



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

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

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Contents

PG 5	Key Highlights
PG 7	International Economic Environment
PG 11	Developments in the Malaysian Economy
PG 27	Monetary and Financial Developments
PG 33	The Bank's Policy Considerations
PG 37	Macroeconomic Outlook
PG 39	Annex

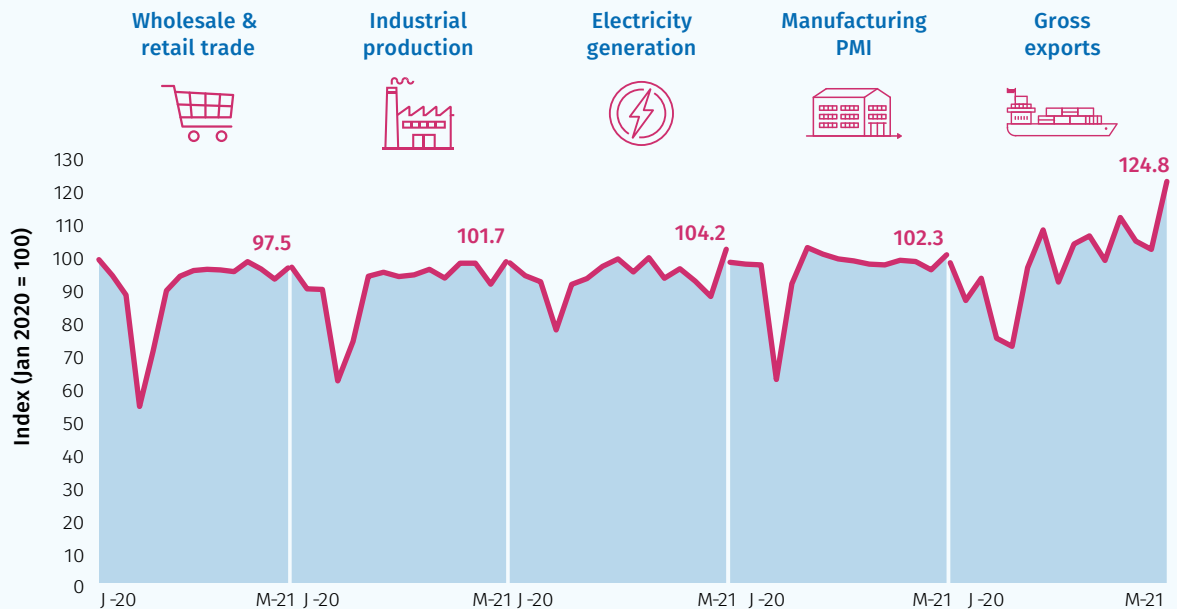


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Highlights: 1Q 2021

Domestic economic activity gradually recovering

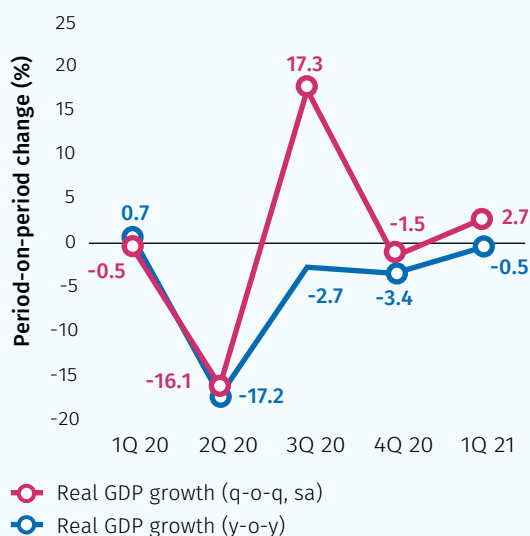
Key Economic Indicators



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

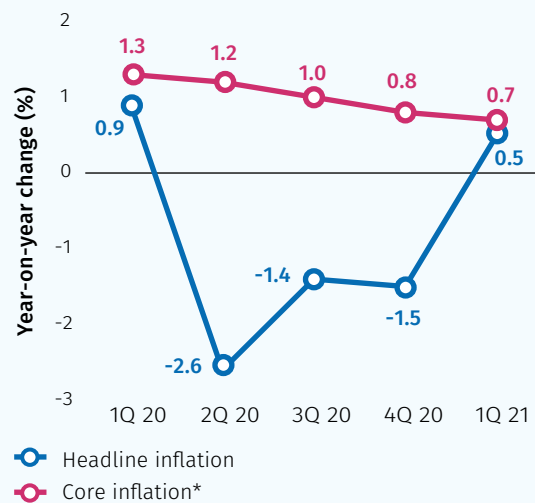
Smaller GDP contraction, while headline inflation turned positive in 1Q 2021

Growth was supported mainly by the improvement in domestic demand and strong exports performance



Source: Department of Statistics, Malaysia

Positive inflation due to base effect from fuel prices and lapse in impact of electricity tariff rebates



* 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

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International Economic Environment

Highlights

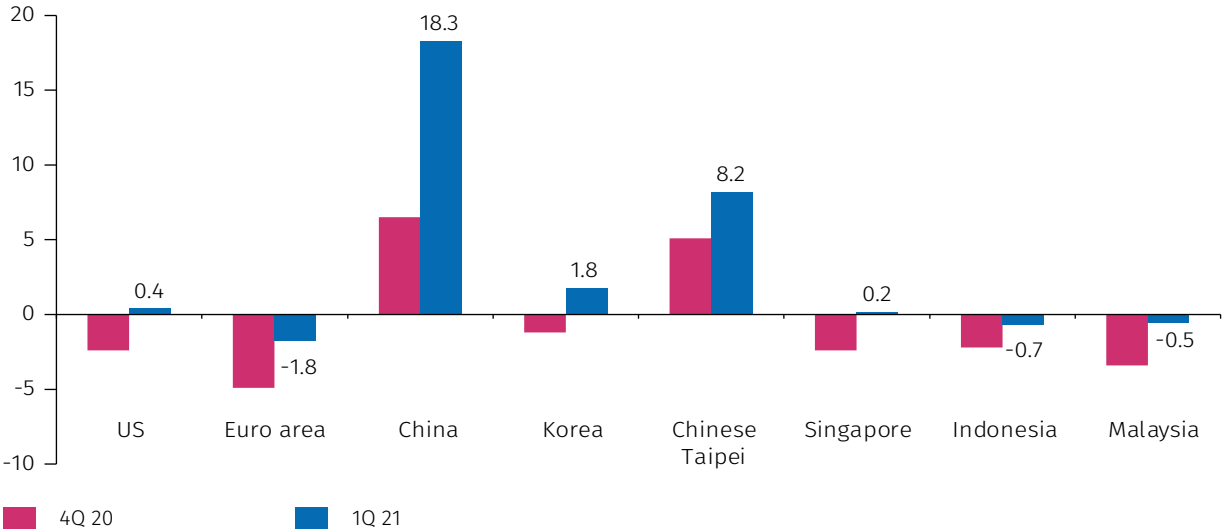
- Global economy continued to recover in the first quarter of 2021.
- Regional exports experienced strong improvement.
- Financial market volatility remained elevated.

Global growth continues to improve

The global economy continued to recover in the first quarter of 2021. Global manufacturing and trade activity improved further. However, the improvement in domestic services activity remained uneven, as several economies tightened containment measures in response to a resurgence in COVID-19 cases, while some eased their restrictions.

C1 GDP Growth of Selected Economies

Year-on-year change (%)



Source: National authorities

The US economy turned around and expanded by 0.4% during the quarter (4Q 2020: -2.4%). Growth was supported by the relaxation of containment measures and continued improvements in labour market conditions, amid the rollout of additional fiscal support.

Growth in the euro area registered a slower decline of 1.8% (4Q 2020: -4.9%). This was supported by a recovery in manufacturing and trade activity, while services remained weak amid prolonged containment measures. Labour market conditions were stagnant below pre-pandemic levels, hence weighing on private consumption.

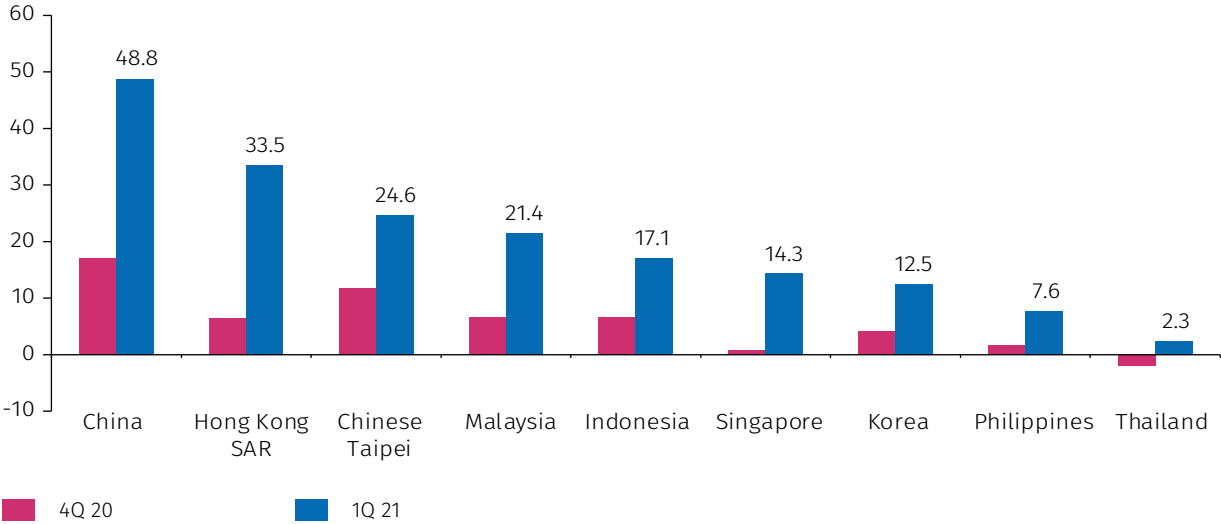
PR China recorded a strong GDP growth of 18.3% (4Q 2020: 6.5%), supported by broad-based improvements in economic activity. Despite localised outbreaks of COVID-19 during the quarter, the epidemic in China remained contained, leaving economic recovery largely unaffected.

Strong improvement in regional exports

Exports in the region experienced a strong improvement during the quarter. Most regional economies, except the Philippines and Thailand, registered double-digit growth in their exports, driven by strong demand, particularly for electrical and electronics (E&E) products.

Exports Growth of Selected Economies

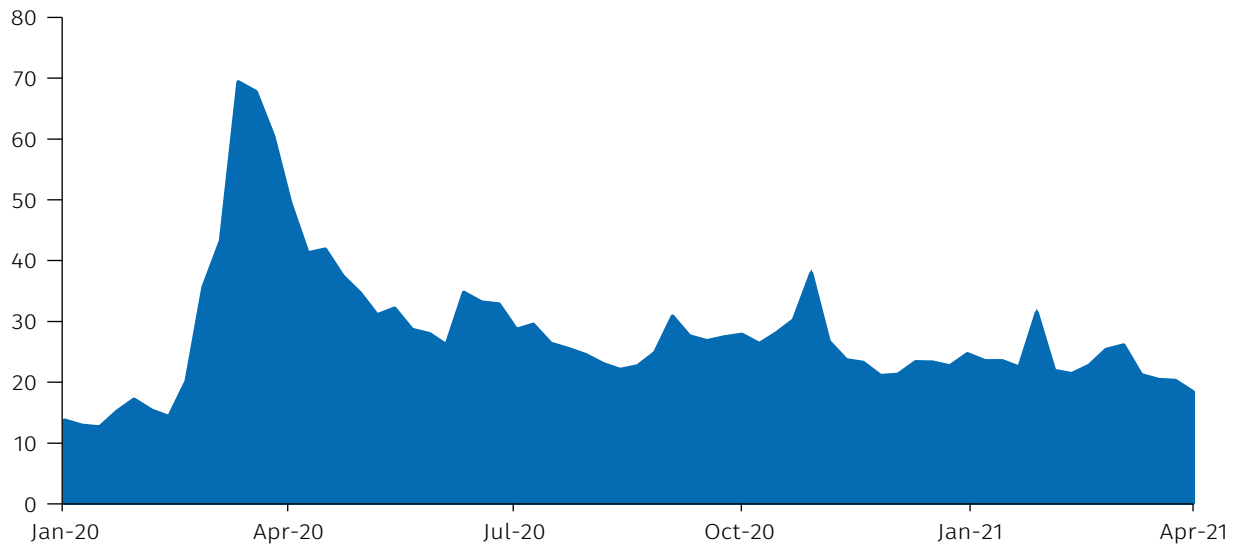
Year-on-year change (%)



Source: National authorities



Index



Source: Bloomberg

Financial market volatility remains elevated

Financial market volatility remained elevated as the pandemic continued to create uncertainties surrounding the strength of the economic recovery. Nonetheless, volatility eased marginally during the quarter (average: 23.2; 4Q 2020: 25.6, Jan-Feb 2020: 15.0), amid some optimism from the rollout of COVID-19 vaccines and a new stimulus package in the US. Expectations of a faster recovery among major economies, especially the US, led to an increase in government bond yields in the US and other major economies. Overall, investor sentiments were weighed by the continued resurgence in cases globally and the

reintroduction of tighter containment measures in several major economies.

Brent crude oil prices averaged USD61 per barrel during the quarter (4Q 2020 average: USD45 per barrel), driven by positive sentiments surrounding the COVID-19 vaccine rollout and the gradual recovery in global oil demand as lockdown measures were progressively relaxed. Oil prices were also supported by tighter global oil supply conditions. This was primarily the result of the unilateral cuts of one million barrels per day by Saudi Arabia in addition to the ongoing OPEC+ production cuts since 1 May 2020, as well as the disruptions to US production facilities due to adverse weather.

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Developments in the Malaysian Economy

Highlights

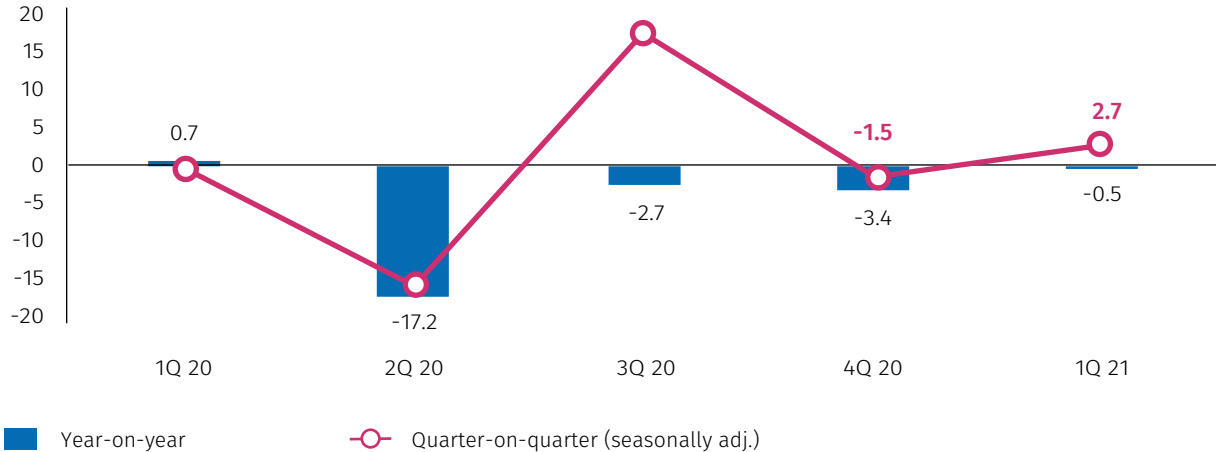
- Better economic performance, with smaller GDP decline of 0.5%.
- Headline inflation turned positive during the quarter mainly reflecting the base effect from fuel prices and the lapse in impact of electricity tariff rebates.
- Lower current account surplus of RM12.3 billion or 3.3% of GDP.

Smaller GDP decline in the first quarter of 2021

The Malaysian economy registered a smaller decline of 0.5% in the first quarter (4Q 2020: -3.4%). The growth performance was supported mainly by the improvement in domestic demand and robust exports performance, particularly for E&E products. Growth was also supported by the continued policy measures. The imposition of the Second Movement Control Order (MCO 2.0) and the continued closure of international borders and restrictions on inter-state travel, however, weighed on economic activity. Nevertheless, as restrictions were eased in February and March, economic activity gradually picked up. All economic sectors registered an improvement, particularly in the manufacturing sector. On the expenditure side, growth was driven by better private sector spending and strong growth in trade activity. On a quarter-on-quarter seasonally-adjusted basis, the economy registered a growth of 2.7% (4Q 2020: -1.5%).

C4 Real GDP Growth

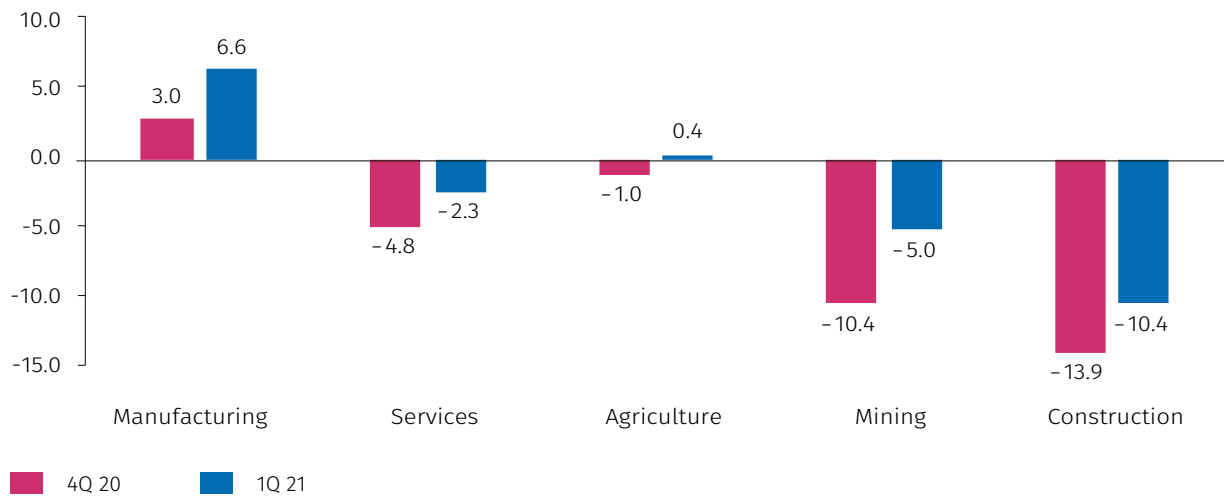
Period-on-period change (%)



Source: Department of Statistics, Malaysia

C5 Growth by Economic Sectors

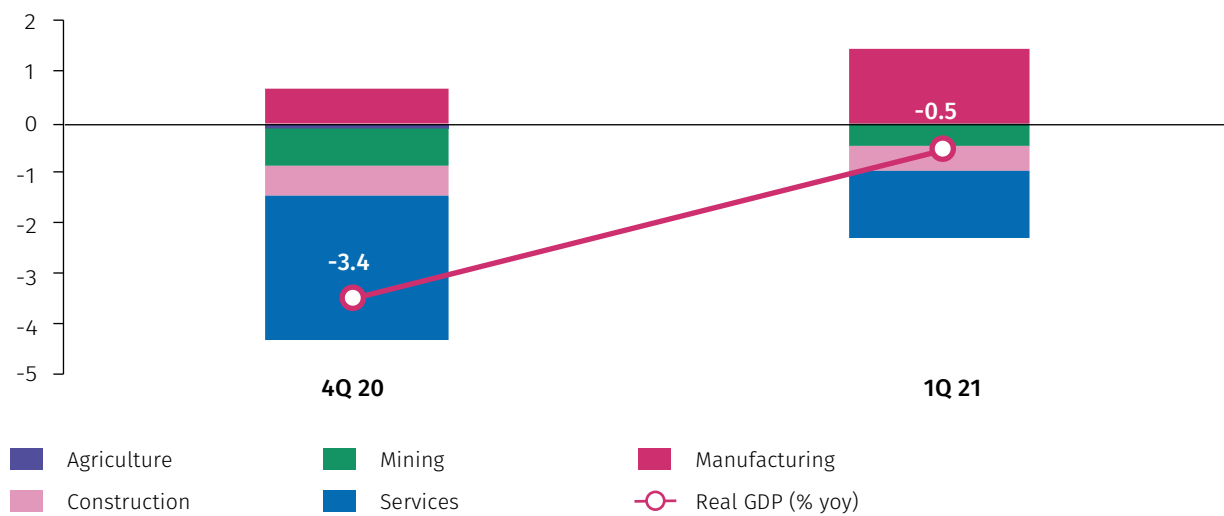
Year-on-year change (%).



Source: Department of Statistics, Malaysia

C6 Contributions of Economic Sectors to Real GDP Growth

Contribution to growth (ppt)



Source: Department of Statistics, Malaysia

Improvement in all economic sectors, led by manufacturing

In terms of sectoral performance, all economic sectors registered an improvement. The manufacturing sector expanded at a higher pace of 6.6% (4Q 2020: 3.0%), driven by the robust E&E production and continued recovery in the consumer-, primary- and construction-related clusters. The strong performance of the E&E subsectors reflected the higher global demand for semiconductors components, as reflected by the improvement in the World Semiconductor Trade Statistics. Despite the imposition of MCO 2.0, the consumer- and primary-related manufacturing also recorded higher growth, as most manufacturing sectors were allowed to operate while adhering to stringent standard operating procedures (SOPs). Global concerns surrounding electronic-chip shortages on the automotive sector had only a limited impact on the strong domestic passenger car production due to the lower chip intensity of most mass market vehicles. In addition, the extension of Sales and Services Tax (SST) exemption for the purchase of motor vehicles until June 2021 also helped Malaysia's motor vehicle production.

The services sector recorded a smaller decline of 2.3% in the first quarter of 2021 (4Q 2020: -4.8%). This was due to the improvement in the consumer-related activities, supported by the relaxation of containment measures such as dine-ins and inter-district travel beginning from middle of February 2021. Nevertheless, the weakness in tourism activity continues to affect key subsectors such as accommodation as well as air travel under the transport and storage subsector. Meanwhile, growth in the finance and insurance subsector improved,

attributed to higher fee income, stable loan and deposit growth, and higher net insurance premiums. The information and communication subsector continued to benefit from demand for data communication services following the adoption of remote working and learning arrangements.

The agriculture sector registered a positive growth of 0.4% (4Q 2020: -1.0%), driven mainly by expansion in livestock, other agriculture, forestry and logging subsectors. Growth in the oil palm subsector declined further as production was affected by floods in the earlier part of the quarter, while labour shortages continued to affect harvesting activities.

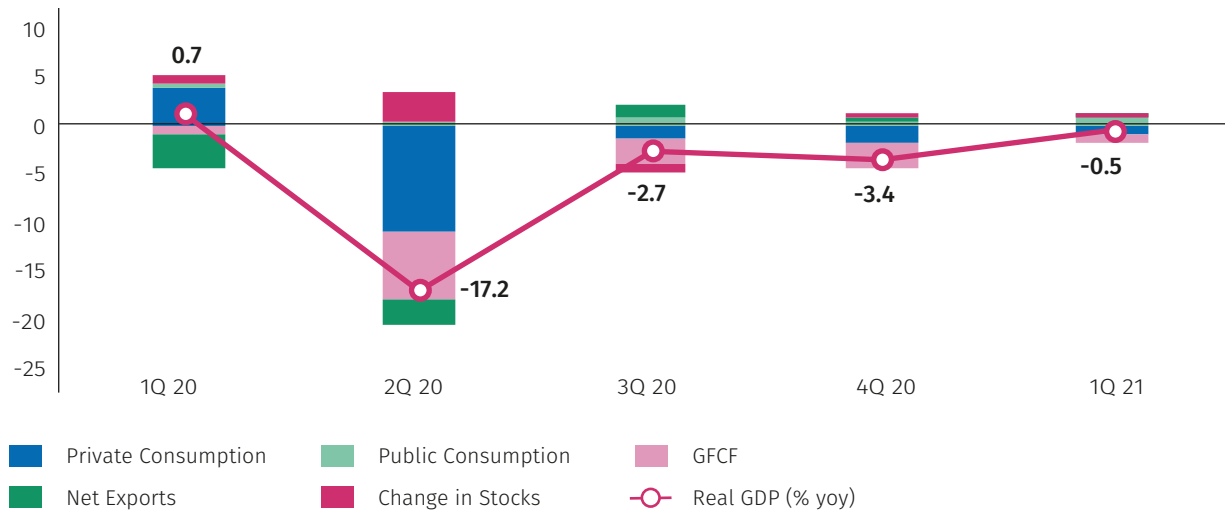
The mining sector contracted at a much slower pace of 5.0% (4Q 2020: -10.4%). Despite some facility closures for maintenance purposes during the quarter, both crude oil and natural gas production improved amid the gradual recovery in external demand and commencement of the PETRONAS Floating Liquefied Natural Gas Dua (PFLNG2) facility operations located in offshore East Malaysia.

The construction sector contracted by a smaller rate of 10.4% (4Q 2020: -13.9%). Activity was supported by the ramp up of construction works in commercial projects that are nearing completion and the continued implementation of small-scale projects. This resulted in a strong positive growth in the special trade subsector. However, activity in the residential, non-residential and civil engineering subsectors remained weak, affected by labour shortages and site shutdowns due to COVID-19 outbreaks. The implementation of MCO 2.0 also weighed on growth, as activity in construction sites that did not meet the conditions to operate were halted¹.

¹ Activities that were allowed to operate during MCO 2.0 include critical maintenance and repair works, public infrastructure projects, and projects that provide worker accommodation onsite or Centralized Labour Quarters (CLQ).

Contributions of Expenditure Components to Real GDP Growth

Contribution to growth (ppt)



Source: Department of Statistics, Malaysia

Smaller decline in domestic demand

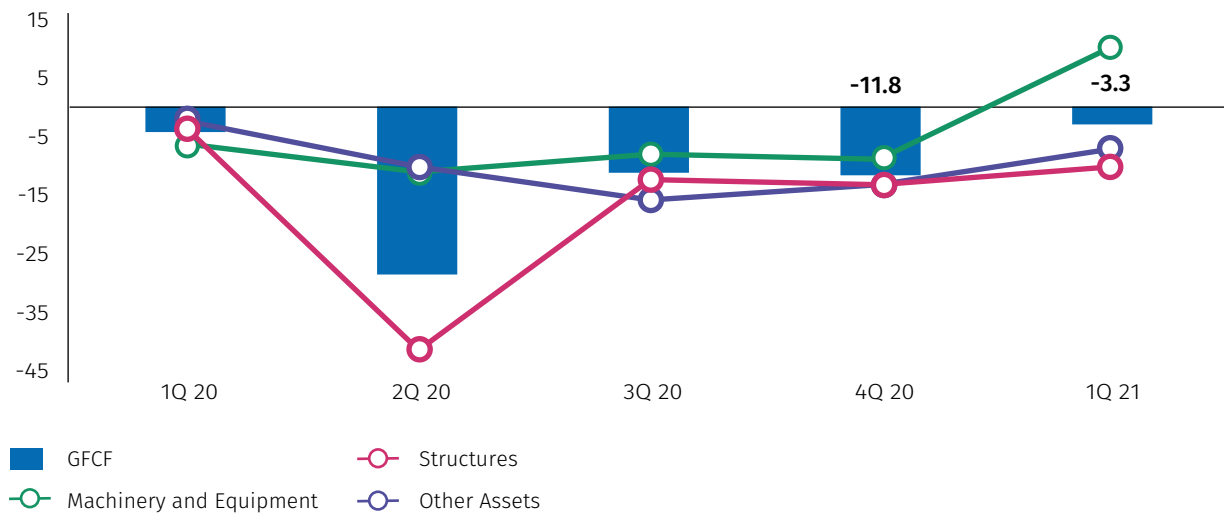
Domestic demand recorded a smaller decline of 1.0% (4Q 2020: -4.5%) in the first quarter of 2021, weighed down by the contraction in private sector expenditure amid the imposition of MCO 2.0. However, the impact of MCO 2.0 was smaller given that most economic sectors were allowed to operate and with continued policy support for households and businesses. On the external front, robust external demand particularly for E&E products, contributed to a continued expansion in net exports.

Private consumption contracted by 1.5% during the quarter (4Q 2020: -3.5%). Although household spending was affected by the imposition of MCO 2.0, the impact was smaller compared to the MCO last year amid relatively

less restrictive containment measures. While wage and employment growth remain in contraction, the overall growth improved, as most businesses continued to operate, which lent support to household spending. Spending on online platforms also continued to increase, cushioning the impact of the drop of in-store spending, as reflected in the expansion of the index of online retail sales (1Q 2021: 22.8%; 4Q 2020: 30.4%). Furthermore, consumer expenditure remained supported by various stimulus measures including the EPF *i-Sinar* withdrawals, wage subsidies as well as the Targeted Repayment Assistance (TRA).

Public consumption improved to 5.9% (4Q 2020: 2.4%) amid a rebound in supplies and services spending, particularly by the Federal Government. Growth was also supported by faster expansion in emoluments.

Year-on-year change (%)



Source: Department of Statistics, Malaysia

Smaller contraction in investment activity

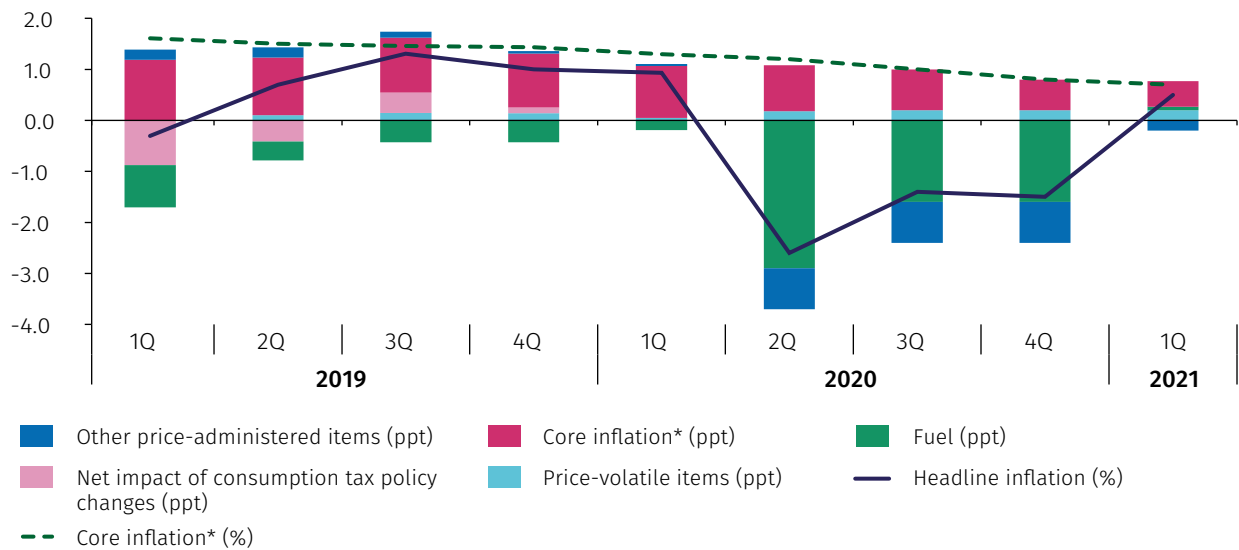
Gross fixed capital formation (GFCF) registered a smaller contraction of 3.3% (4Q 2020: -11.8%), supported mainly by the recovery in capital spending from the private sector. By type of asset, investment in machinery & equipment (M&E) expanded by 10.3% (4Q 2020: -9.0%), while investment in structures registered a smaller contraction of 10.4% (4Q 2020: -13.2%).

Private investment recorded its first positive growth since the fourth quarter of 2019

(1Q 2021: 1.3%; 4Q 2020: -6.6%). This was supported mainly by the increase in capital expenditure from new and ongoing investment projects, particularly in the services and manufacturing sectors.

Public investment registered a contraction of 18.6% (4Q 2020: -20.4%). While the Federal Government fixed assets spending was higher, investment by public corporations contracted at a larger pace, particularly in the oil and gas and telecommunication subsectors.

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



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

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

Headline inflation turned positive during the quarter

Headline inflation, as measured by the annual percentage change in the Consumer Price Index (CPI), turned positive to 0.5% during the quarter (4Q 2020: -1.5%). This was due mainly to positive albeit low fuel inflation, as well as a lapse in the effect from the tiered electricity tariff rebate². The positive fuel inflation was driven by the base effect from low domestic retail fuel prices last year. These were partly offset by

lower inflation in other categories, in particular, rental and jewelleryes.

Rental inflation remained low amid soft demand for rental properties, in addition to reduced numbers of prospective tenants amid continued domestic movement restrictions and international border closures. Meanwhile, the lower inflation for jewelleryes reflected declining gold prices during the quarter. Following the lower inflation for rental and jewelleryes, core inflation moderated to 0.7% during the quarter (4Q 2020: 0.8%).

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

In terms of the monthly trajectory, headline inflation was -0.2% in January 2021 and 0.1% in February 2021 as fuel prices remained lower than the corresponding period last year. By March, headline inflation was higher at 1.7% as fuel inflation increased, reflecting the base effect from low domestic retail fuel prices in March 2020.

Despite the positive headline inflation, upward pressures on prices were contained during the quarter, as the share of CPI items recording month-on-month price increases remained lower than average (1Q 2021 average: 40%; 2010-2019 average: 45%).

C10 Month-on-Month Price Changes of CPI Items*

Percentage of CPI items (%)



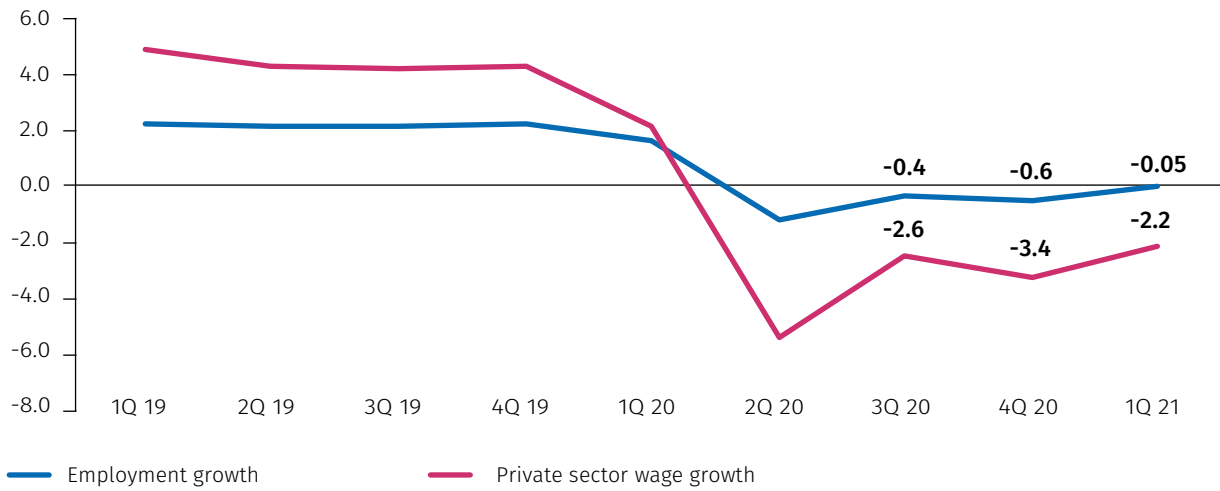
* Based on the month-on-month inflation for 125 CPI items at the 4-digit level

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

C11

Employment and Wage Growth

Year-on-year change (%)

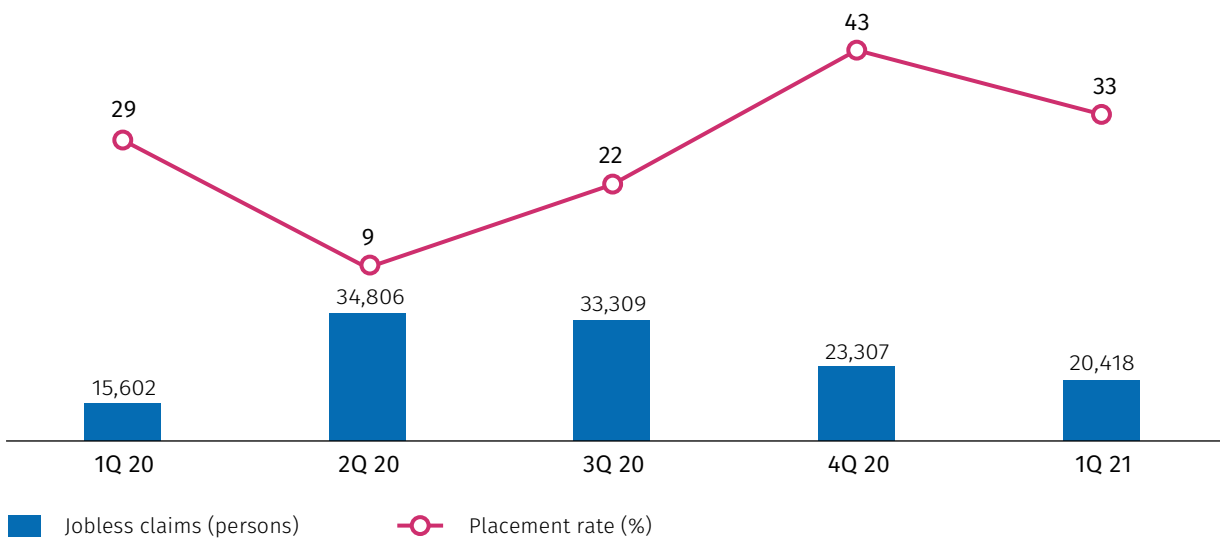


Note: Private sector wage growth refers to wage growth of workers in the manufacturing and services sectors

Source: Department of Statistics, Malaysia

C12

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

Gradual recovery in labour market conditions

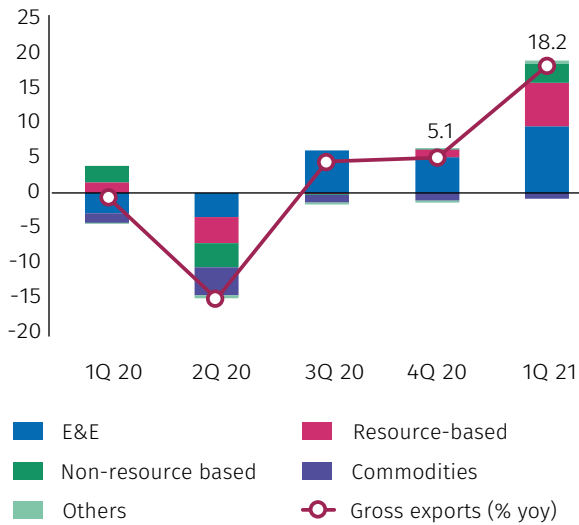
Labour market conditions showed initial signs of recovery in line with the pick-up in economic activity, despite the temporary weakness caused by the imposition of MCO 2.0. The unemployment rate remained at 4.8% (4Q 2020: 4.8%). This reflected a marginal contraction in employment growth (-0.05%; 4Q 2020: -0.6), and a greater expansion in the labour force (1.4%; 4Q 2020: 1.0%). Compared to the fourth quarter of 2020, data from the Social Security Organisation (SOCSO) points to lower jobless claims from the Employment Insurance System (EIS) (20,418 persons; 4Q 2020: 23,307), amid a lower placement rate of employees into new jobs (33 per 100 people retrenched; 4Q 2020: 43)³. This reflected the lower retrenchments, and improvement in hiring activity in February and March (Feb-21: 33 placements per 100 people retrenched; Mar-21: 37), after indicators registered a slight deterioration between October 2020 and January 2021 (Oct-20: 55;

Nov-20: 37; Dec-20: 40; Jan-21: 30) following the re-imposition of movement restrictions. Notably, the impact of the MCO 2.0 was more moderate compared to the first MCO and CMCO in the second quarter of 2020, and the recovery trajectory remains intact.

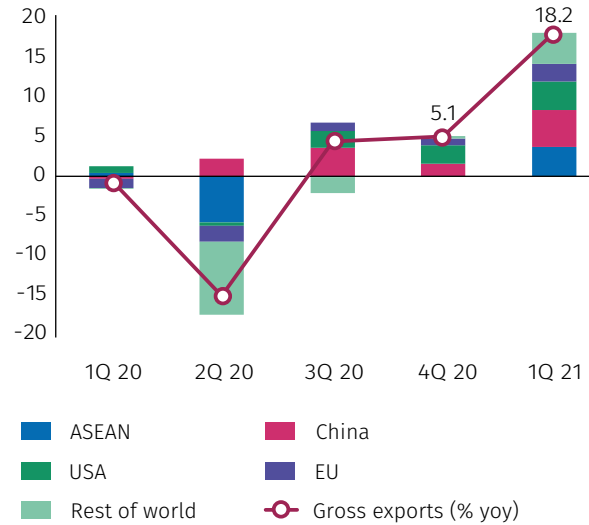
Meanwhile, private sector wages registered a smaller decline in the first quarter (-2.2%; 4Q 2020: -3.4%), attributable to modest improvements in both services and manufacturing wages. In the services sector, wages declined at a more moderate pace (-3.1%; 4Q 2020: -4.6%), driven by smaller contractions in the transportation and storage, food and beverages, and professional services subsectors. In the manufacturing sector, wage growth declined at a slower rate of 0.6% (4Q 2020: -1.3%), driven by improvements in the export-oriented subsectors. The pace of recovery in wages reflect continued cautiousness among employers in expanding employment, due to continued uncertainty surrounding the recovery trajectory.

³ 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.

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



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



Source: Department of Statistics, Malaysia

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

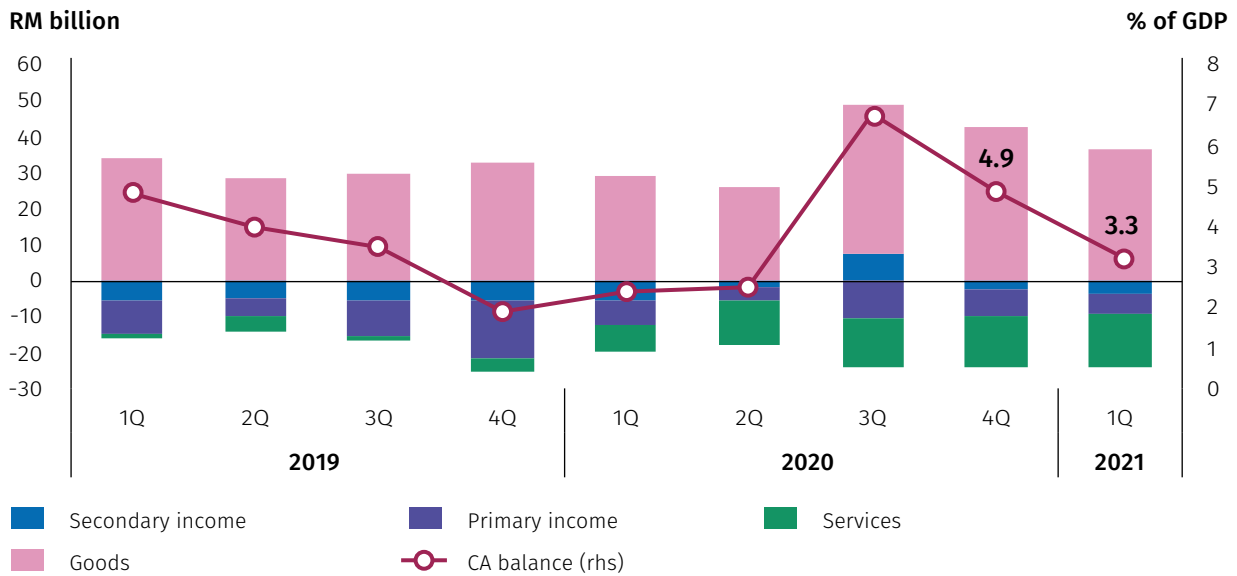
Gross exports grew at a faster pace of 18.2% (4Q 2020: 5.1%), driven by robust manufactured exports. Gross imports turned around to register a positive growth of 10.8% (4Q 2020: -4.5%), due to a broad-based improvement in all import categories. The trade surplus⁴ amounted to RM58.6 billion (4Q 2020: RM59.9 billion).

Manufactured exports increased by 21.9% (4Q 2020: 7.6%), supported mainly by E&E exports (26.9%, 4Q 2020: 13.8%). This was

contributed by firm demand for semiconductors for work from home equipment and medical devices. Commodities exports registered a smaller contraction (-5.4%, 4Q 2020: -7.8%) due mainly to improvement in LNG prices.

Capital imports rebounded during the quarter (32.7%; 4Q 2020: -15.0%), supported primarily by higher imports of telecommunications equipment and machinery for manufacturing. Intermediate imports turned around to record a positive growth of 4.6% (4Q 2020: -7.2%), due to higher imports of industrial supplies, in line with the continued expansion in domestic manufacturing activity.

⁴ The goods and trade surpluses differ because goods for processing, storage and distribution (with no change in ownership) are excluded from the goods account. This is as per the 6th Edition of the Balance of Payments and International Investment Position Manual by the International Monetary Fund (IMF).



Source: Department of Statistics, Malaysia

Lower current account surplus

The current account of the balance of payments registered a surplus of RM12.3 billion or 3.3% of GDP during the quarter (4Q 2020: RM18.6 billion or 4.9% of GDP). The lower surplus was on account of the smaller goods surplus and the higher deficit in the services and secondary income account.

The goods surplus narrowed to RM36.6 billion (4Q 2020: RM42.6 billion) as the improvement in imports outpaced that of exports, in line with the recovery in domestic demand and trade activity. The services account recorded a higher

deficit (-RM15.0 billion; 4Q 2020: -RM14.0 billion) due to higher imports of transport and construction services.

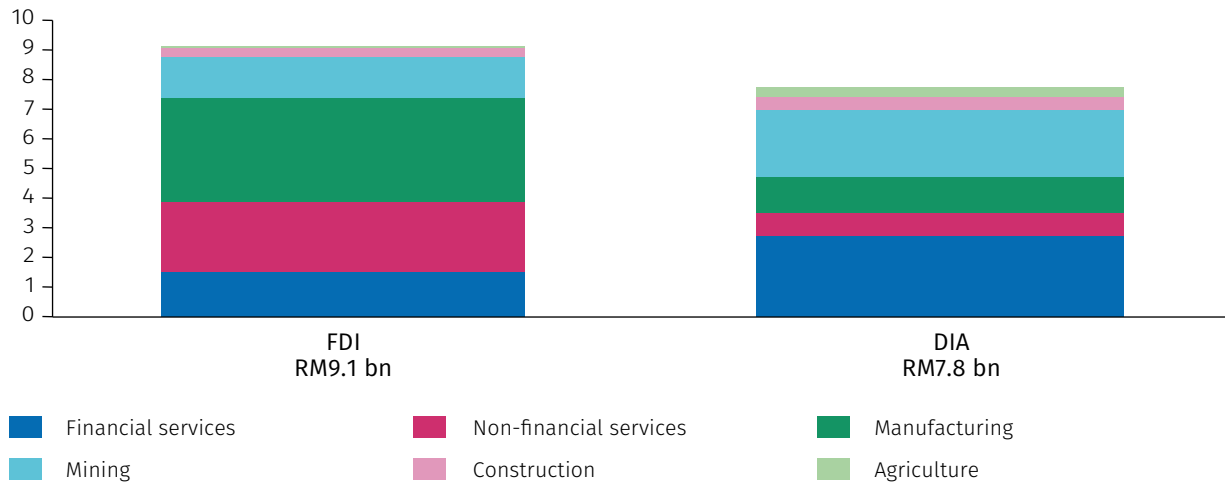
The primary income account registered a smaller deficit of RM5.7 billion (4Q 2020: -RM7.2 billion). This mainly reflected the higher investment income accrued to Malaysians from investments abroad.

The secondary income account recorded a larger deficit of RM3.6 billion (4Q 2020: -RM2.7 billion) reflecting higher outward remittances by foreign workers.

C15

Direct Investment by Sector

RM billion



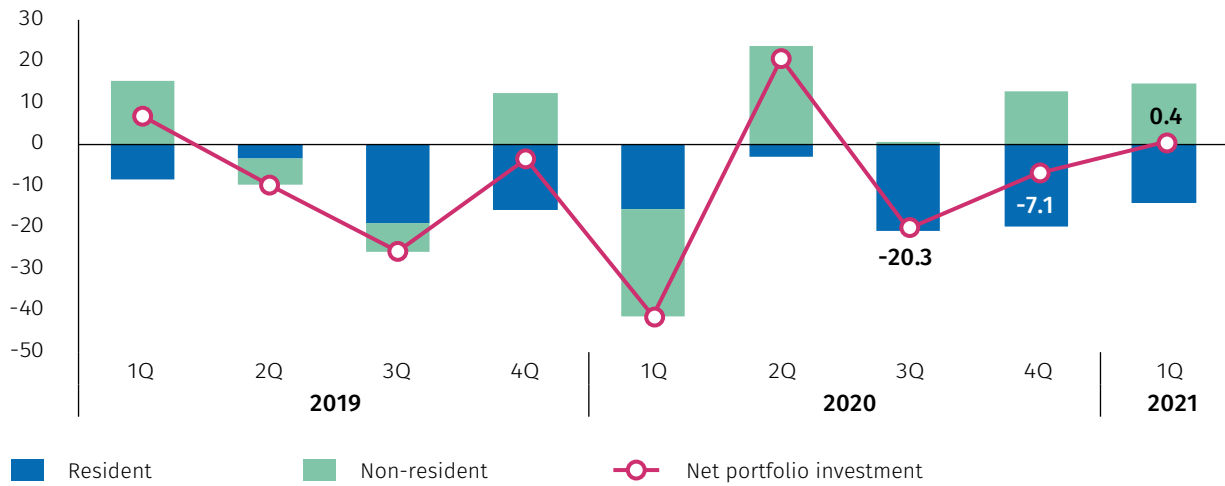
Note: For DIA, positive values refer to net outflows, while negative values refer to net inflows. Figures may not sum due to rounding.

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

C16

Portfolio Investment

RM billion



Source: Department of Statistics, Malaysia and Bank Negara Malaysia

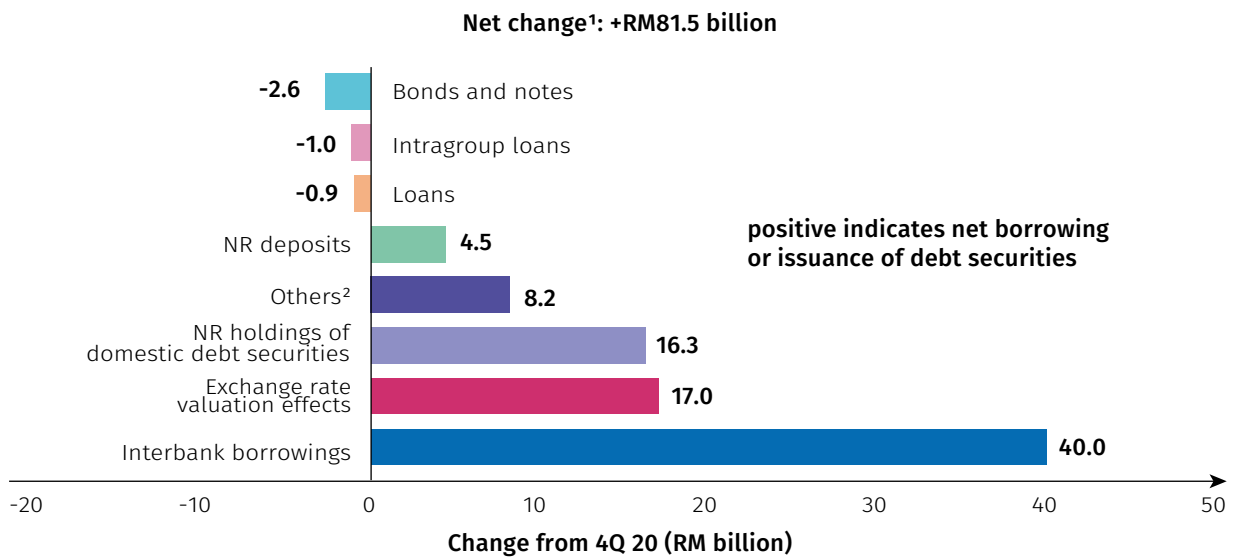
Financial account registered a net inflow supported by inflows in all major accounts

The financial account recorded a net inflow of RM16.0 billion (4Q 2020: -RM10.2 billion), reflecting inflows in all major accounts. The direct investment account registered a continued net inflow of RM1.4 billion (4Q 2020: +RM1.6 billion), supported by higher net inflows in foreign direct investment (FDI) of RM9.1 billion (4Q 2020: +RM6.8 billion). This was driven by larger reinvestment of earnings (+RM4.1 billion; 4Q 2020: -RM1.9 billion) and sustained equity injections into Malaysia (+RM4.4 billion; 4Q 2020: +RM4.3 billion). These inflows were channelled primarily into the services and manufacturing sectors. Direct investment abroad (DIA) recorded higher net outflows of RM7.8 billion in the first quarter (4Q 2020: -RM5.2 billion). These investments were channelled mainly into the services and mining sectors.

The portfolio investment account recorded a small net inflow of RM0.4 billion (4Q 2020:

-RM7.1 billion), on account of higher net inflows of non-resident (NR) portfolio investments (+RM14.6 billion; 4Q 2020: +RM12.8 billion) and lower residents' portfolio investments abroad (-RM14.2 billion; 4Q 2020: -RM19.9 billion). Higher net NR portfolio investment inflows reflected larger inflows into domestic debt securities (+RM16.9 billion; 4Q 2020: +RM14.1 billion), particularly the Government bonds. This more than offset the higher liquidation of domestic equity securities (-RM2.3 billion; 4Q 2020: -RM1.3 billion). More moderate residents' portfolio investments abroad were driven by lower institutional investors' acquisitions of equity securities.

The other investment account turned around to register a significant net inflow of RM13.9 billion (4Q 2020: -RM3.7 billion). This was due primarily to higher interbank borrowings by the domestic banking system. Net errors and omissions amounted to -RM10.9 billion during the quarter, or -2.2% of total trade.



¹ Changes in individual debt instruments exclude exchange rate valuation effects

² Comprises trade credits, IMF allocation of SDRs and other debt liabilities

Note: Figures may not add up due to rounding

Source: Ministry of Finance Malaysia and Bank Negara Malaysia

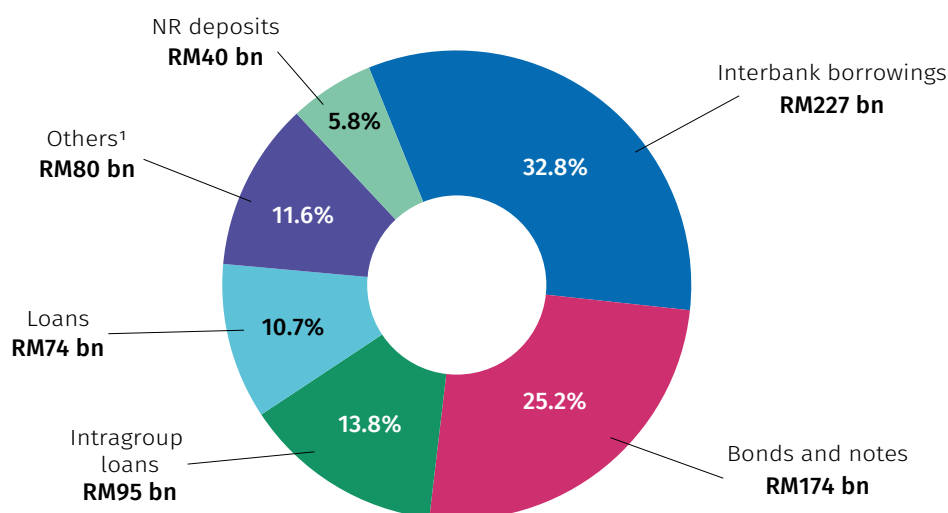
External debt remained manageable

Malaysia's external debt amounted to RM1,039.7 billion, or 73.2% of GDP as at end-March 2021 (end-December 2020: RM958.1 billion or 67.6% of GDP). The increase mainly reflected higher interbank borrowings and exchange rate valuation effects following the weaker ringgit against selected major and regional foreign currencies during the period. There was also an increase in NR holdings of Government domestic debt securities. These largely offset net repayment of bonds and notes, loans and intragroup loans during the quarter.

The country's external debt remained manageable, given its favourable currency and maturity profiles. Ringgit-denominated external debt amounted to RM348.9 billion and accounted for 33.6% of total external debt (end-December 2020: 33.9%). It was largely in the

form of NR holdings of domestic debt securities (67.8% share of ringgit-denominated external debt) and ringgit deposits (17.1% 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 RM690.8 billion, or 66.4% of total external debt. 48.2% of FCY-denominated external debt were by the corporate sector, and are mainly subject to prudential and hedging requirements. Long-term bonds and notes issued offshore stood at RM173.8 billion, accounting for 25.2% of total FCY-denominated external debt. These were mainly held by non-financial corporates and channelled primarily to finance asset acquisitions abroad. Intragroup loans, which accounted for 13.8% of FCY-denominated external debt, were generally on flexible and concessionary terms.



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

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

Interbank borrowings and FCY deposits in the domestic banking system accounted for 38.7% of FCY-denominated external debt. The increase in interbank borrowings during the quarter was largely driven by higher intragroup transactions by banks in the Labuan International Business and Financial Centre. Part of these borrowings were subsequently placed with NR clients, a reflection of their 'out-out' transactions, with the remaining amount mainly used to fund lending and investment activities locally. Risks associated with these exposures are assessed to be low due to their 'back-to-back' nature i.e. the amount, tenure and currency of the funding received from related entities typically match that of the transaction with the ultimate beneficiary of such funds. Domestic banking groups also saw a net increase of interbank borrowings, primarily reflecting their centralised liquidity management practices. Overall, three-quarters of interbank borrowings were in the form of intragroup borrowings from related parties located abroad, which are generally more stable, thereby limiting rollover risks faced by banks. Meanwhile, foreign-currency risk, as measured in terms of the net open position of FCY-denominated exposures⁶, remained low at 4.6% of banks' total capital (end-December 2020: 5.3%).

In terms of maturity, 58.4% of total external debt has medium- to long-term tenure (end-December:

61.7%), suggesting low rollover risks. The increase in interbank borrowings resulted in higher short-term external debt, which accounted for 41.6% of external debt (end-December 2020: 38.4%). Of note 76.3% of the interbank borrowings were intragroup borrowings (40.2% of short-term external debt), which were generally stable and on concessionary terms. About another 12.5% were accounted by trade credits, largely backed by export earnings and are self-liquidating. As at 30 April 2021, international reserves stood at USD110.8 billion, sufficient to finance 8.7 months of retained imports, and is 1.1 times the short-term external debt.

Reserves are not the only means for banks and corporations to meet their external obligations. The progressive liberalisation of foreign exchange administration rules has resulted in greater decentralisation of reserves. In particular, banks and corporates hold three-quarters of Malaysia's external assets (as at end-March 2021: RM1.6 trillion). These external assets can be drawn upon to meet banks' and corporates' external debt obligations (RM785.1 billion), without creating a claim on international reserves. The adequate level of international reserves, together with the availability of substantial foreign currency and external assets by banks and corporations, and a flexible exchange rate, will continue to serve as important buffers against potential external shocks.

⁶ 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

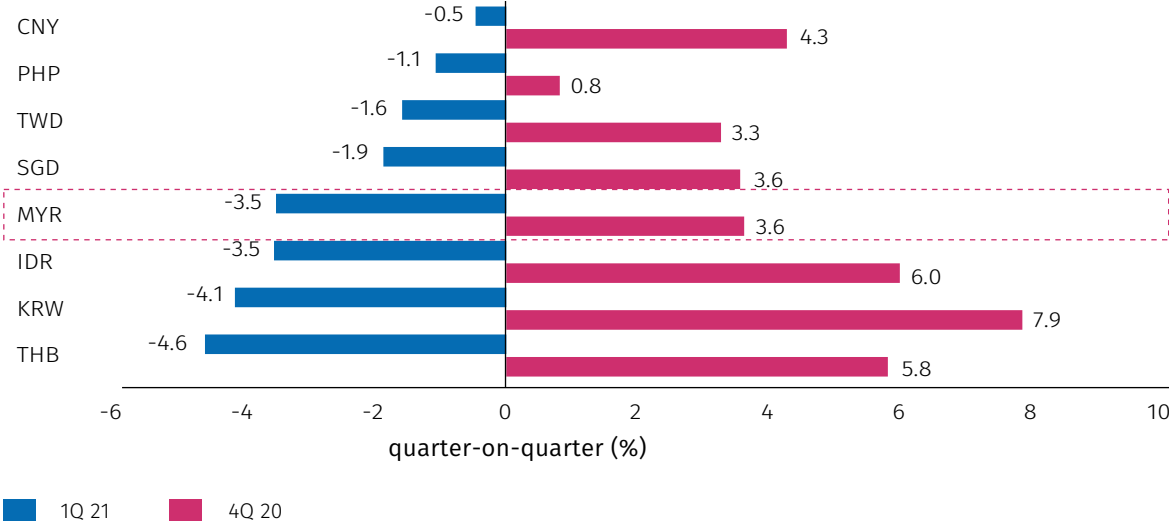
Highlights

- Decline in the bond and equity markets while the exchange rate depreciated
- Nominal interest rates remained broadly stable during the quarter
- Continued growth in net financing during the quarter

Domestic financial markets were affected by external and domestic factors

In the first quarter of 2021, conditions in the domestic financial markets were affected by both external and domestic developments. On the external front, the rise in long-term US Treasury yields during this period led to shifts in international portfolio flows, resulting in financial asset price adjustments globally.

C19 Performance of Regional Currencies Against the US Dollar



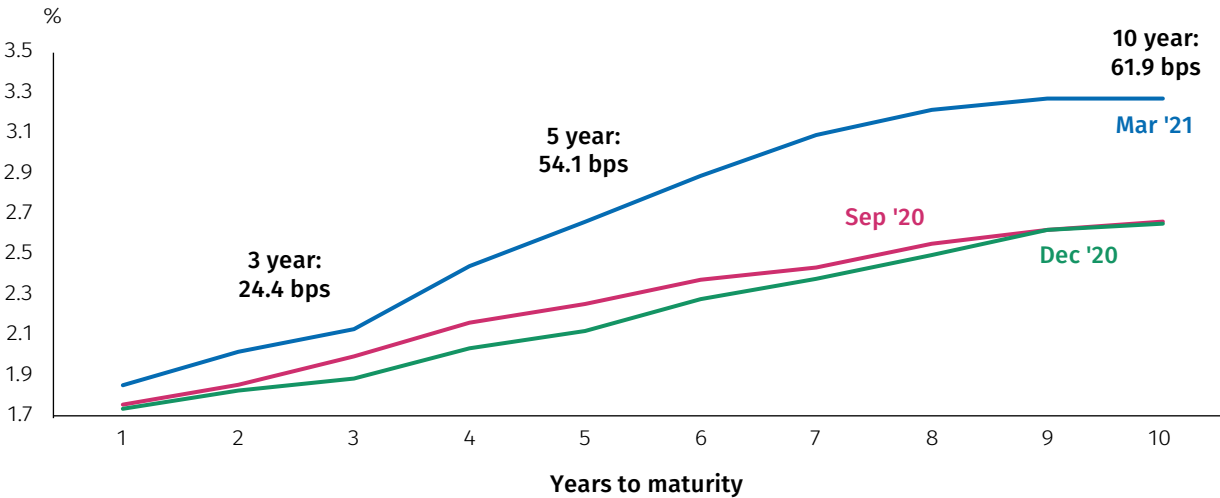
Source: Bank Negara Malaysia and Reuters

The surge in US Treasury yields, driven mainly by expectations for higher inflation in anticipation of a faster economic recovery in the US, led to the steepening of government bond yield curves in other advanced and emerging market economies. Furthermore, the improved US economic outlook and higher treasury yields supported the rebalancing of portfolio investments towards US financial assets and contributed to a strengthening of the US dollar. As a result, there was a broad-based weakening of regional currencies against the US dollar, including the ringgit.

Consequently, domestic bond yields rose in tandem with yield movements in

regional markets and US Treasury securities. In particular, 10-year MGS yields increased to its peak in mid-March before declining towards the end of the month as volatility in US Treasury yields subsided. The domestic bond market was further supported by the positive news on Malaysia’s retention in the FTSE World Government Bond Index (WGBI). Overall, the government bond market continued to record inflows as non-resident holdings increased to 25.0% of outstanding government bonds (4Q 2020: 24.2%). For the quarter, the 3-year, 5-year and 10-year MGS yields increased by 24.4, 54.1 and 61.9 basis points, respectively, while the ringgit depreciated against the US dollar by 3.5%, in line with the movements of regional currencies.

C20 Trend in MGS Yields

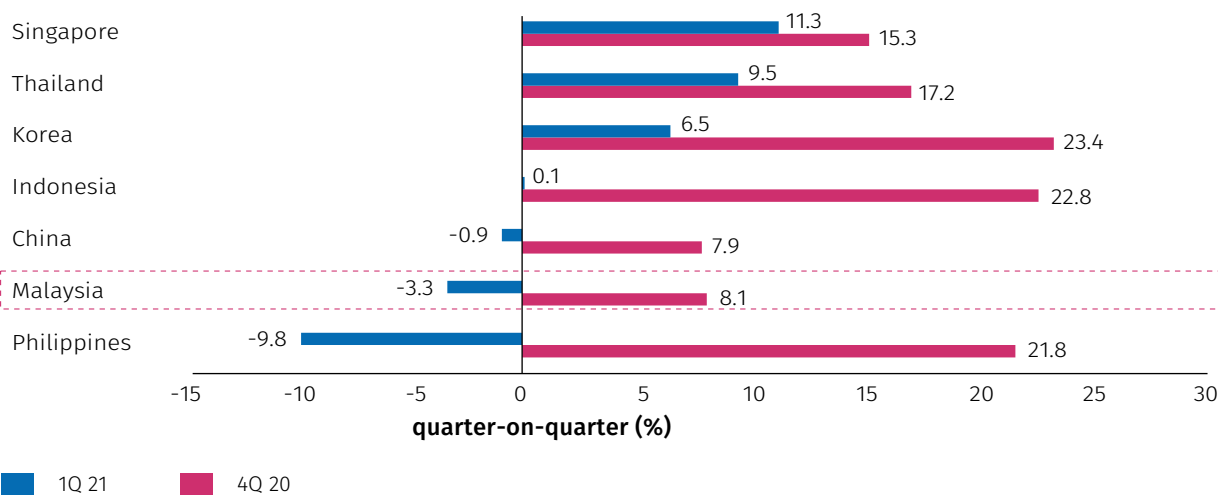


Source: Bank Negara Malaysia

The decline in the domestic equity market was due mainly to developments surrounding COVID-19 cases, and the re-imposition of containment measures domestically, which

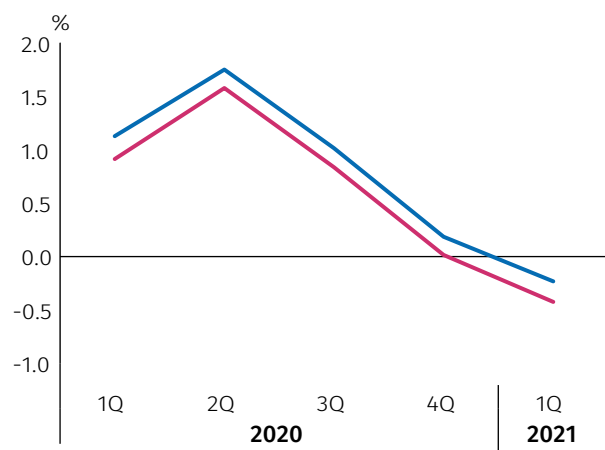
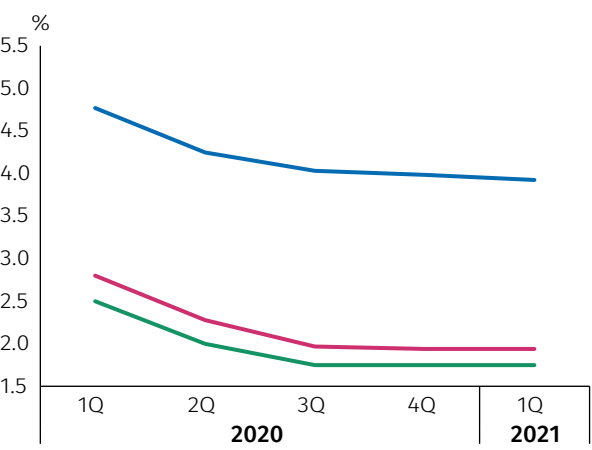
posed concerns on the corporate earnings outlook. As at end-March, the FBM KLCI declined by 3.3% to close at 1,573.5 points (end-December: 1,627.2 points).

C21 Performance of Regional Equity Markets



Source: Bloomberg

C22 Interest Rates (at end-period)



— Weighted average lending rate (ALR)
 — Overnight Policy Rate (OPR)
 — 3M KLIBOR
 — 3M real fixed deposit rate
 — 12M real fixed deposit rate

Source: Bank Negara Malaysia, Bloomberg and Consensus Economics

Nominal interest rates remained broadly stable during the quarter

Nominal interest rates in the wholesale and retail markets were stable throughout the quarter. The benchmark 3-month KLIBOR remained unchanged at 1.94% (4Q 2020: 1.94%), while in the retail market, the weighted average base rate (BR) was also unchanged at 2.43% (4Q 2020: 2.43%). More broadly, the weighted average lending rate (ALR) on outstanding loans declined to 3.93% (4Q 2020: 3.99%), following the maturity of fixed-rate loans with higher rates.

Nominal fixed deposit (FD) rates were also stable during the quarter, across tenures of 1 to 12 months. However, real 3-month and

12-month FD rates⁷ turned negative given expectations of higher inflation. This was due, in part, to the base effect from the low and negative inflation last year.

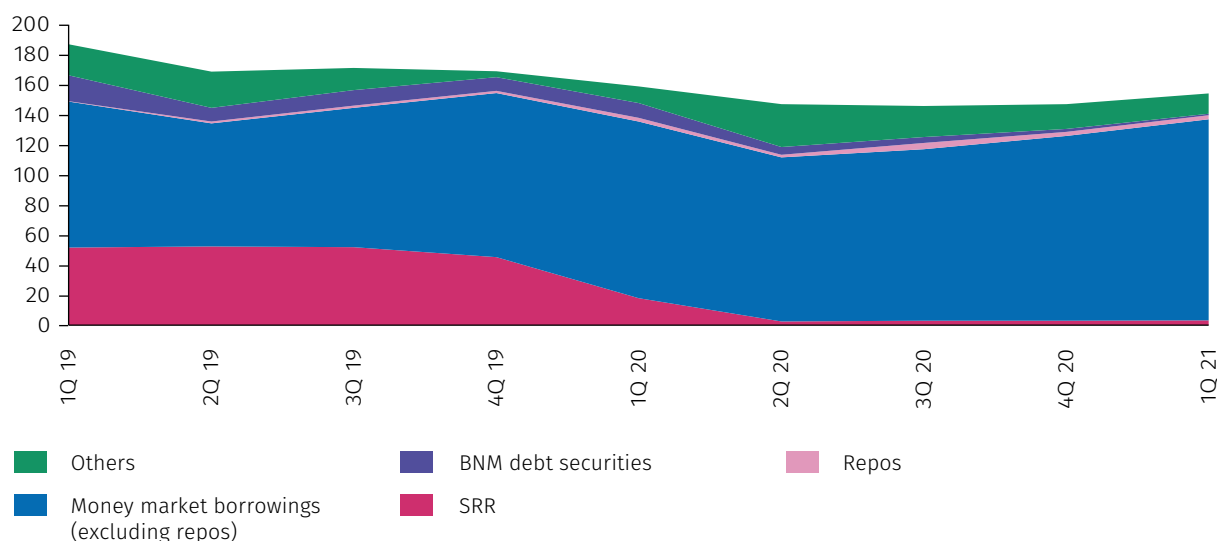
Banking system liquidity remained sufficient to facilitate financial intermediation

Banking system liquidity remained sufficient at both the institutional and system-wide levels to facilitate financial intermediation activity. The level of surplus liquidity placed with the Bank increased by RM7.2 billion, reflecting the net inflows during the quarter. At the institutional level, almost all banks maintained surplus liquidity positions with the Bank as at end-March 2021.

C23

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

RM billion



Source: Bank Negara Malaysia

⁷ The measurement of inflation in the computation of real deposit rates has been updated to the average expected inflation (based on data from Consensus Economics) over the next 12 months, rather than using the concurrent headline inflation. This measure is intended to reflect inflation expectations, which is the more relevant indicator for saving decisions. This measure is approximated by an average of the forecasts for the current and next calendar year weighted by their share in the forecasting horizon of 12 months ahead, which is comparable to the use of fixed-horizon forecasts in the literature, including Dovern et al. (2012) and Siklos (2013).

Continued growth in net financing during the quarter

In first quarter of 2021, net financing expanded by 4.7% on an annual basis (4Q 2020: 4.4%), contributed by the higher outstanding loan⁸ growth (4.3%, 4Q 2020: 3.7%), while outstanding corporate bond⁹ growth moderated slightly during the quarter (5.9%; 4Q 2020: 6.5%).

Both business loan disbursements and repayments remained above their historical average levels, due mainly to loans for working capital purposes¹⁰ (Disbursements: RM195.9 bn, 2017-19 quarterly average: RM158.7 bn; Repayments: RM187.7 bn, 2017-19 quarterly average: RM157.8 bn). Meanwhile, total demand for business loans moderated slightly (RM73.9 bn, 4Q 2020: RM77.5 bn) while approval rates remained relatively stable during the quarter.

For the household segments, outstanding loans recorded an annual growth of 6.0% (4Q 2020:

5.4%) as disbursements growth outpaced that of repayments. Loans for the purchase of residential properties and passenger cars continued to be the main drivers of household loan expansion (contribution to growth: 5.5 percentage points). In addition, the demand for household loans remained forthcoming (RM139.8 bn; 2017-19 quarterly average: RM119.2 bn), amid the accommodative monetary policy environment and various stimulus measures.

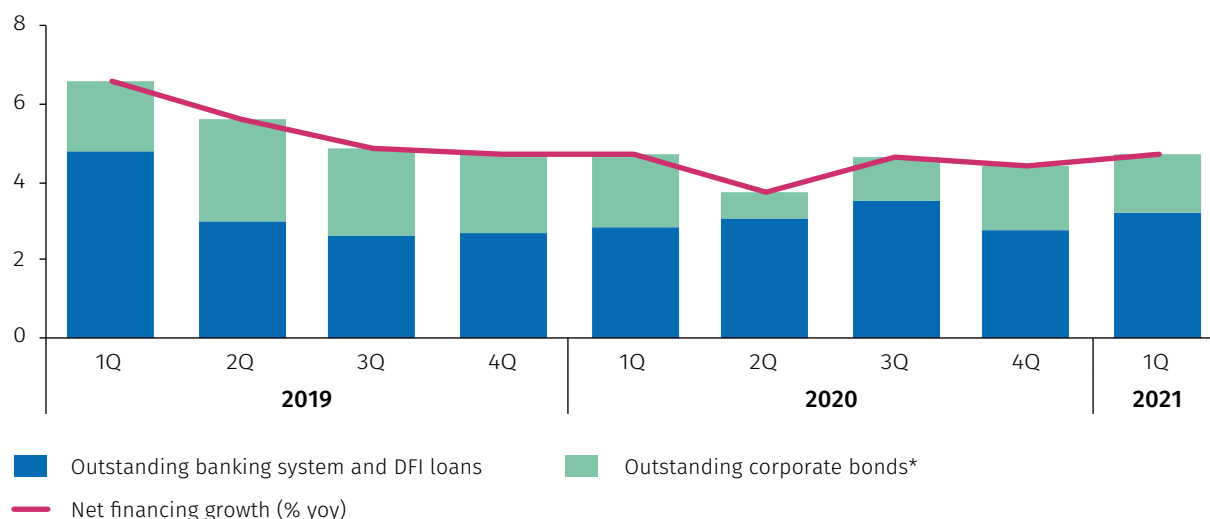
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Dovern, J., Fritsche, U., & Slacalek, J. (2012). "Disagreement Among Forecasters in G7 Countries," *The Review of Economics and Statistics*. MIT Press, vol. 94(4), pages 1081-1096.

Siklos, Pierre L. (2013). "Sources of disagreement in inflation forecasts: An international empirical investigation," *Journal of International Economics*. Elsevier, vol. 90(1s), pages 218-231.

C24 Contribution to Net Financing Growth

Contribution to growth (ppt)



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

⁸ Loans from the banking system and development financial institutions (DFIs).

⁹ Excludes issuances by Cagamas and non-residents.

¹⁰ Classification of business loans by purpose is only available for the banking system.

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The Bank's Policy Considerations

Highlights

- The MPC maintained the OPR at 1.75% at the January and March 2021 MPC meetings, and most recently also at the May 2021 MPC meeting.
- The MPC considers the stance of monetary policy to be appropriate and accommodative. The Bank remains committed to utilise its policy levers as appropriate to foster enabling conditions for a sustainable economic recovery

The OPR remains accommodative

At the January and March 2021 Monetary Policy Committee (MPC) meetings, and most recently also at the May 2021 MPC meeting, the MPC maintained the Overnight Policy Rate (OPR) at 1.75%.

The MPC assessed that global economic recovery continues to strengthen, particularly in the major economies, supported by improvements in manufacturing and trade activity, although the pace may vary across countries. The ongoing roll-out of vaccination programmes and sizeable fiscal stimulus measures in the US as well as policy support in other major economies will further facilitate an improvement in domestic demand. However, a re-tightening of containment measures to curb COVID-19 resurgences could disrupt the recovery trajectory in some economies. Recent financial market volatility has somewhat receded, and financial conditions remain supportive of growth. The balance of risks to the growth outlook remains tilted to the downside, due mainly to uncertainty over the path of the pandemic as well as potential risks of heightened financial market volatility.

For Malaysia, latest indicators point to better-than-expected improvements in economic activity in the first quarter. While the recent re-imposition of containment measures in select locations will affect economic activity in the short term, the impact will be less severe as almost all economic sectors are allowed to operate. The growth trajectory is projected to improve, driven by the stronger recovery in global demand and increased public and private sector expenditure amid continued support from policy measures. The progress of the domestic COVID-19 vaccine programme will also lift sentiments and contribute

towards the recovery in economic activity. The growth outlook, however, remains subject to downside risks, stemming mainly from ongoing uncertainties in developments related to the pandemic, and potential challenges that might affect the vaccine roll-out both globally and domestically.

Headline inflation in 2021 is projected to average higher between 2.5% and 4.0%, primarily due to the cost-push factor of higher global oil prices. In terms of trajectory, headline inflation is anticipated to temporarily spike in the second quarter of 2021, due particularly to the lower base from the low domestic retail fuel prices in the corresponding quarter of 2020. However, this will be transitory as headline inflation is projected to moderate thereafter as

this base effect dissipates. Underlying inflation, as measured by core inflation, is expected to remain subdued, averaging between 0.5% and 1.5% for the year, amid continued spare capacity in the economy. The outlook, however, is subject to global oil and commodity price developments.

The MPC considers the stance of monetary policy to be appropriate and accommodative. 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 foster enabling conditions for a sustainable economic recovery.

Other policy highlights in the first quarter of 2021

Policy highlight	Salient details
<p>Liberalisation of Foreign Exchange Policy (FEP)</p>	<ul style="list-style-type: none"> • The FEP liberalisation measures aim to enhance Malaysia’s position as a foreign direct investment (FDI) destination and a global supply chain hub as well as to widen global investors’ access into the onshore financial market: <ol style="list-style-type: none"> 1. Removal of export conversion rule; 2. Exporters can settle domestic trade in foreign currency with other residents operating in global supply chain; 3. Exporters can net-off or write-off export proceeds against permitted foreign currency obligations; 4. Exporters are allowed to extend the repatriation of export proceeds beyond 6 months for reasons beyond exporters’ control; 5. Corporates can undertake non-FX derivatives hedging directly with non-resident counterparties; and 6. Non-resident banks can trade ringgit interest rate swap (IRS) without underlying commitment with any onshore bank or its appointed overseas office (AOO). • All the measures above are effective on 15 April 2021 (except for Measure No. 6 which is effective on 15 March 2021).
<p>Shariah Ruling on the Adoption of Risk-Free Rate as an Alternative Benchmark Rate to London Interbank Offered Rate (LIBOR)</p>	<ul style="list-style-type: none"> • The Shariah Advisory Council of Bank Negara Malaysia ruled that the adoption of risk-free rate (RFR) as an alternative benchmark rate to LIBOR or as a fallback benchmark replacement rate after the permanent cessation of LIBOR is permissible. • This ruling aims to facilitate the orderly transition to the alternative RFR by Islamic financial institutions with the cessation of LIBOR. • This ruling came into effect on 22 March 2021.
<p>Policy Document (PD) on Statutory Reserve Requirement (SRR)</p>	<ul style="list-style-type: none"> • Since 16 May 2020, banking institutions have been allowed to use Malaysian Government Securities and Malaysian Government Investment Issues to fully meet SRR compliance. • The PD was updated on 16 March 2021 to reflect the extension of the flexibility granted to banking institutions to 31 December 2022.
<p>Exposure Draft (ED) on Anti-Money Laundering, Countering Financing of Terrorism and Targeted Financial Sanctions for Financial Institutions (AML/CFT and TFS for FIs) (Supplementary Document No.1) - Money Services Business</p>	<ul style="list-style-type: none"> • The ED was issued on 15 March 2021, setting out measures that ensure effective and robust Anti-Money Laundering and Counter Financing of Terrorism control measures and systems are in place to safeguard the safety and integrity of money services business. • The ED outlines the proposed minimum requirements and standards that approved remittance service providers and money changers must observe when implementing non-face-to-face verification processes to on-board corporate customers for the conduct of remittance and money changing business. • The ED was opened for consultation until 15 April 2021 and requirements will come into effect upon issuance of the final document.

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Macroeconomic Outlook

Highlights

- Global growth to improve at an uneven pace in 2021.
- Similarly, the Malaysian economy to recover, albeit at an uneven pace in 2021.
- Headline inflation is expected to average higher in 2021, due mainly to higher global oil prices.

A more positive but diverging global economic outlook in 2021

At the April World Economic Outlook, the IMF revised its projection of global growth in 2021 from 5.5% to 6.0%. This upward revision was driven by larger fiscal measures in several major economies and continued progress in the vaccination rollout, which will facilitate the easing of containment measures especially in the second half of the year.

However, the outlook between advanced economies (AEs) and emerging market economies (EMEs) is expected to diverge, due mainly to differences in the pace of vaccination. AEs are expected to recover earlier, as sufficient vaccines have been secured to achieve herd immunity by the end of 2021, thus facilitating the resumption of economic activity. Additional fiscal measures among some AEs will also provide further support to domestic demand conditions. Meanwhile, most EMEs will likely recover at a slower pace. The pace of vaccination is slower compared to AEs, hence potentially necessitating some re-imposition of containment measures, which will weaken the economic recovery.

The balance of risk remains tilted to the downside, with concerns over the pandemic remaining a key downside risk. This includes a resurgence in COVID-19 cases globally, a lower effectiveness of vaccines amid mutations in virus strains, and a slower-than-expected rollout of vaccines. There are some upside risks to growth, such as faster-than-expected vaccination progress and more forthcoming fiscal stimulus, particularly in AEs.

The Malaysian economy is on the recovery path supported by better external and domestic demand

Despite the recent re-imposition of containment measures, the impact on growth would be less severe than that experienced in 2020, as almost all economic sectors are allowed to operate. Overall, the growth recovery will benefit from better global demand, increased public and private sector expenditure as well as continued policy support. This will also be reflected in the recovery in labour market conditions, especially in the gradual improvement in hiring activity. Higher production from existing and new manufacturing facilities, particularly in the E&E and primary-related subsectors, as well as oil and gas facilities will provide further impetus to growth. The roll-out of the domestic COVID-19 vaccine programme will also lift sentiments and contribute towards recovery in economic activity. Nevertheless, the pace of recovery will be uneven across economic sectors.

The balance of risks remains tilted to the downside, arising mainly from ongoing uncertainties in developments related to the pandemic, and continued challenges that affect the roll-out of vaccines both globally and domestically.

Headline inflation is expected to average higher in 2021, due mainly to higher global oil prices

For 2021 as a whole, headline inflation is expected to average higher between 2.5% and 4.0%, primarily due to the cost-push factor of higher global oil prices. To a lesser extent, the

higher headline inflation rate is also partly due to the lapse in the impact from the tiered electricity tariff rebate implemented from April to December 2020.

In terms of trajectory, headline inflation is projected to temporarily spike in the second quarter of 2021, driven by the lower base from the low domestic retail fuel prices¹¹ in the corresponding quarter of 2020. Headline inflation in April and May may rise to approximately between 6.5% and 7.0%. However, this will be transitory as headline inflation is expected to return to below 5.0% in June, and continue to moderate thereafter as the base effect dissipates. Several other countries¹² are also expecting a similar phenomenon with surges in inflation amid higher energy prices and the base effect of having come from a low inflation rate in the same period last year.

Underlying inflation, as measured by core inflation, is expected to remain subdued, averaging between 0.5% and 1.5% for the year, amid continued spare capacity in the economy.

The inflation outlook, however, is subject to global oil and commodity price developments. In terms of upside risks, the impact on domestic retail fuel prices from higher global oil prices would be limited to some extent by the price ceilings¹³ effective February 2021. In addition, the enhanced Festive Season Maximum Price Control Scheme¹⁴ would help to curb price increases especially in fresh foods, thereby containing overall food inflation in the near term.

¹¹ 2Q 2020 average domestic retail fuel price (RON 95): RM 1.37/litre; Year-to-date (up to 7th May 2021): RM 1.99/litre.

¹² These countries include the euro area, the United Kingdom, Thailand, and Philippines.

¹³ Under the new pricing mechanism, the maximum price for RON 95 and Diesel is set at RM 2.05/litre and RM 2.15/litre, respectively.

¹⁴ The Hari Raya Aidilfitri Festive Season Maximum Price Control Scheme is in effect for 30 days from 21st April – 20th May 2021 (2020: 15 days). Rolled out in phases, there are a total of 32 items subject to price ceilings as of 6th May 2021.

Annex



T1

GDP by Expenditure Components (at constant 2015 prices)

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

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

Source: Department of Statistics, Malaysia

T2

GDP by Economic Activity (at constant 2015 prices)

	Share 2020 (%)	2020					2021
		1Q	2Q	3Q	4Q	Year	1Q
		Annual growth (%)					
Services	57.7	3.1	-16.2	-4.0	-4.8	-5.5	-2.3
Manufacturing	22.9	1.4	-18.3	3.3	3.0	-2.6	6.6
Agriculture	7.4	-8.6	0.9	-0.3	-1.0	-2.2	0.4
Mining	6.8	-2.9	-20.8	-7.8	-10.4	-10.6	-5.0
Construction	4.0	-7.9	-44.5	-12.4	-13.9	-19.4	-10.4
Real GDP	100.0	0.7	-17.2	-2.7	-3.4	-5.6	-0.5

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

Source: Department of Statistics, Malaysia

	2020			2021
	1Q	4Q	Year	1Q
	RM billion			
Current Account	8.8	18.6	60.0	12.3
(% of GDP)	2.4	4.9	4.2	3.3
Goods	28.9	42.6	138.7	36.6
Services	-7.6	-14.0	-47.4	-15.0
Primary income	-7.2	-7.2	-28.6	-5.7
Secondary income	-5.2	-2.7	-2.7	-3.6
Financial Account	-13.2	-10.2	-76.2	16.0
Direct investment	3.9	1.6	2.8	1.4
Assets	-1.0	-4.2	-15.2	-9.1
Liabilities	4.9	5.8	18.0	10.5
Portfolio investment	-41.4	-7.1	-48.2	0.4
Assets	-15.6	-19.9	-59.3	-14.2
Liabilities	-25.8	12.8	11.1	14.6
Financial derivatives	2.5	-0.9	0.4	0.3
Other investment	21.8	-3.7	-31.1	13.9
Net errors & omissions ²	-4.2	-11.0	-2.7	-10.9
Overall Balance	-8.7	-2.6	-19.3	17.1

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

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

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

² As at 1Q 2018, quarterly net E&O excludes reserves revaluation changes. This practice is backdated up to 1Q 2010.

Note: Numbers may not add up due to rounding

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

	2020		2021
	end-Mar	end-Dec	end-Mar
	RM billion		
Total External Debt	976.2	958.1	1,039.7
<i>USD billion equivalent</i>	223.3	235.5	247.9
By instrument			
Bonds and notes ¹	163.4	172.7	174.8
Interbank borrowings ¹	224.1	182.1	227.8
Intragroup loans ¹	133.7	128.3	129.4
Loans ¹	79.9	76.5	77.0
Non-resident holdings of domestic debt securities	187.0	220.1	236.4
Non-resident deposits	105.5	94.5	100.1
Others ²	82.4	84.0	94.0
Maturity profile			
Medium- and long-term	557.4	590.7	607.3
Short-term	418.7	367.5	432.3
Currency denomination			
Ringgit	294.5	324.7	348.9
Foreign	681.6	633.4	690.8
Total debt / GDP (%)	64.3	67.6	73.2
Short-term debt / Total debt (%)	42.9	38.4	41.6
Reserves / Short-term debt (times)	1.1	1.2	1.1 ³

¹ These debt instruments constitute the offshore borrowings.

² Comprise trade credits, IMF allocation of SDRs and miscellaneous.

³ Based on international reserves as at 30 April 2021.

Note: Figures may not add up due to rounding

Source: Ministry of Finance Malaysia and Bank Negara Malaysia

	2020			2021	2020			2021
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
	Change during the period (RM billion)				Annual growth (%)			
Total net financing	25.5	24.0	113.5	33.6	4.7	4.4	4.4	4.7
Outstanding:								
Loans ^{1,2}	13.1	7.6	70.6	24.4	3.8	3.7	3.7	4.3
Business enterprises	8.3	-4.0	6.0	13.2	3.4	0.9	0.9	1.6
SMEs ³	2.4	1.0	26.7	3.9	-5.6	9.6	9.6	10.0
Non-SMEs	5.9	-5.0	-20.7	9.3	10.7	-5.2	-5.2	-4.3
Households	0.5	14.4	60.3	7.8	3.8	5.4	5.4	6.0
Corporate bonds ⁴	12.5	16.4	42.9	9.2	7.6	6.5	6.5	5.9

¹ Loans from the banking system and development financial institutions (DFIs).

² Includes loans sold to Cagamas.

³ Partly reflects the reclassification exercise of SMEs to non-SMEs by financial institutions. Between January 2018 and December 2019, a net amount of RM60.4 billion of outstanding SME loans was reclassified as outstanding non-SME loans. RM38.3 billion was reclassified during the fourth quarter of 2019.

⁴ Excludes issuances by Cagamas and non-residents.

Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

	2020			2021	2020			2021
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
	During the period (RM billion)				Annual growth (%)			
Total								
Loan applications ¹	197.1	224.3	823.8	220.9	1.4	-0.5	-6.2	12.1
Loan approvals ¹	86.9	102.0	353.6	89.7	-4.4	-1.2	-13.8	3.3
Loan disbursements ²	315.4	331.4	1213.1	361.1	0.1	-1.0	-5.3	14.5
Loan repayments ²	319.8	332.8	1194.0	355.6	-0.2	2.7	-6.4	11.2
Of which:								
Business enterprises³								
Loan applications	92.4	82.8	355.2	81.1	9.6	-22.2	-11.6	-12.3
Loan approvals	41.4	42.4	164.0	35.4	0.8	-14.6	-14.5	-14.4
Loan disbursements	225.7	231.9	867.6	267.3	1.4	-2.0	-4.1	18.4
Loan repayments	220.2	238.2	869.2	258.4	-3.3	3.1	-4.3	17.4
SMEs⁴								
Loan applications	47.5	43.7	181.0	39.6	8.1	-14.3	-7.4	-16.6
Loan approvals	14.1	17.8	61.9	15.1	-8.4	-0.6	-8.1	7.1
Loan disbursements	63.5	73.3	256.8	77.6	-16.2	3.2	-13.2	22.3
Loan repayments	65.8	71.8	244.0	73.7	-14.3	-3.7	-19.3	12.0
Non-SMEs³								
Loan applications	45.0	39.0	174.2	41.5	11.2	-29.5	-15.6	-7.7
Loan approvals	27.3	24.6	102.0	20.3	6.3	-22.5	-18.0	-25.6
Loan disbursements	162.3	158.7	610.8	189.7	10.5	-4.2	0.3	16.9
Loan repayments	154.3	166.4	625.1	184.7	2.3	6.3	3.3	19.7
Households								
Loan applications	104.6	141.6	468.6	139.8	-4.9	18.8	-1.7	33.6
Loan approvals	45.5	59.6	189.6	54.3	-8.6	11.2	-13.3	19.4
Loan disbursements	89.6	99.5	345.5	93.8	-3.0	1.3	-8.0	4.7
Loan repayments	99.6	94.6	324.9	97.1	7.4	1.8	-11.5	-2.5

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

² Loan disbursements and repayments for all segments include data from the banking system and development financial institutions (DFIs). With effect from 1 April 2020, an automatic moratorium was implemented on loan/financing repayments/payments by household and SME borrowers for a period of 6 months.

³ Includes domestic non-bank financial institutions, domestic financial institutions, government, domestic other entities and foreign entities.

⁴ Partly reflects the reclassification exercise of SMEs to non-SMEs by financial institutions.

Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

	2020				2021
	1Q	2Q	3Q	4Q	1Q ^p
Return on equity (%)	10.4	10.0	9.8	9.2	8.4
Return on assets (%)	1.2	1.2	1.1	1.1	1.0
	RM million				
Net interest income	12,696	10,060	13,516	13,725	14,186
Add: Fee-based income	2,583	2,308	2,851	3,144	3,168
Less: Operating cost ¹	8,607	8,189	8,460	8,660	11,412
Gross operating profit	6,672	4,178	7,906	8,209	5,942
Less: Impairment ² and other provisions ³	2,763	2,401	3,275	5,864	1,594
Gross operating profit after provision ³	3,908	1,777	4,631	2,346	4,347
Add: Other income	4,643	6,242	3,602	3,940	2,884
Pre-tax profit³	8,552	8,019	8,233	6,285	7,231
	Annual growth (%)				
Return on equity (percentage points)	-1.1	-0.3	-3.1	-3.8	-2.0
Return on assets (percentage points)	-0.12	-0.32	-0.33	-0.42	-0.2
Net interest income	2.1	-16.2	6.4	4.7	11.7
Add: Fee-based income	1.3	-11.9	6.8	-2.7	22.7
Less: Operating cost ¹	2.7	-2.8	-1.9	-5.3	32.6
Gross operating profit	1.1	-32.7	17.2	14.0	-10.9
Less: Impairment ² and other provisions ³	1,583.6	645.4	299.4	15,452.3 ⁴	-42.3
Gross operating profit after provision ³	-39.3	-69.8	-21.8	-67.3	11.2
Add: Other income	82.2	13.4	-16.3	6.7	-37.9
Pre-tax profit³	-4.8	-29.6	-19.5	-42.1	-15.4

¹ Refers to staff costs and overheads.

² Refers to 12 Months Expected Credit Losses (ECL), Lifetime ECL Not Credit Impaired and Lifetime ECL Credit Impaired based on the Malaysian Financial Reporting Standard 9 (MFRS 9).

³ Partly reflects resubmission due to audit adjustments by financial institutions.

⁴ Reflects i) a significant increase in precautionary provisions set aside by banks amid continued uncertainty in the economic outlook; and ii) base effects from notably lower credit costs recorded during the fourth quarter of 2019 due to higher writebacks and recoveries. The net impaired loans ratio (impaired loans net of provisions) remains broadly unchanged from the year before at 1.0%, while the total provisions to total loans ratio increased to 1.7% in December 2020 (December 2019: 1.2%). For further details, please refer to the BNM Monthly Statistical Bulletin.

^p Preliminary

Source: Bank Negara Malaysia

	2020				2021
	1Q	2Q	3Q	4Q	1Q ^p
	RM million				
Life Insurance & Family Takaful					
Excess income over outgo	-11,617	16,360	8,022	9,328	-615
General Insurance & General Takaful					
Operating profit	545	1,154	764	912	717
Claims ratio (%)	59	52	56	53	55
	Annual growth (%)				
Life Insurance & Family Takaful					
Excess income over outgo	-235.7	105.9	111.4	141.7	94.7
General Insurance & General Takaful					
Operating profit	-23.8	70.4	-2.7	25.0	31.6
Claims ratio (percentage points)	2.5	-9.5	-3.4	-5.6	-4.4

^p Preliminary

Source: Bank Negara Malaysia

	2020			2021 ^p
	1Q	4Q	Year	1Q
	RM billion			
Revenue	45.3	77.0	225.1	49.5
<i>Annual growth (%)</i>	-28.9	10.2	-14.9	9.3
Operating expenditure	62.1	53.7	224.6	62.2
<i>Annual growth (%)</i>	4.5	-23.0	-14.7	0.2
Current account	-16.8	23.3	0.5	-12.7
Net development expenditure	10.8	20.2	50.1	15.3
<i>Annual growth (%)</i>	-4.4	3.2	-4.8	41.6
COVID-19 Fund ²	0.5	10.4	38.0	9.1
Overall balance	-28.1	-7.3	-87.6	-37.1
Memo:				
Total net expenditure	73.4	84.3	312.7	86.6
<i>Annual growth (%)</i>	3.8	-5.7	-1.0	18.0
Total Federal Government debt (as at end-period)	823.8	879.6	879.6	917.5
Domestic Debt	631.3	649.8	649.8	671.9
External Debt	192.5	229.8	229.8	245.6
<i>Non-resident holdings of RM-denominated debt</i>	167.2	206.1	206.1	222.2
<i>Offshore borrowing</i>	25.2	23.7	23.7	23.4

p Preliminary

Note:

¹ Numbers may not add up due to rounding.

² A specific trust fund established under Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020 to finance economic stimulus packages and recovery plan.

Source: Ministry of Finance, Malaysia and Bank Negara Malaysia