BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PRESS RELEASE

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ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE FOURTH QUARTER OF 2022

Press Conference Presentation Transcript

The global economy moderated further in 4Q 2022

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "In the fourth quarter of 2022, global growth continued to moderate, amid higher interest rates and slower trade activity.

"In addition, China also experienced a severe COVID-19 resurgence which affected its economic activity.

"Meanwhile, global inflation started to moderate amid softer commodity prices and easing supply chains disruptions. However, it remained significantly above average."

Malaysia's GDP grew by 7.0% in 4Q 2022, bringing full year growth to 8.7%

Ketua Perangkawan Malaysia Dato' Sri Dr. Mohd Uzir Mahidin berkata, "Tujuan pembentangan hari ini adalah untuk membentangkan dan memaklumkan prestasi ekonomi bagi Suku Tahun keempat 2022.

"Pada suku keempat 2022, ekonomi Malaysia mencatatkan pertumbuhan 7%, disokong oleh pengembangan berterusan dalam permintaan domestik, pemulihan dalam pasaran buruh, permintaan produk E&E yang berdaya tahan dan pemulihan aktiviti pelancongan.

“Penyederhanaan daripada pertumbuhan tinggi pada suku ketiga 2022 berikutan langkah rangsangan ekonomi yang semakin berkurangan dan juga kesan asas yang rendah pada suku ketiga 2021.

“Bagi keseluruhan tahun 2022, ekonomi Malaysia berkembang pada 8.7%. Pada terma pelarasan musim suku tahun-ke-suku tahun, KDNK merosot 2.6% berbanding pertumbuhan 1.9% pada suku ketiga 2022.”

Chief Statistician of Malaysia Dato’ Sri Dr. Mohd Uzir Mahidin said, “In the fourth quarter of 2022, the Malaysian economy recorded a growth of 7.0%, supported by the continued expansion in domestic demand, sustained recovery in the labour market, resilient demand for E&E products and recovery in tourism activities.

“The moderation from the high growth in the third quarter of 2022 reflects waning support from stimulus measures, and the low base effect from the negative growth in the third quarter of 2021.

“For 2022 as a whole, the Malaysian economy expanded by 8.7%. On a seasonally adjusted quarter-on-quarter basis, GDP declined by 2.6%. It was 1.9% in the third quarter of 2022.”

Continued expansion, albeit at a slower pace, across all economic sectors
Chief Statistician of Malaysia Dato’ Sri Dr. Mohd Uzir Mahidin said, “On the supply side, all sectors continued to expand.

“Growth in the services sector continued to be supported by both consumer- and business-related services, following better labour market conditions and the continued recovery in tourism activities.

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Jalan Dato’ Onn, 50480 Kuala Lumpur, Malaysia.
E-mail: communications@bnm.gov.my
Web: www.bnm.gov.my

“The manufacturing sector was driven mainly by the expansion in E&E cluster, and supported by the primary and consumer clusters, amid higher petrochemical output as well as fulfilment of motor vehicle backlogs.

“The agriculture sector continued to expand as oil palm production benefitted from improved yields following higher rainfall earlier in 2022 and easing labour shortages.

“Growth in the mining sector was supported by sustained production from crude oil and natural gas facilities.

“As for the construction sector, growth was driven mainly by the continued progress of large infrastructure, commercial and industrial projects in the civil engineering and non-residential subsectors.”

Domestic demand supported mainly by private sector expenditure

Chief Statistician of Malaysia Dato’ Sri Dr. Mohd Uzir Mahidin said, “On the demand side, growth was supported by private sector expenditure.

“Private consumption growth was underpinned by improving labour market conditions and policy measures. Spending was driven by consumption of necessities and discretionary items such as transport, housing and utilities, as well as recreational services and culture.

“Growth in private investment was driven by capital spending in both structures and machinery and equipment (M&E) by firms. The expansion in public investment reflects continued capital expenditure by public corporations.

“Public consumption growth remained supported mainly by Government supplies and services spending.

“Net exports of goods and services recorded a stronger growth mainly on account of resilient demand for E&E exports and higher travel receipts.”

Higher current account surplus and FDI inflows

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, "Turning to the balance of payments, the current account recorded a higher surplus of RM25.7 billion, or 5.5% of GDP. This was supported mainly by higher goods surplus, driven by larger moderation in imports relative to exports.

"In addition, the services deficit narrowed due to higher travel receipts of RM27.9 billion following further recovery in tourism activities. Inbound travel which consist of foreign visitors expenditure in Malaysia had reached 33.9 per cent of RM82.1 billion in pre-pandemic level.

"Beside that, higher receipts in Construction and lower payments for Transport also contributed to the smaller deficit in Services.

"Moreover, Primary income recorded a lower deficit of RM11.5 billion during the quarter amid higher income receipt by Malaysian investors abroad.

"Looking at the financial account, FDI recorded a higher net inflow of RM19.3 billion during the quarter due to inflows in debt instruments and continued equity injections by foreign investors. These investments were channelled mainly into the manufacturing sector and non-financial services subsectors particularly in Information and communication. Major FDI receipts are mainly from the United State of America, Switzerland and Singapore.

"Overall in 2022, Malaysia's CAB continued to record a surplus of RM47.2 billion as compared to RM58.7 billion a year ago, representing 2.6 per cent to GDP. Meanwhile, total net FDI inflows amounted to RM73.3 billion, increased by RM25.1 billion as compared to last year (2021: RM48.1 billion; average 2011-2019: RM36.6 billion).

"I would like to recap that Malaysia's overall economic performance expanded by 8.7 per cent in 2022, which is the highest growth since 2000.

"Although the economy in 2022 has surpassed the pre-pandemic level of 2019, three main sectors of the economy are still below the pre-pandemic level - Mining and Quarrying, Construction and Agriculture sectors. In 2021, the number of employed persons for these three sectors was 2.8 million, which was still 0.1 million lesser than pre-pandemic data.

"Food & beverage, Accommodation, Real estate, Business services, Private education and Other services activities were still below pre-pandemic, though the overall Services sector has surpassed what was seen in 2019.

"In 2022, Inbound Travel expenditure increased to RM27.9 billion from RM0.3 billion in the preceding year. However, inbound travel is still below the pre-pandemic levels, with tourist arrival accounting for 26.1 million.

"In comparison, Outbound Travel expenditure increased to RM29.6 billion, more than half of the RM51.3 billion recorded at the pre-pandemic level."

Going forward, domestic demand to remain the key driver of growth amid challenging global environment

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Let's now turn to the outlook for 2023. Overall, the Malaysian economy is expected to grow at a more moderate pace, after coming-off a strong recovery in 2022.

"Global growth is projected to be lower in 2023, due mainly to tighter monetary policy and elevated inflation. But a global recession is not expected.

"Against this challenging global backdrop, domestic demand will remain the key driver of growth supported by continued recovery in the labour market and implementation of investment projects.

"In addition, higher tourism activity will provide support to exports, partially offsetting the effects of slowing global growth.

“These factors will support the continued expansion of the economy. The updated official growth forecast for this year will be announced when Budget 2023 is re-tabled on 24 February.”

Steady increase in employment and wages to remain supportive of spending

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “The labour market continued to strengthen in 4Q 2022 and is expected to remain supportive of domestic demand.

“Employment improved steadily alongside a gradual decline in unemployment and underemployment rates, following continued expansion in economic activity.

“Going forward, indicators suggest that demand for workers remains relatively resilient and would support job creation and income growth in 2023. Job vacancies remained on an increasing trend since 3Q 2021, approaching pre-crisis levels (4Q 2022: 192.4 thousand positions; 4Q 2019: 198 thousand). With continued expansion in employment, wage growth is expected to be forthcoming.”

Continuation of new and existing investment to support growth in 2023

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Going forward, the economy would benefit from the realisation of new and existing projects.

“Recent investment intentions remain forthcoming with approved investments totalling RM194 billion between Jan-Sep 2022. By sector, approved investments were mainly in real estate, information and communications, and electrical and electronics subsectors. The realisation of these approved investments will provide support to growth.

"Investment is also lifted by continued progress in large infrastructure projects, particularly in communication and transport-related subsectors."

Slowdown in export growth following weaker global demand to be partially cushioned by improvement in travel receipts

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "On the external front, exports of goods will be affected by the slowdown in global demand.

"Nevertheless, this will be partly cushioned by improvement in exports of services, given further recovery in tourist arrivals amid the reopening of China's international borders."

Risk to growth: Remains tilted to the downside, arising primarily from external factors

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "The balance of risk to growth remains tilted to the downside, driven by external factors. They include weaker-than-expected global growth, further escalation of geopolitical tensions and re-emergence of significant supply chain disruptions.

"Despite the challenging environment, we do not discount the possibility of growth being higher than expected. Upside risks could stem from stronger pent-up demand in major economies and stronger recovery in the labour market and tourism sector."

Easing trend in global commodity prices have partly translated into lower inflation in many countries

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

"The current environment of high inflation is a global phenomenon. That said, we have started to see some signs of moderation across countries, with inflation

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starting to moderate in several economies. The lower inflation in part reflected the easing cost environment, such as from global commodity prices."

Headline inflation has peaked, but core inflation increased further

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "For Malaysia, headline inflation moderated to 3.9% during the quarter. As expected, the lower headline inflation was largely due to the lapse in the base effect of electricity inflation.

"The moderation was also amid the easing trend in key global commodity prices. Inflation for some key staple food items, such as fresh meat and eggs, also moderated during the quarter.

However, core inflation increased further during the quarter to 4.2% (3Q 2022: 3.7%) amid continued strength in domestic demand.

"For 2022 as a whole, headline and core inflation averaged at elevated levels of 3.3% and 3.0%, respectively."

Underlying inflation continued to be partly driven by demand factors

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Now, I want to spend a bit of time dissecting core inflation.

"As you know, headline inflation is driven by a number of factors. It primarily reflects supply and demand factors, and volatile price items. On the other hand, core inflation is a better proxy of underlying inflation that is affected by demand factors.

"With this in mind, I want to stress 3 points: (1) Our inflation is driven mainly by supply factors. (2) Nevertheless, the persistence of core inflation indicates that demand factors do contribute to underlying price pressures. Unlike past trends, core inflation is taking longer to moderate, amid high cost and demand pressures. (3) The increase in OPR is therefore undertaken to manage the demand pressures, which I'll elaborate in a minute. ”

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

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Over the course of 2023, headline and core inflation are expected to moderate but remain at elevated levels amid lingering cost and demand pressures.

“Core inflation is expected to remain elevated in the near-term, given continued strength in domestic demand. While demand pressures on prices are beginning to ease, we need to closely monitor all relevant indicators to ensure that excess demand does not push inflation higher.

“Existing price controls and fuel subsidies, and remaining spare capacity in the economy, will continue to partly contain the extent of upward pressures to inflation.

“Overall, the balance of risk to the inflation outlook is tilted to the upside. This outlook is subject to changes to domestic policy, for example in subsidy rationalisation, global commodity price developments and supply-related disruptions.”

The OPR was maintained at 2.75% at the recent MPC meeting in January 2023

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Let me now explain our monetary policy. After a series of four OPR adjustments since May 2022, the MPC decided to keep the OPR unchanged at 2.75% at the recent meeting in January 2023.

“As I explained earlier, our current inflation is a combination of both supply and demand factors. While we know that the OPR has a limited influence in addressing cost-push price pressures, it is an important tool to manage demand pressures. We have been seeing these demand pressures since the economy reopened, which contributed to the persistence and pervasiveness of domestic inflation. This has been the challenge of central banks around the world, with some facing pressing demand pressures more than others, hence, the rather aggressive monetary policy tightening in those economies.

“High inflationary pressures are very damaging to the economy and cause even deeper hardships for the rakyat. It would hurt everyone’s purchasing power especially for the lower income group, regardless whether you have a loan or not. The increase in the OPR is intended to moderate demand pressures on prices and thus, inflation.

“But it is important to remember that monetary policy works with a lag and it will take some time before we start to see demand pressures easing. We have moved in a measured and gradual pace, especially when compared to other countries. The decision to maintain the OPR for now allows us to assess the impact of our past OPR adjustments to the inflation and economy. This would give us better clarity on the inflation and economic outlook amid the evolving global economic environment, and how we act next.

“At the current OPR level, our monetary policy remains accommodative and supportive of the economy. We acknowledge the delicate balance between inflation and growth risks, especially in the context of the challenging environment that we are currently facing.

“Going forward, we will continue to closely monitor the strength of domestic demand conditions and the risks to domestic inflation and sustainable growth. Further monetary policy normalisation would be informed by the evolving conditions and their implications to the domestic inflation and growth outlook.”

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Credit growth moderated as loan repayments outpaced disbursements

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Turning to financing conditions, credit to the private non-financial sector grew by 4.7% as at end of the fourth quarter.

"Outstanding business loans expanded by 3.3%, as the growth in loan repayments continued to remain strong, outpacing that of loan disbursements. That said, loan disbursements continued to record sustained growth, particularly for working capital loans, as firms continued to utilise existing credit lines to support their business activity. Investment-related 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%. Growth in loan repayments continued to be sustained, while loan disbursements grew at a relatively slower pace. The more moderate growth in loan disbursements (10.3%; 3Q 2022: 48.1%) reflected lower growth in loan applications (-12.8%; 3Q 2022: 56.3%), particularly for the purchase of houses."

Financing remains accessible to SMEs in 4Q 2022

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Financing by banks and DFIs continued to support the ongoing recovery of SMEs in the fourth quarter, with sustained growth in outstanding financing at 5%.

"Financing approvals and disbursements remained robust, sustaining above quarterly levels last year. Disbursements, in particular, was exceptionally strong throughout 2022, registering double-digit growth in all quarters, albeit moderating slightly to 12.1% in the fourth quarter. Repayments, too, remained intact on the aggregate level."

Domestic financial conditions eased, driven by slower tightening of global monetary policy and positive sentiments over the reopening of China

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “In the fourth quarter of 2022, the domestic financial conditions eased following a slower pace of global monetary policy tightening, along with indications that inflation has peaked, especially in the US.

“Meanwhile, global investor risk sentiment improved, supported by the earlier-than-expected reopening of the Chinese economy. This is demonstrated by the 10-year Malaysian government bond yields declining 34 basis points and the FBM KLCI gaining 7%.”

The ringgit appreciated towards end-2022

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Since November 2022, the strength in the US dollar moderated as market participants adjusted their expectations towards smaller interest rate increases by the US Federal Reserve.

“Reflecting these global developments, the ringgit along with most regional currencies, have since appreciated against the US dollar.

“So far in 2023, the ringgit remained on this appreciation path with a YTD adjustment of 2.4%. The performance of the ringgit against the currencies of our major trade partners has also remained broadly stable.

“Moving forward, the Bank will continue to monitor developments and ensure orderly market conditions to support financial intermediation and economic activity.”

Banks remain well-positioned to support financial intermediation needs

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Turning now to the banking system. On this, I want to highlight that the banking system will continue to play an important role in supporting growth in 2023.

"Owing to their financial strength backed by high levels of capital and liquidity buffers, banks remain well-positioned to support the financing needs of the domestic economy.

"Banks also maintain sufficient provisions against potential credit losses given some household, corporate and SME borrowers remain vulnerable in the current environment of elevated costs and softer growth outlook."

Households are generally resilient to increases in borrowing costs amid improving labour market conditions and continued availability of assistance

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Improving labour market conditions and the continued availability of assistance for borrowers has supported household borrowers in facing higher borrowing cost.

"Based on a conservative simulation, household impairments are only expected to increase marginally from further increases in borrowing costs. Only 0.1ppt of the increase in impairments are expected to arise from simulated OPR increases. Instead, the uneven nature of economic recovery plays a stronger role in driving loan defaults.

"Going forward, the improving economic outlook and employment prospects will continue to be of greater significance in supporting household debt servicing capacity.

"Naturally some borrowers will continue to face financial distress. Assistance remains available for such borrowers in the form of customised repayment programmes from banks and AKPK to ensure these borrowers can sustainably service their loans over the longer-term."

Summary

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Let me now conclude the briefing by reiterating a few key highlights.

“The Malaysian economy expanded by 7.0% in the fourth quarter of 2022, supported by continued expansion in private consumption and investments, improving labour market conditions, resilient demand for E&E goods and recovery in tourism activities. Overall for 2022, the economy recorded a strong growth of 8.7%.

“Meanwhile, headline and core inflation averaged 3.3% and 3.0% respectively for the year. Over the course of 2023, headline and core inflation are expected to moderate but remain at elevated levels amid lingering cost and demand pressures.

“For 2023 growth, domestic demand will remain as key driver of growth given the slowing global demand. I wish to stress that Malaysia will not go into a recession this year.

“However, highly challenging and uncertain global environment will remain the key risk to domestic growth going forward.”

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Jalan Dato’ Onn, 50480 Kuala Lumpur, Malaysia.
E-mail: communications@bnm.gov.my
Web: www.bnm.gov.my