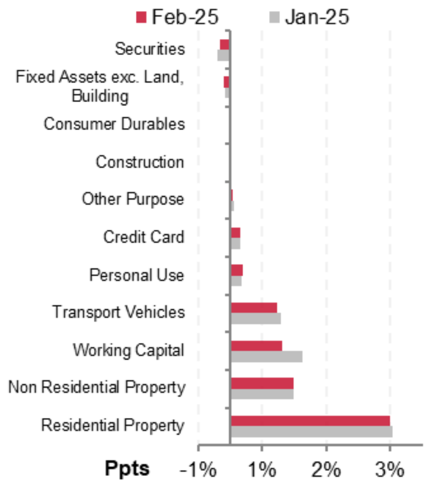
02 April 2025

Malaysia Money & Credit

M3 and loan growth slows in February

- **Broad money (M3) growth slowed to 2.5% YoY (Jan: 3.3%), the lowest since September 2016**
  - **Reason:** This was mainly due to a sharp slowdown in fixed deposits (2.8%; Jan: 4.3%), a 33-month low, and currency in circulation (3.0%; Jan: 6.7%). Combined contributions to M3 growth shrank to 1.4 ppts (Jan: 2.3 ppts).
  - MoM (-0.4%; Jan: 0.2%): fell to a six-month low, decreasing by RM9.2b (Jan: RM3.8b), the lowest since April 2021.
- **Declines in net government claims and slower private sector claims weighed on M3 growth**
  - **Net claims on government** (-2.4%; Jan: 1.0%): fell sharply, the lowest since May 2018 due to a surge in government deposits (23.0%; Jan: 2.4%), far outpacing an expansion in government claims (1.8%; Jan: 1.2%).
  - **Claims on private sector** (4.5%; Jan: 4.7%): slowed slightly due to a moderation in loans (5.4%; Jan: 5.7%) while securities remained weak (-1.5%; Jan: -1.5%).
  - **Net foreign assets** (3.7%; Jan: 4.1%): slowed to a two-month low, due to a sharp slowdown in net foreign assets held by the banking system (12.8%; Jan: 25.1%), though BNM foreign assets rebounded (1.3%; Jan: -0.9%).

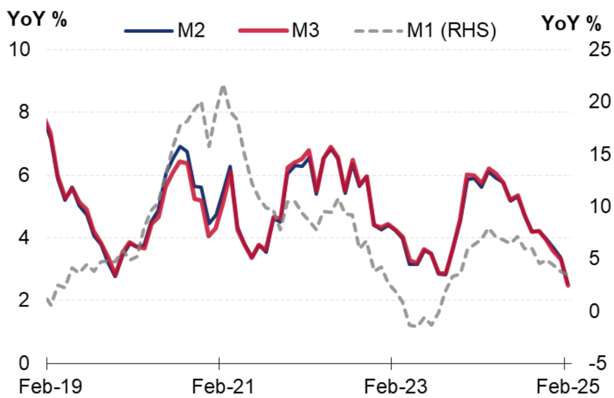
Graph 1: Loan Growth by Purpose (ppts)



Source: BNM, Macrobond, Kenanga Research

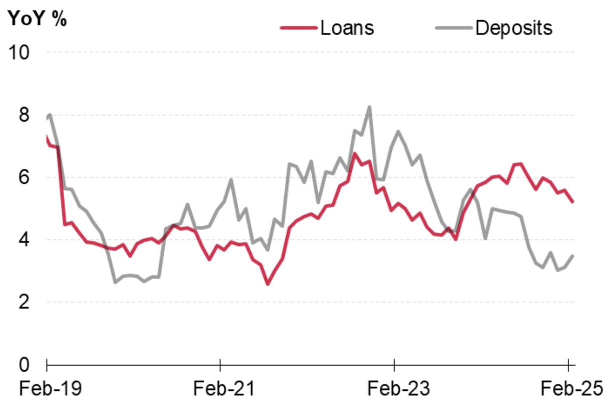
- **Loan growth fell to 5.2% YoY (Jan: 5.6%), the lowest in 15 months, and below our forecast range of 5.5% - 6.0%**
  - **By purpose:** mainly due to lower working capital (3.6%; Jan: 5.1%), and transport vehicles (7.4%; Jan: 8.0%) loans. These two combined contributed 1.6 ppts to overall loan growth (Jan: 1.9 ppts). Residential property loan, which makes up the largest component of outstanding loans (37.8% share; Jan: 37.7%) slightly moderated (6.7%; Jan: 6.8%), but its contribution to overall loan growth was unchanged at 2.5 ppts (Jan: 2.5%).
  - **By sector:** slower growth was seen in manufacturing (3.2%; Jan: 4.5%) and motor vehicles (4.8%; Jan: 5.7%). Weakness persisted in agriculture (-8.1%; Jan: -8.2%), mining & quarrying (-8.6%; Jan: -5.4%), construction (-7.5%; Jan: -7.0%) and education, health & others (-5.0%; Jan: -5.0%). The household sector, the largest sector (59.9% share; Jan: 59.8%) sustained at 6.0% (Jan: 6.0%), contributing 3.6 ppts to overall loan growth.
  - MoM (0.1%; Jan: 0.3%): moderated to a 10-month low, adding RM2.5b to the total outstanding loan. This marks the lowest increment in 10 months partly attributed to lower working days in February.
- **Deposit growth expanded to 3.5% YoY (Jan: 3.1%), a three-month high**
  - **Reason:** growth was driven by higher foreign currency deposits (14.0%; Jan: 12.8%) and a second straight month of expansion in repurchase agreements (6.8%; Jan: 3.8%).
  - MoM (0.9%; Jan: 0.0%): growth accelerated, adding RM23.0b to the total deposit, an eight-month high.
- **2025 loan growth forecast maintained at 5.5% - 6.0% (2024: 5.5%), despite weaker performance in February**
  - **Drivers:** Loan growth may face pressure in the near term due to last year's high base effect, but we expect it to pick up towards year-end, driven by steady domestic economic expansion.
  - **OPR outlook:** we expect BNM to hold the overnight policy rate (OPR) at 3.00% for the remainder of 2025. While external uncertainties may dampen the GDP growth trajectory (KIBB 2025 forecast: 4.8%), we expect the adverse impact to be limited, supported by domestic demand. Meanwhile, inflation is projected to rise to 2.7% (2024: 1.8%) due to domestic policy changes.

Graph 2: Money Supply Growth



Source: BNM, Macrobond, Kenanga Research

Graph 3: Loan and Deposit Growth



Source: BNM, Macrobond, Kenanga Research

Table 1: Money Supply, Loan and Deposit Growth Trend

		2022	2023	2024	Feb-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25
	% MoM				0.1	1.2	0.0	1.5	1.8	-0.5	-0.2
M1	Chg (RM b)	24.7	35.5	28.0	0.7	7.4	0.2	9.8	11.5	-3.1	-1.4
	% YoY	4.3	5.9	4.4	6.9	6.0	4.5	4.9	4.4	3.8	3.4
	% MoM				0.4	0.1	0.8	0.7	1.4	0.1	-0.4
M2	Chg (RM b)	92.5	132.7	87.9	10.7	3.1	19.8	16.7	34.1	2.3	-9.0
	% YoY	4.3	5.9	3.7	5.6	4.2	4.2	4.0	3.7	3.4	2.5
	% MoM				0.5	0.1	0.9	0.7	1.4	0.2	-0.4
M3	Chg (RM b)	93.9	136.4	86.4	10.9	3.1	21.1	16.7	33.5	3.8	-9.2
	% YoY	4.3	6.0	3.6	5.7	4.2	4.2	4.0	3.6	3.3	2.5
	% MoM				0.5	0.4	0.7	0.6	0.8	0.3	0.1
Loans	Chg (RM b)	108.9	107.4	117.4	9.8	9.0	14.8	13.5	17.1	7.7	2.5
	% YoY	5.7	5.3	5.5	5.8	5.6	6.0	5.8	5.5	5.6	5.2
	% MoM				0.5	0.7	0.3	0.9	0.7	0.0	0.9
Deposit	Chg (RM b)	132.0	132.1	75.3	13.1	18.5	7.6	22.5	19.0	0.1	23.0
	% YoY	5.9	5.6	3.0	4.0	3.3	3.1	3.6	3.0	3.1	3.5
LCR*	(%)	152.1	161.0	160.7	153.8	146.6	146.8	147.9	160.7	157.8	154.4

Source: Bank Negara Malaysia, Macrobond, Kenanga Research

**Liquidity Coverage Ratio (LCR) is based on Basel III requirement and was adopted since June 2015. As of 1 January 2018, the minimum requirement is set at 90%.*

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