Sidang Akhbar

Prestasi Ekonomi Suku Kedua Tahun 2018

Gabenor
Bank Negara Malaysia

17 Ogos 2018

Sidang akhbar akan meliputi:

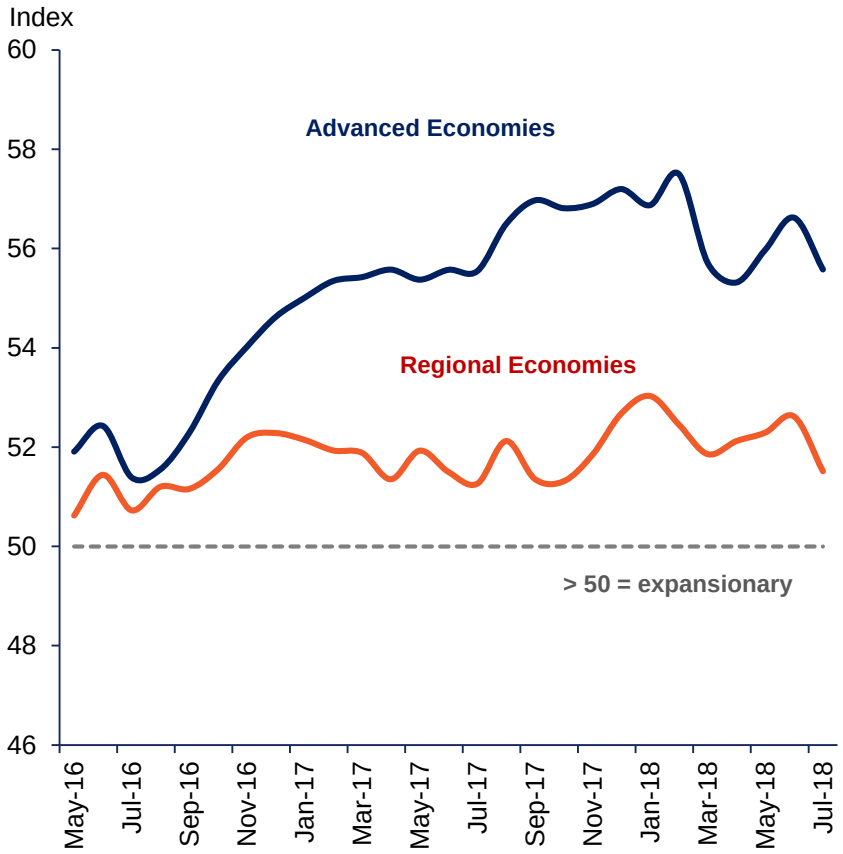
Prestasi ekonomi pada suku kedua tahun 2018

Perkembangan monetari dan kewangan

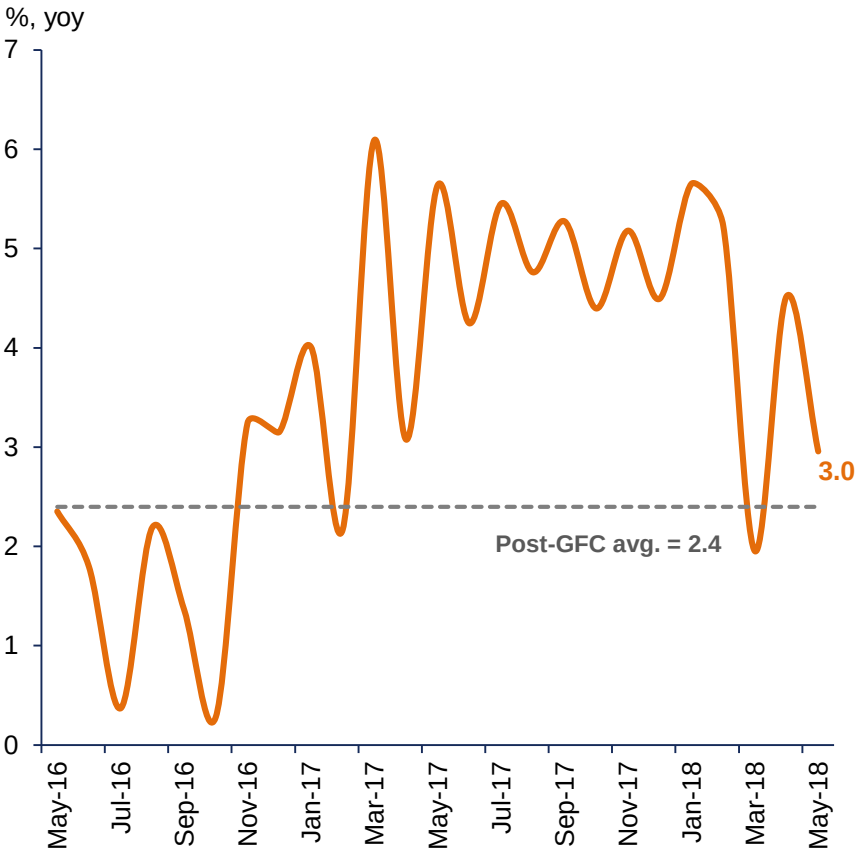
Isu khas dan inisiatif dasar Bank Negara Malaysia

High-frequency indicators continued to show further global expansion, albeit at a more moderate pace

Global Composite PMI (Manufacturing and Services)



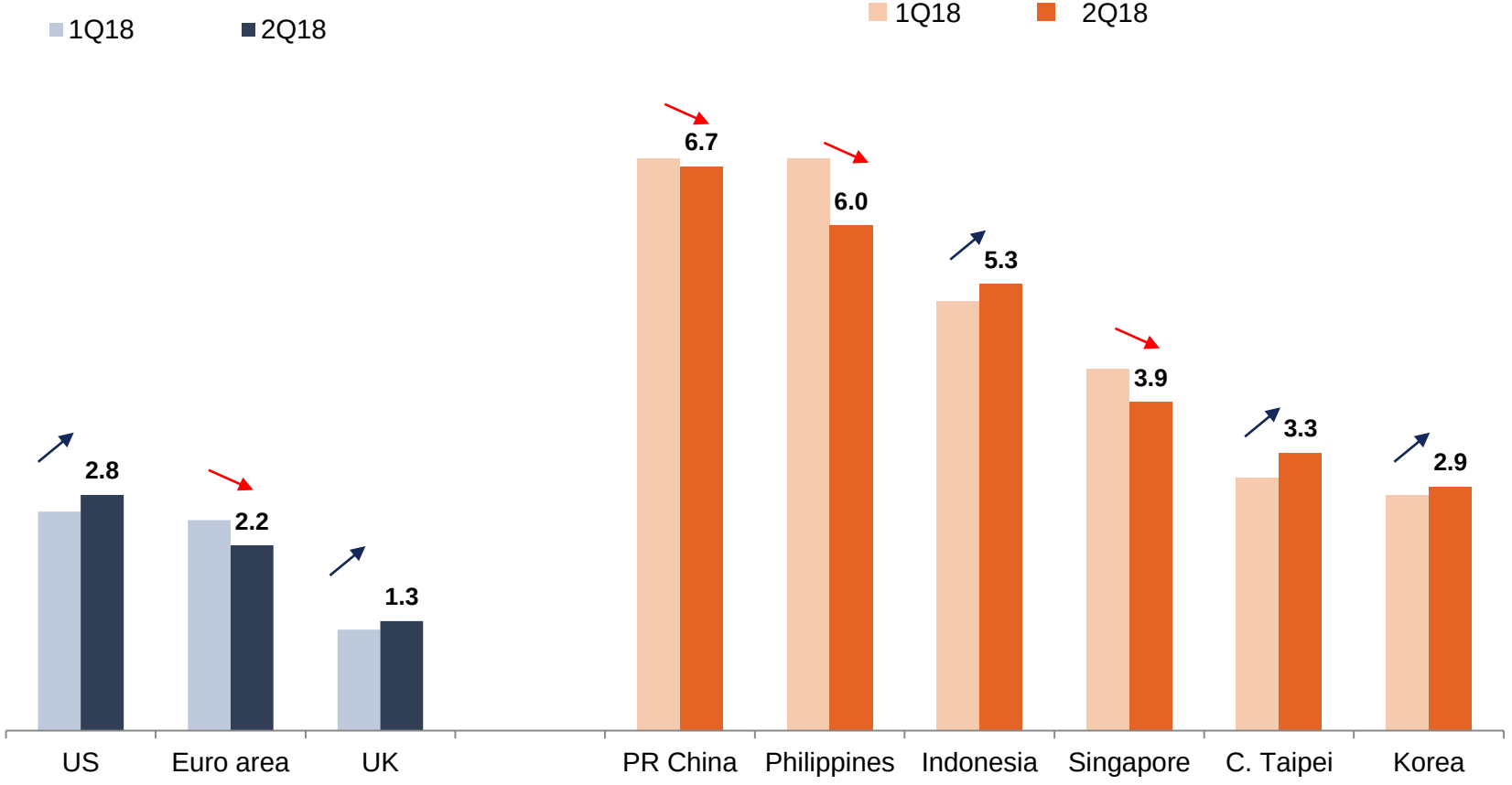
World Export Volume



Source: Macrobond, Haver, Bloomberg, staff estimates

Importantly, GDP outturns in 2Q18 suggested less synchronous growth across the advanced and regional economies

Advanced Economies
GDP, Annual change (%)



Regional Economies
GDP, Annual change (%)

Source: National Authorities, Haver

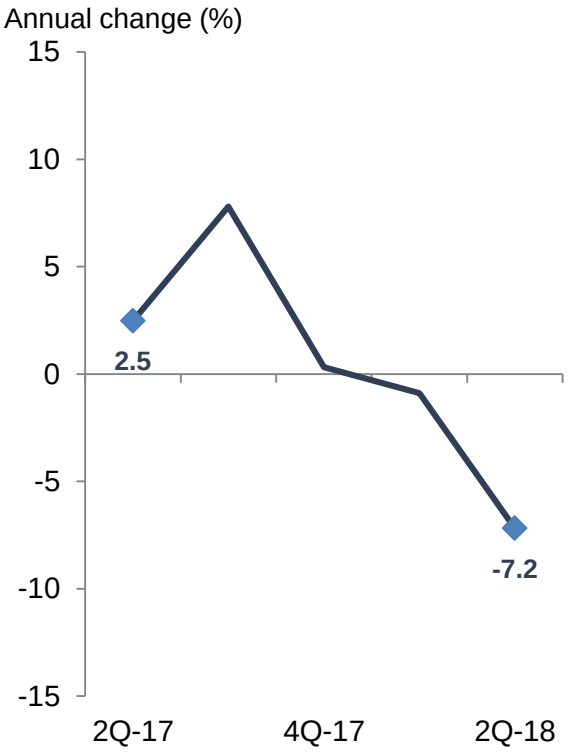
Key domestic economic developments in 2Q 2018

News dominating mainstream media in 2Q 2018

- **14th General Election**
- **Tax Holiday**
- **Positive sentiments**

Declining natural gas production

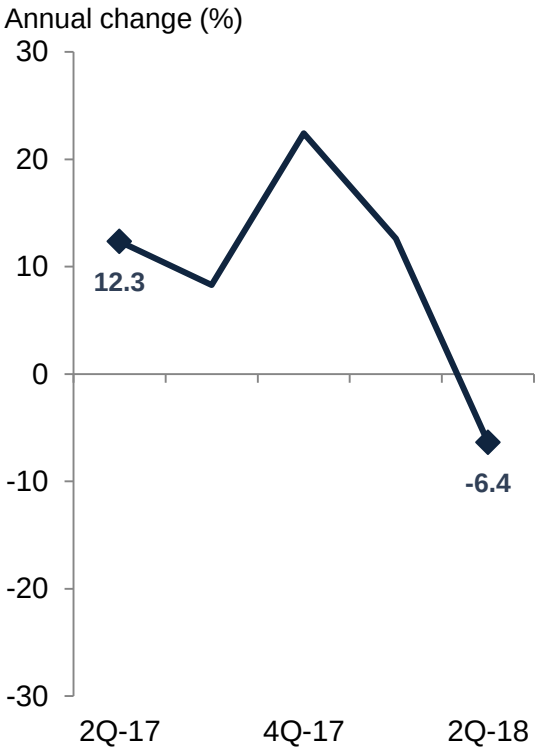
Natural Gas* IPI



*Natural gas accounts for 46% of mining sector's Value Added
Source: Department of Statistics, Malaysia

Weak crude palm oil production

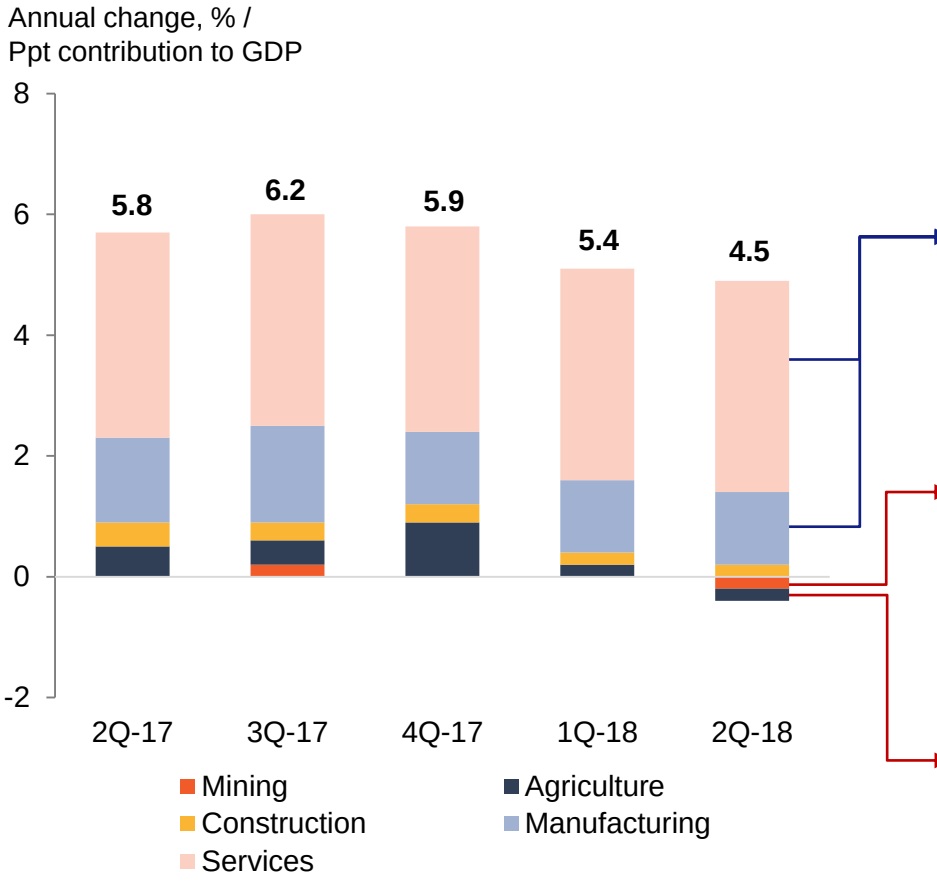
Crude Palm Oil* IPI



*CPO accounts for 47% of agriculture sector's Value Added
Source: Department of Statistics, Malaysia

Malaysia: Slower growth of 4.5% in 2Q 2018

On the supply side, services and manufacturing sectors remained the key drivers of growth



% qoq sa	2Q 17	3Q 17	4Q 17	1Q 18	2Q 18
	1.3	1.7	1.0	1.4	0.3

Growth was affected by commodity-specific shocks in the mining and agriculture sectors

Services & Manufacturing: Continued strength

- *Strong consumer spending following tax holiday*
- *Continued demand for E&E and consumer-related products*

Mining: Declining natural gas production

- *Supply outages in East Malaysia*

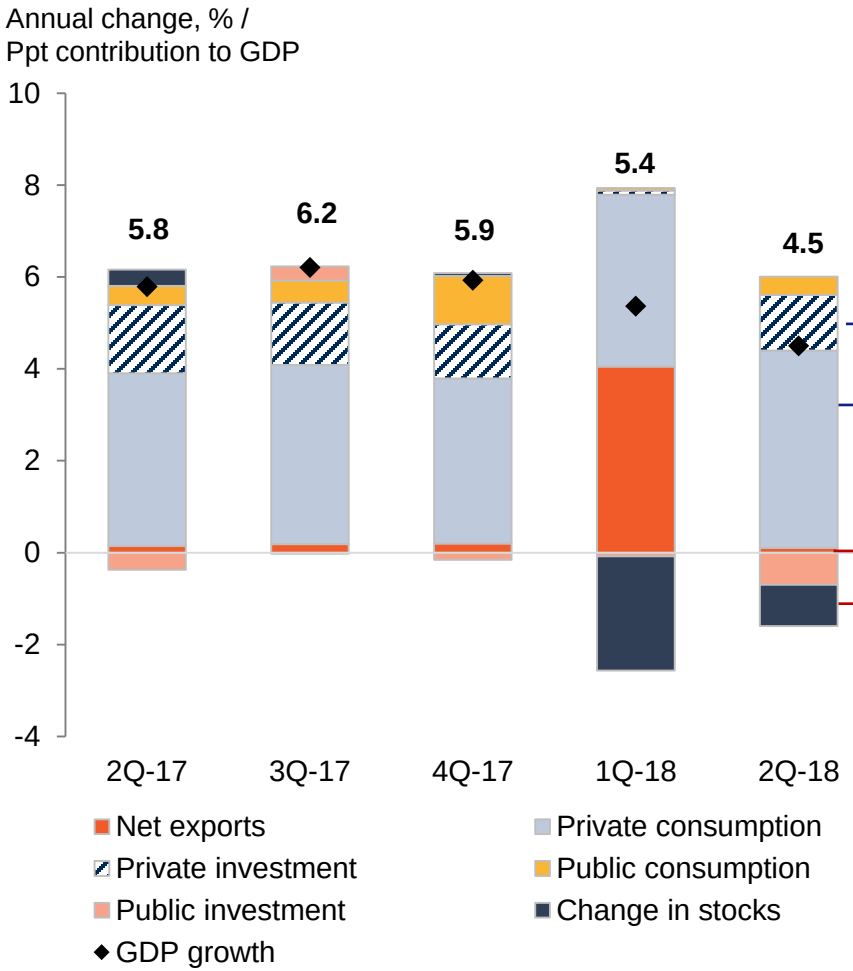
Agriculture: Weak CPO production

- *Supply constraints (Fewer work days, labour shortages)*
- *Adverse weather conditions*

Source: Department of Statistics, Malaysia

On the demand side, the production weakness is reflected in lower net exports, while public investment contracted

Growth in 2Q 2018 was supported by private sector spending…



…but weighed down by net exports and public investment

Strong private sector expenditure

- *Positive consumer and business sentiments*
- *Favourable labour market conditions*

Lower support from net exports

- *Weak commodity exports*

Contraction in public investment

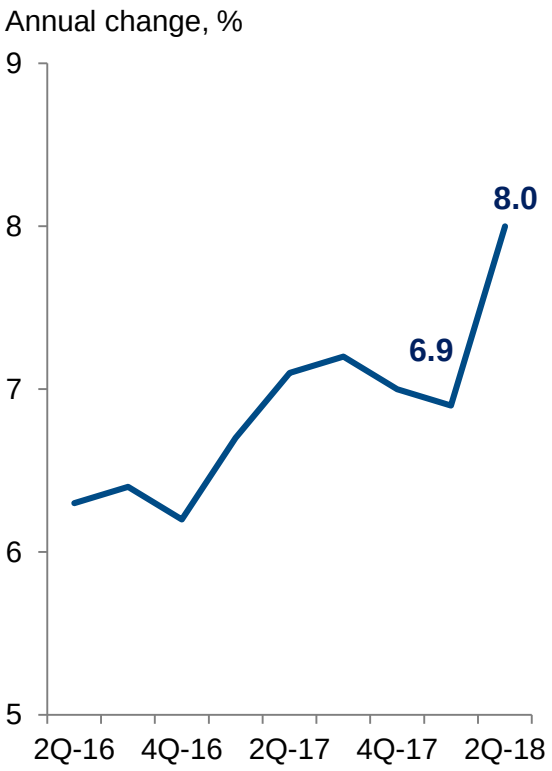
- *Weaker investment as some large projects near completion*
- *Contraction in development expenditure due to transition in government*

Source: Department of Statistics, Malaysia

Private consumption grew strongly by 8.0%, supported by continued income growth and better sentiments

Higher household spending in 2Q

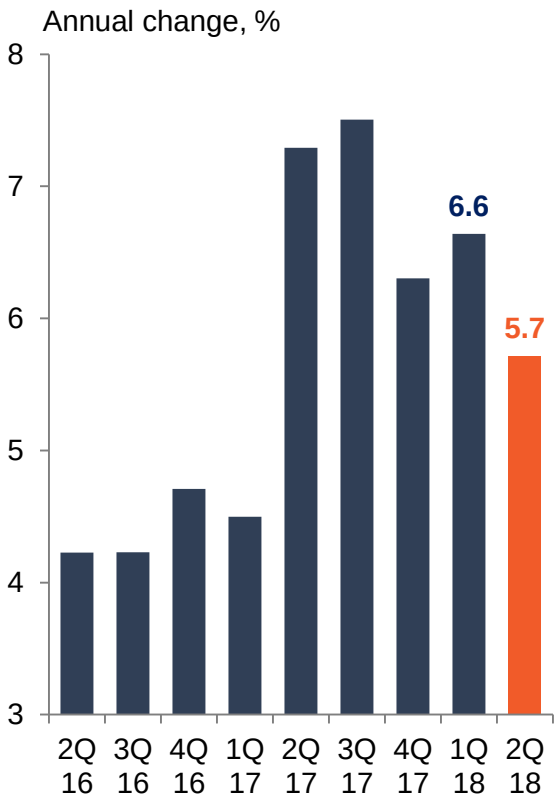
Real Private Consumption Growth



Source: Department of Statistics, Malysia

Continued private sector wage growth

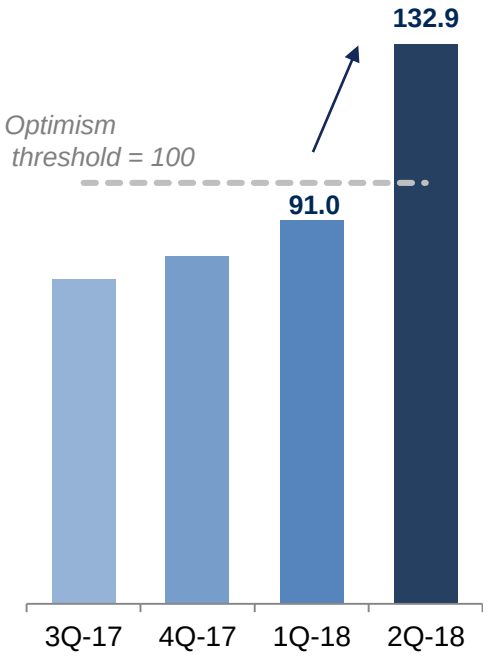
Private Sector* Wage Growth



*Private sector wages is derived from the salaries and wages data published in the Monthly Manufacturing Statistics and Quarterly Services Statistics by the Department of Statistics Malaysia

Consumer sentiments highest in two decades

MIER Consumer Sentiments Index
Points



Higher private investment growth at 6.1% amid continued high capacity utilisation

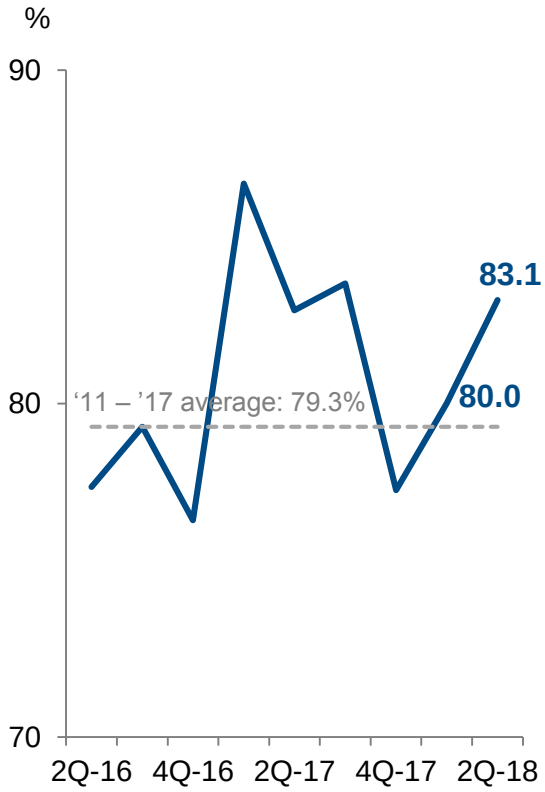
Private investment trended higher

Real Private Investment Growth



Capacity utilisation remained elevated

MIER Capacity Utilisation Rate



Going forward, investment activity to be supported by:

- Implementation of ongoing projects
- Support from external and domestic demand conditions

Source: Department of Statistics, Malaysia, MIER

Gross exports continued to expand in 2Q 2018

Expansion supported by manufacturing exports

External Trade (Annual change, %)	Share, % (2017)	2017	2018		
		4Q	1Q	2Q	1H
Gross exports	***100***	**12.4**	**5.8**	**8.2**	**7.0**
Domestic exports[1]	***85***	**11.1**	**-0.7**	**0.2**	**-0.2**
Manufacturing	*83*	14.2	8.2	10.6	9.4
E&E	*37*	*14.7*	*11.8*	*9.8*	*10.8*
Non-E&E	*46*	*13.7*	*5.5*	*11.3*	*8.4*
Commodities	*16*	4.3	-4.8	-3.7	-4.3
Gross imports	***100***	**14.4**	**-0.8**	**7.7**	**3.4**
Intermediate	*57*	*9.0*	*-10.5*	*-4.7*	*-7.6*
Capital	*14*	*17.1*	*-13.0*	*5.7*	*-4.3*
Consumption	*8*	*4.7*	*2.3*	*-2.8*	*-0.4*
Others	*21*	*32.4*	*37.3*	*51.3*	*44.3*
Trade balance (RM bil)	-	**27.7**	**33.4**	**27.2**	**60.6**

Going forward, export performance is expected to remain firm



Continued demand from major trade partners
(United States, regional economies)



Support from global technology cycle
(e.g. Internet of things, Automotive)



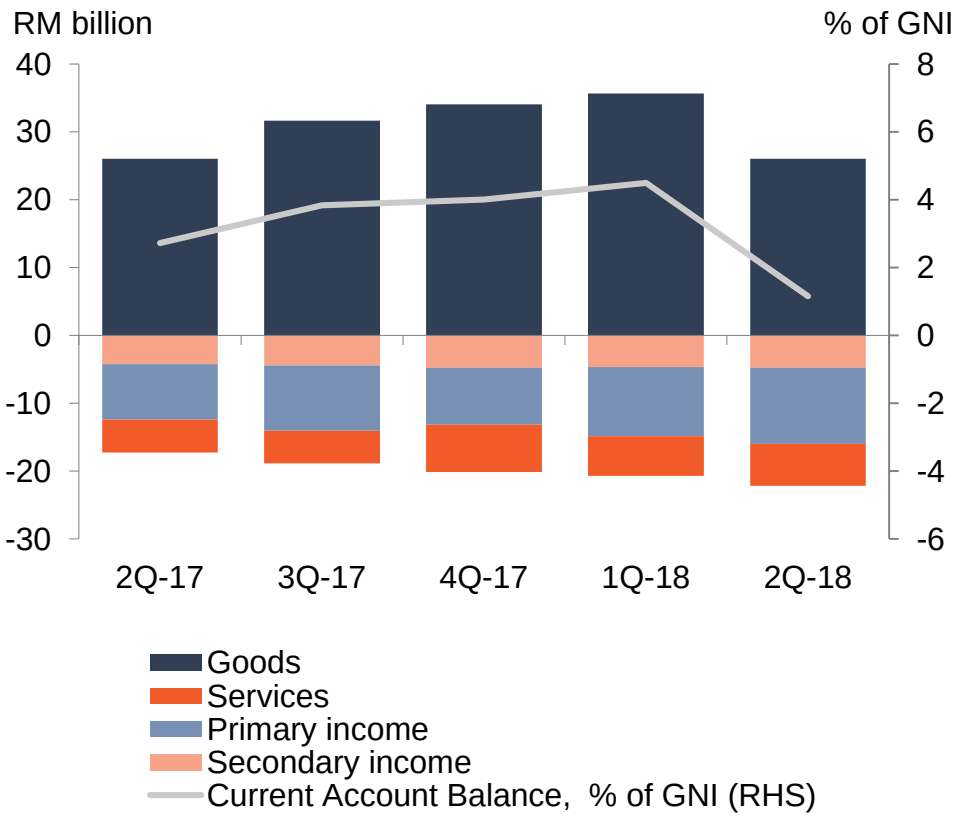
Expanded production capacity
(E&E and primary-related manufacturing)

[1] Domestic exports is defined as gross exports excluding re-exports. This is a newly published time series data by the Department of Statistics Malaysia.
Source: Department of Statistics, Malaysia

Current account registered a surplus of RM3.9 billion

Current account supported by goods surplus

Current account balance



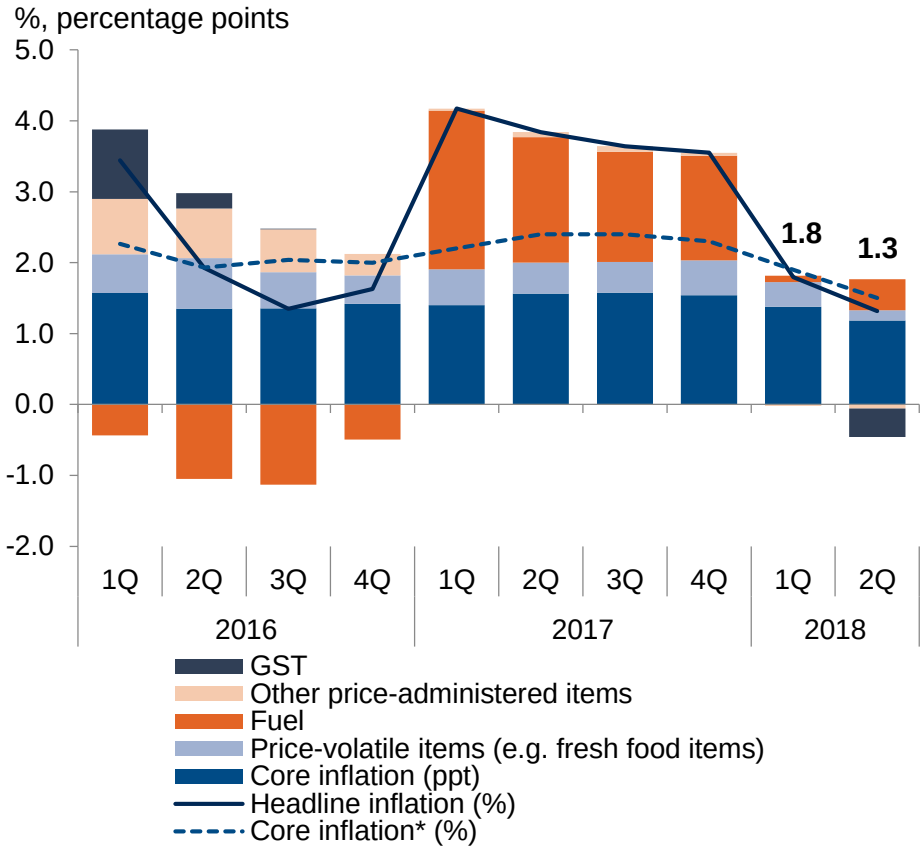
Source: Department of Statistics, Malaysia

Current account to remain in surplus going forward

- **Sustained goods surplus**
  - Continued global demand and support from commodity exports
- **Services and income accounts to remain in deficit**
  - Continued reliance on foreign service providers
  - Sizeable income accrued to foreign investors

Headline inflation declined in the second quarter

Contribution to Headline Inflation by Component



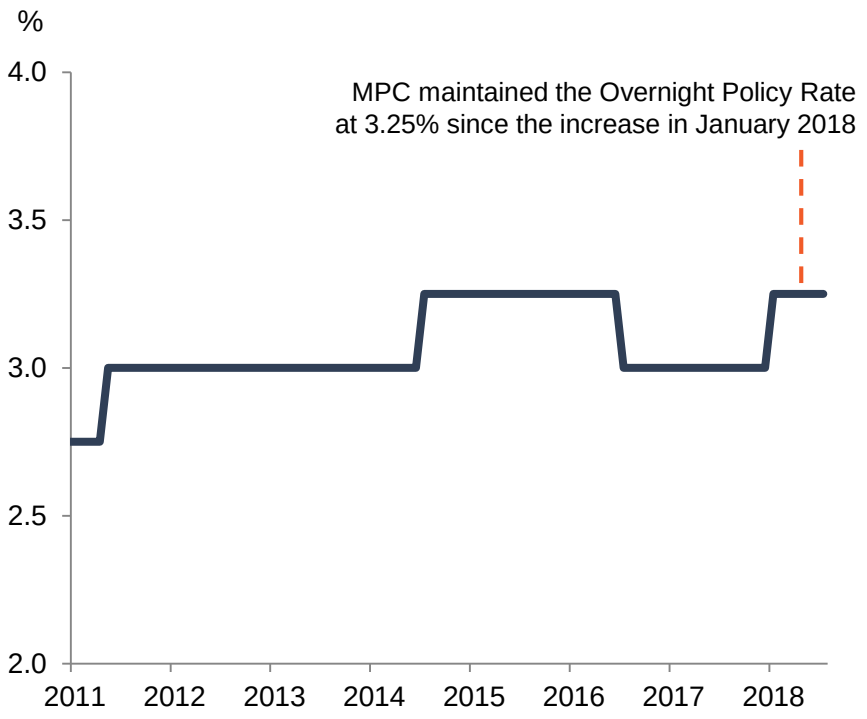
*Note: Core inflation, which is a measure of underlying inflation, excludes the estimated direct impact of the GST zerorisation

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

- **The decline in inflation due to the zerorisation of the GST was offset by higher fuel inflation**
- **Headline inflation is expected to moderate in 2018**
- **Underlying inflation is expected to remain stable**

Monetary policy remains accommodative

Overnight Policy Rate

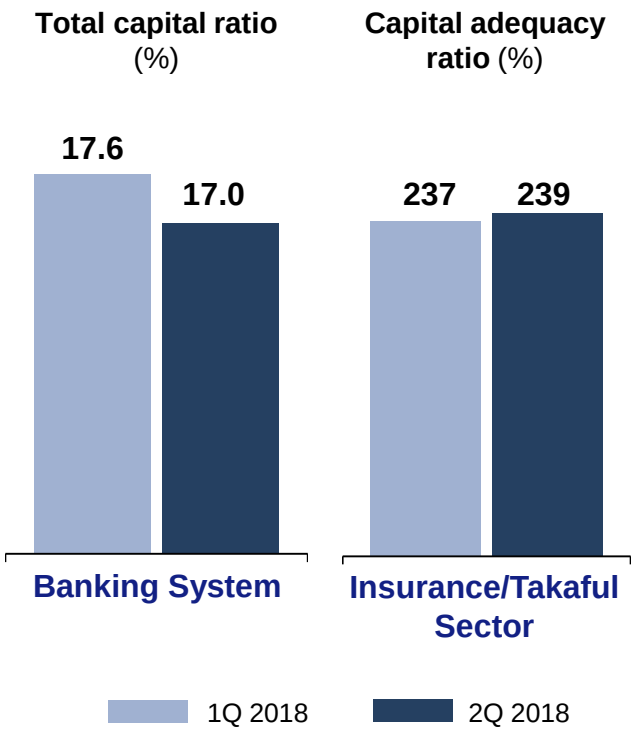


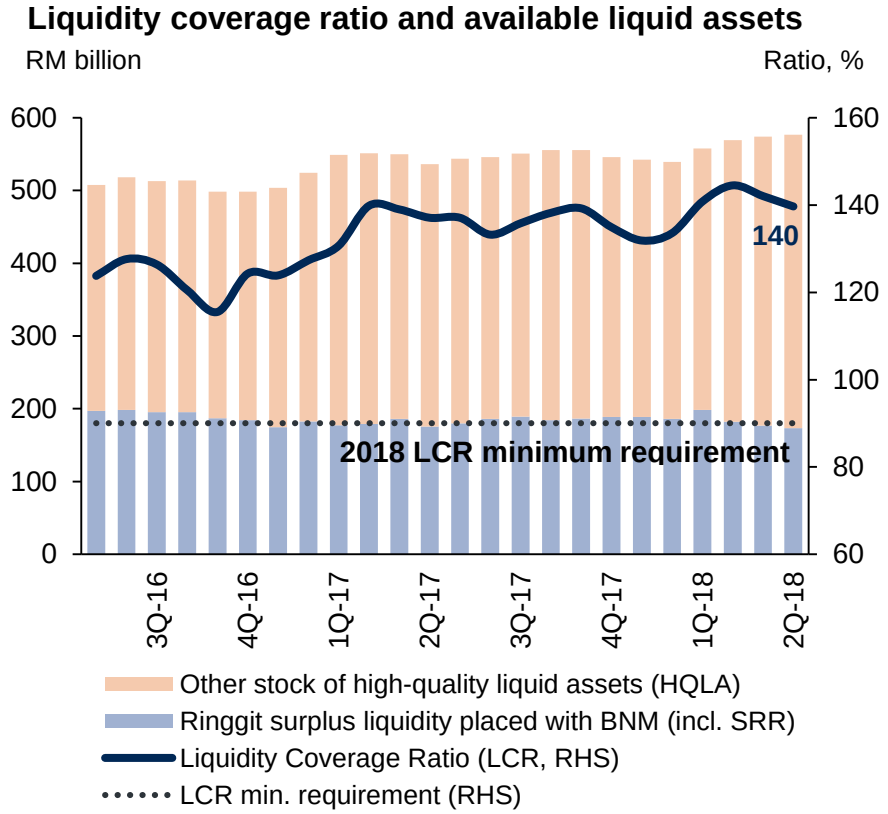
- **The MPC maintained the policy rate in May and July**
  - Malaysia's growth prospects remain firm, supported mainly by domestic demand
  - Lower headline inflation to be temporary, due to impact of policy measures
- **Monetary operations continue to ensure sufficient liquidity**
  - Orderly functioning of money and foreign exchange markets
  - Stable financial intermediation supporting economic activity

Source: Bank Negara Malaysia

Sustained resilience of financial institutions continued to support domestic financial stability

Financial institutions remained well-capitalised, with sufficient liquidity to support intermediation





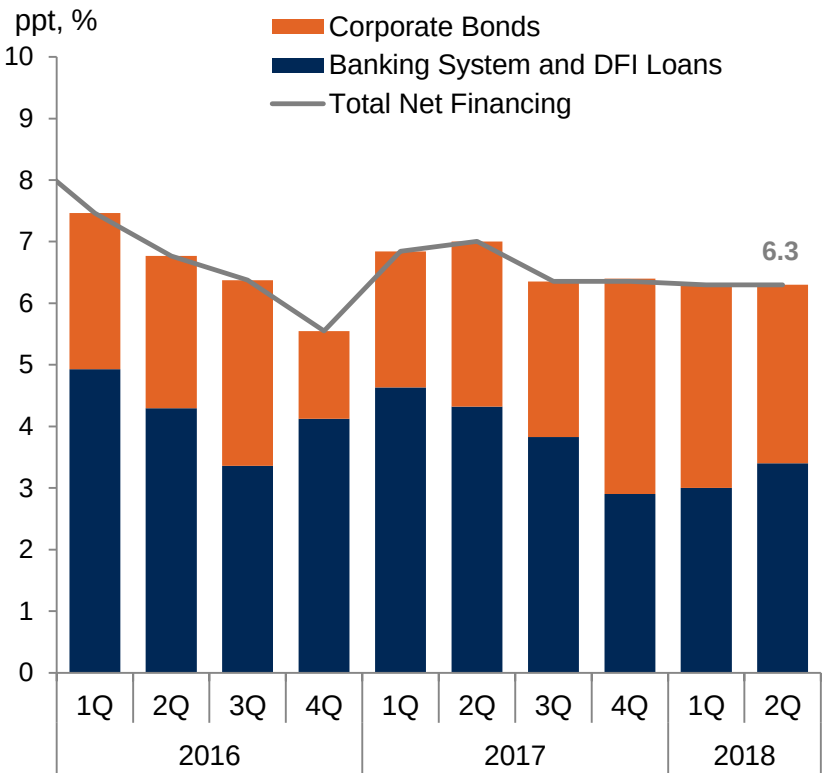
Stress tests conducted by the Bank affirmed banks' and insurers' resilience to withstand severe shocks under adverse macroeconomic and financial conditions

Source: Bank Negara Malaysia

Growth of net financing remained supportive of economic activity

Financing to the private sector was sustained during the quarter

Contribution to Net Financing Growth*

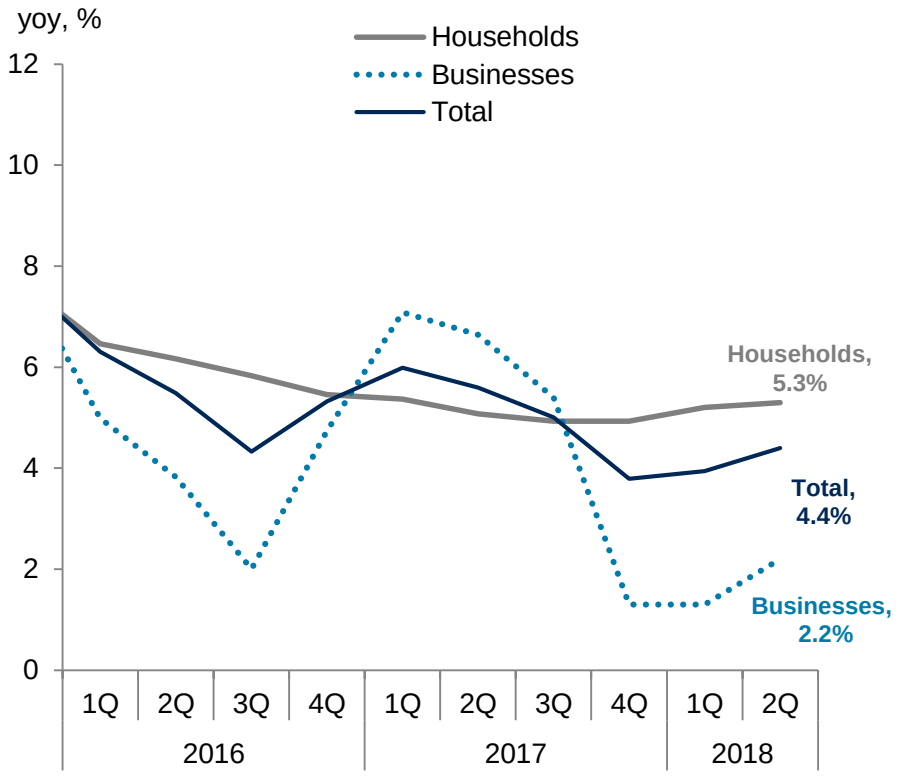


*Net financing comprises outstanding banking system and DFIs loans; and outstanding corporate bonds

Source: Bank Negara Malaysia

Increase in growth of outstanding loans driven mainly by loans to businesses

Outstanding Banking System and DFIs Loan Growth by Borrowers

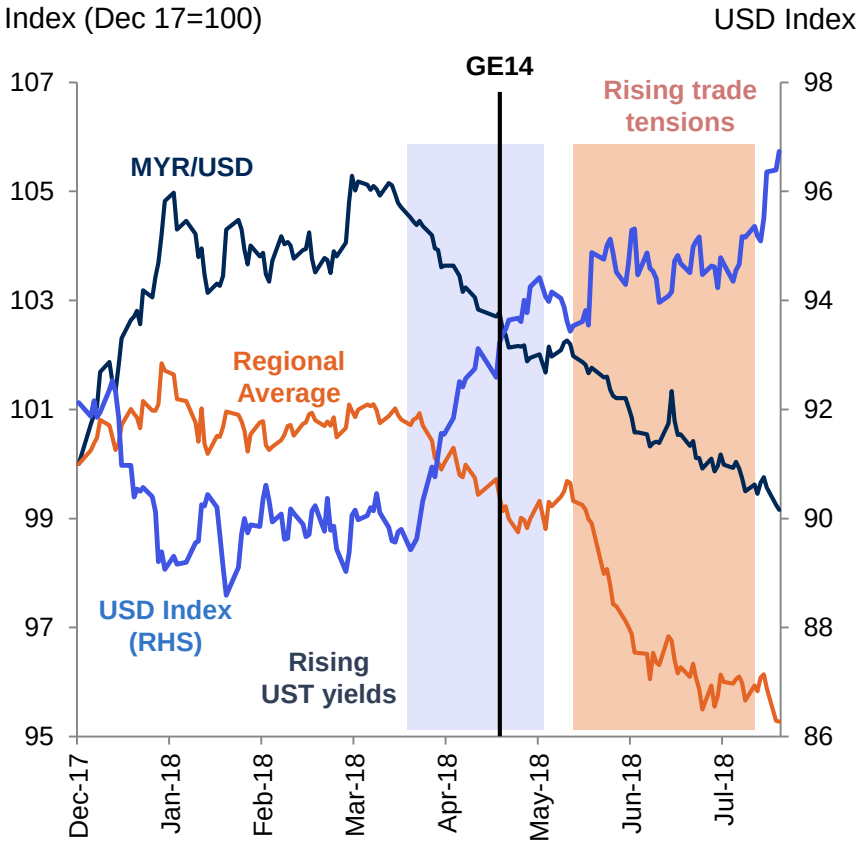


Source: Bank Negara Malaysia

The ringgit depreciated against the US dollar in the second quarter

Ringgit depreciation since April driven mainly by external factors

Performance of Regional Currencies against USD

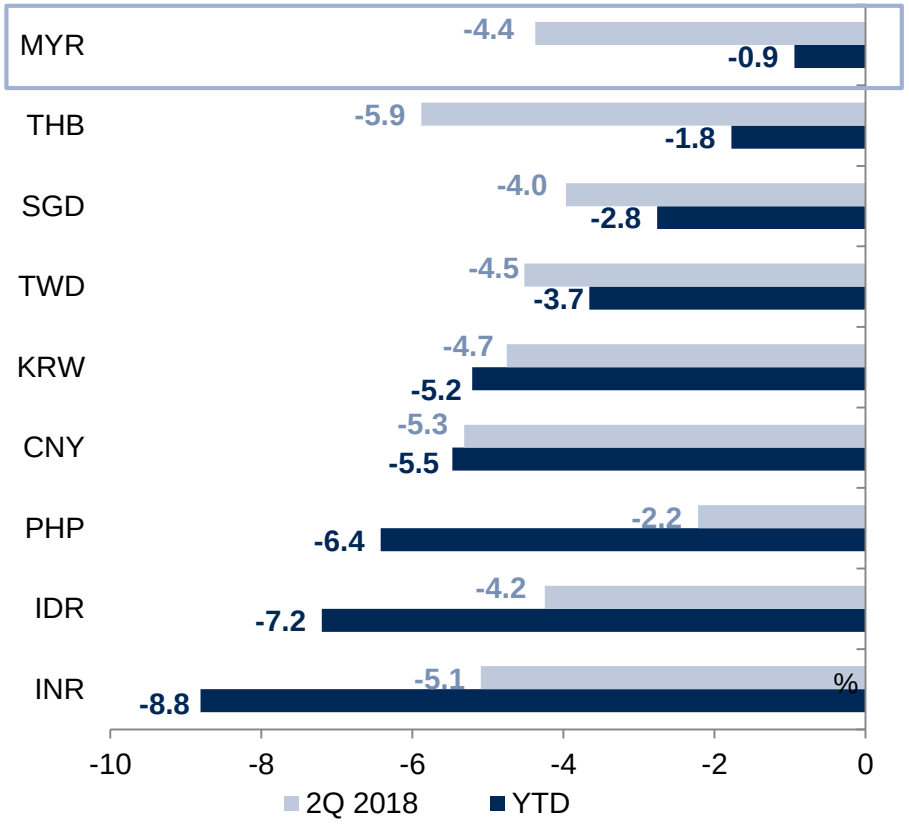


Note: Regional countries include Thailand, Indonesia, South Korea, Singapore, China and Philippines

Source: Bank Negara Malaysia, Bloomberg

The ringgit was, however, more resilient compared to regional currencies in 2018

Performance of Selected Regional Currencies Against USD

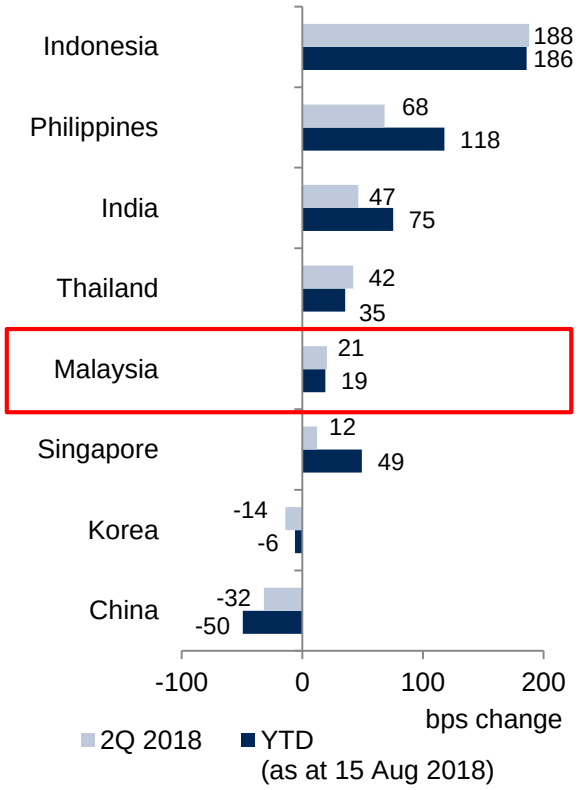


Source: Bank Negara Malaysia

Financial conditions remained stable despite sizeable outflows

Bond market was resilient amid support from domestic institutional investors

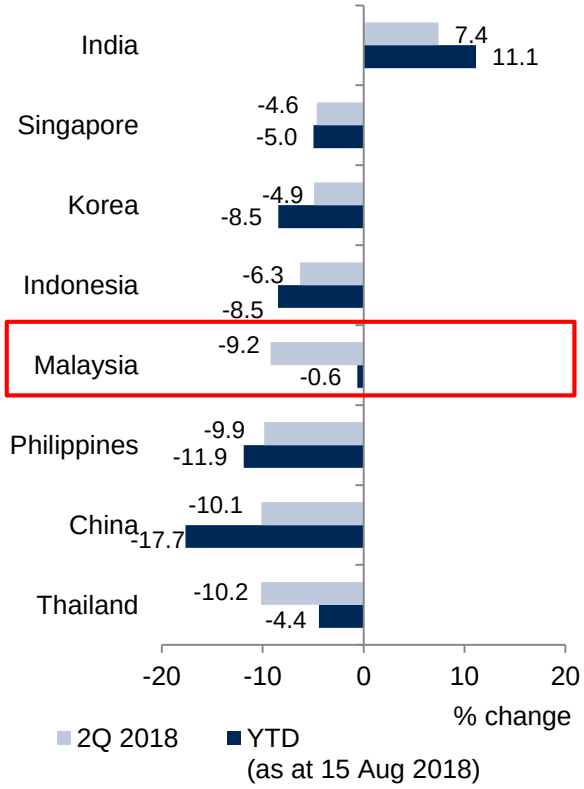
Regional 5-year Sovereign Bond Yield



Source: Bloomberg

KLCI performance in line with regional indices; decline was sector-specific

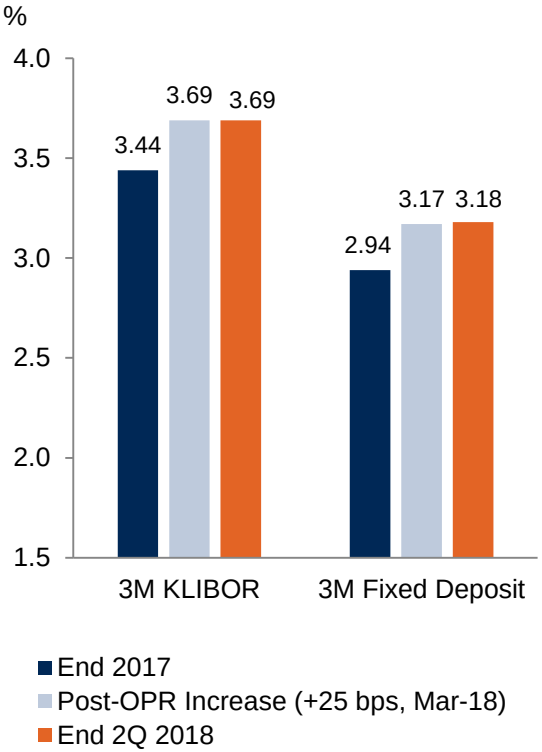
Regional Equity



Source: Bloomberg

Wholesale and retail rates remained stable

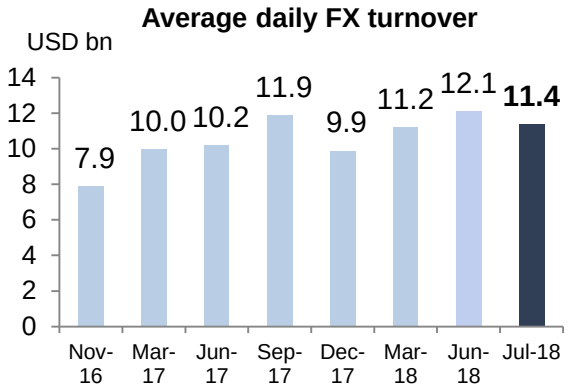
KLIBOR and Fixed Deposit Rates



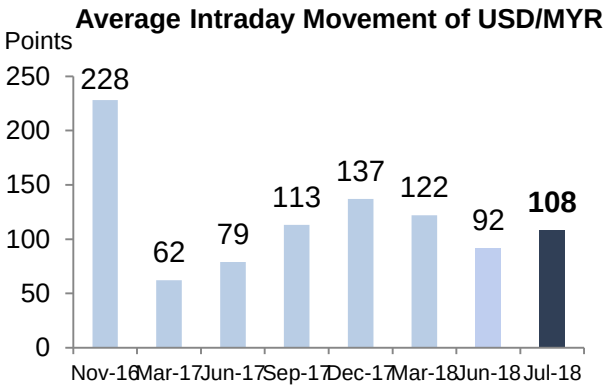
Source: Bank Negara Malaysia

A more effective FX intermediation onshore promotes market stability

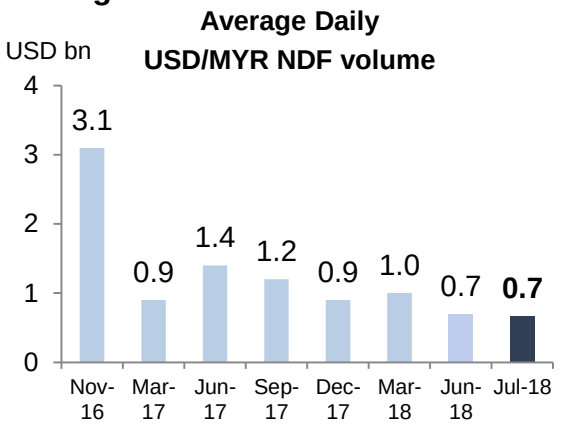
Onshore volume continues to show improvements



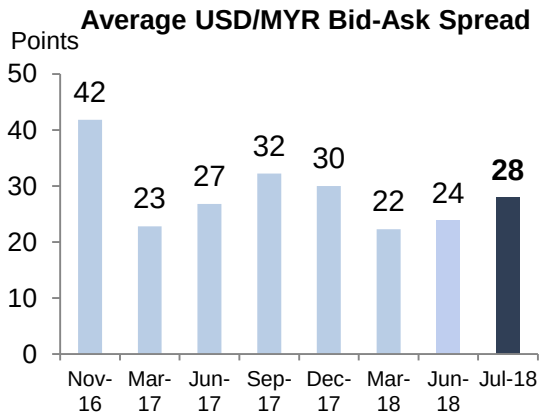
Efficient price discovery ensures stability in USD/MYR movement



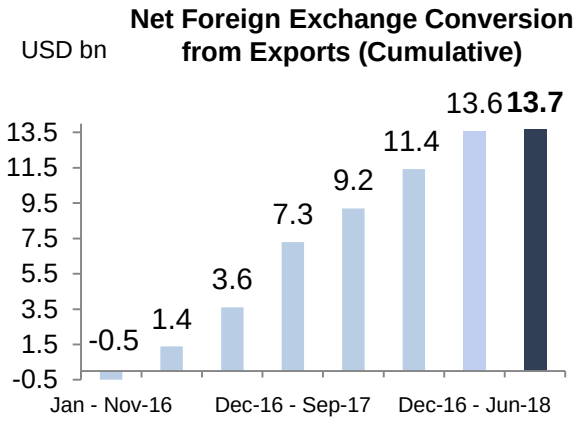
Lower impact from offshore market following decline in volume transacted



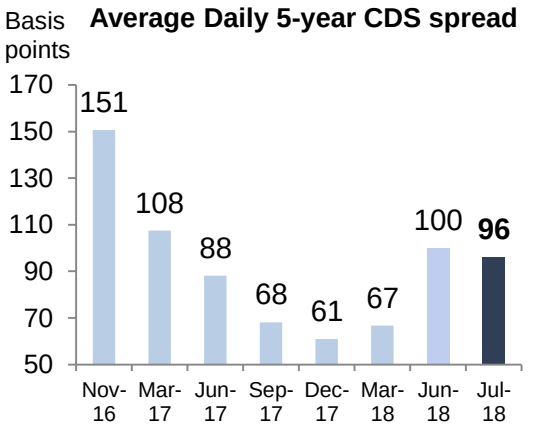
FX transaction cost remains stable for market participants



Increasing influence of real sector on foreign currency demand and supply



Global uncertainties have led to an increase in sovereign credit spread

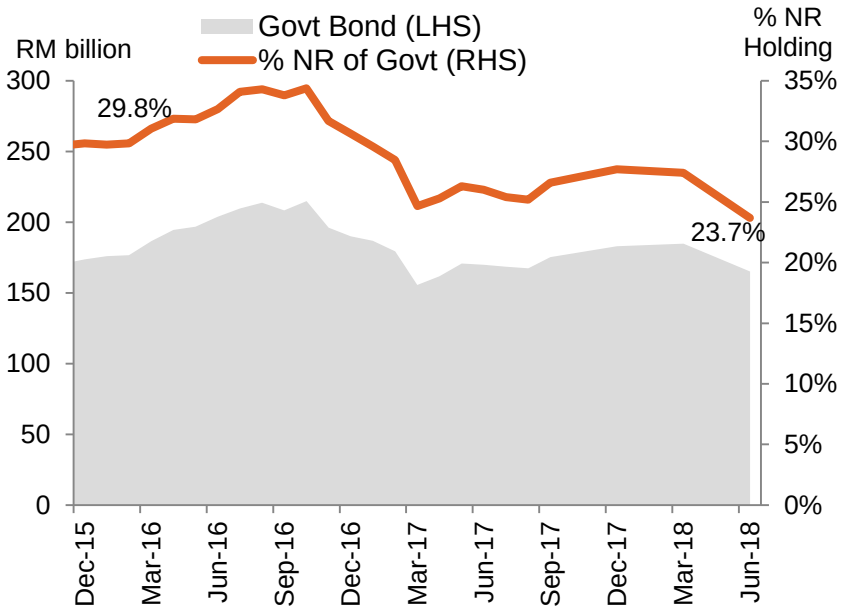


Note: Volatility refers to the difference between USD/MYR interbank intraday highest and lowest rate.
Offshore rate refers to the NDF 1-month rate while onshore rate refers to the spot rate.
Source: Bank Negara Malaysia, Bloomberg

Non-resident holdings of Malaysian government bonds declined in 2Q 2018 amidst Fed rate hike expectations and global uncertainties

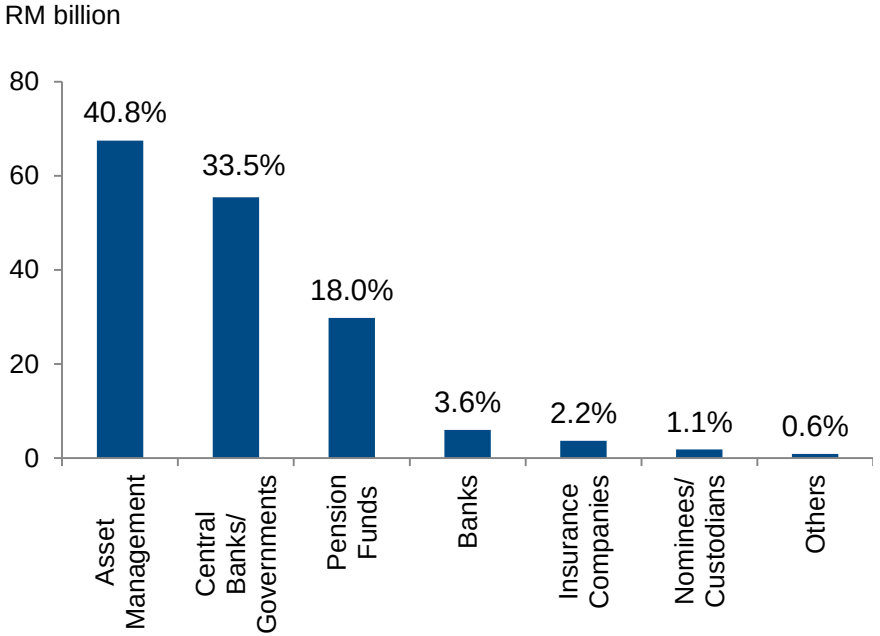
Non-resident holdings of Malaysian Government bonds stood at 23.7% as at end-Jun 2018

Non-resident Holdings of Malaysian Government Bonds



Long-term investors (asset managers, central banks and pension funds) remain key holders of the Malaysian government bonds

Distribution of Non-resident Holdings of Government Bonds as at end-Jun 2018



Source: Bank Negara Malaysia

Note:

- Malaysian Government Bonds includes Malaysian Government Securities (MGS), Malaysian Government Investment Issues (MGII), and Sukuk Perumahan Kerajaan (SPK).
- 'Others' include individuals, non-financial corporations and unidentified sectors

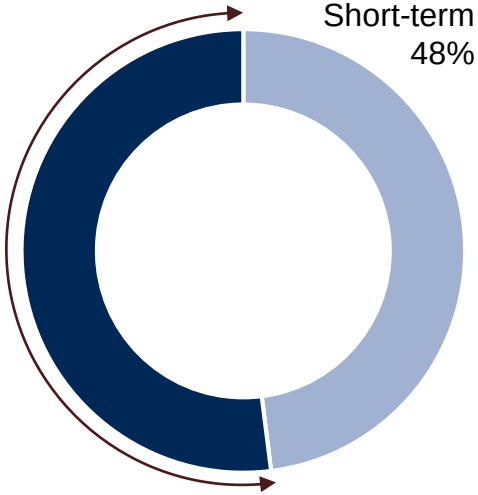
External debt remains manageable

Limited rollover risk as more than half is skewed towards medium- to long-term tenures

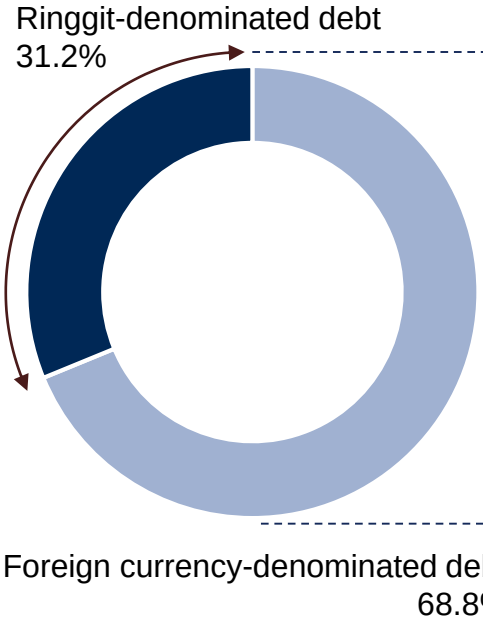
Close to a third is denominated in ringgit and not subject to valuation changes

FX debt are mostly subjected to either prudential safeguards or flexible terms

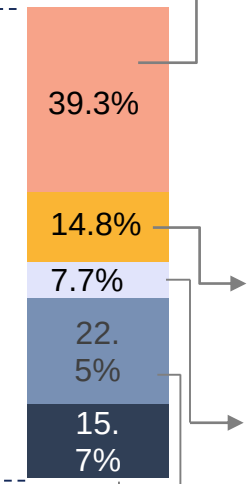
Breakdown of Malaysia's External Debt by Maturity in 2Q 2018
(End-2Q 2018: RM 936.5bn; % share)



Breakdown of Malaysia's External Debt by Currency in 2Q 2018
(End-2Q 2018: RM 936.5bn; % share)



Breakdown of Malaysia's foreign-currency denominated external debt in 2Q 2018 (% share)



Interbank borrowing (33.6%) and non-resident deposits (5.7%)

- *Prudent liquidity management including limits on funding and maturity mismatches*

Intercompany loans

- *Flexible/concessionary terms*

Trade credits

- *Backed by export earnings*

Bonds and notes

- *Mainly for investment abroad that will raise future income*

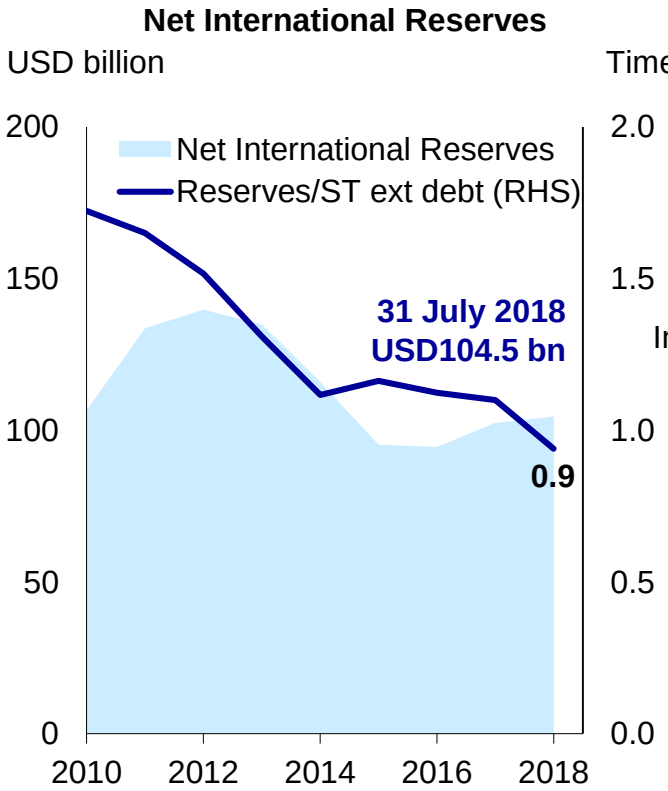
Others

Note: Numbers may not add up due to rounding

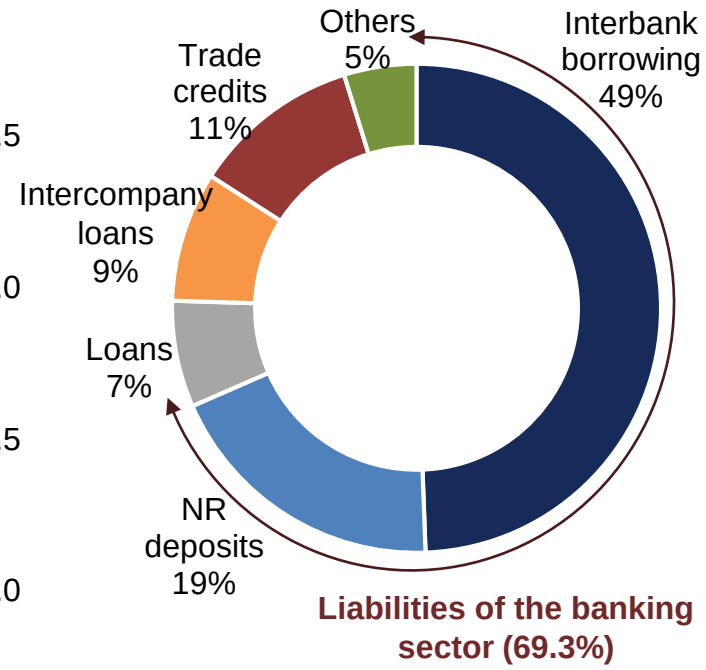
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Reserves remain adequate and is not the only means to meet external obligations

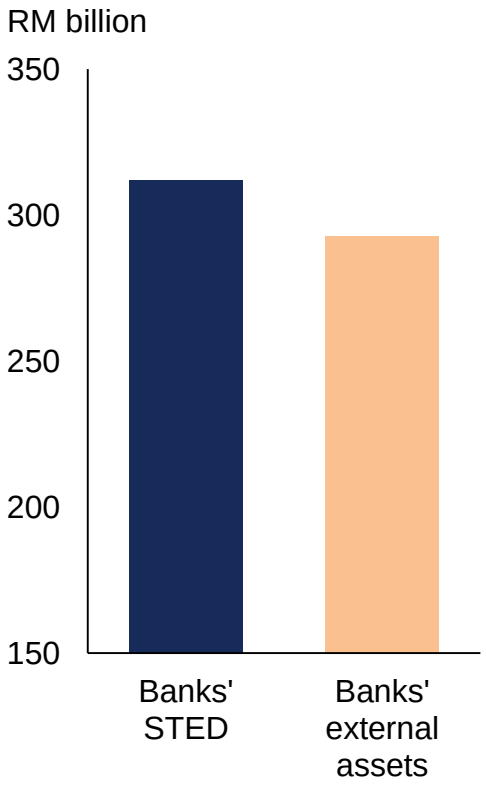
Reserves to ST external debt coverage at 0.9 times remains adequate to facilitate international transactions



Banks account for 69.3% of short-term external debt



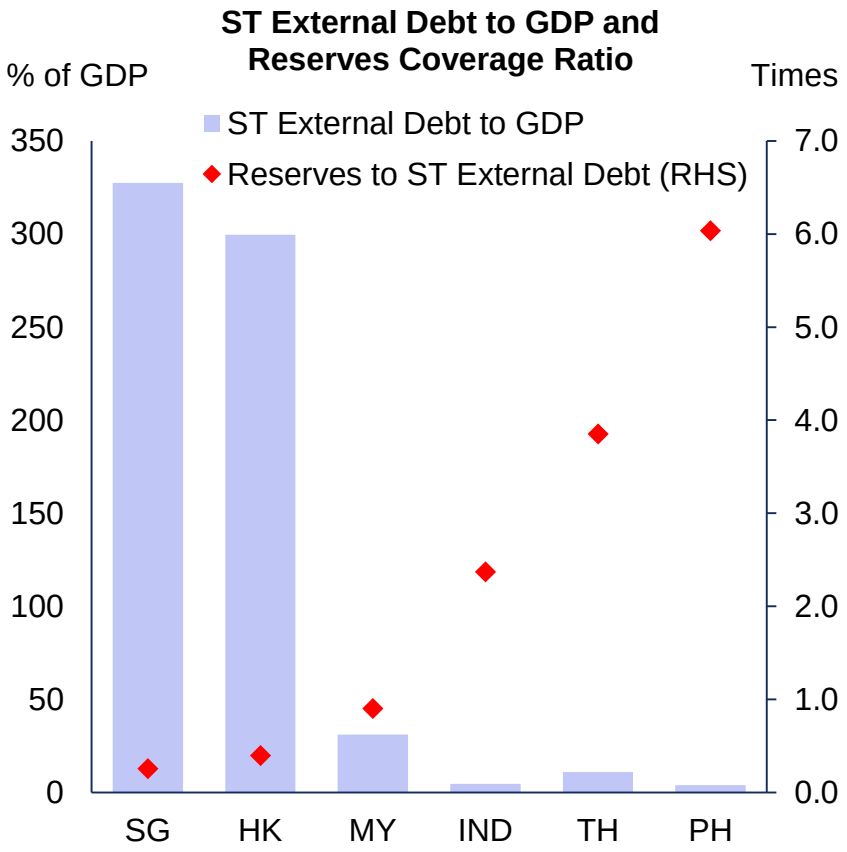
Banks have external assets to meet external obligations



Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Malaysia's external debt reflects the depth of our financial markets

Malaysia's reserves coverage ratio to ST external debt is comparable to financially open economies in the region



Short term external debt reflects:

- **Increasing regionalisation of domestic banks**
- **Strong presence of locally-incorporated foreign banks**
- **Malaysia's deeper and more developed financial markets**

Country	SG	HK	MY	ID	TH	KR
Bond market capitalization (% share of GDP) [1]	83.2	69.5	97.6	18.4	72.8	125.3

[1] As at 1Q 2018 (except for Indonesia, as at 2Q 2018)

Source: Department of Statistics, Malaysia, Bank Negara Malaysia, Asian Bonds Online (Asian Development Bank), World Bank, International Monetary Fund and Haver

Steady growth path in 2018 and 2019

2018

Factors supporting growth

- ▲ Strong business and consumer sentiments
- ▲ Strong consumer spending due to tax holiday
- ▲ Expansion in manufacturing production capacity

Factors constraining growth

- ▼ Prolonged disruptions in oil and gas production
- ▼ Low production in agriculture

2019

Factors supporting growth

- ▲ Sustained global growth and trade
- ▲ Recovery of commodity output
- ▲ Favourable labour market conditions

Factors constraining growth

- ▼ Trade tensions
- ▼ Cancellation of mega projects

Downside risks to growth

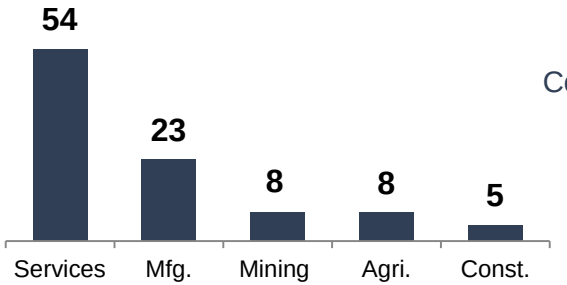
- ▼ Further escalation of trade tensions
- ▼ Financial market volatility

Malaysia's macroeconomic fundamentals remain strong

Broad-based sources of growth

Malaysia GDP by Economic Sectors (2017)

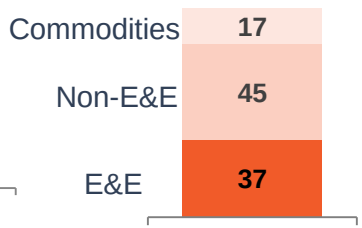
% share of GDP



Diversified export market and product

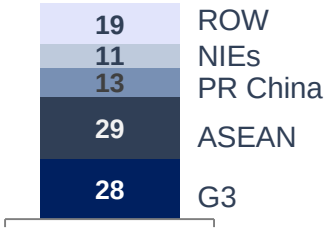
Product

% share of exports



Market

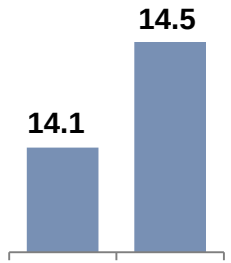
% share of exports



Positive labour market conditions

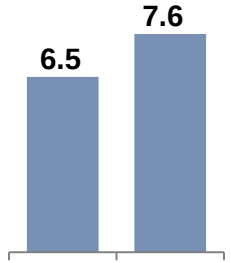
Employment

(million)



Wage Growth

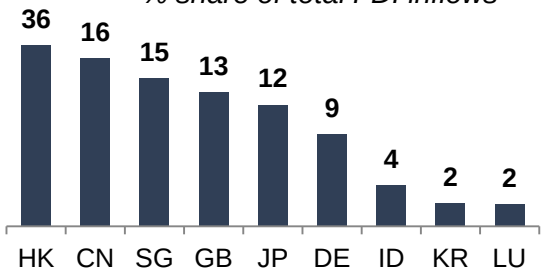
(%)



Conducive investment destination for foreign investors

FDI Inflows of RM 41bn by Source Country (2017)

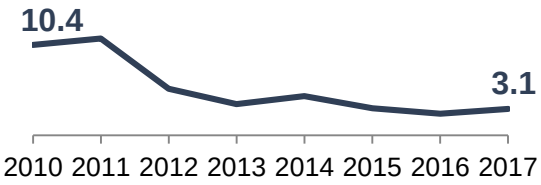
% share of total FDI inflows



Continued current account surplus

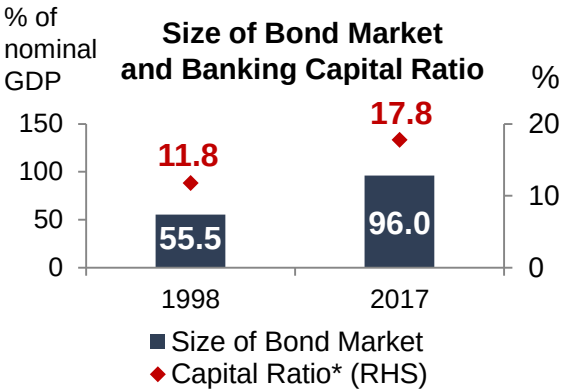
Current Account Balance

% of GNI



Deeper financial markets, resilient banking system and strong financial buffers

Size of Bond Market and Banking Capital Ratio



* Capital ratio in '98 refers to the risk-weighted capital ratio; Ratio in 2016 refers to total capital ratio, reported based on Basel III Capital Adequacy Framework adopted since January 2013; Note: HK= Hong Kong, CN=China, SG= Singapore, UK= United Kingdom, JP=Japan, DE=Germany, ID=Indonesia, KR=South Korea, LU= Luxembourg
Note: NIEs include Hong Kong, Chinese Taipei and Korea

Source: Department of Statistics, Malaysia and Bank Negara Malaysia p preliminary

Key Highlights on Box and Feature Articles

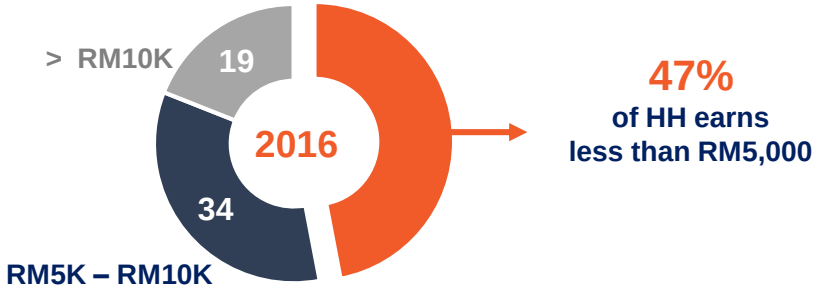
- Divergence of Economic Performance and Public Sentiments
- Transforming Mobile Phones into E-wallets in Malaysia

Divergence of Economic Performance and Public Sentiments

Several factors weigh on public sentiments despite strong macroeconomic growth

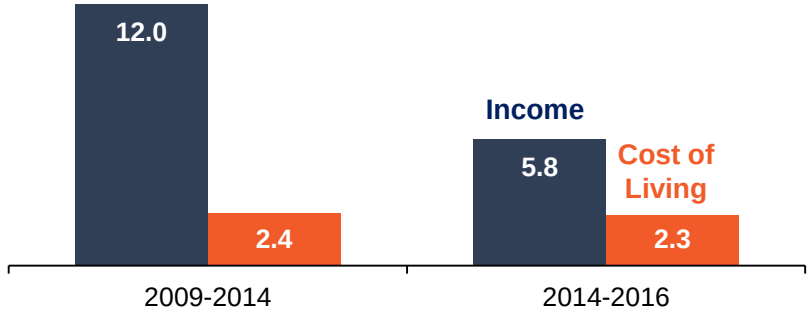
Uneven distribution of income

Distribution of Households by Income Category (2016)



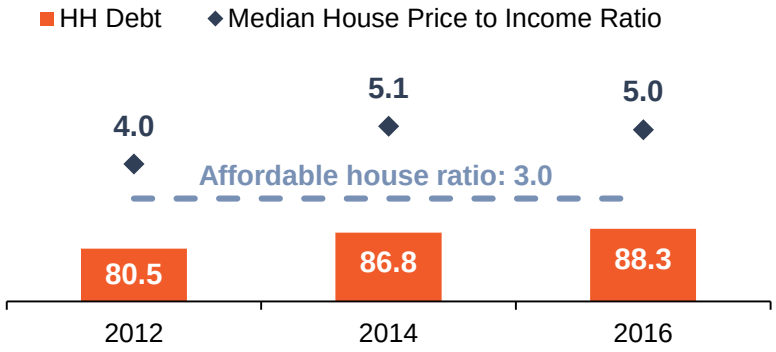
Slower income growth amid sustained cost of living

Average Growth in B40 HH Income and Cost of Living



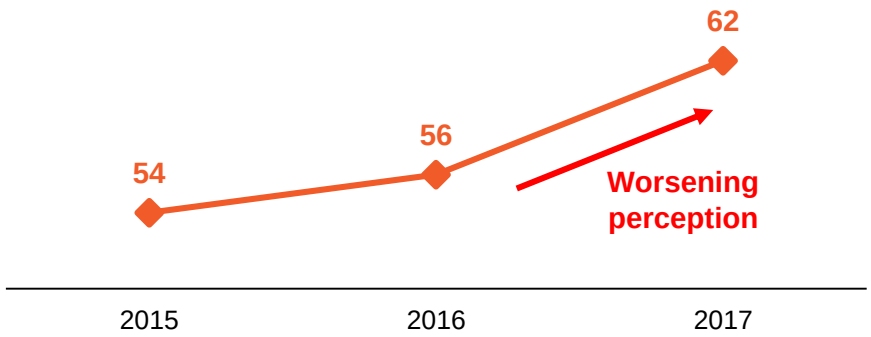
High debt and lower housing affordability

Household Debt (% of GDP) vs. House Price to Income Ratio



Negative perceptions of corruption

Malaysia's Corruption Perceptions Index, Rank

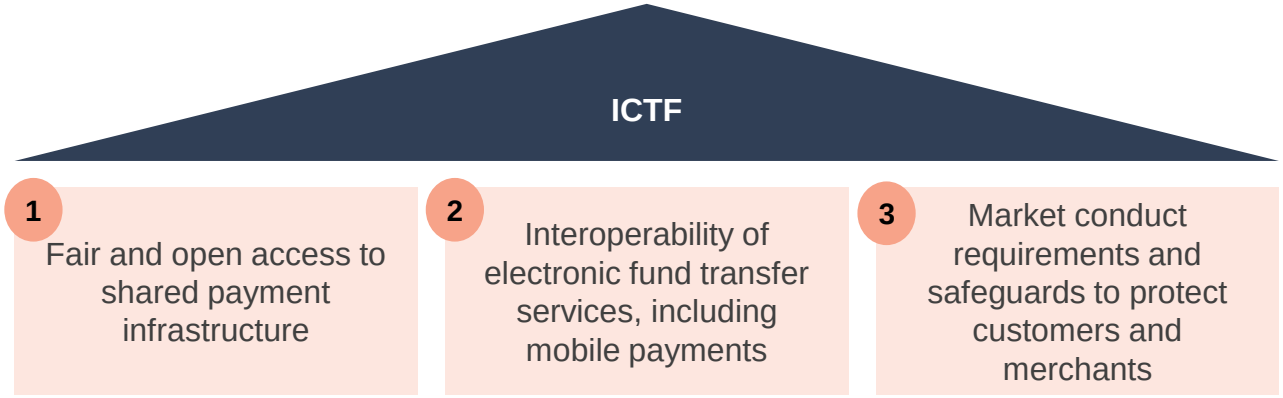


Source: National Property Information Centre (NAPIC), Department of Statistics, Malaysia, Bank Negara Malaysia and staff estimates

Transforming Mobile Phones into E-wallets in Malaysia

Key initiatives to transform mobile phones into e-wallets in Malaysia

Interoperable Credit Transfer Framework (ICTF)



National Addressing Database (NAD)

- Mobile phone numbers
- Business registration numbers
- National Registration Identity Card (NRIC)
- Common QR code

FEA* enhanced to give greater flexibility to businesses while ensuring financial stability in times of global uncertainty

1 Removal of export reconversion requirement

Benefit
Allow businesses greater flexibility in managing export proceeds

Exporters can **automatically sweep foreign currency export proceeds** into foreign currency accounts upon establishing their 6 months obligations with onshore banks

(Previously subject to convert and reconvert requirement)

2 Flexibility to hedge foreign currency obligations

Benefit
Allow residents to hedge foreign currency (FC) payment obligation

Residents can obtain approval to **hedge FC exposures** on:

- obligations beyond 6 months
- invoices arising from payment of goods and services between residents

(Previously prohibited)

3 Offering of ringgit interest rate derivatives by AOO**

Benefit
Allow non-residents wider access to onshore financial products

Nonresidents can trade in **ringgit interest rate derivatives** via AOO

(Previously prohibited)

*FEA: Foreign Exchange Administration
**AOO: Appointed overseas office

Q & A

The Malaysian economy grew by 4.5% in the second quarter

Real GDP (Annual change, %)	Share, % (2017)	2017	2018	
		4Q	1Q	2Q
Domestic demand (excluding stocks)	**92.2**	**6.2**	**4.1**	**5.6**
Private Sector	**71.1**	**7.4**	**5.2**	**7.5**
Consumption	*53.7*	*7.0*	*6.9*	*8.0*
Investment	*17.4*	*9.2*	*0.5*	*6.1*
Public Sector	**21.0**	**3.4**	**-0.1**	**-1.4**
Consumption	*13.0*	*6.8*	*0.4*	*3.1*
Investment	*8.0*	*-1.4*	*-1.0*	*-9.8*
Net exports of goods and services	**7.7**	**2.3**	**62.4**	**1.7**
Exports	*72.8*	*6.7*	*3.7*	*2.0*
Imports	*65.1*	*7.3*	*-2.0*	*2.1*
Change in stocks (RM billion)	**0.0**	**1.7**	**-5.0**	**-2.8**
GDP (y-o-y)	**100[1]**	**5.9**	**5.4**	**4.5**
GDP (q-o-q growth, seasonally adjusted)	**-**	**1.0**	**1.4**	**0.3**

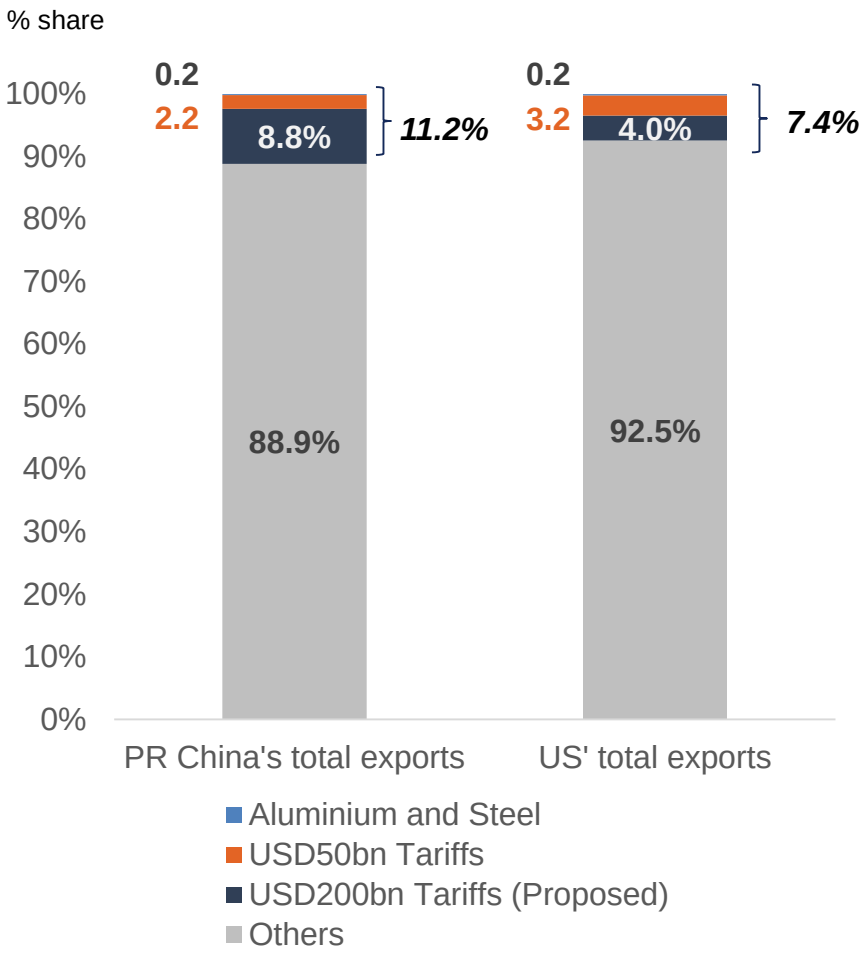
Note: [1] Numbers do not add up due to rounding
Source: Department of Statistics, Malaysia

Real GDP (Annual change, %)	Share, % (2017)	2017	2018	
		4Q	1Q	2Q
Services	**54.5**	**6.2**	**6.5**	**6.5**
Manufacturing	**23.0**	**5.4**	**5.3**	**4.9**
Mining and Quarrying	**8.4**	**-0.3**	**0.1**	**-2.2**
Agriculture	**8.2**	**10.7**	**2.8**	**-2.5**
Construction	**4.6**	**5.9**	**4.9**	**4.7**
Real GDP	**100[2]**	**5.9**	**5.4**	**4.5**

Note: [2] Numbers do not add up due to rounding and exclusion of import duties component
Source: Department of Statistics, Malaysia

Direct impact from current trade actions are limited given the low product coverage but downside risks remain

Breakdown of Exports Affected by New Trade Tariffs

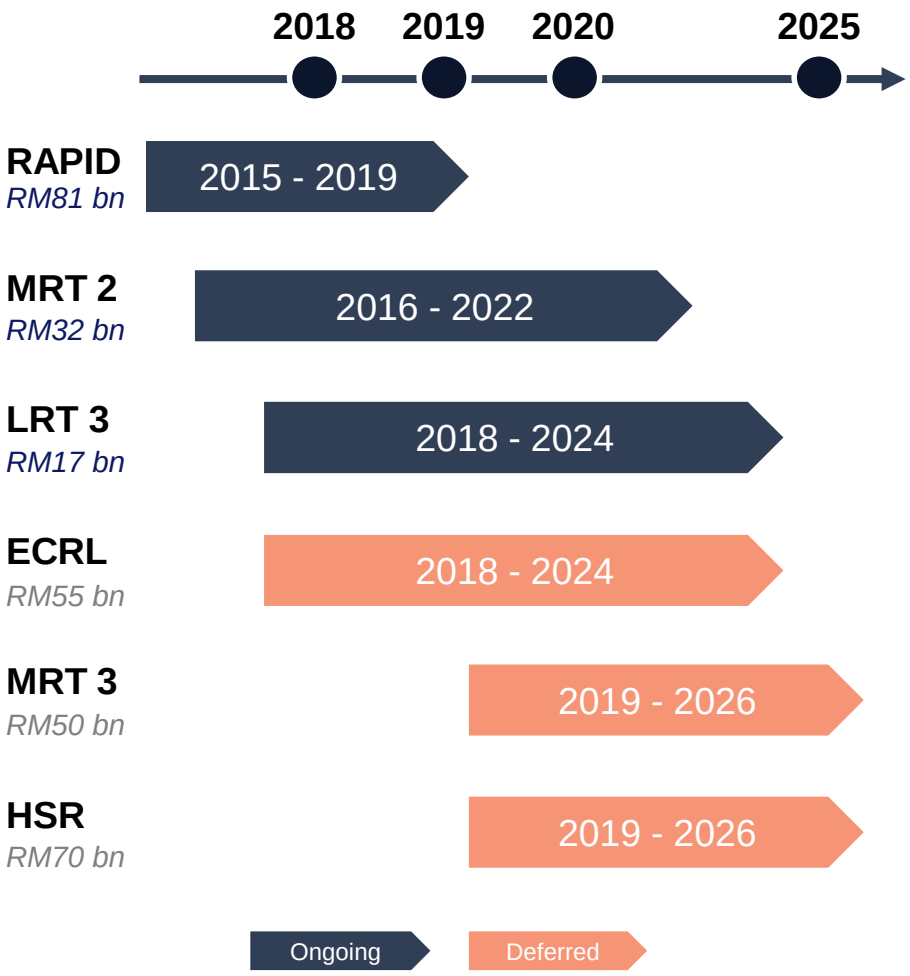


Source: USTR, MOFCOM, Global Trade Atlas

- **Products affected by new tariffs comprise a small portion of US' and PR China's exports**
  - Current trade action affects <4% of the countries' total exports
- **Greater downside risks arising from potential expansion of US' tariffed products:**
  - E.g. Blanket tariffs on automobiles
- **Nevertheless, impact of current trade tension to Malaysia is expected to remain limited**
  - Diversified market for Malaysian exports
  - Highly varied export product range

Announced deferment of mega projects will have a manageable impact in the immediate term

Notwithstanding announced deferments, ongoing projects will continue to support growth



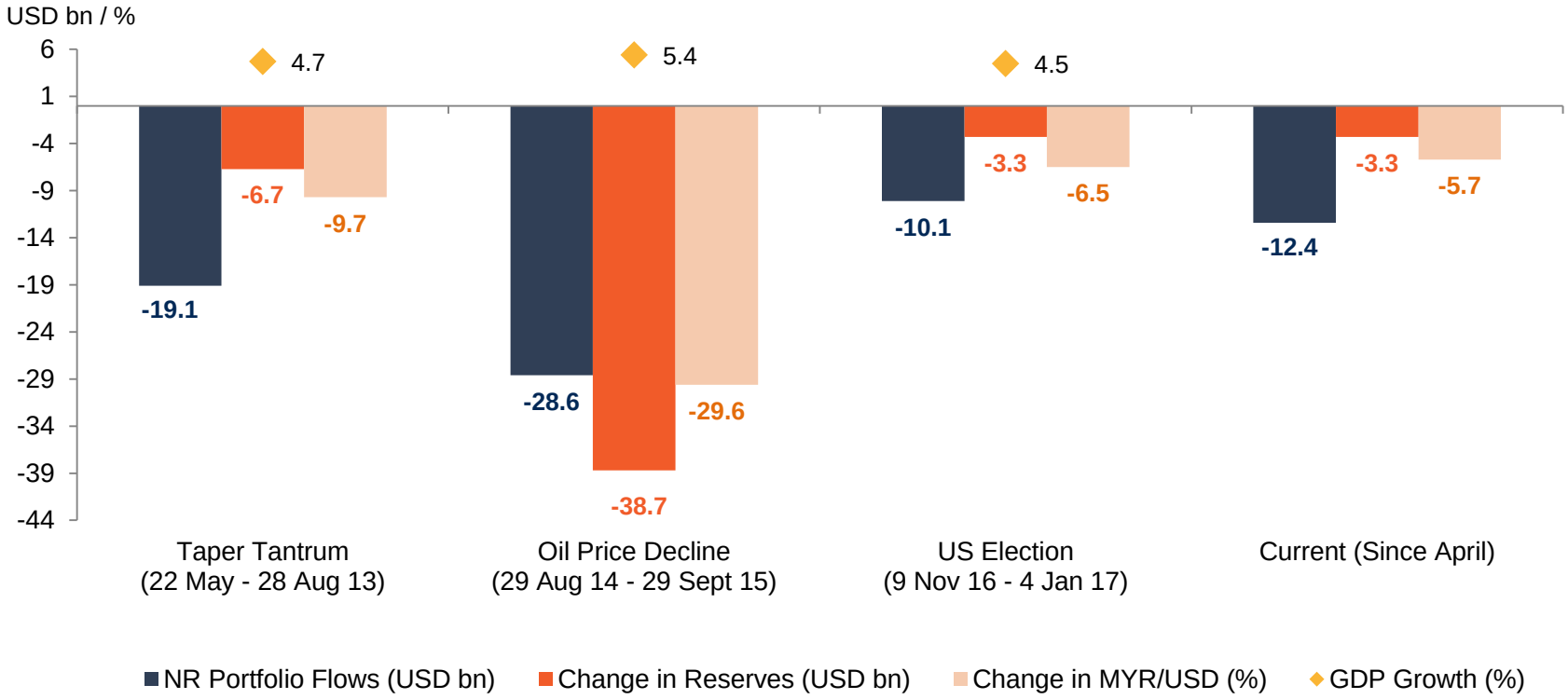
Impact to growth is expected to be manageable as:

- Projects are in early stages of construction or have yet to commence
- Long development duration limits impact in any single year
- Lower imports of construction-related material and services
- Negligible impact on domestic labour markets

Malaysia has shown the ability to manage episodes of financial shocks

Malaysia's ability to absorb the volatility of capital flows and the effects on financial market is supported by exchange rate flexibility, ample international reserve buffers, well-developed financial markets and resilient banking system

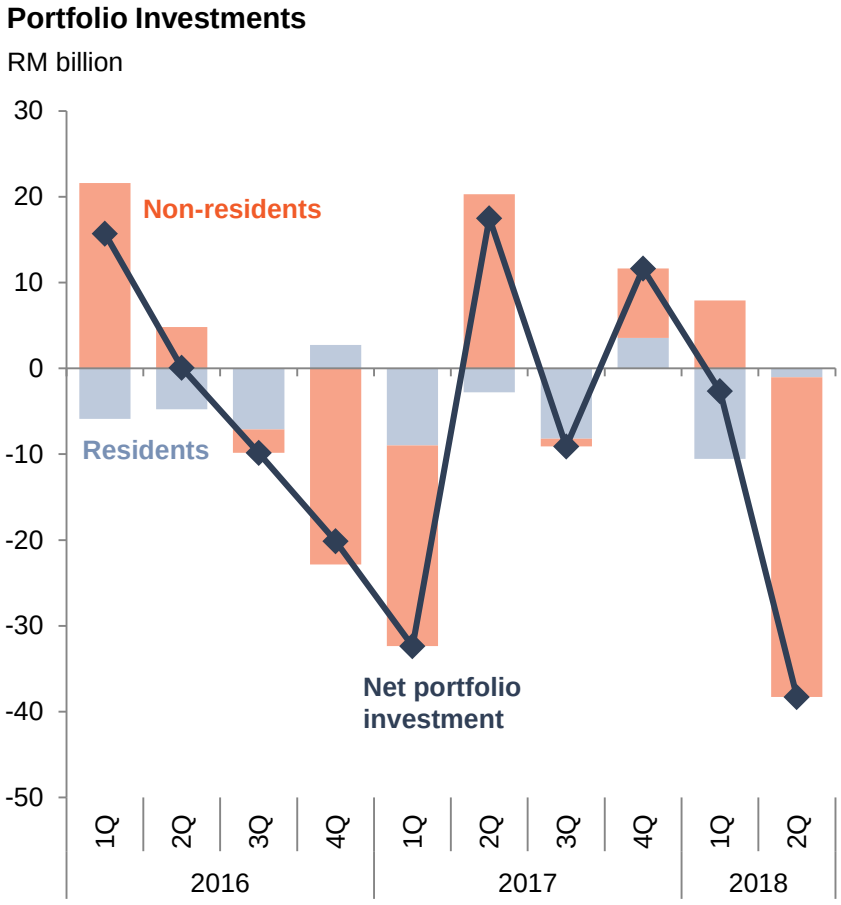
NR Portfolio Flows, Reserves, Ringgit Performance, and GDP Growth during Outflow Periods



Note: Current data for reserves is as at end -July 2018; MYR/USD as at 14 August 2018; NR portfolio flows as at 13 August 2018
Source: BNM

Significant portfolio investment outflows in 2Q 2018 driven by external factors

Portfolio investment outflows were driven mainly by non-residents



Source: Department of Statistics, Malaysia and Bank Negara Malaysia

External factors played a key role

- In line with regional trend, non-resident outflows were driven primarily by:
  - Strengthening US dollar;
  - Concerns over faster-than-expected US interest rate normalisation; and
  - Flight to safety following further escalation of global trade tensions.

- Moving forward, financial market sentiments are expected to improve with greater certainty in domestic policy.

Current account surplus narrowed in 2Q 2018

Narrower CA surplus due mainly to lower goods surplus and higher primary income deficit…

RM billion	2017	2018		
	4Q	1Q	2Q	1H
Current Account	**13.9**	**15.0**	**3.9**	**18.9**
Goods	**34.1**	**35.7**	**26.1**	**61.7**
Exports	211.4	202.1	202.4	404.5
Imports	177.3	166.4	176.4	342.8
Services	**-7.0**	**-5.8**	**-6.2**	**-12.0**
Receipts	40.9	38.3	39.0	77.3
Payments	47.9	44.2	45.2	89.4
Primary income	**-8.4**	**-10.2**	**-11.2**	**-22.5**
Receipts	13.8	13.0	13.3	26.3
Payments	22.2	23.2	24.5	47.7
Secondary income	**-4.8**	**-4.7**	**-4.7**	**-9.4**
Receipts	3.9	3.7	3.6	7.3
Payments	8.6	8.4	8.3	16.7

… driven by a rebound in goods imports and higher income accrued to foreign investors

Lower goods surplus

- Rebound in goods imports, following stronger domestic demand
- Lower commodity surplus (e.g. LNG and CPO)

Higher primary income deficit

- Higher dividends earned by foreign portfolio investors

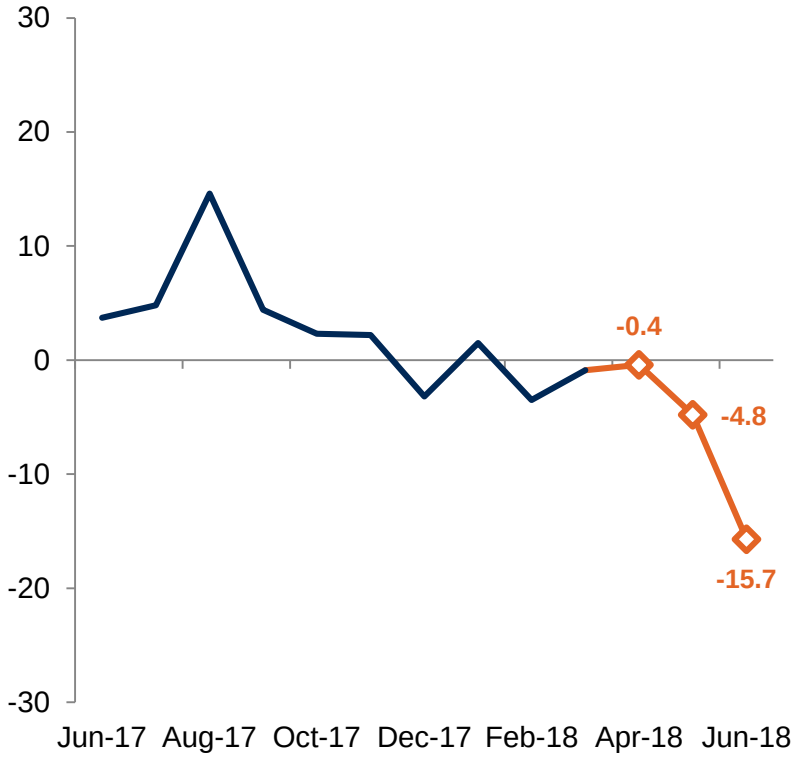
Source: Department of Statistics, Malaysia

Natural gas and crude palm oil production declined in 2Q 2018

Weaker natural gas output in 2Q 2018 due to supply outages

Natural Gas* Industrial Production Index

Annual change (%)

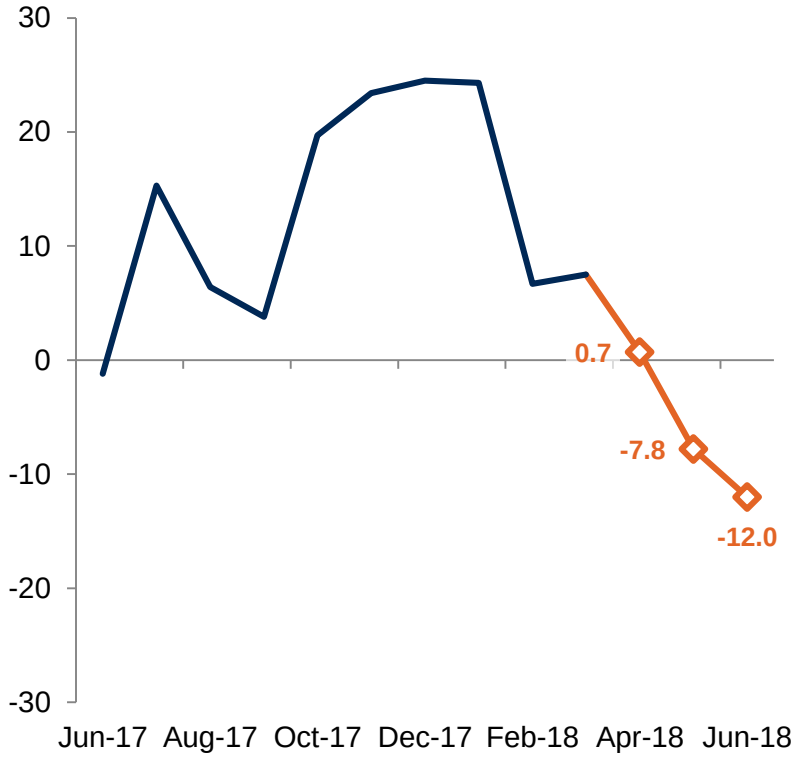


*Natural gas accounts for 46% of mining sector's VA
Source: Department of Statistics, Malaysia

CPO output contracted in 2Q 2018, on account of production constraints and adverse weather

Crude Palm Oil* Industrial Production Index

Annual change (%)



*CPO accounts for 47% of agriculture sector's VA
Source: Department of Statistics, Malaysia

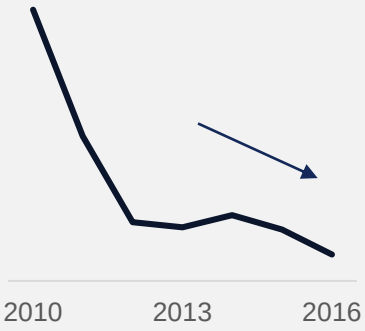
Economic conditions are significantly stronger now, compared to 2016

Malaysia recorded slower growth in 2016 due to external and domestic headwinds facing the economy

Brent crude oil prices
USD/b



Global growth
%, yoy

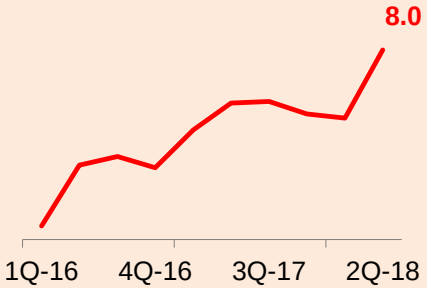


Domestic conditions

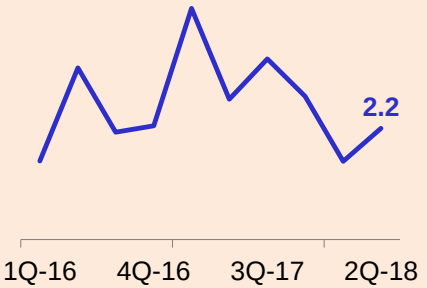
- ❖ **Higher cost of living, given price adjustments**
- ❖ **Weak consumer and business sentiments**
- ❖ **Heightened financial market uncertainty**

Lower growth in 2Q 2018 is due to sector-specific disruptions, amid strong fundamentals

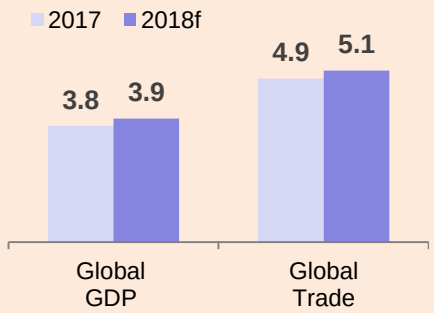
Private consumption
%, yoy



Total investment
%, yoy



Global growth highest since 2011
%, yoy



Consumer sentiments highest in two decades
Points

