Sidang Akhbar
Prestasi Ekonomi Suku Kedua Tahun 2020

Bank Negara Malaysia

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

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

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA
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

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

Global Mobility Indicators

% compared to baseline

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

18 Mar – 3 May
- 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
- Most industries are allowed to operate under sector-specific SOPs
- Gradual opening of all other activities
The Malaysian economy contracted by 17.1% in the second quarter of 2020

GDP growth by component

<table>
<thead>
<tr>
<th>Real GDP (Annual change, %)</th>
<th>Share¹ % (2019)</th>
<th>2019</th>
<th>2Q</th>
<th>1Q</th>
<th>2Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>57.7</td>
<td>6.1</td>
<td>3.1</td>
<td>-16.2</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>22.3</td>
<td>4.3</td>
<td>1.5</td>
<td>-18.3</td>
<td></td>
</tr>
<tr>
<td>Mining and Quarrying</td>
<td>7.1</td>
<td>0.9</td>
<td>-2.0</td>
<td>-20.0</td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>7.1</td>
<td>4.3</td>
<td>-8.7</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>4.7</td>
<td>0.5</td>
<td>-7.9</td>
<td>-44.5</td>
<td></td>
</tr>
<tr>
<td>Real GDP</td>
<td>100.0</td>
<td>4.8</td>
<td>0.7</td>
<td>-17.1</td>
<td></td>
</tr>
</tbody>
</table>

<table>
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<th>2Q</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Domestic demand</td>
<td>94.0</td>
<td>4.5</td>
<td>3.7</td>
<td>-18.7</td>
<td></td>
</tr>
<tr>
<td>Private Sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consumption</td>
<td>75.6</td>
<td>6.1</td>
<td>4.7</td>
<td>-20.5</td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>58.7</td>
<td>7.8</td>
<td>6.7</td>
<td>-18.5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>16.8</td>
<td>1.5</td>
<td>-2.3</td>
<td>-26.4</td>
<td></td>
</tr>
<tr>
<td>Public Sector</td>
<td>18.5</td>
<td>-2.4</td>
<td>-0.6</td>
<td>-10.6</td>
<td></td>
</tr>
<tr>
<td>Consumption</td>
<td>12.2</td>
<td>0.3</td>
<td>5.0</td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>6.3</td>
<td>-7.8</td>
<td>-11.3</td>
<td>-38.7</td>
<td></td>
</tr>
<tr>
<td>Net exports of goods and services</td>
<td>7.0</td>
<td>32.9</td>
<td>-37.0</td>
<td>-38.6</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>63.7</td>
<td>0.5</td>
<td>-7.1</td>
<td>-21.7</td>
<td></td>
</tr>
<tr>
<td>Imports</td>
<td>56.7</td>
<td>-2.3</td>
<td>-2.5</td>
<td>-19.7</td>
<td></td>
</tr>
<tr>
<td>Change in stocks (RM billion)</td>
<td>-1.0</td>
<td>-4.0</td>
<td>-3.2</td>
<td>7.3</td>
<td></td>
</tr>
<tr>
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<td>Real GDP (Q-o-Q SA)</td>
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<td>1.3</td>
<td>-2.0</td>
<td>-16.5</td>
<td></td>
</tr>
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</table>

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

Source: Department of Statistics, Malaysia
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)

<table>
<thead>
<tr>
<th>Component</th>
<th>1Q 2020</th>
<th>2Q 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods</td>
<td>28.9</td>
<td>25.9</td>
</tr>
<tr>
<td>Services</td>
<td>-8.0</td>
<td>-12.5</td>
</tr>
<tr>
<td>Primary Income</td>
<td>-6.0</td>
<td>-4.0</td>
</tr>
<tr>
<td>Secondary Income</td>
<td>-5.4</td>
<td>-1.9</td>
</tr>
</tbody>
</table>

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

Source: Department of Statistics, Malaysia
Inflationary pressures to remain muted in 2020

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

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

Contribution to Headline Inflation by Component

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.

1Core 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
As the MCO has been gradually relaxed, economic activity has improved from the trough in April

Index of Wholesale & Retail Trade  
Industrial Production Index  
Malaysia Gross Exports  
Credit Card Spending

Source: Department of Statistics Malaysia, Bank Negara Malaysia
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

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
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%)

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

**Unemployment rate and levels**

- **Unemployment levels**
  - Jan-20: 3.2
  - Feb-20: 3.3
  - Mar-20: 3.9
  - Apr-20: 5.0
  - May-20: 5.3
  - Jun-20: 4.9

- **Unemployment rate (RHS)**
  - Jan-20: 512
  - Feb-20: 525
  - Mar-20: 611
  - Apr-20: 779
  - May-20: 826
  - Jun-20: 773

**Placement rates and jobless claims**

- **Jobless claims (persons)**
  - Jan-20: 5,778
  - Feb-20: 4,562
  - Mar-20: 5,262
  - Apr-20: 6,143
  - May-20: 10,084
  - Jun-20: 18,579
  - Jul-20: 16,660

- **Placement rate* (%)**
  - Jan-20: 26
  - Feb-20: 31
  - Mar-20: 30
  - Apr-20: 20
  - May-20: 8
  - Jun-20: 6
  - Jul-20: 11

*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: Department of Statistics Malaysia

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

Households are thus far confident with containment efforts...

...paving the way for a smoother recovery

Factors supporting consumer spending going forward

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

Source: Department of Statistics, Malaysia
Malaysia’s GDP to grow within the range of -3.5% to -5.5% in 2020 and 5.5% to 8.0% in 2021

Source: Department of Statistics, Malaysia, Bank Negara Malaysia
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)
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’

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

Sizeable market opportunities in ASEAN by 2025⁴

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

Sizeable market opportunities globally by 2025⁴

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

Source:
1 International Trade Centre
2 Malaysia Investment Development Authority (MIDA)
3 Global Health Security Index 2019
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.

*Regional countries include Indonesia, the Philippines, PR China, Singapore, South Korea and Thailand. YTD as at 12 August 2020. Source: Bank Negara Malaysia, Bloomberg

*The enforcement of lockdown in Wuhan, China on 23 January 2020
Source: Bank Negara Malaysia, Bursa Malaysia
Continued expansion of financing…

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

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

Net Financing*

<table>
<thead>
<tr>
<th></th>
<th>1Q 2020</th>
<th>2Q 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding corporate bonds**</td>
<td>1.9</td>
<td>0.6</td>
</tr>
<tr>
<td>Outstanding loans*</td>
<td>2.8</td>
<td>3.0</td>
</tr>
<tr>
<td>Net financing</td>
<td>4.7</td>
<td>3.7</td>
</tr>
</tbody>
</table>

Outstanding Business Loans*

<table>
<thead>
<tr>
<th></th>
<th>1Q 2020</th>
<th>2Q 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>1.4</td>
<td>1.5</td>
</tr>
<tr>
<td>WRRH</td>
<td>0.9</td>
<td>1.4</td>
</tr>
<tr>
<td>Others</td>
<td>1.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Total Loan Growth</td>
<td>3.4</td>
<td>3.9</td>
</tr>
</tbody>
</table>

*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...

...supported by supplementary special funds to alleviate cash flow pressures

**Business Loan Disbursements***

<table>
<thead>
<tr>
<th></th>
<th>2017-19 Monthly Average</th>
<th>1Q 2020 Monthly Average</th>
<th>Apr-20</th>
<th>May-20</th>
<th>Jun-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>RM bn</td>
<td>Banks’ own funds</td>
<td>BNM’s Funds for SMEs**</td>
<td>65.3</td>
<td>58.1</td>
<td>65.6</td>
</tr>
</tbody>
</table>

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

- Wholesale & retail trade, restaurants & hotels, 52.3%
- Manufacturing, 15.2%
- Finance, insurance & business services, 9.8%
- Construction, 9.0%
- Transport, storage and communication, 5.6%
- Primary agriculture, 3.4%
- Mining and quarrying, 0.3%
- Others, 4.3%

*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
     - Apr-20: 336K
     - Jul-20: 619K

2. Better identification of borrowers needing additional assistance
   - >500K borrowers engaged year-to-date

3. Faster processing and approvals of repayment assistance among banks

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

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

Supporting more resilient households & SMEs

A secondary avenue for SMEs and FIs to work out **debt rehabilitation solutions** amicably and collectively without resorting to legal recourse
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
# Changes in key assumptions since EMR publication on 3 April 2020

<table>
<thead>
<tr>
<th></th>
<th>EMR 2019</th>
<th>2Q 2020 QB</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Weaker 2020 global growth outlook</strong></td>
<td>Global growth: -0.5%&lt;sup&gt;1&lt;/sup&gt;</td>
<td>Global growth: -4.9%&lt;sup&gt;2&lt;/sup&gt;</td>
</tr>
<tr>
<td><strong>Longer MCO Duration</strong></td>
<td>4 weeks</td>
<td>7 weeks</td>
</tr>
<tr>
<td><strong>Wider scope of Stimulus Measures</strong></td>
<td>PRIHATIN Economic Stimulus Package</td>
<td>• PRIHATIN Economic Stimulus Package</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• PRIHATIN SME Economic Stimulus Package (SME+)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Short Term Economic Recovery Plan (PENJANA)</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>FX</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>USD</td>
<td>4.3%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

…while corporates’ external debt is mainly subject to prudential requirements…

Corporate External Debt Breakdown by Instrument
RM billion

<table>
<thead>
<tr>
<th>Instrument</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade credits</td>
<td>11.6</td>
<td>14.5</td>
</tr>
<tr>
<td>Intercompany loans</td>
<td>130.7</td>
<td>122.0</td>
</tr>
<tr>
<td>NR holdings of domestic debt securities</td>
<td>55.9</td>
<td>55.9</td>
</tr>
<tr>
<td>Other debt liabilities</td>
<td>14.5</td>
<td>14.5</td>
</tr>
<tr>
<td>Loans</td>
<td>65.3</td>
<td>65.3</td>
</tr>
<tr>
<td>Bonds and notes</td>
<td>122.0</td>
<td>122.0</td>
</tr>
<tr>
<td>Total</td>
<td>399.9</td>
<td>399.9</td>
</tr>
</tbody>
</table>

…and Government’s external debt mainly in ringgit

Government External Debt Breakdown by Currency
RM billion

<table>
<thead>
<tr>
<th>Currency</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ringgit-denominated</td>
<td>179.8</td>
<td></td>
</tr>
<tr>
<td>Foreign currency-denominated</td>
<td>25.1</td>
<td></td>
</tr>
</tbody>
</table>

Malaysia’s external debt remains manageable

- Banks’ Liquid External Assets* and External Debt-at-Risk**
  - Liquid external assets: RM144.4 billion
  - External debt-at-risk: RM59.9 billion
  - Total: RM399.9 billion

- Corporate debt breakdown:
  - Trade credits: RM11.6 billion
  - Intercompany loans: RM130.7 billion
  - NR holdings of domestic debt securities: RM55.9 billion
  - Other debt liabilities: RM14.5 billion
  - Loans: RM65.3 billion
  - Bonds and notes: RM122.0 billion
  - Total: RM399.9 billion

- Government debt:
  - Ringgit-denominated: RM179.8 billion
  - Foreign currency-denominated: RM25.1 billion
  - Total: RM204.8 billion

- Liquid assets are mainly in foreign currency, while corporate debts are subject to prudential requirements.
- Government debt is mainly ringgit-denominated, with limited rollover risks.

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* 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
Malaysian GDP contracted by 17.1% in 2Q 2020

Percentage point contribution to GDP growth by component

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<thead>
<tr>
<th>Real GDP (Ppt contribution, %)</th>
<th>Share¹ % (2019)</th>
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<td>-0.6</td>
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<td>4.7</td>
<td>0.0</td>
<td>-0.4</td>
</tr>
<tr>
<td>Real GDP</td>
<td>100.0</td>
<td>4.8</td>
<td>0.7</td>
</tr>
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¹ Numbers do not add up due to rounding and exclusion of import duties component
Source: Department of Statistics, Malaysia

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<tr>
<td>Investment</td>
<td>16.8</td>
<td>0.3</td>
<td>-0.4</td>
</tr>
<tr>
<td>Public Sector</td>
<td>18.5</td>
<td>-0.4</td>
<td>-0.1</td>
</tr>
<tr>
<td>Consumption</td>
<td>12.2</td>
<td>0.0</td>
<td>0.6</td>
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<td>-1.4</td>
<td>-1.4</td>
</tr>
<tr>
<td>Change in stocks</td>
<td>-1.0</td>
<td>-1.3</td>
<td>0.5</td>
</tr>
<tr>
<td>Real GDP</td>
<td>100</td>
<td>4.8</td>
<td>0.7</td>
</tr>
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