BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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1Q

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

The BNM Quarterly Bulletin presents a quarterly review of Malaysia's economic, monetary and financial developments. It includes the Bank's latest assessments on the direction of the economy going forward. The Bulletin also provides insights on current economic and financial issues, including highlights of policy initiatives undertaken by Bank Negara Malaysia in pursuit of its mandates.

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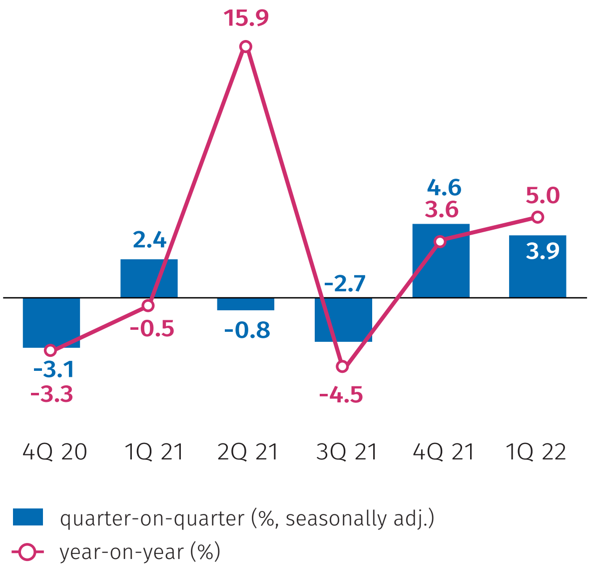
Highlights: 1Q 2022

GDP expanded further in 1Q 2022 amid improving domestic demand

GDP grew by 5.0% as domestic activities improved while external trade remained strong

Real Gross Domestic Product



Source: Department of Statistics, Malaysia

Selected GDP Components ***(Annual change (%)***

Demand

+5.5% Private consumption

+8.0% Exports of Goods & Services

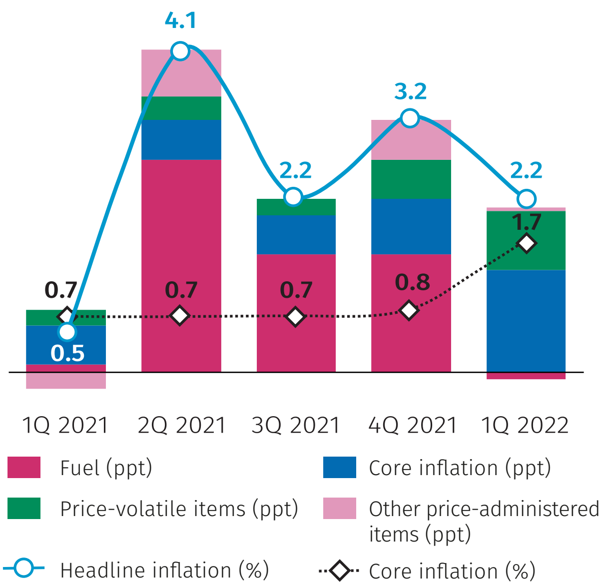
Supply

+6.5% Services

+6.6% Manufacturing

Headline inflation moderated in 1Q 2022, due mainly to the dissipating base effects

Annual change (%), contribution to headline inflation (ppt)



Factors affecting inflation in 1Q 2022

Fuel
Smaller contribution from fuel amid dissipating base effect from lower domestic retail fuel prices last year

Other price-administered items
Absence of base effect from electricity tariff rebates[1] implemented in 2020

Partly offset by

Core inflation[2]
Increase in core inflation (1Q 22: 1.7%; 4Q 21: 0.8%) amid the high cost environment and improving demand, with services related inflation the main driver[3]

Price volatile items
Higher fresh vegetables inflation due to seasonal factors and high input costs

[1] The tiered electricity tariff rebates were implemented under the Bantuan Prihatin Elektrik scheme from April to December 2020, and thus contributed to higher inflation in 2021 upon their lapse. The rebates ranged from 2% to 50% depending on domestic users' monthly electricity consumption.
[2] Core inflation is computed by excluding price-volatile and price-administered items.
[3] The main contributors of higher core services inflation were food away from home, and to a lesser extent, repair and maintenance for personal transport, and expenditure in restaurants and cafes.

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

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International Economic Environment

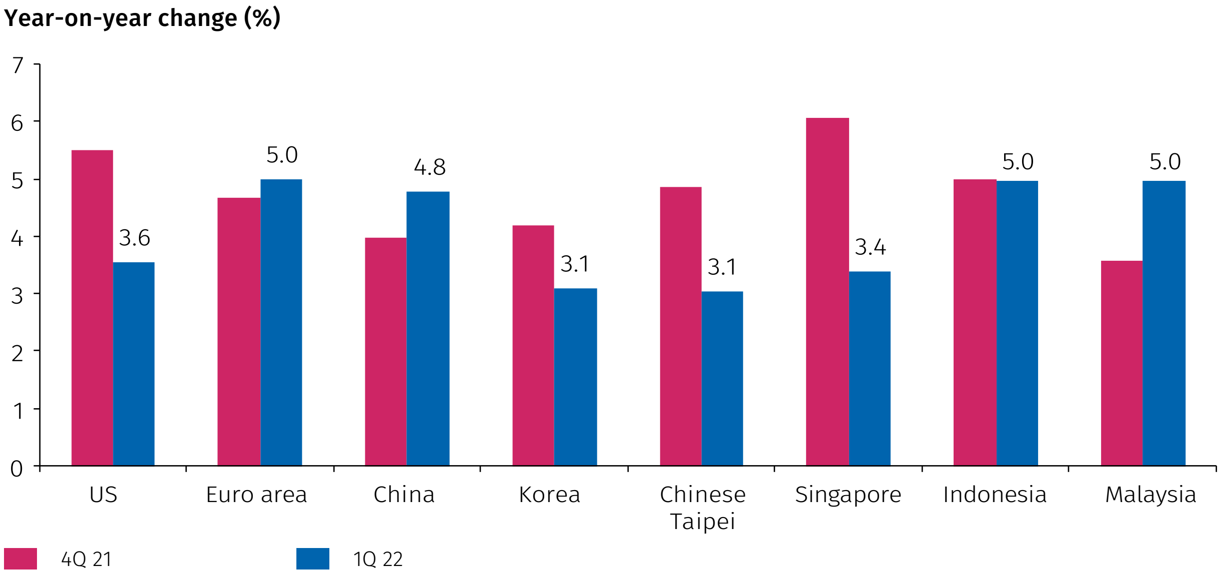
Highlights

- Global growth moderated during the first quarter of 2022.
- Regional exports remained resilient.
- Global financial market volatility increased.

Moderation in global growth

Global growth moderated in the first quarter of 2022. Recovery of services activity was initially affected by Omicron-led resurgences but improved as advanced economies (AEs) and most emerging market economies (EMEs) loosened restrictions later in the quarter. However, the recovery momentum was dampened by the military conflict in Ukraine, as well as renewed lockdowns in China. These developments led to re-escalation in global supply chain disruptions and increased commodity prices, which further heightened inflationary pressures. While the strength of manufacturing sectors continued in AEs, manufacturing activities in the EMEs were weighed by COVID-led disruptions in China. Nevertheless, global trade activity remained resilient.

C1 GDP Growth of Selected Economies



Source: National authorities

Growth for the US economy moderated to 3.6% (4Q 2021: 5.5%) during the quarter, partly due to headwinds from an Omicron-led resurgence and growing inflationary pressures on private consumption. Inflation continued to increase amid strong demand conditions, together with rising price pressure following the escalation of the military conflict in Ukraine. Wage growth remained strong as unemployment rates edged towards the pre-pandemic level.

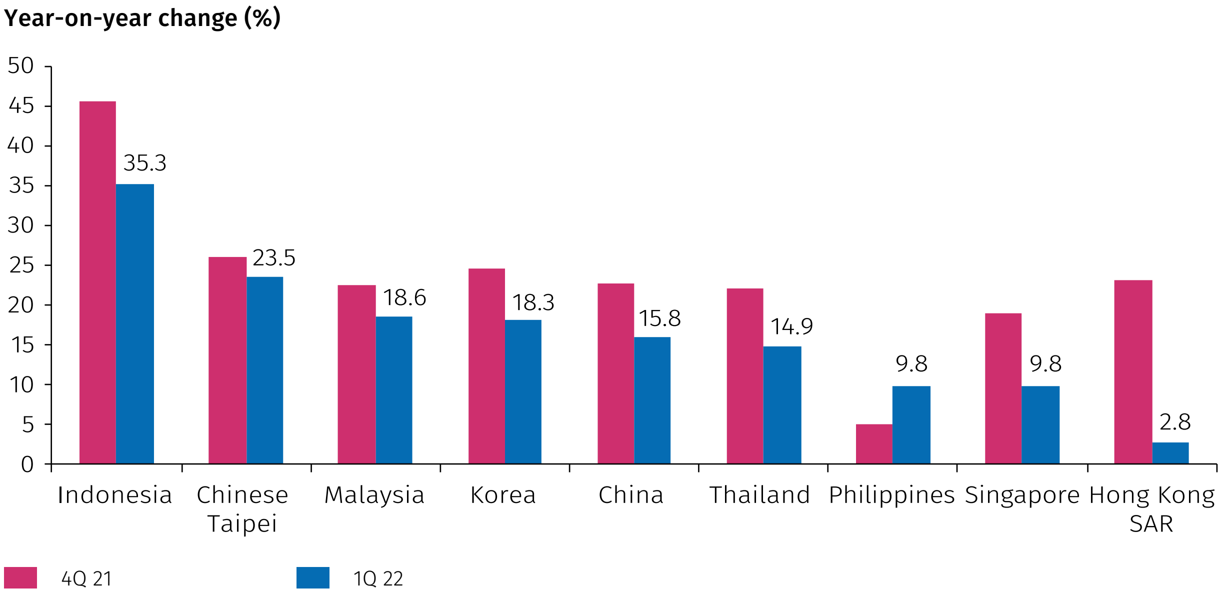
In the euro area, the economy grew by 5.0% (4Q 2021: 4.7%), supported by sustained improvements in the labour market. However, the military conflict weighed on growth in the region due to a high level of uncertainty and elevated inflation, driven primarily by high energy prices. This dampened consumer and business confidence. Disruptions to economic activity in Ukraine, Russia, and China also affected supply chains and manufacturing activity in the euro area.

In China, the economy grew by 4.8% (4Q 2021: 4.0%). Fixed investments rebounded during the quarter, particularly in infrastructure, supported by fiscal and monetary loosening. However, the re-imposition of lockdowns amidst COVID-19 outbreaks led to a fall in services activity and to a lesser extent, manufacturing activity. Export growth remained resilient, as some firms continued to operate despite the lockdowns. Business continuity was facilitated to some degree, as firms were given the flexibility to operate in a bubble, with strict standard operating procedures.

Regional export growth remained resilient

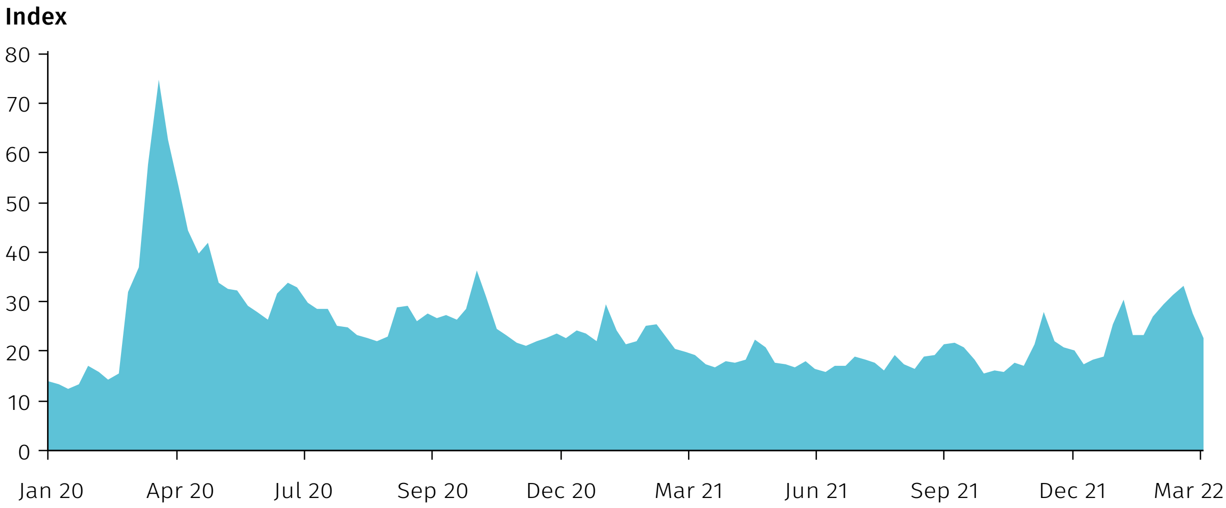
Despite the challenging external environment, exports in most regional economies grew at a double-digit pace during the quarter. This reflected the continued external demand, particularly for electrical and electronics (E&E) products. Commodity exporters, such as Indonesia and Malaysia, continued to benefit from rising commodity prices.

C2 Exports Growth of Selected Economies (in USD terms)



Source: National authorities

C3 CBOE Volatility Index (VIX)



Source: Bloomberg

Global financial market volatility increased

Global financial market conditions experienced increased volatility during the quarter (CBOE VIX, 1Q 2022: 25.3; 4Q 2021: 19.2). Volatility increased in the run-up to the January meeting of the US Federal Open Market Committee (FOMC). This was mainly due to the increased uncertainty on the pace of monetary policy tightening amidst an environment of a persistent rise in inflation. The second spike in volatility was marked by the beginning of the military conflict in Ukraine on 24 February 2022.

Uncertainties surrounding the global economic outlook increased amid high commodity prices, the military conflict, sanctions on Russia, and concerns over weaker growth in China.

Brent crude oil prices averaged higher at USD98 per barrel during the quarter (4Q 2021 average: USD80 per barrel). Oil prices were driven mainly by the continued improvement in global oil demand amid the ongoing OPEC+ production cuts. The military conflict in Ukraine also fuelled concerns over the tightening of global oil supply conditions, adding larger risk premiums on prices.

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Developments in the Malaysian Economy

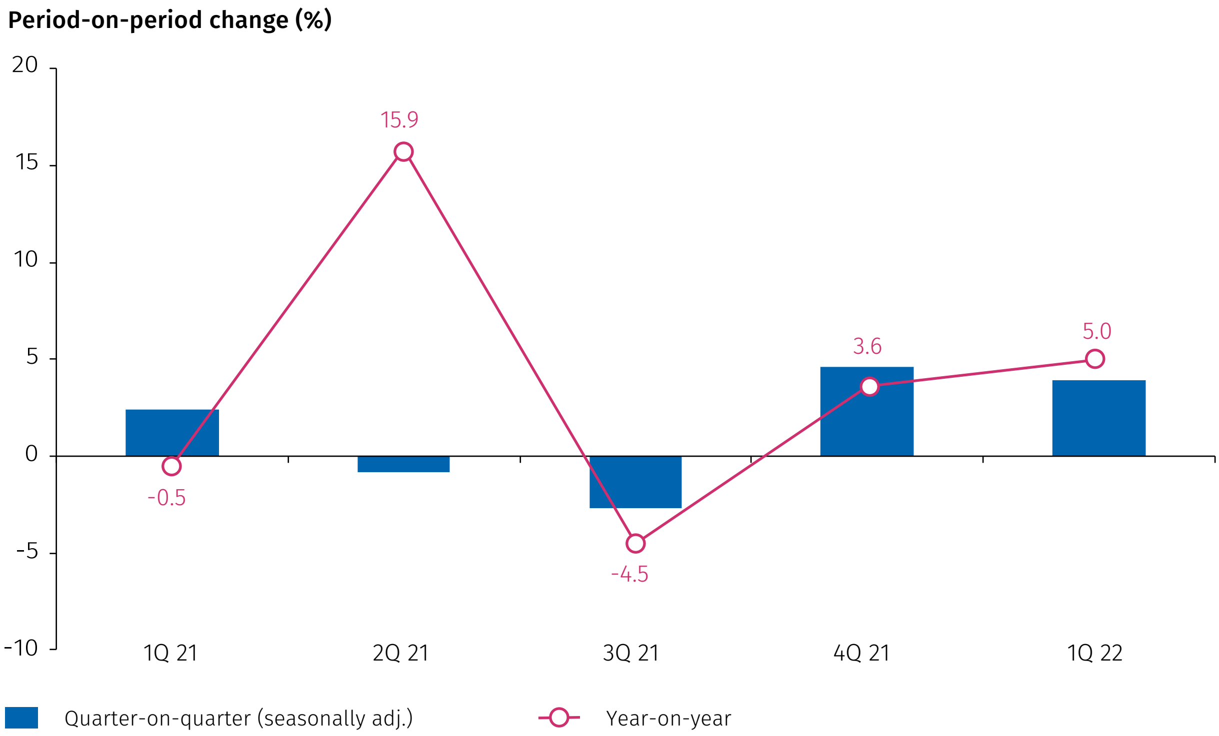
Highlights

- The Malaysian economy expanded by 5.0% in the first quarter of 2022.
- Headline inflation moderated to 2.2% as core inflation increased to 1.7% during the quarter.
- Lower current account surplus of RM3.0 billion, or 0.7% of GDP.

GDP continued to expand in the first quarter of 2022

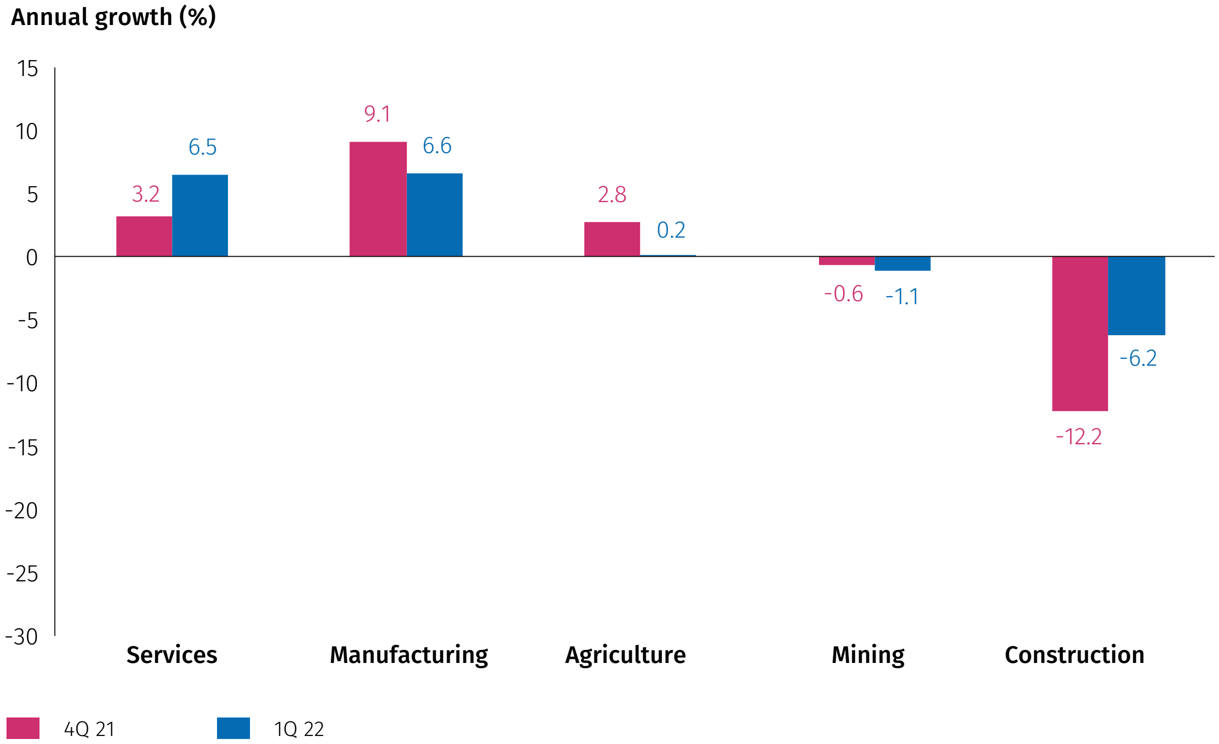
The Malaysian economy grew by 5.0% in the first quarter of 2022 (4Q 2021: 3.6%). Growth was supported mainly by higher domestic demand as economic activity continued to normalise with the easing of containment measures. The improvement also reflects the recovery in the labour market and continued policy support. In addition, strong external demand, amid the continued upcycle in global technology, provided a further lift to growth. In terms of economic activity, the services and manufacturing sectors continued to drive growth. On a quarter-on-quarter seasonally-adjusted basis, the economy registered an increase of 3.9% (4Q 2021: 4.6%).

C4 Real GDP Growth



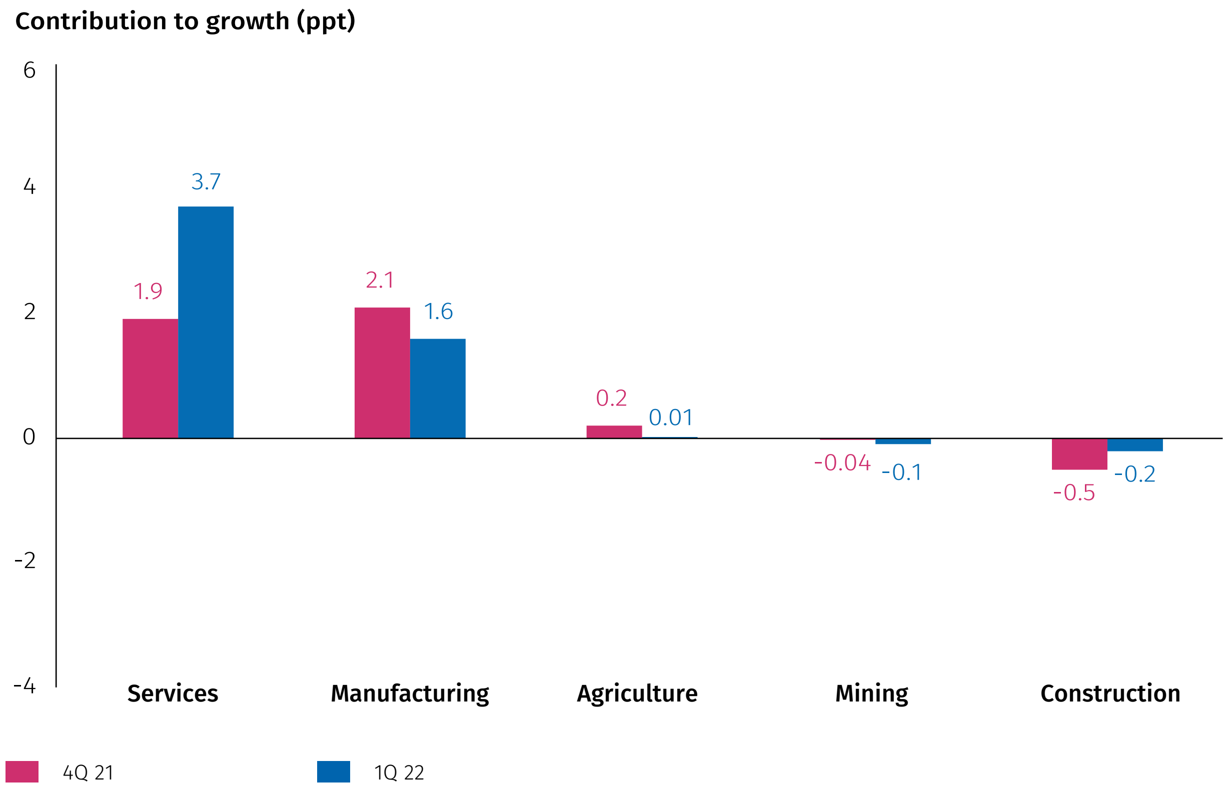
Source: Department of Statistics, Malaysia

C5 Annual Growth of Economic Sectors



Source: Department of Statistics, Malaysia

C6 Contributions of Economic Sectors to Real GDP Growth



Source: Department of Statistics, Malaysia

Continued expansion in key economic sectors

Key economic sectors expanded in the first quarter of 2022. The services sector grew by 6.5% (4Q 2021: 3.2%). Consumer-related activities continued to recover amid the reopening of the economy. This was reflected in stronger growth in the retail and leisure-related subsectors. The strong expansion was also seen in business-related activities, including transport and storage, real estate, business services and private healthcare. Growth in the information and communication subsector provided further support amid greater coverage of 4G services as well as sustained demand for data communications services, particularly for e-commerce and e-payment activities.

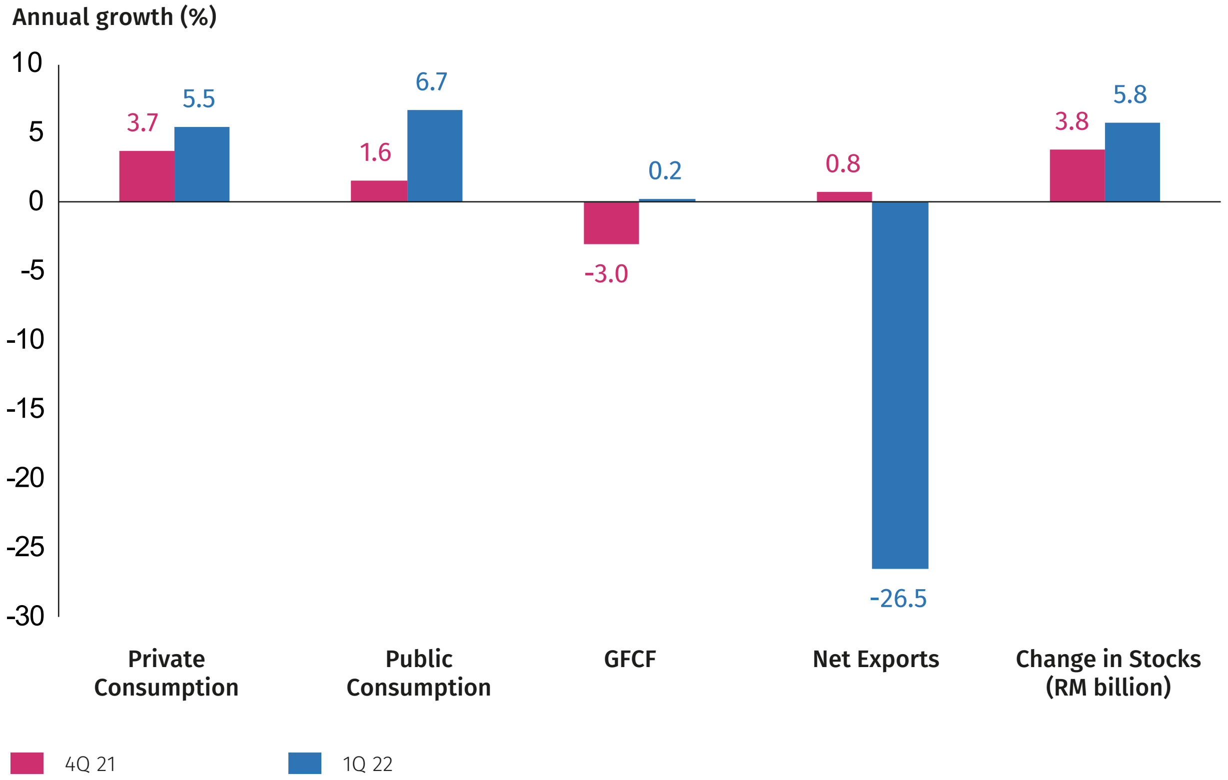
The manufacturing sector grew by 6.6% (4Q 2021: 9.1%). Export-oriented industries increased more moderately as the strong growth in the E&E cluster was partially weighed by lower growth in the primary-related cluster. The double-digit growth recorded in the E&E cluster was driven by robust demand for semiconductors amid technological developments such as 5G, cloud computing, and the Internet of Things. However, growth in the primary-related cluster moderated as the production of selected pandemic-induced products such as rubber gloves began to normalise. Meanwhile, domestic-oriented industries recovered further post-containment measures. The consumer cluster continued to expand, particularly in the motor vehicle and transport equipment segment as carmakers ramped up production to meet the backlog of orders. Demand for construction materials, such as metals, fabricated metals, and non-metallic minerals, also continued to grow, following the smaller contraction in construction activity.

The agriculture sector grew by 0.2% (4Q 2021: 2.8%). Oil palm output expanded moderately as harvesting activity in key producing states was temporarily disrupted by heavy rainfall in the early part of the year. Growth was also weighed by the decline in the other agriculture, forestry and rubber subsectors.

The construction sector contracted at a smaller pace of 6.2% (4Q 2021: -12.2%). Progress in new and existing commercial and industrial projects continued to support activity in the non-residential subsector. Meanwhile, the implementation of small-scale projects under the Budget 2022 sustained growth in special trade activities. Growth in the civil engineering and residential subsectors improved but remained subdued.

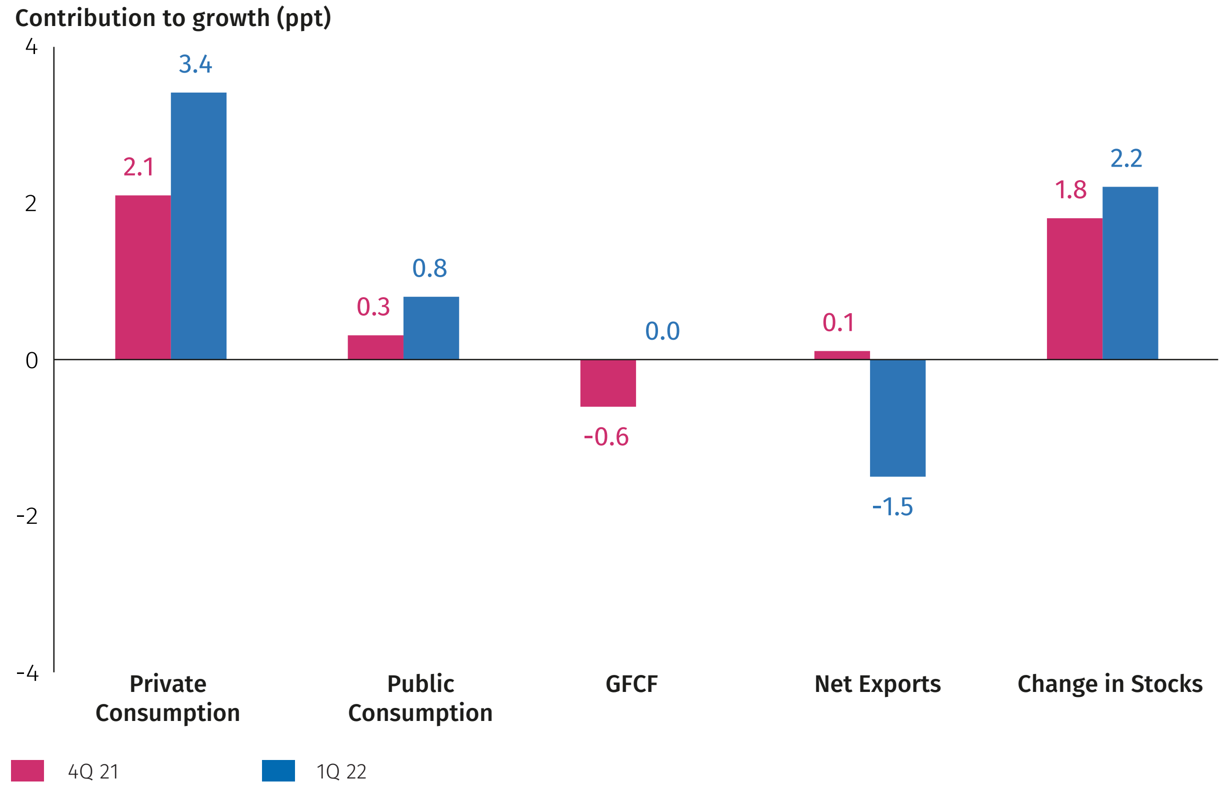
The mining sector remained in contraction (-1.1%; 4Q 2021: -0.6%), as crude oil and natural gas production was weighed by maintenance-related closures in several facilities. Notwithstanding, the commencement of the Pegaga gas field in Block SK320 located in offshore East Malaysia in March 2022 provided some support to growth.

C7 Annual Growth of Real GDP by Expenditure Components



Source: Department of Statistics, Malaysia

C8 Contributions of Expenditure Components to Real GDP Growth



Source: Department of Statistics, Malaysia

Higher growth in domestic demand

During the quarter, domestic demand expanded by 4.4% (4Q 2021: 1.9%). Growth was supported by higher consumption and improvement in investment activities amid the normalisation of economic activity. On the external front, demand for Malaysia's exports, particularly for E&E products, remained strong.

Private consumption grew at a faster pace of 5.5% (4Q 2021: 3.7%), supported by higher spending on necessities and selected discretionary items such as restaurants and hotels, recreational services and household furnishings. The continued strength in consumer expenditure was primarily driven by the recovery in the labour market with higher wage and employment growth. Policy measures, such as Bantuan Keluarga Malaysia, also provided additional support to consumer spending.

Public consumption grew by 6.7% (4Q 2021: 1.6%). The expansion was driven mainly by higher growth in supplies and services amid continued support from COVID-19 related expenditure, including vaccine procurement and logistics spending.

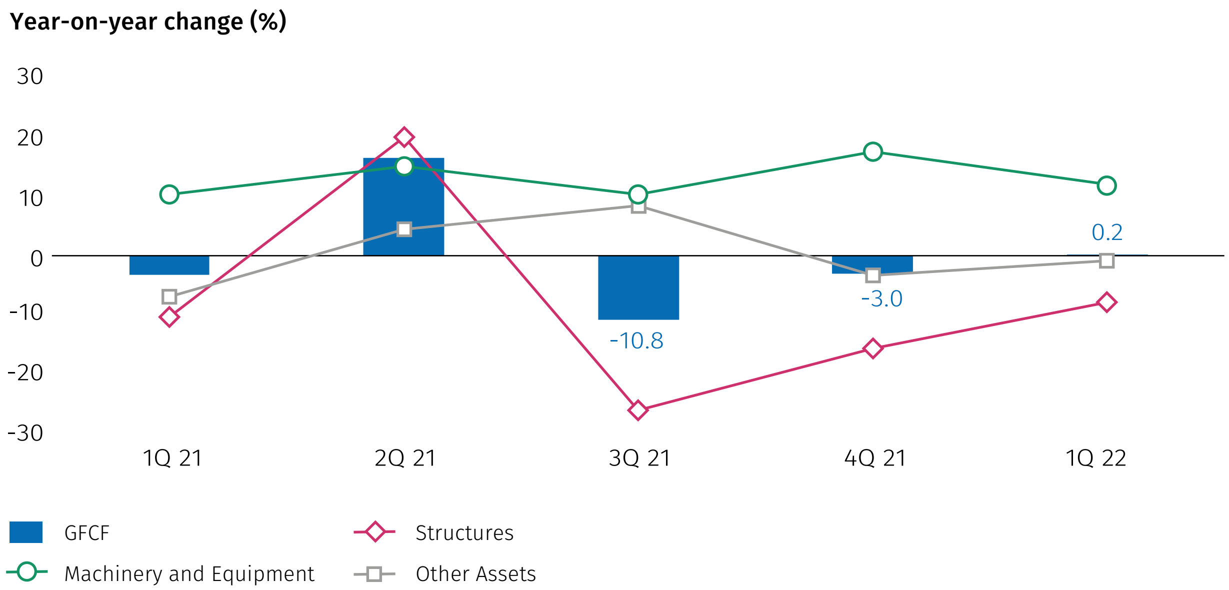
Improvement in investment activity

Gross fixed capital formation (GFCF) registered a marginal growth of 0.2% (4Q 2021: -3.0%) as capital spending by both private and public sectors improved. By type of asset, machinery and equipment (M&E) investments grew by 12.0% (4Q 2021: 17.4%). Meanwhile, investments in structures and other assets declined by a smaller pace of 7.9% (4Q 2021: -15.6%) and 0.9% (4Q 2021: -3.3%) respectively.

Private investment turned around to register a positive growth of 0.4% (4Q 2021: -2.8%), supported by capital spending in the services and manufacturing sectors. Investments in ICT-related equipment and machinery for manufacturing remained robust, as firms continued to embrace automation and digitalisation. Structures investment registered a smaller contraction, mainly supported by the non-residential segment. This reflects the gradual ramp-up of investment projects amid the reopening of the economy.

Public investment declined at a smaller pace (-0.9%; 4Q 2021: -3.4%), underpinned by the improvement in General Government's fixed assets spending.

C9 **GFCF Growth by Type of Asset**



Source: Department of Statistics, Malaysia

Headline inflation moderated during the quarter

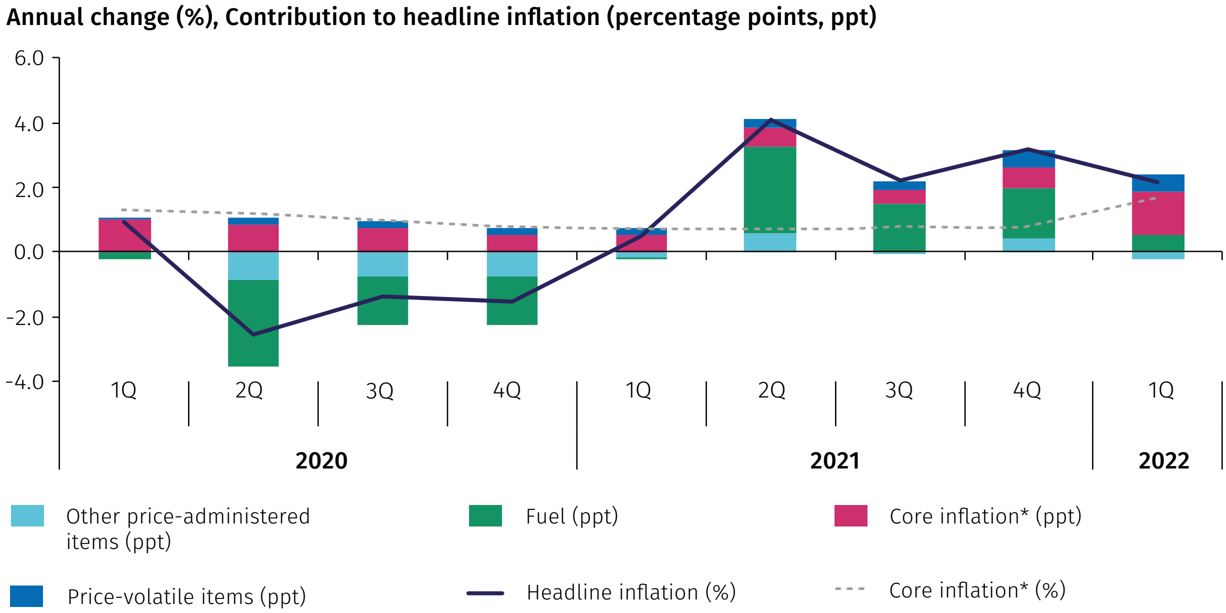
Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), moderated to 2.2% during the quarter (4Q 2021: 3.2%). Lower headline inflation during the quarter mainly reflected the smaller contribution from the dissipating base effect from lower domestic retail fuel prices last year (RON 95 for 1Q 2022: RM2.05/litre; 1Q 2021: RM1.96/litre) as well as the absence of the base effect from electricity tariff rebates implemented in 2020.[1] The moderating effect from these factors was partly offset by higher core inflation and price volatile inflation.

Core inflation increased to 1.7% during the quarter (4Q 2021: 0.8%), reflecting a combination of normalisation after a period of subdued prices, and continued price adjustments amid the high-cost environment and improving demand conditions. The increase was largely contributed by higher core services inflation, particularly for *food away from home* and to a lesser extent, *repair and maintenance for personal transport,* and *expenditure in restaurants and cafes.* Core goods inflation also rose, with the largest driver being *jewellery, rings and precious stones,* followed by *furniture and furnishings.* The increase in price volatile inflation, meanwhile, was contributed mainly by higher *fresh vegetables* inflation, on account of seasonal factors and cost pressures from supply-related disruptions.[2] Correspondingly, a relatively higher share of CPI items recorded price increases during the quarter, averaging at 57.3% (4Q 2021: 52%; 2011-2019 average: 45%).

1 The tiered electricity tariff rebates were implemented under the Bantuan Prihatin Elektrik scheme from April to December 2020, and thus contributed to higher inflation in 2021 upon their lapse. The rebates ranged from 2% to 50% depending on domestic users' monthly electricity consumption.

2 For instance, these included the adverse weather conditions, foreign labour shortages, elevated feed costs and fertiliser costs.

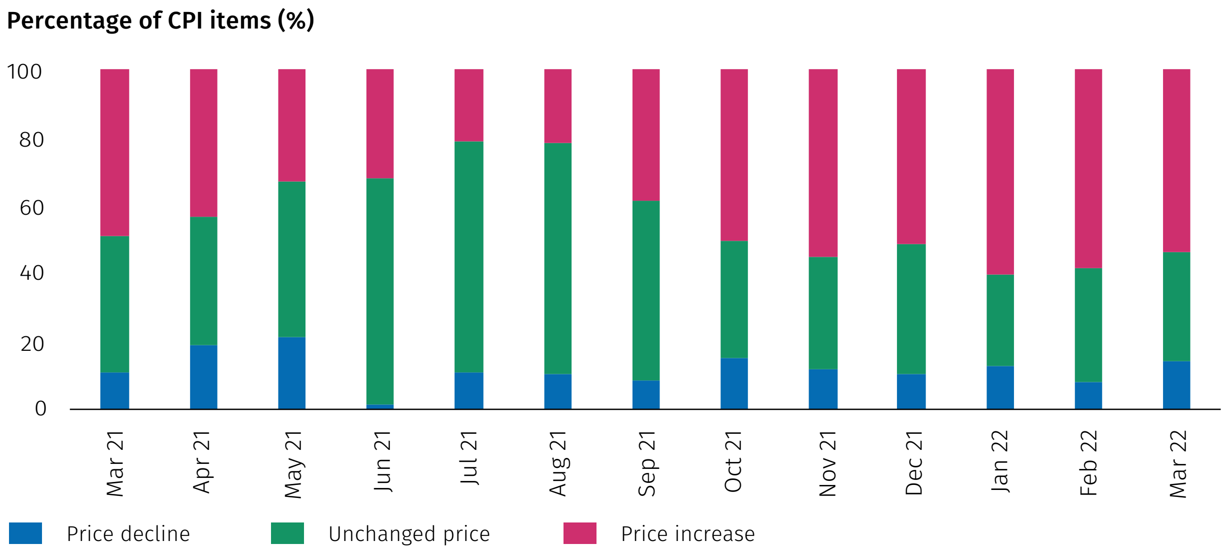
C10 Contribution to Headline Inflation by Components



* Core inflation is computed by excluding price-volatile and price-administered items.

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

C11 Month-on-Month Price Changes of CPI Items*



* Based on the month-on-month inflation for 125 CPI items at the 4-digit level

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

Labour market conditions improved further

The labour market continued to recover in the first quarter of 2022 as economic activity resumed. The unemployment rate declined further to 4.1% (4Q 2021: 4.3%). This was driven by a robust increase in employment (+134 thousand persons), alongside a continued strong expansion of the labour force (+111 thousand persons). As a result, the labour force participation rate increased to 69.0% of the working-age population, close to the pre-pandemic level (4Q 2021: 68.7%; 4Q 2019: 69.1%). Meanwhile, the population outside the labour force declined to 7.29 million persons (4Q 2021: 7.36 million persons), indicating continued re-entries of workers back into the labour force. The underemployment rate declined to 1.5% of the labour force (4Q 2021: 1.8%).

Retrenchments also declined during the quarter (10,433 persons; 4Q 2021: 10,878 persons). The placement rate of employees into new jobs remained sustained (41 per 100 people retrenched; 4Q 2021: 45). This suggests a normalisation in the pace of hiring amid lower retrenchments in the economy.

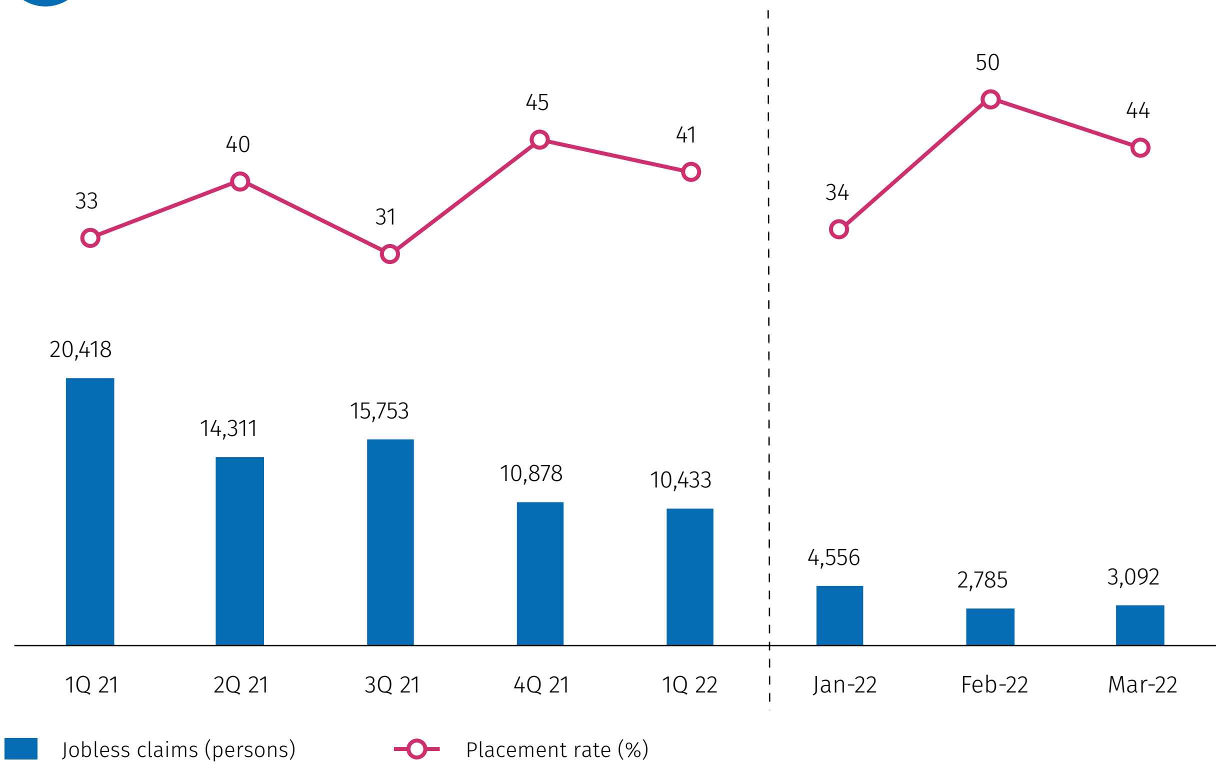
Private sector wages also improved in the first quarter of 2022, growing by 4.7% on a year-on-year basis (4Q 2021: 2.5%). Wages in the manufacturing sector increased by 4.1% (4Q 2021: 4.7%), driven by robust growth in the E&E, F&B and tobacco, and wood, furniture and paper products subsectors. Meanwhile, wages in the services sector registered stronger growth (5.0%; 4Q 2021: 1.2%), supported by the wholesale and retail, transportation and storage, and information and communication subsectors. On a quarter-on-quarter basis, private sector wages continued on their improving trend, growing by 1.7% (4Q 2021: 4.5%).

C12 Employment and Wage Growth

Year-on-year change (%)

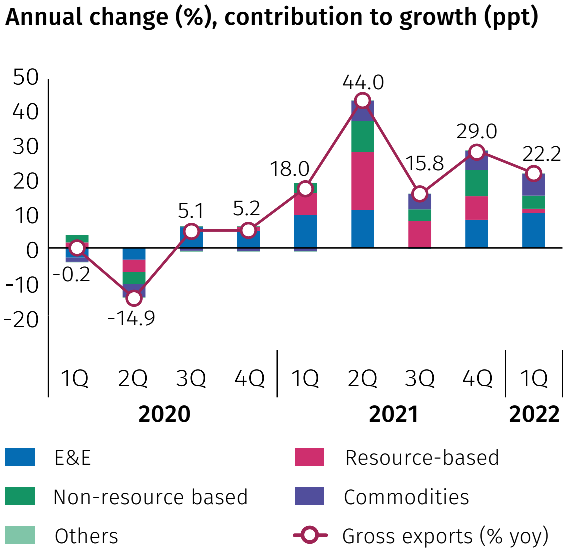
Note: Private sector wage growth refers to wage growth of workers in the manufacturing and services sectors
Source: Department of Statistics, Malaysia

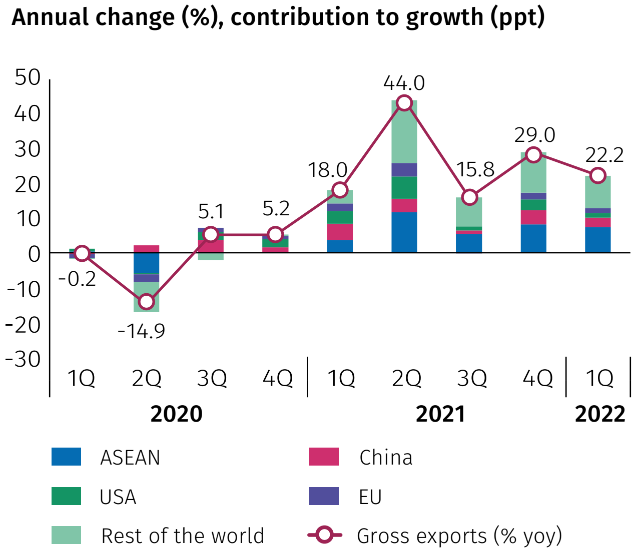
C13 Jobless Claims and Placement Rate



Note: Jobless claims refers to the number of people who applied for the Employment Insurance System (EIS) benefits following loss of employment. The placement rate refers to the number of people placed in new jobs under the EIS for every 100 persons retrenched.
Source: Employment Insurance System, Social Security Organisation

C14 Gross Exports by Product and Market





Source: Department of Statistics, Malaysia

Robust growth in gross export

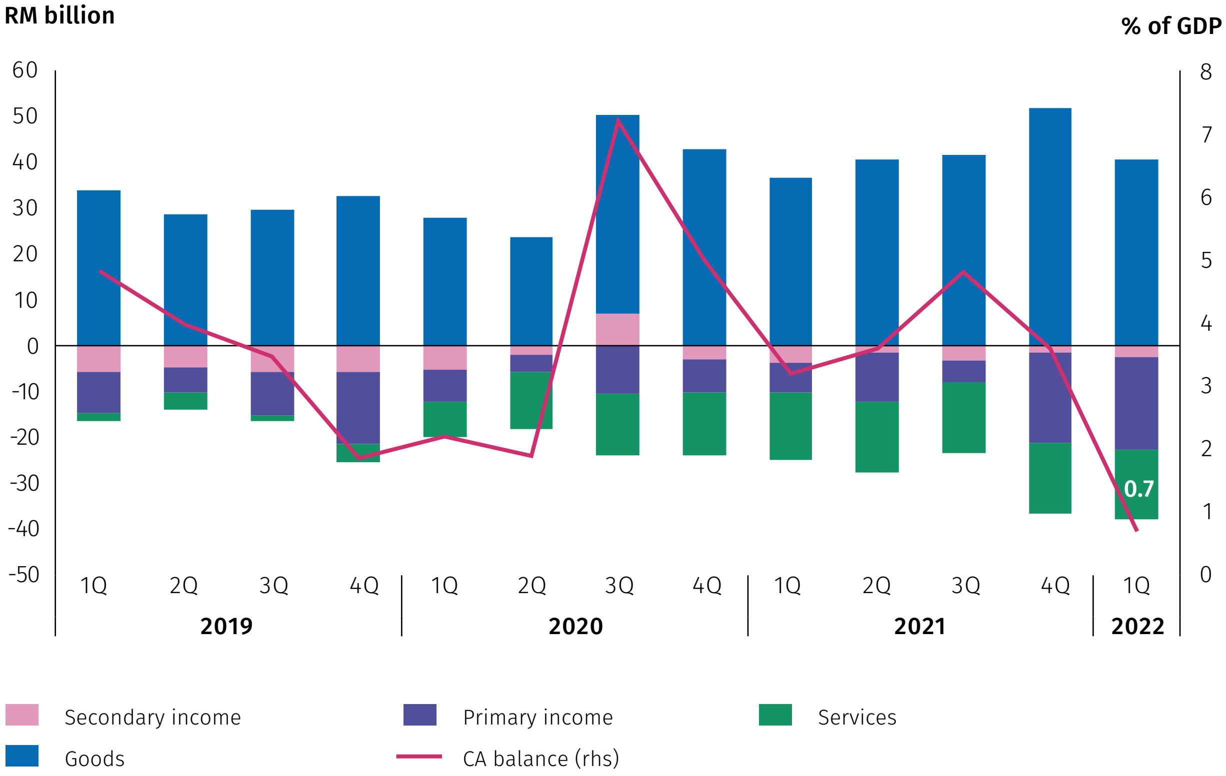
Gross exports grew by 22.2% (4Q 2021: 29.0%), reflecting a broad-based expansion across products amid continued strength in external demand and higher commodity prices. Gross imports increased by 25.2% (4Q 2021: 29.6%), driven by the growth in intermediate imports. The trade surplus[3] narrowed to RM65.1 billion (4Q 2021: RM76.2 billion).

Manufactured exports expanded by 17.8% (4Q 2021: 26.6%), supported mainly by stronger E&E exports (27.2%, 4Q 2021: 20.6%). Non-E&E exports registered a double-digit growth of 10.5% (4Q 2021: 31.8%), largely attributable to the exports of petroleum and chemical products, palm oil-based manufactured products as well as manufactures of metal. The growth of commodity exports remained robust at 54.0% (4Q 2021: 45.0%), supported mainly by CPO, LNG and crude oil exports amid higher commodity prices.

Intermediate imports recorded a strong growth of 29.2% (4Q 2021: 36.2%) in tandem with the expansion in manufactured exports. Consumption imports registered a higher growth of 24.5% (4Q 2021: 15.5%) amid faster private consumption growth. Capital import growth remained strong at 17.9% (4Q 2021: 22.6%), supported by investment activity.

[3] The goods and trade surpluses differ because goods for processing, storage and distribution (with no change in ownership) are excluded from the goods account. This is as per the 6th Edition of the Balance of Payments and International Investment Position Manual by the International Monetary Fund (IMF).

C15 Current Account Balance



Source: Department of Statistics, Malaysia

Lower current account surplus

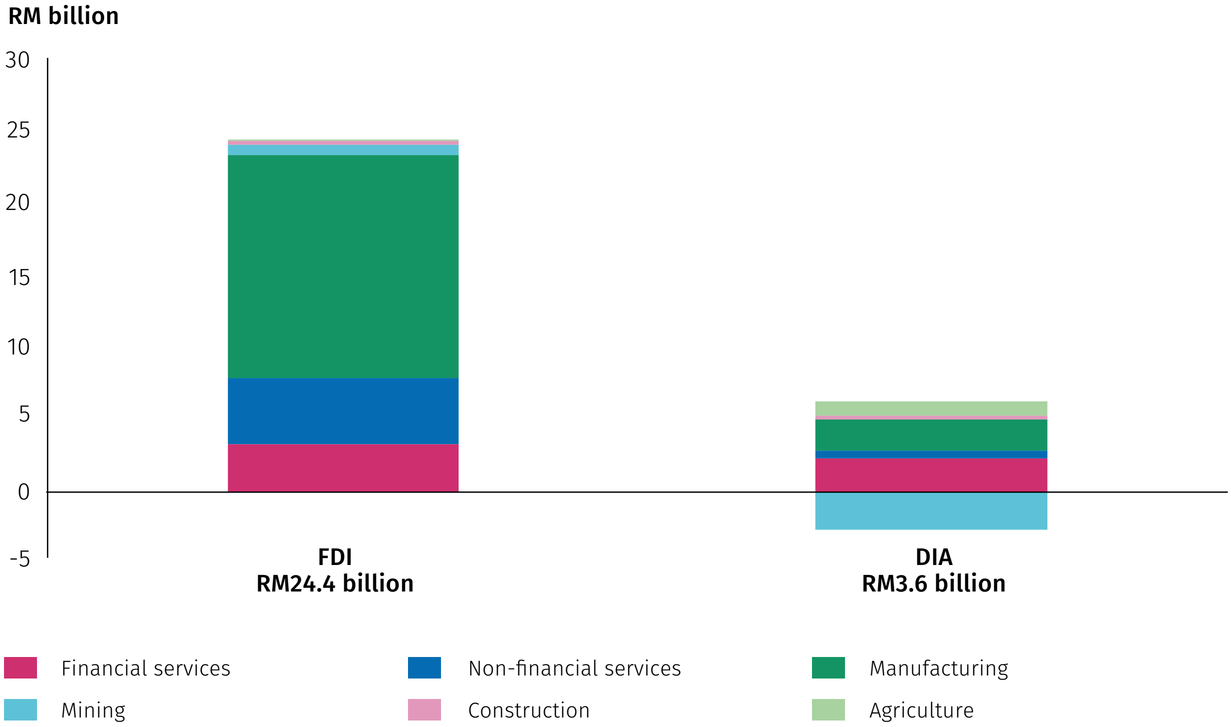
The current account of the balance of payments narrowed to RM3.0 billion, or 0.7% of GDP during the quarter (4Q 2021: RM15.3 billion or 3.6% of GDP), driven by the lower goods surplus.

The goods surplus narrowed to RM40.5 billion (4Q 2021: RM51.8 billion) as import growth outpaced that of exports amid stronger domestic demand.

The services account registered a broadly sustained deficit (-RM15.0 billion; 4Q 2021: -RM15.4 billion) during the quarter.

The primary income account recorded a deficit of RM20.1 billion (4Q 2021: -RM19.6 billion), amid continued investment income accrued to foreign investors in Malaysia. The deficit in the secondary income widened to RM2.5 billion (4Q 2021: -RM1.4 billion), reflecting mainly lower receipts from abroad.

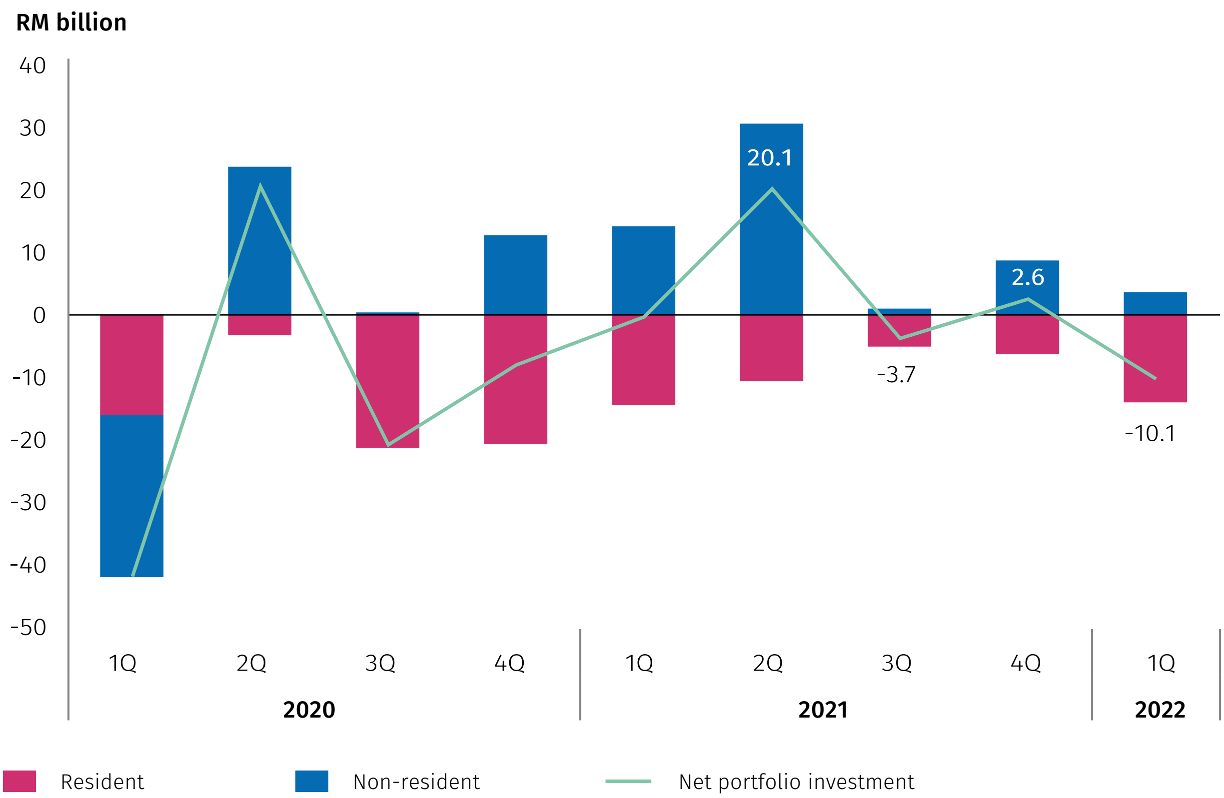
C16 Direct Investment by Sector



Note: For DIA, positive values refer to net outfows, while negative values refer to net inflows.
Figures may not sum due to rounding.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

C17 Portfolio Investment



Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Financial account recorded higher net inflows

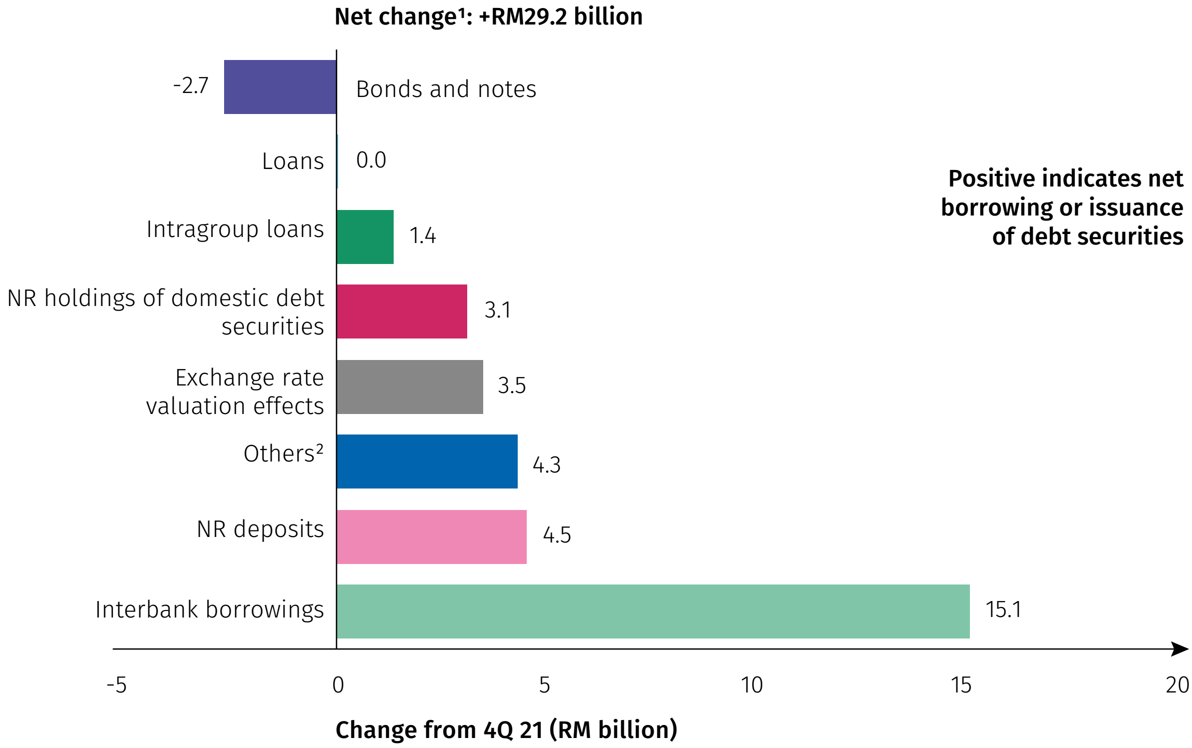
The financial account recorded a significantly higher net inflow of RM30.4 billion (4Q 2021: +RM0.7 billion). This reflects sizeable direct and other investment net inflows, which more than offset the portfolio investment net outflows.

The direct investment account registered larger net inflows of RM20.8 billion (4Q 2021: +RM10.5 billion), underpinned by higher foreign direct investment (FDI) (+RM24.4 billion; 4Q 2021: +RM18.5 billion). This was driven by higher equity injections (+RM5.4 billion; 4Q 2021: +RM3.5 billion) and debt inflows (+RM10 billion; 4Q 2021: +RM0.8 billion). The FDI was mainly channeled into the manufacturing sector and financial services subsector. Direct investment abroad (DIA) moderated (-RM3.6 billion; 4Q 2021: -RM7.9 billion) as the investments abroad, primarily in the manufacturing sector, were partially offset by loan repayments from overseas affiliates.

The portfolio investment account recorded a net outflow of RM10.1 billion (4Q 2021: +RM2.6 billion). This was mainly on account of higher resident portfolio investments abroad (-RM13.9 billion; 4Q 2021: -RM6.1 billion), which continued to be driven by institutional investors' equity investment. Net non-resident (NR) portfolio investment inflows moderated (+RM3.8 billion; 4Q 2021: +RM8.7 billion), due to outflows in debt securities (-RM4.7 billion; 4Q2021: +RM5.9 billion). Nevertheless, NR's acquisition of domestic equity securities improved to RM8.5 billion (4Q 2021: +RM2.8 billion).

The other investment account turned around to register a net inflow of RM19.6 billion (4Q 2021: -RM10.6 billion). This was due mainly to interbank borrowing by the domestic banking system and the deposits placement domestically by NR entities. Net errors and omissions amounted to -RM20.6 billion during the quarter, or -3.3% of total trade.

C18 Changes in External Debt



[1] Changes in individual debt instruments exclude exchange rate valuation effects
[2] Comprises trade credits, IMF allocation of SDRs and other debt liabilities

Note: Figures may not add up due to rounding

Source: Ministry of Finance Malaysia, Department of Statistics, Malaysia and Bank Negara Malaysia

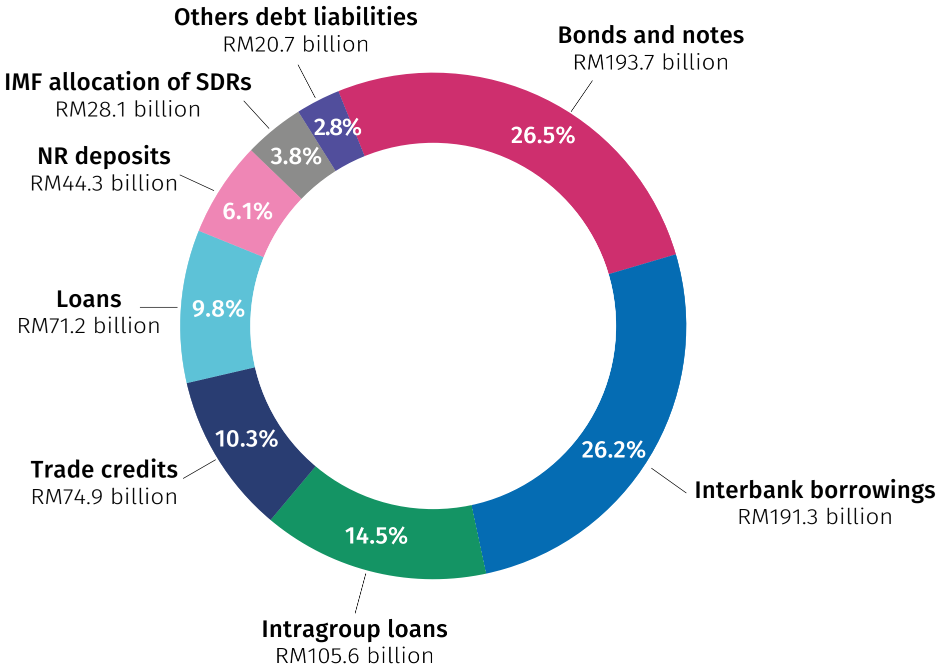
External debt remained manageable

Malaysia's external debt amounted to RM1,111.2 billion, or 69.6% of GDP as at end-March 2022 (end-December 2021: RM1,082.1 billion or 70.0% of GDP). The increase was mainly attributable to higher interbank borrowings, which was partially offset by net repayment of bonds and notes.

Malaysia's external debt remained manageable, given its favourable currency and maturity profiles. Ringgit-denominated external debt amounted to RM381.3 billion and accounted for 34.3% of total external debt (end-December 2021: RM373.0 billion and 34.5% respectively). This was largely in the form of NR holdings of domestic debt securities (67.7% share of ringgit-denominated external debt) and ringgit deposits (15.9% share) in resident banking institutions. These liabilities were not affected by fluctuations in the ringgit exchange rate.

Foreign currency (FCY) external debt accounted for the remaining RM729.9 billion, or 65.7% of total external debt (end-December 2021: RM709.1 billion and 65.5%). Long-term bonds and notes issued offshore stood at RM193.7 billion, accounting for 26.5% of total FCY-denominated external debt, issued largely by non-financial corporates. These are subject to BNM's prudential and hedging requirements. Intragroup loans, which are issued between related foreign entities and accounted for 14.5% of FCY-denominated external debt, were generally on flexible and concessionary terms.

C19 Breakdown of FCY-Denominated External Debt (RM billion, % share)



Source: Ministry of Finance Malaysia, Department of Statistics, Malaysia and Bank Negara Malaysia

Interbank borrowings and FCY deposits in the domestic banking system accounted for 32.3% of FCY-denominated external debt. The increase in interbank borrowings and deposits can be attributed mainly to domestic banking groups' (DBGs) centralised liquidity management practices as FCY sourced abroad was subsequently placed with foreign affiliates. This increase was also partly contributed by small locally incorporated foreign banks sourcing funds from parents abroad to manage the FCY liquidity needs of domestic operations while some DBGs channelled FCY interbank funding and deposits into domestic lending and investment activities. Additionally, interbank borrowings by banks in the Labuan International Business and Financial Centre (LIBFC) also increased to fund on-lending activities, although this was largely offset by higher repayments to head offices by some banks. Overall, intragroup borrowings from related parties located abroad continue to dominate total banking system interbank borrowing, accounting for about 80% of the total, and are generally more stable, thereby limiting rollover risks faced by banks. Meanwhile, foreign-currency risk of banks, as measured in terms of the net open position of their FCY-denominated exposures[4], remained low at 4.3% of banks' total capital (end-December 2021: 4.0%).

From a maturity perspective, 61.5% of total external debt has medium- to long-term tenure (end-December 2021: 62.5%), thereby limiting rollover risks. Short-term external debt accounted for the remaining 38.5% of external debt (end-December 2021: 37.5%). Of note, 43.6% of short-term external debt were in the form of intragroup borrowings from parent banks or related corporates located abroad. About another 16.8% were accounted by trade credits, largely backed by export earnings and are self-liquidating. As at 29 April 2022, international reserves stood at USD112.5 billion, sufficient to finance 5.7 months of imports of goods and services[5] and is 1.1 times the short-term external debt.

[4] Refers to the aggregated sum of the net short or long foreign currency positions for all currencies across banks.

[5] For more information on this indicator, please refer to the article on "Expansion of the Measure on Reserve Coverage of Imports – from Retained Imports to Imports of Goods and Services" in BNM's Quarterly Bulletin for the Fourth Quarter of 2021 publication, page 27, which can be accessed at bnm.gov.my/documents/20124/6118085/qb2021q4_en_box_imports.pdf

Monetary and Financial Developments

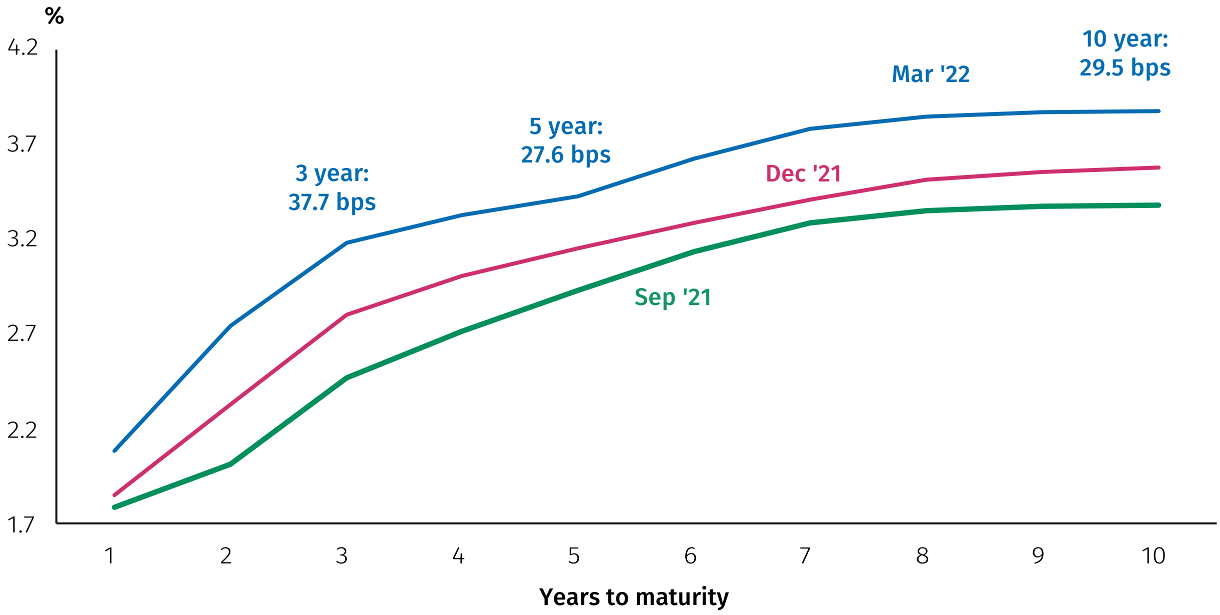
Highlights

- Domestic financial market conditions tightened marginally in 1Q 2022 amid higher bond yields while the equity market improved.
- The ringgit depreciated against the US dollar, in line with the movement of regional currencies amid a broad US dollar strength.
- Nominal retail rates remained stable while interbank rates moderated.
- Net financing remained supportive of economic activity.

Bond yields increased due to external developments

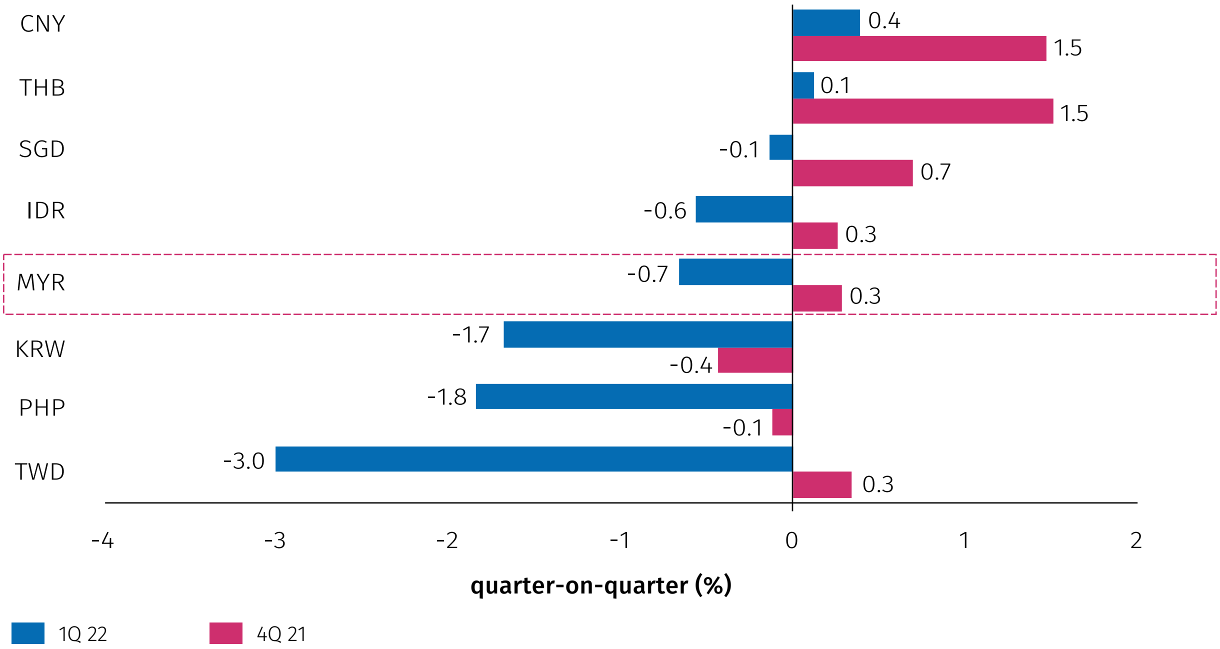
During the quarter, global financial market sentiments were affected by developments surrounding the conflict in Ukraine, a faster-than-expected monetary policy normalisation path by the US Federal Reserve, and the expectations for a further slowdown in China's growth amid the imposition of lockdowns due to its high COVID-19 cases. The US Federal Open Market Committee (FOMC) raised its federal funds rate by 25 basis points (bps) for the first time since 2018 at its March meeting, and by another 50 bps at its May meeting. It also indicated a faster-than-expected tightening path for the year to curb high inflationary pressures amid a tight labour market.

C20 Trend in MGS Yields



Source: Bank Negara Malaysia

C21 Performance of Regional Currencies Against the US Dollar



Source: Bank Negara Malaysia and Reuters

The FOMC also announced that it would begin reducing its holdings of Treasuries and agency mortgage-backed securities by USD47.5 billion per month on 1 June and by USD95 billion per month from September onwards.

Consequently, global financial conditions tightened, with varying intensity across regions and countries, reflecting differences in commodity exposures and trade linkages to countries in conflict. For Malaysia, while domestic financial conditions tightened, with the 3-year, 5-year and 10-year MGS yields increasing by 37.7, 27.6, and 29.5 basis points, respectively, these adjustments were relatively smaller compared to the increase[6] in regional economies[7].

Ringgit depreciated amid a broad US dollar strength

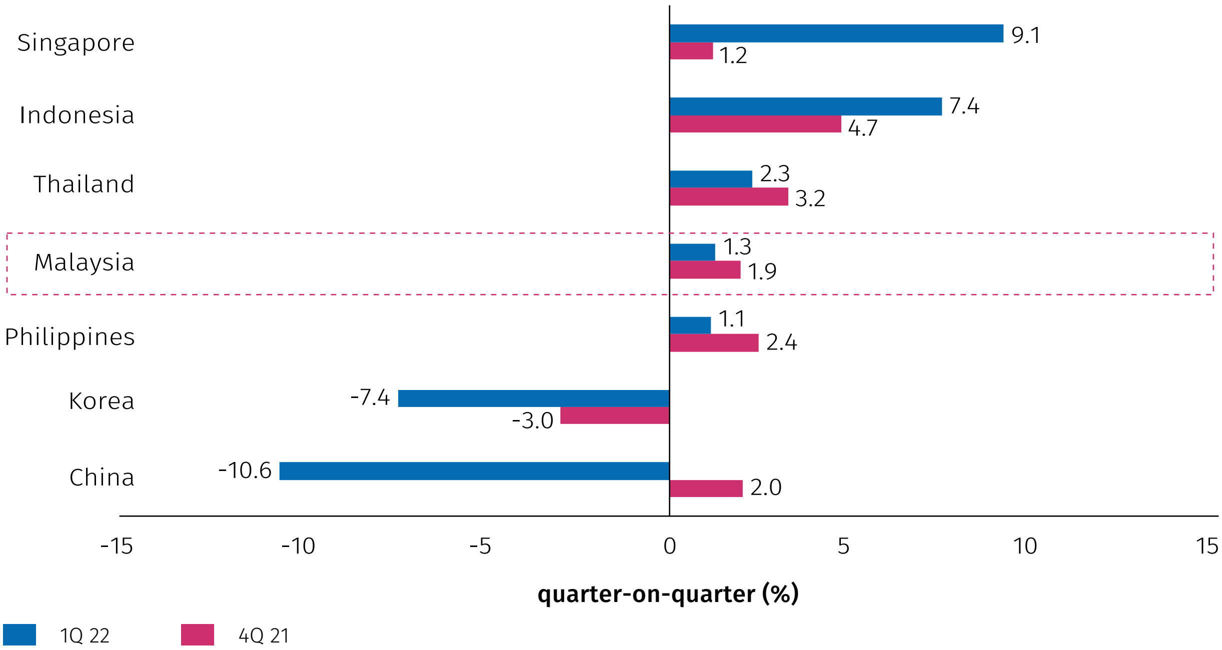
In the foreign exchange market, the ringgit depreciated by 0.7% against the US dollar (4Q 2021: +0.3%), in line with the movement of regional currencies amid the broad US dollar strength and global risk-off sentiment. Higher commodity prices continued to cushion the downward pressure on the ringgit from external factors.

Domestic equity market improved

The FBM KLCI rose amid an improved outlook for corporate earnings due to higher commodity prices, continued recovery in domestic economic activity and the reopening of international borders. The FBM KLCI was driven by positive performance in the plantation (+21.4%), financial services (+7.8%) and construction services (+4.8%) sectors.

[6] Average increase of 10-year bond yields in regional countries is 63.4 basis points.
[7] Regional economies include Singapore, Indonesia, Thailand, Philippines, and Korea.

C22 Performance of Regional Equity Markets



Source: Bloomberg

Nominal retail rates remained stable while interbank rates moderated

Nominal interest rates in the wholesale market were lower in the first quarter of 2022, as the tighter interbank market conditions observed towards the end of 2021 eased in January[8]. In particular, the benchmark 3-month KLIBOR decreased by 8 basis points to end the quarter at 1.97% (4Q 2021: 2.05%).

Retail lending rates remained stable during the quarter, with the weighted average base rate (BR) and the weighted average lending rate (ALR) on outstanding loans remaining unchanged at 2.43% and 3.87% respectively.

Nominal fixed deposit (FD) rates were also steady during the quarter, across tenures of 1 to 12 months. Nevertheless, real FD rates[9] decreased in the first quarter, reflecting higher inflation expectations as economic activity continued to normalise amid the environment of high input costs.

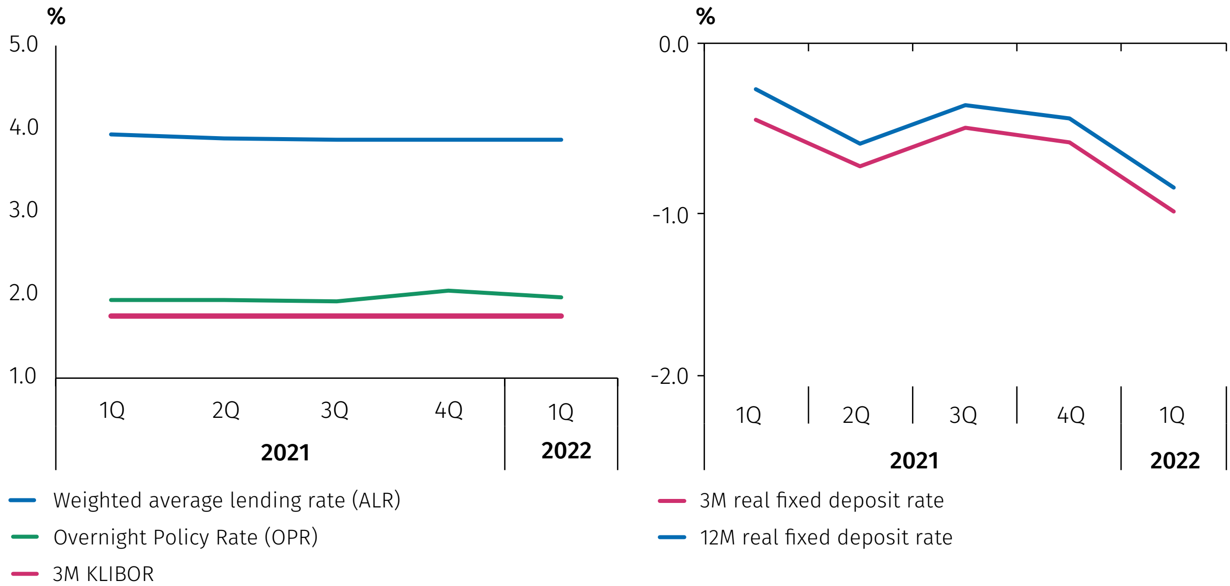
Banking system liquidity remained sufficient to facilitate financial intermediation

Banking system liquidity remained sufficient at both the institutional and system-wide levels to facilitate financial intermediation activity. The outstanding liquidity placed with the Bank increased in the first quarter of 2022, partly reflecting higher liquidity injection operations during the period. At the institutional level, almost all banks maintained surplus liquidity positions with the Bank as at end-March 2022.

8 The higher interbank rates towards year-end was amid banks' preference for more stable funding, as banks built up precautionary liquidity buffers in anticipation of deposit withdrawals amid the expiry of existing tax exemption for non-individual investors' income in retail money market funds on 1 January 2022.

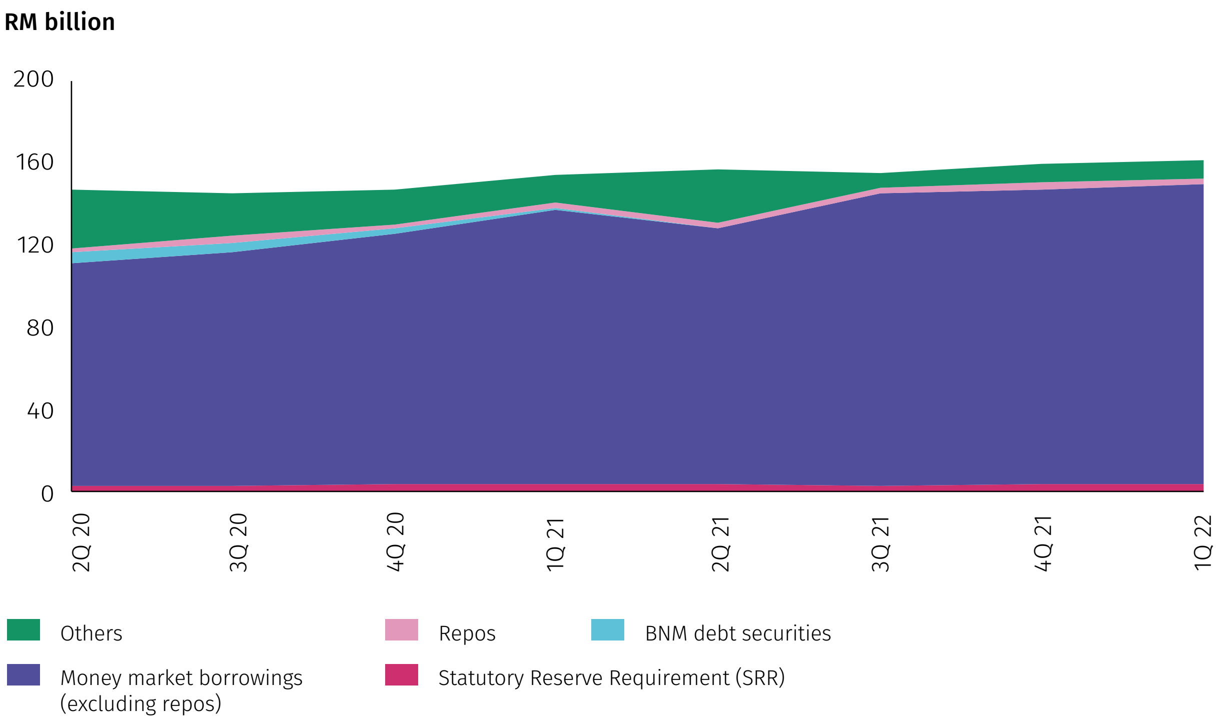
9 Real fixed deposit rates are computed as the difference between nominal fixed deposit rates and inflation expectations. Inflation expectations is measured as the average expected rate of inflation over the next 12 months (based on data from Consensus Economics), approximated by an average of the forecasts for the current and next calendar year weighted by their share in the forecasting horizon of 12 months ahead. This is comparable to the use of fixed-horizon forecasts in the literature, including Dovern et al. (2012) and Siklos (2013).

C23 Interest Rates (at end-period)



Source: Bank Negara Malaysia, Bloomberg and Consensus Economics

C24 Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia (at end-period)



Source: Bank Negara Malaysia

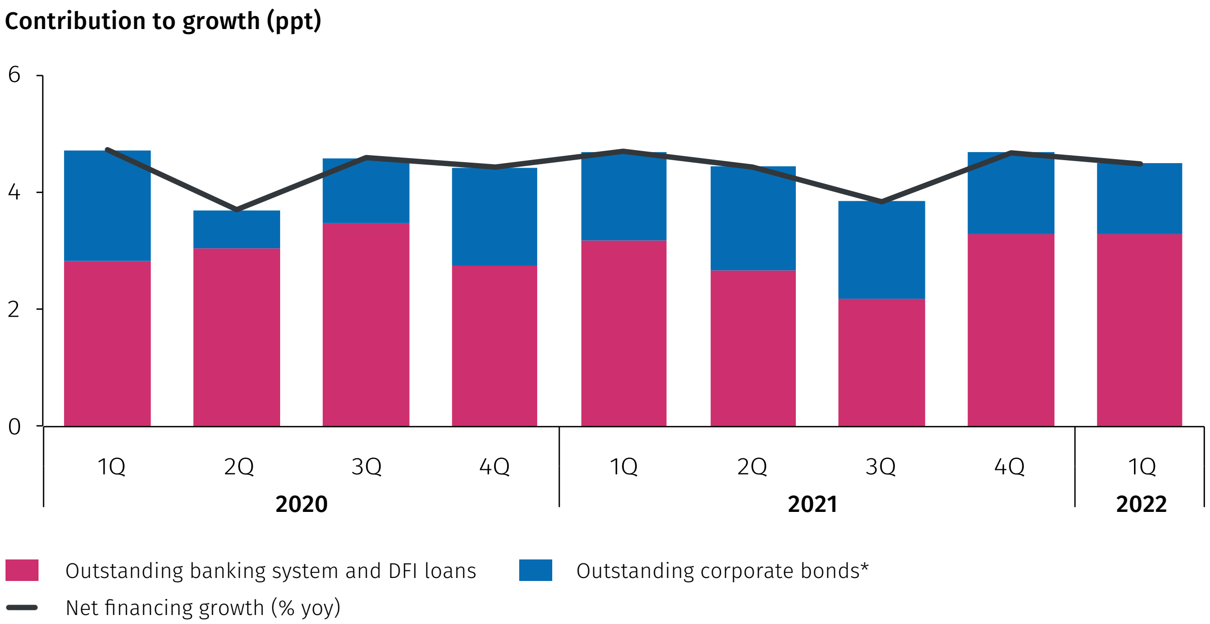
Net financing remained supportive of economic activity

As at end-1Q 2022, net financing grew by 4.5% on an annual basis (4Q 2021: 4.7%). This slight moderation was mainly due to the lower growth in outstanding corporate bonds[10] (4.6%; 4Q 2021: 5.4%), while outstanding loan[11] growth was sustained at 4.4% (4Q 2021: 4.4%).

Outstanding business loan growth moderated to 4.3% (4Q 2021: 4.8%), reflecting lower growth[12] in outstanding working capital[13] loans (6.3%; 4Q 2021: 7.4%) amid continued high loan repayment growth. Working capital loan disbursements continued to record strong positive growth during the quarter (21.2%; 4Q 2021: 32.8%; 2017-19 quarterly average: 4.7%), amid higher loan applications and continued drawdowns on existing credit lines by firms to manage their cash flow. Meanwhile, outstanding investment-related[13] loans registered slightly higher growth (1.6%; 4Q 2021: 1.4%), reflecting growth in the SME segment.

For households, outstanding loan growth increased (4.8%; 4Q 2021: 4.2%), with higher growth recorded across most loan purposes. Growth in loan disbursements remained robust at 12.7% (4Q 2021: 9.5%; 2017-19 quarterly average: 5.8%) as loan demand[14] among households continued to be forthcoming, particularly for the purchase of residential properties and passenger cars. Loan repayments during the quarter also registered higher growth (3.3%; 4Q 2021: -4.6%), as some borrowers resumed loan repayments amid the gradual lapse in repayment assistance programmes.

C25 Contribution to Net Financing Growth



*Excludes issuances by Cagamas and non-residents

Source: Bank Negara Malaysia

[10] Excludes issuances by Cagamas and non-residents.
[11] Loans from the banking system and development financial institutions (DFIs).
[12] The lower growth partly reflected the high base effects in the first quarter of 2021.
[13] Classification of business loans by purpose is only available for the banking system.
[14] Indicated by loan applications to the banking system.

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The Bank's Policy Considerations

Highlights

- At the May 2022 meeting, the Monetary Policy Committee (MPC) decided to begin reducing the degree of monetary accommodation. This will be done in a measured and gradual manner, ensuring that monetary policy remains accommodative to support a sustainable economic growth in an environment of price stability.
- The Overnight Policy Rate (OPR) was increased by 25 basis points to a new level of 2.00%.

Monetary policy remains accommodative

After keeping the OPR at 1.75% in its January and March 2022 MPC meetings, the MPC decided to begin reducing the degree of monetary accommodation by increasing the OPR by 25 basis points to 2.00% at the May 2022 MPC meeting.

At the latest May MPC meeting, the MPC assessed that the sustained reopening of the global economy and the improvement in labour market conditions continue to support the recovery of economic activity. These have partly cushioned the impact of the military conflict in Ukraine and the reimposition of strict containment measures in China. Inflationary pressures have increased sharply due to a rise in commodity prices, strained supply chains and strong demand conditions, particularly in the US. Consequently, several central banks are expected to adjust their monetary policy settings at a faster pace to reduce inflationary pressures. The global growth outlook will continue to be affected by the developments surrounding the conflict in Ukraine, COVID-19, global supply chain conditions, commodity price shocks, and financial market volatility.

For the Malaysian economy, latest indicators available show that growth is on a firmer footing, driven by strengthening domestic demand amid sustained export growth. The labour market is further lifted by a lower unemployment rate, higher labour participation and better income prospects. The transition to endemicity on 1 April 2022 would strengthen economic activity, in line with further easing of restrictions and the reopening of international borders. Investment activity and prospects have also improved, underpinned by the realisation of multi-year projects and positive growth outlook. However, risks to growth remain, which include a weaker-than-expected global growth, further escalation of geopolitical conflicts, worsening supply chain disruptions, and adverse developments surrounding COVID-19.

Headline inflation is projected to average between 2.2% – 3.2% in 2022. Given the improvement in economic activity amid lingering cost pressures, underlying inflation, as measured by core inflation, is expected to trend higher to average between 2.0% – 3.0% in 2022. Nevertheless, upward pressure on prices would be partly contained by existing price controls and the continued spare capacity in the economy. The inflation outlook continues to be subject to global commodity price developments, arising mainly from the ongoing military conflict in Ukraine and prolonged supply-related disruptions, as well as domestic policy measures on administered prices.

Over the course of the COVID-19 crisis, the OPR was reduced by a cumulative 125 basis points to a historic low of 1.75% to provide support to the economy. The unprecedented conditions that necessitated such actions have since abated. With the domestic growth on a firmer footing, the MPC decided to begin reducing the degree of monetary accommodation. This will be done in a measured and gradual manner, ensuring that monetary policy remains accommodative to support a sustainable economic growth in an environment of price stability.

Other policy highlights in the first quarter of 2022

Policy highlight	Salient details
Policy Document (PD) on Malaysia Islamic Overnight Rate (MYOR-i)	• Issued on 25 March 2022, the PD sets out the benchmark design, methodology and governance framework to ensure the integrity of the MYOR-i, which replaces the Kuala Lumpur Islamic Reference Rate (KLIRR). • MYOR-i, the first transaction-based Islamic benchmark rate in the world, is developed in accordance with the Principles for Financial Benchmarks and has been confirmed by the Bank's Shariah Advisory Council as Shariah-compliant. o MYOR-i is administered and calculated by the Bank. It is a volume-weighted average rate of return on Shariah-compliant unsecured overnight Ringgit interbank transactions. This includes the Bank's Islamic overnight monetary operations. o MYOR-i is currently based on the Commodity Murabahah instrument. New Shariah-compliant instruments may be included in the future. • By providing transparency for market players to negotiate and standardise financial contracts, the MYOR-i will support Islamic financial product innovation and promote efficient pricing across all financial instruments. This in turn will help to deepen the onshore Islamic financial market and enhance its role in financing real economic activities in Malaysia.
Discussion Paper (DP) on Licensing Framework for Digital Insurers and Takaful Operators (DITO)	• Issued on 4 January 2022, the DP articulates the proposed licensing framework for DITOs. Entry of DITOs is expected to address critical protection gaps in Malaysia by serving the unserved or underserved market, through competitive product offerings and enhanced customer experience, through digital or electronic means. • The DP outlines the proposed entry requirements such as key assessment criteria for the licensing of DITOs (including challenge statements to guide DITOs in demonstrating value propositions) as well as applicable regulatory requirements during the foundational phase of a DITO's operations. The DP also invites feedback on other types of business models that may be considered in the proposed licensing framework for DITOs.
DP on Broader Application of *Ta'awun* in Takaful	• Issued on 11 March 2022, the DP outlines the Bank's policy perspective in respect of the broader application of mutual assistance *(ta`awun)* by licensed takaful and professional retakaful operators (TOs) in the provision of family and general takaful business. This will enable TOs to harness the full potential of *ta`awun*, with the aim to enhance broader socioeconomic resilience and meet the needs of unserved/ underserved segments. • The DP outlines the: o proposed scope of the broader application of *ta'awun* in takaful business; o proposed Shariah guiding principles and parameters; o scope of proposed reviews of existing regulatory requirements; and o potential operational challenges.

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Macroeconomic Outlook

Highlights

- Global growth is expected to moderate in 2022.
- The Malaysian economy is expected to improve further in 2022.
- Headline inflation to average between 2.2% and 3.2% in 2022.

Slower global growth for 2022, weighed by ongoing geopolitical tensions

In 2022, global growth is projected to continue its recovery path, supported by the sustained reopening of the economy and stronger labour markets. Nevertheless, the military conflict in Ukraine is expected to weigh on the pace of the global recovery. Disruptions in commodity production and trade have led to higher commodity prices and re-escalated ongoing supply chain disruptions. This is expected to lead to higher inflation, exacerbating cost pressures on firms while weighing on consumer sentiments and spending.

Furthermore, the ongoing resurgence of COVID-19 in China, together with its implementation of strict COVID-19 containment measures, will constrain economic activity in the near term. Nevertheless, this is expected to be partially offset by policy support and a rebound in activity once the economy reopens. The growth outlook will also be weighed by tighter global financial conditions, especially in EMEs, amid monetary policy tightening in major economies to address rising inflation. The pace of monetary policy tightening is expected to be faster, particularly in AEs, reflecting the higher risks to inflation. The inflationary risks stem from rising energy prices and concerns over the possibility of unanchored inflation expectations, particularly in a tight labour market environment.

The balance of risks remains tilted to the downside. A further escalation of geopolitical tensions, especially between Russia and the West, could lead to further economic disruptions and higher prices. In addition, COVID-19 remains a source of risks, especially if there is an emergence of new variants of concern that render existing vaccines ineffective. There is also a risk that high inflation remains more persistent than expected, which could lead to faster-than-expected monetary policy normalisation in AEs. This may result in higher risk of currency and banking crisis in vulnerable EMEs. In contrast, upside risks to growth could come from the faster-than-expected rollout of boosters and anti-viral treatments, resulting in reduced severity and duration of COVID-19 related lockdowns, as well as additional policy support.

The Malaysian economy is expected to improve further in 2022

The Malaysian economy is expected to improve further in 2022, underpinned by stronger domestic demand, continued expansion in external demand and improving labour market. Going forward, growth would continue to benefit from the easing of restrictions and reopening of international borders. Furthermore, investment activities are also projected to improve, supported by the realisation of multi-year projects.

However, the risks to Malaysia's growth prospects remain. These include a weaker-than-expected global growth, further escalation of geopolitical conflicts, worsening supply chain disruptions, adverse developments surrounding COVID-19 and heightened financial market volatility.

Headline inflation to average between 2.2% and 3.2% in 2022

For 2022, in an environment of high input costs and improving demand, headline inflation is projected to average between 2.2% and 3.2%. Underlying inflation, as measured by core inflation, is also expected to trend higher during the year, averaging between 2.0% to 3.0%. Several key factors are expected to partly contain upward pressure on prices, namely the existing price control measures and the continued spare capacity in the economy. Nonetheless, the inflation outlook remains subject to commodity price developments, arising mainly from the military conflict in Ukraine and prolonged supply-related disruptions. The outlook is also contingent on domestic policy measures on administered prices.

Annex

T1 GDP by Expenditure Components (at constant 2015 prices)

	Share 2021 (%)	2021					2022
		1Q	2Q	3Q	4Q	Year	1Q
		Annual growth (%)					
Aggregate Domestic Demand (excluding stocks)	92.7	-1.0	12.3	-4.2	1.9	1.7	4.4
Private sector	74.4	-0.9	13.0	-4.4	2.5	2.0	4.4
Consumption	*58.8*	*-1.5*	*11.7*	*-4.2*	*3.7*	*1.9*	*5.5*
Investment	*15.6*	*1.3*	*17.3*	*-4.9*	*-2.8*	*2.6*	*0.4*
Public sector	18.3	-1.7	9.0	-3.5	0.1	0.6	4.8
Consumption	*13.8*	*5.6*	*8.2*	*7.1*	*1.6*	*5.3*	*6.7*
Investment	*4.5*	*-18.5*	*12.0*	*-28.9*	*-3.4*	*-11.3*	*-0.9*
Net Exports	6.0	6.6	57.6	-39.9	0.8	-4.1	-26.5
Exports of Goods and Services	*69.1*	*11.7*	*37.1*	*4.2*	*13.0*	*15.4*	*8.0*
Imports of Goods and Services	*63.1*	*12.2*	*35.5*	*11.4*	*14.5*	*17.7*	*11.1*
Real GDP	**100.0**	**-0.5**	**15.9**	**-4.5**	**3.6**	**3.1**	**5.0**
GDP (q-o-q growth, seasonally adjusted)	**-**	**2.4**	**-0.8**	**-2.7**	**4.6**	**-**	**3.9**

Note: Figures may not add up due to rounding and exclusion of stocks.

Source: Department of Statistics, Malaysia

T2 GDP by Economic Activity (at constant 2015 prices)

	Share 2021 (%)	2021					2022
		1Q	2Q	3Q	4Q	Year	1Q
		Annual growth (%)					
Services	57.0	-2.3	13.4	-4.9	3.2	1.9	6.5
Manufacturing	24.3	6.7	26.7	-0.8	9.1	9.5	6.6
Agriculture	7.1	0.1	-1.5	-2.0	2.8	-0.2	0.2
Mining	6.7	-4.4	10.6	-3.2	-0.6	0.3	-1.1
Construction	3.7	-10.4	40.3	-20.6	-12.2	-5.2	-6.2
Real GDP	**100.0**	**-0.5**	**15.9**	**-4.5**	**3.6**	**3.1**	**5.0**

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

Source: Department of Statistics, Malaysia

T3 Balance of Payments[1]

	2021			2022
	1Q	4Q	Year	1Q
	RM billion			
Current Account	**11.9**	**15.3**	**58.7**	**3.0**
(% of GDP)	*3.2*	*3.6*	*3.8*	*0.7*
Goods	36.7	51.8	170.6	40.5
Services	-14.8	-15.4	-60.7	-15.0
Primary income	-6.3	-19.6	-41.6	-20.1
Secondary income	-3.7	-1.4	-9.6	-2.5
Financial Account	**16.6**	**0.7**	**13.0**	**30.4**
Direct investment	1.8	10.5	28.5	20.8
Assets	-8.0	-17.2	-48.9	9.1
Liabilities	9.8	27.7	77.4	11.7
Portfolio investment	-0.2	2.6	18.8	-10.1
Assets	-14.3	-6.1	-35.8	-13.9
Liabilities	14.2	8.7	54.6	3.8
Financial derivatives	0.3	-1.8	-2.3	0.2
Other investment	14.7	-10.6	-32.0	19.6
Net errors & omissions[2]	-11.3	-13.1	-25.5	-20.6
Overall Balance	**17.1**	**2.6**	**45.7**	**12.8**

Assets: (-) denotes outflows due to the acquisition of assets abroad by residents.
Liabilities: (+) denotes inflows due to the incurrence of foreign liabilities.
[1] In accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6) by the International Monetary Fund (IMF).
[2] As at 1Q 2018, quarterly net E&O excludes reserves revaluation changes. This practice is backdated up to 1Q 2010.
Note: Numbers may not add up due to rounding
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

T4 Outstanding External Debt

	2021		2022
	end-Mar	end-Dec	end-Mar
	RM billion		
Total External Debt	**1,042.0**	**1,082.1**	**1,111.2**
USD billion equivalent	*248.4*	*259.8*	*264.4*
By instrument			
Bonds and notes[1]	174.8	197.2	194.8
Interbank borrowings[1]	227.8	176.7	192.9
Intragroup loans[1]	132.0	144.3	146.5
Loans[1]	77.1	73.7	74.1
Non-resident holdings of domestic debt securities	236.4	255.1	258.1
Non-resident deposits	100.1	99.9	104.9
IMF allocation of Special Drawings Rights (SDRs)	7.9	28.1	28.1
Others[2]	85.7	107.0	111.9
Maturity profile			
Medium- and long-term	610.1	676.3	683.6
Short-term	431.9	405.7	427.6
Currency denomination			
Ringgit	349.2	373.0	381.3
Foreign	692.8	709.1	729.9
Total debt / GDP (%)	73.3	70.0	69.6
Short-term debt / Total debt (%)	41.4	37.5	38.5
Reserves / Short-term external debt (times)	1.0	1.2	1.1[3]

[1] These debt instruments constitute the offshore borrowings.
[2] Comprise trade credits and miscellaneous.
[3] Based on international reserves as at 29 April 2022.

Note: Figures may not add up due to rounding

Source: Ministry of Finance Malaysia and Bank Negara Malaysia

T5 Financing of the Private Sector through the Banking System, DFIs and Capital Market

	2021			2022	2021			2022
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
	Change during the period (RM billion)				Annual growth (%)			
Total net financing	**33.6**	**47.4**	**125.4**	**30.3**	**4.7**	**4.7**	**4.7**	**4.5**
Outstanding:								
Loans[1,2]	24.5	37.3	87.7	26.1	4.3	4.4	4.4	4.4
Business enterprises	13.1	12.2	32.5	10.2	1.6	4.8	4.8	4.3
SMEs	3.9	6.2	14.9	7.6	10.0	4.9	4.9	6.0
Non-SMEs	9.2	5.9	17.6	2.6	-4.3	4.7	4.7	2.9
Households	7.8	27.3	50.0	15.0	6.0	4.2	4.2	4.8
Corporate bonds[3]	9.2	10.1	37.6	4.2	5.9	5.4	5.4	4.6

[1] Loans from the banking system and development financial institutions (DFIs).
[2] Includes loans sold to Cagamas.
[3] Excludes issuances by Cagamas and non-residents.
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

T6 Loan Indicators

	2021			2022	2021			2022
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
	During the period (RM billion)				Annual growth (%)			
Total								
Loan applications[1]	220.6	263.7	928.1	239.4	11.9	17.6	12.7	8.5
Loan approvals[1]	89.9	117.1	394.9	105.9	3.5	14.8	11.7	17.8
Loan disbursements[2]	361.2	417.6	1492.8	415.3	14.5	26.0	23.1	15.0
Loan repayments[2]	355.9	392.4	1468.5	403.3	11.3	17.9	23.0	13.3
Of which:								
Business enterprises[3]								
Loan applications	80.7	92.9	351.5	89.1	-12.7	12.3	-1.0	10.4
Loan approvals	35.6	51.3	172.3	42.7	-14.1	20.9	5.1	20.2
Loan disbursements	267.4	308.7	1131.9	309.6	18.5	33.1	30.5	15.8
Loan repayments	258.8	302.2	1114.4	303.0	17.5	26.8	28.2	17.1
SMEs								
Loan applications	39.4	46.4	171.2	45.1	-16.9	6.1	-5.4	14.3
Loan approvals	15.2	19.7	67.9	21.2	7.1	10.9	9.6	39.9
Loan disbursements	77.6	84.5	312.2	87.9	22.2	15.3	21.6	13.3
Loan repayments	73.7	78.5	301.8	84.8	11.9	9.4	23.7	15.1
Non-SMEs[3]								
Loan applications	41.3	46.5	180.2	44.1	-8.2	19.2	3.5	6.7
Loan approvals	20.4	31.5	104.5	21.5	-25.2	28.1	2.4	5.5
Loan disbursements	189.8	224.2	819.7	221.7	17.0	41.3	34.2	16.8
Loan repayments	185.1	223.6	812.5	218.2	19.9	34.4	30.0	17.9
Households								
Loan applications	139.9	170.8	576.6	150.2	33.7	20.6	23.0	7.4
Loan approvals	54.4	65.9	222.6	63.2	19.6	10.5	17.4	16.2
Loan disbursements	93.8	109.0	360.9	105.7	4.7	9.5	4.5	12.7
Loan repayments	97.1	90.2	354.1	100.3	-2.5	-4.6	9.0	3.3

[1] Loan applications and approvals for all segments include data from the banking system only.
[2] Loan disbursements and repayments for all segments include data from the banking system and development financial institutions (DFIs). With effect from 1 April 2020, an automatic moratorium was implemented on loan/financing repayments/payments by household and SME borrowers for a period of 6 months.
[3] Includes domestic non-bank financial institutions, domestic financial institutions, government, domestic other entities and foreign entities.
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

T7 Banking System Profitability Indicators

	2021				2022
	1Q	2Q	3Q	4Q	1Q[p]
Return on equity (%)[1]	8.3	9.7	9.4	9.5	11.1
Return on assets (%)[1]	0.9	1.1	1.1	1.1	1.2
	RM million				
Net interest income	14,175	14,630	13,711	14,682	14,794
Add: Fee-based income	3,189	2,880	2,861	3,122	2,922
Less: Operating cost[2]	11,442	8,998	8,776	9,393	8,907
Gross operating profit	5,922	8,511	7,796	8,412	8,809
Less: Impairment[3] and other provisions	1,543	2,155	2,689	2,064	1,055
Gross operating profit after provision	4,379	6,357	5,107	6,348	7,754
Add: Other income[1]	2,719	3,231	2,677	2,393	2,008
Pre-tax profit[1]	**7,098**	**9,587**	**7,784**	**8,741**	**9,762**
	Annual growth (%)				
Return on equity (percentage points)[1]	-1.8	0.8	0.3	1.1	2.8
Return on assets (percentage points)[1]	-0.21	0.09	0.02	0.11	0.29
Net interest income	11.6	47.2	0.5	5.6	4.4
Add: Fee-based income	23.5	24.8	0.3	-1.0	-8.4
Less: Operating cost[2]	32.9	9.9	3.7	6.4	-22.2
Gross operating profit	-11.2	109.9	-2.9	2.2	48.8
Less: Impairment[3] and other provisions	-44.1	-10.3	-17.9	-65.2	-31.6
Gross operating profit after provision	12.0	284.5	7.4	176.1	77.1
Add: Other income[1]	-37.9	-31.8	-25.5	-23.9	-26.2
Pre-tax profit[1]	**-14.4**	**50.0**	**-6.8**	**60.6**	**37.5**

[1] Banking system profits are aggregated at the entity level. The aggregated results for 2019 onwards are subsequently adjusted for dividend income received from domestic banking subsidiaries (previously added at both the parent and subsidiary levels). The adjustment is reflected under 'Other income'. Differences in comparative pre-tax figures reported in previous Quarterly Bulletins are estimated to range between 5.5% and 10.7%.
[2] Refers to staff costs and overheads.
[3] Refers to 12 Months Expected Credit Losses (ECL), Lifetime ECL Not Credit Impaired and Lifetime ECL Credit Impaired based on the Malaysian Financial Reporting Standard 9 (MFRS 9).

p Preliminary

Source: Bank Negara Malaysia

T8 Insurance and Takaful Sector Profitability Indicators

	2021				2022
	1Q	2Q	3Q	4Q	1Q*p*
	RM million				
Life Insurance & Family Takaful					
Excess income over outgo	-630	4,314	5,129	3,525	2,649
General Insurance & General Takaful					
Operating profit	710	1,076	928	354	234
Claims ratio (%)	55	51	52	61	63
	Annual growth (%)				
Life Insurance & Family Takaful					
Excess income over outgo	94.6	-73.6	-36.1	-62.2	520.4
General Insurance & General Takaful					
Operating profit	30.2	-6.7	21.5	-61.1	-67.1
Claims ratio (percentage points)	-4.7	-1.6	-3.8	8.3	8.6

p Preliminary
Source: Bank Negara Malaysia

T9 Federal Government Finance[p]

	2021			2022
	1Q	4Q	Year	1Q
	RM billion			
Revenue	49.5	88.1	233.8	62.8
Annual growth (%)	*9.3*	*14.5*	*3.9*	*26.7*
Operating expenditure	62.2	63.5	231.5	64.6
Annual growth (%)	*0.2*	*18.1*	*3.1*	*3.8*
Current account	**-12.7**	**24.6**	**2.3**	**-1.8**
Net development expenditure	15.3	13.3	63.3	16.6
Annual growth (%)	*40.9*	*-34.4*	*26.3*	*8.7*
COVID-19 Fund[1]	9.1	14.3	37.7	5.4
Overall balance	**-37.1**	**-2.9**	**-98.7**	**-23.8**
Memo:				
Total net expenditure	86.6	91.0	332.5	86.6
Annual growth (%)	*17.9*	*7.9*	*6.3*	*0.0*
Total Federal Government debt (as at end-period)	917.5	979.8	979.8	1005.8
Domestic Debt	671.9	714.0	714.0	736.6
External Debt	245.6	265.9	265.9	269.2
Non-resident holdings of RM-denominated debt	*222.2*	*240.4*	*240.4*	*244.4*
Offshore borrowing	*23.4*	*25.5*	*25.5*	*24.9*

p Preliminary

[1] A specific trust fund established under Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020 to finance economic stimulus packages and recovery plan.

Note: Numbers may not add up due to rounding

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia