Sidang Akhbar

Prestasi Ekonomi
pada Suku Ketiga Tahun 2016

Gabenor
Bank Negara Malaysia

11 November 2016

Sidang akhbar akan meliputi:

1. **Prestasi ekonomi pada suku ketiga tahun 2016**

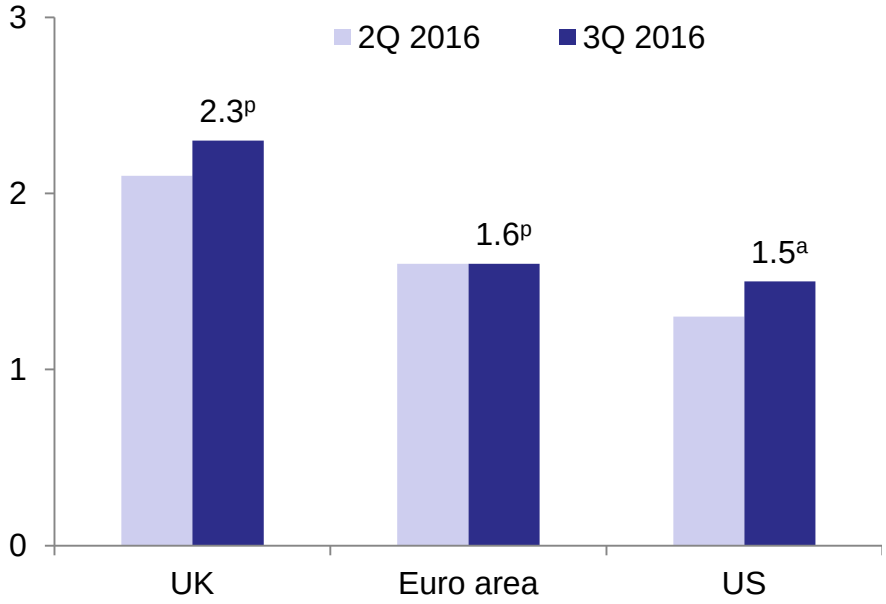
2. **Perkembangan monetari dan kewangan**

Moderate global economic expansion in 3Q 2016

Modest growth in the advanced economies

Selected Major Economies: Real GDP Growth

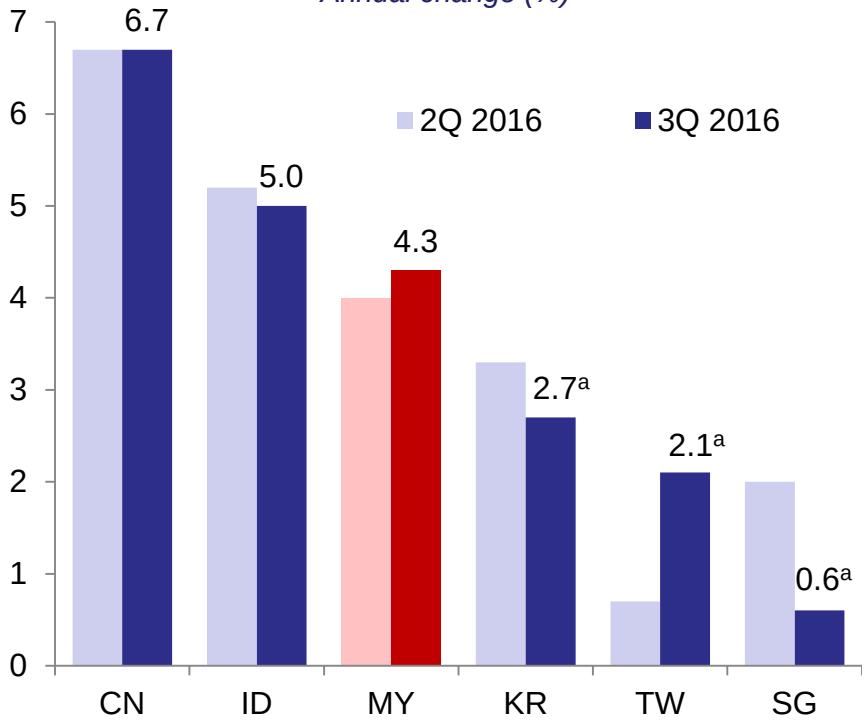
Annual change (%)



Moderate growth in Asia, underpinned by domestic demand

Selected Regional Economies: Real GDP Growth

Annual change (%)



p Preliminary estimate a Advance estimate

Source: National authorities

The Malaysian economy expanded by 4.3% in 3Q 2016

- **Growth underpinned by private expenditure, particularly private consumption**
- **Net exports provided some support to growth**

Real GDP (Annual change, %)	Share, % (2015)	2015		2016		
		3Q	4Q	1Q	2Q	3Q
Domestic demand (excluding stocks)	**91.6**	**4.1**	**4.0**	**3.6**	**6.3**	**4.7**
Private Sector	**69.2**	**4.4**	**4.9**	**4.5**	**6.1**	**6.0**
Consumption	*52.4*	4.1	4.9	5.3	6.3	6.4
Investment	*16.9*	5.5	4.9	2.2	5.6	4.7
Public Sector	**22.4**	**2.9**	**2.1**	**0.4**	**6.9**	**0.3**
Consumption	*13.5*	3.6	3.3	3.8	6.5	3.1
Investment	*8.9*	1.8	0.4	-4.5	7.5	-3.8
Net exports of goods and services	**8.6**	**3.4**	**4.3**	**-12.4**	**-7.0**	**5.9**
Exports	*72.9*	3.2	4.0	-0.5	1.0	-1.3
Imports	*64.3*	3.1	4.0	1.3	2.0	-2.3
Change in stocks (RM billion)	**-0.2**	**-0.2**	**-1.3**	**2.4**	**-1.1**	**-1.6**
GDP (y-o-y)	**100[1]**	**4.7**	**4.5**	**4.2**	**4.0**	**4.3**
GDP (q-o-q growth, seasonally adjusted)	**-**	**0.9**	**1.2**	**1.0**	**0.7**	**1.5**

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

Growth in major economic sectors in line with domestic demand

- **Services**
  Supported by consumption-related services
- **Manufacturing**
  Supported by export-oriented industries
- **Construction**
  Expansion in civil engineering sub-sector
- **Mining**
  Higher crude oil production
- **Agriculture**
  Lagged impact of El Nino on CPO yields

Real GDP
(Annual change, %)

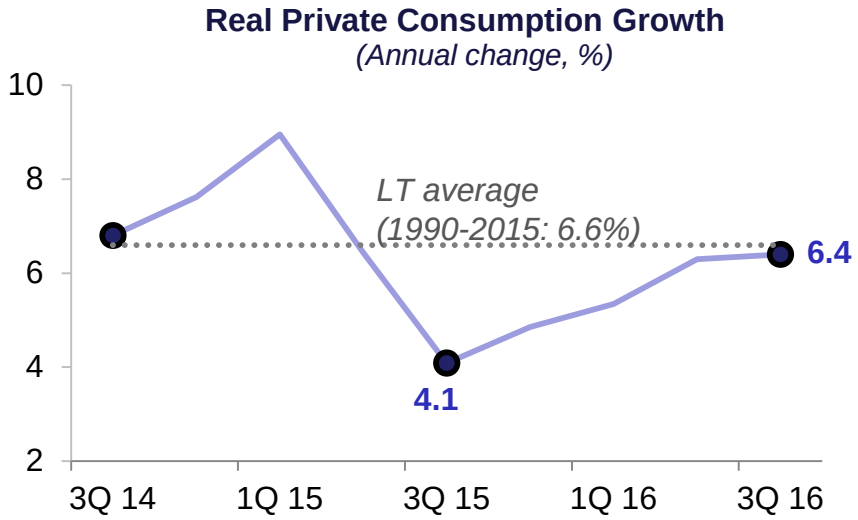
	2015	2015		2016		
	(Share, %)	3Q	4Q	1Q	2Q	3Q
Services	53.5	4.4	5.0	5.1	5.7	6.1
Manufacturing	23.0	4.9	5.0	4.5	4.1	4.2
Mining	9.0	5.1	-1.3	0.3	2.6	3.6
Agriculture	8.9	2.3	1.5	-3.8	-7.9	-5.9
Construction	4.4	9.9	7.4	7.9	8.8	7.9
GDP	**100**[1]	**4.7**	**4.5**	**4.2**	**4.0**	**4.3**

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

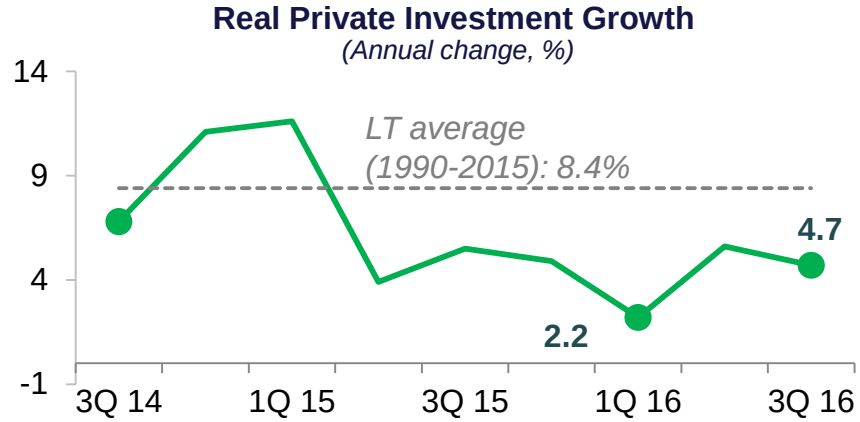
Source: Department of Statistics, Malaysia

Private sector remained the key driver of growth, supported by higher consumption

- **Private consumption was supported by continued wage and employment growth**



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

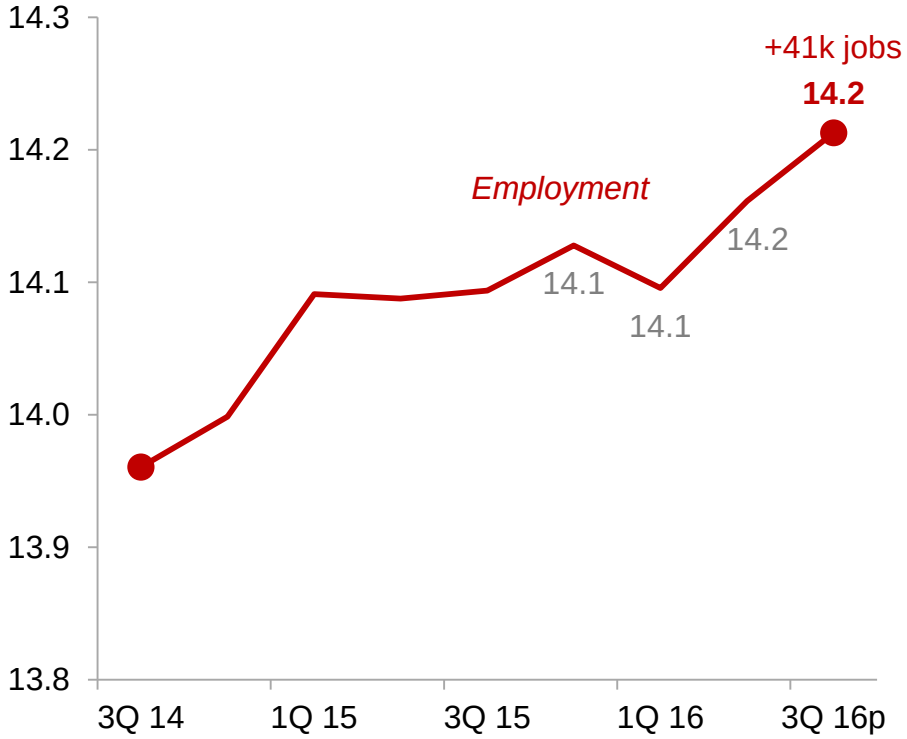


Household spending was supported by continued expansion in employment and wages

Employment continued to expand

Employment in the Labour Force

Million Persons



Wage growth partly supported by the minimum wage hike

Wage Growth in the Manufacturing and Wholesale and Retail Services Sectors

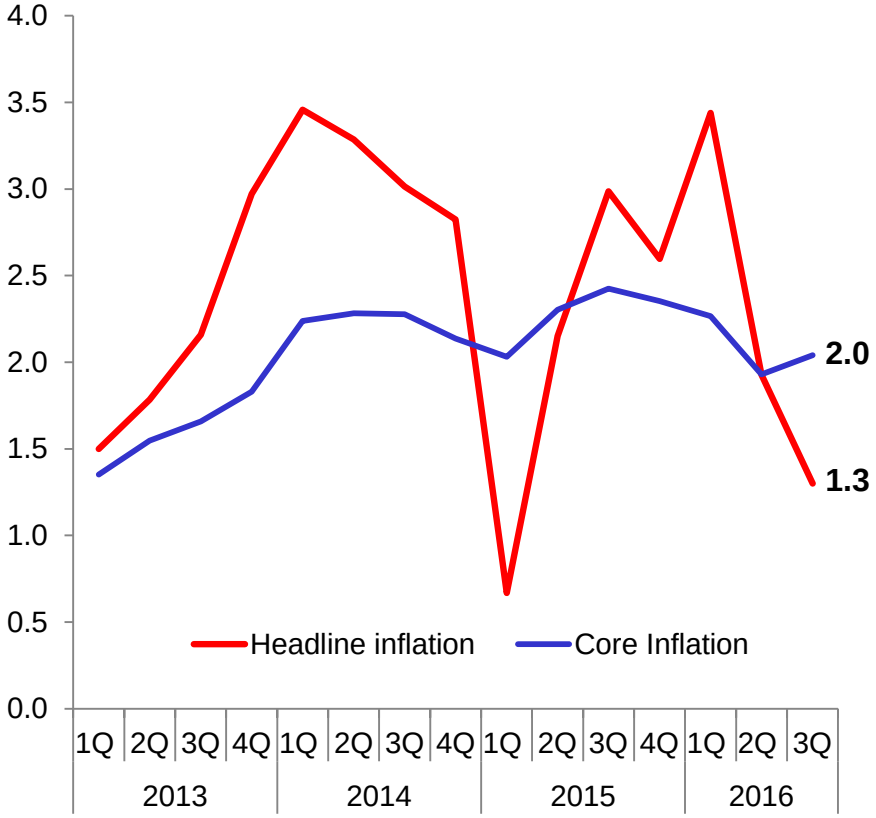
(Annual change, %)



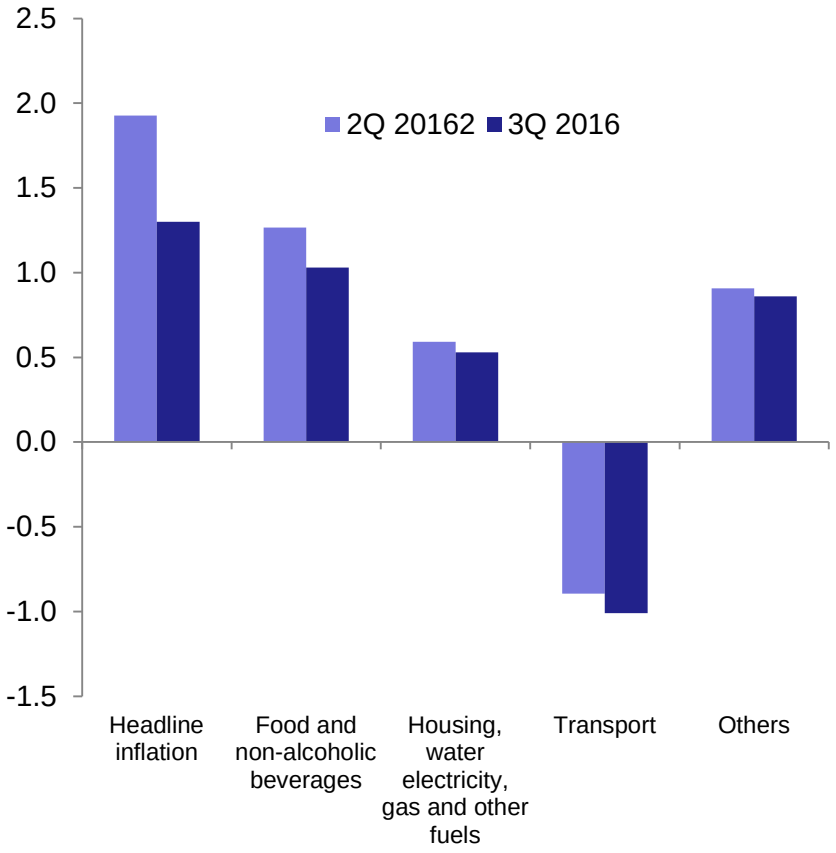
Source: Department of Statistics, Malaysia and BNM estimates

Headline inflation moderated to 1.3% in 3Q 2016

Inflation
(Annual growth, %)



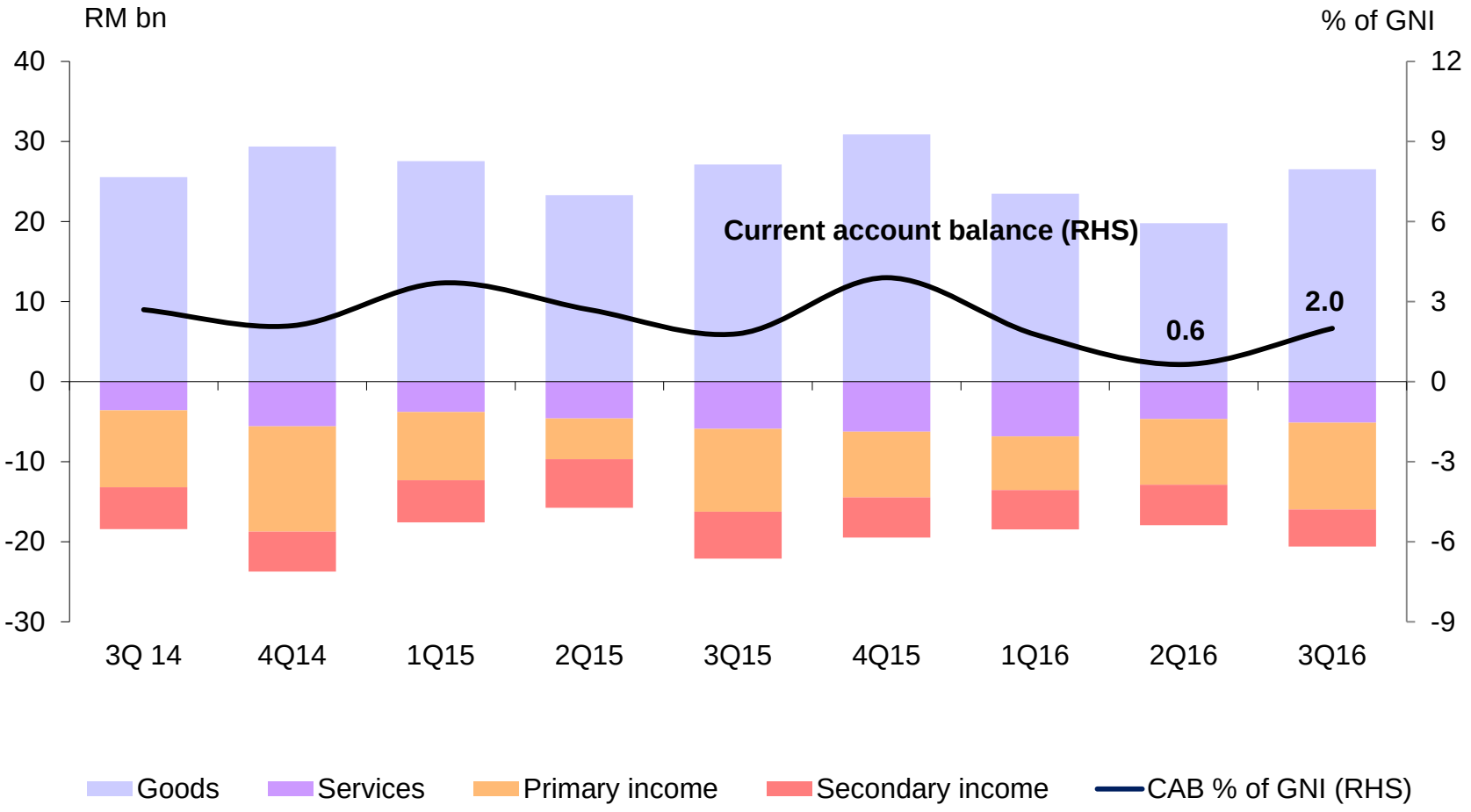
Contribution to Headline Inflation
(Percentage point)



Source: Department of Statistics Malaysia and Bank Negara Malaysia

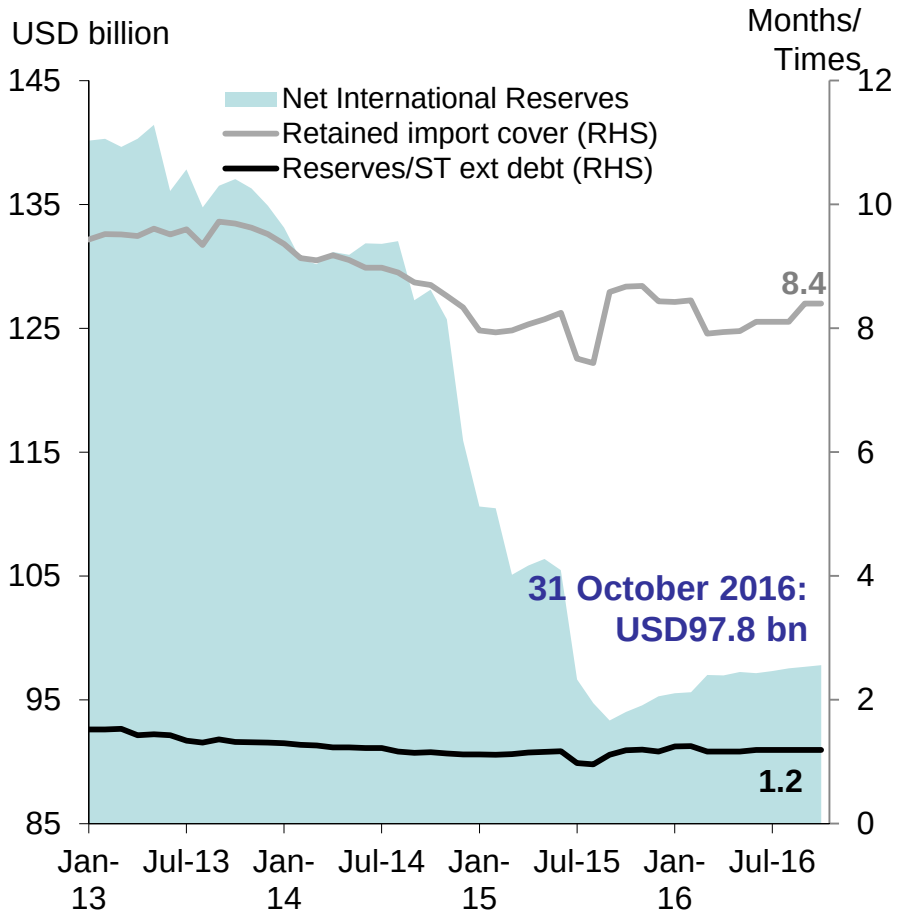
Higher surplus in the current account

Current account surplus continued to be supported by goods surplus



Reserves remain ample while external debt is manageable

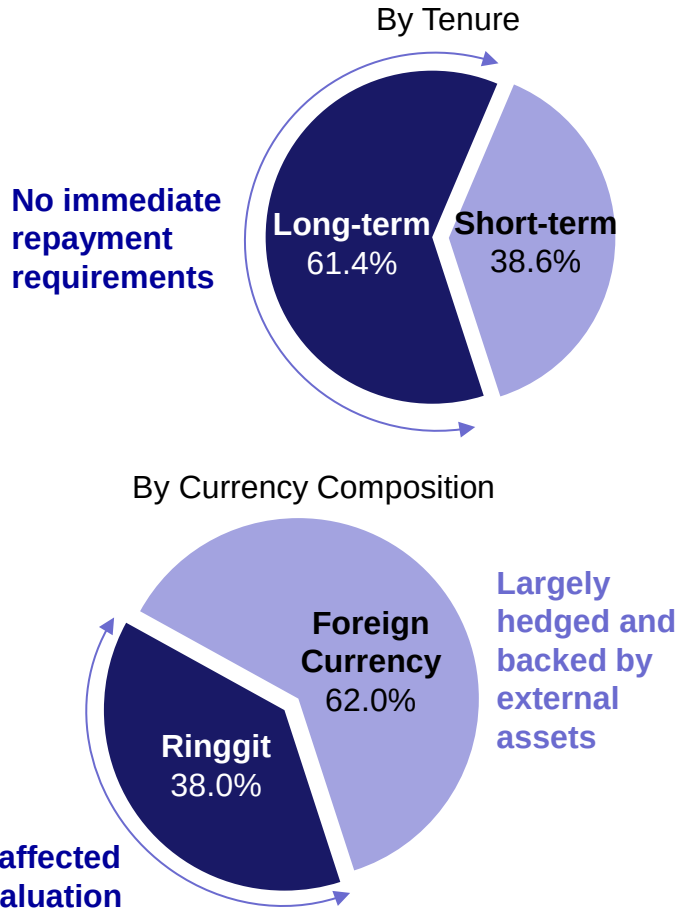
International reserves have increased since fourth quarter of 2015



Source: Bank Negara Malaysia

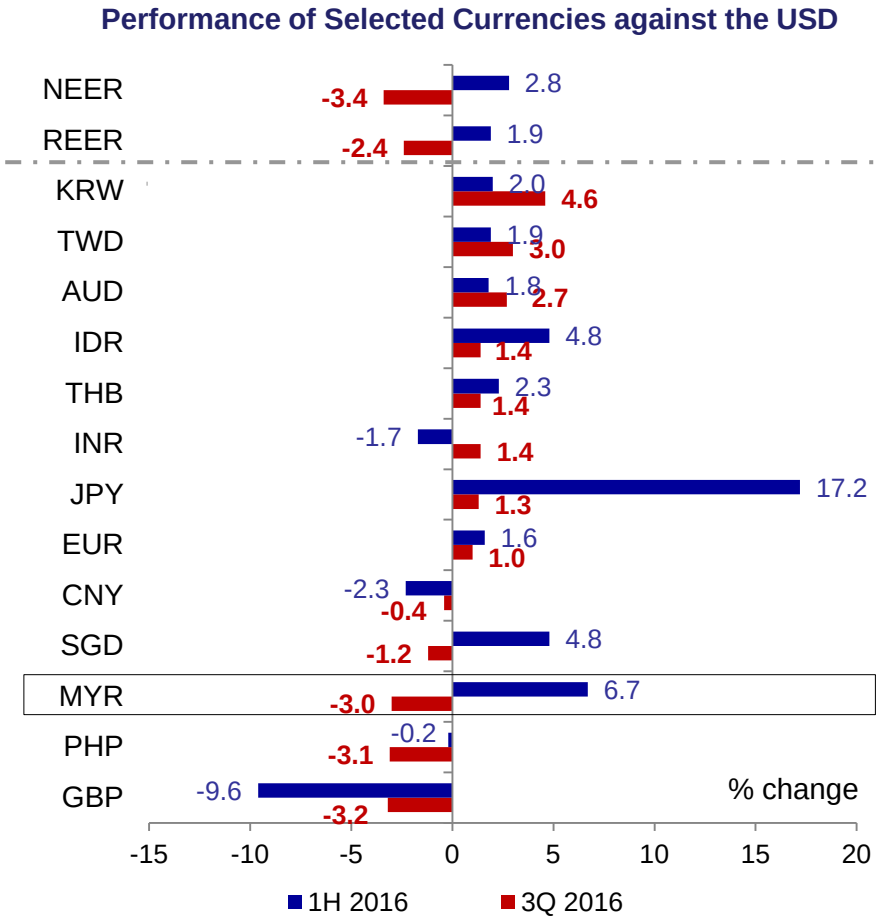
External debt is mostly long-term, while foreign-currency exposure is manageable

Total external debt: RM865.3 billion (70.2% of GDP)



Ringgit depreciated in 3Q 2016 as external developments led to shifts in portfolio flows and investor sentiments

Following the strong appreciation in 1H 2016, the ringgit retraced some of the gains in 3Q 2016



Source: Bank Negara Malaysia

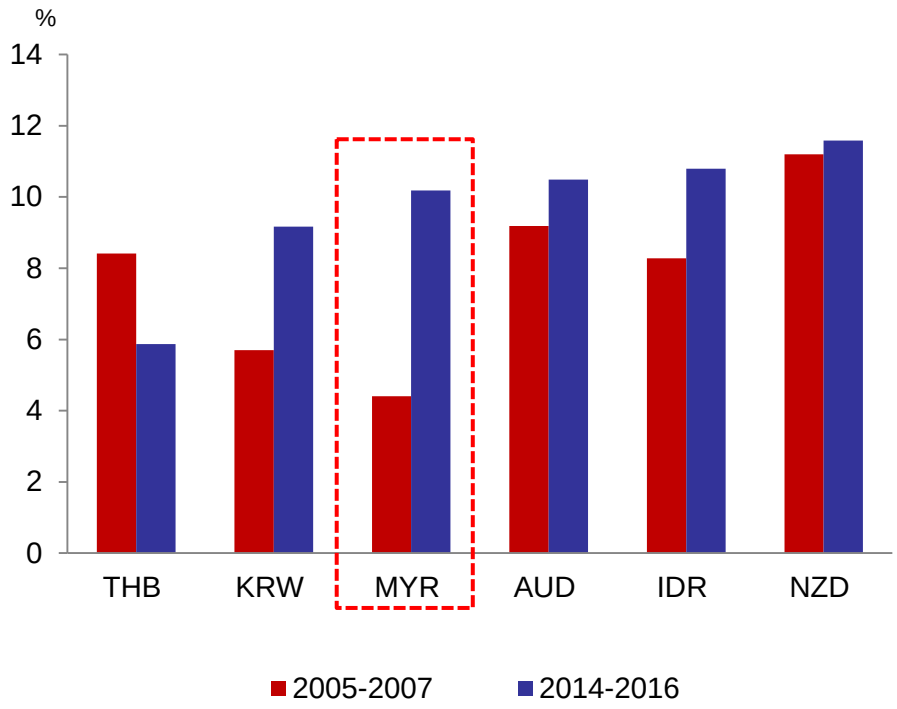
The ringgit will continue to face volatility, mainly due to uncertainties in external environment

- Expectations for another rate increase by the Fed by end-2016 continue to affect investor sentiments
- Despite recent recovery, global crude oil prices expected to remain volatile due to uncertain supply and demand conditions
- Uncertainty surrounding PR China's economic outlook and RMB development
- Geopolitical risks, particularly with regards to risks associated with the EU referendum in the UK

The increasing flexibility of the ringgit has accorded a greater buffer to the Malaysian economy

Most regional currencies are experiencing volatility

Average Implied Volatility of Selected Currencies against the USD



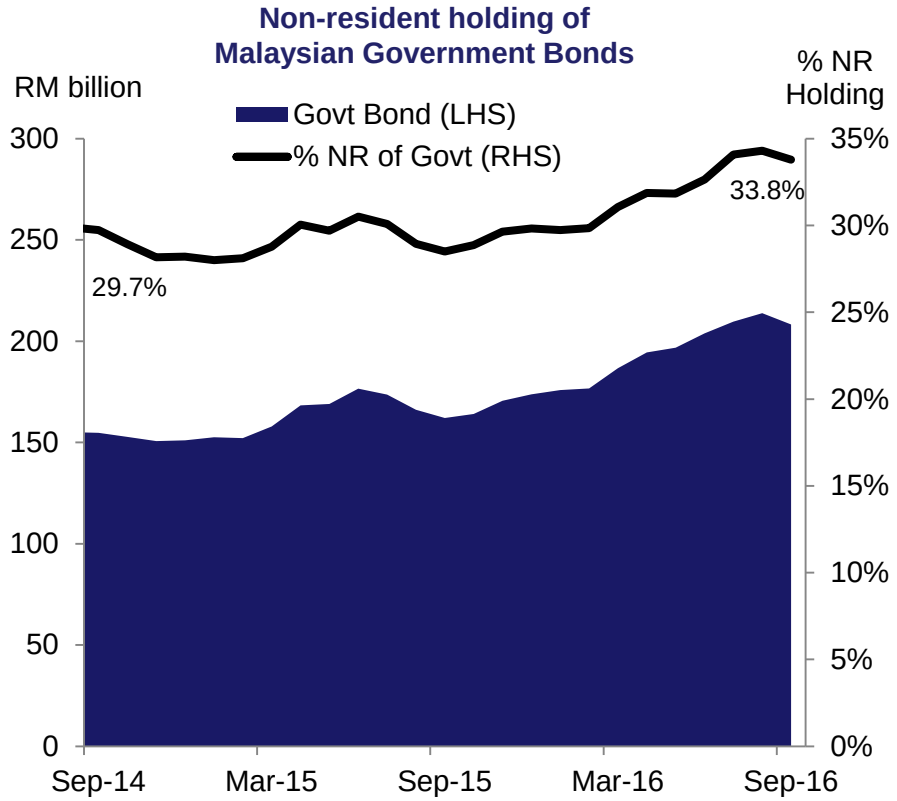
Source: Bank Negara Malaysia

Increasing flexibility of the ringgit is a reflection of the maturity of the Malaysian economy and financial system

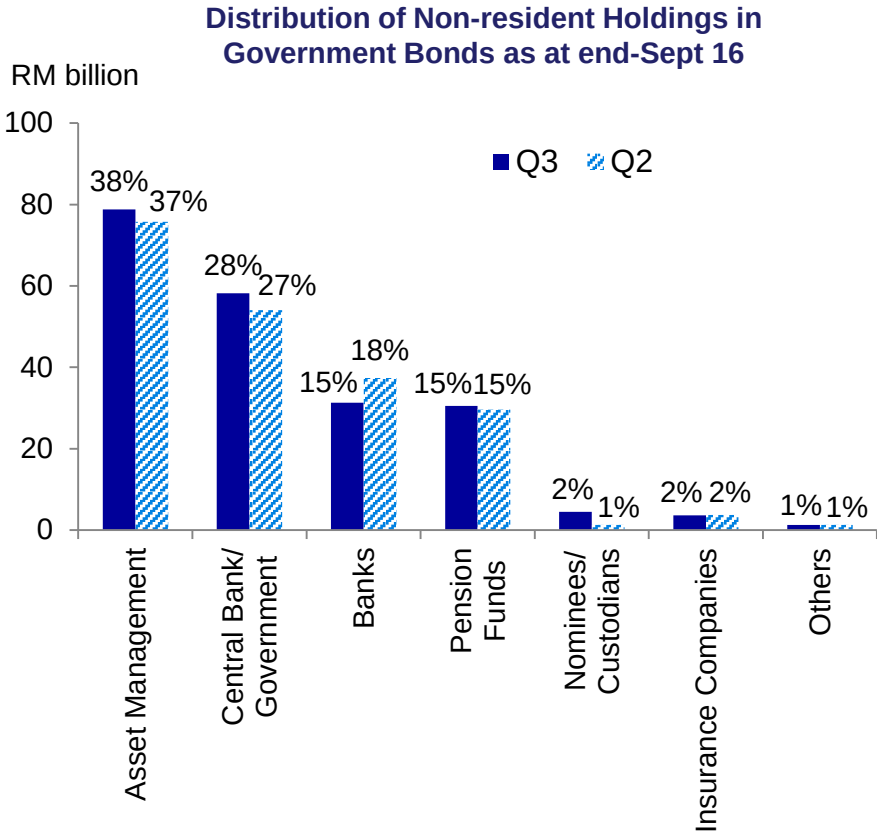
- Malaysia's economy has become more diversified and resilient.
- Deeper financial markets with broader set of players
- Strong buffers in the form of ample reserves
- This allows the ringgit to be more flexible
  - The ringgit continues to be primarily market determined
  - No targeted level or pre-determined path
  - The Bank will, however, continue to manage the volatility of the ringgit

Non-resident holdings of Malaysian government bonds remained relatively stable, underpinned by long-term investors

NR holdings of Malaysian government bonds remained relatively stable at 34% as of Sept 16



Majority of non-residents are long-term investors



Source: Bank Negara Malaysia

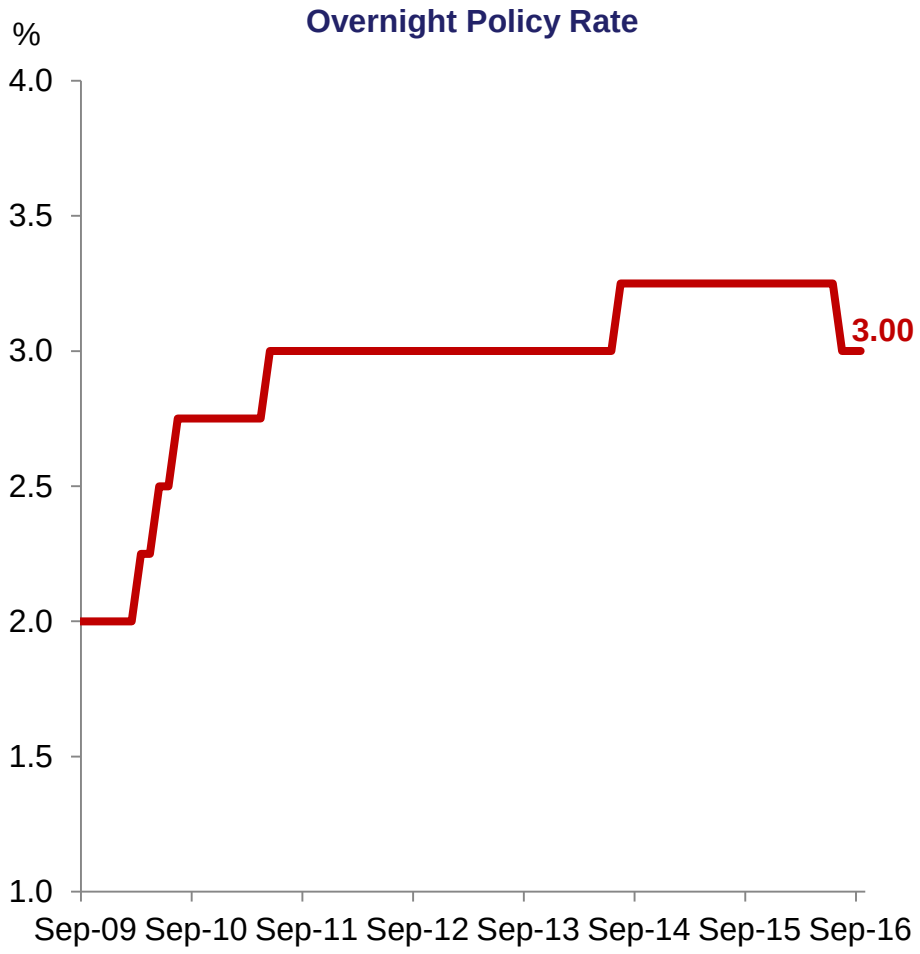
Note:

- 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.
- Data may vary pending further classification by reporting entities.

The stance of monetary policy remains supportive of the economy

- **The OPR was maintained at 3.00% at the September MPC meeting, after the reduction in July.**

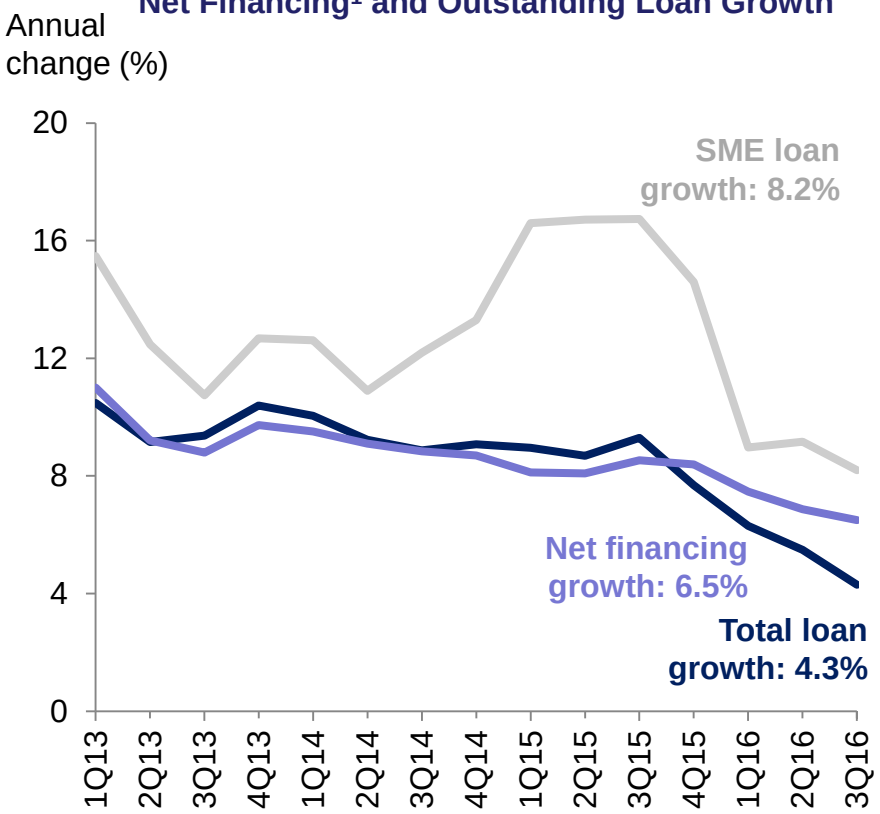
- **The degree of monetary accommodation is consistent with the policy stance to ensure steady growth amid stable inflation, supported by continued healthy financial intermediation.**



Financing continued to be channelled to the private sector

Net financing to the private sector registered a growth of 6.5% as at end-Sept

Net Financing[1] and Outstanding Loan Growth

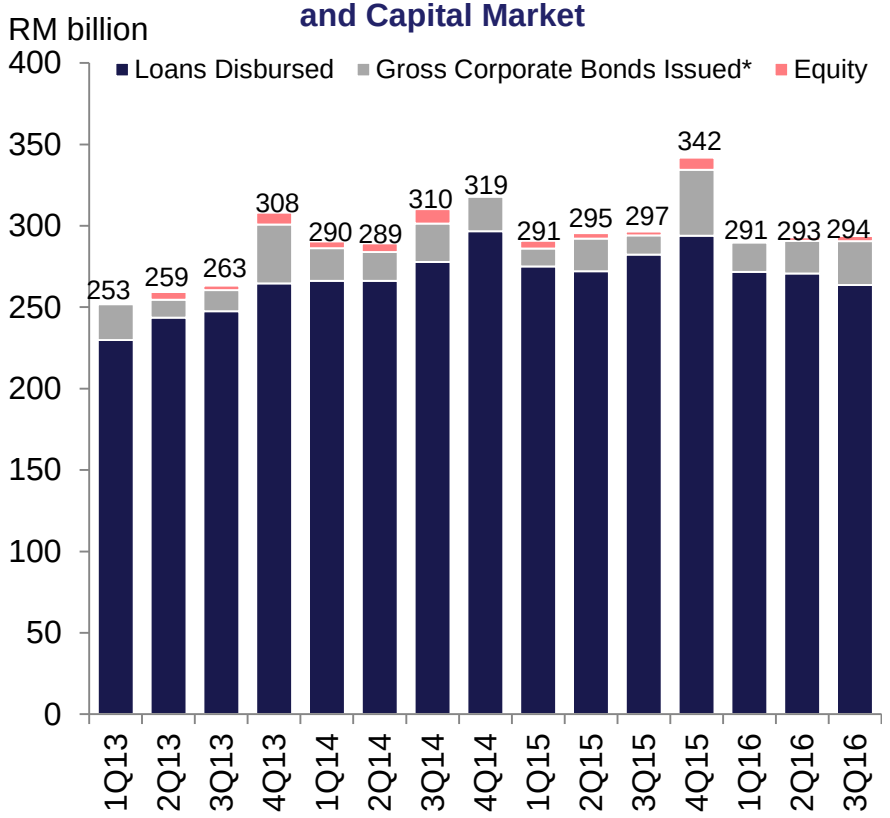


[1]Outstanding loan of the banking system (BS), development financial institutions (DFIs) and outstanding corporate bonds (CB)

Source: Bank Negara Malaysia

Gross financing to the private sector was sustained in 3Q 2016

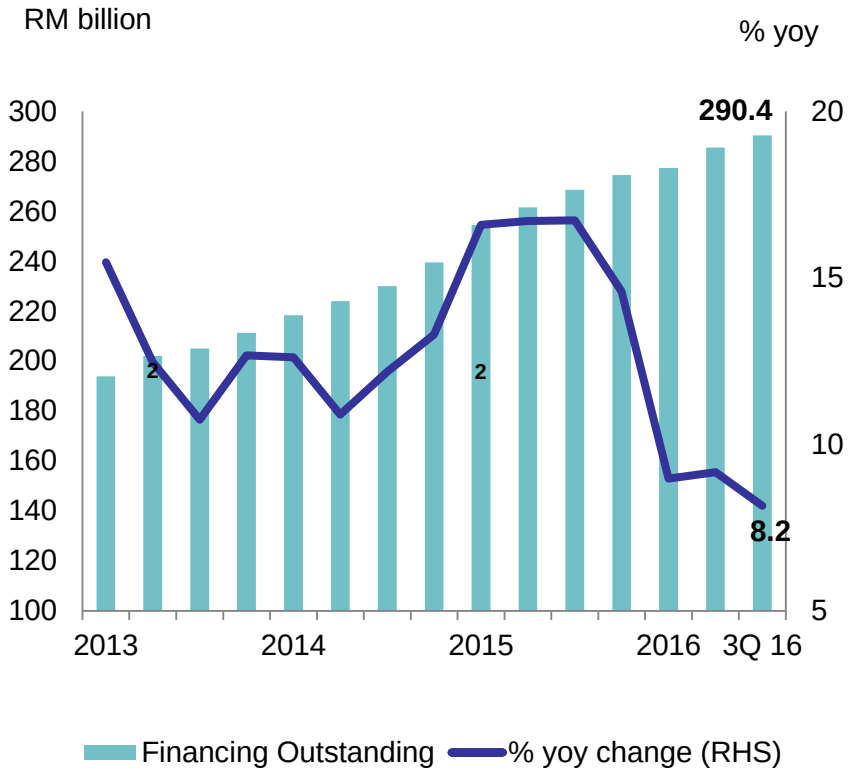
Gross Financing through the BS, DFIs and Capital Market



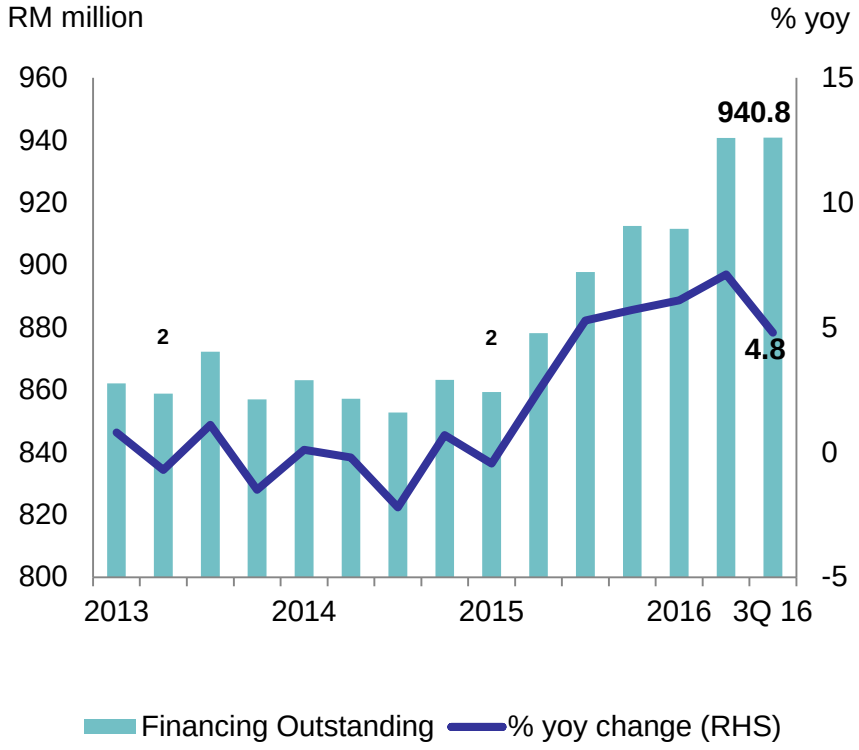
*Excludes issuances by Cagamas

Continued access to financing for SMEs (including micro enterprises)

SMEs



Micro-enterprises[1]

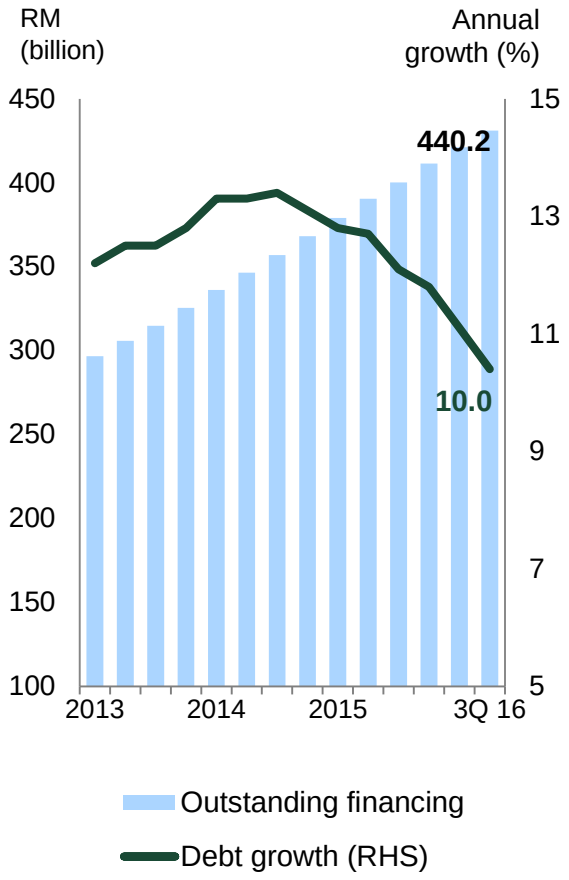


[1]Under *Skim Pembiayaan Mikro*

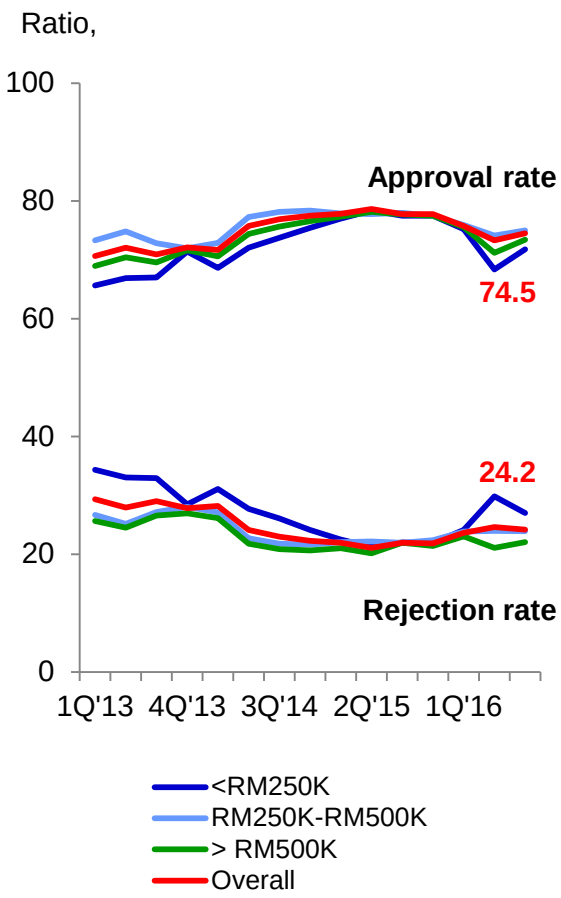
Source: Bank Negara Malaysia

Bank financing is available for eligible borrowers, including for house purchases

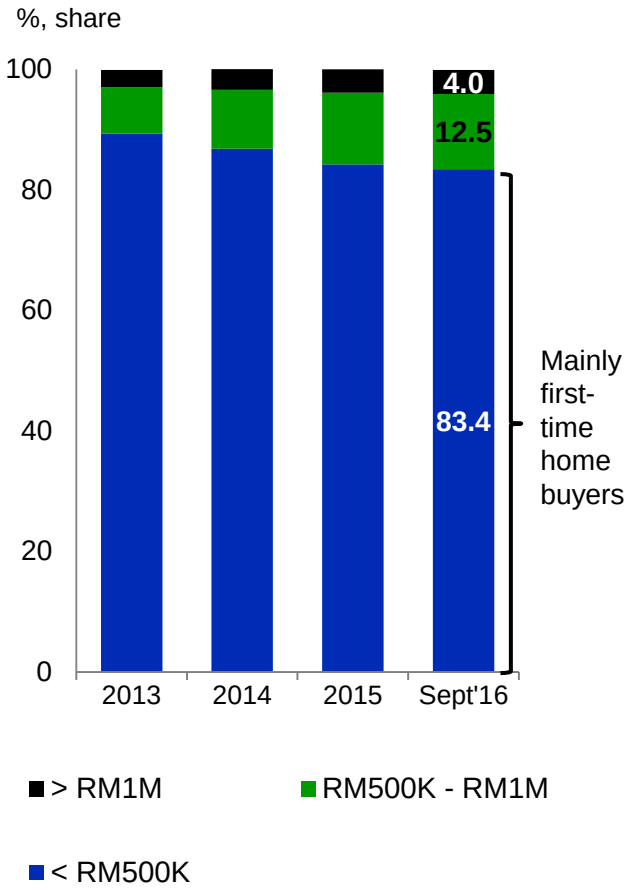
Banking system: Loans to Households for Purchase of Residential Properties



Housing Loans: Approval Rate and Rejection Rate



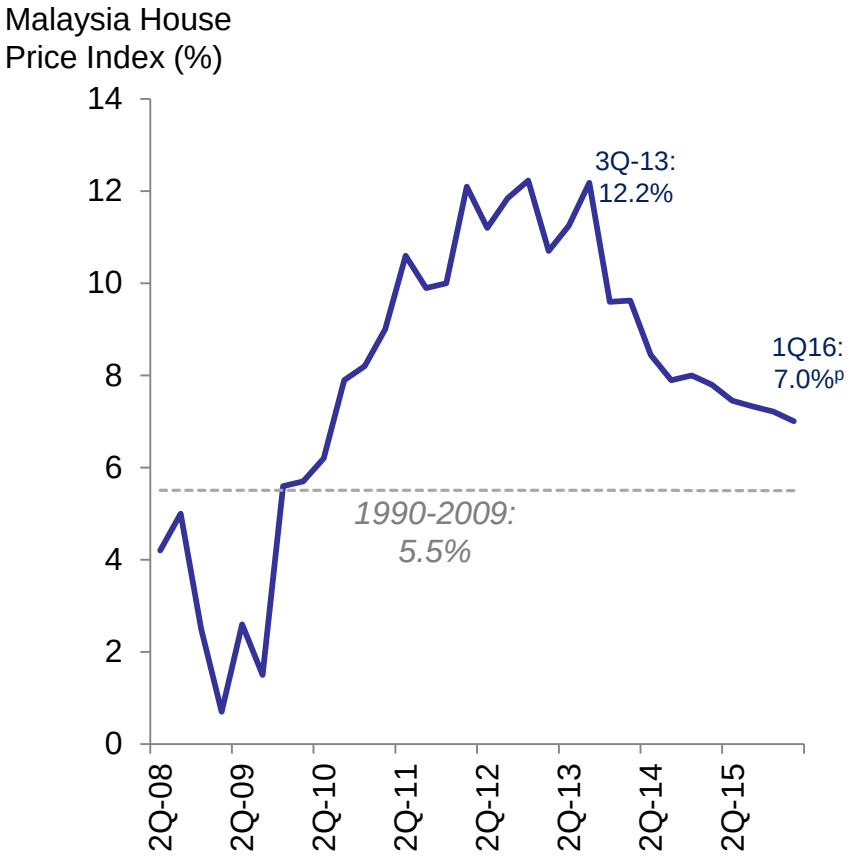
Housing Loans: Composition of Borrowers by House Price



Source: Bank Negara Malaysia

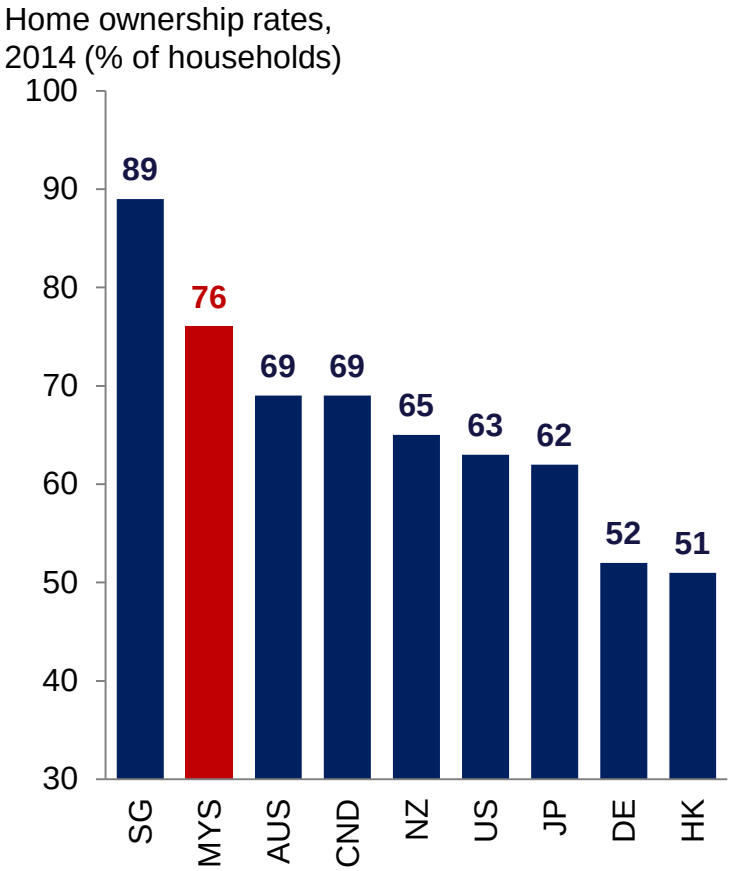
House prices moderating but continue to grow above long-term average

Growth in house prices moderated, but remains above long-term average



Source: NAPIC, DOSM, Global Property Guide, Trading Economics, National Authorities

High home ownership rates in Malaysia



Note: 2014 data, with the exception of CND (2011), JP, NZ, and SG (2013)

Financial stability preserved

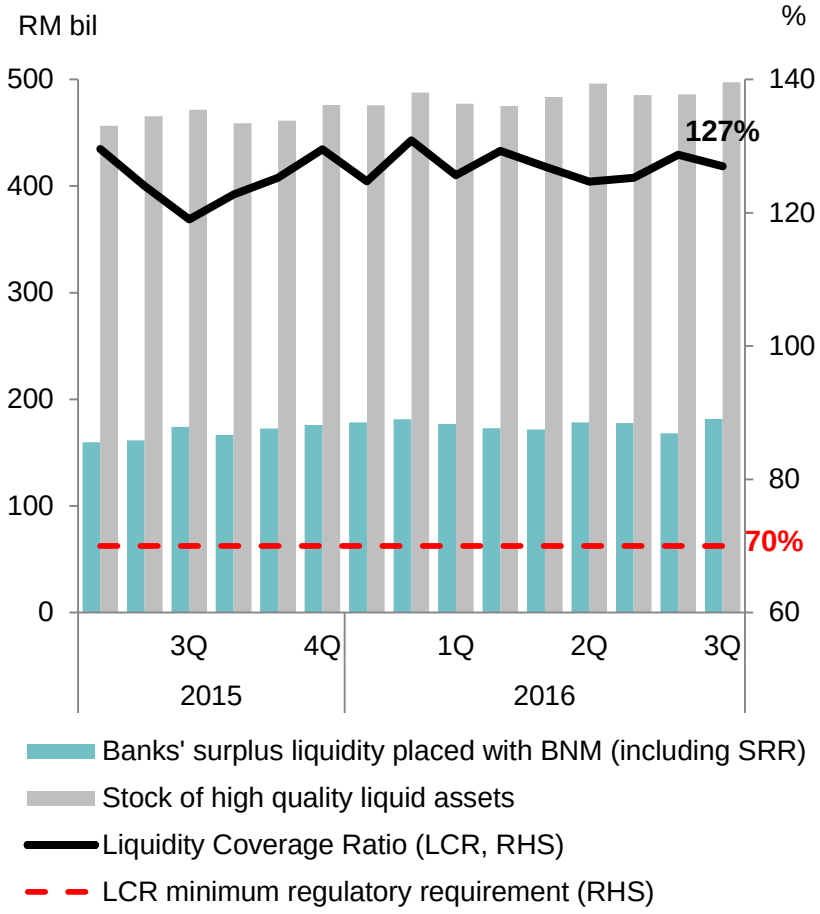
- **Capitalisation maintained at strong levels**
- **Sufficient high quality capital buffers**
  - **Enable banks to cope with adverse developments without affecting capacity to finance economic activities**

Banking sector	2Q 2016	3Q 2016
Common equity tier 1 capital ratio (%)	12.9	13.3
Tier 1 capital ratio (%)	13.9	14.2
Total capital ratio (%)	16.4	16.7
Capital buffer (RM bil)	120.8	125.8
Net impaired loans ratio (%)	1.3	1.3
ROE (annualised)	13.2	12.9
Liquidity Coverage Ratio (%)	125	127.0
Insurance/Takaful sector	**2Q 2016**	**3Q 2016**
Capital adequacy ratio (%) - Insurance	234.9	233.5
Capital adequacy ratio (%) - Takaful	187.3	184.4
Capital buffer (RM bil)	33.0	35.0
Profit YTD (RM bil)	9.0	15.1

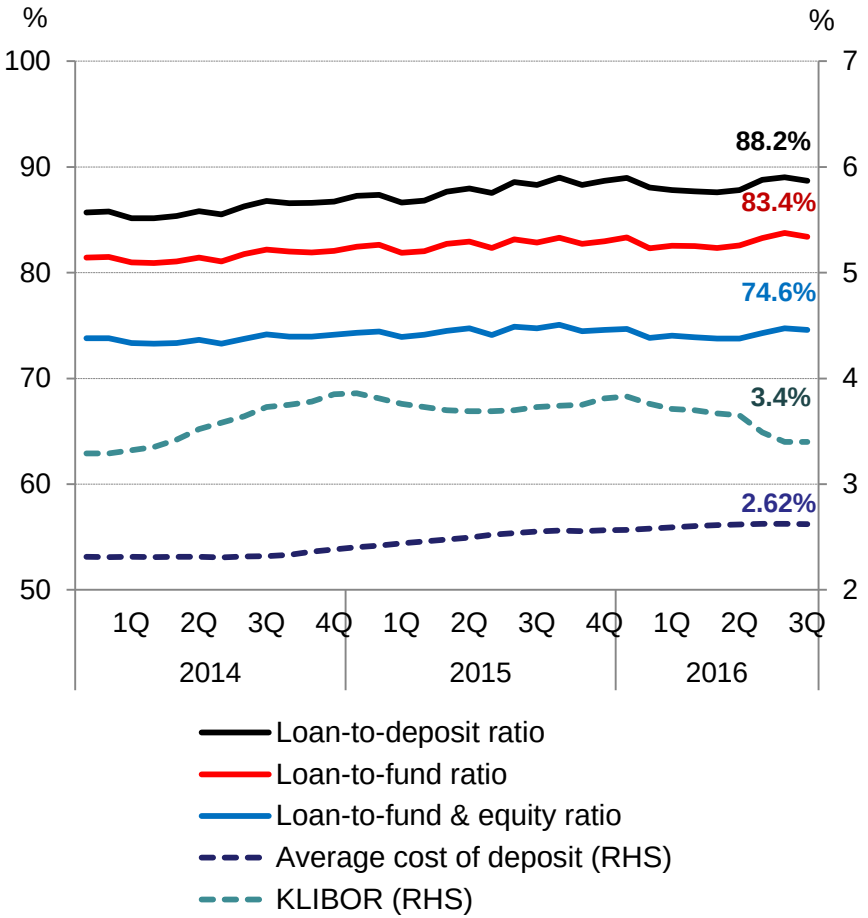
Source: Bank Negara Malaysia

Ample liquidity in the banking system

Banking system surplus liquidity amounted to RM181.6 billion



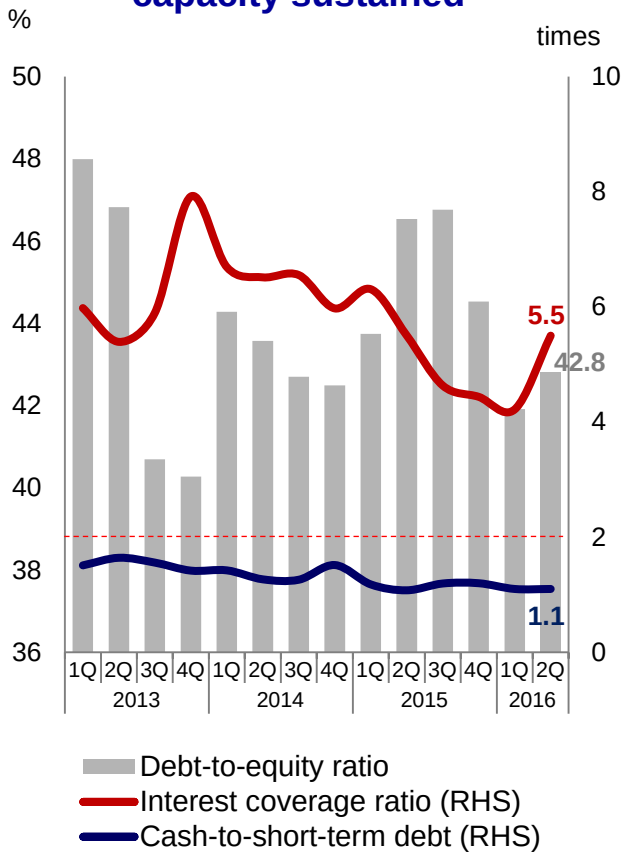
Banks' funding structure continued to be supportive of financing activities



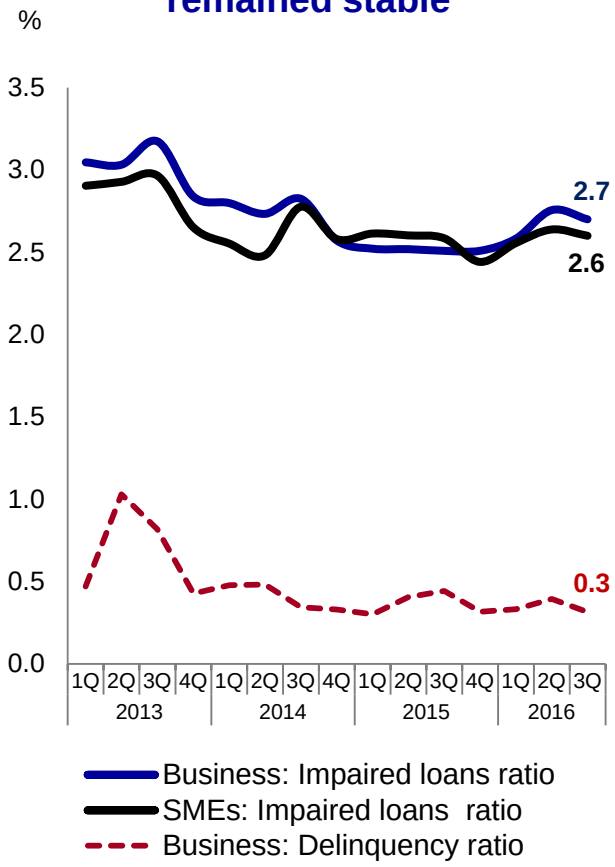
Source: Bank Negara Malaysia

Sustained debt servicing capacity of (a) businesses and…

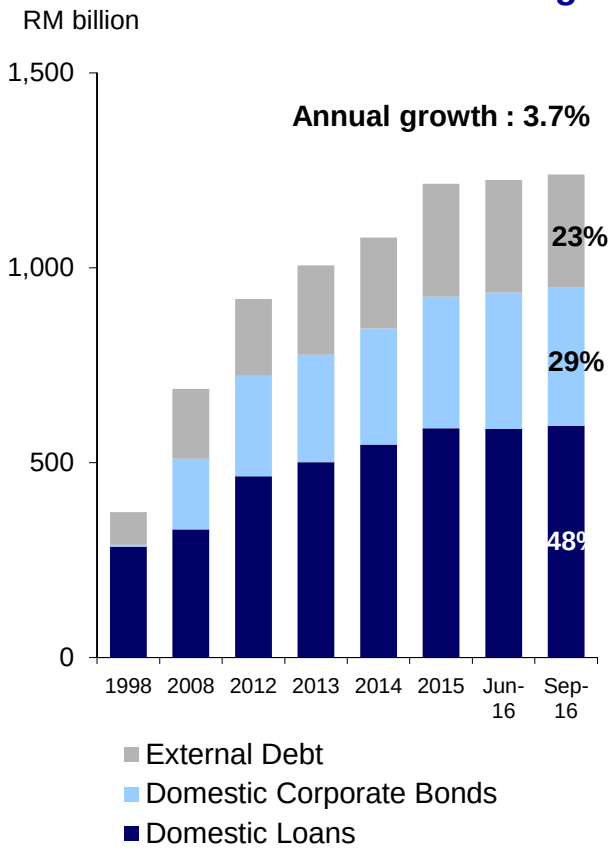
Overall debt servicing capacity sustained



Delinquencies and impairment remained stable



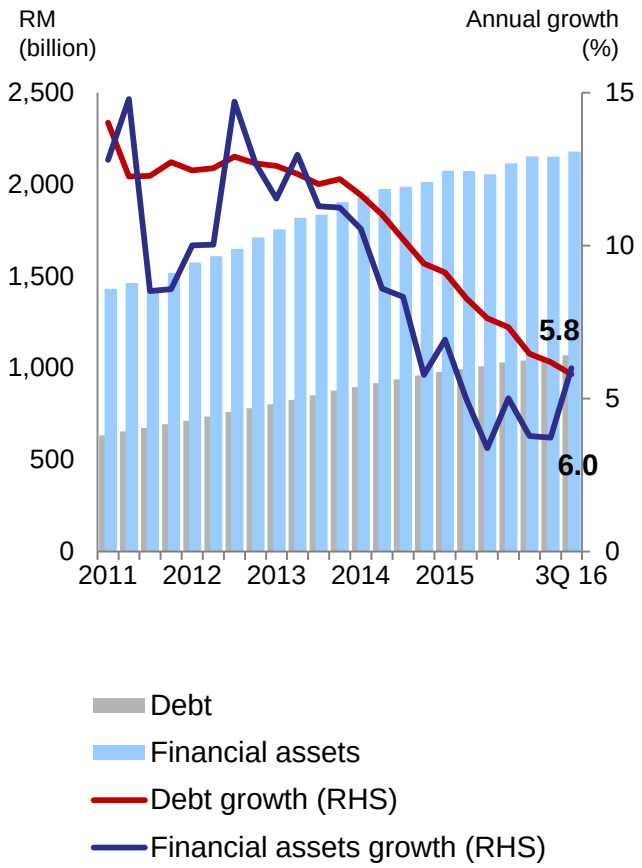
Businesses, including SMEs, have continued access to financing



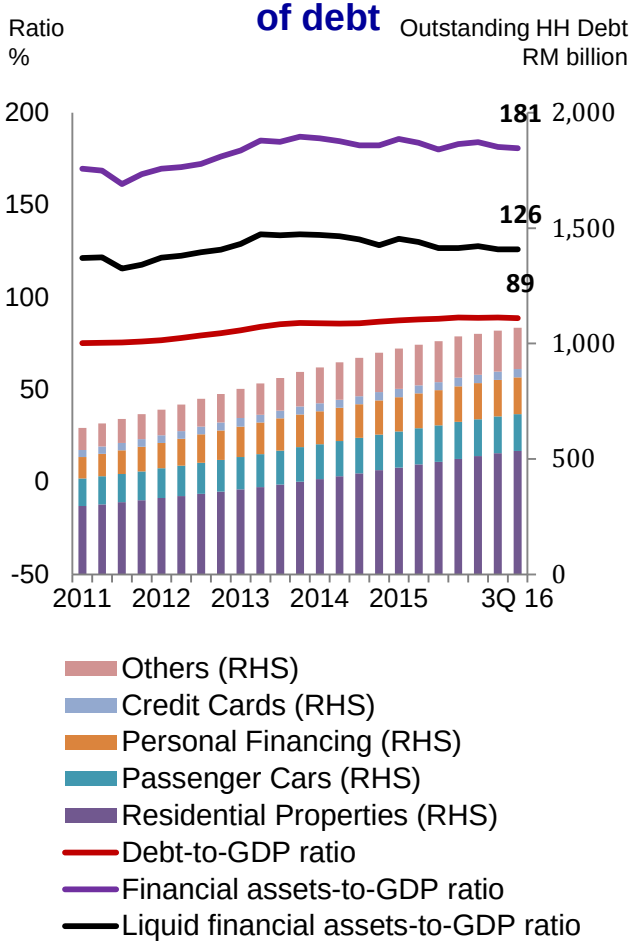
Source: Bank Negara Malaysia

(b) households

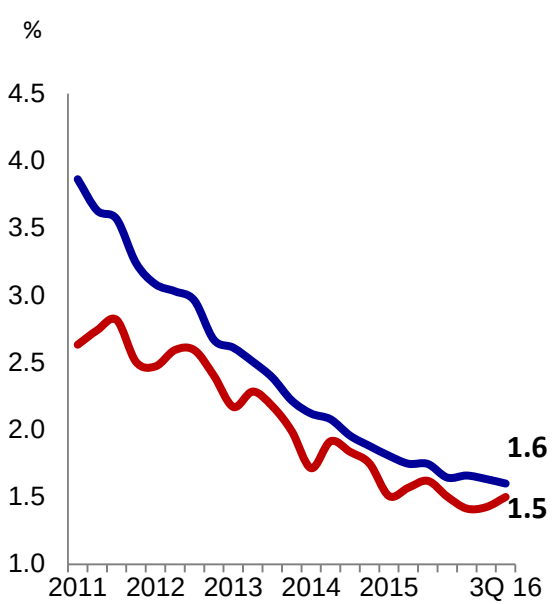
Growth in household debt continued to moderate



Aggregate household financial assets remained at two times of debt



Asset quality of household loans remained sound



Source: Bank Negara Malaysia

Mitigating cyber threats

- **Financial institutions are required to implement strong risk management and security controls against cyber threats.**

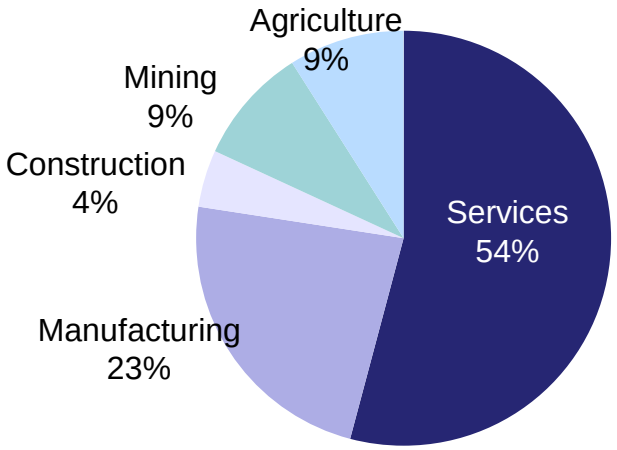
- **Industry-wide review commenced in March 2016 to identify further improvements.**
  - This has also taken into account SWIFT's recommended security controls.
  - SWIFT will publish financial institutions' compliance status with its newly introduced mandatory security controls with effect from January 2018.

- **Industry level working groups established to share cyber threat intelligence and facilitate timely coordinated action to respond to cyber threats.**

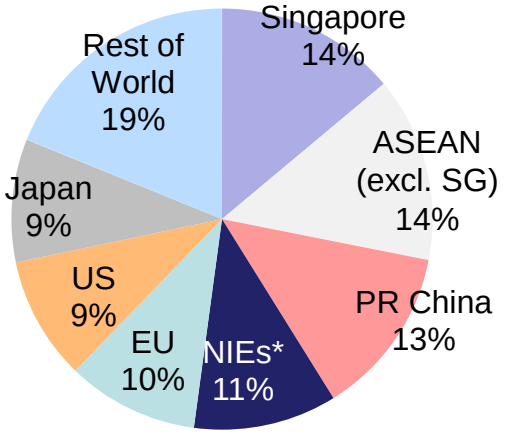
The Malaysian economy remains resilient

Well-diversified sources of growth and export markets

Malaysia's GDP by Economic Sector (2015)

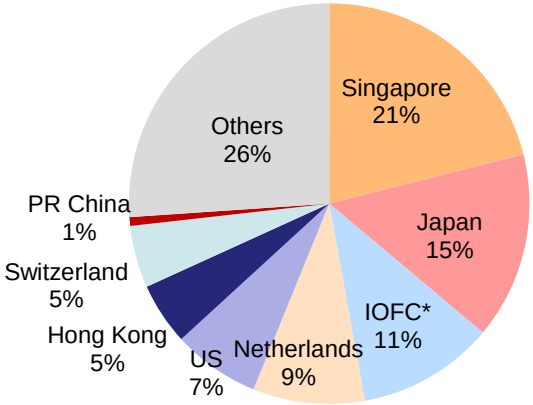


Malaysia's Exports by Destination (2015)

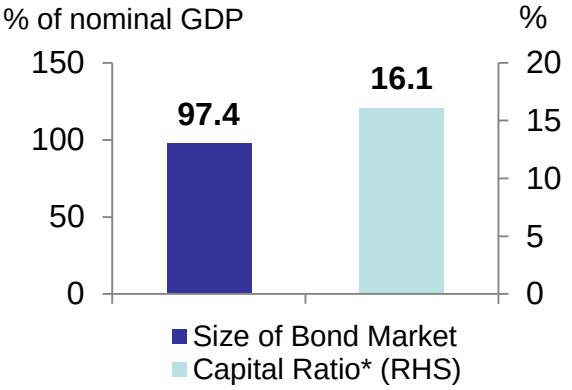


Attractive investment destination supported by developed and sound financial system

Malaysia's FDI Inflows by Destination (2015)



Size of Bond Market and Banking Capital Ratio (2015)



Note: NIEs include Hong Kong, Korea and Chinese Taipei, while ASEAN-3 include Thailand, Indonesia and Philippines. IOFCs include Virgin British Islands, Bermuda, Bahamas and Jersey.
Source: Department of Statistics, Malaysia

Growth is expected to improve with better global prospects and support from policy measures

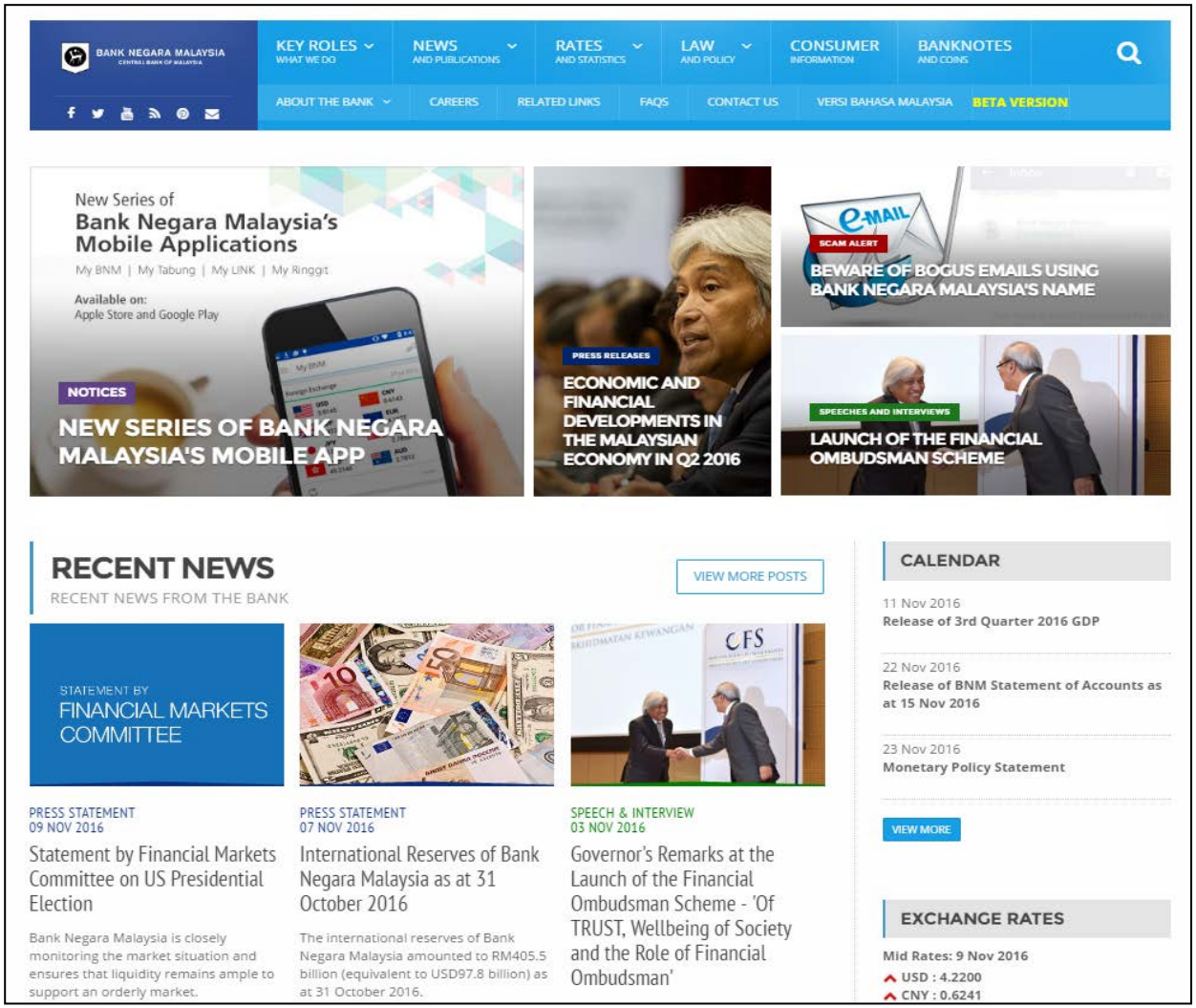
Although growth in Malaysia is currently relatively subdued, it is projected to pick up as policy measures gain traction and global prospects improve

Malaysia's resilience continues to be underpinned by:

- Diversified sources of growth
- Steady wage and employment growth
- On-going implementation of infrastructure projects

Downside risks and shocks are mitigated by adequate buffers, policy space and high state of readiness

Newly redesigned Bank Negara Malaysia Website www.bnm.gov.my



Q&A Session