

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

The BNM Quarterly Bulletin presents a quarterly review of Malaysia's economic, monetary and financial developments. It includes the Bank's latest assessments on the direction of the economy going forward. The Bulletin also provides insights on current economic and financial issues, including highlights of policy initiatives undertaken by Bank Negara Malaysia in pursuit of its mandates.

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Key Highlights on

Economic and Financial Developments in 1Q 2019

Growth of 4.5% amid challenging global environment

Continued expansion in private sector activity and across key economic sectors

Real GDP Growth (at constant 2015 prices)

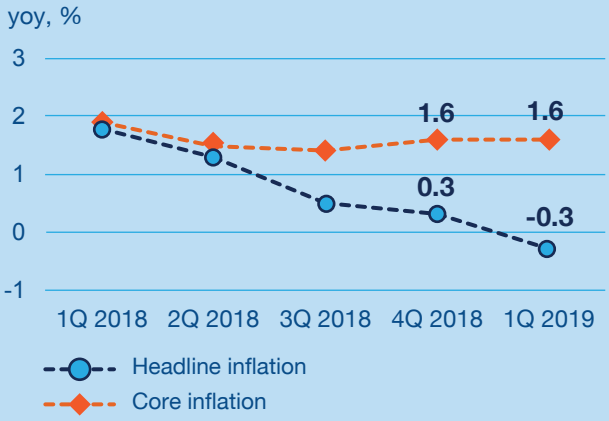


- **Firm household spending, supported by favourable labour market conditions**
- **Services and manufacturing sectors remained the key drivers of growth**
- **Rebound in agriculture sector due to strong recovery in palm oil production**

Headline inflation declined

Headline inflation turned negative during the first quarter of 2019

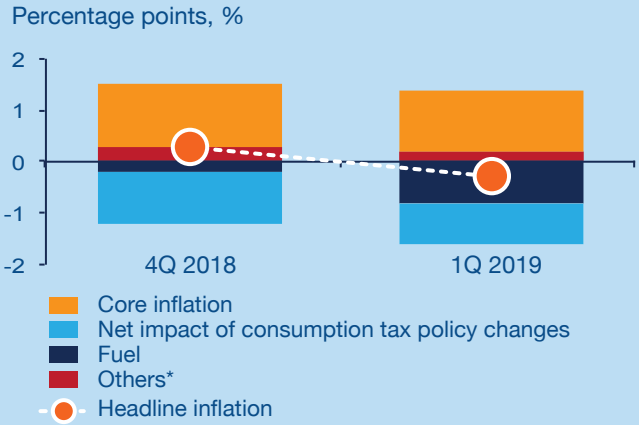
Headline and Core Inflation[1]



[1] Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of consumption tax policy changes

Lower domestic fuel prices largely contributed to the decline in headline inflation

Contribution to Headline Inflation by CPI Components

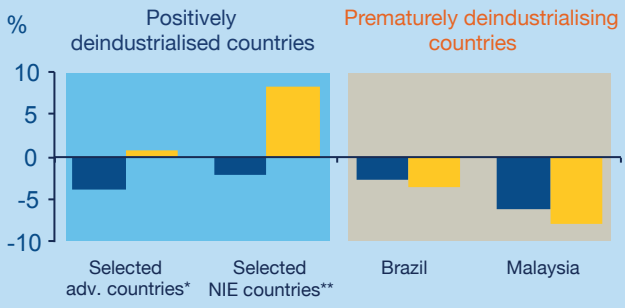


*Others include price-volatile items and other price-administered items

Box Article

Signs of premature deindustrialisation in Malaysia as employment share fell at the cost of output

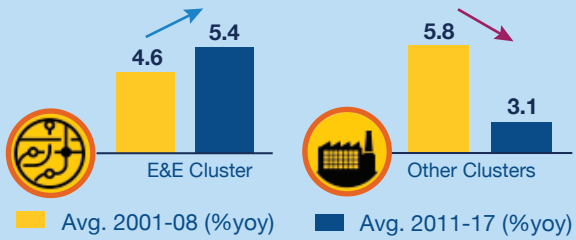
Change in Manufacturing Employment and GDP Shares (2018 vs. 2000)



*refers to the US, Japan and Germany
**refers to C. Taipei and S. Korea

However, the pace of deindustrialisation has slowed due to higher E&E productivity

Productivity Growth in Manufacturing Sector



Policy initiatives for a more balanced development

- **Implement principle-based investment approach**
- **Enhance talent in advanced manufacturing and modern services**
- **Embrace technology to strengthen firms' capabilities**

Source: Department of Statistics Malaysia, Bank Negara Malaysia unless stated otherwise
For more information, visit www.bnm.gov.my

International Economic Environment

HIGHLIGHTS

- The global economy continued to expand in the first quarter of 2019.
- Lower external demand led to weaker export performance in regional economies.
- However, financial market volatility eased, supported by accommodative monetary conditions in the advanced economies.

Global growth expanded further

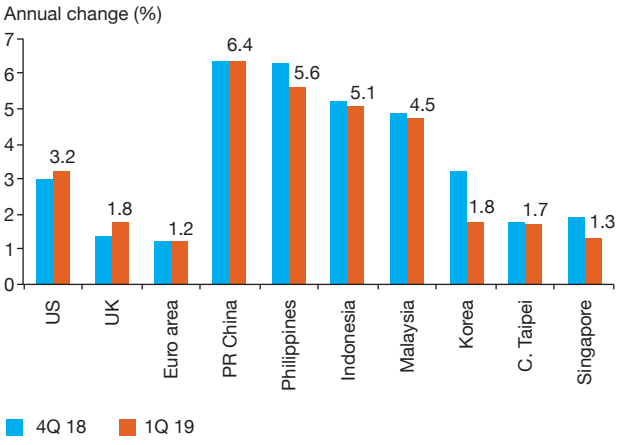
The global economic expansion continued in the first quarter of 2019. With the exception of the US and the UK, many advanced and regional economies recorded a sustained or slower pace of expansion during the quarter.

Growth in the US economy accelerated, exceeding market projections. However, the improvement was primarily driven by temporary support from a buildup of inventories. Private investment slowed, suggesting underlying softness in domestic activity. In the euro area, growth was broadly sustained amid some unfavourable developments in several of its larger economies. In Germany (29% of euro area GDP), the automobile industry was impacted by the new fuel emission standards for diesel-powered vehicles, affecting domestic and external sales. The extensive value-chain production networks across several countries in the euro area meant that the shock also affected these economies. Growth in the UK improved due to a buildup of inventories ahead of Brexit.

Growth in PR China remained stable. Infrastructure investment, tax reforms and targeted monetary stimulus contributed to stronger-than-expected domestic activity. Meanwhile, growth in the rest of the Asian region was more moderate, as stable domestic demand was offset by weaker exports.

Global economic activity continued to expand in 1Q 2019

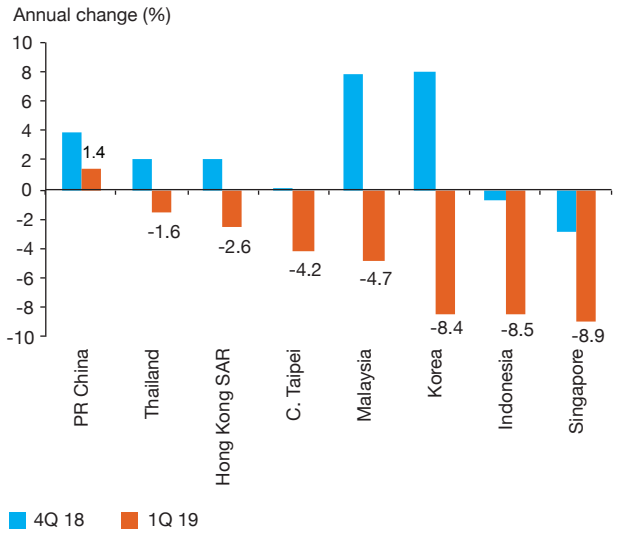
Chart 1: GDP Growth of Selected Economies



Source: National authorities

Regional export growth in contraction in 1Q 2019

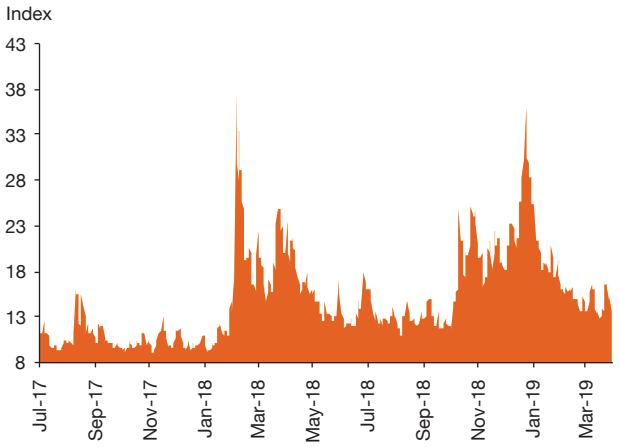
Chart 2: Export Growth of Selected Economies (in USD terms)



Source: Bloomberg, Department of Statistics, Malaysia

Financial market volatility subsided

Chart 3: Chicago Board Options Exchange (CBOE) Volatility Index (VIX)



Source: Bloomberg

Lower export growth

Export growth across all Asian economies, with the exception of PR China, recorded a contraction in the first quarter, reflecting weaker overall external demand. The large decline was also partially due to the impact from front-loading activity in previous quarters.

EA-8[1] exports to PR China declined by 8%, attributed to a sharp deterioration in Chinese exports to the US. The weakness was driven by a slowdown in exports of electronic equipment and parts, consistent with the higher US tariffs imposed on PR China's technology products in 2H 2018. In contrast, EA-8 exports to the US expanded by 12%, potentially indicating shifts in the regional supply chain, as EA-8 exporters aim to avoid the drag of higher US tariffs on imports from PR China.

Lower volatility in the financial markets

Market volatility was lower during the quarter, supported by a dovish shift in monetary policy stance by major central banks. A pause in monetary policy normalisation by the US Federal Reserve, and the announcement of a new round of targeted bank financing by the European Central Bank (ECB) resulted in a loosening of global financial conditions and improved investor sentiment. Signs of positive developments in US-PR China trade negotiations have also lifted markets during the first quarter of 2019. Financial conditions in other emerging markets improved, with equity indices recovering from selloffs in the previous quarter.

The Brent crude oil price averaged lower at USD64 per barrel (4Q 2018: USD69) due to continued expectations for global oil oversupply. Nevertheless, prices were supported by OPEC+ output cuts and crude oil supply disruptions, particularly in Venezuela.

[1] EA-8 refers to Hong Kong SAR, Korea, Chinese Taipei, Singapore, Malaysia, Thailand, Indonesia and Philippines

Developments in the Malaysian Economy

HIGHLIGHTS

- The Malaysian economy expanded by 4.5% in the first quarter of 2019.
- Headline inflation turned negative during the quarter due mainly to lower domestic fuel prices, while core inflation remained stable.
- Current account surplus of the balance of payments increased to RM16.4 billion.

The Malaysian economy grew by 4.5% in the first quarter of 2019

Overall GDP growth was moderate at 4.5% in the first quarter of 2019 (4Q 2018: 4.7%), driven mainly by the expansion in domestic demand. On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.1% (4Q 2018: 1.3%).

Domestic demand remained the key driver of growth

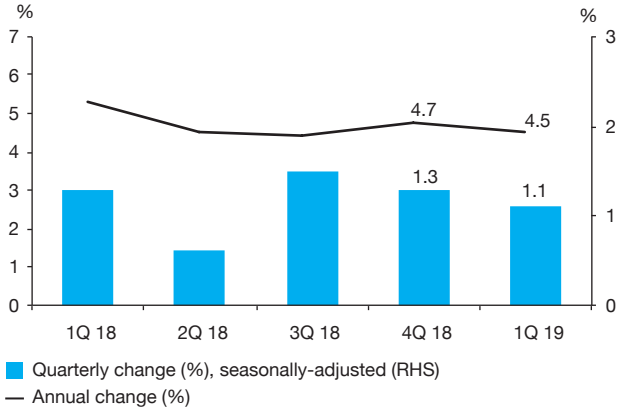
Domestic demand expanded by 4.4% in the first quarter (4Q 2018: 5.7%), driven by firm household spending amid weaker capital expenditure.

After three consecutive quarters of robust spending, private consumption growth moderated but remained strong at 7.6% (4Q 2018: 8.4%). This mainly reflected the normalisation in spending following the frontloading of purchases during the tax holiday period. Nonetheless, household spending continued to be supported by income and employment growth.

Public consumption expanded at a faster pace of 6.3% (4Q 2018: 4.0%), attributable to higher growth in spending on supplies and services.

Moderate growth in 1Q 2019

Chart 4: Real GDP Growth (at constant 2015 prices)*

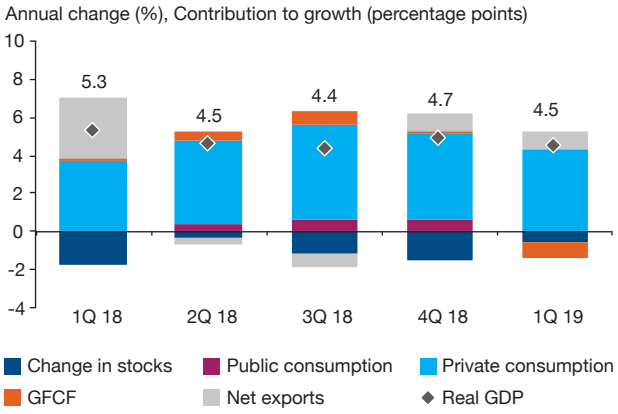


* With effect from first quarter of 2019, Malaysia's GDP in constant terms is rebased to 2015 prices from 2010 prices

Source: Department of Statistics, Malaysia

Private sector activity remained the key driver of growth

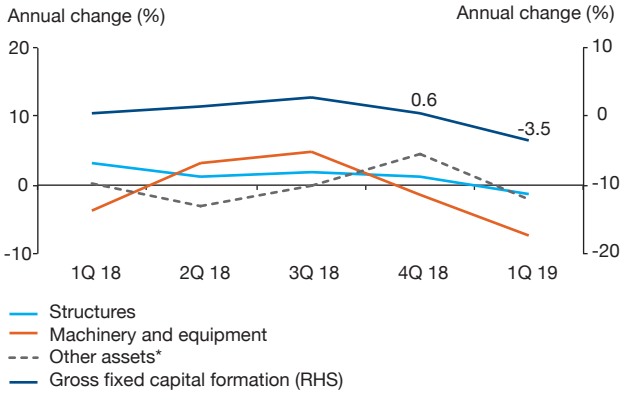
Chart 5: Contribution of Expenditure Components to Real GDP Growth



Source: Department of Statistics, Malaysia

Decline in gross fixed capital formation

Chart 6: GFCF Growth by Type of Assets



*Other assets include mineral exploration, research & development and capitalised planting.

Source: Department of Statistics, Malaysia

Gross fixed capital formation (GFCF) contracted by 3.5% (4Q 2018: 0.6%), weighed down by weaker private and public sector investment. By type of assets, investment in structures declined by 1.3% (4Q 2018: 1.3%) amid subdued property market activity. Capital expenditure on machinery and equipment registered a larger contraction of 7.4% (4Q 2018: -1.3%), affected mainly by a decline in transport equipment spending. Investment in other types of assets also declined by 2.2% (4Q 2018: 4.5%) due mainly to lower research and development (R&D) spending.

Private investment growth slowed to 0.4% (4Q 2018: 5.8%). Investment activity was affected by heightened uncertainty surrounding global trade negotiations and prevailing weaknesses in the broad property segment. Nevertheless, spending on large multi-year projects provided some support to investment growth, particularly in the primary-related manufacturing and utilities services sub-sectors.

Public investment declined further by 13.2% (4Q 2018: -5.9%), on account of lower capital spending by the Federal Government and public corporations.

Moderation across most sectors partially offset by a rebound in growth of the agriculture sector

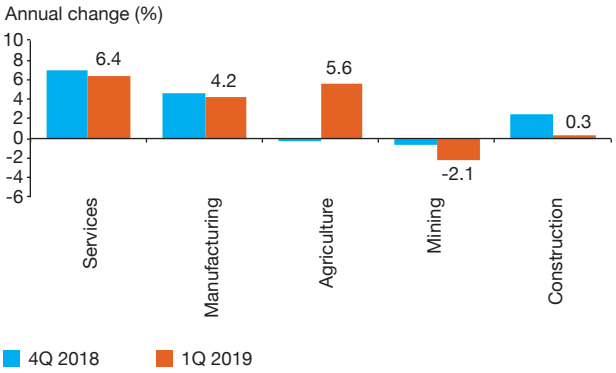
The services sector growth moderated as the wholesale and retail trade subsector registered slower growth following the post-tax holiday normalisation. However, this was partially offset by higher car sales following the release of new models. Growth in the finance and insurance subsector was sustained, supported by higher insurance premiums relative to claims which offset slower financing. The utilities subsector recorded an improvement given higher demand for electricity, particularly from households amid warmer weather conditions. The information and communication subsector remained supported by demand for data communication services.

Growth in the manufacturing sector moderated, mainly driven by the slowdown in the electronics and electrical (E&E) and primary-related clusters. The slower growth in the E&E cluster was due to lower global demand for semiconductors. The implementation of stricter vehicle emission standards in the EU and expiring tax rebates for cars in PR China weighed on demand for automotive semiconductors. Growth in the primary-related cluster also moderated as unplanned closure of gas facilities in Sarawak in February affected the production of refined petroleum products, particularly liquefied natural gas. Meanwhile, recovery in the production of palm-oil based products led to an improvement in the consumer-related cluster during the quarter.

The agriculture sector's growth rebounded due to the strong recovery in oil palm yields from the adverse weather last year. Additionally, natural rubber production improved as higher rubber prices spurred more tapping activities during the quarter.

Slower growth in most sectors of the economy

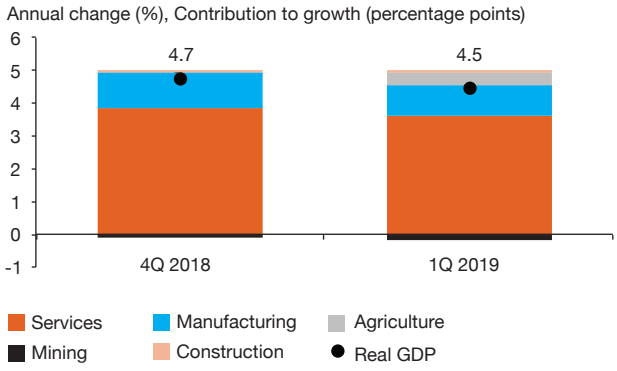
Chart 7: Growth by Sector



Source: Department of Statistics, Malaysia

Services and manufacturing sectors remained the key drivers of growth

Chart 8: Contributions to Real GDP by Economic Sector



Source: Department of Statistics, Malaysia

Growth in the mining sector declined further as oil production was affected primarily by unplanned facility closures in Peninsular Malaysia and Sabah. Growth was also weighed by weaker natural gas production as operations were affected by unplanned closure of gas facilities in Sarawak.

The construction sector registered lower growth reflecting slower activities in the non-residential, civil engineering and special trade subsectors. The near completion of large petrochemical projects resulted in a lower growth for the civil engineering subsector. The special trade subsector's growth moderated due mainly to declining early works from transportation projects transitioning to mid-phase. In the non-residential and residential subsectors, growth remained weak due to the oversupply of commercial properties and a high number of unsold residential properties.

Headline inflation turned negative due mainly to lower domestic fuel prices

Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), declined to -0.3% in the first quarter of 2019 (4Q 2018: 0.3%).

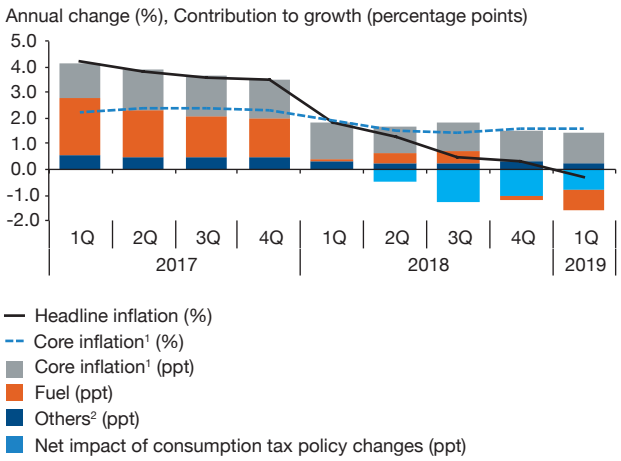
The decline was primarily due to lower domestic fuel prices, arising from the resumption of the managed float fuel pricing mechanism from 5 January 2019 amid lower global oil prices during the quarter. The lower price ceiling on RON95 petrol at RM2.08/ litre effective 2 March 2019 also helped contain the increase in domestic fuel prices in March.

The negative inflation during the quarter was not broad-based, with 81% of consumer items not experiencing price declines.

Core inflation, excluding the impact of consumption tax policy changes, was unchanged at 1.6%. While the steady expansion in economic activity was supported by continued employment and income growth, demand-driven inflationary pressures in the economy remained contained in the absence of excessive wage pressure and some degree of spare capacity in the capital stock.

The decline in headline inflation reflected the lower domestic fuel prices

Chart 9: Contribution to Headline Inflation by Components

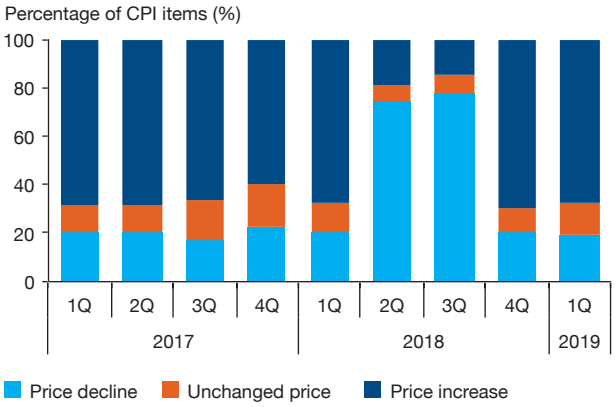


[1] Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of consumption tax policy changes.
[2] Others include price-volatile and other price-administered items

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

The share of consumer items recording price declines remained small

Chart 10: Quarter-on-Quarter Change in CPI



Note: The larger share of consumer items recording price declines in 2Q 2018 and 3Q 2018 was largely due to the zerorisation of the GST rate. The chart is based on the quarter-on-quarter change in CPI for 125 expenditure classes.

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

Employment continued to grow albeit more moderately

Chart 11: Employment Growth



Source: Department of Statistics, Malaysia

Firm manufacturing sector wage growth

Chart 12: Aggregate Manufacturing Sector Wages



Note: Manufacturing sector wages were sourced from the salaries and wages data published in the Monthly Manufacturing Statistics by the Department of Statistics, Malaysia.

Source: Department of Statistics, Malaysia and BNM estimates

Stable labour market conditions

Labour market conditions remained supportive of economic activity. Employment continued to expand albeit at a more moderate pace of 2.2% (4Q 2018: 2.4%), amid stable unemployment rate (3.3%; 4Q 2018: 3.3%). Strong net employment gains were recorded in the services sector.

Manufacturing sector wage growth remained firm at 7.0% (4Q 2018: 9.8%). Wage growth in export-oriented industries (7.7%; 4Q 2018: 10.8%) continued to outpace that of domestic-oriented industries (5.2%; 4Q 2018: 6.6%).

Higher current account surplus

The current account surplus of the balance of payments widened to RM16.4 billion in the first quarter (4Q 2018: RM10.8 billion), the highest since the first quarter of 2014 (RM19.8 billion). This was due to a higher goods surplus and smaller income and services deficits.

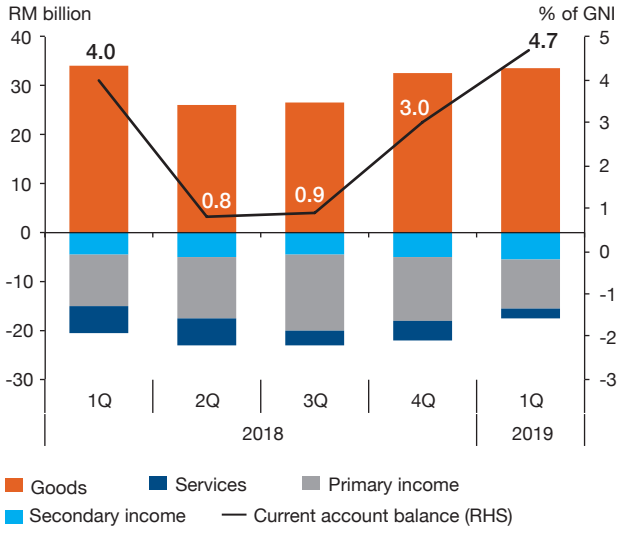
The goods surplus increased to RM33.8 billion (4Q 2018: RM32.7 billion) amid lower imports of production inputs and capital goods. This had offset lower exports in both manufacturing and commodity sectors.

The services account registered a smaller deficit of RM1.8 billion (4Q 2018: -RM3.8 billion) owing mainly to lower net payments for foreign transportation services in tandem with more moderate trade activity. The travel account also recorded a higher surplus (RM7.9 billion; 4Q 2018: RM7.7 billion) due to lower outbound travel payments.

In the income accounts, the smaller primary income deficit (-RM10.1 billion; 4Q 2018: -RM12.9 billion) was mainly attributable to lower portfolio investment payments (RM4.7 billion; 4Q 2018: RM7.3 billion). The secondary income deficit amounted to RM5.5 billion (4Q 2018: -RM5.2 billion), on account of continued outward remittances by foreign workers.

Current account surplus widened

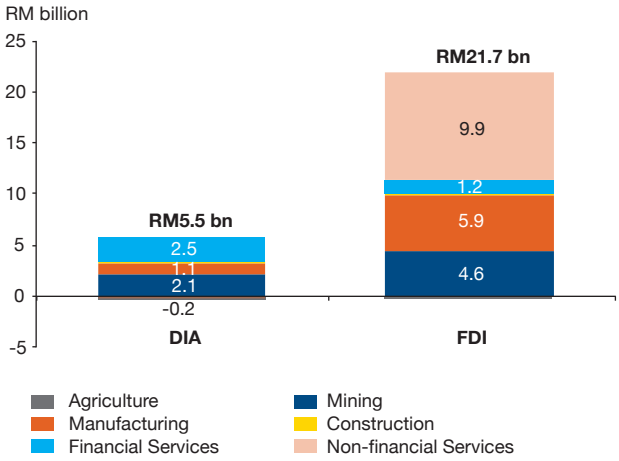
Chart 13: Current Account Balance



Source: Department of Statistics, Malaysia

Net inflow of direct investments due to higher FDI

Chart 14: Net Direct Investment Flows by Sector

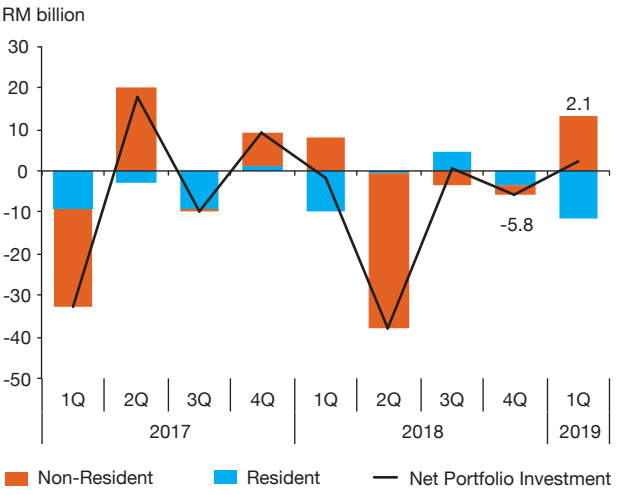


Note: For DIA, positive values refer to net outflows while negative values refer to net inflows

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Turnaround in the portfolio investment account in 1Q 2019 attributable to non-resident inflows

Chart 15: Portfolio Investments



Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Net outflow in the financial account

The financial account registered a net outflow of RM13.8 billion (4Q 2018: net outflow of RM6.1 billion), due mainly to the repayment of interbank borrowings by domestic financial institutions. Net inflows of direct and portfolio investments during the quarter partially offset higher net outflows in the other investment account.

The direct investment account registered a higher net inflow of RM16.3 billion (4Q 2018: net inflow of RM2.1 billion), supported by larger FDI inflows of RM21.7 billion (4Q 2018: net inflow of RM12.9 billion). This partly reflected the divestment of a private healthcare company to a Japanese investor and the formation of a joint-venture in the oil and gas sector. By sector, FDI was channeled mainly into the services sector, particularly the healthcare sub-sector, and the manufacturing sector. Direct investments abroad (DIA) by Malaysian companies recorded a lower net outflow of RM5.5 billion (4Q 2018: net outflow of RM10.8 billion). DIA outflows were channeled primarily into the financial services sub-sector and the mining sector.

The portfolio investment account registered a net inflow of RM2.1 billion (4Q 2018: net outflow of RM5.8 billion). During the quarter, investor sentiments in the region improved, following the signaling by the US Federal Reserve (the Fed) for a pause in monetary policy normalisation, and signs of positive developments on trade negotiations between the US and PR China. This was reflected in the turnaround in non-resident portfolio investments (1Q 2019: net inflow RM13.5 billion; 4Q 2018: net outflow RM2.5 billion), due mainly to higher purchases of domestic debt securities. Non-resident portfolio inflows were partially offset by residents' continued asset acquisition, amounting to a higher net outflow of RM11.4 billion (4Q 2018: net outflow RM3.3 billion).

The other investment account recorded a net outflow of RM31.9 billion (4Q 2018: net outflow of RM1.8 billion). This was attributable mainly to the repayment of inter-bank borrowings. Net errors and omissions amounted to +RM2.9 billion, or +0.7% of total trade. The international reserves of Bank Negara Malaysia amounted to USD103.0 billion as at end-March 2019, compared to USD101.4 billion as at end-December 2018.

Manageable external debt

Malaysia's external debt stood lower at RM903.7 billion, or 59.5% of GDP as at end-March 2019 (end-December 2018: RM924.9 billion or 63.9% of GDP). The decline was due mainly to net repayment of interbank borrowings and trade credits, and a reduction in non-resident deposits. There was also revaluation adjustment from the stronger ringgit against regional and major currencies during the first quarter of 2019. These were partially offset by a net issuance of bond and notes and higher non-resident holdings of domestic debt securities and intercompany loans.

The country's external debt remains manageable, given its currency and maturity profiles, and the presence of large external assets. Close to one-third of external debt is denominated in ringgit (32.7%; end-December 2018: 31.1%), mainly in the form of non-resident holdings of domestic debt securities (63.2% share) and in ringgit deposits (17.6% share) in domestic banking institutions. As such, these liabilities are not subject to valuation changes from the fluctuations in the ringgit exchange rate.

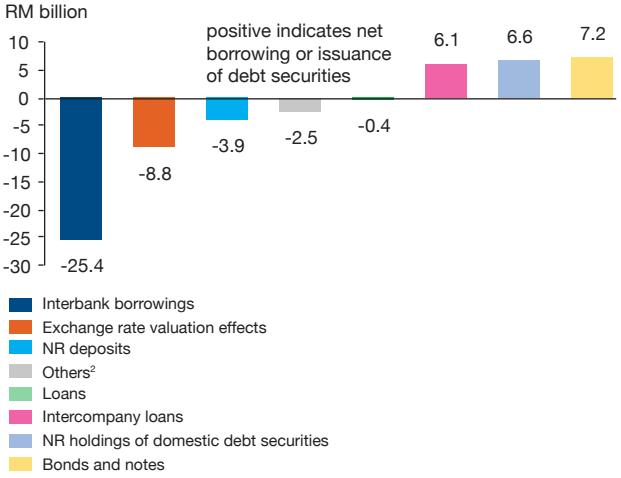
The remaining external debt of RM607.9 billion or 67.3% of total external debt is denominated in foreign currency (FC) and comprised mostly offshore borrowings. As at end-March 2019, offshore borrowings declined to RM546.9 billion or 36.0% of GDP (end-December 2018: RM566.9 billion or 39.2% of GDP). The corporate sector accounted for slightly more than half of the FC-denominated external debt and is largely subject to prudential and hedging requirements.

By instrument, 35.4% (or RM215.3 billion) of FC-denominated external debt is accounted by interbank borrowings and FC deposits in the domestic banking system. 80.7% of the interbank borrowings are in the form of largely stable intragroup borrowings from related banks overseas, namely parent banks, regional offices and subsidiaries, reflecting banks' centralised liquidity and funding management practices. During the quarter, banks' FC-denominated short-term external debt declined by RM30.7 billion following net repayment of interbank borrowings. This primarily reflected lower funding needs of several foreign banks, including banks operating in Labuan International Banking and Financial Centre. Foreign-currency risk, measured in net open position of FC-denominated exposures[2] remained low at 5.1% of banks' total capital, reflecting banks' continued vigilance in managing risks arising from their external borrowing.

[2] Refers to the aggregated sum of the net short or long foreign currency positions for all currencies across banks.

Lower external debt in 1Q 2019

Chart 16: Changes in External Debt
Net change[1]: -RM21.2 billion

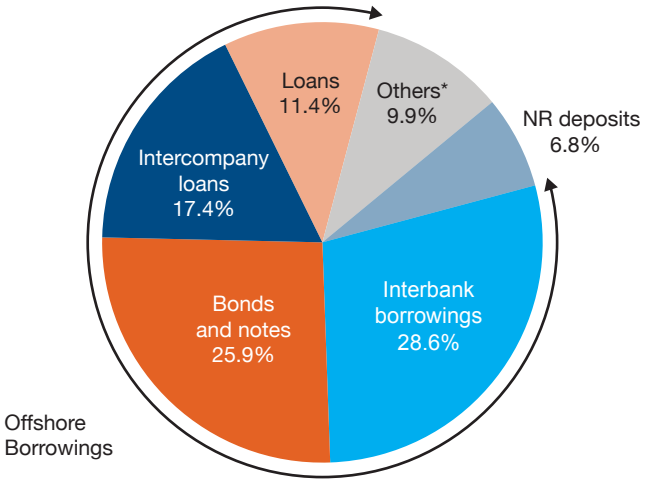


[1] Changes in individual debt instruments exclude exchange rate valuation effects
[2] Comprises trade credits, IMF allocation of SDRs and other debt liabilities
Note: NR refers to non-residents
Figures may not add up due to rounding

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

FC-denominated debt subjected to prudent liquidity management practices and hedging requirements

Chart 17: Breakdown of Foreign Currency-Denominated External Debt (% share)



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

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia

Long-term bonds and notes issued offshore stood at RM157.6 billion as at end-March 2019, accounting for 25.9% of total FC-denominated external debt. These were mainly by non-financial corporations and channeled primarily to finance asset acquisitions abroad. The Federal Government also issued a Samurai bond amounting to RM7.4 billion during the quarter. Intercompany loans, which amounted to RM105.6 billion and accounted for 17.4% of FC-denominated external debt, are typically on flexible and concessionary terms. About 80% of these intercompany loans were obtained by multinational corporations (MNCs) from parent or affiliate companies abroad.

From a maturity perspective, 59.2% of the total external debt is skewed towards medium- to long-term tenure (end-December: 56.2%), suggesting limited rollover risks. Short-term external debt accounted for the remaining 40.8% of external debt. As at 30 April 2019, international reserves stood at USD103.4 billion, sufficient to finance 7.4 months of retained imports, and is 1.1 time the short-term external debt.

Of significance, reserves are not the only means for banks and corporations to meet their external obligations. The progressive liberalisation of foreign exchange administration rules has resulted in significant increase in non-reserves external assets. In particular, banks and corporations held roughly three-quarters of Malaysia's RM1.7 trillion external assets, which can be drawn down to meet their RM698.6 billion external debt obligations, without creating a claim on international reserves. While the flexible exchange rate remains the first line of defense, adequate international reserves and availability of substantial foreign currency external assets by banks and corporations continue to serve as important buffers against potential external shocks.

Box Article

Is Malaysia Experiencing Premature Deindustrialisation?

Authors: Tengku Mohamed Asyraf, Devendran Nadaraja, Afif Shamri, Rubin Sivabalan

HIGHLIGHTS

- **Malaysia appears to have prematurely deindustrialised since the early 2000s, mainly due to the increased global competition and the slow progress in moving up the value chain.**
- **The deindustrialisation process has, however, recently slowed down, due to productivity gains in the E&E sub-sector as a result of horizontal diversification and increased high skilled employment.**
- **Ensuring further economic development requires a balanced development strategy targeting both manufacturing and modern services sectors.**

The process of industrialisation is a critical step for a country to achieve a high level of income. This was the path followed by most Western countries during the First and Second Industrial Revolution, as well as by the more recent Newly Industrialised Economies (NIEs) such as South Korea, Chinese Taipei and Singapore. Upon attaining this high income status, it is then a common pattern for countries to start deindustrialising, as they begin to adopt labour-saving technologies on a massive scale. More recently, however, developing countries have begun prematurely deindustrialising due to reasons that are vastly different, as their manufacturing sector faced intense competition from global markets. This box will explore the nature of Malaysia's deindustrialisation and compare the underlying drivers for this process vis-a-vis the advanced economies. It will also discuss the current thinking on the policy strategies in tackling the issue of premature deindustrialisation.

What are the different paths of deindustrialisation?

Deindustrialisation represents a natural stage of economic development, as economies start to shift their resources away from manufacturing to services as a result of high manufacturing productivity growth and increased consumption for services as society becomes wealthier. This is part of an economic structural transformation path (IMF, 2018), where economies typically move from agriculture, to manufacturing and on to services as they develop. This path of deindustrialisation represents a positive development as the high manufacturing productivity growth, typically due to adoption of labour-saving technologies, implies that the manufacturing workers have become highly productive that the economy requires less of them to meet overall demand. It is measured by a sustained decline in the manufacturing employment share, accompanied by a more moderate decrease in the manufacturing output share of the economy (IMF, 2018). Examples of economies that have experienced this path of deindustrialisation include the US, EU and Japan as their manufacturing employment shares have fallen much faster than their manufacturing output shares since the 1970s.

Premature deindustrialisation, however, is a less desirable path of deindustrialisation when it is attributable to declining manufacturing competitiveness as opposed to high manufacturing productivity. This form of deindustrialisation will typically result in economies experiencing a faster contraction in their manufacturing output share compared to the manufacturing employment share. Rodrik (2016) finds that economies that are currently experiencing premature deindustrialisation are mostly from Latin America and Sub-Saharan Africa, such as Brazil, Argentina, South Africa and Ghana. This deindustrialisation path is detrimental to countries' economic development as the manufacturing sector is an important source for the creation of high quality, high productivity, high income employment and technological adoption and development.

Table 1: Symptoms of positive deindustrialisation vs. premature deindustrialisation

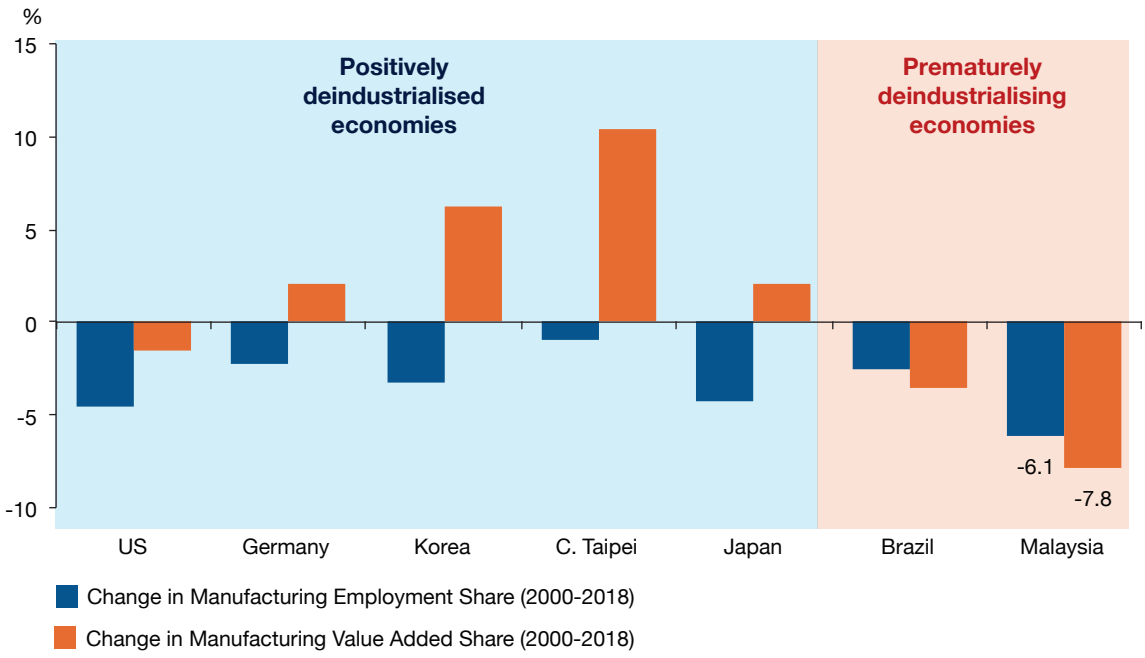
Symptoms	Deindustrialisation	
	Positive	Premature
Causes	Adoption of labour-saving technologies	Falling manufacturing competitiveness
Peak manufacturing employment share*	~30%	~15%
GDP per capita at peak manufacturing employment share*	Intl $18,000	Intl $14,000
Relative fall in employment vs output shares	Fall in employment share greater than fall in output share	Fall in employment share less than fall in output share

* Note: refers to results for a sample of advanced and middle income economies in Kirsh (2018)

Malaysia: Positive Deindustrialisation or Premature Deindustrialisation?

Based on the criteria laid out in Table 1, it appears that Malaysia has been exhibiting signs of premature deindustrialisation. The Malaysian economy began to deindustrialise from the year 2000 onwards, where it attained its peak employment share in manufacturing at 23.5%, at an income level of Intl $9,500 GDP per capita[1]. This is much lower than the peak employment share attained by the advanced economies when they began to deindustrialise (30% employment share), and far behind the level of GDP per capita income (Intl $18,000) (Kirsh, 2018). Further evidence of the economy experiencing a less desirable form of deindustrialisation are the twin decline in employment as well as the output share of manufacturing, indicating that the process of falling employment was not an outcome of rising productivity, but rather from lower competitiveness.

Chart 1: Malaysia exhibits signs of premature deindustrialisation with a relatively larger decline in manufacturing output share compared to employment

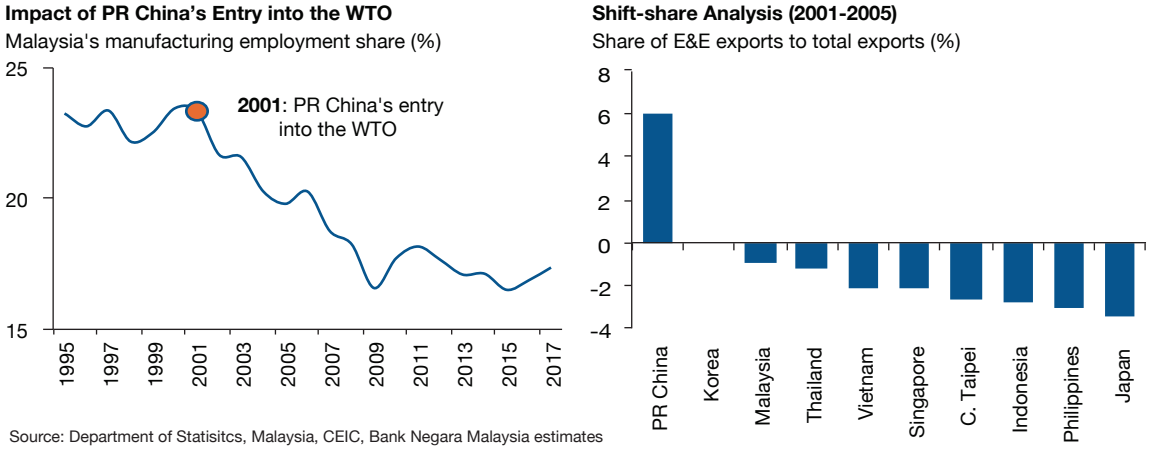


Source: Department of Statistics, Malaysia, CEIC, Haver, World Bank

[1] Refers to income level measured in constant 2005 international dollars on purchasing power parity (PPP). This is taken from the Penn World Table 7.1 (2012).

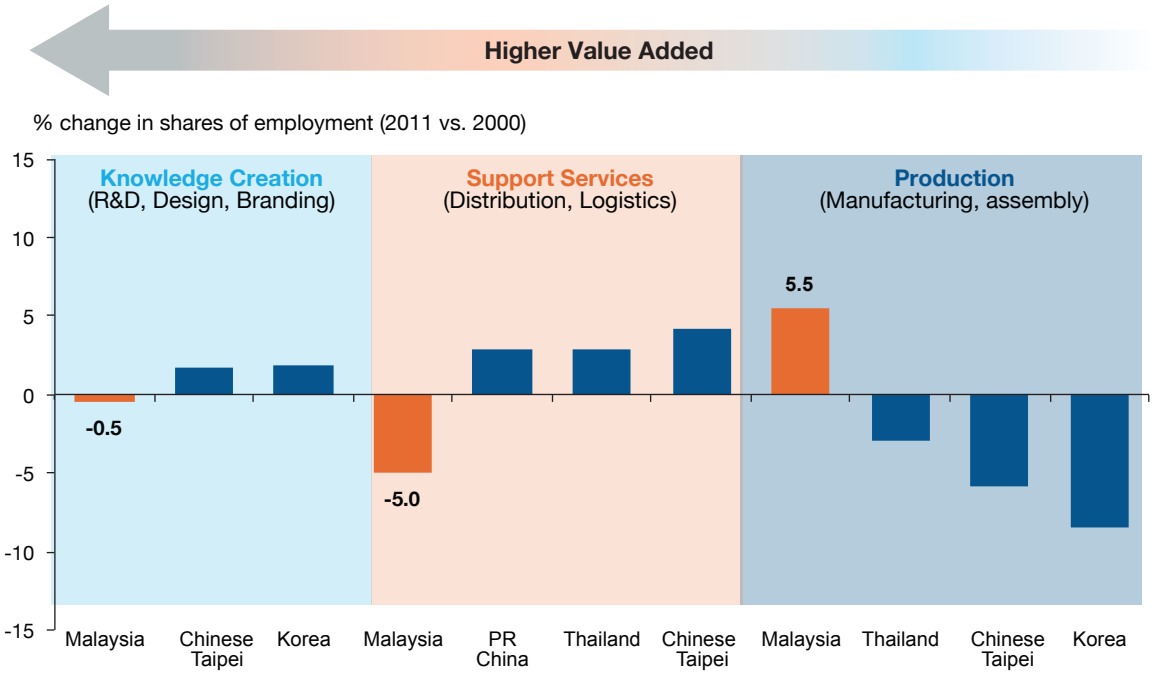
The loss of competitiveness is partly attributable to PR China's ascension into the World Trade Organisation (WTO), which coincided with the timing of the reduced significance of Malaysia's manufacturing employment share (Chart 2). The loss of competitiveness to PR China is, however, not unique to Malaysia as other Asian economies have also shed employment in the low skill sectors. What differs, however, is that other countries such as South Korea and Chinese Taipei[2] appear to have prevented premature deindustrialisation by creating employment in other high value added segments of the manufacturing value chain, a situation that is less apparent in Malaysia (Chart 3).

Chart 2: PR China's entry into the WTO in 2001 coincided with the decrease in Malaysia's manufacturing employment share and reduced competitiveness of regional economies' E&E exports



Source: Department of Statisitcs, Malaysia, CEIC, Bank Negara Malaysia estimates

Chart 3: Unlike other regional economies, Malaysia's manufacturing sector has generated less employment in high value added segments



Source: de Vries, Chen, Hasan and Li (2016), Bank Negara Malaysia estimates

[2] Chinese Taipei's successful positive deindustrialisation arose from adoption of the strategy of "keeping the roots planted in Chinese Taipei while letting the branches and leaves expand abroad" (Chen, 2005). This entailed retaining production of higher value added products in the country, while offshoring labour-intensive activities. Critically, both Chinese Taipei and South Korea also kept innovation-based functions such as developing new products domestically, while moving production-based manufacturing jobs abroad.

Two explanations in the literature have been put forth to account for the slow progress of Malaysia's manufacturing sector in moving up the value chain. First is the less-than-desirable policy landscape and the lack of industry-government coordination which has led to a lack of technology upgrading in the manufacturing sector (see Rasiah (2011) and Menon and Ng (2015)). The second view posits that industrial upgrading in Malaysia is slow due to the large concentration of micro-, small- and medium-sized firms in the manufacturing sector. These smaller firms suffer from low production volume or do not have consistency in the demand for their products. As a result, they are unable to embrace automation solutions, which are costly, capital intensive and have a longer payback period. For export-oriented firms, the difficulty in upgrading is also due to the limited ability to embark on product innovation as they are mainly involved in production-related activities on behalf of international clients, with limited ownership of the final product itself (Khazanah Research Institute, 2017). This, however, has not stopped local firms from undertaking process innovation, as the percentage of Malaysian firms that embarked on this is comparable to our regional peers (World Bank Enterprise Survey, 2016).

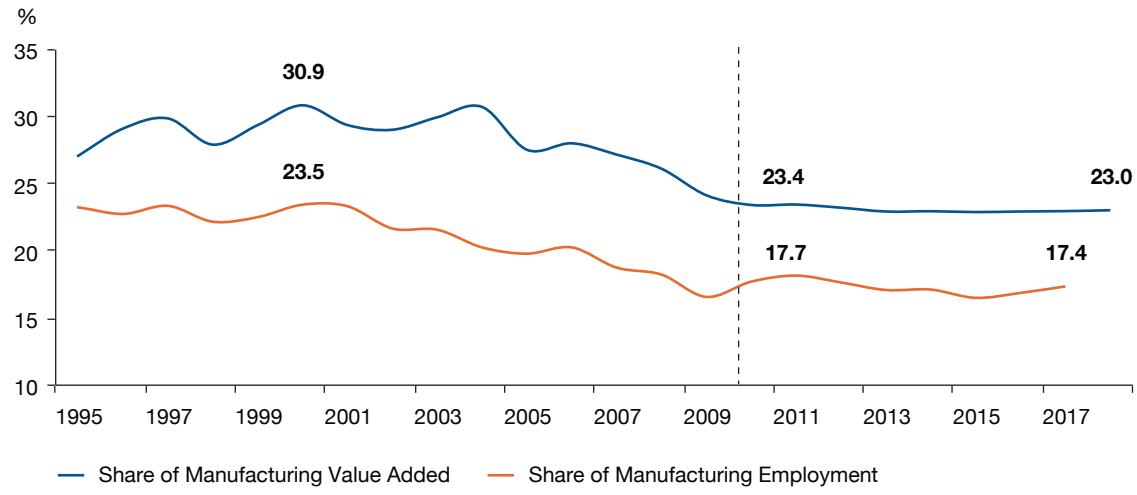
Notwithstanding these developments, there are several important nuances about Malaysia's deindustrialisation that are worth highlighting:

1. While the output and employment shares of manufacturing declined up to 2010, they have been relatively steady thereafter (Chart 4). Though it may be too early to conclude that Malaysia has stopped deindustrialising, the process appears to have slowed considerably over the past decade.

2. Sector-specific trends also appear to play an important role in explaining Malaysia's deindustrialisation. Most of the decrease in the overall manufacturing share as well as the subsequent stabilisation tracks closely the trend of the E&E sub-sector (Chart 5a). Meanwhile, other manufacturing sectors experience more muted changes in their output and employment shares.

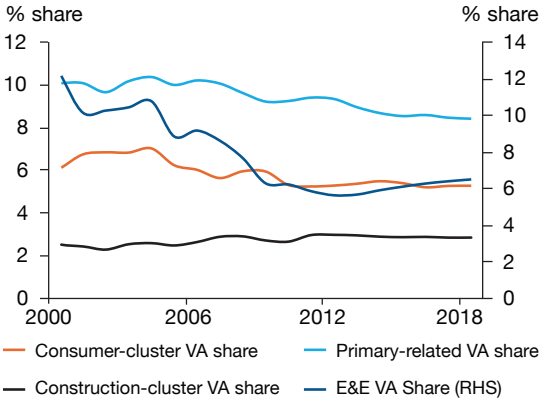
3. Comparing the period before and after 2010, the E&E sub-sector showed an improvement in productivity in the latter half compared to the previous decade (Chart 5b). An increasing rate of productivity is an important attribute towards a more positive long-term industrial process.

Chart 4: Although Malaysia's manufacturing output and employment shares have declined since its peak in 2000, the pace of the decline have been more gradual from 2010 onwards



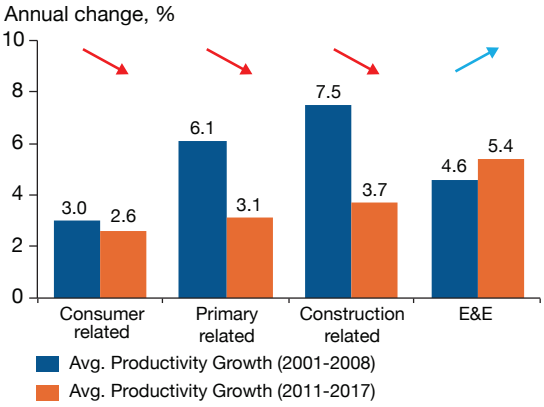
Source: Department of Statistics, Malaysia, Bank Negara Malaysia estimates

Chart 5a: The trend in the E&E sub-sector predominates the overall manufacturing VA share



Source: Department of Statistics, Malaysia, Bank Negara Malaysia estimates

Chart 5b: The E&E sub-sector is the only cluster with improved productivity from 2010 onwards

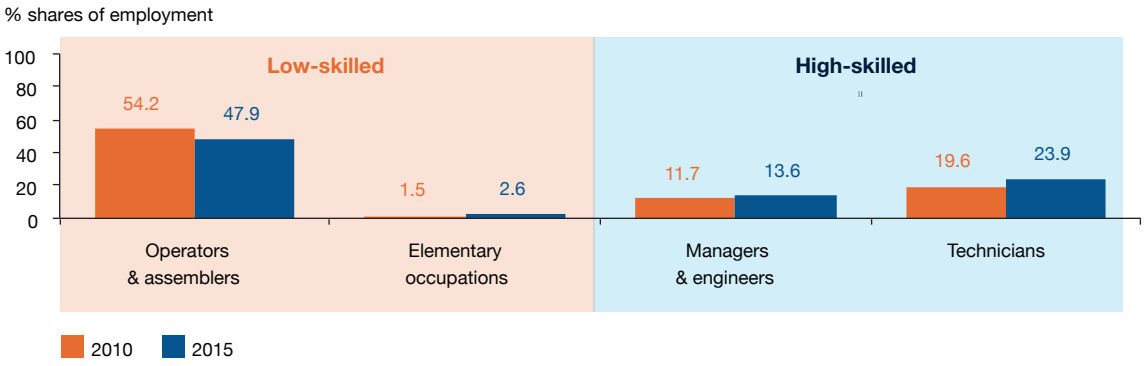


Source: Department of Statistics, Malaysia, Bank Negara Malaysia estimates

These developments appear to be rooted in several recent shifts taking place in the manufacturing sector. First, although the broader manufacturing sector has been slow in moving up the value chain, the E&E sub-sector has considerable success in reversing its fall in output share as it engaged in horizontal diversification towards a new set of end-product segments. This was enabled by a large presence of multinational corporations (MNCs) in Malaysia with vendor linkages with domestic E&E firms as well as the emergence of public-listed homegrown E&E companies. As the MNCs responded to the major shifts in the global E&E markets, Malaysian firms moved in tandem to diversify away from personal computers (PC), which had been on a structurally declining trend towards and after 2010, into fast-growing end-product segments such as smartphones, automotive electronics and cloud computing. Consequently, Malaysia's E&E sub-sector was able to record improved output share and productivity from 2010[3] onwards. These are in spite of the lack of functional upgrading in terms of activities within the E&E sub-sector, as its primary activity remains predominantly assembly and testing.

Second, employment within the E&E sub-sector has also become increasingly skilled-biased. Data from the Labour Force Survey between 2010 and 2015 indicate a shift in the E&E sub-sector's worker composition away from the use of direct labour, typically associated with the labour-intensive methods of production (Chart 6). This has been replaced with a higher share of engineers and technicians who can operate machines and automated equipments. Despite this positive trend, the E&E sub-sector still faces an acute shortage of high-skilled labour amid the increasing need to automate and innovate.

Chart 6: E&E's shift towards high skilled employment



Source: Department of Statistics, Malaysia

[3] The declining E&E output share in the late 2000s reflects the adverse impact of the emergence of smartphones and tablets technology to the global PC market as Malaysia's E&E sub-sector was highly plugged into the PC production chain.

Where should Malaysia go from here?

These recent trends suggest Malaysia is already making some progress towards a more positive path of development. Replicating the E&E sub-sector's experience in other parts of the manufacturing industry can accelerate productivity improvements across the entire sector, which is critical to overcoming premature deindustrialisation. Improvement should not be confined to the manufacturing sector alone. In particular, the services sector, being the largest sector, will need to play a more significant and complementary role to manufacturing in creating good quality, high productivity and high paying jobs that are the hallmark of more developed economies.

The lesson from the E&E's diversification process presents a pragmatic way forward for other sectors in the economy to improve productivity and arrest their respective "premature output deindustrialisation". Producing more complex and sophisticated products can be a viable strategy to increase each sector's competitiveness. A strong case can be made for the resource-based industries to potentially produce more complex downstream products, such as specialty chemicals and oleo-chemicals. Similarly, transport manufacturers may also find means to produce more complex types of passenger vehicles such as hybrid and electric vehicles.

It is noteworthy, however, that even if these industries were able to move horizontally and produce more complex products, it may not necessarily prevent the decline in manufacturing employment share as the nature of advanced manufacturing inherently requires more automated equipments and machines while reliance on labour as a factor of production diminishes. This explains the reason that advanced economies are still experiencing a declining share of manufacturing employment to this day. Despite this lower reliance on labour, there will be a potential for an increase in high skilled and thus higher paying jobs in order to cater for the more technologically advanced manufacturing sector.

Given these trends, recent developments in the literature also suggest that the services sector is able to take on a more significant role in providing high quality employment to complete the process of transitioning towards a high income economy. It is essential that employment creation be targeted towards the modern services sub-sector as opposed to the traditional services sub-sector. This is because the modern services sub-sector closely resembles the manufacturing sector in terms of productivity, tradability and technological diffusion (Nayyar et al., 2018). This modern services sub-sector is typically defined as the ICT services, finance as well as transport, storage and communications sectors. In addition, Gollin (2018) argues that modern services will also yield technological and knowledge spillovers, which will provide an opportunity for technological transfer and capital investments, akin to the manufacturing sector.

However, a balanced development strategy targeting both manufacturing and modern services is needed as there are several limitations in solely relying on the modern services sub-sector in economic development. Firstly, despite the increasing tradability of the modern services sub-sector, its share in global trade is still relatively low compared to manufacturing trade, which implies there might be limited gains to the economy's export performance if it were to focus solely on modern services. Secondly, despite the similarities in the characteristics of the manufacturing and modern services sectors, the modern services sub-sector will not be able to absorb the displaced low and mid-skilled manufacturing workers in the short run due to its demand for high-skilled labour, which is a key feature of modern services. This reinforces the urgency for effective and comprehensive labour upskilling programmes to accelerate the development of the modern services sub-sector to ensure a smoother employment transition.

To facilitate a more balanced development strategy, several policy imperatives ought to be prioritised. Firstly, there is a need for a principle-based investment approach that focuses on high skilled job creation, high value added activities and high product complexity. This will ensure the economy attracts investments that will move all the sectors up the value chain and into modern and advanced activities that are fast growing with high productivity. Secondly, the capability of domestic firms, talent and infrastructure must be further strengthened in order to capitalise on opportunities as a result of

the changing global economic landscape. Industrial automation, advanced robotics and digitalisation are transforming processes in both the manufacturing and services sectors. While Malaysian firms are already actively pursuing process innovation, there is still a need to nurture domestic firms and talent to be agile in dealing with new forms of process innovation. National strategies and roadmaps will play a critical role in steering this transformation[4]. Infrastructure-wise, digital connectivity using high-speed broadband has become equally important as the deployment of physical infrastructure.

Conclusion

While Malaysia has been experiencing premature deindustrialisation since the early 2000s, recent trends suggest that certain industries are progressing towards a more positive path of industrial development. To further sustain the progress of the Malaysian economy, a balanced development strategy that targets and upgrades both manufacturing and modern services is needed. Recent experience also underscores the principle that the most effective outcomes are achieved when government and private sector efforts work hand-in-hand, and new forms of industrial policies will have a key role to play in facilitating structural transformation and economic development.

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[4] Examples of these strategies and roadmaps include Industry4WRD, National Internet of Things Strategic Roadmap and the eCommerce Strategic Roadmap.

Monetary and Financial Developments

HIGHLIGHTS

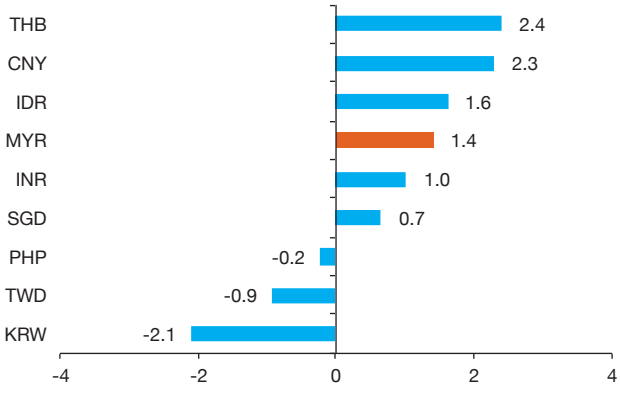
- The ringgit appreciated and domestic bond yields trended downwards in the first quarter following positive global developments. The FBM KLCI, however, declined amid a combination of external and domestic factors.
- Net financing growth moderated during the quarter, with lower growth in outstanding loans and corporate bonds.

The performance of domestic financial markets were mixed during the first quarter

The ringgit appreciated against the US dollar and domestic bond yields trended downwards during the first quarter of 2019, driven mainly by non-resident portfolio inflows to the domestic bond market. In particular, investors' risk appetite towards regional financial assets improved following the Fed's signalling of a pause in interest rate increases for 2019. In addition, progress made on trade talks between the US and PR China contributed towards better financial market sentiments and supported regional financial markets, including Malaysia, during the quarter. As a result, the Government bond market experienced RM7.3 billion of non-resident inflows during the quarter, which led to the decline of 3-year, 5-year and 10-year MGS yields by 24.1, 23.7 and 31.5 basis points, respectively, and the appreciation of the ringgit by 1.4% against the US dollar.

Ringgit appreciated against the US dollar in line with most regional currencies

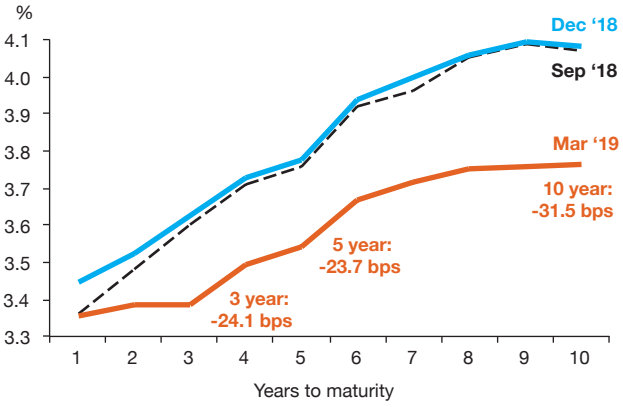
Chart 18: Performance of Regional Currencies Against the US Dollar (2 January - 29 March 2019)



Source: Bank Negara Malaysia

MGS yield curve shifted downwards driven by non-resident portfolio inflows

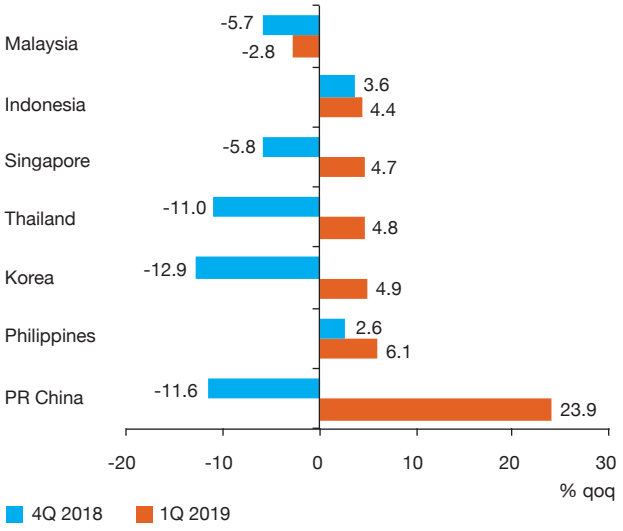
Chart 19: Trend in MGS Yields



Source: Bank Negara Malaysia

Domestic equity market performance remained on a downward trend

Chart 20: Performance of Regional Equity Markets



Source: Bloomberg and Bank Negara Malaysia

The FBM KLCI, however, declined by 2.8% in the first quarter to close at 1,643.6 points as at end-March (end-December 2018: 1,690.6 points). The domestic equity market was affected by a combination of external and domestic factors. In particular, investor sentiments were weighed down by moderating global growth prospects. Domestically, volatile commodity prices and concerns on the outlook for corporate earnings also contributed to the cautious sentiments.

Real interest rates remained stable amid steady headline inflation

Nominal interest rates in the wholesale and retail markets were stable throughout the first quarter. The interbank rates across all maturities remained unchanged. In the retail market, both the weighted average base rate (BR) and the weighted average lending rate (ALR) on outstanding loans were stable at 3.92% (4Q 2018: 3.91%) and 5.43% (4Q 2018: 5.43%), respectively.

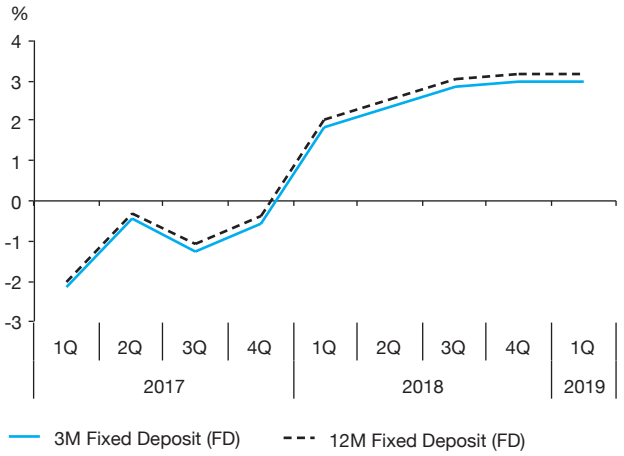
Real fixed deposit (FD) rates were also stable in the first quarter, due to the steady headline inflation. In particular, the real 3-month and 12-month FD rate remained unchanged at 2.95% (4Q 2018: 2.95%) and 3.13% (4Q 2018: 3.13%), respectively.

Liquidity conditions remained sufficient to facilitate financial intermediation

In the banking system, liquidity conditions remained sufficient at both the institutional and system-wide levels. Reflecting the net inflows during the quarter, the level of surplus liquidity placed with the Bank increased marginally by RM1.9 billion. At the institutional level, most banks continued to maintain surplus liquidity positions.

Real deposit rates remained stable

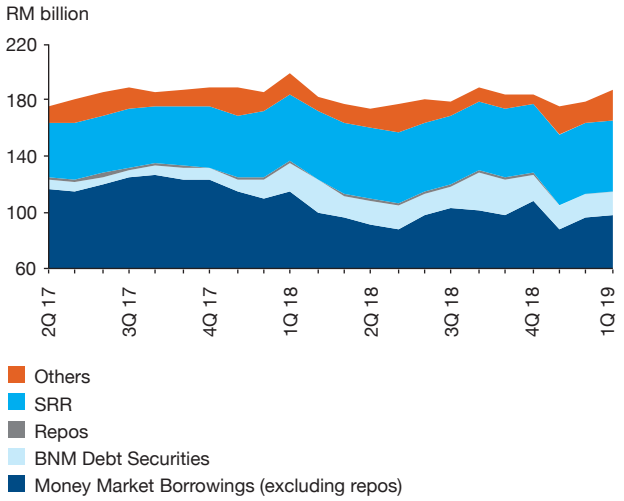
Chart 21: Real Fixed Deposit Rates (by Maturity) as at end-period



Source: Bank Negara Malaysia

Outstanding surplus ringgit liquidity placed with the Bank increased marginally during the quarter

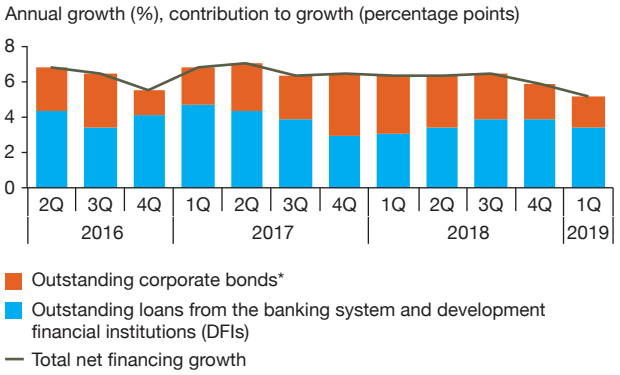
Chart 22: Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia as at end-period



Source: Bank Negara Malaysia

Moderation in net financing growth, with lower growth in outstanding loans and corporate bonds

Chart 23: Contribution to Net Financing Growth



* Excludes issuances by Cagamas and non-residents

Source: Bank Negara Malaysia

Net financing moderated during the quarter

In the first quarter, net financing expanded by 5.1% on an annual basis (4Q 2018: 5.8%). The moderation reflected lower growth in both outstanding loans (4.5%; 4Q 2018: 5.1%)[3] and corporate bonds (7.1%; 4Q 2018: 8.0%)[4]. The growth in outstanding business loans moderated to 3.3% (4Q 2018: 4.6%), due mainly to the lower loan growth in the real estate and construction sectors amid continued weakness in the property segment, near-completion of large scale projects, and smaller size of new projects. However, loan growth was higher in the wholesale and retail trade, restaurants and hotels (WRRH), and manufacturing sectors, in line with continued expansion of economic activity in those sectors. Outstanding household loan growth during the period was broadly sustained at 5.0% (4Q 2018: 5.2%). Residential property loans continued to be the primary driver of household loan expansion (3.8 percentage points; 4Q 2018: 4.0 percentage points).

[3] Loans extended by both the banking system and development financial institutions (DFIs).

[4] Corporate bonds exclude issuances by Cagamas and non-residents.

The Bank's Policy Considerations

HIGHLIGHTS

- **The MPC reduced the Overnight Policy Rate by 25 basis points to 3.00% at the May 2019 MPC meeting. The adjustment was intended to preserve the degree of monetary accommodativeness.**

The OPR remained accommodative

The Monetary Policy Committee (MPC) reduced the Overnight Policy Rate (OPR) by 25 basis points to 3.00% at the May 2019 meeting. The ceiling and floor rates of the corridor for the OPR were correspondingly reduced to 3.25% and 2.75%, respectively.

Although the global economy continues to expand, underlying economic conditions continue to suggest moderation going forward. Considerable downside risks to global growth remain, stemming from unresolved trade tensions and prolonged country-specific weaknesses in the major economies, further dampening global trade and investment activities. Heightened policy uncertainties could lead to sharp financial market adjustments, further weighing on the overall outlook.

Domestically, the baseline projection is for the Malaysian economy to grow within the projected range of 4.3% - 4.8%. However, there are downside risks to growth from heightened uncertainties in the global and domestic environment, trade tensions and extended weaknesses in commodity-related sectors.

Headline inflation is expected to be broadly stable in 2019 compared to 2018. In the immediate term, however, inflation is expected to remain low due mainly to the price ceiling on domestic retail fuel prices and the impact of the changes in consumption tax policy. The trajectory of headline inflation will, however, continue to be dependent on movements in global oil prices. Underlying inflation is expected to remain stable, supported by the continued expansion in economic activity and in the absence of strong demand pressures.

The domestic financial markets have remained resilient, despite periods of volatility primarily due to global developments. While domestic monetary and financial conditions remain supportive of economic growth, there are some signs of tightening of financial conditions. The adjustment to the OPR is therefore intended to preserve the degree of monetary accommodativeness. This is consistent with the monetary policy stance of supporting a steady growth path amid price stability.

At this level of the OPR, the stance of monetary policy remains accommodative and supportive of economic activity. Going forward, the MPC will continue to monitor and assess the balance of risks surrounding the outlook for domestic growth and inflation.

Other policy highlights in the first quarter of 2019

The policy document on *Investment-linked (IL) Business* was issued in January 2019 to strengthen existing prudential and conduct requirements on IL business, and ensure policy owners/takaful participants are accorded fair treatment. The implementation of Minimum Allocation Rates (MAR) is a safeguard to protect customer account values concurrent with the removal of limits on commissions and agency-related expenses[5]. Additionally, requirements are set out to address gaps in existing industry practices and ensure an IL policy/certificate coverage is sustainable until the end of the policy/certificate contractual term[6]. Disclosure requirements[6] are also enhanced to aid consumer understanding on key risks and benefits of IL policies/certificates.

As part of efforts to spur the sharing of publicly available data[7], the Bank had, in January 2019, issued a policy document on Publishing Open Data using Open API. The policy document sets out the Bank's recommendations to the industry in developing and publishing Open Application Programming Interface (Open API) to facilitate access to publicly available data. The recommendations cover design considerations for Open APIs as well as security measures proportionate to the sensitivity of data being shared through Open APIs. This builds upon the Open Data API Specifications developed by the Open API Implementation Group (IG). Led by the Bank, the IG was formed in March 2018 to identify and develop standardised Open APIs for high-impact use cases. The IG has developed standardised specifications for Open APIs on product information in relation to SME financing, credit card and motor insurance/takaful. The Bank encourages financial institutions to adopt these specifications to ensure industry-wide publication of standardised Open Data API.

[5] Effective 1 July 2019 (for life insurers) and 1 July 2020 (for family takaful operators).
[6] Effective 1 January 2020 for life insurers and family takaful operators.
[7] Refers to publicly available and usable data that is published by financial institutions, including financial product information (i.e. key information on a financial product, such as those provided in product disclosure sheets, which facilitates customers in making informed decisions).

Macroeconomic Outlook

HIGHLIGHTS

- In 2019, global growth is expected to moderate.
- Economic growth in Malaysia to remain on a steady path.
- Headline inflation is expected to be broadly stable in 2019.

More moderate global growth in 2019

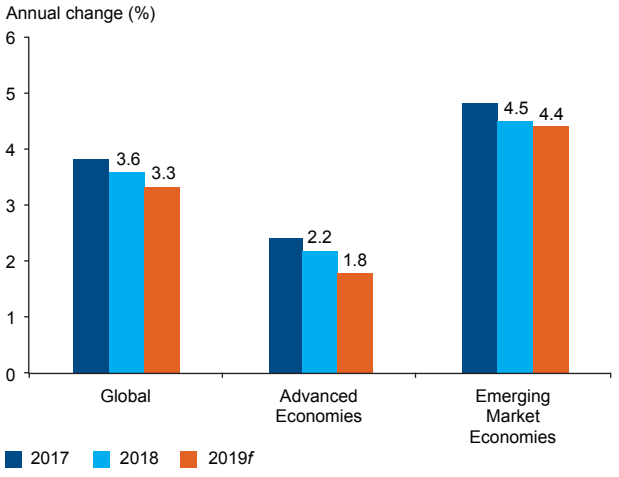
The global economy is expected to expand at a more moderate pace in 2019.

The temporary boost to US growth from fiscal stimulus is expected to fade, while domestic demand in the euro area is slowing. Economic activity in the Asian region is also expected to be lower, given softer external demand. Nevertheless, in PR China, active counter-cyclical policy will provide some support to the outlook as the government seeks to manage the external headwinds.

On balance, risks to the outlook remain tilted to the downside. Policy support in PR China could lead to stronger-than-expected growth and spillovers to emerging markets. However, downside risks predominate from prolonged weaknesses in the euro area, further delays and uncertainties in Brexit negotiations, as well as a potential escalation of trade disputes.

Moderating global growth in 2019

Chart 24: GDP Growth

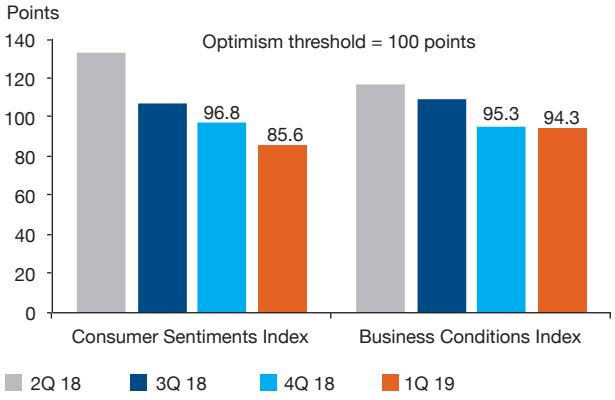


f Forecast

Source: IMF World Economic Outlook (April 2019)

Moderating sentiments in 1Q 2019

Chart 25: MIER Consumer Sentiments and Business Conditions Index



Source: Malaysian Institute of Economic Research (MIER)

Growth in the Malaysian economy to remain steady in 2019

Against the backdrop of a challenging global environment, growth in the Malaysian economy is expected to remain broadly sustained for the year. Growth will be supported by continued expansion in domestic demand amid a moderate support from the external sector.

Private sector spending is expected to remain the key driver of growth. Although consumer sentiments have moderated from its recent peak, household spending will be underpinned by continued income and employment growth. Investment activity is estimated to improve, driven by ongoing capacity expansion in key sectors, with additional support from new manufacturing investments, as reflected by the high MIDA investment approvals. Nevertheless, overall growth may be partially weighed down by lower public sector spending.

Risks to growth remain tilted to the downside, arising mainly from external uncertainties such as further weakening of global growth and heightened financial market volatility. On the domestic front, unexpected interruptions in commodity production could also affect Malaysia's growth prospects.

Broadly stable average headline inflation in 2019

In 2019, headline inflation is expected to average between 0.7% - 1.7%. Domestic cost factors[8] are expected to result in moderate upward pressures on headline inflation. However, the upward impact would be offset by the expected lower global oil prices than in 2018 and the price ceilings on domestic retail fuel prices.

While headline inflation could remain low in the immediate term due to key policy measures, it will increase from the current rate as the impact of changes in the consumption tax policy begins to lapse.

There are several key risks to the inflation outlook. On the upside, global oil prices could rise higher than expected. However, the impact on domestic fuel prices would be limited to some extent by the price ceilings in the near-term although input costs for firms could increase. On the downside, the expansion in the list of controlled food items and the extension of the enforcement period for festive season price controlled scheme could limit fluctuations in food inflation.

Underlying inflation, which excludes the impact of the changes in consumption tax policy, is expected to remain stable, supported by the continued expansion in economic activity and in the absence of strong demand pressures.

[8] Domestic cost factors include the lapse in the combined impact of the changes in consumption tax policy, increase in the minimum wage and higher electricity tariff surcharge for businesses.

Annex

Table 1:

GDP by Expenditure Components (at constant 2015 prices)

	Share 2018 (%)	2018			2019
		1Q	4Q	Year	1Q
		Annual growth (%)			
Aggregate Domestic Demand (excluding stocks)	94.1	4.1	5.7	5.5	4.4
Private sector	*74.2*	5.2	7.8	7.1	5.9
Consumption	*57.0*	*6.6*	*8.4*	*8.0*	*7.6*
Investment	*17.3*	*1.1*	*5.8*	*4.3*	*0.4*
Public sector	*19.8*	-0.3	0.0	0.1	-1.4
Consumption	*12.5*	*0.4*	*4.0*	*3.3*	*6.3*
Investment	*7.4*	*-1.3*	*-5.9*	*-5.0*	*-13.2*
Net Exports	7.0	58.0	15.5	11.4	10.9
Exports of Goods and Services	*67.6*	*2.4*	*3.1*	*2.2*	*0.1*
Imports of Goods and Services	*60.6*	*-2.3*	*1.8*	*1.3*	*-1.4*
GDP	**100.0**	**5.3**	**4.7**	**4.7**	**4.5**
GDP (q-o-q growth, seasonally adjusted)	**-**	**1.3**	**1.3**	**-**	**1.1**

Source: Department of Statistics, Malaysia

Table 2:

GDP by Economic Activity (at constant 2015 prices)

Annual growth (%)	Share 2018 (%)	2018			2019
		1Q	4Q	Year	1Q
Services	56.7	6.5	6.9	6.8	6.4
Manufacturing	22.4	5.2	4.7	5.0	4.2
Mining	7.6	-0.6	-0.7	-2.6	-2.1
Agriculture	7.3	3.1	-0.1	0.1	5.6
Construction	4.9	4.9	2.6	4.2	0.3
Real GDP	**100.0**[1]	**5.3**	**4.7**	**4.7**	**4.5**

[1] Numbers do not add up due to rounding and exclusion of import duties component

Source: Department of Statistics, Malaysia

Table 3:

Balance of Payments[1]

	2018			2019
	1Q	4Q	Year	1Q
	RM billion			
Current Account	13.6	10.8	30.6	16.4
(% of GNI)	4.0	3.0	2.2	4.7
Goods	34.2	32.7	119.2	33.8
Services	-5.5	-3.8	-17.7	-1.8
Primary income	-10.4	-12.9	-51.6	-10.1
Secondary income	-4.6	-5.2	-19.3	-5.5
Financial Account	**11.9**	**-6.1**	**18.6**	**-13.8**
Direct investment	9.2	2.1	11.3	16.3
Assets	*-3.2*	*-10.0*	*-23.3*	*-6.9*
Liabilities	*12.4*	*12.1*	*34.6*	*23.1*
Portfolio investment	-1.5	-5.8	-44.4	2.1
Assets	*-9.6*	*-3.3*	*-9.1*	*-11.4*
Liabilities	*8.1*	*-2.5*	*-35.3*	*13.5*
Financial derivatives	0.8	-0.7	1.0	-0.2
Other investment	3.3	-1.8	50.7	-31.9
Net errors & omissions[2]	-7.3	-10.8	-41.3	2.9
Overall Balance	**18.2**	**-6.1**	**7.8**	**5.5**

Assets: (-) denotes outflows due to the acquisition of assets abroad by residents
Liabilities: (+) denotes inflows due to the incurrence of foreign liabilities
[1] In accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6) by the International Monetary Fund (IMF)
[2] As at 1Q 2018, quarterly net E&O excludes reserves revaluation changes. This practice is backdated up to 1Q 2010.
Note: Numbers may not add up due to rounding

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Table 4:

Outstanding External Debt

	2018		2019
	end-Mar	end-Dec	end-Mar
	RM billion		
Total External Debt	**884.9**	**924.9**	**903.7**
USD billion equivalent	*226.9*	*221.0*	*219.3*
By instrument			
Bonds and notes[1]	146.4	153.2	158.1
Interbank borrowings[1]	169.7	204.1	175.7
Intercompany loans[1]	129.0	136.5	140.9
Loans[1]	67.3	73.2	72.1
NR holdings of domestic debt securities	210.2	180.2	186.9
NR deposits	87.8	98.2	93.6
Others[2]	74.6	79.5	76.3
Maturity profile			
Medium and long-term	534.0	519.6	535.2
Short-term	350.9	405.3	368.5
Currency denomination			
Ringgit	312.3	287.5	295.7
Foreign	572.7	637.4	607.9
Total debt/GDP (%)	61.2	63.9	59.5
Short-term debt/Total debt (%)	39.7	43.8	40.8
Reserves/Short-term debt (times)	1.2	1.0	1.1[3]

[1] These debt instruments constitute the offshore borrowings.
[2] Comprise trade credits, IMF allocation of SDRs and miscellaneous.
[3] Based on international reserves as at 30 April 2019.
Note: NR refers to non-residents
Figures may not add up due to Rounding

Source: Ministry of Finance and Bank Negara Malaysia

Table 5:

Financing of the Private Sector through the Banking System, DFIs and Capital Market

	2018			2019	2018			2019
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
	Change during the period (RM billion)				Annual growth (%)			
Net total financing	**36.7**	**30.5**	**133.8**	**22.5**	**6.3**	**5.8**	**5.8**	**5.1**
Outstanding loans[1,2]	18.4	23.6	88.7	8.3	3.9	5.1	5.1	4.5
Of which:								
Business enterprises	8.6	3.9	28.6	0.9	1.3	4.6	4.6	3.3
SMEs[3]	*2.1*	*-0.4*	*2.0*	*-1.8*	*4.8*	*0.6*	*0.6*	*-0.6*
Non-SMEs	*6.5*	*4.3*	*26.6*	*2.7*	*-2.0*	*8.6*	*8.6*	*7.2*
Households	11.6	14.5	52.3	10.2	5.2	5.2	5.2	5.0
Outstanding corporate bonds	18.3	6.9	45.2	14.2	14.1	8.0	8.0	7.1

[1] Banking system and development financial institution (DFIs)
[2] Includes loans sold to Cagamas
[3] Partly reflects an ongoing reclassification exercise of SMEs to Non-SMEs by financial institutions
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Table 6:

Loan Indicators

	2018			2019	2018			2019
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
	During the period (RM billion)				Annual growth (%)			
Total								
Loan applications[1]	209.1	200.1	859.8	192.3	5.9	-8.0	2.2	-8.0
Loan approvals[1]	90.3	103.2	397.7	89.2	3.3	-0.9	4.6	-1.3
Loan disbursements[2]	300.5	340.7	1,256.6	312.2	1.7	9.9	7.3	3.9
Loan repayments[2]	296.2	332.7	1,236.8	317.7	1.2	10.8	6.7	7.2
Of which:								
Business enterprises[3]								
Loan applications	94.2	86.5	380.0	83.2	9.0	-13.4	2.7	-11.7
Loan approvals	39.7	50.9	186.1	40.1	-3.1	-1.3	4.7	1.1
Loan disbursements	210.2	248.3	898.7	220.3	-1.7	13.0	7.5	4.8
Loan repayments	206.0	244.9	889.6	225.7	-2.2	13.2	6.6	9.6
SMEs[4]								
Loan applications	44.0	43.3	181.9	43.5	7.0	-9.3	2.6	-1.1
Loan approvals	15.1	16.3	65.5	15.2	8.3	-11.6	1.4	0.5
Loan disbursements	75.9	80.8	307.3	75.4	5.7	3.1	3.7	-0.7
Loan repayments	74.7	79.3	304.3	76.5	7.0	8.1	6.4	2.4
Non-SMEs[3]								
Loan applications	50.2	43.2	198.1	39.7	10.9	-17.2	2.7	-21.0
Loan approvals	24.6	34.5	120.6	25.0	-8.9	4.4	6.6	1.6
Loan disbursements	134.3	167.5	591.4	144.9	-5.4	18.6	9.6	7.9
Loan repayments	131.3	165.6	585.3	149.2	-6.7	15.8	6.7	13.7
Households								
Loan applications	114.9	113.5	479.8	109.1	3.4	-3.5	1.8	-5.0
Loan approvals	50.6	52.3	211.5	49.0	9.0	-0.5	4.5	-3.1
Loan disbursements	90.3	92.4	357.9	91.9	10.6	2.4	6.7	1.7
Loan repayments	90.2	87.7	347.2	91.9	10.1	4.7	6.9	1.9

[1] Loan applications and approvals for all segments include only banking system loans
[2] Loan disbursements and repayments for all segments include the banking system and development financial institutions (DFIs)
[3] Includes domestic non-bank financial institutions, domestic financial institutions, government, domestic other entities and foreign entities
[4] Partly reflects an ongoing reclassification exercise of SMEs to Non-SMEs by financial institutions
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Table 7:

Banking System Profitability Indicators

	2018				2019
	1Q	2Q	3Q	4Q	1Q
Return on equity (%)	12.4	13.3	12.7	12.6	11.7
Return on assets (%)	1.4	1.5	1.4	1.5	1.3
	RM million				
Net interest income	12,045	12,046	12,253	12,492	12,205
Add: Fee-based income	2,606	2,515	2,479	2,491	2,548
Less: Operating cost[1]	8,101	7,838	7,725	8,205	8,294
Gross operating profit	6,550	6,723	7,007	6,778	6,460
Less: Impairment[2] and other provisions	682	429	630	678	-8
Gross operating profit after provision	5,868	6,294	6,377	6,100	6,468
Add: Other income	3,048	4,063	2,228	3,369	2,537
Pre-tax profit	**8,916**	**10,356**	**8,605**	**9,469**	**9,005**
	Annual growth (%)				
Return on equity *(percentage points)*	0.6	0.6	-0.1	-0.4	-0.7
Return on assets *(percentage points)*	0.1	0.1	0.0	-0.03	-0.1
Net interest income	6.7	3.6	4.3	7.1	1.3
Add: Fee-based income	4.3	-0.5	-3.0	-18.0	-2.2
Less: Operating cost[1]	7.1	2.2	0.5	0.3	2.2
Gross operating profit	5.2	3.8	5.9	4.0	-1.3
Less: Impairment[2] and other provisions	126.9	-47.9	19.3	63.5	-101.2
Gross operating profit after provision	-0.9	11.3	4.7	-0.1	10.3
Add: Other income	52.0	13.6	-26.7	-12.2	-17.0
Pre-tax profit	**12.4**	**12.2**	**-5.8**	**-4.7**	**1.0**

[1] Refers to staff cost and overheads
[2] Refers to individual and collective impairment provisions in accordance with the Policy Document on Classification and Impairment Provisions for Loans / Financing for banks that have yet to adopt Malaysia Financial Reporting Standard 9 (MFRS 9), and 12 Months Expected Credit Losses (ECL), Lifetime ECL Not Credit Impaired and Lifetime ECL Credit Impaired for banks that have adopted MFRS 9

Source: Bank Negara Malaysia

Table 8:

Insurance and Takaful Sector Profitability Indicators

	2018				2019
	1Q	2Q	3Q	4Q	1Q
	RM million				
Life Insurance & Family Takaful					
Excess income over outgo	4,095	-1,222	7,610	-1,011	5,361
General Insurance & General Takaful					
Operating profit	561	759	1,207	476	660
Claims ratio (%)	57	59	53	57	56
	Annual growth (%)				
Life Insurance & Family Takaful					
Excess income over outgo	-33.1	-127.7	116.3	-120.5	30.9
General Insurance & General Takaful					
Operating profit	13.4	-0.4	84.7	-39.2	17.6
Claims ratio (percentage points)	-6.0	3.7	-7.9	2.3	-0.8

Source: Bank Negara Malaysia

Table 9:

Federal Government Finance[p]

	2018[p]			2019[p]
	1Q	4Q	Year	1Q
	RM billion			
Revenue	54.3	67.2	232.9	63.7
% annual growth	*16.5*	*4.0*	*5.7*	*17.2*
Operating expenditure	54.9	58.1	231.0	59.5
% annual growth	*-4.6*	*-0.4*	*6.1*	*8.3*
Current account	**-0.6**	**9.1**	**1.9**	**4.2**
% of GDP	***-0.2***	***2.4***	***0.1***	***1.2***
Net development expenditure	10.8	28.0	55.3	11.3
% annual growth	*15.5*	*108.6*	*28.5*	*5.5*
Overall balance	**-11.3**	**-18.9**	**-53.4**	**-7.1**
% of GDP	***-3.3***	***-5.0***	***-3.7***	***-2.0***
Memo:				
Total net expenditure	65.7	86.1	286.3	70.8
% annual growth	*-1.8*	*20.0*	*9.8*	*7.8*
Total Federal Government debt (as at end-period)	705.0	741.0	741.0	776.8
% of GDP	*48.7*	*51.2*	*51.2*	*51.2*
Domestic Debt	499.5	562.2	562.2	584.4
% of GDP	*34.5*	*38.9*	*38.9*	*38.5*
External Debt	205.5	178.8	178.8	192.5
% of GDP	*14.2*	*12.4*	*12.4*	*12.7*
Non-resident holdings of RM-denominated Federal Government debt	*189.6*	*162.1*	*162.1*	*176.2*
% of GDP	*13.1*	*11.2*	*11.2*	*11.6*
Offshore borrowing	*15.9*	*16.7*	*16.7*	*16.3*
% of GDP	*1.1*	*1.2*	*1.2*	*1.1*

[p] Preliminary
Note: Numbers may not add up due to rounding

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia