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

The Malaysian economy registered a contraction in the second quarter of 2020, due to sudden stop in activities in April 2020

The Malaysian economy contracted by 17.1% in the second quarter of 2020 (1Q 2020: 0.7%). The decline reflected the unprecedented impact of the stringent containment measures to control the COVID-19 pandemic globally and domestically. In Malaysia, the nationwide Movement Control Order (MCO) included various measures that restricted production and consumption activities. This resulted in demand and supply shocks that emanated not only from significantly weak external demand conditions, but also production constraints in many economic sectors. Additionally, there was a marked decline in tourism activity due to international border closures and restricted interstate travel. On the supply side, most economic sectors registered negative growth, while most expenditure components declined. On a quarter-on-quarter seasonally-adjusted basis, the economy contracted by 16.5%.

During the quarter, headline inflation was at -2.6%, mainly due to substantially lower retail fuel prices compared to last year and the tiered electricity tariff rebate. Core inflation moderated slightly to 1.2%.

Exchange rate developments

In the second quarter of 2020, the ringgit appreciated by 0.5% against the US dollar, following resumption of non-resident portfolio inflows as investor

sentiments and risk appetite improved. This was due to the quick implementation of large-scale liquidity injections and policy responses by central banks and governments. Additionally, investor sentiments were also supported by the gradual easing of movement restrictions in a number of countries. This development is in line with regional currencies, which also appreciated against the US dollar during the quarter. In the more recent period beyond the second quarter, the low global interest rate environment and optimism on a recovery in global growth continue to drive the positive market momentum within the region. As a result, Malaysia continued to experience non-resident portfolio inflows and the ringgit appreciated by 2.2% against the US dollar since end-June 2020 (as at 13 August). However, the global environment remains highly uncertain in the near-term, which may lead to capital flows and exchange rate volatility going forward.

Financing conditions

Net financing to the private sector¹ continued to expand at 3.7% on an annual basis. Growth in outstanding business loans increased from 3.4% in 1Q 2020 to 3.9% in 2Q 2020, while outstanding household loan growth was sustained. On a monthly basis, disbursements for business loans recovered to normal levels in June from low levels during the MCO in April and May. This was in line with business loan demand that increased during the quarter, especially for working capital needs, while household demand for loans continued to decline amid more cautious sentiments.

The Malaysian economy is expected to recover gradually in the second half of 2020 as the economy progressively re-opens and external demand improves

Economic activity has resumed since the economy began to reopen in early May 2020. Consequently, growth is expected to have troughed in the second

¹ Comprises outstanding loans from the banking system and development financial institutions (DFIs), and outstanding corporate bonds.

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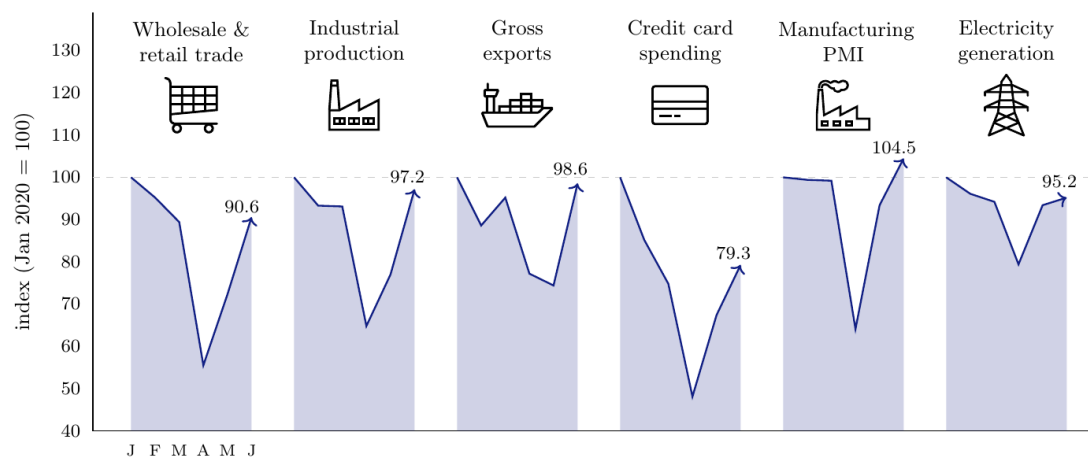
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quarter of 2020, with a gradual recovery in the second half. This outlook is underpinned by the rebound of key indicators such as wholesale and retail trade, industrial production, gross exports, and electricity generation.

Key Economic Indicators



Source: Department of Statistics Malaysia, IHS Markit, Tenaga Nasional Berhad, and Bank Negara Malaysia

This improvement in growth will also be supported by the recovery in global growth and continued domestic policy support. In particular, consumption and investment activity is projected to benefit from the wide-range of measures in the fiscal stimulus packages, continued financial measures and low interest environment. With the reopening of economic activities, a concurrent improvement in labour market conditions is expected. Overall, the Malaysian economy is therefore forecasted to grow within the range of -3.5% to -5.5% in 2020, before staging a rebound within a growth range of 5.5% to 8.0% in 2021.

Average headline inflation in 2020 is likely to be negative, in line with the earlier projected range of -1.5% to 0.5%, primarily reflecting the substantially lower global oil prices. The risks of a broad-based and persistent decline in prices are assessed to be limited as economic activity gradually resumes and demand conditions improve. Underlying inflation is expected to average within expectations for the year as a whole. For 2021, headline inflation is forecasted to average higher, between 1% to 3%, in line with the longer-term historical

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average. This mainly reflects the expected recovery in global oil prices and improvement in domestic demand conditions. However, the outlook will continue to be significantly affected by uncertainties surrounding global oil and commodity prices as well as the evolving COVID-19 developments.

Bank Negara Malaysia

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