

Sidang Akhbar

Prestasi Ekonomi Suku Pertama Tahun 2020

13 Mei 2020



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA



JABATAN PERANGKAAN MALAYSIA
DEPARTMENT OF STATISTICS MALAYSIA

Sidang akhbar akan meliputi

1 Perkembangan ekonomi global dan serantau

2 Tinjauan ekonomi

3 Dasar ekonomi



Global and Domestic Economic Developments

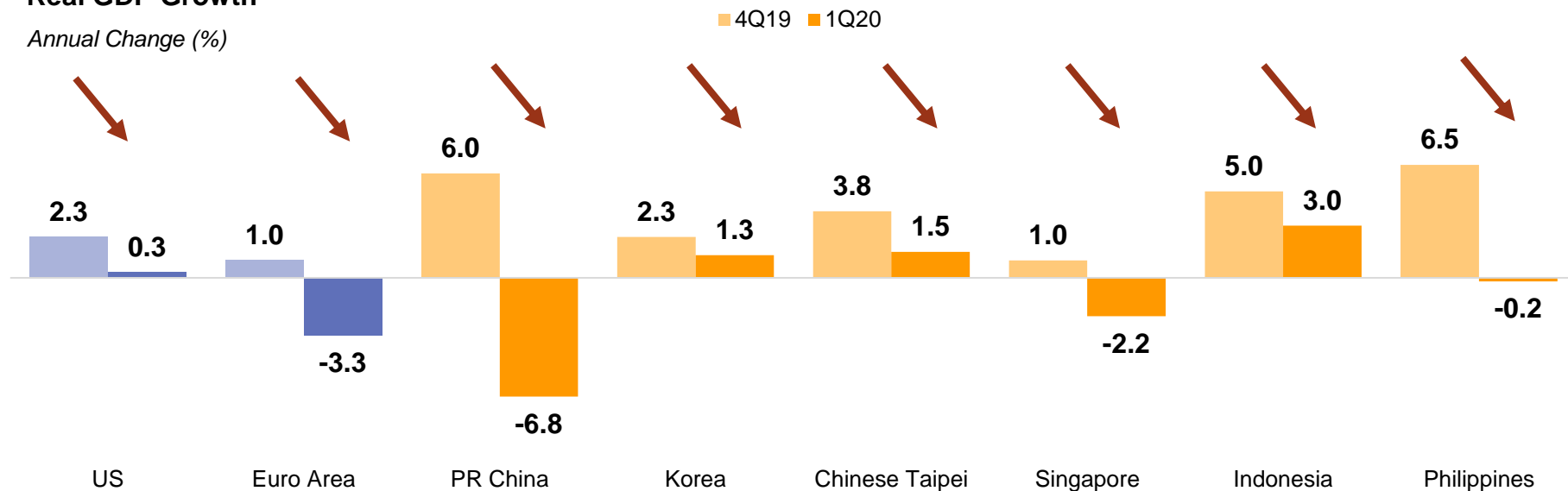
1Q 2020



Global economic activity contracted amid containment measures to contain the spread of the COVID-19 pandemic

Real GDP Growth

Annual Change (%)



Advanced Economies

- ↑ Large and timely policy responses by central banks and governments
- ↓ Severe labour market dislocations
- ↓ Tight financial conditions, partially offset by coordinated monetary easing

Regional Economies

- ↑ Supportive policy stimulus, anchored by projected recovery in PR China
- ↓ Weaker external and domestic demand conditions

Source: CEIC, national authorities



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Implementation of lockdown measures are necessary to contain the pandemic, but has impacted economic activity

Imposition of lockdown measures in Malaysia and globally...

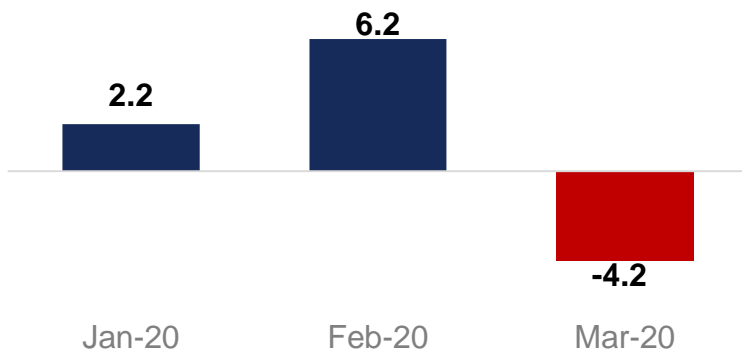
Timeline of introduction of lockdown measures imposed in selected countries



...has resulted in deterioration in Malaysia's economy starting March 2020

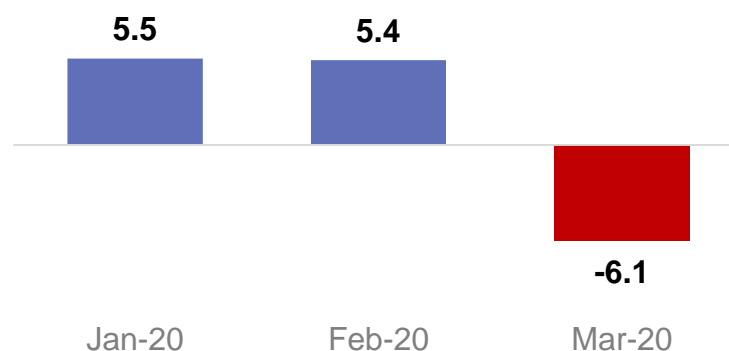
Malaysia's Manufacturing IPI

Annual change, %



Malaysia's Index of Wholesale and Retail Trade

Annual change, %



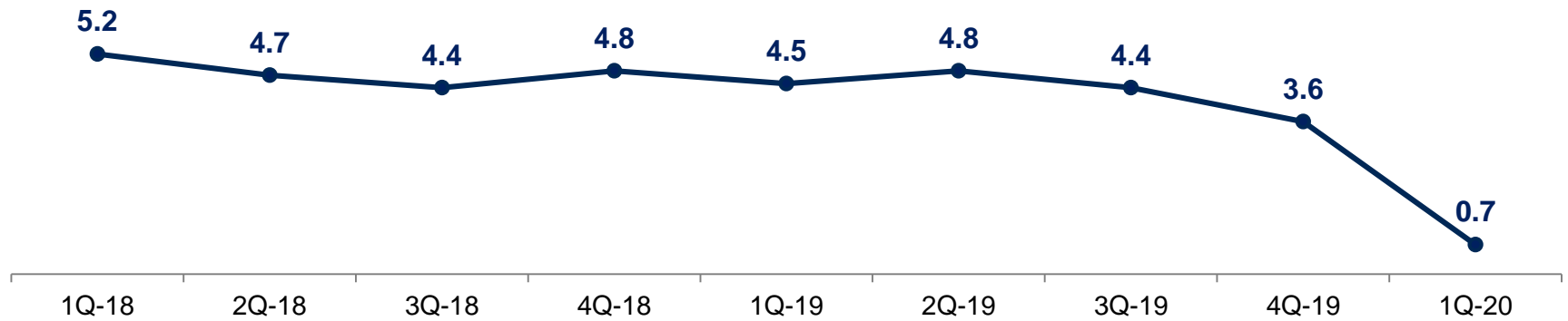
Source: Department of Statistics Malaysia, national authorities

Malaysia's GDP growth moderated sharply to 0.7% in the first quarter of 2020

Growth affected by slower economic activity arising from COVID-19 and containment measures implemented globally and domestically

Real GDP Growth

Annual change, %



Source: Department of Statistics, Malaysia



Most sectors and components moderated

GDP growth by component

Real GDP (Annual change, %)	Share ¹ , % (2019)	2019		2020 ^f
		1Q	4Q	1Q
Services	57.7	6.4	6.2	3.1
Manufacturing	22.3	4.1	3.0	1.5
Mining and Quarrying	7.1	-1.5	-3.4	-2.0
Agriculture	7.1	5.8	-5.7	-8.7
Construction	4.7	0.4	1.0	-7.9
Real GDP	100.0	4.5	3.6	0.7

Real GDP (Annual change, %)	Share ¹ , % (2019)	2019		2020 ^f
		1Q	4Q	1Q
Domestic demand (excluding stocks)	94.0	4.5	4.8	3.7
Private Sector	75.6	6.0	7.4	4.7
<i>Consumption</i>	58.7	7.7	8.1	6.7
<i>Investment</i>	16.8	0.6	4.3	-2.3
Public Sector	18.5	-1.6	-2.3	-0.7
<i>Consumption</i>	12.2	6.3	1.3	5.0
<i>Investment</i>	6.3	-13.7	-8.0	-11.3
Net exports of goods and services	7.0	13.0	-12.4	-37.0
<i>Exports</i>	63.7	0.1	-3.4	-7.1
<i>Imports</i>	56.7	-1.6	-2.4	-2.5
Change in stocks (RM billion)	-1.0	-5.0	-1.4	-3.2
Real GDP	100	4.5	3.6	0.7
<i>Real GDP</i> (Q-o-Q SA)	-	0.9	0.6	-2.0

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 RM9.5 billion or 2.6% of GDP

Current Account Balance (RM billion)

	1Q19	2Q19	3Q19	4Q19	1Q20
Current Account Balance	16.9	14.3	12.1	7.5	9.5
<i>% of GDP</i>	<i>4.7</i>	<i>3.9</i>	<i>3.2</i>	<i>1.9</i>	<i>2.6</i>
Goods	33.4	28.3	29.4	32.3	28.9
Services	-1.7	-3.4	-1.8	-4.0	-8.0
Primary Income	-9.2	-5.9	-9.9	-15.2	-6.0
Secondary Income	-5.6	-4.7	-5.5	-5.5	-5.4



Smaller primary income deficit

- Lower investment income accrued to foreign investors in Malaysia



Lower goods surplus

- Larger decline in level of exports relative to imports



Higher services deficit

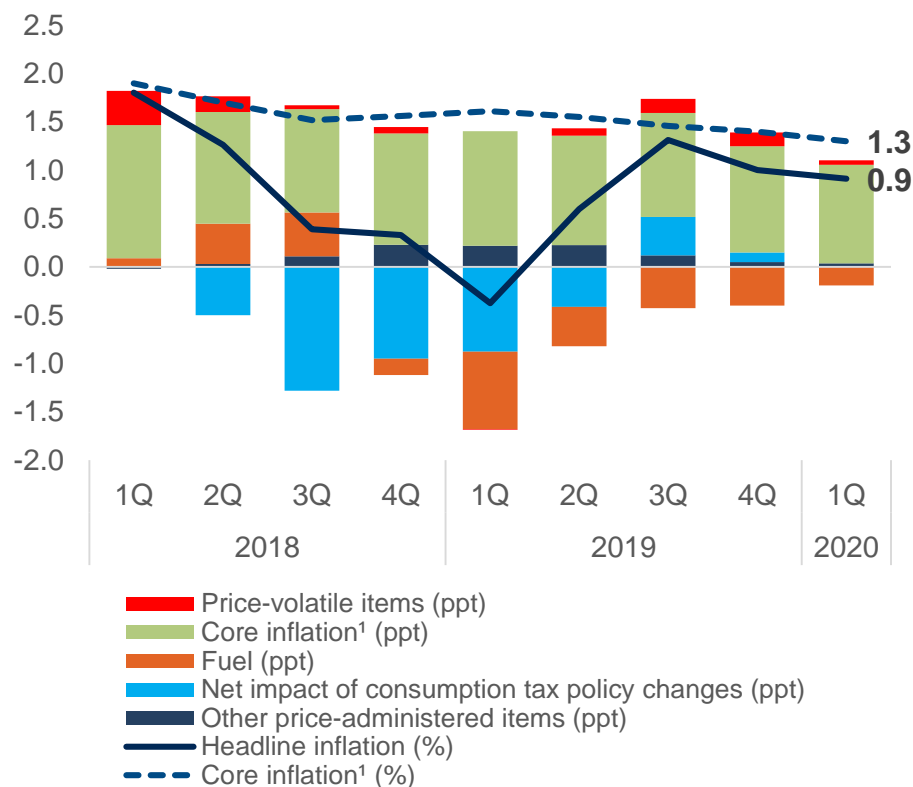
- Decline in travel surplus

Sources: Department of Statistics, Malaysia and Bank Negara Malaysia

Inflationary pressures are expected to be muted in 2020

Contribution to Headline Inflation by Component

Annual change, % /
Ppt contribution to headline inflation



2020 outlook



Significantly lower global oil prices to weigh down on headline inflation



Underlying inflation to be more subdued

- **Weaker domestic growth prospects**
- **Weaker labour market conditions**

¹Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of consumption tax policy changes.

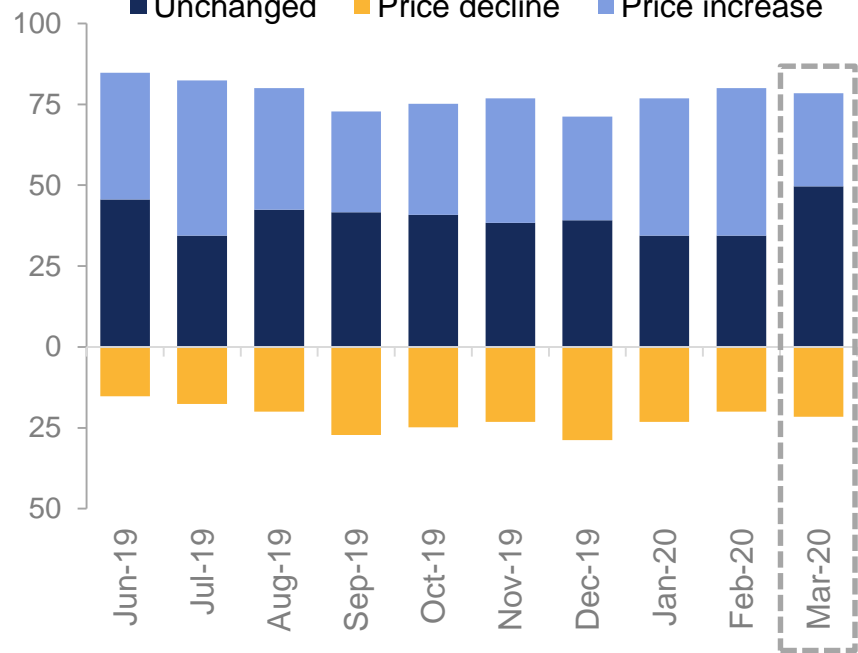
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

While average headline inflation in 2020 is expected to turn negative, risk of deflation is limited

Pervasiveness based on month-on-month (m-o-m) inflation of CPI items**

% of CPI items

■ Unchanged ■ Price decline ■ Price increase



1

Share of consumer items recording price declines remained at around 20%

2

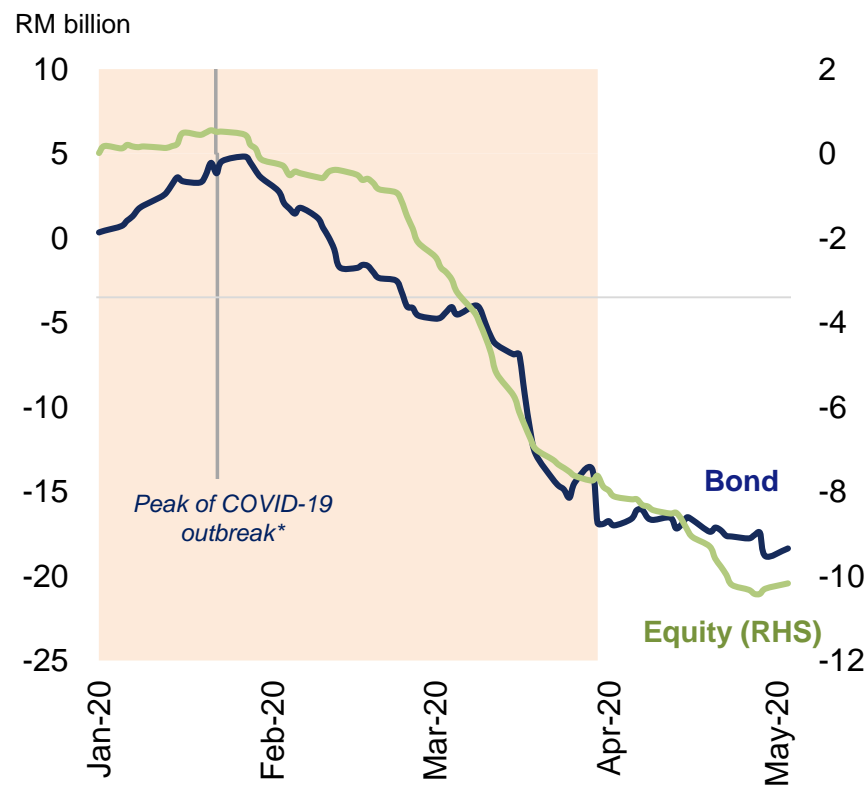
Demand conditions are expected to gradually improve as economic activity resumes

*Based on the month-on-month inflation for 125 CPI items at the 4-digit level
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Domestic financial markets impacted by significant global risk aversion

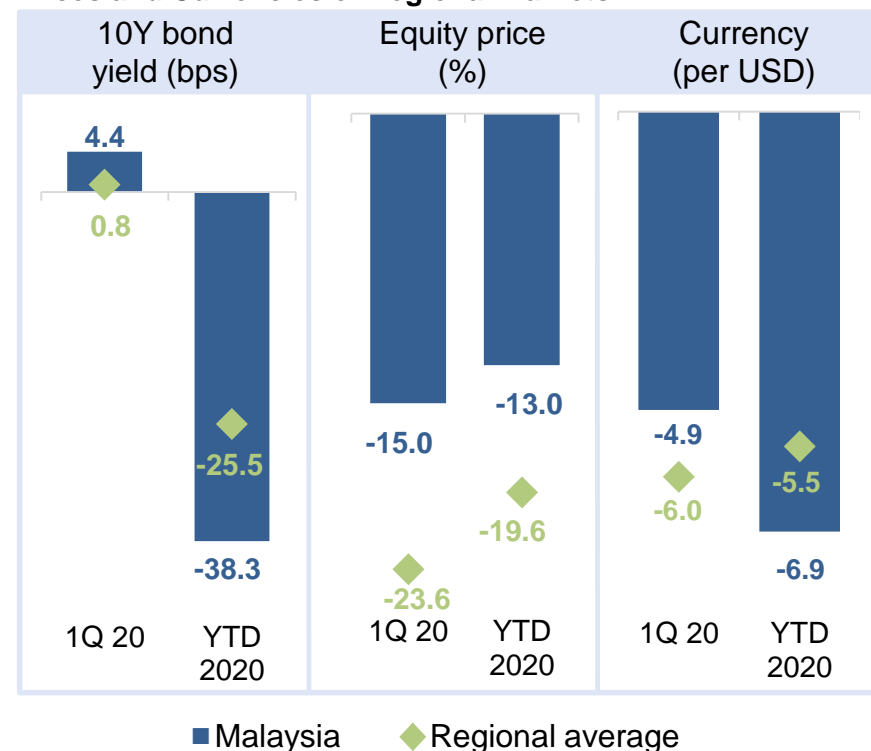
Non-resident portfolio outflows led to financial market adjustments during the quarter as investor sentiments deteriorated following concerns over the potential economic impact of COVID-19

Cumulative Non-resident Portfolio Flows by Component



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

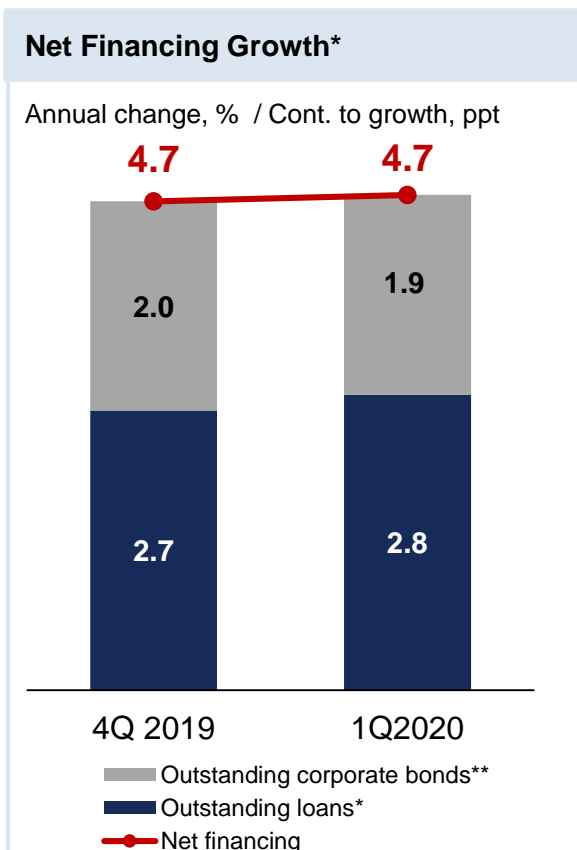
Movement of 10-Year Sovereign Bond Yields and Equity Prices and Currencies of Regional Markets*



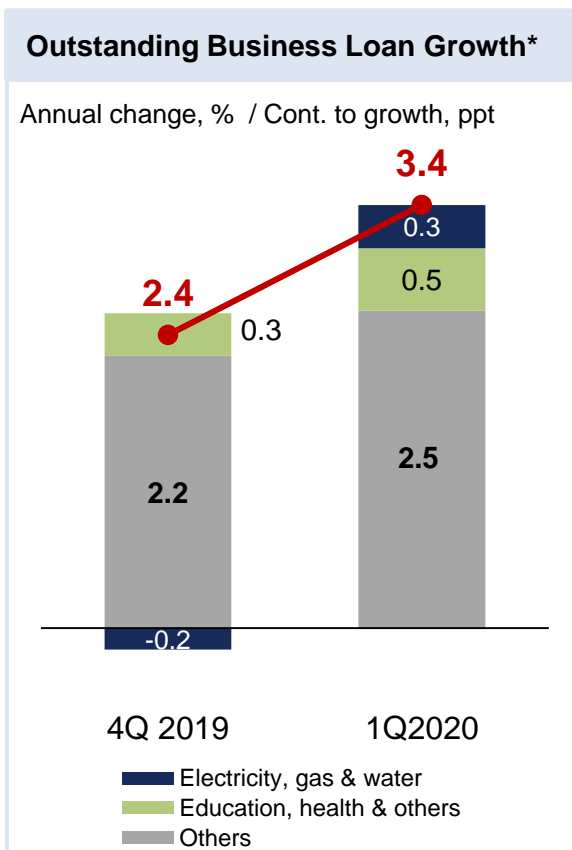
*Regional countries include Indonesia, the Philippines, PR China, Singapore, South Korea and Thailand. YTD as at 22 April 2020.
Source: Bloomberg, Bank Negara Malaysia

Sustained net financing, supported by business loans

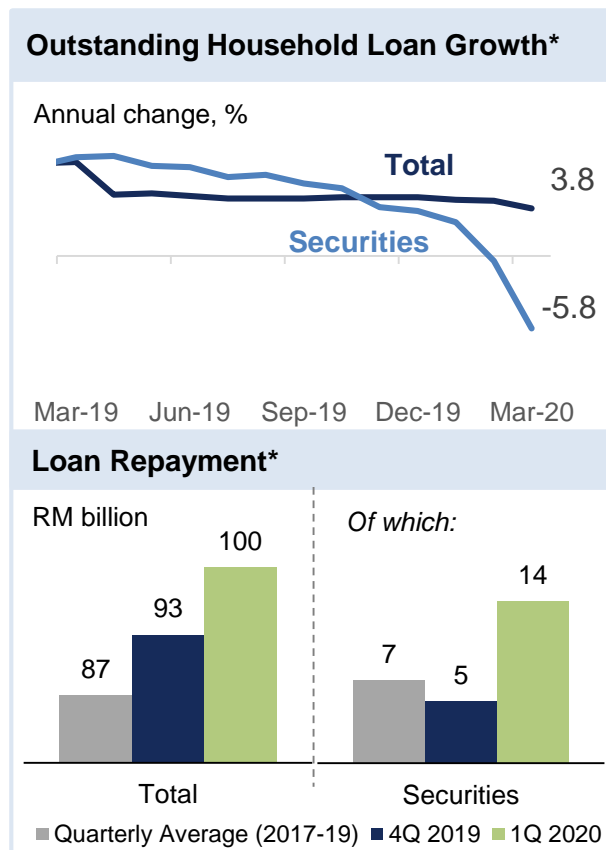
Sustained net financing, as loan expansion offset moderation in corporate bond growth



Higher business loan growth as disbursement growth outpaced repayments in some sectors



Lower household loan growth due to higher repayment on securities loans



*Banking system and development financial institutions (DFIs)

**Excludes issuances by Cagamas and non-residents

Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Banking system is well-placed to absorb impact of loan moratorium and continue to support lending activities

Banking system (RM billion)	Dec-19	Mar-20
Excess capital buffers	119	113
Excess liquidity buffers	201	185
Net impaired loans	17	18
Net impaired loans (% of net total banking system loans)	1.0	1.0

- 1 Banks maintain strong financial buffers supported by sound risk management practices
- 2 Relief measures introduced by the Government and the Bank help preserve debt servicing capacity of households and firms
- 3 Resumption of economic activity following the easing of movement control order will help contain credit losses

Note: Excess capital and liquidity buffers refer to excess of regulatory minimum

Source: Bank Negara Malaysia



Growth Outlook



Changes in key assumptions since EMR 2019 publication on 3 April 2020

	EMR 2019	1Q 2020 QB
Weaker 2020 global growth outlook	Global growth: -0.5%	Global growth: -3%*
Longer MCO duration	4 weeks	7 weeks
Social distancing and border restrictions	<ul style="list-style-type: none"> • Voluntary social distancing • Some form of international travel restrictions 	<ul style="list-style-type: none"> • Voluntary social distancing • Government's health protocols and standard operating procedures • International Border closures

* IMF's April 2020 World Economic Outlook



Likely contraction in economic activity in 2Q 2020

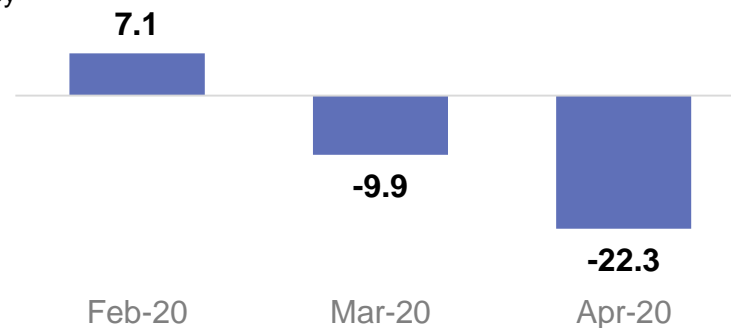
Google Community Mobility Report of Malaysia (Retail & Recreation)

Mobility Changes Compared to Baseline (% decline)



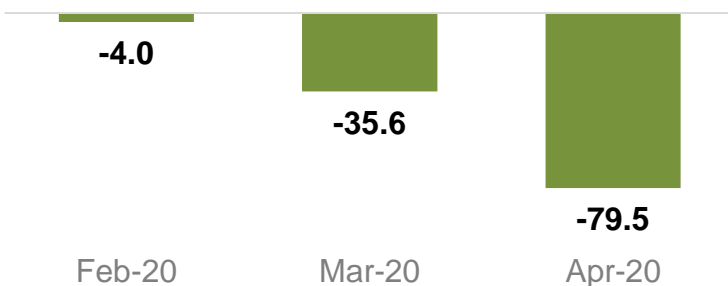
Electricity generation (GWh)

%yoy



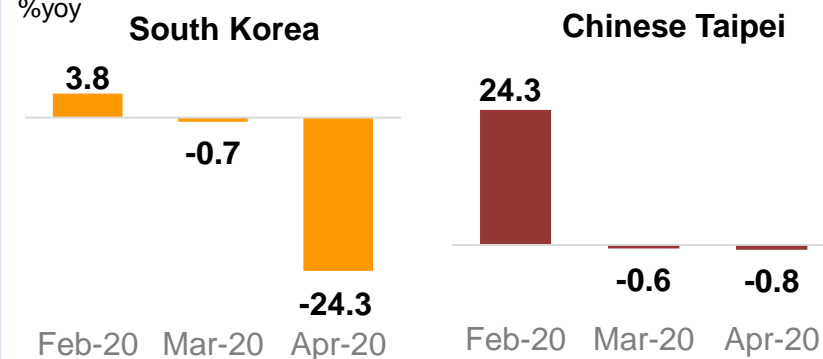
Google Community Mobility Report of Malaysia (Transit Stations)

Mobility Changes Compared to Baseline (% decline)



Selected regional economies' exports

%yoy



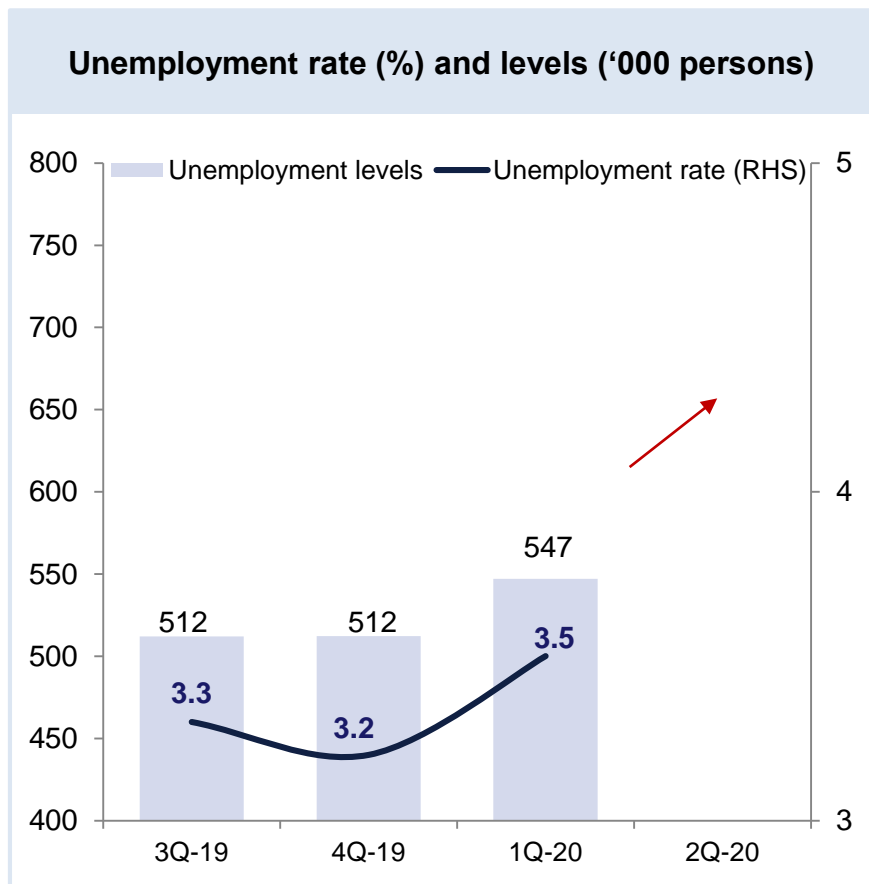
Note: The Google Community Mobility Report shows how visits and length of stay at different places in a country change compared to a baseline (3 Jan-6 Feb 2020). Figure for each month refers to the average for that particular month.

Source: Google, Department of Statistics Malaysia, Tenaga Nasional Berhad and national authorities

Labour market conditions to worsen in 2Q before gradually improving in line with economic activity

The unemployment rate expected to peak in 2Q..

..partially mitigated by relevant measures



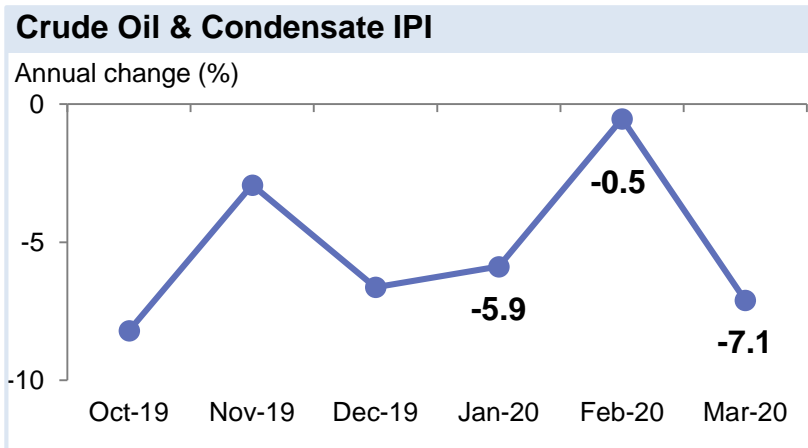
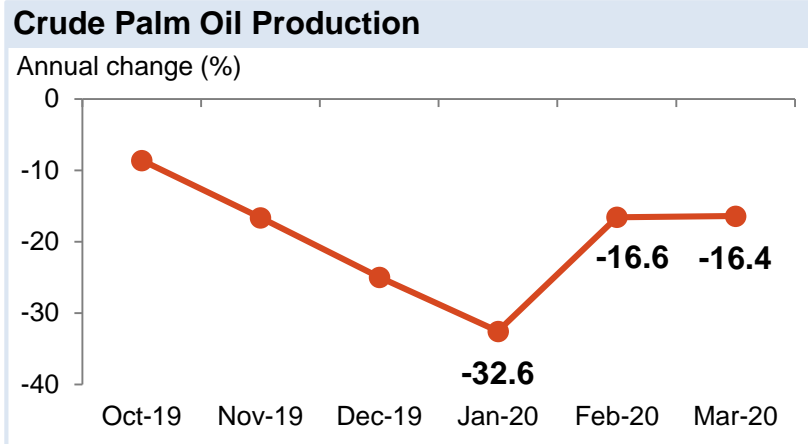
Measures to safeguard jobs, mitigate income losses and develop human capital

-  **Employment Insurance Scheme**
-  **Wage Subsidy Programme**
-  **Employment Retention Programme**
-  **Reskilling and Upskilling Initiatives**

Source: Department of Statistics Malaysia

Commodities production to gradually recover from the ongoing disruptions

The commodities sector continued to be affected by supply disruptions in 1Q 2020...



Source: Malaysian Palm Oil Board, Department of Statistics, Malaysia

...however, these sectors are expected to improve in 2H 2020



Normalisation of weather conditions



Higher fertiliser application



Commencement of PFLNG2



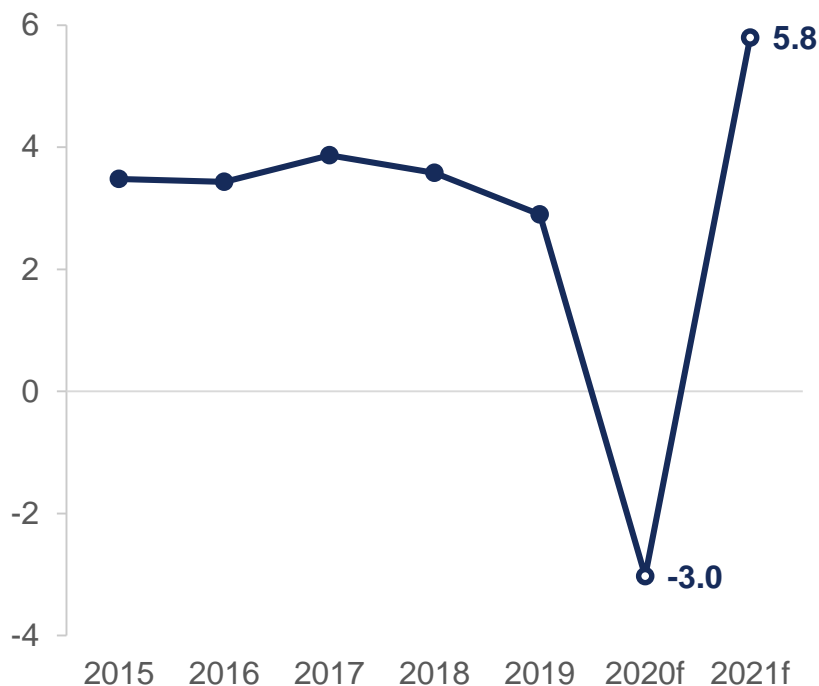
Ramp up of new fields

Global growth to improve, as economic activity starts to recover in 2H20

Global: Real GDP growth

(IMF World Economic Outlook, April 2020)

Annual Change (%)



2H20:

- Gradual lifting of containment measures as pandemic risk subsides
- Significant economic policy stimulus
- Gradual normalisation of economic activity and financial conditions

2021:

- Restoration of consumer and investor confidence, supporting growth

Source: International Monetary Fund (IMF)



Malaysia: Growth to improve gradually in 2H 2020 and rebound in 2021

Underpinned by lifting of COVID-19 containment measures, stimulus measures and improved external demand

Key drivers of growth



Gradual lifting of COVID-19 containment measures



Stimulus measures
(fiscal, monetary and financial)



Improvement in global growth, trade and tech cycle

Other supporting factors

2H 2020:



Continuation of transportation projects *(e.g. MRT, SUKE, DUKE3)*



Recovery in commodity production

2021:



Implementation of new investment projects *(e.g. National Fiberisation and Connectivity Plan)*



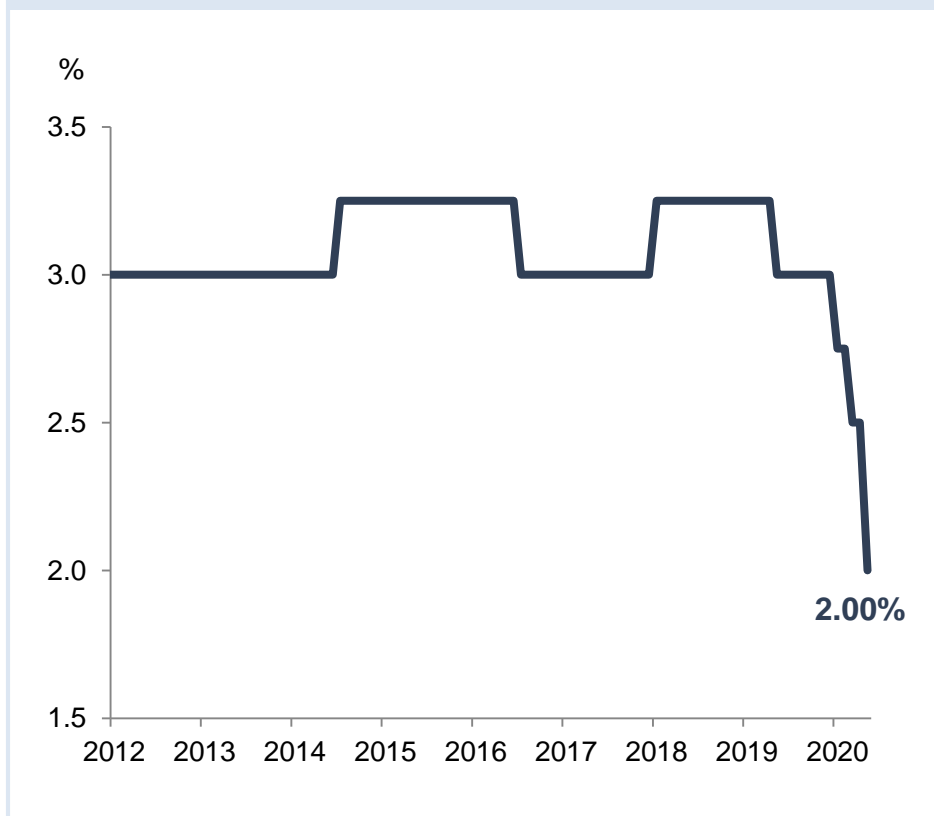
Demand for technology and healthcare *(e.g. 5G rollout and remote working devices)*

Policies & Measures



Monetary policy will continue to provide support to the economic environment

Overnight Policy Rate (OPR)

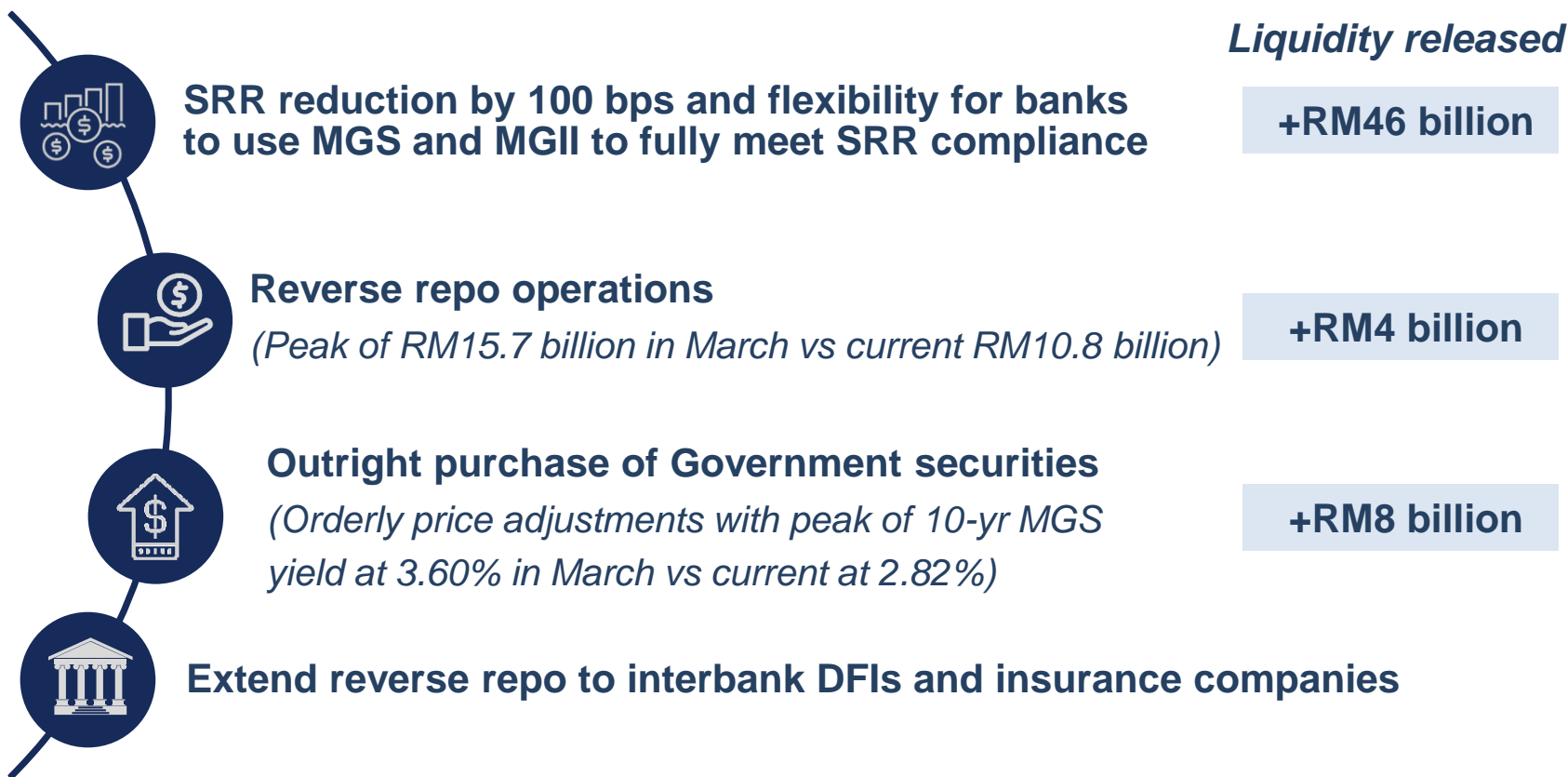


Source: Bank Negara Malaysia

- Overnight Policy Rate was further reduced by 50 basis points at the May MPC meeting, bringing it to a total reduction of 100 basis points this year
- Going forward, monetary policy considerations will continue to be guided by the risks to the outlook for domestic growth and inflation
- The Bank will utilise its policy levers as appropriate to facilitate a sustainable economic recovery.

Ample space and flexibility to inject liquidity via monetary operations to ensure effective financial intermediation

- A total of RM58 billion have been released to banking institutions since March 2020
- Total liquidity in the banking system remains stable around RM155 billion as at end-April



Source: Bank Negara Malaysia

Full take-up of the RM5 bil SRF for SMEs to meet cashflow needs

Stronger than expected demand for the RM5 billion Special Relief Facility (SRF) due in part to extended containment measures

Take-up of RM5 billion Special Relief Facility (SRF)



About **9,000** SMEs across Malaysia benefitted

- **72%** beneficiaries were small sized
- **RM543k** average financing size



More than **200,000** jobs offered by SMEs preserved



Financing extended to SMEs across all states, economic sectors, sizes and years of operations

Beyond SRF, banks continue to support lending to SMEs

In 1Q 2020:



RM **62 billion** disbursed to SMEs, of which RM48b are for working capital purposes



Banks continue to lend on their own - SRF only constitutes 11% of SME approvals by FIs in March 2020



Lower lending rates to SMEs observed following OPR rate cut



RM5 billion Govt Guarantee Scheme (GGS) - PRIHATIN by SJPP will further support bank lending

- **BNM will honour applications approved by PFIs up to 4 May 2020¹ due to overwhelming demand**
- **This will involve additional RM5 billion allocation which will benefit 21,000 SMEs**

¹ Full utilisation of RM5 billion SRF and PFIs ceased processing applications

SMEs can avail themselves to a whole suite of financing assistance

Available facilities targeted towards SMEs

**Banks own funds,
BNM's Funds for SMEs,
CGC, SJPP
> RM9 bil available**
(excluding FIs' own fund)



- Automation and Digitalisation Facility



- Agrofood Facility



- Micro Enterprise Facility



- All Economic Sectors

SJPP

- Government Guarantee Scheme – PRIHATIN; WCGS

CGC

- BizMula-I, BizWanita



- FIs' Own Funds

**Government Agencies
and DFIs
> RM10 bil available¹**

- Micro enterprises



- E-commerce & Digitalisation



- Tourism



- Others



**Alternative Financing²
RM5.1 bil financing
raised**

- Govt affiliated



CROWDO



For more information on financing schemes and relief measures, please visit www.smeinfo.com.my

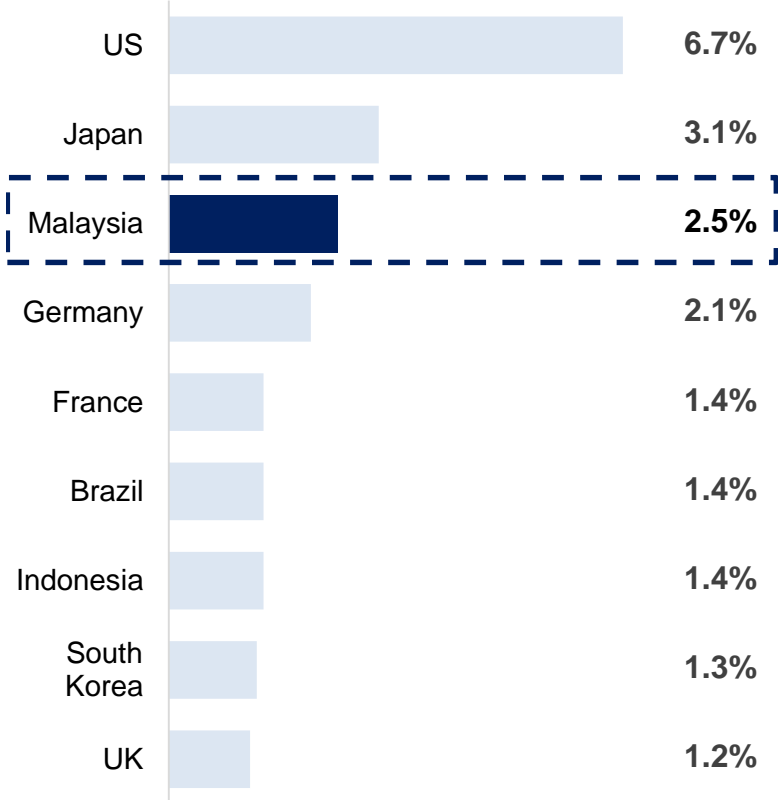
¹Estimations of Federal Expenditure 2020 and Budget 2020 by SME Corp and data from DFIs

²ECF/P2P, SC Mar 2020 Analytics, VC:SC annual report 2019

Sizeable Government spending for the Economic Stimulus Package

Malaysia has one of the largest fiscal outlays in its stimulus package, at 2.5% of GDP

Size of Fiscal Outlays in Economic Stimulus Package (% of GDP)



Source: IMF and staff estimate

In line with other countries, fiscal outlays focus on wage subsidies and cash transfers

Measures by other countries



US

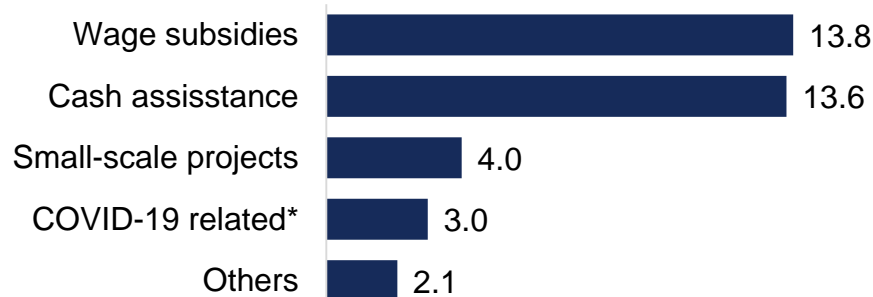
- Direct payments through cash transfers to households, payroll subsidies and higher unemployment benefits



UK

- Most fiscal measures are directed to tax cuts and grants for businesses, wage subsidies and welfare enhancements

Breakdown of measures with fiscal outlay from the Economic Stimulus Package (RM billion)



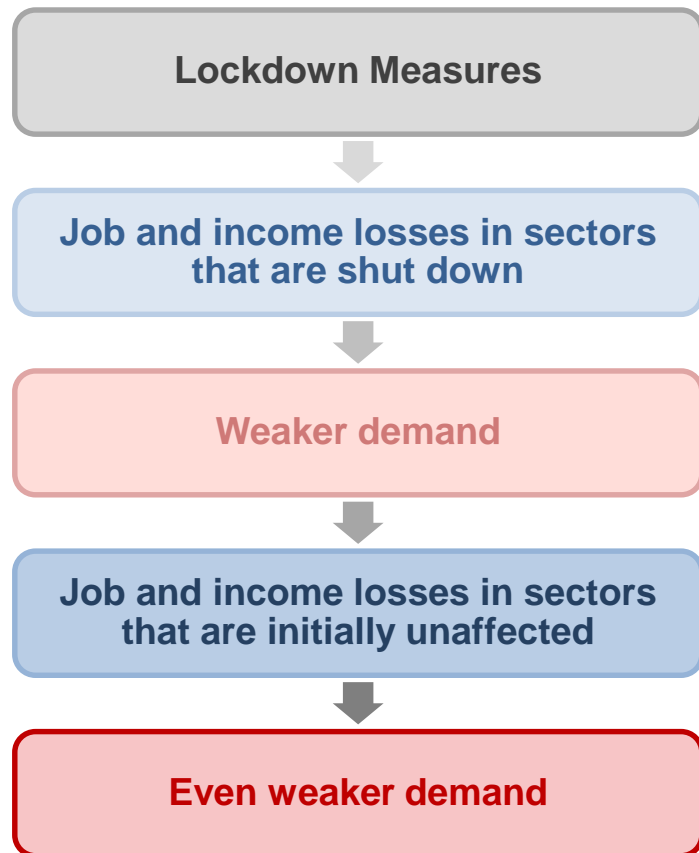
Measures with fiscal outlay are expected to contribute 0.8 ppt to growth

*These measures, among others, include allocations for purchase of equipment and services to contain COVID-19 and a special allowance for COVID-19 frontliners



Box Article: Economic repercussions from COVID-19 necessitate aggressive policy response

Containment measures induced a supply shock with amplified demand spillovers



Malaysia's policy measures have been direct, timely and adequate



Directly address constraints facing firms and households

- *Direct transfers, loan moratorium and special credit lines*



Ease liquidity constraints in a timely manner

- *Announcement of measures ahead of the full escalation of COVID-19*



The magnitude of responses must be adequate

- *Total stimulus ranks one of the largest globally at 17% of GDP*

Source: Bank Negara Malaysia



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Emerging opportunities from the low-touch economy

Low-touch economy presents new economic opportunities and Malaysia is well-positioned to seize them

Structural reforms are also critical to reduce vulnerabilities

New Economic Opportunities



Global supply chains

Reorientation from low cost/efficiency to resiliency



Healthcare

Higher demand for medical products to enhance healthcare capacity



Remote Workforce

Greater reliance on technology to enable business operations



E-Commerce

Higher consumption of digital services to minimise physical interactions

Malaysia's Comparative Advantage

Manufacturer of Healthcare Products

Malaysia is a major producer of medical disposable and technological products (e.g. pacemakers, test equipment).

Well-positioned E&E Firms

Malaysian E&E firms part of the global technology value chain and are present in segments that facilitate remote work (e.g. computers, telecomm. components)

Policies for Digital Transformation

Various programmes in place to increase adoption of e-commerce by businesses. Further support from incoming 5G roll out

Critical Structural Reforms

- Embrace **digitalisation**
- Further automate production activity through **Industry 4.0**
- Reskill and **upskill labour**
- Position as key destination for **dual sourcing** opportunities

End of Presentation

