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BEFORE 12 NOON ON FRIDAY 14 AUGUST 2020

# Sidang Akhbar
# Prestasi Ekonomi Suku Kedua Tahun 2020

Bank Negara Malaysia

14 Ogos 2020

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CENTRAL BANK OF MALAYSIA

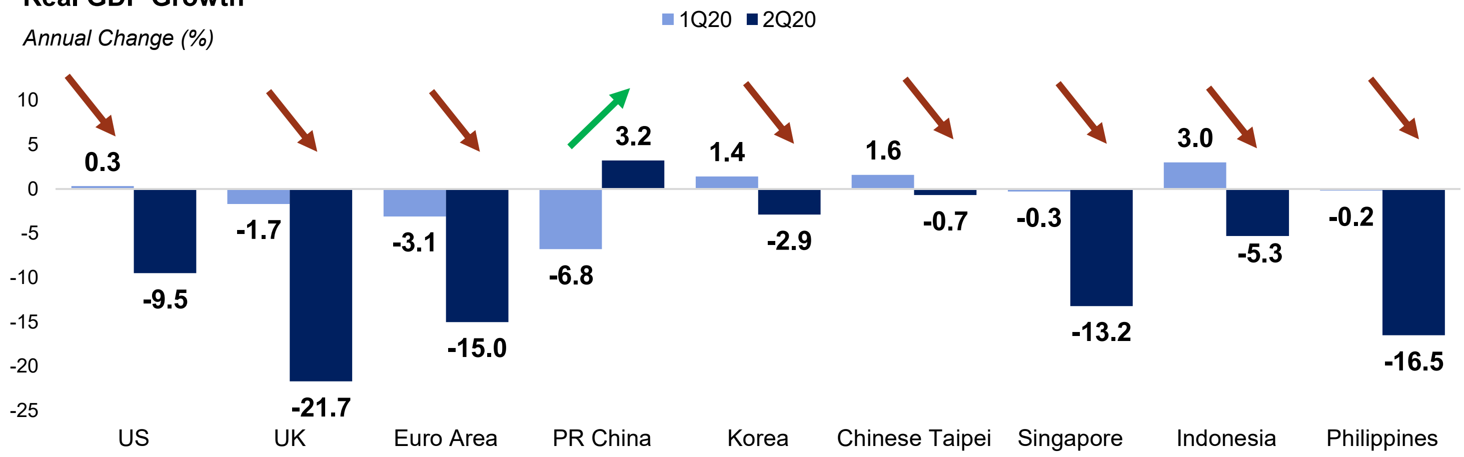


JABATAN PERANGKAAN MALAYSIA
DEPARTMENT OF STATISTICS MALAYSIA

# Global growth in 2Q 2020 contracted as COVID-19 containment measures restricted activity in major economies

**Real GDP Growth**

*Annual Change (%)*




**Global Growth**

- ↑ Recovery in PR China driven by easing of containment measures and public investments
- ↑ Monetary and fiscal stimulus across most economies
- ↓ Frail labour market conditions
- ↓ Weaker private consumption amid income losses and precautionary behaviour
- ↓ Elevated financial market volatility

Source: CEIC, national authorities

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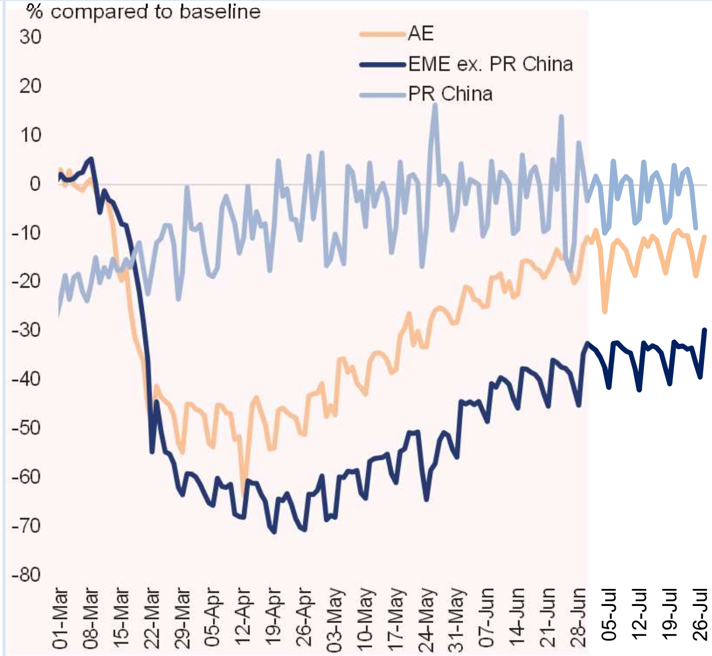
# Lockdowns imposed globally and domestically to combat COVID-19 resulted in a stop in economic activity

**Globally, lockdowns resulted in a sudden stop in economic activity**

**Global Mobility Indicators[1]**




Note: [1]Retail and recreation category for AEs and EMEs; Transport congestion index for PR China
Source: Google Community Mobility Report, AMAP, BNM estimates

**Domestically, Movement Control Order (MCO) was extended to early May, before the relaxation to CMCO and RMCO**

**18 Mar – 3 May**

## MCO

- Strict restrictions on workforce and operating hours
- Only essential services and industries critical to the supply chains allowed to operate
- Gradual relaxation of restrictions from 15 April

**4 May – 9 Jun**

**10 Jun – 31 Aug**

## CMCO & RMCO

- Most industries are allowed to operate under sector-specific SOPs
- Gradual opening of all other activities

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# The Malaysian economy contracted by 17.1% in the second quarter of 2020

GDP growth by component

| Real GDP (Annual change, %) | Share[1] % (2019) | 2019 | 2020 | |
|---|---|---|---|---|
| | | 2Q | 1Q | 2Q |
| **Services** | 57.7 | 6.1 | 3.1 | -16.2 |
| **Manufacturing** | 22.3 | 4.3 | 1.5 | -18.3 |
| **Mining and Quarrying** | 7.1 | 0.9 | -2.0 | -20.0 |
| **Agriculture** | 7.1 | 4.3 | -8.7 | 1.0 |
| **Construction** | 4.7 | 0.5 | -7.9 | -44.5 |
| **Real GDP** | 100.0 | 4.8 | 0.7 | -17.1 |

[1] Numbers do not add up due to rounding and exclusion of import duties component

Source: Department of Statistics, Malaysia

| Real GDP (Annual change, %) | Share[1], % (2019) | 2019 | 2020 | |
|---|---|---|---|---|
| | | 2Q | 1Q | 2Q |
| **Domestic demand (excluding stocks)** | 94.0 | 4.5 | 3.7 | -18.7 |
| **Private Sector** | *75.6* | 6.1 | 4.7 | -20.5 |
| *Consumption* | *58.7* | *7.8* | *6.7* | *-18.5* |
| *Investment* | *16.8* | *1.5* | *-2.3* | *-26.4* |
| **Public Sector** | *18.5* | -2.4 | -0.6 | -10.6 |
| *Consumption* | *12.2* | *0.3* | *5.0* | *2.3* |
| *Investment* | *6.3* | *-7.8* | *-11.3* | *-38.7* |
| **Net exports of goods and services** | 7.0 | 32.9 | -37.0 | -38.6 |
| *Exports* | *63.7* | *0.5* | *-7.1* | *-21.7* |
| *Imports* | *56.7* | *-2.3* | *-2.5* | *-19.7* |
| **Change in stocks (RM billion)** | -1.0 | -4.0 | -3.2 | 7.3 |
| **Real GDP** | 100 | 4.8 | 0.7 | -17.1 |
| ***Real GDP*** *(Q-o-Q SA)* | - | 1.3 | -2.0 | -16.5 |

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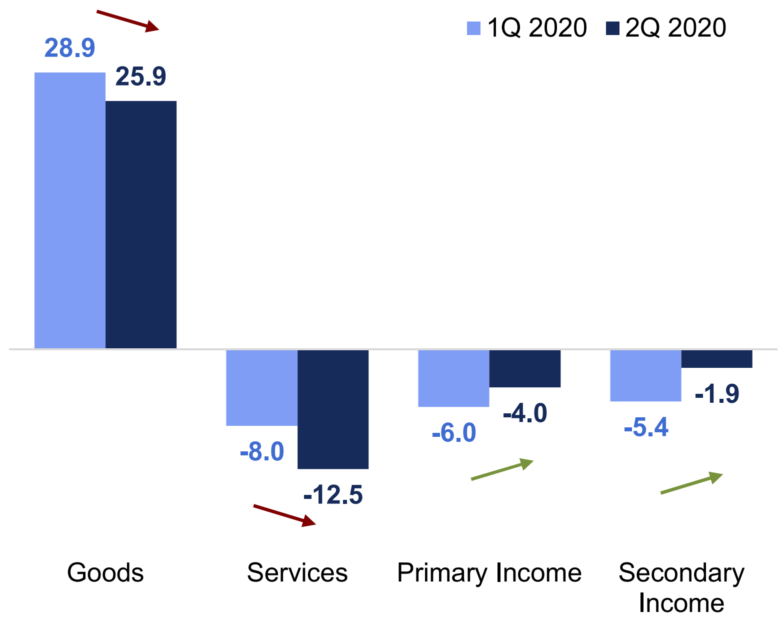
# Current account of the balance of payments registered a surplus of RM7.6 billion or 2.5% of GDP

**Breakdown of Current Account Balance (RM billion)**




Source: Department of Statistics, Malaysia

**Higher services deficit**

- Significant decline in tourist arrivals amid international travel restrictions

**Lower goods surplus**

- Decline in external demand and commodity prices

**Lower income deficit**

- Lower outward remittances by foreign workers
- Higher direct investment income for Malaysian investments abroad

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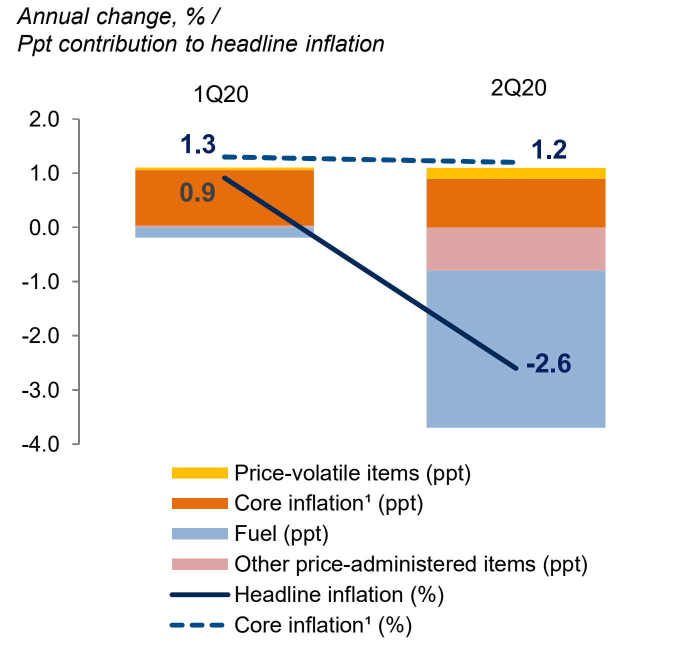
# Inflationary pressures to remain muted in 2020

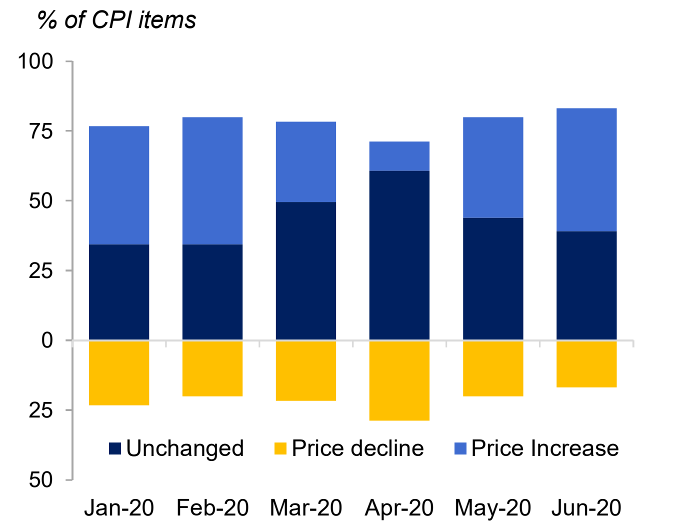
**1** **Negative headline inflation in 2Q 2020 mainly due to substantially lower retail fuel prices**

**Contribution to Headline Inflation by Component**




**2** **Some evidence of price normalisation with gradual easing of movement restrictions**

**Pervasiveness based on month-on-month inflation of CPI items***




*Based on the month-on-month inflation for 125 CPI items at the 4-digit level.

[1]Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of consumption tax policy changes
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

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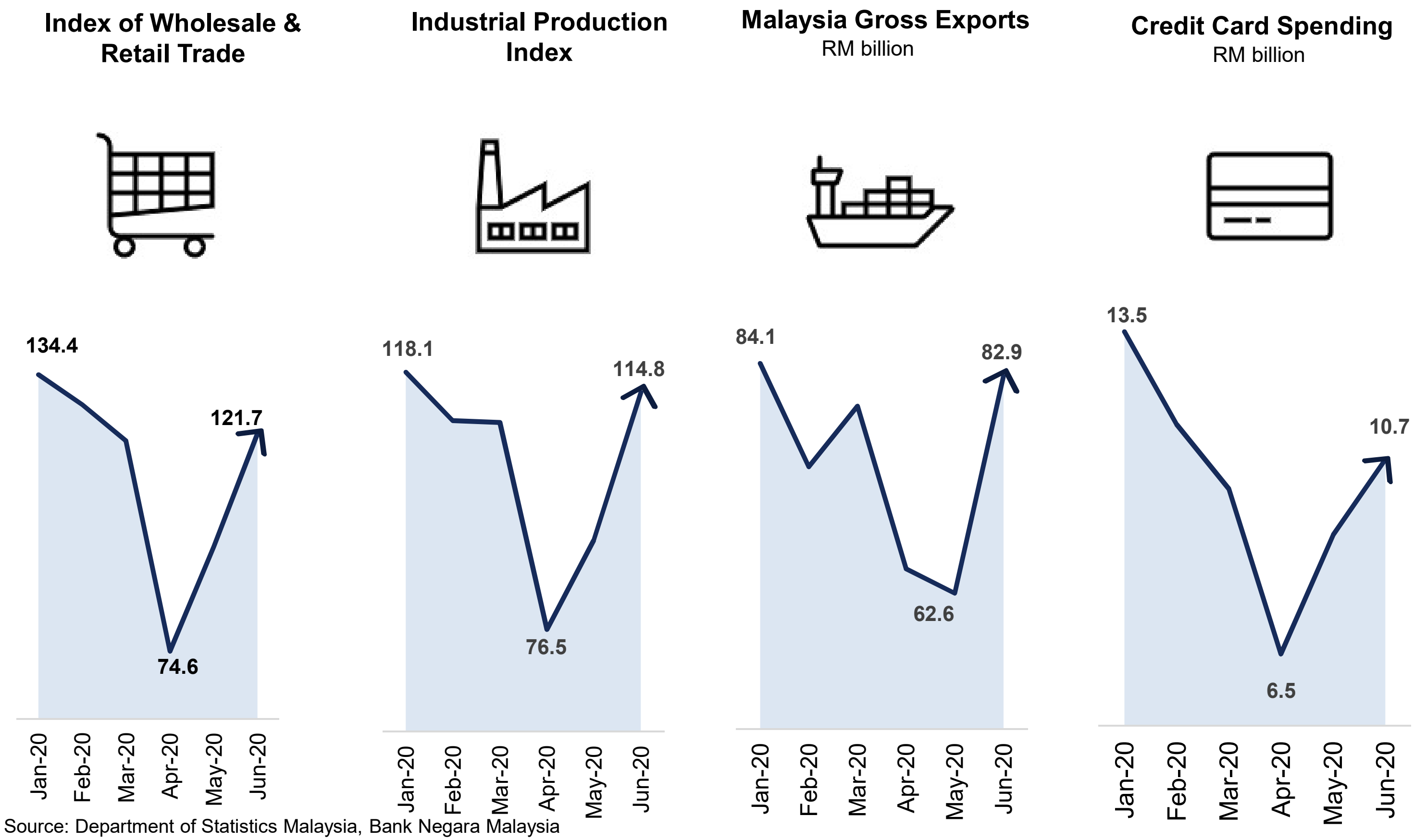
# As the MCO has been gradually relaxed, economic activity has improved from the trough in April




Source: Department of Statistics Malaysia, Bank Negara Malaysia

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# Better performance of latest indicators in July suggest continued improvement in economic activity in 3Q 2020

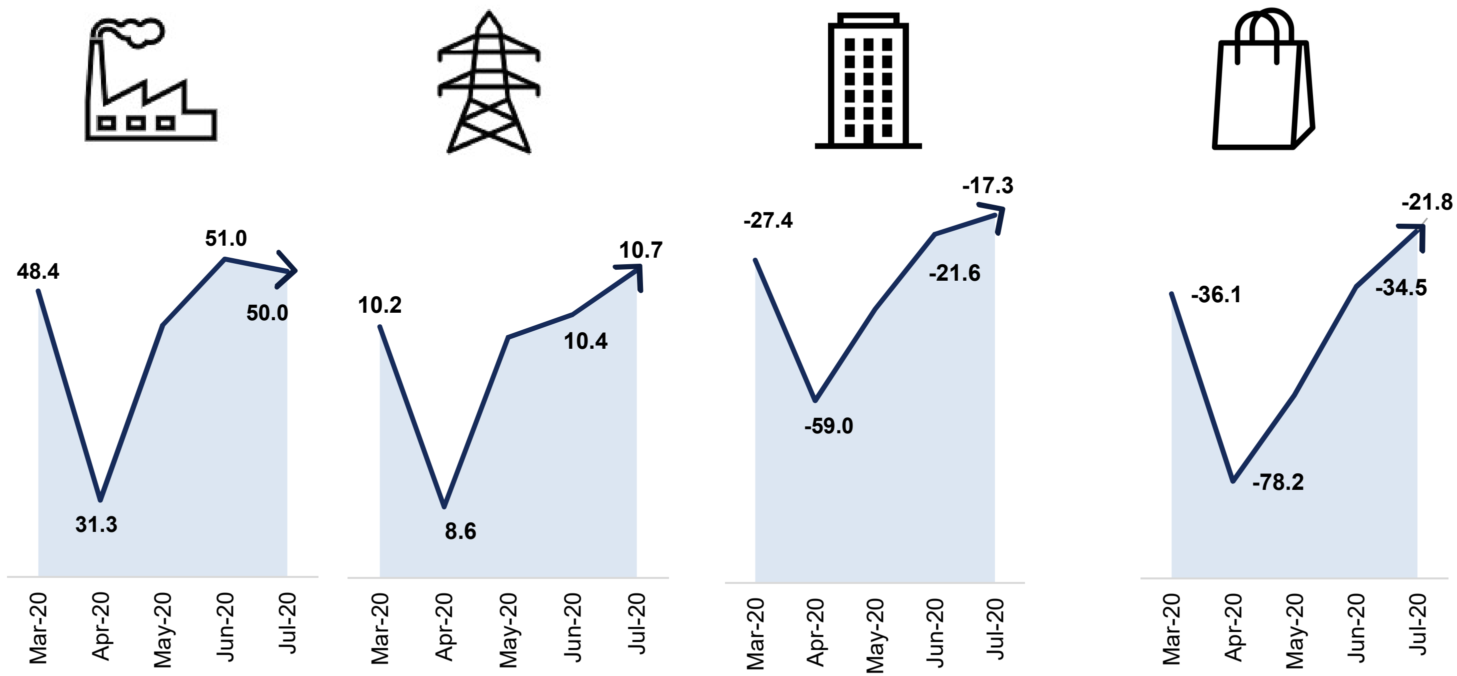
**Manufacturing PMI**
Index

**Electricity Generation**
'000 Gwh

**Google Community Mobility Report of Malaysia**
Mobility Changes Compared to Baseline (% decline)

**Workplace**

**Retail & Recreation**




Note: The Google Community Mobility Report shows how visits and length of stay at different places in a country change compared to a baseline (3 Jan-6 Feb 2020). Figure for each month refers to the average for that particular month.

Source: Google, Department of Statistics Malaysia, Tenaga Nasional Berhad

# Growth to register a gradual improvement in 2H 2020

## Key Growth Drivers

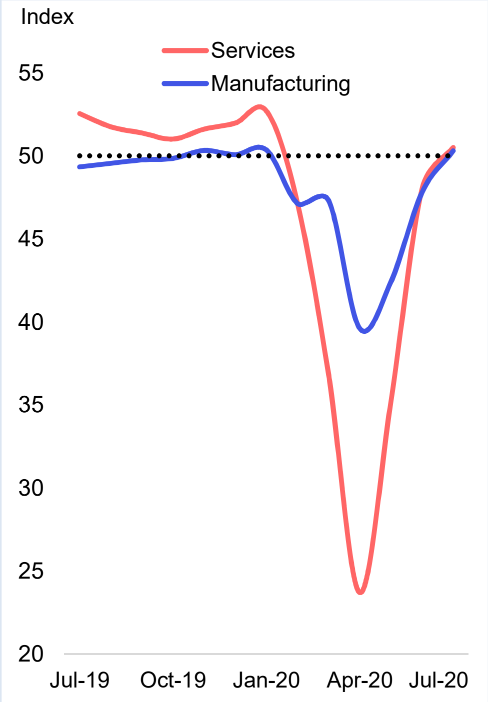
- Improvement in global growth, trade and tech cycle
- Reopening of domestic economy
- Improvement in income prospects & sentiments to support consumption spending
- Stimulus measures (fiscal, monetary, financial)

## Other supporting growth factors

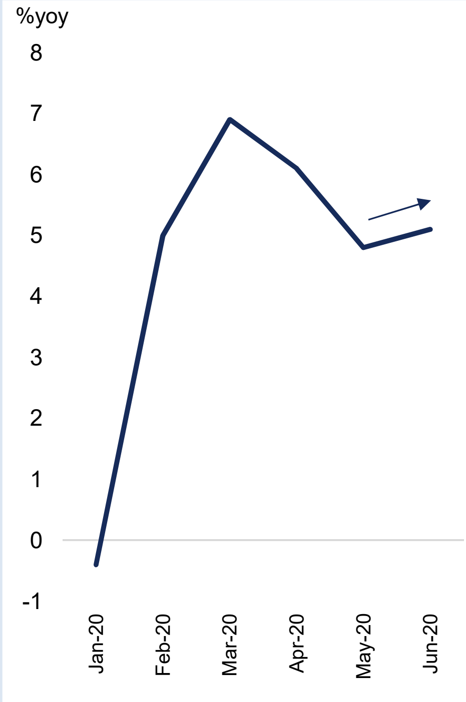
- Large public projects *(e.g. MRT)* & high multiplier smaller projects
- Recovery in commodity production

# Global economic activity starts to recover in 2H 2020

**Global: Purchasing Managers' Index**




**World Semiconductor Sales**




## 2H 2020:

- **Gradual lifting of broad-based containment measures**
- **Significant economic policy stimulus**
- **Gradual normalisation of economic activity and financial conditions**
- **Tech cycle improvement**

Source: IHS Markit, WSTS

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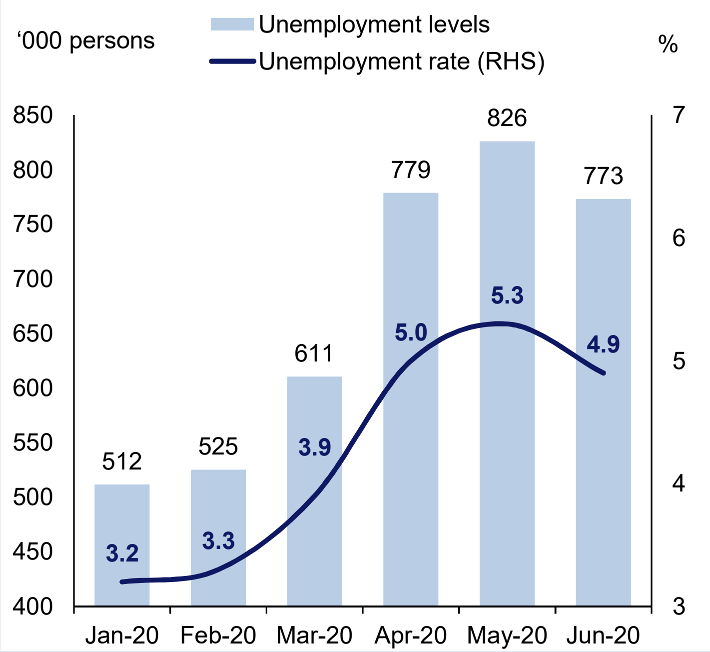
# Labour market conditions to improve going forward, in line with the recovery in economic activity

**The unemployment rate increased in 2Q 2020 to 5.1% (1Q 2020: 3.5%)**

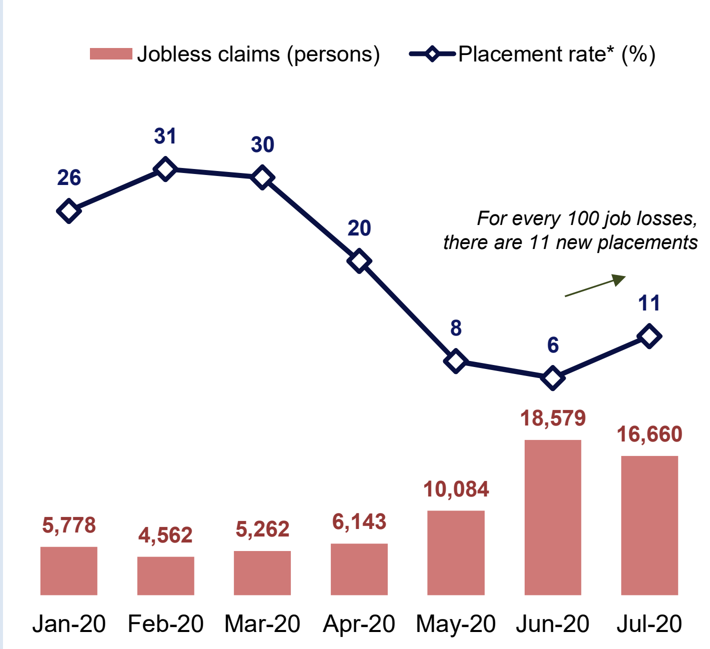
**Unemployment rate and levels**




Source: Department of Statistics Malaysia

**With some degree of improvement in 2H 2020 due to better hiring activity**

**Placement rates and jobless claims**

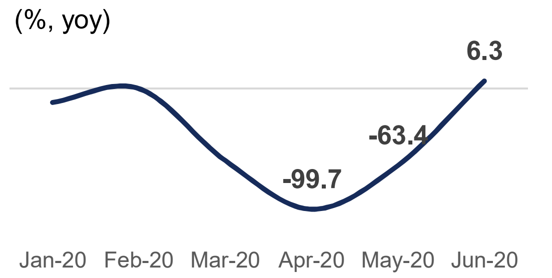



* Placement rate refers to the ratio of placement to jobless claims. It is a proxy for the rate of rehiring among the retrenched workers under EIS
Source: Employment Insurance System, Social Security Organisation

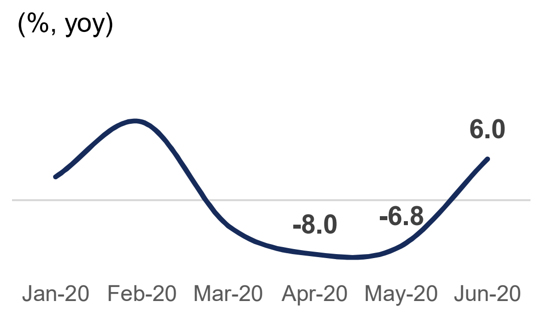
# Household spending to rebound in tandem with better labour market conditions and sentiments

## Positive signs of recovery in consumer spending since May 2020

**Passenger car sales**



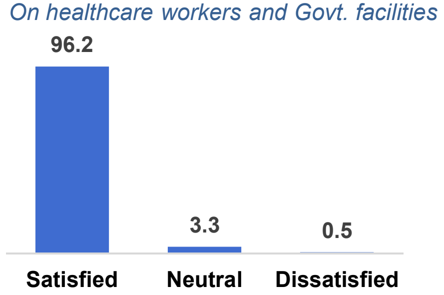

**Manufacturing sales of F&B**

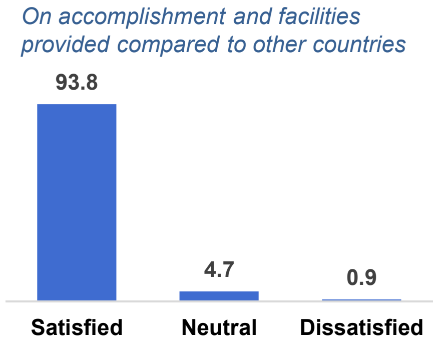



Source: Department of Statistics, Malaysia

## Households are thus far confident with containment efforts…

**DOSM survey: Perception on MY handling of COVID-19** (% of respondents)



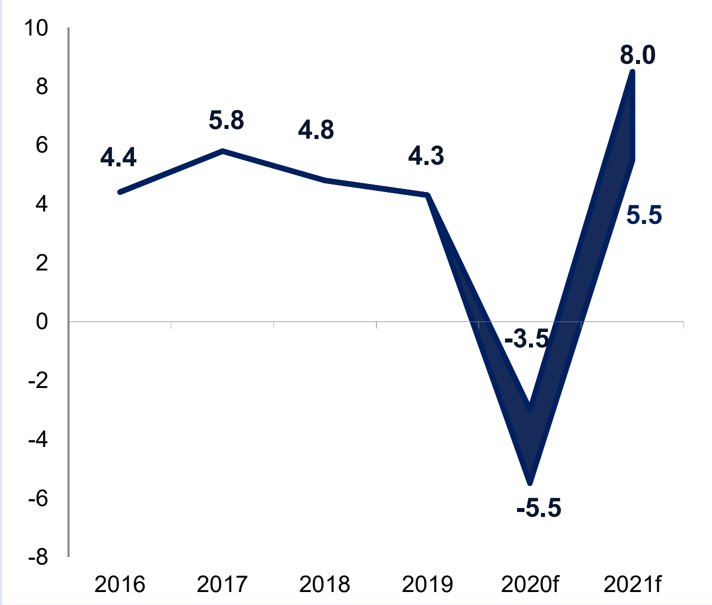

## …paving the way for a smoother recovery

**Factors supporting consumer spending going forward**

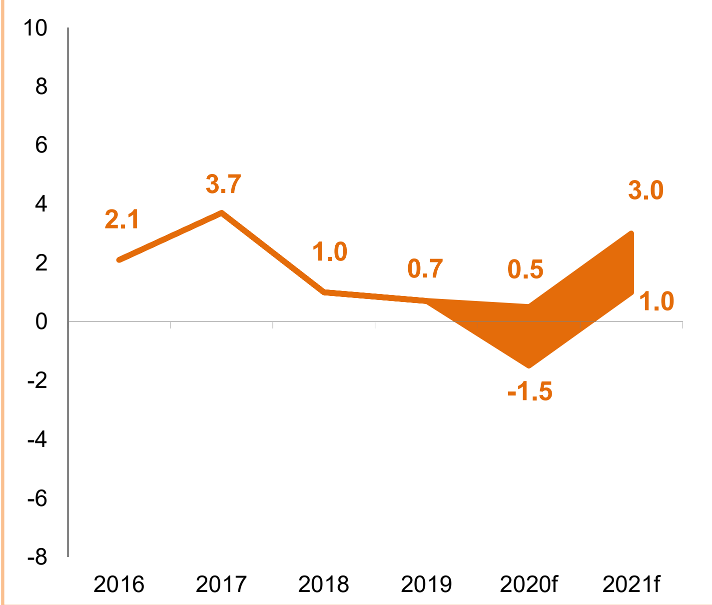
- **Gradual improvement in income**
- **Relaxation in containment measures**
- **Improving sentiments**

# Malaysia's GDP to grow within the range of -3.5% to -5.5% in 2020 and 5.5% to 8.0% in 2021

**Malaysia's Real GDP Growth**
*Annual change (%)*




**Malaysia's Headline Inflation**
*Annual change (%)*




Source: Department of Statistics, Malaysia, Bank Negara Malaysia

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# Improvement in economic activity is expected in 2H 2020 and 2021

**Continued improvement in external conditions**
*Restoration in investor confidence supporting growth*

**Gradual normalisation in economic activities and labour market conditions**
*(e.g. Better manufacturing production, rehiring and spending activity)*

**New investment projects**
*(e.g. National Fiberisation and Connectivity Plan)*

**Demand for technology and healthcare products**
*(e.g. Remote working devices, cloud computing)*

**Expansion in commodity-related production capacity**
*(e.g. Ramp-up of PFLNG2 and RAPID)*

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# Malaysia's pivotability will enable it to benefit from rising demand for technology and healthcare products

**Malaysia has the comparative strengths to develop tech solutions to meet the needs of 'New Normal'**

- **6th largest**[1] global semiconductor exporter
- Home to **leading global technology firms**
- **Largest market** for medical devices in ASEAN[2]
- Ranked **3rd in Asia** for outbreak readiness[3]

**With firms having a strong presence in product space facing rising demand**

**Sizeable market opportunities in ASEAN by 2025**[4]

- IoT **(US$ 424.2 billion)**
- 3D printing **(US$ 100 billion)**
- AI **(US$ 16 billion)**

**Sizeable market opportunities globally by 2025**[4]

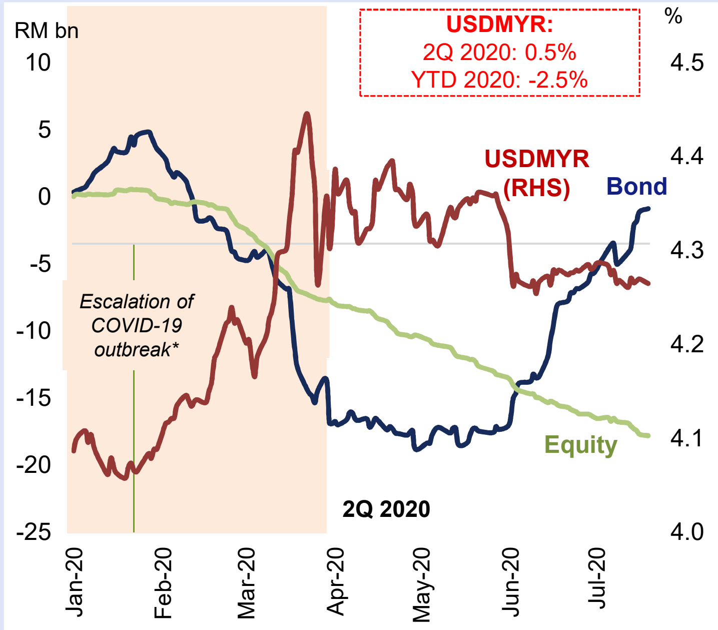
- Cloud Computing **(US$ 658 billion)**
- Home entertainment **(US$ 345.1billion)**

Source:
1 International Trade Centre
2 Malaysia Investment Development Authority (MIDA)
3 Global Health Security Index 2019
4 Businesswire (2020), Thyssenkrup (2019), Frost & Sullivan, AT Kearney & Cisco (2018), estimates based on market analysis (2020) incl. for Asia Pacific (2018-2022), Grand View Research

# Domestic financial markets improved amid easing investor risk aversion

**Financial market performance partially recovered as investor sentiments improved during the quarter, driven by the ample global policy stimulus to cushion the economic impact of the COVID-19 pandemic**

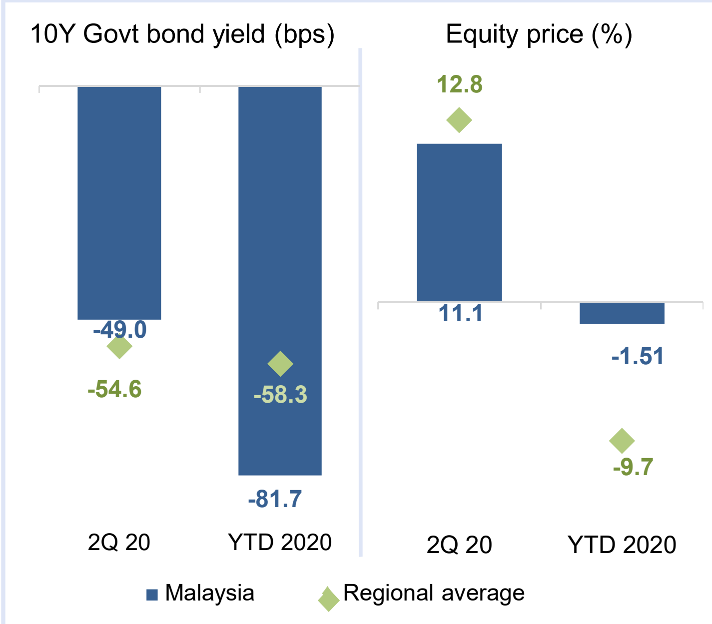
**Cumulative Non-resident Portfolio Flows and USDMYR**




*The enforcement of lockdown in Wuhan, China on 23 January 2020

Source: Bank Negara Malaysia, Bursa Malaysia

**Movement of 10-Year Sovereign Bond Yields and Equity Prices of Regional Markets***



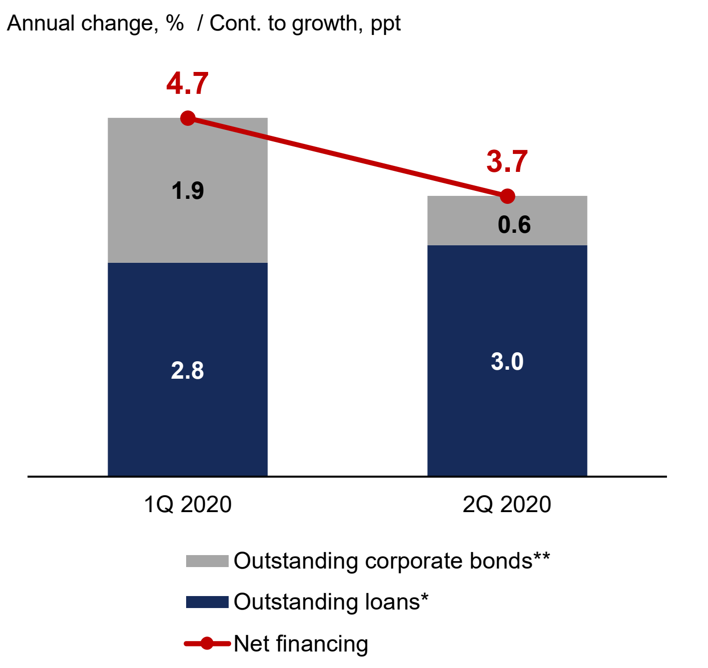

*Regional countries include Indonesia, the Philippines, PR China, Singapore, South Korea and Thailand. YTD as at 12 August 2020.

Source: Bank Negara Malaysia, Bloomberg

# Continued expansion of financing…

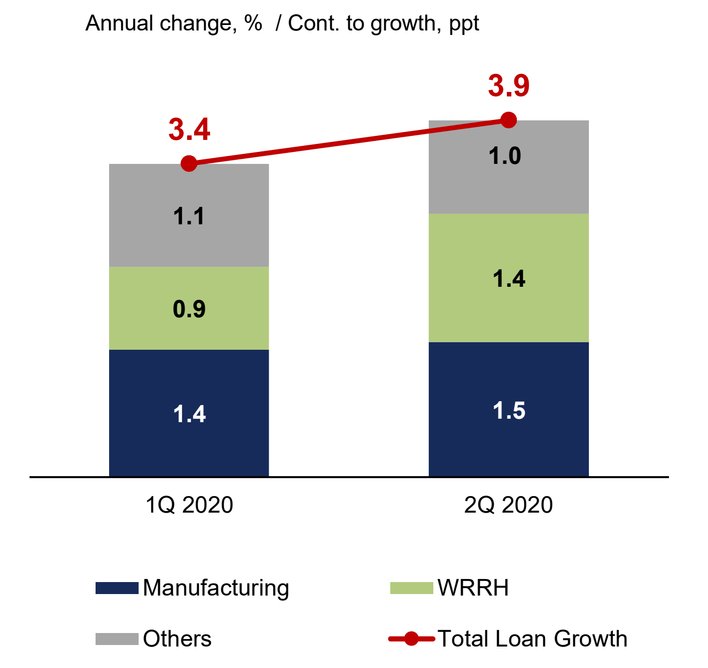
**Loan growth increased while high base effect led to a lower growth in corporate bonds**

**Net Financing***




**Increase in business loan growth mainly driven by WRRH*** and manufacturing sectors**

**Outstanding Business Loans***

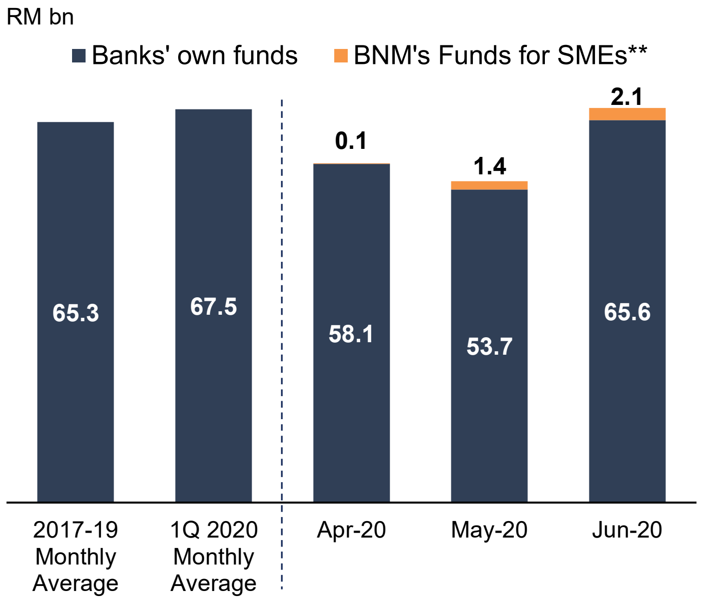



*Banking system and development financial institutions (DFIs)
**Excludes issuances by Cagamas and non-residents
***Wholesale and retail trade, and restaurants and hotels
Note: Numbers may not add up due to rounding
Source: Bank Negara Malaysia

# . . .supported by special funds and lower borrowing costs

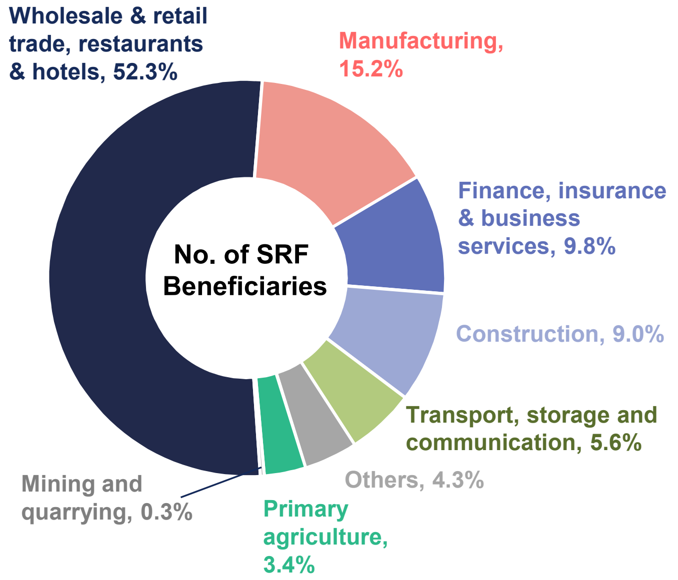
**Business loan disbursements normalised in June from low levels in April and May, driven by higher working capital loans…**

**Business Loan Disbursements***




**…supported by supplementary special funds to alleviate cash flow pressures**

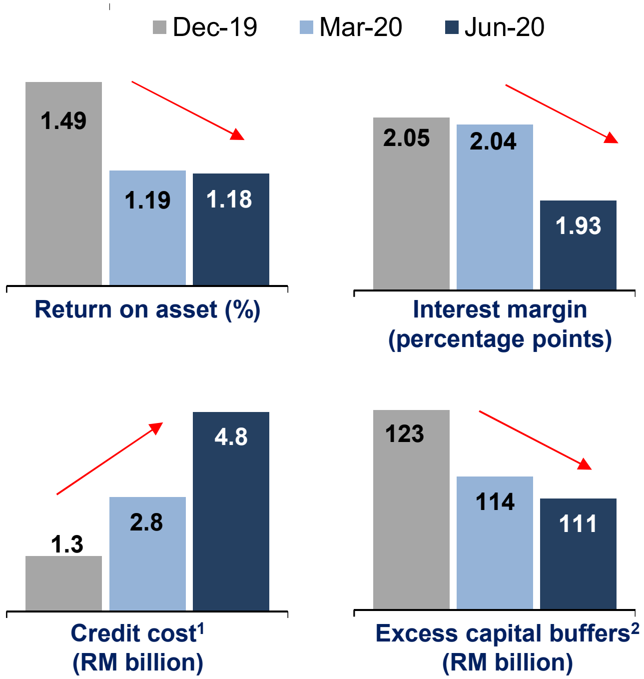
**BNM Special Relief Facility (SRF) Beneficiaries by Sector*****




*Banking system and development financial institutions (DFI)
**Comprises the Special Relief Facility (SRF), All Economic Sectors (AES) Facility, Automation and Digitalisation Facility (ADF, as part of AES), Agrofood Facility (AF) and Micro Enterprises Facility (MEF)
***As at 7 August 2020
Source: Bank Negara Malaysia

# Banking system remains well-positioned to support intermediation activity

**While lower economic activity and elevated credit costs have weighed on profitability, banks remain resilient to support lending activities**




1. Banks have set aside higher provisions in anticipation of some deterioration in asset quality
2. Interest margins have narrowed amid reductions in OPR
3. Banking system capital buffers remained adequate to support economic recovery

Note:
1. Refers to cumulative loan loss impairment and other provisions charged to income statement year-to-date
2. Excess capital buffers refer to excess above regulatory minimum

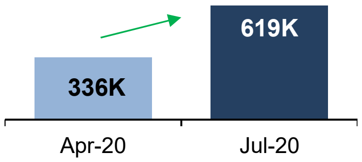
Source: Bank Negara Malaysia

# Banks are actively engaging affected borrowers for targeted assistance commensurate with borrowers' needs

## Engagements by banks have led to…

1. Increase in borrowers not needing assistance 'opting out' from auto-moratorium

**Number of retail and SME borrowers opting out from automatic loan moratorium**




2. Better identification of borrowers needing additional assistance

**>500K borrowers**
**engaged year-to-date**

3. Faster processing and approvals of repayment assistance among banks

| | 2019 | 2020 (ytd) |
|---|---|---|
| **Number of applications approved** | 14K | > 40 K |

## Targeted assistance for affected borrowers

**All banks are providing loan repayment flexibility for:**

- **Individuals who have lost their jobs** in 2020 and have yet to find a job
- **Individuals who have suffered income loss** due to COVID-19

**SMEs and other affected borrowers can also avail of similar assistance by engaging their banks**

- Deferred repayments (principal and/or interest)
- Lower instalment or step-up repayment
- Simplified documentation and process

Source: Bank Negara Malaysia

# Small Debt Resolution Scheme (SDRS) transferred to Agensi Kaunseling dan Pengurusan Kredit (AKPK)

**From 1 September 2020, SMEs can approach SDRS at AKPK for assistance in restructuring their financing with multiple banks**

**Supporting more resilient households & SMEs**

AKPK SDRS

A secondary avenue for SMEs and FIs to work out **debt rehabilitation solutions** amicably and collectively without resorting to legal recourse

- Better access to **specialised and comprehensive assistance** on debt management covering both small business and retail financing
- **More holistic support** to improve financial health of SMEs
- Greater impact from AKPK's expertise in **financial education and counselling** services
- **Wider outreach** to SMEs through AKPK's established network
- **Enhanced service efficiency** leveraging on AKPK's infrastructure and systems

# In a nutshell…

- Moving forward, the **Malaysian economy** is expected to **recover gradually** as the economy reopens and global economic conditions improve.
- **Downside risks to growth remain**, with the pace and strength of recovery subject to developments emanating from both domestic and external front
- **Policy measures** undertaken will support a recovery in 2H 2020
- Malaysia must continue to pursue **structural reforms** to leverage on our comparative advantage and harness opportunities in the new normal

# Additional Information

Add. Info

# Changes in key assumptions since EMR publication on 3 April 2020

| | EMR 2019 | 2Q 2020 QB |
|---|---|---|
| Weaker 2020 global growth outlook | Global growth: -0.5%[1] | Global growth: -4.9%[2] |
| Longer MCO Duration | 4 weeks | 7 weeks |
| Wider scope of Stimulus Measures | PRIHATIN Economic Stimulus Package | • PRIHATIN Economic Stimulus Package<br>• PRIHATIN SME Economic Stimulus Package (SME+)<br>• Short Term Economic Recovery Plan (PENJANA) |

Note:
1 BNM staff estimate
2 IMF June 2020 World Economic Outlook

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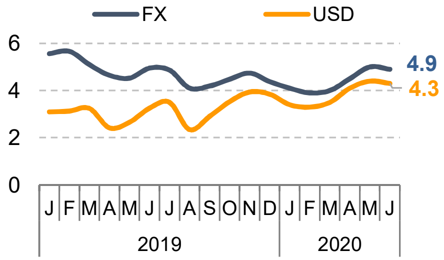
Add. Info

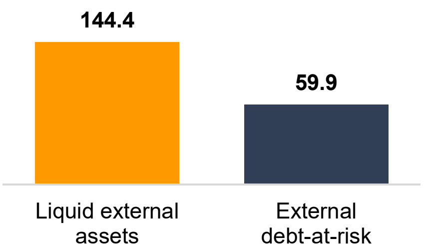
# Malaysia's external debt remains manageable

## Banks are resilient to face potential external shocks …

**Banks' FX and USD Net Open Positions as Percentage of Capital**
% of total capital

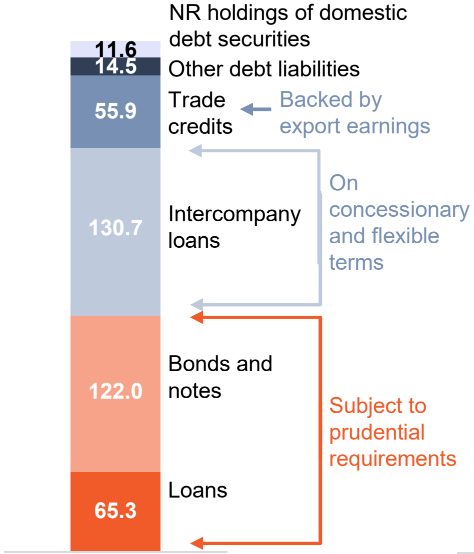



**Banks' Liquid External Assets* and External Debt-at-Risk****
RM billion




## …while corporates' external debt is mainly subject to prudential requirements…

**Corporate External Debt Breakdown by Instrument**
RM billion




Total: RM399.9 billion

## …and Government's external debt mainly in ringgit

**Government External Debt Breakdown by Currency**
RM billion


**Ringgit-denominated**

- Not affected by ringgit exchange rate fluctuations
- Large domestic institutional investors mitigate rollover and interest rate risks

**Foreign currency-denominated**

Comprise medium- and long-term loans and bonds and notes, suggesting limited rollover risks

Total: RM204.8 billion

* Consist of currency and deposit placements, and portfolio investments

** Consist of short-term financial institutions' deposits, interbank borrowings and loans from unrelated counterparties

Source: Bank Negara Malaysia

Add. Info

# Malaysian GDP contracted by 17.1% in 2Q 2020

## Percentage point contribution to GDP growth by component

| Real GDP (Ppt contribution, %) | Share[1] % (2019) | 2019 | 2020 | |
|---|---|---|---|---|
| | | 2Q | 1Q | 2Q |
| **Services** | 57.7 | 3.5 | 1.8 | -9.2 |
| **Manufacturing** | 22.3 | 1.0 | 0.3 | -4.2 |
| **Mining and Quarrying** | 7.1 | 0.1 | -0.2 | -1.5 |
| **Agriculture** | 7.1 | 0.3 | -0.6 | 0.1 |
| **Construction** | 4.7 | 0.0 | -0.4 | -2.0 |
| **Real GDP** | 100.0 | 4.8 | 0.7 | -17.1 |

| Real GDP (Ppt contribution, %) | Share[1], % (2019) | 2019 | 2020 | |
|---|---|---|---|---|
| | | 2Q | 1Q | 2Q |
| **Domestic demand (excluding stocks)** | **94.0** | **4.3** | **3.4** | **-17.7** |
| **Private Sector** | ***75.6*** | **4.7** | **3.5** | **-15.9** |
| *Consumption* | *58.7* | *4.4* | *3.9* | *-10.8* |
| *Investment* | *16.8* | *0.3* | *-0.4* | *-5.2* |
| **Public Sector** | ***18.5*** | **-0.4** | **-0.1** | **-1.7** |
| *Consumption* | *12.2* | *0.0* | *0.6* | *0.3* |
| *Investment* | *6.3* | *-0.5* | *-0.7* | *-2.0* |
| **Net exports of goods and services** | **7.0** | **1.8** | **-3.2** | **-2.7** |
| *Exports* | *63.7* | *0.4* | *-4.6* | *-13.9* |
| *Imports* | *56.7* | *-1.4* | *-1.4* | *-11.3* |
| **Change in stocks** | **-1.0** | **-1.3** | **0.5** | **3.2** |
| **Real GDP** | **100** | **4.8** | **0.7** | **-17.1** |

[1] Numbers do not add up due to rounding and exclusion of import duties component
Source: Department of Statistics, Malaysia

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