Embargoed until 12.00 noon on 11 November 2022

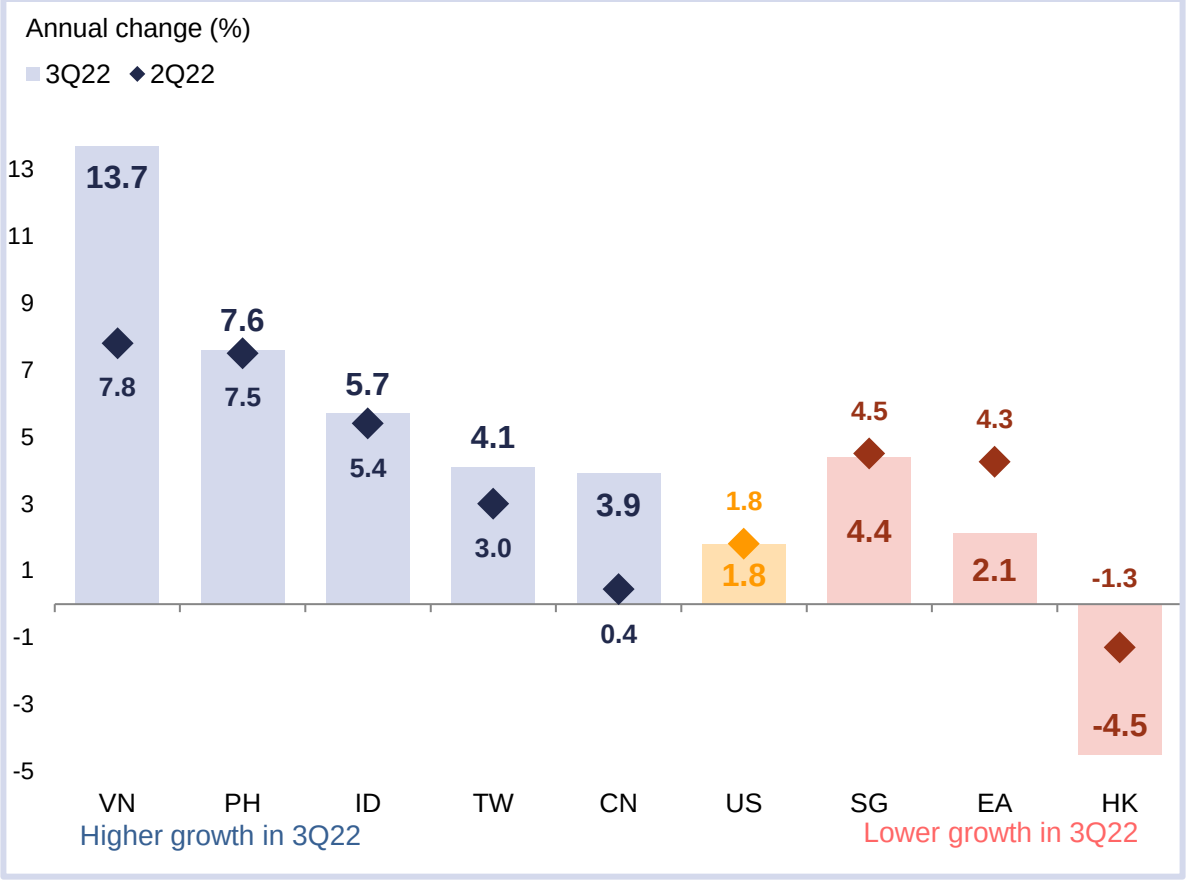
Sidang Akhbar

Prestasi Ekonomi Suku Ketiga Tahun 2022

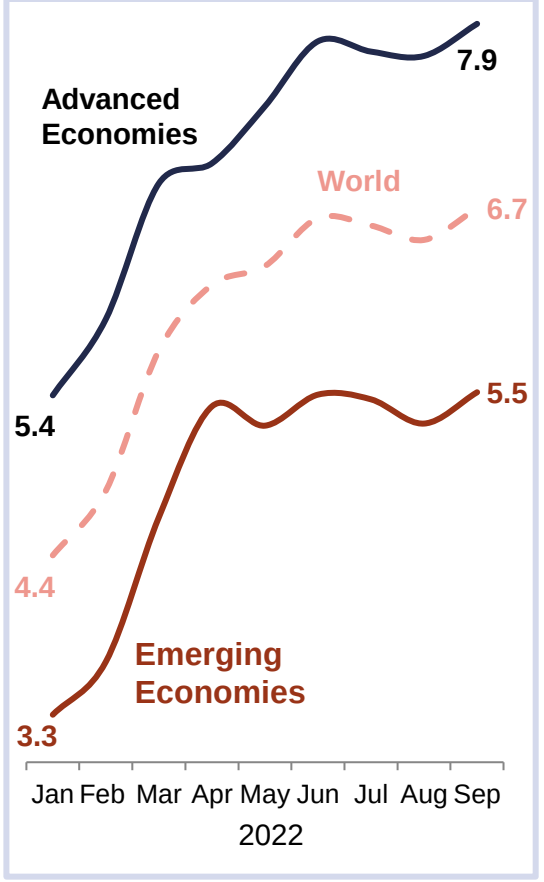
11 Nov 2022

The global economy continued to expand, albeit at a slower pace

Real GDP Growth[1]



Inflation[2]



Global Growth Developments

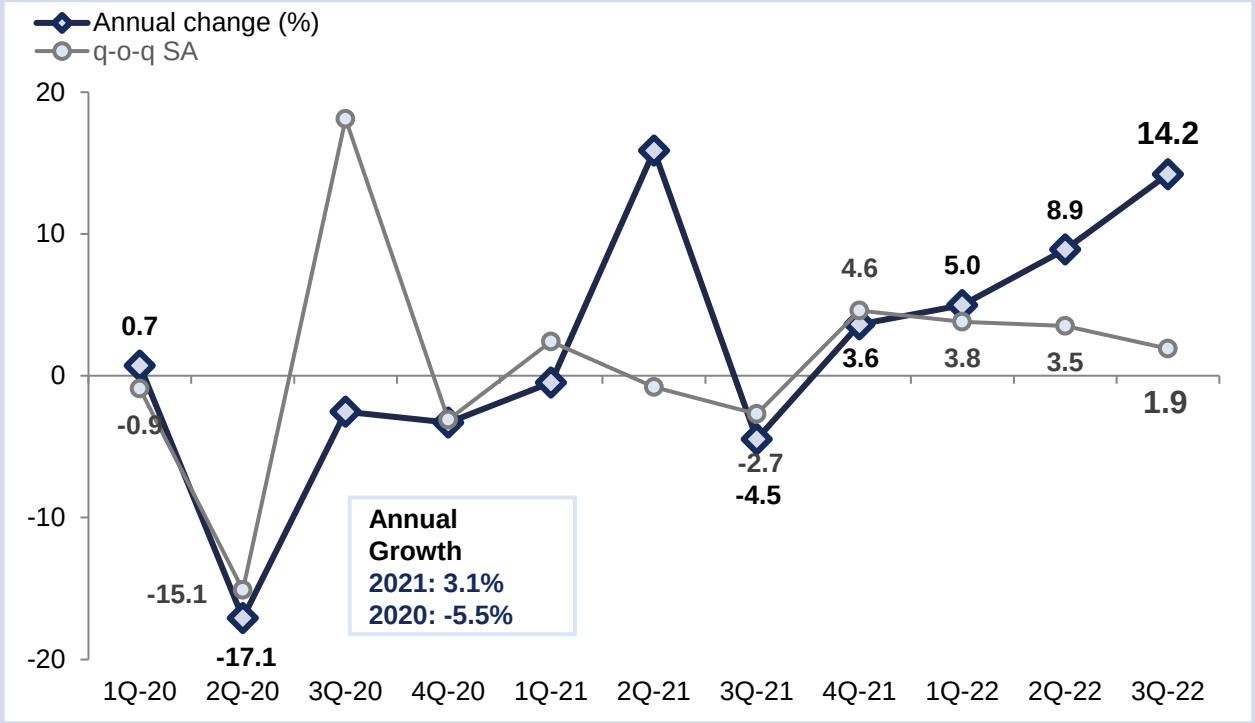
- Slower global growth due to higher inflation and tighter monetary policy, especially in advanced economies.
- This was partly offset by higher growth in China, attributed to recovery from COVID-related disruptions.
- Growth in some ASEAN countries was also lifted by base effects from last year's lockdowns.

Note:
[1] GDP for the second quarter of 2022 are advanced or preliminary estimates except for China, Indonesia, and Philippines
[2] Inflation figures are aggregated across major countries based on their share of global growth. EA refers to Euro Area (EA-19)
Source: CEIC, National authorities, International Monetary Fund, Bank Negara Malaysia estimates

The Malaysian economy recorded a stronger growth of 14.2% in 3Q 2022

Growth was partly lifted by base effect, due to the strict containment measures in third quarter last year

Real GDP Growth



Monthly Real GDP Growth (Annual change, %)

Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
5.7	4.9	16.5	15.8	15.3	11.6

Factors Supporting Growth

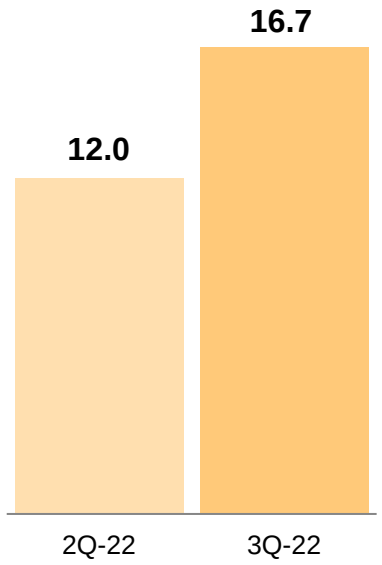
- **Continued expansion in domestic demand**
- **Firm recovery in the labour market**
- **Robust E&E and non-E&E exports**
- **Ongoing policy support**

Source: Department of Statistics, Malaysia

Expansion in activity across all economic sectors

Services

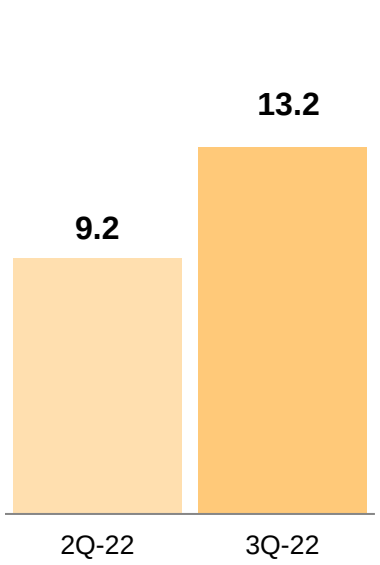
Annual change (%)



Higher consumer-related activities amid recovery in tourism, better labour market conditions and policy support

Manufacturing

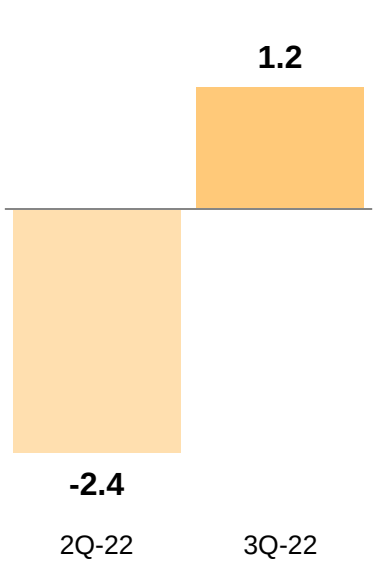
Annual change (%)



Strong demand for E&E products and ramp up of production in the transport equipment subsector

Agriculture

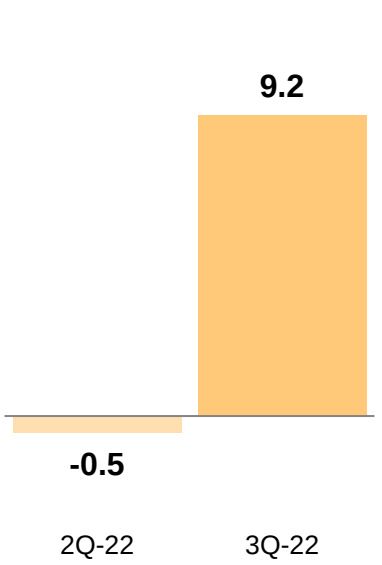
Annual change (%)



Higher oil palm output due to receding labour shortages and improved yields

Mining

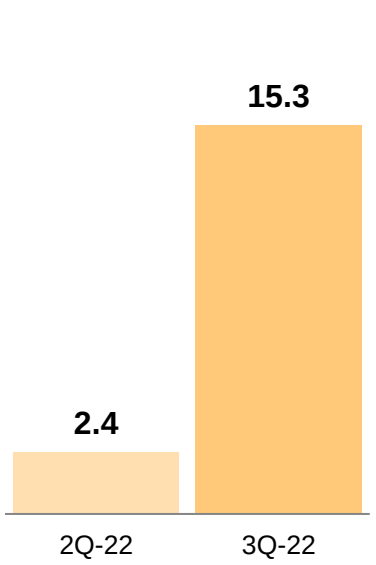
Annual change (%)



Higher oil and gas output

Construction

Annual change (%)



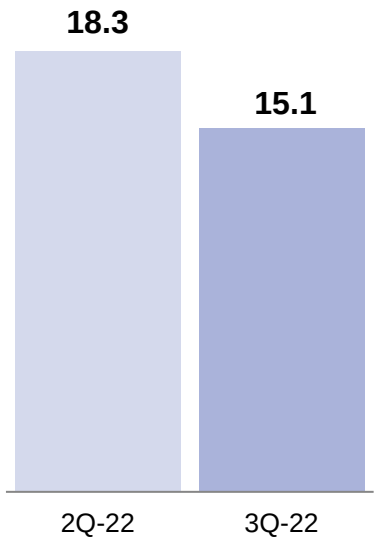
Continued progress in commercial real estate, mixed development and small-scale projects

Source: Department of Statistics, Malaysia

Strong domestic and external demand

Private Consumption

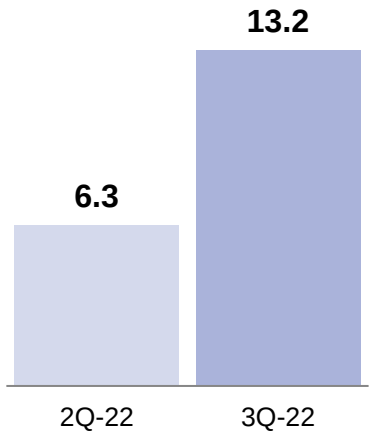
Annual change (%)



Continued household spending in necessities and discretionary items

Private Investment

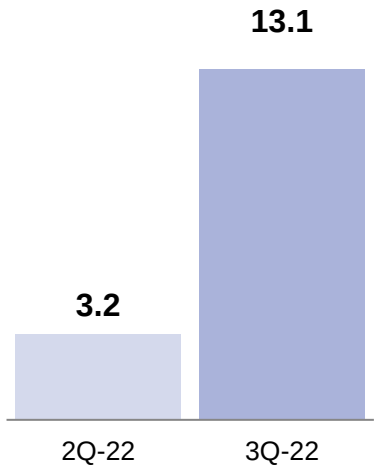
Annual change (%)



Improvement in both structures and M&E investments

Public Investment

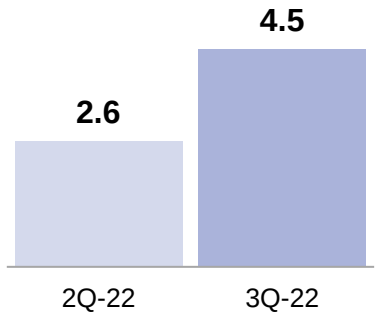
Annual change (%)



Higher capital spending by general government and public corporations

Public Consumption

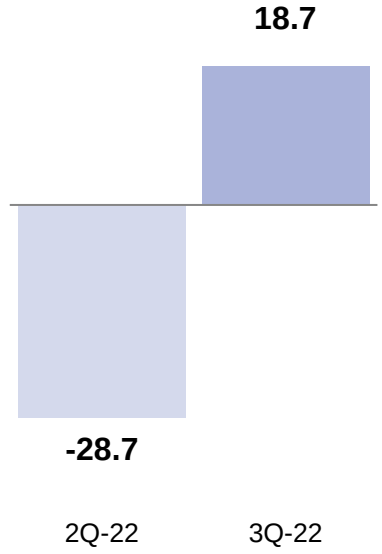
Annual change (%)



Higher supplies and services spending

Net Exports

Annual change (%)

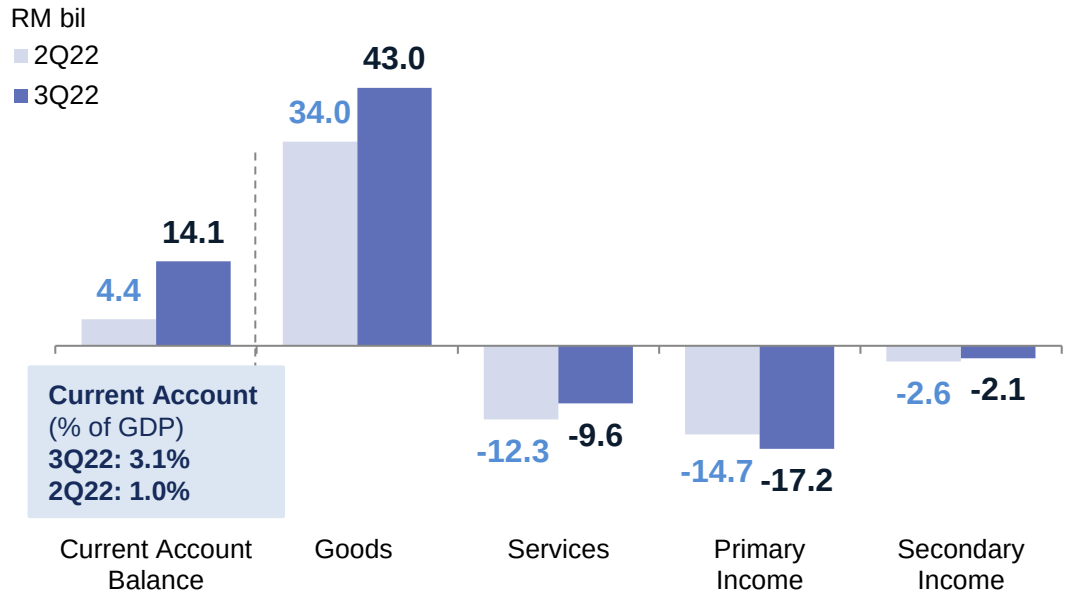


Stronger export growth amid higher travel and transport receipts

Source: Department of Statistics, Malaysia

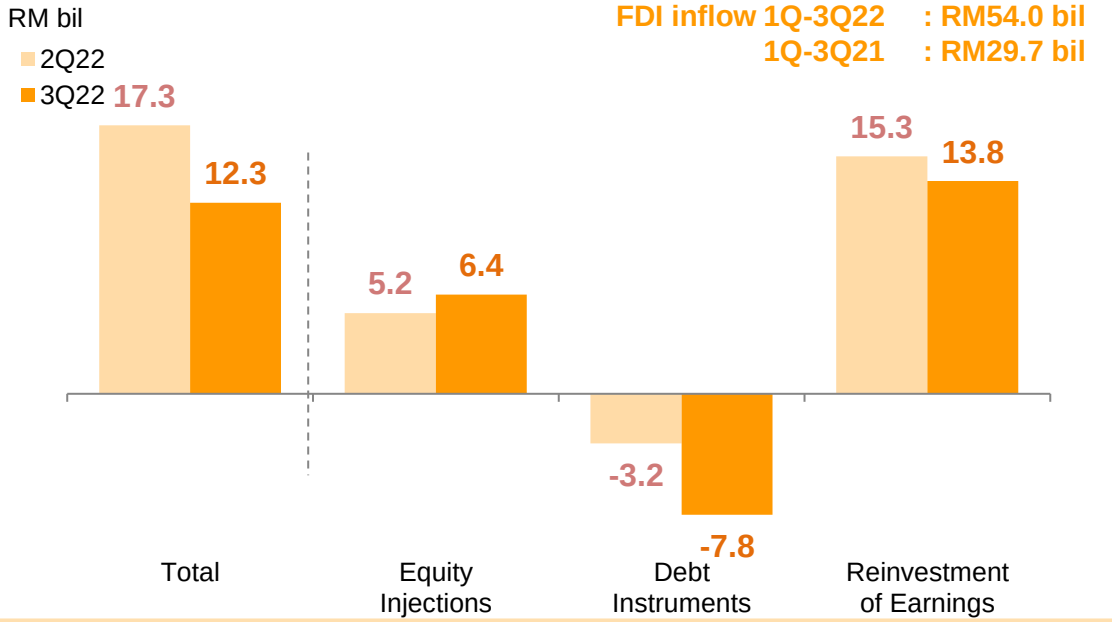
Higher current account surplus and continued FDI inflows

Current Account



- **Higher goods surplus due mainly to stronger exports amid high commodity prices**
- **Services deficit narrowed driven by higher travel and transport receipts**

Foreign Direct Investment



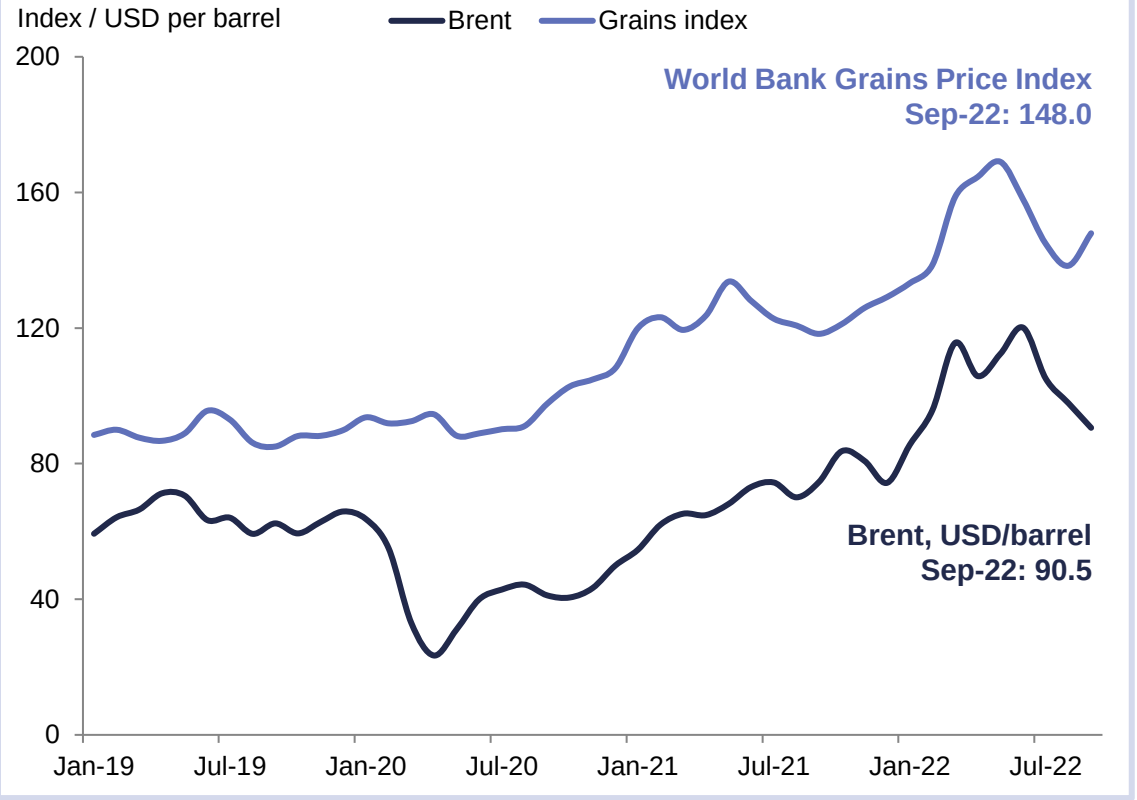
- **Continued FDI inflows despite higher outflows in debt instruments**
- **FDI was mainly channelled into the manufacturing sector and financial services sub-sector**

Source: Department of Statistics, Malaysia

Global commodity prices moderating, but inflation remains elevated in many countries

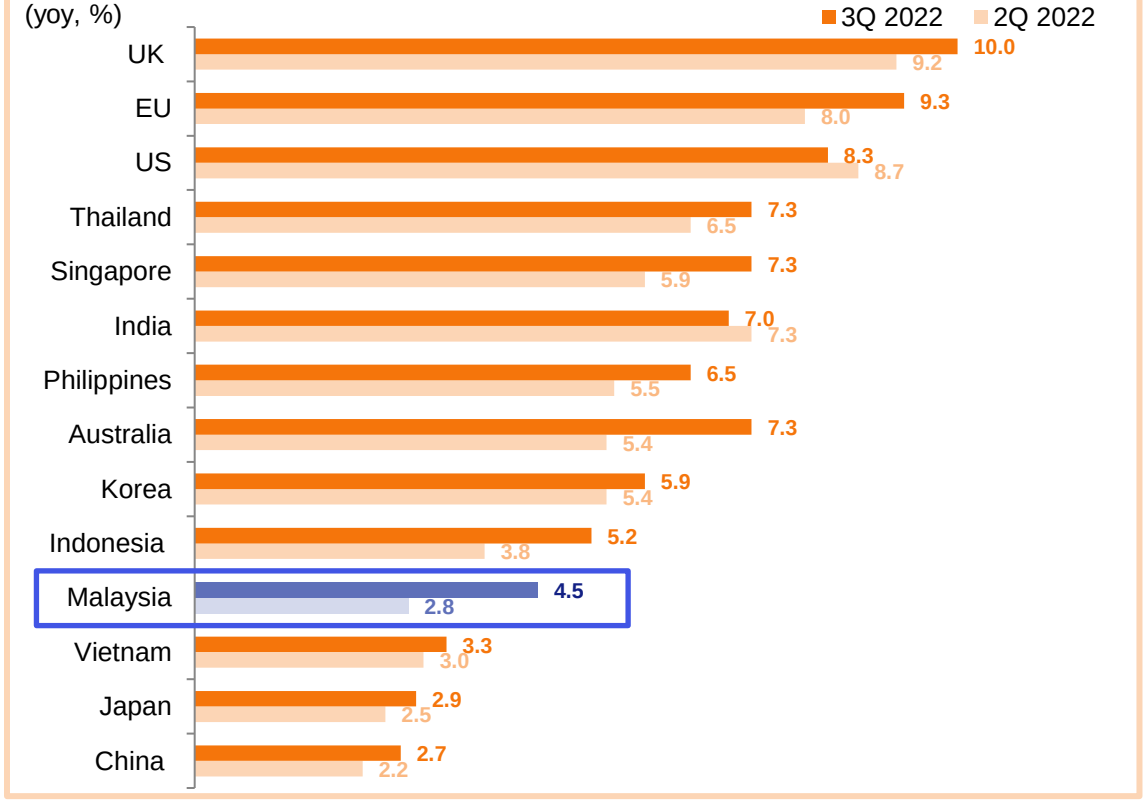
Global commodity prices beginning to ease…

Key Commodity Prices



…but inflation remains high across many countries

Global Inflation

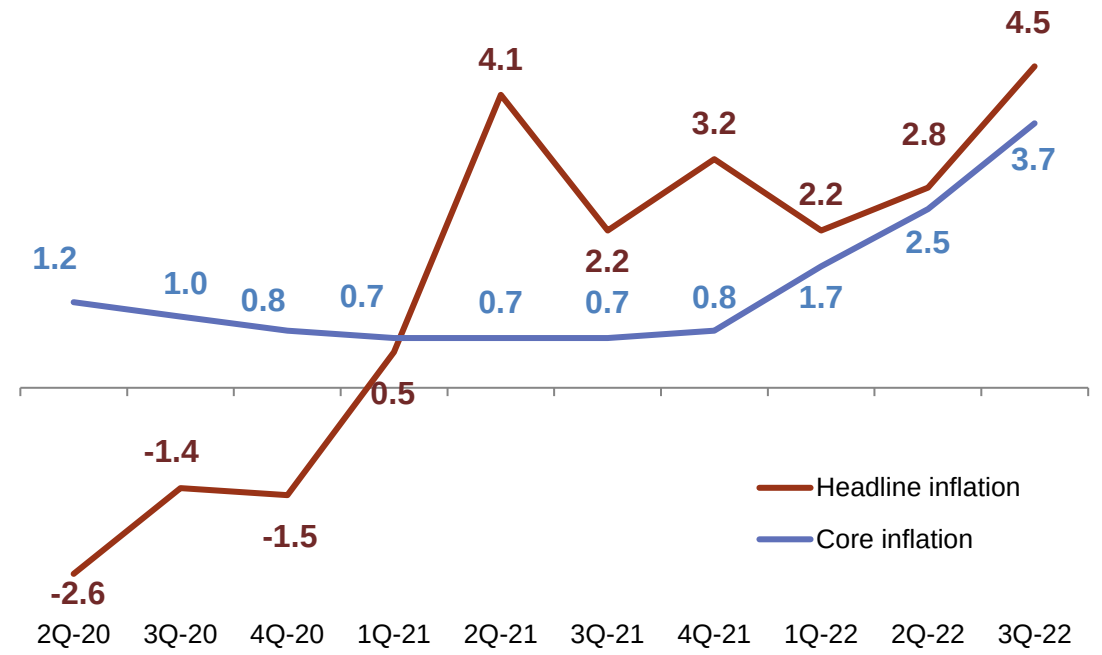


Source: Bloomberg and Department of Statistics, Malaysia

Headline inflation has likely peaked for the year at 4.5% in 3Q 2022

Rise in headline inflation reflected base effects from electricity discount and sustained increase in core inflation as demand improved amid the high cost environment

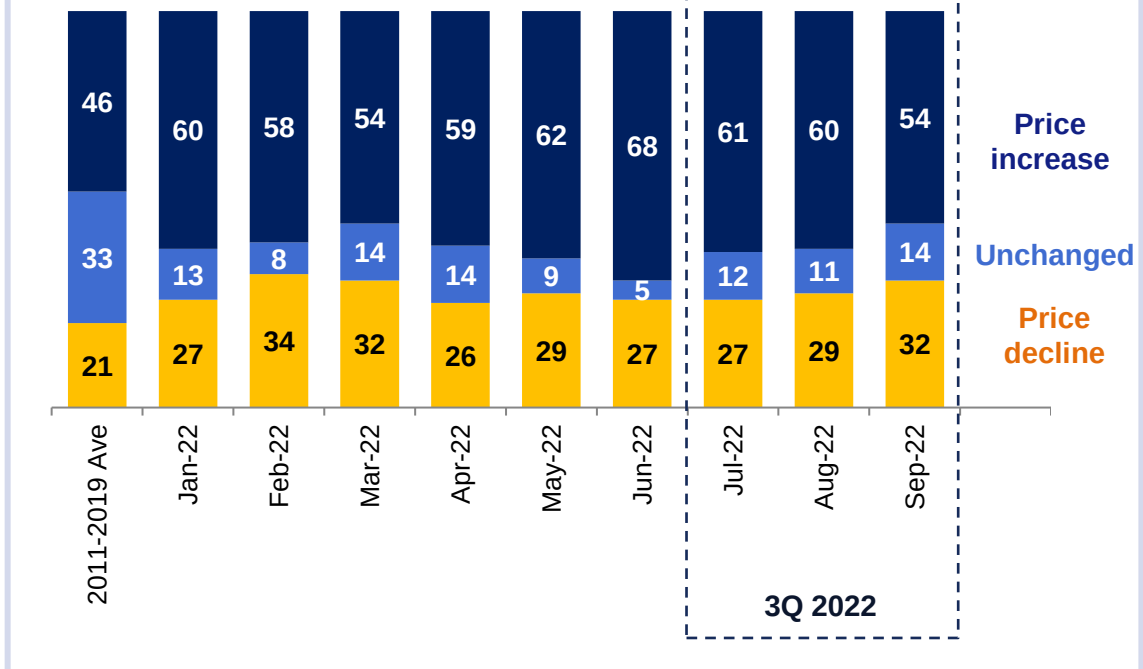
Headline and core inflation



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

Share of CPI items recording month-on-month price increases moderated slightly, but remain elevated

Month-on-month price changes of CPI items



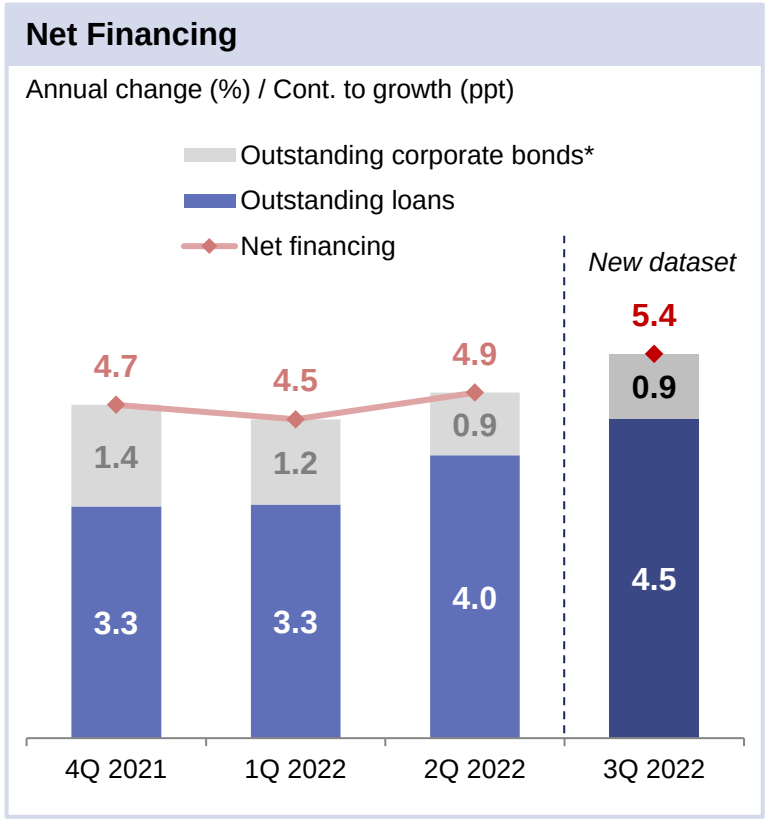
Note: Numbers may not add up to 100 due to rounding error
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

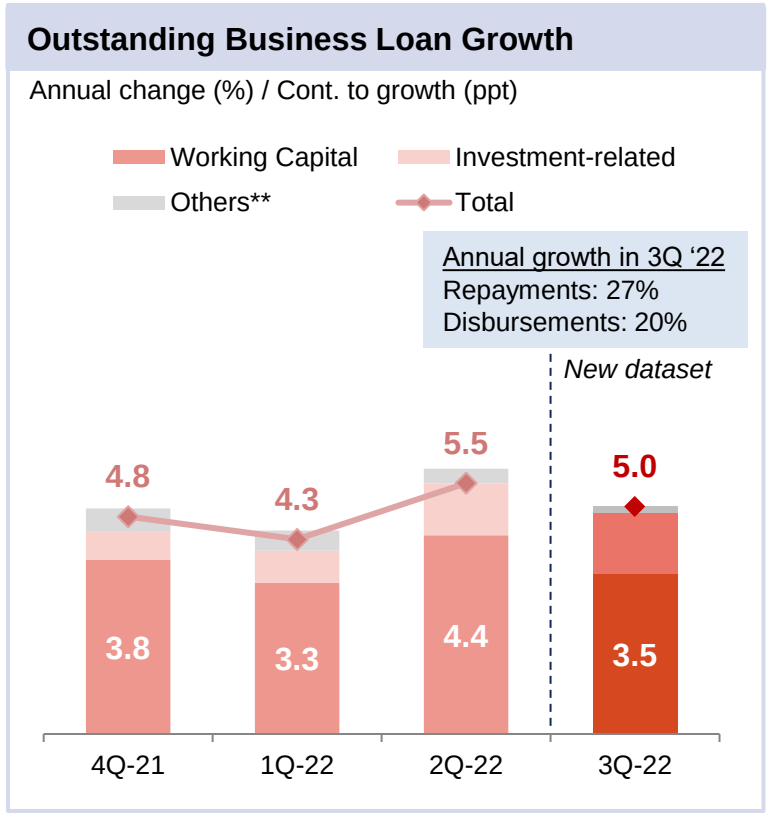
Net financing recorded sustained growth during the quarter

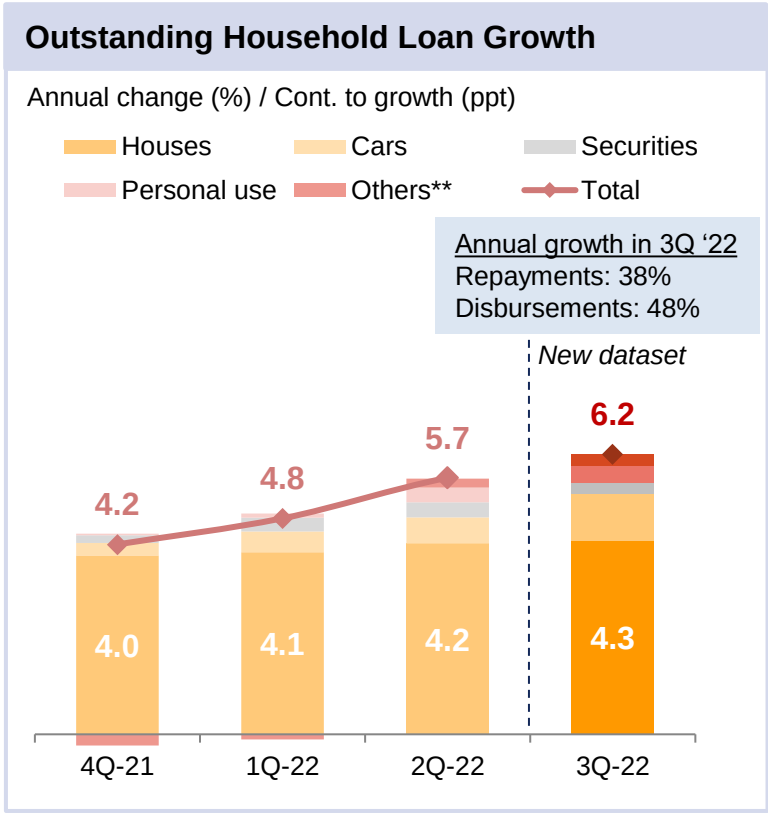
Net financing expanded by 5.4%

For businesses, loan repayment growth outpaced that of disbursements…

…while household loan growth was supported by high growth in disbursements







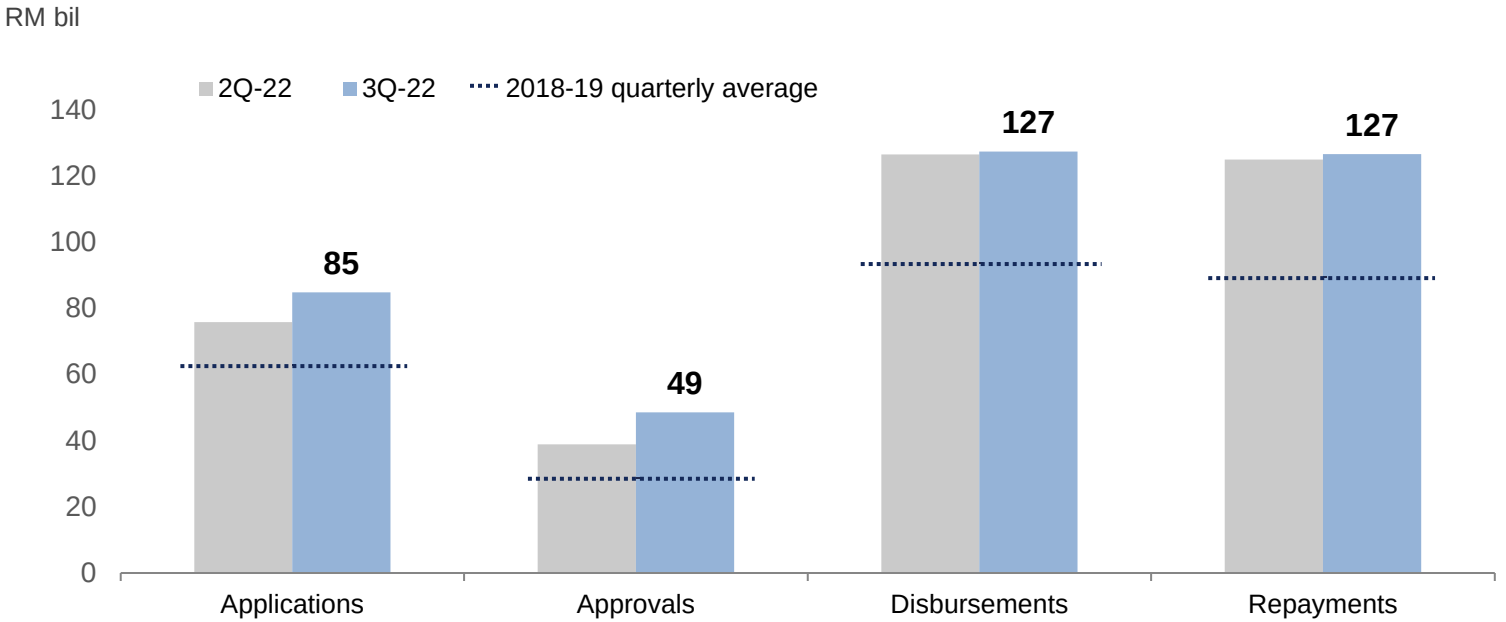
Note: Data refer to loans from the banking system and development financial institutions (DFIs). Financing data from 3Q 2022 onwards are based on the new set of loan/financing data reflecting the latest requirements, and cannot be directly compared to previous months' data.* Excludes issuances by Cagamas 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

MSME financing exceeded pre-pandemic trends

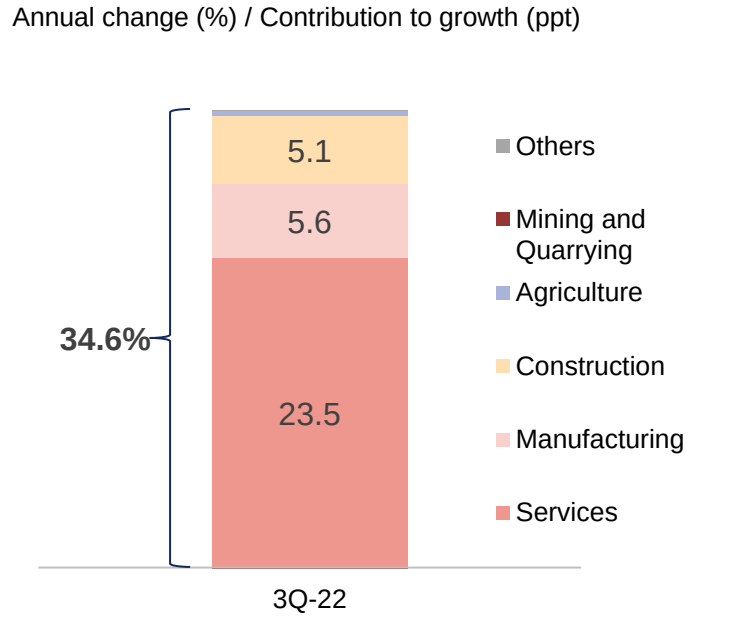
Continued strong momentum in MSME financing activity during the quarter

Robust disbursements particularly in the major MSME sectors, namely services, manufacturing and construction

MSME Financing Indicators



MSME Financing Disbursement by Sector

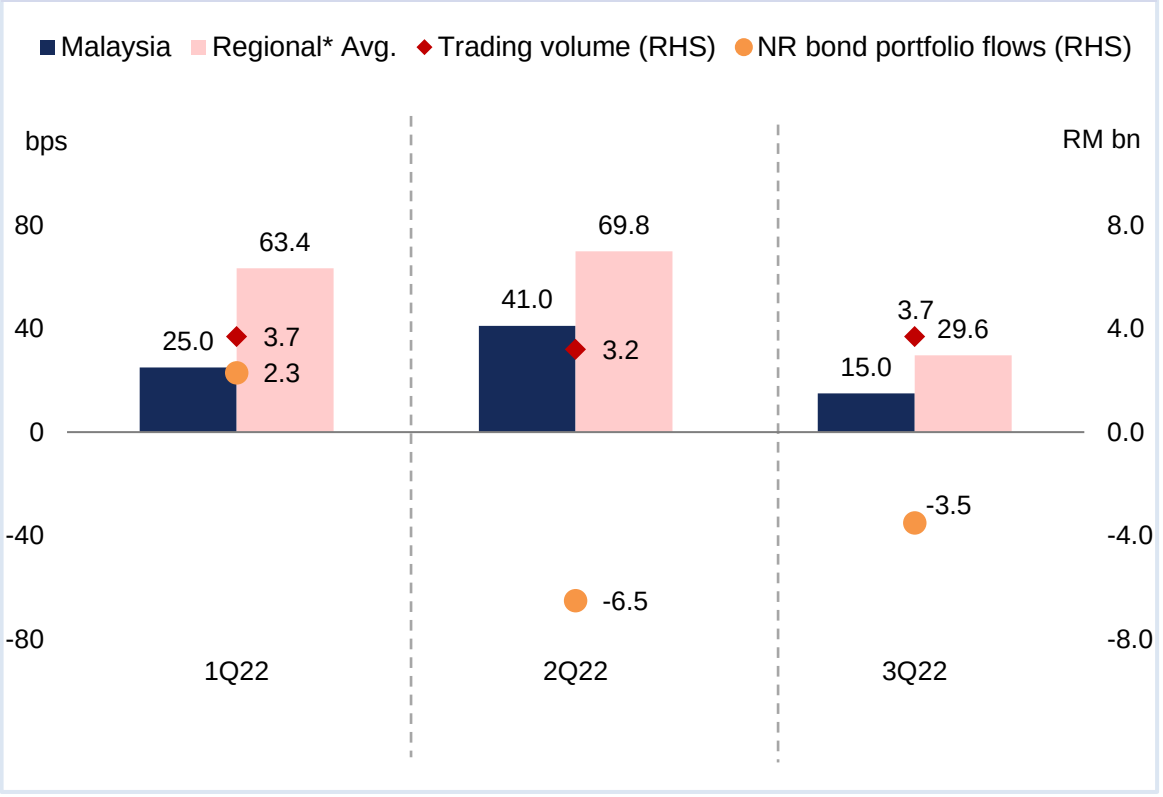


Note: Reflects banking system and development financial institutions (DFIs)
Source: Bank Negara Malaysia

Tighter global financial conditions led to spillovers in domestic financial markets

Domestic bond yields rose against the backdrop of tightening global monetary conditions

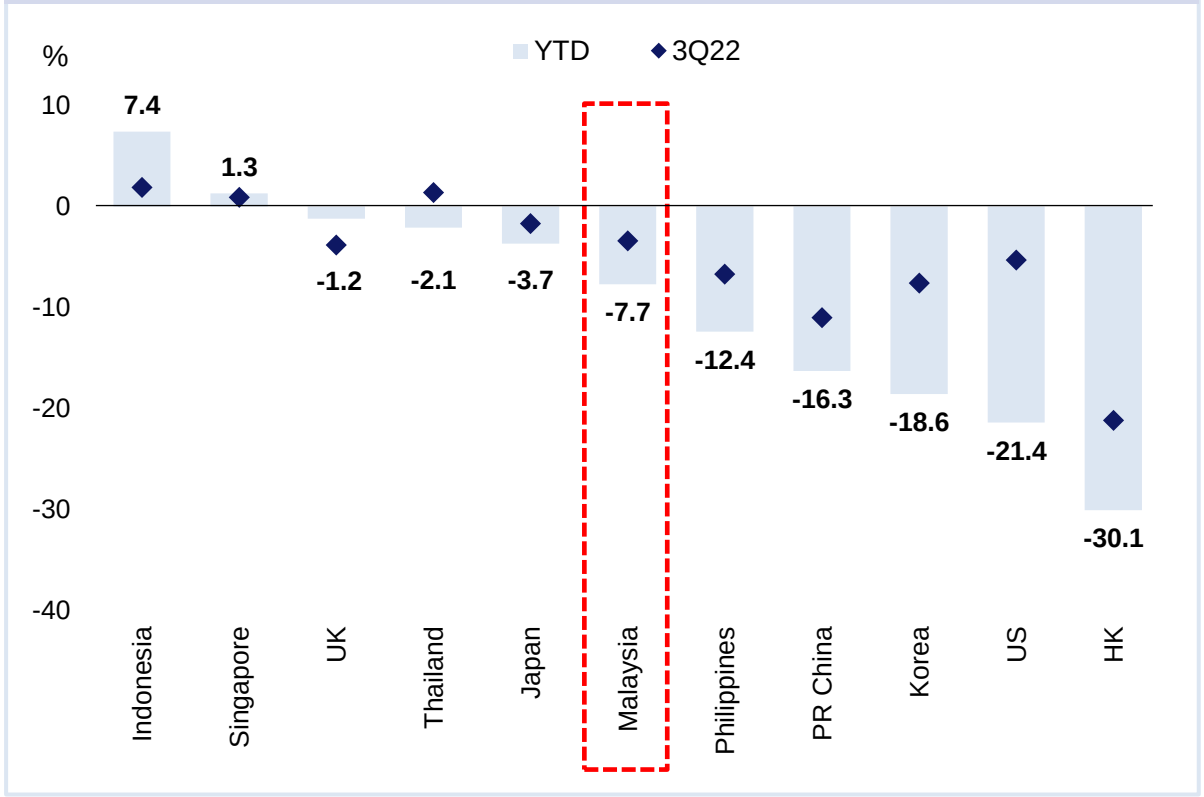
Movement of 10-Year Sovereign Bond Yields



*Regional countries include Indonesia, the Philippines, Singapore, South Korea and Thailand.
Flows and trading volumes refers to Malaysia
Source: Bank Negara Malaysia, ETP, Bursa Malaysia Bonds and INSIDES

Equity markets declined amid expectations for more moderate global growth

Movement of Equity Prices

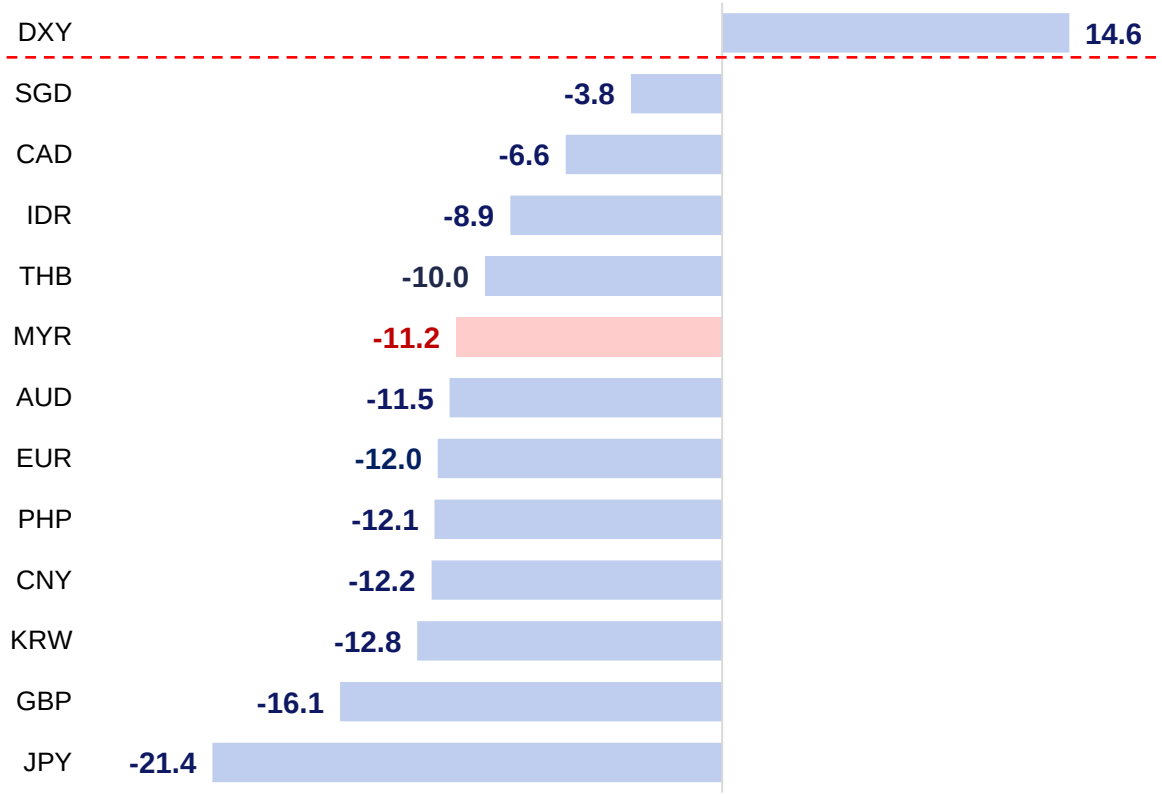


YTD as at 9 November 2022
Source: Bursa Malaysia

Ringgit's depreciation against the US dollar was in line with regional and major currencies

Almost all currencies in the world have depreciated against the US dollar

YTD Movement of the US Dollar Index (DXY) and Other Currencies Against the US Dollar (%)



YTD Change in DXY and exchange rate against the US dollar as at 9 November 2022
Source: Bank Negara Malaysia

The ringgit's performance was mixed against currencies of Malaysia's major trade partners

YTD Movement of MYR Against Selected Currencies (%)

MYR has strengthened against several major and regional currencies…

JPY	+13.0%
GBP	+4.9%
KRW	+1.9%
CNY	+1.1%
PHP	+1.0%
EUR	+0.1%

…and weakened against some currencies

AUD	-0.4%
THB	-1.3%
IDR	-2.5%
CAD	-6.2%
SGD	-8.0%
USD	-11.2%

But remained broadly stable against currencies of Malaysia's major trade partners

*NEER — -2.0%

YTD Change in ringgit NEER and ringgit against selected currencies as at 9 November 2022
*Ringgit Nominal Effective Exchange Rate
Source: Bank Negara Malaysia

Ringgit depreciation is due to the strong US dollar, Malaysia is not in an economic crisis

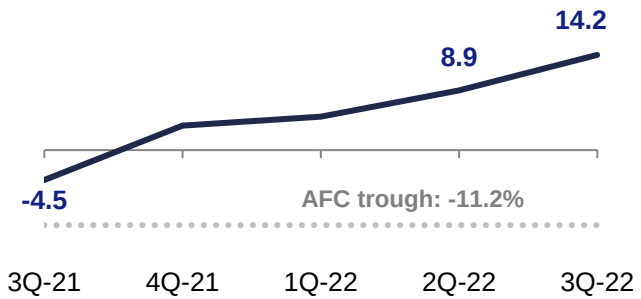
Signs of an economic crisis

- **Severe contraction in GDP**
- **High levels of unemployment**
- **Widespread closure of businesses**
- **Breakdown in financial intermediation**

Economic performance remain favourable

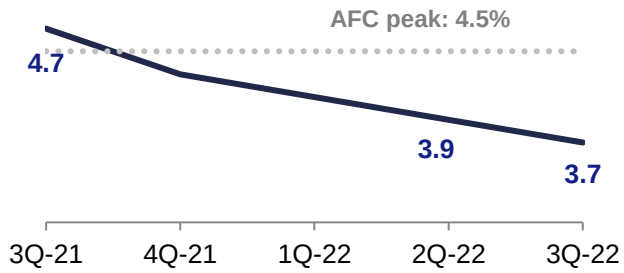
Real GDP Growth

Annual change (%)



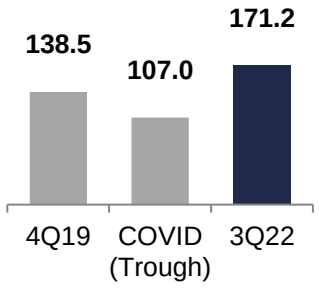
Unemployment Rate

Unemployment rate (%)

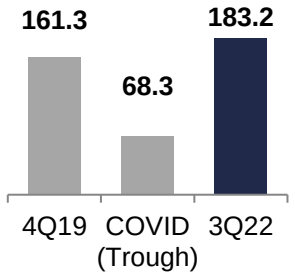


Retail and Car[1] Sales

Retail Sales, RM mil

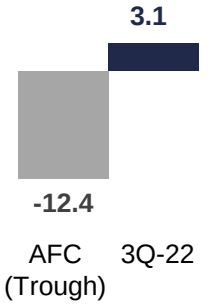


Car Sales, '000 units

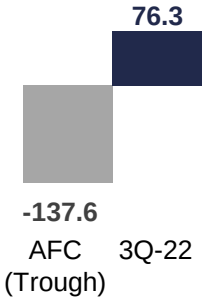


Current Account Balance (CAB) and Net International Investment Position (IIP)

CAB, % of GDP



Net IIP, RM bil



Note: [1] Refers to passenger and commercial vehicle sales. COVID trough refers to 2Q 2020.
Source: Department of Statistics Malaysia, Malaysia Automotive Association, Bank Negara Malaysia

Ringgit depreciation affects cost of imports

Depreciation of ringgit[1]
by 5%

Core inflation[2] to increase
by 0.1 – 0.3 ppt

Low share of imports in consumption and production

- *Imported consumption goods constitute around 8% of total imports[3]*
- *Imported finished goods constitute 10% of private consumption[4]*
- *Intermediate imported inputs account for 12% of total gross output[4].*

High cost environment may influence extent of exchange rate pass-through (ERPT)

- *Prolonged period of elevated costs may increase firms' willingness to pass on additional costs from ER depreciation.*
- *Nevertheless, this would be balanced against the need to maintain price competitiveness and weaker domestic demand conditions*

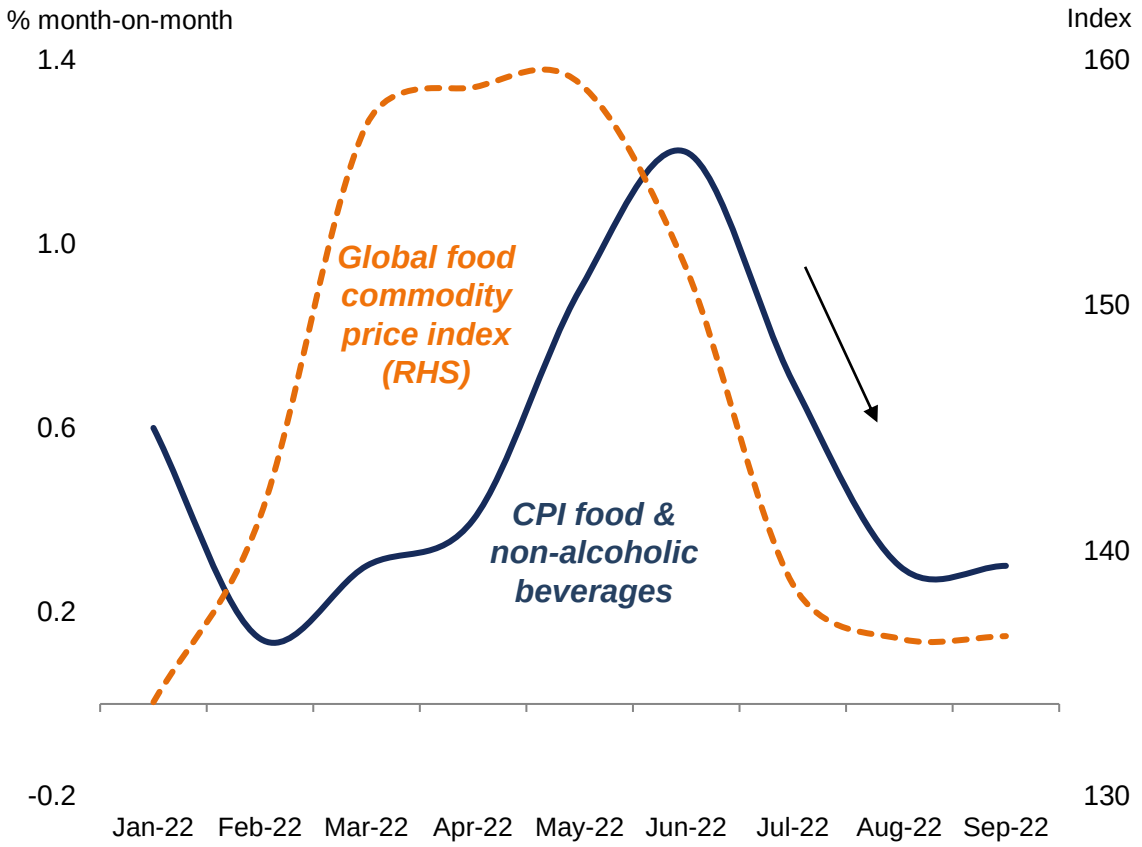
Varying degree of ERPT across CPI basket

- *Imported finished goods constitute less than 20% of CPI basket*
- *ERPT is typically stronger for imported fresh food items, such as beef and round cabbage, though these have a relatively smaller share in the CPI basket.*
- *Items with high self-sufficiency[5], such as chicken and eggs, exhibit lower ERPT.*

Note:
[1] Source: "The Impact of Exchange Rate Depreciation on Inflation in Malaysia" Bank Negara Malaysia Annual Report 2015
[2] Refer to core consumer price index (CPI) which excludes volatile items (e.g. fresh food) and price-administered items, as well as direct impact from consumption tax policy changes
[3] Source: Department of Statistics Malaysia
[4] Figures based on Input-Output Tables 2020 for Malaysia (Source: Department of Statistics, Malaysia)
[5] Self sufficiency ratio (SSR) refers to the reliance of a country's food supply on imports, i.e. the ratio of domestically produced food to its total supply.
Source: Bank Negara Malaysia

Moving forward, the impact of the weaker ringgit to inflation would be partly mitigated by the lower global commodity prices

Global commodity prices and domestic food inflation



Source: World Bank and Department of Statistics, Malaysia

Stylised illustration of wheat prices

A) Global wheat prices

	Wheat price (USD/metric tonne)	MYRUSD exchange rate
Jun-22	459.6	4.40
Sep-22	417.9	4.54

B) Domestic wheat prices

Jun-22 price — **RM2,022.2**

↓

Sep-22 price (*excluding exchange rate movements*) — **RM1,838.8**

Impact of lower global prices: -RM183.4

↓

Sep-22 price (*including exchange rate movements*) — **RM1,897.3**

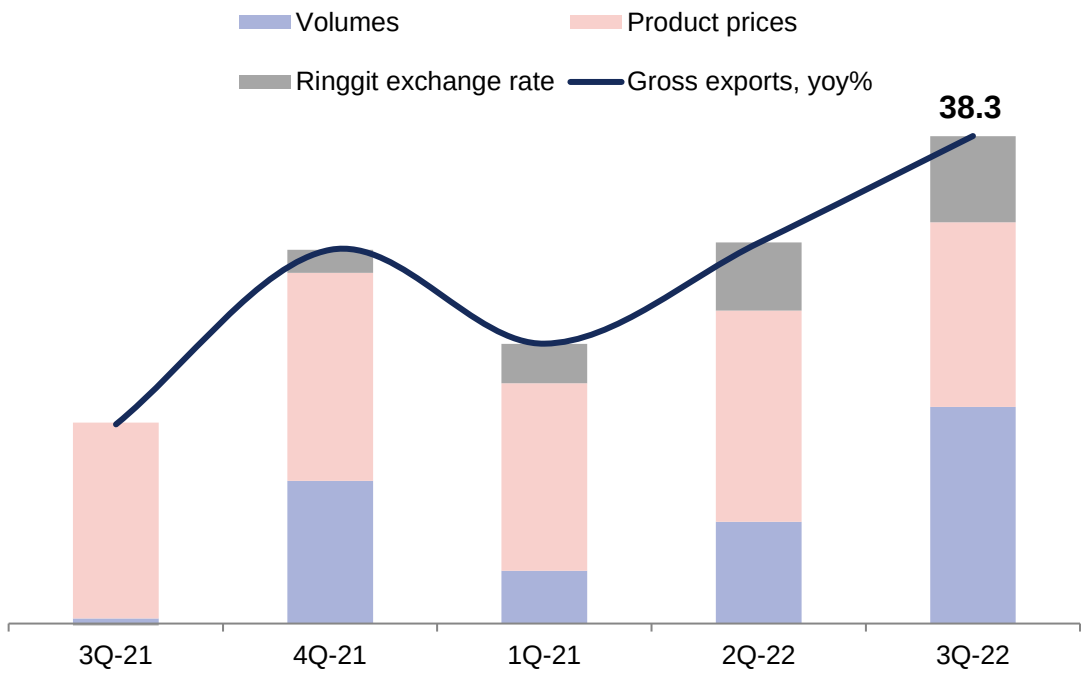
Impact of exchange rate movements: +RM58.5

Source: World Bank and Bank Negara Malaysia estimates

Ringgit depreciation is benefitting the export-oriented sector

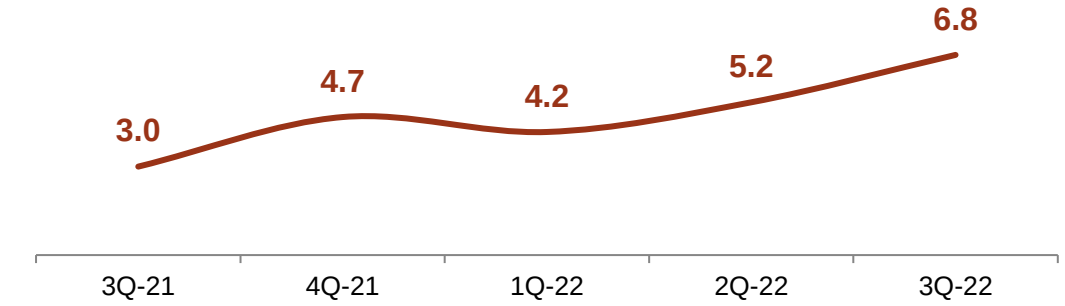
Translation gains from ringgit depreciation provided some support to gross export growth…

Breakdown of Gross Export Growth by Volume, Prices and Exchange Rate
Annual change (%), ppt contribution

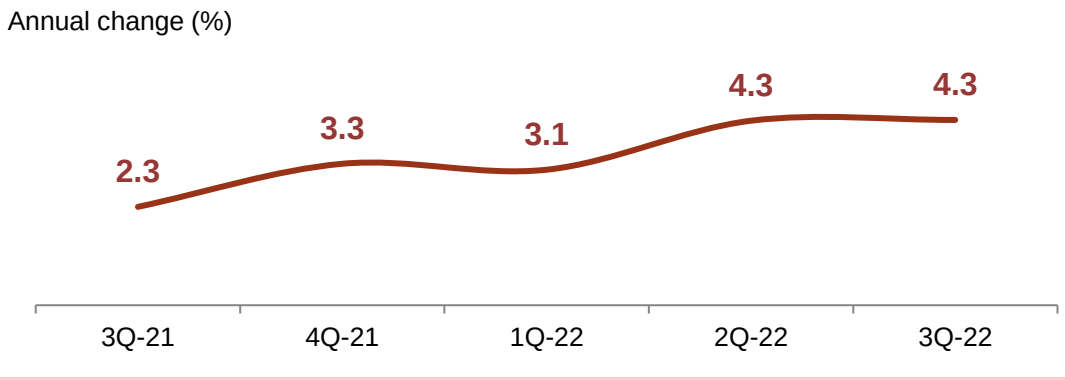


…and has been accompanied by growth in employment and income

Export-oriented Manufacturing Wage Growth



Export-oriented Manufacturing Employment Growth

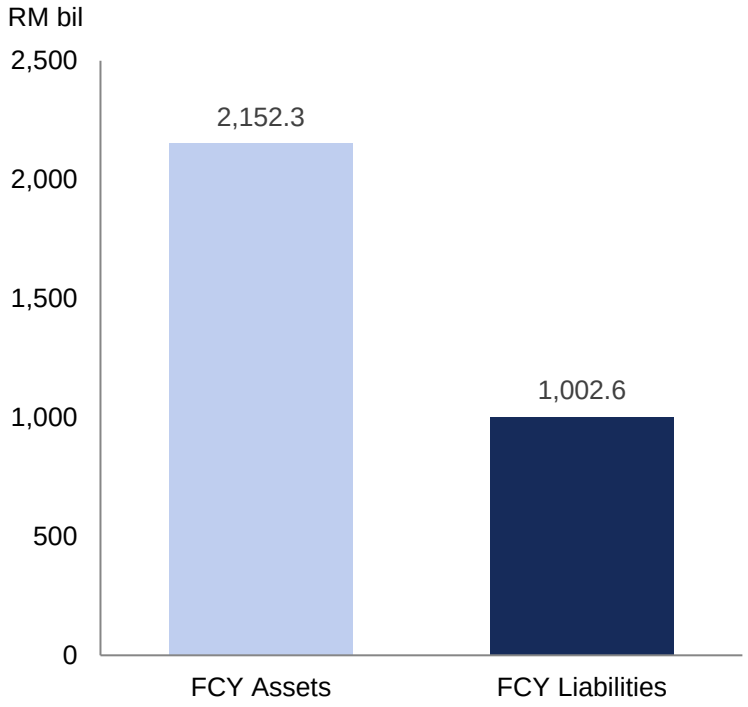


Source: Department of Statistics Malaysia, Bank Negara Malaysia estimates

Impact of ringgit depreciation to Malaysia's external position remains manageable

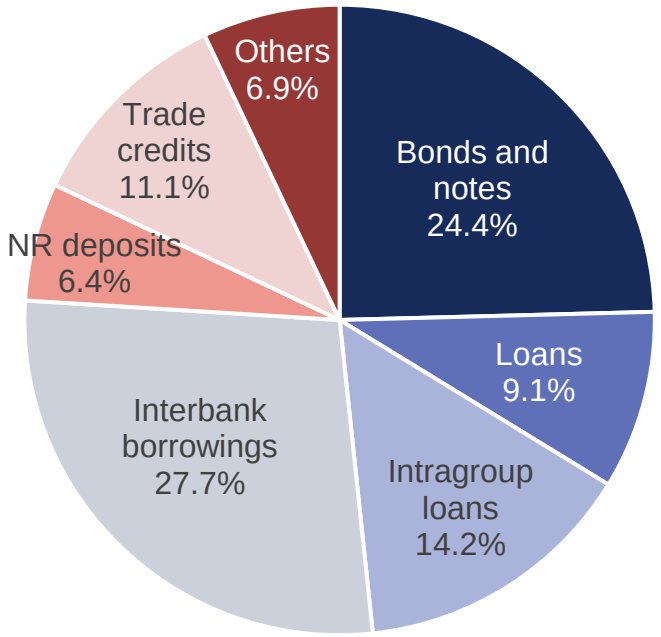
Large FCY assets outweigh FCY liabilities, indicating limited risk of currency mismatch

FCY Denominated External Assets & Liabilities (End-3Q 2022)



FCY-denominated debt accounted for 67.8% of total external debt…

FCY Denominated External Debt
End-3Q 2022: RM792.4 bil, % share



… but risks are largely contained as 67.6% of FCY-denominated debt are subjected to either prudential safeguards or flexible terms

Interbank borrowing and non-resident deposits
Subject to prudential standards and backed by sufficient FCY liquid assets

Intragroup loans
Flexible/concessionary terms

Bonds and notes, and loans
Largely subject to hedging requirements

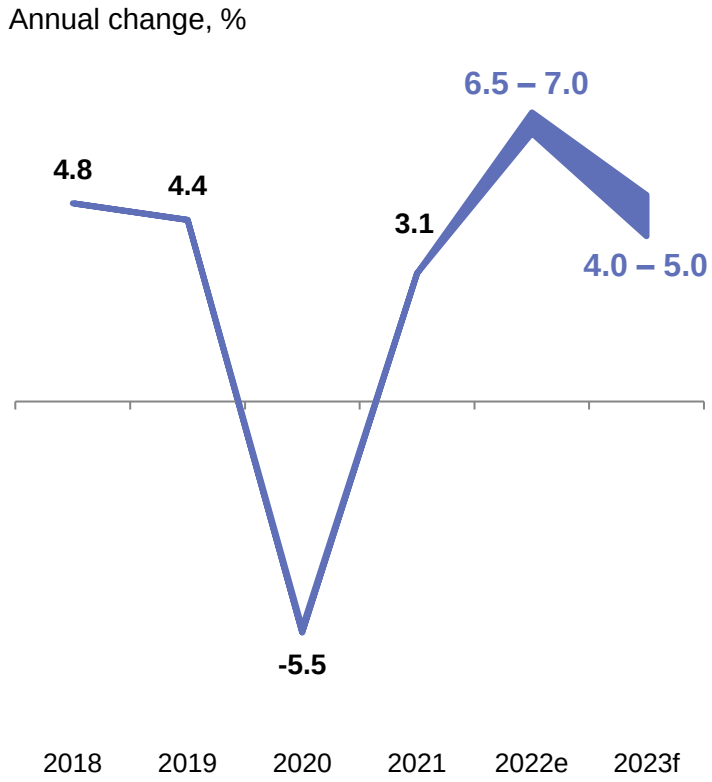
Trade credits
Backed by export earnings

Source: Bank Negara Malaysia, Department of Statistics, Malaysia

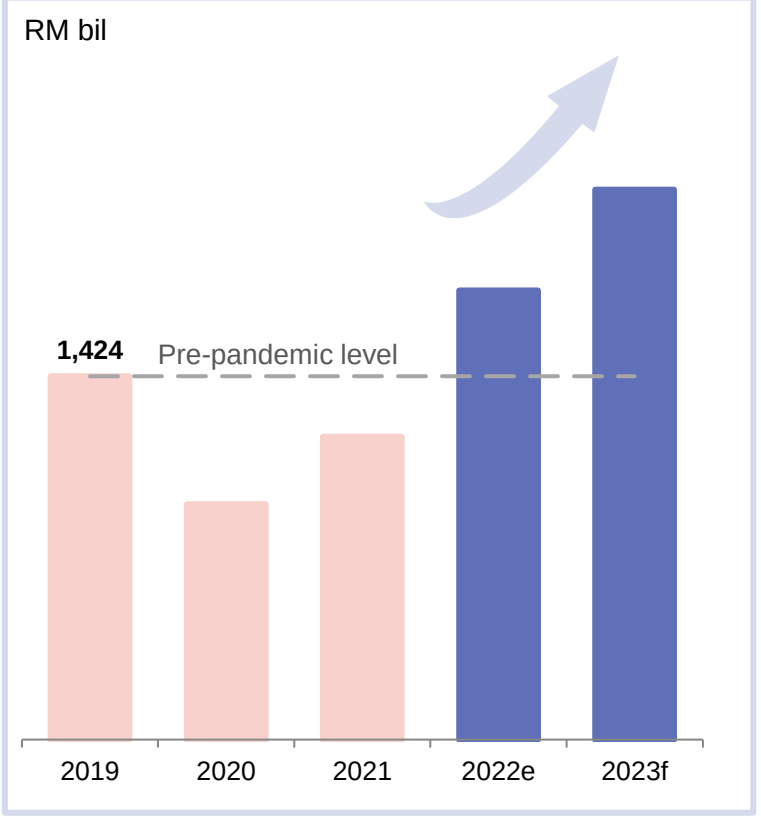
While the global environment is expected to be challenging in 2023, the Malaysian economy will continue to grow

The economy is projected to grow by 4% - 5% in 2023, and continues to surpass the pre-pandemic level

Real GDP Annual Change



Real GDP (RM Billion)



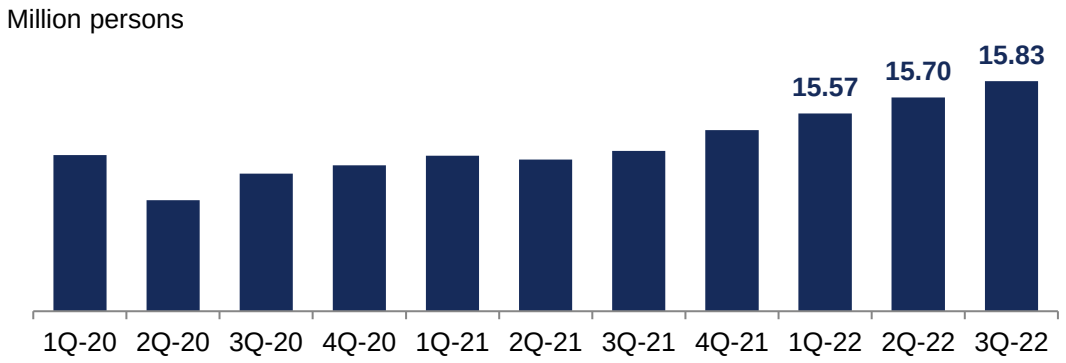
Factors Supporting Growth Outlook

- **Continued expansion in employment** ▲
- **Implementation of large infrastructure projects** ▲
- **Higher tourism activity** ▲
- **Slower global growth** ▼

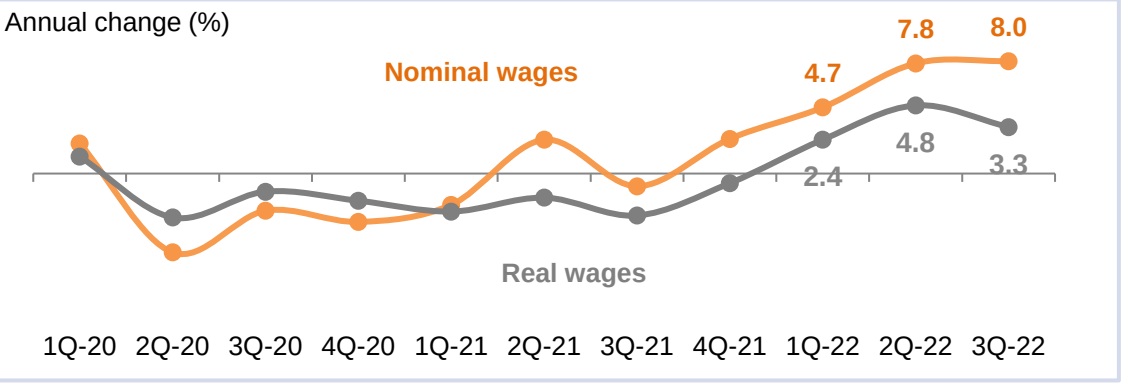
[e] Estimate, [f] forecast
Source: Department of Statistics, Malaysia, Economic Outlook 2023 (Ministry of Finance Malaysia)

Steady rise in employment levels and continued improvement in wages are supportive of spending

Employment levels



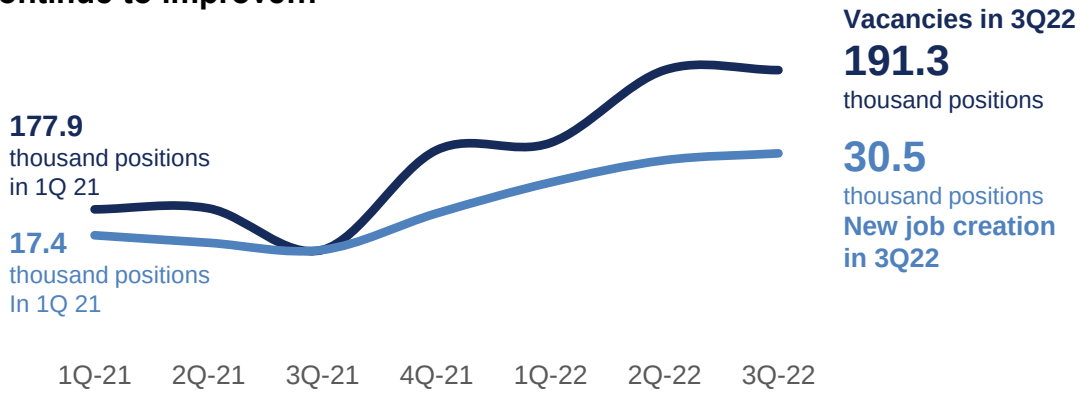
Private sector wages



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

Going forward, demand for workers is expected to remain strong

Vacancies and new job creations continue to improve…



…while on-going recovery in tourism-related sectors and expansion plans support hiring intentions*

Continued recovery in the tourism-related sectors

Facility and outlet expansions
Manufacturing (semiconductors, steel products); retail (e.g., supermarkets, convenience stores)

New offerings or segments
Line or brand extensions by supermarkets, retailers, F&B outlets, etc.

** Insights based on BNM's engagements with industry players*

Continuation of existing and new infrastructure projects and higher tourist arrivals to support growth in 2023

Continued investment in large infrastructure projects

ECRL
RM50.0 billion
Duration: 2018-2027

LRT3
RM16.6 billion
Duration: 2018-2024

Central Spine Road
RM7.3 billion
Duration: 2014-2026

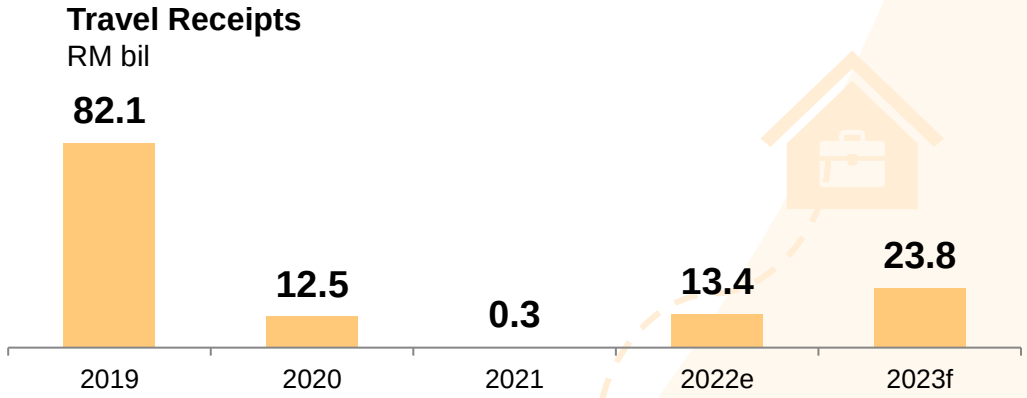
JENDELA Phase 2
RM8.0 billion
Duration: 2023-2025

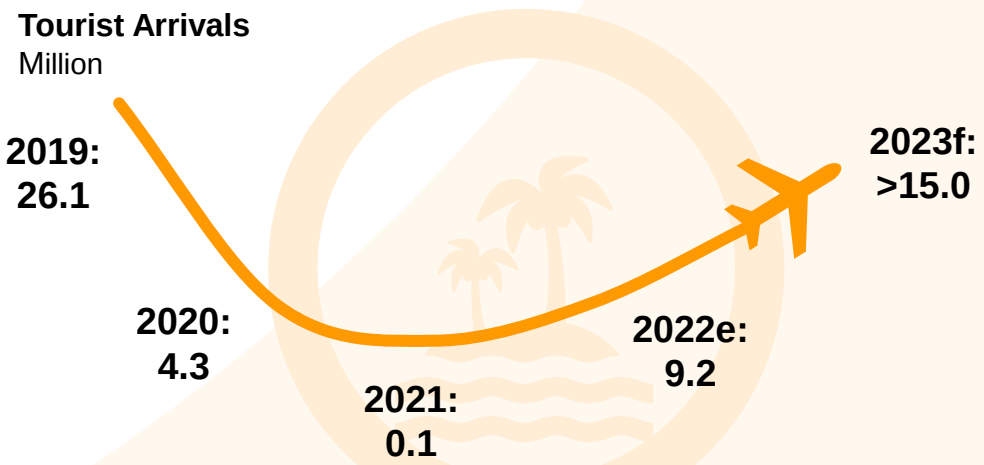
Key infrastructure projects commencing from 2023 onwards

1. **Mass Rapid Transit 3 (MRT3)**
2. **Sarawak-Sabah Link Road (SSLR) Phase 2**
3. **Trans Borneo Highway**

Source: News flows

Reopening of borders to international tourists to support the recovery in travel receipts



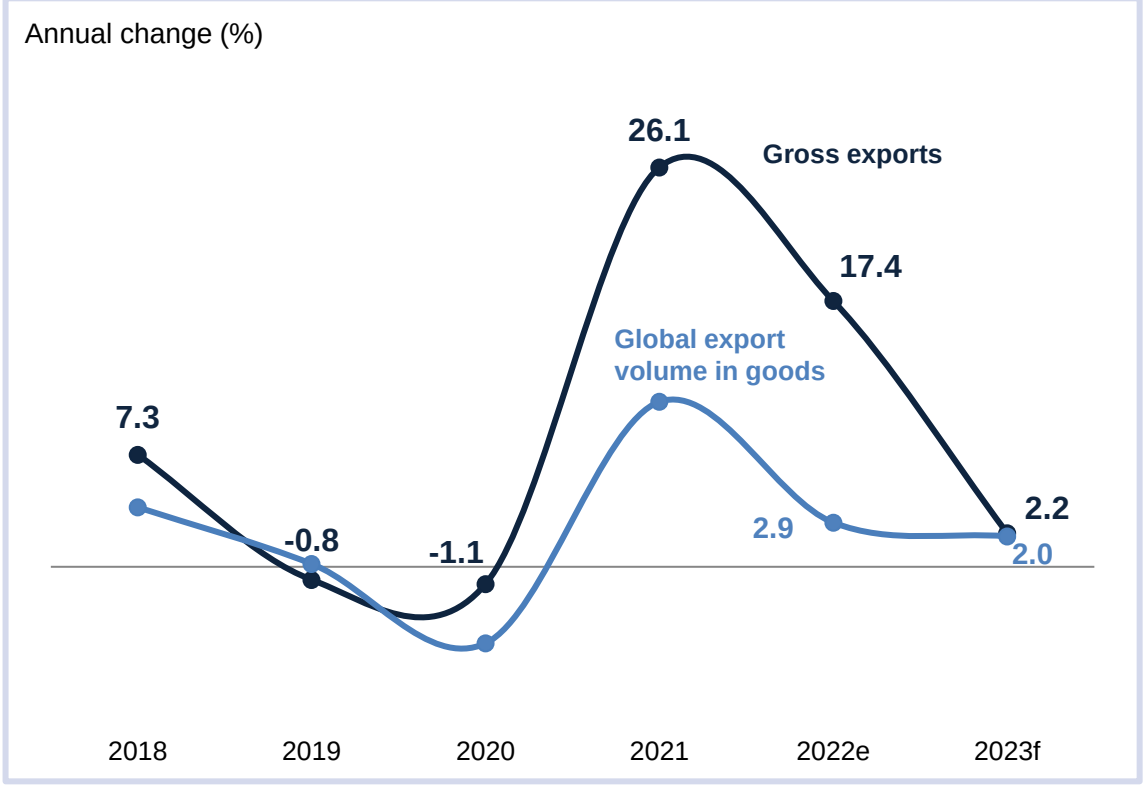


[e] Estimate, [f] Forecast
Source: Economic Outlook 2023 (Ministry of Finance Malaysia), Ministry of Tourism, Arts and Culture, Malaysia

Impact of sharp slowdown in external demand would be partly mitigated by diversified export products and markets

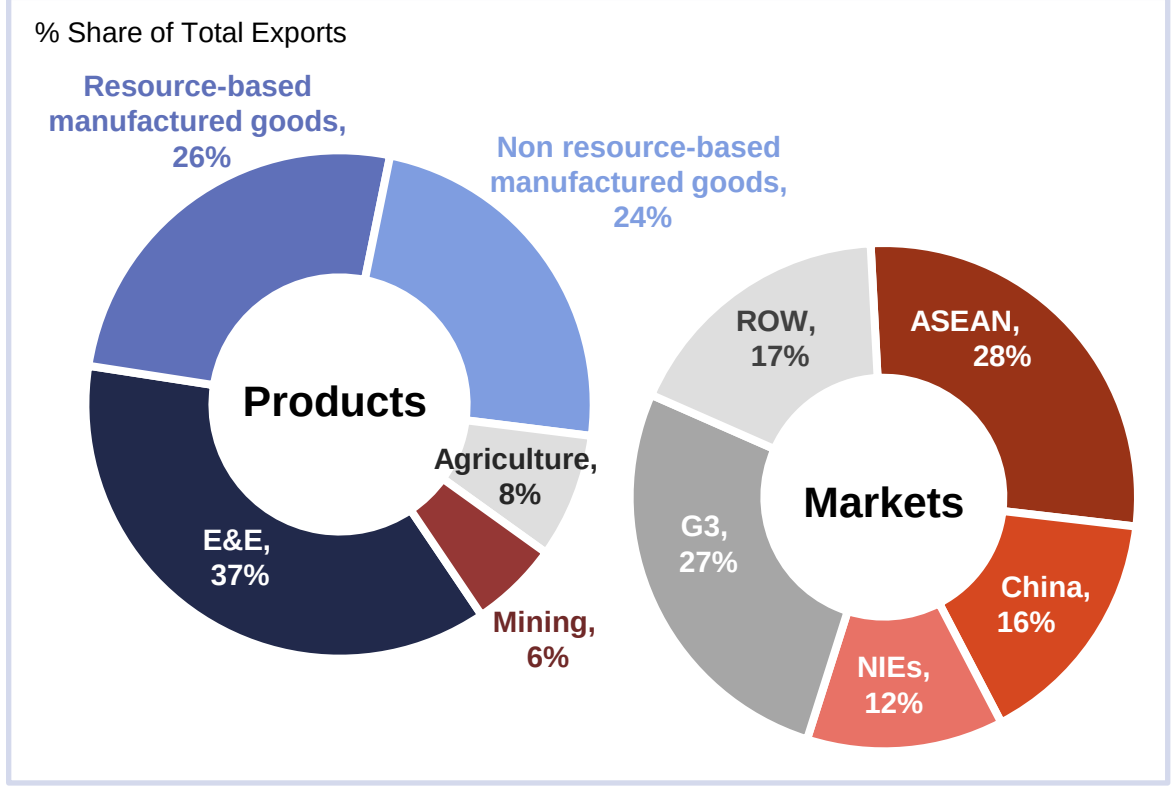
Exports to expand in 2023, albeit at a slower pace, amid moderation in global trade

Malaysia's Gross Exports and Global Trade Volume of Goods



Malaysia's diversified export would help cushion potential shocks in external demand

Exports by Product and Market (2021)

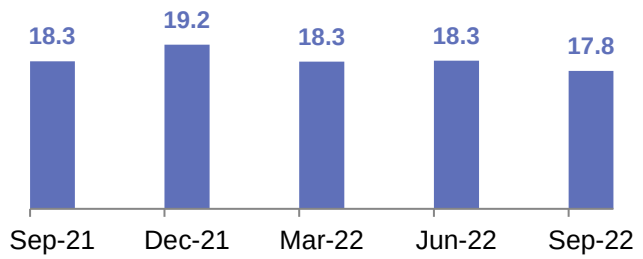


[e] Estimate, [f] forecast
Note: G3 includes the US, the euro area and Japan. Newly Industrialised Economies (NIEs) refers to Hong Kong SAR, Korea and Chinese Taipei. ASEAN excludes MY.
Source: Department of Statistics, Malaysia; Economic Outlook and Budget 2023 (Ministry of Finance Malaysia); International Monetary Fund

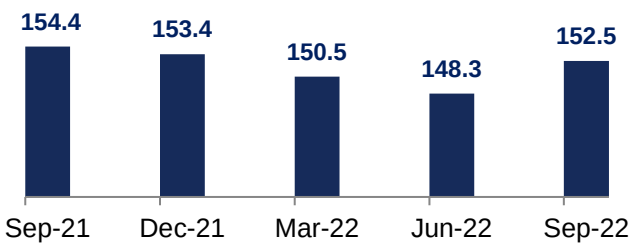
Banks remain well-positioned to support ongoing economic recovery

The strong financial position of banks would continue to lend support to financial intermediation activities

Total Capital Ratio, %

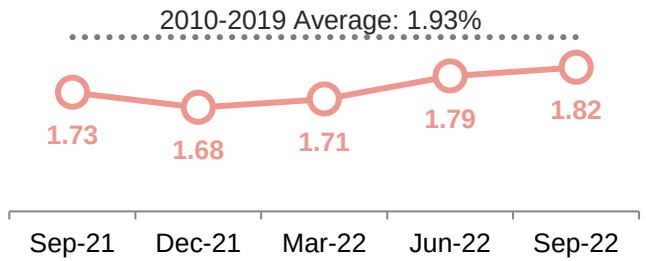


Liquidity Coverage Ratio, %

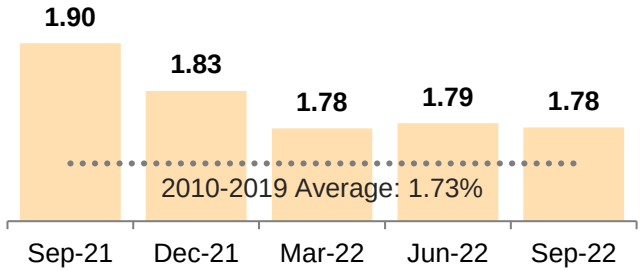


Banks have sufficient provisions to absorb credit losses from vulnerable borrowers

Gross Impaired Loans Ratio[1] (%)



Total Provisions, as % of loans[1]



Banks are also proactively managing risks from tighter financial conditions

Ratio of Foreign Currency Liquid Assets to External Debt-at-Risk (times)

Banks have sufficient foreign currency liquid assets

2017-2019 average: 2.6 times

2.6
Sep-22

Foreign Exchange Net Open Position as a Share of Total Capital (%)

Foreign currency exposures remain manageable

4.2
Sep-22

2015-2019 average: 5.7%

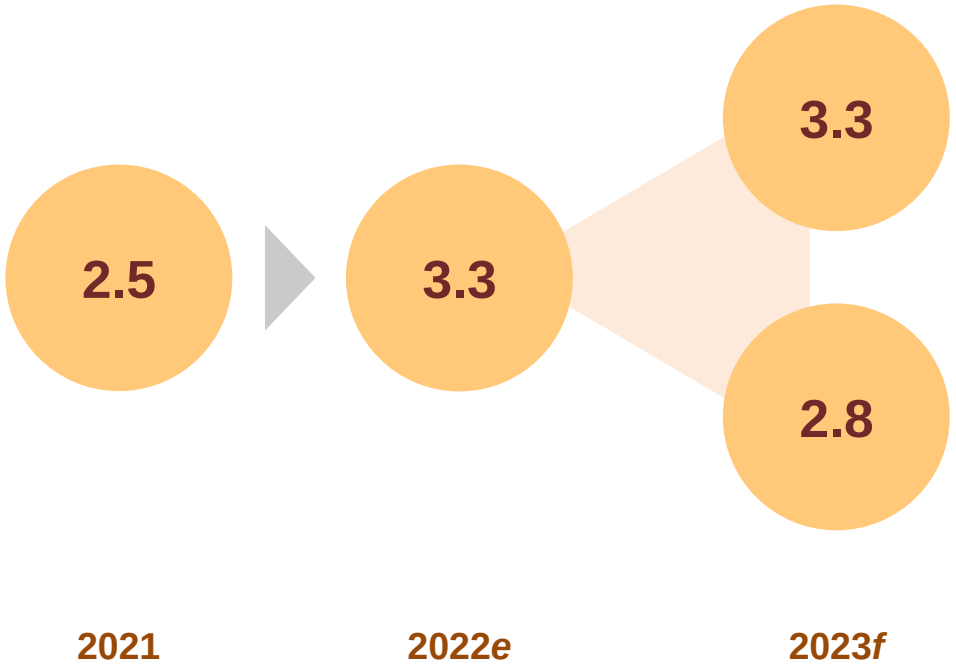
[1] The loan/financing data used is based on updated statistical reporting requirements to reflect more accurate data definition and reporting methodology and thus may not be directly comparable to the data reported in previous publications

Source: Bank Negara Malaysia

Headline inflation to moderate going forward following dissipation of base effects and moderating global commodity prices

Inflation Forecast for 2022 and 2023

Average headline inflation (%)



Key drivers of inflation

1 **Headline inflation is likely to have peaked in the third quarter of 2022** and is expected to moderate thereafter, albeit remaining elevated, due to dissipating base effects and the expected easing of global commodity prices

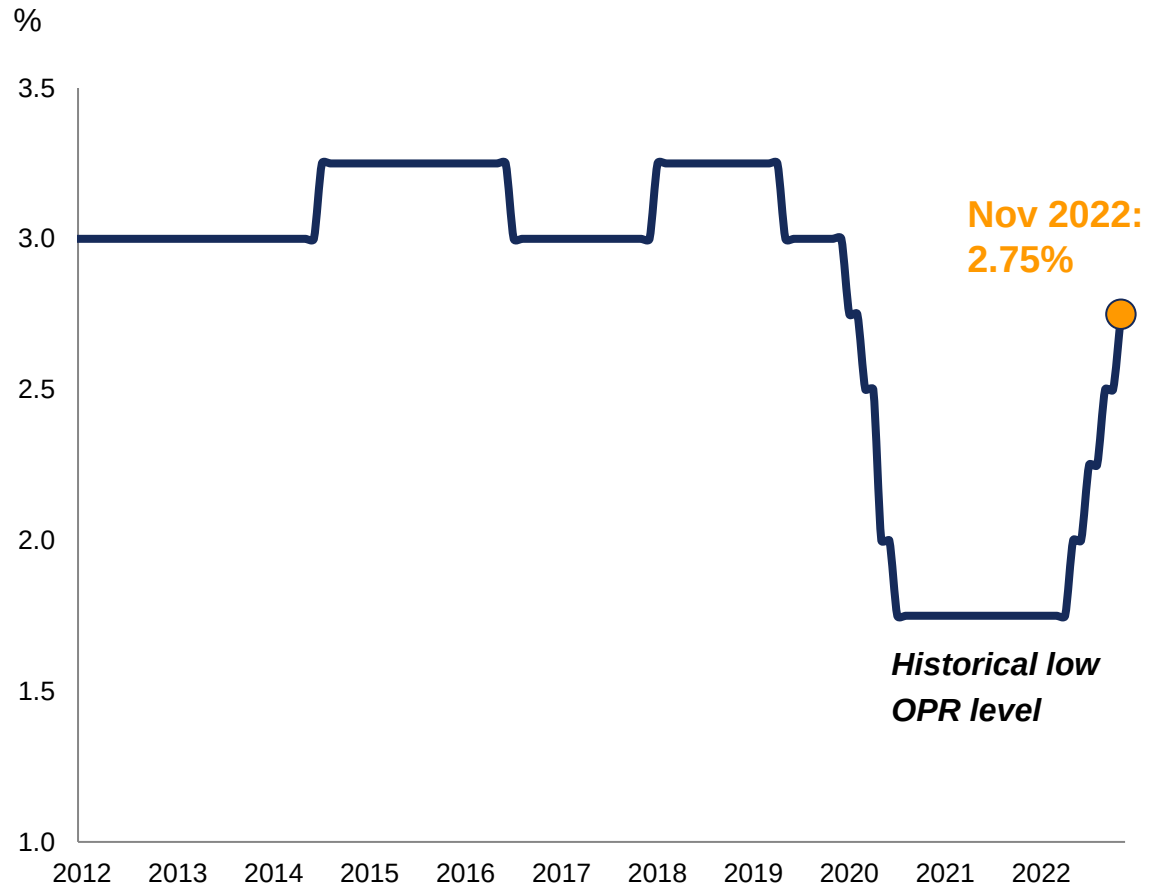
2 **Core inflation is expected to average closer to the upper end of the 2.0% - 3.0% forecast range in 2022**, given some demand-driven price pressures amid the high-cost environment

3 **Moving into 2023, inflation is expected to remain elevated,** with the outlook subject to domestic policy measures on subsidies, global commodity developments and prolonged supply-related disruptions

[e] Estimate, [f] forecast
Source: Department of Statistics, Malaysia and Economic Outlook and Budget 2023 (Ministry of Finance Malaysia)

The MPC further adjusted the degree of accommodation in September and November

Overnight Policy Rate, OPR



Source: Bank Negara Malaysia

- **The OPR was gradually increased to 2.75%**
  - Amid continued positive growth prospects for the Malaysian economy
  - To pre-emptively manage the risk of excessive demand on price pressures
- Monetary policy **remains accommodative**
- The MPC is **not on any pre-set course**
- **Any OPR adjustments would continue to be done in a measured and gradual manner,** to support sustainable economic growth in an environment of price stability

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

Upside risks

- ▲ Stronger employment and income conditions
- ▲ Larger improvement in tourism sector
- ▲ Faster-than-expected implementation of structural reforms

Downside risks

- ▼ Weaker-than-expected global growth
- ▼ Escalation of geopolitical tension
- ▼ Worsening supply chain disruptions including impact from climate change
- ▼ Faster rise in cost of living and inflation
- ▼ Greater financial market volatility
- ▼ Political uncertainty

Summary

In 3Q 2022, the Malaysian economy grew by 14.2% underpinned by continued expansion in domestic demand. For the first nine months of 2022, the economy grew by 9.3%

Growth in 2023 to be supported by domestic demand amid global slowdown

The outlook, however, is subject to risks related to weaker-than-expected global growth, heightened geopolitical tensions, escalation in supply chain disruptions and greater global financial market volatility

Headline inflation has likely peaked in 3Q 2022 and is expected to moderate going forward with moderation in global commodity prices and easing supply chain disruptions

Ringgit's movements against the US dollar **was in line with major and regional currencies.** The ringgit depreciation is a result of the strong US dollar, and Malaysia is not facing any economic crisis

End of Presentation

Q&A

Additional Information

Breakdown of 3Q GDP (% yoy)

Annual Change in GDP Growth by Component

Real GDP (% YoY)	Share[1], % (2021)	2021	2022	
		3Q	2Q	3Q
Services	**57.0**	**-4.9**	**12.0**	**16.7**
Manufacturing	**24.3**	**-0.8**	**9.2**	**13.2**
Agriculture	**7.1**	**-2.0**	**-2.4**	**1.2**
Mining and Quarrying	**6.7**	**-3.2**	**-0.5**	**9.2**
Construction	**3.7**	**-20.6**	**2.4**	**15.3**
Real GDP	**100.0**	**-4.5**	**8.9**	**14.2**

Real GDP (% YoY)	Share, % (2021)	2021	2022	
		3Q	2Q	3Q
Domestic Demand (Excluding Stocks)	**92.7**	**-4.2**	**13.0**	**13.1**
Private Sector	**74.4**	**-4.4**	**15.4**	**14.7**
Consumption	58.8	-4.2	18.3	15.1
Investment	15.6	-4.9	6.3	13.2
Public Sector	**18.3**	**-3.5**	**2.8**	**6.3**
Consumption	13.8	7.1	2.6	4.5
Investment	4.5	-28.9	3.2	13.1
Net Exports of Goods and Services	**6.0**	**-39.9**	**-28.7**	**18.7**
Exports	69.1	4.2	10.4	23.9
Imports	63.1	11.4	14.0	24.4
Change in stocks, RM bn	**1.3**	**1.3**	**11.8**	**3.9**
Real GDP	**100.0**	**-4.5**	**8.9**	**14.2**

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

Breakdown of 3Q GDP (ppt contribution)

Percentage Point Contribution to GDP Growth by Component

Real GDP (Ppt contribution, %)	Share[1], % (2021)	2021	2022	
		3Q	2Q	3Q
Services	**57.0**	**-2.8**	**6.8**	**9.5**
Manufacturing	**24.3**	**-0.2**	**2.2**	**3.2**
Agriculture	**7.1**	**-0.2**	**-0.2**	**0.1**
Mining and Quarrying	**6.7**	**-0.2**	**0.0**	**0.6**
Construction	**3.7**	**-0.9**	**0.1**	**0.5**
Real GDP	**100.0**	**-4.5**	**8.9**	**14.2**

Real GDP (Ppt contribution, %)	Share, % (2021)	2021	2022	
		3Q	2Q	3Q
Domestic Demand (Excluding Stocks)	**92.7**	**-3.9**	**11.7**	**12.3**
Private Sector	**74.4**	**-3.3**	**11.2**	**11.2**
Consumption	58.8	-2.6	10.1	9.2
Investment	15.6	-0.8	1.1	2.0
Public Sector	**18.3**	**-0.6**	**0.5**	**1.1**
Consumption	13.8	0.9	0.3	0.6
Investment	4.5	-1.5	0.1	0.5
Net Exports of Goods and Services	**6.0**	**-3.5**	**-1.7**	**1.0**
Exports	69.1	2.6	7.5	16.3
Imports	63.1	6.1	9.2	15.2
Change in Stocks	**1.3**	**3.0**	**-1.0**	**0.8**
Real GDP	**100.0**	**-4.5**	**8.9**	**14.2**

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

Financial Account by Components

Outflows from other investment account more than offset net inflows in the direct and portfolio investment accounts

RM bil	2021		2022			
	3Q	1Q-3Q	1Q	2Q	3Q	1Q-3Q
Direct Investment	**8.0**	**17.9**	**20.8**	**2.6**	**2.0**	**25.4**
*Direct Investment Abroad (DIA)**	-1.5	-11.8	-3.6	-14.7	-10.3	-28.6
*Foreign Direct Investment (FDI)**	9.5	29.7	24.4	17.3	12.3	54.0
Portfolio Investment	**-3.7**	**16.2**	**-10.1**	**-14.7**	**0.1**	**-24.6**
Residents	-4.9	-29.7	-13.9	-4.4	2.6	-15.7
Non-residents	1.2	45.9	3.8	-10.3	-2.5	-9.0
Financial Derivatives	**0.7**	**-0.4**	**0.2**	**-0.2**	**-0.4**	**-0.5**
Other Investment	**-5.2**	**-21.3**	**19.6**	**12.5**	**-16.6**	**15.6**
Financial Account Balance	**-0.2**	**12.4**	**30.4**	**0.2**	**-14.9**	**15.9**

*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 lower DIA outflows

Net inflows in portfolio investment

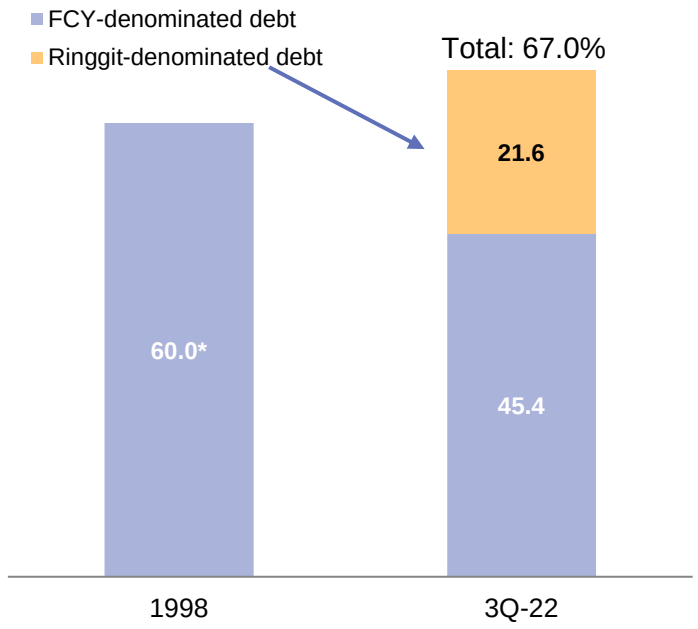
Net outflows in other investment account

Malaysia's external debt remains manageable

External debt amounted to 67.0% of GDP as at end-3Q 2022

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

External Debt Breakdown by Currency (% of GDP)

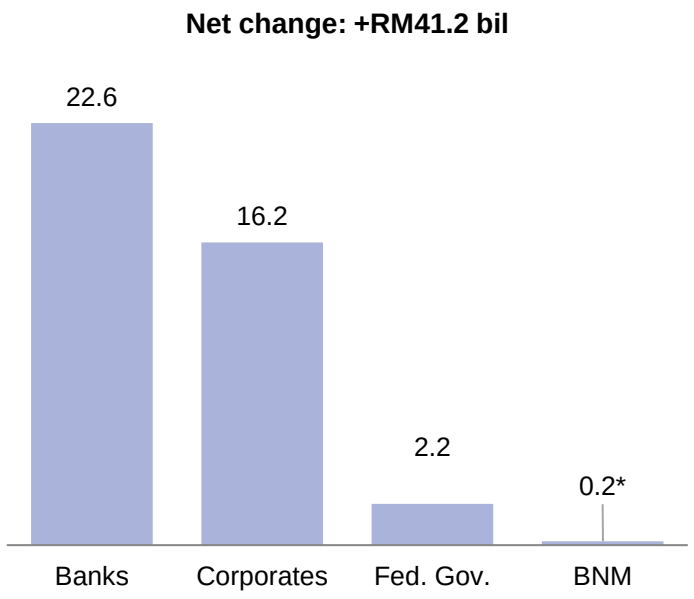


* Based on previous definition of External Debt

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Higher external debt driven by banks and corporates who are subject to prudential safeguards

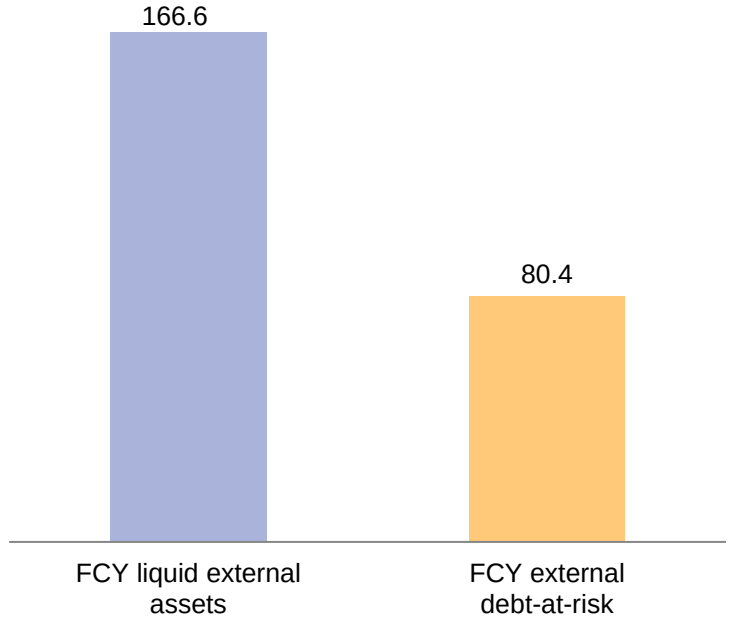
Changes in External Debt by Institution (from 2Q 2022) (RM bil)



* Inclusive of RM0.2 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 bil)**



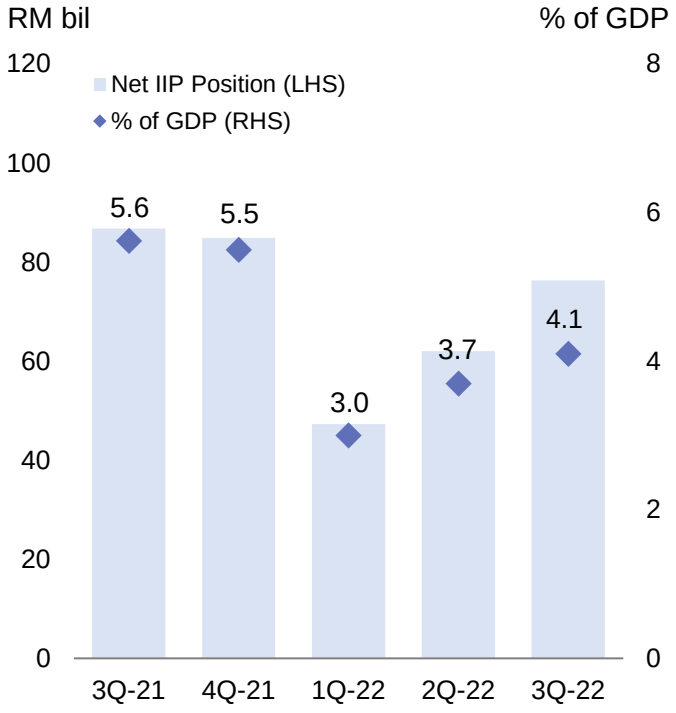
* Consist of deposit & interbank placements, bonds and notes, and money market instruments.

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

Adequate buffers to weather external shocks

Sustained net creditor position…

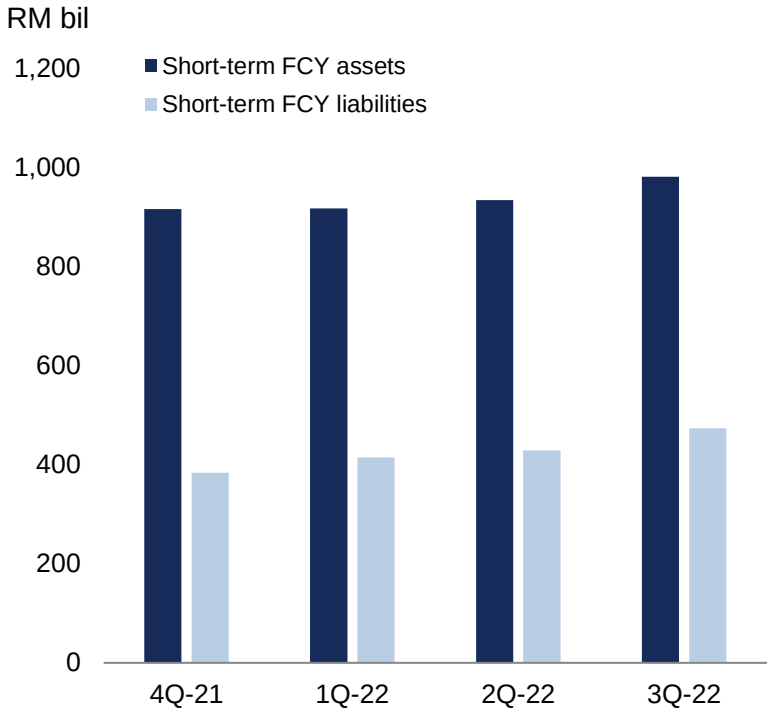
External Assets Minus External Liabilities (3Q 21 – 3Q 22)



Source: Department of Statistics, Malaysia and Bank Negara Malaysia

… with large net short-term foreign-currency assets …

Short-term FCY Assets and Liabilities



* The short-term FCY assets are excluded of reserves.

… and further supported by

Sustained foreign income

Continued current account surplus reduces external financing requirements

Sufficient international reserves to facilitate international transactions

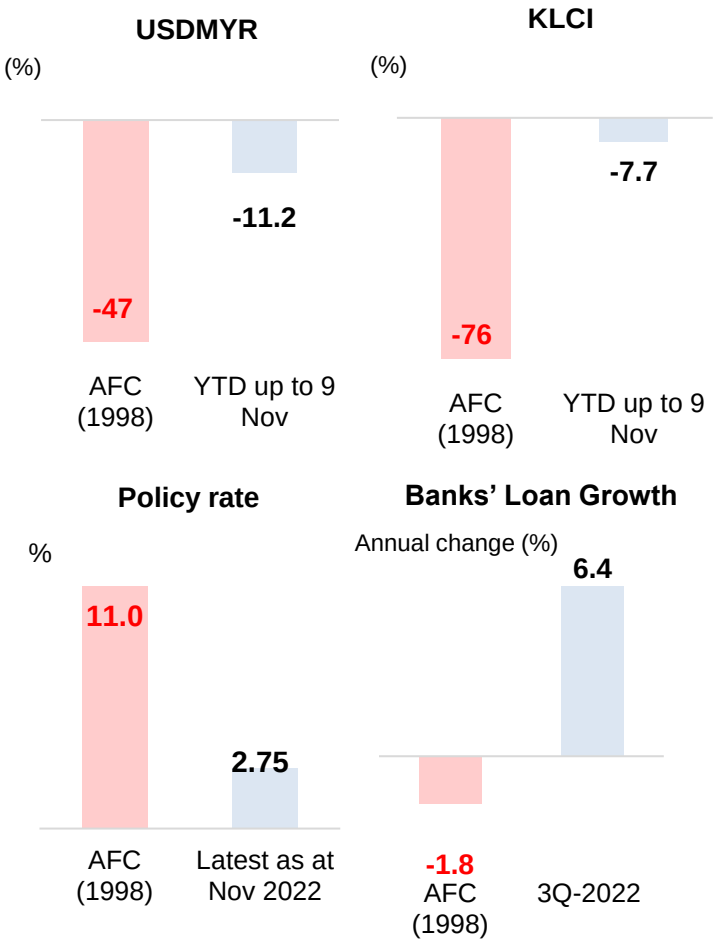
*… to finance 5.1 months of imports of goods & services and is 1.0 time total short-term external debt as at 31 October 2022**

*Note: The reserves adequacy ratios differ from those published in the press statement on international reserves as at 31 October 2022 as they reflect the latest 3Q data on imports of goods & services and short-term external debt.

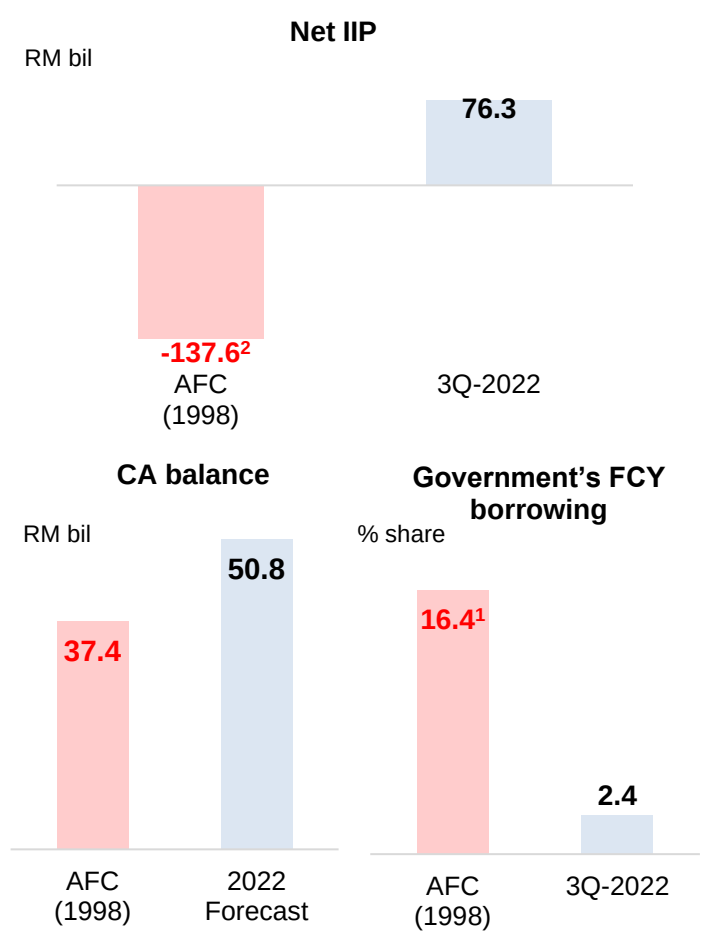
Structural reforms after the AFC have improved Malaysia's external resilience, making a hard peg an unfitting policy solution to current economic challenges

Malaysia's economy and financial sector have strengthened significantly over the years, improving our resilience to external shocks

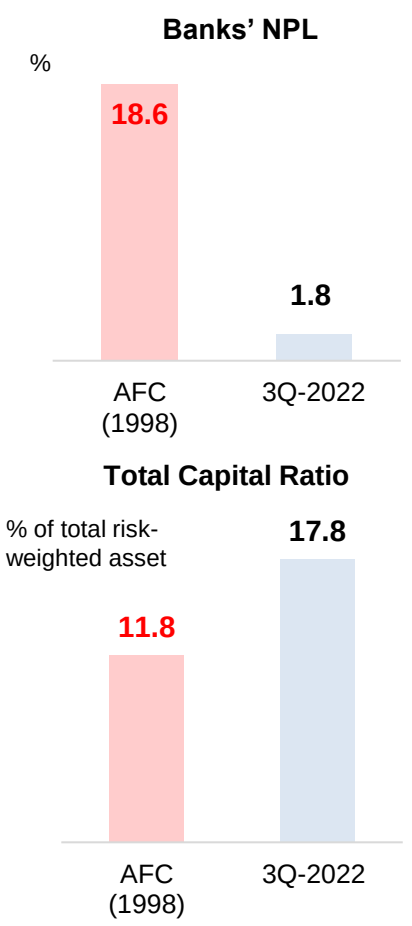
Financial conditions



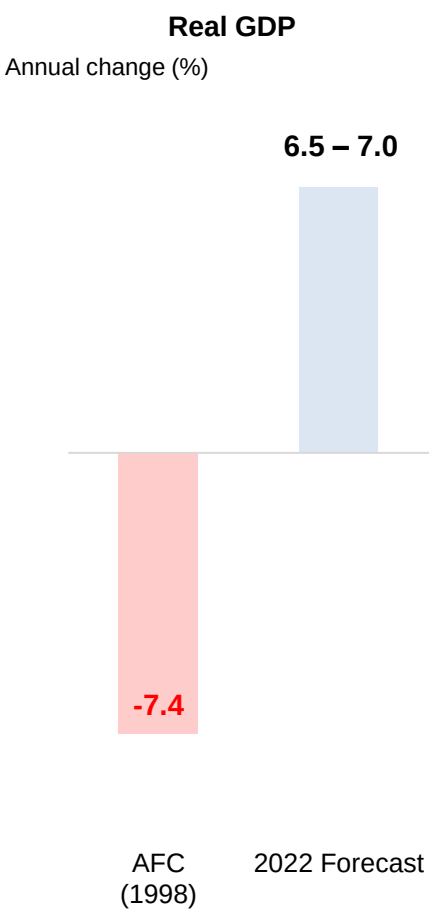
External sector



Banking sector



Real GDP



[1] Data as at end-1999. [2]Data as at end-2001

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

Implementation of structural reform vital to secure a stronger and more sustainable growth

Key Structural Reforms



Hasten Implementation of National Investment Policy



Address Malaysia's Talent Needs Holistically



Accelerate Digitalisation and Automation

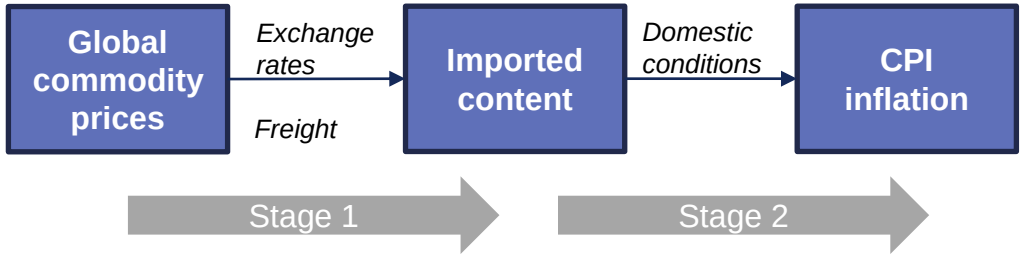


Enhance Social Safety Nets and Social Protection Framework

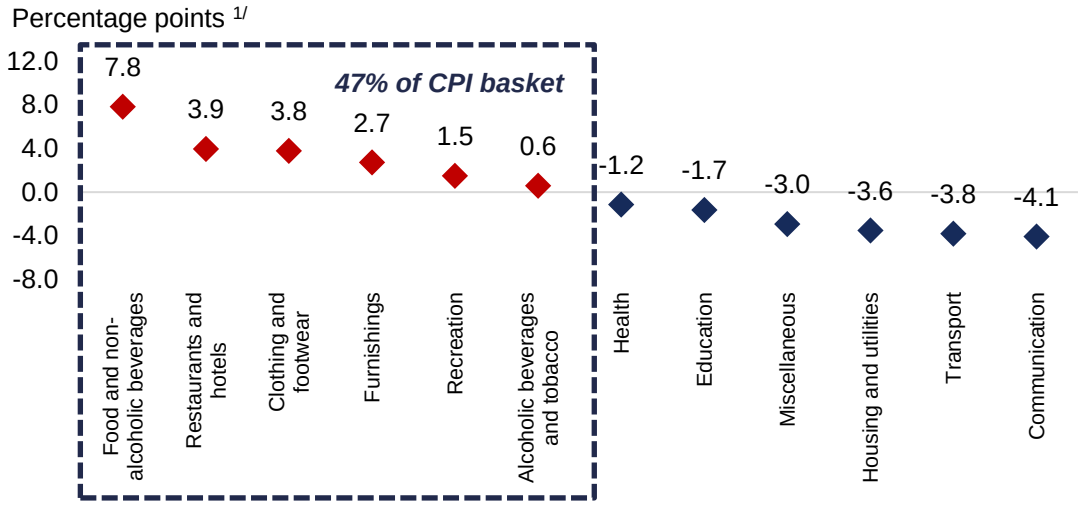


Advance the Sustainability Agenda

Box Article: Recent inflation dynamics reflect price increases related to commodities and recovery in demand



"Overshooting" inflation for some CPI categories amid high cost environment and release of pent-up demand



1/ Based on the difference between actual inflation rates in September 2022 versus the implied growth from linear extrapolation of the pre-pandemic (2019) trend of CPI categories at the two-digit level.

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

Strength of demand allows for pass-through of costs domestically (Stage 2)

Restraints on Persistently Higher Inflation

Price controls on fuel and some staple food items

Spare capacity in labour market

Limited impetus for wage-price spiral dynamics