Prestasi Ekonomi Suku Keempat Tahun 2017

Bank Negara Malaysia

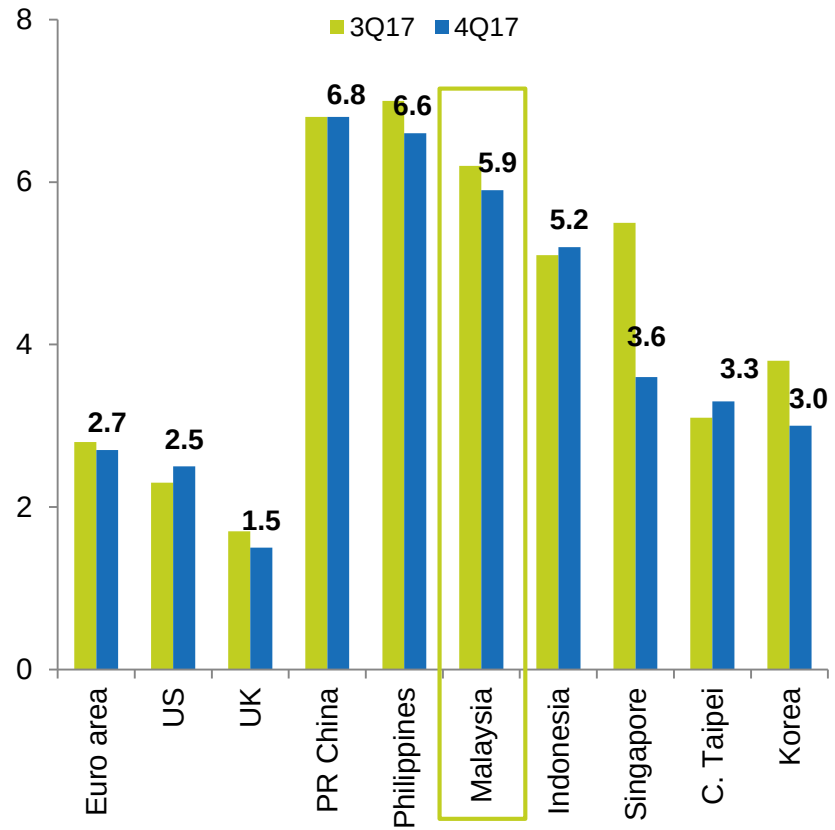
14 Februari 2018

Global economic activity continued to expand in the fourth quarter of 2017

Growth in both the advanced and regional economies continued to expand in 4Q 2017

Global Real GDP Growth

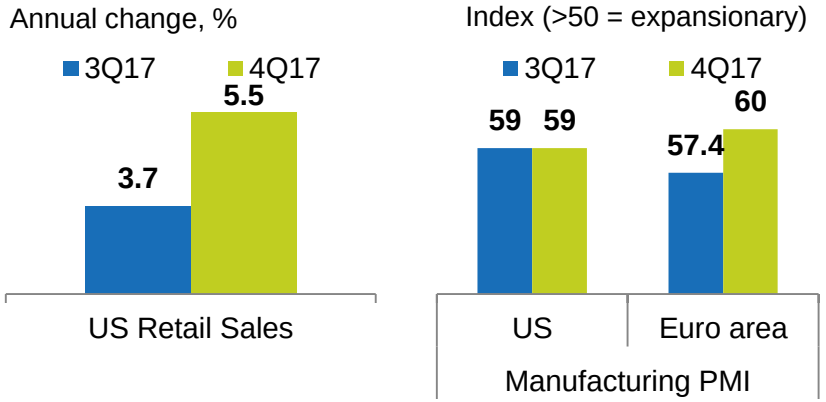
Annual change, %



Source: National authorities, Bank Negara Malaysia estimates

Growth in the advanced economies supported by consumption and investment

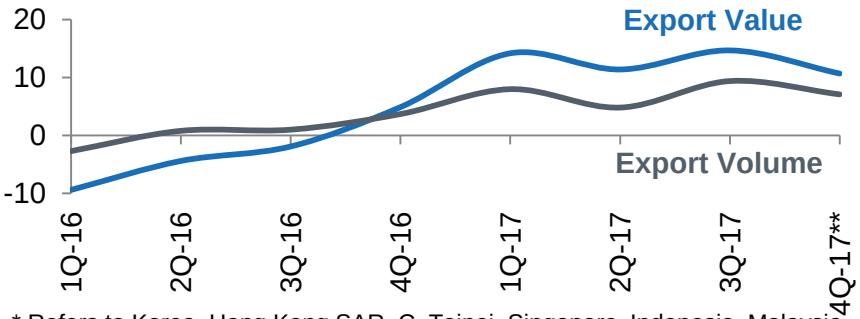
Domestic Demand in the Advanced Economies



Robust trade performance in Asia, driven by continued external demand

Asia's* Exports

Annual change, %



* Refers to Korea, Hong Kong SAR, C. Taipei, Singapore, Indonesia, Malaysia, Thailand and Philippines

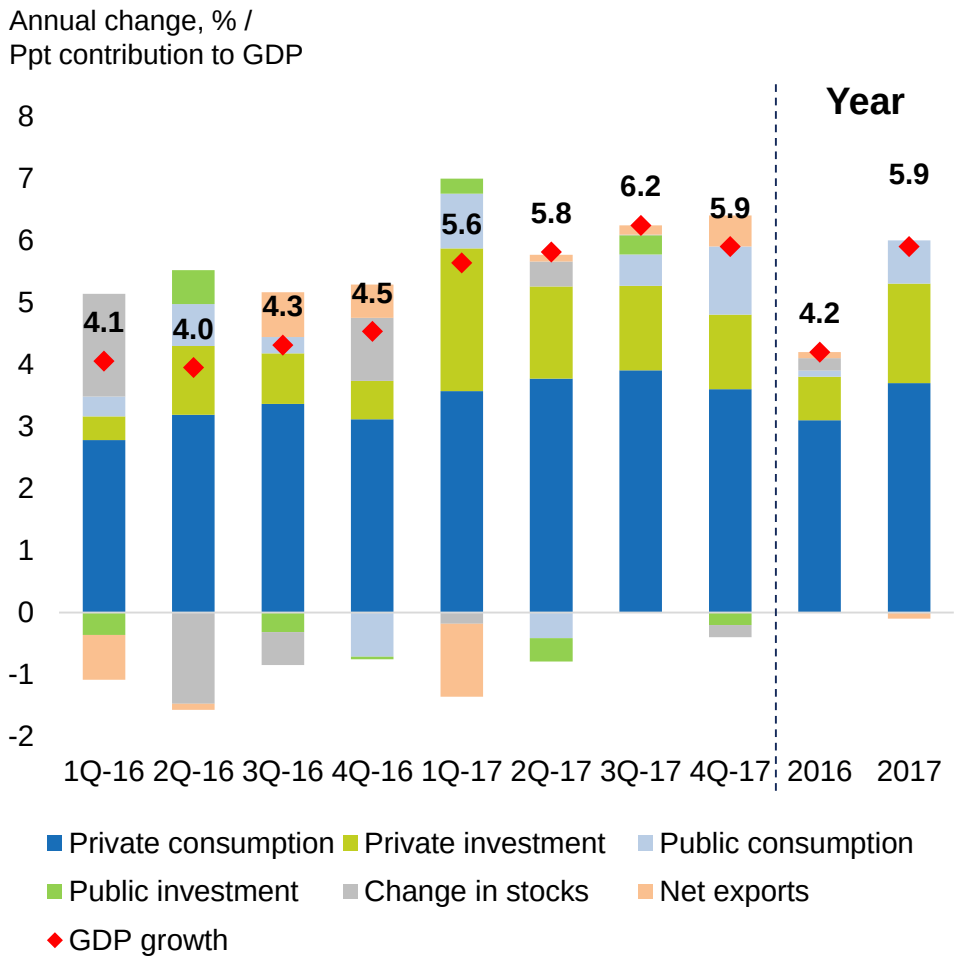
** Refers to latest available data

Source: National authorities, Bank Negara Malaysia estimates

Growth of the Malaysian economy remained strong at 5.9% in the fourth quarter of 2017

- **Sustained growth in private consumption and investment**
- **Public sector remained supportive of growth**
- **Continued strength in exports provided further support to growth**
  - Higher net exports as import growth moderated more than export growth

Private Sector Expenditure continued to underpin growth

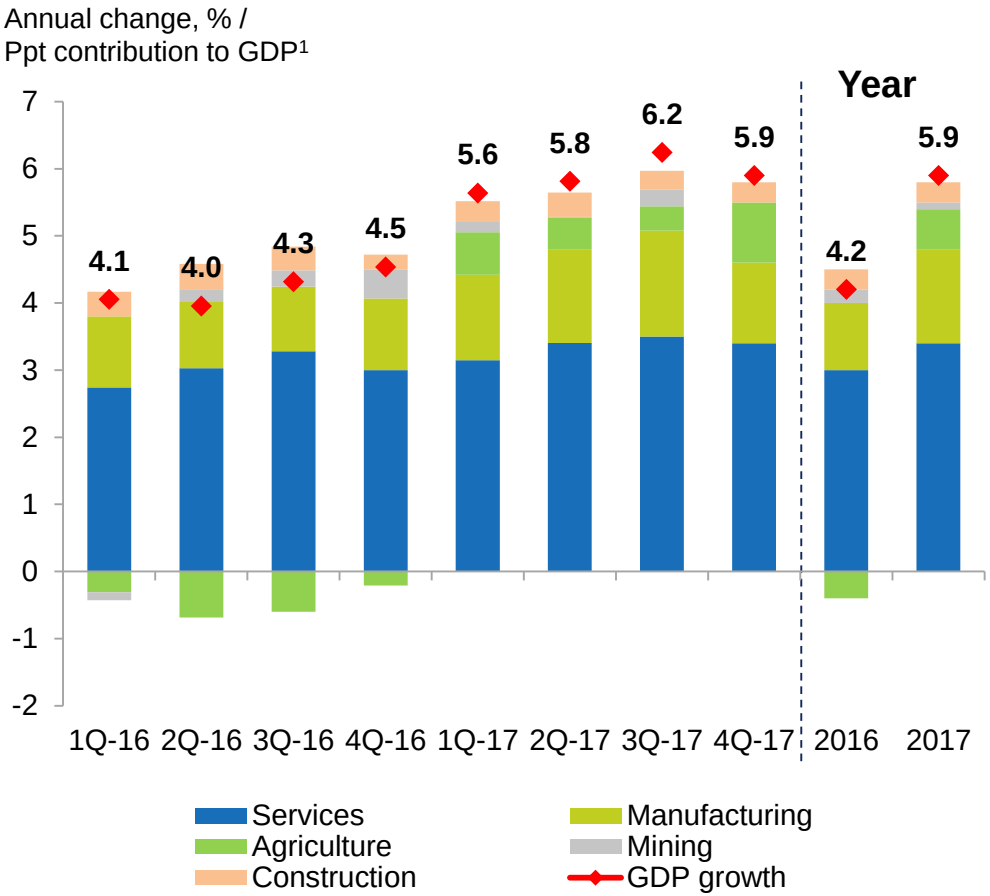


Source: Department of Statistics, Malaysia

Continued expansion across most economic sectors

- **Services**
  - Growth moderation in the *wholesale, retail* and *transport & storage* sub-sectors
- **Manufacturing**
  - Slower production growth in export- and domestic-oriented industries
- **Mining**
  - Lower natural gas production in Sarawak
- **Agriculture**
  - Higher CPO output amid better weather conditions
- **Construction**
  - Sustained civil engineering activity

On the supply side, services and manufacturing sectors remained the key drivers of growth



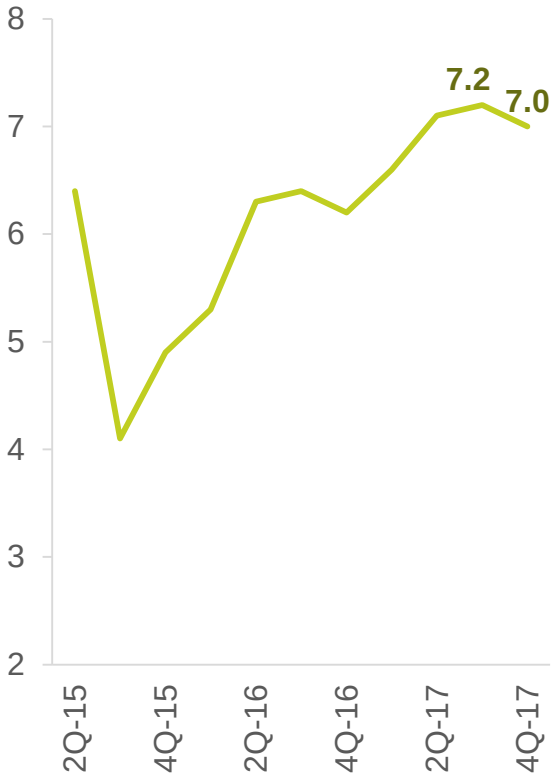
Note: [1]Numbers do not add up due to rounding and exclusion of import duties component
Source: Department of Statistics, Malaysia

Private consumption grew by 7.0%, supported by continued employment and wage growth

Household spending continued to expand…

Real Private Consumption Growth

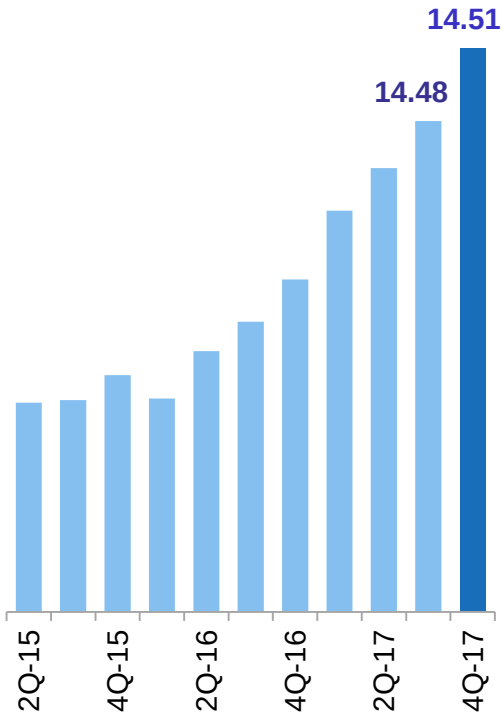
Annual change, %



… supported by stronger employment conditions…

Employment

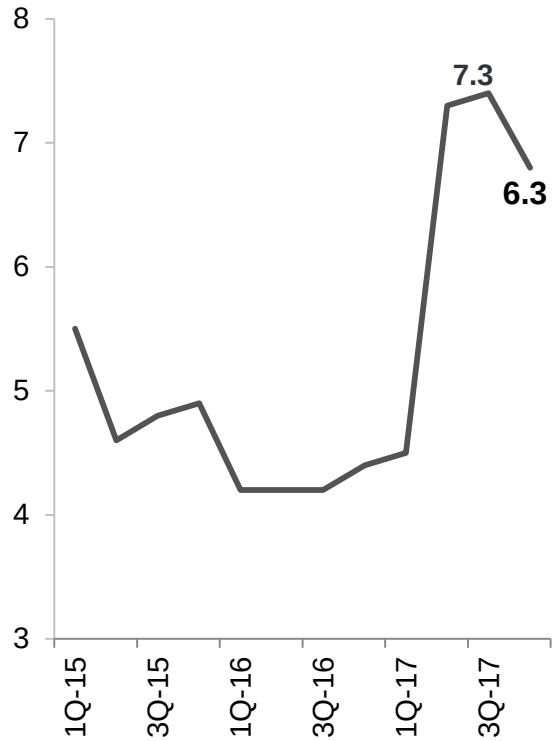
Million Persons



… amid continued expansion in private sector wages

Private Sector Wage Growth*

Annual Change, %



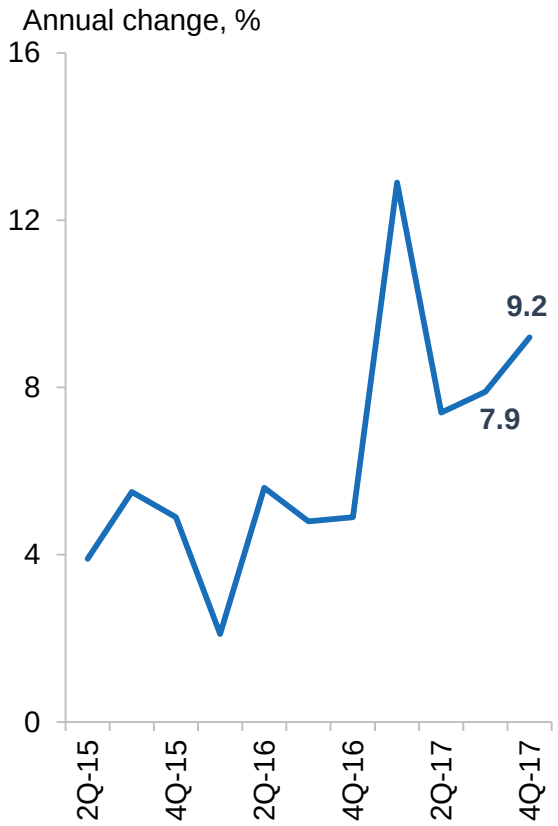
*Private sector wages is derived from the salaries and wages data published in the Monthly Manufacturing Statistics and Quarterly Services Statistics by the Department of Statistics, Malaysia. It covers 62% of total employment.

Source: Department of Statistics, Malaysia

Private investment grew at a faster pace of 9.2% amid positive sentiments and investment intentions

Further expansion in private investment activity…

Real Private Investment Growth



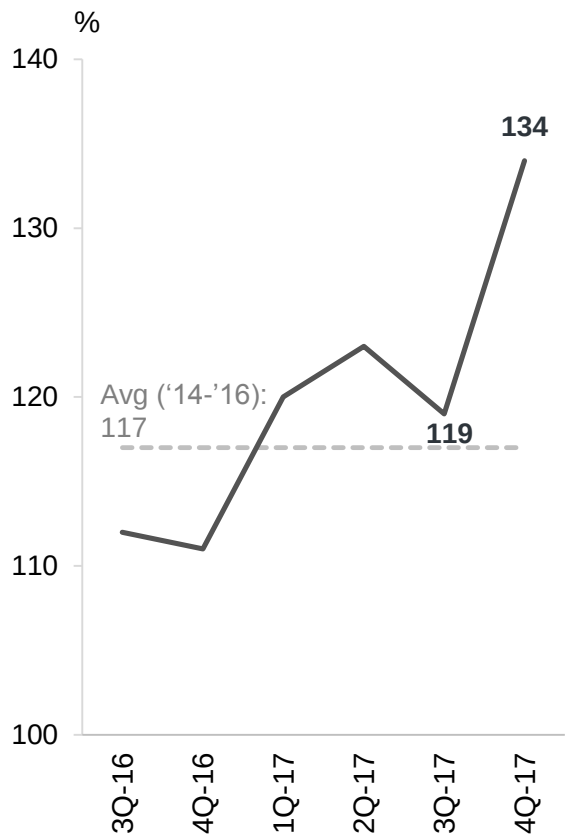
…supported by continued positive business sentiments…

MIER Business Conditions Index



…and strong investment intentions

Vistage-MIER CEO Confidence Index: Planned Fixed Investment



Source: Department of Statistics, Malaysia, MIER

Continued double-digit trade performance in 4Q 2017

- **Exports remained strong**
  - Broad-based expansion, particularly in manufactured exports, supported by demand from major trading partners
- **Robust imports**
  - Continued expansion particularly in intermediate and capital goods in line with strong manufacturing & investment activity
- **Trade balance widened to RM27.7 billion**

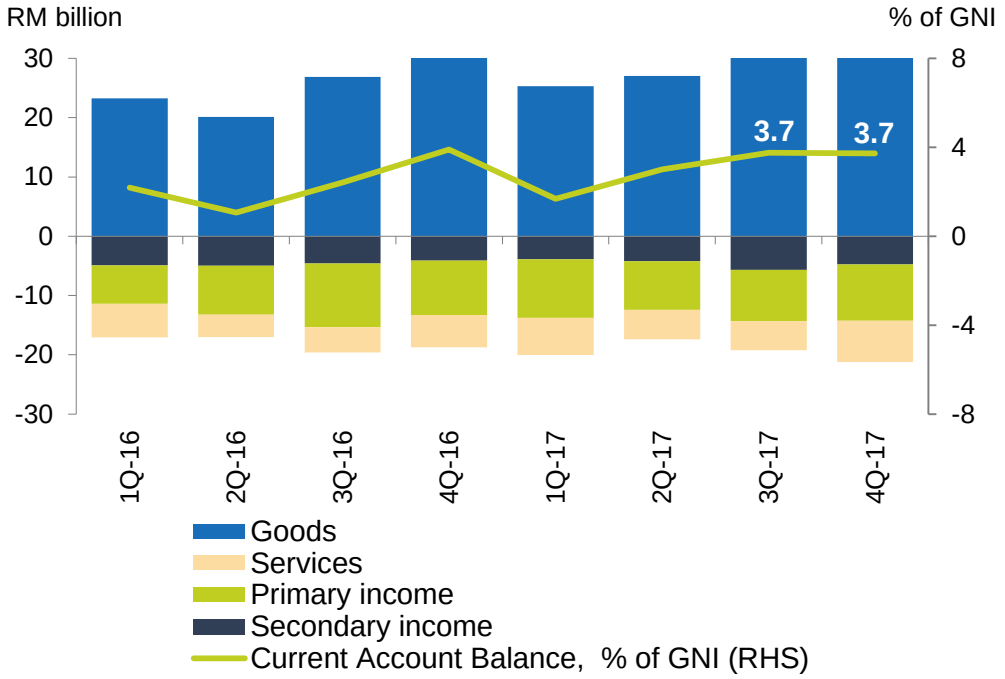
External Trade (Annual change, %)	Share, % (2017)	2016		2017		
		4Q	Year	3Q	4Q	Year
Gross Exports	**100**	**3.1**	**1.2**	**22.1**	**12.4**	**18.9**
Manufacturing	82	3.5	3.3	23.7	14.2	18.9
E&E	*37*	*7.7*	*3.6*	*21.7*	*14.7*	*19.2*
Non-E&E	*45*	*0.2*	*3.0*	*25.4*	*13.7*	*18.6*
Commodities	17	-0.1	-8.1	12.5	4.3	17.1
Gross imports	**100**	**5.1**	**1.9**	**19.8**	**14.4**	**19.9**
Intermediate	*57*	*3.8*	*-0.1*	*20.9*	*8.9*	*20.0*
Capital	*14*	*6.6*	*4.9*	*0.1*	*17.5*	*15.4*
Consumption	*9*	*-0.2*	*7.3*	*14.9*	*4.7*	*6.1*
Trade balance (RM bil)	-	**28.0**	**88.1**	**26.7**	**27.7**	**97.2**

Source: Department of Statistics, Malaysia

Current account surplus widened

Higher current account surplus driven mainly by larger goods surplus

Current account balance



% of GNI	2016	2017
Current account balance	2.4	3.1

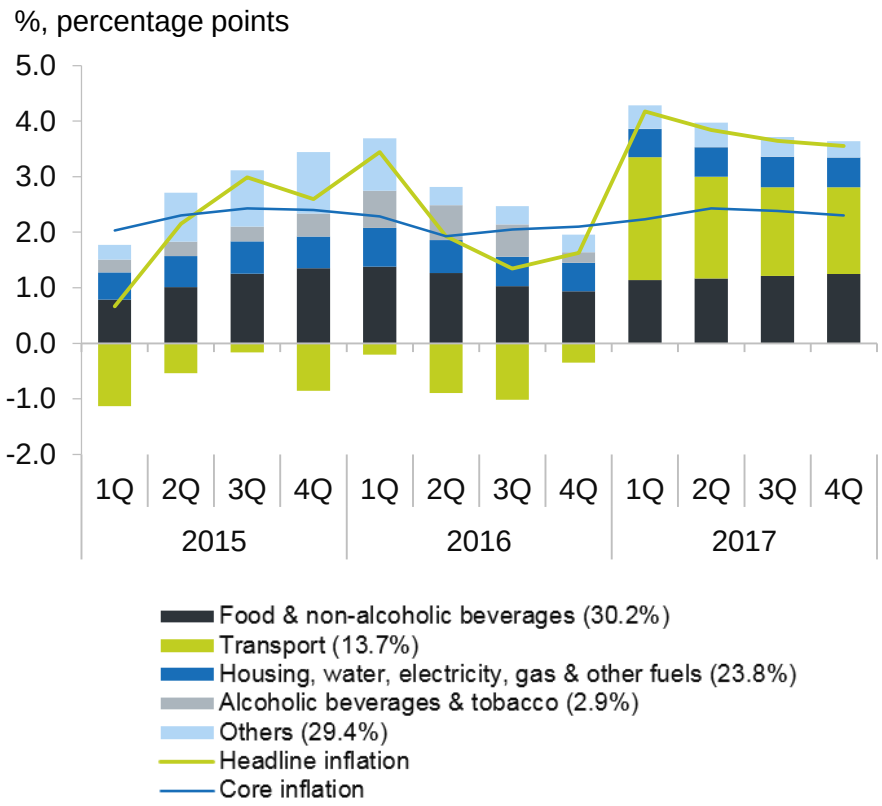
Source: Department of Statistics, Malaysia

- **Higher goods surplus**
  - Strong export performance
- **Larger services deficit**
  - Higher construction services deficit and lower travel surplus
- **Higher primary income deficit**
  - Higher FDI income, particularly in the mining and wholesale & retail trade services sectors
- **Lower secondary income deficit**
  - Smaller outward remittances

Both headline and core inflation moderated in 4Q 2017

Inflation moderated in 4Q 2017 due to lower inflation in the housing and transport categories

Headline and Core Inflation



In 2018, inflation is expected to moderate further due to smaller contributions from global cost factors

1. Smaller increase in global oil prices relative to 2017
2. Stronger ringgit exchange rate
3. Demand pressures to be contained by continued spare capacity in the labour market and on-going investment for capacity expansion

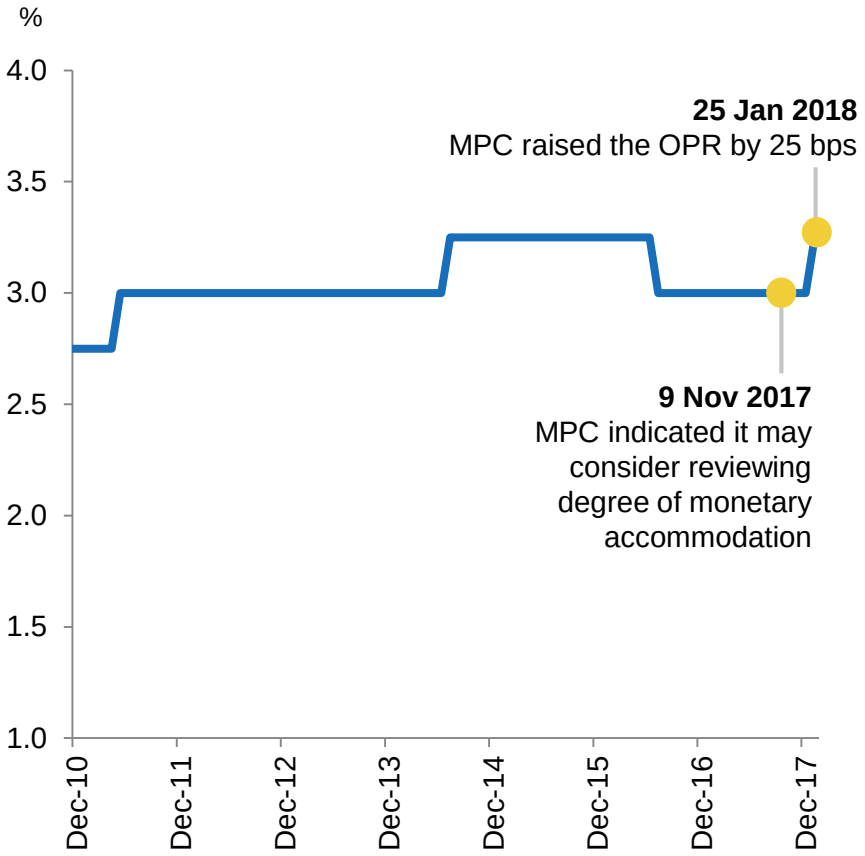
Note: Core inflation excludes the estimated direct impact of GST

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Monetary policy will ensure the sustainability of growth prospects

Favourable economic prospects accorded flexibility to review the degree of monetary accommodation

Overnight Policy Rate



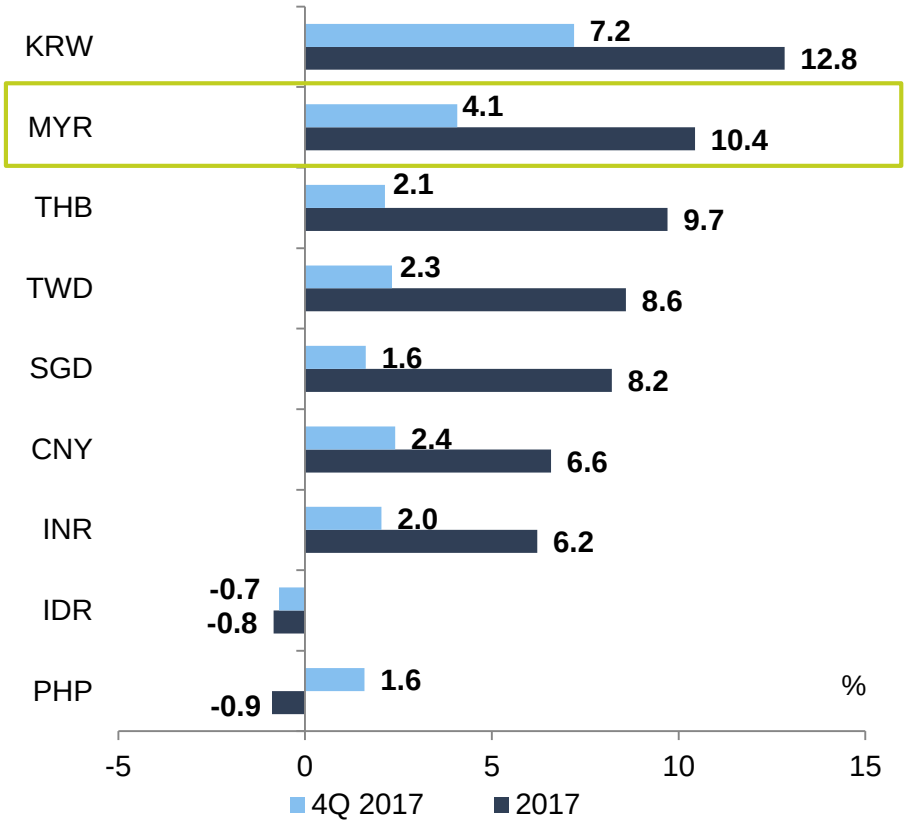
Source: Bank Negara Malaysia

- **In January 2018, the MPC normalised the degree of monetary accommodation by raising the OPR by 25 basis points.**
  - Continuing positive macroeconomic outlook provided opportunity for the MPC to act pre-emptively
- **OPR adjustment reflects a normalisation, and not a tightening of monetary conditions.**
  - Monetary policy remains accommodative

The ringgit continued to appreciate against the US dollar in the fourth quarter; one of the best performing currencies in 2017

The ringgit outperformed most regional currencies in 4Q, extended 2017 gains

Performance of Selected Regional Currencies Against USD



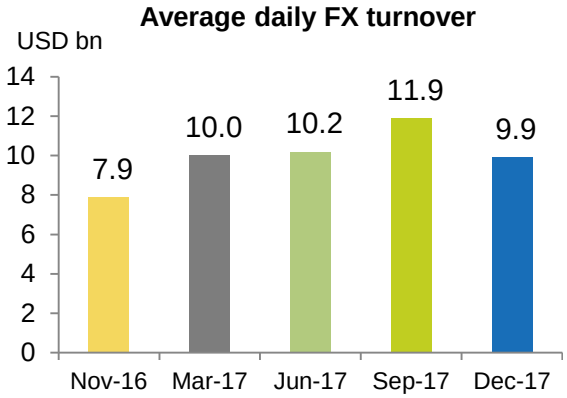
Source: Bank Negara Malaysia

There are, however, risks that may reignite volatility in the global financial and foreign exchange market

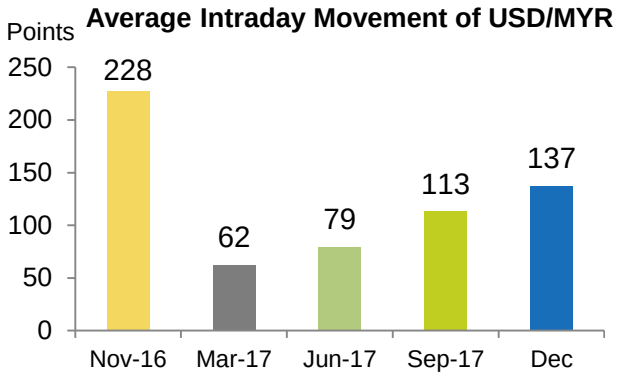
- **Deviation from the expected magnitude and pace of monetary policy normalisation by major central banks, triggered by:**
  - Unanticipated increase in global inflation
  - Higher wage growth in advanced economies
  - Stronger than expected impact of US tax cuts
- **Global geopolitical developments**
- **Correction of overvalued financial assets and return of volatility**

A more effective FX intermediation onshore promotes market stability

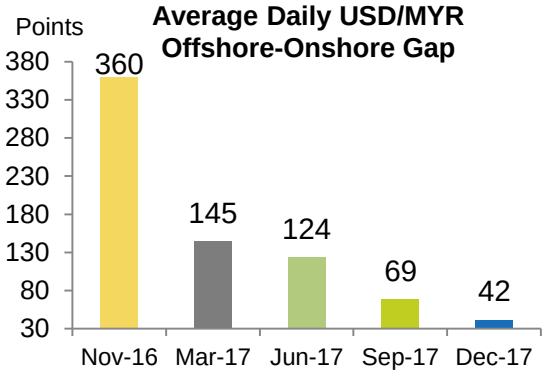
Higher onshore volume better facilitated FX needs of the market



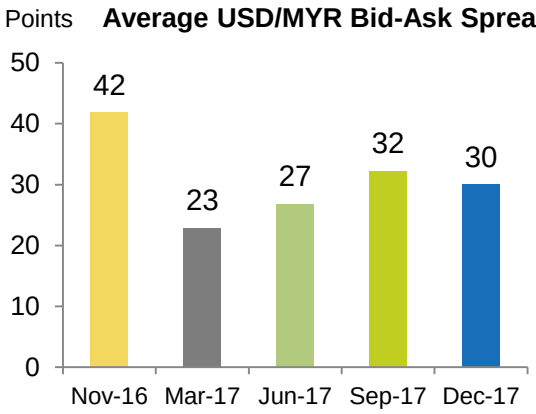
More stable FX rates promote efficient price discovery



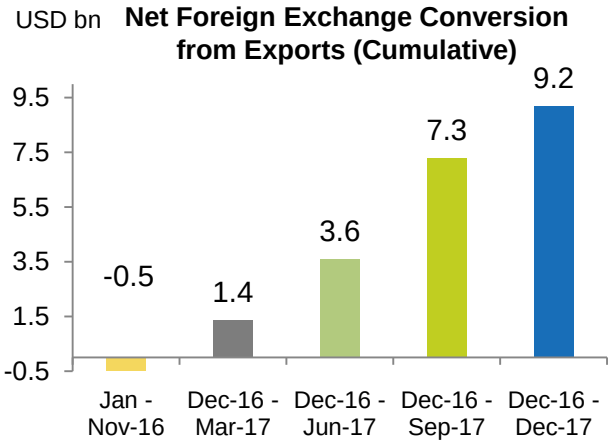
Impact of offshore rates to onshore has further reduced



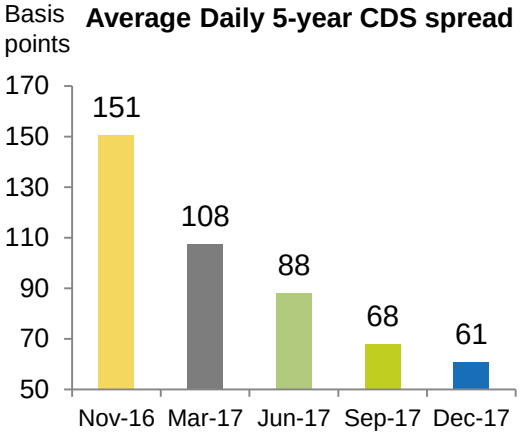
FX transaction cost has reduced for market participants



Greater balance of foreign currency demand and supply



Further reduction in credit spread lowered cost of borrowing

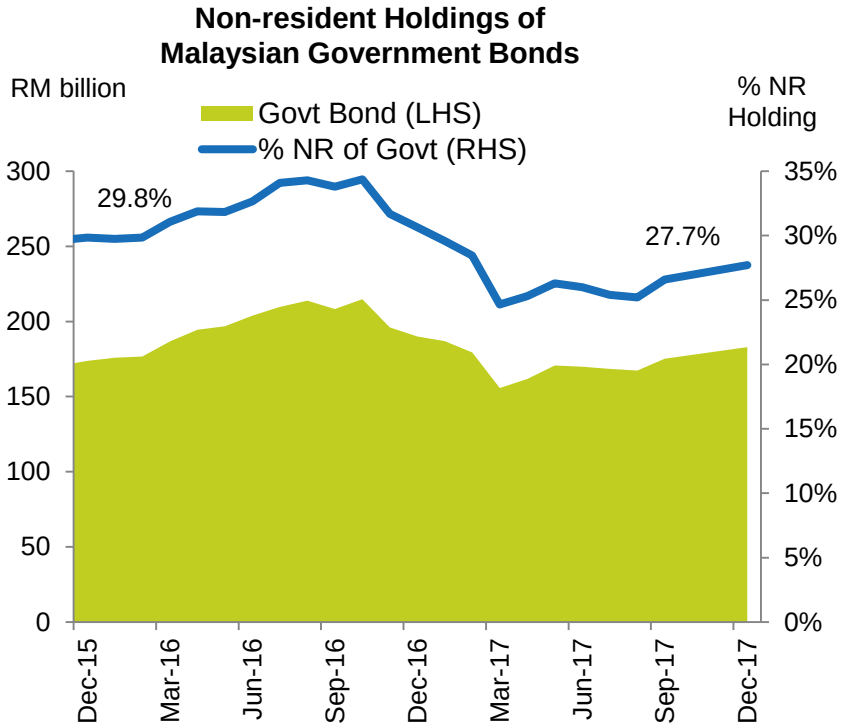


Note: Volatility refers to the difference between USD/MYR interbank intraday highest and lowest rate.
Offshore rate refers to the NDF 1-month rate while onshore rate refers to the spot rate.

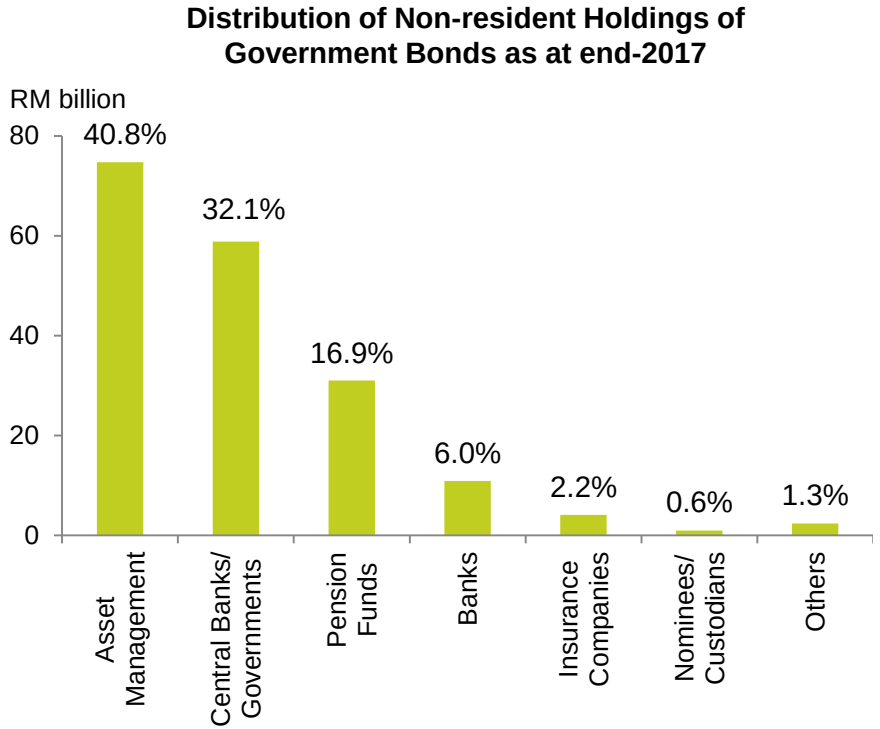
Source: Bank Negara Malaysia, Bloomberg

Non-resident holdings of Malaysian government bonds increased as at end-2017

Non-resident holdings of Malaysian Government bonds stood at 27.7% as at end-2017



Majority of non-resident holdings are by asset managers, central bank/government and pension funds



Source: Bank Negara Malaysia

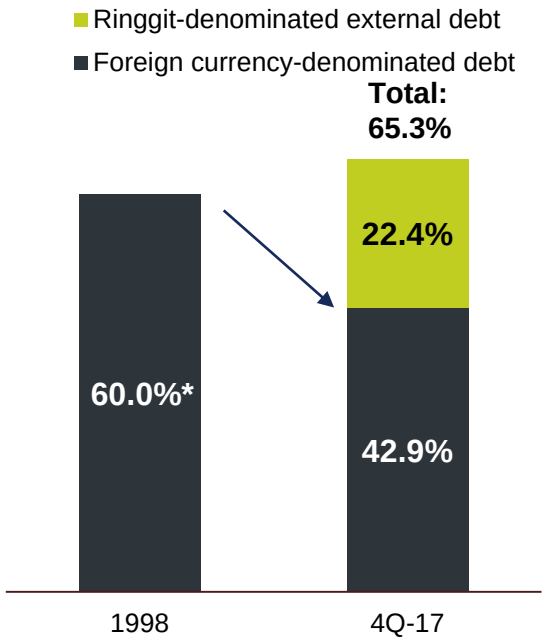
Note:

- Malaysian Government Bonds includes Malaysian Government Securities (MGS), Malaysian Government Investment Issues (MGII), and Sukuk Perumahan Kerajaan (SPK).
- 'Others' include individuals, non-financial corporations and unidentified sectors

Malaysia's external debt remains manageable

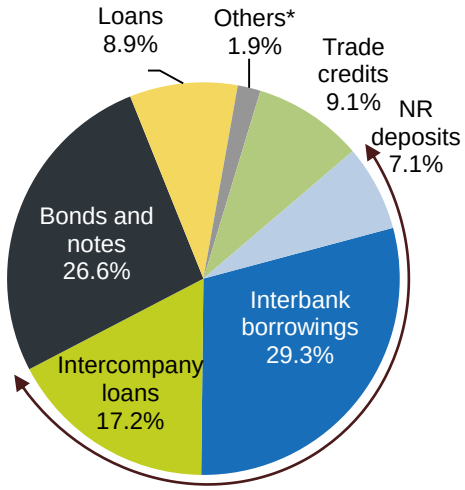
Foreign currency-denominated debt remains low relative to Asian Financial Crisis

Breakdown by Currency (% of GDP)



Foreign currency-denominated debt largely hedged and backed by external assets

Breakdown by instruments (% of total share)



Subjected to prudent liquidity management practices and flexible terms

*Includes SDR allocations and miscellaneous, such as insurance claims yet to be disbursed and interest payables on bonds and notes

More than half of foreign-currency denominated debt are subjected to either prudential safeguards or flexible terms

- **Interbank borrowing and non-resident deposits**
  Prudent liquidity management including limits on funding and maturity mismatches
- **Intercompany loans**
  Flexible/concessionary terms
- **Trade credits**
  Backed by export earnings

*Based on previous definition of external debt

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Domestic financial stability preserved

- **Financial institutions remained well-capitalised**
- **Sufficient high quality capital to manage adverse developments**
- **Adequate provisions for potential credit losses**

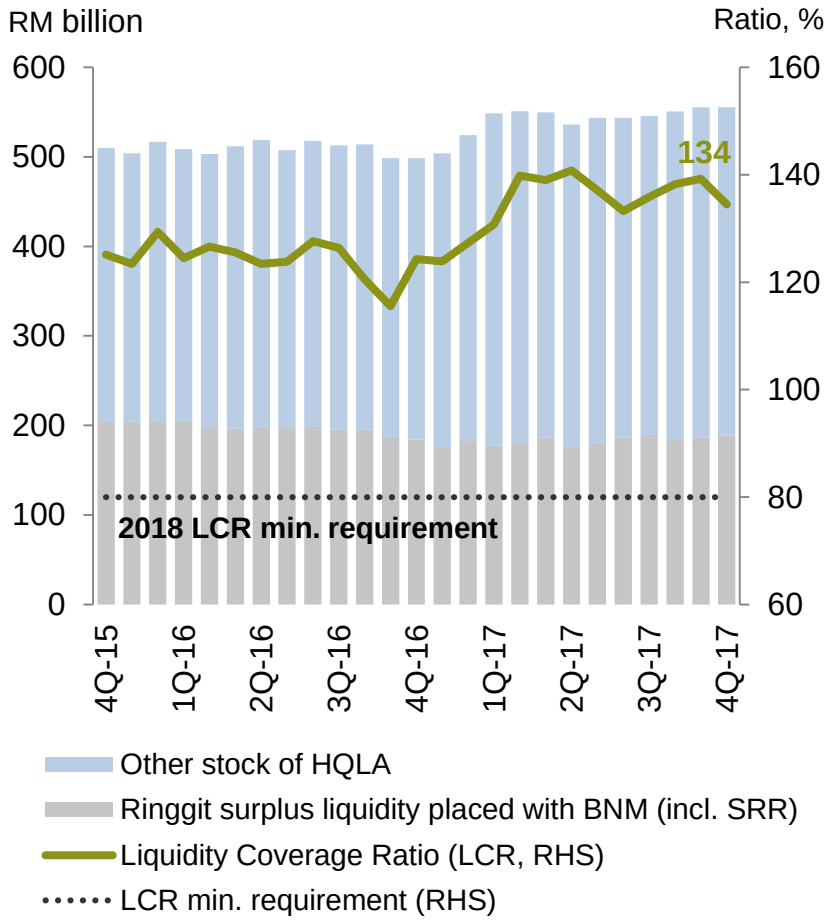
Banking sector	4Q 2016	3Q 2017	4Q 2017
Common equity tier 1 capital ratio (%)	13.1	13.2	13.3
Tier 1 capital ratio (%)	14.0	14.1	14.3
Total capital ratio (%)	16.5	17.1	17.1
Capital buffer (RM bil)	124.5	135.4	134.8
Net impaired loans ratio (%)	1.2	1.2	1.1
Loan loss coverage ratio (%)	86.4	81.2	82.9
ROE (annualised)	12.5	12.8	13.0
Insurance/Takaful sector	**4Q 2016**	**3Q 2017**	**4Q 2017**
Capital adequacy ratio (%) - Insurance	248.2	234.5	236.3
Capital adequacy ratio (%) - Takaful	205.3	204.4	210.4
Capital buffer (RM billion)	47.8	35.4	49.9
Profitability (RM billion)	1.5	4.2	5.7
Excess income over outgo (RM billion)	0.7	3.5	4.9
Operating profit (RM billion)	0.9	0.7	0.7
Claims Ratio (%)	56.5	61.2	53.7

Source: Bank Negara Malaysia

Sufficient liquidity in the banking system to support intermediation

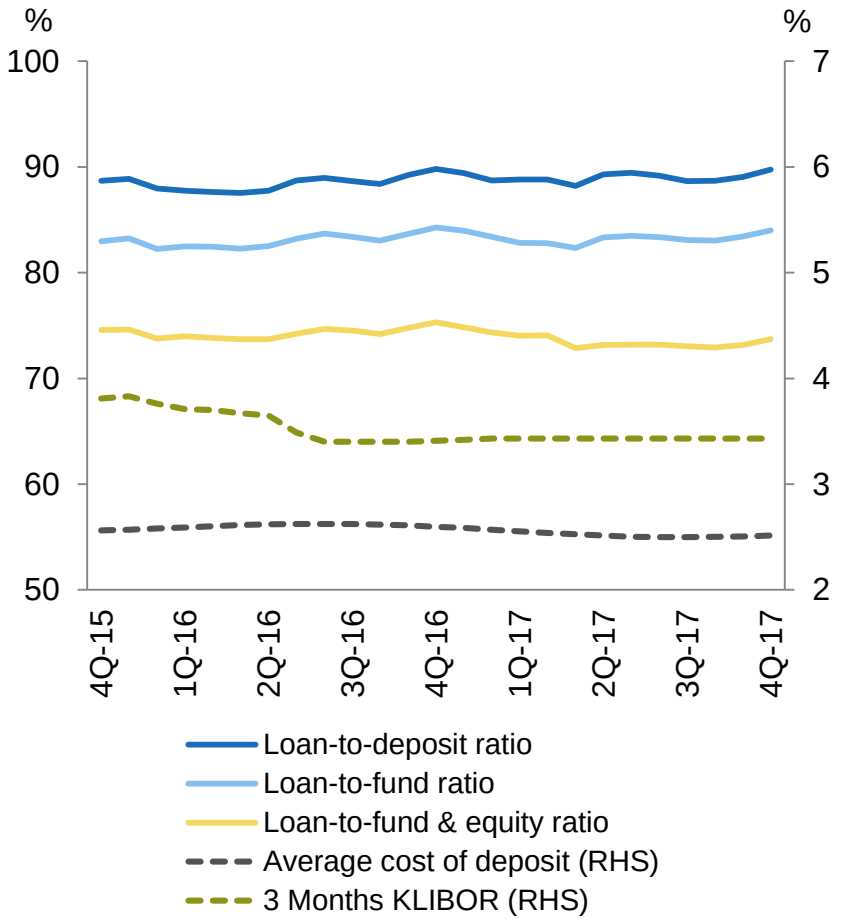
LCR well above transitional minimum requirement

Liquidity coverage ratio and liquid assets



Banks' funding structure remained stable

Funding structure and cost of funds

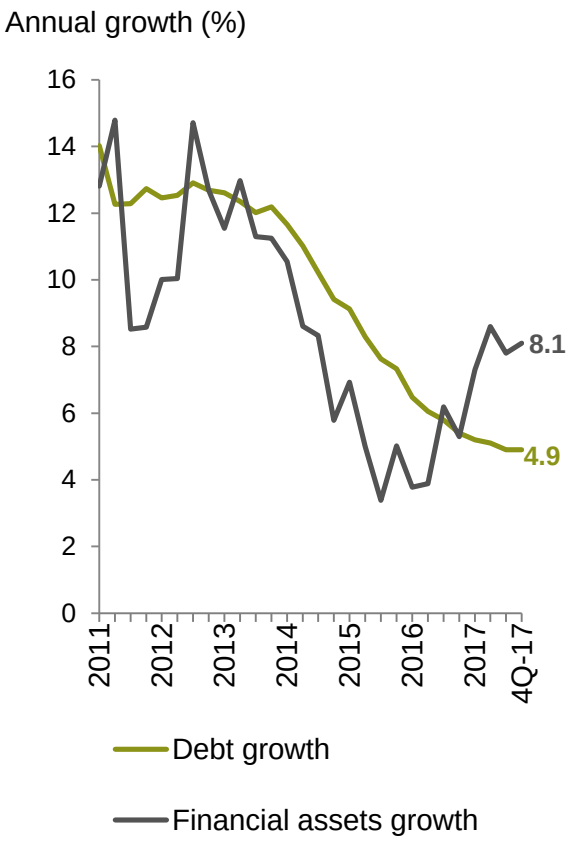


Source: Bank Negara Malaysia

Sustained debt servicing capacity of households

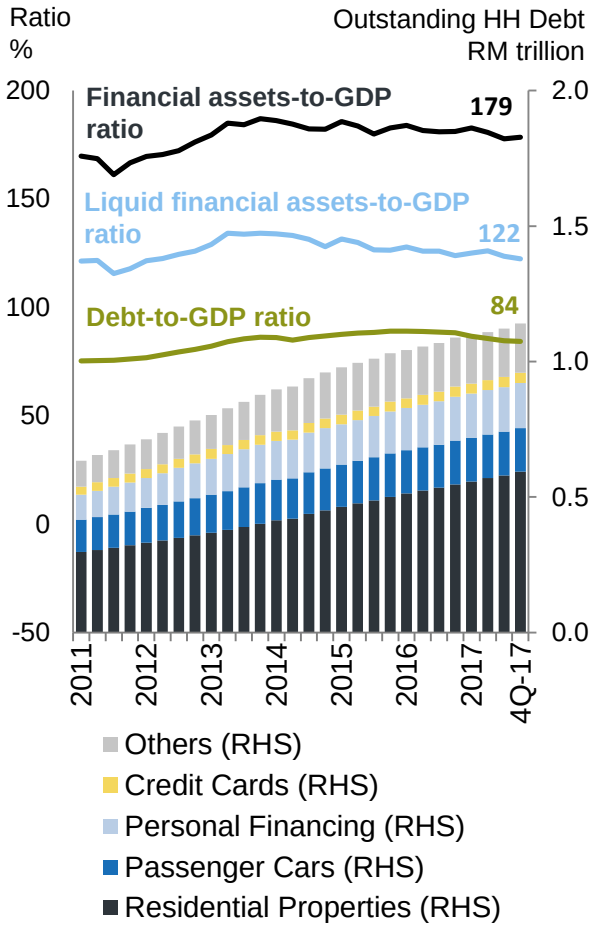
Household financial assets growth continued to outpace debt …

Household Debts & Financial Assets



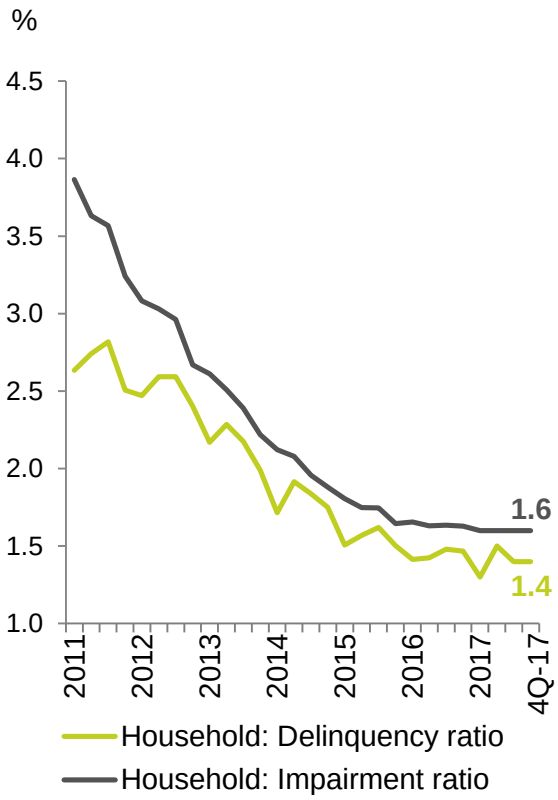
… and has been sustained at 2.1 times of debt

Household Sector: Key Ratios



Sound asset quality of household loans

Gross Impaired and Delinquent Loans

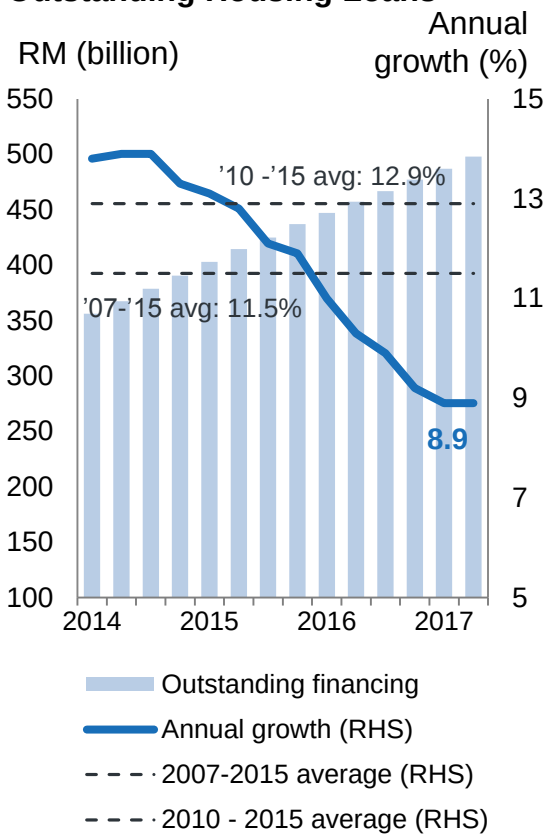


Source: Bank Negara Malaysia

Borrowers continued to have access to home financing, especially first-time home buyers

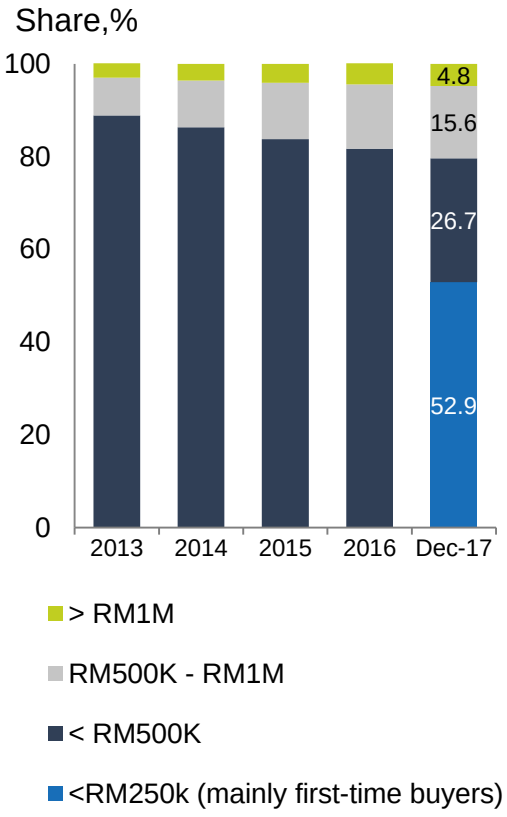
Housing loans continued to grow at a sustained pace

Outstanding Housing Loans



71% of outstanding loans are to first-time buyers of houses priced <RM500K

Composition of Borrowers by House Price



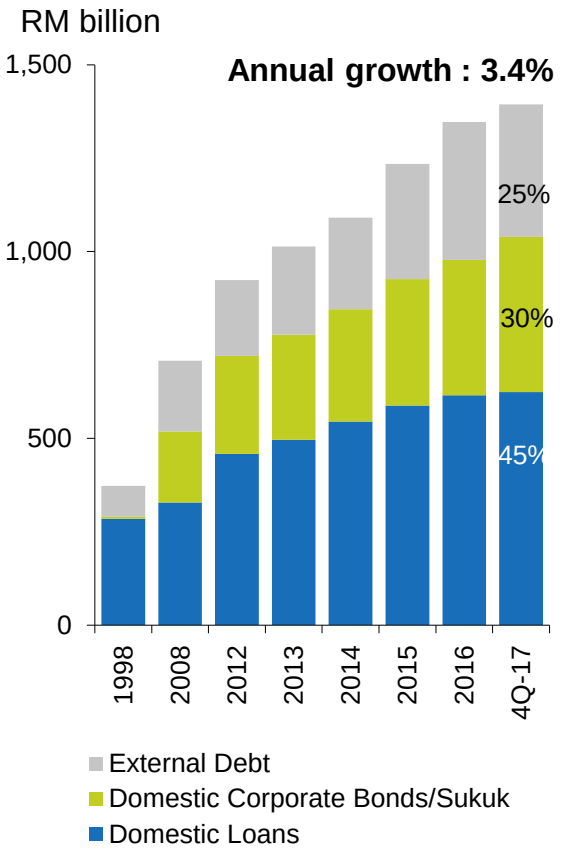
- **Access to financing for first-time home buyers maintained.**
- **Housing loan approval rate close to 73%.**
- **Financing for speculative house purchases remained muted.**

Source: Bank Negara Malaysia

Businesses, including SMEs continued to have access to financing

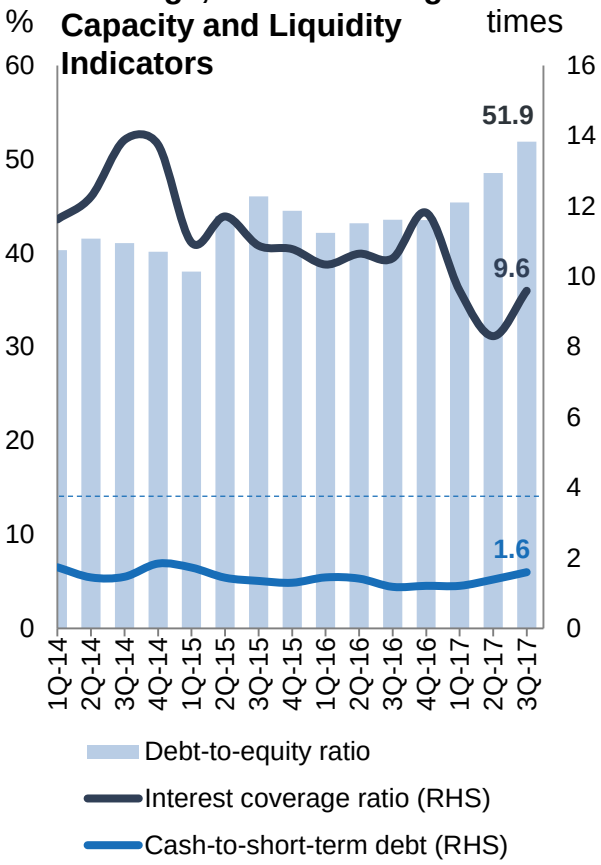
Continued access to financing for businesses, including SME

Domestic and External Debt



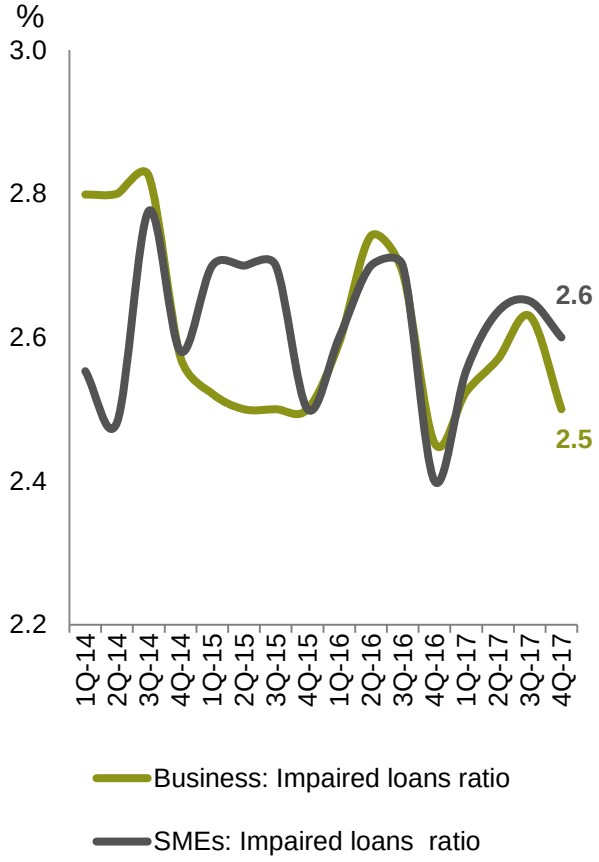
Overall debt servicing capacity sustained, albeit increasing leverage

Leverage, Debt Servicing Capacity and Liquidity Indicators



Impairments remained low, despite upticks in oil and gas-related sectors

Gross Impaired Loans



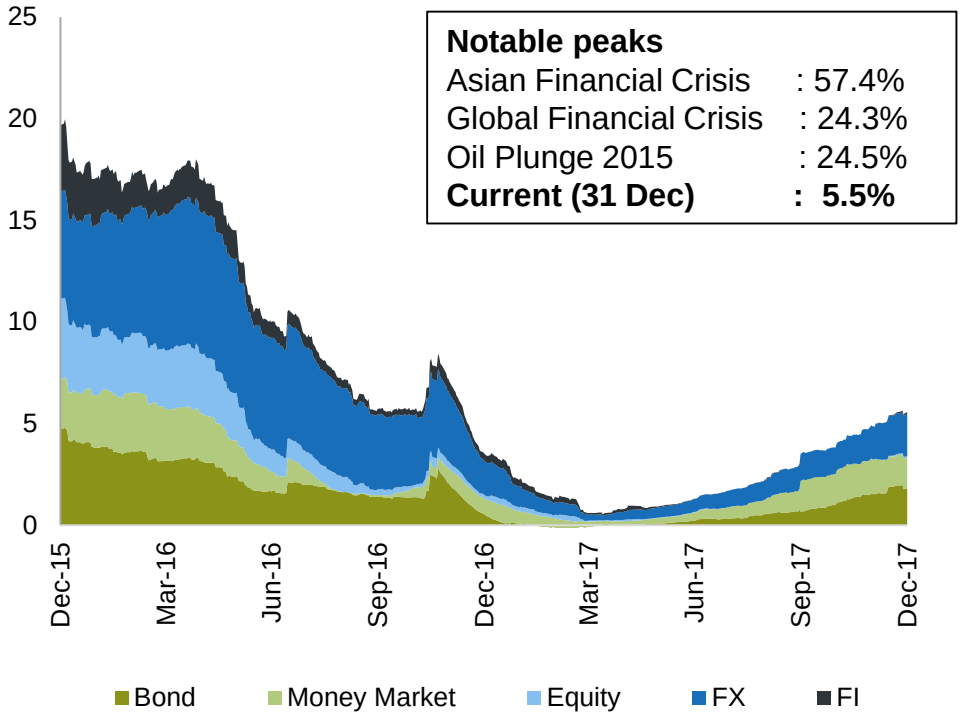
Source: Bank Negara Malaysia

Domestic financial markets remain orderly

Market volatility remained low amid improved domestic sentiments

Financial Market Stress Index (FMSI)

Stress Level, %
(Stacked; Min=0; Max=100)



- **Average volatility remained unchanged for 10-year Malaysia Government Securities (MGS) yields, while average volatility of the FBM KLCI declined**
- **Low volatility partly attributed to improved domestic sentiments amid better-than-expected GDP growth in 3Q 2017**
- **Moving forward, investor sentiment will be influenced primarily by external developments**
  - **In early February 2018, market volatility increased reflecting sharp corrections in the global equity market.**

Source: Bank Negara Malaysia, Bloomberg

Malaysian economy to remain favourable in 2018

Growth is expected to remain favourable with domestic demand continuing to be the key driver

- Continued growth in wages and employment
- New and on-going implementation of infrastructure projects
- Continued business optimism and favourable demand, both domestically and externally

The external sector is expected to benefit from better global growth, and will continue to generate positive spillover to the domestic economic activity

Key Highlights on Box and Feature Articles

- Affordable Housing: Challenges and the Way Forward

- Open Application Programming Interface (API): A Financial Revolution

Multiple challenges confronting the affordable housing segment and possible policy solutions

	Challenges	Policy Solutions
1	Affordable housing provision is fragmented and uncoordinated with over 20 national and state level agencies involved	Centralise affordable housing initiatives to improve efficiency in planning, implementation and execution
2	Lack of an integrated housing database and separate applicant registries maintained by multiple providers in each state	An integrated housing database to guide planning. Consolidate various applicant registries in each state for efficient allocation
3	High construction costs as one of the barriers to supply	Adopt more advanced construction methods and smart procurement process, and reduce compliance costs
4	High household indebtedness coupled with house price growth exceeding household income growth	Rehabilitate the balance sheet of households through financial literacy programs
5	Rental market still underdeveloped given insufficient legal safeguards for landlords and tenants	Strengthen the rental market further with the enactment of the Residential Tenancy Act and establishment of a Tenancy Tribunal

An Open API strategy is viewed as a key lever to increase efficiency, broaden access, promote greater innovation, and encourage competition in the financial sector

1 Open APIs Revolutionising Businesses

The availability of Open APIs has disrupted various industries

- In the non-financial services sector, social media, transportation, and retail businesses have been redefined through the use of Open APIs
- Open APIs are utilised in financial service offerings such as in international funds transfer and payments systems

2 Open APIs expected to enhance financial services offerings

Open API paves way for more rapid diffusion of technology to improve delivery and consumption of financial services



Facilitate money transfers through third party applications without logging onto online bank account



Individuals can access and compare wide range of financial solutions from alternative providers



Help individuals track/manage financial affairs by integrating banking data across banks and with other personal application

3 Open API Deployment in Other Jurisdictions



Mandatory for FIs to open customers' data and payments infrastructure



Require the 9 largest banks to publish Open API on current accounts. Also issued an Open Banking Standard



To launch an open banking regime that mirrors the EU and UK's

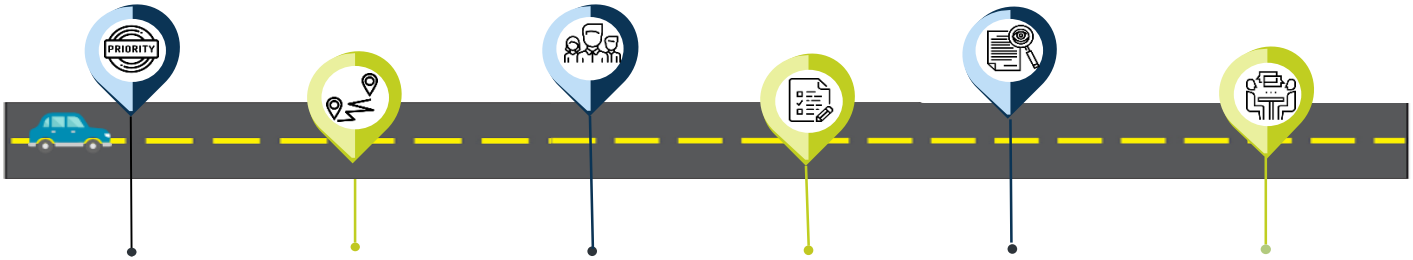


Published a Finance-as-a-service playbook that recommends the adoption of 411 APIs

Key Survey Findings on Open API Readiness of Financial Institutions in Malaysia

Observation 1	Observation 2	Observation 3	Observation 4	Observation 5
• 51% indicated plans to roll-out Open APIs, with 69% targeted to deploy within the next 24 months	• Only 45% claimed to have the necessary resources to deploy Open APIs	• By sector, significantly more banks viewed the adoption of Open API as a high priority (54%) compared to insurance institutions (11%)	• 35% indicated plans to deploy Open API for publicly available data, while 22% plan to publish Open API allowing access to public as well as confidential data	• The low response on plans to publish Open API for individual account information reflects key concerns around security and compliance with data privacy regulations

Malaysia to take guided, rather than mandatory approach to API deployment



Identify & consult on priority use cases for Open API

Roadmap for publication of priority Open APIs

Establish Open API Implementation Group

Develop Open API standards

Review regulations/controls over confidential customer data

Mechanism to secure consent and safeguard customer's data