BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PRESS RELEASE

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Economic and Financial Developments in Malaysia In the Third Quarter of 2024

Press Conference Presentation Transcript

Sustained global growth in 3Q 2024 amid continued recovery in trade activity

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'Global growth in the third quarter of 2024 was sustained, supported by resilient labour market. Regional trade expanded faster amid support from broad-based strength in electrical and electronics (E&E) and non-E&E goods.

'Inflation continued its downward trajectory, paving the way for further monetary policy easing in many countries.'

Malaysia's GDP grew by 5.3% in 3Q 2024

Ketua Perangkawan Malaysia Dato' Sri Dr. Mohd Uzir Mahidin berkata, *"Pada suku ketiga 2024, ekonomi Malaysia berkembang sebanyak 5.3%. Peningkatan ini didorong oleh aktiviti pelaburan yang lebih kukuh, eksport barangan dan perkhidmatan yang lebih tinggi, serta pertumbuhan perbelanjaan isi rumah yang disokong oleh pasaran pekerja yang positif dan langkah-langkah dasar yang berterusan.*

"Dari segi pengeluaran, sektor perkhidmatan mencatatkan pertumbuhan 5.2%, sektor pembuatan meningkat 5.6%, sektor pembinaan mengukuh kepada

19.9% dan sektor pertanian bertumbuh 3.9%. Manakala, sektor perlombongan & pengkuarian menyusut 3.9%.

"Dari sudut permintaan, perbelanjaan penggunaan isi rumah meningkat 4.8%, pelaburan awam dan swasta berkembang masing-masing pada kadar 14.4% dan 15.5%. Selain itu, perbelanjaan penggunaan kerajaan meningkat 4.9%, manakala eksport bersih pula mencatatkan penurunan 8.8%."

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, 'In the third quarter of 2024, the Malaysian economy advanced by 5.3%. This was supported by stronger expansion in investment activities, higher goods and services exports, as well as expansion in household spending amid positive labour market conditions and also implementation of the newly-publicised policies such as the new Public Service Remuneration System (SSPA) and progressive wage.

Growth supported by stronger investment

Chief Statistician of Malaysia Dato' Sri Dr. Mohd Uzir Mahidin said, 'On the expenditure side, domestic demand was driven mainly by stronger investment. The growth in both private and public investments reflected stronger structures spending, as well as machinery & equipment.

'Private consumption continued to be supported by positive labour market conditions and policy measures. Meanwhile, net exports declined as stronger intermediate and capital imports outweighed higher growth of exports.

'On the supply side, most sectors continued to expand, except for the mining sector. The services sector continued to expand, supported by consumer-related services. The manufacturing sector recorded stronger activity in the export-oriented cluster. The robust construction sector's growth was driven by non-residential, residential and special trade subsectors.

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‘On the commodities side, agriculture sector’s growth was supported by a moderate increase in oil palm production amid contraction in fisheries output. However, the mining sector’s growth declined, following maintenance activity in the oil and gas subsector.’

Continued current account surplus amid higher foreign direct investment inflows

Chief Statistician of Malaysia Dato’ Sri Dr. Mohd Uzir Mahidin said, ‘The current account of the balance of payments recorded a surplus of RM2.2 billion or 0.4% of GDP during the quarter, underpinned by continued goods account surplus amid improving export levels.

‘The services account showed favourable performance with a lower deficit of RM1.6 billion. This improvement was mainly due to a higher surplus in travel, which stemmed from increased spending by foreign tourists in Malaysia and a lower deficit in ‘Other’ business services.

‘Meanwhile, the primary income account recorded a wider deficit, owing to income accrued to foreign investors as well as lower earnings by Malaysian companies abroad. Additionally, the secondary income account remained in deficit.

‘On the investment side, FDI recorded a higher net inflow of RM14.5 billion during the quarter. This inflow reflects the turnaround in reinvestment of earnings, larger equity injections and continued inflows in debt instruments.

‘These investments were channelled mainly into the Services sector, predominantly in ‘Information & Communication’ and ‘Wholesale & Retail’ trade sub-sectors. The FDI were primarily from Singapore, Hong Kong and Switzerland.

‘In the meantime, Direct Investment Abroad registered a higher net outflow of RM18.9 billion. The main sectors were ‘Manufacturing’, followed by ‘Services’

and ‘Mining & Quarrying. Saudi Arabia, Indonesia and Canada were the main destinations of Direct Investment Abroad.’

Indicators point to sustained growth prospects for the Malaysian economy

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘In the near term, both external and domestic leading indicators suggest sustained growth prospects for the Malaysian economy. The latest projections by the IMF point to favourable global conditions, with sustained global growth and higher global trade. This will support demand for Malaysia’s exports of goods and services.

‘Furthermore, Malaysia’s latest leading indicators’ performance suggests further improvement of the overall economy. ’

Growth in 2025 will be driven by domestic spending and support from external demand

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘With the forthcoming performance, the year-to-date growth is strong at 5.2%, well within our projection of between 4.8 – 5.3%.

‘Moving into 2025, we expect growth to expand between 4.5 – 5.5%. Household spending will remain the anchor of growth, driven by expansion in employment and income, as well as continued policy support. Furthermore, investment activities will continue to support growth amid ongoing progress in multi-year projects, realisation of the high approved investments, and favourable financing conditions. On the external front, higher exports and tourist spending will also continue to lift growth.’

Growth outlook remains subject to both domestic and external risk factors

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘The economy remains subject to risks from both external and domestic factors. Downside risks could stem from weaker-than-expected external demand from

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key export partners, further escalation of geopolitical conflicts and more protectionist policies, as well as lower-than-expected commodity production.

'On the other hand, growth could be higher due to greater spillovers from the global technology upcycle and more robust tourism activity. In addition, faster implementation of existing and new investment projects could also lead to more robust investment activity and overall growth in the economy.'

Continued improvement in exports amid faster import growth

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'Malaysia's trade performance in the third quarter remains highly encouraging. Gross exports grew by 7.8%, driven by continued external demand and global tech upcycle. These are evident from the sustained growth of E&E and non-E&E exports by 5.2% and 10% respectively. We project export growth to sustain arising from the global tech upcycle and continued strong demand for our non-E&E goods.

'At the same time, gross imports expanded at a faster rate of 20.8%, contributed by increased imports of capital and intermediate goods. Going forward, we expect imports to remain strong driven by capital imports from investment upcycle, and intermediate imports to support higher exports. Importantly, these investments will further raise exports and expand the productive capacity of the economy.'

Household spending remains as the anchor of growth

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'Consumer spending remains as the anchor of growth, supported by continued wage increases and employment growth. Moving forward, household spending is projected to remain resilient, lifted by rising income and expanding employment opportunities, along with targeted policy initiatives to support selected households.'

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Robust investment growth from continued implementation of new and existing projects

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'The investment upcycle is a key bright spot in the economy. Overall investment registered a higher growth of 15.3% (2Q-24: 11.5%), supported by both structures and machinery & equipment. The continued implementation of new and existing projects is reflected in the higher construction activities mainly in the private sector during the quarter.

'Investments are also supported by the good implementation progress of key infrastructure projects, such as the ECRL and Pan Borneo Highway.'

Greater role of private sector in supporting investments, with increased activity in high-tech and knowledge-intensive subsectors

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'Notably, we observe that the recent strength in investment growth is mainly private sector-driven. Furthermore, investments are increasingly geared towards high-tech industries such as E&E and ICT. Recent strength in investment activities also resulted in higher capital imports. But, this can be seen as a necessary transition to enhance and diversify sources of growth and our future exports, create high-skilled and high-income jobs, as well as raise the nation's productive capacity.'

Liberalisation of foreign exchange policy (FEP) for international financial institutions to support investments in Malaysia

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'To further support investment activity, I am pleased to announce the liberalisation of foreign exchange policy to better facilitate greater participation from global investors in key growth areas in Malaysia. This is in line with greater demand and interest by international financial institutions to finance high-value investment projects in Malaysia that we have observed in the recent period.

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‘With the liberalisation, multilateral development banks (MDBs) and qualified non-resident development financial institutions (DFIs) are now free to issue ringgit-denominated bonds and sukuk for use in Malaysia, and to provide ringgit financing to resident entities.

‘These flexibilities will widen financing opportunities in ringgit to support business investments while reducing currency mismatch risk, at the same time spur more issuances and participation by global issuers and international investors in the domestic bond and sukuk markets.

‘Close collaboration with MDBs and reputable DFIs can also facilitate knowledge transfer and complement the blended finance approach in mobilising capital to strategic new growth areas, such as climate transition. For more information on the liberalisation, please refer to the press release on BNM’s website.’

Headline and core inflation remained stable in 3Q 2024

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘Now let me turn to inflation. Both headline and core inflation remained stable at 1.9% in the third quarter.

‘While there were pockets of higher inflation for selected items, such as diesel and vehicle insurance, this was offset by broader moderation for food and beverages inflation during the quarter.

‘Of note, the stable underlying inflation during the quarter continues to suggest limited spillover to broader prices from the diesel subsidy rationalisation implemented in June, which we largely attribute to effective enforcement and mitigation measures to minimise the cost impact on businesses.’

Inflation outlook remains subject to further domestic policy measures as well as risks from external developments

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘Year-to-date, both headline and core inflation averaged 1.8% and are expected

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to remain modest for the remainder of the year. For 2025, inflation is projected to average between 2.0% - 3.5%, accounting for impending domestic policy measures announced in Budget 2025, including the implementation of targeted RON95 subsidies and the expanded scope of SST.

‘Upside risks to the outlook remain contingent on the extent of spillovers from further domestic policy measures to broader prices, as well as lingering risks from external developments, which could drive up global commodity prices or disrupt global supply conditions.

‘On the downside, lower domestic inflation could result from weaker-than-expected global growth, which could weigh on global commodity prices and domestic economic conditions through weaker external demand.’

The OPR was maintained at 3% at the November MPC meeting

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘Turning to monetary policy, the MPC maintained the OPR at 3.00% at the November meeting. The MPC deemed that the monetary policy stance remains supportive of the economy.

‘Our monetary policy will remain forward-looking and data-driven. The MPC will continue to assess evolving conditions and their implications on the inflation and domestic growth trajectories into 2025. ’

Regional currencies, including the ringgit, appreciated against the US dollar in the third quarter

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘The ringgit appreciated by 14.9% in the third quarter and 3.1% year-to-date (as at 13 November 2024) against the US dollar. Ringgit’s performance in the third quarter was mainly driven by the US Federal Reserve’s shift towards a monetary policy easing stance, including the cumulative 75-basis points federal funds rate cut in September and November. Financial market participants also expect further rate cuts by the US Fed moving into 2025.

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‘On the domestic front, investor confidence in Malaysia’s growth prospects has been bolstered by the Government’s implementation of structural reforms. Meanwhile, ongoing coordinated efforts by the Government and BNM continue to provide support for the ringgit during the quarter.

‘This includes the pilot QRI programme which provides foreign exchange flexibility to encourage resident corporates to bring back foreign currency funds and convert into ringgit.

‘In light of the positive feedback received on the QRI programme, we are pleased to announce that the pilot programme will be further expanded to accept applications from eligible resident corporates who have direct investment abroad assets of RM500 million and above (previously RM1 bil), with the registration deadline extended until 30 June 2025. Additional information about this programme such as the eligibility criteria, application form and other operational information can be found on the BNM’s website.’

Narrowing interest differentials and domestic factors expected to continue supporting the ringgit

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘Moving forward, notwithstanding the recent financial market volatility following the US Presidential Election outcome, the ringgit is expected to be supported by narrowing interest rate differentials between the US and Malaysia. Additionally, strong domestic growth and ongoing reforms momentum could provide further tailwinds for the ringgit.

‘Amid global risks arising from a more gradual reduction in the US policy rate, geopolitical tensions and policy uncertainty post-US election, BNM will continue to ensure a better balance of flows and orderly adjustments in the ringgit. ’

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Moderation in credit growth for businesses, while household loan growth remained sustained

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'Credit growth moderated to 4.8% in the third quarter of 2024 (2Q 2024: 5.5%), amid slower growth in outstanding business loans and corporate bonds. Loan growth for households remained sustained.

'For businesses, outstanding loan growth moderated to 4.5% (2Q 2024: 5.7%), amid slower growth in loans to non-SMEs. SME loan growth, however, continued to be forthcoming (8.8%; 2Q 2024: 9.5%). By sector, loan growth for the services sector was sustained, while growth moderated for the manufacturing and construction sectors.

'For households, loan growth remained steady at 6.1% (2Q 2024: 6.2%), with sustained expansion of loans across key purposes, particularly for the purchase of housing and cars. Demand for household financing continued to be forthcoming with higher loan applications recorded across most loan purposes.'

Financing remains accessible to SMEs in 3Q 2024

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'Financing by banks and DFIs continued to support SMEs' business needs in 3Q24, with financing outstanding growing by 8.8% (3Q23: 6.9%). In 3Q24, support from banks remains forthcoming with debt servicing maintained by SMEs.

'Double-digit growth of 16.7% was observed in approvals of investment-related financing (3Q23: 5.9%). In 3Q 2024, the growth in approvals was driven by the services sector (real estate activities) and construction sector. '

Banks remain well-positioned to support financial intermediation

Bank Negara Malaysia Governor Dato' Seri Abdul Rasheed Ghaffour said, 'The banking system continued to play an important role in supporting economic growth during the quarter. Owing to their strong financial position, including

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robust levels of capital and healthy liquidity buffers, banks remain well-positioned to support the financing needs of the domestic economy.

‘The quality of business and household loans remains sound with low and stable impairment ratios. Newly restructured and rescheduled (R&R) loans were also limited.

‘This has been supported by prudent loan affordability assessments and provisioning practices by banks, which help ensure that banks have sufficient buffers to absorb losses.’

Summary

Bank Negara Malaysia Governor Dato’ Seri Abdul Rasheed Ghaffour said, ‘In summary, the Malaysian economy expanded by 5.3% in the third quarter of 2024, driven mainly by stronger private expenditure and further recovery in exports.

‘Growth prospect in 2025 remain positive, although there are risks to the outlook from both external and domestic factors.

‘Meanwhile, headline inflation is expected to average between 2.0% and 3.5% in 2025.’

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