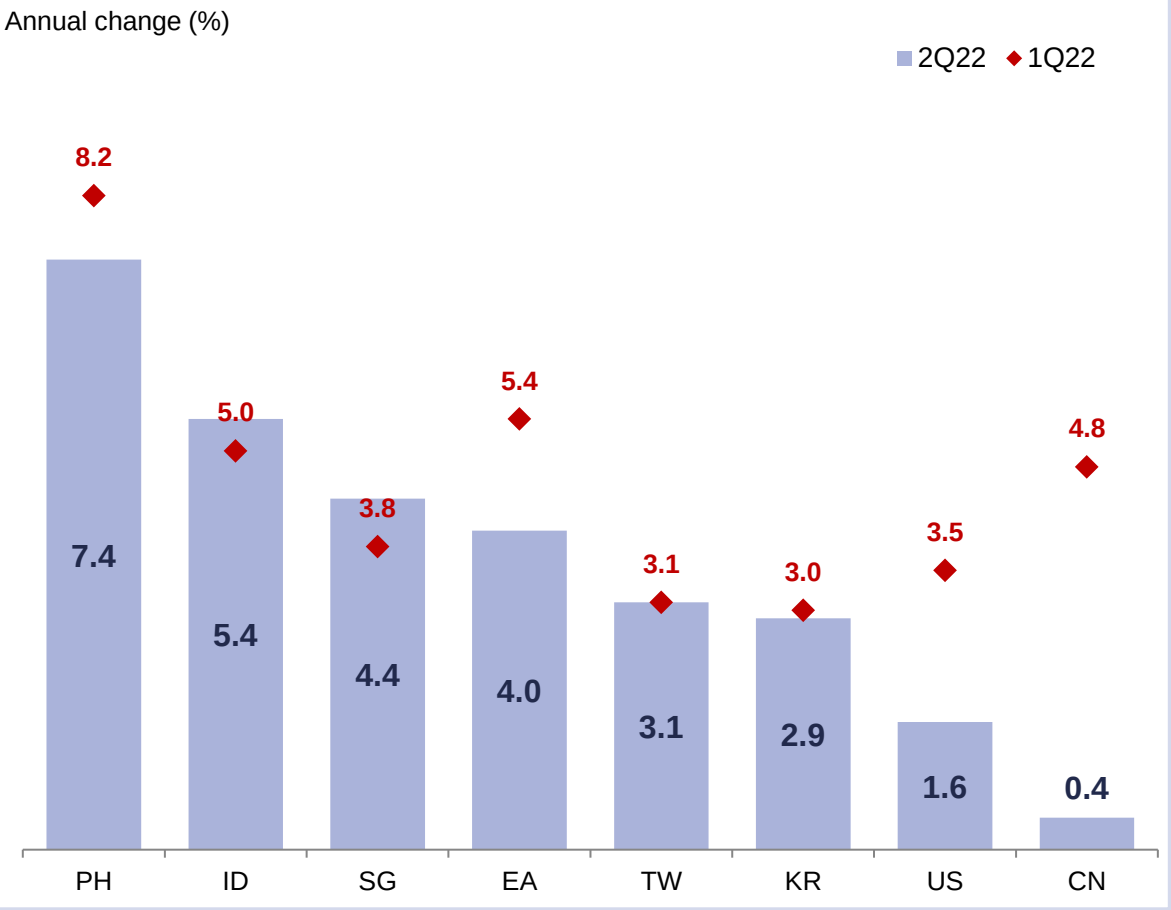
Sidang Akhbar

Prestasi Ekonomi Suku Kedua Tahun 2022

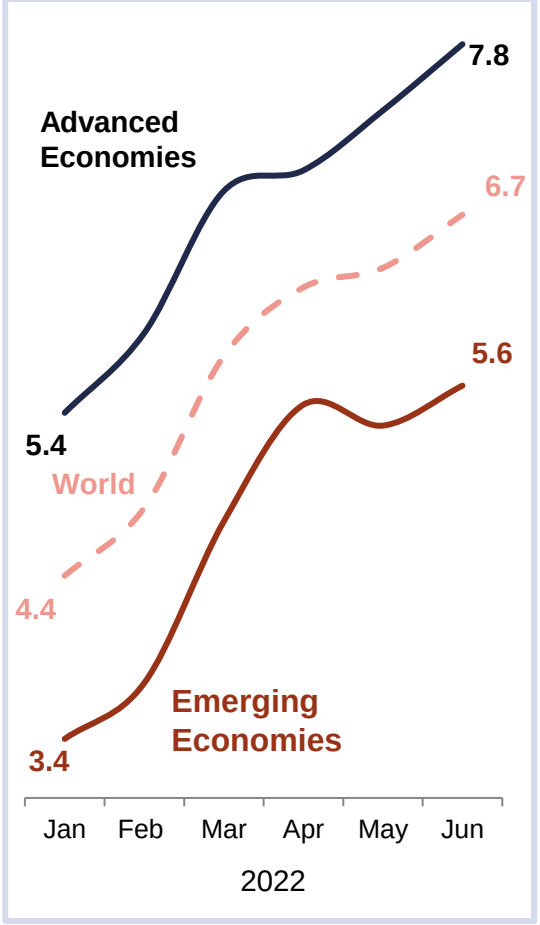
12 Ogos 2022

Moderation in global growth in 2Q 2022 led by major economies

Real GDP Growth[1]



Inflation[2]



Global Growth Developments

- High inflation amid elevated geopolitical tensions weighing on growth.
- Lockdowns in China affected growth early in the quarter, but picked up as the economy reopened.
- Moderation in goods trade following shift to services as most economies reopened.

Note: 1) GDP for the second quarter of 2022 are advanced or preliminary estimates except for China, Singapore, Indonesia, and Philippines; 2) Inflation figures are aggregated across major countries based on their share of global growth

Source: CEIC, National authorities, S&P Global, IMF, BNM estimates.

The Malaysian economy continued to recover with growth of 8.9% in 2Q 2022

Real GDP Growth



Monthly Real GDP Growth (%yoy)

Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
4.4	5.2	5.3	5.6	5.0	16.5

Source: Department of Statistics, Malaysia

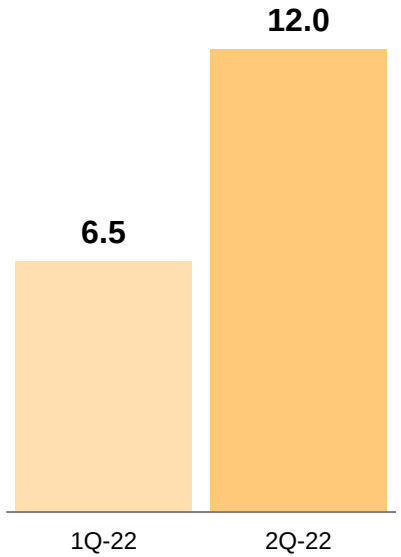
Factors supporting growth:

- **Expansion in domestic demand**
- **Continued recovery in the labour market**
- **Resilient exports, particularly for E&E products**
- **Ongoing policy support**

Services and manufacturing sectors continued to drive growth

Services

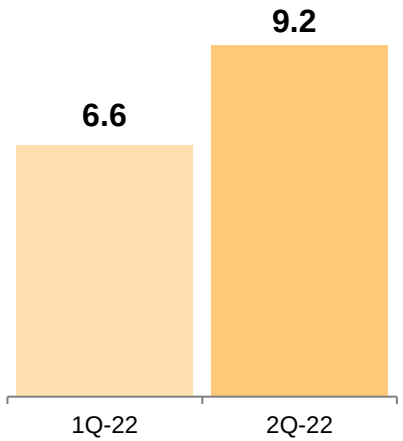
GDP, Annual change (%)



Higher consumer spending amid transition to endemicity, reopening of international borders, additional policy support

Manufacturing

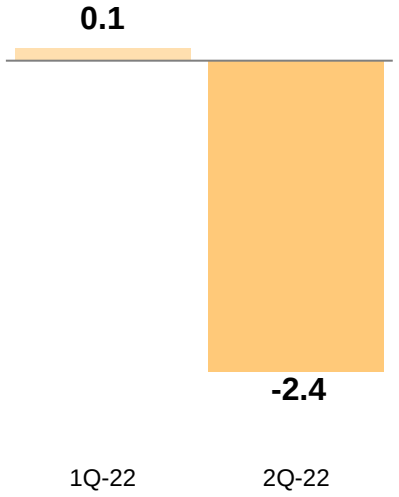
GDP, Annual change (%)



Strong demand for semiconductors and consumer-related products

Agriculture

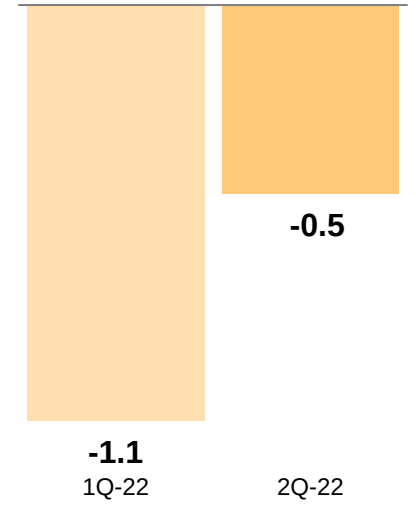
GDP, Annual change (%)



Contraction in livestock and other agriculture production amid rising input costs and labour shortages

Mining

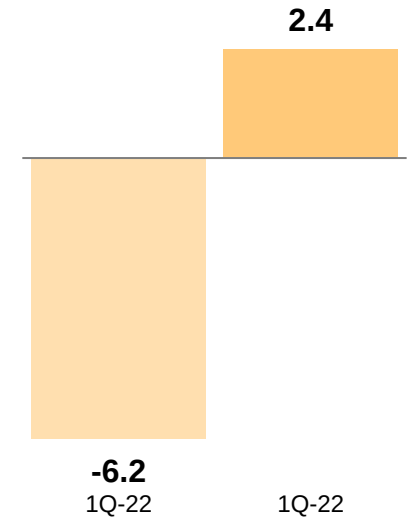
GDP, Annual change (%)



Higher production in oil and gas facilities including from the Pegaga gas field in Block SK320

Construction

GDP, Annual change (%)



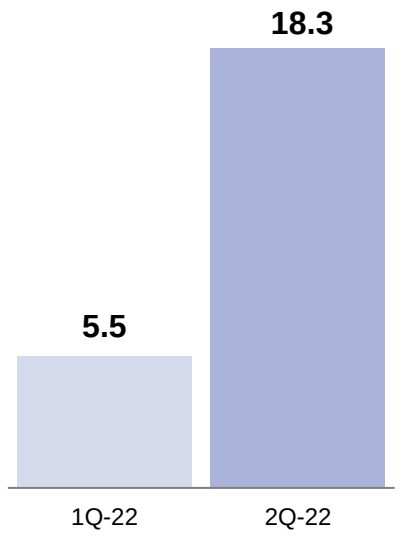
Turnaround in activities supported by progress in large non-residential and small-scale projects

Source: Department of Statistics, Malaysia

Further improvement in domestic demand

Private Consumption

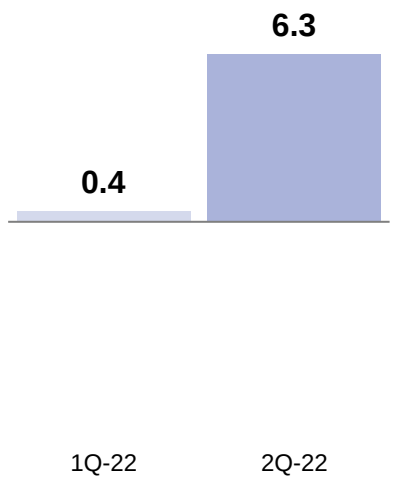
GDP, Annual change (%)



Stronger spending driven by labour market recovery and policy measures

Private Investment

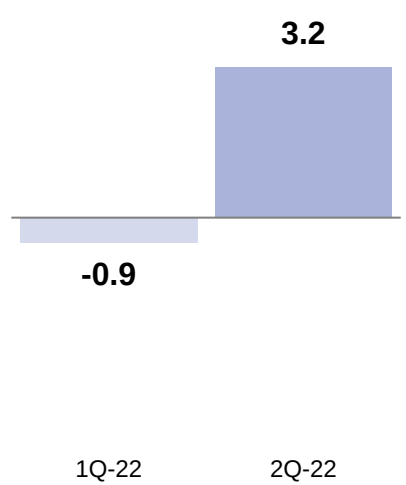
GDP, Annual change (%)



Improvement in structures and continued expansion in M&E investments

Public Investment

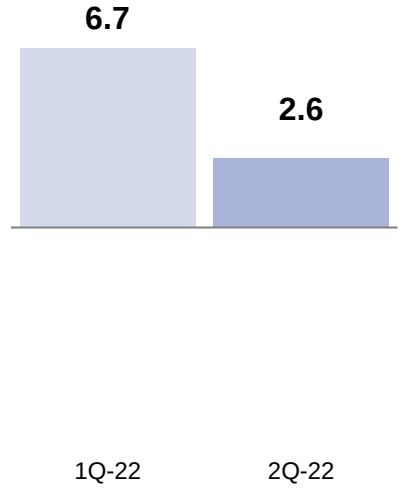
GDP, Annual change (%)



Higher capital expenditure by public corporations

Public Consumption

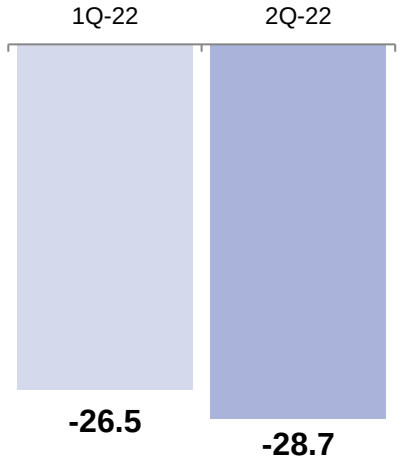
GDP, Annual change (%)



Contraction in supplies and services spending

Net exports

GDP, Annual change (%)

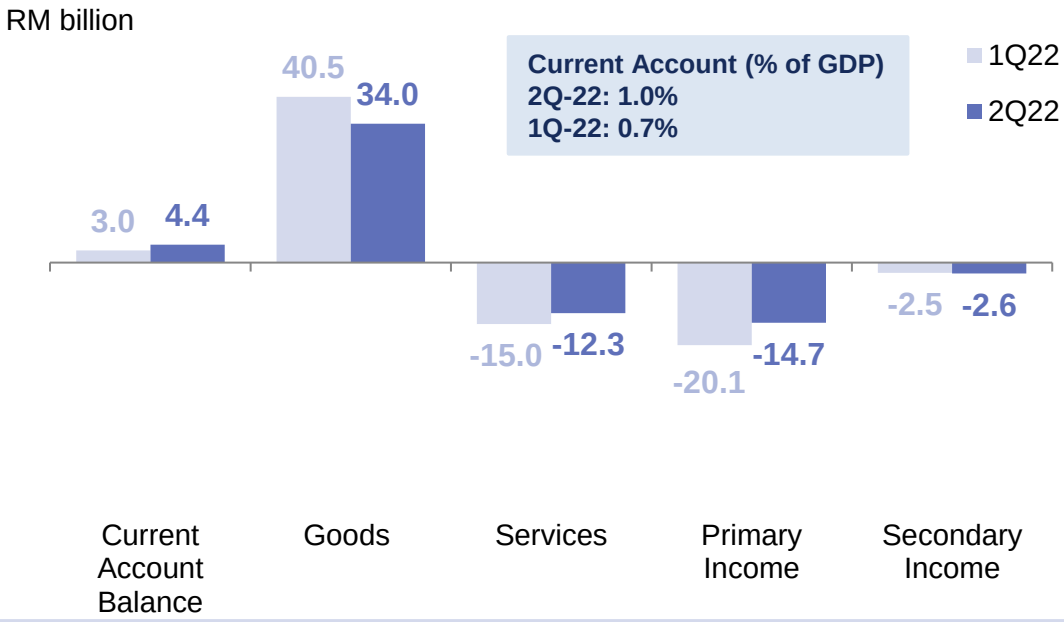


Import growth (14.0%) outpacing export growth (10.4%)

Source: Department of Statistics, Malaysia

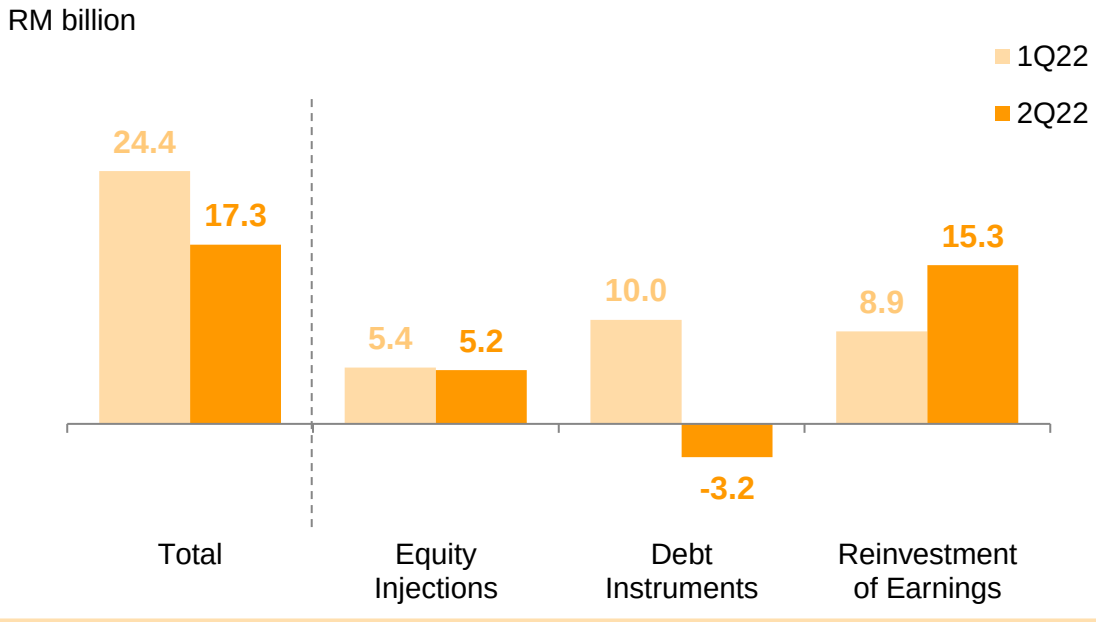
Higher current account surplus while FDI remained encouraging

Current Account



- **Smaller primary income deficit due mainly to higher income generated by Malaysian firms investing abroad**
- **Lower services deficit supported mainly by higher travel receipts amid international border reopening**

Foreign Direct Investment



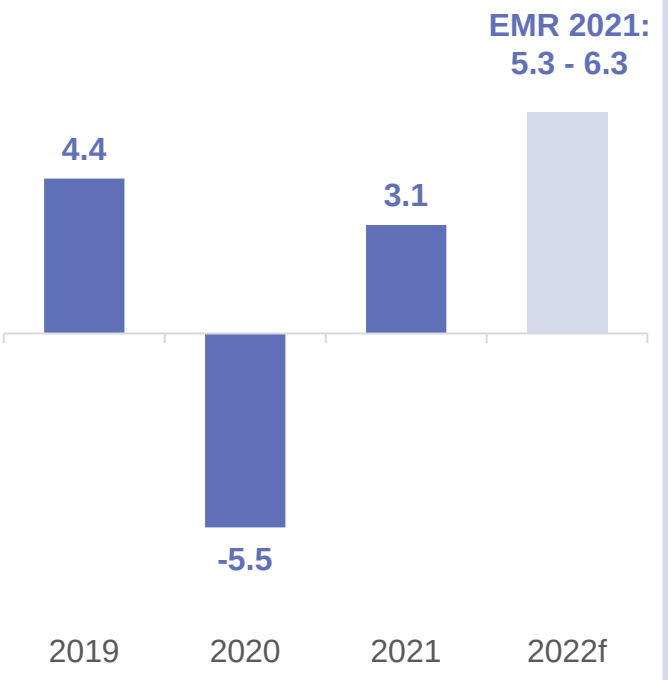
- **Continued FDI inflows despite outflows in debt instruments**
- **FDI was mainly channelled into the manufacturing sector and financial services sub-sector**

Source: Department of Statistics, Malaysia

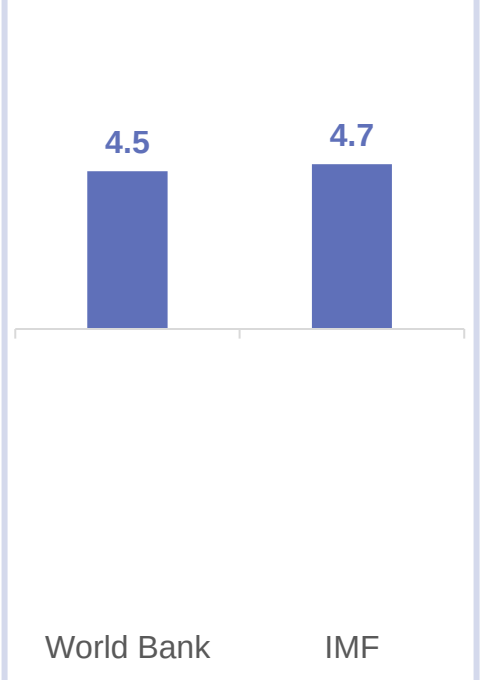
Continued growth expected for the Malaysian economy underpinned by firm domestic demand, offsetting the expected moderation in external demand

Private expenditure expected to drive growth, supported by improving labour market and recovery in tourism

Malaysia GDP



2023 MY GDP Projections



Source: Department of Statistics, Malaysia, staff estimates

Key Factors Affecting Growth in 2H 2022 and 2023

Higher tourist arrivals
Higher consumer confidence and lower risk aversion as travel activity continues to normalise to pre-pandemic levels

Continued recovery in labour market
Key factor underpinning private consumption

Implementation of multi-year projects
(e.g. MyDigital, ECRL, LRT3)

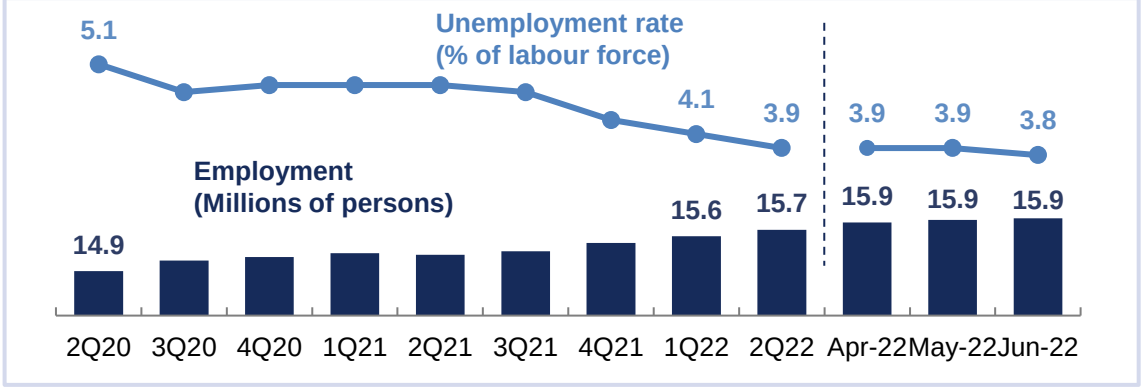
Easing of supply chain disruptions
Receding COVID-related disruptions and slowing global trade to lower pressures across global supply chains

Moderation in global growth
Slower growth mainly in advanced economies, particularly the US and Euro Area

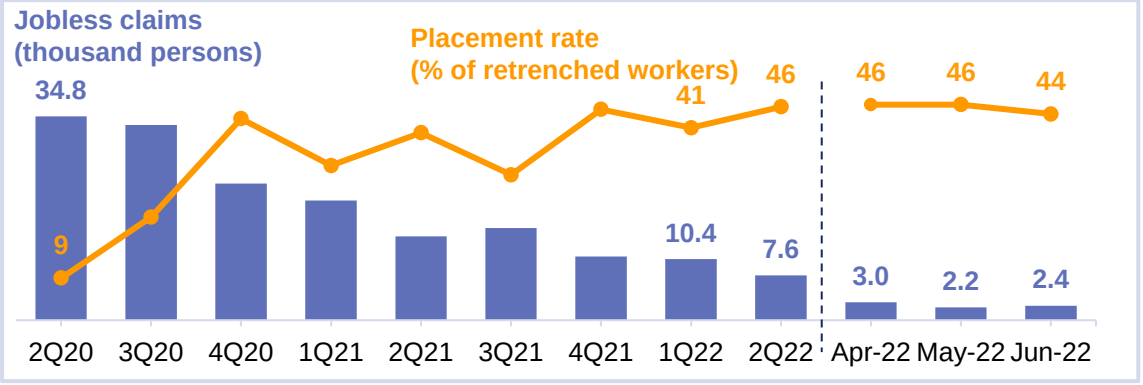
Labour market continues to improve in tandem with stronger economic activity

Continued expansion in employment amid low jobless claims and relatively strong pace of hiring

Labour market indicators



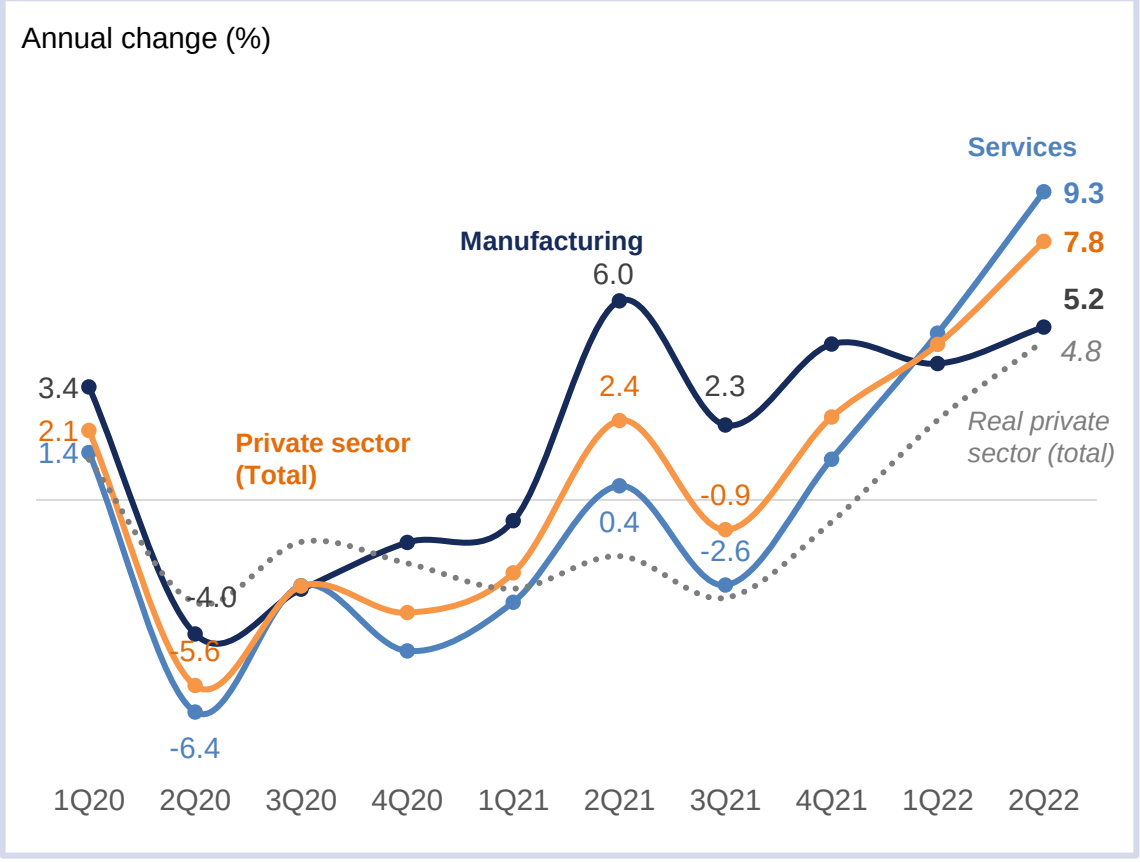
Jobless claims and placement rates



Source: Department of Statistics, Malaysia and the Social Security Organisation

Wages in the manufacturing and services sectors continued to rise, partly supported by the minimum wage hike

Private sector wages (Nominal)

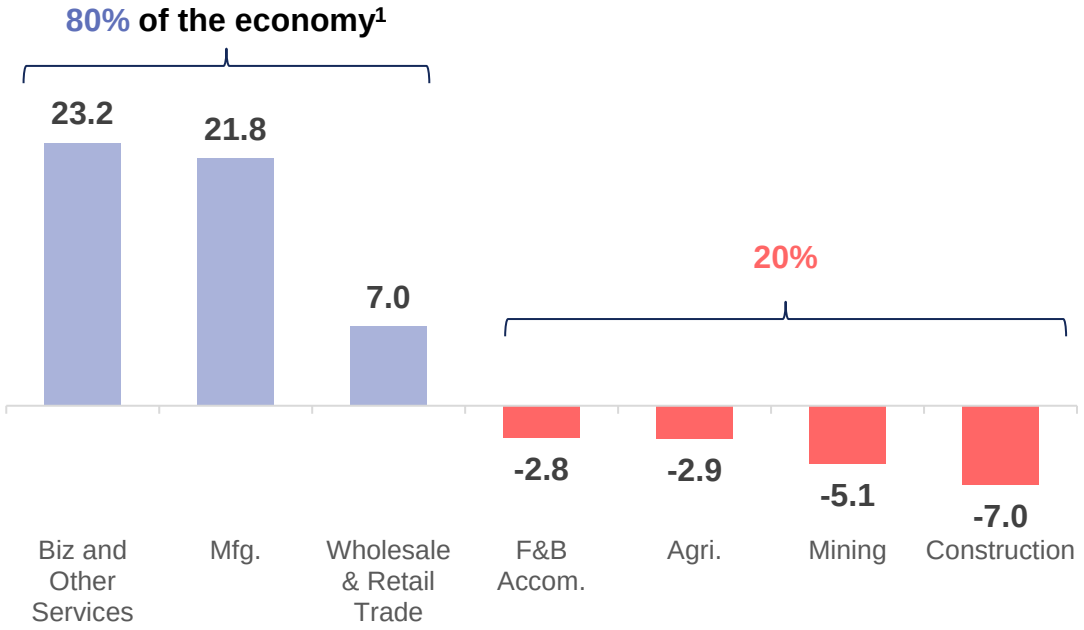


Note: Private sector wages refer to wages of workers in the manufacturing and services sectors.
Source: Department of Statistics Malaysia and Bank Negara Malaysia estimates

However, some segments continue to face various challenges

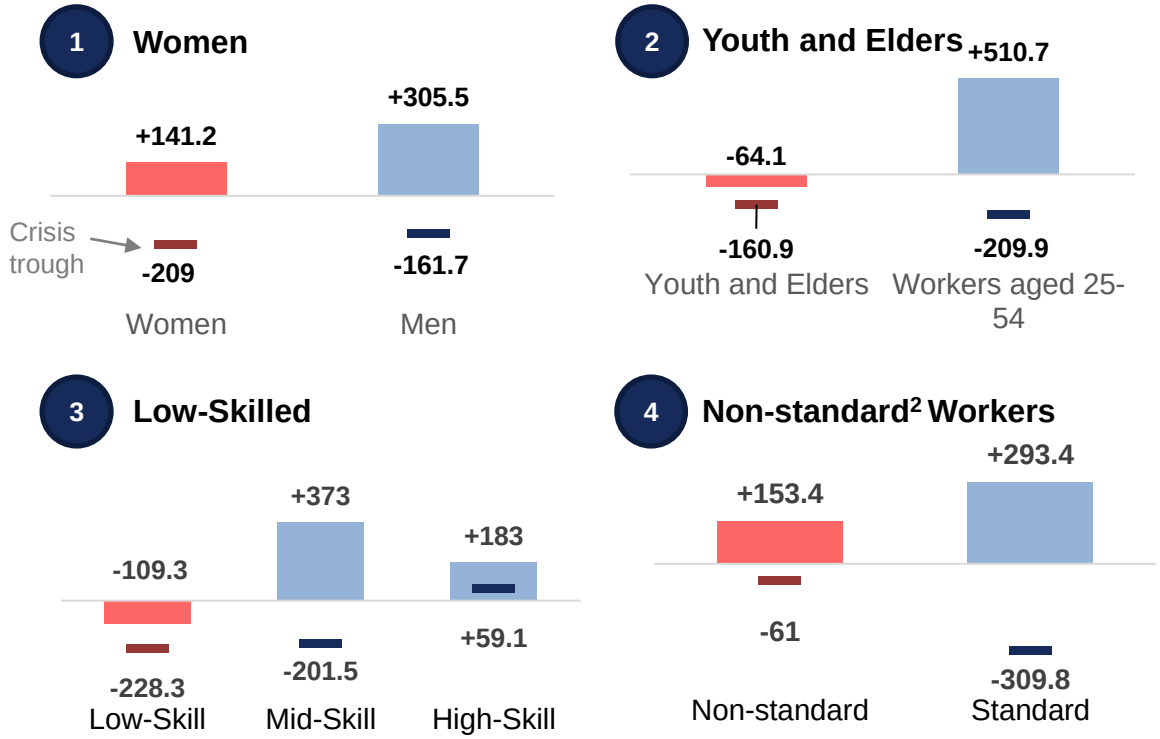
Lagged recovery in selected economic sectors

Value-Added by Economic Sector
1H 22 vs 1H 19 (pre-pandemic), RM billion



Certain segments have slower recovery in employment

Change in Employment
2Q 22 and 2Q 20 (crisis trough) compared to 4Q 19 (pre-pandemic), thousand persons



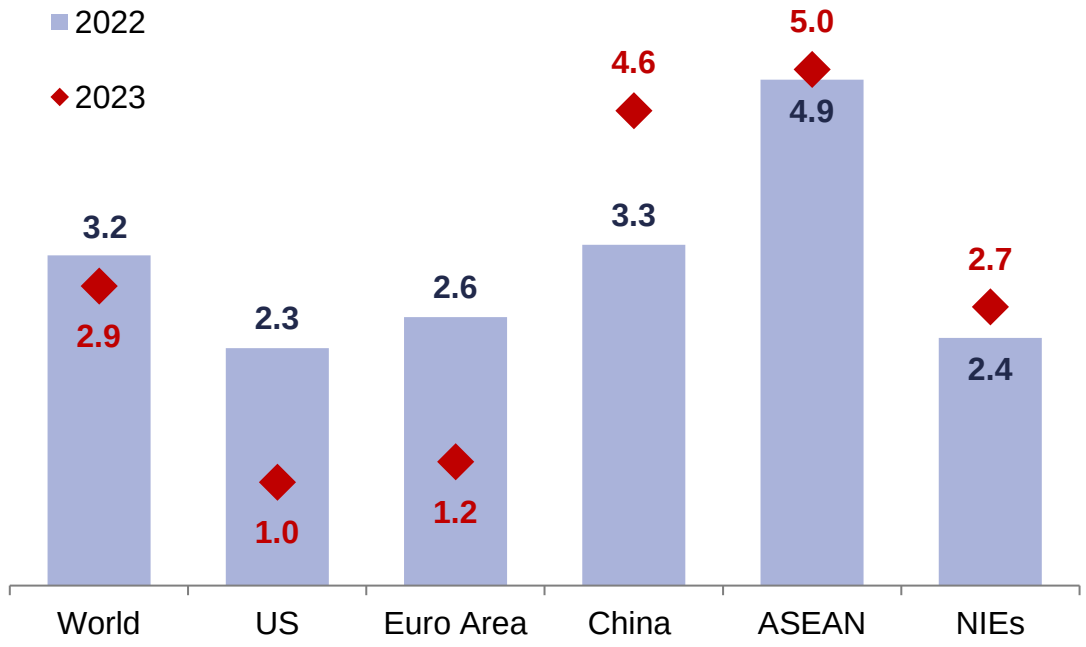
[1] Refers to share to GDP in 2021
[2] Includes employers, own account workers and unpaid family workers

Source: Bank Negara Malaysia estimates based on HIES 2019, Department of Statistics, Malaysia

Malaysia's diversified exports will cushion weaker external demand going forward

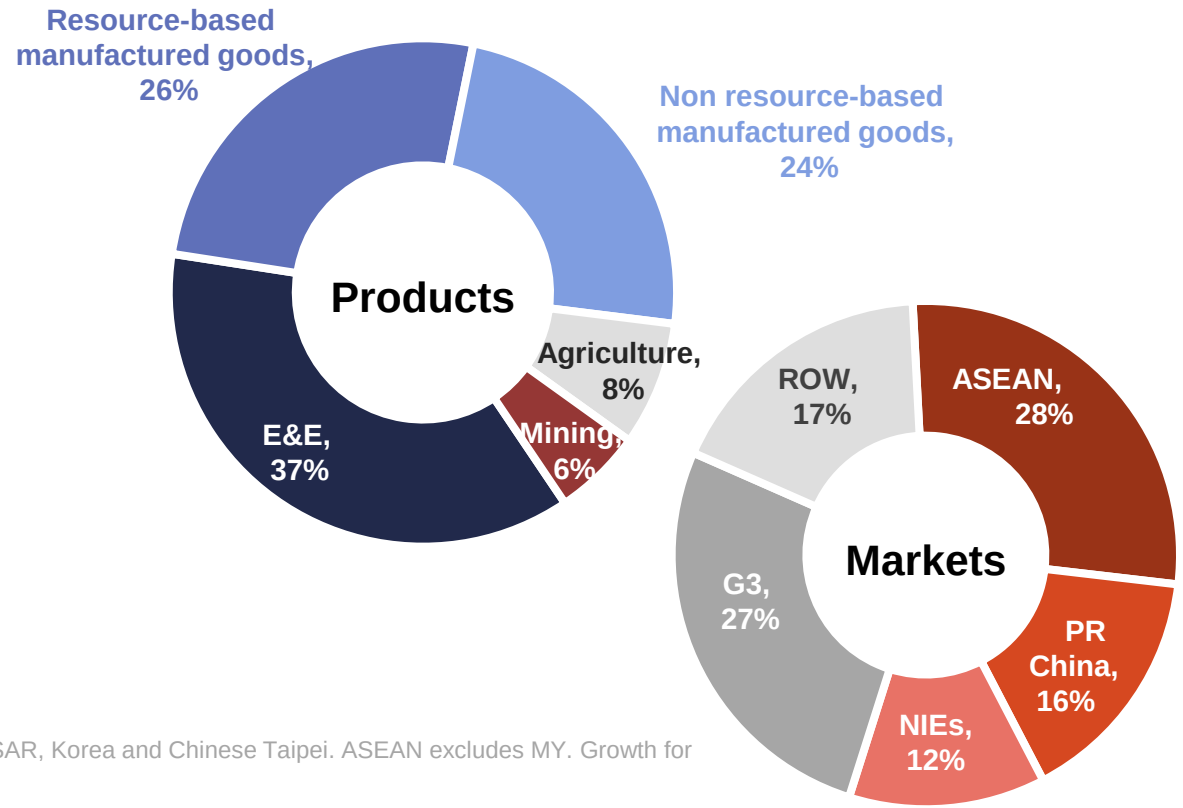
Weaker global growth outlook on account of slowdown in major economies

IMF Growth Forecast for Selected Countries
Annual Change, %



However, Malaysia's diversified exports would continue to support export growth

Exports by Products and Markets (2021)
% Share of Total Exports



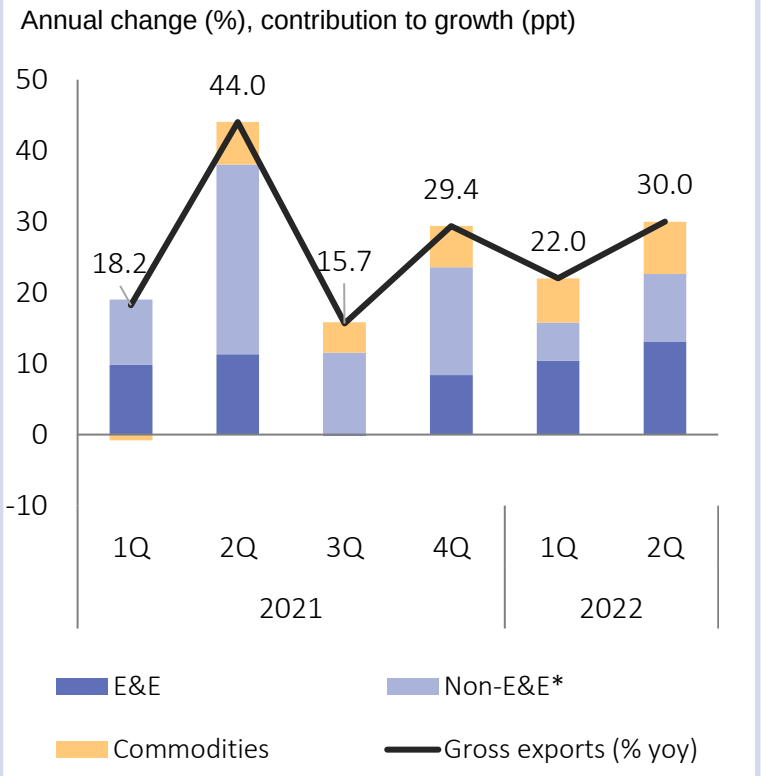
Note: G3 includes the US, the euro area and Japan. Newly Industrialised Economies (NIEs) refers to Hong Kong SAR, Korea and Chinese Taipei. ASEAN excludes MY. Growth for NIEs and ASEAN calculated based on IMF's latest available growth forecast and PPP-share of global GDP.

Source: International Monetary Fund, Department of Statistics, Malaysia and Bank Negara Malaysia estimates

In particular, continued strength in E&E demand is expected to remain a key driver of exports

Despite moderating global growth, exports remain resilient…

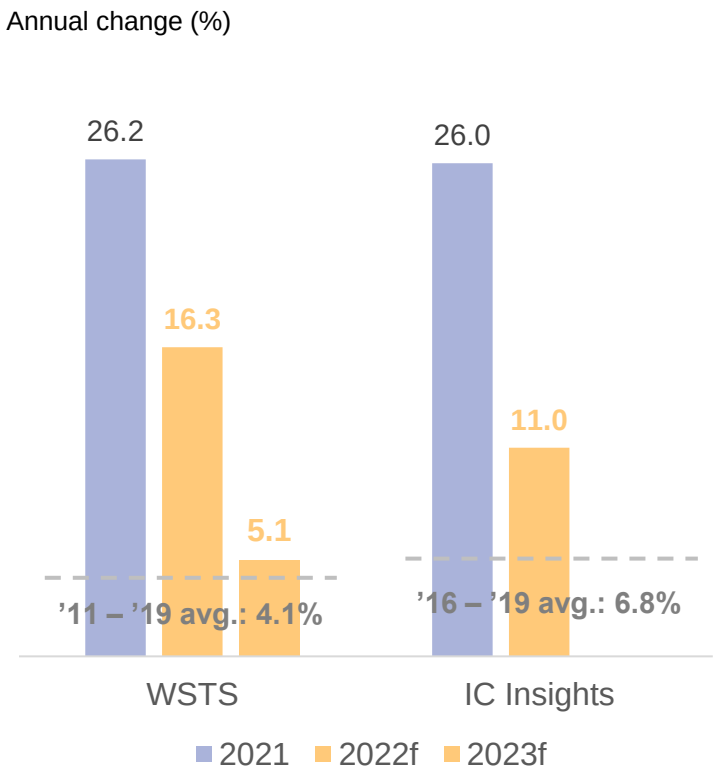
Gross Exports



* Includes *Others*
Source: Department of Statistics, Malaysia

…supported by continued strength in E&E demand going forward…

Industry Semiconductor Sales Forecasts



Source: WSTS, IC Insights

…while firms' adaptability helps to mitigate against disruptions

Firms' Proactive Measures

- Building inventory/ Buffer stocks *(Advance bookings)*
- Using alternative transportation mode *(Air cargo and land trucking)*
- Negotiating with clients to spread orders
- Diversifying supplier base

Source: BNM Industrial Insights, news flows

The growth outlook however, remains subject to risks

Risks tilted to the downside mainly from weaker global growth and stronger price pressures

Upside Risks

1. Stronger employment and income conditions
2. Strong improvement in tourism sector
3. Additional domestic policy measures

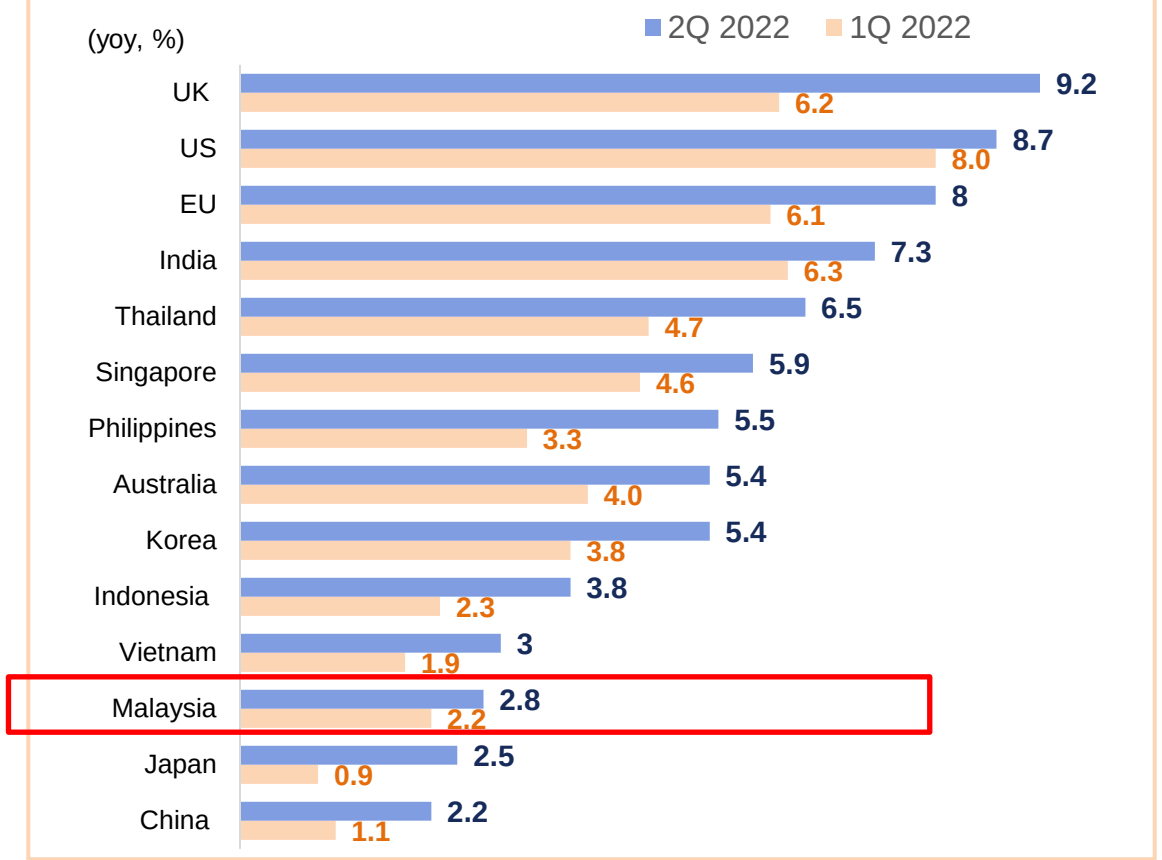
Downside Risks

1. Deceleration in global growth
2. Worsening supply disruptions and further increase in global commodity prices
3. Acute labour shortages
4. Stronger cost and price pressures weighing on household spending and business activity
5. Disruptive financial market adjustments

Inflation has substantially increased in many countries

Higher inflation across countries

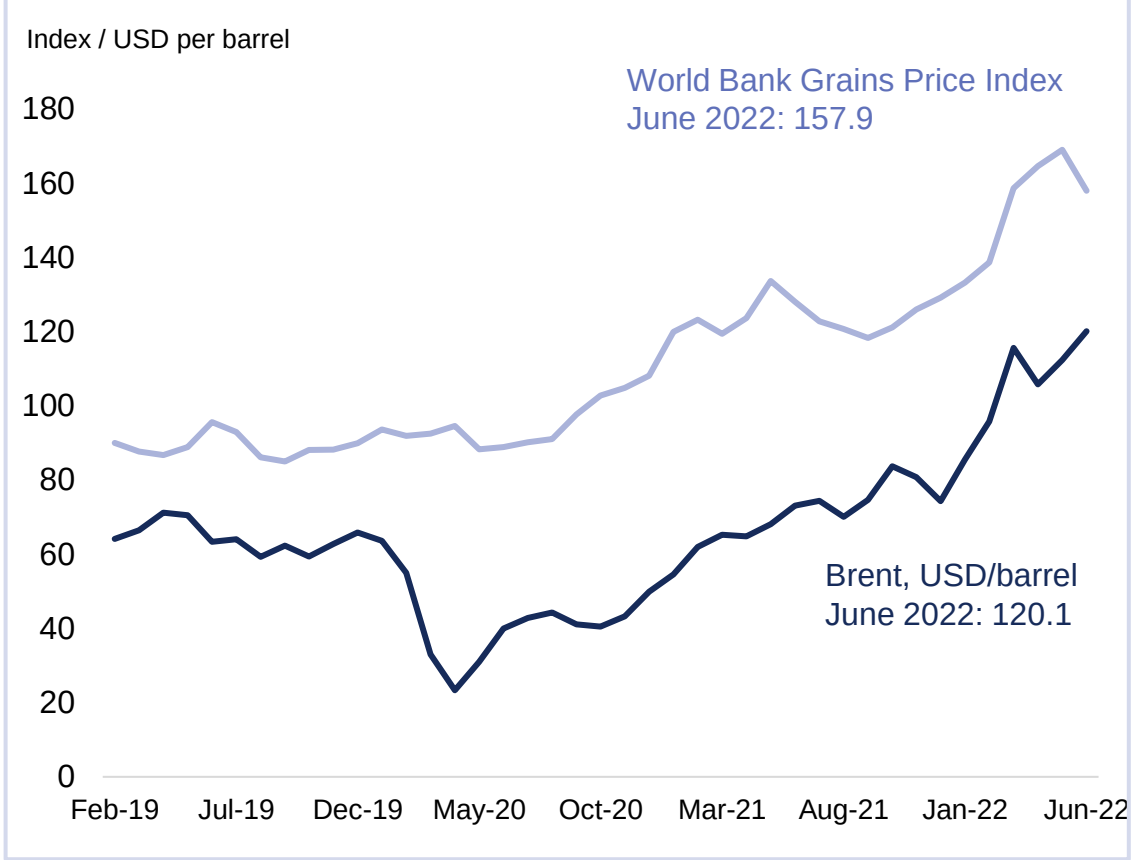
Global inflation



Source: Bloomberg and Department of Statistics, Malaysia

Rising prices of key commodities

Key commodity prices



Note: Data until June 2022
Source: World Bank

High global commodity prices have been the main factor driving food prices, compounded by stronger US dollar

Increases in global commodity prices have been the biggest factor underlying rising food prices

Stylised illustration of wheat prices

A) Global wheat prices

	Wheat price (USD/metric tonne)	MYRUSD exchange rate
Jan-22	374.2	4.19
Jun-22	459.6	4.40

B) Domestic wheat prices

Jan-22 price **RM1,567.9**

Impact of rising global prices: +RM357.8

Jun-22 price ***(excluding exchange rate movements)*** **RM1,925.7**

Impact of exchange rate movements: +RM96.5

Jun-22 price ***(including exchange rate movements)*** **RM2,022.2**

Source: World Bank and Bank Negara Malaysia estimates

Other factors of production also contribute to rising prices, while the impact of exchange rate movements vary across different items

1

Ringgit movements are only one of the factors contributing to food price changes

Other factors include logistics costs, labour costs, weather conditions etc.

2

The impact of exchange rate pass-through varies for different items and households

Magnitude of exchange rate pass-through for selected fresh food items



Indian mackerel 26%



Apple 8%

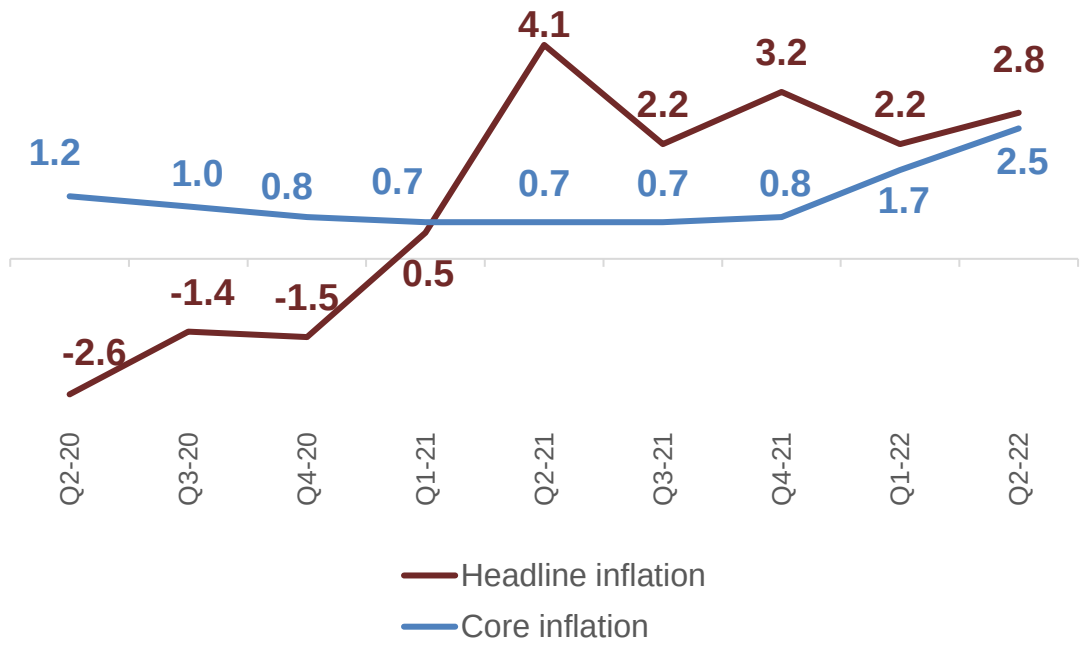
Headline and core inflation edged higher to 2.8% and 2.5% respectively during the quarter

Rising core inflation reflected improving demand conditions amid the high cost environment

More CPI items recorded month-on-month price increases

Headline and core inflation

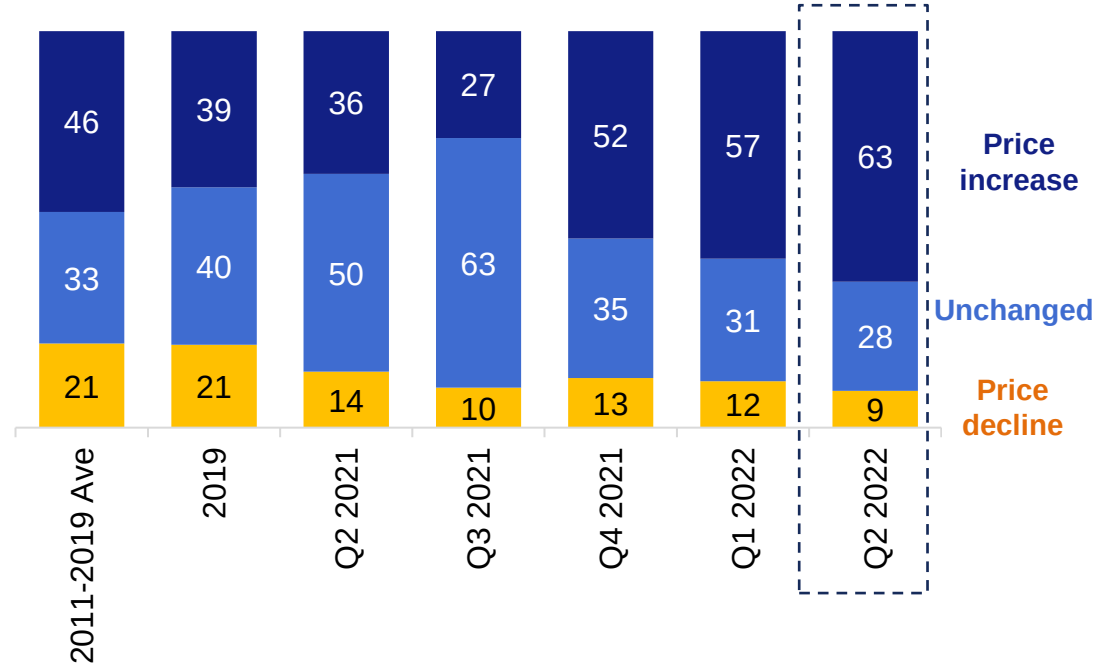
Headline inflation and core inflation (yoy %)



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

Month-on-month price changes of CPI items

Share of CPI items (%)

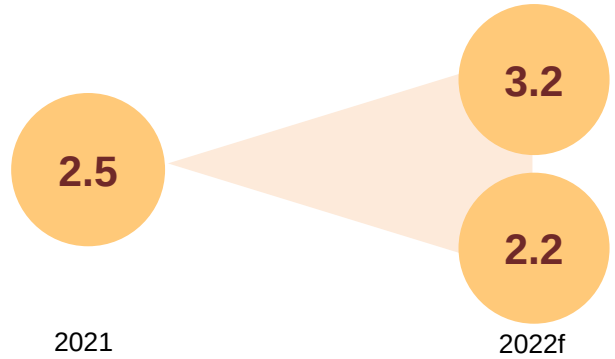


Note: Numbers may not add up to 100 due to rounding error
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

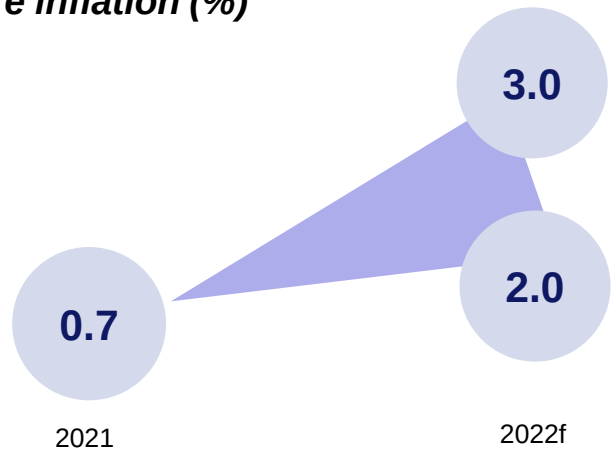
Headline and core inflation are expected to average higher in 2022

Inflation Forecast for 2022

Average headline inflation (%)



Average core inflation (%)



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

Key drivers of inflation

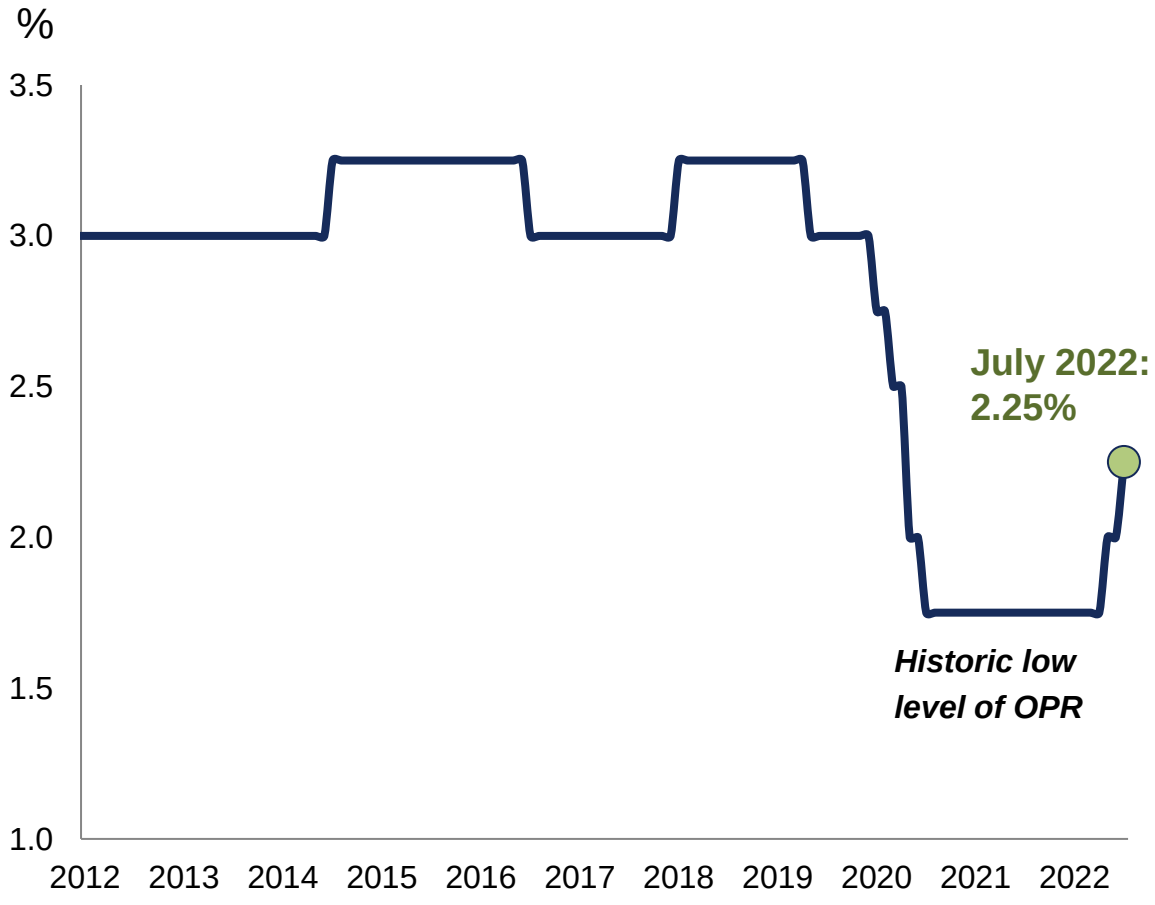
1 **Headline inflation is expected to trend** higher in some months due partly to the base effect from the discount on electricity prices implemented in 3Q 2021

2 **Core inflation is expected to average higher in 2022**, as domestic demand continues to improve amid the high-cost environment

3 **Upside risks to the inflation outlook** stem from the strength of domestic demand, global prices and domestic policy measures

The MPC gradually adjusted the degree of accommodation amid positive growth prospects

Overnight Policy Rate, OPR



Source: Bank Negara Malaysia

- **OPR was gradually increased by another 25 basis points to 2.25%** at the July 2022 MPC meeting to reduce the degree of monetary accommodation amid the positive growth prospects for the Malaysian economy
- Monetary policy **continues to be accommodative**
- The MPC will continue to **assess evolving conditions and their implications** on the overall outlook to domestic inflation and growth
- **Any adjustments to the monetary policy settings would be done in a measured and gradual manner,** to support a sustainable economic growth in an environment of price stability

The OPR was adjusted amid an improving economy and demand conditions

- **Economy continues on a recovery path and is no longer in crisis**, and the unprecedented conditions that warranted the large monetary support have since abated

- **Domestic growth will continue to be supported by firm domestic demand,** amid better labour market conditions, recovery in tourism activity, and improved investment activity and prospects

- The OPR adjustments would also **pre-emptively manage the risk of excessive demand on price pressures**

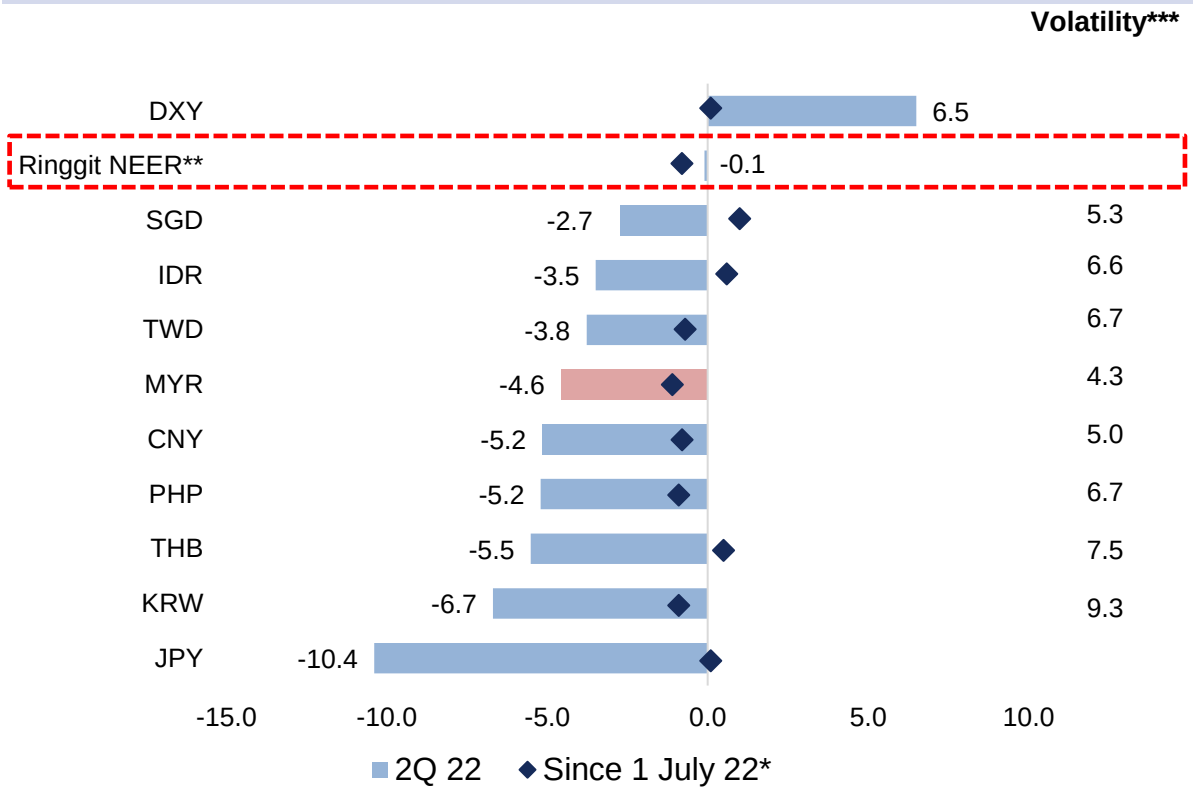
- The **gradual adjustments in the OPR are necessary to avoid the need for stronger measures in the future**, which would be more disruptive to the economy

- Ultimately, the goal of monetary policy in Malaysia is **to achieve price stability and sustainable economic growth over a longer term**

Domestic financial market conditions continued to tighten in the second quarter

US dollar continued to strengthen against ringgit and regional currencies. Ringgit has remained broadly stable against major trade partners.

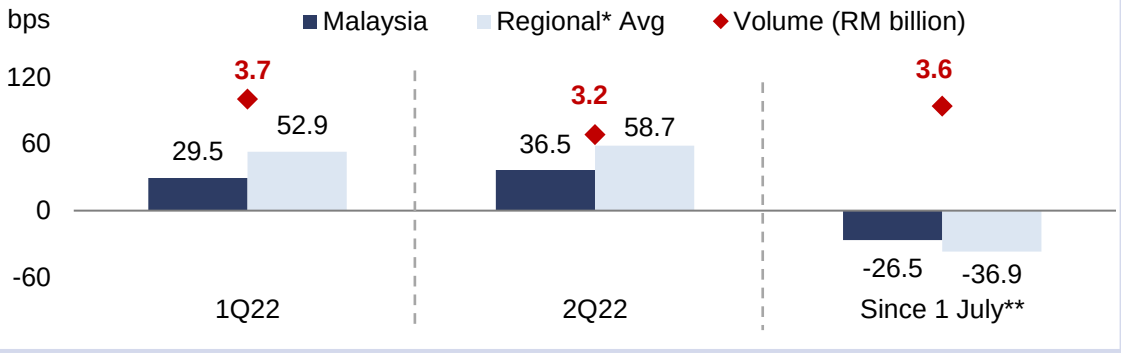
Movement of the DXY and Exchange Rate against the US Dollar (%)



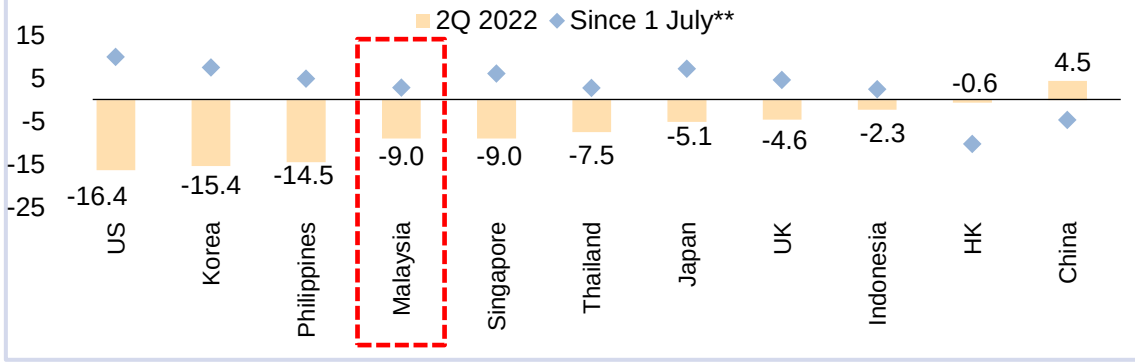
*Change in DXY, ringgit NEER, and exchange rate against the US dollar from 1 July to 10 August 2022
**Ringgit Nominal Effective Exchange Rate
***Average 1M Implied Volatility Onshore for 2Q22
Source: Bank Negara Malaysia, Reuters

Domestic bond yields and equity moved in line with regional countries

Movement of 10-Year Sovereign Bond Yields



Movement of Equity Prices (% change)

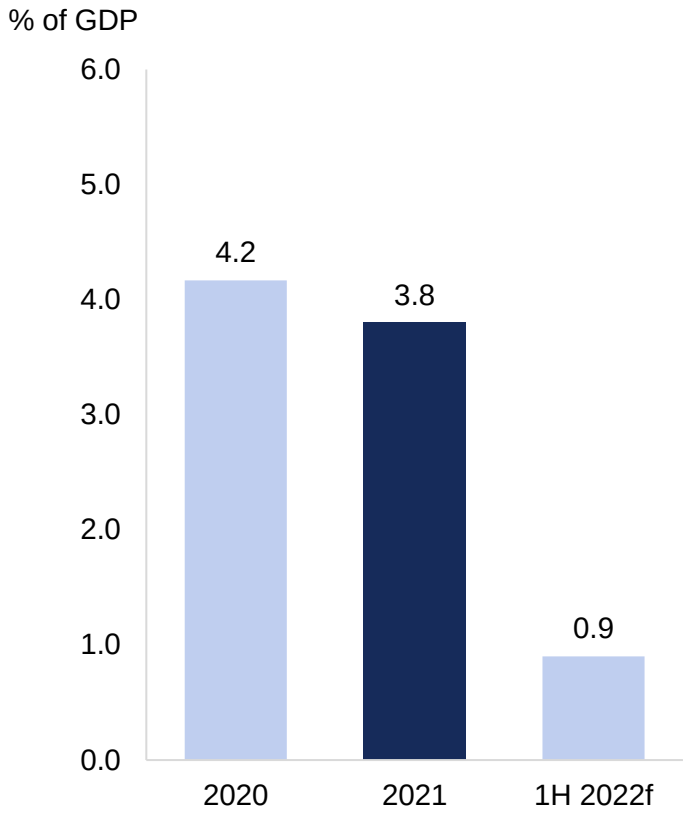


*Regional countries include Indonesia, the Philippines, PR China, Singapore, South Korea and Thailand.
**Data from 1 July to 10 August 2022
Source: Bank Negara Malaysia, Bursa Malaysia, Bloomberg

Malaysia's strong external position has strengthened the economy's resilience to withstand external shocks

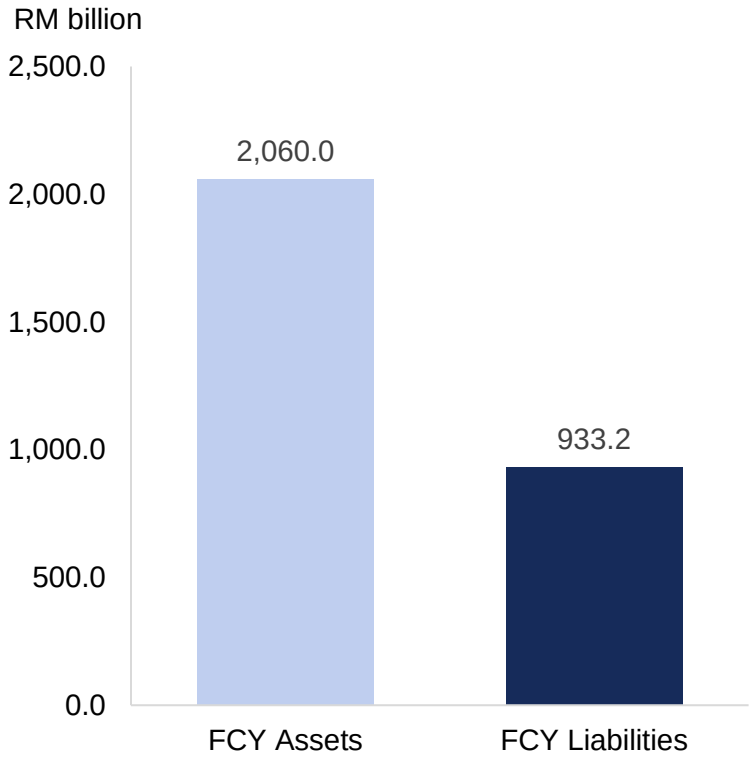
Current account remained in surplus

Current Account Surplus



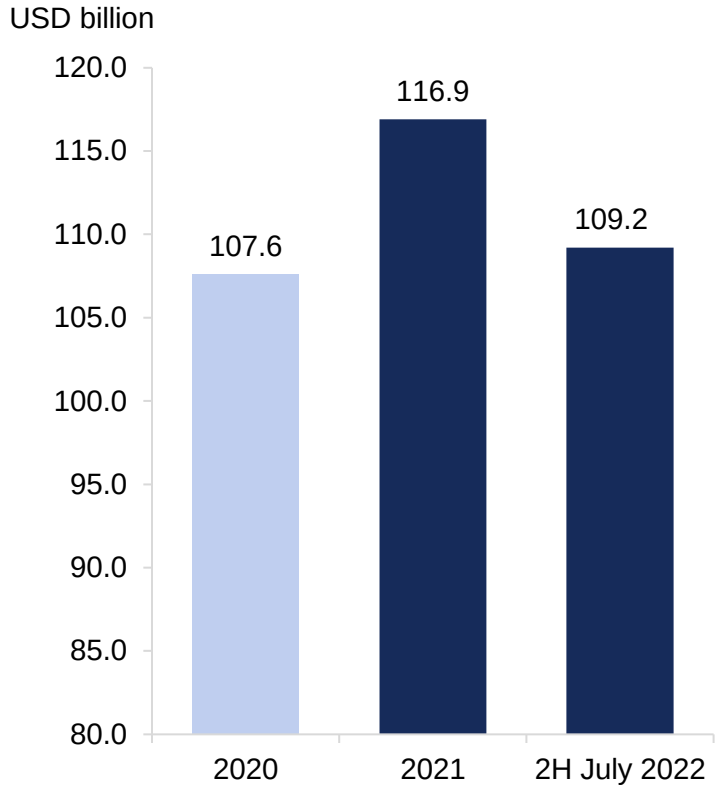
Foreign-currency (FCY) external assets exceeded liabilities

FCY denominated external assets & liabilities (as at 2Q 2022)



Adequate international reserves

International Reserves



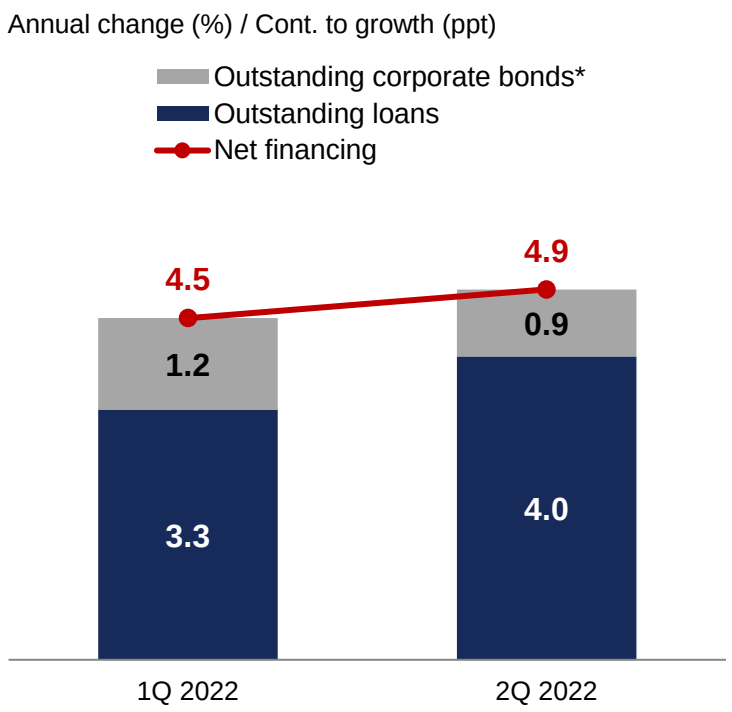
Note: Data on current account is cumulative for the year.

Source: Bank Negara Malaysia, Department of Statistics, Malaysia

Growth in net financing underpinned by bank lending

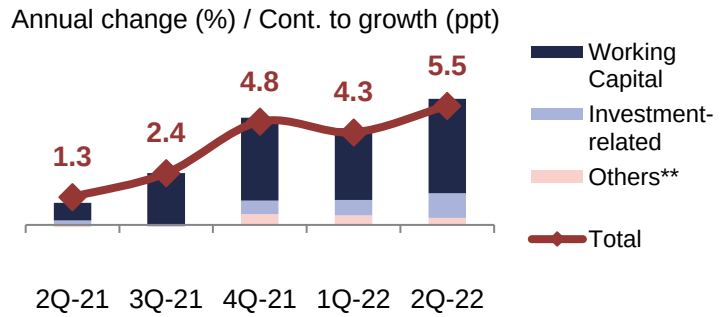
Net financing grew by 4.9%, driven by higher outstanding loan growth

Net Financing

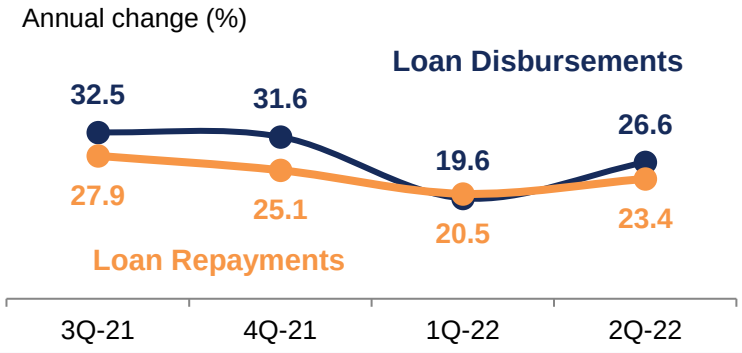


Business loan growth increased, supported by higher growth in both working capital and investment loans

Outstanding Business Loan Growth

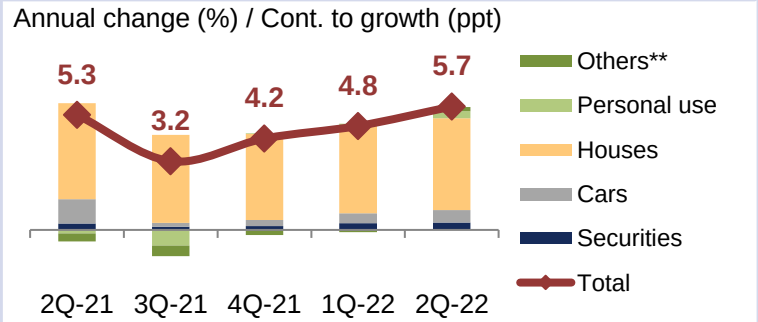


Business Loan Disbursements and Repayments

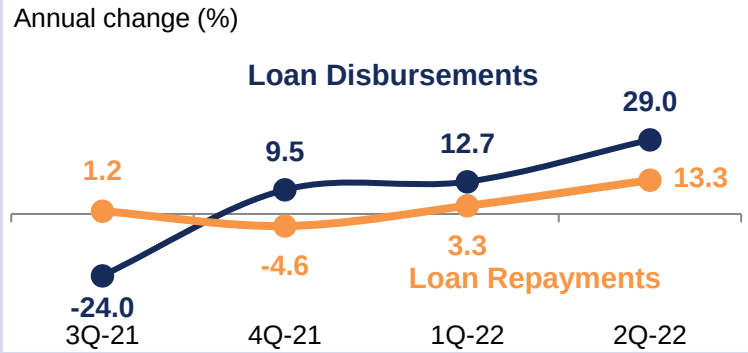


Outstanding household loan growth increased further amid higher growth in loan disbursements and repayments

Outstanding Household Loan Growth



Household Loan Disbursements and Repayments



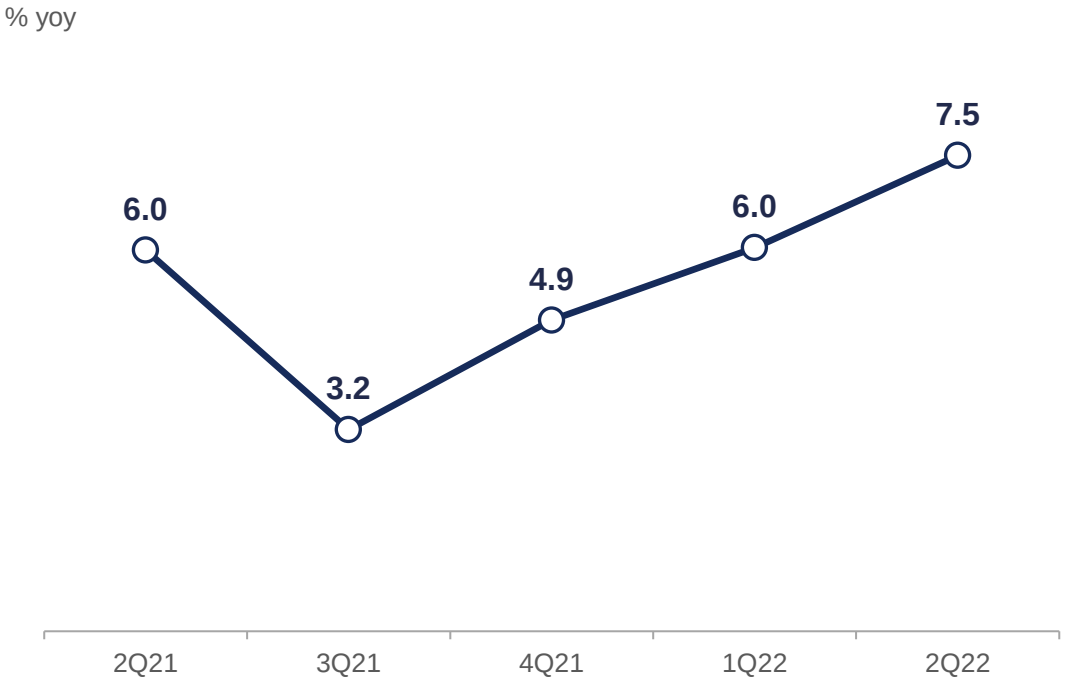
Note: Data refer to loans from the banking system and development financial institutions (DFIs), except for business loan by purpose (i.e. working capital and investment), which only include banking system data.
* Excludes issuances by Cagamas and non-residents. ** 'Others' include loans for the purposes of non-residential property purchases, credit card, consumer durable goods and other purposes.
Source: Bank Negara Malaysia

MSMEs continued to access bank financing in 2Q 2022

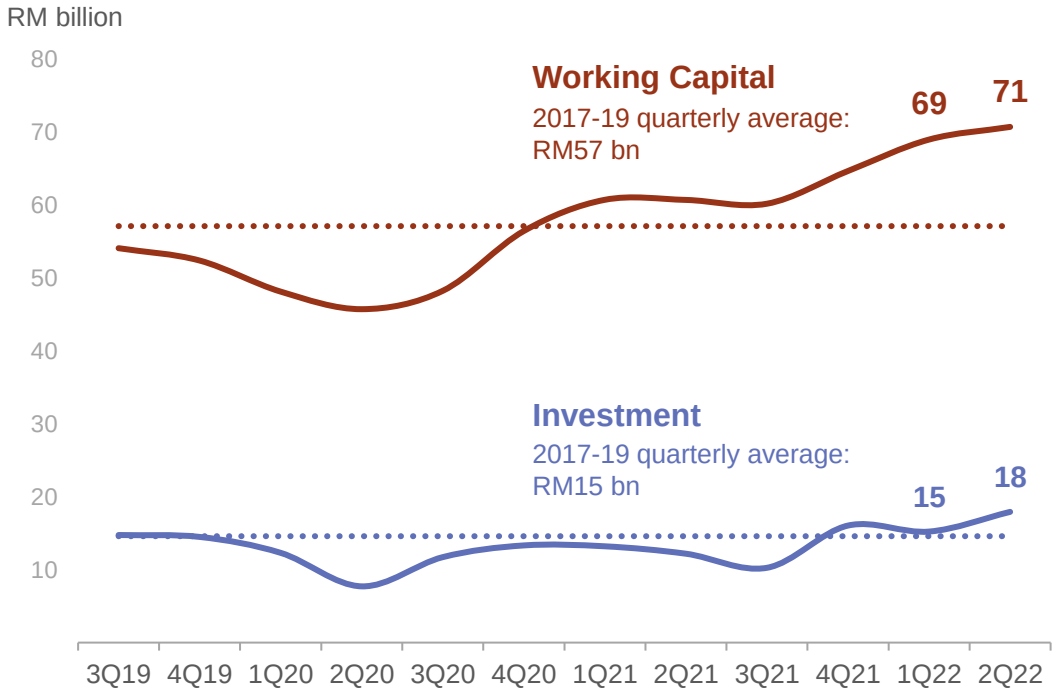
Financing to MSMEs expanded at a faster pace of 7.5% in 2Q 2022

Financing disbursements surpassing pre-pandemic levels, in tandem with an increase in SMEs' financing needs for working capital and business expansion

Outstanding SME Financing



SME Financing Disbursements by Purpose [1]

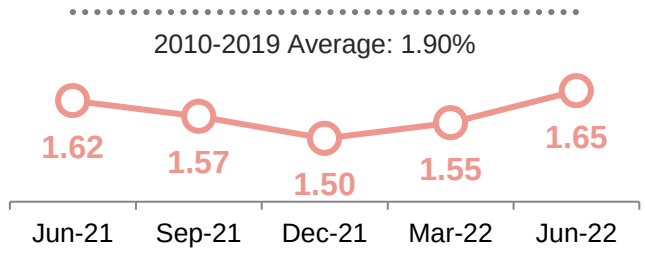


[1] Investment-related purpose includes financing for the purchase of non-residential property, commercial vehicle, fixed assets (e.g. machinery and equipment), securities, and construction activity.
Note: Banking system and DFIs
Source: Bank Negara Malaysia

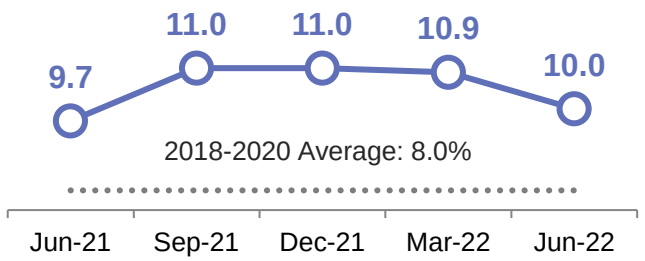
Banks remain resilient and well-positioned to support ongoing economic recovery

Credit risk remains elevated as relief measures gradually expire

Gross Impaired Loans Ratio (%)

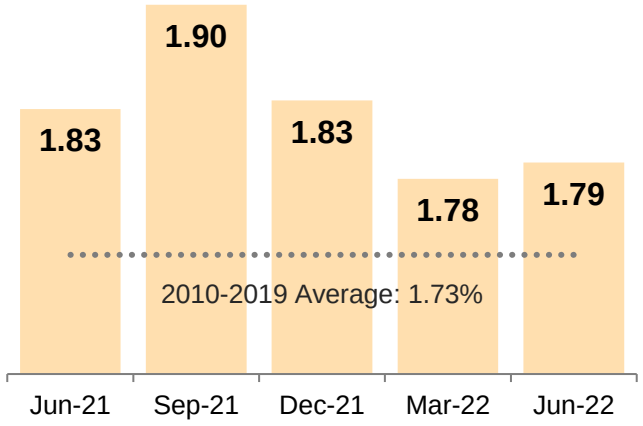


MFRS 9* Stage 2 Loans[1] Ratio (%)



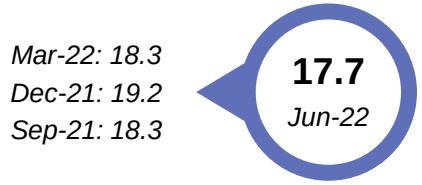
Banks continue to maintain provisions to buffer against potential credit losses

Total Provisions, as % of loans



Strong capital and liquidity positions would continue to support intermediation needs

Total Capital Ratio, %



Liquidity Coverage Ratio, %



[1] Refers to the share of loans that have exhibited deterioration in credit risk, for which banks are required to set aside provisions based on lifetime expected losses
* MFRS 9 - Malaysian Financial Reporting Standard 9

Source: Bank Negara Malaysia

Policy priorities should now also accord a stronger focus on longer-term policies to complement short-term measures

Key Structural Reforms

- Attracting **quality investments** to create high value added activities and high-income jobs, particularly for Malaysians
- Continued upskilling to develop a **high-skilled workforce** to match demands of the future economy and industry
- Accelerating **automation and digitalisation** efforts to improve competitiveness, increase productivity and reduce reliance on low-skilled foreign workers
- Enhancing **social safety nets and improving the social protection framework** through savings from a more targeted subsidy regime
- Advancing the **environmental, social and governance *(ESG)*** agenda to ensure Malaysia remains competitive globally, whilst also securing a more sustainable future

Summary



In 2Q 2022, the Malaysian economy grew by 8.9% mainly driven by consumption activities amid the recovery in labour market conditions.



Growth in 2022 to be supported by strengthening domestic demand and reopening of international borders, which more than offset moderation in external demand.



The outlook, however, is subject to risks related to weaker-than-expected global growth, heightened geopolitical tensions, global financial market volatility and supply chain disruptions, leading to much slower economic growth.

Headline and core inflation for 2022 are expected to average higher reflecting improvement in economic activity amid higher costs.



Policy support should also accord a stronger focus on longer-term priorities to complement short-term measures

End of Presentation

Q&A

Additional Information

Malaysia's GDP expanded by 8.9% in 2Q 2022

Annual Change in GDP Growth by Component

Real GDP (% YoY)	Share[1] % (2021)	2021	2022	
		2Q	1Q	2Q
Services	**57.0**	**13.4**	**6.5**	**12.0**
Manufacturing	**24.3**	**26.7**	**6.6**	**9.2**
Agriculture	**7.1**	**-1.5**	**0.1**	**-2.4**
Mining and Quarrying	**6.7**	**10.6**	**-1.1**	**-0.5**
Construction	**3.7**	**40.3**	**-6.2**	**2.4**
Real GDP	**100.0**	**15.9**	**5.0**	**8.9**

Real GDP (% YoY)	Share, % (2021)	2021	2022	
		2Q	1Q	2Q
Domestic Demand (Excluding Stocks)	**92.7**	**12.3**	**4.4**	**13.0**
Private Sector	**74.4**	**13.0**	**4.4**	**15.4**
Consumption	58.8	11.7	5.5	18.3
Investment	15.6	17.3	0.4	6.3
Public Sector	**18.3**	**9.0**	**4.8**	**2.8**
Consumption	13.8	8.2	6.7	2.6
Investment	4.5	12.0	-0.9	3.2
Net Exports of Goods and Services	**6.0**	**57.6**	**-26.5**	**-28.7**
Exports	69.1	37.1	8.0	10.4
Imports	63.1	35.5	11.1	14.0
Change in stocks, RM bn	**1.3**	**15.2**	**5.7**	**11.8**
Real GDP	**100.0**	**15.9**	**5.0**	**8.9**

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

Source: Department of Statistics, Malaysia

Malaysia's GDP expanded by 8.9% in 2Q 2022

Percentage Point Contribution to GDP Growth by Component

Real GDP (Ppt contribution, %)	Share[1], % (2021)	2021	2022	
		2Q	1Q	2Q
Services	**57.0**	**7.8**	**3.7**	**6.8**
Manufacturing	**24.3**	**5.9**	**1.6**	**2.2**
Agriculture	**7.1**	**-0.1**	**0.01**	**-0.2**
Mining and Quarrying	**6.7**	**0.8**	**-0.1**	**0.0**
Construction	**3.7**	**1.2**	**-0.2**	**0.1**
Real GDP	**100.0**	**15.9**	**5.0**	**8.9**

Real GDP (Ppt contribution, %)	Share, % (2021)	2021	2022	
		2Q	1Q	2Q
Domestic Demand (Excluding Stocks)	**92.7**	**11.3**	**4.2**	**11.7**
Private Sector	**74.4**	**9.7**	**3.4**	**11.2**
Consumption	58.8	6.7	3.3	10.1
Investment	15.6	3.0	0.1	1.1
Public Sector	**18.3**	**1.6**	**0.8**	**0.5**
Consumption	13.8	1.1	0.8	0.3
Investment	4.5	0.4	0.0	0.1
Net Exports of Goods and Services	**6.0**	**2.5**	**-1.5**	**-1.7**
Exports	69.1	22.5	5.4	7.5
Imports	63.1	19.9	6.9	9.2
Change in Stocks	**1.3**	**2.0**	**2.2**	**-1.0**
Real GDP	**100.0**	**15.9**	**5.0**	**8.9**

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

Source: Department of Statistics, Malaysia

Financial account of the balance of payments continued to record net inflow

Continued net inflows in direct and other investment accounts offset net outflows in portfolio investment account

Financial Account by Component

RM billion	2021		2022		
	4Q	Year	1Q	2Q	1H
Direct Investment	**10.5**	**28.5**	**20.8**	**2.6**	**23.4**
*Direct Investment Abroad (DIA)**	-7.9	-19.7	-3.6	-14.7	-18.3
*Foreign Direct Investment (FDI)**	18.5	48.1	24.4	17.3	41.7
Portfolio Investment	**2.6**	**18.8**	**-10.1**	**-14.7**	**-24.8**
Residents	-6.1	-35.8	-13.9	-4.4	-18.3
Non-residents	8.7	54.6	3.8	-10.3	-6.5
Financial Derivatives	**-1.8**	**-2.3**	**0.2**	**-0.2**	**0.0**
Other Investment	**-10.6**	**-32.0**	**19.6**	**12.5**	**32.1**
Financial Account Balance	**0.7**	**13.0**	**30.4**	**0.2**	**30.7**

*As per the IMF's BPM5 classifications (i.e. directional basis)
Note: Numbers may not add up due to rounding

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

Continued FDI inflows amid higher DIA outflows

Net outflows in portfolio investment

Net inflows in other investment account

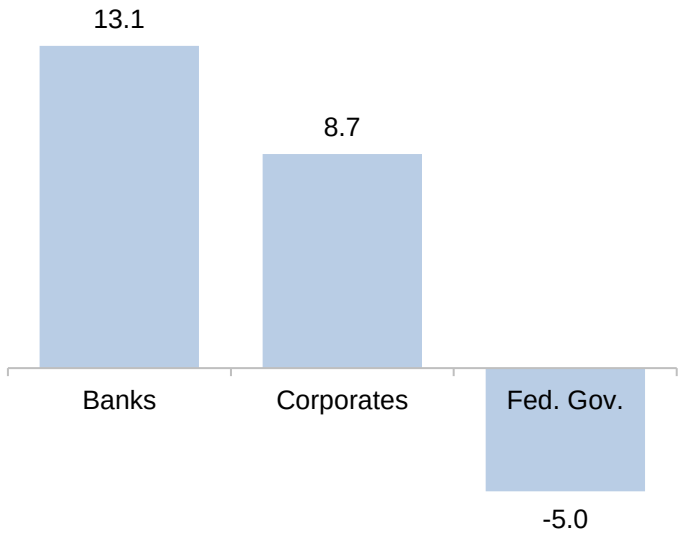
Malaysia's external debt remains manageable

External debt amounted to 67.7% of GDP as at end-2Q 2022 (1Q 22: 69.6%)

Changes in External Debt by Institution (from 1Q 2022)

Net change: +RM17.1* billion

RM billion

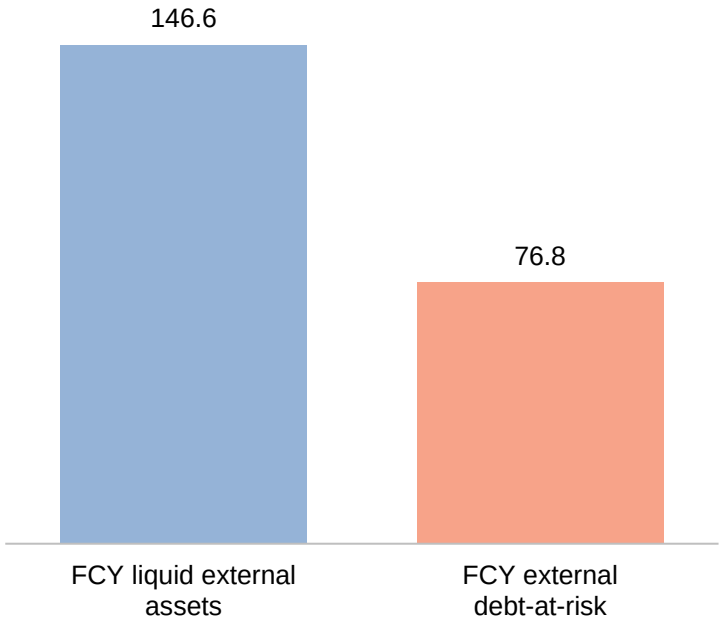


* Inclusive of RM0.3 billion increase in BNM external debt (allocation of SDR) due to exchange rate valuation changes

Banks are resilient to face potential external shocks

Banks' FCY Liquid External Assets* and FCY External Debt-at-Risk**

RM billion



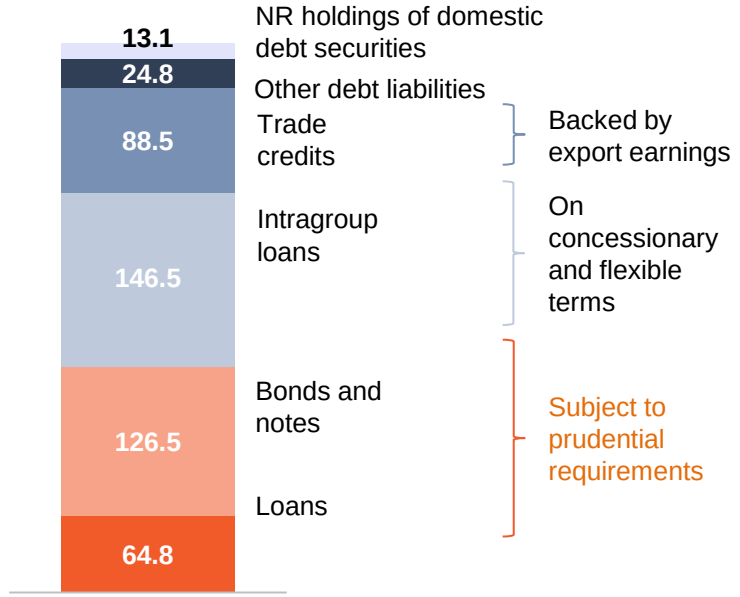
* Consist of deposit & interbank placements, bonds and notes, and money market instruments.

** Consist of short-term financial institutions' deposits, interbank borrowings and loans from unrelated counterparties.

Corporates' external debt is mainly subject to prudential requirements

Corporate External Debt Breakdown by Instrument (as at end-2Q 2022)

RM billion



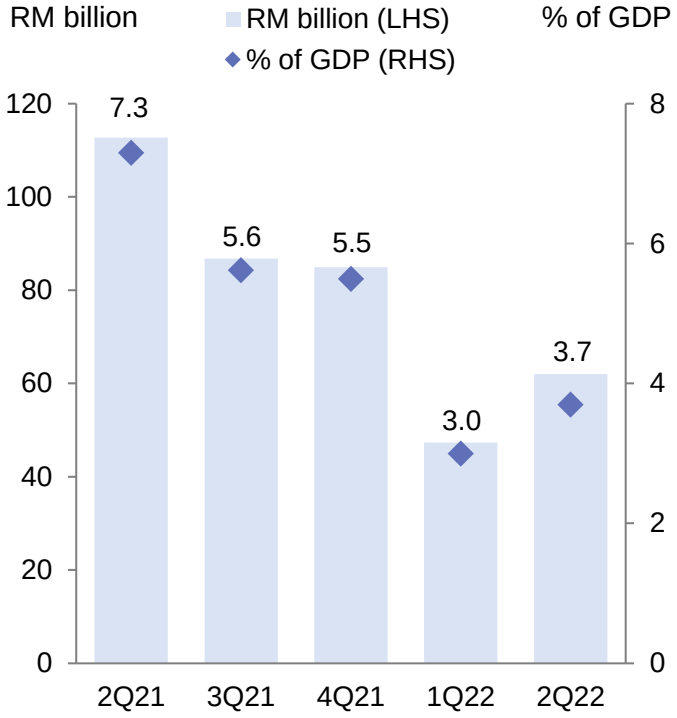
Total: RM464.1 billion

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

Adequate buffers to weather external shocks

Sustained net creditor position…

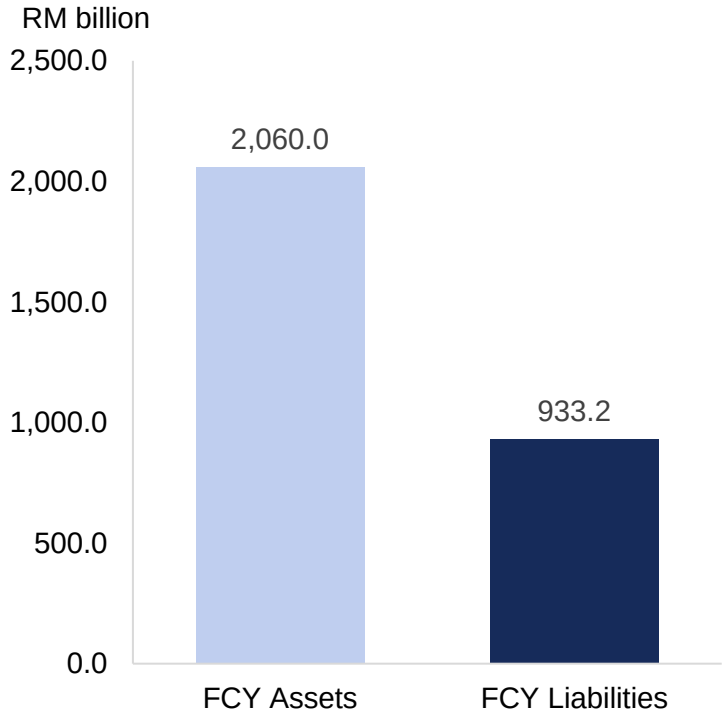
External Assets Minus External Liabilities (2Q 21 – 2Q 22)



p Preliminary
r Revised
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

… with large net foreign-currency external assets …

FCY denominated external assets & liabilities (as at 2Q 2022)



… and further supported by

Sustained foreign income

Continued current account surplus reduces external financing requirements

Sufficient international reserves to facilitate international transactions

… to finance 5.4 months of imports of goods & services and is 1.1 times total short-term external debt as at 29 July 2022