BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

The BNM Quarterly Bulletin presents a quarterly review of Malaysia's economic, monetary and financial developments. It includes the Bank's latest assessments on the direction of the economy going forward. The Bulletin also provides insights on current economic and financial issues, including highlights of policy initiatives undertaken by Bank Negara Malaysia in pursuit of its mandates.

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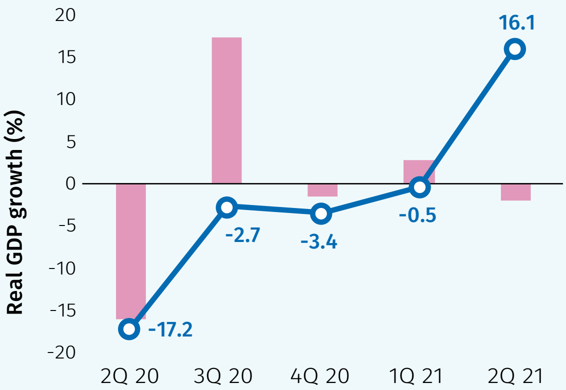
Highlights: 2Q 2021

GDP growth turned positive, while headline inflation temporarily spiked in 2Q 2021

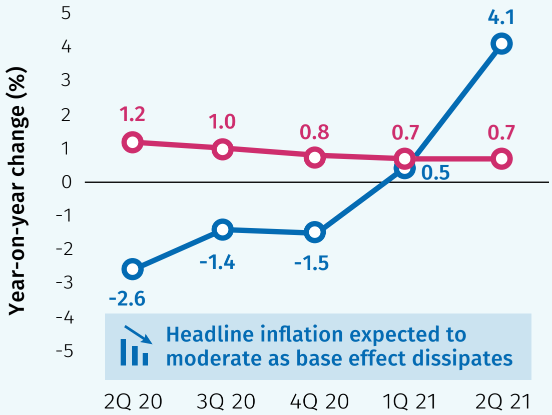
Growth was supported by an improvement in domestic demand and robust exports performance



quarter-on-quarter (seasonally adj.)
year-on-year

Source: Department of Statistics, Malaysia

Headline inflation increased, driven mainly by the base effect from low fuel prices



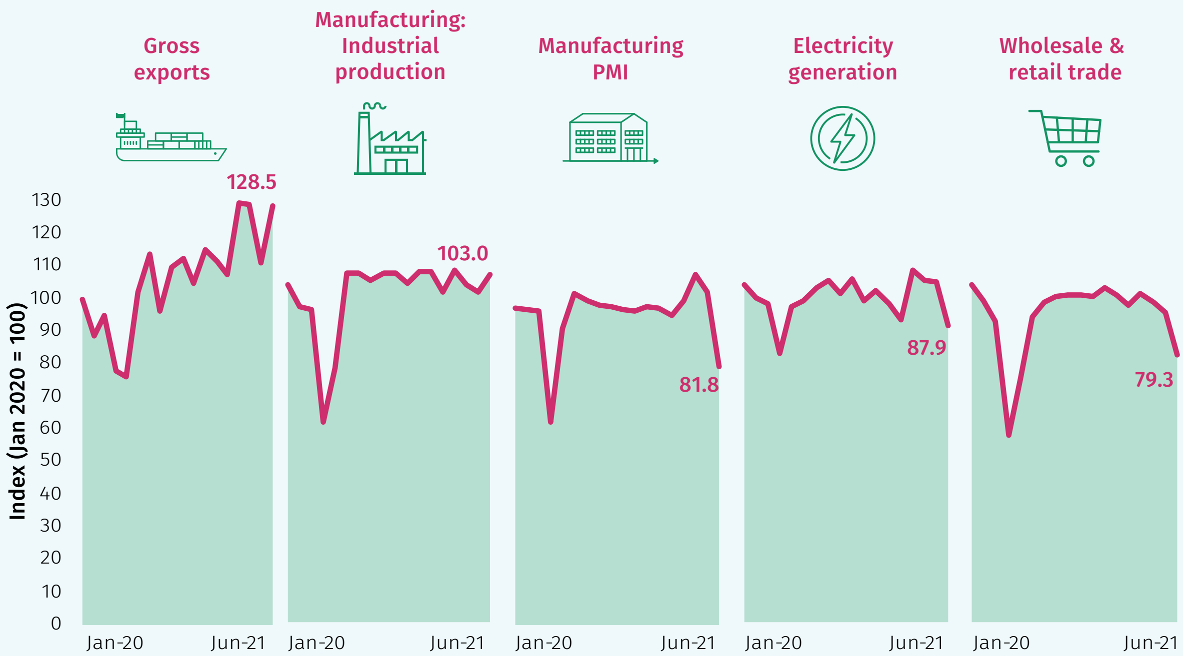
Headline inflation
Core inflation*

* Core inflation is computed by excluding price-volatile and price-administered items

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

External trade improved further, while domestic activities moderated towards the end of 2Q 2021 following imposition of tighter containment measures

Key Economic Indicators



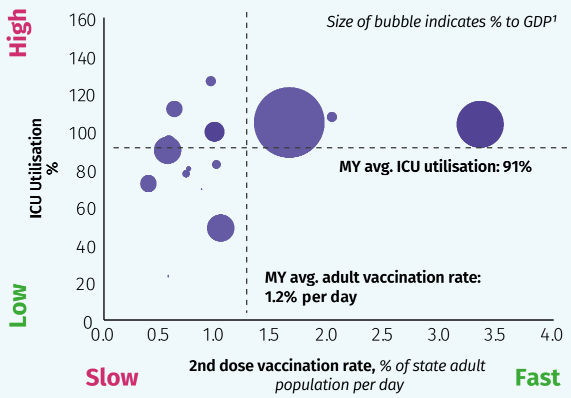
Source: Department of Statistics, Malaysia, Bank Negara Malaysia, IHS Markit, Tenaga Nasional Berhad

Highlights: 2Q 2021

Domestically, rapid vaccination rates with easing demands on healthcare capacity would lead to better economic outcomes

Fast vaccination rates and lower ICU utilisation will enable the swift easing of containment measures

ICU Utilisation and Vaccination Rate by State



[1] Refers to share to GDP in 2020

Note: ICU utilisation and vaccination rates refer to the 7-day average between 3 – 9 Aug 2021

Source: COVID-19 Immunisation Task Force, Ministry of Health, Department of Statistics, Malaysia and Bank Negara Malaysia

Principles in Assuming Phased Transition

Current ICU utilisation	Current speed of vaccination rate	Assumed transition path
Low	Fast	Faster and earlier transition to Phase 4
Low	Slow	As vaccination rate improves, transition to subsequent phases is shorter
High	Fast	1. Gradual transition to the next phase as ICU utilisation stabilises and improves
High	Slow	2. As vaccination rate progresses and ICU utilisation improves, transition to subsequent phases will be swift

In the baseline assumption, **all states** are expected to transition to **Phase 3 by October 2021** and **Phase 4 by November 2021**

Uncertainty on evolution of the pandemic and the containment measures would affect growth trajectory

	Vaccine Rollout	Containment Measures	Other Factors
Faster Recovery	▲ Majority of total population to be vaccinated by **end of October 2021** ▲ **Vaccines effective** against prevailing variants	▲ **Faster transition to Phase 4** by September 2021	▲ **Faster improvement** in the labour market ▲ **Higher pent-up demand** among households
Slower Recovery	▼ Majority of total population vaccinated by **1Q 2022** ▼ **Strain on the healthcare system** due to new variants	▼ **Prolonged tight containment measures** with Phase 4 starting in 2022	▼ **Policy uncertainty** could affect the progress of key investment projects and investor confidence ▼ **Slower recovery** in the labour market

International Economic Environment

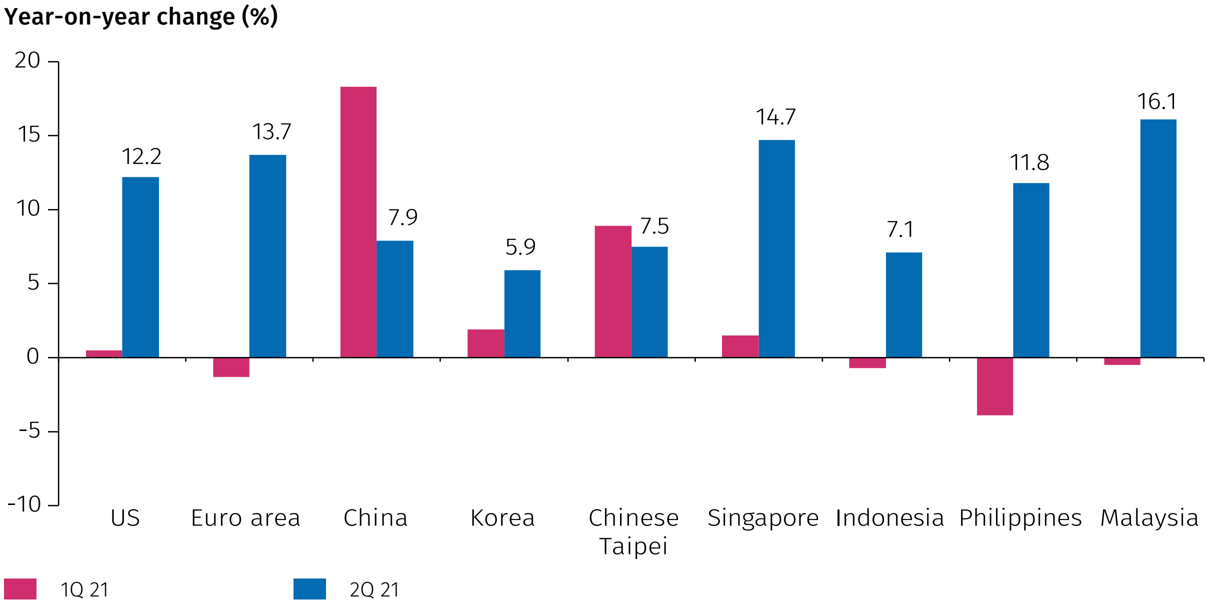
Highlights

- Global growth improved during the second quarter of 2021.
- Regional exports recovery gained momentum.
- Financial market volatility eased.

Global growth gains strength

The global economy continued to improve in the second quarter of 2021. However, growth was uneven across advanced economies (AEs) and emerging market economies (EMEs). In most AEs, faster growth was broad-based across both manufacturing and services sectors, as higher vaccination rates facilitated the easing of containment measures. In contrast, many EMEs continued to be disrupted by containment measures to curb ongoing COVID-19 risks, which dampened economic activity despite improving external demand conditions. With the exception of PR China, the improvement in year-on-year growth during the quarter was also partially attributable to low base effects from the lockdowns worldwide during the corresponding period last year.

C1 GDP Growth of Selected Economies



Source: National authorities

The US economy accelerated, expanding by 12.2% during the quarter (1Q 2021: 0.5%). Private consumption was the main driver, supported by fiscal support and the steady improvement in labour market conditions. The further relaxation of containment measures also contributed to the recovery.

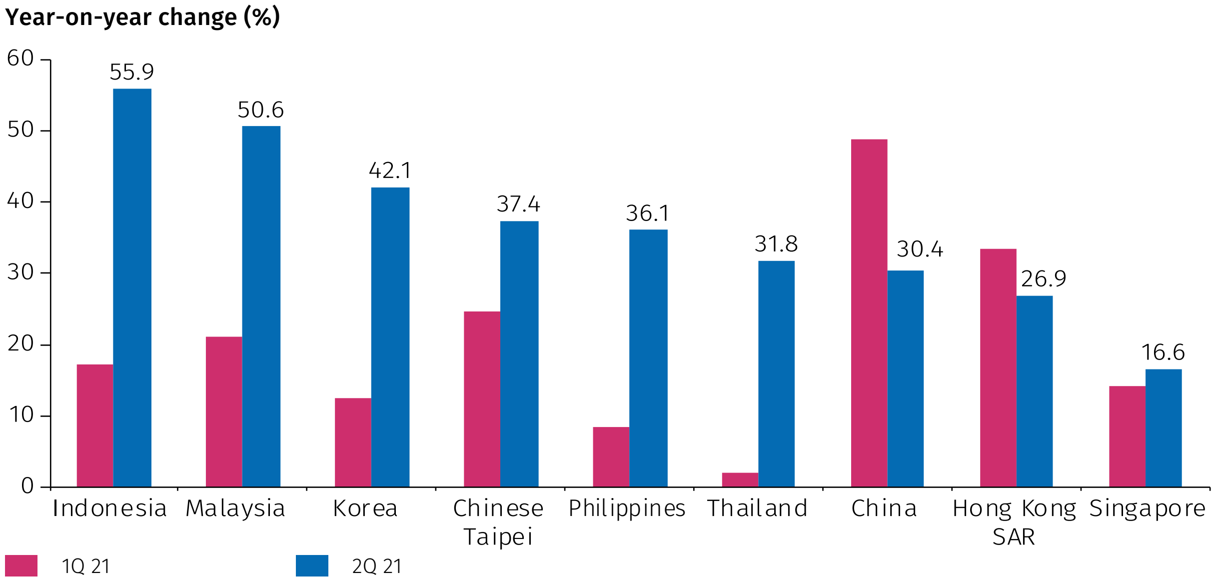
Growth in the euro area also improved to 13.7% (1Q 2021: -1.3%), driven by improvements in both domestic and external activity. The pickup in the vaccine rollout within the euro area economies allowed for the relaxation of containment measures, which benefitted especially the domestic-oriented services. Growth was also supported by continued strength in manufacturing and trade activity.

In China, growth normalised to 7.9% (1Q 2021: 18.3%). China experienced sustained strength in exports and a steady recovery in domestic demand, which was supported by expansionary financing.

Sharp improvement in regional exports

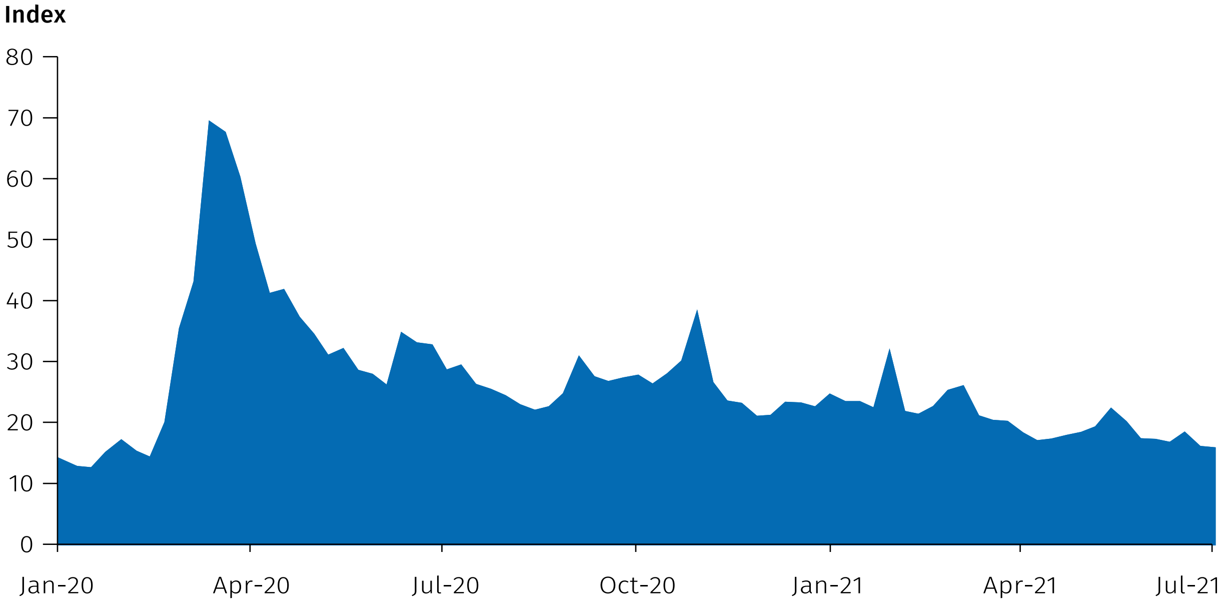
Exports in most regional economies experienced an improvement during the quarter. While this was due to some extent to the lower base in the same quarter last year, exports were also supported by continued strong external demand, particularly for electrical and electronics (E&E) products, and the rise in commodity prices which benefitted commodity exporters. China and Hong Kong SAR continued to experience high growth in exports in the second quarter of 2021, albeit lower compared to the previous quarter, as growth normalised from the low base effect in the first quarter.

C2 **Exports Growth of Selected Economies**



Source: National authorities

C3 CBOE VIX



Source: Bloomberg

Financial market volatility eased

Financial market volatility declined during the quarter, with the CBOE VIX index averaging 18.1, but it remained above pre-pandemic levels (1Q 2021: 23.2; Jan-Feb 2020: 15.0). The improvement was supported by the better growth outlook in several major AEs. Nevertheless, some spikes in volatility were observed during the release of US inflation data in May, as well as after the Federal Open Market Committee meeting, as investors reassessed the potential timing of the normalisation of US monetary policy. In addition, investor sentiments were weighed by the spread of new COVID-19 variants that may affect the recovery of the global economy.

Brent crude oil prices rose to an average of USD69 per barrel during the quarter (1Q 2021 average: USD61 per barrel). Despite the resurgence in COVID-19 cases in some regions, the rally in oil prices was underpinned by improving global economic growth, rising vaccination rates and progressive easing of mobility restrictions measures, particularly in the advanced economies. Oil prices were also supported by tight global oil supply conditions amid the ongoing OPEC+ production cuts and a modest increase in shale oil production from the US.

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Developments in the Malaysian Economy

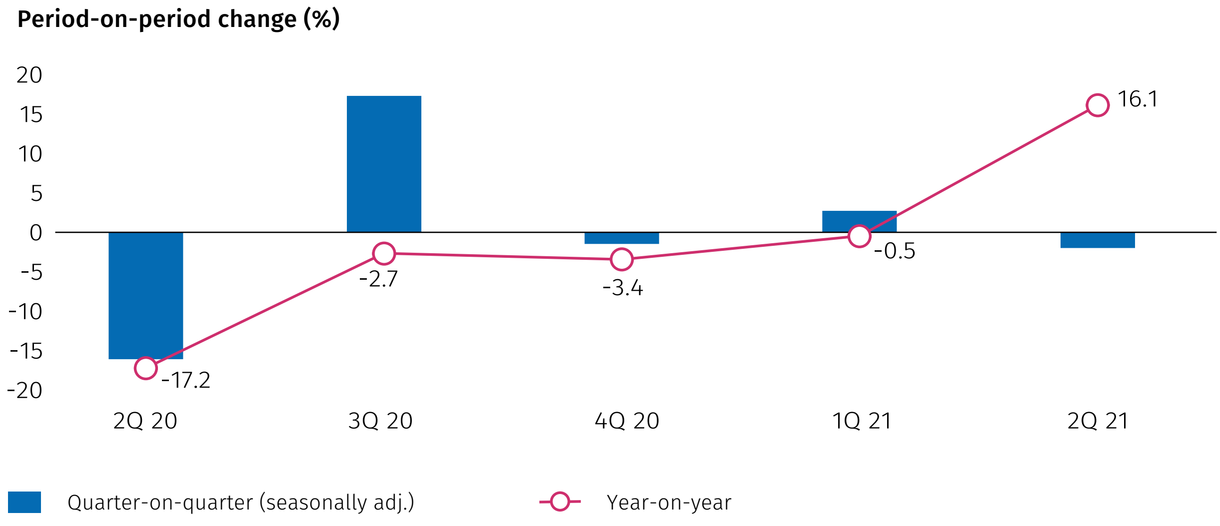
Highlights

- GDP growth continued to improve in 2Q 2021.
- Headline inflation increased to 4.1% during the quarter driven mainly by the base effect from low fuel prices.
- Higher current account surplus of RM14.4 billion or 3.9% of GDP.

GDP growth turned positive in 2Q 2021

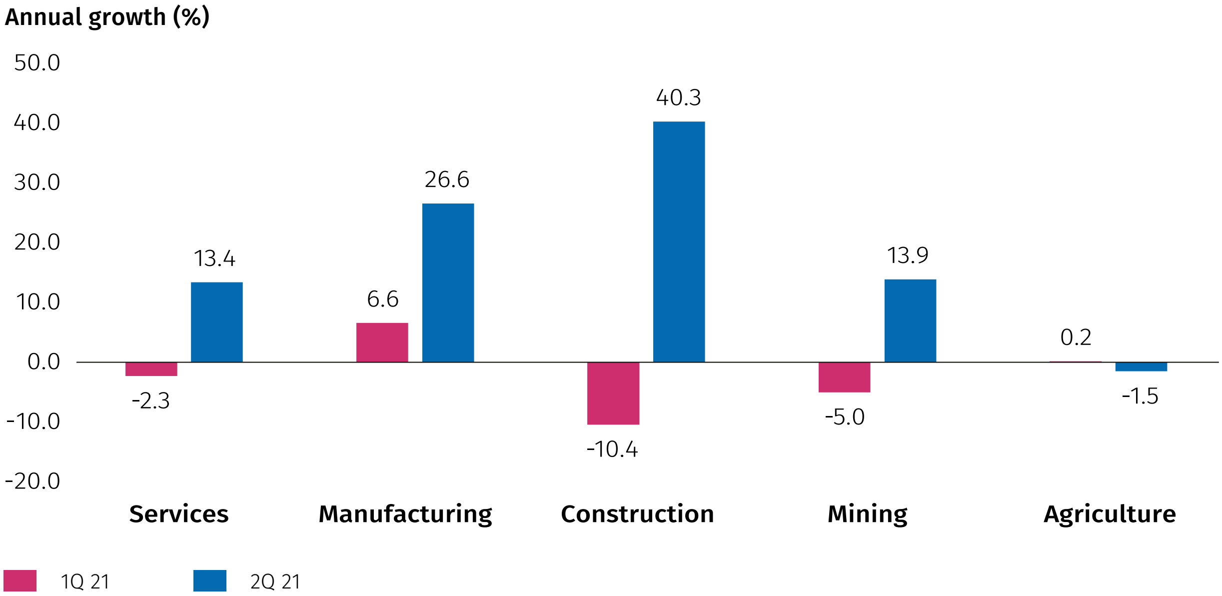
The Malaysian economy expanded by 16.1% in the second quarter of 2021 (1Q 2021: -0.5%). Growth was supported mainly by the improvement in domestic demand and continued robust exports performance. The strong growth also reflected continued policy support and the low base from the significant decline in activity during the second quarter of 2020. Economic activity picked up at the start of the second quarter but slowed following the re-imposition of stricter nationwide containment measures, particularly under Phase 1 of the Full Movement Control Order (FMCO). For the second quarter as a whole, all economic sectors registered an improvement, particularly the manufacturing sector. On the expenditure side, growth was driven by higher private sector spending and strong trade activity. On a quarter-on-quarter seasonally-adjusted basis, the economy registered a decline of 2.0% (1Q 2021: 2.7%), due to the containment measures.

C4 Real GDP Growth



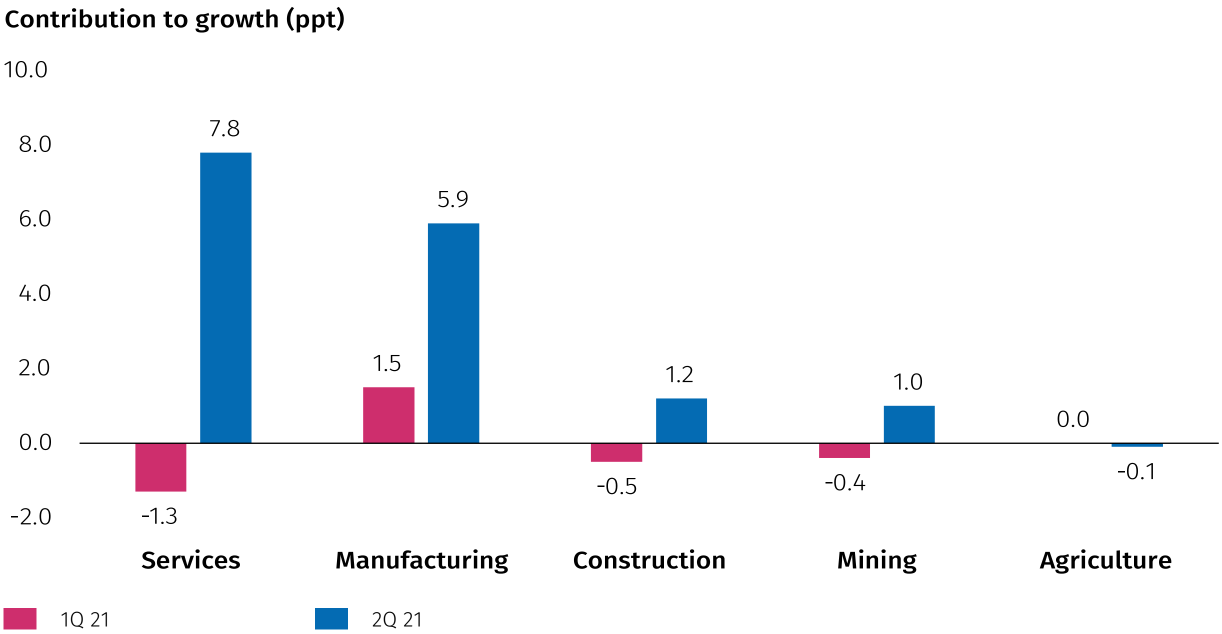
Source: Department of Statistics, Malaysia

C5 Annual Growth of Economic Sectors



Source: Department of Statistics, Malaysia

C6 Contributions of Economic Sectors to Real GDP Growth



Growth in most economic sectors improved

On the sectoral front, double-digit growth was recorded across most economic sectors in the second quarter of 2021. The services sector expanded by 13.4% (1Q 2020: -2.3%). Growth was supported by a nascent recovery in consumer-related activities in April and May 2021. This was, however, partially reversed by the re-imposition of restrictions on non-essential retail activities, dine-ins and inter-district and inter-state travel. Meanwhile, the information and communication subsector continued to benefit from rising demand for e-commerce and e-payment activity, as well as remote working and learning arrangements. Additionally, strong double-digit growth was recorded in the finance and insurance subsector, attributed to higher fee income, sustained loan and deposit growth, and higher net insurance premiums less claims.

Growth in the manufacturing sector expanded by 26.6% (1Q 21: 6.6%). On a seasonally adjusted, quarter-on-quarter basis however, manufacturing growth declined by 1.5%. This was a result of the imposition of MCO 3.0 which impacted demand domestically for products in the consumer- and construction-related clusters. Demand conditions for export-oriented industry remained resilient amid the continued global tech upcycle and recovery in global growth. Manufacturing growth was further impacted by the FMCO Phase 1, which limited operations to only essential sectors and those in the global value chain.

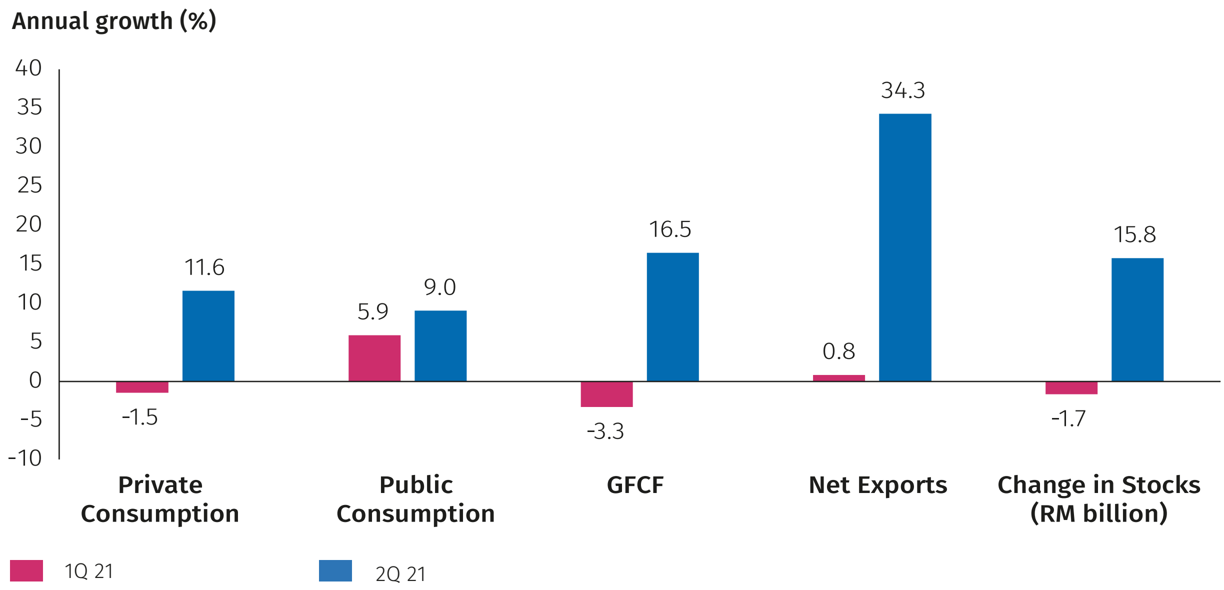
The construction sector registered a strong positive growth of 40.3% (1Q 2021: -10.4%). Growth was supported by the continuation of construction works in large infrastructure projects and on-going implementation of small-scale projects under the 2021 Budget, PEMERKASA and PEMERKASA+ stimulus packages. However, on a seasonally adjusted, quarter-on-quarter basis, construction growth declined by 3.2%. Activity was disrupted by the restrictions under Phase 1 of the FMCO, where only essential construction projects[1] were allowed to operate, albeit at a reduced capacity.

Growth in the mining sector rebounded to 13.9% (1Q 2021: -5.0%), the first positive growth since the second quarter of 2019. The turnaround was attributed to improvement in both crude oil and natural gas production amid the recovery in external demand and continued ramp-up of the PETRONAS Floating Liquefied Natural Gas DUA (PFLNG2) facility. These factors had more than offset the impact from some facility closures for maintenance purposes during the quarter.

The agriculture sector, however, contracted by 1.5% (1Q 2021: 0.2%). This was mainly attributed to a larger decline in oil palm output as harvesting activity was affected by continued labour shortages. While the forestry and logging sub-sector also declined, agricultural activity was partially supported by a rebound in the rubber and fisheries sub-sectors. Additionally, the livestock and other agriculture sub-sectors continued to register positive growth amid a turnaround in domestic demand.

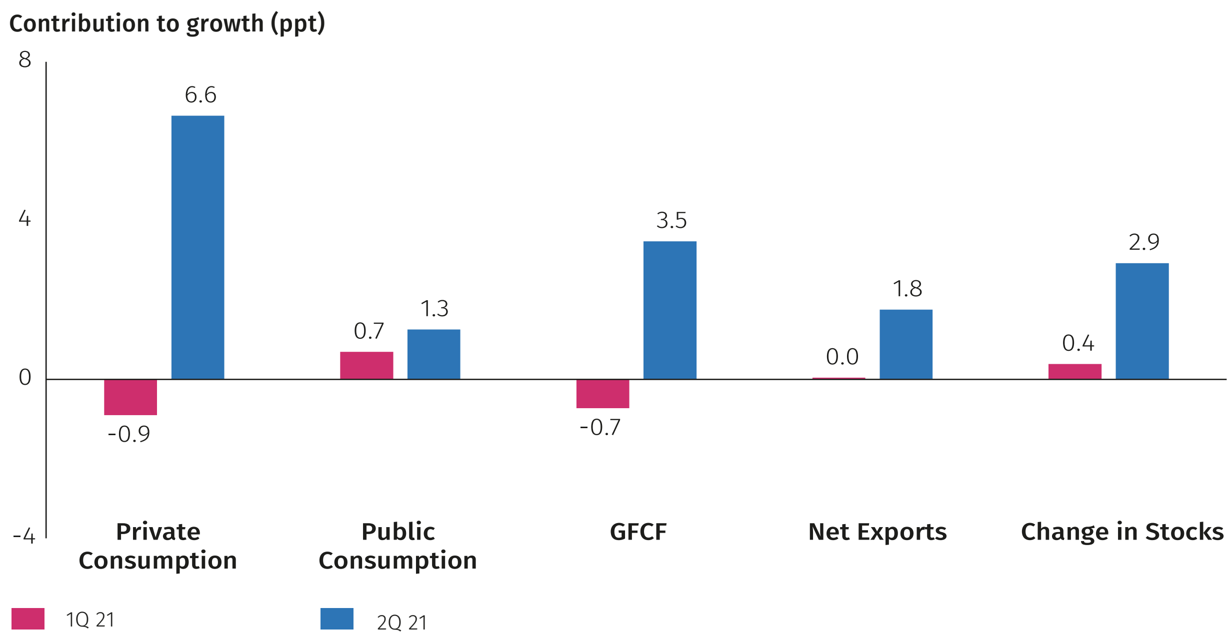
[1] Activities that are allowed to operate include critical maintenance and repair works, public infrastructure projects as well as projects with approved onsite worker accommodations.

C7 Annual Growth of GDP by Expenditure Components



Source: Department of Statistics, Malaysia

C8 Contributions of Expenditure Components to Real GDP Growth



Source: Department of Statistics, Malaysia

Higher domestic demand and robust external demand

Domestic demand turned around to register a positive growth of 12.3% (1Q 2021: -1.0%) in the second quarter of 2021, mainly supported by private sector expenditure. On the external front, demand for Malaysia's exports, particularly for E&E products, continued to remain robust.

Private consumption growth increased by 11.6% during the quarter (1Q 2021: -1.5%), following a broad-based expansion across both necessity and discretionary items, particularly at the start of the quarter, prior to the imposition of FMCO. This was due mainly to less stringent containment measures and mobility restrictions in the first half of the quarter. Labour market conditions also showed signs of improvement in the same period, which lent support to household spending. Furthermore, various policy measures, including the EPF *i-Sinar* withdrawals and *Bantuan Prihatin Rakyat*, provided additional lift to consumer expenditure.

Public consumption expanded by 9.0% (1Q 2021: 5.9%), mainly on account of higher spending on supplies and services.

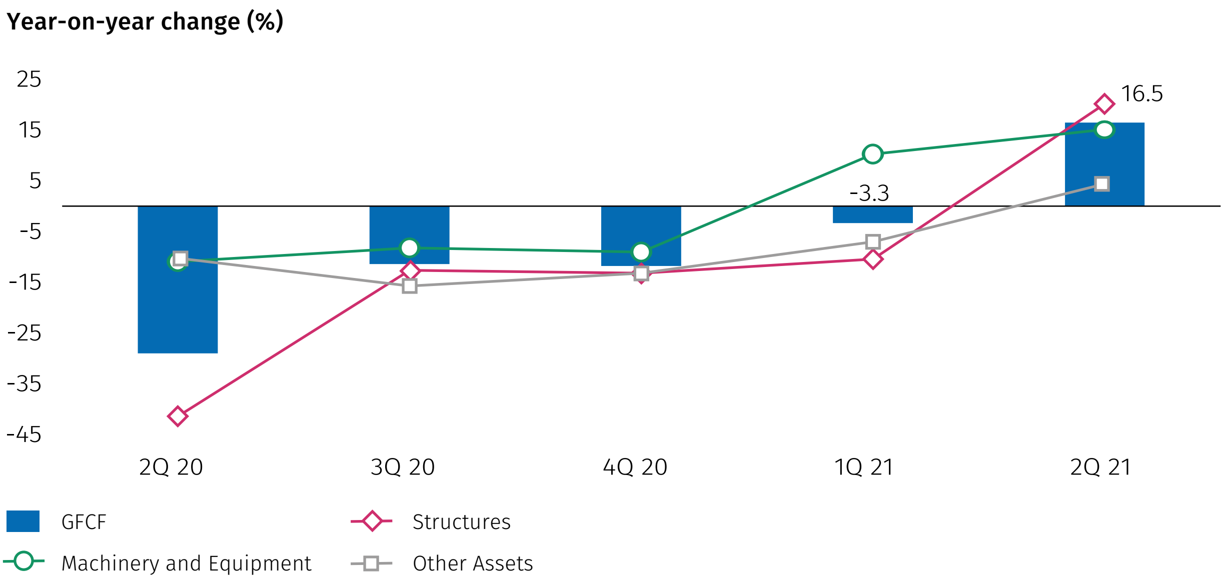
Rebound in investment activity

Gross fixed capital formation (GFCF) growth rebounded to 16.5% (1Q 2021: -3.3%), supported by the recovery in capital spending from both private and public sectors. By type of asset, both investment in structures and machinery & equipment (M&E) expanded by 20.2% (1Q 2021: -10.4%) and 15.1% (1Q 2021: 10.3%), respectively.

Private investment registered a growth of 17.4% (1Q 2021: 1.3%). The higher investment activity was underpinned mainly by the continued capital spending in telecommunication-related equipment, as firms' automation and digitalisation efforts gain further traction, as well as the continued progress in national digital infrastructure investments. In addition, further expansions of new and ongoing investment projects amid improving external demand, particularly in the export-oriented industries such as E&E and metal, also provided further impetus to growth.

After 12 quarters of contraction, public investment recorded a positive growth of 12.0% (1Q 2021: -18.6%). The performance mainly reflects the higher spending on fixed assets by the General Government amid continued weak capital spending by public corporations.

C9 GFCF Growth by Type of Asset



Source: Department of Statistics, Malaysia

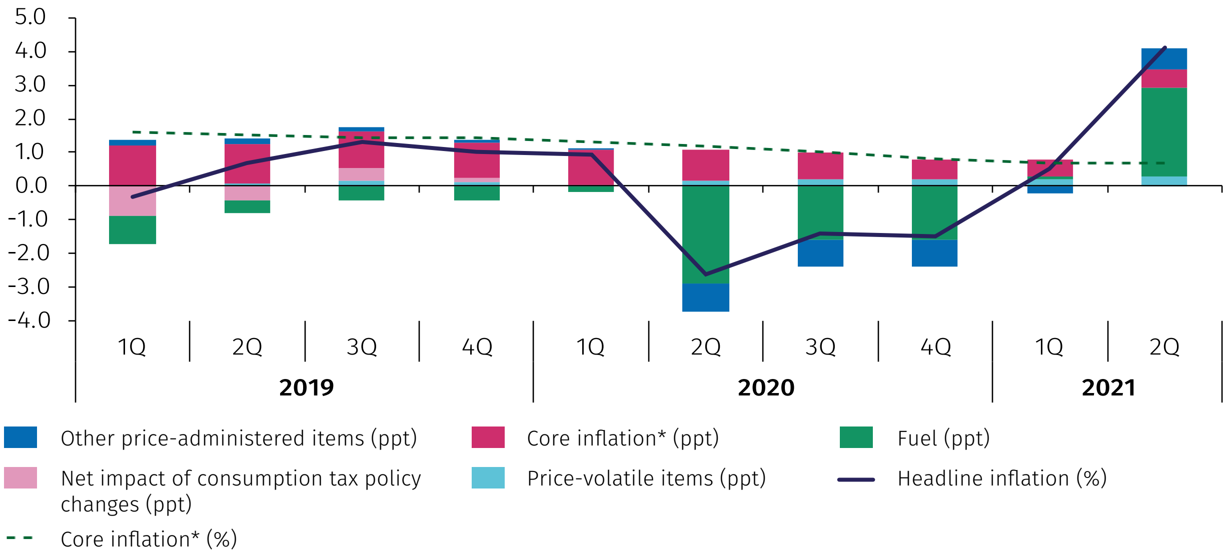
Headline inflation temporarily spiked during the quarter

Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), recorded a sharp increase to 4.1% during the quarter (1Q 2021: +0.5%), driven mainly by transitory factors. In particular, as expected, the elevated headline inflation was largely due to base effects from the low domestic retail fuel prices last year, as well as the lapse in the effect from the tiered electricity tariff rebate.[2]

In terms of the monthly trajectory, headline inflation peaked at 4.7% in April 2021.[3] Following this, headline inflation remained elevated during the quarter, but moderated to 4.4% and 3.4% in May and June 2021, respectively.

C10 Contribution to Headline Inflation by Components

Annual change (%), Contribution to headline inflation (percentage points, ppt)



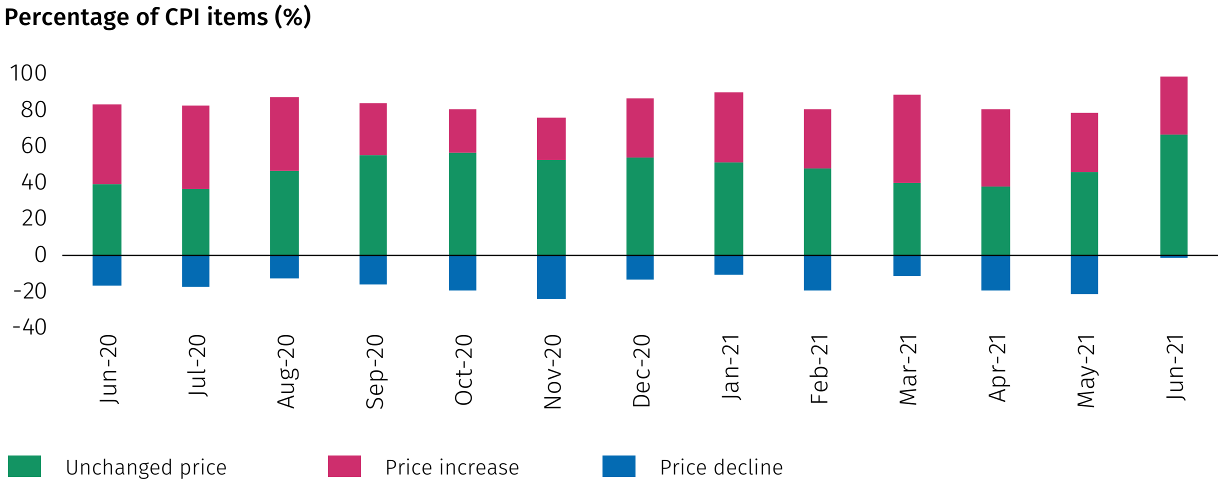
* Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of consumption tax policy changes.

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

[2] The tiered electricity tariff rebates were implemented under the Bantuan Prihatin Elektrik scheme from April to December 2020, with rebates ranging from 2% to 50% depending on monthly electricity consumption.

[3] This corresponded to the largest base effect from fuel inflation in April 2021, given the trough in retail fuel prices in April 2020. Average RON95 price in April 2020: RM1.27/barrel (April 2021 RM2.05/barrel).

C11 Month-on-Month Price Changes of CPI Items*



* 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

Despite the increase in headline inflation, upward pressures on prices during the quarter were not broad-based, as the share of CPI items recording month-on-month price increases was lower than the long-term average (2Q 2021 average: 36%; 2010-2019 average: 45%).

Notably, a larger proportion of CPI items recorded unchanged price movements (2Q 2021 average: 50%; 2010-2019 average: 33%), particularly towards the end of the quarter, due mainly to temporary business closures and uncertainties in demand following the re-imposition of movement restrictions. More specifically, price movements of core discretionary items (27.9% of CPI basket), while positive for the second quarter as a whole, became more subdued during the FMCO period. In line with this, core inflation remained stable at 0.7% during the quarter (1Q 2021: 0.7%).

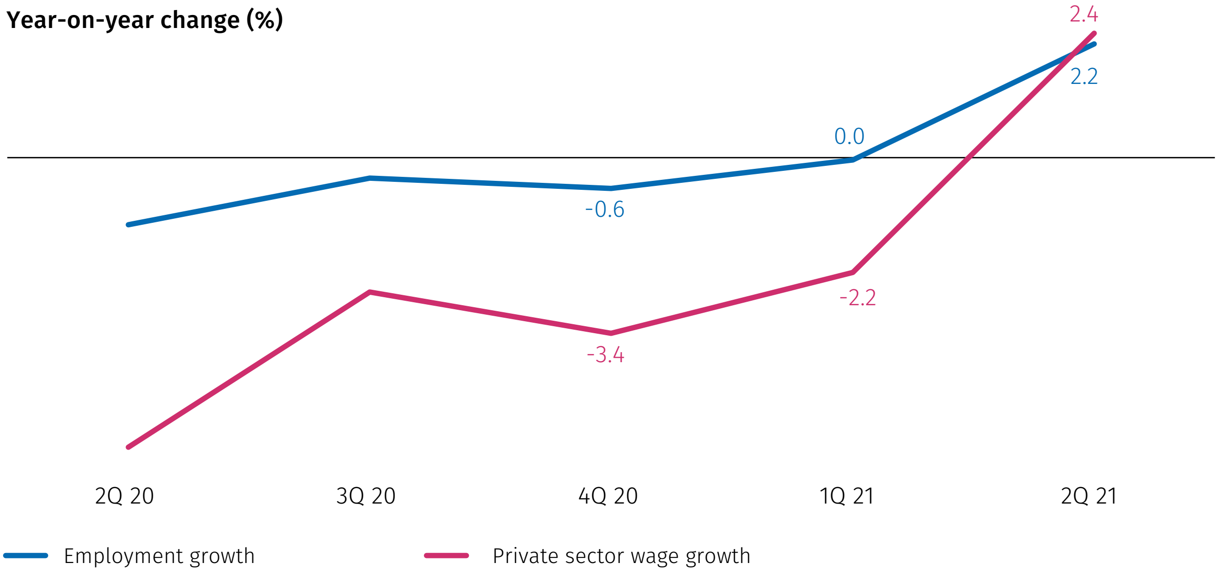
Labour market recovery was affected by FMCO

In the labour market, improvements in conditions in the first half of the quarter was affected by the imposition of FMCO in June. For the second quarter as a whole, the unemployment rate remained elevated at 4.8% (1Q 2021: 4.8%). This reflected a net employment decline of 29 thousand persons relative to the previous quarter (1Q 2021: +75 thousand persons), amid a smaller labour force (-36 thousand persons; 1Q 2021: +86 thousand persons).

The Employment Insurance System (EIS) recorded lower jobless claims (14,311 persons; 1Q 2021: 20,418), amid a higher placement rate of employees into new jobs (40 per 100 people retrenched; 1Q 2021: 33)[4], reflecting lower retrenchments and improvement in hiring activity in April and May. Nevertheless, there was a deterioration in both retrenchments and hiring activity in June.

Private sector wages grew by 2.4% (1Q 2021: -2.2%), attributable mainly to the relatively low base in the second quarter of 2020. In the services sector, wages increased by 0.4% (1Q 2021: -3.1%), driven by improvements in the transportation and storage and wholesale and retail trade subsectors. In the manufacturing sector, wage growth was also higher at 6.0% (1Q 2021: -0.6%), due to broad-based improvements in wages of both the export-oriented[5] and domestic-oriented sub-sectors. Nevertheless, on a quarter-on-quarter basis, private sector wages declined by 2.2%, reflecting the impact of operating and labour capacity restrictions.

C12 Employment and Wage Growth



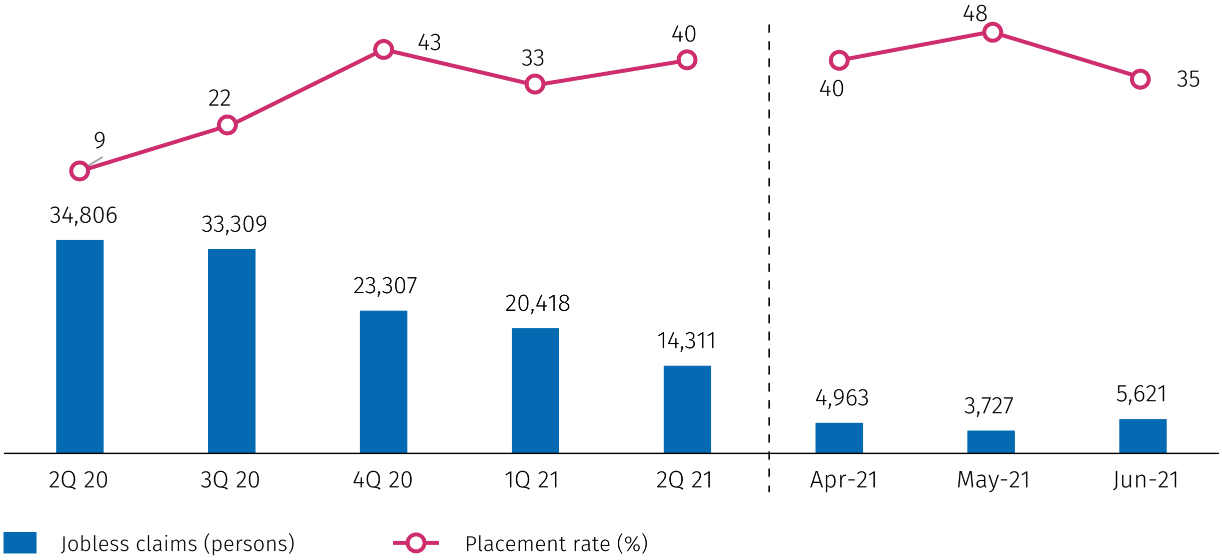
Note: Private sector wage growth refers to wage growth of workers in the manufacturing and services sectors

Source: Department of Statistics, Malaysia

[4] Job losses and retrenchments are proxied by the number of people who apply for the EIS benefits (jobless claims) following loss of employment, while the placement rate refers to the number of people placed in new jobs under the EIS programme for every 100 persons retrenched. Thus, the placement rate is indicative of the pace of hiring, relative to retrenchment activity. EIS data does not include non-standard workers, who may be more significantly affected by the movement restrictions.

[5] Export-oriented manufacturing subsectors include electrical and electronics; petroleum, chemical, rubber and plastic; wood products, furniture, paper products and printing; and textiles, wearing apparel, leather and footwear. Domestic-oriented manufacturing subsectors include food, beverages and tobacco; non-metallic mineral products, basic metal and fabricated metal products; and transport equipment and other manufactures.

C13 Jobless Claims and Placement Rate

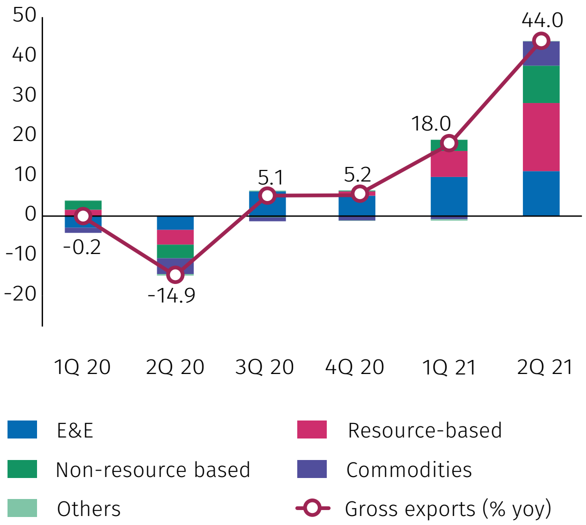


Note: Jobless claims refers to the number of people who apply for the Employment Insurance System (EIS) benefits following loss of employment. The placement rate refers to the number of people placed in new jobs under the EIS for every 100 persons retrenched.

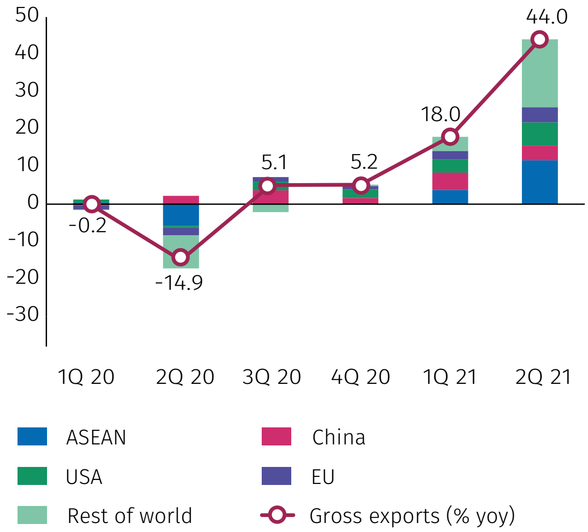
Source: Employment Insurance System, Social Security Organisation

C14 Gross Exports by Product and Market

Annual change (%), contribution to growth (ppt)



Annual change (%), contribution to growth (ppt)



Source: Department of Statistics, Malaysia

Improvement in trade activity amid higher external demand and domestic economic activity

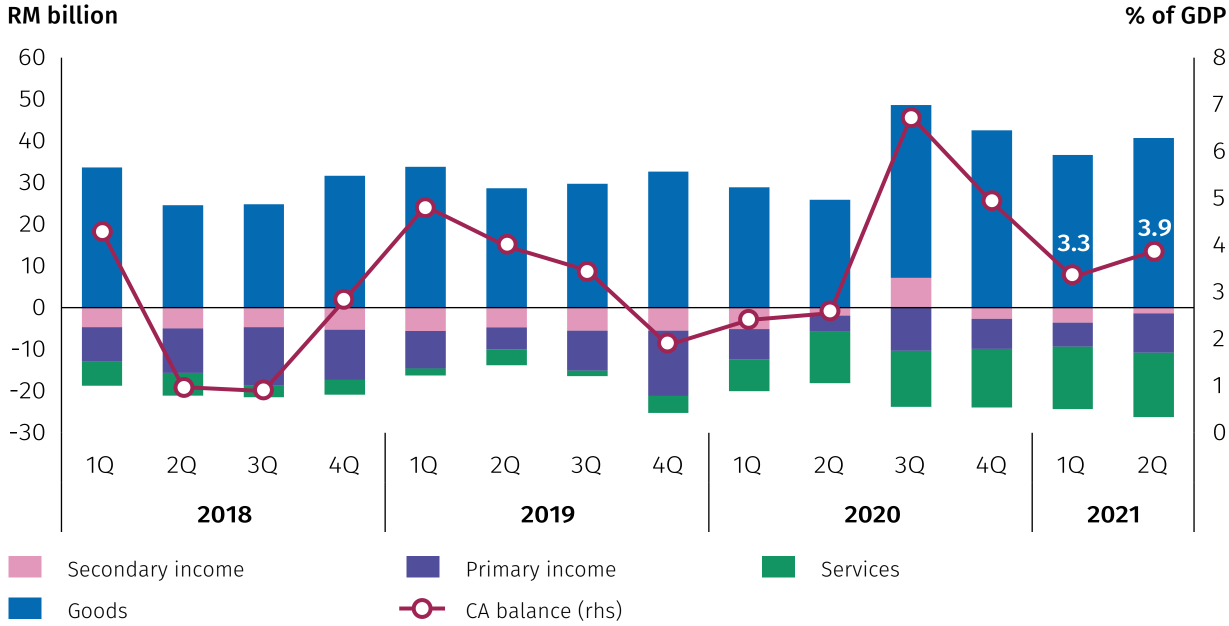
Gross exports grew at a faster pace of 44.0% (1Q 2021: 18.0%). The strong exports performance was broad-based across products and markets, underpinned by improving external demand. Gross imports also registered a higher growth of 33.3% (1Q21: 10.0%), due mainly to a stronger expansion in intermediate imports. The trade surplus[6] amounted to RM56.4 billion (1Q 2021: RM58.7 billion).

Manufactured exports increased by 43.6% (1Q 2021: 22.7%), supported mainly by non-E&E exports (55.5%, 1Q 2021: 19.0%). This was driven by strong demand for petroleum and chemical products, manufactures of metal and machinery, and equipment and parts. Commodities exports registered a strong rebound (46.3%, 1Q 2021: -6.5%) due mainly to improvement in CPO, LNG and crude petroleum exports.

Intermediate imports registered a stronger growth of 43.8% (1Q 2021: 3.4%), due mainly to higher imports of industrial supplies, in tandem with the faster expansion in domestic manufacturing activity. This was partially offset by the decline in capital imports (-8.3%; 1Q 2021: 32.2%), due to base effect from the import of a large floating structure in the second quarter of 2020.

[6] The goods and trade surpluses differ because goods for processing, storage and distribution (with no change in ownership) are excluded from the goods account. This is as per the 6th Edition of the Balance of Payments and International Investment Position Manual by the International Monetary Fund (IMF).

C15 Current Account Balance



Source: Department of Statistics, Malaysia

Higher current account surplus

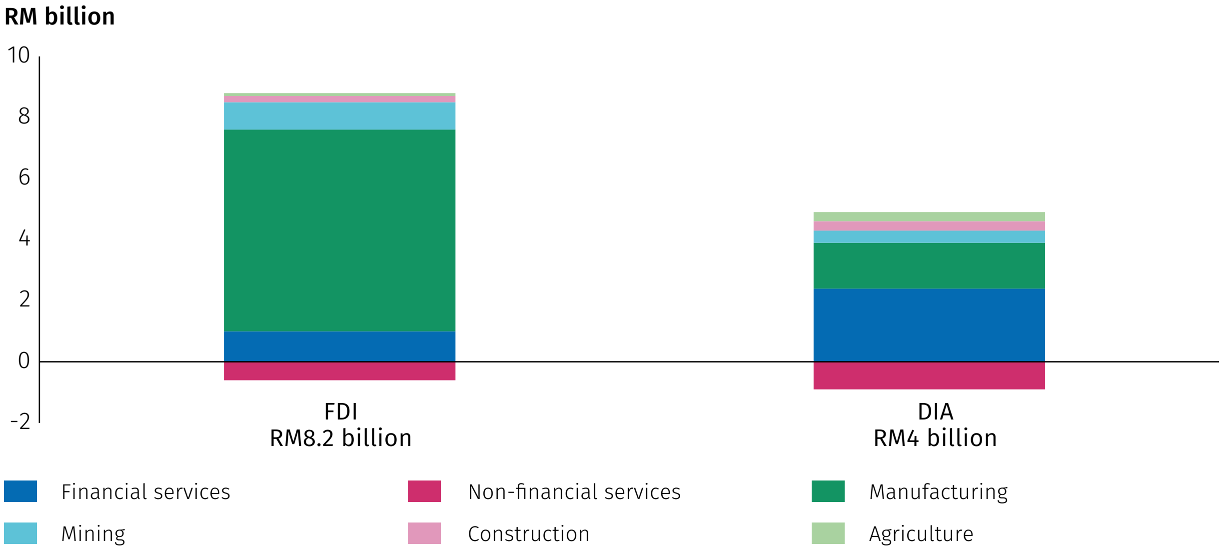
The current account of the balance of payments registered a higher surplus of RM14.4 billion, or 3.9% of GDP during the quarter (1Q 2021: RM12.3 billion or 3.3% of GDP). The higher surplus was on account of the larger goods surplus and the lower deficit in the secondary income account.

The goods surplus widened to RM40.7 billion (1Q 2021: RM36.6 billion), supported by stronger external demand, despite the imposition of domestic containment measures. The services account recorded a marginally larger deficit (-RM15.4 billion; 1Q 2021: -RM15.0 billion), due to larger deficits in transportation and other business services.

The primary income account registered a larger deficit of RM9.5 billion (1Q 2021: -RM5.7 billion). This mainly reflected the higher investment income accrued to foreign companies and investors in Malaysia.

The secondary income account recorded a smaller deficit of RM1.4 billion (1Q 2021: -RM3.6 billion). This was partly due to funds received related to a wholly-owned subsidiary of the Minister of Finance (Incorporated) during the quarter.

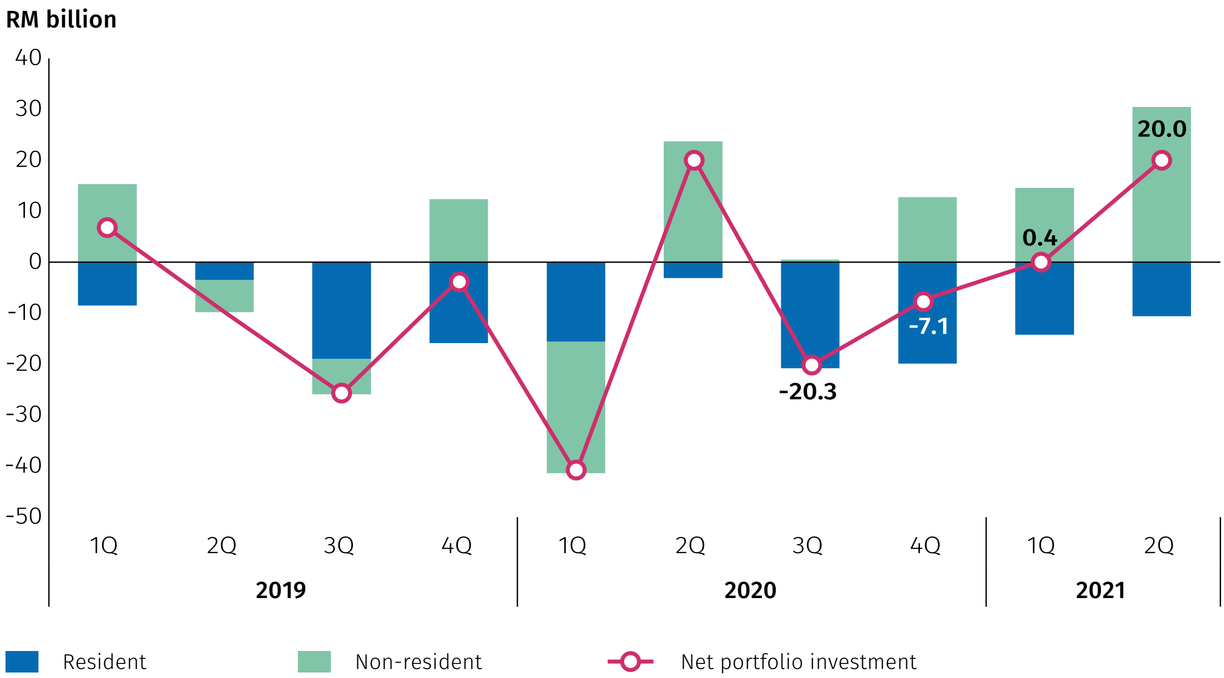
C16 Direct Investment by Sector



Note: For DIA, positive values refer to net outflows, while negative values refer to net inflows. Figures may not sum due to rounding.

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

C17 Portfolio Investment



Source: Department of Statistics, Malaysia and Bank Negara Malaysia

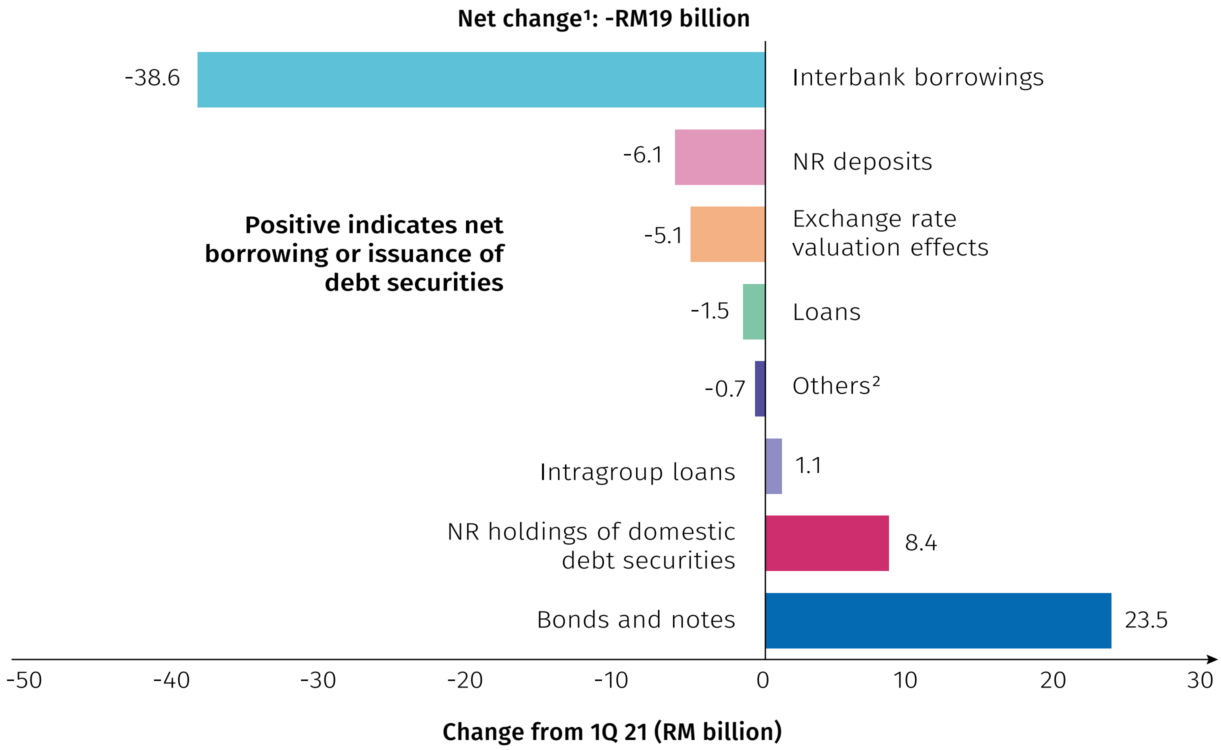
Financial account registered a net outflow

The financial account recorded a net outflow of RM7.0 billion (1Q 2021: +RM16 billion), as outflows in the other investment account more than offset inflows in the direct and portfolio investment accounts. The direct investment account registered higher net inflows of RM4.2 billion (1Q 2021: +RM1.4 billion), underpinned by net inflows in foreign direct investment (FDI) of RM8.2 billion (1Q 2021: +RM9.1 billion). This was driven by larger reinvestment of earnings (+RM7.0 billion; 1Q 2021: +RM4.1 billion) notably in the manufacturing sector, and higher equity injections into Malaysia (+RM4.9 billion; 1Q 2021: +RM4.4 billion). Direct investment abroad (DIA) recorded lower net outflows of RM4.0 billion in the second quarter (1Q 2021: -RM7.8 billion). These investments abroad were channelled mainly into the services and manufacturing sectors.

The portfolio investment account recorded a higher net inflow of RM20 billion (1Q 2021: +RM0.4 billion), due to higher non-resident (NR) portfolio investments (+RM30.5 billion; 1Q 2021: +RM14.6 billion) and lower residents' portfolio investments abroad (-RM10.6 billion; 1Q 2021: -RM14.2 billion). Higher net NR portfolio investment inflows reflected larger inflows into domestic debt securities (+RM32.2 billion; 1Q 2021: +RM16.9 billion), particularly Government bonds. This more than offset the impact from the liquidation of domestic equity securities (-RM1.7 billion; 1Q 2021: -RM2.3 billion). More moderate residents' portfolio investments abroad were driven by lower institutional investors' acquisitions of equity securities.

The other investment account turned around to register a significant net outflow of RM30.5 billion (1Q 2021: +RM13.9 billion). This was due primarily to repayment of interbank borrowings by the banking system and withdrawal of NR deposits. Net errors and omissions amounted to –RM2.6 billion during the quarter, or –0.5% of total trade.

C18 Changes in External Debt



[1] Changes in individual debt instruments exclude exchange rate valuation effects
[2] Comprises trade credits, IMF allocation of SDRs and other debt liabilities

Note: Figures may not add up due to rounding

Source: Ministry of Finance Malaysia, Department of Statistics, Malaysia and Bank Negara Malaysia

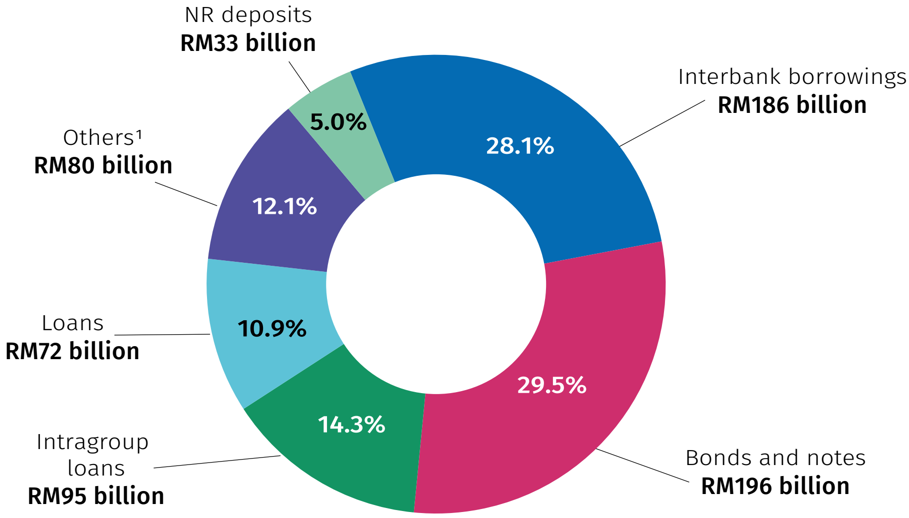
External debt remained manageable

Malaysia's external debt amounted to RM1,020.7 billion, or 68.5% of GDP as at end-June 2021 (end-March 2021: RM1,039.7 billion or 73.2% of GDP). The decline is attributable mainly to a net repayment of interbank borrowings, withdrawal of NR deposits as well as exchange rate valuation effects following the stronger ringgit against selected major and regional foreign currencies during the period. These were partially offset by a net issuance of bonds and notes abroad and an increase in NR holdings of Government domestic debt securities.

Malaysia's external debt remained manageable, given its favourable currency and maturity profiles. Ringgit-denominated external debt amounted to RM358.2 billion and accounted for 35.1% of total external debt (end-March 2021: 33.6%). It was largely in the form of NR holdings of domestic debt securities (68.4% share of ringgit-denominated external debt) and ringgit deposits (16.8% share) in resident banking institutions. These liabilities were not affected by fluctuations in the ringgit exchange rate.

Foreign currency (FCY) external debt accounted for the remaining RM662.5 billion, or 64.9% of total external debt. 52.7% of FCY-denominated external debt were by the corporate sector, and were mainly subject to BNM's prudential and hedging requirements. Long-term bonds and notes issued offshore stood at RM195.8 billion, accounting for 29.5% of total FCY-denominated external debt, held largely by non-financial corporates. The net issuance of bonds and notes of RM23.5 billion during the quarter partly reflect refinancing activities amid accommodative interest rate environment. Intragroup loans, which accounted for 14.3% of FCY-denominated external debt, were generally on flexible and concessionary terms.

C19 Breakdown of FCY-Denominated External Debt (RM billion, % share)



[1] Comprises trade credits, IMF allocation of SDRs, and other debt liabilities

Source: Ministry of Finance Malaysia, Department of Statistics, Malaysia, and Bank Negara Malaysia

Interbank borrowings and FCY deposits in the domestic banking system accounted for 33.2% of FCY-denominated external debt. Half of the decline in interbank borrowings during the quarter was due to maturing back-to-back intragroup transactions by banks in the Labuan International Business and Financial Centre. The ample FCY liquidity and higher domestic FCY deposits domestically have also reduced the need for domestic banks to raise interbank funding from non-residents. Overall, three-quarters of outstanding interbank borrowings were in the form of intragroup borrowings from related parties located abroad, which are generally more stable, thereby limiting rollover risks faced by banks. Meanwhile, foreign-currency risk, as measured in terms of the net open position of FCY-denominated exposures[7], remained low at 4.8% of banks' total capital (end-March 2021: 4.5%).

From a maturity perspective, 62.2% of total external debt has medium- to long-term tenure (end-March 2021: 58.4%), suggesting low rollover risks. Short-term external debt accounted for the remaining 37.8% of external debt. Of note, 42.3% of short-term external debt were in the form of intragroup borrowings, which were on-lent by parent banks or multi-national corporates located abroad and were generally stable and on concessionary terms. About another 14.3% were accounted by trade credits, largely backed by export earnings and are self-liquidating. As at 30 July 2021, international reserves stood at USD111.1 billion, sufficient to finance 8.1 months of retained imports, and is 1.2 times the short-term external debt.

[7] Refers to the aggregated sum of the net short or long foreign currency positions for all currencies across banks.

Box Article

The Global Chip Shortage: Implications and Opportunities for Malaysia

Background

The shortage of semiconductor chips[1], which began in late 2020, has highlighted how indispensable these components are in today's modern economy. Notably, the global chip shortage has raised concerns due to its widespread impact across economic sectors and countries. In February 2021, the global automotive industry was estimated to suffer a revenue loss of USD60 billion in 2021 due to shortages of semiconductor chips. This issue has also highlighted the high degree of geographical concentration of chip manufacturing, raising national security concerns for some major economies. This box article aims to shed some light on the dynamics behind the global chip shortage, assess the potential impact to the Malaysian economy and explore policy strategies to maintain Malaysia's strategic role as a global semiconductor player.

Supply-demand imbalances leading to the global chip shortage

The current shortage of semiconductor chips has been due to developments over the past few years as global megatrends[2] such as automation, electrification and connectivity propelled rising demand for semiconductors, against a backdrop of heightened uncertainty in supply and underinvestments due to the US-China trade war. From a demand perspective, the COVID-19 pandemic played a key role in accelerating trends such as the shift towards remote working, virtual learning, home entertainment, online gaming and e-commerce. This, in turn, led to a significant surge in demand for chips powering computers, laptops, cloud computing and equipment for wired communications. Initially, the increase in demand was accommodated by a cutback in production by the automotive segment, as car manufacturers reduced orders for semiconductor chips in response to the lower mobility during the pandemic. Moving into 2021 however, the automotive industry experienced a faster-than-expected recovery in demand (Chart 1) following the lifting of containment measures by various governments globally. Additionally, the just-in-time inventory management practices which contributed to the low chip inventory levels among the automotive manufacturers also fuelled further demand for chips.

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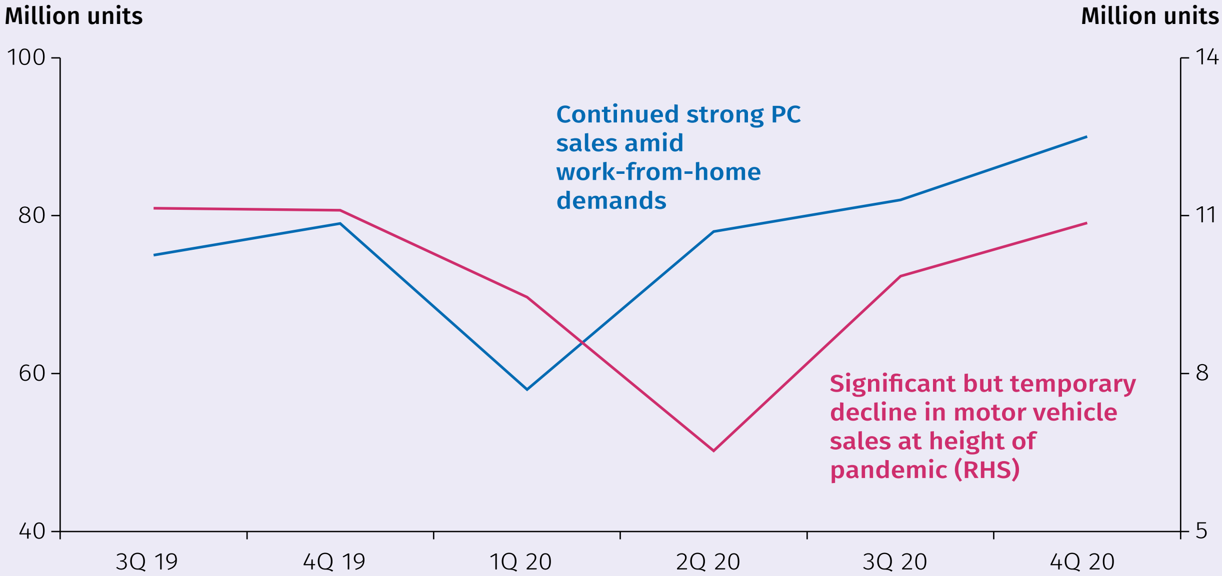
[1] Microchip, chips, or more officially known as integrated circuit (IC) is the "brain" within every electronic device in the world.

[2] As a result of these megatrends, the content of semiconductor per unit of product has risen given the greater need for speed and connectivity (e.g. the latest 5G phones require 40% more electronic components compared to older versions, while the semiconductor content per car is expected to reach close to USD600 per car by 2022 compared to USD300 per car in 2013)

C1 Global Personal Computer Sales and Global* ex-China Motor Vehicles Sales

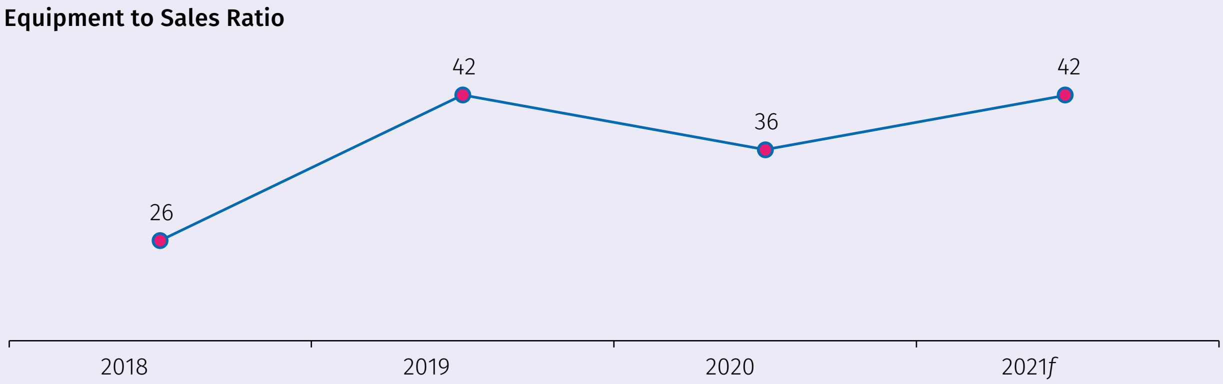


*Refers to 24 countries including Australia, India, Indonesia, Japan, Malaysia, Pakistan, Philippines, Singapore, South Korea, Chinese Taipei, Thailand, Vietnam, Portugal, Russia, Turkey, South Africa, Argentina, Brazil, Canada, Chile, Colombia, Mexico, Panama, and United States. China was excluded as COVID-19 affected China mainly in 1Q 21, unlike other countries.

Source: Gartner, CEIC

From the supply perspective, chip manufacturers were unable to keep pace with the rising demand due to the lack of new capacity and underinvestment during the early stages of the pandemic (Chart 2). As global foundries operate at close to full capacity and efforts to build new foundry capacities require about 2-3 years to be production-ready, chip manufacturers were unable to accommodate the sudden surge in chip demand.

C2 Equipment Spending to Sales Ratio by TSMC and Samsung



Source: Counterpoint Research

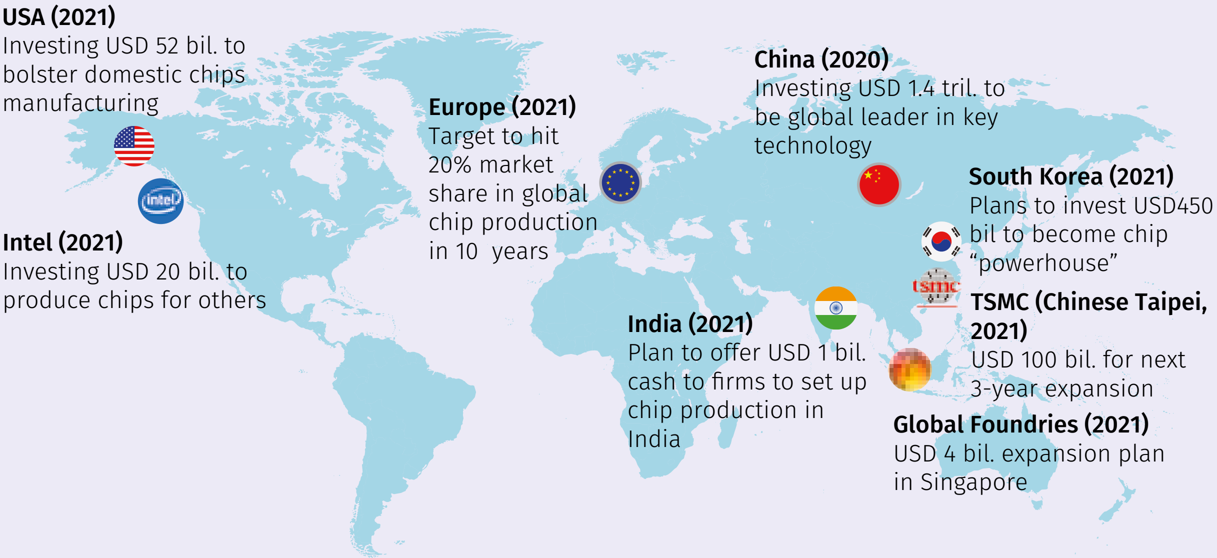
There is also evidence that the shortages were contributed by the race to build buffer stock by some clients who were concerned about supply chain security amid US-China trade tension. Additionally, these shortages were exacerbated further in 2021 by sudden disruptions in production caused by winter storms in the United States, a fire outbreak in the plant of a key Japanese producer, and COVID-19 outbreak in chip manufacturing plants in Chinese Taipei.

Globally, the impact from the chip shortages was first felt by the automotive industry. Automotive players faced longer lead-times when demand recovered sharply, as chip manufacturers were unable to reprioritise chip supplies back to the automotive industry, especially for those that have cancelled chip orders earlier. This has led some automotive players to suspend production or leave out certain non-essential features due to inability to source vital components. The effects of the shortage, however, have since extended beyond the automotive sector, with other industries such as consumer electronics facing longer lead-times, minimal inventories, and higher costs to secure chips.

Ongoing capacity expansion and reshoring efforts to address shortages

As the global chip shortage continues, businesses and governments are looking for longer-term solutions by rethinking their entire semiconductor manufacturing supply chain structure. On one hand, Integrated Device Manufacturers, who are involved in both designing chips and operating own foundries have intensified investment efforts to expand capacities. Fabless chip designers, who have outsourced manufacturing to third parties, have less flexibility as they are highly reliant on a few large global chip manufacturers to fulfil orders (the Top 3 semiconductor contract manufacturers account for close to 80% of global foundry revenue in 2020). This concentration has propelled Governments around the world to push for self-sufficiency and strengthen national security by developing domestic chip manufacturing capabilities (announced in 2020 and 2021, Chart 3). In particular, major economies including the US, EU and China are incentivising the reshoring of chip manufacturing back to domestic markets, so as to enable better control of the supply chain and prevent future disruptions.

C3 **Efforts by Selected Semiconductor Companies and Policymakers**



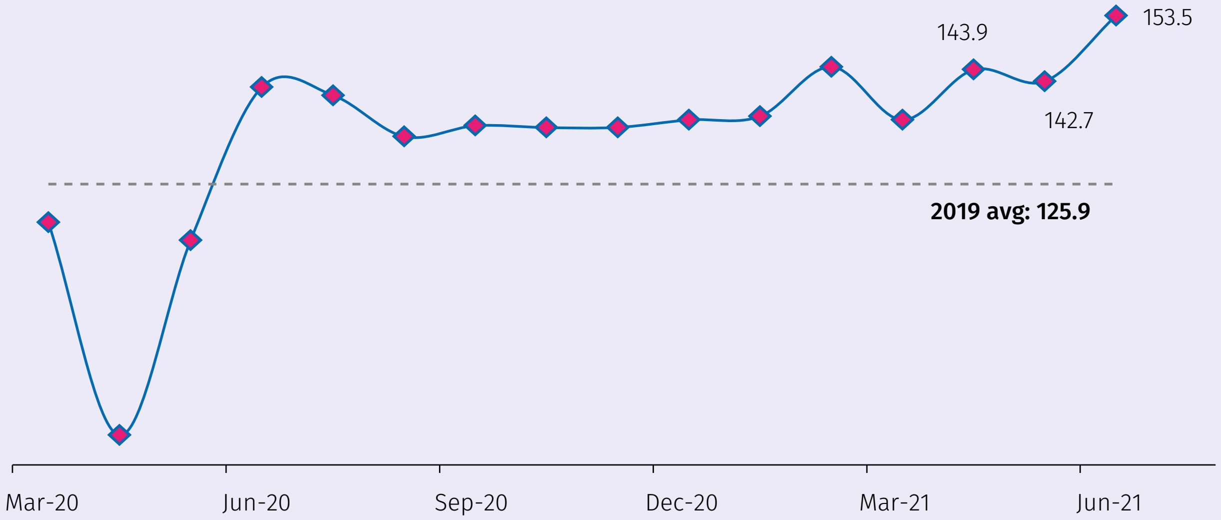
Source: Various newsflows

Malaysia has been able to withstand the impact of chip shortages

With a major presence in the global semiconductor value chain (approximately 7% of global semiconductor trade flows through Malaysia) it is critical to assess the implications of the chip shortage on Malaysia's E&E production. Since the height of containment measures globally in April 2020, E&E production activity has recorded a strong rebound and continues to record markedly high levels. In particular, production has been above pre-pandemic levels since June 2020 (Chart 4).

C4 Industrial Production Index (E&E)

Index (2015=100), seasonally adjusted

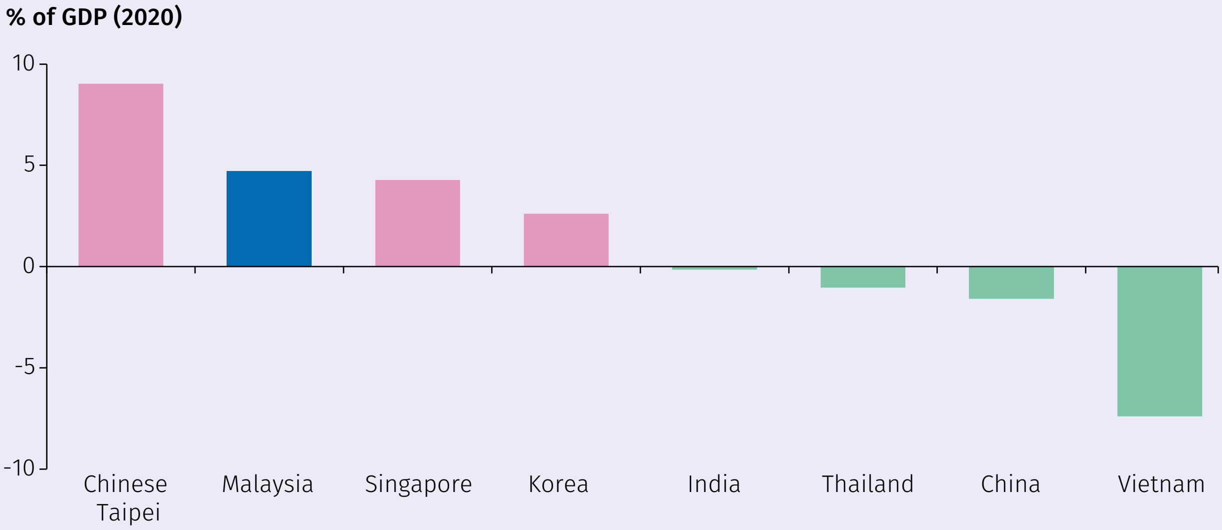


Source: Department of Statistics Malaysia and Bank Negara Malaysia estimates

The strong and sustained production levels suggest that Malaysia's E&E sector is currently benefitting from the chip shortages. Malaysia holds a strategic position in global value chains, being among the larger net exporters of semiconductor products (Chart 5), with a significant share of firms within the semiconductor value chain involved in the production of chips. As such, strong demand for semiconductors is benefitting a large segment of the industry, outweighing the impact of shortages on segments that use chips as intermediate inputs. In particular, firms involved in front-end semiconductor manufacturing have experienced a surge in orders as they serve to address the global supply gap. In tandem with the strong foundry activities globally, other parts of the domestic semiconductor value chain, namely local OSAT (Outsourced Semiconductor Assembly and Testing) players and Assembly and Test Equipment (ATE) manufacturers have also benefitted from higher demand.

C5

Global Semiconductor Trade Balance



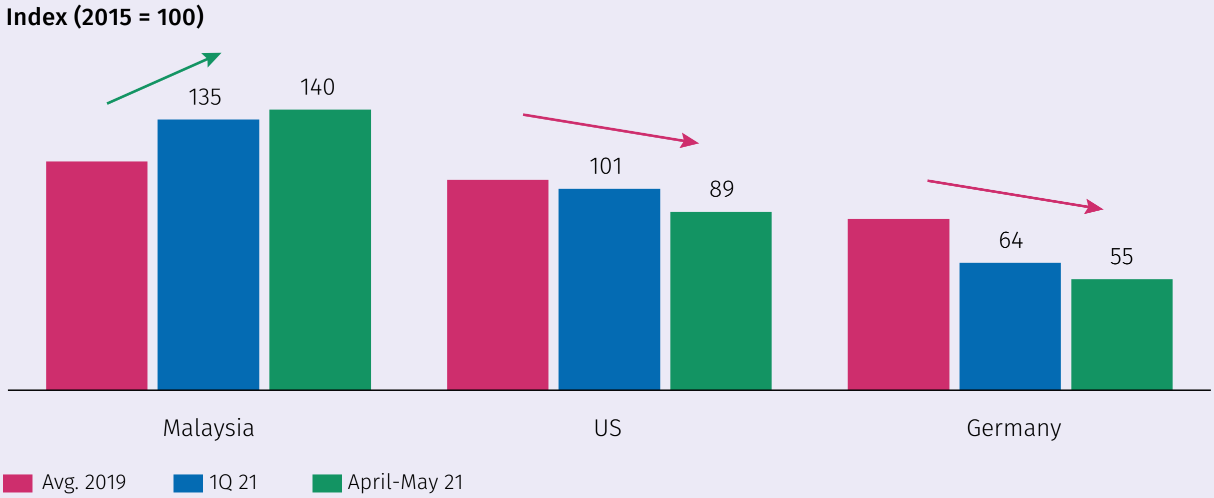
Source: International Trade Centre, IMF

As the strength of global tech cycle continues, this is expected to lend support to the performance of the E&E industry going forward. Based on the Bank's industrial engagements, most E&E firms have secured higher order bookings in advance, with several firms reporting full order books throughout 2021. Firms are also undertaking measures to expand production capacity to increase supply by investing in new plants and machinery, while introducing new products to cater to new and fast-growing segments such as electric vehicles, data centres and medical devices. The overall outlook for the sector is expected to remain positive, as domestic firms receive higher orders amid frontloading by clients in anticipation of future shortages of other products and components.

However, the effect of the shortages is uneven, as certain segments within the domestic E&E value chain require chips to produce other electronic goods, particularly consumer electronics. Some Original Equipment Manufacturer (OEM) and Electronics Manufacturing Services (EMS) that use chips as intermediate components have expressed concerns on how the low inventory levels and longer lead times to secure chip supplies are affecting their production.

Beyond the E&E sector, the automotive industry has been the most impacted industry globally due to the chip shortages. Nevertheless, Malaysia's automotive sector has been relatively less affected. Compared to the automotive industry in the US and Germany, Malaysia's production has improved since end-2020 (Chart 6). This is partly attributed to a lower chip intensity for motor vehicles produced in Malaysia, compared to the advanced economies, particularly in the production of mass-market and national makes. The improvement in motor vehicle production also coincides with the SST exemptions on purchases of passenger cars, as consumers leveraging on the tax savings increased their demand for vehicles.

C6 Motor Vehicles Industrial Production by Country



Note: June 2021 figures are excluded as automotive production in Malaysia was more impacted by the imposition of FMCO Phase 1 which restricted production

Source: Department of Statistics Malaysia, CEIC

Moving forward, longer term strategies are critical to build domestic capabilities

The longer-term outlook for the Malaysian E&E industry remains supported by strong order books, introduction of new products, and commencement of new plants, which will allow firms to benefit from the continued global demand. The ability of firms to capitalise on these opportunities remain contingent upon long-term strategies to build domestic capabilities to stay competitive.

While the current environment is positive for Malaysia, the E&E sector is confronted by challenges, both in the near- and medium-term. First, the near-term performance of the E&E industry in Malaysia is expected to be weighed down by the recent implementation of FMCO (full movement control order) and restrictions on labour capacity due to the resurgence in COVID-19 cases. Nevertheless, firms were able to minimise the impact given the highly automated nature of many large semiconductor firms. Meanwhile, some firms also extended the number of working days in order to catch up on production. Moving forward, firms that are currently focused on labour-intensive activities are most at risk of production disruptions resulting from labour restrictions. As such, embarking on automation would not only mitigate the impact of containment measures as firms become more capital intensive, but also help to ensure that Malaysia's E&E sector is better able to capture the strong demand for E&E products. While automation is prevalent amongst larger E&E manufacturers, tier 2 and tier 3 suppliers, which comprise mainly SMEs, have room to automate further. Impediments to automation include an aversion to change involving new production methods, as well as high costs, including for maintenance and staff training when operating machinery[3]. In this regard, SMEs are encouraged to automate processes and digitalise operations by leveraging on capacity building resources, as well as grants and financing facilities like the MIDA Domestic Investment Strategic Fund and High Impact Fund, and the SME Automation and Digitalisation Facility[4] by Bank Negara Malaysia.

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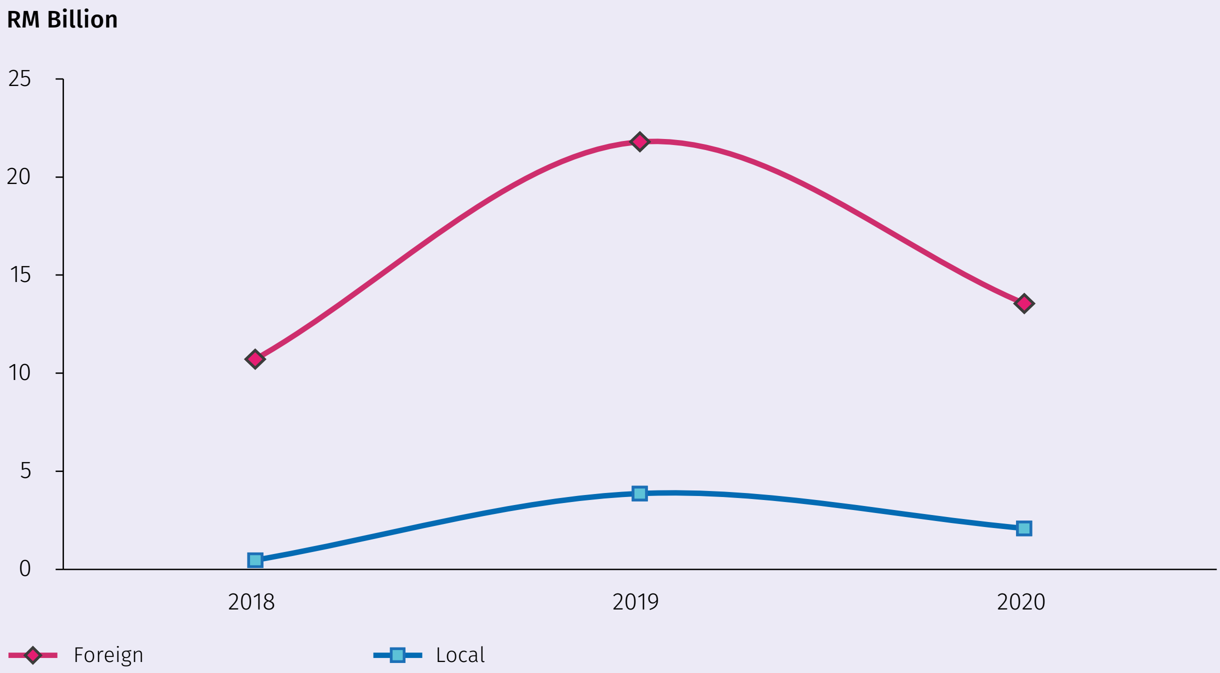
[3] Findings from E&E Productivity Nexus "Study on Productivity and Contribution of the Malaysian E&E Industry"
[4] For more information, please refer to https://www.bnm.gov.my/documents/20124/2294076/ADF_Eng.pdf

Second, the push towards the reshoring of chip manufacturing activities by major economies could impact the significance of Malaysia as an E&E producer in the semiconductor global value chain (GVC). As major economies prioritise strengthening their own domestic capabilities, they may reduce investments in other parts of the GVC. Thus far, Malaysia's E&E sector has been highly dependent on foreign direct investments (FDI), accounting for more than 80% of total approved investments in the past 3 years (Chart 7). A cutback in FDI could translate into slower capital accumulation, production capacity expansion and output growth. As the E&E sector is highly technology intensive, lower technology-driven FDI could also impact domestic technology development and adoption, high-skilled job creation and access to global markets for local suppliers through the MNC network.

C7 Foreign and Local Approved Investment in E&E Industry in Malaysia



Source: Malaysian Investment Development Authority

As such, there is an urgent need to grow investments by domestic firms while increasing Malaysia's capability in attracting quality FDI amid global reshoring efforts. The implementation of the "National Investment Aspirations" (NIAs) can stimulate investments in segments of the value chain that are of high economic complexity, create high-value jobs, and have extensive domestic linkages. Examples would be Integrated Circuit (IC) design and design automation, which are strongly aligned with the NIAs given its high dependency on innovation. To date, there are only a few active local design houses in Malaysia as IC design activities are undertaken mostly by MNCs. In order to venture into these segments, local players, especially the new entrants, can form partnerships with MNCs by setting up offshore design centres to bring these activities to Malaysia in the medium term. Trade promotion agencies could also enhance the branding of the domestic E&E sector as an IC design hub, which will increase the exposure and create opportunities for local IC design firms.

The E&E industry in Malaysia can further scale up its capabilities and competitiveness by expanding into research and development (R&D), product innovation and design activities that can add value beyond just the manufacturing front (Malaysia is ranked 70 out of 131 countries in knowledge creation, and 53 out of 131 countries in knowledge workers recorded in the Global Innovation Index 2020). These transitions can be complemented by government policies to attract R&D investment activities that encourages inflows of know-how and new technology innovations via industry-academia collaboration. For example, Chinese Taipei's Industrial Technology Research Institute (ITRI) is a successful model of industrial technology upgrading and innovation policy that not only drove innovation among firms and incubated some of the Chinese Taipei's top home-grown companies but also bridged the gap between the industry and academia research. The ability to entice MNCs to bring R&D activities also depends on the availability of the right talent pool to undertake these higher-value tasks. This can be partly addressed by the continuous and cohesive collaboration between industry and the universities in developing industry-relevant curriculum to keep pace with the ever-evolving skills demand. To strengthen the eco-system for R&D to be undertaken locally, Malaysia's Intellectual Property (IP) frameworks should also be updated to widen the recognition of domestic patents across key international jurisdictions, which will offer more comprehensive protection for IPs patented in Malaysia. There is also a need to strengthen and align IP arbitration to global standards to facilitate effective resolution of disputes.

Conclusion

Malaysia has been able to withstand the impact of chip shortages considerably well, given its established footprint in the global semiconductor supply chains. With higher E&E industrial production during the pandemic period compared to 2019, as well as full order books among chip manufacturers and future product diversification plans, Malaysia's E&E industry has thus far benefitted from this unanticipated global chip shortage.

However, there is the risk that intensifying reshoring of semiconductor manufacturing activities may impact future investments into Malaysia. As such, it is timely for Malaysia to strengthen domestic capabilities by increasing productivity via automation and digitalisation, leveraging on forward-looking investment policy tools such as the NIAs, and enhancing R&D capabilities by developing the right talent pool, while improving collaboration between industry and academia.

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Monetary and Financial Developments

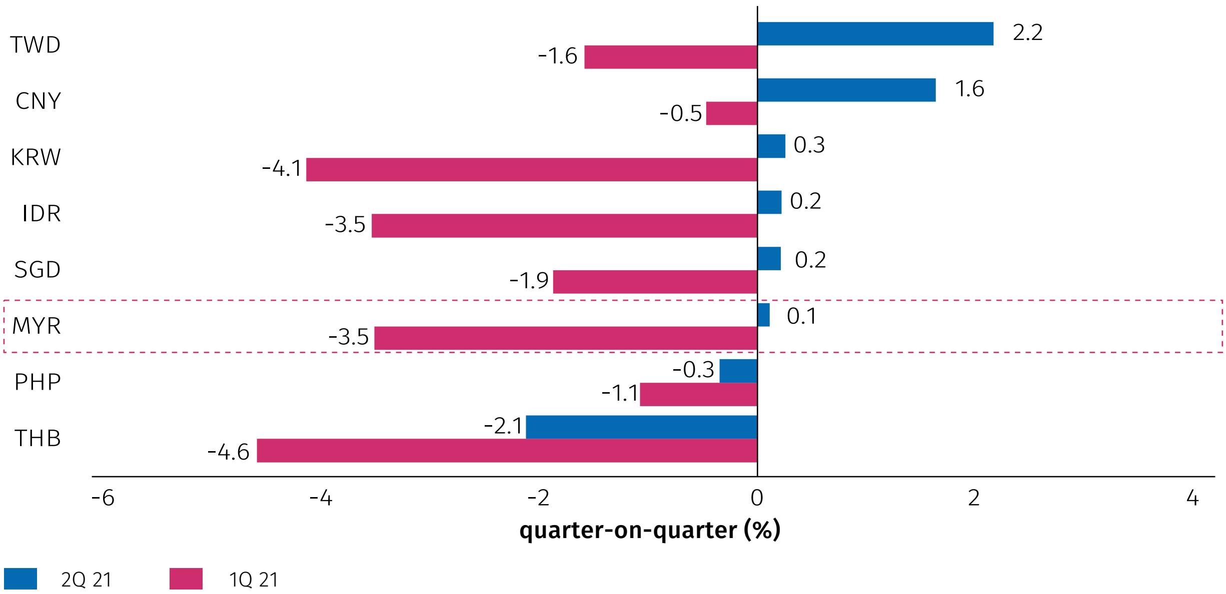
Highlights

- The ringgit appreciated marginally against the US dollar while the equity and bond markets broadly declined.
- Nominal interest rates remained broadly stable during the quarter.
- Net financing continued to expand.

Domestic financial markets were influenced by external and domestic factors

Conditions in the domestic financial markets were affected by both global and domestic developments in the second quarter of 2021. On the external front, the US Treasury yield curve flattened as yields on short-term US Treasuries rose due to increased expectations of earlier-than-expected monetary policy normalisation following the Federal Open Market Committee

C20 Performance of Regional Currencies Against the US Dollar



Source: Bank Negara Malaysia and Reuters

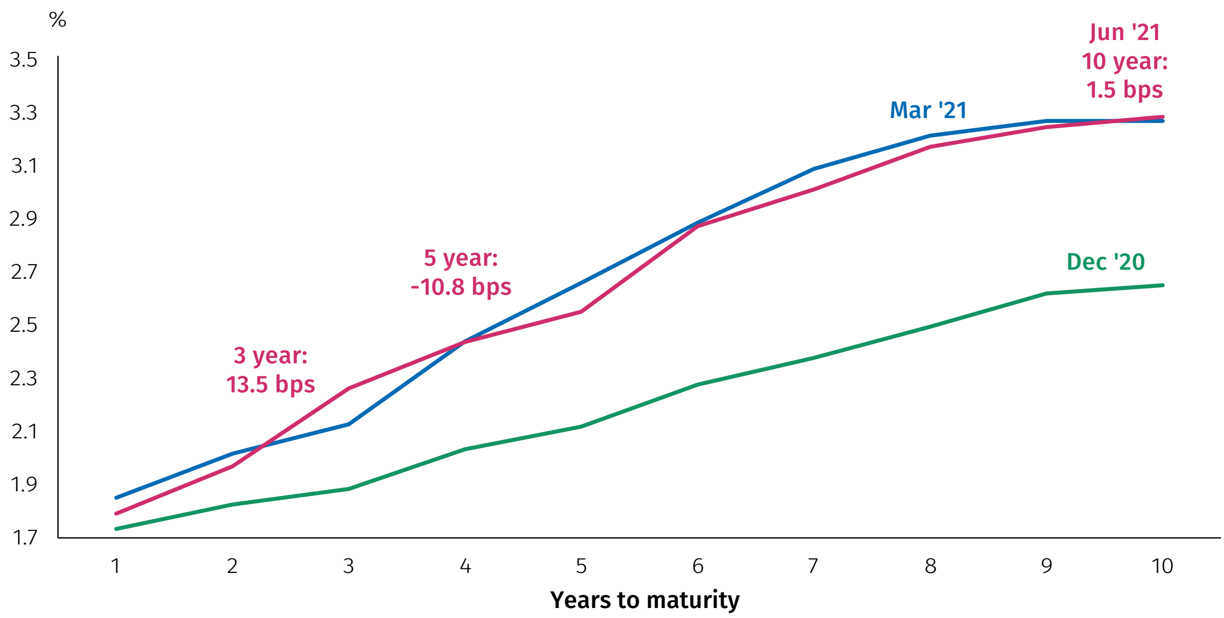
(FOMC) meeting in June. Meanwhile, medium- and long-term yields declined due to continued asset purchases by the US Federal Reserve and corrections from the over-adjustments experienced in the first quarter of 2021 (1Q 2021 change in 10-year US Treasury: yield +82.7 basis points).

Movements in the domestic bond market followed a broadly similar trend. The 3-year Malaysian Government Securities (MGS) yield increased by 13.5 basis points (3-year US Treasury yield: +11.5 basis points) while the 5-year MGS yield declined by 10.8 basis points (5-year US Treasury yield: -5.0 basis points). Despite the decline in 10-year US Treasury yields by 27.2 basis points, 10-year MGS yields, however, recorded a marginal increase of 1.5 basis points due partly to increased expectations of higher domestic bond issuances following the announcement of additional fiscal support in June 2021.

In the foreign exchange market, the ringgit appreciated marginally against the US dollar (2Q 2021: +0.1%), in line with most other regional currencies. The US dollar was negatively impacted in the earlier part of the quarter by rising US inflation, as declining real bond yields led investors towards higher yielding assets; while weaker-than-expected economic data, such as unemployment data, drew concerns over the pace of US recovery. However, expectations for a faster pace in monetary policy normalisation following the June FOMC meeting led to a slight rebalancing of investors' portfolios towards US dollar-denominated assets at the end of the quarter.

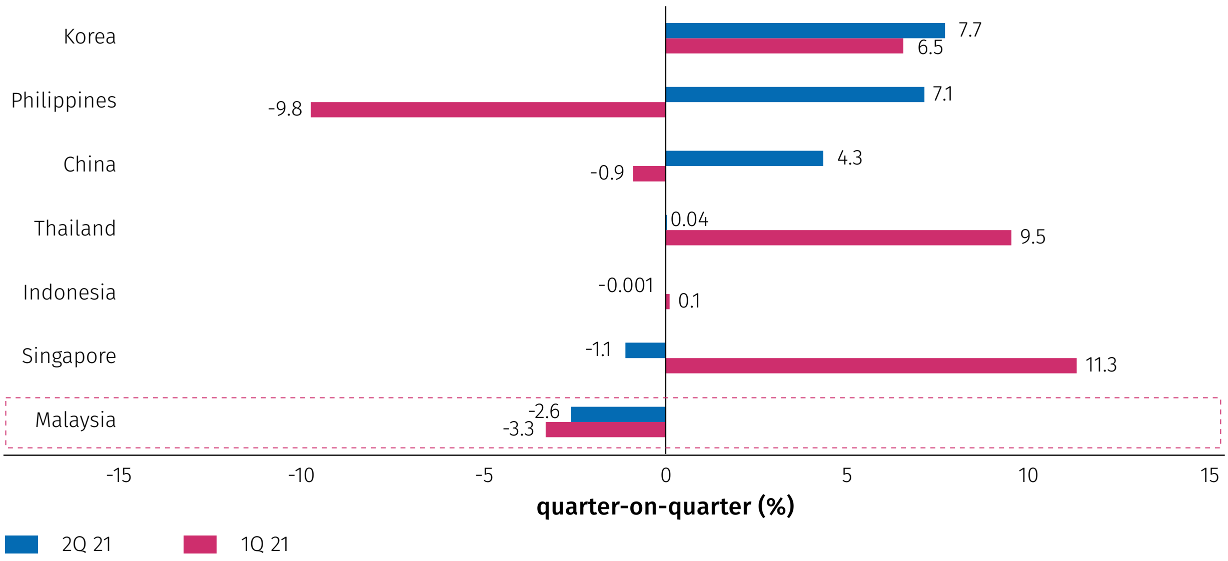
The domestic equity market declined following concerns over the economic outlook due to the imposition of stricter containment measures amid rising COVID-19 cases. The FBM KLCI declined by 2.6% to close at 1,532.6 points as at end-June 2021 (end-March: 1,573.5 points). The most affected sectors in the domestic equity market were energy (-14.6%), plantations (-8.7%) and construction (-7.3%).

C21 Trend in MGS Yields



Source: Bank Negara Malaysia

C22 Performance of Regional Equity Markets



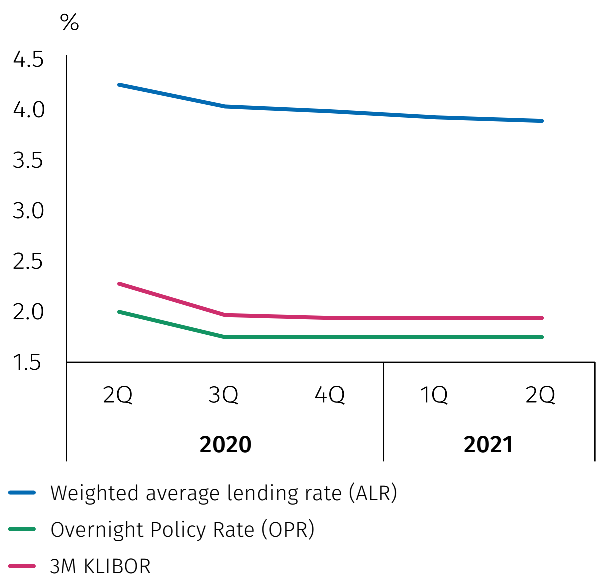
Source: Bloomberg

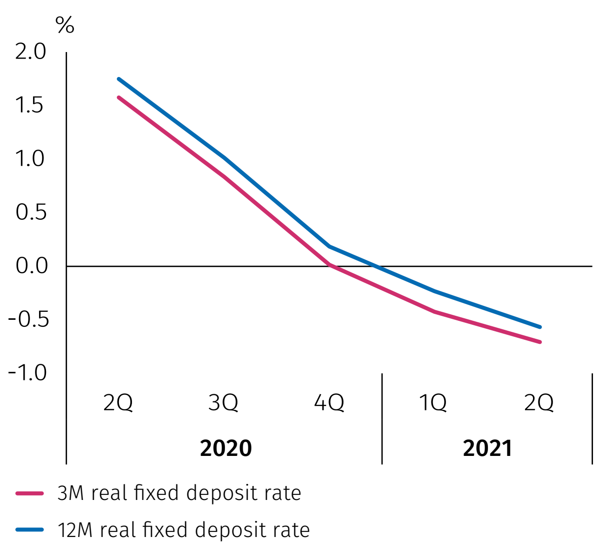
Nominal interest rates remained broadly stable during the quarter

Nominal interest rates in the wholesale and retail markets were stable throughout the quarter. The benchmark 3-month KLIBOR remained unchanged at 1.94% (1Q 2021: 1.94%), while in the retail market, the weighted average base rate (BR) was also unchanged at 2.43% (1Q 2021: 2.43%). More broadly, the weighted average lending rate (ALR) on outstanding loans declined slightly to 3.89% (1Q 2021: 3.93%), reflecting the reduced usage of revolving credit with higher rates, such as credit cards, amid the slower economic activity in June 2021.

Nominal fixed deposit (FD) rates were also stable during the quarter, across tenures of 1 to 12 months. Real 3-month and 12-month FD rates remained negative given expectations of higher inflation, which was due, in part, to the base effect from the low and negative inflation last year.

C23 Interest Rates (at end-period)





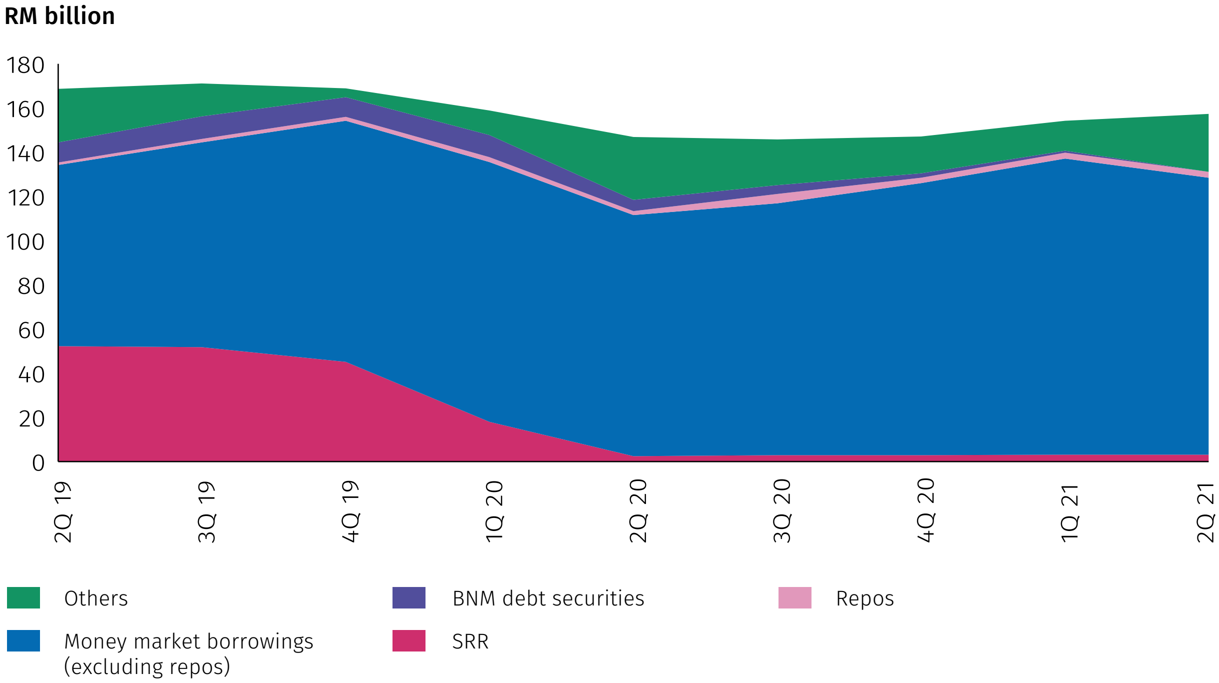
Source: Bank Negara Malaysia, Bloomberg and Consensus Economics

Banking system liquidity remained sufficient to facilitate financial intermediation

Banking system liquidity remained sufficient at both the institutional and system-wide levels to facilitate financial intermediation activity.

The level of surplus liquidity placed with the Bank increased by RM3.0 billion, partly reflecting inflows from government global USD sukuk issuance during the quarter. At the institutional level, almost all banks maintained surplus liquidity positions with the Bank as at end-June 2021.

C24 Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia (at end-period)



Source: Bank Negara Malaysia

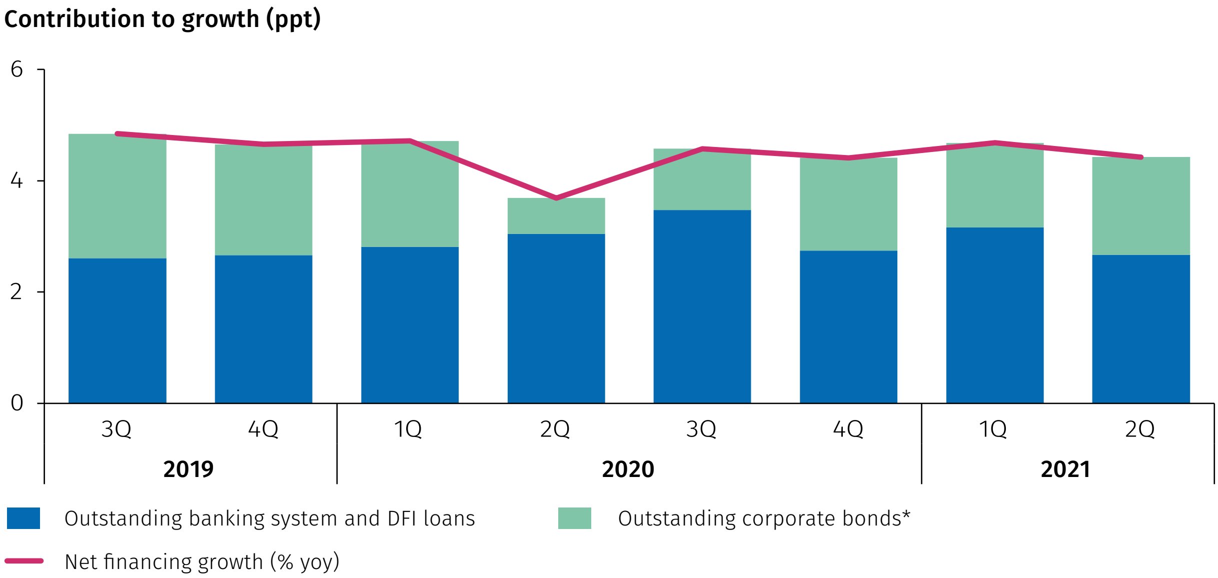
Net financing continued to expand

As at end-2Q 2021, net financing expanded by 4.4% on an annual basis (1Q 2021: 4.7%). Outstanding loan[8] growth moderated to 3.6% (1Q 2021: 4.3%), while outstanding corporate bond[10] growth increased to 6.9% (1Q 2021: 5.9%).

Outstanding business loans recorded an annual growth of 1.3% as at end-2Q 2021 (1Q 2021: 1.6%) amid slower outstanding investment-related[9] loan growth (2Q 2021: 0.4%, 1Q 2021: 1.1%). Meanwhile, outstanding working capital[10] loan growth increased (2Q 2021: 1.6%, 1Q 2021: 1.4%) in line with higher working capital loan disbursements growth (2Q 2021: 31.1%, 1Q 2021: 18.1%) during the quarter. Total business loan disbursements increased from the previous quarter (2Q 2021: RM234.4 bn, 1Q 2021: RM228.1 bn). Demand for business loans also increased but remained below 2017-19 average (RM82.2 bn, 1Q 2021: RM73.5 bn, 2017-19 quarterly average: RM87.8 bn), with the increase coming mainly from the SME segment.

For households, outstanding loan growth moderated to 5.3% (1Q 2021: 6.0%) as repayments growth outpaced that of disbursements. The moderation in outstanding loan growth was observed across most loan purposes, with the exception of loans for the purchase of passenger cars. However, demand for household loans continued to be forthcoming (RM151.8 bn, 1Q 2021: RM139.9 bn; 2017-19 quarterly average: RM119.2 bn), particularly for the purchase of residential property.

C25 Contribution to Net Financing Growth



* Excludes issuances by Cagamas and non-residents
Source: Bank Negara Malaysia

[8] Loans from the banking system and development financial institutions (DFIs).
[9] Excludes issuances by Cagamas and non-residents.
[10] Classification of business loans by purpose is only available for the banking system.

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The Bank's Policy Considerations

Highlights

- The Monetary Policy Committee (MPC) maintained the OPR at 1.75% at the May and July 2021 MPC meetings, considering the stance of monetary policy to be appropriate and accommodative.
- Fiscal and financial measures will also continue to cushion the economic impact on businesses and households and provide support to economic activity. The Bank remains committed to utilise its policy levers as appropriate to foster enabling conditions for a sustainable economic recovery.

Monetary policy remains accommodative

At the May and July 2021 Monetary Policy Committee (MPC) meetings, the MPC maintained the Overnight Policy Rate (OPR) at 1.75%.

The MPC assessed that the global economic recovery has strengthened further, supported by improvements in manufacturing and services activity. The pace of recovery, however, varies across countries. Economies making better progress in their vaccination programmes have been able to ease containment measures, enabling a swift recovery in domestic activity. Sizeable fiscal and monetary measures in several advanced economies are also supporting a stronger recovery momentum, although tighter containment measures to curb COVID-19 resurgences have disrupted activities in some economies. Financial conditions remain supportive of growth. Overall, the balance of risks to the growth outlook remains tilted to the downside, due mainly to uncertainty over the path of the pandemic as well as potential risks of heightened financial market volatility.

For the Malaysian economy, better-than-expected economic activity in the first quarter of 2021 continued into April, particularly in exports, retail spending and labour market conditions. The re-imposition of nation-wide containment measures to curb the resurgence in COVID-19 cases, however, will dampen the growth momentum. The degree of impact to the economy is highly dependent on the stringency and duration of containment measures. Nevertheless, the impact of restrictions will be partly mitigated by the continued allowances for essential economic sectors to operate, albeit at a reduced capacity, and higher adaptability to remote work, automation and digitalisation. The various policy support packages will alleviate some of the financial pressures on households and businesses. Favourable external demand conditions will continue to provide a lift to growth. Going forward, the gradual relaxation of containment measures, alongside the rapid progress of the domestic vaccination programme and continued strength in external demand will provide support for the growth recovery into 2022. The growth outlook, however, remains subject to significant downside risks, due mainly to factors that could lead to a delay in the easing of containment measures or imposition of tighter containment measures, and a weaker-than-expected global growth recovery.

As expected, headline inflation spiked recently due mainly to the base effect from low fuel prices in the second quarter of last year. This spike is transitory and headline inflation is projected to moderate in the near term as this base effect dissipates. For 2021 as a whole, headline inflation is projected to average closer to the lower bound of the earlier communicated forecast range.[11] Underlying inflation, as measured by core inflation, is expected to remain subdued, averaging between 0.5% and 1.5% for the year, amid continued spare capacity in the economy. The outlook, however, is subject to global commodity price developments.

The MPC considers the stance of monetary policy to be appropriate and accommodative. In addition, fiscal and financial measures will continue to cushion the economic impact on businesses and households and provide support to economic activity. Given the uncertainties surrounding the pandemic, the stance of monetary policy will continue to be determined by new data and information and their implications on the overall outlook for inflation and domestic growth. The Bank remains committed to utilise its policy levers as appropriate to foster enabling conditions for a sustainable economic recovery.

[11] Headline inflation in 2021 was projected to average between 2.5% to 4.0%, as published in the BNM Economic & Monetary Review 2020 publication.

Other policy highlights in the second quarter of 2021

Policy highlight	Salient details
Discussion Paper (DP) on Risk-Based Capital Framework for Insurers and Takaful Operators (Framework Design)	• Issued on 30 June 2021, the DP outlines proposed enhancements to the design of the capital adequacy framework for licensed insurers and licensed takaful operators (ITOs). This forms part of the Bank's multi-phase review of the overall solvency framework. • The proposed enhancements aim to ensure that the framework remains effective under changing market conditions and facilitates consistent and comparable capital adequacy measurements across ITOs. • The key areas addressed in the DP are – o recognition of the loss absorbing capacity of management actions under Total Capital Available; o appropriate target risk level for calibration of capital charges; o measurement approach for the risk components under Total Capital Required; and o feasibility of a single formula to calculate the Capital Adequacy Ratio for ITOs, taking into consideration the uniqueness of the insurance and takaful business models. • The DP is open for feedback until 30 September 2021.
Policy Document (PD) on Anti-Money Laundering, Countering Financing of Terrorism and Targeted Financial Sanctions for Financial Institutions (AML/CFT and TFS for FIs) (Supplementary Document No. 1) - Money Services Business Sector	• The PD was issued on 30 June 2021. • The PD sets out the minimum requirements that an approved money services business (MSB) licensed under the MSB Act 2011 must observe in implementing a non-face-to-face verification process when on-boarding corporate customers. • This is to ensure effective and robust Anti-Money Laundering and Counter Financing of Terrorism control measures and systems are in place to safeguard the integrity of money services.
Exposure Draft (ED) on Electronic Money (E-Money)	• Issued on 11 June 2021, the ED sets out proposed enhancements to the regulatory requirements for approved e-money issuers (EMIs). • The proposed requirements aim to ensure the safety and reliability of e-money issued by EMIs, which in turn will preserve customers' and merchants' confidence in accepting e-money for the payment of goods and services. • The key areas addressed in the ED include – o proportionate application of minimum capital funds requirements on EMIs in line with the significance of their operations; o proposed exemptions from authorisation requirements for limited purpose EMI; o strengthened requirements on safeguarding of customer funds; and o enhancements to prudential requirements such as governance and management of operational risks. • The ED was open for consultation until 31 July 2021.
PD on Corporate Strategic Plan for DFIs	• The PD sets out expectations for development financial institutions (DFIs) to develop holistic and integrated corporate strategy plans that encapsulate their business plans and funding requirements. • The strategic plans aim to strengthen the focus of DFIs on their developmental outcomes and mandates, supported by the clear identification and measurement of 'additionalities' (defined as positive impacts attributable to DFIs beyond what is delivered under a solely profit-driven environment). • The PD was issued on 27 May 2021.

DP on Alternative Reference Rate and Strategic Direction on KLIBOR and KLIRR for the Malaysian Financial Markets	• This DP was issued on 19 May 2021 to seek feedback on the framework, design and features pertaining to the development of an Alternative Reference Rate (ARR), potential enhancements to the Kuala Lumpur Interbank Offered Rate (KLIBOR) as well as a review of the Kuala Lumpur Islamic Reference Rate (KLIRR). • The DP outlines the features of the proposed transaction-based ARR, proposals to refine KLIBOR and its fallback plans, and the future direction for KLIRR. • The DP, which was issued in consultation with the Financial Markets Committee, was open for feedback until 18 June 2021.
Climate Change and Principle-based Taxonomy	• Developed in collaboration with the Joint Committee on Climate Change (JC3) Risk Management Sub-committee, this document introduces a principle-based taxonomy for assessing and categorising economic activities according to the extent to which the activities meet climate objectives and promote the transition to a low-carbon economy, as well as the extent of their associated impact on the broader environment. The taxonomy facilitates the standardised classification and reporting of climate-related exposures by financial institutions to support risk assessments, climate risk-related financial disclosures and financial flows towards supporting climate objectives. • The standardised classification categorises economic activities into 3 broad groups based on 5 guiding principles that encapsulate climate change mitigation, adaptation, no harm to the environment, remedial measures to transition and prohibited activities: o Climate Supporting – Activities with positive impacts on climate change, and that do not cause significant harm to the environment; o Transitioning – Activities that cause significant harm to the environment, but with remedial measures taken to reduce the harm; and o Watchlist – Activities that cause significant harm to the environment and there are no remedial measures taken to reduce the harm. • The principle-based approach recognises the diverse state of transition towards sustainable practices across businesses, and encourages efforts to achieve an orderly transition of the economy in meeting the climate objectives. • The final document was issued on 30 April 2021.

Macroeconomic Outlook

Highlights

- Global growth to improve in 2021, but at an uneven pace across countries.
- Growth outlook of the Malaysian economy affected by the re-imposition of nationwide containment measures.
- Headline inflation is projected to moderate in the near term as the base effect dissipates.

Continued divergence in global economic outlook in 2021

In their July World Economic Outlook, the IMF kept its projection of global growth in 2021 unchanged, compared to the April World Economic Outlook, at 6.0%. While the overall global growth outlook remained unchanged, there were offsetting revisions between advanced economies (AEs), which were revised upwards, and emerging market economies (EMEs) which were revised downwards. This reflects pandemic developments especially with regards to vaccination rates, differences in the extent of policy support and availability of policy space.

With higher vaccination rates, AEs are expected to be able to manage resurgences in COVID-19 infections with relatively lighter containment measures. This, along with improvement in domestic demand, will support the recovery momentum for AEs in the second half of 2021.

For EMEs, the risk of disruptions in domestic activity due to containment measures amidst COVID-19 resurgences is higher, due to the slower rate of vaccination. In addition, there is less policy space in EMEs, which will limit the degree of accommodation from policy to offset any shocks due to a resurgence of COVID-19.

The balance of risk remains tilted to the downside, with COVID-19 related risks remaining the key source of downside risk. The key risk concerns the spread of new variants of concern that could lead to the resumption of containment measures to preserve healthcare capacity, amid lower effectiveness of vaccines against newer variants. Nevertheless, upside risks to growth could come from faster-than-expected vaccination progress in EMEs and further fiscal stimulus, particularly in AEs.

The pace of recovery of the Malaysian economy dampened by resurgence of COVID-19 cases

The Malaysian economy was on track for a broad recovery in 2021 as compared to last year. However, the resurgence of COVID-19 cases has necessitated the re-imposition of nationwide containment measures, which would weigh on growth. Nevertheless, the impact will be partially mitigated by continued allowances for essential economic sectors to operate, higher adaptability to remote work, as well as increased automation and digitalisation. Growth will continue to be supported by policy measures, which will provide cash flow support, particularly for affected households and businesses. Going forward, the economic recovery will be underpinned by higher external demand and gradual improvement in domestic demand. The rapid progress of the nationwide vaccination programme will allow economic sectors to be gradually reopened and provide some lift to household and business sentiments.

Against this backdrop, for 2021, the Malaysian economy is projected to expand within the range of 3.0 – 4.0%, although the pace of recovery will be uneven across sectors. The recovery is expected to accelerate going into 2022, supported by normalisation of economic activities as well as the positive spillovers from continued improvement in external demand.

The balance of risks remains tilted to the downside, arising mainly from pandemic-related factors, such as delay in the easing of containment measures or imposition of tighter containment measures, and a weaker-than-expected global growth recovery.

Headline inflation is projected to moderate in the near term

In line with earlier assessments, headline inflation spiked in the second quarter of 2021 due mainly to the base effect from fuel prices. This spike is transitory and headline inflation is expected to moderate in the near term as this base effect dissipates.

For 2021 as a whole, headline inflation is projected to average between 2.0% and 3.0%.[12] While there remain cost pressures from global commodity prices and idiosyncratic supply disruptions, these pressures are assessed to be temporary. Underlying inflation, as measured by core inflation, is expected to remain subdued, averaging between 0.5% and 1.5% in 2021, amid continued spare capacity in the economy.

[12] This range takes into account that headline inflation is expected to average close to the lower bound of the previous forecast range.

Malaysia's 2021 Growth Outlook: Baseline and Scenarios

Several major developments related to the COVID-19 pandemic have taken place since the Bank published its 2021 growth forecast of 6.0 – 7.5% during the release of the Economic and Monetary Review 2020 in March this year. As domestic COVID-19 cases were at manageable levels early this year, the Government announced the adoption of targeted interventions based on localities and cluster locations to contain localised outbreaks. However, the rapid resurgence of cases around May 2021 led to the implementation of blanket containment measures, notably the Full Movement Control Order (FMCO) on 1st June 2021[1]. This will dampen the earlier projected growth prospects.

This article discusses the baseline and alternative scenarios for the economic outlook, premised primarily on plausible developments of the COVID-19 epidemic and their implications on the Malaysian economy.

High uncertainty surrounding the path of the COVID-19 pandemic remains a key challenge to Malaysia's near-term economic prospects

The Malaysian economy has rebounded since the trough in 2Q 2020 following the imposition of strict containment measures and the synchronised global recessions. While the domestic economy is expected to continue on its recovery trajectory in 2021, there are several uncertainties which could affect the pace of the recovery and Malaysia's current baseline growth projection. First, the course of the outbreak. Since early-2021, Malaysia has experienced several bouts of recoveries and resurgences. Second, the pace of the vaccination rollout under the National Immunisation Programme across states and the effectiveness of the vaccination programme, which will be reflected in each state's hospital capacity. Third, policy uncertainty and progress of major infrastructure projects given the containment measures.

Given that states are currently in different phases of the FMCO and have varying degrees of vaccination rates as well as ICU utilisation (Chart 1), they are expected to transition to the next phase at differing times (Chart 2). Several key assumptions are made in the baseline and scenario projections. First, states which have progressed to a more relaxed phase will not revert to a stringent phase[2]. Second, fast vaccination rates leading to lower ICU utilisation is expected to accelerate the relaxation of containment measures. However, in states with already high ICU utilisation rates, the transition to the next phase may take a longer time due to an expected lag before ICU capacity is released. Third, slow vaccination rates would lead to a longer period in the current phase. These factors will affect the duration of phases assumed under the baseline and scenario projections.

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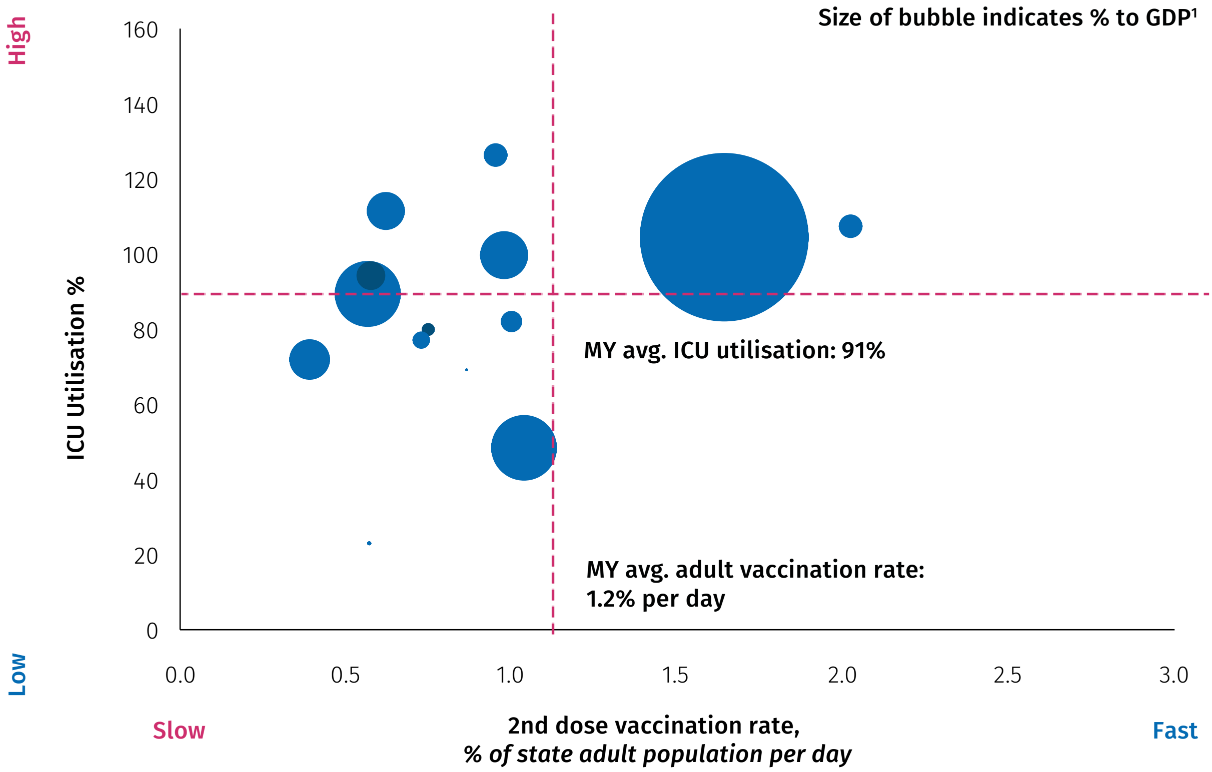
[1] The National Recovery Plan (NRP), which outlines the implementation of the FMCO, is a four-phase exit strategy from the COVID-19 epidemic in Malaysia, which allows for a safe reopening of the economy based on three indicators, namely daily symptomatic hospital admission cases, healthcare capacity and vaccination rate. The first phase is the most stringent with strict restrictions on sectors allowed to operate and community mobility, followed by gradual relaxations across the second, third and fourth phase (Source: Speech by YAB Prime Minister "Pelan Pemulihan Negara: Peralihan Fasa PKP Secara Berperingkat", 15 June 2021 and "Kemudahan-Kemudahan Bagi Individu Yang Telah Menerima Vaksinasi Lengkap", 8 August 2021).

[2] "States transitioned to Phase Two NRP will not revert to Phase One", Bernama, 14 July 2021

C1 ICU Utilisation and Vaccination Rate by State



[1] Refers to share to GDP in 2020

Note: ICU utilisation and vaccination rates refer to the 7-day average between 3-9 Aug 2021

Source: COVID-19 Immunisation Task Force, Ministry of Health, Department of Statistics, Malaysia and Bank Negara Malaysia

C2 Assumed Baseline Transition Path for Varying Degrees of ICU Utilisation and Vaccination Rate

Current ICU utilisation	Current speed of vaccination rate	Assumed transition path
Low	Fast	Faster and earlier transition to Phase 4
Low	Slow	As vaccination rate improves, transition to subsequent phases is shorter
High	Fast	1. Gradual transition to the next phase as ICU utilisation stabilises and improves 2. As vaccination rate progresses and ICU utilisation improves, transition to subsequent phases will be swift
High	Slow	

Source: COVID-19 Immunisation Task Force, Ministry of Health and Bank Negara Malaysia

The Malaysian economy is projected to grow at 3.0 – 4.0% in 2021 under the baseline forecast

The baseline projection has been revised from 6.0 – 7.5% previously to 3.0 – 4.0% in 2021 due mainly to the impact of the containment measures. However, Malaysia's growth is expected to remain on a recovery path, supported by stronger external demand, faster progress in vaccination rate and the continued targeted policy support for households and businesses. The outlook also assumes a reopening of all economic sectors nationwide, in which all states will transition into Phase 4 of the NRP by November this year[3] (Chart 3). This is premised on the vaccination rate threshold under the NRP, with existing vaccines being effective against the prevailing variants, resulting in lower ICU utilisation.

Given the significant uncertainties surrounding the epidemic situation, the alternative scenarios elaborated below provide additional insights into the implications of COVID-19-related developments on Malaysia's 2021 growth.

A faster-than-expected reopening of the economy could lead to a stronger growth in 2021

A faster recovery scenario assumes a sooner-than-expected reopening of the economy and relaxations of mobility restrictions. Compared to the baseline, all states in Malaysia would transition into Phase 4 of the NRP earlier, which is by September 2021 (Chart 3). This assumes a faster rollout of the vaccination programme, following a ramp-up in vaccinations (including among youth). Similar to the baseline, current vaccines are assumed to be effective against prevailing variants, which eases the strain on the healthcare system.

With the earlier relaxation of containment measures, overall labour market conditions are projected to recover at a faster pace, with increased hiring and improvement in income growth. This contributes to a sooner-than-expected recovery in consumer confidence. When restrictions are eased, the effects from improved labour market conditions and sentiments will generate stronger-than-expected demand conditions. In particular, overall household savings has increased since last year, partly due to increased precautionary savings and households not being able to spend on discretionary items. These items include certain high-touch services such as restaurants, hotels and recreational activities. When restrictions are eased, the effects of potential pent-up demand could be realised as some households are now able to spend on these selected services, providing a positive lift to growth. For example, consumer spending improved in December 2020, following the easing of dine-in and interstate travel restrictions, as evidenced by a monthly growth of 4.6% in the Index of Retail Trade during the month (October-November 2020 average month-on-month growth: 1.0%) and a higher average hotel occupancy rate (36.2%; October-November 2020 average: 25.2%). In this faster recovery scenario, the Malaysian economy is expected to recover stronger in 2021.

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[3] Under the Phase 4 of the NRP, all economic sectors are allowed to operate with some restrictions for social activities. Interstate travel and domestic tourism will also be allowed, subject to strict Standard Operating Procedures (Source: Speech by YAB Prime Minister "Pelan Pemulihan Negara: Peralihan Fasa PKP Secara Berperingkat", 15 June 2021).

A prolonged health crisis could lead to a weaker growth outlook

A slower recovery scenario assumes a delayed reopening of the economy, on account of a delayed resolution of the epidemic as vaccination rates slow down, in part due to moderating vaccine take up. This leads to the majority of the total population being fully vaccinated only by early-2022 (Chart 3). Furthermore, the efficacy of existing vaccines is lower to new virus strains. These developments would lead to the healthcare system remaining burdened by elevated ICU utilisation, resulting in a delayed positive impact of vaccination progress on the health and economic crisis in Malaysia. Compared with the baseline, labour market conditions recover at a slower pace. In this slower recovery scenario, longer containment measures become necessary and are expected to weigh on economic activity.

C3 **Assumptions on COVID-19 related parameters under baseline and scenarios**

	Faster Recovery	Baseline	Slower recovery
Majority of total population being fully vaccinated	By end-October 2021	By end-2021	By early-2022
Efficacy of existing vaccines against prevailing variants	Effective	Effective	Lower efficacy to new virus strains
Containment measures nationwide	Relaxation of tight containment measures by September 2021	Relaxation of tight containment measures by November 2021	Prolonged tight containment measures until early-2022

Source: COVID-19 Immunisation Task Force, Ministry of Health and Bank Negara Malaysia

Uncertainty on factors underpinning the Malaysian economic outlook could lead to divergence in growth prospects

These alternative scenarios characterise the uncertainty in the Malaysian economic outlook arising from the evolution of the COVID-19 pandemic. The economic implications under the baseline and both scenarios serve as a guide for the 2021 growth prospects.

Annex

T1 GDP by Expenditure Components (at constant 2015 prices)

	Share 2020 (%)	2020					2021	
		1Q	2Q	3Q	4Q	Year	1Q	2Q
		Annual growth (%)						
Aggregate Domestic Demand (excluding stocks)	93.8	3.7	-18.8	-3.3	-4.5	-5.8	-1.0	12.3
Private sector	75.2	4.9	-20.4	-4.0	-4.0	-6.0	-0.9	13.0
Consumption	*59.5*	*6.7*	*-18.5*	*-2.1*	*-3.5*	*-4.3*	*-1.5*	*11.6*
Investment	*15.7*	*-1.1*	*-26.1*	*-10.8*	*-6.6*	*-11.9*	*1.3*	*17.4*
Public sector	18.6	-1.8	-11.1	0.1	-5.7	-4.7	-1.5	9.7
Consumption	*13.4*	*4.9*	*2.2*	*6.8*	*2.4*	*3.9*	*5.9*	*9.0*
Investment	*5.2*	*-14.4*	*-40.1*	*-13.1*	*-20.4*	*-21.3*	*-18.6*	*12.0*
Net Exports	6.5	-36.8	-37.9	19.2	10.0	-13.0	0.8	34.3
Exports of Goods and Services	*61.5*	*-7.2*	*-21.7*	*-4.9*	*-2.1*	*-8.9*	*11.9*	*37.4*
Imports of Goods and Services	*55.0*	*-2.7*	*-19.7*	*-7.9*	*-3.3*	*-8.4*	*13.0*	*37.6*
Real GDP	**100.0**	**0.7**	**-17.2**	**-2.7**	**-3.4**	**-5.6**	**-0.5**	**16.1**
GDP (q-o-q growth, seasonally adjusted)	**-**	**-0.5**	**-16.1**	**17.3**	**-1.5**	**-**	**2.7**	**-2.0**

Note: Figures may not add up due to rounding and exclusion of stocks.

Source: Department of Statistics, Malaysia

T2 GDP by Economic Activity (at constant 2015 prices)

	Share 2020 (%)	2020					2021	
		1Q	2Q	3Q	4Q	Year	1Q	2Q
		Annual growth (%)						
Services	57.7	3.1	-16.2	-4.0	-4.8	-5.5	-2.3	13.4
Manufacturing	22.9	1.4	-18.3	3.3	3.0	-2.6	6.6	26.6
Agriculture	7.4	-8.6	0.9	-0.3	-1.0	-2.2	0.2	-1.5
Mining	6.8	-2.9	-20.8	-7.8	-10.4	-10.6	-5.0	13.9
Construction	4.0	-7.9	-44.5	-12.4	-13.9	-19.4	-10.4	40.3
Real GDP	**100.0**	**0.7**	**-17.2**	**-2.7**	**-3.4**	**-5.6**	**-0.5**	**16.1**

Note: Numbers do not add up due to rounding and exclusion of import duties component.

Source: Department of Statistics, Malaysia

T3 Balance of Payments[1]

	2020		2021		
	2Q	1H	1Q	2Q	1H
	RM billion				
Current Account	**7.7**	**16.5**	**12.3**	**14.4**	**26.7**
(% of GDP)	*2.5*	*2.5*	*3.3*	*3.9*	*3.6*
Goods	25.8	54.7	36.6	40.7	77.3
Services	-12.4	-20.0	-15.0	-15.4	-30.4
Primary income	-3.8	-11.0	-5.7	-9.5	-15.2
Secondary income	-1.9	-7.1	-3.6	-1.4	-5.0
Financial Account	**-21.7**	**-34.9**	**16.0**	**-7.0**	**9.0**
Direct investment	-0.6	3.3	1.4	4.2	5.6
Assets	-0.9	-1.9	-9.1	-8.7	-17.8
Liabilities	0.4	5.3	10.5	12.9	23.4
Portfolio investment	20.6	-20.8	0.4	20.0	20.3
Assets	-3.1	-18.7	-14.2	-10.6	-24.8
Liabilities	23.7	-2.1	14.6	30.5	45.2
Financial derivatives	-0.6	1.9	0.3	-0.6	-0.4
Other investment	-41.1	-19.3	13.9	-30.5	-16.6
Net errors & omissions[2]	**7.7**	**3.4**	**-10.9**	**-2.6**	**-13.6**
Overall Balance	**6.4**	**-15.0**	**17.1**	**4.7**	**21.8**

Assets: (-) denotes outflows due to the acquisition of assets abroad by residents.
Liabilities: (+) denotes inflows due to the incurrence of foreign liabilities.
[1] In accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6) by the International Monetary Fund (IMF).
[2] As at 1Q 2018, quarterly net E&O excludes reserves revaluation changes. This practice is backdated up to 1Q 2010.
Note: Numbers may not add up due to rounding
Source: Department of Statistics, Malaysia and Bank Negara Malaysia

T4 Outstanding External Debt

	2020	2021	
	end-Jun	end-Mar	end-Jun
	RM billion		
Total External Debt	**1,000.1**	**1,039.7**	**1,020.7**
USD billion equivalent	*231.1*	*247.9*	*245.7*
By instrument			
Bonds and notes[1]	185.8	174.8	196.8
Interbank borrowings[1]	223.9	227.8	187.6
Intragroup loans[1]	134.3	129.4	129.9
Loans[1]	79.3	77.0	75.2
Non-resident holdings of domestic debt securities	196.1	236.4	244.8
Non-resident deposits	97.7	100.1	93.5
Others[2]	82.9	94.0	92.8
Maturity profile			
Medium- and long-term	587.2	607.3	634.9
Short-term	412.9	432.3	385.8
Currency denomination			
Ringgit	304.6	348.9	358.2
Foreign	695.5	690.8	662.5
Total debt / GDP (%)	69.0	73.2	68.5
Short-term debt / Total debt (%)	41.3	41.6	37.8
Reserves / Short-term debt (times)	1.1	1.0	1.2[3]

[1] These debt instruments constitute the offshore borrowings.
[2] Comprise trade credits, IMF allocation of SDRs and miscellaneous.
[3] Based on international reserves as at 30 July 2021.

Note: Figures may not add up due to rounding

Source: Ministry of Finance Malaysia and Bank Negara Malaysia

T5 Financing of the Private Sector through the Banking System, DFIs and Capital Market

	2020		2021			2020		2021		
	2Q	1H	1Q	2Q	1H	2Q	1H	1Q	2Q	1H
	Change during the period (RM billion)					Annual growth (%)				
Total net financing	**21.5**	**47.1**	**33.6**	**15.9**	**49.5**	**3.7**	**3.7**	**4.7**	**4.4**	**4.4**
Outstanding:										
Loans[1,2]	19.5	32.6	24.5	7.4	31.8	4.1	4.1	4.3	3.6	3.6
Business enterprises	5.4	13.7	13.2	3.5	16.6	3.9	3.9	1.6	1.3	1.3
SMEs[3]	10.8	13.2	3.9	0.0	3.9	-2.1	-2.1	10.0	6.0	6.0
Non-SMEs	-5.4	0.5	9.3	3.4	12.7	8.8	8.8	-4.3	-2.2	-2.2
Households	11.4	12.0	7.8	4.3	12.1	3.7	3.7	6.0	5.3	5.3
Corporate bonds[4]	2.0	14.5	9.2	8.5	17.7	2.5	2.5	5.9	6.9	6.9

[1] Loans from the banking system and development financial institutions (DFIs).
[2] Includes loans sold to Cagamas.
[3] Partly reflects the reclassification exercise of SMEs to non-SMEs by financial institutions. Between January 2018 and December 2019, a net amount of RM60.4 billion of outstanding SME loans was reclassified as outstanding non-SME loans. RM38.3 billion was reclassified during the fourth quarter of 2019.
[4] Excludes issuances by Cagamas and non-residents.
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

T6 Loan Indicators

	2020		2021			2020		2021		
	2Q	1H	1Q	2Q	1H	2Q	1H	1Q	2Q	1H
	During the period (RM billion)					Annual growth (%)				
Total										
Loan applications[1]	168.1	365.1	220.6	243.2	463.8	-26.5	-13.7	11.9	44.7	27.0
Loan approvals[1]	66.6	153.5	89.9	98.7	188.6	-39.3	-23.5	3.5	48.1	22.9
Loan disbursements[2]	262.7	578.0	361.2	357.2	718.4	-16.1	-8.0	14.5	36.0	24.3
Loan repayments[2]	255.3	575.2	355.9	366.4	722.3	-19.2	-9.6	11.3	43.5	25.6
Of which:										
Business enterprises[3]										
Loan applications	96.5	189.0	80.7	91.3	172.1	-7.6	0.1	-12.7	-5.4	-8.9
Loan approvals	41.8	83.3	35.6	38.8	74.4	-20.2	-11.0	-14.1	-7.2	-10.6
Loan disbursements	205.3	431.1	267.4	274.3	541.7	-7.4	-3.0	18.5	33.6	25.7
Loan repayments	200.8	421.0	258.8	276.6	535.4	-10.8	-7.0	17.5	37.7	27.2
SMEs[4]										
Loan applications	47.7	95.2	39.4	47.0	86.4	-2.0	2.8	-16.9	-1.6	-9.2
Loan approvals	15.0	29.1	15.2	17.7	32.9	-10.3	-9.3	7.1	18.5	13.0
Loan disbursements	56.3	119.8	77.6	76.3	153.9	-26.2	-21.2	22.2	35.5	28.5
Loan repayments	51.1	117.0	73.7	77.4	151.1	-33.1	-23.7	11.9	51.4	29.2
Non-SMEs[3]										
Loan applications	48.8	93.8	41.3	44.4	85.7	-12.5	-2.5	-8.2	-9.0	-8.6
Loan approvals	26.9	54.2	20.4	21.1	41.5	-24.8	-11.8	-25.2	-21.5	-23.3
Loan disbursements	149.0	311.3	189.8	198.0	387.8	2.5	6.5	17.0	32.9	24.6
Loan repayments	149.7	304.0	185.1	199.2	384.3	0.7	1.5	19.9	33.1	26.4
Households										
Loan applications	71.5	176.2	139.9	151.8	291.7	-42.4	-24.8	33.7	112.2	65.6
Loan approvals	24.8	70.3	54.4	59.8	114.2	-56.8	-34.4	19.6	141.4	62.5
Loan disbursements	57.3	146.9	93.8	82.8	176.7	-37.4	-20.1	4.7	44.5	20.2
Loan repayments	54.5	154.2	97.1	89.8	186.9	-40.0	-16.1	-2.5	64.7	21.2

1 Loan applications and approvals for all segments include data from the banking system only.
2 Loan disbursements and repayments for all segments include data from the banking system and development financial institutions (DFIs). With effect from 1 April 2020, an automatic moratorium was implemented on loan/financing repayments/payments by household and SME borrowers for a period of 6 months.
3 Includes domestic non-bank financial institutions, domestic financial institutions, government, domestic other entities and foreign entities.
4 Partly reflects the reclassification exercise of SMEs to non-SMEs by financial institutions.
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

T7 Banking System Profitability Indicators

	2020				2021	
	1Q	2Q	3Q	4Q[3]	1Q	2Q[p]
Return on equity (%)	10.4	10.0	9.8	9.2	8.5	10.7
Return on assets (%)	1.2	1.2	1.1	1.1	1.0	1.2
	RM million					
Net interest income	12,696	10,060	13,516	13,903	14,175	14,630
Add: Fee-based income	2,583	2,308	2,851	3,154	3,190	2,837
Less: Operating cost[1]	8,607	8,189	8,460	8,828	11,442	9,004
Gross operating profit	6,672	4,178	7,906	8,229	5,922	8,463
Less: Impairment[2] and other provisions[3]	2,763	2,401	3,275	5,930	1,544	1,987
Gross operating profit after provision[3]	3,908	1,777	4,631	2,299	4,378	6,476
Add: Other income	4,643	6,242	3,602	3,944	2,884	4,708
Pre-tax profit[3]	**8,552**	**8,019**	**8,233**	**6,244**	**7,262**	**11,183**
	Annual growth (%)					
Return on equity (percentage points)	-1.1	-3.0	-3.1	-3.8	-1.9	0.7
Return on assets (percentage points)	-0.12	-0.32	-0.33	-0.42	-0.22	0.08
Net interest income	2.1	-16.2	6.4	6.0	11.6	45.4
Add: Fee-based income	1.3	-11.9	6.8	-2.5	23.5	22.9
Less: Operating cost[1]	2.7	-2.8	-1.9	-3.5	32.9	9.9
Gross operating profit	1.1	-32.7	17.2	14.3	-11.2	102.5
Less: Impairment[2] and other provisions[3]	1,583.6	645.4	299.4	15,627.1[4]	-44.1	-17.3
Gross operating profit after provision[3]	-39.3	-69.8	-21.8	-67.9	12.0	264.5
Add: Other income	82.2	13.4	-16.3	6.8	-37.9	-24.6
Pre-tax profit[3]	**-4.8**	**-29.6**	**-19.5**	**-42.5**	**-15.1**	**39.5**

[1] Refers to staff costs and overheads.
[2] Refers to 12 Months Expected Credit Losses (ECL), Lifetime ECL Not Credit Impaired and Lifetime ECL Credit Impaired based on the Malaysian Financial Reporting Standard 9 (MFRS 9).
[3] Reflects resubmission due to audit adjustments by financial institutions.
[4] Reflects i) a significant increase in precautionary provisions set aside by banks amid continued uncertainty in the economic outlook; and ii) base effects from notably lower credit costs recorded during the fourth quarter of 2019 due to higher writebacks and recoveries. The net impaired loans ratio (impaired loans net of provisions) remains broadly unchanged from the year before at 1.0%, while the total provisions to total loans ratio increased to 1.7% in December 2020 (December 2019: 1.2%). For further details, please refer to the BNM Monthly Highlights and Statistics.

p Preliminary

Source: Bank Negara Malaysia

T8 Insurance and Takaful Sector Profitability Indicators

	2020				2021	
	1Q	2Q	3Q	4Q	1Q	2Q[p]
	RM million					
Life Insurance & Family Takaful						
Excess income over outgo	-11,617	16,360	8,022	9,313	-630	4,323
General Insurance & General Takaful						
Operating profit	545	1,154	764	912	710	1,076
Claims ratio (%)	59	52	56	52	55	51
	Annual growth (%)					
Life Insurance & Family Takaful						
Excess income over outgo	-235.7	105.9	111.4	141.3	94.6	-73.6
General Insurance & General Takaful						
Operating profit	-23.8	70.4	-2.7	25.0	30.2	-6.7
Claims ratio (percentage points)	2.5	-9.5	-3.4	-6.3	-4.7	-1.6

p Preliminary
Source: Bank Negara Malaysia

T9 Federal Government Finance[1]

	2020		2021p		
	2Q	1H	1Q	2Q	1H
	RM billion				
Revenue	56.4	101.8	49.5	56.9	106.4
Annual growth (%)	*-9.0*	*-19.1*	*9.3*	*0.8*	*4.6*
Operating expenditure	51.9	114.0	62.2	55.2	117.4
Annual growth (%)	*-20.5*	*-8.6*	*0.2*	*6.2*	*2.9*
Current account	**4.5**	**-12.3**	**-12.7**	**1.7**	**-10.9**
Net development expenditure	7.0	17.8	15.3	12.7	27.9
Annual growth (%)	*-41.2*	*-24.0*	*41.6*	*80.7*	*57.0*
COVID-19 Fund[2]	22.1	22.7	9.1	9.3	18.4
Overall balance	**-24.6**	**-52.7**	**-37.1**	**-20.3**	**-57.3**
Memo:					
Total net expenditure	81.1	154.5	86.6	77.1	163.7
Annual growth (%)	*5.0*	*4.3*	*17.9*	*-4.9*	*6.0*
Total Federal Government debt (as at end-period)	854.1	854.1	917.5	958.4	958.4
Domestic Debt	649.2	649.2	671.9	698.5	698.5
External Debt	204.8	204.8	245.6	259.9	259.9
Non-resident holdings of RM-denominated debt	*179.8*	*179.8*	*222.2*	*231.5*	*231.5*
Offshore borrowing	*25.1*	*25.1*	*23.4*	*28.4*	*28.4*

p Preliminary
Note:
1 Numbers may not add up due to rounding.
2 A specific trust fund established under Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020 to finance economic stimulus packages and recovery plan.

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia