CHAPTER 3

Monetary and Financial Developments

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Overview

Financial market remains robust

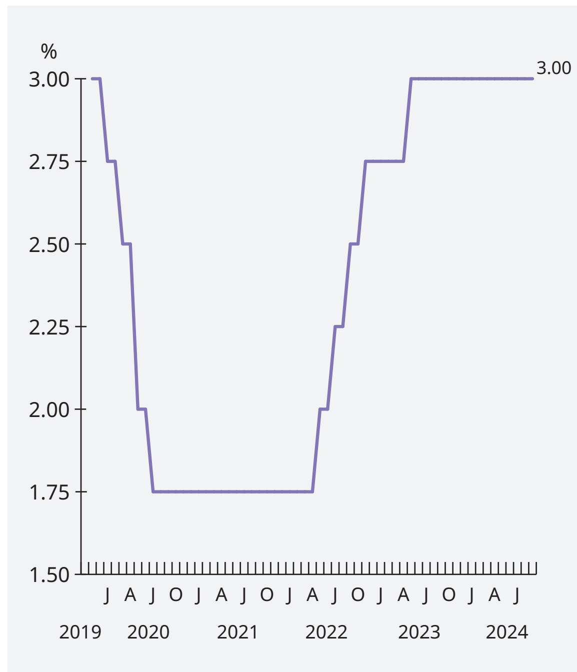
Malaysia's financial market remains resilient and orderly. Anchored by the Ekonomi MADANI framework, the domestic financial market continues to play a significant role in supporting economic growth, supported by well-capitalised financial institutions and a well-functioning capital market. Meanwhile, the monetary policy stance remains unchanged with the Overnight Policy Rate (OPR) at 3.00% in tandem with inflation prospects and the overall health of the economy. However, market volatilities arising from external headwinds, including heightened geopolitical tensions, extended periods of high global interest rates, slow growth in China, and the outcomes of the US presidential election will pose challenges to the domestic financial market.

Monetary Developments

Overnight Policy Rate sustained amid stable growth

The OPR was maintained at 3.00% in the first nine months of 2024. The OPR remained unchanged following the Monetary Policy Committee's (MPC) thorough assessment of the overall economic conditions. This decision is consistent with the manageable inflation and current outlook of sustained strength in domestic economic activity amid the implementation of diesel subsidy rationalisation. Bank Negara Malaysia's (BNM) policy direction is expected to continue to be forward-looking, with a focus on maintaining price stability to facilitate sustainable domestic economic growth going into 2025.

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

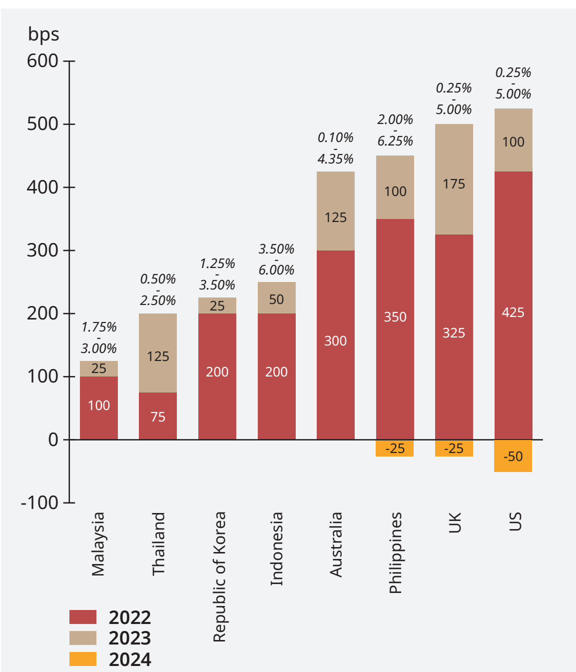


Source: Bank Negara Malaysia

The lending of commercial banks remained steady in tandem with the unchanged OPR level. As at end-July 2024, the lending rates, particularly the base lending rate (BLR) remained unchanged at 6.68%, while the weighted average lending rate (ALR) on outstanding loans remained broadly stable at 5.12%. The deposit rates eased as commercial banks adjusted their funding strategy to manage the cost of funds, with the average savings deposit rate moderating to 0.87%. Similarly, the fixed deposit rates across tenures of 1- to 12-month also edged down to the range of 2.52% to 2.79%.

From the global perspective, the policy rates of most central banks reached their peak of normalisation trend in 2023, before remaining steady in the first nine months of 2024. During this period, the central banks of the Philippines and the UK started to loosen their restrictive monetary policies in August 2024, while the central bank of Indonesia took their first cut in September 2024 after increasing their interest rate in April 2024. Similarly, the US Federal Reserve (Fed) also delivered its first rate cut in September 2024, with a projection of additional reductions by year-end. Despite the global shift towards monetary easing, Malaysia's monetary policy remains unaffected by the timing and policy path of other central banks, and continues to be guided by domestic considerations.

FIGURE 3.2. *Comparison of Policy Rates for Selected Central Banks, January 2022 – September 2024 (basis points, bps)*



Source: Bank Negara Malaysia and Bloomberg

Performance of Ringgit

Ringgit rebounded after a prolonged period of weakness

The Malaysian ringgit recovered from its three years of losses stemming from the strength of the US dollar and rebounded to its 18-month record high at RM4.3205 against the US dollar, appreciating by 6.4% (year-to-date) as at end-August 2024. The key drivers for the ringgit's appreciation were attributed to the strong domestic economy, including a recovery in exports and positive impacts from the coordinated efforts by the authorities to encourage repatriation and conversion of foreign income proceeds by government-linked companies (GLCs), government-linked investment companies (GLICs) and corporates.

In addition, the ringgit strengthened post July's Federal Open Market Committee (FOMC) meeting, which provided better clarity surrounding the Fed's easing interest rate trajectory. These factors have helped the ringgit to gradually recover from its lowest value recorded this year on 17 April 2024 at RM4.7935, when the US dollar strengthened amid a hawkish narrative surrounding the US monetary policy stance in the earlier part of the year. This development led to risk-on sentiment attributed to narrowing interest rate differential, thereby increasing global investors' risk appetite towards emerging market currencies, including the ringgit.

Additionally, the confluence of positive factors such as favourable economic outlook, ongoing structural reforms and positive assessment from international rating agencies and analysts have restored investors' confidence in Malaysia as a viable investment destination. All in all, these factors have pushed the ringgit to become one of the strongest currencies in Asia. Other than the bilateral exchange rate valuation against the US dollar, the ringgit has appreciated against most major and regional currencies within the range of 2.5% to 10.2% as at end-August 2024. Looking ahead, the whole-of-nation approach including measures to further strengthen the economy through the Ekonomi MADANI framework and its policy levers are expected to support and increase the value of the ringgit.

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

Source: Bloomberg

Banking Sector Performance

Banking sector well-positioned to support economic activities

The banking sector remained well-capitalised, coupled with ample liquidity buffers to support financial intermediation in the economy. As at end-July 2024, the Common Equity Tier 1 Capital (CET1), Tier 1 Capital, and Total Capital ratios remained steady at 14.8%, 15.4%, and 18.5%, respectively. The banking sector continued to provide sustainable funding amid strong growth in deposits with a stable loan-to-deposit ratio (LDR) of 87.6% while maintaining sufficient liquidity to meet the short-term and long-term financial obligations with an aggregate Liquidity Coverage Ratio (LCR) of 150.8% and the Net Stable Funding Ratio (NSFR) of 115.5%. These indicators remained well above the Basel III standards[1] to provide banks with a solid buffer against potential liquidity shocks while simultaneously sustaining credit flows in the economy.

On the asset quality front, the loan impairments remained manageable given the low level of the gross impaired loan ratio at 1.6%, coupled with low uptake of the restructuring and rescheduling programme by borrowers facing financial constraints, indicating most borrowers could promptly repay their loans. Additionally, the banking sector continues to be watchful of emerging risks that could impact loan performance. The total provisions, including regulatory reserves, remained adequate at RM43 billion (equivalent to 124.5% of impaired loans as at end-July 2024) to serve as a buffer for potential credit losses.

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

[1] End-July 2024
Source: Bank Negara Malaysia

[1] The Basel III minimum regulatory levels of CET1 Capital (4.5%), Tier 1 Capital (6%), and Total Capital ratios (8%), respectively, of risk-weighted assets (RWA). Meanwhile, for LCR and NSFR, the minimum requirement is 100%.

During the first seven months of 2024, lending activities in the banking system were sustained by continued growth in both business and household segments by 5.7% and 6.5%, respectively, contributing to total loan outstanding growth of 6.4% to RM2,188.5 billion. In contrast, the banking system's repayment activities contracted by 2.7% to RM1,363.6 billion in line with moderating loan disbursements of 0.1% to RM1,386 billion, weighed down by the business segment.

Of this total loan outstanding, the household segment constitutes the largest share in the banking sector as loan applications expanded by 4.9% to RM488.7 billion amid steady demand for the purchase of passenger cars and houses as at July 2024. Similarly, other key lending indicators, such as loan approvals and disbursements, increased by 4.1% and 10.5% to RM218.3 billion and RM294.3 billion, respectively. The credit conditions continue to be favourable, with repayment activities remaining strong at 7.4%, in line with favourable labour market conditions. The revised civil service salary scheme to be rolled out by the end of the year is also expected to further contribute to the resilience of this segment.

For the business segment, overall loan activities remained supportive, driven by higher growth in working capital and investment activities, as reflected by higher loan applications, which stood at 7.7% to RM333.8 billion as at July 2024. Nevertheless, the loan repayments declined by 3.2% to RM918 billion

TABLE 3.1. *Banking System: Loan Indicators[1], January – July 2023 and 2024*

	RM BILLION		CHANGE (%)	
	2023	2024	2023	2024
Total[2]				
Loans applications	797.6	842.9	*3.7*	*5.7*
Loans approvals	413.5	432.8	*8.3*	*4.7*
Loans disbursements	1,388.1	1,386.0	*5.2*	*-0.1*
Loans repayments	1,401.0	1,363.6	*6.8*	*-2.7*
Loans outstanding[2,3]	2,056.4	2,188.5	*4.2*	*6.4*
of which:				
Business Sector				
Loans applications	310.0	333.8	*6.7*	*7.7*
Loans approvals	185.8	200.3	*15.9*	*7.8*
Loans disbursements	931.4	924.8	*0.4*	*-0.7*
Loans repayments	947.9	918.0	*2.0*	*-3.2*
Loans outstanding[3]	700.2	740.1	*0.3*	*5.7*
of which:				
SMEs				
Loans applications	180.7	190.9	*15.3*	*5.6*
Loans approvals	94.9	102.2	*19.9*	*7.7*
Loans disbursements	291.6	325.1	*5.0*	*11.5*
Loans repayments	286.2	315.3	*4.6*	*10.2*
Loans outstanding[3]	347.2	378.5	*6.6*	*9.0*
Households				
Loans applications	466.0	488.7	*2.6*	*4.9*
Loans approvals	209.6	218.3	*4.7*	*4.1*
Loans disbursements	266.4	294.3	*12.4*	*10.5*
Loans repayments	265.8	285.6	*15.0*	*7.4*
Loans outstanding[3]	1,226.0	1,305.3	*5.4*	*6.5*

[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

TABLE 3.2. *Banking System: Loans Outstanding by Sector, End-July 2023 and 2024*

	RM BILLION		SHARE (%)	
	2023	2024	2023	2024
Businesses	**700.2**	**740.1**	***34.1***	***33.8***
Non-SMEs[1]	350.6	359.1	*17.1*	*16.4*
SMEs	347.2	378.5	*16.9*	*17.3*
Selected sectors				
Primary agriculture	31.7	32.9	*4.5*	*4.4*
Mining and quarrying	9.1	9.0	*1.3*	*1.2*
Manufacturing	126.7	133.7	*18.1*	*18.1*
Construction	89.6	90.9	*12.8*	*12.3*
Electricity, gas and water supply	21.3	18.7	*3.0*	*2.5*
Wholesale and retail trade	145.0	160.4	*20.7*	*21.7*
Hotels and restaurants	19.4	20.9	*2.8*	*2.8*
Transport and storage	30.7	31.2	*4.4*	*4.2*
Information and communication	22.0	22.5	*3.1*	*3.0*
Finance, insurance and business activities	171.1	188.3	*24.4*	*25.4*
Households	**1,226.0**	**1,305.3**	***59.6***	***59.6***
of which:				
Purchase of residential properties	755.2	812.8	*61.6*	*62.3*
Purchase of non-residential properties	80.8	82.8	*6.6*	*6.3*
Purchase of passenger cars	175.4	192.8	*14.3*	*14.8*
Credit cards	40.3	43.5	*3.3*	*3.3*
Personal use	110.6	115.6	*9.0*	*8.9*
Purchase of securities	63.3	57.5	*5.2*	*4.4*
Others	0.3	0.3	*0.0*	*0.0*
Other sectors	**130.2**	**143.1**	***6.3***	***6.5***
Total[2]	**2,056.4**	**2,188.5**	***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

mainly in the services subsector. The decline, however, was not widespread, with wholesale and retail trade recording an increase in repayments. Likewise, loan disbursements for businesses slowed by 0.7% to RM924.8 billion. Meanwhile, access to funding for SMEs remained higher to support developmental needs across various sectors, such as agro takaful, green finance and tourism financing, which constitute more than half of business financing (51.1%).

As at June 2024, household debt in Malaysia reached RM1,573.6 billion, with the aggregate household debt-to-GDP ratio remaining broadly stable at 83.8%. This was primarily attributed to a 6.2% increase in household borrowing, underpinned by sustained improvements in the labour market and robust economic growth. Housing and car loans were the main contributors, accounting for 74.5% of total household debt. Housing loans grew by 7.4%, supported by measures to promote homeownership, particularly for first-time buyers. Meanwhile, car loans saw a significant increase of 10.4%, reflecting higher vehicle sales in the first half of 2024 compared to the same period last year. In contrast, the growth rates for credit card usage and personal financing recorded 8.9% and 3.3%, respectively.

Household credit growth closely tracked income levels, with the segment's resilience supported by healthy debt servicing capacity and substantial financial buffers. Lending to households continued to be underpinned by sound underwriting standards and loan affordability assessments. As at June 2024, the median debt service ratios (DSR) for outstanding and newly approved loans were

34.6% and 40.7%, respectively, signifying that households are less susceptible to financial distress. Additionally, the household's aggregate financial buffers remained robust at 2.1 times the aggregate debt level.

The proportion of household borrowings under bank repayment assistance from the total banking system, including Development Financial Institutions (DFIs), has declined to 1.4% in June 2024 (December 2023: 1.6%). Financial stress among households is minimal, with repayment difficulties primarily confined to a small segment of borrowers with pre-existing vulnerabilities. These include lower-income borrowers, those previously under repayment assistance programmes, and individuals whose income levels have not fully recovered since the pandemic. Nevertheless, financial and debt management assistance remains accessible through the Credit Counselling and Debt Management Agency (AKPK), underscoring the ongoing commitment to the financial well-being of the rakyat.

Looking ahead, household debt growth is expected to remain manageable, supported by continued improvements in the labour market and economic activities, coupled with stringent risk assessment by banks. Meanwhile, the anticipated enactment of the Consumer Credit Act will further strengthen the regulatory framework for non-bank credit providers and credit service providers. This legislation will promote a prudent and responsible lending culture among credit providers, including those providing the Buy Now Pay Later facilities as well as to promote responsible consumer borrowing, thus ensuring protection against financial hardship due to excessive debt burdens.

Capital Market Performance

Fundraising activities remain vibrant

The domestic capital market remained steady, continuing its role to support domestic economic activity and effectively mobilising investments. In the first seven months of 2024, private sector fundraising edged up by 0.2% to RM70.2 billion, with gross funds raised in the domestic equity market expanding by 13.9% to RM3.3 billion. However, fundraising activities in the public sector declined by 2.7% to RM110.9 billion in line with the Government's commitment towards fiscal reforms. Overall, gross funds raised in the capital market decreased slightly by 1.6% to RM181.1 billion.

Funds raised through new corporate issuances decreased marginally by 0.4% to RM66.8 billion, mainly comprising medium-term notes accounting for 92.2% of total corporate bonds issuance. On a sectoral basis, new corporate bond issuances were dominated by the finance, insurance, real estate and business services sectors, which comprised 76.5%. These funds were predominantly allocated for working capital, new ventures, refinancing and other corporate needs. Despite the reduction, financial support for businesses remains intact, attributed to anticipated growth in bank financing, particularly for SMEs.

Despite global economic uncertainties and rising geopolitical risks, the domestic capital market remains promising, buoyed by new and ongoing strategic projects. Funds raised via IPOs in the domestic equity market totalled RM3.3 billion, with Bursa Malaysia successfully securing 28 IPOs in the first seven months of 2024. These IPOs encompass diverse sectors such as industrial products and services, consumer products and services, property, technology and financial services as listed on the Main, ACE or LEAP Markets. The increase in IPOs was supported by recent market enhancements, including a policy introduced in March 2024, which expedited IPO approvals within three months, attracting quality companies to list without compromising investor protection and public interest.

TABLE 3.3. *Funds Raised in the Capital Market, January – July 2023 and 2024*

	RM MILLION	
	2023	**2024**
Public Sector		
Government securities		
Malaysian Government Securities	57,402.9	55,174.5
Malaysian Government Investment Issues	56,633.9	55,765.9
New issues of debt securities	**114,036.8**	**110,940.4**
Less: Redemptions	55,420.0	50,520.0
Net funds raised by the public sector	**58,616.8**	**60,420.4**
Private Sector		
Shares[1]/Warrants		
Initial Public Offers	2,912.3	3,316.3
Rights Issues	-	-
Warrants	-	-
New issues of shares/warrants	**2,912.3**	**3,316.3**
Debt securities[2]		
Straight bonds	1,005.8	2,579.9
Convertible bonds	-	-
Islamic bonds	865.6	2,666.8
Medium-term notes	65,267.3	61,599.3
New issues of debt securities	**67,138.7**	**66,846.0**
Less: Redemptions	45,894.4	51,960.2
Net issues of debt securities	**21,244.3**	**14,885.8**
Net funds raised by the private sector	**24,156.6**	**18,202.1**
Total net funds raised	**82,773.4**	**78,622.5**

[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

TABLE 3.4. *New Issuance of Corporate Bonds by Sector, January – July 2023 and 2024*

	RM MILLION		SHARE (%)	
	2023	**2024**	**2023**	**2024**
Agriculture, forestry and fishing	348.0	0.0	*0.5*	*0.0*
Manufacturing	836.0	1,163.9	*1.2*	*1.7*
Construction	6,250.4	3,208.0	*9.3*	*4.8*
Electricity, gas and water	14,632.2	5,875.0	*21.8*	*8.8*
Transport, storage and communication	2,785.5	1,931.0	*4.1*	*2.9*
Finance, insurance, real estate and business services	37,358.2	51,169.9	*55.6*	*76.5*
Government and other services	4,535.8	2,500.0	*6.8*	*3.7*
Wholesale and retail trade, restaurant and hotels	392.5	998.1	*0.6*	*1.5*
Mining and quarrying	0.0	0.0	*0.0*	*0.0*
Total	**67,138.7**	**66,845.9**	***100.0***	***100.0***

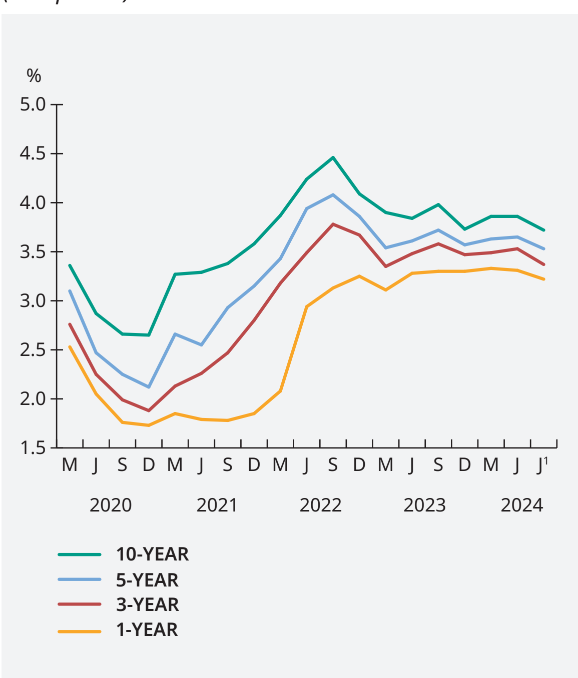
Note: Includes corporate bonds issued by Cagamas and non-resident corporations
Total may not add up due to rounding
Source: Bank Negara Malaysia

During the first seven months of 2024, gross funds raised by the public sector decreased by 2.7% to RM110.9 billion, with the issuances of Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII) contracting by 3.9% to RM55.2 billion and 1.5% to RM55.8 billion, respectively. These reductions indicate the Government's strategic efforts to lower the fiscal deficit, with issuances carefully aligned with the Government's financial requirements and maturity profile. As at July 2024, foreign holdings of MGS and MGII stood at 34.2% and 9.3%, respectively.

Overall, Malaysia's debt market remains robust, underpinned by a diverse range of institutional and foreign investors, coupled with high liquidity in the secondary bond market. This continues to reinforce the stability and attractiveness of Malaysia's debt instruments. With the Fed rate cuts anticipated to materialise, foreign investors' demand for domestic papers, particularly MGS, is expected to improve further, given their familiarity with the structure and liquidity of these instruments.

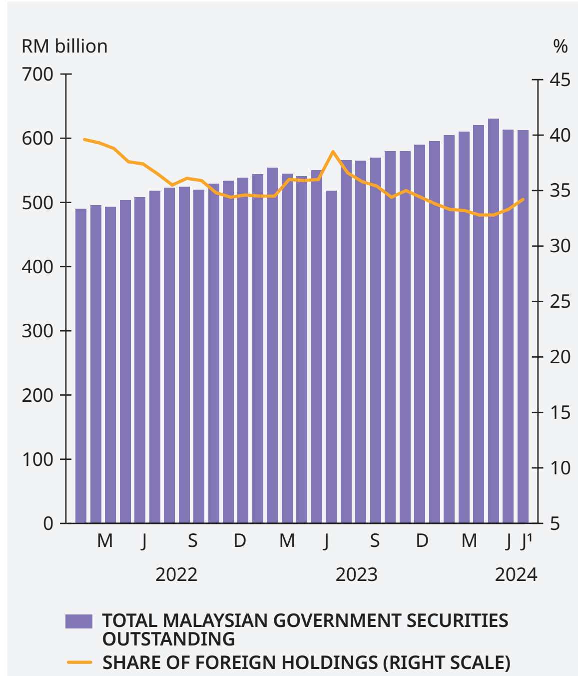
During the first seven months of 2024, emerging market bond yields experienced fluctuations, primarily influenced by global developments, particularly the shifts in the US Treasury bond yields following the delay in the Fed rate cut. Despite these challenges, MGS yields remained relatively stable, reflecting investor confidence in the Government's commitment to fiscal reforms. Yields declined across all tenures, with the 1-year, 3-year, 5-year and 10-year MGS yields decreasing by 8, 10, 5 and 1 basis points (bps), respectively, following a low-interest rate environment.

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



[1] End-July 2024
Source: Bank Negara Malaysia

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

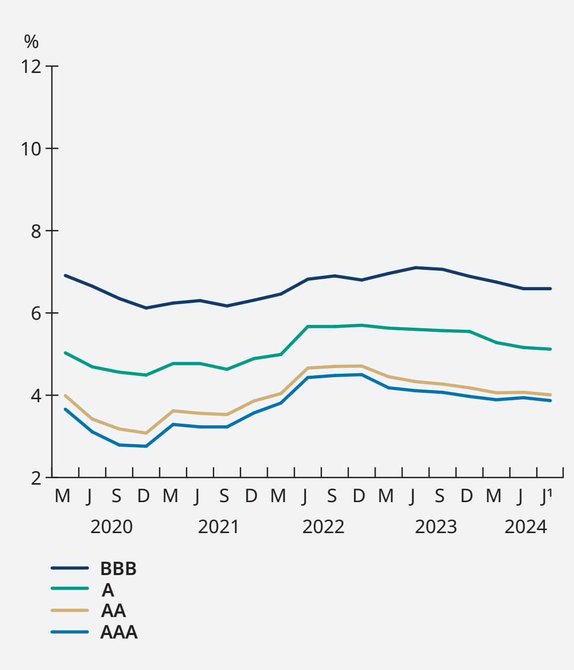


[1] End-July 2024
Source: Bank Negara Malaysia

In the corporate bond market, yields in Malaysia saw significant declines during the first seven months of 2024, with yields on the 5-year AAA-rated, AA-rated and A-rated securities decreasing by 10, 17 and 43 bps, respectively, in line with the expectation of an impending rate cut by the Fed. This development has made Malaysian bonds more attractive to investors, resulting in higher demand and subsequently lower yields.

In 2024, Malaysian bond yields have been shaped by moderate inflation, stable monetary policy and a mixed global economic outlook. Overall, the downward trend in corporate bond yields reflects market expectations of lower interest rates, signalling reduced borrowing costs. This environment benefits businesses, offering creditworthy borrowers opportunities to finance projects at lower costs and ultimately fostering economic growth in Malaysia going forward.

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



[1] End-July 2024
Source: Bank Negara Malaysia

Performance of FBM KLCI

FBM KLCI outshines most regional stock markets

The FBM KLCI demonstrated a solid upward trend during the first eight months of 2024. In January, the index swiftly surpassed the 1,500-point level, outperforming most regional peers despite global financial uncertainties. This recovery was spurred by strong investor confidence, anticipating for stable returns as the Fed's decision to maintain high interest rates, signalled that the US economy is robust. By the end of February, the index climbed to 1,551.44 points, growing by 6.7%. The positive momentum was driven by high foreign equity net inflows, particularly in the first two months of 2024, buoyed by China's gradual economic stabilisation, which benefited emerging markets, including Malaysia.

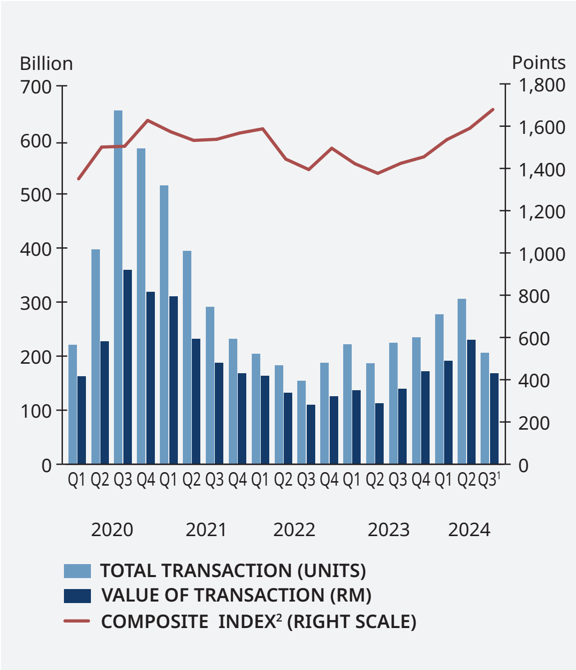
TABLE 3.5. *Bursa Malaysia: Selected Indicators, End-August 2023 and 2024*

	2023	2024
Indices		
FBM KLCI	1,451.94	1,678.80
FBM EMAS	10,740.70	12,484.26
FBM 100	10,412.03	12,187.62
FBM SCAP	16,072.89	17,457.02
FBM ACE	5,217.97	5,116.09
Total trading[1]		
Volume (million units)	559,605.08	788,250.91
Value (RM million)	340,020.02	588,434.11
Average daily trading[1]		
Volume (million units)	3,475.81	4,835.90
Value (RM million)	2,111.93	3,610.03
Market capitalisation (RM billion)	**1,776.33**	**2,035.63**
Total number of listed companies		
Main Market	773	783
ACE Market	167	189
LEAP Market	48	49
Market liquidity		
Turnover value/market capitalisation (%)	*19.1*	*28.9*
Market concentration		
10 highest capitalised stocks/market capitalisation (%)	*33.0*	*32.8*

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

On 7 May 2024, the FBM KLCI achieved a historic high with the market capitalisation exceeding RM2 trillion, while the benchmark index surpassed 1,600 points for the first time in two years to close at 1,605.68 points. This

FIGURE 3.8. *Performance of Bursa Malaysia*



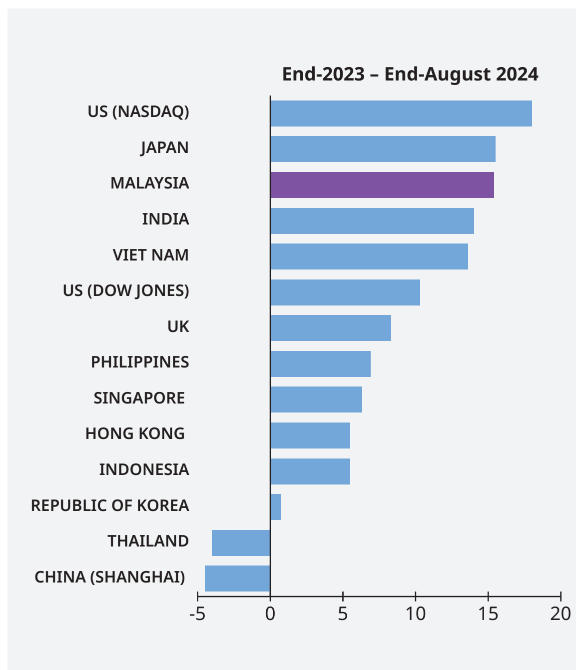
[1] End-August 2024
[2] As at end-period
Source: Bursa Malaysia

encouraging performance is attributed to the implementation of programmes and initiatives under the Ekonomi MADANI framework, which provided clearer direction to investors on the country's future development. Increased investor confidence, optimism about potential interest rate cuts by major central banks, and Malaysia's solid economic performance also boosted the market performance.

The FBM KLCI continued to progress to close at 1,678.80 points as at end-August 2024, increasing by 15.4% in the first eight months of the year. This is the highest level registered since 16 December 2020 owing to a positive economic outlook and solid quarterly earnings. Additionally, the increased risk appetite among foreign investors contributed to the positive market environment, as reflected in foreign equity net inflows of RM3 billion accumulated by the end of August, signifying the resilience of Malaysia's equity market.

As at end-August 2024, market capitalisation increased by 14.6% to RM2,035.6 billion, while average daily volume surged by 39.1% to 4.8 billion units from 3.5 billion units. Similarly, the average daily trading value rose significantly by 70.9% to RM3.6 billion from RM2.1 billion. The market velocity of 42.5% highlighted the active trading environment, with market volatility remaining manageable at 8.4%. Meanwhile, foreign investors holding 19.8% of market capitalisation reflects continued foreign investor interest. Looking ahead to 2025, the domestic equity market is expected to remain resilient, supported by strong macroeconomic fundamentals, ample domestic liquidity and well-developed capital market instruments.

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



Source: Bloomberg

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 2024 to enhance the liquidity and efficiency of Malaysia's capital market as follows:

5-Feb

Expanding Sophisticated Investor Categories to Enhance Market Accessibility

A new "Knowledge and Experience" category has been introduced under the Guidelines on Categories of Sophisticated Investors. This category benefits individuals who may not meet the financial test but can demonstrate financial sophistication through education, association membership and relevant sector experience. Another key change is the inclusion of an investor's primary residence value, up to a cap of RM1 million, in assessing their qualification as a sophisticated investor. These initiatives enhance market accessibility and investor participation, aiming to accommodate evolving market needs, foster greater capital flow, and diversify the investor base.

6-Feb

New Gatekeeping Approach to Advance Capital Market Intermediaries and Recognised Market Operators

A Focused Scope Assessment for new eligible Capital Market Intermediaries (CMIs) and Recognised Market Operators (RMOs) has been introduced to streamline regulatory processes and shorten the time-to-market from more than six months to three months. Amendments were also made to the Guidelines on Recognised Markets with the aim of ensuring equal access for all RMOs, particularly in ensuring the adequacy of financial resources to commence operations in a fair and orderly manner. The amendments also included areas of strengthening practices against financial crimes, such as money laundering and terrorist financing. These initiatives are expected to facilitate access to funding for micro, small, and medium enterprises (MSMEs).

26-Feb

Expedited Initial Public Offerings Approvals for Main and ACE Markets

Beginning 1 March 2024, new Initial Public Offerings (IPO) applications will be approved within three months with the aim to leverage a stronger collaboration between the regulators and industry players to offer a clearer timeline to attract quality companies to list without compromising investor protection and public interests. This move also underscores efforts to remain competitive and foster a conducive environment for issuers, emphasising seamless collaboration between regulators and advisers to ensure high due diligence and compliance standards.

29-Mar

Higher Standards of Conduct for Capital Market Intermediaries

Revised Guidelines on Conduct for Capital Market Intermediaries will come into effect on 1 October 2024. The Revised Guidelines aim to elevate professionalism, integrity and client-centricity standards in the capital market. The Guidelines reinforce the role of CMIs' board and senior management in inculcating a corporate culture where clients' interests are prioritised. The Guidelines also clarify expectations on CMIs' duty to act honestly and fairly as well as avoid misleading and deceiving their clients.

20-May

Additional Measures to Encourage Informed Investing

Trading Reminders were introduced to safeguard investors against listed companies with unusual trading activity. The Reminders complement the Unusual Market Activity queries, which prompt public disclosures from listed companies experiencing significant and unexplained price or volume movements.

23-May

Catalysing Micro, Small, and Medium Enterprises and Mid-tier Companies Access to the Capital Market: 5-Year Roadmap (2024 – 2028)

The Roadmap has been unveiled to better position the capital market as an attractive and robust source of financing for MSMEs and mid-tier companies (MTCs[1]). It features nine cross-cutting strategies and 36 key initiatives focused on regulatory and product innovation, market infrastructure and capacity building. This Roadmap aims to provide MSMEs and MTCs with financing needs of up to RM40 billion by 2028.

28-May

Malaysia's First Social Exchange and New Platforms for Waqf Developments Fundraising

YAB Prime Minister unveiled two new capital market initiatives at the Global Forum of Islamic Economics and Finance. Firstly, the establishment of Malaysia's Social Exchange is expected to attract private capital for projects with positive social outcomes. Secondly, the introduction of fundraising for waqf developments through peer-to-peer (P2P) financing and equity crowdfunding platforms with matching funds from the Malaysia Co-Investment Fund (MyCIF) at a 0% financing rate will benefit MSMEs involved in waqf-related projects.

13-June

Practical Guide on Venture Capital and Private Equity in Malaysia

The Practical Guide on Venture Capital (VC) and Private Equity (PE) in Malaysia has been issued to help fund managers, service providers and investors understand policies governing VC and PE operations. The Guide covers regulations, foreign exchange policy, tax matters and fund structuring towards enhancing investment and innovation in startups and high-growth enterprises. It also aligns with the KL20 agenda to position Malaysia as a leading global startup ecosystem.

21-June

Centralised Sustainability Intelligence Solution to Elevate Malaysian Companies' Environmental, Social and Governance Excellence for Global Competitiveness

The Centralised Sustainability Intelligence (CSI) Solution has been launched to help companies integrate environmental, social and governance (ESG) into their business strategies and operations, thus enhancing competitiveness. The CSI Solution supports the New Industrial Master Plan 2030 (NIMP 2030) and the National Semiconductor Strategy in facilitating access to sustainable financing.

15-July

World's First Zakat Index Launched to Pioneer Islamic Finance Innovation

Persatuan Remisier Bumiputera Malaysia (PRIBUMI) and Bursa Malaysia launched the PRIBUMI Bursa Malaysia Zakat Index (PBMZI), a new customised index designed to promote greater recognition of public-listed companies (PLCs) that adopt corporate zakat practices. The PBMZI tracks the top 200 Main Market companies and promotes Corporate Zakat practices among PLCs. It also encourages their integration into ESG and Sustainable and Responsible Investment (SRI) initiatives, thus enhancing PLCs' appeal to socially conscious investors and customers.

18-July

New Guidance for Financial Influencers

The Guidance Note on the Provision of Investment Advice has been updated to include financial influencers (finfluencers) who promote capital market products and services on social media. The updated Guidance Note clarifies that promoting such products on social media platforms may require an SC license in certain circumstances. Engaging in unlicensed regulated activities is an offence punishable under the Capital Markets and Services Act 2007, with a fine of up to RM10 million or imprisonment not exceeding 10 years, or both.

19-Aug

Revised Guidelines on Technology Risk Management

The Guidelines on Technology Risk Management have been revised to expand beyond cyber security to include broader technology risks, focusing on operational reliability, security and resilience. Key areas covered include the 'change management' process, third-party service providers, reporting requirements, technology audit, board oversight and accountability over technology risks. The CrowdStrike outage underscores the importance of these regulations in strengthening operational resilience and maintaining investor confidence.

[1] MTC is defined as companies with annual revenues between RM50 million to RM500 million in the manufacturing sector, and between RM20 million to RM500 million in the services and other sectors.

Islamic Banking and Capital Market Performance

Islamic financial market continues to thrive

The Islamic banking system demonstrated continued resilience and sustained growth during the first seven months of 2024 to meet the growing demand for Shariah-compliant financial products and services, given its intrinsic underlying values and principles. As at July 2024, Islamic banking assets[2] holds 37% of the market share, growing by 7.8% to RM1,451.5 billion. This is aligned with the growth in total financing of 9.1%, in which accounts for 46.1% of the total banking sector loans and financing. Financing for the household segment, which constituted 63.2% of total financing, expanded by 9.6% to reach RM583.7 billion, particularly for the purchase of residential properties and passenger cars.

Being the major component in the Islamic financial market, Islamic banking not only plays a significant role as a financial intermediary in the economy, but it also fosters a just and progressive society through the implementation of Value-based Intermediation (VBI) by Islamic financial institutions. As part of the efforts to enhance access to financial services, aligning with VBI's focus on promoting social welfare and fostering inclusive financial system, two of the five approved digital banks are Islamic digital banks. This marks a significant milestone in showcasing Malaysia's commitment to continuously innovate the Islamic financial sector by leveraging digital technology to achieve financial inclusion. As the Islamic finance industry continues to evolve, existing programmes and initiatives that align with VBI and adopt the mechanisms of blended finance, such as the i-TEKAD initiative, will continue to advance financial inclusion and foster sustainable socioeconomic growth of the community. Furthermore, new strategic initiatives and programmes launched at the Global Forum on Islamic Economics and Finance held in May 2024 are expected to propel Malaysia's position in charting a new wave in Islamic finance globally.

TABLE 3.6. *Islamic Banking: Key Indicators[1], End-July 2023 and 2024*

	RM BILLION		CHANGE (%)	
	2023	2024	2023	2024
Assets	**1,081.4**	**1,161.1**	***8.7***	***7.4***
Financing	**844.1**	**924.1**	***9.1***	***9.5***
Primary agriculture	21.0	20.4	*21.6*	*-3.0*
Mining and quarrying	3.2	3.0	*-27.4*	*-5.3*
Manufacturing	33.9	37.5	*-2.6*	*10.8*
Electricity, gas and water supply	10.0	6.8	*-6.8*	*-31.7*
Wholesale and retail trade, restaurants and hotels	53.9	62.4	*17.2*	*15.8*
Construction	44.6	47.8	*-3.5*	*7.2*
Real estate	33.5	38.7	*9.0*	*15.4*
Transport, storage and communication	27.5	25.3	*20.5*	*-8.1*
Finance, insurance and business activities	37.8	51.9	*13.7*	*37.2*
Education, health and others	8.3	8.5	*19.8*	*3.3*
Households	532.7	583.7	*9.0*	*9.6*
Others	37.7	38.1	*19.6*	*0.9*
Liabilities	**1,001.0**	**1,073.9**	***8.4***	***7.3***
Deposits and Investment Account	**934.8**	**997.4**	***7.5***	***6.7***
Investment	0.3	0.2	*-11.7*	*-28.7*
Savings	71.6	77.0	*-4.6*	*7.5*
Demand	132.7	149.3	*-1.6*	*12.5*
Others	587.3	613.4	*11.8*	*4.5*
Investment account	142.9	157.5	*7.1*	*10.2*

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

[2] Including Development Financial Institutions (DFIs).

INFORMATION BOX 3.2

Updates on Islamic Finance: Global Forum on Islamic Economics and Finance

In collaboration with Bank Negara Malaysia

The Ekonomi MADANI framework aspires to strengthen Malaysia's position as a global leader in the Islamic economy, with continued emphasis on initiatives that will strengthen the nation's value proposition as an international gateway for Islamic finance, building upon the country's strength as the global thought leader in this field. Pursuant to this, the Global Forum on Islamic Economics and Finance (GFIEF), held in Kuala Lumpur from 28 to 29 May 2024, has highlighted various initiatives and collaborations in Islamic economics and finance by harnessing its transformative potential to foster shared prosperity and equity.

The GFIEF was organised by Bank Negara Malaysia (BNM), under the patronage of the Ministry of Finance, Malaysia (MoF), in collaboration with the Securities Commission Malaysia (SC), Labuan Financial Services Authority (LFSA), International Islamic Liquidity Management Corporation (IILM), Islamic Development Bank (IsDB), Islamic Financial Services Board (IFSB) and World Bank Group (WBG). The GFIEF saw the participation of over 2,300 policymakers, industry leaders, Shariah scholars, and practitioners from 75 countries.

Impactful initiatives launched and announced at the GFIEF encompassing two broad themes are as shown in Figure 3.2.1.

FIGURE 3.2.1. *Initiatives launched and announced at the Global Forum on Islamic Economics and Finance*

Strengthening domestic and international cooperation

Launching of the MIFC Leadership Council Position Paper entitled 'Establishing *Islah* through Islamic Finance'
- This Paper outlines 18 MIFC Leadership Council (MLC) Impact Projects with domestic and foreign industry players to foster inclusivity, sustainability, and industry innovation to develop stronger Islamic financial linkages at the global and domestic levels.

Exchanging of Memorandums of Collaboration between MIFC Leadership Council and its counterparts
- The Memorandums of Collaboration (MoCs) between MLC and its counterparts from Hong Kong, Indonesia, the Republic of Türkiye, and the UK emphasise Islamic finance product innovation, promotion of cross-border trade and financial activities as well as enhancement of capacity building and education.

Signing of the Murabahah Master Agreement between the Islamic Development Bank and Malaysian Islamic financial institutions
- This Agreement aims to facilitate the placement of funds between the IsDB and domestic Islamic financial institutions towards fostering a robust investment network.

Developing a global programme for Islamic economists
- Spearheaded by Malaysia, this programme aims to cultivate dynamic and highly skilled economists equipped with apt knowledge and expertise in Islamic economics to ideate solutions and address contemporary global challenges.

Advancing innovation in value-based finance and strengthening financial offerings

A new sukuk structure under the Malaysian Government Investment Issues programme
- This new dimension of sukuk issuance, which utilises the *wakalah bi al-khadamat* structure is scheduled to be issued by 2025 and will further strengthen the resilience and flexibility of Malaysia's financial system.

Shariah-compliant investment of RM3 billion by the Retirement Fund (Incorporated) through Dana Pemacu
- This private equity investment aims to catalyse key economic areas, including food security, education, silver economy and healthcare, energy transition, digital economy, and financial inclusion.

Establishment of Malaysia's First Social Exchange
- This new fundraising platform will be unveiled by the end of 2024 to provide a structured approach for the participation of private capital in projects that yield positive social outcomes.

Pilot Programme on Greening Halal Businesses
- This programme aimed at assisting domestic halal businesses in transitioning to greener and more sustainable practices, which include technical capacity building and transition financing. The programme will be implemented in collaboration with the MoF, BNM, IsDB, and the World Bank Hub in Malaysia and selected implementation partners.

[1] The Malaysia International Islamic Financial Centre (MIFC) initiative was launched in 2006 to develop Malaysia as an International marketplace for Islamic finance.

The Government will continue to support initiatives and programmes in Islamic finance to solidify the country's position as the global leader in Islamic economy. In line with the national aspirations, the Government, with the collaboration of various stakeholders at the domestic and international levels, will focus on empowering the role and contribution of Islamic finance towards transforming the economy and cultivating a more just and progressive society.

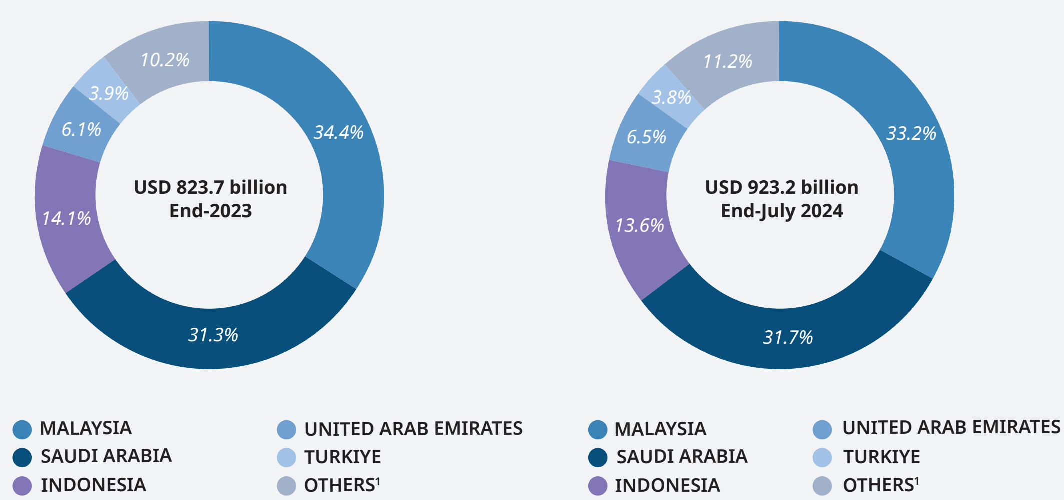
Malaysia continues to solidify its position as a global leader in the Islamic Capital Market (ICM). As at July 2024, the ICM recorded a strong growth of 9.7%. The ICM, with a market size of RM2,636 billion, accounts for 63.7% of the country's overall capital market. This is supported by the increase in market capitalisation of Shariah-compliant public-listed companies (PLCs) and higher issuances of sukuk. With the implementation of national-level strategic plans including the National Energy Transition Roadmap (NETR) and the New Industrial Master Plan 2030 (NIMP 2030), the significant potential investment needs can help further bolster the growth of the ICM.

Malaysia continues to lead the sukuk market with a 33.2% market share in global sukuk outstanding. In the first seven months of 2024, sukuk constituted RM1.3 trillion, or 63.5% of total Malaysian bonds and sukuk outstanding. In terms of issuance, sukuk issued to date totalled RM175.2 billion as at July 2024, or 60.9% of total bond and sukuk issued. Of this, corporate sukuk issuances account for RM48.8 billion, or 71.6% of total corporate bonds and sukuk issued.

In the equity market, Shariah-compliant PLCs continue to dominate the local stock market, making up 80.9% or 824 companies listed on Bursa Malaysia. As at July 2024, Shariah-compliant PLCs accounted for 64% or RM1.3 trillion of the total market capitalisation of listed securities.

The ICM continues to play a pivotal role in the nation's capital market and financial sector and is projected to continue expanding, driven by efforts and collaborations across both public and private sectors and supported by growing demand from investors. As part of efforts to advance and facilitate the development of the ICM, the Securities Commission Malaysia issued the Maqasid al-Shariah Guidance Islamic Capital Market Malaysia in November 2023. The Guidance outlines six aspirations and 15 principles based on the objectives of

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

Shariah for the ICM and aims to align the ICM with the true spirit of Islamic finance. The adoption of the *Maqasid al-Shariah* principles and aspirations such as humanity, flexibility and innovation as well as accessibility and inclusivity by the industry will further enhance the positive impact of the ICM to the broader stakeholder and overall economy.

Moving forward, efforts will also be focused on expanding ICM offerings to support critical areas, including micro, small, and medium enterprises (MSMEs) in the halal industry as well as Shariah-compliant Sustainable and Responsible Investment (SRI) ecosystem. Strategic plans, such as the Capital Market Masterplan, will continue to incorporate targeted initiatives to foster a competitive, efficient and inclusive ICM. These initiatives not only reflect Malaysia's commitment to achieving the SDGs but also ensure that the nation remains at the forefront of both Islamic finance and sustainable finance.

Conclusion

The steady monetary policy continues to foster sustainable economic growth while maintaining price stability. Similarly, the domestic financial market remains vibrant, effectively supporting financing requirements following stronger economic activities. Meanwhile, the improved performance in the local stock market and the rebound in the value of ringgit underscore the Government's unwavering commitment to uplift the nation's economic status in line with the aspirations of the Ekonomi MADANI framework. Moving forward, Malaysia's strong economic fundamentals and favourable growth prospects, fortified by ongoing reforms and a robust domestic financial market will enable the country to attract high-quality investments and position Malaysia as a preferred destination for investors.

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