Sidang Akhbar

Prestasi Ekonomi Suku Kedua Tahun 2017

Gabenor
Bank Negara Malaysia

18 Ogos 2017

Sidang akhbar akan meliputi:

Prestasi ekonomi pada suku kedua tahun 2017

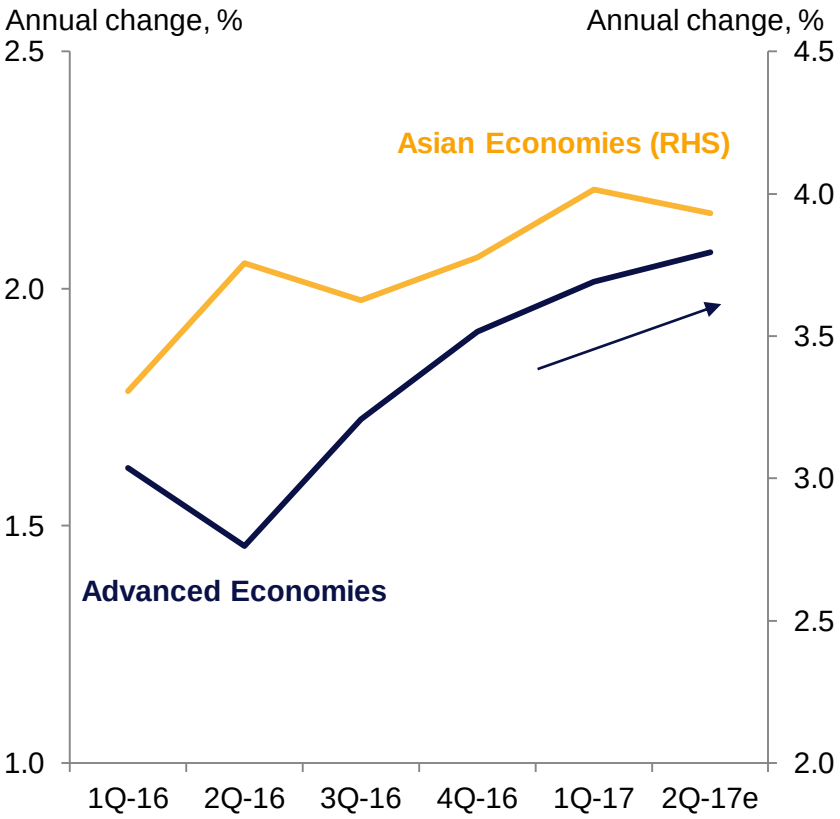
Perkembangan monetari dan kewangan

Inisiatif dasar Bank Negara Malaysia

Global: Synchronised growth improvements across major countries

Improved growth in both the advanced and regional economies in 1H 2017

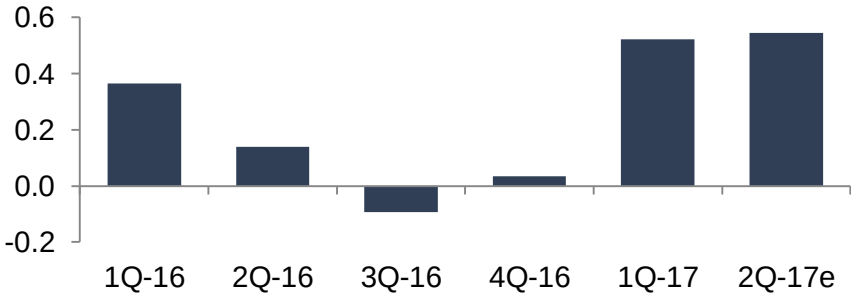
GDP Growth



US growth supported by increase in investments

US: Contribution of Investments to GDP Growth

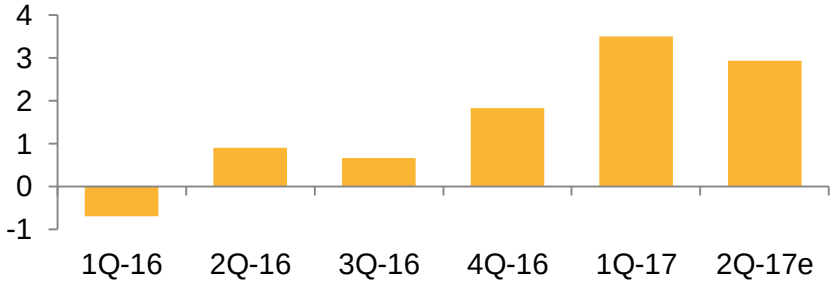
Percentage point contribution



In Asia, recovery in exports provided additional impetus to GDP growth

Asia: Contribution of Exports to GDP Growth

Percentage point contribution



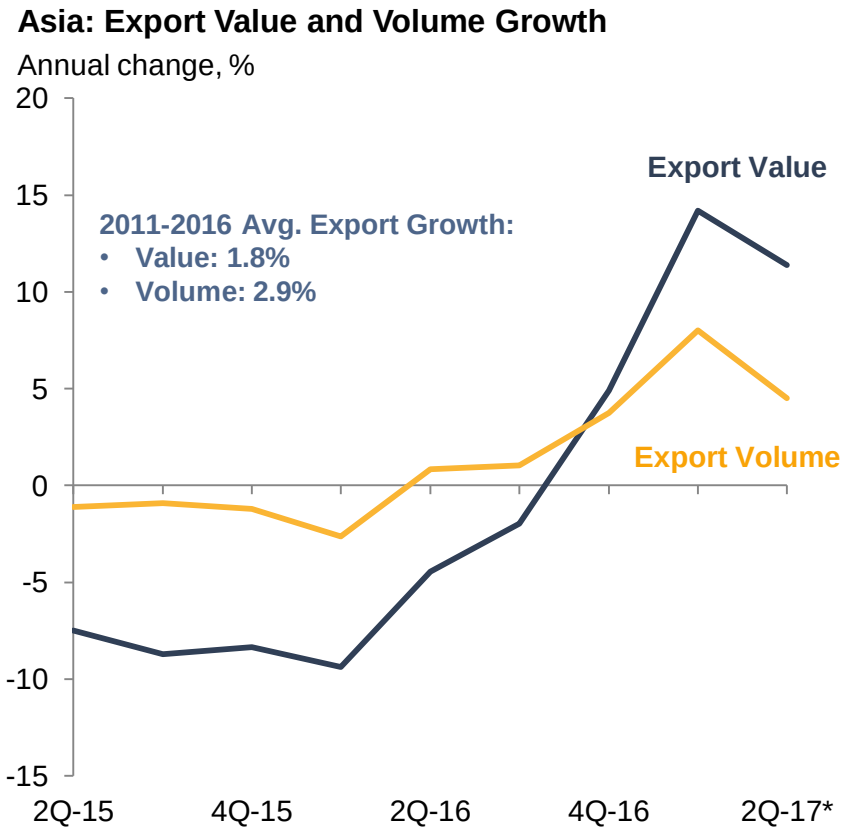
e Estimates

Note: Advanced economies refer to US, euro area and the UK, while Asian economies refer to Korea, C. Taipei, Singapore, Indonesia and Malaysia

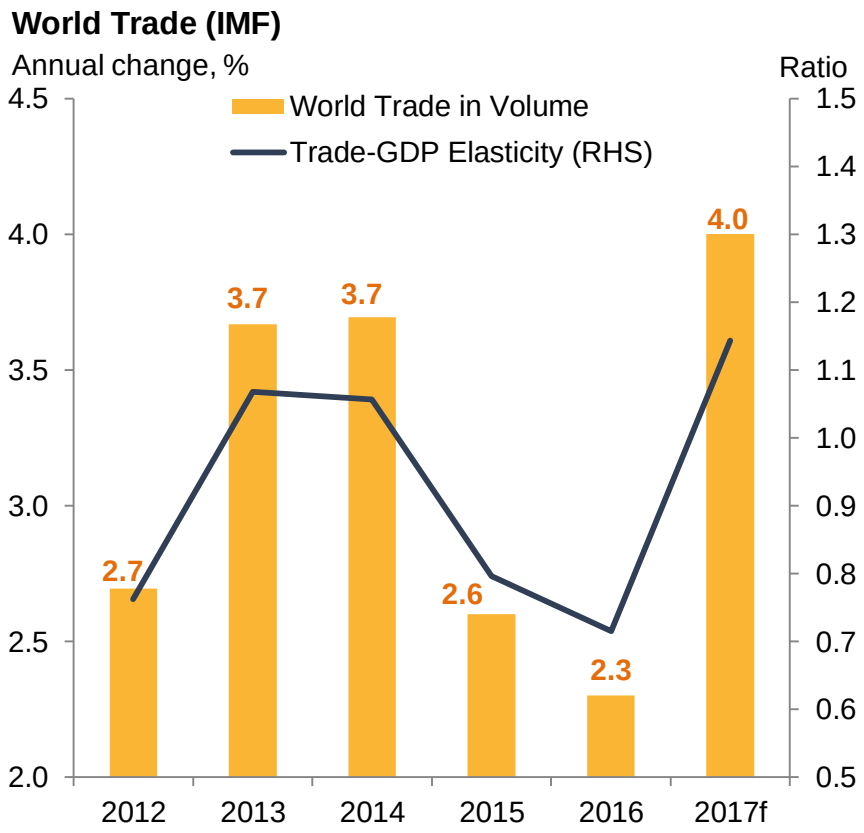
Source: National authorities, Bank Negara Malaysia estimates

Strong recovery in global trade

Robust trade driven by continued demand from the advanced economies and PR China



Global trade growth to increase to 4% in 2017, the fastest expansion since 2011



Note: Asia refers to Korea, Hong Kong, C. Taipei, Singapore, Indonesia, Malaysia, Thailand and Philippines (*Philippines data included in value only)
Source: National authorities, IMF World Economic Outlook, BNM staff calculations

The Malaysian economy recorded a stronger growth of 5.8% in the second quarter of 2017

- **Private sector spending anchored growth**
- **Public sector remained supportive of growth**
- **Robust export growth**
  - Broad-based expansion in manufactured and commodity exports

Real GDP (Annual change, %)	Share, % (2016)	2016	2017		
		2Q	1Q	2Q	1H
Domestic demand (excluding stocks)	**91.6**	**6.1**	**7.7**	**5.7**	**6.7**
Private Sector	**70.1**	**6.0**	**8.2**	**7.2**	**7.7**
Consumption	*53.2*	6.2	6.6	*7.1*	*6.9*
Investment	*16.9*	5.6	12.9	*7.4*	*10.0*
Public Sector	**21.5**	**6.3**	**5.8**	**0.2**	**2.9**
Consumption	*13.1*	5.5	7.5	*3.3*	*5.3*
Investment	*8.5*	7.7	3.2	*-5.0*	*-0.9*
Net exports of goods and services	**8.4**	**-1.2**	**-14.5**	**1.4**	**-6.7**
Exports	*70.4*	2.0	9.8	*9.6*	*9.7*
Imports	*62.1*	2.4	12.9	*10.7*	*11.8*
Change in stocks (RM billion)	**0.0**	**-1.5**	**1.8**	**-0.4**	**1.5**
GDP (y-o-y)	**100**[1]	**4.0**	**5.6**	**5.8**	**5.7**
GDP (q-o-q growth, seasonally adjusted)	**-**	**1.1**	**1.8**	**1.3**	**-**

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

Continued expansion across all economic sectors

- **Services**
  Higher growth in *wholesale & retail* and *finance & insurance* sub-sectors
- **Manufacturing**
  Strong growth in E&E and consumer-related production
- **Agriculture**
  Continued recovery of CPO yields post-El Niño
- **Construction**
  Underpinned by civil engineering activity
- **Mining**
  Lower crude oil and natural gas production

Real GDP (Annual change, %)	% share (2016)	2016	2017		
		2Q	1Q	2Q	1H
Services	54.3	**5.7**	**5.8**	**6.3**	**6.1**
Manufacturing	23.0	**4.2**	**5.6**	**6.0**	**5.8**
Mining and Quarrying	8.8	**2.1**	**1.6**	**0.2**	**0.9**
Agriculture	8.1	**-7.8**	**8.3**	**5.9**	**7.1**
Construction	4.5	**8.9**	**6.5**	**8.3**	**7.4**
Real GDP	100.0[1]	**4.0**	**5.6**	**5.8**	**5.7**

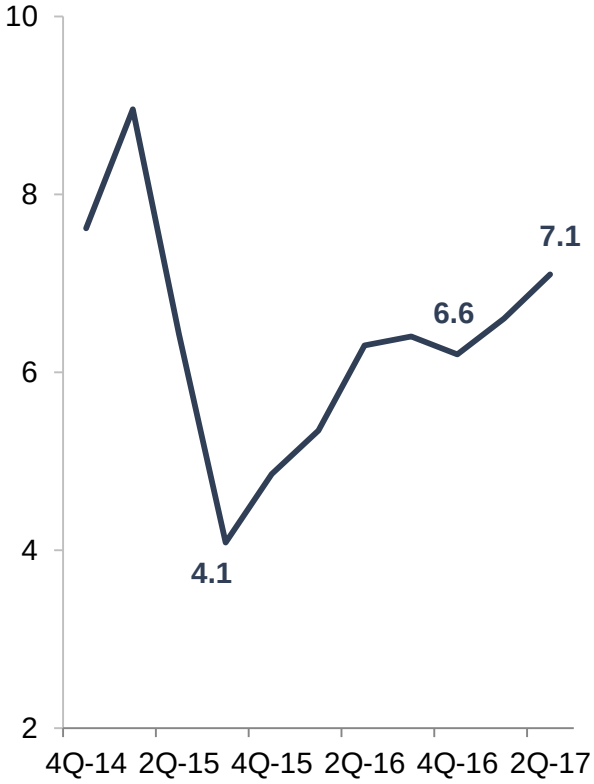
[1]Numbers do not add up due to rounding and exclusion of import duties component
Source: Department of Statistics, Malaysia

Private consumption growth rose to 7.1%, supported by improvements in labour market conditions

Private consumption growth improved…

Real Private Consumption Growth

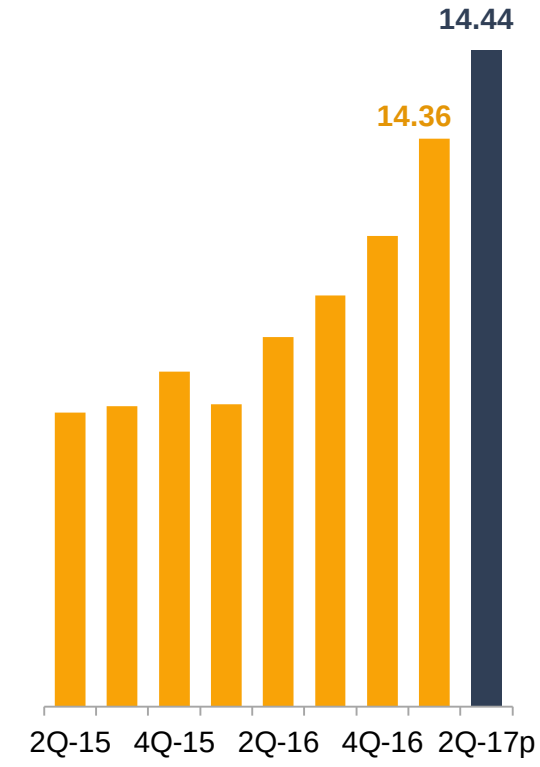
Annual change, %



…supported by better employment conditions…

Employment

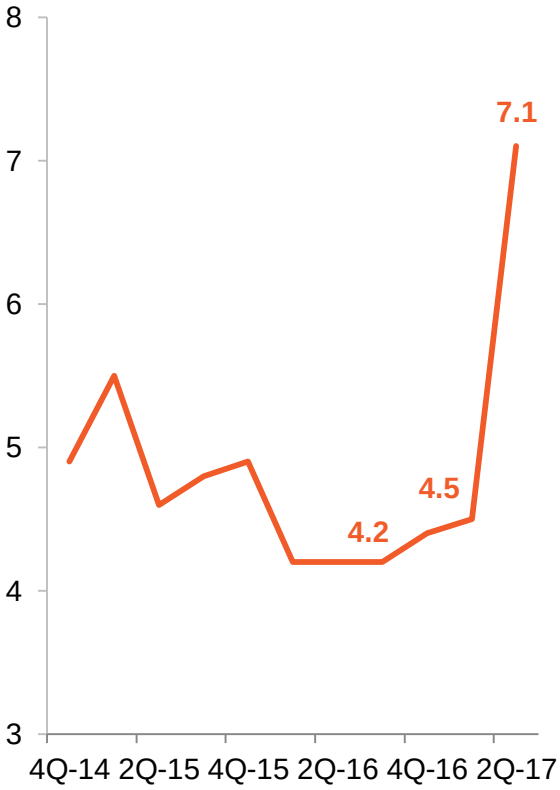
Million Persons



…and higher private sector wage growth

Private Sector Wage Growth

Annual change, %

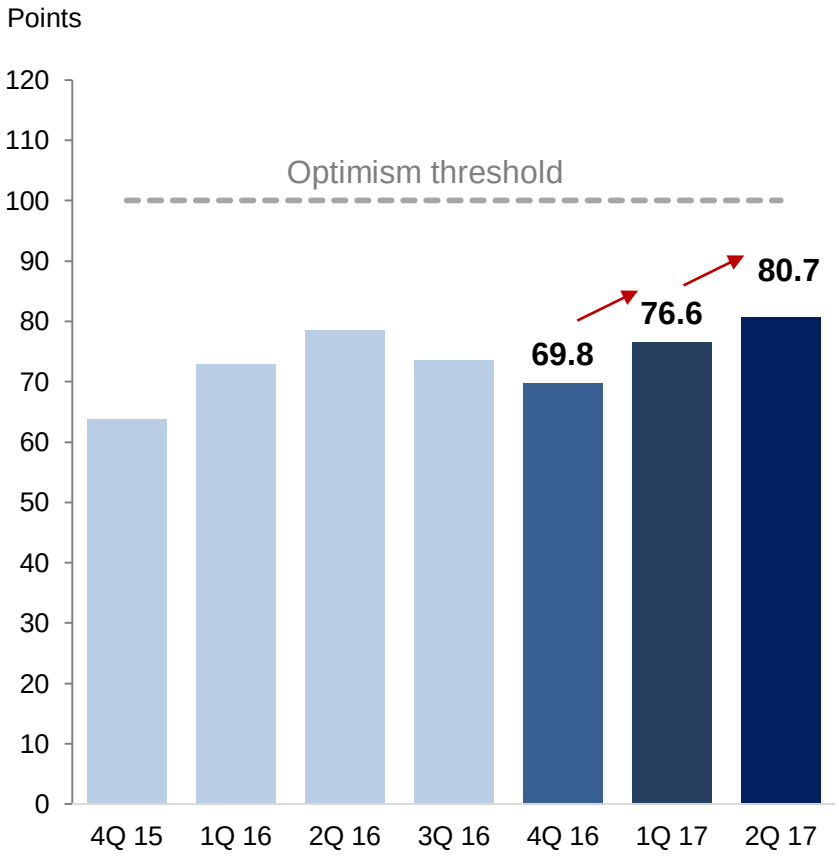


Source: Department of Statistics, Malaysia

Indicators for consumer sentiments continued to improve, but remained below the optimism threshold

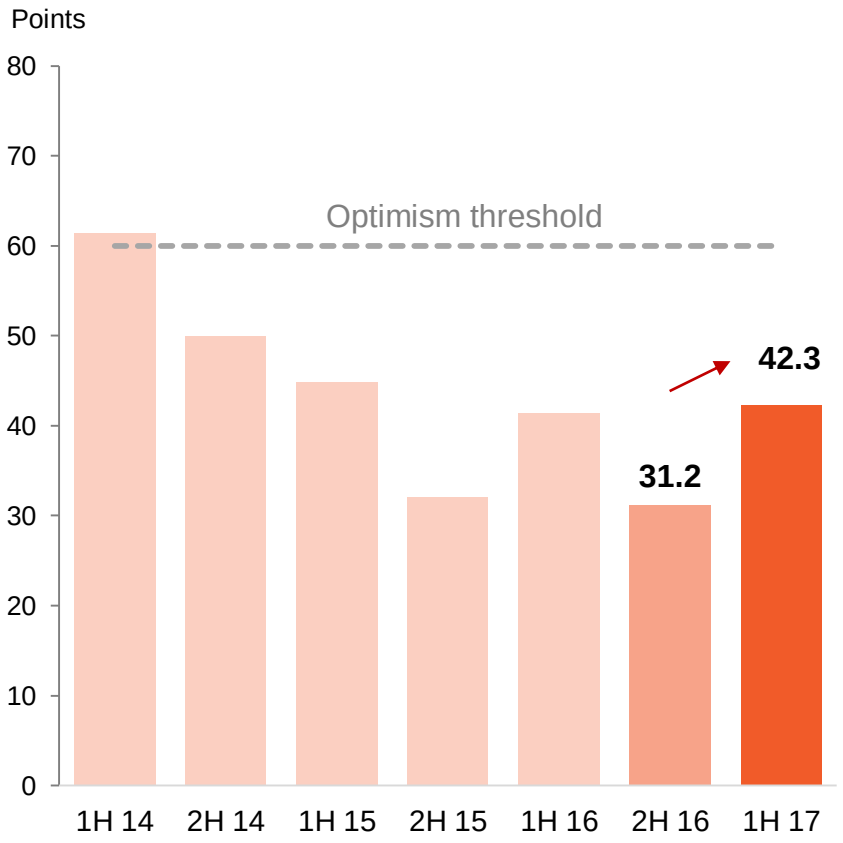
MIER Consumer Sentiment Index was stronger in 2Q 2017 …

MIER Consumer Sentiments Index



… in tandem with the improvement in Mastercard Index of Consumer Confidence

Mastercard Index of Consumer Confidence

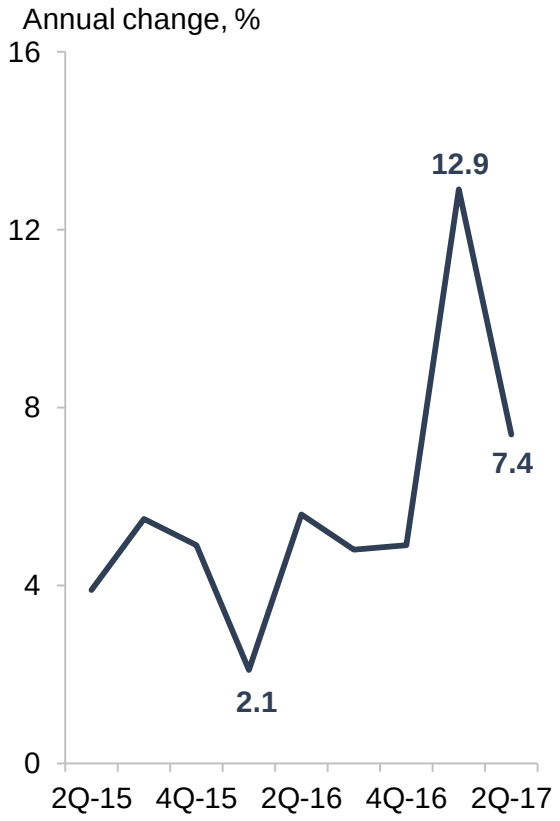


Source: MIER

Private investment grew by 7.4%

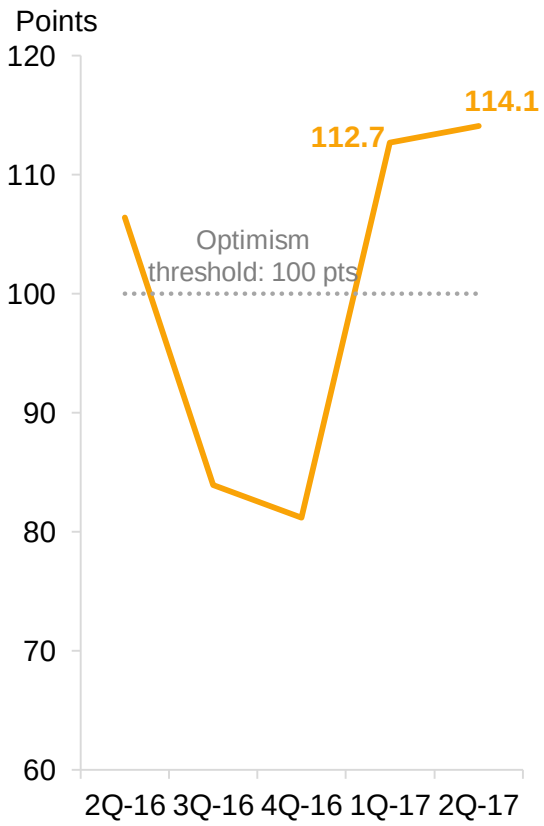
Private investment continued to expand

Real Private Investment Growth



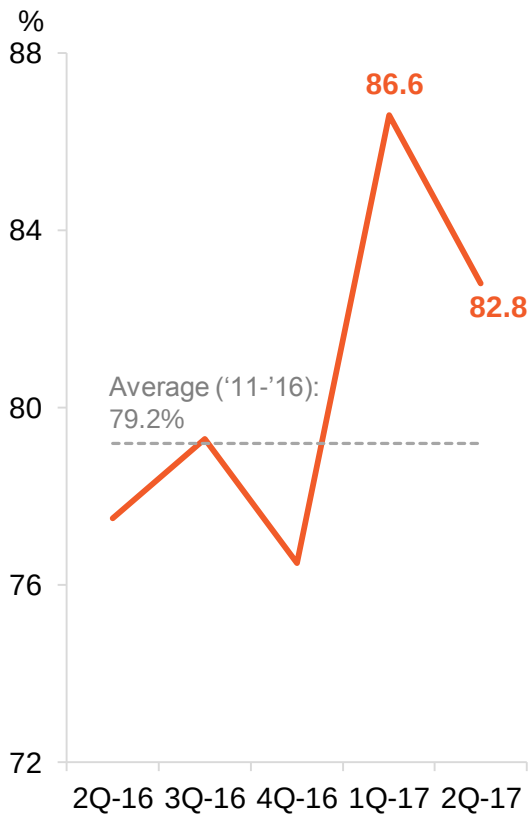
Business sentiments improved further

MIER Business Conditions Index



Capacity utilisation remained high

MIER Capacity Utilisation Rate

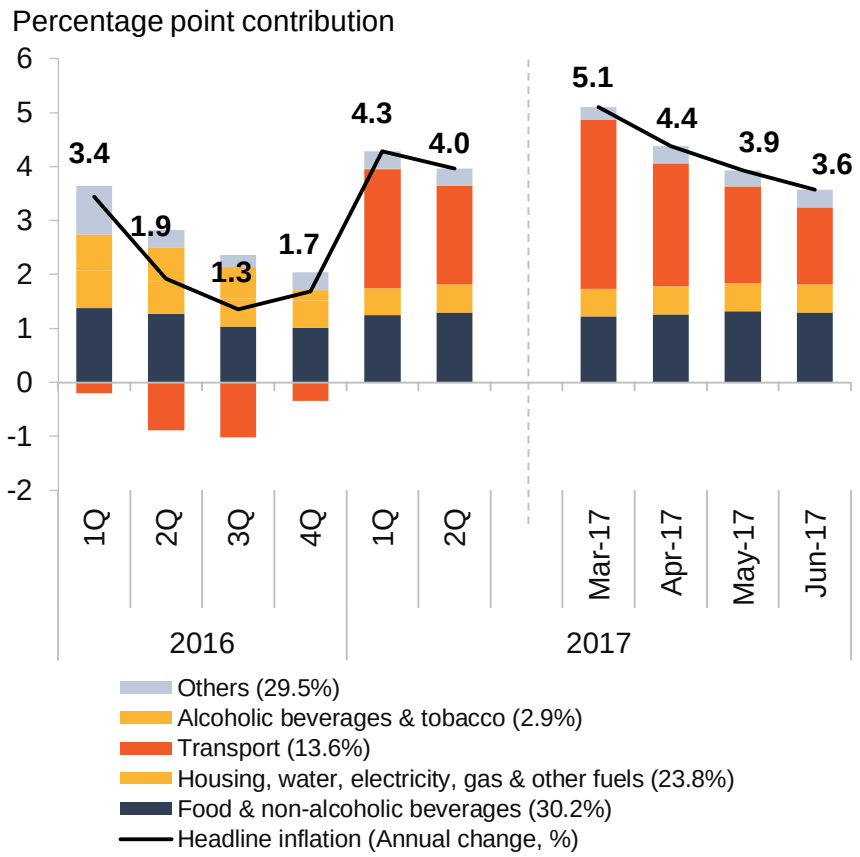


Source: Department of Statistics, Malaysia, MIER

Headline inflation moderated to 4% in 2Q 2017 and is expected to decline further

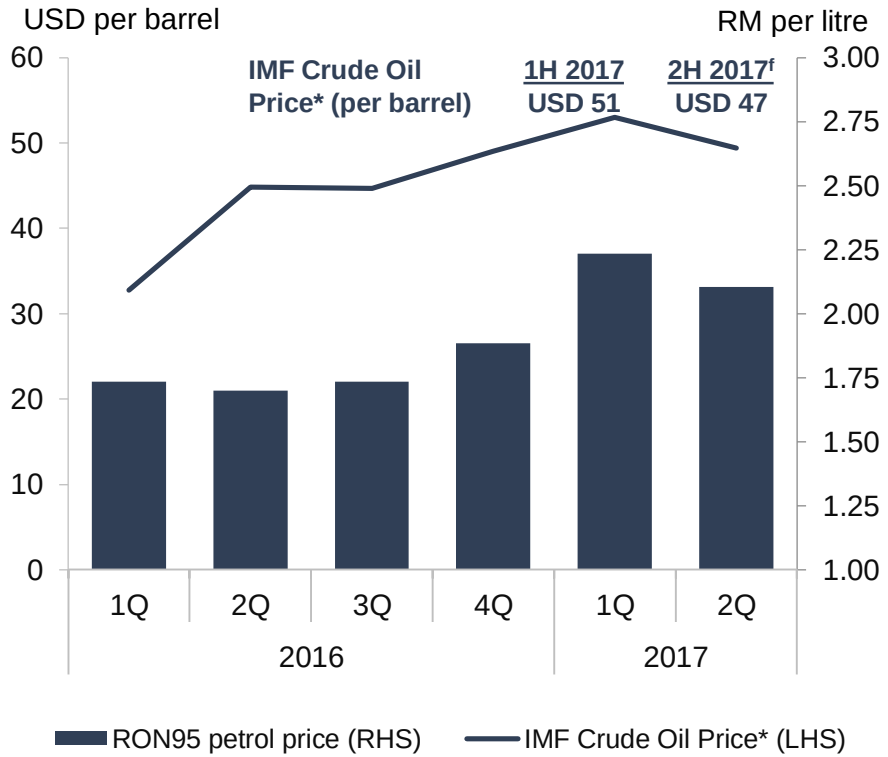
Inflation has been declining since its peak in March 2017 due to lower fuel prices

Headline Inflation



Inflation is likely to moderate further assuming lower global oil prices in 2H 2017

Prices of Global Oil and Domestic Fuel



* The price is the average price of Dated Brent, West Texas Intermediate (WTI) and Dubai Fateh crude oil, equally weighted

Source: Department of Statistics, Malaysia, IMF Primary Commodity Price Forecast and Bank Negara Malaysia

Strong trade performance in 2Q 2017

- **Exports remained robust**
  - Broad-based expansion in manufactured and commodity exports
  - Ongoing recovery in global manufacturing activity
- **Robust imports**
  - Higher intermediate imports in line with strong manufacturing activity
- **Trade balance increased to RM24.1 billion**

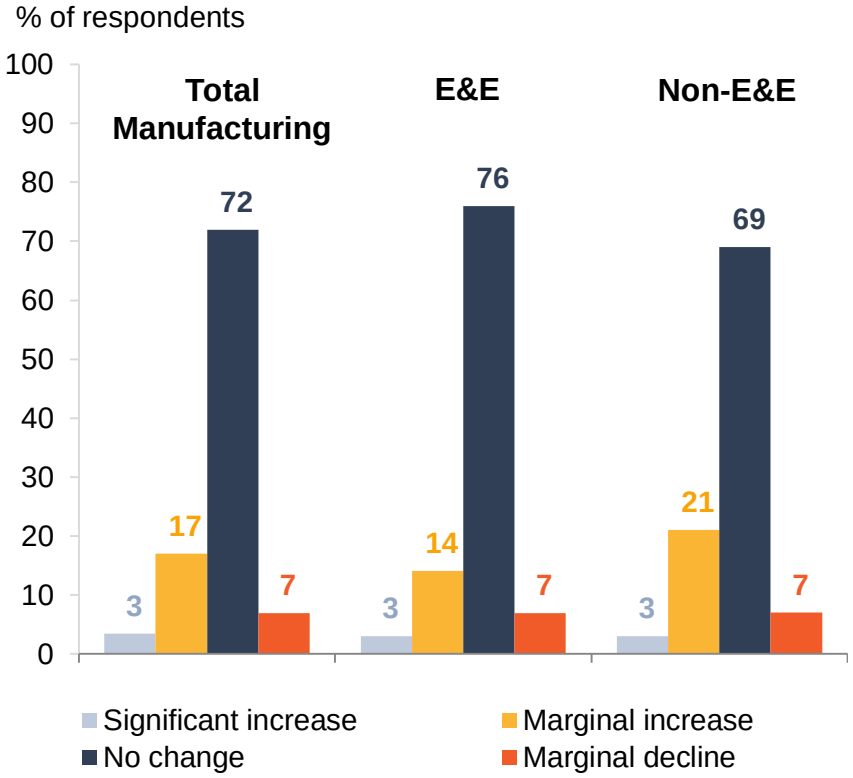
External Trade (Annual change, %)	% share (2016)	2016	2017		
		2Q	1Q	2Q	1H
Gross Exports	**100**	**1.6**	**21.3**	**20.6**	**21.0**
Manufacturing	82	4.7	19.4	18.7	19.1
E&E	*37*	*3.5*	*18.4*	*22.6*	*20.5*
Non-E&E	*45*	*5.7*	*20.3*	*15.7*	*17.9*
Commodities	17	-12.9	27.5	28.4	27.9
Gross imports	**100**	**2.8**	**27.7**	**19.1**	**23.3**
Intermediate	*57*	*-1.0*	*27.8*	*23.9*	*25.8*
Capital	*14*	*10.9*	*42.0*	*6.9*	*23.3*
Consumption	*10*	*10.0*	*4.0*	*1.5*	*2.7*
Trade balance (RM bil)	-	**17.9**	**18.9**	**24.1**	**42.9**

Source: Department of Statistics, Malaysia

Global demand remains the key driver of exports

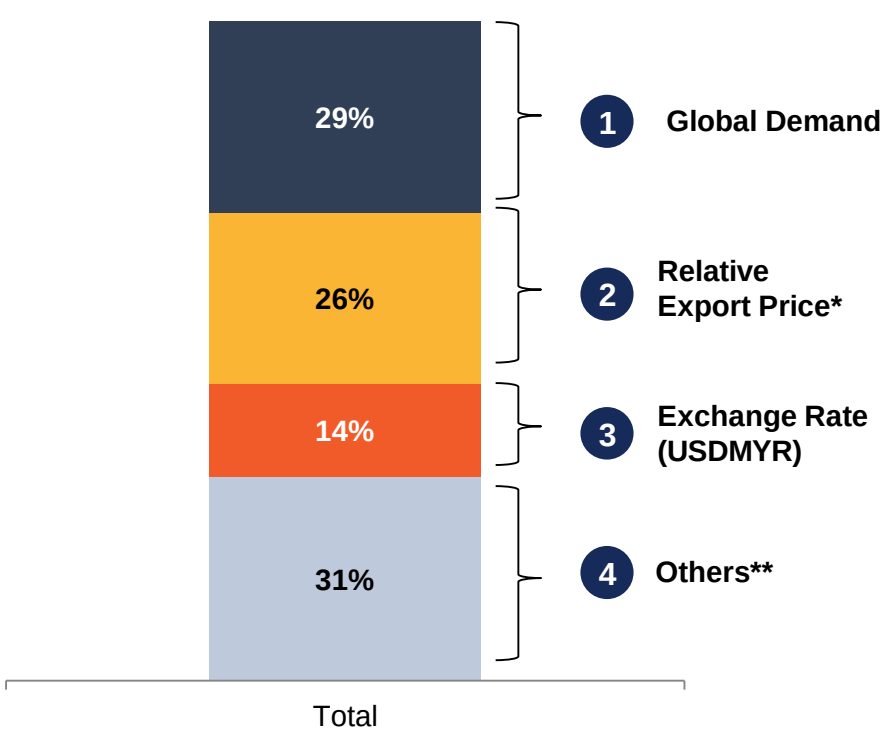
Majority of companies surveyed reported marginal or no benefit from ringgit depreciation

Firm Survey: Impact of Exchange Rate Depreciation on Export Order Volumes



Improving global conditions to underpin export volume growth going forward

Empirical Findings: Contribution to Export Volume Growth, 2005-2016



* Ratio of domestic export prices to global export prices

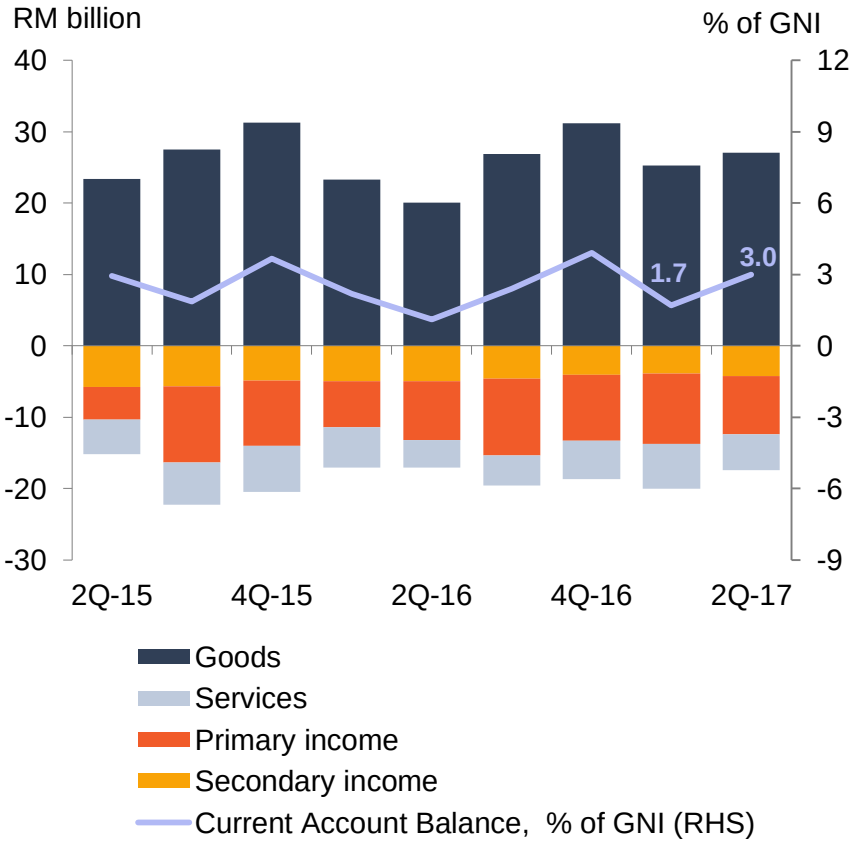
** Other temporary factors affecting exports that are not included in the model (i.e. the shortage of trade credit in 2008-2009 and the introduction of storage facilities that enabled higher re-exports of petroleum)

Source: Industrial engagements; RES Annual Report Survey (March 2017) – 63 manufacturing exporters, Bank Negara Malaysia estimates

Current account surplus widened

Higher surplus due to larger goods surplus and smaller services and primary income deficits

Current account balance



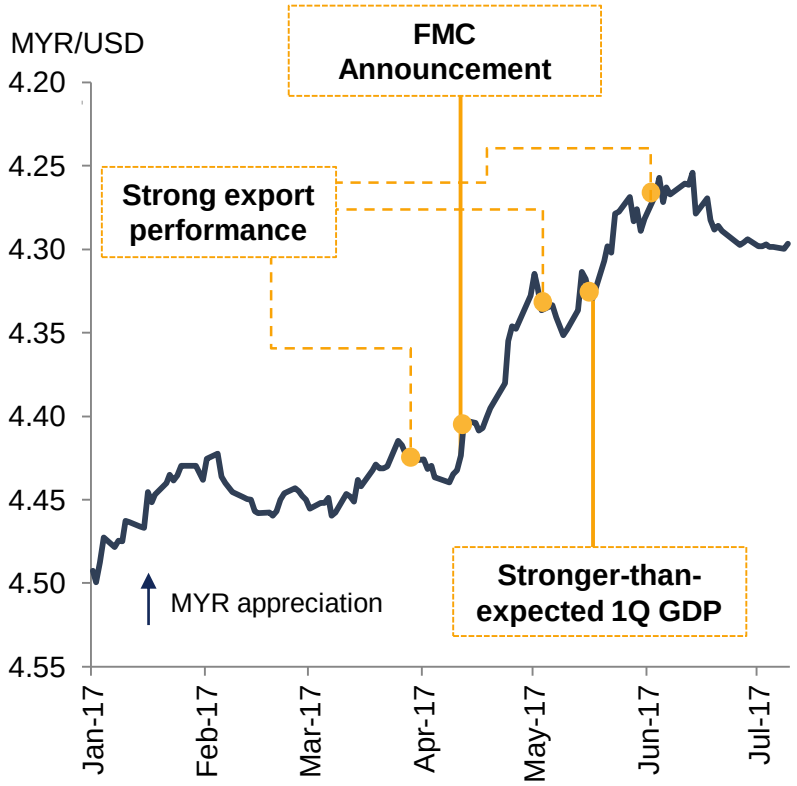
- **Larger goods surplus**
  - Strong export performance amid lower imports of capital goods
- **Narrower services deficit**
  - Higher travel surplus
- **Smaller primary income deficit**
  - DIA income improved on account of higher receipts in the mining sector

Source: Department of Statistics, Malaysia

Ringgit sentiments have improved, supported by positive domestic developments

The ringgit's appreciation trend continued into 2Q 2017

Performance of Ringgit against the USD



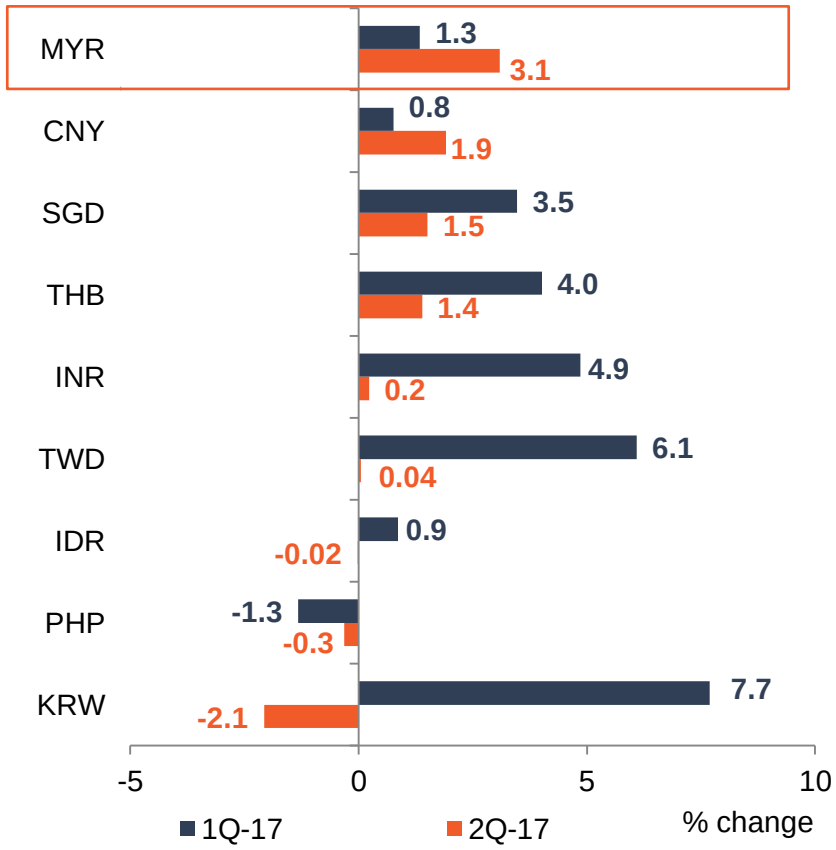
- **Encouraging domestic macroeconomic conditions**
  - Strong first quarter GDP growth
  - Robust export performance in the first half of the year
- **Announcement by Financial Markets Committee (FMC) to liberalise the bond market and foreign exchange hedging requirements**

Source: Bank Negara Malaysia

Ringgit was the best performing currency in the region during the quarter

Following the appreciation in 1H 2017, the ringgit has retraced the depreciation in 2016

Performance of Selected Currencies against USD



Source: Bank Negara Malaysia

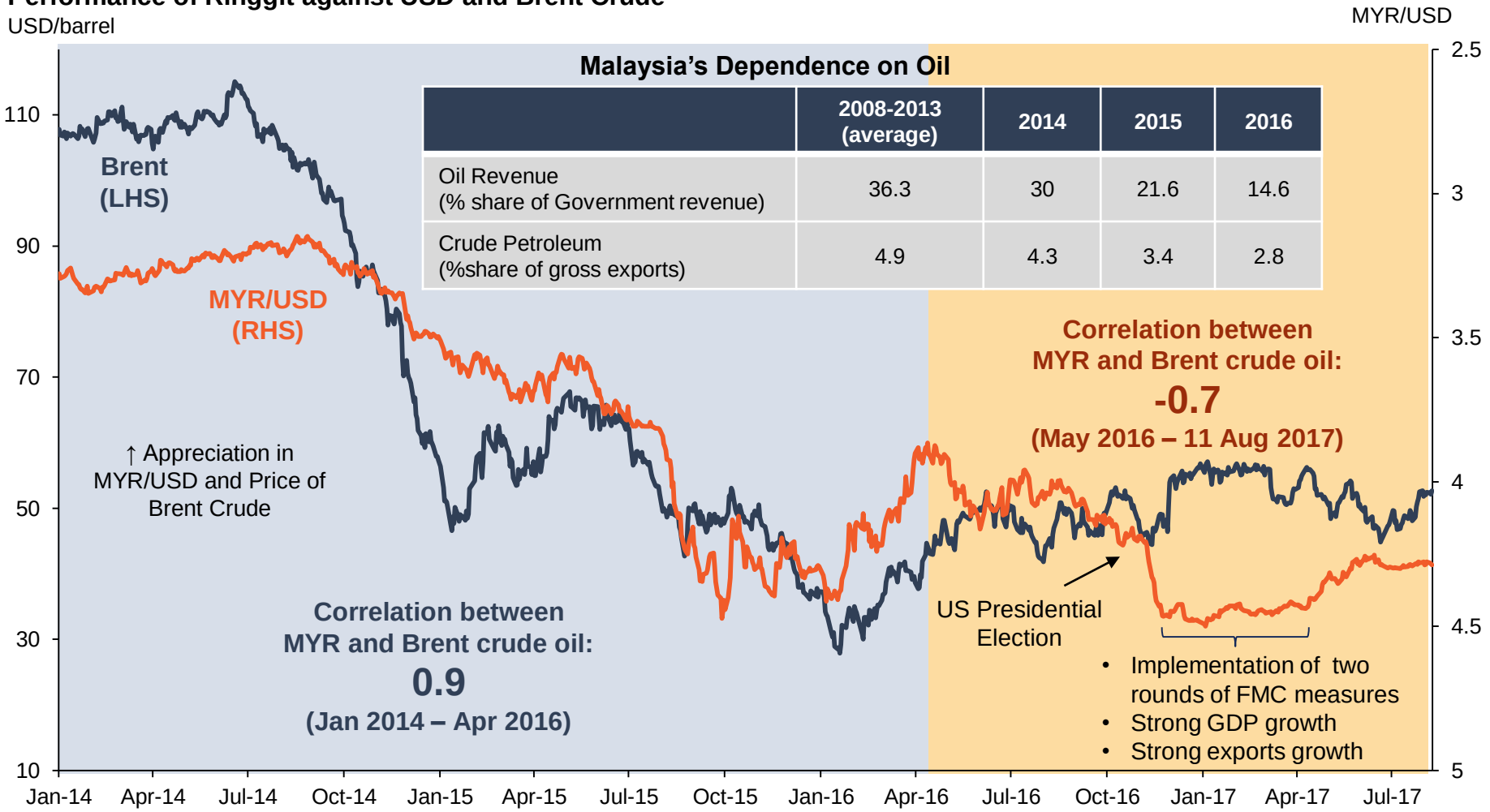
However, the ringgit will continue to be influenced by external uncertainties going forward

- **The pace and timing of monetary policy normalisation by major central banks**
  - The Federal Reserve's policy on the unwinding of its balance sheet
- **Global geopolitical and financial market developments**

There has been a decoupling between the ringgit exchange rate and global crude oil prices in the recent period

Increasingly, investors have begun recognising Malaysia's lower dependence on oil revenue

Performance of Ringgit against USD and Brent Crude



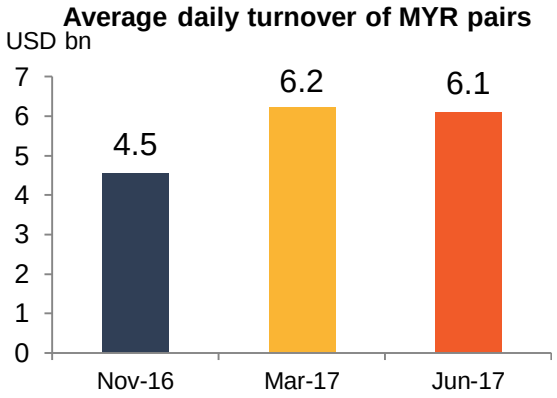
Malaysia's Dependence on Oil

	2008-2013 (average)	2014	2015	2016
Oil Revenue (% share of Government revenue)	36.3	30	21.6	14.6
Crude Petroleum (%share of gross exports)	4.9	4.3	3.4	2.8

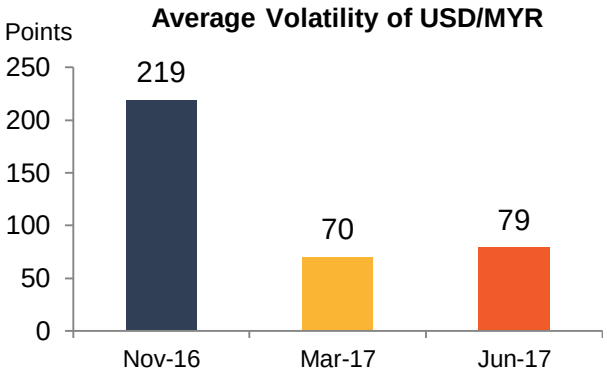
Source: Bank Negara Malaysia, Bloomberg

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

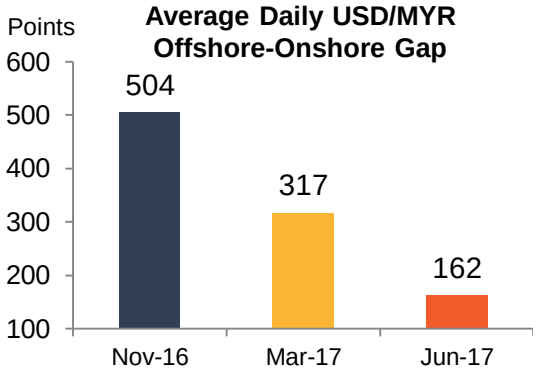
Greater FX intermediation by the market



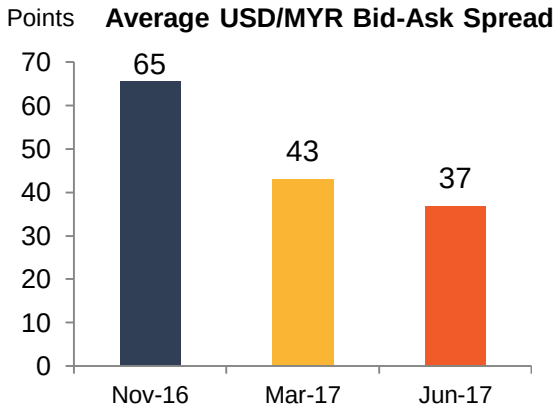
More stable ringgit reduces business uncertainty



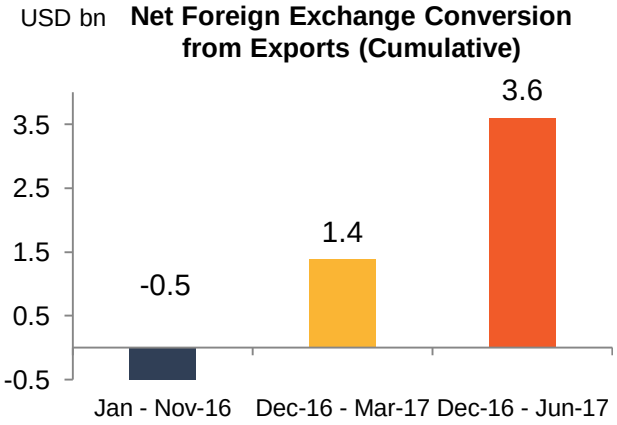
Impact of offshore rates to onshore has further reduced



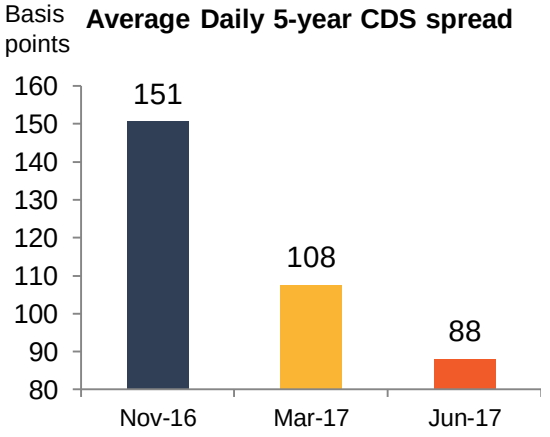
FX transaction cost has reduced for market participants



Greater balance of foreign currency demand and supply



Further reduction in credit spread lowered cost of borrowing for corporates



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

Source: Bank Negara Malaysia, Bloomberg

Foreign bond holdings in Malaysia were stable and were dominated by long-term foreign investors

Strong economic fundamentals and developed bond market has attracted foreign participation in Malaysia's bond market

Changes in economic outlook and global financial conditions could affect stability of foreign bondholding, especially short-term investors

- On-going geopolitical developments
- Volatility in commodity prices
- Shift in policy stance by advanced economies

Dominance by long-term foreign investors provides stability to the foreign bond holding

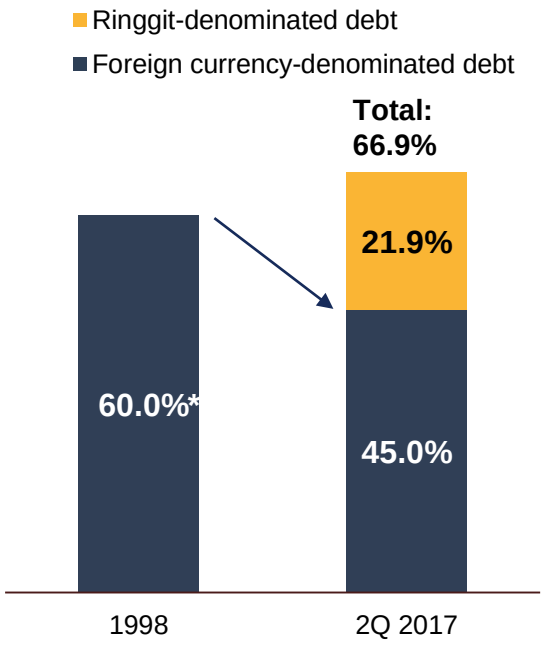
- Portfolio reversal by short-term investors can be absorbed by the market

Depth and breadth of financial market will be further improved to intermediate foreign flows, following measures introduced to develop domestic markets

Malaysia's external debt remains manageable

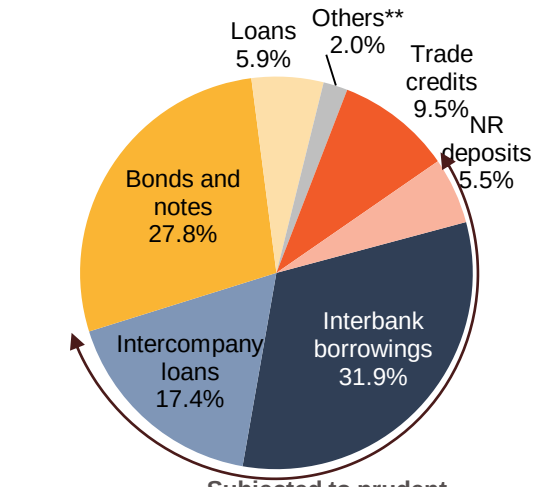
Foreign currency-denominated debt remains low relative to Asian Financial Crisis

Breakdown by Currency (% of GDP)



Foreign currency-denominated debt largely hedged and backed by external assets

Breakdown by instruments (% of total share)



*Includes SDR allocations and miscellaneous, such as insurance claims yet to be disbursed and interest payables on bonds and notes

More than half of foreign-currency denominated debt are subjected to either prudential safeguards or flexible terms

- **Interbank borrowing and non-resident deposits**
  Prudent liquidity management including limits on funding and maturity mismatches
- **Intercompany loans**
  Flexible/concessionary terms
- **Trade credits**
  Backed by export earnings

*Based on previous definition of external debt

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Malaysia's international reserves is adequate to facilitate international transactions

Views (2003-2012): Build-up in international reserves is rapid and costly

IMF (2003, 2010)

- *"..rapid buildup of foreign reserves in emerging Asia...approaching the point where **some slowdown in the rate of accumulation may be desirable**"*
- *"Reserve accumulation has accelerated in most of emerging Asia…contributed to **excess liquidity** in many countries"*

World Bank (2011)

*"There is a **cost to having an overly large stock of foreign exchange**…"*

BIS (2012)

*"The accumulation of foreign reserves may **crowd out domestic lending**"*

2016: Accumulate as opportunities arise

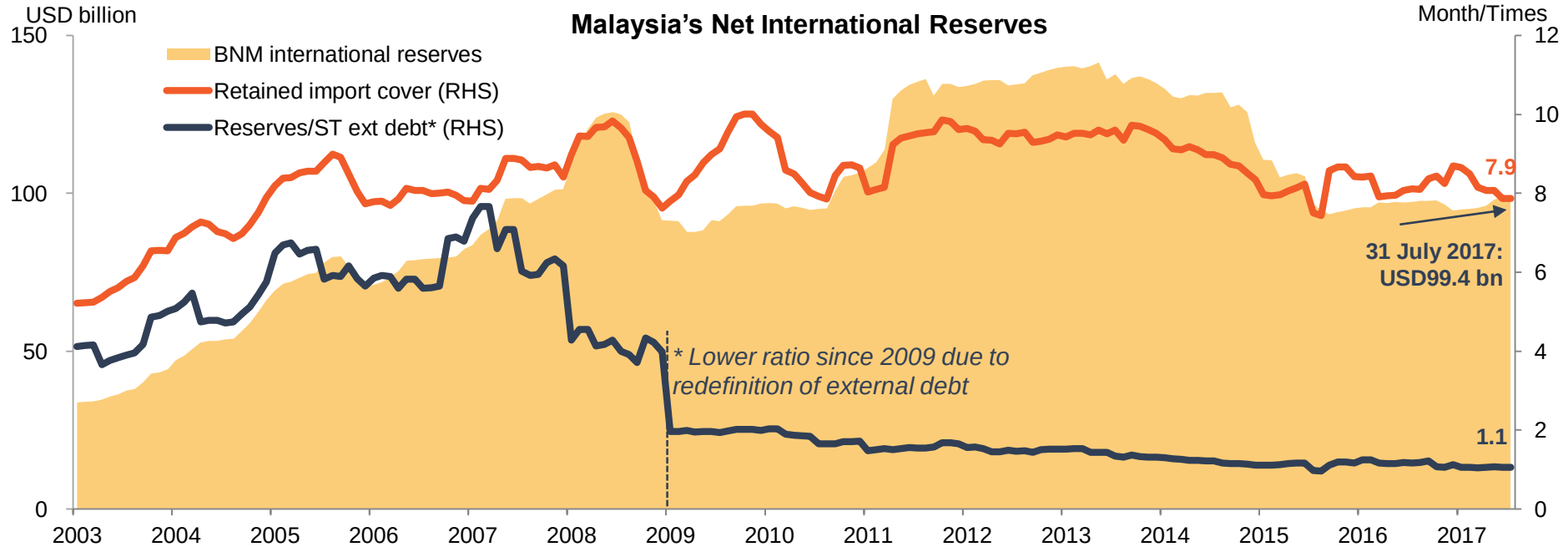
IMF (2016)

"…recommended to increase the level of reserves as opportunities present themselves."

Jul. '17: Adequate reserves

IMF (Jul. '17)

In recognition of Malaysia's flexible exchange rate and external assets, its reserves level is adequate.

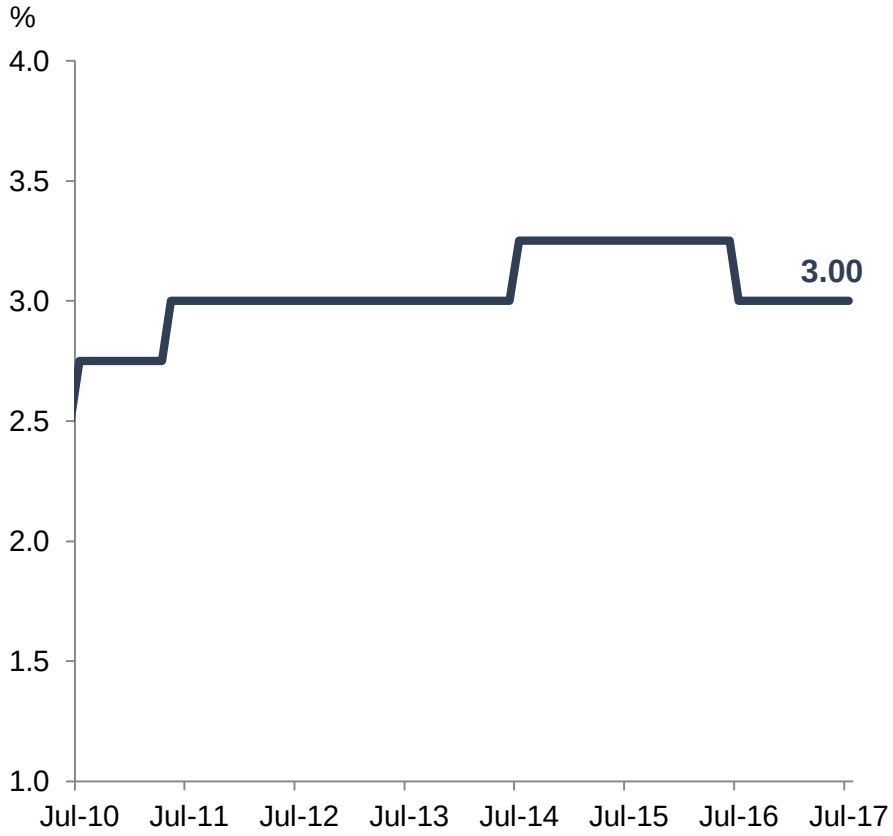


Source: Bank Negara Malaysia, various sources

Monetary policy to support sustainable growth

- **Firmer prospects for higher growth in 2017**
  - More evident positive spillovers on consumption and investment from the better external sector performance in 1H 2017
- **Headline inflation is expected to continue moderating in 2H 2017**
- **The MPC will assess incoming data to determine the sustainability of the growth momentum, and monitor for any incipient signs of demand-pull inflationary pressures**

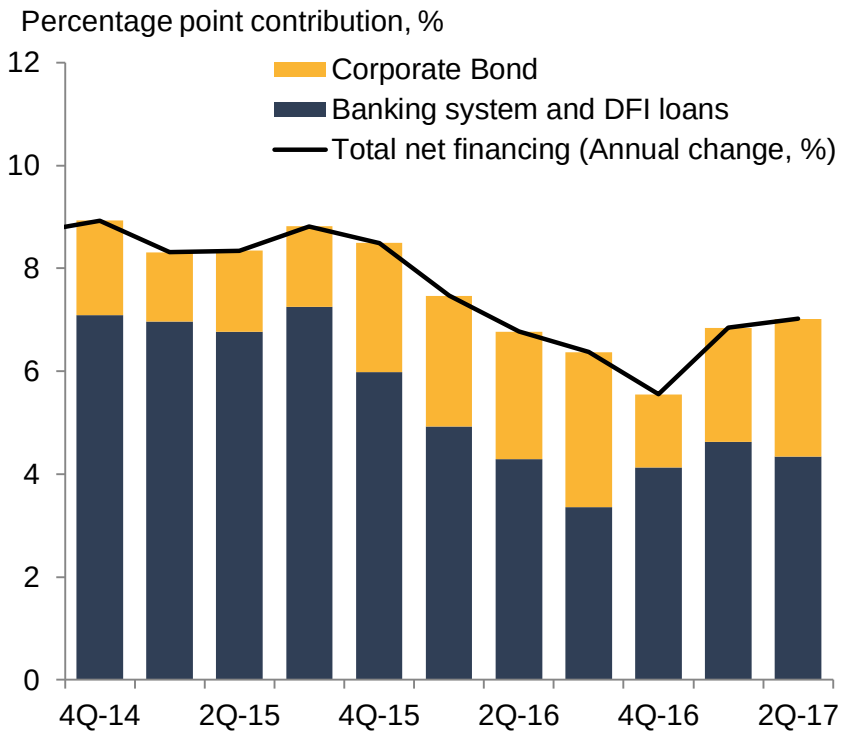
Overnight Policy Rate



Financing to the private sector has improved since the previous quarter

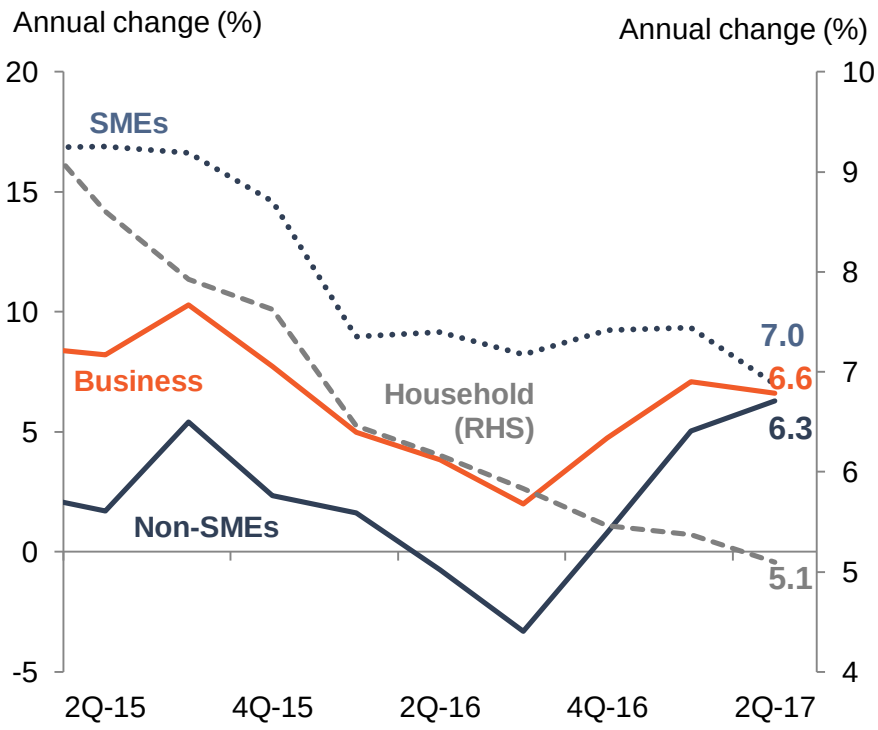
Growth of net financing driven primarily by increase in growth of corporate bonds…

Net Financing Growth*



… amid some moderation in business and household loans

Outstanding Banking System and DFI Loan Growth by Borrowers



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

Source: Bank Negara Malaysia

Domestic financial stability remains intact

Banking sector	1Q 2017	2Q 2017
Common equity tier 1 capital ratio (%)	13.1	12.9
Tier 1 capital ratio (%)	13.9	13.8
Total capital ratio (%)	17.0	17.0
Capital buffer (RM bil)	132.6	133.2
Net impaired loans ratio (%)	1.2	1.2
ROE (annualised)	11.8	12.7
Insurance/Takaful sector	**1Q 2017**	**2Q 2017**
Capital adequacy ratio (%) - Insurance	246.1	238.5
Capital adequacy ratio (%) - Takaful	204.8	211.4
Capital buffer (RM bil)	38.2	37.1
Profit (RM bil)	6.6	5.2
Excess income over outgo (RM bil)	6.1	4.4
Operating profit (RM bil)	0.5	0.8
Claims Ratio (%)	62.9	55.2

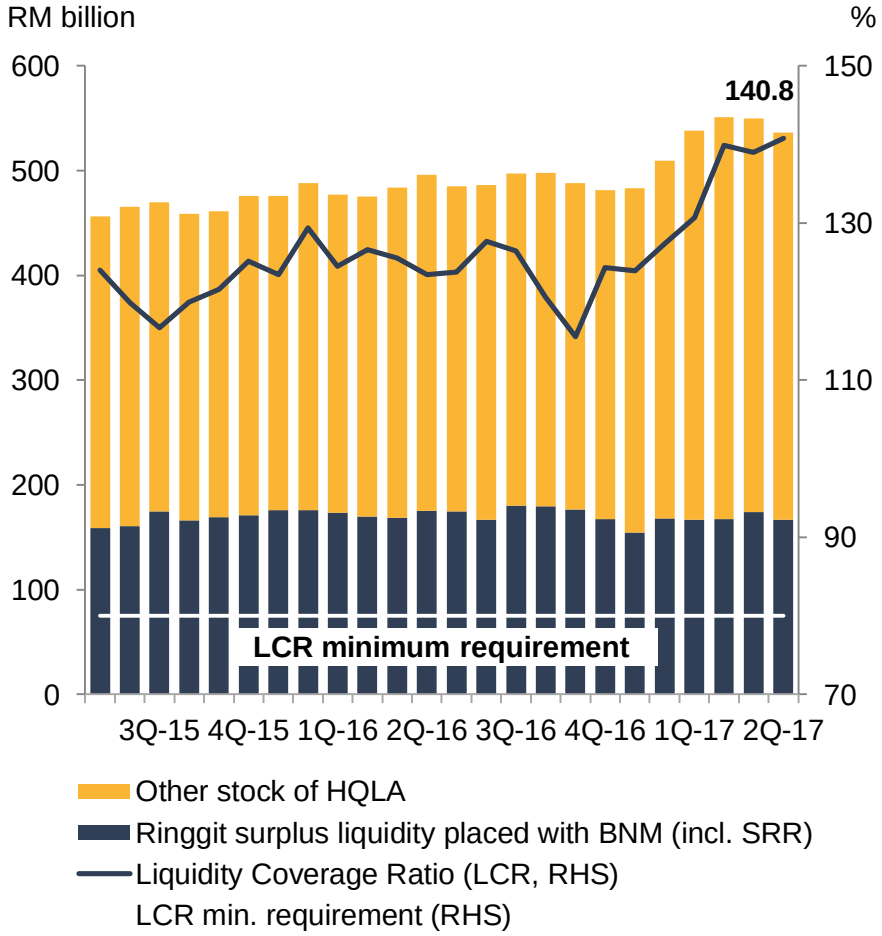
- **Financial institutions maintained strong capitalisation levels**
- **Sufficient financial buffers to support financial intermediation**
- **Stronger profitability supported by financing activities and sound asset quality**

Source: Bank Negara Malaysia

Sufficient liquidity in the banking system

LCR well above the transitional minimum requirement

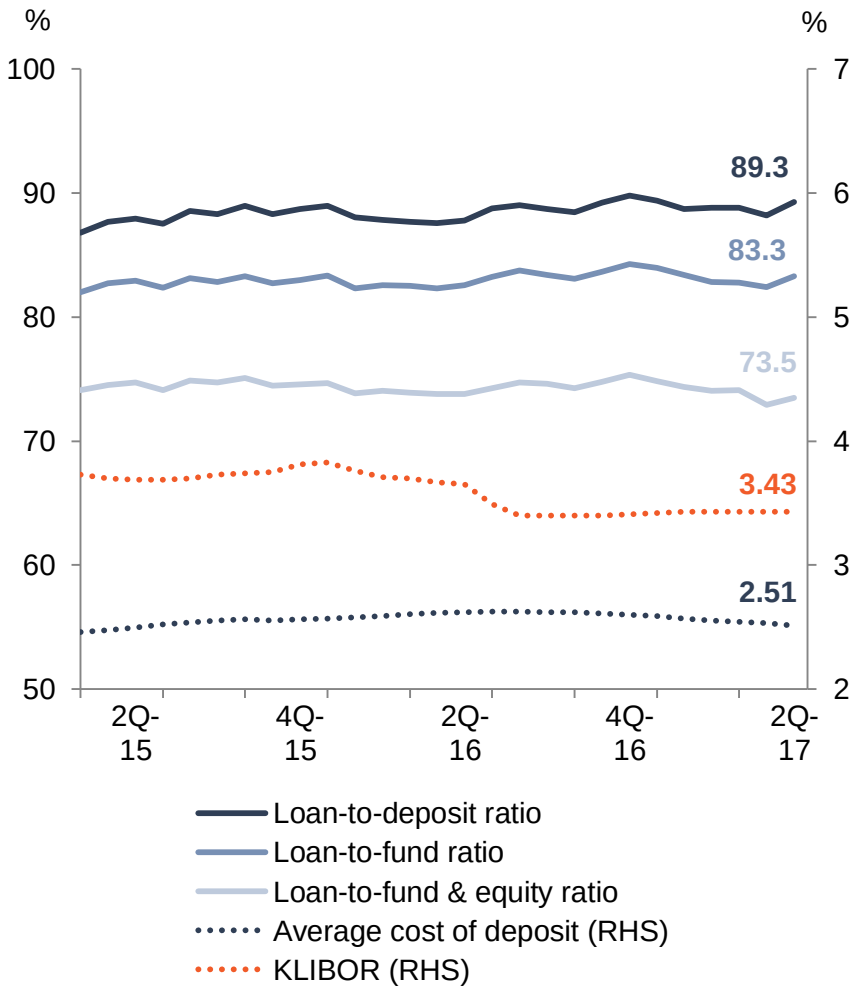
Liquidity Coverage Ratio and Liquid Assets



Source: Bank Negara Malaysia

Banks' funding structure is supportive of financing activities

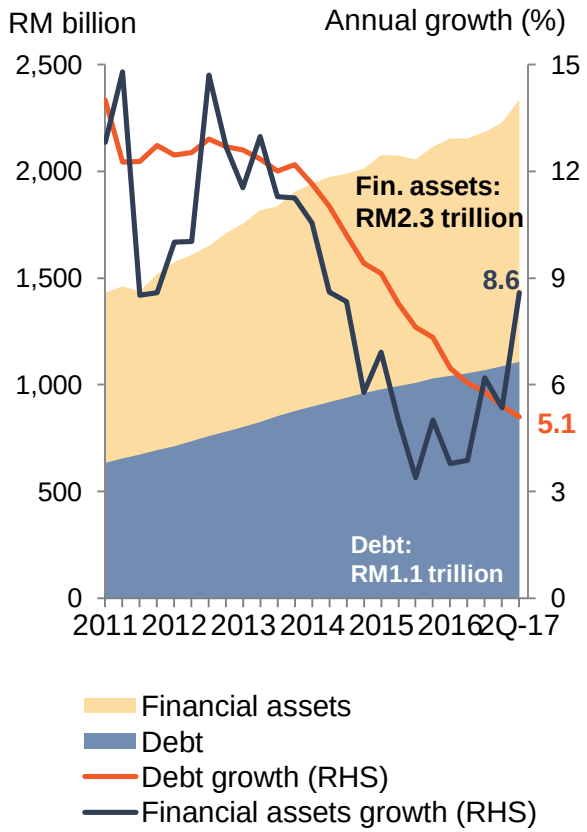
Funding Structure and Cost of Funds



Sustained debt servicing capacity of households

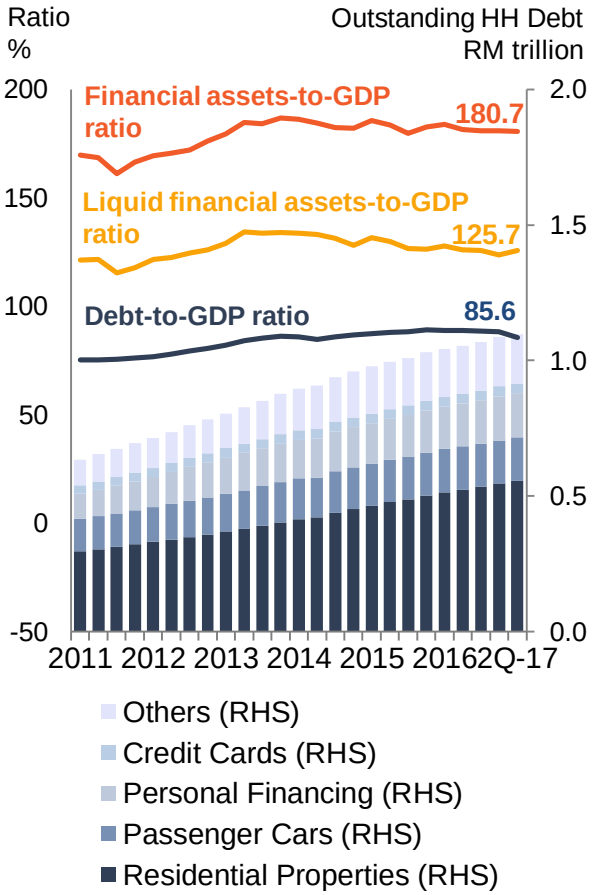
Household debt growth remained moderate

Household Debts and Financial Assets



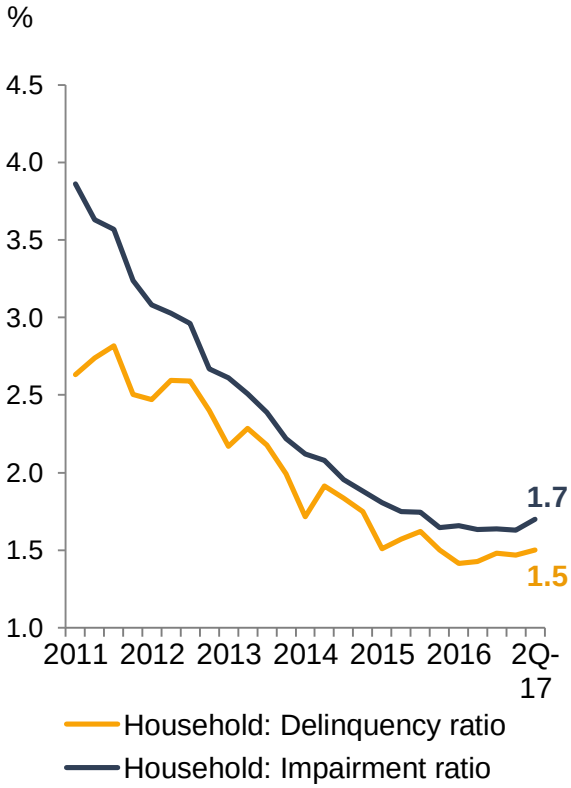
Household financial assets sustained at 2.1x of debt

Household Sector: Key Ratios



Quality of household loans was sound

Gross Impaired and Delinquent Loans

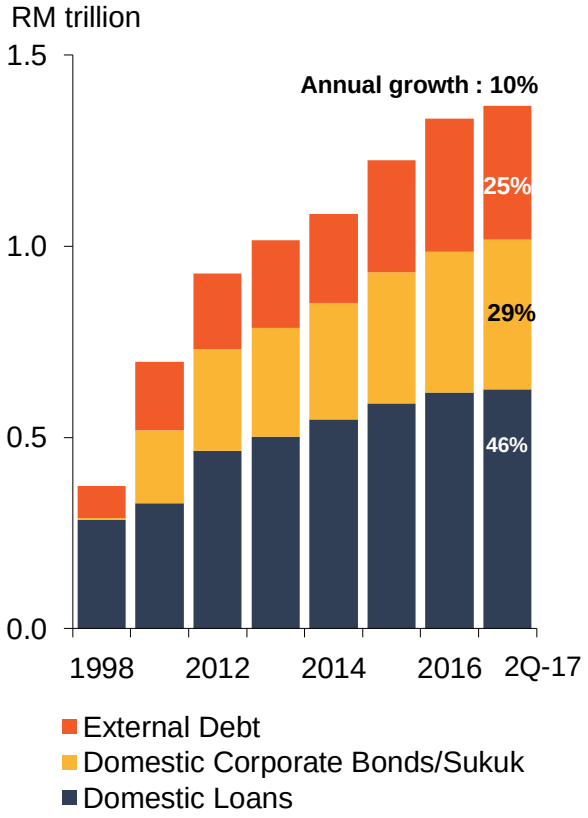


Source: Bank Negara Malaysia

Businesses continued to have access to financing amidst sustained debt servicing capacity

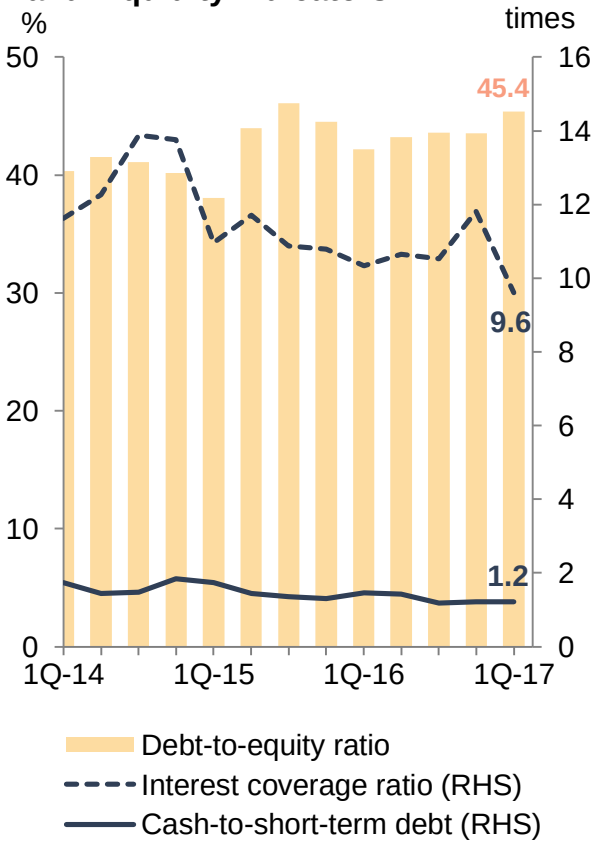
Businesses, including SMEs, have continued access to financing

Domestic and External Debt



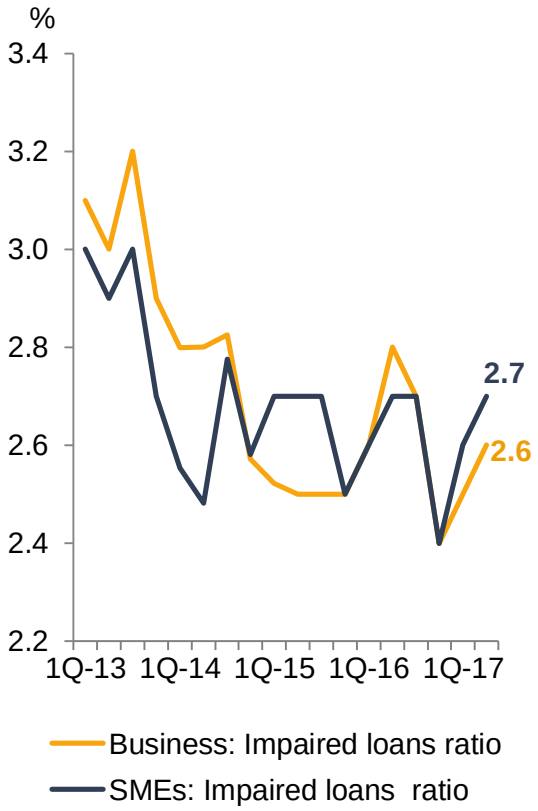
Overall debt servicing capacity sustained

Leverage, Debt Servicing Capacity and Liquidity Indicators



Impairments remained low, despite upticks in some sectors

Gross Impaired Loans

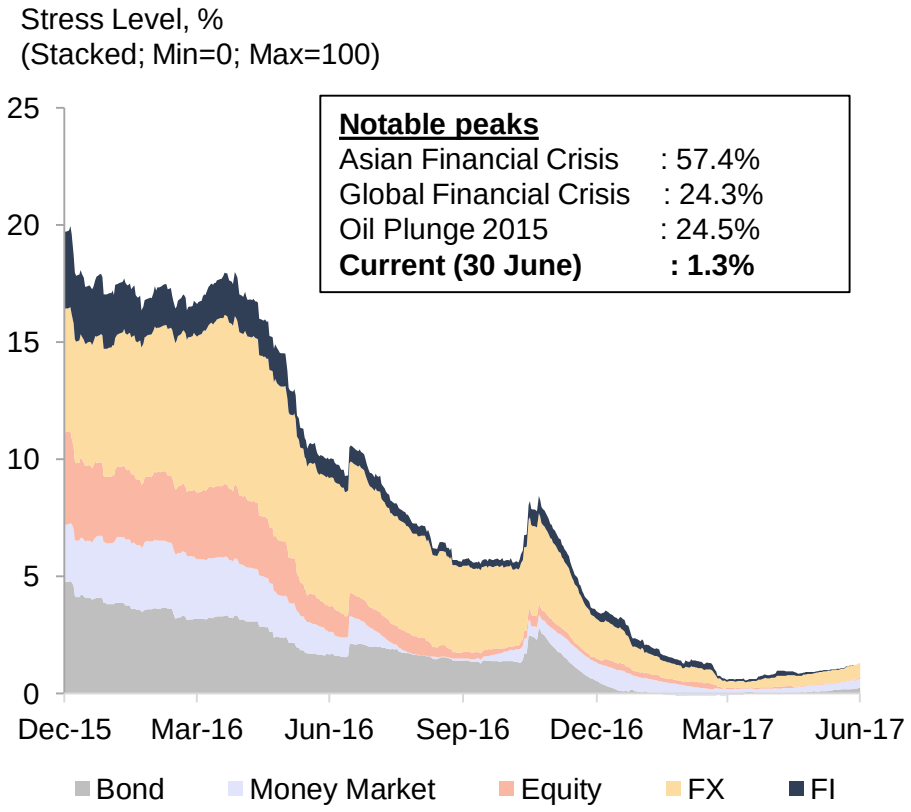


Source: Bank Negara Malaysia

Domestic financial markets remained orderly

Low market volatility amid improved domestic sentiments

Financial Market Stress Index (FMSI)



- **Average volatility declined for 10-year Malaysia Government Securities (MGS) yields, the equity market and the ringgit**
- **Lower volatility partly attributed to:**
  - Improved domestic sentiments amid better-than-expected GDP growth
  - Favourable corporate earnings
  - Greater stability in the domestic foreign exchange market
- **Moving forward, investor sentiments will be influenced primarily by external developments**

Source: Bank Negara Malaysia, Bloomberg

The Malaysian economy to expand at a steady pace with continued strength in global growth

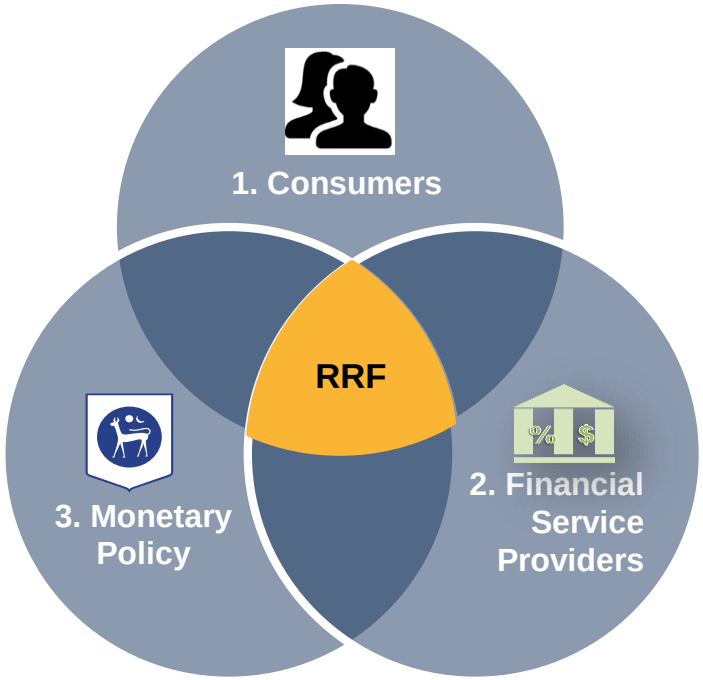
- **Malaysia's GDP growth is expected to be above 4.8% in 2017, supported by a more entrenched global recovery and positive spillovers to the domestic economy**

- **Growth prospects will continue to be driven by domestic demand, with some lift from exports**
  - Steady wage and employment growth
  - On-going implementation of infrastructure projects
  - Continued external demand from major trading partners
- **Strong and resilient macroeconomic fundamentals to accord Malaysia the ability to manage current challenges**
  - Diversified sources of growth
  - Sound banking system and deep financial markets

Highlights of the Bank's Policy Initiatives

The Reference Rate Framework (RRF) has resulted in more efficient pricing, greater transparency and allows for an effective monetary policy

Implementation of the Reference Rate Framework (RRF): Moving Towards More Efficient and Transparent Practices



Implementation of the RRF is driven by 3 outcomes:

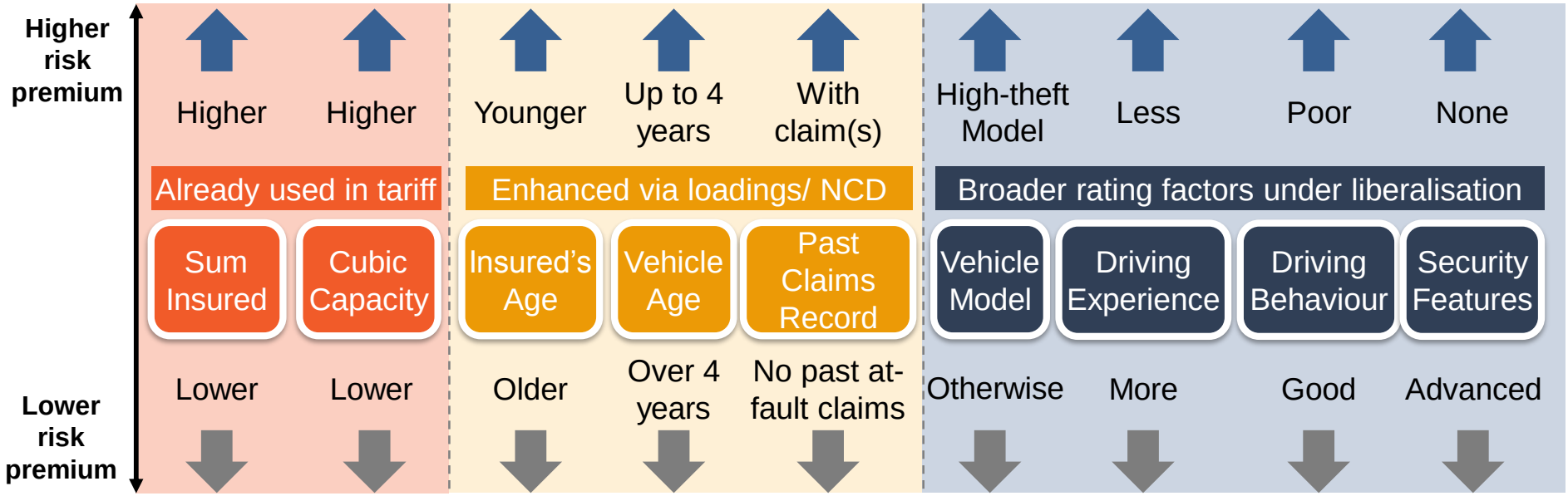
✓ **Outcome 1**
Efficient pricing and greater transparency for consumers

✓ **Outcome 2**
Reflect funding strategies of financial service providers (FSPs)

✓ **Outcome 3**
Enhance monetary policy transmission

Source: Bank Negara Malaysia

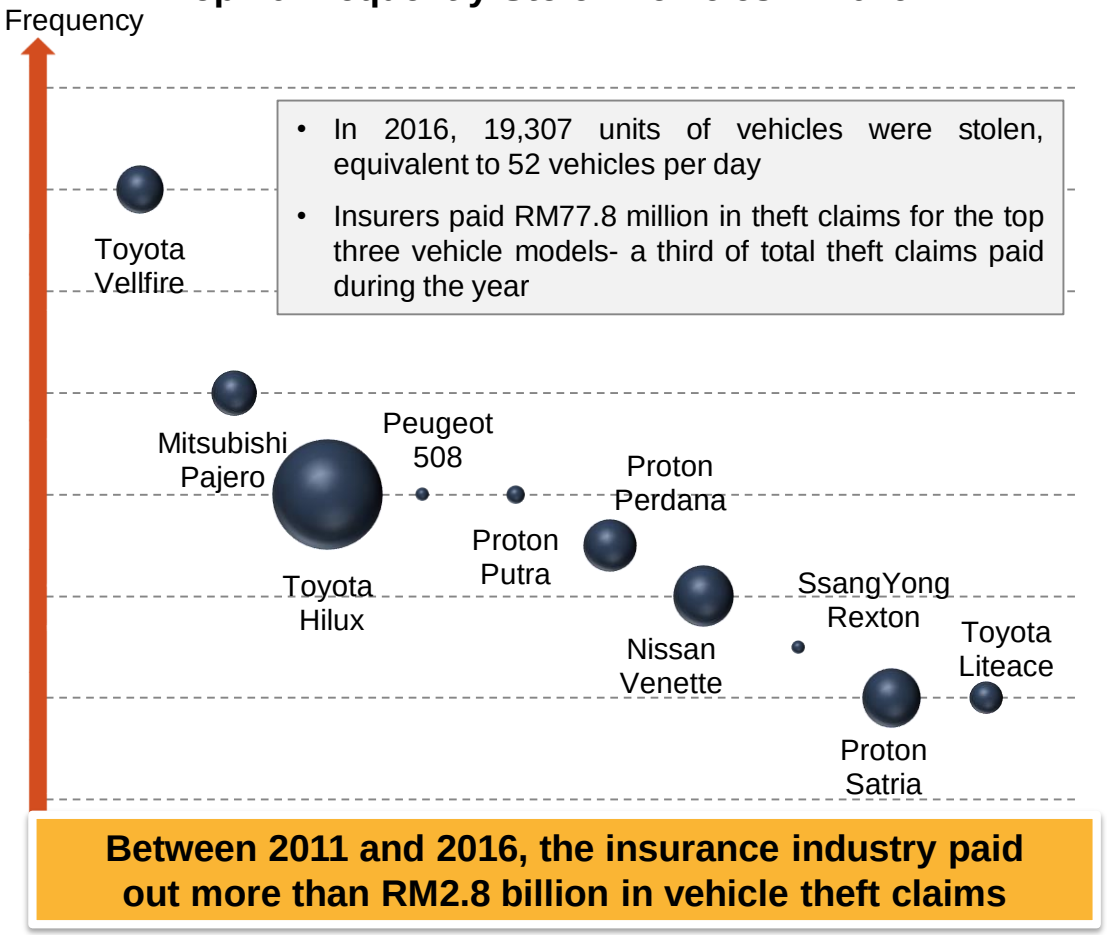
With liberalisation of the motor tariff, broader risk factors are now taken into account in determining premiums…



Source: Premium rate revision submissions from companies (as at July 2017)

… which in turn will reduce significant cross subsidies currently prevalent in the industry

Top 10 Frequently Stolen Vehicles in 2016



- In 2016, 19,307 units of vehicles were stolen, equivalent to 52 vehicles per day
- Insurers paid RM77.8 million in theft claims for the top three vehicle models- a third of total theft claims paid during the year

Between 2011 and 2016, the insurance industry paid out more than RM2.8 billion in vehicle theft claims

Note:
1. The size of the bubble represents the number of theft count for each model
2. Frequency is calculated by dividing the number of theft count by total policy count

Source: Vehicle Theft Reduction Council

Average claims ratios for Motor Third Party insurance (2014-2016)

Commercial Vehicle	Average Claims Ratio
Buses	161%
• Express Bus	189%
• Factory Bus	112%
• Stage Bus	163%
• Tourist Bus	115%
• School Bus	182%
• Other Private Buses	150%
Taxis	104%
• Chauffeur Driven Taxi	115%
• Town Taxi	106%

Note: Claims ratio is the total incurred claims (excluding management and acquisition costs) as a percentage of earned premium

Source: ISM Insurance Services Malaysia

Acceleration towards professionalising the banking sector

Two new initiatives will be implemented by the industry

1

All reporting submissions made by banks to BNM to be undersigned by a Chartered Banker

(Requirement will take effect from 2021)

- Promote the highest standards of professionalism in the banking sector
- Ensure trust and confidence in submission of documents through enhanced accountability from banking professionals
- Strengthen the reputation of the profession, underpinned by high levels of professional values and competence

2

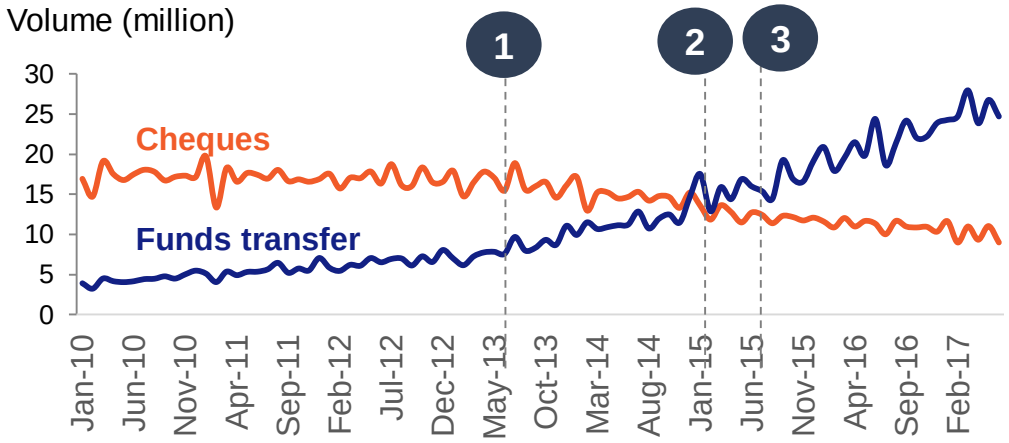
Key personnel in critical job functions to acquire specialised qualifications

(Requirement will take effect from 2018)

- Ensure high quality workforce with relevant technical skills and expertise
- Critical job functions include the following areas:
  - Credit
  - Compliance
  - Risk Management
  - Audit
  - Anti Money Laundering and Counter Financing of Terrorism (AML/CFT)
- Industry to achieve 100% take up rate within 5 years

Migration to e-payments continues to gain traction supported by strengthened payment infrastructure

Accelerated growth in fund transfers

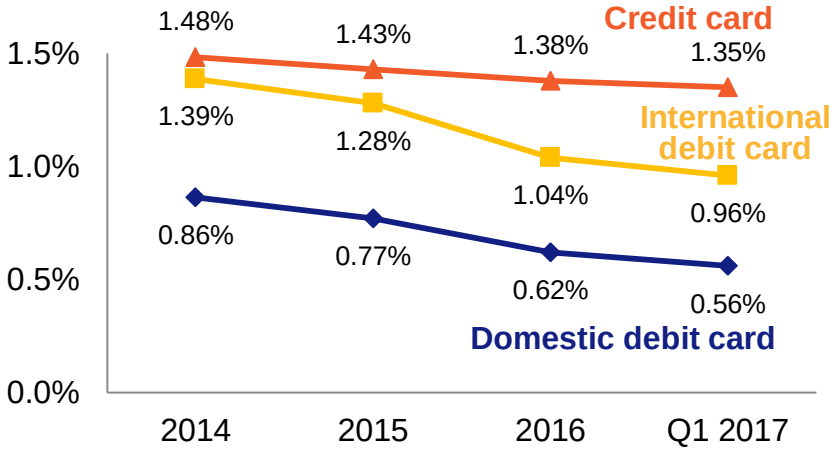


1 **May 2013:**
IBG fee capped at 10 sen

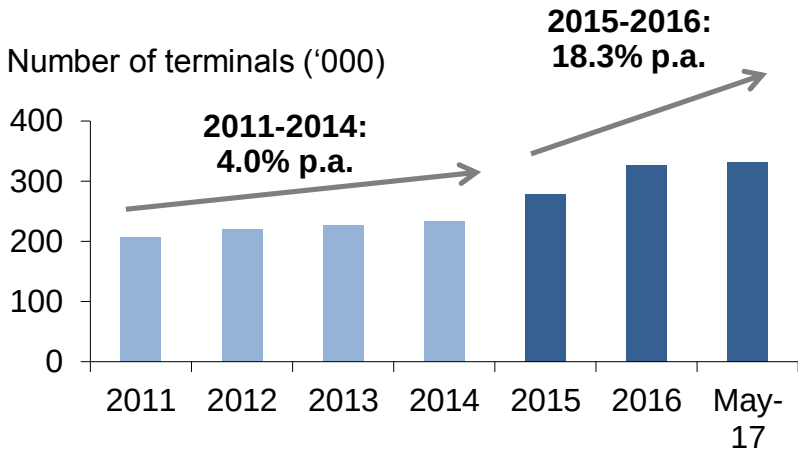
2 **Jan 2015:**
Introduction of 50 sen cheque fee and ePIF

3 **June 2015:**
Instant Transfer fee capped at 50 sen

Declining merchant fees

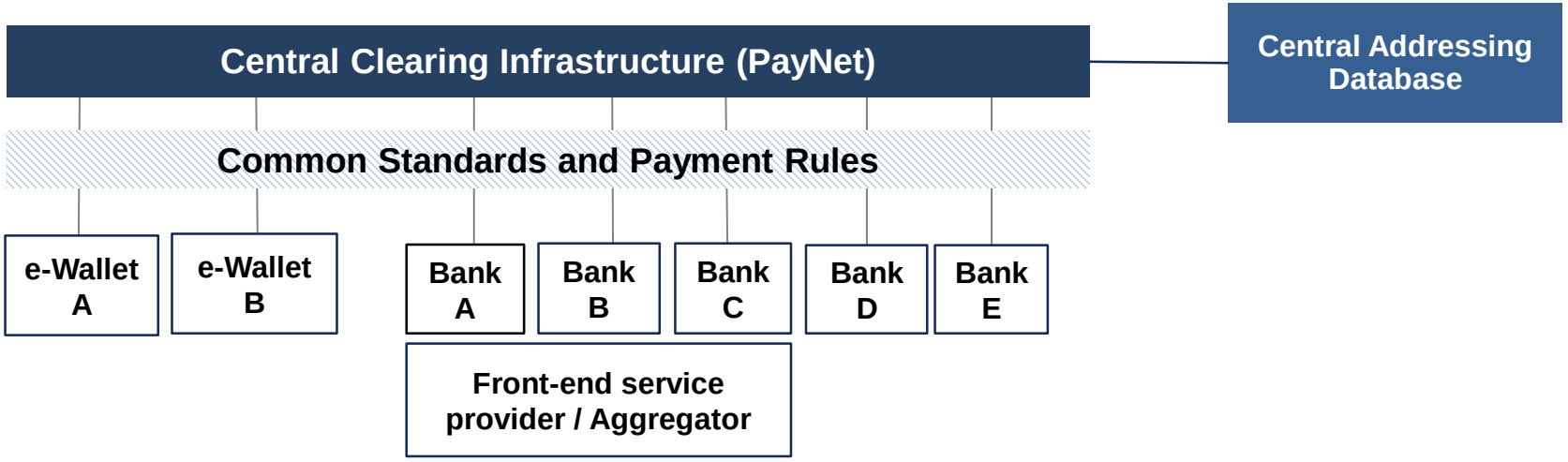


Increased growth in POS terminals



Source: Bank Negara Malaysia

Retail Payments Platform (RPP) to foster co-opetition via shared payment infrastructure



Desired Outcomes

- Collaborative competition (Co-opetition)
  - Collaboration at the infrastructure level to expand network, avoid fragmentation and duplication; and
  - Competition at product level (value added services to end users)
- Enabling environment for innovation

Key Features

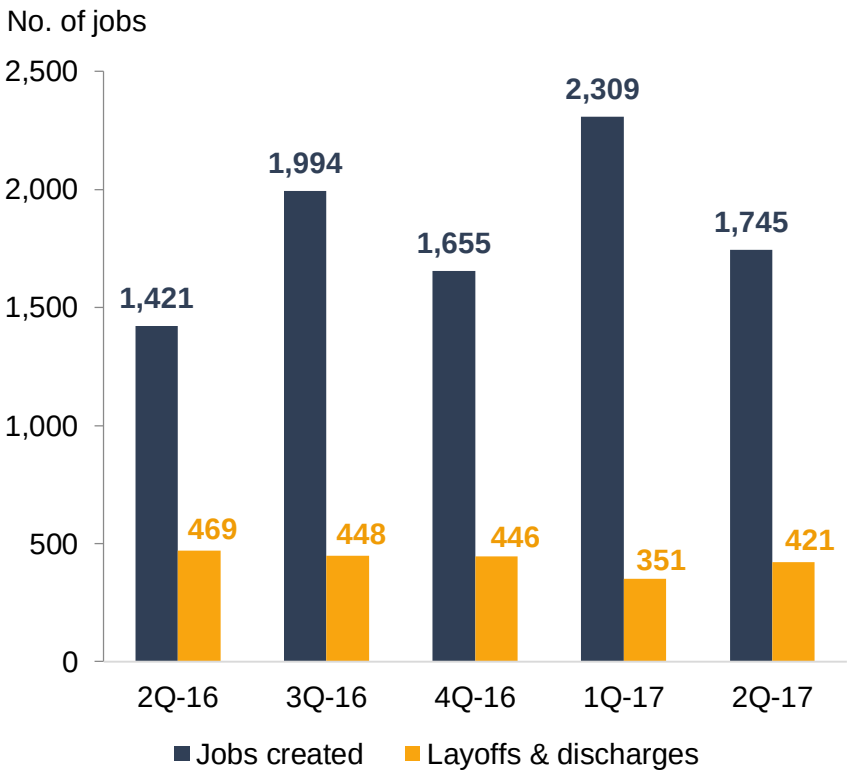
- Shared infrastructure for switching and clearing, and a central addressing database
- Open and fair access to banks and eligible non-banks
- Common standards
- Proportionate risk management

Special Issue

Sustained net job creation in financial services, with a rising share of high-skilled workers

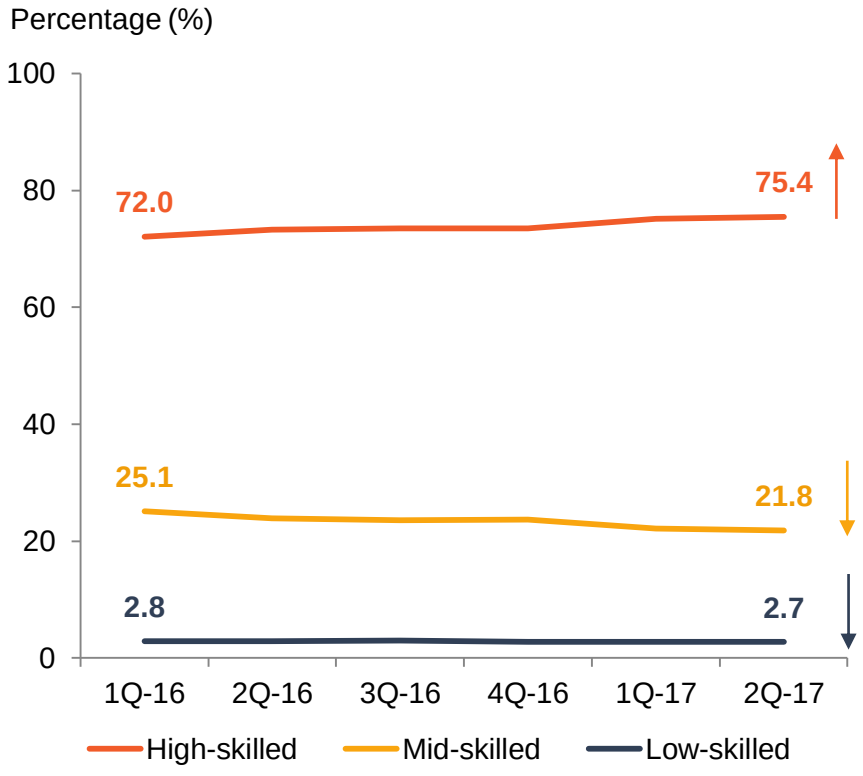
Job opportunities remained ample…

Job Creation, Layoffs & Discharges in the Banking and Insurance/Takaful Sectors



...accompanied by broad-based upskilling

Composition of High-Skilled Workers in the Workforce

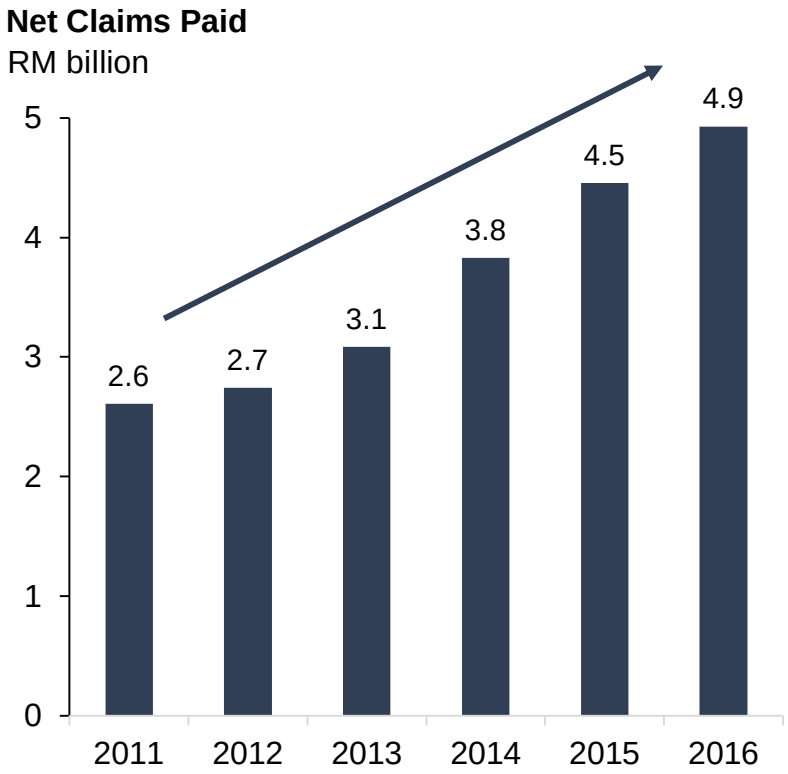


Note: High-skilled workers in the workforce refer to managers, professionals, technicians and associate professionals involved in formulating, planning, organising and executing policies, conducting research and applying scientific methods

Source: Bank Negara Malaysia

Rising medical claims has increased pressure on medical insurance premiums

On average, medical insurance claims has been rising at 14% annually…



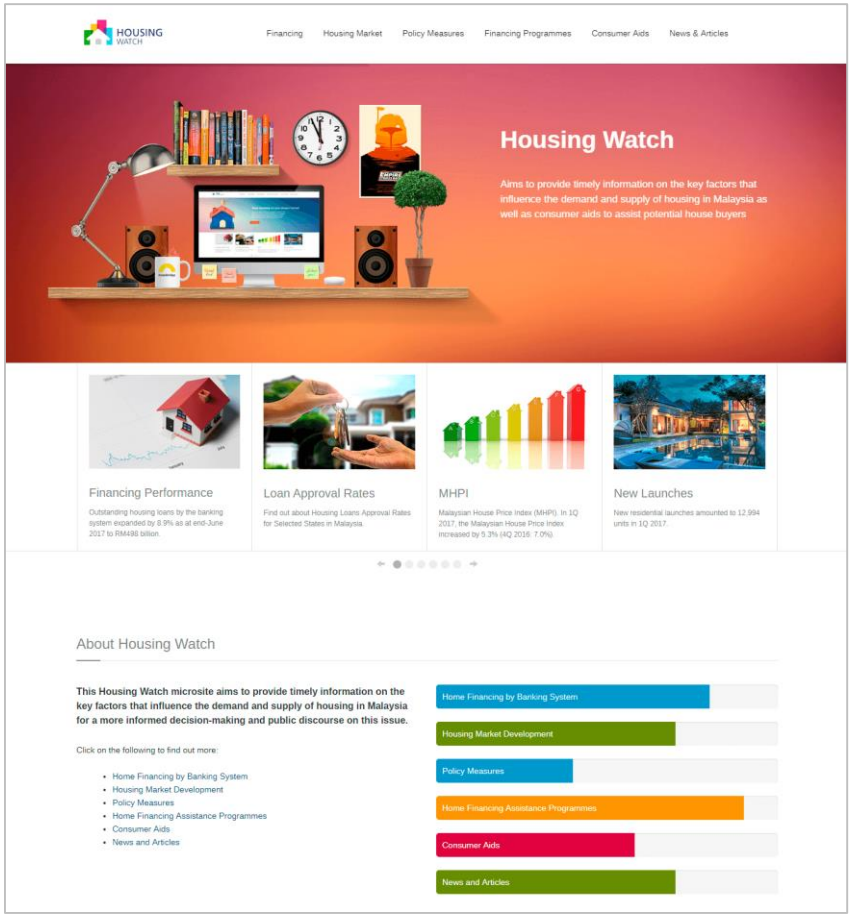
…driven by…

1. **Demands for better healthcare**
2. **Aging population and higher prevalence of chronic and lifestyle diseases**
3. **Technological advancements**
4. **Increase in cost of drugs and treatments**

‘HOUSING WATCH’ website to track developments in housing markets and assessments on housing affordability

HOUSING WATCH

Accessible through:
http://www.housingwatch.my



- **Centralised information repository on key factors that influence demand and supply of housing in Malaysia**
  - Performance of home financing by banking system
  - Developments in housing market
  - Policy measures
- **Consumer aids for potential house buyers**
  - Affordability assessment tools
  - Information on home financing assistance programmes
- **Knowledge hub on housing and housing finance related information and articles**

Q & A