BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PRESS RELEASE

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Economic and Financial Developments in Malaysia In the Second Quarter of 2024

Press Conference Presentation Transcript

Moderate global growth in 2Q 2024 amid continued recovery in trade activity

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, "Global growth in the second quarter of 2024 remained moderate, weighed down by high interest rates. Nonetheless, regional exports continued to recover, supported by both electrical and electronics (E&E) and non-E&E goods. Inflation continued to trend downward in the advanced economies."

Malaysia's GDP advanced by 5.9% in 2Q 2024

Ketua Perangkawan Malaysia Dato' Sri Dr. Mohd Uzir Mahidin berkata, *"Pada suku kedua 2024, ekonomi Malaysia berkembang pada kadar yang lebih tinggi sebanyak 5.9%. Peningkatan ini didorong perbelanjaan isi rumah yang tinggi, dengan pasaran pekerja yang positif dan sokongan langkah-langkah dasar yang lebih besar, pertumbuhan eksport barangan dan ketibaan pelancong yang semakin meningkat, serta aktiviti pelaburan yang lebih kukuh.*

"Dari segi pertumbuhan suku tahun ke suku tahun pelarasan musim, KDNK menunjukkan peningkatan momentum pertumbuhan yang lebih kukuh iaitu 2.9%, lebih tinggi berbanding 1.5% yang dicatatkan pada suku pertama 2024.

"Berdasarkan pertumbuhan bagi sektor pengeluaran, pada suku tahun kedua ini, sektor perkhidmatan meningkat sebanyak 5.9%, sektor pembuatan meningkat 4.7%, sektor pertanian meningkat 7.2%, sektor perlombongan 2.7% dan sektor pembinaan 17.3%. Manakala pada peringkat permintaan pada suku kedua ini, penggunaan isi rumah meningkat sebanyak 6.0%. Pelaburan swasta meningkat sebanyak 12.0%, pelaburan awam meningkat sebanyak 9.1%, manakala penggunaan awam meningkat sebanyak 3.6%.

"Dan pada suku kedua ini juga, berlaku pemulihan eksport bersih daripada -24.5% kepada peningkatan 3.4%."

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, "In the second quarter of 2024, the Malaysian economy advanced by 5.9%. This was supported by higher household spending amid positive labour market conditions and larger policy support, further pick-up in export goods and tourist arrivals, as well as robust expansion in investment activities.

"On a seasonally adjusted quarter-on-quarter basis, GDP showed a stronger growth momentum of 2.9%, higher than 1.5% recorded in the first quarter of 2024."

Growth supported by stronger private sector expenditure and exports

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, "On the expenditure side, domestic demand was driven mainly by private-sector spending. Private consumption recorded higher growth supported by positive labour market conditions and larger policy support such as payment of Sumbangan Tunai Rahmah, withdrawal of Employees Provident Fund Account 3 and Budi Madani. The growth of household spending was attributed to higher consumption of food and non-alcoholic beverages, transport, restaurants, and hotels. The growth in investments reflected robust capacity expansion by businesses, as well as continued fixed-asset spending by the Government and public corporations. Meanwhile, net exports registered a positive turnaround

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due to the stronger export recovery amid higher external demand and global tech upcycle.

On the supply side, most sectors recorded higher growth except for the mining sector. The services sector continued to expand with stronger growth in both consumer- and business-related services. The favourable performance was attributed to the wholesale and retail trade, finance and insurance, as well as transportation and storage sub-sectors. The significant increase in the manufacturing sector was attributed to export-oriented industries such as petroleum, chemical, rubber and plastic products, electrical and electronics and optical products. Furthermore, domestic-oriented industries such as non-metallic mineral products, basic metal and fabricated metal products, transport equipment and other manufacturing and repair, also increased in this quarter.

"Meanwhile, the strong growth in the construction sector was underpinned by higher activities, particularly in the civil engineering and special trade subsectors. Growth in the agriculture sector was mainly driven by stronger production in oil palm and supported by fisheries output. However, the mining sector recorded lower growth following a production disruption in the oil and gas subsector in the month of May.

Continued current account surplus and FDI inflows

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, "In the second quarter of 2024, the current account balance of payments recorded continued surplus of RM3.0 billion or 0.6% of GDP. This was underpinned by surplus in goods account amid improving exports. The services sector showed favourable performance with a lower deficit of RM4.9 billion. This improvement was mainly due to a higher surplus in travel, which stemmed from increased spending by foreign tourists in Malaysia and a higher surplus in manufacturing services. However, the primary income account recorded a wider deficit, mainly due to higher earnings by foreign companies in Malaysia, primarily through dividends paid to parent companies. Meanwhile, the secondary income account returned to deficit. On the investment side, FDI recorded a higher net inflow of

RM9.1 billion during the quarter. This inflow reflects higher debt instruments and equity injections amidst outflows in reinvested earnings by foreign firms. These investments were channelled mainly into the manufacturing sector followed by services, predominantly in information and communication, wholesale and retail activities. The FDI were primarily from Japan, Singapore and Hong Kong. Meanwhile, Direct Investment Abroad (DIA) outflows registered a lower net outflow of RM5.3 billion during this quarter. The main sectors were services, followed by mining and quarrying, and construction. Canada, the Cayman Islands, and the USA were the main destinations of DIA."

Indicators point to sustained growth prospects for the Malaysian economy

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, "External and domestic leading indicators point to sustained growth prospects for the Malaysian economy moving forward. On the left panel, the pick-up in global orders will provide support to exports. Higher value of construction projects awarded will translate into higher domestic activities going forward. And on the right panel, better business sentiments also suggest further confidence in the overall economy."

Growth in 2024 will be driven by domestic spending and strong support from external demand

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, "With the strong performance of 5.1% in the first half of the year, growth for the whole year in 2024 could be closer to the upper end of the 4-5% forecast range.

Household spending will remain the anchor of growth for the rest of this year, with continued expansion in employment and income, as well as larger policy support.

"Of significance, strong investment activities amid ongoing progress in multi-year projects and favourable financing conditions will continue to support growth. From the external front, continued expansion in external demand will also lead to higher exports and tourist arrivals."

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Exports to expand further amid improving external demand and tourist spending

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, "Turning to Malaysia's external performance, exports is projected to expand further this year, driven by the improving external demand, global tech upcycle and higher tourist spending. Global semiconductor sales is expected to grow by 16% in 2024. This recovery in global semiconductor sales will be led by the memory segment, followed by logic chips. This will augur well for Malaysia's E&E exports given our established position in the global E&E value chain, notably in the logic chips segment, which account for almost half of our semiconductor exports.

"Meanwhile, travel receipts increased further to RM22.4 billion in 2Q 2024, or an annual growth of 37%. In particular, tourist arrivals from China and India have been forthcoming, supported by the visa exemption measure. In 2Q 2024, tourists from China improved to more than 690 thousand arrivals, or around 96% of 2019 levels while arrivals from India were close to 325 thousand or about 165% of 2019 levels. Moving forward, travel receipts are expected to increase further, driven by higher tourist arrivals and spending per capita, supported by the visa exemption for China and India tourists and expanding flight network and capacity."

Household spending remains as the anchor of growth

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, "Consumer spending remains a key driver of growth, supported by continued wage expansion and employment growth. Also, cash transfers (for example, the Sumbangan Tunai Rahmah (STR) and the Aidilfitri special financial aid for civil servants) and EPF withdrawals provided further lift to private consumption growth.

"Moving forward, consumer spending is expected to improve, driven by sustained positive labour market conditions, sound household balance sheets, and targeted policy measures."

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Investment: Robust growth from pre-existing and new capital expenditure as well as supportive financing

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, "Importantly, growth was further supported by strong investment activity in both structures and machinery & equipment. Overall investment registered a higher growth of 11.5% (1Q 2024: 9.6%), supported by implementation of new and existing projects, and supportive financing conditions. This is reflected in higher construction activities in both the public and private sectors during the quarter."

Further progress of multi-year projects to support investment growth going forward

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, "Going forward, investments will be supported by further progress of implementation of key infrastructure projects and realisation of approved investments. Infrastructure projects such as ECRL, Pan Borneo Highway, and Johor Bahru–Singapore Rapid Transit System (RTS) are progressing well. Investment intentions remained forthcoming after the record high approval in 2023, in industries such as E&E and ICT, including data centres. Importantly, between 2021 and 1Q 2024, 77% of manufacturing projects are at various stages of implementation."

Growth outlook remains subject to external and domestic risk factors

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, "Overall, the economy is expected to expand closer to the upper end of the 4-5% range, but remains subject to risk from both external and domestic factors.

Downside risks could stem from weaker-than-expected global growth, further escalation of geopolitical conflicts and lower-than-expected commodity production.

"On the other hand, growth could be higher due to greater spillovers from the global technology upcycle and more robust tourism activity. In addition, faster

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implementation of existing and new investment projects could also lead to more robust investment activity and overall growth in the economy."

Headline and core inflation edged higher in 2Q 2024

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, "Both headline and core inflation edged up during the quarter, reflecting price adjustments by firms during the festive season, several policy measures by the Government, as well as idiosyncratic price movements."

"Headline inflation increased to 1.9% (1Q 2024: 1.7%), mainly reflecting the lagged effects of adjustments to administered prices introduced in the first quarter. This included higher water tariffs and service tax on electricity bills for high-consumption users.

"Core inflation also increased slightly to 1.9% (1Q 2024: 1.8%), largely driven by higher inflation in information and communication services, following price adjustments by several streaming services companies in May this year.

"It is worth highlighting that as of June 2024, the impact to inflation from higher diesel pump prices in Peninsular Malaysia has been limited, with little evidence of spillovers to broader CPI prices."

Inflation outlook remains subject to further domestic policy measures as well as risks from external developments

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, "Notwithstanding this, inflation is expected to trend higher in the second half of the year amid the recent rationalisation of diesel subsidies. The impact would, however, remain manageable given measures by the Government to minimise the extent of cost increases. Headline and core inflation is projected to remain within our earlier forecasted ranges of 2.0% to 3.5% and 2.0% to 3.0%, respectively. Having said that, headline inflation has remained modest at 1.8% during the first half of the year, and we believe that it is not likely to exceed 3% for the year as a whole, barring further shocks.

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“Of note, the outlook remains contingent on further domestic policy measures, particularly on fuel subsidy rationalisation, as well as risks from external developments, including geopolitical tensions and climate change, which could drive up global commodity prices.

“On the downside, lower domestic inflation could result from weaker-than-expected global growth. This may lead to both lower commodity prices and slower demand conditions due to weaker external demand.”

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

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, “At the current OPR level, the MPC deemed that the monetary policy stance remains supportive of the economy.

“Our baseline forecast remains for Malaysia’s growth to sustain its strength, supported by resilient domestic expenditure and continued improvement in exports. As expected, we will see higher inflation in the second half of 2024, amid the recent diesel subsidy rationalisation, but the increase in inflation will remain manageable. This is given that measures are in place to minimise the impact of the diesel subsidy adjustment on business costs.

“These key structural policies are crucial to be implemented amid a favourable domestic economic environment, further bolstering economic stability and sustainability. As these policy changes will influence our outlook, our focus remains on assessing their short- and medium-term impact on domestic inflation and growth.

“As always, our monetary policy will remain forward-looking and data-driven. The MPC will continue to assess evolving conditions and their implications on the inflation and domestic growth trajectories going into 2025. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.”

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Financial market expectations of imminent US policy rate cuts have alleviated pressure on regional currencies, including the ringgit

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, "The ringgit has been appreciating as of late with financial market participants expecting imminent policy rate cuts from the US Federal Reserve. This has softened the US dollar and alleviated pressure on regional currencies, including the ringgit. With these latest developments, the ringgit has now appreciated year-to-date by 3.1% against the US dollar.

"Globally, the monetary policy path is shifting towards central bank easing, but it is important to acknowledge that financial markets remain susceptible to economic developments, including growth prospects and any divergence between market participants' expectations and central bank's actions. Other sources of volatility also remain, including the undercurrent of geopolitical tensions which continues to weigh on investor sentiments.

"Nevertheless, the domestic landscape remains positive despite this shifting external outlook. A narrowing of interest rate differentials with the US would be conducive to inflows, especially given Malaysia's positive economic prospects. Furthermore, coordinated actions between the Government and BNM, which has already facilitated a better balance for flows, will continue to cushion pressures on the ringgit.

"In April 2024, the Bank rolled out a pilot fast-track pre-approval framework known as Qualified Resident Investor or QRI programme to reduce frictions for corporates who repatriate and convert foreign currency funds from overseas investments and seeking to re-invest abroad when the time comes. This is to ensure two-way flows in the FX market.

"The outcomes of the pilot were encouraging whereby more than USD1 billion additional inflows were seen entering the domestic foreign exchange market. These additional flows helped to provide support to the ringgit's performance,

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contributing to the recovery of the ringgit that we have observed in recent months.

“In light of this, we are pleased to announce that from now until 31 December 2024, this pilot QRI programme will be expanded to accept applications from eligible resident corporates who have outstanding direct investment abroad (DIA) assets of RM1 billion and above.

“Further information about this programme can be found on BNM’s website.”

Malaysian bond yields remained relatively stable while equities continued to edge higher

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, “Moving on to the bond market, the yield on 10-year Malaysian government bonds remained relatively stable on investor inflows ahead of financial market expectations for US monetary policy easing.

“On equity markets, Malaysian equities benefited from improved earnings prospects amid rising confidence in economic outlook.”

Credit growth increased amid higher growth in outstanding loans

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, “Credit growth increased to 5.4% in the second quarter of 2024 (1Q 2024: 5.2%), driven by expansion in both business and household loans.

“For businesses, outstanding loan growth increased to 5.6% (1Q 2024: 5.1%), driven by higher growth in both investment-related and working capital loans. This stronger growth was observed in the construction and manufacturing sectors.

“For households, outstanding loan growth remained forthcoming at 6.2% (1Q 2024: 6.2%), reflecting the sustained demand for loans, particularly for the purchase of houses and cars.”

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Banks continued to meet SME financing needs in 2Q 2024

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, "Financing by banks and DFIs continued to support SMEs' business needs in 2Q 2024, with outstanding financing grew at an annual rate of 9.3%. (2Q 2023: 6.6%)

"In 2Q 2024, we saw double-digit growth in financing disbursements, driven by the demand for working capital.

"Approval rates continued to be sustained at a high rate, indicating banks are meeting strong financing demand across all sectors, particularly in agriculture and construction sector."

Banks remain well-positioned to support financial intermediation

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, "The banking system continued to play an important role in supporting growth during the quarter.

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

"The quality of business and household loans remains sound with stable impairment ratios. Newly restructured and rescheduled (R&R) loans also remain low.

"This has been supported by prudent loan affordability assessments and provisioning practices by banks, which help ensure that banks have sufficient buffers to absorb losses."

Summary

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Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, "In summary, the Malaysian economy expanded by a faster pace of 5.9% in the second quarter of 2024, driven mainly by stronger private expenditure and further recovery in exports.

"With the strong growth momentum going into the second half of the year, growth in 2024 would likely be closer to the upper end of the 4% and 5% forecast range, although there are risks to the outlook from both external and domestic factors.

"Meanwhile, headline inflation is expected to average between 2.0% and 3.5% in 2024."

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