Sidang Akhbar

Prestasi Ekonomi pada Suku Pertama Tahun 2017

Gabenor
Bank Negara Malaysia

19 Mei 2017
Sidang akhbar akan meliputi:

• Prestasi ekonomi pada suku pertama tahun 2017

• Perkembangan monetari dan kewangan

• Isu-isu ekonomi dan kewangan
Further expansion in global economic activity in 1Q 2017

- Continued growth in the advanced economies
- Growth in Asia was supported by sustained domestic demand and stronger external demand

Global Real GDP Growth

<table>
<thead>
<tr>
<th>Country</th>
<th>4Q 2016</th>
<th>1Q 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>2.1</td>
<td>2.0</td>
</tr>
<tr>
<td>US</td>
<td>1.9</td>
<td>1.0</td>
</tr>
<tr>
<td>Euro area</td>
<td>1.7</td>
<td>1.0</td>
</tr>
<tr>
<td>PR China</td>
<td>6.9</td>
<td>5.6</td>
</tr>
<tr>
<td>Malaysia</td>
<td></td>
<td>5.0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3.3</td>
<td>2.7</td>
</tr>
<tr>
<td>Thailand</td>
<td></td>
<td>2.5</td>
</tr>
<tr>
<td>Korea</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: National authorities
The Malaysian economy recorded a robust growth of 5.6% in 1Q 2017

Private expenditure was higher and remained the main driver of growth
- Strong consumption and investment

Public sector more supportive of growth

Higher exports

<table>
<thead>
<tr>
<th>Real GDP (Annual change, %)</th>
<th>Share, % (2016)</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic demand (excluding stocks)</td>
<td>91.6</td>
<td>3.4</td>
<td>3.2</td>
</tr>
<tr>
<td>Private Sector</td>
<td>70.1</td>
<td>4.4</td>
<td>5.9</td>
</tr>
<tr>
<td>Consumption</td>
<td>53.2</td>
<td>5.2</td>
<td>6.1</td>
</tr>
<tr>
<td>Investment</td>
<td>16.9</td>
<td>2.1</td>
<td>4.9</td>
</tr>
<tr>
<td>Public Sector</td>
<td>21.5</td>
<td>-0.2</td>
<td>-2.6</td>
</tr>
<tr>
<td>Consumption</td>
<td>13.1</td>
<td>2.7</td>
<td>-4.2</td>
</tr>
<tr>
<td>Investment</td>
<td>8.5</td>
<td>-4.4</td>
<td>-0.4</td>
</tr>
<tr>
<td>Net exports of goods and services</td>
<td>8.4</td>
<td>-7.9</td>
<td>6.4</td>
</tr>
<tr>
<td>Exports</td>
<td>70.4</td>
<td>1.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Imports</td>
<td>62.1</td>
<td>2.3</td>
<td>1.6</td>
</tr>
<tr>
<td>Change in stocks (RM billion)</td>
<td>0.0</td>
<td>2.3</td>
<td>1.5</td>
</tr>
<tr>
<td>GDP (y-o-y)</td>
<td>100¹</td>
<td>4.1</td>
<td>4.5</td>
</tr>
<tr>
<td>GDP (q-o-q growth, seasonally adjusted)</td>
<td>-</td>
<td>0.8</td>
<td>1.3</td>
</tr>
</tbody>
</table>

¹ Numbers do not add up due to rounding

Source: Department of Statistics, Malaysia
Higher growth across major economic sectors

- **Services**
  Broad-based improvements across most sub-sectors

- **Manufacturing**
  Stronger E&E and consumer-related production

- **Agriculture**
  Recovery of CPO yields post-El Niño and higher rubber production

- **Construction**
  Underpinned by civil engineering activity

- **Mining**
  Lower crude oil production

**Real GDP (Annual change,%)**

<table>
<thead>
<tr>
<th></th>
<th>Share, % (2016)</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1Q</td>
<td>4Q</td>
<td>1Q</td>
</tr>
<tr>
<td>Services</td>
<td>54.3</td>
<td>5.1</td>
<td>5.5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>23.0</td>
<td>4.6</td>
<td>4.7</td>
</tr>
<tr>
<td>Mining</td>
<td>8.8</td>
<td>-1.2</td>
<td>5.0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>8.1</td>
<td>-3.8</td>
<td>-2.5</td>
</tr>
<tr>
<td>Construction</td>
<td>4.5</td>
<td>8.0</td>
<td>5.1</td>
</tr>
<tr>
<td>GDP</td>
<td>100(^1)</td>
<td>4.1</td>
<td>4.5</td>
</tr>
</tbody>
</table>

\(^1\) Numbers do not add up due to rounding and exclusion of import duties component

Source: Department of Statistics, Malaysia
Private sector expenditure remained the key driver of growth

- Private consumption supported by continued expansion in employment and wage growth

- Private investment driven mainly by capital spending in the services and manufacturing sectors
Headline inflation averaged 4.3% in 1Q 2017 but is expected to moderate going forward.

Higher inflation in the first quarter was driven mainly by cost factors.

Contributions to headline inflation:

Spillover effects remained contained.

Inflation Pervasiveness:

Source: Department of Statistic, Malaysia and Bank Negara Malaysia.
Public perception of the actual inflation tends to be higher, influenced by personal experiences.

Consumers are more attentive to price increases of frequently purchased items.

**Consumer Price Index Basket (%)**

- **Food:** Generally experience higher price increases.
- **Transport:** High and volatile inflation.
- **Others:** Broadly low and stable inflation, price decline in clothing and communication.

**Frequently purchased items**

- Food and non-alcoholic beverages
- Alcoholic beverages and tobacco
- Transport
- Others

**Notes:**
- The Everyday Price Index (EPI) is an index that comprises of only frequently purchased items within the CPI. The Perceived Price Index (PePI) comprises of the same items as the EPI but only captures price increases.

Source: Department of Statistic, Malaysia, and Bank Negara Malaysia.

**Measures of Inflation**

- CPI inflation
- EPI inflation
- PePI inflation

**Source:** Department of Statistic, Malaysia, and Bank Negara Malaysia.

**Public perception of inflation tends to be higher than actual inflation.**

**Note:** The Everyday Price Index (EPI) is an index that comprises of only frequently purchased items within the CPI. The Perceived Price Index (PePI) comprises of the same items as the EPI but only captures price increases.

Source: Department of Statistic, Malaysia, and Bank Negara Malaysia.
Robust trade performance in 1Q 2017

External Trade Performance

<table>
<thead>
<tr>
<th>% Annual change</th>
<th>% share 2016</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>3Q</td>
<td>4Q</td>
</tr>
<tr>
<td>Gross Exports</td>
<td>100</td>
<td>-2.3</td>
<td>2.8</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>82</td>
<td>-1.1</td>
<td>3.4</td>
</tr>
<tr>
<td>E&amp;E</td>
<td>37</td>
<td>-0.6</td>
<td>7.7</td>
</tr>
<tr>
<td>Non E&amp;E</td>
<td>45</td>
<td>-1.6</td>
<td>0.1</td>
</tr>
<tr>
<td>Commodities</td>
<td>17</td>
<td>-8.2</td>
<td>-0.9</td>
</tr>
<tr>
<td>Gross Imports</td>
<td>100</td>
<td>-0.1</td>
<td>5.0</td>
</tr>
<tr>
<td>Intermediate</td>
<td>57</td>
<td>-0.3</td>
<td>3.8</td>
</tr>
<tr>
<td>Capital</td>
<td>14</td>
<td>15.7</td>
<td>6.7</td>
</tr>
<tr>
<td>Consumption</td>
<td>10</td>
<td>-0.8</td>
<td>-0.2</td>
</tr>
<tr>
<td>Trade Balance (RM bil)</td>
<td></td>
<td>18.0</td>
<td>27.5</td>
</tr>
</tbody>
</table>

Source: Department of Statistics, Malaysia

- **Stronger export growth**
  - Broad-based expansion in manufactured and commodity exports
  - Supported by stronger demand and higher commodity prices

- **Higher import growth**
  - Higher intermediate and capital imports in line with pick-up in manufacturing and investment activity

- **Trade balance at RM18.9 bil**
Current account remained in surplus

Malaysia’s Current Account Balance

1. **Lower goods surplus**
   - Strong export performance offset by imports of high-value transport equipment (oil and gas vessels, aircraft)

2. **Larger services deficit**
   - Continued reliance on foreign service providers

Source: Department of Statistics, Malaysia
The ringgit exchange rate stabilised in 2017

Most major and regional currencies have recovered in 2017 amid broad weakening of USD

Performance of Selected Currencies against the USD

<table>
<thead>
<tr>
<th>Currency</th>
<th>2016</th>
<th>2017 (YTD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NEER</td>
<td>-1.9</td>
<td>1.4</td>
</tr>
<tr>
<td>REER*</td>
<td>-1.7</td>
<td>2.6</td>
</tr>
<tr>
<td>KRW</td>
<td>-2.5</td>
<td>7.9</td>
</tr>
<tr>
<td>TWD</td>
<td>-2.3</td>
<td>6.0</td>
</tr>
<tr>
<td>INR</td>
<td>-17.1</td>
<td>0.4</td>
</tr>
<tr>
<td>GBP</td>
<td>-3.7</td>
<td>4.4</td>
</tr>
<tr>
<td>EUR</td>
<td>-4.3</td>
<td>4.0</td>
</tr>
<tr>
<td>MYR</td>
<td>-2.2</td>
<td>3.9</td>
</tr>
<tr>
<td>THB</td>
<td>-1.0</td>
<td>2.8</td>
</tr>
<tr>
<td>SGD</td>
<td>-6.6</td>
<td>1.0</td>
</tr>
<tr>
<td>JPY</td>
<td>0.8</td>
<td>2.8</td>
</tr>
<tr>
<td>AUD</td>
<td>-5.3</td>
<td>2.5</td>
</tr>
<tr>
<td>IDR</td>
<td>-0.3</td>
<td>-5.1</td>
</tr>
<tr>
<td>CNY</td>
<td>-6.6</td>
<td>0.8</td>
</tr>
<tr>
<td>PHP</td>
<td>-5.3</td>
<td>-3.7</td>
</tr>
</tbody>
</table>

*REER calculation uses latest daily NEER and latest available inflation rates (March 2017)

Source: Bank Negara Malaysia

Continued external uncertainties could result in the resurfacing of ringgit volatility

- The ringgit and domestic foreign exchange market continued to stabilise.
  - Reflected in the improvements across all liquidity and volatility indicators of the foreign exchange market, following stability measures.

- Continued external uncertainties may cause higher volatility:
  - The pace of US interest rate normalisation
  - Volatility in global oil prices
  - Global political development
  - Developments in global financial markets
The stability measures have reduced volatility in the ringgit and domestic foreign exchange market

FX needs can be intermediated by the market with higher volume

Cost of hedging reduced with lower ringgit volatility

Impact of offshore rates to onshore has reduced

FX transaction cost has reduced for market participants

Greater balance of foreign currency demand and supply

Lower credit spread reduced cost of borrowing for corporates

Note: Volatility refers to the difference between MYR/USD interbank intraday highest and lowest rate.

Offshore rate refers to the NDF 3-month rate while onshore rate refers to the spot rate.

Source: Bloomberg, Bank Negara Malaysia
Non-resident holdings of Malaysian government bonds was lower as at end-March 2017

Lower non-resident holdings of Malaysian Government bonds

Non-resident Holdings of Malaysian Government Bonds

RM billion

% NR Holding

Govt Bond (LHS)
% NR of Govt (RHS)

28.2%
24.7%

Mar-14 Sep-14 Mar-15 Sep-15 Mar-16 Sep-16 Mar-17

Majority of non-residents holdings are by long-term investors

Distribution of Non-resident Holdings of Government Bonds as at end-Mar’17

Non-resident holdings of Malaysian government bonds was lower as at end-March 2017.

Majority of non-residents holdings are by long-term investors.

Source: Bank Negara Malaysia

Note:
- Malaysian Government Bonds includes Malaysian Government Securities (MGS), Malaysian Government Investment Issues (MGII), and Sukuk Perumahan Kerajaan (SPK).
- ‘Others’ include individuals, non-financial corporations and unidentified sectors.
The stance of monetary policy remains supportive of the economic activity

- Growth momentum is expected to be sustained in 2017
- The recent increase in inflation is expected to be transitory
- The MPC will continue to assess the balance of risks surrounding the outlook for domestic growth and inflation
Financing to the private sector has improved since the previous quarter

Higher growth of net financing driven by increase in both the growth in loans and corporate bonds…

… with significant improvement in the growth of outstanding business loan

Contribution to Net Financing Growth* Outstanding Banking System and DFI Loan Growth

Corporate Bonds
 Banking System and DFI Loans
 Total Net Financing

0 2 4 6 8 10 12
ppt, %

0 2 4 6 8 10 12 14 16 18
yoy, %

Outstanding Banking System and DFI Loan Growth by Borrowers

SMEs: 9.2%
Overall Business: 7.1%
Households: 5.3%

*Net financing is comprised of outstanding banking system and DFIs loans and outstanding corporate bonds.

Source: Bank Negara Malaysia

Source: Bank Negara Malaysia
Continued access to financing for SMEs

**SMEs**

- **Micro-enterprises**
  - **Outstanding Loans**
  - % yoy change (RHS)

- **Source:** Bank Negara Malaysia

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1^Under Skim Pembiayaan Mikro
Financial stability remains preserved

- Capitalisation maintained at strong levels
- Sufficient financial buffers to support financial intermediation
- Asset quality remains intact
- Stronger profits in insurance and takaful sector due to improved financial markets conditions

<table>
<thead>
<tr>
<th>Banking sector</th>
<th>4Q 2016</th>
<th>1Q 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common equity tier 1 capital ratio (%)</td>
<td>13.1</td>
<td>13.1</td>
</tr>
<tr>
<td>Tier 1 capital ratio (%)</td>
<td>14.0</td>
<td>13.9</td>
</tr>
<tr>
<td>Total capital ratio (%)</td>
<td>16.5</td>
<td>17.0</td>
</tr>
<tr>
<td>Capital buffer (RM bil)</td>
<td>124.5</td>
<td>132.6</td>
</tr>
<tr>
<td>Net impaired loans ratio (%)</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>ROE (annualised)</td>
<td>12.5</td>
<td>11.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Insurance/Takaful sector</th>
<th>4Q 2016</th>
<th>1Q 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital adequacy ratio (%) - Insurance</td>
<td>248.5</td>
<td>246.0</td>
</tr>
<tr>
<td>Capital adequacy ratio (%) - Takaful</td>
<td>205.3</td>
<td>204.8</td>
</tr>
<tr>
<td>Capital buffer (RM bil)</td>
<td>45.9</td>
<td>38.2</td>
</tr>
<tr>
<td>Profit (RM bil)</td>
<td>1.5</td>
<td>6.6</td>
</tr>
<tr>
<td>Excess income over outgo (RM bil)</td>
<td>0.7</td>
<td>6.1</td>
</tr>
<tr>
<td>Claims Ratio (%)</td>
<td>56.5</td>
<td>63.0</td>
</tr>
</tbody>
</table>

Source: Bank Negara Malaysia
Sufficient liquidity in the banking system

Banking system surplus liquidity amounted to RM166.8 billion

Banks’ funding structure continued to be supportive of financing activities

Source: Bank Negara Malaysia
Sustained debt servicing capacity of businesses

Overall debt servicing capacity sustained

Delinquencies and impairment remained stable

Businesses, including SMEs, have continued access to financing

Source: Bank Negara Malaysia
Sustained debt servicing capacity of households

Growth in household debt continued to moderate

Aggregate household financial assets remained at 2x of debt

Asset quality of household loans remained sound

Source: Bank Negara Malaysia
Financing remains available for eligible borrowers

Banking System: Loans to Households for Purchase of Residential Properties

Housing Loans: Approval Rate and Rejection Rate

Housing Loans: Composition of Borrowers by House Price

Mainly first-time home buyers

Source: Bank Negara Malaysia
Growth of the Malaysian economy expected to be sustained amid signs of improvement in global economic growth

Amid further improvement in the global economy, the Malaysian economy remains on track to register improved performance in 2017.

Growth prospects continue to be supported by domestic demand and further augmented by higher exports
- Steady wage and employment growth
- On-going implementation of infrastructure projects
- Improvement in external trade performance

Strong and resilient macroeconomic fundamentals accord Malaysia the ability to manage current challenges
- Diversified sources of growth
- Sound financial system
Special issues
### Migration to PIN-based payment cards

<table>
<thead>
<tr>
<th>Infrastructure readiness</th>
<th>Transition period</th>
<th>Mandatory PIN verification</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>As at end-April 2017</strong></td>
<td><strong>January to June 2017</strong></td>
<td><strong>1 July 2017</strong></td>
</tr>
<tr>
<td>• 100% of credit/charge cards had been replaced</td>
<td>• 6-month period to adapt to the usage of PIN</td>
<td>• All payment card transactions must be verified with PIN</td>
</tr>
<tr>
<td>• 96.1% of POS-active debit cards had been replaced</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 99.8% of POS terminals had been upgraded</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Cardholders
- Contact issuing banks if have not replaced PIN-based cards
- Activate PIN-based cards, select and start using PIN for every transaction

#### Merchants
- Promote use of PIN for every transaction
Alignment of regulatory capital framework following implementation of Basel III

<table>
<thead>
<tr>
<th>Capital adequacy requirements</th>
<th>Previous</th>
<th>Latest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory minimum</td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Tier 1</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>Including reserve fund</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 2</td>
<td>4%</td>
<td>2%</td>
</tr>
</tbody>
</table>

- **Tier 1** (6%)
- **Tier 2** (2%)
- **Capital buffers** (2.5%) Phased in since 2016
- **Other variable buffers** (up to 6%)

### Special Issues

- **Removal of reserve fund requirement is not a change in policy direction**
- **Basel III capital buffers achieve the same objective as reserve fund requirement**
  - Serve as additional buffer during periods of stress
- **Banking institutions also observe higher internal capital targets**
  - Significant increase in dividend payout not expected
Zero tolerance on operators and investors knowingly participating in illegal financial schemes

• Public to STOP participating in illegal financial schemes
  - Business model never sustainable with no real economic activities generated
  - A ‘zero-sum’ game – dividends/profit paid out from new investors’ funds
  - Investors knowingly involved in such schemes can be punished under the law for abetment and dealing with illegal proceeds

• Financial institutions and money services businesses have heightened their vigilance
  - Customer due diligence policies and procedures are strengthened to prevent them from being conduits for illegal financial schemes
  - Enhanced screening on suspicious accounts and transactions
  - Customers who failed due diligence will result in their suspicious accounts being blocked or closed
Coordinated measures to combat illegal financial schemes

• AGC to lead inter-agency committee for joint enforcement against illegal financial schemes
  - Undertake widest possible enforcement actions under various legislations
  - Actions are aimed at:
    • Perpetrators and promoters of illegal financial schemes
    • Illegal proceeds generated

• Assessment on legal framework to combat illegal financial schemes
  - The inter-agency committee will also be a platform to assess the current legal framework and the need for more unified approach at national level to combat illegal financial schemes

• Shared and personal responsibility of members of society is crucial
  - Combat illegal financial schemes through collaboration among authorities, consumer associations and NGOs
  - Awareness and education will continue to be given focus/priority, including through joint initiatives with relevant agencies
Q&A Session