BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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4Q

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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Contents

PG 5 Key Highlights

PG 7 International Economic Environment

PG 11 Developments in the Malaysian Economy

PG 27 Monetary and Financial Developments

PG 33 The Bank's Policy Considerations

PG 35 Macroeconomic Outlook

PG 37 Annex

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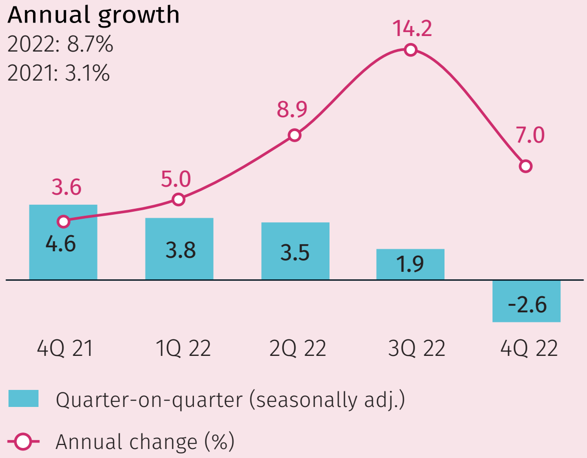
Highlights: 4Q 2022

GDP grew by 7.0% in 4Q 2022, driven mainly by domestic demand

The economy expanded by 8.7% in 2022

Real GDP

Annual growth
2022: 8.7%
2021: 3.1%



Source: Department of Statistics, Malaysia

Growth in 4Q 2022 supported by:

Annual change (%)

Steady household spending
Private Consumption:
7.4%

Continued investment activity
Private Investment:
10.3%

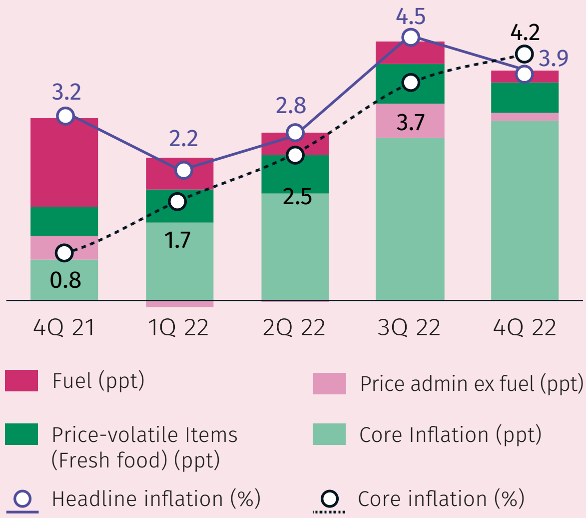
Resilient demand for E&E and recovery in tourism activities
Exports of Goods & Services:
9.6%

Headline inflation moderated in 4Q 2022

For 2022, headline inflation averaged at 3.3%

Inflation

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



* Core inflation is computed by excluding price-volatile and price-administered items.
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Factors affecting inflation in 4Q 2022

Lower electricity inflation
Lapse in the base effect

Easing global commodity prices, but still elevated
Lower price pressures for some consumer goods

Lower fresh food inflation
Such as fresh meat and eggs

Partly offset by

Higher core inflation*
Continued improvement in demand amid the high-cost environment

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International Economic Environment

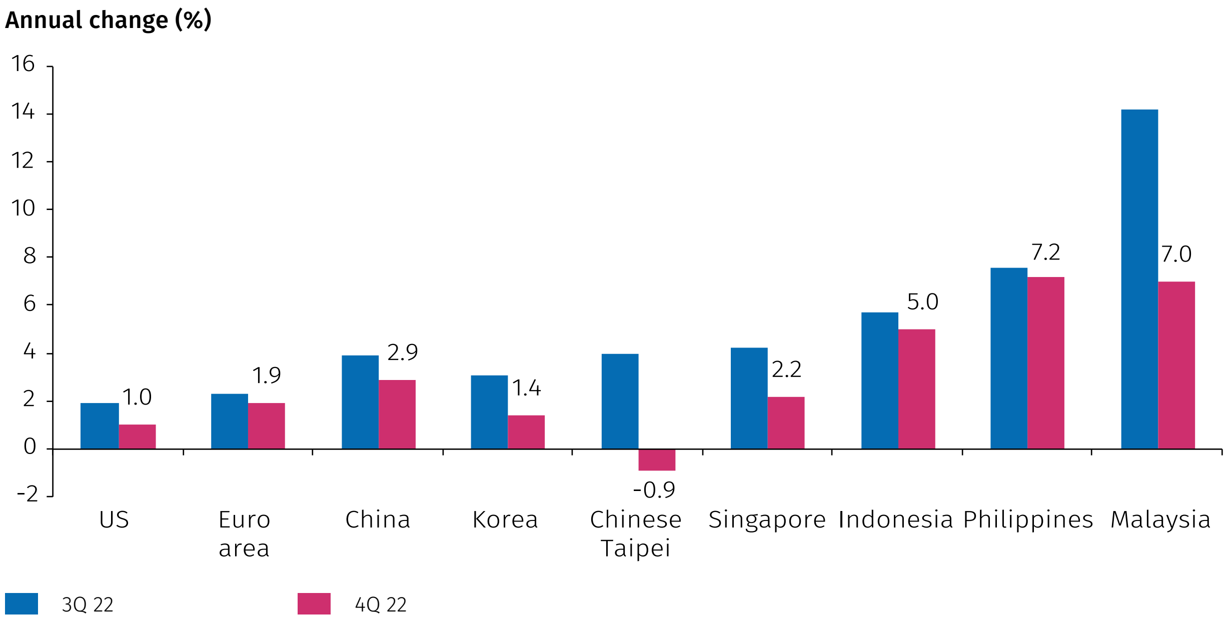
Highlights

- Global growth moderated in the fourth quarter of 2022.
- Regional exports broadly contracted.
- Global financial markets volatility continued.

More moderate global growth

Global growth continued to moderate in the fourth quarter of 2022. Manufacturing and services activities slowed further, particularly in advanced economies, as higher interest rates began to have a larger impact on domestic demand. International trade also softened. Headline inflation began to moderate from its high levels amid softening commodity prices and easing global supply chain conditions. Nevertheless, underlying inflation remained elevated, due to the continued tightness in labour market. In China, economic activity slowed following a severe resurgence in COVID-19 cases, especially towards the latter half of the quarter. Sporadic lockdowns, risk aversion and labour absenteeism significantly affected consumer spending and industrial production.

C1 GDP Growth of Selected Economies

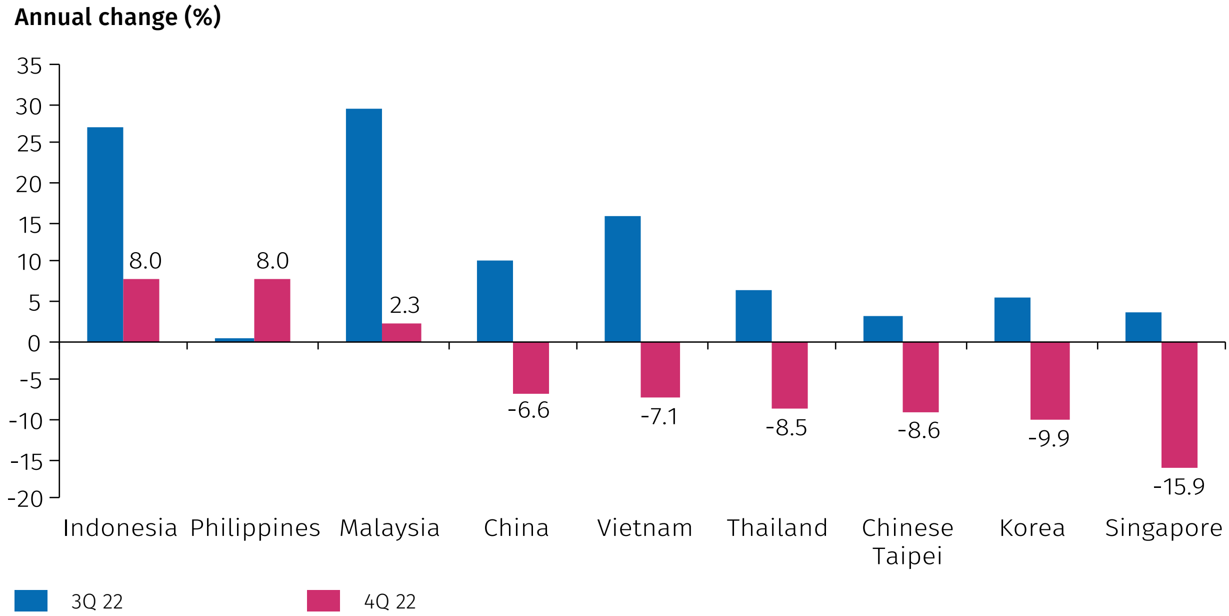


Source: National authorities

Regional exports began contracting

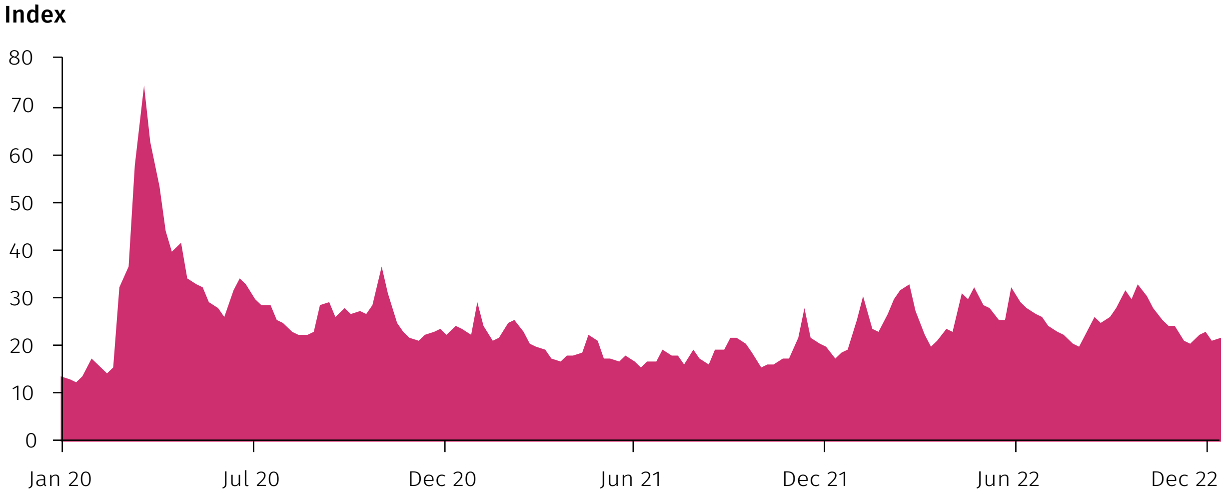
Regional exports contracted in the fourth quarter. This reflected slowing global demand and the ongoing shift in consumption from goods to services, marked by the continued softening of demand in the electrical and electronics (E&E) sector. Lower commodity prices also weighed on the exports of commodity producers.

C2 **Export Growth of Selected Economies (in USD terms)**



Source: National authorities

C3 CBOE Volatility Index (VIX)



Source: Bloomberg

Continued volatility in global financial markets

Global financial markets remained volatile during the quarter (CBOE VIX, 4Q 2022: 25.0; 3Q 2022: 24.8; Average 2011-19: 16.2). The volatility in early October was already elevated amid fears of contagion from the UK sovereign bond market turmoil, which was eventually tempered by intervention from the Bank of England. The index subsequently declined following the release of the Federal Open Market Committee (FOMC) meeting minutes for September, which reassured investors of a slowing in the pace of interest rate hikes. Volatility spiked again briefly in early December, due to uncertainty surrounding the outcome of the December FOMC meeting. It subsequently moderated as the 50-basis points interest rate hike was within investor expectations.

Brent crude oil prices averaged lower at USD90 per barrel during the quarter (3Q 2022 average: USD98 per barrel), attributed to weaker oil demand as global growth moderated.

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Developments in the Malaysian Economy

Highlights

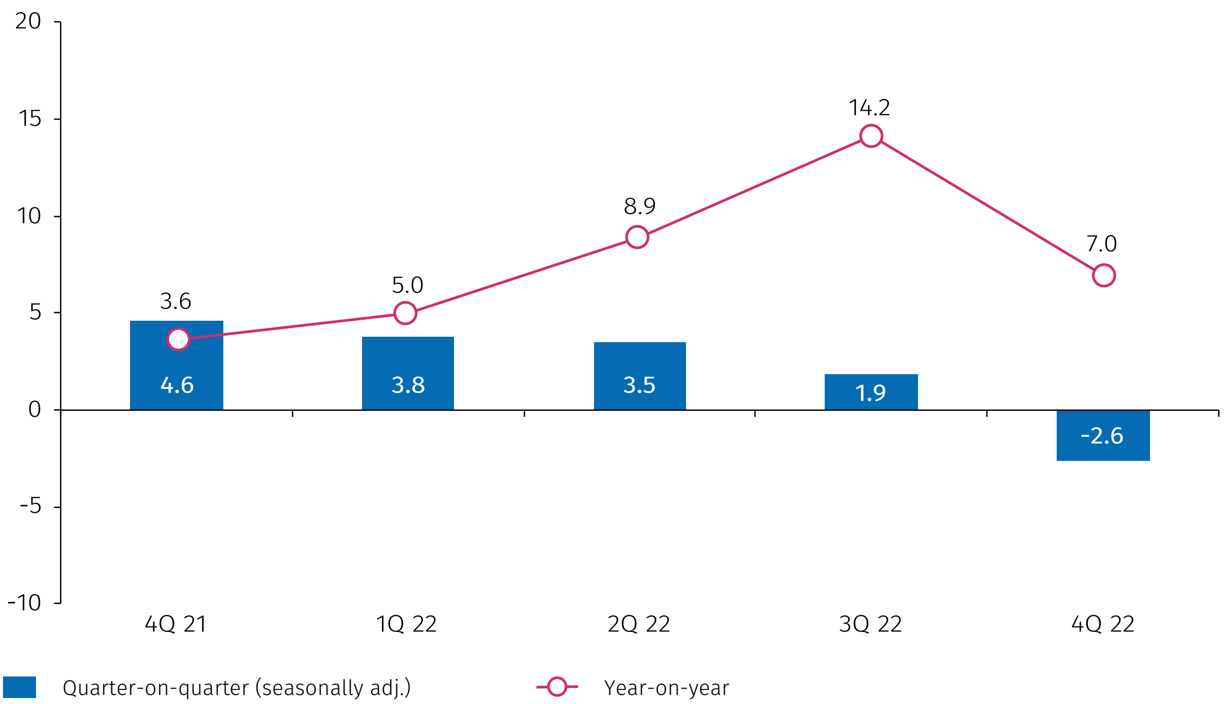
- The Malaysian economy expanded by 7.0% in the fourth quarter of 2022.
- Headline inflation moderated during the quarter.
- Higher current account surplus of RM25.7 billion, or 5.5% of GDP.

GDP moderated in the fourth quarter of 2022

The Malaysian economy registered a growth of 7.0% in the fourth quarter of 2022 compared to 14.2% in the third quarter, as support from the stimulus measures and low base effect[1] waned. At 7.0%, the fourth quarter growth was still above the long-term average of 5.1%.[2] On a quarter-to-quarter seasonally adjusted basis, the economy registered a decline of 2.6% (3Q 2022: 1.9%). For 2022 as a whole, the economy expanded by 8.7% (2021: 3.1%).

C4 **Real GDP Growth**

Annual and quarterly change (%)

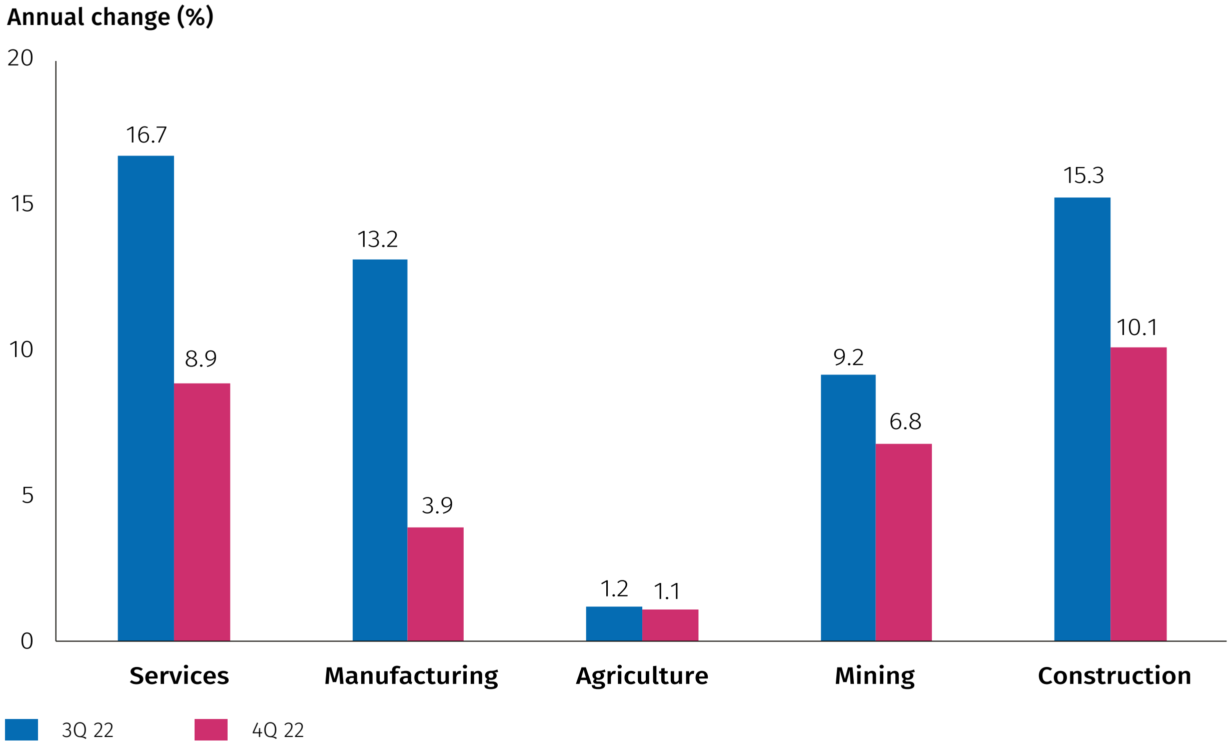


Source: Department of Statistics, Malaysia

[1] The low base effect originated from the decline in economic growth in the third quarter of 2021 (-4.5%), partially contributing towards a high growth a year later, 14.2% in the third quarter of 2022.

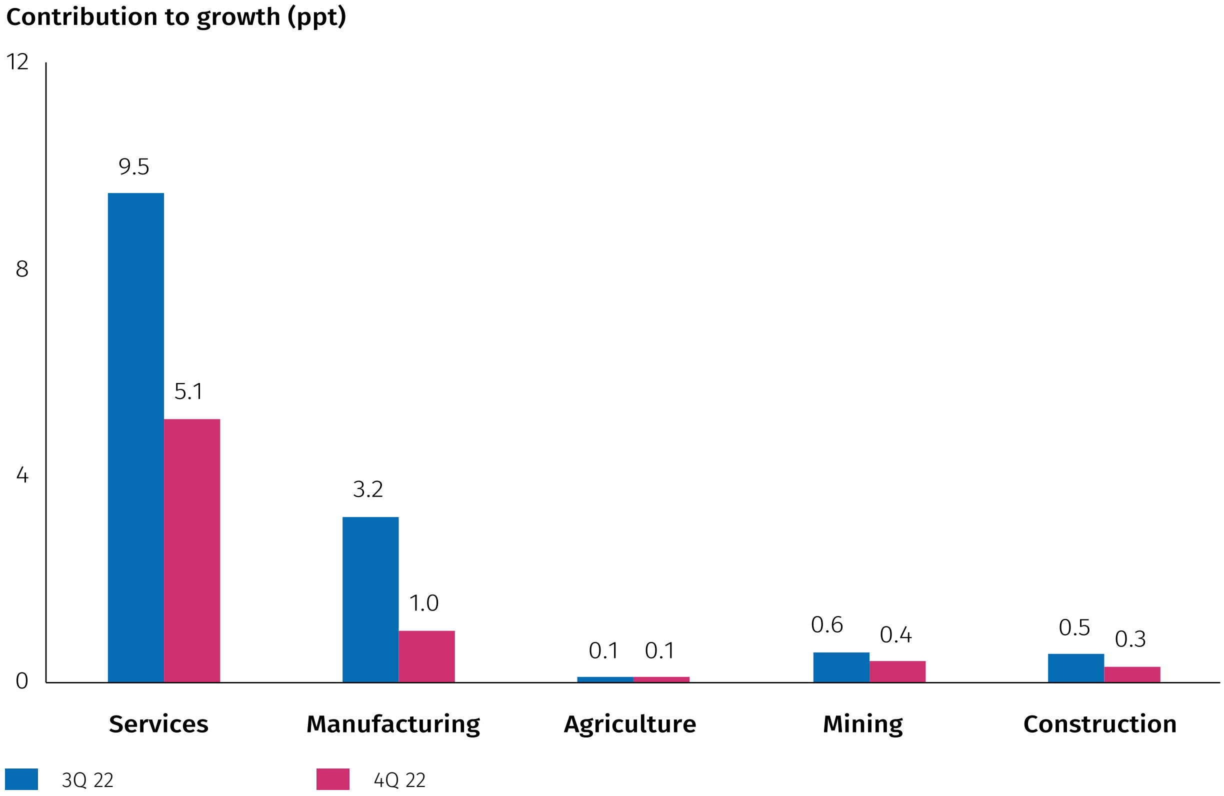
[2] Average from 1Q 2011 to 4Q 2019.

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

Expansion across all economic sectors

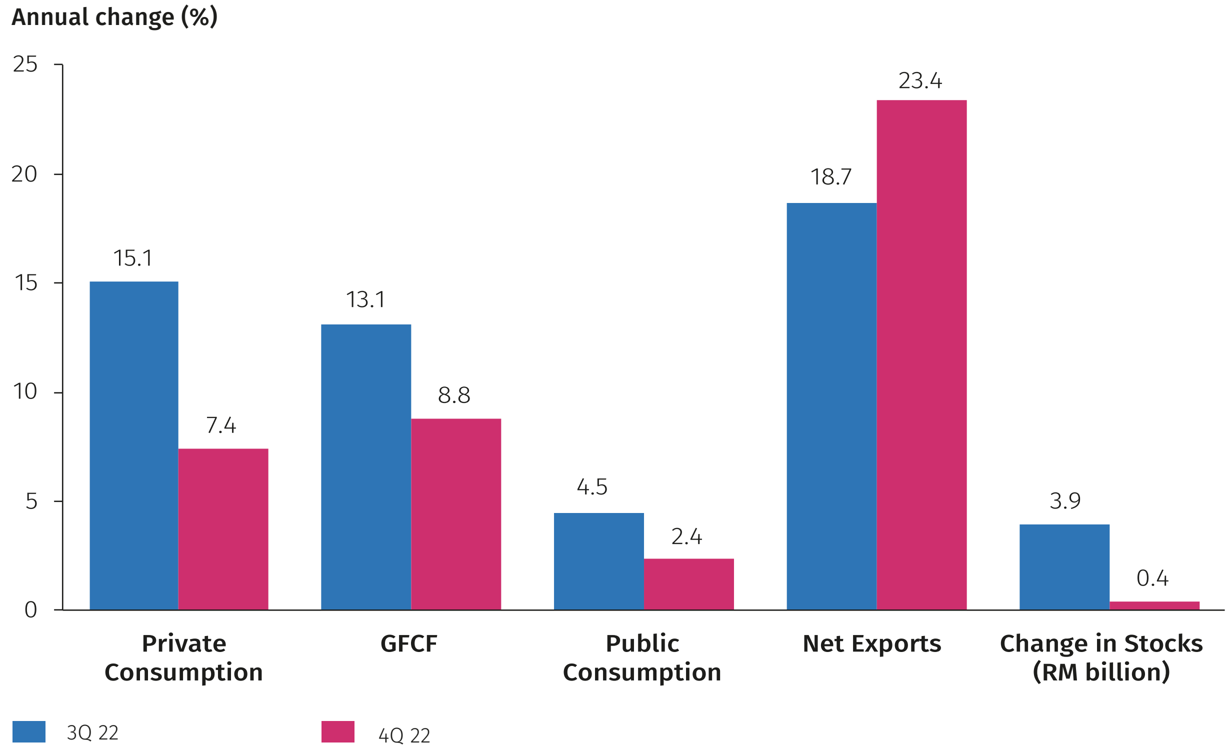
All economic sectors registered growth in the fourth quarter of 2022. The services sector expanded by 8.9% (3Q 2022: 16.7%), supported by consumer-related subsectors amid better labour market conditions and the continued recovery in tourism activities. The sector also benefitted from improvements in real estate and business services activities.

The manufacturing sector grew by 3.9% (3Q 2022: 13.2%). Despite experiencing slower global semiconductor sales, the E&E cluster remained in expansion amid fulfilment of existing backlog in orders. Meanwhile, the primary segment continued to grow driven by higher output at a major oil refinery in Johor which resumed operations in the previous quarter. Sustained production in the consumer segment was driven by the food and beverage segment ahead of the festive season, as well as the motor vehicle and transport equipment segment to meet backlog in orders.

The construction sector expanded by 10.1% (3Q 2022: 15.3%). Of significance, civil engineering and non-residential subsectors were lifted by continued progress of large infrastructure, commercial and industrial projects.

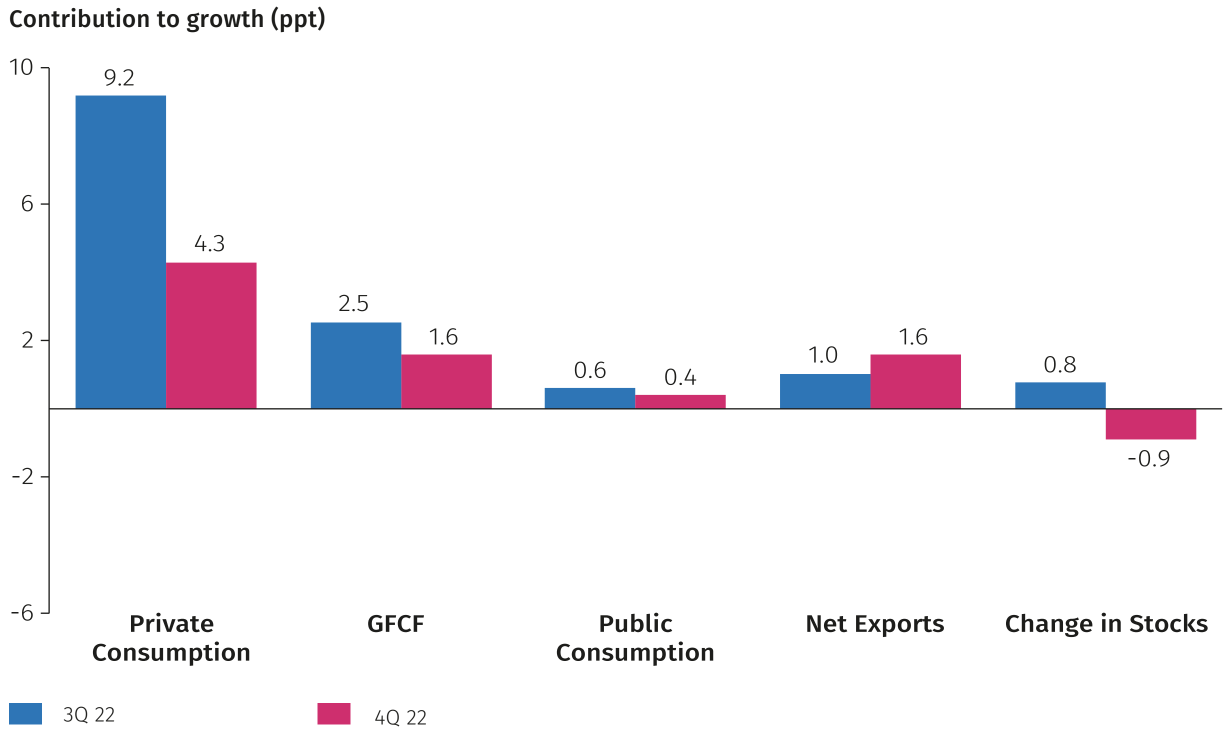
Commodities-related sectors continued to expand. The mining sector expanded by 6.8% (3Q 2022: 9.2%), attributable to sustained improvements in crude oil and natural gas production. The agriculture sector grew by 1.1% (3Q 2022: 1.2%) underpinned by growth in oil palm output, as yields benefitted from higher rainfall earlier in 2022 amid easing labour shortages.

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

Continued expansion in domestic demand

Domestic demand grew by 6.8% (3Q 2022: 13.1%), mainly supported by private sector expenditure.

Private consumption expanded by 7.4% (3Q 2022: 15.1%), supported by improving labour market conditions and policy measures. Spending was driven by consumption of necessities, particularly for transport as well as housing and utilities, and selected discretionary components such as recreational services and culture.

Public consumption grew by 2.4% (3Q 2022: 4.5%), reflecting continued support from Government spending on emolument and supplies and services.

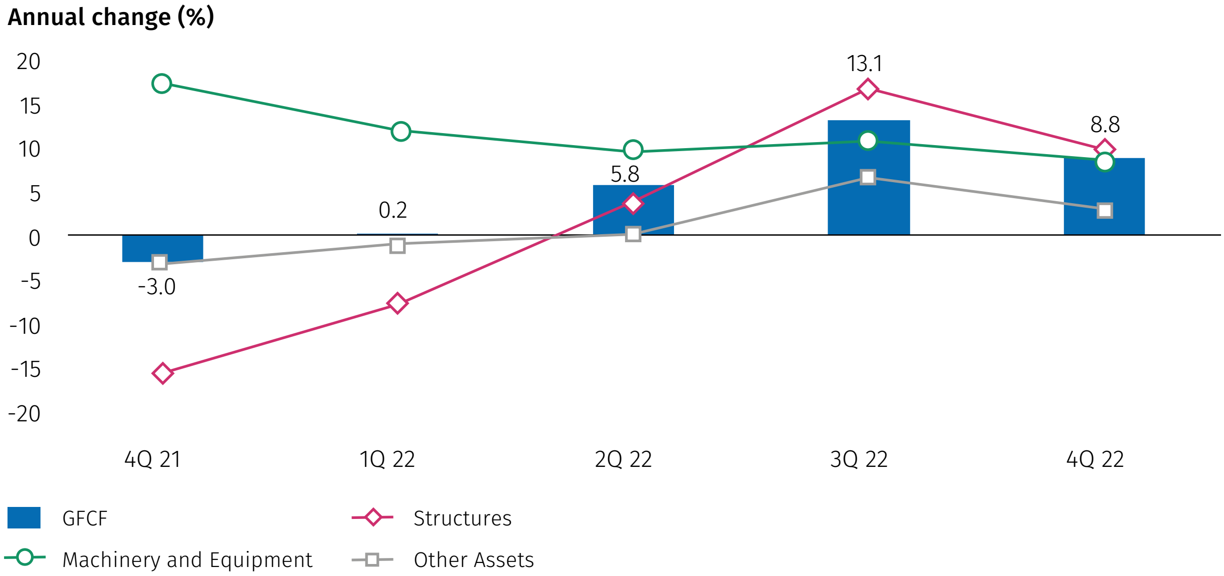
Steady increase in investment

Gross fixed capital formation (GFCF) registered a growth of 8.8% (3Q 2022: 13.1%), supported by capital spending in both the private and public sectors. By type of assets, structures investment grew by 9.9% (3Q 2022: 16.7%), while machinery and equipment (M&E) and other assets increased by 8.6% (3Q 2022: 10.7%) and 3.0% (3Q 2022: 6.6%) respectively.

Private investment expanded by 10.3% (3Q 2022: 13.2%), driven by continued capital spending across all sectors. Investment in structures was supported by further progress of construction projects, particularly in the non-residential sector. Meanwhile, M&E investment benefited from firms' capacity expansion amid continued demand.

Public investment grew at 6.0% (3Q 2022: 13.1%), supported mainly by continued capital expenditure by public corporations.

C9 GFCF Growth by Type of Asset



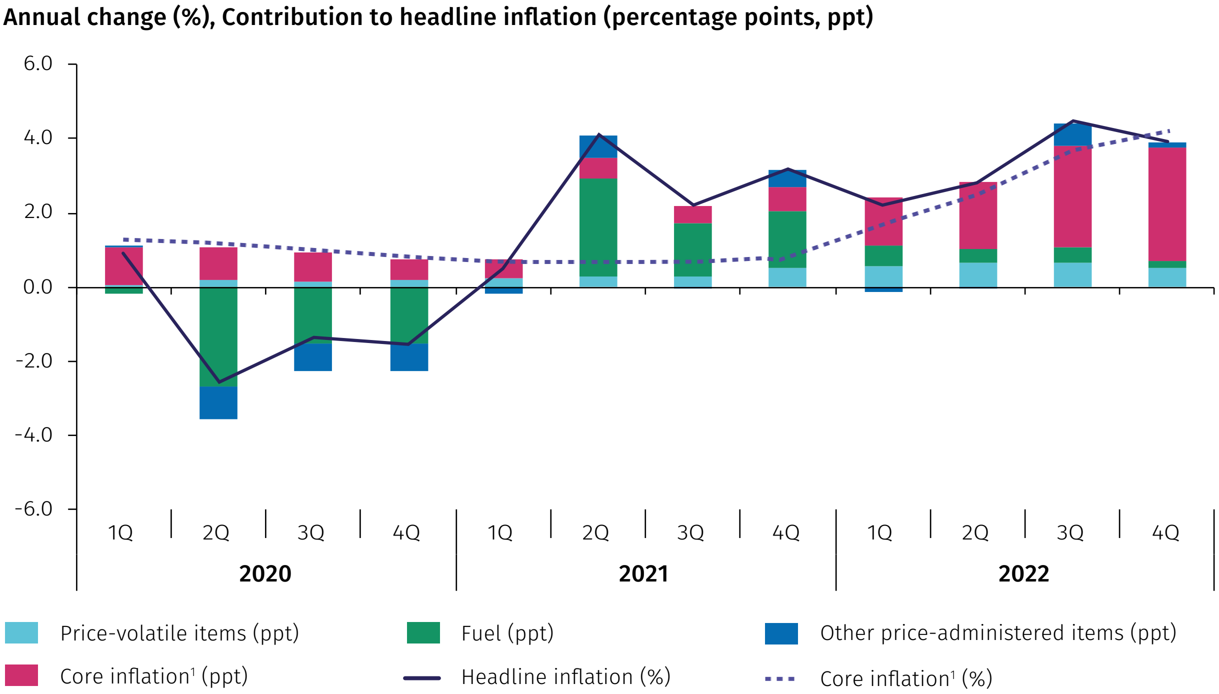
Source: Department of Statistics, Malaysia

Headline inflation moderated during the quarter

Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), moderated to 3.9% during the quarter (3Q 2022: 4.5%). As expected, the lower headline inflation was largely due to the lapse in the base effect of electricity inflation.[3] The moderation was also amid the easing of key global commodity prices which partly led to lower inflation in some CPI items, including fuel. Inflation for some key staple food items, such as fresh meat and eggs, also moderated during the quarter.

However, the downward impact was partly offset by higher core inflation, which rose to 4.2% (3Q 2022: 3.7%). The increase reflected the continued strength in domestic demand. By components, the increase was driven mostly by core services[4] and several discretionary spending categories.[5] Correspondingly, price pressures remained pervasive during the quarter, although it has moderated. The share of CPI items recording monthly price increases remained above historical average (4Q 2022: 51.2%; 3Q 2022: 58.1%; 2011-2019 average: 45.6%).

C10 Contribution to Headline Inflation by Components



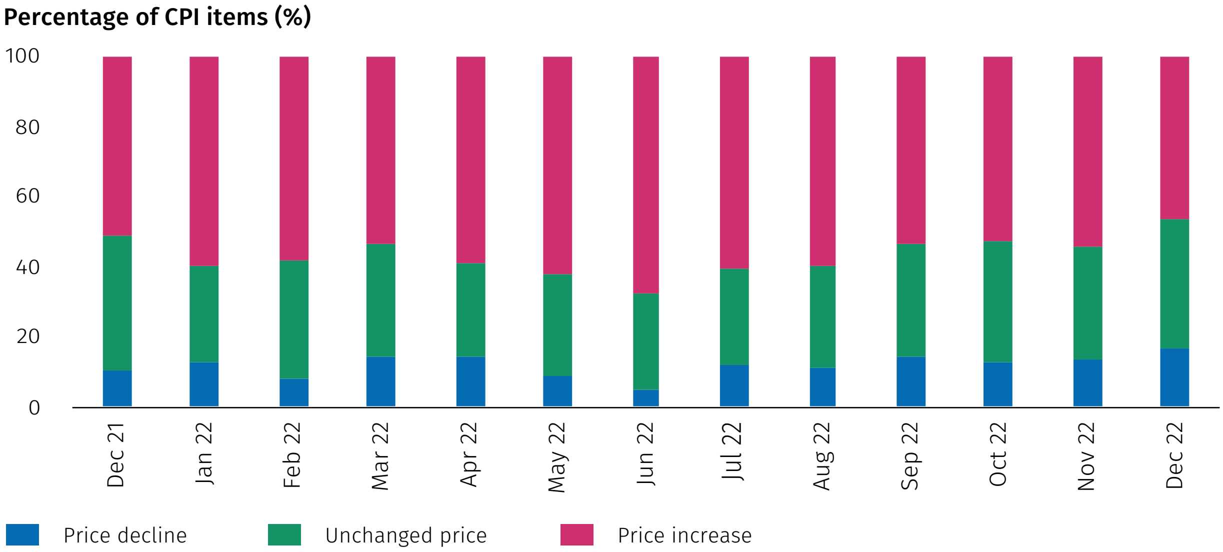
[1] Core inflation is computed by excluding price-volatile and price-administered items.
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

[3] The base effect was due to the discount on electricity bill which had been implemented in 3Q 2021 under the PEMULIH Electricity Discount scheme.

[4] Core services included food away from home, repair and maintenance of personal transport and rental.

[5] Discretionary spending categories included expenditure in restaurant and café, and cultural services.

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

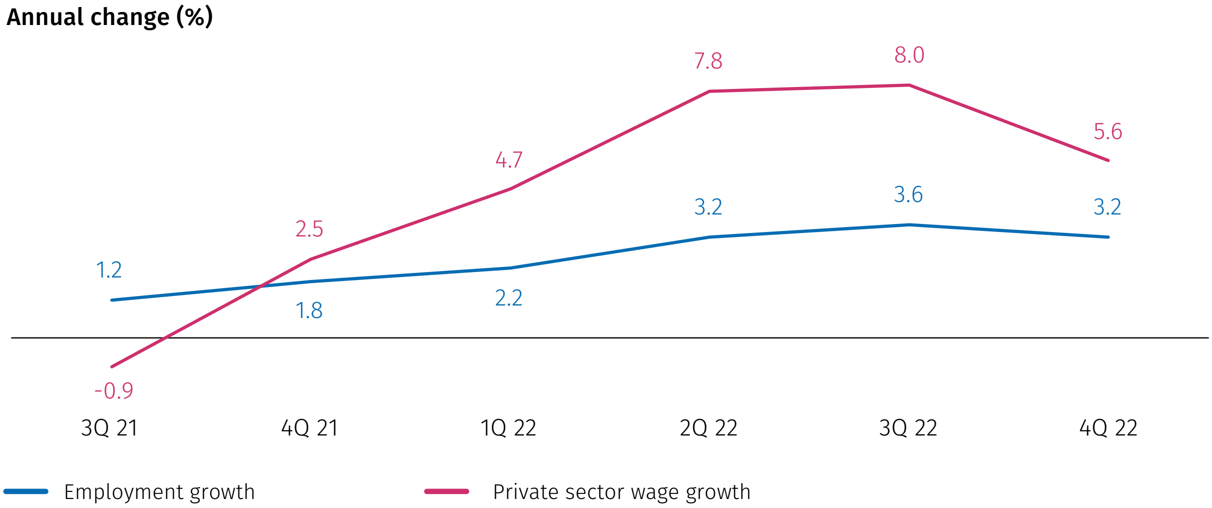
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Sustained labour market recovery

Labour market conditions steadily improved during the quarter, albeit at a more moderate pace. Unemployment and underemployment rates continued their gradual decline to 3.6% and 1.0% of the labour force, respectively (3Q 2022: 3.7% and 1.1%, respectively). This was supported by sustained employment gains, amid continued expansion of the labour force. The labour force participation rate rose to 69.5% (3Q 2022 69.4%; 4Q 2019: 69.1%). Meanwhile, EIS data indicated the pace of hiring is normalising while jobless claims remained low during the quarter and below the pre-pandemic averages (2019 average: 10,021 persons per quarter).

Private sector wage growth moderated in the fourth quarter of 2022. In terms of momentum, on a quarter-on-quarter seasonally adjusted basis, wage growth turned marginally negative (-0.2%; 3Q 2022: 0.9%; 2015-2019 average: 1.3%). These trends are in line with GDP developments.

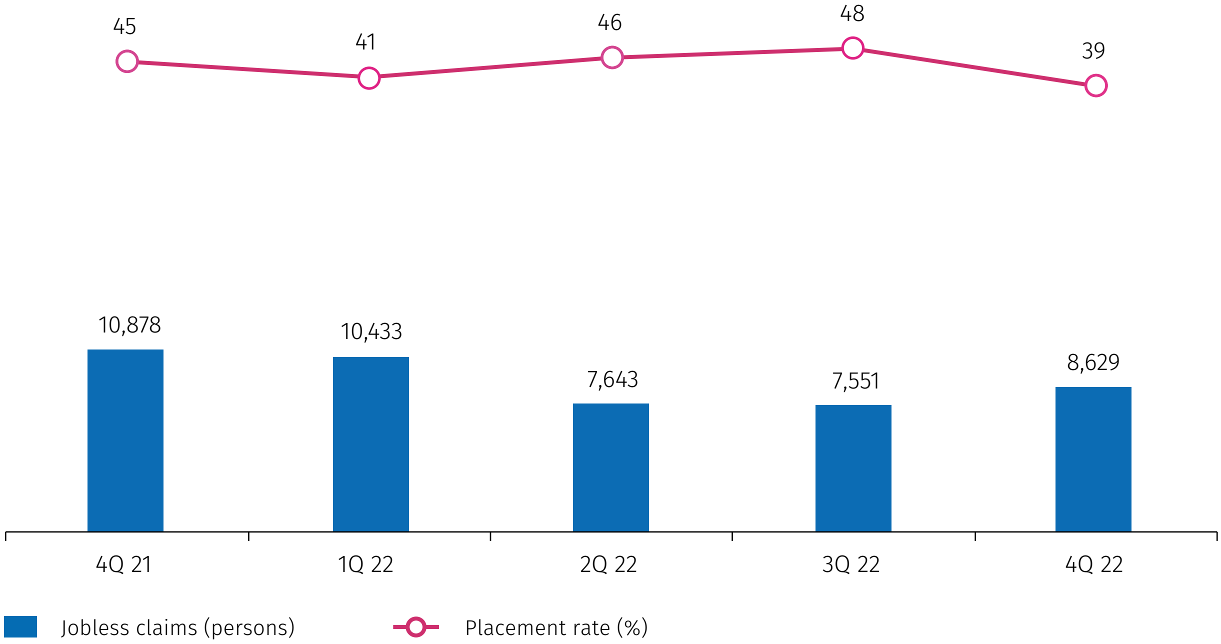
C12 **Employment and Wage Growth**



Note: Private sector wage growth refers to wage growth of workers in the manufacturing and services sectors

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

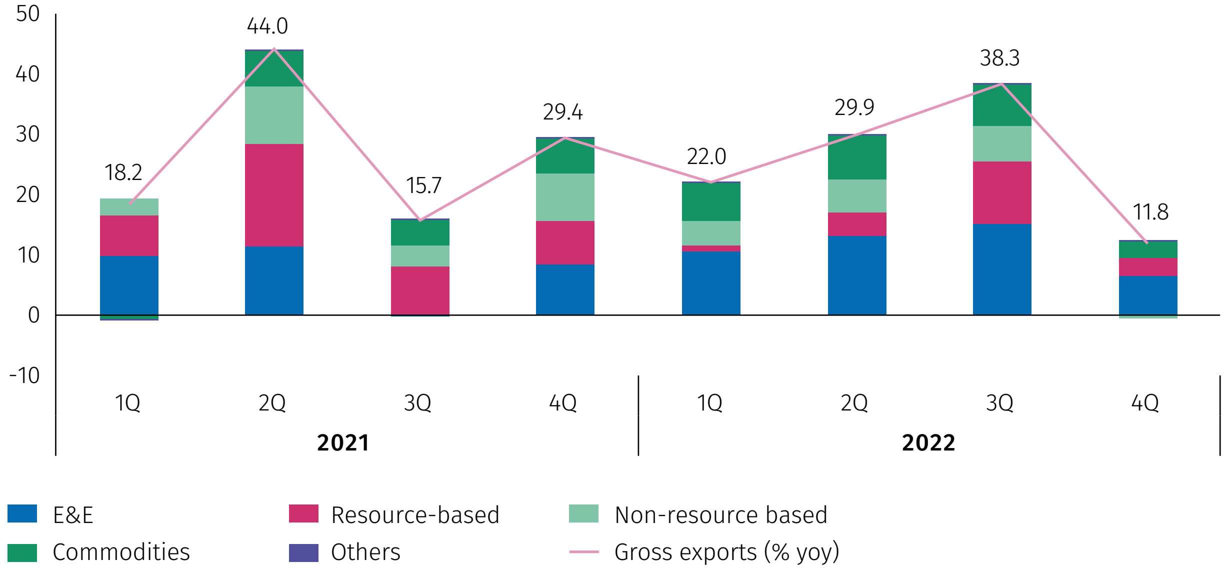
C13 Jobless Claims and Placement Rate



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

Annual change (%), contribution to growth (ppt)



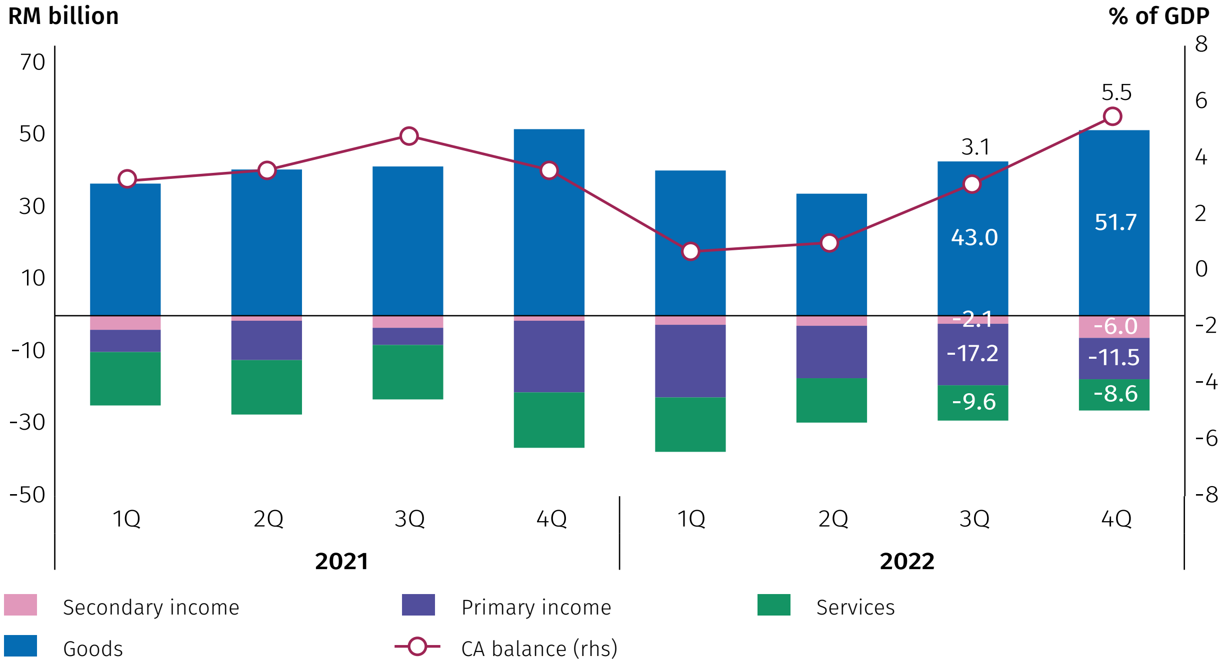
Source: Department of Statistics, Malaysia

Moderation in export and import growth

Gross export growth moderated to 11.8% (3Q 2022: 38.3%), in line with weaker external demand. This was partly offset by resilient performance in E&E (17.3%, 3Q 2022: 41.4%), amid continued demand from Singapore, the US and China.

Gross import growth decelerated to 18.7% (3Q 2022: 46.5%), reflecting moderation in domestic demand and slower pace of inventory build-up. As a result, the trade surplus widened to RM67.6 billion (3Q 2022: RM64.5 billion).

C15 Current Account Balance



Source: Department of Statistics, Malaysia

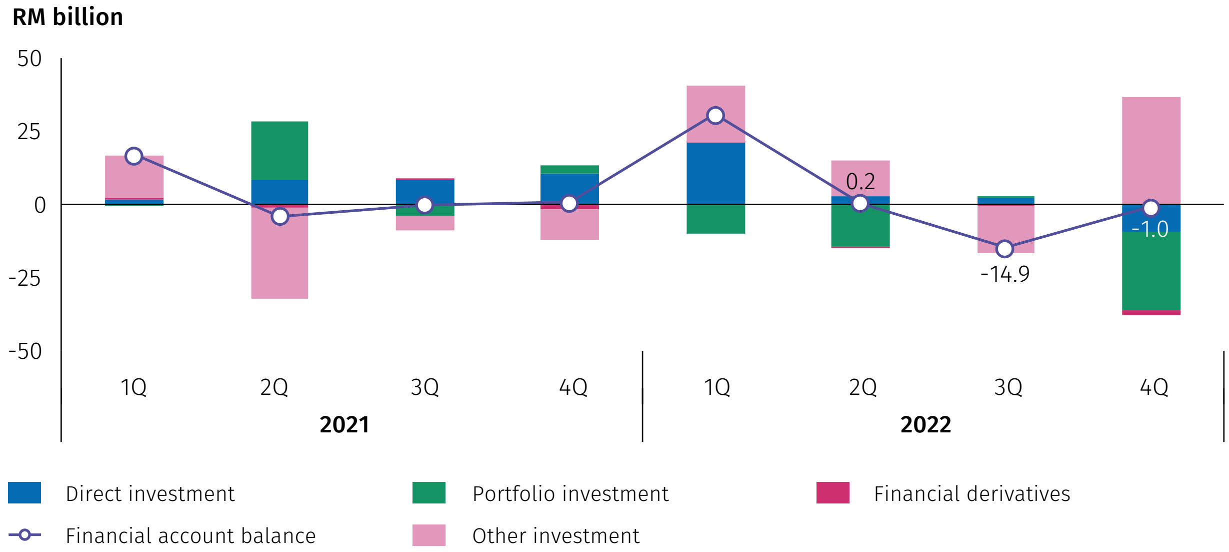
Higher current account surplus

The current account of the balance of payments recorded a higher surplus amounting to RM25.7 billion, or 5.5% of GDP during the quarter (3Q 2022: RM14.1 billion or 3.1% of GDP).

The goods account[6] registered a higher surplus of RM51.7 billion (3Q 2022: RM43.0 billion). The services deficit narrowed slightly to RM8.6 billion (3Q 2022: -RM9.6 billion) driven mainly by higher travel receipts amid recovery in tourism activities.

[6] 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).

C16 Financial Account Flows by Key Components



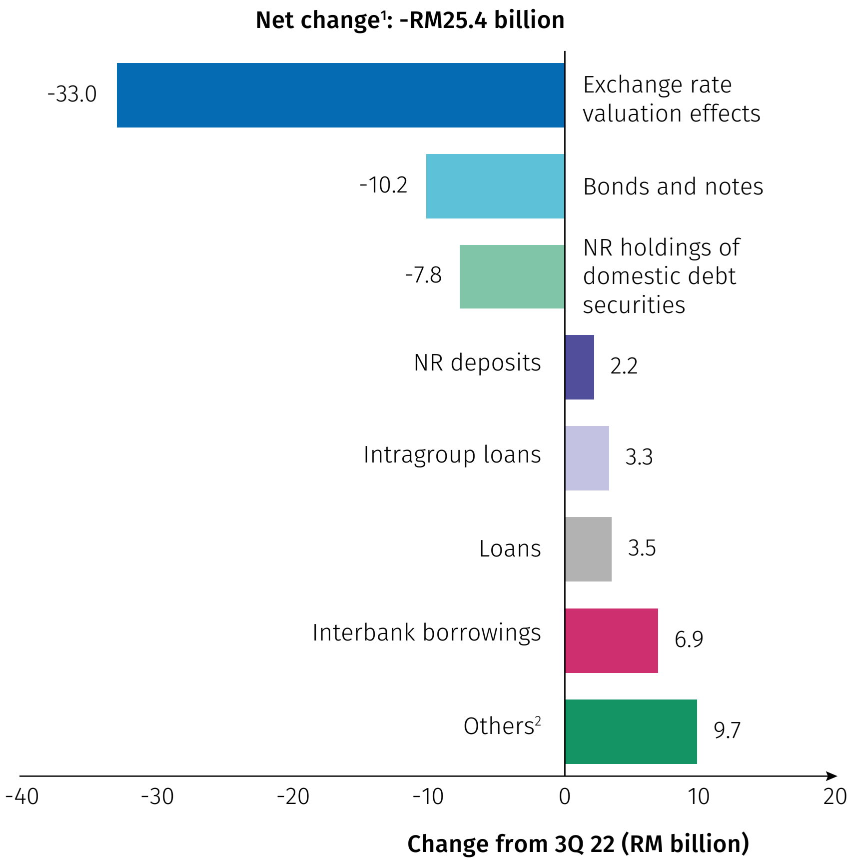
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Financial account registered a smaller net outflow

The financial account recorded a smaller net outflow of RM1.0 billion (3Q 2022: -RM14.9 billion). This reflects portfolio and direct investment net outflows, which were partially offset by the other investment net inflows.

Higher foreign direct investment (FDI) inflows (RM19.3 billion; 3Q: RM12.3 billion) benefitted mainly the manufacturing sector and non-financial services subsector. Direct investment abroad (DIA) outflows (-RM28.7 billion; 3Q: -RM10.3 billion) were channeled primarily into the non-financial services subsector and mining sector. Portfolio investments registered a large net outflow during the quarter (-RM26.7 billion; 3Q 2022: +RM0.1 billion) due mainly to redemption of domestic debt securities upon maturity held by non-resident investors. Other investments turned around to register a large net inflow of RM36.8 billion (3Q 2022: -RM16.6 billion), owing mainly to receipts of interbank lending by resident banks. Net errors and omissions stood at -RM2.1 billion during the quarter, or -0.3% of total trade.

C17 Changes in External Debt



Key drivers of change:

- ▼ *Stronger ringgit against US dollar*
- ▼ *Net repayment of maturing international bonds*
- ▼ *Net redemption upon maturity in NR holdings of Government domestic debt securities*

[1] Changes in individual debt instruments exclude exchange rate valuation effects. Negative indicates net repayment or maturing of debt securities.
[2] Comprises trade credits, IMF allocation of SDRs and other debt liabilities.

Note: Figures may not add up due to rounding.

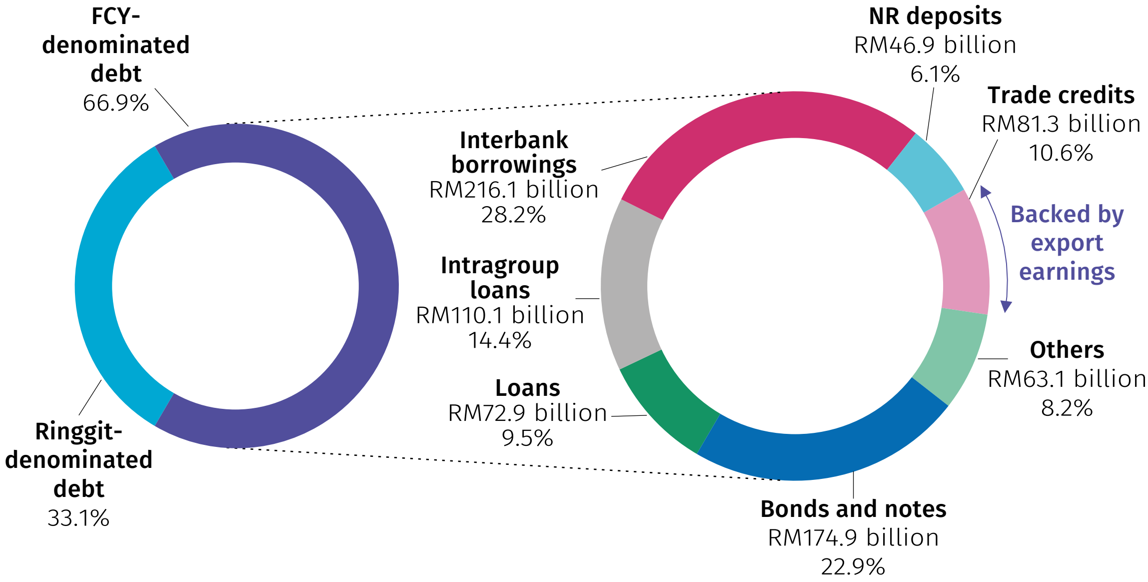
Source: Ministry of Finance Malaysia, Department of Statistics Malaysia and Bank Negara Malaysia

External debt remained manageable

Malaysia's external debt amounted to RM1,144.0 billion, or 64.0% of GDP as at end-December 2022 (end-September 2022: RM1,169.4 billion or 67.0% of GDP). The country's external debt remained manageable, given its favourable currency and maturity profiles. Almost a third of total external debt is ringgit-denominated, which would not be affected by fluctuations in ringgit exchange rate. Meanwhile, foreign currency (FCY)-denominated external debt was largely subject to BNM's prudential and hedging requirements.[7] Moreover, 14.4% of FCY-denominated external debt was in the form of intragroup loans issued between related foreign entities. These loans were generally on flexible and concessionary terms.

[7] 32.4% of FCY-denominated external debt are subject to the Bank's hedging requirements, encompassing bonds and notes issued offshore mainly by non-financial corporates, as well as loans. Meanwhile, banks' management of FCY liquidity risk arising from interbank borrowings and non-resident deposits (accounting for 34.4% of FCY-denominated external debt) are also subject to prudential standards issued by the Bank. For more information on the risk assessment of banks' external debt, please refer to BNM's Financial Stability Review First Half 2022, page 34, which can be accessed at https://www.bnm.gov.my/documents/20124/8440087/fsr22h1_en_book.pdf

C18 Breakdown of FCY-Denominated External Debt (RM billion, % share)



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

From a maturity perspective, 57.9% of total external debt were of medium- to long-term tenure, thereby limiting rollover risks. As at 31 January 2023, international reserves remained adequate at USD115.2 billion. The reserves position is sufficient to finance 5.1 months of imports of goods and services[8] and is 1.1 times the short-term external debt.

[8] 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 https://www.bnm.gov.my/documents/20124/6118085/qb2021q4_en_box_imports.pdf

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Monetary and Financial Developments

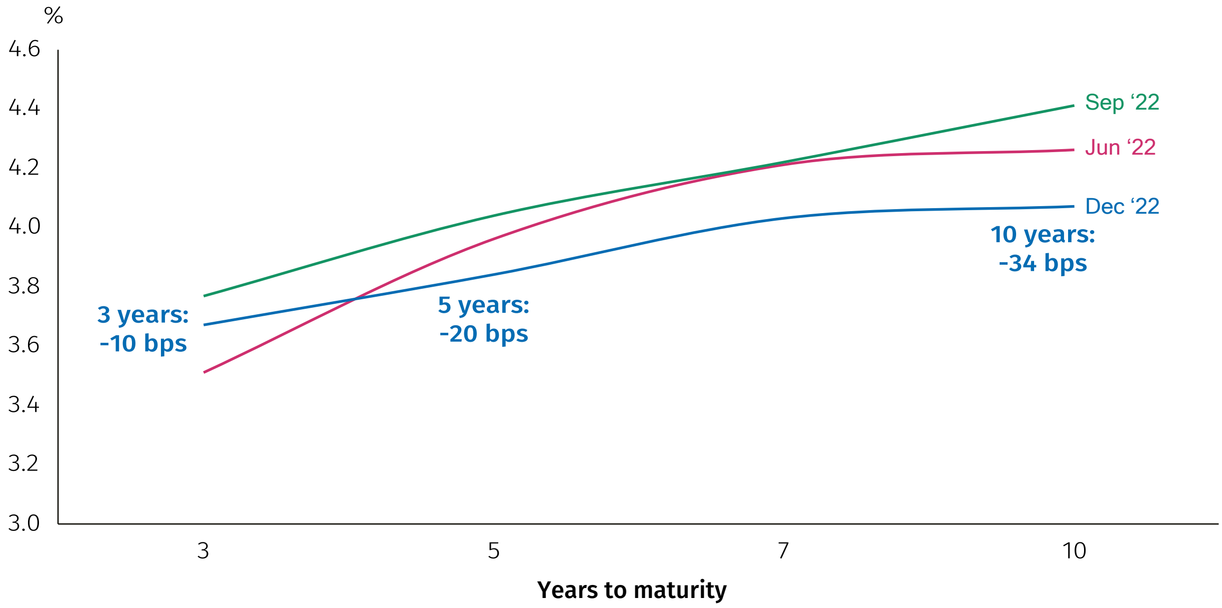
Highlights

- In the fourth quarter of 2022, domestic financial conditions eased amid lower bond yields and higher equities valuation.
- The ringgit appreciated against the US dollar, in line with most regional currencies.
- Interest rates rose during the quarter following the increase in the OPR.
- Credit growth moderated as loan repayments outpaced disbursements.

Global financial conditions remained tight at the start of the quarter and began to ease from November 2022 onwards following indications that inflation in the US may have peaked. Since then, the strength in the US dollar has moderated as market participants now expect smaller interest rate increases by the US Federal Reserve. Global investor sentiments have also been somewhat lifted by the reopening of China's economy and its expected positive economic spillovers to the region.

Bond yields declined amid slower pace of global monetary policy tightening

C19 Trend in MGS Yields



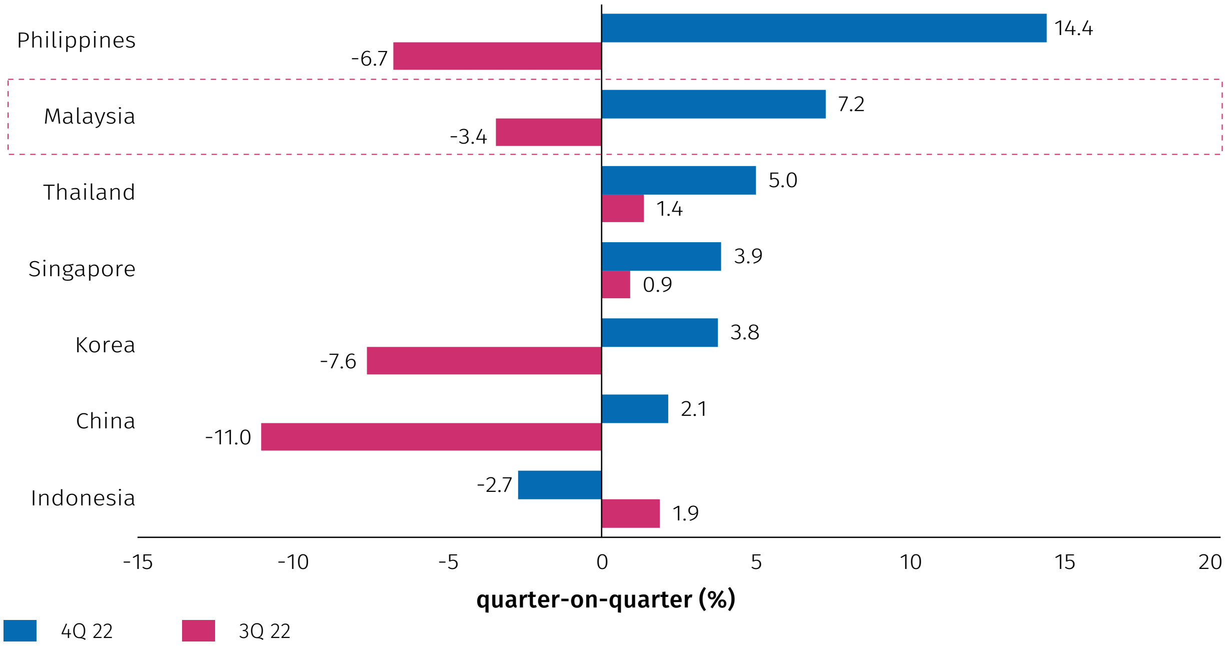
Source: Bank Negara Malaysia and ETP

Following the rise in investors' risk appetite, regional bond yields including Malaysia fell during the quarter. The Malaysian Government Securities (MGS) yields declined across the curve with the 3-year, 5-year and 10-year yields decreasing by 10, 20, and 34 basis points respectively. Meanwhile, the FBM KLCI rose by 7.2%, supported by the better-than-expected third quarter GDP growth in Malaysia as well as the formation of the new Government in November 2022.

Reflecting these global developments, the ringgit reversed its earlier depreciating trend against the US dollar. In line with other regional currencies, the ringgit ended the quarter stronger by 5.3% against the US dollar. Similarly, the ringgit also strengthened marginally against several major trading partners, with the nominal effective exchange rate (NEER)[9] appreciating by 0.4% in the fourth quarter.

Equity market rose, reflecting improvement in investors' risk appetite

C20 Performance of Regional Equity Markets

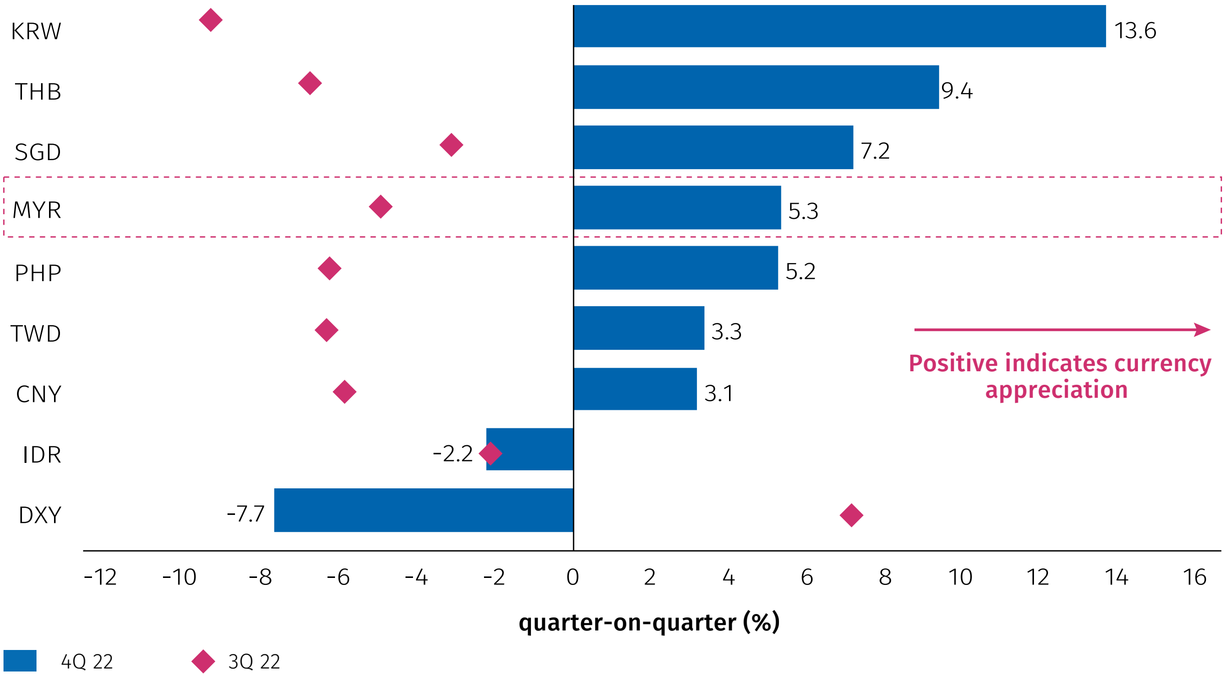


Source: Bloomberg and Bursa Malaysia

[9] NEER refers to the ringgit nominal effective exchange rate, an index measuring ringgit's performance against currencies of Malaysia's major trading partners.

Ringgit appreciated against the US dollar, in line with most regional currencies

C21 **Performance of the US Dollar Index and Regional Currencies Against the US Dollar**



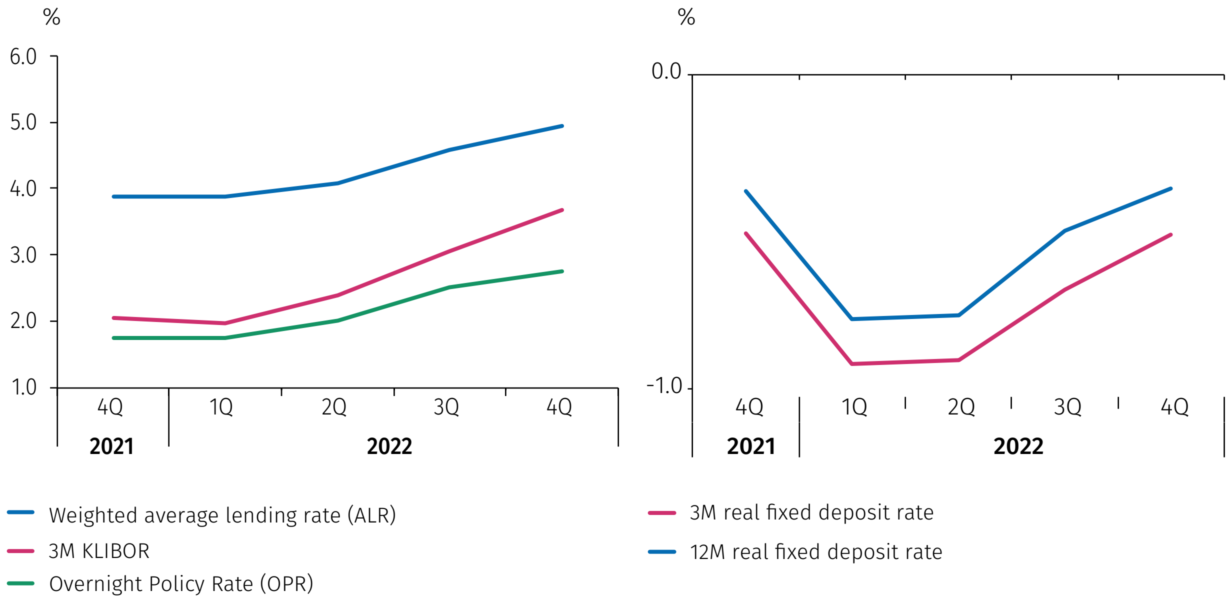
Source: Bank Negara Malaysia

Interest rates rose during the quarter following the increase in the OPR

Following the increase in the Overnight Policy Rate (OPR) by 25 basis points on 3 November 2022, interest rates in the wholesale and retail markets trended higher. Interbank rates were higher during the quarter, reflecting the OPR hike, market expectations for further increase in the OPR and greater competition for funding among banks approaching the end of year to improve regulatory ratios. For the quarter, the 1-month and 3-month KLIBOR increased by 31 and 62 basis points respectively to end the period at 2.98% and 3.68% (3Q 2022: 2.67% and 3.06%).

In the retail market, lending and deposit rates also responded to the OPR increase. The weighted average lending rate (ALR) on outstanding loans increased by 37 basis points, reflecting the OPR hike during the quarter and continued pass-through from previous OPR hikes. Returns to depositors were also higher, with the nominal weighted average fixed deposit (FD) rates increasing by between 20 and 29 basis points across tenures of 1 to 12 months. Real FD rates[10] increased, but to a lesser degree, amid a slight increase in inflation expectations.

C22 Interest Rates (at end-period)



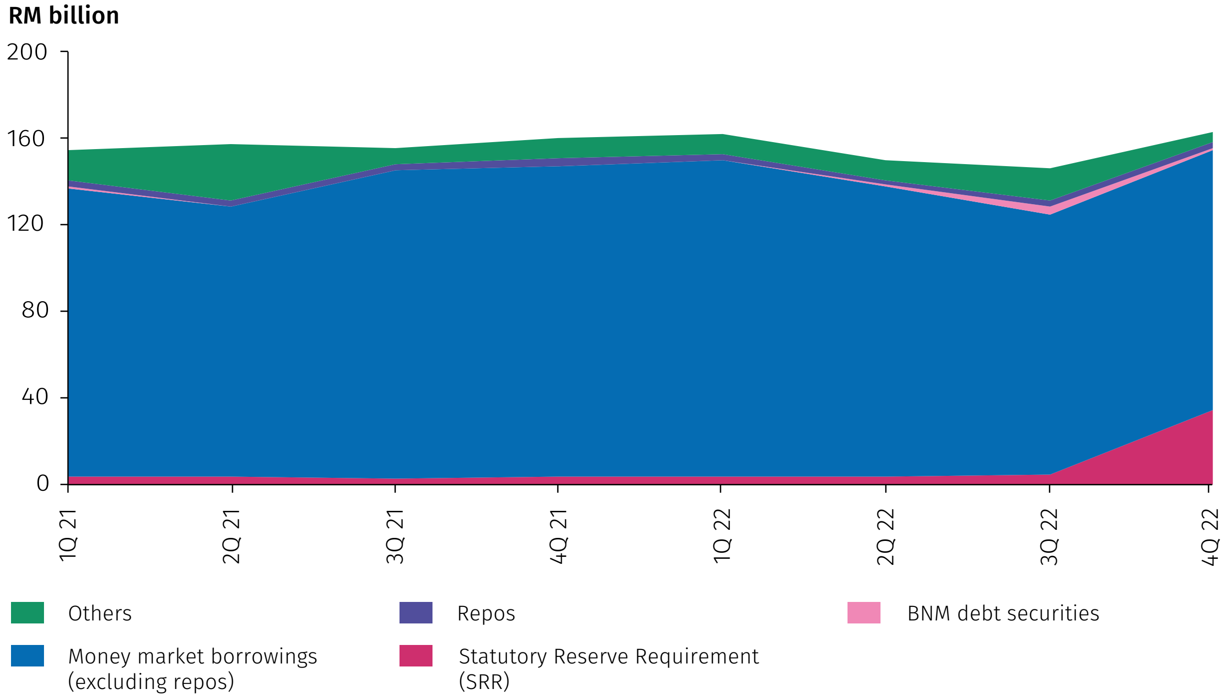
Source: Bank Negara Malaysia, Bloomberg and Consensus Economics

[10] 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).

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 level of outstanding liquidity placed with Bank Negara Malaysia increased during the quarter, driven mainly by higher liquidity injection operations. At the institutional level, almost all banks maintained surplus liquidity positions with the Bank as at end-December 2022. With the expiry of the Statutory Reserve Requirement (SRR) flexibility[11] on 31 December 2022, all banks continued to be able to comply with the SRR requirement.

C23 **Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia (at end-period)**



Source: Bank Negara Malaysia

[11] The flexibility to allow banking institutions to use Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII) to meet the SRR compliance was introduced at the onset of the pandemic to provide greater flexibility for banks in their liquidity management and support the continued smooth functioning of the bond market.

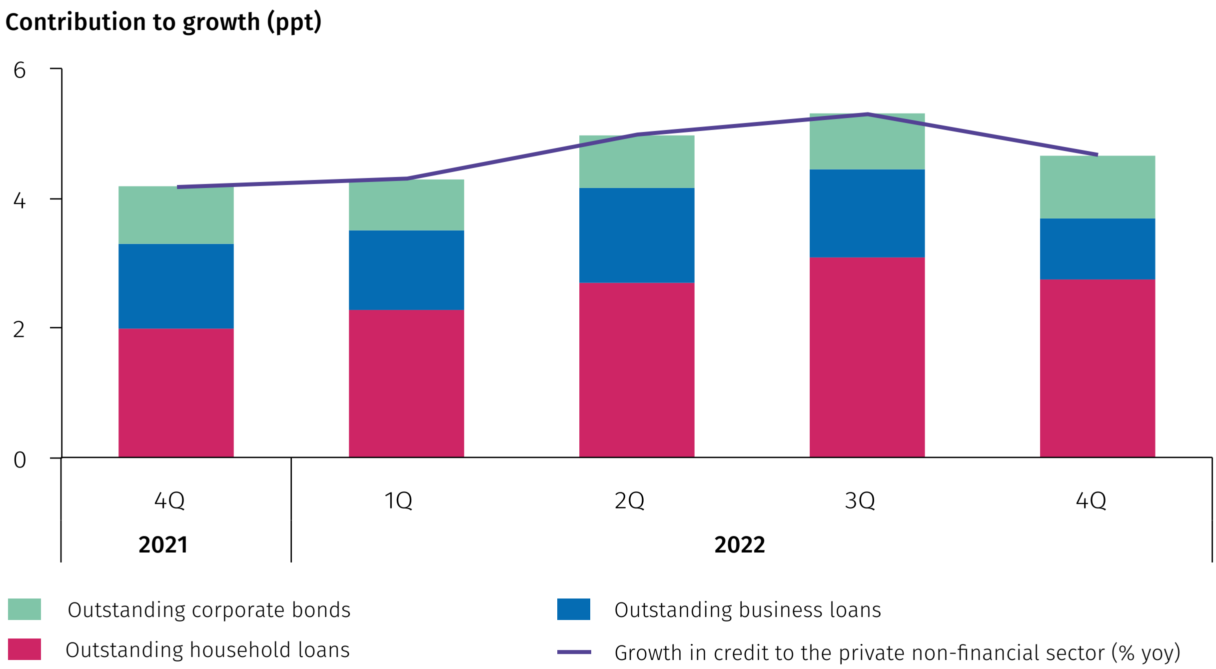
Credit growth moderated as loan repayments outpaced disbursements

Credit to the private non-financial sector[12] grew by 4.7% in the fourth quarter (3Q 2022: 5.3%) on an annual basis. This moderation was due to the lower growth in outstanding loans[13] (4.7%; 3Q 2022: 5.7%), while the growth in outstanding corporate bonds continued to increase to 4.6% (3Q 2022: 4.0%).

Outstanding business loans grew by 3.3% (3Q 2022: 4.8%) as the growth in loan repayments continued to remain strong, outpacing that of loan disbursements, particularly for non-SMEs. Despite slower growth in loan applications, loan disbursements growth was sustained (12.0%; 3Q 2022: 18.0%), particularly for working capital loans as firms continued to draw down on their existing credit facilities. Investment-related[14] loans also remained forthcoming, particularly for the purchase of non-residential properties in the wholesale and retail trade, and manufacturing sectors.

For households, outstanding loans expanded by 5.5% (3Q 2022: 6.2%), amid the relatively slower growth in loan disbursements and sustained growth in loan repayments. The more moderate growth in disbursements (10.3%; 3Q 2022: 48.1%) was reflective of the lower growth in loan applications, particularly for the purchase of houses. Loan disbursements for the purchase of cars also grew at a slower pace following the lapse in sales tax relief on new vehicles in June.

C24 Contribution to Growth in Credit to the Private Non-Financial Sector



Source: Bank Negara Malaysia

[12] Starting with the 4Q 2022 Quarterly Bulletin, credit to the private non-financial sector is introduced to enhance the quality of data on financing channelled towards the generation of domestic economic activity. This replaces the previous series on net financing to the private sector. For corporate bonds, the series now includes conventional and Islamic short-term papers in addition to longer-term bonds and *sukuk,* and excludes issuances by Cagamas, government, financial institutions and non-bank financial institutions. Total loans now refer to the sum of outstanding business and household loans, and exclude loans to financial institutions, government, non-bank financial institutions and other entities. The new data series is available in the Monthly Highlights and Statistics Table 2.18.

[13] Refers to loans from the banking system and development financial institutions (DFIs).

[14] Comprises loans for the purchase of non-residential and business-related properties, fixed assets and construction purposes.

The Bank's Policy Considerations

Highlights

- The Monetary Policy Committee (MPC) further increased the OPR to 2.75% at the November 2022 meeting and subsequently kept the OPR unchanged at the January 2023 meeting.
- The MPC will assess the impact of the cumulative past OPR adjustments on the economy.

Monetary policy remains accommodative and supportive of economic growth

Against the backdrop of continued positive growth prospects for the Malaysian economy, the MPC further adjusted the degree of monetary accommodation by increasing the OPR by 25 basis points at the November 2022 meeting to 2.75%. The adjustment was meant to pre-emptively manage the risk of excessive demand on price pressures consistent with the recalibration of monetary policy settings that balances the risks to domestic inflation and sustainable growth.

At the subsequent meeting in January 2023, the MPC kept the OPR unchanged at 2.75%. The decision allows the MPC to assess the impact of the cumulative past OPR adjustments, given the lag effects of monetary policy on the economy. At the current OPR level, the stance of monetary policy remains accommodative and supportive of economic growth.

The MPC assessed that the global economy continues to be weighed down by elevated cost pressures, higher interest rates, and COVID-19-related disruptions in China. These factors more than offset the support from positive labour market conditions, and the full reopening of economies and international borders. Headline inflation moderated slightly from high levels in recent months. However, core inflation remains above historical averages. Central banks are expected to continue raising interest rates, albeit at a slower pace, to manage inflationary pressures. This will continue to pose headwinds to the global growth outlook. On the other hand, growth in China is expected to improve once the current COVID-19 wave subsides. The growth outlook remains subject to downside risks, including an escalation of geopolitical tensions, weaker-than-expected growth outturns in major economies, and a sharp tightening in financial market conditions.

For Malaysia, the latest available data as at the January 2023 meeting indicated continued economic expansion in the final quarter of 2022 on account of resilient domestic demand. As a result, growth for 2022 would exceed the earlier projected range of 6.5% - 7.0%. Coming off a strong performance in 2022, the MPC expected growth in 2023 to moderate amid a slower global economy. Growth will remain supported by domestic demand. Household spending will be underpinned by sustained improvements in employment and income prospects. Tourist arrivals have continued to rise, further lifting the tourism-related sectors. The realisation of multi-year infrastructure projects will support investment activity. Downside risks to the domestic economy continue to stem from a weaker-than-expected global growth, higher risk aversion in global financial markets driven by more aggressive monetary policy tightening in major economies, further escalation of geopolitical conflicts, and re-emergence of significant supply chain disruptions.

As at the January 2023 MPC meeting, headline inflation had averaged 3.4% for the period January-November 2022. As projected, headline inflation peaked in 3Q 2022, while underlying inflation, as measured by core inflation, averaged 2.9% up to November 2022. Over the course of 2023, headline and core inflation are expected to moderate but remain at elevated levels amid lingering demand and cost pressures. Existing price controls and fuel subsidies, and the remaining spare capacity in the economy, will continue to partly contain the extent of upward pressures to inflation. The balance of risk to the inflation outlook is tilted to the upside and remains highly subject to any changes to domestic policy on subsidies and price controls, as well as global commodity price developments.

Further normalisation to the degree of monetary policy accommodation would be informed by the MPC's assessment of evolving conditions and their implications to the domestic inflation and growth outlook. The MPC will continue to calibrate the monetary policy settings that balance the risks to domestic inflation and sustainable growth.

Macroeconomic Outlook

Highlights

- Global growth to slow down in 2023.
- The Malaysian economy will continue to grow, driven mainly by domestic demand.
- Headline inflation is expected to remain elevated in 2023.

Highly challenging and uncertain global outlook

The global economy will be supported by some positive factors such as resilient labour market, easing of supply chain conditions and continued recovery in services activity, particularly tourism. However, waning support from reopening in most economies, elevated inflation, tighter monetary policy, and slower exports will weigh on global growth. In China, the reopening of its economy will facilitate a rebound in consumer spending and tourism activity, with positive spillover to global growth. However, meaningful recovery may only be seen in the second half of the year, given the disruptions from the ongoing COVID resurgence and capacity constraints in terms of international flights to and from China.

The balance of risks to global growth remains tilted to the downside. Risks stem from escalation of geopolitical tensions, weaker-than-expected growth outturn in major economies, and a sharp tightening in financial conditions. In contrast, upside risks to global growth can arise from stronger-than-expected pent up demand in major economies.

Domestic demand will be key to Malaysia's growth performance in 2023

For 2023, the Malaysian economy is expected to expand at a more moderate pace, amid a challenging external environment. Growth will be driven by domestic demand, supported by the continued recovery in labour market and realisation of multi-year investment projects. The services and manufacturing sectors will continue to drive the economy. Meanwhile, the slowdown in exports following weaker global demand will be partially cushioned by higher tourism activity.

The balance of risks to Malaysia's growth outlook remains tilted to the downside. This stems from weaker-than-expected global growth, tighter financial conditions, further escalation of geopolitical conflicts, and worsening supply chain disruptions.

Over the course of 2023, headline inflation is projected to moderate but remain elevated

In line with earlier assessments, headline inflation averaged higher at 3.3% in 2022 (2021: 2.5%), having peaked at 4.7% in August 2022 and moderating thereafter, albeit remaining elevated. Underlying inflation, as measured by core inflation, also increased to 3.0% (2021: 0.7%).

Over the course of 2023, headline and core inflation are expected to moderate but remain at elevated levels amid lingering demand and cost pressures. Notably, recent core inflation rates are expected to persist in the near-term, especially given the low base in the first half of 2022. There are several factors which would continue to mitigate the extent of upward pressure to inflation going forward. These include existing fuel subsidies, price control measures, and the remaining spare capacity in the economy. The balance of risk to the inflation outlook is tilted to the upside, particularly reflecting any potential changes to domestic policy, global commodity price developments and prolonged supply-related disruptions.

Annex

T1 GDP by Expenditure Components (at constant 2015 prices)

	Share 2022 (%)	2021		2022				
		4Q	Year	1Q	2Q	3Q	4Q	Year
		Annual growth (%)						
Aggregate Domestic Demand (excluding stocks)	93.1	1.9	1.7	4.4	13.0	13.1	6.8	9.2
Private sector	75.6	2.5	2.0	4.4	15.4	14.7	7.9	10.4
Consumption	*60.2*	*3.7*	*1.9*	*5.5*	*18.3*	*15.1*	*7.4*	*11.3*
Investment	*15.4*	*-2.8*	*2.6*	*0.4*	*6.3*	*13.2*	*10.3*	*7.2*
Public sector	17.5	0.1	0.6	4.8	2.8	6.3	3.5	4.3
Consumption	*13.2*	*1.6*	*5.3*	*6.7*	*2.6*	*4.5*	*2.4*	*3.9*
Investment	*4.4*	*-3.4*	*-11.3*	*-0.9*	*3.2*	*13.1*	*6.0*	*5.3*
Net Exports	5.4	0.8	-4.1	-26.5	-28.7	18.7	23.4	-1.8
Exports of Goods and Services	*71.7*	*13.0*	*15.4*	*8.0*	*10.4*	*23.9*	*9.6*	*12.8*
Imports of Goods and Services	*66.3*	*14.5*	*17.7*	*11.1*	*14.0*	*24.4*	*8.1*	*14.2*
Real GDP	**100.0**	**3.6**	**3.1**	**5.0**	**8.9**	**14.2**	**7.0**	**8.7**
GDP (q-o-q growth, seasonally adjusted)	**-**	**4.6**	**-**	**3.8**	**3.5**	**1.9**	**-2.6**	**-**

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 2022 (%)	2021		2022				
		4Q	Year	1Q	2Q	3Q	4Q	Year
Services	58.2	3.2	1.9	6.5	12.0	16.7	8.9	10.9
Manufacturing	24.2	9.1	9.5	6.6	9.2	13.2	3.9	8.1
Agriculture	6.6	2.8	-0.2	0.1	-2.4	1.2	1.1	0.1
Mining	6.4	-0.6	0.3	-1.1	-0.5	9.2	6.8	3.4
Construction	3.5	-12.2	-5.2	-6.2	2.4	15.3	10.1	5.0
Real GDP	**100.0**	**3.6**	**3.1**	**5.0**	**8.9**	**14.2**	**7.0**	**8.7**

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		
	4Q	Year	3Q	4Q	Year
	RM billion				
Current Account	**15.3**	**58.7**	**14.1**	**25.7**	**47.2**
(% of GDP)	3.6	3.8	3.1	5.5	2.6
Goods	51.8	170.6	43.0	51.7	169.3
Services	-15.4	-60.7	-9.6	-8.6	-45.4
Primary income	-19.6	-41.6	-17.2	-11.5	-63.6
Secondary income	-1.4	-9.6	-2.1	-6.0	-13.1
Financial Account	**0.7**	**13.0**	**-14.9**	**-1.0**	**14.8**
Direct investment	10.5	28.5	2.0	-9.4	16.0
Assets	-17.2	-48.9	-17.9	-24.8	-50.7
Liabilities	27.7	77.4	19.9	15.4	66.7
Portfolio investment	2.6	18.8	0.1	-26.7	-51.3
Assets	-6.1	-35.8	2.6	-15.0	-30.6
Liabilities	8.7	54.6	-2.5	-11.7	-20.7
Financial derivatives	-1.8	-2.3	-0.4	-1.7	-2.2
Other investment	-10.6	-32.0	-16.6	36.8	52.3
Net errors & omissions[2]	-13.1	-25.5	**14.1**	**-2.1**	**-8.3**
Overall Balance	**2.6**	**45.7**	**13.2**	**22.4**	**53.3**

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-Dec	end-Sep	end-Dec
	RM billion		
Total External Debt	**1,082.1**	**1,169.4**	**1,144.0**
USD billion equivalent	*259.8*	*252.2*	*260.6*
By instrument			
Bonds and notes[1]	197.2	194.7	176.0
Interbank borrowings[1]	176.7	221.3	218.6
Intragroup loans[1]	144.3	155.7	154.5
Loans[1]	73.7	75.0	75.9
Non-resident holdings of domestic debt securities	255.1	254.3	246.6
Non-resident deposits	99.9	111.4	111.6
IMF allocation of Special Drawing Rights (SDRs)	28.1	28.6	28.2
Others[2]	107.0	128.4	132.8
Maturity profile			
Medium- and long-term	676.3	684.2	662.3
Short-term	405.7	485.2	481.7
Currency denomination			
Ringgit	373.0	377.0	378.7
Foreign	709.1	792.4	765.4
Total debt / GDP (%)	70.0	67.0	64.0
Short-term debt / Total debt (%)	37.5	41.5	42.1
Reserves / Short-term debt (times)	1.2	1.0	1.1[3]

[1] These debt instruments constitute the offshore borrowings.
[2] Comprise trade credits and miscellaneous.
[3] Based on international reserves as at 31 January 2023.

Note: Figures may not add up due to rounding

Source: Ministry of Finance Malaysia and Bank Negara Malaysia

T5 Credit to the Private Non-Financial Sector

	2021	2022		2021	2022	
	4Q	3Q	4Q	4Q	3Q	4Q
	End-period (RM billion)			Annual change (%)		
Total Credit to the Private Non-Financial Sector[1]	**2,492.7**	**2,579.2**	**2,608.8**	**4.2**	**5.3**	**4.7**
Outstanding corporate bonds[2]	526.5	542.9	550.6	4.2	4.0	4.6
Outstanding loans[3,4]	1,966.1	2,036.4	2,058.3	4.2	5.7	4.7
Businesses	722.7	744.5	746.5	4.5	4.8	3.3
SMEs	*348.4*	*362.2*	*366.0*	*5.7*	*6.4*	*5.0*
Non-SMEs	*370.1*	*377.8*	*376.6*	*3.8*	*3.2*	*1.8*
Households	1,243.4	1,291.8	1,311.8	4.0	6.2	5.5
Credit to Businesses[5]	1,249.2	1,287.4	1,297.1	4.4	4.5	3.8

[1] Starting with the 4Q 2022 Quarterly Bulletin, credit to the private non-financial sector is introduced to enhance the quality of data on financing channelled towards the generation of domestic economic activity. This replaces the previous series on net financing to the private sector.
[2] Includes conventional and Islamic short-term papers in addition to longer-term bonds and *sukuk;* excludes issuances by Cagamas, government, financial institutions and non-bank financial institutions.
[3] Loans by the banking system and development financial institutions (DFIs). Refer to the sum of outstanding business and household loans, and excludes loans to government, financial institutions, non-bank financial institutions and other entities.
[4] Excludes loans sold to Cagamas without recourse.
[5] Comprises outstanding loans to businesses and outstanding corporate bonds.
Note: Numbers may not add up due to rounding.

Source: Bank Negara Malaysia

T6 Loan Indicators[1]

	2021	2022			2021	2022		
	4Q	3Q	4Q	Year	4Q	3Q	4Q	Year
	During the period (RM billion)				Annual change (%)			
Total Private Non-Financial Sector[2]								
Loan applications	339.0	402.2	322.7	1,398.4	18.6	53.5	-4.8	16.6
Loan approvals	159.5	217.9	173.5	712.5	6.9	65.1	8.8	26.2
Loan disbursements	500.7	520.3	558.8	2,106.0	10.4	23.7	11.6	16.3
Loan repayments	479.7	532.0	561.8	2,122.6	4.6	27.0	17.1	17.9
Of which:								
Businesses[3]								
Loan applications	112.3	173.9	125.1	540.3	10.6	49.9	11.3	19.0
Loan approvals	65.6	114.1	86.2	334.7	-6.2	51.7	31.3	28.6
Loan disbursements	390.0	402.6	436.7	1,647.6	11.0	18.0	12.0	14.8
Loan repayments	384.3	419.0	445.9	1,677.9	6.9	24.5	16.0	17.6
SMEs								
Loan applications	67.1	85.7	67.2	291.2	17.0	47.8	0.3	13.2
Loan approvals	31.8	49.7	35.8	154.9	-4.7	47.6	12.6	18.7
Loan disbursements	115.4	128.1	129.4	505.1	26.3	34.1	12.1	26.7
Loan repayments	109.8	127.3	125.8	495.6	19.2	32.9	14.6	26.8
Non-SMEs								
Loan applications	45.2	87.2	57.7	247.5	2.5	50.6	27.6	26.1
Loan approvals	33.7	64.0	50.2	179.2	-7.7	54.2	48.9	38.2
Loan disbursements	273.8	273.1	305.5	1,137.0	6.2	11.5	11.6	10.0
Loan repayments	273.7	290.2	318.0	1,176.6	3.4	20.8	16.2	14.1
Households								
Loan applications	226.6	228.2	197.6	858.0	23.0	56.3	-12.8	15.2
Loan approvals	93.9	103.9	87.4	377.8	18.5	83.0	-6.9	24.2
Loan disbursements	110.7	117.7	122.1	458.4	8.6	48.1	10.3	22.0
Loan repayments	95.4	113.0	115.9	444.7	-3.7	37.6	21.4	19.0

[1] Loans for all segments include data from the banking system and development financial institutions (DFIs).
[2] Refer to the sum of outstanding business and household loans, and excludes loans to government, financial institutions, non-bank financial institutions and other entities.
[3] Numbers for SMEs and Non-SMEs may not add up to total businesses given the inclusion of those with no classification by firm size.
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

T7 Banking System Profitability Indicators

	2021	2022			
	4Q	1Q	2Q	3Q	4Q[p]
Return on equity (%)[1]	9.5	10.9	11.8	12.4	12.4
Return on assets (%)[1]	1.1	1.2	1.3	1.4	1.4
	RM million				
Net interest income	14,681	14,794	15,482	16,280	16,168
Add: Fee-based income	3,119	2,922	2,832	2,925	2,899
Less: Operating cost[2]	9,393	8,907	9,230	9,995	10,809
Gross operating profit	8,407	8,809	9,085	9,210	8,258
Less: Impairment[3] and other provisions	2,064	1,191	910	1,657	631
Gross operating profit after provision	6,344	7,618	8,174	7,553	7,627
Add: Other income[1]	2,394	2,008	3,088	4,554	4,185
Pre-tax profit[1]	**8,737**	**9,626**	**11,262**	**12,107**	**11,812**
	Annual change (%)				
Return on equity (percentage points)[1]	1.1	2.6	2.2	2.9	2.9
Return on assets (percentage points)[1]	0.11	0.27	0.20	0.29	0.29
Net interest income	5.6	4.4	5.8	18.7	10.1
Add: Fee-based income	-1.1	-8.4	-1.6	2.2	-7.1
Less: Operating cost[2]	6.4	-22.2	2.6	13.9	15.1
Gross operating profit	2.2	48.8	6.7	18.1	-1.8
Less: Impairment[3] and other provisions	-65.2	-22.8	-57.7	-38.4	-69.4
Gross operating profit after provision	175.9	74.0	28.6	47.9	20.2
Add: Other income[1]	-23.9	-26.2	-4.4	70.1	74.8
Pre-tax profit[1]	**60.5**	**35.6**	**17.5**	**55.5**	**35.2**

[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			
	4Q	1Q	2Q	3Q	4Q[p]
	RM million				
Life Insurance & Family Takaful					
Excess income over outgo[1]	1,048	1,866	-4,139	497	6,383
General Insurance & General Takaful					
Operating profit	354	258	754	955	1,077
Claims ratio (%)	61	63	65	52	52
	Annual change (%)				
Life Insurance & Family Takaful					
Excess income over outgo[1]	-75.9	184.3	-223.2	-77.0	509.3
General Insurance & General Takaful					
Operating profit	-61.3	-63.6	-30.0	3.0	204.0
Claims ratio (percentage points)	8.3	8.6	13.8	0.0	-8.7

[1] Excess income over outgo excludes investment-linked unit funds to reflect the core performance of ITOs' profitability more accurately and thus, may not be directly comparable to the data reported in previous publications.

p Preliminary

Source: Bank Negara Malaysia

T9 Federal Government Finance[1]

	2021		2022p		
	4Q	Year	3Q	4Q	Year
	RM billion				
Revenue	75.9	233.8	83.3	86.7	294.3
Annual growth (%)	*-1.4*	*3.9*	*61.7*	*14.3*	*25.9*
Operating expenditure	63.4	231.5	69.2	93.7	292.7
Annual growth (%)	*18.0*	*3.1*	*36.5*	*47.8*	*26.4*
Current account	**12.5**	**2.3**	**14.1**	**-7.0**	**1.6**
Net development expenditure	13.3	63.3	15.5	24.7	70.2
Annual growth (%)	*-34.2*	*26.3*	*-29.9*	*85.7*	*10.9*
COVID-19 Fund[2]	14.3	37.7	5.6	15.9	31.0
Overall balance	**-15.1**	**-98.7**	**-7.0**	**-47.6**	**-99.6**
Memo:					
Total net expenditure	91.0	332.5	90.3	134.3	393.9
Annual growth (%)	*7.9*	*6.3*	*16.0*	*47.6*	*18.5*
Total Federal Government debt (as at end-period)	979.8	979.8	1074.8	1079.6	1079.6
Domestic Debt	714.0	714.0	808.3	821.4	821.4
External Debt	265.9	265.9	266.5	258.2	258.2
Non-resident holdings of RM-denominated debt	*240.4*	*240.4*	*241.0*	*233.2*	*233.2*
Offshore borrowing	*25.5*	*25.5*	*25.4*	*25.0*	*25.0*

p Preliminary
Note:
[1] Numbers may not add up due to rounding.
[2] 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.

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia