BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

# PRESS RELEASE

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## ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE THIRD QUARTER OF 2022

## Press Conference Presentation Transcript

### Global Development

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, "In the third quarter of 2022, higher inflation and tighter monetary policy weighed on growth, especially in advanced economies.

"However, these factors were partly offset by positive COVID-related developments in Asia. Growth improved due to recovery from the disruptions following strict lockdowns in China and a resurgence of COVID cases in Chinese Taipei in the second quarter.

Among some ASEAN countries, growth was lifted by base effects from lockdowns imposed in the same period last year. In addition, global trade activity slowed in response to moderate global demand."

### Malaysian Economy

**Ketua Perangkawan Malaysia Dato' Sri Dr. Mohd Uzir Mahidin** berkata, "Pada suku ketiga tahun 2022, ekonomi Malaysia merekodkan pertumbuhan yang lebih kukuh 14.2% disokong oleh pengembangan berterusan permintaan domestik, pemulihan pasaran buruh dan permintaan luar yang berdaya tahan.

“Kerancakan semula aktiviti ekonomi & sosial serta peningkatan jumlah ketibaan pelancong hasil daripada pembukaan semula sempadan antarabangsa, membawa kepada pertumbuhan kukuh.

“Justeru, ini juga merupakan salah satu faktor yang menyumbang kepada rangsangan dalam pemulihan sektor berkaitan pelancongan. Pertumbuhan yang tinggi disebabkan oleh kesan asas yang rendah berikutan langkah pembendungan yang lebih ketat di seluruh negara pada suku ketiga tahun 2021.

“Secara keseluruhan, ekonomi mencatatkan pertumbuhan 9.3% bagi tiga suku tahun pertama 2022. Bagi terma pelarasan musim suku tahun ke suku tahun, KDNK berkembang 1.9%.”

**Chief Statistician of Malaysia Dato’ Sri Dr. Mohd Uzir Mahidin** said, “In the third quarter of 2022, the Malaysian economy recorded stronger growth of 14.2% supported by the continued expansion in domestic demand, firm recovery in the labour market and resilience in external demand.

“The resumption of economic and social activities as well as the increase in the number of tourist arrivals resulting from the reopening of international borders, led to the strong growth. Hence, this is also one of the factors that contributes to the boost in the recovery of the tourism-related sector.

“The high growth was also partly due to the low base effect arising from the strict containment measures in the third quarter of 2021. Overall, the economy posted a growth of 9.3% for the first three quarters of 2022. On a seasonally adjusted quarter-on-quarter basis, GDP expanded by 1.9%.”

**Expansion in activity across all economic sectors**

**Chief Statistician of Malaysia Dato’ Sri Dr. Mohd Uzir Mahidin** said, “On the supply side, all sectors recorded higher growth in the third quarter.

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“Growth in the services sector strengthened further, primarily supported by higher consumer-related and tourism activities, better labour market conditions and the additional support from policy measures.

“The manufacturing sector expanded, driven by the continued strong demand for semiconductors, and ramp up of production in the transport equipment subsector.

“Notably, the commodities-related sectors recorded a turnaround. The positive growth in the agriculture sector was mainly due to higher oil palm output amid gradual improvement in labour shortages. Growth in the mining sector was supported by higher production from crude oil and natural gas facilities.

“As for the construction sector, the strong growth was driven by continued progress in commercial real estate, mixed development and small-scale projects.”

**Strong domestic and external demand**

**Chief Statistician of Malaysia Dato’ Sri Dr. Mohd Uzir Mahidin** said, “On the demand side, the overall performance was driven by strong expansion in both domestic and external demand.

“Private consumption growth was underpinned by the continued improvement in labour market conditions and support from policy measures. The performance was driven by spending across both necessities and discretionary items.

“Growth in private investment was supported by firms’ capital spending on structures and M&E. This reflects further capacity expansion, mainly in the services and manufacturing sectors.

“Public investment grew at a faster pace, driven by both general government and public corporations. Public consumption expanded further, supported by

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higher supplies and services spending. Net exports improved due mainly to stronger export growth amid higher travel and transport receipts."

**Higher current account surplus and continued FDI inflows**

**Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin** said, "Turning to the balance of payments, the current account registered a higher surplus of RM14.1 billion, or 3.1% of GDP. This was supported mainly by the larger goods surplus, driven by stronger exports amid high commodity prices.

"In addition, the services deficit narrowed due to higher travel and transport receipts following improvement in inbound tourist arrivals.

"In the financial account, net FDI recorded a continued inflow of RM12.3 billion during the quarter. These investments were channelled primarily into the manufacturing sector and financial services sub-sector.

"Of note, Malaysia's total net FDI inflows for the first 9 months of this year amounting to RM54.0 billion is much higher compared with RM29.7 billion recorded during the same period last year. In fact, it has exceeded the levels recorded prior to the pandemic."

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

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, "The current environment of higher inflation remains a global phenomenon.

"In the third quarter of 2022, inflation remained elevated across most countries. The higher inflation continued to largely reflect both demand and cost pressures from elevated global commodity prices.

"Nevertheless, global commodity prices have begun to trend lower during the quarter following expectations for weaker global growth in 2023.

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“Going forward, a sustained moderation in commodity prices and improving supply chain conditions could contribute to more moderate price pressures. Moreover, the tightening of monetary policy in many countries will also help contain global inflationary pressures.”

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

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, “For Malaysia, headline inflation has likely peaked for the year at 4.5% during the quarter. This was largely driven by the base effect from the discount in electricity bills implemented last year.

“Notably, we have already seen a moderation in headline inflation to 4.5% in September from 4.7% in August. We expect headline inflation to continue moderating going forward upon dissipation of the base effect.

“Core inflation increased further to 3.7%, reflecting continued strengthening in demand amid the high-cost environment. The increase was largely driven by food away from home and higher rental inflation.

“In terms of the pervasiveness of inflation, the share of CPI items recording monthly price increases declined to 58% during the quarter.”

**Net financing recorded sustained growth during the quarter**

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, “Turning to financing conditions, net financing expanded by 5.4% in the third quarter. Notably, the higher outstanding loan growth of 6.1% was well above the pre-pandemic average growth rate of 5.2%. Outstanding corporate bonds grew by 3.5%.

“For businesses, outstanding loans grew by 5.0%, as the growth in loan repayments outpaced that of loan disbursements. Loan disbursements continued to record sustained growth, particularly in the manufacturing and wholesale trade sectors.

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“For households, outstanding loans grew by 6.2% amid high growth in loan disbursements for the purchase of houses and cars. High growth in loan repayments was also observed for households as most repayments have fully resumed during the quarter.”

**MSME financing exceeded pre-pandemic trends**

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, “Financing to MSMEs sustained the strong momentum seen in the first half of 2022, with indicators continuing to exceed pre-pandemic levels. Double-digit growth in disbursements was driven by the wholesale and retail trade, manufacturing and construction sectors.”

**Tighter global financial conditions led to spillovers in domestic financial markets**

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, “Turning to financial market conditions. Continued aggressive interest rate hikes globally and a rise in risk aversion, coupled with the moderating outlook for global growth have contributed to tighter domestic financial market conditions in the third quarter of 2022.

“As a result, domestic bond yields rose, primarily because of higher global yields and partly due to the OPR increases. The adjustment in bond yields, however, was lower compared to the second quarter, given the smaller non-resident bond outflows. Trading volumes in the domestic bond market remained healthy and adjustments were in line with regional bond markets.

“In contrast, domestic equity market declined, but the magnitude of the decline was smaller compared to the second quarter. This is due to the support from foreign inflows and the strong actual economic data outturns.

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“Moving forward, domestic financial markets will continue to be subject to periodic bouts of volatility amid lingering uncertainties surrounding the global growth outlook.

“The Bank will continue to monitor market developments closely and ensure that conditions remain orderly to support effective intermediation for the economy.”

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

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, “The US Federal Reserve has been aggressive in tightening monetary policy, increasing its policy rate by 375 bps, which resulted in a strong US dollar environment.

“Given this, the ringgit, alongside almost all regional and major currencies continue to be affected. On a year-to-date basis, the ringgit has depreciated by 11.2% against the US dollar, in line with regional trends.

“The performance of the ringgit also needs to be collectively assessed against the currencies of Malaysia’s major trade partners. The ringgit has been more stable, with the ringgit nominal effective exchange rate or NEER registering a much smaller depreciation of 2.0%.

“Given the ongoing global risks and projected path of US monetary policy, the strength in the US dollar is likely to persist for some time. Going forward, as these external uncertainties recede, the ringgit should adjust to reflect the underlying fundamentals of the economy.

“Furthermore, purposeful structural reforms would also shore up confidence in Malaysia’s growth prospects, which will eventually support a real appreciation in the exchange rate.”

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

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, "Let me reiterate. The ringgit depreciation is driven by the strong US dollar. As such, it does not mean that the Malaysian economy is weak and in a crisis, and should not be taken as a simple barometer of the health of the economy.

"Let me explain what an economic crisis is. An economic crisis is usually associated with a severe contraction in GDP growth, high rates of unemployment, widespread closure of businesses, and a breakdown in financial intermediation. We do not see these in the indicators.

"GDP has been growing for four consecutive quarters since the third quarter of 2021. Unemployment rate has continued to decline for 14 consecutive months to 3.6% in September from 4.8% in July 2021. Corporations and businesses' financial performance remain healthy. The public continues to spend. Indicators such as retail and car sales have exceeded pre-pandemic levels. Furthermore, the banking system remains resilient and financing growth remain supportive of economic activity.

"Clearly, Malaysia is not in an economic crisis. That said, we acknowledge there are still some parts of our economy that have yet to return to pre-pandemic conditions."

**Ringgit depreciation affects cost of imports**

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, "The ringgit depreciation would impact the cost of imports. Nevertheless, only 8% of imports are consumption goods. Moreover, imports constitute a relatively low share of domestic consumption and production.

"In terms of inflation, historically, the magnitude of this exchange rate pass-through to inflation has been limited. On average, a 5% depreciation of the ringgit is associated with a 0.1 - 0.3 ppt impact to core inflation.

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“The overall pass-through is contained by the relatively low share of imported finished goods in the domestic CPI basket.

“However, we are mindful that the impact of ringgit depreciation on inflation could be higher during the current period because of the prolonged environment of elevated costs. Exchange rate pass-through also tends to be stronger for directly imported fresh food items, such as beef, though these items have a relatively smaller weight in the CPI basket.”

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

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, “In addition to the exchange rate, food prices are also affected by other more dominant global and domestic factors, such as raw materials, logistics, and labour costs.

“The recent moderation in global commodity prices has helped ease input cost and offset the impact of exchange rate depreciation on food prices. This contributed to an easing momentum in food inflation in recent months.

“However, as prices tend to be sticky downwards and the cost environment remains uncertain, consumer prices could remain elevated despite the easing trend in global commodity prices. This is something we will continue to monitor through close engagements with industry participants.”

**Ringgit depreciation is benefitting the export-oriented sector**

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, “While the dollar strength has raised the cost of imported goods, the ringgit depreciation has also allowed Malaysia to benefit from higher nominal export earnings.

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“Malaysia’s gross exports have increased by around 30% in the first three quarters of this year supported by several factors, including external demand, export product prices and exchange rate valuation gains.

“To some extent, higher nominal export growth has also contributed to higher employment and wages in the export-oriented manufacturing sector.

“Now, I want to be clear that we do not and should not rely on ringgit depreciation for export competitiveness. Malaysia must continue to accelerate key structural reforms with policy focus on sustainability, technology and innovation to raise our product complexity, while enhancing export resilience. Ultimately, we need to move away from reliance on low-cost production models to higher value-added activities.”

**Impact of ringgit depreciation to Malaysia’s external position remains manageable**

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, “In addition, the impact of a weaker ringgit on Malaysia’s external position remains manageable.

“The ringgit depreciation has led to higher value of foreign currency assets, lending support to Malaysia’s external position. Our foreign currency external assets remains sizeable and is sufficient to cover up to 2.1 times of foreign currency external liabilities.

“The risks from foreign currency external debt are largely contained, as about 68% of debt are either subject to prudential safeguards or are on flexible terms. For instance, as at end-September 2022, onshore banks’ external debt accounted for only 7.7% of total funding. Banks have to comply with liquidity management prudential standards. Additionally, their sizeable foreign currency liquid assets is sufficient to cover up to 2.6 times of foreign currency external debt-at-risk that are more susceptible to withdrawal and roll over risk. 31.5% of

corporate external debt is in the form of intragroup loans, which are generally on flexible and concessionary terms."

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

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, "Let's now turn to the outlook for 2023. Overall, Malaysia's growth is expected to normalise going into 2023, amid a more challenging external environment.

"The latest projection by the IMF in October's World Economic Outlook is for global growth to be around 2.7% in 2023. This is still a positive growth, compared with -3.0% in 2020 during the onset of COVID-19 crisis and -0.1% in 2009 during the global financial crisis (GFC).

"As a small and open economy, the moderation in global growth would have an impact, particularly on Malaysia's exports.

"Nonetheless, Malaysia's growth would continue to be supported by firm domestic demand amid the continued expansion in employment and income levels. The implementation of existing and new infrastructure projects such as ECRL and LRT3 will also lend support to growth.

"Meanwhile, higher tourism activity will also aid the recovery of the tourism-related sectors. Given these factors, the Malaysian economy is projected to expand between 4.0% – 5.0% in 2023. With this projected growth range, economic activity will continue to surpass its pre-pandemic level."

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

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, "For the domestic economy, a stronger labour market is expected to sustain domestic demand. Employment and wages have improved steadily, following continued recovery in economic activity.

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“Going forward, indicators suggest demand for workers remains relatively high and would support continued expansion in employment and income in 2023. Job vacancies have been on an increasing trend since 3Q 2021, approaching pre-crisis levels. Insights from the Bank’s industrial engagements also suggest hiring intentions remain firm, underpinned by further recovery in tourism-related activities and businesses’ expansion plans.

“This, in turn, would provide support to household spending.”

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

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, “Continued progress in existing large infrastructure projects, as well as new projects will support 2023 growth. These include ECRL, MRT3 and Trans Borneo Highway.

“In addition, the pickup in travel receipts will aid the recovery in tourism-related services. As countries continue to relax international travel restrictions coupled with declining risk aversion towards international travel, cross-border travel activities are expected to improve further.”

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

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, “After two consecutive years of double-digit growth, export growth is expected to moderate sharply in tandem with slower external demand in 2023.

“Nevertheless, Malaysia's diversified exports across products and markets would help cushion potential shocks in external demand for any specific products or from any specific countries.”

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**Banks remain well-positioned to support ongoing economic recovery**

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, “I also want to highlight that the banking system will continue to play an important role in supporting growth in 2023.

“With their strong capital and liquidity buffers, banks remain well-positioned to support households and businesses’ financing needs, and also to withstand any unexpected losses.

“Banks also have sufficient provisions to absorb credit losses from household, corporate and SME borrowers who are vulnerable in the current environment of rising costs.

“Banks are also proactively managing risks from tighter financial conditions as evident by the adequacy of foreign currency liquid assets and the manageable level of foreign currency net open position.”

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

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, “For 2022, headline inflation is expected to average at 3.3%, after moderating from its third quarter peak through the remainder of the year.

“Core inflation would remain elevated for the remainder of 2022, averaging closer to the upper end of the 2.0 – 3.0% forecast range in 2022. This is due to some demand-driven price pressures amid the high-cost environment.

“Moving into 2023, headline and core inflation are expected to remain elevated amid both demand and cost pressures, as well as potential changes to domestic policy measures.

“Headline inflation is expected to range between 2.8 - 3.3% in 2023. The balance of risk to the inflation outlook remains tilted to the upside and continues

to be subject to domestic policy measures on subsidies, global commodity price developments, and prolonged supply-related disruptions."

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

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, "With the continued positive growth prospects for the Malaysian economy, the MPC decided to further adjust the degree of monetary accommodation. The OPR was raised to 2.75%.

"Amid the strengthening of domestic economic activity, we are seeing some demand-driven price pressures amid a high-cost environment. As such, the OPR adjustments would pre-emptively manage the risk of excessive demand on price pressures.

"At the current OPR level, monetary policy continues to be accommodative and supportive of economic growth.

"Let me emphasise that in formulating monetary policy decisions, the MPC is not on any pre-set course. This means that the MPC will continue to assess evolving conditions and their implications on the overall outlook to domestic inflation and growth.

"Any future 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**

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, "As a whole, we recognise the downside risks to growth, stemming primarily from external factors.

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“On the global front, weaker-than-expected global growth, escalation of geopolitical tensions, worsening supply chain conditions including those induced by climate change, and greater financial market volatility are key downside risk factors.

“On the domestic front, the risk of higher inflation could weigh on growth through lower investment activity and household spending. These factors outweigh upside risks from a stronger labour market and improvement in tourism, and impact from faster-than-expected implementation of structural reforms.”

**Summary**

**Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus** said, “Allow me to now summarise the briefing by reiterating a few key points.

“Malaysia recorded stronger growth of 14.2% in the third quarter of 2022, driven by firm domestic demand. This also means that the economy expanded by 9.3% in the first nine months of the year.

“Growth for 2023 is projected to expand between 4.0 – 5.0%. Growth will be supported by continued labour market improvements, realisation of multi-year projects and higher inbound tourism activity.

“The outlook, however, is subject to risks, stemming mainly from global factors. Headline inflation has likely peaked in 3Q 2022 and is expected to moderate going forward.

“Lastly, the ringgit depreciation is a result of the strong US dollar. The ringgit’s movements against the US dollar is in line with major and regional currencies. As such, it is too simplistic to use the exchange rate as the barometer of the health of the economy, without looking at other indicators.

“To conclude, the Malaysian economy is expected to remain on a steady growth path despite the weaker global growth outlook. What is important to secure our

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future growth prospects is to further strengthen our economic fundamentals and improve our resilience, while pressing on with the necessary structural reform measures."

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