Malaysia, Navigating the New Normal

CIMB 9th Annual Malaysia Corporate Day 2017

5 January 2017

Fraziali Ismail
Bank Negara Malaysia

Key areas

Part 1: Global Economic Overview and Outlook

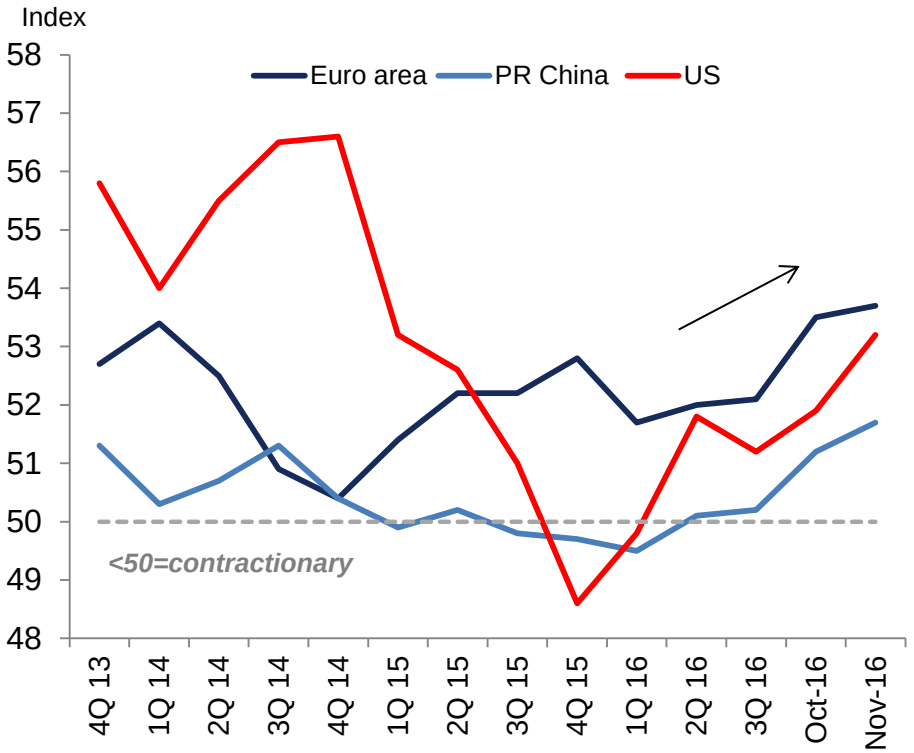
Part 2: Domestic Economic Development and Prospects

Part 3: Addressing Challenges

Signs of improvement in global economy, but downside risks remain…

Gradual increase in manufacturing PMI in several large economies..

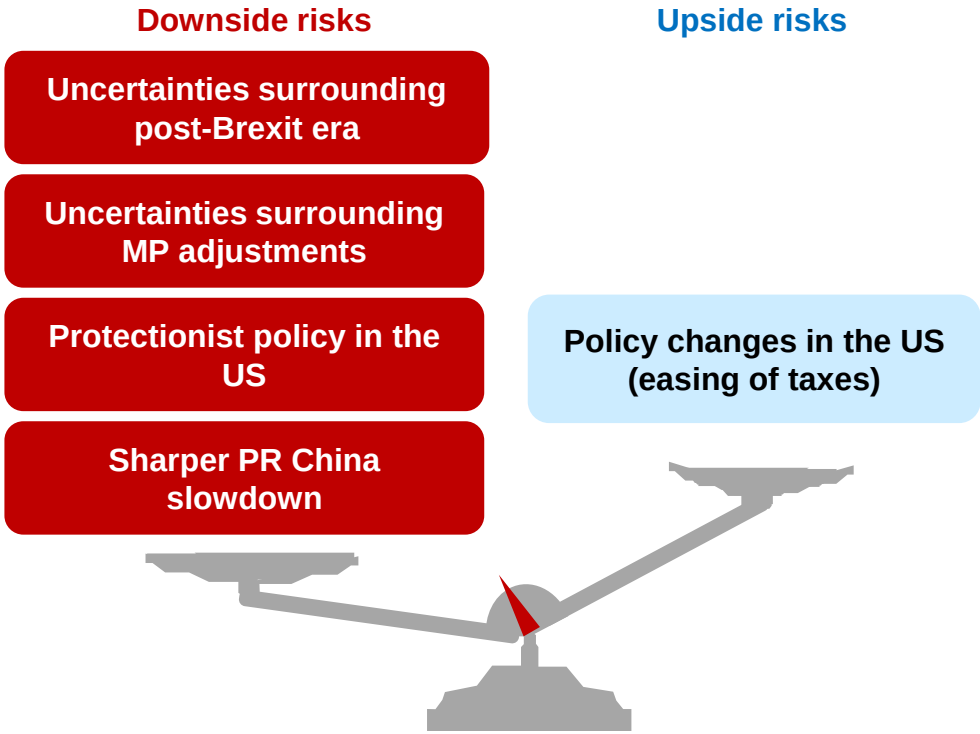
Purchasing Manager's Index (PMI) in US, Euro area and PR China



Source: Markit Economics

…but downside risks to global growth remain

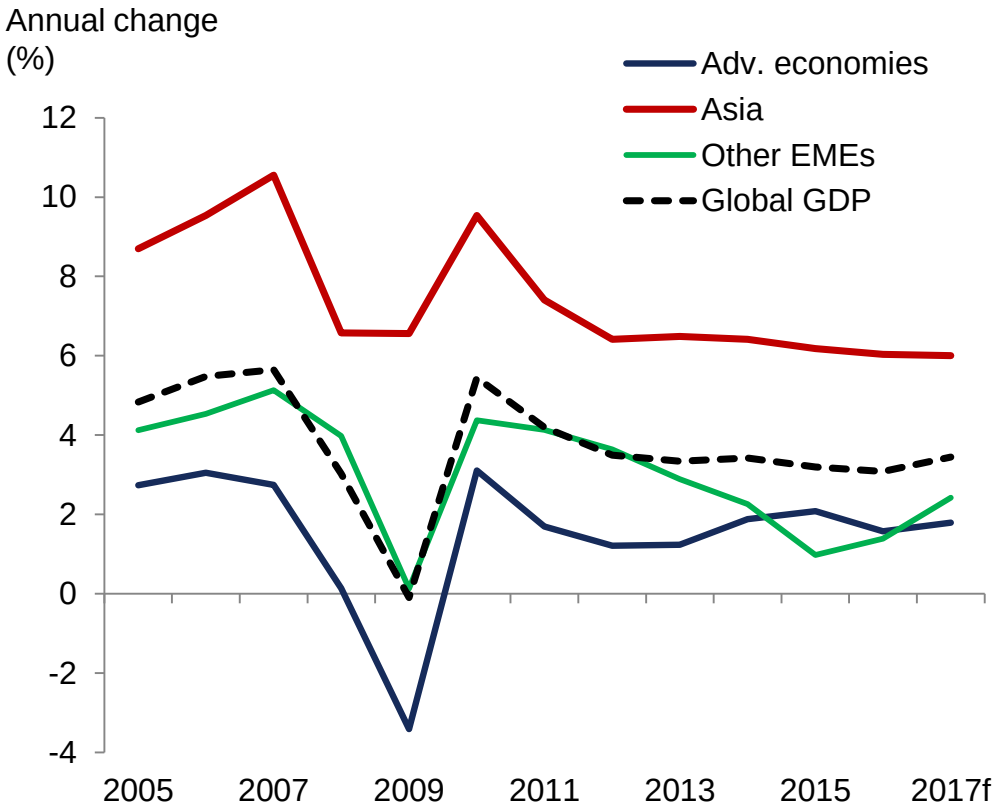
Risks to global growth



…and global economic environment remains challenging

Moderate and uneven growth in global economy

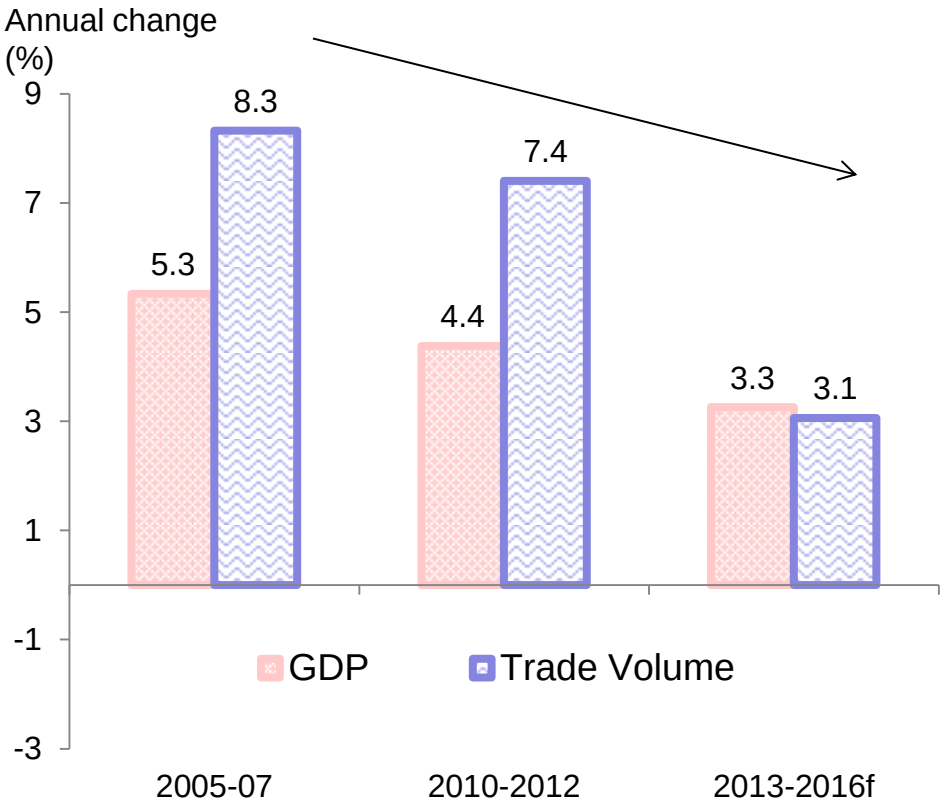
Global and regional growth



Source: IMF World Economic Outlook (October 2016)

International trade activity to remain subdued

Global growth and trade

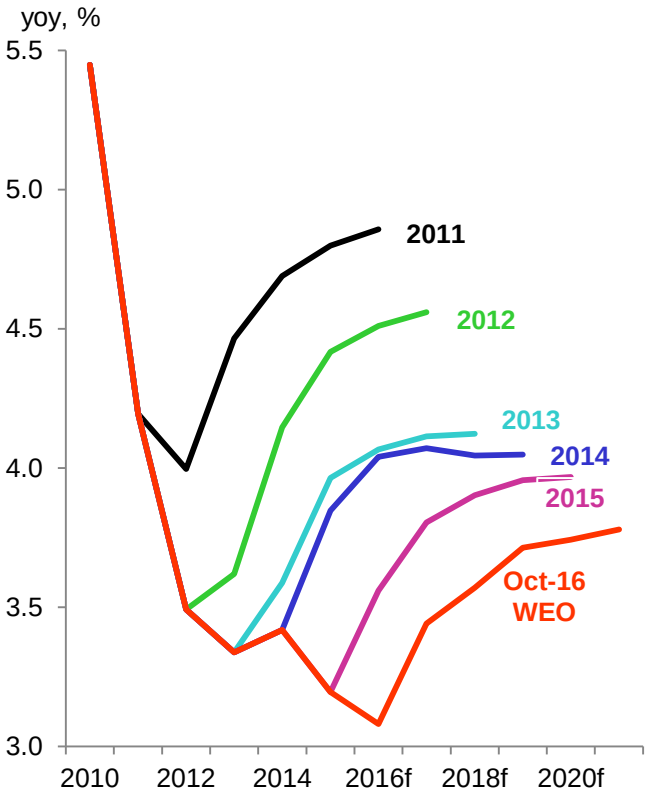


Source: IMF World Economic Outlook (October 2016)

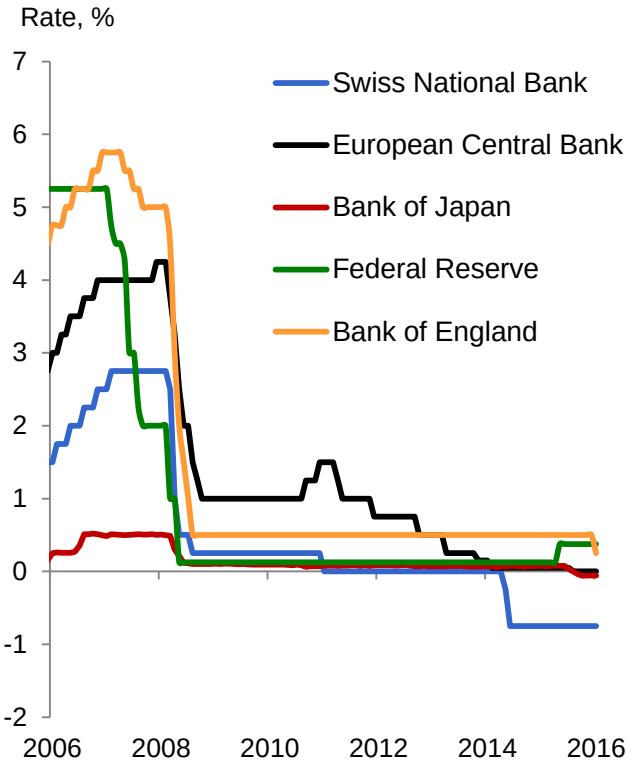
Evolution of the “new normal”

Low global growth | **Unconventional policies** | **Impending megatrends**

IMF's Global Economic Outlook



Key Policy Rates of Selected Advanced Economies



- **Disruptive technologies**
- **Increasing inequality**
- **Ageing society**
- **Intensifying globalisation**
- **Rising indebtedness**

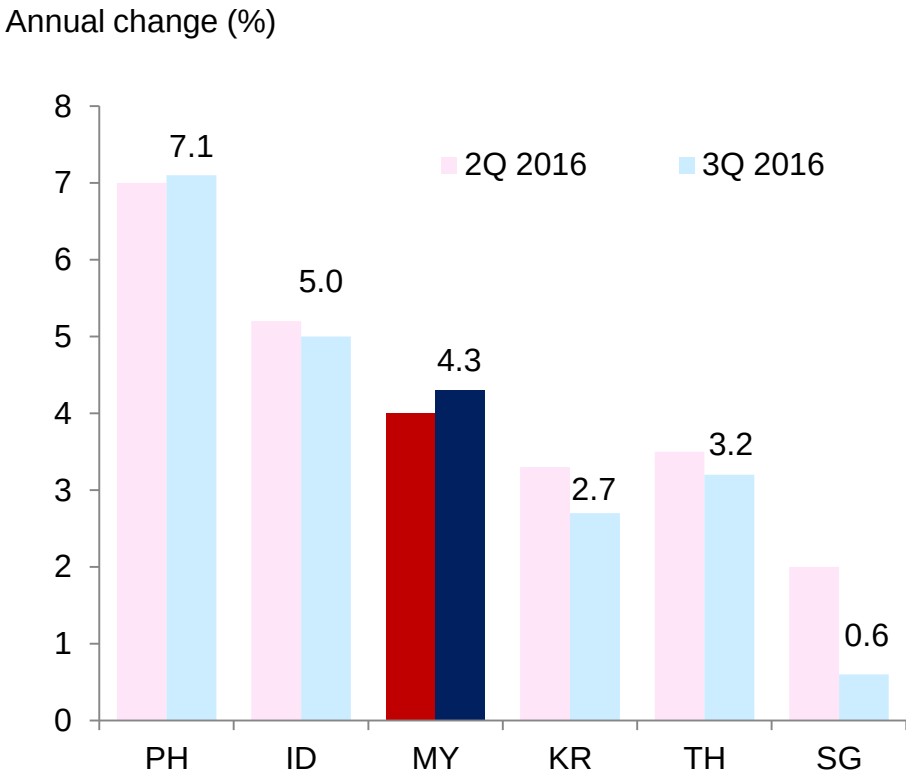
Source: International Monetary Fund (IMF), national authority, various research houses

Malaysia: Multiple shocks weighing on growth

The economy has been affected by both external and domestic shocks since end-2014

- **Global commodity price shocks**
- **Prolonged ringgit depreciation**
- **GST implementation**
- **Domestic price adjustments**
- **Moderation in PR China's economic growth**

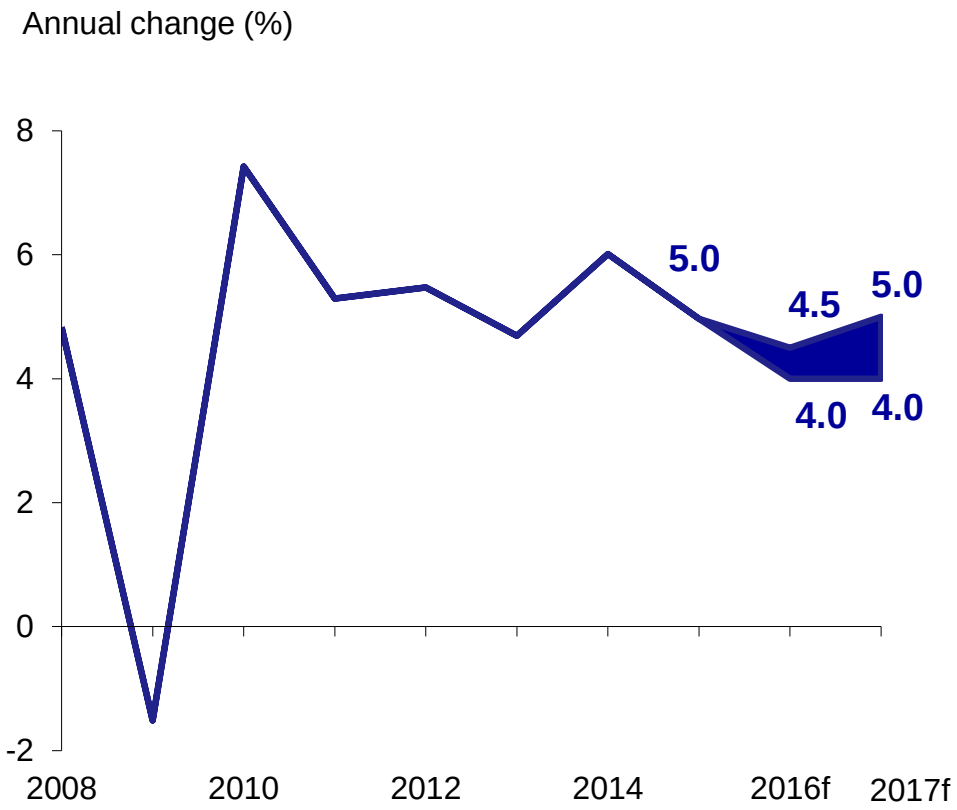
Real GDP growth of selected countries



Source: Department of Statistics, Malaysia and Bank Negara Malaysia

The Malaysian economy to expand around 4 - 5% in 2017

Real GDP Growth



f forecast

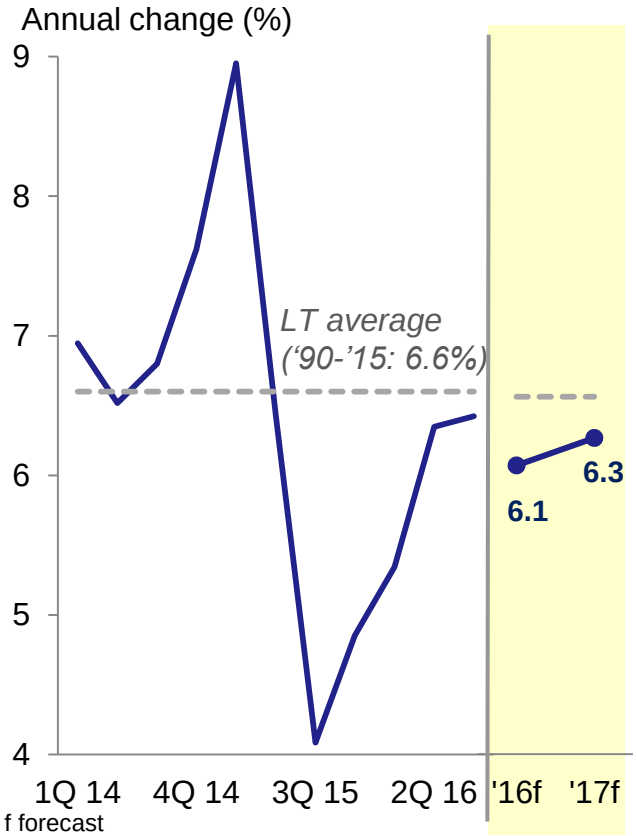
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

- **Growth mainly driven by private domestic demand**
- **The external sector to provide some support to growth**
- **Downside risks to growth remain amid greater uncertainty on both the global and domestic fronts**

Private consumption to remain supported by continued employment and wage growth

Improvement in household spending…

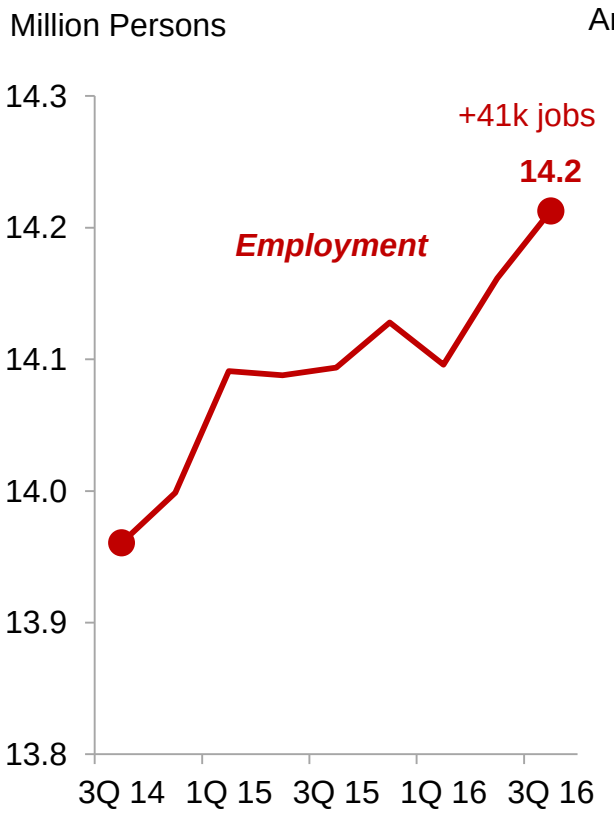
Real private consumption



f forecast

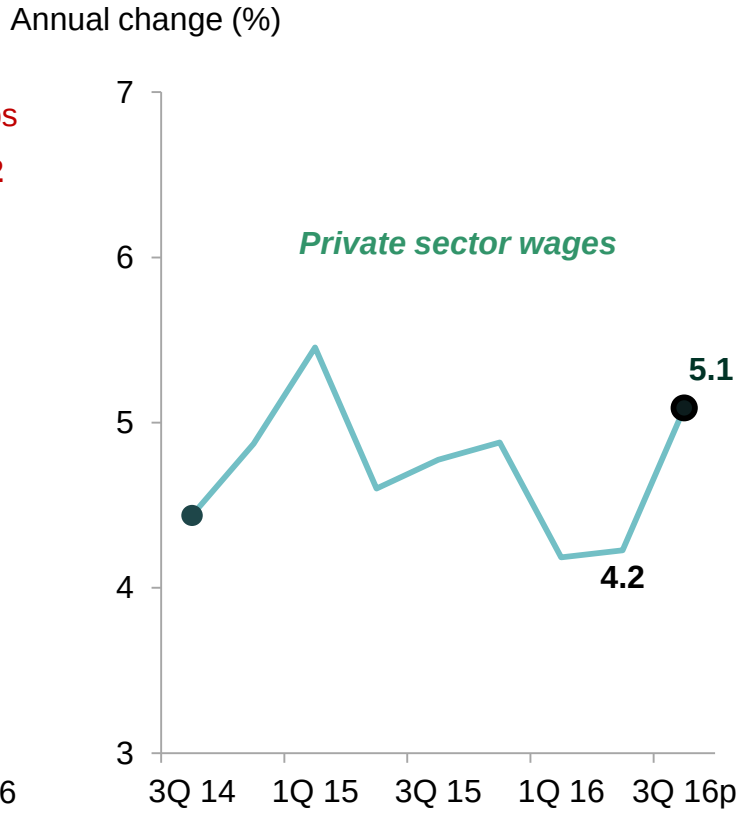
…supported by continued employment growth…

Employment in the Labour Force



… and wage growth

Wage growth in the manufacturing and wholesale and retail services sectors



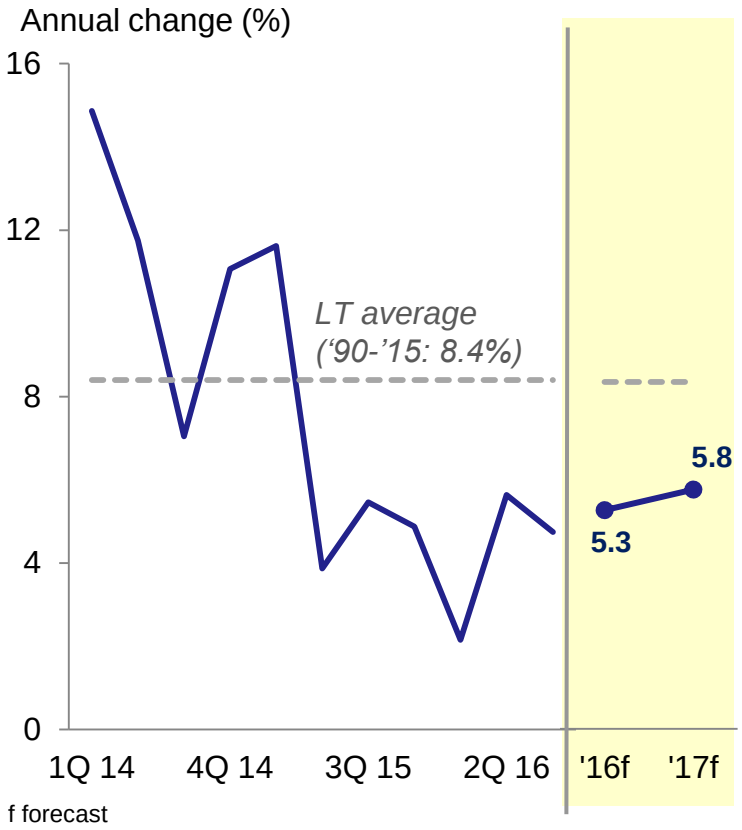
p Preliminary

Source: Economic Report 2016/17, Department of Statistics, Malaysia

Private investment to continue to expand, but will trend below long-term average

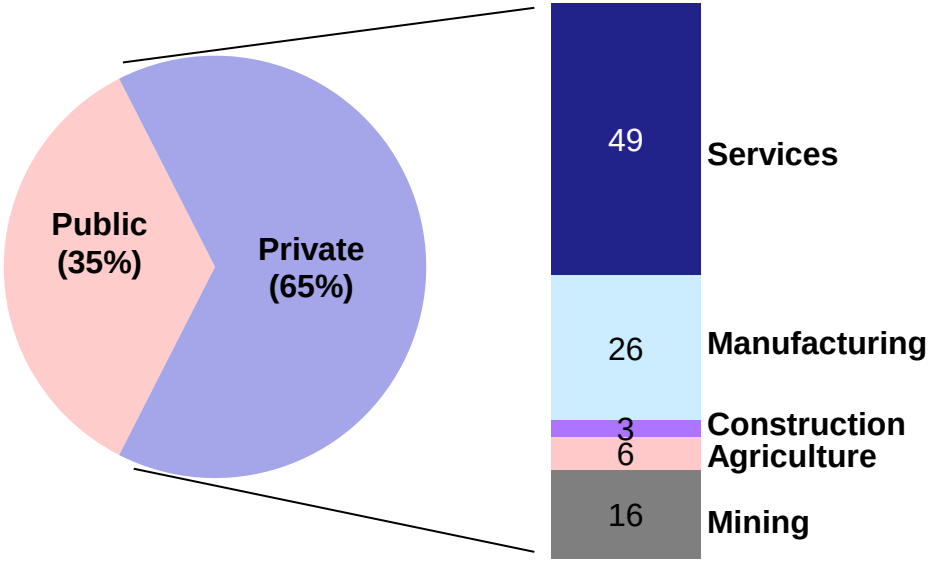
Continued modest growth of capital spending…

Real private investment



…supported by investment in the manufacturing and services sectors

Private investment by sector (2015)



Services

- **Transport and storage:** Oil and gas storage terminals, seaports and aircrafts
- **Telecommunication:** 4G/LTE network expansion

Mfg

- Electrical and electronics (E&E)
- Resource-based industries

Source: Economic Report 2016/17, Department of Statistics, Malaysia, Bank Negara Malaysia

Continued expansion across all economic sectors in 2017

Services and manufacturing sectors to underpin growth

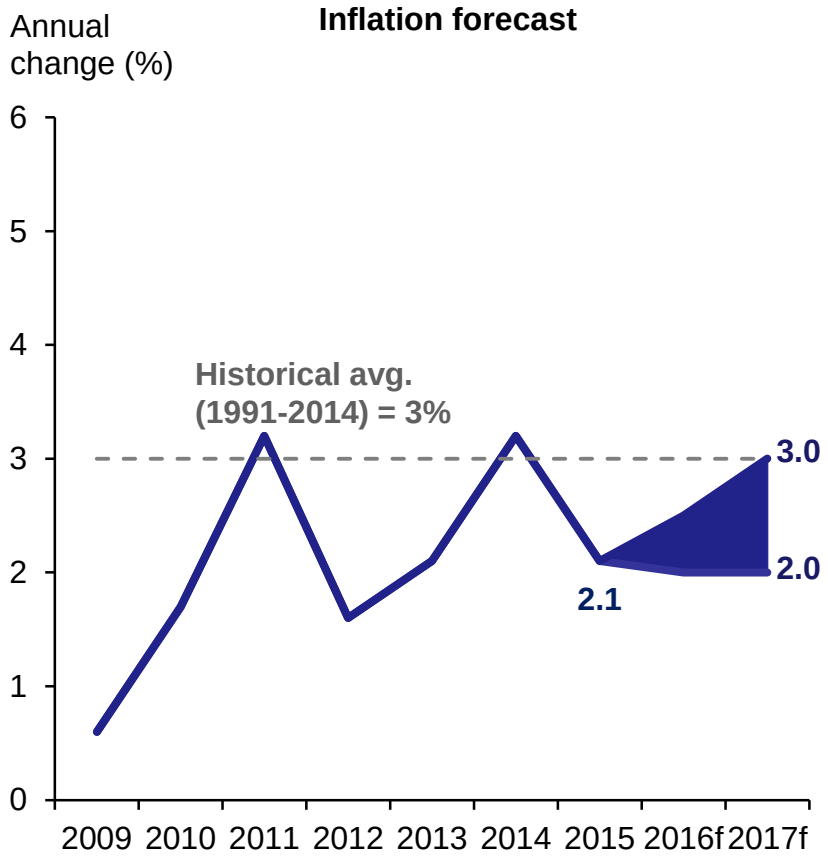
Real GDP Annual change (%)	% share of GDP (2015)	2016[f]	2017[f]
Services	53.5	5.6	5.7
Manufacturing	23.0	4.0	4.1
Mining	9.0	1.1	1.4
Agriculture	8.9	-3.3	1.5
Construction	4.4	8.7	8.3
Real GDP	**100.0[1]**	**4.2**	**4.6**

- **Services**
  - Supported by consumption- and trade-related sub-sectors
- **Manufacturing**
  - Continued growth supported by improving global demand
- **Mining**
  - Higher oil and gas production
- **Agriculture**
  - Improvement in CPO production as weather conditions normalise
- **Construction**
  - Driven mainly by activity in the civil engineering sub-sector

[f] forecast

[1] Numbers do not add up due to rounding and exclusion of import duties
Source: Economic Report 2016/17

Headline inflation to range between 2 – 3% in 2017



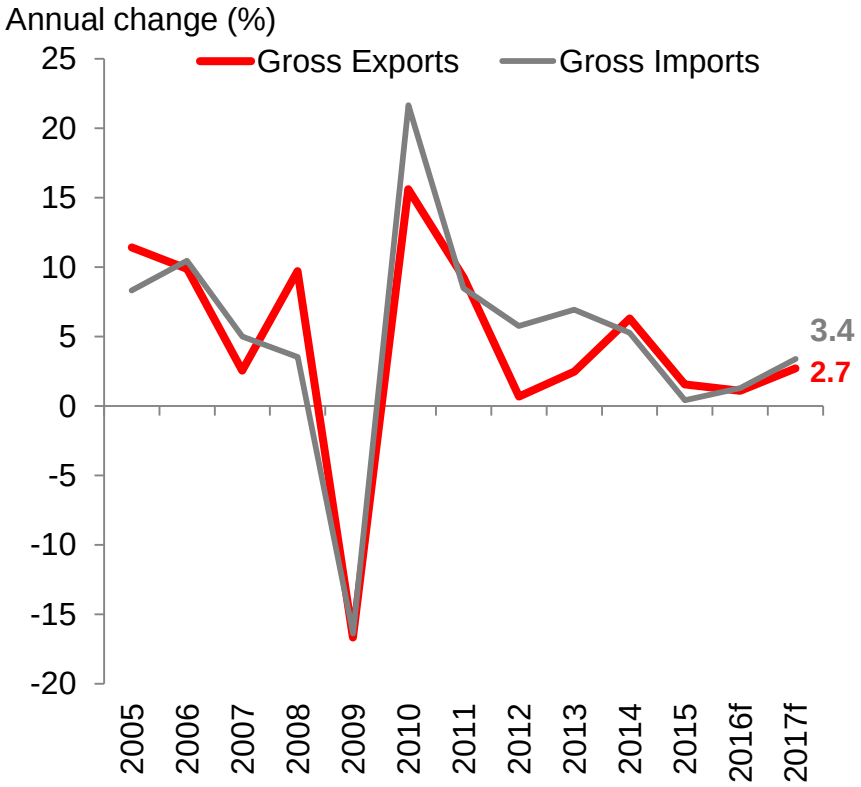
- **For 2016, inflation is expected to average at the lower end of the 2.0 – 2.5% forecast range.**
- **Going into 2017, inflation is expected to average higher but to remain within the 2 – 3% range, driven mainly by higher domestic fuel prices amid weak exchange rate.**
- **Inflationary pressures will be mitigated by continued low global energy and commodity prices, subdued global inflation and moderate domestic demand.**

f forecast

Source: Economic Report 2016/17 and Department of Statistics, Malaysia

External sector to provide some support to growth

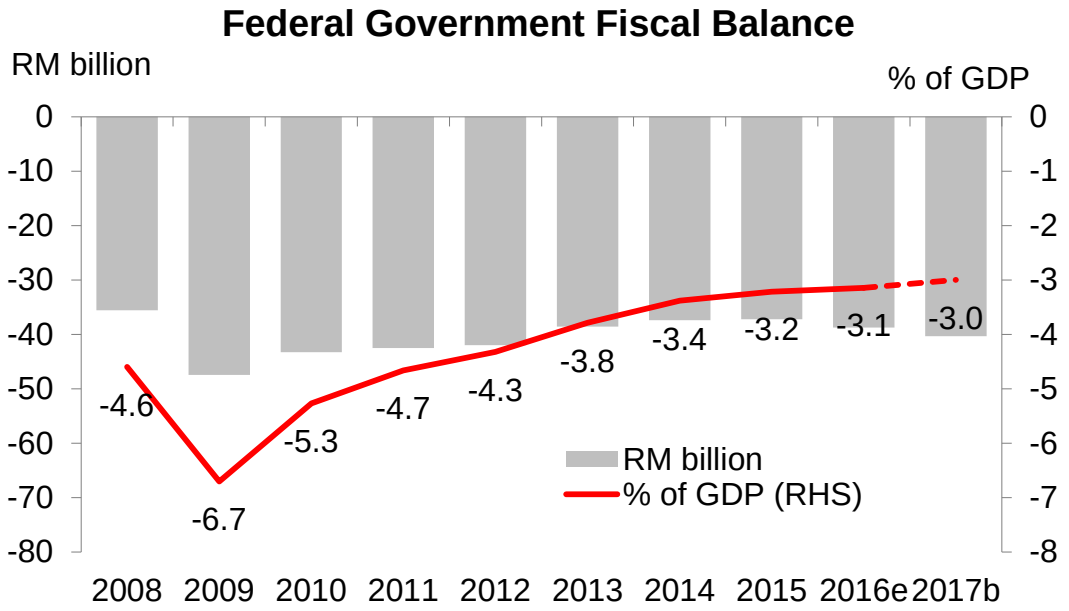
Exports and imports growth to improve in 2017, albeit at a modest pace



- **Exports to be supported by a turnaround in commodity exports and continued demand for E&E products**
- **Imports to continue to expand, driven mainly by capital imports for infrastructure projects**

forecast
Source: Ministry of Finance

Fiscal consolidation is expected to remain on course



Fiscal deficit for 2017 is targeted to improve to 3.0% of GDP underpinned by

1. **Decline in expenditures** following optimisation measures

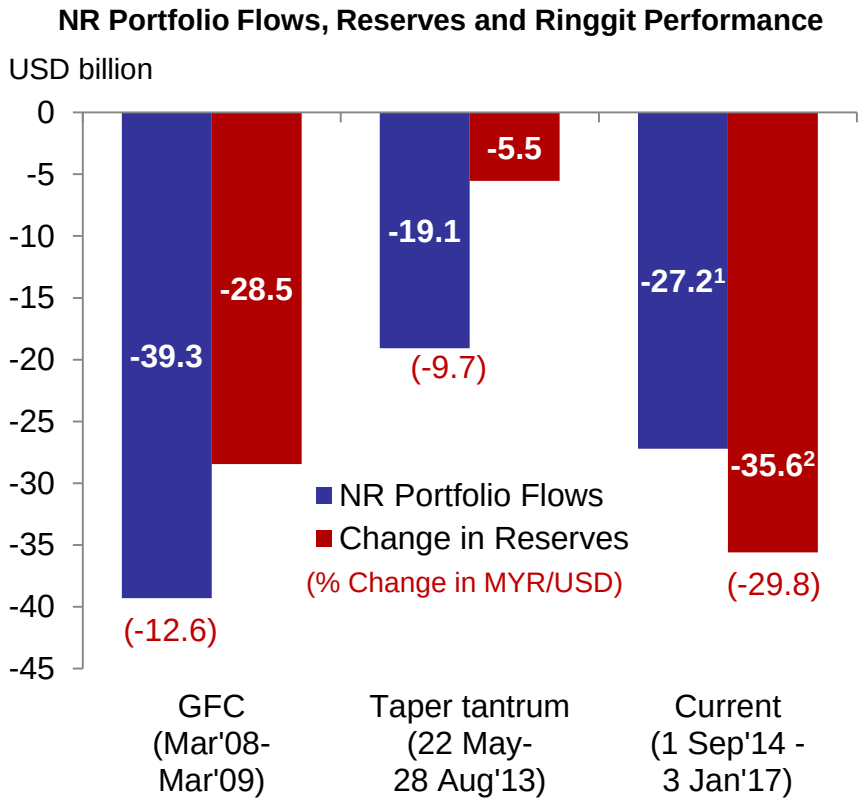
2. **Revenue gains** supported by higher corporate income tax and oil-related receipts

1. 2016e : Latest estimate reflecting MOF E-report released in October
2. 2017B : Target fiscal deficit as announced during 2017 Budget Speech

Source: Ministry of Finance, Malaysia

Malaysia has shown the ability to manage effects of episodes of financial shocks

Malaysia has experienced episodes of capital outflows before



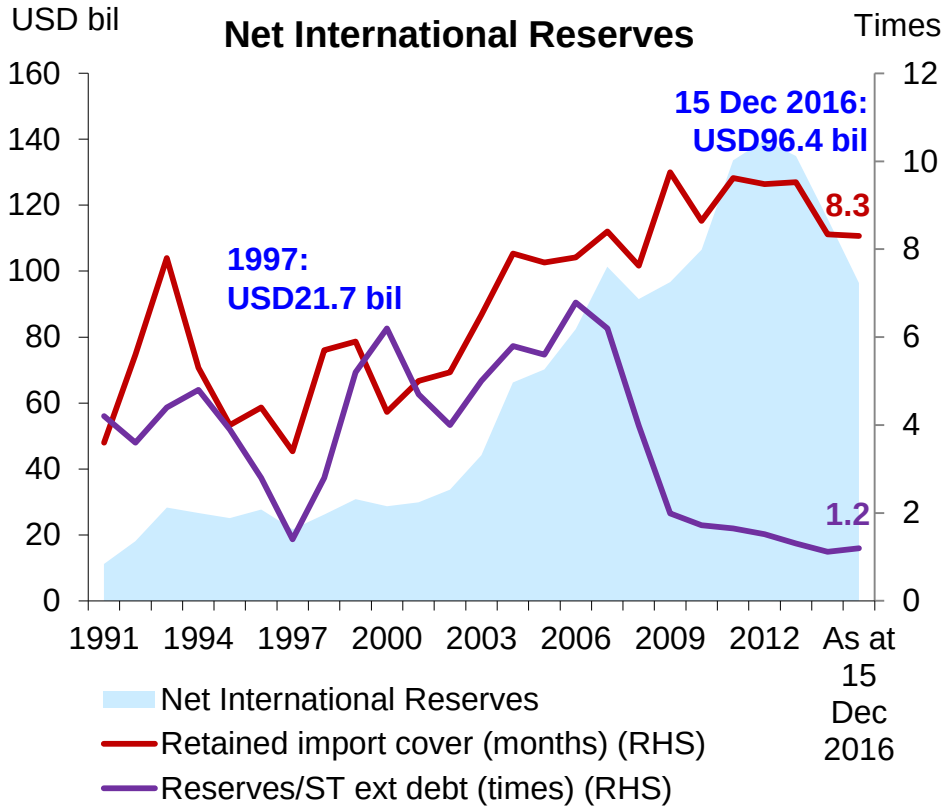
- **Malaysia's ability to absorb the volatility of these flows and the effects on financial market is supported by**
  - Greater exchange rate flexibility and international reserve buffers
  - Well-developed financial markets and resilient banking system
  - Exchange rate adjustments avoids overadjustment in domestic demand and prices
  - Intervention operations are to smoothen movements in the foreign exchange rate and ensure efficient functioning of the market

- **These have supported the orderly functioning of the foreign exchange market**

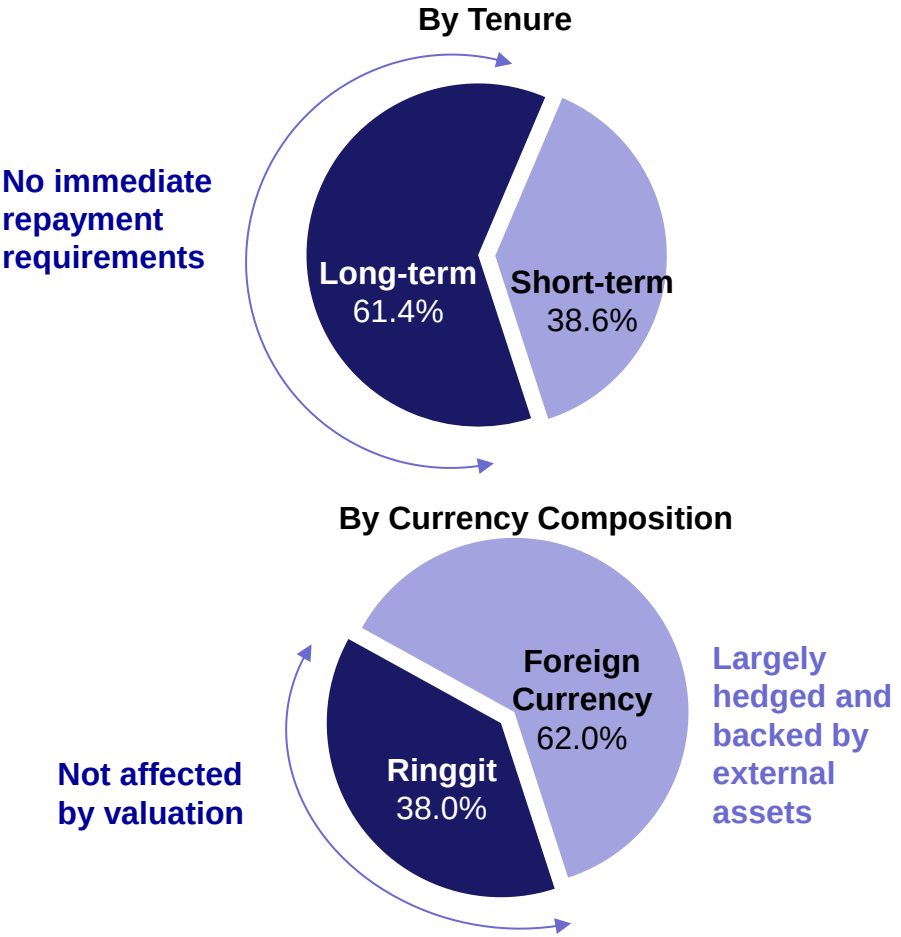
Source: BNM ; Note: [1] Latest NR portfolio flows data up to 3 Jan 2017; [2] Reserves data up to 15 Dec 2016

International reserves remain ample with manageable external debt

Reserves have increased five-fold since the Asian Financial Crisis



External debt is mostly long-term with manageable foreign-currency exposure



Source: Bank Negara Malaysia

Emerging vulnerabilities pose downside risks to growth



Household indebtedness

High household debt-to-GDP

Households more susceptible to shocks



Narrowing current account surplus

Higher capital imports for infrastructure projects

Investor perception and volatile capital flows



Commercial property glut

Oversupply of office and retail spaces

Lower rentals, capital gains, balance sheet

Reining in high household indebtedness

Concerted and coordinated efforts to reduce household debt

Macroprudential policies

- Responsible lending guidelines

Raise household income

- Participation in sharing economy
- Higher women participation in the workforce

Accelerate fin. edu. & debt management

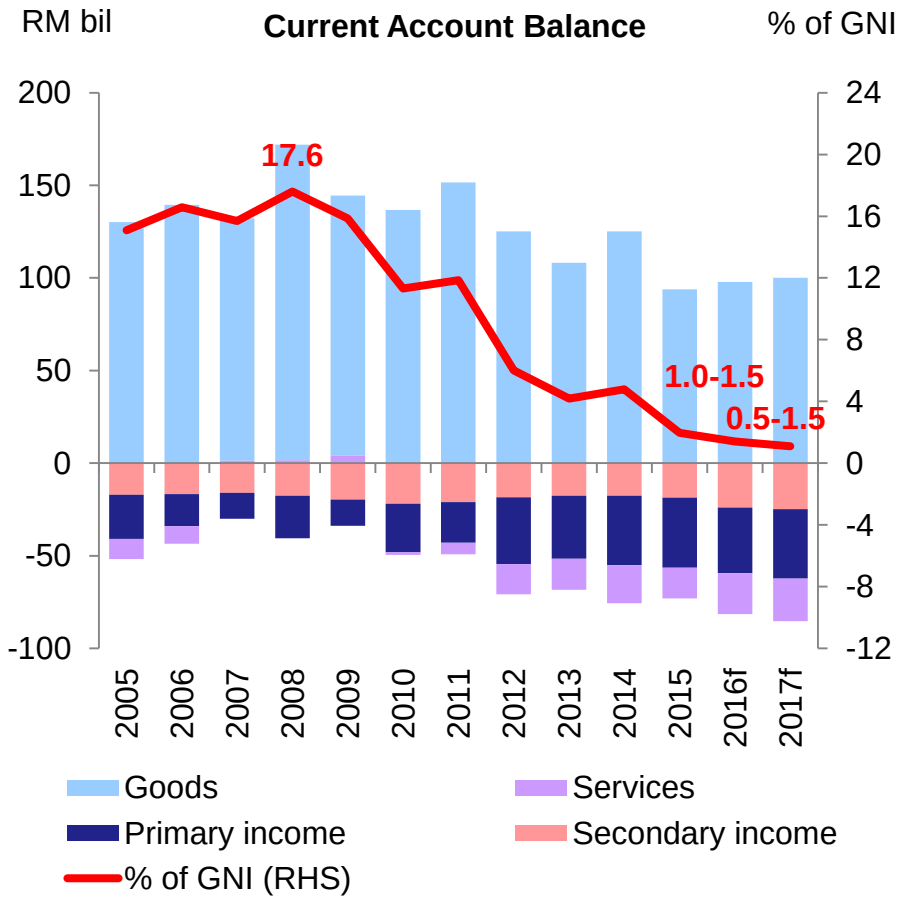
- Financial literacy programme & campaign
- Debt management programme

Reduce the need to incur higher debt

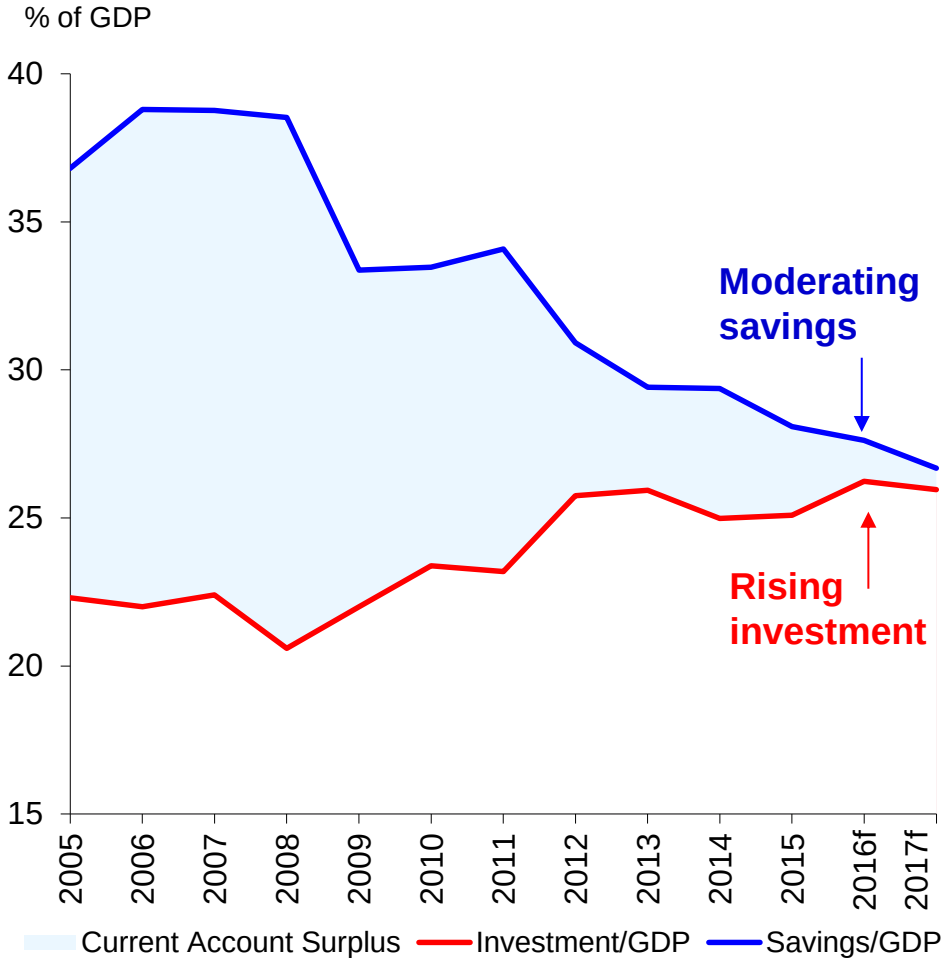
- A vibrant **housing rental market** with sufficient safeguards
- Efficient and reliable **public transport** system
- Effective **price monitoring and enforcement**

Narrowing current account surplus is a reflection of higher investments

Current account surplus to narrow amid persistent services and income deficits



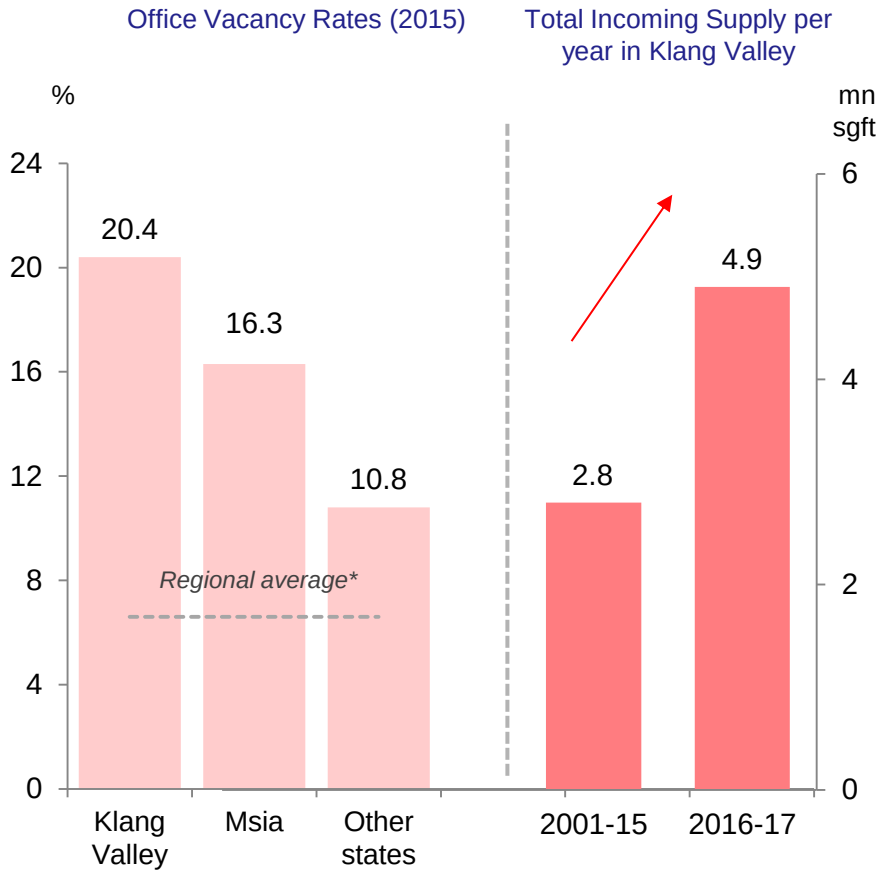
Higher investments amid moderating savings in recent years



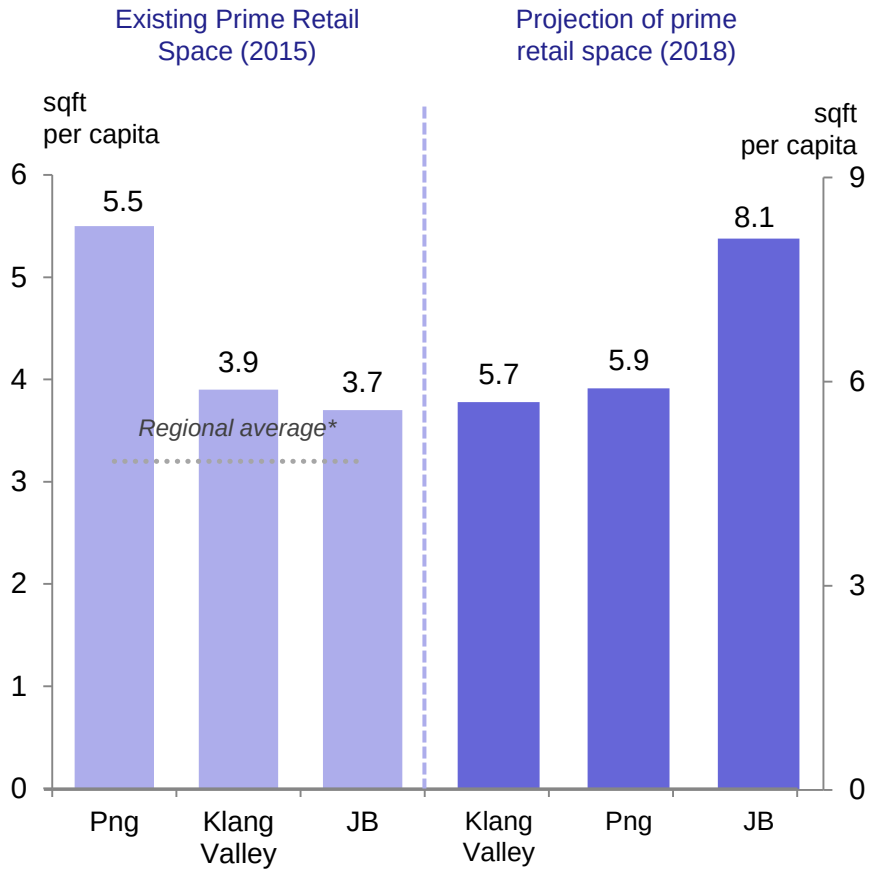
Oversupply of commercial properties in Malaysia's major cities

Oversupply of office and retail spaces in major cities

Office: Vacancy Rate and Incoming Supply



Retail: Current Stock & Projections of Prime Space



* For office and retail space, regional average refers to the simple average for Shanghai, Jakarta, Bangkok, HK and Singapore (2Q 2015)
Source: NAPIC, JLW, Colliers International, JLL, Staff estimates

Malaysia to weather the economic challenges

1 **Growth to remain anchored by domestic demand**

- Economic diversification and strong fundamentals
- Accommodative monetary policy that is supportive of economic activity
- Pro-growth and targeted policy measures

2 **Inflation to remain low at 2 – 3%**

3 **Trade balance to remain in surplus, albeit narrower**

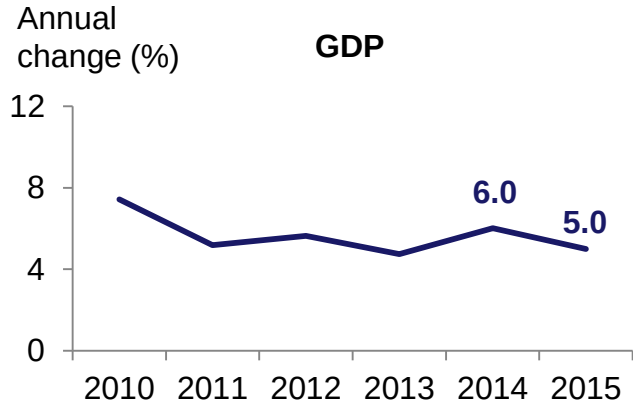
4 **Policies to tackle immediate and long-term challenge**

5 **Malaysia will continue to be confronted with medium- and long-term challenges**

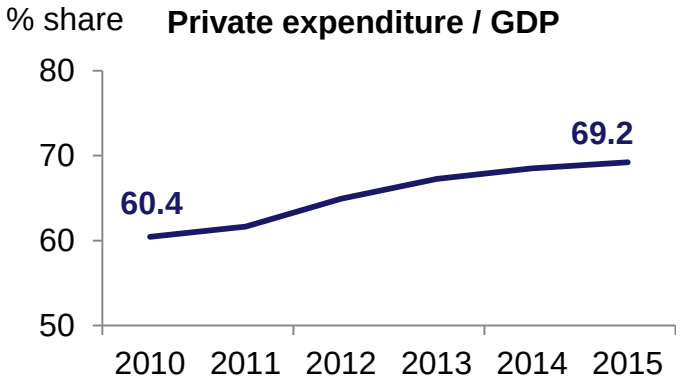
- Continued economic reforms are necessary to anchor future resilience

Macroeconomic fundamentals remain supportive of growth

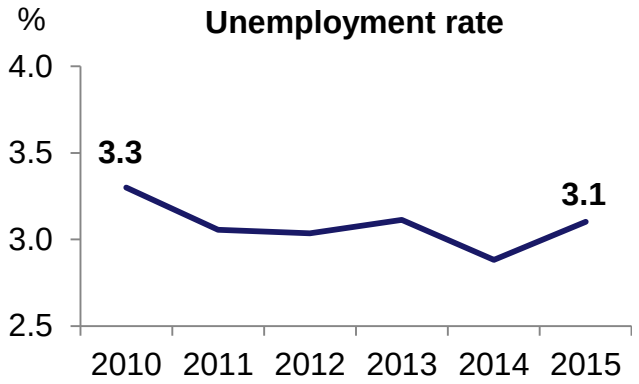
Steady growth path



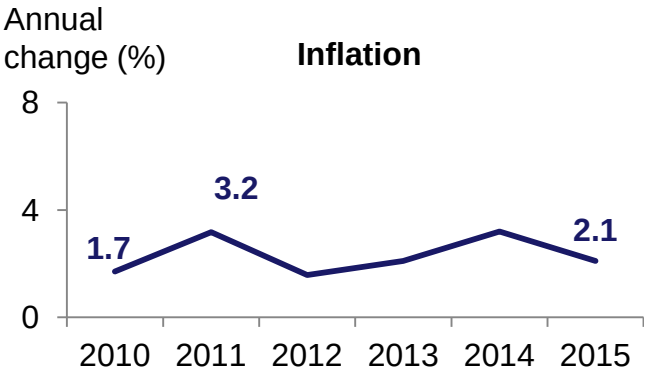
High private sector participation in the economy



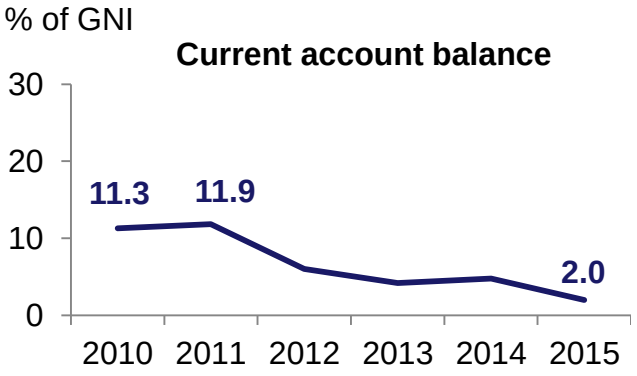
Stable labour market conditions



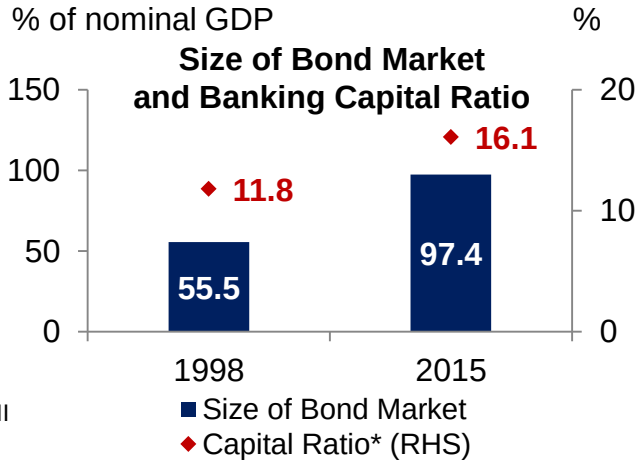
Low and stable inflation environment



Current account balance reflects strong investment



Deeper markets and strong financial buffers



* Capital ratio in '98 refers to the risk-weighted capital ratio; Ratio in 2014 refers to total capital ratio, reported based on Basel III Capital Adequacy Framework adopted since January 2013.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

More conversations