



**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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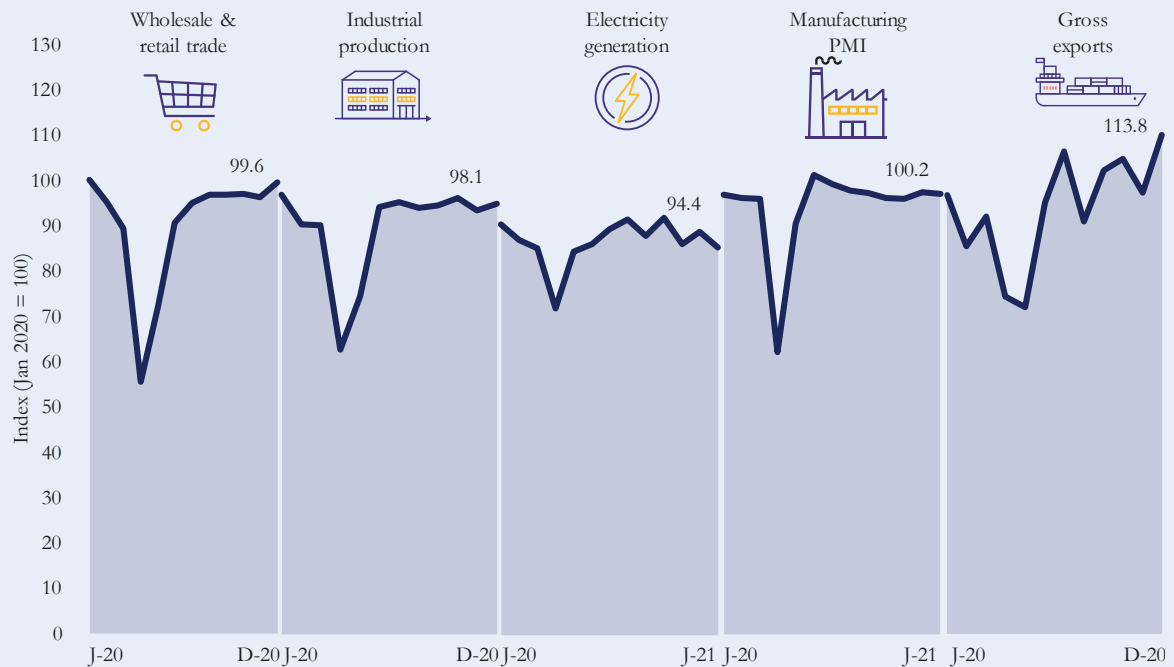
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# Highlights: 4Q 2020

## Robust trade performance amid softer domestic economic activity

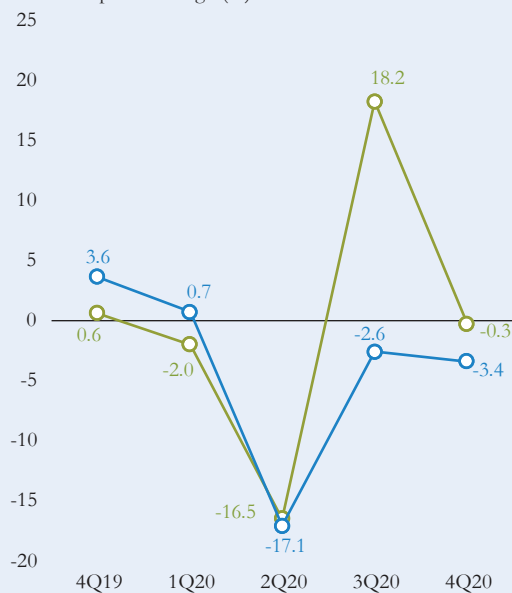
Continued improvement in external demand provided support to growth



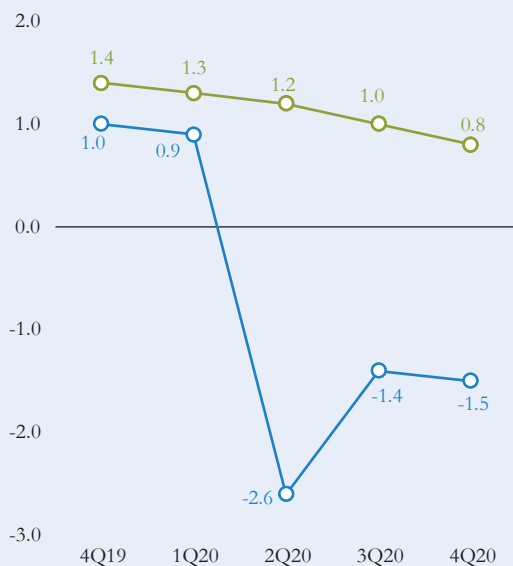
Source: Department of Statistics Malaysia, Bank Negara Malaysia, IHS Markit, Tenaga Nasional Berhad

## GDP declined, while headline inflation moderated slightly in 4Q 2020

Period-on-period change (%)



Year-on-year change (%)



— Real GDP growth (q-o-q, sa)  
— Real GDP growth (y-o-y)

— Headline inflation  
— Core inflation

Source: Department of Statistics Malaysia and Bank Negara Malaysia estimates

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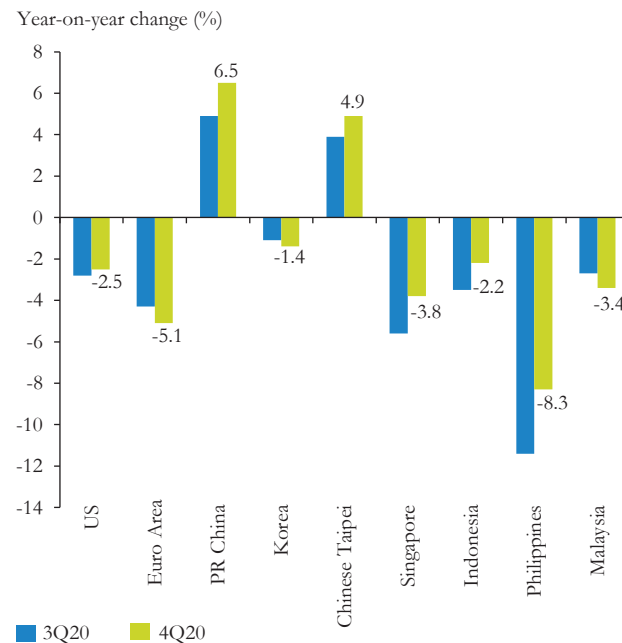
# International Economic Environment

## HIGHLIGHTS

- The global economy continued to recover in the fourth quarter of 2020.
- Regional exports continued to rebound.
- Financial market volatility remained elevated.

## Global growth recovery continues

Chart 1: GDP Growth of Selected Economies



Source: National authorities

The global economy continued to recover in the fourth quarter of 2020, buoyed by improvements in trade activity and domestic demand conditions. The overall pick-up in production activity led to broad-based improvements in labour market conditions, and consequently private sector expenditure. However, in the euro area, the pace of recovery slowed as COVID-19 resurgences necessitated further re-tightening of containment measures.

The US economy contracted at a slower pace of 2.5% (3Q 2020: -2.8%), driven by a rebound in private investment and improvement in private consumption.

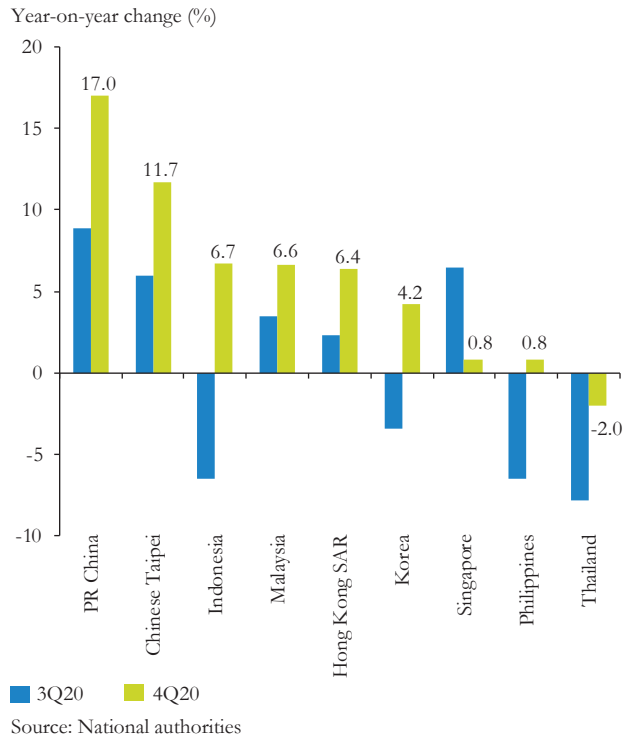
Meanwhile, growth in the euro area registered a larger contraction of 5.1% (3Q 2020: -4.3%) as containment measures weighed on the services sector.

PR China recorded positive growth of 6.5% in the fourth quarter of 2020 (3Q 2020: 4.9%), thus realising a full recovery back to pre-pandemic growth levels. Firm control over the epidemic lifted sentiments and

facilitated a broad-based recovery across consumption, investment and net exports. These were further supported by the start of its vaccination programme.

## Continued strength in regional exports

Chart 2: Exports Growth of Selected Economies

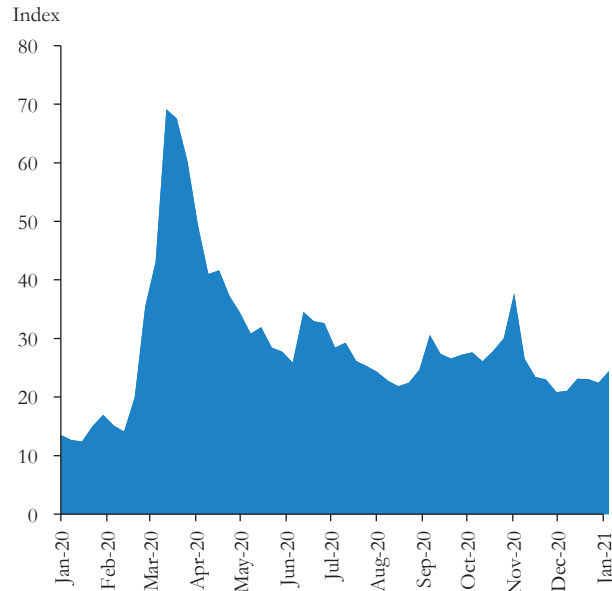


Building on the rebound in exports in the third quarter, the region benefitted from a continued improvement in exports in the fourth quarter of 2020. Strong domestic and external activity in PR China anchored

the recovery of the region's value chains, as all major regional economies with the exception of Singapore, recorded an improvement in exports.

## Financial market volatility remains elevated

Chart 3: CBOE VIX



Source: Bloomberg

Financial market volatility remained elevated in the fourth quarter of 2020 (average: 25.6; 3Q 2020 average: 25.9; 2Q 2020 average: 34.5). Market conditions were particularly volatile in November, as positive news relating to the rollout of COVID-19 vaccines during the month, was accompanied by resurgences of COVID-19 and a re-tightening of containment measures in major advanced economies such as the US, UK and several euro area Member States.

Brent crude oil prices improved to an average of USD45 per barrel during the quarter (3Q 2020 average: USD43 per barrel), driven mainly by higher global oil demand and positive sentiments surrounding the COVID-19 vaccine rollout. The ongoing OPEC+ production cuts since May 2020 also continued to provide support to crude oil prices.

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# Developments in the Malaysian Economy

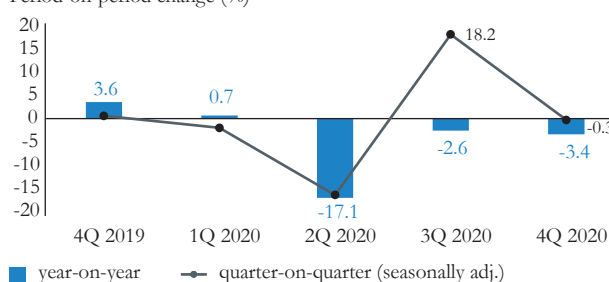
## HIGHLIGHTS

- Domestic growth declined by 3.4%.
- Headline and core inflation moderated slightly during the quarter.
- Lower current account surplus of RM19.0 billion or 5.0% of GDP.

## Growth declined in 4Q 2020

Chart 4: Real GDP Growth

Period-on-period change (%)



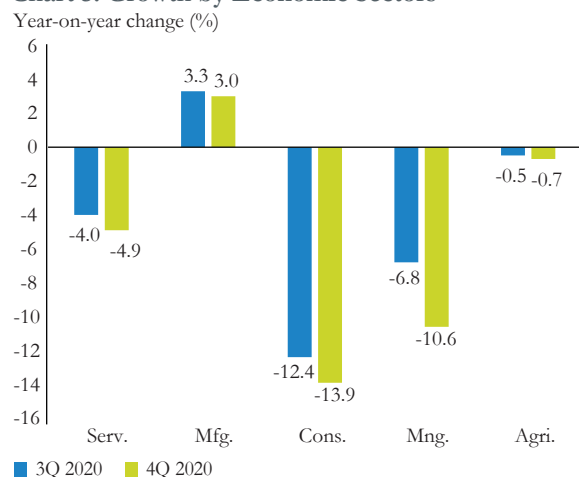
Source: Department of Statistics Malaysia

The Malaysian economy recorded a negative growth of 3.4% in the fourth quarter (3Q 2020: -2.6%), largely attributable to the imposition of the Conditional Movement Control Order (CMCO) on a number of states since mid-October. The restrictions on mobility, especially on inter-district and inter-state travel, weighed on economic activity. Nevertheless, the continued improvement in external demand

provided support to growth. Consequently, except for manufacturing, all economic sectors continued to record negative growth. On the expenditure side, moderating private consumption and public investment activities weighed on domestic demand. On a quarter-on-quarter seasonally-adjusted basis, the economy registered a decline of 0.3% (3Q 2020: +18.2%).

## Continued negative growth in all economic sectors, except manufacturing

**Chart 5: Growth by Economic Sectors**



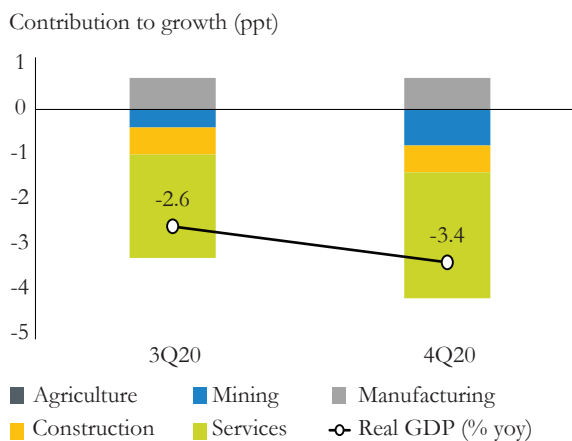
Source: Department of Statistics Malaysia

In terms of sectoral performance, all economic sectors, except manufacturing, registered negative growth in the fourth quarter.

The services sector registered a larger contraction of 4.9% in the fourth quarter of 2020 (3Q 2020: -4.0%), as tighter restrictions on mobility and stricter standard operating procedures (SOPs) affected domestic-oriented activities. The restrictions (e.g. shorter operating hours) and weak sentiments adversely impacted spending, particularly on recreational activity and non-essential retail goods, which in turn weighed on activity in the wholesale and retail trade subsector. This was partially offset by continued growth in the motor vehicle segment. In addition, the weakness in tourism activity amid continued closure of international borders weighed on key sub-sectors, such as food and beverage, accommodation as well as transport and storage. Meanwhile, finance and insurance continued to grow amid sustained loan and deposit growth. Growth in the information and communication sub-sector also improved, amid higher demand for data communication services, particularly broadband.

The agriculture sector contracted further by 0.7% (3Q 2020: -0.5%). This was due mainly to weak oil palm output as labour shortages continued to affect harvesting activities, while deteriorating weather conditions towards the end of the year led to operational constraints in production. Growth was also weighed by the continued weaknesses in the rubber, fisheries, forestry and logging subsectors, which partially offset the continued expansion in the livestock and other agriculture subsectors.

**Chart 6: Contributions of Economic Sectors to Real GDP Growth**



Source: Department of Statistics Malaysia

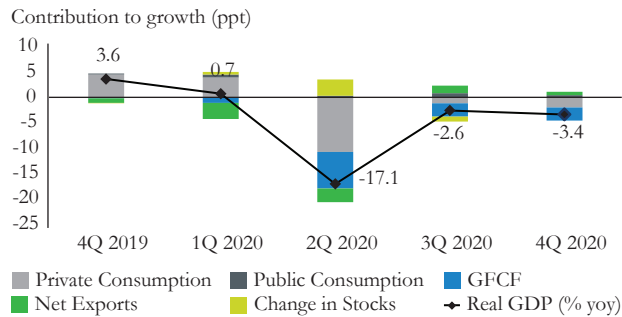
The construction sector registered a larger contraction (-13.9%; 3Q 2020: -12.4%). Labour shortages, site shutdowns due to COVID-19 outbreaks and interruptions in progress of selected work packages have affected growth, particularly in the civil engineering and residential sub sectors. The special trade sub sector, however, continued to register positive growth following support from small-scale projects under the PRIHATIN stimulus package.

The mining sector contracted further by 10.6% (3Q 2020: -6.8%). Both crude oil and natural gas production were lower during the quarter, attributed mainly to several facility closures for maintenance purposes.

The manufacturing sector expanded by 3.0% (3Q 20: 3.3%), as robust E&E production more than offset lower activity in the consumer cluster. The strong performance in the E&E sub-sector was supported by sustained global demand for semiconductors components, which has led to a global shortage. This has resulted in a build-up of order backlogs among Malaysian producers which are highly integrated in the global value chain. The positive growth in E&E was partially offset by the weakness in consumer-cluster. In particular, the refining and manufacture of palm-oil related products was affected by disruptions in the agriculture sector amid labour shortages. Several consumer-clusters, such as food and beverages, tobacco, and textiles subsectors, were affected by weaker demand due to the re-imposition of CMCO.

## Decline in domestic demand

**Chart 7: Contributions of Expenditure Components to Real GDP Growth**



Domestic demand recorded a decline of 4.4% in the fourth quarter of 2020 (3Q 2020: -3.3%), mainly due to the subdued private consumption and public investment activities. Net exports grew by 12.4% (3Q 2020: 21.9%), with continued expansion in manufactured exports.

Private consumption contracted by 3.4% (3Q 2020: -2.1%). Household spending was subdued amid continued weaknesses in income and employment conditions during the quarter. Spending was also affected by tighter movement restrictions in selected states. Nevertheless, the decline in physical spending

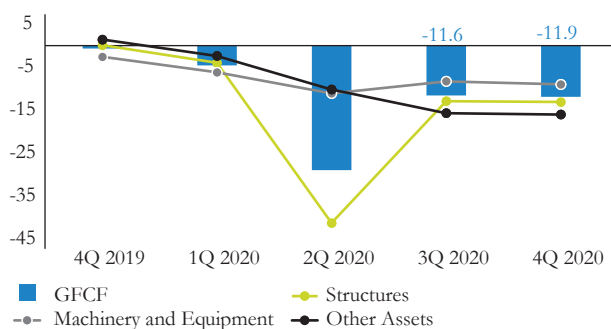
was partly mitigated by the continued acceleration in online spending. During the quarter, consumer expenditure also remained supported by various stimulus measures including the EPF *i-Lestari* withdrawals, the continued support to affected borrowers under the Targeted Repayment Assistance (TRA) and lower passenger car sales tax.

Meanwhile, public consumption continued to expand, albeit at a more moderate pace of 2.7% in the fourth quarter of 2020 (3Q 2020: 6.9%), supported by spending in emoluments.

## Contraction in investment activity

Chart 8: GFCF Growth by Type of Asset

Year-on-year change (%)



Source: Department of Statistics Malaysia

Gross fixed capital formation (GFCF) contracted further by 11.9% (3Q 2020: -11.6%), as capital spending from both private and public sectors remained relatively weak. By type of asset, investment in structures contracted by 13.1% (3Q 2020: -12.9) while investment in machinery & equipment (M&E) declined by 9.0% during the quarter (3Q 2020: -8.3%).

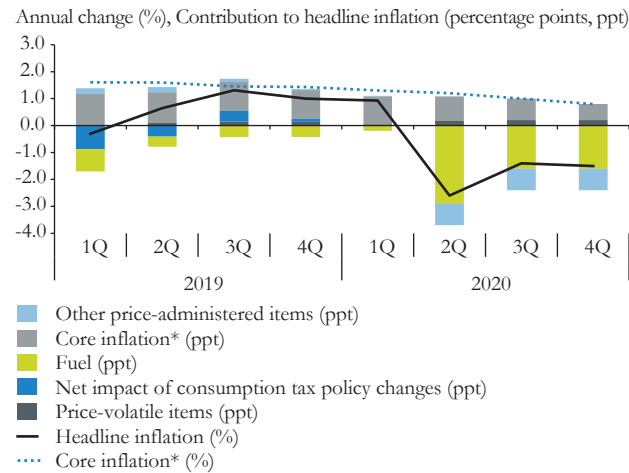
Private investment recorded a smaller decline of 7.0% (3Q 2020: -9.3%), mainly supported by continued capital

spending in existing projects, particularly in the export-oriented industries.

Meanwhile, public investment registered a larger decline of 19.8% (3Q 2020: -18.6%). This reflects lower spending on fixed assets by the general government and weaker demand in most sectors which continued to weigh on capital spending by public corporations.

## Headline inflation moderated slightly during the quarter

**Chart 9: Contribution to Headline Inflation by Components**



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

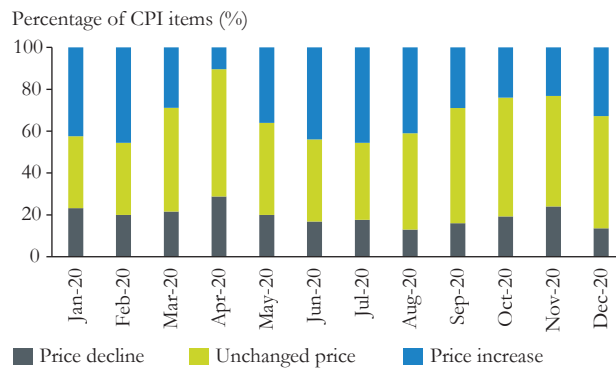
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), was slightly lower at -1.5% during the quarter (3Q 2020: -1.4%). This was mainly due to lower inflation for rental and communication services respectively as well as the larger annual decline in retail fuel prices. These were partly offset by higher inflation in other categories, in particular, transport services and food.

The lower inflation for communication services followed the lapse in the base effect of higher fixed

telephone line call charges introduced in 2019. The lower rental inflation reflects weak demand for housing as income remained weak, as well as the new work arrangements and border closures. Retail fuel prices declined at an annual rate of 19.2% in the fourth quarter (-18.8% in 3Q 2020) although they were relatively stable on a quarterly basis. Following the lower inflation for communication services and rental, core inflation moderated to 0.8% during the quarter (3Q 2020: 1.0%).

**Chart 10: Month-on-Month Price Changes of CPI Items\***



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

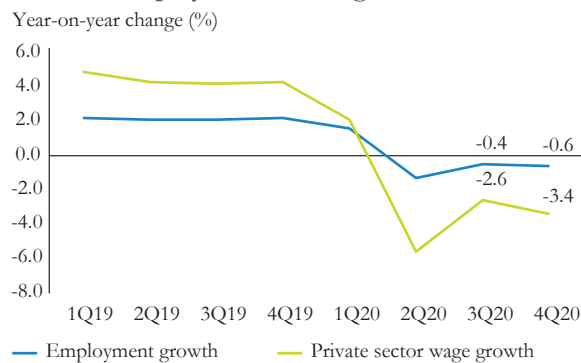
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

Despite the slightly more negative headline inflation, broad-based downward pressures on prices were contained during the quarter, as reflected by the limited

share of CPI items recording price declines (4Q 2020 average: 19%; 2010-2019 average: 21%).

### Labour market conditions remained soft

**Chart 11: Employment and Wage Growth**

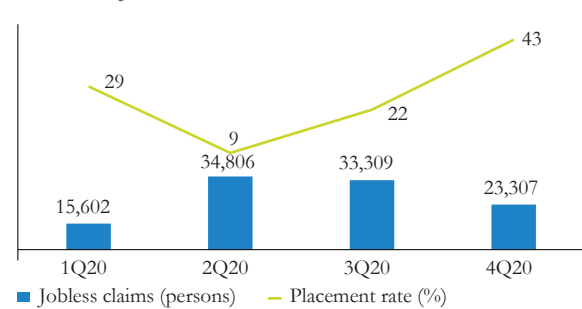


Note: Private sector wage growth refers to wage growth of workers in the manufacturing and services sectors.

Source: Department of Statistics Malaysia

Labour market conditions remained soft amid the re-imposition of CMCO. The unemployment rate remained elevated at 4.8% (3Q 2020: 4.7%), mainly reflecting a larger decline in employment growth in the fourth quarter (-0.6%; 3Q 2020: -0.4%). Data from SOCSO reported lower jobless claims from the EIS (23,307 persons; 3Q 2020: 33,309) and higher placement rate of employees into new jobs (43 per 100 people retrenched; 3Q 2020: 22)<sup>1</sup>. This reflects improved labour market conditions particularly in October, before conditions deteriorated in November and December following the re-imposition of movement restrictions.

**Chart 12: 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.

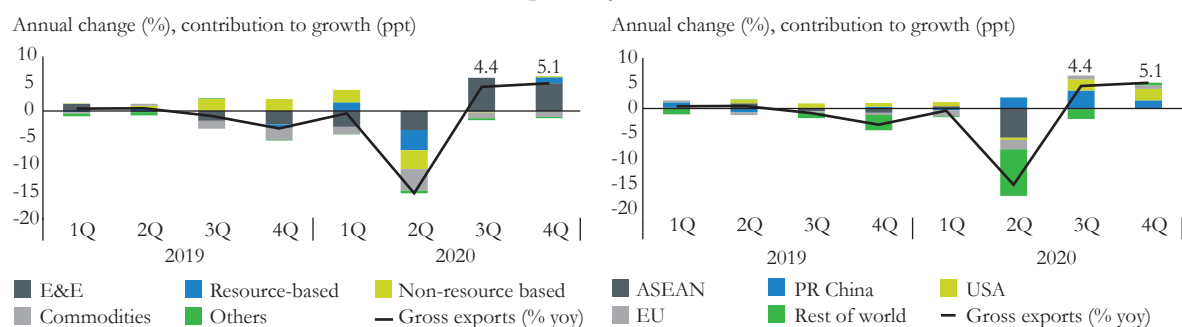
Source: Employment Insurance System, Social Security Organisation

Private sector wages declined in the fourth quarter (-3.4%; 3Q 2020: -2.6%), mainly attributable to a larger contraction of wages in the services sector. Transportation & storage, accommodation and food & beverages subsectors continued to weigh on the services sector wage growth (-4.5%; 3Q 2020: -2.6%). Wage growth in the manufacturing sector also recorded a contraction, albeit smaller at 1.2% (3Q 2020: -2.7%) following weak growth in domestic-oriented manufacturing industries. These developments indicate employers remained cautious despite the recent positive manufacturing IPI performance, due to continued uncertainty surrounding the recovery trajectory.

<sup>1</sup> Job losses are proxied by the number of people who apply for the EIS benefits 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.

## Improvement in trade activity amid higher external demand and domestic manufacturing activity

Chart 13: Gross Exports by Products and Markets



Source: Department of Statistics Malaysia

In the fourth quarter of 2020, gross exports grew by 5.1% (3Q 2020: 4.4%), driven primarily by the continued strength in manufactured exports. Gross imports registered a smaller decline of 4.5% (3Q20: -6.3%), due primarily to a more moderate contraction in intermediate imports. The trade surplus<sup>2</sup> amounted to RM59.9 billion (3Q 2020: RM60.3 billion).

Manufactured exports continued to expand (7.6%; 3Q 2020: 6.8%), supported mainly by E&E exports (13.8%; 3Q 2020: 16.0%). This was driven by robust demand for semiconductors for work from home equipment and medical devices. Commodities exports

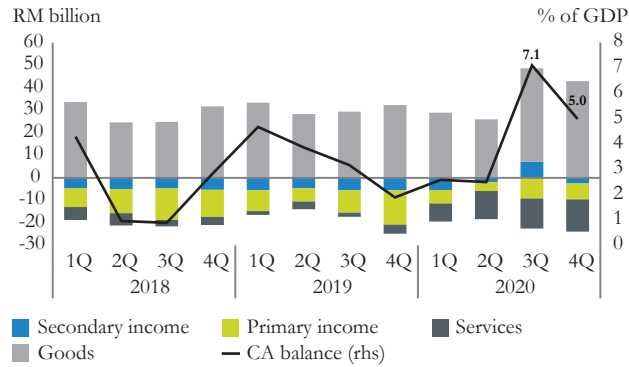
contracted further (-7.8%; 3Q 2020: -7.2%) due to the sharp decline in crude oil export volume.

Capital imports remained in contraction during the quarter (-15.0%; 3Q 2020: -12.8%) amid the continued decline in domestic investment activity. Similarly, consumption imports declined by 0.3% (3Q 2020: 4.6%) due to lower household spending amid continued weak labour market conditions. Intermediate imports contracted at a slower pace (-7.2%; 3Q 2020: -13.5%), due to higher imports of industrial supplies, in line with the continued expansion in domestic manufacturing activity.

<sup>2</sup> 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 IMF.

## Lower current account surplus

Chart 14: Current Account Balance



Source: Department of Statistics Malaysia

The current account of the balance of payments registered a surplus of RM19.0 billion or 5.0% of GDP during the quarter (3Q 2020: RM26.1 billion or 7.1% of GDP). The lower surplus was due mainly to a deficit in the secondary income account and a larger deficit in the services account.

The goods surplus increased to RM42.9 billion (3Q 2020: RM41.5 billion), supported by strong exports of E&E, rubber gloves and Personal Protective Equipment (PPE). The services account recorded a larger deficit (-RM14.2 billion; 3Q 2020: -RM13.3 billion). This was due to higher payment for transportation services, as well

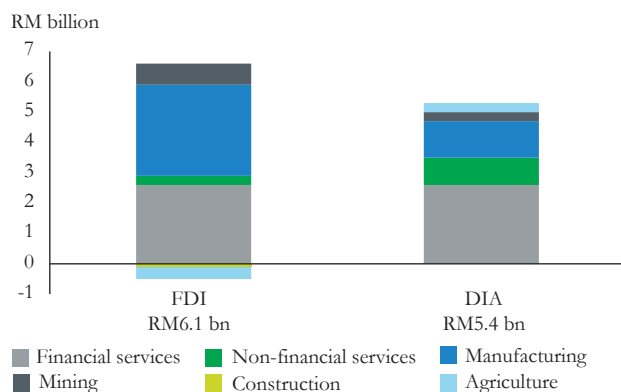
as continued weakness in travel receipts as international travel restrictions remained.

The primary income account registered a lower deficit of RM7.1 billion (3Q 2020: -RM9.2 billion). This mainly reflected the higher income accrued to Malaysians investing abroad.

The secondary income account turned into a deficit of RM2.5 billion (3Q 2020: +RM7.1 billion) due to the absence of the transfers received last quarter as part of a settlement related to a wholly-owned subsidiary of the Minister of Finance (Incorporated).

## Financial account registered a smaller net outflow supported by FDI inflows and lower outflows in portfolio and other investments

Chart 15: Direct Investment by Sector



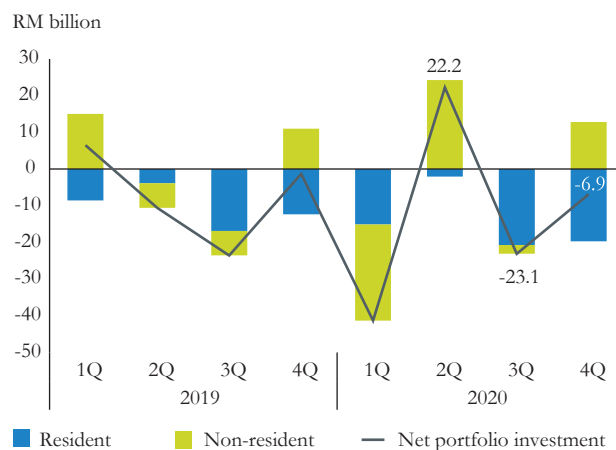
Note: For DIA, positive values refer to net outflows, while negative values refer to net inflows. Figures may not sum due to rounding.

Source: Department of Statistics Malaysia and Bank Negara Malaysia

The financial account recorded a smaller net outflow of RM10.8 billion (3Q 2020: -RM35.2 billion), reflecting mainly lower outflows in the portfolio investment and other investment accounts.

The direct investment account turned around to register a marginal net inflow of RM0.8 billion (3Q 2020: -RM3.1 billion) as foreign direct investment (FDI) registered a net inflow. Net FDI inflows, which amounted to RM6.1 billion (3Q 2020: -RM0.8 billion), were driven mainly by higher equity injections into Malaysia (RM4.4 billion; 3Q 2020: RM3.8 billion) as well as inflows from debt instruments (+RM3.5 billion; 3Q 2020: -RM9.4 billion). The inflows were primarily channelled into the services and manufacturing sectors. DIA recorded higher outflows of RM5.4 billion in the fourth quarter (3Q 2020: -RM2.2 billion). These investments abroad were channelled mainly into the services sector, notably the financial services and information and communication services sub-sectors.

Chart 16: Portfolio Investment



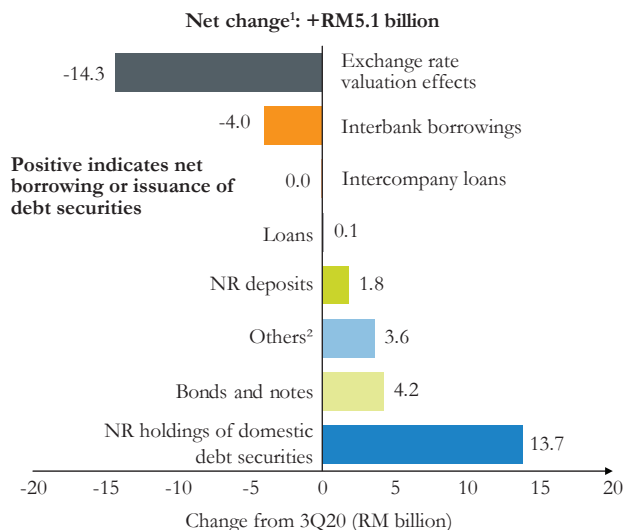
Source: Department of Statistics Malaysia and Bank Negara Malaysia

The portfolio investment account recorded a smaller net outflow of RM6.9 billion (3Q 2020: -RM23.1 billion) driven by net inflows of non-resident (NR) portfolio investments of RM12.8 billion (3Q 2020: -RM2.4 billion) amid continued residents' portfolio investments abroad of RM19.7 billion (3Q 2020: -RM20.7 billion). Residents' portfolio investments abroad were driven by institutional investors' acquisitions of equity securities. Net NR portfolio investment inflows reflected inflows into debt securities (+RM14.1 billion; 3Q 2020: +RM4.5 billion) particularly Government bonds. This more than offset the continued, albeit smaller, liquidation of domestic equity securities (-RM1.3 billion; 3Q 2020: -RM6.9 billion).

The other investment account registered a smaller net outflow of RM3.7 billion (3Q 2020: -RM8.5 billion). This was due primarily to lower repayment of interbank borrowings. Net errors and omissions amounted to -RM10.8 billion during the quarter, or -2.2% of total trade.

## External debt remained manageable

Chart 17: Changes in External Debt



<sup>1</sup> Changes in individual debt instruments exclude exchange rate valuation effects

<sup>2</sup> 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 and Bank Negara Malaysia

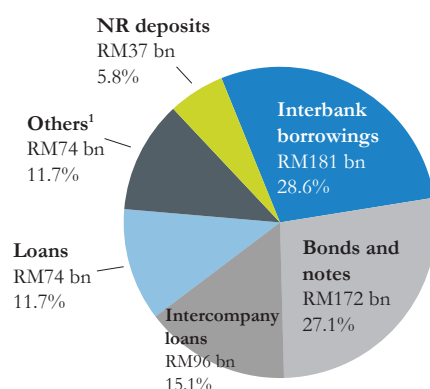
Malaysia's external debt amounted to RM958.5 billion, or 67.7% of GDP as at end-December 2020 (end-September 2020: RM953.3 billion or 66.5% of GDP). The increase was due mainly to an increase in NR holdings of Government domestic debt securities, and a net issuance of international bonds and notes by corporates. This was partly offset by exchange rate valuation effects following the stronger ringgit against selected major and regional foreign currencies in the fourth quarter of 2020.

The country's external debt remained manageable, given its favourable currency and maturity profiles. Ringgit-denominated external debt amounted to RM325 billion and accounted for 33.9% of total external debt (end-September 2020: 33.1%). It was largely in the form of NR holdings of domestic debt securities (67.7%

share of ringgit-denominated external debt) and ringgit deposits (17.7% 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 RM633.4 billion, or 66.1% of total external debt. 51.5% of FCY-denominated external debt were by the corporate sector, and are mainly subject to prudential and hedging requirements. 27.1% of total FCY-denominated external debt were long-term bonds and notes issued offshore, mainly by non-financial corporates and channelled primarily to finance asset acquisitions abroad. Intercompany loans, which accounted for 15.1% of FCY-denominated external debt, were generally on flexible and concessionary terms.

**Chart 18: Breakdown of FCY-Denominated External Debt (RM billion, % share)**



<sup>1</sup> 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 34.4% of FCY-denominated external debt. The decline in interbank borrowings during the quarter was largely driven by maturing back-to-back intragroup transactions by banks in the Labuan International Business and Financial Centre. This was partially offset by the increase in interbank borrowings by some domestic banking groups as a pre-emptive measure to accumulate additional liquidity buffers in anticipation of a potential tightening in domestic US dollar liquidity conditions towards the year end. Nonetheless, three-quarters of interbank borrowings were in the form of intragroup borrowings, which are generally more stable, thereby limiting rollover risks faced by banks. Meanwhile, foreign-currency risk, measured in terms of the net open

position of FCY-denominated exposures<sup>3</sup>, remained below its long-term average at 5.3% of banks' total capital (end-September 2020: 4.6%; 5-year average: 5.7%).

From a maturity perspective, a larger share of total external debt during the quarter was skewed towards medium- to long-term tenure (61.7%; end-September 2020: 61.2%). Short-term external debt accounted for the remaining 38.3% of external debt, where 42.3% were intragroup borrowings, which were generally stable and on concessionary terms. About another 13.6% were accounted by trade credits, largely backed by export earnings and are self-liquidating. As at 29 January 2021, international reserves stood at USD108.6 billion, sufficient to finance 8.6 months of retained imports, and is 1.2 times the short-term external debt.

<sup>3</sup> Refers to the aggregated sum of the net short or long foreign currency positions for all currencies across banks.

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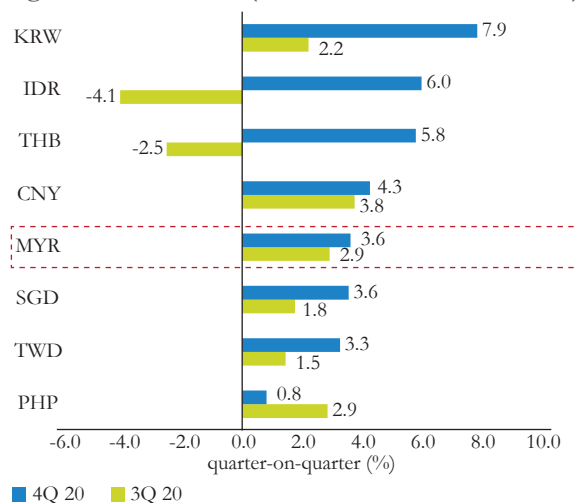
# Monetary and Financial Developments

## HIGHLIGHTS

- Ringgit strengthened amid improvements in both bond and equity markets.
- Interest rates remained stable during the quarter.
- Credit continued to expand to meet the financing needs of the economy.

## Improvement in domestic financial market conditions amid rising global risk appetite

Chart 19: Performance of Regional Currencies Against the US Dollar (1 October - 31 December 2020)

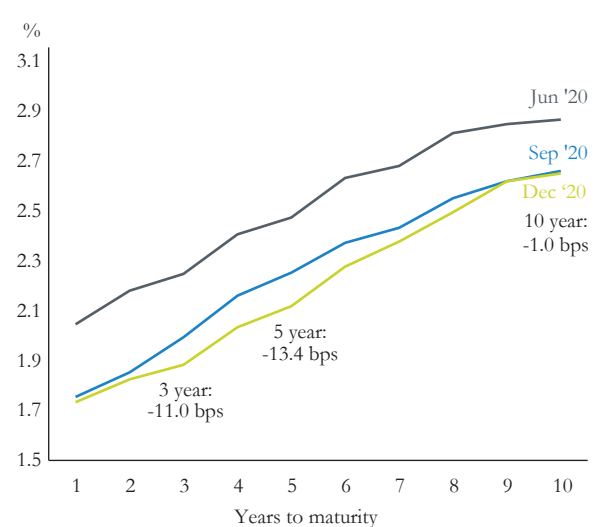


Source: Bank Negara Malaysia and Reuters

Conditions in the domestic financial markets improved in the fourth quarter of 2020, as positive global developments buoyed investor sentiments. Of significance, investor risk appetite improved during the quarter amid positive developments on the approval and deployment of COVID-19 vaccines and greater clarity on US policy direction following the outcome of the US presidential election.

As a result, the domestic financial markets experienced broad-based improvements across asset markets, in line

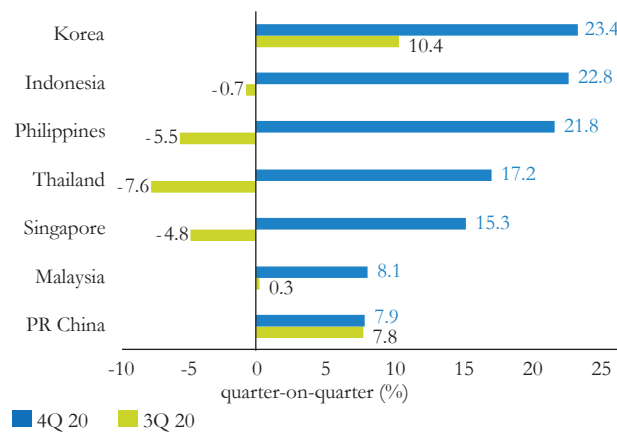
Chart 20: Trend in MGS Yields



Source: Bank Negara Malaysia

with the regional trend. In the fourth quarter of 2020, domestic financial markets experienced continued non-resident portfolio inflows, which led to an appreciation of the ringgit against the US dollar by 3.6% amid broad US dollar weakening. These inflows were mainly into the domestic bond market, which contributed to the decline of the 3-year, 5-year and 10-year MGS yields by 11.0, 13.4 and 1.0 basis points, respectively. While Fitch Ratings downgraded Malaysia's sovereign rating to BBB+ in December 2020, the impact to the domestic bond market from this downgrade was muted.

**Chart 21: Performance of Regional Equity Markets (1 October - 31 December 2020)**



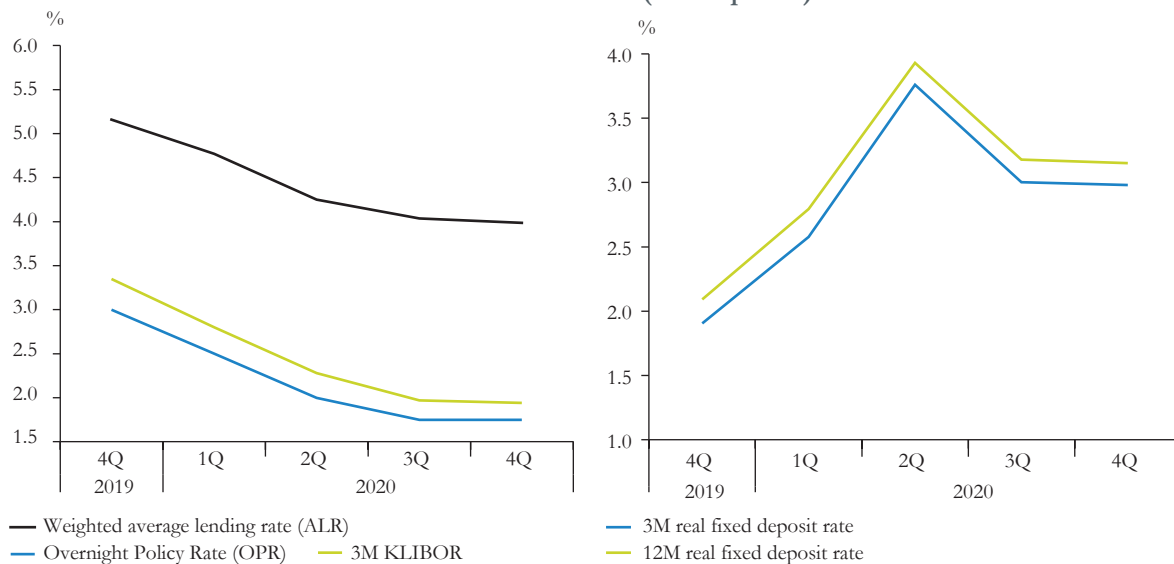
Source: Bloomberg

The domestic equity markets also trended higher during the quarter. Notably, the improved outlook for the global deployment of COVID-19 vaccines in 2021 more than offset financial market concerns on the impact from renewed containment measures to address rising COVID-19 infections globally.

This led to recoveries in equity prices of sectors which were more severely affected by the pandemic, as investors priced in expectations for an eventual normalisation of economic activities. As at end-December, the FBM KLCI increased by 8.1% to close at 1,627.2 points (end-September: 1,504.8 points).

### Interest rates remained stable during the quarter

**Chart 22: Interest Rates (at end-period)**



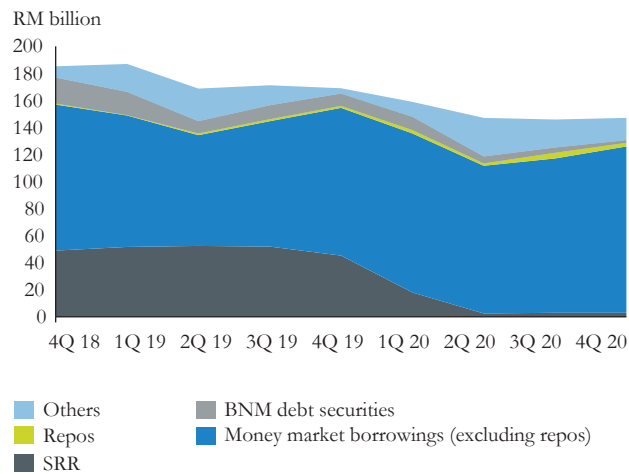
Source: Bank Negara Malaysia and Bloomberg

Nominal interest rates in the wholesale and retail markets were broadly stable throughout the quarter. The benchmark 3-month KLIBOR declined marginally by 3 basis points to 1.94% (3Q 2020: 1.97%). In the retail market, the weighted average base rate (BR) was unchanged at 2.43% (3Q 2020: 2.43%) while the weighted average lending rate (ALR) on outstanding loans decreased marginally to 3.99% (3Q 2020: 4.03%).

Real fixed deposit (FD) rates were also stable in the fourth quarter, given the steady headline inflation in December. In particular, the real 3-month and 12-month FD rates remained broadly unchanged at 3.00% (3Q 2020: 3.00%) and 3.20% (3Q 2020: 3.20%), respectively.

## Banking system liquidity remained sufficient to facilitate financial intermediation

Chart 23: Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia (at end-period)



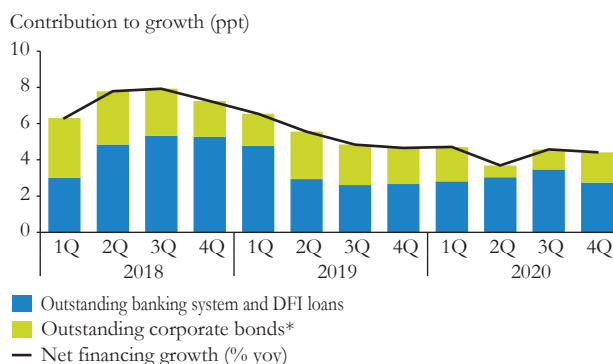
Source: Bank Negara Malaysia

Banking system liquidity remained sufficient at both the institutional and system-wide levels to facilitate financial intermediation activity. Reflecting the net inflows during the quarter, the level of surplus liquidity placed with the

Bank increased marginally by RM1.3 billion. At the institutional level, all banks maintained surplus liquidity positions with the Bank as at end-December 2020.

## Credit continued to expand to meet the financing needs of the economy

Chart 24: Contribution to Net Financing Growth



\*Excludes issuances by Cagamas and non-residents

Source: Bank Negara Malaysia

In fourth quarter of 2020, net financing expanded by 4.4% on an annual basis (3Q 2020: 4.6%), supported by the continued expansion of outstanding corporate bonds<sup>4</sup> and loans<sup>5</sup>. Outstanding corporate bond growth increased during the quarter (6.5%; 3Q 2020: 4.3%) due mainly to issuances from Government-related entities and financial institutions.

Total outstanding loans recorded 3.7% growth on an annual basis (3Q 2020: 4.7%), with outstanding business loans registering a modest growth (0.9%, 3Q 2020: 2.9%) due to two factors: First, there was a high base effect in the fourth quarter of 2019 due to the disbursement of an exceptionally large-value loan in the manufacturing sector<sup>6</sup>. Second, business loan repayments growth outpaced disbursements during the quarter. In level terms, both disbursements and

repayments increased mainly for loans for working capital purposes<sup>7</sup>. Business loan applications and approvals increased during the quarter, especially for the investment-related loans (Investment loan applications: 4Q 2020: RM36.9 bn; 3Q 2020: RM29.7 bn, Investment loan approvals: 4Q 2020: RM16.6 bn; 3Q 2020: RM12.1 bn).

Outstanding loans to households recorded annual growth of 5.4% (3Q 2020: 5.6%). Disbursements remained robust during the quarter (RM99.5 bn; 3Q 2020: RM99.1 bn), while repayments recovered to pre-crisis level across most loan purposes (RM94.6 bn, average 2019: RM91.8 bn). Demand for household loans remained forthcoming, mainly for the purchase of residential properties and passenger cars amid lower interest rates and economic stimulus measures.

<sup>4</sup> Excludes issuances by Cagamas and non-residents.

<sup>5</sup> Loans from the banking system and development financial institutions (DFIs).

<sup>6</sup> Without the base effect, growth in outstanding business loans would have been 1.6%.

<sup>7</sup> Classification of business loans by purpose is only available for the banking system, which makes up 92% of total outstanding loans extended to businesses.

# The Bank's Policy Considerations

## HIGHLIGHTS

- The MPC maintained the OPR at 1.75% at the January 2021 MPC meeting, as the MPC considered the stance of monetary policy to be appropriate and accommodative.
- The Bank extended the flexibility for banking institutions to use MGS and MGII to meet the SRR requirement until 31 December 2022.

## The OPR remains accommodative

At the November 2020 and January 2021 Monetary Policy Committee (MPC) meetings, the Overnight Policy Rate (OPR) was maintained at 1.75%.

The MPC assessed that the global economy continues to recover, despite the resurgence in COVID-19 cases and the subsequent containment measures affecting economic activity in several major economies. The expedited rollout of mass vaccination programmes, together with ongoing policy support, are expected to lift global growth prospects. The outlook remains subject to downside risks, mainly from further resurgence of COVID-19 infections and delays in mass inoculation.

For Malaysia, while near-term growth in 2021 will be affected by the re-introduction of stricter containment measures, the growth trajectory is projected to improve from the second quarter onwards. The improvement will be driven by the recovery in global demand, turnaround in public and private sector expenditure amid continued support from policy measures, and higher production from existing and new manufacturing and mining facilities. The rollout of vaccines in the coming months

will also lift sentiments. Downside risks to the outlook stem mainly from ongoing uncertainties surrounding the dynamics of the pandemic and potential challenges that might affect the rollout of vaccines both globally and domestically.

Headline inflation in 2021 is projected to average higher, primarily due to higher global oil prices. Underlying inflation is expected to remain subdued amid continued spare capacity in the economy. The outlook, however, is subject to global oil and commodity price developments.

The MPC considers the stance of monetary policy to be appropriate and accommodative. The cumulative 125 basis points reduction in the OPR last year will continue to provide stimulus to the economy. Given the uncertainties surrounding the pandemic, the stance of monetary policy going forward 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 create enabling conditions for a sustainable economic recovery.

## **The Bank extended the flexibility for banking institutions to use MGS and MGII to meet the SRR requirement**

On 20 January 2021, The Bank announced the extension of the flexibility for banking institutions to use Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII) to meet the Statutory Reserve Requirement (SRR) requirement until 31 December 2022. This flexibility, which was previously announced on 5 May 2020, will expire after 31 May 2021. The Statutory Reserve Requirement (SRR) ratio remains unchanged at 2.00%.

The decision to extend this flexibility is part of Bank Negara Malaysia's continuous efforts to ensure sufficient

liquidity to support financial intermediation activity. Since March 2020, the reduction in the SRR ratio by 100 basis points and flexibility to recognise MGS and MGII as part of SRR compliance have released approximately RM46 billion worth of liquidity into the banking system.

The SRR is an instrument to manage liquidity and is not a signal on the stance of monetary policy. The OPR is the sole indicator used to signal the stance of monetary policy, and is announced through the Monetary Policy Statement released after the MPC meeting.

# Macroeconomic Outlook

## HIGHLIGHTS

- Global growth to improve in 2021, but subject to downside risks.
- The Malaysian economy to recover in 2021.
- Headline inflation is projected to be higher in 2021, while core inflation would remain subdued.

### Cautious optimism going into 2021

At the January World Economic Outlook update, the IMF revised its projection of global growth in 2020 to -3.5% (October projection: -4.4%). This upward revision was primarily due to better-than-expected growth outturns in the third quarter of 2020 across both advanced and emerging market economies.

For 2021, the IMF projects the global economy to grow by 5.5% (October projection: 5.2%). The outlook is underpinned by the 'vaccine-virus race', that is,

the interplay between the ongoing rollout of mass inoculation against COVID-19 and the resurgence in cases. The vaccine is expected to facilitate the eventual resumption of economic activity. However, in the near term, resurgences may still necessitate the reintroduction of containment measures. Consequently, a key downside risk is a re-escalation of the pandemic before coverage rates required for population immunity are reached, particularly if there are delays in the production and distribution of vaccines.

### The Malaysian economy to recover supported by better external demand and the 2021 Budget measures

For Malaysia, the momentum in economic recovery was affected by the resurgence in COVID-19 cases and the introduction of targeted containment measures in several states in the fourth quarter. While there were minimal restrictions on production capacity, the movement restrictions implemented in selected states partly affected domestic demand during the quarter.

For 2021, while near-term growth will be affected by the re-introduction of stricter containment measures, the impact, however, will be less severe than that experienced in 2020. The growth trajectory is projected to improve from the second quarter onwards. The

improvement will be driven by the recovery in global demand, turnaround in public and private sector expenditure amid continued support from policy measures including PENJANA, KITA PRIHATIN, 2021 Budget and PERMAI, and higher production from existing and new facilities in the manufacturing and mining sectors. The vaccine rollout from February onwards is also expected to lift sentiments.

The balance of risks remains tilted to the downside, stemming mainly from ongoing uncertainties surrounding the dynamics of the pandemic and potential challenges that might affect the rollout of vaccines both globally and domestically.

## **Headline inflation is projected to be higher in 2021, while core inflation would remain subdued**

In line with earlier assessments, the average headline inflation was negative at -1.2% in 2020 due mainly to the substantially lower global oil prices. For 2021, headline inflation is projected to average higher, primarily due to higher global oil prices. Underlying

inflation, as measured by core inflation, is expected to remain subdued amid continued spare capacity in the economy. The outlook, however, is subject to global oil and commodity price developments.

# Annex



Table 1

| GDP by Expenditure Components (at constant 2015 prices) |                      |                   |            |             |              |             |             |             |
|---|----------------------|-------------------|------------|-------------|--------------|-------------|-------------|-------------|
|   | Share<br>2020<br>(%) | 2019              |            | 2020        |              |             |             |             |
|   |                      | 4Q                | Year       | 1Q          | 2Q           | 3Q          | 4Q          | Year        |
|   |                      | Annual growth (%) |            |             |              |             |             |             |
| Aggregate Domestic Demand (excluding stocks)            | 93.9                 | 4.8               | 4.3        | 3.7         | -18.7        | -3.3        | -4.4        | -5.7        |
| Private sector  | 75.2                 | 7.4               | 6.2        | 4.7         | -20.5        | -3.6        | -4.1        | -6.0        |
| <i>Consumption</i>                                      | 59.5                 | 8.1               | 7.6        | 6.7         | -18.5        | -2.1        | -3.4        | -4.3        |
| <i>Investment</i>                                       | 15.7                 | 4.3               | 1.6        | -2.3        | -26.4        | -9.3        | -7.0        | -11.9       |
| Public sector   | 18.7                 | -2.3              | -2.8       | -0.6        | -10.6        | -1.6        | -5.4        | -4.6        |
| <i>Consumption</i>                                      | 13.4                 | 1.3               | 2.0        | 5.0         | 2.3          | 6.9         | 2.7         | 4.1         |
| <i>Investment</i>                                       | 5.2                  | -8.0              | -10.8      | -11.3       | -38.7        | -18.6       | -19.8       | -21.4       |
| Net Exports   | 6.5                  | -12.4             | 9.7        | -37.0       | -38.6        | 21.9        | 12.4        | -12.3       |
| <i>Exports of Goods and Services</i>                    | 61.6                 | -3.4              | -1.3       | -7.1        | -21.7        | -4.7        | -1.8        | -8.8        |
| <i>Imports of Goods and Services</i>                    | 55.1                 | -2.4              | -2.5       | -2.5        | -19.7        | -7.8        | -3.3        | -8.3        |
| <b>Real GDP</b>   | <b>100.0</b>         | <b>3.6</b>        | <b>4.3</b> | <b>0.7</b>  | <b>-17.1</b> | <b>-2.6</b> | <b>-3.4</b> | <b>-5.6</b> |
| <b>GDP (q-o-q growth, seasonally adjusted)</b>          | <b>-</b>             | <b>0.6</b>        | <b>-</b>   | <b>-2.0</b> | <b>-16.5</b> | <b>18.2</b> | <b>-0.3</b> | <b>-</b>    |

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

Source: Department of Statistics, Malaysia

Table 2

| GDP by Economic Activity (at constant 2015 prices) |                      |                   |            |            |              |             |             |             |
|--|----------------------|-------------------|------------|------------|--------------|-------------|-------------|-------------|
|  | Share<br>2020<br>(%) | 2019              |            | 2020       |              |             |             |             |
|  |                      | 4Q                | Year       | 1Q         | 2Q           | 3Q          | 4Q          | Year        |
|  |                      | Annual growth (%) |            |            |              |             |             |             |
| Services   | 57.7                 | 6.2               | 6.1        | 3.1        | -16.2        | -4.0        | -4.9        | -5.5        |
| Manufacturing                                      | 23.0                 | 3.0               | 3.8        | 1.5        | -18.3        | 3.3         | 3.0         | -2.6        |
| Agriculture  | 7.4                  | -5.7              | 2.0        | -8.7       | 1.0          | -0.5        | -0.7        | -2.2        |
| Mining   | 6.8                  | -3.4              | -2.0       | -2.0       | -20.0        | -6.8        | -10.6       | -10.0       |
| Construction                                       | 4.0                  | 1.0               | 0.1        | -7.9       | -44.5        | -12.4       | -13.9       | -19.4       |
| <b>Real GDP</b>                                    | <b>100.0</b>         | <b>3.6</b>        | <b>4.3</b> | <b>0.7</b> | <b>-17.1</b> | <b>-2.6</b> | <b>-3.4</b> | <b>-5.6</b> |

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

Source: Department of Statistics, Malaysia

Table 3

| <b>Balance of Payments<sup>1</sup></b> |                   |              |              |              |              |
|--|-------------------|--------------|--------------|--------------|--------------|
|  | <b>2019</b>       |              | <b>2020</b>  |              |              |
|  | <b>4Q</b>         | <b>Year</b>  | <b>3Q</b>    | <b>4Q</b>    | <b>Year</b>  |
|  | <b>RM billion</b> |              |              |              |              |
| <b>Current Account</b>                 | <b>7.5</b>        | <b>50.9</b>  | <b>26.1</b>  | <b>19.0</b>  | <b>62.1</b>  |
| (% of GDP)                             | 1.9               | 3.4          | 7.1          | 5.0          | 4.4          |
| Goods                                  | 32.3              | 123.3        | 41.5         | 42.9         | 139.1        |
| Services                               | -4.0              | -10.9        | -13.3        | -14.2        | -48.0        |
| Primary income                         | -15.2             | -40.3        | -9.2         | -7.1         | -26.2        |
| Secondary income                       | -5.5              | -21.3        | 7.1          | -2.5         | -2.8         |
| <b>Financial Account</b>               | <b>-0.1</b>       | <b>-33.8</b> | <b>-35.2</b> | <b>-10.8</b> | <b>-79.1</b> |
| Direct investment                      | 4.4               | 5.6          | -3.1         | 0.8          | -0.2         |
| Assets                                 | -5.6              | -31.9        | -9.4         | -4.7         | -17.3        |
| Liabilities                            | 10.0              | 37.5         | 6.3          | 5.4          | 17.1         |
| Portfolio investment                   | -1.3              | -29.0        | -23.1        | -6.9         | -49.1        |
| Assets                                 | -12.4             | -41.7        | -20.7        | -19.7        | -57.6        |
| Liabilities                            | 11.0              | 12.6         | -2.4         | 12.8         | 8.5          |
| Financial derivatives                  | -0.6              | -0.5         | -0.5         | -0.9         | 1.6          |
| Other investment                       | -2.5              | -9.9         | -8.5         | -3.7         | -31.4        |
| Net errors & omissions <sup>2</sup>    | -9.9              | -9.0         | 7.7          | -10.8        | -2.0         |
| <b>Overall Balance</b>                 | <b>-2.2</b>       | <b>8.4</b>   | <b>-1.6</b>  | <b>-2.7</b>  | <b>-19.4</b> |

Assets: (-) denotes outflows due to the acquisition of assets abroad by residents.

Liabilities: (+) denotes inflows due to the incurrence of foreign liabilities.

<sup>1</sup> In accordance with the Sixth Edition of the Balance of Payments and International Investment Position Manual (BPM6) by the International Monetary Fund (IMF).

<sup>2</sup> 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

Table 4

| <b>Outstanding External Debt</b>                  |                   |                 |                  |
|---|-------------------|-----------------|------------------|
|   | <b>2019</b>       | <b>2020</b>     |                  |
|   | <b>end-Dec</b>    | <b>end-Sept</b> | <b>end-Dec</b>   |
|   | <b>RM billion</b> |                 |                  |
| <b>Total External Debt</b>                        | <b>945.4</b>      | <b>953.3</b>    | <b>958.5</b>     |
| <i>USD billion equivalent</i>                     | <i>228.3</i>      | <i>227.0</i>    | <i>235.6</i>     |
| <b>By instrument</b>                              |                   |                 |                  |
| Bonds and notes <sup>1</sup>                      | 155.9             | 173.4           | 173.0            |
| Interbank borrowings <sup>1</sup>                 | 199.5             | 190.2           | 182.1            |
| Intercompany loans <sup>1</sup>                   | 126.9             | 130.6           | 128.6            |
| Loans <sup>1</sup>                                | 78.4              | 77.6            | 76.6             |
| Non-resident holdings of domestic debt securities | 201.0             | 206.4           | 220.1            |
| Non-resident deposits                             | 102.9             | 93.5            | 94.5             |
| Others <sup>2</sup>                               | 80.8              | 81.7            | 83.6             |
| <b>Maturity profile</b>                           |                   |                 |                  |
| Medium- and long-term                             | 554.2             | 583.2           | 591.0            |
| Short-term  | 391.2             | 370.1           | 367.5            |
| <b>Currency denomination</b>                      |                   |                 |                  |
| Ringgit   | 310.4             | 315.4           | 325.0            |
| Foreign   | 635.1             | 638.0           | 633.4            |
| Total debt / GDP (%)                              | 62.6              | 66.5            | 67.7             |
| Short-term debt / Total debt (%)                  | 41.4              | 38.8            | 38.3             |
| Reserves / Short-term debt (times)                | 1.1               | 1.2             | 1.2 <sup>3</sup> |

<sup>1</sup> These debt instruments constitute the offshore borrowings.

<sup>2</sup> Comprise trade credits, IMF allocation of SDRs and miscellaneous.

<sup>3</sup> Based on international reserves as at 29 January 2021.

Note: Figures may not add up due to rounding

Source: Ministry of Finance Malaysia and Bank Negara Malaysia

Table 5

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

|                              | 2019                                  |              | 2020        |             |              | 2019              |            | 2020       |            |            |
|------------------------------|---------------------------------------|--------------|-------------|-------------|--------------|-------------------|------------|------------|------------|------------|
|                              | 4Q                                    | Year         | 3Q          | 4Q          | Year         | 4Q                | Year       | 3Q         | 4Q         | Year       |
|                              | Change during the period (RM billion) |              |             |             |              | Annual growth (%) |            |            |            |            |
| <b>Total net financing</b>   | <b>27.0</b>                           | <b>114.4</b> | <b>42.4</b> | <b>24.0</b> | <b>113.5</b> | <b>4.7</b>        | <b>4.7</b> | <b>4.6</b> | <b>4.4</b> | <b>4.4</b> |
| Outstanding:                 |                                       |              |             |             |              |                   |            |            |            |            |
| Loans <sup>1,2</sup>         | 25.4                                  | 65.5         | 30.4        | 7.6         | 70.6         | 3.5               | 3.5        | 4.7        | 3.7        | 3.7        |
| Business enterprises         | 9.4                                   | 15.5         | -3.7        | -4.0        | 6.0          | 2.4               | 2.4        | 2.9        | 0.9        | 0.9        |
| SMEs <sup>3</sup>            | -21.0                                 | -41.8        | 12.5        | 1.0         | 26.7         | -13.1             | -13.1      | 1.6        | 9.6        | 9.6        |
| Non-SMEs                     | 30.4                                  | 57.3         | -16.2       | -5.0        | -20.8        | 16.9              | 16.9       | 4.0        | -5.2       | -5.2       |
| Households                   | 15.9                                  | 50.5         | 33.9        | 14.4        | 60.3         | 4.7               | 4.7        | 5.6        | 5.4        | 5.4        |
| Corporate bonds <sup>4</sup> | 1.6                                   | 48.9         | 12.0        | 16.4        | 42.9         | 8.0               | 8.0        | 4.3        | 6.5        | 6.5        |

<sup>1</sup> Loans from the banking system and development financial institutions (DFIs).

<sup>2</sup> Includes loans sold to Cagamas.

<sup>3</sup> 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.

<sup>4</sup> Excludes issuances by Cagamas and non-residents.

Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Table 6

| <b>Loan Indicators</b>                  |                                       |             |             |           |             |                          |             |             |           |             |
|---|---------------------------------------|-------------|-------------|-----------|-------------|--------------------------|-------------|-------------|-----------|-------------|
|   | <b>2019</b>                           |             | <b>2020</b> |           |             | <b>2019</b>              |             | <b>2020</b> |           |             |
|   | <b>4Q</b>                             | <b>Year</b> | <b>3Q</b>   | <b>4Q</b> | <b>Year</b> | <b>4Q</b>                | <b>Year</b> | <b>3Q</b>   | <b>4Q</b> | <b>Year</b> |
|   | <b>During the period (RM billion)</b> |             |             |           |             | <b>Annual growth (%)</b> |             |             |           |             |
| <b>Total</b>                            |                                       |             |             |           |             |                          |             |             |           |             |
| Loan applications <sup>1</sup>          | 225.6                                 | 878.6       | 234.3       | 224.3     | 823.8       | 11.1                     | 1.1         | 1.9         | -0.5      | -6.2        |
| Loan approvals <sup>1</sup>             | 103.3                                 | 410.3       | 98.0        | 102.0     | 353.5       | -1.5                     | 2.1         | -7.9        | -1.2      | -13.8       |
| Loan disbursements <sup>2</sup>         | 334.8                                 | 1280.7      | 306.6       | 333.9     | 1220.6      | -2.8                     | 1.2         | -3.5        | -0.3      | -4.7        |
| Loan repayments <sup>2</sup>            | 324.0                                 | 1275.2      | 286.1       | 332.8     | 1194.0      | -3.8                     | 2.3         | -9.1        | 2.7       | -6.4        |
| <b>Of which:</b>                        |                                       |             |             |           |             |                          |             |             |           |             |
| <b>Business enterprises<sup>3</sup></b> |                                       |             |             |           |             |                          |             |             |           |             |
| Loan applications                       | 106.4                                 | 401.7       | 83.4        | 82.8      | 355.2       | 20.1                     | 3.8         | -21.7       | -22.2     | -11.6       |
| Loan approvals                          | 49.7                                  | 191.8       | 38.3        | 42.4      | 164.0       | -4.4                     | 1.7         | -21.2       | -14.6     | -14.5       |
| Loan disbursements                      | 236.6                                 | 905.1       | 207.5       | 234.4     | 875.1       | -5.9                     | -0.1        | -7.4        | -0.9      | -3.3        |
| Loan repayments                         | 231.1                                 | 908.0       | 209.9       | 238.2     | 869.2       | -6.9                     | 1.3         | -6.4        | 3.1       | -4.3        |
| <b>SMEs<sup>4</sup></b>                 |                                       |             |             |           |             |                          |             |             |           |             |
| Loan applications                       | 51.0                                  | 195.4       | 42.1        | 43.7      | 181.0       | 16.7                     | 6.1         | -18.8       | -14.3     | -7.4        |
| Loan approvals                          | 17.9                                  | 67.4        | 15.0        | 17.8      | 61.9        | 9.2                      | 2.0         | -13.6       | -0.6      | -8.1        |
| Loan disbursements                      | 71.0                                  | 295.8       | 63.7        | 73.3      | 256.8       | -12.4                    | -4.0        | -12.5       | 3.2       | -13.2       |
| Loan repayments                         | 74.5                                  | 302.6       | 55.3        | 71.8      | 244.0       | -6.3                     | -0.8        | -26.1       | -3.7      | -19.3       |
| <b>Non-SMEs<sup>3</sup></b>             |                                       |             |             |           |             |                          |             |             |           |             |
| Loan applications                       | 55.4                                  | 206.3       | 41.4        | 39.0      | 174.2       | 23.4                     | 1.7         | -24.4       | -29.5     | -15.6       |
| Loan approvals                          | 31.8                                  | 124.4       | 23.3        | 24.6      | 102.0       | -10.6                    | 1.6         | -25.4       | -22.5     | -18.0       |
| Loan disbursements                      | 165.6                                 | 609.2       | 143.8       | 161.2     | 618.3       | -2.8                     | 1.8         | -5.0        | -2.7      | 1.5         |
| Loan repayments                         | 156.6                                 | 605.5       | 154.7       | 166.4     | 625.1       | -7.1                     | 2.3         | 3.5         | 6.3       | 3.3         |
| <b>Households</b>                       |                                       |             |             |           |             |                          |             |             |           |             |
| Loan applications                       | 119.2                                 | 476.9       | 150.9       | 141.6     | 468.6       | 4.2                      | -1.1        | 22.2        | 18.8      | -1.7        |
| Loan approvals                          | 53.6                                  | 218.5       | 59.7        | 59.6      | 189.6       | 1.3                      | 2.4         | 3.3         | 11.2      | -13.3       |
| Loan disbursements                      | 98.2                                  | 375.7       | 99.1        | 99.5      | 345.5       | 5.7                      | 4.6         | 5.9         | 1.3       | -8.0        |
| Loan repayments                         | 92.9                                  | 367.2       | 76.1        | 94.6      | 324.9       | 4.9                      | 5.1         | -16.0       | 1.8       | -11.5       |

<sup>1</sup> Loan applications and approvals for all segments include data from the banking system only.

<sup>2</sup> 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.

<sup>3</sup> Includes domestic non-bank financial institutions, domestic financial institutions, government, domestic other entities and foreign entities.

<sup>4</sup> 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

Table 7

## Banking System Profitability Indicators

|  | 2019                     |               |               |               | 2020         |              |              |                       |
|--|--------------------------|---------------|---------------|---------------|--------------|--------------|--------------|-----------------------|
|  | 1Q                       | 2Q            | 3Q            | 4Q            | 1Q           | 2Q           | 3Q           | 4Q <sup>p</sup>       |
| Return on equity (%)                               | 11.5                     | 13.0          | 12.9          | 13.0          | 10.4         | 10.0         | 9.8          | 9.2                   |
| Return on assets (%)                               | 1.3                      | 1.5           | 1.5           | 1.5           | 1.2          | 1.2          | 1.1          | 1.1                   |
|  | <b>RM million</b>        |               |               |               |              |              |              |                       |
| Net interest income                                | 12,438                   | 12,009        | 12,701        | 13,113        | 12,696       | 10,060       | 13,516       | 13,899                |
| Add: Fee-based income                              | 2,548                    | 2,619         | 2,670         | 3,233         | 2,583        | 2,308        | 2,851        | 3,153                 |
| Less: Operating cost <sup>1</sup>                  | 8,385                    | 8,421         | 8,626         | 9,146         | 8,607        | 8,189        | 8,460        | 8,765                 |
| Gross operating profit                             | 6,601                    | 6,206         | 6,745         | 7,200         | 6,672        | 4,178        | 7,906        | 8,287                 |
| Less: Impairment <sup>2</sup> and other provisions | 164                      | 322           | 820           | 38            | 2,765        | 2,368        | 3,307        | 5,875                 |
| Gross operating profit after provision             | 6,437                    | 5,884         | 5,925         | 7,163         | 3,906        | 1,811        | 4,599        | 2,412                 |
| Add: Other income                                  | 2,548                    | 5,506         | 4,302         | 3,694         | 4,643        | 6,242        | 3,602        | 3,941                 |
| <b>Pre-tax profit</b>                              | <b>8,985</b>             | <b>11,390</b> | <b>10,227</b> | <b>10,856</b> | <b>8,550</b> | <b>8,052</b> | <b>8,201</b> | <b>6,353</b>          |
|  | <b>Annual growth (%)</b> |               |               |               |              |              |              |                       |
| Return on equity (percentage points)               | -0.8                     | -0.3          | 0.2           | 0.3           | -1.1         | -3.0         | -3.1         | -3.8                  |
| Return on assets (percentage points)               | -0.08                    | -0.01         | 0.04          | 0.06          | -0.12        | -0.32        | -0.33        | -0.41                 |
| Net interest income                                | 3.3                      | -2.3          | 1.7           | 2.6           | 2.1          | -16.2        | 6.4          | 6.0                   |
| Add: Fee-based income                              | -2.2                     | 4.0           | 7.9           | 29.4          | 1.3          | -11.9        | 6.8          | -2.5                  |
| Less: Operating Cost <sup>1</sup>                  | 3.5                      | 6.3           | 10.3          | 9.8           | 2.7          | -2.8         | -1.9         | -4.2                  |
| Gross operating profit                             | 0.8                      | -9.9          | -5.5          | 3.5           | 1.1          | -32.7        | 17.2         | 15.1                  |
| Less: Impairment <sup>2</sup> and other provisions | -75.9                    | -30.9         | 18.5          | -94.9         | 1,584.8      | 634.9        | 303.3        | 15,482.9 <sup>3</sup> |
| Gross operating profit after provision             | 9.7                      | -8.3          | -8.1          | 15.2          | -39.3        | -69.2        | -22.4        | -66.3                 |
| Add: Other income                                  | -16.4                    | 35.2          | 92.0          | 9.7           | 82.2         | 13.4         | -16.3        | 6.7                   |
| <b>Pre-tax profit</b>                              | <b>0.8</b>               | <b>8.6</b>    | <b>17.7</b>   | <b>13.3</b>   | <b>-4.8</b>  | <b>-29.3</b> | <b>-19.8</b> | <b>-14.5</b>          |

<sup>1</sup> Refers to staff costs and overheads.

<sup>2</sup> 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).

<sup>3</sup> 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 Statistical Bulletin.

<sup>p</sup> Preliminary

Source: Bank Negara Malaysia

Table 8

**Insurance and Takaful Sector Profitability Indicators**

|  | 2019                     |       |       |       | 2020    |        |       |                 |
|--|--------------------------|-------|-------|-------|---------|--------|-------|-----------------|
|  | 1Q                       | 2Q    | 3Q    | 4Q    | 1Q      | 2Q     | 3Q    | 4Q <sup>p</sup> |
|  | <b>RM million</b>        |       |       |       |         |        |       |                 |
| <b>Life Insurance &amp; Family Takaful</b>     |                          |       |       |       |         |        |       |                 |
| Excess income over outgo                       | 8,561                    | 7,947 | 3,795 | 3,859 | -11,617 | 16,360 | 8,022 | 8,764           |
| <b>General Insurance &amp; General Takaful</b> |                          |       |       |       |         |        |       |                 |
| Operating profit                               | 716                      | 677   | 785   | 730   | 545     | 1,154  | 764   | 891             |
| Claims ratio (%)                               | 57                       | 62    | 59    | 59    | 59      | 52     | 56    | 53              |
|  | <b>Annual growth (%)</b> |       |       |       |         |        |       |                 |
| <b>Life Insurance &amp; Family Takaful</b>     |                          |       |       |       |         |        |       |                 |
| Excess income over outgo                       | 109.0                    | 750.6 | -50.1 | 481.9 | -235.7  | 105.9  | 111.4 | 127.1           |
| <b>General Insurance &amp; General Takaful</b> |                          |       |       |       |         |        |       |                 |
| Operating profit                               | 27.5                     | -10.8 | -35.0 | 53.2  | -23.8   | 70.4   | -2.7  | 22.1            |
| Claims ratio (percentage points)               | -0.1                     | 3.0   | 1.1   | 0.7   | 2.5     | -9.5   | -3.4  | -5.6            |

<sup>p</sup> Preliminary

Source: Bank Negara Malaysia

Table 9

| Federal Government Finance <sup>1</sup>             |              |              |                   |             |              |
|---|--------------|--------------|-------------------|-------------|--------------|
|   | 2019         |              | 2020 <sup>p</sup> |             |              |
|   | 4Q           | Year         | 3Q <sup>2</sup>   | 4Q          | Year         |
|   | RM billion   |              |                   |             |              |
| Revenue   | 69.9         | 264.4        | 46.4              | 76.9        | 225.1        |
| <i>Annual growth (%)</i>                            | 4.0          | 13.5         | -32.5             | 10.1        | -14.9        |
| Operating expenditure                               | 69.8         | 263.3        | 56.3              | 54.9        | 224.6        |
| <i>Annual growth (%)</i>                            | 20.1         | 14.0         | -18.1             | -21.4       | -14.7        |
| <b>Current account</b>                              | <b>0.1</b>   | <b>1.1</b>   | <b>-9.9</b>       | <b>22.0</b> | <b>0.5</b>   |
| Net development expenditure                         | 19.6         | 52.6         | 12.1              | 20.2        | 50.1         |
| <i>Annual growth (%)</i>                            | -30.1        | -4.9         | 26.6              | 3.0         | -4.7         |
| COVID-19 Fund <sup>3</sup>                          | -            | -            | 5.5               | 9.3         | 38.0         |
| <b>Overall balance</b>                              | <b>-19.5</b> | <b>-51.5</b> | <b>-27.6</b>      | <b>-7.4</b> | <b>-87.6</b> |
| <b>Memo:</b>  |              |              |                   |             |              |
| Total net expenditure                               | 89.4         | 315.9        | 74.0              | 84.3        | 312.7        |
| <i>Annual growth (%)</i>                            | 3.8          | 10.4         | -5.6              | -5.7        | -1.0         |
| Total Federal Government debt (as at end-period)    | 793.0        | 793.0        | 874.3             | 879.6       | 879.6        |
| Domestic Debt                                       | 585.3        | 585.3        | 659.0             | 649.8       | 649.8        |
| External Debt                                       | 207.7        | 207.7        | 215.3             | 229.8       | 229.8        |
| <i>Non-resident holdings of RM-denominated debt</i> | 183.7        | 183.7        | 190.9             | 206.1       | 206.1        |
| <i>Offshore borrowing</i>                           | 24.0         | 24.0         | 24.4              | 23.7        | 23.7         |

<sup>p</sup> Preliminary

Note:

<sup>1</sup> Numbers may not add up due to rounding.

<sup>2</sup> These figures have been revised to exclude allocations under the COVID-19 Fund, which were previously subsumed under operating expenditure and development expenditure on a temporary basis.

<sup>3</sup> 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