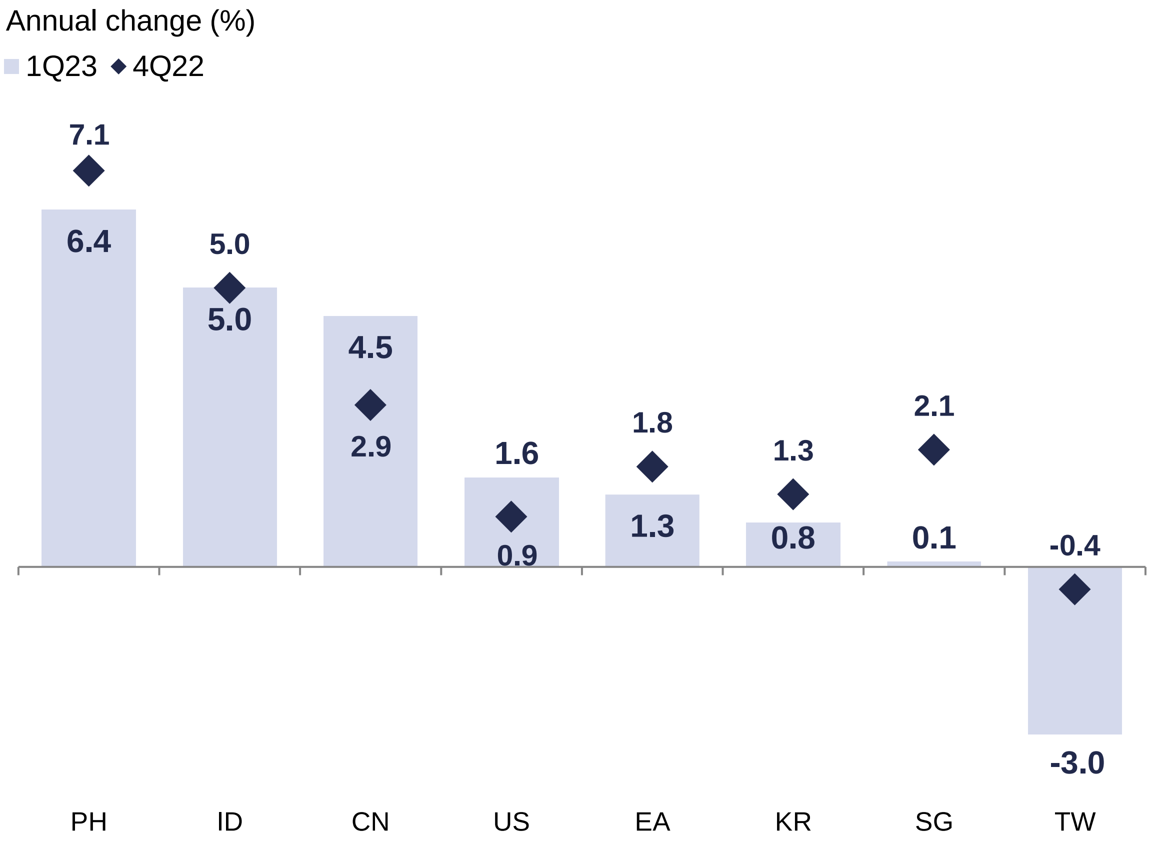
Sidang Akhbar

Prestasi Ekonomi Suku Pertama Tahun 2023

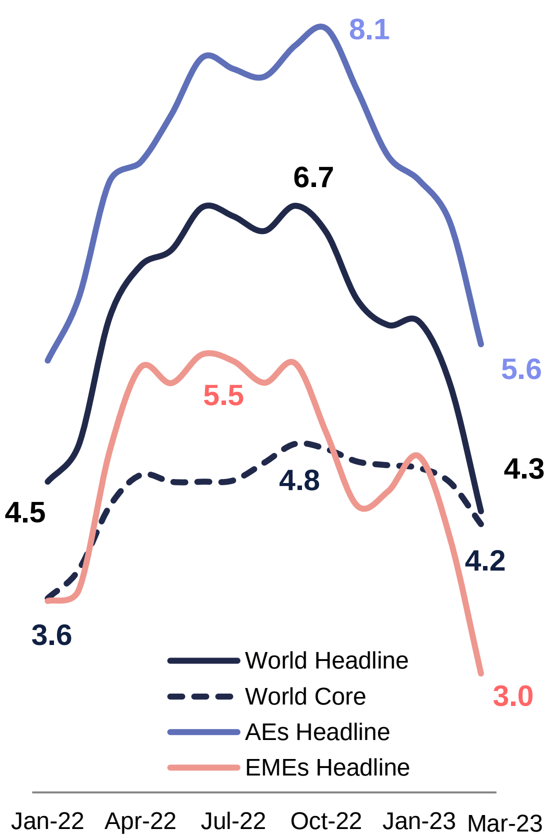
12 Mei 2023

The global economy grew modestly in 1Q 2023

Real GDP Growth[1]



Inflation[2]



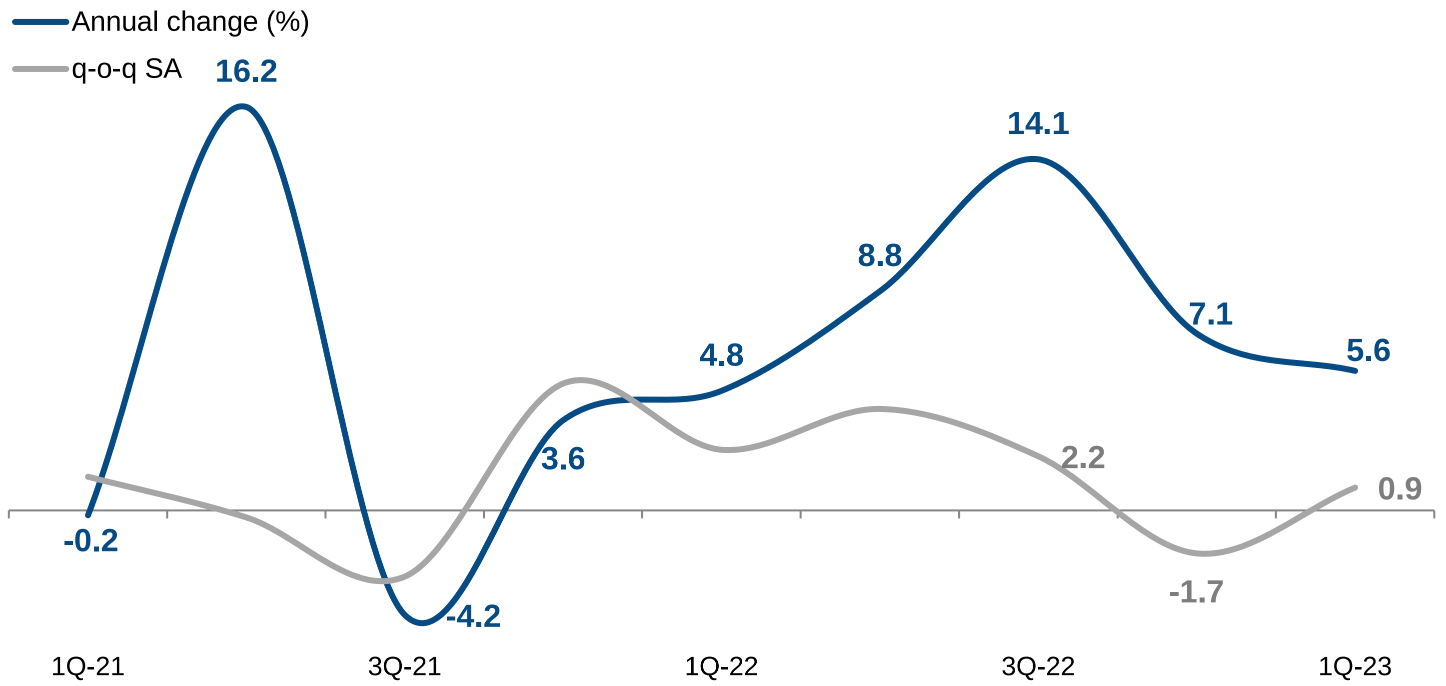
Global Growth Developments

- Modest global growth amid China reopening and resilient labour market in AEs
- Moderating headline inflation, but core inflation still high
- Regional exports continued to contract amid weak demand for goods

Note:
[1] GDP for the fourth quarter of 2022 are advanced or preliminary estimates except for China, Indonesia, and Philippines.
[2] Inflation figures are aggregated across major countries based on their share of global growth. AEs stands for Advanced Economies while EMEs stands for Emerging Market Economies.
Source: Macrobond, National authorities, International Monetary Fund, Bank Negara Malaysia estimates

Malaysia's GDP grew by 5.6% in 1Q 2023

Real GDP Growth (Quarterly)



Monthly Real GDP Growth (Annual change, %)

Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
7.3	4.5	9.6	4.6	6.6	5.6

Factors Supporting Growth in 1Q 2023

- **Further expansion of household spending**
- **Continued investment activity**
- **Improving labour market**
- **Higher tourism activities**

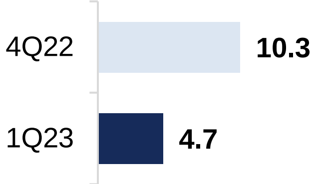
Source: Department of Statistics, Malaysia

Growth underpinned by private consumption and investments, and the services and manufacturing sectors

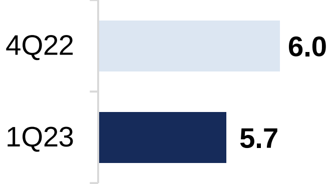
Driven mainly by private sector expenditure

Annual Change (%)

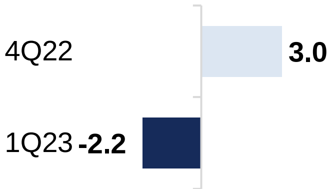
Private Consumption
Broad-based expansion in necessities and discretionary spending



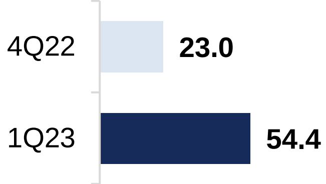
Private Investment
Supported mainly by investment in structures



Public Investment
Driven by capital expenditure by public corporations



Public Consumption
Lower supplies & services spending

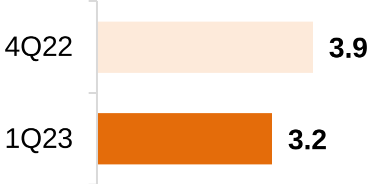


Net Exports
Further recovery in tourism activities

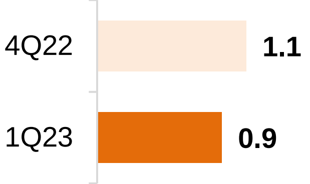
Driven mainly by services and manufacturing sectors

Annual Change (%)

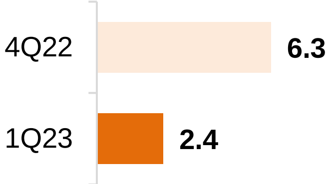
Services
Supported by both consumer and business-related service activities



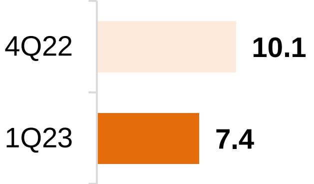
Manufacturing
Continued growth driven by domestic-oriented industries and E&E cluster



Agriculture
Increased oil palm output supported by higher arrivals of foreign workers



Mining
More moderate growth in oil and gas production

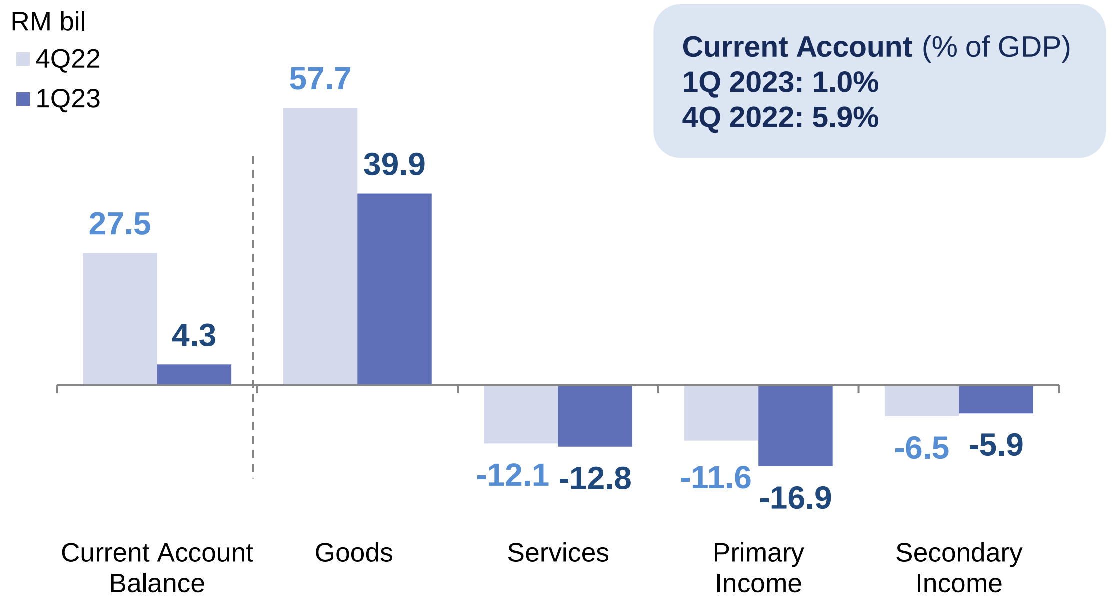


Construction
Continued progress of large transportation and utility projects

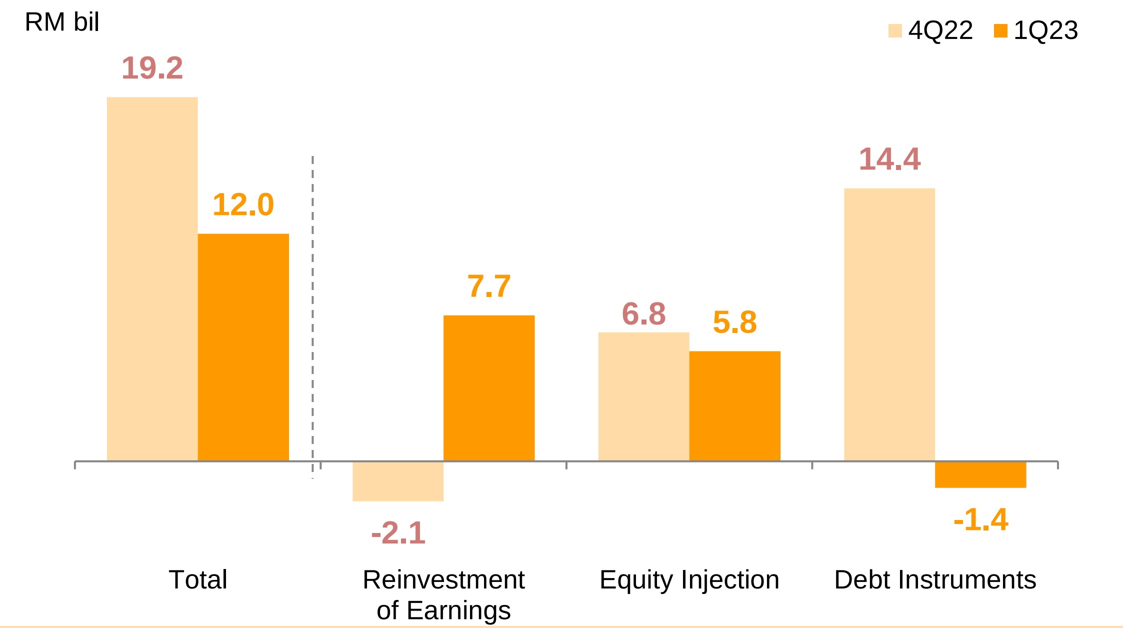
Source: Department of Statistics, Malaysia

Lower current account surplus and FDI inflows

Current Account



Foreign Direct Investment



- Smaller goods surplus driven mainly by the moderation in external demand
- Larger primary income deficit due mainly to lower investment income accrued to Malaysians from investments abroad

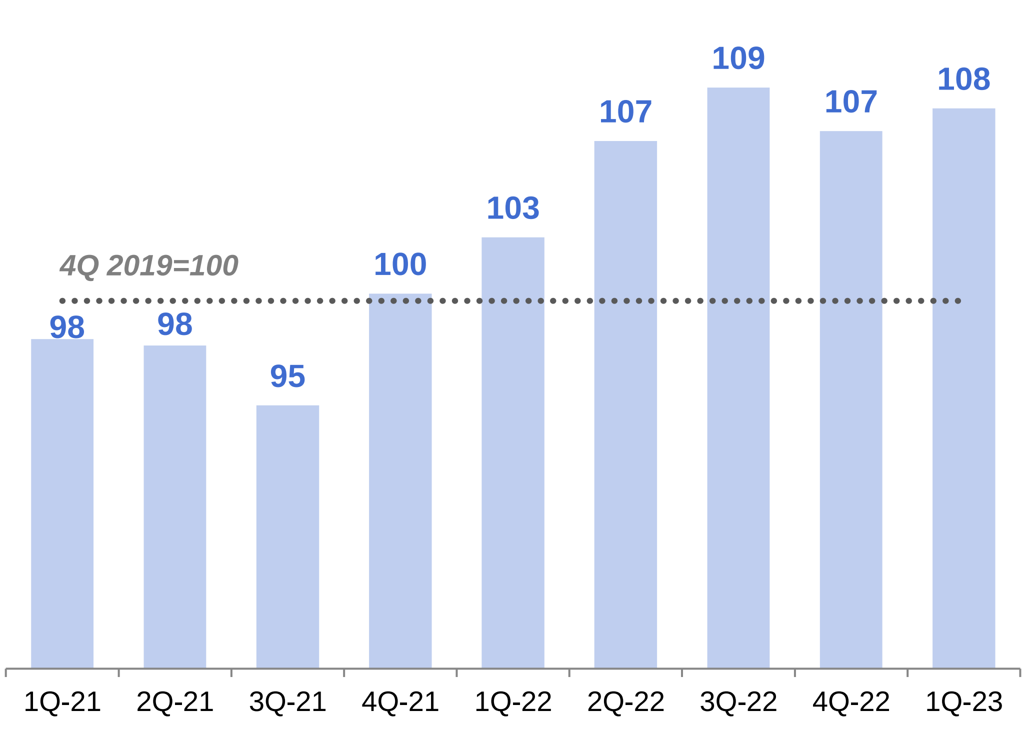
- Continued FDI inflows supported by reinvestment of earnings and equity injections
- FDI was mainly channelled into the financial services subsector as well as mining and manufacturing sectors

Source: Department of Statistics, Malaysia

Recent developments reaffirm outlook for 2023

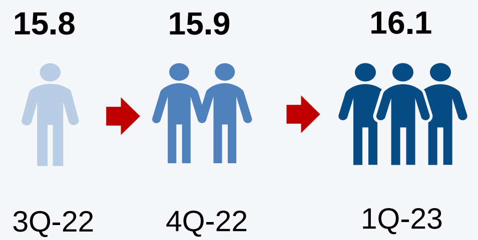
On a seasonally adjusted basis, the economy has recovered to its pre-crisis levels

Seasonally Adjusted Real GDP Indexed Levels



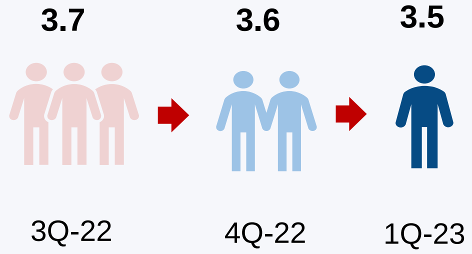
Further improvements in labour market conditions

Employment levels
Million Persons



2019: 15.1 million

Unemployment rate,
Annual change, %



2019: 3.3%

Private sector wages
Annual change, %

Real wages
0.9% (1.7% in 4Q22)
4Q19: 3.8%

Nominal wages
4.5% (5.7% in 4Q22)
4Q19: 4.8%

Sectoral Nominal Wage growth
Annual change, %

Manufacturing
4.3% (5.0% in 4Q22)
4Q19: 4.4%

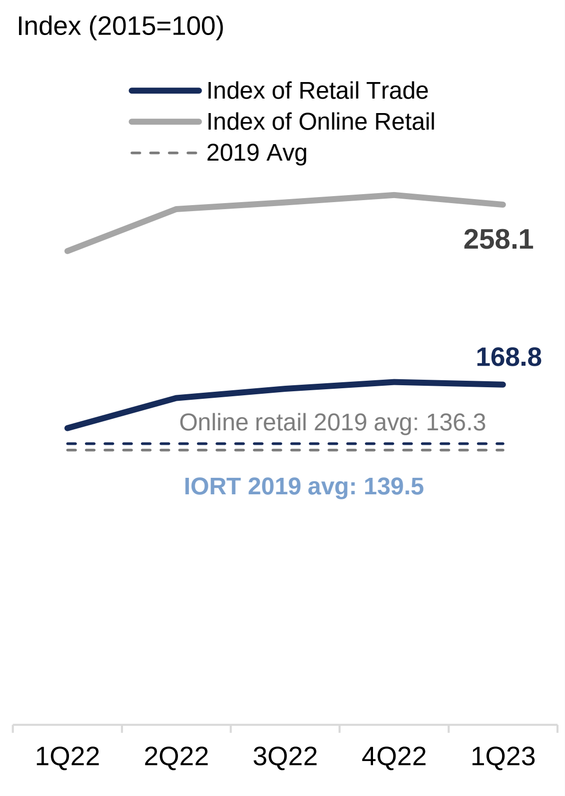
Services
4.6% (6.1% in 4Q22)
4Q19: 5.0%

Source: Department of Statistics, Malaysia

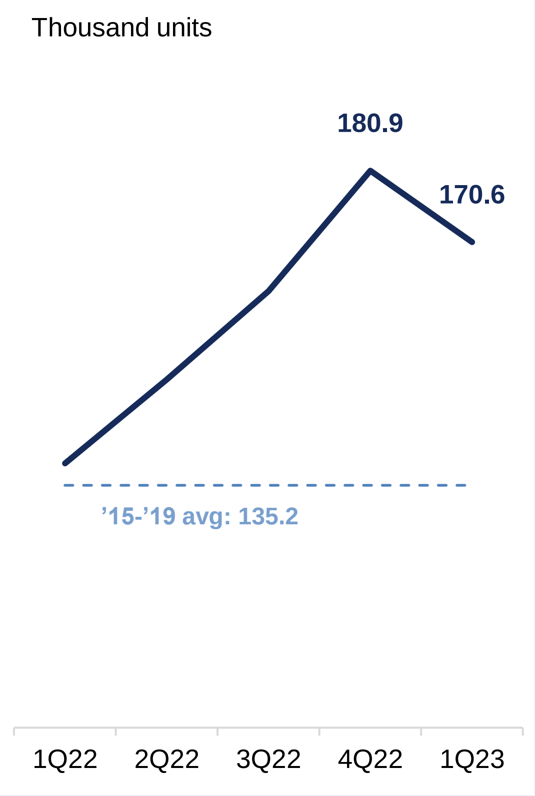
Growth continues to be underpinned by domestic demand

Continued strength in household spending

Index of Retail Trade



Passenger car sales



On-going implementation of projects supported investment activity

Key Infrastructure Projects		*Cumulative Progress Rate*
ECRL	RM50.0 billion	2018 – 2026: *41%*
LRT3	RM16.6 billion	2018 – 2024: *84%*
MyDIGITAL 5G	RM16.5 billion	2021 – 2031: *55%*
Pan Borneo Highway (Sabah)	RM16.0 billion	2016 – 2024: *73%*

Source: Department of Statistics Malaysia, Malaysian Automotive Association, and newsflows

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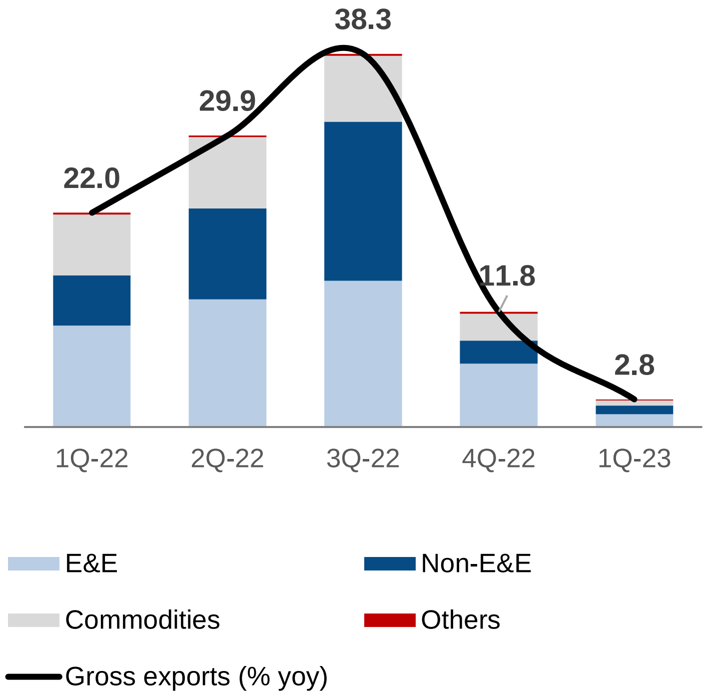
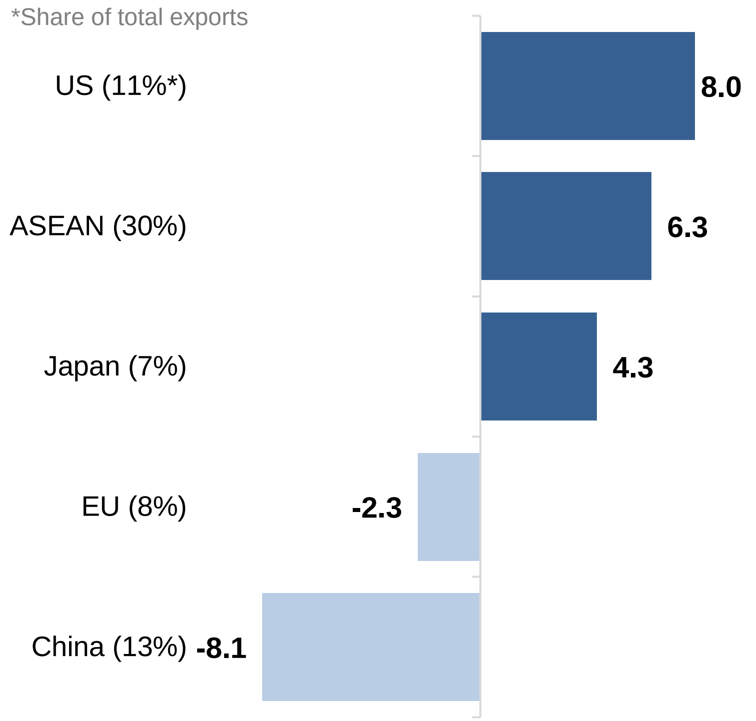
Export growth slowed in 1Q 2023 following weaker external demand

Nevertheless, our diversified export markets, improving China economy and higher travel receipts will cushion global growth slowdown

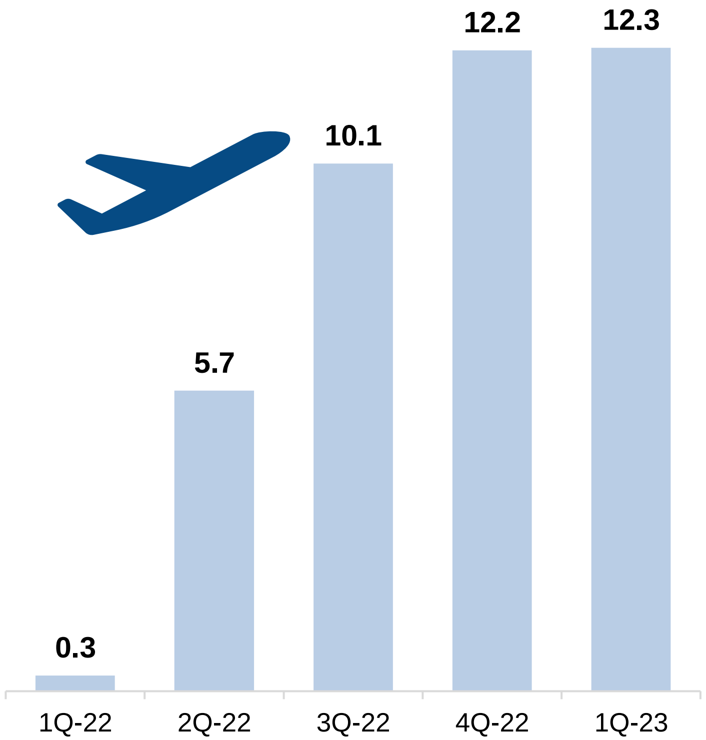
Gross Export Growth
Annual change, %



1Q23 Gross Exports by Market
Annual change, %



Travel Receipts
RM billion



Source: Department of Statistics, Malaysia and newsflows

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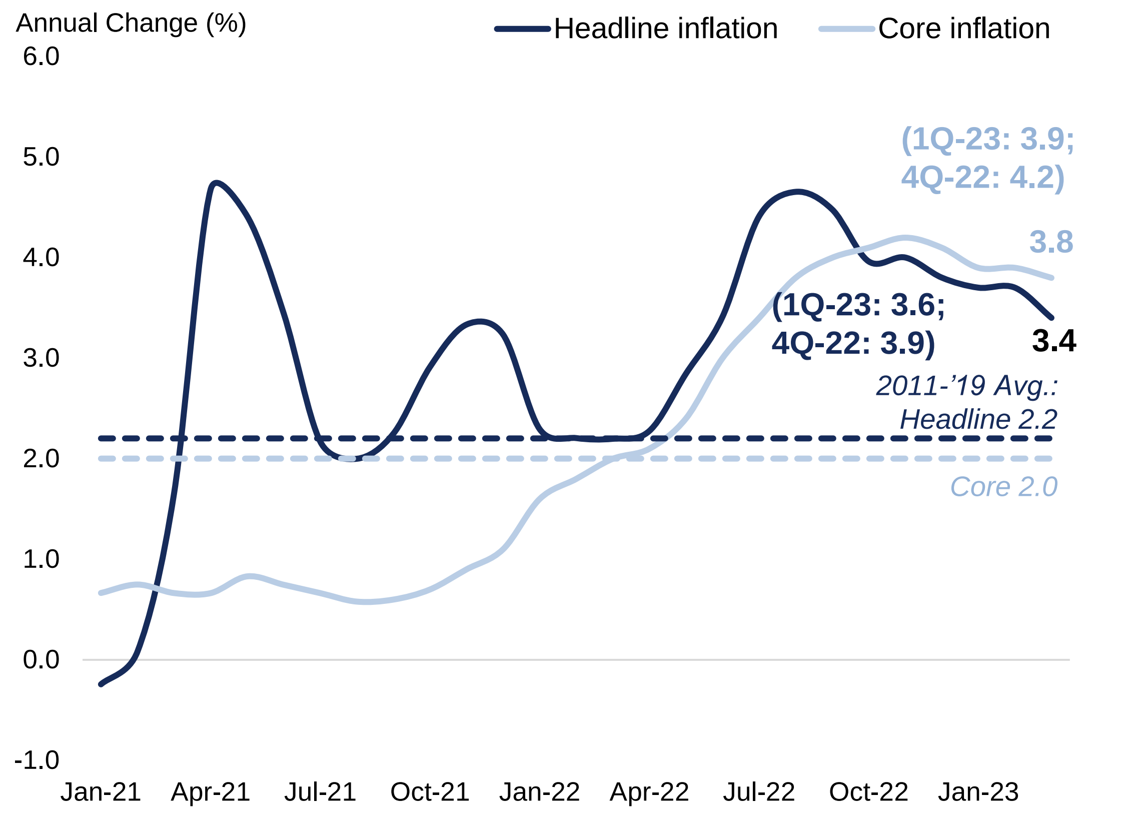
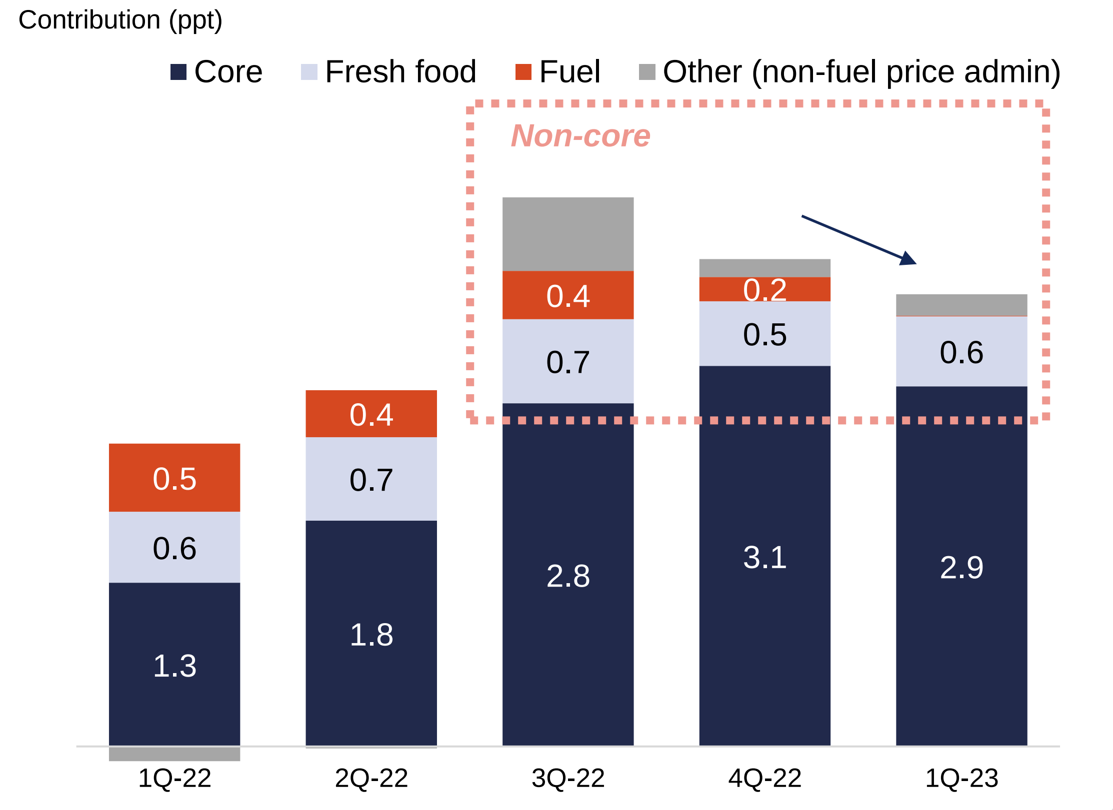
Headline and core inflation moderated in 1Q 2023

- **Headline inflation trended lower in line with moderating costs and supply conditions**
- **Core inflation declined but remained elevated, reflecting resilient domestic demand**

Malaysia Inflation



Breakdown of inflation by components



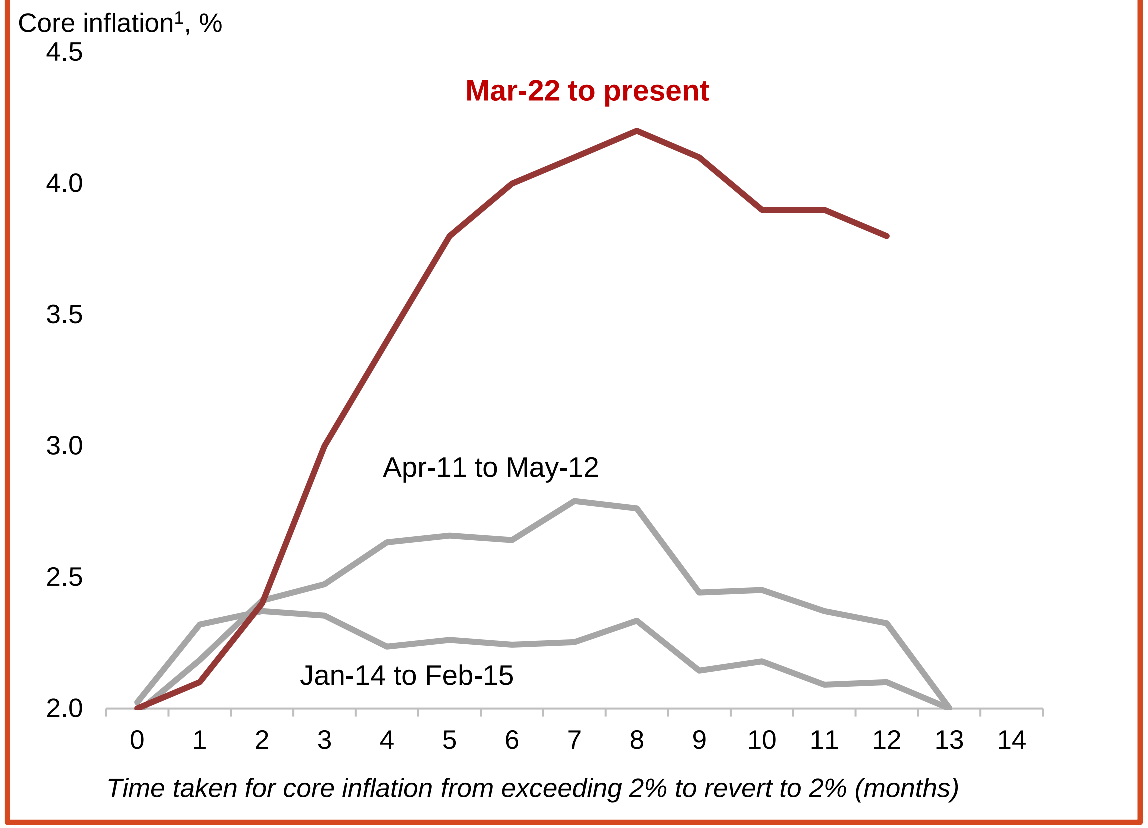
Note: Average of past inflation is calculated based on monthly frequency from Jan-11 to Dec-19
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

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

Core inflation remains at elevated levels amid firm demand conditions

Elevated underlying inflation has been more prolonged than past episodes…

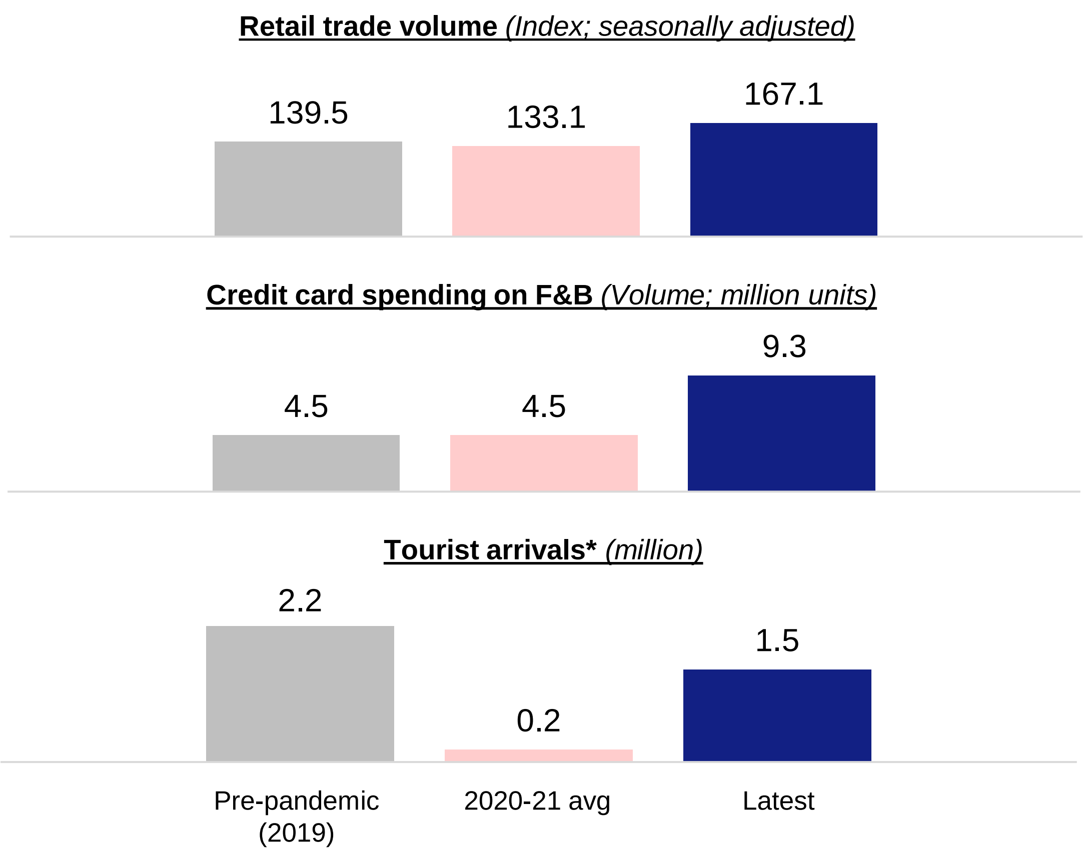
Selected Episodes of Core Inflation Exceeding 2%



Source: Department of Statistics, Malaysia and BNM estimates

…partly owing to the strong recovery in domestic demand

Selected domestic demand indicators



Note: Latest retail trade and credit card spending data are as at 1Q-23; latest tourist arrivals data as at 4Q-22

Source: Bank Negara Malaysia, Department of Statistics Malaysia and Ministry of Tourism, Arts and Culture

Over the course of 2023, headline and core inflation to moderate but remain elevated

Key drivers of headline inflation in 2023

2.8% to 3.8%
(2023*f*)

Elevated core inflation
Firm domestic demand and improvement in labour market

Gradual subsidy rationalisation
Revision in electricity surcharge for selected industry participants

Moderating global cost environment
Lower key commodity prices

Prevailing price controls and subsidies
On key necessity items

Upside risks

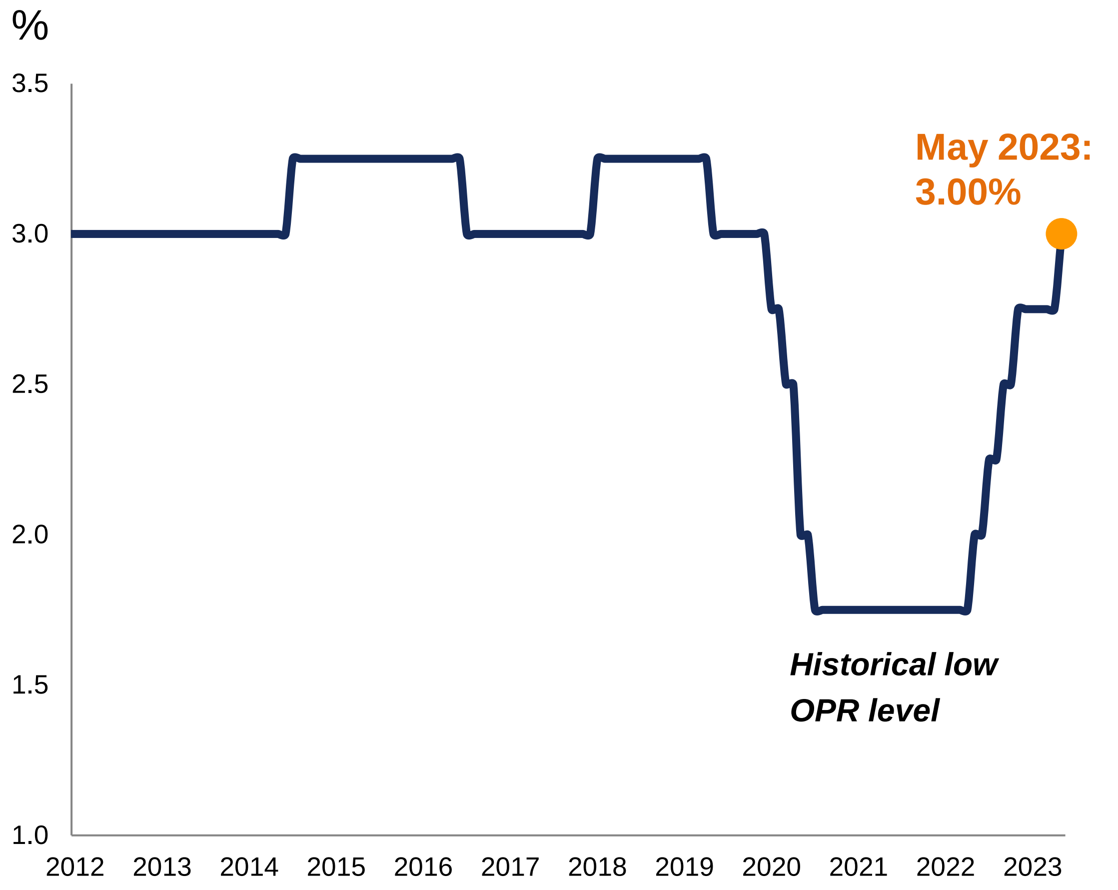
- ▲ Higher global commodity prices due to worsening geopolitical conflict or adverse weather events
- ▲ Higher imported input costs due to exchange rate developments
- ▲ Stronger-than-expected demand from China
- ▲ Larger revisions to domestic subsidies and price controls

Downside risks

- ▼ Weaker global growth leading to more subdued commodity prices
- ▼ Faster dissipation of domestic pent-up demand from 2022

The OPR was further normalised to 3.00% at the May MPC meeting

Overnight Policy Rate, OPR



- **Amid resilient domestic growth prospects, the MPC judged that it was the right time to further normalise the degree of monetary accommodation**
  - With this decision, the MPC has withdrawn the monetary stimulus intended to address the COVID-19 crisis in promoting economic recovery.
- **At the current OPR level of 3.00%, the monetary policy stance is slightly accommodative and remains supportive of the economy**

Source: Bank Negara Malaysia

The OPR was normalised amid a resilient economy with firm demand conditions

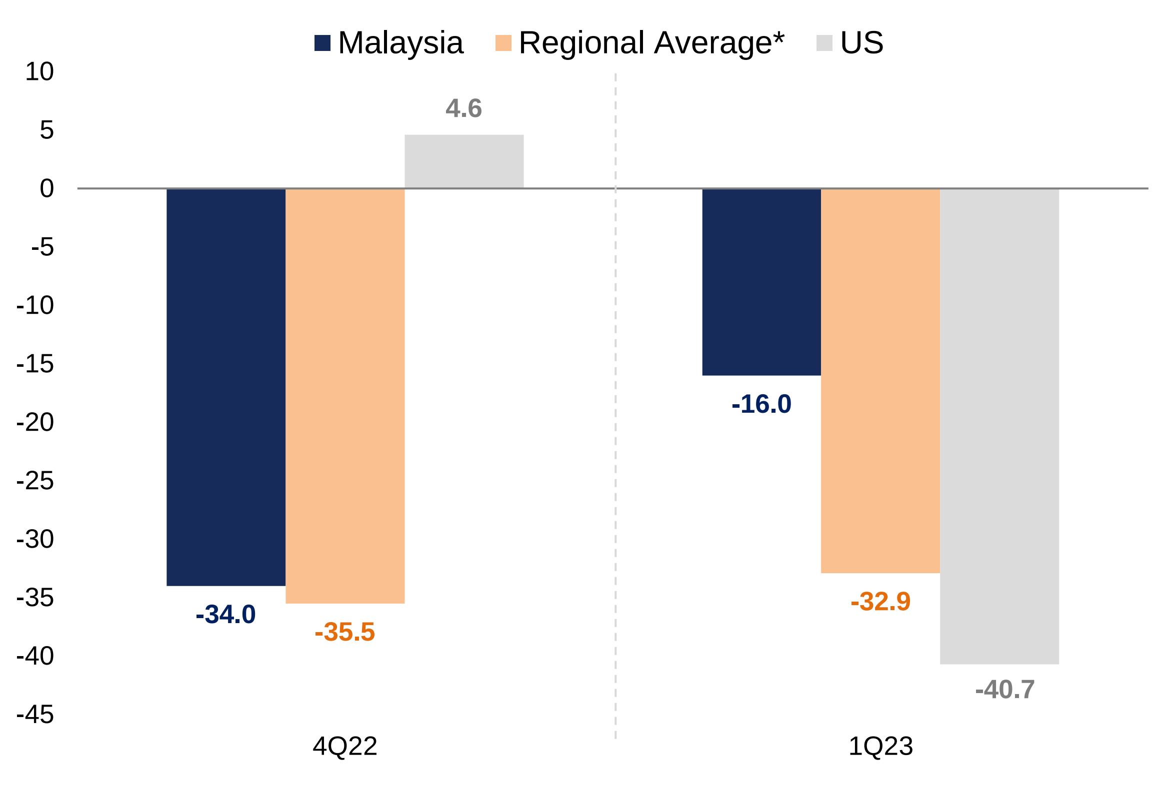
- **The Malaysian economy continues to strengthen, driven by domestic demand**, with labour market conditions improving and households remaining resilient
- Assessment of the impact from the past OPR adjustments shows **no signs of excessive tightening in the economy**
- While inflation has been moderating, it **remains at elevated levels given the continued price pressures amid firm demand**
- Prolonged low rates when economic growth is firm can have **damaging effects on the economy, including from financial imbalances**
- Ultimately, the goal of monetary policy in Malaysia is **to achieve price stability and sustainable economic growth over a longer term**

Source: Bank Negara Malaysia

Domestic financial markets remained orderly despite global economic uncertainties

Domestic bond yields declined, in line with global bond yields' movement amid monetary policy easing expectations in the US

Movement of 10-Year Local Currency Sovereign Bond Yields (in bps)

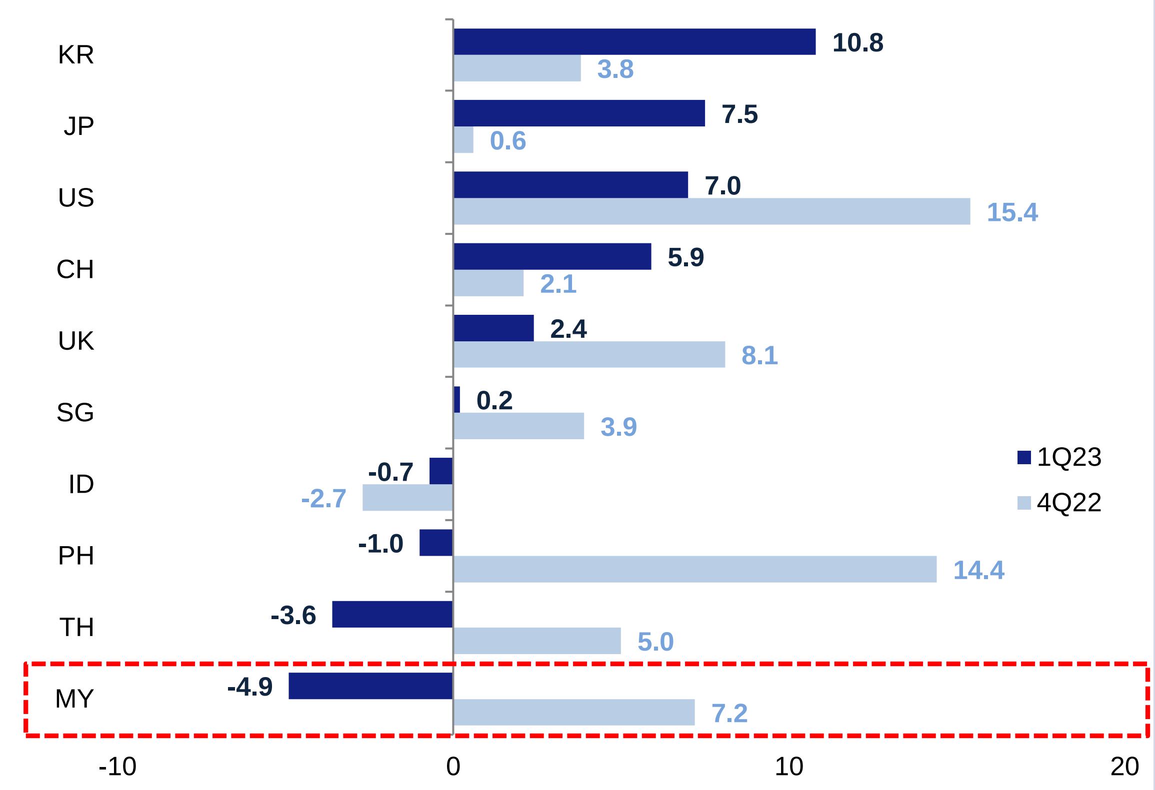


*Regional countries include Indonesia, the Philippines, Singapore, South Korea and Thailand.

Source: Bank Negara Malaysia, ETP and Bloomberg

Most regional equities including Malaysia fell due to lingering uncertainties over global corporate earnings outlook

Performance of Equity Indices (% Change)



US: United States; PH: the Philippines; UK: United Kingdom; MY: Malaysia; TH: Thailand; SG: Singapore; KR: South Korea; CH: China; JP: Japan; ID: Indonesia.

Source: Bloomberg and Bursa Malaysia

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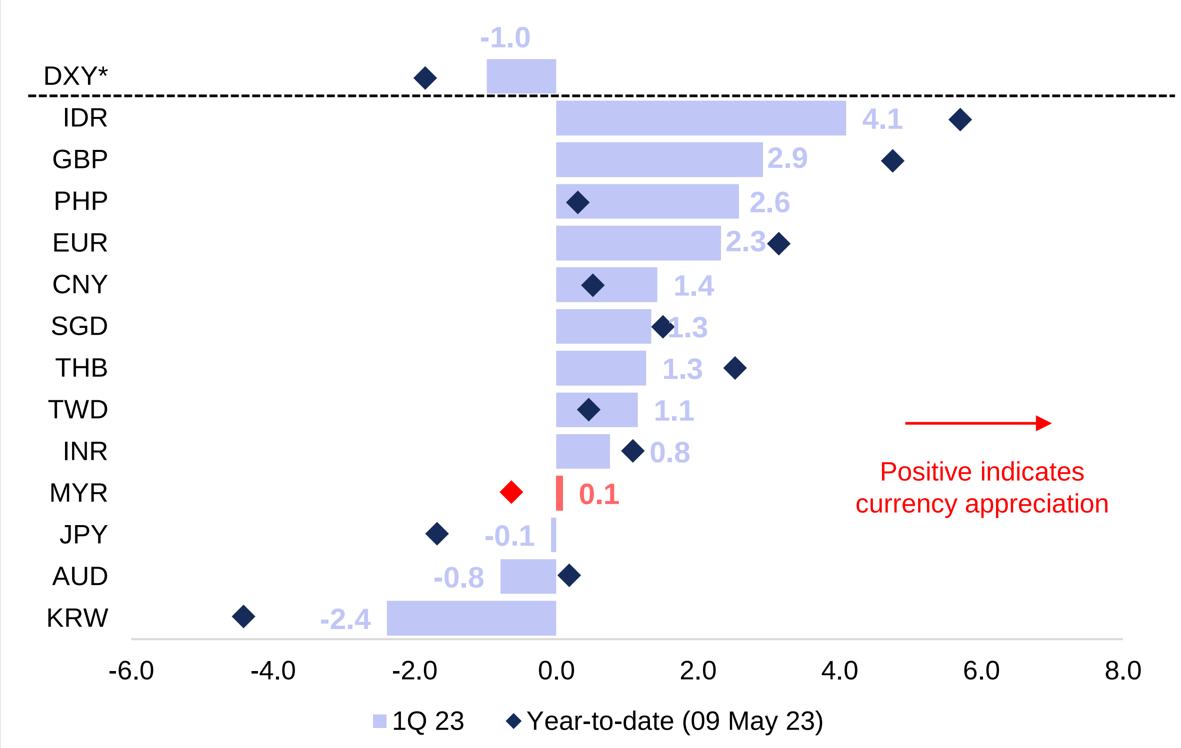
Ringgit continues to be driven by US dollar developments

Broadly stable performance of the ringgit despite shifting sentiments surrounding the global economic outlook

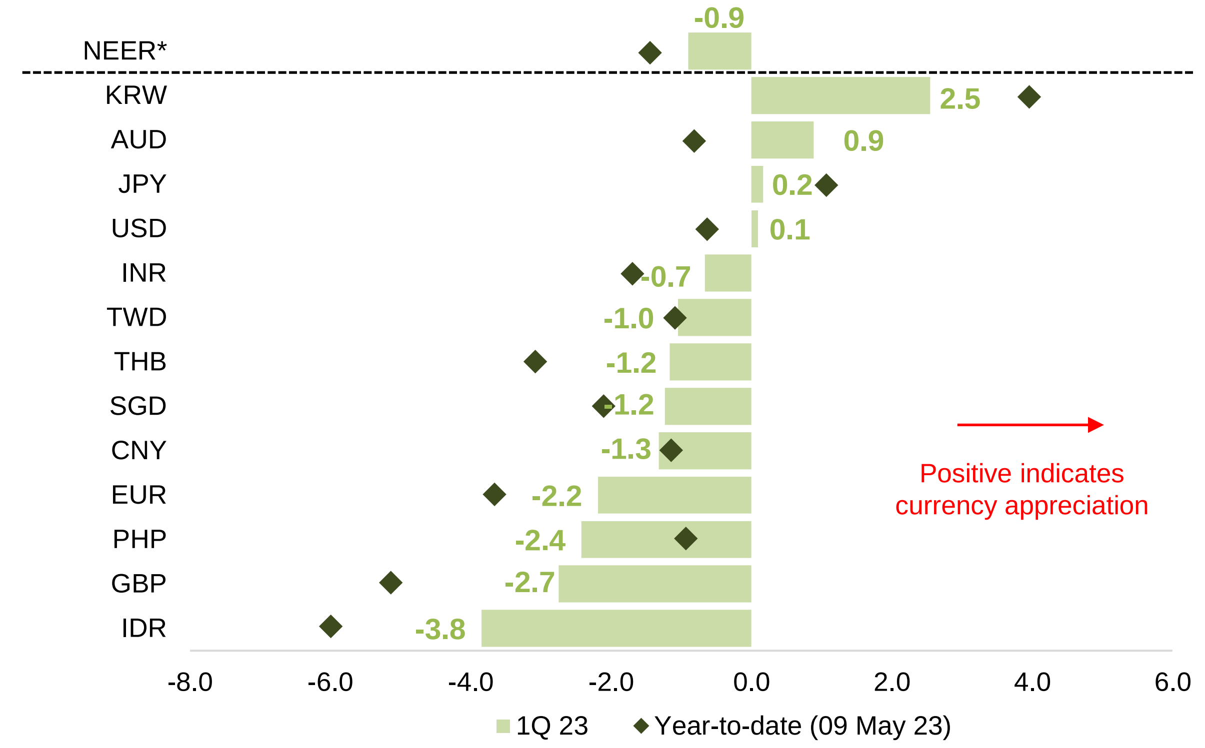
US Dollar Index (DXY) and Selected Currencies against the US Dollar (%)



* The US dollar Index (DXY) is an index of the value of the US dollar against a basket of foreign currencies, namely EUR (57.6%), JPY (13.6%), GBP (11.9%), CAD (9.1%), SEK (4.2%), and CHF (3.6%).
Source: Bank Negara Malaysia and Bloomberg

Ringgit movements against trade partner currencies remain within a typical range, reflecting global and country-specific factors

Performance of the Ringgit against Selected Currencies (%)



* NEER refers to the ringgit nominal effective exchange rate. It is an index measuring ringgit's performance against currencies of Malaysia's major trading partners.
Source: Bank Negara Malaysia

Spillovers from US banking sector stress have been limited

All banks in Malaysia are subject to stringent liquidity and capital standards

Liquidity Coverage Ratio[1]

157%

High-Quality Liquid Assets[1]

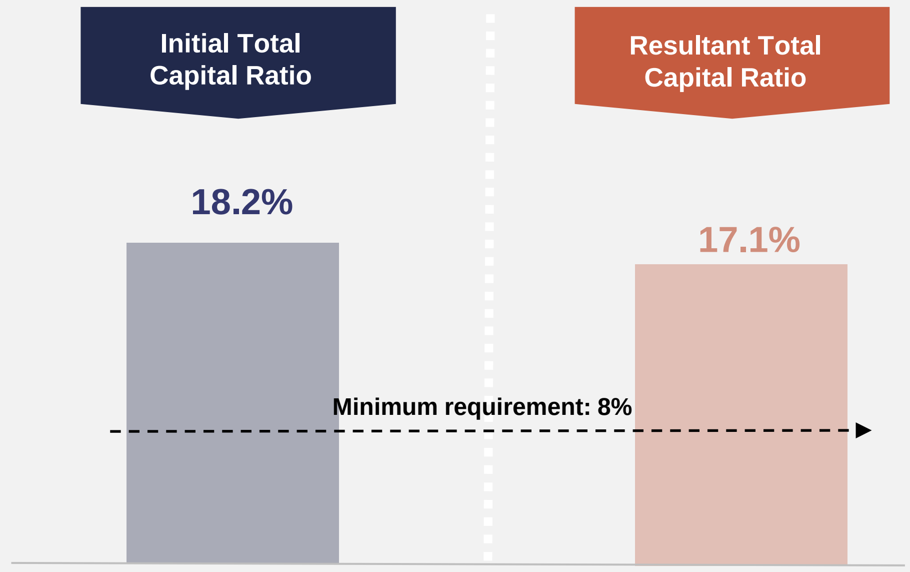
RM763 bn

Total Capital Ratio[1]

18.2%

Malaysian banks’ exposure to IRRBB* is manageable - Banks’ capital and liquidity levels remain resilient even if MTM losses from AC bonds were to be deducted[2]

The Mark-to-Market Impact on Banks' Total Capital Ratio from Banks' Bonds Held at Amortised Cost



* IRRBB refers to interest rate risk in the banking book

[2] The sensitivity analysis conducted has incorporated the impact of mark-to-market losses if the bonds in banks' AC portfolio are revalued to reflect a 200bps rate shock and the resultant losses are deducted from banks’ capital (although Basel III capital rules do not require this).

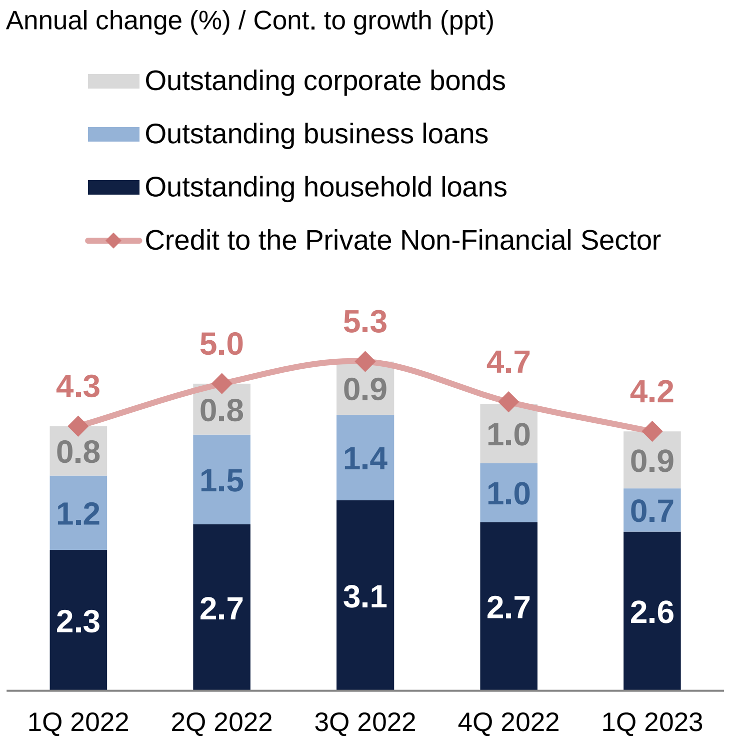
[1] Data as at March 2023.
Source: Bank Negara Malaysia, Bank Negara Malaysia estimates

Credit growth moderated as repayments outpaced disbursements

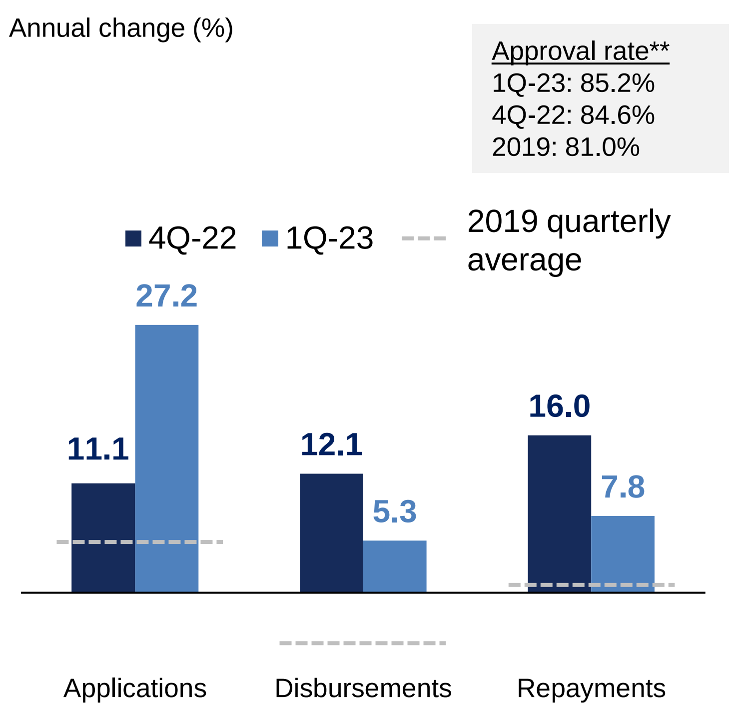
Credit to the private non-financial sector moderated to 4.2% as at end-1Q 2023…

…as growth in loan repayments continued to outpace that of disbursements for both businesses and households, with loan demand largely forthcoming

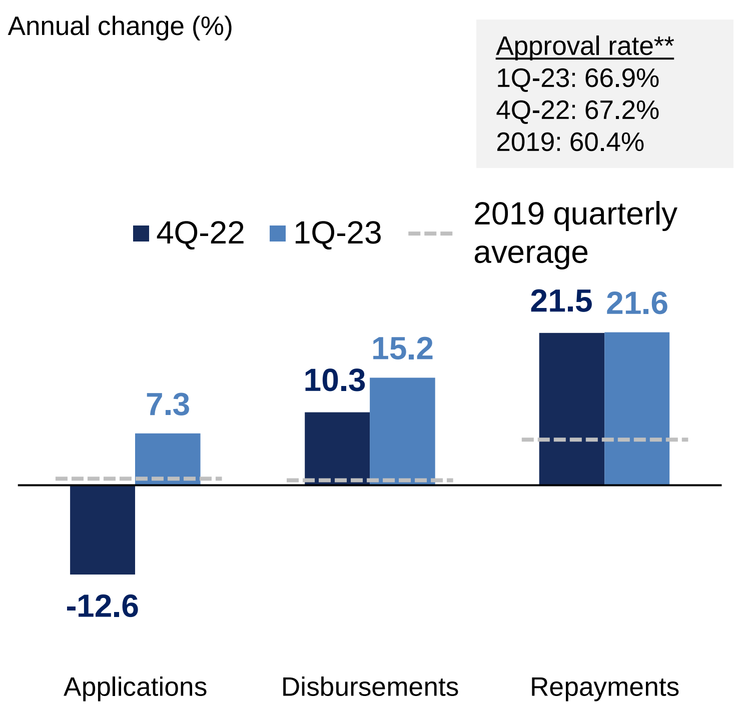
Credit to the Private Non-Financial Sector*



Business Loan Indicators



Household Loan Indicators

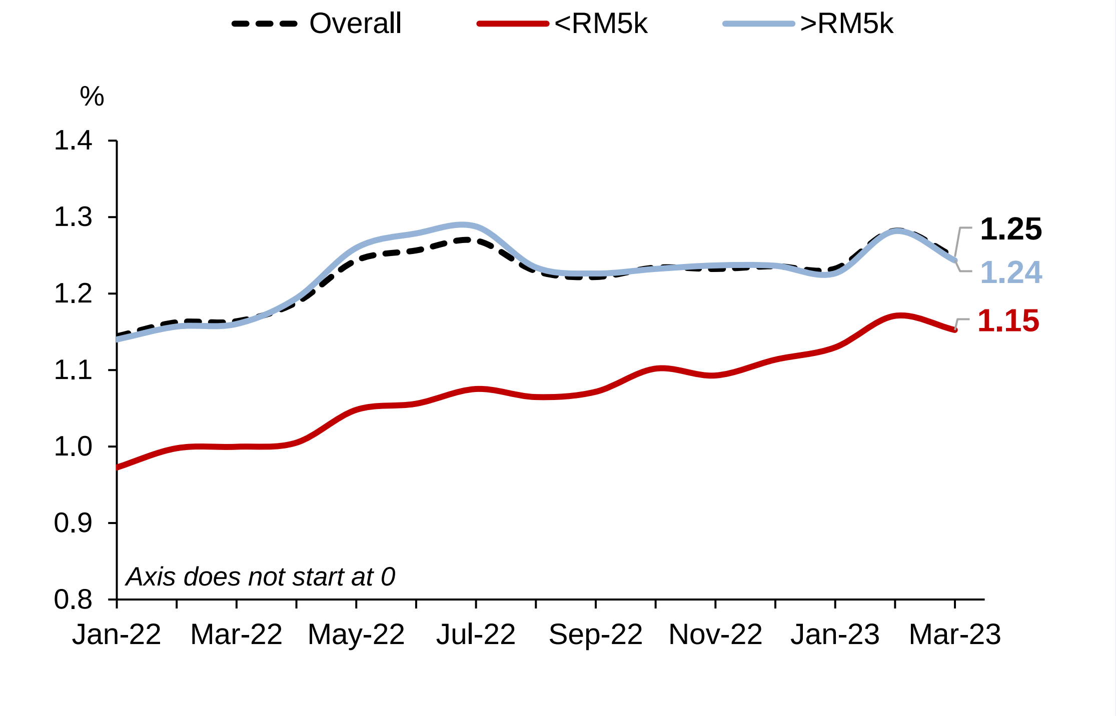


*Comprises loans to households and non-financial corporations from the banking system and development financial institutions (DFIs), and corporate bonds issued by non-financial corporations (including short-term papers).
**Approval rate is calculated based on a four-quarter rolling average of loans applications with following status during the quarter: (loans approved + loans cancelled) / (loans approved + loans cancelled + loans rejected).
Note: Numbers may not add up due to rounding.
Source: Bank Negara Malaysia

The quality of household borrowings remains sound supported by improving labour market conditions and the availability of assistance

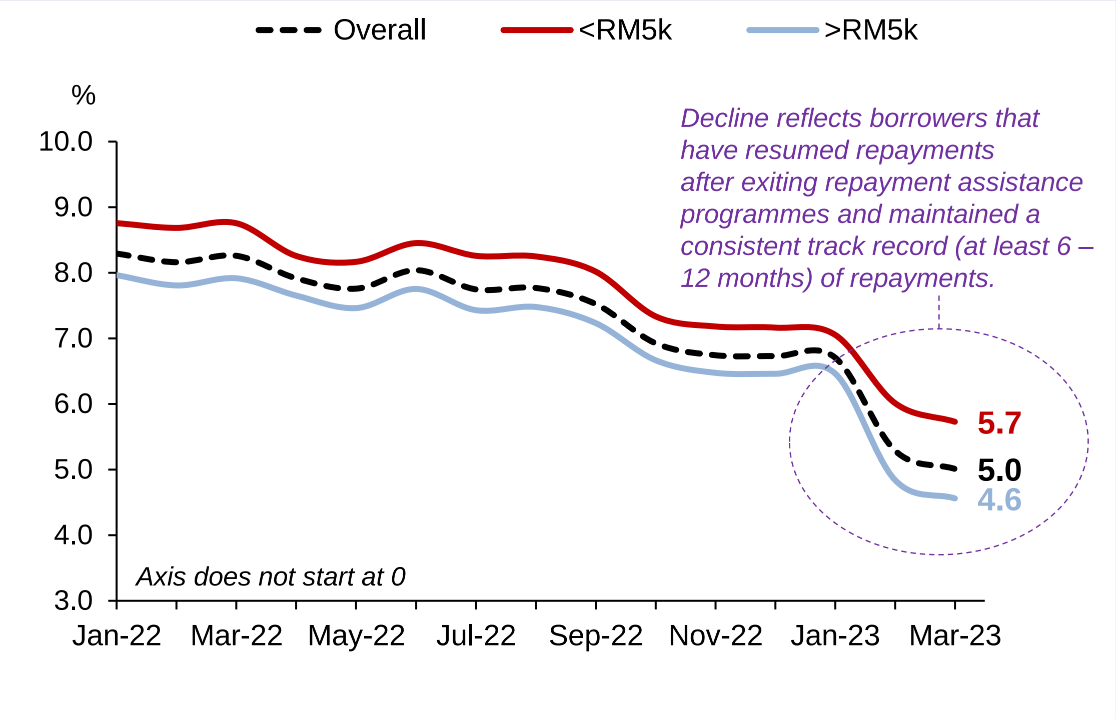
Impairments remain low and within expectations among borrowers from all income groups

Household Sector: Impaired[1] Ratio
(ratio, % of total household loans in banking system)



Stage 2 loans also continue to decline as more borrowers successfully transition out of repayment assistance programmes

Household Sector: Stage 2[2] Loans Ratios
(ratio, % of total household loans in banking system)



Note

[1] Impairment ratio based on Stage 3 loans under MFRS 9.

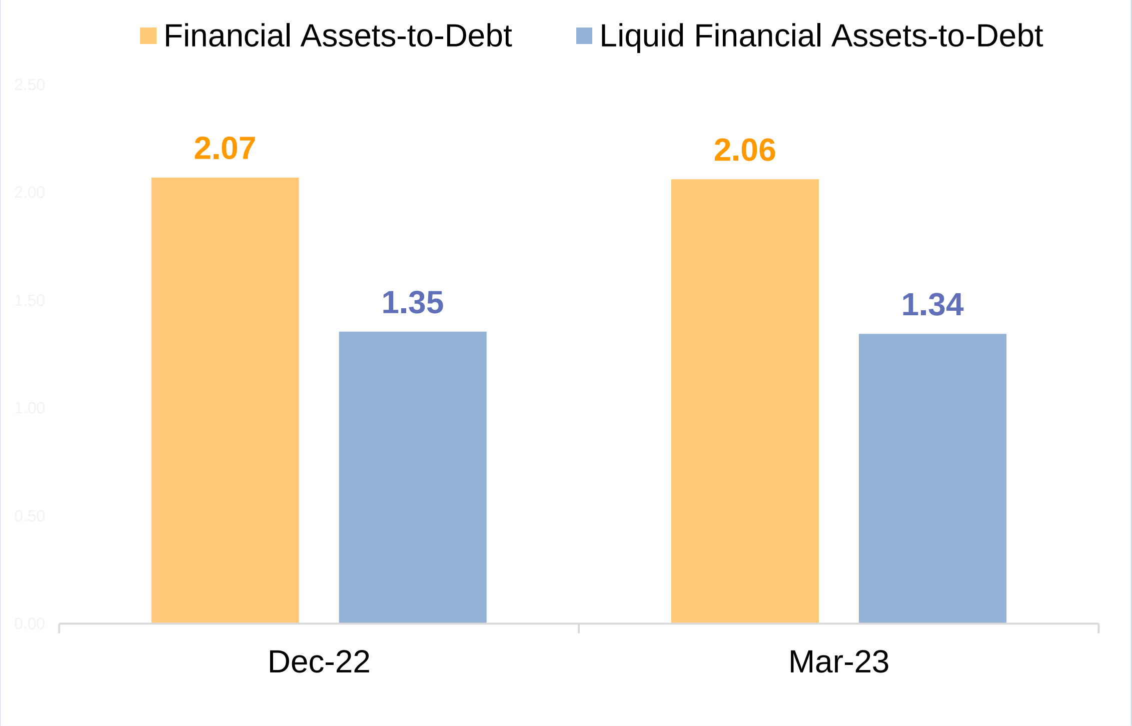
[2] Refers to the share of loans that have exhibited deterioration in credit risk, for which banks are required to set aside provisions based on lifetime expected losses under MFRS9. Stage 2 loans ratio was introduced with the implementation of MFRS9 standards beginning 1 January 2018.

Source: Bank Negara Malaysia

Household borrowers are assessed to be generally resilient to upward movements in borrowing costs

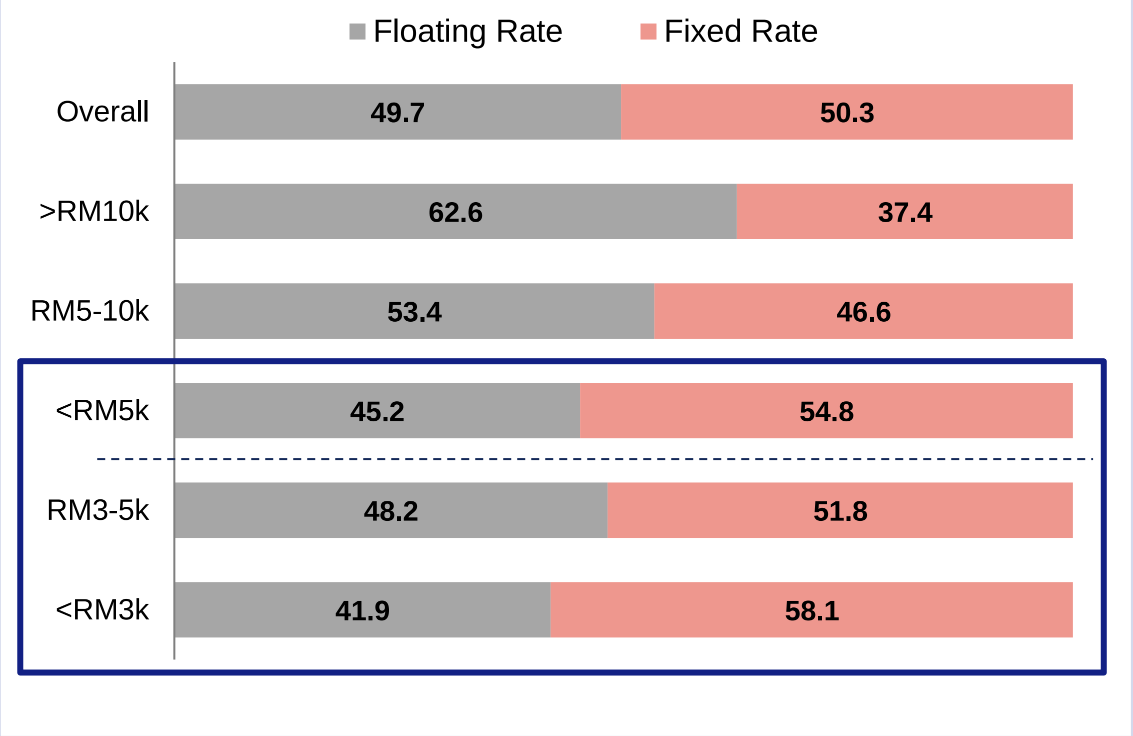
On aggregate, households continue to have ample financial buffers to withstand shocks

Household Sector: Financial Asset Ratios
(Times of Debt)



Lower-income borrowers have a larger share of fixed-rate loan accounts which are unaffected by OPR changes

Household Sector: Share of Fixed-rate and Floating-rate Loan Accounts[1] by Income Group (% proportion)



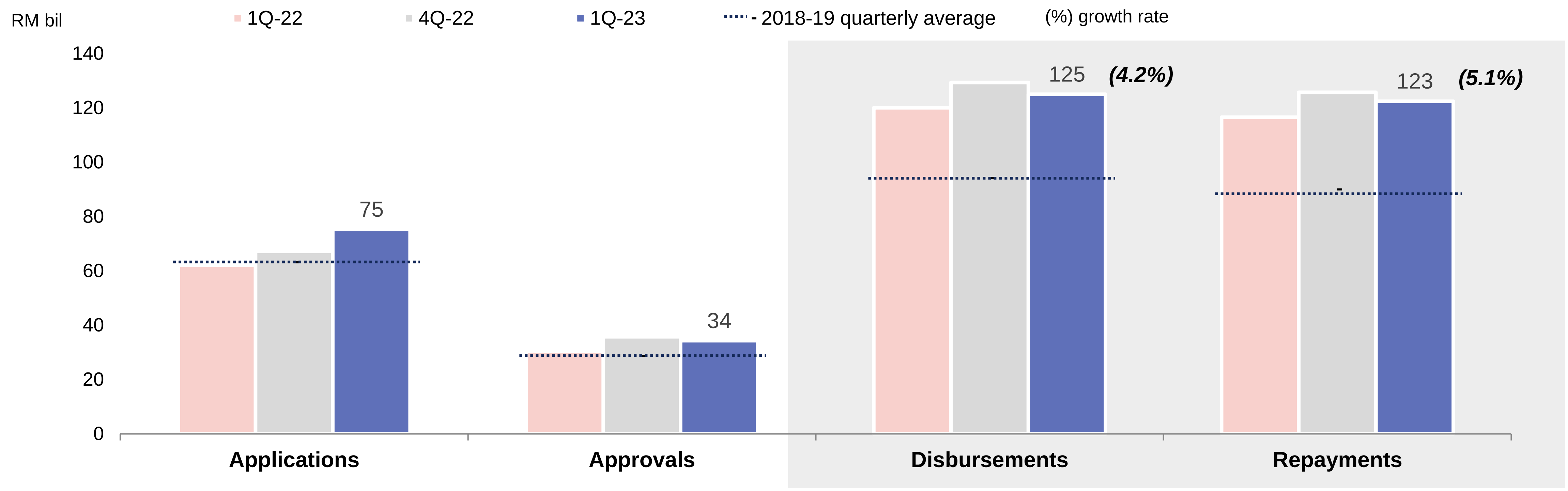
Note
[1] Excludes credit card accounts

Source: Bank Negara Malaysia

Financing remains supportive of SME business activity in 1Q 2023

Financing disbursements and repayments continued to be sustained at high levels surpassing past trends

SME Financing Indicators

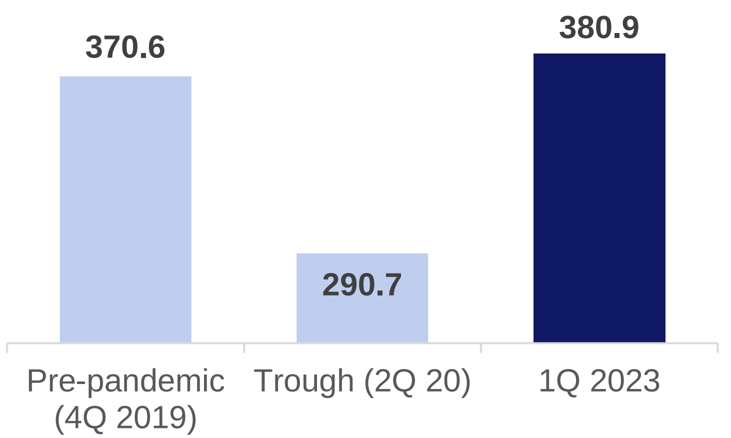


Note: Reflects loans from the banking system and development financial institutions (DFIs). The data reflects a standard 6-month data refresh conducted monthly, to take into account any historical data resubmission by FIs

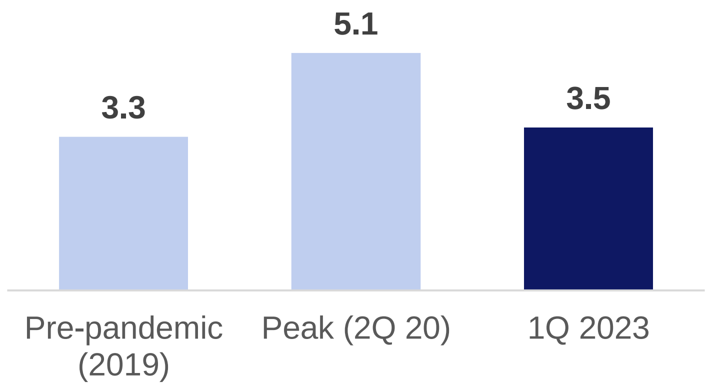
Source: Bank Negara Malaysia

Malaysia's economy continue to show strength

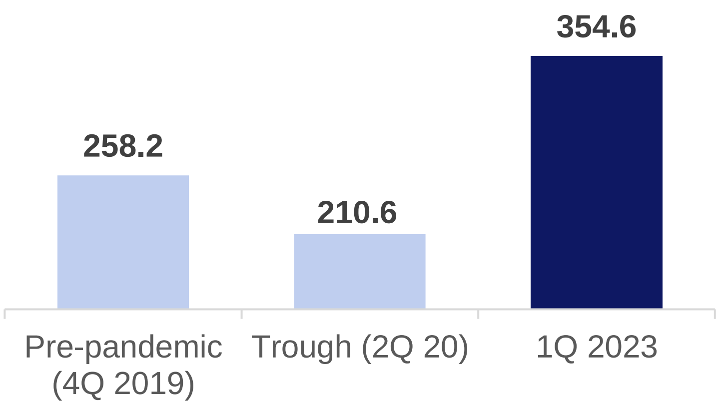
Real GDP Levels, RM bn



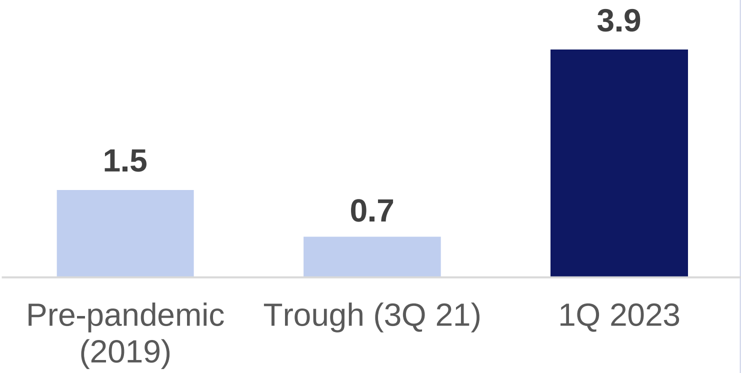
Unemployment Rate (% of labour force)



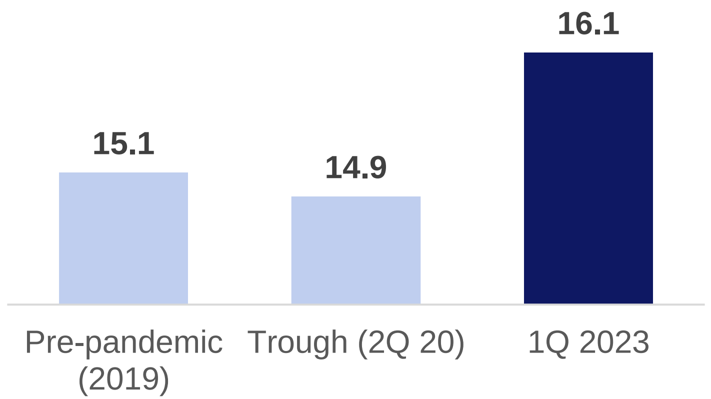
Gross Exports, RM bn



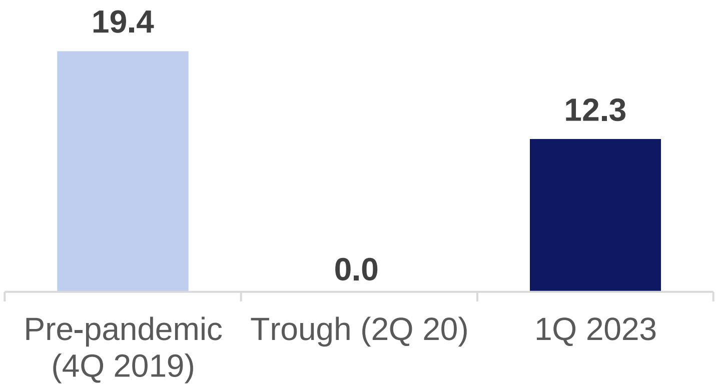
Core Inflation, % yoy



Employment Levels (million persons)



Travel Receipts, RM bn



Summary

In 1Q 2023, the Malaysian economy grew by 5.6%, driven mainly by private sector expenditure

Growth in 2023 is projected to expand between 4% and 5%, anchored by firm domestic demand amid challenging global environment

Risk to growth outlook fairly balanced, with downside risks emanating primarily from external developments, while there are upside risks mainly from domestic factors

Headline and core inflation are projected to average between **2.8% and 3.8% in 2023 with risk tilted to the upside**

End of Presentation

Questions & Answers

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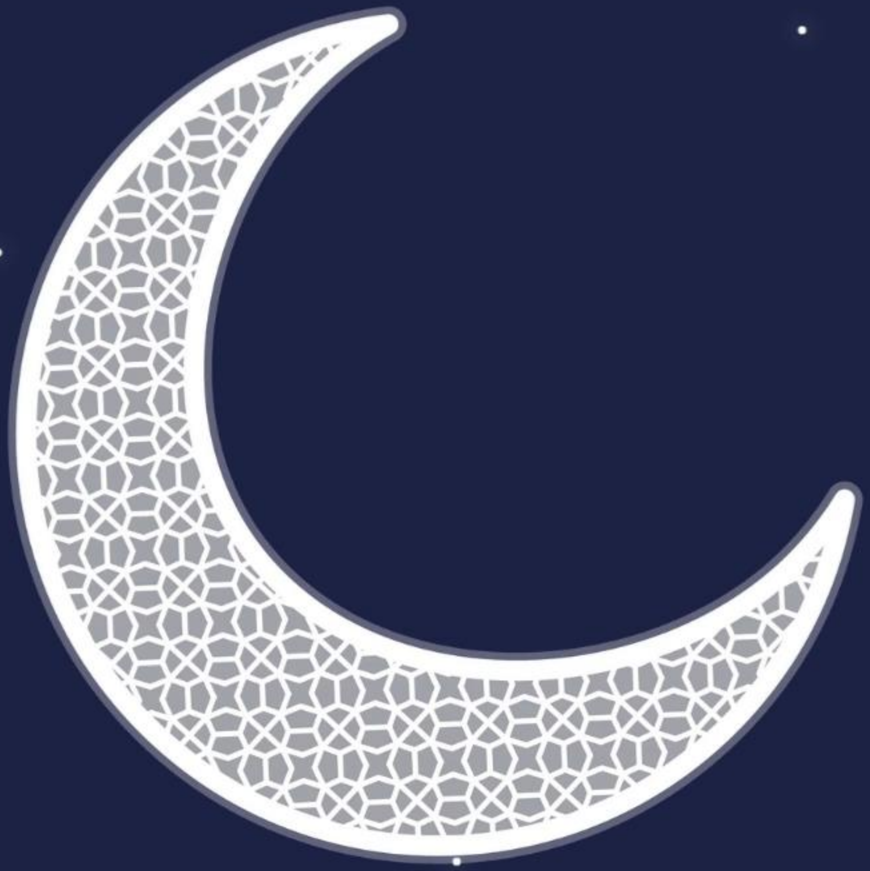
CENTRAL BANK OF MALAYSIA



Additional Information

Breakdown of 1Q GDP (% yoy)

Annual Change in GDP Growth by Component

Real GDP (% YoY)	Share[1], % (2022)	2022		2023
		1Q	4Q	1Q
Services	**58.3**	**6.4**	**9.1**	**7.3**
Manufacturing	**24.1**	**6.7**	**3.9**	**3.2**
Agriculture	**6.6**	**0.1**	**1.1**	**0.9**
Mining and Quarrying	**6.4**	**-2.2**	**6.3**	**2.4**
Construction	**3.5**	**-6.1**	**10.1**	**7.4**
Real GDP	**100.0**	**4.8**	**7.1**	**5.6**

[1] Numbers do not add up due to rounding and exclusion of import duties component.

Source: Department of Statistics, Malaysia

Real GDP (% YoY)	Share, % (2022)	2022		2023
		1Q	4Q	1Q
Domestic Demand (Excluding Stocks)	**93.1**	**4.4**	**6.8**	**4.6**
Private Sector	**75.5**	**4.3**	**7.8**	**5.6**
Consumption	60.2	5.3	7.3	5.9
Investment	15.3	0.4	10.3	4.7
Public Sector	**17.6**	**4.9**	**3.8**	**-0.3**
Consumption	13.2	6.9	3.0	-2.2
Investment	4.4	-1.0	6.0	5.7
Net Exports of Goods and Services	**5.5**	**-28.9**	**23.0**	**54.4**
Exports	74.6	12.3	8.6	-3.3
Imports	69.1	16.1	7.2	-6.5
Change in stocks, RM bil.	**1.4**	**5.5**	**0.4**	**2.7**
Real GDP	**100.0**	**4.8**	**7.1**	**5.6**

2023f: Domestic demand to remain the key driver of growth amid challenging global environment

Growth underpinned by firm domestic demand amid external headwinds

2023f: 4% to 5%

- Further improvement in employment and income levels
- Continued implementation of multi-year investment projects
- Higher tourism activity
- Continued targeted policy measures

Risks to Malaysia's growth outlook are fairly balanced

Upside risks

▲ Better-than-expected labour market conditions

▲ Stronger-than-expected pick-up in tourism activity

▲ Faster implementation of projects including from re-tabled Budget 2023

Downside risks

▼ Sharp tightening in global financial market conditions

▼ Further escalation of geopolitical conflicts

▼ Higher-than-expected inflation and input costs domestically

Note: p Preliminary, f Forecast

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

Financial account recorded a larger net outflow in the quarter

Higher outflows from portfolio investment account were partially offset by net inflows in direct and other investment account

RM billion	2022		2023
	4Q	Year	1Q
Direct Investment	**-9.3**	**15.9**	**10.9**
*Direct Investment Abroad (DIA)**	-28.5	-58.6	-1.1
*Foreign Direct Investment (FDI)**	19.2	74.6	12.0
Portfolio Investment	**-26.7**	**-50.6**	**-33.3**
Residents	-15.0	-30.5	-16.3
Non-residents	-11.7	-20.1	-17.0
Financial Derivatives	**-1.7**	**-2.2**	**-0.9**
Other Investment	**36.6**	**49.2**	**20.9**
Financial Account Balance	**-1.1**	**12.4**	**-2.4**

Continued FDI inflows amid lower DIA outflows

Higher net outflows in portfolio investment

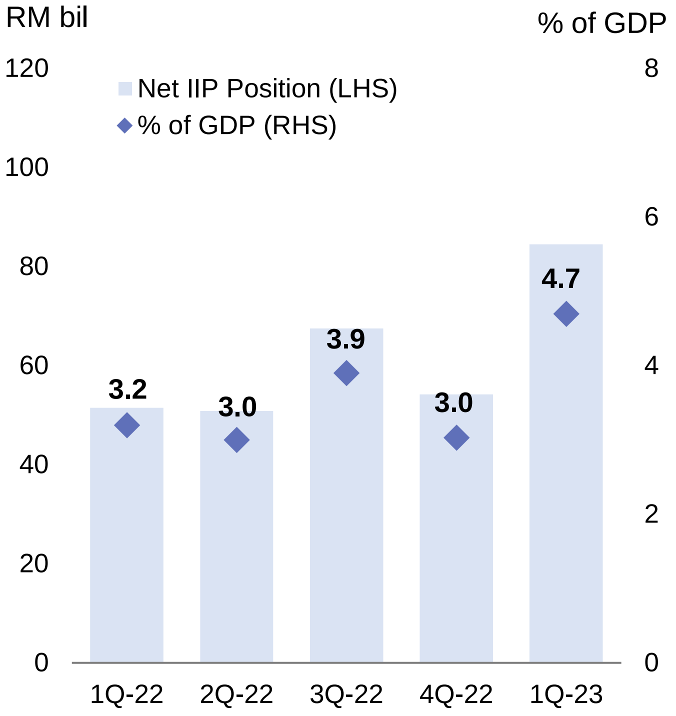
Continued net inflows in other investment

*As per the IMF's BPM5 classifications (i.e. directional basis).
Note: Numbers may not add up due to rounding.
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Adequate buffers to weather external shocks

Higher net creditor position …

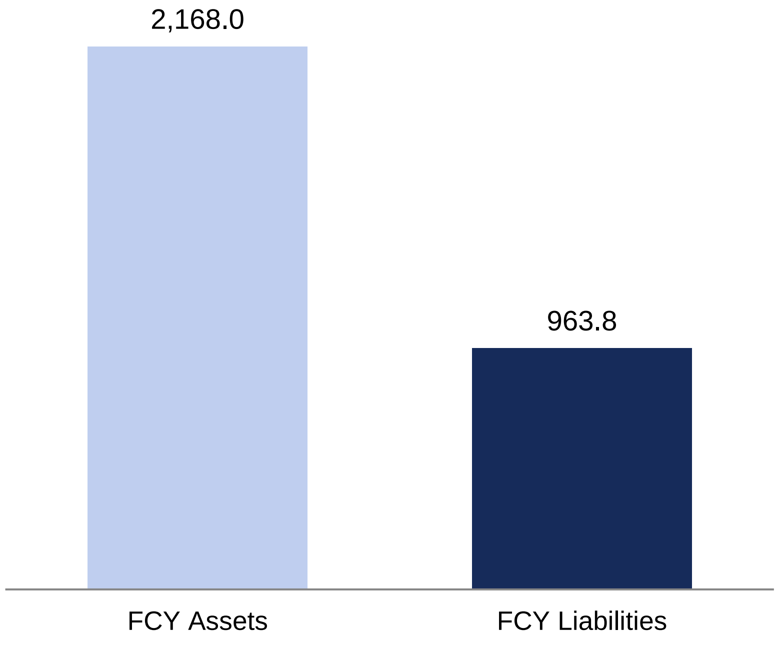
External Assets Minus External Liabilities (1Q 22 – 1Q 23)



Source: Department of Statistics, Malaysia and Bank Negara Malaysia

… with large net foreign-currency assets …

FCY Denominated External Assets & Liabilities (End-1Q 2023) (RM bil)



… and further supported by

Sustained foreign income

Continued current account surplus reduces external financing requirements

Sufficient international reserves to facilitate international transactions

… to finance 4.9 months of imports of goods & services and is 1.0 time total short-term external debt as at 28 April 2023*

* Note: This reserves coverage ratio differ from that published in the press statement on international reserves as at 28 April 2023 as it reflects the latest 1Q 2023 data on imports of goods & services.

The Bank has a comprehensive set of tools to address bank-specific or system-wide liquidity shortfalls

Liquidity tools are used to maintain sufficient day-to-day liquidity, alleviate exigent liquidity needs and administer the monetary policy target

Banking system liquidity

Financial stability and payment systems efficiency *(liquidity provision)*	Monetary policy implementation *(liquidity management)*
Regular OMO	Regular OMO
RENTAS facilities	Standing facilities
Special liquidity facilities	Statutory reserve requirement (SRR)

OMO – Open market operations

…while also ensuring orderly functioning of domestic FX market and enhancing liquidity in the secondary government bond market

Market liquidity

Foreign exchange (FX) market	Government bond market
Regular OMO (FX swaps)	Regular OMO (bond repo)
Bilateral and multilateral arrangements	ISCAP

ISCAP – Institutional Securities Custodian Program

Source: Bank Negara Malaysia

OPR hike brought interest rate back to pre-pandemic levels

	Policy rate (%)		Inflation (% YoY)		Real GDP (%)		GDP level*** vs 2019 (%)
	End-2019	Mar 2023	End-2019**	Mar 2023	2019	1Q 2023	
Malaysia*	3.00	3.00 =	1.0	3.4 ↑	4.4	5.6 ↑	6.1
United States*	1.75	5.00 ↑	2.3	5.0 ↑	2.3	1.6 ↓	5.0
Euro area*	-0.50	3.00 ↑	1.3	6.9 ↑	1.6	1.3 ↓	2.4
China	2.09	1.70 ↓	4.5	0.7 ↓	6.0	4.5 ↓	13.8
Indonesia	5.00	5.75 ↑	2.7	5.0 ↑	5.0	5.0 =	7.4
Thailand	1.25	1.75 ↑	0.9	2.8 ↑	2.1	2.6 ↑	-1.5

*Policy rate for Malaysia, the United States and the euro area are as of May 2023. Note: Thailand real GDP (%) are as of 4Q 2022.
** Refers to December 2019
*** GDP levels refer to annual GDP as at 2022
Up arrow indicates latest value is higher than end 2019 value. Equal sign indicates no change while Down arrow indicates latest value is lower than end 2019 value.

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