BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PRESS RELEASE

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ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE SECOND QUARTER OF 2022

Press Conference Presentation Transcript

Global Development

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "In the second quarter of 2022, global growth moderated. Growth was weighed by further increases in energy prices amid ongoing geopolitical tensions, leading to higher inflation.

"Containment measures also affected economic growth in China early in the quarter and caused a brief re-escalation in global supply chain disruptions. However, economic activity in China picked up as restrictions were eased towards the end of the quarter.

"Meanwhile, global trade in goods moderated following a shift in demand from goods to services as most economies reopened."

Malaysian Economy

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, "In the second quarter of 2022, the Malaysian economy recorded higher growth of 8.9% supported by the expansion in domestic demand, recovery in the labour market, and continued resilience in external demand.

“On a seasonally adjusted quarter-on-quarter basis, GDP expanded at a strong pace of 3.5%.”

Ketua Perangkawan Malaysia Dato’ Sri Dr. Mohd Uzir Mahidin *berkata, “Pada suku kedua 2022, ekonomi Malaysia mencatatkan pertumbuhan 8.9% disokong oleh pengembangan dalam permintaan domestik, pemulihan pasaran buruh dan permintaan luar yang terus berdaya tahan. Pada pelarasan musim bagi perbandingan suku tahun ke suku tahun, KDNK berkembang kukuh pada 3.5%.”*

Services and Manufactoring Sectors

Chief Statistician of Malaysia Dato’ Sri Dr. Mohd Uzir Mahidin said, “On the supply side, the services and manufacturing sectors continued to drive growth.

“The services sector expanded strongly, supported by higher consumer spending as the country transitioned to endemicity, reopening of Malaysia’s borders and the additional support from policy measures.

“The manufacturing sector was supported by the continued strong demand for semiconductors, and consumer-related products such as motor vehicles.

“The agriculture sector contracted, as production of livestock and other agriculture was affected by rising input costs particularly for animal feed and fertiliser, and labour shortages.

“The mining sector remained in contraction, as output was weighed down by closures of several oil and gas facilities for maintenance.

“Meanwhile, the construction sector recorded a turnaround, supported by progress in large non-residential projects and continued implementation of small-scale projects.”

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Domestic Demand

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, "On the demand side, the higher growth was driven by further improvement in domestic demand. Private consumption grew at a faster pace, driven primarily by the recovery in the labour market and support from policy measures. In particular, spending on necessities and selected discretionary items such as restaurants and hotels, recreational services and household furnishings expanded further during the quarter.

"Private investment was supported by improvement in structures particularly in the non-residential segment, and continued growth in M&E investment.

"Meanwhile, public investment rebounded, attributable mainly to higher capital expenditure by public corporations in oil and gas, and telecommunication sectors.

"Public consumption expanded at a moderate pace, due to lower supplies and services spending. Net exports contracted as growth of imports outpaced that of exports, amid stronger domestic demand and firms' mitigation measures to build up inventory buffers."

Current Account

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, "The current account of the balance of payments registered a higher surplus of RM4.4 billion, or 1.0% of GDP. This was supported mainly by the smaller primary income deficit, driven by higher income generated by Malaysian firms investing abroad.

"In addition, the services deficit narrowed, supported mainly by higher travel receipts amid reopening of international borders.

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“In the financial account, net FDI recorded an inflow of RM17.3 billion during the quarter. These investments were channelled primarily into the manufacturing sector and financial services sub-sector.”

Continued Growth

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Going forward, the Malaysian economy is projected to continue to recover in the second half of 2022, albeit at a more moderate pace amid global headwinds. However, given the strength in the first half of 2022 which grew by 6.9%, we expect growth for the year to be at the upper end of the range of 5.3% to 6.3%, even after taking into account the slower global growth.

“Growth for the rest of the year and 2023 would be driven mainly by private sector expenditure, particularly as tourism sectors normalise towards pre-COVID levels. Investment activity stands to benefit from the realisation of multi-year projects such as the MyDigital, East Coast Rail Link (ECRL) and the Light Rail Transit Line 3 (LRT3).

“Supply chains are also expected to ease as receding COVID-related disruptions and slowing global trade alleviate some of the pressures going forward.

“These would offset the expected moderation in global growth. There also several factors underlying the resilience of our exports, which I will explain in a few minutes.”

Labour Market

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “The domestic economy would be supported by the improving labour market, which has shown continued improvements in tandem with stronger economic activity.

“The improvement in the second quarter was supported by robust employment growth. Jobless claims fell significantly, and rehiring of retrenched workers

remained relatively strong. High frequency data from SOSCO indicated a continued decline in layoffs and relatively strong hiring activity in the second quarter.

“On a year-on-year basis, private sector nominal wages improved in line with economic activity, recording a higher growth of 7.8% in the second quarter. This was partly supported by the minimum wage hike, and driven by expansion in both the services and manufacturing sector wages.

“Going forward, continued expansion in economic activity is expected to lead to a broader recovery in the labour market. Hiring intentions were strong with higher job creation in the second quarter. This is key in supporting the domestic economy.”

Uneven Recovery

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Additionally, we recognise that the recovery is uneven, and improvement in some segments have continued to lag behind others. While most economic sectors have recovered strongly, about 20% of the economy still remain below pre-pandemic levels. This is most severe in the construction sector due to labour shortages and higher input prices. Tourism-related industries have only recently begun to recover.

“In the labour market, the recovery amongst vulnerable groups, particularly the youth and elderly along with low-skilled workers, is slower relative to other groups in the labour market.

“It is for these reasons, while macro policies are recalibrated as the overall economy recovers, targeted policies would continue to support these segments of society.”

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Malaysia's Diversified Export

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "On the external front, global growth would be weaker than earlier forecast, due to higher inflation, more severe impact of lockdowns in China and tighter monetary policy. Being a small and open economy, this slowdown would have an impact on our exports.

"Nevertheless, Malaysia's diversified exports structure across products and markets will help us face potential shocks in demand for any specific products or from any specific countries."

Continued Strength in E&E

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Recent data shows Malaysia's gross exports continued to register double-digit growth. This was supported by higher demand for E&E products, as well as firms' adaptability to mitigate supply chain disruptions. Higher commodity prices provided a further impetus to Malaysia's exports.

"Going forward, demand for E&E products is expected to remain firm, in-line with industry projections in 2022 and 2023. Our engagements with the industry also affirm that firms have been taking proactive mitigation measures to minimise the impact from the supply chain disruptions. This includes building of buffer inventories as reflected in the strong intermediate import growth for the quarter."

Growth Outlook Subject to Risks

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Nevertheless, the growth outlook continues to face challenges. On the global front, a more severe deceleration in global growth is a key downside risk factor.

"This could stem from multiple factors, including overtightening of monetary policy in the US, energy crisis in the euro area and renewed lockdowns in China.

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Supply chain disruptions could worsen, with further increase in global commodity prices, if geopolitical conflict escalates. Supply conditions could be further exacerbated by more acute labour shortages or adverse weather conditions.

“Stronger cost and price pressures could dampen household spending and investment activity, weighing on the economic recovery. These outweigh upside risks from a stronger labour market, rapid improvement in tourism, and any additional domestic policy measures.”

Inflation is a Global Phenomenon

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Given that it is a global phenomenon, let me start with the international scene.

“In the past quarter, inflation has risen in many countries. Notably, the higher inflation continued to largely reflect elevated commodity prices due to the ongoing conflict in Ukraine. In some countries such as the US and UK, their tight labour market conditions and strong demand also added to their inflationary pressures.”

Global Commodity Prices the Main Factor Driving Food Prices

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “As an open economy, Malaysia is not immune to the elevated global commodity prices.

“I want to bring your attention to food inflation, which has been the main driver of domestic inflation recently. The stylised illustration shows three main points: First, high food prices are mainly caused by higher prices of key global commodity prices.

“Second, the strength in the US dollar, although not the main driver, has also compounded the price pressures. In the case of the price of wheat shown here,

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exchange rate has contributed to approximately 20% of the increase in its price in ringgit.

“Finally, other global and domestic factors, which vary across goods, are also contributing to food inflation. These include logistics, labour costs and demand. Moreover, the impact of exchange rate movements can also vary across different items.

Headline and Core Inflation

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Overall for Malaysia, these cost pressures have led to higher headline inflation, which rose to 2.8% during the quarter and 3.4% for the month of June.

“Core inflation also increased to 2.5%. This can be attributed to the improvement in demand conditions amid the high-cost environment. The increase in core inflation was predominantly driven by food away from home and other food items. Correspondingly, the share of CPI items recording monthly price increases averaged higher at 63%. We will continue to monitor these developments.

“For the remainder of this year, headline inflation is expected to trend higher in some months, due in part to the base effect from the discount on electricity prices implemented in 3Q 2021.

“Core inflation is therefore projected to be closer to the upper end of the forecast range of 2.0% to 3.0% range in 2022, as demand continues to improve amid the high-cost environment.

“Upside risks to the inflation outlook are subject to the strength of domestic demand, global prices, and domestic policy measures. Nonetheless, the extent of upside pressures on inflation are expected to remain partly contained by existing price control measures, fuel subsidies and the existence of some spare capacity in the economy.”

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Monetary Policy Committee (MPC) Gradually Adjusting OPR Accommocation

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “In view of the positive growth prospects for the Malaysian economy, the MPC decided to further adjust the degree of monetary accommodation by raising the OPR to 2.25%.

“It is important to remember that we are coming from a historically low OPR level. This means that despite the OPR adjustments, monetary policy would remain accommodative this year to support the economic recovery.

“Going forward, the MPC will continue to assess evolving conditions and their implications on the overall outlook to domestic inflation and growth. Any future policy rate adjustments would be done in a measured and gradual way. Our stance remains that monetary policy will continue to be accommodative to support a sustainable economic growth in an environment of price stability.

“I know there’s been a lot of interest in the recent monetary policy adjustments, so let me take a moment to explain further on why we increased the OPR. I would like to reiterate that the OPR was first increased in May as it was deemed that the large support needed during the pandemic was no longer warranted.

“This view remains unchanged as the economy continues on its recovery path with a growth of 6.9% in the first half of this year. So, it is very clear that we are no longer in crisis. Growth will continue to be supported by firm domestic demand, amid better labour market conditions, recovery in tourism activity, and improved investment activity and prospects.

“With the recovery in domestic demand, we are seeing some early signs of demand-driven inflation. As such, the recent OPR adjustments would also pre-emptively manage the risk of excessive demand on price pressures. This is important because whenever the inflationary pressures are excessive, it is more

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damaging to the economy and causes even deeper hardships for the rakyat compared to a gradual increase in policy rates.

“As such, the gradual adjustments in the OPR are necessary to avoid the need for stronger measures in the future, such as faster and steeper increases. We obviously do not want to be in such a position.

“We will continue to conduct monetary policy in order to achieve our goal of price stability and sustainable economic growth over a longer term. This is in the interest of the economy and the well-being of the rakyat instead of having a boom and bust economic cycle.”

Domestic financial market conditions continued to tighten

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “In the second quarter of 2022, global financial market conditions continued to tighten following policy rate hikes by major central banks. In particular, the US Federal Reserve had raised the federal funds rate by 200 bps cumulatively in three consecutive meetings from May to July, against the backdrop of high US inflation.

“Investors’ risk sentiment was also negatively affected by rising concerns on the global growth outlook and the ongoing conflict in Ukraine.

“These global developments have led to a broad-based strengthening of the US dollar against major and regional currencies, including the ringgit. Nonetheless, the ringgit has remained broadly stable against major trade partners, with the ringgit nominal effective exchange rate or NEER registering a marginal depreciation of 0.1% in the second quarter.

“The 10-year MGS yield rose by 36.5 bps, in tandem with the upward movement in global and regional bond yields. Since 1st July, however, MGS yields have trended lower.

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“In this challenging environment, domestic financial markets will continue to be subject to episodes of heightened volatility. However, spillovers to domestic financial intermediation are expected to remain broadly contained, supported by Malaysia’s healthy external position and strong banking system.”

Strong External Position

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “In addition, Malaysia’s external position provides us with resilience against external shocks. This is supported by: a sustained current account surplus; higher foreign-currency external assets relative to foreign-currency external liabilities; and adequate international reserves.”

“Notwithstanding these important external buffers, the Bank continues to remain vigilant of the risks from disorderly financial market adjustments and stands ready to utilise our policy tools in addressing any excessive volatility so that financial intermediation remains uninterrupted.”

Growth in Net Financing

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Net financing grew by 4.9% as at end of the second quarter as outstanding loans continued to grow by 5.4%.

“Outstanding business loan growth improved to 5.5% (1Q 2022: 4.3%), reflecting higher growth in loan disbursements for both working capital and investment (26.6%; 1Q 2022: 19.6%).

“For households, outstanding loan growth saw a further increase to 5.7% (1Q 2022: 4.8%), with higher growth recorded across all loan purposes. Growth in loan disbursements and repayments also improved amid higher demand for loans and the gradual lapse in repayment assistance programmes, respectively.”

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Financing to MSMEs

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Financing by banks continued to support MSME businesses, with outstanding financing to this segment expanding at a faster pace of 7.5% year-on-year as at end-June 2022.

"Financing activity continued on a strong momentum during the second quarter of 2022, with disbursements trending at much higher levels than before the pandemic.

"This has supported MSMEs' higher needs for working capital, as businesses recover and expand amid the firmer growth trajectory, while also faced with rising costs."

Banks Remain Resilient

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "While credit risk remains elevated amid the gradual expiry of relief measures, the banking system remains well-positioned to support household and business financing needs or debt restructuring as the economy recovers.

"Banks continue to remain prudent in loan provisioning practices to account for higher credit risks. Nonetheless, the accumulation of additional provisions are likely to be more modest given the sizeable buffers already built up over the past two years.

"Banks also continue to maintain strong capital and liquidity buffers to absorb potential losses and support intermediation needs."

Structural Reform

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "As the economy continues on its recovery path, policy priorities should now also accord a stronger focus on longer-term policies to complement short-term measures.

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This is to secure a sustainable and inclusive growth and boost our resilience against future shocks.

“These structural reforms would propel Malaysia’s growth by generating high-quality and high-income jobs for Malaysians and improve the well-being of the rakyat.

“Several critical areas of focus include: First, attracting quality investments that can generate high value added activities and high income jobs for Malaysians; Second, developing a high-skilled workforce ready for the economy of the future; Third, accelerating automation and digitalisation; Fourth, enhancing social safety nets and improving social protection frameworks funded through a more targeted subsidy regime, and; Finally, advancing the environmental, social, and governance (ESG) agenda to ensure Malaysia remains competitive on the global front.”

Conclusion

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Allow me to now conclude the briefing. I wish to reiterate a few key points. Malaysia recorded higher growth of 8.9% in the second quarter of 2022, driven by domestic demand as the economy transitions towards endemicity.

“Growth for 2022 is expected to be on the upper end of the forecast range of 5.3% to 6.3%, supported by private sector spending amid higher tourist arrivals, and recovery in labour market conditions, which will more than offset the moderation in external demand.

“Compared to 2021, headline and core inflation for 2022 are expected to average higher reflecting improvement in economic activity amid higher costs. Lastly, there should be a stronger focus on longer-term priorities to complement short-term policies to ensure sustainable and inclusive growth going forward.”

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