

Sidang Akhbar

Prestasi Ekonomi Suku Kedua Tahun 2019

Gabenor
Bank Negara Malaysia

16 Ogos 2019



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Sidang akhbar akan meliputi



Perkembangan ekonomi global dan serantau



Prestasi ekonomi Malaysia pada suku kedua 2019



Keadaan monetari dan kewangan



Challenging global economic environment

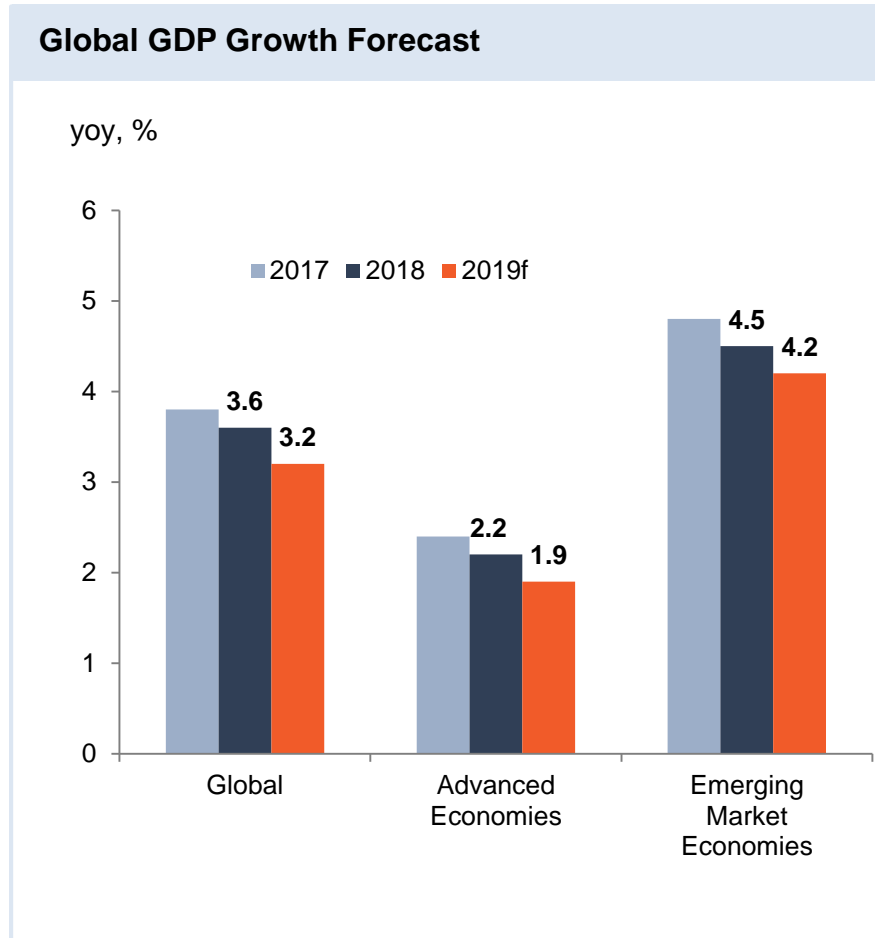
- 1 Slower growth across advanced and emerging market economies
- 2 Weak external demand amid ongoing trade tensions
- 3 Heightened global uncertainty



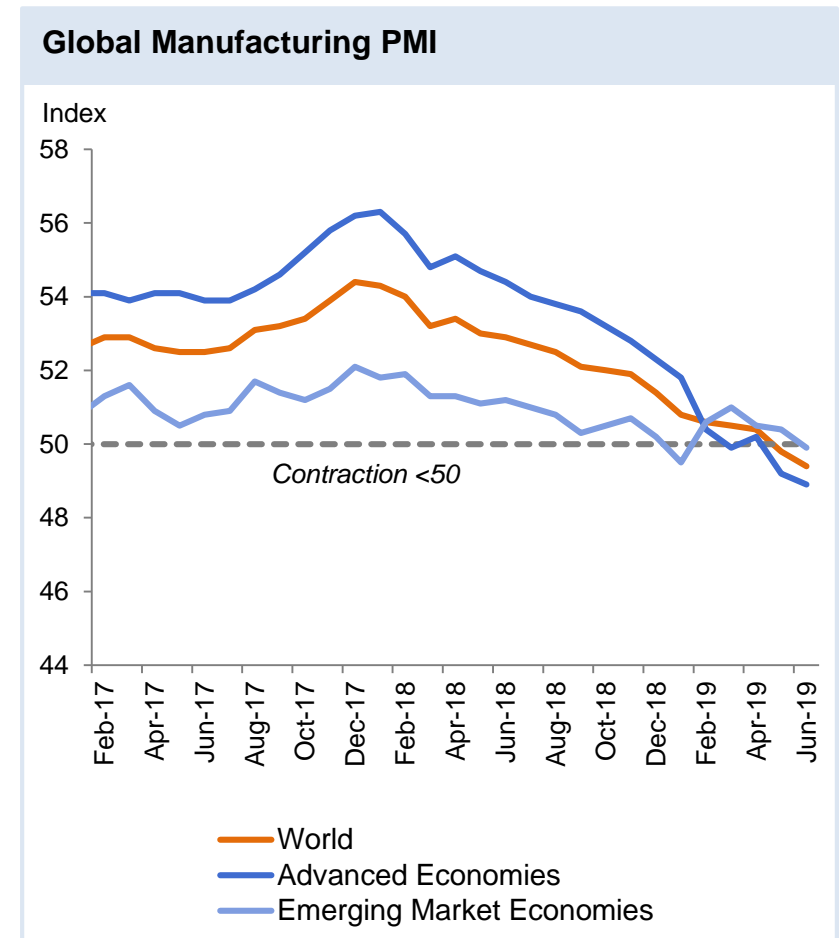
Global growth to moderate in 2019

Global growth is on a moderating trend...

...as reflected in slower manufacturing activity

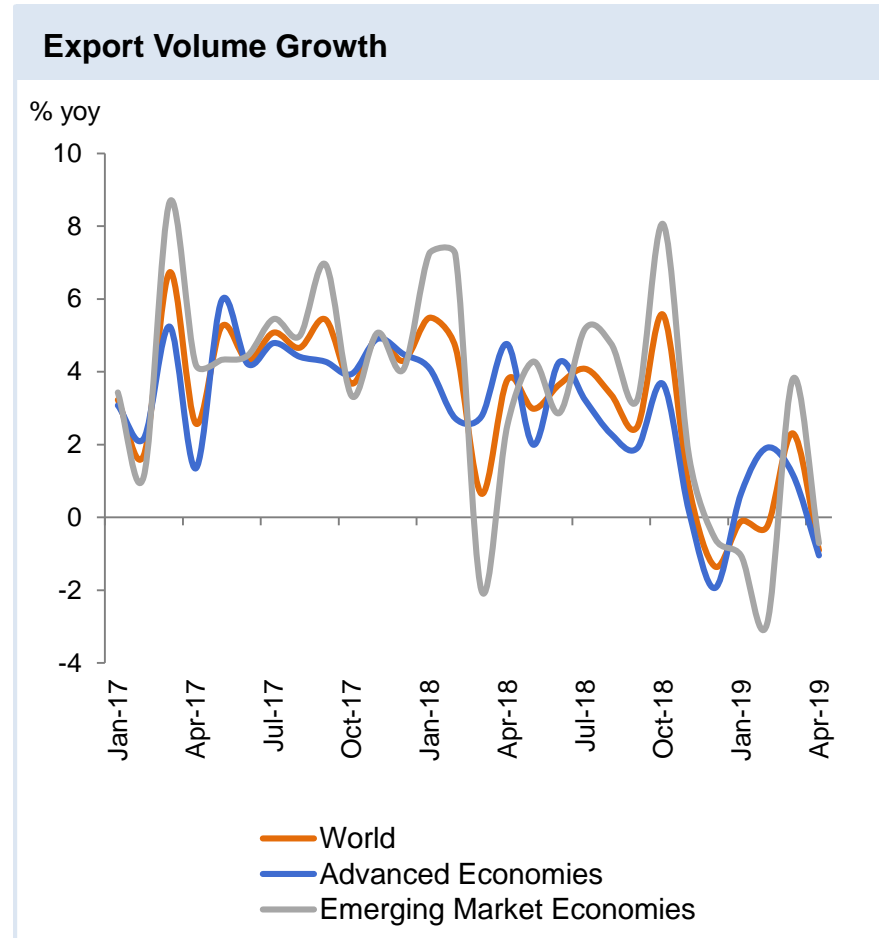


Source: IMF World Economic Outlook, CEIC

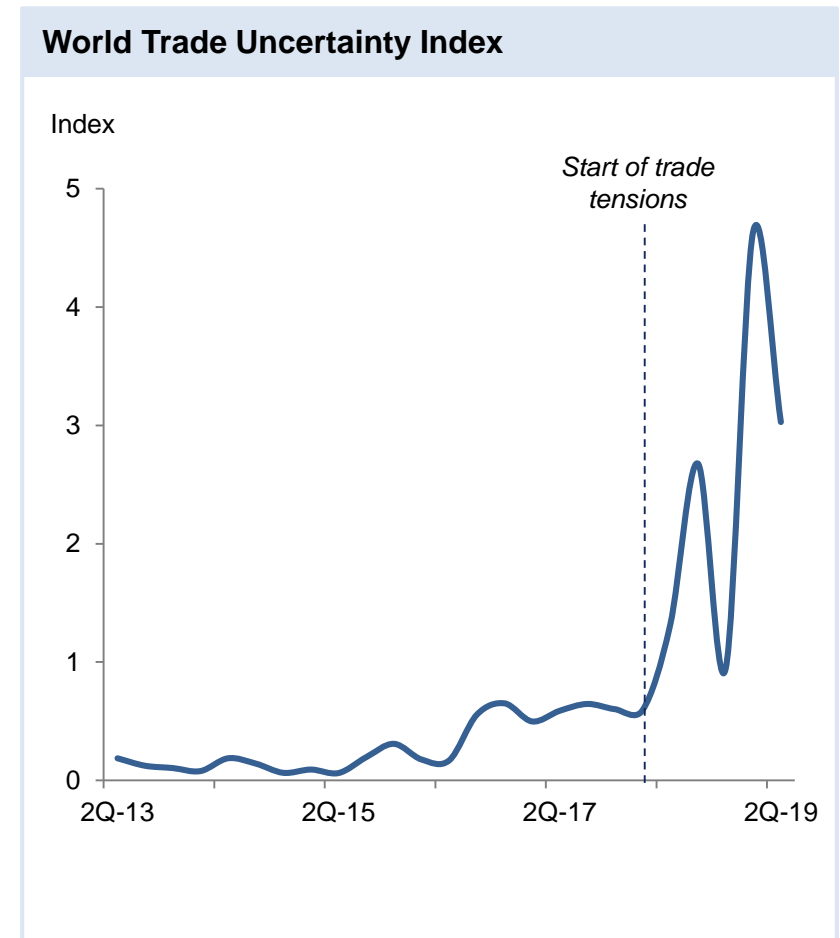


Weak external demand amid ongoing trade tensions

Sluggish global export growth...



...amid heightened global trade uncertainty



Source: CEIC, Ahir, Bloom and Furceri (2012), "The World Uncertainty Index"

Malaysia's growth accelerated in 2Q 2019 despite global headwinds

Strength in private sector expenditure, recovery in commodity output and higher net exports offset weak public investment activity



Resilient private sector expenditure

- Faster expansion in household spending
- Slightly higher private investment growth



Recovery in commodity output

- Rebound in natural gas production
- Continued improvement in palm oil yields



Higher net exports

- Export growth amid decline in imports

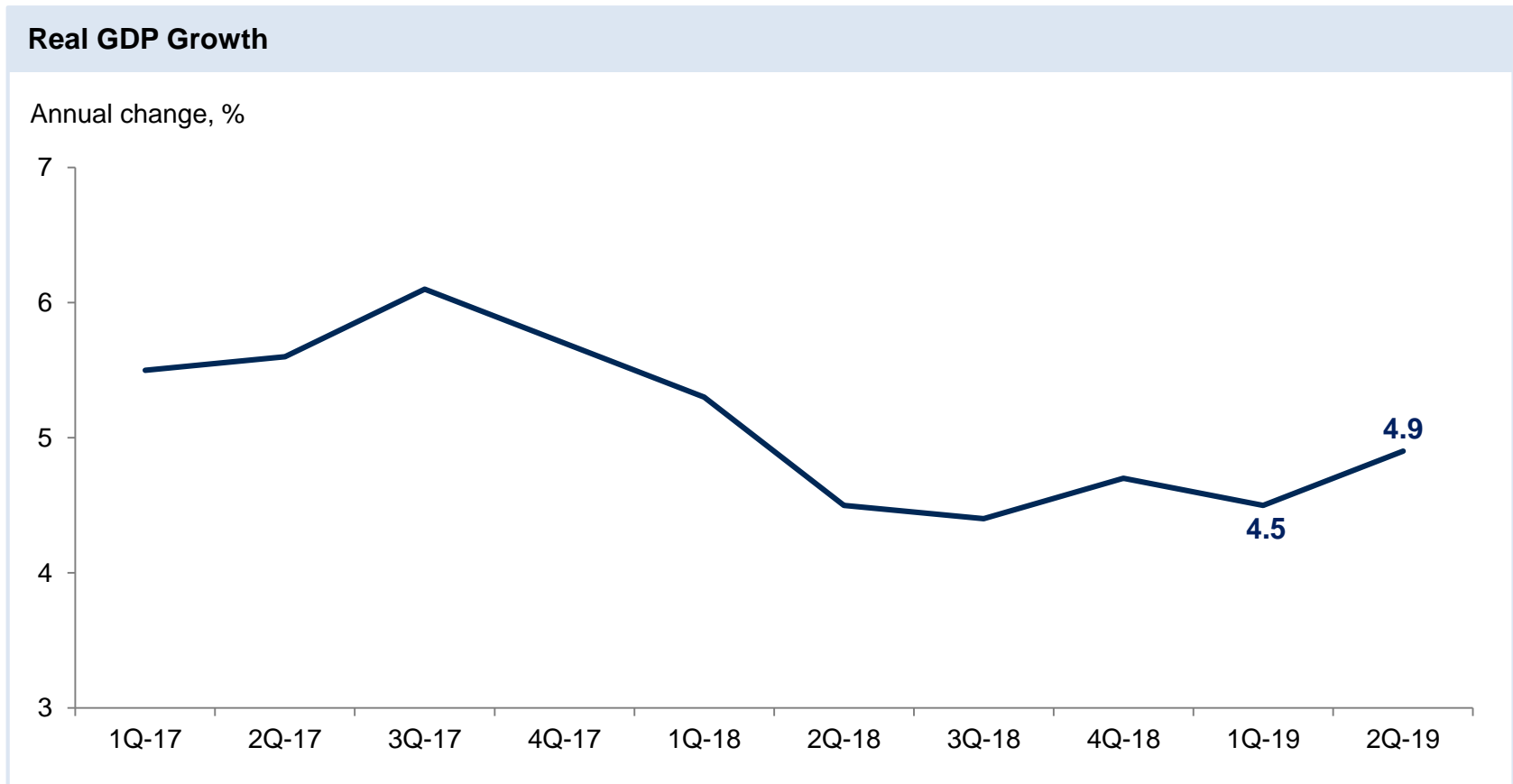


Weak public investment

- Continued contraction in public corporations' capital spending

The Malaysian economy recorded a stronger growth of 4.9% in the second quarter

Growth supported by continued expansion across all economic sectors



Source: Department of Statistics, Malaysia



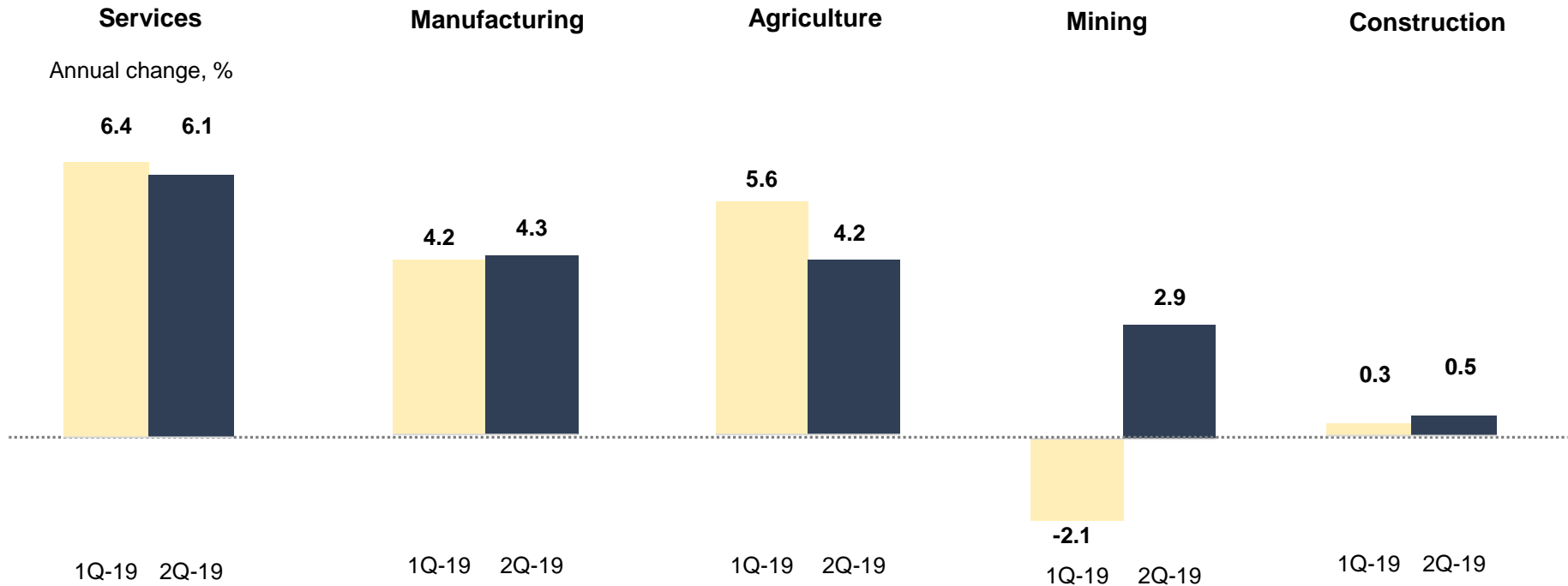
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Expansion across all economic sectors

Growth supported by the recovery from commodity supply disruptions and improved performance in the manufacturing and construction sectors



*Sustained growth in the **wholesale and retail trade** sub-sector*

*Better performance of the **domestic-oriented** industries*

*Decline in **fishing and forestry** segment and weaker **natural rubber output** partially offset by continued recovery in palm oil yields*

*Recovery in **natural gas output** from supply disruptions in 2018*

*Improvements in the **residential and special trade** sub-sectors*

Source: Department of Statistics, Malaysia



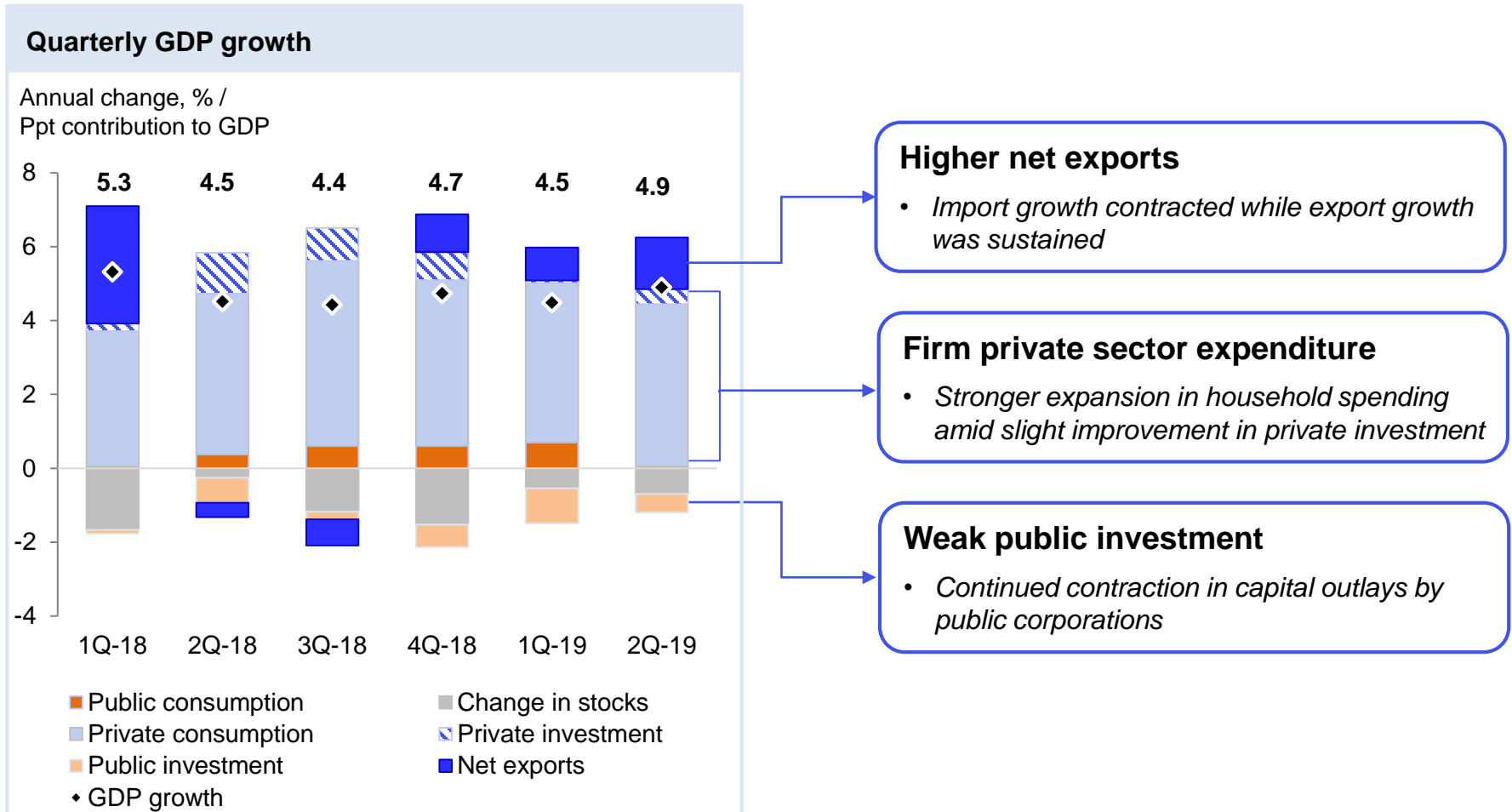
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Private sector spending remained the key driver of growth

Continued private sector expenditure underpinned by both private consumption and investment



Source: Department of Statistics, Malaysia



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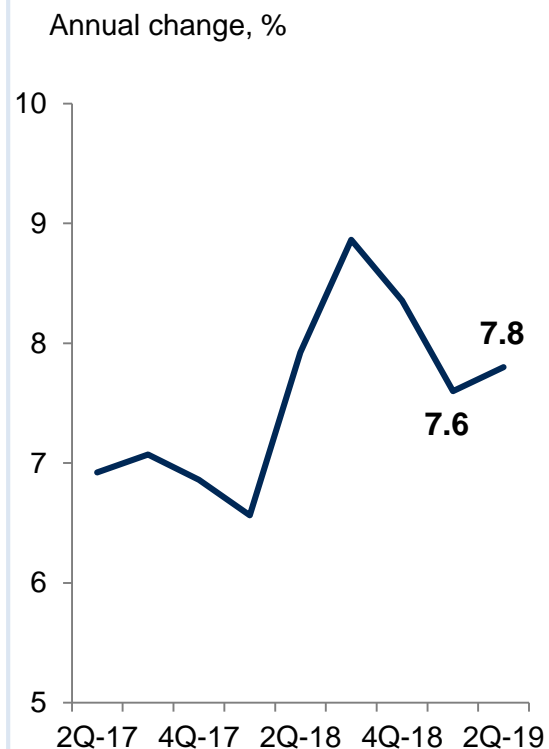
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Private consumption growth remained firm

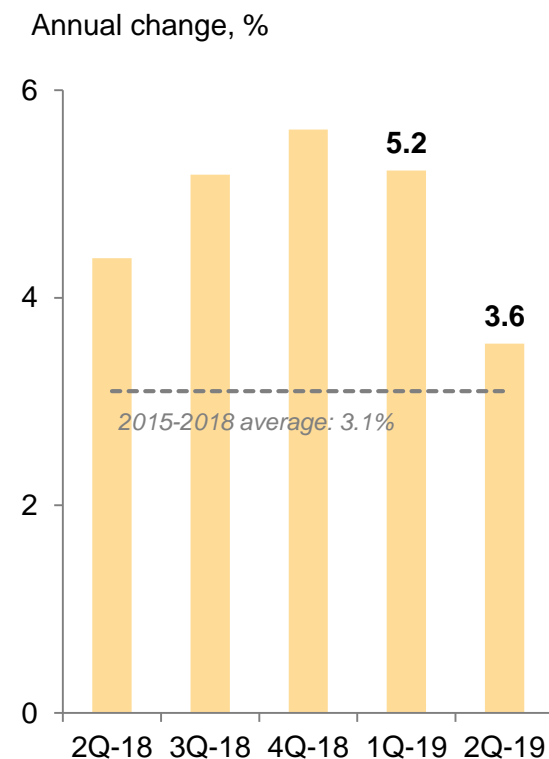
Household spending lifted by above-average real wage growth and several Government measures

Going forward, consumer spending to remain supported by:

Real Private Consumption Growth



Real Private Sector Wage Growth*



Continued income and employment growth



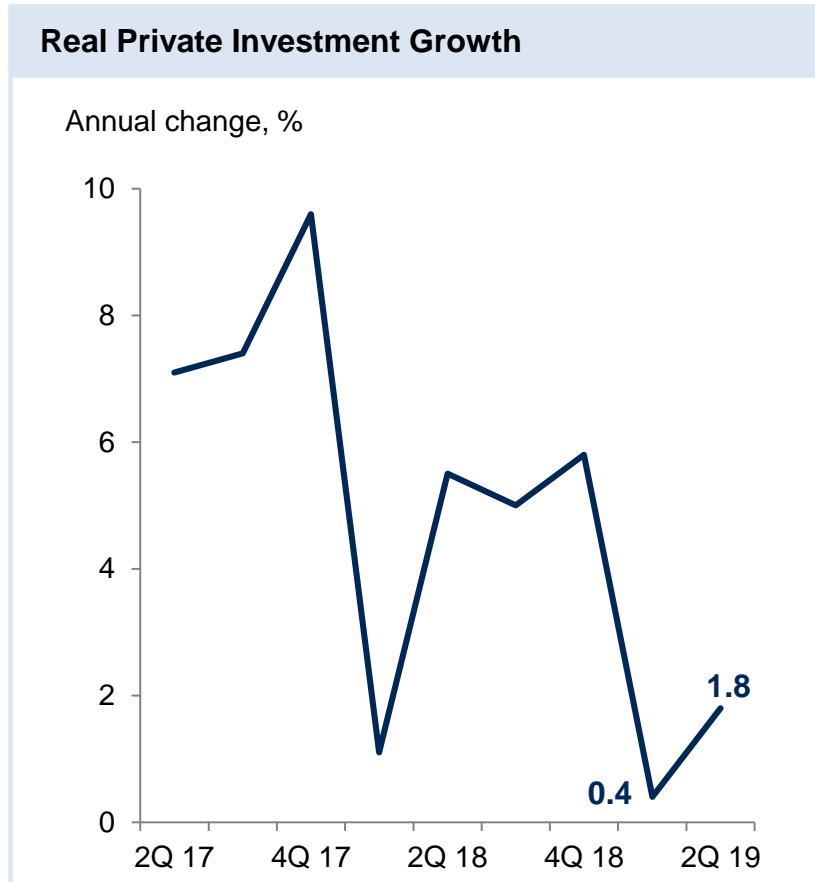
Supportive Government policies

* Real private sector wages are derived from the nominal salaries and wages data, published in the Monthly Manufacturing Statistics and Quarterly Services Statistics by the Department of Statistics, Malaysia (covering 62.9% of total employment). The nominal private sector wages are then deflated by the consumer price index (CPI).
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Private investment growth improved

Slight rebound in private investment...

...but, downside risks remain



Heightened global uncertainty and slower global growth



Persistent weakness in the property segment

Source: Department of Statistics, Malaysia, RAM BCI, Bank Negara Malaysia

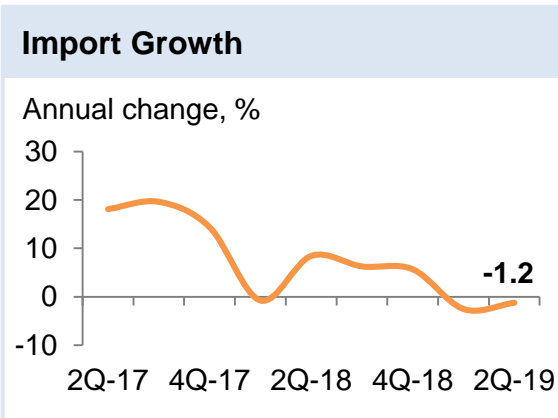
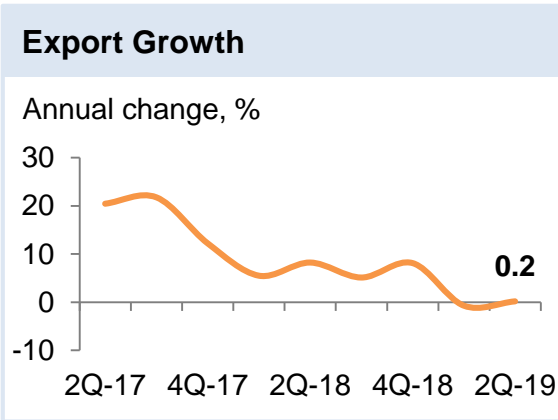


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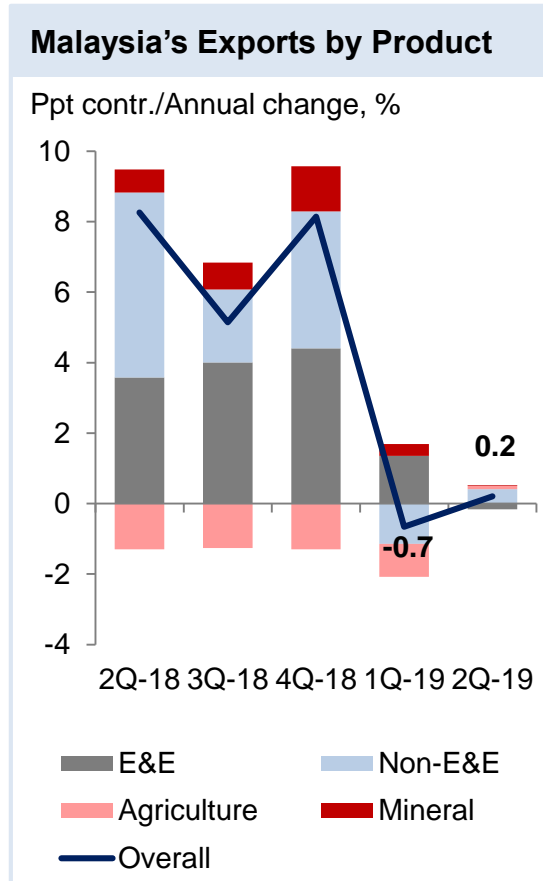


Slight recovery in exports and smaller decline in import growth

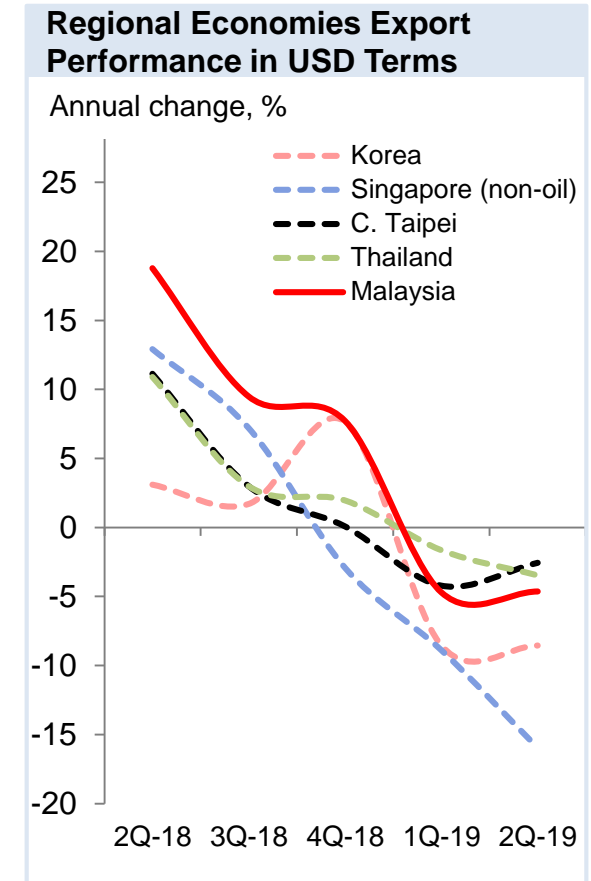
Marginal turnaround in export growth



Diversified exports helped mitigate impact of weaker E&E export growth...



...as reflected by Malaysia's exports compared to regional economies

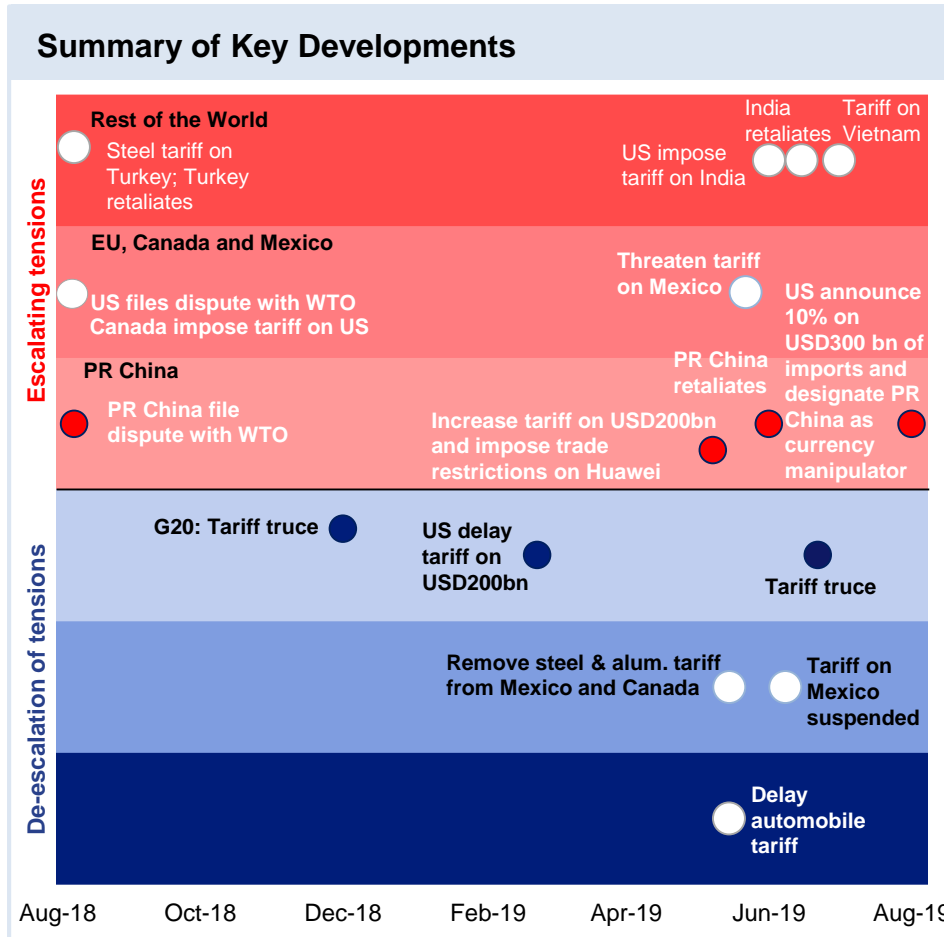


Source: Department of Statistics, Malaysia and Bloomberg

Box Article: Unresolved trade tensions pose a multitude of challenges, risks and opportunities

Vacillation of trade developments in the past year have generated major uncertainties

Protracted trade disputes may have significant structural implications



Source: National authorities, newsflows

1 Subdued global growth

➤ Ongoing growth moderation dragged lower by trade disputes

2 High financial volatility and investor uncertainty

➤ Uncertainty over trade policies at an all-time high

3 Reconfiguration of Global Value Chains

➤ Short- and long-term opportunities for Malaysia



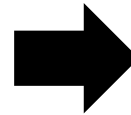
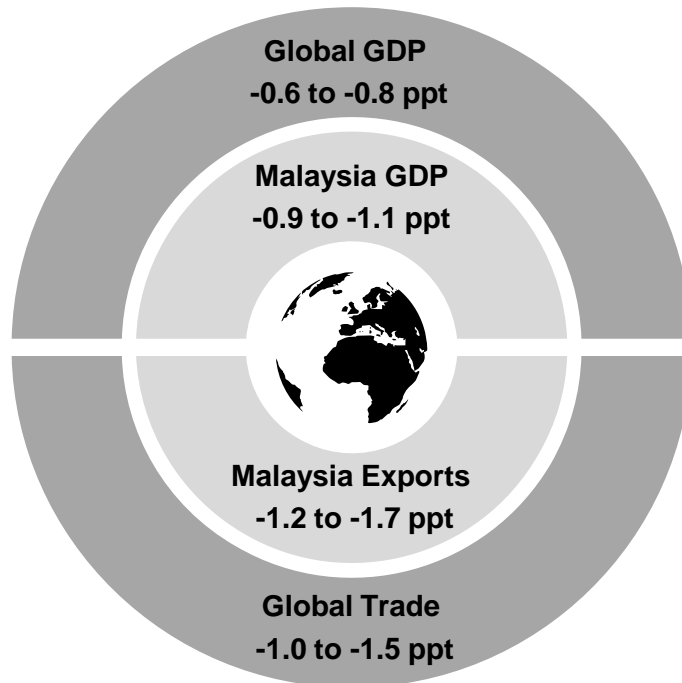
Further escalation of trade tensions will weigh on growth outlook

Lower downside risks in latest assessment due mainly to delay in implementation of selected tariffs

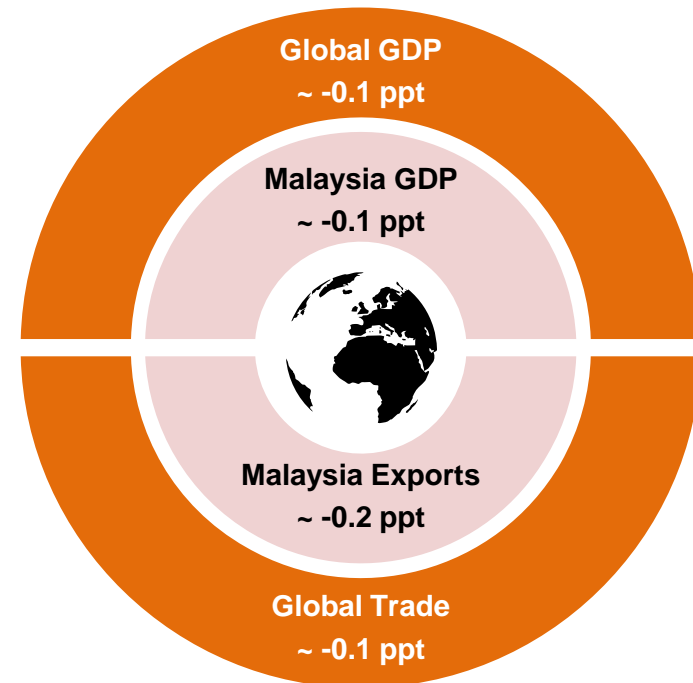
Summary of Downside Risk Estimates for 2019

Ppt. contribution, %

3Q 2018 Quarterly Bulletin



Current



Source: Bank Negara Malaysia estimates

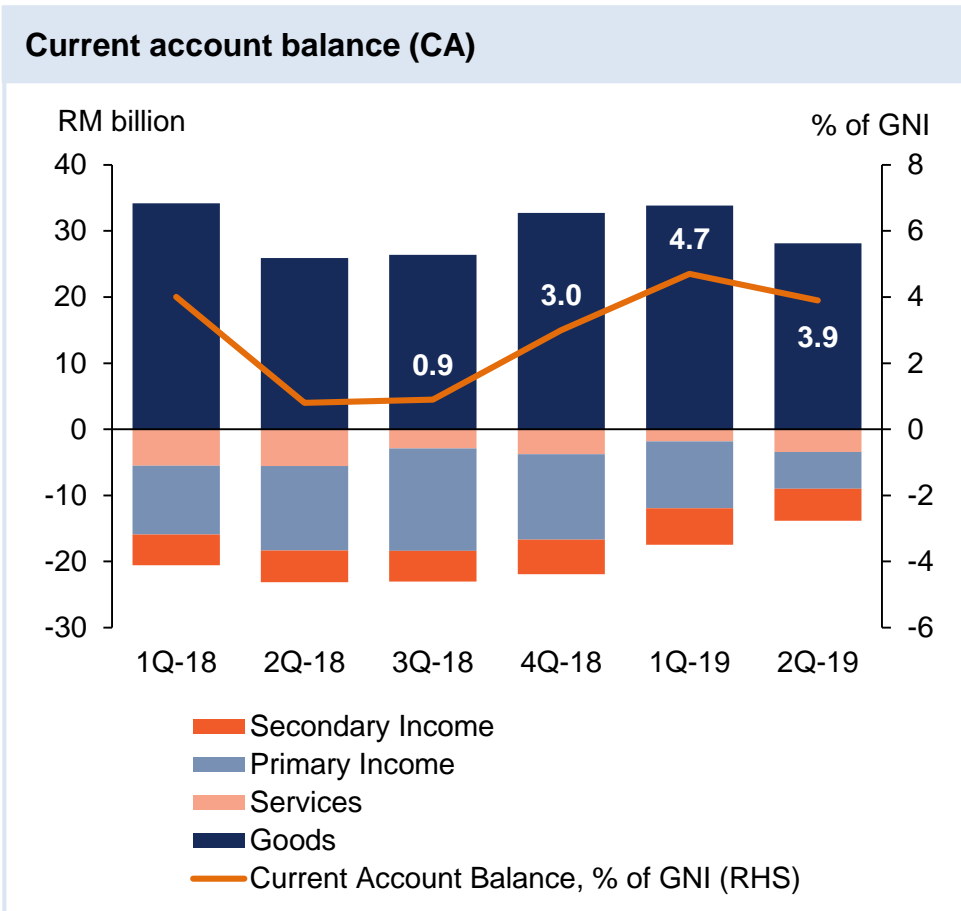


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Current account of the balance of payments registered a surplus of RM14.3 billion or 3.9% of GNI

Current account surplus remained sizeable



Current account to remain in surplus



Continued goods surplus

- Demand from key trade partners to expand, albeit more moderately



Services and income accounts to remain in deficit

- Reliance on foreign service providers
- Substantial income accrued to foreign investors

Sources: Department of Statistics, Malaysia and Bank Negara Malaysia



Financial account recorded a net outflow

The financial account registered a net outflow amounting to RM18.6 billion

Financial Account by Components

RM billion	2018	2019		
	1H	1Q	2Q	1H
Direct Investment	8.7	16.3	-8.2	8.0
<i>Direct Investment Abroad</i>	-6.7	-5.5	-12.6	-18.1
<i>Foreign Direct Investment</i>	15.5	21.7	4.4	26.1
Portfolio Investment	-39.4	2.1	-10.2	-8.1
<i>Resident</i>	-10.3	-11.4	-5.0	-16.5
<i>Non-resident</i>	-29.1	13.5	-5.1	8.4
Financial Derivatives	1.6	-0.2	-0.5	-0.7
Other Investments	51.5	-31.9	0.3	-31.6
Financial Account Balance	22.4	-13.8	-18.6	-32.4



Higher DIA



Reversal of non-resident portfolio investments



Continued, albeit lower, FDI

Note: Numbers do not add up due to rounding

Source: Department of Statistics, Malaysia and Bank Negara Malaysia



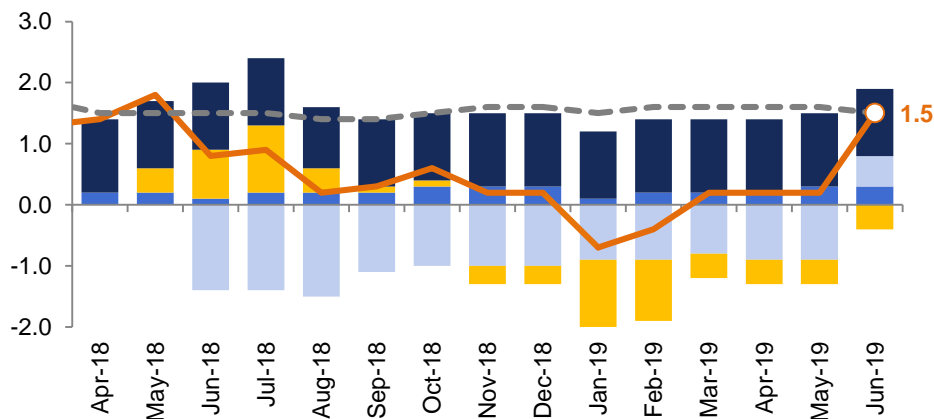
Monetary and Financial Developments



Headline inflation increased to 1.5% in June 2019

Contribution to Headline Inflation by Component

Annual change, % /
Ppt contribution to headline inflation



	2Q 2018	3Q 2018	4Q 2018	1Q 2019	2Q 2019
Headline inflation	1.3	0.5	0.3	-0.3	0.6

- Core inflation¹(ppt)
- Fuel (ppt)
- Net impact of consumption tax policy changes (ppt)
- Others² (ppt)
- Headline inflation (%)
- Core inflation¹ (%)

- Headline inflation is expected to average higher in 2H 2019 following the lapse in the impact of consumption tax policy changes
- Underlying inflation is expected to remain stable

¹Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of consumption tax policy changes.

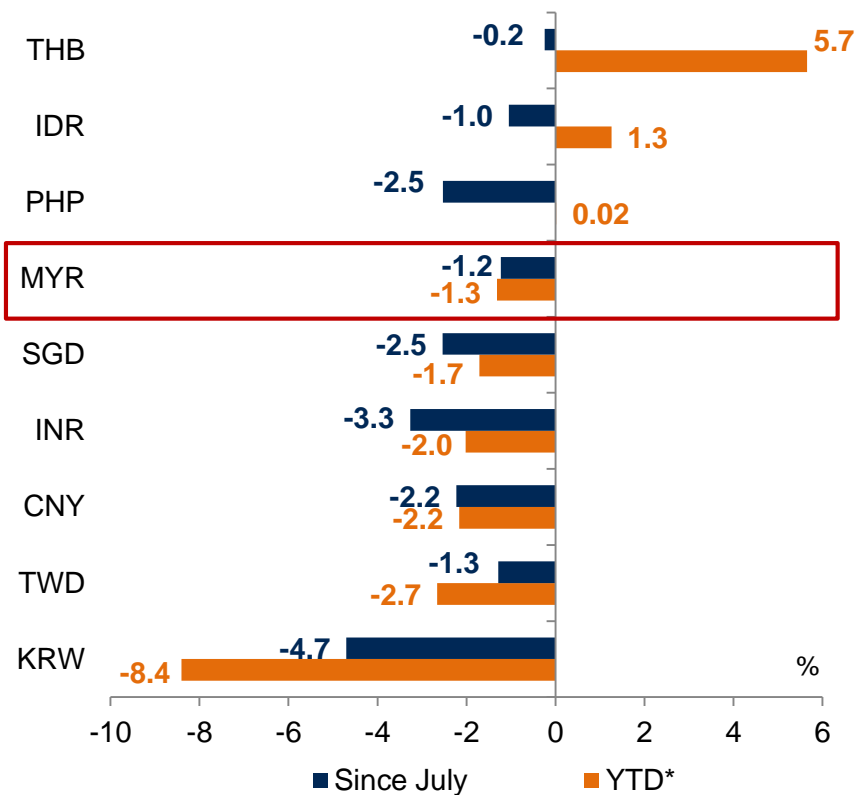
²Others include price-volatile items and other price-administered items

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

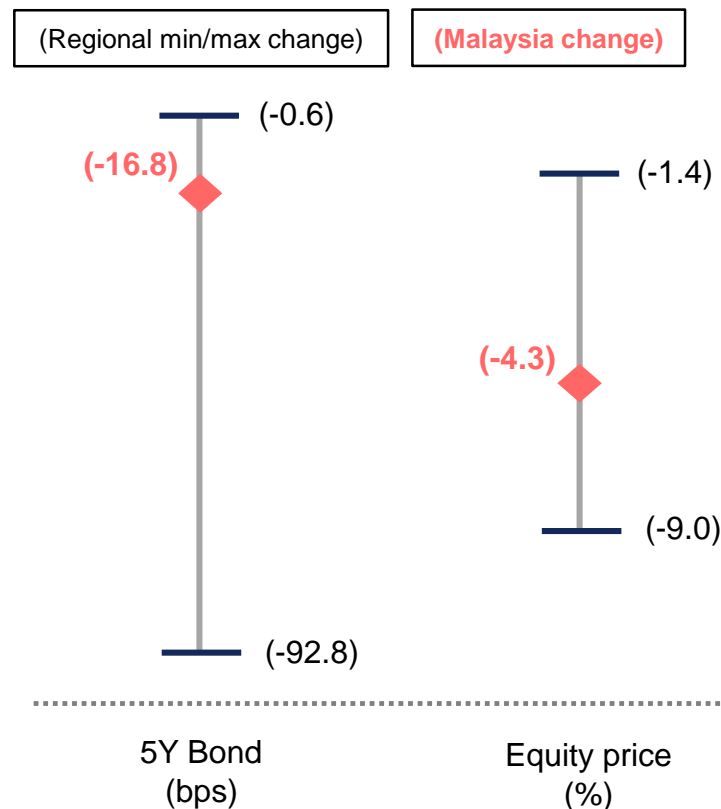
Domestic financial markets have been moving in tandem with regional markets, reflecting global developments

Movement of domestic financial markets during the quarter has been driven mainly by external factors

Movement of Ringgit and Regional Currencies against the US Dollar



Movement Range of 5-Year Sovereign Bond Yields and Equity Prices of Regional Markets since July*



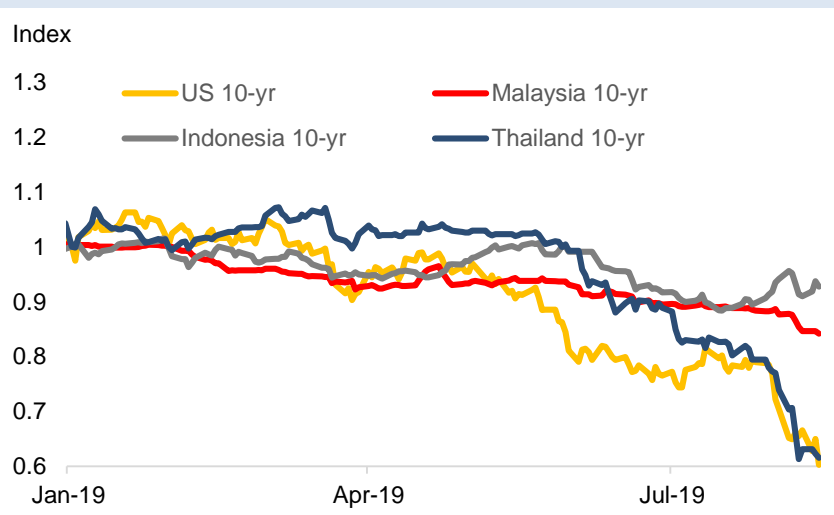
*YTD as at 15 August 2019
Source: Bank Negara Malaysia

*Movement change from 1 July to 14 August 2019. Regional countries include Indonesia, the Philippines, PR China, Singapore, South Korea and Thailand
Source: Bloomberg, Bank Negara Malaysia

Non-residents registered net inflows into bonds since June 2019

Malaysian bond yields edged lower in line with global bond yields

Regional Government 10-yr Bond Yields (Normalised)

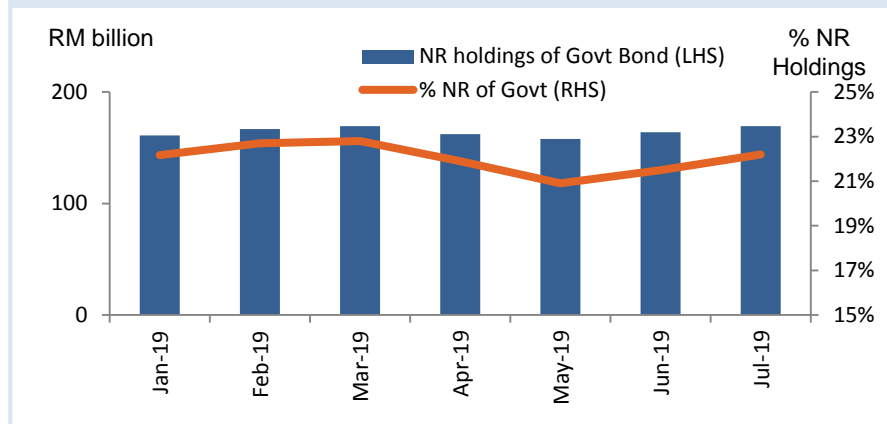


As at 14/08/2019	Regional 10-year Bond Yields			
	Malaysia	US	Thailand	Indonesia
Change in yields (bps)	-66	-111	-102	-55
Current yield (%)	3.42	1.58	1.47	7.43
Volatility	0.16	0.30	0.25	0.28

Source: Bank Negara Malaysia and Bloomberg

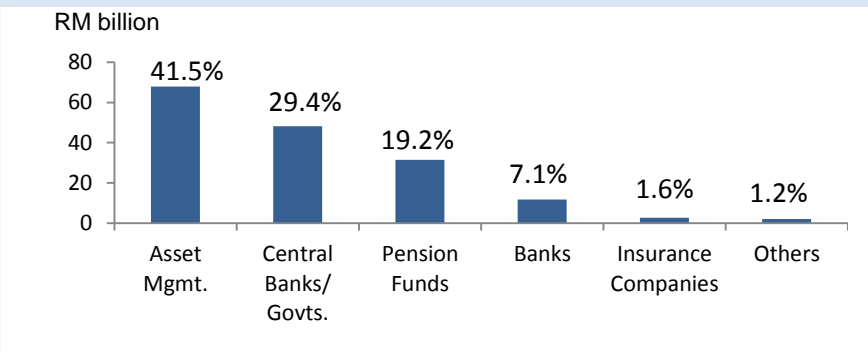
NR holdings of Malaysian Govt bonds stood at 22.2% as at end-July 2019...

Non-resident Holdings of Malaysian Government Bonds



...with long term stable investors remained as key holders of Malaysian government bonds

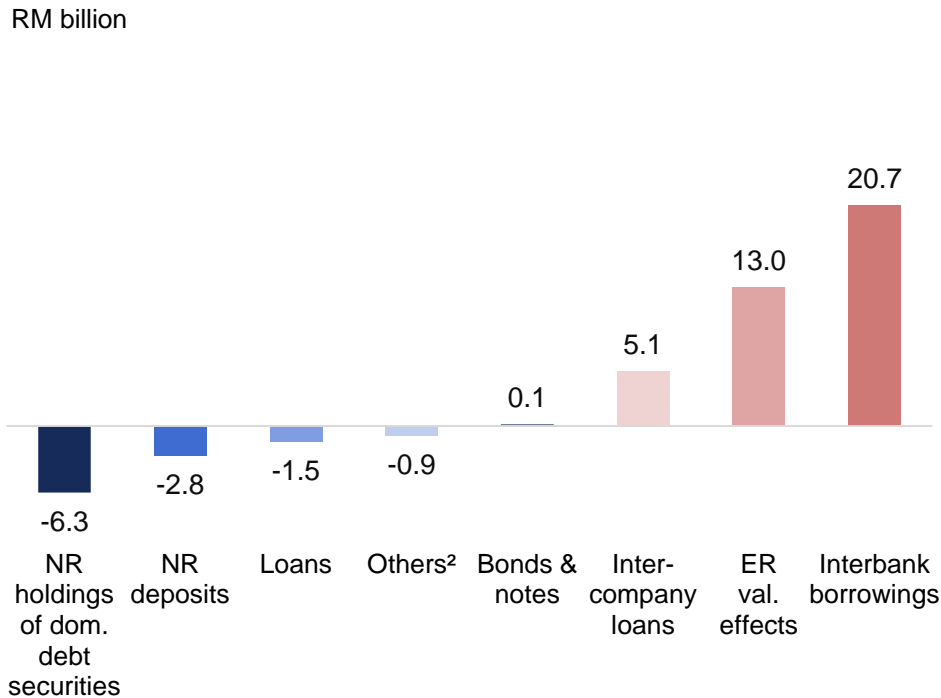
Distribution of Non-resident Holdings of Government Bonds as at end-June 2019.



External debt remains manageable

**External debt increased to 61.3% of GDP
(1Q 2019: 59.5%)**

Changes in External Debt¹
2Q 2019: +RM27.4 billion



¹ Changes in individual debt instruments exclude exchange rate revaluation effects

² Comprise trade credits, IMF allocation of SDRs and other debt liabilities

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

**Banks' external assets rose in tandem
with their external debt**

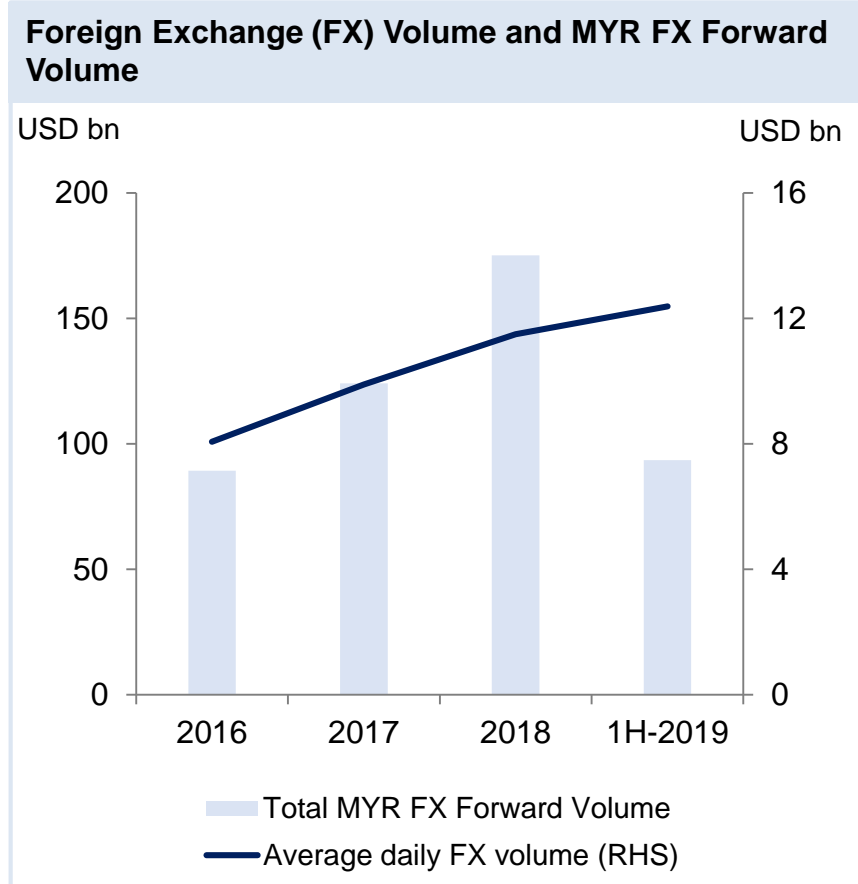
Corresponding increase in banks' external assets
2Q 2019: +RM22.8 billion

**Increase in Banks' External Assets and Liabilities
(RM billion)**



Further deepening of Malaysia's onshore financial market following measures to enhance market accessibility and liquidity

Malaysia's onshore FX market continues to grow in support of economic activity




Source: Bank Negara Malaysia

A deep and liquid financial market is fundamental to preserve market stability:

- A well-defined legal framework, robust market infrastructure and sound macroeconomic fundamentals remain key to Malaysia's attractiveness to investors.
- Initiatives to meet the diversified needs of investors:
 - ✓ Appointed Overseas Offices (AOOs) as a gateway to invest in Malaysia
 - ✓ Dynamic hedging programme for institutional investors' risk management

Initiatives to further enhance market accessibility and liquidity

 Improved ringgit accessibility after onshore trading hours via Appointed Overseas Offices (AOOs) for non-resident investors and corporates

 Principal Dealers will quote all off-the-run bonds available under the Bank's Securities Operations, in addition to their existing commitment to provide quotes for benchmark bonds

 Standard documentation guide for FX transactions made available for convenient reference by market participants

 Greater flexibility (longer tenor limit and wider range of repo securities) proposed under revised repo guidelines

Foreign exchange administration (FEA) liberalisation measures to support business efficiency

Enhancing hedging flexibility to promote sound risk management

1 Flexibility to hedge up to underlying tenure

- Residents are free to hedge foreign currency current account obligations up to underlying tenure

(previously up to 12 months)

2 Flexibility to hedge via treasury centres

- Resident treasury centres in Malaysia are free to hedge on behalf of their related entities with a licensed onshore bank
- Non-resident treasury centres registered with the Bank are free to hedge on behalf of their related entities with a licensed onshore bank or AOO

(previously required approval)

3 Flexibility to hedge on anticipatory basis

- Non-residents are free to hedge on an anticipatory basis via AOO for settlement of trade in goods and services

(previously required approval)



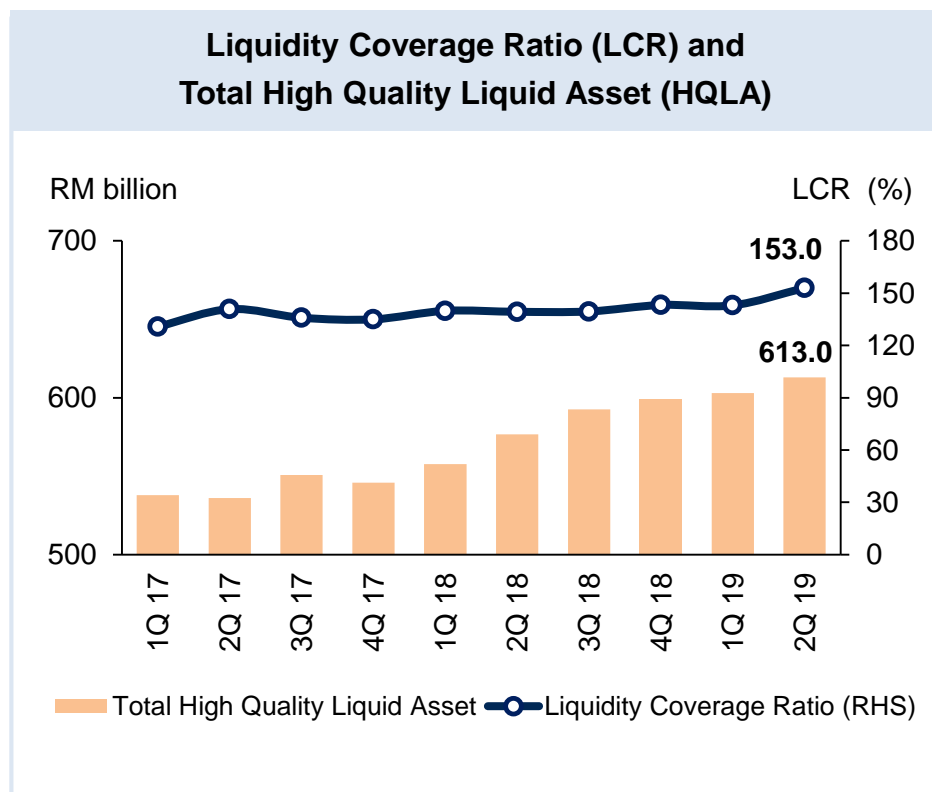
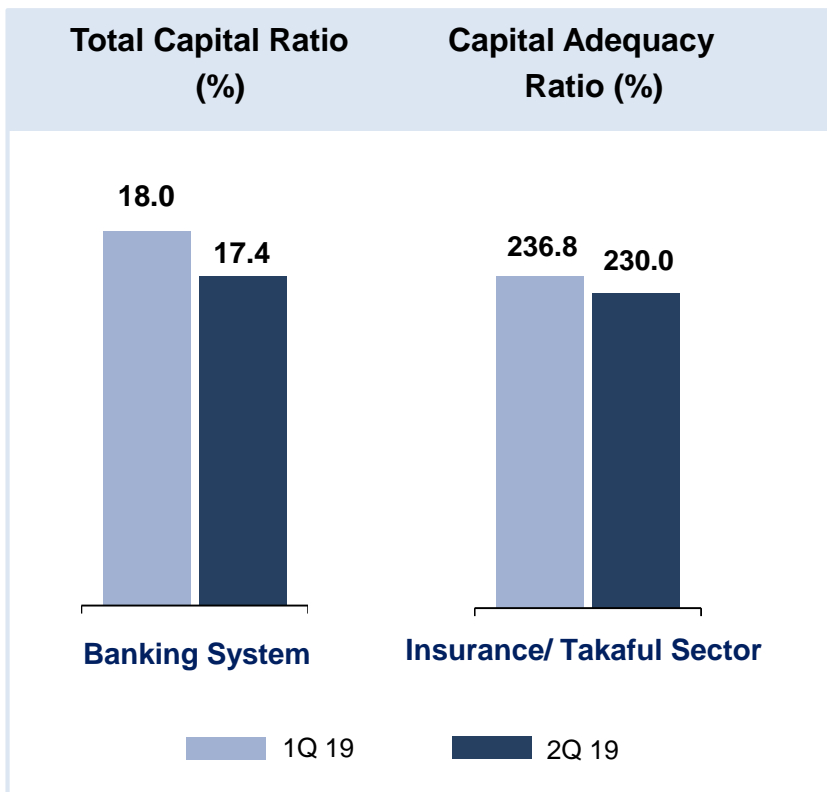
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Revised definition of domestic ringgit borrowing

Ringgit credit facilities which are used by corporates for miscellaneous expenses such as sundry and employees' travel expenses are excluded from domestic ringgit borrowing

Domestic financial stability continues to be supported by resilient financial institutions

Financial institutions are well-capitalised, with strong liquidity buffers



Stress tests continue to affirm financial institutions' resilience to severe shocks under adverse macroeconomic and financial conditions

Source: Bank Negara Malaysia

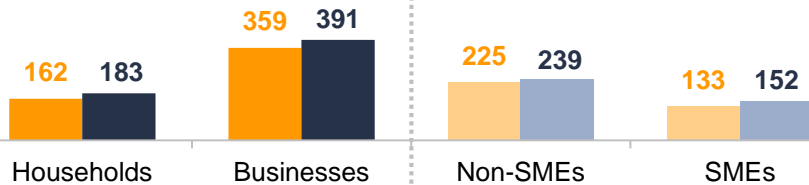
Financing continues to facilitate economic activity

Higher loan disbursements to households and businesses, but higher repayments led to lower outstanding loan growth

Loans Disbursed*

RM billion

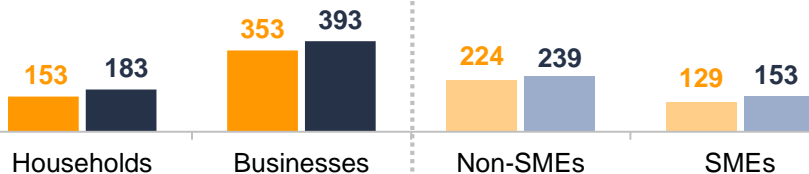
■ Average Jan - Jun (2014 - 2018) ■ 2019 Jan - Jun



Loans Repaid*

RM billion

■ Average Jan - Jun (2014 - 2018) ■ 2019 Jan - Jun



*Loans from the banking system and DFIs
Source: Bank Negara Malaysia

Demand for financing showing some signs of improvement given higher loan applications during the quarter

Growth in Loan Applications**

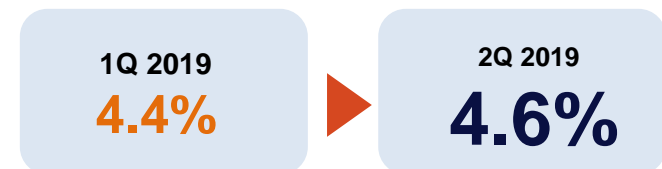
Annual Change, %

■ 1Q19 ■ 2Q19



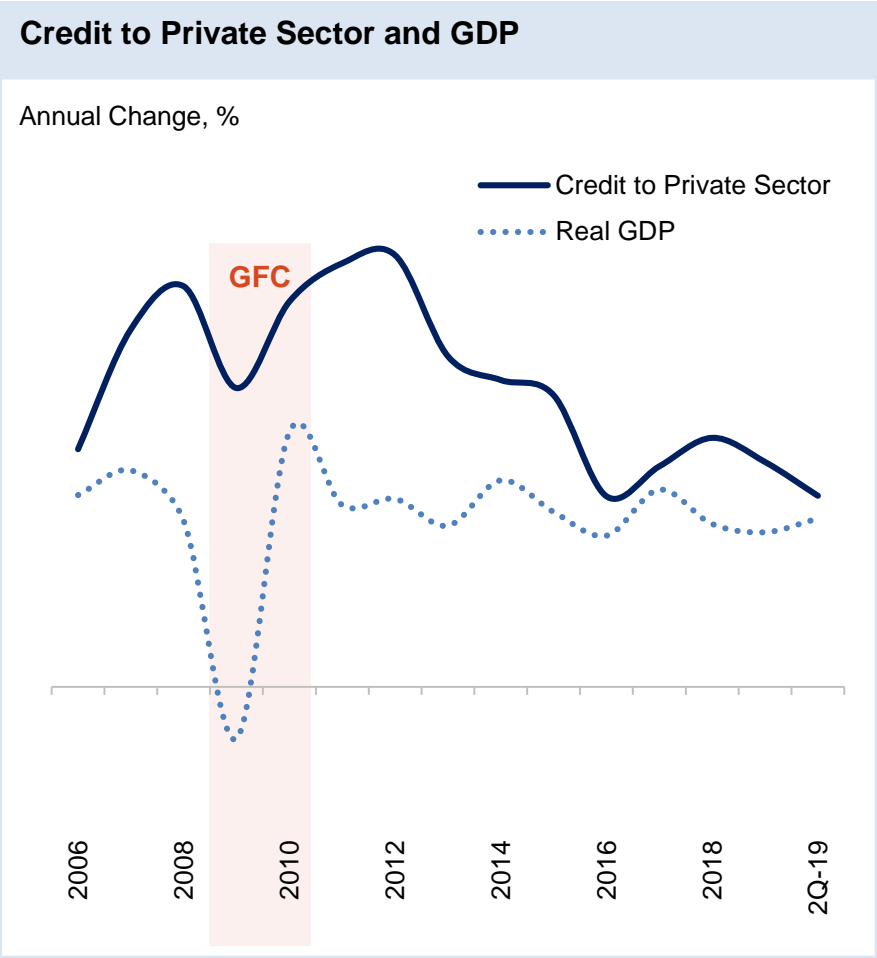
Domestic Demand

Annual Change, %



**Banking system only
Source: Bank Negara Malaysia

Important to ensure credit growth is consistent with economic expansion



Current pace of credit expansion in Malaysia is in line with economic activity



Vulnerabilities can develop from a misalignment between credit and economic activity

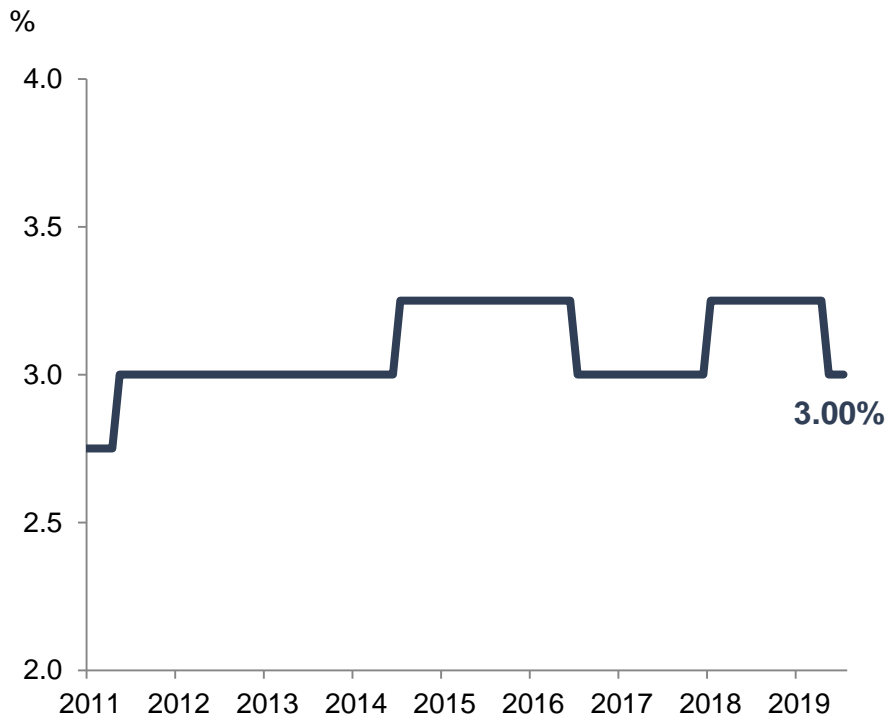


These vulnerabilities, if not properly managed, can pose risks to economic sustainability

Note: Includes outstanding loans from the banking system and DFIs, and corporate bonds
 Source: Bank Negara Malaysia

Monetary policy stance remains conducive to sustainable growth amid price stability

Overnight Policy Rate (OPR)

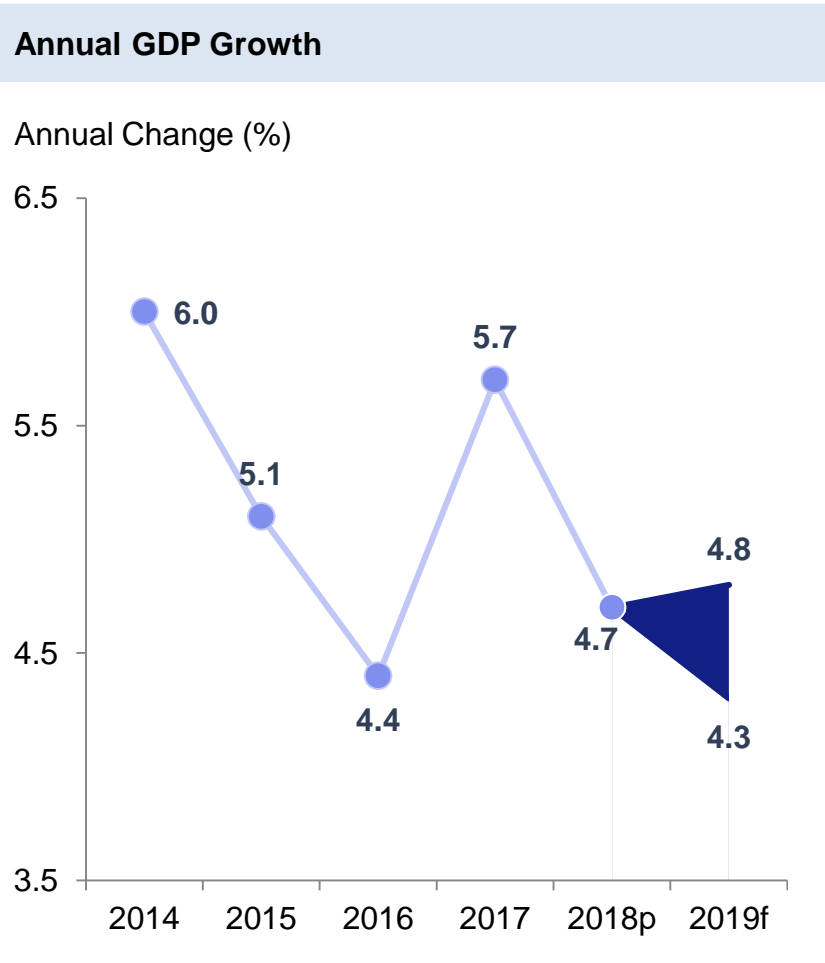


- Overnight Policy Rate was kept unchanged at 3.00% at the July 2019 MPC meeting
- The MPC will continue to assess the balance of risks surrounding the outlook for domestic growth and inflation

Source: Bank Negara Malaysia



The Malaysian economy is expected to grow within 4.3 - 4.8% in 2019, downside risks prevail



Upside Risks

- Positive outcomes from trade negotiations
- Lower-than-expected inflation lifting private consumption activity

Downside Risks

- Weaker global growth
- Escalation of trade tensions
- Lower commodity production
- Domestic policy uncertainties

Sources: Department of Statistics, Malaysia and Bank Negara Malaysia



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Additional Information



The Malaysian economy grew at faster pace in the second quarter

Annual growth of GDP components

Real GDP (Annual change, %)	Share, % (2018)	2018	2019	
		2Q	1Q	2Q
Domestic demand (excluding stocks)	94.1	5.5	4.4	4.6
Private Sector	74.2	7.3	5.9	6.2
<i>Consumption</i>	57.0	7.9	7.6	7.8
<i>Investment</i>	17.3	5.5	0.4	1.8
Public Sector	19.8	-1.6	-1.4	-2.8
<i>Consumption</i>	12.5	3.1	6.3	0.3
<i>Investment</i>	7.4	-9.9	-13.2	-9.0
Net exports of goods and services	7.0	-6.0	10.9	22.9
<i>Exports</i>	67.6	2.6	0.1	0.1
<i>Imports</i>	60.6	3.6	-1.4	-2.1
Change in stocks (RM billion)	-1.1	-2.2	-5.1	-4.6
Real GDP	100	4.5	4.5	4.9
Real GDP (q-o-q growth, seasonally adjusted)	-	0.6	1.1	1.0

Source: Department of Statistics, Malaysia

Real GDP (Annual change, %)	Share ¹ , % (2018)	2018	2019	
		2Q	1Q	2Q
Services	56.7	6.5	6.4	6.1
Manufacturing	22.4	4.9	4.2	4.3
Mining and Quarrying	7.6	-3.4	-2.1	2.9
Agriculture	7.3	-1.7	5.6	4.2
Construction	4.9	4.8	0.3	0.5
Real GDP	100	4.5	4.5	4.9

Note: ¹ Numbers do not add up due to rounding and exclusion of import duties component



The Malaysian economy grew at faster pace in the second quarter

Percentage point contribution to GDP growth by components

Real GDP (Contribution, ppt)	Share, % (2018)	2018	2019	
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Public Sector	19.8	-0.3	-0.3	-0.5
<i>Consumption</i>	12.5	0.4	0.7	0.0
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Agriculture	7.3	-0.1	0.4	0.3
Construction	4.9	0.2	0.0	0.0
Real GDP	100	4.5	4.5	4.9
<i>Import duties</i>	1.2	0.0	-0.3	0.0

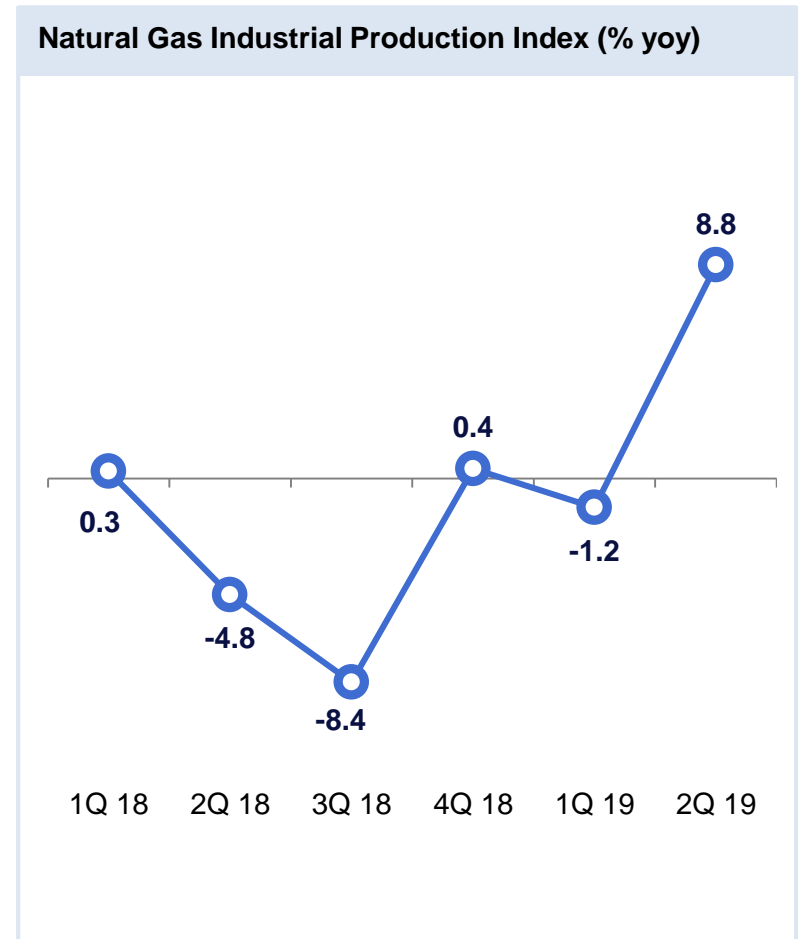
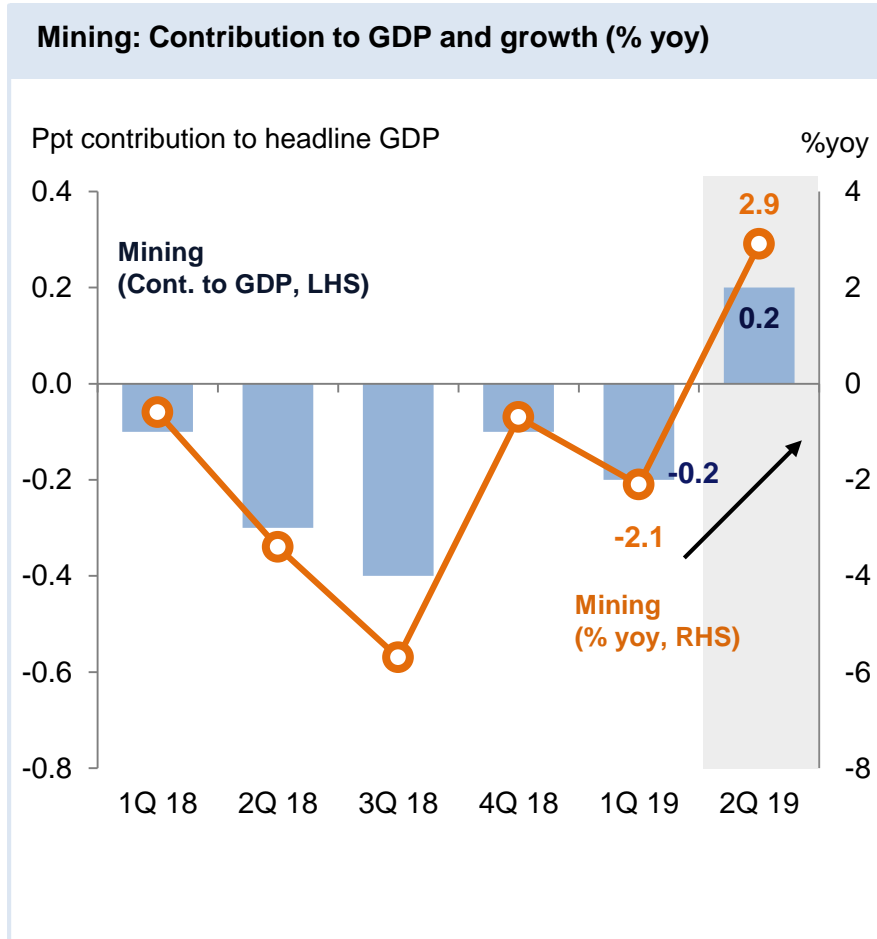
Note: Numbers do not add up due to rounding
Source: Department of Statistics Malaysia



Positive turnaround in the mining sector

The mining sector recorded the first positive growth following six consecutive quarters of decline

...as natural gas production recovered from last year's supply disruption



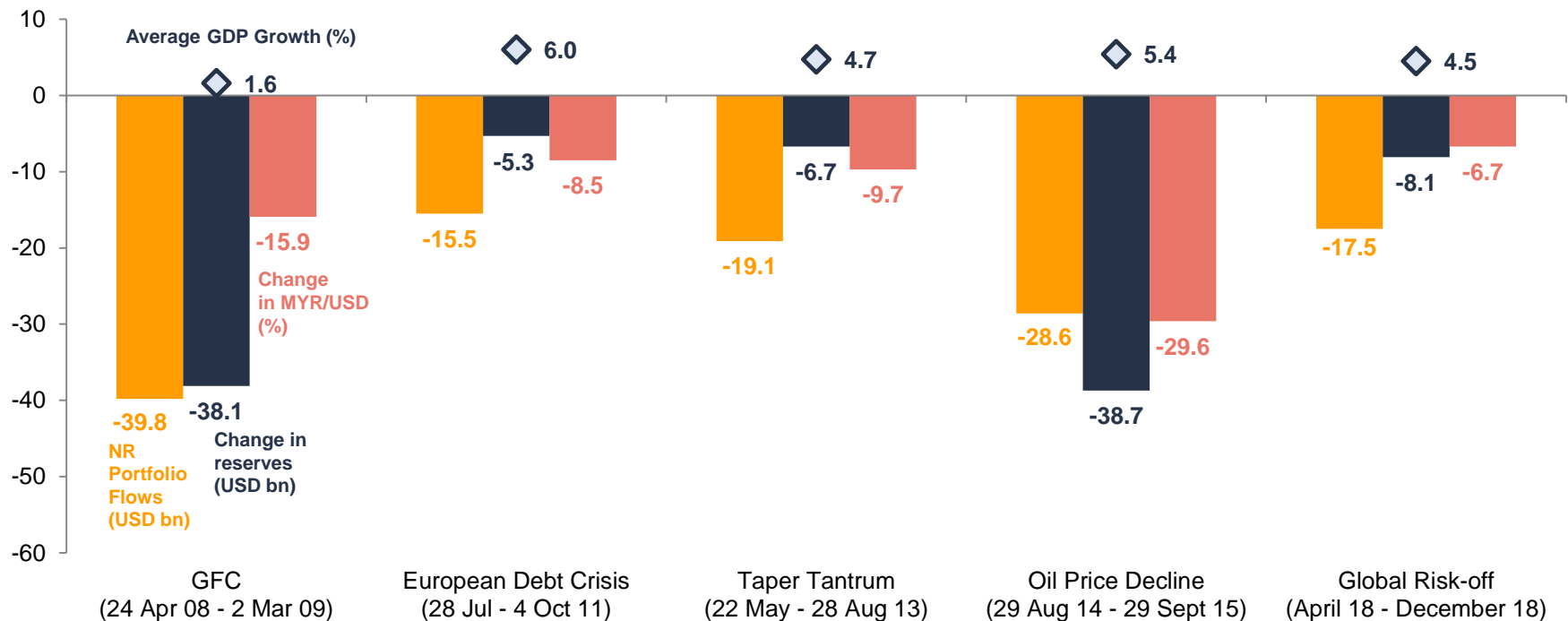
Source: Department of Statistics, Malaysia

Malaysia's flexible exchange rate policy will continue to allow us to withstand external shocks

- While exchange rate adjustments are necessary, any excessive volatility will be managed through targeted foreign exchange intervention.
- The Bank will continue its efforts in deepening the domestic financial markets, especially in enhancing hedging flexibilities and instruments.

Non-Resident (NR) Portfolio Flows, Reserves, Ringgit Performance and GDP Growth During Outflow Periods

USD billion / %



Source: Bank Negara Malaysia



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Continued efforts to enhance access to financing, capacity building and advisory

Total Allocation under BNM's Funds: RM10.1 billion, Available funds: RM4.4 billion

BNM's Funds for SMEs

Allocation: RM9.1 billion

Approved: RM31.5 billion*

Available funds: RM3.4 billion



BNM's Funds for Affordable Homes

Allocation: RM1 billion

Approved: RM24.3 million

Available funds: RM969.6 million

*Revolving fund



Financial guarantees by CGC

Assisted 452,000 SMEs obtain RM68 billion financing
Capacity to guarantee a further RM11.3 billion financing



Financing and debt resolution schemes e.g. Skim

Pembiayaan Mikro, Small Debt Resolution Scheme,
Corporate Debt Restructuring Committee



Ecosystem infrastructure e.g. Digital SME Financing
Referral Platform (imSME)



Kaunter Informasi PKS and dedicated hotline at
BNMLINK and BNM Offices nationwide and
dedicated SME contact points at banks



Flexibility for Rescheduling and Restructuring
(R&R) of financing



**Lower lending rates under First-time Home
Buyers Scheme**



Rumahku Financial Education



**Skim Rumah Pertamaku and Skim
Perumahan Belia** by Cagamas

Capacity to guarantee a further RM218 million



Purchase of home financing portfolio by
Cagamas from financing institutions to provide
liquidity to lenders to further finance home loans