PRESS RELEASE

EMBARGO: For immediate release

ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE FIRST QUARTER OF 2023

Press Conference Presentation Transcript

The global economy grew modestly in 1Q 2023

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “In the first quarter of 2023, global growth was modest. The economic rebound in China and resilient labour market offset the headwinds from the elevated inflation and high interest rates.

“Headline inflation continued to moderate, but core inflation has persisted above historical averages. Contraction in regional exports reflected slowing global demand, ongoing shift in consumption from goods to services and downcycle in E&E sector, particularly for consumer electronics.”

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

Ketua Perangkawan Malaysia Dato’ Sri Dr. Mohd Uzir Mahidin berkata, “Pada suku tahun pertama 2023, ekonomi Malaysia berkembang 5.6%, disokong oleh peningkatan perbelanjaan isi rumah, aktivit pelaburan yang berterusan, pasaran buruh yang bertambah baik dan aktiviti pelancongan yang semakin rancak.

“Pertumbuhan mengikut sektor, pertumbuhan yang paling tinggi dicatatkan di sektor perkhidmatan yang bertumbuh pada kadar 7.3%, sektor pembuatan 3.2%, sektor pertanian bertumbuh sebanyak 0.9%, sektor perlombongan bertumbuh sebanyak 2.4% dan sektor pembinaan bertumbuh sebanyak 7.4%. Justeru, kita lihat di sini kelima-lima sektor utama telah mencatatkan pertumbuhan positif pada suku pertama 2023.

"Bagi terma pelarasan musim suku tahun ke tahun, KDNK meningkat sebanyak 0.9%.

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, "In the first quarter of 2023, the Malaysian economy recorded a growth of 5.6%, supported by further expansion of household spending, continued investment activity, improving labour market conditions and higher tourism activities.

"On a seasonally adjusted quarter-on-quarter basis, GDP increased by 0.9%."

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

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, "On the demand side, growth was supported by private sector expenditure. Private consumption growth was underpinned by firm labour market conditions and policy measures. Spending continued to expand across both necessities and discretionary items.

"Growth in private investment was supported mainly by structures. Turning to the supply side, all sectors continued to expand. The services sector benefitted from improvements in both consumer- and business-related subsectors, supported by the continued recovery in tourist arrivals and progress of construction activity.

"Meanwhile, growth in the manufacturing sector was supported by the consumer cluster amid ongoing fulfilment of motor vehicle backlogs and continued growth in the E&E cluster.

“I would also like to highlight that, as a common practice, DOSM will periodically revise the back series data of GDP components. In this current exercise, the data has been revised from 2020 onwards, especially for exports and imports in 2022. So, please also take note of the revisions when you are reviewing and commenting on the current performance of the economy.

Lower current account surplus and FDI inflows

Chief Statistician of Malaysia Dato’ Sri Dr. Mohd Uzir Mahidin said, “Let me now turn to the balance of payments.

“For the first quarter of 2023, the current account recorded a lower surplus of RM4.3 billion, or 1.0% of GDP. This was mainly on account of smaller goods surplus, driven by moderation in external demand. In addition, primary income registered a larger deficit during the quarter due mainly to lower investment income accrued to Malaysians from investments abroad.

“Looking at the financial account, FDI recorded net inflows of RM12 billion during the quarter from reinvested earnings and continued equity injections by foreign investors. These investments were channelled mainly into the financial services sub-sector as well as mining and manufacturing sectors. The FDI were primarily from Mauritius, Switzerland and Hong Kong.”

“Before I hand over the presentation back to Gabenor, I would like to also inform on our various initiatives done by DOSM. As you know, more timely data is required by the country. For external trade, we normally release it four weeks after the reference month. Now we will be releasing it two weeks after the reference month. Presently we also release the GDP on a monthly basis and we will continue to strengthen our role as the National Statistical Office and how we use data to convince policymakers.

“So for the next quarter and onwards, we are going to release for the first time the advance estimates of GDP. It will be released three weeks after the reference quarter. So it will be more timely and the normal GDP will be continued to be released as usual. Hence we can release more timely statistics that is required for the country. This will bring our National Statistical Office at the same level of advanced countries such as the US, UK, south Korea Taiwan and Singapore where they also release the advance GDP estimate numbers."

Recent developments reaffirm outlook for 2023

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Recent indicators suggest that the economy is on a firm track to expand between 4 to 5% in 2023. Malaysia is not at risk of a recession. On a seasonally adjusted basis, the economy has exceeded its pre-pandemic levels (refers to 4Q 2019).

"The labour market continued to strengthen in 1Q 2023 and is expected to remain supportive of domestic demand.

"The unemployment rate gradually improved towards pre-pandemic levels, driven by steady employment growth, in tandem with the expansion in economic activity. As mentioned during the release of the BNM's Economic and Monetary Review, the economy will approach full employment by the end of this year.

Growth continues to be underpinned by domestic demand

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Consumption indicators show continued growth in household spending. These include high-frequency data such as the Index of Retail Trade and passenger car sales, which continue to grow above its long-term average.

"On the investment front, existing large infrastructure projects are progressing without major delays. These include the ECRL, LRT3 and Pan Borneo Highway."

Export growth slowed in 1Q 2023 following weaker external demand

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Turning to Malaysia's external performance. In line with expectations, exports growth moderated in 1Q 2023. Despite the slower growth, Malaysia's exports continue to be supported by our diversified products and trade partners. This performance was further cushioned by improvement in exports of services following further recovery in tourist arrivals.

“Even at the current rate of arrivals, we are likely to reach the forecasted number of tourist arrivals of approximately 20 million in 2023. As indicated earlier, we have chosen to be conservative in this figure. To the extent that international tourism picks up, such as from higher tourist arrivals from China, there is some upside to our services exports.”

Headline and core inflation moderated in 1Q 2023

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Let me spend a bit of time on inflation. In line with the easing cost environment, headline inflation was lower, averaging at 3.6% for the quarter (4Q 2022: 3.9%). Much of this downtrend was driven by supply factors, namely lower RON97 prices, which contributed around two-thirds of the decline during the first quarter.

“While core inflation moderated to 3.9% during the quarter (4Q 2022: 4.2%) it remains elevated relative to the historical norm of around 2.0%. Core inflation is more indicative of underlying demand pressures. Prices on core items may stay the same or increase, even as costs moderate, as demand remains strong. For example, food away from home remains high at 8.9% compared to its long-term average of 3.8% (4Q-23: 9.5%).

“So, as reflected in the slide, the decline in headline inflation is largely due to cost factors. The blue bar which is core inflation, has come down, but only slightly and at a much slower pace.”

Core inflation remains at elevated levels amid firm demand conditions

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Of note, current core inflation, as shown on the left chart, has remained high for longer.

“Even as costs have begun to moderate, the strong economic activity has continued to generate demand-driven pressures which have kept core inflation elevated. We can observe this beyond conventional demand indicators, such as in retail trade and credit card spending data – or even when we go out to shopping malls and restaurants and see long queues and traffic jams.”

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

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Going forward, headline and core inflation are expected to moderate over the course of 2023, albeit remaining higher than pre-pandemic levels, averaging between 2.8% - 3.8% for the year as a whole.

“While cost pressures have eased in line with lower global commodity prices, core inflation will remain at elevated levels amid firm demand conditions and continuing improvements in the labour market. The outlook also accounts for the gradual rationalisation of subsidies, particularly the revision in electricity surcharge for selected industry participants.

“The balance of risk to inflation remains tilted to the upside, and is highly subject to domestic policy changes on subsidies and price controls, financial market developments, as well as risks to global commodity price from geopolitical conflicts and adverse weather events like El Nino.”

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

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Let me now explain our monetary policy. After four consecutive OPR adjustments in 2022, we decided to pause at our January and March MPC meetings this year to take stock of the impact from the 100 basis points adjustment. Now, the latest data shows that there are no signs of overtightening in the economy.

“With that, and 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. The MPC will continue to ensure that the monetary policy stance remains consistent with the outlook of domestic inflation and growth."

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

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "I know there's been a lot of interest in the recent monetary policy adjustment, so let me take a moment to explain further on why we increased the OPR at our recent MPC meeting.

"First, I want to make it clear that the Malaysian economy continues to strengthen. GDP has already exceeded pre-pandemic levels, unemployment has also fallen, and households remain resilient. And as I mentioned, after the four consecutive OPR adjustments in 2022, we do not see any signs of excessive tightening – for example in consumption or investment. Recall that we have been on a normalisation path since last year, and so taking all these together, we judged that it was the right time to further recalibrate our monetary policy in line with the stronger economy.

"Let me also emphasise that while inflation has been moderating lately, the greater expansion in our economic activity and firm domestic demand continue to contribute to price pressures, keeping inflation at elevated levels. This has been the trend in many countries. In some cases, monetary policy was slow to react, resulting in the need for policy interest rates to be raised more quickly and aggressively. We do not want to be in that situation, so we must be prudent.

“We also wanted to avoid a situation of keeping interest rates too low for too long, especially when economic growth is firm, because this could lead to higher inflation in the future and also the risks of financial imbalances. Let me be clear that we are not seeing any signs of financial imbalances now. But as history has shown, prolonged low rates that are not aligned to the health of the economy can have damaging effects, such as overspending and overborrowing, which could push up prices even more. When that happens, all of us will be affected, especially the poor and vulnerable.

“I must correct the misperception that we want growth to be slower. That is not true. Rather, this decision will help to ensure that we continue to grow sustainably, and that inflation is kept in check.”

Domestic financial markets remained orderly despite global economic uncertainties

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “On financial markets, adjustments in the domestic financial markets have remained orderly despite concerns that the global economic outlook could moderate. In particular, banking sector stress in major advanced economies have contributed to global bond yields declining further towards the end of the quarter amid monetary policy easing expectations in the US.

“Despite the external uncertainties, investors’ outlook for emerging markets including Malaysia has remained broadly intact. For Malaysia, domestic government bond yields declined during the quarter, in line with the movement in global bond yields.

“The regional equity market has been more affected by lingering uncertainties over the potential impact of global economic risks on the outlook for global corporate earnings. As a result, most regional equities including the FBM KLCI declined during the quarter.”

Ringgit continues to be driven by US dollar developments

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "So far in 2023, the US dollar has moved in tandem with shifting investor sentiments towards global economic uncertainties. The year-to-date decline in the US dollar index (DXY) has been modest at 1.9%.

"Reflecting these global developments, the ringgit has exhibited two-way movements. On aggregate, the ringgit's performance has remained broadly stable.

"While the ringgit began the year on an appreciating trend, this was short-lived due to the re-surfacing of expectations for further tightening of US monetary policy. Subsequently, amid concerns over the banking sector stress in major economies, the ringgit reversed some of its depreciation against the US dollar. Year-to-date, the ringgit has depreciated by 0.6% against the US dollar.

"The Bank will continue to monitor developments and ensure orderly market conditions to support financial intermediation and economic activity."

Spillovers from US banking sector stress have been limited

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Spillovers from US banking sector stress have been limited. Unlike in the US, all banks in Malaysia are subject to the same stringent prudential requirements that are consistent with Basel 3. Their business model and funding profiles are also different. Collectively, these factors continue to provide a high degree of resilience for banks in Malaysia against market and liquidity stress.

"This resilience is supported by high levels of high-quality liquid assets (HQLA) to meet stressed cash outflows. These are largely in the form of placements with the Bank and government bonds that can be pledged with the Bank amounting to over RM760 bil as at March 2023, to meet any additional liquidity needs (HQLA as at Mar 2023: RM763.0 bil).

"The banking system's exposure to interest rate risk in the banking book also remains manageable. Under our capital rules, all marked-to-market losses in banks' bond holdings, except for those held at Amortised Cost are deducted from capital. An internal simulation concludes that even if we were to revalue the bonds that are held as amortised cost, banks' capital would only reduce by 1.1 percentage point and the resultant capital ratio is still well above the regulatory minimum."

Credit growth moderated as repayments outpaced disbursements

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Turning to credit conditions, credit to the private non-financial sector moderated to 4.2% as at end of the first quarter. This was due mainly to slower growth in outstanding loans, as loan repayments growth continued to outpace that of disbursements. Outstanding corporate bonds also grew at a more moderate pace.

"Notwithstanding this, the demand for loans has remained forthcoming and has been supported by sustained approvals.

"Of note, the higher growth in business loan applications during the quarter was driven by investment loans, primarily for construction and the purchase of non-residential properties.

"In the household segment, growth in loan applications was broad-based across most types of loans, reflecting sustained demand, particularly in loans for the purchase of houses and cars."

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

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "In line with improving incomes, the quality of household borrowings remains sound. This has also been supported by prudent loan affordability assessments by banks, which help to ensure that borrowers have buffers against rising costs.

Published by:
Strategic Communications Department, Level 14, Block B, Bank Negara Malaysia,
Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia.
E-mail: communications@bnm.gov.my
Web: www.bnm.gov.my

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

"Majority of the borrowers exiting repayment assistance programmes continue to be able to maintain good repayment behaviour with limited signs of difficulties. In line with this, leading credit risk indicators such as the Stage 2 loans continue to improve suggesting further impairments are likely to be manageable.

"I wish to stress that it is not true that the increase in the OPR has caused a rise in bankruptcies. None of the figures are showing that."

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

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "On aggregate, households continue to hold financial assets in excess of debt, which enables them to manage higher borrowing costs. Lower-income borrowers also have a larger share of fixed-rate loan accounts, which are not affected by changes in the OPR.

"Of course, we acknowledge that some household borrowers may continue to face financial distress. Assistance continues to be available for such borrowers in the form of customised repayment programmes from banks and AKPK to ensure that borrowers can sustainably service their loans over the longer-term."

Financing remains supportive of SME business activity in 1Q 2023

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Financing activity by banks and DFIs to SMEs remained robust, especially with disbursements sustained above quarterly trends seen before the pre-pandemic times.

"SMEs' repayment capacity, on aggregate, also remained intact, and it continued to outpace disbursements."

Malaysia's economy continue to show strength

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "I want to reiterate that the economy is no longer in crisis and has in fact continued to gain strength.

"This prognosis is borne by most economic indicators. The critical ones are shown here. The IMF, World Bank, ADB, AMRO, international and local analysts have also arrived at the same conclusion.

"We acknowledge there are pockets of segments and sectors that need help due to their circumstances. Help remains available for those in need.

"With all these conditions, it is timely, necessary and warranted, that monetary policy is recalibrated to make sure that we continue to be on a sustainable growth path."

Summary

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Let me now conclude.

"The Malaysian economy expanded by 5.6% in the first quarter this year, driven mainly by private sector expenditure. Growth is projected to average 4% to 5% for 2023 as a whole, anchored by firm domestic demand.

"Risks to the growth outlook are fairly balanced. The downside risks stem primarily from external factors. Meanwhile, upside risks are mainly from domestic factors, such as stronger-than-expected tourism activity and implementation of projects.

"Meanwhile, on inflation, both headline and core are expected to average between 2.8% and 3.8% for the year."

Published by:
Strategic Communications Department, Level 14, Block B, Bank Negara Malaysia,
Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia.
E-mail: communications@bnm.gov.my
Web: www.bnm.gov.my

Bank Negara Malaysia
12 May 2023

Published by:
Strategic Communications Department, Level 14, Block B, Bank Negara Malaysia,
Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia.
E-mail: communications@bnm.gov.my
Web: www.bnm.gov.my