BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

BNM Quarterly Bulletin

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2Q Second Quarter 2023

The BNM Quarterly Bulletin presents a quarterly review of Malaysia's economic, monetary and financial developments. It includes the Bank's latest assessments on the direction of the economy going forward. The Bulletin also provides insights on current economic and financial issues, including highlights of policy initiatives undertaken by Bank Negara Malaysia in pursuit of its mandates.

Contents

Key Highlights for 2Q 2023

GDP grew by 2.9%

What are the factors supporting growth?

Moderate growth in household spending
Private Consumption: 4.3%

Higher inbound tourism
Exports of Services: 41.4%

Continued investment activity
Gross Fixed Capital Formation: 5.5%

Lower headline inflation at 2.8%

What are the factors affecting inflation?

Lower food inflation
Food and non-alcoholic beverages inflation: 5.6%
(1Q-23: 6.9%)

Lower fuel inflation
Fuel inflation: -2.5% (1Q-23: 0.2%)

Continued improvement in labour market

Unemployment Rate
3.5%
(1Q 2023: 3.5%)

Real Wages
1.0%
(1Q 2023: 0.9%)

Box Articles

Understanding Inflation Drivers: Differentiating Common and Idiosyncratic Dynamics in Malaysia

Common inflation disentangles general from sector-specific price changes, providing an alternative indicator of underlying inflation

Methodological Framework for Computing Malaysia's Effective Exchange Rate Indices

Indices to reflect a currency's performance against a group of trade partner currencies

The ringgit depreciated against the US dollar

MYR/USD
-5.8%
(1Q 2023: 0.1%)

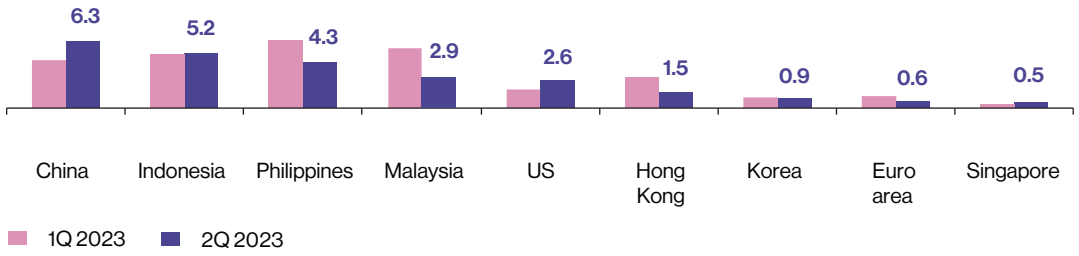
US Dollar Index
+0.4%
(1Q 2023: -1.0%)

International Economic Environment

Global Economic Performance

Modest global growth in 2Q 2023

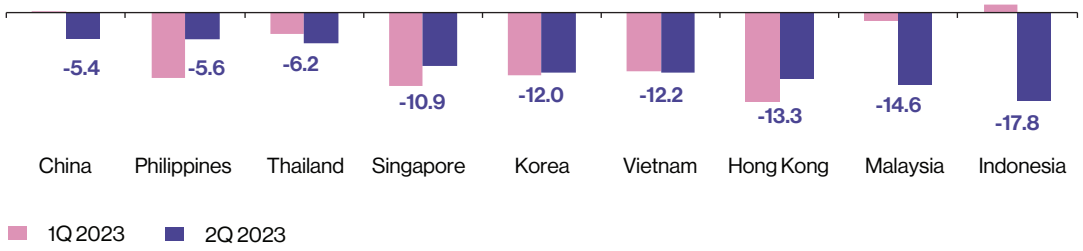
GDP of Selected Economies
Annual change, %



Source: National authorities

Continued decline in most regional exports

Exports of Seleted Economies in USD terms
Annual change, %



Source: National authorities

Highlights

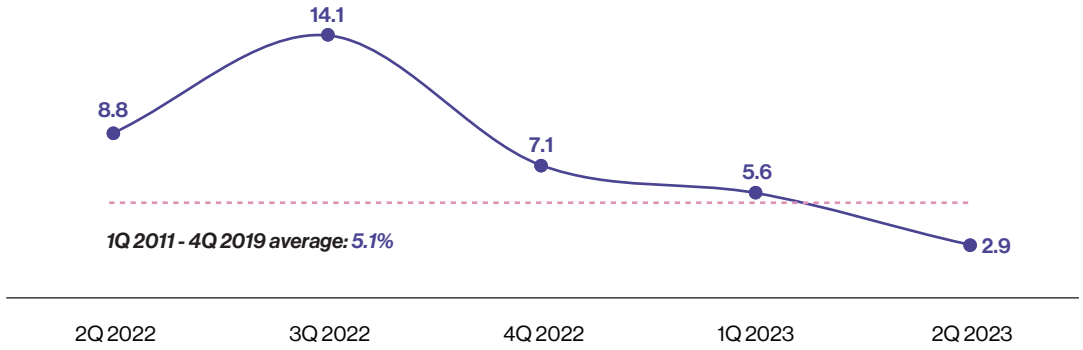
- **The global economy grew modestly.** While labour market remained resilient, growth continued to be weighed by higher interest rates and elevated inflation.
- **China's growth came in below expectation,** despite benefiting from low base from the lockdown back in 2Q 2022.
- **Decline in regional exports** reflecting weaker external demand, ongoing shift in consumption from goods to services and downcycle in E&E sector.
- **Headline inflation continued to moderate** amid lower commodity prices, while core inflation remained elevated partly due to resilient domestic demand.
- **Brent crude oil prices trended lower** at USD78 per barrel in 2Q 2023 (1Q 2023: USD82 per barrel) given weaker demand from OECD countries and higher global oil supply.

Developments in the Malaysian Economy

Gross Domestic Product

GDP grew by 2.9% in 2Q 2023

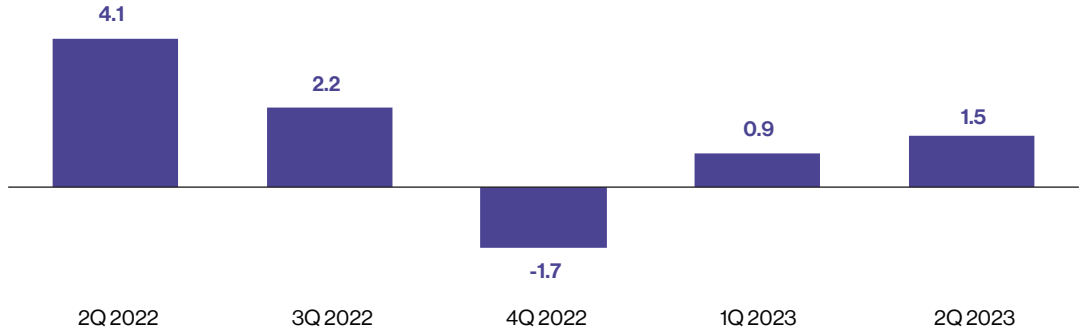
Annual change, %



Source: Department of Statistics, Malaysia

On a quarter-on-quarter seasonally-adjusted basis, the economy grew by 1.5%

Quarterly change, %



Source: Department of Statistics, Malaysia

What are the factors supporting growth in 2Q 2023?

- Continued improvement in labour market conditions
- Continued increase in household spending
- Higher tourism activities

What are the factors weighing on growth in 2Q 2023?

- Weaker external demand amid global technology downcycle
- Slower production in commodities sector
- High base effect from 2Q 2022

Developments in the Malaysian Economy

Malaysia's Economic Performance

Further expansion in domestic demand

Annual change, %

Private Consumption

4.3%
(1Q 2023: 5.9%)

Moderate expansion in both necessities and discretionary spending

Private Investment

5.1%
(1Q 2023: 4.7%)

Further progress in construction projects and continued capacity expansion

Public Consumption

3.8%
(1Q 2023: -2.2%)

Higher emoluments spending

Public Investment

7.9%
(1Q 2023: 5.7%)

Improved Government's fixed assets spending

Net Exports

-3.7%
(1Q 2023: 54.4%)

Weaker external demand amid global technology downcycle

Growth supported by Services and Construction sectors

Annual change, %

Services

4.7%
(1Q 2023: 7.3%)

Moderation in consumer- and business-related services, while tourism spending remained supportive

Manufacturing

0.1%
(1Q 2023: 3.2%)

Weaker E&E production and lower refined petroleum production amid a decline in mining output

Construction

6.2%
(1Q 2023: 7.4%)

Continued progress of large infrastructure projects and support from higher special trade activities

Mining

-2.3%
(1Q 2023: 2.4%)

Decreased oil and gas output due to plant maintenance

Agriculture

-1.1%
(1Q 2023: 1.0%)

A reduction in oil palm and fisheries output amid hot weather condition

Source: Department of Statistics, Malaysia

Developments in the Malaysian Economy

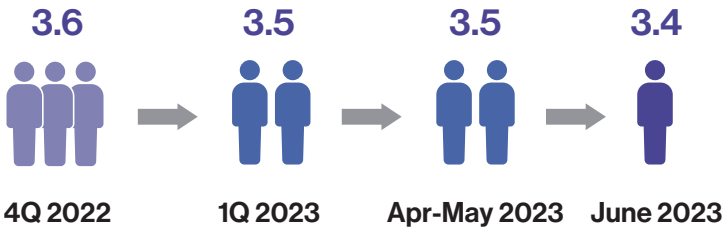
Labour Market Conditions

Labour market continued to improve

- The unemployment rate decreased to 3.4% in June 2023 (2Q 2023: 3.5%).
- Employment improved marginally to 16.15 million persons (1Q: 16.06 million persons) amid continued demand for labour.
- Labour supply remained forthcoming as the labour force participation rate increased to 70.0% (1Q 2023: 69.8%).

Lower unemployment rate

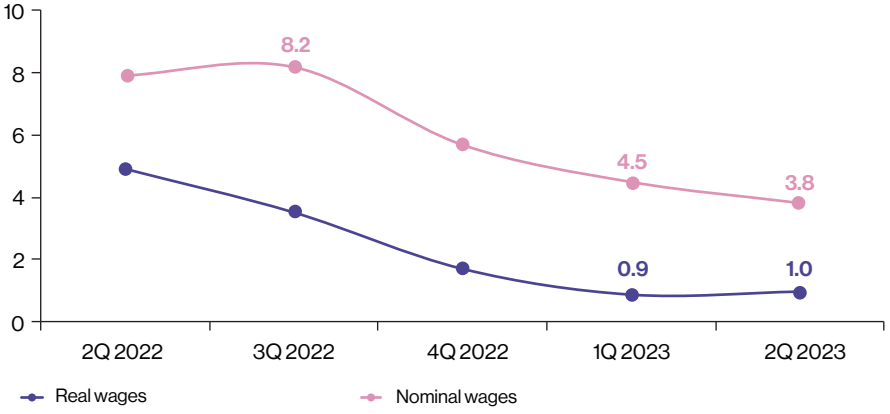
Unemployment rate, % of labour force



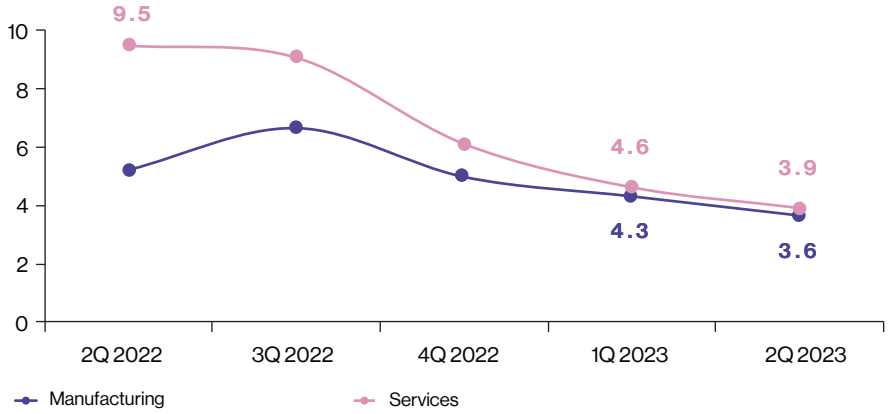
Source: Department of Statistics, Malaysia

Continued expansion in private sector wages

Private sector wages, Annual change, %



Sectoral nominal wages, Annual change, %



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

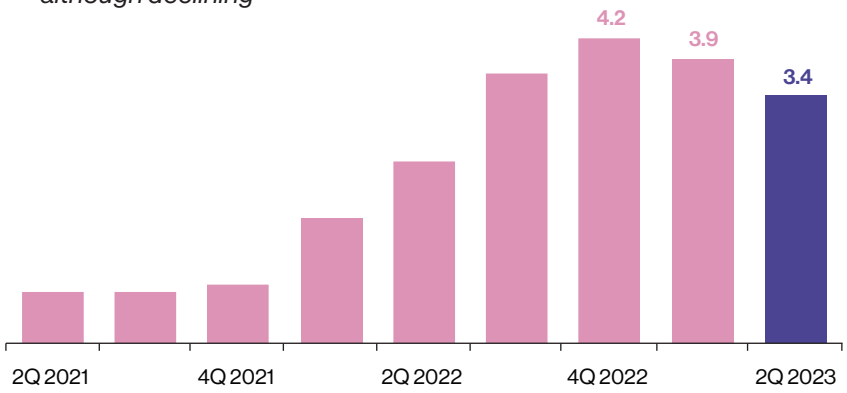
Developments in the Malaysian Economy

Disinflation trend continued amid easing cost environment

Core inflation moderated but remained elevated at 3.4% during the quarter

Annual change, %

- *Core inflation remained elevated although declining*



Selected Core Services Items

Food away from home		**7.7%** (1Q 2023: 8.9%)
Telephone and telefax services		**-3.3%** (1Q 2023: -1.7%)
Repair and maintenance of personal transport		**9.5%** (1Q 2023: 10.8%)

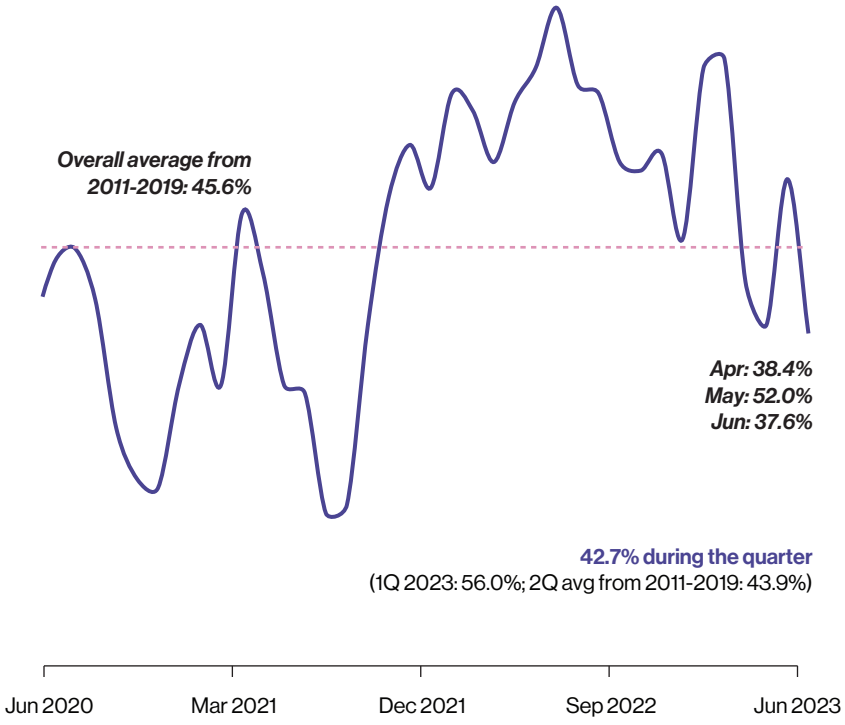
Note: Core inflation is computed by excluding price-volatile and price-administered items from headline inflation

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

Inflation pervasiveness declined in June after a transitory uptick in May

Share of CPI Items Recording Month-on-Month Price Increase, %

- *The uptick in May potentially reflected price adjustments around the festive season amid forthcoming demand*
- *Fewer items recording higher prices in June.*



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

Developments in the Malaysian Economy

External Sector Development

Slower export and import growth

Gross exports
-11.1% **(1Q 2023: 3.0%)**

Weaker external demand and moderating commodity prices

Gross imports
-11.5% **(1Q 2023: 3.4%)**

Weaker intermediate imports due to moderation in manufactured exports

Larger current account surplus and higher financial account outflow

Current Account

RM9.1 bil; 2.1% of GDP
(1Q 2023: RM4.3 bil; 1.0% of GDP)

Driving Factors:
- Narrower services deficit reflecting mainly higher travel receipts.
- Smaller primary income deficit driven mainly by higher investment income from investments abroad.

Which offset:
- Smaller goods surplus following moderation in external demand amid global technology downcycle.

Financial Account

Net outflows RM11.6 bil
(1Q 2023: Net outflows RM2.4 bil)

Driving Factors:
- Net outflows in other investment, driven mainly by repayment of residents' interbank borrowing.
- Net outflows in direct investment due to higher net outflows in direct investment abroad (DIA) amid lower foreign direct investment (FDI).

Which offset:
- Net inflows in portfolio investment, on account of non-residents' acquisition of domestic debt securities.

Source: Department of Statistics, Malaysia, Bank Negara Malaysia

External debt edged higher

RM1.21 trillion or 67.1% of GDP
(1Q 2023: RM1.17 trillion or 64.5% of GDP)

- **Exchange rate valuation effect** due to the weakening of ringgit against some major and regional currencies.
- **Higher holdings of domestic debt securities** by non-resident investors.

External debt remained manageable

% of total external debt

CURRENCY

Ringgit-denominated: 33.4%
Unaffected by ringgit exchange rate fluctuations

FCY- denominated: 66.6%
of which 65.7% is subject to BNM prudential & regulatory requirements and 15.8% are due to intragroup loans

MATURITY

Medium-and long-term: 58.2%
Limiting rollover risks

International Investment Position

RM160.9 billion (1Q 2023: RM84.5 billion)

International Reserves* USD112.9 billion

- **5.3 months**** of imports of goods and services.
- **1.0 time** of short-term external debt.

* As at 31 July 2023.
** Coverage differ from the press statement as it reflects the latest 2Q 2023 data on imports of goods and services and short-term external debt.

Source: Ministry of Finance Malaysia, Department of Statistics Malaysia and Bank Negara Malaysia

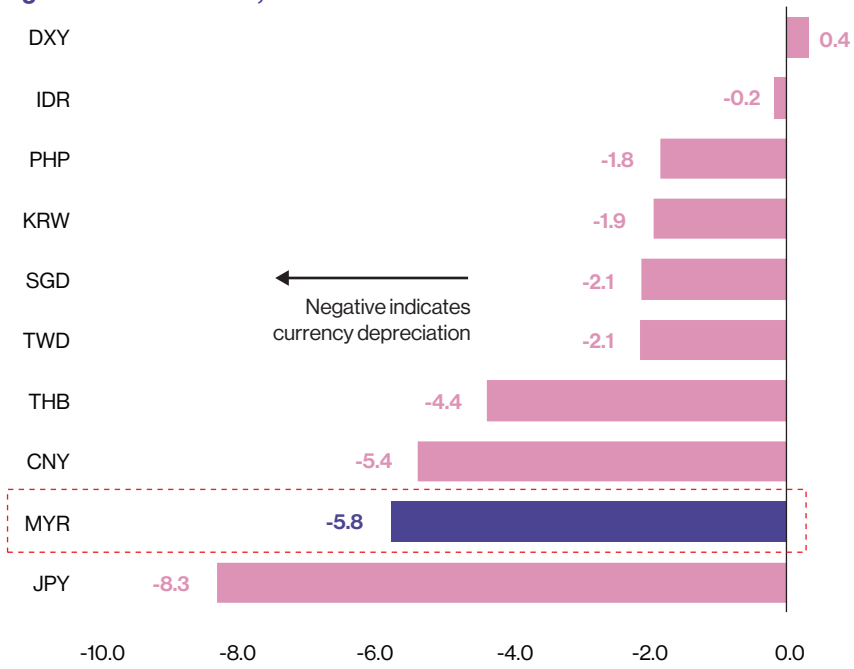
Monetary and Financial Developments

Financial Markets and Exchange Rate

Ringgit depreciated against the US dollar

Affected by financial market sentiments surrounding the global economic outlook

Performance of the US Dollar Index and Regional Currencies Against the US Dollar, %QoQ



Ringgit broadly depreciated against major trading partners

NEER -3.2%
(1Q 2023: -1.0%)

Source: Bank Negara Malaysia and Bloomberg

Domestic financial market developments mostly driven by external factors

Bond yields declined
supported by non-resident inflows into the domestic bond market

MGS 10Y Yield -6 bps
(1Q 2023: -16 bps)

Equity market declined
amid lower global demand for semiconductors and lower commodity prices

KLCI -3.2% QoQ
(1Q 2023: -4.9%)

Key factors

Slower-than-expected economic rebound from China affected investors' risk appetite towards emerging market economies, including Malaysia

The US debt ceiling crisis and continued expectations for monetary policy tightening weighted on investors' sentiments, leading to dampened expectations for global economic growth

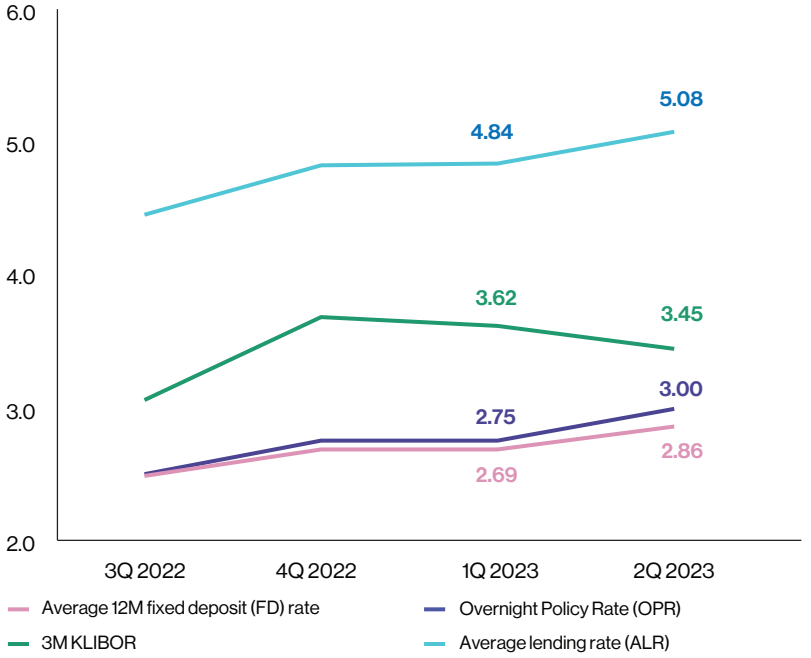
Source: Bank Negara Malaysia, ETP and Bursa Malaysia

Monetary and Financial Developments

Interest Rates and Liquidity

Interest rates rose during the quarter following the increase in the OPR

Interest Rates (at end-period), %

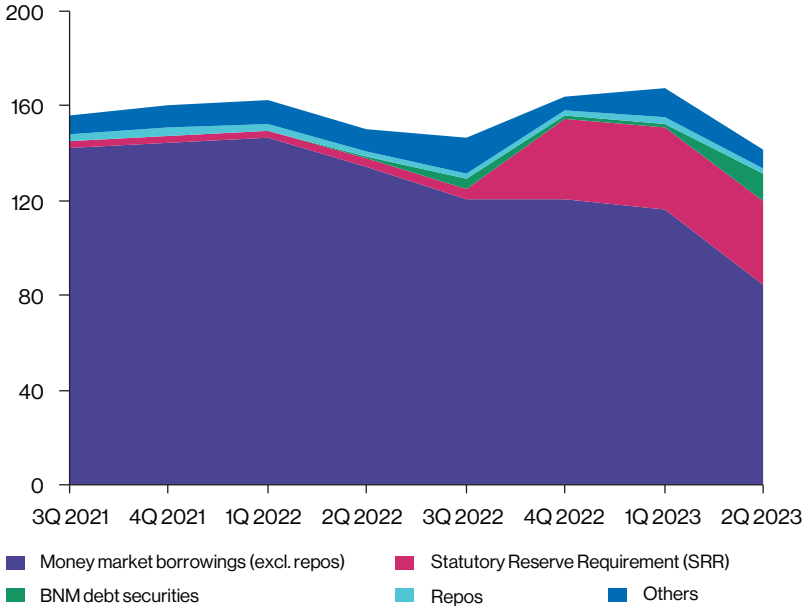


- **The average lending rate (ALR) on outstanding loans trended higher** by 24 basis points, reflecting the increase in the Overnight Policy Rate (OPR) on 3 May 2023.
- **Fixed deposit (FD) rates also increased** by between 14 to 18 basis points across tenures of 1 to 12 months.
- Notwithstanding the increase in the OPR, which had been partially priced in prior to the hike, **interbank rates declined** following easing of interbank market conditions and moderation in market expectations of further OPR adjustments.

Source: Bank Negara Malaysia and Bloomberg

Sufficient banking system liquidity to support financial intermediation

Outstanding Ringgit Liquidity Placed with BNM (at end-period), RM billion



- **Banking system liquidity remained sufficient** at both the institutional and system-wide levels.
- The level of outstanding liquidity placed with BNM declined amid lower liquidity injection.
- At the institutional level, almost all banks maintained surplus liquidity positions with the Bank as at end-June 2023.

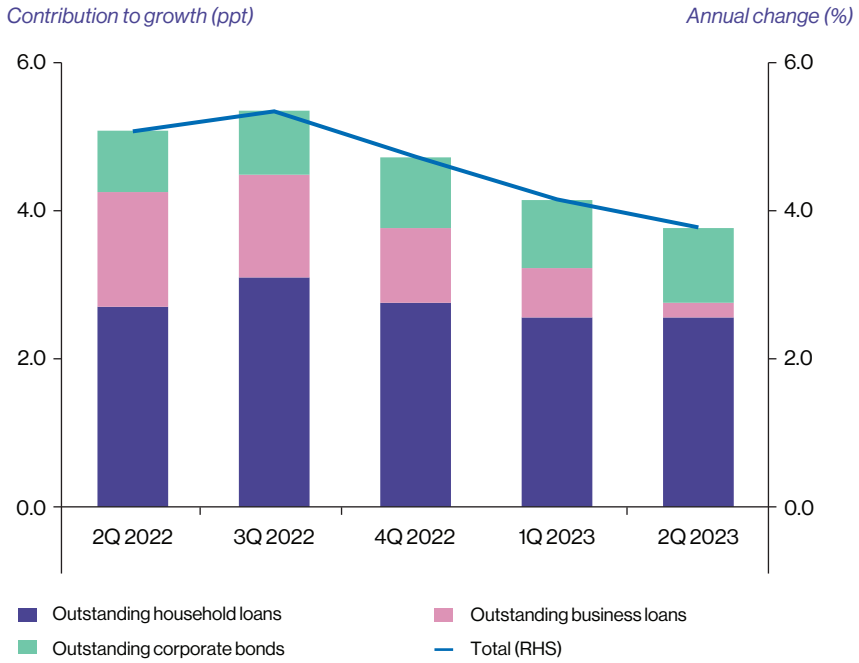
Source: Bank Negara Malaysia

Monetary and Financial Developments

Credit Conditions

Credit growth moderated following slower growth in business loans

Credit to the Private Non-Financial Sector[1]



[1] Consists of outstanding corporate bonds and outstanding loans to businesses and households.

Source: Bank Negara Malaysia

Key developments

Credit to the Private Non-Financial Sector
3.8%[2]
(1Q 2023: 4.1%)

- Slower growth in outstanding loans[3] (3.5%; 1Q 2023: 4.1%) due mainly to a moderation in business loan growth.
- Notwithstanding this, the growth in outstanding corporate bonds improved to 4.9% (1Q 2023: 4.4%).

Business Loans
0.7%
(1Q 2023 2.3%)

- The lower growth was due mainly to a more moderate growth in working capital loans among non-SMEs.
- Investment-related loan[4] growth, however, remained sustained.
- Growth in loan disbursements moderated, reflecting the lower growth in loan applications across all purposes, and the high base effect[5] in 2Q 2022.

Household Loans
5.1%
(1Q 2023: 5.1%)

- Outstanding loans recorded sustained growth across key purposes.
- This was mainly driven by loans for the purchase of residential properties and cars.

[2] All numbers quoted are in terms of annual change.
[3] Refers to loans from the banking system and development financial institutions (DFIs).
[4] Comprises loans for the purchase of non-residential properties, residential properties for business use, fixed assets and construction purposes.
[5] Firms drew down existing credit lines for working capital needs amid the reopening of international borders to foreign tourists in April 2022.

Source: Bank Negara Malaysia

Box Article

Understanding Inflation Drivers: Differentiating Common and Idiosyncratic Dynamics in Malaysia

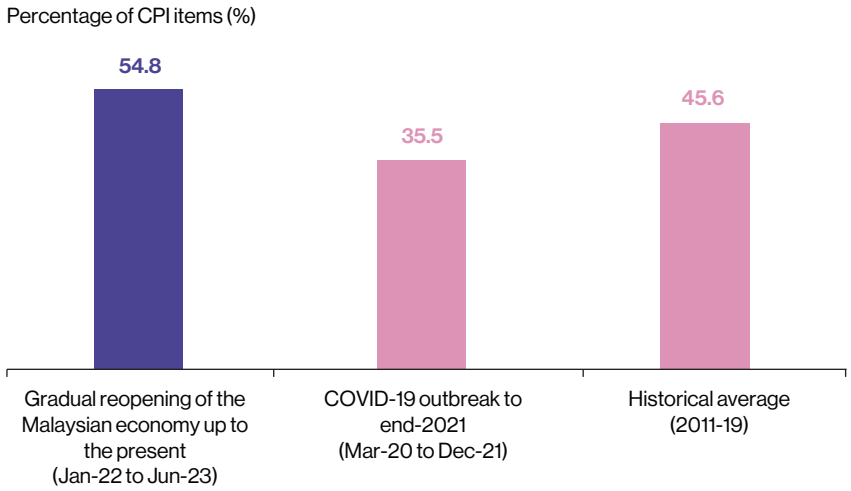
Highlights

- Common inflation disentangles general from sector-specific price changes, providing an alternative indicator of underlying inflation.
- Unlike in the past, the recent inflationary episode was mostly driven by economy-wide shocks rather than sector-specific ones, necessitating pre-emptive adjustments of monetary policy.

INTRODUCTION

Headline inflation has surged in recent times, reaching 4.7% in August 2022. While it is currently moderating, the inflationary pressures during this episode have been particularly pervasive and persistent. The extent of these broad-based price increases is evident in the average share of Consumer Price Index (CPI) items that recorded monthly price increases, which rose sharply to 54.8% from early 2022 to the present (Chart 1). Meanwhile, the persistence of inflationary pressures is evidenced by the number of months of continuous pervasive price increases[1] (Chart 2).

Chart 1: Average share of CPI items recording month-on-month price increases



Note: This is calculated based on the month-on-month inflation for 125 CPI items at the 4-digit level.

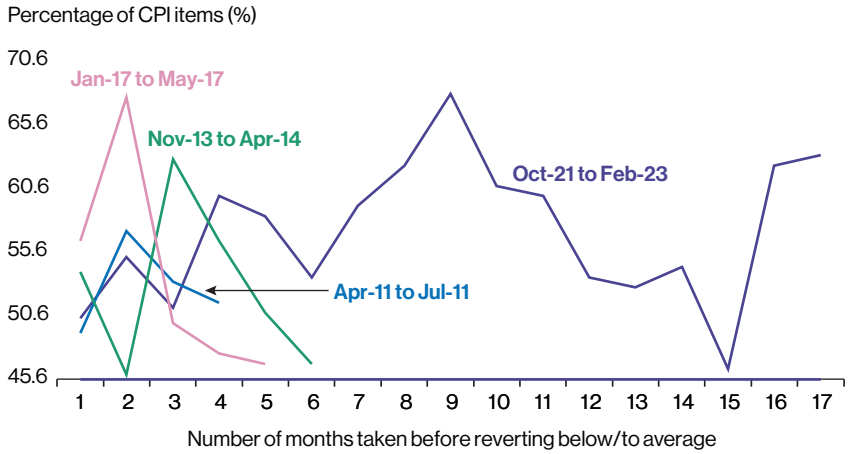
Source: Department of Statistics, Malaysia, Bank Negara Malaysia Estimates

[1] A month with pervasive price increases is defined here as a month in which the share of CPI items recording month-on-month price increases that is above the historical average (2011-2019 average).

Box Article

Understanding Inflation Drivers: Differentiating Common and Idiosyncratic Dynamics in Malaysia

Chart 2: Episodes of consecutive above-average[1] share of CPI items recording month-on-month price increases[2]



[1] The average share of CPI items recording month-on-month price increases is 45.6% of the CPI basket, which is calculated based on monthly frequency from January 2011 to December 2019.
[2] This is calculated based on the month-on-month inflation for 125 CPI items at the 4-digit level.

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

Given the multiple shocks to inflation in the past two years,[2] quantifying the extent to which inflation is driven by general or sector-specific price pressures can provide important insights on the underlying inflation in the economy. On the one hand, inflation can be influenced by sector-specific factors, which arise from unique circumstances in particular industries or segments. For example, inclement weather affecting vegetable production or timber shortages impeding furniture production can result in price adjustments in the respective sectors. The impact of these factors is usually contained within specific segments, and unless the shocks become prolonged and severe, they tend to be short-lived.

In contrast, when inflation is driven by economy-wide or common factors, inflationary pressures can become more widespread. These factors include, among others, the influence of aggregate demand conditions or changes in overall firms' price-setting behaviour, affecting general price changes in the economy.

For monetary policy, a key focus is on identifying the inflationary pressures that are driven by common factor. As a tool for managing the economy, monetary policy has a broad impact on macroeconomic factors. It may not be as effective in addressing sector-specific idiosyncrasies, which would necessitate the use of other policy tools or more targeted measures.[3]

[2] In addition to global supply disruptions and stronger domestic demand, shocks also stemmed from adverse weather conditions, the escalation of the military conflict in Ukraine, and a stronger US dollar exchange rate.
[3] For example, the vulnerability of chicken prices to movement in global grains prices, or fluctuations in fresh vegetable prices due to landslides, is not necessarily best tackled by monetary policy. Instead, implementing specific measures targeting the resilience of the supply chain in these sectors would better address the root causes of the problem.

Box Article

Understanding Inflation Drivers: Differentiating Common and Idiosyncratic Dynamics in Malaysia

This article aims to assess the extent to which inflation has been influenced by economy-wide factors, providing a quantitative measure of general or "common" inflation in Malaysia. Additionally, it sheds light on the contrasting trends between recent movements in common inflation and that observed in previous periods of high inflation.

Common inflation captures the co-movement across individual CPI inflation series

Inflation can be analysed from multiple perspectives. One approach involves decomposing it based on demand and supply drivers (Shapiro, 2022), or by examining the wage intensity of disaggregated CPI items (Lane, 2023). Given the recent confluence of simultaneous and aggregate global shocks affecting inflation, there is a growing interest in disentangling general and sector-specific price changes (Luciani, 2020; Nir et al., 2021; Potjagailo et al., 2022). General price changes are influenced by common shocks that exert widespread price pressures in the same direction across the economy. In contrast, sector-specific factors lead to price changes only for specific goods and services relative to others. By disentangling these two forces, an alternative underlying inflation indicator – "common" inflation that is driven by common shocks can be derived, providing a closer reflection of price adjustments driven by aggregate macroeconomic conditions.

To quantitatively gauge common inflation, a dynamic factor model[4] is used to estimate the common component from the inflation rate of each of the 125 disaggregated CPI items at the four-digit level. Each of these series is decomposed into a common component, representing shared trends with other individual items, and an idiosyncratic component that captures fluctuations specific to those items.[5] The resulting common component of individual items is aggregated and scaled to the overall inflation rate using a simple linear regression, yielding a measure of common inflation.[6] The residual after accounting for common inflation is called the idiosyncratic component.[7] Of significance, the construction of common inflation and idiosyncratic component is entirely data-driven.[8]

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4 Following Nir et al. (2021), a dynamic factor model is used to estimate the common component based on 125 monthly ex-tax inflation series from January 1991 to June 2023.

5 The inflation of each individual item has been adjusted to exclude the direct impact of one-off changes in consumption tax policies (GST and SST) in 2015 and 2018.

6 Common inflation is defined and calculated as the predicted series obtained from a simple linear regression of the monthly ex-tax headline inflation on an intercept and the common component derived in the preceding step.

7 In view of the lack of availability of full historical CPI weights, the scaling of the common component to inflation rates closely follows the methodology documented by Statistics Canada for deriving their CPI-common (Statistics Canada, 2021).

8 "Data-driven" refers to the analysis that does not make any "structural" economic assumptions or ad-hoc adjustments when determining the factors that affect prices.

Box Article

Understanding Inflation Drivers: Differentiating Common and Idiosyncratic Dynamics in Malaysia

Over time, common inflation remains stable, unlike the volatile idiosyncratic components

Historically, common inflation tends to remain stable, in contrast to the volatile and transitory nature of idiosyncratic components (Chart 3). By filtering out the influence of idiosyncratic shocks, common inflation provides a signal of underlying inflation that constitutes a significant portion of headline inflation.[9] Notably, instances of perceptible increases in common inflation typically coincided with periods of robust real economic growth and acute cost pressures, as evidenced by occurrences in 2011 and 2022. During these periods, real GDP growth was 5.3% and 8.7% respectively (2011-2019 average: 5.1%), with significant cost factor adjustments given the upcycle in global commodity prices (2011: 24.6%; 2022: 29.7%; 2011-2019: -1.0%) and ringgit depreciation in 2022. This observation reflects the close relationship between common inflation and economy-wide factors, with the sensitivity of common inflation particularly pronounced in response to aggregate demand conditions.

As an open economy, however, Malaysia is susceptible to short-term fluctuations in global cost factors which often resulted in idiosyncratic price adjustments. For instance, from late 2014, headline inflation[10] declined substantially while common inflation rose slightly. This can be attributed to the sharp decline in global oil price that led to sector-specific price adjustments without significantly propagating to broader consumer prices. From 2016 to 2020, common inflation experienced a gradual decline, although headline inflation continued to fluctuate due to swings in the idiosyncratic component. While some idiosyncratic movements can be traced back to specific events, such as the 2015 global oil price decline, not all of them can be precisely attributed to a particular occurrence. As such, the data-driven approach is helpful in identifying such movements.

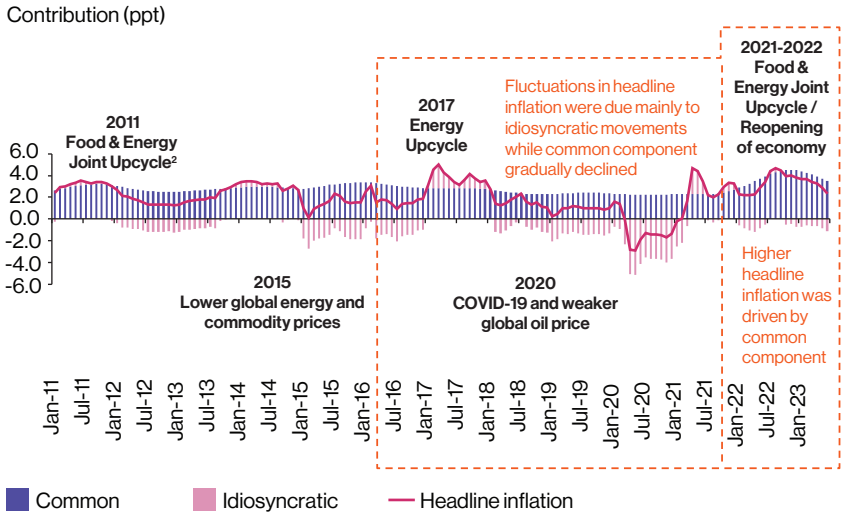
[9] These are also in line with findings in other countries, such as those for the UK in Potjagailo et al. (2022).

[10] Headline inflation has been adjusted to exclude the direct impact of consumption tax policy changes, which is the GST in 2015.

Box Article

Understanding Inflation Drivers: Differentiating Common and Idiosyncratic Dynamics in Malaysia

Chart 3: Decomposition of headline inflation[1] by common and idiosyncratic factors



[1] Headline inflation is adjusted to exclude the direct impact of consumption tax policies changes (GST and SST) in 2015 and 2018.

[2] Upcycle refers to periods when global food and/or energy commodities exhibited year-on-year movements higher than the standard deviation. Global food and energy commodities data are from World Bank Commodity Price Data (The Pink Sheet).

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

Common inflation has risen significantly in 2022, before moderating

Unlike in the past, the rise in headline inflation since the start of the recovery from the COVID-19 pandemic was predominantly driven by common inflation. Initially, the increase in headline inflation was mainly driven by global cost factors[11] that directly impacted specific segments of domestic consumer prices, such as flour and other cereal grains.[12] However, over time, their effects spilt over to a broader range of consumer prices, leading to a rapid increase in common inflation in 2022. This widespread propagation of price pressures also coincided with the rebound in domestic demand[13] as the country transitioned to endemicity and fully relaxed containment measures. Industrial engagements[14] conducted by the Bank also indicated a possible change in firms' price-setting behaviour in response to the combination of high inflation and robust demand conditions. This shift enabled larger firms, in particular, to raise prices more easily, which further contributed to the increase in common inflation.

[11] Global energy and non-energy commodity prices surged to historical highs in early 2022 with the unfolding of the military conflict in Ukraine.

[12] Flour and other cereal grains, as well as products made from cereal grains, recorded a month-on-month increase of 2.8% (compared to the 2011-2019 average of 0%) and 1.1% (compared to the 2011-2019 average of 0.1%) in the second quarter of 2022, respectively.

[13] Among other demand indicators, the real private consumption growth rate was recorded at 11.2% in 2022 (compared to the 2011-2019 average of 7.1%). Furthermore, in terms of high-frequency data, the online retail trade growth rate reached 19.8% in 2022 (compared to 13.8% in 2019).

[14] Industrial engagements by the Bank here comprised in-depth interviews with key decision-makers from firms of micro, small, medium, and large sizes from 17 to 24 May 2023.

Box Article

Understanding Inflation Drivers: Differentiating Common and Idiosyncratic Dynamics in Malaysia

More recently, the decomposition of headline inflation also revealed that the ongoing disinflationary trend since early 2023 has been contributed by both common and idiosyncratic components. Of note, the disinflation would have been slower in the absence of the idiosyncratic component, which contributed negatively to the overall CPI inflation at the current juncture.

At the disaggregated level, certain CPI items are more susceptible to the common component

Overall, the degree to which economy-wide factors influence price adjustments of each disaggregated CPI item varies (Table 1). It is observed that service inflation tends to be more significantly influenced by the common component.[15] Given that services are less tradable, it tends to more closely mirror local activities that are more influenced by the aggregate domestic economic environment. In comparison, goods inflation tends to be more susceptible to global trade dynamics and related exposures to short-term fluctuations and disruptions in sector-specific supply chains. Specifically, about 62% of the variation in services inflation since 2011 can be attributed to the common component, whereas the common component explains only 14% of the variation in goods inflation. Delving deeper into the disaggregated level, specific services that are highly influenced by the common component include repair and maintenance of personal transport, expenditure in restaurants and café, repair of household appliances, accommodation services, and food away from home. A potential explanation for the significant influence of the common component on these items is their discretionary nature, which may be more synchronous with economic strength.

[15] This finding is consistent with Potjagailo et al. (2022), Luciani (2020), and Khan et al. (2013), which highlight the greater significance of common dynamics in services inflation.

Table 1: Common dynamics in disaggregated CPI inflation

Items	CPI 2018 weight (%)	Share of variance explained by common component (%)
Goods inflation	49.2	13.9
Services inflation	50.8	62.3
Services: Top 5 share of variance explained by common component		
Repair and maintenance of personal transport	2.1	82.3
Expenditure in restaurant cafe	2.4	68.4
Repair of household appliances	0.1	58.1
Accommodation services	0.6	51.5
Food away from home	11.5	48.0

Note: The share of variance explained by the common component is based on the R-squared obtained from a regression of each 4-digit level component's inflation rate on the common component of CPI over the period of January 2011 to June 2023.

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

Box Article

Understanding Inflation Drivers: Differentiating Common and Idiosyncratic Dynamics in Malaysia

Conclusion and policy considerations

Common inflation captures the broad price movements influenced by macroeconomic conditions, such as the strength of the economy or generalised cost shocks, while mitigating the impact of sector-specific disturbances. This facilitates the extraction of a signal from the overall CPI inflation, which would be useful for monetary policy that aims at influencing the entire economy rather than specific segments. As such, common inflation can complement the existing measures of underlying inflation monitored by the Bank, in addition to the official underlying inflation measure – the core inflation, which is published by the Department of Statistics, Malaysia.[16]

It is observed that the recent increase in headline inflation following the recovery from the COVID-19 pandemic differs considerably from past episodes of high inflation. This time, the inflation surge was primarily contributed by the common component which necessitated pre-emptive adjustments in monetary policy to rein in excessive demand that could stoke further inflationary pressures. This contrasted with historical instances where fluctuations in headline inflation were mainly driven by idiosyncratic shocks, which tend to be short-lived and did not warrant monetary policy response.

However, vigilance is warranted to guard against potential future sector-specific shocks. Given the interconnected nature of various consumer products, there remains a risk of idiosyncratic price shocks morphing into sustained general price pressures if they persist, intensify, or induce widespread behavioural changes.[17] Considering that the role of monetary policy is to contain the propagation of broad-based inflationary pressures and manage inflation expectations, adjustments to monetary policy need to pre-emptively address potential inflation risks, including salient price increases originating from idiosyncratic shocks. This can avoid the need for more forceful measures down the road, which could result in a much higher cost to the economy, particularly if upside risks to inflation materialise. To identify when such a transition to general price pressures may occur, a combination of analysis into common inflation and surveillance insights can be employed. This ensures a comprehensive analysis of inflation dynamics for monetary policy consideration.

[16] While common and core inflation typically exhibits a strong correlation, they differ in terms of definition and construction methodology. Common inflation seeks to capture the synchronised movements across the entire CPI basket, driven by economy-wide influences using a statistical model. Conversely, core inflation is defined by excluding volatile and administered price items in its construction. However, even after removing these items, core inflation remains susceptible to sector-specific fluctuations.

[17] Amid significant inflationary pressures, such as those experienced in the second half of 2022, common inflation estimates can be subject to unusually large revisions (Sullivan, 2022). This is not surprising, as these estimates are based on models that rely on unobserved variables, and historical estimates may change as new observations become available, leading to a re-estimation of the dynamic factor model.

Box Article

Understanding Inflation Drivers: Differentiating Common and Idiosyncratic Dynamics in Malaysia

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Box Article

Methodological Framework for Computing Malaysia's Effective Exchange Rate Indices*

Highlights

- Effective exchange rates can provide insights into macroeconomic conditions and can facilitate price competitiveness assessments, inflation analysis and external balance evaluations
- Movements in the ringgit effective exchange rates have been relatively more muted, when comparing the movements of the NEER and REER series with the bilateral ringgit exchange rate against the US dollar

INTRODUCTION

Currency movements play an important role in the economy, particularly in trade and investment activity. Bilateral exchange rates, which indicate the value of one currency in relation to another provide a starting point for assessing a currency's performance. However, for a more comprehensive evaluation, economists also look at effective exchange rate indices. The nominal effective exchange rate (NEER) reflects a currency's performance against a group of currencies, weighted by the importance of each trade partner in a country's total trade. In addition, the real effective exchange rate (REER) adjusts the NEER for price differences, by considering relative price levels between these countries.

METHODOLOGICAL FRAMEWORK

At Bank Negara Malaysia (BNM), the methodology[1] used to derive the effective exchange rate indices for the ringgit is broadly similar to that adopted by other central banks and international organisations. The NEER is computed as a geometric weighted average[2] of the ringgit exchange rate against the currencies of Malaysia's main trade partners.[3] Trade flows are computed using merchandise trade sourced from the International Monetary Fund (IMF)'s Direction of Trade Statistics (DOTS), which provides timely and comprehensive trade data.[4] Only trade partners that comprise more than 1% of Malaysia's total trade are included in the group of currencies used to calculate NEER and REER - this is similar to the practice by the Bank of England (Lynch and Whitaker, 2004)[5] and European Central Bank (Schmitz et al., 2012).[6] Import weights are calculated directly from bilateral import shares. Export weights are calculated using a "double-weighting" approach. This means that we account for both the bilateral export shares and the indirect export competition in third markets.

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1 The methodological framework comprises several components, including the time period and frequency of the effective exchange rate series, the base period, and the coverage of trade partners. Additionally, the methodology involves determining the weighting method and formula for the trade weights, choosing the exchange rates, deflator, and source of the trade data, as well as the frequency and method of updating the trade weights.

2 The geometric weighted average uses the trade weights as exponents for the bilateral exchange rate indices, and then multiplies these numbers. Please refer to Brodsky (1982) for more information.

3 The formula is $NEER_t = \prod_{i=1}^{n} ER_t^{i,rm^{weight^i}}$ where i is the main trade partner, n is the total number of main trade partners and $weight_i$ is the trade weight for trade partner $ER_t^{i,rm}$ is an index of the bilateral exchange rate of the ringgit against the currency of trade partner i in period t, expressed as the foreign currency per ringgit. The weights sum to one, $\sum_{i=1}^{n} weight^i = 1$. Please refer to Schmitz et al. (2012) for further details on the calculations.

4 Except for trade flows data with Taiwan, which are from Global Trade Atlas (GTA).

5 For the UK, trade partners are included if the trade partner's share of either exports or imports with the UK exceeds 1% (Lynch and Whitaker, 2004).

6 The IMF, for example, uses a threshold of 0.45%.

* We would like to thank Bianca Ligani for her helpful comments on the methodology.

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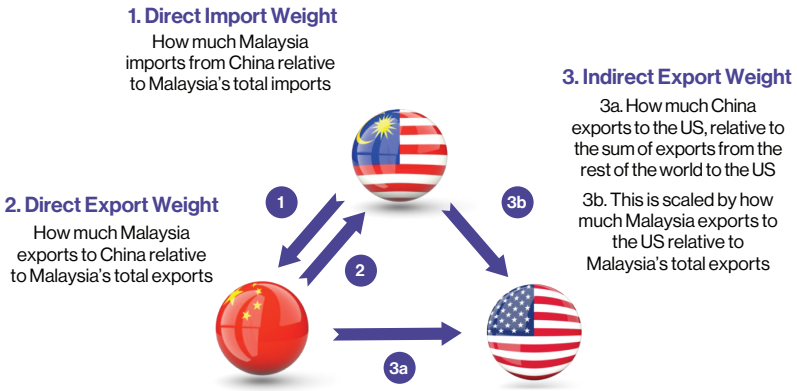
Methodological Framework for Computing Malaysia's Effective Exchange Rate Indices

(Chart 1 provides a simplified example illustrating the calculation of import and export weights). The overall weight assigned to a trade partner is in turn a weighted average of how much Malaysia imports and exports with these trade partners. To reflect changes in trade patterns, the effective exchange rate indices are periodically revised, most recently with the updated annual trade weights from 2019 to 2021. The effective exchange rate indices are chain-linked[7] to account for discontinuity effects when Malaysia's trade weights change. The base period for both monthly indices is July 2005, which is the month that the ringgit exchange rate shifted from a fixed exchange rate against the US dollar to a then managed float regime.

The REER extends the NEER by adjusting for the relative prices between Malaysia and its trade partners. These relative prices, which serve as the deflators for the NEER, are determined using the consumer price indices (CPI) of Malaysia and the main trade partners.[8,9]

Chart 1: Simplified example illustrating the calculation of import and export weights

The example below illustrates how China's import and export trade weights for Malaysia are calculated, assuming the US is the only third market in which Malaysian exporters face competition from Chinese exporters



TRENDS IN THE RINGGIT NEER AND REER SERIES

Overall trends in the NEER and REER series since 2020 have remained broadly consistent despite changes to the latest updated trade weights. However, one difference is that the top five trade partners' share of the trade weights has increased; most noticeably the trade weight for China, which has increased by approximately four percentage points. At the same time, the ringgit has also depreciated against four of these five trade partners currencies (the renminbi, Singapore dollar, euro and US dollar), but appreciated against the Japanese yen, leading to a marginally weaker NEER for most periods following the updates to the weights.

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7 Chain linking refers to constructing a continuous series by combining indices that have different weight reference periods (United Nations, 2009). This methodology allows for a clear distinction between the factors driving the effective exchange rate, which can be attributed to movements in exchange rates and/or changes in trade weights.

8 The formula $REER_t = \prod_{i=1}^{n} \left(\frac{ER_t^{i,rm} P_t^{my}}{P_t^i}\right)^{weight^i}$ where P_t^{my} is the price index for Malaysia at time t, and P_t^i is the price index for trade partner i at time t. Please refer to Schmitz et al. (2012) for further details on the calculations.

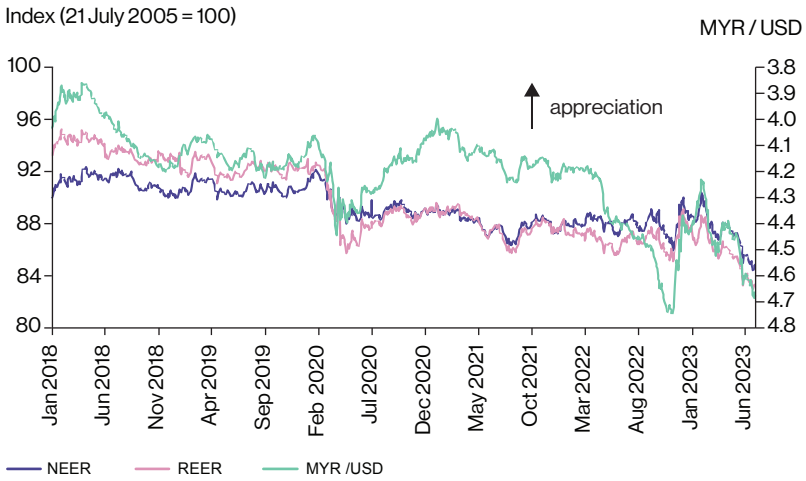
9 Apart from the CPI, deflators that are typically considered are the producer price index (PPI), wholesale price index (WPI), unit labour costs (ULC) and gross domestic product (GDP) deflator. Like many other central banks and organisations, the CPI is chosen as the price deflator because it is reliable and comparable across countries and is released regularly.

Box Article

Methodological Framework for Computing Malaysia's Effective Exchange Rate Indices*

Chart 2 shows the calculated ringgit NEER and REER series. When the NEER or REER increases, it implies an appreciation of the ringgit and vice versa. The REER can also increase if Malaysian prices increase at a faster pace compared to those of trade partner countries, and vice versa. The trends in the ringgit NEER and REER series computed by BNM are in line with the broad trends of effective exchange rate indices computed by other organisations such as the Bank for International Settlements (2023)[10] and the International Monetary Fund (2019). When comparing the movements of the NEER and REER series with the bilateral ringgit exchange rate against the US dollar, movements in the effective exchange rate indices have been relatively more muted. This indicates that some of the other currencies in the indices also depreciated against the US dollar over this period. When observing the March 2020 to March 2022 period, during which the ringgit first appreciated by about 6% against the US dollar, the NEER was relatively unchanged.[11] This occurred amid broad-based US dollar weakness against most major and regional currencies as the US Federal Reserve reduced its policy rate and implemented quantitative easing measures. More recently, over the September 2022 to early November 2022 period, the ringgit depreciated by about 6% against the US dollar while the NEER only depreciated by about 2%, in line with the broad-based depreciation in major and regional currencies against the US dollar as global financial conditions continued to tighten and the global growth outlook weakened.[12]

Chart 2: Ringgit Nominal Effective Exchange Rate and Real Effective Exchange Rate Series



Note: Last date in the chart is 30 June 2023.
The daily REER is calculated by using the monthly CPI for each day of the month.

Source: Bank Negara Malaysia and Bloomberg

[10] Possible differences in methodologies by BNM and Klau and Fung (2006) of the effective exchange rate series include the coverage of trade partners, computation of export weights, frequency of updating the trade weights and data sources and adjustments.
[11] The NEER depreciated by 0.1% over this time period.
[12] Several central banks raised their policy rates during this time, and the IMF lowered its 2023 global growth forecast to 2.7% from 2.9%.

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Methodological Framework for Computing Malaysia's Effective Exchange Rate Indices

CONCLUSION

Effective exchange rate indices offer an invaluable framework for assessing a currency's performance and providing insights into macroeconomic conditions, by facilitating price competitiveness assessments, inflation analysis, and external balance evaluations. Furthermore, these indices can also be used as inputs for the computations of other monetary or financial indices (Klau and Fung, 2006) and for macroeconomic modelling. Given the evolution of the global economic landscape, the weights assigned to different currencies in the effective exchange rate calculations will continue to be periodically updated to reflect the latest economic conditions and trade patterns. Such proactive adjustments will ensure that the effective exchange rate remains useful in reflecting the ringgit's overall movements and price competitiveness against main trade partners.

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Methodological Framework for Computing Malaysia's Effective Exchange Rate Indices

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The Bank's Policy Considerations

Highlights of the July MPC meeting

- The Monetary Policy Committee (MPC) maintained the OPR at 3.00% at the July 2023 MPC meeting.
- The MPC remains vigilant to ongoing developments and will continue to monitor incoming data to inform the assessment on the outlook of domestic inflation and growth.

Monetary policy remains slightly accommodative and supportive of the economy

At the July Monetary Policy Committee (MPC) meeting, the MPC decided to maintain the OPR at 3.00 percent.

The MPC assessed that the global economy continues to expand, driven by resilient domestic demand supported by strong labour market conditions. Global growth, however, is weighed down by persistent core inflation and higher interest rates. While China's reopening remains supportive of the global economy, its pace of recovery has slowed in recent months. Globally, headline inflation continued to moderate, but core inflation remains above historical averages. For most central banks, the monetary policy stance is likely to remain tight. The growth outlook remains subject to downside risks, mainly from a slower momentum in major economies, higher-than-anticipated inflation outturns, an escalation of geopolitical tensions, and a sharp tightening in financial market conditions.

Following a strong outturn in the first quarter of the year, the Malaysian economy expanded at a more moderate pace in recent months as exports were weighed down by slower external demand, as expected. Growth for the remainder of the year will continue to be driven by resilient domestic demand. Household spending continues to be underpinned by favourable labour market conditions, particularly in the domestic-oriented sectors. Tourist arrivals have been steadily improving, and are expected to continue rising, thereby lifting tourism-related activities. Investment activity would be supported by continued progress of multi-year infrastructure projects. Domestic financial conditions also remain conducive to financial intermediation amid sustained credit growth. While the growth outlook is subject to some downside risks stemming from weaker-than-expected global growth, upside risks mainly emanate from domestic factors such as stronger-than-expected tourism activity and faster implementation of projects.

Headline inflation has continued to ease amid lower cost factors. While core inflation has also moderated, it remained elevated relative to the long-term average amid lingering demand and cost factors. For the second half of 2023, both headline and core inflation are projected to trend lower, broadly within expectations. Risks to the inflation outlook remain highly subject to the degree of persistence in core inflation, changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments.

The Bank's Policy Considerations

At the current OPR level, the MPC deemed the monetary policy stance to be slightly accommodative and remain supportive of the economy. The MPC continues to see limited risks of future financial imbalances. The MPC remains vigilant to ongoing developments, and will continue to monitor incoming data to inform the assessment on the outlook of domestic inflation and growth. The MPC will ensure that the monetary policy stance remains conducive to sustainable economic growth amid price stability.

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Macroeconomic Outlook

Slower global growth in 2023

Uncertain global outlook amid elevated inflation and slower-than-expected economic recovery from China

The global economy is expected to grow at a slower pace in 2023. Resilient domestic demand, strong labour market conditions and recovery in services activity, particularly tourism will continue to support global growth. However, headwinds from persistently elevated inflation and higher interest rates remain. While China's reopening remains supportive of the global economy, the slower-than-expected pace of recovery in recent months will weigh on the global growth.

The balance of risks to global growth remains tilted to the downside, mainly from a slower momentum in major economies, higher-than-expected inflation, escalation of geopolitical tensions and a sharp tightening in financial conditions. Upside risk to global growth can arise from stronger-than-expected domestic demand particularly in advanced economies.

Malaysia's economic growth to remain moderate in 2H 2023

Growth will be supported by resilient domestic demand amid external headwinds

For the second half of 2023, the Malaysian economy is expected to expand at a moderate pace. Slower external demand will continue to weigh on economic activity particularly for the export-oriented sectors. Growth will be supported by domestic demand, underpinned by favourable labour market conditions, particularly in the domestic-oriented sectors. Tourist arrivals is expected to continue improving, thereby lifting tourism activities, while investment activity would be supported by implementation of multi-year investment projects. Domestic financial conditions also remain conducive to financial intermediation.

While the growth outlook is subject to some downside risks stemming from weaker-than-expected global growth, upside risks mainly emanate from domestic factors such as stronger-than-expected tourism activity and faster implementation of projects.

Macroeconomic Outlook

Headline and core inflation to trend lower in 2H 2023

Both headline and core inflation are projected to moderate further

In line with expectations, headline inflation has continued to moderate to 2.8% in 2Q 2023 from the peak of 4.5% in 3Q 2022 amid lower cost factors. While core inflation has also moderated, it has been more persistent and remains elevated relative to the long-term average, amid lingering demand and cost factors. For the second half of 2023, both headline and core inflation are projected to trend lower within expectations, partly due to the higher base in the corresponding period last year. Nonetheless, risks to the inflation outlook remain subject to the changes to domestic policy on subsidies and price controls, as well as global commodity prices and financial market developments.

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Annex

Table 1: GDP by Expenditure Components (at constant 2015 prices)

	Share 2022 (%)	2022					2023	
		1Q	2Q	3Q	4Q	Year	1Q	2Q
		Annual growth (%)						
Aggregate Domestic Demand (excluding stocks)	93.1	4.4	13.0	13.2	6.8	9.2	4.6	4.5
Private sector	75.5	4.3	15.4	14.4	7.8	10.3	5.6	4.5
Consumption	*60.2*	*5.3*	*18.3*	*14.8*	*7.3*	*11.2*	*5.9*	*4.3*
Investment	*15.3*	*0.4*	*6.3*	*13.2*	*10.3*	*7.2*	*4.7*	*5.1*
Public sector	17.6	4.9	2.5	7.9	3.9	4.7	-0.3	4.6
Consumption	*13.2*	*6.9*	*2.3*	*6.5*	*3.0*	*4.5*	*-2.2*	*3.8*
Investment	*4.4*	*-1.0*	*3.2*	*13.1*	*6.0*	*5.3*	*5.7*	*7.9*
Net Exports	5.5	-28.9	-29.0	26.2	23.0	-1.0	54.4	-3.7
Exports of Goods and Services	*74.6*	*12.3*	*15.9*	*21.5*	*8.6*	*14.5*	*-3.3*	*-9.4*
Imports of Goods and Services	*69.1*	*16.1*	*20.1*	*21.1*	*7.2*	*15.9*	*-6.5*	*-9.7*
Real GDP	**100.0**	**4.8**	**8.8**	**14.1**	**7.1**	**8.7**	**5.6**	**2.9**
GDP (q-o-q growth, seasonally adjusted)	**-**	**2.4**	**4.1**	**2.2**	**-1.7**	**-**	**0.9**	**1.5**

Note: Figures may not add up due to rounding and exclusion of stocks.

Source: Department of Statistics, Malaysia

Table 2: GDP by Economic Activity (at constant 2015 prices)

	Share 2022 (%)	2022					2023	
		1Q	2Q	3Q	4Q	Year	1Q	2Q
		Annual growth (%)						
Services	58.3	6.4	11.9	16.7	9.1	10.9	7.3	4.7
Manufacturing	24.1	6.7	9.2	13.1	3.9	8.1	3.2	0.1
Agriculture	6.6	0.1	-2.3	1.2	1.1	0.1	1.0	-1.1
Mining	6.4	-2.2	-1.7	9.1	6.3	2.6	2.4	-2.3
Construction	3.5	-6.1	2.5	15.3	10.1	5.0	7.4	6.2
Real GDP	**100.0**	**4.8**	**8.8**	**14.1**	**7.1**	**8.7**	**5.6**	**2.9**

Note: Numbers do not add up due to rounding and exclusion of import duties component.

Source: Department of Statistics, Malaysia

Annex

Table 3: Balance of Payments[1]

	2022					2023	
	1Q	2Q	3Q	4Q	Year	1Q	2Q
	RM billion						
Current Account	**5.7**	**2.9**	**19.0**	**27.5**	**55.1**	**4.3**	**9.1**
(% of GDP)	*1.4*	*0.6*	*4.2*	5.9	3.1	1.0	*2.1*
Goods	44.2	36.9	47.3	57.7	186.0	39.9	29.5
Services	-18.3	-14.8	-11.2	-12.1	-56.4	-12.8	-11.3
Primary income	-17.3	-16.2	-14.3	-11.6	-59.4	-16.9	-6.3
Secondary income	-2.9	-2.9	-2.8	-6.5	-15.1	-5.9	-2.8
Financial Account	**31.8**	**-0.8**	**-17.5**	**-1.1**	**12.4**	**-2.4**	**-11.6**
Direct investment	22.5	3.6	-0.9	-9.3	15.9	10.9	-4.9
Assets	10.2	-16.7	-18.3	-24.1	-48.9	-2.5	-9.8
Liabilities	12.3	20.3	17.4	14.8	64.9	13.4	4.9
Portfolio investment	-8.9	-15.4	0.5	-26.7	-50.6	-33.3	8.1
Assets	-13.7	-4.4	2.6	-15.0	-30.5	-16.3	-10.1
Liabilities	4.8	-11.0	-2.1	-11.7	-20.1	-17.0	18.3
Financial derivatives	0.2	-0.2	-0.4	-1.7	-2.2	-0.9	0.3
Other investment	18.0	11.2	-16.5	36.6	49.2	20.9	-15.1
Net errors & omissions[2]	**-24.6**	**2.9**	**11.9**	**-3.8**	**-13.6**	**-7.6**	**-9.9**
Overall Balance	**12.8**	**4.9**	**13.2**	**22.5**	**53.4**	**-5.7**	**-12.4**

Assets: (-) denotes outflows due to the acquisition of assets abroad by residents.
Liabilities: (+) denotes inflows due to the incurrence of foreign liabilities.
[1] In accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6) by the International Monetary Fund (IMF).
[2] As at 1Q 2018, quarterly net E&O excludes reserves revaluation changes. This practice is backdated up to 1Q 2010.
Note: Numbers may not add up due to rounding

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Annex

Table 4: Outstanding External Debt

	2022	2023	
	end-Jun	end-Mar	end-Jun
	RM billion		
Total External Debt	**1,128.1**	**1,168.7**	**1,213.1**
USD billion equivalent	256.2	264.7	258.9
By instrument			
Bonds and notes	192.1	158.7	175.8
Interbank borrowings	204.6	231.9	216.4
Intragroup loans	150.8	162.6	173.2
Loans	72.9	76.9	80.8
Non-resident holdings of domestic debt securities	252.7	258.2	267.9
Non-resident deposits	106.9	127.9	134.3
IMF allocation of Special Drawing Rights (SDRs)	28.3	28.7	30.2
Others	119.8	123.9	134.5
Maturity profile			
Medium- and long-term	677.3	667.2	706.6
Short-term	450.8	501.5	506.5
Currency denomination			
Ringgit	376.6	396.9	405.5
Foreign	751.5	771.8	807.6
Total debt / GDP (%)	**67.6**	**64.5**	**67.1**
Short-term debt / Total debt (%)	**40.0**	**42.9**	**41.8**
Reserves / Short-term external debt (times)	**1.1**	**1.0**	**1.0**

Note: Figures may not add up due to rounding

Source: Ministry of Finance Malaysia and Bank Negara Malaysia

Annex

Table 5: Credit to the Private Non-Financial Sector

	2022	2023		2022	2023	
	1Q	1Q	2Q	2Q	1Q	2Q
	End-period (RM billion)			Annual change (%)		
Total Credit to the Private Non-Financial Sector[1]	**2,552.3**	**2,626.5**	**2,648.5**	**5.1**	**4.1**	**3.8**
Outstanding corporate bonds[2]	535.5	554.8	561.5	3.9	4.4	4.9
Outstanding loans[3,4]	2,016.8	2,071.7	2,086.9	5.4	4.1	3.5
Businesses	744.0	749.2	749.0	5.3	2.3	0.7
SMEs[5]	*345.0*	*361.2*	*367.1*	*5.6*	*5.9*	*6.4*
Non-SMEs[5]	*394.0*	*383.2*	*377.7*	*5.0*	*-0.9*	*-4.1*
Households	1,272.7	1,322.5	1,337.9	5.4	5.1	5.1
Credit to Businesses[6]	1,279.5	1,304.0	1,310.6	4.7	3.2	2.4

[1] Starting with the 4Q 2022 Quarterly Bulletin, credit to the private non-financial sector was introduced to enhance the quality of data on financing channelled towards the generation of domestic economic activity. This replaces the previous series on net financing to the private sector.
[2] Includes conventional and Islamic short-term papers in addition to longer-term bonds and sukuk; excludes issuances by Cagamas, government, financial institutions and non-bank financial institutions.
[3] Loans by the banking system and development financial institutions (DFIs). Refer to the sum of outstanding business and household loans, and excludes loans to government, financial institutions, non-bank financial institutions and other entities.
[4] Excludes loans sold to Cagamas without recourse.
[5] The data series were revised following a data rectification by financial institutions, mainly involving the reclassification of SME loans to non-SME loans.
[6] Comprises outstanding loans to businesses and outstanding corporate bonds.
Note: Numbers may not add up due to rounding.

Source: Bank Negara Malaysia

Annex

Table 6: Loan Indicators[1]

	2022		2023			2023		
	2Q	1H	1Q	2Q	1H	1Q	2Q	1H
	During the period (RM billion)					Annual Change (%)		
Total Private Non-Financial Sector[2]								
Loan applications	361.5	668.7	355.5	371.2	726.7	15.7	2.7	8.7
Loan approvals	179.7	323.2	171.9	191.7	363.6	19.9	6.6	12.5
Loan disbursements	534.4	1028.2	530.4	525.1	1055.5	7.4	-1.8	2.7
Loan repayments	531.5	1021.6	539.5	526.4	1065.9	10.1	-1.0	4.3
Of which:								
Businesses[3]								
Loan applications	135.5	241.4	134.4	139.4	273.8	27.0	2.9	13.4
Loan approvals	79.8	136.8	73.9	85.9	159.8	29.7	7.6	16.8
Loan disbursements	424.5	809.5	405.1	401.0	806.1	5.2	-5.5	-0.4
Loan repayments	422.5	805.7	409.5	404.3	813.8	6.9	-4.3	1.0
SMEs[4]								
Loan applications	76.1	138.1	75.4	81.8	157.2	21.6	7.5	13.9
Loan approvals	39.1	69.6	34.8	45.2	80.0	14.2	15.6	15.0
Loan disbursements	125.6	244.1	125.0	127.6	252.6	5.5	1.6	3.5
Loan repayments	123.9	239.0	122.2	121.3	243.6	6.1	-2.1	1.9
Non-SMEs[4]								
Loan applications	59.4	102.8	56.9	57.5	114.4	30.8	-3.1	11.2
Loan approvals	40.7	67.1	38.0	40.7	78.7	43.8	0.0	17.2
Loan disbursements	297.3	562.1	278.9	271.9	550.7	5.3	-8.5	-2.0
Loan repayments	297.6	564.0	286.1	280.7	566.9	7.4	-5.7	0.5
Households								
Loan applications	226.0	427.3	221.1	231.8	452.9	9.8	2.6	6.0
Loan approvals	99.9	186.4	98.0	105.7	203.8	13.4	5.8	9.3
Loan disbursements	109.9	218.7	125.3	124.1	249.4	15.2	12.8	14.0
Loan repayments	109.0	215.9	130.0	122.1	252.1	21.6	12.0	16.8

[1] Loans for all segments include data from the banking system and development financial institutions (DFIs).
[2] Refer to the sum of outstanding business and household loans, and excludes loans to government, financial institutions, non-bank financial institutions and other entities.
[3] Numbers for SMEs and Non-SMEs may not add up to total businesses given the inclusion of those with no classification by firm size.
[4] The data series were revised following a data rectification by financial institutions, mainly involving the reclassification of SME loans to non-SME loans.
Note: Numbers may not add up due to rounding.

Source: Bank Negara Malaysia

Annex

Table 7: Banking System Profitability Indicators

	2022	2023		2022	2023	
	2Q	1Q	2Q[p]	2Q	1Q	2Q[p]
	%			Annual change (percentage points)		
Return on equity[1]	11.8	11.4	11.6	2.2	0.5	-0.2
Return on assets[1]	1.3	1.3	1.3	0.20	0.03	-0.03
	RM million			Annual change (%)		
Net interest income	15,482	14,863	14,640	5.8	0.5	-5.4
Add: Fee-based income	2,832	2,973	3,015	-1.6	1.7	6.4
Less: Operating cost[2]	9,230	10,314	10,818	2.6	15.8	17.2
Gross operating profit	9,085	7,521	6,838	6.7	-14.6	-24.7
Less: Impairment[3] and other provisions	910	469	847	-57.7	-60.7	-6.9
Gross operating profit after provision	8,174	7,053	5,991	28.6	-7.4	-26.7
Add: Other income[1]	3,088	3,502	5,193	-4.4	74.4	68.2
Pre-tax profit[1]	**11,262**	**10,555**	**11,183**	**17.5**	**9.6**	**-0.7**

[p] Preliminary
[1] Banking system profits are aggregated at the entity level. The aggregated results for 2019 onwards are subsequently adjusted for dividend income received from domestic banking subsidiaries (previously added at both the parent and subsidiary levels). The adjustment is reflected under 'Other income'. Differences in comparative pre-tax figures reported in previous Quarterly Bulletins are estimated to range between 5.5% and 10.7%.
[2] Refers to staff costs and overheads.
[3] Refers to 12 Months Expected Credit Losses (ECL), Lifetime ECL Not Credit Impaired and Lifetime ECL Credit Impaired based on the Malaysian Financial Reporting Standard 9 (MFRS 9).

Source: Bank Negara Malaysia

Table 8: Insurance and Takaful Sector Profitability Indicators

	2022	2023		2022	2023	
	2Q	1Q	2Q[p]	2Q	1Q	2Q[p]
	RM million			Annual change (%)[2]		
Life Insurance & Family Takaful						
Excess income over outgo[1]	-4,395	4,994	1,059	-248.3	221.3	124.1
General Insurance & General Takaful						
Operating profit	754	411	894	-30.0	59.0	18.6
Claims ratio (%)	65	64	57	13.8	1.4	-7.4

[p] Preliminary
[1] Excess income over outgo excludes investment-linked unit funds to reflect the core performance of ITOs' profitability more accurately and thus, may not be directly comparable to the data reported in previous publications.
[2] Refers to percentage points for the annual change of claims ratio.

Source: Bank Negara Malaysia

Annex

Table 9: Federal Government Finance[1]

	2022		2023[p]		
	2Q	**1H**	**1Q**	**2Q**	**1H**
	RM billion				
Revenue	61.6	124.3	76.2	72.2	148.4
Annual growth (%)	*8.3*	*16.8*	*21.5*	*17.3*	*19.4*
Operating expenditure	65.2	129.8	66.6	77.2	143.8
Annual growth (%)	*18.2*	*10.6*	*3.1*	*18.4*	*10.8*
Current account	**-3.6**	**-5.5**	**9.6**	**-5.0**	**4.6**
Net development expenditure	13.4	30.0	26.2	17.7	43.9
Annual growth (%)	*6.3*	*7.5*	*57.7*	*32.1*	*46.3*
COVID-19 Fund[2]	4.1	9.5	-	-	-
Overall balance	**-21.1**	**-45.0**	**-16.6**	**22.7**	**39.4**
Memo:					
Total net expenditure	82.7	169.3	92.8	94.9	187.8
Annual growth (%)	*7.3*	*3.4*	*7.2*	*14.8*	*10.9*
Total Federal Government debt (as at end-period)	1045.0	1045.0	1120.4	1145.0	1145.0
Domestic Debt	780.7	780.7	849.3	863.5	863.5
External Debt	264.3	264.3	271.2	281.5	281.5
Non-resident holdings of RM-denominated debt	*239.5*	*239.5*	*246.2*	*255.9*	*255.9*
Offshore borrowing	*24.8*	*24.8*	*24.9*	*25.6*	*25.6*

[1] Figures may not add up due to rounding.
[2] A specific trust fund established under Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020 to finance economic stimulus packages and recovery plan.
[p] Preliminary

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia