

# ENGAGEMENT SESSION

- ANNUAL REPORT 2022
- ECONOMIC AND MONETARY REVIEW 2022
- FINANCIAL STABILITY REVIEW – SECOND HALF 2022

19 MAY 2023

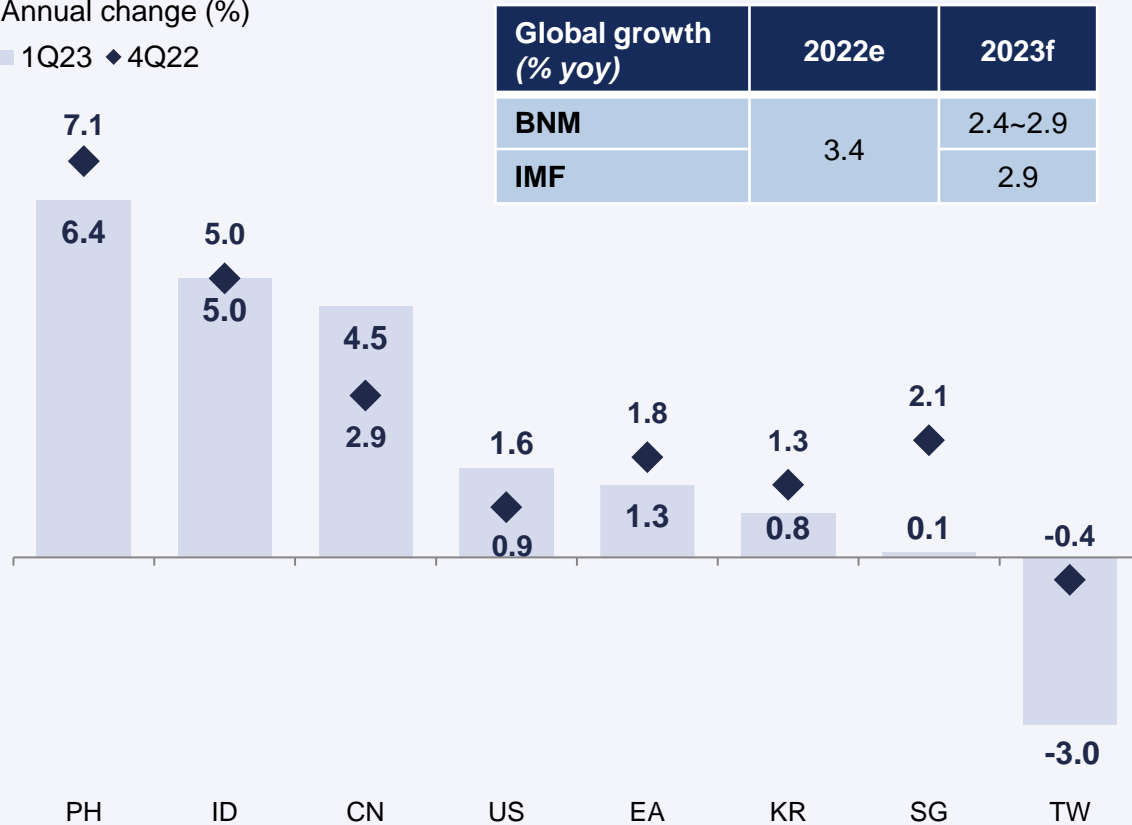


# The global economy grew modestly in 1Q 2023

## Real GDP Growth<sup>1</sup>

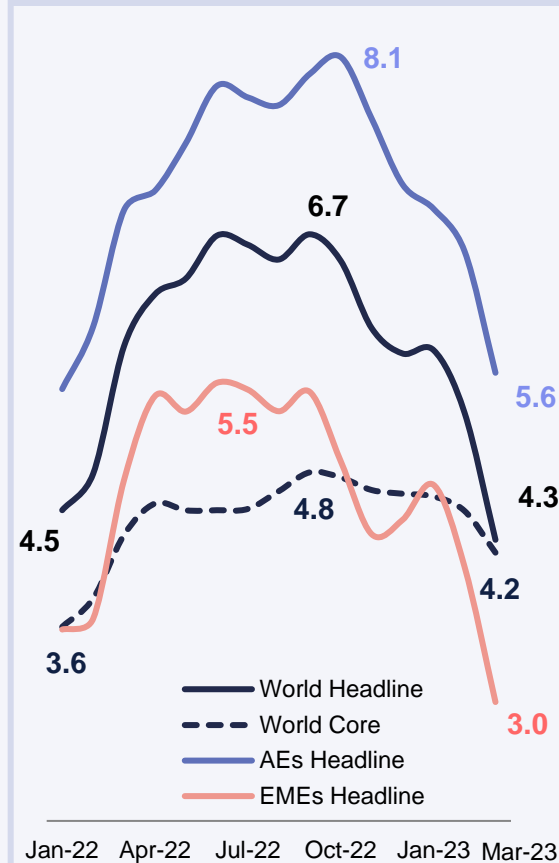
Annual change (%)

■ 1Q23 ◆ 4Q22



Global growth (% yoy)	2022e	2023f
BNM	3.4	2.4~2.9
IMF		2.9

## Inflation<sup>2</sup>



## Global Growth Developments



Modest global growth amid China reopening and resilient labour market in AEs



Moderating headline inflation, but core inflation still high



Regional exports continued to contract amid weak demand for goods

Note:

<sup>1</sup> GDP for the fourth quarter of 2022 are advanced or preliminary estimates except for China, Indonesia, and Philippines.

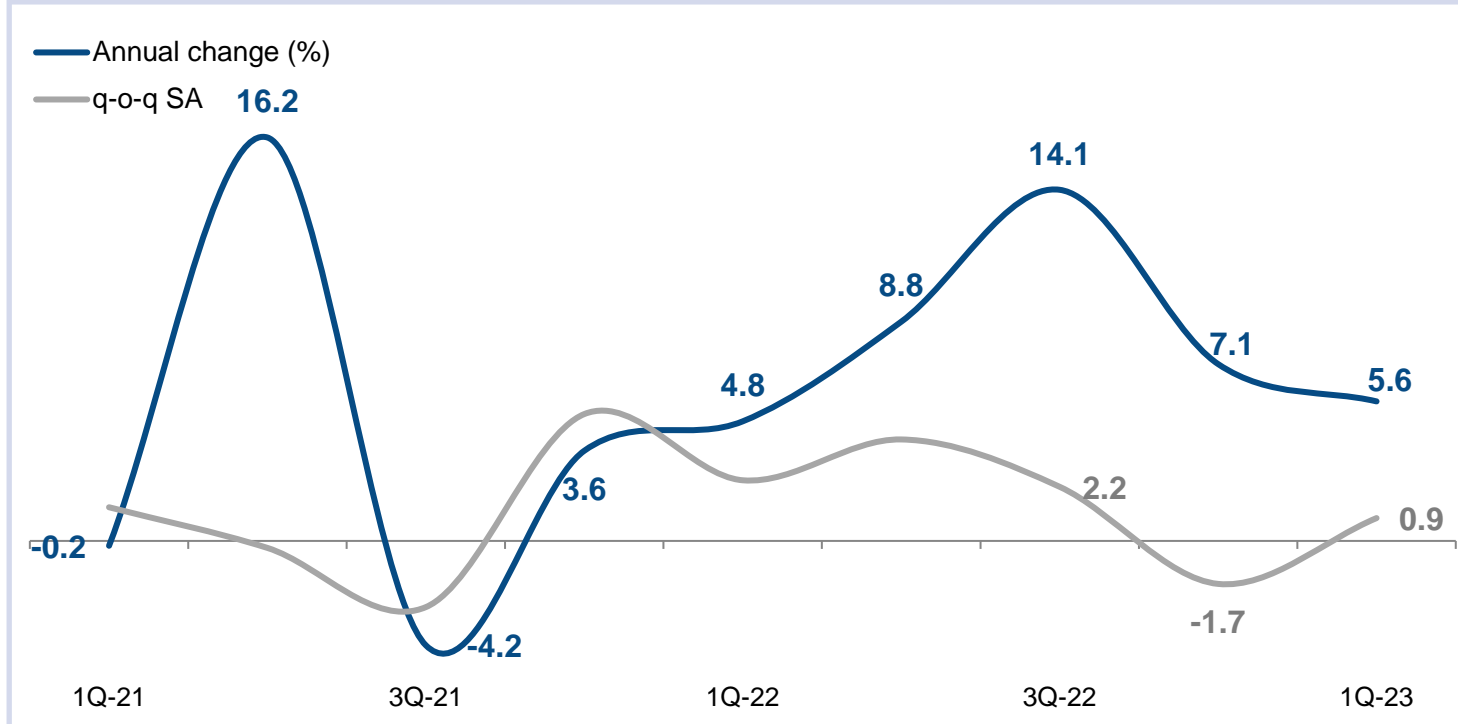
<sup>2</sup> Inflation figures are aggregated across major countries based on their share of global growth. AEs stands for Advanced Economies while EMEs stands for Emerging Market Economies.

Source: Macrobond, National authorities, International Monetary Fund, Bank Negara Malaysia estimates



# Malaysia's GDP grew by 5.6% in 1Q 2023

Real GDP Growth (Quarterly)



Monthly Real GDP Growth (Annual change, %)

Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23
7.3	4.5	9.6	4.6	6.6	5.6

Factors Supporting Growth in 1Q 2023



Further expansion of household spending



Continued investment activity



Improving labour market



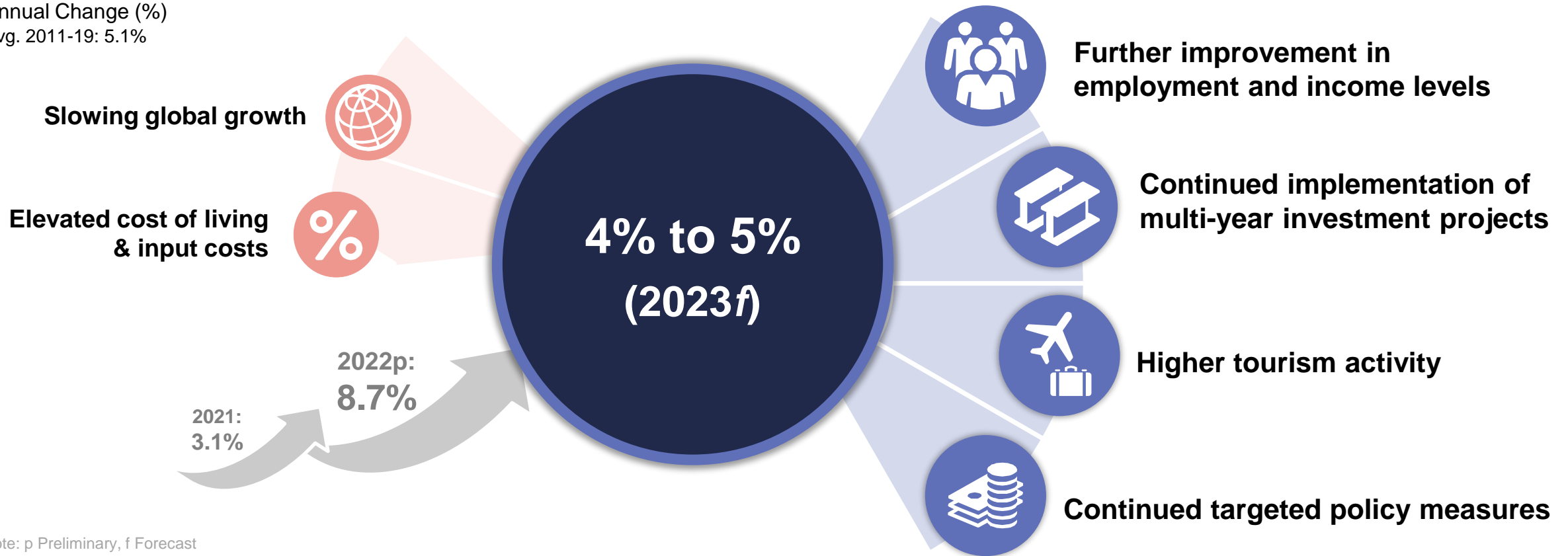
Higher tourism activities

Source: Department of Statistics Malaysia

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

## Growth underpinned by firm domestic demand amid external headwinds

**Malaysia GDP Growth**  
Annual Change (%)  
Avg. 2011-19: 5.1%



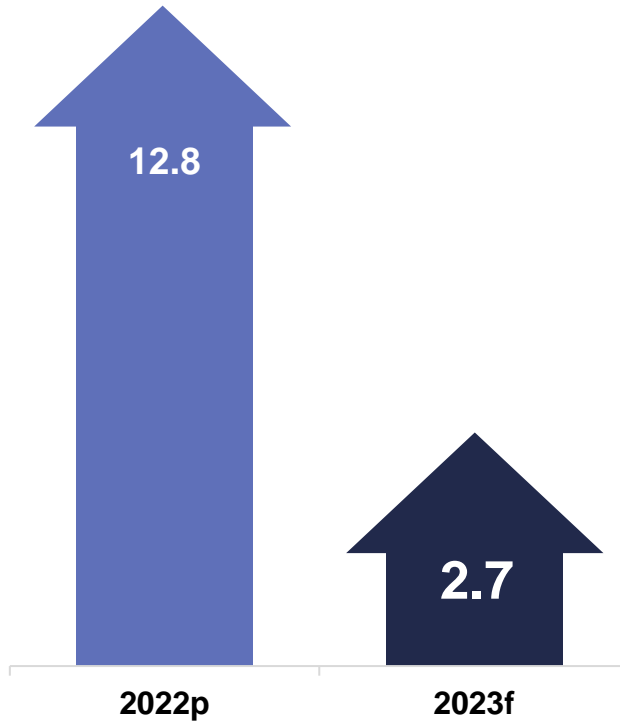
Note: p Preliminary, f Forecast

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

# Malaysia's export growth to moderate in tandem with global outlook

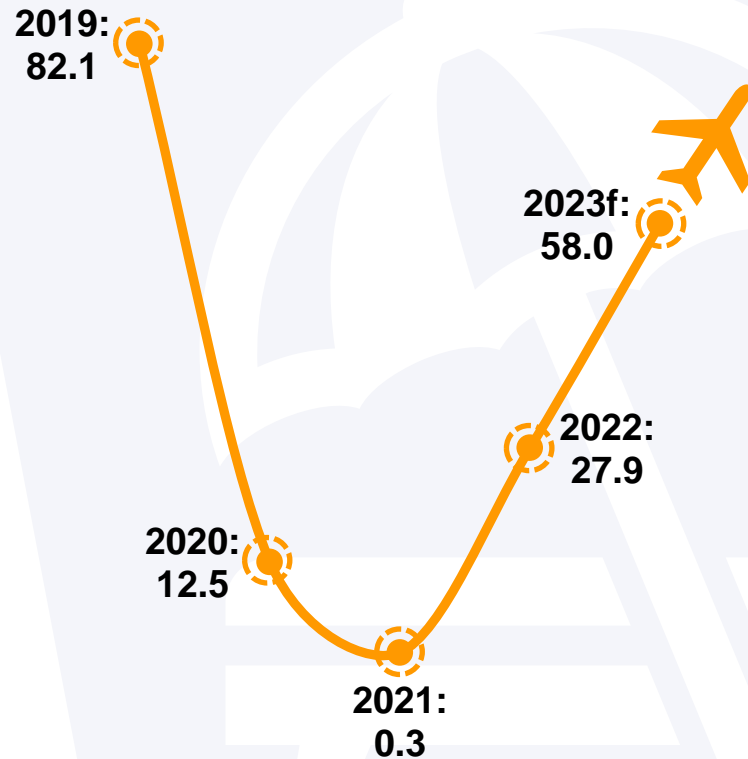
## Real Exports of Goods & Services

Annual Change (%)  
Avg. 2011-19 : 2.1%



## Some recovery in inbound travel to support export growth

### Travel Receipts RM billion



### Tourism Industry Share of Growth & Employment % share, 2019



Gross Value Added of Tourism Industries (GVATI)  
**15.9%** of GDP



Employment in tourism industry  
**23.6%** of total employment

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

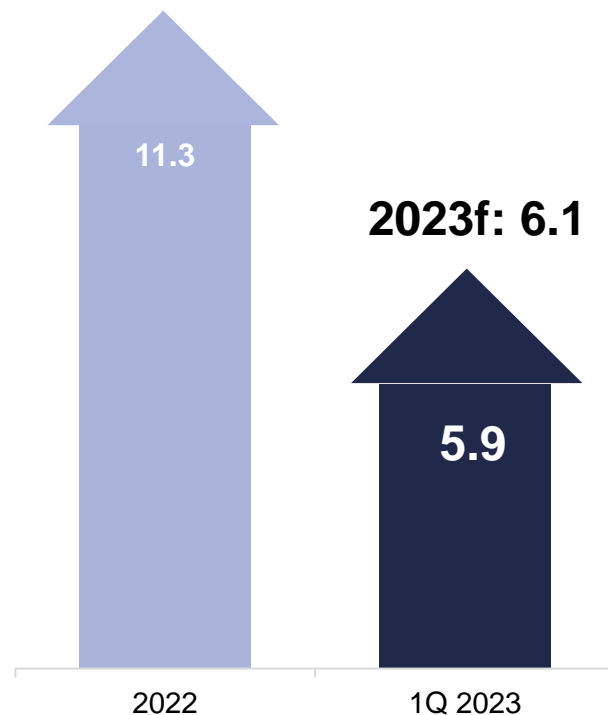


# Household spending underpinned by continued income growth

## Real private consumption

Annual change (%)

Avg. 2011-19: 7.1%



## Income growth continues to drive household expenditure...

### MEF: Salary Increase for Executives & Non-Executives<sup>1</sup>

Annual change (%)



## ...with support from Government policy measures



Higher minimum wage for employees in small firms<sup>2</sup>



Expansion of overtime pay eligibility<sup>3</sup>



Direct cash assistance



Individual income tax revision

<sup>1</sup> Based on MEF Salary Survey for Executives and Non-Executives 2022 which covered 157 benchmarked positions of 17,857 executives and 105 benchmarked positions of 34,970 non-executives.

<sup>2</sup> Effective 1st July 2023 for firms employing fewer than five employees.

<sup>3</sup> Under the newly amended Employment Act, employees entitled to overtime pay will include those earning up to RM4,000 a month (previously up to RM2,000 a month).

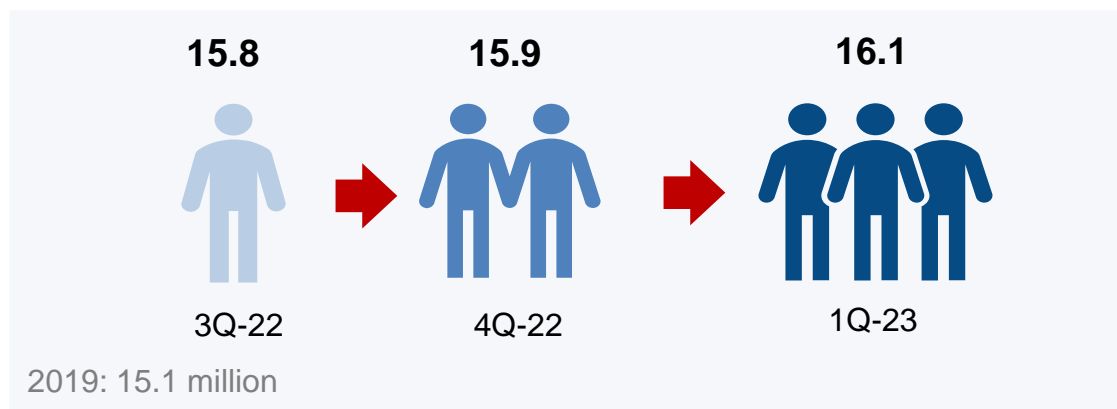
f Forecast

Source: Department of Statistics Malaysia (DOSM), Malaysian Employers Federation (MEF), Ministry of Human Resources (MOHR), Ministry of Finance (MOF), and Bank Negara Malaysia estimates.

# Further improvements in are observed in labour market conditions

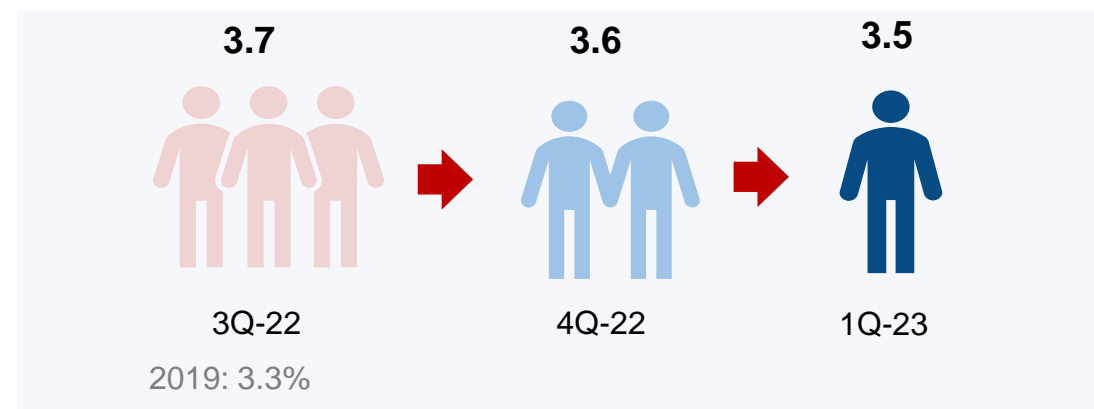
## Employment levels

Million Persons



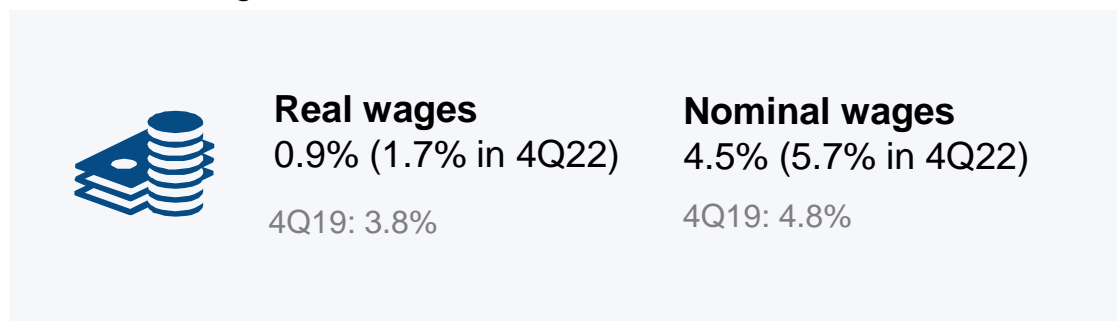
## Unemployment rate,

Annual change, %



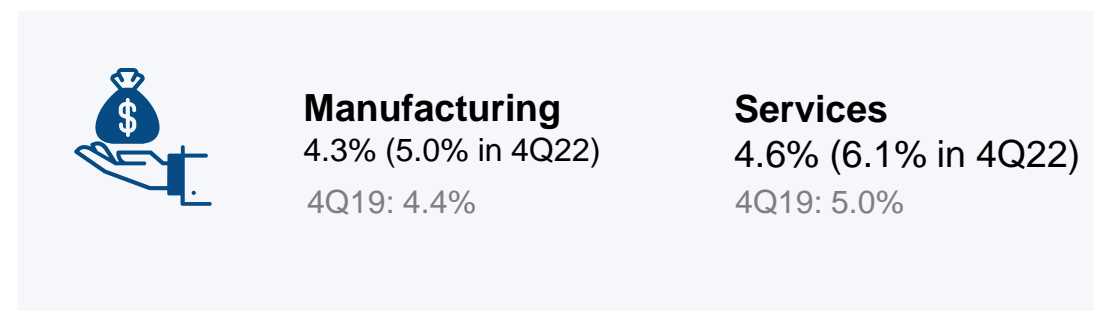
## Private sector wages

Annual change, %



## Sectoral Nominal Wage growth

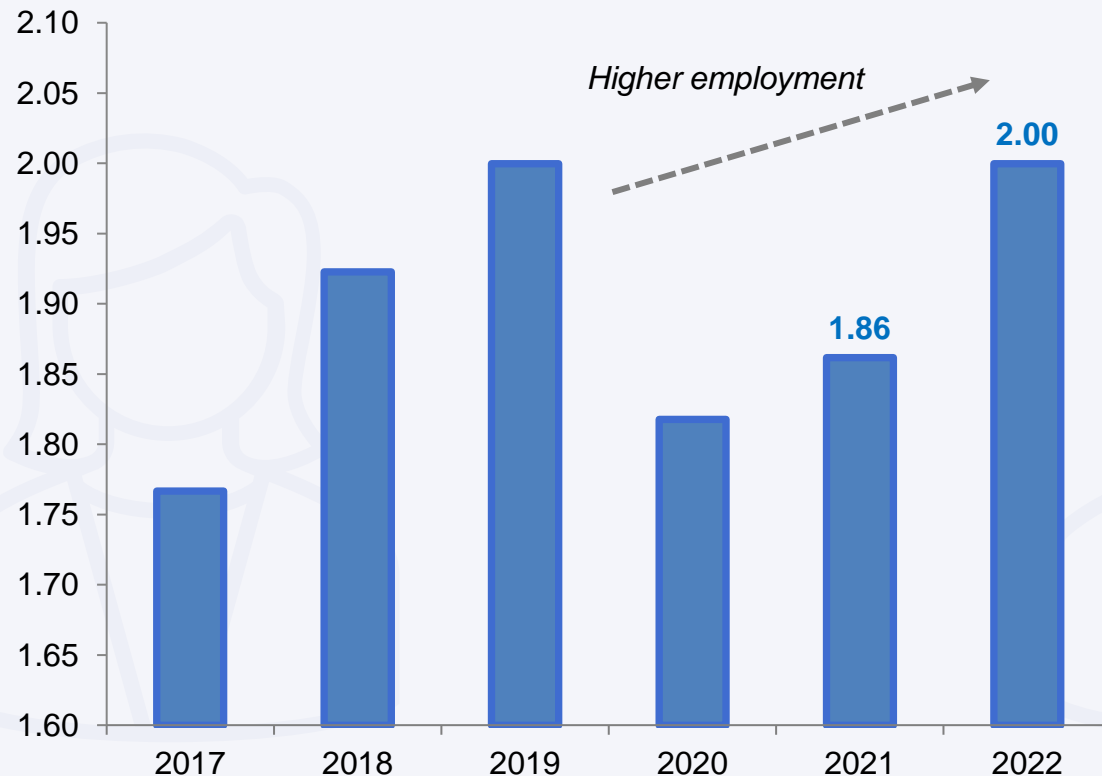
Annual change, %



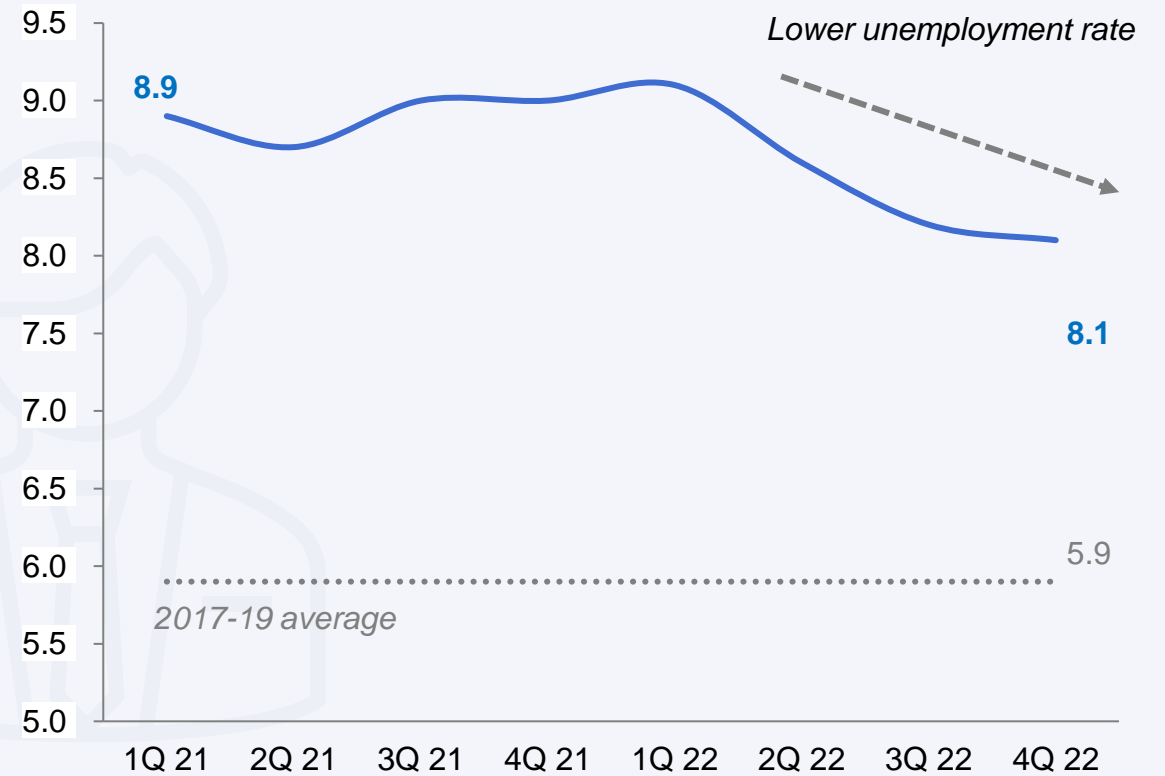
Source: Department of Statistics, Malaysia

# In Sabah, improvement in labour market would also support growth as the tourism sector continues to recover

**Total Employment**  
(Persons, mil)



**Unemployment Rate**  
(%)



Source: Department of Statistics, Malaysia

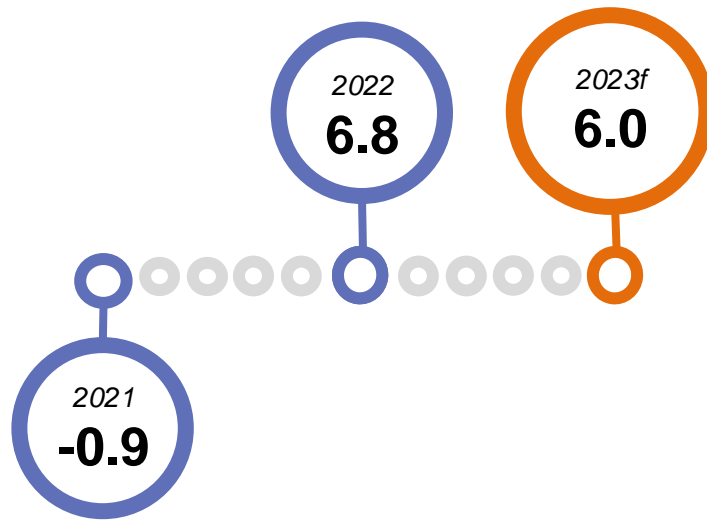




# Investments supported by continued capacity expansion and multi-year projects

## Continued expansion in investment...

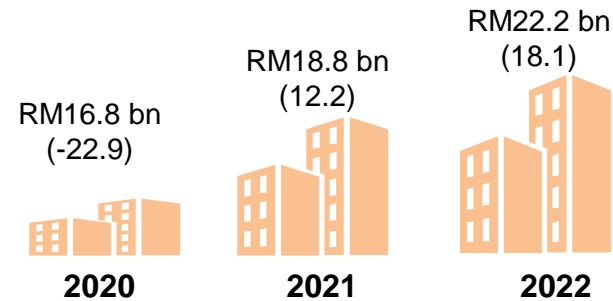
**Real Gross Fixed Capital Formation**  
Annual change (%)  
Avg. 2011-19: 5.5%



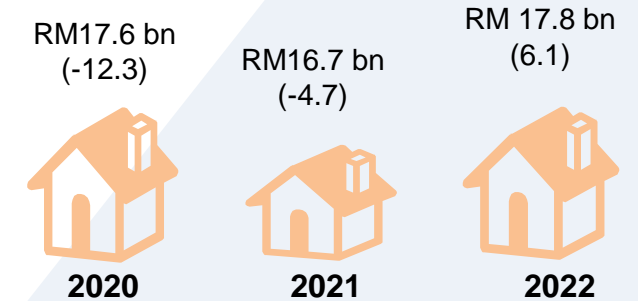
## ...supported by improvement in construction activity

Value of work done by early- and mid-stages\* in selected construction activities

**Non-residential, RM bn (%yoy)**



**Residential, RM bn (%yoy)**



## ...and continuation of large-scale infrastructure projects



**ECRL**  
RM50.0 billion  
Duration: 2018-2026



**MyDIGITAL 5G**  
RM16.5 billion  
Duration: 2021-2031



**Central Spine Road**  
RM7.7 billion  
Duration: 2013-2026



**LRT3**  
RM16.6 billion  
Duration: 2018-2024



**Pan Borneo Highway (Sabah)**  
RM16.0 billion  
Duration: 2016-2024



**JB-Singapore RTS Link**  
RM3.7 billion  
Duration: 2021-2026

<sup>f</sup> forecast

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

\*Refers to completion progress of construction activities between 0%-30% and 30%-70%, respectively

Source: Department of Statistics, Malaysia, MIDA, newsflows

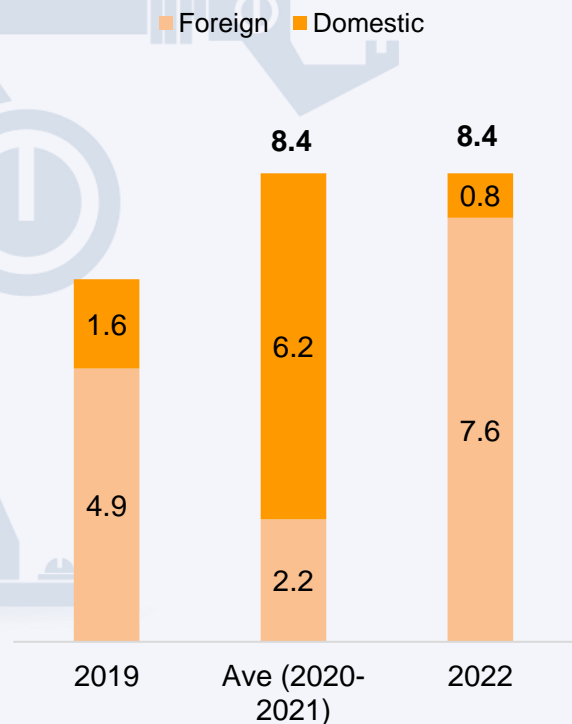


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# Similarly in Sabah, businesses' investment intentions remain positive amidst the recovering economy

## Approved manufacturing investment remains stable in 2022

Total Approved Manufacturing Investments in Sabah  
RM bn

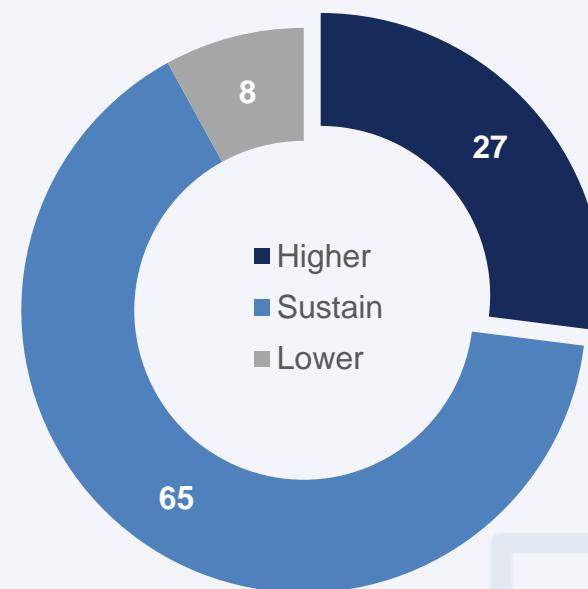


### Key Industries

- Petroleum Products
- Non-metallic mineral products
- Transport Equipment

## 92% of the firms indicated higher or sustained capital expenditure for 2023

Investment Intentions for 2023\*  
(% of respondents)



### Factors

- Business strategy to capture market share
- Cater for growing demand

Source: MIDA and Bank Negara Malaysia

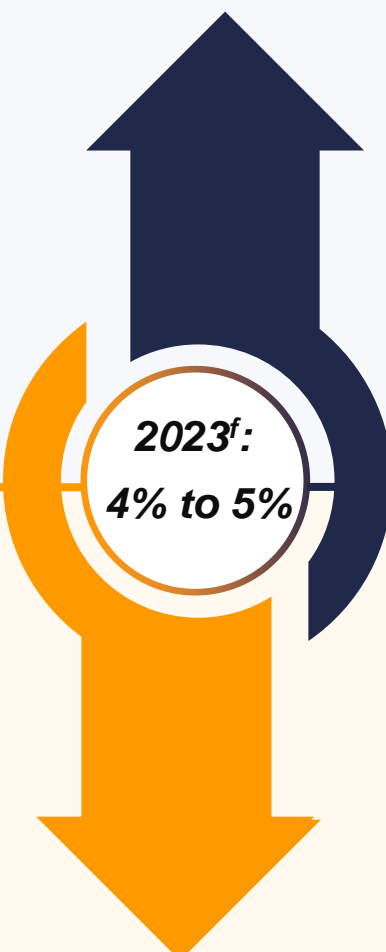
Note: \*Based on BNM's industrial engagements with 37 companies in Sabah during Nov 2022 - May 2023.



# Risks to Malaysia's growth outlook are fairly balanced

## Upside risks stem mainly from domestic factors

- ▲ Better-than expected labour market conditions
- ▲ Stronger-than-expected pick-up in tourism activity
- ▲ Implementation of projects including from re-tabled Budget 2023



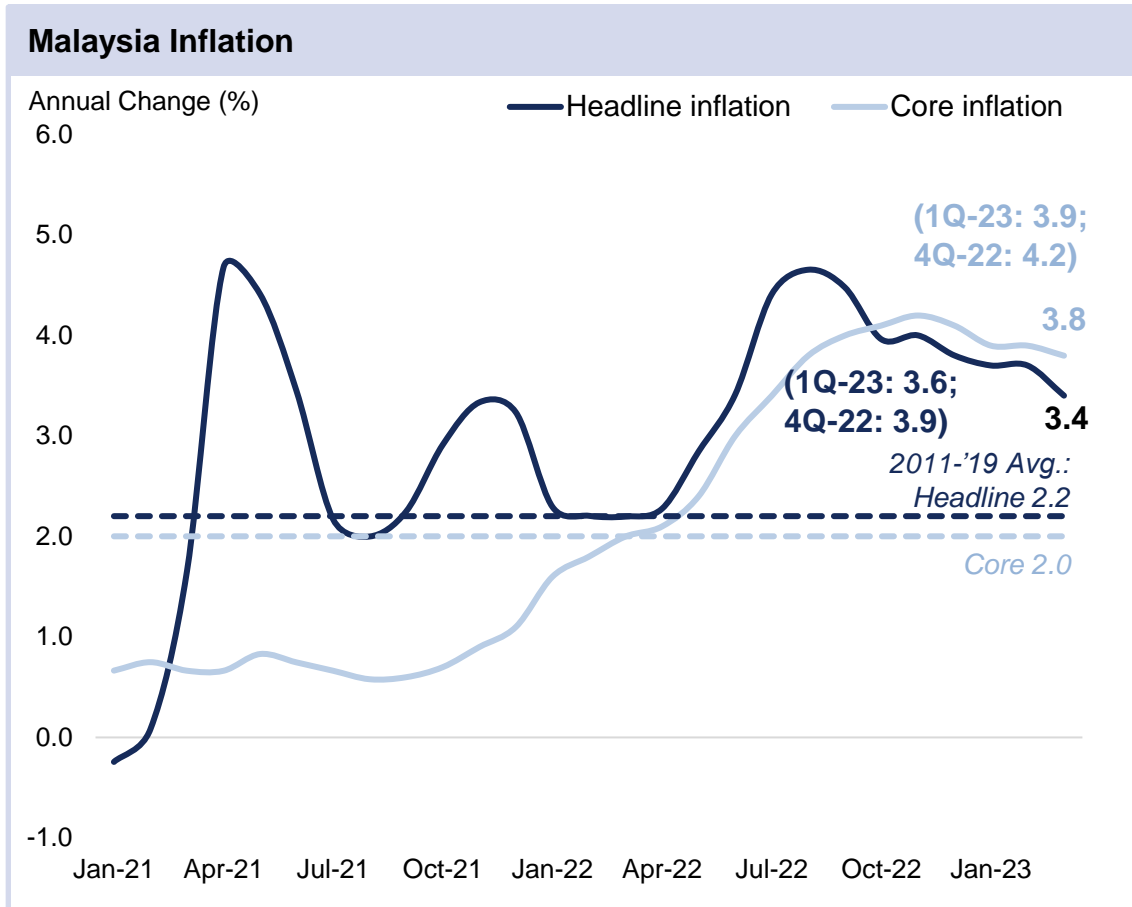
2023<sup>f</sup>:  
4% to 5%

## Downside risks dominated by external factors

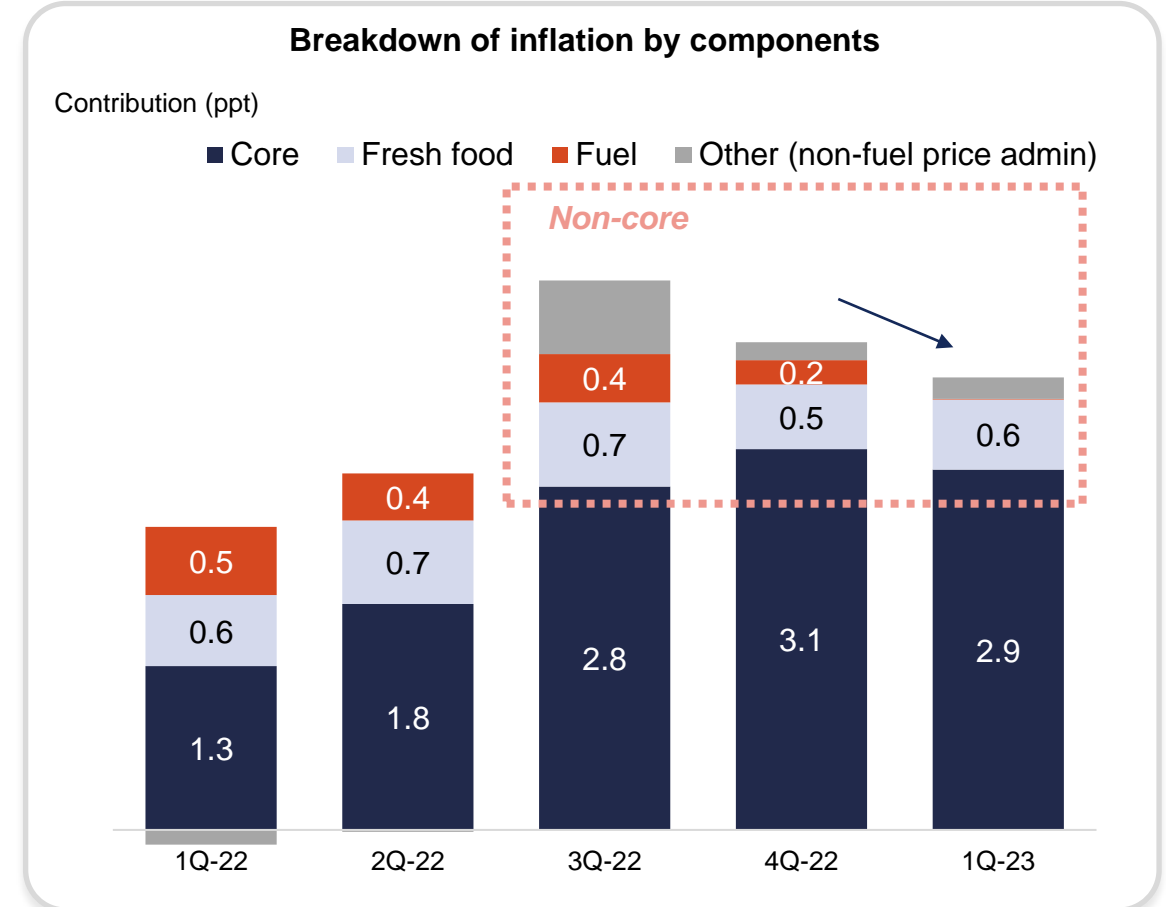
- ▼ Sharp tightening in global financial market conditions
- ▼ Further escalation of geopolitical conflicts
- ▼ Higher-than-expected inflation and input costs domestically

# Headline and core inflation moderated in 1Q 2023

- **Headline inflation** trended lower in line with moderating costs and supply conditions
- **Core inflation** declined but remained elevated, reflecting resilient domestic demand



Note: Average of past inflation is calculated based on monthly frequency from Jan-11 to Dec-19  
 Source: Department of Statistics Malaysia, Bank Negara Malaysia estimates



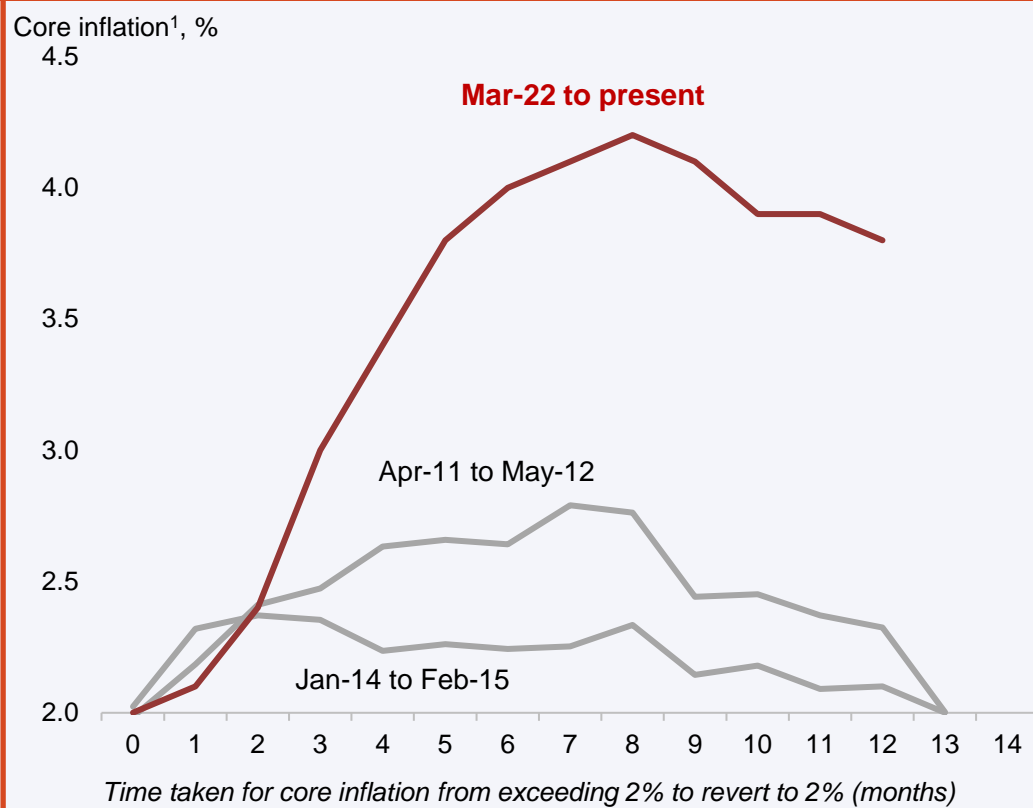
Source: Department of Statistics, Malaysia, Bank Negara Malaysia estimates

# Core inflation remains at elevated levels amid firm demand conditions

Elevated underlying inflation has been more prolonged than past episodes...

...partly owing to the strong recovery in domestic demand

## Selected Episodes of Core Inflation<sup>1</sup> Exceeding 2%



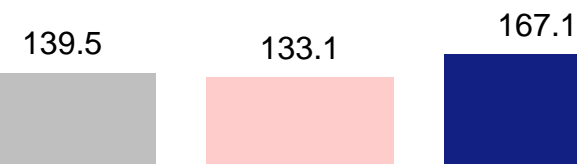
Source: Department of Statistics Malaysia and BNM estimates



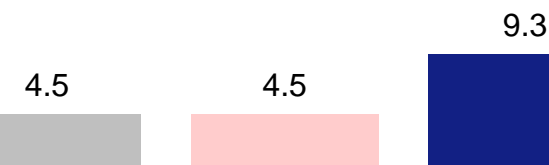
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## Selected domestic demand indicators

### Retail trade volume (Index; seasonally adjusted)



### Credit card spending on F&B (Volume; million units)



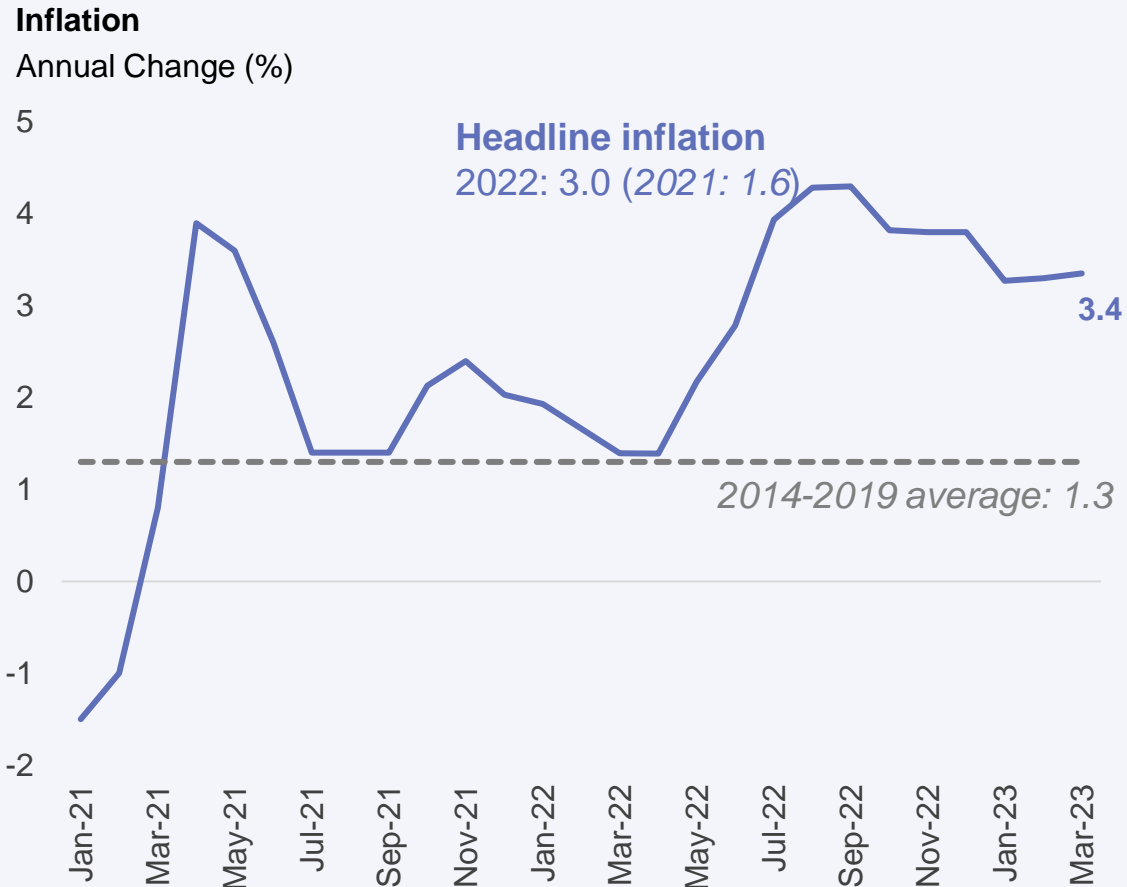
### Tourist arrivals\* (million)



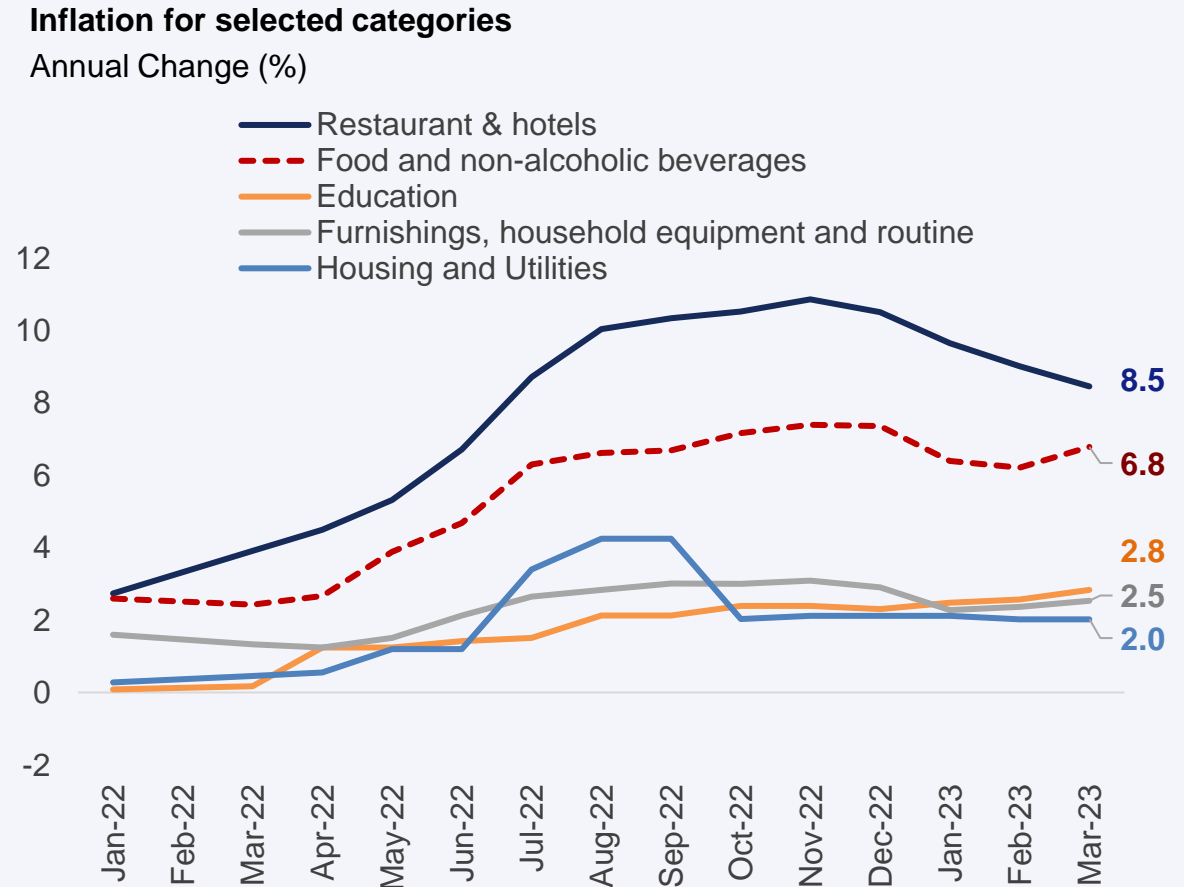
Pre-pandemic (2019)      2020-21 avg      Latest

Note: Latest retail trade and credit card spending data are as at 1Q-23; latest tourist arrivals data as at 4Q-22  
Source: Bank Negara Malaysia, Department of Statistics Malaysia and Ministry of Tourism, Arts and Culture

# In Sabah, inflation also remained elevated particularly in the restaurant and hotel categories, as well as F&B



Source: Department of Statistics, Malaysia



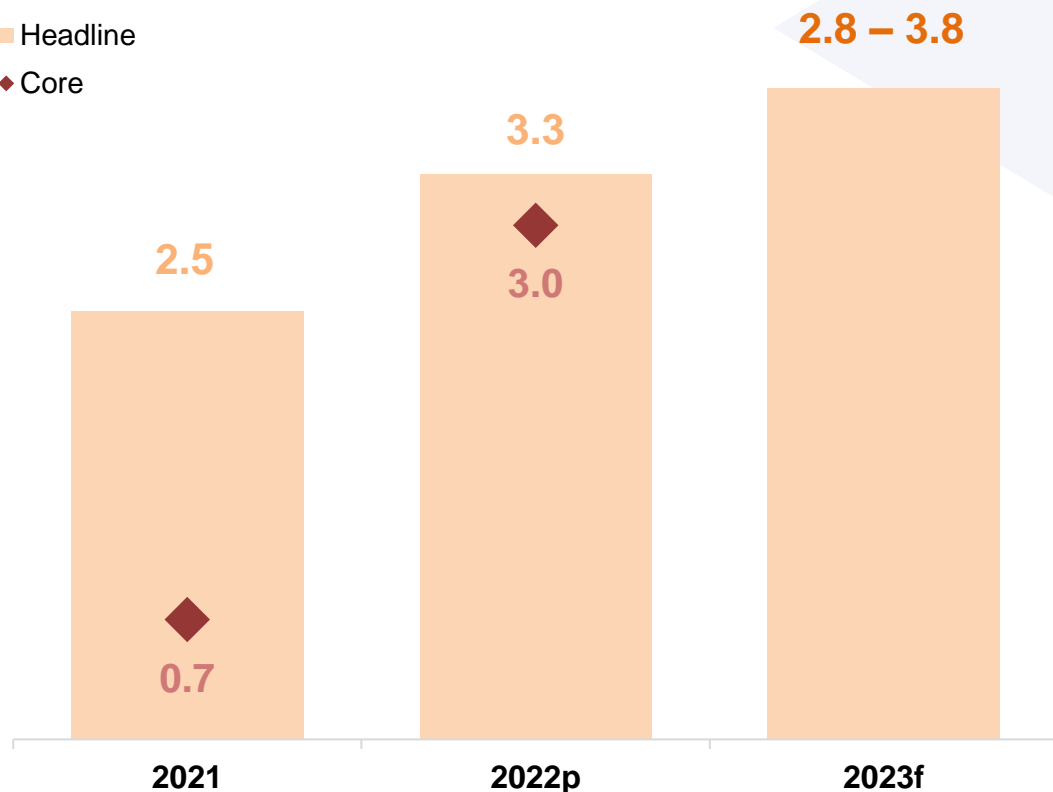
Source: Department of Statistics Malaysia

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

## Inflation

Annual Change (%)

- Headline
- ◆ Core



Both headline and core inflation would **moderate but remain elevated** over the course of 2023

- ▼ Global cost environment is expected to ease but **input costs would still remain high** compared to pre-pandemic
- ▲ Continued strength in domestic demand and **improvement in the labour market**

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



# Risks to the inflation outlook are tilted to the upside



## *Upside risks*

- ▲ Higher global commodity prices amid worsening geopolitical conflict
- ▲ Higher input costs due to exchange rate developments
- ▲ Stronger-than-expected demand from China
- ▲ Review of domestic policy on subsidies and price controls

## *Downside risks*

- ▼ Weaker global growth leading to more subdued commodity prices
- ▼ Faster dissipation of domestic pent-up demand from 2022

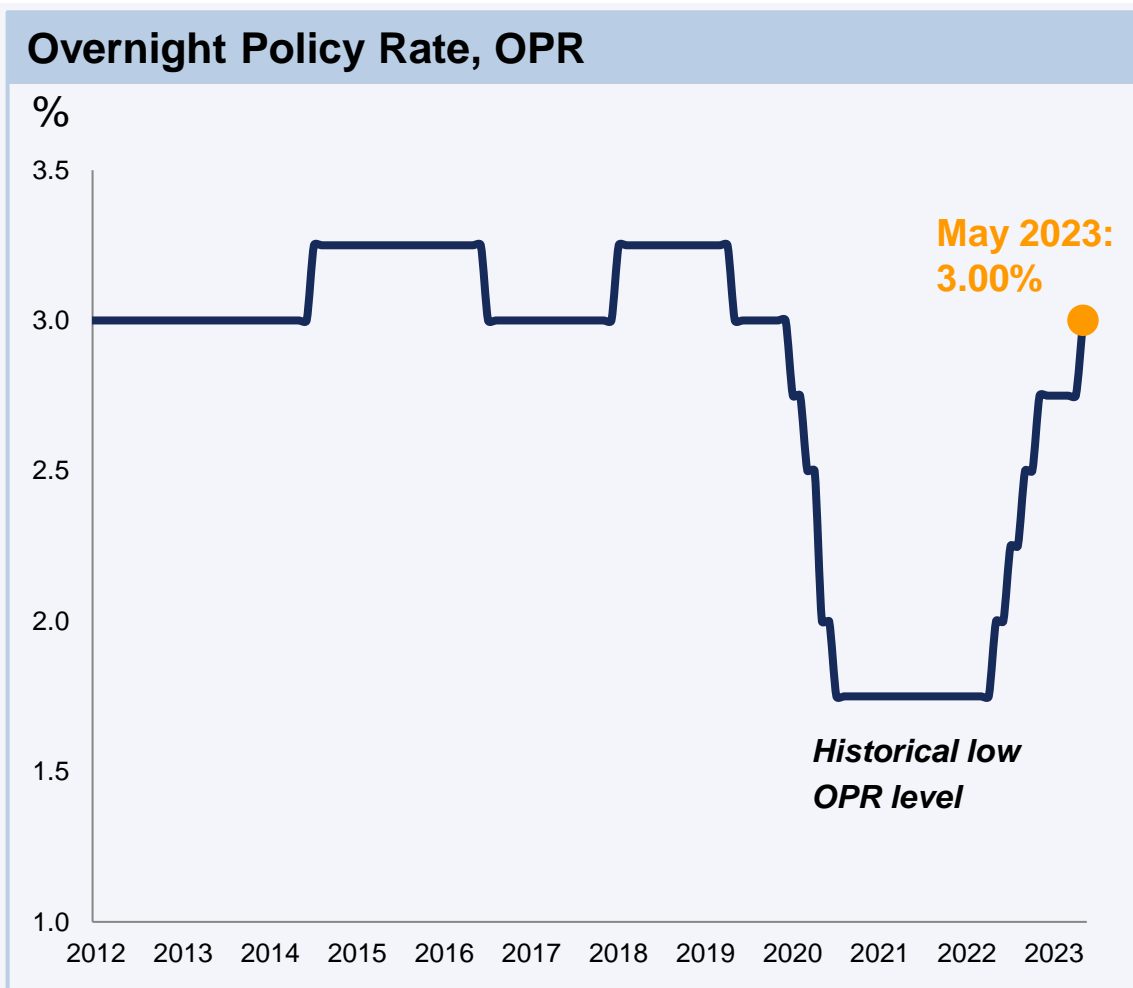
### Mitigating factor:

- **Existing domestic price controls and subsidies** will continue to partly contain inflationary pressures





# The OPR was further normalised to 3.00% at the May MPC meeting



- **Amid resilient domestic growth prospects, the MPC judged that it was the right time to further normalise the degree of monetary accommodation**
  - With this decision, the MPC has withdrawn the monetary stimulus intended to address the COVID-19 crisis in promoting economic recovery.
- **At the current OPR level of 3.00%, the monetary policy stance is slightly accommodative and remains supportive of the economy**

Source: Bank Negara Malaysia



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# The OPR was normalised amid a resilient economy with firm demand conditions



**The Malaysian economy continues to strengthen, driven by domestic demand**, with labour market conditions improving and households remaining resilient



Assessment of the impact from the past OPR adjustments shows **no signs of excessive tightening in the economy**



While inflation has been moderating, it **remains at elevated levels given the continued price pressures amid firm demand**



Prolonged low rates when economic growth is firm can have **damaging effects on the economy, including from financial imbalances**



Ultimately, the goal of monetary policy in Malaysia is **to achieve price stability and sustainable economic growth over a longer term**



# Ringgit movements continue to be mostly driven by USD strength

**Ringgit’s performance was in line with global and regional trends and mainly driven by external factors**

## Exchange rate performance

	<u>2022</u>	<u>YTD 2023</u>
<i>US Dollar Index (DXY)</i>	+8.2%	-0.8%
<i>RM/USD</i>	-5.4%	-1.5%
<i>Major Currencies/USD</i>	-9.1%	+1.0%
<i>Regional Currencies/ USD</i>	-5.1%	+0.6%
<i>NEER</i>	+0.05%	-2.0%

YTD as of 12 May 2023

Note: Major currencies include EUR,JPY, GBP and AUD, while regional currencies include IDR, KRW, PHP, SGD and THB

Source: Bank Negara Malaysia



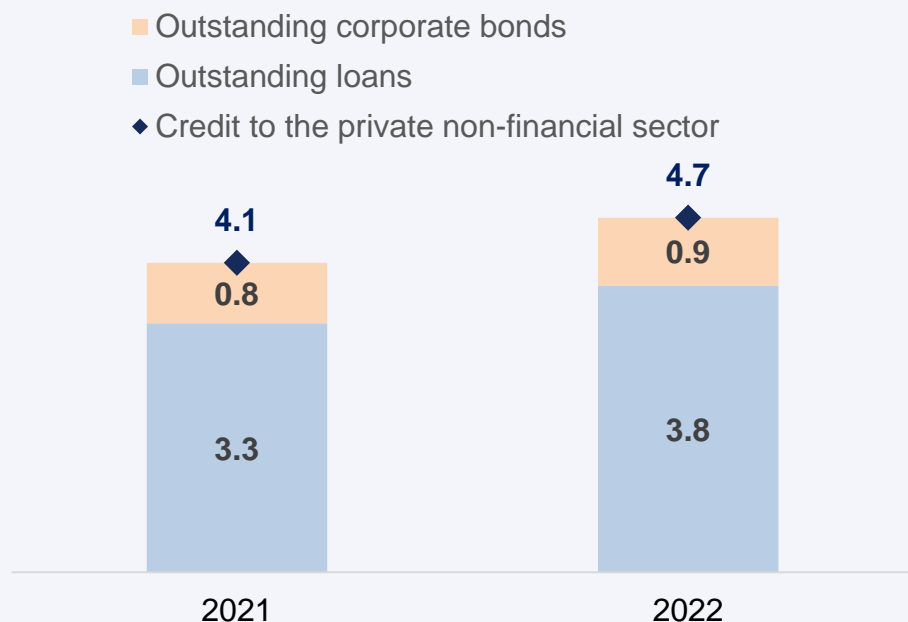
**Flexibility in the ringgit enables the economy to adjust to global shocks**

- Orderly adjustments in the ringgit facilitate decisions to consume and invest
- During a depreciation, some sectors such as exports and domestic tourism stand to benefit.
- Conversely, during an appreciation, those who import goods, services and travel abroad will benefit
- Concerns stem from the impact of depreciation to higher costs and inflation. So far, this has been contained by price controls and subsidies
- BNM conducts FX operations to stem excessive volatility and ensure orderly market conditions

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

## Credit to the private non-financial sector continued to expand

**Credit to private non-financial sector**  
Annual Change (%) / Cont. to growth (ppt)



## Going forward, financing conditions to remain supportive of economic activity

- Strong lending capacity among banks, given healthy capital and liquidity buffers
- Continued willingness to lend by banks
- Continued improvement in employment and income
- Demand for credit supported by continued economic expansion
- Continued availability of targeted support, including funds for SMEs

Note: Outstanding loans refer to the sum of outstanding business and household loans, and exclude loans to financial institutions, government, NBFIs and other entities. In addition to loans from the banking system and development financial institutions (DFIs), credit to the private non-financial sector reported here also includes loans to households extended by major non-bank financial institutions (NBFIs). Outstanding corporate bonds include conventional and Islamic short-term papers in addition to longer-term bonds and sukuk, and excludes issuances by Cagamas, government, financial institutions, and NBFIs.

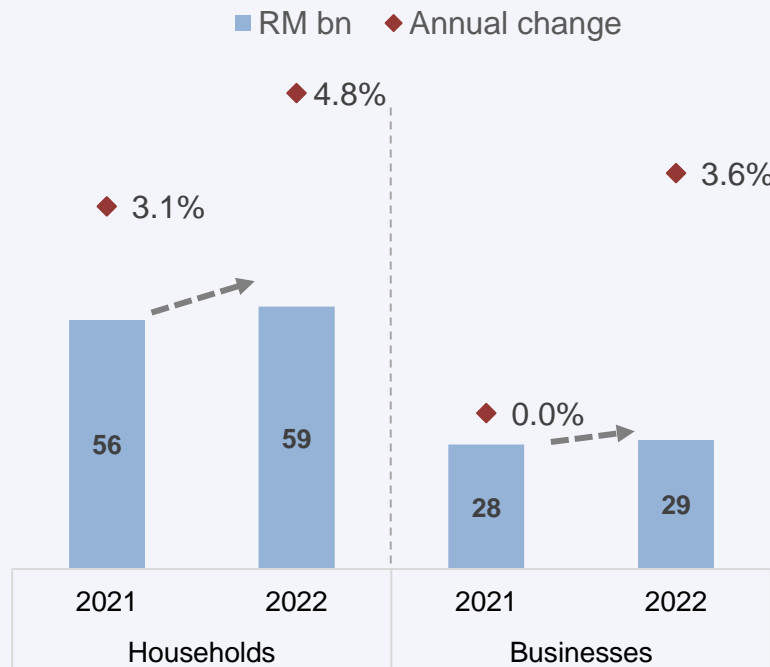
Source: Bank Negara Malaysia



# Financing growth in Sabah continues to expand in line with improvement in the economic activity

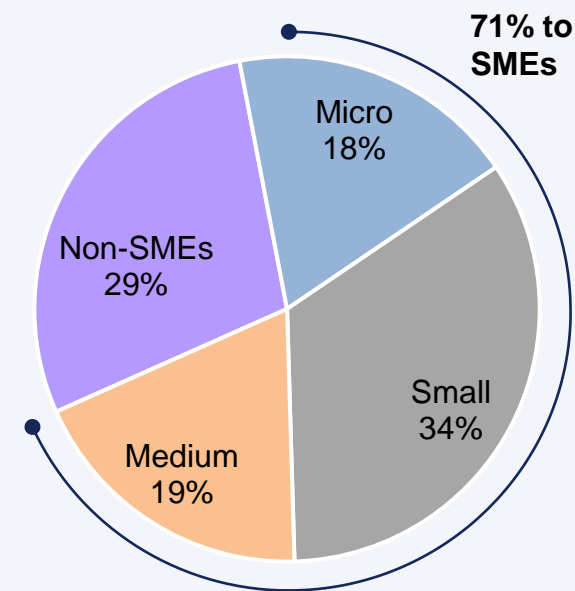
## Continued expansion of loans to private non-financial sector in Sabah...

### Outstanding loans to private non-financial sector

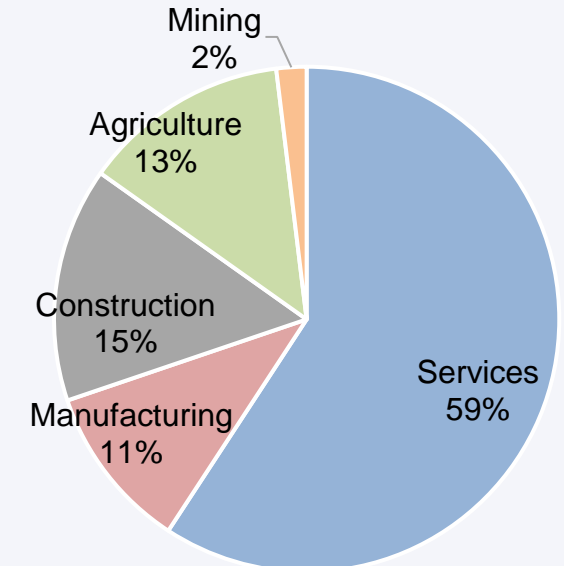


## ..with significant portion of the business financing to SMEs and those in the services industries

### Outstanding loans to businesses by company size (% , 2022)



### Outstanding loans to businesses by industries (% , 2022)



Note: Outstanding loans refer to the sum of outstanding business and household loans, and exclude loans to financial institutions, government, NBFIs and other entities. In addition to loans from the banking system and development financial institutions (DFIs), credit to the private non-financial sector reported here also includes loans to households extended by major non-bank financial institutions (NBFIs).

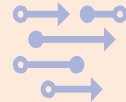
Source: Bank Negara Malaysia

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

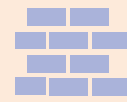
## Key policy priorities to strengthen the economy



**Enhance competitiveness**



**Transition to higher income nation**



**Rebuild buffer against future shocks**

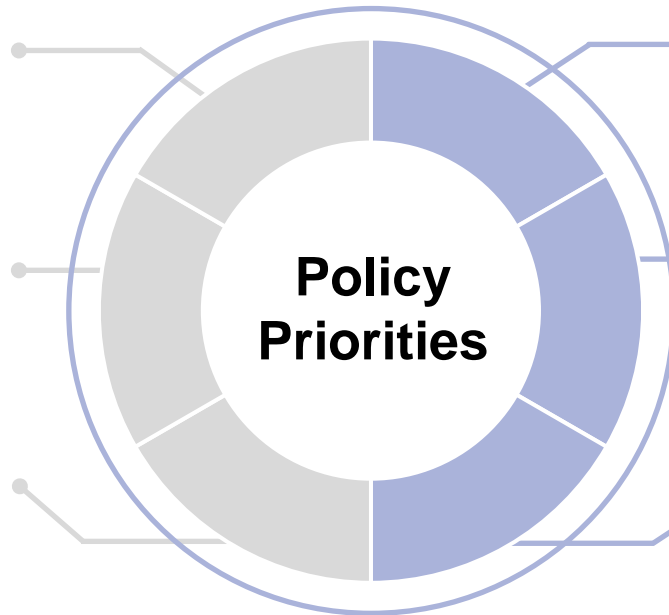


**Alleviate cost of living concerns**

**Digitalisation**  
Expedite digitalisation efforts in MyDIGITAL, INDUSTRY4WRD, and digital financial services

**Fiscal Resilience**  
Fiscal Responsibility Act and gradual subsidy rationalisation

**Climate Resilient Economy**  
Accelerate transition to low-carbon economy and build climate resilience



**Growth Potential**  
Attract quality investments under the New Investment Policy

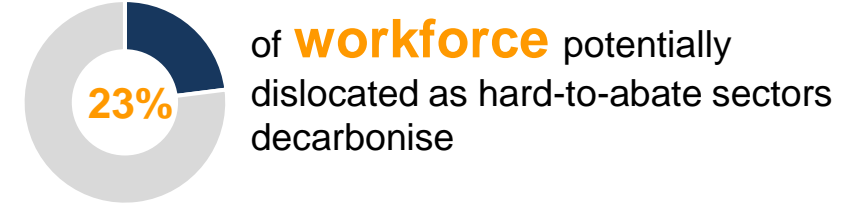
**Future-Ready Workforce**  
Reskilling and upskilling via Active Labour Market Policies (ALMPs)

**Social Protection**  
Facilitate the interlinkages between three pillars of social protection



# Climate action is accelerating globally and within ASEAN...

**Climate change poses real risks to Malaysia's economy, financial system and society**



*Climate initiatives of our regional peers and trade partners add pressure to speed up domestic efforts*

**Costs of GHG emissions are increasingly priced in**

**ASEAN peers are moving swiftly, both individually and collectively**

**39**  
Regional/national jurisdictions with **carbon pricing initiatives**<sup>1</sup>, including carbon border adjustments

**E.g. ASEAN Taxonomy**

Common language for classification of sustainable activities increases competition across ASEAN

↓ *Leading to*

Higher expectations for businesses to **strengthen social and environmental practices as prerequisite for obtaining financing**

	Policies			
	National Net Zero Target	Net-zero Policy Framework & Legislation	Carbon Market Mechanism	Carbon Tax
Singapore	● <i>By 2050</i>	●	●	●
Indonesia	● <i>By 2060</i>	●	●	●
Thailand	● <i>By 2065</i>	●	●	●
Malaysia	● <i>By 2050</i>	●	●	●
Philippines	● <i>75% below BAU by 2030</i>	●	●	●

● Policy already in place  
● Policy currently under planning  
● No policy in place

# ...however, managing climate change also creates opportunities

*The financial sector plays twin roles in supporting Malaysia's transition to a low carbon and climate-resilient economy...*



## **Be climate resilient**

*Greening finance*

Build own capability to strengthen resilience against climate and environmental related-risks



## **Be a catalyst and enabler**

*Financing green*

Build clients capability to transition towards greener and more sustainable practices

*... Joint Committee on Climate Change (JC3) established as platform to build a conducive sustainable finance ecosystem*



- **Co-chaired by BNM and SC Malaysia, members comprises of senior officials from Bursa and 21 industry players**
- **Promote alignment and drive climate actions via sub-committees (SC) and focus group (FG)**
  - SC1: Risk management
  - SC2: Governance and disclosure
  - SC3: Green finance & innovation
  - SC4: Capacity building
  - SC5: Data
  - FG: SME
- **Developed tools to support transition** e.g. Climate Change and Principle-based Taxonomy, Climate Data Catalogue

*...financial industry is committed to supporting businesses in transitioning to green*





# BNM has established special funding facilities for SMEs as part of our efforts to support SMEs transition and scale up green finance

## 1 Low Carbon Transition Facility (LCTF)

- RM2 billion fund (on a matching basis with participating banks) to finance capital expenditure or working capital to support SMEs in adopting sustainable practices
- Financing rate capped at 5% (including guarantee where applicable)

### Greening Value Chain (GVC)

- RM200 million earmarked from LCTF to assist SMEs measure, track and report GHG emissions
- Blends financing with technical training, on-site review, and access to GHG emissions measurement software

## 2 High Tech and Green Facility (HTG)

- RM800 million fund to help SMEs and innovative start-ups to grow their businesses and invest in strategic sectors and technological fields

### Features of technical training under the GVC



**Impact of climate change on businesses**

How climate change affects different aspects of businesses



**Climate change related regulations**

Implication of Carbon Border Adjustment Mechanism and climate disclosures on business operations



**Consultation session and site visit**

Complimentary advisory and diagnosis by service providers



**Technical and financial assistance**

Overview on available tools and funding

**...JC3 has also established SME Focus Group to support SMEs transition with immediate focus on capacity building, certification and climate disclosure**



# Summary



**The Malaysian economy is projected to expand between 4% and 5%** in 2023, anchored by firm domestic demand. In 1Q 2023, the economy grew by 5.6%.



Both **headline and core inflation** are projected to average **between 2.8% and 3.8%**



**Risks to the growth outlook are fairly balanced,** with downside risks emanating primarily from external factors



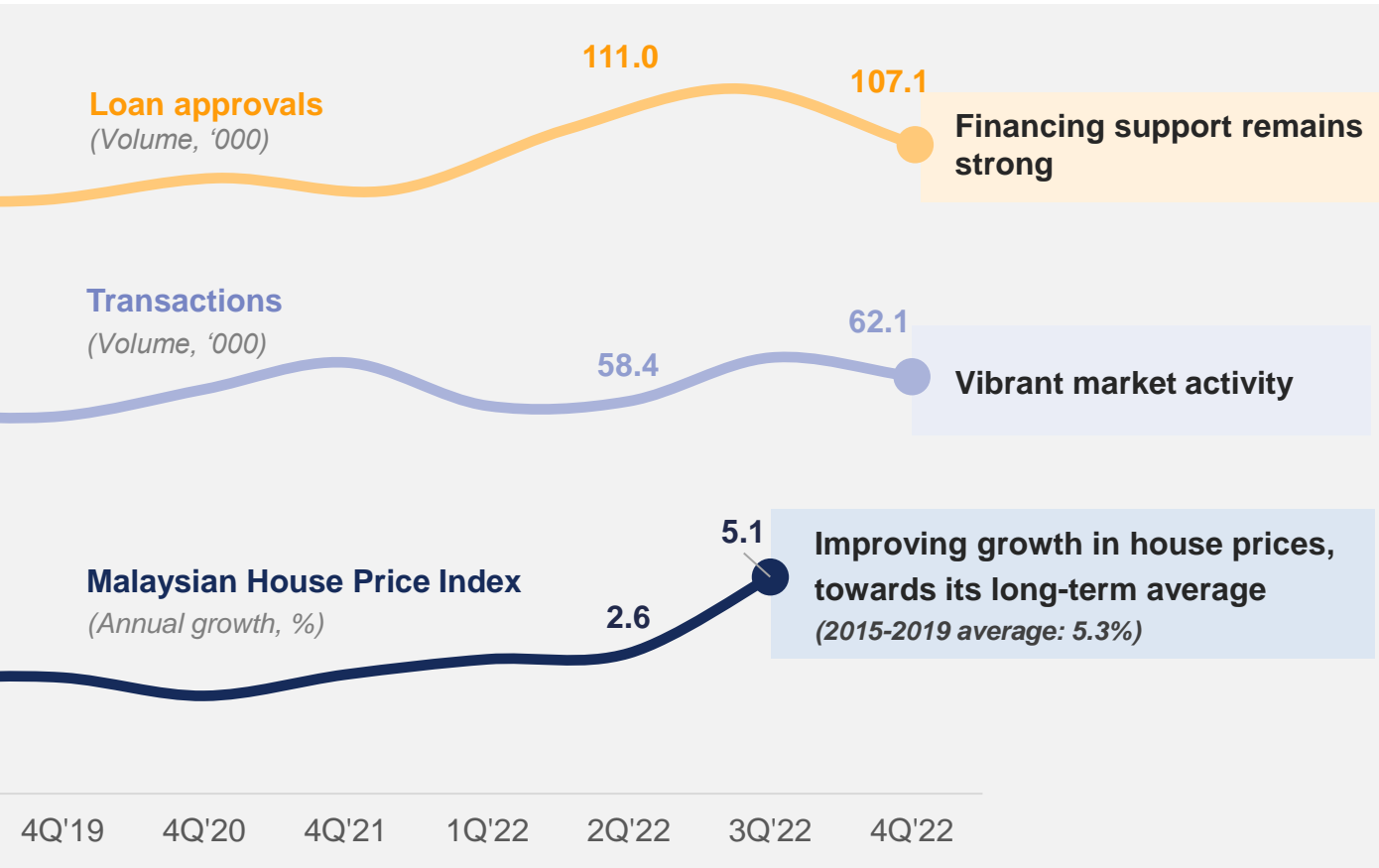
**Capital and liquidity positions of banks remain sound** to absorb potential shocks and support intermediation



**Implementation** of key structural reforms is important to ensure sustainable growth going forward

# The property market conditions continue to improve, but downside risks linger

The housing market continued its recovery momentum...



Source: NAPIC

...but downside risks from pre-existing structural issues still linger

- 1 House prices in Malaysia are 'seriously unaffordable'...**

Median House Price (2020):  
**RM295,000**

Annual Median Income (2020<sup>1</sup>):  
**RM62,508**

= **4.7 times<sup>2</sup>**  
(2019: 4.1 times)
- 2 ...contributing towards elevated unsold units**

**Unsold Housing**  
(Units, '000)

Category	Units ('000)
2015-2019 average	130
4Q 2021 (peak)	184
4Q 2022	152
- 3 But signs of adjustments are observed towards mass-market segment**

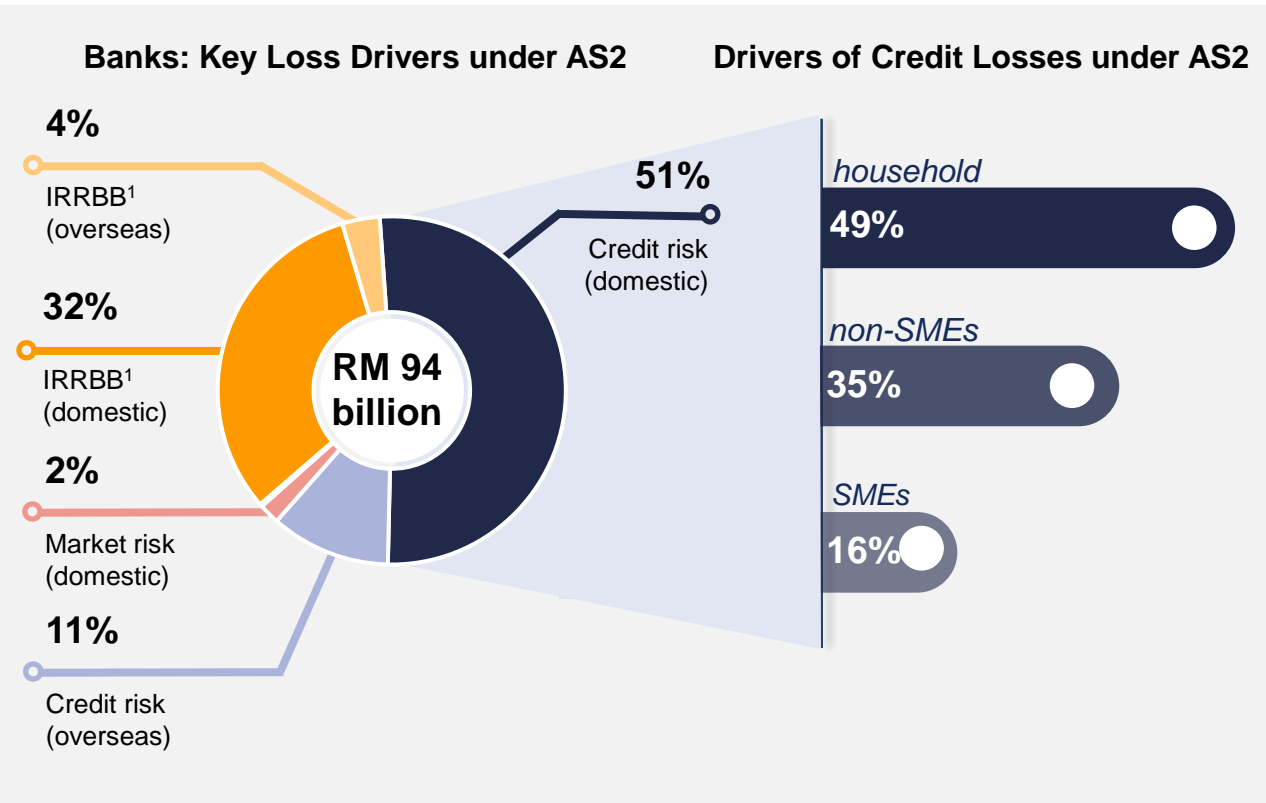
<sup>1</sup> Latest data available is based on 2020 Household Income and Expenditure Survey by the Department of Statistics Malaysia (DOSM).

<sup>2</sup> Based on the Median Multiple approach, house prices are considered affordable if the ratio is 3 and below.

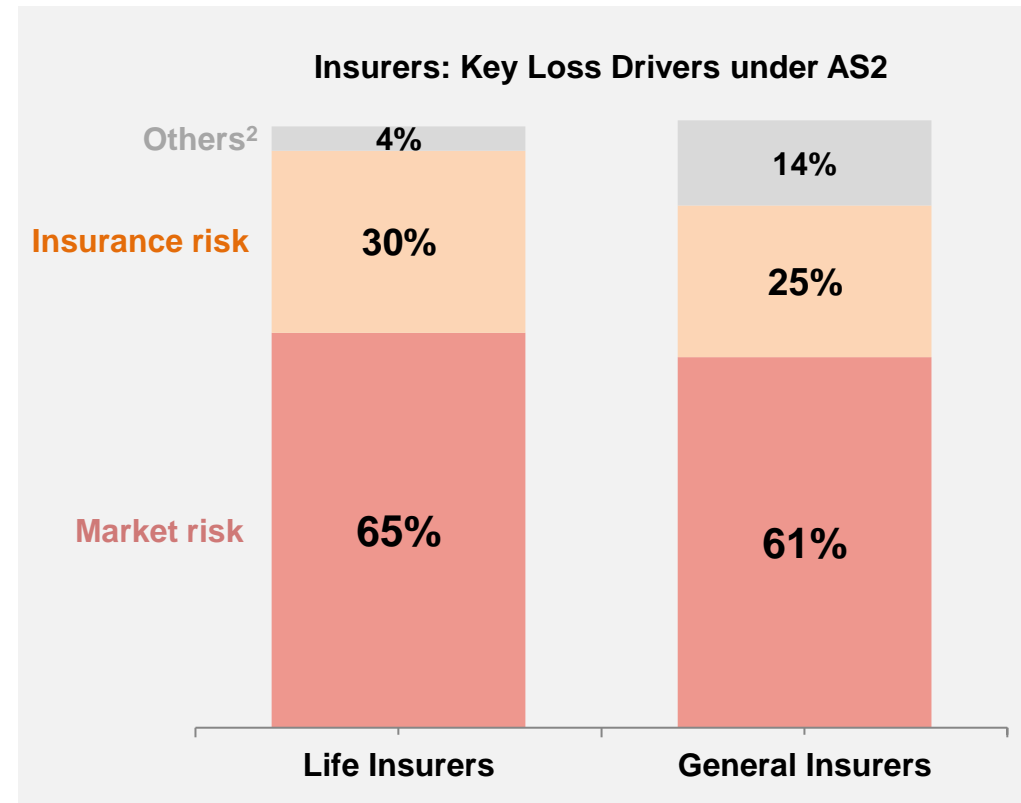
Source: NAPIC, DOSM

# Even under adverse scenario, losses in the banking and insurance sectors are contained, and largely driven by credit and market risks

## Higher credit losses in banking sector mainly driven by household segment



## Erosion in insurers' capital mainly due to investment and operating losses



<sup>1</sup> Refers to Interest rate risk in the banking book, only for bonds held in fair value through other comprehensive income (FVOCI).

<sup>2</sup> Refers to losses from credit risk (including reinsurance and corporate bonds default) and underwriting risk.

Source: Bank Negara Malaysia