BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PRESS RELEASE

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Bank Negara Malaysia Publishes their Annual Report 2022, Economic and Monetary Review 2022 and Financial Stability Review for Second Half 2022

Governor's Press Conference Transcript

Overview: Malaysian economy to expand in 2023, albeit at a more moderate pace

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Ekonomi Malaysia telah berkembang dengan kukuh pada tahun 2022. Pertumbuhan kukuh ini telah dicapai walaupun negara menghadapi pelbagai cabaran termasuklah persekitaran luaran yang tidak menentu dan peningkatan inflasi.

"Pada tahun 2023, ekonomi Malaysia akan terus berkembang. Dalam hal ini, keutamaan dasar Bank Negara Malaysia adalah untuk memastikan pertumbuhan ekonomi kekal mampan, inflasi terus terkawal, dan keadaan monetari dan kewangan domestik berada dalam keadaan yang stabil. Di samping itu, pembaharuan struktur perlu dipergiatkan lagi untuk meningkatkan daya tahan dan daya saing ekonomi negara.

"Please allow me to continue in English as we are addressing an international audience.

“After the strong performance in 2022, the Malaysian economy will be expanding at a more moderate pace in 2023, amid a slower global growth. Malaysia’s growth this year will be mainly driven by firm domestic demand.

“At this point, our assessment is that the risks to the growth outlook are fairly balanced. Downside risks are largely from external developments while upside risks are mainly from domestic factors.”

Global economy facing a challenging and uncertain landscape

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “We are facing a highly challenging and uncertain global landscape. We are projecting that the world economy may grow between 2.4% and 2.9%.

“Several factors will support global growth. These include resilient labour markets which will support household spending in major economies, the full reopening of China’s economy, and the continued easing of supply chain disruptions. The strength in demand from China and ASEAN are expected to support intra-regional trade.

“Nevertheless, headwinds from elevated inflation and tight monetary policy are expected to weigh on consumption and investment activities. The global economy faces further headwinds from higher financial market volatility and uncertainty amid the recent stress in the banking sector in some advanced economies.”

Malaysia’s export growth to moderate in tandem with global outlook

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Just like any other small and open economy, the slowdown in global demand will affect Malaysia’s exports, especially manufactured goods. However, Malaysia’s diversified exports structure across products and markets will cushion this impact.

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“Stronger recovery in tourist arrivals and travel receipts will provide some tailwind to exports of services, with spillovers to domestic activities and jobs. You can see from the line chart here, we have built in a rather conservative figure for travel receipts into our baseline forecast.”

Household spending underpinned by continued income growth

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Our economic growth in 2023 will be mainly driven by firm domestic demand. On the demand side, household spending will be an important driver. It is projected to expand at a moderate pace of 6.1%.

“This will be underpinned by continued income growth, with support from Government policy measures such as higher minimum wage for small firms, expansion of overtime pay eligibility, and direct cash assistance.”

Sustained improvement in labour market conditions

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “A critical driver to consumption activity is sustained improvements in labour market conditions.

“This would be supported by continued expansion in consumer- and tourism-related sectors, and policy measures such as hiring incentives and upskilling initiatives.

“Given these drivers, we project the unemployment rate to average at about 3.5% for 2023 as a whole. The unemployment rate is expected to drop steadily over the year to the pre-pandemic average rate of 3.3% by year-end. At 3.3%, the economy would technically be at full employment.”

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Enhanced surveillance tools suggest limited risk of excessive wage pressures

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "The COVID-19 pandemic required more comprehensive and nuanced assessments of labour market conditions. Hence, the Bank has enhanced our analytical toolkit by looking at alternative slack rates and statistical thresholds across various labour indicators to assess the evolving degree of labour market slack or tightness. This analysis is further complemented by insights from the business community.

"Assessments using these enhanced approaches suggest that wages are expected to recover, and inflationary wage pressures would remain contained in 2023.

"For a more in-depth look on the subject, I encourage you to read our box article on assessing labour market conditions in the Economic and Monetary Review."

Investments supported by continued capacity expansion and multi-year projects

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Investment is expected to grow by 6.0%, supported by further capacity expansion and continuation of multi-year projects, by both the private and public sectors.

"We saw the approved investments and FDI continued to be strong last year. Some of the approved projects will also be implemented this year. Construction activity would gain momentum as labour shortages gradually ease. In addition, investment activity will be further lifted by continued progress in multi-year projects, especially in transport and digital infrastructures."

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Growth in credit to households and businesses to remain supportive of economic activity

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Growth in credit to households and businesses was stronger in 2022, in line with the firm expansion in economic activity.

"Going forward, financing conditions are expected to remain supportive, underpinned by banks' strong capacity and continued willingness to lend, which will support credit demand in the economy."

Overall, Malaysia's economy to grow between 4% and 5% in 2023

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Overall, the Malaysian economy is expected to expand between 4% and 5% in 2023.

"Despite external headwinds, overall growth will be driven by firm domestic demand. Further improvements in employment and income levels, as well as the continued implementation of existing and new multi-year projects will underpin household spending and investment activity. Furthermore, higher tourism activity from rising tourist arrivals is projected to lift growth in high-touch services sub-sectors, which were more impacted during the pandemic."

Risks to Malaysia's growth outlook are fairly balanced

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "The risks to Malaysia's growth outlook are fairly balanced.

"Upside risks stem mainly from domestic factors. These include stronger-than-expected labour market conditions and tourism activity supported by further recovery in tourist arrivals. Upside risks could also arise from implementation of projects including from the re-tabled Budget 2023.

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“However, there remain some downside risks mainly from global developments, including a sharp tightening in global financial market conditions, further escalation of geopolitical conflicts and extreme weather events. In addition, higher-than-expected domestic inflation and input costs could weigh on the growth outlook.”

Inflation rose in 2022 due to both supply and demand conditions

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Moving on to inflation. Inflation has trended higher in 2022, affected by both demand and supply factors.

“Input costs increased sharply amid high global commodity prices and prolonged global supply chain disruptions. This was worsened by other cost pressures, such as the strong US dollar which contributed to higher import prices. As featured in the EMR 2022 white box entitled ‘Exchange Rate Pass-through to Inflation’, a 5% change in the RM/USD exchange rate is associated with a 0.2ppt change in core inflation over a year. Nevertheless, administered price measures and stable firm pricing behaviour would limit the extent of exchange-rate pass-through.

“Higher input costs coincided with strengthening demand conditions following the reopening of the Malaysian economy, which enabled larger cost pass-through to consumer prices by domestic firms.

“On spending, apart from official statistics, you could see for yourself evidence of the strong retail activity; long queues at eateries, crowded shopping malls and busy roads – these are some of the demand factors we have spoken about. This is consistent with the insights from our on-the-ground surveillance undertaken by our respective regional offices.”

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Headline and core inflation to average between 2.8% - 3.8% in 2023

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "We have seen some moderation in inflationary pressures over the past few months. Headline and core inflation rates have both moderated from their respective peaks in 2022.

"Cost factors such as global commodity prices and supply chain disruptions have eased and would continue on a moderating trend in 2023. However, we are mindful that input costs remain high.

"At the same time, the continued strength in domestic demand and improvements in labour market may keep core inflation elevated in the near term.

"Balancing these factors, we expect both headline and core inflation to gradually trend lower over the course of the year but remain elevated relative to historical average. For 2023 as a whole, headline and core inflation are expected to average between 2.8 and 3.8%."

Risks to the inflation outlook are tilted to the upside

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "On balance, risks to inflation remain tilted to the upside.

"Input costs could increase further arising from disruptions to global commodity production and exchange rate developments. Stronger-than-expected demand from China could also stoke price pressures. Domestically, the magnitude and timing of subsidy rationalisation would determine inflation outcome.

"On the other hand, downside risks to inflation include weaker global growth conditions and faster dissipation of pent-up domestic demand.

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“Nonetheless, the extent of upward inflationary pressures would continue to be partly contained by existing domestic price controls and subsidies.”

Monetary policy remains focused on ensuring price stability in support of sustainable domestic economic growth

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Let me now turn to monetary policy. The MPC raised the OPR gradually last year through a series of four adjustments. This brought the OPR to 2.75% by end-last year, which is still below the pre-pandemic level.

“The calibration in monetary policy support was necessary as we were no longer in crisis. It is also important to avoid a ‘too-low-for-too-long’ interest-rate environment to mitigate a build-up of future risks. The OPR adjustments were also meant to pre-emptively manage demand-driven price pressures from becoming excessive. Such risks, if left unchecked, could be damaging to the economy and cause deep hardship for everyone – individuals and businesses, as what we have seen from the experience in some of the advanced economies and emerging market economies.

“Given that monetary policy works with a lag, the recent pauses allow the MPC to assess the impact of successive OPR adjustments on growth and inflation. So far, domestic financial conditions remain orderly and we have not seen signs of excessive tightening in consumption and investment activities. Meanwhile, as I have mentioned, we are seeing a gradual moderation of inflationary pressures, although inflation is expected to remain elevated.

“For 2023, monetary policy will remain focused on ensuring price stability in support of sustainable domestic economic growth.”

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Further normalisation to the degree of monetary policy accommodation will be informed by evolving conditions

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Ultimately, further monetary policy normalisation will be informed by evolving global and domestic conditions."

"The MPC remains vigilant to factors driving inflation, including those arising from financial market developments, which could shift our assessment of the inflation outlook.

"We are also mindful of the risk that price pressures could last longer than expected, especially if upside risks materialise. This is why it is important for us to stay attentive to how inflationary pressures will evolve, in ensuring sustainable growth. We do acknowledge that this is a delicate balancing act, especially in the context of this uncertain economic environment.

"With such considerations in mind, there is potential for the degree of accommodation to be further adjusted. But as I said, it will be informed by the evolving conditions and their implications on the overall outlook of domestic inflation and growth, which the MPC will assess at each meeting."

Ringgit movements continue to be mostly driven by USD strength

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Since the start of the US normalisation cycle in 2022, the ringgit has been driven by US dollar developments. Ringgit developments have been in line with most major and regional currencies.

"The issues on how the exchange rate affects the Malaysian economy are explained in the Annual Report 2022 box article 'The Exchange Rate and the Malaysian Economy'.

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“Under a flexible exchange rate regime, it is reasonable to expect the ringgit to fluctuate from time to time. These adjustments are necessary to allow the domestic economy to adjust to global economic and financial shocks. Whether the ringgit appreciates or depreciates, there will always be winners and losers. What is important is that the adjustments take place in an orderly manner to facilitate decisions by households and businesses to consume and invest. On aggregate, these adjustments should benefit the economy in the long run.”

Domestic financial market conditions remain orderly despite recent banking stress in some advanced economies

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Domestic financial market conditions remain orderly, amidst the continued global monetary policy tightening and the recent banking stress in some advanced economies. Despite the recent spike in global financial market volatility, ringgit volatility has remained manageable.

“The domestic Government bond market continues to observe strong support from both local and foreign investors. Non-resident holdings of total outstanding Government bonds remain stable at around 22.9%. Similarly, non-resident holdings of equity has remained broadly stable.

“Of significance, the profile of non-resident investors remains diverse and comprises of long-term stable investors such as governments, central banks, pension funds and insurance companies.”

Malaysian banking system remains resilient, with ample capacity to absorb losses under severe simulated downside scenarios

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Despite a challenging operating environment, our banking system remains resilient, with healthy levels of capital and liquidity buffers. Total Capital Ratio stood at 18.8% as at December 2022, notably higher than the level observed

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during the Global Financial Crisis. The Liquidity Coverage Ratio and Net Stable Funding Ratio also remained steady at 154% and 118%, respectively.

“We also tested the resilience of our banks and insurance companies through our annual stress test exercise, where our banks and insurers and takaful operators (ITOs) are subjected to operating environment scenarios that are more severe than that observed during the Global Financial Crisis and 2020 pandemic. The stress test results reaffirm that our banks are sound, with total capital ratio remaining well above the minimum requirement of 8% under adverse scenarios.

“It is also worth noting that the impact of the recent US and Swiss banking sector stress on our banks has been minimal. Banks in Malaysia have limited exposures to the troubled US and Swiss banks. The depositor base of our banks is also more diversified. In terms of the impact of the mark-to-market losses due to rising interest rates on the bond holdings of banks in Malaysia, this remains well within the internal capital targets of banks. Banks also continued to hold high levels of high-quality liquid assets (HQLA) in the form of placements with BNM and government bonds that can be pledged with the Bank to meet any additional liquidity needs.”

Households and businesses repayment capacity have improved but pockets of risks remain

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Moving on to the credit outlook of households and businesses, both segments have shown encouraging improvement amid better income and economic conditions. However, we do note some segments of borrowers continued to face repayment challenges.

“And for these borrowers who are viable, various assistance remains in place e.g. bespoke repayment assistance and personal financial management by AKPK.”

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Crucial to seize opportunities to implement key structural reforms in enhancing Malaysia's growth potential and competitiveness

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Let me touch on structural reforms. With the economy more settled and no longer in a crisis, it is crucial to seize the opportunities to implement reform initiatives to enhance Malaysia's growth potential and competitiveness. This will alleviate cost of living concerns, build buffer against future shocks, and support Malaysia's transition to a high-income nation.

"Priorities must be geared towards realisation of initiatives to attract high quality investment. We must develop a future-ready workforce through Active Labour Market Policies. We need to enhance social protection especially for vulnerable groups. And we need to transition to a climate-resilient economy.

"We cover these issues at some length in our reports. Let me share some of the highlights in the subsequent slides."

Timely implementation of the New Investment Policy is key to attract and retain quality investment (FDI & DDI)

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "I would like to emphasise that a timely and well-coordinated implementation of the New Investment Policy is vital to attract quality investments that can improve our growth potential and job creations, especially with the evolving global megatrends.

"Key strategies include to further improve investment targeting and promotion of key strategic sectors, develop dynamic and agile incentive packages, and strengthen ESG practices."

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Reforms to the social protection framework are important to address economic fragilities, facilitated by a multi-pillar approach

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Social protection is another reform priority. The drawdown of retirement savings during the pandemic have further exacerbated households vulnerabilities to future shocks.

“Greater focus should be geared towards enhancing the three pillars namely social safety nets, social insurance, and active labour market policies (ALMPs). Each of this pillar would reinforce each other and strengthen social mobility through higher skills and earnings, while providing protection against health, environment, social, and economic shocks.”

Necessary reforms to ensure Malaysia's retirement savings framework is future-ready

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Given the importance of social protection, we have an article on enhancing retirement savings framework in the EMR. Highlights of the article include:

- Ringfencing retirement savings to boost sufficiency;
- Linking old-age social assistance to standard of living measures with hiring incentives for the elderly; and
- Introducing universal registration and using data to facilitate interlinkages between the three pillars of social protection.

“Importantly, these immediate-term interventions are no substitute for structural reforms to boost individual incomes.”

Financial scams have become a significant problem globally

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Let me touch on a key concern currently - financial scams. Actually, scams have been on the rise all over the world.

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“In Malaysia, we are taking steps to change this but importantly, everyone needs to play our part. Banks must have strong safeguards and fraud detection, while customers need to stay alert and vigilant and not become the weakest link in the chain. It is important for authorities to continue to work cohesively to address this issue as a whole-of-nation approach.”

Key countermeasures implemented to combat financial scams and ensure the banking and payment systems remain safe

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “We are seeing steady progress in banks’ implementation of key countermeasures. In fact, some banks have implemented these countermeasures earlier than expected.

“However, the enhanced security measures may cause temporary inconvenience to the customer. Banks will provide updates progressively on the countermeasures being rolled out to ensure customers are informed on the necessary safeguards while banking with ease.”

A vibrant digital financial services landscape to maximise efficiency gains and better serve consumers

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Digitalisation is another national policy priority. For the financial sector, we are facilitating the entry of digital banks and digital insurers and takaful operators (DITOs). They are expected to deliver greater inclusion, market competition and efficiency.

“In addition, an end-to-end digital motor claims process will foster an empowering consumer experience, as well as reduce claims leakages and fraud. Details on this motor reforms journey are featured in the box article titled ‘Driving into the Future - A Digital Motor Claims’ in the Annual Report.”

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Digital payments continues to accelerate amid intensified efforts to secure cheaper, faster and more transparent cross border payments

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Another important component of digitalisation is the adoption of e-payments. This has continued to accelerate for businesses and households in Malaysia, supported by the expansion in private consumption and strong industry push for QR code deployment, especially among MSMEs.

"On the cross-border front, I should share that our bilateral QR payment linkage with Singapore will go live on 31 March 2023. This is part of on-going efforts to make cross-border payments cheaper, faster and more transparent for the benefit of regional trade and tourism. Customers of participating financial institutions in both countries can now make in-store payments by scanning the respective QR codes of each country. Be on the look out for more details this Friday."

Empowering consumers with digital financial literacy to support the safe usage of digital financial services (DFS)

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "As part of our broader role in pushing for digital financial services to advance financial inclusion, we remain committed to ensuring consumers are empowered with the right knowledge and capabilities to use these services. Towards this end, BNM will continue to work with the Financial Education Network and the financial industry.

"I am also pleased to share that we have a feature article in the Annual Report, titled 'Let's Go Digital Confidently'."

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An orderly transition to a green economy will allow Malaysia's growth to become more resilient, sustainable and inclusive

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Transitioning to a green economy is another key reform priorities. While Malaysia has made strides, we need to move faster in decarbonising the economy. A delay in managing the transition would magnify physical and transition risks and make adaptation and mitigation costlier and less effective in the future.

"Among the immediate measures that Malaysia needs to undertake include climate-related legislation, long-term sectoral pathways, gradual fuel subsidies rationalisation, and low carbon R&D and commercialisation.

"For further information, please refer to the EMR box article titled 'Navigating Malaysia's Economic Transition towards a Decarbonised Future'."

Need for carbon accounting framework and response to biodiversity loss to support and complement climate action

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, "Underpinning the country's transition is having in place a clear, consistent and credible carbon accounting framework. This would also meet the growing demand for climate-related disclosures.

"As one of the megadiverse countries in the world, responding to biodiversity loss is also crucial for us given its implications on the economy and financial stability. Our banking system is indirectly dependent on nature and its ecosystem. As nature and climate are closely interlinked, there is a need to respond to nature-related financial risks by leveraging existing climate-related risk strategies.

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“For further information, please refer to the Feature Articles on ‘Measuring the Journey towards a Low Carbon Economy’ and ‘Biodiversity Loss: Implications on the Economy and Financial Stability’.”

Strategic priorities for Islamic finance towards resilient, sustainable and inclusive growth

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “The strategic priorities for Islamic finance in 2023 aim to build greater ecosystem resilience as the system grows further in scale while promoting progressive, sustainable and inclusive growth. Our main focus is to spur innovation in value-based finance through making the most out of the full range of Shariah contracts in addressing contemporary socio-economic needs.”

Bank Negara Malaysia: Financial position remained stable in 2022

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “Let me briefly report on the Bank’s financial position. For the year 2022, the financial position of BNM remained stable. As at 31 December 2022, total assets amounted to RM619.04 billion while net profit recorded was RM6.99 billion.”

Summary

Bank Negara Malaysia Governor Tan Sri Nor Shamsiah Yunus said, “I have reached the end of my presentation, so allow me to conclude by summarising today’s briefing.

“The Malaysian economy is projected to grow by 4% to 5% in 2023, anchored by firm domestic demand. Meanwhile, on inflation, both headline and core are expected to average between 2.8% and 3.8%.

“Risks to the growth outlook are fairly balanced. The downside risks stem primarily from external factors. Meanwhile, upside risks are mainly from

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domestic factors, especially better-than-expected labour market conditions, tourism activity and implementation of projects.

“Capital and liquidity positions remain sound, and banks are equipped to absorb potential shocks and continue to support intermediation.

“Finally, let me stress once again that it is critical to implement the key structural reforms to secure Malaysia’s sustainable and inclusive growth agenda.”

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