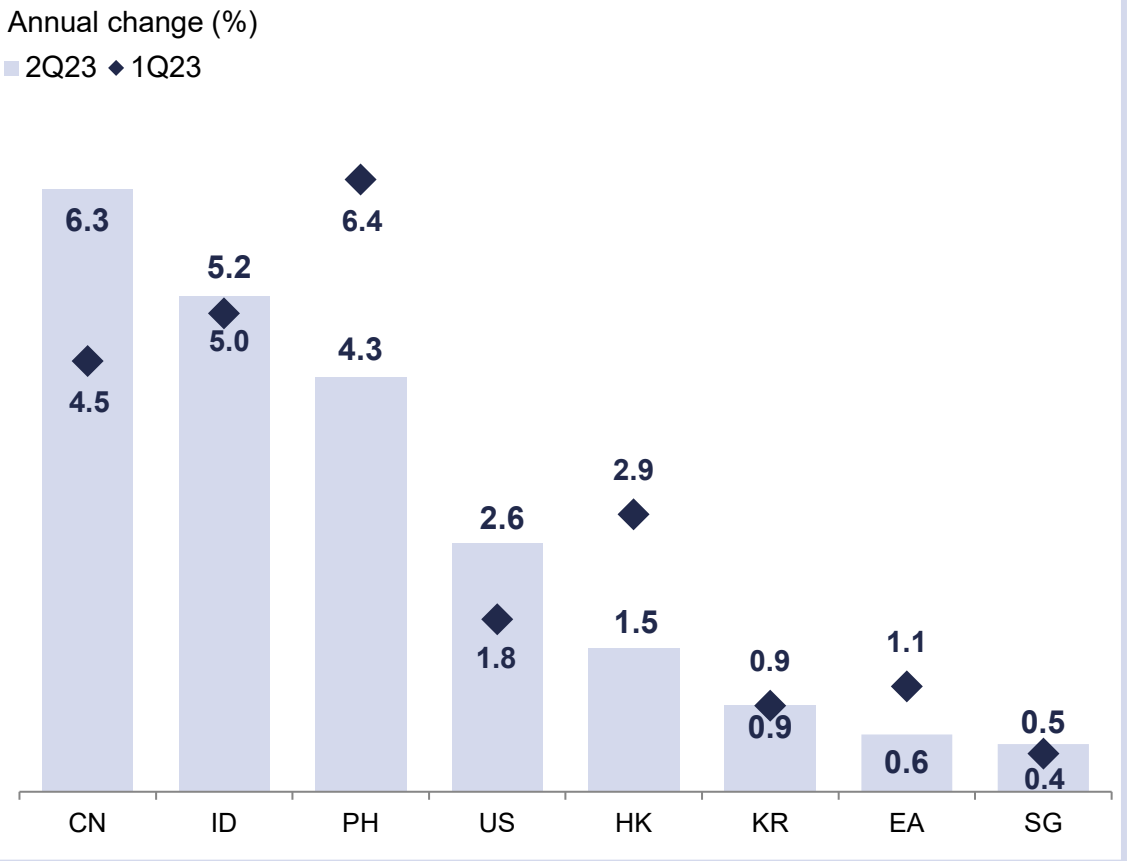
Sidang Akhbar

Prestasi Ekonomi Suku Kedua Tahun 2023

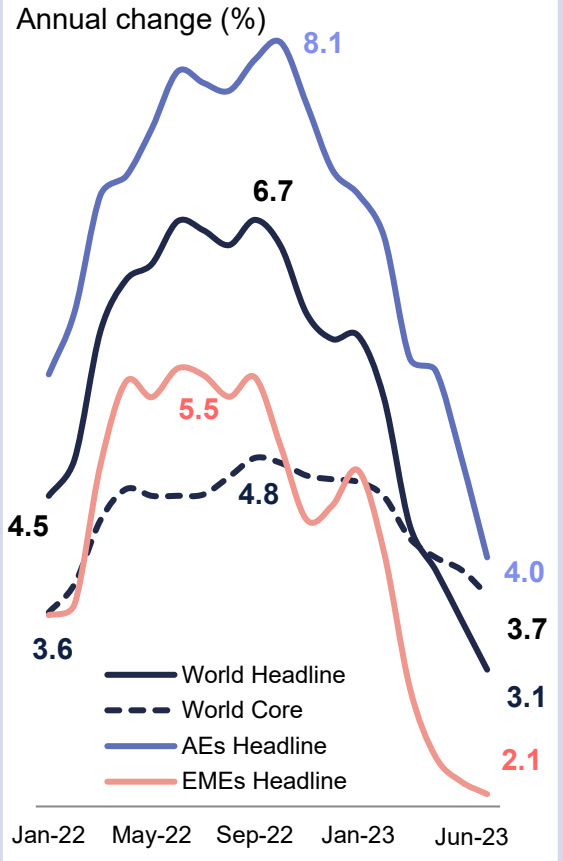
18 Ogos 2023

The global economy registered modest growth in 2Q 2023

Real GDP Growth[1]



Inflation[2]



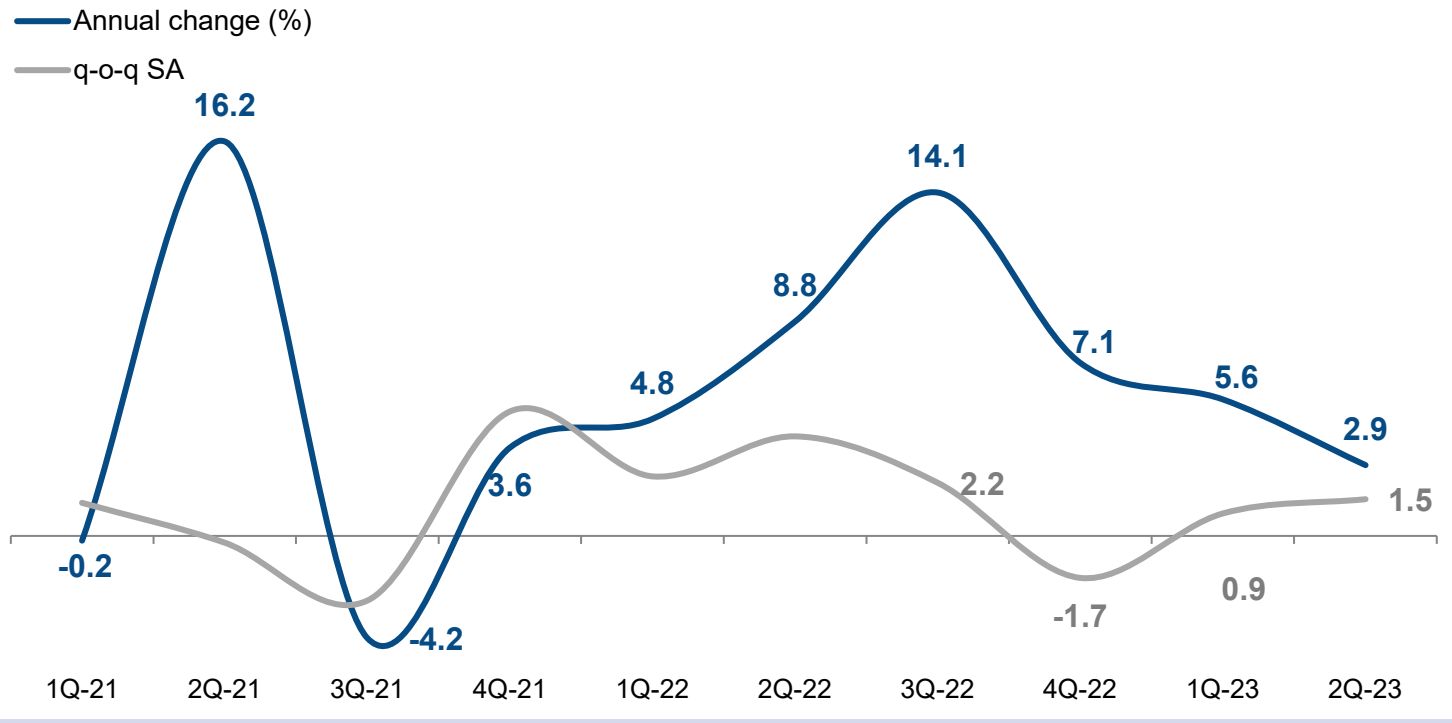
Global Growth Developments

- Modest growth as growth is weighed by higher interest rate and elevated inflation
- China's economy grew post-reopening, albeit at a slower pace
- Moderating headline inflation, but core inflation remained high
- Regional exports declined due to shift from goods to services and global technology downcycle

Note:
[1] GDP for the second quarter of 2023 are advanced or preliminary estimates except for China, Indonesia, Philippines, Hong Kong and Singapore.
[2] Inflation figures are aggregated across major countries based on their share of global growth. AEs stands for Advanced Economies while EMEs stands for Emerging Market Economies.
Source: Macrobond, national authorities, International Monetary Fund, Bank Negara Malaysia estimates

Malaysia's GDP grew by 2.9% in 2Q 2023

Real GDP Growth (Quarterly)



Monthly Real GDP Growth (Annual change, %)

Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
4.6	6.6	5.7	0.7	5.6	2.4

Factors Supporting Growth in 2Q 2023

- **Improving labour market**
- **Continued increase in domestic demand**
- **Higher tourism activities**

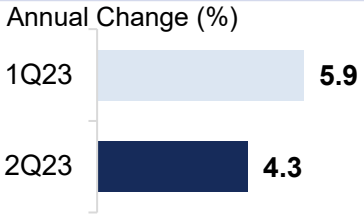
Moderation from 1Q 2023 partly due to ...

- **Weaker external demand amid global technology downcycle**
- **Lower commodity production**
- **High base effect from 2Q 2022**

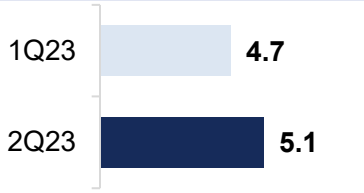
Source: Department of Statistics, Malaysia

Growth underpinned by domestic demand and tourism activities

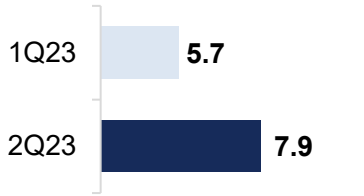
Driven mainly by private sector expenditure



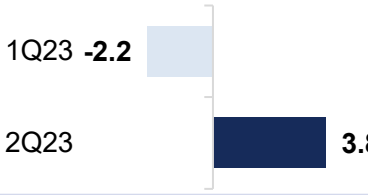
Private Consumption
Moderate expansion in both necessities and discretionary spending



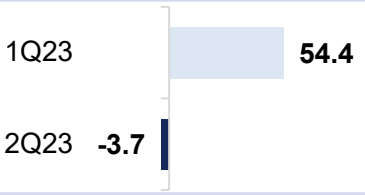
Private Investment
Supported by investment in structures and M&E



Public Investment
Improved Government's fixed assets spending

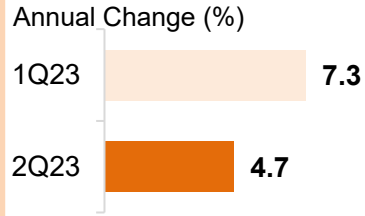


Public Consumption
Higher emoluments spending

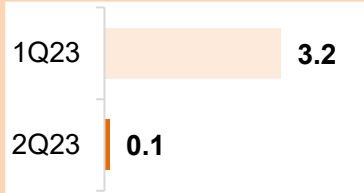


Net Exports
Weaker exports amid global technology downcycle

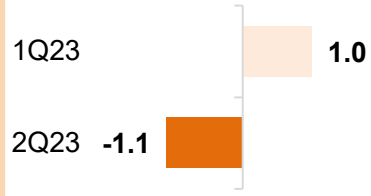
Driven mainly by services and construction sectors



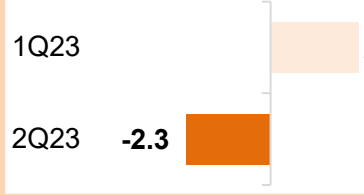
Services
Moderation in consumer- and business-related services, while tourism spending remained supportive



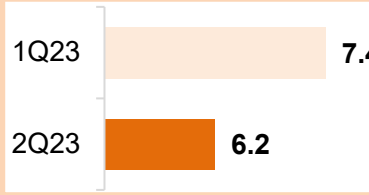
Manufacturing
Weaker E&E production and lower refined petroleum production amid a decline in mining output



Agriculture
Lower oil palm and fisheries output amid hot weather condition



Mining
Decreased oil and gas output due to plant maintenance

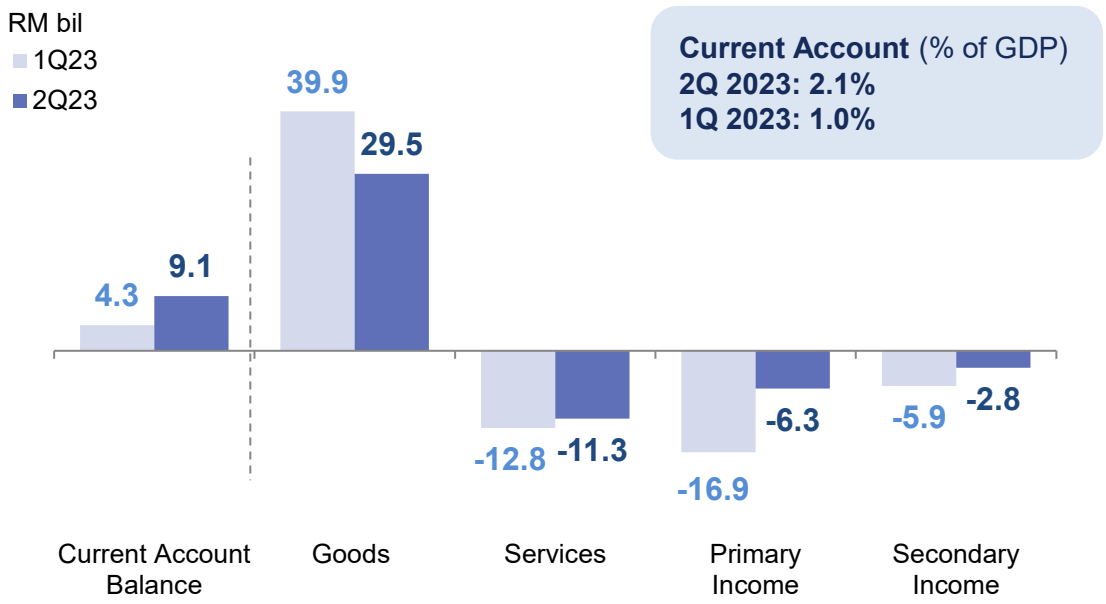


Construction
Continued progress of large infrastructure projects and support from higher special trade activities

Source: Department of Statistics, Malaysia

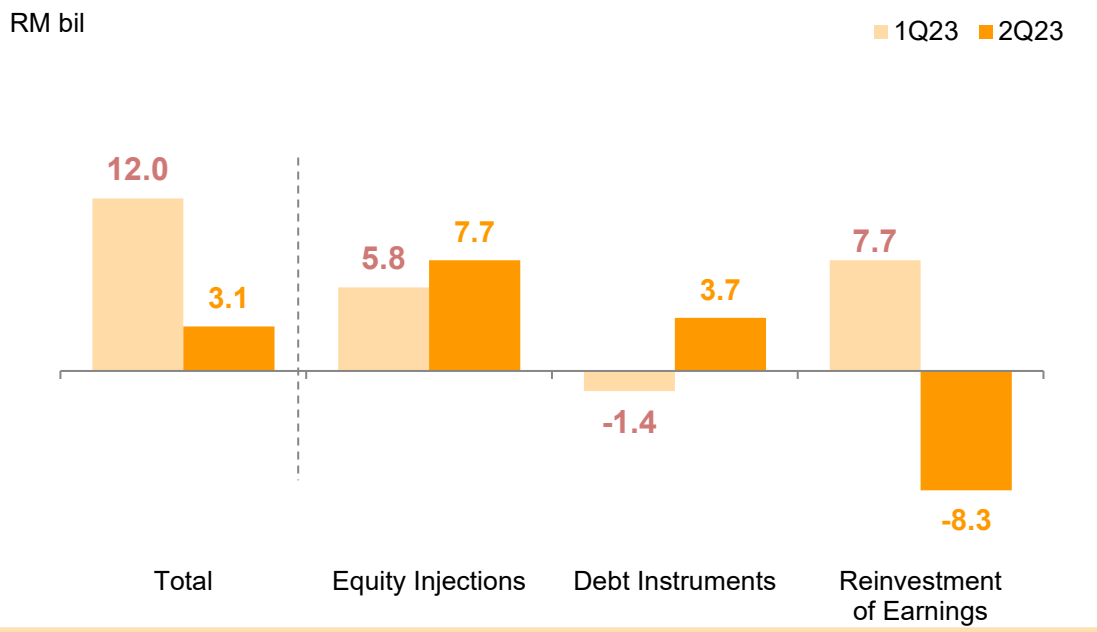
Larger current account surplus and continued FDI inflows

Current Account



- Narrower services deficit reflecting continued recovery in inbound tourism
- Smaller primary income deficit driven mainly by higher investment income from investments abroad

Foreign Direct Investment



- Continued FDI inflows supported by higher equity injections and inflows in debt instruments.
- However, FDI flows were weighed by dividend payments and losses in the manufacturing and mining sectors.

Source: Department of Statistics, Malaysia

Looking ahead, domestic demand to remain the key driver of growth amid challenging global environment

Growth in 2023 to remain between 4% and 5%

Key growth drivers



Continued recovery in labour market
Further improvement in employment and income prospects



Implementation of new and existing investment projects
Continued progress of multi-year projects



Higher tourism activity
Further recovery in tourist arrivals and travel receipts towards pre-pandemic levels



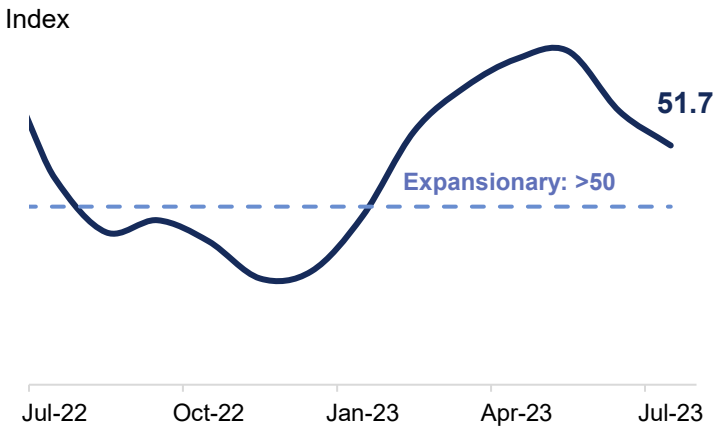
Slower global growth
Tight monetary policy, slower trade activity and prolonged global technology downcycle



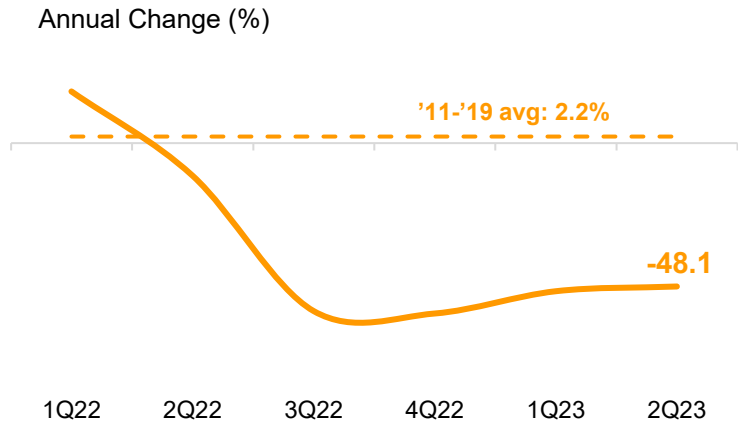
Lower commodity production
Hot weather and plant maintenance affecting output in the commodity sector

Mixed indicators, but generally pointing to continued growth for the Malaysian economy

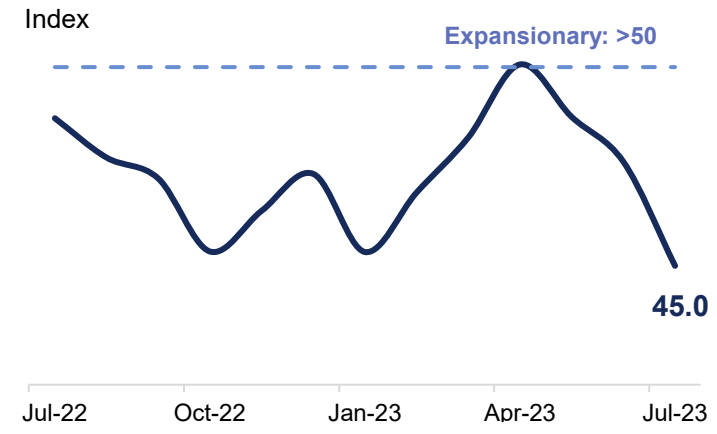
Global Composite PMI



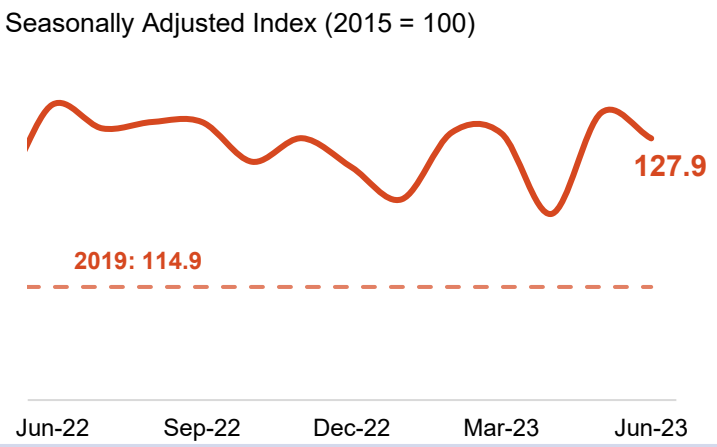
Baltic Dry Index



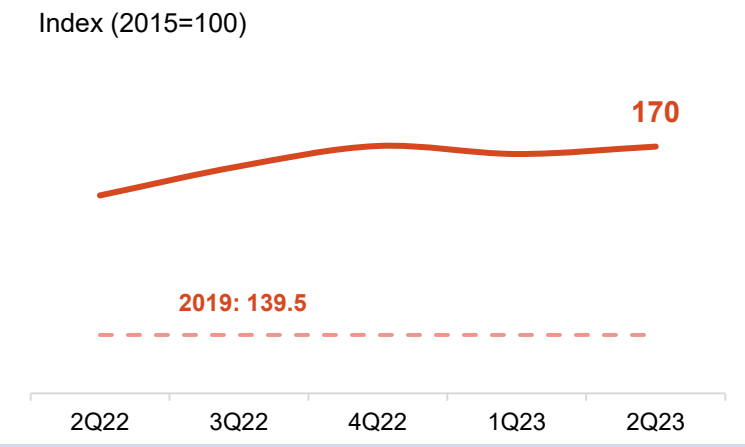
Malaysia's PMI New Export Orders



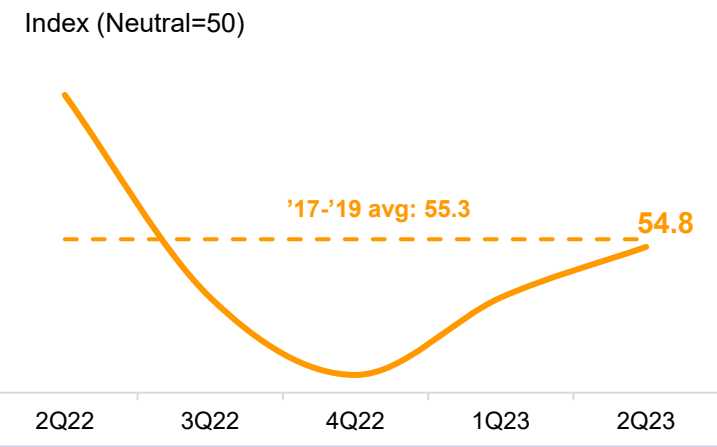
Overall IPI



Index of Retail Trade



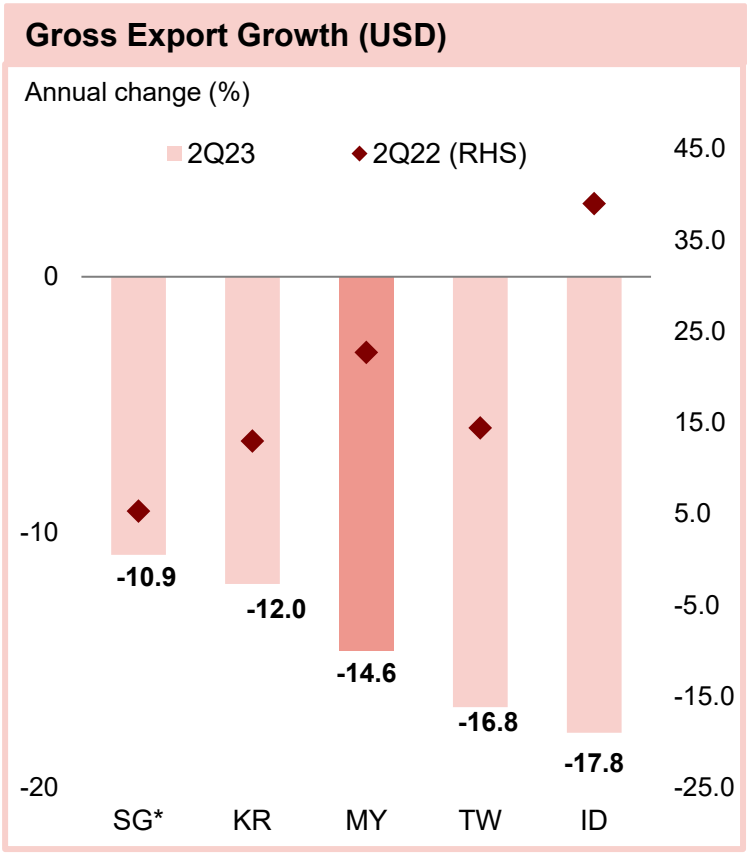
RAM-CTOS Business Confidence Index



Slowdown in goods exports partially cushioned by increased tourism activities

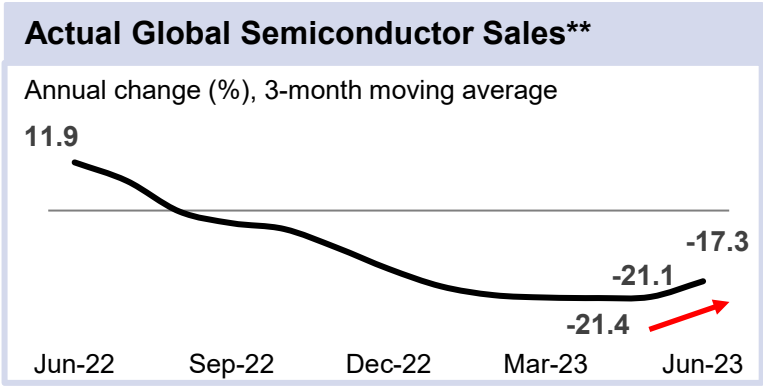
Broad weakness in exports across regional countries

Gross Export Growth (USD)



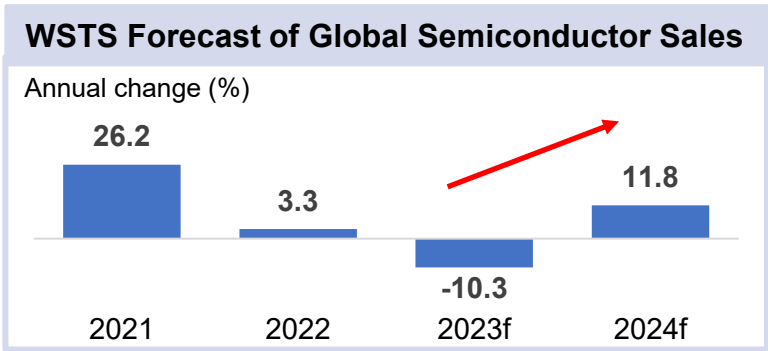
Tentative signs of bottoming out of global tech downcycle…

Actual Global Semiconductor Sales**



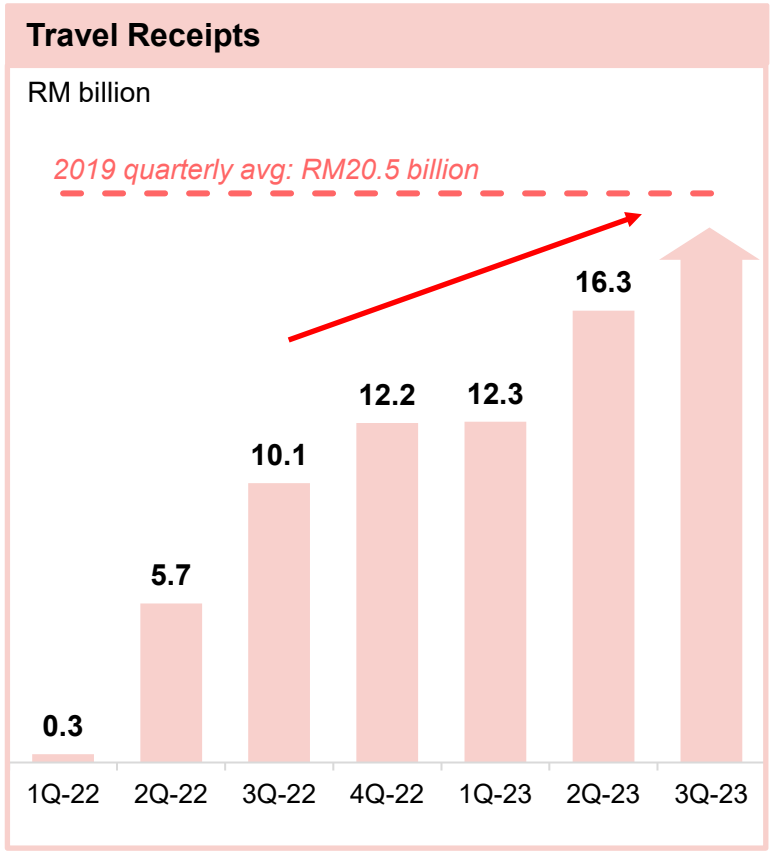
…and expected recovery in 2024

WSTS Forecast of Global Semiconductor Sales



Tourism sector continues to pick-up towards pre-pandemic level

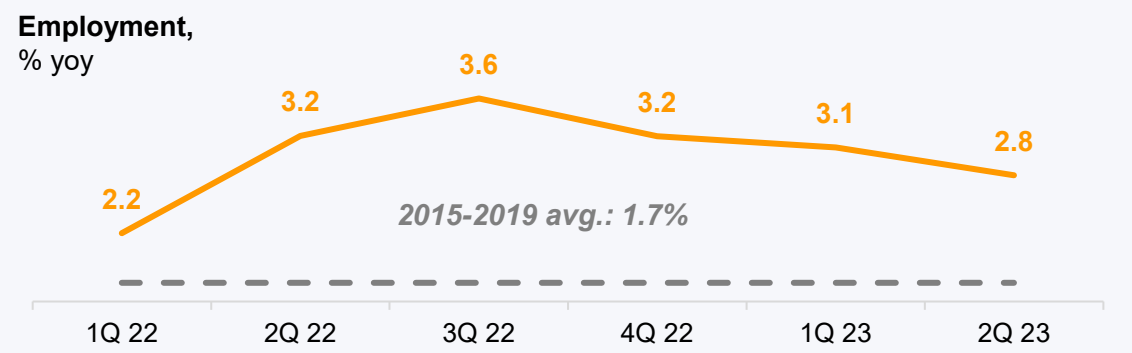
Travel Receipts



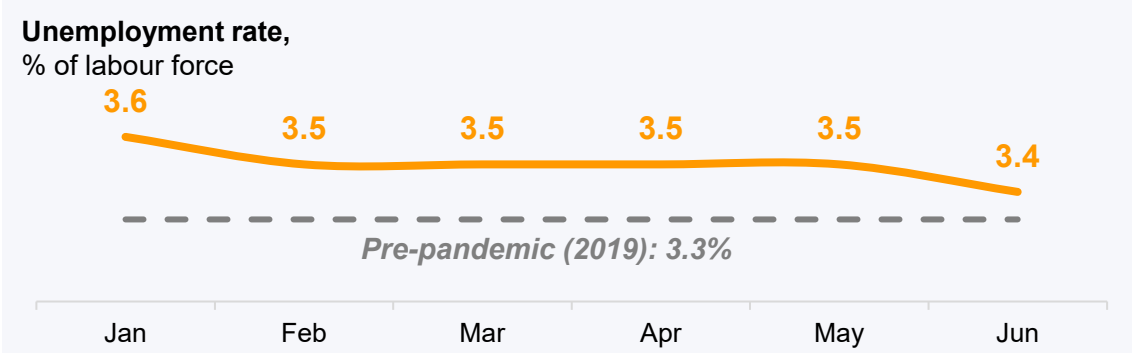
*refers to non-oil domestic exports
** compiled by World Semiconductor Trade Statistics (WSTS)
Source: Department of Statistics Malaysia, World Semiconductor Trade Statistics (WSTS), national authorities and newsflows

Labour market continued to improve

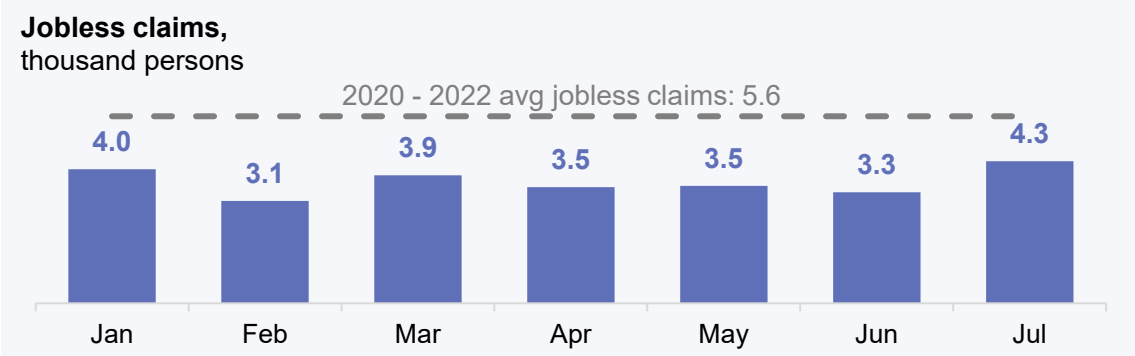
Employment growth remains above pre-pandemic average



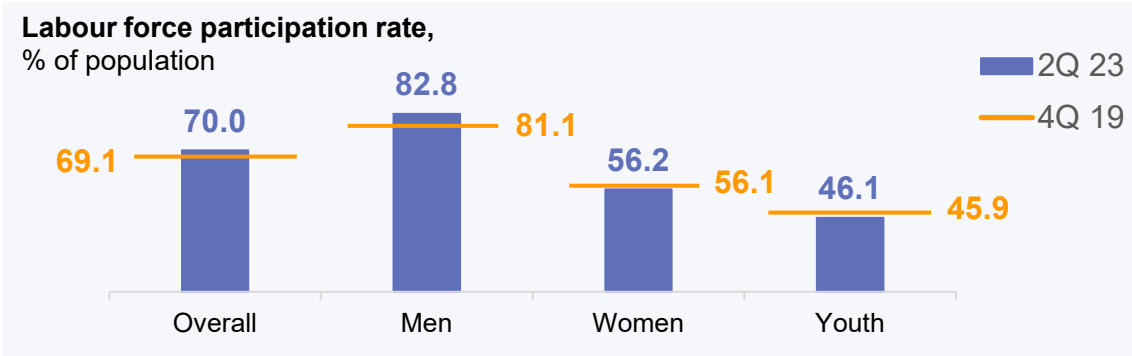
Further decline in unemployment rate



Jobless claims remains below levels during pandemic years



Vulnerable segments have recovered to pre-pandemic levels

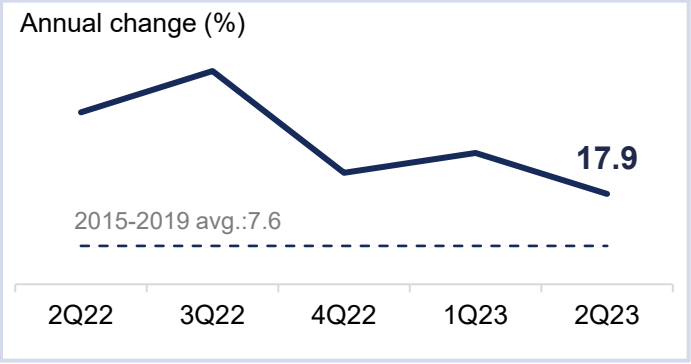


Source: Department of Statistics Malaysia, Employment Insurance System, Social Security Organisation, Bank Negara Malaysia estimates

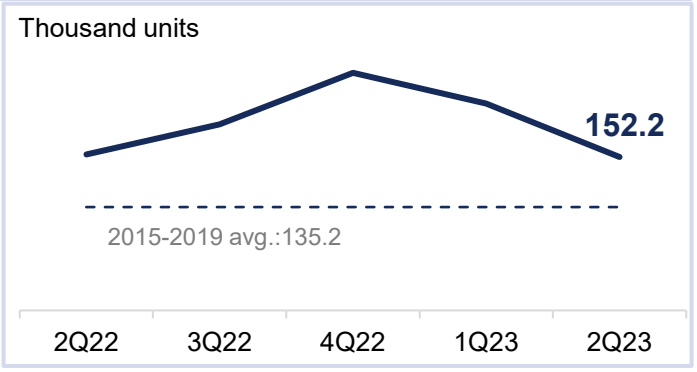
Household spending to remain as anchor of growth

Spending continues to grow….

Credit Card Spending



Passenger car sales



Source: Department of Statistics, Malaysia and Bank Negara Malaysia

… supported by increment in wages and financial buffers

Private sector wages
Annual change, %

Real wages
2Q23: 1.0% (1Q23: 0.9%)
4Q19: 3.8%

Nominal wages
2Q23: 3.8% (1Q23: 4.5%)
4Q19: 4.8%

Household financial buffers
Ratio as of June 2023

Financial assets[1]-to-debt ratio: 2.1 times

Liquid financial assets[2]-to-debt ratio: 1.3 times

Note:
[1] Financial assets comprise EPF savings, deposits, unit trust funds, domestic equity holdings, and insurance policies (surrender value).
[2] Liquid financial assets exclude EPF savings.

Going forward, consumption growth would be underpinned by:

Continued employment growth
and lower unemployment rate

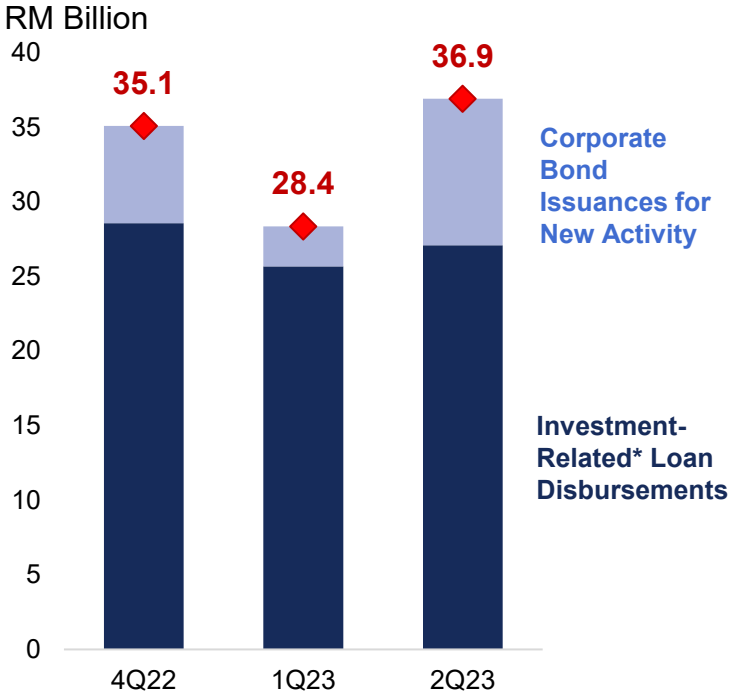
Government measures
including special appreciation assistance for civil servants and RM100 e-Tunai credit for B40 & M40 households

Easing price pressures

Supportive financing conditions and continuation of new and existing projects to support investment growth in 2023

Financing for investment improved

Business Loan Disbursements and Corporate Bond Issuances

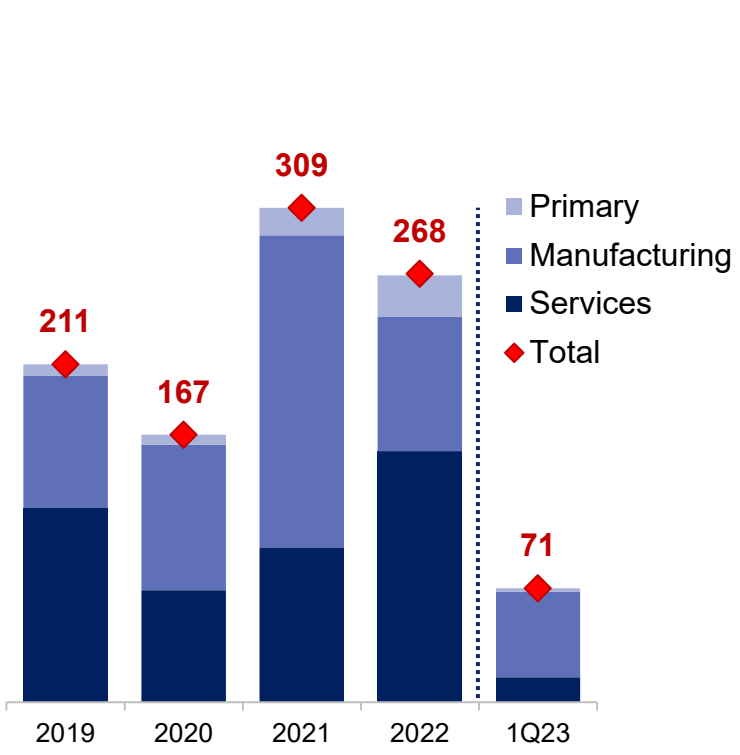


* Loans for investment-related purposes covers purchases of residential property for business use, non-residential property, fixed assets other than land / building, and for construction.

Source: Bank Negara Malaysia

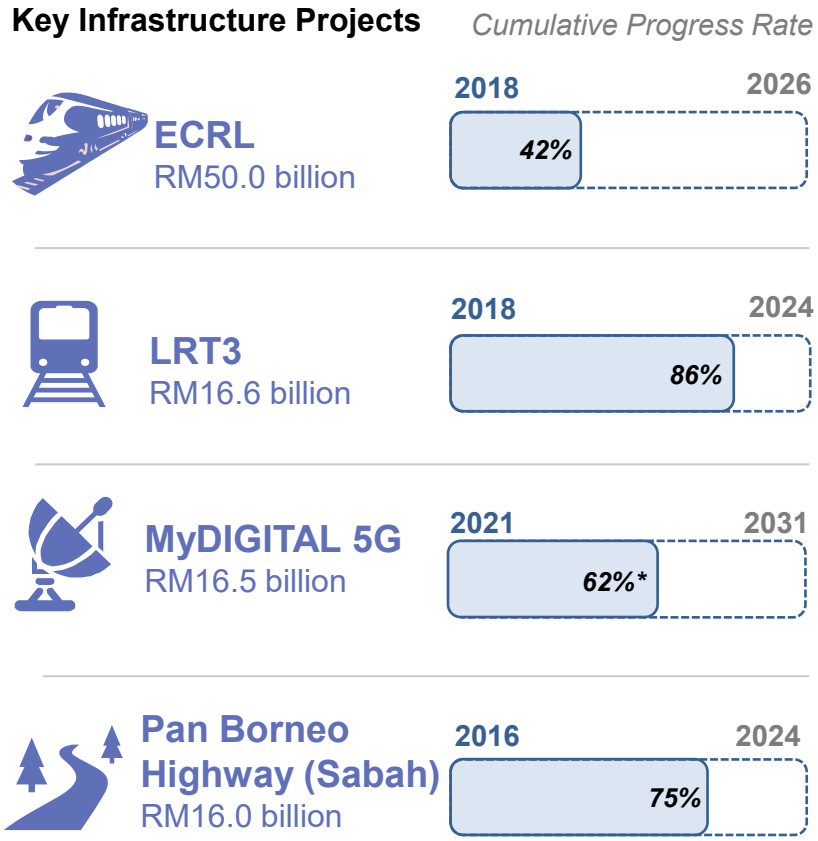
Going forward, realisation of approved projects to support investment activity

MIDA Total Investment Approvals



Source: MIDA

Progress of multi-year infrastructure projects to provide further lift to growth



*Proxied by coverage of populated areas (COPA)

Source: Newsflows

MADANI Economy Framework to drive comprehensive restructuring of the Malaysian economy

Malaysia's Economic Vision

Revitalise the industrial sector to be more competitive
- *Generate economic activities with higher value add and economic complexity*

Create quality and higher paying jobs
- *Reduce reliance on low-skilled foreign labour*

Position ourselves as a globally competitive investment destination
- *Strengthen investment promotion and incentives*

Promote a climate resilient and greener economy
- *Accelerate energy transition*

Ensure a sustainable fiscal position
- *Strengthen the fiscal position and ensure resilience and long-term sustainability of public finances*

Key Initiatives

New Industrial Master Plan
- *Advance economic complexity, digitalisation and sustainability*
- *Spur investments in technology and innovation*

National Energy Transition Roadmap
- *Increase renewable energy generation*
- *Promote new green growth areas*

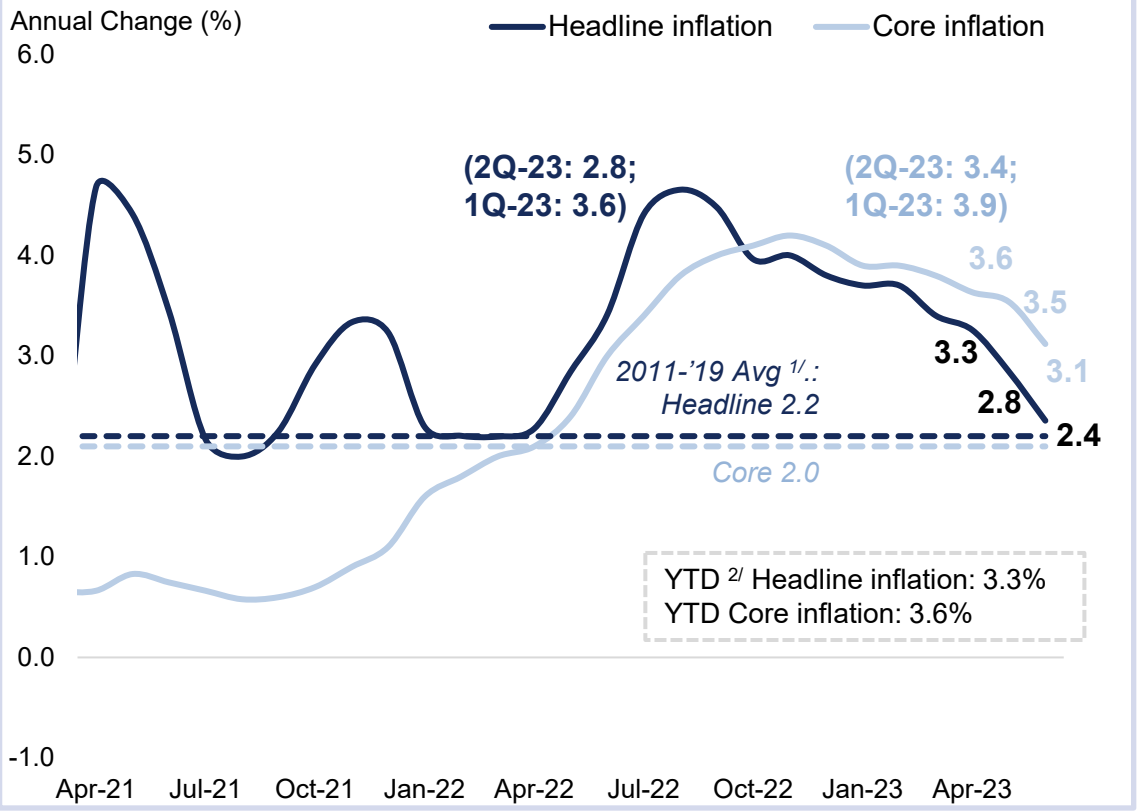
Fiscal Responsibility Act
- *Improve the transparency, accountability and governance of public finance*
- *Act as an anchor to existing and future reforms*

Source: Prime Minister Office, Malaysia, newsflows

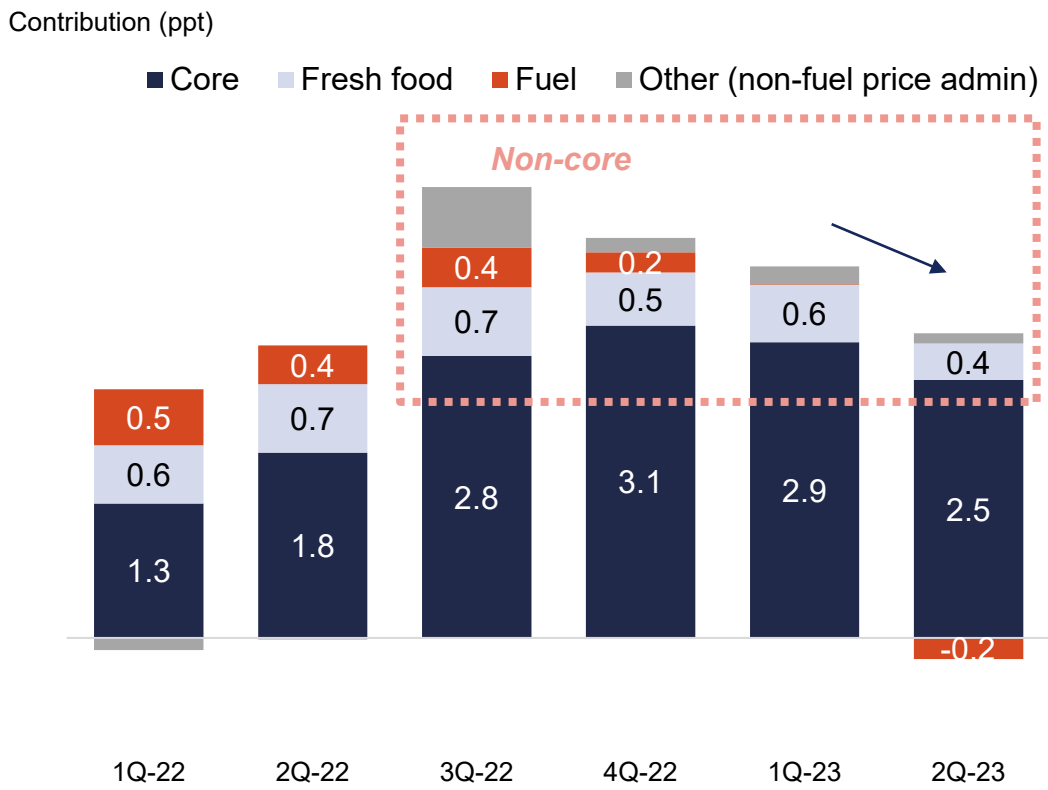
Disinflation trend continued with lower headline and core inflation

- **Headline inflation trended lower in line with moderating costs conditions**
- **Core inflation declined amid lower inflation for food away from home and communication services**

Malaysia Inflation



Breakdown of inflation by components

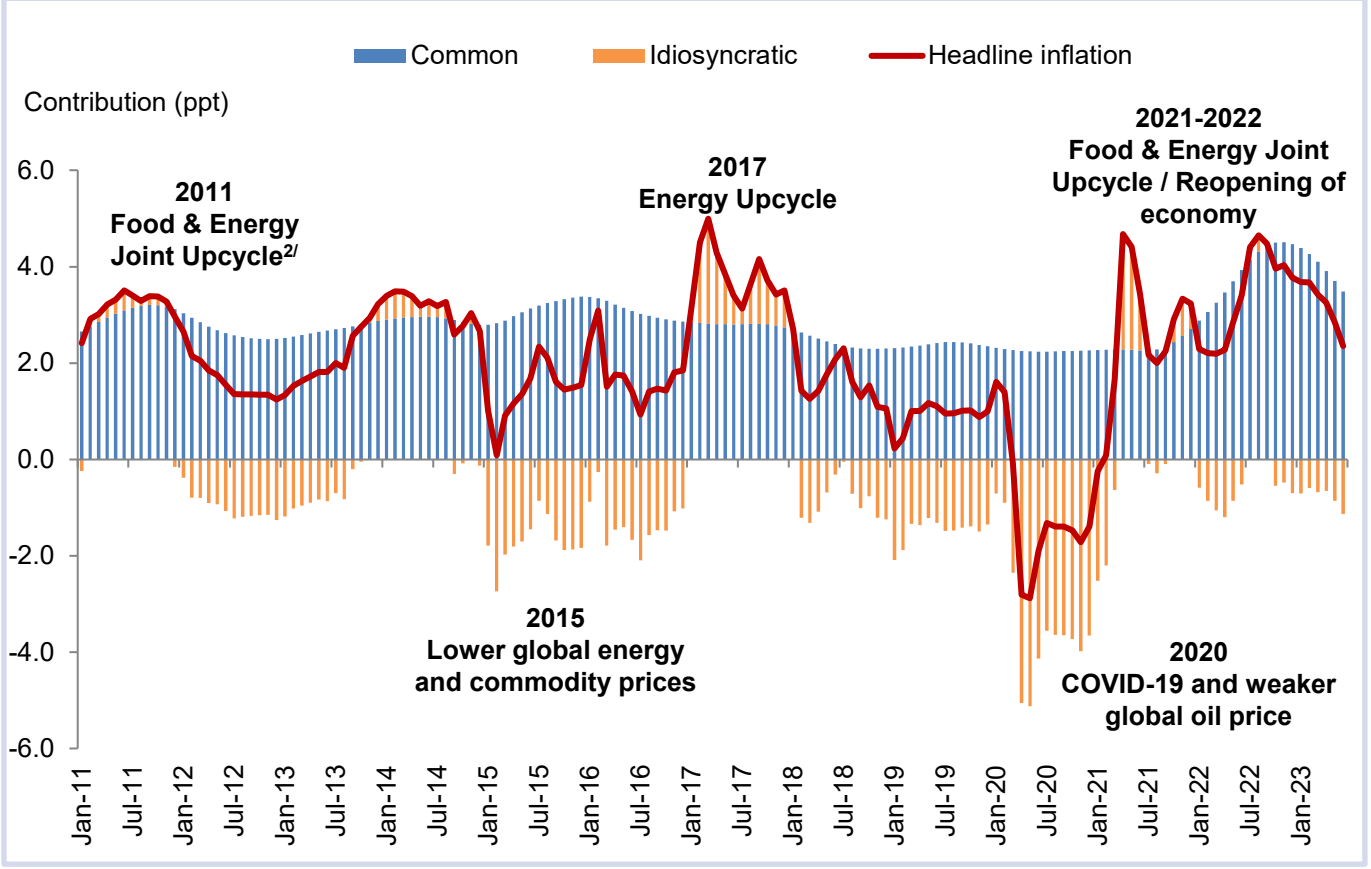


1/ Average of past inflation is calculated based on monthly frequency from Jan-11 to Dec-19
2/ YTD refers to the average from January 2023 to June 2023
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

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

Box Article: Lower headline inflation reflected the decline in both common and idiosyncratic components

Decomposition of headline inflation[1/] by common and idiosyncratic factors



1/ Headline inflation is adjusted to exclude the direct impact of consumption tax policies changes (GST and SST) in 2015 and 2018.
2/ Upcycle refers to periods when global food and/or energy commodities exhibited year-on-year movements higher than the standard deviation. Global food and energy commodities data are from World Bank Commodity Price Data (The Pink Sheet).
Source: Department of Statistics, Malaysia and Bank Negara Malaysia staff estimates.

Inflationary pressures have become more generalised over the past two years, although currently on a moderating trend

1. **Drivers of inflation can be disentangled into general (common) and sector-specific (idiosyncratic) price changes**

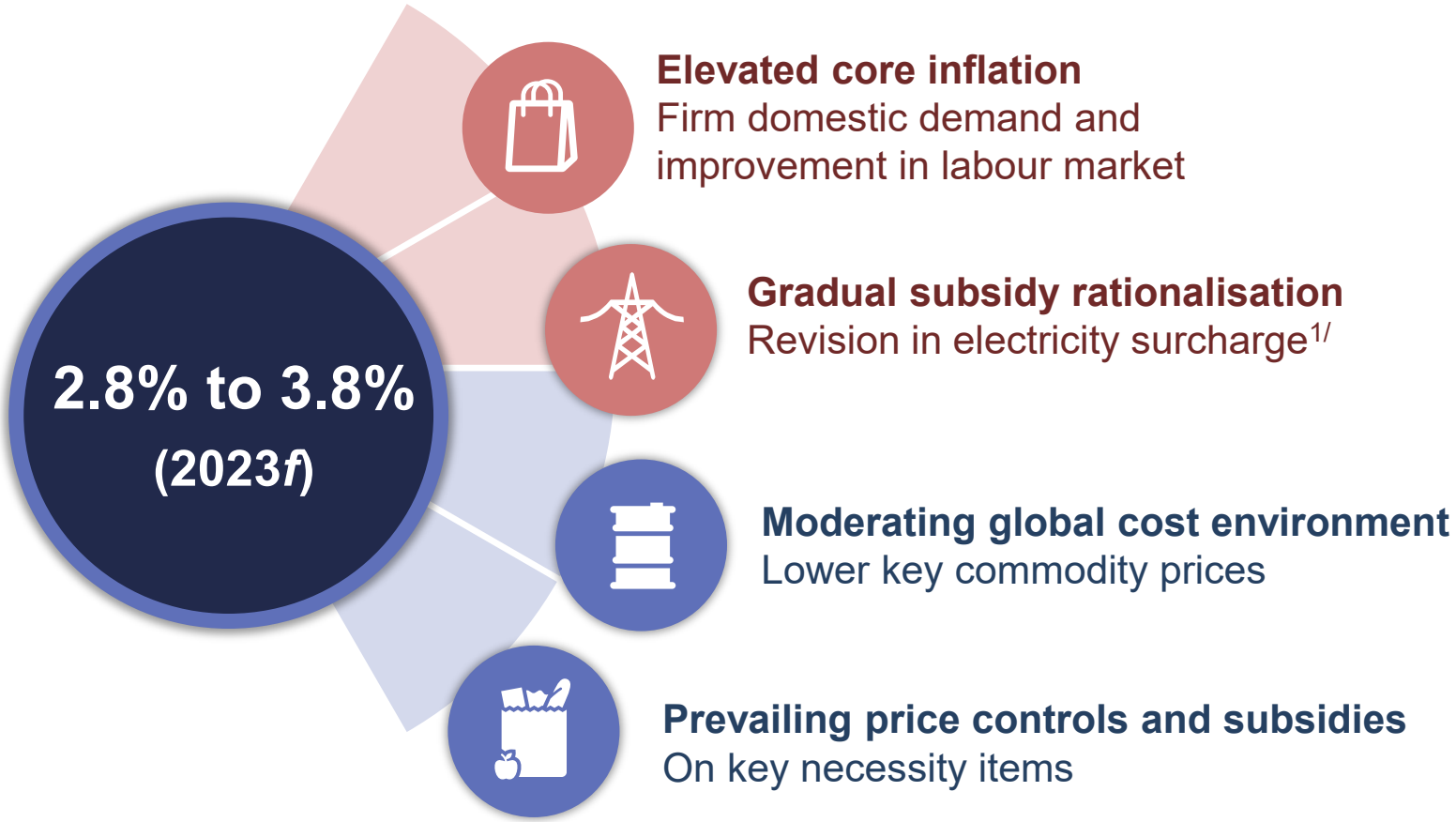
2. **Common inflation has risen** in recent times due to a confluence of simultaneous and aggregate shocks:
   - Military conflict in Ukraine
   - Pent-up demand
   - Potential shift in firms' pricing behaviour amid a high-inflation environment

3. **Ongoing disinflationary trend** is contributed by both lower common and idiosyncratic factors

Going forward, risks to inflation stem mainly from global developments

- Headline inflation is expected to average close to the lower bound of forecast range with the risks broadly balanced.

Key drivers of headline inflation in 2023



Upside risks

- ▲ Higher global commodity prices due to worsening geopolitical conflict or adverse weather events
- ▲ Higher imported input costs amid exchange rate depreciation

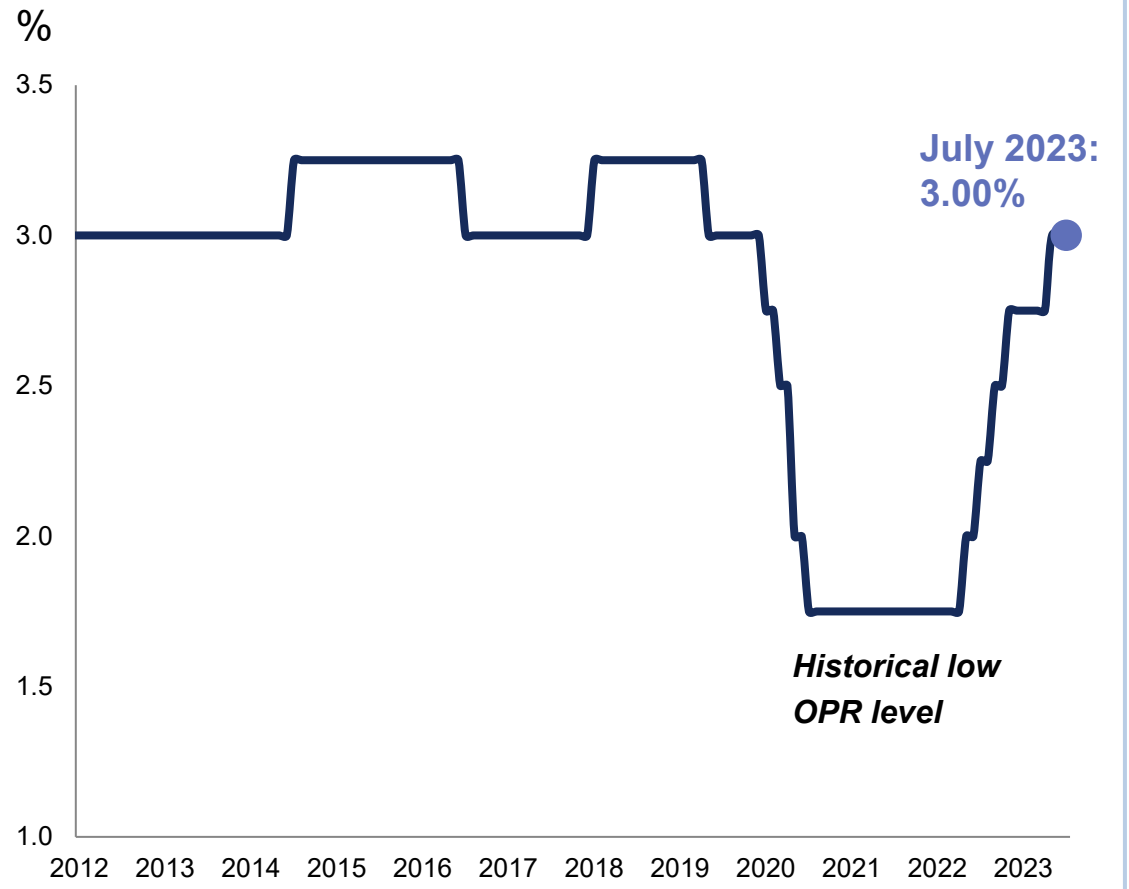
Downside risks

- ▼ Weaker global growth leading to more subdued commodity prices
- ▼ Faster dissipation of domestic pent-up demand from 2022

1/ Reflecting revision for high-usage households and selected industry participants in 2H 2023 and 1H 2023, respectively.

The OPR was maintained at 3.00% at the July MPC meeting

Overnight Policy Rate, OPR



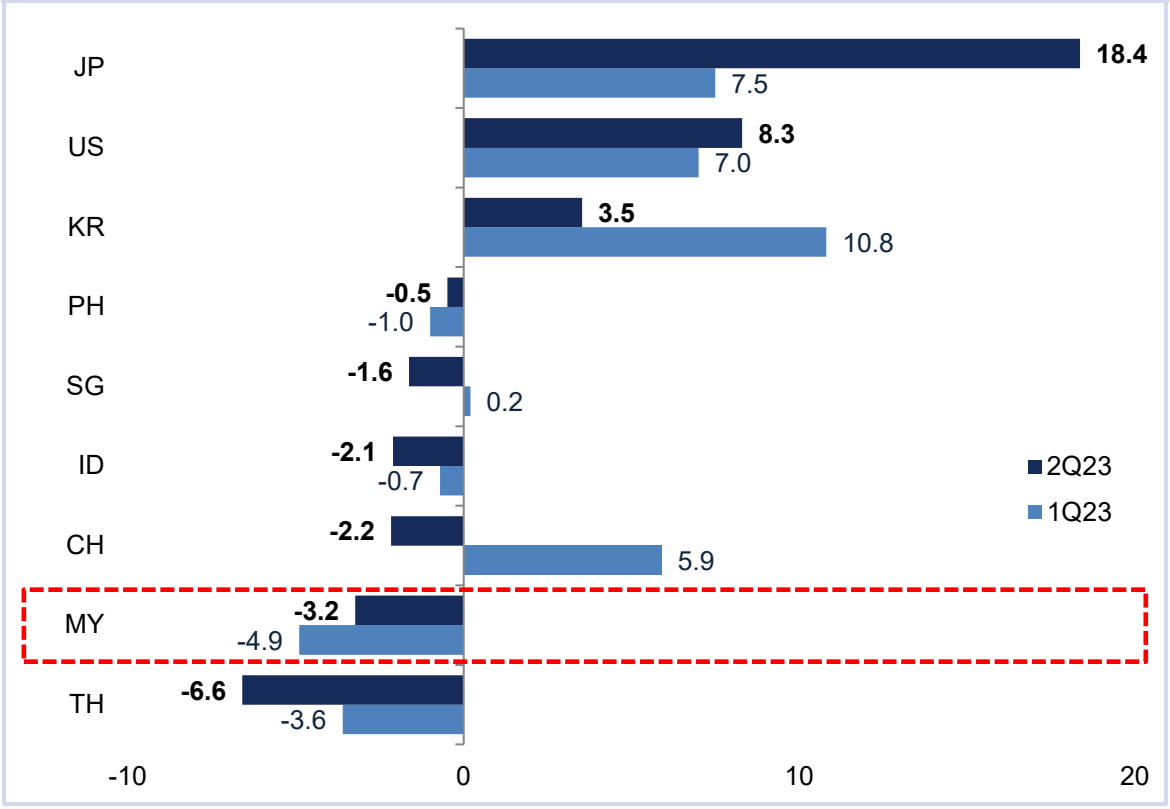
- At the July MPC meeting, the MPC deemed the monetary policy stance to be slightly accommodative and **supportive of the economy**
  - The MPC continued to see limited risks of future financial imbalances
- The MPC **remains vigilant to ongoing developments** and will continue to monitor incoming data to inform the assessment on the outlook of domestic inflation and growth

Source: Bank Negara Malaysia

Domestic financial market developments driven mainly by external factors

Most regional equities including Malaysia declined, reflecting investors' cautious economic outlook

Performance of Equity Indices (%QoQ Change)

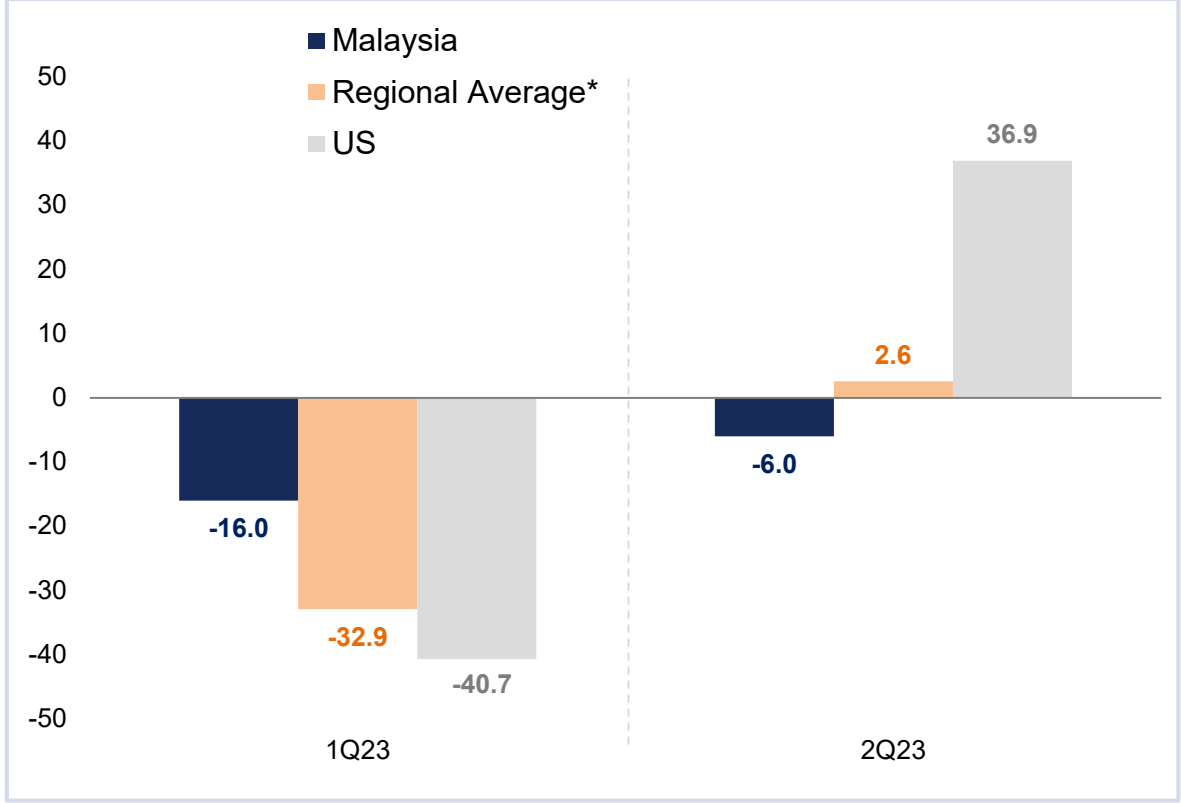


US: United States; PH: the Philippines; MY: Malaysia; TH: Thailand; SG: Singapore; KR: South Korea; CH: China; JP: Japan; ID: Indonesia.

Source: Bloomberg and Bursa Malaysia

Domestic bond yields declined slightly amid inflows, despite ongoing expectations for US monetary policy tightening

Movement of 10-Year Local Currency Sovereign Bond Yields (in bps)

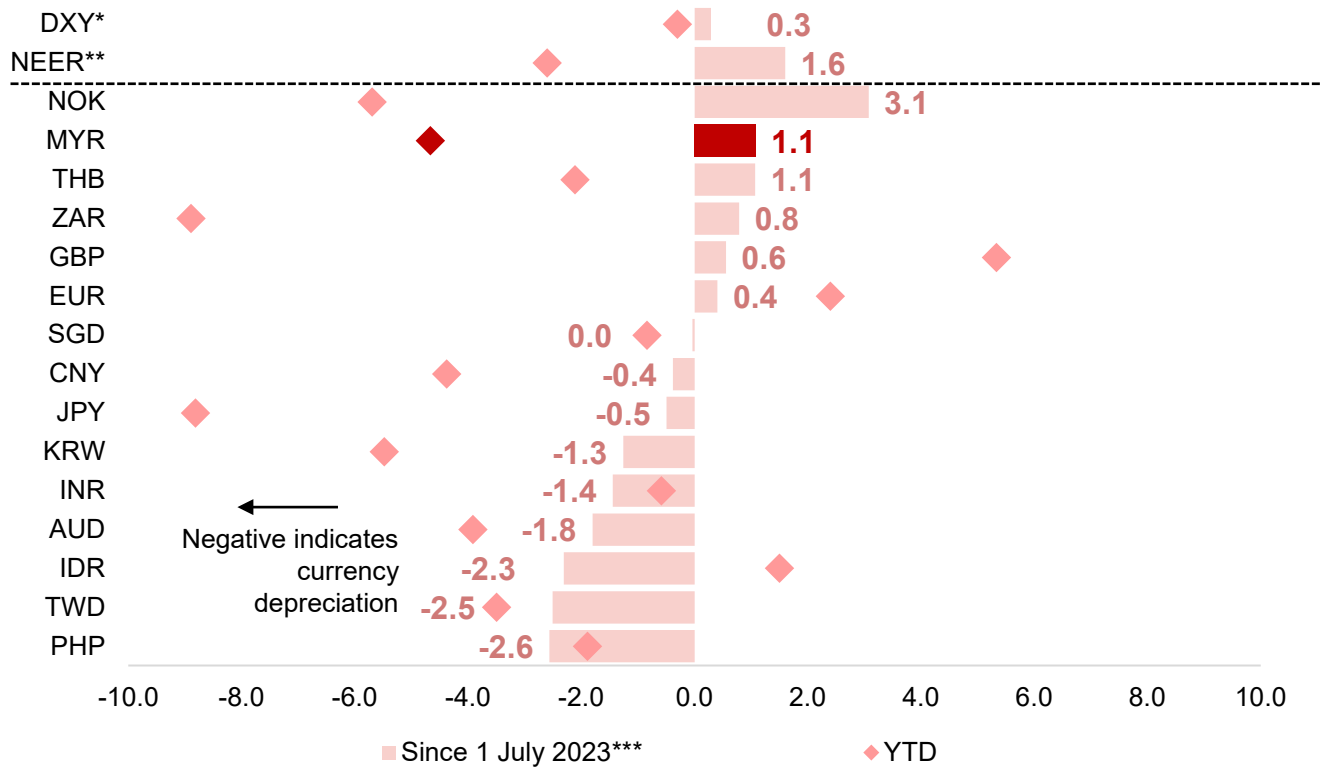


*Regional countries include Indonesia, the Philippines, Singapore, South Korea and Thailand.

Source: Bank Negara Malaysia, ETP and Bloomberg

Recently, the ringgit has appreciated against the US dollar

US Dollar Index (DXY) and Selected Currencies against the US Dollar (%)



The ringgit has strengthened against the US dollar since 1 July 2023.

This is due to market expectations that the aggressive monetary policy tightening in major economies is nearing its end.

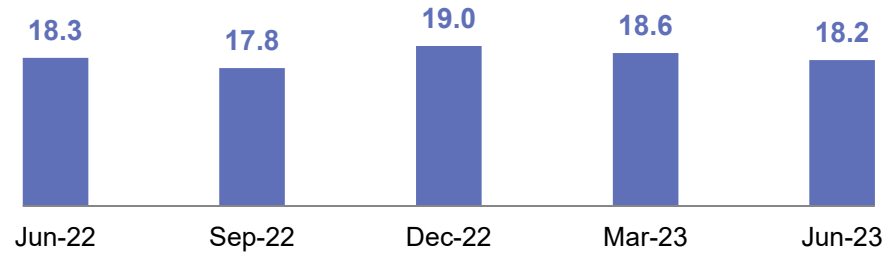
Further clarity on the future monetary policy actions in major economies will provide support to the ringgit and other regional currencies.

*The US dollar Index (DXY) is an index of the value of the US dollar against a basket of foreign currencies, namely EUR (57.6%), JPY (13.6%), GBP (11.9%), CAD (9.1%), SEK (4.2%), and CHF (3.6%).
** NEER refers to the ringgit nominal effective exchange rate. It is an index measuring ringgit's performance against currencies of Malaysia's major trading partners.
*** Change in exchange rate against the US dollar from 1 July to 15 August 2023
Source: Bank Negara Malaysia and Bloomberg

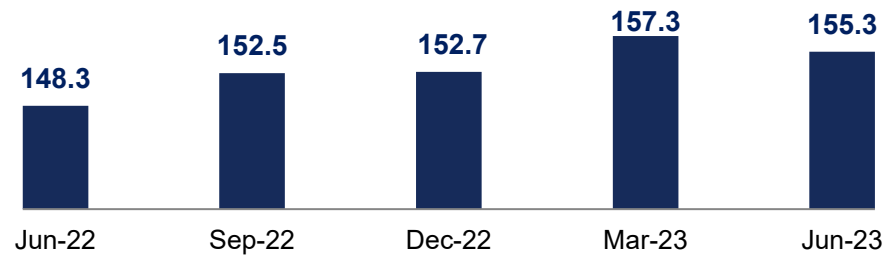
Banks remain well-positioned to support financial intermediation needs

Strong buffers allow banks to continue supporting financial intermediation activities

Total Capital Ratio, %

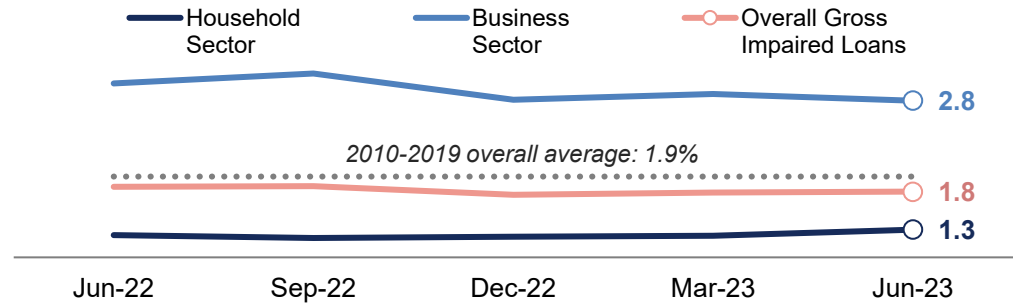


Liquidity Coverage Ratio, %

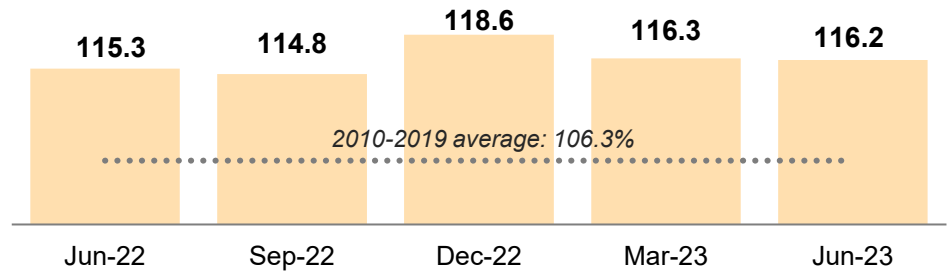


Banks have sufficient provisions to absorb potential credit losses from vulnerable borrowers

Impaired Loans Ratio, %



Loan Loss Coverage Ratio (including regulatory reserve), %

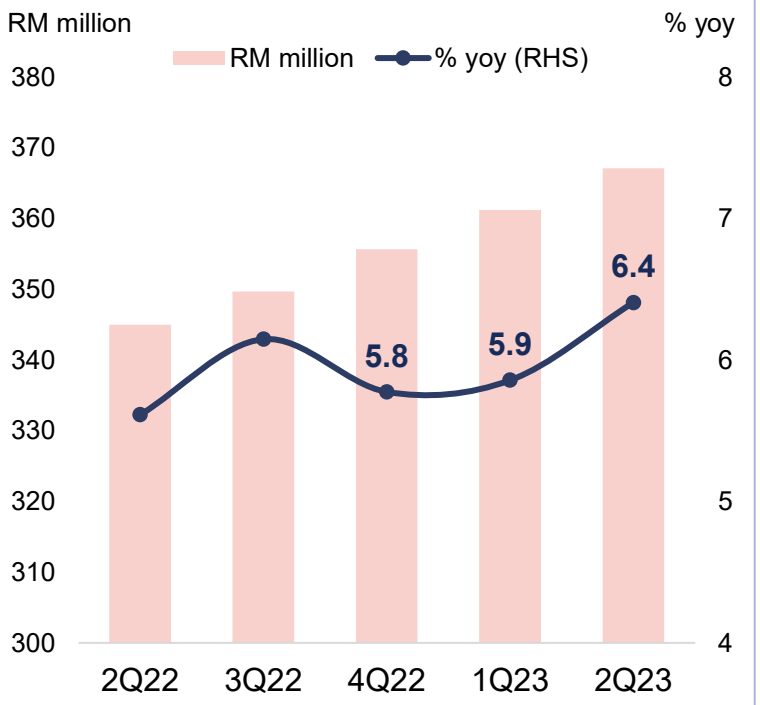


[1] Impairment ratio based on Stage 3 loans under MFRS 9.
[2] Business ICR and CASTD ratios as at Mar-23
[3] Financial assets comprise EPF savings, deposits, unit trust funds, domestic equity holdings, and insurance policies (surrender value).
Source: Bank Negara Malaysia

Financing in 2Q 2023 remained supportive of SMEs' business needs

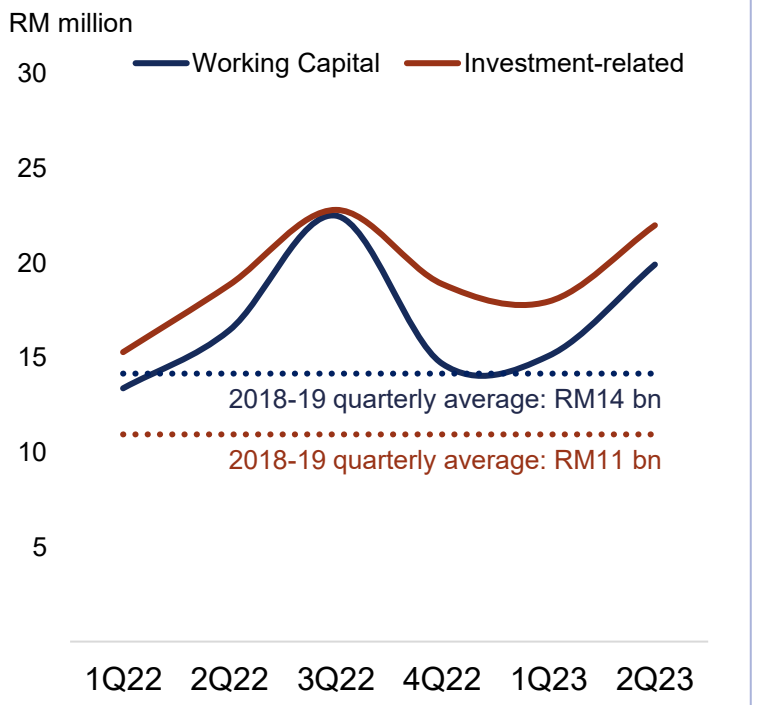
Steady growth in outstanding financing

Outstanding SME Financing



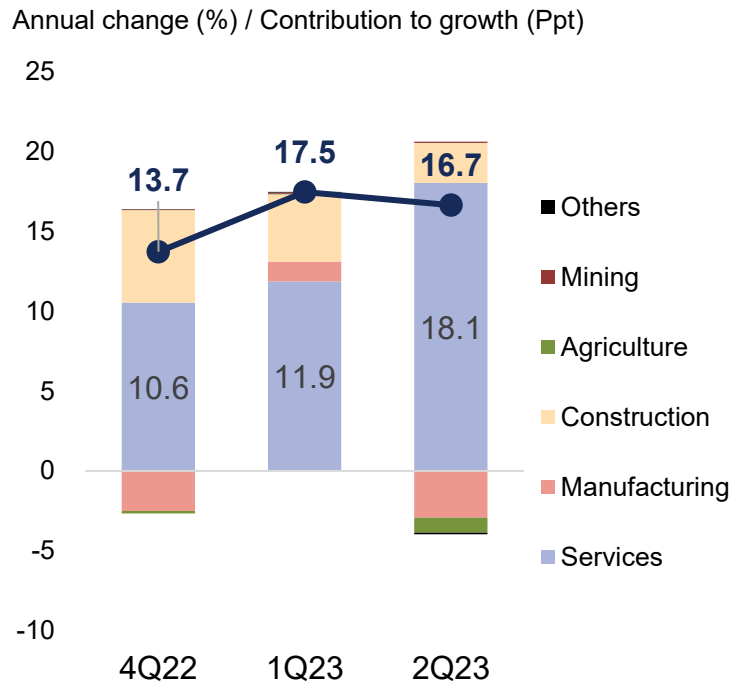
Higher financing approvals across both working capital and investment purposes

SME Financing Approvals



…with investment-related financing approvals driven by the services sectors

SME Financing Approvals by Sector for Investment-Related Purposes*



*Investment-related purpose includes financing for the purchase of non-residential properties, residential properties for business use, fixed assets (incl. cars), and construction purposes.

Note: Reflects loan/financing from the banking system and development financial institutions (DFIs). The data series were revised following a data rectification by financial institutions, mainly involving the reclassification of SME loans as non-SME loans.

Source: Bank Negara Malaysia

Summary



In 2Q 2023, the Malaysian economy grew by 2.9%, driven mainly by private sector expenditure



Domestic demand to remain key driver of growth in 2023 amid challenging global environment



Downside risks to growth emanating primarily from external developments, while there are upside risks mainly from domestic factors



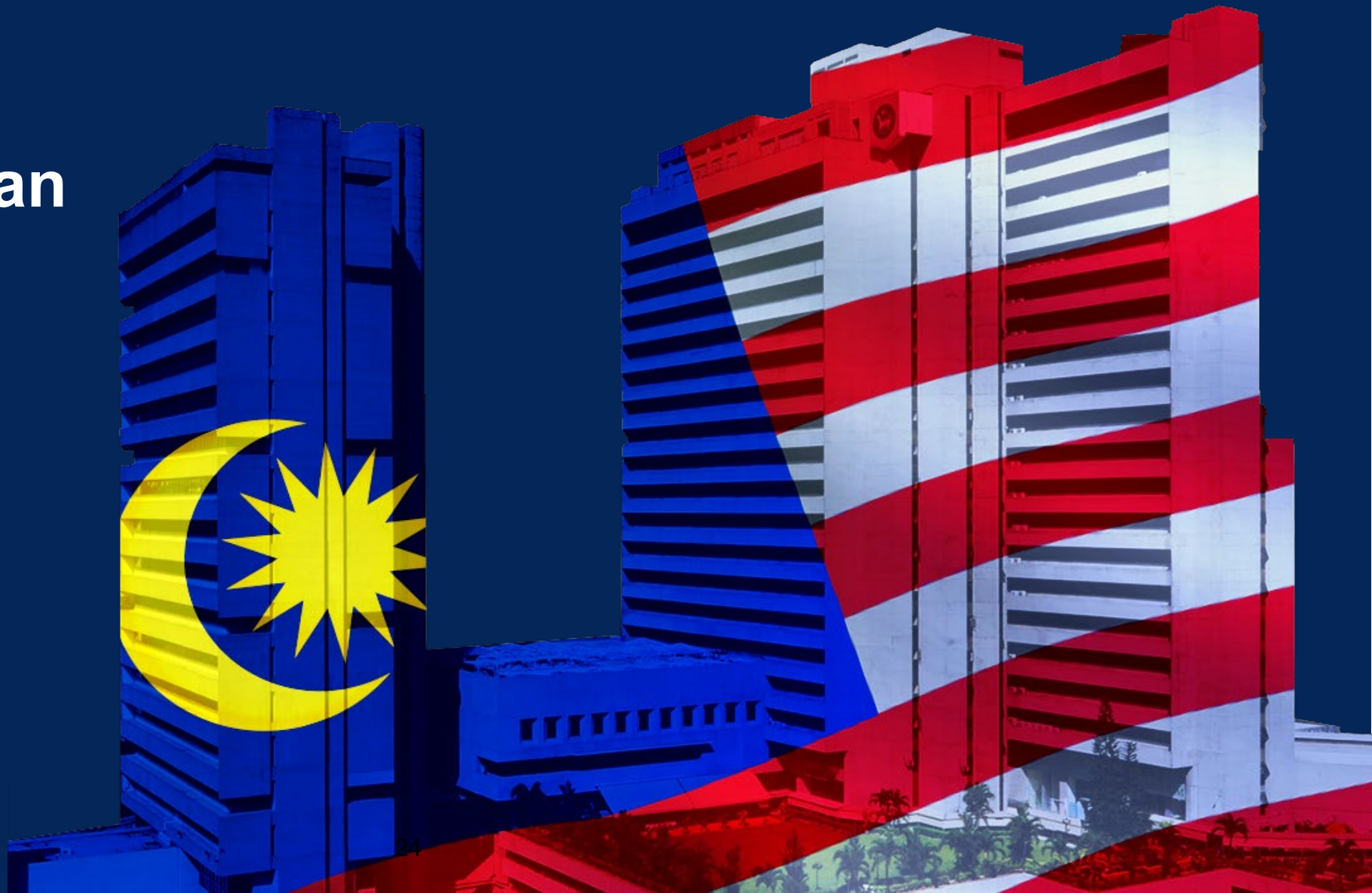
Headline and core inflation are projected to average between **2.8% and 3.8% in 2023**

End of Presentation

Q&A

Selamat Menyambut

Hari Kebangsaan Ke-66



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Muzium dan Galeri Seni

Gerak BAYANG

Seni Penceritaan | *The Art of Storytelling*

Perasmian / *Launch:*
18.08.2023, 8:15 p.m.

Lokasi/ *Venue:*
Galeri Seni, Aras 3 / *Art Gallery, Level 3*
Muzium dan Galeri Seni Bank Negara Malaysia



Feedback Survey



Additional Information

Breakdown of 2Q 2023 GDP (% yoy)

Annual Change in GDP Growth by Component

Real GDP (% YoY)	Share[1], % (2022)	2022	2023	
		2Q	1Q	2Q
Services	**58.3**	**11.9**	**7.3**	**4.7**
Manufacturing	**24.1**	**9.2**	**3.2**	**0.1**
Agriculture	**6.6**	**-2.3**	**1.0**	**-1.1**
Mining and Quarrying	**6.4**	**-1.7**	**2.4**	**-2.3**
Construction	**3.5**	**2.5**	**7.4**	**6.2**
Real GDP	**100.0**	**8.8**	**5.6**	**2.9**

Real GDP (% YoY)	Share, % (2022)	2022	2023	
		2Q	1Q	2Q
Domestic Demand (Excluding Stocks)	**93.1**	**13.0**	**4.6**	**4.5**
Private Sector	**75.5**	**15.4**	**5.6**	**4.5**
Consumption	60.2	18.3	5.9	4.3
Investment	15.3	6.3	4.7	5.1
Public Sector	**17.6**	**2.5**	**-0.3**	**4.6**
Consumption	13.2	2.3	-2.2	3.8
Investment	4.4	3.2	5.7	7.9
Net Exports of Goods and Services	**5.5**	**-29.0**	**54.4**	**-3.7**
Exports	74.6	15.9	-3.3	-9.4
Imports	69.1	20.1	-6.5	-9.7
Change in stocks, RM bil.	**1.4**	**12.3**	**2.8**	**8.0**
Real GDP	**100.0**	**8.8**	**5.6**	**2.9**

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

Financial account recorded a larger net outflow

Portfolio investment net inflows were more than offset by net outflows in other and direct investment account

RM billion	2022		2023		
	4Q	Year	1Q	2Q	1H
Direct Investment	**-9.3**	**15.9**	**10.9**	**-4.9**	**6.0**
*Direct Investment Abroad (DIA)**	-28.5	-58.6	-1.1	-8.0	-9.1
*Foreign Direct Investment (FDI)**	19.2	74.6	12.0	3.1	15.1
Portfolio Investment	**-26.7**	**-50.6**	**-33.3**	**8.1**	**-25.2**
Residents	-15.0	-30.5	-16.3	-10.1	-26.5
Non-residents	-11.7	-20.1	-17.0	18.3	1.3
Financial Derivatives	**-1.7**	**-2.2**	**-0.9**	**0.3**	**-0.6**
Other Investment	**36.6**	**49.2**	**20.9**	**-15.1**	**5.8**
Financial Account Balance	**-1.1**	**12.4**	**-2.4**	**-11.6**	**-13.9**

Continued FDI inflows amid higher DIA outflows

Net inflows in portfolio investment

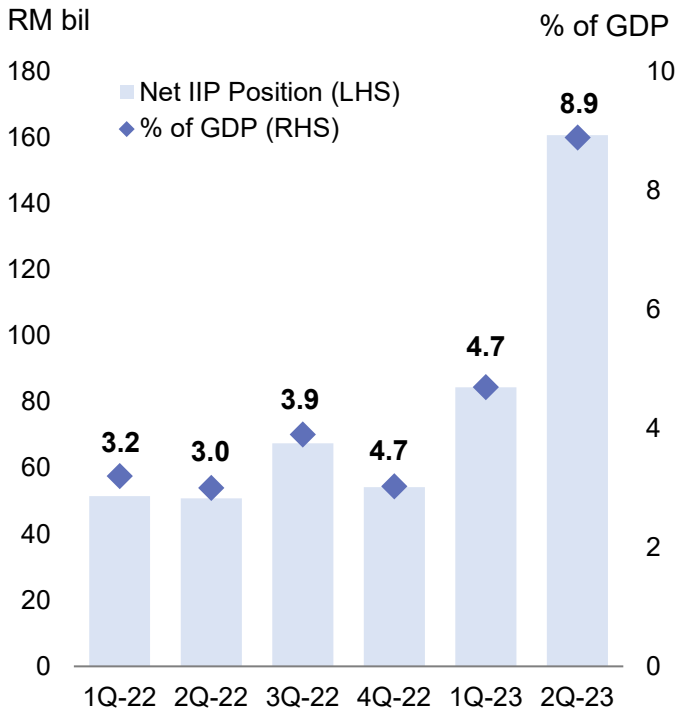
Net outflows in other investment

*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

Adequate buffers to weather external shocks

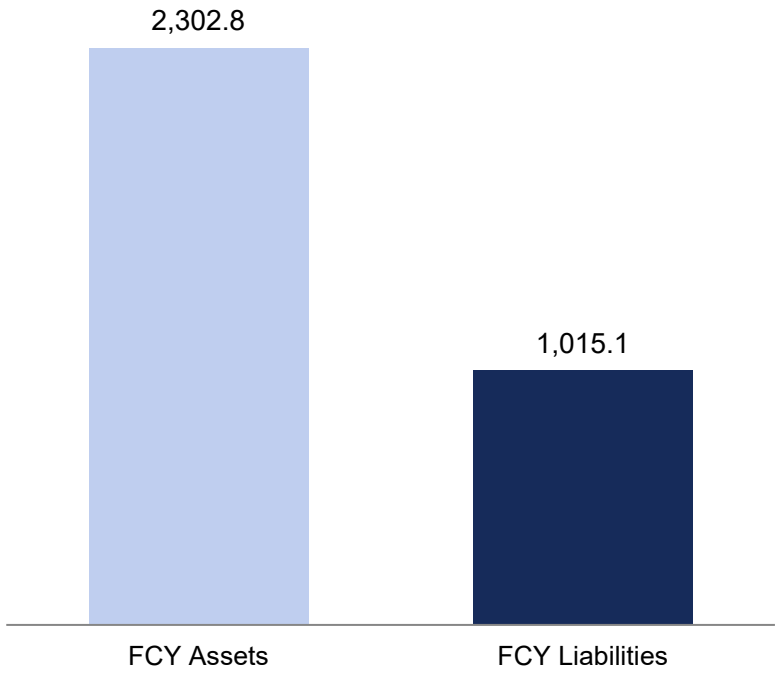
Higher net creditor position …

External Assets Minus External Liabilities (1Q 22 – 2Q 23)



… with large net foreign-currency assets …

FCY Denominated External Assets & Liabilities (End-2Q 2023) (RM bil)



… and further supported by

Sustained foreign income

Continued current account surplus reduces external financing requirements

Sufficient international reserves* to facilitate international transactions

… to finance 5.3 months of imports of goods & services and is 1.0 time total short-term external debt as at 31 July 2023

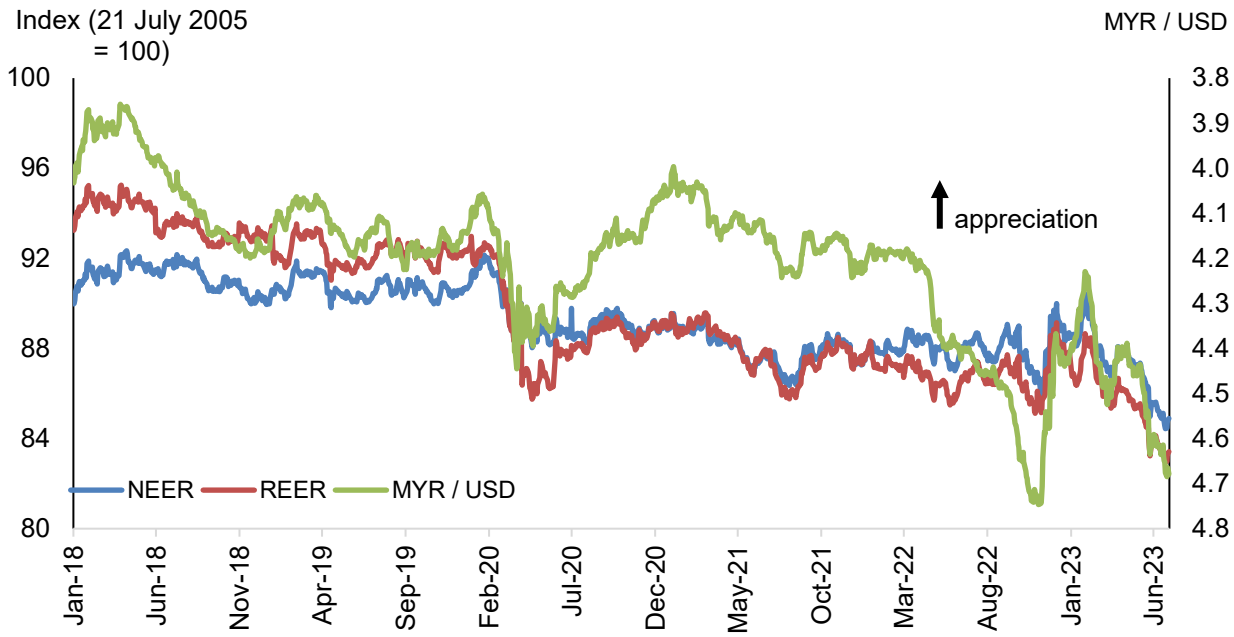
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

* Note: The reserves coverage ratios differ from that published in the press statement on international reserves as at 31 July 2023 as it reflects the latest 2Q 2023 data on imports of goods & services and short-term external debt.

Effective exchange rates offer a broader perspective of a country's currency value

Apart from bilateral exchange rates, the NEER and REER are used to assess a currency's performance

Ringgit Nominal Effective Exchange Rate (NEER)[1] and Real Effective Exchange Rate (REER)[1]Series



Note: Last date in the chart is 30 June 2023.
The daily REER is calculated by using the monthly CPI for each day of the month.

- **Effective exchange rates**, namely the NEER and REER, can provide **insights into macroeconomic conditions** and can facilitate price competitiveness assessments, inflation analysis and external balance evaluations.

- **Since 2018, movements in the ringgit NEER and REER have been relatively more muted**, when comparing the movements of the NEER and REER series with the bilateral ringgit exchange rate against the US dollar.

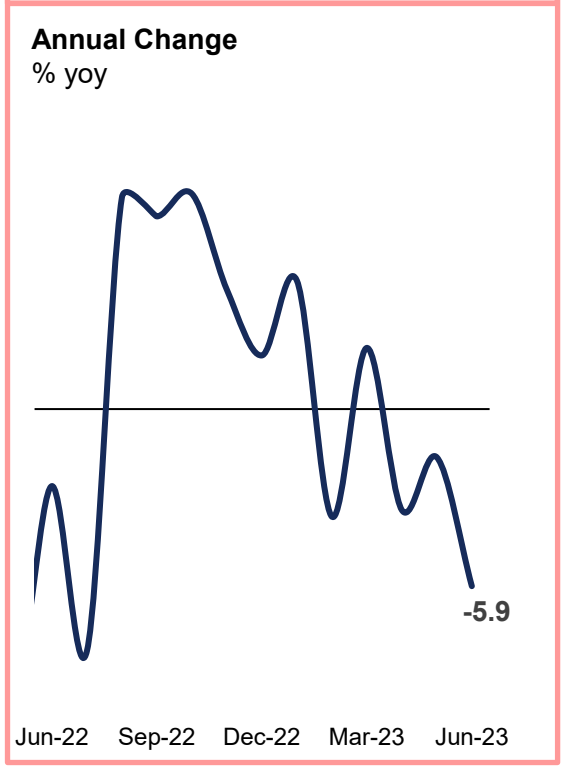
1. The NEER considers a currency's performance against a group of currencies, weighted by the importance of each trading partner. The REER then adjusts for price differences.

Source: Bank Negara Malaysia

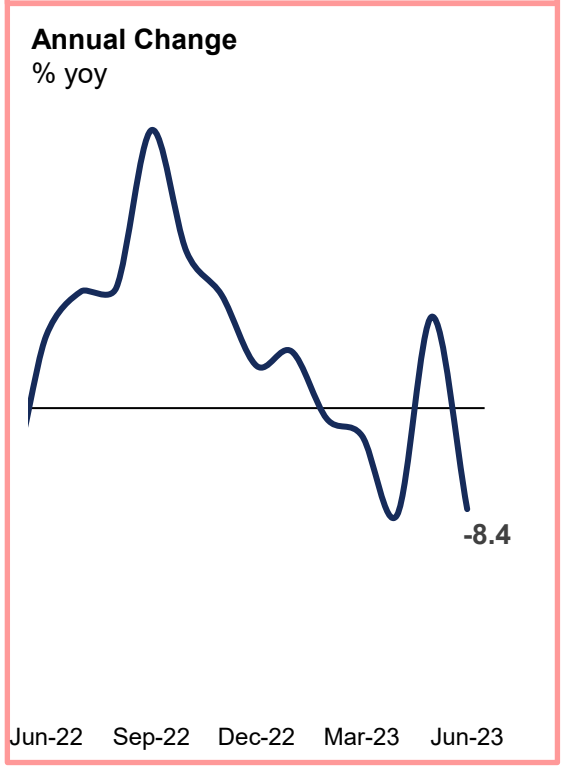
Temporary commodity-related factors weighed on 2Q 2023 GDP

Plant maintenance activities and hot weather affected production in the mining, manufacturing and agriculture sector

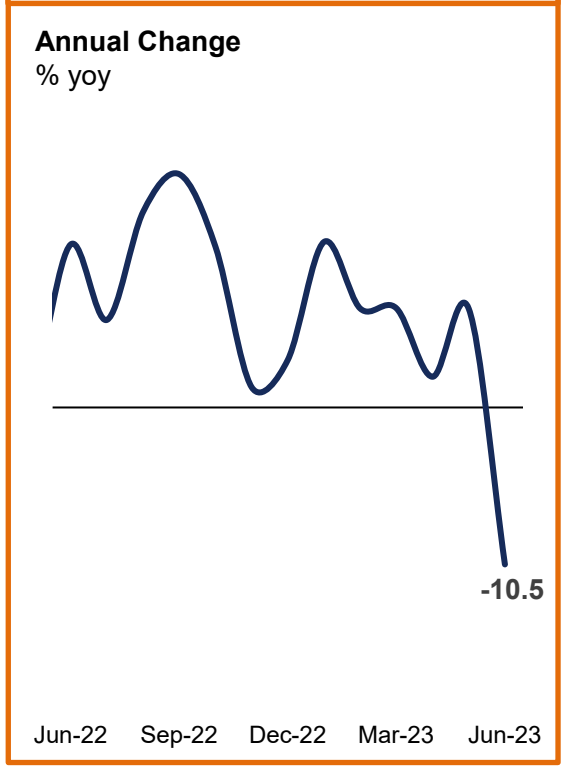
Crude Oil and Condensates Production



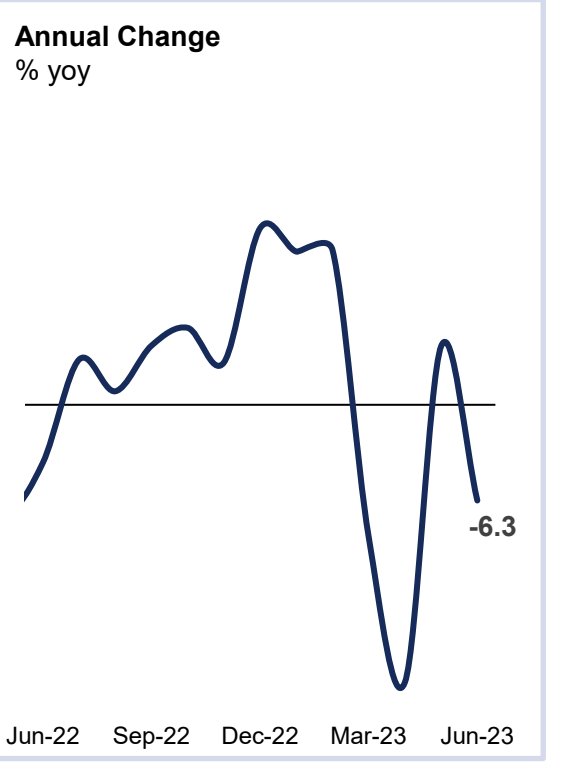
Natural Gas Production



Manufacture of refined petroleum products (IPI)



Crude Palm Oil Production



Source: Bank Negara Malaysia, Department of Statistics Malaysia, Malaysian Palm Oil Board