

Developments in the Malaysian Economy

Highlights

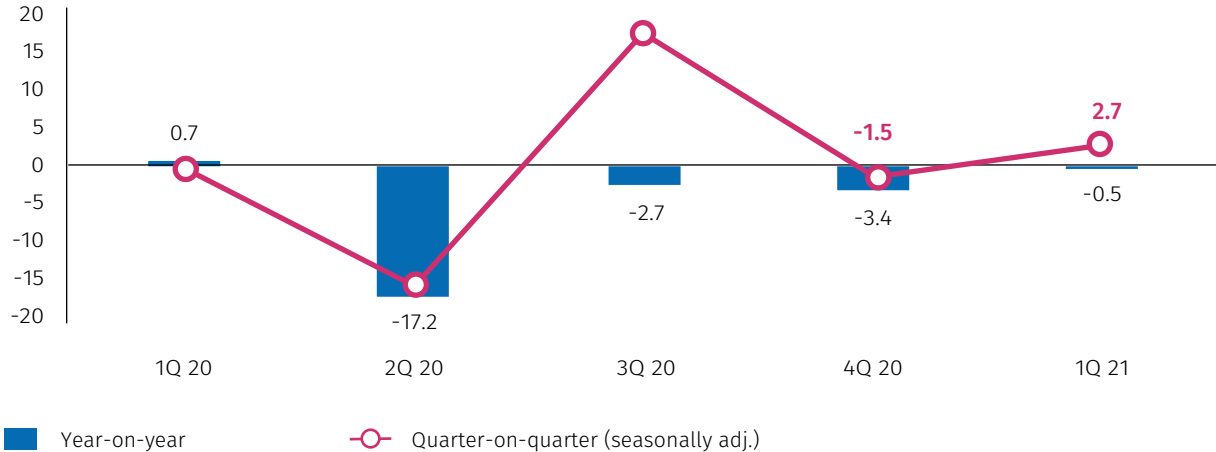
- Better economic performance, with smaller GDP decline of 0.5%.
- Headline inflation turned positive during the quarter mainly reflecting the base effect from fuel prices and the lapse in impact of electricity tariff rebates.
- Lower current account surplus of RM12.3 billion or 3.3% of GDP.

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

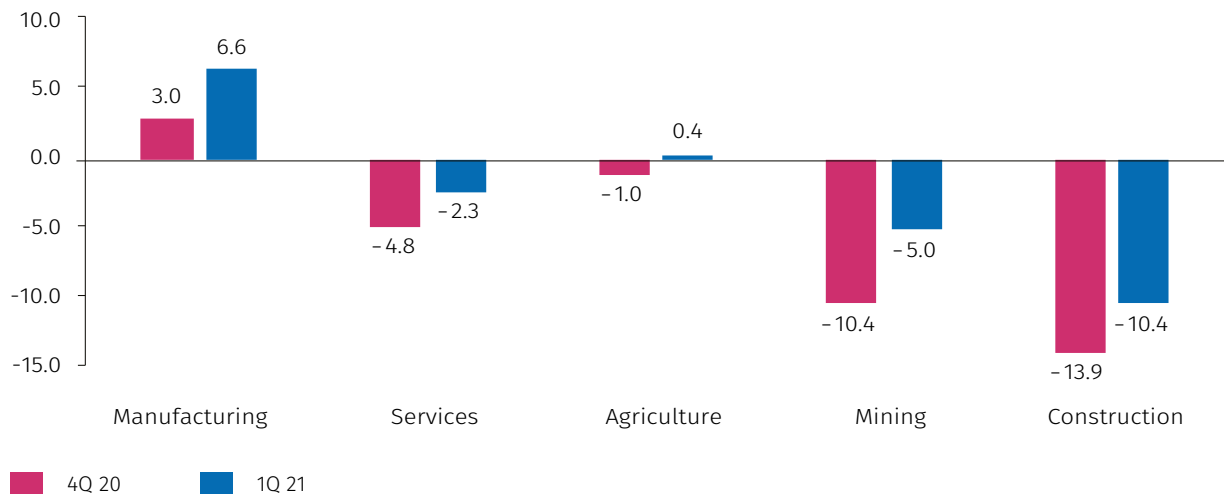
Period-on-period change (%)



Source: Department of Statistics, Malaysia

C5 Growth by Economic Sectors

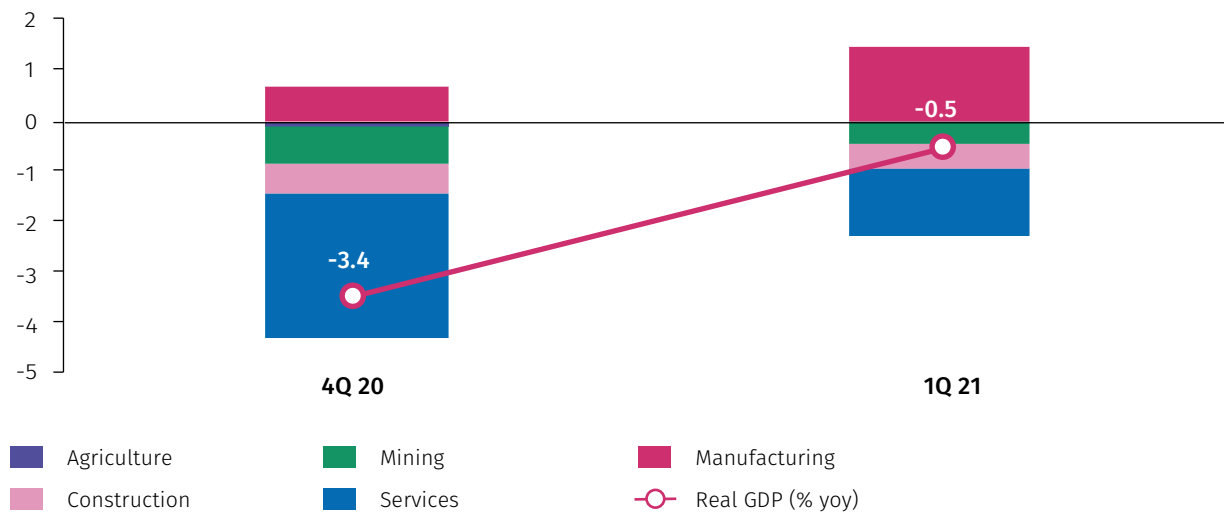
Year-on-year change (%).



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.

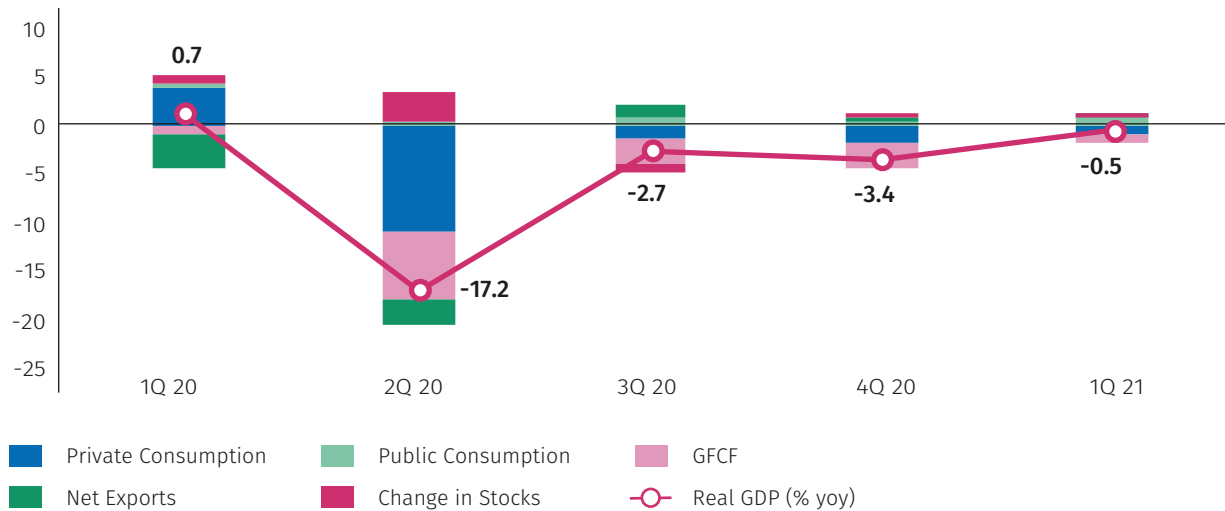
The mining sector contracted at a much slower pace of 5.0% (4Q 2020: -10.4%). Despite some facility closures for maintenance purposes during the quarter, both crude oil and natural gas production improved amid the gradual recovery in external demand and commencement of the PETRONAS Floating Liquefied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

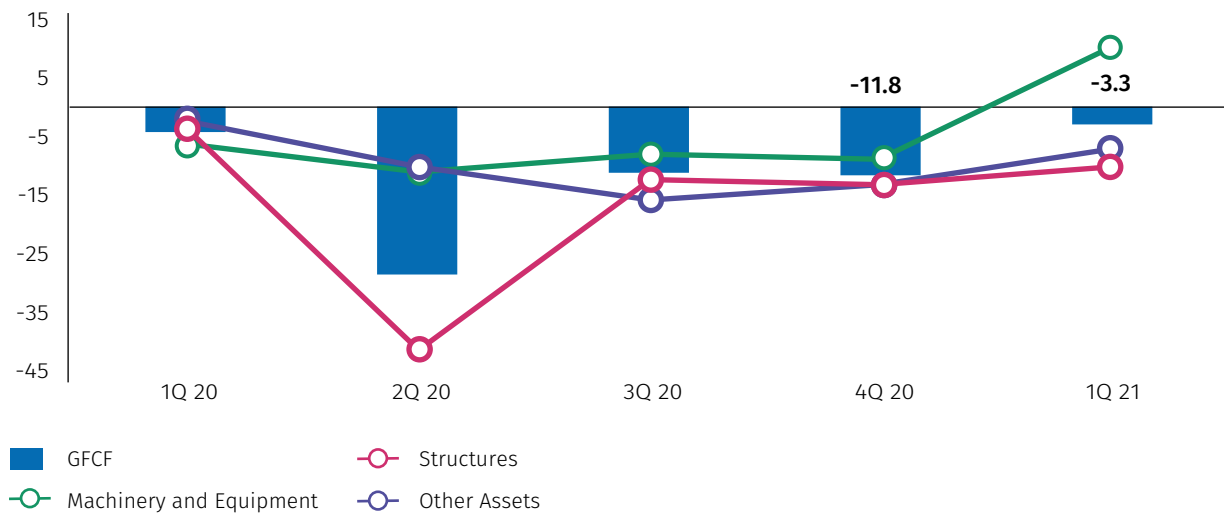
Domestic demand recorded a smaller decline of 1.0% (4Q 2020: -4.5%) in the first quarter of 2021, weighed down by the contraction in private sector expenditure amid the imposition of MCO 2.0. However, the impact of MCO 2.0 was smaller given that most economic sectors were allowed to operate and with 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

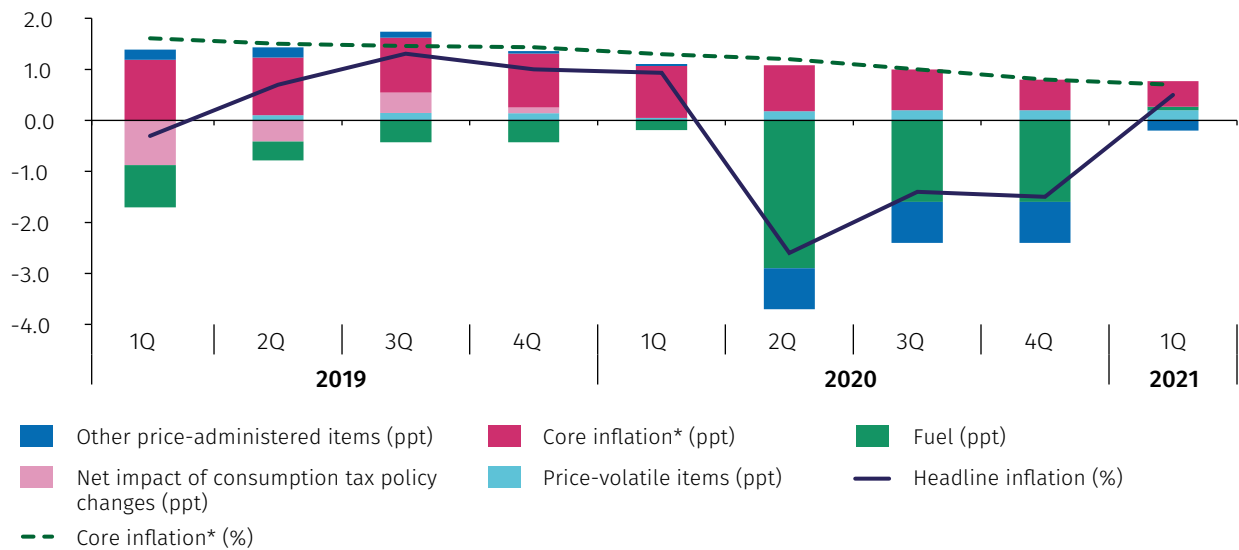
Gross fixed capital formation (GFCF) registered a smaller contraction of 3.3% (4Q 2020: -11.8%), supported mainly by the recovery in capital spending from the private sector. By type of asset, investment in machinery & equipment (M&E) expanded by 10.3% (4Q 2020: -9.0%), while investment in structures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



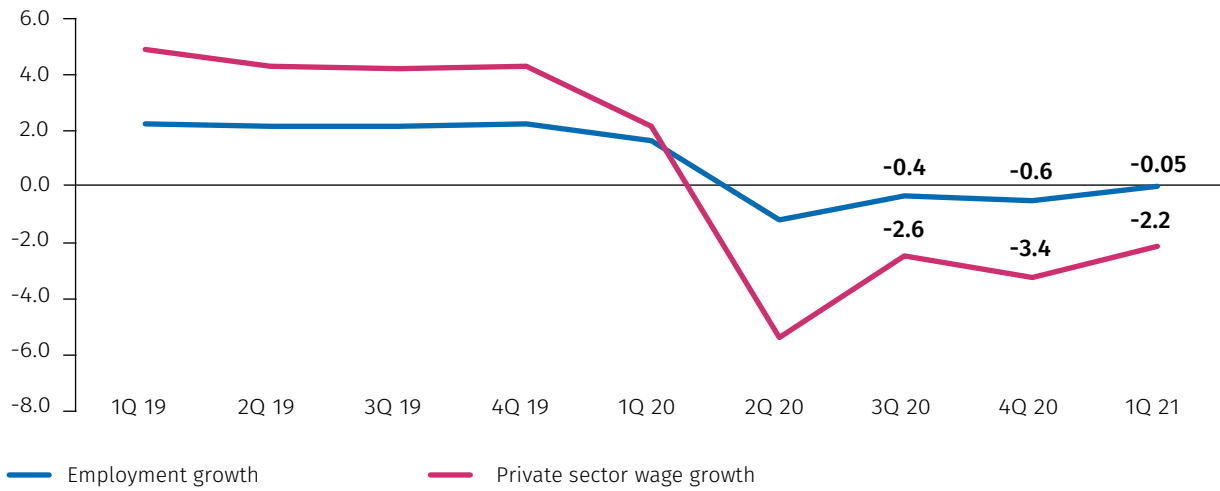
* Based on the month-on-month inflation for 125 CPI items at the 4-digit level

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

C11

Employment and Wage Growth

Year-on-year change (%)

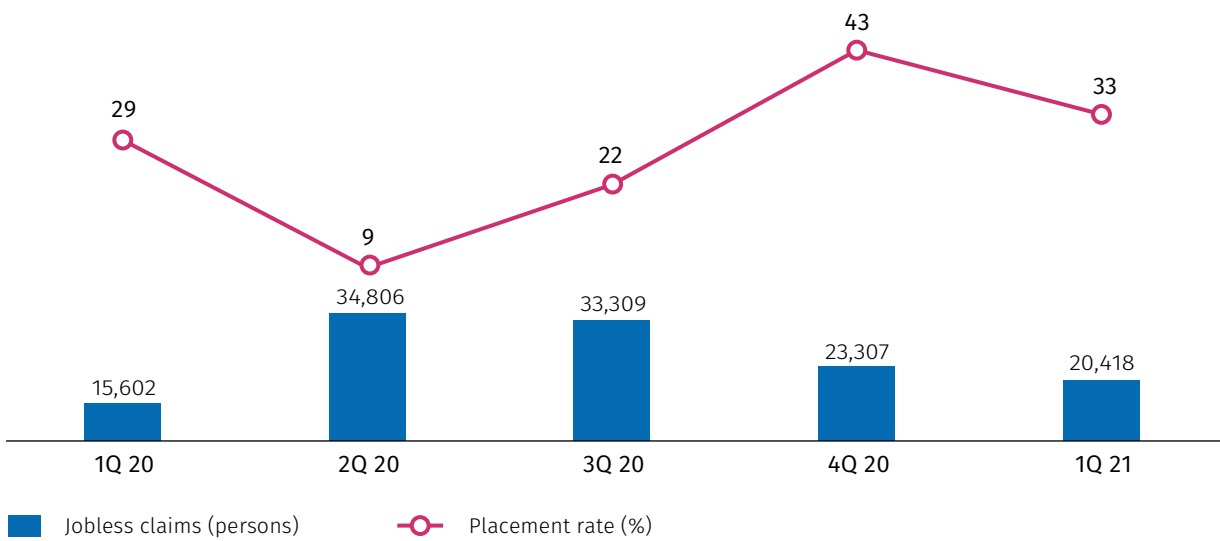


Note: Private sector wage growth refers to wage growth of workers in the manufacturing and services sectors

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

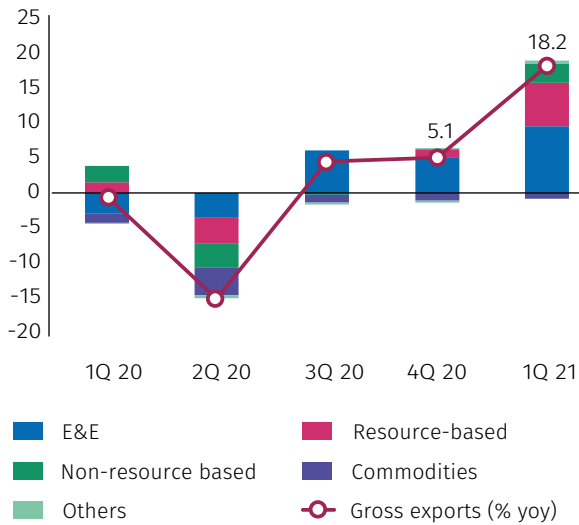
Labour market conditions showed initial signs of recovery in line with the pick-up in economic activity, despite the temporary weakness caused by the imposition of MCO 2.0. The unemployment rate remained at 4.8% (4Q 2020: 4.8%). This reflected a marginal contraction in employment growth (-0.05%; 4Q 2020: -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.

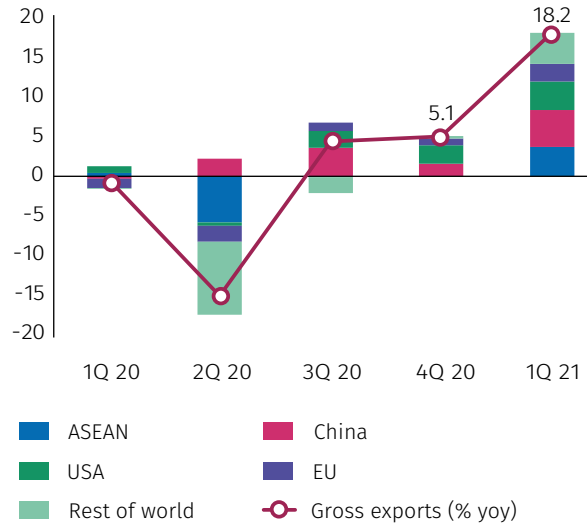
Meanwhile, private sector wages registered a smaller decline in the first quarter (-2.2%; 4Q 2020: -3.4%), attributable to modest improvements in both services and manufacturing wages. In the services sector, wages declined at a more moderate pace (-3.1%; 4Q 2020: -4.6%), driven by smaller contractions 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

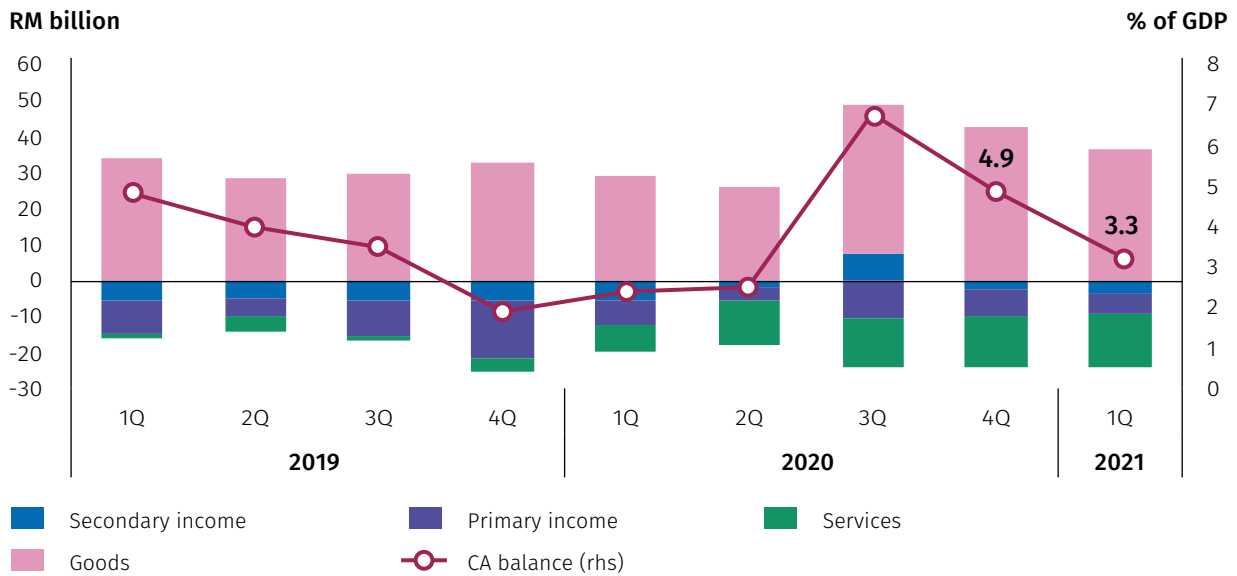
Gross exports grew at a faster pace of 18.2% (4Q 2020: 5.1%), driven by robust manufactured exports. Gross imports turned around to register a positive growth of 10.8% (4Q 2020: -4.5%), due to a broad-based improvement in all import categories. The trade surplus⁴ amounted to RM58.6 billion (4Q 2020: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

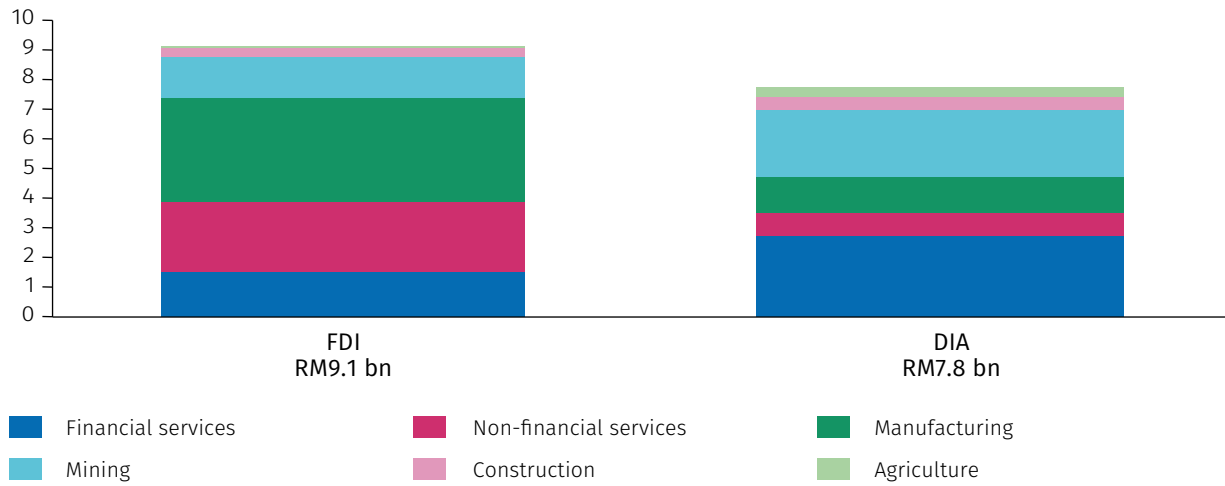
The primary income account registered a smaller deficit of RM5.7 billion (4Q 2020: -RM7.2 billion). This mainly reflected the higher investment income accrued to Malaysians from investments abroad.

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



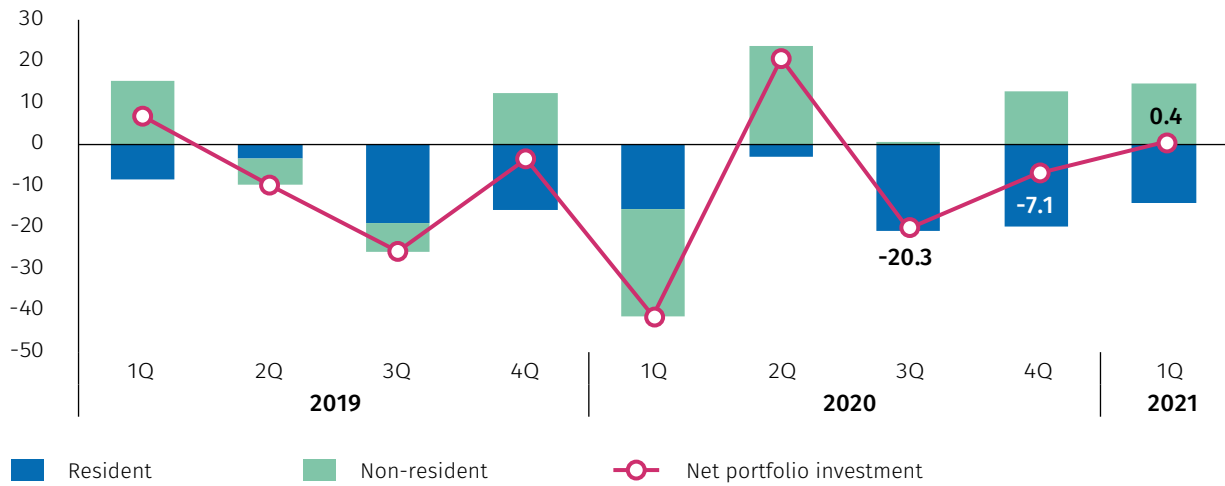
Note: For DIA, positive values refer to net outflows, while negative values refer to net inflows. Figures may not sum due to rounding.

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

C16

Portfolio Investment

RM billion



Source: Department of Statistics, Malaysia and Bank Negara Malaysia

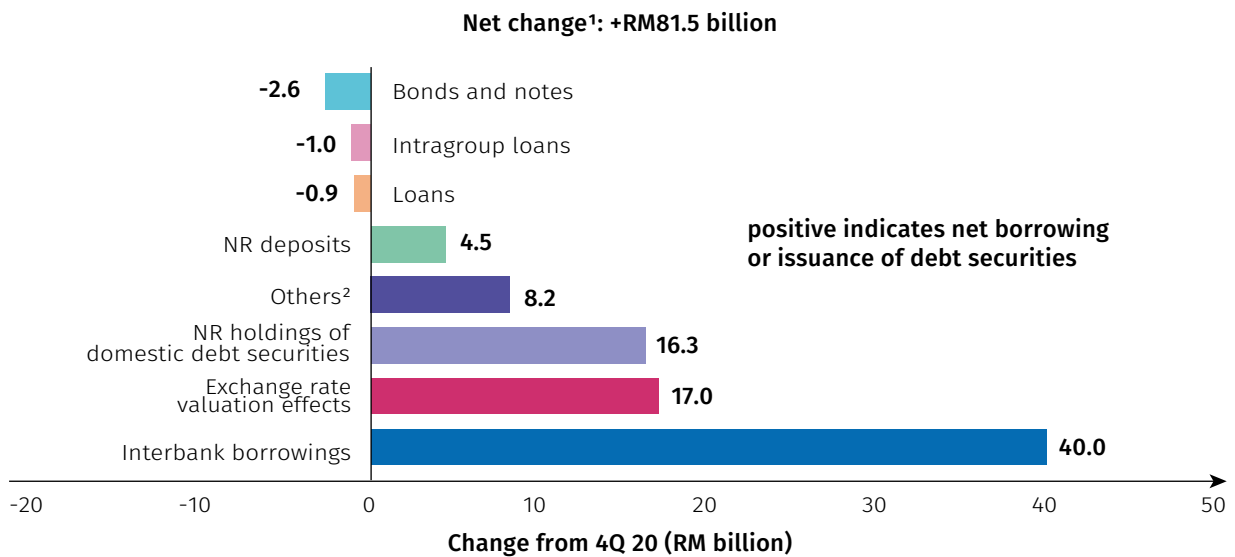
Financial account registered a net inflow supported by inflows in all major accounts

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

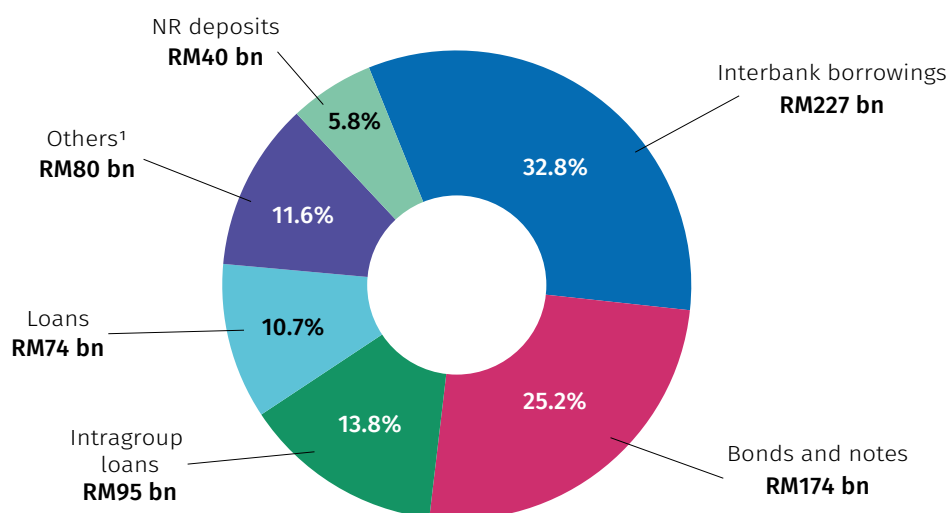
External debt remained manageable

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.