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

The Malaysian economy improved to record a smaller contraction of 2.7% in the third quarter of 2020 (2Q 2020: -17.1%)

The improvement largely reflected the reopening of the economy from COVID-19 containment measures and better external demand conditions. Improvements in growth were seen across most economic sectors, particularly in the manufacturing sector, which turned positive following strong E&E production activity. On the expenditure side, domestic demand contracted at a slower pace, while net exports rebounded. On a quarter-on-quarter seasonally-adjusted basis, the economy turned around to register an expansion of 18.2% (2Q 2020: -16.5%).

For the quarter, headline inflation recorded a smaller negative at -1.4%, due mainly to the higher domestic retail fuel prices, in line with the recovery in global oil prices. Core inflation moderated slightly to 1.0%.

Exchange rate developments

In the third quarter of 2020, the ringgit appreciated by 2.9% against the US dollar, following continued non-resident portfolio inflows. This was driven by positive investor sentiments following signs of recovery in global economic activity as countries eased movement restrictions and progressively restarted their economies. Improvements in investor risk appetite were also supported by the changes in the US Federal Reserve's monetary policy framework, which suggests that US monetary policy could remain accommodative for a longer period. This development is in line with most regional currencies, which appreciated against the US dollar during the quarter. In the more recent period beyond the third quarter, despite the recent resurgence in COVID-19 cases across some advanced and emerging market economies, PR China’s steady economic recovery and IMF’s upward revision to its projection for global growth for 2020 continued to support investor sentiments. As a result, Malaysia experienced non-resident portfolio inflows and the ringgit appreciated by 0.6% against the US dollar since end-September 2020 (as at 12 November). However, the global environment remains highly uncertain in the near-term, which may lead to periods of heightened capital flows and exchange rate volatility going forward.

Financing conditions

Net financing to the private sector[1] continued to expand by 4.6% on an annual basis. Outstanding loan growth increased during the quarter, supported mainly by household loans with broad-based improvements in loan demand. Outstanding business loans registered modest growth due to slower loans disbursed for working capital purposes. Loan disbursement levels also recovered, with disbursements to households exceeding its historical levels.

The Malaysian economy is expected to improve further going into 2021 in tandem with better global demand and domestic policy support

The recent resurgence of COVID-19 cases and targeted containment measures could affect the momentum of the recovery in the final quarter of the year. However, as most economic sectors have been allowed to continue to operate subject to compliance with standard operating procedures (SOPs), the impact is expected to be less severe compared to the containment measures during previous periods.

Going into 2021, growth is expected to recover, benefitting from the improvement in global demand and a turnaround in public and private sector expenditure amid various policy support. This includes Government measures such as KITA PRIHATIN and the recently announced Budget 2021, specifically the Bantuan Prihatin Rakyat, targeted wage subsidies and public projects. Additionally, the continued financial measures and low interest rate environment are also expected to lend further support economic activity.

Headline inflation is projected to average higher in 2021, primarily reflecting the higher projected global oil prices and the lapse in the impact from the tiered electricity tariff rebate in 2020. Underlying inflation is expected to be subdued amid spare capacity in the economy. The outlook for inflation trajectory would mainly depend on global oil and commodity price developments.

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

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