Sidang Akhbar
Prestasi Ekonomi Suku Ketiga Tahun 2019

15 Nov 2019

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

JABATAN PERANGKAAN MALAYSIA
DEPARTMENT OF STATISTICS MALAYSIA

Sidang akhbar akan meliputi

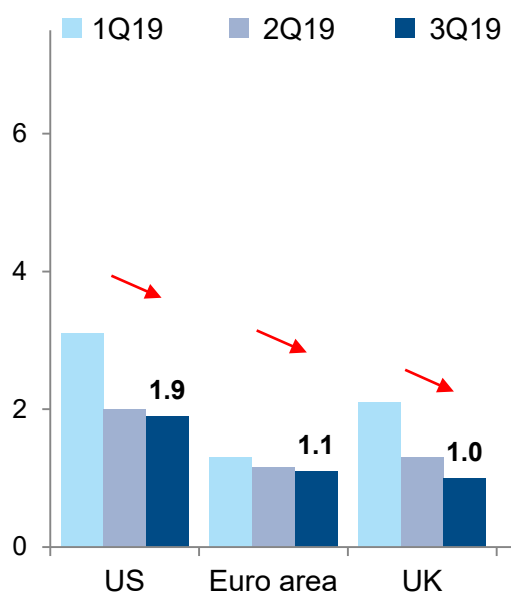
- Perkembangan ekonomi global dan serantau
- Prestasi ekonomi Malaysia pada suku ketiga 2019
- Keadaan monetari dan kewangan

Challenging global economic environment

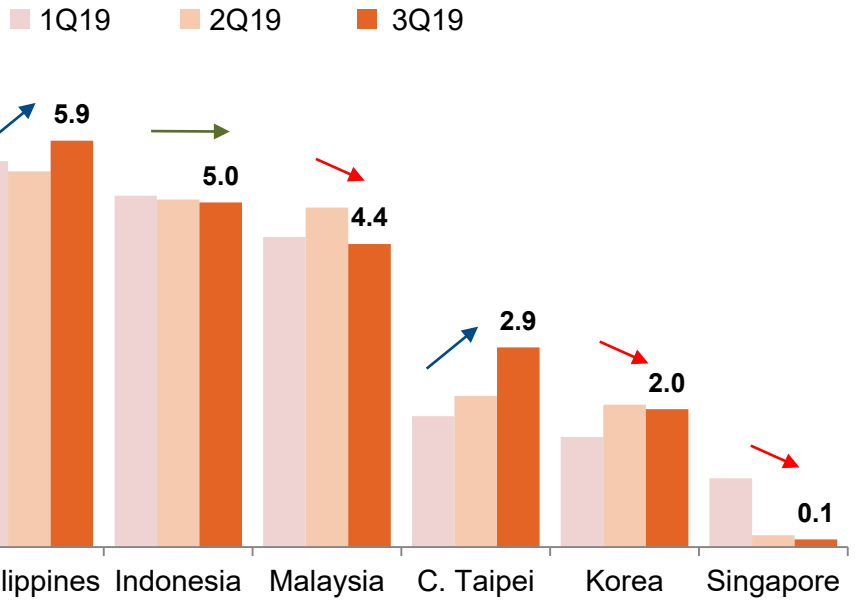
1. Slower growth across advanced and emerging market economies
2. Weak global trade amid ongoing trade tensions
3. Heightened global uncertainty

Slower growth across most major and regional economies in 3Q19

Advanced Economies
GDP, Annual change (%)



Regional Economies
GDP, Annual change (%)



Softening domestic demand

- Softer labour conditions in the US
- Weak investment activity in the euro area due to country-specific factors and slower external demand

Weak external demand amid headwinds from trade tensions

- Softer private sector expenditure amid spillovers from weak exports, with domestic demand supported by policy stimulus
- Continued weakness in external demand amid moderating growth in major economies and unresolved trade tensions

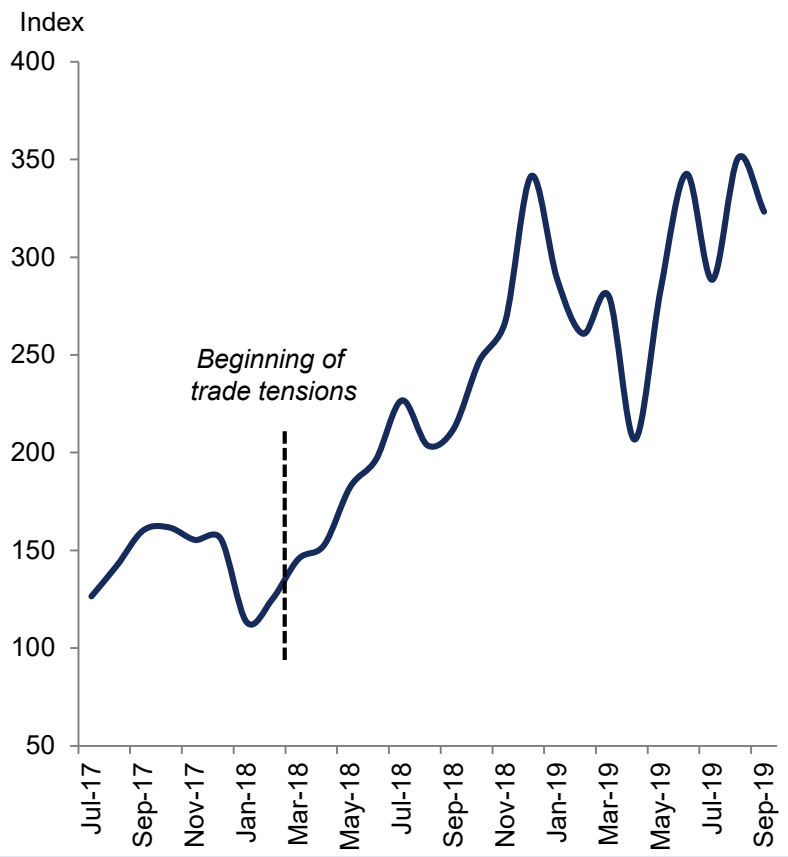
Source: National authorities, Haver

Elevated uncertainty, arising from trade and geopolitical tensions

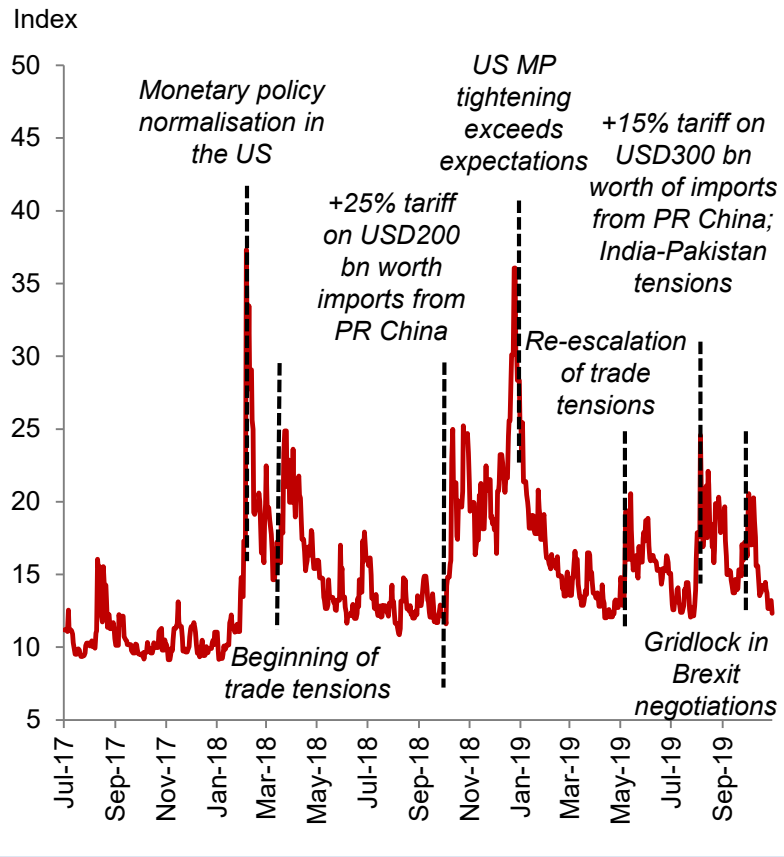
Heightened global policy uncertainty …

… leading to spikes in financial market volatility

Global Economic Policy Uncertainty Index



Chicago Board Options Exchange Volatility Index

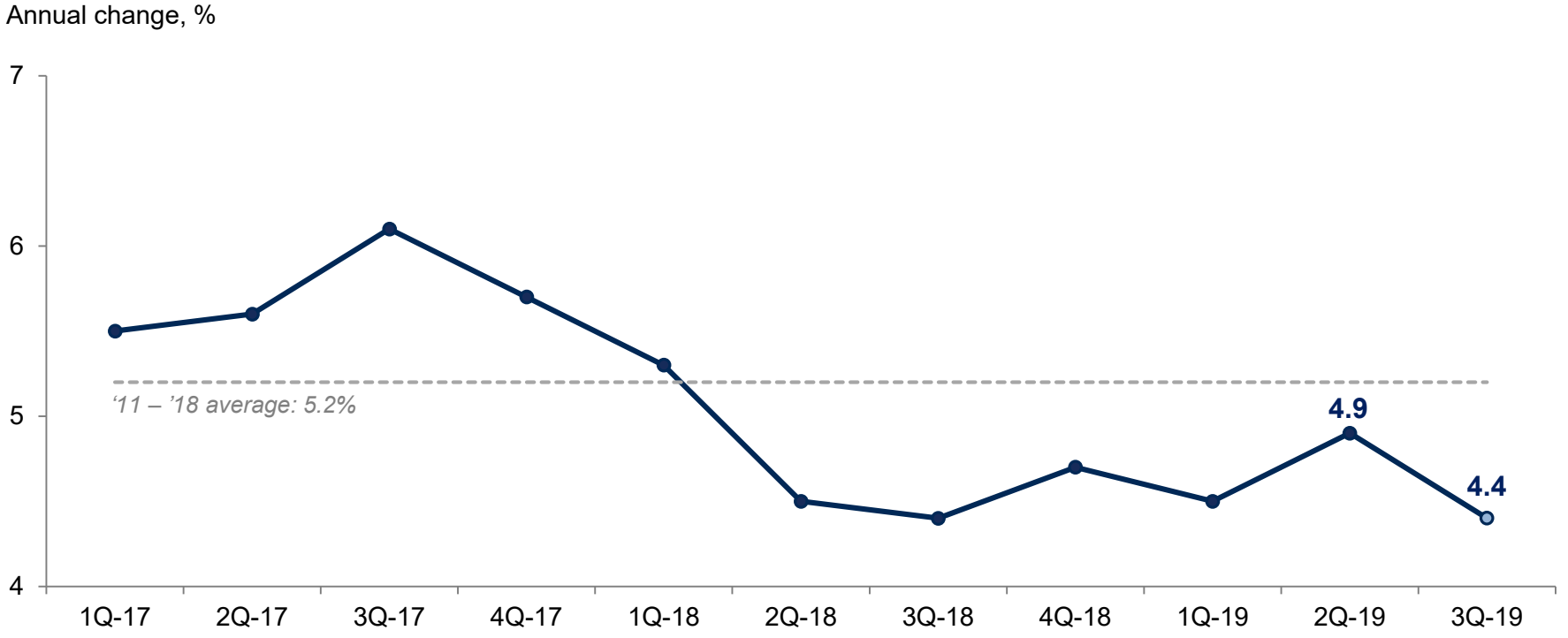


Source: policyuncertainty.com, Bloomberg

The Malaysian economy expanded by 4.4% in the third quarter

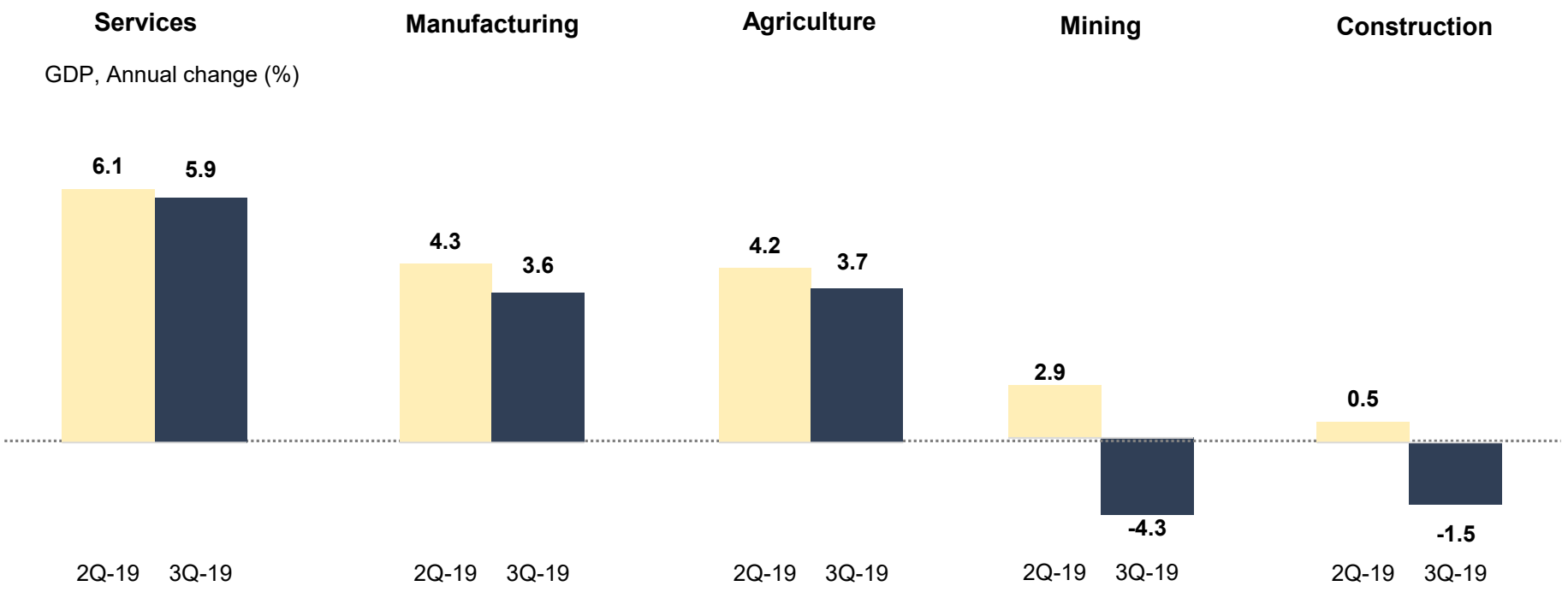
Growth remained anchored by continued expansion in private sector spending

Real GDP Growth



Source: Department of Statistics, Malaysia

Services and manufacturing sectors continued to support growth



Continued post-tax holiday normalisation

Slower growth in E&E cluster

Continued recovery of oil palm output, albeit at a slower pace

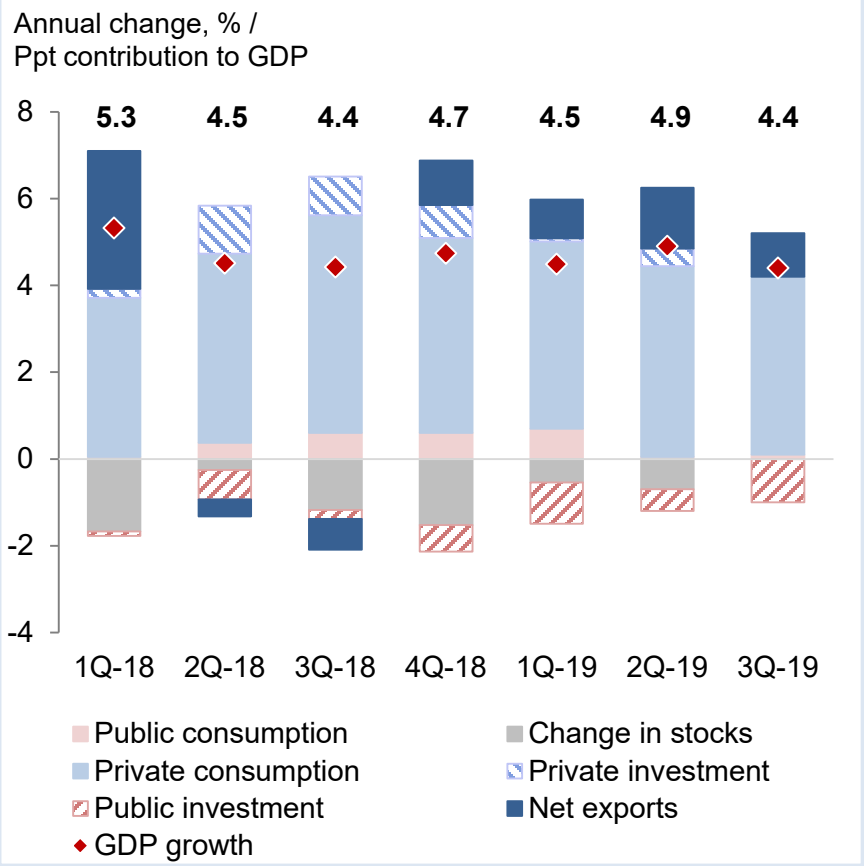
Maintenance works in oil facilities

Further contraction in the non-residential and residential subsectors

Source: Department of Statistics, Malaysia

Private sector expenditure remained the key contributor to growth

Quarterly GDP growth



Firm private sector expenditure

- *Continued household spending and private investment growth*

Continued support from net exports

- *Imports declined at a faster pace than exports*

Subdued public investment

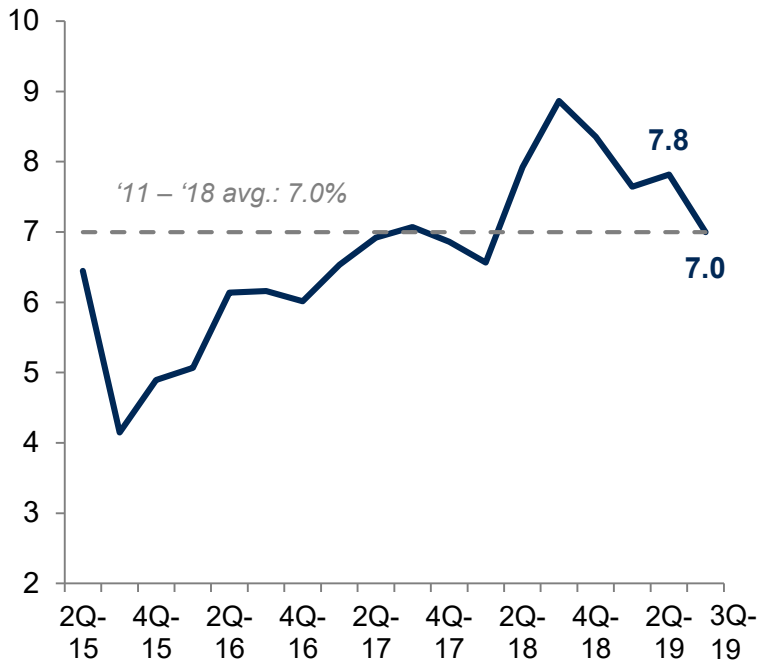
- *Contraction in capital outlays by Federal Government and public corporations*

Source: Department of Statistics, Malaysia

Firm private consumption growth

Household spending normalised towards its long-term trend following the strong tax holiday spending last year

Real Private Consumption Growth



Going forward, consumer spending to remain supported by:

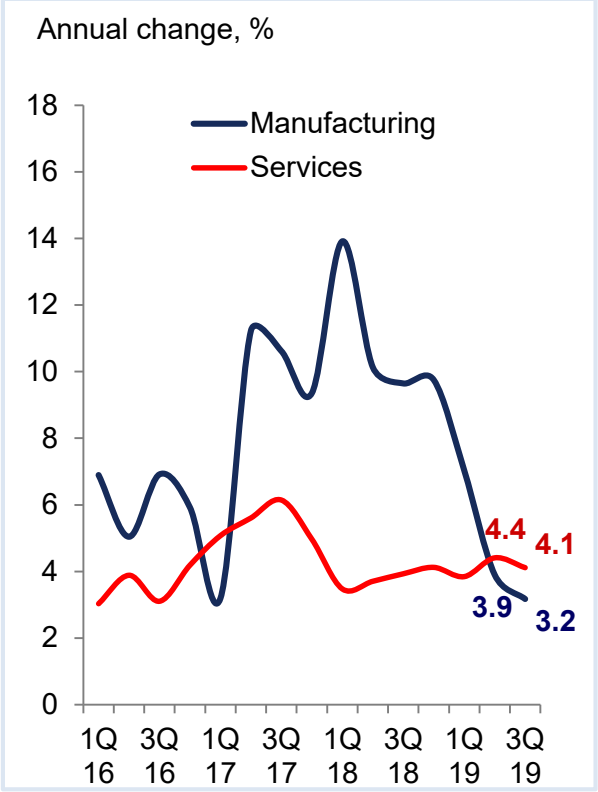
- Continued income and employment growth
- Supportive Government measures
- Modest inflationary pressures

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

Continued employment and income growth supportive of household spending

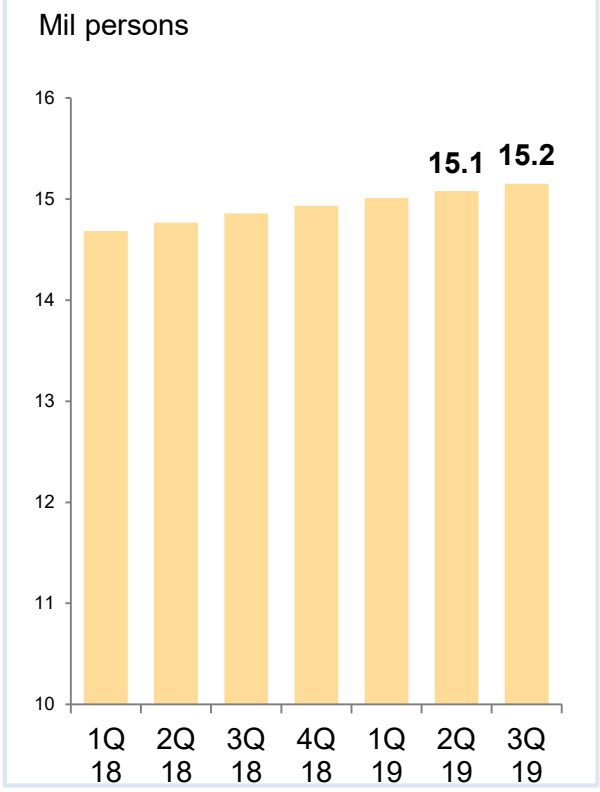
Despite moderating wage growth…

Wage Growth



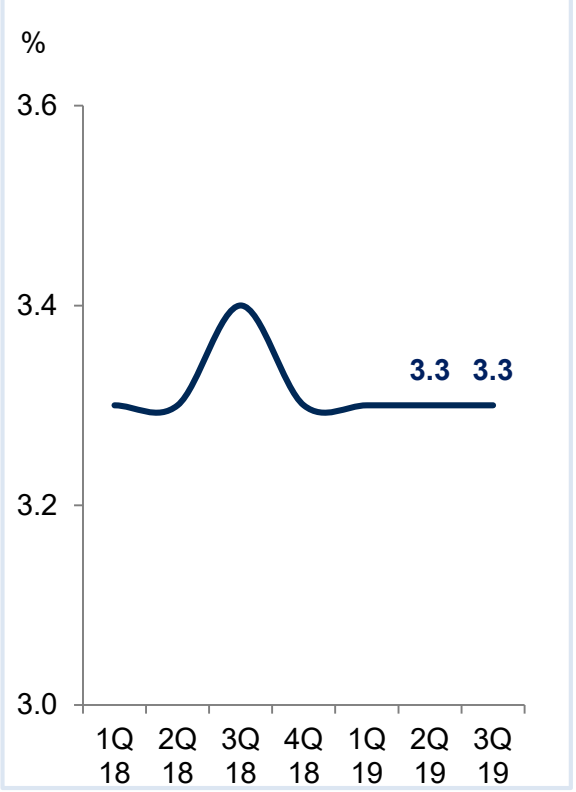
...employment continued to increase

Employment



...while unemployment rate remained stable

Unemployment Rate

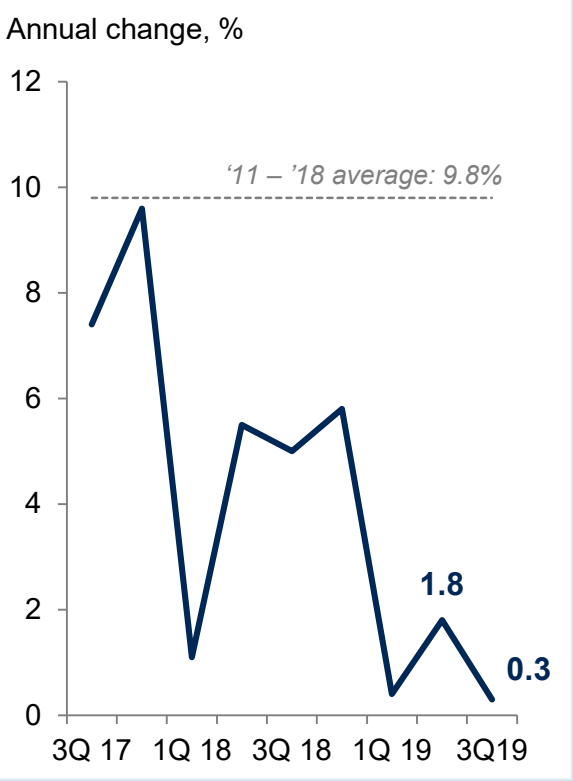


Source: Department of Statistics, Malaysia

Private investment growth expanded marginally

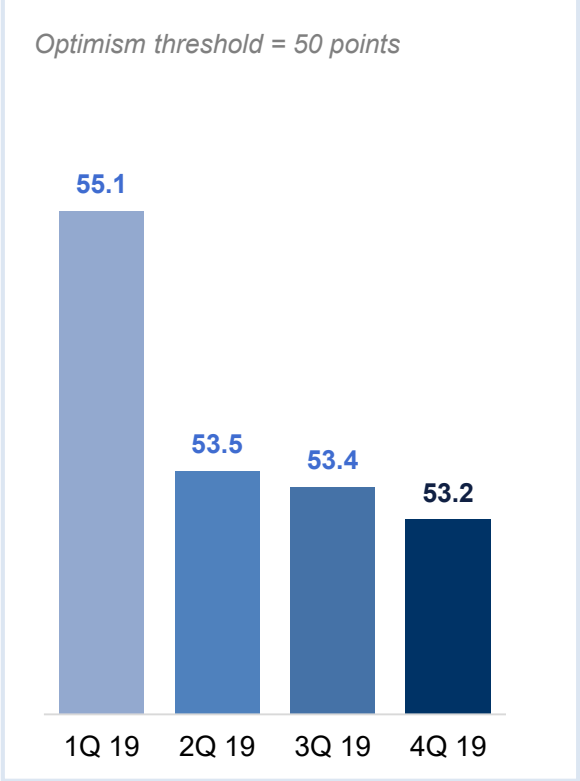
Weaker private investment growth...

Real Private Investment Growth



...amid subdued business sentiment

RAM Business Confidence Index (Corporates)



Downside risks remain

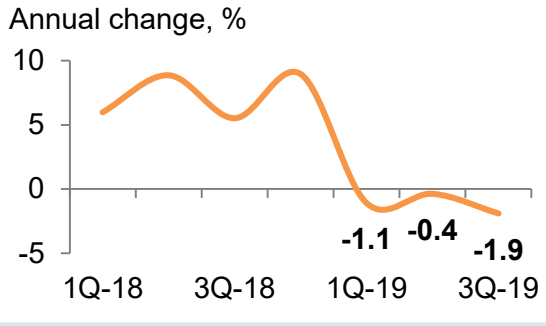
- Heightened global uncertainty and slower global growth
- Persistent weakness in the property segment

Source: Department of Statistics, Malaysia, RAM BCI

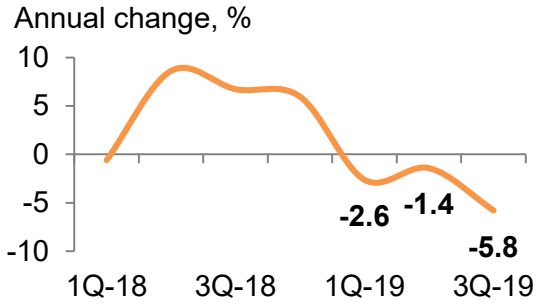
Subdued export and import performance in 3Q 2019

Decline in exports and a sharper contraction in imports

Export Growth

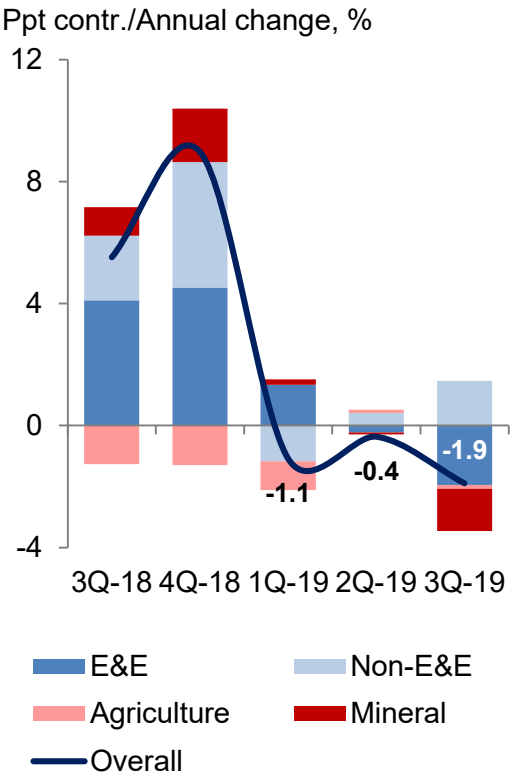


Import Growth



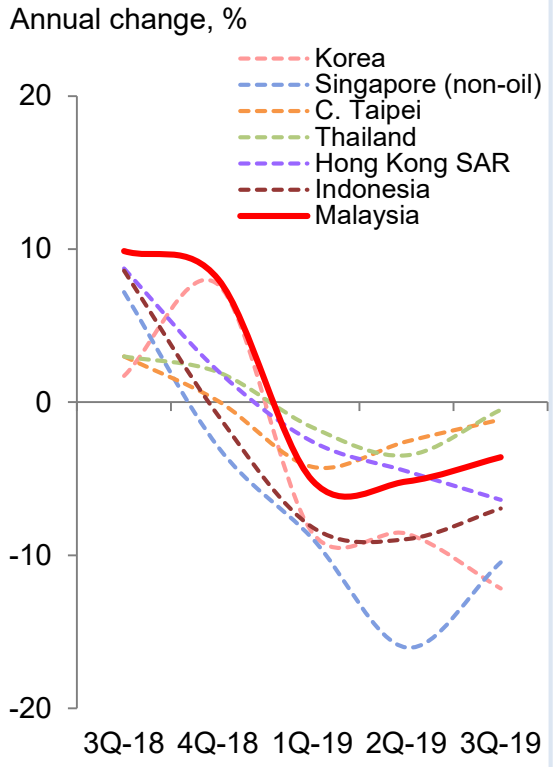
Diversified exports helped mitigate impact of weaker E&E and commodities exports…

Malaysia's Exports by Product



…as reflected in Malaysia's exports compared to several regional economies

Regional Economies Export Performance in USD Terms

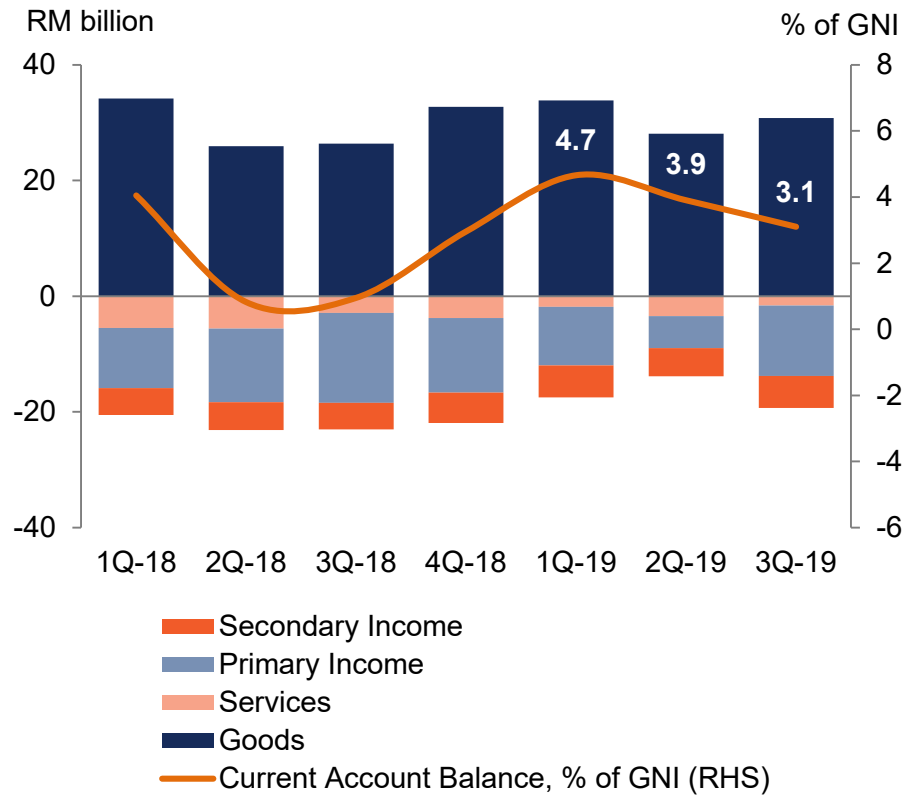


Source: Department of Statistics, Malaysia and Bloomberg

Current account of the balance of payments registered a surplus of RM11.5 billion or 3.1% of GNI

Higher goods surplus

Current Account Balance



Moving forward, current account to remain in surplus

Sustained goods surplus

- Demand from key trade partners

Services and income accounts to remain in deficit

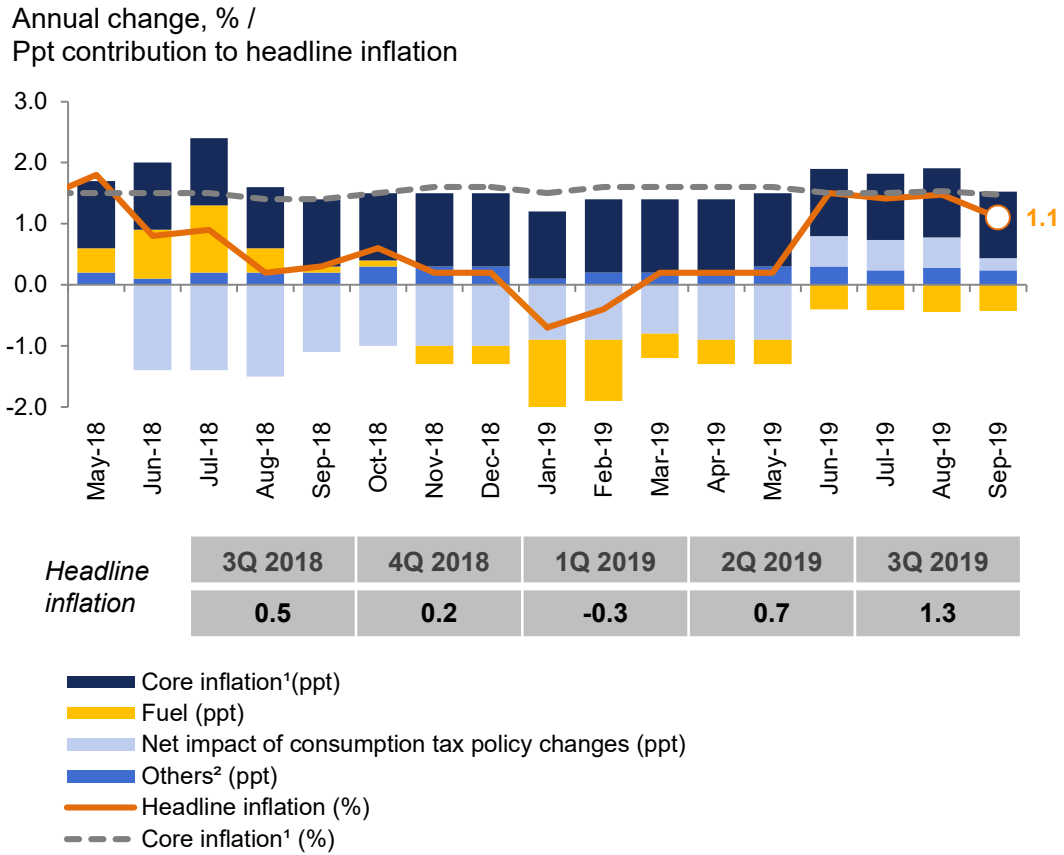
- Higher imports of transportation, trade-related and other business services; but
- Higher travel account surplus
- Sizeable investment returns generated by non-resident investors

Sources: Department of Statistics, Malaysia and Bank Negara Malaysia

Monetary and Financial Developments

Headline inflation increased to 1.3% in 3Q 2019

Contribution to Headline Inflation by Component



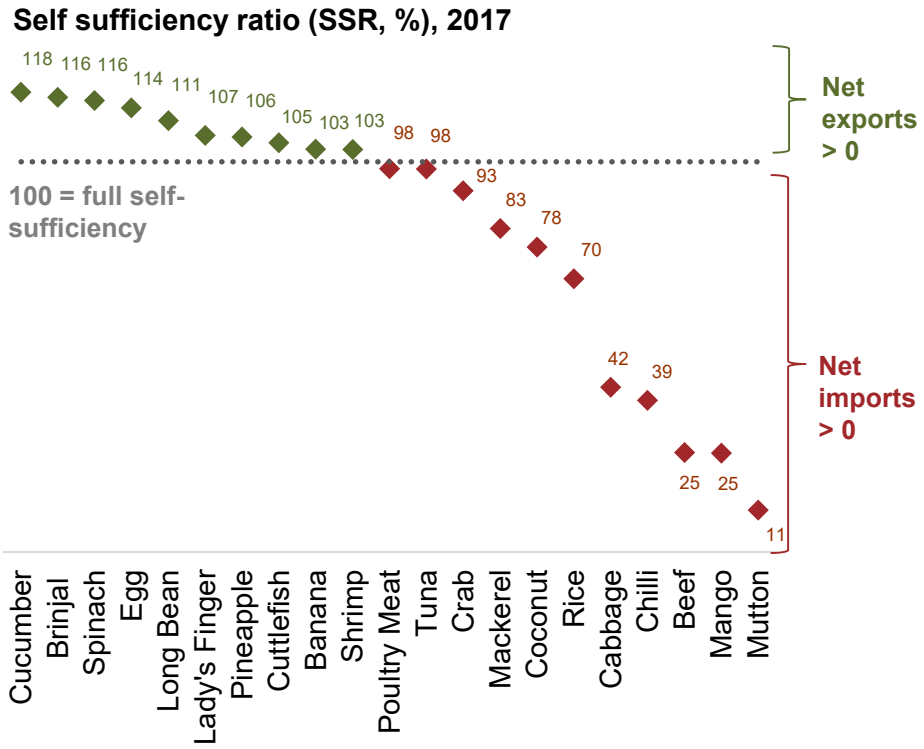
	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019
Headline inflation	0.5	0.2	-0.3	0.7	1.3

- Average headline inflation in 2019 is expected to be low
- Underlying inflation is expected to remain stable

[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 items and other price-administered items
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

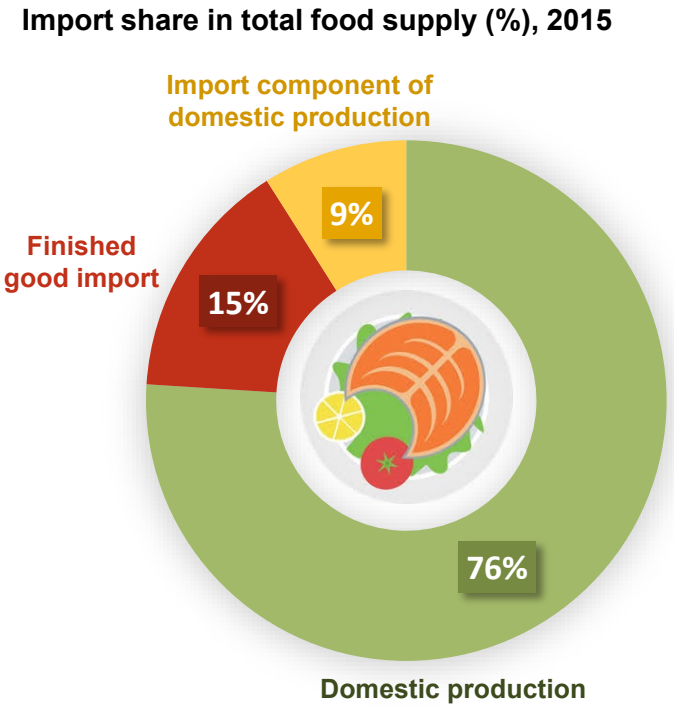
Box Article: While Malaysia is a net food importer, it is self-sufficient for many basic food items

Many basic food items have high self sufficiency ratios…



Note: SSR= Domestic production/domestic supply excl. exports
Source: Supply and Utilisation Accounts Selected Agricultural Commodities Malaysia 2013-2017, Department of Statistics, Malaysia (DOSM)

…with imports forming 24% of total food supply



Note: The total import share is calculated based on a weighted average of 17 food-related industries excluding oils & fats.
Source: Input-Output Tables 2010-2015, DOSM

Box Article: The exchange rate has a limited impact on food prices, which varies by items and households



Exchange rates* explain one part of food price changes

- *Prices are also determined by other factors (e.g. commodity prices)*



Exchange rate impact varies across food items…

For example, exchange rate pass-through to inflation is:

- *~26% for Indian mackerel, compared to*
- *~8% for apples***



…and varies across households

- *Impact on households' expenditure depends on consumption patterns*

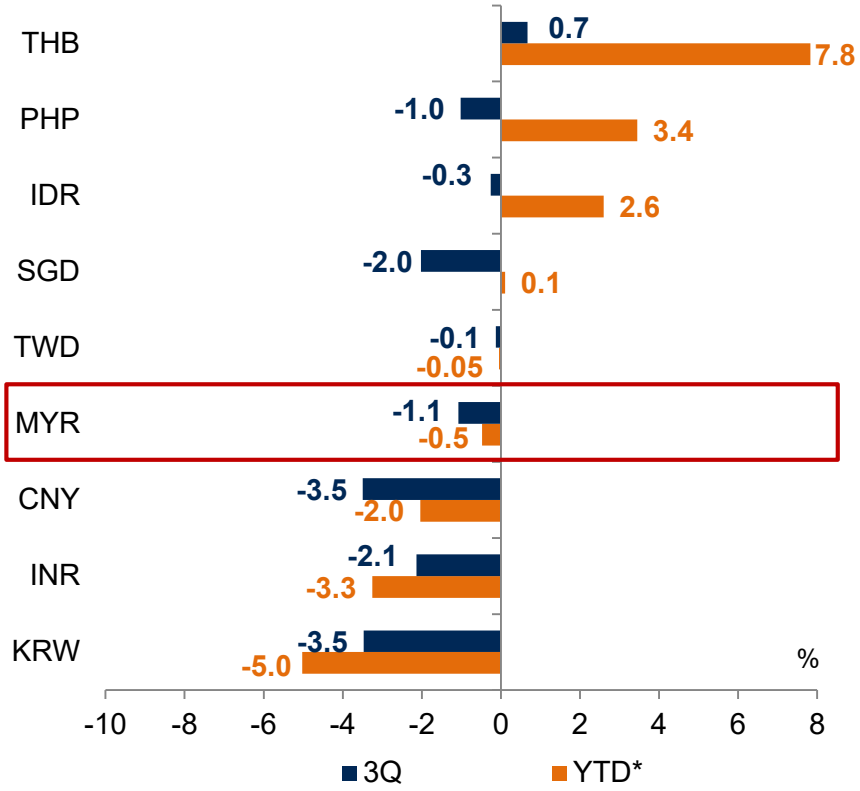
*As measured by the nominal effective exchange rate (NEER)

**These figures are based on estimations using quarterly inflation data from 1Q 2010 to 3Q 2019 on changes in NEER, controlling for seasonality, output gap, wage-productivity gap, inflation in import partner economies, and relevant commodity prices where possible

Performance of domestic financial markets continued to be influenced by external developments

Movements of domestic financial markets during the quarter reflected global developments, especially trade disputes and global monetary easing

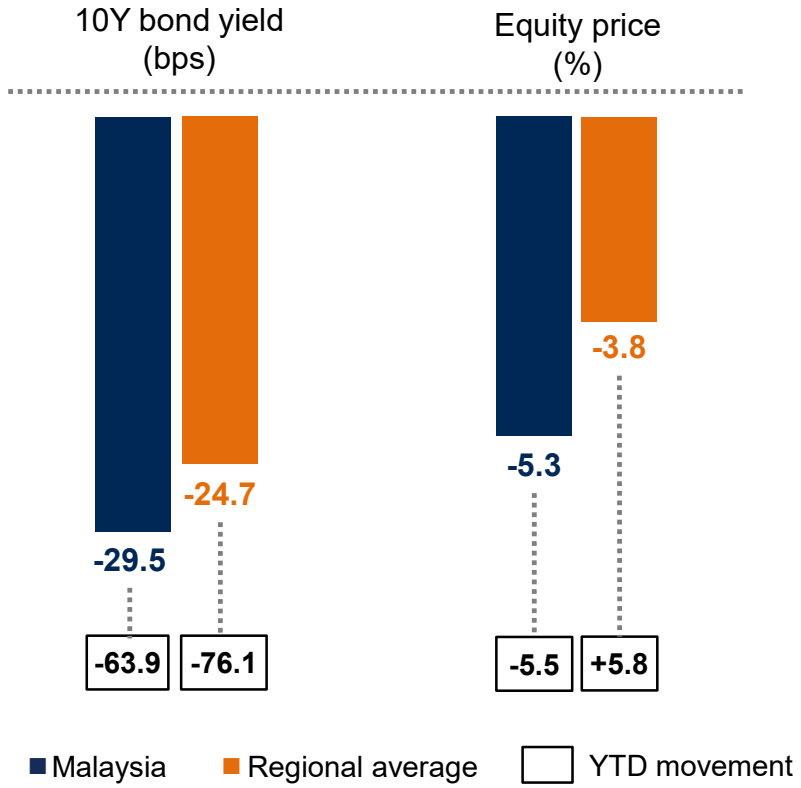
Movement of Ringgit and Regional Currencies against the US Dollar



*YTD as at 14 November 2019

Source: Bank Negara Malaysia

Movement of 10-Year Sovereign Bond Yields and Equity Prices of Regional Markets in 3Q*



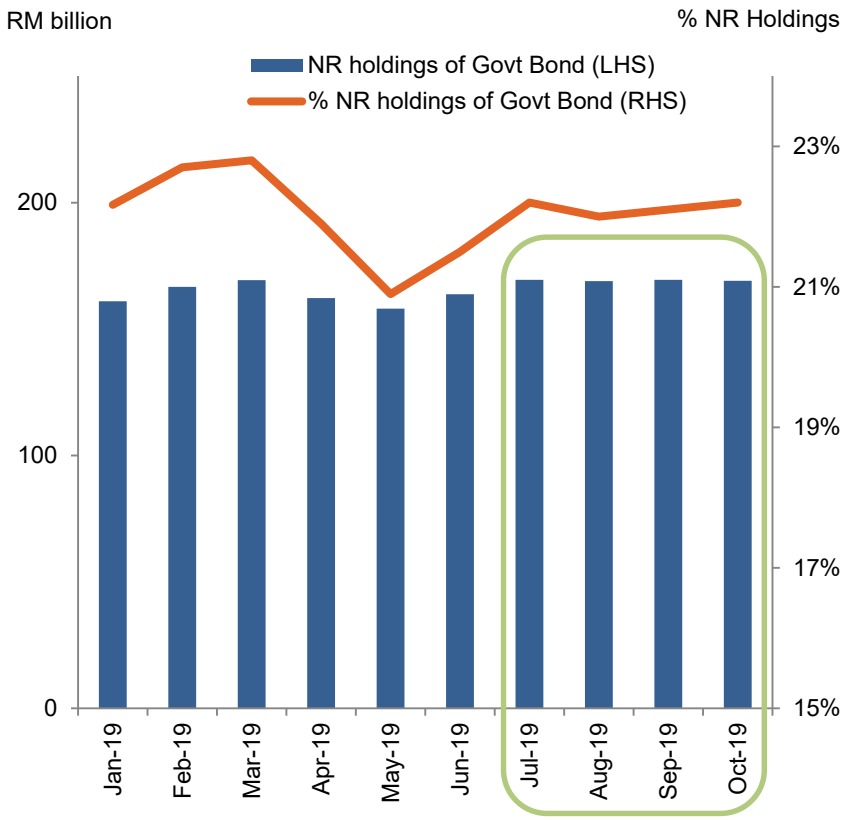
*Movement change for the third quarter (28 June to 30 September). Regional countries include Indonesia, the Philippines, PR China, Singapore, South Korea and Thailand

Source: Bloomberg, Bank Negara Malaysia

Non-residents registered inflows into the domestic bond markets in Q3, with bond yields edging lower

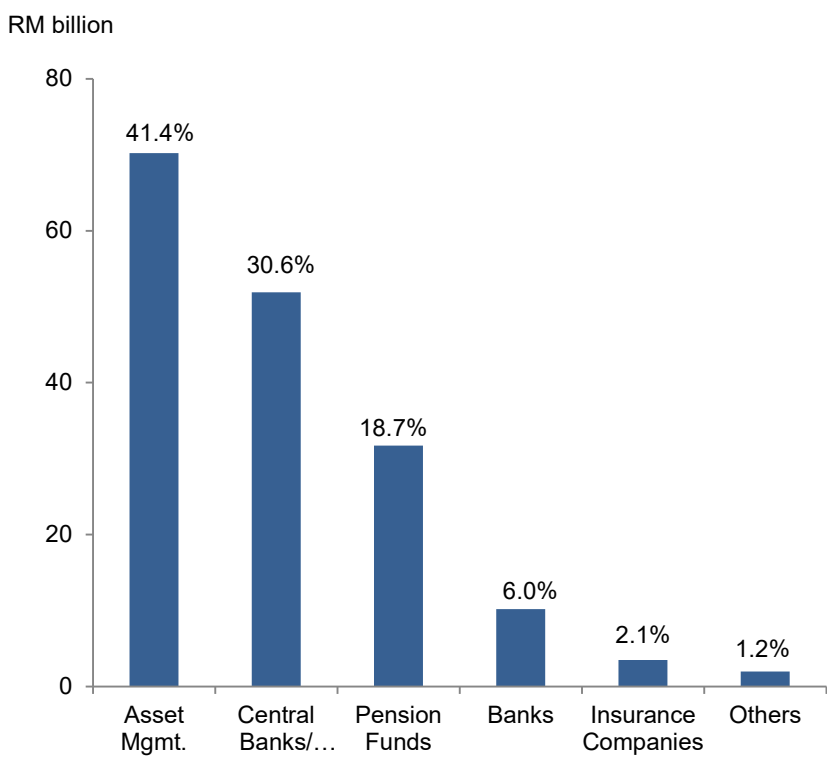
NR holdings of Malaysian Govt bonds increased marginally to 22.2% as at end-October 2019…

Non-resident Holdings of Malaysian Government Bonds



…with long term stable investors remained as key holders of Malaysian government bonds

Distribution of Non-resident Holdings of Government Bonds as at end-September 2019.

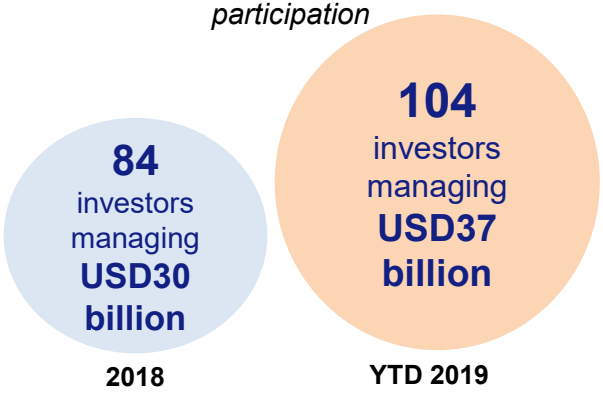


Source: Bank Negara Malaysia and Bloomberg

Positive developments in the domestic financial markets as development initiatives continue to progress

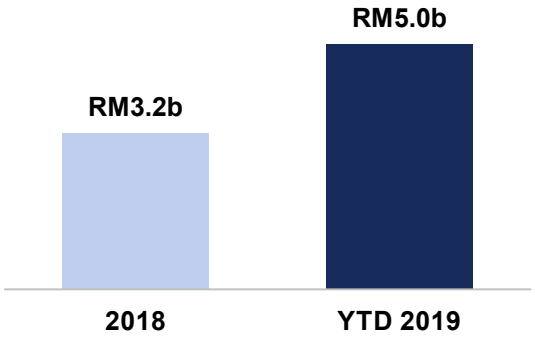
The onshore dynamic hedging programme continues to gain traction

Onshore dynamic hedging programme participation



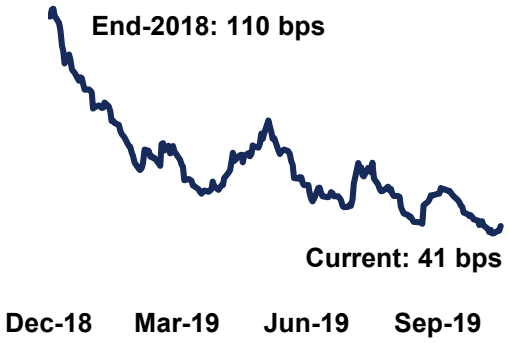
Robust secondary bond market trading volume

Average daily bond market volume



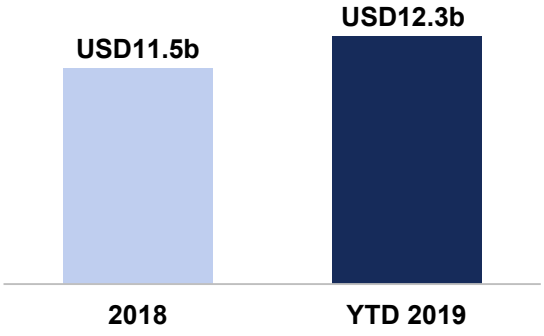
Malaysian credit default swap (CDS) spread improved reflecting positive sentiments

Credit default swap spread



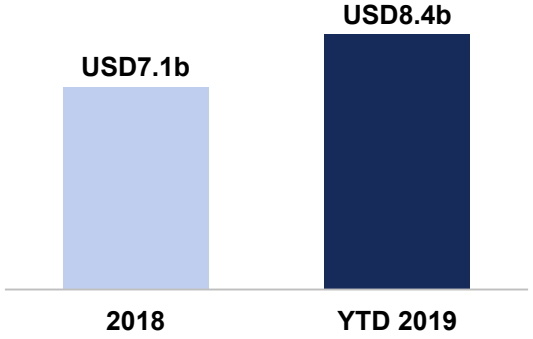
Vibrant foreign exchange (FX) market with increased liquidity

Average daily total FX volume



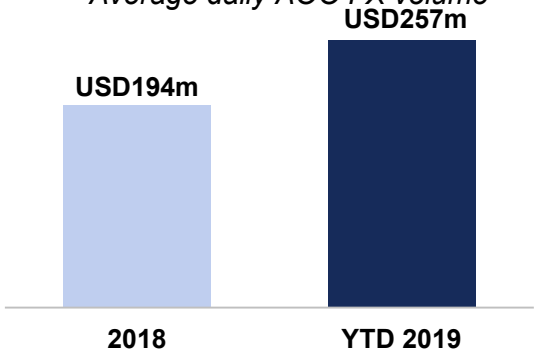
Sustained growth in the onshore FX swap and forward market

Average daily FX swap & forward volume



Appointed Overseas Offices (AOO) programme improves access to Ringgit market

Average daily AOO FX volume



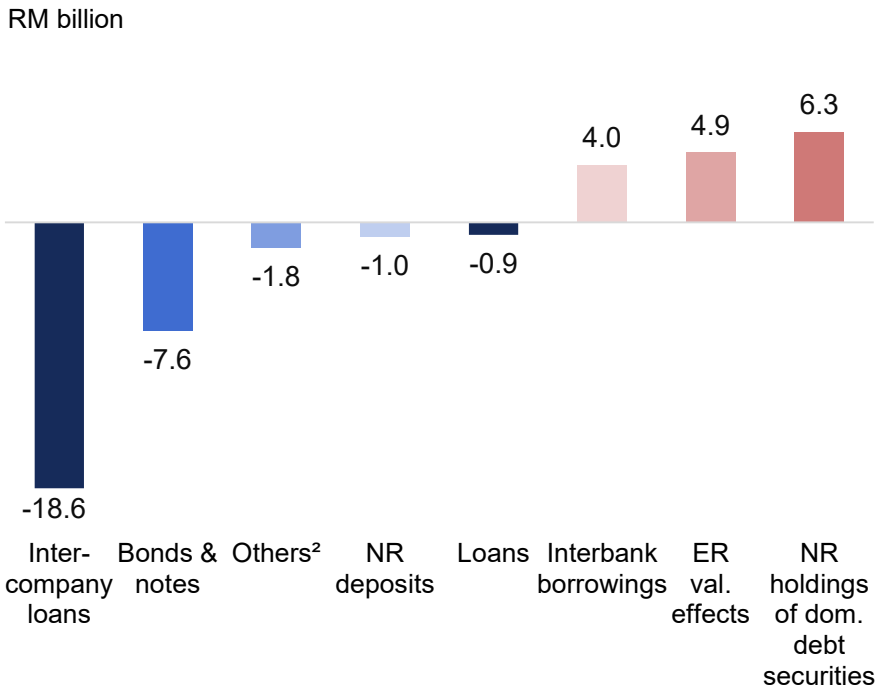
Note: YTD refers to 1st Jan to 13th November 2019 for all charts except the daily AOO FX volume which refers to 1st Jan to 31st October 2019

Source: Bank Negara Malaysia and Bloomberg

External debt declined to 60.4% of GDP (2Q 2019: 61.4%)

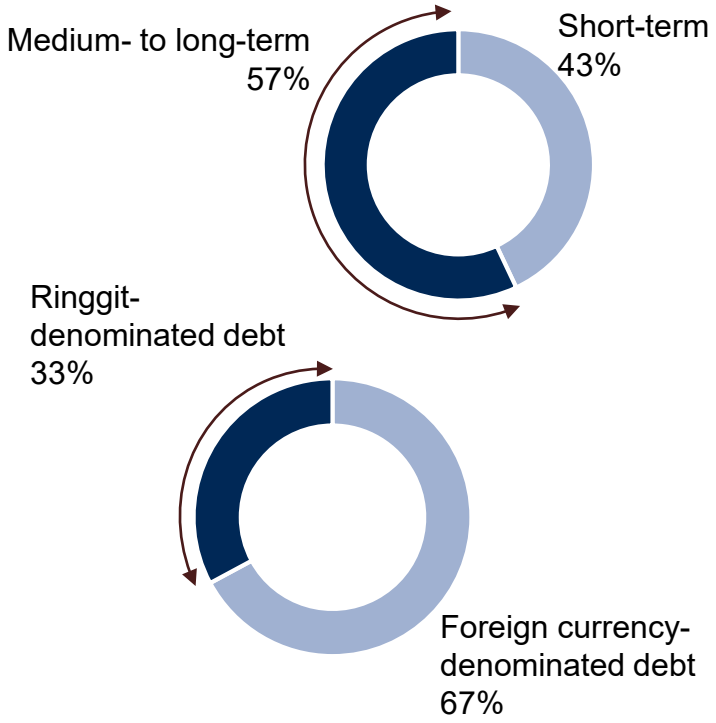
Lower external debt reflects mainly a decline in intercompany loans and net repayment of bonds & notes

Changes in External Debt[1]
3Q 2019: -RM14.6 billion



Maturity and currency compositions provide resilience against shocks

Malaysia's External Debt by Maturity and Currency



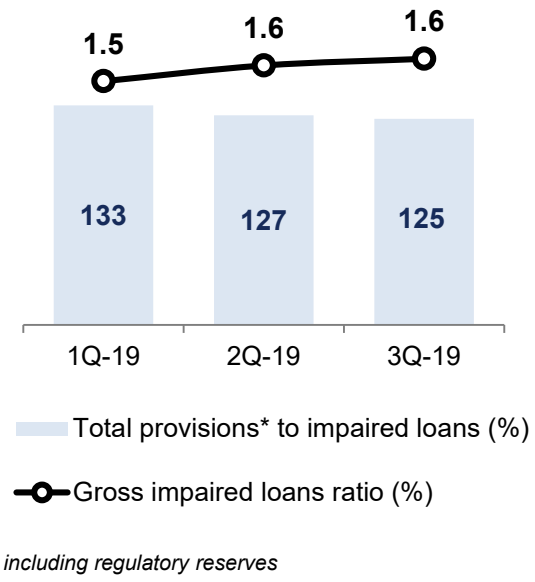
[1] Changes in individual debt instruments exclude exchange rate revaluation effects
[2] Comprise trade credits, IMF allocation of SDRs and other debt liabilities

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Domestic financial stability continues to be preserved, underpinned by resilient financial institutions

Banks' asset quality remains healthy

Loan Impairments and Provisions



** including regulatory reserves*

Financial institutions are well-capitalised, with sufficient liquidity to support intermediation

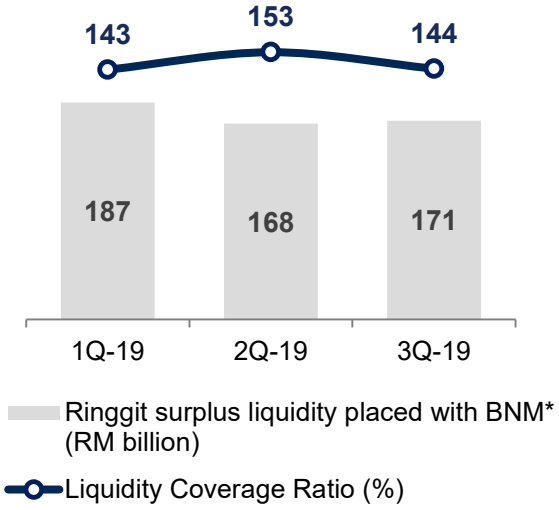
Banking System: Total Capital Ratio

17.7%

Insurance/ Takaful Sector: Capital Adequacy Ratio

230.6%

Liquidity Coverage Ratio and Total Outstanding Surplus Liquidity



** including statutory reserves*

- **The reduction of the SRR will support orderly market conditions and liquidity management by banks**
- **Stress tests conducted by the Bank affirm financial institutions' resilience to withstand adverse macroeconomic and financial shocks**

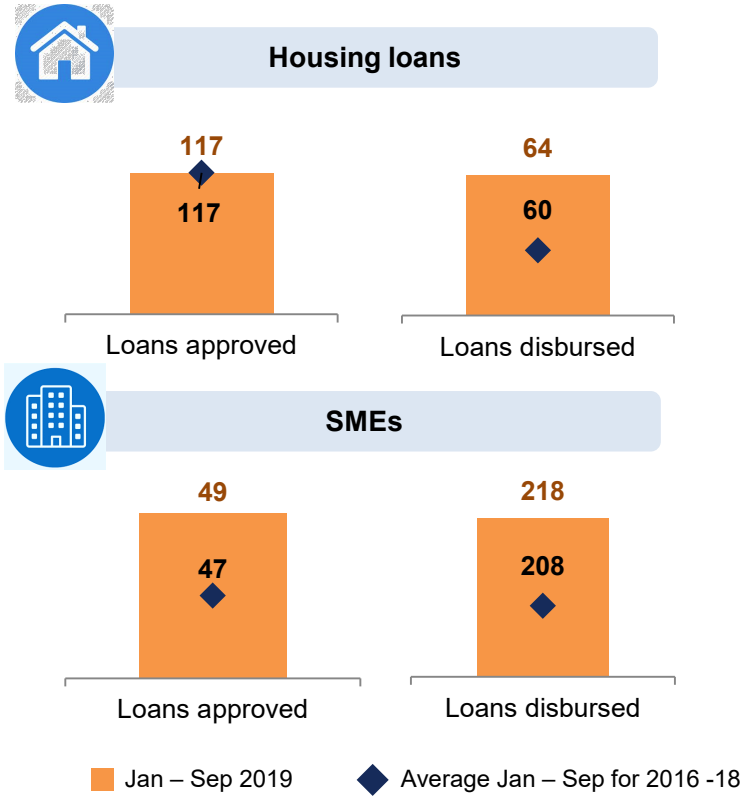
Source: Bank Negara Malaysia

Bank lending continues to facilitate economic activity

Bank financing remains forthcoming to eligible borrowers

Loans approved and disbursed by banks*

RM billion



*Excludes a newly licensed commercial bank beginning April 2018

Source: Bank Negara Malaysia

Main Reasons for Loan Rejections for SMEs and Households

- Applicants already highly indebted / over-leveraged
- Insufficient income / cash-flow issues
- Poor financial track record

Source: Surveys by Bank Negara Malaysia, imSME and SME Corp

Wide-ranging initiatives to enhance the overall financing ecosystem



SMEs



Households

iMSME

MyKNP
KHIDMAT NASIHAT PEMBIAYAAN
FINANCING ADVISORY SERVICES

AKPK

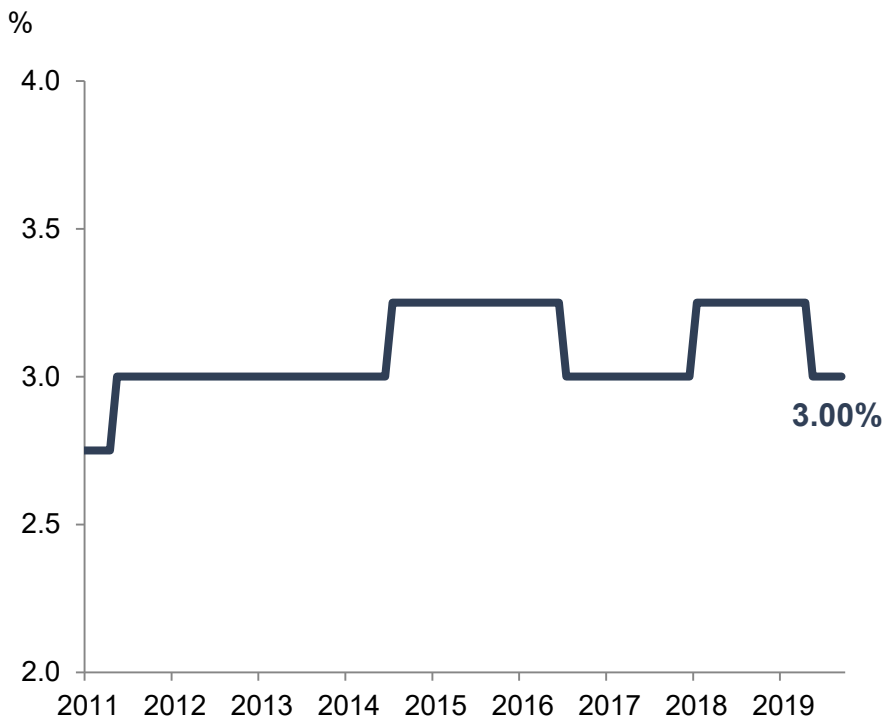
CGC



- Financial guarantees for SMEs and homebuyers
- BNM's Funds for SMEs and affordable homes
- Debt resolution and redress mechanisms
- Financial literacy, capacity building and advisory assistance

Monetary policy stance remains conducive to sustainable growth amid price stability

Overnight Policy Rate (OPR)



- Overnight Policy Rate was kept unchanged at 3.00% at the November 2019 MPC meeting
- Monetary policy remains accommodative and supportive of economic activity

Source: Bank Negara Malaysia

The Malaysian economy is expected to remain resilient in 2019 and 2020

Growth prospects continue to be largely supported by domestic demand



Continued private sector spending



Recovery in commodity production & operationalisation of new facilities



Resumption of large transportation projects

Going forward, materialisation of downside risks could weigh on growth prospects



Further escalation in trade disputes



Heightened geopolitical tensions



Volatility in commodity prices and production

Additional Information

The Malaysian GDP grew by 4.4% in the third quarter

Annual growth of GDP components

Real GDP (Annual change, %)	Share, % (2018)	2018	2019	
		3Q	2Q	3Q
Domestic demand (excluding stocks)	**94.1**	**6.8**	**4.6**	**3.5**
Private Sector	*74.2*	**7.9**	**6.2**	**5.4**
Consumption	*57.0*	*8.9*	*7.8*	*7.0*
Investment	*17.3*	*5.0*	*1.8*	*0.3*
Public Sector	*19.8*	**2.1**	**-2.8**	**-4.6**
Consumption	*12.5*	*5.2*	*0.3*	*1.0*
Investment	*7.4*	*-2.7*	*-9.0*	*-14.1*
Net exports of goods and services	**7.0**	**-9.4**	**22.9**	**15.9**
Exports	*67.6*	*0.7*	*0.1*	*-1.4*
Imports	*60.6*	*2.0*	*-2.1*	*-3.3*
Change in stocks (RM billion)	**-1.1**	**-6.9**	**-4.6**	**-6.8**
Real GDP	**100**	**4.4**	**4.9**	**4.4**
Real GDP (q-o-q growth, seasonally adjusted)	**-**	**1.5**	**1.0**	**0.9**

Source: Department of Statistics, Malaysia

Real GDP (Annual change, %)	Share[1], % (2018)	2018	2019	
		3Q	2Q	3Q
Services	**56.7**	**7.3**	**6.1**	**5.9**
Manufacturing	**22.4**	**5.0**	**4.3**	**3.6**
Mining and Quarrying	**7.6**	**-5.7**	**2.9**	**-4.3**
Agriculture	**7.3**	**-0.8**	**4.2**	**3.7**
Construction	**4.9**	**4.7**	**0.5**	**-1.5**
Real GDP	**100**	**4.4**	**4.9**	**4.4**

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

The Malaysian GDP grew by 4.4% in the third quarter

Percentage point contribution to GDP growth by components

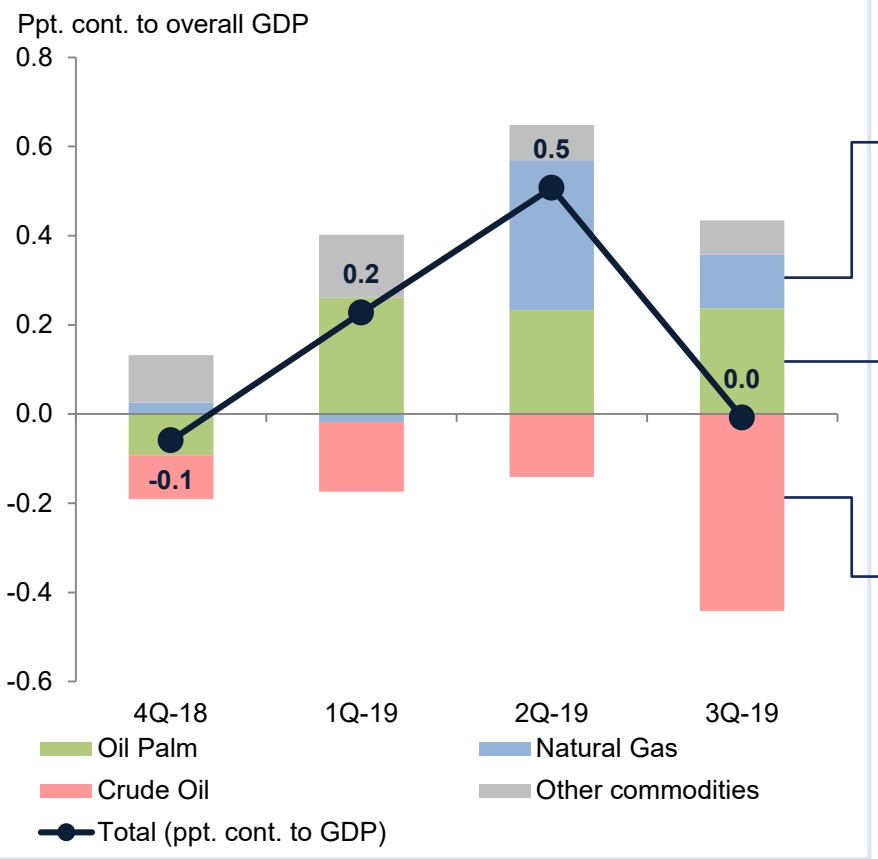
Real GDP (Contribution, ppt)	Share, % (2018)	2018	2019	
		3Q	2Q	3Q
Domestic demand (excluding stocks)	**94.1**	**6.3**	**4.3**	**3.3**
Private Sector	*74.2*	**5.9**	**4.8**	**4.2**
Consumption	*57.0*	*5.0*	*4.4*	*4.1*
Investment	*17.3*	*0.9*	*0.4*	*0.0*
Public Sector	*19.8*	**0.4**	**-0.5**	**-0.9**
Consumption	*12.5*	*0.6*	*0.0*	*0.1*
Investment	*7.4*	*-0.2*	*-0.5*	*-1.0*
Net exports of goods and services	**7.0**	**-0.7**	**1.4**	**1.0**
Exports	*67.6*	*0.5*	*0.0*	*-0.9*
Imports	*60.6*	*1.2*	*-1.3*	*-2.0*
Change in stocks (RM billion)	**-1.1**	**-1.2**	**-0.7**	**0.0**
Real GDP	**100**	**4.4**	**4.9**	**4.4**

Real GDP (Contribution, ppt)	Share[1], % (2018)	2018	2019	
		3Q	2Q	3Q
Services	**56.7**	**4.0**	**3.5**	**3.3**
Manufacturing	**22.4**	**1.1**	**1.0**	**0.8**
Mining and Quarrying	**7.6**	**-0.4**	**0.2**	**-0.3**
Agriculture	**7.3**	**-0.1**	**0.3**	**0.3**
Construction	**4.9**	**0.2**	**0.0**	**-0.1**
Real GDP	**100**	**4.4**	**4.9**	**4.4**
Import duties	*1.2*	*-0.5*	*-0.1*	*0.3*

Note: Numbers do not add up due to rounding
Source: Department of Statistics Malaysia

The commodity sectors continued to recover from 2018's supply disruption, albeit at a slower pace

Commodities Contribution to Overall GDP Growth



Natural Gas
Ongoing recovery from 2018's supply outages in East Malaysia

Oil Palm Output
Continued recovery from 2018's adverse weather and production constraints

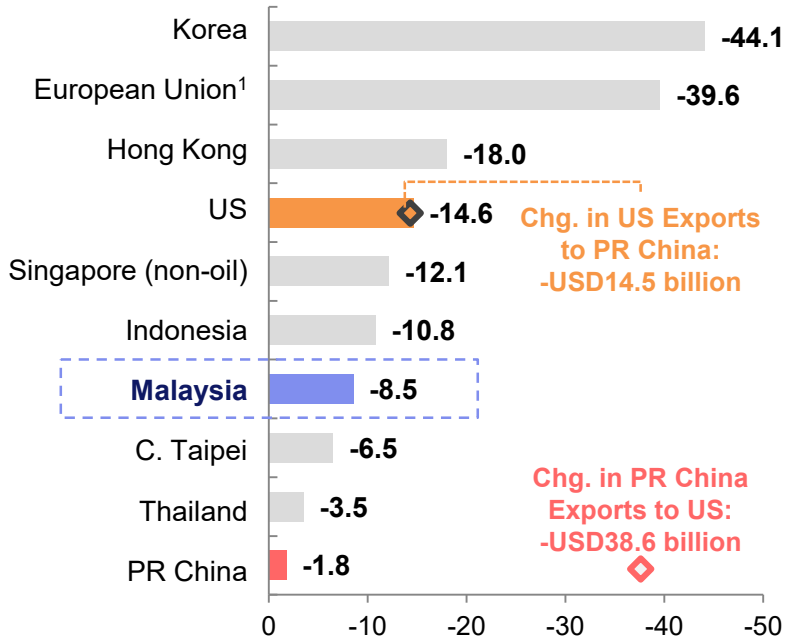
Crude Oil and Condensates
Maintenance of oil fields in East Malaysia

Source: Department of Statistics, Malaysia

Trade diversion has partially offset negative impact of trade tensions

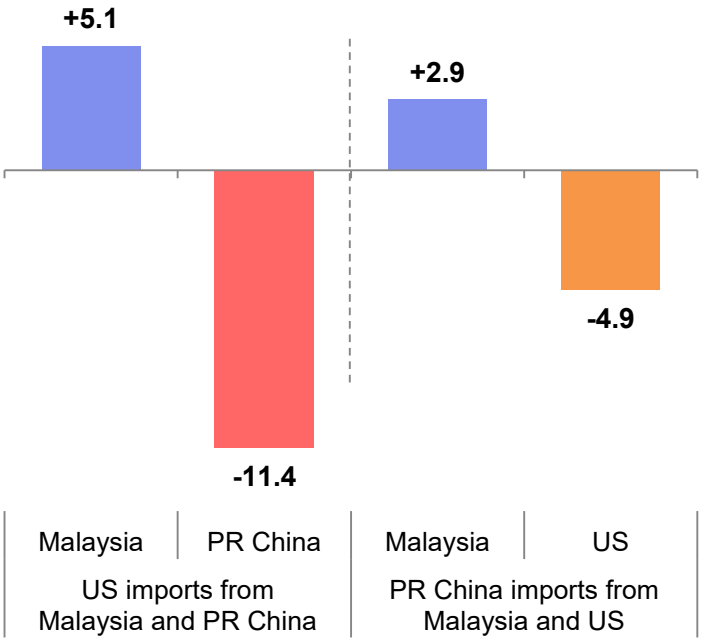
Synchronised slowdown in exports among key advanced and regional economies

Change in Export Levels in USD Terms (Jan. – Sep. 2019 vs. Jan. – Sep. 2018)
USD billion



Malaysia has gained about +USD1.4 billion of exports to the US and PR China for selected products[2]

Change in Malaysia's Market Share in US and PR China Import Markets
% change in market share



[1]Reflects Jan. – Aug. 2019 vs. Jan. – Aug. 2018 only.
[2]Selected products are tariffed products in which Malaysia has a meaningful presence (Malaysia's exports account for at least 5% of US' imports) and experienced an increase in share in the US import market relative to PR China between January 2019 and August 2019. The same method applies to PR China's imports from Malaysia.
Source: Department of Statistics, Malaysia, Bloomberg, Haver, ITC Trade Map, World Bank, staff estimates

Limiting the ease of conducting high-value cash transactions will mitigate abuse of cash in facilitating crime

Why the need for a cash transaction limit?



Cash is untraceable and anonymous

- Ideal medium of exchange to launder gains from illicit activities
- Criminals able to conceal the origin and hide true ownership of fund through cash



Cash facilitates illicit activities

- Cash is mainly used in illicit activities as evidenced by large amount of physical cash seized from enforcement actions



Illicit activities affect law-abiding Malaysians and businesses

- Law-abiding businesses and individuals disadvantaged if illicit activities are left unaddressed
- Tax evasion deprive country of income to support better provision of public services

Cash transaction limit (CTL) is to strengthen financial integrity

The CTL…	The CTL does not…
…applies to **physical cash** only (currency notes & coins)	…apply to **non-physical cash transactions** (e.g. electronic, cheque)
…is a limit **per physical cash transaction**	…apply to the **total physical cash transactions** for the day. One can have multiple cash transactions**
…applies to **transaction(s) between parties**	…apply to **accumulation** or **safekeeping** of physical cash
…**exempts** transaction(s) with or through **financial institutions (FIs)***	…affect **deposit**, **withdrawal**, **transfer**, **loan repayment** or **money exchange** through FIs*
…targets **high-value transactions** that are of higher risk of being abused	…affect most single **cash payments** – a majority of them are for small-ticket items

**Licensed bank under the Financial Services Act 2013, licensed Islamic bank under Islamic Financial Services Act 2013, licensees under the Money Services Business Act 2011, or prescribed institutions under the Development Financial Institutions Act 2002*

***However, multiple physical cash transactions are still considered as a single transaction if it is made with the same person, for the same purpose, and within the same day.*

Proposal to limit cash payments is neither new, nor unique to Malaysia

France		• Residents: up to EUR1,000 for tax purpose of professional activity • Non-residents: up to EUR15,000 (not for professional purpose) • Local government office: Up to EUR300
Spain		• Residents: Up to EUR2500 when one of the parties acts as employer or professional • Non-residents: Up to EUR15,000
Italy		• Residents: Up to EUR2,999 • Non-residents: Up to EUR15,000 for tourism related transactions
UK		• Must not accept or make high value cash transaction (EUR10,000 or more) until one has registered as a high value dealer
India		• Limit on all cash transactions equal to or in excess of INR200,000 • Exemptions: receipts from the Government, post-offices, banks and cooperative banks
Australia		• Limit on all cash transactions equal to or in excess of AUD10,000 • Exemptions: all cash deposits and withdrawal from bank account with an authorized deposit-taking institution (ADI), exchanging foreign currency and all consumer-to consumer-transactions, except real estate transactions
Indonesia		• Draft bill proposed in 2018 to limit any cash payment to a maximum Rp100,000,000

Note: For more details, please visit the sites of the respective authorities

NCC seeks feedback on cash limit. No decisions made yet on design and implementation

National Coordination Committee to Counter Money Laundering (NCC) is seeking public feedback on the following:

1. Level of cash transaction limit

Are there any serious concerns to setting the CTL at RM25,000? If so, what will be your preferred limit, and why?

2. Limited exemptions to the cash limit

Is there a need to consider differentiated limits for certain groups, industries or types of transactions? If so, what groups, industries, or types of transactions, and why?

3. Practical challenges

Are there circumstances where transactions above RM25,000 cannot be easily made electronically, by cheque or through financial institutions?

4. Other financial integrity measures

Are there other more suitable measures that can be considered to strengthen financial integrity in Malaysia?