

# BANK NEGARA MALAYSIA

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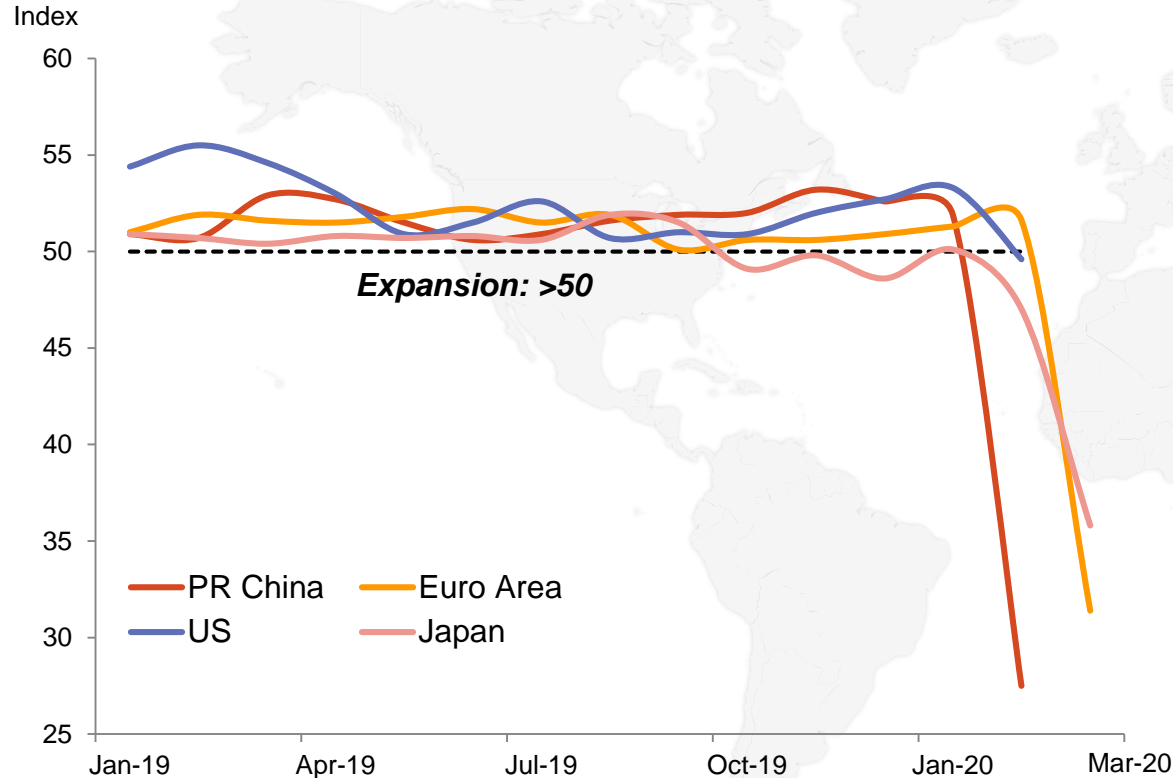
- **ECONOMIC AND MONETARY REVIEW**
- **FINANCIAL STABILITY REVIEW**

**3 APRIL 2020**

AR2019 • EMR2019 • FSR2H2019

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

Composite Purchasing Managers' Indices<sup>1</sup>



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



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

<sup>1</sup> Japan and Euro Area March 2020 data refers to flash estimates  
Source: IHS Markit, CEIC, Haver, Bloomberg, news flows and national authorities

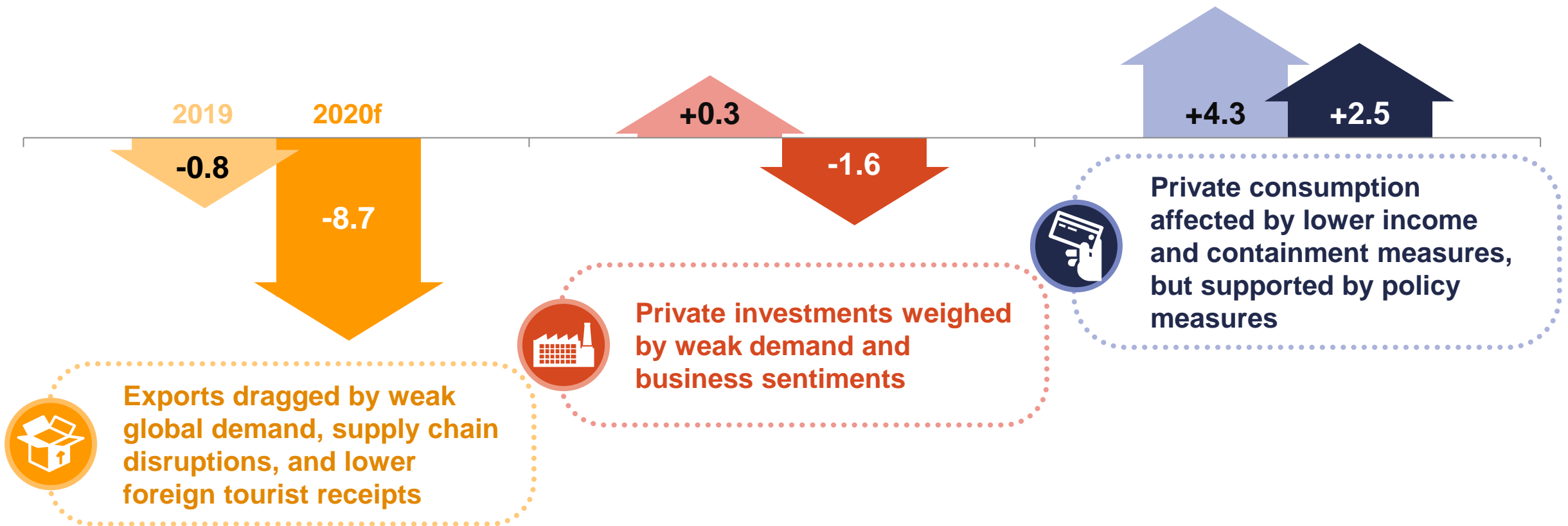
# Malaysia's economy will not be spared, affected by both weak global demand and domestic containment measures

## Contribution to Real GDP Growth Ppt. Contribution

### Exports of Goods & Services

### Private Investment

### Private Consumption



# Pakej Rangsangan Ekonomi Prihatin Rakyat 2020 will cushion the impact on households and businesses



## Strengthening Healthcare Resources

- ▲ Increase medical personnel and equipment for detection and treatment



## Providing Safety Net To Households

- ▲ Bantuan Prihatin Nasional and Bantuan Sara Hidup
- ▲ Lower EPF contribution & i-Lestari withdrawal scheme
- ▲ Loan moratorium for 6 months



## Minimising Adverse Impact On Businesses

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



## Seizing Future Growth Opportunities

- ▲ Small-scale projects worth RM4 billion
- ▲ Infrastructure investments by public corporations

In total, stimulus measures are estimated to add

**+2.8 ppt**

to 2020 GDP growth

Note: List of measures are not exhaustive

# The Bank's priority is to ensure that the financial system continues to serve the needs of the economy

## Relief for individuals, SMEs and corporates

**6-month deferment on loans**  
or financing for individuals and SMEs

**Conversion of credit card balances** into term loans/ financing

**Facilitate corporates' requests** to defer, restructure or reschedule loans

**Lower financing costs from OPR reductions** in January and March 2020

**Flexibilities to preserve insurance/takaful policies**

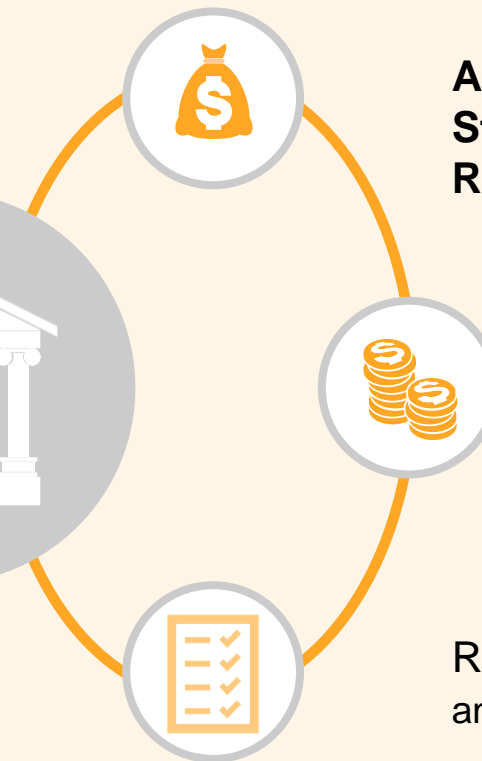


## Measures to support lending activities by financial intermediaries

**Adjustments in Statutory Reserve Requirement (SRR)**

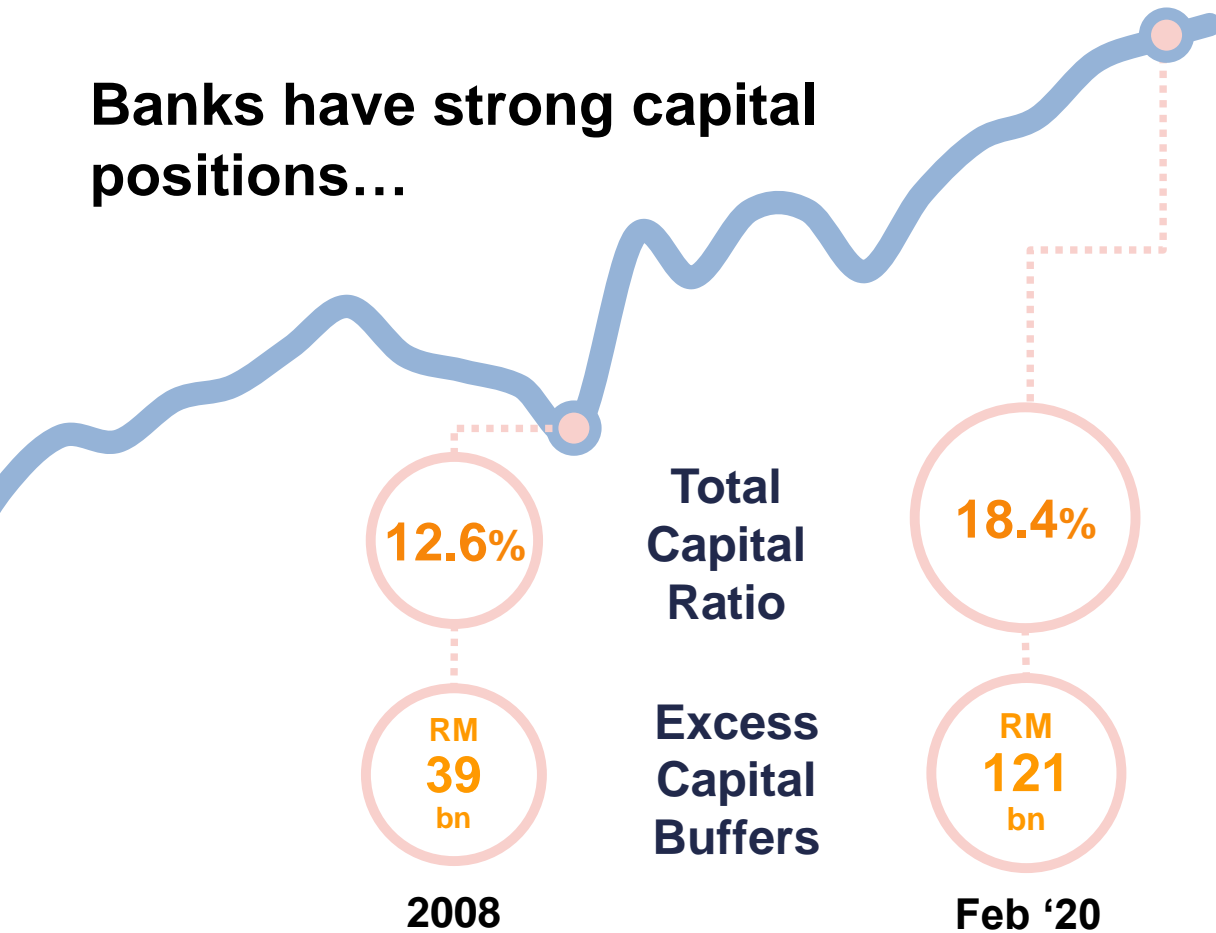
Flexibility to draw on **capital and liquidity buffers**

Review of **regulatory priorities** and **implementation timelines**



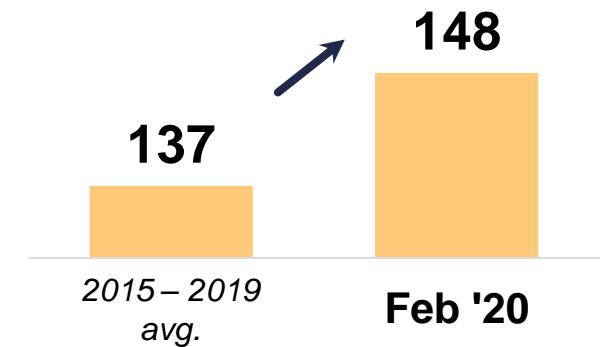
# The financial system is well positioned to support the economy, given the strong buffers built up over the years

**Banks have strong capital positions...**



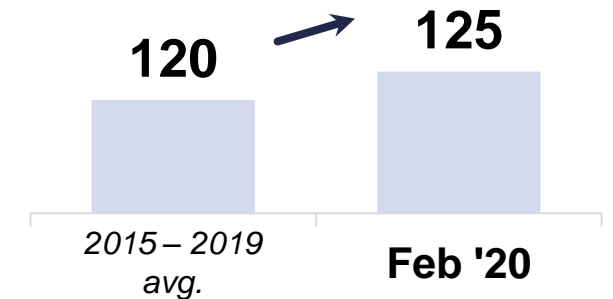
**... with ample liquidity buffers...**

**Liquidity Coverage Ratio (%)**



**... and adequate provisions set aside**

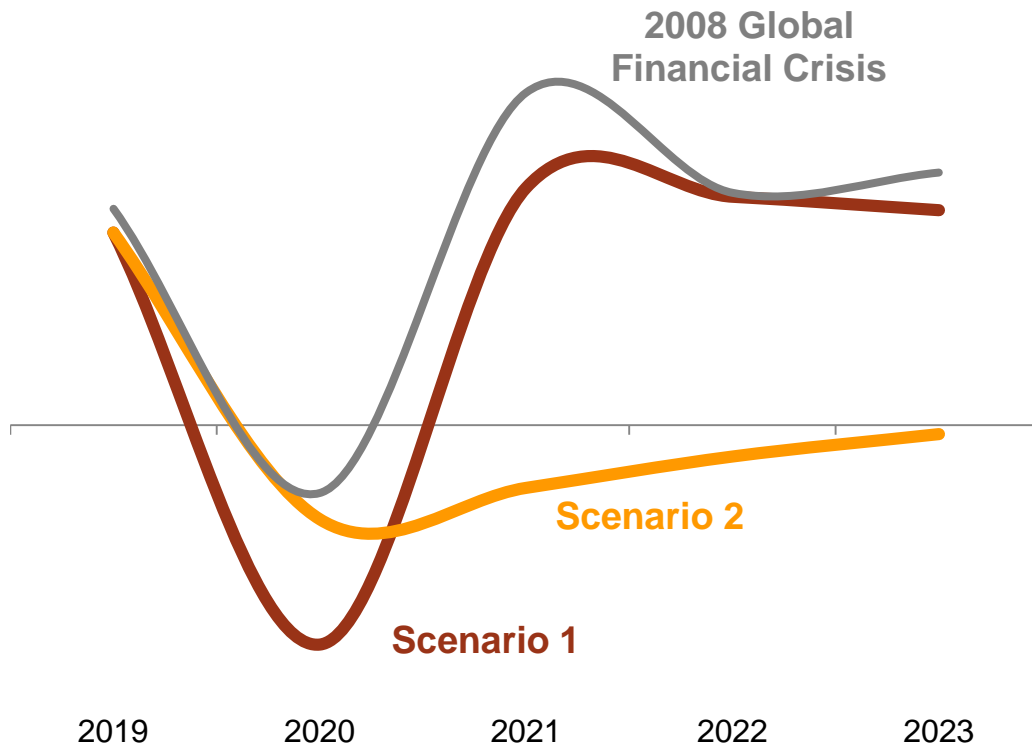
**Loan Loss Coverage Ratio\* (%)**



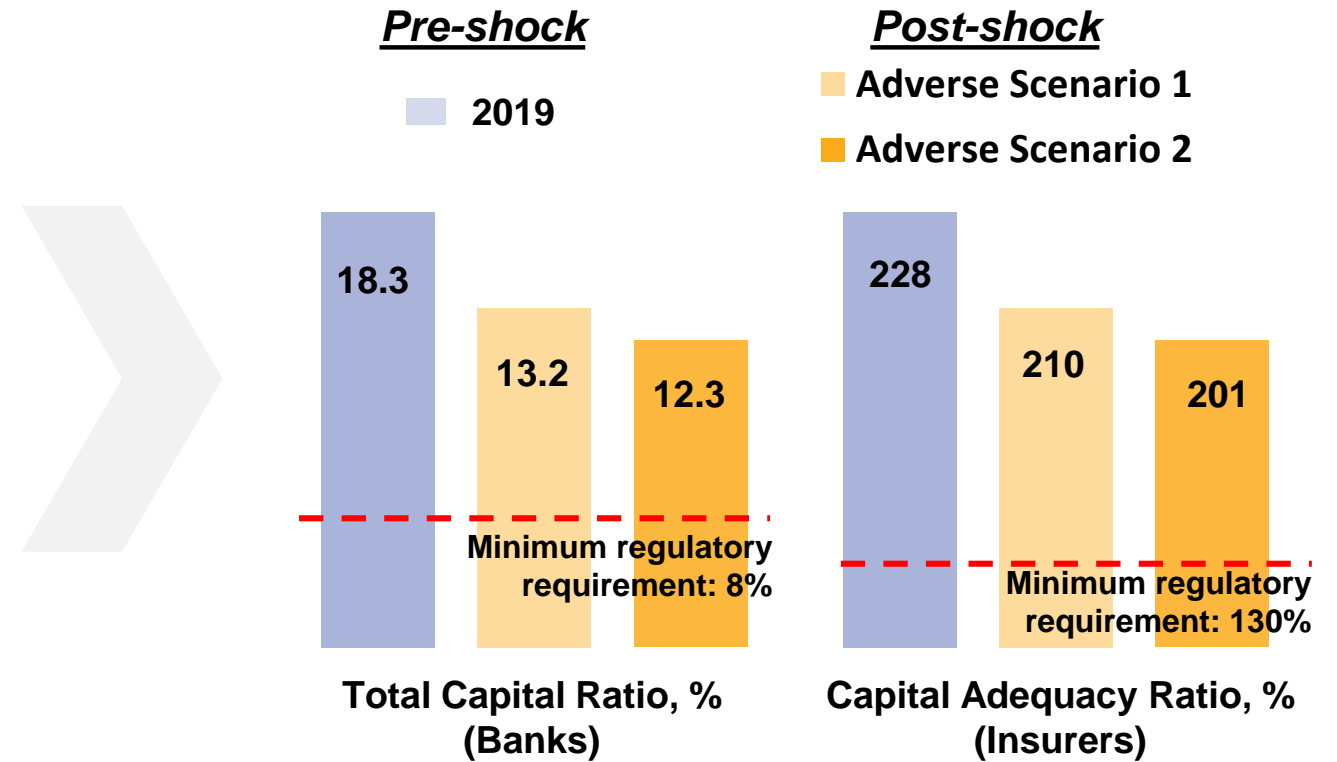
\*including regulatory reserves  
Source: Bank Negara Malaysia

# Stress tests affirm resilience of financial system even under severe economic conditions

Simulated GDP shocks more severe than past stress events



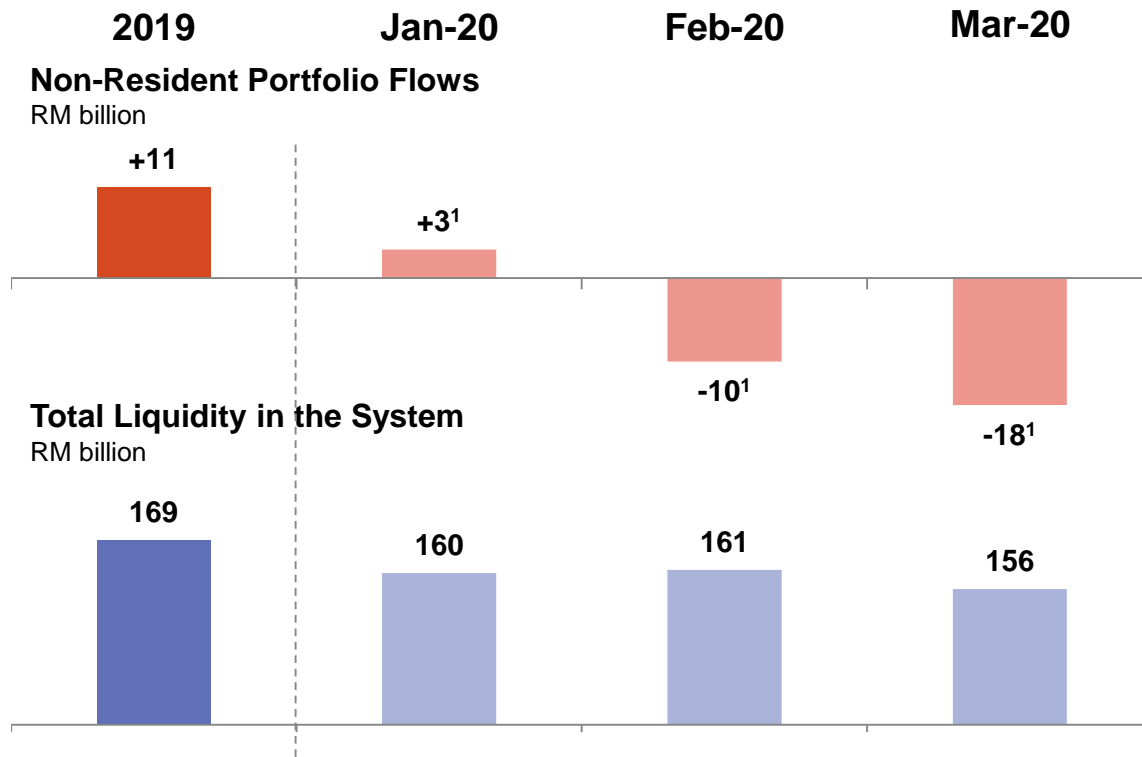
Capital buffers sufficient to absorb potential losses



Source: Bank Negara Malaysia

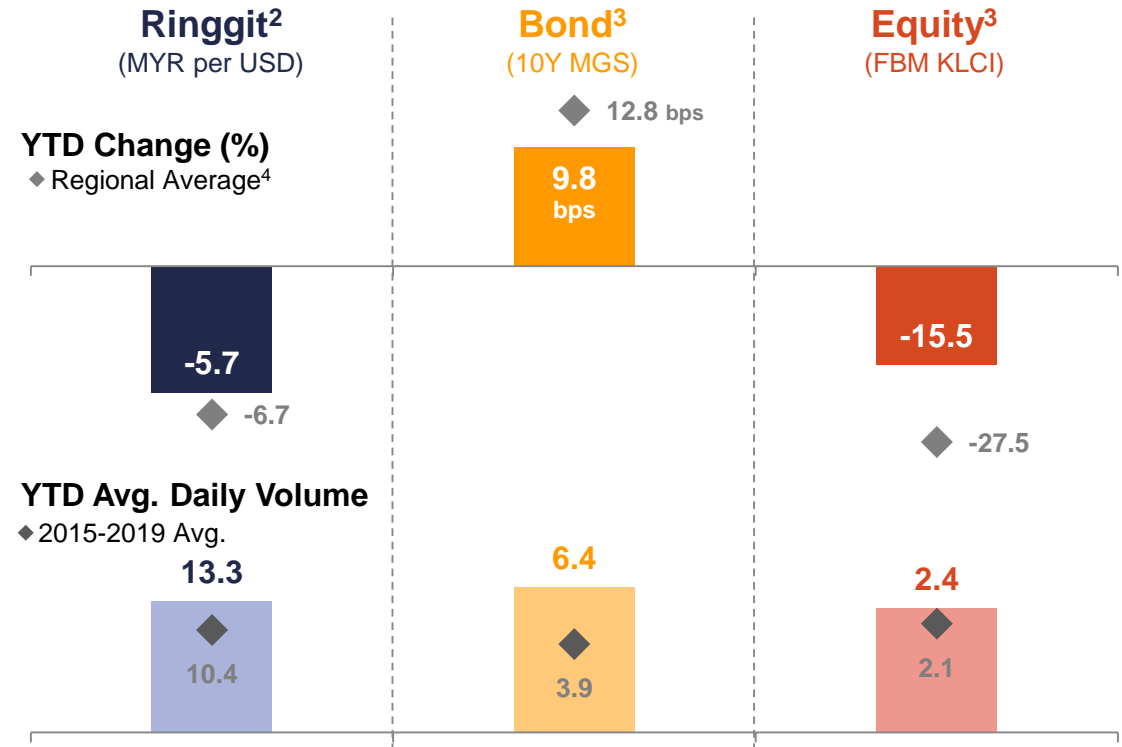
# The Bank will ensure uninterrupted financial intermediation in the environment of heightened financial market volatility

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



<sup>1</sup>Estimated figure based on Bursa flows and change in non-resident holdings in ringgit bonds  
 Note: YTD data as at 31 March 2020  
 Source: Department of Statistics, Malaysia, Bank Negara Malaysia and Bloomberg

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



<sup>2</sup>Average Daily FX Volume in USD billion

<sup>3</sup>Average Daily Bond and Equity Volume, respectively, RM billion

<sup>4</sup>Singapore, Indonesia, Thailand, Philippines and Korea

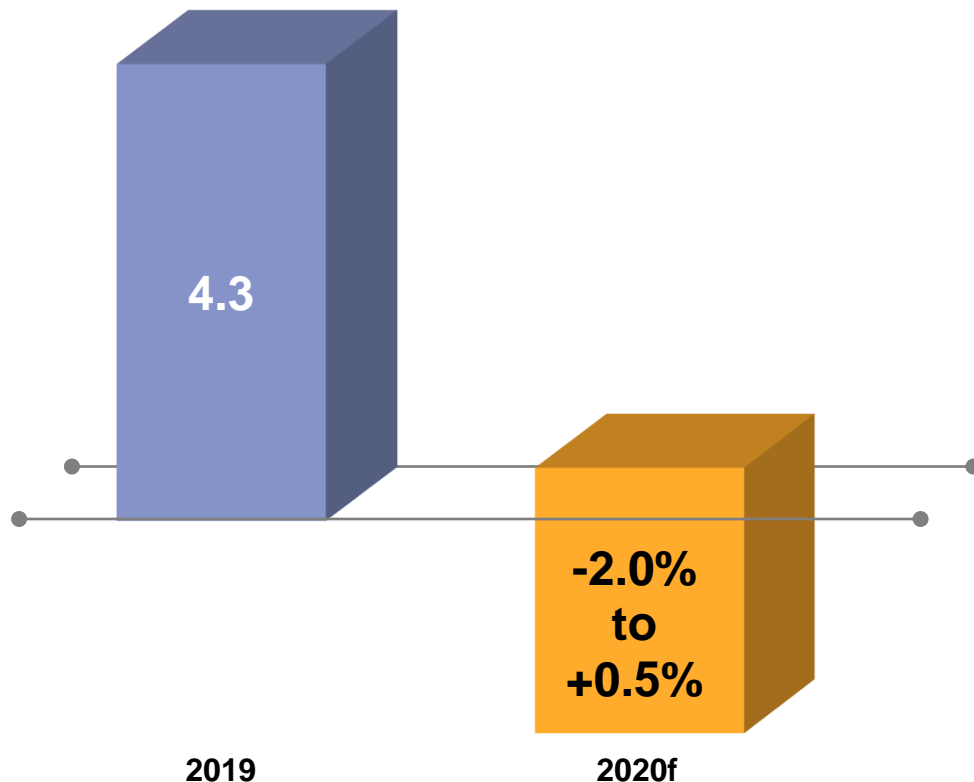
Note: YTD data as at 27 March 2020

Source: Bank Negara Malaysia, Bursa Malaysia, Bloomberg, Reuters, CEIC



# In this environment, Malaysia's economic growth is projected to be between -2.0% and +0.5% in 2020

**Real GDP Growth**  
Annual Change (%)



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

## Growth to be weighed by:



Output loss from COVID-19



Movement Control Order (MCO)



Commodity supply disruptions

## Growth to be supported by:

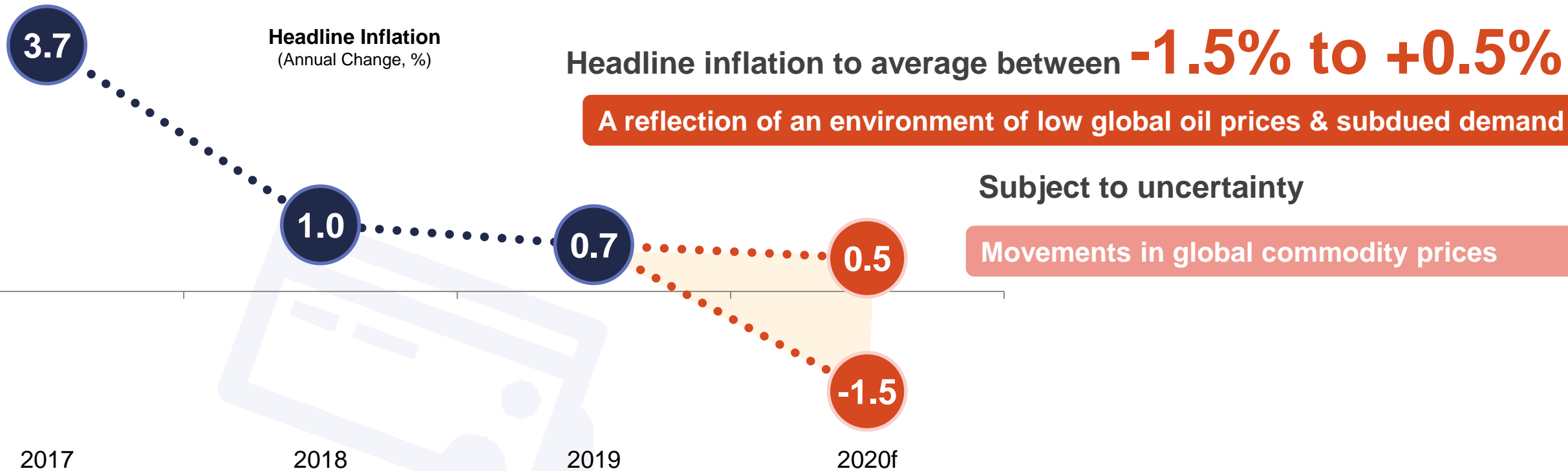


Stimulus measures and policy rate cuts



Continued progress of public projects and higher public sector expenditure

# Inflationary pressures remain subdued amid lower global oil prices and weaker demand



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

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

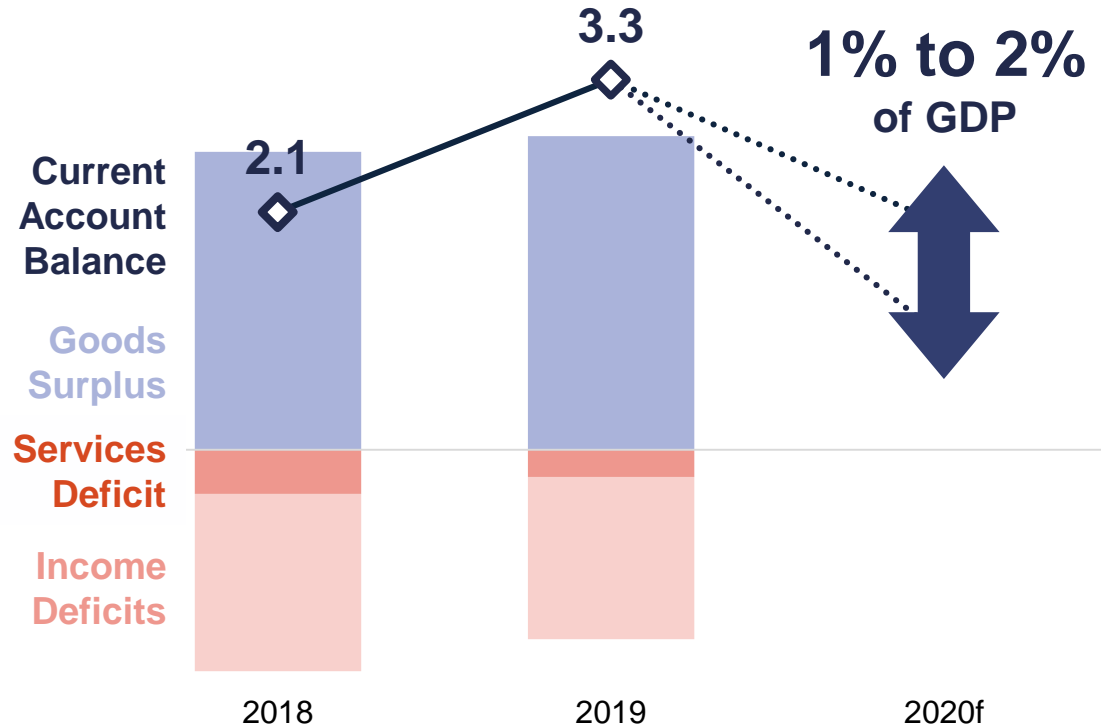
# Current account remains in surplus supported by continued goods surplus, reflective of diversified exports structure

Current account surplus at 1.0% to 2.0% of GDP...

...supported by diversified export products and markets

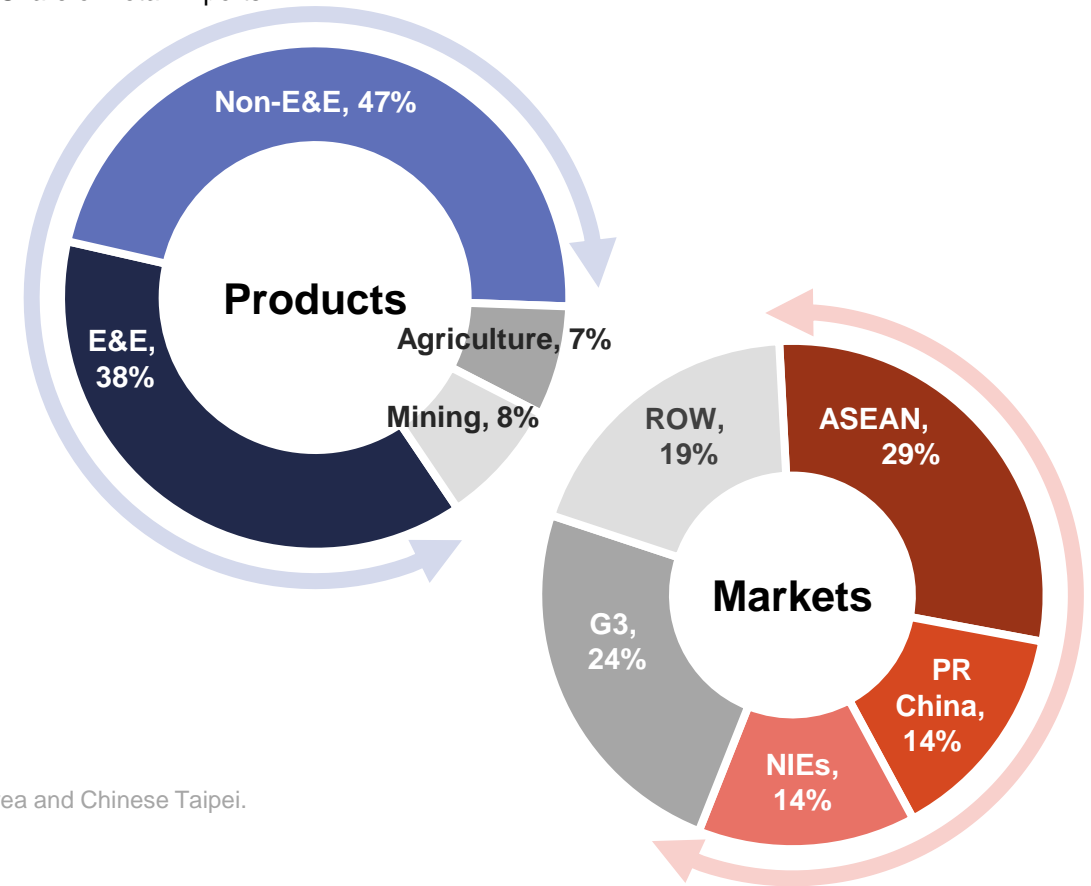
Current Account Balance

% of GDP



Exports by Products and Markets (2019)

% Share of Total Exports



Note: G3 includes the US, the euro area and Japan. Newly Industrialised Economies (NIEs) refers to Hong Kong SAR, Korea and Chinese Taipei.

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

# Continuation of large-scale infrastructure projects will provide additional lift to growth

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

**+1.0 ppt**

Total Size of Selected Projects Under Construction  
RM billion

**MRT2**

RM  
**30.5**  
billion

**LRT3**

RM  
**16.6**  
billion

**Pan Borneo Highway**

RM  
**32.5**  
billion

\*Expected net spending in 2020 after adjusting for import content. The major transport infrastructure projects include MRT2, LRT3, Pan Borneo Highway, Gemas-JB Double Track, ECRL and Klang Valley Double Track Phase 2.

# Significant policy support underlines the commitment of policy makers globally to assist a rebound in growth



Malaysia



US



Euro Area



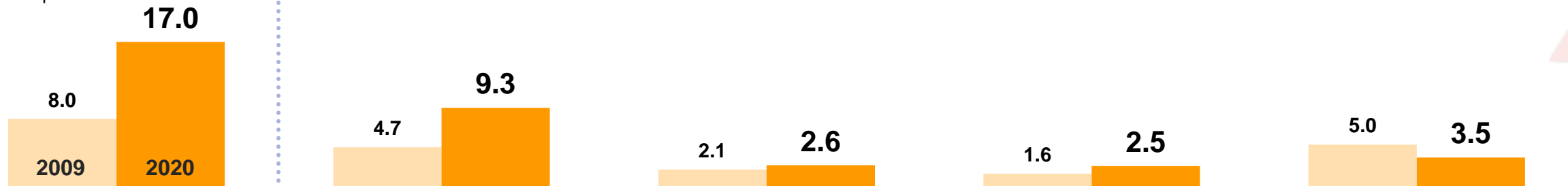
UK



Japan

## Crisis-Related Fiscal Stimulus (as at 27 March) <sup>1 2 3</sup>

% of respective GDP



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

Basis points

**-50**  
(2.50%)

**-150**  
(0% to 0.25%)

**0**  
(-0.5%)

**-65**  
(0.1%)

**0**  
(-0.1%)

<sup>1</sup> Estimated stimulus measures for MY. For other economies, 2009 refers to GFC-related discretionary spending while for 2020 refers to announced fiscal measures related to COVID-19.

<sup>2</sup> US and Japan proposed USD2 tn and USD190 bn in spending, respectively in 2020.

<sup>3</sup> Fiscal Stimulus of the Euro Area in 2020 is estimated as an average of Germany, France and Italy  
Source: Pakej Rangsangan Ekonomi Prihatin Rakyat 2020, IMF, national authorities, CEIC, news flows and staff estimates

# The Malaysian economy can weather these challenges and emerge stronger

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

▶ *Monetary policy*

▶ *Macro- and micro-prudential policy*

▶ *Supervisory oversight*

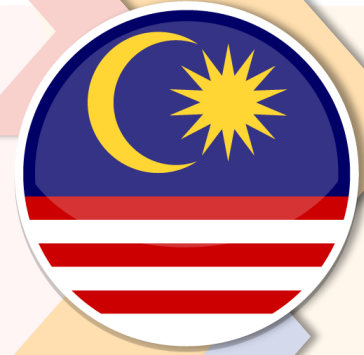
**Opportunity to undertake key reforms necessary to secure a stronger growth path in the future**

▶ ***Digital Future***

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

▶ ***Quality Investments***

***Re-calibrating Malaysia's current investment incentives framework***



# Thank you

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# Question and Answer Session

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# Additional Information

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# Growth to be anchored by private consumption expenditure

Real GDP by Expenditure  
Annual Change (%)

	% Share (2019p)	2018	2019p	2020f	Long-Term Average <sup>1</sup>
<b>Real GDP</b>	<b>100</b>	<b>4.7</b>	<b>4.3</b>	<b>-2.0 to +0.5</b>	<b>5.1</b>
<b>Domestic Demand<sup>2</sup></b>	<b>94.1</b>	<b>5.5</b>	<b>4.3</b>	<b>1.1</b>	<b>6.4</b>
Private Consumption	58.8	8.0	7.6	4.2	7.1
Private Investment	16.8	4.3	1.5	-9.7	8.9
Public Consumption	12.2	3.3	2.0	5.9	5.1
Public Investment	6.3	-5.0	-10.8	-7.5	-0.2
<b>Net Exports of Goods and Services</b>	<b>7.3</b>	<b>11.4</b>	<b>8.9</b>	<b>-27.0</b>	<b>-1.5</b>
Exports	64.0	2.2	-1.1	-13.6	2.1
Imports	56.7	1.3	-2.3	-11.9	2.9



**Household spending supported by stimulus measures and subdued inflation**



**Investment affected by weak demand and high uncertainty**

- *Continued progress of infrastructure projects to support investment activity*



**Weak external demand to affect net exports, despite slower imports**

Note: p Preliminary, f Forecast, <sup>1</sup> Excluding stocks, <sup>2</sup> Refers to the period 2011-19  
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

# Output to decline across all sectors, except for services

## Real GDP by Economic Activity

Annual Change (%)

	% Share (2019p)	2018	2019p	2020f	Long-Term Average <sup>1</sup>
<b>Real GDP</b>	<b>100</b>	<b>4.7</b>	<b>4.3</b>	<b>-2.0 to +0.5</b>	<b>5.1</b>
<b>Services</b>	<b>57.7</b>	<b>6.8</b>	<b>6.1</b>	<b>2.3</b>	<b>6.2</b>
<b>Manufacturing</b>	<b>22.3</b>	<b>5.0</b>	<b>3.8</b>	<b>-8.6</b>	<b>4.8</b>
<b>Mining &amp; Quarrying</b>	<b>7.1</b>	<b>-2.6</b>	<b>-1.5</b>	<b>-4.2</b>	<b>0.6</b>
<b>Agriculture</b>	<b>7.1</b>	<b>0.1</b>	<b>1.8</b>	<b>-2.9</b>	<b>1.9</b>
<b>Construction</b>	<b>4.7</b>	<b>4.2</b>	<b>0.1</b>	<b>-1.9</b>	<b>8.0</b>



**Impact of COVID-19 and MCO on tourism-related and consumer services is cushioned by stimulus measures**



**Lower global demand, supply chain disruptions and constrained capacity during MCO to affect the manufacturing sector**

Note: p Preliminary, f Forecast, <sup>1</sup> Refers to the period 2011-19

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

## Key assumptions underpinning BNM's forecasts

Key Assumptions	2019 <sup>p</sup>	2020 <sup>f</sup>
<b>Commodity Prices</b>		
<b>Brent (USD/barrel)</b>	<b>64</b>	<b>25 to 35</b>
<b>LNG (RM/tonne)</b>	<b>1,594</b>	<b>1,150 to 1,250</b>
<b>CPO (RM/tonne)</b>	<b>2,101</b>	<b>2,000 to 2,200</b>

p Preliminary  
f Forecast

Source: Bloomberg, MPOB (Malaysian Palm Oil Board), Department of Statistics, Malaysia and Bank Negara Malaysia estimates