BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

SIARAN AKHBAR

Ref. No.: 05/20/05

EMBARGO: Not for publication or broadcast before 1200 hours on Wednesday, 13 May 2020

ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE FIRST QUARTER OF 2020

The Malaysian economy, as with most economies, was impacted by COVID-19 in the first quarter of 2020

The Malaysia economy moderated sharply to 0.7% in the first quarter of 2020 (4Q 2019: 3.6%). On the supply side, the services and manufacturing sectors moderated while the other sectors contracted. In terms of expenditure, external demand and investments declined, while private consumption growth moderated. On a quarter-on-quarter seasonally-adjusted basis, the economy contracted by 2.0%.

The moderation reflected the impact of measures taken both globally and domestically to contain the spread of the COVID-19 pandemic. Domestically, it mainly reflected the implementation of the Movement Control Order (MCO). After a steady expansion in the first two months of the quarter, economic activity came to a sharp downshift with the implementation of the MCO on 18 March 2020. Movement restrictions including international and domestic travel restrictions, limited work and operating hours and mandatory social distancing significantly curtailed economic activity. Production was only permitted for essential goods and services and the industries integral to their supply chains. Labour-intensive and consumer-oriented sectors were also impacted.

During the quarter, headline inflation remained modest at 0.9%, mainly reflecting the lapse in the remaining impact from Sales and Services Tax

(SST) implementation and lower price-volatile inflation. Core inflation moderated slightly to 1.3%.

Exchange rate developments

In the first quarter of 2020, the ringgit depreciated by 4.9% against the US dollar, following large non-resident portfolio outflows amounting to RM26.2 billion (USD6.3 billion) as global risk aversion intensified. This development was in line with regional countries amid uncertainties surrounding the duration and severity of the COVID-19 pandemic, and its economic impact. While various measures have been implemented by governments and central banks globally to support the economy, investor sentiments remained affected by the weakening and uncertain outlook to global growth. As a result of the ongoing risk aversion in global financial markets and demand for safe haven assets, Malaysia continued to experience non-resident portfolio outflows and the ringgit depreciated by 5.8% against the US dollar in 2020 (as at 12 May). As this environment of uncertainty will persist in the near-term, capital flows and exchange rate volatility is expected going forward.

Financing conditions

Net financing expanded at a sustained pace of 4.7% on an annual basis, supported by higher growth in outstanding loans. Growth in outstanding business loans increased, while outstanding household loan growth declined. Nonetheless, demand for both business and household loans slowed in comparison to the previous quarter.

Since the Special Relief Facility (SRF) was made available on 6 March, the participating financial institutions (PFIs) and BNM have worked swiftly to implement the SRF, to ensure that SMEs benefit quickly. As at 4 May 2020, the PFIs have approved more than 20,000 applications amounting to about RM10 billion. Demand has been overwhelming, and as a result, the earlier announced RM5 billion SRF allocation has been quickly taken up that will directly benefit more than 9,000 SMEs across Malaysia, and preserve more than 200,000 jobs. In view of the strong demand, BNM has upsized the SRF by another RM5 billion to cater for all of the applications approved by PFIs as at 4 May[1] bringing the total final allocation to RM10 billion. With the gradual lifting of the movement control order (MCO) and reopening of the economic sectors, SMEs can also avail themselves to the existing financing schemes offered by the Government, the financial institutions, as well as from the remaining allocation for BNM's Fund for SMEs (All Economic Sectors Facility, Agrofood Facility, Automation and Digitalisation Facility, and Micro Enterprises Facility). SMEs can also access financing options through the imSME platform which helps to match financing needs with a variety of fund providers that cater to SMEs. In the first quarter of 2020, financial institutions have collectively disbursed RM62 billion financing to SMEs, of which RM48 billion for working capital purposes.

All policy levers are being deployed to cushion the economic impact of COVID-19

The economic stimulus measures implemented by the Government will provide sizeable assistance to households and businesses. This is further augmented by the Bank's broad array of measures, including reductions in the OPR and SRR, deferment of loan and financing repayments for a period of six months for individual and SME borrowers, daily market operations to ensure ample liquidity, and enhancements to existing financing facilities under BNM's Fund for SMEs. The Bank has also allowed banks to utilise their regulatory buffers to further ensure continued financial intermediation.

The Malaysian economy is expected to gradually pick up in 2H 2020

The global and Malaysian economic outlook for 2020 will be significantly impacted by the COVID-19 pandemic as strict measures to contain the spread of the pandemic, will weigh considerably on both external demand and domestic growth.

The Malaysian economy is expected to contract in the second quarter. This reflects the longer duration of containment measures both globally and

[1] Full utilisation of RM5 bil SRF and PFIs ceased processing applications

domestically. As these containment measures are eased and the domestic MCO is lifted, economic activity is expected to gradually improve in 2H 2020. The sizable fiscal, monetary and financial measures and progress in transport-related public infrastructure projects will provide further support to growth in 2H 2020. In line with the projected improvement in global growth, the Malaysian economy is expected to register a positive recovery in 2021.

Average headline inflation in 2020 is likely to turn negative, due mainly to projections of substantially lower global oil prices. Going forward, the outlook of headline inflation remains significantly affected by global oil and other commodity prices including food, as well as evolving demand conditions. Underlying inflation is expected to be subdued amid the projections of weaker domestic growth prospects and labour market conditions.

Bank Negara Malaysia
13 May 2020

Diterbitkan oleh:
Jabatan Komunikasi Strategik, Tingkat 14, Blok B, Bangunan Bank Negara Malaysia,
Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia.
Telefon: +60(3) 2698 8044 Faksimili: +60(3) 2693 6919
Web: www.bnm.gov.my

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

	2019 share %	2019			2020
		1Q	4Q	Year	1Q
		Annual growth, %			
Aggregate domestic demand (excl. stocks)	94.0	4.5	4.8	4.3	3.7
Private sector	75.6	6.0	7.4	6.2	4.7
Consumption	58.7	7.7	8.1	7.6	6.7
Investment	16.8	0.6	4.3	1.6	−2.3
Public sector	18.5	−1.6	−2.3	−2.8	−0.7
Consumption	12.2	6.3	1.3	2.0	5.0
Investment	6.3	−13.7	−8.0	−10.8	−11.3
Net exports	7.0	13.0	−12.4	9.7	−37.0
Exports of goods and services	63.7	0.1	−3.4	−1.3	−7.1
Imports of goods and services	56.7	−1.6	−2.4	−2.5	−2.5
GDP	100.0	4.5	3.6	4.3	0.7
GDP (qoq growth, seasonally adjusted)	-	0.9	0.6	-	−2.0

Source: Department of Statistics Malaysia

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

	2019 share %	2019			2020
		1Q	4Q	Year	1Q
		Annual growth, %			
Services	57.7	6.4	6.2	6.1	3.1
Manufacturing	22.3	4.1	3.0	3.8	1.5
Mining	7.1	−1.5	−3.4	−2.0	−2.0
Agriculture	7.1	5.8	−5.7	2.0	−8.7
Construction	4.7	0.4	1.0	0.1	−7.9
Real GDP	100.0[1]	4.5	3.6	4.3	0.7

[1] Figures may not add up due to rounding and exclusion of import duties

Source: Department of Statistics Malaysia