

BANK NEGARA MALAYSIA

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

29 MARCH 2023



Overview:

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



- **In 2022, GDP expanded strongly by 8.7%**

despite slower global growth, and was driven by recovery in private and public sector spending following the full reopening of the economy



- **Growth is expected to moderate in 2023**

amid slower global growth, but remain driven by firm domestic demand



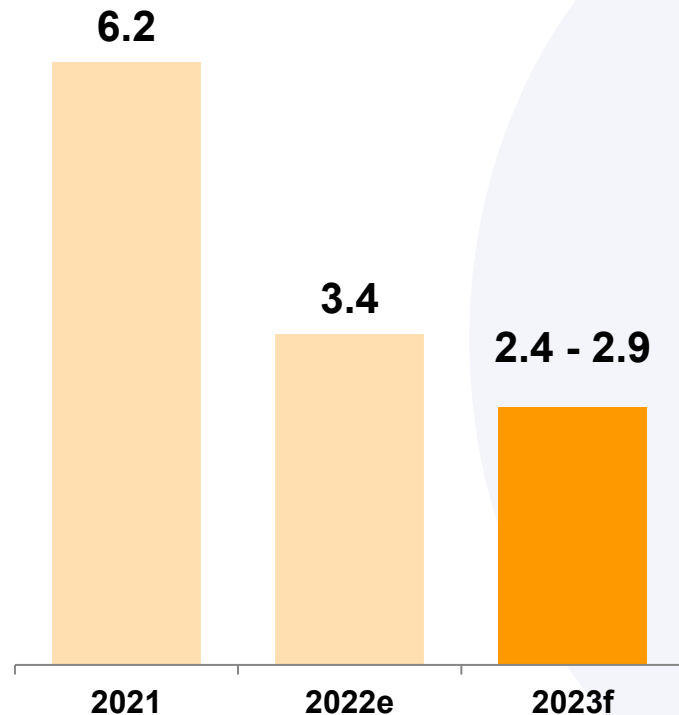
- **Risks to growth outlook fairly balanced**

with downside risks emanating primarily from external developments, while there are upside risks mainly from domestic factors



Global economy facing a challenging and uncertain landscape

Global Real GDP Growth
Annual Change (%)



Global growth will be supported by...

- ▲ Resilient labour markets underpinning household spending
- ▲ Full reopening of China's economy
- ▲ Easing of supply chain disruptions

... but is facing headwinds from:

- ▼ Elevated inflation
- ▼ Tight monetary policy and financial conditions

Higher financial market volatility and uncertainty amid the recent banking stress in advanced economies

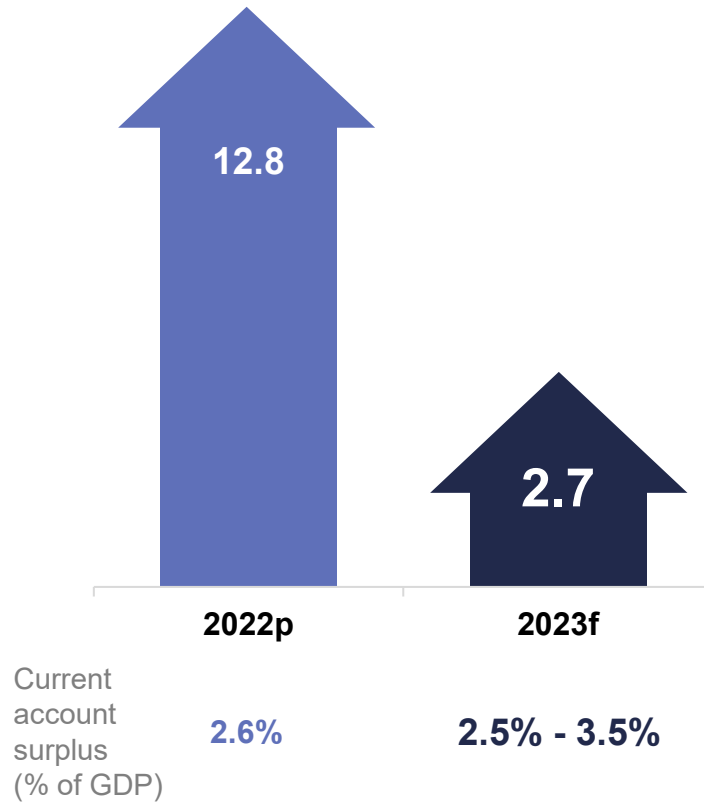
Source: Bank Negara Malaysia estimates, International Monetary Fund



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

Real Exports of Goods & Services

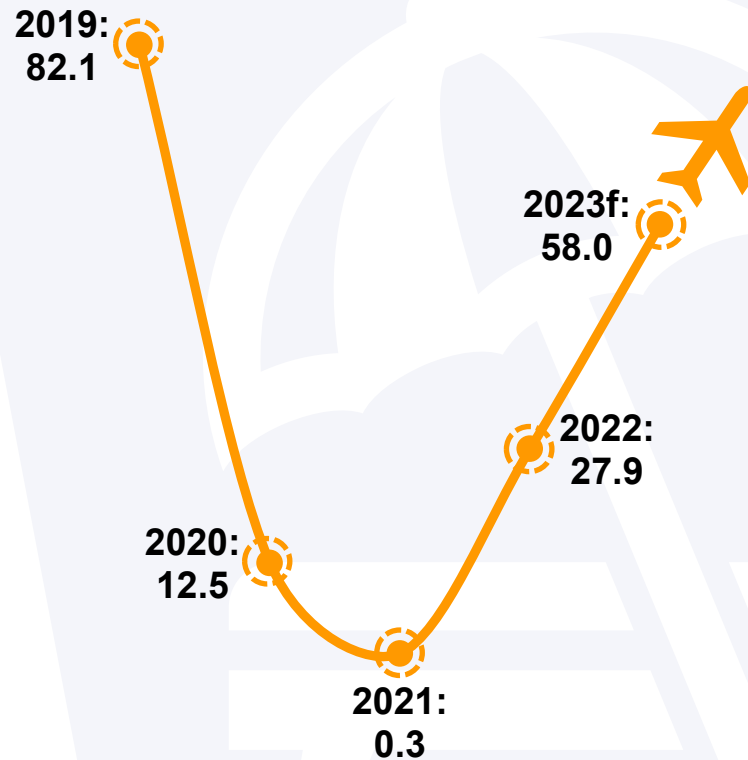
Annual Change (%)
Avg. 2011-19 : 2.1%



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

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



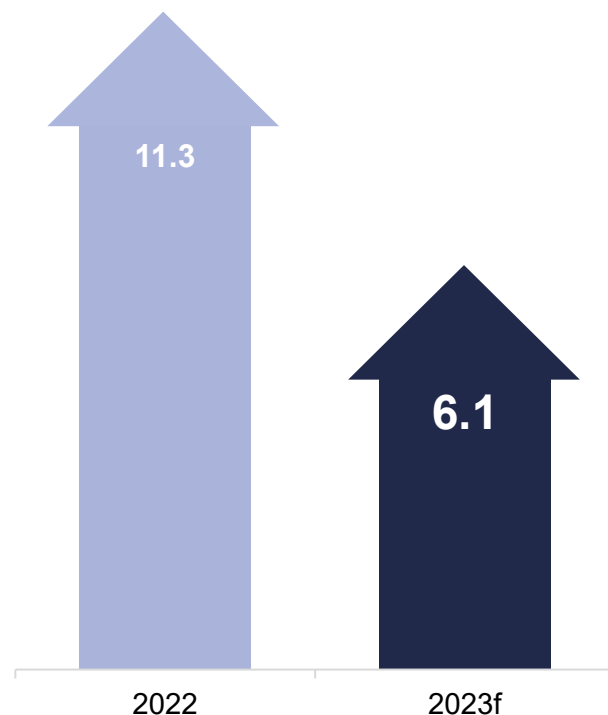
Employment in tourism industry
23.6% of total employment

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-Executives¹

Annual change (%)



...with support from Government policy measures



Higher minimum wage for employees in small firms²



Expansion of overtime pay eligibility³



Direct cash assistance



Individual income tax revision

¹ 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.

² Effective 1st July 2023 for firms employing fewer than five employees.

³ 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.

Sustained improvement in labour market conditions

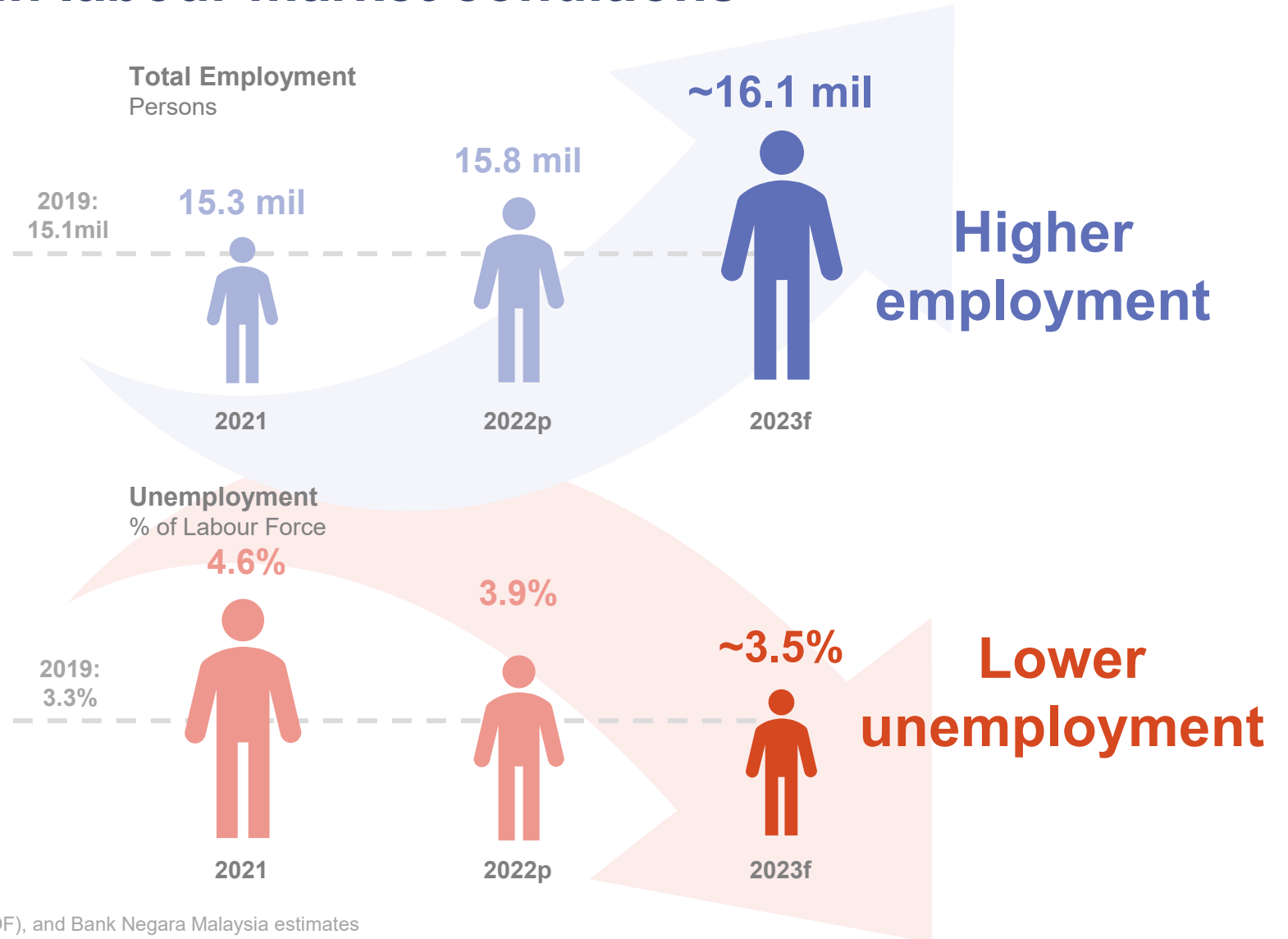
Continued expansion in consumer- and tourism-related sectors...

...coupled with policy measures to support labour markets

Hiring Incentives

Youth & Graduate Employment Scheme

Upskilling & Reskilling Initiatives



Source: SOCSO, Department of Statistics, Malaysia, Ministry of Finance (MOF), and Bank Negara Malaysia estimates





Enhanced surveillance tools suggest limited risk of excessive wage pressures

COVID-19 necessitated enhanced analytical approaches to assess labour market conditions...

...which suggest inflationary wage pressures would remain contained in 2023



Alternative Slack Rates

Measurements of slack include underemployed and workers who left due to COVID-19



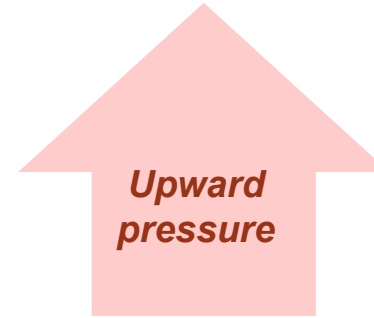
Statistical Thresholds

Various indicators assessed against ‘normal’ range within historical series to assess tightness

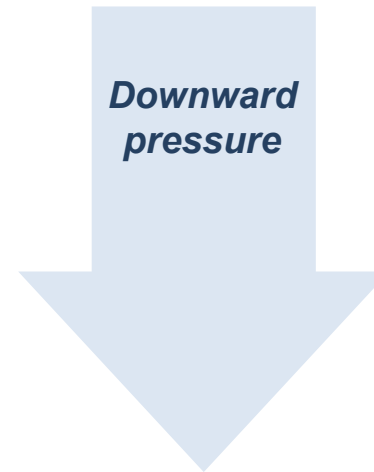


Industrial Insights

Field interviews with business community to supplement analytical assessments



- **Strength in employment recovery**
- **Implementation of minimum wage hike**
- **Increase in overtime payments**



- **Forthcoming labour supply**
 - Return of discouraged workers¹
 - Re-entries of foreign workers
- **Higher production efficiency**
- **No excessive wage adjustments**

¹ Discouraged workers refer to workers who previously left the labour force, potentially due to lack of economic opportunities or increase in caregiving obligations during the COVID-19 pandemic.

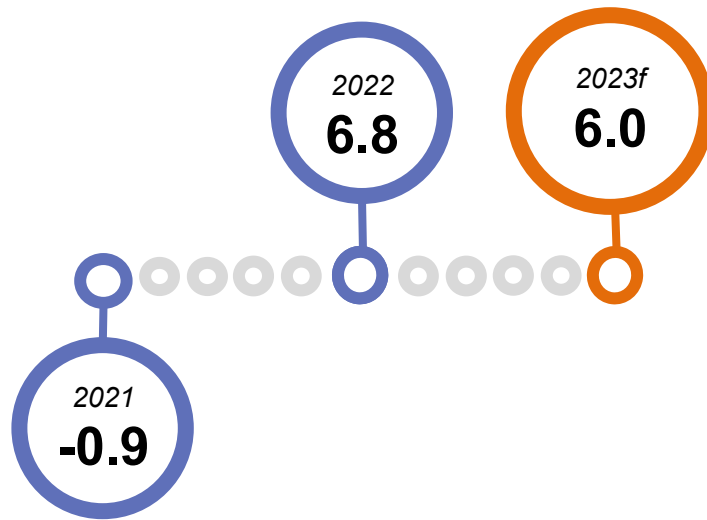
Investments supported by continued capacity expansion and multi-year projects

Continued expansion in investment...

Real Gross Fixed Capital Formation

Annual change (%)

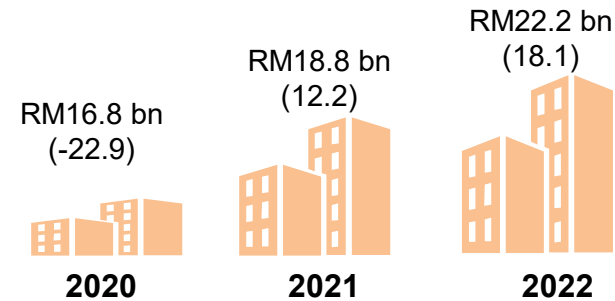
Avg. 2011-19: 5.5%



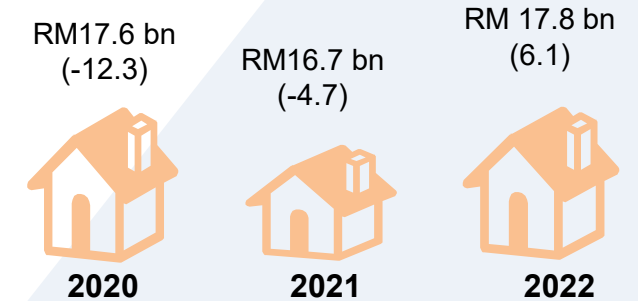
...supported by improvement in construction activity

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

^f 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

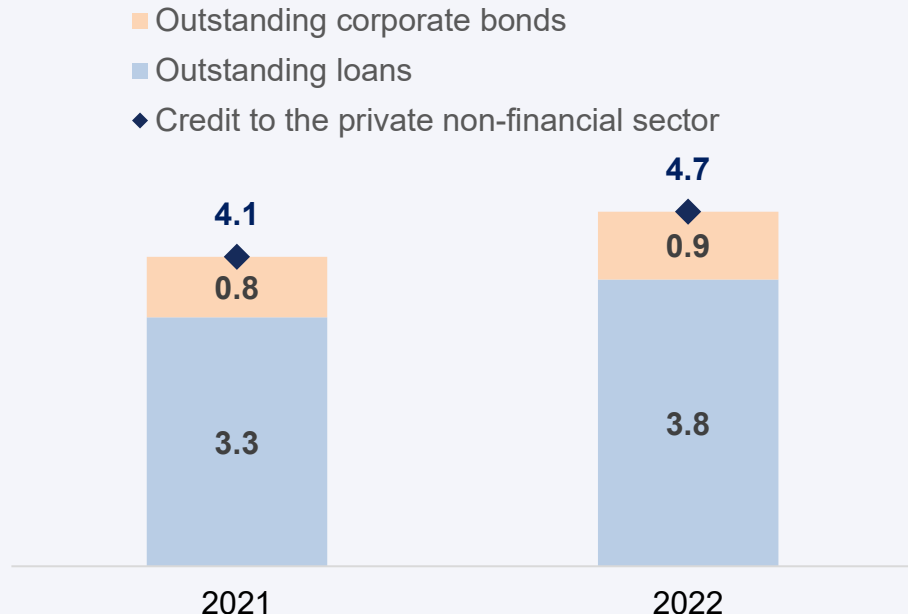


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Growth in credit to households and businesses to remain supportive of economic activity

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.

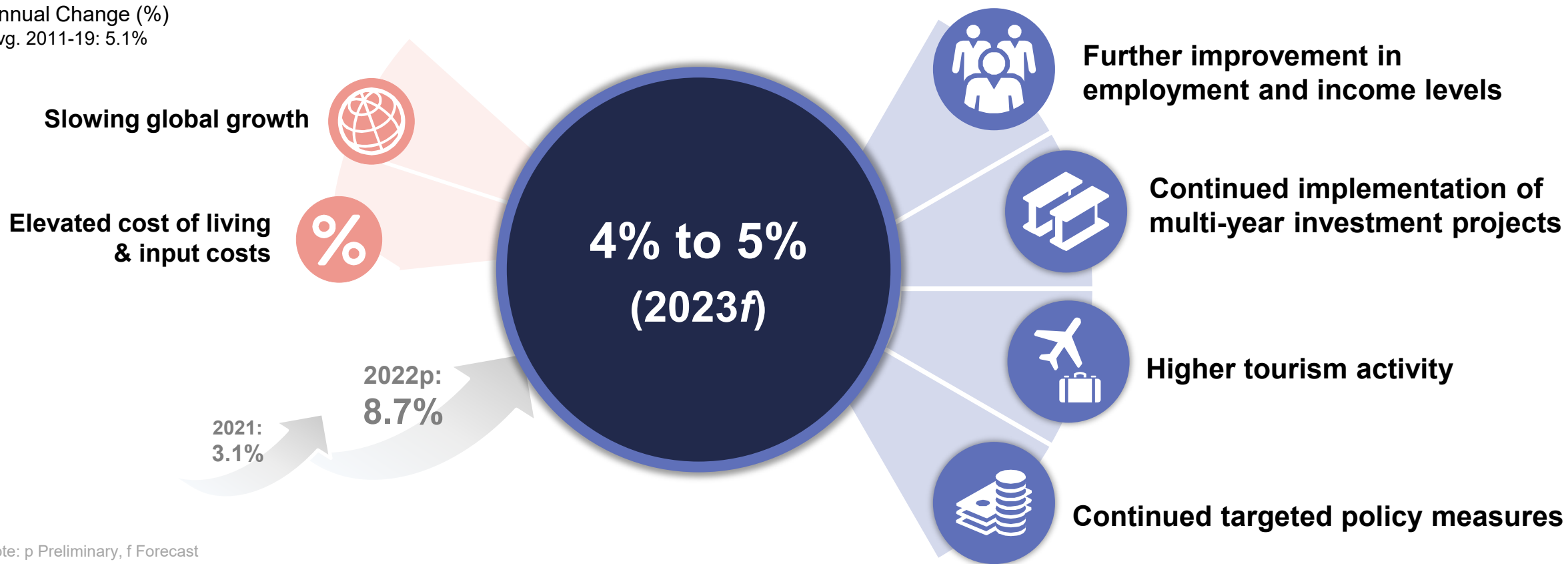
Source: Bank Negara Malaysia



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

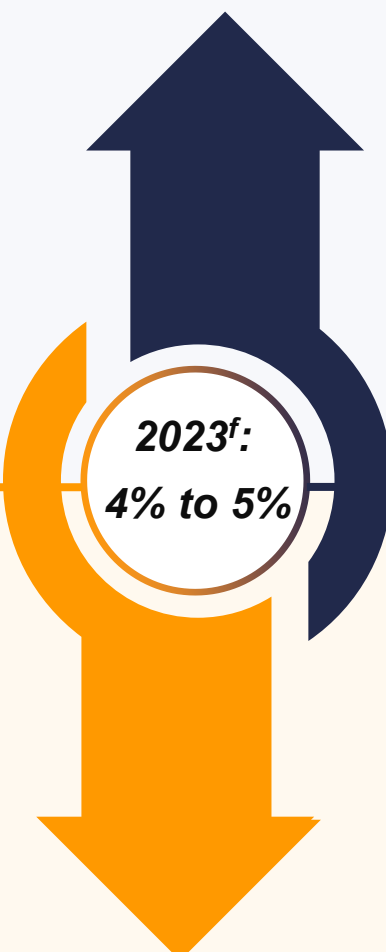
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates



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^f:
4% to 5%

Downside risks dominated by external factors

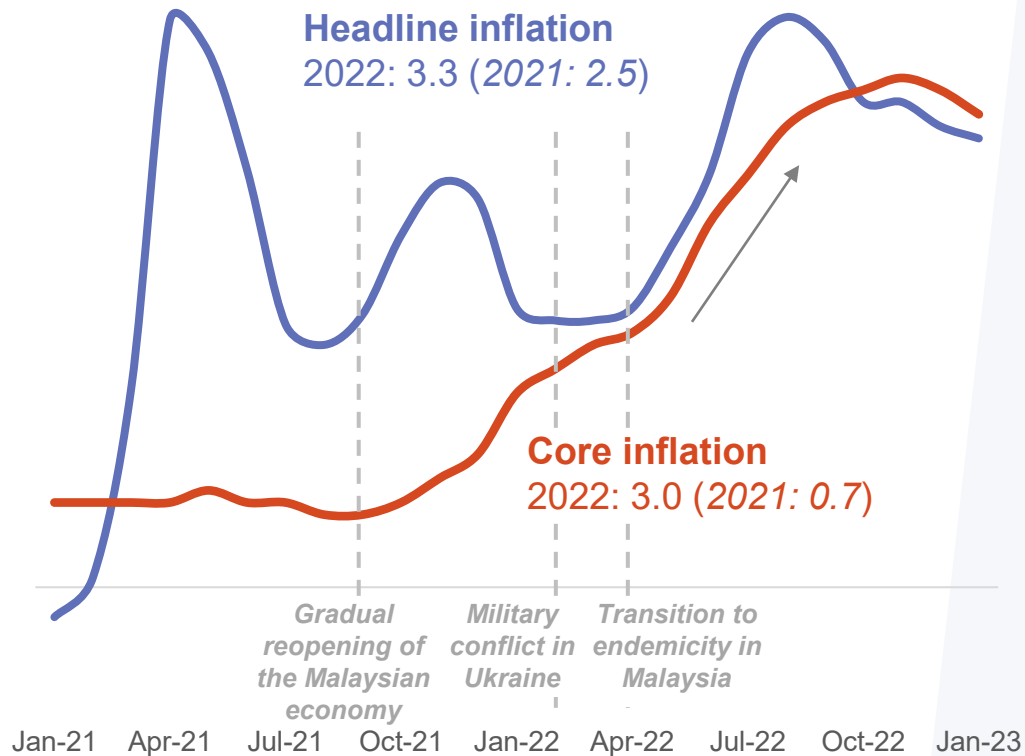
- ▼ Sharp tightening in global financial market conditions
- ▼ Further escalation of geopolitical conflicts
- ▼ Higher-than-expected inflation and input costs domestically



Inflation rose in 2022 due to both supply and demand conditions

Inflation

Annual Change (%)



Source: Department of Statistics, Malaysia



In 2022, inflation was driven largely by higher input costs due to:

- **Higher global commodity prices** following the military conflict in Ukraine
- **Export restrictions** in commodity-exporting countries
- **Supply shortages and adverse weather conditions**
- **Sustained US dollar strength** leading to higher import prices
 - A 5% change in RM/USD is associated with 0.2ppt change in core inflation over a year

...which coincided with stronger demand conditions amid:

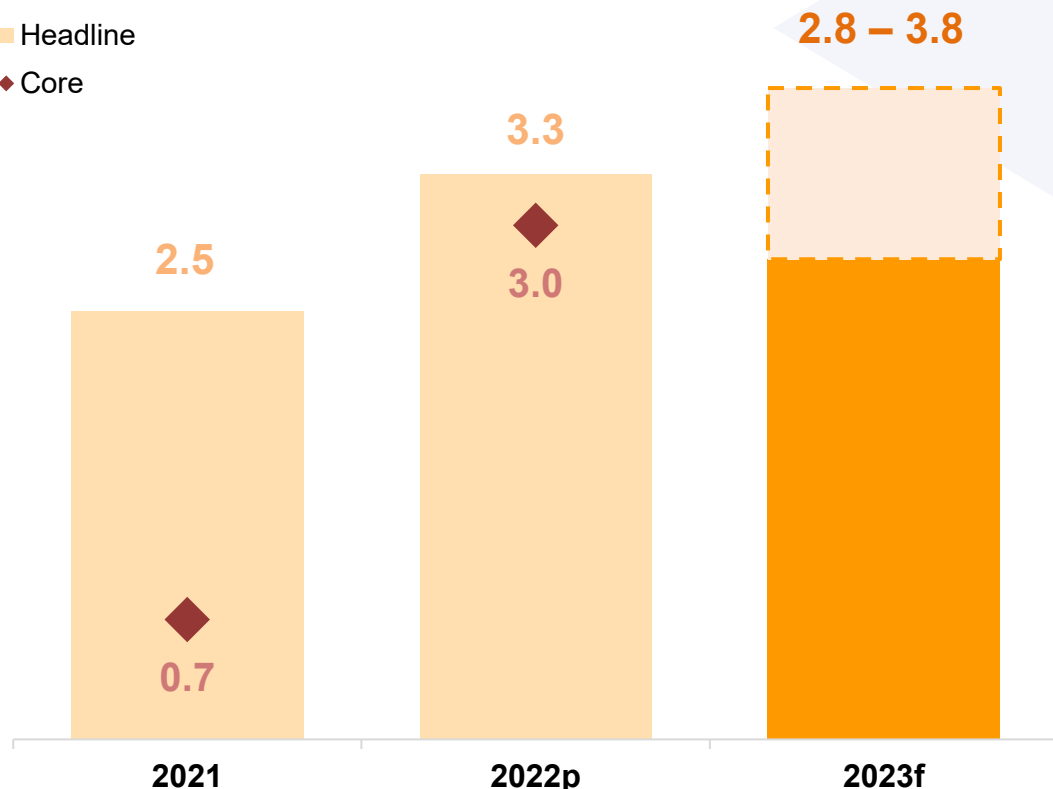
- **Pent up demand** following the reopening of the economy
- **Domestic policies** such as revision to minimum wage and EPF special withdrawals

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:

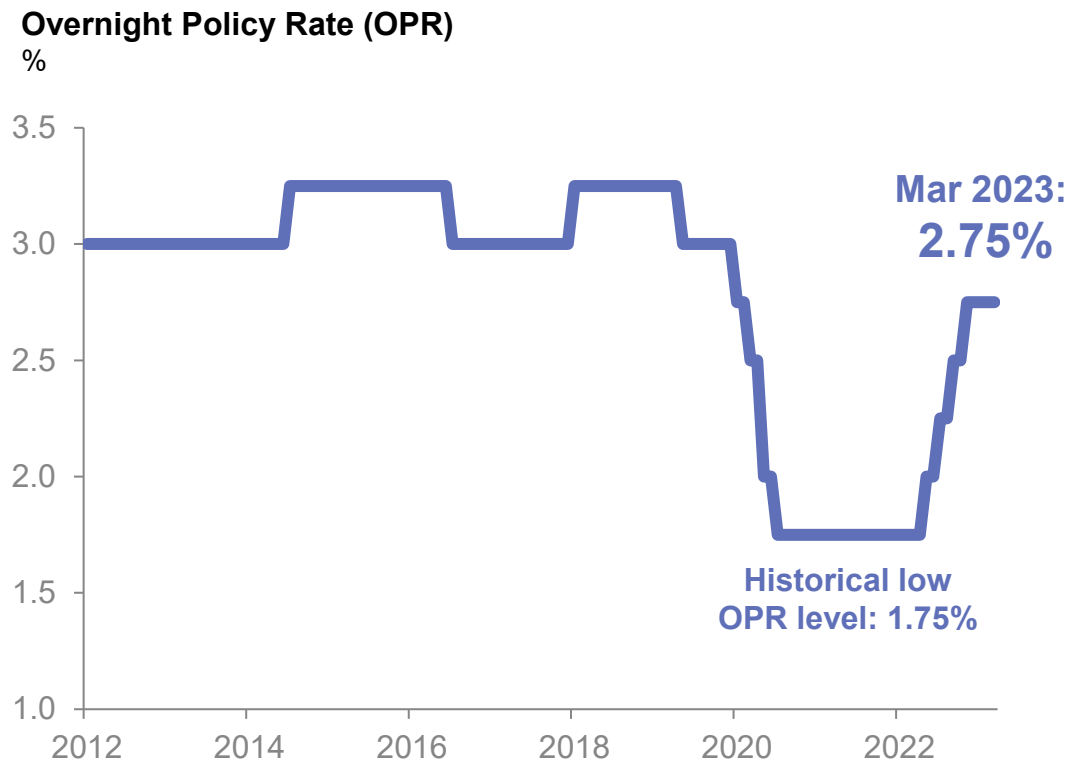
- **Existing domestic price controls and subsidies** will continue to partly contain inflationary pressures



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

2022 The OPR was gradually increased to 2.75%

2023 Monetary policy stance to remain supportive of economic growth



Monetary policy will continue to balance the risks to domestic inflation and economic growth



The MPC continues to monitor the impact of past OPR adjustments on the economy

So far:

- The impact of the past OPR adjustments on financial conditions has been orderly
- No signs of excessive tightening in consumption and investment
- Signs of moderation in the strength of inflationary pressure amid normalisation of inflation expectations, but inflation remains elevated

Source: Bank Negara Malaysia



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



The MPC remains vigilant to cost factors, including those arising from financial market developments, that could affect the inflation outlook



Price pressures may be more persistent than expected, and thus it is important to manage inflation in ensuring sustainable long term growth



Any adjustment to the degree of accommodation will be informed by evolving global and domestic conditions and their implications on the overall outlook of domestic inflation and growth



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%	-0.4%
<i>RM/USD</i>	-5.4%	-0.3%
<i>Major Currencies/USD</i>	-9.1%	+1.0%
<i>Regional Currencies/USD</i>	-5.1%	+1.1%
<i>NEER</i>	+0.05%	-1.3%

YTD as of 24 March 2023

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

Source: Bank Negara Malaysia



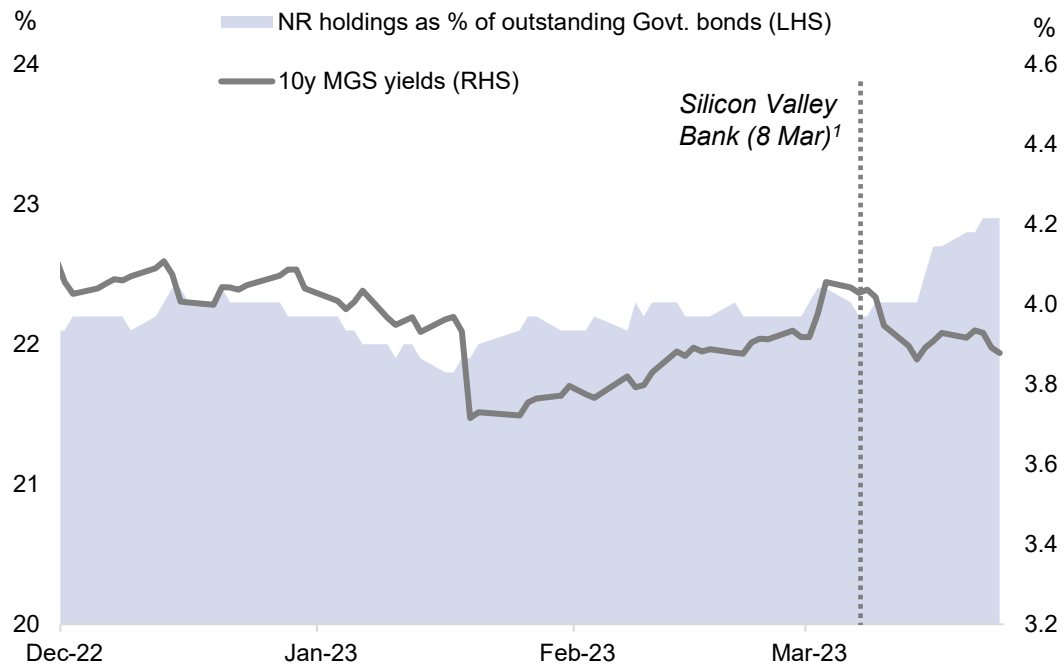
Flexibility in the ringgit enables the economy to adjust to global shocks

- 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

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

Non-resident (NR) holdings of Government bonds remain stable

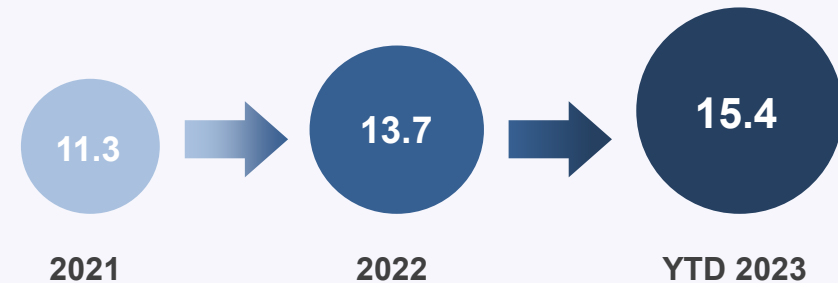
NR holdings of Government bonds and 10-year MGS yields



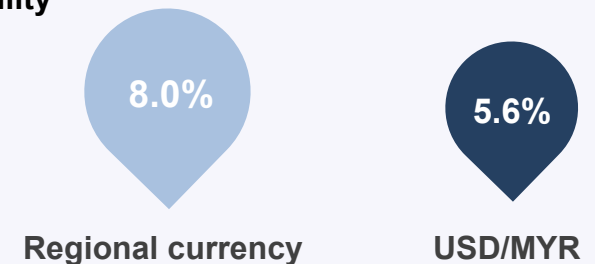
¹ This refers to the day before the plunge in Silicon Valley Bank's (SVB) equity share price
 Data as at 24th March 2023
 Source: Bank Negara Malaysia

Healthy foreign exchange (FX) liquidity with relatively low FX volatility

Average daily FX turnover (USD bil)



YTD 2023 1M Volatility (%)



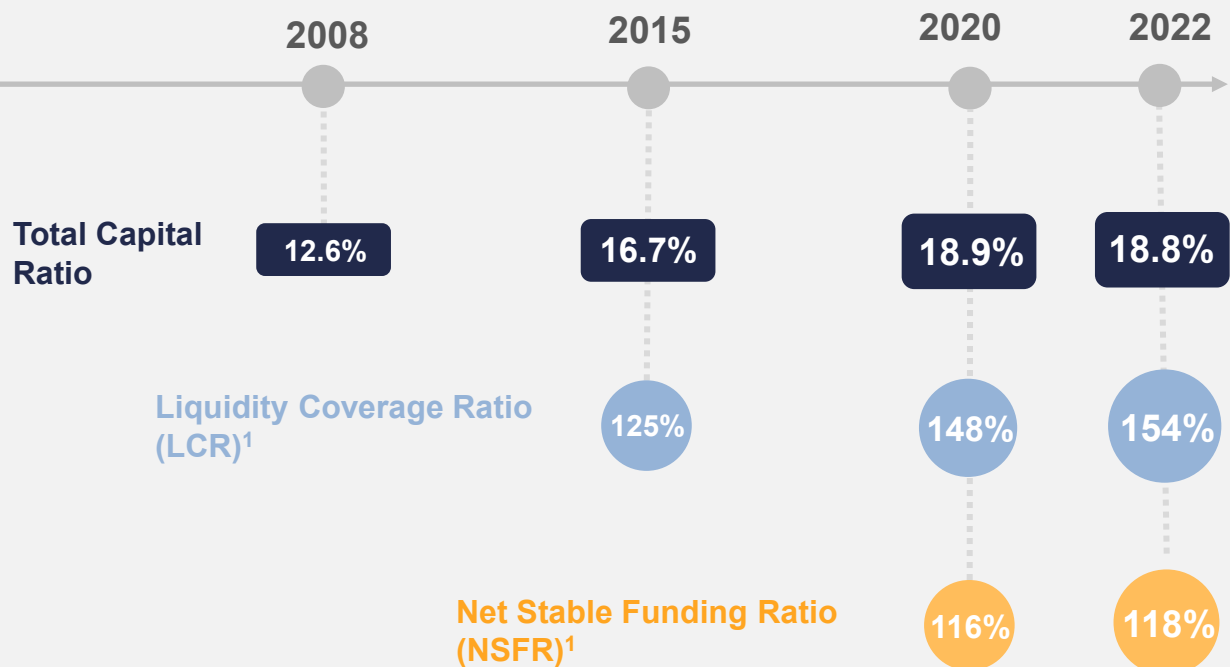
Note: Regional countries include Thailand, Indonesia, Singapore and Philippines
 Source: Bloomberg, Bank Negara Malaysia

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

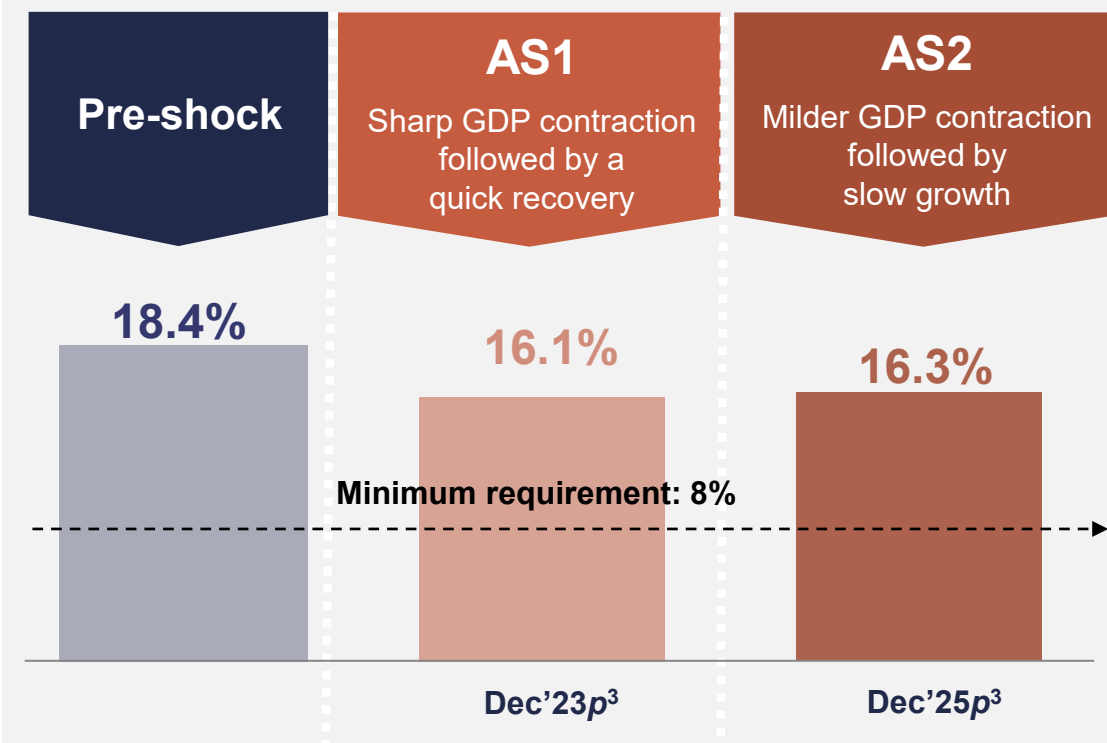
The banking sector maintains healthy levels of capital and liquidity buffers...

...and is resilient to severely adverse scenarios² (AS)

Banking System: Key Indicators



Banking System: Total Capital Ratio under Macro Stress Tests



¹ Earliest available data for LCR and NSFR is 2015 and 2020 respectively.

Source: Bank Negara Malaysia

^p Projected

² The scenarios are more severe than the 2008 Global Financial Crisis as well as the 2020 pandemic. They have been developed specifically for stress testing purposes and do not represent the Bank's actual expectations for economic trajectory. As such, these scenarios are unlikely to materialise.

³ The year with the lowest level of total capital ratio across the 3-year stress test horizon.

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

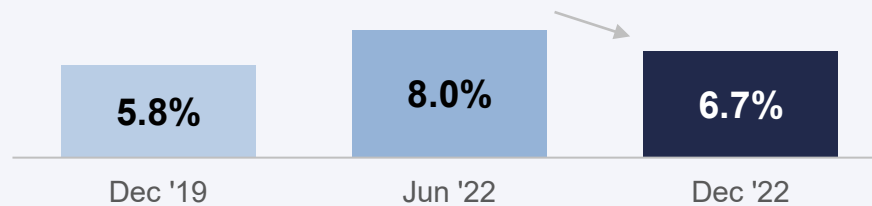
Share of risky loans¹ declined closer to pre-pandemic level amid improving income and economic conditions

Some borrowers continue to face repayment challenges, but support remains available



Households

Share of Risky Loans to Total Household Loans

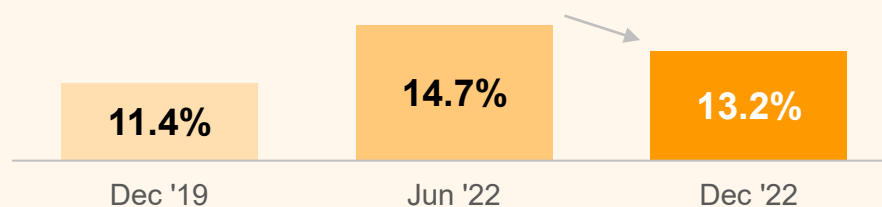


- Households with higher debt service burdens, especially among the lower-income group
- Self-employed or employed in the vulnerable sectors²



Businesses

Share of Risky Loans to Total Business Loans



- Sectors facing higher operating costs
- SMEs with thinner cash buffers

¹ Refer to loans classified as Stage 2 as a percentage of total household or business loans. Stage 2 loans refer to exposures that have exhibited deterioration in credit risk, for which banks are required to set aside provisions based on lifetime expected credit losses under Malaysian Financial Reporting Standard 9.

² Refer to those who are employed in economic sectors that are still recovering from the pandemic.

Source: Bank Negara Malaysia

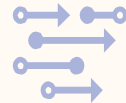


Crucial to seize opportunities to implement key structural reforms in enhancing Malaysia's growth potential and competitiveness

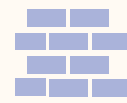
Key policy priorities to strengthen the economy



Enhance competitiveness



Transition to higher income nation



Rebuild buffer against future shocks

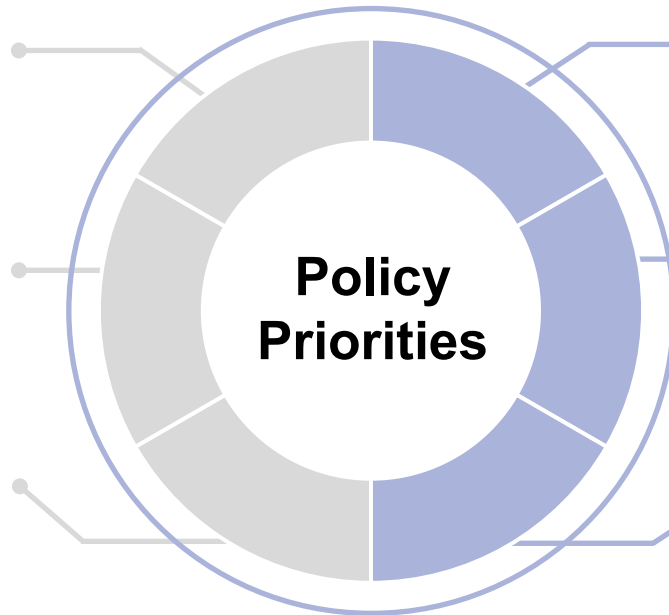


Alleviate cost of living concerns

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



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

Malaysia needs to adjust as global trade and investment megatrends continue to evolve



Reconfiguration of global supply chains



Shrinking and competitive global FDI inflow



Climate transition



Mainstreaming of responsible investments



Accelerated automation and digitalisation

Enhancing the investment ecosystem is critical to attract and retain investors

Strategies under the New Investment Policy include:

Enhance investment targeting and promotion of key strategic sectors

- Cohesive functioning and coordination among all investment promotion agencies

Develop dynamic and agile incentive packages

- Automate tax incentive administration system
- Outcome-based incentive design

Strengthen ESG practices

- Clear standards and strengthened regulation for ESG disclosure

Source: New Investment Policy, MITI and Bank Negara Malaysia



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

Fragilities exacerbated by the pandemic...



Low incomes



Low retirement savings

...to be addressed by multi-pillar social protection framework



Social safety nets



Social insurance



Active Labour Market Policies (ALMPs)

Outcome of a multi-pillar social protection framework



Promote social mobility



Improve standard of living



Maximising efficiency of spending



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

Priority should be accorded to address the most pressing gaps

Gaps in the current retirement savings framework



Sufficiency: Savings adequacy

- Low number of EPF members meeting the Basic Savings threshold



Exclusion: Access to social protection

- Limited access to social protection for workers in the informal sector



Adaptability: Gaps in old-age assistance and labour market frictions

- Insufficiency of old-age assistance
- Lack of job opportunity for the old-age groups to re-enter the job market

Saving Our Tomorrow: Reforms for A Better Future



Ringfencing of retirement funds

- Allow for greater accumulation of savings alongside structural reforms to boost incomes



Unlocking the potential of data

- Universal registration into EPF and SOCSO to identify needs for uncovered segments
- Enable linking of cash assistance with upskilling programmes



Enhancing old-age assistance and labour participation

- Linking old-age assistance to standard of living
- Hiring incentives for old-age workers

Financial scams have become a significant problem globally

Canadians lose more than \$500M to scams in 2022: report

By Greg Bowman

Posted Feb 27, 2023, 10:36AM PST, Last Updated Feb 27, 2023, 10:44AM PST.

Scam victims in S'pore lost \$660.7m in 2022; more than half of them were young adults

FT charity appeal + Add to myFT

China fights a financial fraud explosion

Tens of thousands are falling victim to fraud despite government attempts to combat the scammers

More than 500 million Baht lost through online scams in Thailand

By Pattaya Mail February 21, 2023

4612 0

Scams robbed Australians of more than \$2 billion last year

Listen

4 July 2022

Australians lost a record amount of more than \$2 billion to scams in 2021, despite government, law enforcement, and the private sector disrupting more scam activity than ever before, the ACCC's latest [Targeting Scams report](#) reveals.

USD55.3 billion
estimated losses to
online scams in 2022¹

0.05%
likelihood of detection
and prosecution of
scammers in US²

¹ Global State of Scams Report – 2022, Global Anti-Scam Alliance

² WEF Global Risk Report 2020



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

Countermeasures announced by BNM

1

Migration from SMS One Time Password to more secure forms of authentication

Prevent scammers from reading (and deleting) victim's SMS OTPs via phishing or malware

2

Further tightening of detection rules and triggers

Banks can detect and block evolving scam-related transactions whilst reducing false alarm

3

Cooling-off period for first-time enrolment of online banking services & secure devices

Consumers have some time to take action for fraudulent registration by scammers due to stolen banking credentials and SMS OTP

4

Only one mobile/secure device to authenticate online banking transactions

Prevent scammers from activating online banking from new device without victim's knowledge

5

Dedicated scam hotlines

Victims can promptly contact banks to report scam incident

6

Kill switch

Victims can freeze their banking accounts temporarily to stop further loss of funds

Other measures by the industry

- Conduct **call-back verifications**
- **No clickable hyperlinks** in SMS
- Tip-offs to MCMC to **take down scam websites, advertisements, and social media accounts**
- Appoint **Senior Independent Directors** to oversee handling of fraud and data breach incidents
- Work with **NSRC** for faster tracing and interception of stolen funds
- Continuous **efforts to raise public awareness** of scam tactics, and familiarise users of online banking with the enhanced security features

These enhanced security measures may cause temporary inconvenience, but they are essential to protect consumers





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

DBs and DITOs are expected to deliver greater inclusion, market competition and efficiency

Digital banks (DBs) enhance provision of banking services by...



overcoming geographical barriers.



utilising innovative technology



prioritising user experience

The five DBs are on track to begin operations by Q2 2024

Digital insurers and takaful operators (DITOs) are expected to promote



Inclusion



Competition

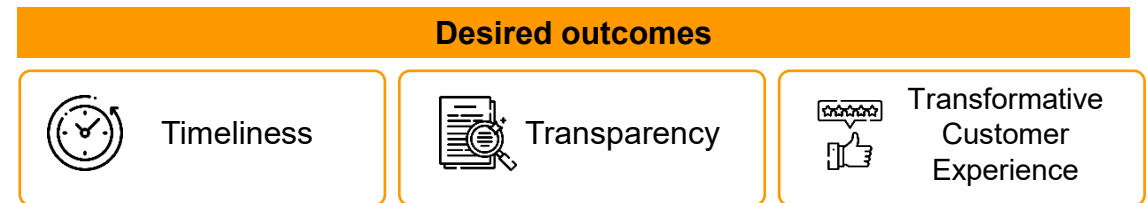
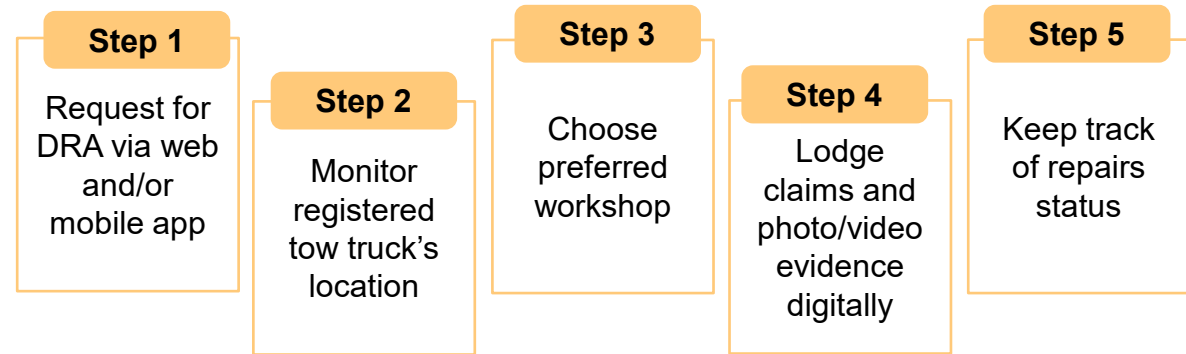


Efficiency

Up to five licenses may be offered once DITO policy document issued in 2023

End-to-end digital motor claims journey will transform the consumer experience¹

General ITOs have committed to implement the first phase (i.e. roll-out of digital roadside assistance solutions, DRA) by end-2023



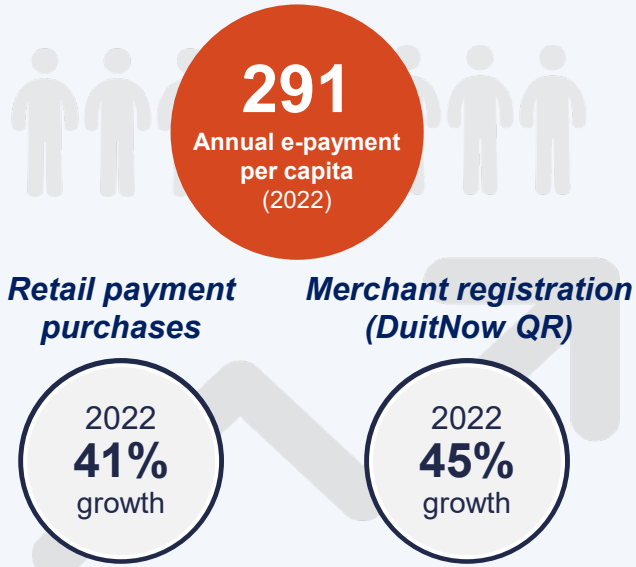
¹ AR 2022 Article “Empowering Communities with Digital Financial Services”

² AR 2022 Article “Cross-Border Payment Linkages – Project Nexus and the Push for a Multilateral Approach”



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

Sustained growth in e-payment adoption domestically



...supported by continued efforts to promote safe use of e-payments¹



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Efforts to enhance cross border payments are gathering pace, with immediate focus in ASEAN

Bilateral payment linkage:



QR linkage with Singapore is **live on 31 March 2023**; builds on existing Thailand and Indonesia linkages

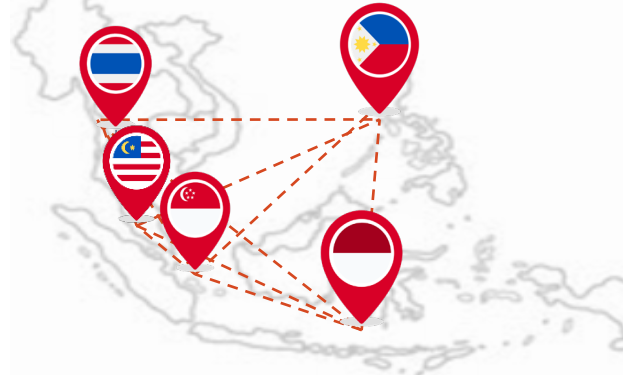
Multilateral payment linkage:



BIS Project Nexus² affirms that instant cross-border P2P transfer using just a mobile number can be scaled up to a multilateral level



ASEAN-5 envisages real-world application of Nexus solution by 2025



In collaboration with:





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

The Bank continues to improve consumers' digital financial literacy focusing on 3 key messages leveraging on various engagement platforms¹

1 Motivation to use DFS	<ol style="list-style-type: none">1) Secure - DFS is subject to evolving security measures to protect personal information and data2) Simple - Easy monitoring of personal finances3) Swift - 24/7 access to financial services
2 Be Smart Online Financial Consumers	<ol style="list-style-type: none">1) Online tools and resources to manage personal finances conveniently and safely2) Online investments to build wealth progressively3) Constantly build knowledge to protect against scams
3 Tips to be SAFE online	<ol style="list-style-type: none">1) Safeguard personal information and banking details2) Practise good cyber-hygiene to be safe online3) Take immediate actions if being scammed to reduce financial losses



¹ Financial education talks, roadshows, competitions, social media








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


A suite of mitigation measures can be considered to encourage an orderly transition


Regional economies are moving ahead to implement climate policies

- 






Regulation
Legislate **Climate Change Act**
Develop **sectoral pathways (LT-LEDS)**
- 

Price Reforms
Rationalise **fossil fuel subsidies** and redirection to renewable energy
- 

Leadership and Governance
Prioritise **low carbon procurement**
- 

Investment
Scale up **R&D** and commercialisation of **green technologies**
- 

Awareness and Capacity Building
Promote **public awareness** on carbon capture, palm-based feedstock and bio-based solutions

		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>	●	●	●

Source: Various news flows, Grantham Research Institute on Climate Change and Environment



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

Carbon accounting as a critical enabler for transition



Clear, consistent and credible carbon accounting framework as critical enabler

- Measurement of credible GHG emissions targets
- Baseline to develop and scale market mechanisms e.g. compliance carbon markets



Growing demand for climate-related disclosures

- Facilitate access to funds and capital
- Address green washing

Biodiversity loss has significant implications on the economy and financial stability

Malaysia ranked 12th on National Biodiversity Index



Nature- and climate-related risks are closely connected

- Nature loss reduces resilience to climate change
- Climate change is a driver of nature loss



Banking sector is indirectly dependent on ecosystem services

- 54% of commercial lending exposed to physical risk
- 87% of commercial lending channeled to sectors that ‘highly’ or ‘very highly impact’ natural assets and ecosystem services

Current climate-related risk strategies can be building blocks for FIs to respond to nature-related financial risks



¹ FSR 2022 Article “Transmission Vulnerabilities in the Commodity Market to the Islamic Banking System through Tawarruq Transactions”

² AR 2022 Article “MIFC Leadership Council: Galvanising Greater Industry Stewardship” & “Fostering International Connectivity among Central Shariah Boards in Islamic Finance”

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



Modernising Shariah contracts application to spur innovation in addressing contemporary economic and social needs¹



Mainstreaming value-based finance and improving impact measures to achieve greater ecosystem alignment in VBI implementation



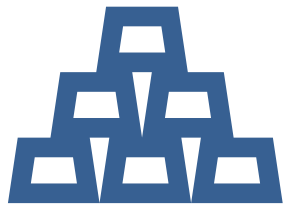
Strengthening ecosystem enablers to advance digitalisation of Islamic financial sector and deepen Islamic financial market and liquidity



Positioning Malaysia as an international gateway for Islamic finance with stronger industry stewardship to foster greater market dynamism²

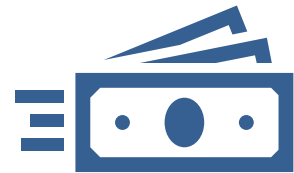


Bank Negara Malaysia: Financial position remained stable in 2022



**Total
Assets**

RM619.04 bn



**International
Reserves**

RM503.33 bn
USD114.6 bn



**Net
Profit**

RM6.99 bn



**Dividend
paid to the
Government**

RM2.75 bn

Summary



The Malaysian economy is projected to expand between 4% and 5% in 2023, anchored by firm domestic demand



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

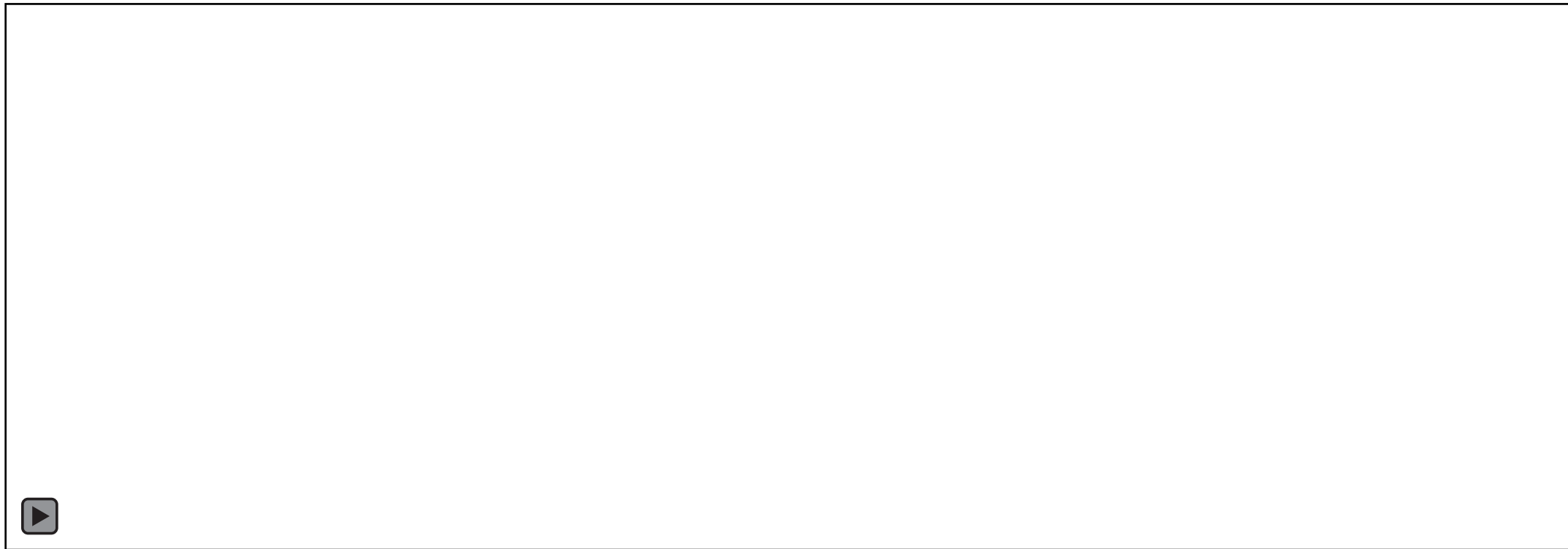
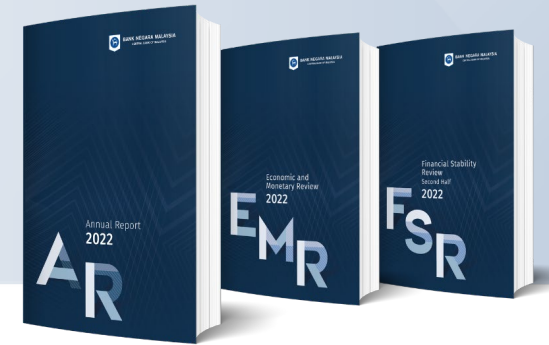


Capital and liquidity positions of banks remain sound to absorb potential shocks and support intermediation



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

18 box articles across our three publications on various themes and topical issues



more

Learn more at bnm.gov.my/AR2022



Questions & Answers



Additional Information

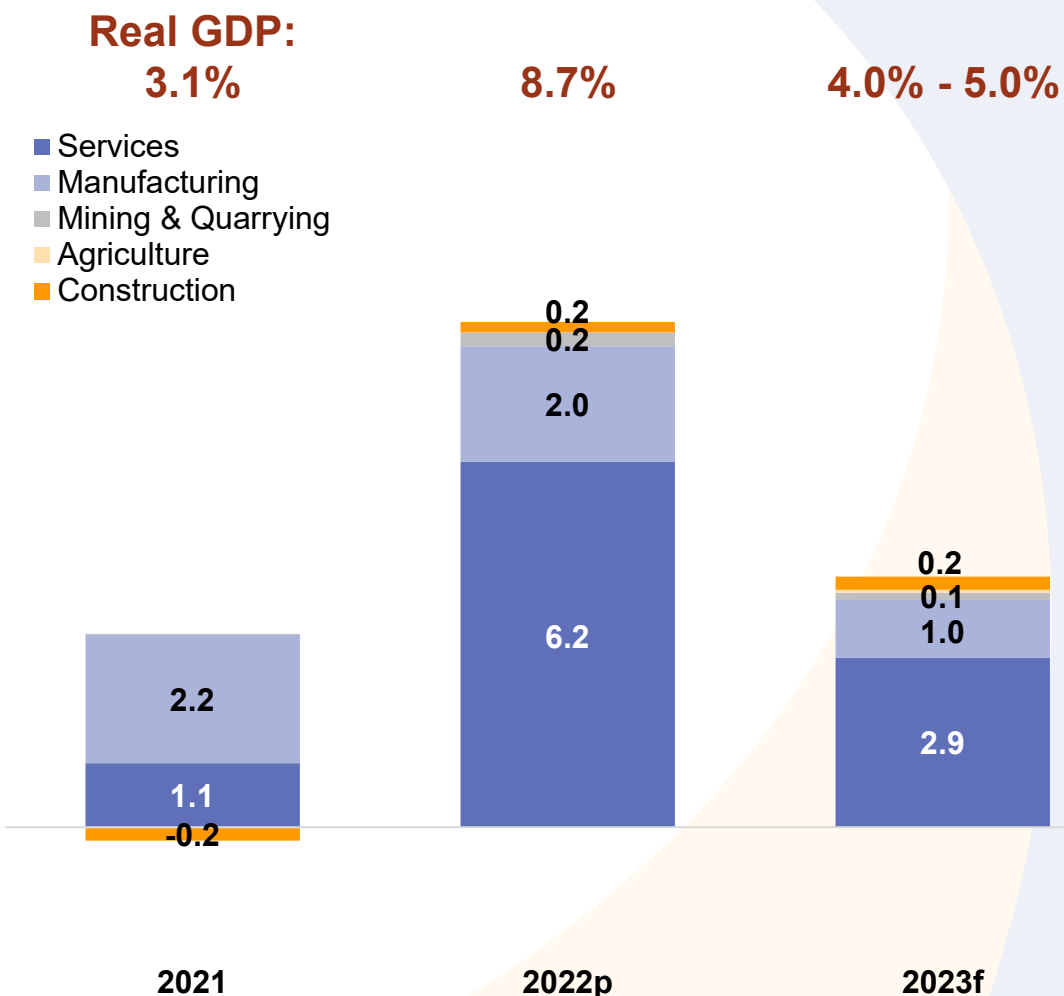


Higher growth across most economic sectors

GDP Growth by Economic Activity (Annual Change, %)	% Share (2022p)	2021	2022p	2023f
Real GDP	100	3.1	8.7	4.0 – 5.0
Services	58.2	1.9	10.9	5.0
Manufacturing	24.2	9.5	8.1	4.0
Mining & Quarrying	6.4	0.3	3.4	2.0
Agriculture	6.6	-0.2	0.1	0.7
Construction	3.5	-5.2	5.0	6.3

Malaysia GDP Growth by Economic Activity

Annual Change (%), Ppt. Contribution



Note: p Preliminary, f Forecast

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



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Improvement across most demand components

GDP Growth by Expenditure Components (Annual Change, %)	% Share (2022p)	2021	2022p	2023f
Real GDP	100	3.1	8.7	4.0 – 5.0
Domestic Demand¹	93.1	1.7	9.2	5.4
Private Consumption	60.2	1.9	11.3	6.1
Private Investment	15.4	2.6	7.2	5.8
Public Consumption	13.2	5.3	3.9	1.3
Public Investment	4.4	-11.3	5.3	7.0
Net Exports of Goods and Services	5.4	-4.1	-1.8	9.7
Exports	71.7	15.4	12.8	2.7
Imports	66.3	17.7	14.2	2.1

Note: p Preliminary, f Forecast, ¹ Excluding stocks

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



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Malaysia GDP Growth by Expenditure Components

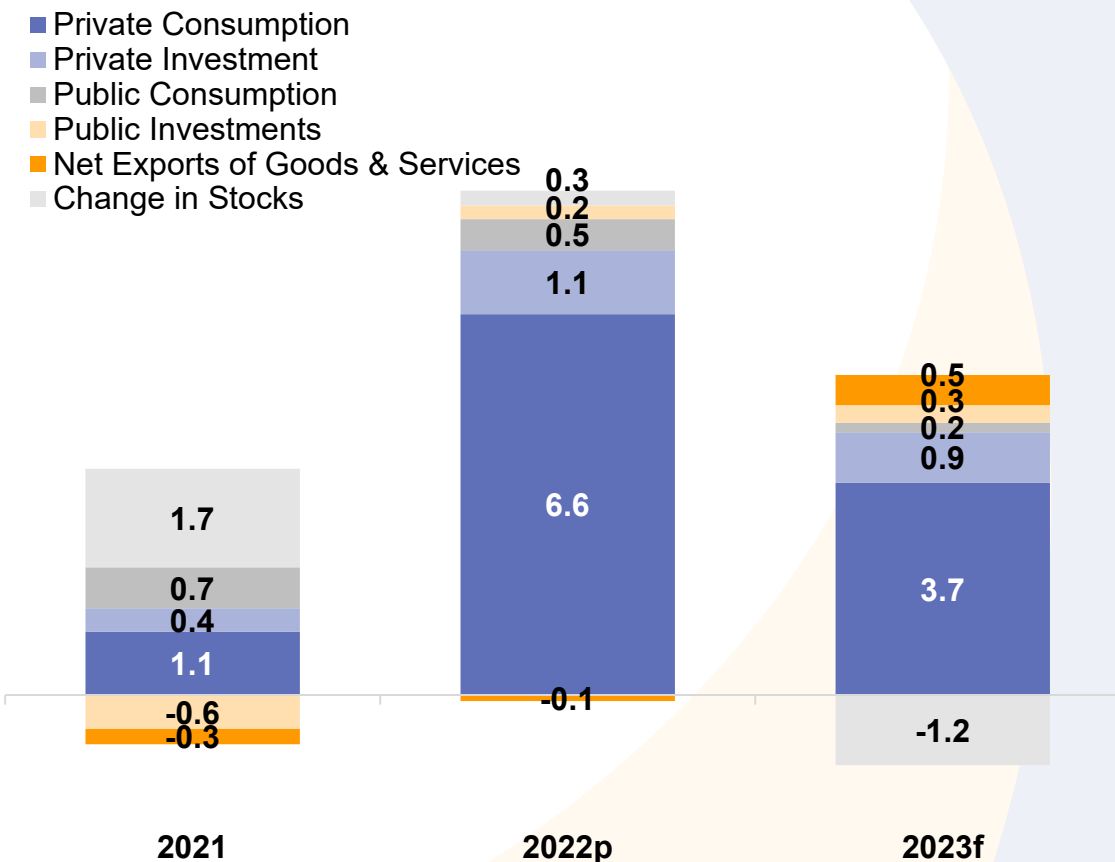
Annual Change (%), Ppt. Contribution

Real GDP:

3.1%

8.7%

4.0% - 5.0%

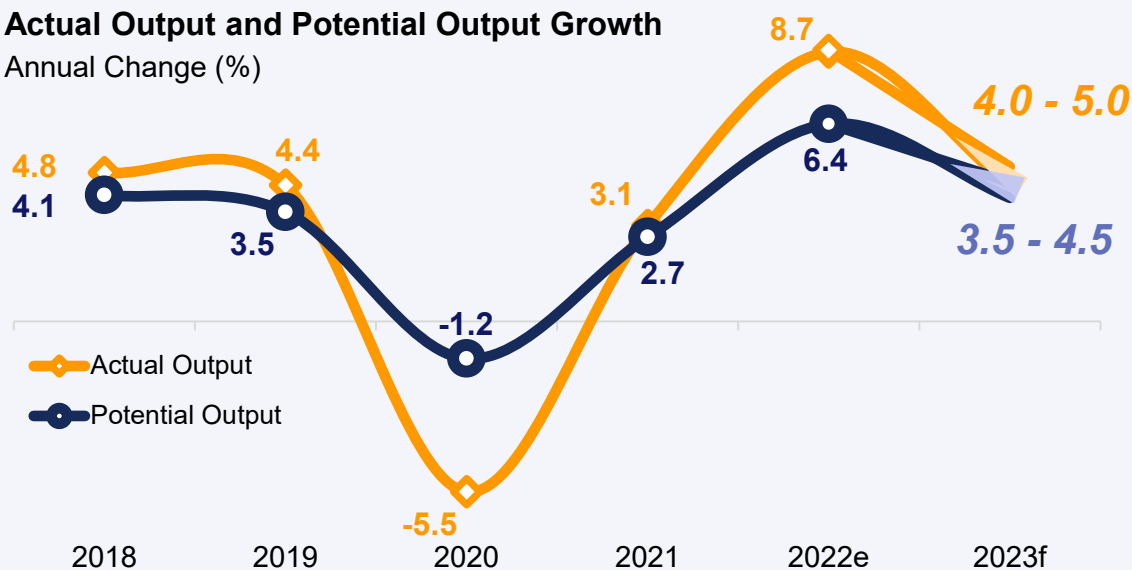


Negative output gap is expected to turn positive in second half of 2023, with actual output averaging close to the potential output for the year

Continued growth in potential output, supported by expansion in factors of production

Actual Output and Potential Output Growth

Annual Change (%)



Factors of Production



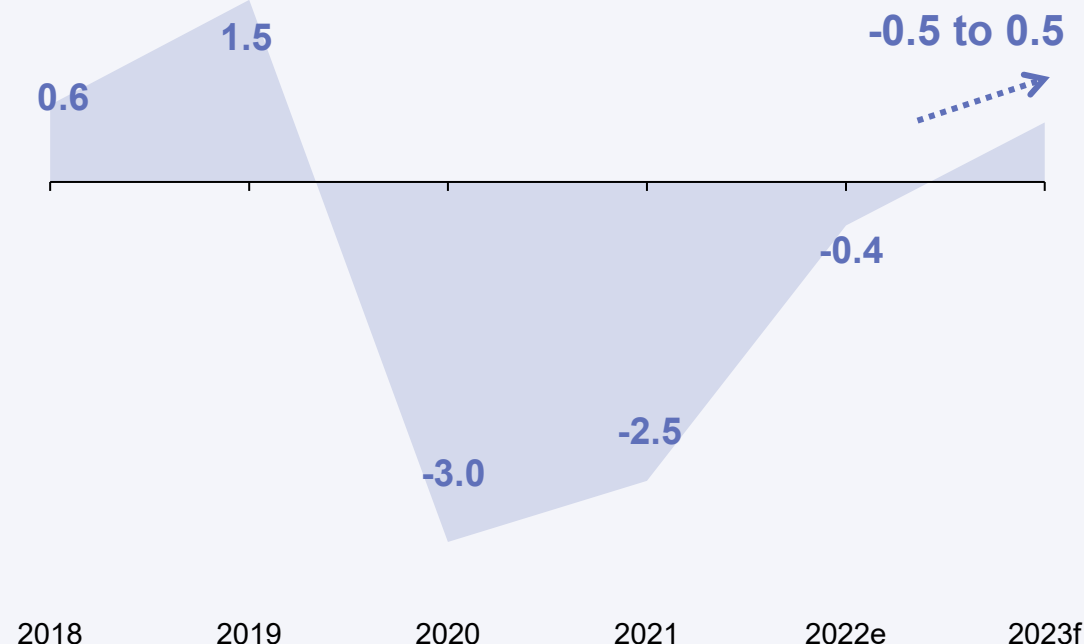
Note: e Estimate, f Forecast

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

Closing of output gap is driven by higher actual output growth outpacing potential output growth

Output Gap

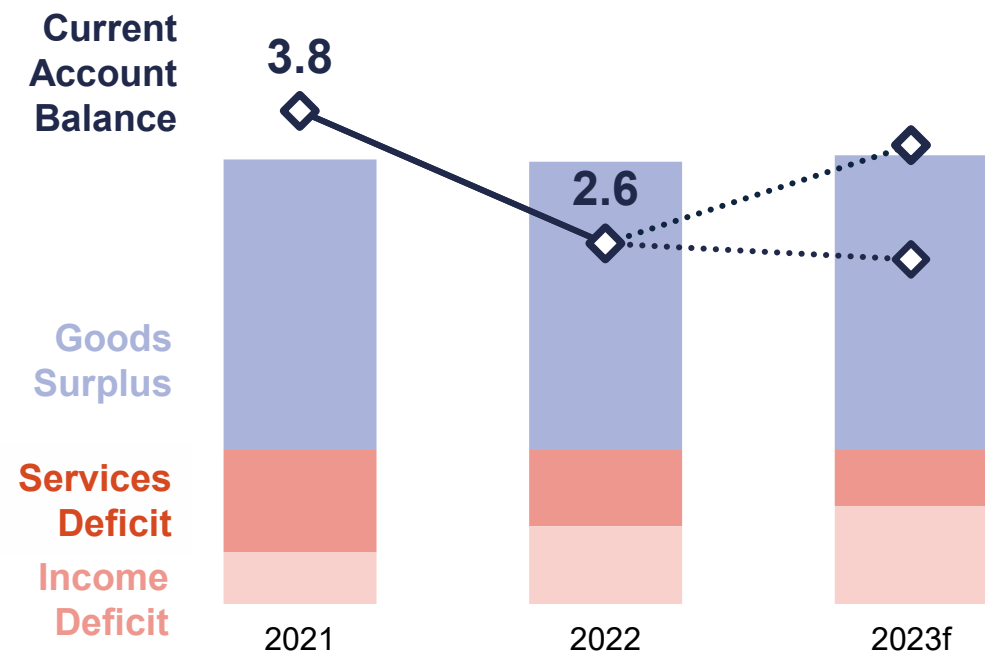
% Share of Potential Output



Current account to remain in surplus within 2.5% - 3.5% in 2023

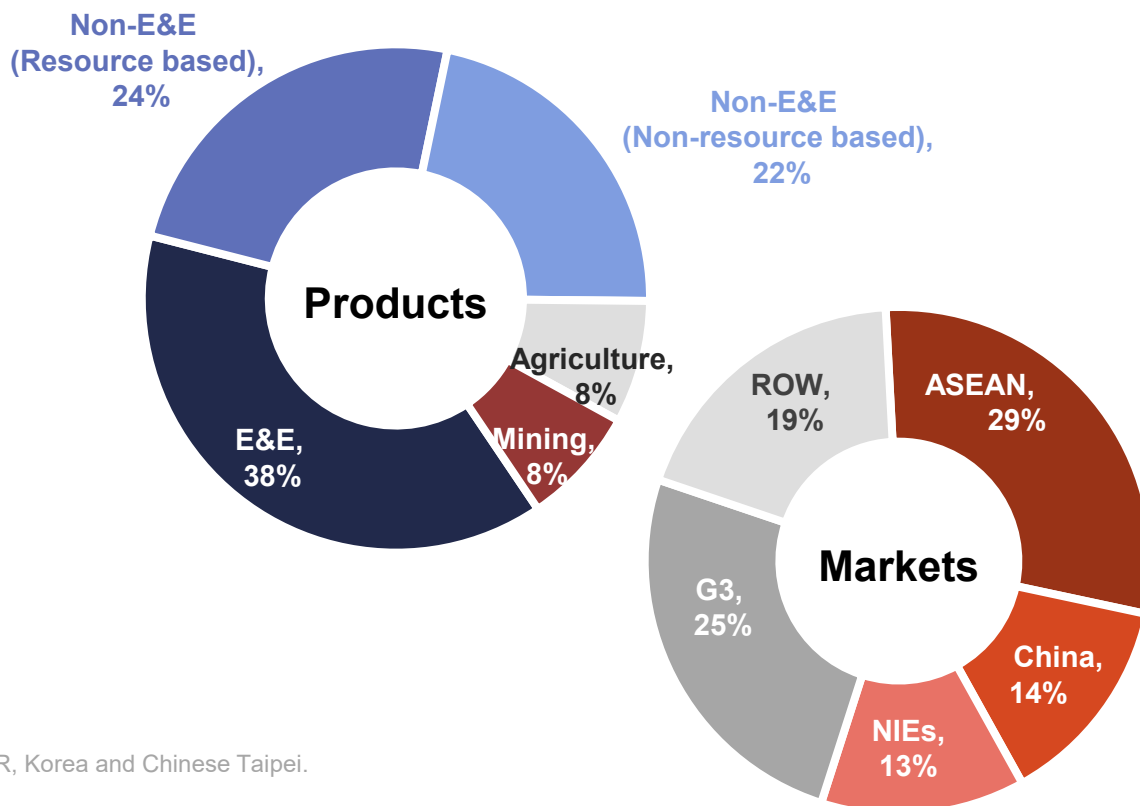
Current account surplus driven by continued goods surplus and lower services deficit

Current Account Balance
% of GDP



Diversified export products and markets to cushion potential external shocks

Exports by Products and Markets (2022)
% Share of Total Exports



Note: G3 includes the US, the euro area and Japan. Newly Industrialised Economies (NIEs) refers to Hong Kong SAR, Korea and Chinese Taipei.

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



Adequate buffers to weather external shocks

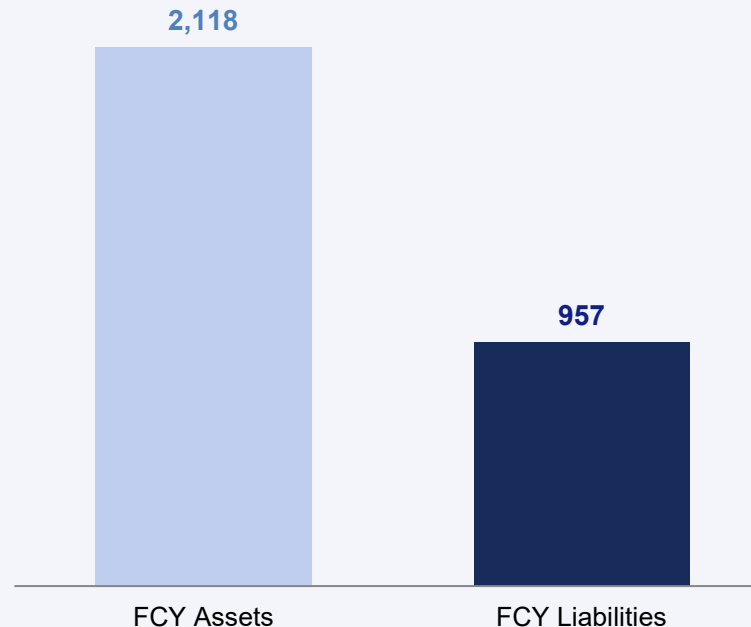
Malaysia remained in a net creditor position

Net International Investment Position
Share of GDP (%)



Large FCY assets to compensate for potential claims on liabilities

FCY-Denominated External Assets & Liabilities (End-2022)
RM billion



Further support from foreign income and international reserves



Sustained foreign income
Continued current account surplus reduces external financing requirements



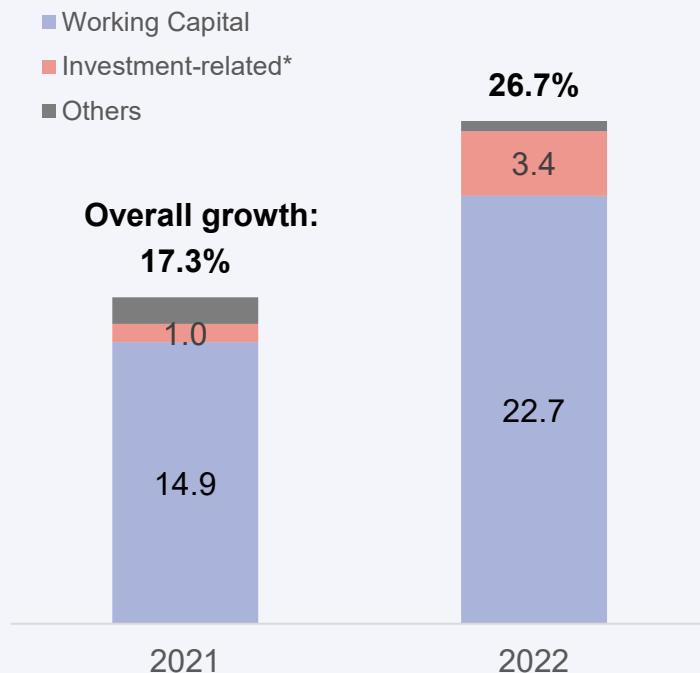
Sufficient international reserves to facilitate international transactions
... to finance 5.0 months of imports of goods & services and is 1.0 time total short-term external debt as at 15 March 2023

Banks to continue supporting SMEs' business needs and expansion

Forthcoming disbursements for working capital and investments

SME Financing Disbursements

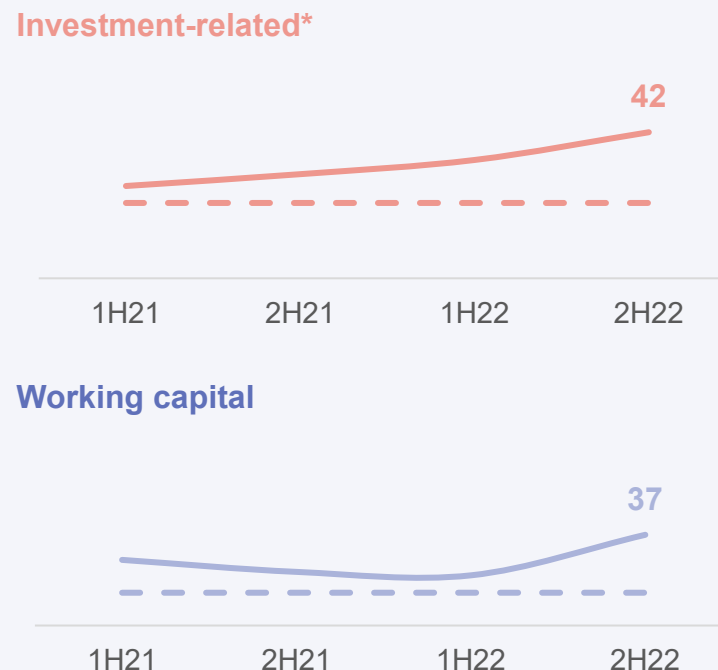
Annual growth (%) / Contribution to growth (ppt)



... and robust approvals driven by investment purposes

SME Financing Approvals

RM bn --- 2018-19 half-yearly average



BNM's Fund for SMEs to continue supplementing financing for SME growth

RM9.7 bn remains available as at 14 March 2023

Enhancements to BNM's Fund for SMEs in Budget 2023

- RM2.5 bn** (+RM500 mil) **Agrofood Facility**
Increase agrofood production for local and export purposes
- RM1.5 bn** (+RM500 mil) **Automation & Digitalisation Facility**
Encourage SMEs to automate processes and digitalise operations
- RM1.1 bn** (+RM300 mil) **High Tech & Green Facility**
Support SMEs and innovative start-ups to invest in strategic sectors and technology fields

*Includes loans for the purchase of non-residential property, residential property for business use, vehicles, machinery & equipment and other fixed assets, and construction activity.

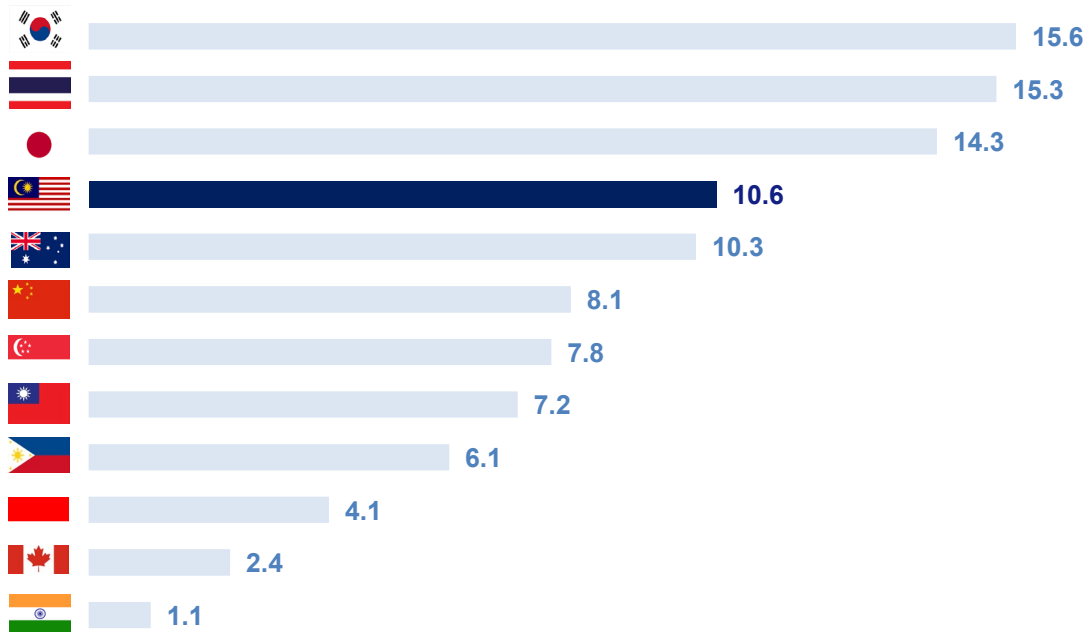
Note: Data refers to loan/financing from the banking system and development financial institutions (DFIs), which is based on updated statistical reporting requirements and may not be directly comparable to the data reported in previous Annual Report publications.

Source: Bank Negara Malaysia

Ringgit strengthened from Nov'22 to Jan'23 following downward FFR repricing but weakened since then, in line with other currencies

November 2022 – January 2023

FX Movements vs USD (%)



Expectations of slower rate hike in US alongside rate cuts in 2023



China's reopening provided optimism to the global economy

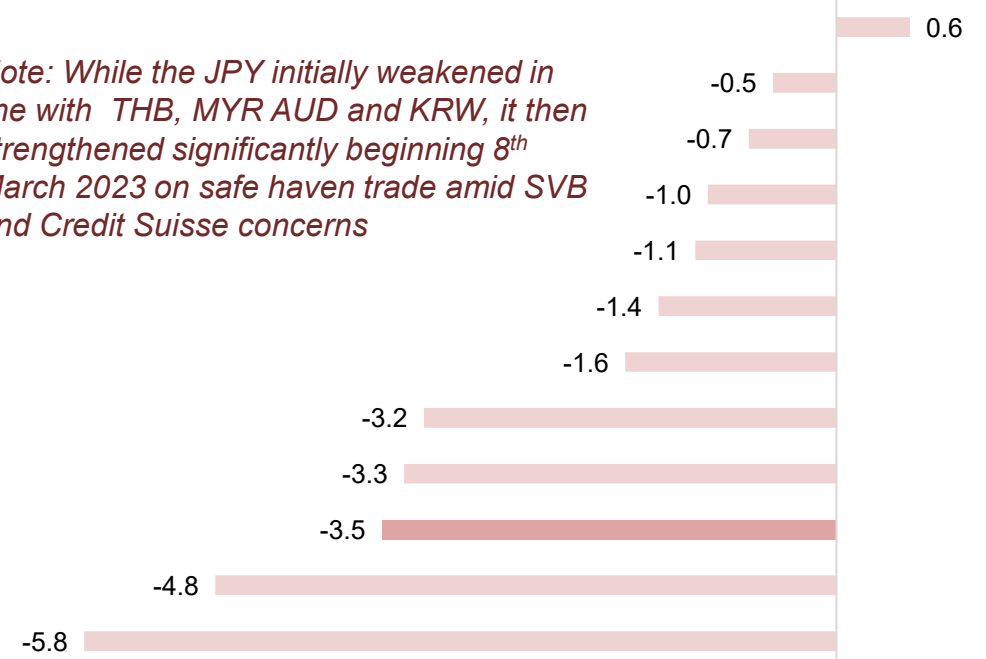


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February 2023 – Current



Note: While the JPY initially weakened in line with THB, MYR AUD and KRW, it then strengthened significantly beginning 8th March 2023 on safe haven trade amid SVB and Credit Suisse concerns



Repricing of higher Fed Funds terminal rate following strong US economic data, although recent global banking concerns have somewhat dampened rate hike expectations

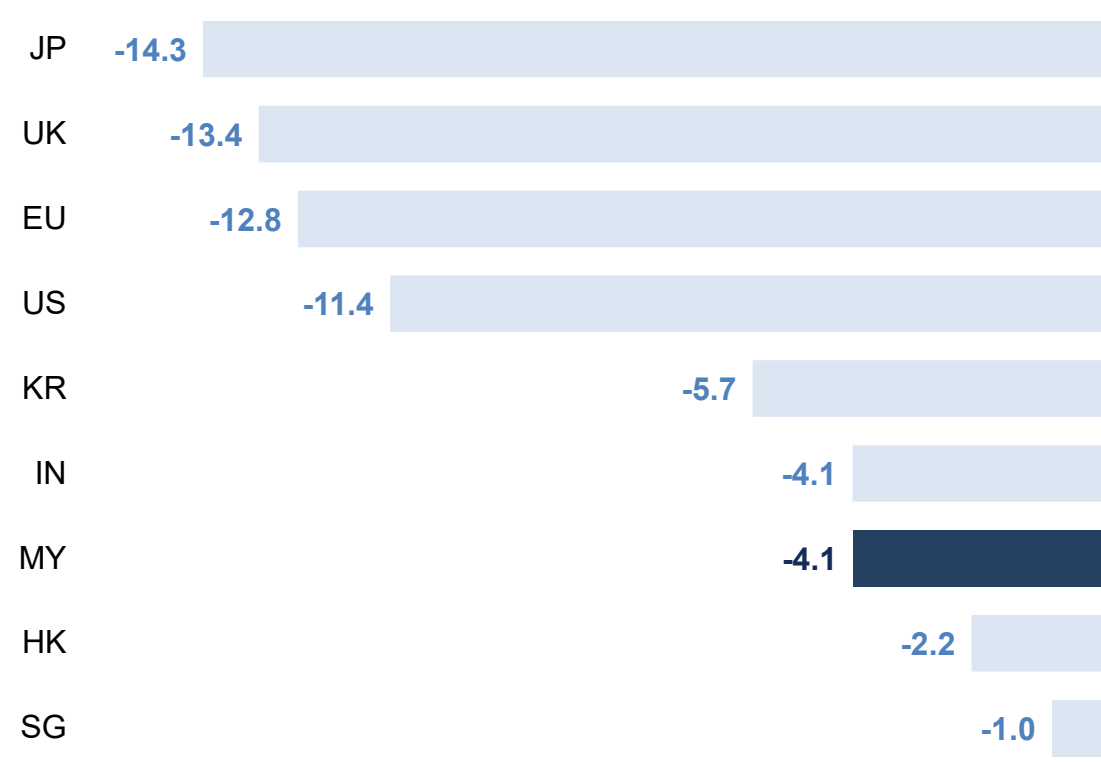


Softening of commodity prices amidst recessionary concerns

While banking shares globally have come under pressure since banking stress in AEs, Malaysian banks have not been impacted as much

Financial sector index returns since 8 March 2023

(%)



¹ Additional Tier 1 (AT1) bonds are a form of subordinated capital instruments that qualify for regulatory capital

Source: Bloomberg as at 24th March 2023



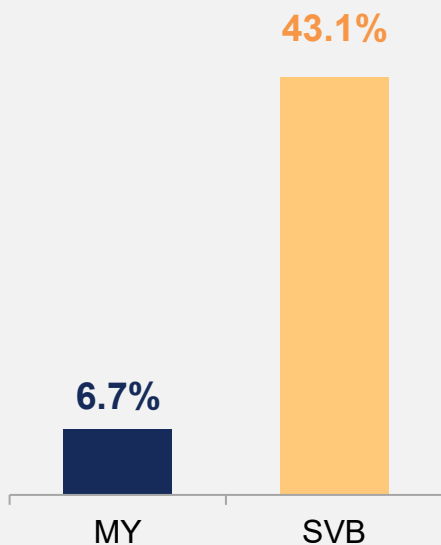
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- 1 KLCI Financials Index fell by only -4.1%, compared to the steeper declines especially among major advanced economies (AEs)
- 2 Malaysian banks' depositor base is more diversified than the troubled US banks. Additionally, bonds comprised only around 10% of Malaysian banking assets
- 3 Besides that, Malaysian banks have limited exposure to the troubled US and Swiss banks
- 4 Malaysian banks' senior unsecured and AT1¹ bond prices have also been stable, reflecting the absence of any confidence issues among investors

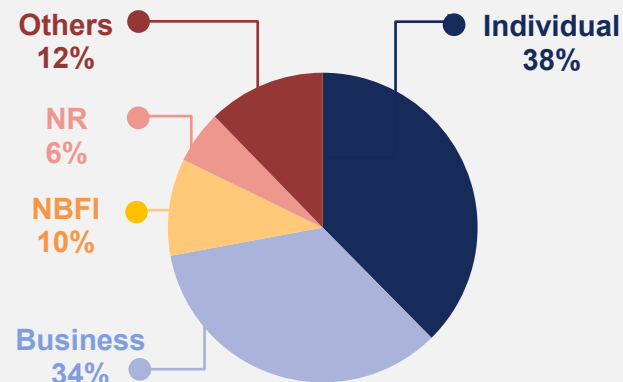
Limited impact from banking sector stress in US and Europe on Malaysian banks

Malaysian banks have a smaller proportion of AC bonds and diversified depositor base

Bonds Held as Amortised Cost
% of Total Assets

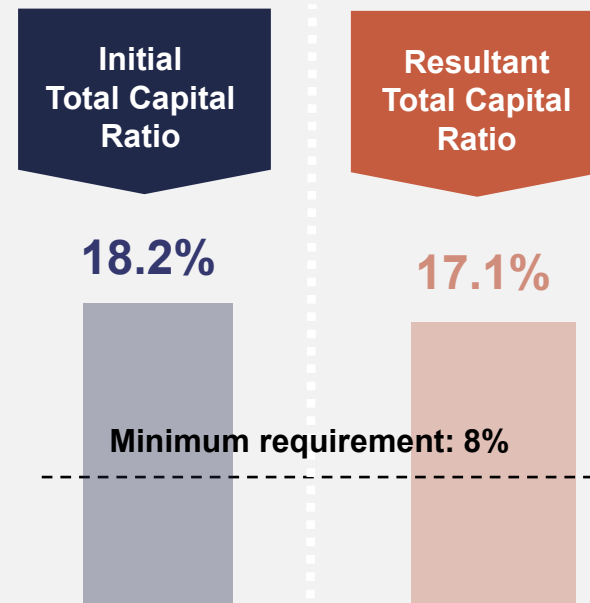


Deposit Composition of Malaysian Banks¹
% of Total Deposits



Banks' capital and liquidity levels remain resilient even if MTM losses from AC bonds were to be deducted²

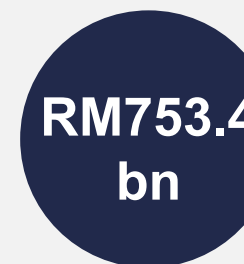
The Mark-to-Market Impact on Banks' Total Capital Ratio from Banks' Bonds Held as Amortised Cost



Liquidity Coverage Ratio¹
%



High-Quality Liquid Assets¹
RM billion



MY: Malaysia; SVB: Silicon Valley Bank; NR: Non-resident; NBFI: Non-bank financial institution.

¹ Data as at December 2022.

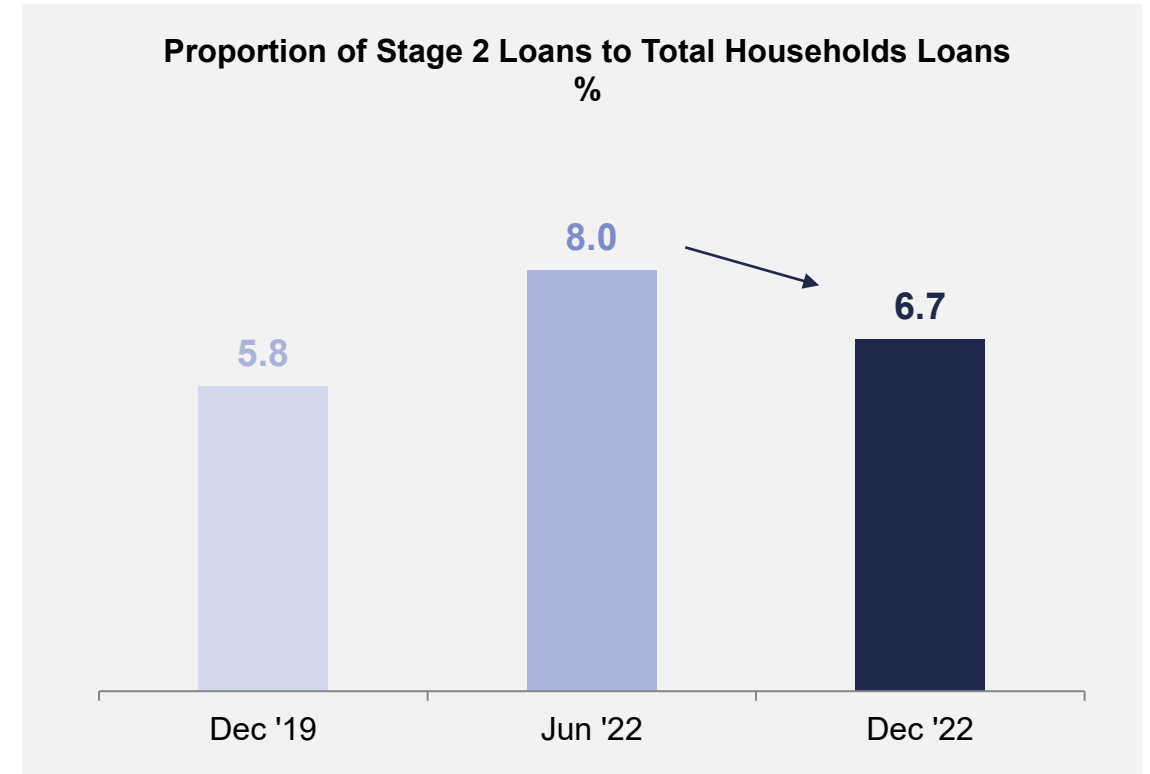
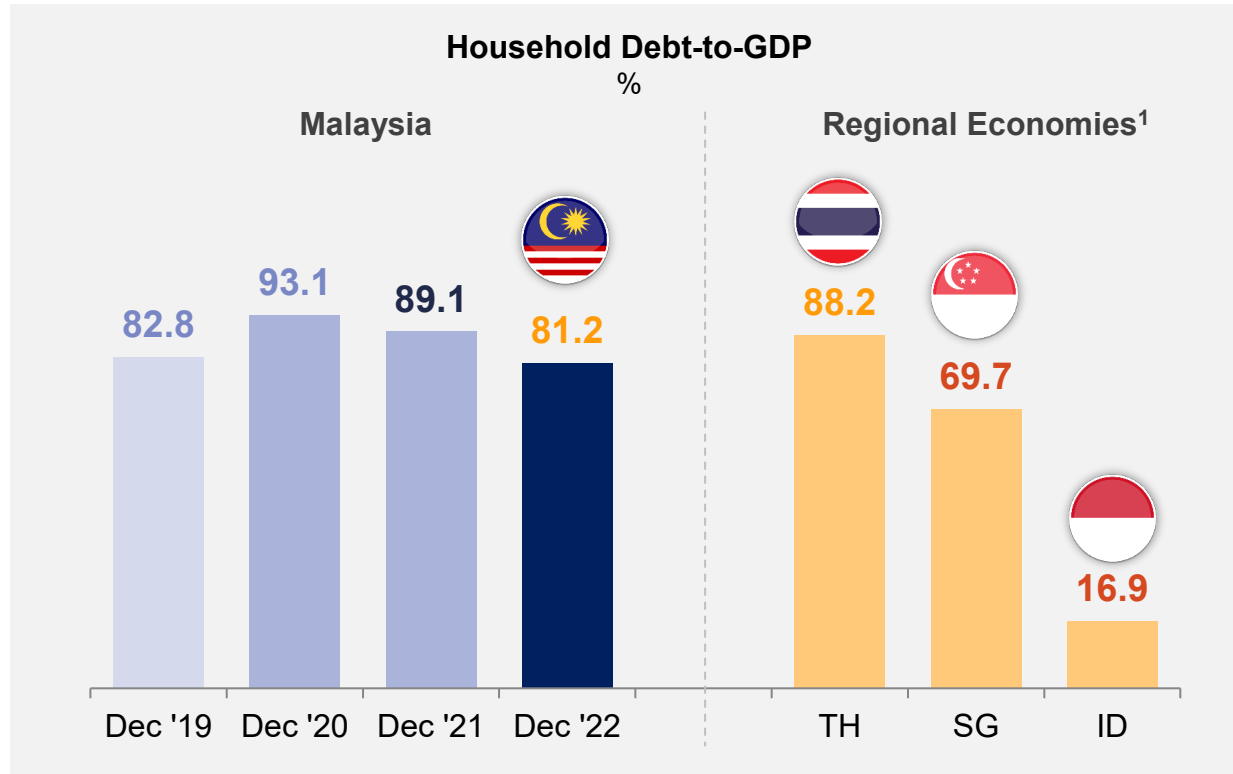
Source: Bank Negara Malaysia, Bank Negara Malaysia estimates

² The sensitivity analysis conducted has incorporated the impact of mark-to-market losses if the bonds in banks' AC portfolio are revalued to reflect a 200bps rate shock and the resultant losses are deducted from banks' capital (although Basel III capital rules do not require this).

Household indebtedness remains elevated, but loan repayment capacity has improved amid better economic conditions

Household debt-to-GDP reached pre-pandemic level, but remained elevated compared to its peers

Nevertheless, loan repayment has improved amid better income and employment conditions



TH = Thailand; SG = Singapore; ID = Indonesia

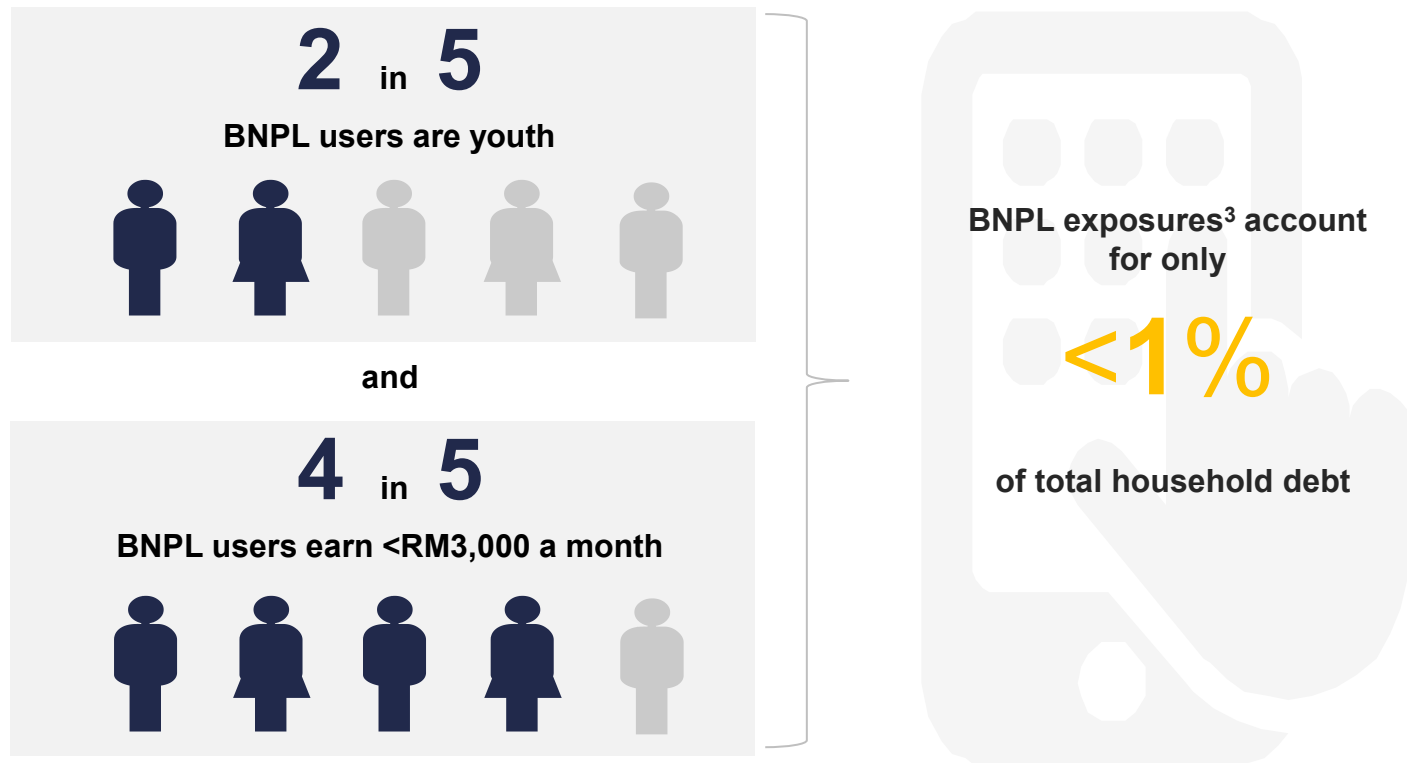
¹ Data as at: Thailand (Jun-22p), Singapore (Sep-21), Indonesia (Mar-22). Household debt-to-GDP ratio for Indonesia covers household debt from the banking system only, while for Thailand and Singapore, it covers household debt from banks and non-banks.

Source: Bank Negara Malaysia, Bank of Thailand, Monetary Authority of Singapore, Bank of International Settlements.





Financial stability risk from the buy-now-pay-later (BNPL) schemes remained limited, but conduct risk is a concern

The bulk of BNPL users are from the youth and lower-income segments but risks remained limited given small exposures

Nonetheless, potential conduct risks remain



Therefore, the Bank requires financial institutions⁴ and approved e-money issuers to...

-  adhere to the existing responsible lending standards
-  conduct more holistic suitability and affordability assessment on new customers
-  improve disclosures of all applicable fees and charges to BNPL users
-  demonstrate reasonable late payment charges

¹ Based on data of four largest non-bank BNPL players that accounted for 96% of transaction value in 4Q 2022.

² Only selected BNPL players provide income information.

³ As at 4Q 2022, the average total amount spent by an active BNPL account holder is RM545.20.

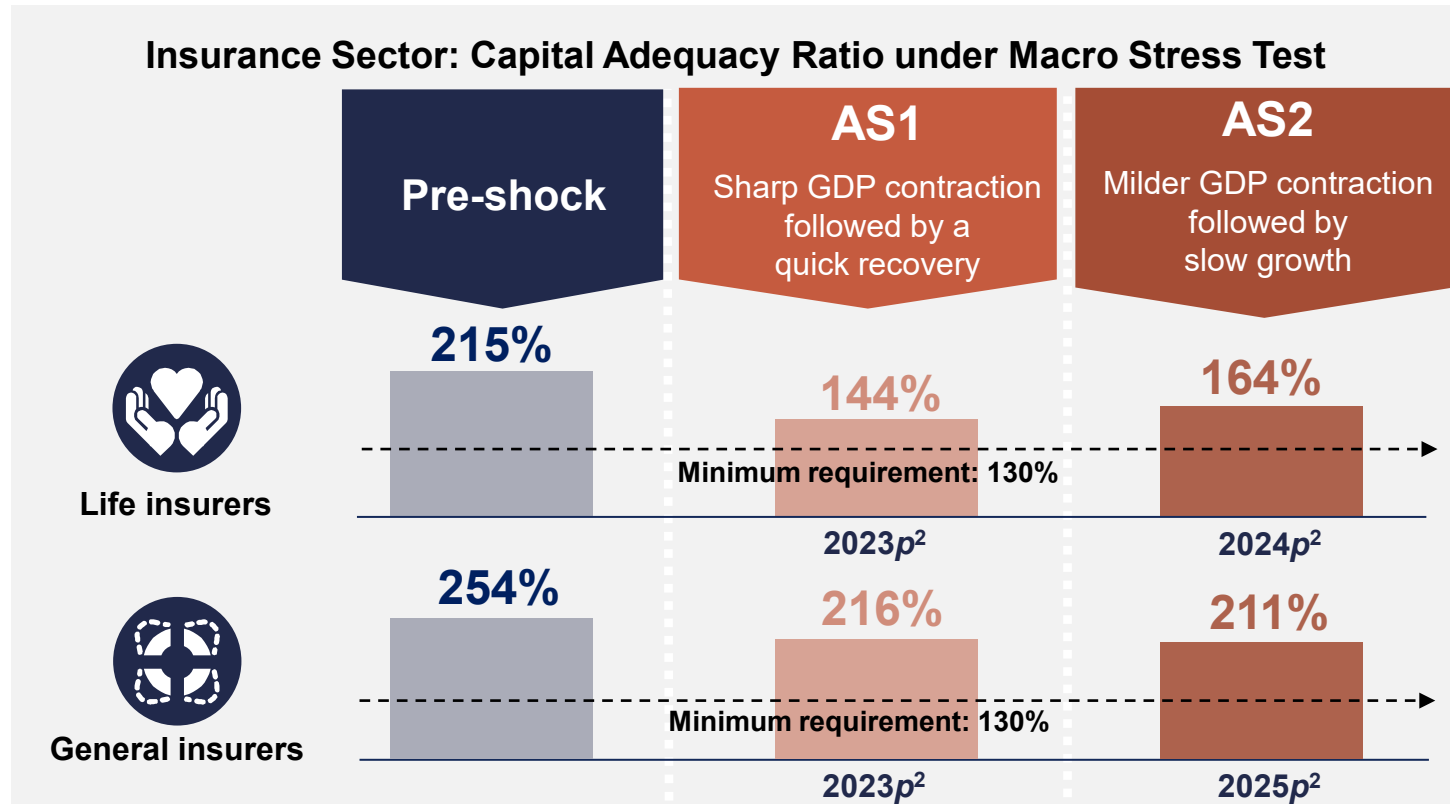
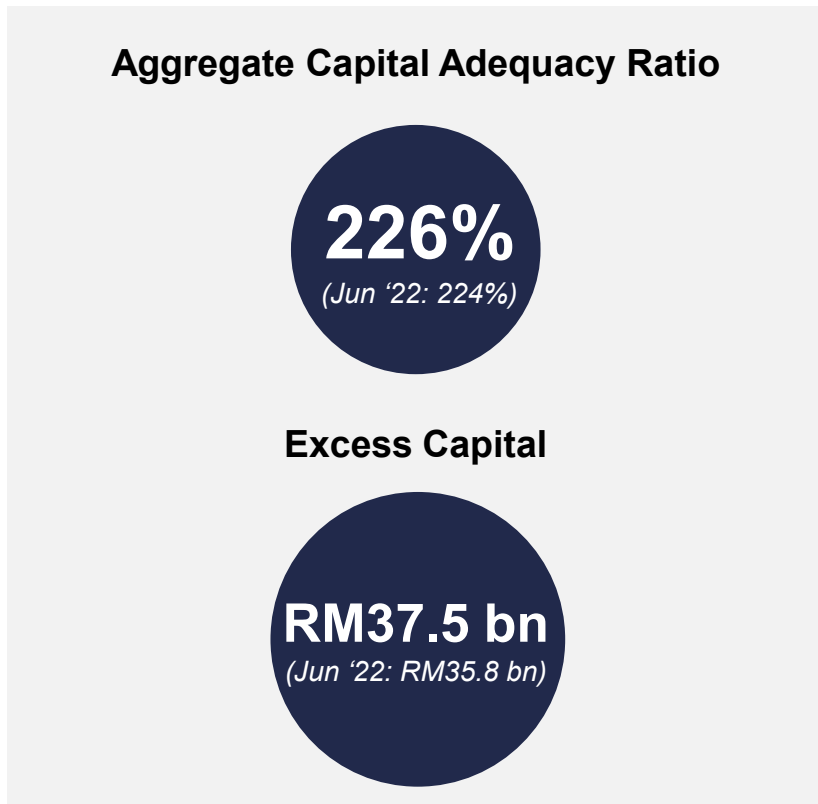
⁴ Refer to banks and prescribed development financial institutions (DFIs).

Source: Bank Negara Malaysia

Insurers and Takaful Operators (ITOs) remained strong

ITOs maintained buffers that are well above regulatory minima...

... and continue to remain resilient even under severely adverse scenarios¹ (AS)



^p Projected

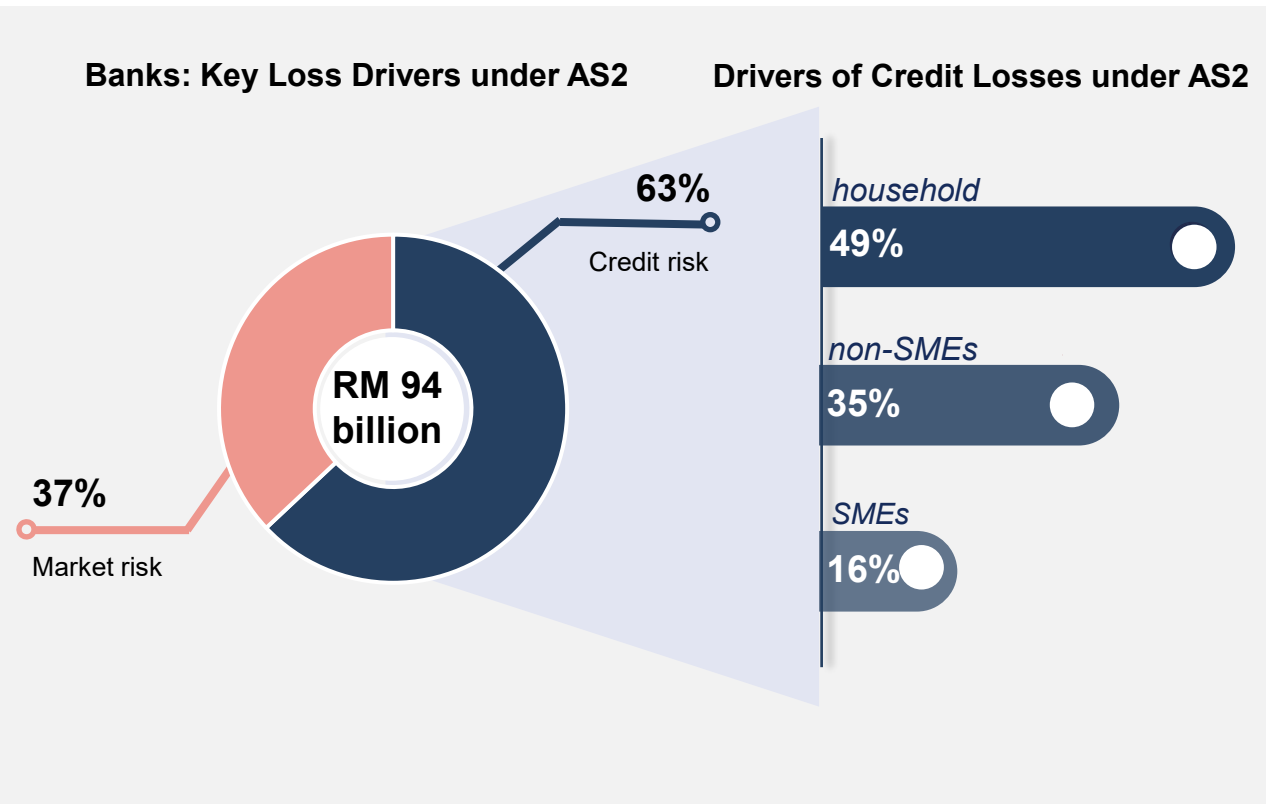
¹ The scenarios are more severe than the 2008 Global Financial Crisis as well as the 2020 pandemic. They have been developed specifically for stress testing purposes and do not represent the Bank's actual expectations for economic trajectory. As such, these scenarios are unlikely to materialise.

² The year with the lowest level of capital adequacy ratio across the 3-year stress test horizon.

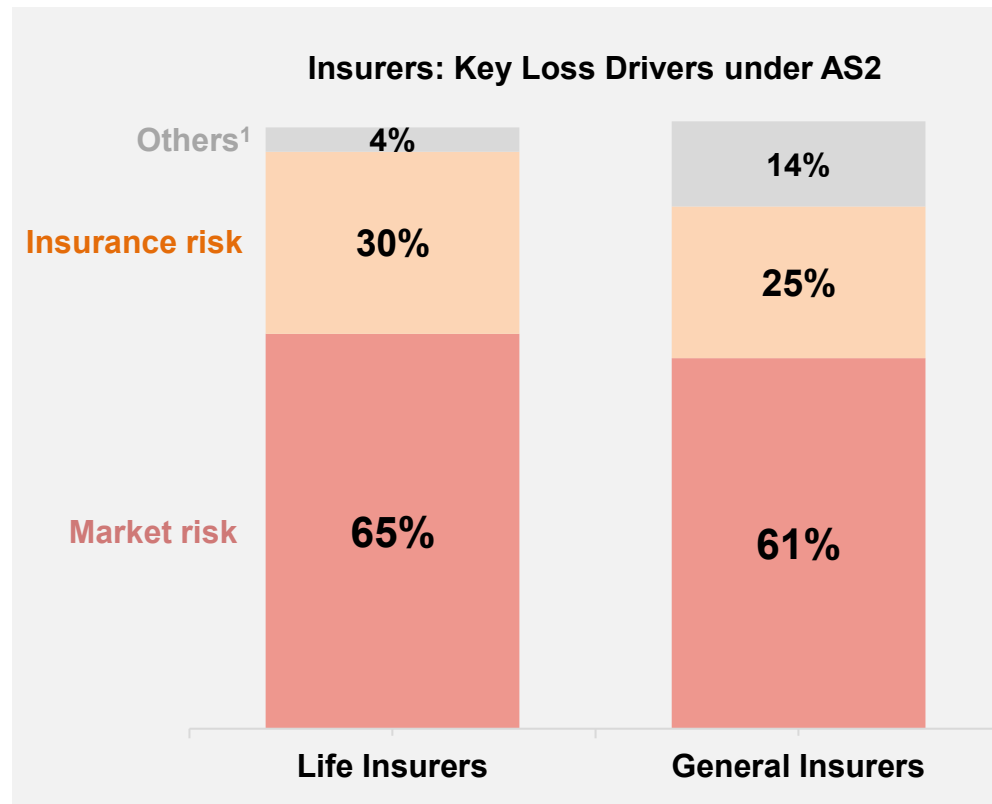
Source: Bank Negara Malaysia

Under adverse scenario, losses in the banking system and insurance sector are 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

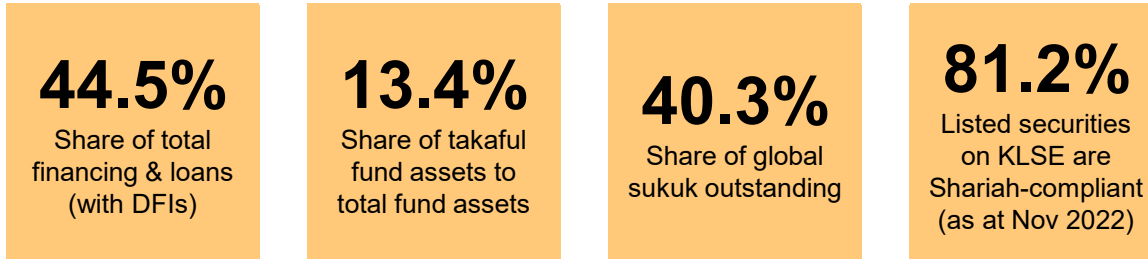


¹ Refer to losses from credit risk (including reinsurance and corporate bonds default) and underwriting risk.

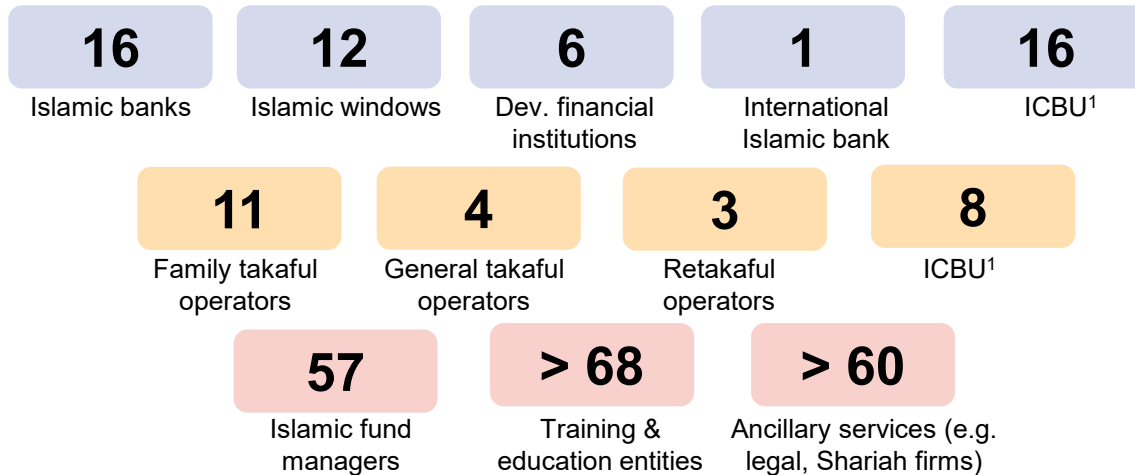
Source: Bank Negara Malaysia

Malaysia continues to be recognised as a global leader in Islamic finance

Sustained growth domestically & globally



...with diverse players in the ecosystem and conducive business environment



¹ International Currency Business Units

² Centralised Shariah Advisory Authorities in Islamic Finance

Source: Bank Negara Malaysia, MIFC estimates, Securities Commission



Enhancing value-based impact of Islamic finance to economy, society and environment

Mainstreaming value-based finance

- Improve quality of impact measures
- Pilot more value-based solutions using more diverse Shariah contracts

Mainstreaming social finance

- Scale up iTEKAD nationwide – 1595 participants (2021: 721); 10 banks (2021: 3)
- Pilot social takaful for inclusive protection of “at-risk” segments

Sharpen Malaysia’s proposition as global gateway

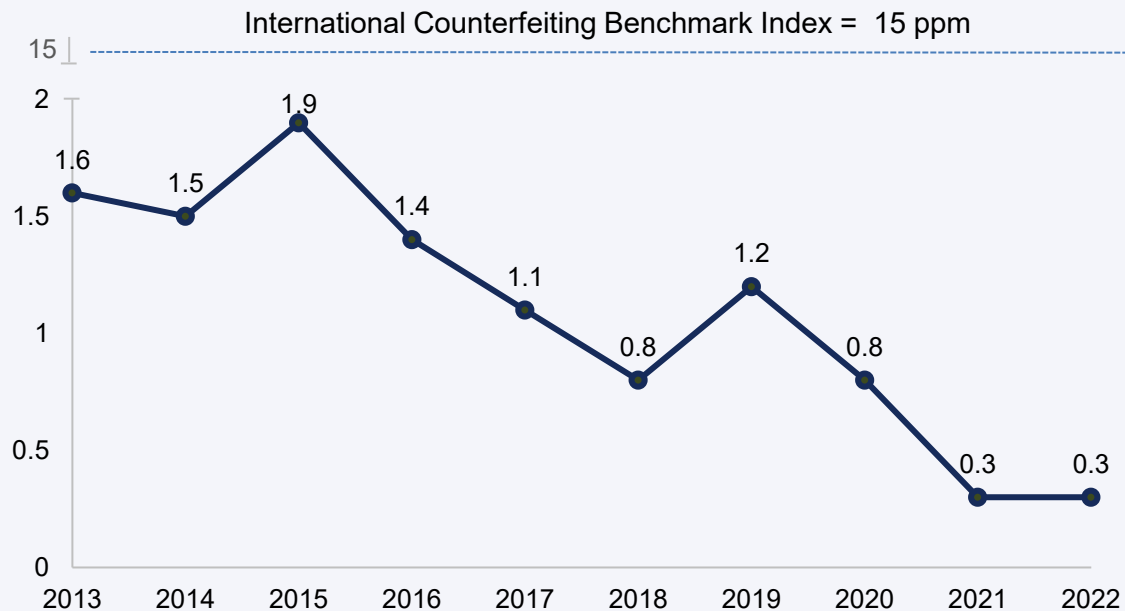
- MIFC Leadership Council plans to implement work programmes in 5 key areas
 - ✓ Malaysia as preferred Islamic fund raising and investment destination, addressing inequality, promoting sustainability, elevating human capital and knowledge, and digital empowerment
- Strengthen CSAA² platform for greater connectivity and mutual recognition in Shariah



Low incidence of currency counterfeiting in Malaysia due to the Bank's active role in implementing anti-counterfeiting strategies

Malaysia's note counterfeiting index is significantly lower than the international counterfeiting benchmark index and trending downwards...

Counterfeit index (ppm)



ppm = parts per million

... which are supported by six effective anti-counterfeiting strategies

- **Resilient notes**
Robust security features that are subject to review every 1-2 years
- **Clear standards and guidelines**
Clear standards to FIs and registered currency processors (RCPs)
- **Robust currency processing**
Counterfeit notes are quickly detected and removed
- **Ongoing machine recalibration**
Ensure cash machines and ATMs are calibrated to meet minimum authentication standards
- **Active awareness programmes**
Educate the public to identify genuine and counterfeit notes
- **Collaboration with the enforcement agency**
Working closely with PDRM to investigate and act against perpetrators of currency counterfeiting



Follow the Amaran Scam Facebook page to get the latest scams tactics

1/3

Selain ros...

...hadiahkan tip-tip ini untuk lindungi orang tersayang!

- ♥ Jangan klik pautan mencurigakan yang dihantar melalui perkhidmatan mesej
- ♥ Hati-hati dengan laman web yang meminta PIN / kata laluan perbankan anda
- ♥ Hanya muat turun aplikasi daripada saluran rasmi. (cth. Google Play Store, App Store, Huawei App Gallery)

 Like dan Follow Halaman Facebook Amaran Scam dan kekal berinformasi mengenai penipuan kewangan di Malaysia

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Kalaulah juadah berbuka boleh berkata-kata...



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BEWARE

of fake job applications that require you to disclose your private banking information (e.g. username, password, PIN etc)

Legitimate employers won't ask for them

 Like and follow Amaran Scam Facebook page to keep updated with financial scams' information

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