Sidang Akhbar

Prestasi Ekonomi pada Suku Kedua Tahun 2015

Gabenor
Bank Negara Malaysia

13 Ogos 2015

Sidang akhbar akan meliputi:

- **Prestasi ekonomi pada suku kedua tahun 2015**
- **Perkembangan monetari dan kewangan**

Moderate global growth in 2Q 2015

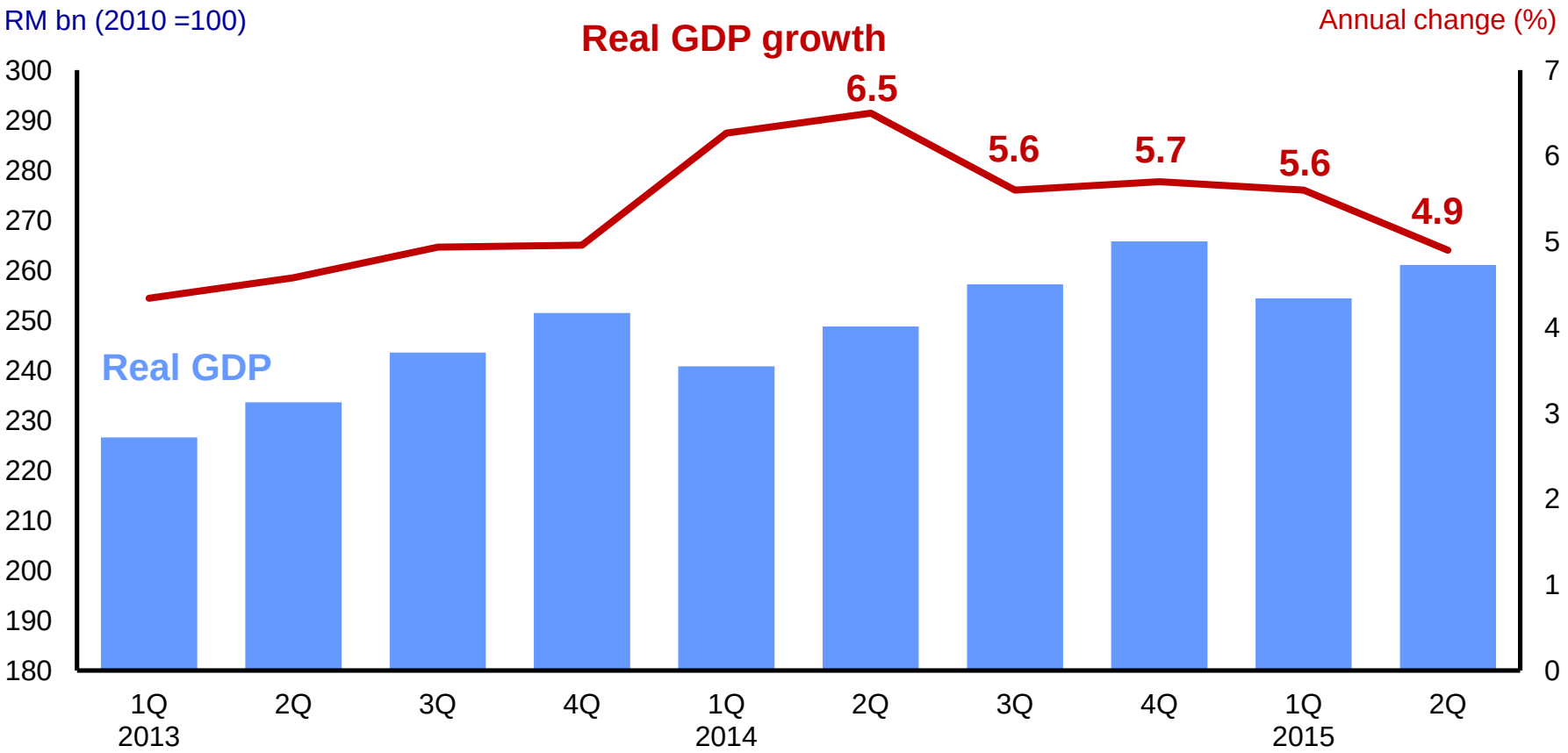
Global Growth

	2014	2015	
		1Q	2Q
	Annual change (yoy, %)		
Advanced economies			
US	2.4	2.9[r]	2.3[a]
UK	3.0	2.9[r]	2.6[p]
Euro area	0.9	1.0	n.a
Japan	-0.1	-0.9	n.a
Asian economies			
PR China	7.4	7.0	7.0
Chinese Taipei	3.8	3.4	0.6[a]
Indonesia	5.0	4.7	4.7
Korea	3.3	2.5	2.2[a]
Singapore	2.9	2.8[r]	1.8[p]

[p] Preliminary estimate [a] Advance estimate [r] Revised
Source: National authorities

- Divergence of growth momentum across major economies
- Continued economic recovery in the US and the UK
- Economic activity improved modestly in the euro area and Japan
- Growth in Asia continues to be supported by an expansion in domestic demand

The Malaysian economy expanded by 4.9% in 2Q 2015



Source: Department of Statistics, Malaysia

Growth supported by continued expansion in services and turnaround in agricultural production

Real GDP (Annual change, %)	Real share, % (2014)	2014		2015		
		2Q	1H	1Q	2Q	1H
Services	53.5	6.4	6.5	6.4	5.0	5.7
Manufacturing	23.0	7.3	7.2	5.6	4.2	4.9
Mining	9.0	2.1	1.0	9.6	6.0	7.8
Agriculture	9.2	6.7	4.6	-4.7	4.6	0.0
Construction	4.3	10.0	14.5	9.7	5.6	7.7
GDP	**100.0**	**6.5**	**6.4**	**5.6**	**4.9**	**5.3**

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

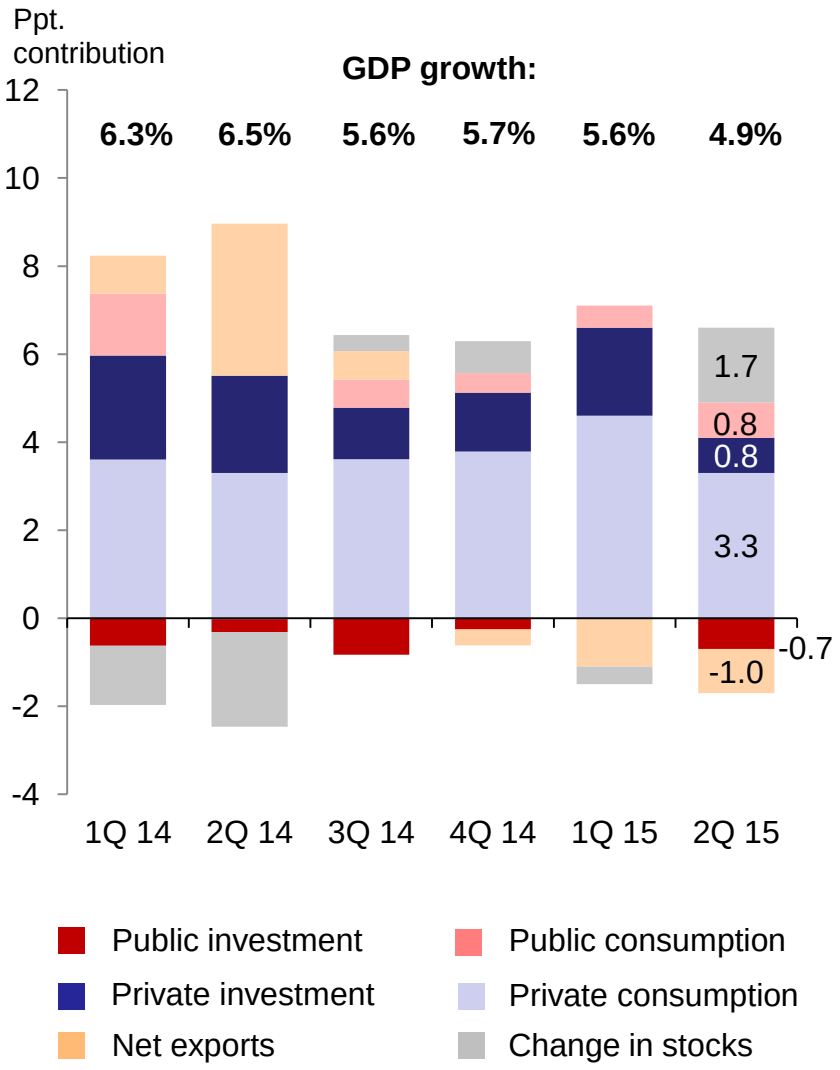
Source: Department of Statistics, Malaysia

- **Services:** Continued expansion amid slower growth particularly in consumption-related sub-sectors
- **Agriculture:** Turned around amid higher production of palm oil
- **Construction:** Lower growth due to moderation in residential, non-residential and civil engineering sub-sectors
- **Manufacturing:** Slower performance in export- oriented industries
- **Mining:** Growth affected by lower production of natural gas

Private sector remained the anchor of growth

Real GDP (Annual change, %)	Share, % (2014)	2014	2015		
		2Q	1Q	2Q	1H
Domestic demand (excluding stocks)	**91.5**	**5.6**	**7.9**	**4.6**	**6.2**
Private Sector	**68.5**	**7.9**	**9.6**	**5.7**	**7.6**
Consumption	*51.8*	*6.5*	*8.8*	*6.4*	*7.6*
Investment	*16.6*	*11.6*	*11.7*	*3.9*	*7.5*
Public Sector	**23.0**	**-1.4**	**2.5**	**0.9**	**1.7**
Consumption	*13.6*	*-0.2*	*4.1*	*6.8*	*5.5*
Investment	*9.5*	*-3.2*	*0.5*	*-8.0*	*-3.7*
Net exports of goods and services	**9.3**	**51.7**	**-10.2**	**-10.5**	**-10.4**
Exports	*76.1*	*8.7*	*-0.6*	*-3.7*	*-2.2*
Imports	*66.8*	*4.5*	*1.0*	*-2.8*	*-0.9*
Change in stocks (RM billion)	**-0.8**	**-2.1**	**-2.5**	**2.2**	**-0.3**
GDP (y-o-y)	**100.0**	**6.5**	**5.6**	**4.9**	**5.3**
GDP (q-o-q growth, seasonally adjusted)	**-**	**1.6**	**1.2**	**1.1**	**-**

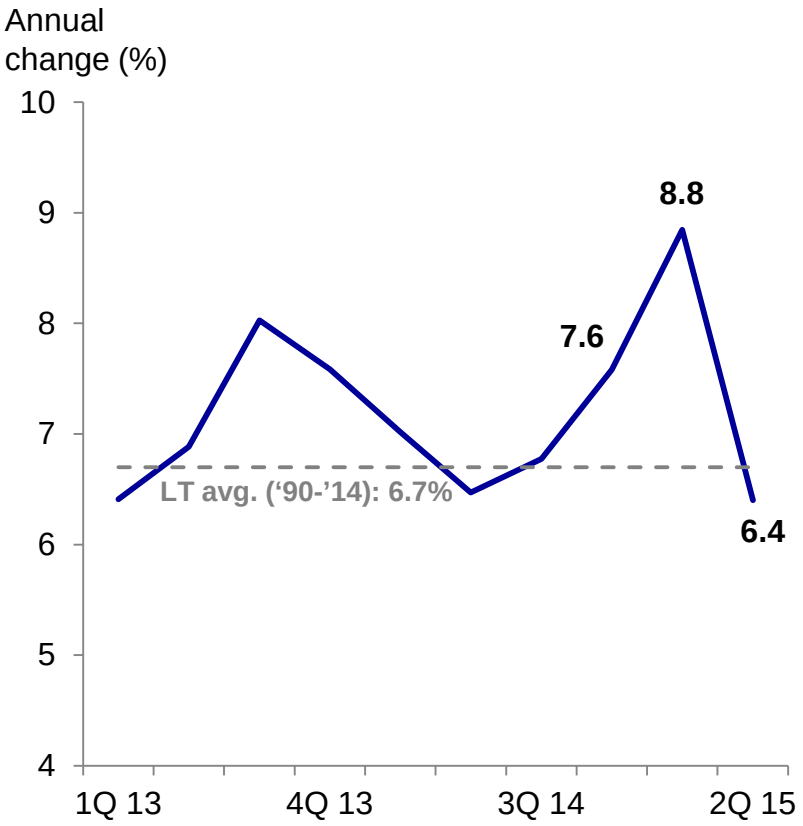
Source: Department of Statistics, Malaysia



Private consumption grew by 6.4%

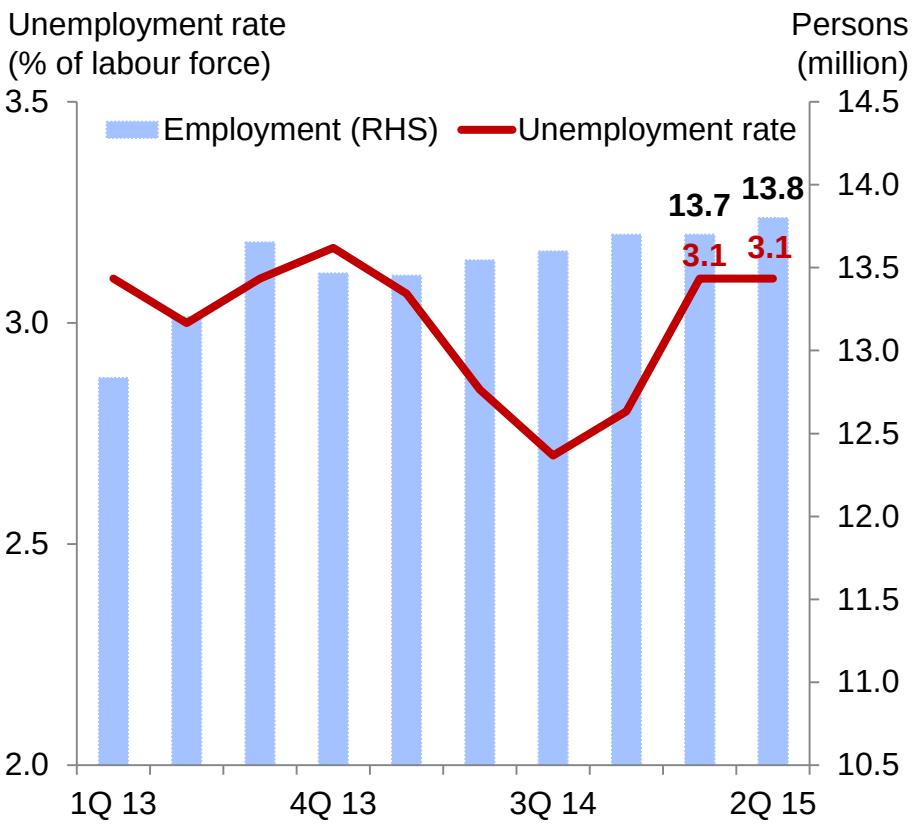
Private consumption growth moderated but remained firm…

Real Private Consumption Growth



…supported by stable labour market conditions

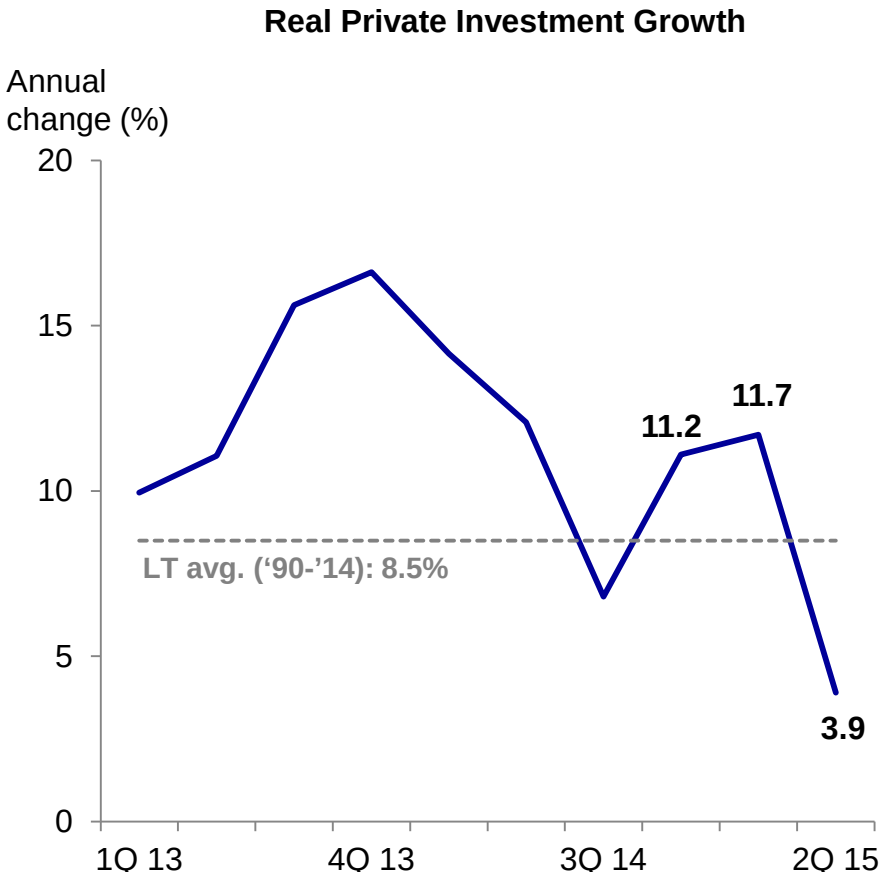
Unemployment Rate and Employment



Source: Department of Statistics, Malaysia; Ministry of Human Resources

Private investment growth moderated to 3.9%

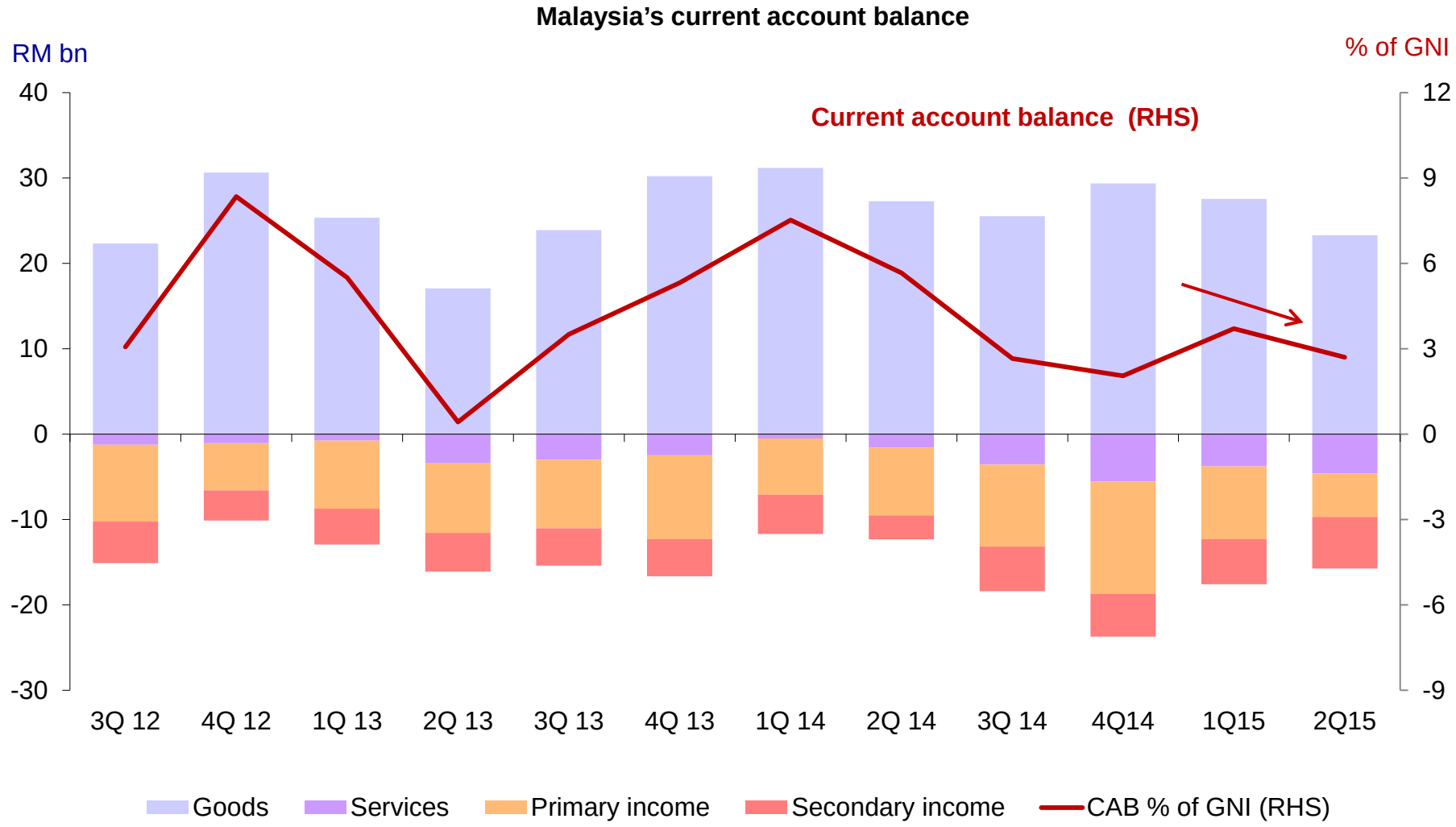
Private investment growth moderated



Source: Department of Statistics, Malaysia, BNM estimates

- Slower pace in investment due to a decline in machinery and equipment spending
- Investment in structures remains supported by capital spending in the manufacturing and services sector

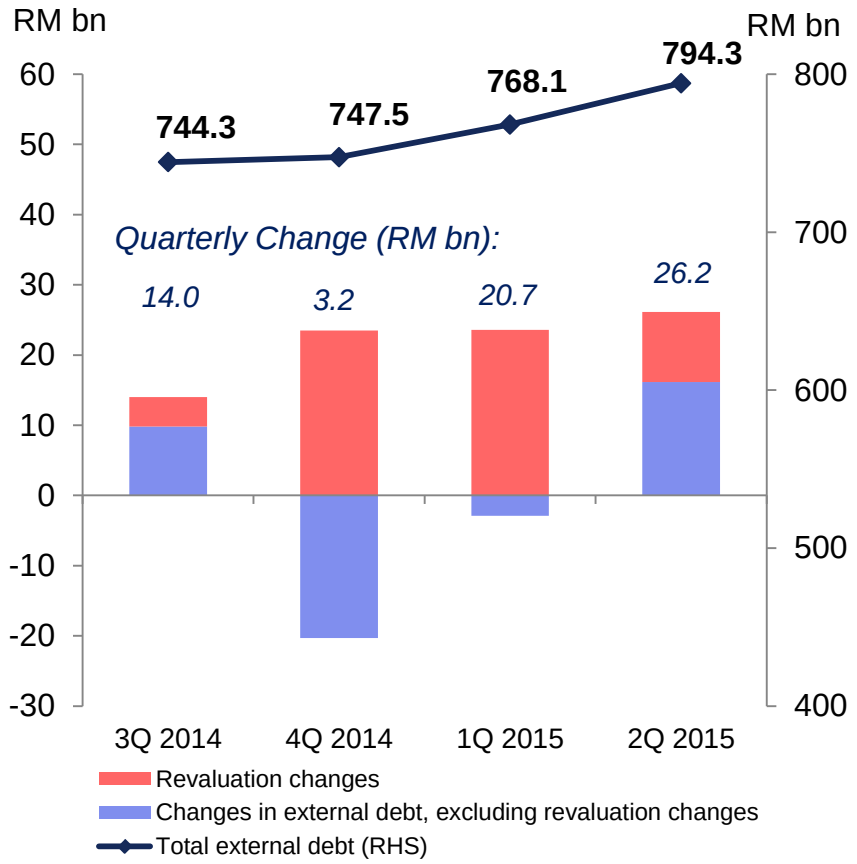
Current account balance narrowed, but remained positive in 2Q 2015



Source: Department of Statistics, Malaysia

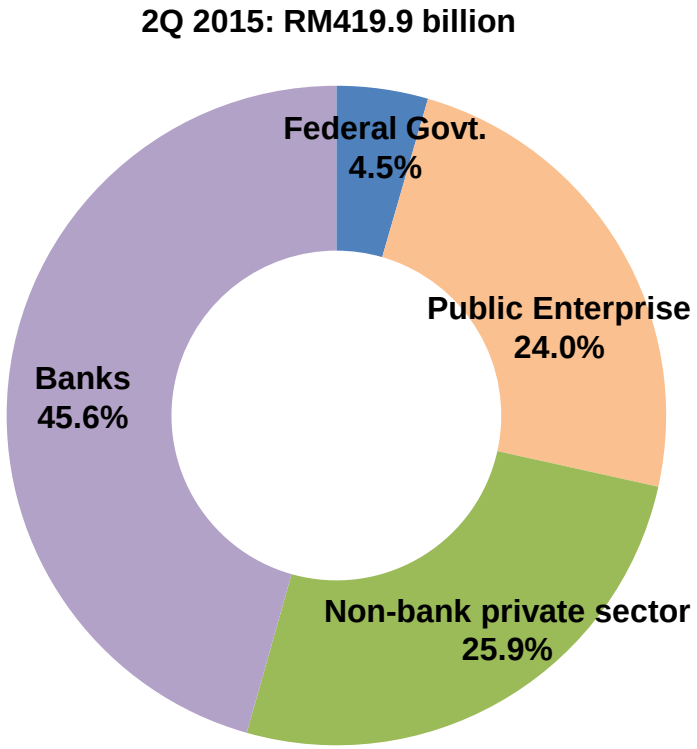
Higher external debt in 2Q 2015 partly due to valuation effects, but impact is contained

Higher valuation effects in recent quarter



Source: Bank Negara Malaysia

46% of offshore borrowings are accounted by banks due to their regional operations

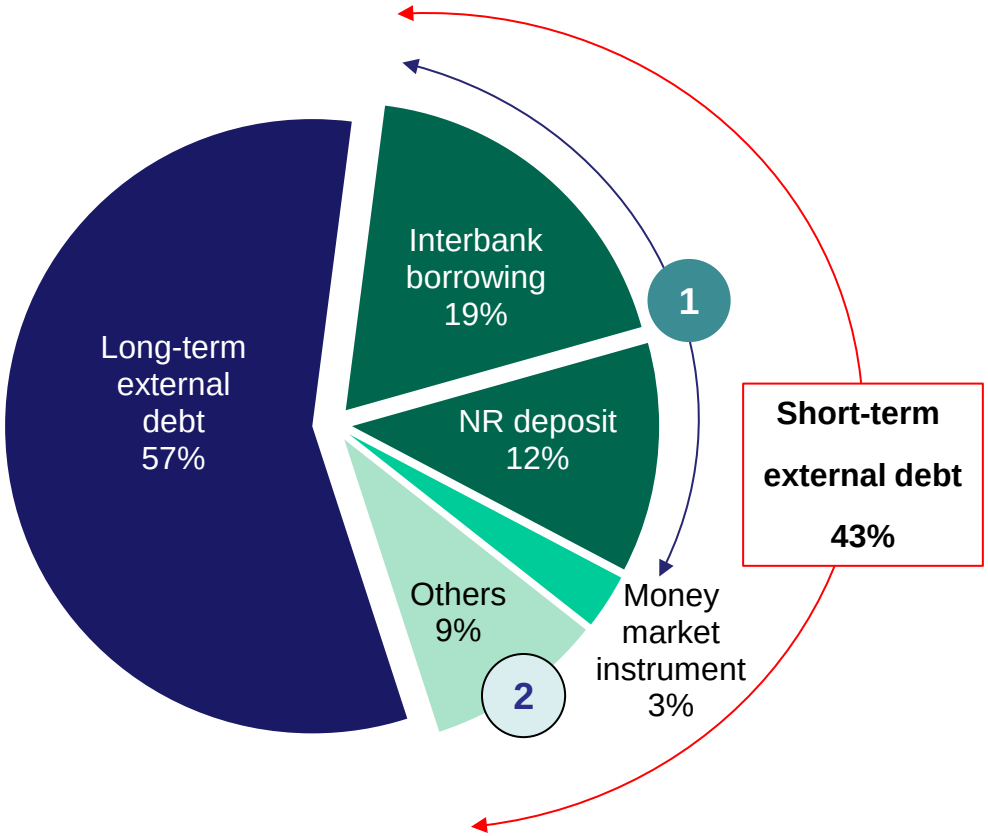


[1] Public enterprise and non-bank private sector

Source: Bank Negara Malaysia

Short term external debt has limited immediate claim on reserves

Short term external debt remains manageable



1. The banking sector exposures are partly covered by corresponding external assets

2. Other debt liabilities reflect trade related and direct investment activities
   - Trade credit largely supported by export earnings
   - Intercompany loans are generally on concessionary and flexible terms

Source: Bank Negara Malaysia

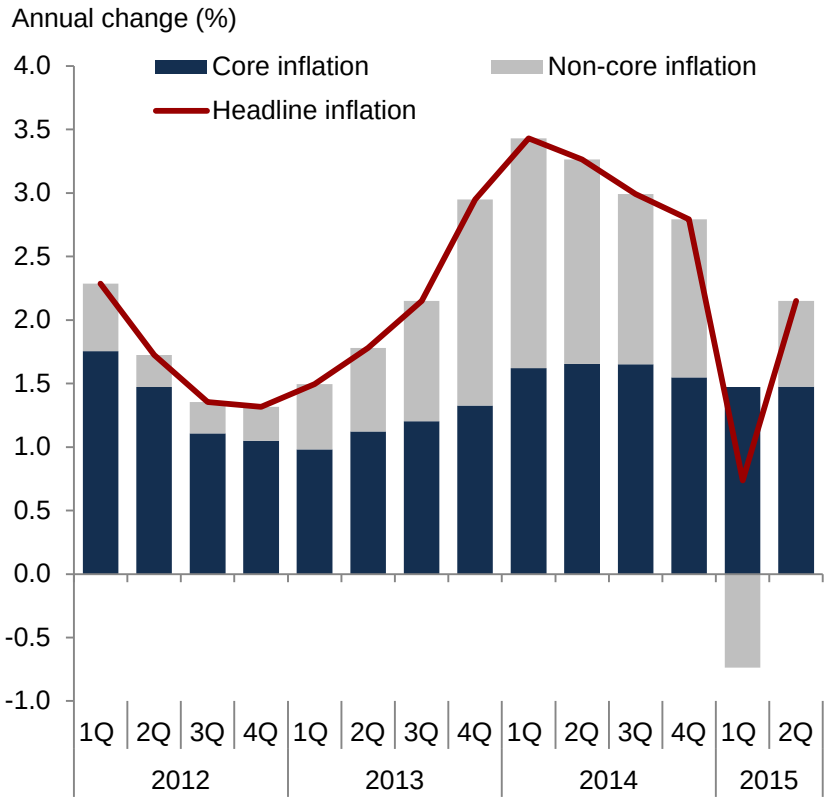
Headline inflation edged higher in 2Q 2015, but underlying inflation remained stable

Increase in inflation was broad-based due to the implementation of GST

Category	Weight	1Q '15	2Q '15
		Annual growth, %	
Headline inflation	**100.0**	**0.7**	**2.2**
Food and non-alcoholic beverages	30.3	2.5	3.3
Housing, water, electricity, gas and other fuels	22.6	2.1	2.5
Transport	14.9	-7.6	-3.6
Communication	5.6	-1.0	2.5
Recreation services and culture	4.6	0.6	1.6
Furnishings and household equipment & maintenance	4.1	0.3	2.7
Others	17.9	3.4	4.7

Source: Department of Statistics Malaysia and Bank Negara Malaysia

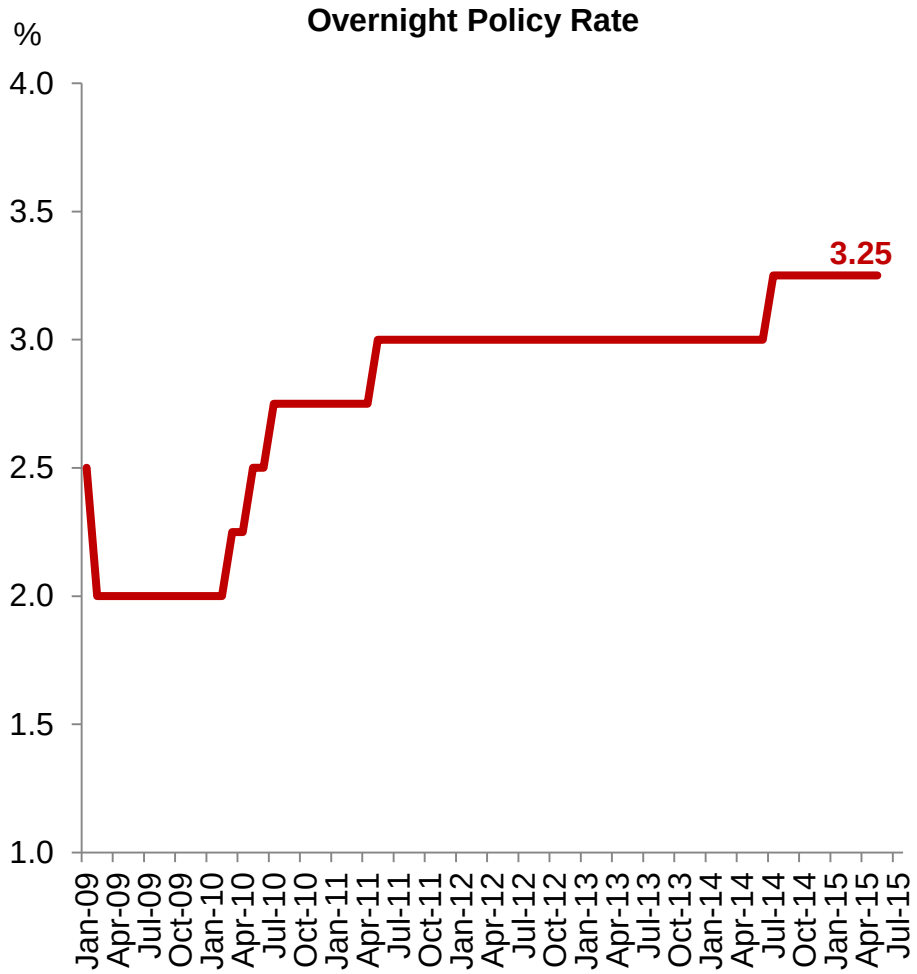
Nevertheless, underlying inflation remained stable



Note: Core inflation excludes price-administered and price volatile items. It also excludes the impact of GST.

Source: Department of Statistics Malaysia and Bank Negara Malaysia

OPR maintained at 3.25% amid steady growth prospects and contained underlying inflation

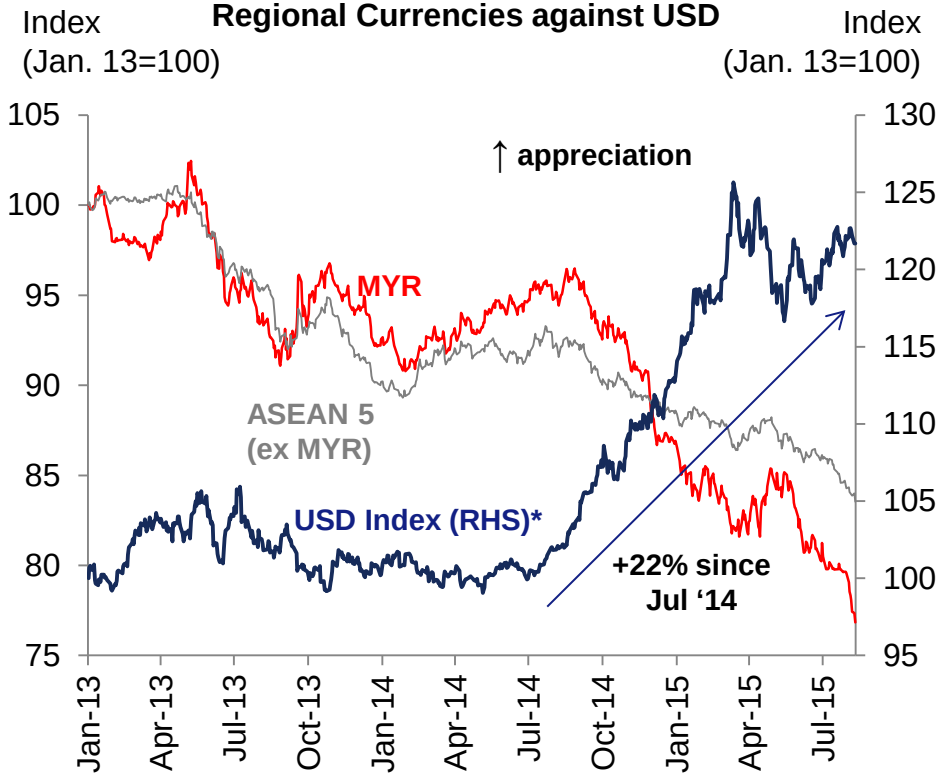


- The Malaysian economy is expected to remain on a steady growth path with domestic demand remaining as the key driver of growth
- Inflation is expected to be higher due to domestic cost adjustments, before moderating towards 2H 2016.
- Underlying inflation to remain contained
- The stance of monetary policy remains accommodative and supportive of economic activity

All major and regional currencies have depreciated due to persistent US dollar strength

- Improving US economy and expectation of higher interest rate in the US continued to put downward pressure on currencies globally

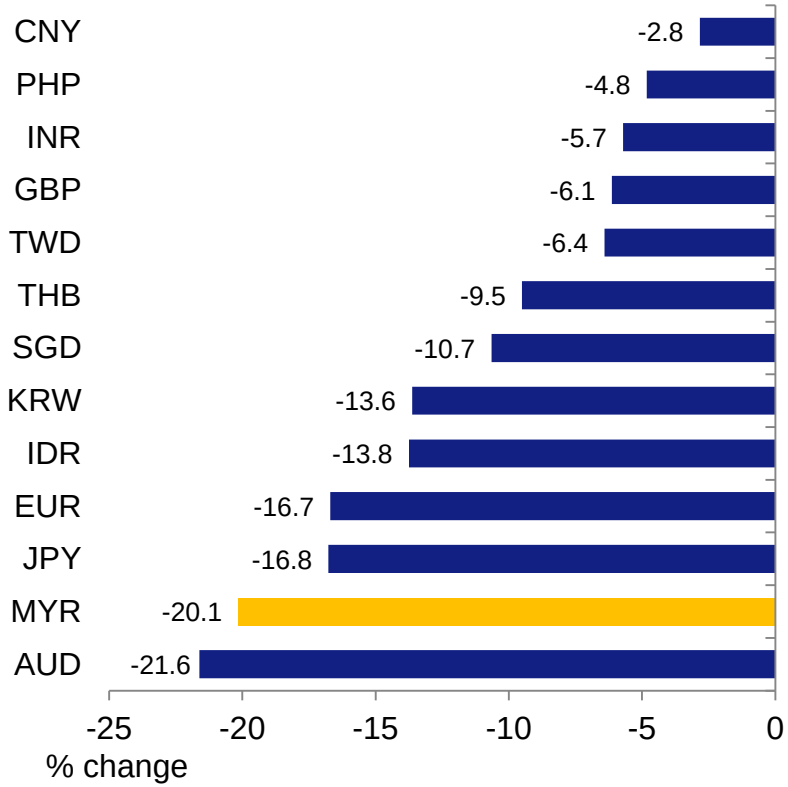
Performance of Ringgit and Regional Currencies against USD



*USD Index is a trade-weighted index that tracks USD performance against top 10 leading global currencies.

Source: BNM, Bloomberg

Performance of Selected Currencies against the USD (1 Sept '14- 11 Aug '15)

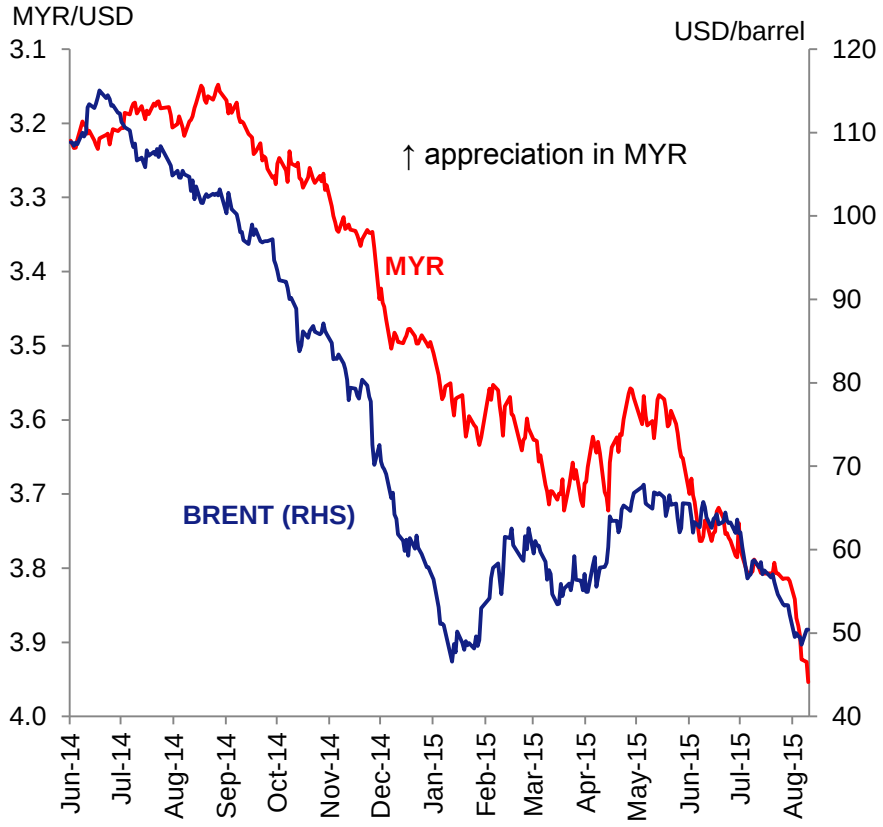


Source: BNM, Staff calculations

Declining commodity prices and domestic factors contributing to additional pressure on ringgit

Prolonged low crude oil prices since Jul '14 continue to put downward pressure on the ringgit

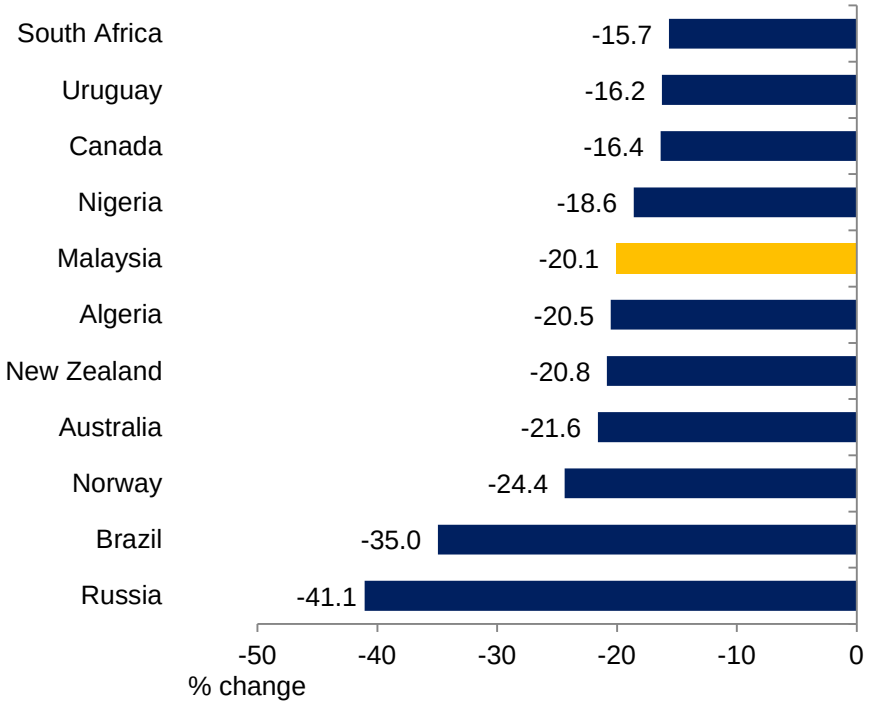
Performance of MYR/USD vs. Brent Crude



Source: Bloomberg, BNM

Other currencies of commodity exporting countries have depreciated significantly

Performance of Selected Currencies against the USD (1 Sept '14- 11 Aug '15)



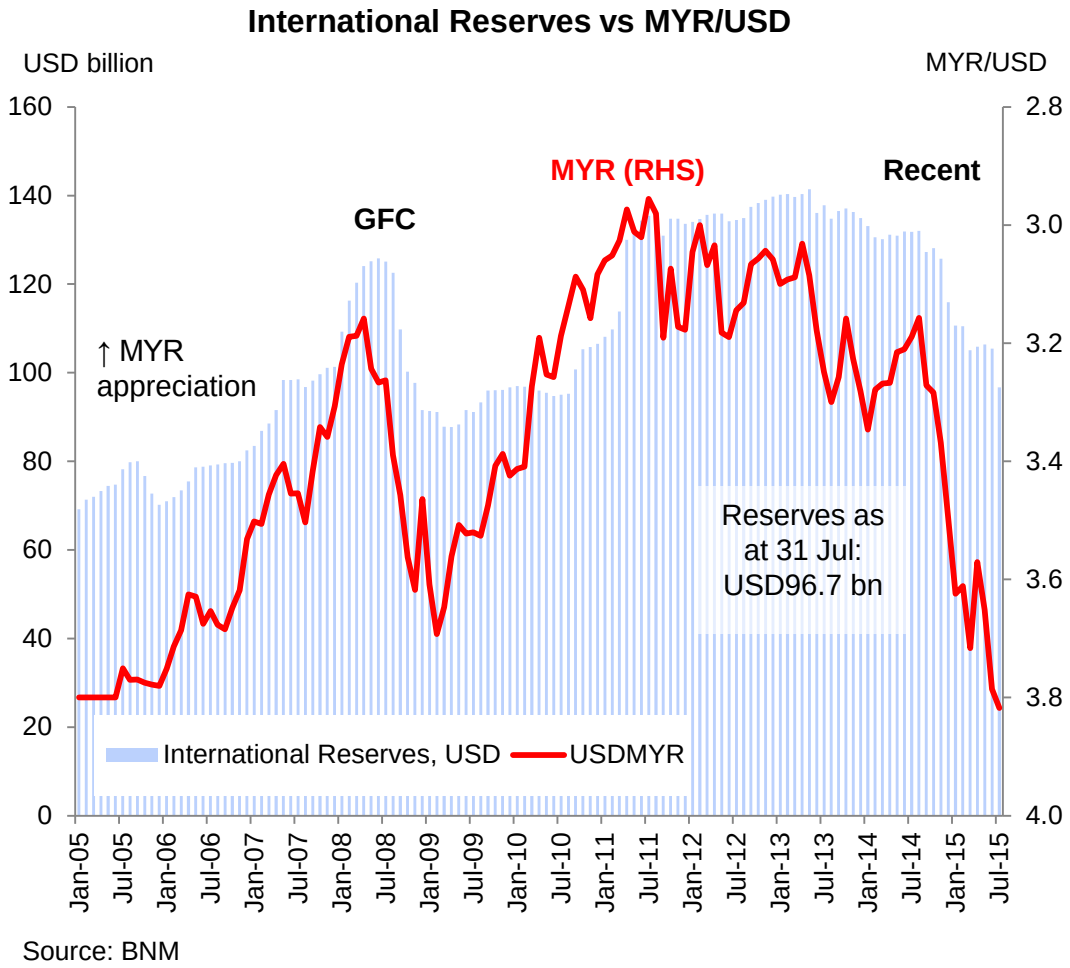
Note: Of note, countries with higher dependence on commodity exports have faced larger adjustments.

Source: Bloomberg, BNM

Impact of ringgit depreciation is manageable

- Businesses with high import content face higher costs, but export-oriented businesses will benefit from higher proceeds
- Modest impact on household spending
- Low global commodity and domestic fuel prices cushion inflationary pressures
- BNM will continue to ensure the orderly functioning of the market to avoid disruptions to trade and business activities

Movements in the exchange rate and reserves are expected in a flexible exchange rate regime

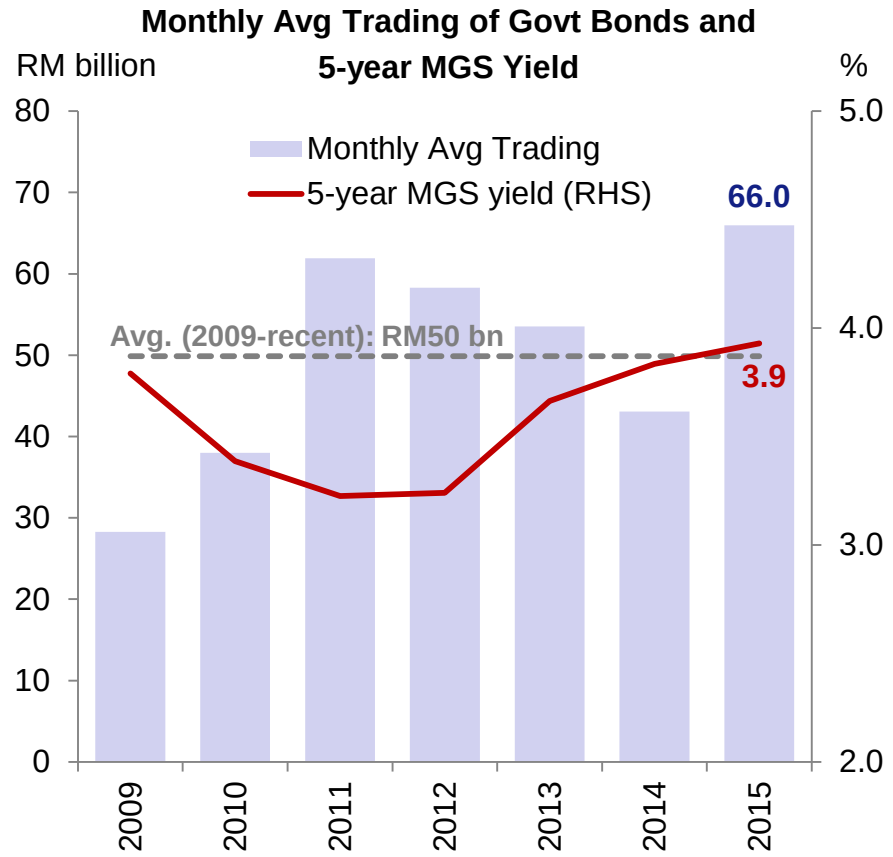


Source: BNM

- Exchange rate being the **absorber to shocks** will be subjected to volatility from time to time.
- International reserves have dipped below USD100bn before. This has been **anticipated** and is a an **outcome** when facing sharp capital reversal.
- International reserves lower but **remain ample** to facilitate international transactions.

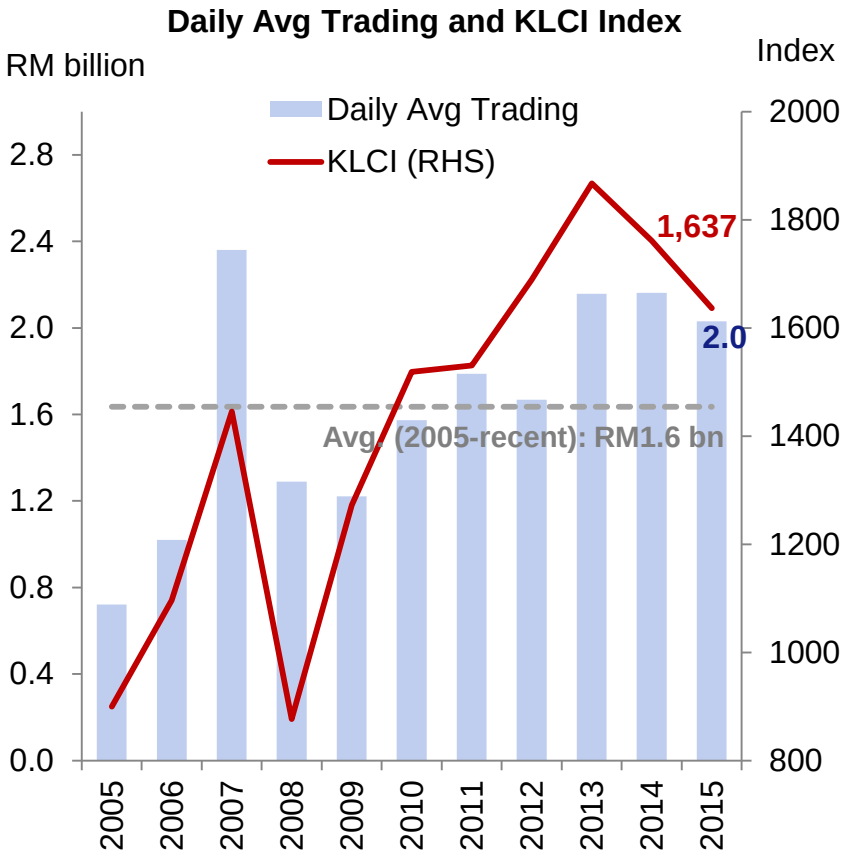
Despite ringgit adjustments, conditions in the domestic financial markets remain orderly

Liquidity remains stable in the Govt bond market…



Source: Bank Negara Malaysia

…while trading remains steady in the equity market

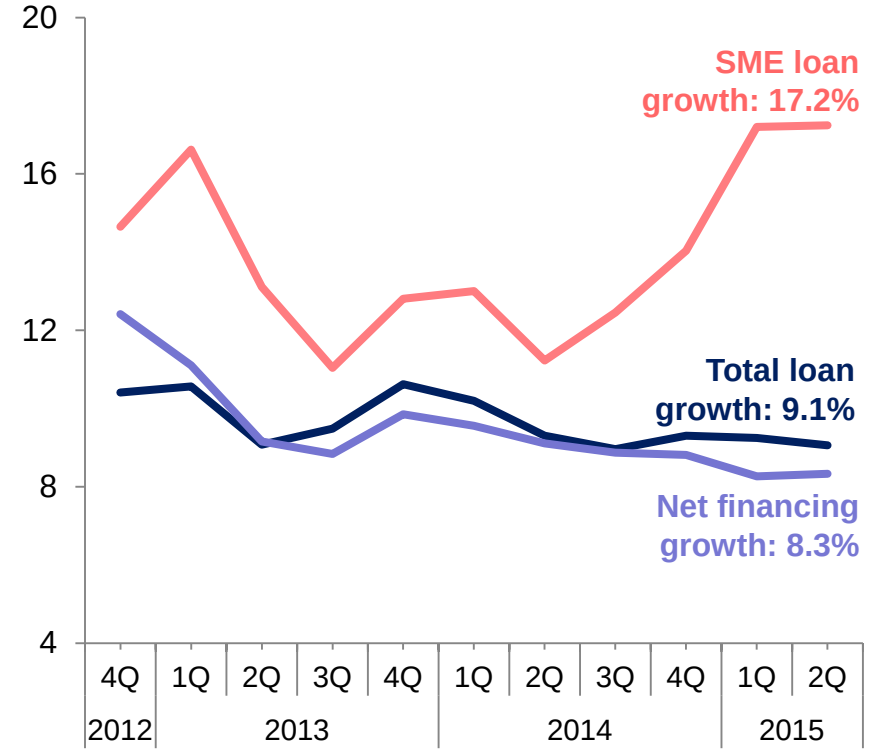


Source: Bursa Malaysia

Financing remained supportive of economic activity

Relatively stable total loans growth amidst continued strong growth in SME loans …

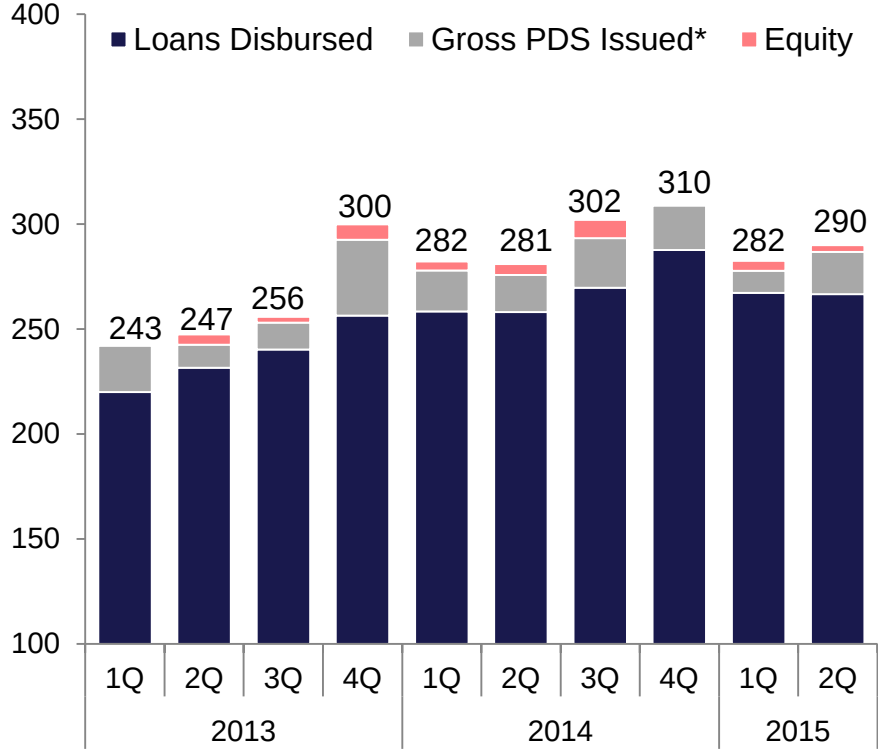
Net Financing[1] and Outstanding Banking System Loans Growth



[1]Outstanding loans of the banking system and PDS outstanding

… with sustained gross financing to the private sector

Gross Financing through the Banking System and Capital Market



*Excludes issuances by Cagamas

Source: Bank Negara Malaysia

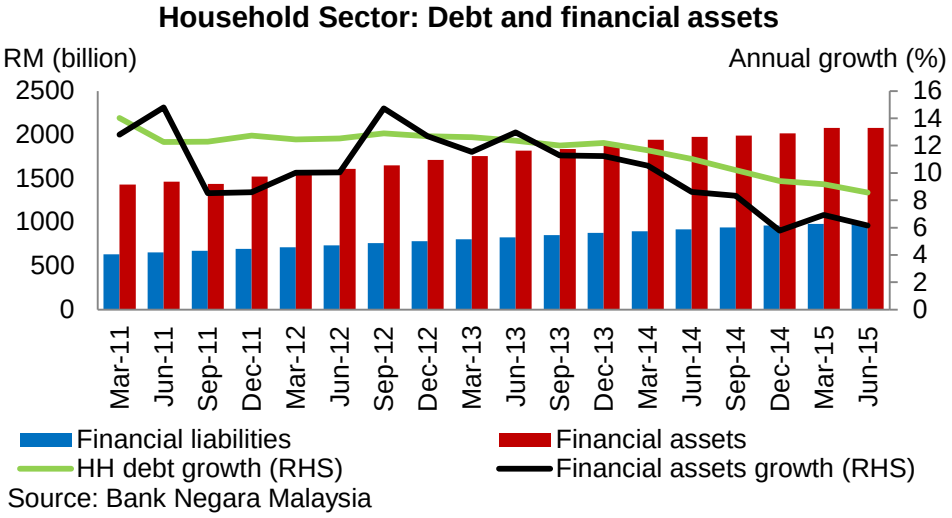
Domestic financial stability conditions preserved despite continued volatility in financial markets

Banking sector	1Q 15	2Q 15
Common equity tier 1 capital ratio (%)	**12.5**	**12.3**
Tier 1 capital ratio (%)	**13.2**	**13.1**
Total capital ratio (%)	**15.2**	**15.2**
Capital buffer (RM bil)	**99**	**101**
Net impaired loans ratio (%)	**1.2**	**1.2**
ROE (annualised)	**12.4**	**12.7**
Liquidity buffer (<1 mth) (% of deposits)	**15.4**	**15.2***
Insurance/Takaful sector	**1Q 15**	**2Q 15**
Capital adequacy ratio (%) - Insurance	**245.7**	**239.1**
Capital adequacy ratio (%) - Takaful	**190.7**	**187.6**
Capital buffer (RM bil)	**32.7**	**28.5**
Profit YTD (RM bil)	**6.1**	**2.6**

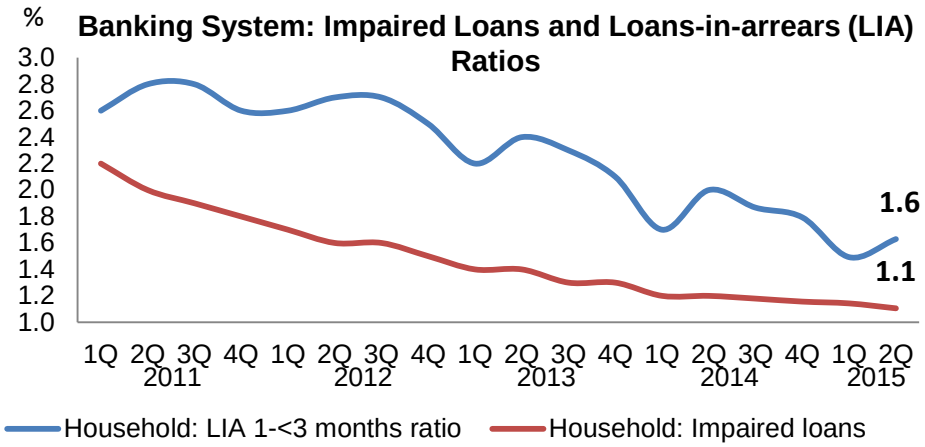
* As at May 2015
Source: Bank Negara Malaysia

- **Financial intermediation activities remain supported by sound financial institutions, ample liquidity and favourable funding conditions**
- **Market volatility eased but remained elevated**
- **Strong capital buffers to cushion against extreme market and financial conditions**

Growth in household debt moderated further to 8.3%



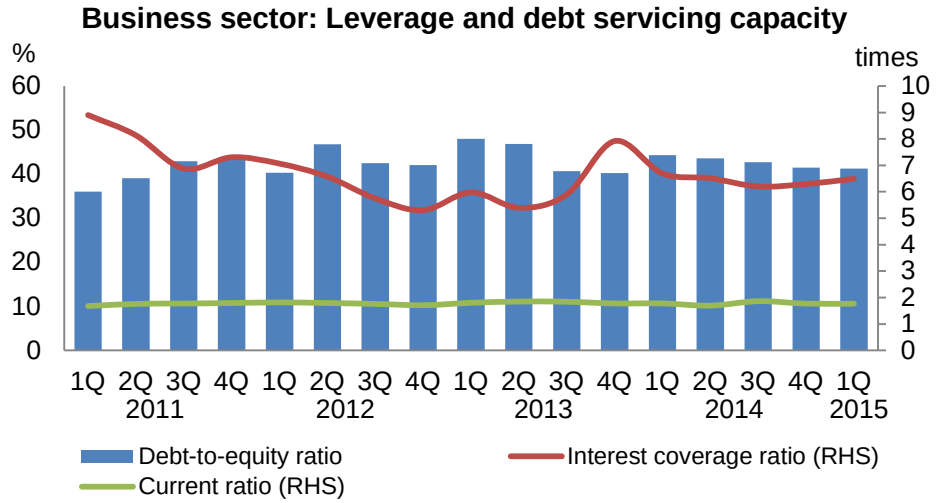
Source: Bank Negara Malaysia



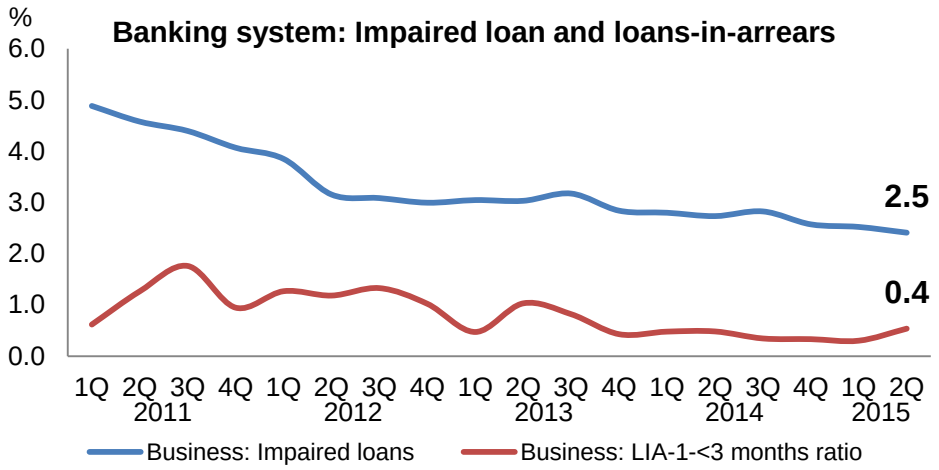
Source: Bank Negara Malaysia

- **Slower growth in outstanding credit card balances and financing for purchase of securities**
- **Housing loans continued to grow at 11.9% annually**
- **Overall access to financing by eligible borrowers is sustained**

Financial indicators for the business sector remain stable and healthy



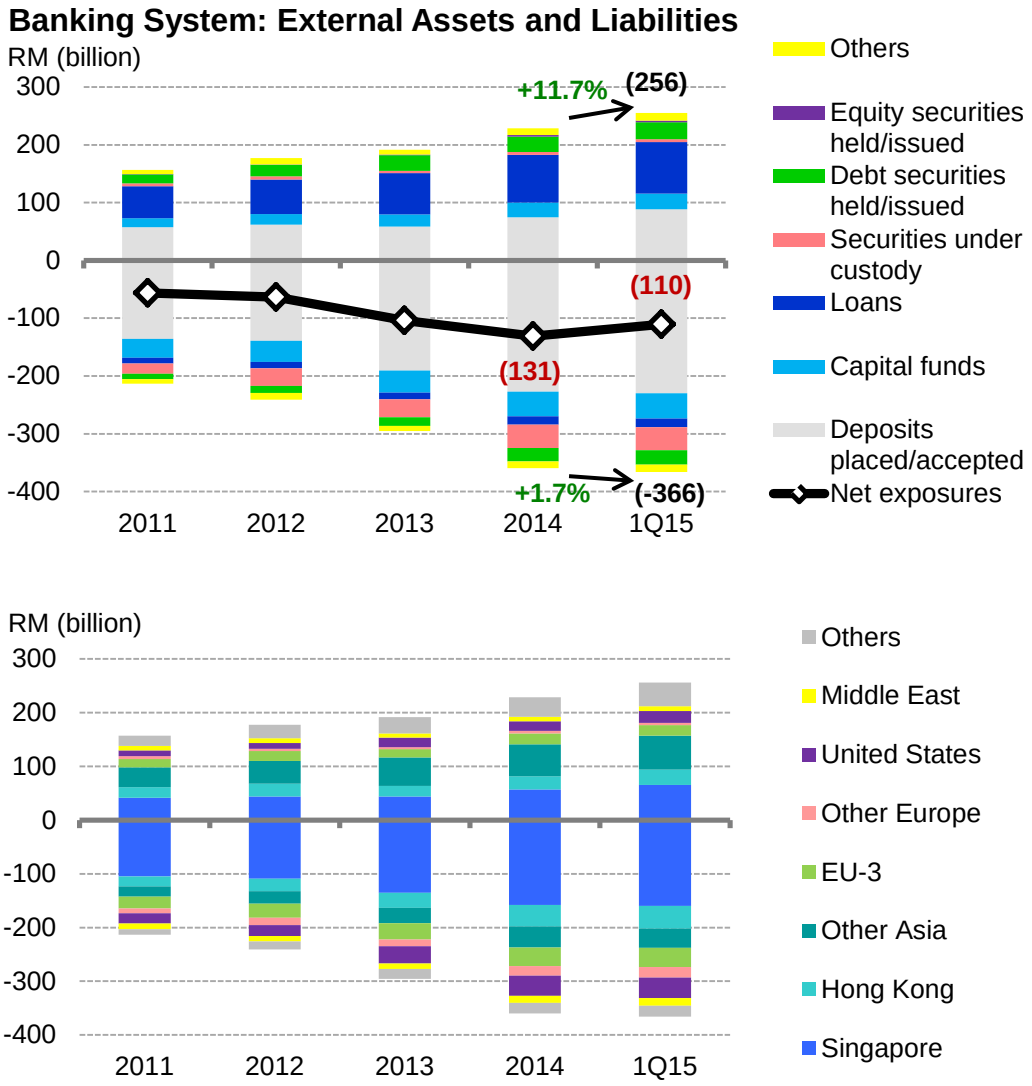
Source: Bank Negara Malaysia



Source: Bank Negara Malaysia

- **Low leverage amid improving debt servicing capacity**
- **Higher external borrowings were driven by a large FCY bond issuance by a domestic conglomerate in the O&G sector**
  - Excluding the issuance, external debt increased by 3% in 1Q 2015

Banks' external exposures predominantly to Asia in line with regional operations and trade activities

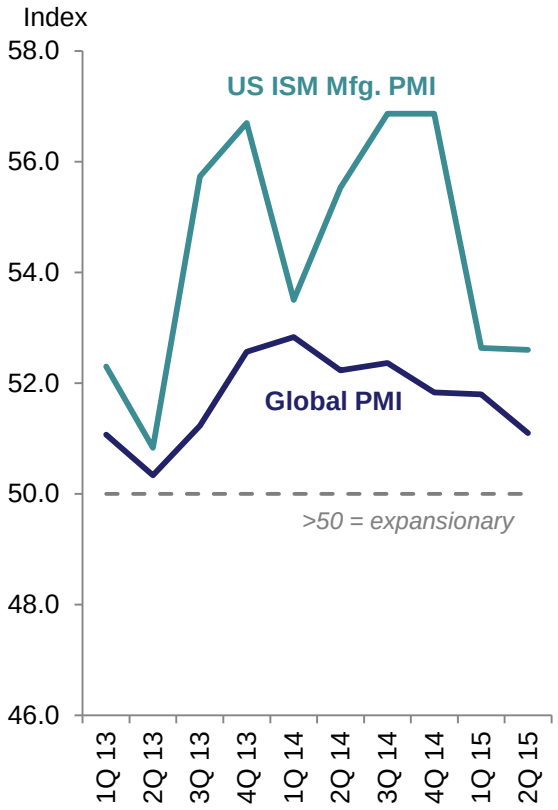


- **Banks recorded lower net external liabilities of RM110 billion**
  - External liability mainly attributed to deposit placements related to banks' overseas operations, custodian-related activities and capital funds from parent entities
- **Exposures to Greece and non EU-3 countries remain minimal**

Going forward, leading indicators suggest sustained expansion in economic activity

Global manufacturing activity remains expansionary

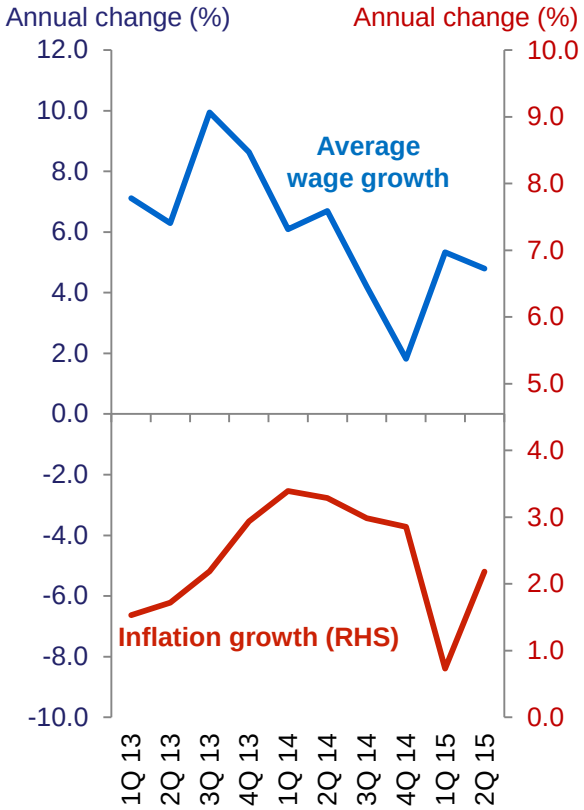
Global and US ISM Manufacturing PMI



Source: Bloomberg

Sustained domestic fundamental indicators

Domestic Fundamentals

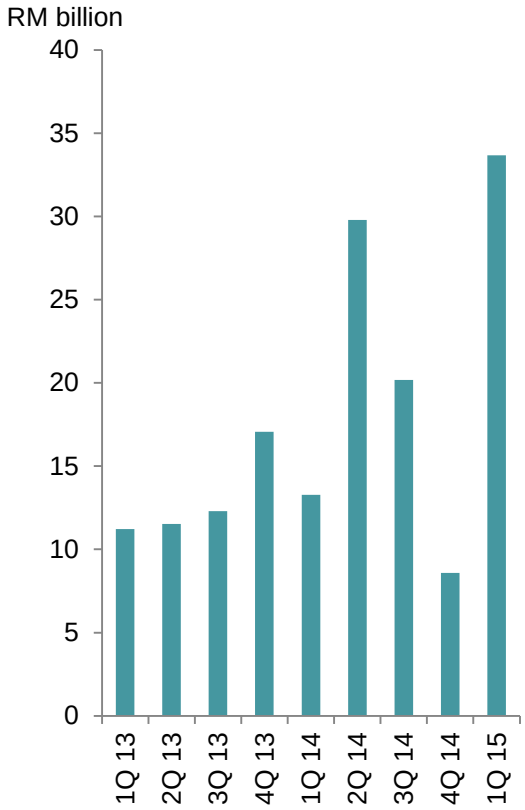


Average wage refers to wage per employee in the manufacturing sectors

Source: Department of Statistics, Malaysia

Planned investment by the private sector remains firm

MIDA Manufacturing Investment Approvals



Source: MIDA

The Malaysian economy is expected to remain on a steady growth path

- **The global economy to improve at a moderate pace**
  - Modest growth in the advanced economies
  - Steady growth momentum in the regional economies

- **The Malaysian economy will remain resilient in the face of the challenging environment**
  - Strong domestic and external fundamentals
    - Low inflation, steady income growth and stable labour market conditions
    - Flexible exchange rate, low external debt and ample international reserves
  - Impact of ringgit depreciation on growth and inflation is contained, underpinned by the diversified Malaysian economy
  - Domestic financial stability conditions is sustained despite increased volatility in financial markets

Questions