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13 May 2016

Sidang Akhbar

Prestasi Ekonomi pada Suku Pertama Tahun 2016

Gabenor

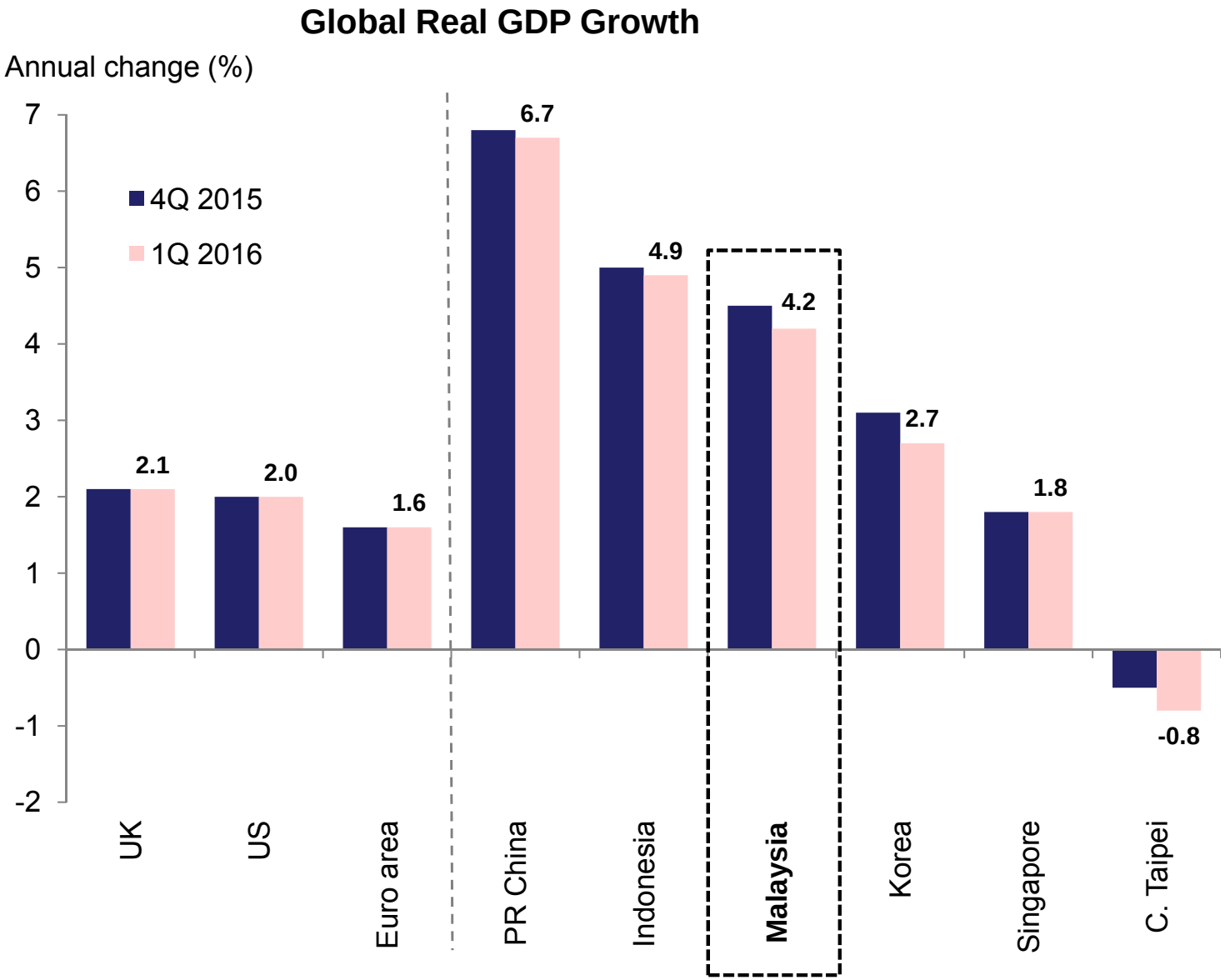
Bank Negara Malaysia

13 Mei 2016

Sidang akhbar akan meliputi:

- **Prestasi ekonomi pada suku pertama tahun 2016**
- **Perkembangan monetari dan kewangan**

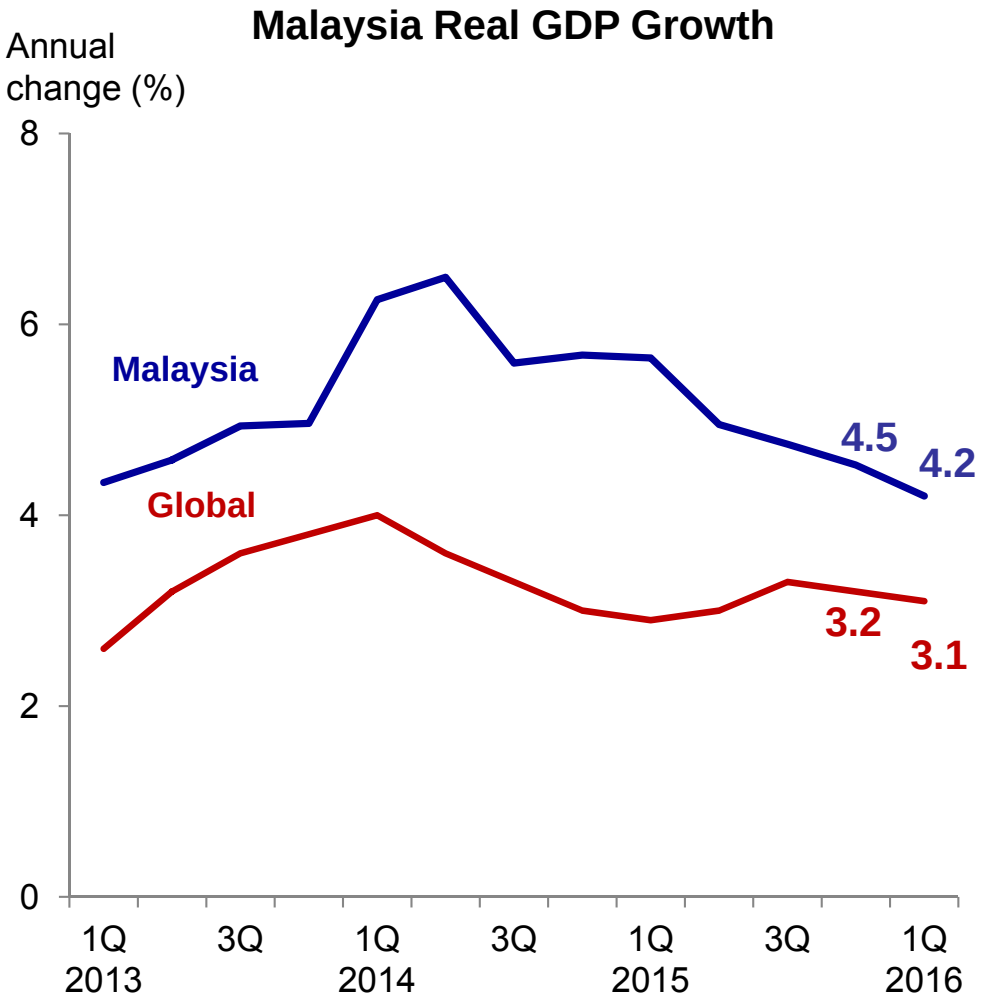
Moderate global economic expansion in 1Q 2016



- Modest growth in the advanced economies
- Moderate growth in Asia, supported by domestic demand

Source: National authorities

The Malaysian economy expanded by 4.2% in 1Q 2016



Source: Department of Statistics, Malaysia

Growth moderated slightly in 1Q 2016, reflecting:

- External shocks to the economy and cautious spending by the private sector

Growth in 2016 will be supported by:

- Gradual improvement in private sector spending as the impact of GST and price adjustments lapse
- Government measures aimed at increasing disposable income

Moderate growth in major economic sectors

Real GDP (Annual change, %)	Share, % (2015)	2015			2016
		1Q	4Q	Year	1Q
Services	53.5	6.4	5.0	5.1	5.1
Manufacturing	23.0	5.6	5.0	4.9	4.5
Mining	9.0	9.7	-1.3	4.7	0.3
Agriculture	8.9	-4.1	1.5	1.2	-3.8
Construction	4.4	9.6	7.4	8.2	7.9
GDP	**100.0**[1]	**5.7**	**4.5**	**5.0**	**4.2**

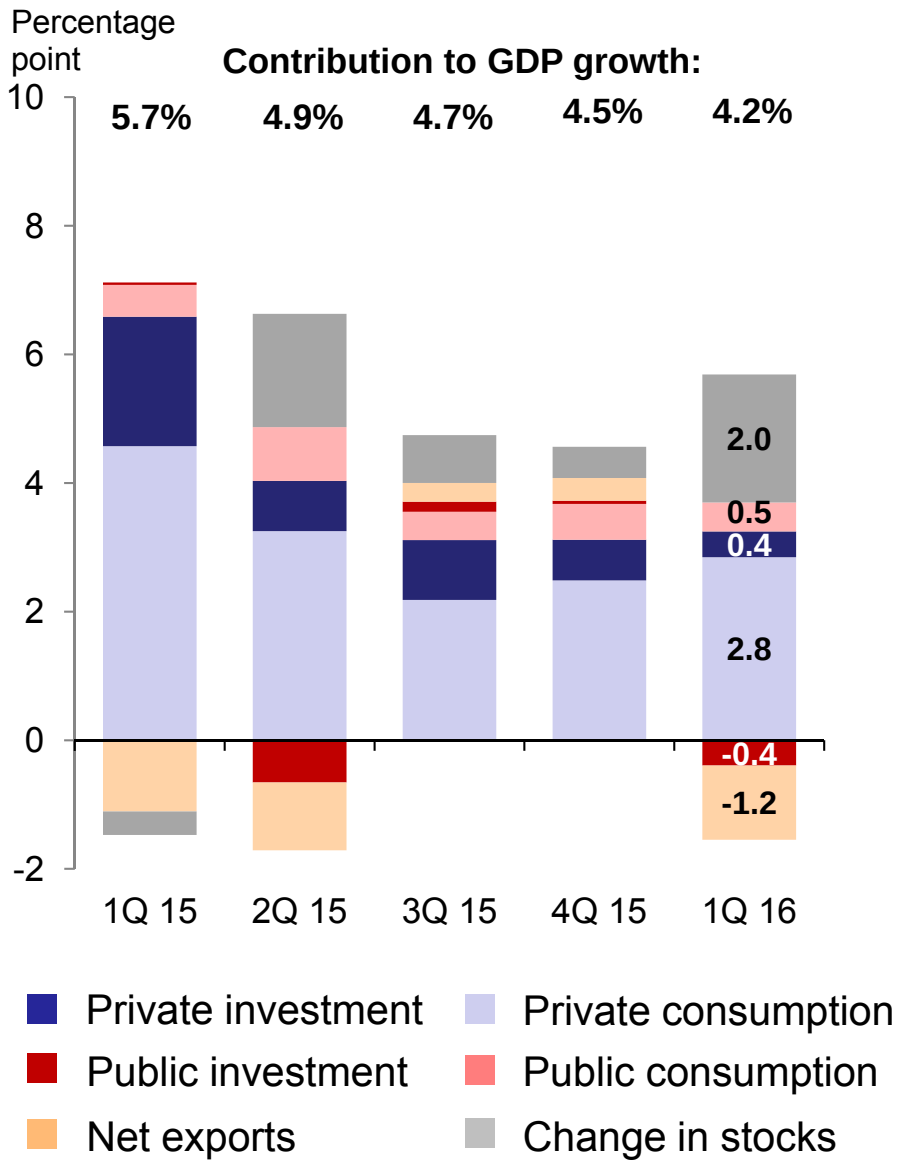
- **Services:** Sustained growth across all sub-sectors
- **Manufacturing:** Growth supported by expansion in both export and domestic-oriented industries
- **Mining:** Improvement in production of LNG
- **Agriculture:** Lower palm oil output due to El Nino
- **Construction:** Growth driven by civil engineering sub-sector, which more than offset weak non-residential performance

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

Source: Department of Statistics, Malaysia

Private sector remained the key driver of growth

Real GDP (Annual change, %)	Share, % (2015)	2015			2016
		1Q	4Q	Year	1Q
Domestic demand (excluding stocks)	**91.6**	**8.0**	**4.0**	**5.1**	**3.6**
Private Sector	**69.2**	**9.6**	**4.9**	**6.1**	**4.5**
Consumption	*52.4*	*9.0*	*4.9*	*6.0*	*5.3*
Investment	*16.9*	*11.6*	*4.9*	*6.4*	*2.2*
Public Sector	**22.4**	**2.6**	**2.1**	**2.1**	**0.4**
Consumption	*13.5*	*4.1*	*3.3*	*4.4*	*3.8*
Investment	*8.9*	*0.6*	*0.4*	*-1.0*	*-4.5*
Net exports of goods and services	**8.6**	**-10.1**	**4.3**	**-3.8**	**-12.4**
Exports	*72.9*	*-0.6*	*4.0*	*0.6*	*-0.5*
Imports	*64.3*	*0.9*	*4.0*	*1.2*	*1.3*
Change in stocks (RM billion)	**-0.2**	**-2.7**	**-1.3**	**-2.1**	**2.4**
GDP (y-o-y)	**100.0**	**5.7**	**4.5**	**5.0**	**4.2**
GDP (q-o-q growth, seasonally adjusted)	**-**	**1.4**	**1.2**	**-**	**1.0**

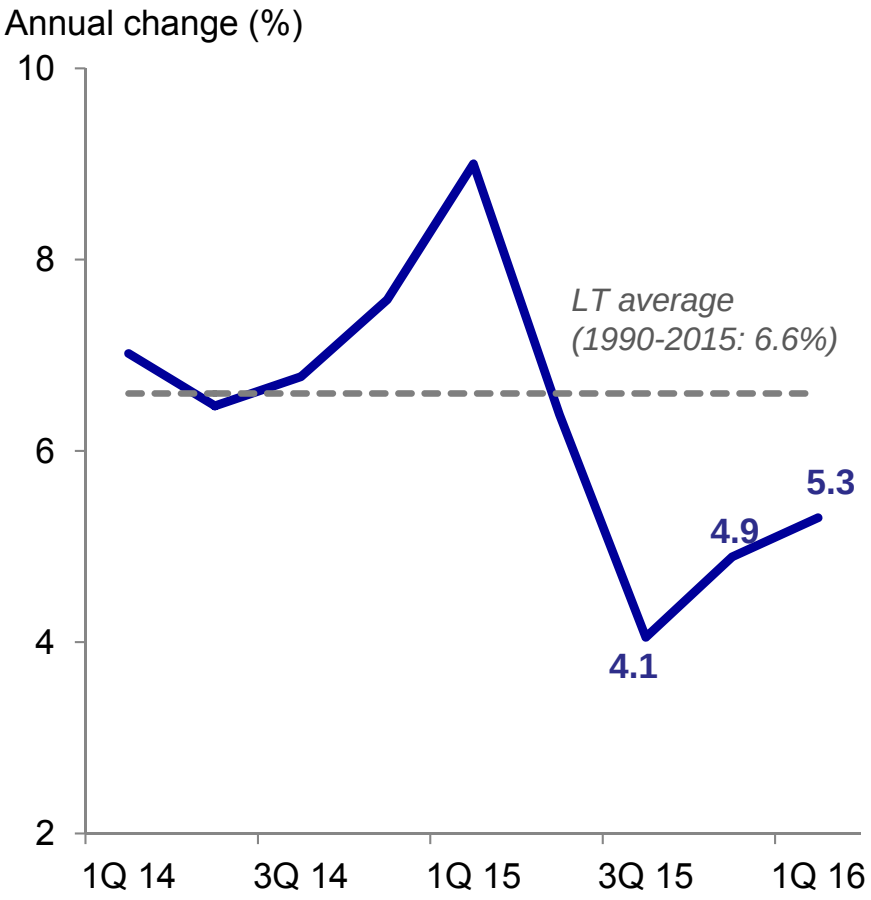


Source: Department of Statistics, Malaysia

Private consumption expanded by 5.3%

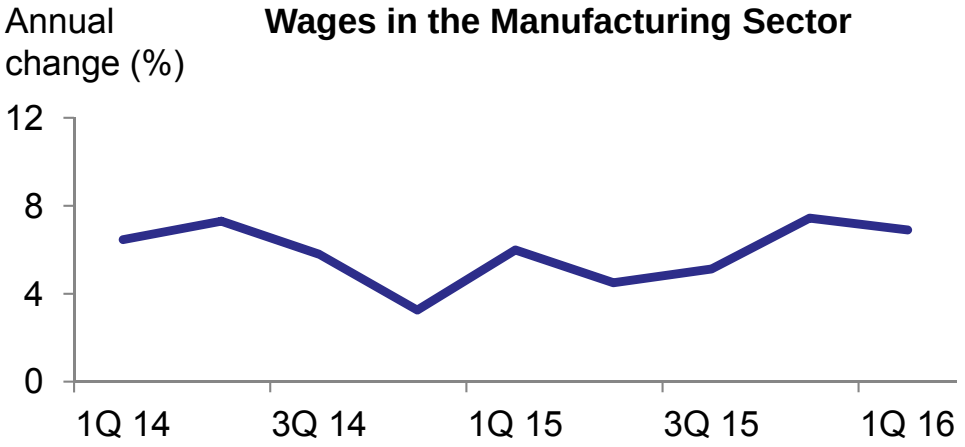
Further increase in household spending…

Real Private Consumption Growth

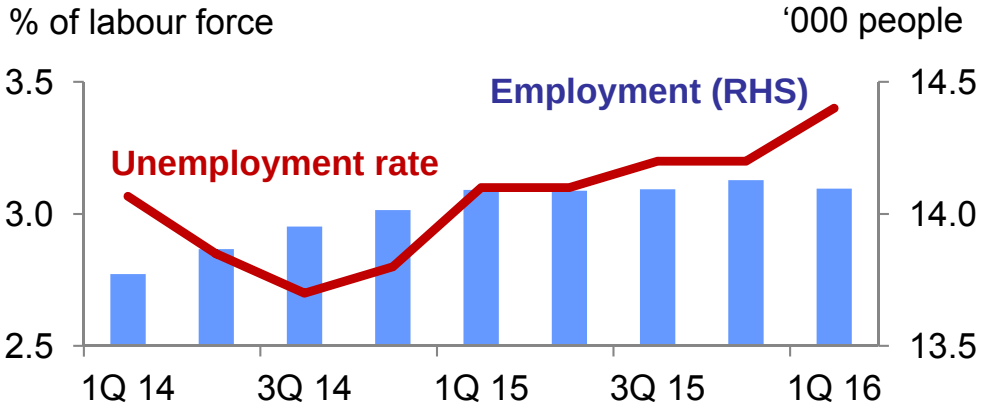


… supported by continued wage growth and favourable labour market conditions

Wages in the Manufacturing Sector



Key Labour Market Indicators

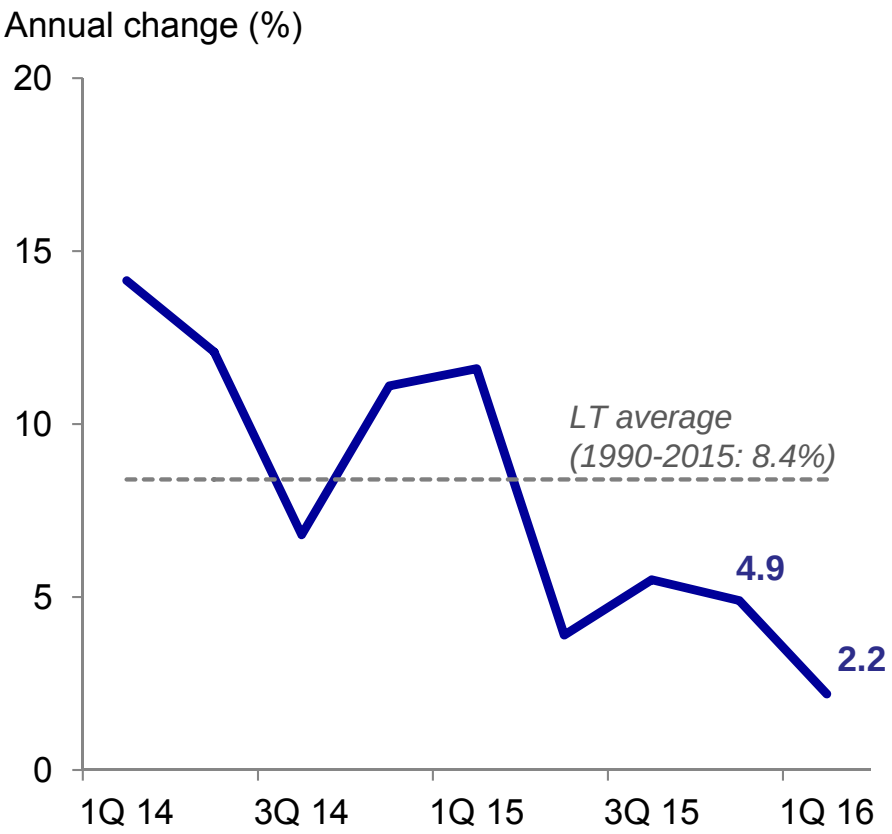


Source: Department of Statistics, Malaysia and Ministry of Human Resources

Private investment moderated to 2.2%

More moderate growth in private sector capital spending

Real Private Investment Growth

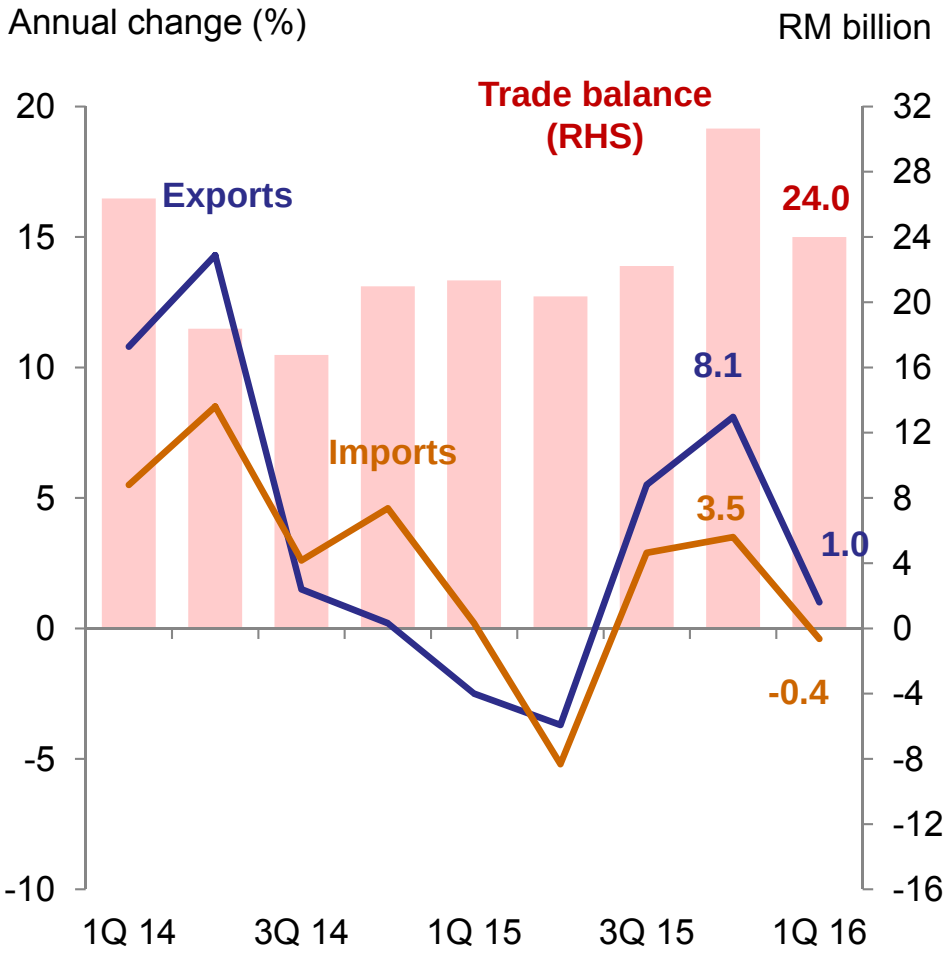


- Growth moderated due to cautious business sentiments and continued adjustments in upstream activity in the oil and gas sector
- Lower spending on machinery and equipment
- However, investment activity remained supported by higher spending on structures in the manufacturing and services sectors

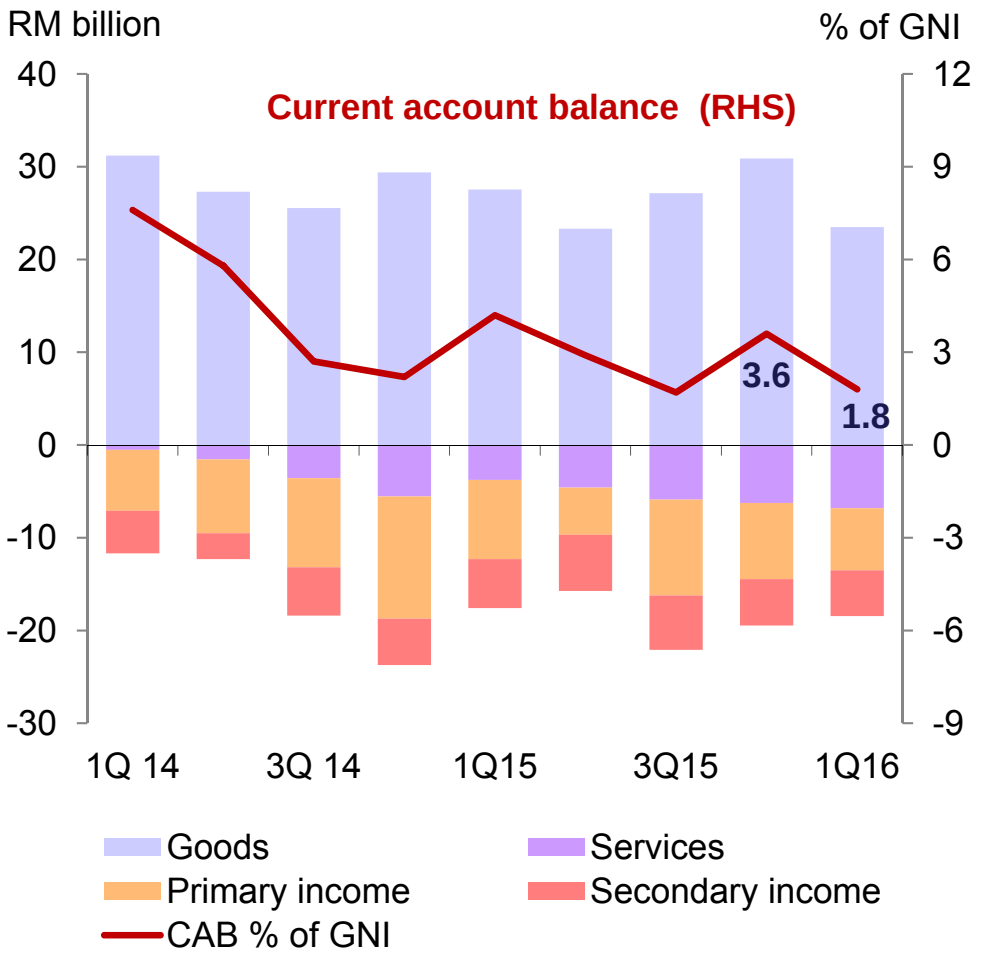
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

The current account of the balance of payments remains in surplus

Exports expanded at a slower pace, while imports growth recorded a marginal decline



Current account continued to be in surplus

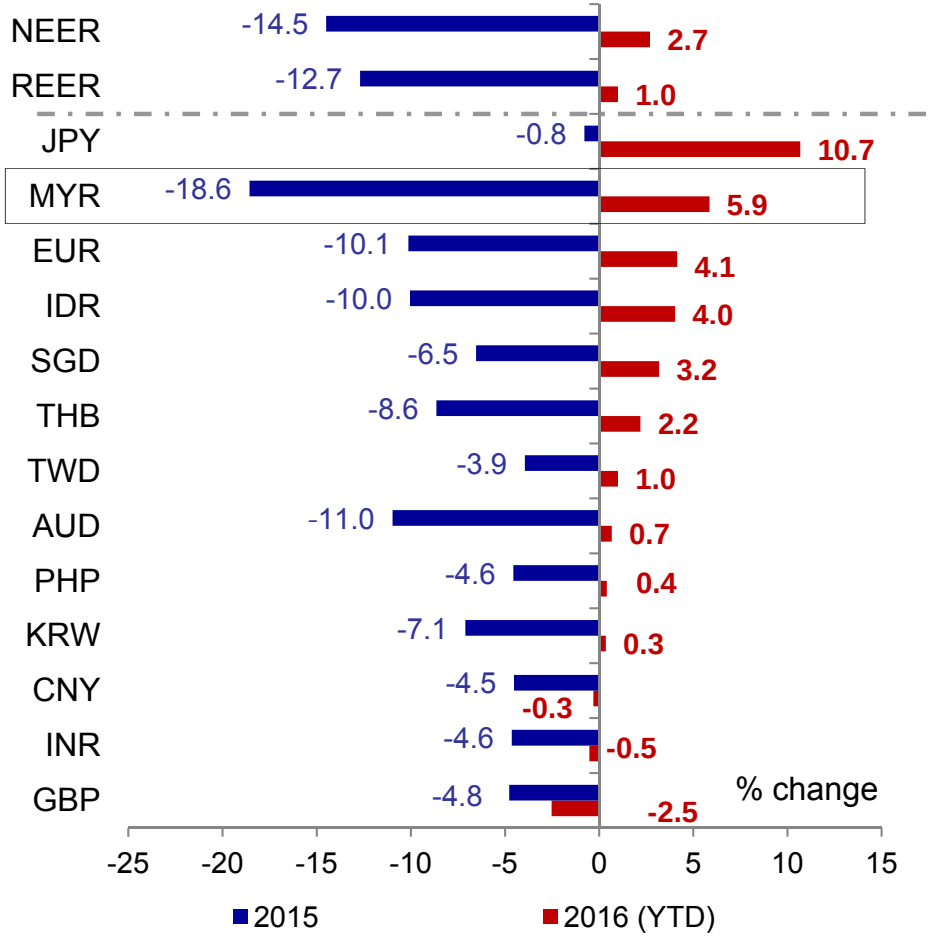


Source: Department of Statistics, Malaysia

Ringgit has strengthened in 2016 amidst the resumption of capital inflows

In 2016, the ringgit has outperformed the currencies of major and regional countries

Performance of Selected Currencies against the USD



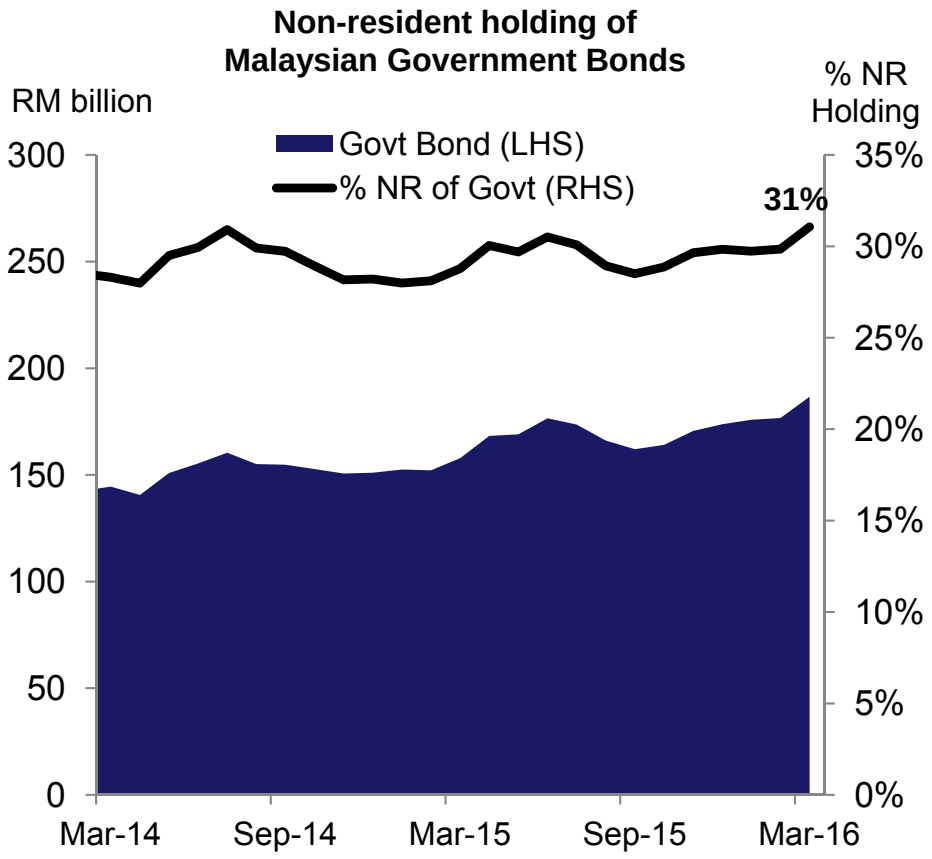
Source: Bank Negara Malaysia

However, risks of high foreign exchange volatility remain due to uncertainties in external environment

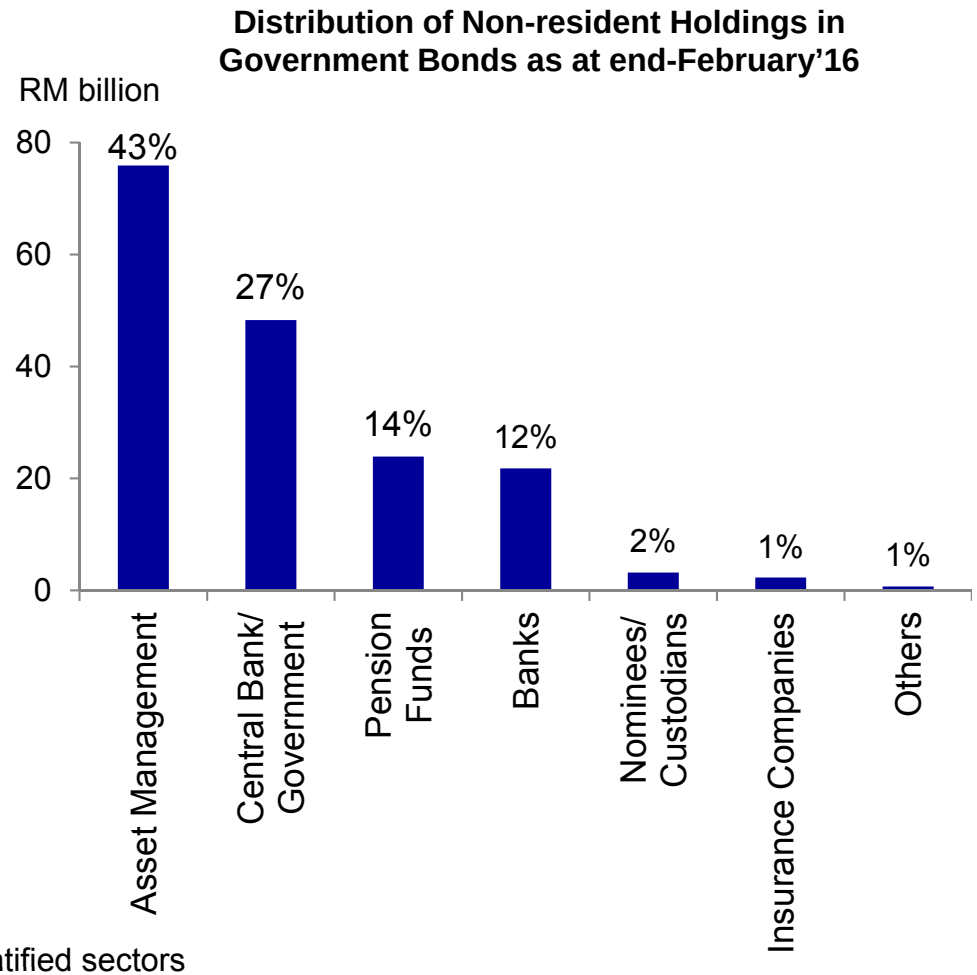
- Despite expectations of a slower pace of interest rate increase by the Fed, these **expectations can shift swiftly**
- **Ongoing adjustments** in China may continue to raise growth and market concerns
- Global crude oil prices **expected to remain volatile** due to uncertain supply and demand conditions
- Notwithstanding the capital flow and ringgit volatility, Malaysia's economic resilience will provide support for the ringgit over the medium term

Non-resident holdings of Malaysian government bonds have been stable, underpinned by long-term investors

Non-resident holdings of Malaysian government bonds are stable at 31%



Majority of non-residents are long-term investors

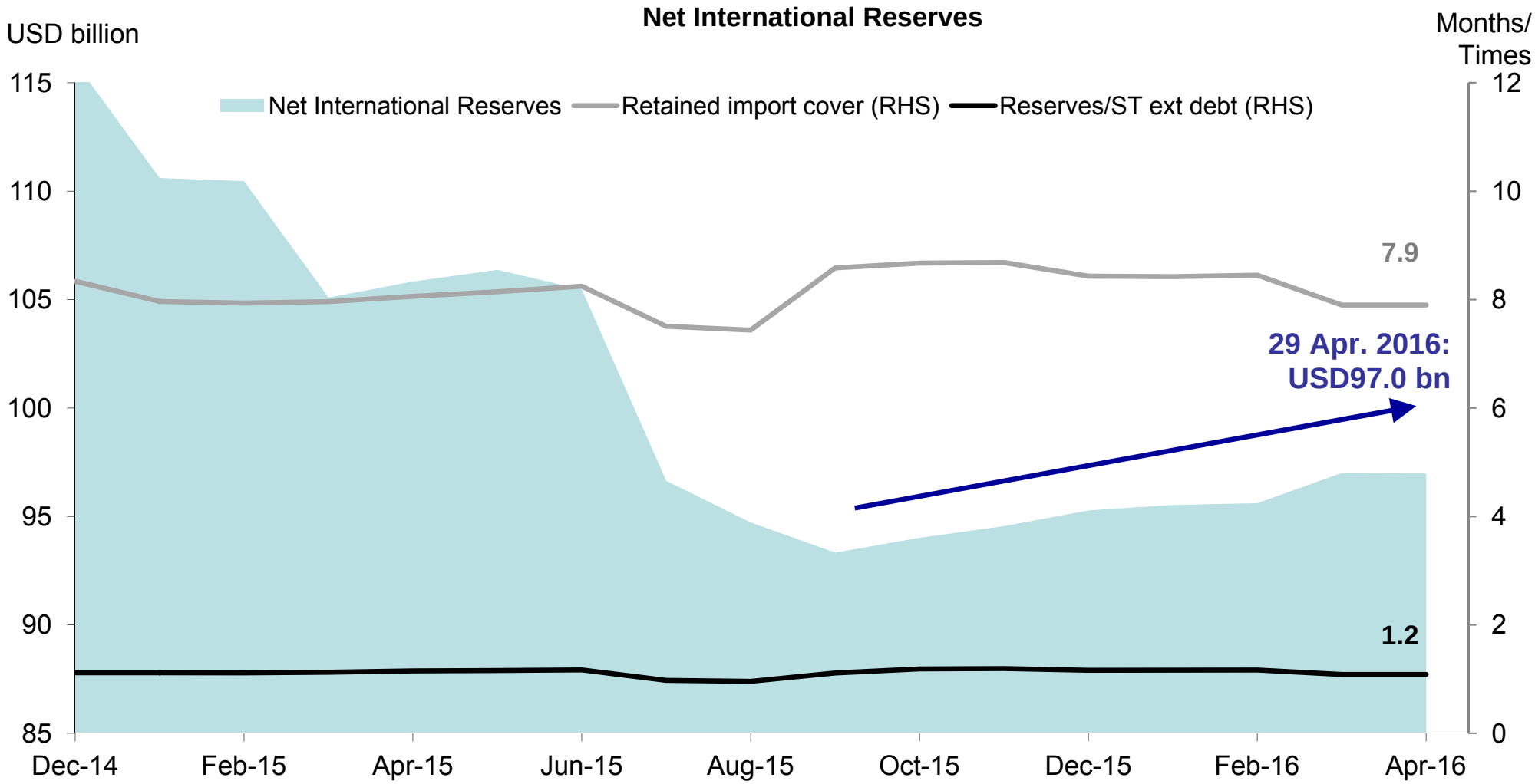


Note: 'Others' include individuals, non-financial corporations and unidentified sectors

Source: Bank Negara Malaysia

International reserves have increased in recent months

Reserves are sufficient to facilitate international transactions

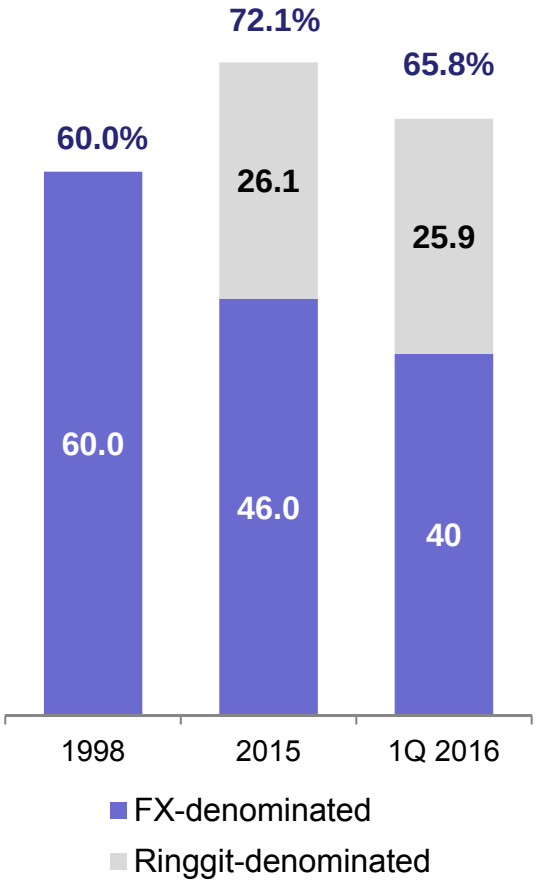


Source: Bank Negara Malaysia, Department of Statistics, Malaysia

External debt remains manageable

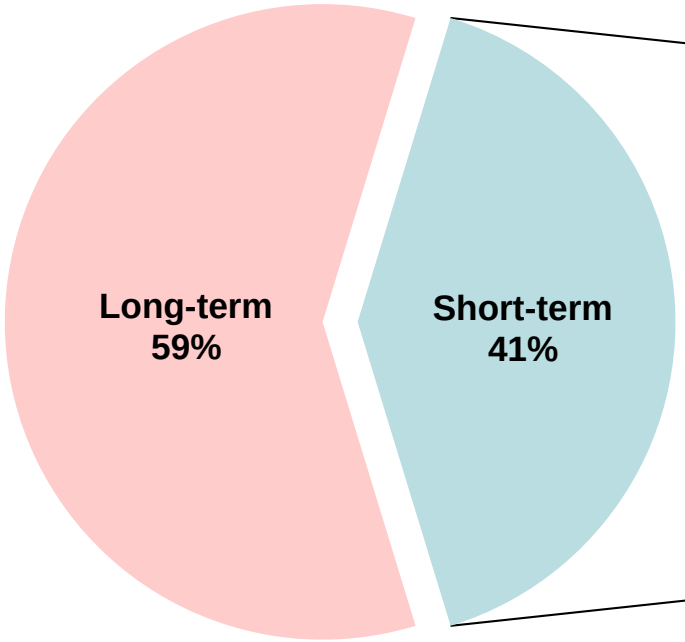
Higher external debt attributable to the ringgit-denominated debt

Total External Debt
% of GDP



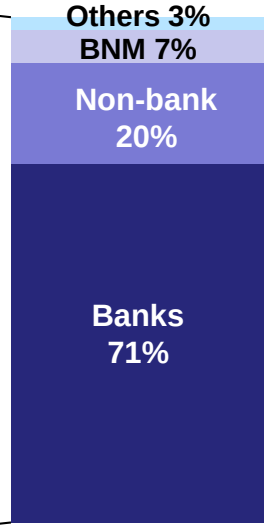
59% of total external debt has medium- to long-term tenure

Total External Debt
1Q 2016
(% share)



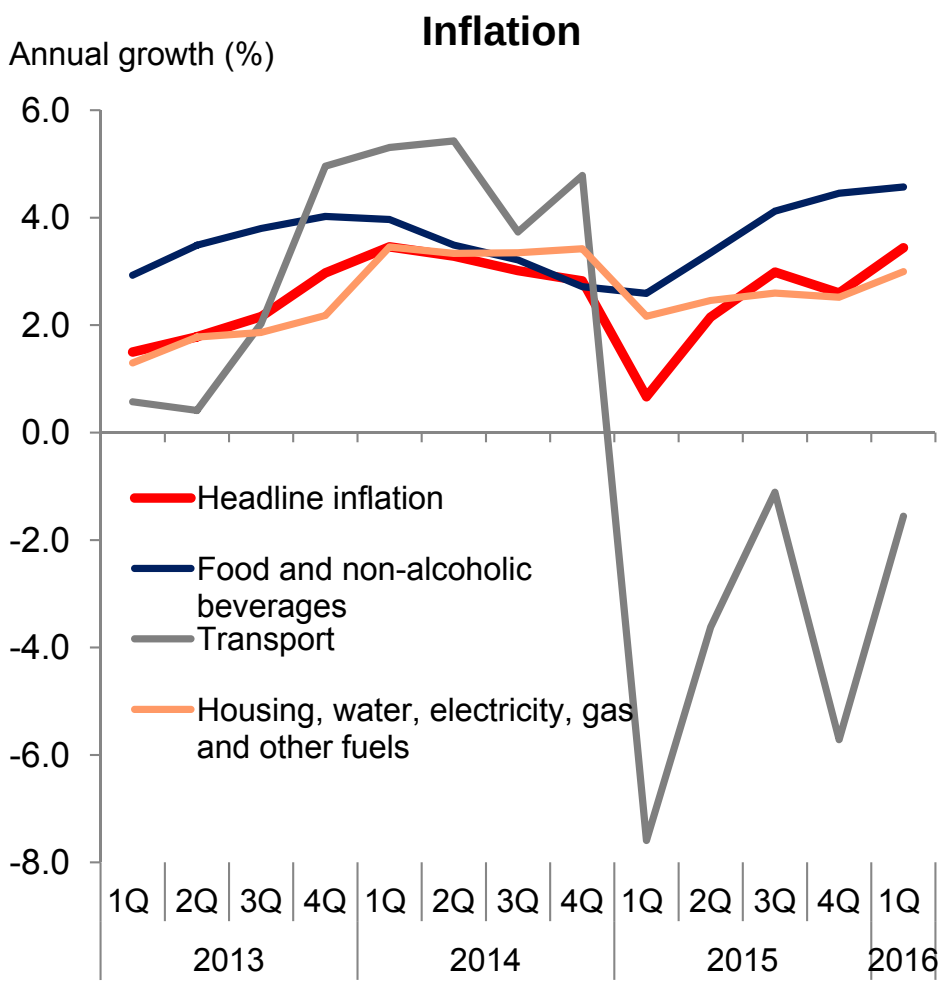
Short-term external debt holders are mainly banks

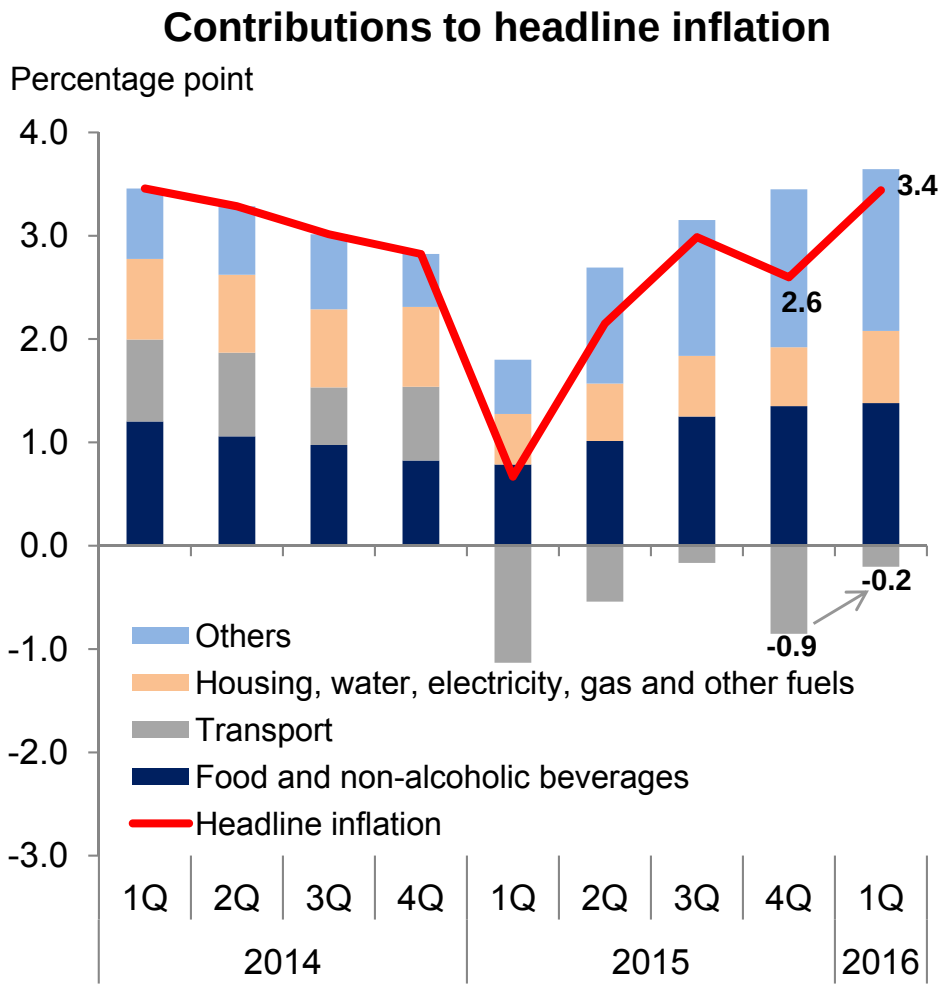
Breakdown of short-term external debt
1Q 2016
(% share)



Source: Bank Negara Malaysia, Department of Statistics, Malaysia

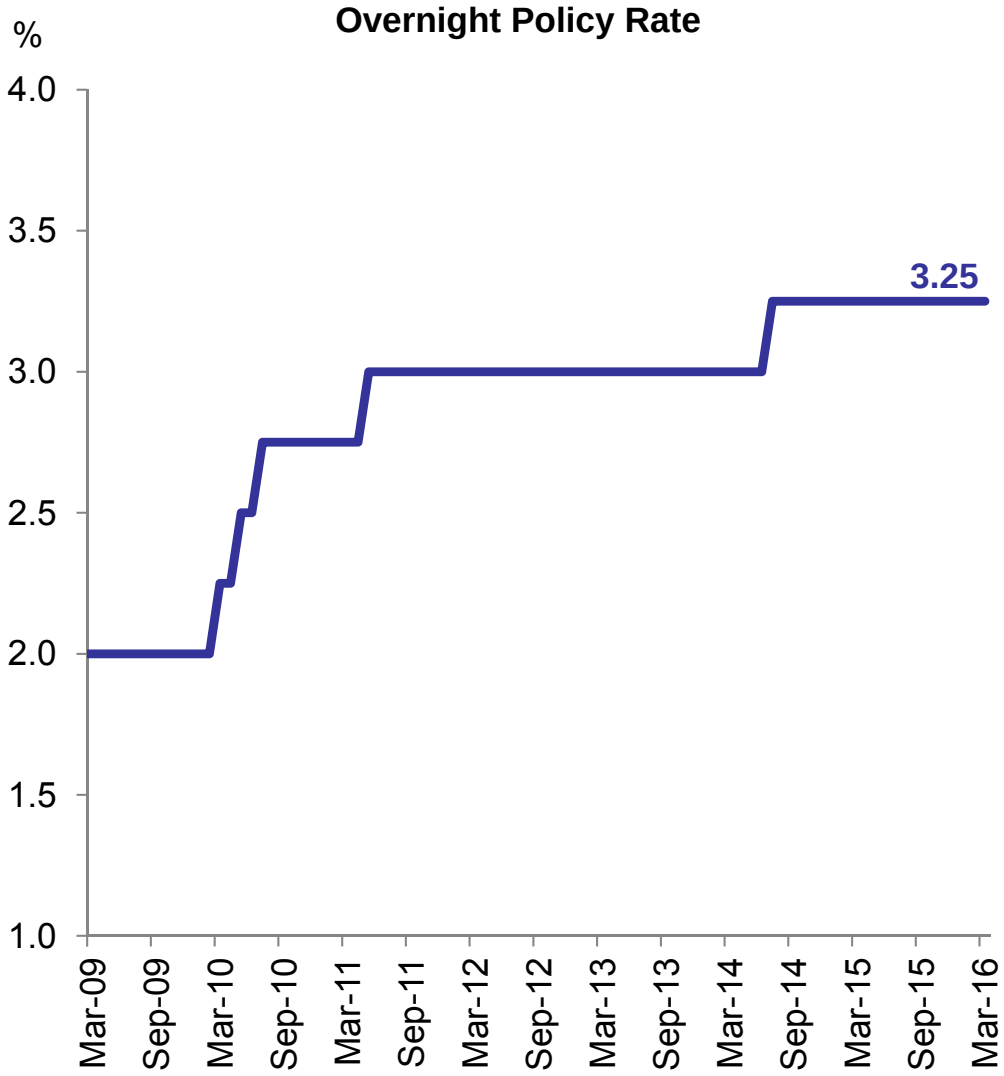
Headline inflation was higher at 3.4% in 1Q





Source: Department of Statistics Malaysia and Bank Negara Malaysia

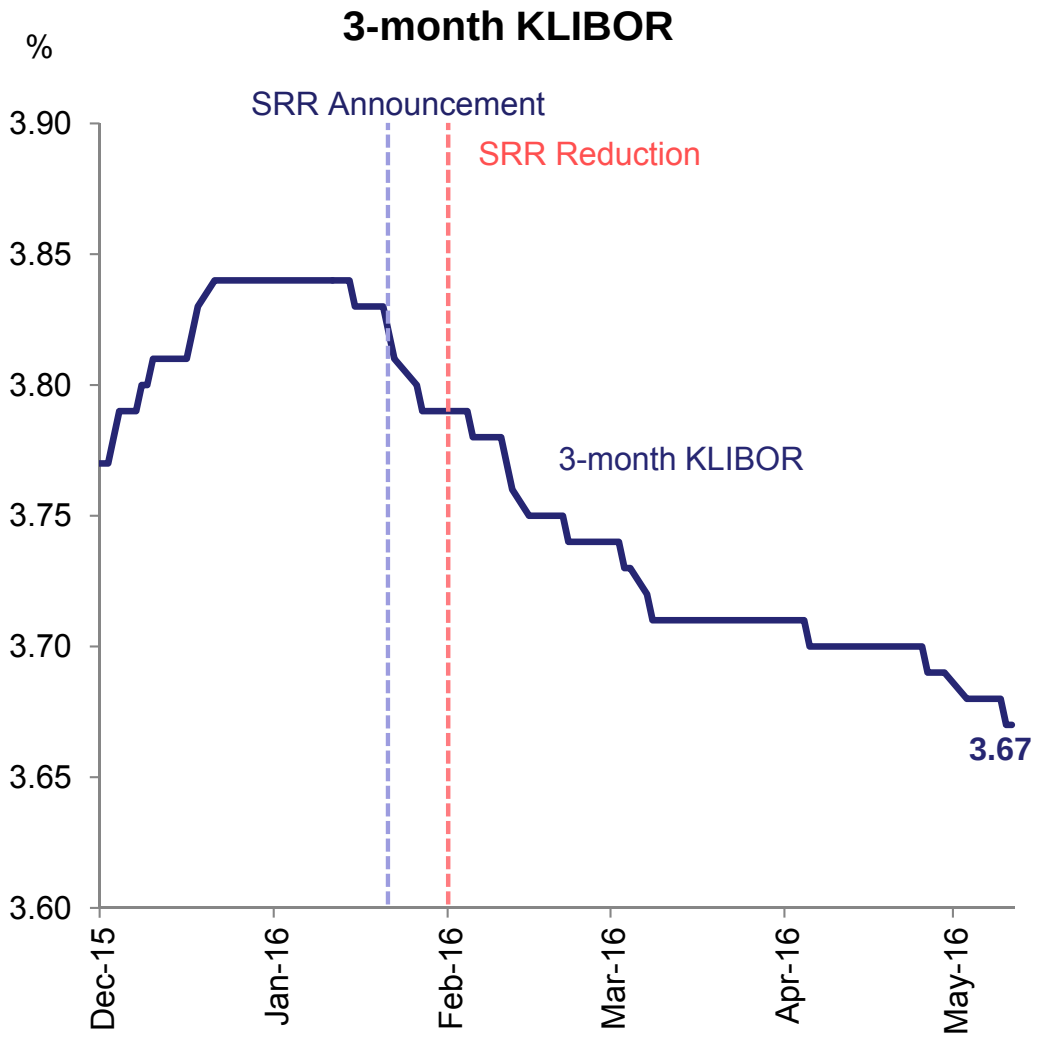
Monetary policy focused on ensuring sustainable growth amid contained risks to inflation



The stance of monetary policy remains accommodative and supportive of economic activity

- Economic growth is expected to remain within the range of 4 - 4.5%
- Inflation is projected to moderate for the remainder of the year and remain within the 2.5 – 3.5% range

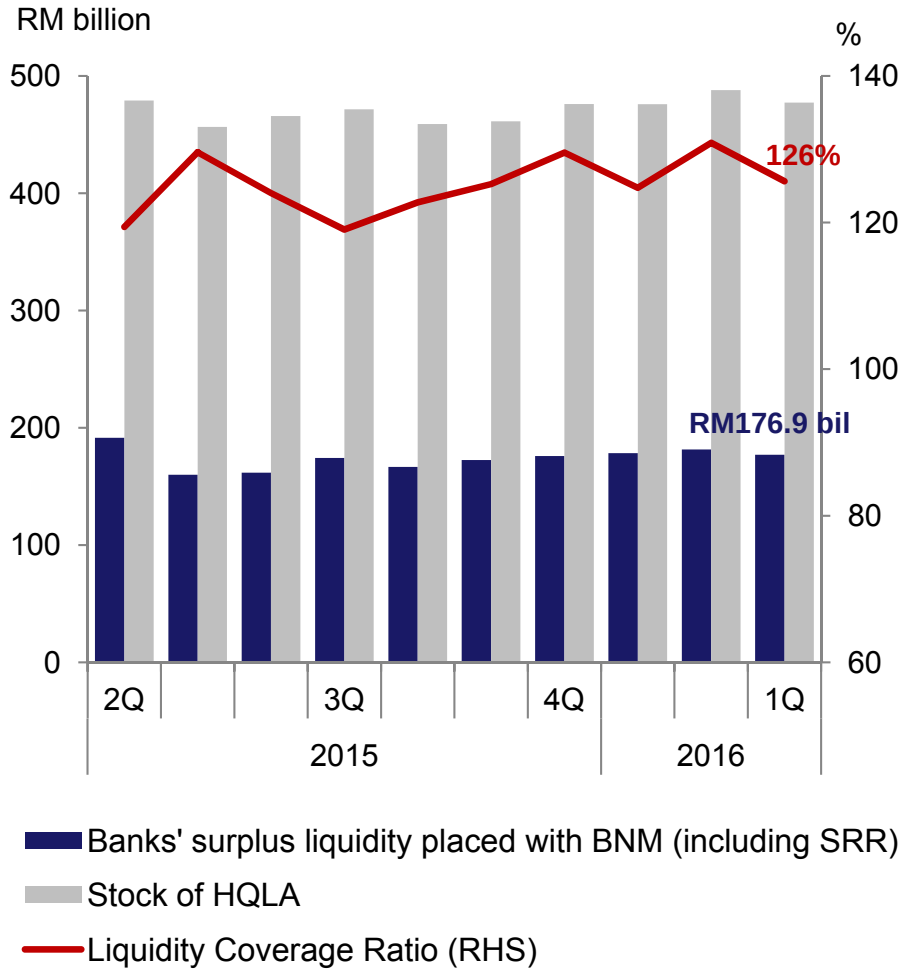
Liquidity conditions have improved since the reduction of the SRR



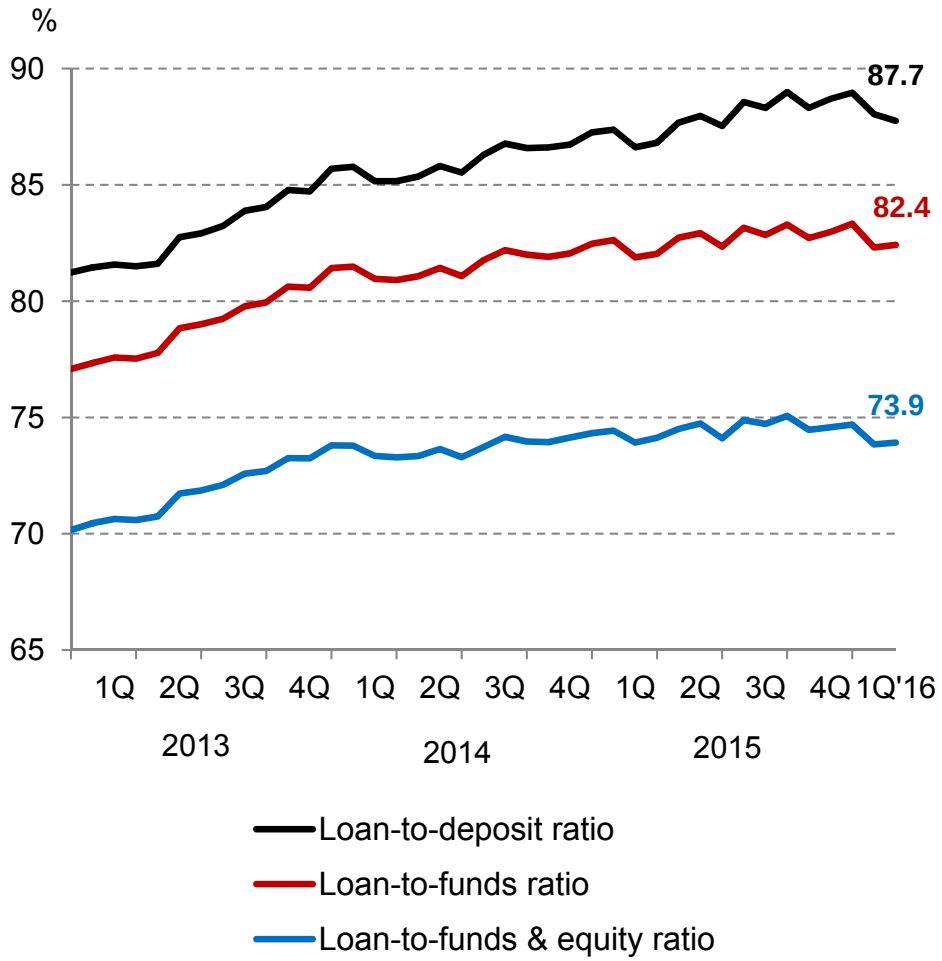
- Following the reduction in the Statutory Reserve Requirement (SRR) effective 1 February 2016, pressure on the interbank market has eased
  - The reduction in the SRR resulted in a broad-based release of liquidity in the banking system
  - Greater interbank lending was observed, which improved the distribution of liquidity among banks

Liquidity and funding conditions remained supportive of intermediation activities

Banking system surplus liquidity remained high at RM176.9 billion



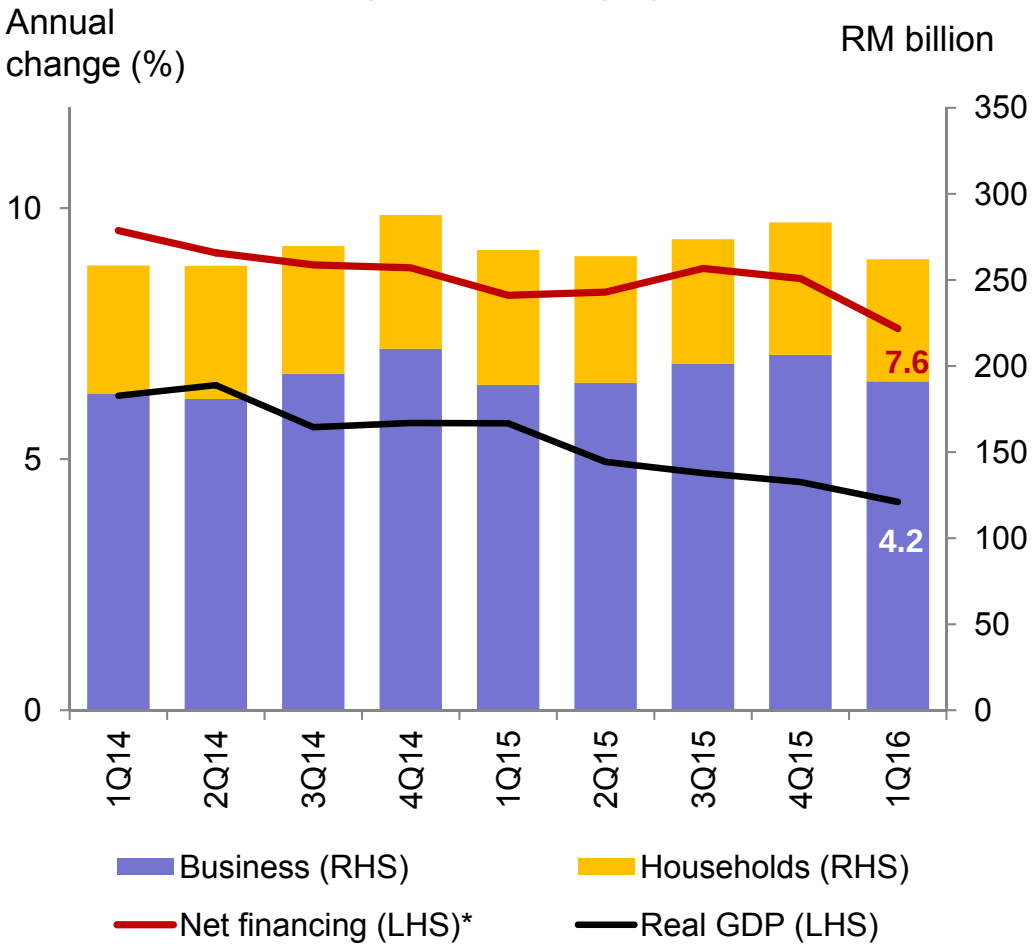
Stable and more diversified funding structure of banks continue to support financing activities



Source: Bank Negara Malaysia

Financing continued to be channelled to the private sector

Outstanding Loans Growth and Loans Disbursed through the Banking System



*Comprises outstanding loans of the banking system and outstanding PDS

Source: Bank Negara Malaysia

- Net financing continued to grow, but at a more moderate pace of 7.6% in 1Q 2016 (4Q 2015: 8.6%) reflecting the slower economic activity
- Borrowers with the servicing capacity continued to have access to financing
  - Level of loans disbursed to both businesses and households was sustained
- In addition, borrowing costs for the private sector remained stable
  - Lending rates to businesses and SMEs remain below their long-run average

Domestic financial system remains resilient

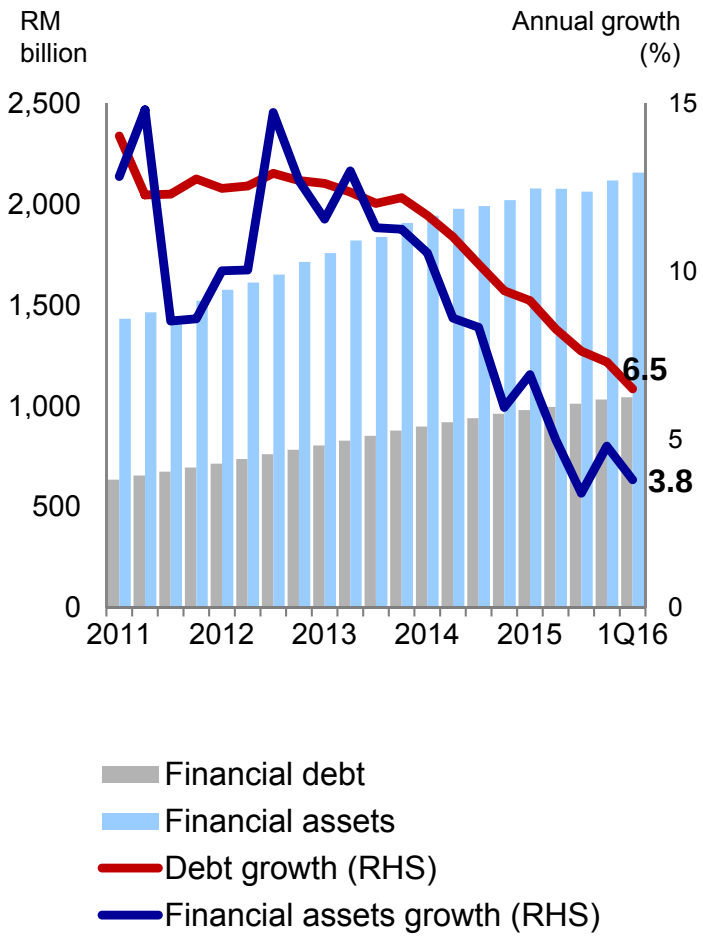
Banking sector	4Q 15	1Q 16
Common equity tier 1 capital ratio (%)	**12.8**	**13.0**
Tier 1 capital ratio (%)	**13.8**	**13.9**
Total capital ratio (%)	**16.1**	**16.5**
Capital buffer (RM bil)	**117.3**	**121.9**
Net impaired loans ratio (%)	**1.2**	**1.2**
ROE (annualised)	**12.4**	**12.4**
Liquidity Coverage Ratio (%)	**130**	**126**
Insurance/Takaful sector	**4Q 15**	**1Q 16**
Capital adequacy ratio (%) - Insurance	**251.9**	**249.2**
Capital adequacy ratio (%) - Takaful	**190.3**	**186.2**
Capital buffer (RM bil)	**46.0**	**48.5**
Profit YTD (RM bil)	**14.7**	**5.4**

- Domestic risks to financial stability continued to moderate
- More challenging operating environment likely to weigh on revenue and loan performance going forward
- Sound financial institutions and ample domestic liquidity continue to provide firm support to economic activities

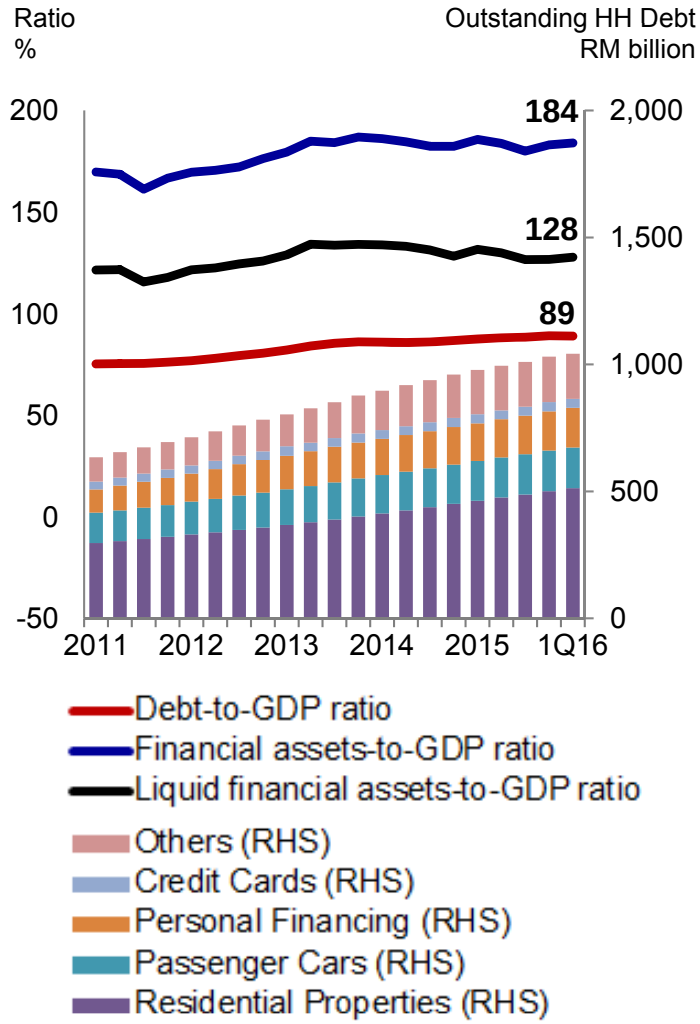
Source: Bank Negara Malaysia

Growth in household debt moderated further

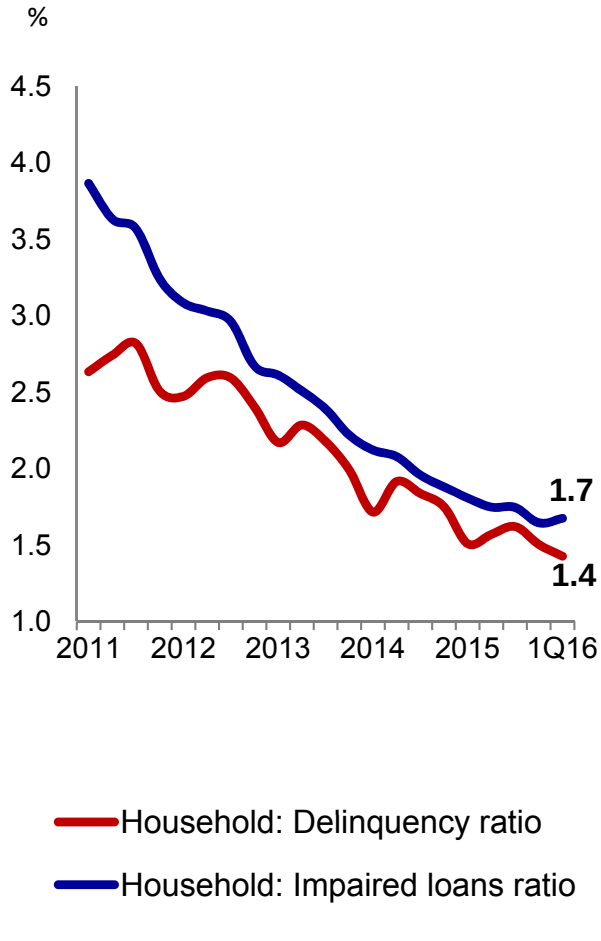
Growth in household debt moderated over 14 consecutive quarters



Aggregate household financial assets remained at two times of debt



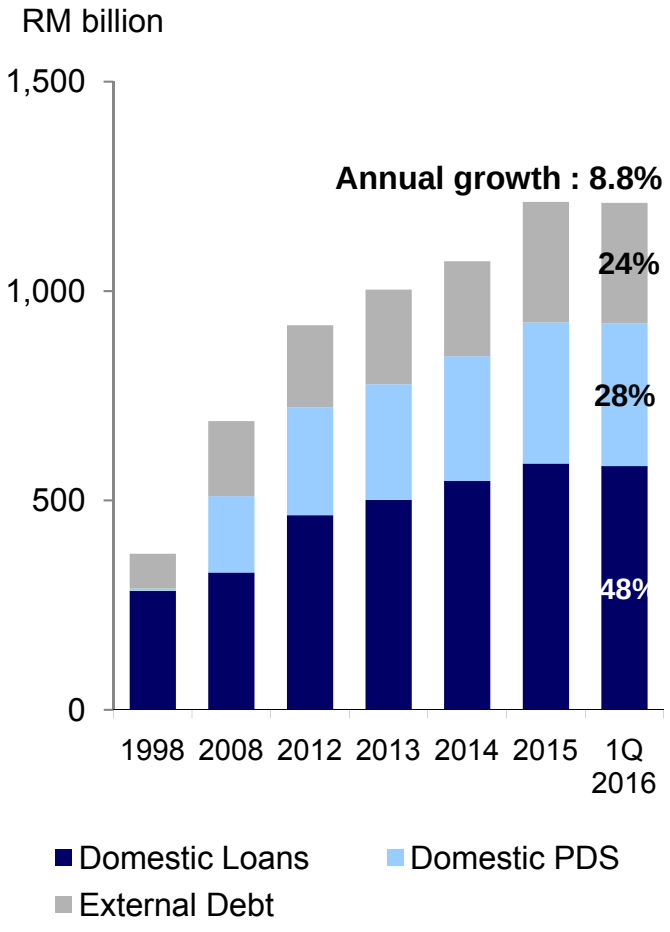
Household loan performance remained of high quality



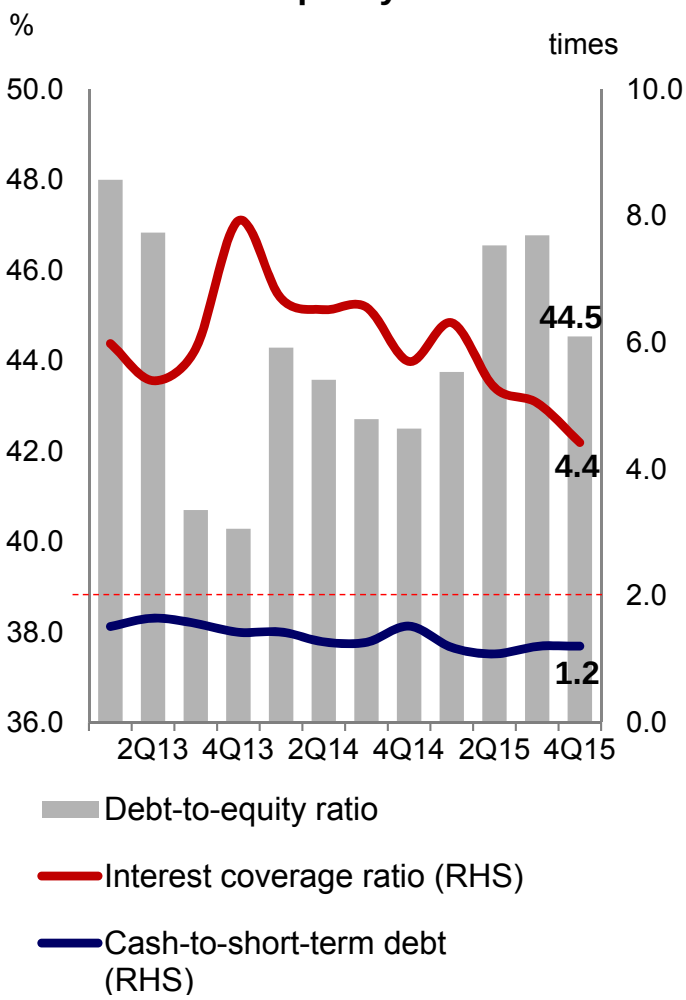
Source: Bank Negara Malaysia

Debt servicing capacity of businesses remained generally sound

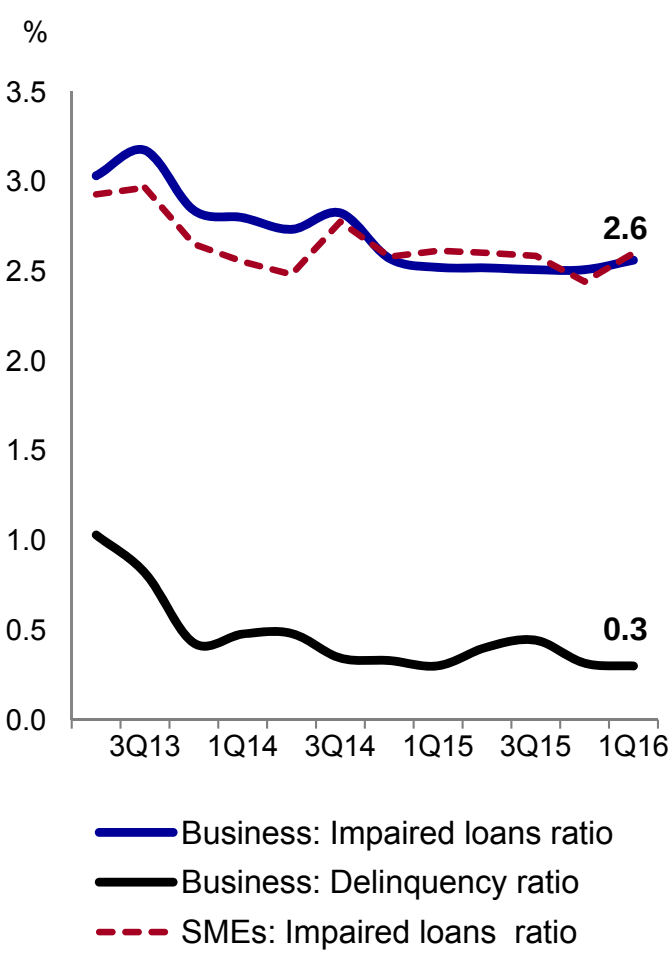
About 76% of Malaysian business borrowings funded domestically



Sustained overall debt servicing capacity



Delinquencies and impairment remained stable



Source: Bank Negara Malaysia

Looking ahead, the Malaysian economy remains on track to expand by 4 – 4.5% in 2016

While the current economic environment remains challenging, the Malaysian economy is projected to remain on a steady growth path, driven by domestic demand

Growth to improve in 2H 2016, supported by:

- Higher production in the manufacturing sector from added capacity
- Improved commodities production from the diminishing effect of El-Nino
- Higher wages for civil servants and upward revision to minimum wages

Strong and resilient macroeconomic fundamentals accords Malaysia the ability to manage current challenges

- Diversified sources of growth
- Low inflation
- Favourable external position

Financial Markets Committee

- Deepening Financial Markets Development

Objective

To broaden industry engagement with a focus in reviewing and formulating comprehensive strategies for the wholesale financial markets to meet the diverse and complex demands of a more developed and internationally integrated economy.

Representatives

The members shall include participants/representatives from Bank Negara Malaysia, financial institutions, corporations, financial service providers and other institutions or stakeholders which has prominent role or participation in the financial markets.

Mandate

I. To identify and assess current and potential developments and issues, structural trends and risks affecting the Malaysian financial market.
II. To recommend on appropriate strategies and action plans to develop the Malaysian financial market.
III. To promote market best practices and contribute towards enhancing market integrity and professionalism.

Q&A Session