

Sidang Akhbar

Prestasi Ekonomi Suku Keempat Tahun 2018

Gabenor
Bank Negara Malaysia

14 Februari 2019



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA



JABATAN PERANGKAAN MALAYSIA
DEPARTMENT OF STATISTICS MALAYSIA

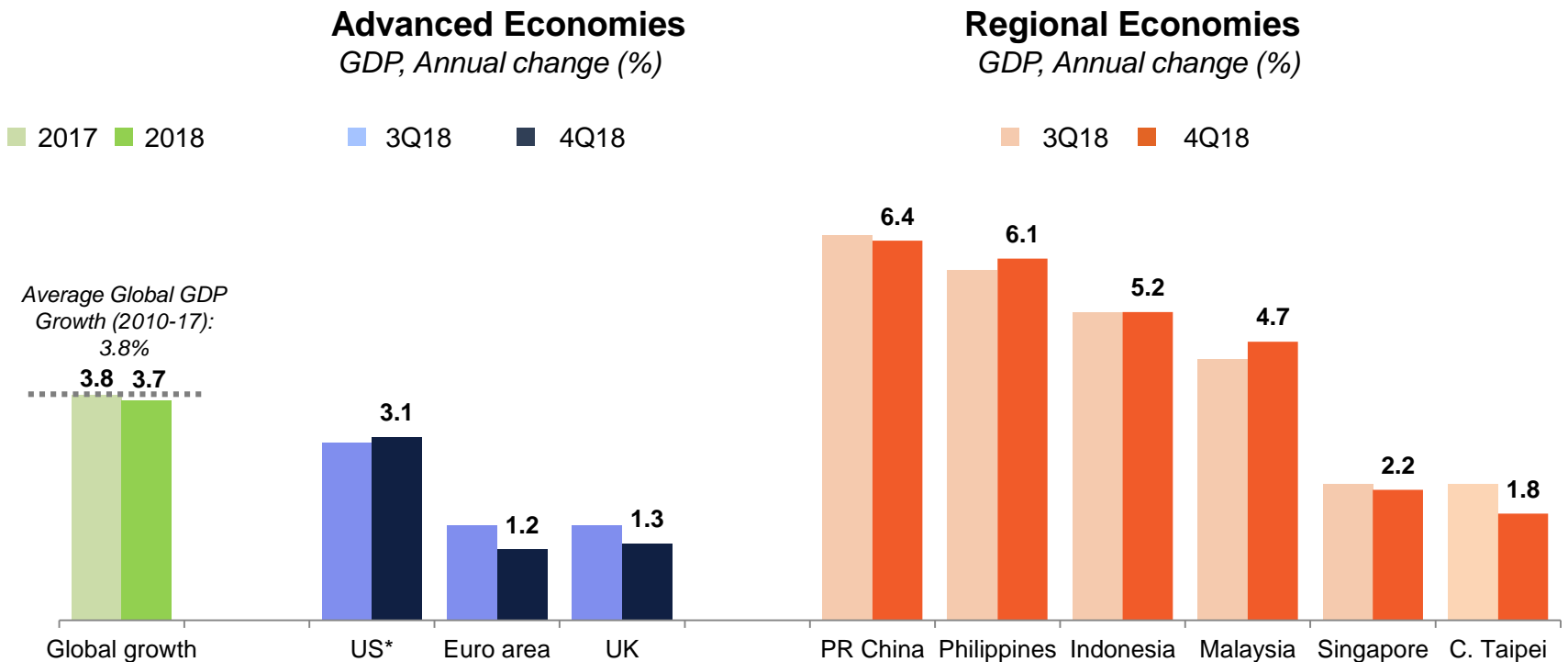
Sidang akhbar akan meliputi:

Prestasi ekonomi pada suku keempat tahun 2018

Perkembangan monetari dan kewangan



Most major and regional economies recorded slower GDP growth in 4Q 2018



Expansion in domestic demand

- Improvements in labour market conditions continued to support private consumption
- More moderate investment across major advanced economies

Growth in domestic demand amid lower export performance

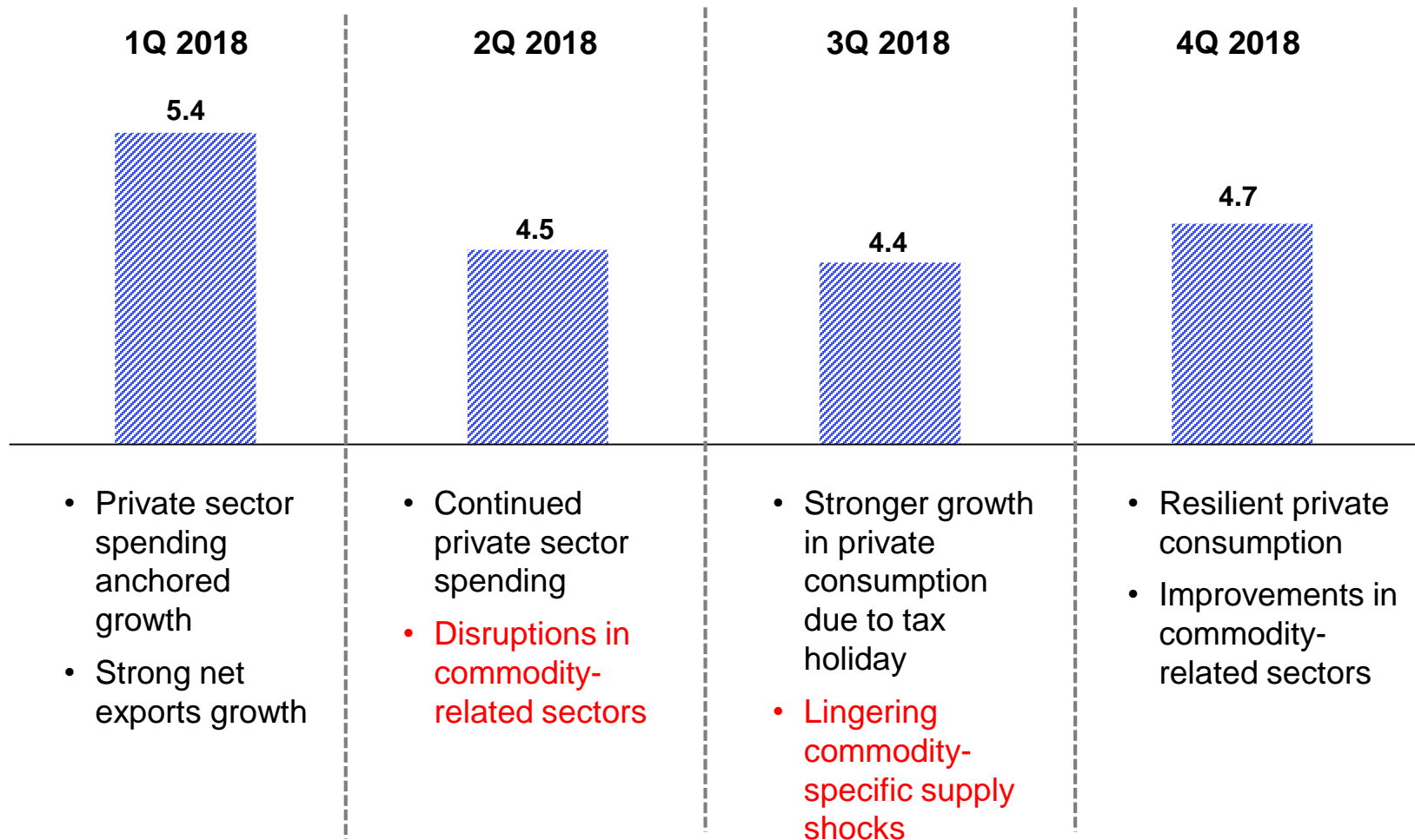
- Marginal improvement in investment in PR China, supported by policy actions
- Export growth in most regional economies slowed, weighed by weaker external demand and uncertainties due to ongoing trade actions

* Refers to implied 4Q18 GDP growth based on IMF's 2018 annual projection, as the recent government shutdown had delayed the actual GDP data release
Source: National authorities, IMF, Haver



4Q 2018 growth was supported by resilient private consumption and some recoveries from the earlier supply disruptions

Drivers of GDP Growth (Annual change, %)

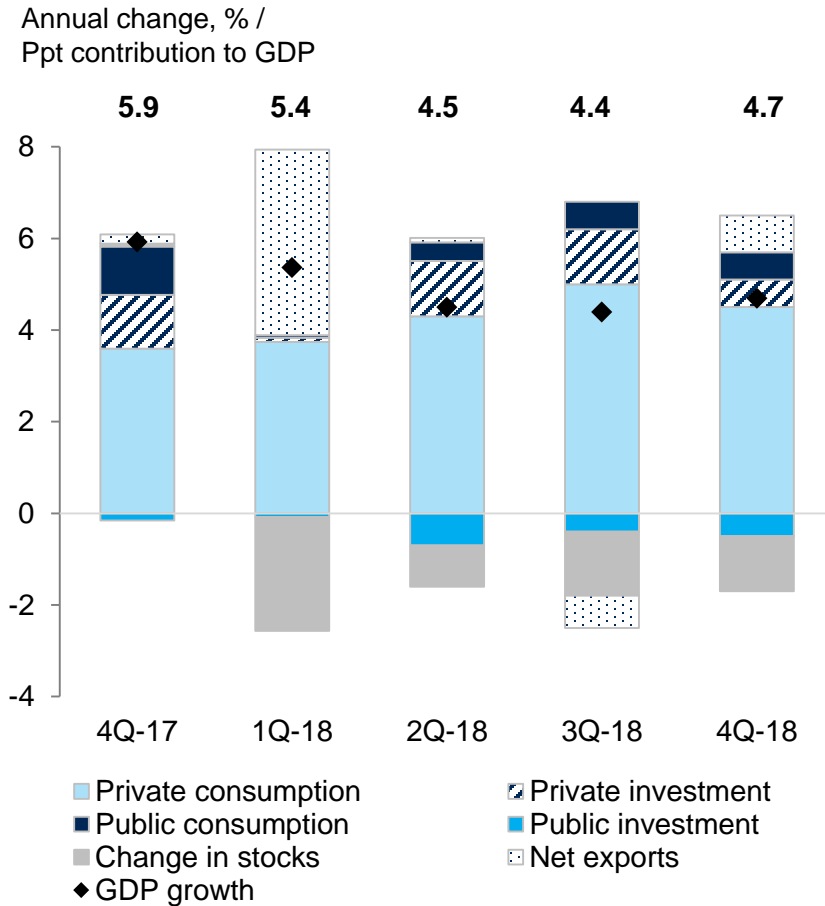


Source: Department of Statistics, Malaysia and Bank Negara Malaysia

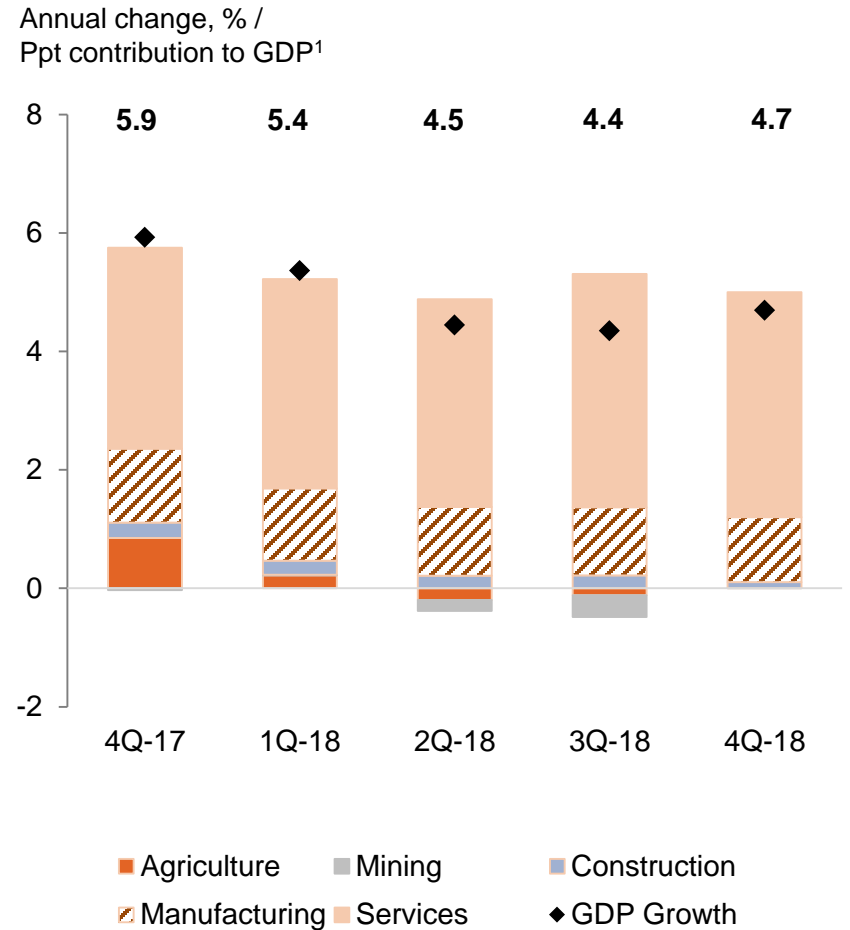


The Malaysian economy expanded by 4.7% in 4Q 2018

On the demand side, growth continued to be anchored by the private sector



On the supply side, services and manufacturing sectors remained the key drivers of growth



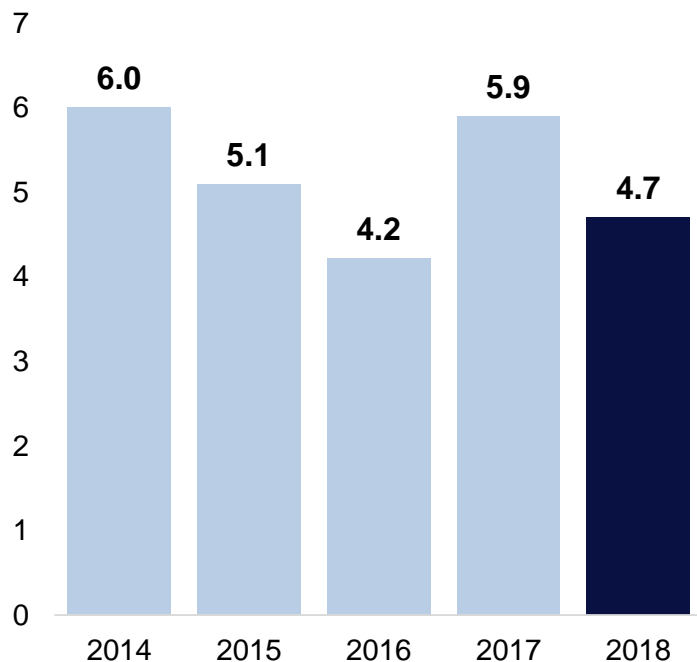
¹ Numbers may not add up due to rounding and exclusion of import duties
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Growth expanded by 4.7% in 2018 supported by resilient private sector activities amid temporary supply disruptions

Commendable growth in 2018

GDP

Annual change, %



Factors Influencing Growth in 2018



- Resilient private sector spending
- Lift from net exports
- Continued expansion in the services and manufacturing sectors



- Disruptions in commodity-related sectors in 2Q and 3Q 2018
- Government spending rationalisation

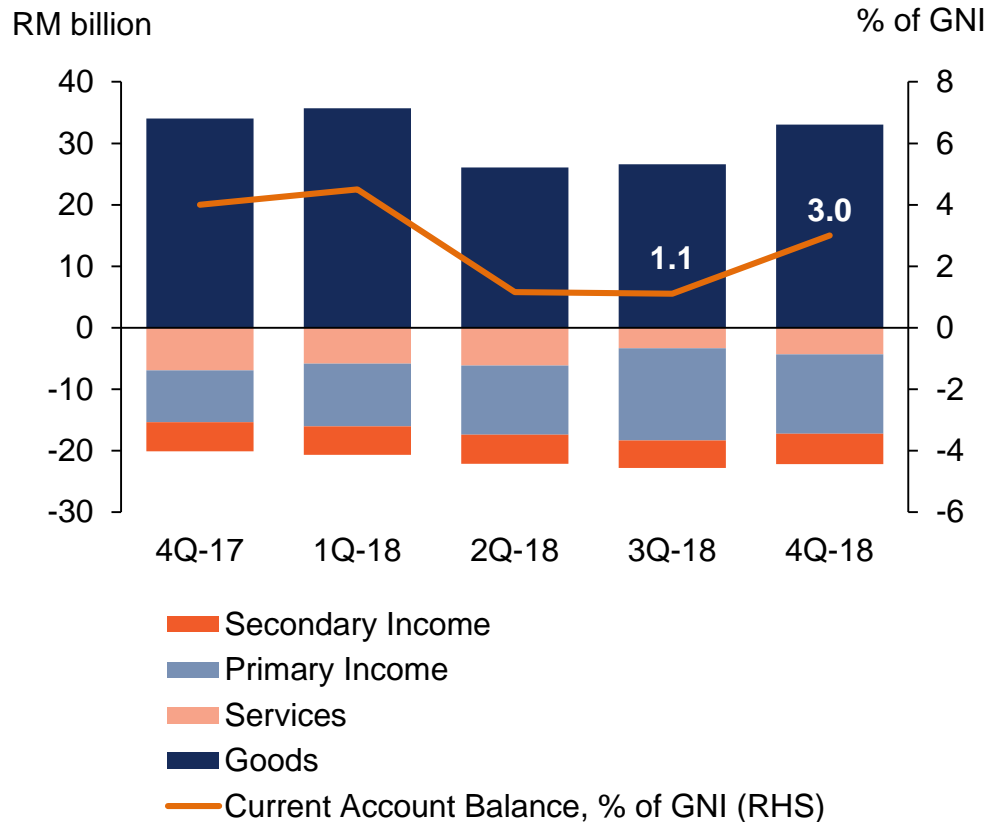
Source: Department of Statistics, Malaysia and Bank Negara Malaysia



Current account registered a surplus of RM10.8 billion

Current account supported by goods surplus

Current account balance



Source: Department of Statistics, Malaysia

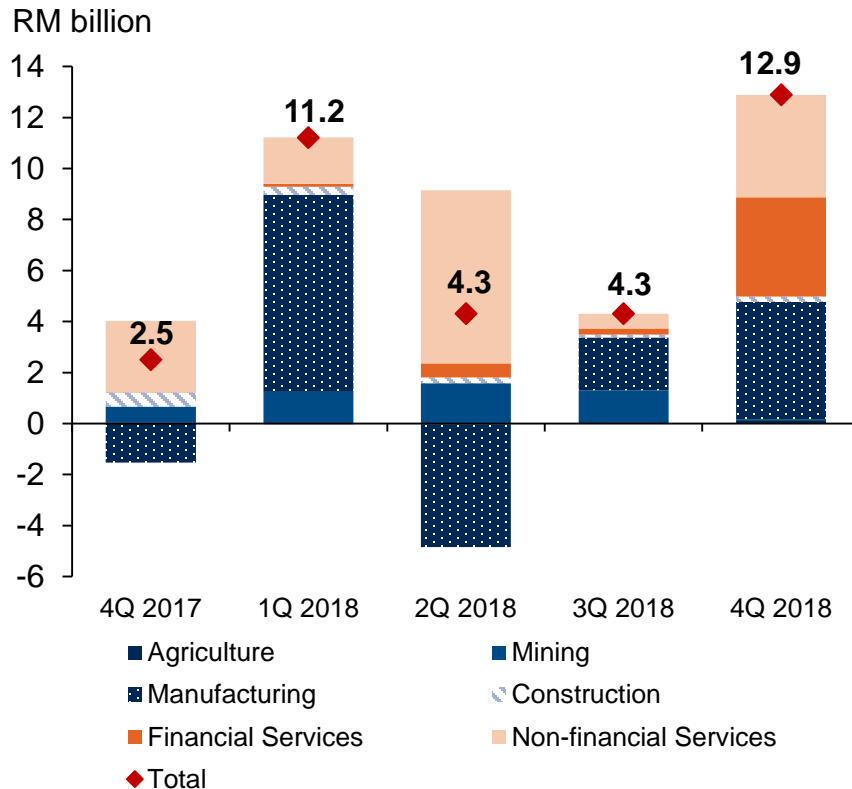
Current account to remain in surplus going forward

- **Continued goods surplus**
 - Continued global demand and support from commodity exports
- **Services and income accounts to remain in deficit**
 - Continued reliance on foreign service providers
 - Sizeable income accrued to foreign investors

FDI flows improved in 4Q 2018, and remained broad-based across sectors

4Q 2018 FDI channeled mainly into the manufacturing and services sectors

Foreign Direct Investment in Malaysia, 4Q 2017 – 4Q 2018



Note: Figures may not add up due to netting off and rounding
Sources: Department of Statistics Malaysia, Bank Negara Malaysia

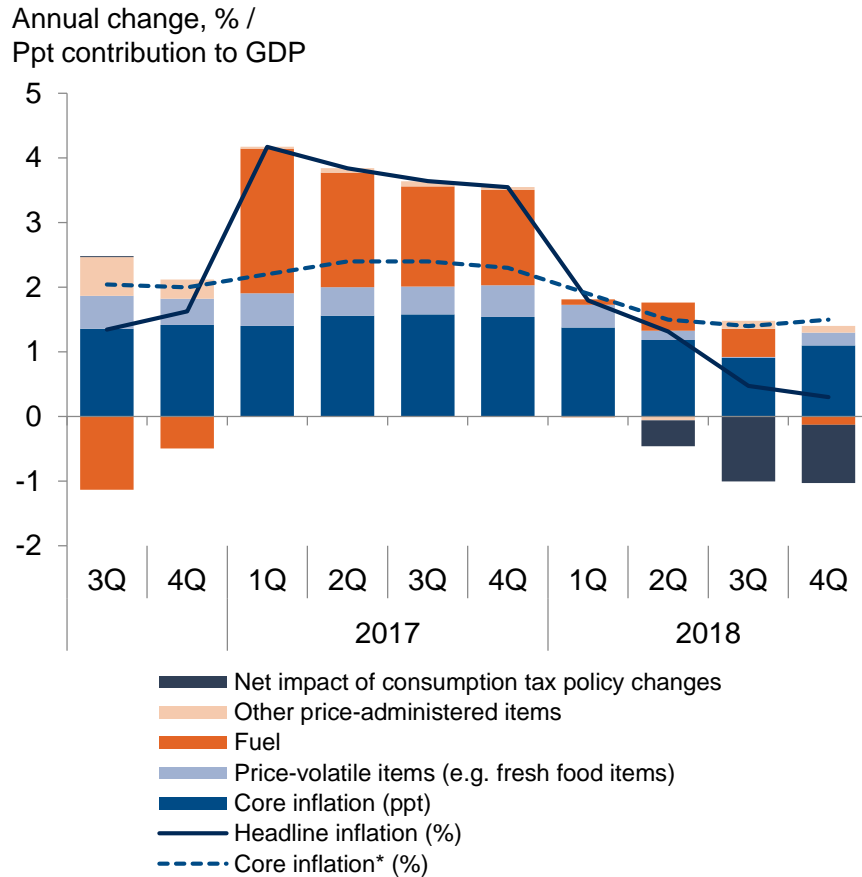
- FDI improved in 4Q 2018 (RM12.9 billion; 3Q 2018r: RM4.3 billion)
- FDI inflows were broad-based, mainly channeled into the manufacturing and non-financial services sectors.
- Advanced economies including the Netherlands, Japan, and Hong Kong were the largest contributors of FDI

Monetary and Financial Developments



Headline inflation declined in 4Q 2018

Contribution to Headline Inflation by Component



- **In 2018, headline inflation averaged 1.0%**
 - Headline inflation during the quarter declined as *transport* inflation turned negative.
- **In 2019, inflation is expected to average moderately higher**
 - Impact of the consumption tax policy will start to lapse towards the end of the year.
 - The inflation outlook is subject to risks related to the trajectory of global oil prices.
 - Underlying inflation is expected to be broadly stable.

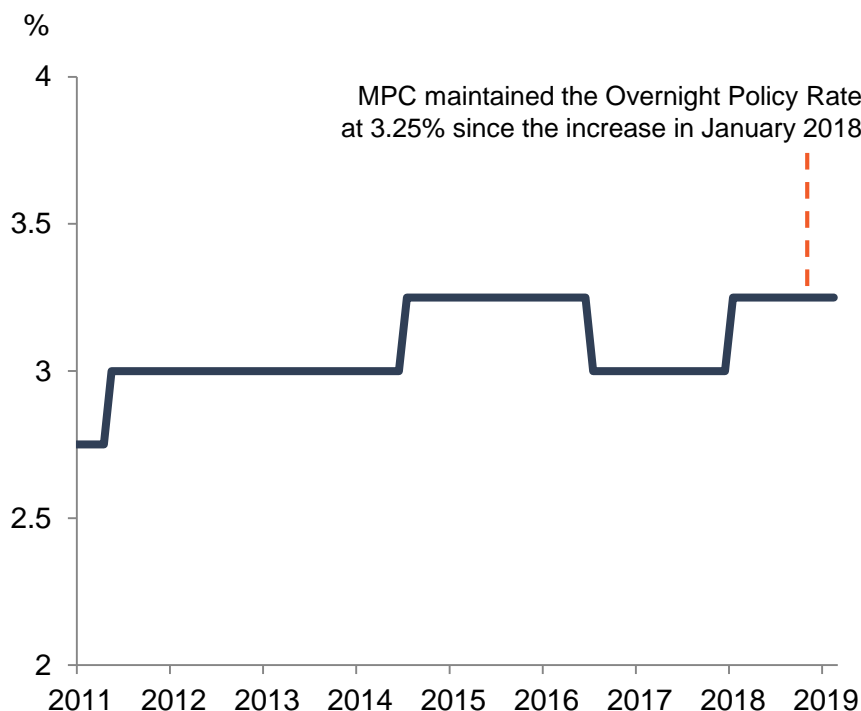
*Note: Core inflation, which is a measure of underlying inflation, excludes the estimated direct impact of changes in consumption tax policies

Source: Department of Statistics, Malaysia and Bank Negara Malaysia



Monetary policy will continue to ensure sustainable growth with price stability

Overnight Policy Rate



- **The OPR was maintained at 3.25% at the November 2018 and January 2019 meetings**
 - The stance of monetary policy remains accommodative and supportive of economic activity.
 - Monetary operations continue to ensure sufficient liquidity to support the intermediation activity.
- **The MPC will continue to assess if there are any shifts to the balance of risks to the outlook for domestic growth and inflation**

Source: Bank Negara Malaysia



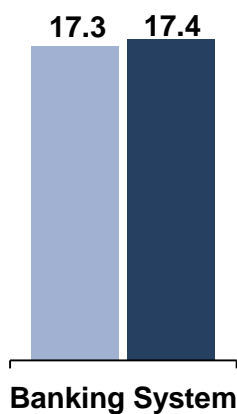
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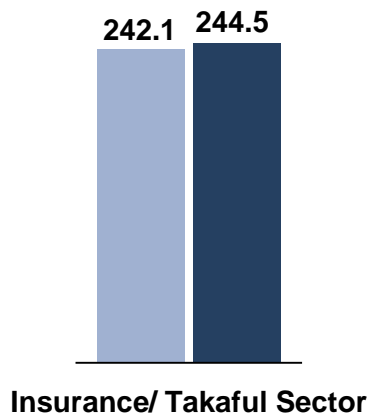
Domestic financial stability continues to be supported by resilient financial institutions

Financial institutions are well-capitalised, with sufficient liquidity to support intermediation

Total Capital Ratio (%)

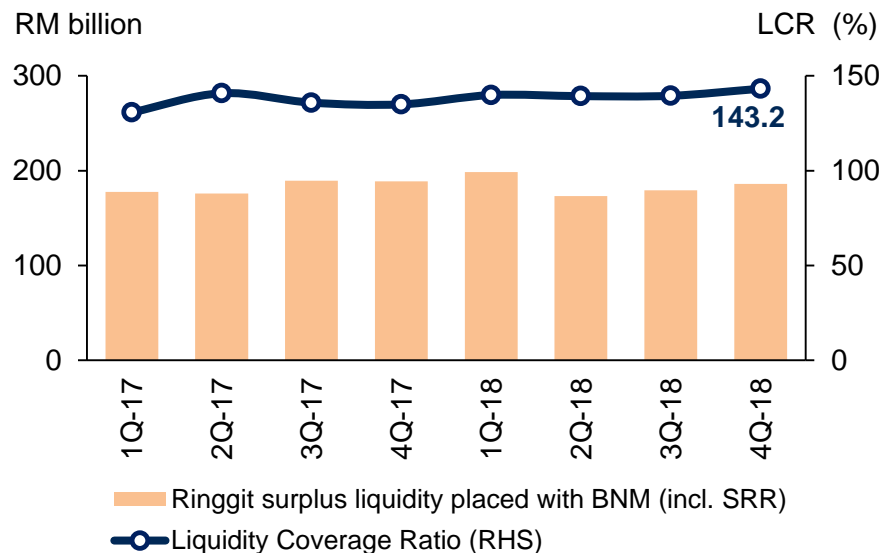


Capital Adequacy Ratio (%)



3Q 2018 4Q 2018

Liquidity Coverage Ratio (LCR) and Total Outstanding Surplus Liquidity



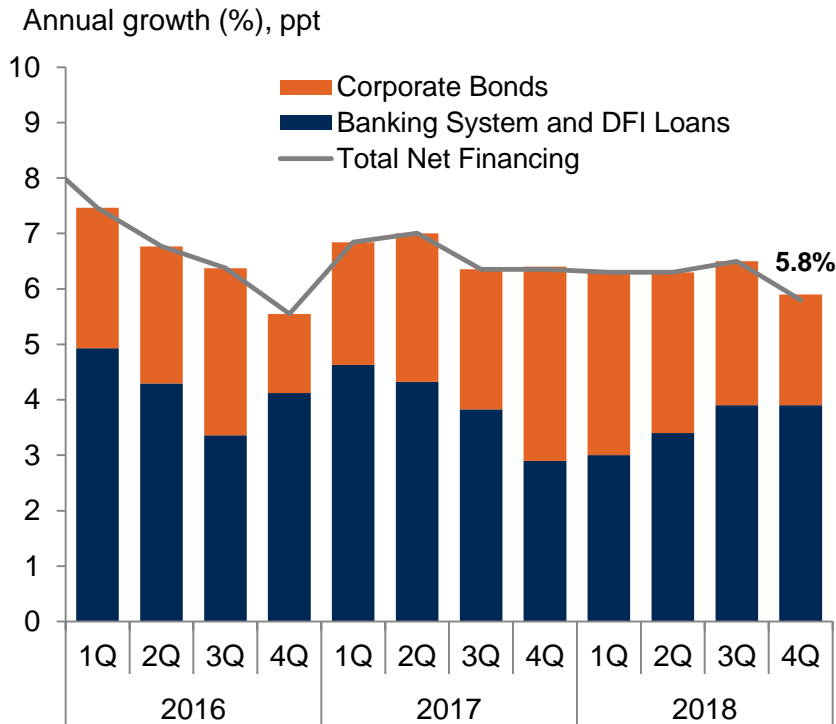
Stress tests conducted by the Bank affirm the financial institutions' resilience to withstand severe shocks under adverse macroeconomic and financial conditions

Source: Bank Negara Malaysia

Continued access to financing for the private sector

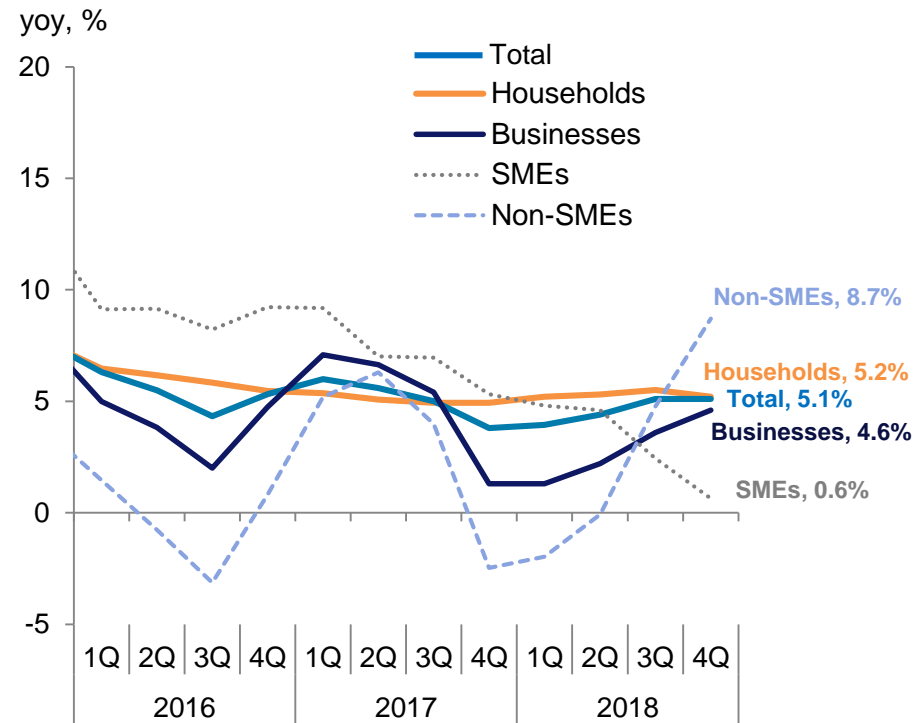
Moderation in net financing growth reflecting lower outstanding corporate bond growth

Contribution to Net Financing Growth*



Total outstanding loan growth sustained with continued increase in business loan growth

Outstanding Banking System and DFIs Loan Growth by Borrowers



*Net financing comprises outstanding banking system and DFIs loans; and outstanding corporate bonds

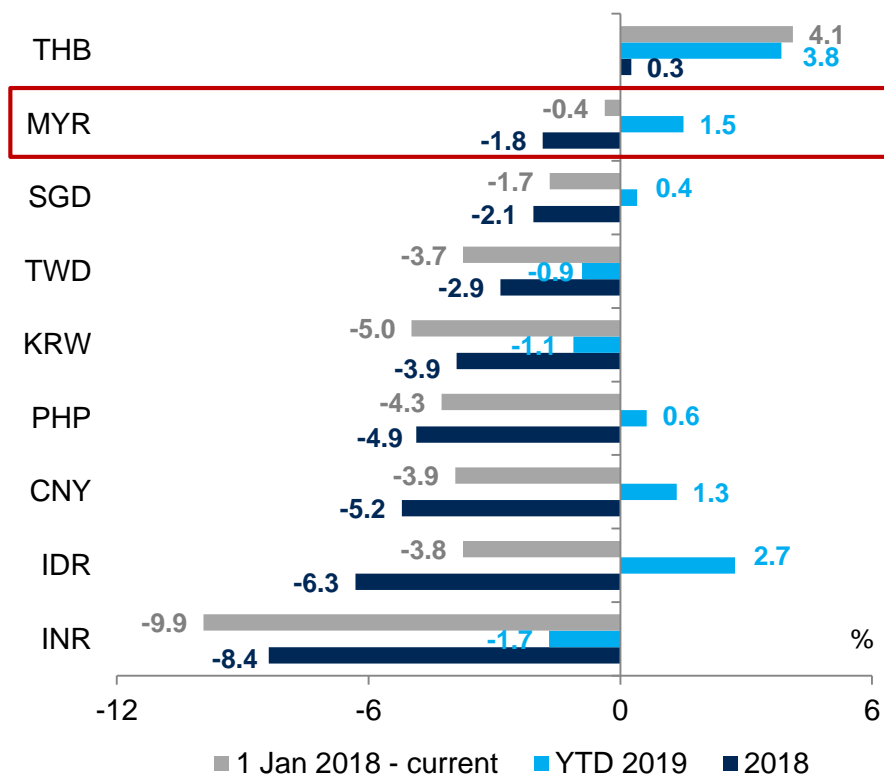
Source: Bank Negara Malaysia

The ringgit depreciated by 1.8% against the US dollar in 2018, in line with most regional currencies, but appreciated by 1.5% in 2019

The ringgit depreciated less against the US dollar compared to most regional currencies

Going forward, external uncertainties will continue to affect the ringgit outlook

Performance of Selected Regional Currencies Against USD



- Uncertainties surrounding US monetary policy normalisation
- Softening global growth outlook
- Developments surrounding global trade and protectionism

Note: YTD figures are as at 12 February 2019

Source: Bank Negara Malaysia

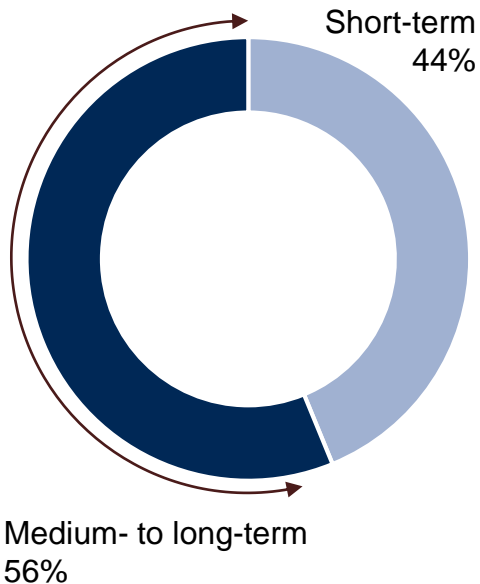
External debt edged lower and continues to remain manageable

Limited rollover risk as more than half is represented by medium- to long-term debt

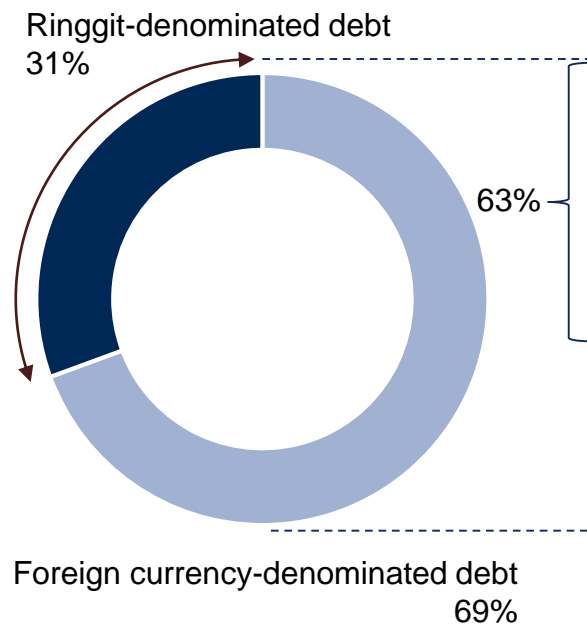
Close to a third is denominated in ringgit...

...while risks from FX debt is mostly subject to prudential safeguards

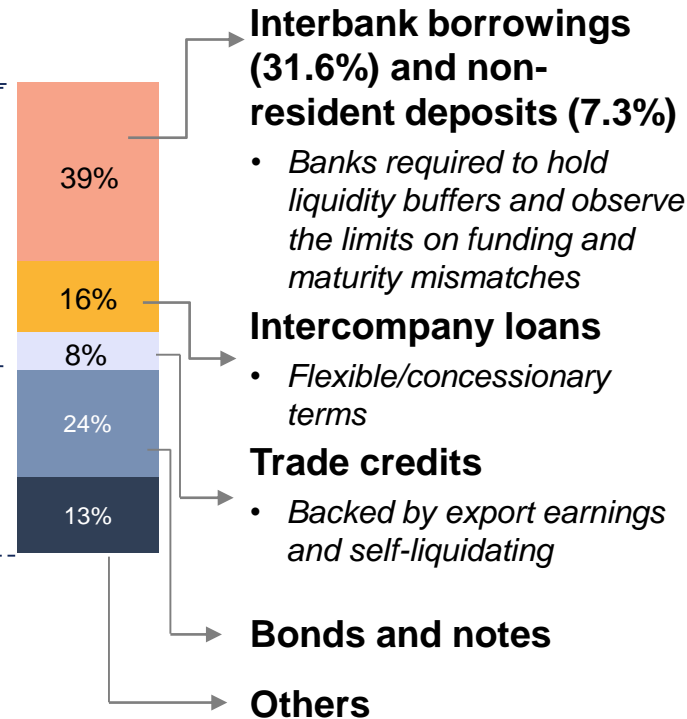
Malaysia's External Debt by Maturity
End-4Q 2018: RM924.9 bn; % share



Malaysia's External Debt by Currency
End-4Q 2018: RM924.9 bn; % share



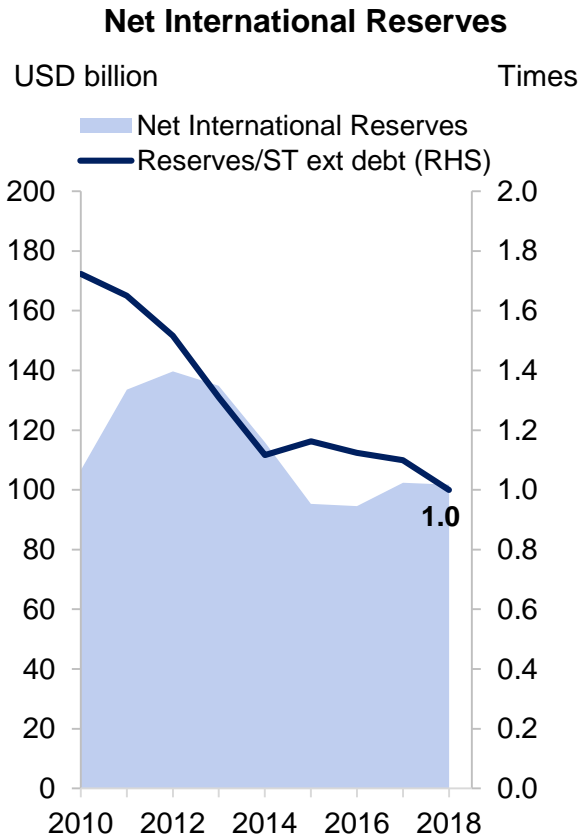
Malaysia's foreign-currency denominated external debt in 4Q 2018
% share



Note: Numbers may not add up due to rounding
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

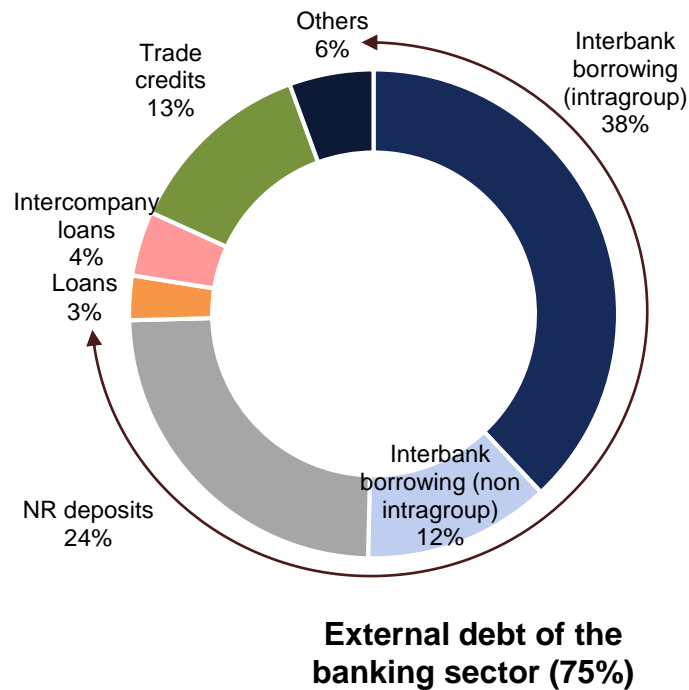
Reserves remain adequate and are not the only means to meet external obligations

Reserves-to-ST external debt coverage at 1.0x adequate to facilitate international transactions

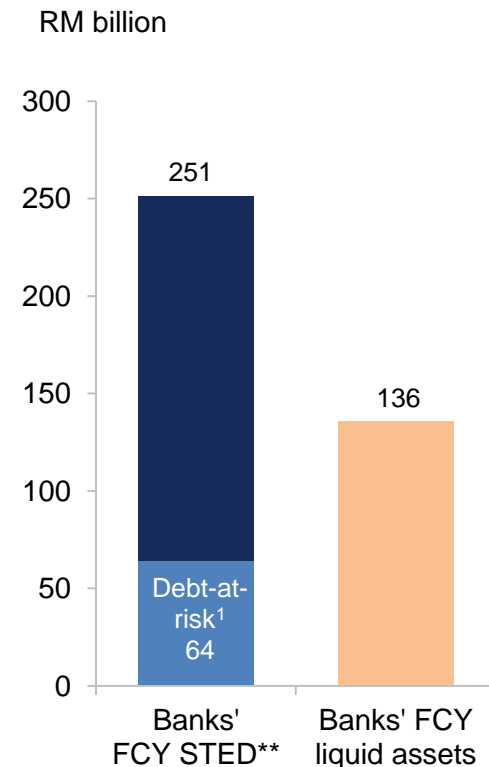


Banks account for about 75% of short-term external debt

Breakdown of Malaysia's Short-Term External Debt by Instrument
(End-4Q 2018: RM405.3 bn; % share)



Banks have sufficient FCY liquid assets to meet external debt obligations



¹ Comprises exposures to unrelated counterparties that can be susceptible to sudden withdrawal shocks

** STED refers to Short-Term External Debt

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

In 2019, the Malaysian economy is likely to remain on a steady growth path

2018

- Trend moderation after an exceptionally strong performance in 2017
- Economy impacted by one-off factors, namely, supply side shocks and post-elections policy uncertainty

2019

- Global growth reverting to long-term trajectory
- Resilience of private consumption and continuation of civil engineering projects
- Recovery from supply side shocks
- Commencement of new production facilities (RAPID, E&E, retail outlet expansion)
- Materialisation of approved manufacturing investment



Q & A



Additional Information



The Malaysian economy grew by 4.7% in the fourth quarter

Real GDP (Annual change, %)	Share, % (2018)	2017	2018	2018			
				1Q	2Q	3Q	4Q
Domestic demand (excluding stocks)	91.6	6.5	5.6	4.1	5.6	6.9	5.6
Private Sector	72.8	7.5	7.2	5.2	7.5	8.5	7.7
<i>Consumption</i>	55.5	7.0	8.1	6.9	8.0	9.0	8.5
<i>Investment</i>	17.4	9.3	4.5	0.5	6.1	6.9	4.4
Public Sector	20.1	3.3	0.1	-0.1	-1.4	1.1	0.4
<i>Consumption</i>	12.8	5.4	3.3	0.4	3.1	5.2	4.0
<i>Investment</i>	7.3	0.1	-5.2	-1.0	-9.8	-5.5	-4.9
Net exports of goods and services	8.4	-1.9	13.4	62.4	1.7	-7.5	9.9
<i>Exports</i>	70.6	9.4	1.5	3.7	2.0	-0.8	1.3
<i>Imports</i>	62.2	10.9	0.1	-2.0	2.1	0.1	0.2
Change in stocks (RM billion)	-1.3	1.1	-16.2	-5.0	2.8	-6.5	-2.1
GDP (y-o-y)	100¹	5.9	4.7	5.4	4.5	4.4	4.7
GDP (q-o-q growth, seasonally adjusted)	-	-	-	1.4	0.3	1.6	1.4

Note: ¹ Numbers do not add up due to rounding
Source: Department of Statistics, Malaysia

Real GDP (Annual change, %)	Share, % (2018)	2017	2018	2018			
				1Q	2Q	3Q	4Q
Services	55.5	6.2	6.8	6.5	6.5	7.2	6.9
Manufacturing	23.0	6.0	5.0	5.3	4.9	5.0	4.7
Mining and Quarrying	7.9	1.0	-1.5	0.1	-2.2	-4.6	0.5
Agriculture	7.8	7.2	-0.4	2.8	-2.5	-1.4	-0.4
Construction	4.5	6.7	4.2	4.9	4.7	4.6	2.6
Real GDP	100²	5.9	4.7	5.4	4.5	4.4	4.7

Note: ² Numbers do not add up due to rounding and exclusion of import duties component
Source: Department of Statistics, Malaysia



Current account registered a surplus of RM10.8 billion

Current account supported by goods surplus

RM billion	2017	2018	2018			
			1Q	2Q	3Q	4Q
Current Account	40.3	33.5	15.0	3.9	3.8	10.8
Goods	116.8	121.4	35.7	26.1	26.6	33.0
Exports	807.0	836.4	202.1	202.4	211.8	220.0
Imports	690.2	715.0	166.4	176.4	185.2	187.0
Services	-22.8	-19.7	-5.8	-6.2	-3.3	-4.3
Receipts	159.2	160.0	38.3	39.0	40.9	41.7
Payments	182.0	179.7	44.2	45.2	44.3	46.1
Primary income	-36.4	-49.4	-10.2	-11.2	-15.0	-12.9
Receipts	53.5	53.8	13.0	13.3	12.2	15.3
Payments	89.8	103.2	23.2	24.5	27.3	28.2
Secondary income	-17.3	-18.8	-4.7	-4.7	-4.5	-4.9
Receipts	16.7	15.5	3.7	3.6	4.1	4.1
Payments	34.0	34.3	8.4	8.3	8.5	9.0

Current account surplus driven by a higher goods surplus and a smaller income deficit

- **Continued goods surplus**
 - Continued global demand and support from commodity exports
- **Services and income accounts to remain in deficit**
 - Continued reliance on foreign service providers
 - Sizeable income accrued to foreign investors

Malaysia's current account registered a surplus of RM33.5 billion (or 2.4% of GNI) for 2018.

Source: Department of Statistics, Malaysia



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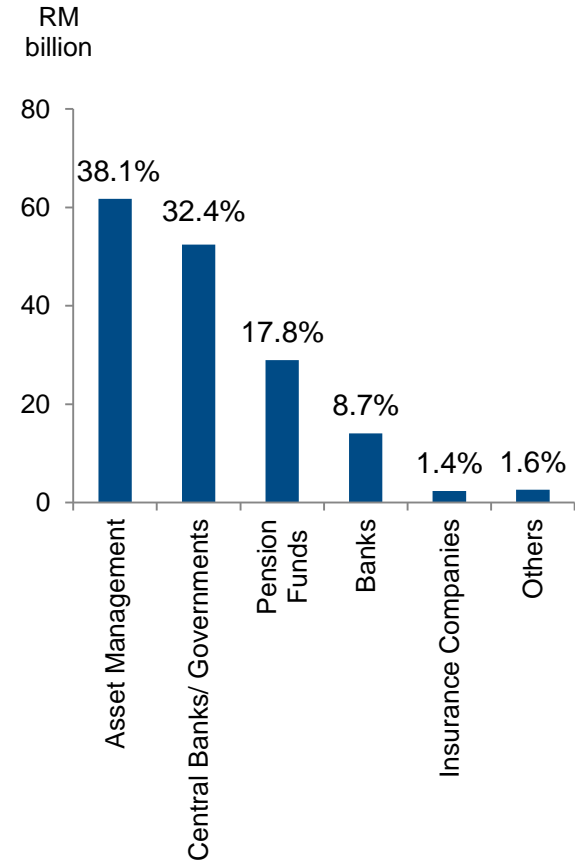
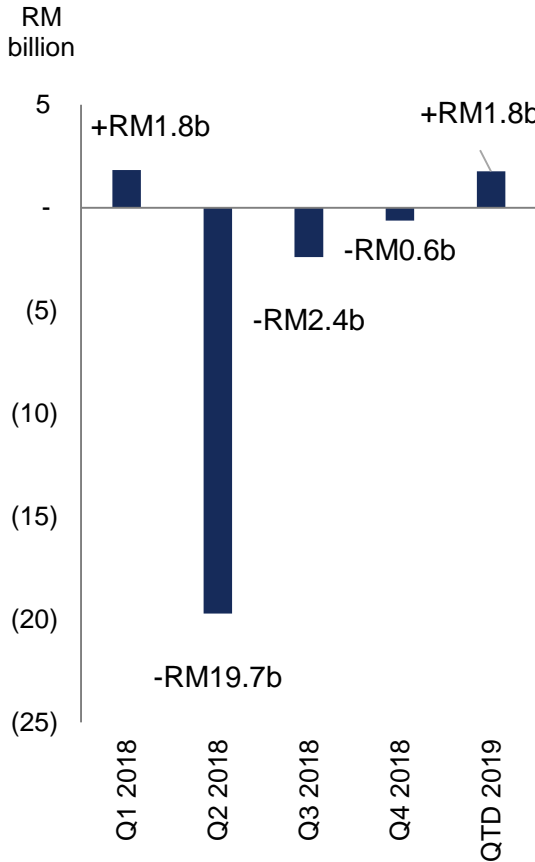
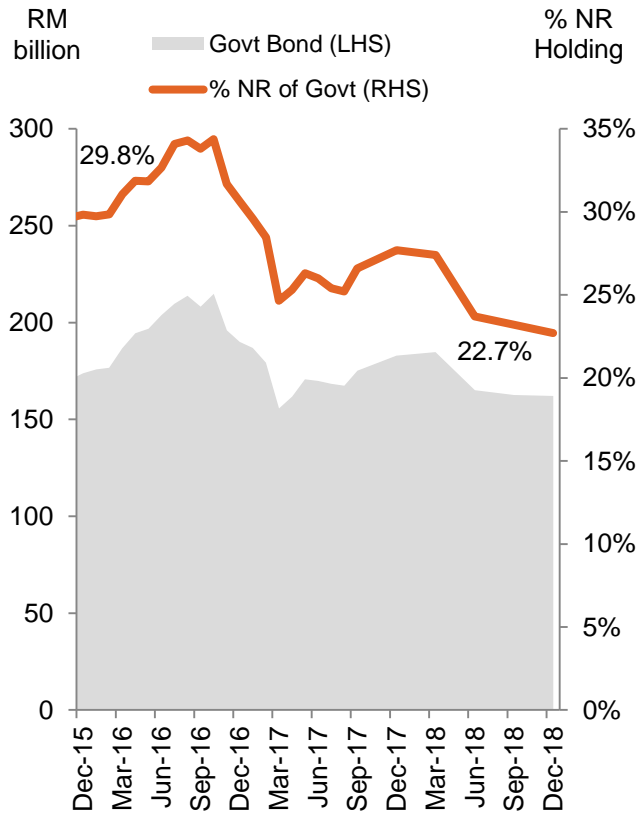


Non-resident holdings of Malaysian government bonds declined marginally in 4Q 2018 amidst risk off global sentiment on the backdrop of US-China trade tensions but recorded inflows for QTD 2019

NR holdings of Malaysian Govt. bonds stands at 22.7% in Q4 2018 (Q3 2018: 23.2%)

NR outflows in 2018 were concentrated in Q2 2018 and has returned to normal levels

Long-term NR investors remain key holders of the Malaysian government bonds

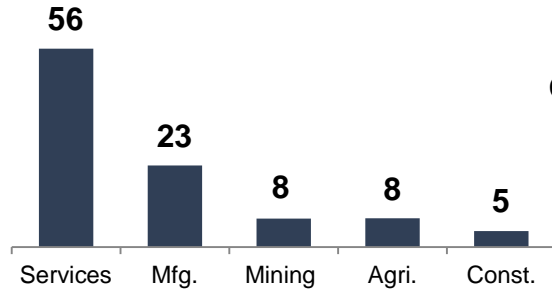


Source: Bank Negara Malaysia

Malaysia's macroeconomic fundamentals continue to remain strong despite domestic and external headwinds/challenges

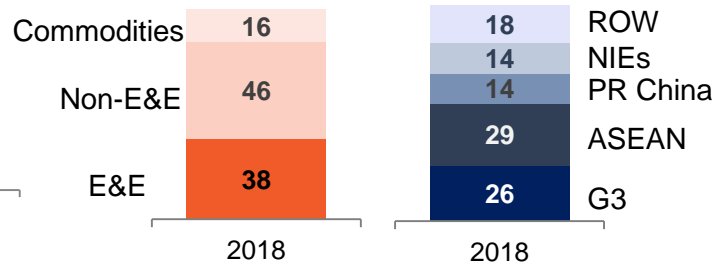
Broad-based sources of growth

Malaysia GDP by Economic Sectors (2018)
% share of GDP



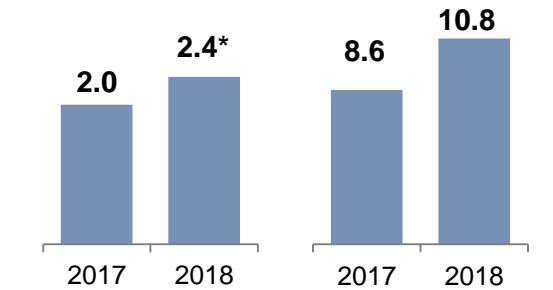
Diversified export market and product

Product % share of exports Market % share of exports



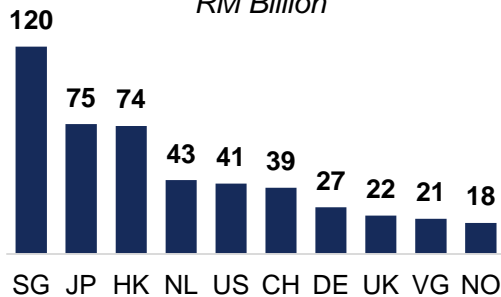
Favourable labour market conditions

Employment Growth % Manufacturing Wage Growth %



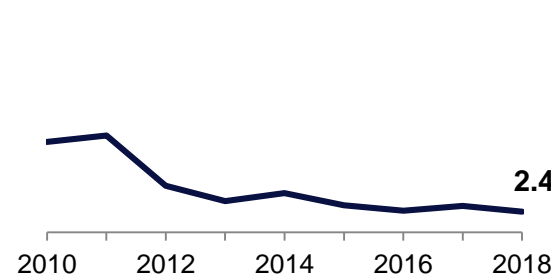
Conducive investment destination for foreign investors

Outstanding FDI of RM 631bn by Source Country (as at 4Q 2018)
RM Billion



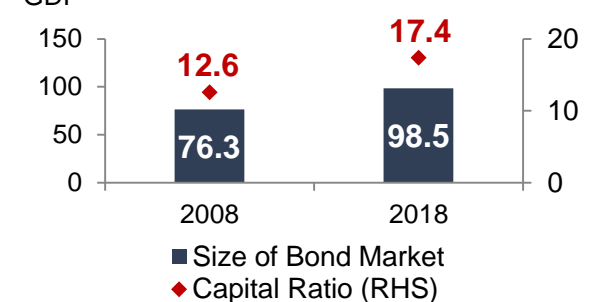
Continued current account surplus

Current Account Balance % of GNI



Deeper financial markets, resilient banking system and strong financial buffers

% of nominal GDP Size of Bond Market and Banking Capital Ratio %



* Bank Negara Malaysia estimates using data from the Quarterly Labour Force Survey published by DOSM

** Note: HK= Hong Kong, CN=China, SG= Singapore, UK= United Kingdom, JP=Japan, DE=Germany, ID=Indonesia, KR=South Korea, LU= Luxembourg, NIEs include Hong Kong, Chinese Taipei and Korea

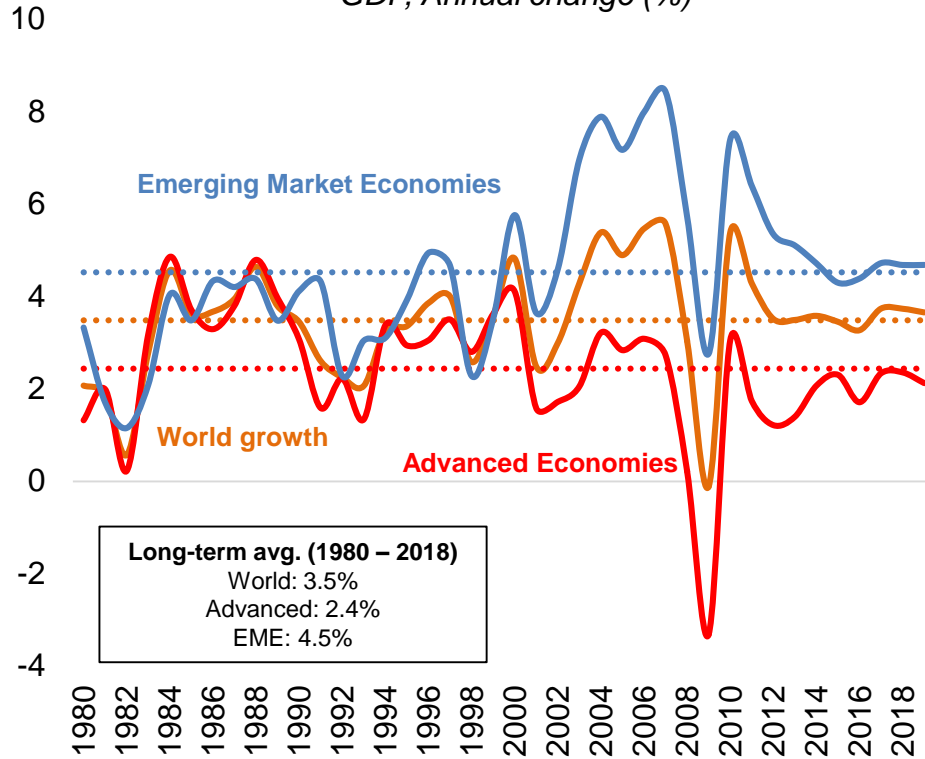
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

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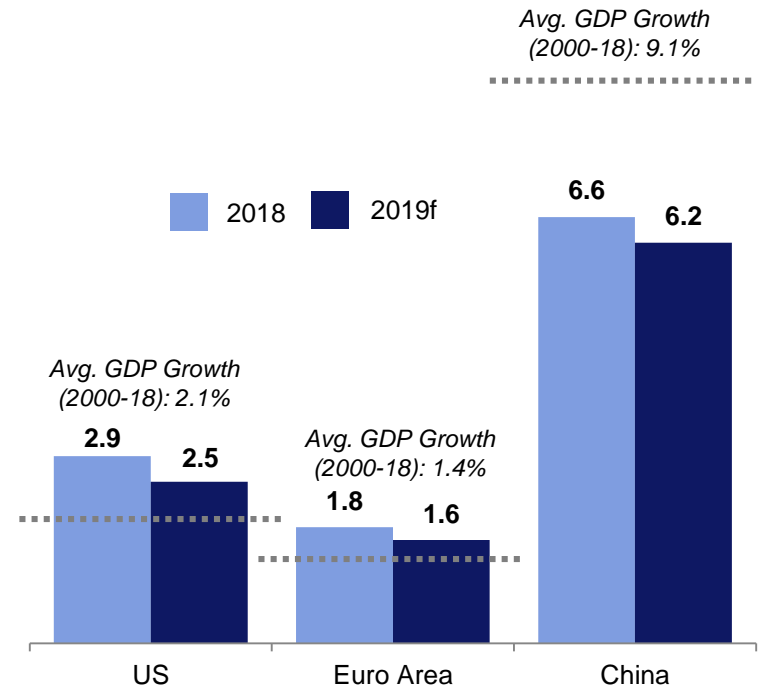
Global growth reverting to its long term growth trajectory

GDP growth in most major economies are trending towards their long term trend

Global Growth and Major Regions
GDP, Annual change (%)



Selected Major Economies
GDP, Annual change (%)



Note: The long term growth rates (1980-2018) for global, advanced and emerging market are 3.5%, 2.4% and 4.5%, respectively.

Source: National authorities and IMF

End

