Sidang Akhbar

Prestasi Ekonomi Suku Ketiga Tahun 2018

Gabenor
Bank Negara Malaysia

Ketua Perangkawan Malaysia
Jabatan Perangkaan Malaysia

16 November 2018

Sidang akhbar akan meliputi:

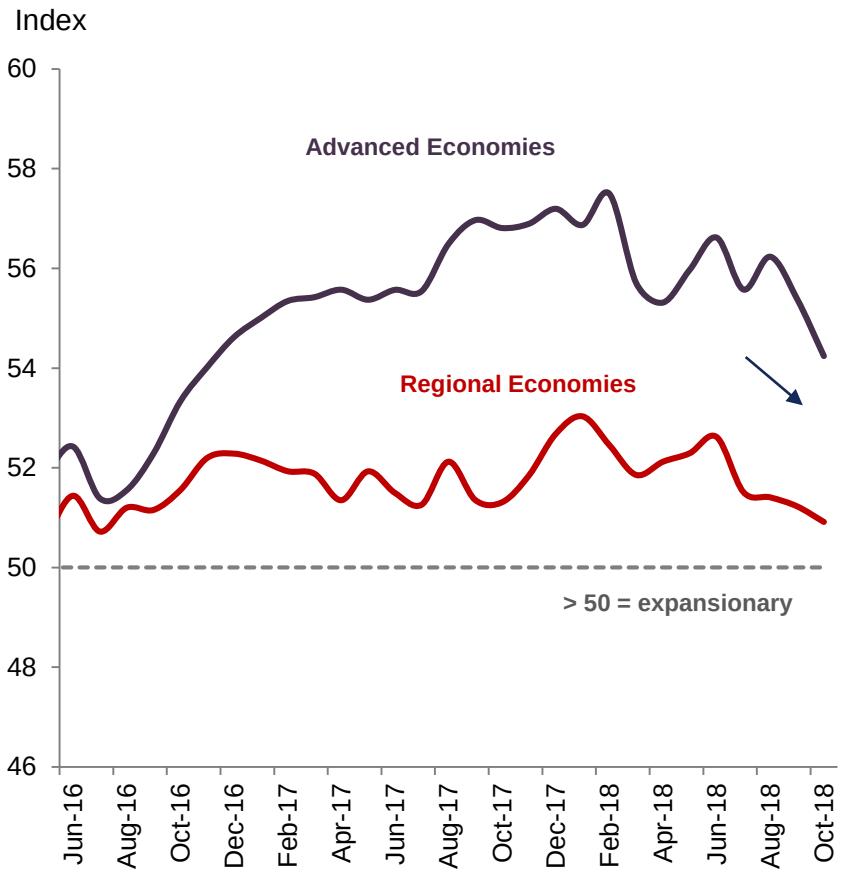
Prestasi ekonomi pada suku ketiga tahun 2018

Perkembangan monetari dan kewangan

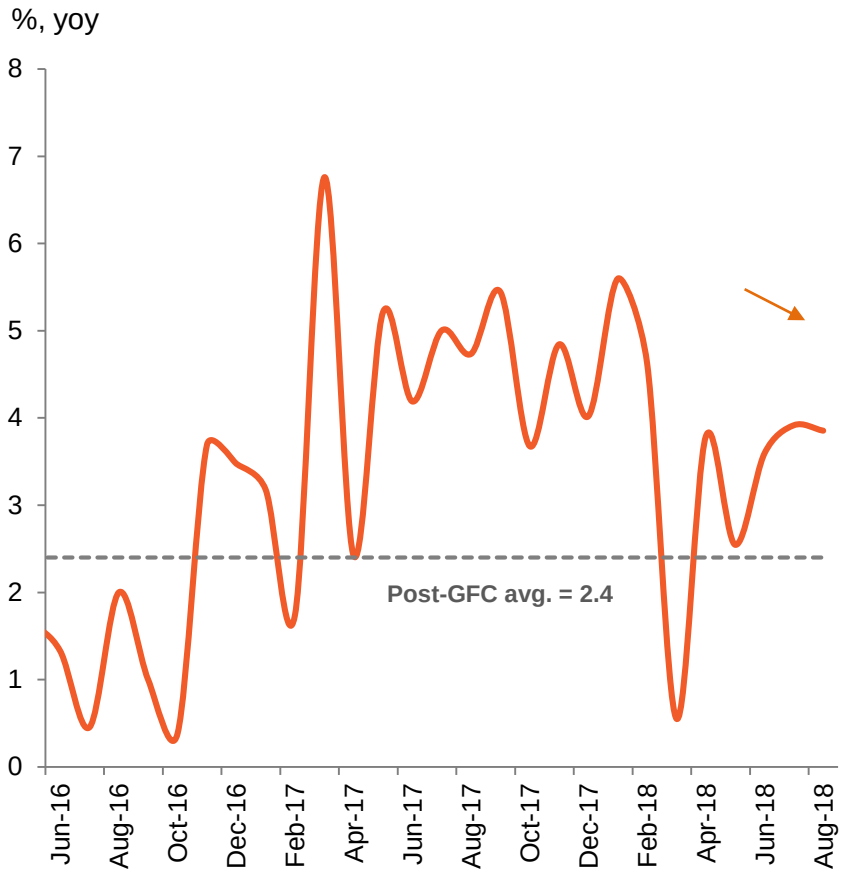
Isu khas dan inisiatif dasar Bank Negara Malaysia

High-frequency indicators show a moderating momentum in global growth and trade activities

Global Composite PMI
(Manufacturing and Services)



World Export Volume

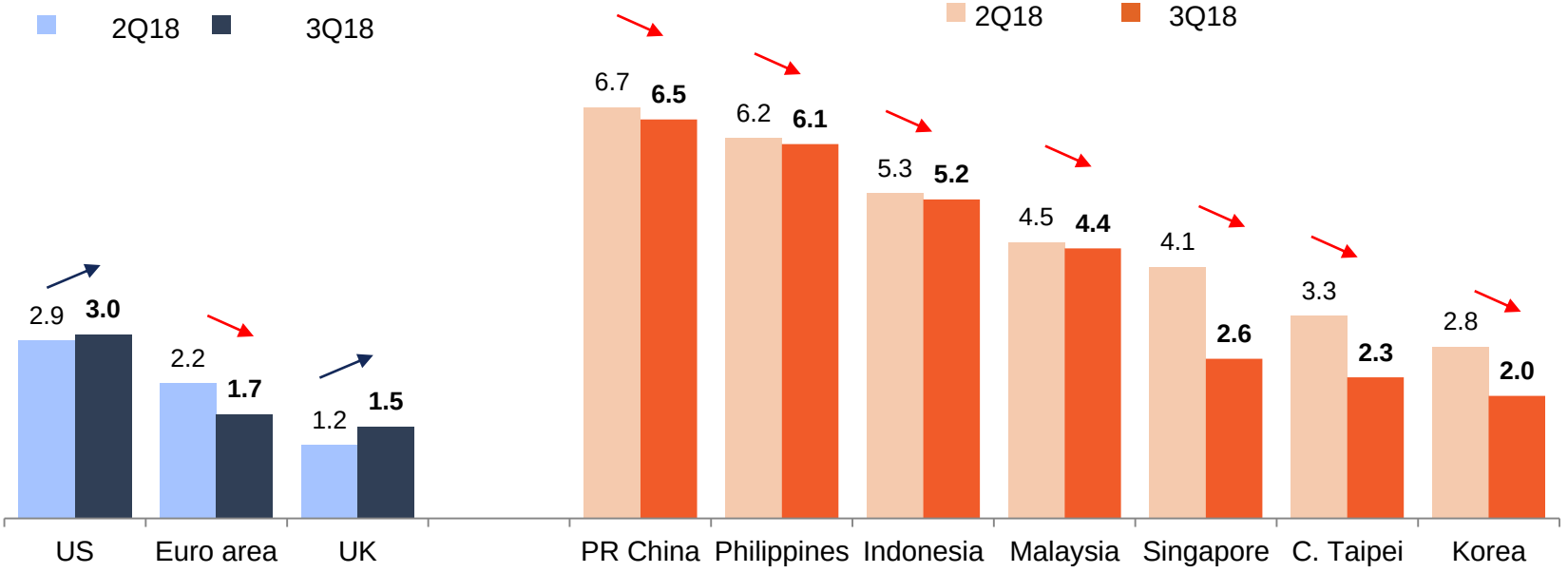


Source: Bloomberg, CPB, BNM estimates

Many major and regional economies recorded slower GDP growth in 3Q 2018

Advanced Economies

GDP, Annual change (%)



Regional Economies

GDP, Annual change (%)

Expansion in domestic demand

- Labour market improvements supported private consumption
- More moderate investment in the euro area

Stable domestic demand amid moderating trade activities

- Investment supported by ongoing policy measures in selected economies, with household spending increasingly weighed by higher oil-driven inflation
- Trade performance weighed by moderating global demand, amid intensification of trade tensions

Source: National authorities, Haver

Malaysia's GDP growth remained firm in 3Q 2018 despite global headwinds and one-off supply shocks

Malaysia's 3Q 2018 growth performance was characterised by:



Robust household spending (9.0%)

- Zerorisation of GST
- Strong employment & wage growth
- Positive consumer sentiments



Higher private investment (6.9%)

- Increased spending in machinery and equipment to cater to positive demand



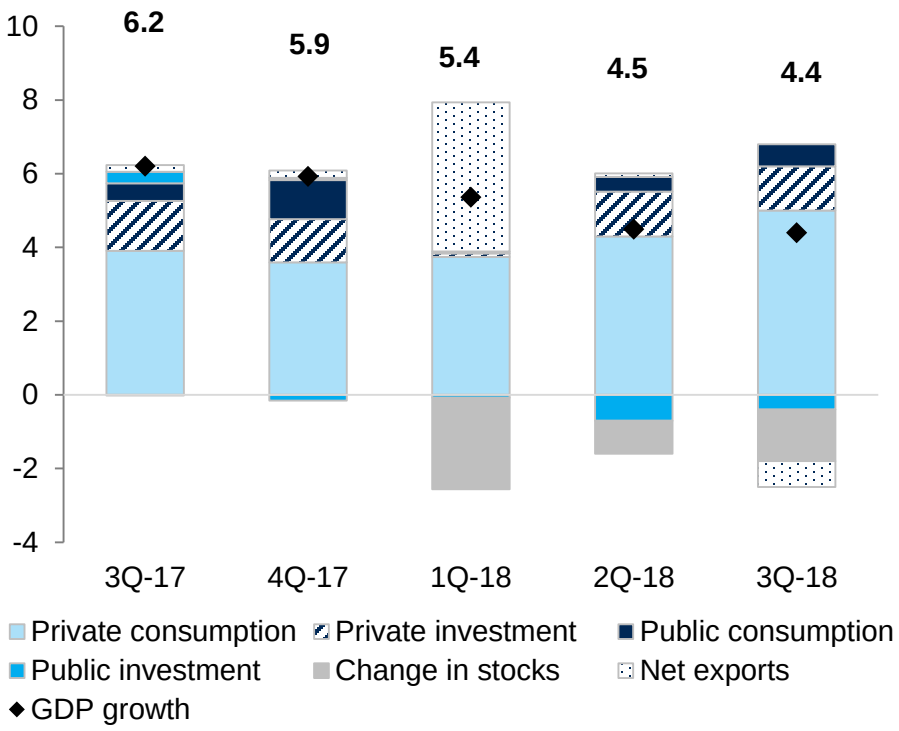
Lingering effects of one-off supply shocks

- Contraction in LNG and palm oil production and exports
- Supply shocks lowered growth by 0.5 – 0.7 ppt

The Malaysian economy expanded by 4.4% in 3Q 2018

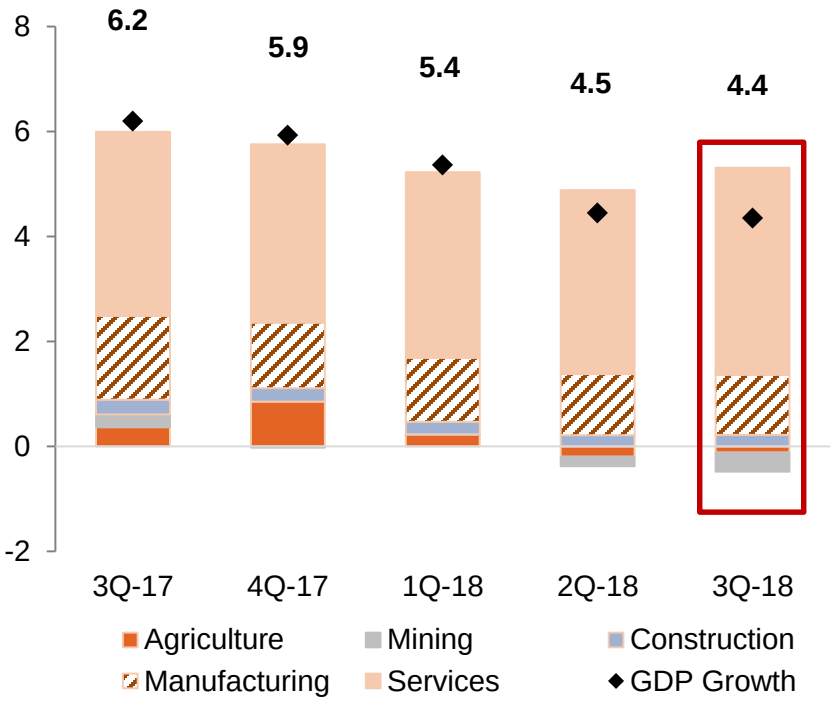
On the demand side, growth continued to be anchored by higher private sector spending

Annual change, % /
Ppt contribution to GDP



On the supply side, services and manufacturing sectors remained the key drivers of growth

Annual change, % /
Ppt contribution to GDP[1]



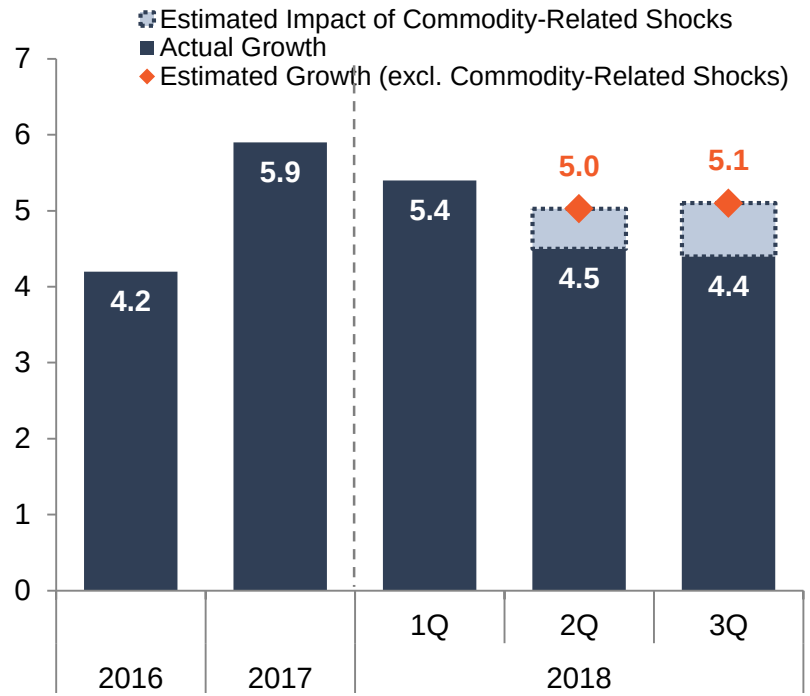
[1] Numbers do not add up due to rounding and exclusion of import duties component
Source: Department of Statistics, Malaysia

The Malaysian economy grew by 4.7% in the first three quarters, on track to register a growth of 4.8% for 2018

In the absence of commodity shocks, growth could have been 0.5 ~ 0.7 ppt higher

Real Gross Domestic Product

Annual change, %



Growth in other sectors (82% of the economy) continued to be firm

- **For the first three quarters of 2018, 82%* of the economy grew by 6.2%**
- **17%* of the economy (agriculture, mining and quarrying) contracted by 1.3%**

*Numbers do not sum up to 100 due to exclusion of import duties
Source: Department of Statistics, Malaysia and BNM estimates

Moderation in exports and imports

Higher E&E exports amid a smaller decline in commodity exports

External Trade (Annual change, %)	Share, % (2017)	2017	2018		
			1Q	2Q	3Q
Gross exports	***100***	**18.8**	**5.5**	**8.3**	**5.2**
Domestic exports[1]	***85***	**17.7**	**-1.0**	**0.2**	**-0.2**
Manufacturing	*82*	18.6	8.3	10.7	7.4
E&E	*37*	*19.2*	*11.8*	*9.8*	*10.7*
Non-E&E	*45*	*18.1*	*5.6*	*11.4*	*4.7*
Commodities	*17*	18.0	-6.1	-3.8	-3.0
Gross imports	***100***	**19.7**	**-0.7**	**8.5**	**6.3**
Intermediate	*57*	*20.0*	*-10.5*	*-4.7*	*-1.5*
Capital	*14*	*15.3*	*-13.0*	*11.7*	*1.1*
Consumption	*8*	*6.1*	*2.3*	*-2.8*	*5.5*
Others	*21*	*28.9*	*37.6*	*51.6*	*32.0*
Trade balance (RM bil)	-	**98.5**	**33.4**	**27.1**	**25.2**

Going forward, export growth will remain supported by:

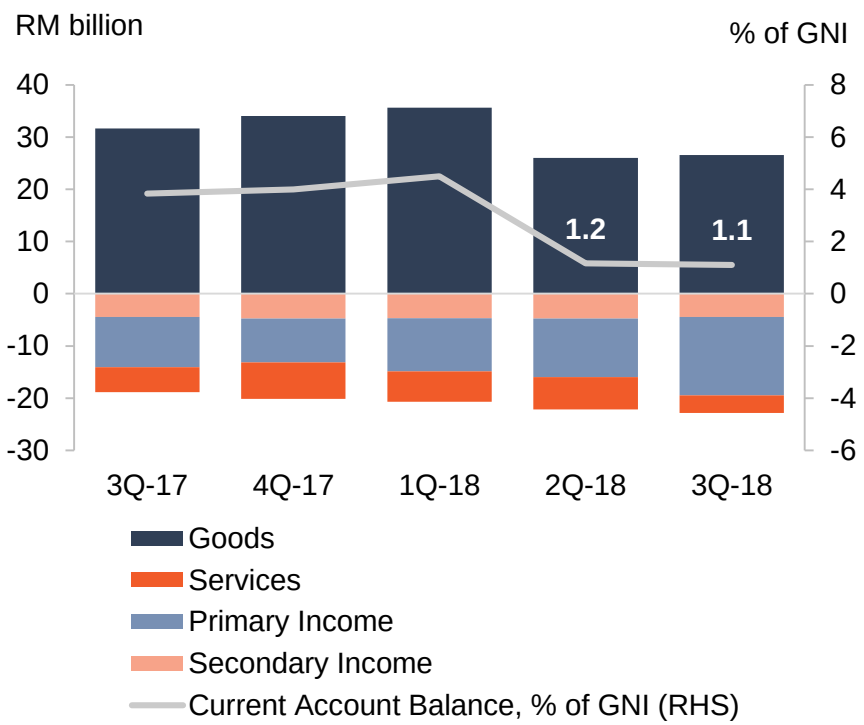
- Continued demand from major trade partners
  (United States, regional economies)
- Higher production capacity
  (especially E&E and primary related manufacturing)
- Recovery of commodity output
  (e.g. CPO and LNG)

[1] Domestic exports is defined as gross exports excluding re-exports. This is a newly published time series data by the Department of Statistics Malaysia.
Source: Department of Statistics, Malaysia

Current account registered a surplus of RM3.8 billion

Current account supported by goods surplus

Current account balance



Current account to remain in surplus going forward

- **Sustained goods surplus**
  - Continued global demand and support from commodity exports
- **Services and income accounts to remain in deficit**
  - Continued reliance on foreign service providers
  - Sizeable income accrued to foreign investors

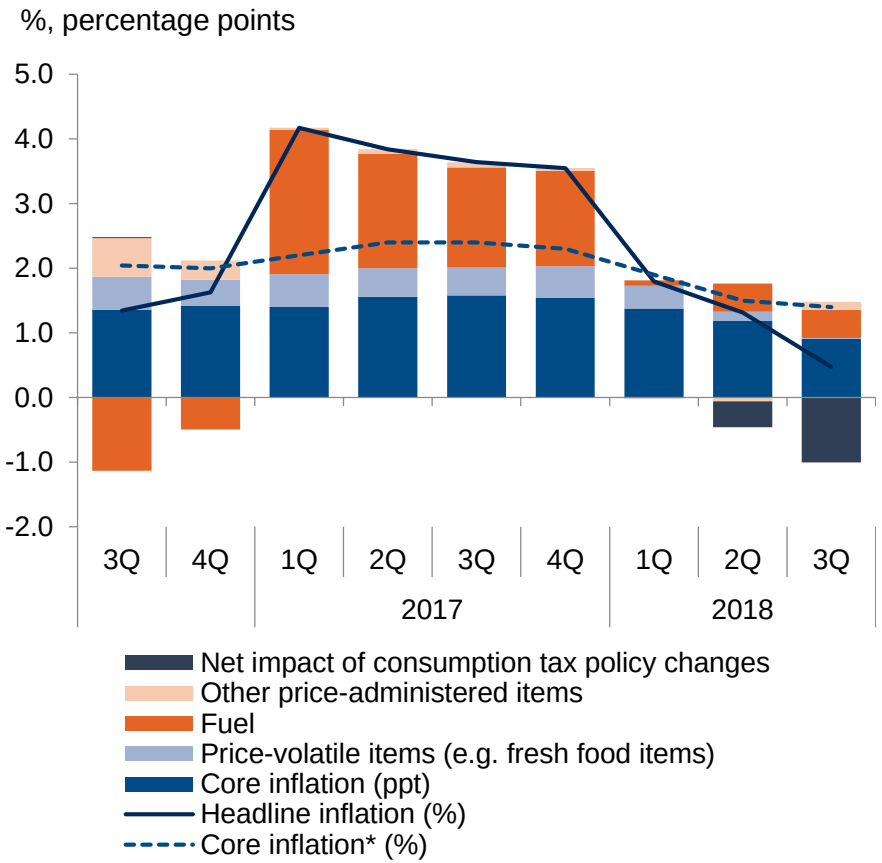
In the first 3 quarters of 2018, Malaysia's current account registered a cumulative surplus of RM22.7 billion (or 2.2% of GNI)

Source: Department of Statistics, Malaysia

Monetary and Financial Developments

Headline inflation declined during the quarter and is expected to be low in 2018

Contribution to Headline Inflation by Component



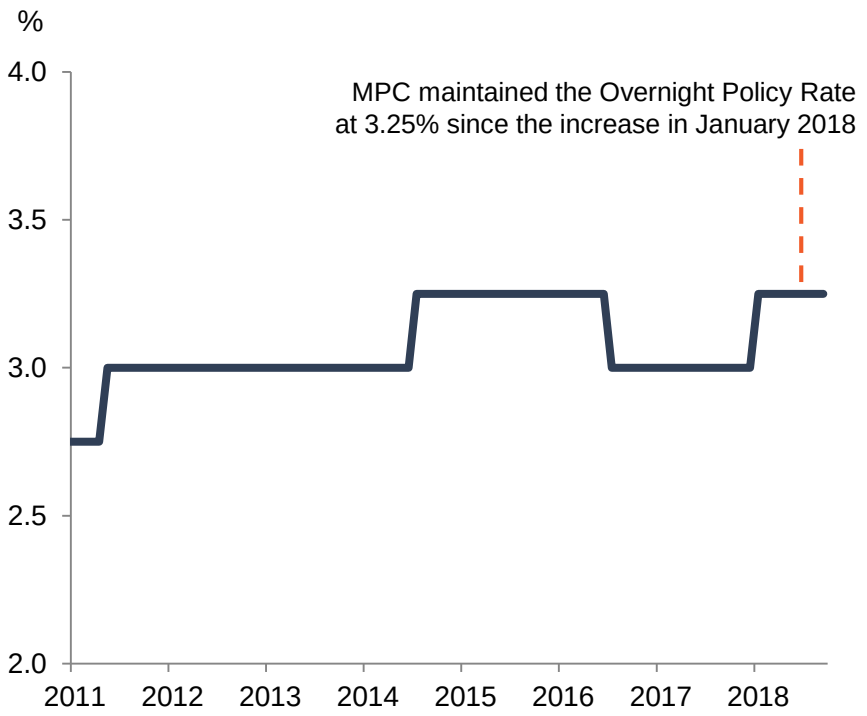
- **Headline inflation declined mainly due to the impact from the GST zerorisation**
- **The annual average headline inflation will be low in 2018**
- **Going forward, headline inflation is projected to increase primarily due to higher projected global oil prices and the floating of domestic fuel prices**
  - While the impact of the consumption tax policy will contribute to higher inflation in 2019, it will lapse towards the end of the year
  - Underlying inflation is expected to remain contained

*Note: Core inflation, which is a measure of underlying inflation, excludes the estimated direct impact of the GST zerorisation

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

Monetary policy remains accommodative and supportive of the economy

Overnight Policy Rate

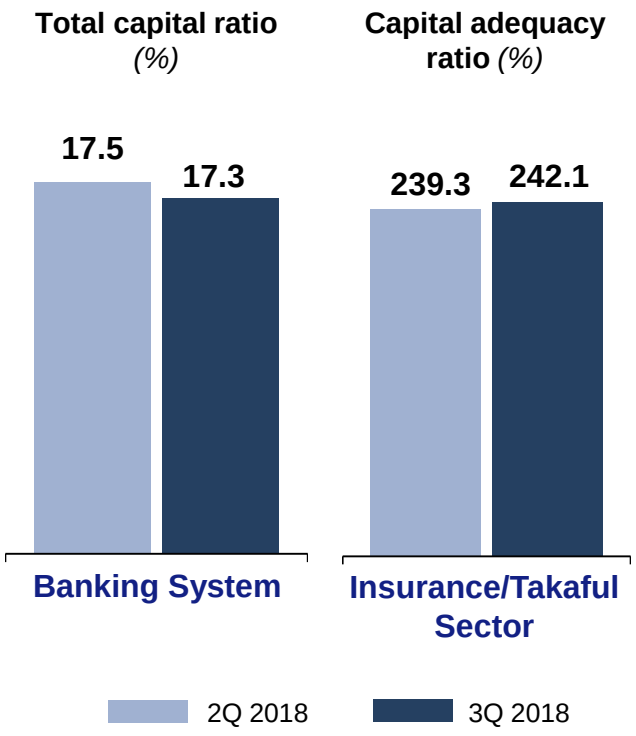


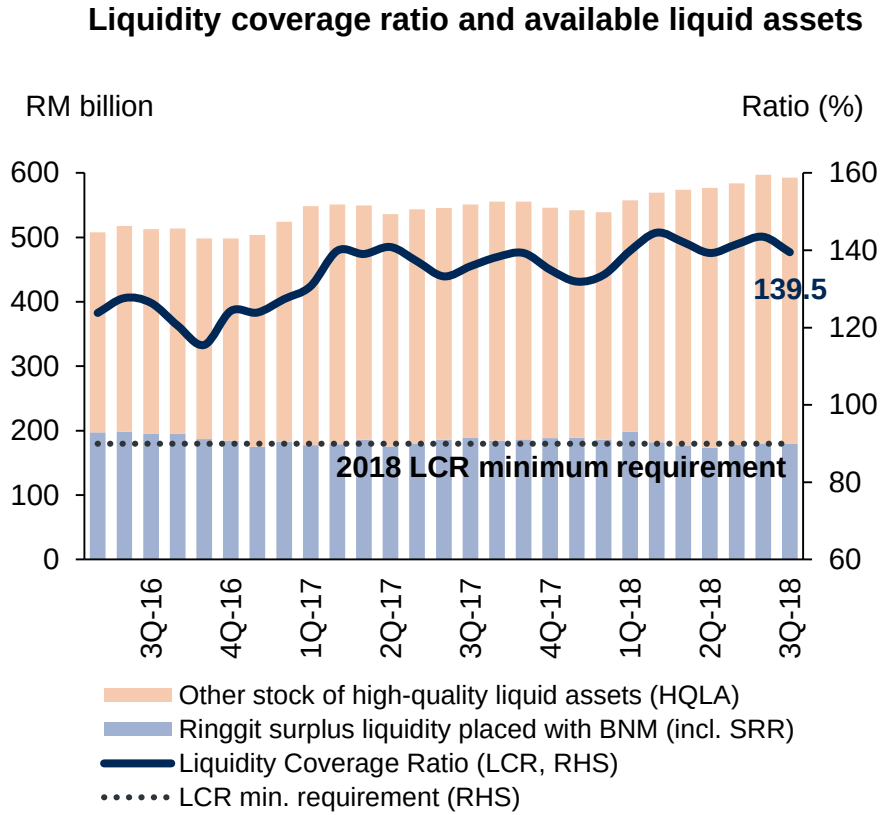
- **The Malaysian economy is expected to remain on a steady growth path**
  - Rising risks to the global growth could cause headwinds to the domestic economy
- **Headline inflation is expected to increase in 2019**
  - Underlying inflation, however, will be contained in the absence of strong domestic demand pressures
- **Domestic financial markets remain orderly with domestic monetary and financial conditions supportive of economic growth**

Source: Bank Negara Malaysia

Sustained resilience of financial institutions continued to support domestic financial stability

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





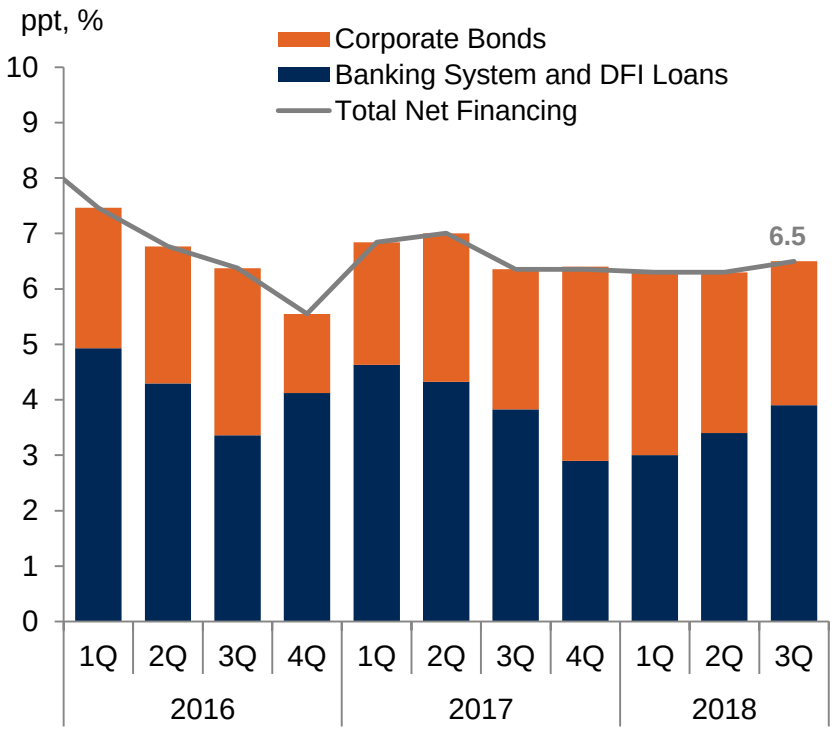
Stress tests conducted by the Bank affirmed banks' and insurers' resilience to withstand severe shocks under adverse macroeconomic and financial conditions

Source: Bank Negara Malaysia

Growth of net financing remained supportive of economic activity

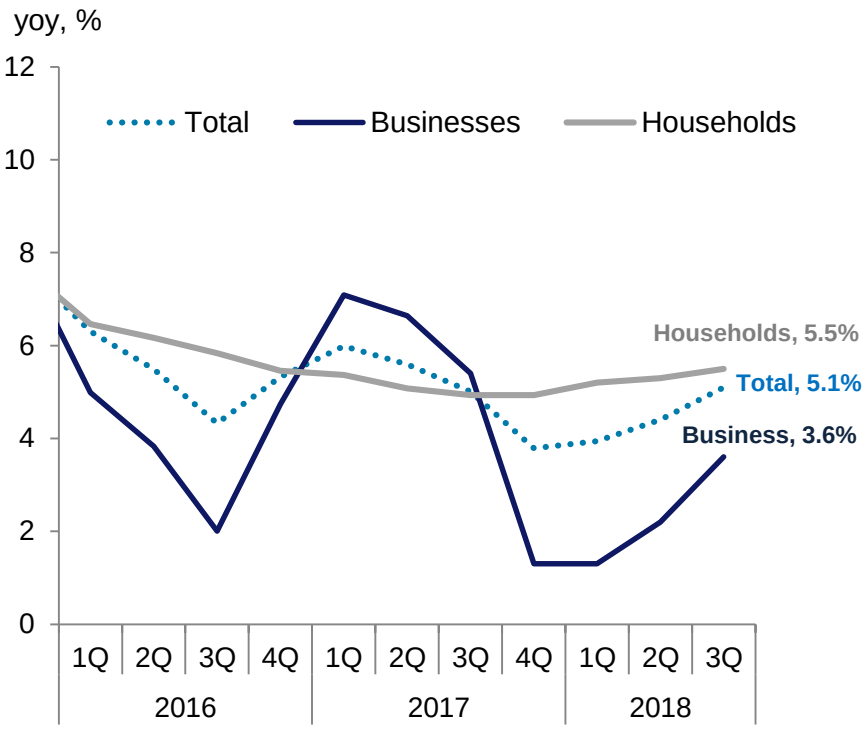
Financing to the private sector increased during the quarter

Contribution to Net Financing Growth*



Increase in growth of outstanding loans driven by loans to both households and businesses

Outstanding Banking System and DFIs Loan Growth by Borrowers



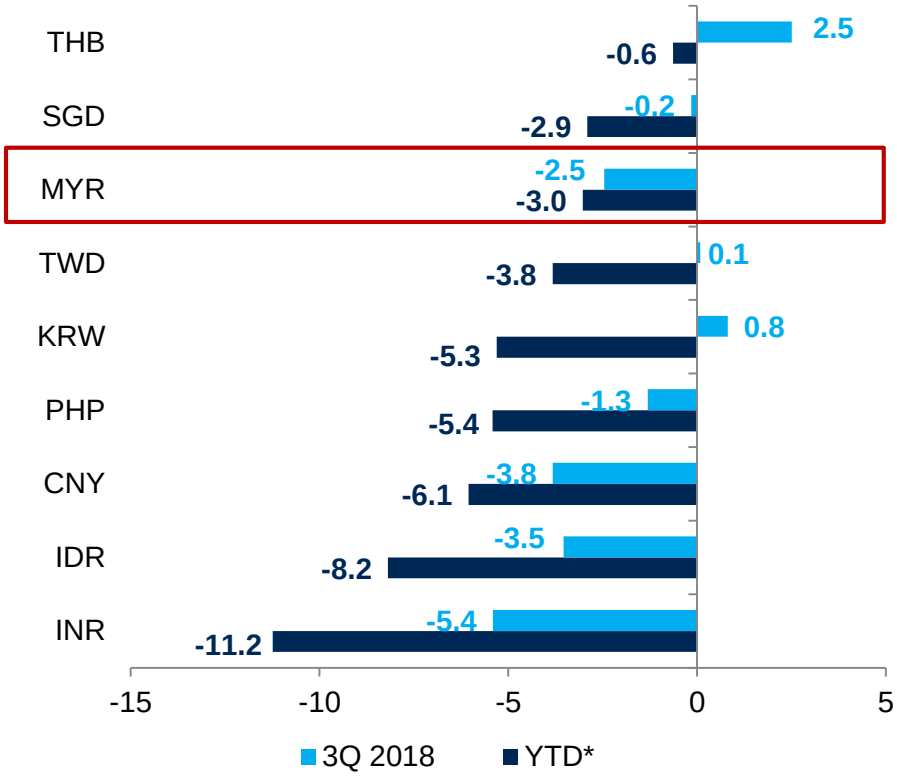
*Net financing comprises outstanding banking system and DFIs loans; and outstanding corporate bonds

Source: Bank Negara Malaysia

The ringgit depreciated against the US dollar in 3Q due mainly to external factors, in line with regional currencies

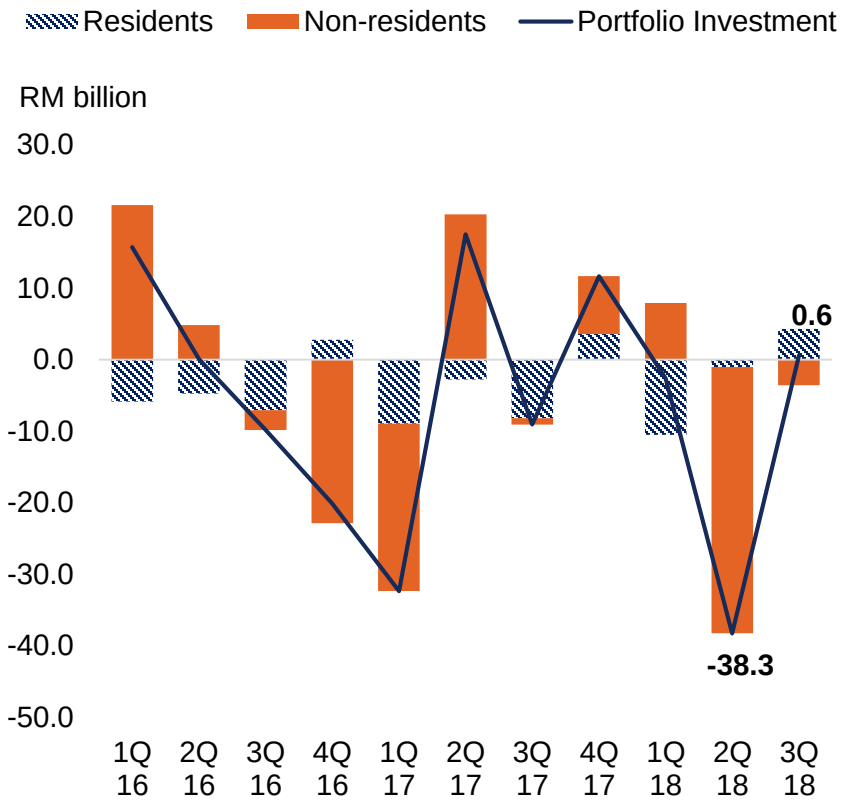
The ringgit depreciated amid continued strength of the USD

Performance of Selected Regional Currencies Against USD



Non-resident portfolio investment registered more moderate outflows in 3Q18

Portfolio Investments (RM billion; 1Q 2016-3Q 2018)

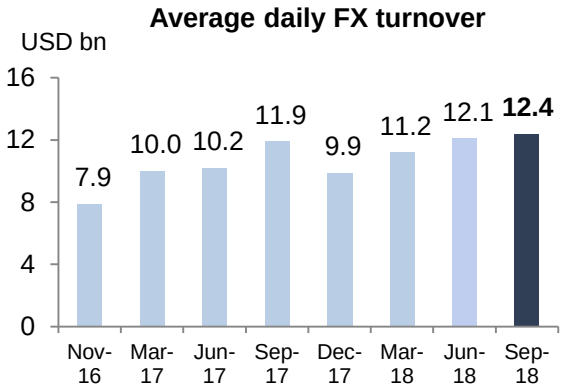


*as at 15 November 2018

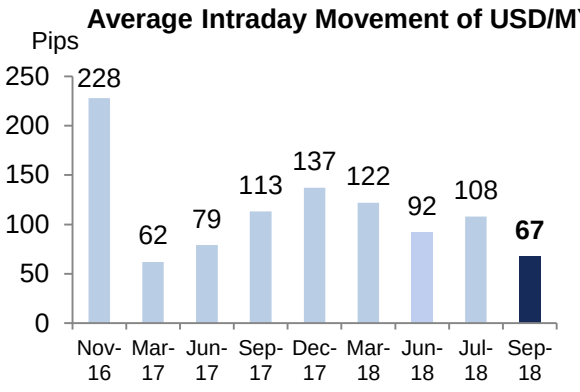
Source: Department of Statistics Malaysia and Bank Negara Malaysia

Ample liquidity condition to support price discovery and lower transaction costs

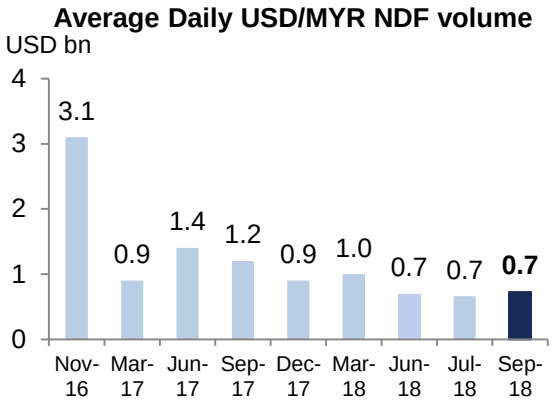
Onshore FX volume remained healthy



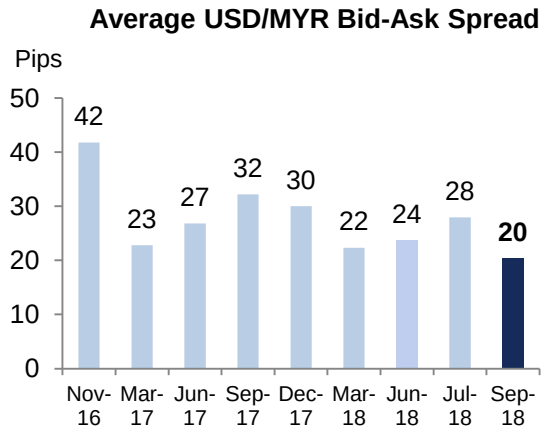
MYR trading range narrowed as investors await for fresh news



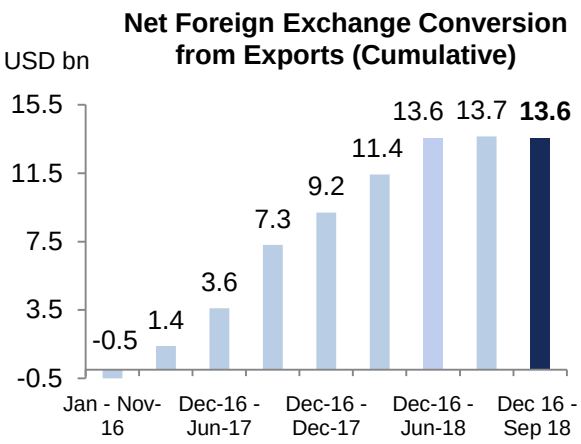
Spillover impact remains limited as NDF volume subdued



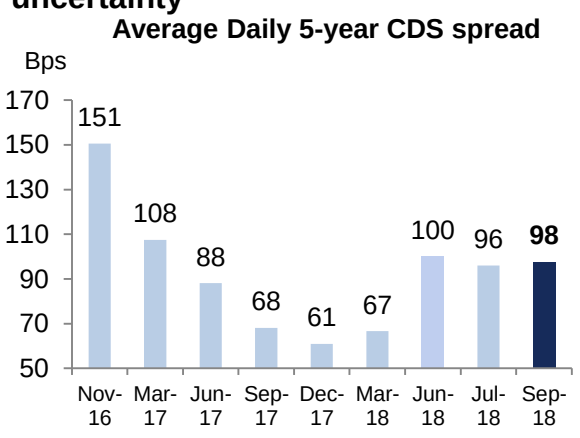
Tightening bid-ask spread following lower market volatility



Goods conversion remained stable post-enhancement of FEA policies in Aug 18



Sovereign credit spread remains elevated on persisting global uncertainty

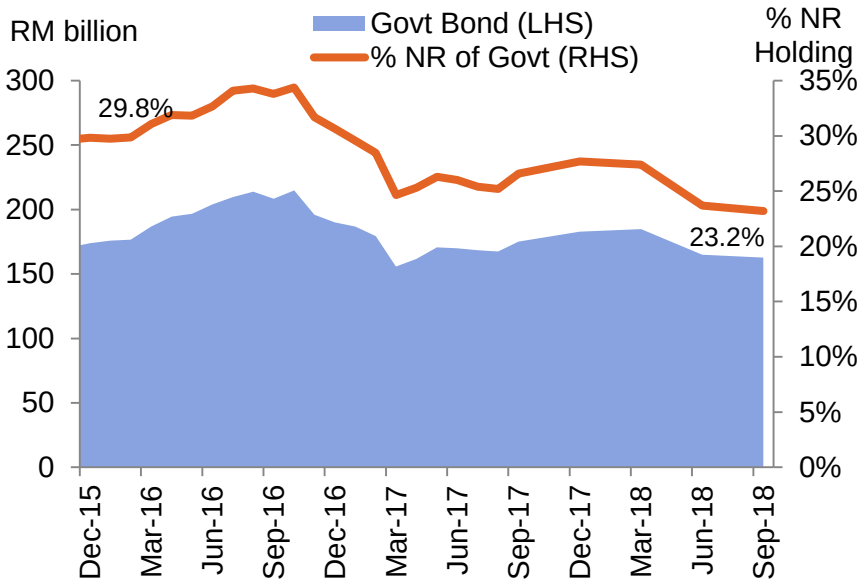


Note: Volatility refers to the difference between USD/MYR interbank intraday highest and lowest rate.
Offshore rate refers to the NDF 1-month rate while onshore rate refers to the spot rate.
Source: Bank Negara Malaysia, Bloomberg

Non-resident holdings of Malaysian government bonds declined marginally following weaker sentiment on emerging markets and Fed rate normalisation

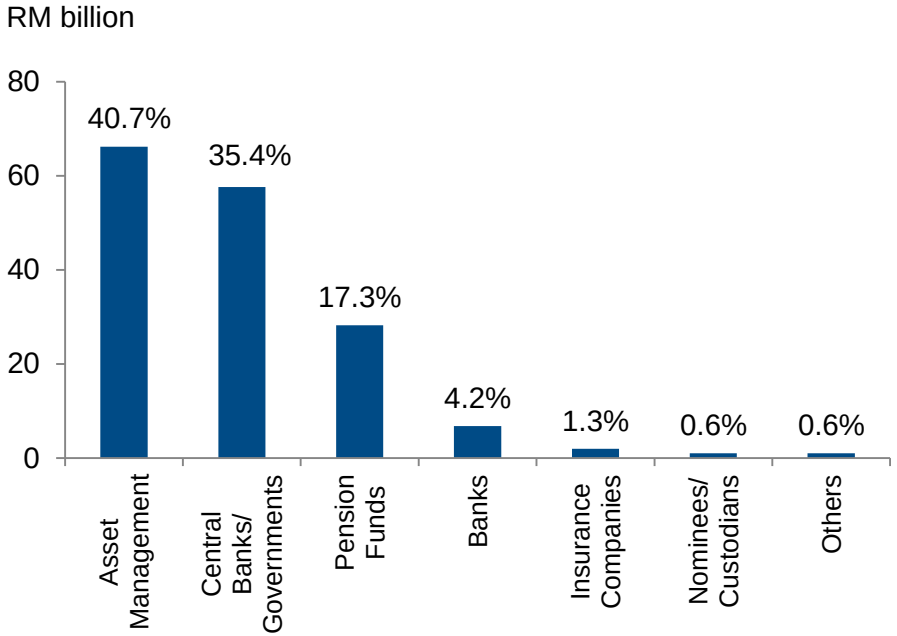
Non-resident holdings of Malaysian Government bonds remained stable

Non-resident Holdings of Malaysian Government Bonds



Long-term NR investors remain key holders of the Malaysian government bonds

Distribution of Non-resident Holdings of Government Bonds as at end-Sep 2018



Note:

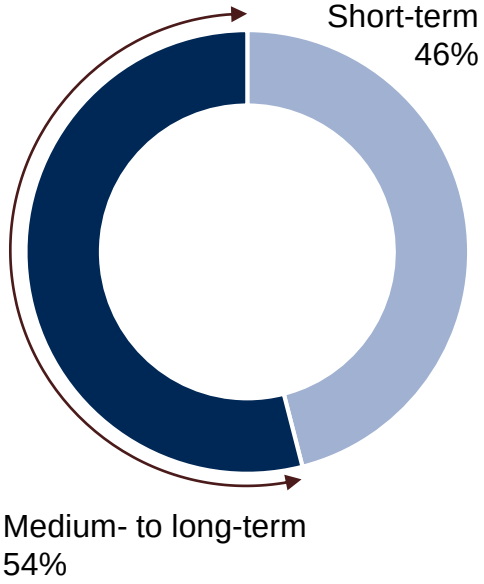
- Malaysian Government Bonds includes Malaysian Government Securities (MGS), Malaysian Government Investment Issues (MGII), and Sukuk Perumahan Kerajaan (SPK).
- 'Others' include individuals, non-financial corporations and unidentified sectors

Source: Bank Negara Malaysia

External debt remains manageable

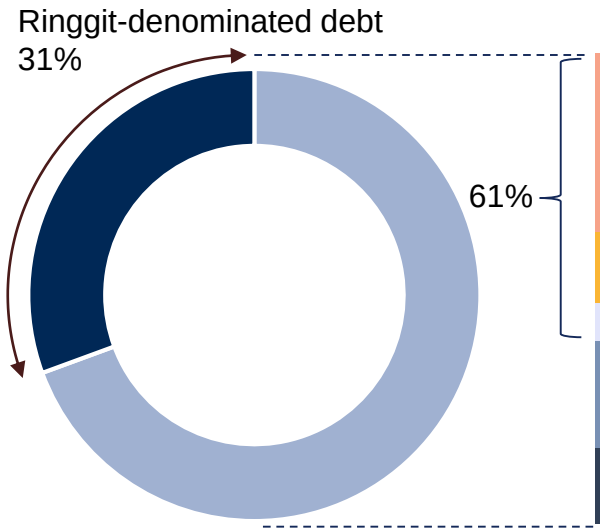
Limited rollover risk as more than half is skewed towards medium- to long-term tenures

Malaysia's External Debt by Maturity in 3Q 2018
End-3Q 2018: RM947.9 bn; % share



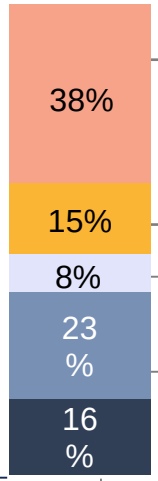
Close to a third is denominated in ringgit and not subject to valuation changes

Malaysia's External Debt by Currency in 3Q 2018
End-3Q 2018: RM947.9 bn; % share



FX debt are mostly subjected to either prudential safeguards or flexible terms

Malaysia's foreign-currency denominated external debt in 3Q 2018
% share



Interbank borrowings (31.4%) and non-resident deposits (6.6%)

- *Prudent liquidity management including limits on funding and maturity mismatches*

Intercompany loans

- *Flexible/concessionary terms*

Trade credits

- *Backed by export earnings and self-liquidating*

Bonds and notes

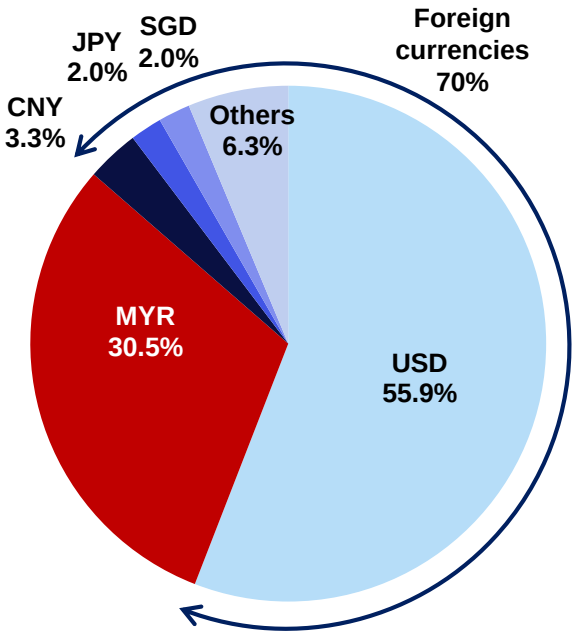
Others

Note: Numbers may not add up due to rounding
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Diversified external debt currency denominations and decentralisation of reserves accord Malaysia with resilience against ringgit depreciation

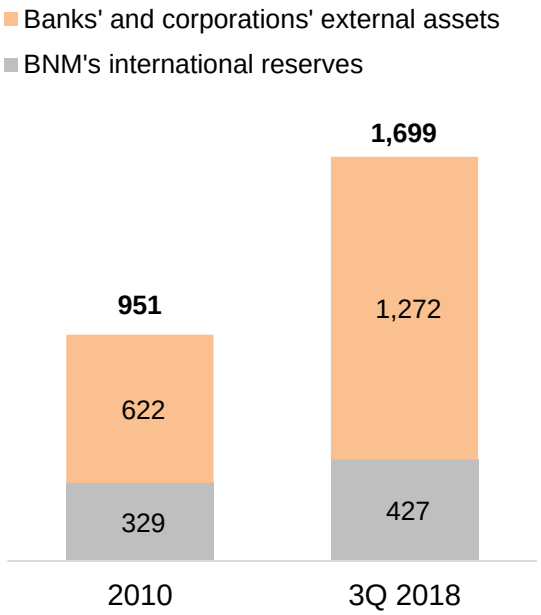
About a third of external debt denominated in ringgit, lowering exposure of currency fluctuations

Malaysia's External Debt by Currency
End-3Q 2018: RM947.9 bn; % share



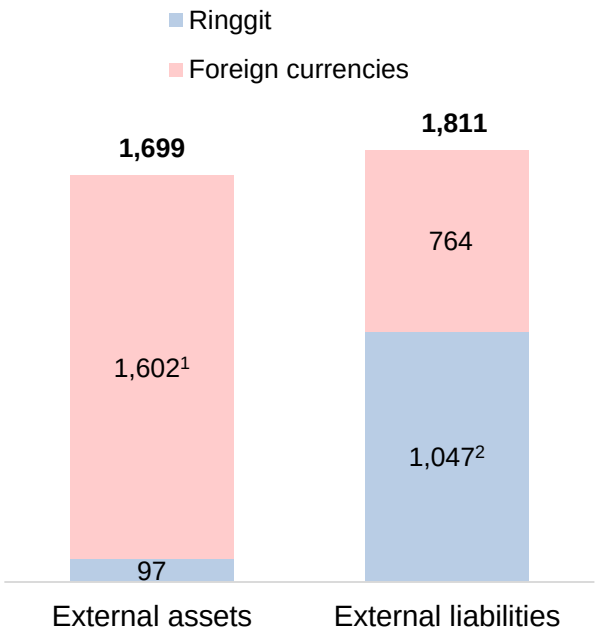
Banks' and corporations' external assets have doubled since 2010, reflecting decentralisation of reserves

Malaysia's External Assets
End-3Q 2018: RM 1.7 trillion; RM billion



FC external assets far exceed FC external liabilities, mitigating impact of ringgit depreciation

IIP by Currency
RM billion

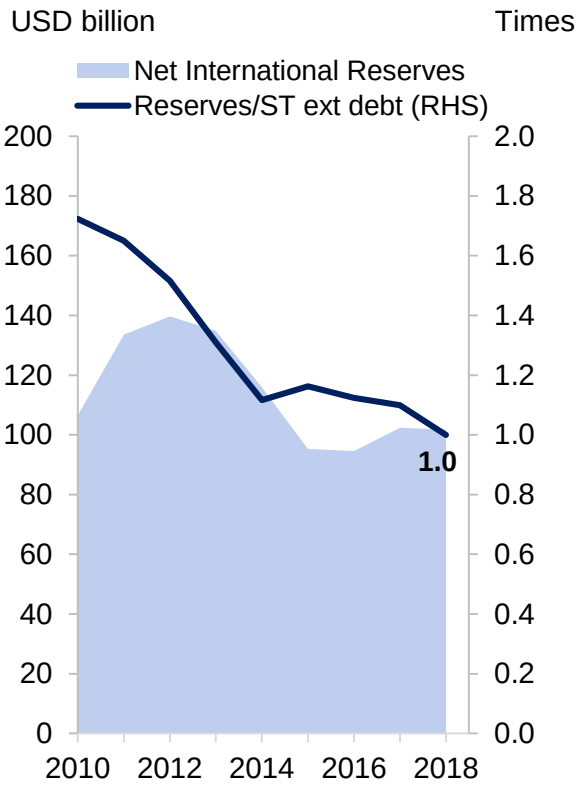


[1] Includes mainly direct and portfolio investments abroad
[2] Comprises non-resident holdings of domestic debt securities and placement of deposits in the domestic banking system, as well as holdings of equity securities in the form of foreign direct and portfolio investments
Source: Bank Negara Malaysia

Reserves remain adequate and are not the only means to meet external obligations

Reserves-to-ST external debt coverage at 1.0x adequate to facilitate international transactions

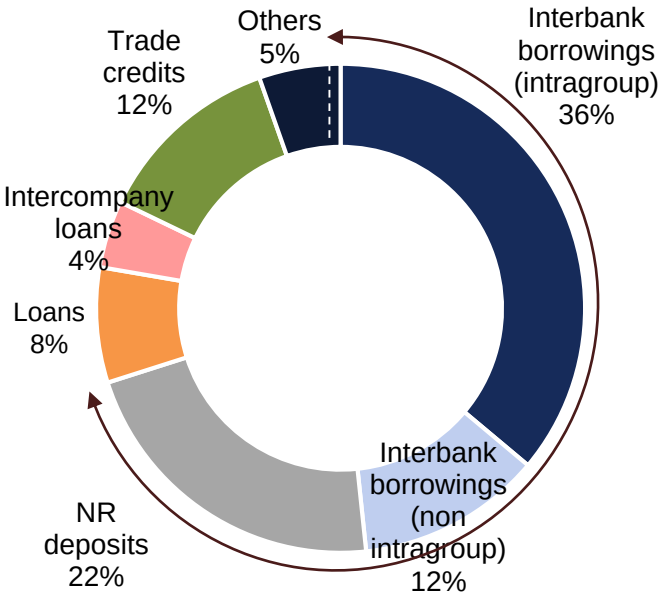
Net International Reserves



Banks account for about 70% of short-term external debt

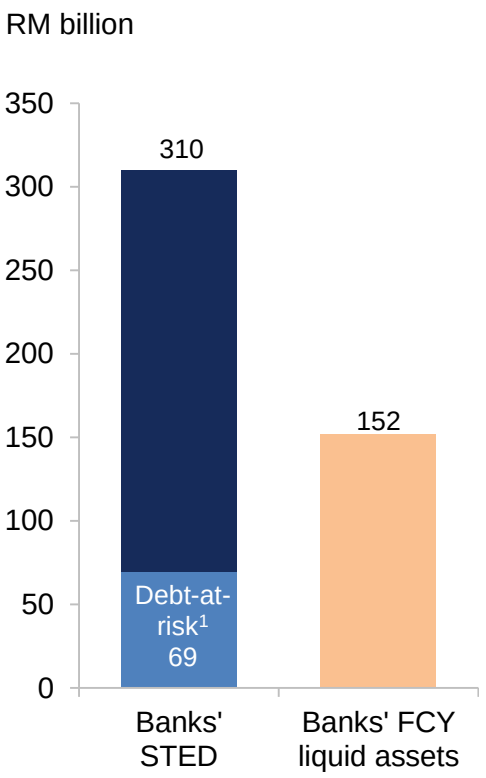
Breakdown of Malaysia's Short-Term External Debt by Instrument in 3Q 2018

End-3Q 2018: RM436.1 bn; % share



External debt of the banking sector (71%*)

Banks have FCY liquid assets to meet external obligations



[1] Comprises unstable exposures with unrelated counterparties that is more susceptible to sudden withdrawal shocks

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Steady growth path in 2018 and 2019

2018	2019

Factors supporting growth

- Strong consumer spending due to zerorisation of GST
- Strong business and consumer sentiments
- Expansion in manufacturing production capacity

- Commencement of new production facilities
- Recovery of commodity output
- Continued private sector spending

Factors weighing on growth

- Prolonged disruptions in commodity production
- Review of mega projects

- Slower global trade
- Continued reprioritisation of public expenditure

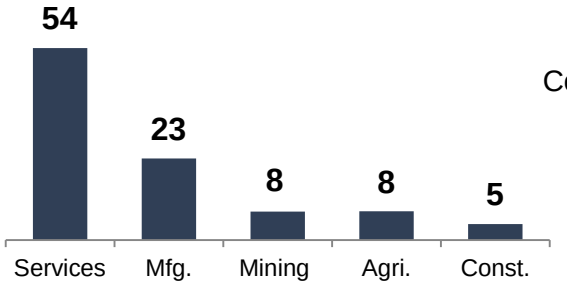
Downside risks to growth

- ▼ Further escalation of trade tensions
- ▼ Greater financial market volatility
- ▼ Unanticipated disruption in commodity production

Malaysia's macroeconomic fundamentals remain strong

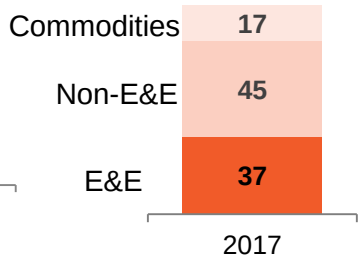
Broad-based sources of growth

Malaysia GDP by Economic Sectors (2017)
% share of GDP

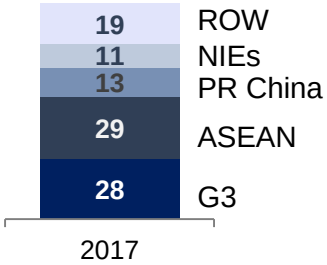


Diversified export market and product

Product
% share of exports

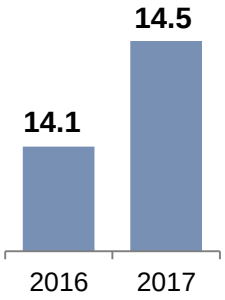


Market
% share of exports

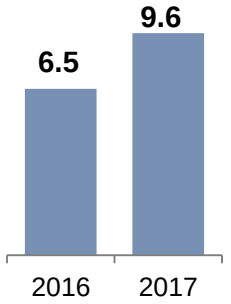


Favourable labour market conditions

Employment
million

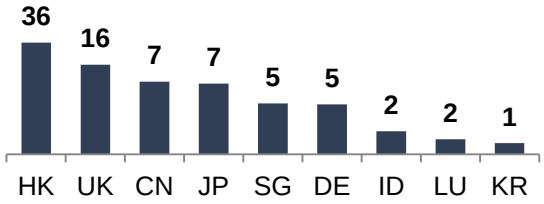


Income Growth
%



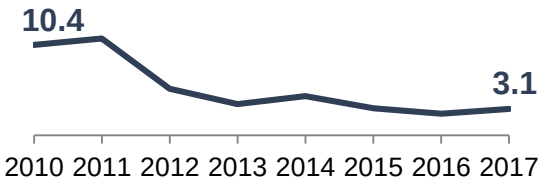
Conducive investment destination for foreign investors

FDI Inflows of RM 60bn by Source Country (2017-3Q 2018)
% share of total FDI inflows



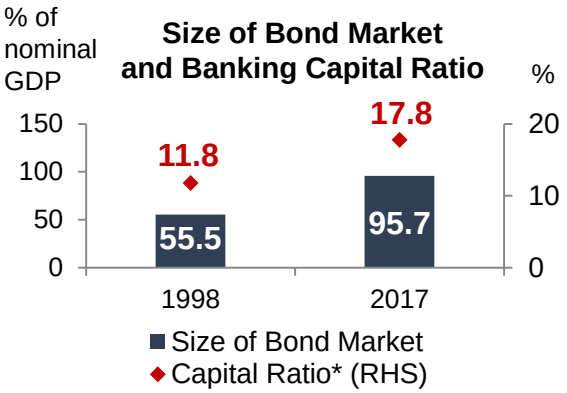
Continued current account surplus

Current Account Balance
% of GNI



Deeper financial markets, resilient banking system and strong financial buffers

Size of Bond Market and Banking Capital Ratio



* Capital ratio in '98 refers to the risk-weighted capital ratio; Ratio in 2017 refers to total capital ratio, reported based on Basel III Capital Adequacy Framework adopted since January 2013; Note: HK= Hong Kong, CN=China, SG= Singapore, UK= United Kingdom, JP=Japan, DE=Germany, ID=Indonesia, KR=South Korea, LU= Luxembourg
Note: NIEs include Hong Kong, Chinese Taipei and Korea

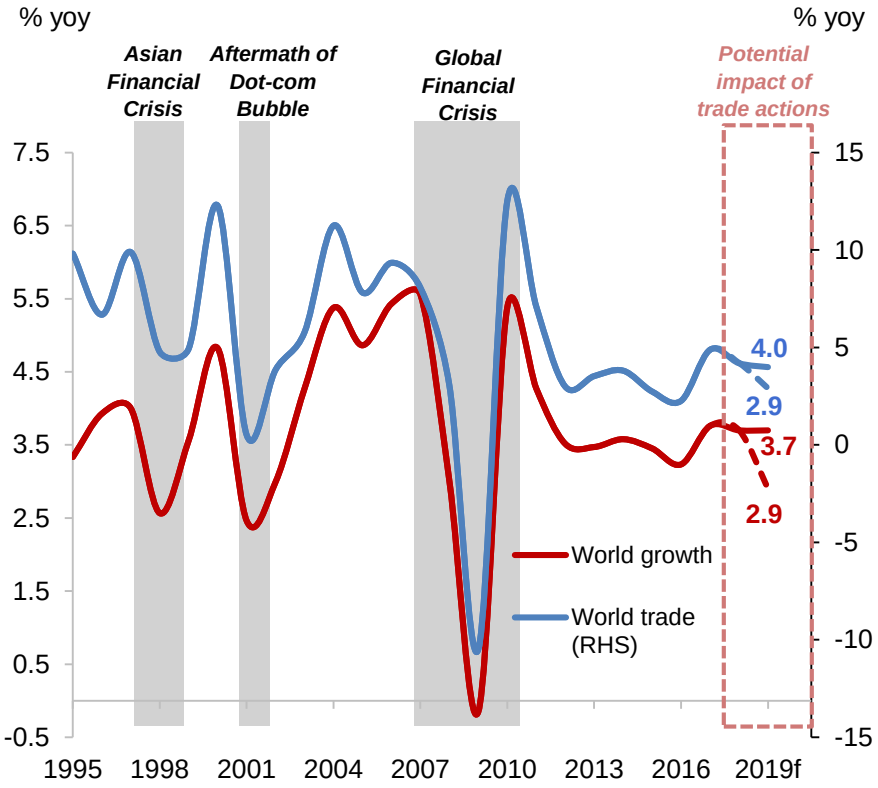
Source: Department of Statistics, Malaysia and Bank Negara Malaysia p preliminary

Escalating Trade Tensions and Potential Spillovers to Malaysia

Escalating trade tensions to weigh down on economic prospects

Further intensification of trade actions could pose significant risk to the global economy

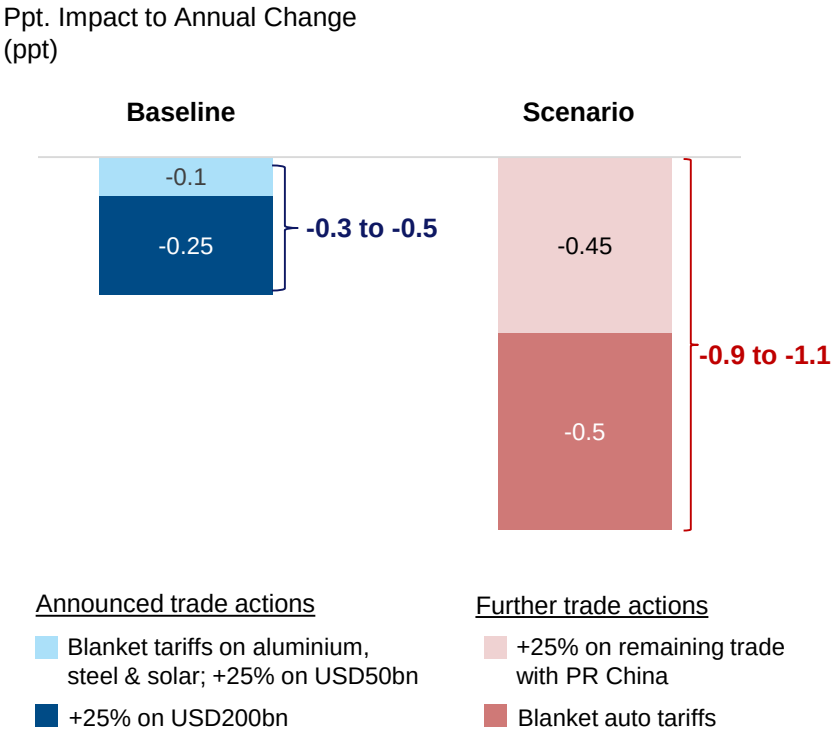
Long-Term Global GDP and Trade Growth



Source: IMF WEO, staff estimation

This could have negative spillovers to Malaysia's growth prospects

Malaysia's GDP Growth



Source: Staff estimation

Q & A

Additional Information

The Malaysian economy grew by 4.4% in the third quarter

Real GDP (Annual change, %)	Share, % (2017)	2017	2018		
			1Q	2Q	3Q
Domestic demand (excluding stocks)	**92.2**	**6.5**	**4.1**	**5.6**	**6.9**
Private Sector	**71.1**	**7.5**	**5.2**	**7.5**	**8.5**
Consumption	*53.7*	*7.0*	*6.9*	*8.0*	*9.0*
Investment	*17.4*	*9.3*	*0.5*	*6.1*	*6.9*
Public Sector	**21.0**	**3.3**	**-0.1**	**-1.4**	**1.1**
Consumption	*13.0*	*5.4*	*0.4*	*3.1*	*5.2*
Investment	*8.0*	*0.1*	*-1.0*	*-9.8*	*-5.5*
Net exports of goods and services	**7.7**	**-1.9**	**62.4**	**1.7**	**-7.5**
Exports	*72.8*	*9.4*	*3.7*	*2.0*	*-0.8*
Imports	*65.1*	*10.9*	*-2.0*	*2.1*	*0.1*
Change in stocks (RM billion)	**0.0**	**1.1**	**-5.0**	**2.8**	**-6.5**
GDP (y-o-y)	**100[1]**	**5.9**	**5.4**	**4.5**	**4.4**
GDP (q-o-q growth, seasonally adjusted)	**-**	**1.0**	**1.4**	**0.3**	**1.6**

Note: [1] Numbers do not add up due to rounding
Source: Department of Statistics, Malaysia

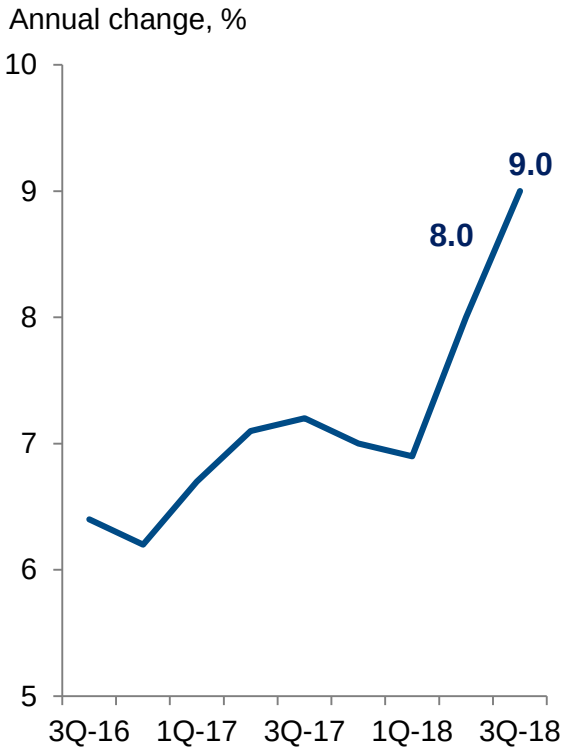
Real GDP (Annual change, %)	Share, % (2017)	2017	2018		
			1Q	2Q	3Q
Services	**54.5**	**6.2**	**6.5**	**6.5**	**7.2**
Manufacturing	**23.0**	**6.0**	**5.3**	**4.9**	**5.0**
Mining and Quarrying	**8.4**	**1.0**	**0.1**	**-2.2**	**-4.6**
Agriculture	**8.2**	**7.2**	**2.8**	**-2.5**	**-1.4**
Construction	**4.6**	**6.7**	**4.9**	**4.7**	**4.6**
Real GDP	**100[2]**	**5.9**	**5.4**	**4.5**	**4.4**

Note: [2] Numbers do not add up due to rounding and exclusion of import duties component
Source: Department of Statistics, Malaysia

Private consumption surged to 9.0% supported by continued income growth, with additional lift from tax holiday

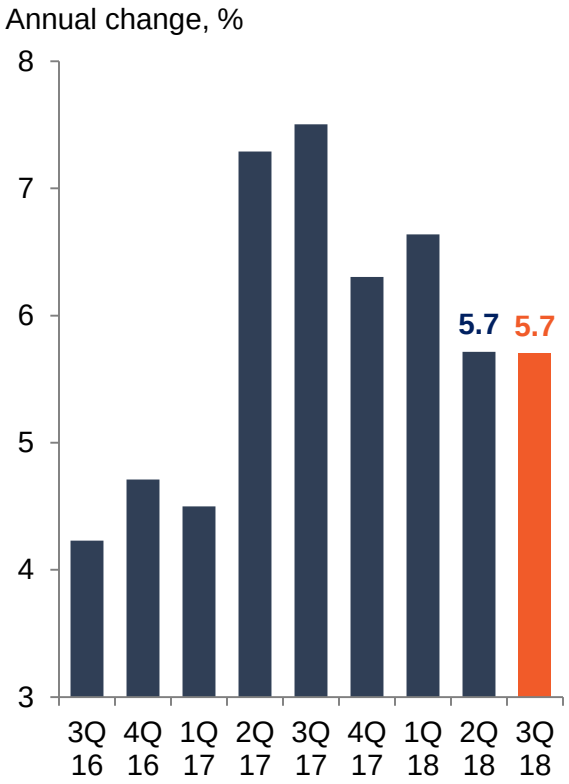
Household spending improved further in 3Q

Real Private Consumption Growth



Continued private sector wage growth

Private Sector* Wage Growth



*Private sector wages is derived from the salaries and wages data published in the Monthly Manufacturing Statistics and Quarterly Services Statistics by the Department of Statistics Malaysia

Looking ahead, private consumption growth to moderate

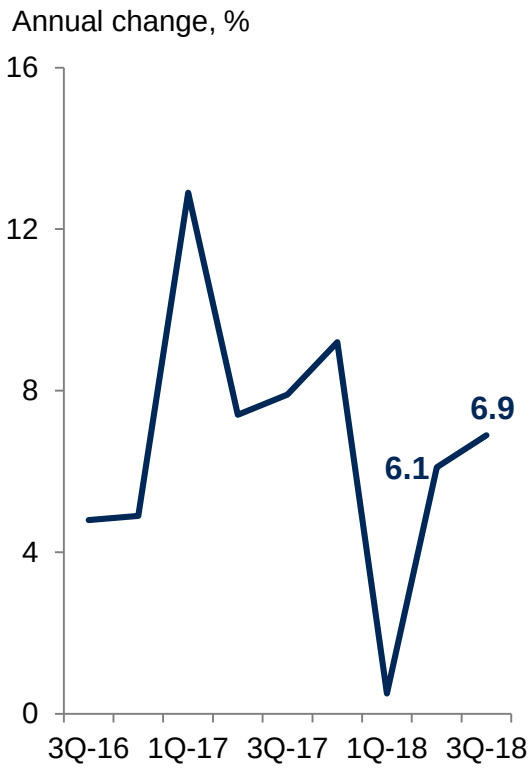
- Households to adjust spending with the lapse in tax holiday
- Higher inflation to also affect consumption growth
- However, steady labour market conditions and some Government measures will provide support

Source: Department of Statistics, Malaysia

Higher private investment growth at 6.9% amid continued elevated capacity utilisation

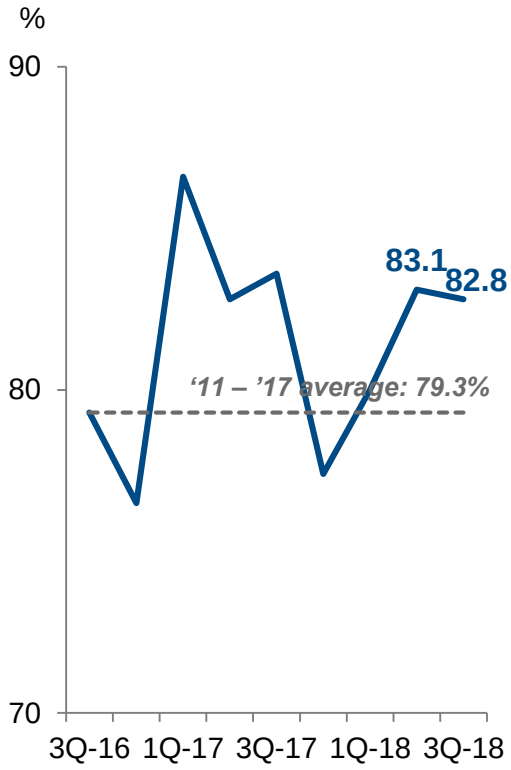
Private investment trended higher

Real Private Investment Growth



Capacity utilisation remained elevated

MIER Capacity Utilisation Rate



Going forward, investment activity to be supported by:

- Implementation of ongoing multi-year projects
- Capacity expansion in major sectors

Source: Department of Statistics, Malaysia, MIER

Services expanded by 7.2 per cent

Annual Growth of Services Sector and by Sub-Sectors

Activity	2017	2018		
		1Q	2Q	3Q
Services	6.2	6.5	6.5	**7.2**
Wholesale & Retail Trade	7.1	6.8	7.3	**9.5**
Information & Communication	8.4	8.3	8.6	**8.4**
Finance & Insurance	4.6	7.5	4.9	**6.3**
Real estate & Business Services	7.4	7.4	7.8	**7.7**
Food & Beverages and Accommodation	7.4	7.7	9.0	**9.3**
Transportation & Storage	6.2	5.7	6.4	**6.7**
Other Services	4.6	4.8	4.9	**4.6**

- **Wholesale & Retail Trade** grew at faster pace led by retail and motor vehicles
- **Information & Communication** supported by communication and computer services
- **Finance & insurance** improved further

Manufacturing grew by 5.0 per cent

Annual Growth of Manufacturing Sector and by Sub-Sectors

Activity	2017	2018		
		1Q	2Q	3Q
MANUFACTURING	**6.0**	**5.3**	**4.9**	**5.0**
G7: Electrical, Electronic and Optical Products	8.0	6.0	6.2	**6.4**
G5: Petroleum, Chemical, Rubber and Plastic Products	4.1	5.0	3.8	**3.9**
G8: Transport Equipment, Other Manufacturing and Repair	5.2	3.3	6.5	**8.0**
G6: Non-Metallic Mineral Products, Basic Metal and Fabricated Metal Products	4.6	5.1	5.0	**5.0**
G4: Wood Products, Furniture, Paper Products and Printing	4.6	4.1	4.0	**6.1**
G1: Vegetable and Animal Oils & Fats and Food Processing	10.1	9.1	4.1	**2.2**
G2: Beverages and Tobacco Products	6.2	1.4	3.8	**3.3**
G3: Textiles, Wearing Apparel and Leather Products	8.0	6.6	4.0	**3.0**

- **Electrical & Electronic** products supported the growth
- **Petroleum, Chemical, Rubber & Plastic Products** was led by refined petroleum and rubber products
- **Transport Equipment, Other Manufacturing and Repair** backed by Motor vehicles and transport equipments
- **Non-Metallic Mineral Products, Basic Metal and Fabricated Metal Products** supported by non metallic mineral and basic metal

Agriculture recorded negative growth of 1.4 percent

Annual Growth of Agriculture Sector

Activity	2017	2018		
		1Q	2Q	3Q
Agriculture	7.2	**2.8**	**-2.5**	**-1.4**
Oil Palm	16.0	12.5	-6.0	**-8.0**
Rubber	9.3	-28.5	-20.1	**-0.2**
Forestry & Logging	-15.7	-13.5	-6.0	**2.6**
Fishing	-2.1	-2.9	-0.8	**2.1**
Livestock	5.3	5.7	7.4	**8.2**
Other Agriculture	2.1	4.5	5.0	**5.9**

- All sub-sectors registered better growth except **Oil palm**
- **Livestock** supported by poultry and cattle
- **Fishing** backed by marine fishing and aquaculture

Current account surplus was sustained in 3Q 2018

Sustained CA surplus...

RM billion	2017	2018		
		1Q	2Q	3Q
Current Account	**40.3**	**15.0**	**3.9**	**3.8**
Goods	**116.8**	**35.7**	**26.1**	**26.6**
Exports	807.0	202.1	202.4	211.8
Imports	690.2	166.4	176.4	185.2
Services	**-22.8**	**-5.8**	**-6.2**	**-3.3**
Receipts	159.2	38.3	39.0	40.9
Payments	182.0	44.2	45.2	44.3
Primary income	**-36.4**	**-10.2**	**-11.2**	**-15.0**
Receipts	53.5	13.0	13.3	12.2
Payments	89.8	23.2	24.5	27.3
Secondary income	**-17.3**	**-4.7**	**-4.7**	**-4.5**
Receipts	16.7	3.7	3.6	4.1
Payments	34.0	8.4	8.3	8.5

… supported by a higher goods surplus amid a larger primary income deficit…

Higher goods surplus

- Higher E&E exports
- Smaller decline in commodity exports

Higher primary income deficit

- Higher profits earned by foreign investors, particularly in the mining and manufacturing sectors

In the first 3 quarters of 2018, Malaysia's current account registered a cumulative surplus of RM22.7 billion (or 2.2% of GNI)

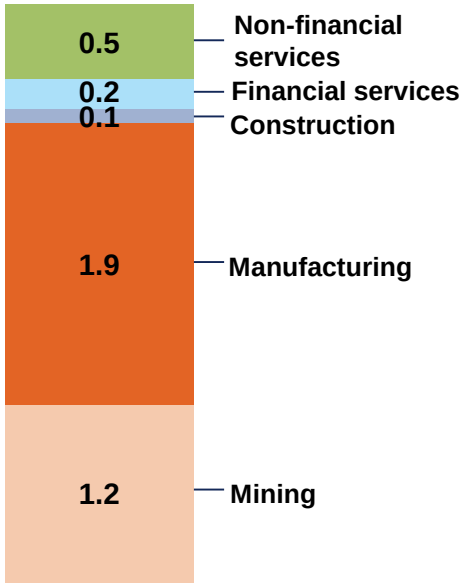
Source: Department of Statistics, Malaysia

Higher foreign direct investments (FDI) in 3Q 2018

FDI flows remain broad-based across sectors

FDI in Malaysia by sectors and country (RM billion), 3Q 2018

Total FDI inflows (3Q 2018): RM3.9 billion



Top 5 FDI countries	RM billion
US	**2.1**
UK	**1.2**
Japan	**1.0**
Switzerland	**1.0**
Hong Kong	**0.5**

- Higher FDI in 3Q 2018 (RM3.9 billion; 2Q 2018: RM2.8 billion)
- FDI reflected mainly continued profitable operations and higher global crude oil prices
- Advanced economies including the US, UK and Japan were the largest sources of FDI
- Income of FDI firms operating in Malaysia increased to RM16.3 billion, the highest since 4Q 2013

Note: Figures may not add up due to netting off and rounding
*Non-financial services includes electricity & gas, water supply, wholesale & retail trade, transportation and storage, accommodation, F&B, ICT, Real estate, public administration, education, human health, arts, entertainment
Sources: Department of Statistics Malaysia, Bank Negara Malaysia, staff calculations

End