The Malaysian Economy: Issues and Prospects

Presentation for Persidangan Akauntan Sektor Awam Kebangsaan Kali Ke-27

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Presentation Outline

A  Introduction
   - Role of Bank Negara Malaysia
   - Characteristics of the Malaysian Economy

B  Economic Prospects: Global and Domestic
   - Global Economy
   - Domestic Economy

C  Issues and Challenges in the Malaysian Economy
Presentation Outline

A Introduction

Role of Bank Negara Malaysia
Characteristics of the Malaysian Economy

B Economic Prospects: Global and Domestic

Global Economy
Domestic Economy

C Issues and Challenges in the Malaysian Economy
BNM promotes monetary and financial stability to support a sustainable economic growth

Mandate of Bank Negara Malaysia

“…to promote stable monetary and financial conditions which is conducive for sustainable economic growth…”

Role of Bank Negara Malaysia:

1. Formulate and conduct monetary policy in Malaysia
2. Issuing of currency
3. Regulate and supervise financial institutions which are subject to the laws enforced by the Bank
4. Regulate the money market and foreign exchange market
5. Exercise oversight over payment systems
6. Promote a sound, progressive and inclusive financial system
7. Hold and manage the foreign reserves of Malaysia
8. Promote an exchange rate regime that is in line with economic fundamentals
9. Act as the financial advisor to the government
Key characteristics of the Malaysian economy (2014)

- **Middle-income country:** GDP per capita of RM36,567 (USD10,223)
- **Small open economy:** Total goods and services trade is 139% of GDP
- **Domestic demand as anchor of economic growth,** mainly supported by the private sector (51.8% of GDP)
- **Services is the biggest production sector** (53.5% of GDP)
- **Low inflation rate** of 3.2% (average 1991-2014: 3.0%)

Source: Department of Statistics, Malaysia
Malaysia is a small open economy

GDP Per Capita 2014

Source: IMF WEO (April 2015)

Total Goods Trade 2014 (% GDP)

Source: IMF WEO (April 2015)
GDP as a measure of economic performance

1. Demand (2014)
   - Private Consumption: 52%
   - Public Consumption: 14%
   - Private Investment: 17%
   - Public Investment: 10%
   - Net Exports: 9%

2. Supply (2014)
   - Services: 54%
   - Manufacturing: 23%
   - Agriculture: 9%
   - Mining: 9%
   - Construction: 4%

Source: Department of Statistics, Malaysia
Presentation Outline

A. Introduction
   - Role of Bank Negara Malaysia
   - Characteristics of the Malaysian Economy

B. Economic Prospects: Global and Domestic
   - Global Economy
   - Domestic Economy

C. Issues and Challenges in the Malaysian Economy
Moderate global growth in 2Q 2015

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1Q</td>
<td>2Q</td>
</tr>
<tr>
<td><strong>Annual change (yoy, %)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Advanced economies</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>US</td>
<td>2.4</td>
<td>2.9&lt;sup&gt;r&lt;/sup&gt;</td>
<td>2.3&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>UK</td>
<td>3.0</td>
<td>2.9&lt;sup&gt;r&lt;/sup&gt;</td>
<td>2.6&lt;sup&gt;p&lt;/sup&gt;</td>
</tr>
<tr>
<td>Euro area</td>
<td>0.9</td>
<td>1.0</td>
<td>n.a</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.1</td>
<td>-0.9</td>
<td>n.a</td>
</tr>
<tr>
<td><strong>Asian economies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PR China</td>
<td>7.4</td>
<td>7.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Chinese Taipei</td>
<td>3.8</td>
<td>3.4</td>
<td>0.6&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Indonesia</td>
<td>5.0</td>
<td>4.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Korea</td>
<td>3.3</td>
<td>2.5</td>
<td>2.2&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Singapore</td>
<td>2.9</td>
<td>2.8&lt;sup&gt;r&lt;/sup&gt;</td>
<td>1.8&lt;sup&gt;p&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

- Divergence of growth momentum across major economies
- Continued economic recovery in the US and the UK
- Economic activity improved modestly in the euro area and Japan
- Growth in Asia continues to be supported by an expansion in domestic demand

p Preliminary estimate  a Advance estimate  r Revised
Source: National authorities
The Malaysian economy expanded by 4.9% in 2Q 2015

Real GDP growth

Annual change (%)

RM bn (2010 =100)

Real GDP

Source: Department of Statistics, Malaysia
Growth supported by continued expansion in services and turnaround in agricultural production

<table>
<thead>
<tr>
<th>Real GDP (Annual change, %)</th>
<th>Real share, % (2014)</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2Q</td>
<td>1H</td>
</tr>
<tr>
<td>Services</td>
<td>53.5</td>
<td>6.4</td>
<td>6.5</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>23.0</td>
<td>7.3</td>
<td>7.2</td>
</tr>
<tr>
<td>Mining</td>
<td>9.0</td>
<td>2.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>9.2</td>
<td>6.7</td>
<td>4.6</td>
</tr>
<tr>
<td>Construction</td>
<td>4.3</td>
<td>10.0</td>
<td>14.5</td>
</tr>
<tr>
<td>GDP</td>
<td>100.0</td>
<td>6.5</td>
<td>6.4</td>
</tr>
</tbody>
</table>

- **Services**: Continued expansion amid slower growth particularly in consumption-related sub-sectors
- **Agriculture**: Turned around amid higher production of palm oil
- **Construction**: Lower growth due to moderation in residential, non-residential and civil engineering sub-sectors
- **Manufacturing**: Slower performance in export-oriented industries
- **Mining**: Growth affected by lower production of natural gas

1 Numbers do not add up due to rounding and exclusion of import duties component

Source: Department of Statistics, Malaysia
Private sector remained the anchor of growth

<table>
<thead>
<tr>
<th>Real GDP (Annual change, %)</th>
<th>Share, % (2014)</th>
<th>2014</th>
<th>2015</th>
<th>1Q</th>
<th>2Q</th>
<th>1H</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic demand (excluding stocks)</td>
<td>91.5</td>
<td>5.6</td>
<td>7.9</td>
<td>4.6</td>
<td>6.2</td>
<td></td>
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<tr>
<td>Private Sector</td>
<td>68.5</td>
<td>7.9</td>
<td>9.6</td>
<td>5.7</td>
<td>7.6</td>
<td></td>
</tr>
<tr>
<td>Consumption</td>
<td>51.8</td>
<td>6.5</td>
<td>8.8</td>
<td>6.4</td>
<td>7.6</td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>16.6</td>
<td>11.6</td>
<td>11.7</td>
<td>3.9</td>
<td>7.5</td>
<td></td>
</tr>
<tr>
<td>Public Sector</td>
<td>23.0</td>
<td>-1.4</td>
<td>2.5</td>
<td>0.9</td>
<td>1.7</td>
<td></td>
</tr>
<tr>
<td>Consumption</td>
<td>13.6</td>
<td>-0.2</td>
<td>4.1</td>
<td>6.8</td>
<td>5.5</td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>9.5</td>
<td>-3.2</td>
<td>0.5</td>
<td>-8.0</td>
<td>-3.7</td>
<td></td>
</tr>
<tr>
<td>Net exports of goods and services</td>
<td>9.3</td>
<td>51.7</td>
<td>-10.2</td>
<td>-10.5</td>
<td>-10.4</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>76.1</td>
<td>8.7</td>
<td>-0.6</td>
<td>-3.7</td>
<td>-2.2</td>
<td></td>
</tr>
<tr>
<td>Imports</td>
<td>66.8</td>
<td>4.5</td>
<td>1.0</td>
<td>-2.8</td>
<td>-0.9</td>
<td></td>
</tr>
<tr>
<td>Change in stocks (RM billion)</td>
<td>-0.8</td>
<td>-2.1</td>
<td>-2.5</td>
<td>2.2</td>
<td>-0.3</td>
<td></td>
</tr>
<tr>
<td>GDP (y-o-y)</td>
<td>100.0</td>
<td>6.5</td>
<td>5.6</td>
<td>4.9</td>
<td>5.3</td>
<td></td>
</tr>
<tr>
<td><strong>GDP (q-o-q growth, seasonally adjusted)</strong></td>
<td>-</td>
<td>1.6</td>
<td>1.2</td>
<td>1.1</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

Source: Department of Statistics, Malaysia
Current account balance narrowed, but remained positive in 2Q 2015

Source: Department of Statistics, Malaysia
Headline inflation edged higher in 2Q 2015, but underlying inflation remained stable

Increase in inflation was broad-based due to the implementation of GST

<table>
<thead>
<tr>
<th>Category</th>
<th>Weight</th>
<th>1Q ‘15</th>
<th>2Q ‘15</th>
<th>Annual growth, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Headline inflation</td>
<td>100.0</td>
<td>0.7</td>
<td>2.2</td>
<td></td>
</tr>
<tr>
<td>Food and non-alcoholic beverages</td>
<td>30.3</td>
<td>2.5</td>
<td>3.3</td>
<td></td>
</tr>
<tr>
<td>Housing, water, electricity, gas and other fuels</td>
<td>22.6</td>
<td>2.1</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>14.9</td>
<td>-7.6</td>
<td>-3.6</td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>5.6</td>
<td>-1.0</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>Recreation services and culture</td>
<td>4.6</td>
<td>0.6</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>Furnishings and household equipment &amp; maintenance</td>
<td>4.1</td>
<td>0.3</td>
<td>2.7</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>17.9</td>
<td>3.4</td>
<td>4.7</td>
<td></td>
</tr>
</tbody>
</table>

Note: Core inflation excludes price-administered and price volatile items. It also excludes the impact of GST.

Source: Department of Statistics Malaysia and Bank Negara Malaysia
Higher external debt in 2Q 2015 partly due to valuation effects, but impact is contained.

Higher valuation effects in recent quarter

Quarterly Change (RM bn):

- 3Q 2014: 14.0
- 4Q 2014: 3.2
- 1Q 2015: 20.7
- 2Q 2015: 26.2

46% of offshore borrowings are accounted by banks due to their regional operations.

| Source: Bank Negara Malaysia |
|-----------------------------|-----------------------------|

1 Public enterprise and non-bank private sector

Source: Bank Negara Malaysia
Short term external debt has limited immediate claim on reserves

The banking sector exposures are partly covered by corresponding external assets

Other debt liabilities reflect trade related and direct investment activities
  • Trade credit largely supported by export earnings
  • Intercompany loans are generally on concessionary and flexible terms

Source: Bank Negara Malaysia
All major and regional currencies have depreciated due to persistent US dollar strength

- Improving US economy and expectation of higher interest rate in the US continued to put downward pressure on currencies globally

*USD Index is a trade-weighted index that tracks USD performance against top 10 leading global currencies.
Source: BNM, Bloomberg
Declining commodity prices and domestic factors contributing to additional pressure on ringgit

Prolonged low crude oil prices since Jul ‘14 continue to put downward pressure on the ringgit

Other currencies of commodity exporting countries have depreciated significantly

Performance of Selected Currencies against the USD (1 Sept ‘14-11 Aug ‘15)

South Africa -15.7
Uruguay -16.2
Canada -16.4
Nigeria -18.6
Malaysia -20.1
Algeria -20.5
New Zealand -20.8
Australia -21.6
Norway -24.4
Brazil -35.0
Russia -41.1

Note: Of note, countries with higher dependence on commodity exports have faced larger adjustments.

Source: Bloomberg, BNM
Impact of ringgit depreciation is manageable

- Businesses with high import content face higher costs, but export-oriented businesses will benefit from higher proceeds.

- Modest impact on household spending.

- Low global commodity and domestic fuel prices cushion inflationary pressures.

- BNM will continue to ensure the orderly functioning of the market to avoid disruptions to trade and business activities.
Movements in the exchange rate and reserves are expected in a flexible exchange rate regime

- Exchange rate being the **absorber to shocks** will be subjected to volatility from time to time.

- International reserves have dipped below USD100bn before. This has been **anticipated** and is a **outcome** when facing sharp capital reversal.

- International reserves lower but **remain ample** to facilitate international transactions.

Source: BNM
Despite ringgit adjustments, conditions in the domestic financial markets remain orderly.

Liquidity remains stable in the Govt bond market…

Monthly Avg Trading of Govt Bonds and 5-year MGS Yield

<table>
<thead>
<tr>
<th>Year</th>
<th>Monthly Avg Trading (RM billion)</th>
<th>5-year MGS Yield (RM billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>Avg (2009-recent): RM50 bn</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
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<td>2012</td>
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<td></td>
<td></td>
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<tr>
<td>2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>66.0</td>
<td>3.9</td>
</tr>
</tbody>
</table>

...while trading remains steady in the equity market

Daily Avg Trading and KLCI Index

<table>
<thead>
<tr>
<th>Year</th>
<th>Daily Avg Trading (RM billion)</th>
<th>KLCI (RHS) Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>Avg (2005-recent): RM1.6 bn</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td></td>
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<td>2007</td>
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<td>2008</td>
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<tr>
<td>2014</td>
<td></td>
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<tr>
<td>2015</td>
<td>1,637</td>
<td>2,000</td>
</tr>
</tbody>
</table>

Source: Bank Negara Malaysia

Source: Bursa Malaysia
Financing remained supportive of economic activity

Relatively stable total loans growth amidst continued strong growth in SME loans …

Net Financing\(^1\) and Outstanding Banking System Loans Growth

… with sustained gross financing to the private sector

Gross Financing through the Banking System and Capital Market

\(^1\)Outstanding loans of the banking system and PDS outstanding

Source: Bank Negara Malaysia

*Excludes issuances by Cagamas
Global growth to remain moderate in 2015

- Global economy to remain on a moderate growth path in 2015, supported by:
  - Improving fundamentals, particularly in the US
  - Lower commodity prices
  - Accommodative monetary policies

- Growth performance in the major economies to become more divergent
  - **US**: Strengthening private sector activity
  - **Euro area & Japan**: Subdued growth amid persistent structural weaknesses
  - **PR China**: Growth to moderate, in line with policymakers’ objective to rebalance the economy
  - **Asia**: Growth to improve, supported by higher domestic demand and exports

Source: IMF and Bank Negara Malaysia estimates
The Malaysian economy to remain on a steady growth path of 4.5 – 5.5% in 2015

Despite external shocks, growth to remain on steady trajectory amid strong underlying fundamentals

- Domestic demand will continue to drive growth, led by private sector spending
- All economic sectors to experience continued expansion
- External sector to remain resilient

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
Continued expansion across all economic sectors

Services and manufacturing sectors to underpin growth

<table>
<thead>
<tr>
<th>Real GDP Annual change (%)</th>
<th>% share of GDP (2014)</th>
<th>2014(^p)</th>
<th>2015(^f)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>55.3</td>
<td>6.3</td>
<td>5.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>24.6</td>
<td>6.2</td>
<td>4.9</td>
</tr>
<tr>
<td>Mining</td>
<td>7.9</td>
<td>3.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>6.9</td>
<td>2.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Construction</td>
<td>3.9</td>
<td>11.6</td>
<td>10.3</td>
</tr>
<tr>
<td><strong>Real GDP</strong></td>
<td><strong>100.0(^1)</strong></td>
<td><strong>6.0</strong></td>
<td><strong>4.5 – 5.5</strong></td>
</tr>
</tbody>
</table>

- **Services**
  - Supported by consumption- and trade-related sub-sectors

- **Manufacturing**
  - Continued growth in electronics and electrical (E&E) sector

- **Mining**
  - Rising oil production

- **Agriculture**
  - Lower production of palm oil and rubber amid lower prices

- **Construction**
  - Driven by activity in residential and non-residential sub-sectors

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1 Numbers do not add up due to rounding and exclusion of import duties

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
Domestic demand will continue to drive growth in 2015

<table>
<thead>
<tr>
<th></th>
<th>Real GDP Annual change (%)</th>
<th>% share of GDP (2014)</th>
<th>2014&lt;sup&gt;p&lt;/sup&gt;</th>
<th>2015&lt;sup&gt;f&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic demand (excluding stocks)</td>
<td></td>
<td>93.1</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Private expenditure</td>
<td></td>
<td>70.0</td>
<td>8.0</td>
<td>6.7</td>
</tr>
<tr>
<td>Private consumption</td>
<td></td>
<td>52.5</td>
<td>7.1</td>
<td>6.0</td>
</tr>
<tr>
<td>Private investment</td>
<td></td>
<td>17.5</td>
<td>11.0</td>
<td>9.0</td>
</tr>
<tr>
<td>Public expenditure</td>
<td></td>
<td>23.0</td>
<td>0.2</td>
<td>3.7</td>
</tr>
<tr>
<td>Public consumption</td>
<td></td>
<td>13.2</td>
<td>4.4</td>
<td>2.7</td>
</tr>
<tr>
<td>Public investment</td>
<td></td>
<td>9.8</td>
<td>-4.9</td>
<td>5.1</td>
</tr>
<tr>
<td>Gross Fixed Capital Formation</td>
<td></td>
<td>27.3</td>
<td>4.7</td>
<td>7.6</td>
</tr>
<tr>
<td>Net exports of Goods &amp; Services</td>
<td></td>
<td>8.0</td>
<td>19.7</td>
<td>-7.8</td>
</tr>
<tr>
<td>Exports of Goods &amp; Services</td>
<td></td>
<td>88.8</td>
<td>5.1</td>
<td>3.0</td>
</tr>
<tr>
<td>Imports of Goods &amp; Services</td>
<td></td>
<td>80.8</td>
<td>3.9</td>
<td>4.0</td>
</tr>
<tr>
<td>Real GDP</td>
<td></td>
<td>100.0</td>
<td>6.0</td>
<td>4.5 – 5.5</td>
</tr>
</tbody>
</table>

<p preliminary  f forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
Private consumption is projected to grow by 6.0% in 2015

While growth is affected by GST and lower earnings in commodity sectors…

...it remains supported by stable labour market conditions and continued growth in salary…

...and additional income from Gov’t measures and savings from lower fuel prices

Real private consumption
Annual change (%)

Unemployment and salary
Annual change (%)
% share of labour force

Government measures and savings
RM bil

Note: * Disbursed to primary and secondary school students; Source: Department of Statistics, Malaysia, MEF Salary Survey, Bank Negara Malaysia
Private investment to be supported by a steady flow of projects

Private investment to expand by 9.0%...

...driven mainly by investment in the manufacturing and services sectors

Record-high manufacturing investment approvals point to sustained investment

<table>
<thead>
<tr>
<th>Year</th>
<th>Private (64%)</th>
<th>Public (36%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>9.4</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>13.1</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>11.0</td>
<td></td>
</tr>
<tr>
<td>2014p</td>
<td>9.0</td>
<td></td>
</tr>
<tr>
<td>2015f</td>
<td>11.7</td>
<td></td>
</tr>
</tbody>
</table>

Avg. ('90-'14): 8.5%

% share of real GFCF: Services 51%, Manufacturing 26%, Construction 5%, Agriculture 3%, Mining 16%

% share of real private investment (sector): Public (36%), Private (64%)

Annual change (%)

2011: 9.4%
2012: 22.8%
2013: 13.1%
2014p: 11.0%
1Q-15: 11.7%

2013: RM 52.1 bil (42% Domestic-oriented, 58% Export-oriented)
2014: RM 71.9 bil (36% Domestic-oriented, 64% Export-oriented)

Source: Department of Statistics, Malaysia, Malaysian Investment Development Authority (MIDA) and Bank Negara Malaysia

p preliminary  f forecast
Debunking myths about investment in Malaysia

Several misconceptions have surfaced surrounding Malaysia’s strong private investment growth since 2010

Myth #1: Strong performance driven by Government & Government-linked enterprises

Fact: In 2014, public sector investment only accounted for 36% of total investment.

Myth #2: Most investment is in the property sector

Fact: In 2014, investment in residential property only accounted for 17% of private investment.

Myth #3: Capital spending is concentrated in the oil and gas industry

Fact: The mining sector only accounted for 16% of private investment in 2014.

Myth #4: Private investment in Malaysia is undertaken mainly by foreign entities

Fact: In 2014, 81% of private investment was undertaken by Malaysian firms. Only 19% comprised of FDI (2007: 35%).

Source: DOSM, BNM estimates
(Please refer to BNM 2014 Annual Report Box Article: Debunking Malaysia’s Investment Myths, pg 21-22)
Financing continues to be supportive of economic activity

Gross Financing through Loans and the Capital Markets*

• Going forward, financing activity is expected to remain robust
  - Continued availability of financing for businesses, especially for SMEs from the banking system and the DFIs
  - Funds raised from the capital market to remain high given committed investment projects in the pipeline

• Supported by ample liquidity conditions
  - Outstanding surplus liquidity with BNM remains high at RM269.9 billion in 2014

*Comprises gross loans from the banking system and DFIs, and gross funds raised from the capital markets
Source: Bank Negara Malaysia
Headline inflation to range between 2 – 3% in 2015

Lower inflation reflects the decline in global energy and commodity prices

Lower domestic fuel prices and moderate demand conditions would partly offset the impact from GST

Households will benefit through higher disposable income from lower fuel prices

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
Trade balance to remain in substantial surplus amid more moderate export growth

Manufactured exports to benefit from improvement in major advanced economies

<table>
<thead>
<tr>
<th>Trade Annual change (%)</th>
<th>% share (2014)</th>
<th>2014p</th>
<th>2015f</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross exports</strong></td>
<td>100.0</td>
<td>6.4</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Manufactured</strong></td>
<td>76.9</td>
<td>7.3</td>
<td>8.4</td>
</tr>
<tr>
<td><strong>E&amp;E</strong></td>
<td>37.3</td>
<td>8.4</td>
<td>14.1</td>
</tr>
<tr>
<td><strong>Non-E&amp;E</strong></td>
<td>39.6</td>
<td>6.3</td>
<td>3.0</td>
</tr>
<tr>
<td><strong>Commodities</strong></td>
<td>22.7</td>
<td>4.5</td>
<td>-22.6</td>
</tr>
<tr>
<td><strong>Agriculture</strong></td>
<td>9.0</td>
<td>0.6</td>
<td>-10.8</td>
</tr>
<tr>
<td><strong>Minerals</strong></td>
<td>13.7</td>
<td>7.3</td>
<td>-30.4</td>
</tr>
<tr>
<td><strong>Gross imports</strong></td>
<td>100.0</td>
<td>5.3</td>
<td>6.0</td>
</tr>
<tr>
<td><strong>Capital goods</strong></td>
<td>14.1</td>
<td>-2.1</td>
<td>10.0</td>
</tr>
<tr>
<td><strong>Intermediate goods</strong></td>
<td>59.8</td>
<td>7.6</td>
<td>6.8</td>
</tr>
<tr>
<td><strong>Consumption goods</strong></td>
<td>7.4</td>
<td>5.7</td>
<td>6.8</td>
</tr>
</tbody>
</table>

p preliminary f forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
Current account surplus to remain in 2015

The narrowing of the current account surplus to 2 – 3% of GNI is consistent with global rebalancing and structural transformation in the domestic economy.

<table>
<thead>
<tr>
<th>Current account component (net)</th>
<th>2014&lt;sup&gt;p&lt;/sup&gt;</th>
<th>2015&lt;sup&gt;f&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>RM billion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods</td>
<td>125.1</td>
<td>94.2</td>
</tr>
<tr>
<td>Services</td>
<td>-20.5</td>
<td>-16.4</td>
</tr>
<tr>
<td>Primary income</td>
<td>-37.4</td>
<td>-38.0</td>
</tr>
<tr>
<td>Secondary income</td>
<td>-17.6</td>
<td>-18.5</td>
</tr>
<tr>
<td>Current account balance</td>
<td>49.5</td>
<td>21.4</td>
</tr>
<tr>
<td>% of GNI</td>
<td>4.8</td>
<td>2 – 3</td>
</tr>
</tbody>
</table>

<sup>p</sup> preliminary  <sup>f</sup> forecast

Source: Department of Statistics, Malaysia
Presentation Outline

A Introduction
   - Role of Bank Negara Malaysia
   - Characteristics of the Malaysian Economy

B Economic Prospects: Global and Domestic
   - Global Economy
   - Domestic Economy

C Issues and Challenges in the Malaysian Economy
Issues and challenges in the Malaysian economy

Key issues and challenges confronting the Malaysian economy

1. **Global uncertainty**
   - Prolonged weakness in several major economies
   - Uncertainties over monetary policy adjustments

2. **Commodity price movements**
   - Uncertainty over the prices and persistence of disinflation or deflation in several major economies

3. **Policy adjustments**
   - Expenditure reforms such as subsidy rationalisation
   - GST implementation to broaden the revenue base

Malaysia has the policies and buffers to weather these challenges

- Ample reserves with a wide range of monetary policy instruments
- Diversified economic structure
- Resilient economic fundamentals to support growth
Sharp decline in commodity prices

Declining crude oil prices since June 2014 due to oversupply conditions

Moderate prices in 1H 2014 due to lower oil prices

Lower rubber prices due to oversupply from Thailand

USD per barrel

Brent Crude

-44%

RM/tonne

CPO

-15%

RM/tonne

LNG

-9%

Sen/kg

Rubber

-23%

Sumber: MPOB, Bloomberg, Malaysian Rubber Board, MATRADE, DOSM
The diversity of the economy will cushion the impact of lower oil prices

Commodity sector only accounts for 15% of real GDP

Only 13% of employment is in the commodity sector

Oil revenue on a declining trend since 2009

More than three-quarters of investment undertaken in non-commodity sectors

Commodity exports account for only 23% of gross exports

Note: All data reflect 2014 figures, except for investment which reflect 2013 figures

Source: Department of Statistics, Malaysia and BNM
Fiscal consolidation will remain on course despite low oil prices

1. Dependency on oil revenue has declined

2. Expenditure reforms is underpinned by the removal of the fuel subsidy, which will reduce the operating expenditure

3. GST implementation will broaden the revenue base

---

e latest estimate reflecting Prime Minister’s speech on 20 Jan 2015

Source: Ministry of Finance, Malaysia
Subsidy rationalisation replaces regressive blanket subsidies with targeted measures

Benefits of fuel subsidy in Malaysia are enjoyed disproportionately by higher-income households

Share of Fuel Subsidy Received by Each Income Group

<table>
<thead>
<tr>
<th>Income</th>
<th>Share of Fuel Subsidy Benefits in 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom 20%</td>
<td>4%</td>
</tr>
<tr>
<td>Fourth 20%</td>
<td>10%</td>
</tr>
<tr>
<td>Third 20%</td>
<td>18%</td>
</tr>
<tr>
<td>Second 20%</td>
<td>26%</td>
</tr>
<tr>
<td>Top 20%</td>
<td>42%</td>
</tr>
</tbody>
</table>

Average Income in 2009 (in 2012)
- Bottom 20%: RM1,050 (RM1,300)
- Fourth 20%: RM1,900 (RM2,450)
- Third 20%: RM2,800 (RM3,650)
- Second 20%: RM4,450 (RM5,500)
- Top 20%: RM9,950 (RM12,150)

Malaysia’s macroeconomic fundamentals remain supportive of growth

Steady growth path

High private sector participation in the economy

Stable labour market conditions

Low and stable inflation environment

Current account balance reflects strong investment

Deeper markets and strong financial buffers

Annual change (%)

GDP

% share

Private expenditure / GDP

% of GNI

Current account balance

% of nominal GDP

Size of Bond Market and Banking Capital Ratio

* Capital ratio in ‘98 refers to the risk-weighted capital ratio; Ratio in 2014 refers to total capital ratio, reported based on Basel III Capital Adequacy Framework adopted since January 2013.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia
Going forward, leading indicators suggest sustained expansion in economic activity

Global and US ISM Manufacturing PMI

- Global PMI
- US ISM Mfg. PMI

>50 = expansionary

Global manufacturing activity remains expansionary

Sustained domestic fundamental indicators

- Average wage growth
- Inflation growth (RHS)

Domestic Fundamentals

Planned investment by the private sector remains firm

MIDA Manufacturing Investment Approvals

Index

- Annual change (%)

Source: Bloomberg

Source: Department of Statistics, Malaysia

Source: MIDA
The Malaysian economy is expected to remain on a steady growth path

- The global economy to improve at a moderate pace
  - Modest growth in the advanced economies
  - Steady growth momentum in the regional economies

- The Malaysian economy will remain resilient in the face of the challenging environment
  - Strong domestic and external fundamentals
    - Low inflation, steady income growth and stable labour market conditions
    - Flexible exchange rate, low external debt and ample international reserves
  - Impact of ringgit depreciation on growth and inflation is contained, underpinned by the diversified Malaysian economy
  - Domestic financial stability conditions is sustained despite increased volatility in financial markets
Questions and Answer
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