

4

MONETARY AND FINANCIAL DEVELOPMENTS

- Overview
- Monetary Developments
- Financial Sector Developments

Feature Article 4.1 – Financing for Small and Medium Enterprises: Financial Market and Capital Market

- Conclusion



4 | MONETARY AND FINANCIAL DEVELOPMENTS

Overview

In the near term, monetary and financial conditions will continue to be accommodative and supportive of economic growth. This will be backed by monetary operations which will ensure the orderly functioning of money and foreign exchange markets as well as intermediation activities. The domestic financial sector is expected to remain sound supported by financial institutions (FIs) operating with strong capital and liquidity buffers. Similarly, the domestic capital market will remain resilient driven by diversified instruments as well as healthy market capitalisation level. Nevertheless, downside risks associated with global uncertainties, particularly the pace of monetary policy normalisation in the US and other major economies, geopolitical developments as well as escalating global trade tensions will be of concern.

Monetary Developments

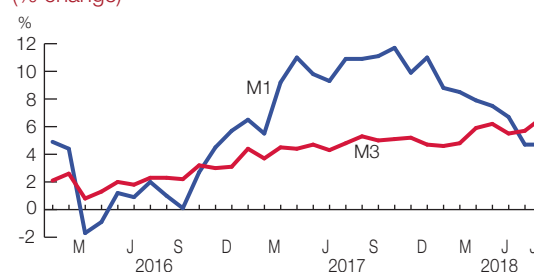
Monetary Policy

In 2018, monetary policy continues to be supportive in providing a conducive environment to promote growth while maintaining price stability. The Overnight Policy Rate (OPR) was increased 25 basis points (bps) to 3.25% in January and kept unchanged during the subsequent nine months of 2018. Meanwhile, the Statutory Reserve Requirement (SRR) was held steady at 3.50% of eligible liabilities since 2016 as the current monetary policy stance remains supportive of economic activities. This is also in line with the anticipation of steady economic growth with inflation remaining benign.

Interest rates in the banking system rose in tandem with the OPR adjustment in January 2018. The OPR was adjusted upwards to normalise the degree of monetary accommodation amid steady growth of the economy. The weighted base rate (BR) of commercial banks was increased to

3.9% as at end-July 2018. The weighted average lending rate (ALR) was at 5.44%. Meanwhile, interest rate on savings deposit of commercial banks increased six bps to 1.05% as at end-July 2018. The interest rates on fixed deposits of 1-month to 12-month maturities ranged between 3.08% and 3.33%, respectively.

Figure 4.1. Monetary Aggregates
(% change)



¹ End-July 2018.
Source: Bank Negara Malaysia.

Monetary aggregates continued to grow during the first seven months of 2018. M1 grew 4.7% to RM411.1 billion as at end-July 2018 following higher demand deposit which increased 4.8%. Similarly, M3 rose 6.6% to RM1,786.9 billion contributed by claims on private sector, particularly loans. Moving forward, money supply is expected to be supported by the extension of credit to private sector in the form of loans and securities.

The ringgit, along with all regional currencies, faced significant depreciation pressure against the US dollar, despite its strong performance in the first quarter of 2018. The ringgit's performance in the first quarter was mainly driven by non-resident portfolio inflows as the OPR increase signalled a sustained strong growth outlook for the economy. However, from April onwards, expectations of a faster pace of monetary policy normalisation in the US and strengthening of the US dollar, led to non-resident portfolio outflows from regional economies including Malaysia. The escalation of global trade tensions and spillover effect of the crisis in Turkey and Argentina

**Table 4.1. Factors Affecting M3
January – July**

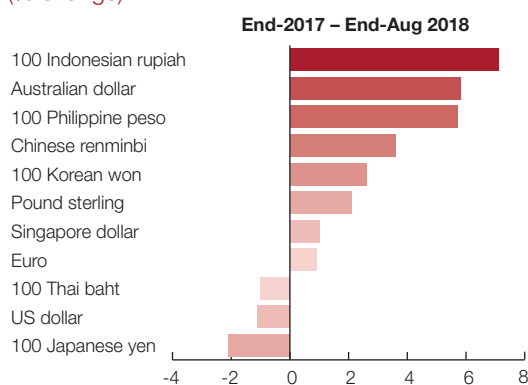
	Change (RM billion)	
	2017	2018
M3	30.9	64.3
Net claims on Government	25.3	21.0
Claims on Government	44.0	36.7
Less: Government deposits	18.7	15.7
Claims on private sector	46.4	68.3
Loans	25.6	46.2
Securities	20.9	22.1
Net foreign assets ¹	-3.0	10.9
Bank Negara Malaysia	3.2	8.3
Banking system	-6.2	2.6
Other influences	-37.8	-35.9

¹ Includes exchange rate revaluation losses/gains.

Note: Total may not add up due to rounding.

Source: Bank Negara Malaysia.

to other emerging markets also contributed to the negative sentiments and depreciation pressure during the period. As at end-August 2018, the ringgit in line with other regional currencies depreciated within the range of 0.6% and 7.7% against the US dollar. However, the ringgit performed better against other regional currencies except for the Thai baht. Looking ahead, the ringgit will be more reflective of the underlying fundamentals of the domestic economy when external uncertainties recede.

**Figure 4.2. Performance of Ringgit against
Selected Currencies**
(% change)

Source: Bank Negara Malaysia.

Financial Sector Developments

Banking System Performance

During the first seven months of 2018, activities in the banking system remain resilient with all financing indicators expanding. Loan applications, approvals and disbursements increased 5.7%, 5.1% and 7.3% to RM505 billion, RM223.1 billion and RM678.8 billion, respectively. Meanwhile, total loans outstanding expanded 5.3% to RM1,631 billion as at end-July 2018. The banking system is expected to remain sound, operating with strong capital and liquidity buffers.

Lending to businesses recorded a stable growth during the same period. Loan applications rebounded 7.4% to RM221.8 billion. Total loan approvals increased 3.3% to RM100.5 billion. Meanwhile, total loan disbursements grew 5.2% to RM487 billion with the business sector accounting for about 72%. Most of the loans were channelled to manufacturing (27.4%) as well as wholesale and retail trade, restaurants and hotels (26.1%) sectors. Total loans outstanding to the business sector increased 3.7% to RM588.5 billion as at end-July 2018.

Lending to households continued to record firm growth with loan disbursements increasing significantly by 13.2% to RM191.7 billion in the first seven months of 2018. Loans disbursed to the household sector were mainly for consumption credit which totalled RM90.4 billion (47.2%), followed by residential properties at RM49.9 billion (26%) and passenger cars at RM22.8 billion (11.9%). As at end-July 2018, total household loans outstanding expanded 6% amounting to RM936.7 billion, accounting for 57.4% of total loans outstanding in the banking system.

The overall household debt¹ valued at RM1,165.7 billion stood at 83.8% of GDP as at end-June 2018. The debt level has been moderating since 2015 following macro prudential measures implemented to rein in household debt levels. The bulk of debt comprises loans for purchase of residential properties (53%), followed by personal use (14.4%) and passenger cars (13.8%). Meanwhile, total household financial assets

¹ Comprising loans granted by the banking system, development financial institutions (DFIs) and non-bank financial institutions.

remain strong at RM2,458.4 billion. The debt servicing capacity of households remained intact, supported by stable income and employment growth. Given the stable employment and income, the household debt level is expected to remain manageable in 2018 and 2019. This is also supported by continuous measures taken by the Government to raise awareness and educate households on financial planning and management.

The banking system maintained its capacity to absorb losses supported by strong capital position. As at end-July 2018, common equity tier 1 capital, tier 1 capital and total capital ratios stood at 13.3%, 14.2% and 17.7%, respectively, well above the Basel III minimum regulatory levels. Furthermore, the total capital buffer remained high at RM149.5 billion which exceeded the minimum regulatory requirement.

**Table 4.2. Banking System: Loan Indicators
January – July**

	RM billion		Change (%)	
	2017	2018	2017	2018
Total¹				
Loans applications	477.6	505.0	4.0	5.7
Loans approvals	212.2	223.1	11.2	5.1
Loans disbursements	632.5	678.8	5.6	7.3
Loans outstanding ²	1,549.4	1,631.0	5.6	5.3
<i>of which:</i>				
Business Sector				
Loans applications	206.6	221.8	-4.7	7.4
Loans approvals	97.3	100.5	8.0	3.3
Loans disbursements	463.2	487.0	6.0	5.2
Loans outstanding ²	567.4	588.5	6.7	3.7
<i>of which:</i>				
SMEs				
Loans applications	97.5	107.7	-3.5	10.5
Loans approvals	34.3	37.5	-3.3	9.1
Loans disbursements	160.7	170.9	10.8	6.4
Loans outstanding ²	292.0	303.2	8.1	3.8
Households				
Loans applications	271.0	283.1	11.8	4.5
Loans approvals	114.9	122.6	14.1	6.7
Loans disbursements	169.3	191.7	4.4	13.2
Loans outstanding ²	883.8	936.7	5.1	6.0

¹ Includes foreign entities, other domestic entities, Government and others.

² As at end-period.

Note: Total may not add up due to rounding.

Source: Bank Negara Malaysia.

**Table 4.3. Banking System: Loans Outstanding
by Sector
(End-July)**

	RM billion		Share (%)	
	2017	2018	2017	2018
Business	567.4	588.5	36.6	36.1
Non-SMEs ¹	275.3	285.3	17.8	17.5
SMEs	292.0	303.2	18.8	18.6
<i>Selected sectors</i>				
Primary agriculture	37.6	35.4	2.4	2.2
Mining and quarrying	11.0	10.9	0.7	0.7
Manufacturing ²	102.9	107.6	6.6	6.6
Electricity, gas and water supply	9.5	13.3	0.6	0.8
Wholesale and retail trade, restaurants and hotels	113.8	119.3	7.3	7.3
Construction	70.8	80.5	4.6	4.9
Real estate	111.2	117.3	7.2	7.2
Transport, storage and communication	40.7	37.9	2.6	2.3
Finance, insurance and business activities	107.7	110.0	6.9	6.7
Households	883.8	936.7	57.0	57.4
<i>of which:</i>				
Purchase of residential properties	473.2	513.9	30.5	31.5
Purchase of non-residential properties	79.5	79.8	5.1	4.9
Purchase of passenger cars	146.5	146.0	9.5	9.0
Consumption credit	102.4	108.4	6.6	6.6
<i>of which:</i>				
Credit cards	35.3	36.3	2.3	2.2
Personal use	66.9	72.0	4.3	4.4
Purchase of securities	59.6	64.9	3.8	4.0
Others	22.5	23.7	1.5	1.5
Other sectors	98.3	105.8	6.3	6.5
Total³	1,549.4	1,631.0	100.0	100.0

¹ Non-SMEs refers to large corporations, including foreign entities, other domestic entities, Government and others.

² Including agro-based.

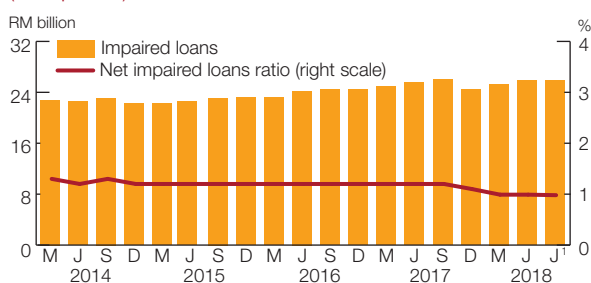
³ Total = Business + Households + Other sectors.

Note: Total may not add up due to rounding.

Source: Bank Negara Malaysia.

In the first seven months of 2018, the banking system recorded a higher pre-tax profit of RM22.3 billion despite a challenging operating environment. This was supported by interest-/finance-related activities, contributing

Figure 4.3. Banking System: Impaired Loans and Net Impaired Loans Ratio (End-period)



¹ End-July 2018.
Source: Bank Negara Malaysia.

approximately 70% to gross income. Meanwhile, returns on assets and equity remained steady at 1.5% and 13.1%, respectively.

Loan quality of the banking system continued to remain sound throughout the period with stable net impaired loans ratio² of 0.98% as at end-July 2018. The banking system loan loss coverage ratio stood at 128%. The banking system's liquidity remained sufficient with surplus ringgit placed with Bank Negara Malaysia (BNM) amounted to RM177.8 billion although there was a sizeable portfolio outflow in recent months. As at end-July 2018, the Liquidity Coverage Ratio (LCR) of the banking system stood at 141.5%. Although financial market is susceptible to external developments, including geopolitical and trade tensions, the outlook for domestic financial system remains stable and broadly intact. This is supported by deep and liquid financial market, sound FIs and sustained confidence in the system.

Feature Article 4.1

Financing for Small and Medium Enterprises: Financial Market and Capital Market

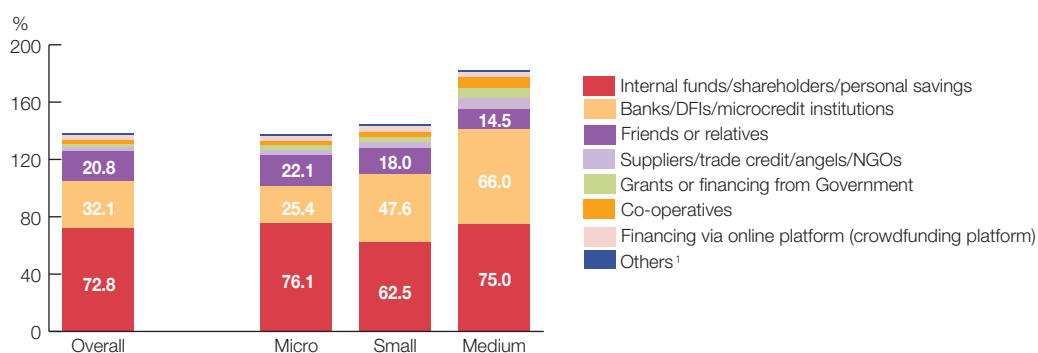
Introduction

Small and medium enterprises (SMEs) constituting 98.5% of total establishments play an important role in the economy. It contributes 37.1% to GDP, 66% of total employment and 17.3% of total exports in 2017. The majority of SMEs are in the services sector (89.2%) followed by manufacturing (5.3%); construction (4.3%); agriculture (1.1%); and mining and quarrying (0.1%) (DOSM, 2016). Taking into cognisance of SMEs' contribution to the economy, it is crucial to ensure broad funding options are available to support its growth, especially for working capital, improving or upgrading production process, enhancing R&D activities and consolidating debt or refinancing.

The main challenge faced by SMEs is raising funds to finance their businesses. The challenge is due to among others, lack of collateral and financial track record; insufficient loan information and documentation; unfeasible business plan and high risk-return profile. Given these constraints, SMEs obtain 32.1% of their financing needs from banks, development financial institutions (DFIs) and microcredit institutions while personal savings, shareholders and friends or relatives are the other sources of financing.

As at end-July 2018, about 94.9% of funding for businesses was from financial institutions (FIs) and the balance from the capital market. About 36.1% of total business entities have benefited from banking sector funding with 17.5% being non-SMEs while 18.6% were SMEs from various sectors. These sectors comprised of wholesale and retail trade; restaurants and hotels; real estate; finance, insurance and business services; manufacturing as well as construction.

² Beginning January 2018, impaired loans are reported based on Malaysian Financial Reporting Standards (MFRS) 9. The adoption of MFRS 9 requirement is based on the financial year of the banks. Classification of impaired loans/financing and provisioning for loan/financing impairment are in line with MFRS 9.

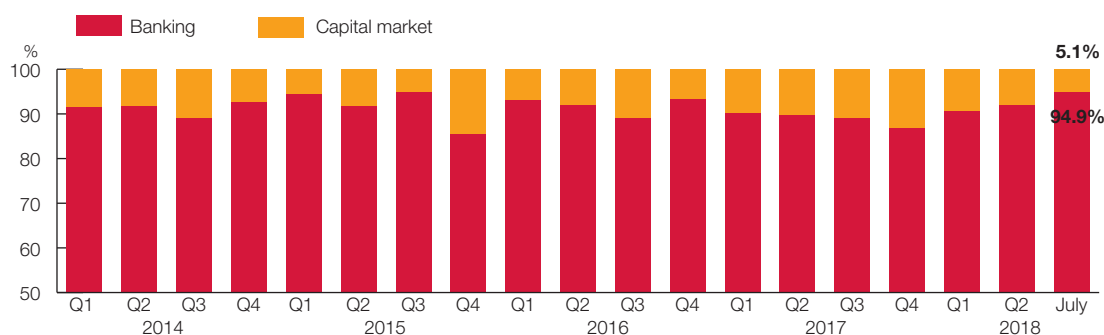
Figure 4.1.1. Access to SME Financing

Note:

Data excludes wholesale and retail trade sub-sector. Establishments can choose more than one answer and the percentages can exceed 100%.

¹ Others include financing from leasing/factoring/venture capitals/credit companies/licensed money lenders/pawnshops and pawnbrokers including Ar-Rahnu.

Source: Economic Census 2016, Department of Statistics, Malaysia.

Figure 4.1.2. Financing through Banking and Capital Market

Source: Bank Negara Malaysia.

Financing Programmes

There are various financial programmes offered by FIs and capital market for SMEs. These programmes are as follows:

Financing through Financial Institutions

Table 4.1.1. List of Financing Programmes through Financial Institutions

No.	Programmes	Objectives	Features	Financial Institutions
1.	Fund for Small and Medium Industry 2 (FSMI2)	Ensures eligible SMEs receive a reasonable cost of financing	• RM50,000 – RM5 million per group of customer • Tenure: 5 years • Rate: 4% – 6% per annum	• All commercial and Islamic banks • SME Bank • Agro Bank • Malaysia Industrial Development Finance Bhd (MIDF) • Sabah Development Bank

No.	Programmes	Objectives	Features	Financial Institutions
2.	New Entrepreneur Fund 2 (NEF2)	Promotes growth and expansion of Bumiputera SMEs	• RM5 million (maximum) per group of customer • Tenure: 5 years • Rate: 4% – 6% per annum	• All commercial and Islamic banks • SME Bank • MIDF
3.	Micro Enterprise Fund (MEF)	Increases access to micro-financing for enterprises with viable businesses	• RM1,000 – RM50,000 per micro-enterprise • Tenure: 5 years • Rate: 6% per annum	• Alliance Bank Malaysia • AmBank • Bank Muamalat • Bank Kerjasama Rakyat • Bank Simpanan Nasional • CIMB Bank • Public Bank • Maybank • United Overseas Bank
4.	Rural Development Financing-i Scheme (SPED)	Provides financing for the purchase of machinery and equipment, working capital and renovation or upgrading of rural entrepreneurs' premises in manufacturing, services, commercial agriculture and countryside tourism	• RM20,000 – RM250,000 (in operation <3 years) • RM250,000 – RM500,000 (in operation >3 years) • Financing allowed up to 3 times only • Tenure: 3 – 5 years for loans below RM250,000 • Tenure: 5 – 7 years for loans above RM250,000 • 6-months grace period from the disbursement • Service charge: 5% annual rest	• Bank Kerjasama Rakyat • SME Bank
5.	BizMula-i	Provides financing to start-up businesses	• RM50,000 – RM300,000 • Tenure: 7 years • Rate: Base Finance Rate (BFR) by Maybank Islamic +0.30% – 1.65%	• Credit Guarantee Corporation (CGC)
6.	BizWanita-i	Provides financing to women entrepreneurs	• RM50,000 – RM300,000 • Tenure: 7 years • Rate: BFR by Maybank Islamic +0.30% – 1.65%	• CGC
7.	Bumiputera Entrepreneur Project Fund-i (TPUB-i)	Provides working capital for Bumiputera SMEs awarded contracts or projects	• Up to RM3 million for first-time application • Up to RM5 million for subsequent applications • For food catering services, financing is up to RM750,000	• CGC

No.	Programmes	Objectives	Features	Financial Institutions
			• For partnership and sole proprietorship, financing is up to RM500,000 • Rate: First time financing – 5% per annum • Subsequent financing – BFR by Maybank Islamic +1% per annum • Maximum tenure: 5 years based on contract or whichever is earlier	

Source: A Guidebook for SME Initiatives 2017, SME Corp.

Financing through Capital Market

1) Listed Market

1.1 Leading Entrepreneur Accelerator Platform

Leading Entrepreneur Accelerator Platform (LEAP) market addresses the funding gap faced by SMEs through an alternative fundraising platform. It helps to bring together potential SMEs onto a single platform to create a conducive marketplace. LEAP is the first of its kind in ASEAN, putting Malaysia ahead of the curve in the region in capital market innovation, thus increasing competitiveness. Since its inception on 25 July 2017, the number of companies successfully listed have grown from two to six as at end-August 2018.

2) Unlisted Market

2.1 Equity Crowdfunding

Equity Crowdfunding (ECF) is essentially a fundraising campaign where people invest in SME companies in exchange for shares. Investors become partial owners of the company and have the opportunity to gain profit from the sales of its shares. ECF platform has raised a total of RM22.3 million by 23 issuers in 2017 as compared to RM10.4 million in 2016 by 14 issuers (SC, 2017). The bulk of the ECF funding in 2017 was for technology-based companies accounting for 56% of total issuances. The exponential growth of funds raised in the ECF market indicates a strong and growing demand for ECF as an alternative financing avenue for SMEs.

2.2 Peer-to-Peer Financing

Peer-to-Peer (P2P) financing is relatively a new technology-enabled market-based financing, particularly for businesses and retail investors. The framework of P2P financing was first issued by the Securities Commission Malaysia (SC) in 2016 and Malaysia is the first ASEAN country to regulate P2P financing. Currently, six licensed P2P financing platforms are operating in Malaysia. As at 2017, P2P financing has raised RM37.2 million through 628 campaigns across 120 issuers. The majority of issuers, accounting for 62% were in the wholesale, retail and consumer products sectors, while others were from food and beverages, real estate and hospitality industries.

2.3 Venture Capital and Private Equity

The SC has developed initiatives to expand private sector funding through the Venture Capital (VC) and Private Equity (PE) sectors. VC mostly invest in start-ups with high growth potential while PE buys established mature companies. As at end-2017, the number of

registered VC corporations were 101 companies whereas the number of registered PEs were nine. Meanwhile, the total amount of committed funds in VC and PE sectors stood at RM7 billion in 2017 as compared to RM6.5 billion in 2016. The majority of the funds were invested in life sciences sectors accounting for 52.7% of total funds while the rest were in the manufacturing as well as ICT sectors.

Conclusion

The Government will continue to facilitate financing for SMEs since it is the backbone of the economy. Currently, the source of SME financing is mainly from FIs. In this regard, alternative SME financing initiatives focus on the LEAP market and other financing channels such as ECF, P2P, PE and VC to broaden investment prospects in the capital market. Alternative financing also provides the avenue to diversify investment portfolios and deepen Malaysia's capital market. These initiatives will be complemented by capacity building programmes. Towards this end, SMEs should leverage all the opportunities offered to obtain greater access to financing in the future and eventually enhance its contribution to the economy.

Capital Market Performance

Gross funds raised in the capital market decreased 2.4% to RM131.4 billion during the first seven months of 2018. This was due to lower fund raising activity by the private sector with gross funds raised declining 9.7% to RM60.7 billion. Gross funds raised by the private sector through domestic equity market recorded a double-digit decline of 91.1% to RM0.9 billion during the period following lower initial public offerings (IPOs) which declined 92.2% due to cautious market sentiment. Nevertheless, funds raised through new corporate bond issuances increased 4.7% to RM59.8 billion. The bulk of new issuances were medium term notes, accounting for 94.7% of total corporate bonds. The majority of funds were raised by the finance, insurance, real estate and business services sector, accounting for 68.7% of new corporate bond issuances. The funds were mainly used to finance infrastructure projects and working capital. On the back of higher investment activities, fund raising in the capital market is expected to improve in 2019.

Meanwhile, gross funds raised by the public sector increased 4.8% to RM70.7 billion in the first seven months of 2018. The issuance of Malaysian Government Securities (MGS) increased to RM35.4 billion, while Malaysian

Table 4.4. Funds Raised in the Capital Market January – July

	RM million	
	2017	2018
Public Sector		
Government securities		
Malaysian Government Securities	35,304.0	35,423.6
Malaysian Government Investment Issues	32,124.7	35,246.2
New issues of debt securities	67,428.7	70,669.8
Less: Redemptions	24,969.0	25,970.7
Net funds raised by the public sector	42,459.7	44,699.1
Private Sector		
Shares¹/Warrants		
Initial Public Offers	7,373.3	571.8
Rights Issues	2,744.2	324.7
Warrants	-	-
New issues of shares/warrants	10,117.5	896.5
Debt securities²		
Straight bonds	1,753.0	2,470.0
Convertible bonds	-	-
Islamic bonds	1,472.7	724.6
Medium term notes	53,871.8	56,594.1
New issues of debt securities	57,097.5	59,788.7
Less: Redemptions	18,874.1	24,835.6
Net issues of debt securities	38,223.4	34,953.1
Net funds raised by the private sector	48,340.8	35,849.5
Total net funds raised	90,800.5	80,548.6

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.

Government Investment Issues (MGII) rose to RM35.2 billion. The Government bonds continued to receive strong support from local institutional and foreign investors. As at end-July 2018, share of resident and non-residents holdings of MGS stood at 59.5% and 40.5% of total MGS outstanding, respectively. During the same period, share of resident and non-residents holdings of MGII stood at 95.3% and 4.7% of total MGII outstanding, respectively.

**Table 4.5. New Issuance of Corporate Bonds by Sector
January – July**

	RM million		Share (%)	
	2017	2018	2017	2018
Agriculture, forestry and fishing	100.0	83.6	0.2	0.1
Manufacturing	1,080.0	1,490.0	1.9	2.5
Construction	2,013.2	3,977.9	3.5	6.7
Electricity, gas and water	10,277.7	8,057.1	18.0	13.5
Transport, storage and communication	1,341.9	1,415.0	2.4	2.4
Finance, insurance, real estate and business services	35,447.4	41,080.3	62.1	68.7
Government and other services	6,747.9	3,277.8	11.8	5.5
Wholesale and retail trade, restaurant and hotels	89.4	407.0	0.2	0.7
Total	57,097.5	59,788.7	100.0	100.0

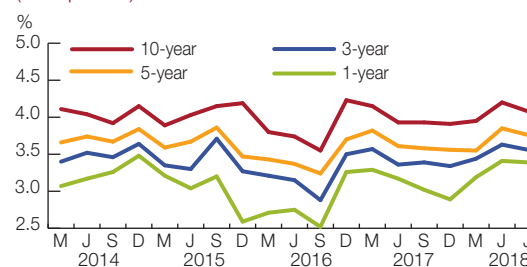
Note: Includes corporate bonds issued by Cagamas and non-resident corporations. Total may not add up due to rounding.
Source: Bank Negara Malaysia.

During the first seven months of 2018, MGS yields across all tenures trended upwards with yields on 1-year, 3-year, 5-year and 10-year ranging between 12 and 18 bps. The higher yields were due to investors rebalancing global portfolio investments towards safe-haven assets following external uncertainties. Similarly, in the corporate bond market, yields on the 5-year AAA-rated and AA-rated securities increased 12 and 11 bps, respectively.

The equity market remained resilient and continued to record gains despite heightened trade tensions and global monetary tightening

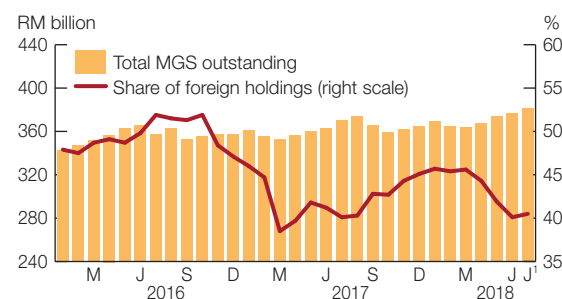
during the first eight months of 2018. The FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) started to pick up in the first week of January 2018 and continued its positive trend. The uptrend was supported by an increase in OPR by 25 bps leading to buying interest in finance-related stocks, resulting in the index surging to 1,870.52 points on 29 January 2018.

Figure 4.4. Malaysian Government Securities Indicative Yields (End-period)



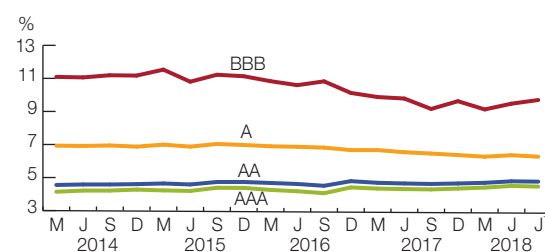
¹ End-July 2018.
Source: Bank Negara Malaysia.

Figure 4.5. Share of Foreign Holdings in Total MGS Outstanding (End-period)



¹ End-July 2018.
Source: Bank Negara Malaysia.

Figure 4.6. 5-Year Corporate Bond Yields (End-period)



¹ End-July 2018.
Source: Bank Negara Malaysia.

Despite the US Federal Reserve (Fed) raised interest rates for the first time this year, the FBM KLCI continued to increase and closed at 1,876.87 points on 22 March 2018, the highest level since August 2014. Meanwhile, the local bourse rose to a new high of 1,895.18 points on 19 April 2018. The positive sentiment was largely driven by recovery in global crude oil prices. Nevertheless, the FBM KLCI declined in the final week of May and the market remained subdued tracking major and regional bourses throughout June and July 2018. Several factors caused the market to trend downwards, among others, the trade war between the US and China as well as interest rate hikes in major economies.

The FBM KLCI advanced 1,819.66 points as at end-August 2018, supported by sound macroeconomic fundamentals, continued growth of the corporate sector and the inflow of foreign funds into the equity market. Investors' confidence was also supported by positive external developments, including the statement by the Fed of its intention to

maintain the benchmark rate. In addition, the reaffirmation by Fitch Ratings on Malaysia's long-term foreign-currency issuer default rating at A- with stable outlook also contributed towards higher performance of the FBM KLCI.

In terms of trading activity, total volume for the first eight months of 2018 rose 9.6% to 468.8 billion units. Meanwhile, total market transacted value increased 11.8% to RM454.2 billion. Average daily trading volume and value increased to 2.9 billion units and RM2.8 billion, respectively. As at end-August 2018, the market capitalisation increased 1% to RM1,865.8 billion. Market velocity was sustained at 34.3%, while market volatility was at 8.3%. At the same time, foreign holdings based on market capitalisation in the local bourse stood at 23.6% as at end-August 2018. In 2019, the domestic equity market is expected to continue to record gains despite external headwinds due to a confluence of factors including concerns over election outcomes in the euro area as well as heightened trade and geopolitical tensions.

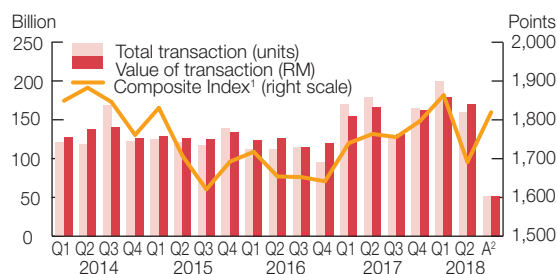
Table 4.6. Bursa Malaysia: Selected Indicators January – August

	2017	2018
Indices¹		
FBM KLCI	1,773.16	1,819.66
FBM EMAS	12,610.07	12,719.42
FBM 100	12,281.66	12,526.43
FBM SCAP	16,747.36	14,453.18
FBM-ACE	6,612.74	5,283.71
Total turnover²		
Volume (million units)	427,643.61	468,760.02
Value (RM million)	406,319.57	454,233.15
Average daily turnover²		
Volume (million units)	2,623.58	2,875.83
Value (RM million)	2,492.76	2,786.71
Market capitalisation¹ (RM billion)		
	1,847.33	1,865.84
Total number of listed companies¹		
Main Market	787	781
ACE Market	115	121
LEAP Market	-	8
Market liquidity¹		
Turnover value/market capitalisation (%)	22.0	24.3
Market concentration¹		
10 highest capitalised stocks/market capitalisation (%)	33.6	34.5

¹ As at end-period.

² Based on market transactions and direct business transactions.
Source: Bursa Malaysia.

Figure 4.7. Performance of Bursa Malaysia

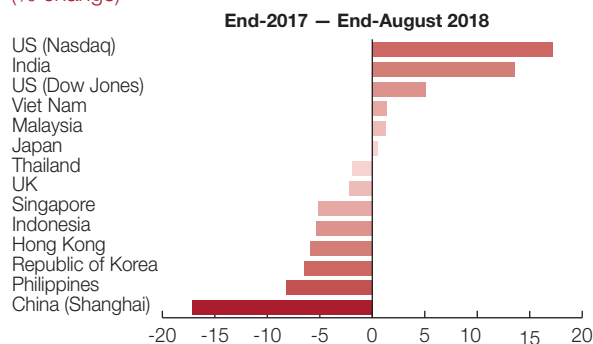


¹ As at end-period.

² End-August 2018.

Source: Bursa Malaysia.

Figure 4.8. Performance of Selected Stock Markets (% change)



Source: Bloomberg.

Key Capital Market Measures

Several measures were undertaken in the first eight months of 2018 to enhance liquidity and efficiency in the capital market. These include the following:

Measures to Boost Domestic Capital Market

The announcement by Securities Commission Malaysia (SC) and Bursa Malaysia on 6 February 2018 at the World Capital Markets Symposium 2018 in Kuala Lumpur on the following measures:

- waiver on stamp duty for shares of mid-and small-cap companies for three years from 1 March 2018 to 28 February 2021;
- waiver on trading and clearing fees for six months for new individual investors; and
- Intraday Short Selling (IDSS) allowed for all investors.

14-Feb



BRIDGe

Establishment of the Brokerage Industry Digitisation Group (BRIDGe) by SC and Bank Negara Malaysia (BNM) to accelerate digitisation of the stockbroking industry through the enhancement of service standards and operational efficiencies.

15-Mar



Regulatory Framework for Listed CIS and Main LR

Enhancement of the existing regulatory framework for listed Collective Investment Scheme (CIS) and business trust under the Main Market Listing Requirement (Main LR) to promote growth and greater business efficiency. The CIS includes the Real Estate Investment Trusts (REITs), Exchange Traded Funds (ETFs) and Closed-End Funds (CEFs). The Capital Markets and Services Act (CMSA) 2007 was amended where Bursa Malaysia was mandated to approve the new issue of securities by listed CIS and business trust. These will improve the time-to-market and reduce regulatory costs to enhance the efficiency of the domestic capital market.

9-Apr



IDSS Framework

Introduction of IDSS framework will enable investors to sell securities first and buy the securities later within the trading day. This framework is applicable for a selected list of Approved Securities comprising 280 securities subject for review for every six months.

16-Apr



The Newly Enhanced US Dollar Denominated Refined, Bleached and Deodorised (RBD) Palm Olein Futures Contract (FPOL)

Enhancement of the US dollar denominated Refined, Bleached and Deodorised (RBD) Palm Olein Futures Contract (FPOL) to provide more trading opportunities and flexibility to a wider group of domestic and foreign investors, who wish to explore commodity derivatives. Various incentives were given to further promote the FPOL including a full waiver of exchange and clearing fees for the first six months of trading for market participants.

24-Apr



24-May



BURSASUSTAIN

Establishment of BURSASUSTAIN, a comprehensive online portal designed as a one-stop knowledge and information hub on sustainability and corporate governance. The hub aims to provide a platform for users, such as listed issuers, investors and other key stakeholders to have easy access to the latest information.

20-Aug



MoF China and the SC Signed a MoU on Regulatory Cooperation

The Ministry of Finance (MoF) China and the SC signed a MoU for cross-border regulatory cooperation and access. The MoU has enabled both countries to benefit in areas of mutual interest relating to accounting and auditing.

First Mini Futures Contract on Derivatives Market

Launching of the mini FTSE Bursa Malaysia Mid 70 Index (FM70) Futures Contract. The FM70 is a ringgit denominated futures contract which tracks the FTSE Bursa Malaysia Mid 70 Index (FBM Mid 70) as its underlying instrument, providing investors' exposure to all the 70 companies of the FBM Mid 70 via a single futures contract.

27-Aug



Islamic Banking and Capital Market Performance

The Islamic banking industry continued to record strong growth in 2018. Total assets expanded 11.5% amounting to RM687 billion as at end-July 2018. The expansion was mainly driven by financing to household sector. The growth was also contributed from the completion of a merger involving an Islamic bank and a non-bank institution in early 2018. Total deposits of the Islamic banking system registered a strong growth of 12.6% to RM507.1 billion as at end-July 2018.

The outlook of Islamic banking is expected to remain favourable given strong demand from both households and businesses for Shariah-based financial products and services. This is further supported by growing commitments from a number of major players in promoting Islamic banking as the preferred financing solution. Moving forward, focus will be given on supporting the effective implementation and operationalisation of Shariah standards, particularly in broadening the range of product offerings and applications of a variety of Shariah contracts to cater to the diverse needs of customers.

The Islamic capital market (ICM) comprising Shariah-compliant equities and sukuk continues to maintain its leading position in the global ICM market by offering a wide range of products and services. The share of ICM accounts for 60.5% or RM1,963.3 billion of total domestic market capitalisation as at end-July 2018. Shariah-compliant equities contributed 58.2% or RM1,142.9 billion to total ICM, while the remaining was total sukuk outstanding.

Bursa Malaysia-i, the world's first end-to-end Shariah investment platform continues to make Malaysia a vibrant trading centre for Islamic-based financial offerings. The platform pioneered by nine Islamic Participating Organisations (POs) in 2016 has expanded to 14 Islamic POs as at end-July 2018. Out of these, one is a full-fledged³ PO while the remainder operate on a window⁴ basis. As at end-July 2018, ICM has engaged with more

than 20,000 retail and institutional investors, domestically and internationally. Another Shariah-compliant platform, Bursa Suq Al-Sila' (BSAS), which facilitates commodity trading for Murabahah⁵ and Tawarruq⁶ transactions have achieved daily average trading value of RM21.2 billion as at end-July 2018 with 151 participants, of which 39 were non-residents. This signifies the acceptance of BSAS as a global platform to facilitate

Table 4.7. Islamic Banking: Key Indicators
(End-July)

	RM billion		Change (%)	
	2017	2018	2017	2018
Assets	616.3	687.0	10.2	11.5
Financing	462.8	517.4	11.3	11.8
Primary agriculture	15.1	15.1	15.6	-0.1
Mining and quarrying	5.6	5.1	4.6	-8.2
Manufacturing ¹	22.2	23.0	10.3	3.7
Electricity, gas and water supply	1.8	2.7	-28.3	51.4
Wholesale and retail trade, restaurants and hotels	20.1	23.7	16.0	18.0
Construction	21.3	28.8	16.2	35.1
Real estate	23.4	26.5	11.3	12.9
Transport, storage and communication	18.1	16.3	34.1	-10.1
Finance, insurance and business activities	37.5	34.9	6.7	-7.1
Education, health and others	21.1	20.6	-3.1	-2.5
Households	268.8	306.2	10.7	13.9
Others	7.8	14.6	61.2	86.5
Liabilities	571.7	638.5	10.2	11.7
Deposits and Investment Account	525.0	583.1	11.2	11.1
Investment	1.0	0.8	-34.3	-15.3
Savings	38.5	40.8	7.8	6.0
Demand	70.9	74.3	6.5	4.8
Investment account	74.8	76.0	9.6	1.6
Others	339.7	391.1	13.3	15.1

¹ Including agro-based.

Note: Total may not add up due to rounding.

Source: Bank Negara Malaysia.

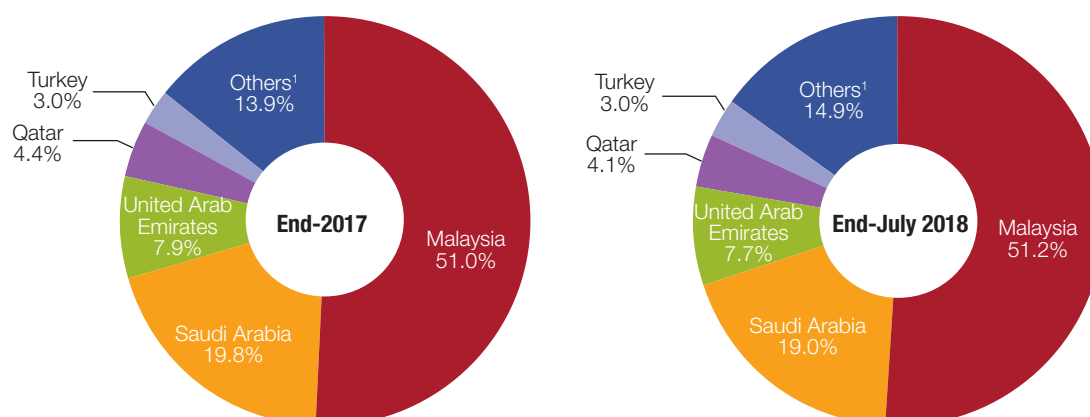
³ Islamic stockbroking services provided by the PO on a fully Shariah-compliant basis.

⁴ Islamic stockbroking services provided by the PO other than on a full-fledged basis.

⁵ Sales contract with a disclosure of the asset cost price and profit margin to the buyer.

⁶ Purchasing an asset with deferred price, either on the basis of musawamah (sales contract without the disclosure of the asset cost price and profit margin to the buyer) or murabahah, then selling it to a third party to obtain cash.

Figure 4.9. Global Sukuk Outstanding by Country
(% share)



¹ Others include Bahrain, Bangladesh, Brunei, Gambia, Hong Kong, Indonesia, Ivory Coast, Jordan, Kuwait, Luxembourg, Maldives, Mauritius, Nigeria, Oman, Pakistan, Senegal, Singapore, South Africa, UK and US.

Note: Total may not add up due to rounding.

Source: Malaysia International Islamic Financial Centre.

liquidity management. Meanwhile, to further develop Shariah-compliant securities, the world's first Shariah-compliant alternative, the Securities Borrowing and Lending Negotiated Transaction (iSSBNT) was launched in December 2017. The iSSBNT framework is expected to provide a facilitative trading environment, particularly for market players operating based on Shariah principles. As at May 2018, 77% of companies listed on Bursa Malaysia were Shariah-compliant.

Malaysia continues to be the main driver for sukuk issuances and outstanding. In the first seven months of 2018, the sukuk issuances stood at 50.9% of total global sukuk issuances while as at end-July 2018, sukuk outstanding was 51.2% of total global sukuk outstanding. Malaysia also pioneered the world's first issuance of Green Sustainable and Responsible Investment (SRI) sukuk in July 2017. As at end-July 2018, five green SRI sukuk with a total size of RM2.4 billion were issued. Several green SRI sukuk issuances are expected in 2019, especially for large-scale solar photovoltaic projects. In addition, the Securities Commission Malaysia has established Green SRI Sukuk Grant Scheme which aims at reducing the additional cost of certifying a debt instrument of meeting the green criteria.

Moving forward, ICM will continue to play a crucial role in Malaysia's capital market.

This will be driven by growing demand for Shariah-compliant instruments. However, greater innovation in ICM is pertinent to ensure that Malaysia maintains its position as a leader in Islamic finance at the international level. In this regard, focus will be given to further develop ICM, especially to internationalise Shariah-compliant intermediation activities through new product development, fund management and cross-border collaboration.

Conclusion

Monetary policy is expected to remain accommodative and supportive of economic growth while ensuring price stability. Meanwhile, the capital market is expected to remain resilient supported by favourable domestic economic conditions and steady global growth. However, external factors which include the pace of monetary policy normalisation in major economies; escalating trade threats and protectionism; rebalancing of global investment flows and geopolitical tensions may dampen financial and capital market performance. In this regard, focus will continue to be given towards fortifying these markets by providing an environment which supports innovation while ensuring that the regulatory framework is strengthened further and the principles of good governance, transparency and accountability are adhered.

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