

Summary: Bank Negara Annual Report 2016

The Malaysian Economy

In 2016, the Malaysian economy recorded a growth of 4.2% (2015: 5%) despite considerable external and domestic headwinds. Against these external and domestic challenges, all sectors of the economy recorded a modest expansion during the year.

Domestic demand continued to anchor growth during the year, supported mainly by private sector spending. Public sector spending, however, moderated following the expenditure rationalisation adopted by the Government. Private consumption growth was sustained at 6.1% in 2016 (2015: 6%), mainly supported by continued wage and employment growth, with additional impetus coming from Government measures. Public consumption growth moderated to 1% (2015: 4.4%) due to lower spending on supplies and services.

Labour market conditions remained broadly stable as employment and wages continued to expand. The pace however was not able to be fully absorbed by the market. Consequently, the unemployment rate rose to 3.5% in 2016 (2015: 3.1%, average 2011-2015: 3%). Aggregate nominal wages in the private and public sectors grew by 4.2% and 6.7%, respectively in 2016 (2015: 4.9% and 4.7%, respectively), partly supported by the new minimum wage and salary increments for civil servants, which took effect in July 2016.

On the supply side, all economic sectors continued to expand in 2016, with the exception of the agriculture sector. The services sector remained the largest contributor to the country's GDP, at 5.6% in 2016 (2015: 5.1%), supported by expansion across all sub-sectors. The manufacturing sector recorded a 4.4% growth in 2016 (2015: 4.9%), supported by continued expansion in both export- and domestic-oriented industries while the construction sector recorded moderate growth in 2016 (7.4%; 2015: 8.2%). The faster pace of expansion in the civil engineering and residential sub-sectors was partially offset by a decline in non-residential activity. Growth in the mining sector moderated at 2.7% (2015: 4.7%) while the agriculture sector, growth contracted by 5.1% (2015: 1.2%).

Real GDP by Kind of Economic Activity (2010 = 100)

	2016 ^p	2015	2016 ^p	2015	2016 ^p
	% of GDP	Annual change (%)	Contribution to growth (ppt) ¹		
Services	54.2	5.1	5.6	2.7	3.0
Manufacturing	23.0	4.9	4.4	1.1	1.0
Mining and quarrying	8.8	4.7	2.7	0.4	0.2
Agriculture	8.1	1.2	-5.1	0.1	-0.5
Construction	4.5	8.2	7.4	0.3	0.3
Real Gross Domestic Product (GDP)	100.0¹	5.0	4.2	5.0	4.2

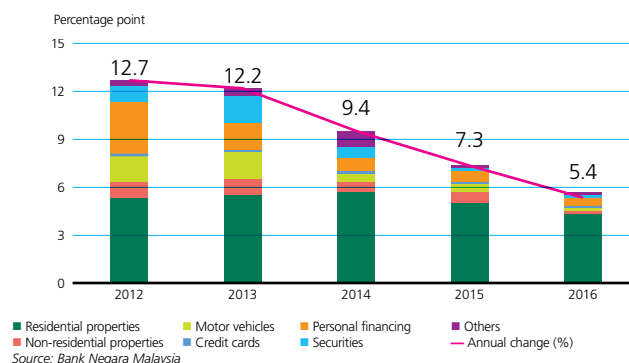
¹ Figures may not necessarily add up due to rounding and exclusion of the import duties component
^p Preliminary

Source: Department of Statistics, Malaysia

Highlight: Household Debts and Affordability for Housing

The annual growth in total household debt moderated further to 5.4% in 2016 (2015: 7.3), extending the slower pace of growth sustained since 2012. Total outstanding household debt stood at RM1,086.2 billion as at end-2016. The bulk of household debt (62.6%) continued to be secured by properties and principal-guaranteed investments which contribute to wealth accumulation. Demand for financing of house purchases remained relatively robust with outstanding housing loans expanding further by 9.1% (2015: 11%). Other than home purchases for own occupation, households have generally scaled back other borrowings in line with loan affordability. This was observed in the markedly slower expansion in outstanding financing by households for the purchase of non-residential properties, particularly shops. In addition, borrowings for the purchase of cars and securities both declined by 0.8% and 1.5% (2015: 3.5% and 1.7%) respectively during the year.

Household Sector: Contribution to Growth in Debt



During the year, total exposures of Malaysian financial institutions to the domestic property market expanded by 8% to RM793.9 billion. This amounted to 26.7% (2015: 25.5%) of total financial system assets as at end-2016. Growth in bank financing for the purchase of residential properties moderated slightly to 9.2% (2010-2015 average: +12.9%) in line with the softer housing market.

Sustained demand for affordable housing supported the continued expansion in end-financing by banks for the purchase of residential properties. During the year, a total of 456,197 (2015: 474,225) housing loan applications were received by banks. The majority (61%) of applications were for the purchase of houses priced below RM500,000, of which half were for houses priced below RM250,000. About 72% of housing loan borrowers constituted first-time buyers of houses priced below RM500,000. The rejection rate for housing loan applications fell further to 23.6% (2012-2015 average: 26.1%), reflecting greater alignment between bank lending standards and borrowing behaviour.

Economic Outlook for 2017

The Malaysian economy is projected to register a sustained growth of 4.3% to 4.8% in 2017. Domestic demand will continue to be the main driver of growth, underpinned primarily by private sector activity. Private consumption is projected to expand by 6.0% in 2017. While households are likely to make further expenditure adjustments in response to rising inflationary pressure, consumption spending is expected to remain sustained, supported by a stable labour market and continued wage growth. Private investment is projected to register a modest growth of 4.1% in 2017, as firms are expected to remain cautious amidst continued uncertainty in the economic environment. All economic sectors are projected to register positive growth in 2017. The services and manufacturing sectors will be the key contributors to overall growth, while the construction sector will expand at a faster pace.

Real GDP by Kind of Economic Activity (2010 = 100)

	2016 ^p	2016 ^p	2017 ^f	2016 ^p	2017 ^f
	% of GDP ¹	Annual change (%)	Contribution to growth (ppt) ¹		
Services	54.2	5.6	4.9	3.0	2.6
Manufacturing	23.0	4.4	4.3	1.0	1.0
Mining and quarrying	8.8	2.7	2.7	0.2	0.2
Agriculture	8.1	-5.1	4.0	-0.5	0.3
Construction	4.5	7.4	8.0	0.3	0.4
Real Gross Domestic Product (GDP)	100.0¹	4.2	4.3-4.8	4.2¹	4.3-4.8

¹ Figures may not necessarily add up due to rounding and exclusion of the import duties component
^p Preliminary
^f Forecast

Source: Department of Statistics, Malaysia and Bank Negara Malaysia