BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PRESS RELEASE

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ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE SECOND QUARTER OF 2023

Press Conference Presentation Transcript

The global economy registered modest growth in 2Q 2023

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, "In the second quarter of 2023, global growth was modest. While the labour market remained resilient, growth continued to be weighed by higher interest rates and elevated inflation. China's growth came in below expectation, despite benefiting from low base from the lockdown back in 2Q 2022.

"Global headline inflation continued to moderate, in line with lower commodity prices. Meanwhile, core inflation moderated at a much slower pace given the resilient labour market.

"Regional exports contracted, reflecting slowing global demand, ongoing shift in consumption from goods to services and downcycle in E&E sector, particularly for consumer electronics."

Malaysia's GDP grew by 2.9% in 2Q 2023

Ketua Perangkawan Malaysia Dato' Sri Dr. Mohd Uzir Mahidin berkata, "Pada suku kedua 2023, ekonomi Malaysia berkembang 2.9%, disokong oleh pasaran buruh yang bertambah baik, peningkatan permintaan dalam negeri yang berterusan dan aktiviti pelancongan yang semakin rancak. Namun, pengurangan permintaan luar negeri dalam keadaan kitaran menurun teknologi

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global dan pengeluaran komoditi yang lebih rendah menjejaskan pertumbuhan ekonomi.

“Pertumbuhan tahunan yang lebih perlahan pada suku ini turut mencerminkan kesan asas yang tinggi dari suku kedua 2022 selepas pembukaan semula ekonomi negara dan kesan daripada pelaksanaan beberapa langkah dasar. Dari segi pertumbuhan suku tahun ke suku tahun pelarasan musim, KDNK menunjukkan peningkatan momentum pertumbuhan yang lebih kukuh sebanyak 1.5%, iaitu peningkatan berterusan sejak suku keempat 2022.

“Pada suku kedua ini, tiga sektor yang terus mencatatkan pertumbuhan iaitu sektor perkhidmatan meningkat sebanyak 4.7%, sektor pembuatan meningkat sebanyak 0.1% dan sektor pembinaan meningkat sebanyak 6.2%. Manakala dua sektor mencatatkan penyusutan iaitu sektor pertanian merosot sebanyak 1.1% dan sektor perlombongan merosot 2.3%.”

Growth underpinned by domestic demand and tourism activities

Ketua Perangkawan Malaysia Dato’ Sri Dr. Mohd Uzir Mahidin said, “On the demand side, growth was supported by both private and public sector expenditures.

“Private consumption growth was underpinned by firm labour market conditions. Spending expanded moderately across both necessities and discretionary items.

“Growth in overall investment improved, driven by capital expenditure on structures, and machinery & equipment (M&E), as well as improved Government’s fixed assets spending.

“However, during this quarter, net exports registered a contraction due to the more challenging global environment.

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“Turning to the supply side, growth is driven mainly by the services and construction sectors.

“The services sector growth moderated across both consumer- and business-related subsectors. Nevertheless, the sector continued to benefit from improving tourism-related spending. In fact, this is one of the bright spots during the quarter.

“For the construction sector, growth remained supported by the continued progress of large infrastructure projects and higher special trade activities.

“Hot weather and plant maintenance had affected commodity production and led to contractions in the agriculture and mining sectors.”

Larger current account surplus and continued FDI inflows

Ketua Perangkawan Malaysia Dato’ Sri Dr. Mohd Uzir Mahidin said, “On the balance of payments, for the second quarter of 2023, the Malaysian current account recorded a higher surplus of RM9.1 billion, or 2.1% of GDP.

The Services account deficit narrowed by 12.0 per cent quarter-on-quarter to RM11.3 billion, reflecting mainly further recovery in inbound tourism. In addition, the primary income account registered a lower deficit, mainly due to higher income generated by Malaysians investing abroad. Meanwhile, Secondary income account deficit contracted from RM5.9 billion in the preceding quarter to RM2.8 billion.

On the financial account, Foreign Direct Investment (FDI) inflows moderated to RM3.1 billion during the quarter. The FDI inflows were supported by higher equity injections, reflecting foreign investors’ continued confidence on business prospects in the country. These investments were channelled mainly into the Services sector, predominantly in Professional, scientific & technical and Financial sub-sector. The FDI were primarily from Singapore, Taiwan and Germany.

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In the meantime, Direct Investment Abroad (DIA) outflows expanded to RM8.0 billion as compared to RM1.1 billion in the previous quarter. The outflow was mainly due to higher equity injection and profit retained abroad.The major sectors contributed to the DIA were Services particularly in Financial and Information & telecommunication sub-sector. The DIA major destinations were to Singapore, Indonesia and Norway.

Looking ahead, domestic demand to remain the key driver of growth amid challenging global environment

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “For 2023, we expect Malaysia’s growth to be close to the lower end of our growth forecast range, underpinned by domestic demand.

“Let me reiterate that the moderate growth in second quarter of 2023 was partly driven by several temporary factors, including plant maintenance in the mining sector, hot weather affecting agricultural output, as well as high base effects from the economic reopening and policy measures in second quarter last year.

“Based on our estimation, had it not been for the synchronised commodity-related factors, growth could have been 40 basis points higher at 3.3%.

“Going forward, growth will be supported by four factors. First, continued recovery in the labour market; second, implementation of new and existing investment projects; third, higher tourism activity; and fourth, dissipation of plant maintenance activities in the mining sector.

“Nevertheless, in our baseline forecast, the weak external demand is expected to weigh on near-term growth.The economy is facing downside risks stemming from weaker-than-expected global growth and a deeper or longer-than-expected technology downcycle. Beyond that, there could be lower-than-expected commodity production domestically due to stronger impact from El Niño and prolonged plant maintenance.

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“On the upside, tourism activity could pick up even more, while progress of investment projects could be faster-than-expected.”

Mixed indicators, but generally pointing to continued growth for the Malaysian economy

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “In the near term, the external environment is expected to remain challenging. Nevertheless, indicators of domestic demand in the bottom row of the slide, continue to point towards a positive expansion in growth.”

Slowdown in goods exports partially cushioned by increased tourism activities

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “As a small open economy, Malaysia is affected by the slowdown in global demand. Like other regional economies, Malaysia’s exports also declined in the second quarter of 2023. This was driven mainly by weaker manufactured goods amid a downturn in global tech cycle and lower commodity prices.

“The global semiconductor sales, which have been declining thus far, are showing tentative signs of bottoming out. Furthermore, the World Semiconductor Trade Statistics (WSTS) is projecting a positive growth in 2024 on the back of improving demand and easing of inventory correction.

“In addition, tourism-related activities are expected to pick up further and provide support to growth.” As mentioned by our Chief Statistician, tourism was one of the bright spots in the second quarter. We are already seeing strong increase in tourist arrivals and tourist spending.”

Labour market continued to improve

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “The labour market continued to improve in 2Q 2023. The unemployment rate declined further to 3.4% in June, driven by steady employment growth.

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“Vulnerable segments such as women and youth have also recovered to pre-pandemic levels. However, there is still room for improvement as labour participation amongst women remains way below that of men, which is one of the focus areas of the MADANI economic framework recently announced by the Government.”

Household spending to remain as anchor of growth

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “Household spending continues to expand, supported by wage growth and ample financial buffers. High-frequency data such as credit card spending and passenger car sales continue to record above pre-pandemic figures.

“Going forward, household spending will remain as the anchor of growth underpinned by continued employment growth, healthy household financial buffers, government policy measures and easing price pressures.”

In second half of 2023, households remain supported by recent measures announced by the government, namely the RM100 e-Tunai for B40s and M40s as well as RM300 and RM200 special assistance for civil servants and pensioners respectively.

Supportive financing conditions and continuation of new and existing projects to support investment growth in 2023

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “Growth continue to be supported by investment activity. Financing for capital expenditure remains forthcoming, as also investment intentions. New approved investments totalled RM71.4 billion in the first quarter of 2023.

“Going forward, the economy would benefit from the realisation of new investment and existing projects, particularly large infrastructure projects such as the ECRL and digitalisation projects.

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“I should mention, progress of these investment is critical not just to support immediate growth, but also to lift Malaysia’s future growth potential. In this regard, the implementation of catalytic projects, such as those announced under the recently unveiled National Energy Transition Roadmap (NETR) Phase 1, would also provide support to growth in the medium term. In fact, some of these projects are already in progress, with more commencing next year.”

MADANI Economy Framework to drive comprehensive restructuring of the Malaysian economy

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “It is important to not just focus on the headline GDP growth, but also quality growth that is inclusive and sustainable over the long-term. To this end, the MADANI framework will anchor the restructuring of the Malaysian economy to achieve this vision.

“Within this framework, the Malaysian economy will see several important transformation, such as having a revitalised industrial sector, supported by quality investments which will create quality and high-paying jobs; becoming a climate resilient and greener economy and improvement in fiscal governance and transparency which will enhance confidence from investors and credit rating agencies.

“Among the key initiatives which will be important in driving this, includes the New Industrial Master Plan, the National Energy Transition Roadmap and the tabling of the Fiscal Responsibility Act.

“In the short-term, we can expect to see positive support to growth from the implementation of several important catalytic projects under the National Energy Transition Roadmap.”

Disinflation trend continued with lower headline and core inflation

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “Now let me turn to inflation. In line with the easing cost environment, headline inflation

continued to trend lower in the second quarter, averaging 2.8% for the quarter (1Q 2023: 3.6%). Much of this downtrend was driven by lower core inflation, which contributed around half of the decline during the second quarter.

“While core inflation moderated to 3.4% during the quarter (1Q 2022: 3.9%), it remains elevated relative to the historical average of around 2.0%, therefore the need to remain vigilant. The lower core inflation was mainly due to lower inflation for food away from home and communication services.”

Lower headline inflation reflected the decline in both common and idiosyncratic components

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “Looking deeper into the dynamics of inflation, price changes can be driven by sector-specific (idiosyncratic) factors or economy-wide – “common” – factors. While the former leads to price changes of specific goods and services relative to others; the latter exert widespread, general price pressures.

“Over the past two years, the common component has risen significantly, given the confluence of multiple supply and demand shocks. During the high inflation environment, firms also reported[1] to have found it easier to raise prices, a shift in price-setting behaviour that could further contribute to the rise in common inflation.

“At present, the ongoing disinflationary trend has been contributed by both common and idiosyncratic components. Of note, the disinflationary process would have been more gradual in the absence of idiosyncratic component.

“I would invite you to read our box article on this entitled “Understanding Inflation Drivers: Differentiating Common and Idiosyncratic Dynamics in Malaysia” in this Quarterly Bulletin.”

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Going forward, risks to inflation stem mainly from global developments

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “Let me take a minute to speak on the risks to inflation. We see that the risks to inflation stem mainly from global developments. Both headline and core inflation are expected to moderate over the course of 2023. Headline inflation is expected to average close to the lower bound of the earlier communicated forecast range of 2.8-3.8%.

“While cost pressures have eased, core inflation will remain at elevated levels as demand conditions remain rather firm.

“The balance of risk to inflation is mostly tied to global developments. Near-term upside risks include higher global commodity prices from geopolitical conflicts and adverse weather events like El , and higher imported input amid exchange rate depreciation. These risks could be offset by subdued global commodity prices due to a weaker global growth outlook, and a faster dissipation of domestic pent-up demand.”

The OPR was maintained at 3.00% at the July MPC meeting

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “Turning to monetary policy, the MPC maintained the OPR at 3.00% at the July 2023 meeting. At the current OPR level, the MPC deemed the monetary policy stance to be slightly accommodative and supportive of the economy.

“Going forward, the MPC will continue to closely monitor the ongoing domestic and global developments, and their impact on domestic inflation and growth prospects. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.”

Domestic financial market developments driven mainly by external factors

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “On financial markets, adjustments in the domestic financial markets were mostly driven by global developments, including investors’ expectations of further

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monetary policy tightening in the US and other advanced economies, the weaker-than-expected economic rebound from China and the US debt ceiling crisis earlier in the second quarter of this year.

“The domestic equity market was also affected this year by lower global demand for semiconductors and lower commodity prices, as well as weakening corporate earnings and political uncertainties.

“However, domestic government bond yields declined during the second quarter, supported by non-resident inflows.”

Recently, the ringgit has appreciated against the US dollar

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “Reflecting investors’ expectations of further aggressive monetary policy tightening in the US and other advanced economies throughout the first half of the year, the ringgit depreciated by 4.7% against the US dollar year-to-date.

“Recently however, the ringgit has appreciated by 1.1% against the US dollar since the second quarter of 2023. The NEER, which measures the ringgit’s performance against our major trading partners, has also appreciated by 1.6%. This is amid overall market expectations that the aggressive monetary policy tightening campaign in the US is nearing its end.

“Bank Negara Malaysia will continue to closely monitor global and domestic financial conditions and ensure market adjustments remain orderly. Towards this end, BNM’s presence in the foreign exchange market is to stem currency movements that are deemed excessive. Thus, BNM will continue to manage risks arising from any heightened financial market volatility.”

Banks remain well-positioned to support financial intermediation needs

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “The banking system will continue to play an important role in supporting growth in 2023.

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“Owing to their strong financial position, including high levels of capital and liquidity buffers, banks remain well-positioned to support the financing needs of the domestic economy.

“Banks have also set aside adequate reserves to cover potential credit losses. This is important because some households and businesses, including SME borrowers, still face vulnerabilities in the current environment of elevated costs.

“Overall household and business impairments remained low and stable, indicating that most borrowers are able to repay their loans in a timely manner. Households’ median debt service ratio of 36% for outstanding loans and businesses’ median interest coverage ratio of 5.8 times.

“Bespoke repayment assistance also remains available for borrowers who continue to face financial difficulties.”

Financing in 2Q 2023 remained supportive of SMEs’ business needs

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “Financing activity by banks and DFIs to SMEs remained supportive of economic activity, with steady growth in outstanding financing at 6.4%.

“Financing approvals continued to support both working capital and investment purposes, surpassing historical quarterly trends. More positively, we saw sustained double-digit growth in financing approvals for investment-related purposes. In the second quarter of 2023, the growth in approvals was primarily driven by the services sectors, particularly in the finance, real estate, and transport, storage, and communications sectors.”

Summary

Bank Negara Malaysia Governor Datuk Abdul Rasheed Ghaffour said, “Let me now conclude.

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“The Malaysian economy expanded by 2.9% in the second quarter of 2023, driven mainly by private sector expenditure. Growth is projected to be close to the lower-end of the forecast range of between 4% to 5% for 2023 as a whole, anchored by domestic demand.

“There are downside risks to growth, stemming primarily from external factors. Meanwhile, upside risks are mainly from domestic factors, such as stronger-than-expected tourism activity and implementation of projects.

“On inflation, both headline and core are expected to average between 2.8% and 3.8% for the year.”

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