BANK NEGARA MALAYSIA

- ECONOMIC AND MONETARY REVIEW
- FINANCIAL STABILITY REVIEW

3 APRIL 2020
The global economy is expected to contract in 2020, weighed by unprecedented measures taken to contain COVID-19

- The unprecedented containment measures taken by numerous countries have triggered a concurrent supply and demand shock
- Latest economic indicators suggest a sharp contraction in economic activities
- Prospects for both advanced and emerging economies are deteriorating as the pandemic escalates

IMF: “…a recession at least as bad as during the GFC or worse. But we expect recovery in 2021.”

1 Japan and Euro Area March 2020 data refers to flash estimates
Source: IHS Markit, CEIC, Haver, Bloomberg, news flows and national authorities
Malaysia’s economy will not be spared, affected by both weak global demand and domestic containment measures.

Exports of Goods & Services
- Exports dragged by weak global demand, supply chain disruptions, and lower foreign tourist receipts

Private Investment
- Private investments weighed by weak demand and business sentiments

Private Consumption
- Private consumption affected by lower income and containment measures, but supported by policy measures

Contribution to Real GDP Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports of Goods &amp; Services</th>
<th>Private Investment</th>
<th>Private Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>-0.8</td>
<td>-8.7</td>
<td></td>
</tr>
<tr>
<td>2020f</td>
<td>-0.8</td>
<td>+0.3</td>
<td>+4.3</td>
</tr>
</tbody>
</table>

Note: GDP Growth in percentage point contributions for 2019 and 2020 forecast (2020f).
**Pakej Rangsangan Ekonomi Prihatin Rakyat 2020** will cushion the impact on households and businesses.

### Strengthening Healthcare Resources
- Increase medical personnel and equipment for detection and treatment

### Providing Safety Net To Households
- Bantuan Prihatin Nasional and Bantuan Sara Hidup
- Lower EPF contribution & i-Lestari withdrawal scheme
- Loan moratorium for 6 months

### Minimising Adverse Impact On Businesses
- RM5 billion Special Relief Facility, RM6.8 billion All Economic Sectors Facility
- Loan moratorium for 6 months
- Employment Retention Programme
- Deferment of income tax, exemption of service tax & electricity bill discount

### Seizing Future Growth Opportunities
- Small-scale projects worth RM4 billion
- Infrastructure investments by public corporations

In total, stimulus measures are estimated to add +2.8 ppt to 2020 GDP growth.

Note: List of measures are not exhaustive.
The Bank’s priority is to ensure that the financial system continues to serve the needs of the economy.

**Relief for individuals, SMEs and corporates**

- 6-month deferment on loans or financing for individuals and SMEs
- Conversion of credit card balances into term loans/financing
- Facilitate corporates’ requests to defer, restructure or reschedule loans
- Lower financing costs from OPR reductions in January and March 2020
- Flexibilities to preserve insurance/takaful policies

**Measures to support lending activities by financial intermediaries**

- Adjustments in Statutory Reserve Requirement (SRR)
- Flexibility to draw on capital and liquidity buffers
- Review of regulatory priorities and implementation timelines
The financial system is well positioned to support the economy, given the strong buffers built up over the years.

Banks have strong capital positions…

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Capital Ratio</th>
<th>Excess Capital Buffers</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>12.6%</td>
<td>RM 39 bn</td>
</tr>
<tr>
<td>Feb '20</td>
<td>18.4%</td>
<td>RM 121 bn</td>
</tr>
</tbody>
</table>

… with ample liquidity buffers…

<table>
<thead>
<tr>
<th>Year</th>
<th>Liquidity Coverage Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015–19 avg.</td>
<td>137</td>
</tr>
<tr>
<td>Feb '20</td>
<td>148</td>
</tr>
</tbody>
</table>

… and adequate provisions set aside

<table>
<thead>
<tr>
<th>Year</th>
<th>Loan Loss Coverage Ratio* (%)</th>
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<tbody>
<tr>
<td>2015–19 avg.</td>
<td>120</td>
</tr>
<tr>
<td>Feb '20</td>
<td>125</td>
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</tbody>
</table>

*including regulatory reserves

Source: Bank Negara Malaysia
Stress tests affirm resilience of financial system even under severe economic conditions

Simulated GDP shocks more severe than past stress events

Capital buffers sufficient to absorb potential losses

- **Pre-shock**
  - **2019**
    - Total Capital Ratio, % (Banks): 18.3
    - Minimum regulatory requirement: 8%

- **Post-shock**
  - **Adverse Scenario 1**
    - Capital Adequacy Ratio, % (Insurers): 228
  - **Adverse Scenario 2**
    - Capital Adequacy Ratio, % (Insurers): 210

Source: Bank Negara Malaysia
The Bank will ensure uninterrupted financial intermediation in the environment of heightened financial market volatility

Ample liquidity in the banking system with continuous support by the Bank via its open market operations

<table>
<thead>
<tr>
<th>Year</th>
<th>Jan-20</th>
<th>Feb-20</th>
<th>Mar-20</th>
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<tbody>
<tr>
<td>2019</td>
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<table>
<thead>
<tr>
<th>Category</th>
<th>2019</th>
<th>Jan-20</th>
<th>Feb-20</th>
<th>Mar-20</th>
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<tbody>
<tr>
<td>Non-Resident Portfolio Flows</td>
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<tr>
<td>RM billion</td>
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<tr>
<td>+11</td>
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<tr>
<td>+3¹</td>
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<tr>
<td>Total Liquidity in the System</td>
<td>169</td>
<td>160</td>
<td>161</td>
<td>156</td>
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1Estimated figure based on Bursa flows and change in non-resident holdings in ringgit bonds
Note: YTD data as at 31 March 2020
Source: Department of Statistics, Malaysia, Bank Negara Malaysia and Bloomberg

Domestic financial market remains resilient relative to regional peers with healthy trading volumes

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<tr>
<td>Ringgit² (MYR per USD)</td>
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<tr>
<td>YTD Change (%)</td>
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<tr>
<td>◆ Regional Average³</td>
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<td>RM billion</td>
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<tr>
<td>+5.7</td>
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<td>-6.7</td>
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<tr>
<td>Bond³ (10Y MGS)</td>
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<tr>
<td>YTD Change (%)</td>
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<tr>
<td>◆ Regional Average³</td>
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<tr>
<td>(10Y MGS)</td>
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<tr>
<td>+9.8</td>
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<tr>
<td>-12.8</td>
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<tbody>
<tr>
<td>Equity³ (FBM KLCI)</td>
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<tr>
<td>YTD Change (%)</td>
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<tr>
<td>◆ Regional Average³</td>
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<tr>
<td>(FBM KLCI)</td>
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<td>-15.5</td>
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<td>-27.5</td>
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</table>

2Average Daily FX Volume in USD billion
3Average Daily Bond and Equity Volume, respectively, RM billion
4Singapore, Indonesia, Thailand, Philippines and Korea
Note: YTD data as at 27 March 2020
Source: Bank Negara Malaysia, Bursa Malaysia, Bloomberg, Reuters, CEIC
In this environment, Malaysia’s economic growth is projected to be between -2.0% and +0.5% in 2020.

Growth to be weighed by:
- Output loss from COVID-19
- Movement Control Order (MCO)
- Commodity supply disruptions

Growth to be supported by:
- Stimulus measures and policy rate cuts
- Continued progress of public projects and higher public sector expenditure

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates
Inflationary pressures remain subdued amid lower global oil prices and weaker demand

Headline inflation to average between -1.5% to +0.5%

A reflection of an environment of low global oil prices & subdued demand

Subject to uncertainty

Movements in global commodity prices

Core inflation to remain positive, between 0.8% to 1.3%
amid subdued demand pressures, projected negative output gap and weak labour market conditions

Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates
Current account remains in surplus supported by continued goods surplus, reflective of diversified exports structure

Current account surplus at 1.0% to 2.0% of GDP... ...supported by diversified export products and markets

Current Account Balance
% of GDP

2.1

3.3

1% to 2%

of GDP

Exports by Products and Markets (2019)
% Share of Total Exports

Products

Non-E&E, 47%

E&E, 38%

Agriculture, 7%

Mining, 8%

Markets

ROW, 19%

ASEAN, 29%

PR China, 14%

NIEs, 14%

Note: G3 includes the US, the euro area and Japan. Newly Industrialised Economies (NIEs) refers to Hong Kong SAR, Korea and Chinese Taipei.
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates
Continuation of large-scale infrastructure projects will provide additional lift to growth

Capital spending for major transport infrastructure projects of about RM15 billion* are expected to lift 2020 GDP growth by +1.0 ppt

Total Size of Selected Projects Under Construction
RM billion

MRT2
RM 30.5 billion

LRT3
RM 16.6 billion

Pan Borneo Highway
RM 32.5 billion

*Expected net spending in 2020 after adjusting for import content. The major transport infrastructure projects include MRT2, LRT3, Pan Borneo Highway, Gemas-JB Double Track, ECRL and Klang Valley Double Track Phase 2.
Significant policy support underlines the commitment of policy makers globally to assist a rebound in growth

### Crisis-Related Fiscal Stimulus (as at 27 March)  
% of respective GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>2009</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>8.0</td>
<td>17.0</td>
</tr>
<tr>
<td>US</td>
<td>4.7</td>
<td>9.3</td>
</tr>
<tr>
<td>Euro Area</td>
<td>2.1</td>
<td>2.6</td>
</tr>
<tr>
<td>UK</td>
<td>1.6</td>
<td>2.5</td>
</tr>
<tr>
<td>Japan</td>
<td>5.0</td>
<td>3.5</td>
</tr>
</tbody>
</table>

1. Estimated stimulus measures for MY. For other economies, 2009 refers to GFC-related discretionary spending while for 2020 refers to announced fiscal measures related to COVID-19.
2. US and Japan proposed USD2 tn and USD190 bn in spending, respectively in 2020.
3. Fiscal Stimulus of the Euro Area in 2020 is estimated as an average of Germany, France and Italy.

### Change in Policy Rates (and Current Rates) in 2020
Basis points

<table>
<thead>
<tr>
<th>Country</th>
<th>Change in Policy Rates</th>
<th>Current Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>-150 (-0.5%)</td>
<td>0 (-0.5%)</td>
</tr>
<tr>
<td>Euro Area</td>
<td>-65 (0.1%)</td>
<td>0 (-0.1%)</td>
</tr>
<tr>
<td>Japan</td>
<td>-50 (2.50%)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Pakej Rangsangan Ekonomi Prihatin Rakyat 2020, IMF, national authorities, CEIC, news flows and staff estimates
The Malaysian economy can weather these challenges and emerge stronger.

Opportunity to undertake key reforms necessary to secure a stronger growth path in the future.

The Bank has a broad range of policy instruments at our disposal to ensure monetary and financial stability.

- **Monetary policy**
- **Macro- and micro-prudential policy**
- **Supervisory oversight**

**Digital Future**
Accelerating digital adoption, latching on to 5G rollout and greater fiberisation.

**Quality Investments**
Re-calibrating Malaysia’s current investment incentives framework.
Thank you
Additional Information