BANK NEGARA MALAYSIA

- **ECONOMIC AND MONETARY REVIEW**
- **FINANCIAL STABILITY REVIEW**
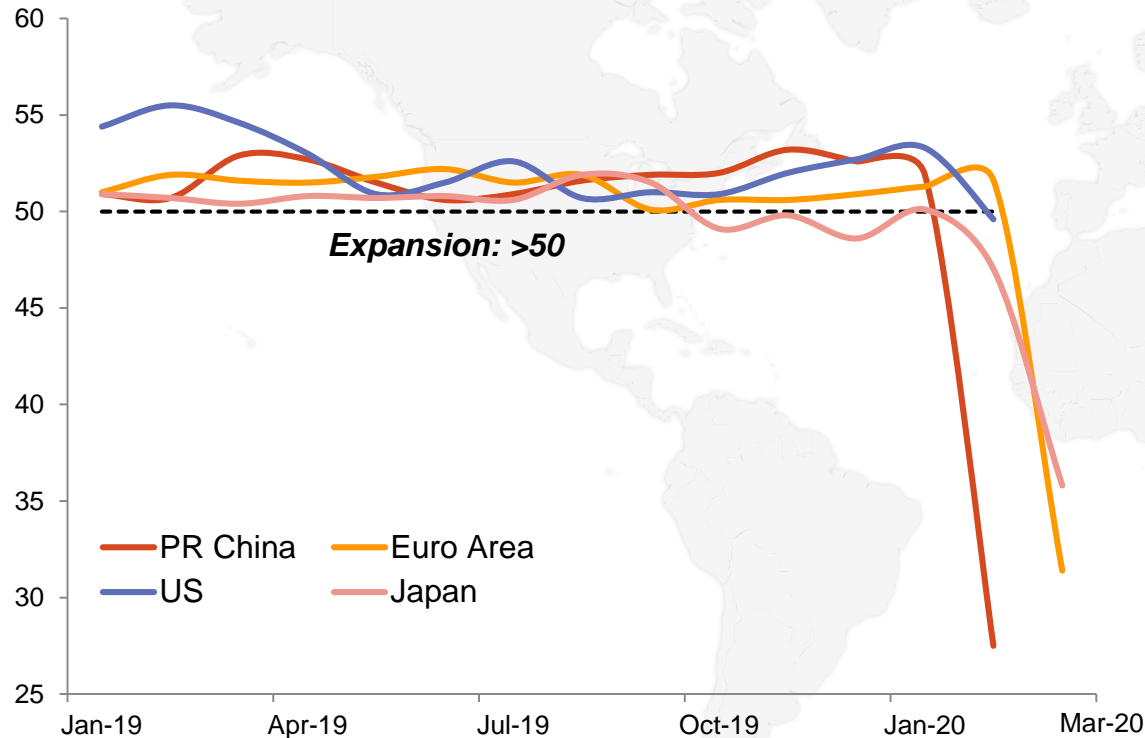
3 APRIL 2020

AR2019 ● EMR2019 ● FSR2H2019

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

Composite Purchasing Managers' Indices[1]

Index

Expansion: >50

Legend:
- PR China
- US
- Euro Area
- Japan

(Y-axis: 25 to 60; X-axis: Jan-19, Apr-19, Jul-19, Oct-19, Jan-20, Mar-20)

▼ **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**

IMF

"…a recession at least as bad as during the GFC or worse. But we expect recovery in 2021."

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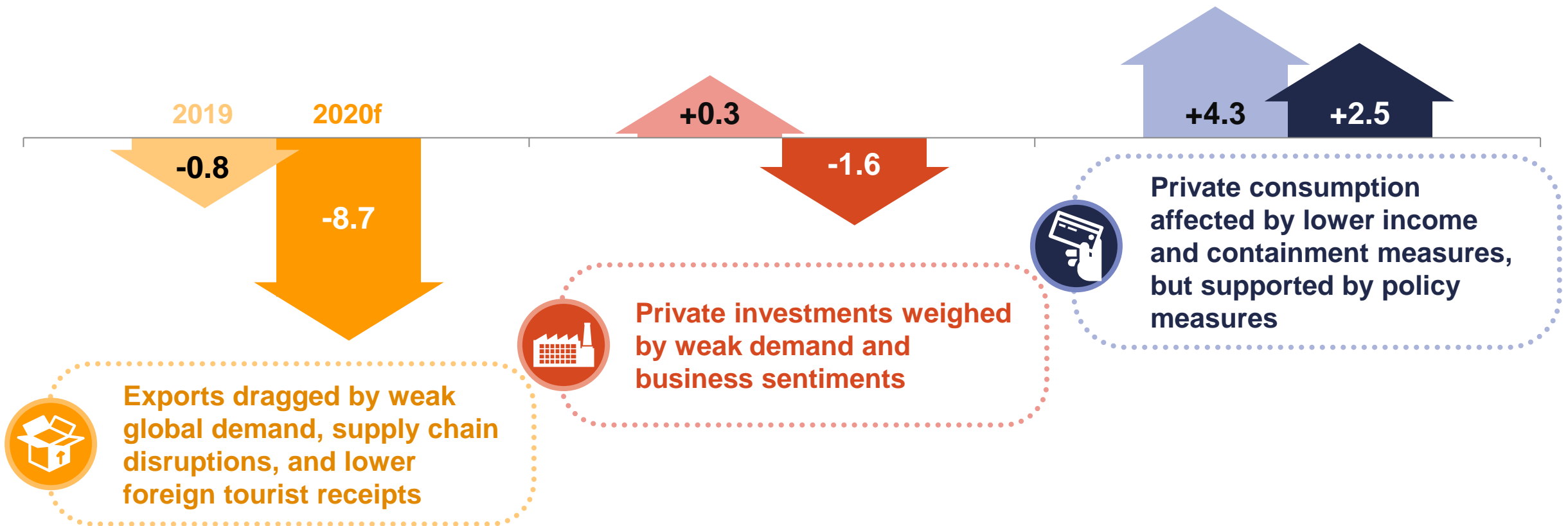Source: IHS Markit, CEIC, Haver, Bloomberg, news flows and national authorities

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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

2019

2020f

-0.8

-8.7

Exports dragged by weak global demand, supply chain disruptions, and lower foreign tourist receipts

Private Investment

+0.3

-1.6

Private investments weighed by weak demand and business sentiments

Private Consumption

+4.3

+2.5

Private consumption affected by lower income and containment measures, but supported by policy measures

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

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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

Flexibities 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**

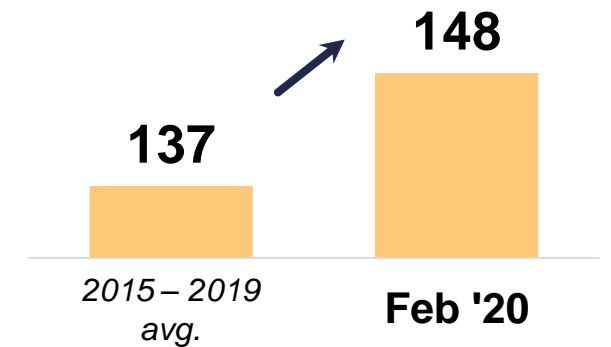Review of **regulatory priorities** and **implementation timelines**

The financial system is well positioned to support the economy, given the strong buffers built up over the years
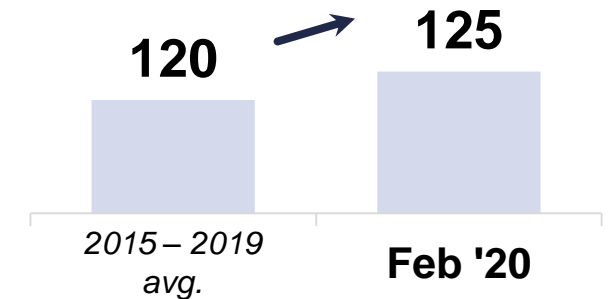
Banks have strong capital positions…

12.6%

Total Capital Ratio

18.4%

RM 39 bn

Excess Capital Buffers

RM 121 bn

2008

Feb '20
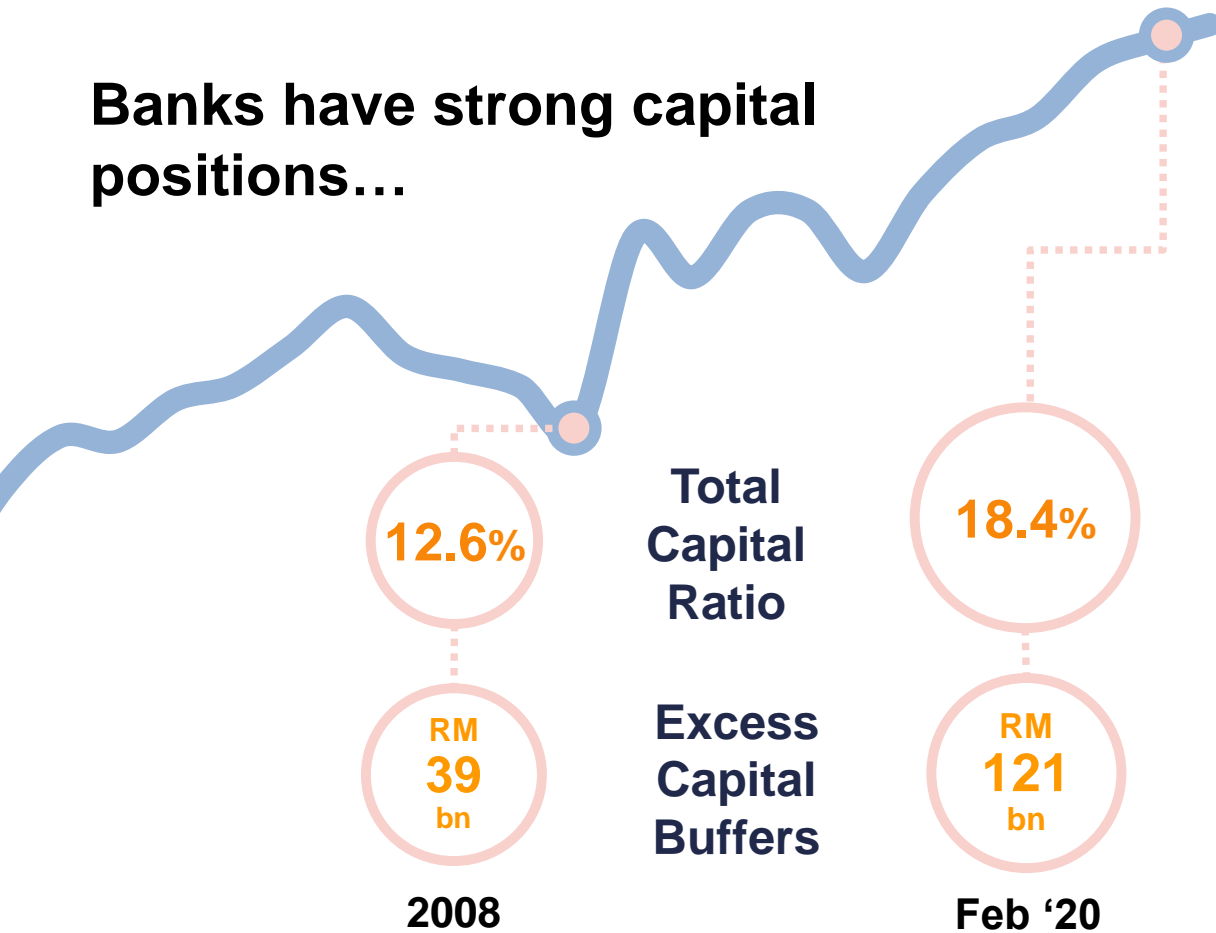
… with ample liquidity buffers…

Liquidity Coverage Ratio (%)

137

148

2015 – 2019 avg.

Feb '20

… and adequate provisions set aside

Loan Loss Coverage Ratio* (%)

120

125

2015 – 2019 avg.

Feb '20

*including regulatory reserves
Source: Bank Negara Malaysia

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

Simulated GDP shocks more severe than past stress events

2008 Global Financial Crisis

Scenario 2

Scenario 1

2019 2020 2021 2022 2023
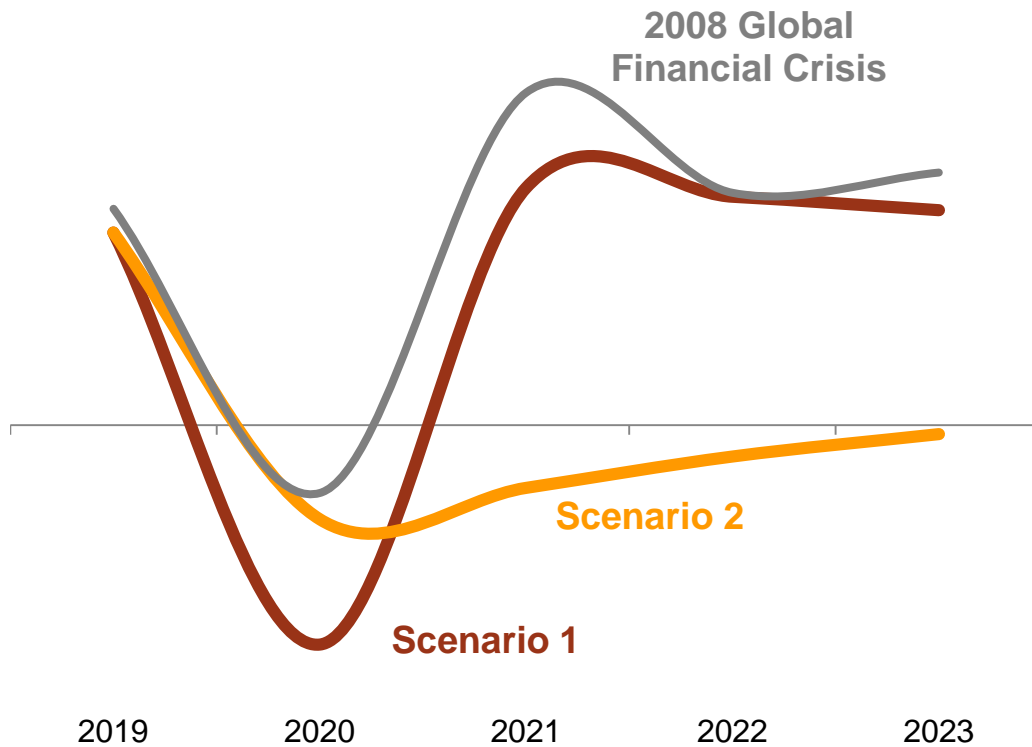
Capital buffers sufficient to absorb potential losses

Pre-shock

2019

Post-shock
Adverse Scenario 1
Adverse Scenario 2

18.3
13.2
12.3

Minimum regulatory requirement: 8%

**Total Capital Ratio, %
(Banks)**

228
210
201

Minimum regulatory requirement: 130%

**Capital Adequacy Ratio, %
(Insurers)**

Source: Bank Negara Malaysia
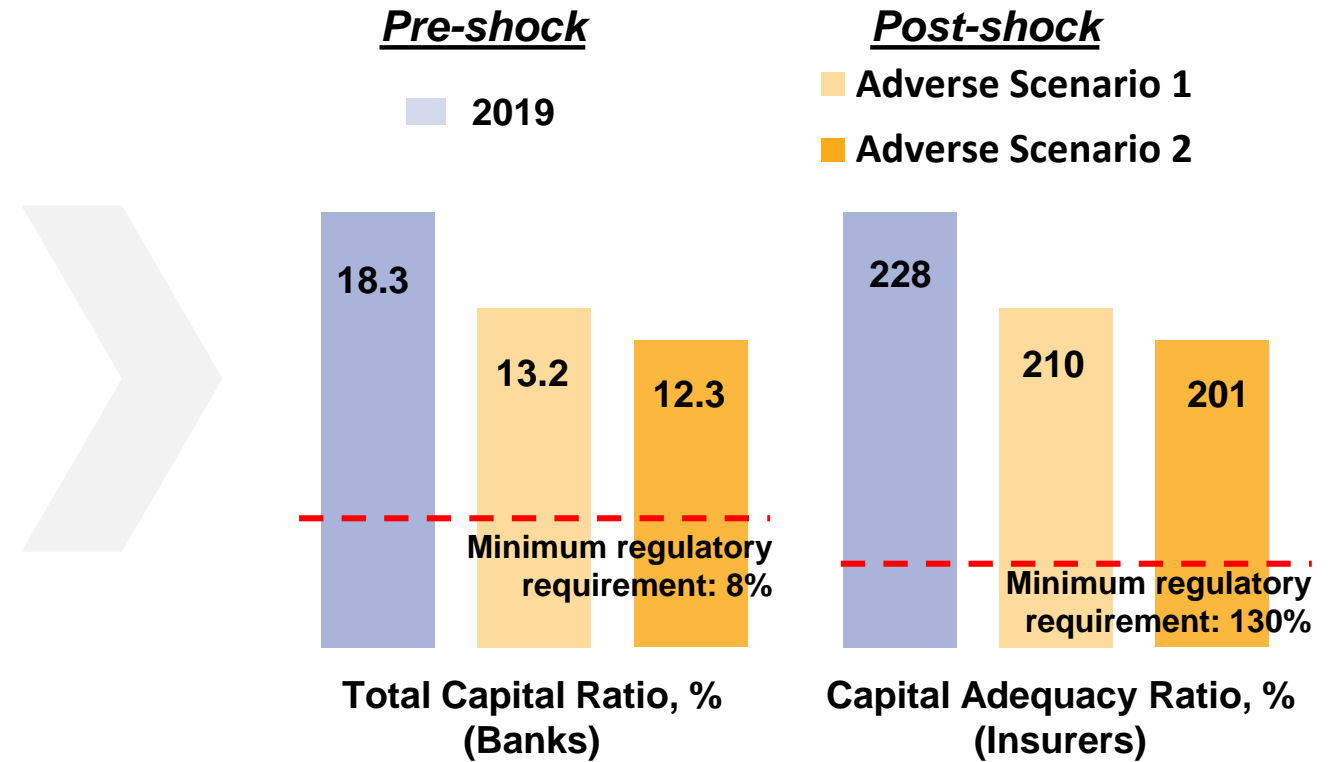
BANK NEGARA MALAYSIA
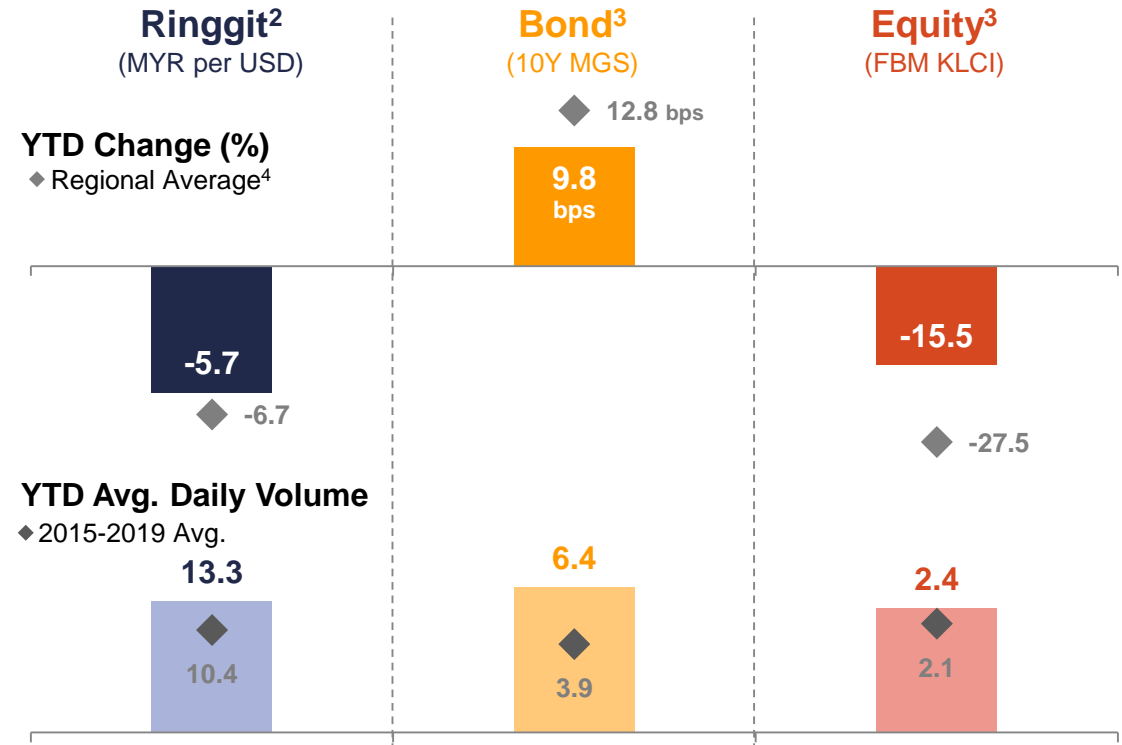CENTRAL BANK OF MALAYSIA

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

	2019	Jan-20	Feb-20	Mar-20

Non-Resident Portfolio Flows
RM billion

+11   +3[1]   -10[1]   -18[1]

Total Liquidity in the System
RM billion

169   160   161   156
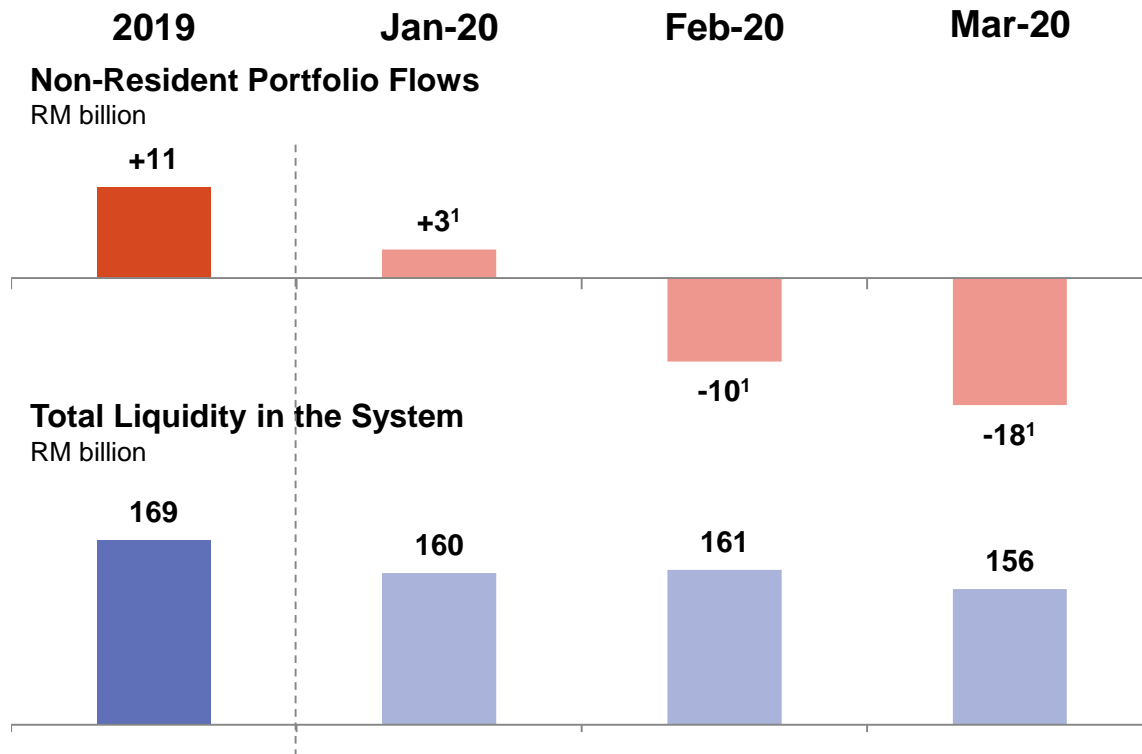
[1]Estimated figure based on Bursa flows and change in non-resident holdings in ringgit bonds
Note: YTD data as at 31 March 2020
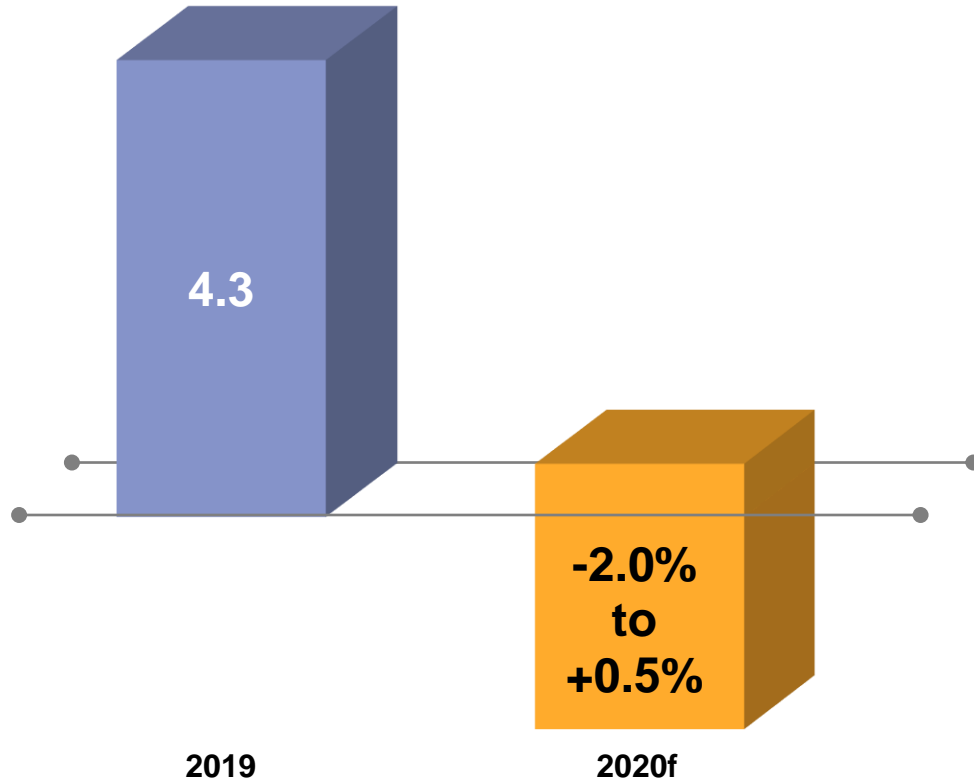Source: Department of Statistics, Malaysia, Bank Negara Malaysia and Bloomberg

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

Ringgit[2] (MYR per USD)	Bond[3] (10Y MGS)	Equity[3] (FBM KLCI)

YTD Change (%)
◆ Regional Average[4]

	12.8 bps	
	9.8 bps	
-5.7		-15.5
◆ -6.7		◆ -27.5

YTD Avg. Daily Volume
◆ 2015-2019 Avg.

| 13.3 | 6.4 | 2.4 |
| 10.4 | 3.9 | 2.1 |

[2]Average Daily FX Volume in USD billion
[3]Average Daily Bond and Equity Volume, respectively, RM billion
[4]Singapore, Indonesia, Thailand, Philippines and Korea
Note: YTD data as at 27 March 2020
Source: Bank Negara Malaysia, Bursa Malaysia, Bloomberg, Reuters, CEIC

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

Real GDP Growth
Annual Change (%)

4.3 — 2019

-2.0% to +0.5% — 2020f

Growth to be weighed by:

- Output loss from COVID-19
- Movement Control Order (MCO)
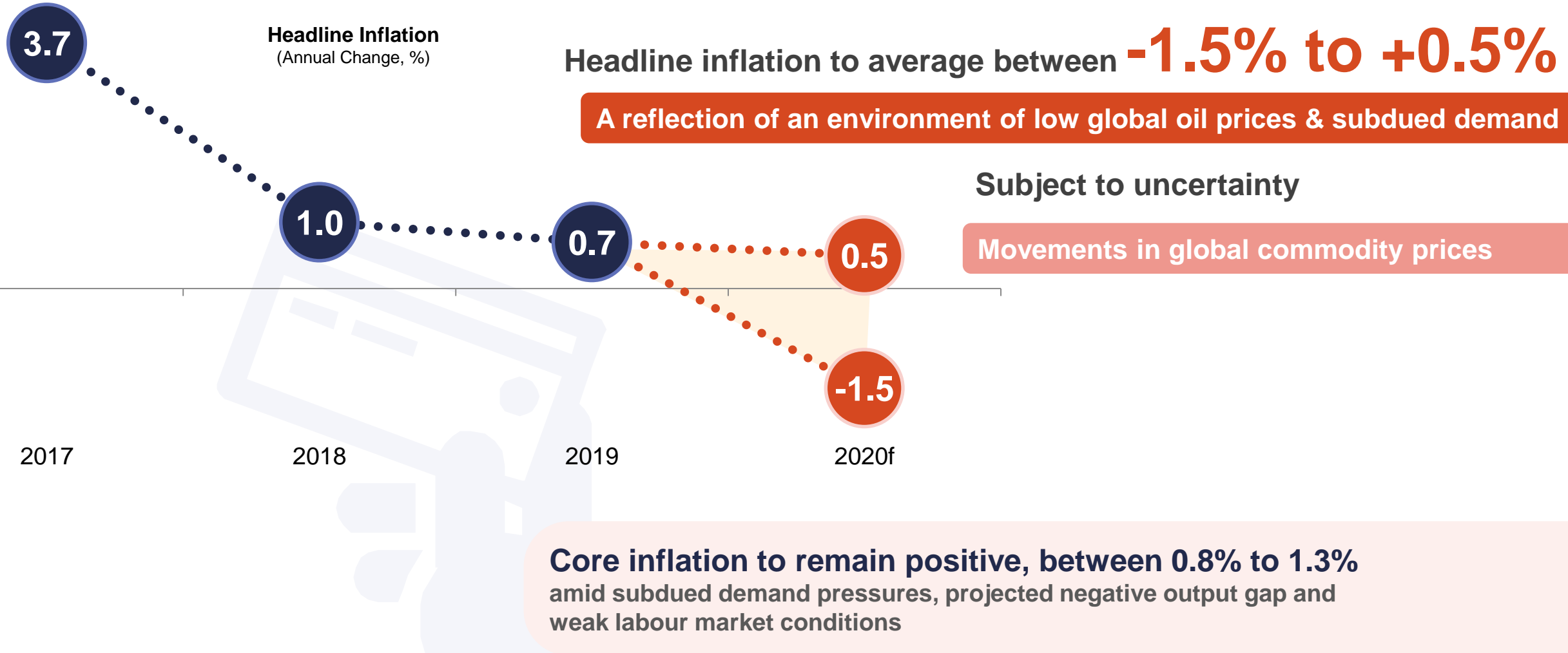- Commodity supply disruptions

Growth to be supported by:

- Stimulus measures and policy rate cuts
- Continued progress of public projects and higher public sector expenditure

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

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

Headline Inflation
(Annual Change, %)

3.7 — 2017

1.0 — 2018

0.7 — 2019

0.5 / **-1.5** — 2020f

Headline inflation to average between -1.5% to +0.5%

A reflection of an environment of low global oil prices & subdued demand

Subject to uncertainty

Movements in global commodity prices

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

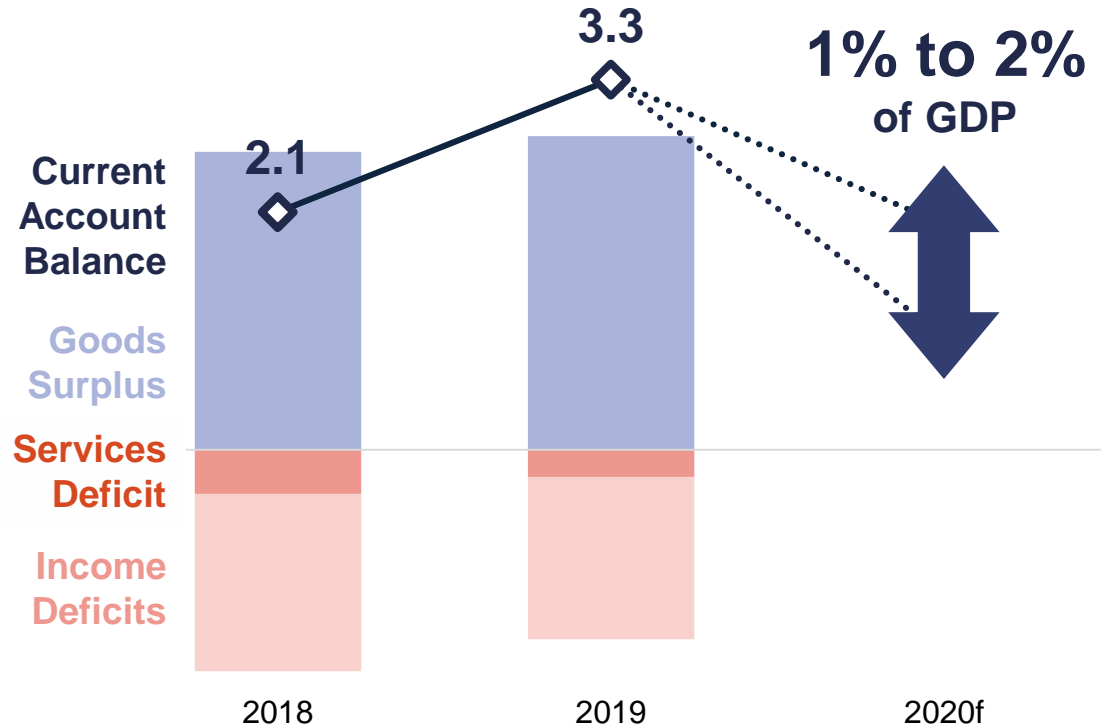BANK NEGARA MALAYSIA
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Current account remains in surplus supported by continued goods surplus, reflective of diversified exports structure

Current account surplus at 1.0% to 2.0% of GDP...
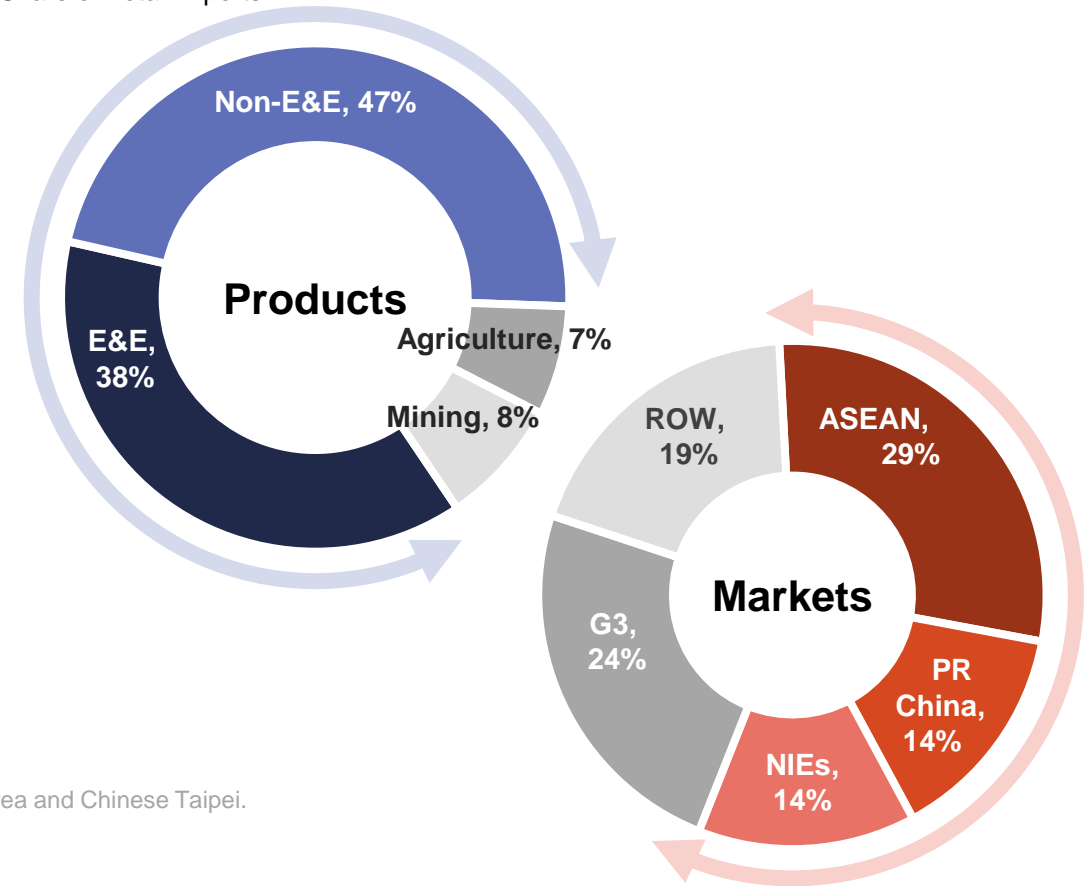
...supported by diversified export products and markets

Current Account Balance

% of GDP

3.3

1% to 2%
of GDP

2.1

Current Account Balance

Goods Surplus

Services Deficit

Income Deficits

2018   2019   2020f

Exports by Products and Markets (2019)
% Share of Total Exports

Non-E&E, 47%

Products

Agriculture, 7%

E&E, 38%

Mining, 8%

ROW, 19%

ASEAN, 29%

Markets

G3, 24%

PR China, 14%

NIEs, 14%

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

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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.

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Significant policy support underlines the commitment of policy makers globally to assist a rebound in growth
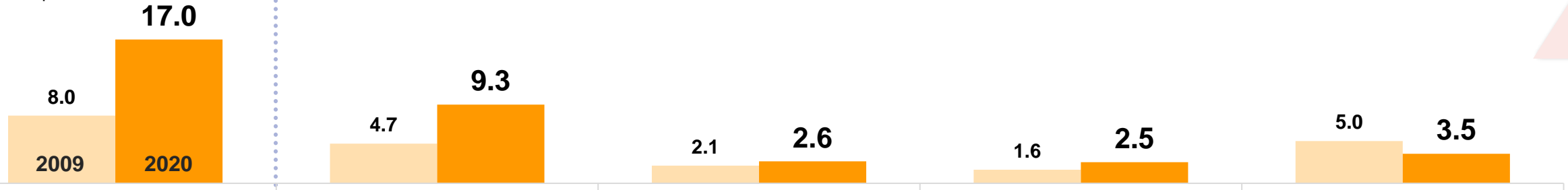
Malaysia **US** **Euro Area** **UK** **Japan**

Crisis-Related Fiscal Stimulus (as at 27 March) [1] [2] [3]
% of respective GDP

	Malaysia	US	Euro Area	UK	Japan
2009	8.0	4.7	2.1	1.6	5.0
2020	17.0	9.3	2.6	2.5	3.5

Change in Policy Rates (and Current Rates) in 2020
Basis points

Malaysia	US	Euro Area	UK	Japan
-50	*-150*	*0*	*-65*	*0*
(2.50%)	*(0% to 0.25%)*	*(-0.5%)*	*(0.1%)*	*(-0.1%)*

[1] 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.
[2] US and Japan proposed USD2 tn and USD190 bn in spending, respectively in 2020.

[3] 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

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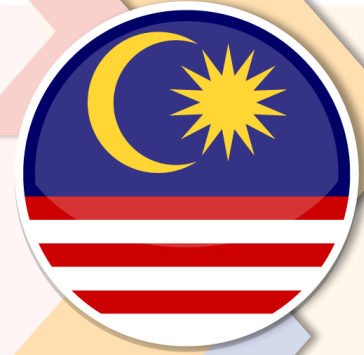
Thank you

Question and Answer Session

Additional Information

Growth to be anchored by private consumption expenditure

Real GDP by Expenditure
Annual Change (%)

	% Share (2019p)	2018	2019p	2020f	Long-Term Average[1]
Real GDP	**100**	**4.7**	**4.3**	**-2.0 to +0.5**	**5.1**
Domestic Demand[2]	**94.1**	**5.5**	**4.3**	**1.1**	**6.4**
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
Net Exports of Goods and Services	**7.3**	**11.4**	**8.9**	**-27.0**	**-1.5**
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, [1] Excluding stocks, [2] 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[1]
Real GDP	100	4.7	4.3	-2.0 to +0.5	5.1
Services	57.7	6.8	6.1	2.3	6.2
Manufacturing	22.3	5.0	3.8	-8.6	4.8
Mining & Quarrying	7.1	-2.6	-1.5	-4.2	0.6
Agriculture	7.1	0.1	1.8	-2.9	1.9
Construction	4.7	4.2	0.1	-1.9	8.0

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, [1] 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[p]	2020[f]
Commodity Prices		
Brent (USD/barrel)	64	25 to 35
LNG (RM/tonne)	1,594	1,150 to 1,250
CPO (RM/tonne)	2,101	2,000 to 2,200

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