Sidang Akhbar

Prestasi Ekonomi
pada Suku Pertama Tahun 2017

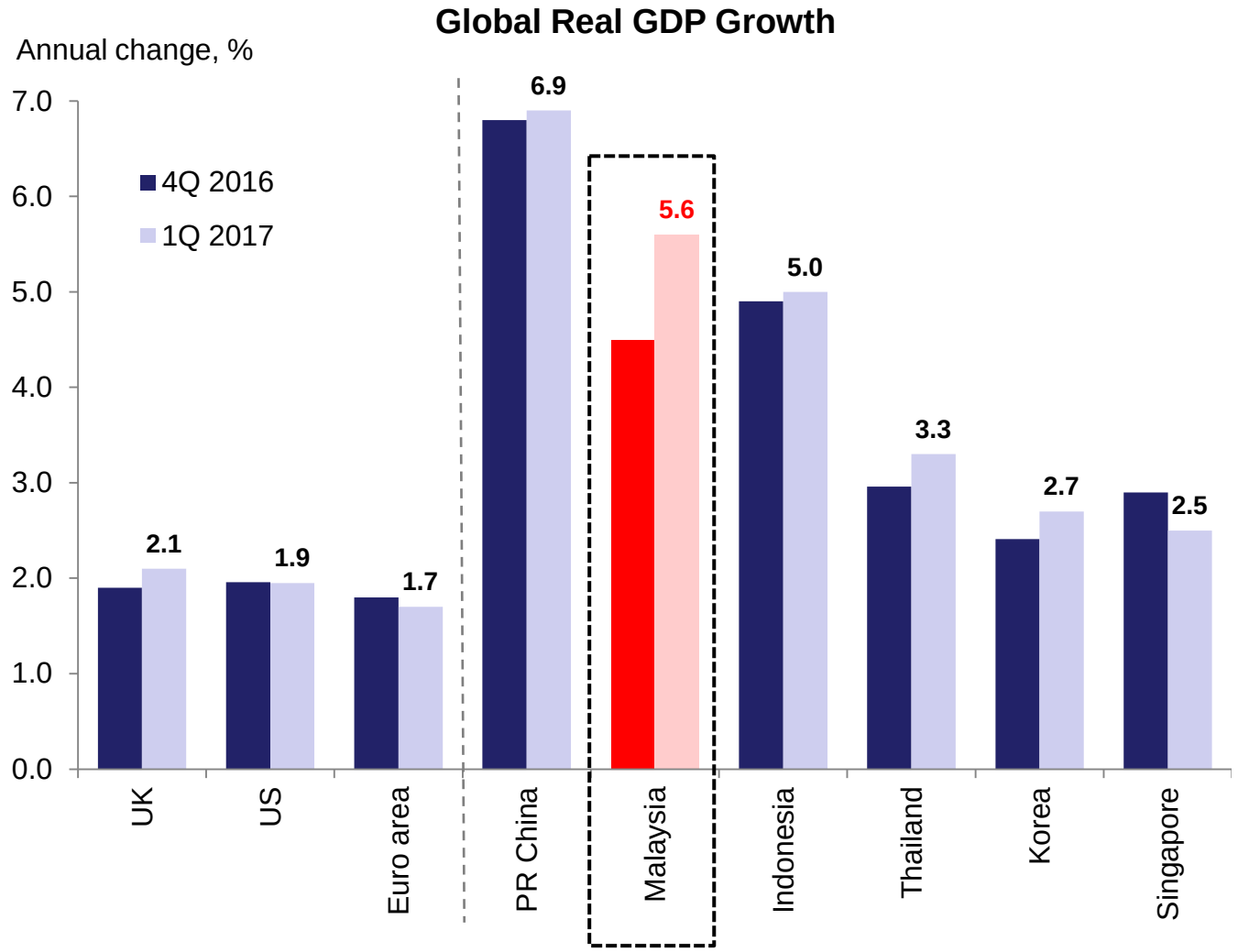
Gabenor
Bank Negara Malaysia

19 Mei 2017

Sidang akhbar akan meliputi:

- **Prestasi ekonomi pada suku pertama tahun 2017**
- **Perkembangan monetari dan kewangan**
- **Isu-isu ekonomi dan kewangan**

Further expansion in global economic activity in 1Q 2017



- **Continued growth in the advanced economies**
- **Growth in Asia was supported by sustained domestic demand and stronger external demand**

Source: National authorities

The Malaysian economy recorded a robust growth of 5.6% in 1Q 2017

Private expenditure was higher and remained the main driver of growth

- Strong consumption and investment

Public sector more supportive of growth

Higher exports

Real GDP (Annual change, %)	Share, % (2016)	2016		2017
		1Q	4Q	1Q
Domestic demand (excluding stocks)	**91.6**	**3.4**	**3.2**	**7.7**
Private Sector	**70.1**	**4.4**	**5.9**	**8.2**
Consumption	*53.2*	5.2	*6.1*	*6.6*
Investment	*16.9*	2.1	*4.9*	*12.9*
Public Sector	**21.5**	**-0.2**	**-2.6**	**5.8**
Consumption	*13.1*	2.7	*-4.2*	*7.5*
Investment	*8.5*	-4.4	*-0.4*	*3.2*
Net exports of goods and services	**8.4**	**-7.9**	**6.4**	**-14.5**
Exports	*70.4*	1.0	*2.2*	*9.8*
Imports	*62.1*	2.3	*1.6*	*12.9*
Change in stocks (RM billion)	**0.0**	**2.3**	**1.5**	**1.8**
GDP (y-o-y)	**100[1]**	**4.1**	**4.5**	**5.6**
GDP (q-o-q growth, seasonally adjusted)	**-**	**0.8**	**1.3**	**1.8**

[1] Numbers do not add up due to rounding
Source: Department of Statistics, Malaysia

Higher growth across major economic sectors

- **Services**
  Broad-based improvements across most sub-sectors
- **Manufacturing**
  Stronger E&E and consumer-related production
- **Agriculture**
  Recovery of CPO yields post-El Niño and higher rubber production
- **Construction**
  Underpinned by civil engineering activity
- **Mining**
  Lower crude oil production

Real GDP (Annual change,%)	Share, % *(2016)*	2016		2017
		1Q	4Q	1Q
Services	54.3	5.1	5.5	5.8
Manufacturing	23.0	4.6	4.7	5.6
Mining	8.8	-1.2	5.0	1.6
Agriculture	8.1	-3.8	-2.5	8.3
Construction	4.5	8.0	5.1	6.5
GDP	**100**[1]	**4.1**	**4.5**	**5.6**

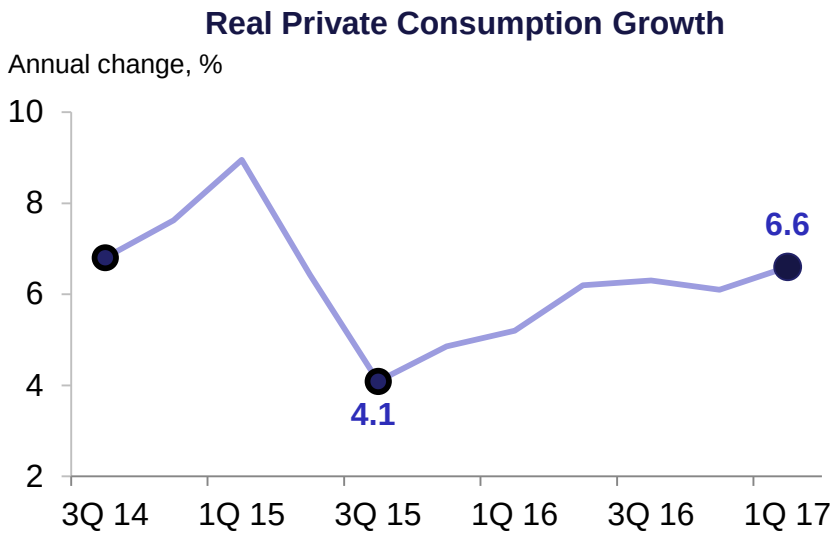
[1] Numbers do not add up due to rounding and exclusion of import duties component

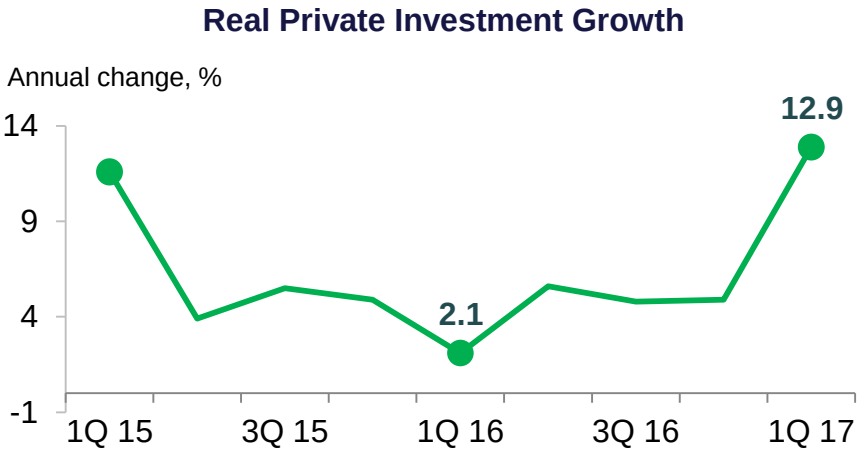
Source: Department of Statistics, Malaysia

Private sector expenditure remained the key driver of growth

- **Private consumption supported by continued expansion in employment and wage growth**

- **Private investment driven mainly by capital spending in the services and manufacturing sectors**

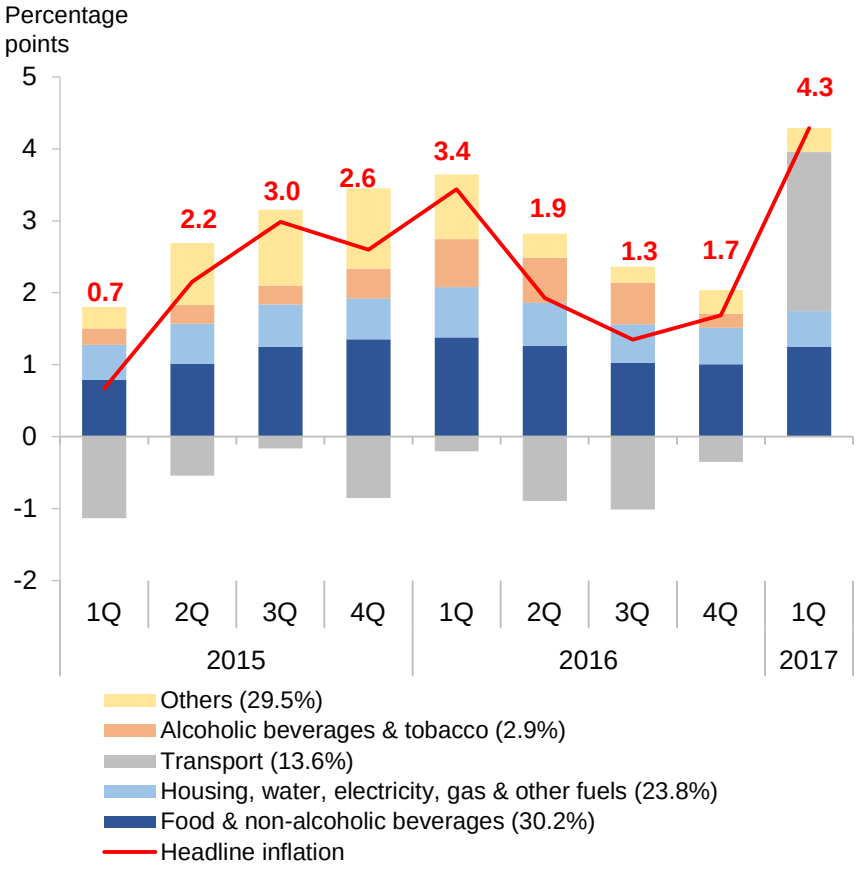




Headline inflation averaged 4.3% in 1Q 2017 but is expected to moderate going forward

Higher inflation in the first quarter was driven mainly by cost factors

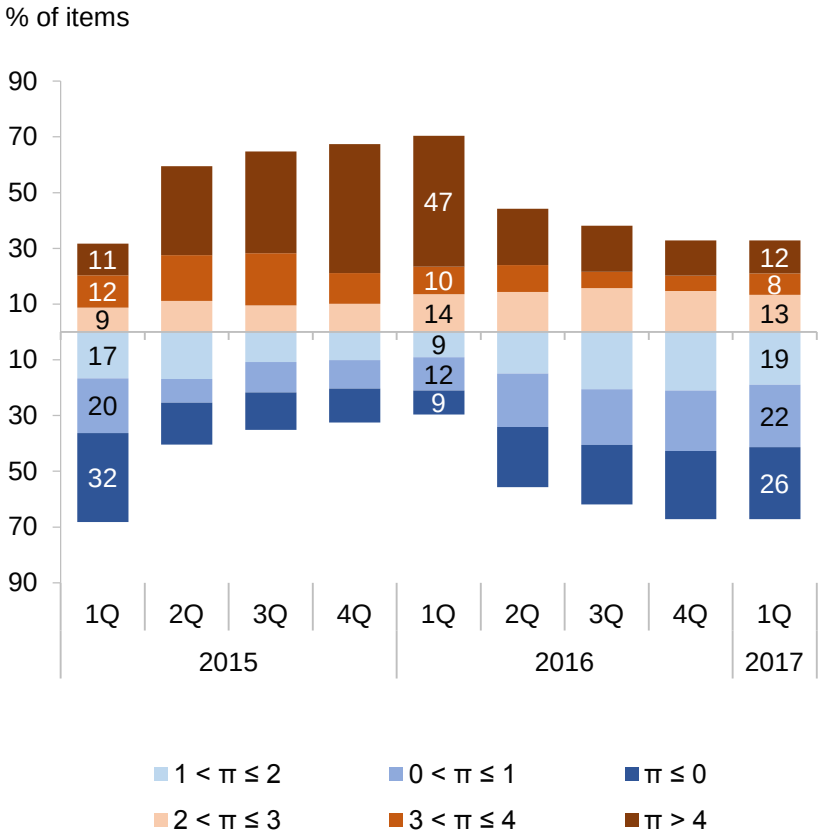
Contributions to headline inflation



Source: Department of Statistic, Malaysia and Bank Negara Malaysia

Spillover effects remained contained

Inflation Pervasiveness

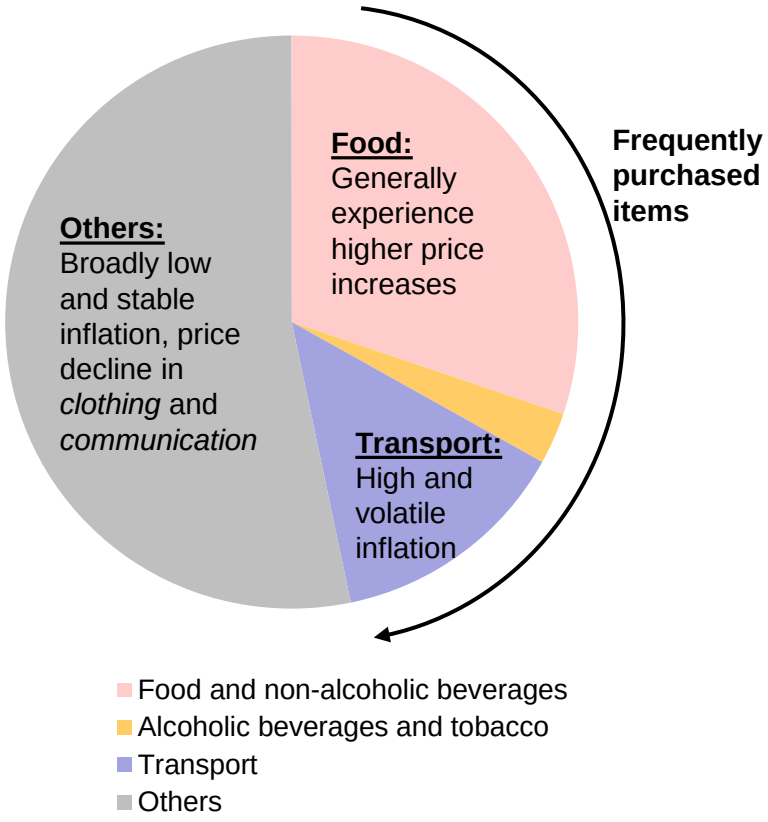


Source: Department of Statistic, Malaysia and Bank Negara Malaysia

Public perception of the actual inflation tends to be higher, influenced by personal experiences

Consumers are more attentive to price increases of frequently purchased items

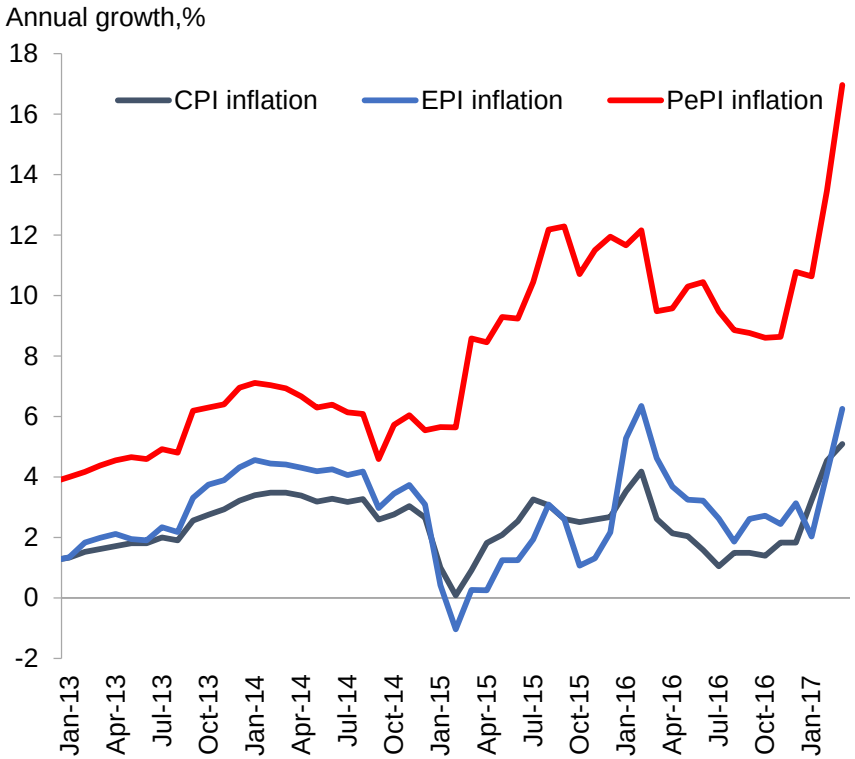
Consumer Price Index Basket (%)



Source: Department of Statistic, Malaysia and Bank Negara Malaysia

Public perception of inflation tends to be higher than actual inflation

Measures of Inflation



Note: The Everyday Price Index (EPI) is an index that comprises of only frequently purchased items within the CPI. The Perceived Price Index (PePI) comprises of the same items as the EPI but only captures prices increases.

Source: Department of Statistic, Malaysia, and Bank Negara Malaysia

Robust trade performance in 1Q 2017

External Trade Performance

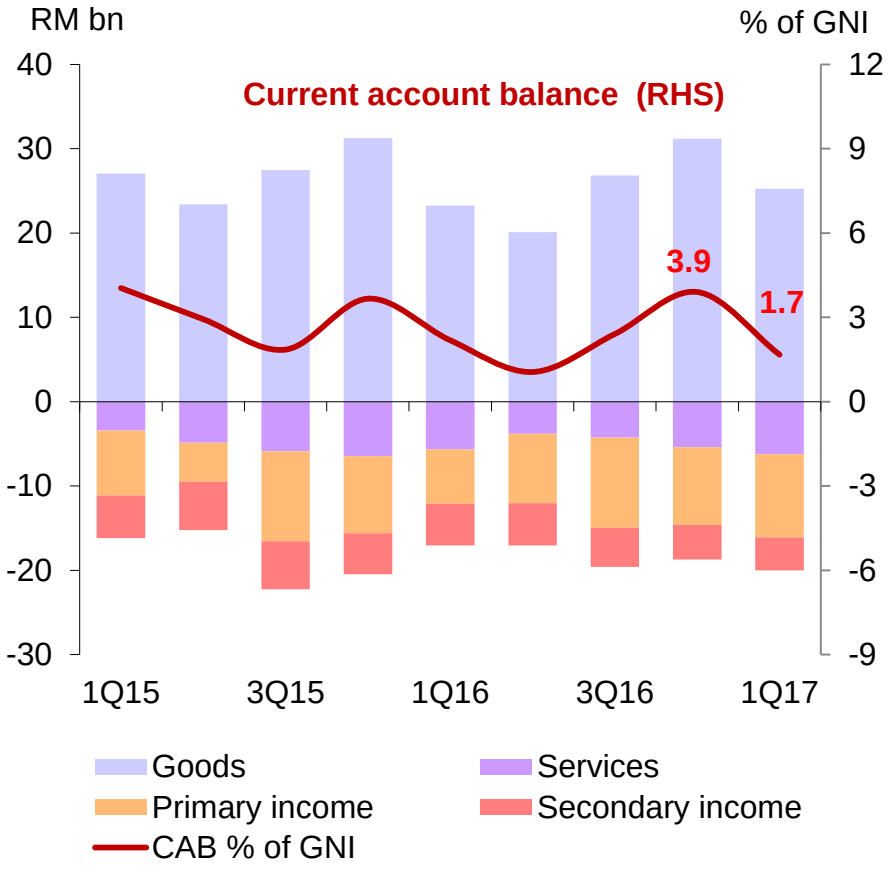
% Annual change	% share 2016	2016		2017
		3Q	4Q	1Q
Gross Exports	**100**	**-2.3**	**2.8**	**21.4**
Manufacturing	**82**	**-1.1**	**3.4**	**19.5**
E&E	*37*	*-0.6*	*7.7*	*18.4*
Non E&E	*45*	*-1.6*	*0.1*	*20.3*
Commodities	**17**	**-8.2**	**-0.9**	**27.5**
Gross Imports	**100**	**-0.1**	**5.0**	**27.7**
Intermediate	*57*	*-0.3*	*3.8*	*27.8*
Capital	*14*	*15.7*	*6.7*	*42.0*
Consumption	*10*	*-0.8*	*-0.2*	*4.0*
Trade Balance (RM bil)	**-**	**18.0**	**27.5**	**18.9**

Source: Department of Statistics, Malaysia

- **Stronger export growth**
  - Broad-based expansion in manufactured and commodity exports
  - Supported by stronger demand and higher commodity prices
- **Higher import growth**
  - Higher intermediate and capital imports in line with pick-up in manufacturing and investment activity
- **Trade balance at RM18.9 bil**

Current account remained in surplus

Malaysia's Current Account Balance



Source: Department of Statistics, Malaysia

1 Lower goods surplus

– Strong export performance offset by imports of high-value transport equipment (oil and gas vessels, aircraft)

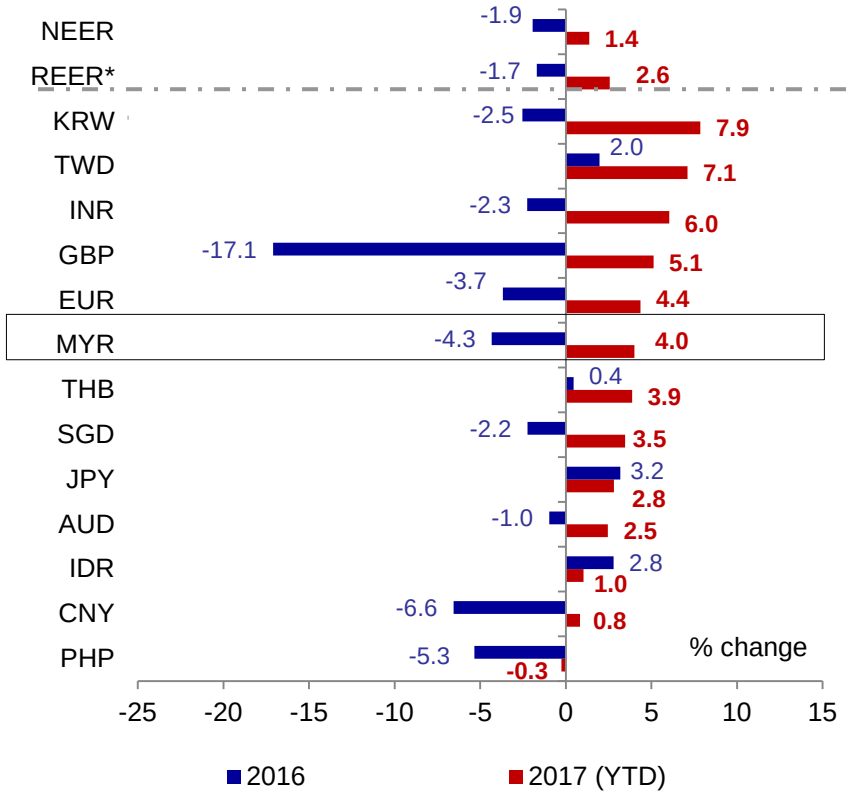
2 Larger services deficit

– Continued reliance on foreign service providers

The ringgit exchange rate stabilised in 2017

Most major and regional currencies have recovered in 2017 amid broad weakening of USD

Performance of Selected Currencies against the USD



*REER calculation uses latest daily NEER and latest available inflation rates (March 2017)

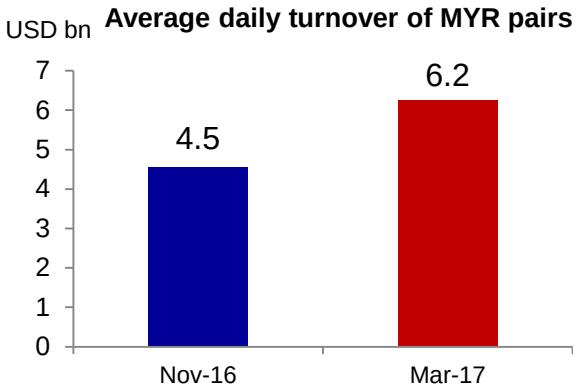
Source: Bank Negara Malaysia

Continued external uncertainties could result in the resurfacing of ringgit volatility

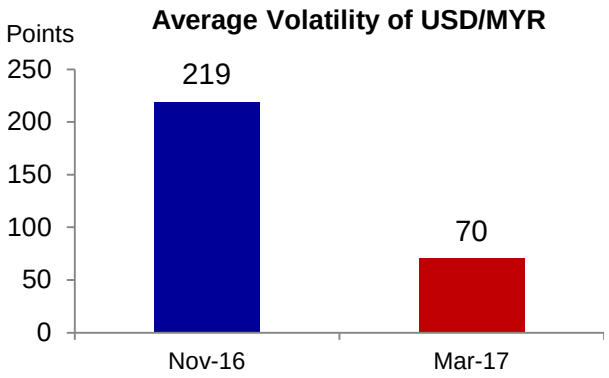
- The ringgit and domestic foreign exchange market continued to stabilise.
  - Reflected in the improvements across all liquidity and volatility indicators of the foreign exchange market, following stability measures.
- Continued external uncertainties may cause higher volatility:
  - The pace of US interest rate normalisation
  - Volatility in global oil prices
  - Global political development
  - Developments in global financial markets

The stability measures have reduced volatility in the ringgit and domestic foreign exchange market

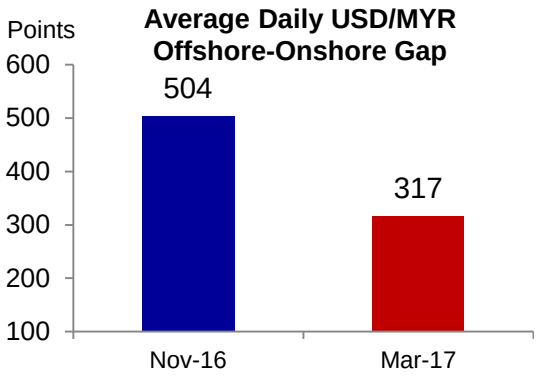
FX needs can be intermediated by the market with higher volume



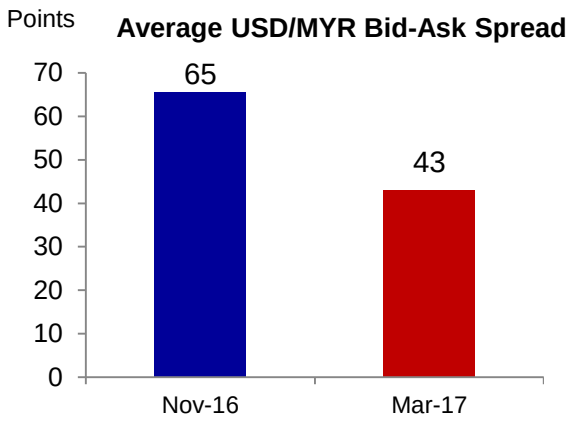
Cost of hedging reduced with lower ringgit volatility



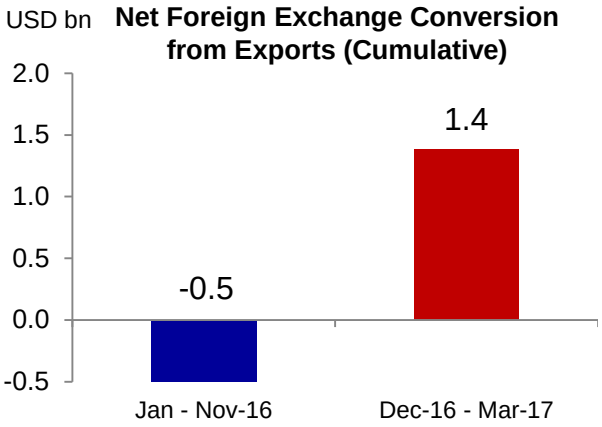
Impact of offshore rates to onshore has reduced



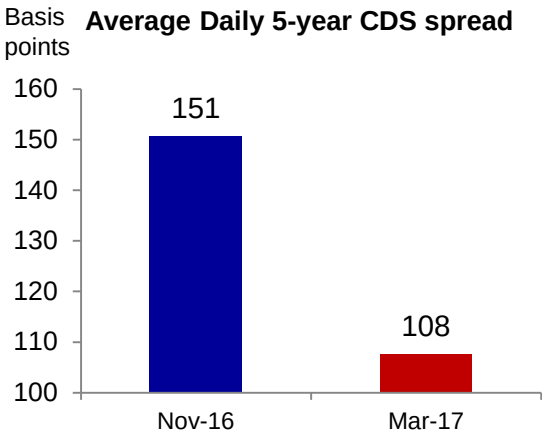
FX transaction cost has reduced for market participants



Greater balance of foreign currency demand and supply



Lower credit spread reduced cost of borrowing for corporates



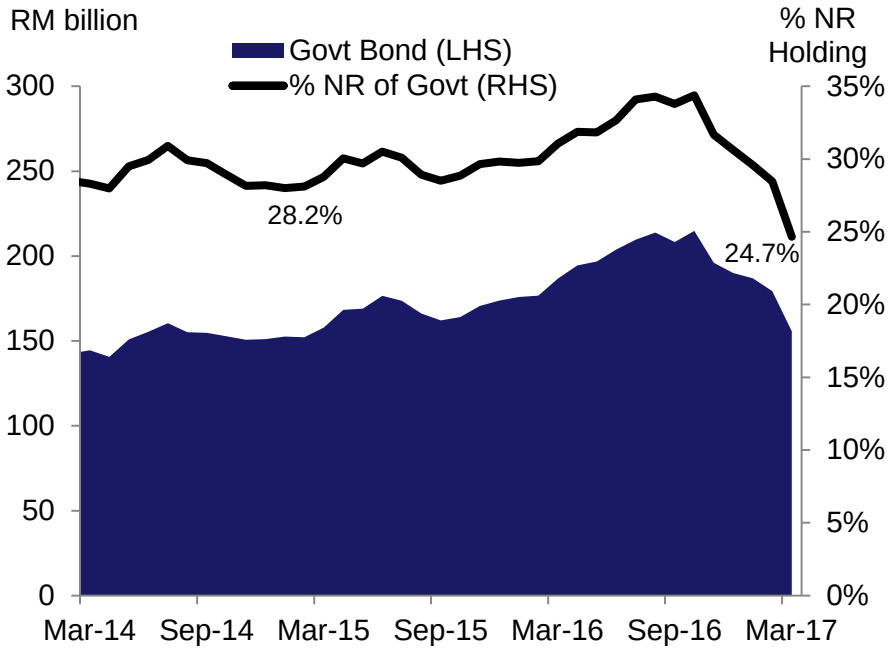
Note: Volatility refers to the difference between MYR/USD interbank intraday highest and lowest rate.
Offshore rate refers to the NDF 3-month rate while onshore rate refers to the spot rate.

Source: Bloomberg, Bank Negara Malaysia

Non-resident holdings of Malaysian government bonds was lower as at end-March 2017

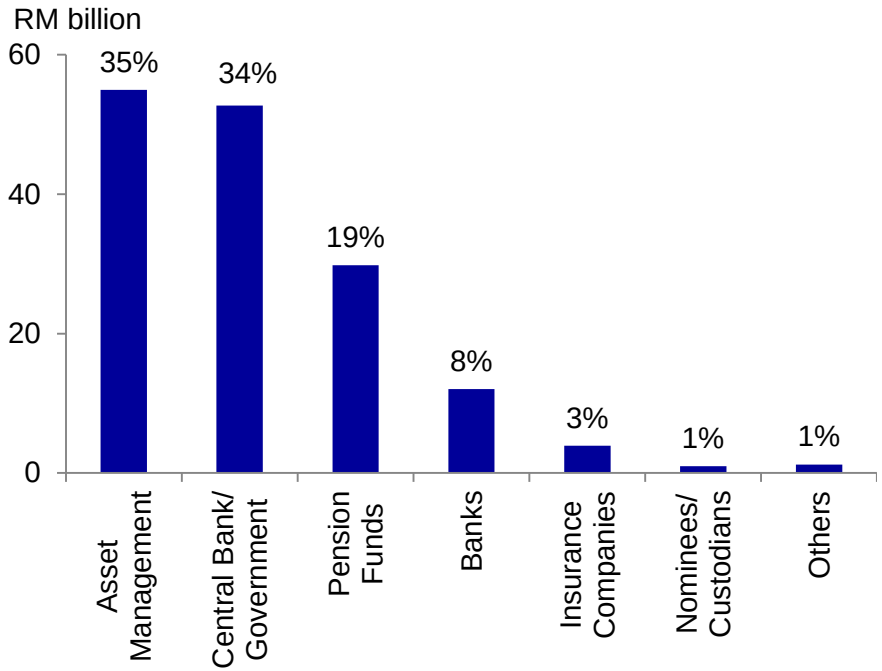
Lower non-resident holdings of Malaysian Government bonds

Non-resident Holdings of Malaysian Government Bonds



Majority of non-residents holdings are by long-term investors

Distribution of Non-resident Holdings of Government Bonds as at end-Mar'17



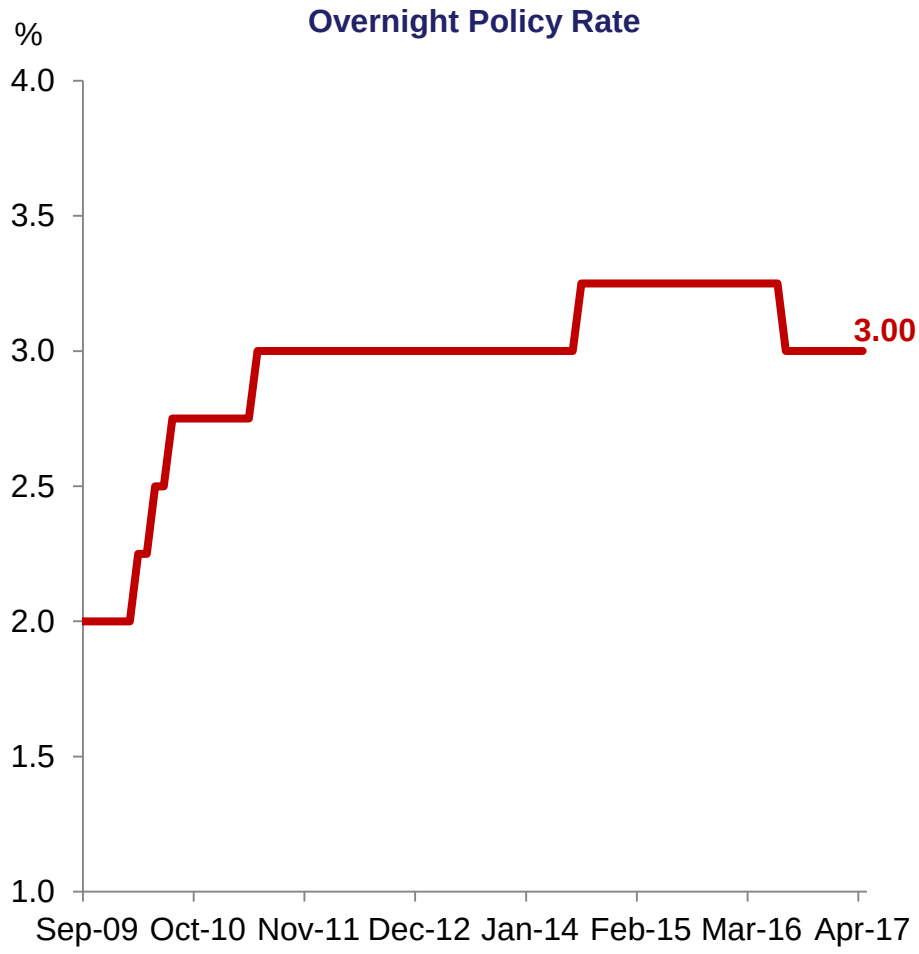
Source: Bank Negara Malaysia

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

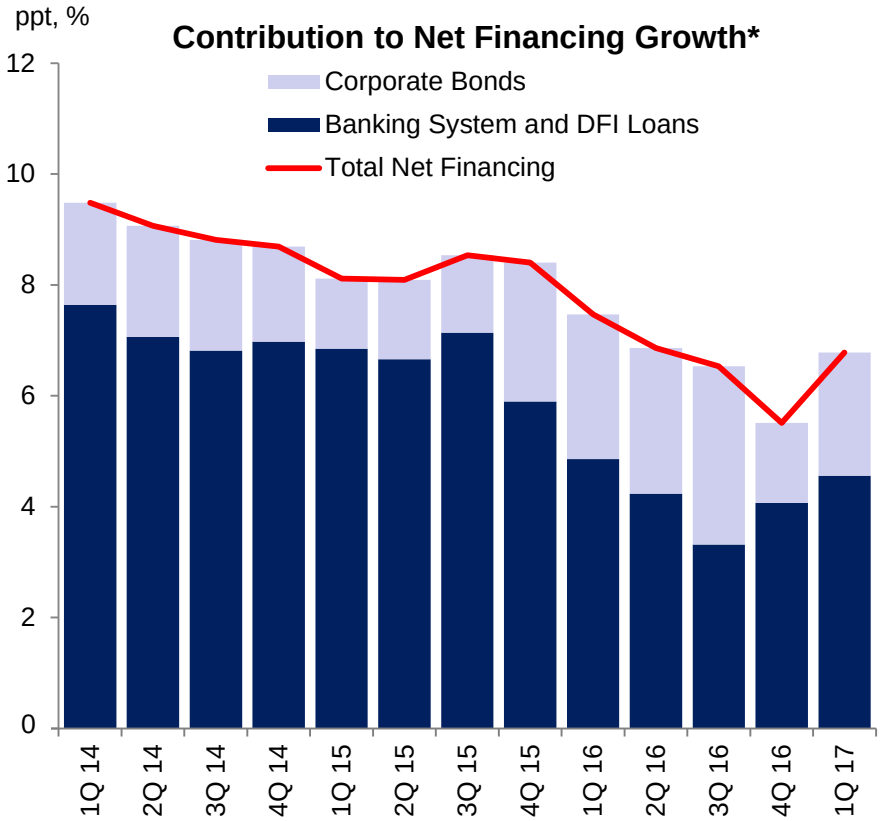
The stance of monetary policy remains supportive of the economic activity

- Growth momentum is expected to be sustained in 2017
- The recent increase in inflation is expected to be transitory
- The MPC will continue to assess the balance of risks surrounding the outlook for domestic growth and inflation



Financing to the private sector has improved since the previous quarter

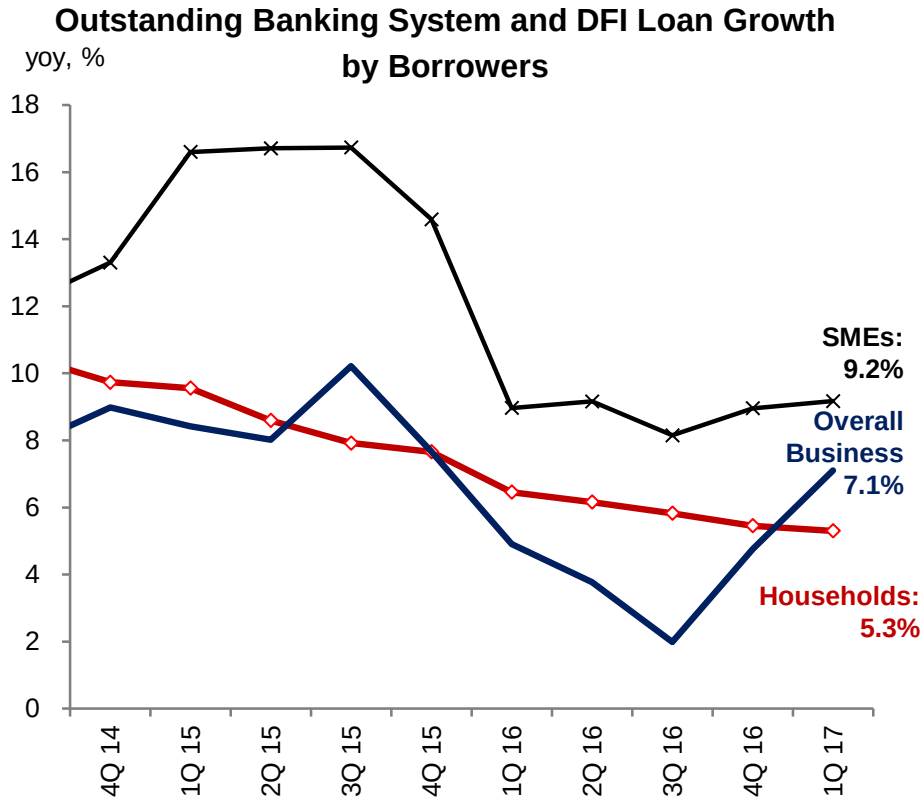
Higher growth of net financing driven by increase in both the growth in loans and corporate bonds…



*Net financing is comprised of outstanding banking system and DFIs loans and outstanding corporate bonds.

Source: Bank Negara Malaysia

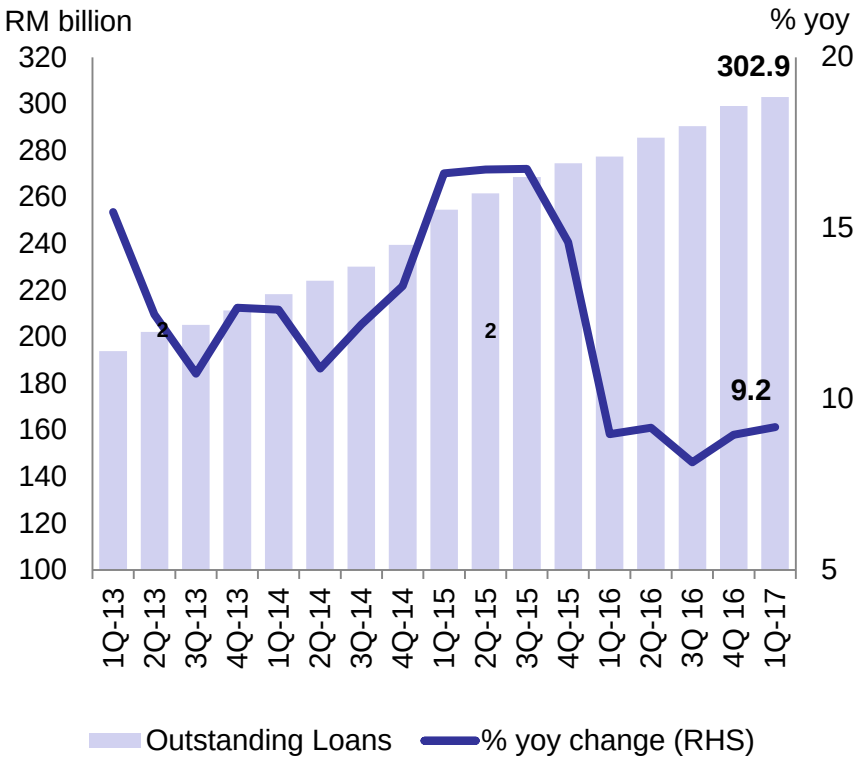
… with significant improvement in the growth of outstanding business loan



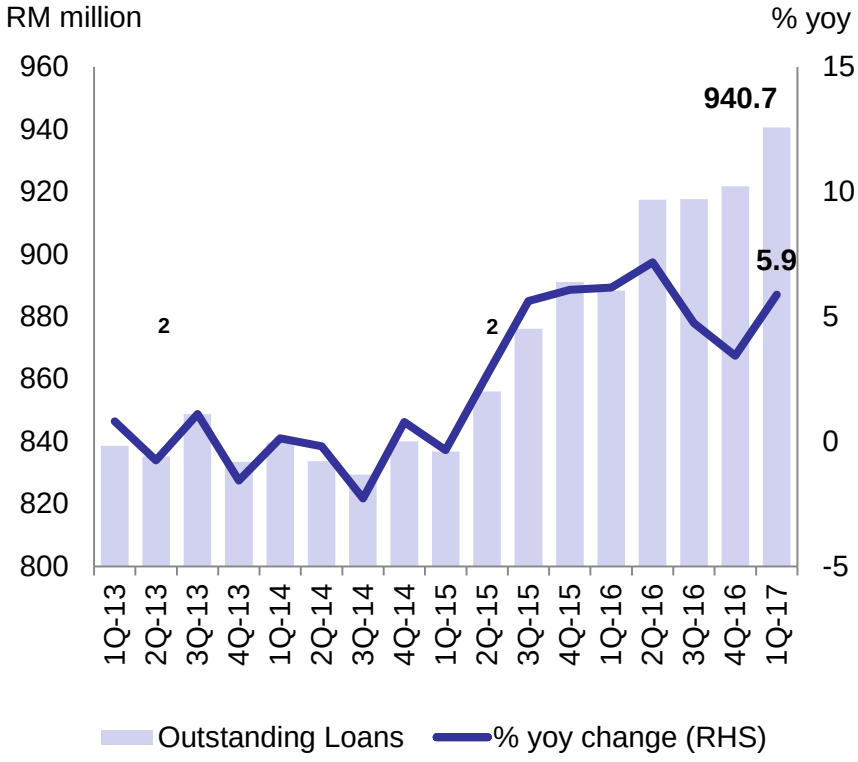
p Preliminary
Source: Bank Negara Malaysia

Continued access to financing for SMEs

SMEs



Micro-enterprises[1]



Source: Bank Negara Malaysia

[1]Under *Skim Pembiayaan Mikro*

Financial stability remains preserved

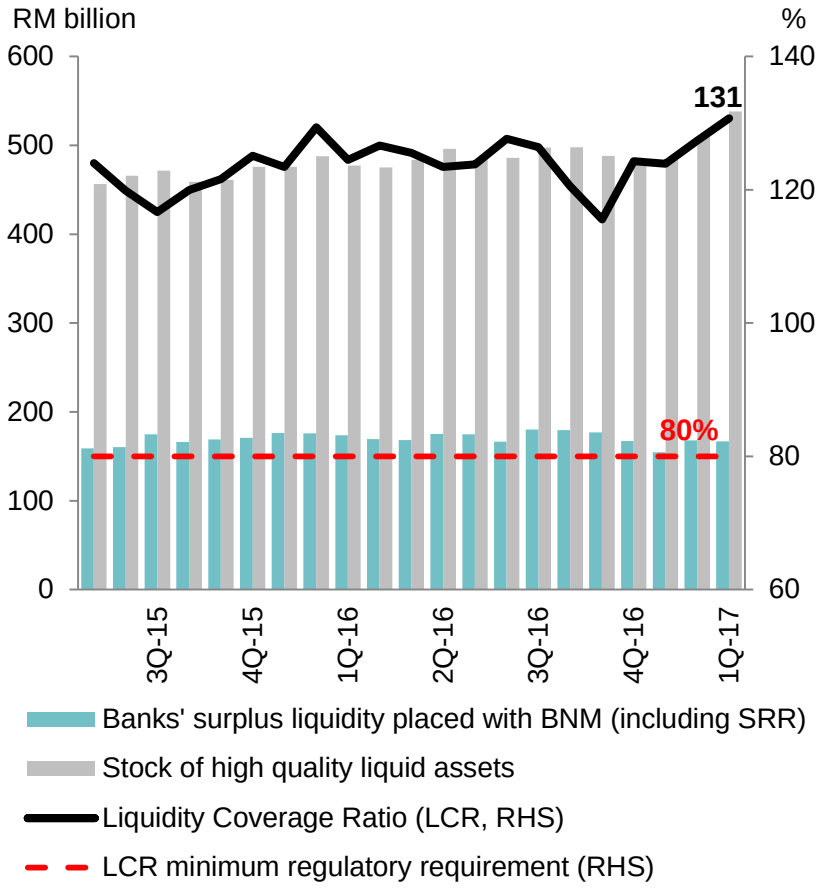
- **Capitalisation maintained at strong levels**
- **Sufficient financial buffers to support financial intermediation**
- **Asset quality remains intact**
- **Stronger profits in insurance and takaful sector due to improved financial markets conditions**

Banking sector	4Q 2016	1Q 2017
Common equity tier 1 capital ratio (%)	13.1	13.1
Tier 1 capital ratio (%)	14.0	13.9
Total capital ratio (%)	16.5	17.0
Capital buffer (RM bil)	124.5	132.6
Net impaired loans ratio (%)	1.2	1.2
ROE (annualised)	12.5	11.8
Insurance/Takaful sector	**4Q 2016**	**1Q 2017**
Capital adequacy ratio (%) - Insurance	248.5	246.0
Capital adequacy ratio (%) - Takaful	205.3	204.8
Capital buffer (RM bil)	45.9	38.2
Profit (RM bil)	1.5	6.6
Excess income over outgo (RM bil)	0.7	6.1
Claims Ratio (%)	56.5	63.0

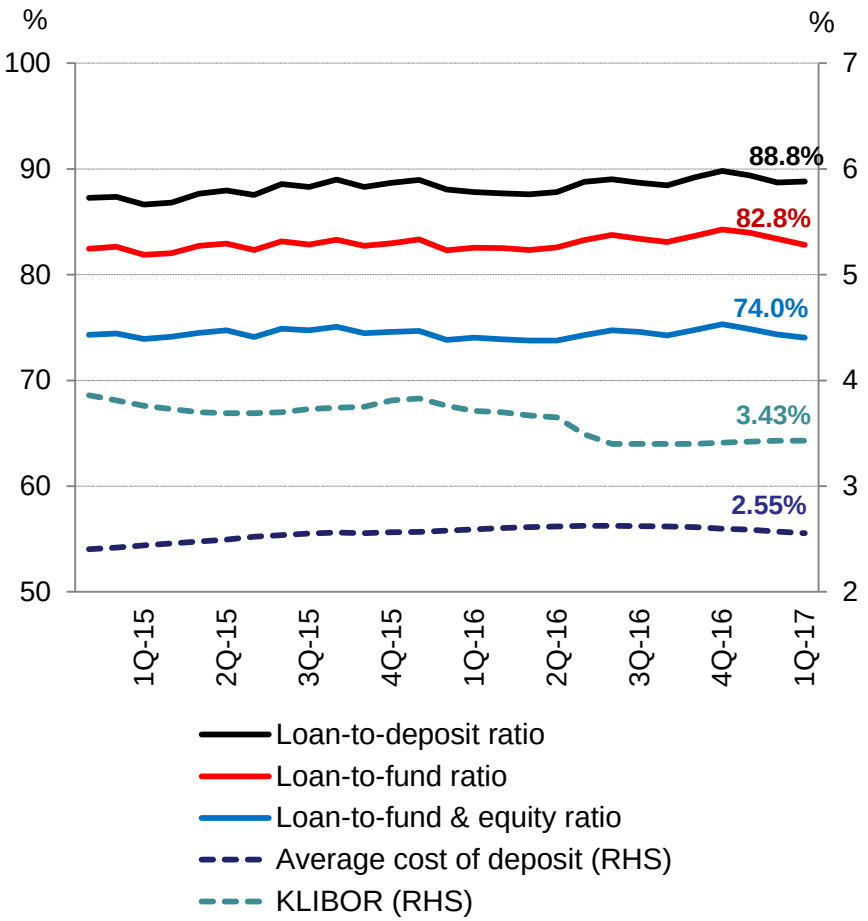
Source: Bank Negara Malaysia

Sufficient liquidity in the banking system

Banking system surplus liquidity amounted to RM166.8 billion



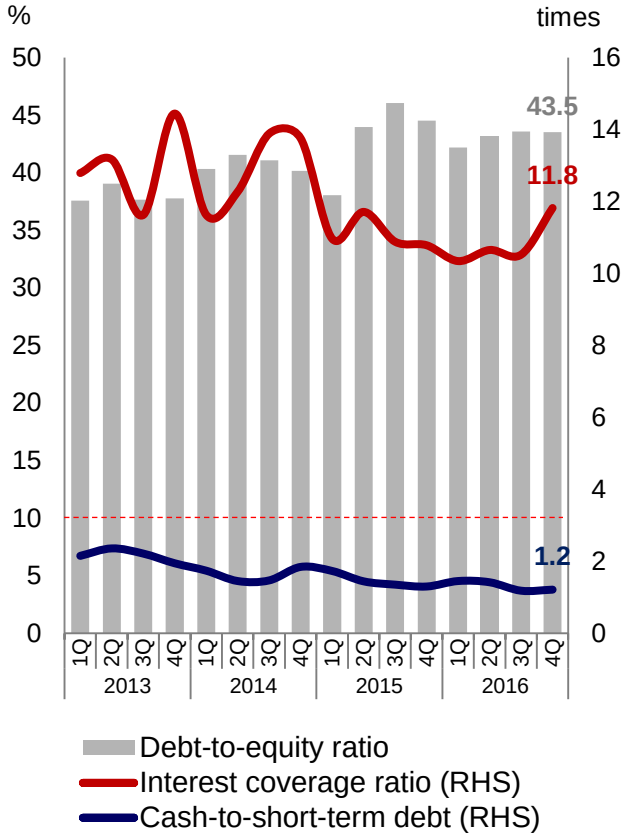
Banks' funding structure continued to be supportive of financing activities



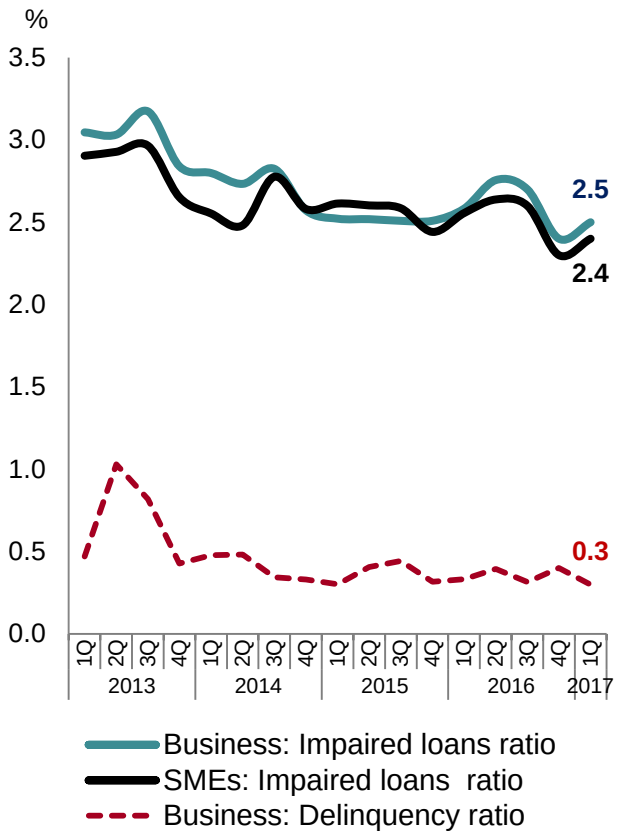
Source: Bank Negara Malaysia

Sustained debt servicing capacity of businesses

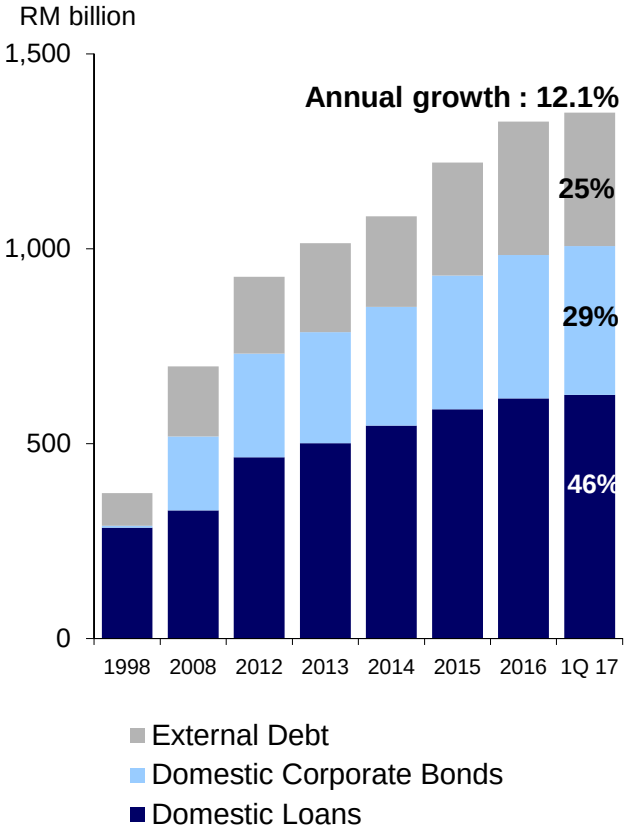
Overall debt servicing capacity sustained



Delinquencies and impairment remained stable



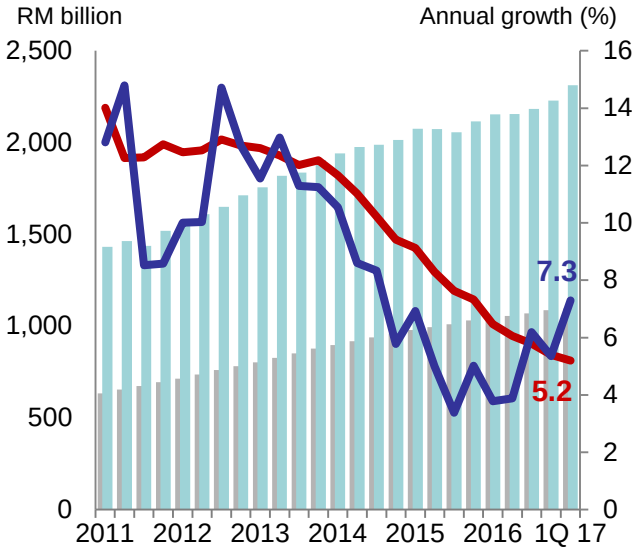
Businesses, including SMEs, have continued access to financing



Source: Bank Negara Malaysia

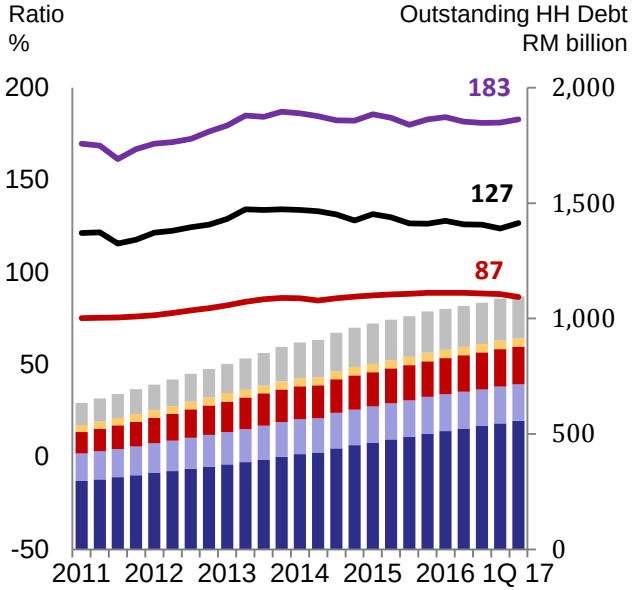
Sustained debt servicing capacity of households

Growth in household debt continued to moderate



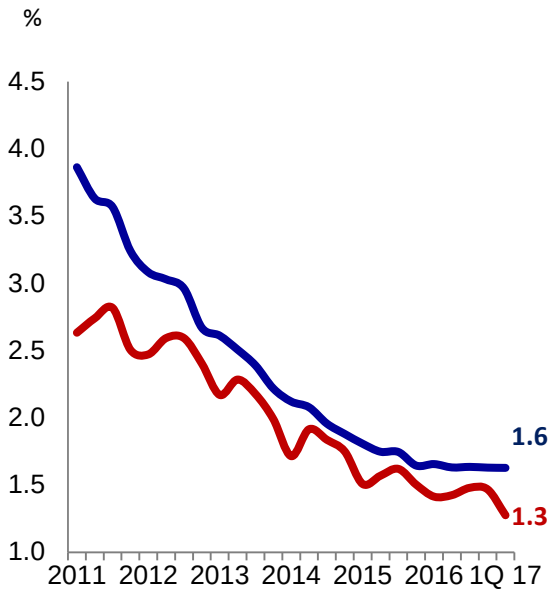
Debt
Financial assets
Debt growth (RHS)
Financial assets growth (RHS)

Aggregate household financial assets remained at 2x of debt



Others (RHS)
Credit Cards (RHS)
Personal Financing (RHS)
Passenger Cars (RHS)
Residential Properties (RHS)
Debt-to-GDP ratio
Financial assets-to-GDP ratio
Liquid financial assets-to-GDP ratio

Asset quality of household loans remained sound

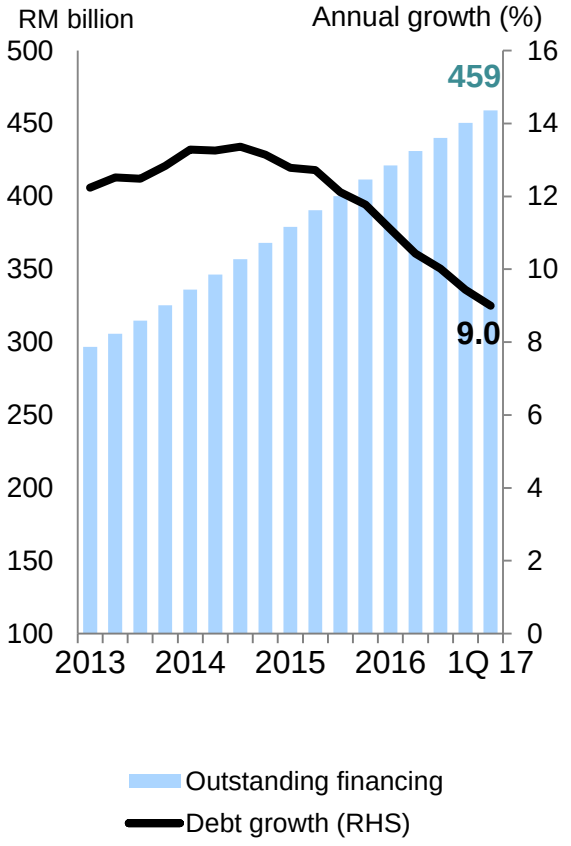


Household: Delinquency ratio
Household: Impairment ratio

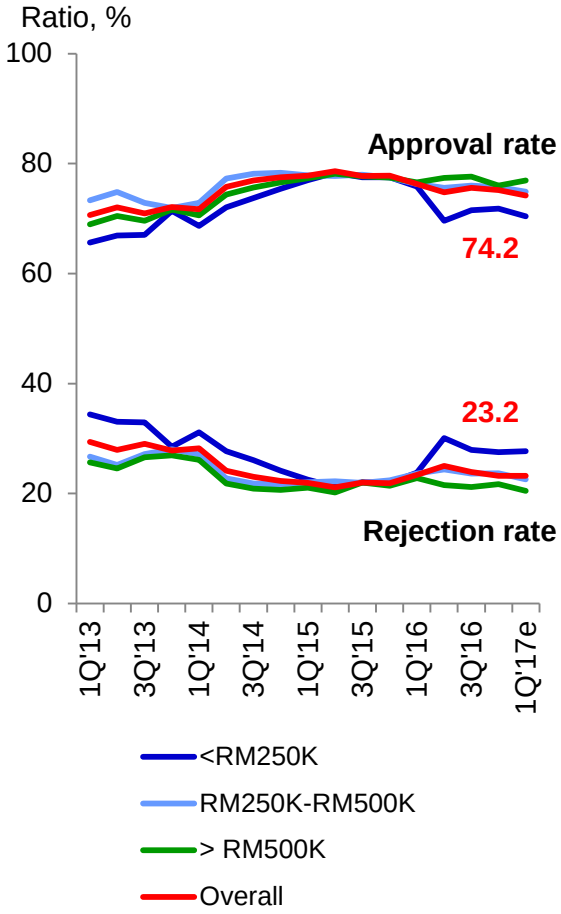
Source: Bank Negara Malaysia

Financing remains available for eligible borrowers

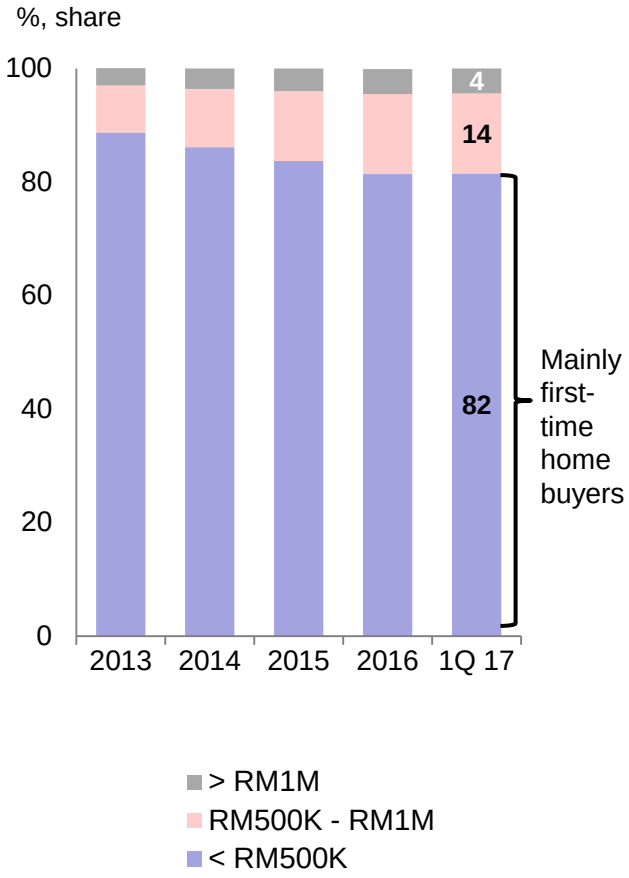
Banking System: Loans to Households for Purchase of Residential Properties



Housing Loans: Approval Rate and Rejection Rate



Housing Loans: Composition of Borrowers by House Price



Source: Bank Negara Malaysia

Growth of the Malaysian economy expected to be sustained amid signs of improvement in global economic growth

Amid further improvement in the global economy, the Malaysian economy remains on track to register improved performance in 2017

Growth prospects continue to be supported by domestic demand and further augmented by higher exports

- Steady wage and employment growth
- On-going implementation of infrastructure projects
- Improvement in external trade performance

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

- Diversified sources of growth
- Sound financial system

Special issues

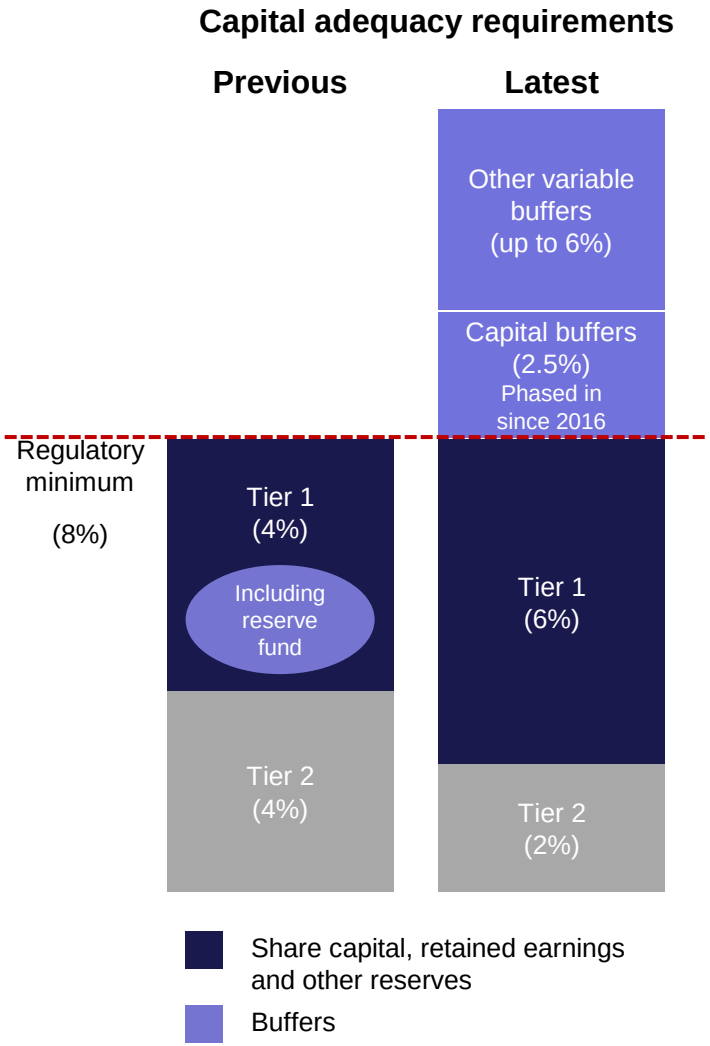
Migration to PIN-based payment cards

Infrastructure readiness	Transition period	Mandatory PIN verification
As at end-April 2017 • 100% of credit/charge cards had been replaced • 96.1% of POS-active debit cards had been replaced • 99.8% of POS terminals had been upgraded	**January to June 2017** • 6-month period to adapt to the usage of PIN	**1 July 2017** • All payment card transactions must be verified with PIN

- **Cardholders**
  - Contact issuing banks if have not replaced PIN- based cards
  - Activate PIN-based cards, select and start using PIN for every transaction
- **Merchants**
  - Promote use of PIN for every transaction



Alignment of regulatory capital framework following implementation of Basel III



- **Removal of reserve fund requirement is not a change in policy direction**
- **Basel III capital buffers achieve the same objective as reserve fund requirement**
  - Serve as additional buffer during periods of stress
- **Banking institutions also observe higher internal capital targets**
  - Significant increase in dividend payout not expected

Zero tolerance on operators and investors knowingly participating in illegal financial schemes

- **Public to STOP participating in illegal financial schemes**
  - Business model never sustainable with no real economic activities generated
  - A ‘zero-sum’ game – dividends/profit paid out from new investors’ funds
  - Investors knowingly involved in such schemes can be punished under the law for abetment and dealing with illegal proceeds

- **Financial institutions and money services businesses have heightened their vigilance**
  - Customer due diligence policies and procedures are strengthened to prevent them from being conduits for illegal financial schemes
  - Enhanced screening on suspicious accounts and transactions
  - Customers who failed due diligence will result in their suspicious accounts being blocked or closed

Coordinated measures to combat illegal financial schemes

- **AGC to lead inter-agency committee for joint enforcement against illegal financial schemes**
  - Undertake widest possible enforcement actions under various legislations
  - Actions are aimed at:
    - Perpetrators and promoters of illegal financial schemes
    - Illegal proceeds generated

- **Assessment on legal framework to combat illegal financial schemes**
  - The inter-agency committee will also be a platform to assess the current legal framework and the need for more unified approach at national level to combat illegal financial schemes

- **Shared and personal responsibility of members of society is crucial**
  - Combat illegal financial schemes through collaboration among authorities, consumer associations and NGOs
  - Awareness and education will continue to be given focus/priority, including through joint initiatives with relevant agencies

Q&A Session