

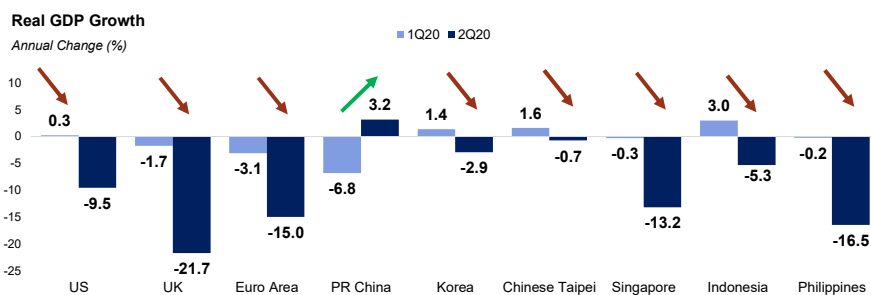
Sidang Akhbar

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

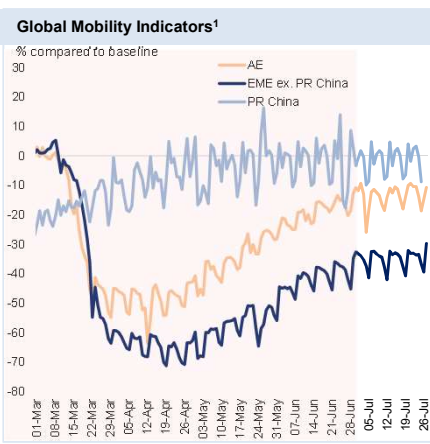
- ↑ Recovery in PR China driven by easing of containment measures and public investments
- ↑ Monetary and fiscal stimulus across most economies
- ↓ Frail labour market conditions
- ↓ Weaker private consumption amid income losses and precautionary behaviour
- ↓ Elevated financial market volatility

Source: CEIC, national authorities

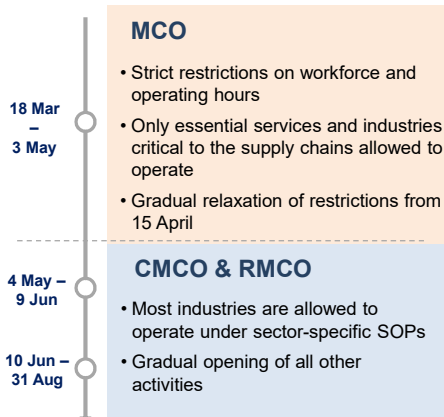
Lockdowns imposed globally and domestically to combat COVID-19 resulted in a stop in economic activity

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



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



The Malaysian economy contracted by 17.1% in the second quarter of 2020

GDP growth by component

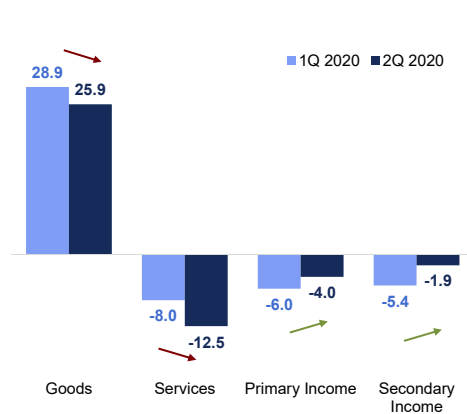
Real GDP (Annual change, %)	Share ¹ % (2019)	2020		
		2Q	1Q	2Q
Services	57.7	6.1	3.1	-16.2
Manufacturing	22.3	4.3	1.5	-18.3
Mining and Quarrying	7.1	0.9	-2.0	-20.0
Agriculture	7.1	4.3	-8.7	1.0
Construction	4.7	0.5	-7.9	-44.5
Real GDP	100.0	4.8	0.7	-17.1

Real GDP (Annual change, %)	Share ¹ % (2019)	2020		
		2Q	1Q	2Q
Domestic demand (excluding stocks)	94.0	4.5	3.7	-18.7
Private Sector	75.6	6.1	4.7	-20.5
Consumption	58.7	7.8	6.7	-18.5
Investment	16.8	1.5	-2.3	-26.4
Public Sector	18.5	-2.4	-0.6	-10.6
Consumption	12.2	0.3	5.0	2.3
Investment	6.3	-7.8	-11.3	-38.7
Net exports of goods and services	7.0	32.9	-37.0	-38.6
Exports	63.7	0.5	-7.1	-21.7
Imports	56.7	-2.3	-2.5	-19.7
Change in stocks (RM billion)	-1.0	-4.0	-3.2	7.3
Real GDP	100	4.8	0.7	-17.1
Real GDP (Q-o-Q SA)	-	1.3	-2.0	-16.5

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)



Source: Department of Statistics, Malaysia



Higher services deficit

- Significant decline in tourist arrivals amid international travel restrictions



Lower goods surplus

- Decline in external demand and commodity prices



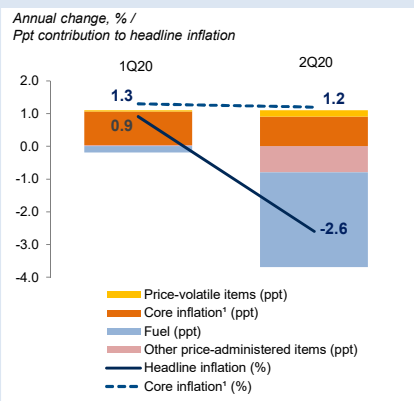
Lower income deficit

- Lower outward remittances by foreign workers
- Higher direct investment income for Malaysian investments abroad

Inflationary pressures to remain muted in 2020

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

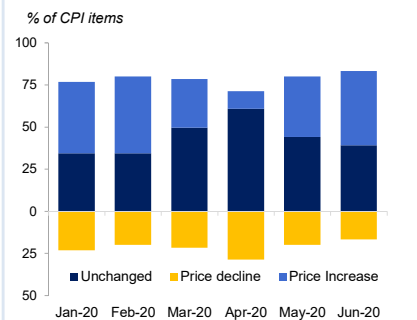
Contribution to Headline Inflation by Component



*Core 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

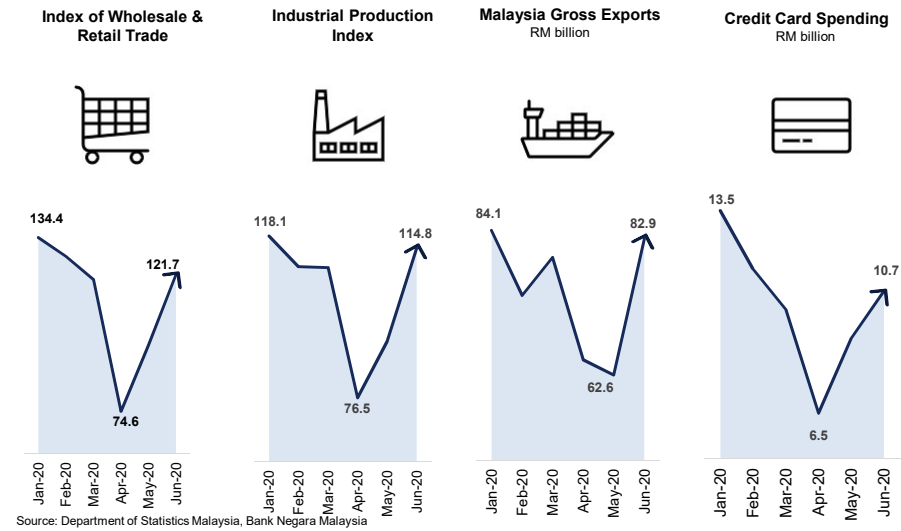
2 Some evidence of price normalisation with gradual easing of movement restrictions

Pervasiveness based on month-on-month inflation of CPI items*

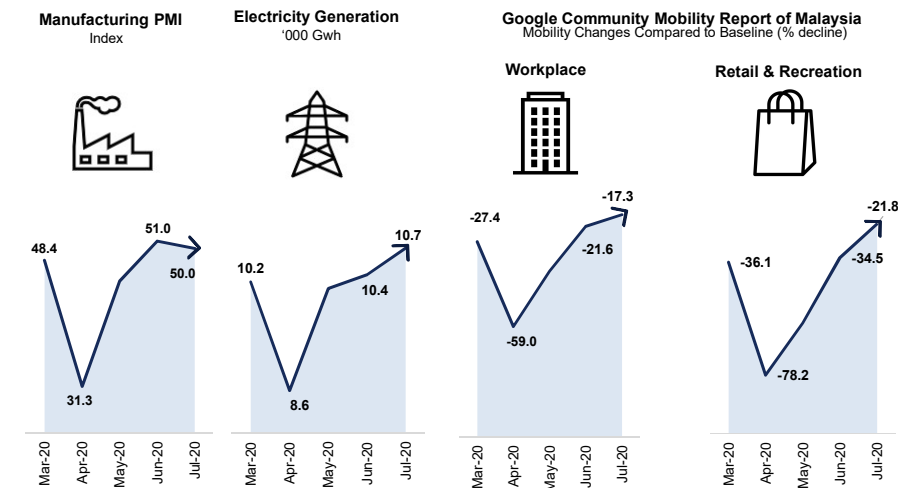


*Based on the month-on-month inflation for 125 CPI items at the 4-digit level.

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



Better performance of latest indicators in July suggest continued improvement in economic activity in 3Q 2020

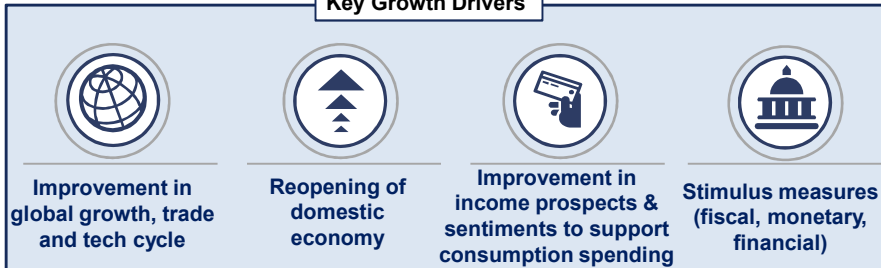


Note: The Google Community Mobility Report shows how visits and length of stay at different places in a country change compared to a baseline (3 Jan-6 Feb 2020). Figure for each month refers to the average for that particular month.

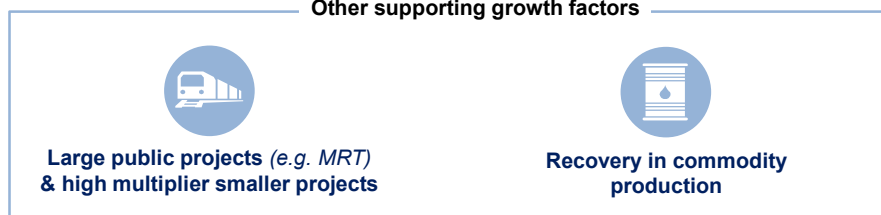
Source: Google, Department of Statistics Malaysia, Tenaga Nasional Berhad

Growth to register a gradual improvement in 2H 2020

Key Growth Drivers

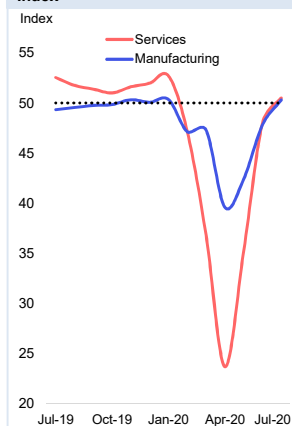


Other supporting growth factors

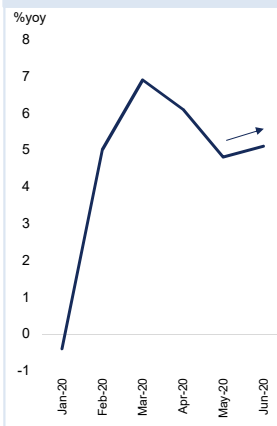


Global economic activity starts to recover in 2H 2020

Global: Purchasing Managers' Index



World Semiconductor Sales



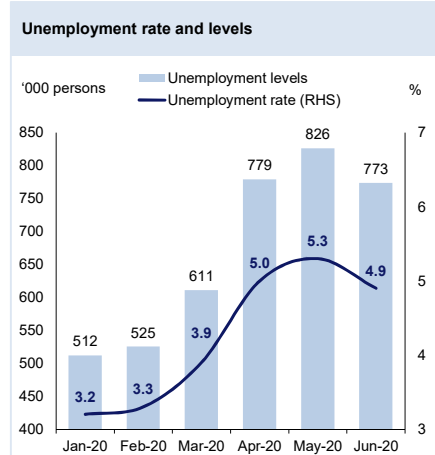
2H 2020:

- Gradual lifting of broad-based containment measures
- Significant economic policy stimulus
- Gradual normalisation of economic activity and financial conditions
- Tech cycle improvement

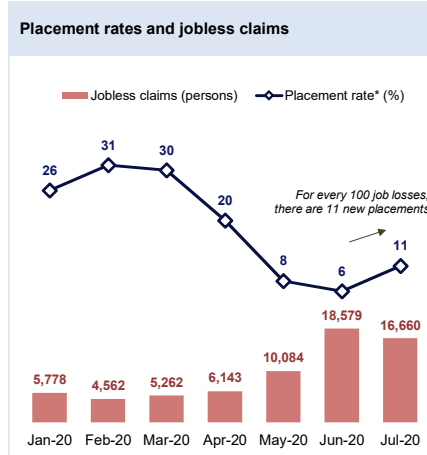
Source: IHS Markit, WSTS

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



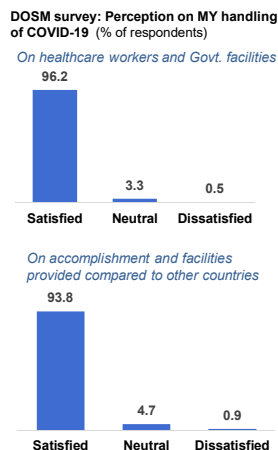
Household spending to rebound in tandem with better labour market conditions and sentiments

Positive signs of recovery in consumer spending since May 2020



Source: Department of Statistics, Malaysia

Households are thus far confident with containment efforts...

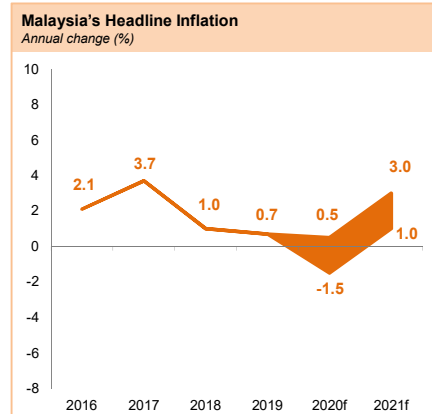


...paving the way for a smoother recovery

Factors supporting consumer spending going forward

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

**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 Fibreisation 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'



6th largest¹ global semiconductor exporter



Home to leading global technology firms



Largest market for medical devices in ASEAN²



Ranked 3rd in Asia for outbreak readiness³

Source:

1 International Trade Centre

2 Malaysia Investment Development Authority (MIDA)

3 Global Health Security Index 2019

4 Businesswire (2020), Thyssenkrup (2019), Frost & Sullivan, AT Kearney & Cisco (2018), estimates based on market analysis (2020) incl. for Asia Pacific (2018-2022), Grand View Research



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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)

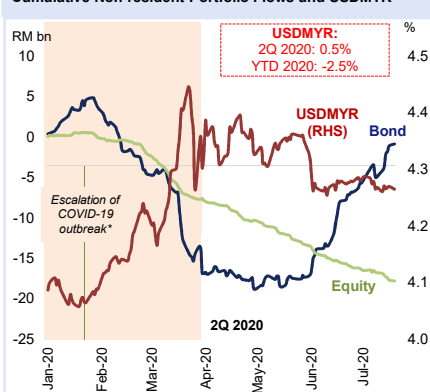


Home entertainment (US\$ 345.1 billion)

Domestic financial markets improved amid easing investor risk aversion

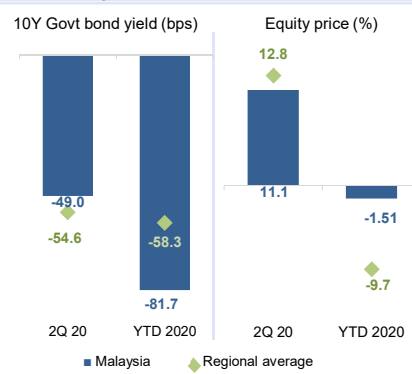
Financial market performance partially recovered as investor sentiments improved during the quarter, driven by the ample global policy stimulus to cushion the economic impact of the COVID-19 pandemic

Cumulative Non-resident Portfolio Flows and USDMYR



*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 of Regional Markets*



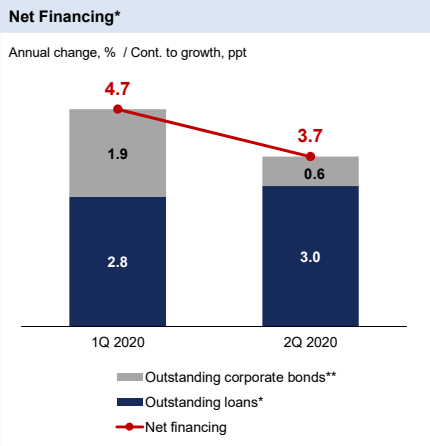
*Regional countries include Indonesia, the Philippines, PR China, Singapore, South Korea and Thailand. YTD as at 12 August 2020.
Source: Bank Negara Malaysia, Bloomberg



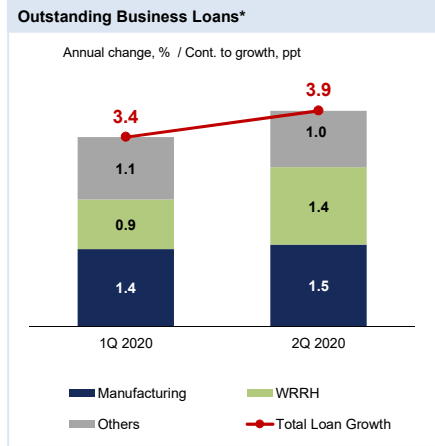
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Continued expansion of financing...

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



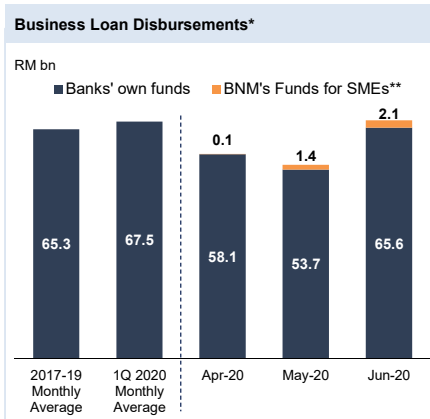
Increase in business loan growth mainly driven by WRRH* and manufacturing sectors**



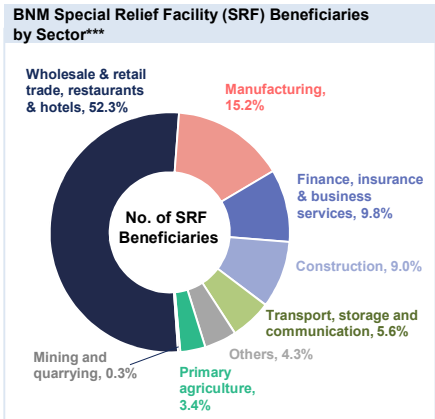
*Banking system and development financial institutions (DFIs)
**Excludes issuances by Cagamas and non-residents
***Wholesale and retail trade, and restaurants and hotels
Note: Numbers may not add up due to rounding
Source: Bank Negara Malaysia

...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...



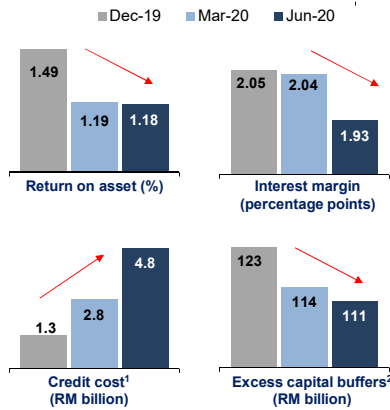
...supported by supplementary special funds to alleviate cash flow pressures



*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



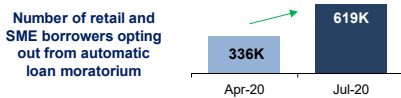
- 1 Banks have set aside higher provisions in anticipation of some deterioration in asset quality
- 2 Interest margins have narrowed amid reductions in OPR
- 3 Banking system capital buffers remained adequate to support economic recovery

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



- 2 Better identification of borrowers needing additional assistance

>500K borrowers
engaged year-to-date

- 3 Faster processing and approvals of repayment assistance among banks

Number of applications approved	2019	2020 (ytd)
	14K	> 40 K

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

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

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



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

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

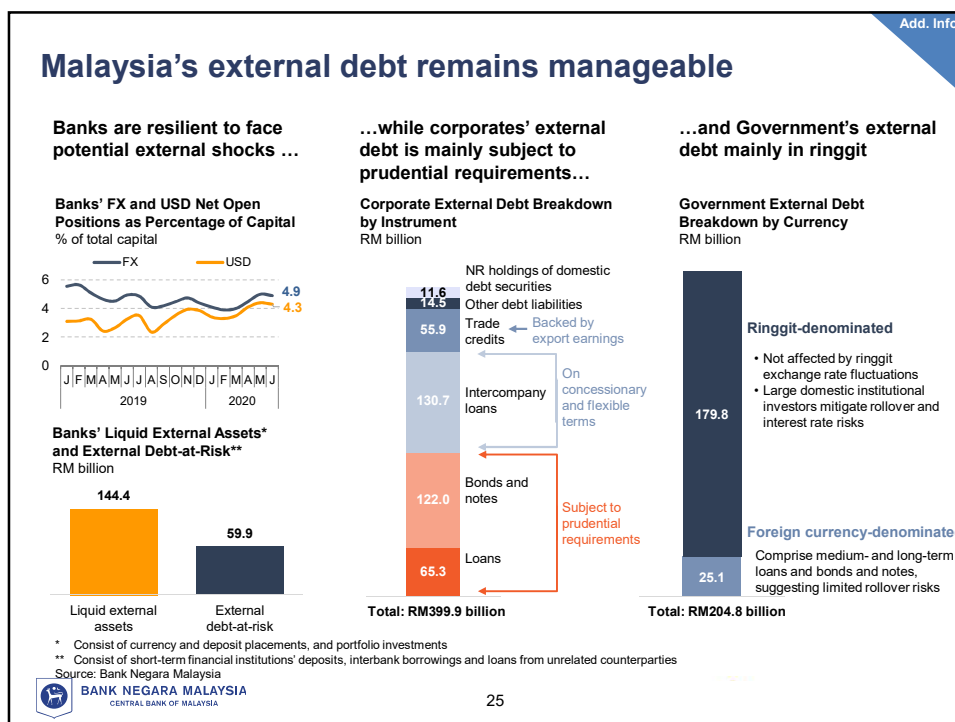
Additional Information

Changes in key assumptions since EMR publication on 3 April 2020

Add. Info

	EMR 2019	2Q 2020 QB
Weaker 2020 global growth outlook	Global growth: -0.5% ¹	Global growth: -4.9% ²
Longer MCO Duration	4 weeks	7 weeks
Wider scope of Stimulus Measures	PRIHATIN Economic Stimulus Package	<ul style="list-style-type: none"> • PRIHATIN Economic Stimulus Package • PRIHATIN SME Economic Stimulus Package (SME+) • Short Term Economic Recovery Plan (PENJANA)

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



Malaysian GDP contracted by 17.1% in 2Q 2020

Add. Info

Percentage point contribution to GDP growth by component

Real GDP (Ppt contribution, %)	Share ¹ % (2019)	2020		
		2Q	1Q	2Q
Services	57.7	3.5	1.8	-9.2
Manufacturing	22.3	1.0	0.3	-4.2
Mining and Quarrying	7.1	0.1	-0.2	-1.5
Agriculture	7.1	0.3	-0.6	0.1
Construction	4.7	0.0	-0.4	-2.0
Real GDP	100.0	4.8	0.7	-17.1

Real GDP (Ppt contribution, %)	Share ¹ % (2019)	2020		
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Private Sector	75.6	4.7	3.5	-15.9
Consumption	58.7	4.4	3.9	-10.8
Investment	16.8	0.3	-0.4	-5.2
Public Sector	18.5	-0.4	-0.1	-1.7
Consumption	12.2	0.0	0.6	0.3
Investment	6.3	-0.5	-0.7	-2.0
Net exports of goods and services	7.0	1.8	-3.2	-2.7
Exports	63.7	0.4	-4.6	-13.9
Imports	56.7	-1.4	-1.4	-11.3
Change in stocks	-1.0	-1.3	0.5	3.2
Real GDP	100	4.8	0.7	-17.1

¹ Numbers do not add up due to rounding and exclusion of import duties component
Source: Department of Statistics, Malaysia

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