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Sidang Akhbar

Prestasi Ekonomi pada Suku Keempat Tahun 2014

Gabenor

Bank Negara Malaysia

12 Februari 2015

Sidang akhbar akan meliputi:

- **Prestasi ekonomi pada suku keempat tahun 2014**
- **Perkembangan monetari dan kewangan**

Moderate global growth in 4Q 2014

Global Growth

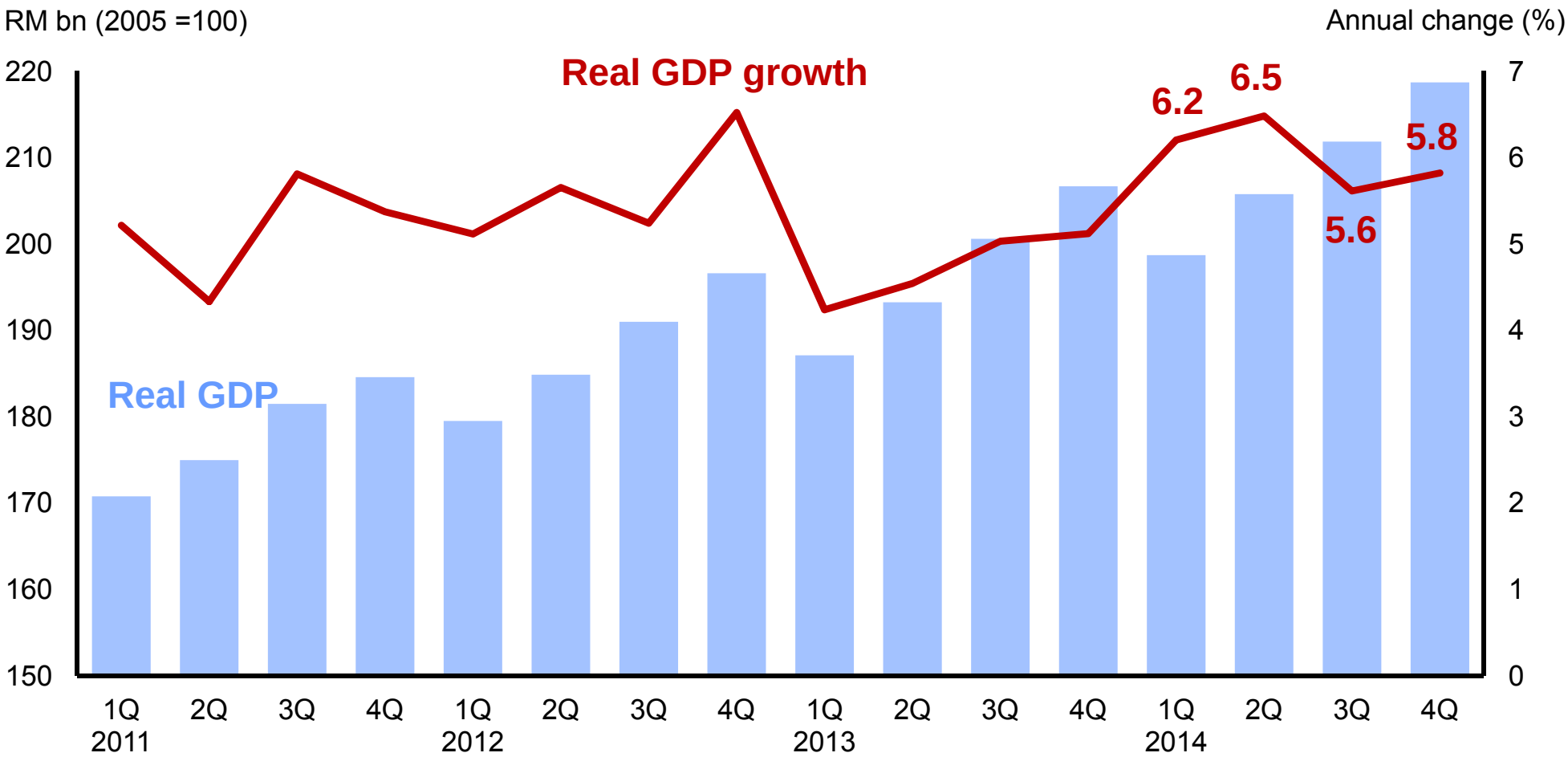
	2013		2014		
	4Q	Year	3Q	4Q	Year
	Annual change (yoy, %)				
Advanced economies					
US	3.1	2.2	2.7	2.5[a]	2.4[a]
UK	2.4[r]	1.7	2.6[r]	2.7[p]	2.6[p]
Euro area	-0.3	0.4	0.8	0.7[f]	0.8[f]
Japan	2.3	1.5	-1.3	0.2[f]	0.2[f]
Asian economies					
PR China	7.6	7.7	7.3	7.3	7.4
Indonesia	5.6[r]	5.6[r]	4.9[r]	5.0	5.0
Philippines	6.3	7.2	5.3	6.9	6.1
Chinese Taipei	3.4	2.2	3.6[a]	3.2[a]	3.5[a]
Korea	3.7[p]	3.0[p]	3.2[a]	2.7[a]	3.3[a]
Singapore	4.9	3.9	2.4[a]	1.5[a]	2.8[a]

[p] Preliminary estimate [a] Advance estimate [r] Revised [f] Consensus forecast

Source: National authorities, Consensus forecasts

- Divergence of growth momentum across major economies
  - Sustained economic recovery in the US and UK
  - Subdued economic activity in the euro area and Japan
- Growth in Asia continues to be supported by expansion in domestic demand and exports

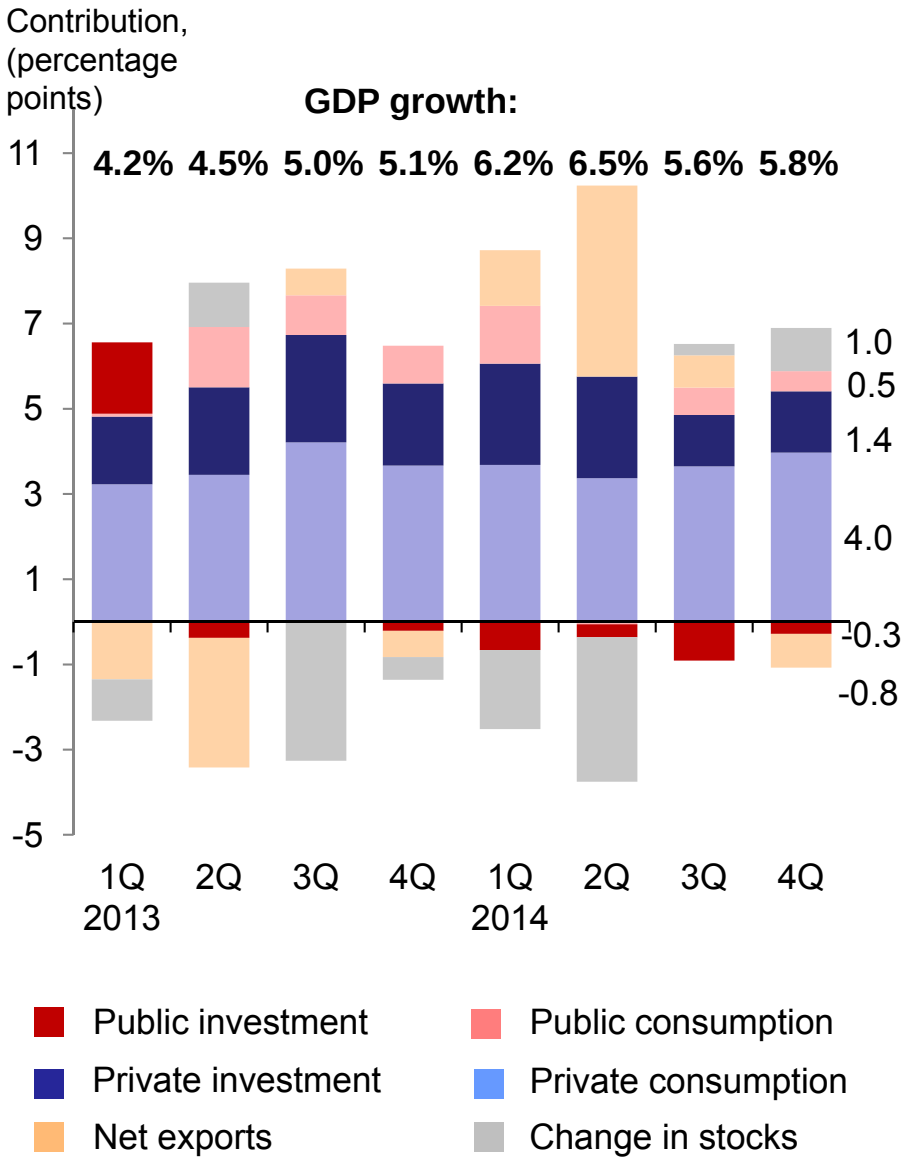
The Malaysian economy registered a higher growth of 5.8% in 4Q 2014



Source: Department of Statistics, Malaysia

Private sector spending was the key driver of growth in 4Q 2014

Real GDP (Annual change, %)	2013		2014		
	4Q	Year	3Q	4Q	Year
Domestic demand (excluding stocks)	**6.7**	**7.4**	**4.9**	**5.9**	**6.0**
Private Sector	**9.1**	**8.6**	**6.7**	**8.5**	**8.0**
Consumption	*7.4*	*7.2*	*6.7*	*7.8*	*7.1*
Investment	*16.6*	*13.1*	*6.8*	*11.2*	*11.0*
Public Sector	**2.1**	**4.4**	**-1.2**	**0.6**	**0.2**
Consumption	*5.2*	*6.3*	*5.3*	*2.7*	*4.4*
Investment	*-1.4*	*2.2*	*-8.9*	*-2.1*	*-4.9*
Net exports of goods and services	**-6.8**	**-12.6**	**11.4**	**-9.8**	**19.7**
Exports	*5.7*	*0.6*	*2.8*	*1.5*	*5.1*
Imports	*7.1*	*2.0*	*2.2*	*2.6*	*3.9*
Change in stocks (RM billion)	**-5.2**	**-1.5**	**-1.4**	**-3.2**	**-8.8**
GDP (y-o-y)	**5.1**	**4.7**	**5.6**	**5.8**	**6.0**
GDP (q-o-q growth, seasonally adjusted)	**1.9**	**-**	**0.9**	**2.0**	**-**



Source: Department of Statistics, Malaysia

Growth supported by the major economic sectors

Real GDP (Annual change, %)	Real share, % (2014)	2013		2014		
		4Q	Year	3Q	4Q	Year
Services	55.3	6.4	5.9	6.2	6.4	6.3
Manufacturing	24.6	5.2	3.5	5.4	5.2	6.2
Mining	7.9	-1.2	0.7	1.4	9.6	3.1
Agriculture	6.9	0.2	2.1	4.0	-2.8	2.6
Construction	3.9	9.8	10.9	9.6	8.7	11.6
GDP	**100.0**[1]	**5.1**	**4.7**	**5.6**	**5.8**	**6.0**

- **Services:** Growth underpinned by expansion across all sub-sectors
- **Manufacturing:** Continued expansion supported mainly by export-oriented industries
- **Construction:** Growth driven primarily by non-residential and residential sub-sectors
- **Agriculture:** Contraction due to lower palm oil production
- **Mining:** Strong growth due to higher crude oil production

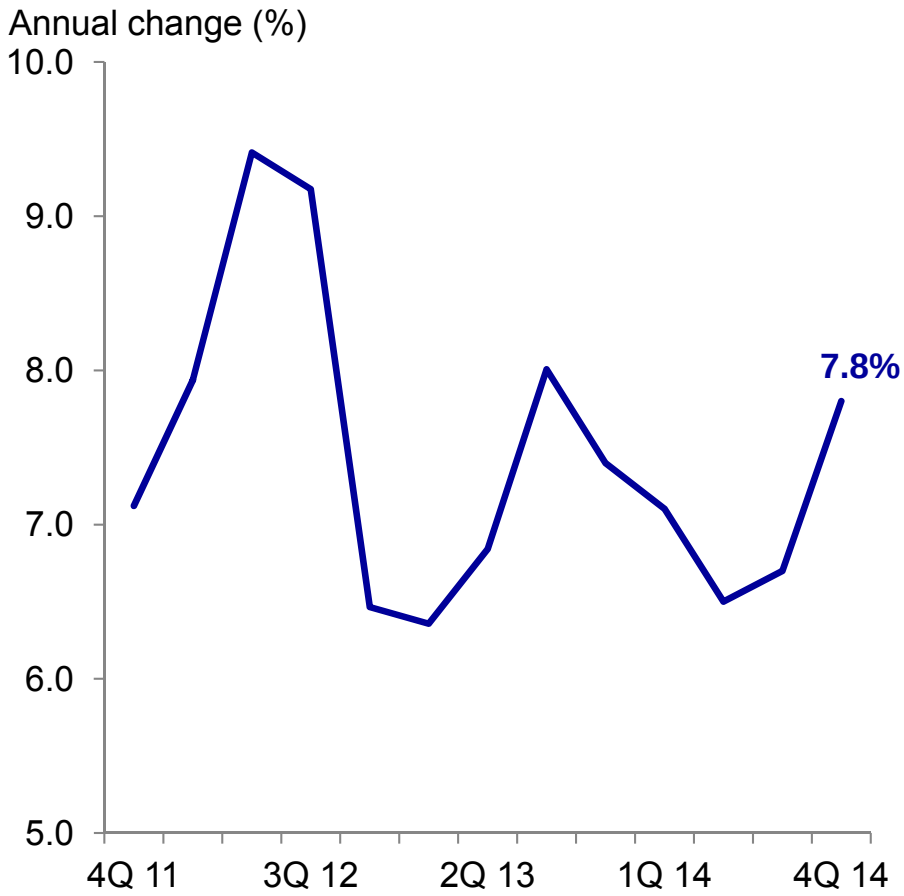
[1] Numbers do not add up due to rounding and exclusion of import duties component

Source: Department of Statistics, Malaysia

Private consumption grew at a stronger pace of 7.8%

Stronger pace of private consumption

Real Private Consumption Growth



Source: Department of Statistics, Malaysia

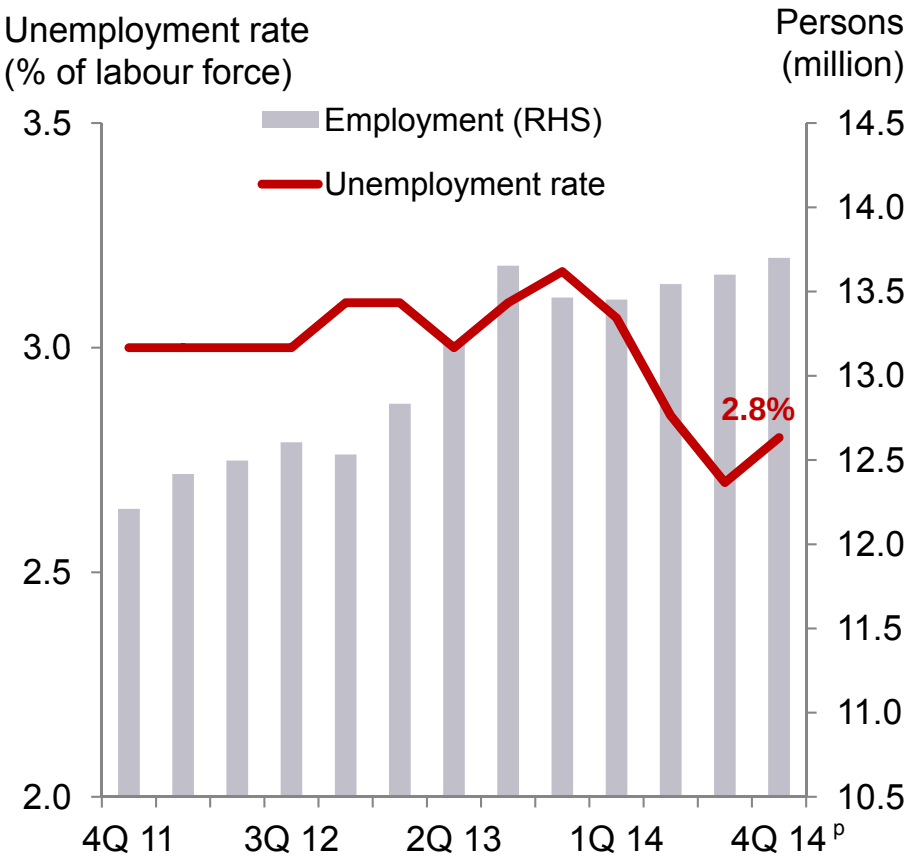
Private consumption was supported by:

- Stable labour market conditions with sustained employment and low rate of unemployment
- Positive wage growth in domestic- and export-oriented sectors
- Continued access to financing by creditworthy households

Employment continued to be supported by growth in the services and manufacturing sectors

Unemployment rate remained low

Unemployment Rate and Employment

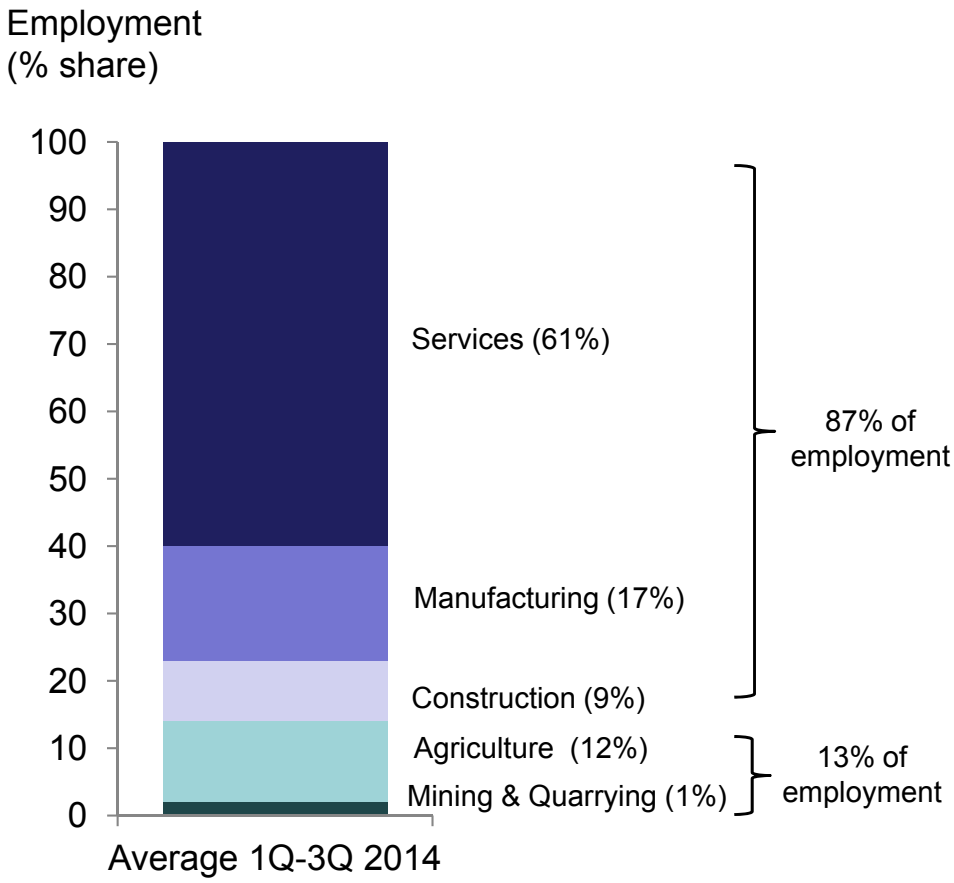


p Preliminary

Source: Department of Statistics, Malaysia

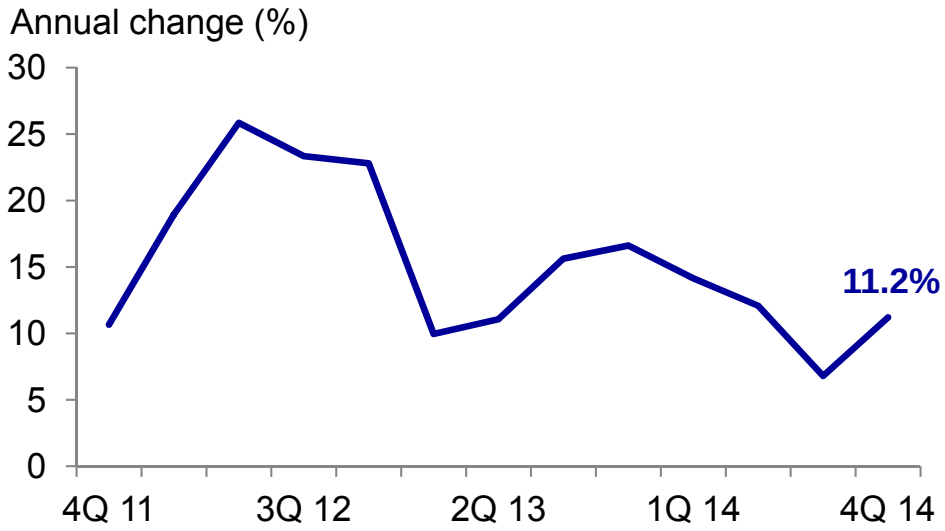
Employment is concentrated in the services and manufacturing sectors

Employment by Sector



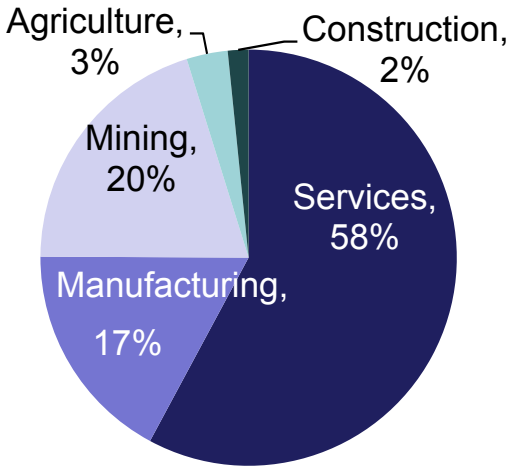
Private investment advanced by 11.2%

Real Private Investment Growth



Total Investment by Sectors in 2013

(% share to nominal total investment)



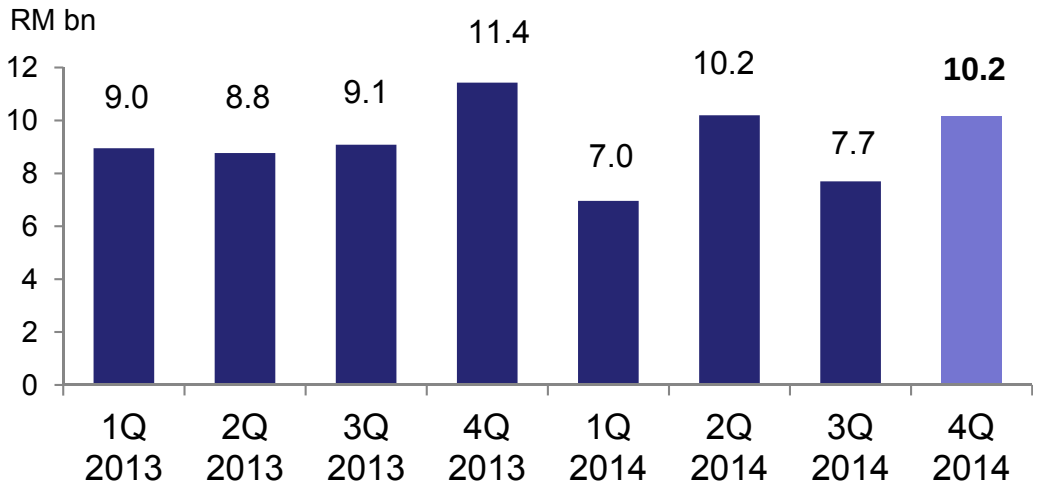
Private investment continued to expand

- Capital spending underpinned by investment in the services and manufacturing sectors (~76% of private investment)

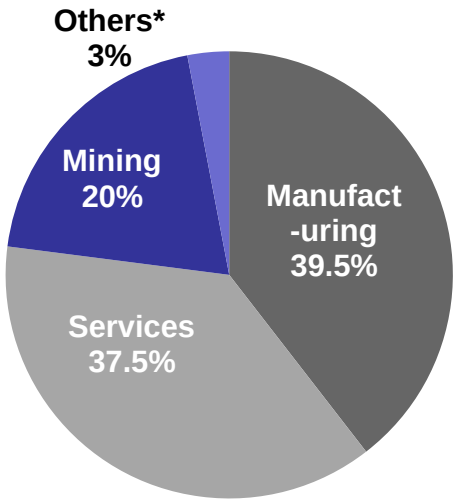
Source: Department of Statistics, Malaysia and MIDA

Larger inflows of FDI reflecting sustained foreign investors' interest in Malaysia

Net FDI in Malaysia (1Q 2013 – 4Q 2014)



FDI by Sector (2010 – 2014)

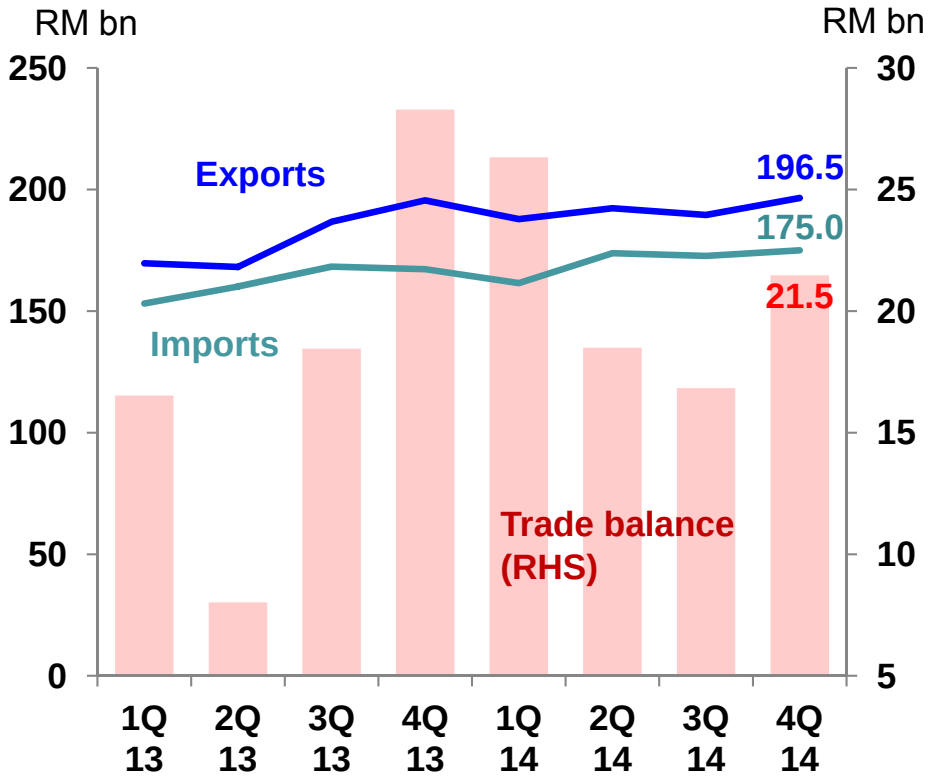


**Refers to agriculture and construction*

- Net FDI amounted to RM10.2 billion in 4Q 2014 (3Q 2014: RM7.7 billion).
- For 2014, FDI amounted to RM35.1 billion (2013: RM38.2 billion).
- Well-diversified FDI inflows into the major economic sectors.

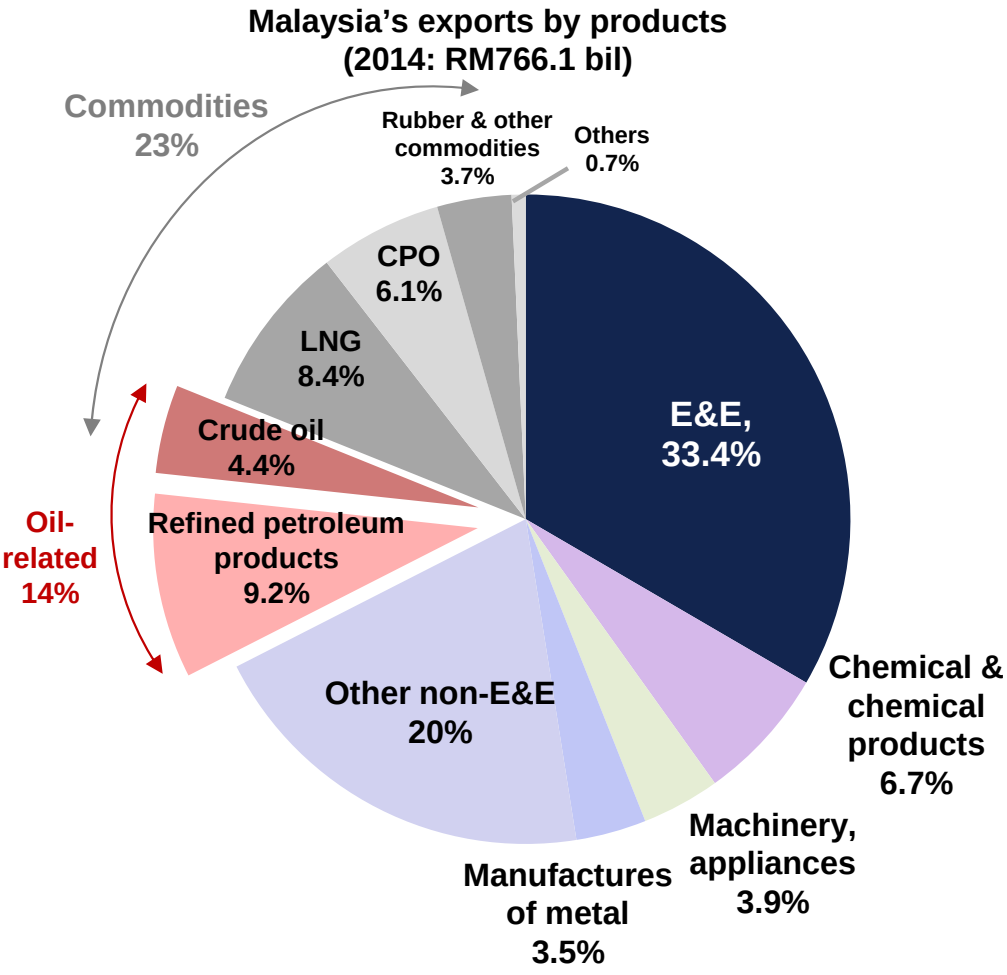
Higher trade balance in 4Q 2014

Trade balance in 4Q 2014



% yoy	4Q13	3Q14	4Q14
Exports	10.4	1.5	0.5
Imports	11.4	2.6	4.6

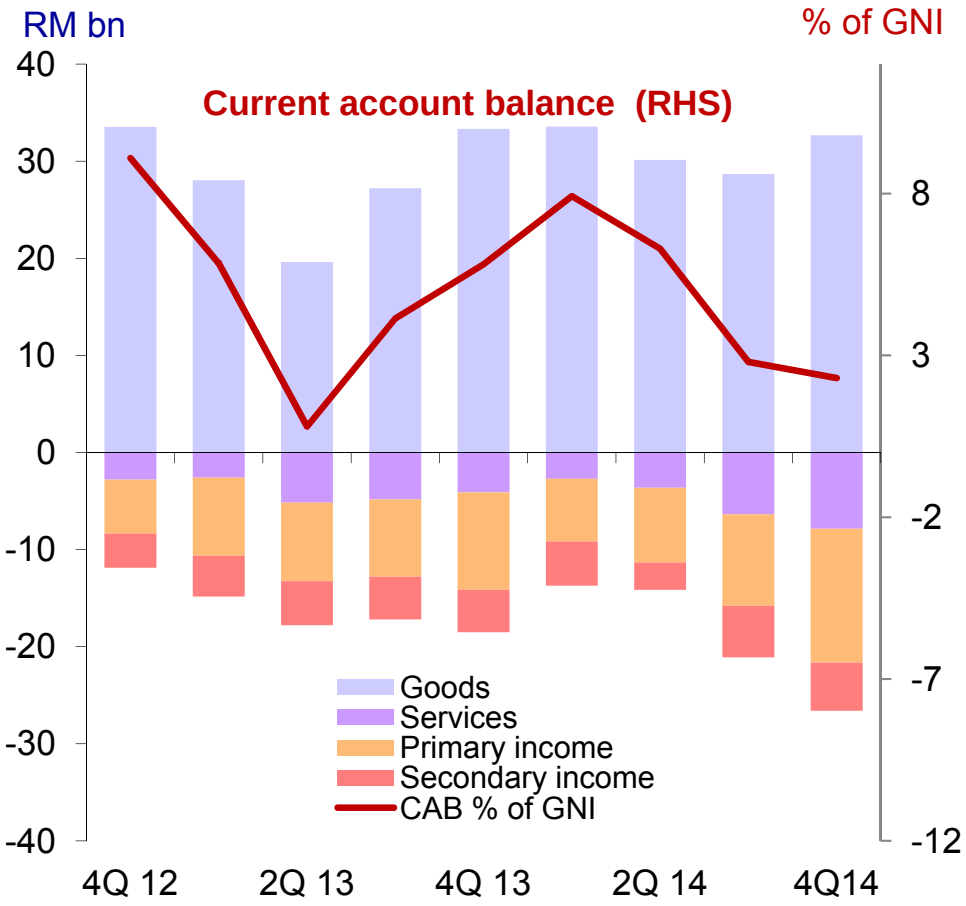
Export performance driven by diversified product structure



Source: Department of Statistics, Malaysia

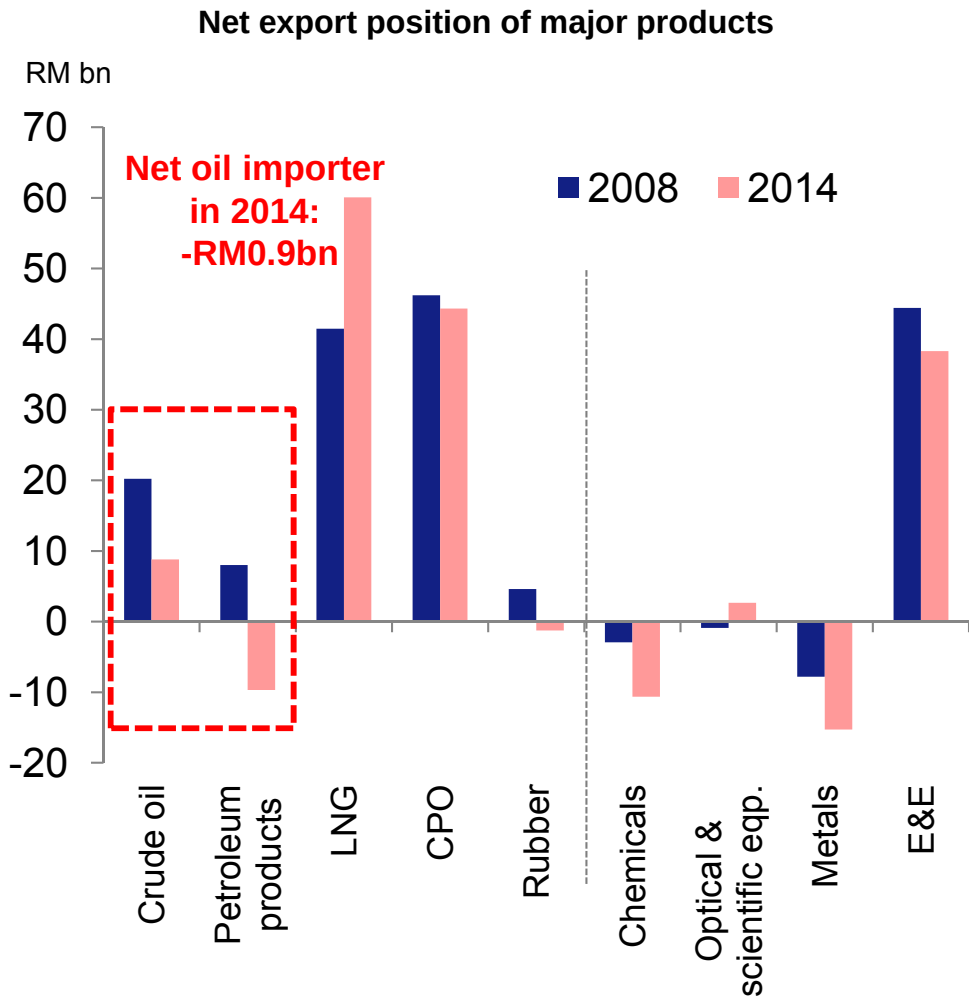
Current account remained in surplus in 4Q 2014

Current account continues to record a surplus in 4Q 2014



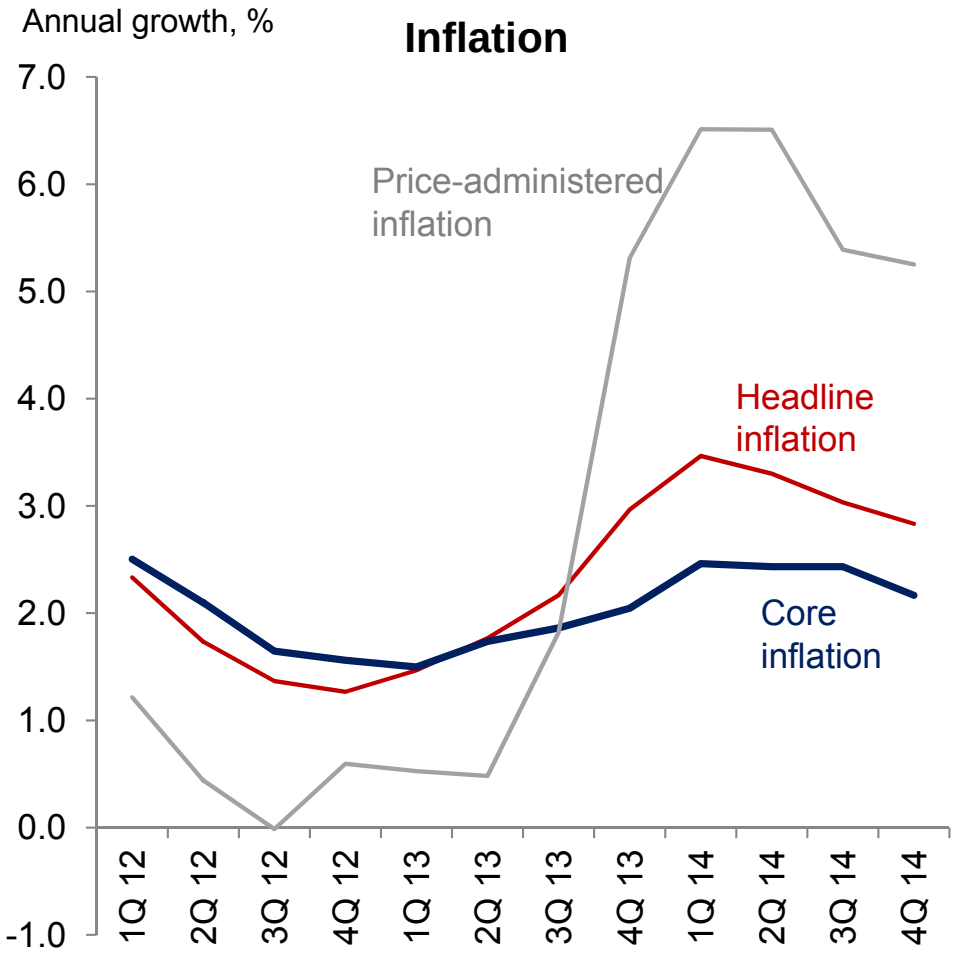
Source: Department of Statistics, Malaysia

As a net importer of oil*, Malaysia will face lower import costs amid lower exports



* Includes both crude and refined petroleum products

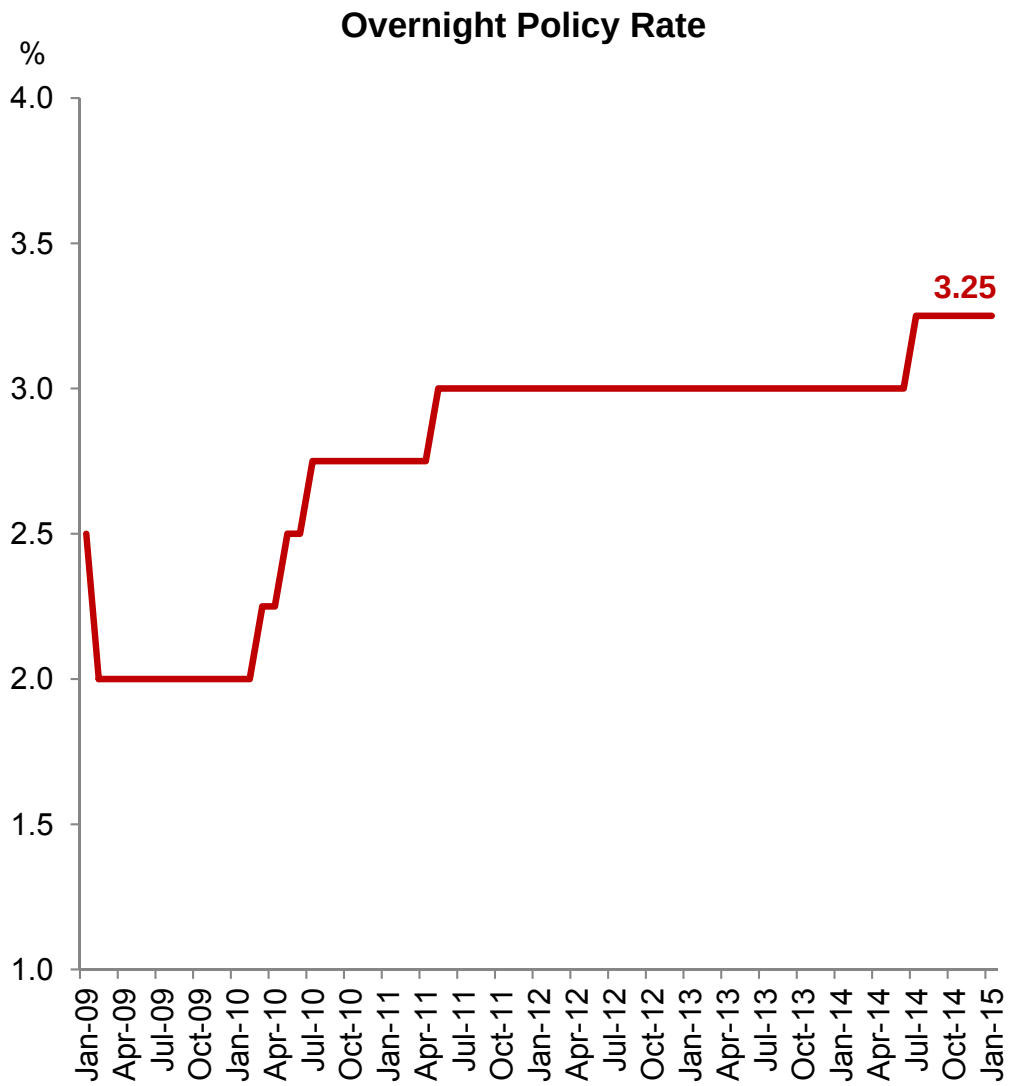
Inflation moderated to 2.8% in 4Q 2014



- Going forward, headline inflation is expected to be lower amidst lower global oil prices
  - Households will benefit through higher disposable income from lower fuel prices
- Underlying inflation is expected to remain stable

Source: Department of Statistics, Malaysia and BNM

OPR maintained at 3.25% amid steady growth prospects and lower inflation outlook

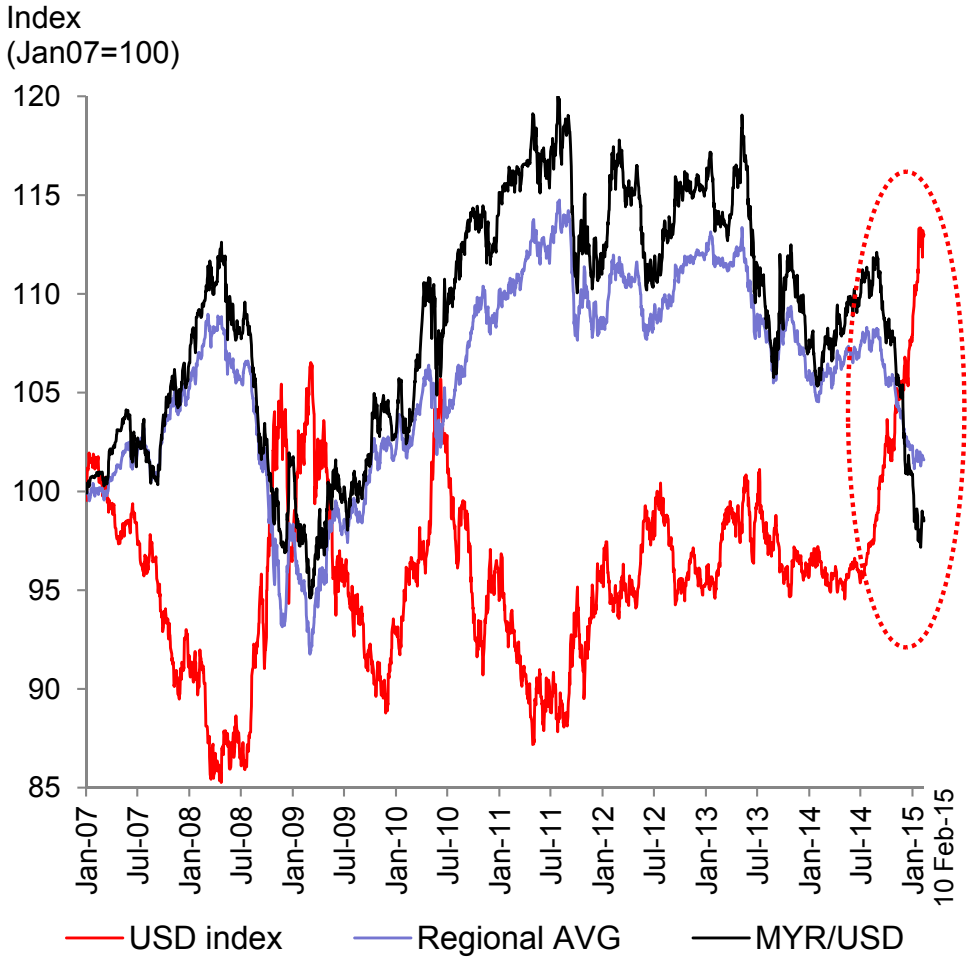


- The Malaysian economy is expected to still remain on a steady growth path with domestic demand as the key driver of growth
- Inflation is expected to be lower going forward due to lower energy and commodity prices
- The stance of monetary policy remains accommodative
- The MPC will also continue to monitor the risks of destabilising financial imbalances

Ringgit movements driven by external factors

Depreciation of the ringgit and regional currencies as a result of US dollar strength

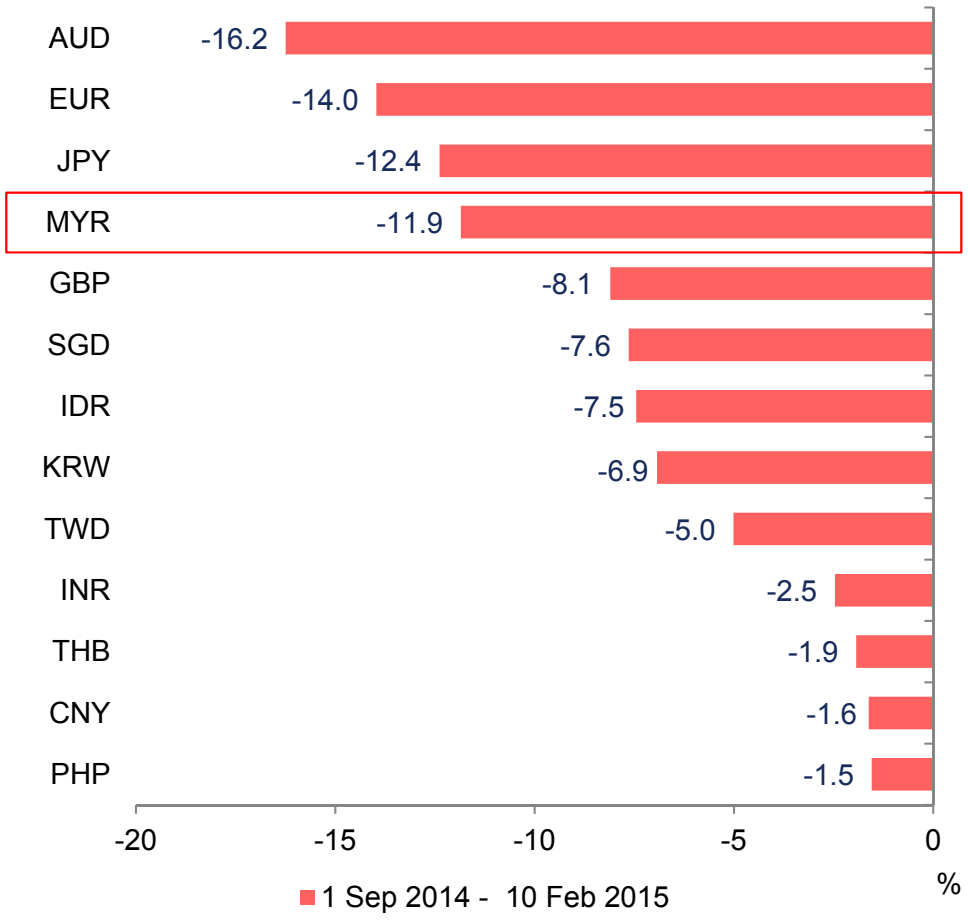
Regional Currencies Performance against USD



Source: Bloomberg

A larger adjustment in the ringgit due to concerns on the impact of lower oil prices on the Malaysian economy

Performance of Selected Currencies against the USD

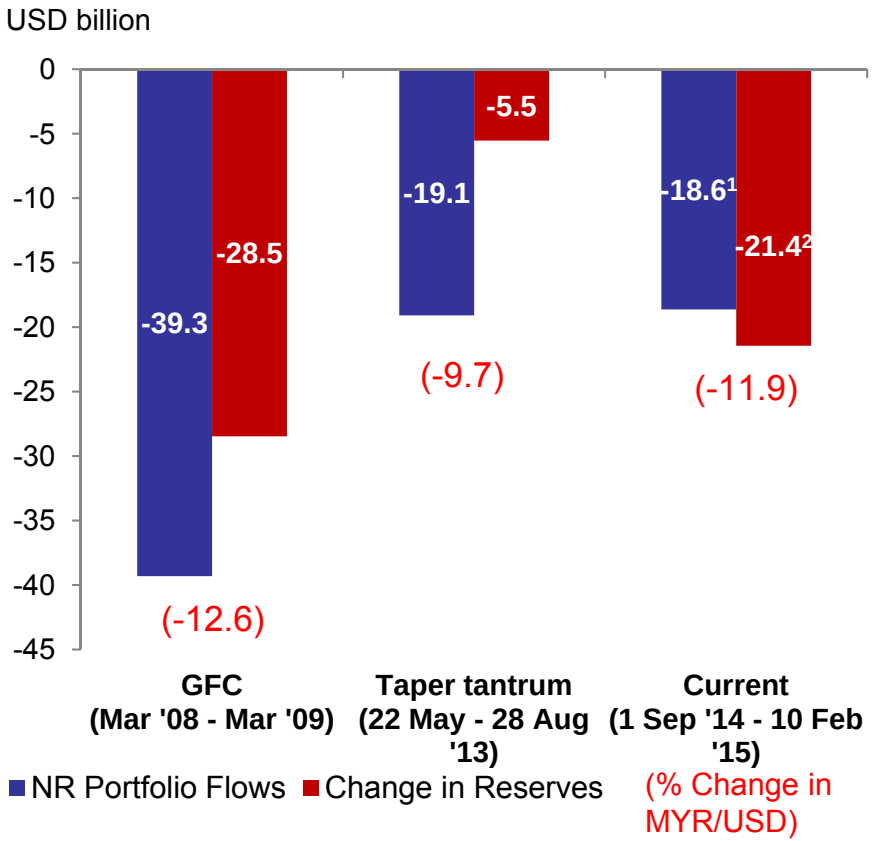


Source: BNM

Malaysia is better positioned to manage the more volatile capital flows

Such sizeable reversals of capital flows have been experienced

NR Portfolio Flows, Reserves and Ringgit Performance

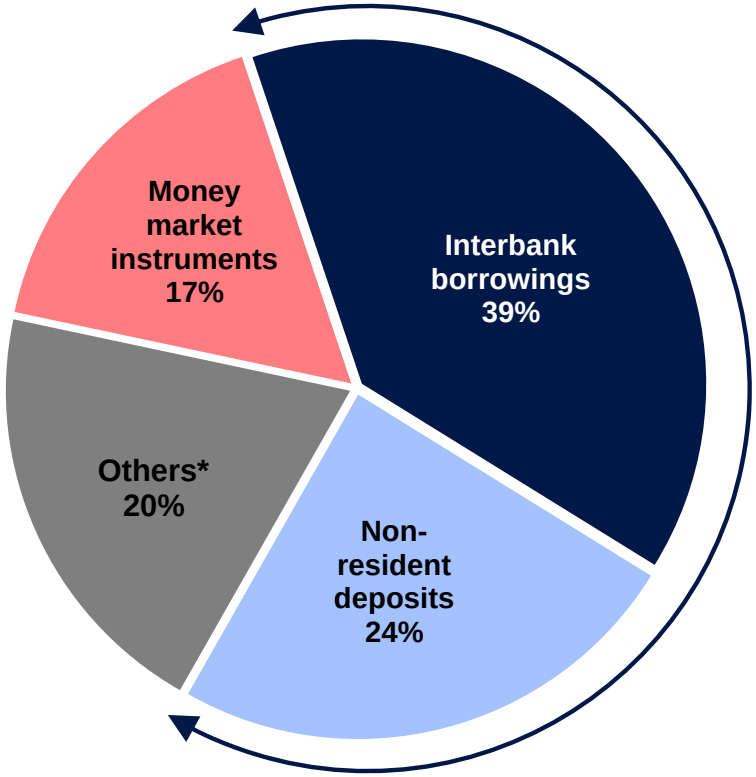


- Key is the ability to absorb the volatility of these flows to contain its spillover effects to the real economy
  - This ability stems from greater buffers, a wider range of tools and increased policy flexibility
  - Resilient banking system and well-developed financial markets have been able to absorb and intermediate swings in capital flows
- When conditions stabilise, capital flows and the ringgit exchange rate will adjust to reflect Malaysia's underlying economic fundamentals

Note: [1]NR Portfolio flows data up to 9 Feb 2015. [2]Reserves data up to 30 Jan 2015
Source: BNM

Short-term external debt position is manageable

Short-term external debt amounted to RM359.1 billion or 33.6% of GDP



Liabilities by the banking sector (63%)

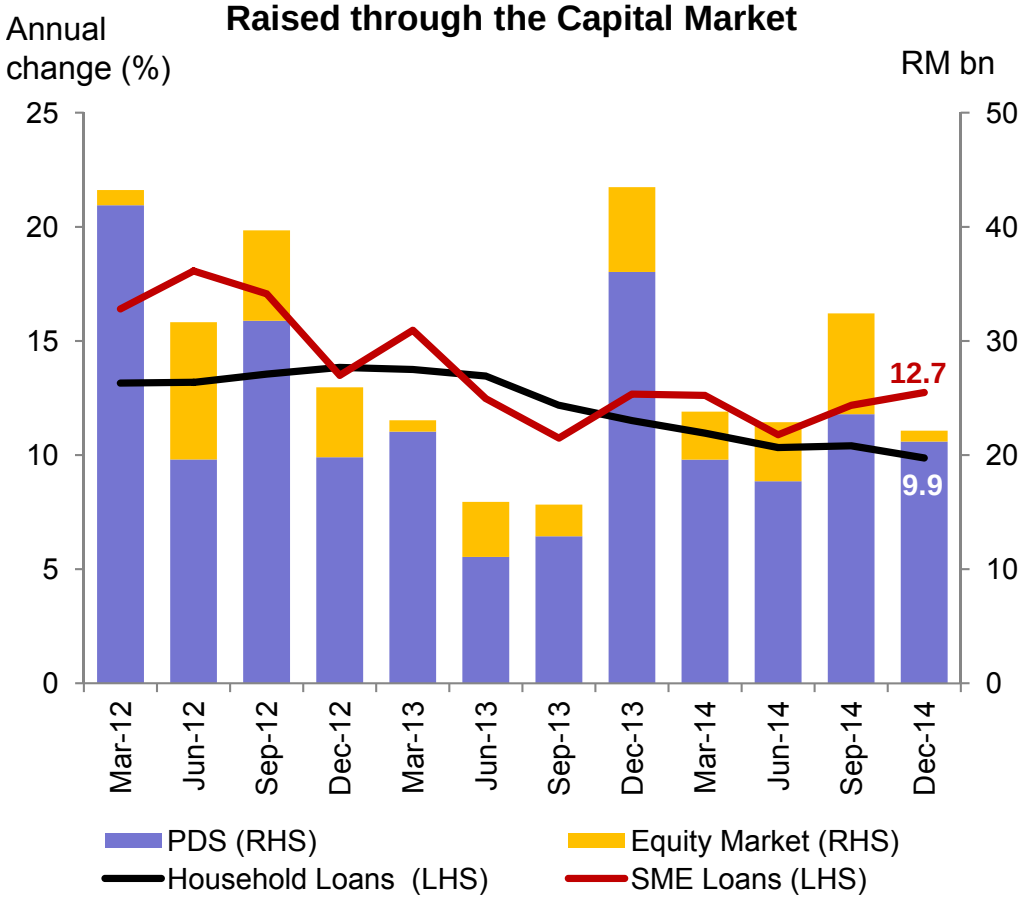
*Comprises trade credits, intercompany loans, term loans & miscellaneous debt liabilities

- Short-term external debt reflects Malaysia's increased regional integration and more developed financial markets

- In assessing the risks associated with short-term external debt, there is a need to take into account that:
  - Higher external debt liabilities of banking institutions mainly reflect centralised foreign currency liquidity management operations
  - Non-resident holdings of money market instruments are mainly their holdings of BNM bills and notes
  - The balance, mainly trade credits and intercompany loans, are backed by export earnings

Financing of the economy remains sound

Outstanding Loans* Growth and Gross Funds Raised through the Capital Market

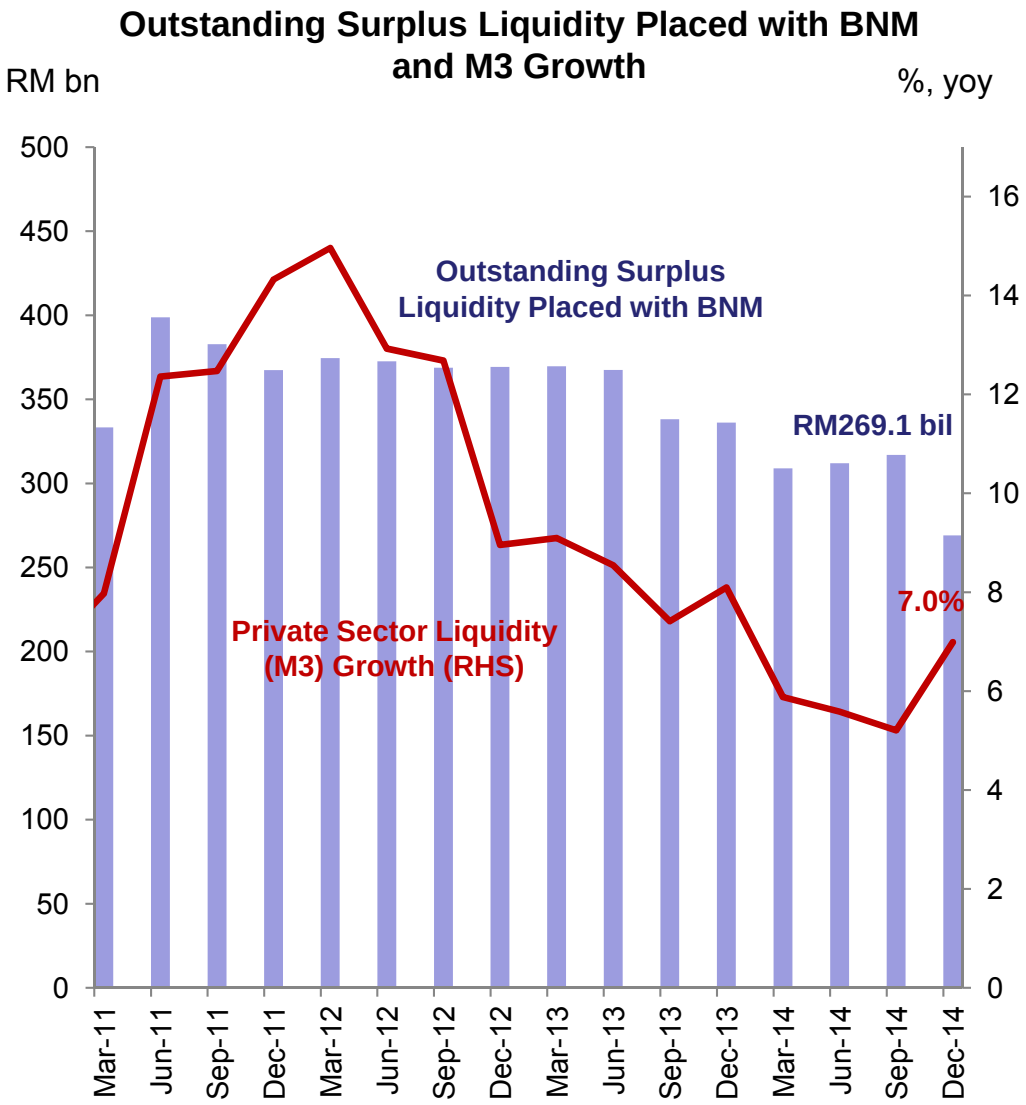


*Comprises outstanding loans from the banking system, DFIs and other non-bank institutions

Source: Bank Negara Malaysia

- Financing to businesses continued to be sound, with double-digit growth in outstanding SME loans
- As intended, outstanding household loans growth moderated following measures to curb pockets of excessiveness
- Fund-raising in the PDS market remained high
- Going forward, financing is expected to remain supportive of economic activity

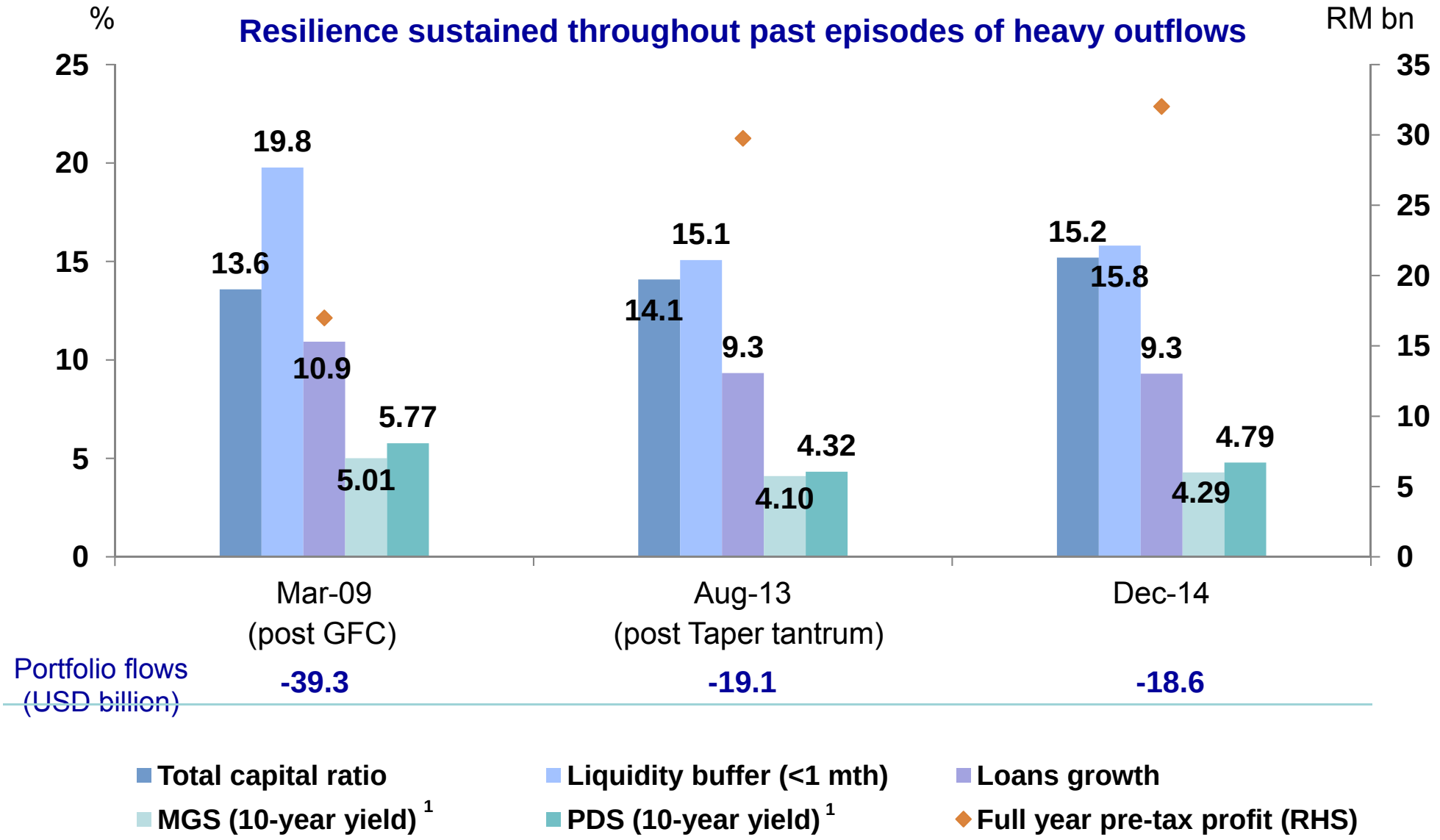
Liquidity in the domestic financial system continues to be ample



Source: Bank Negara Malaysia

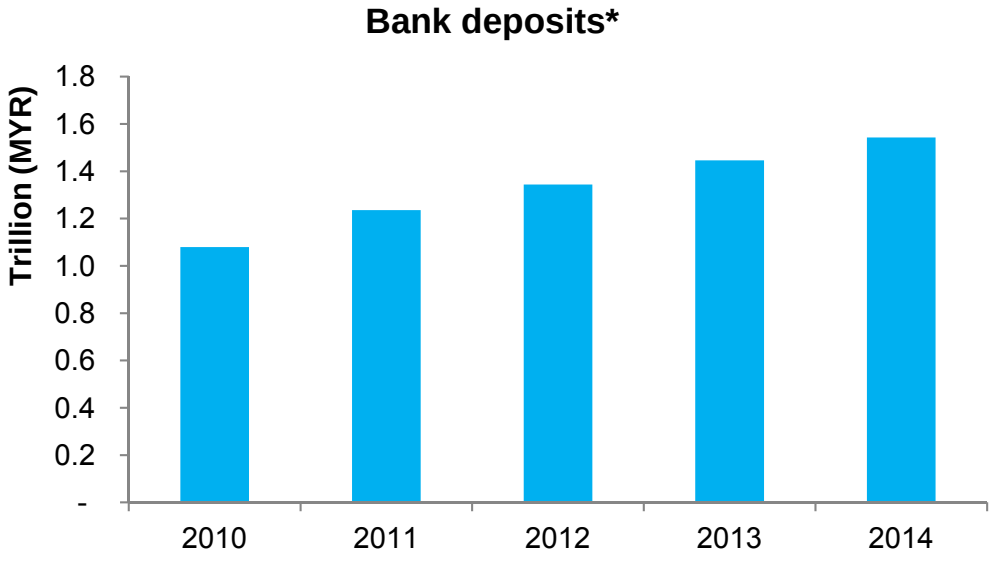
- Despite the recent unwinding of surplus liquidity placed with BNM following the outflows, liquidity in the financial system remains high
- Continued growth in private sector liquidity (M3)

Banking system well-positioned to respond to challenging operating environment



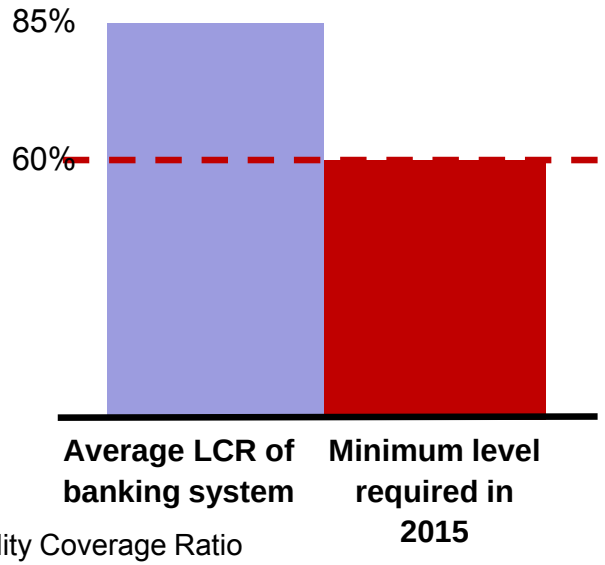
[1] Worst levels during the period

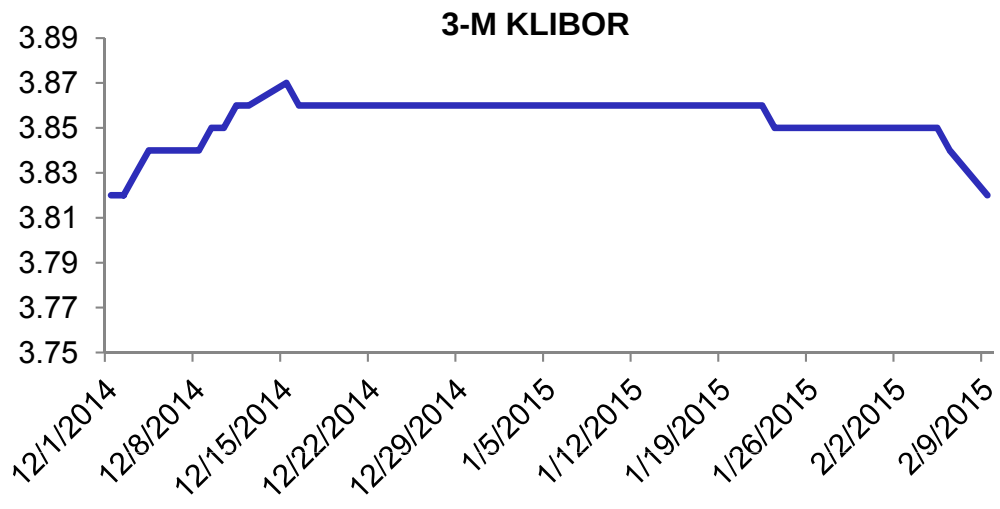
Bank funding conditions remain favourable



** Year-end positions*

- Banking system maintains well balanced sources of funding
  - Large deposit base continues to provide a stable funding source
  - Loan-to-deposit ratio was at 86.7%
- Liquidity buffers remain comfortably above minimum compliance level under new liquidity standards
  - Transitional arrangements to ensure orderly compliance

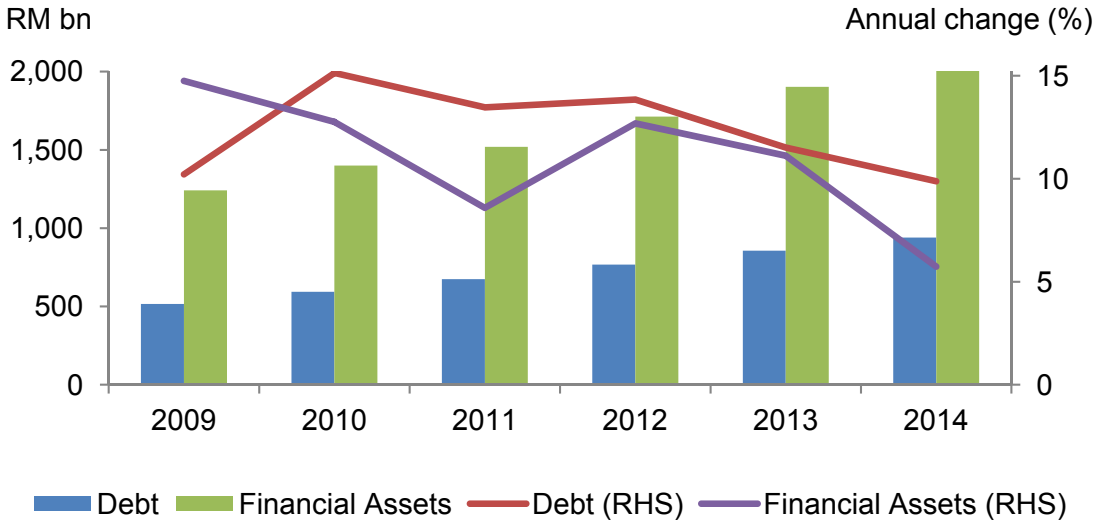




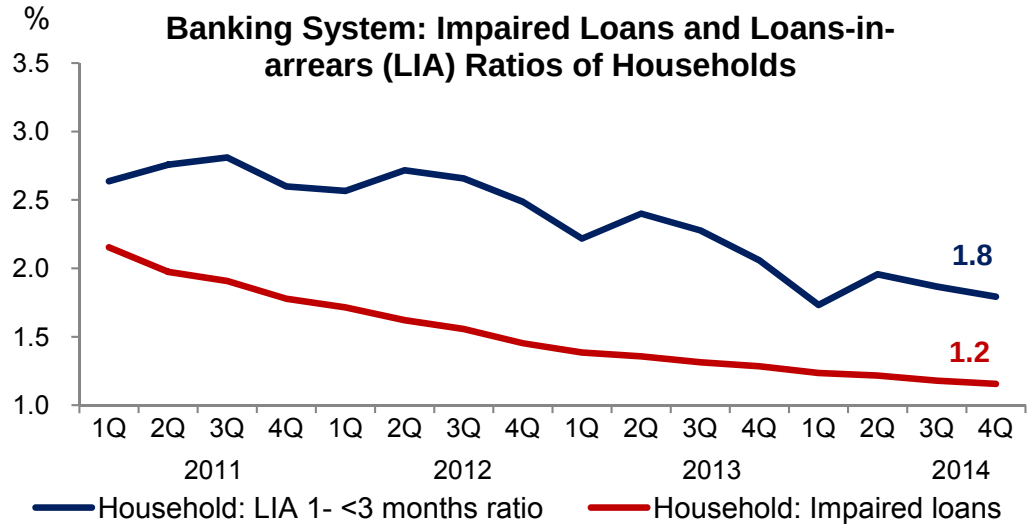
Note: LCR ~ Liquidity Coverage Ratio

Debt servicing capacity of households supported by financial buffers and stable income conditions

Household Sector: Debt and Financial Asset



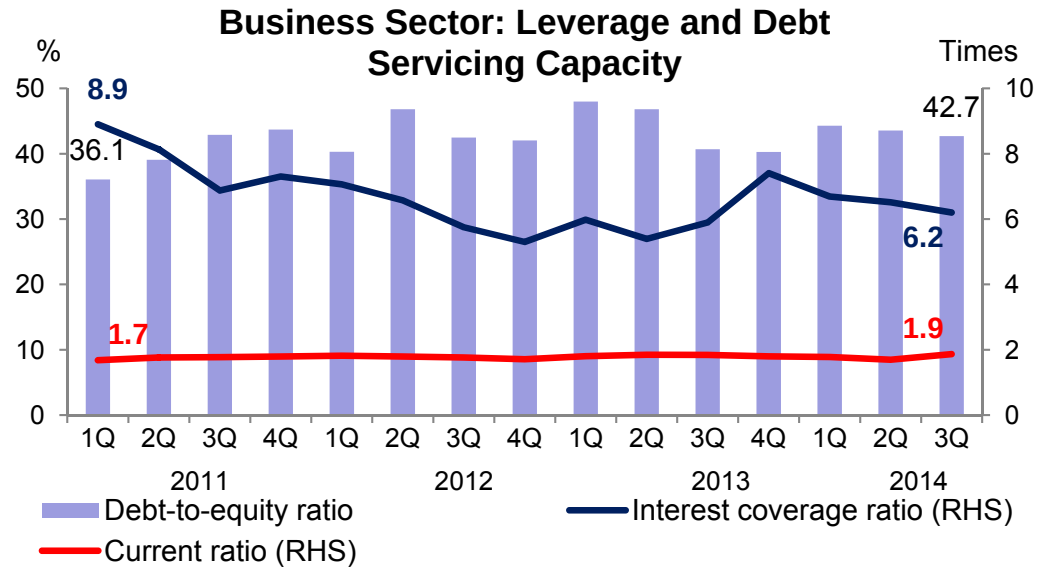
Banking System: Impaired Loans and Loans-in-arrears (LIA) Ratios of Households

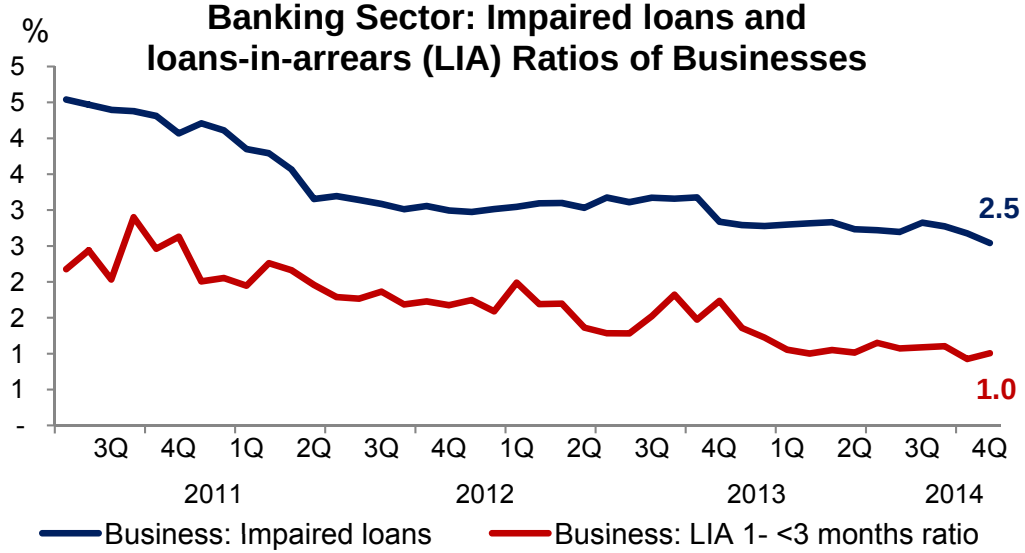


Source: Bank Negara Malaysia

- Stable leverage and improving financial buffers, especially among vulnerable households
- Aggregate household balance sheets remain healthy, with financial asset-to-debt ratio at 2.2 times
- Better quality of new loans as a result of improved assessments of affordability
- Assistance provided to households if needed through AKPK's debt management programme

Low aggregate leverage of businesses, supported by sound debt servicing capacity





Source: Bank Negara Malaysia

- Borrowings by businesses mainly for business expansion and investments by strategic and capital-intensive industries
- External borrowings declined by 0.5% as at 3Q 2014
  - Mainly comprising intra-group funding by multinationals for operations in Malaysia
- Low and stable delinquency trend

Banking system expected to maintain resilience in adverse economic and financial market conditions

Key assumptions for stress tests	
GDP shocks	• Downside risks and tail-risk events from advanced and emerging economies • Lower commodity prices
Credit risk shocks	• 200% increase in default incidences • Up to 40% adjustment in house prices
Market risk shocks	• Up to 475 bps increase in MGS yields • Widening of PDS credit spreads up to 195 bps • Decline in FBM KLCI of up to 50% • Significant depreciation against major currencies
Funding & liquidity shocks	• Significant reversal of portfolio flows • Up to 30% of non-rollover of interbank borrowing

Under severe shock assumptions

1. **Banks' capitalisation to remain well above regulatory requirements**
2. **Estimated ringgit liquidity to remain in surplus**
3. **Estimated shortfall in foreign currency liquidity limited at <5% of international reserves**

Going forward, Malaysia remains resilient to withstand the more challenging conditions in the external environment

- **External environment will continue to remain highly uncertain**
  - Divergence in policies across key economies
  - Volatility in crude oil prices
  - Volatile capital flows and international financial markets

- **The Malaysian economy remains resilient in the face of this environment**
  - Diversified economic structure
  - Economy supported by strong fundamentals
    - Low inflation, favourable employment conditions, low external debt and ample international reserves
  - Strong and well-capitalised banking system
  - Deep and well-developed financial markets

Questions