

Foreword

Economic developments in 2020 have taken a dramatic turn. Initially projected as a year of modest recovery, the expected stabilisation in the global economy was interrupted by the sudden outbreak of COVID-19, which has since developed into a global health crisis. While some countries have seen an abatement of cases, the pandemic is escalating elsewhere and has spread to more than 100 countries.

In response, national authorities across the world have taken unprecedented measures to contain this pandemic. These include inbound and outbound travel restrictions, bans on large social gatherings, shutdowns of non-essential services, enforced business closures and most restrictively, blanket quarantine orders on all segments of the population. While these “social distancing” measures are crucial for public health, they have triggered concurrent supply and demand shocks. Latest indicators suggest that the pace of economic activities in many countries is contracting sharply, and growth prospects for both advanced and emerging market economies are deteriorating. This in turn has led to heightened turbulence in global financial markets, further amplified by uncertainty in the global oil market.

Recognising these exceptional circumstances, governments and central banks have introduced significant fiscal and monetary interventions. These expansionary measures are crucial to cushion the impact of the contraction in economic activity, and to preserve income and employment as much as possible. Effective containment efforts and policy support will contribute towards ensuring the economic shock of the pandemic is temporary, such that global economic activity can resume once the health crisis is contained.

Malaysia has not been spared. While relevant authorities and frontliners are doing their best to mitigate the spread of the virus, the economic impact is already being deeply felt by households and businesses alike. Spillovers from the pandemic and the implementation of the Movement Control Order to contain its spread will result in large output losses for the Malaysian economy in 2020. Significant policy intervention to support individuals, households and businesses is needed to prevent what should be a transitory economic disruption from becoming permanent. Such support should aim to avert large-scale business failures that could result in a more lasting impact to the economy, even after the health crisis has receded.

It is for this reason that the Government and the Bank have responded swiftly through a combination of monetary, financial and fiscal measures. The Government has introduced two major economic stimulus packages. These aim to support household income and safeguard jobs, notably through programmes such as the *Bantuan Prihatin Nasional* cash transfers and wage subsidy scheme for SMEs to retain workers. For the business community, measures such as a dedicated loan guarantee facility, lower utility costs and income tax deferrals will help reduce expenses and ease the cashflow of affected SMEs and corporations.

On our part, the Bank has taken steps to ensure that monetary and liquidity conditions remain supportive of economic activity. The Monetary Policy Committee lowered the Overnight Policy Rate (OPR) in January and March this year, by a total of 50 basis points. In addition, the Statutory Reserve Requirement (SRR) ratio was lowered by 100 basis points, with allowance provided for Government securities to be recognised for SRR compliance. These combined SRR measures will release approximately RM30 billion worth of liquidity into the banking system. A 6-month moratorium has also been extended for loan and financing payments. Alongside this, the Bank has provided temporary supervisory and regulatory flexibilities and special funds in order to support efforts by banking institutions to assist individuals, SMEs and corporations through this period. Relief measures have also been made available to affected policyholders and takaful participants, while iTEKAD was introduced as a social finance initiative to facilitate access to funding among B40 micro-entrepreneurs.

Amid these developments, the baseline projection is for Malaysia's economic growth to be within -2.0 to 0.5% in 2020, on expectations of a synchronised slowdown in both external and domestic demand. The growth outlook remains subject to significant uncertainty as developments surrounding the spread of the virus continue to evolve.

As we look into the future, it is important to maintain a sense of perspective. While our current circumstances seem grim, the Malaysian economy retains a degree of resilience. Our diversified sources of growth and external trade structure help to mitigate the economic impact of domestic and external developments. Continued surpluses in the current account, adequate levels of international reserves, and a flexible exchange rate also accord some buffer against external shocks. The financial sector remains a source of strength, giving assurance that financial intermediation will carry on uninterrupted.

As this situation progresses, we will remain vigilant of developments in the financial system and the wider economy. Should the need arise, the Bank can utilise its policy levers as appropriate to cushion the impact of the economic downturn. Monetary policy considerations remain guided by the evolving downside risks to growth amid price stability. The Bank's monetary operations will ensure liquidity conditions remain sufficient for uninterrupted financial intermediation, and financing continues to be available to support households and viable businesses through the health crisis and future economic recovery. Given the heightened uncertainty on global and domestic growth prospects, financial market volatility is also expected to remain high. In this environment, the Bank will continue to facilitate the efficient and orderly functioning of the domestic financial markets, and to manage excessive volatility in the financial markets and exchange rate.

The Bank has a range of policy instruments at our disposal to preserve monetary and financial stability, and ultimately support growth. These include monetary policy, macroprudential and microprudential policy, as well as our supervisory oversight over financial institutions. These policy instruments have served us well in the past and will continue to afford us the flexibility and agility we need to fulfil our mandates.

In steering the economy, complementarities between monetary, financial, fiscal, and structural policies are key to ensure policy responses are comprehensive and coordinated effectively. The Malaysian economy managed to recover quickly from past crises partly because these policies were implemented collectively in a timely manner. The various measures announced recently underscores the multi-pronged approach that will help the country endure and recover from the economic impact of COVID-19.

Beyond these near-term concerns, the Bank continues to be mindful of the path to recovery and will collaborate closely with the Government in matters of structural policies and reform. Despite the current difficulties, we will not lose sight of longer-term concerns such as the rising cost of living, persistent income inequality, and rejuvenating investments. All of these must continue to be addressed. In this publication, we present our views on securing future growth through quality investments, especially on the need to holistically reform the national investment ecosystem. The gravity of the current health crisis has also reinforced the need to continue to invest in our healthcare system.

Despite these testing times, I am pleased to introduce the Bank's inaugural Economic and Monetary Review (EMR). This flagship publication will communicate the Bank's economic assessments and research on important policy topics. Communication serves a crucial policy function, and this new publication will play an important role for us to articulate the issues at hand, trade-offs being considered, and outcomes we have in mind on matters of public policy. I trust that having a dedicated platform to weigh in on economic and monetary policy issues will go a long way towards enhancing public understanding, and ultimately, the efficacy of the policies we pursue.

It is my hope that, in the next EMR, we will be able to note that the global community has overcome this health crisis and report on how Malaysia has weathered the storm. For now, difficult choices must be made for our nation to come out stronger on the other side. We will all need to persevere and come together for the sake of our collective future. We have done this before, and I do not doubt that we can do it again. On our part, the Bank will remain steadfast in discharging our mandates through this challenging and unpredictable time.



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