economic development and the social agenda, in line with the aspirations of Ekonomi MADANI.

The Islamic Capital Market (ICM) continues to lead Malaysia's capital market in fundraising and investing. As at end-July, the domestic size of ICM was valued at RM2,402.2 billion, accounting for 64.4% of total capital market size. Furthermore, the size of ICM increased further by 7.9% with the sukuk market becoming more attractive to investors.

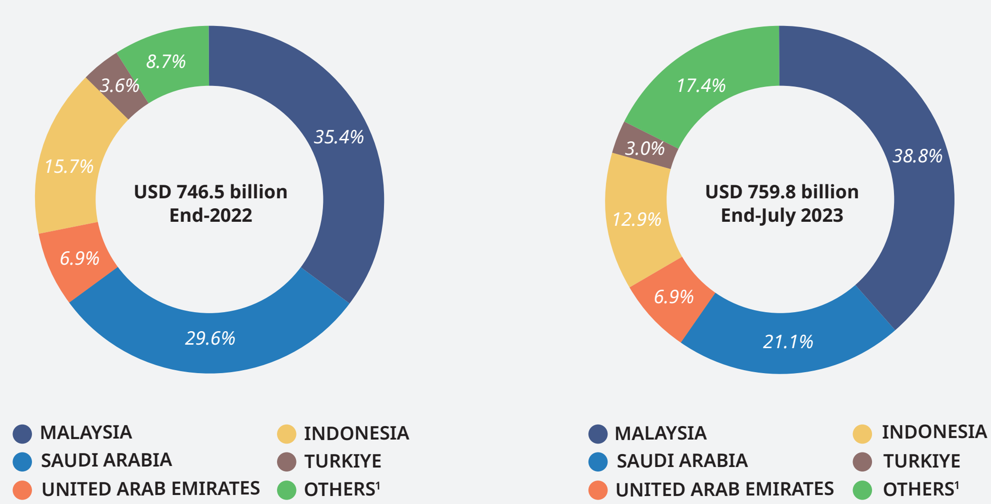
During the first seven months, sukuk issuances amounted to RM178.2 billion or 61.7% of total issuances. The increasing demand from the private sector for Shariah-compliant instruments continues to fuel the issuances of sukuk. The total corporate sukuk issuances reached RM50.9 billion, representing 75.6% of overall corporate bonds and sukuk issued in Malaysia during the same period. Malaysia continued to record the largest share of global sukuk outstanding at 38.8% as at end-July.

Recognised as the pioneer in the global sukuk market, Malaysia has a well-established Islamic finance infrastructure and sukuk issuances with diverse tenures and structures.

Malaysian sukuk have often been considered attractive attributed to competitive yields and a reputation for strong regulatory oversight. Additionally, Malaysia's efforts to become a hub for Islamic finance have garnered interest from foreign institutional investors in diversifying investment portfolios. However, global sukuk issuances are likely to rise slowly in 2023 amid slower growth and market volatility but will remain a key funding source in core Islamic finance markets. Meanwhile, the medium- to long-term outlook is expected to be positive amid sustained Islamic investors' demand, issuer refinancing needs, and government support in core markets.

Bursa Malaysia continues to promote Shariah-compliant securities products. As at end-July, a total of 807 or 81.8% out of the total of 987 public listed companies are Shariah-compliant. The market capitalisation of Shariah-compliant securities stood at RM1,142.9 billion or 65.1% of the overall total market capitalisation of listed companies on Bursa Malaysia.

**FIGURE 3.10.** *Global Sukuk Outstanding by Country (% share)*




[1] Others include Bahrain, Bangladesh, Brunei, Egypt, France, Gambia, Hong Kong, Ireland, Ivory Coast, Jordan, Kuwait, Luxembourg, Maldives, Morocco, Nigeria, Oman, Qatar, Senegal, Singapore, South Africa, UK and US

Note: Total may not add up due to rounding

Source: Bank Negara Malaysia

The Malaysian capital market is expected to remain resilient and supportive of the economy, buoyed by strong macroeconomic fundamentals, high domestic liquidity, and a well-developed infrastructure. The Capital Market Masterplan 3 (CMP3) seeks to make the capital market even more relevant to the economic development of Malaysia and its stakeholders by 2025. The goal is to achieve an efficient and effective capital market that channels capital into productive sectors as well as fosters diversity and competition. Towards this end, the SC continues to focus its efforts on raising domestic investors' digital savviness and positioning fintech to promote solutions in the halal economy, Sustainable and Responsible Investment (SRI) and Islamic social finance.

## Conclusion

Monetary policy will remain conducive to sustainable economic growth amid price stability. Financial intermediation activities continue to remain robust backed by positive growth prospects and a stable labour market with the availability of credit remains forthcoming. Likewise, the capital market is projected to remain resilient in line with a favourable domestic growth outlook. The NETR, NIMP 2030 and MTR of the Twelfth Plan guided by the Ekonomi MADANI framework are among policies that will advance Malaysia into a better future. Along with the Government's announcement on measures to revitalise the capital market, the domestic financial market is poised to strengthen further and contribute more significantly towards the nation's wealth and prosperity.

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