Sidang Akhbar

Prestasi Ekonomi Suku Ketiga Tahun 2017

Gabenor
Bank Negara Malaysia

17 November 2017

Sidang akhbar akan meliputi:

Prestasi ekonomi pada suku ketiga tahun 2017

Perkembangan monetari dan kewangan

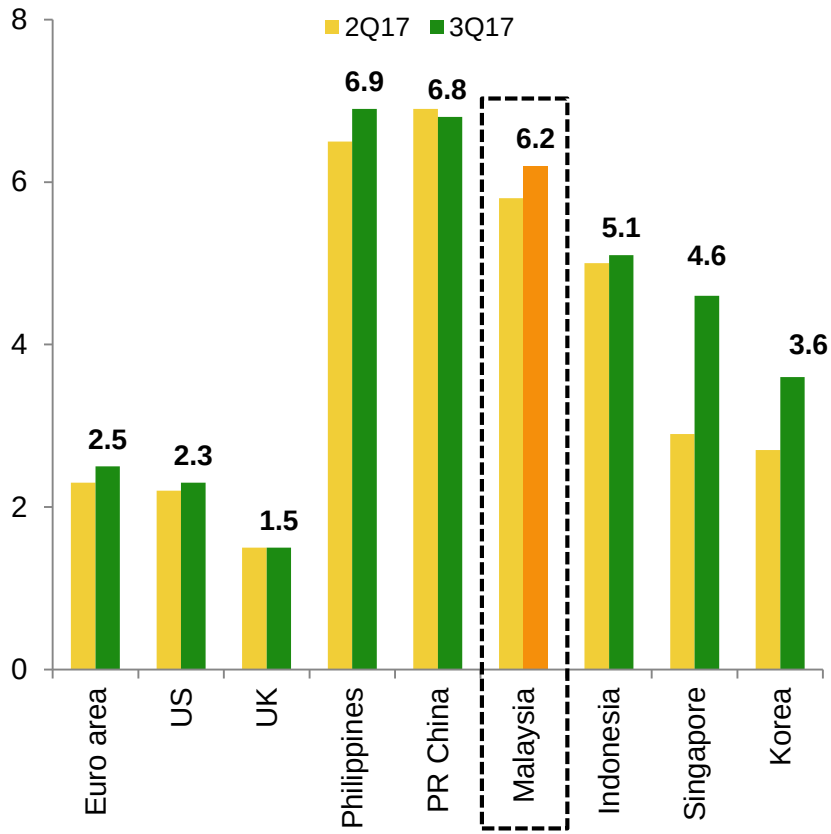
Inisiatif dasar Bank Negara Malaysia

Further expansion in global economic activity in the third quarter 2017

Growth in both the advanced and regional economies continued to expand in 3Q 2017

Global Real GDP Growth

Annual change, %

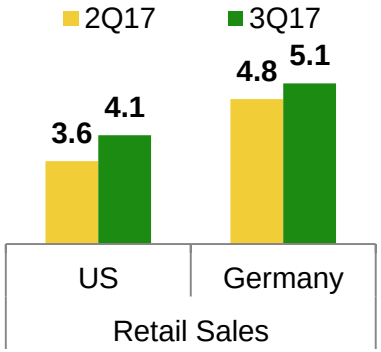


Source: National authorities, Bank Negara Malaysia estimates

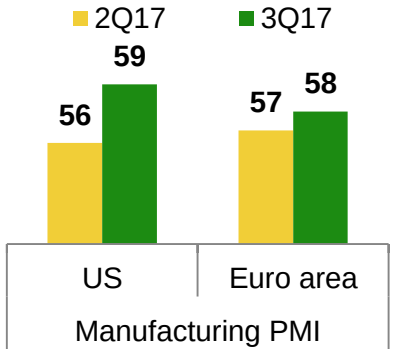
Growth in the advanced economies was supported by consumption and investment

Domestic Demand in the Advanced Economies

Annual change, %



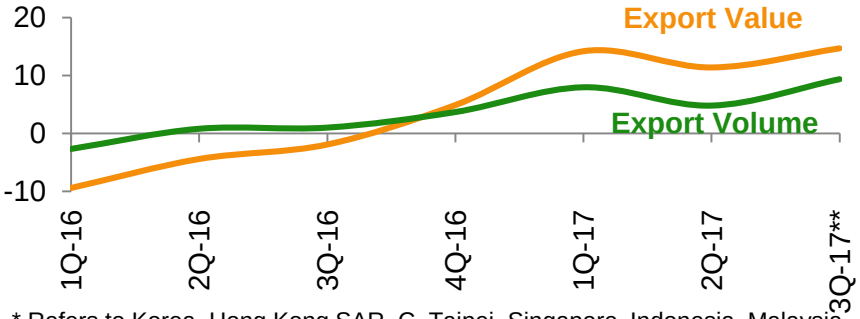
Index (>50 = expansionary)



Robust trade performance in Asia, driven by continued external demand

Asia's* Exports

Annual change, %



* Refers to Korea, Hong Kong SAR, C. Taipei, Singapore, Indonesia, Malaysia, Thailand and Philippines

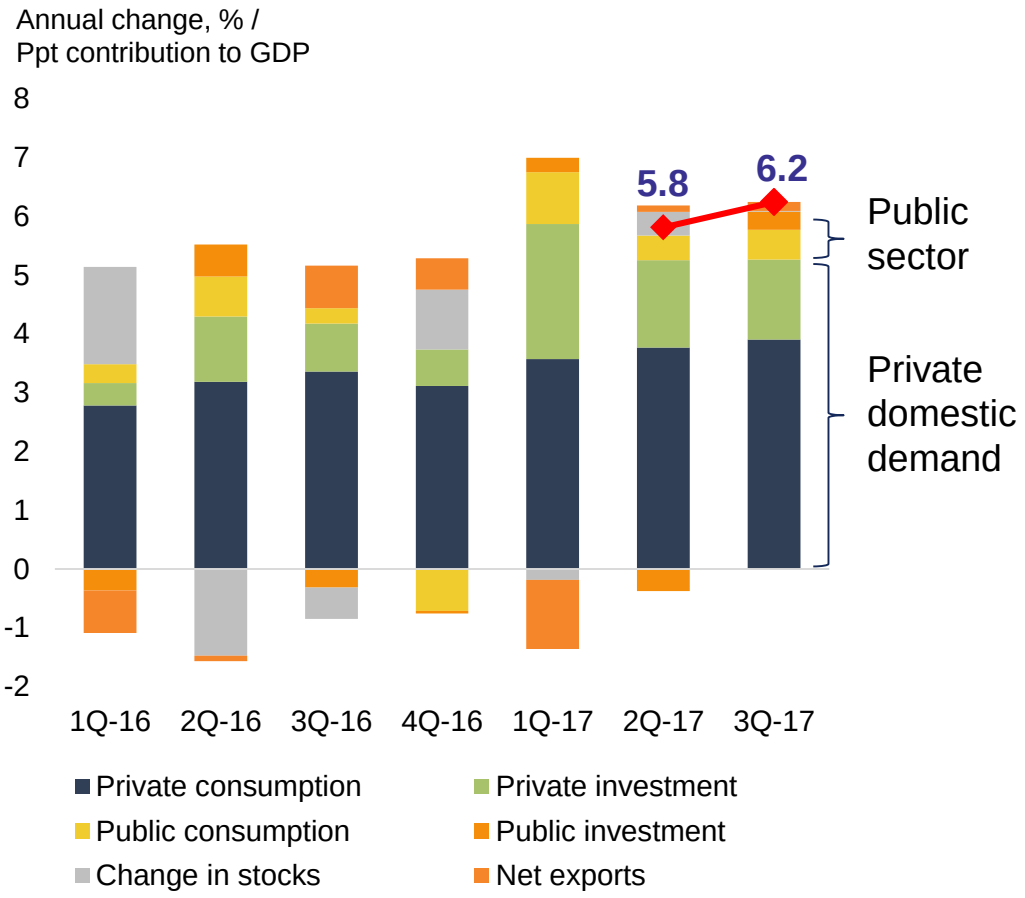
** Refers to latest available data

Source: National authorities, Bank Negara Malaysia estimates

The Malaysian economy recorded a higher growth of 6.2% in the third quarter of 2017

- **Robust private sector spending**
- **Public sector remained supportive of growth**
- **Continued strength in exports**
  - Partly offset by faster expansion in imports

On the demand side, growth was anchored by private sector spending

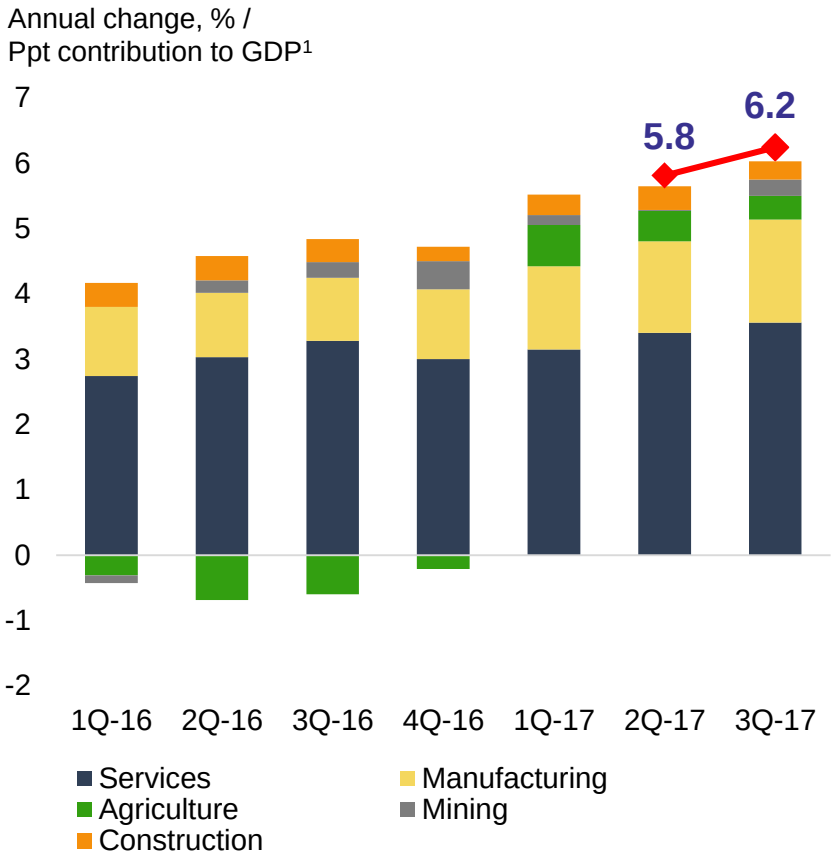


Source: Department of Statistics, Malaysia

Continued expansion across all economic sectors

- **Services**
  Expansion across all sub-sectors
- **Manufacturing**
  Stronger global and domestic demand
- **Mining**
  Higher natural gas production in Sabah and Sarawak
- **Agriculture**
  Slower rubber and CPO production due to adverse weather conditions
- **Construction**
  Slower non-residential activity, particularly in the commercial segment

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



Note: [1]Numbers do not add up due to rounding and exclusion of import duties component
Source: Department of Statistics, Malaysia

Private consumption expanded by 7.2%, lifted mainly by better labour market conditions…

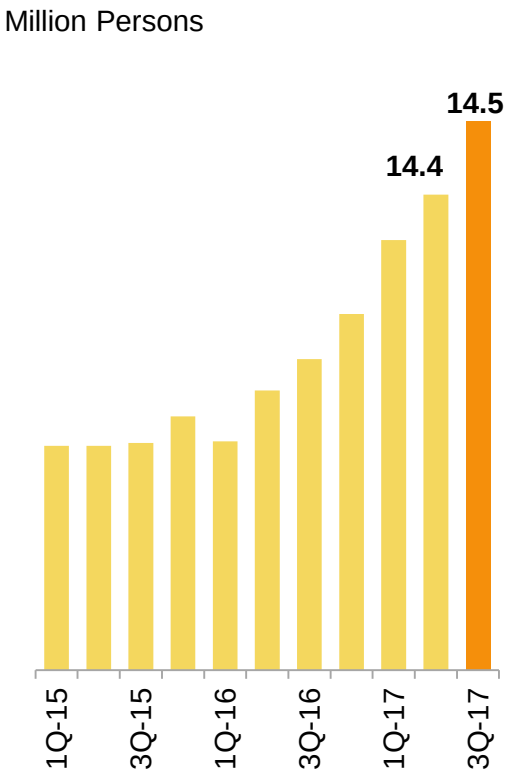
Private consumption growth improved…

Real Private Consumption Growth



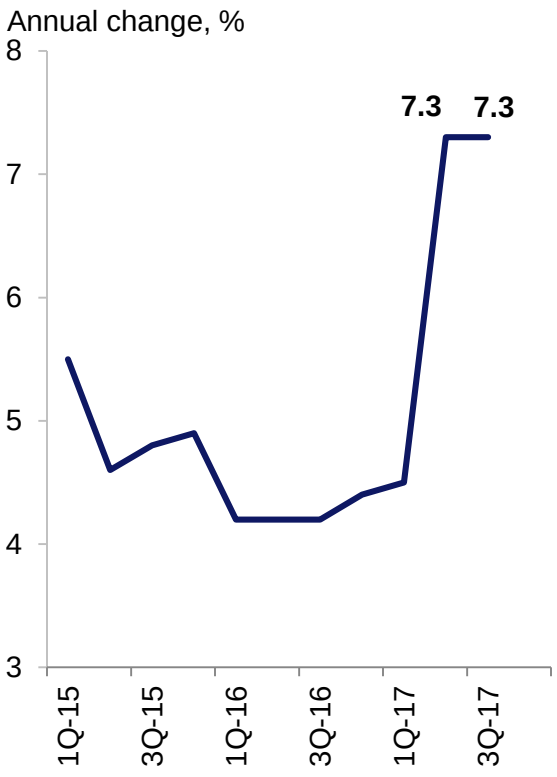
…supported by improving employment conditions…

Employment



… and sustained private sector wage growth

Private Sector Wage Growth*



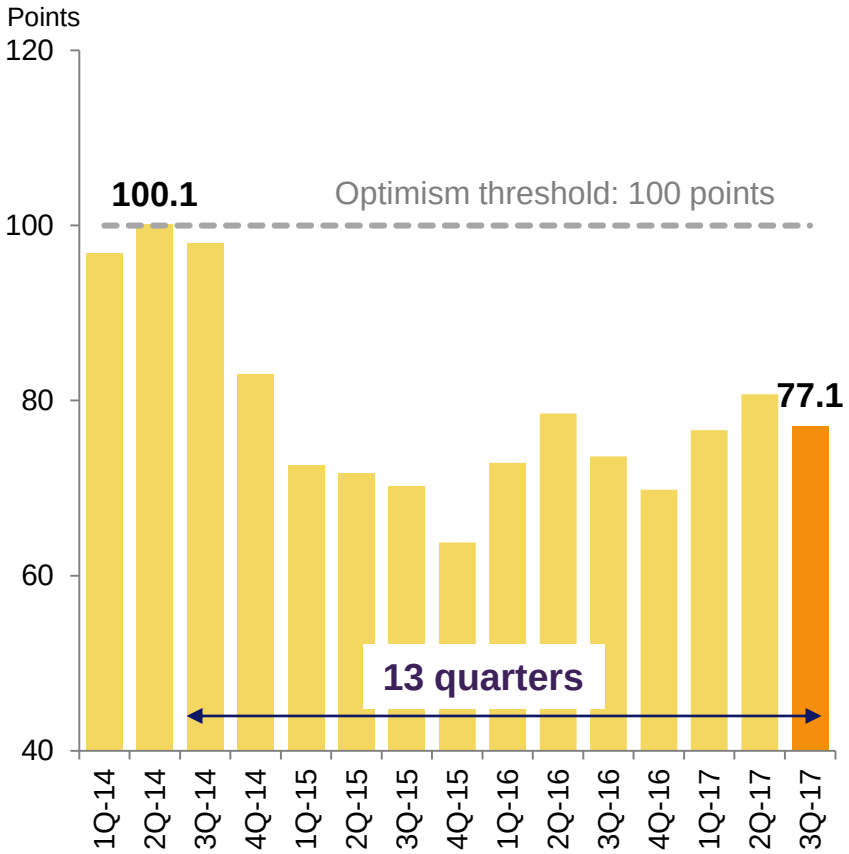
*Private sector wages is derived from the salaries and wages data published in the Monthly Manufacturing Statistics and Quarterly Services Statistics by the Department of Statistics, Malaysia. It covers 62% of total employment.

Source: Department of Statistics, Malaysia

…although consumer sentiments have yet to recover to the optimism threshold

Consumer sentiments remain below the optimism threshold

MIER Consumer Sentiments Index



Source: Malaysian Institute of Economic Research, MIER

Multiple factors are weighing on sentiments…

1. **Sustained cost of living pressures**
2. **Concerns over employment opportunities**
3. **Debt obligations**

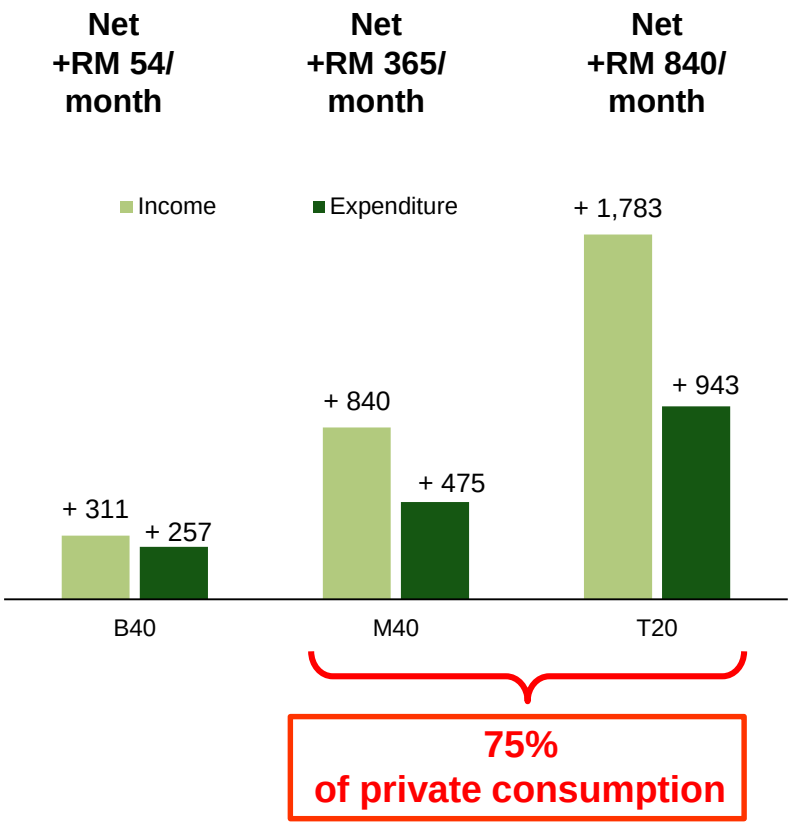
… affecting vulnerable households the most

While income growth has increased, wage levels remain low amid higher expenditure

Larger increase in expenditure relative to rise in income for B40 households

HH Mean Income and Mean Expenditure

Difference between 2014 and 2016 (RM/ month)

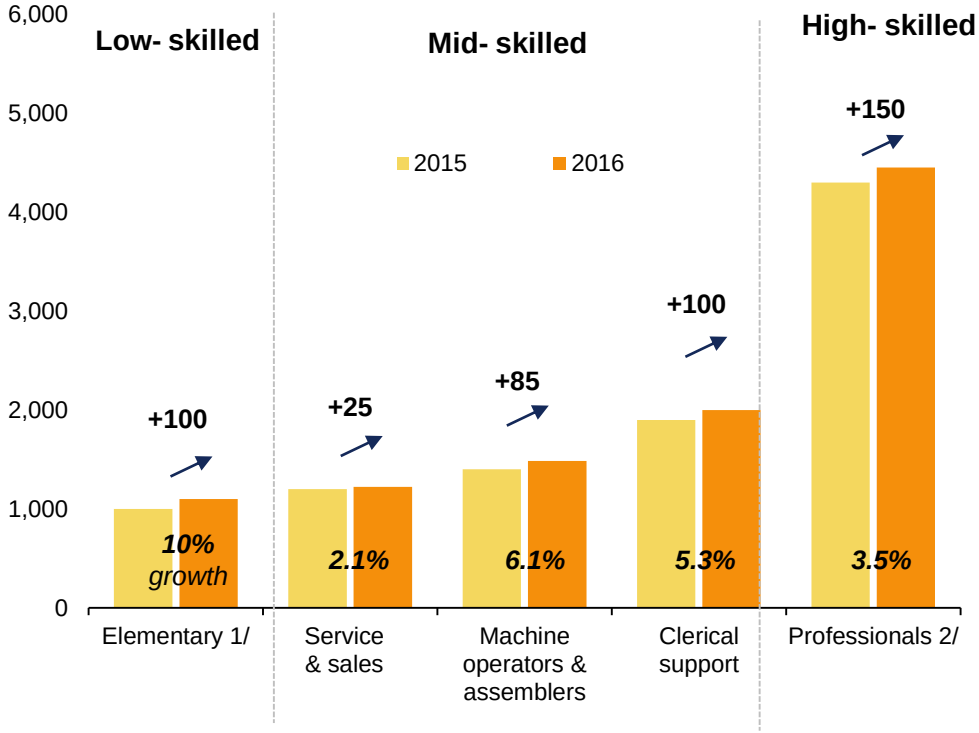


Source: Department of Statistics, Malaysia

Wage increases for low- to mid-skilled workers are relatively low

Median Monthly Wages for Selected Occupations

(RM/ Month)

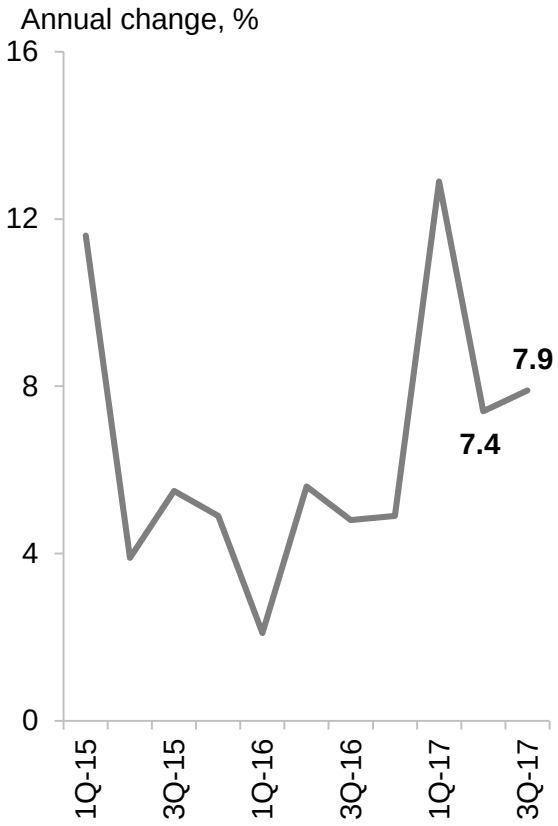


Note:
1/ Elementary occupations workers perform single and routine tasks (e.g. package deliverers)
2/ Professionals include medical doctors, engineers, dentists, architects, musicians
Source: Department of Statistics, Malaysia

Private investment grew by 7.9%, supported by positive business sentiments and higher capacity utilisation

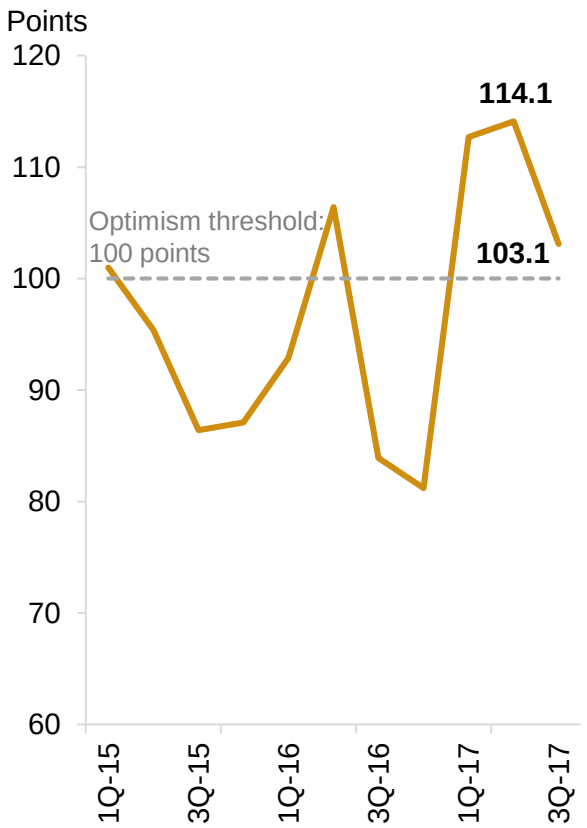
Private investment continued to expand

Real Private Investment Growth



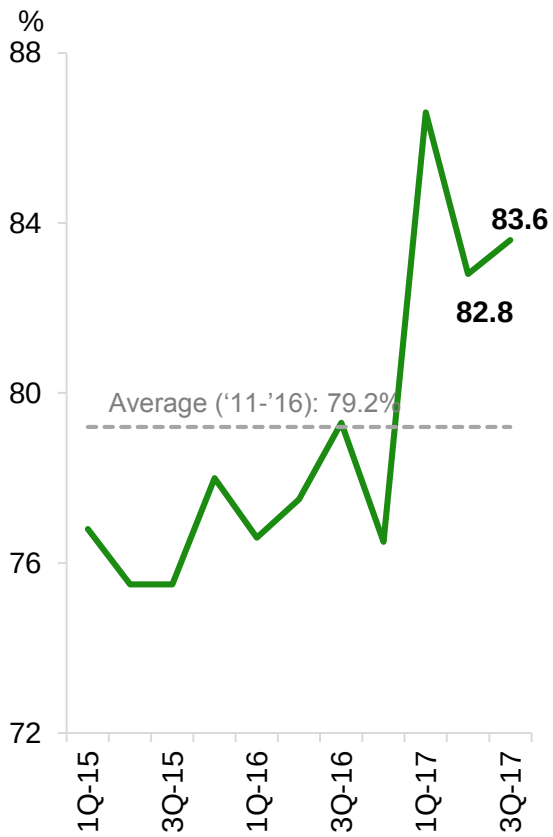
Positive business sentiments

MIER Business Conditions Index



Higher capacity utilisation

MIER Capacity Utilisation Rate



Source: Department of Statistics, Malaysia, MIER

Strong trade performance in 3Q 2017

- **Exports remained robust**
  - Broad-based expansion, particularly manufactured exports
  - Higher demand from key trading partners
- **Robust intermediate and consumption imports**
  - Strong manufacturing activity
  - Continued strength in domestic consumption
- **Trade balance widened to RM26.7 billion**

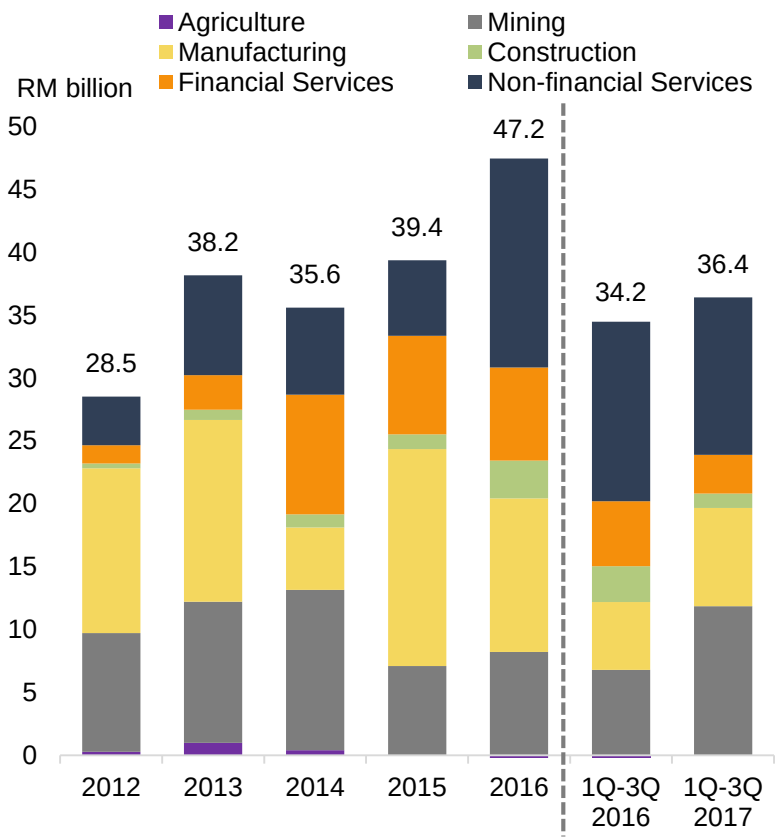
External Trade (Annual change, %)	% share (2016)	2016	2017		
		Year	1Q	2Q	3Q
Gross Exports	**100**	**1.2**	**21.4**	**20.5**	**22.1**
Manufacturing	82	3.3	19.5	18.7	23.7
E&E	*37*	3.6	18.4	22.6	21.7
Non-E&E	*45*	3.0	20.3	15.8	25.4
Commodities	17	-8.1	27.7	28.2	12.5
Gross imports	**100**	**1.9**	**27.7**	**19.0**	**19.8**
Intermediate	*57*	-0.1	27.8	23.9	20.9
Capital	*14*	4.9	42.1	7.0	0.0
Consumption	*10*	7.3	4.0	1.5	14.9
Trade balance (RM bil)	-	**88.1**	**18.9**	**24.1**	**26.7**

Source: Department of Statistics, Malaysia

Current trade strength owes much to the stable base of foreign direct investment (FDI)

FDI inflows for 1Q-3Q 2017 set to match previous year's record high

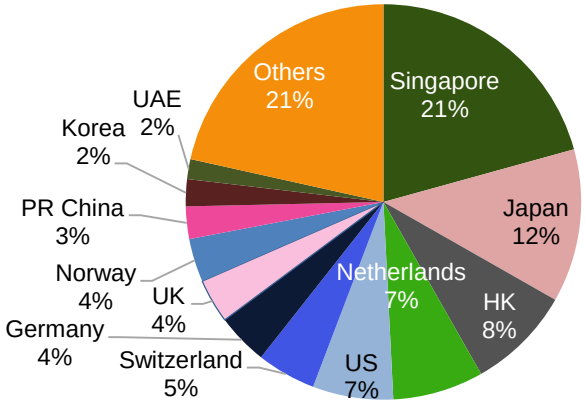
Foreign Direct Investment in Malaysia



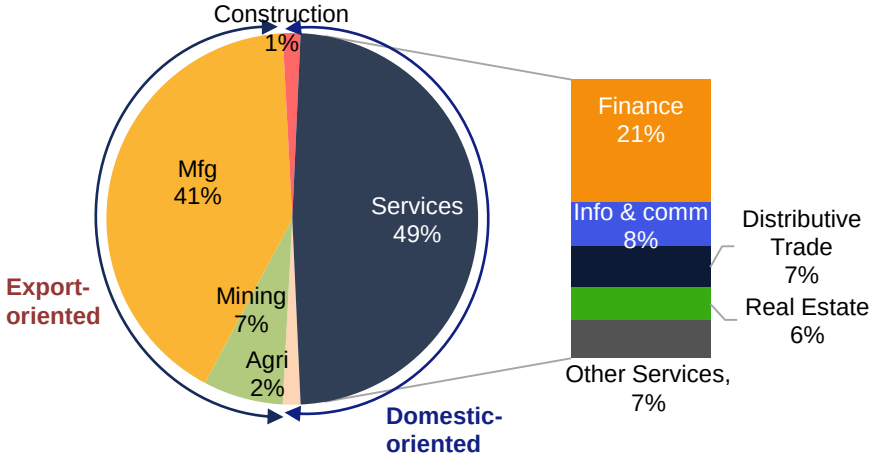
Note: Figures may not add up due to netting off and rounding
Sources: Department of Statistics Malaysia, Bank Negara Malaysia

FDI is broad-based across countries and sectors

FDI Stock: Largest Contributors, 3Q 2017: RM559 billion



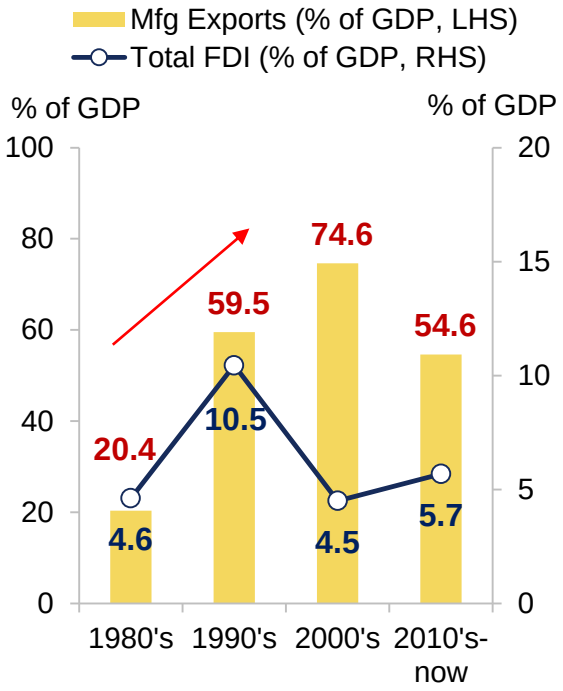
FDI Stock by Economic Sectors, 3Q 2017: RM559 billion



A holistic review of the investment incentives framework is timely for a future-ready Malaysia

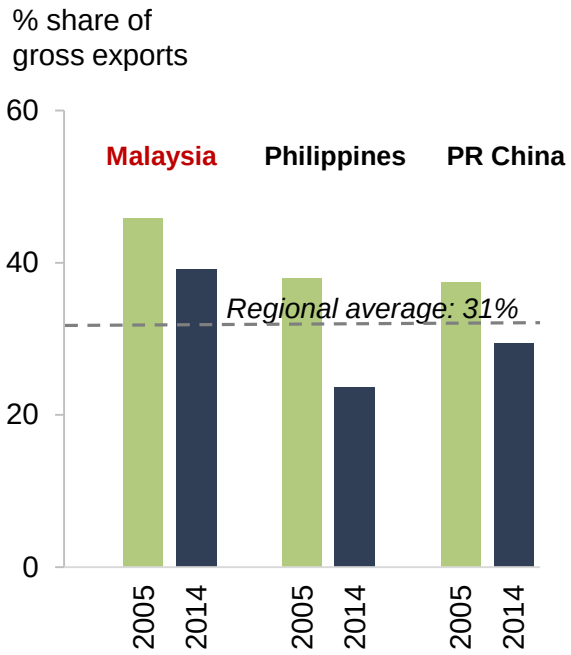
FDI was a game-changer for Malaysia…

Manufactured Exports & FDI



…but high foreign content constrains net benefits to domestic supply chain…

Foreign Content in Gross Exports



…while rapid shifts in global environment necessitates dynamic incentives

Global Trends in the Next Decade



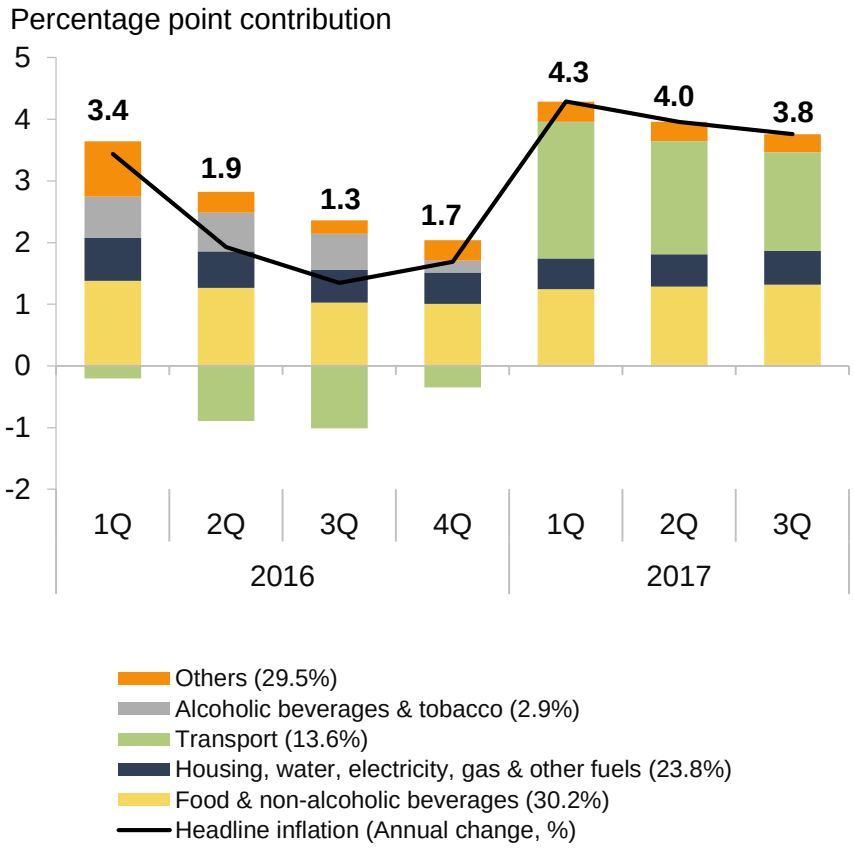
Investment incentives need to be nimble, relevant and tied to outcome-based indicators

Note: Regional average includes Malaysia, Indonesia, Philippines, Singapore, Thailand and Vietnam
Source: Department of Statistics, Malaysia, Bank Negara Malaysia, OECD

Headline inflation declined to 3.8% in 3Q 2017

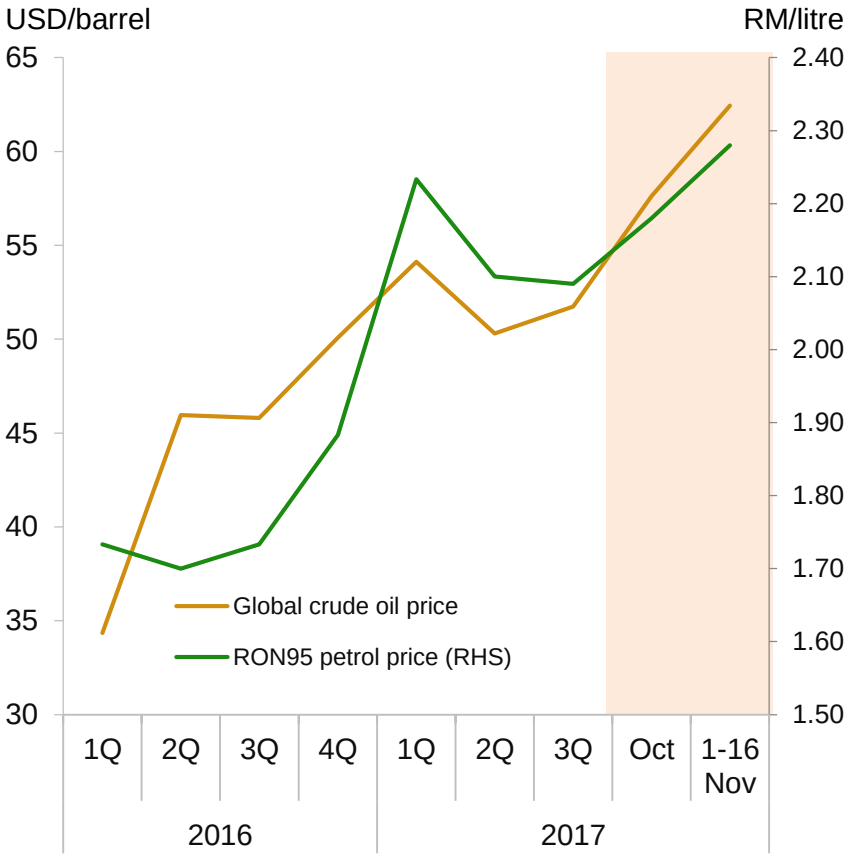
Inflation averaged lower due to lower *transport* inflation

Headline Inflation



In the near term, inflation could remain elevated amid rising global oil prices

Average Global Crude Oil Price and RON95 Petrol Price



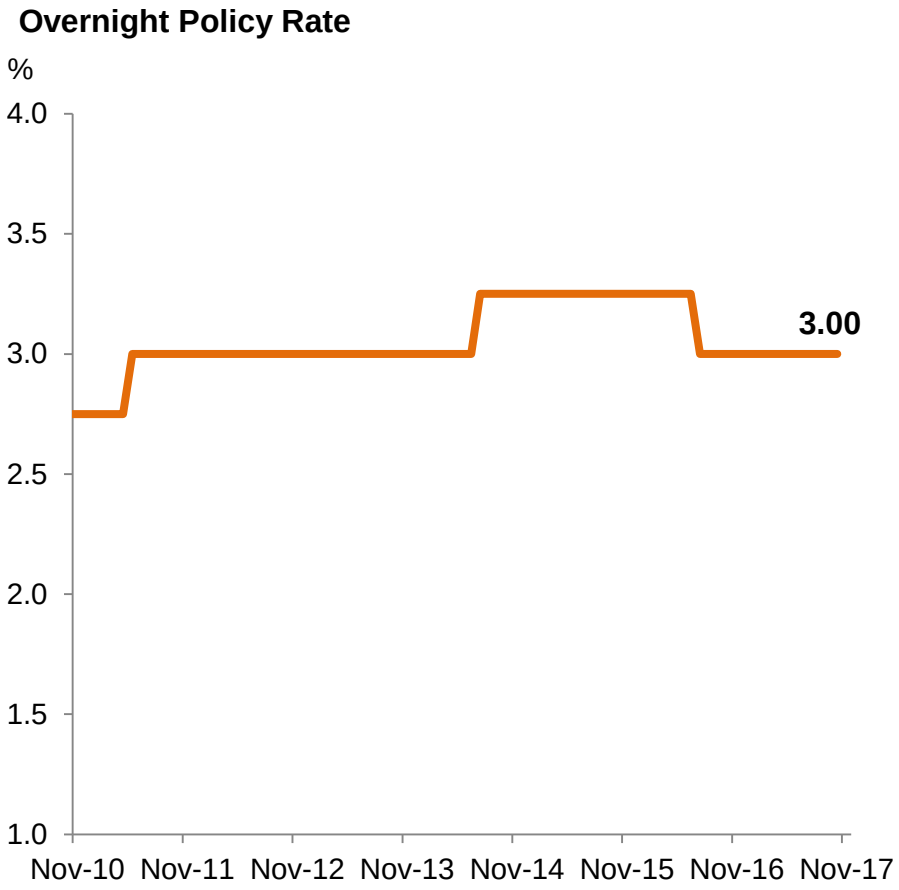
Note: RON95 petrol price is affected by movements in global oil prices and exchange rate

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

Monetary policy will ensure the sustainability of growth prospects

- **The MPC will continue to assess the balance of risks surrounding the outlook for domestic growth and inflation**
  - More entrenched growth, lifted by stronger spillovers from the external sector
  - Headline inflation is projected to moderate in 2018, but dependent on future global oil prices which are highly uncertain

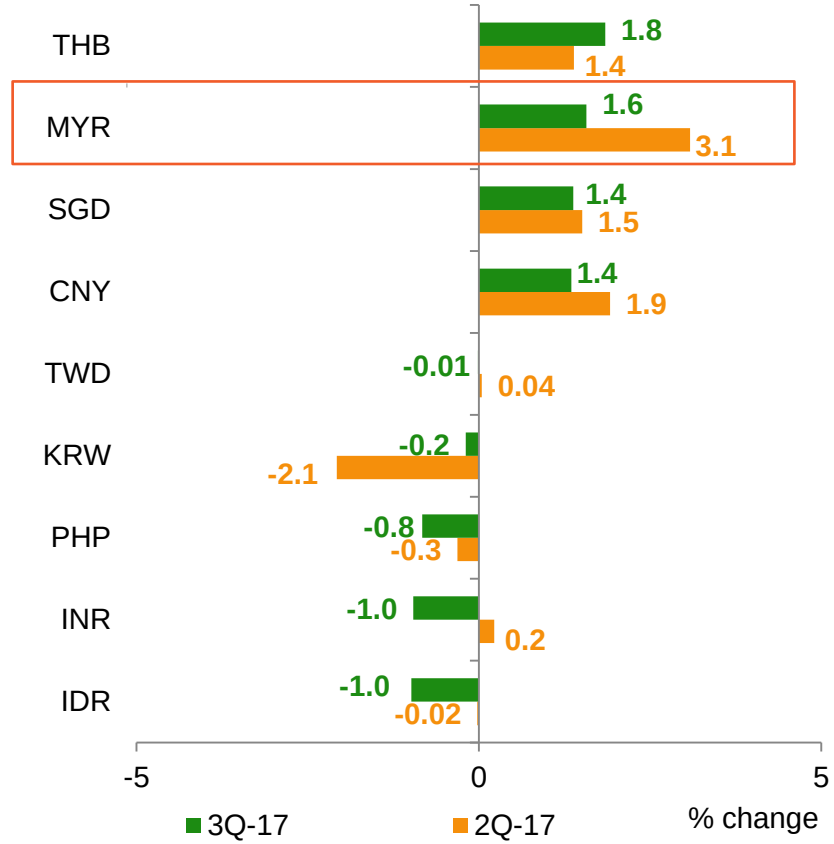
- **Favourable economic prospects accord greater flexibility to review the degree of monetary accommodation**



Ringgit continued to appreciate against the US dollar and most regional currencies in the third quarter, but risks persist going forward

The ringgit was one of the best performers in the region for two consecutive quarters

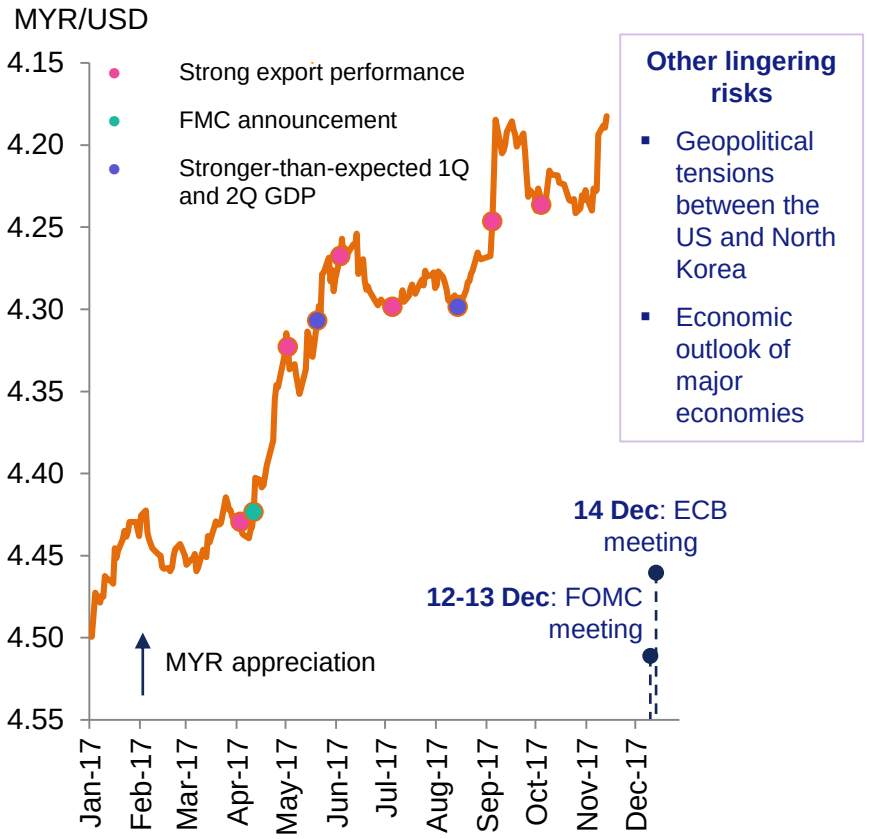
Performance of Selected Currencies against the US dollar



Source: Bank Negara Malaysia

The ringgit has been supported by positive domestic developments; risks, however, persist

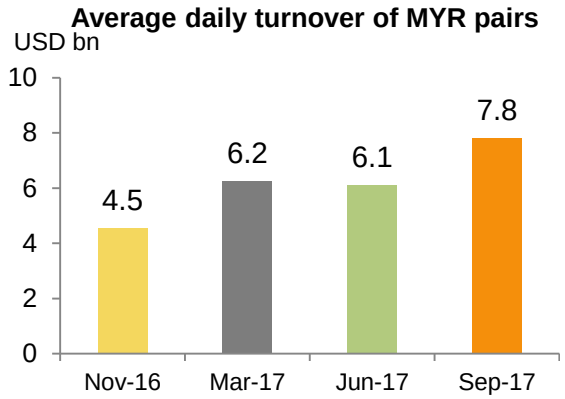
Performance of Ringgit against the US dollar



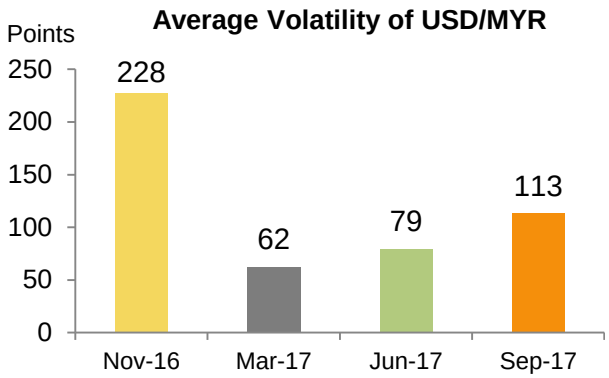
Source: Bank Negara Malaysia

FMC measures have brought in better liquidity in the onshore ringgit foreign exchange market

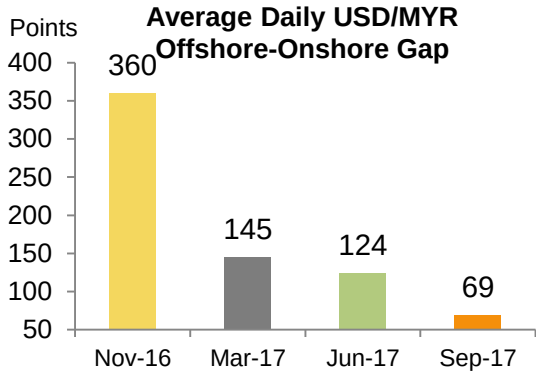
Greater FX intermediation by the market



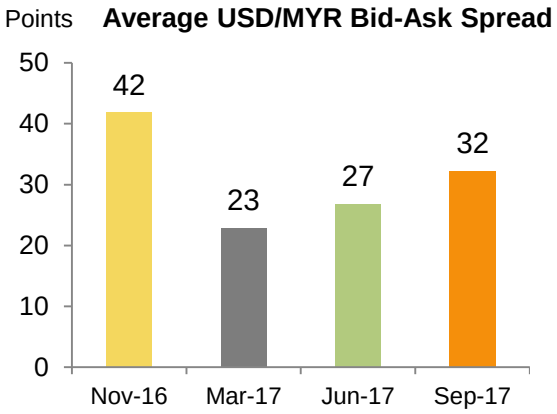
More stable ringgit reduces business uncertainty



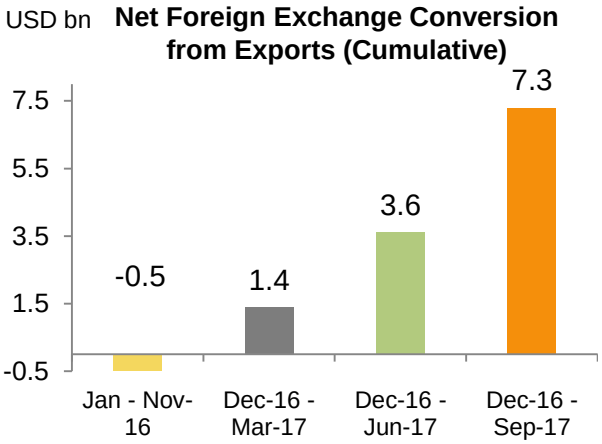
Impact of offshore rates to onshore has further reduced



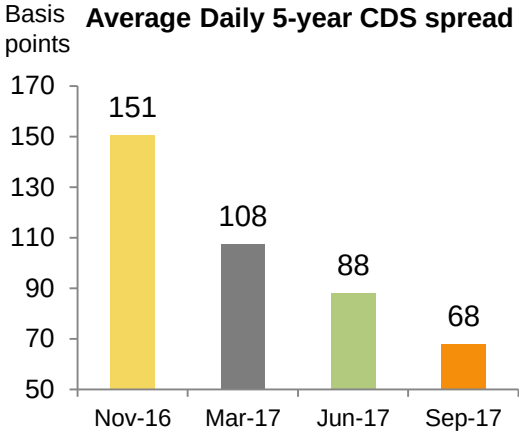
FX transaction cost has reduced for market participants



Greater balance of foreign currency demand and supply



Further reduction in credit spread lowered cost of borrowing

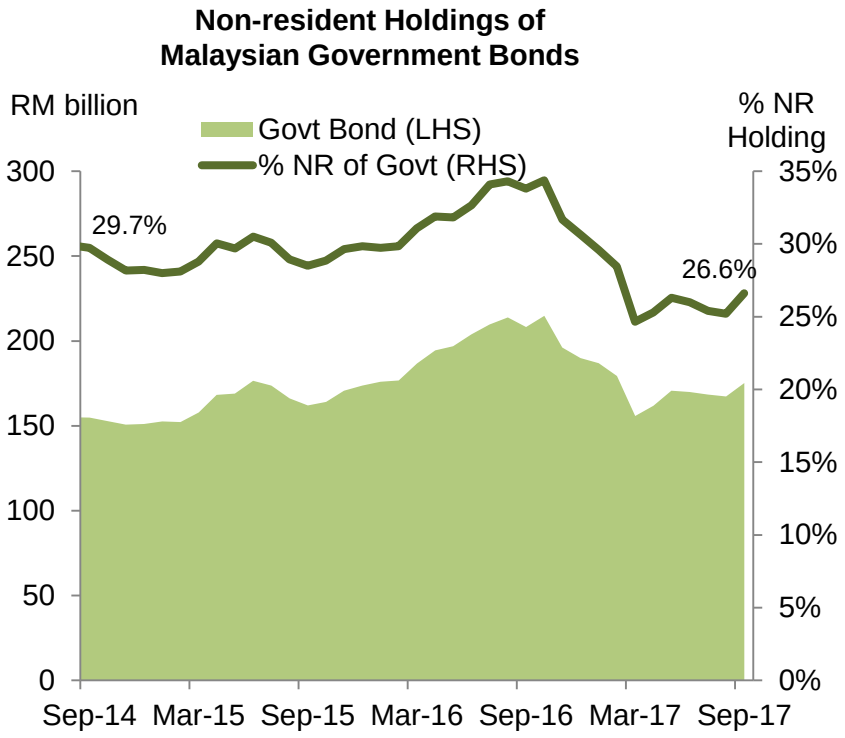


Note: Volatility refers to the difference between USD/MYR interbank intraday highest and lowest rate.
Offshore rate refers to the NDF 1-month rate while onshore rate refers to the spot rate.

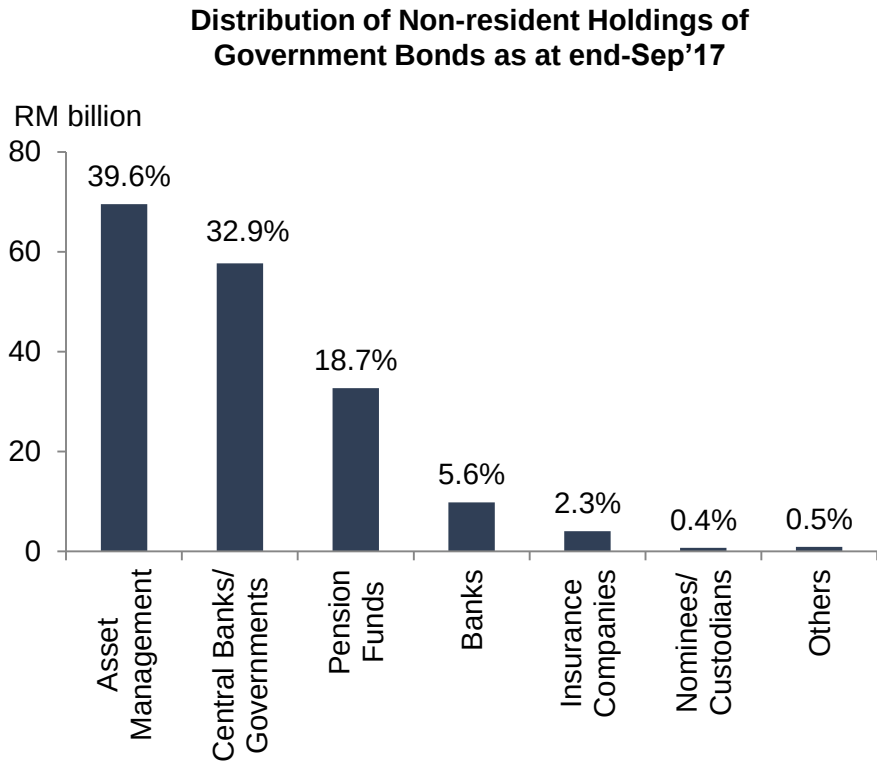
Source: Bank Negara Malaysia, Bloomberg

Non-resident holdings of Malaysian government bonds were slightly higher as at end-Sep 2017 in line with ringgit performance

Higher non-resident holdings of Malaysian Government bonds



Majority of non-residents holdings are by asset managers and Central Bank/Government



Source: Bank Negara Malaysia

Notes:

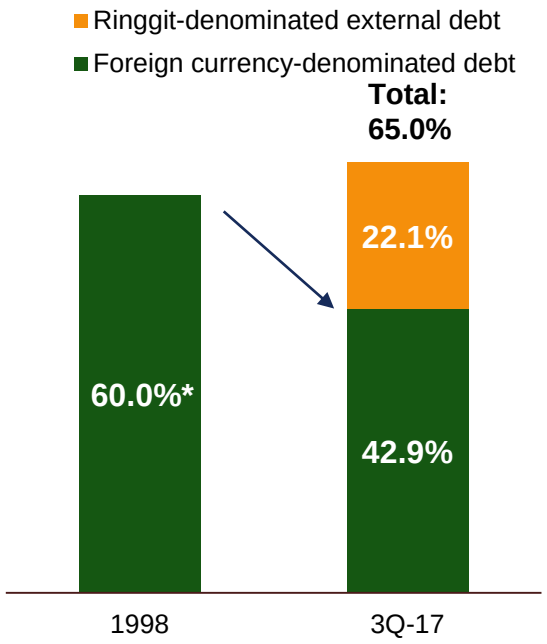
1/ Malaysian Government Bonds includes Malaysian Government Securities (MGS), Malaysian Government Investment Issues (MGII), and Sukuk Perumahan Kerajaan (SPK).

2/ 'Others' include individuals, non-financial corporations and unidentified sectors

Malaysia's external debt remains manageable

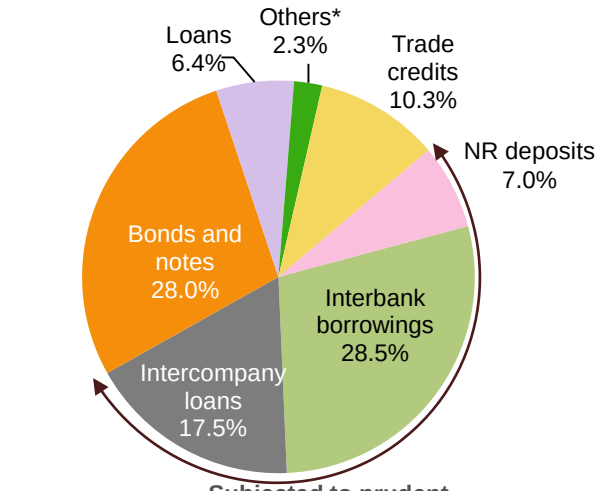
Foreign currency-denominated debt remains low relative to Asian Financial Crisis

Breakdown by Currency (% of GDP)



Foreign currency-denominated debt largely hedged and backed by external assets

Breakdown by instruments (% of total share)



*Includes SDR allocations and miscellaneous, such as insurance claims yet to be disbursed and interest payables on bonds and notes

More than half of foreign-currency denominated debt are subjected to either prudential safeguards or flexible terms

- **Interbank borrowing and non-resident deposits**
  Prudent liquidity management including limits on funding and maturity mismatches
- **Intercompany loans**
  Flexible/concessionary terms
- **Trade credits**
  Backed by export earnings

*Based on previous definition of external debt

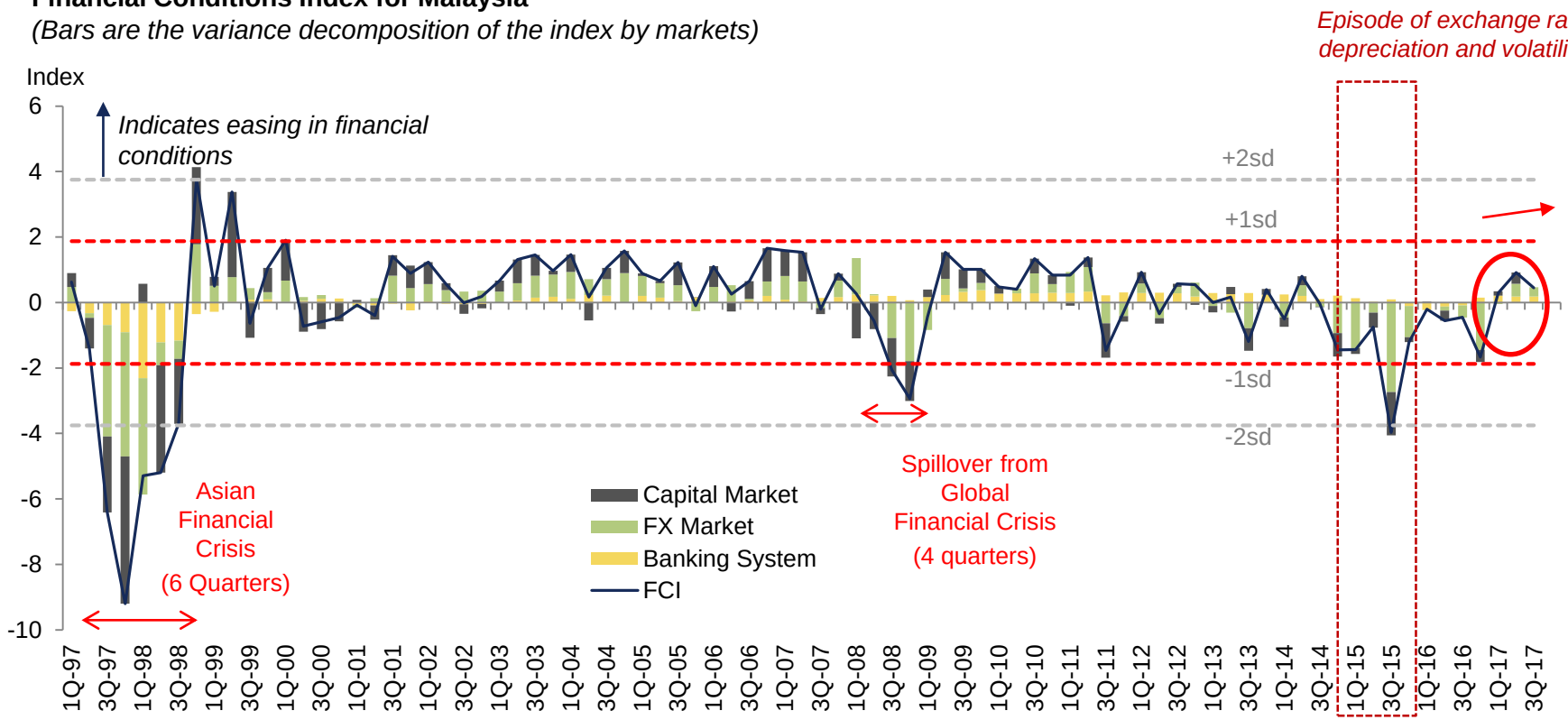
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

The Financial Conditions Index (FCI) indicates improving financial conditions since 2016

- The FCI aggregates financial variables to summarise the current state of domestic financial conditions
- The estimated FCI for Malaysia has improved since 2016, mainly reflecting the decreased volatility in the foreign exchange and equity markets

Financial Conditions Index for Malaysia

(Bars are the variance decomposition of the index by markets)



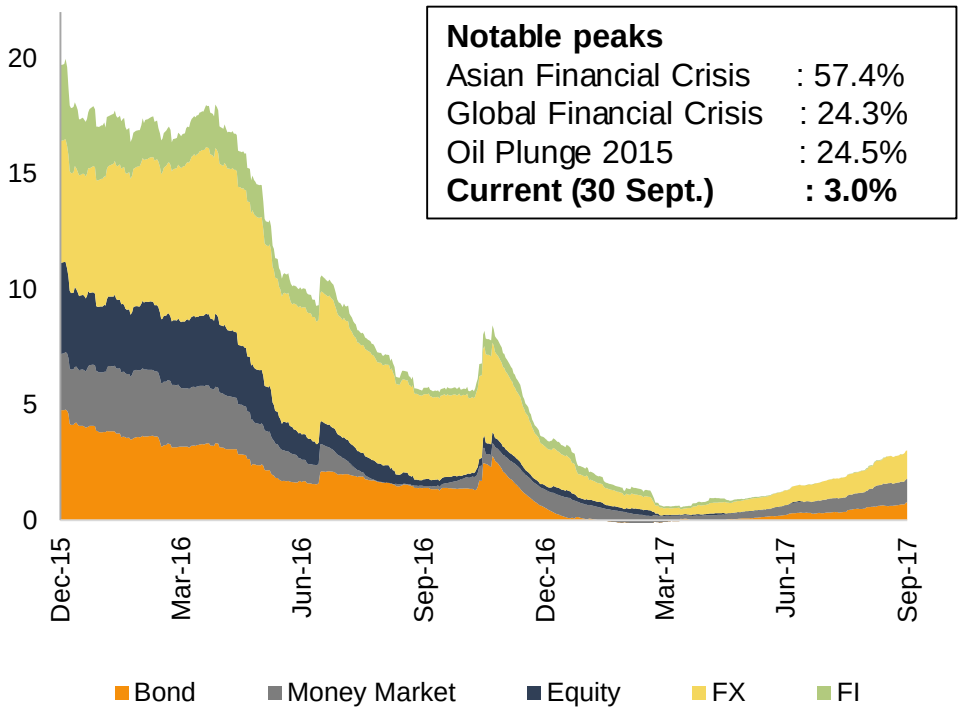
Source: Bank Negara Malaysia estimates

Domestic financial markets remained orderly

Market volatility remained low amid improved domestic sentiments

Financial Market Stress Index (FMSI)

Stress Level, %
(Stacked; Min=0; Max=100)



- **Average volatility declined for 10-year Malaysia Government Securities (MGS) yields and the equity market.**
- **Low volatility partly attributed to improved domestic sentiments amid better-than-expected GDP growth in 2Q 2017**
- **Moving forward, investor sentiment will be influenced primarily by external developments.**

Source: Bank Negara Malaysia, Bloomberg

Domestic financial stability remains intact

- **Financial institutions capitalisation maintained at strong levels**
- **Sufficient high quality capital to manage adverse developments**

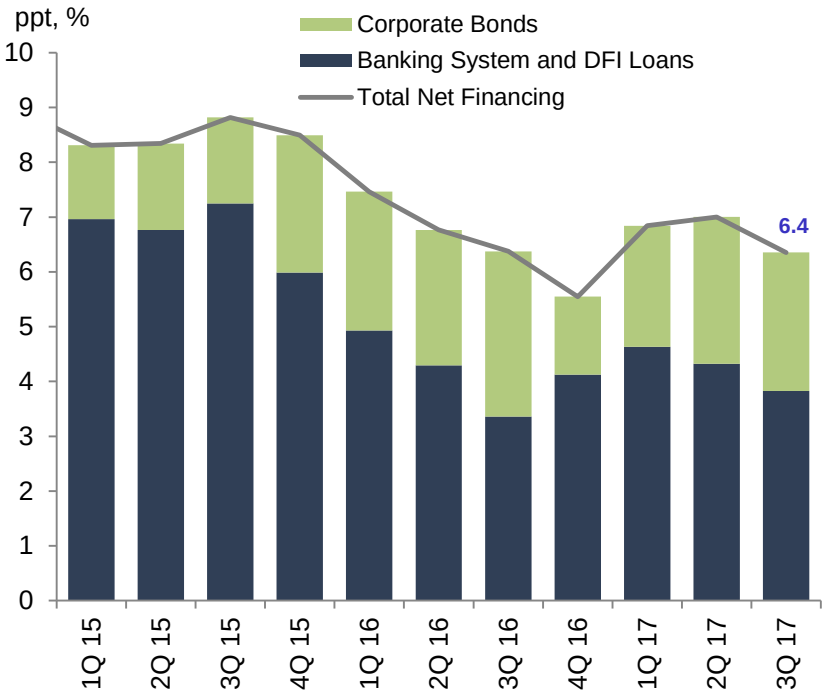
Banking sector	1Q 2017	2Q 2017	3Q 2017
Common equity tier 1 capital ratio (%)	13.1	12.9	13.2
Tier 1 capital ratio (%)	13.9	13.8	14.1
Total capital ratio (%)	17.0	17.0	17.1
Capital buffer (RM bil)	132.6	133.2	135.4
Net impaired loans ratio (%)	1.2	1.2	1.2
ROE (annualised)	11.8	12.7	12.8
Insurance/Takaful sector	**1Q 2017**	**2Q 2017**	**3Q 2017**
Capital adequacy ratio (%) - Insurance	246.1	238.5	234.5
Capital adequacy ratio (%) - Takaful	204.8	211.4	204.4
Capital buffer (RM bil)	38.2	37.1	35.4
Profitability (RM bil)	6.6	5.2	4.2
Excess income over outgo (RM bil)	6.1	4.4	3.5
Operating profit (RM bil)	0.5	0.8	0.7
Claims Ratio (%)	62.9	55.3	61.2

Source: Bank Negara Malaysia

Financing to the private sector moderated since the previous quarter

While growth of corporate bonds was sustained, net financing growth moderated, driven by slower loan growth…

Contribution to Net Financing Growth*

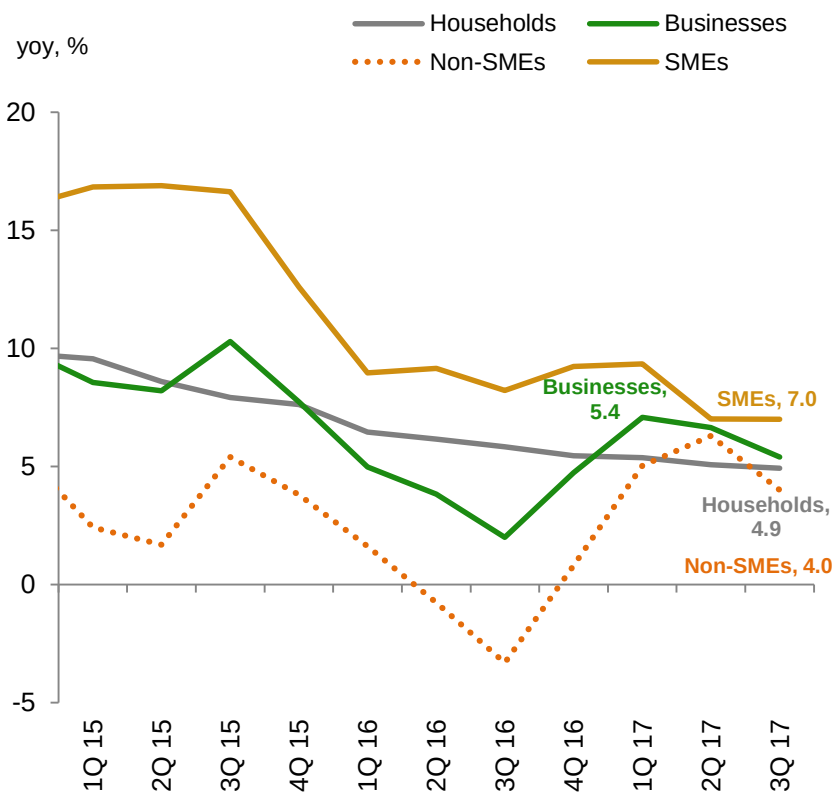


*Net financing comprises outstanding banking system and DFIs loans, and outstanding corporate bonds

Source: Bank Negara Malaysia

… contributed primarily by lower loan growth to businesses other than SMEs

Outstanding Banking System and DFI Loan Growth by Borrowers

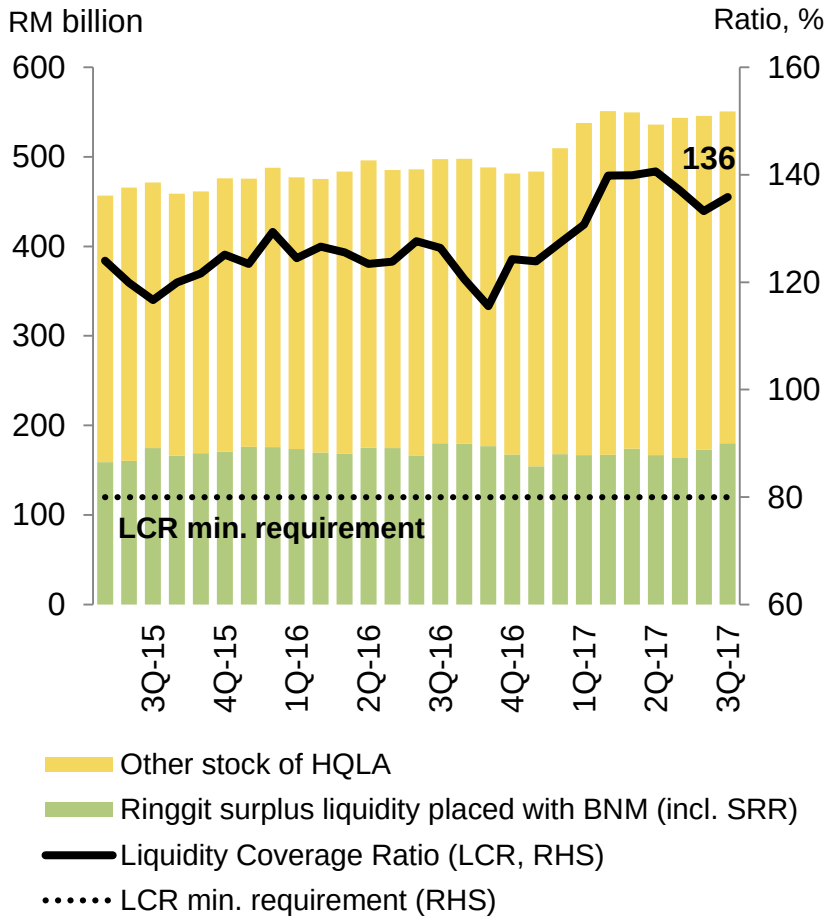


Source: Bank Negara Malaysia

Sufficient liquidity in the banking system to support intermediation

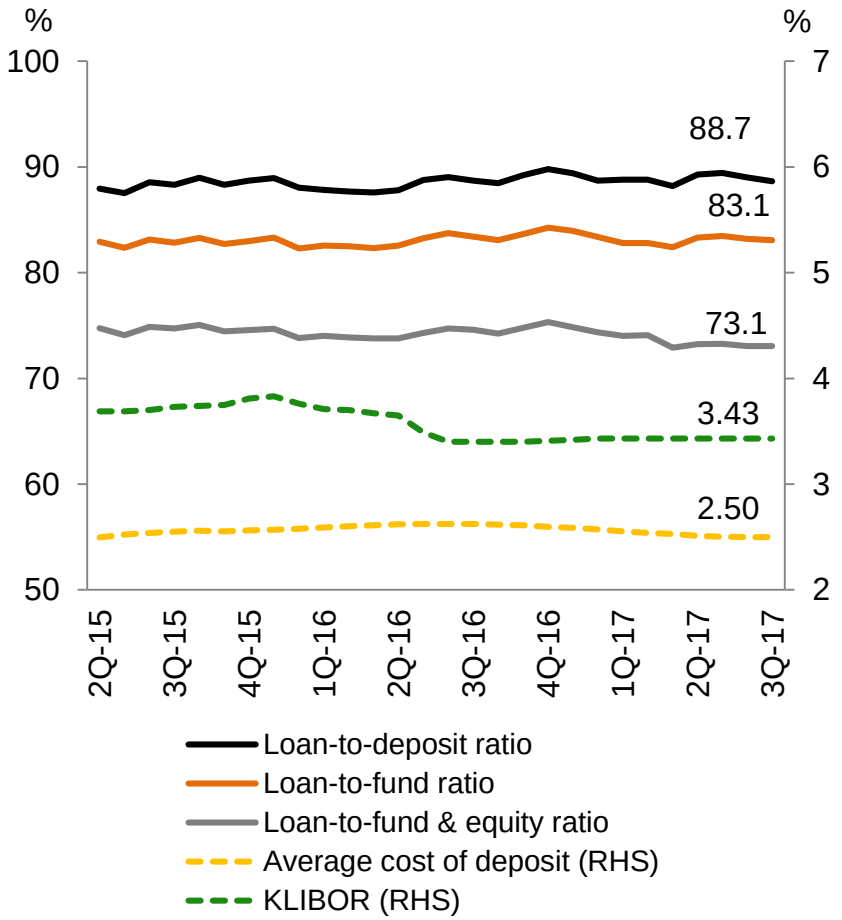
LCR well above the transitional minimum requirement

Liquidity coverage ratio and liquid assets



Banks' funding structure remained stable

Funding structure and cost of funds

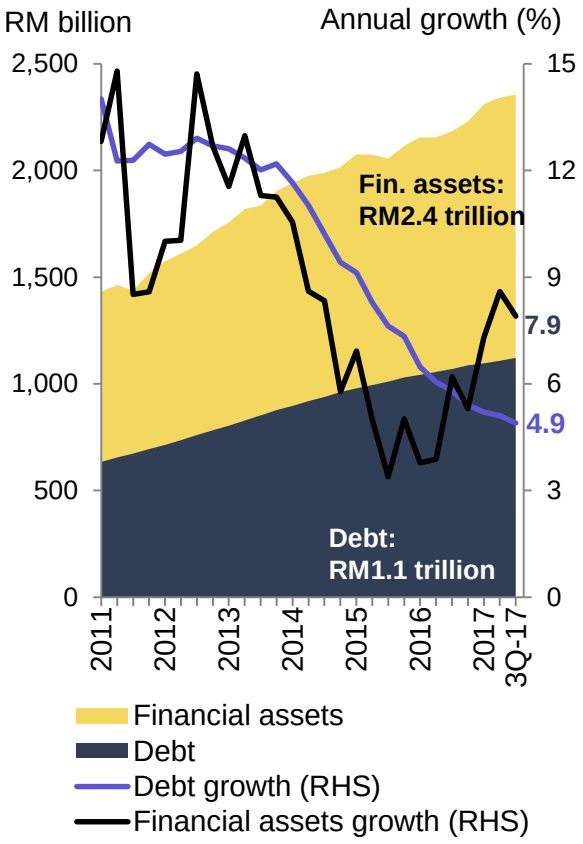


Source: Bank Negara Malaysia

Sustained debt servicing capacity of households

Household debt growth continued to moderate

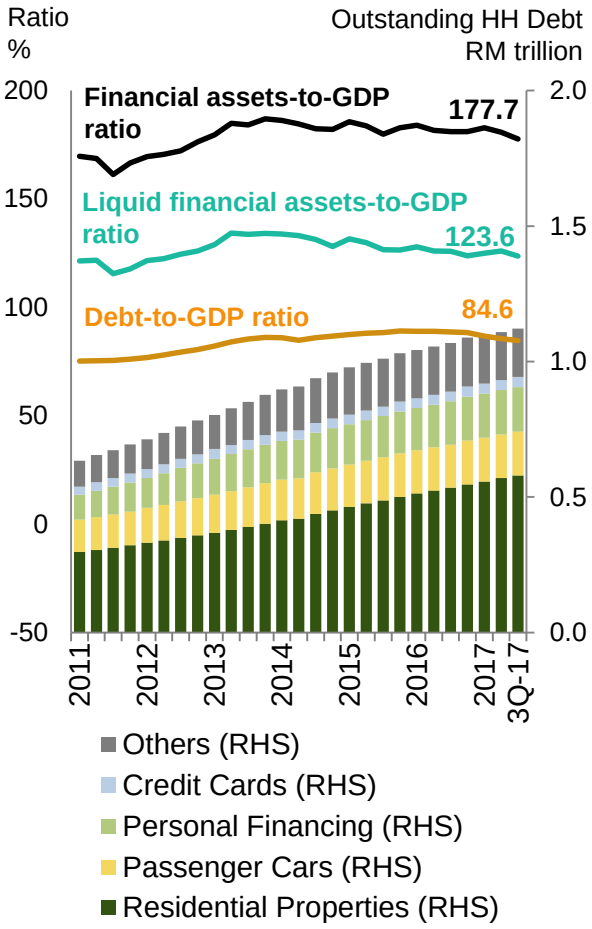
Household Debts and Financial Assets



Source: Bank Negara Malaysia

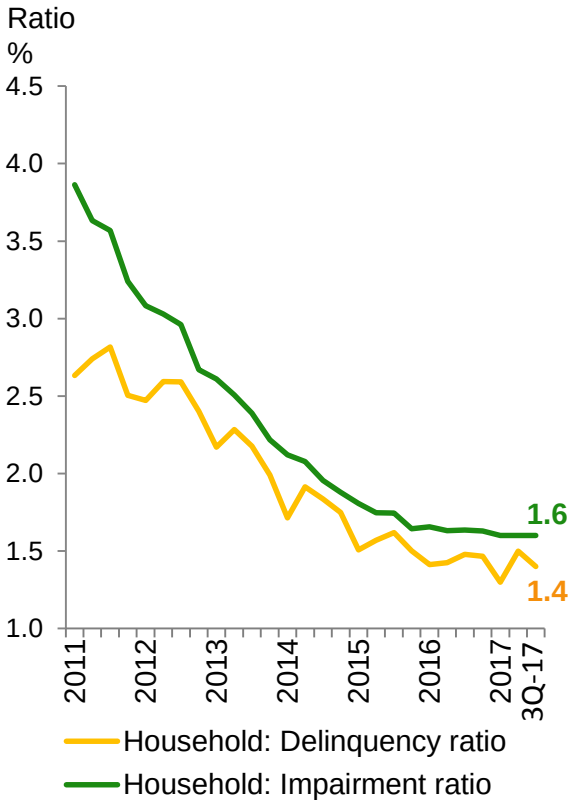
Household financial assets sustained at 2.1x of debt

Household Sector: Key Ratios



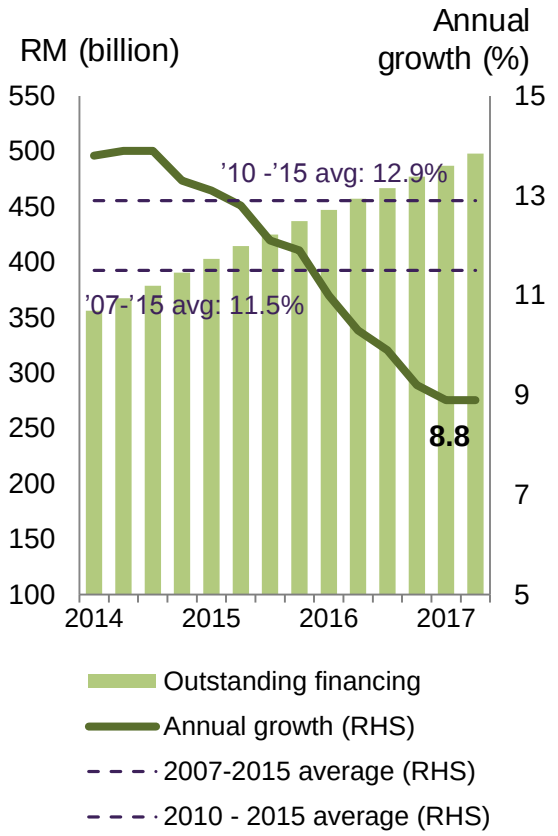
Sound asset quality of household loans

Gross Impaired and Delinquent Loans

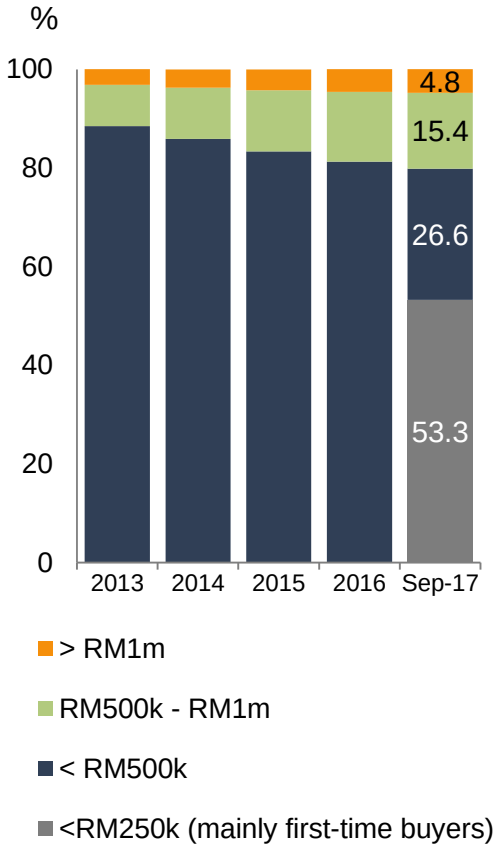


Borrowers continued to have access to home financing, especially first-time home buyers

Housing loans continued to grow at a sustained pace



About 71% of outstanding loans are to first-time house buyers priced <RM500K



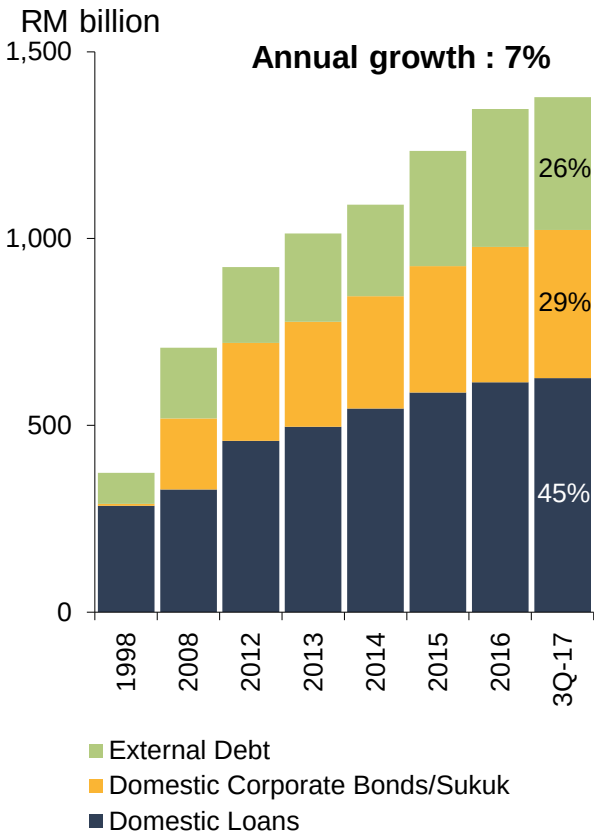
- **Access to financing for first-time home buyers maintained.**
- **Housing loan approval rate stood above 70%, while rejection rate remained below 4-year average at 23.3.%**
- **Financing for speculative house purchases remained muted**

Source: Bank Negara Malaysia

Businesses, including SMEs continued to have access to financing

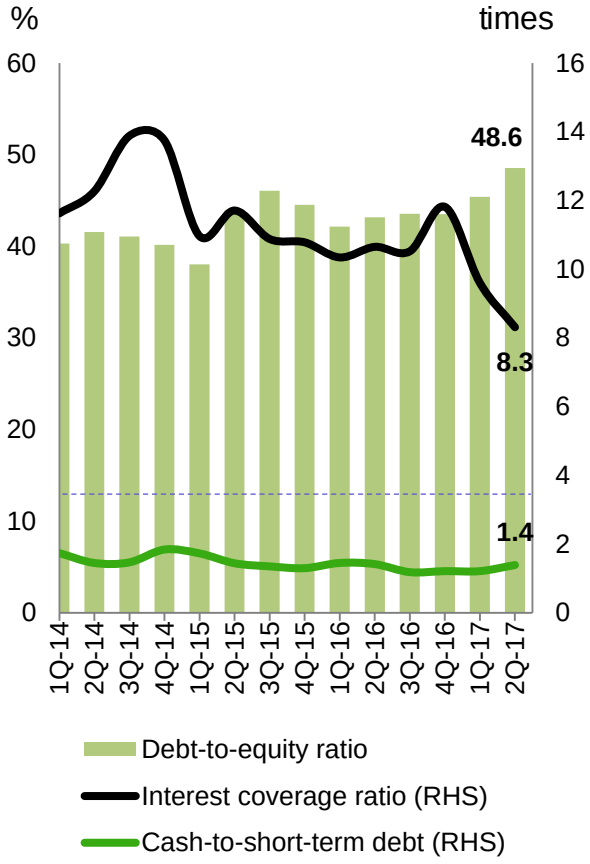
Continued access to financing for businesses, including SME

Domestic and external debt



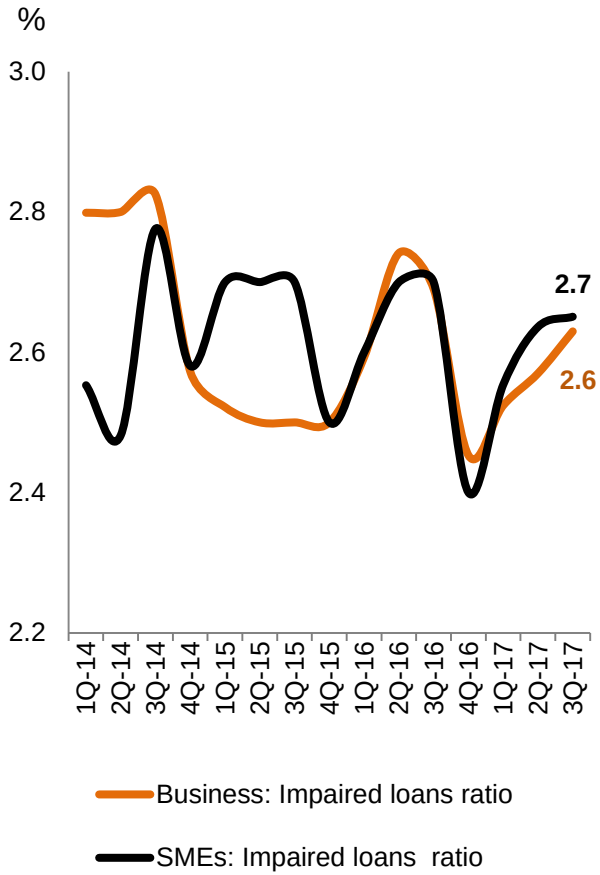
Overall debt servicing capacity sustained

Leverage, debt servicing capacity and liquidity indicators



Impairments remained low, despite upticks in some sectors

Gross impaired loans

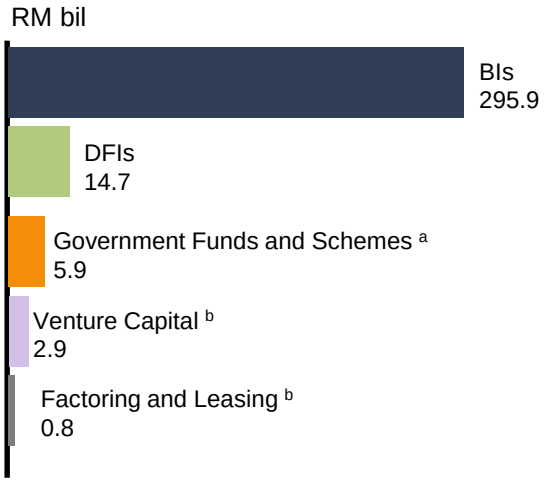


Source: Bank Negara Malaysia

Financial institutions remain the largest source of financing for SMEs

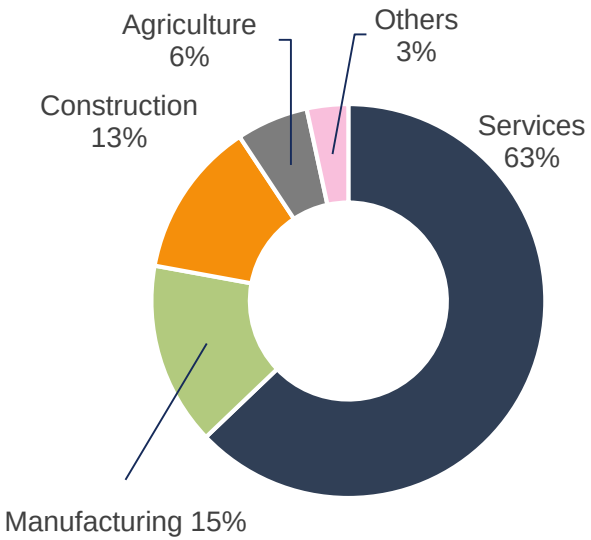
97% of financing to SMEs are from financial institutions (BIs and DFIs)

Financing Outstanding to SMEs



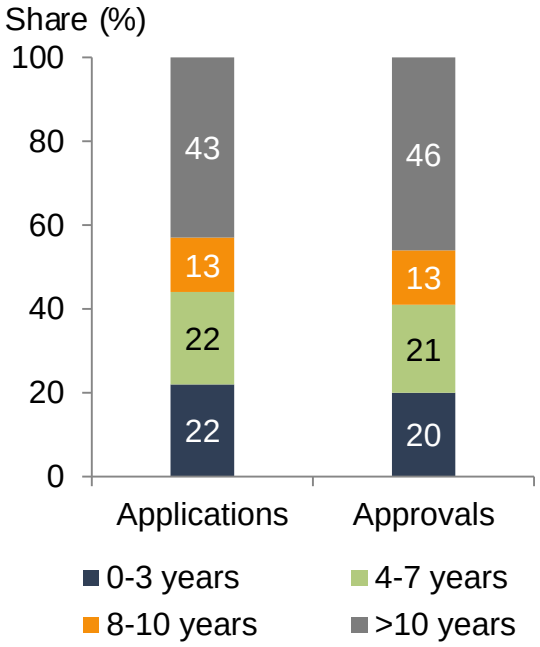
FIs extend financing to SMEs across the spectrum

FIs Financing to SME by Sectors



One in 5 SMEs financing approvals are to start-ups

Share of SME Applications and Approvals



[a] SME Annual Report 2015/16

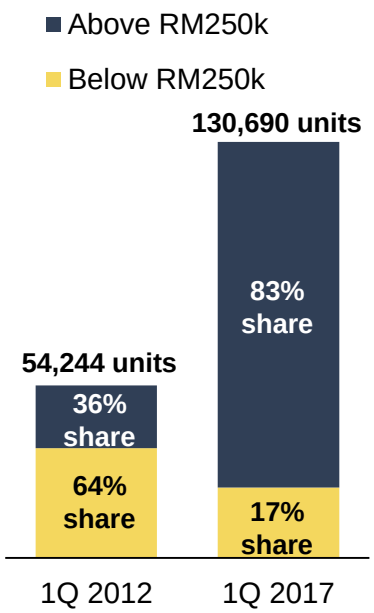
[b] As at end-2016

Source: Bank Negara Malaysia, SME Corp, Securities Commission

Property imbalances pose significant risks to the overall economy in the event of a shock

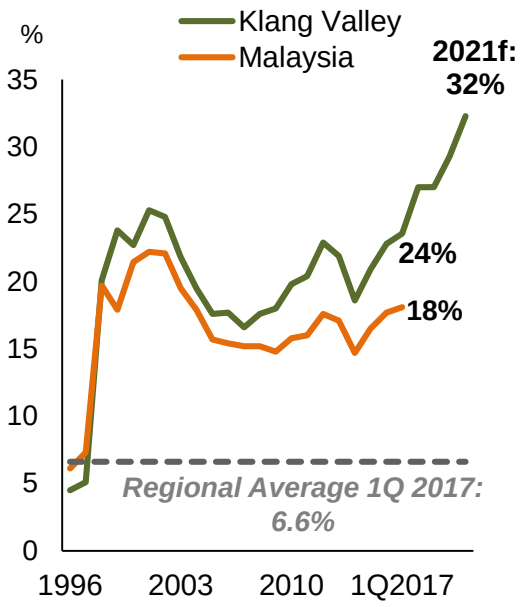
Record-high unsold residential units, mainly above RM250k

Unsold Residential Units



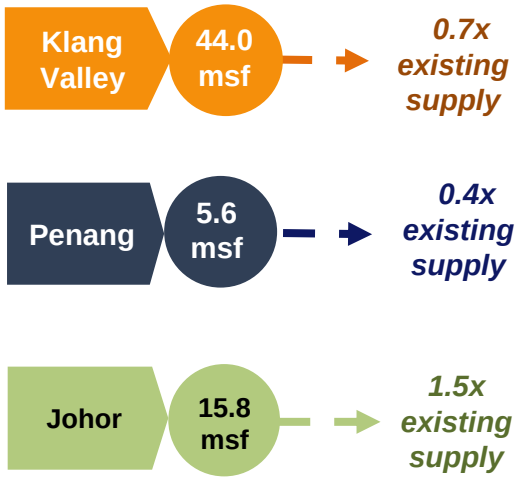
High office vacancy rates, particularly in Klang Valley

Office Vacancy Rates



140 new malls to enter the market in key states by 2021

Incoming Supply
(2017 Onwards)



With linkages to over **120 industries**, vulnerabilities in the property market pose risks to the wider economy, as observed during the Asian Financial Crisis

Note: Total unsold includes overhang properties and unsold under construction. Estimates include SOHO and serviced apartments.
Source: NAPIC, DOSM, Jones Lang Wootton and Bank Negara Malaysia estimates

Malaysian economy to register higher growth in 2017

Given the continued strong growth performance in the third quarter, the Malaysian economy is on track to register stronger growth of 5.2 – 5.7% in 2017

Growth prospects continue to be supported by domestic demand and continued strength in exports

- Continued wage and employment growth
- New and on-going implementation of infrastructure projects
- Improvement in global growth, especially among Malaysia's key trading partners

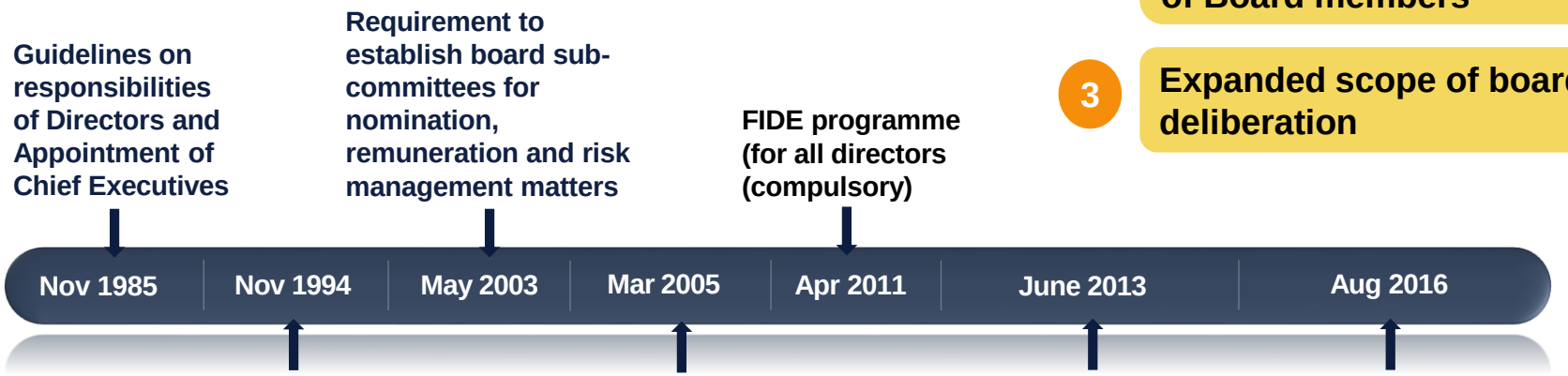
Strong and resilient macroeconomic fundamentals accord Malaysia the ability to manage current challenges and pursue structural reforms

Highlights of the Bank's Policy Initiatives on Corporate Governance of Financial Institutions

Evolution of corporate governance standards has elevated the quality of board oversight in financial institutions

Key observations …

1. **Stronger board independence**
2. **Improvement in competency, composition and commitment of Board members**
3. **Expanded scope of board deliberation**



Q & A

The Malaysian economy recorded a higher growth of 6.2% in the third quarter of 2017

Real GDP (Annual change, %)	Share, % (2016)	2016	2017		
		Year	1Q	2Q	3Q
Domestic demand (excluding stocks)	**91.6**	**4.3**	**7.7**	**5.7**	**6.6**
Private Sector	**70.1**	**5.6**	**8.2**	**7.2**	**7.3**
Consumption	*53.2*	*6.0*	*6.6*	*7.1*	*7.2*
Investment	*16.9*	*4.3*	*12.9*	*7.4*	*7.9*
Public Sector	**21.5**	**0.4**	**5.8**	**0.2**	**4.1**
Consumption	*13.1*	*0.9*	*7.5*	*3.3*	*4.2*
Investment	*8.5*	*-0.5*	*3.2*	*-5.0*	*4.1*
Net exports of goods and services	**8.4**	**1.5**	**-14.5**	**1.4**	**1.7**
Exports	*70.4*	*1.1*	*9.8*	*9.6*	*11.8*
Imports	*62.1*	*1.1*	*12.9*	*10.7*	*13.4*
Change in stocks (RM billion)	**0.0**	**0.3**	**1.8**	**-0.4**	**-2.0**
GDP (y-o-y)	**100[1]**	**4.2**	**5.6**	**5.8**	**6.2**
GDP (q-o-q growth, seasonally adjusted)	**-**	**-**	**1.8**	**1.3**	**1.8**

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

Real GDP (Annual change, %)	Share, % (2016)	2016	2017		
		Year	1Q	2Q	3Q
Services	**54.3**	**5.6**	**5.8**	**6.3**	**6.6**
Manufacturing	**23.0**	**4.4**	**5.6**	**6.0**	**7.0**
Mining and Quarrying	**8.8**	**2.2**	**1.6**	**0.2**	**3.1**
Agriculture	**8.1**	**-5.1**	**8.3**	**5.9**	**4.1**
Construction	**4.5**	**7.4**	**6.5**	**8.3**	**6.1**
GDP (y-o-y)	**100[2]**	**4.2**	**5.6**	**5.8**	**6.2**

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