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Economic and Financial Developments in Malaysia in the Third Quarter of 2019

The Malaysian economy grew by 4.4% in the third quarter of 2019

Growth in the Malaysian economy moderated to 4.4% in the third quarter of 2019 (2Q 2019: 4.9%), primarily attributed to lower growth in key sectors and a decline in the mining and construction activities. On the demand side, most domestic demand components and net exports registered slower growth momentum. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 0.9%.

For the quarter, headline inflation averaged higher mainly reflecting the lapse in the impact from the Goods and Services Tax (GST) zerorisation between June and August 2018. Core inflation, excluding the impact of consumption tax policy changes, was steady at 1.5%.

Exchange rate developments

In the third quarter, the ringgit depreciated by 1.1% against the US dollar. This followed the continued heightened risk aversion in global financial markets during the quarter due to an environment of worsening trade tensions and concerns on the global growth outlook. This had led to investors' sustained demand for safe haven currencies, including the US dollar. As a result, the US dollar broadly strengthened against most currencies, including the ringgit. Since October, however, the ringgit has appreciated by 0.7% against the US dollar (up to 14 November) following inflows into the domestic bond market due to policy interest rate cuts by global and regional central banks to address

growth concerns. For the year to date (up to 14 November), the ringgit has has depreciated by 0.5% against the US dollar. Going forward, external uncertainties will continue to affect the movements of regional currencies, including the ringgit.

Financing conditions

Net financing expanded by 4.8% on an annual basis amid continued moderate growth in loans. However, bank financing remains forthcoming for homebuyers and SMEs. Demand for business financing also continued to improve with higher growth in loan applications.

Going forward, economic growth is expected to be sustained

The Malaysian economy registered an average growth of 4.6% in the first three quarters of 2019. Overall, growth is expected to be within projections in 2019 and the pace sustained going into 2020. This is underpinned mainly by private sector activity, particularly household spending, which is supported by continued expansion in employment and income.

Headline inflation in 2020 is projected to average higher than in 2019 but remain modest. This reflects the lapse in the impact of consumption tax policy changes, the lifting of the fuel price ceilings amid the relatively subdued outlook on global oil prices and policy measures in place to contain food prices. Underlying inflation is expected to remain stable, supported by continued expansion in economic activity and in the absence of strong demand pressures.

Bank Negara Malaysia
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Table 1

GDP by Expenditure Components (at constant 2015 prices)

	Share 2018 (%)	2018		2019		
		3Q	4Q	1Q	2Q	3Q
		Annual growth (%)				
Aggregate Domestic Demand (excluding stocks)	94.1	6.8	5.7	4.4	4.6	3.5
Private sector	74.2	7.9	7.8	5.9	6.2	5.4
Consumption	*57.0*	*8.9*	*8.4*	*7.6*	*7.8*	*7.0*
Investment	*17.3*	*5.0*	*5.8*	*0.4*	*1.8*	0.3
Public sector	19.8	2.1	0.0	-1.4	-2.8	*-4.6*
Consumption	*12.5*	*5.2*	*4.0*	*6.3*	*0.3*	*1.0*
Investment	*7.4*	*-2.7*	*-5.9*	*-13.2*	*-9.0*	*-14.1*
Net Exports	7.0	-9.4	15.5	10.9	22.9	15.9
Exports of Goods and Services	*67.6*	*0.7*	*3.1*	*0.1*	*0.1*	*-1.4*
Imports of Goods and Services	*60.6*	*2.0*	*1.8*	*-1.4*	*-2.1*	*-3.3*
GDP	**100.0**	**4.4**	**4.7**	**4.5**	**4.9**	**4.4**
GDP (q-o-q growth, seasonally adjusted)	**-**	**1.5**	**1.3**	**1.1**	**1.0**	**0.9**

Source: Department of Statistics, Malaysia

Table 2

GDP by Economic Activity (at constant 2015 prices)

	Share 2018 (%)	2018		2019		
		3Q	4Q	1Q	2Q	3Q
		Annual growth (%)				
Services	56.7	7.3	6.9	6.4	6.1	5.9
Manufacturing	22.4	5.0	4.7	4.2	4.3	3.6
Mining	7.6	-5.7	-0.7	-2.1	2.9	-4.3
Agriculture	7.3	-0.8	-0.1	5.6	4.2	3.7
Construction	4.9	4.7	2.6	0.3	0.5	-1.5
Real GDP	**100.0**[1]	**4.4**	**4.7**	**4.5**	**4.9**	**4.4**

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

Source: Department of Statistics, Malaysia