

ECONOMIC NEWS: BNM ANNUAL REPORT 2015

The Malaysian economy is expected to record a steady growth of **4.0% - 4.5%** in 2016

Performance in 2015

- The Malaysian economy recorded a moderate growth of 5% in 2015 (2014: 6%), supported by the continued expansion of domestic demand.
- Private consumption continued to expand at a more moderate pace as households adjusted their spending to the higher cost of living arising from the implementation of GST, adjustments in administrative prices and the depreciation in the ringgit.
- Private investment registered a slower growth, weighed down partly by the weak business sentiments.

Economic Outlook for 2016

The Malaysian economy is expected to grow by **4.0% - 4.5%** with domestic demand continues to be the principle driver of growth, sustained primarily by private sector spending.

- **Private consumption** is expected to trend below its long-term average, reflecting largely the continued household adjustments to an environment of higher prices and greater uncertainties.
- **Private investment** is projected to be slower compared to its performance in the past five years given the environment of prolonged uncertainties and cautious business sentiments.
- **Public consumption** is expected to be more moderate, reflecting the Government's commitment to more prudent spending.
- **Public investment** is projected to turn around to register a positive growth, reflecting higher spending by the Federal Government on fixed assets and the continued implementation of key infrastructure projects by public corporations.
- On the **supply side**, all economic sectors are projected to expand, albeit at a more moderate pace in 2016.
 - **Manufacturing** sector is expected to moderate mainly due to slower expansion in the export-oriented industries.
 - **Services** sector is expected to moderate as consumption-related sub-sectors e.g. retail trade, F&B and accommodation are anticipated to moderate in tandem with slower growth of private consumption.
 - **Construction** sector is projected to moderate slightly amidst a modest expansion in both residential and non-residential sub-sectors.
 - **Agriculture** sector is expected to record a marginal contraction, mainly due to lower palm oil yields following the hot and dry weather conditions brought about by the strong El Nino weather phenomenon.
 - Growth in the **mining** sector will be supported by new gas production capacity despite the lower oil and gas prices.

Real GDP by Expenditure Components (2010 prices)

	2014	2015 ^p	2016 ^f
	% Change		
Real GDP	6.0	5.0	4.0 – 4.5
• RM billion	1,012.5	1,062.6	1,106.1
Domestic Demand	5.9	5.1	4.3
Private Expenditure			
• Consumption	7.0	6.0	5.1
• Investment	11.0	6.4	5.5
Public Expenditure			
• Consumption	4.4	4.3	2.0
• Investment	-4.7	-1.0	1.1
Net Exports of Goods and Services	12.8	-3.7	1.1

Real GDP by Economic Activity (2010 prices)

	2014	2015 ^p	2016 ^f
	% Change		
Real GDP	6.0	5.0	4.0 – 4.5
▪ Agriculture	2.1	1.0	-0.3
▪ Mining	3.3	4.7	3.5
▪ Manufacturing	6.2	4.9	4.1
▪ Construction	11.8	8.2	7.9
▪ Services	6.5	5.1	4.4

- Headline **inflation** is projected to increase to 2.5 – 3.5% in 2016, due mainly to adjustments in the prices of several price-administered items and the weak ringgit exchange rate. However, the impact of these costs factors on inflation will be mitigated by the low global energy and

commodity prices, generally subdued global inflation, and more moderate domestic demand. The trajectory of the inflation forecast, however, could be more volatile as it is subject to uncertainties in global oil prices and the ringgit exchange rate.

- Labour market** conditions is expected to remain broadly stable, with an unemployment rate may increase slightly around 3.3 – 3.5% (2015: 3.2%).

Other Key Economic Indicators			
	2014	2015 ^p	2016 ^f
Unemployment (as % of labour force)	2.9	3.2	3.3 – 3.5
CPI (% change)	3.2	2.1	2.5 – 3.5

Other key indicators:

- Net FDI:** RM39.5 bil in 2015 (2014: RM 35.1 bil)
- International reserves:** USD95.6 billion (as at 29 February 2016), 8.3 months of retained imports and 1.2 times short-term external debt.
- Ringgit:** Depreciated by 18.6% against USD
- Banking sector:** resilient, Common Equity Tier 1 (CET1) capital ratio, Tier 1 capital ratio and Total Capital Ratio (TCR) remained well above the minimum regulatory levels at 12.8%, 13.8% and 16.1% (2014: 13.3%, 14%, 15.9%) respectively as at end-2015.
- OPR:** Remained at 3.25% in 2015 (2014: 3.25%)

Monetary and Fiscal Policy Developments

- The Monetary Policy Committee (MPC) maintained the Overnight Policy Rate (**OPR**) at **3.25%** in 2015, with the focus of ensuring that monetary conditions supported the sustainable growth of the Malaysian economy while maintaining price stability. Against the backdrop of a challenging external environment that effected the outlook for the Malaysian economy, the monetary policy stance remained accommodative and supportive of economic activities.
- Monetary **policy in 2016** will focus on ensuring that monetary conditions remain supportive of sustainable domestic growth with price stability, taking into consideration the evolving risks in the external and domestic environments. In particular, global economic and financial developments will need to be closely monitored and assessed in terms of their implications for the domestic growth and inflation outlook. Monetary policy will also continue to take into account the risk of financial imbalances.
- Fiscal **policy in 2016** will continue to focus on fiscal consolidation. The 2016 Budget was recalibrated in January 2016 to incorporate the expected decline in global oil prices. Government spending was reprioritised and measures were introduced to broaden revenue sources. Fiscal spending will be prioritised towards high impact infrastructure projects that could have large multiplier effects by increasing the productive capacity of the economy. In addition, emphasis will continue to be accorded towards ensuring inclusive and sustainable growth through welfare enhancements, particularly in the form of socio-economic support to the lower- and middle-income segments to help them cope with the rising cost of living.

Development of the Financial Sector on SMEs

(Source: Bank Negara Malaysia Financial Stability and Payment Systems Report 2015)

- Overall outstanding financing by the banking system expanded by 7.9% in 2015 to RM1,445.1 billion with financing to SMEs increasing by 15% to RM259.7 billion. The higher SME loan growth was largely driven by loans to the services sector and for the purposes of working capital and the purchase of non-residential property.
- The Investment Account Platform (IAP) was launched in February 2016. It is expected to expand the pool of investors, ventures and banks participating in investment account offerings.
- Promoting access to financing for SMEs is one of the key enablers to achieve the goal of increasing the SME sector's contribution to the national gross domestic product to 41% by 2020.
- Under the 2016 Budget, an additional funding of RM1 billion, valid until 31 December 2017, was provided by the Government for the Shariah-compliant SME Financing Scheme (SSFS) which

provides a 2% profit rate subsidy on financing facilities extended by Islamic banks. Over 879 SMEs have already taken advantage of the SSFS since its introduction in 2012.

- The Credit Guarantee Corporation Malaysia Berhad (CGC) continues to support an inclusive ecosystem for SME financing. In a move to address specific financing needs of women entrepreneurs, CGC introduced the BizWanita-I, a RM30 million Shariah-compliant scheme which enables eligible women business owners to borrow up to RM300,000 without collateral over a maximum period of seven years.
- Another CGC scheme, BizMula-I scheme that provides financing to start-ups in operation for less than three years, in supporting the different needs of SME businesses and entrepreneurs.

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23 March 2016