BANK NEGARA MALAYSIA

2018 ANNUAL REPORT &
FINANCIAL STABILITY AND PAYMENT SYSTEMS REPORT

27 MARCH 2019

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

In a nutshell…

- Amid rising external headwinds, the Malaysian economy to remain on a **steady growth path** in 2019
- **Downside risks to growth remain**, in an environment of heightened uncertainties
- **Safeguards are in place** to navigate headwinds

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

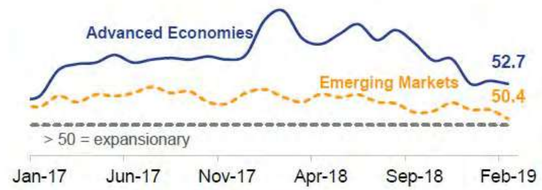
2018, a year of resilience despite multiple headwinds

Malaysia's GDP growth: 4.7%

High frequency indicators point to slowing global economic activity going into 2019

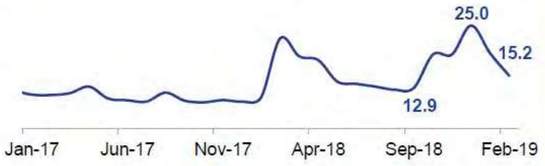
Broad-based PMI moderation

Global Composite PMI (Manufacturing and Services)
Index



High global financial market volatility

CBOE Volatility Index (VIX)
Index



Elevated policy uncertainty

Global Economic Policy Uncertainty Index
Index, 3 mma



Volatile commodity prices

Brent Crude Oil Price
USD/bl



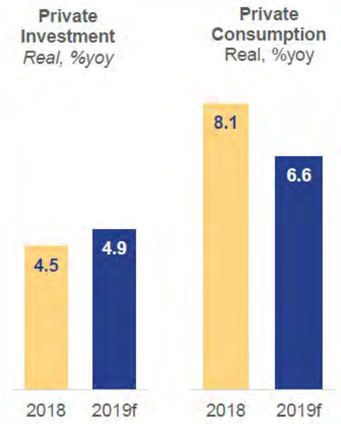
Sources: Haver, Bloomberg, Economic Policy Uncertainty, and BNM estimates

Against this backdrop, how will the Malaysian economy fare in 2019?

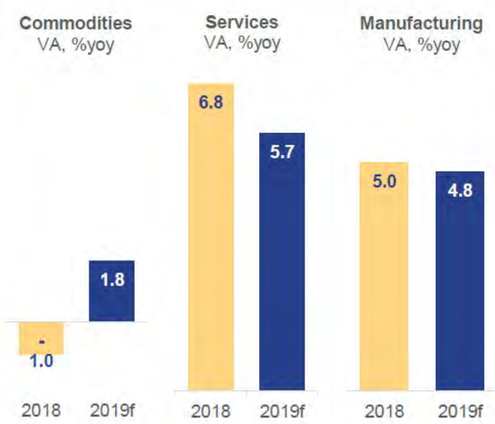
Baseline growth to remain steady between 4.3% - 4.8%

…supported by:

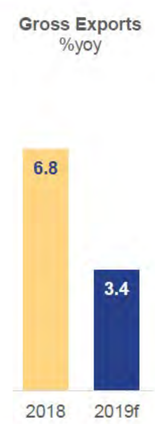
Resilient private sector spending



Recovery in commodity sectors amid continued expansion in key economic sectors



Continued demand from major trade partners



Sources: Department of Statistics, Malaysia and Staff estimates

Private sector spending to remain resilient,

in the absence of major shocks

Annual Real Private Expenditure Growth



*Multiple shocks refer to GST, oil price decline, MYR depreciation, layoffs and low Oil & Gas income growth
Source: Department of Statistics, Malaysia

Private consumption to normalise, but remains firm

Lift from temporary measures is diminishing, but fundamental drivers remain supportive

Factors Supporting Household Spending

2018 → 2019

- **Continued income and employment growth**
- **Fuel price stabilisation** *(2Q '18-2Q '19)*
- **Tax holiday** *(Jun-Aug)*
- **Strong sentiments** *(2Q-3Q)*
- **Special payments to civil servants/pensioners** *(4Q)*

Targeted measures to alleviate cost of living for lower-income households

1. **Price ceiling on retail fuel prices**
2. **Higher minimum wage**
3. ***Bantuan Sara Hidup* cash transfer**

Source: Department of Statistics, Malaysia

Stable labour market outlook, corroborated by employer surveys and industrial engagements

Private Sector Wages
Annual change, %



Employment
Annual change, %

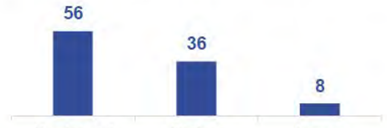


Industry Insights on Labour Outlook

Malaysian Employers Federation Salary Survey



BNM Regional Economic Surveillance
% of firms indicating change in headcount (2019)



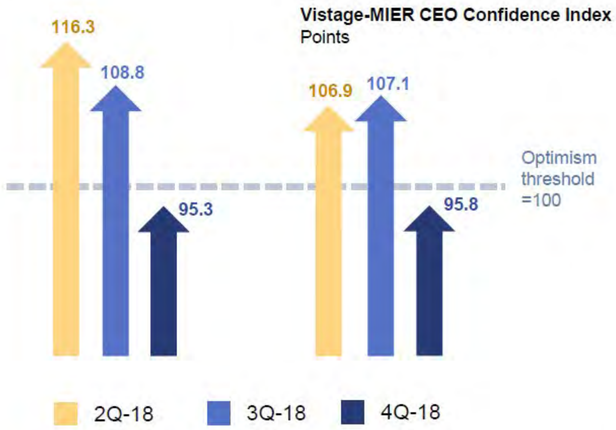
P Preliminary
Note: Private sector wages is derived from the salaries and wages data published in the Monthly Manufacturing Statistics and Quarterly Services Statistics by the Department of Statistics, Malaysia. It covers 63.5% of total employment.
Sources: Department of Statistics, Malaysia, 2018 MEF Salary Surveys for Executives and Non-Executives, and BNM's industrial engagements (Sep. 2018 - Feb. 2019)

Despite the uncertain environment, firms continue to invest

Sentiments softened amid increased uncertainty

MIER Business Conditions Index
Points

Vistage-MIER CEO Confidence Index
Points

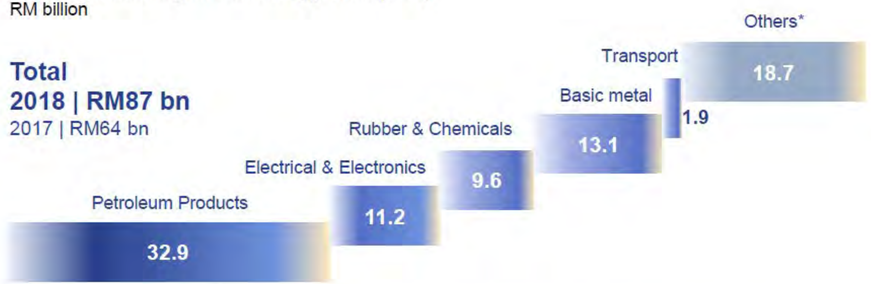


Source: MIER and Vistage-MIER

Investment approvals have risen significantly, focusing on capacity and efficiency enhancements

MIDA Manufacturing Investment Approvals (2018)
RM billion

Total
2018 | RM87 bn
2017 | RM64 bn



M&E spending on automation to enhance production efficiency,
particularly in the E&E and primary-related sub-sectors.

Services

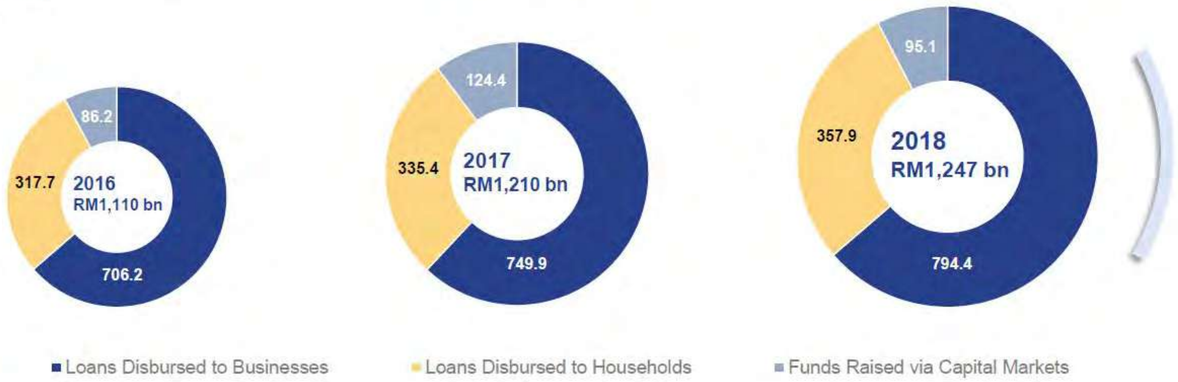
Continued capacity expansions to meet demand,
including in the transport, storage, and communication sub-sectors.

*Includes machinery and equipment, plastics, textiles, food, fabricated metal, non-metallic mineral and paper industries
Source: MIDA

Private sector financing supportive of economic activity

Record growth in loans disbursed since 2014 at 7.3%

Levels of Gross Financing to Businesses and Households*
RM billion



Growth in Total Loans Disbursed by the Banking System and DFIs

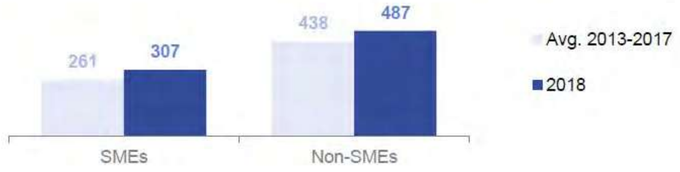
-1.2% | 5.0% | 7.3%

*Comprises gross loans from the banking system and DFIs, and funds raised from the capital markets (excludes issuances by Cagamas and non-residents)
Source: Bank Negara Malaysia

Higher loans were disbursed across all business segments and most economic sectors in 2018

Loans Disbursed**

Across Business Segments
RM billion



Across Selected Economic Sectors
RM billion



**Loans from the banking system and DFIs
Source: Bank Negara Malaysia

Financing by banks remain strong

Higher total loan growth in 2018*…

3.9% in 2017

4.8% in 2018

*Refers to outstanding total loans from banks and non-banks

…with banks continuing to target higher loan growth in 2019

7 – 8%

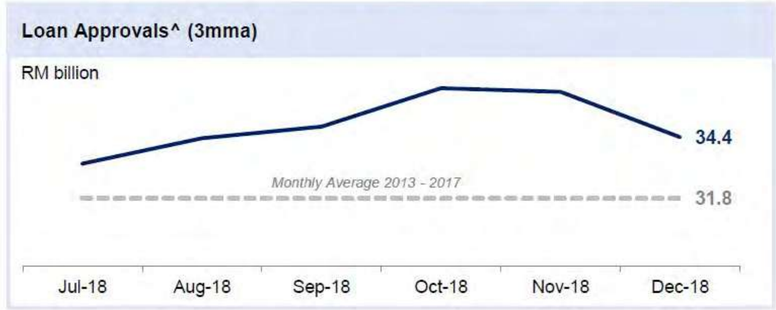
targeted growth in outstanding bank loans**

**Based on a weighted average of 17 banks' internal loan growth targets from responses to an internal survey on banks. The 17 banks represent 87% share of total banking system loans as at 2018.

Source: Bank Negara Malaysia

However, banking system loan applications moderated towards end-2018, while loan approvals remained stable





^Refers to banking system data only
Source: Bank Negara Malaysia

SME financing remains a key strategic focus
of financial institutions…

SMEs represent a primary customer segment for financial institutions

- **87%** of business financing accounts
- **More than 123,000** financing applications approved
- **3 in 4** financing applications approved
- **RM 307bil** financing disbursed

Source: SME Finance Survey 2018, Bank Negara Malaysia.

Enhanced access to financing has contributed to lower constraints faced by SMEs

1. *Increased competition*
2. *Fluctuating demand*
3. *Rising input cost*
4. *Rising labour cost*
5. *Labour shortage*
6. *Retaining labour*
7. *Maintaining cash flow*
8. **Difficulty accessing financing**
9. *Government regulation*

SMEs' ranking of factors constraining growth (from most to least constraining)

…with various ongoing efforts to
enhance the financing ecosystem
to support SME growth

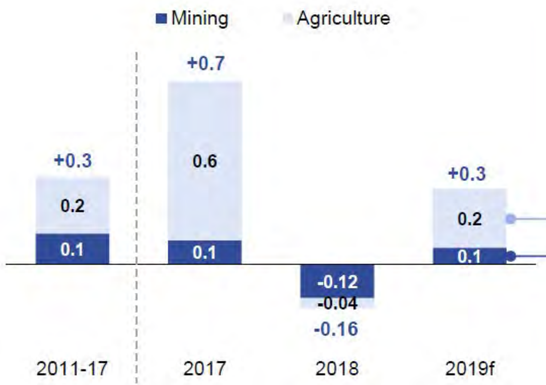
- **Access to financing and financial services** at **40** financial institutions
- **Credit Guarantee Corporation/ Syarikat Jaminan Pembiayaan Perniagaan guarantee schemes** and **BNM's Fund for SMEs**
- **Skim Pembiayaan Mikro**
- **imSME Online Financing Referral Platform**
- **Access to information, advisory and redress** at BNMLINK and other relevant agencies*
- **Small Debt Resolution Scheme**

*SME Corporation Malaysia and Credit Guarantee Corporation

Growth prospects also lifted by recovery from supply disruptions…

Turnaround in both mining and agriculture sectors to support production and export growth

Commodity: Contribution to GDP Growth
ppt contribution to headline GDP



Agriculture
(7.8% of GDP)

Improvement in palm oil yields amid waning impact from adverse weather

Mining
(7.9% of GDP)

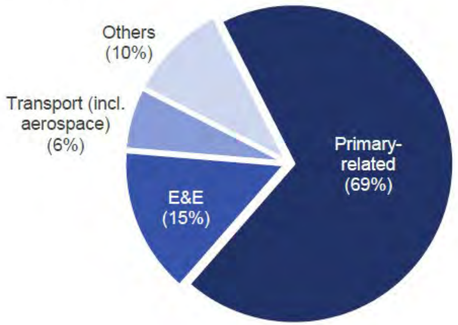
Recovery of natural gas operations in East Malaysia

Source: Bank Negara Malaysia and Department of Statistics, Malaysia

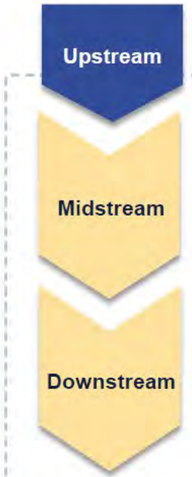
…and new manufacturing production facilities

Additional production capacity in primary-related and E&E sub-sectors to support growth

2019 Sales Projection of New Manufacturing Capacity
% share of total



Oil and Gas Value Chain



Contribution from RAPID upon full capacity

47% increase in refined petroleum capacity

Deepen domestic economic complexity by producing high value-added **specialty chemicals** in the longer term

Note: The manufacturing sector accounts for 23% of GDP in 2018
Source: Staff estimates based on news flow and industrial engagements

Continued expansion in exports

amid more moderate global growth and trade activity…

Malaysia's Gross Export Growth
2019f | 3.4%
2018p | 6.8%

Ppt. Contribution to Gross Export Growth

Loss from trade tension
(in baseline)

-0.6 to -1.0

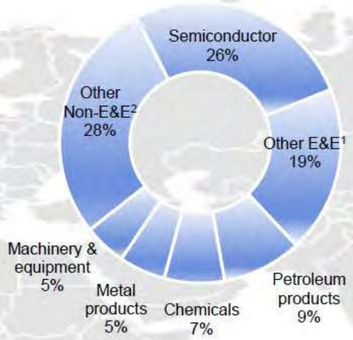
+0.1 to +0.4

Potential gain from trade diversion*
(not in baseline)

*Potential gain from trade diversion is more likely to occur if the products already account for a significant share of US import market and manufacturers have the capacity to ramp up production
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

…supported by diversified manufacturing base and capacity expansions

Breakdown of Manufactured Exports (2018)
%share of total manufactured exports



Despite global tech downcycle, increased capacity allows firms to **tap into global demand for growing product segments**

Automotive	Increasing use of electronics in vehicles
Medical	Spurred by semiconductor use in medical devices
Chemicals	Growing demand for specialty chemicals
Rubber products	Rising demand in medical industry

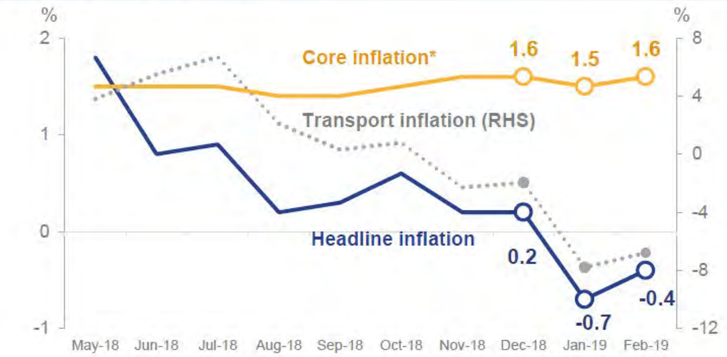
[1] Other E&E include office and automatic data processing machines, electrical machinery & parts and telecommunication equipment
[2] Major components include optical & scientific equipment, processed food, palm oil-based manufactured products, rubber & wood products, transport equipment
Note: Numbers may not add up due to rounding
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Is Malaysia suffering from deflation?

Recent negative headline inflation due mainly to lower fuel prices, not a sharp deterioration in demand conditions

Core inflation remained relatively stable amid sustained domestic demand conditions

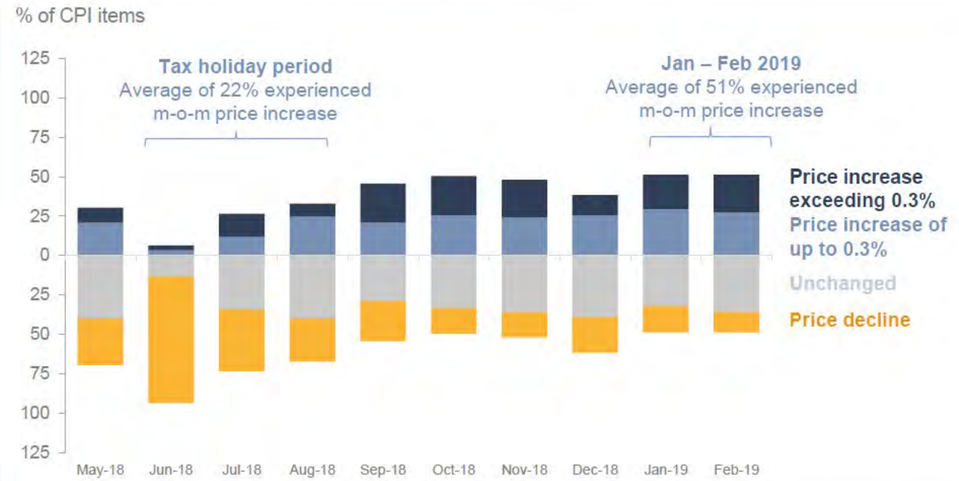
Headline, Core and Transport Inflation



*Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of consumption tax policy changes
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Relatively stable share of CPI items recording price increases in recent months despite negative headline inflation

Pervasiveness based on month-on-month (m-o-m) inflation of CPI items**



**Based on the month-on-month inflation for 125 CPI items at the 4-digit level
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Headline inflation in 2019 is projected to average between 0.7% – 1.7%

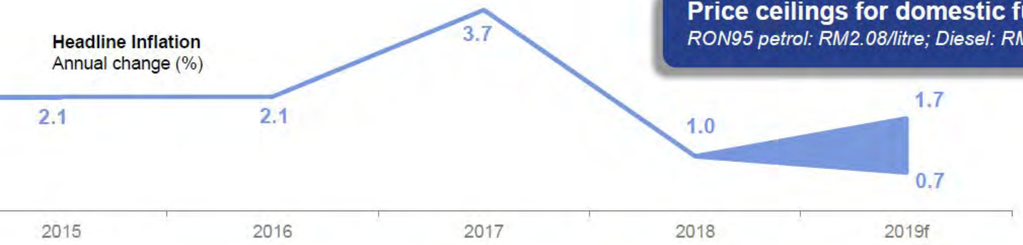
Pass-through from …

Domestic cost factors, including those arising from policy measures

…offset by impact from:

Lower global oil prices
**Average oil prices 2019f: USD59/barrel; 2018: USD69/barrel*

Price ceilings for domestic fuel until mid-year
RON95 petrol: RM2.08/litre; Diesel: RM2.18/litre



Underlying inflation is expected to be sustained
Steady expansion in economic activity, absence of strong demand pressures

*Average prices of UK Brent, West Texas Intermediate, and Dubai Fateh as forecasted by the IMF in its January 2019 update to the World Economic Outlook
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

While headline inflation is subdued, cost of living concerns continue to affect certain segments of society

Households in urban areas, such as KL face a larger increase in cost of living relative to others

Headline Inflation by Geographical Region

Peninsular Malaysia
Jan-Feb 2019: -0.5% (2018: 1.0%)**

KL
0.2%
(1.4%)

Sarawak
-1.2%
(0.6%)

Sabah & WP Labuan
-1.0%
(0.7%)

Households would need to earn an income that supports a minimum acceptable living standard

Living Wage^ Estimates in KL in 2016 *(RM per month)*

Single adult	*Couple without children*	*Couple with two children*
RM2,700	**RM4,500**	**RM6,500**

Longer-term structural policies to boost productivity & income growth are needed to support higher standard of living

**Numbers in parentheses refer to 2018 average inflation.
^Bank Negara Malaysia uses the term 'living wage' to mean income from all sources besides wages, such as non-wage work benefits and social assistance
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Workers receive a lower share of national income

		Malaysia	Benchmark economies*
Productivity perspective			
Malaysian wages are below their actual productive worth	For an output worth $1000	paid $340	paid $510
Equity perspective			
Malaysia is less capital intensive - labour plays a larger role…	Capital intensity *USD '000 PPP per worker*	128.9	301.6
…yet workers earn a lower share of income	Labour income share *%share of GDP*	35.2	52.7

*Benchmark used is an average of advanced economies: US, UK, Australia, Germany, Singapore
Source: Department of Statistics, Malaysia and CEIC

Insufficient creation of high-skilled, high-paying jobs

Low-skilled jobs are created faster than mid- and high-skilled jobs…

Growth of Total Employment (CAGR)
(2010-2017)



… due to expansion in labour-intensive and low wage industries

Sectoral GDP Growth and Median Wage Levels
(2011 – 2017)



Notes:
1. Data for median wage levels are as at 2016 as Malaysia's 2017 salaries and wage data only represents citizens
2. To facilitate readability, 'jobs' in this slide is in reference to 'net employment gains', derived from the Labour Force Survey
Source: Bank Negara Malaysia estimates using data from Department of Statistics, Malaysia

Higher downside risks to growth in 2019…



Some Upside Risks

- Lower-than-expected inflation
- Resolution of trade disputes

Baseline: 4.7%

- Resilient private sector spending
- Receding supply disruption and capacity expansions
- Continued demand from major trade partners

Higher Downside Risks

- Sharper moderation in global demand
- Escalation of trade tensions
- Disruption in global financial markets
- Weaker-than-expected commodity prices and production

…arising mainly from external uncertainties

Policy priority is to ensure orderly adjustments
in the exchange rate and financial markets

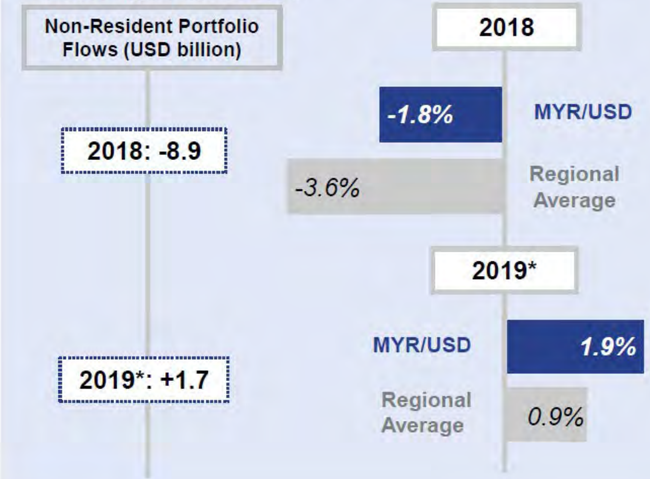
Despite the outflows in 2018, ringgit movements remain orderly and in line with regional currencies, owing to the policy configuration in place

Ringgit flexibility has allowed the Malaysian economy to better withstand external shocks

The Bank will continue to ensure that adjustments in the ringgit exchange rate remain orderly and not excessively volatile

Broad policy toolkit to manage emerging risks, including targeted prudential policies and financial market measures

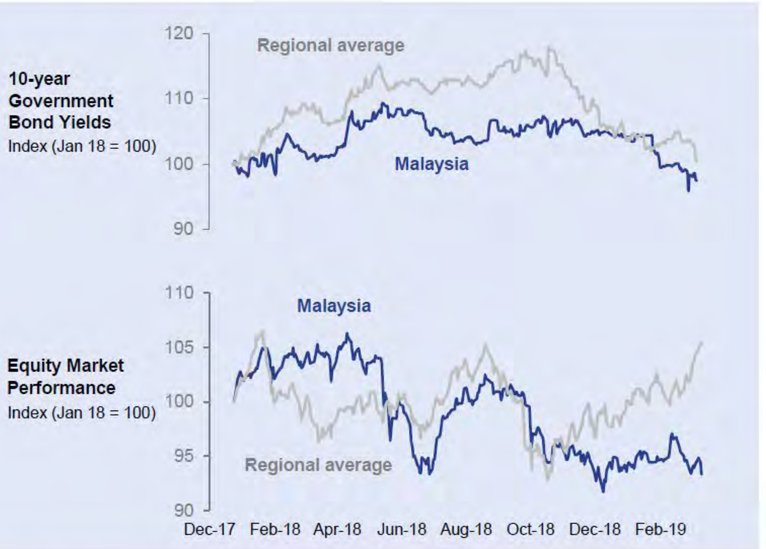
Non- Resident Portfolio Flows and Performance of Ringgit and Regional Currencies against the US Dollar



* Year-to-date as at 22 March 2019
Note: Regional countries include PR China, Indonesia, South Korea, Philippines, Singapore, Taiwan and Thailand
Source: Bank Negara Malaysia and Department of Statistics, Malaysia

Deep domestic financial markets would ensure orderly movements in domestic asset prices amid volatile capital flows

Despite volatility, adjustments in the domestic financial markets remain broadly contained, supported by well-developed financial markets and diversified investor base



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

Presence of large domestic investor base

Availability of hedging instruments and flexibilities

Note: Regional countries include PR China, India, Indonesia, South Korea, Philippines, Singapore and Thailand
Source: Bloomberg

Foreign exchange administration liberalisation to enhance businesses' hedging flexibilities…

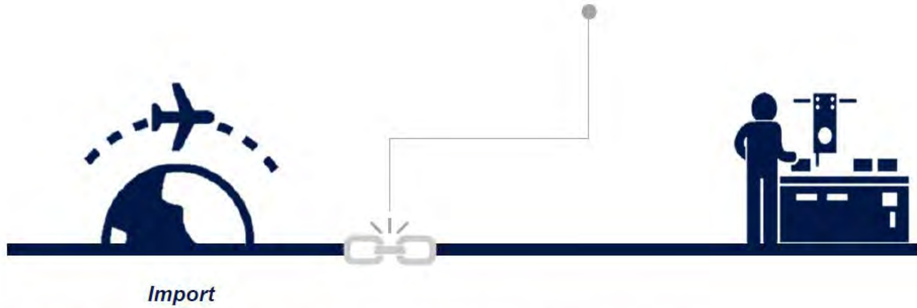
1 Flexibility to hedge longer term obligations

(Effective immediately)

Residents can extend hedging of foreign currency exposures on current account obligations[1] and loan repayment up to 12 months

Benefit

Allow residents to better manage their foreign currency exposure for longer tenure



Import

1/ Current account obligations include imports of goods and services as well as profits, dividends and interests

SME: Small and Medium Enterprise

…for better foreign exchange risk management

2 Flexibility for SMEs with import obligations to receive payment in foreign currency

(Effective 2 May 2019)

Resident exporters can make payment in foreign currency to resident SMEs (net importers) for settlement of domestic trade in goods and services upon one-off registration with respective banks

Benefit

Allow SMEs which are net importers to achieve 'natural hedge', thus minimising foreign exchange risks

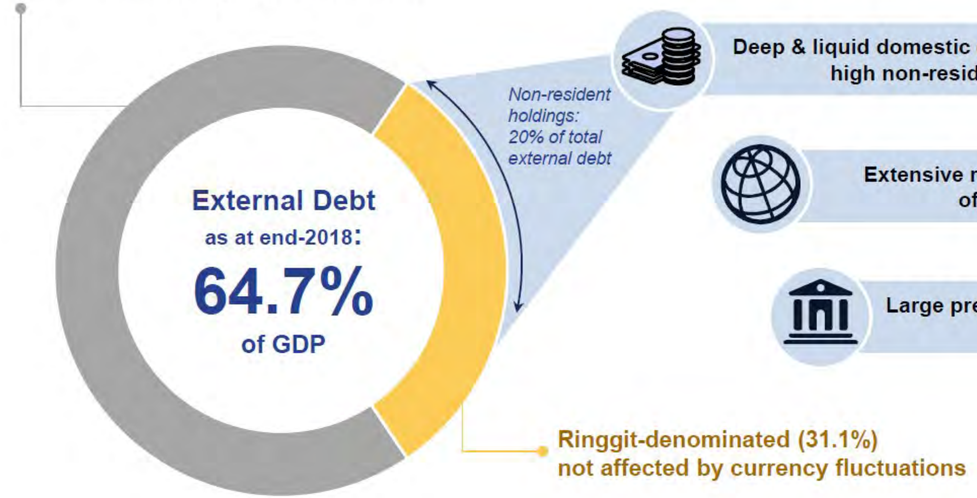


Local production chain

Export

External debt is driven by **country-specific factors**

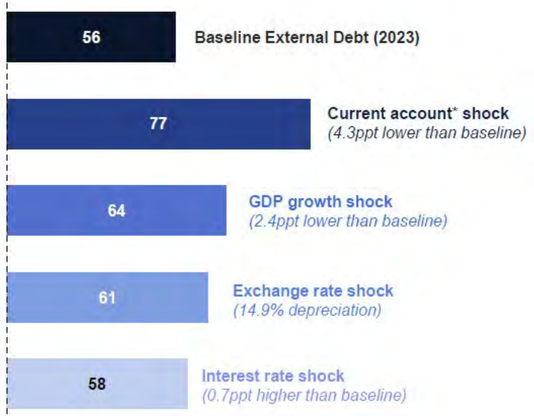
FCY exposure (68.9%) is subjected to prudential and hedging requirements



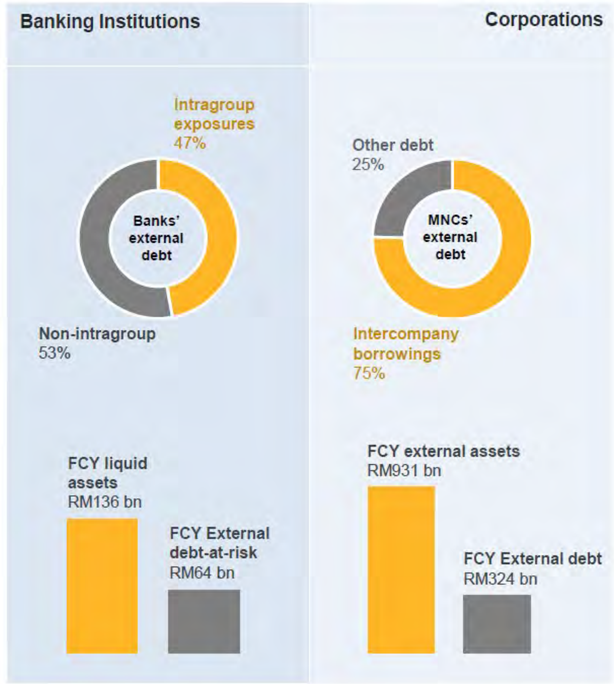
Source: Bank Negara Malaysia, IMF, and World Bank

External risks are well-mitigated by **debt profile** and the availability of **external buffers**

External Debt Simulation:
Rise in Debt Level After Each Shock
(as at end-2023, % of GDP)

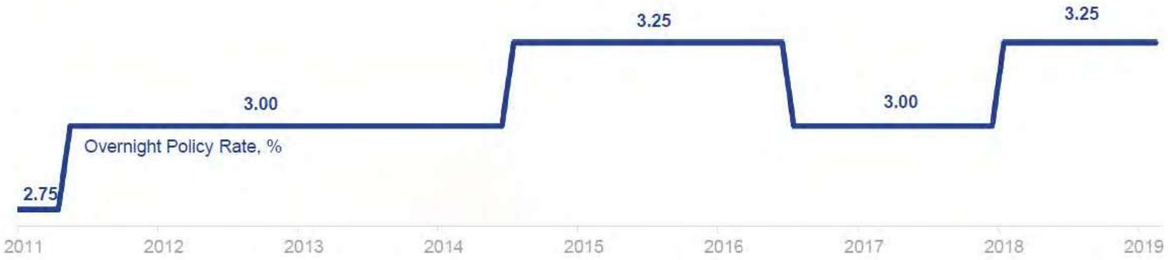


*Current account excluding interest payments to non-residents
Note: FCY refers to foreign currency
Source: Bank Negara Malaysia



How will monetary policy support sustainable growth with price stability in 2019 and 2020?

- Close monitoring of global and domestic developments for the potential impact to domestic growth, inflation and financial conditions is key
  - Monetary policy considerations are complex and multifaceted
- Monetary operations will continue to ensure sufficient liquidity to support financial intermediation activity
- At the current level of OPR, the stance of monetary policy remains accommodative and supportive of economic activity



Source: Bank Negara Malaysia

Final Analysis

Economic outlook

GDP to grow between 4.3 – 4.8%, anchored by private sector spending, capacity expansion and commodity recovery

Risks

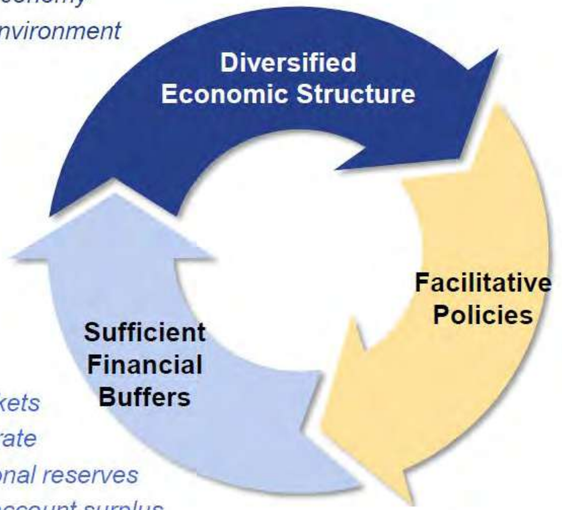
Downside risks remain, mainly from trade tensions, global slowdown, and tightening in global financial market conditions

Policy space

Sound fundamentals, facilitative policies, and sufficient buffers allow Malaysia to face headwinds from a position of strength

Solid economic foundation to support steady growth

- *Diversified trade, economic sectors and investments*
- *Private sector-led economy*
- *Business-friendly environment*



- *Accommodative monetary policy*
- *Macroprudential measures*
- *Targeted Govt. measures to households*

- *Deep financial markets*
- *Flexible exchange rate*
- *Adequate international reserves*
- *Sustained current account surplus (2019f: 1.5 – 2.5% of GNI)*

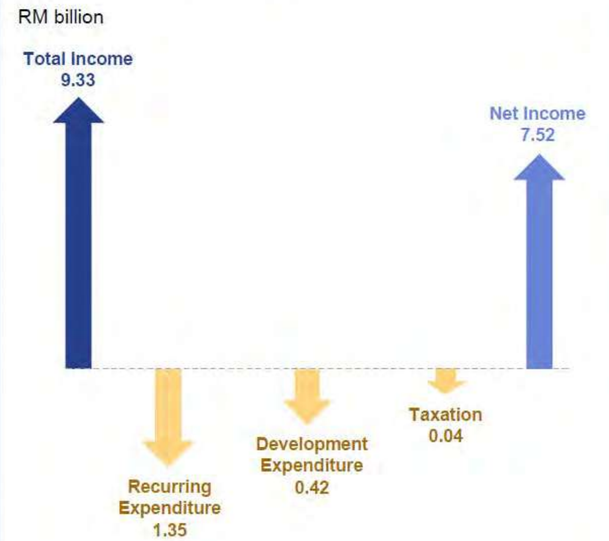
Bank Negara Malaysia:
Financial position remained stable in 2018

Total Assets	**RM447.64 billion**
International Reserves	**RM419.57 billion |** USD101.4 billion
Net Profit	**RM7.52 billion**
Dividend paid to the Government	**RM2.5 billion**

Financial Position (as at 31 December 2018)
RM billion



Income and Expenditures
(year ended 31 December 2018)



BANK NEGARA MALAYSIA

2018 FINANCIAL STABILITY AND PAYMENT SYSTEMS REPORT

Financial stability was **preserved** in **2018**



Strong and resilient financial institutions
continue to underpin domestic financial stability

Banks' excess total capital
RM115 bil
(2017: RM124 bil)

Liquidity coverage ratio
143%
(2017: 135%)

Loan loss coverage ratio
98%
(2017: 82%)

* Excess total capital refers to total capital above the regulatory minimum, which includes the 2018 capital conservation buffer requirement and bank-specific higher minimum requirements.

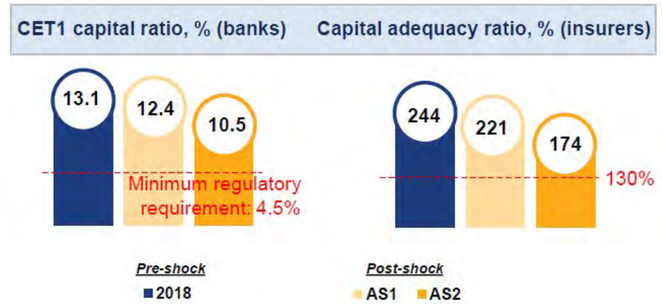
Source: Bank Negara Malaysia

Capital ratios of banks and insurers above regulatory minima even under simulated stress scenarios

Simulated GDP shocks more severe than past stress events

Standard deviations from long-term growth







A significant portion of capital is in the form of high quality loss-absorbing instruments

*cumulative shock across stress test horizon (4 years)
[1] AS1: Adverse Scenario 1
[2] AS2: Adverse Scenario 2

Source: Bank Negara Malaysia

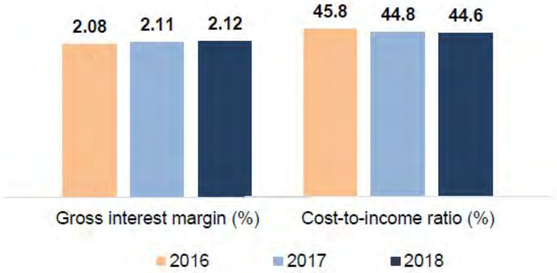
Financing activity has continued to support banks' profits…



of income attributable to financing activities



Improvement in interest margins driven by continued efficiency gains

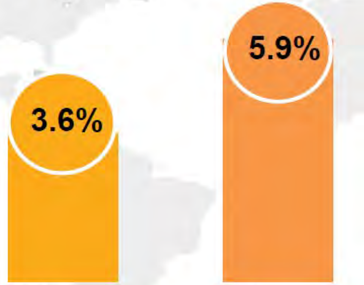


Source: Bank Negara Malaysia

…with profitability levels largely in line with rating and regional peers

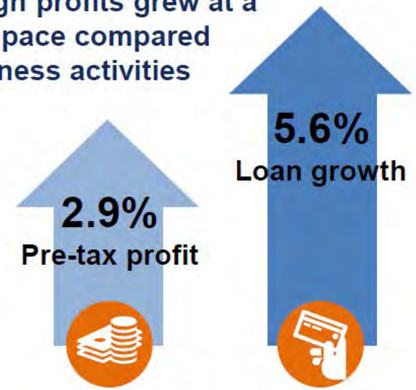
1.4%
Return on assets
(2017: 1.5%)

12.6%
Return on equity
(2017: 13.0%)



2018 annual growth

Although profits grew at a slower pace compared to business activities



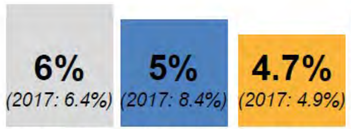
2018 annual growth

* Includes off-balance sheet items
Source: Bank Negara Malaysia

Household debt remains elevated, but risks to financial stability are contained…

Expansion in household debt more in line with income and supported by comfortable financial buffers

Annual Growth

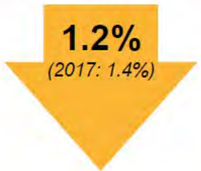


Financial Asset-to-Debt Ratio

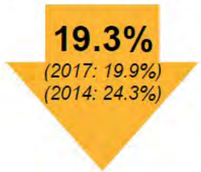


Financial institutions' asset quality improved, coupled with declining share of exposures to the vulnerable segment

Aggregate Impairment Ratio



Share of Borrowings by Vulnerable Borrowers



Source: Bank Negara Malaysia and Department of Statistics, Malaysia



…with continued efforts to improve the financial well-being of households

Fair treatment of consumers

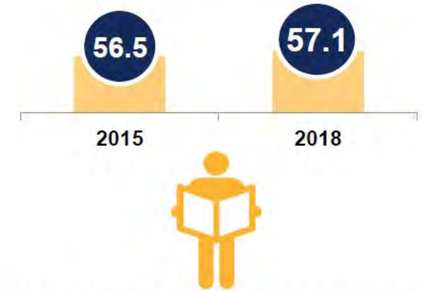
Ensuring fair and transparent practices in the repricing of retail loans following missed or late repayments

Prohibiting unfair terms & conditions in housing loan contracts and **use of plain language** for housing loan agreements

Helping borrowers with persistent credit card debt to reduce financing charges and payoff their debt faster

Elevating financial literacy

Low overall Malaysia Financial Literacy and Capability Index



National Strategy for Financial Literacy to drive actions to improve financial capability

Imbalances in the housing market
are expected to gradually improve…

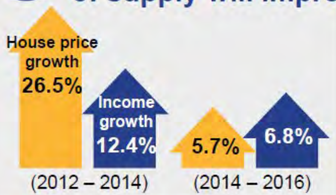
1 Oversupply of higher-end housing

~171,000[1] unsold residential units

74% *priced above* ***RM300,000***

39% *priced above* ***RM500,000***

2 Slower house price growth and rebalancing of supply will improve affordability



75%[2] *(2016: 66%)*

new housing launches priced below RM500,000

3 Firm demand for affordable homes further supported by various initiatives

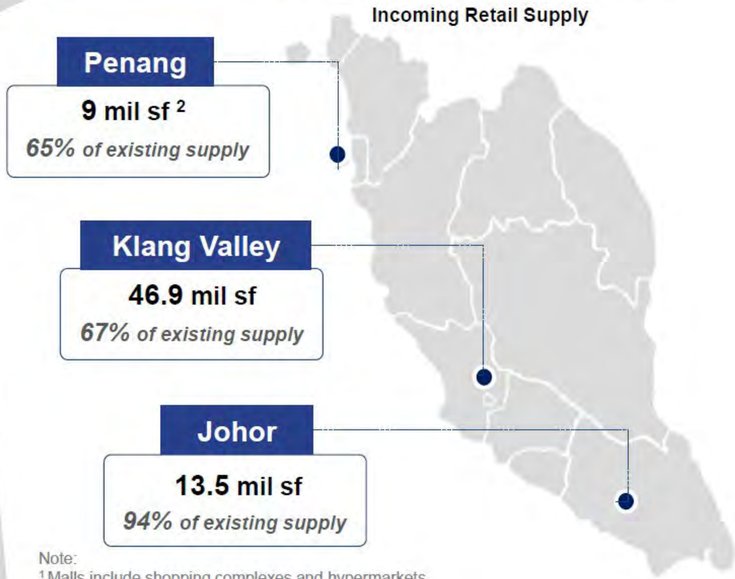
- Bank Negara RM1 billion fund for Affordable Homes
- Target to build 1 million affordable homes in next 10 years
- Home Ownership Campaign to clear unsold properties
- Stamp duty exemptions

[1] As at 3Q 2018 [2] Housing launches between 1Q and 3Q 2018

Source: Department of Statistics, Malaysia, National Property Information Centre, Government Budget 2019 and news flows

…while
oversupply of office and retail space to persist

About 144 malls[1] are expected to enter the key states from 2019 onwards



Note:
[1] Malls include shopping complexes and hypermarkets
[2] Mil sf refers to million square feet
Source: Jones Lang Wootton

However, banks' exposures to the office space and shopping complexes segment remain small

3.4%

of banks' total outstanding loans

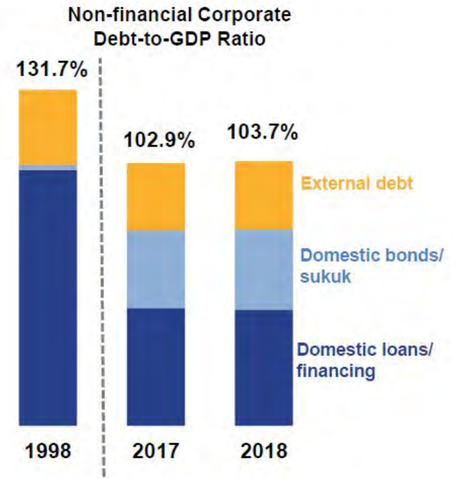
6.5%

of banks' holding of corporate bonds and sukuk

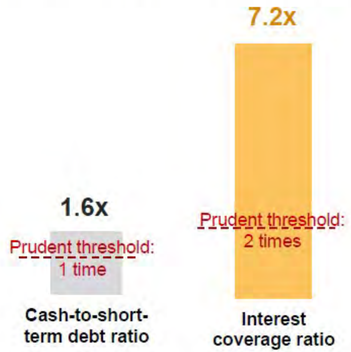
Source: Bank Negara Malaysia

Businesses continue to maintain comfortable debt servicing and liquidity positions despite more challenging conditions…

1 Business activity continued to be primarily supported by domestic financing



2 Overall debt servicing and liquidity positions comfortably above prudent thresholds



Source: Bank Negara Malaysia, Department of Statistics, Malaysia and Bloomberg

…with limited risks to financial stability

3 Risks from external borrowings are mitigated

76% are medium- to long-term in nature
Low rollover risks

35% are intercompany loans
Typically has flexible and concessionary terms

75% of approved offshore borrowings are hedged*
Lower risk to exchange rate volatility

*Based on BNM survey of approved bonds, notes and loans between 2015 and 2018

4 Potential losses from large borrower groups only account for about one-third of banks' excess capital

Shock parameters

30%
Depreciation in ringgit

50%
Decline in operating profit

50 bps
Increase in cost of RM borrowings

100 bps
Increase in cost of FCY borrowings

What is the direction of risks in 2019?

Stable overall financial stability outlook,
risks remain manageable

Households

Pockets of risks continue to persist, but households largely buffered by stable income and employment prospects

Businesses

Healthy overall debt servicing and liquidity positions despite continued challenging conditions for oil and gas, property and construction sectors

Financial Institutions

Banks expected to remain resilient, even under adverse macro-economic and financial conditions

Property

Unsold housing units may rise in the near term amid continuing adjustments in supply towards more affordable segments. Risks remain elevated in the office space and shopping complex segment

Financial Markets

Disorderly adjustments in global financial markets, unresolved trade tensions and geopolitical events may trigger outflows. Strong domestic institutional investors and further development of the onshore FX market will continue to support orderly market conditions

Regulatory and supervisory activities will continue to focus on strengthening financial sector resilience against emerging risks…

Implementation of Basel III standards and global reforms

- Net Stable Funding Ratio (NSFR)
- Domestic Systematically Important Banks (D-SIBs)

Enhanced supervisory stress testing

- Integrated and multi-year stress scenarios



Strengthening cyber resilience

- Risk Management in Technology (RMiT)

Strengthening crisis preparedness

- Recovery planning
- Business continuity management

…and safeguarding the integrity of the financial system against threats posed by money laundering and terrorism financing

Enhancements in the Preventive Framework

1 *Increased compliance*

Upgrade to full compliance for 4 Financial Action Task Force (FATF) Recommendations[1] for Malaysia

2 *Mitigate abuse of cash*

Reduction in the requirement for cash threshold report from RM50,000 to RM25,000

3 *Strengthened enforcement*

Enhancements to the Money Services Business (MSB) Act to address illegal MSB activities

4 *Enhanced surveillance*

Usage of data analytics to enhance the supervision of ML/TF risks and effectively regulate money services businesses

Moving forward

1. **Study introduction of Cash Transaction Limit**
2. **Accelerating migration to e-payments**

[1] The following recommendations have all been upgraded to fully compliant: Rec.5 Terrorism Financing Offence, Rec.7 Targeted Financial Sanctions (Proliferation Financing), Rec.32 Cash Couriers, and Rec.34 Guidance

Facilitating developments in

financial technology…

- ✓ Technology in inclusive finance
- ✓ Accelerator Programme



- ✓ Collaboration with selected financial institutions, fintech firms and relevant agencies
- ✓ Standardised specifications for open application programme interfaces (APIs)

- ✓ Accelerate solutions to improve financial services

*United Nations Capital Development Fund

…with further acceleration in the migration to e-payments



Debit Cards

42.5 million
Number of debit cards

514,818
POS terminals

51.5%
Growth in debit card transactions

Mobile Payments

42.4 million
mobile phone subscriptions (76% smartphones)

65,000+
Registered merchants

20x
Increase in payments for purchases

Roll-out of interoperable mobile payment solutions

DuitNow **Instant payments via mobile, NRIC or business registration number** (Live since 8 December 2018)

Unified QR code for merchants to accept payments (2H 2019)

Source: Bank Negara Malaysia

End of Presentation

Q&A Session

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Additional Slides

Private domestic demand remain a key driver of growth

Real GDP by Expenditure (Annual change, %)	2018 share[1] (%)	2018	2019[f]
Domestic demand	92.9	5.6	**4.4**
Private Expenditure	72.8	7.2	**6.2**
Consumption	*55.5*	*8.1*	*6.6*
Investment	*17.4*	*4.5*	*4.9*
Public Expenditure	20.1	0.1	**-1.8**
Consumption	*12.8*	*3.3*	*1.2*
Investment	*7.3*	*-5.2*	*-7.1*
Net Exports	8.4	13.4	**0.1**
Exports	*70.6*	*1.5*	*0.1*
Imports	*62.2*	*0.1*	*0.0*
Real GDP	**100.0**	4.7	**4.3-4.8**

Real GDP by Economic Activity (Annual change, %)	2018 share[1] (%)	2018[p]	2019[f]
Services	55.5	6.8	**5.7**
Manufacturing	23.0	5.0	**4.8**
Mining & Quarrying	7.9	-1.5	**0.8**
Agriculture	7.8	-0.4	**2.8**
Construction	4.5	4.2	**3.0**
Real GDP	**100.0**	4.7	**4.3-4.8**

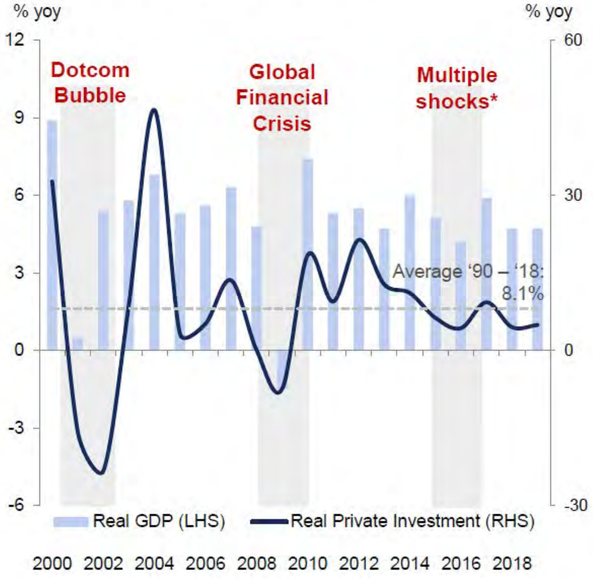
[1] Numbers may not add up due to rounding and exclusion of import duties
[p] preliminary
[f] forecast
Source: Department of Statistics, Malaysia, Bank Negara Malaysia

In the absence of major shocks, private sector spending to remain resilient

Annual Real Private Consumption Growth



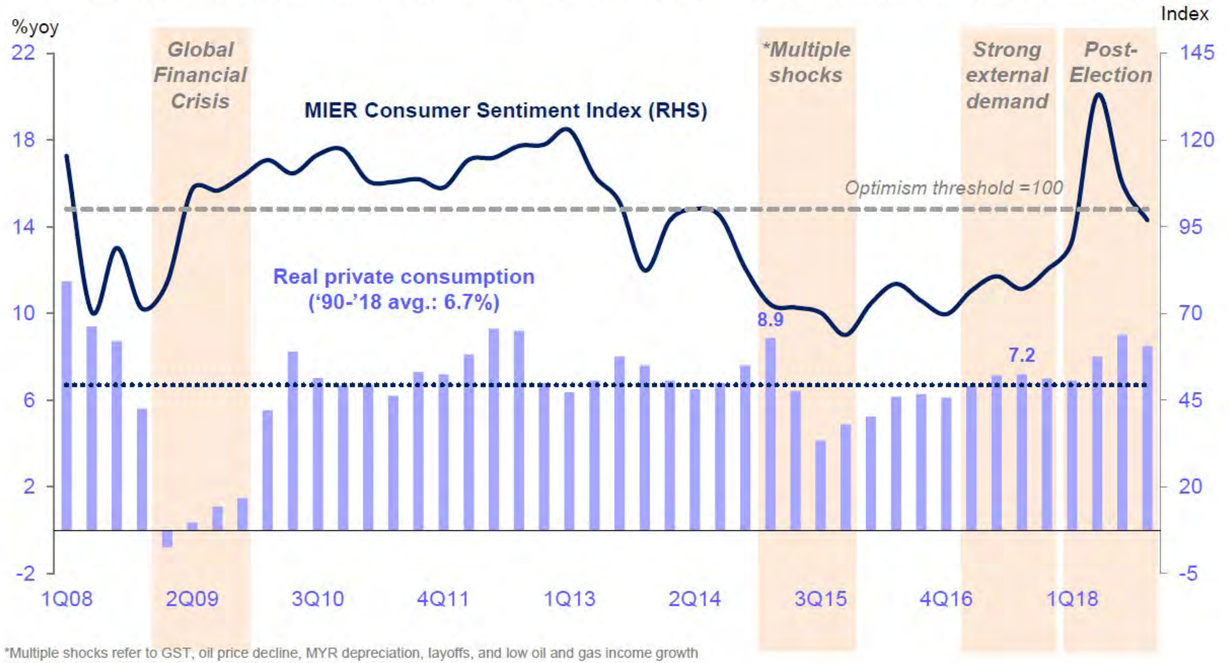
Annual Real Private Investment Growth



*Multiple shocks refer to GST, oil price decline, MYR depreciation, layoffs, and low oil and gas income growth
Source: Department of Statistics, Malaysia

Despite moderate sentiments, private consumption growth to remain firm

Less optimistic consumer sentiments may not necessarily reflect weaker actual spending



*Multiple shocks refer to GST, oil price decline, MYR depreciation, layoffs, and low oil and gas income growth
Source: Department of Statistics, Malaysia, MIER

Exports to continue to register positive growth

Annual change (%)	2018 share (%)	2012-2017 average	2018[p]	2019[f]
Gross Exports	**100**	**5.2**	**6.8**	**3.4**
RM billion	-	*781.2*	*998.3*	*1,032.5*
Manufacturing	84	7.2	9.1	4.8
Commodities	16	-1.9	-3.2	-4.6
Gross Imports	**100**	**6.7**	**4.9**	**4.5**
Trade Balance (RM billion)	**-**	**88.0**	**120.5**	**114.9**

[p] preliminary
[f] forecast
Source: Department of Statistics, Malaysia, and Bank Negara Malaysia

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Current account of the balance of payments remains in surplus

Item (Net)	2016	2017	2018[p]	2019[f]
	RM million			
Goods[1]	**102,046**	**116,766**	**121,362**	**116,167**
Services	**-18,917**	**-22,815**	**-19,700**	**-19,825**
Transportation	*-23,459*	*-29,561*	*-27,757*	*-29,347*
Travel	*31,515*	*32,882*	*28,853*	*28,928*
Other services	*-26,309*	*-24,738*	*-19,921*	*-18,510*
Government transactions n.i.e	*-665*	*-1,399*	*-875*	*-896*
Balance on goods and services	**83,128**	**93,951**	**101,662**	**96,342**
Primary income	**-34,592**	**-36,354**	**-49,377**	**-50,186**
Compensation of employees	*-5,606*	*-4,773*	*-7,793*	*-7,918*
Investment income	*-28,986*	*-31,581*	*-41,584*	*-42,268*
Secondary income	**-18,629**	**-17,322**	**-18,780**	**-18,150**
Balance on current account	**29,907**	**40,275**	**33,505**	**28,005**
% of GNI	*2.5*	*3.1*	*2.4*	*1.5 - 2.5*

[1] Adjusted for valuation and coverage of goods for processing, storage and distribution
[p] preliminary
[f] forecast
Source: Department of Statistics, Malaysia, and Bank Negara Malaysia

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Financial account of the balance of payments recorded a net inflow in 2018

Item[1] (Net)	2016	2017	2018[p]
	RM million		
Direct Investment	**13,792**	**16,171**	**11,341**
Assets	*-42,246*	*-24,234*	*-23,290*
Liabilities	*56,038*	*40,405*	*34,632*
Portfolio Investment	**-14,203**	**-15,358**	**-44,402**
Assets	*-15,009*	*-19,442*	*-9,112*
Liabilities	*806*	*4,084*	*-35,290*
Financial Derivatives	**-802**	**-197**	**971**
Other Investment	**964**	**-5,346**	**50,699**
Balance on Financial Account	**-249**	**-4,730**	**18,609**
Direct Investment (BPM5 Convention)			
Direct Investment Abroad	*-33,233*	*-24,248*	*-21,307*
Foreign Direct Investment	*47,025*	*40,419*	*32,648*

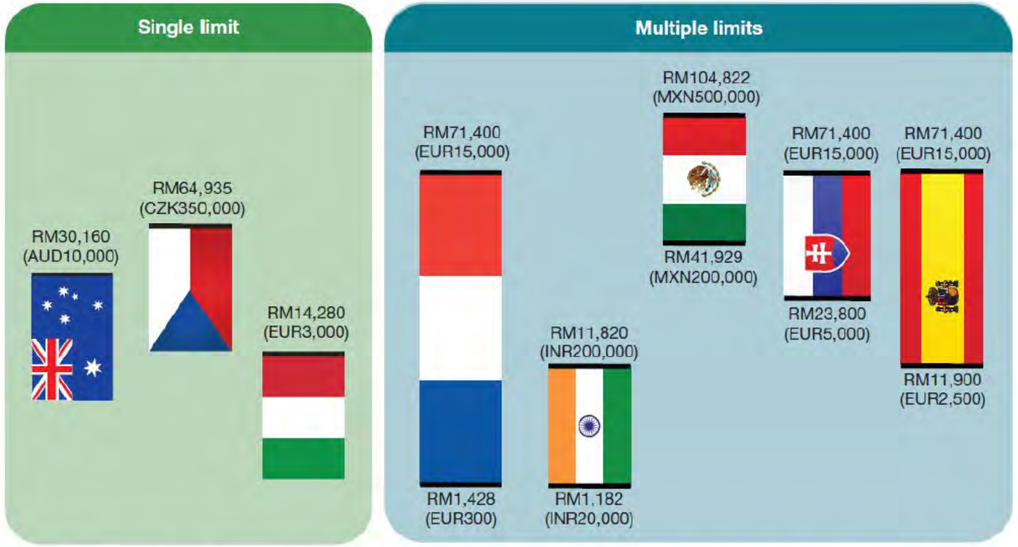
[1] In accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6) by the International Monetary Fund (IMF), unless stated otherwise
[p] preliminary
Source: Department of Statistics, Malaysia; and Bank Negara Malaysia

Banking System
- Key Financial Soundness Indicators

Banking System	As at				
	2014	2015	2016	2017	2018[p]
	% (or otherwise stated)				
Total Capital Ratio	15.9	16.6	16.5	17.8	17.4
Tier 1 Capital Ratio	14.0	14.2	14.0	14.9	13.9
Common Equity Tier 1 Capital Ratio	13.3	13.3	13.1	14.0	13.1
Return on Assets	1.5	1.3	1.3	1.5	1.4
Return on Equity	15.2	12.3	12.5	13.1	12.6
Liquid Assets to Total Assets	13.3	-	-	-	-
Liquid Assets to Short-term Liabilities	42.6	-	-	-	-
Liquidity Coverage Ratio[1]	-	127.4	124.3	134.9	143.2
Net Impaired Loans Ratio	1.2	1.2	1.2	1.1	0.9
Capital Charge on Interest Rate Risk in the Trading Book to Capital Base	1.4	1.2	1.1	1.0	1.1
Net Open Position in FC to Capital Base	4.7	6.1	6.3	6.3	5.8
Equity Holdings to Capital Base	1.3	0.7	1.5	1.9	0.5

[1] The Liquidity Coverage Ratio (LCR) Framework takes effect on 1 June 2015 and supersedes the guidelines on Liquidity Framework and Liquidity Framework-i issued on 1 July 1998
[p] preliminary
Note: Figures may not necessarily add up due to rounding
Source: Bank Negara Malaysia and Department of Statistics, Malaysia

Implementation of Cash Transaction Limit(s) in Selected Jurisdictions



* Effective 1 July 2019

Note: For jurisdictions with multiple limits, the limits differ according to categories such as purpose of transaction, business sector, parties involved and whether parties to the transaction are residents or non-residents. Currency conversions are based on average exchange rate for the year 2018

Source: The Australian Government the Treasury, European Consumer Centre, Central Board of Direct Taxes – India, Forbes