



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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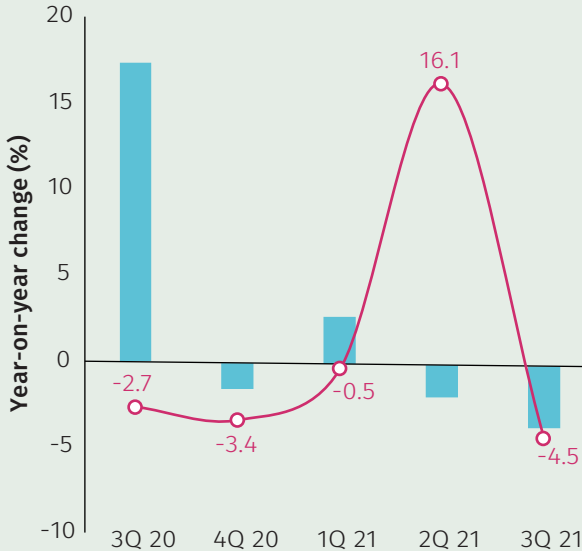
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Highlights: 3Q 2021

GDP affected by strict containment measures while inflation moderated in 3Q 2021

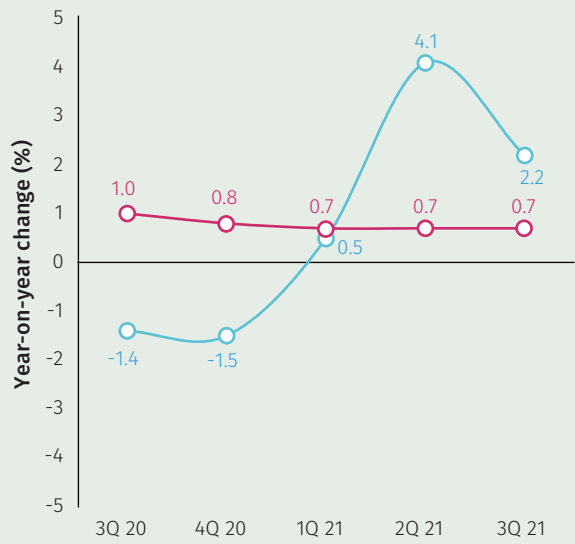
Economic activity affected by the re-imposition of strict containment measures



■ quarter-on-quarter (seasonally adj.)
○ year-on-year

Source: Department of Statistics, Malaysia

Headline inflation moderated, driven mainly by the dissipating base effect from fuel prices



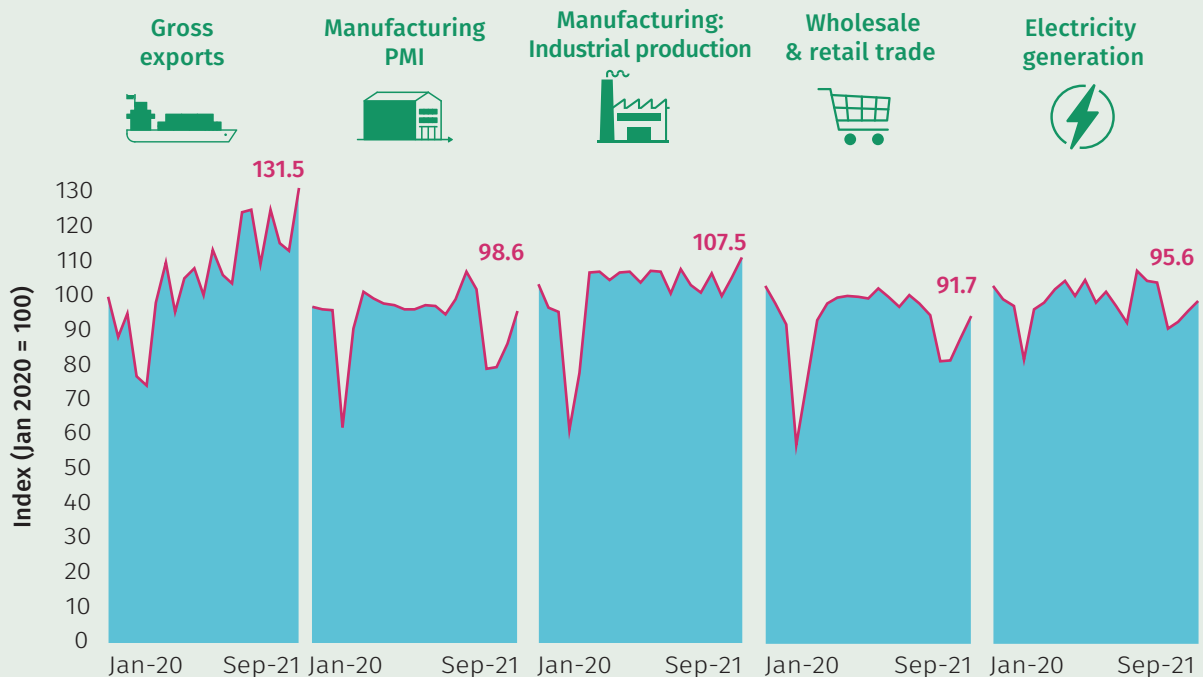
○ Headline inflation
○ Core inflation*

* Core inflation is computed by excluding price-volatile and price-administered items

Source: Department of Statistics, Malaysia

External trade remained strong, while economic activities that were affected by tighter containment measures in July subsequently improved as restrictions were gradually eased

Key Economic Indicators



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

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International Economic Environment

Highlights

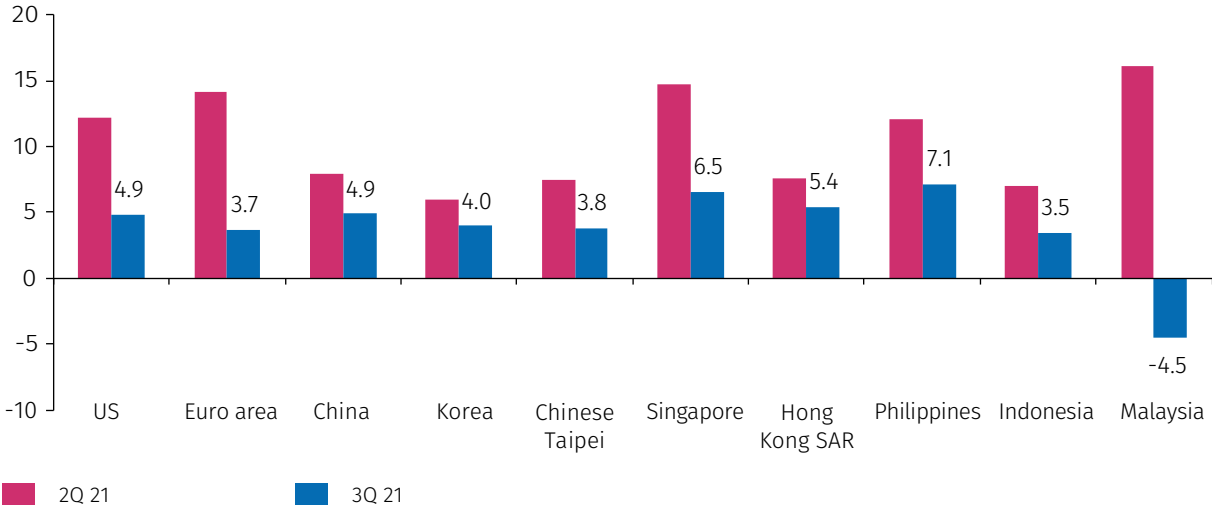
- Global growth moderated during the third quarter of 2021.
- Regional exports recovery continued.
- Global financial market conditions remained volatile.

Global growth recovery slowed

The global economy continued to recover but moderated in the third quarter of 2021. This follows a strong recovery in the previous quarter, due mainly to a low base from the second quarter of 2020, when COVID-19 related lockdowns were widespread. In most advanced economies (AEs), growth was broad-based across manufacturing and services as containment measures were eased further amid higher vaccination rates. In contrast, many emerging market economies (EMEs) experienced a softer recovery in domestic demand due to localised lockdowns to curb resurgences amid relatively lower vaccination rates. Nevertheless, trade activity remained strong, especially among commodity exporters.

C1 GDP Growth of Selected Economies

Year-on-year change (%)



Source: National authorities

Growth for the US economy slowed to 4.9% during the quarter (2Q 2021: 12.2%). Private consumption continued to recover, supported by improving labour market conditions. However, the recovery was softened by production constraints, which dampened manufacturing activity. Services activity also moderated due to waning consumer confidence amid a resurgence in the number of COVID-19 cases. Domestic activity was weighed further by labour shortages, particularly in high-touch sectors, due to early retirements and delayed school re-openings disrupted by COVID-19 outbreaks that hampered the re-entry of parents into the workforce.

Growth in the euro area moderated to 3.7% (2Q 2021: 14.2%). Services activity continued to improve, driven by normalisation in the services sector amid higher vaccination rates and a gradual improvement in tourism activity. The expansion in the manufacturing sector slowed despite continued domestic and external demand as material

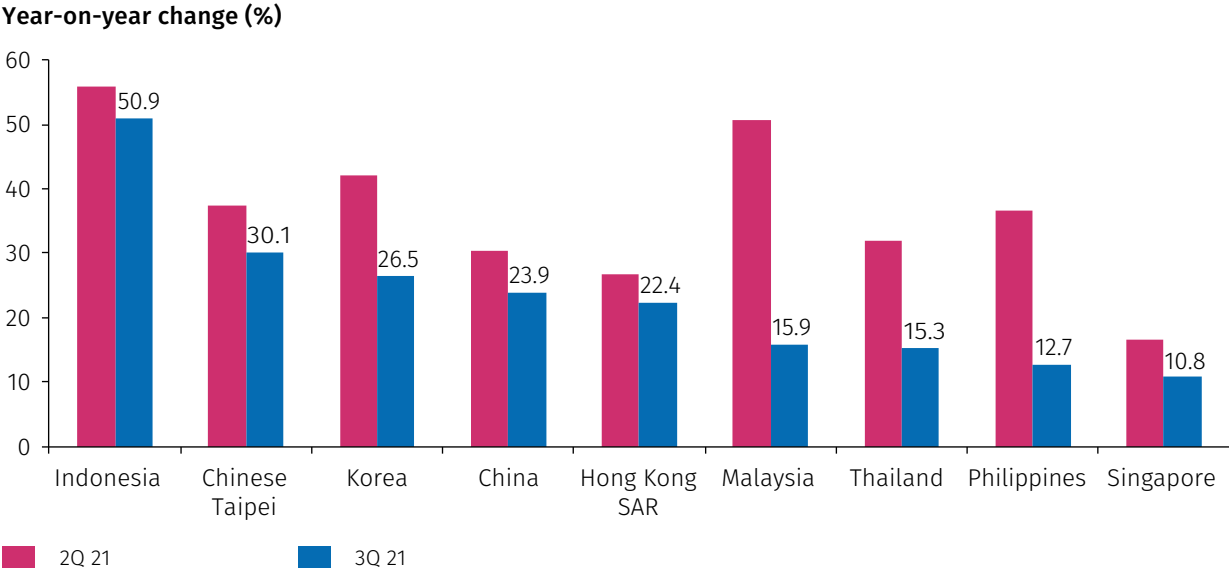
shortages and shipping bottlenecks constrained production.

In China, the economy grew by 4.9% (2Q 2021: 7.9%). Domestic demand slowed during the quarter due to the imposition of localised lockdowns to contain COVID-19 outbreaks, disruptions from power outages, as well as weak fixed investments, particularly in infrastructure and real estate. Sustained strength in external demand continued to support growth.

Continued strength in regional exports

Exports in regional economies moderated but remained strong during the quarter. Demand continued to be driven by electrical and electronics (E&E) products, with commodity exporters also benefitting from rising commodity prices amid higher global demand for oil, gas, and coal.

C2 Exports Growth of Selected Economies (in USD terms)

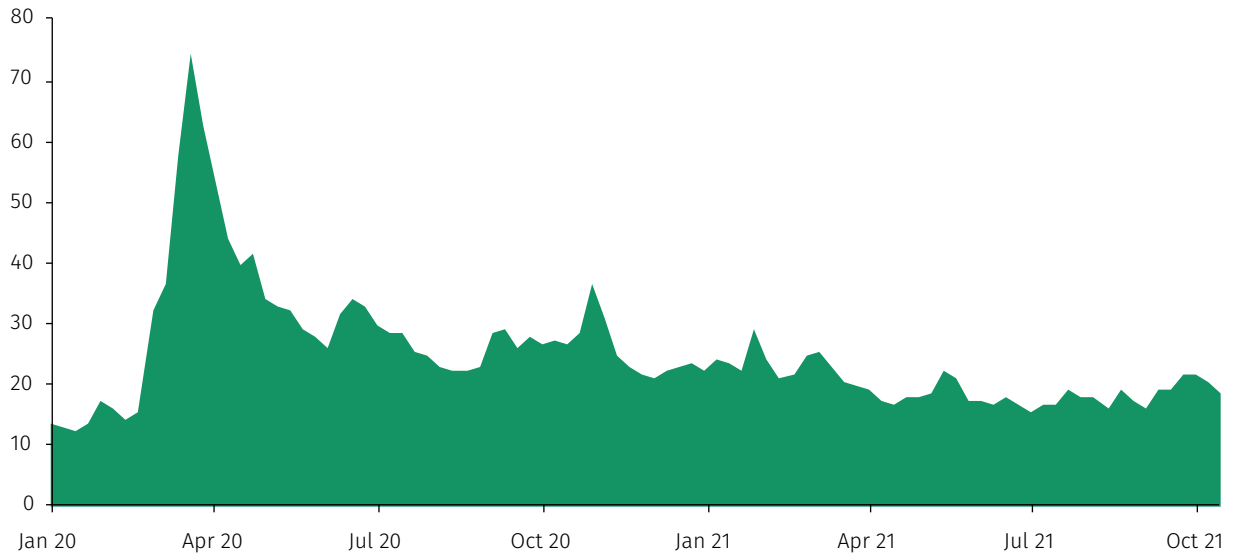


Source: National authorities



CBOE Volatility Index (VIX)

Index



Source: Bloomberg

Global financial market conditions remained volatile

Global financial market conditions remained volatile, as reflected by the CBOE Volatility Index (VIX) which stayed elevated at levels similar to the previous quarter (2Q 2021: 18.1). Volatility increased towards the end of the quarter, following the release of the US Federal Open Market Committee deliberations in the September meeting. Rising inflation led to expectations for a faster tightening of monetary policy in the US. Uncertainties surrounding the global economic outlook increased amid rising

COVID-19 cases, high commodity prices and fears of global contagion from China’s property sector. Investor sentiments were also weighed by uncertainties in the resolution of the US federal government budget and debt ceiling which lingered towards the end of the quarter.

Brent crude oil prices averaged USD73 per barrel during the quarter (2Q 2021 average: USD63 per barrel), driven by improving global oil demand. The disruptions to US production facilities due to Hurricane Ida have also lifted oil prices during the quarter amid ongoing OPEC+ production restraints since May 2020.

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Developments in the Malaysian Economy

Highlights

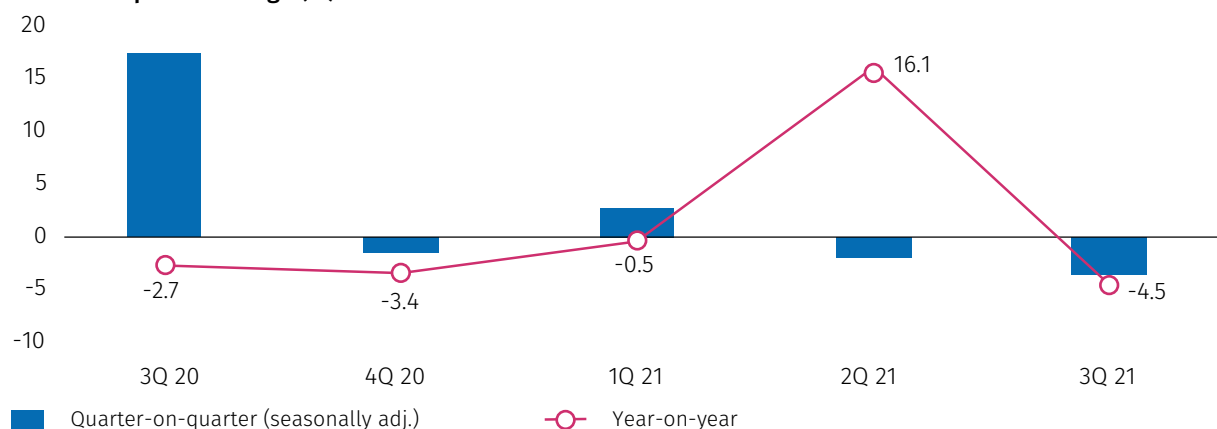
- The Malaysian economy contracted by 4.5% in the third quarter of 2021.
- Headline inflation moderated to 2.2% during the quarter.
- Lower current account surplus of RM11.6 billion or 3.1% of GDP.

GDP growth declined in the third quarter of 2021

The Malaysian economy experienced renewed demand and supply shocks arising from strict containment measures under the National Recovery Plan (NRP)¹ during the third quarter of 2021. As a result, the economy contracted by 4.5% (2Q 2021: +16.1%). Economic activity was particularly impacted in July under Phase 1 of the NRP, but subsequently recovered as more states transitioned into Phase 2 with less restrictive containment measures.² On the supply side, all economic sectors registered a contraction, particularly the construction sector, which was constrained by operating capacity limits. On the demand side, the restrictions on mobility, especially on inter-district and inter-state travel, has weighed on consumption and investment activity, while continued increase in public sector consumption spending provided some support to overall growth. On a quarter-on-quarter seasonally-adjusted basis, the economy registered a decline of 3.6% (2Q 2021: -1.9%).

C4 Real GDP Growth

Period-on-period change (%)



Source: Department of Statistics, Malaysia

¹ NRP replaced the Full Movement Control Order (FMCO) that was originally announced on 28 May 2021. There are four phases of the NRP, of which Phase 1 contains the most restrictive containment measures.

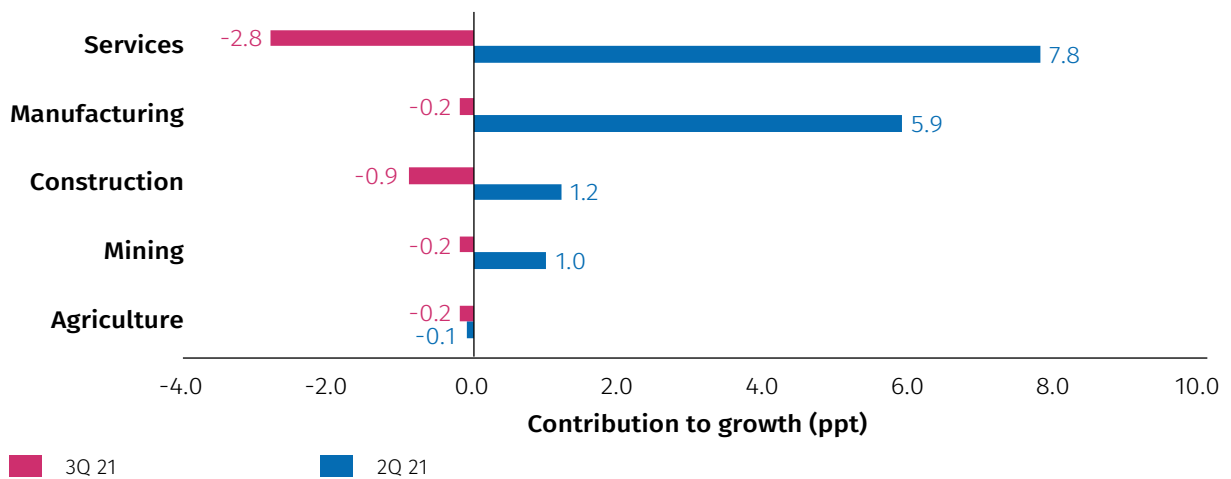
² As at end-September 2021, only Perlis, Sarawak, Terengganu and Pahang were in Phase 3, while Labuan and Negeri Sembilan were in Phase 4 of the NRP. The Klang Valley first entered Phase 2 on 10 September 2021 and later into Phase 3 on 1 October 2021.

C5 Annual Growth of Economic Sectors



Source: Department of Statistics, Malaysia

C6 Contributions of Economic Sectors to Real GDP Growth



Source: Department of Statistics, Malaysia

Lower activities across all economic sectors

All economic sectors recorded negative growth in the third quarter of 2021. The services sector declined by 4.9% (2Q 2021: 13.5%). The services sector was affected by weaker consumer-related activities amid the re-imposition of the lockdown, particularly in July. Nonetheless, consumer-related activities have shown emerging signs of recovery on a month-on-month basis since August as operating restrictions were eased, including for restaurants and recreational activities. The finance and insurance subsector continued to grow, driven mainly by higher net insurance premiums. Growth in the information and communication subsector provided some support amid continued demand for data communications services particularly for e-commerce and e-payment activities.

The manufacturing sector contracted marginally by 0.8% (2Q 21: 26.6%) largely due to continued implementation of NRP Phase 1 in July in most states, as activities allowed to operate were restricted to essentials and global value chains (GVCs). Production was further constrained to essential manufacturing activities during the 2-week EMCO (3 - 16 July) in Klang Valley, affecting the E&E subsector in particular. However, relaxation of restrictions for firms

with vaccinated employees were implemented on 16 August. This facilitated a broad-based recovery across all manufacturing clusters. GVC sectors continued to expand in tandem with strong external demand, while non-essential manufacturing activities gradually recovered as operating restrictions eased.

The construction sector declined by 20.6% (2Q 2021: 40.3%) as activities were constrained by operating capacity limits. Growth in the residential, non-residential and civil engineering subsectors were particularly affected, but the situation improved from August following easing of the containment measures,³ allowing more construction activities to resume.

Activities in the mining sector declined by 3.6% (2Q 2021: 13.9%). Production of both crude oil and natural gas were lower during the quarter, attributed mainly to several facility closures for maintenance purposes including the Gumusut-Kakap field located in offshore East Malaysia.

The agriculture sector recorded a contraction of 1.9% (2Q 2021: -1.5%), driven mainly by weak oil palm production as harvesting activity was hampered by the prolonged labour shortages. Growth was also weighed by further weaknesses in the aquaculture sub-sector, which more than offset the continued improvement in rubber, forestry, livestock and other agriculture sub-sectors.

³ Activities that were allowed to operate was expanded to include among others government funded projects, projects undertaken by G1-G4 grade contractors and renovation of private residential units and commercial buildings. Operating capacity limit under Phase 2 was also increased from 60% to 80% and can be further increased depending on the vaccination rate among workers.

C7

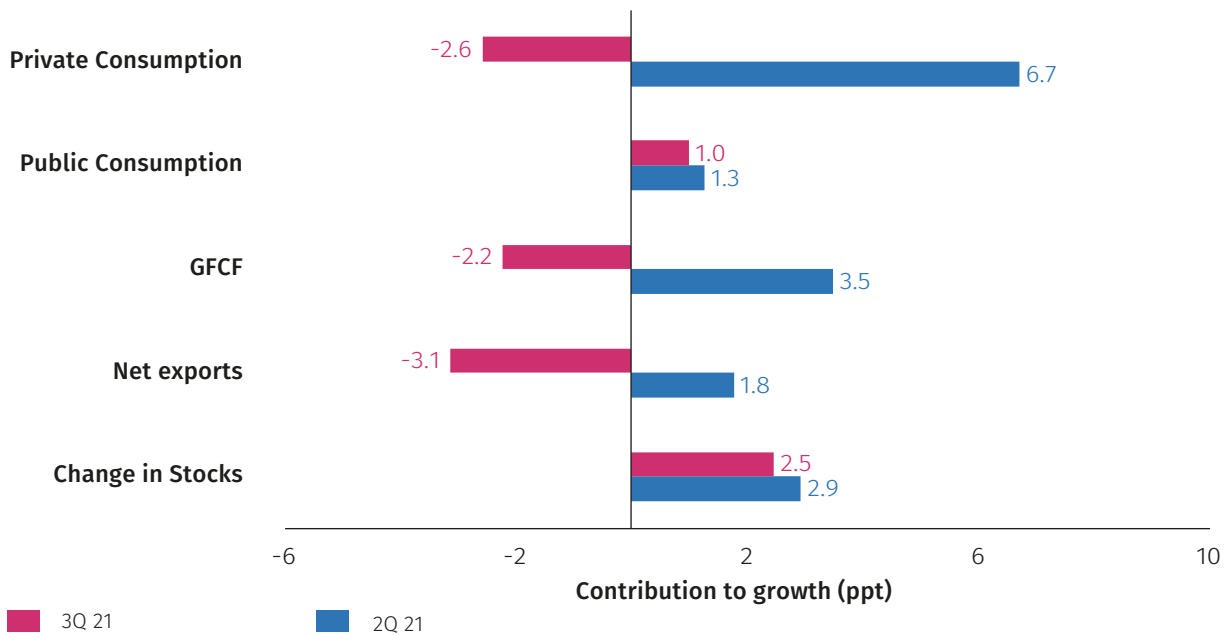
Annual Growth of Real GDP by Expenditure Components



Source: Department of Statistics, Malaysia

C8

Contributions of Expenditure Components to Real GDP Growth



Source: Department of Statistics, Malaysia

Decline in domestic demand

Domestic demand declined by 4.1% (2Q 2021: 12.4%) in the third quarter of 2021, as private consumption and investment activities were affected by the imposition of phased restrictions under NRP. On the external front, net exports contracted by 37.5% (2Q 2021: 34.3%) as growth in imports outpaced the growth in exports.

Private consumption declined by 4.2% (2Q 2021: 11.7%), as the stringent containment measures and mobility

restrictions weighed on household spending in the first half of the quarter. Similarly, labour market conditions also weakened in the same period with weaker income and employment growth. Nevertheless, various policy measures, including the EPF i-Sinar and i-Citra withdrawals as well as Bantuan Khas COVID-19 (BKC), continued to provide support to affected households.

Public consumption expanded by 8.1% during the quarter (2Q 2021: 9.0%), supported by COVID-19 related expenditure, including vaccine procurement and logistics spending.

Contraction in investment activity

Gross fixed capital formation (GFCF) contracted by 10.8% (2Q 2021: 16.5%), driven by lower capital spending in both private and public sectors. By type of asset, investment in structures declined by 26.1% (2Q 2021: 20.2%), while investment in machinery and equipment (M&E), and other assets increased by 10.2% (2Q 2021: 15.1%) and 8.3% (2Q 2021: 4.4%) respectively.

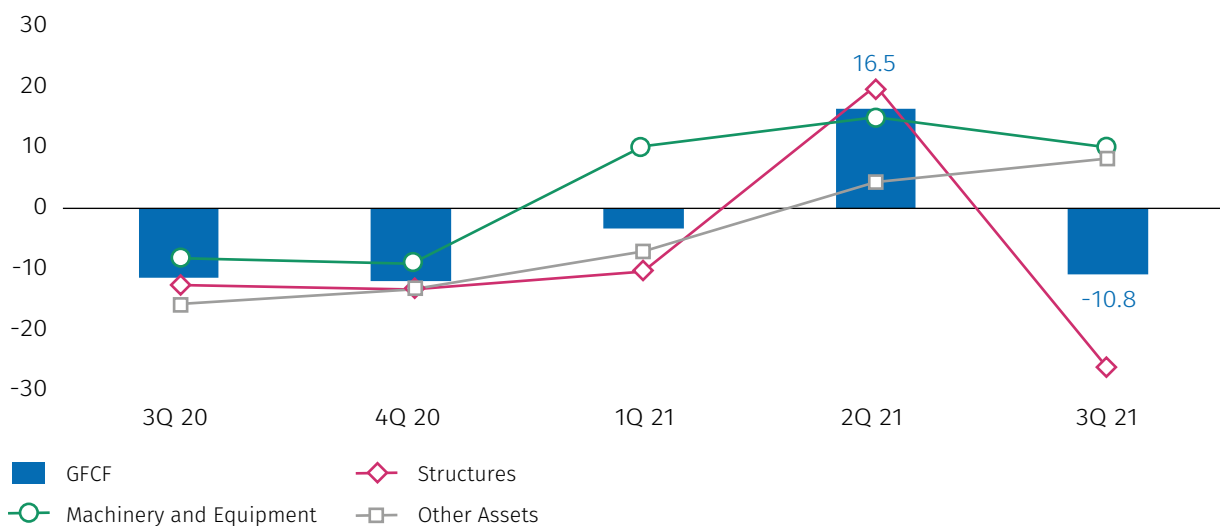
Private investment declined by 4.8% (2Q 2021: 17.4%), as the containment measures had constrained firms' operating capacity and affected the

realisation of investments, particularly in structures. The impact however, was mitigated by the increase in capital spending for ICT equipment and research and development (R&D), especially as firms in the export-oriented sectors continued to expand their capacity.

Public investment recorded a contraction of 28.9% (2Q 2021: 12.0%). Fixed assets spending by the General Government declined, especially in construction and repairs of buildings and facilities, while capital expenditure by public corporations were lower across all sectors.

C9 GFCF Growth by Type of Asset

Year-on-year change (%)



Source: Department of Statistics, Malaysia

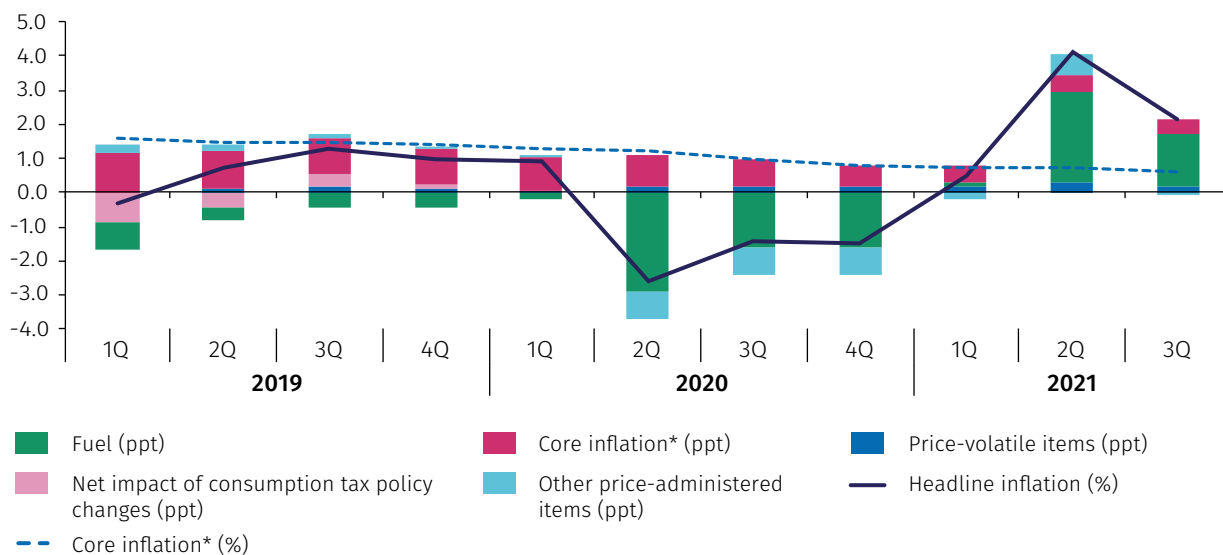
Headline inflation moderated during the quarter

Headline inflation, as measured by the annual percentage change in the Consumer Price Index

(CPI), moderated to 2.2% during the quarter (2Q 2021: 4.1%). Lower inflation during the quarter mainly reflected the dissipating base effect from fuel prices as well as the implementation of a three-month electricity bill discount effective July 2021.⁴

C10 Contribution to Headline Inflation by Components

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

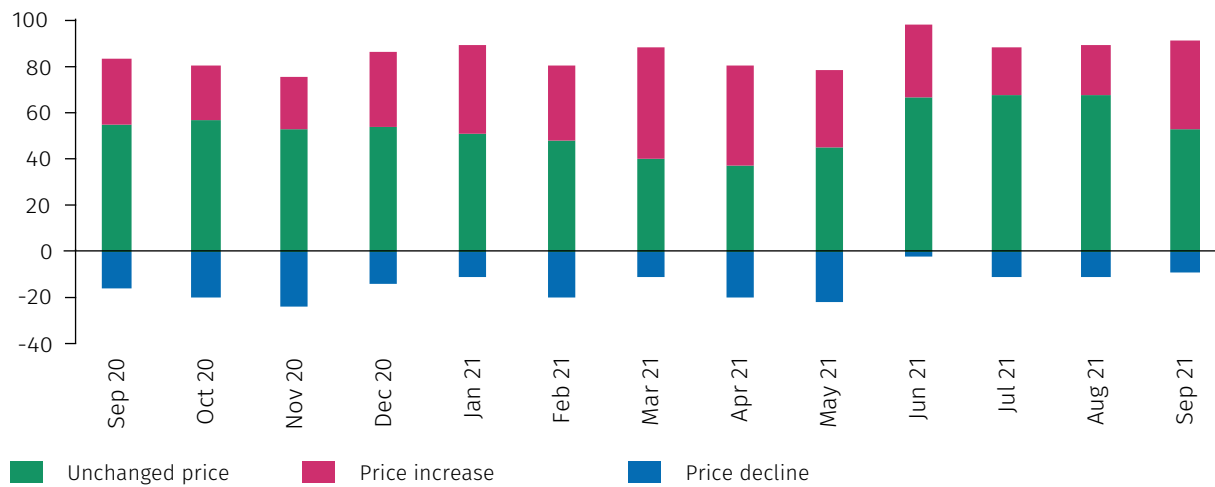


* Core inflation is computed by excluding price-volatile and price-administered items. It also excludes the estimated direct impact of consumption tax policy changes.

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

⁴ The electricity bill discount was implemented under the PEMULIH Electricity Discount scheme from July to September 2021, with discounts ranging from 5% to 40% depending on monthly electricity consumption.

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

Following the re-imposition of movement restrictions from June onwards, a larger share of CPI items recorded unchanged prices throughout most of the quarter (August: 68%; July 68%; 2Q 2021 average: 50%). As economic activity gradually resumed under the NRP especially from early September, the share of CPI items recording price increases rose to 38% in September (2Q 2021 average: 36%).

Notwithstanding the movement restrictions, core inflation was sustained amid the reduction in economic activity, averaging 0.7% during the quarter (2Q 2021: 0.7%). Nonetheless, some consumer items recorded relatively high inflation, partly reflecting spillovers from the elevated global cost pressures. These include some items in the core CPI basket such as *furniture and furnishings*, as well as items in the non-core CPI basket, particularly *fresh meat* and *eggs* in September.

Weak labour market recovery affected by NRP

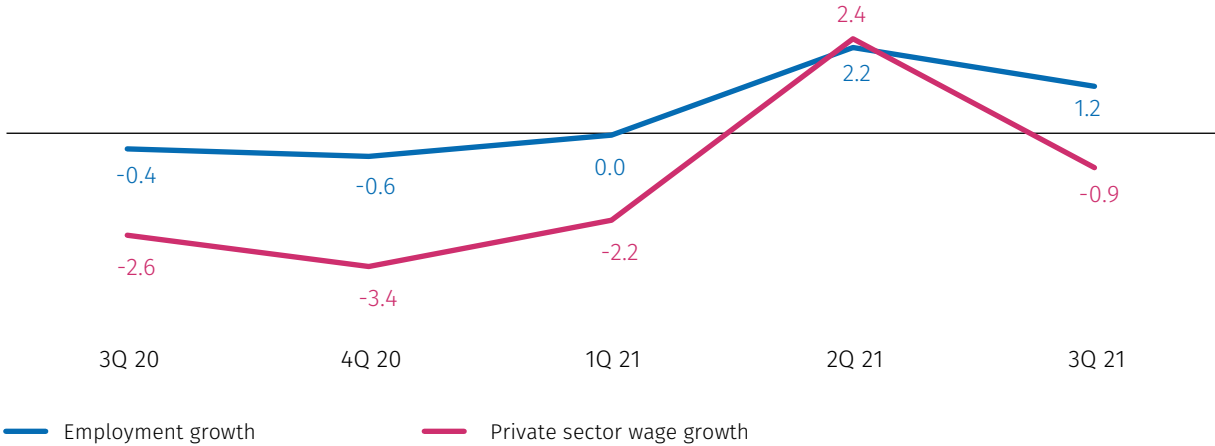
Labour market conditions remained subdued throughout the quarter. However, conditions started to improve in August and September as restrictions were gradually relaxed. For the third quarter as a whole, the unemployment rate declined slightly to 4.7% (2Q 2021: 4.8%). This was driven by a slightly larger increase in employment (+67.5 thousand persons; 2Q 2021: -29.2 thousand) relative to labour force expansion (+48.8 thousand persons; 2Q 2021: -36.2 thousand). The improvement to the unemployment rate, however, was also partly due to a continued, albeit smaller increase in the population outside the labour force (+5.2 thousand persons; 2Q 2021: +108.9 thousand), with 44.1% (2Q 21: 43.5%) of individuals citing

housework/family obligations and 41.5% (2Q 21: 42%) citing schooling and training as reasons for not seeking employment.

Data from SOCSO indicated that jobless claims remained elevated during the quarter (15,753 persons; 2Q 2021: 14,311). Despite an improvement in August, there was a spike in layoffs in September following restructuring exercises by firms in the E&E and primary-related manufacturing sectors during the month. The placement rate of employees into new jobs was also lower (31 per 100 people retrenched; 2Q 2021: 40).⁵ Nevertheless, latest developments in October indicated that jobless claims declined (Oct. 2021: 4,399 persons; Sep. 2021: 5,415 persons) and placement rates increased (Oct. 2021: 38%; Sep. 2021: 32%), in line with continued improvements in overall labour market conditions.

C12 Employment and Wage Growth

Year-on-year change (%)



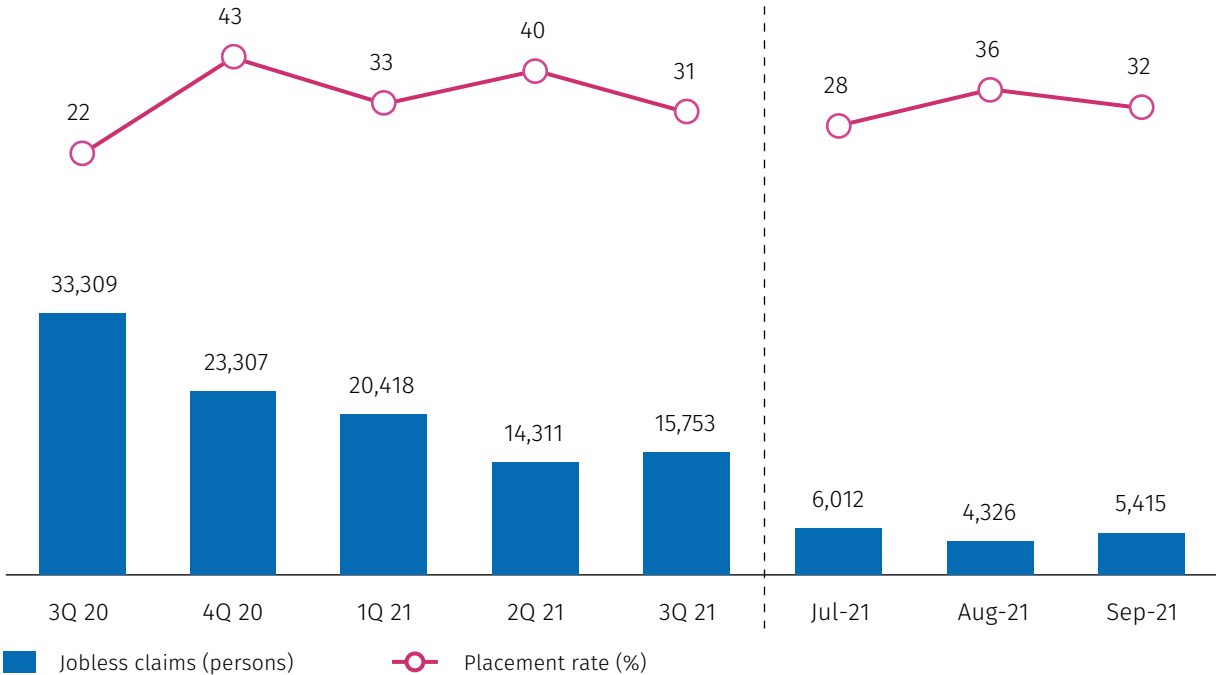
Note: Private sector wage growth refers to wage growth of workers in the manufacturing and services sectors
Source: Department of Statistics, Malaysia

⁵ Job losses and retrenchments are proxied by the number of people who apply for the EIS benefits (jobless claims) 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. EIS data does not include non-standard workers, who may be more significantly affected by the movement restrictions.

Private sector⁶ wages declined marginally by 0.9% in the third quarter (2Q 2021: 2.4%), mainly attributable to a contraction in services sector wages (-2.6%; 2Q 2021: 0.4%), while wages in the manufacturing sector continued to register a modest growth of 2.3% (2Q 2021: 6.0%). In the services sector, wages decline was broad-based across the sub-sectors, likely reflecting continued

cautiousness among employers, amid on-going weakness in economic activities. In the manufacturing sector, wage growth remained supported by the E&E, petrochemicals and rubber products, and food, beverage and tobacco sub-sectors. On a quarter-on-quarter basis, private sector wages remained on an improving trend, rising by 0.7% (2Q 2021: -2.2%).

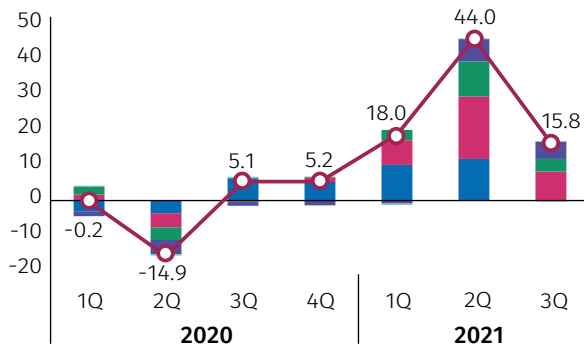
C13 Jobless Claims and Placement Rate



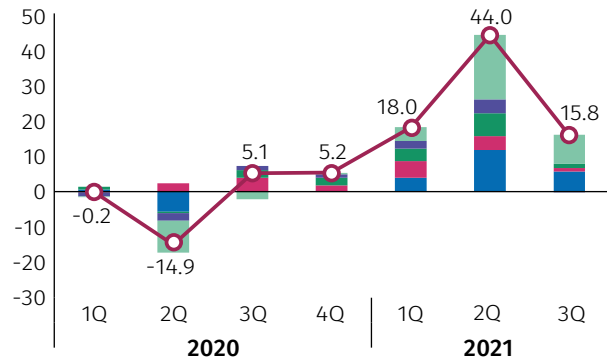
Note: Jobless claims refers to the number of people who applied for the Employment Insurance System (EIS) benefits following loss of employment. The placement rate refers to the number of people placed in new jobs under the EIS for every 100 persons retrenched. Source: Employment Insurance System, Social Security Organisation

⁶ Private sector wages refer to wages in the manufacturing and services sectors.

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



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



Source: Department of Statistics, Malaysia

Continued expansion of gross exports underpinned by strong external demand

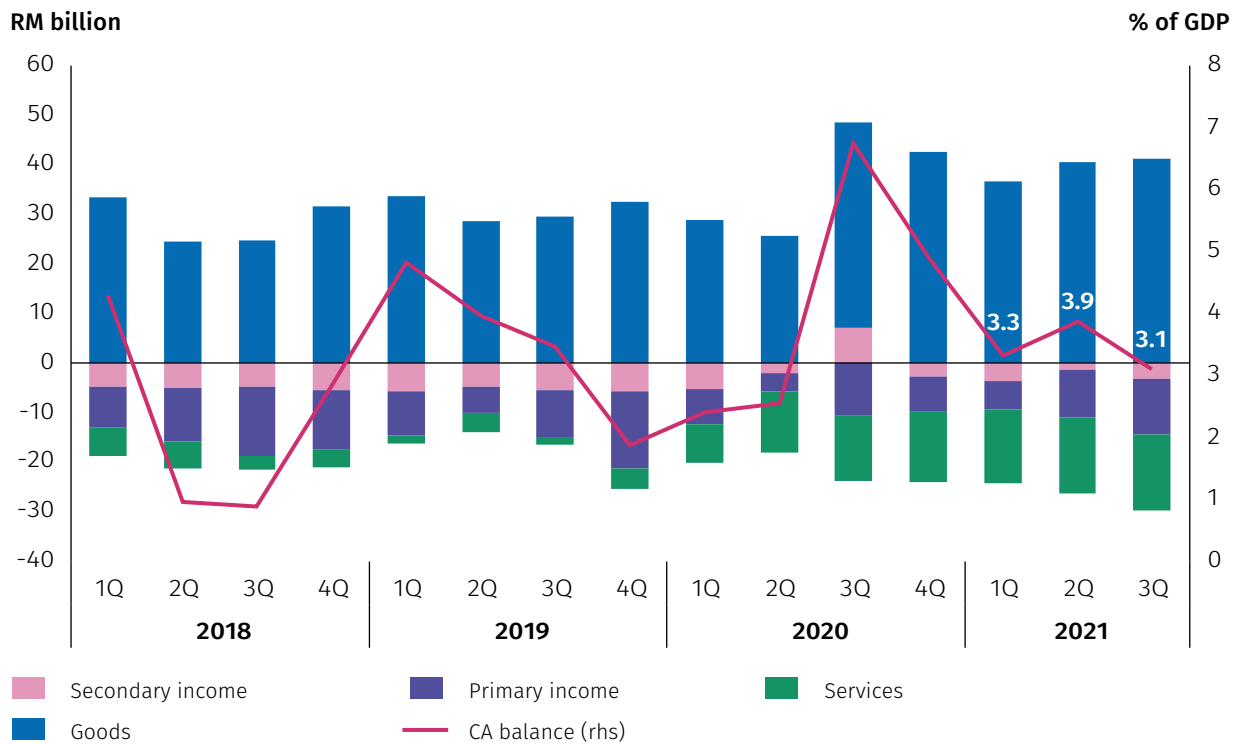
In the third quarter of 2021, gross exports expanded by 15.8% (2Q 2021: 44.0%) reflecting broad-based increase across products amid strong external demand. Gross imports grew by 21.0% (2Q21: 33.3%), driven by the expansion in intermediate imports and a turnaround in capital imports. The trade surplus⁷ widened to RM61.3 billion (2Q 2021: RM56.4 billion).

Manufactured exports recorded a double-digit growth of 12.9% (2Q 2021: 43.6%), supported

mainly by non-E&E exports (25.3%, 2Q 2021: 55.5%). This was largely attributable to the strong demand for petroleum and chemical products, manufactures of metal and palm-oil based products. The growth of commodities exports remained robust at 36.7% (2Q 2021: 46.3%) due mainly to the improvement in CPO and LNG exports.

Intermediate imports increased by 27.9% (2Q 2021: 43.8%), driven by imports of industrial supplies, in tandem with the continued expansion of manufactured exports. Capital imports turned around (22.8%; 2Q 2021: -8.4%), following low base effect in the third quarter of 2020 (-12.8%; 2Q 2020: +16.1%).

⁷ 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 surplus of Malaysia's current account of the balance of payments narrowed to RM11.6 billion, or 3.1% of GDP during the quarter (2Q 2021: RM14.4 billion or 3.9% of GDP). The lower surplus was on account of larger deficits in the primary and secondary income accounts.

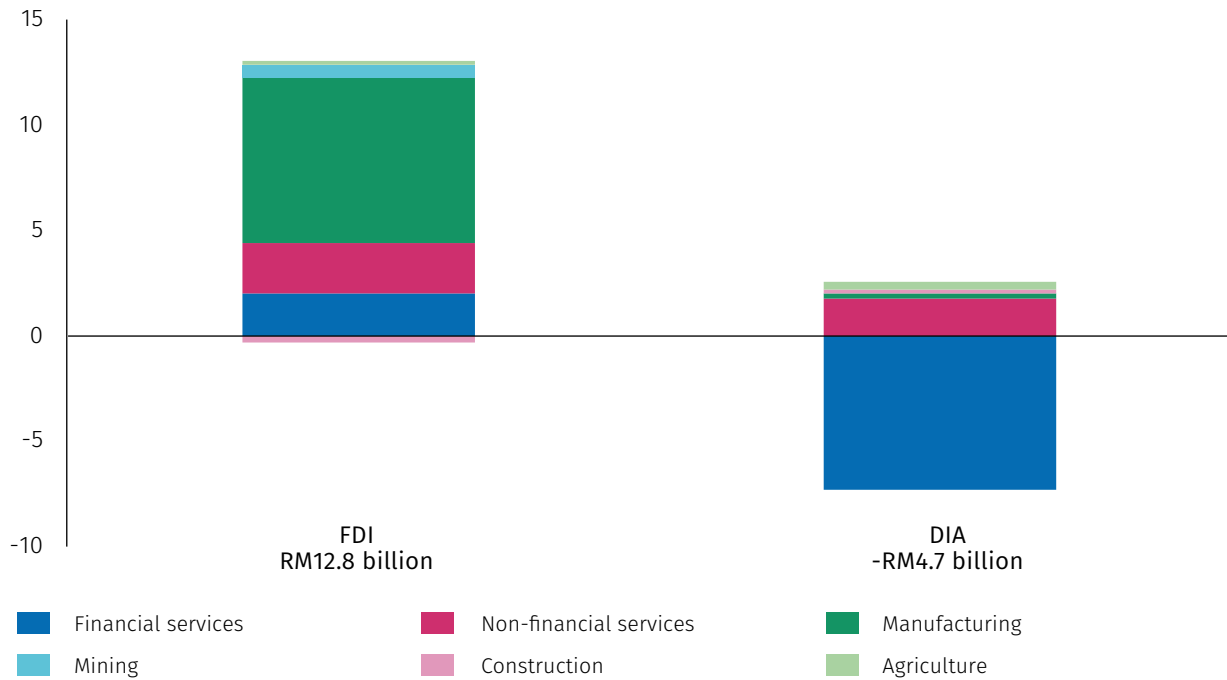
The goods surplus increased to RM41.2 billion (2Q 2021: RM40.7 billion), due mainly to continued expansion in manufactured and commodity

exports, amid higher global commodity prices. The services account registered a broadly sustained deficit (-RM15.2 billion; 2Q 2021: -RM15.4 billion).

The primary income account recorded a larger deficit of RM11.3 billion (2Q 2021: -RM9.5 billion). This was largely attributable to the lower investment income generated from overseas. The deficit of the secondary income account widened to RM3.1 billion (2Q 2021: -RM1.4 billion), reflecting mainly higher outward remittances by foreign workers.

C16 Direct Investment by Sector

RM billion

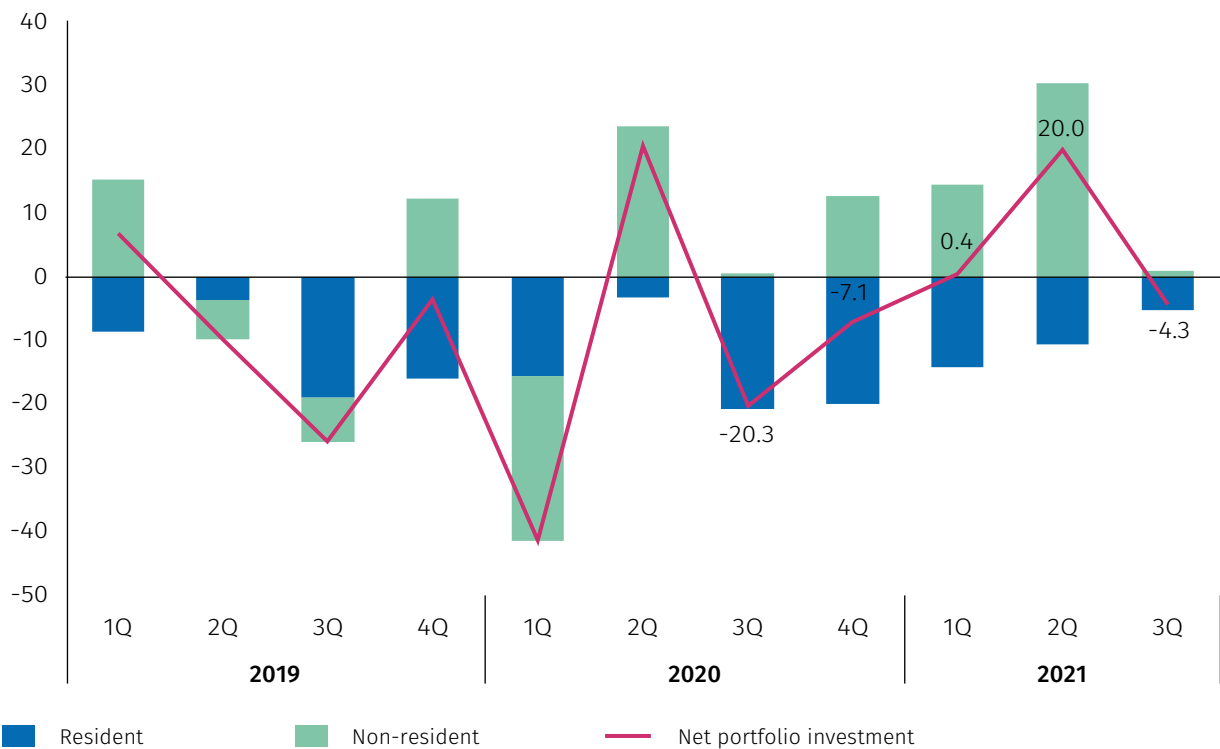


Note: For DIA, positive values refer to net outflows, while negative values refer to net inflows. Figures may not sum due to rounding.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

C17 Portfolio Investment

RM billion



Source: Department of Statistics, Malaysia and Bank Negara Malaysia

Financial account turned around to record a sizeable net inflow

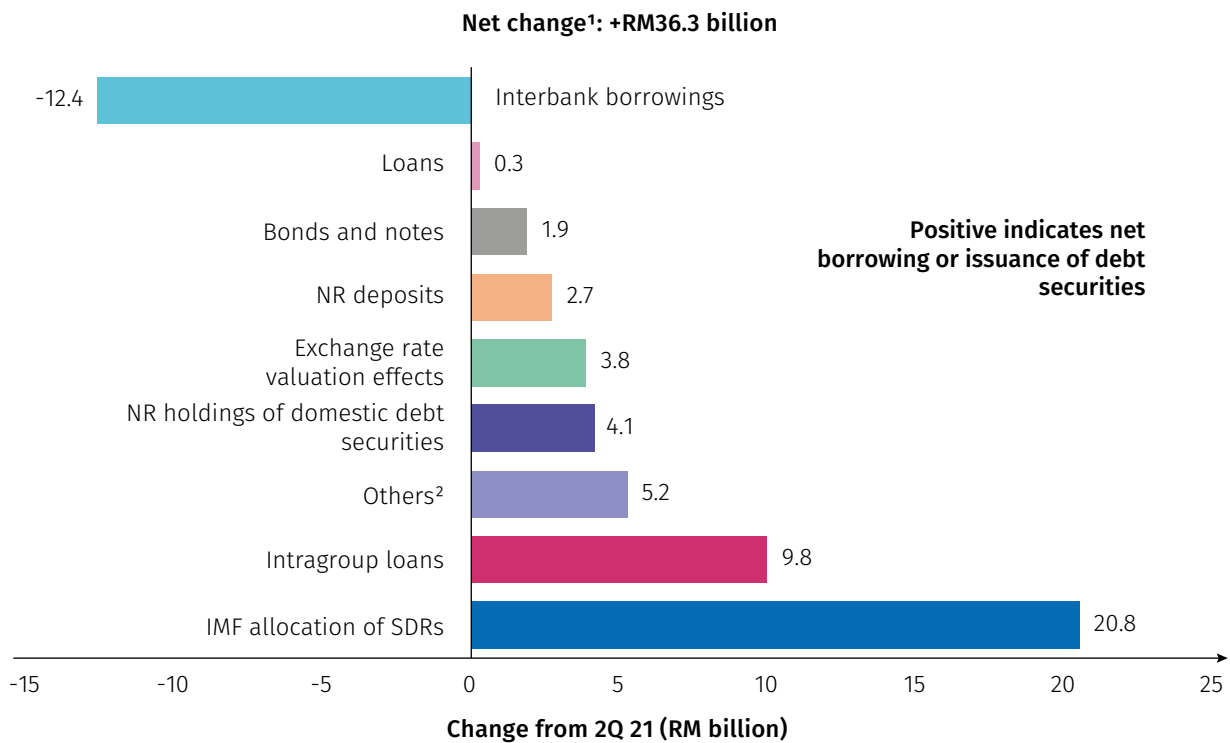
The financial account turned around to record a sizeable net inflow of RM22.8 billion (2Q 2021: -RM7 billion), as the inflows in the direct investment and other investment accounts more than offset the outflows in the portfolio investment account. The direct investment account registered higher net inflows of RM17.6 billion (2Q 2021: +RM4.2 billion), underpinned mainly by larger net inflows in foreign direct investment (FDI) of RM12.8 billion (2Q 2021: +RM8.2 billion). This was driven by larger reinvestment of earnings (+RM9.1 billion; 2Q 2021: +RM7 billion), notably in the manufacturing sector, and higher equity injections into Malaysia (+RM6.4 billion; 2Q 2021: +RM4.9 billion). Direct investment abroad (DIA) turned around to register net inflows of RM4.7 billion in the third quarter (2Q 2021: -RM4.0 billion), reflecting mainly capital reduction abroad by a national sovereign wealth fund following the completion of investment project as well

drawdown and repayment of loans from subsidiaries abroad.

The portfolio investment account recorded a net outflow of RM4.3 billion (2Q 2021: +RM20 billion), due to continued residents' portfolio investments abroad (-RM5.2 billion; 2Q 2021: -RM10.6 billion) amidst lower non-resident (NR) portfolio investments (+RM0.9 billion; 2Q 2021: +RM30.5 billion). Continued residents' portfolio investments abroad were driven by institutional investors' acquisitions of equity (-RM6.6 billion, 2Q 2021: -RM9.6 billion), albeit at a more moderate pace. Lower net NR portfolio investment inflows reflected lower inflows into domestic debt securities (+RM1.4 billion; 2Q 2021: +RM32.2 billion), mainly in Government bonds.

The other investment account turned around to register a net inflow of RM8.8 billion (2Q 2021: -RM30.5 billion). This was due primarily to the additional allocation of Special Drawing Rights (SDR) (RM20.8 billion) by the International Monetary Fund (IMF).⁸ Net errors and omissions amounted to -RM13 billion during the quarter, or -2.4% of total trade.

⁸ According to the IMF, the SDR allocation will provide additional liquidity to the global financial system, bolster reserves, build confidence, and enhance the resilience of the world economy.



¹ Changes in individual debt instruments exclude exchange rate valuation effects

² Comprises trade credits and other debt liabilities

Note: Figures may not add up due to rounding

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

External debt remained manageable

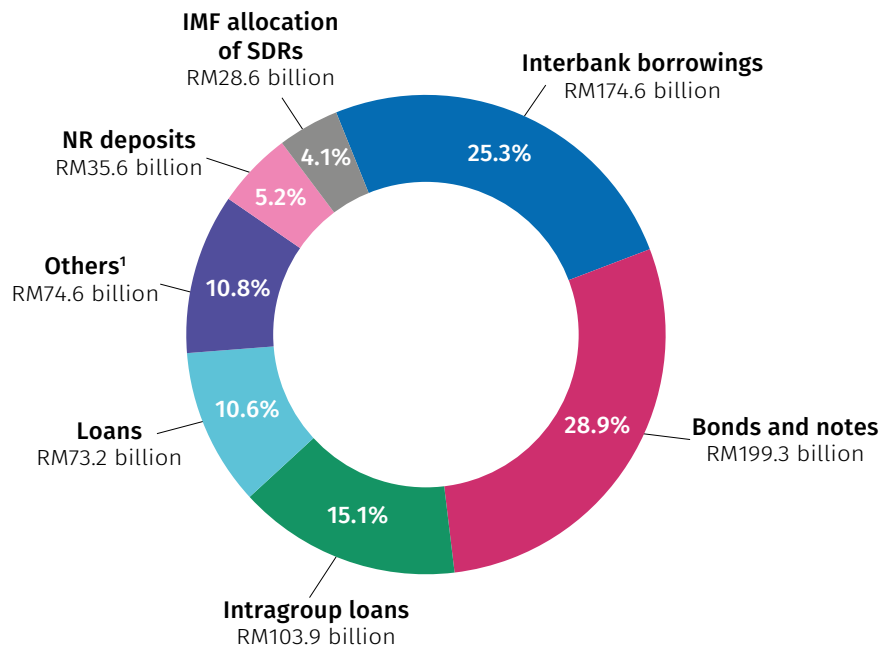
Malaysia's external debt amounted to RM1,057 billion, or 70.5% of GDP as at end-September 2021 (end-June 2021: RM1,020.7 billion or 68.5% of GDP). The increase reflects mainly an additional allocation of SDRs to Malaysia by the IMF⁹ and to a lesser extent, higher intragroup loans. These were partially offset by net repayment of interbank borrowings. Excluding the SDR allocation (+RM20.8 billion), Malaysia's external debt would have increased by RM15.5 billion to RM1,036.2 billion, or 69.1% of GDP as at end-September 2021.

Malaysia's external debt remained manageable, given its favourable currency and maturity profiles. Ringgit-denominated external debt amounted to RM367.1 billion and accounted for 34.7% of total external debt (end-June 2021: 35.1%). It was largely in the form of

NR holdings of domestic debt securities (67.8% share of ringgit-denominated external debt) and ringgit deposits (16.6% 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 RM689.9 billion, or 65.3% of total external debt. 53.1% of FCY-denominated external debt were by the corporate sector, and were mainly subject to BNM's prudential and hedging requirements. Long-term bonds and notes issued offshore stood at RM199.3 billion, accounting for 28.9% of total FCY-denominated external debt, held largely by non-financial corporates. These are primarily channelled to finance asset acquisitions abroad. Intragroup loans, which accounted for 15.1% of FCY-denominated external debt, were generally on flexible and concessionary terms.

⁹ The IMF additional allocation of SDRs to Malaysia amounted to SDR3.5 billion (equivalent to about RM20.8 billion) and took effect on 23 August 2021. According to the IMF Balance of Payments and International Investment Position Manual – Sixth Edition (BPM6), new allocations of SDRs are to be recorded as increases in the respective member countries' gross international reserves (holdings of SDRs), with an equal increase in the countries' long-term debt liabilities (allocations of SDRs).



¹ Comprises trade credits 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 30.5% of FCY-denominated external debt. During the quarter, interbank borrowings declined, largely due to domestic banks' reduced need to source FCY funding from international interbank markets following a sustained increase in domestic FCY deposits. The decline in interbank borrowings can also be partly attributed to maturing intragroup transactions by banks in the Labuan International Business and Financial Centre (LIBFC). This was partially offset by some LIBFC banks borrowing funds from related counterparties from abroad to extend loans to onshore residents. Overall, nearly 80% of outstanding interbank borrowings were 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 exposures,¹⁰ remained low at 4.9% of banks' total capital (end-June 2021: 4.7%).

From a maturity perspective, 63.1% of total external debt has medium- to long-term tenure (end-June: 62.2%), suggesting low rollover risks. Short-term external debt accounted for the remaining 36.9% of external debt. Of note, 43% of short-term external debt were in the form of intragroup borrowings from parent banks or multi-national corporates located abroad. About another 14.7% were accounted by trade credits, largely backed by export earnings and are self-liquidating. As at 29 October 2021, international reserves stood at USD116.1 billion, sufficient to finance 8.1 months of retained imports, and is 1.2 times the short-term external debt.

¹⁰ Refers to the aggregated sum of the net short or long foreign currency positions for all currencies across banks.

Closing the Food Gap: The Role of Structural Improvements in Agrofood Sector

Introduction

In the wake of lockdowns triggered by the global health crisis, there has been considerable disruption to food supply chains in the early part of 2020. Restrictions on labour mobility have resulted in lower harvesting activity and shutdowns of food processing facilities. Logistical bottlenecks have impeded the transportation of agricultural produce to the marketplace, while closure of international borders have affected the flows of food trade. A number of food exporting countries have also imposed export restrictions on key staple food items in the early period of the COVID-19 outbreak (CFS, 2020). As Governments imposed containment measures and movement restrictions, the ensuing food shortage fears have also prompted widespread panic buying and stocking up of groceries and supplies. These factors have contributed to the lower availability of food and a surge in food price inflation in some parts of the world, which has affected the cost of living especially among the more vulnerable segments of society. The disruptions from COVID-19 pandemic shock have re-ignited and amplified the impact from the existing structural weaknesses in the food security system around the globe including that of Malaysia.

Against this backdrop, this article seeks to provide an assessment of Malaysia's present landscape of food security and how it fares against other countries. It discusses the main sources of vulnerabilities, particularly from the availability aspect by analysing Malaysia's self-sufficiency and imports of food products, while highlighting the growing challenges in ensuring adequate food supply in the future. Finally, the article outlines how structural improvements and adoption of technology within the agrofood industry can play a role in improving the gaps in Malaysia's food security.

Apples to apples: Benchmarking Malaysia's performance in the Global Food Security Index


The overarching objective of achieving food security is to ensure that everyone in the population has adequate and affordable access to sufficient, safe and nutritious food to meet their dietary needs and preferences for an active and healthy life (World Food Summit, 1996). Food security is a multidimensional concept, comprising interrelated aspects of availability, affordability, quality and safety.¹ In recent years, this concept has been expanded to include natural resources and resilience, which assesses a country's exposure to the impact of climate change, alongside its susceptibility to natural resource risks and how countries are adapting to such risks. An international benchmarking exercise using the 2021 Global Food Security Index (GFSI)² shows that Malaysia has performed relatively well, placing 39th in its overall environment (Table 1), compared to 48th in the previous year. A key strength of Malaysia's food security ranking emanates from its better score and ranking in the 'affordability' aspect. This is partly due to the presence of food safety net programmes alongside price controls and subsidies for essential items (Table 2). The Food Bank Malaysia programme by the Ministry of Domestic Trade and Consumer Affairs, for example, distributes food assistance to the less fortunate.

¹ Adapted from The Economic Intelligence Unit's Global Food Security Index.

² GFSI is a dynamic quantitative and qualitative benchmarking model that covers aspects of food affordability, availability, quality and safety, and natural resources and resilience. The index is constructed from 59 unique indicators that measure the fundamental drivers of food security across a set of 113 countries (Source: Economist Intelligence Unit).

T1

Malaysia was Ranked Lower than Resource Scarce Peers

Selected Countries	2021 Rank in Global Food Security Index				
	Overall food security environment	Affordability	Availability	Quality and safety	Natural resources and resilience
 Ireland	1	2	8	3	3
 United Kingdom	3	4	11	14	6
 Germany	4	10	18	18	11
 Switzerland	5	16	4	20	13
 Netherlands	6	13	10	7	18
 Japan	8	11	5	30	16
 United States	9	20	16	2	17
 Israel	12	7	6	10	60
 Singapore	15	23	1	43	65
 New Zealand	16	6	38	33	5
 Qatar	24	31	9	29	91
 Chile	28	38	27	27	24
 Kuwait	30	44	12	20	93
 South Korea	32	43	17	44	43
 Australia	32	29	35	18	81
 China	34	49	2	56	64
 Bulgaria	38	33	51	34	26
 Malaysia	39	28	36	46	66
 Thailand	51	40	59	73	50
 Vietnam	61	64	48	61	78
 Philippines	64	57	67	68	88
 Indonesia	69	54	37	95	113
 India	71	80	29	74	40
 Cambodia	81	65	83	100	102

Source: Economist Intelligence Unit

T2

Malaysia Controlled Food Items and Price Ceilings

Food item	Amount	Ceiling price (RM)	Subsidy amount (RM)
Flour	1 kg	2.50	0.68
Cooking Oil	1 kg	1.35	0.83
Sugar (Coarse)	1 kg	2.84	0
Sugar (Refined)	1 kg	2.94	0
Rice	1 mt	1,200	600 ~ 750

Source: Adapted from Sabirzyanov, R et. al. (2021)

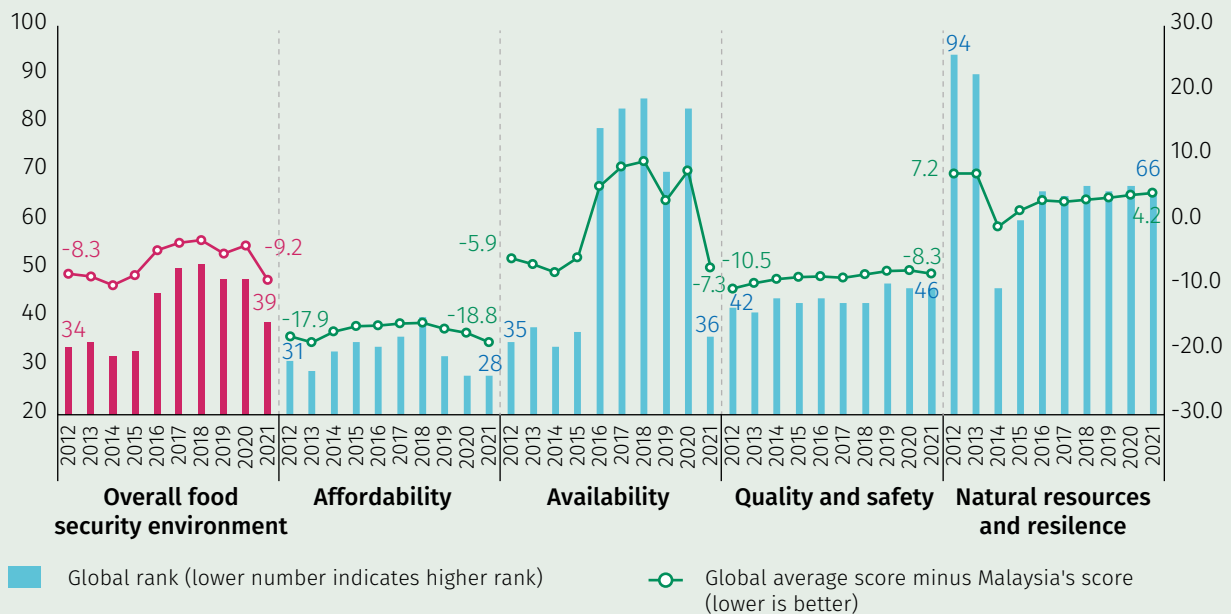
Nevertheless, Malaysia’s overall position still lags behind many advanced and resource-scarce countries. For instance, among regional economies, Singapore was ranked first in the world in the ‘availability’ aspect given their high agriculture R&D activities, high commitment to food security and food access policies, and low political and social barriers to food access. As for Malaysia, despite a sharp improvement in 2021, the performance in the ‘availability’ aspect appears to be fragile, with the scores having dipped below global averages in the past five years (Chart 1). Meanwhile, there was an apparent deterioration in the ‘quality and safety’, as well as ‘natural resources and resilience’ aspects. A deeper examination into the indicators that made up the GFSI revealed that, for the ‘availability’ aspect, there is room to improve in agricultural research and development, food security and access policy commitments, agriculture infrastructure, volatility of agricultural production, and sufficiency of supply. As for the ‘quality and safety’ aspect, more effort is needed to ensure adequate nutritional standards, micronutrients, food variety and safety. Finally, weaknesses in the ‘natural resources and resilience’ aspect is particularly worrying as Malaysia has been performing poorly due to its high dependency on food imports and natural resources for economic output, as well as elevated exposure to climate-related risks and adverse weather phenomenon.

C1

Malaysia’s ranking in the Global Food Security Index worsened since 2012

Global rank
(lower number indicates higher rank)

Global average score minus Malaysia's score
(lower is better)



Source: Economist Intelligence Unit, Bank Negara Malaysia

Putting food on the table: It's not just about rice

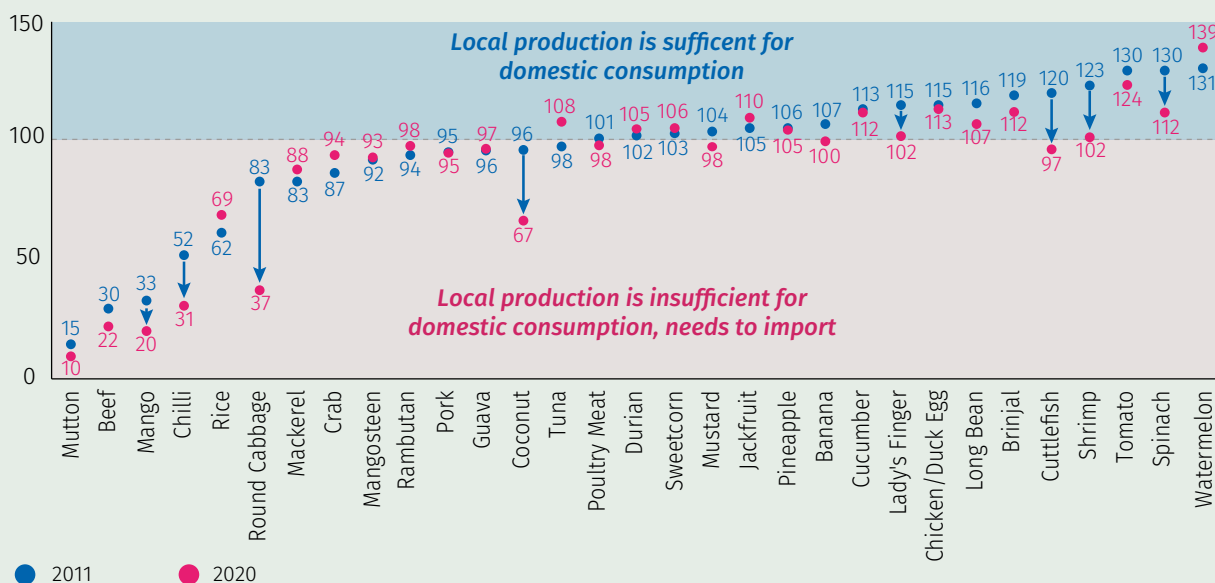
As an overarching strategy towards enhancing the overall food security environment, Malaysia has executed numerous agricultural-related policies, which have long been integral to the nation's economic planning framework and developmental agenda. Since 1984, three National Agricultural Policies (NAPs) were implemented, supporting the country's structural transformation from an agrarian into an industrial- and services-based economy. By raising agricultural productivity and expanding the cultivation of cash crops for exports, the first NAP (1984–1991) has contributed to hunger and poverty reduction as well as increases in incomes of farmers. The second NAP (1992–2010) focused on diversifying export crops and raising food production with the aim of achieving greater self-sufficiency in various food items.³ The third NAP (1998–2010) was a revised version of the NAP2 and reiterated the aim of addressing food security. In response to the 2008 food crisis⁴ that saw sharp surges in cereal prices, rice export restrictions and panic buying, the Government launched the National Food Security Policy (2008–2010) to address rice self-sufficiency. The National Agrofood Policy (2011–2020) was then introduced, with renewed focus on food production.

As a staple of the Malaysian diet, an adequate supply of rice has conventionally been viewed as synonymous with food security, and this is reflected in the long-standing focus on elevating rice production. For instance, 88% of agricultural subsidies and 45% of total agricultural budget spending were allocated to the rice production sector (World Bank, 2020). Despite this, the self-sufficiency ratio⁵ (SSR) for rice stands at 69% as at 2019. This indicates that domestic rice production remains inadequate to meet the nation's consumption and imports are needed to close the gap. While increasing the domestic rice production is crucial, it may not truly address Malaysia's food security concerns given the shift in food consumption pattern⁶ driven by population growth, higher income levels, urbanisation and changes in lifestyle.

C2

Self-Sufficiency of Many Food Items Have Deteriorated Over the Last Decade

Self-sufficiency ratio, %



*Note: SSR for rice is based on 2019 figure

Source: Supply and Utilisation Accounts Selected Agricultural Commodities Malaysia, 2011–2015, 2016–2020, Department of Statistics, Malaysia

³ Food security was, however, narrowly interpreted in terms of rice self-sufficiency in the policy (Jomo Kwame Sundaram and Tan Zhai Gen, 2019).

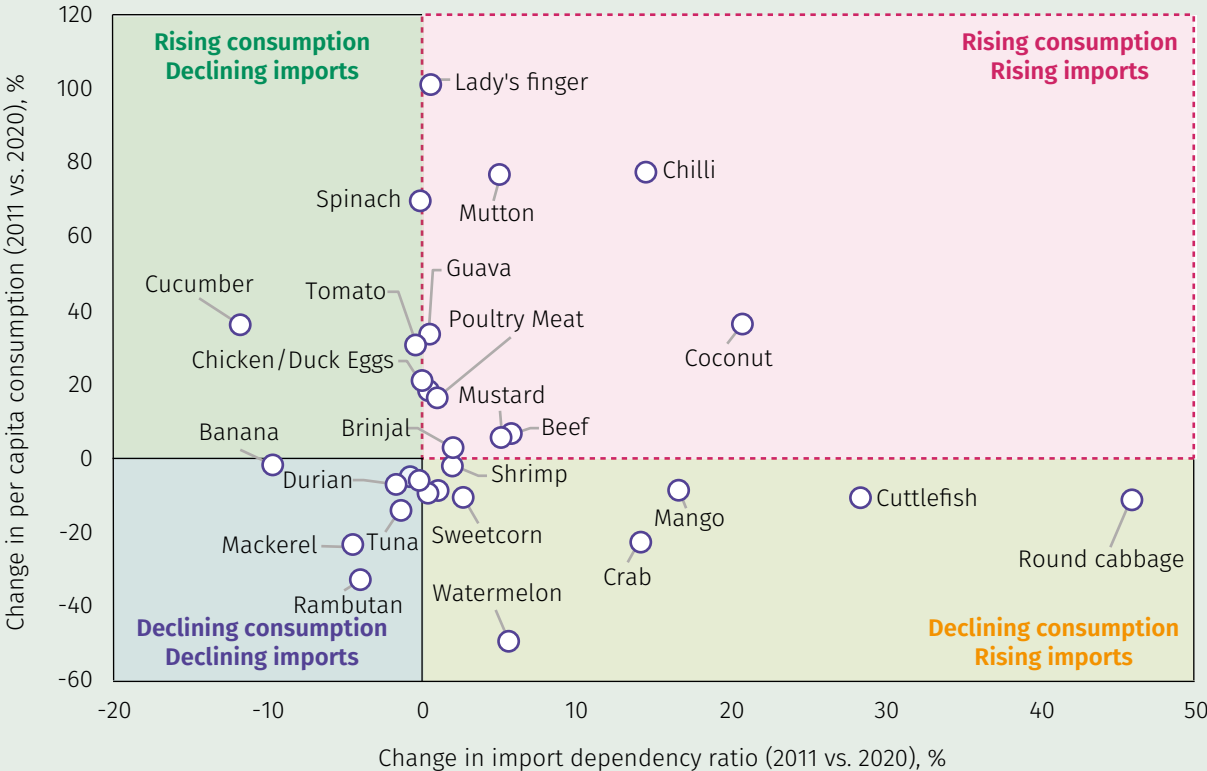
⁴ The 2008 food crisis was accompanied by sharp surges in prices of several commodities, particularly crude oil, due to sustained firm demand, supply concerns, weaker US dollar and to some extent, speculation in the commodity markets. Rice, the world's second-biggest food grain crop during the period, hit successive peaks due to worries over supply shortages, and has been associated with social concerns and export restrictions in several countries (Source: BNM Quarterly Bulletin 1Q 2008).

⁵ The SSR calculates the percentage of food consumed that is produced domestically. The higher the ratio, the higher the percentage of domestic production. An SSR of above 100% indicates that domestic food production is more than enough to satisfy its consumption needs. Conversely, an SSR of below 100% indicate how reliant a country's food consumption needs is on imports.

⁶ 2019 Household Expenditure Survey Report shows that, on average, Malaysian households spend more than twice as much on meats, bread and other cereals compared to rice. Rice only constitutes less than 1% of total household expenditure, due partly to the control on prices of rice. From 2015 to 2019, per capita consumption for rice declined from 87.6 kg per year to 73.9 kg per year. Tey, et al. (2008) shows that Malaysians' dietary preferences have changed where rice consumption declines while the intake of cereals and proteins have increased.

Beyond rice production, self-sufficiency levels of other food items have also deteriorated. Compared to 2011, the SSRs of 19 out of 31 selected food items have declined in 2020 (Chart 2). 13 out of 14 food items that were below self-sufficient levels in 2011, had remained so after a decade. From the perspective of imports, the share of imported content in total food supply amounts to 24%.⁷ In particular, the population have become increasingly reliant on imports to meet growing demand for meats and several fruits and vegetables (Chart 3). As a consequence of greater food import dependency and an underdeveloped agrofood sector, Malaysia has been recording larger food trade deficits over the years (Chart 4). From 2000 to 2020, the compounded annual growth rate (CAGR) of Malaysia's food trade deficit per capita was higher than that of gross national income (GNI) per capita (Chart 5). In other words, on average, the net food import bill of a Malaysian had actually grown faster than his or her income, despite the country's vast resources and latent potential in the agrofood industry. Nonetheless, achieving 100% SSR for all types of food may not be practical because the risks to food availability can itself be minimised through imports.⁸ As highlighted by Bank Negara Malaysia (2019),⁹ countries import food for various reasons: (i) to source food items that is not produced domestically; (ii) to meet consumers' changing demands; (iii) to acquire products that are of higher quality; (iv) to source inputs for local production (e.g. animal feedstock); and (v) to obtain similar goods that are relatively cheaper.

C3 More Food Items were Imported to Meet Higher Domestic Demand

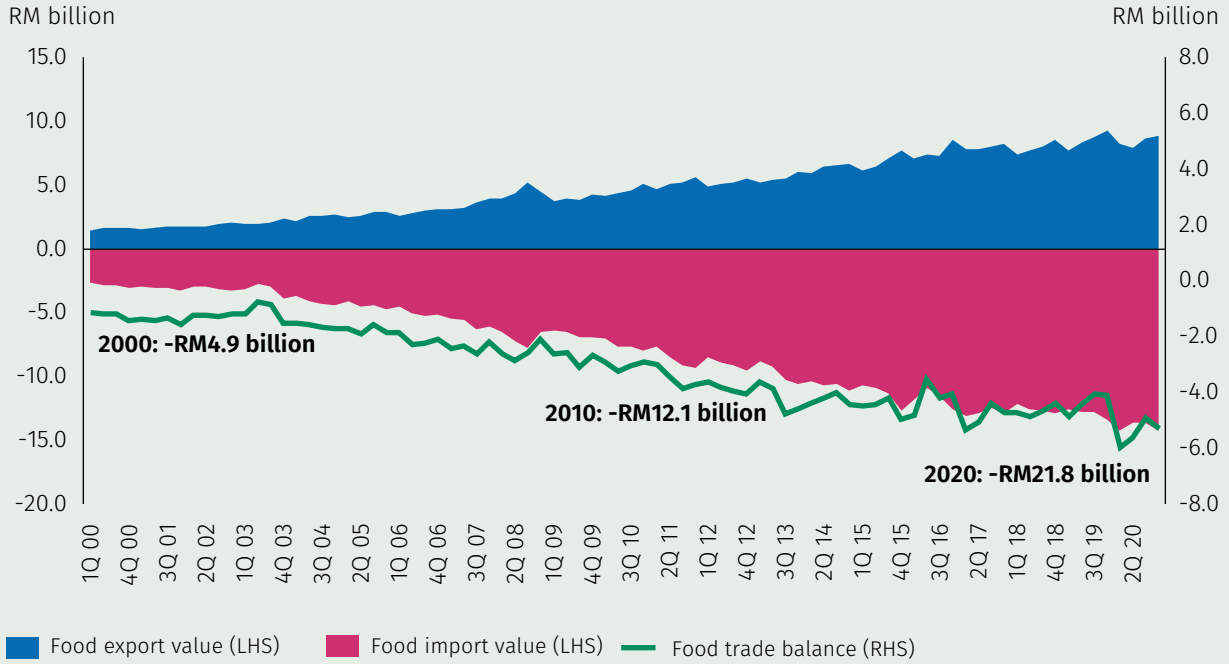


Note: Data on import dependency ratio for rice is unavailable
 Source: Supply and Utilisation Accounts Selected Agricultural Commodities Malaysia, 2011-2015, 2016- 2020, Department of Statistics, Malaysia and Bank Negara Malaysia staff calculation

⁷ The total import share is calculated based on a weighted average of 17 food-related industries excluding oils & fats. Source: Input-Output Tables 2010-2015, Department of Statistics Malaysia.
⁸ The theory of comparative advantage is often referenced by the proponents of use of trade as a means to address food security (J. Clapp, 2015).
⁹ Food Imports and the Exchange Rate: More Than Meets the Eye, 3Q 2019 BNM Quarterly Bulletin.

C4

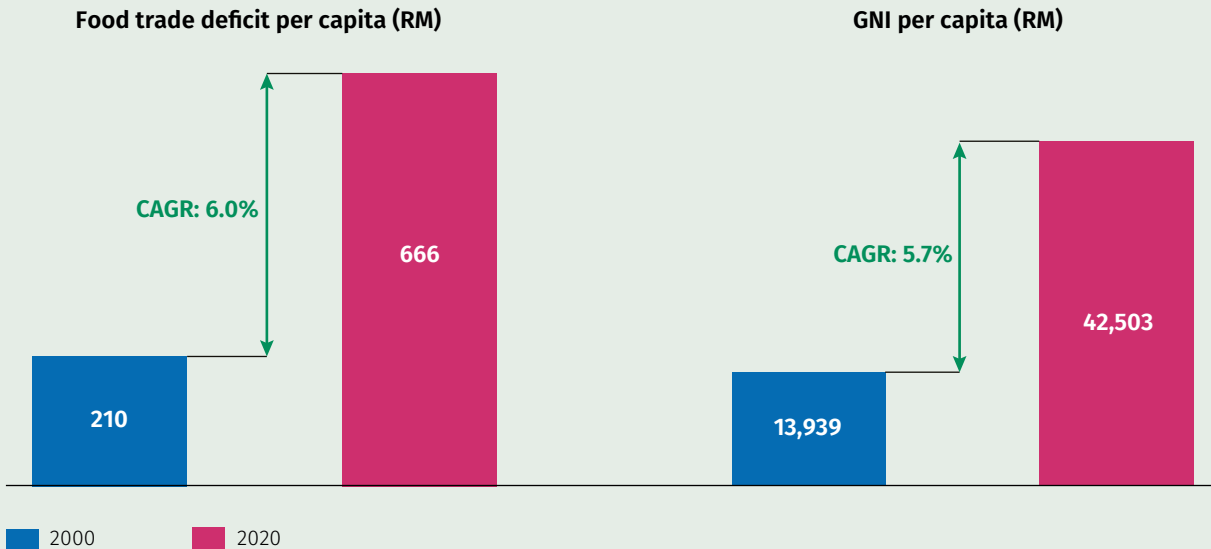
Malaysia's Food Trade Deficits Have Been on an Increasing Trend



Source: Haver Analytics and Department of Statistics, Malaysia

C5

Growth of Malaysia's Food Trade Deficit per Capita Outpaces Growth of GNI per Capita



Source: Haver Analytics, Department of Statistics, Malaysia, Economic Planning Unit (EPU) and Bank Negara Malaysia

Walking on eggshells: Key challenges confronting Malaysia's food security system

By 2050, the world population is projected to reach 9.8 billion persons,¹⁰ with the global demand for food to be at least 60% greater than it is today.¹¹ Under these circumstances there is a critical need to ensure that Malaysia's future food security is preserved by addressing the key challenges to supply risks, both domestically and externally:

1. Overconcentration of import sources for certain food items

Sourcing food supply through foreign trade offers various benefits, particularly if producing the similar food item domestically is more costly. What is concerning is the overconcentration of imports from a narrow source of host markets. For example, 70% of Malaysia's mutton supply is imported from Australia, while mango, coconut and beef were mainly imported from Thailand, Indonesia and India respectively.¹² This exposes the country to external supply risks, especially given the rising threats of climate change, uncertainties in food exports policy, and the potential surges in global demand driven by changes in dietary preferences and shifts in population dynamics.¹³

2. Increasing risks from regular and more extreme climate events

Physical risks stemming from climate change are transboundary, damaging not only domestic agricultural production but also that of other food exporting countries. In addition to direct destruction in agricultural assets (e.g. farms), extreme weather-related disasters and higher carbon emissions also affects the growth, production yields and nutritional value of crops. These will induce food price volatility and create inflationary pressure to food importing countries. As highlighted by the 2021 GFSI, Malaysia's particularly low scores under the 'natural resource and resilience' aspect exposes the country to three critical supply side issues relating to climate change.

Firstly, adverse weather phenomenon is projected to be more volatile amid the rise in global warming. A case in point, the Intergovernmental Panel on Climate Change (IPCC) in its 6th Assessment Report stated that extreme one-day precipitation events would become 1.5 times more frequent under a 1.5°C increase in global temperature scenario (Chart 6). The likelihood also becomes exponential as global temperature rises further. This suggests that agricultural and food supply disruptions in the future will only be more frequent and severe if no adaptive steps are taken today.

Secondly and relatedly, Southeast Asian countries are especially exposed to faster temperature rises and abrupt changes in rainfall patterns which would lead to land degradation and crop failures. In Malaysia alone, there were more than 50 natural disasters recorded over the past two decades, which have led to significant impact to lives and livelihood, particularly those in the agriculture sector. Between 1998 and 2018, the Malaysian economy sustained a total damage of approximately RM8 billion due to major floods and dry spells.¹⁴ Lastly, the geographic concentration of global grain production compounds the climate vulnerability. According to McKinsey Global Institute (2020), 60% of the world's grain supply is produced in just five countries (China, US, India, Brazil, and Argentina). A climate-induced supply shock would also trigger risks in the form of food export restriction and protectionist policies that further amplify the supply risks to importing countries.

¹⁰ 'World Population Prospects: The 2017 Revision', United Nations Department of Economic & Social Affairs.

¹¹ 'Food security and why it matters', World Economic Forum (2016).

¹² Supply & Utilisation Accounts Selected Agricultural Commodities 2016-2020, Department of Statistics, Malaysia

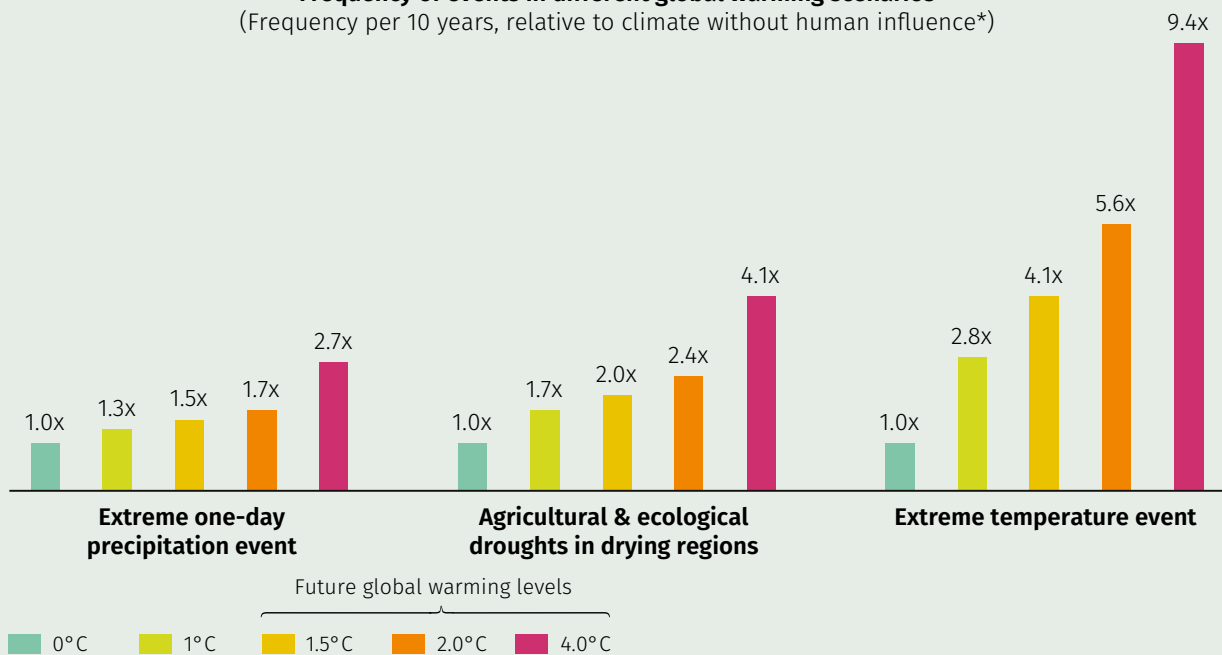
¹³ For example, population growth, along with urbanisation and increasing income levels in large economies such as China, have led to a rise in consumption of meat products and therefore a tightening of global food supply.

¹⁴ 'Climate Change Risks and Opportunities: Respond, Not React', BNM Annual Report 2019.

C6

Adverse Weather Phenomenon Induced by Global Warming are Projected to be More Frequent and More Extreme

Frequency of events in different global warming scenarios
(Frequency per 10 years, relative to climate without human influence*)



Note: *Likelihoods are midpoints around a range, 0°C refers to the period 1850-1900
Source: The Sixth Assessment Report of the United Nations Intergovernmental Panel on Climate Change (IPCC), 2021

3. Low productivity in non-rice agrofood industry

As of 2019, the value-added per worker in Malaysia’s agriculture sector was lower than the average of high income countries by 56%.¹⁵ Contributing to this relatively weak productivity is the predominance of small farmers¹⁶ within the domestic agrofood landscape, which impeded the sector from enjoying the benefits of economies of scale that would enhance productivity and reduce costs. From the operational perspective, it is often uneconomical for small farmers to mechanise due to their limited farm sizes,¹⁷ which makes them rely more on manual approach thereby exposing them to the persistent labour shortage problems that has been plaguing the industry for years. In terms of farming inputs, small farmers are more susceptible to cost fluctuations in fertiliser and feedstock. They also face limited access to R&D innovation, infrastructure and institutional support (Arshad, 2016). The lack of entrepreneurship intensifies their already weak bargaining power compared to other large-scale players and middlemen, such as millers and traders (World Bank, 2019).

4. Slow adoption in new technologies and smart farming techniques

The slow adoption in modern technology (e.g. vertical farming and Internet of Things) forgo effective solutions to counter the threats posed by climate change and structural challenges suffered by small farmers. For example, having a sensor-driven soil moisture monitoring system with automated irrigation can prevent plant and soil degradation, while optimising both water usage and human laborers. However, the domestic agrofood sector lags behind in fully harnessing the benefits offered by technological innovations, owing to lack of awareness, inadequate knowledge transfer to the local farmers,¹⁸ and the lack of capital to procure new technologies that are costly. These issues are especially prevalent among the small farmers. The situation is compounded by the low participation of youths in the agriculture sector, who are generally more entrepreneurial, technology-savvy and educated.¹⁹

¹⁵ Source: World Bank, BNM staff calculation.
¹⁶ Arshad (2016, February) pointed out that 97% of the fruits and vegetable, aquaculture and livestock farms were operated by small farmers, as at 2014.
¹⁷ For example, the average farm size for paddy is 1.1 hectares; vegetables, 1.0 hectares and fruits, 0.7 hectares. Source: Asan, Ibrahim Ngah, and Shri-Dewi (2018).
¹⁸ IDEAS (2018), for example, highlighted that farmers struggle to keep up with yearly output due to disease and weather uncertainties because of poor awareness and knowledge on the availability of modern technologies that can help manage these challenges.
¹⁹ KRI (2020) stated that agriculture and fisheries are the least preferred sectors among youth as more than half of the young workers do not consider agriculture and fisheries as their ideal sectors.

Food for thought: Policy considerations to improve food supply ecosystem

Though varying in scale and scope, many countries in the world face food security challenges with different set of corresponding solutions. For Malaysia, arguably, the key gap lies in the supply ecosystem. Of course, demand-side interventions are important too, especially in shaping preferences towards food consumption that is based on proper nutritional standards. Awareness programmes on public health issues or food wastage will continue to be useful in modifying behavioural decisions on nutritional intake.²⁰ Broader economic policies that could sustainably raise the income levels of Malaysians may also strengthen the overall ability for Malaysians to purchase food from both domestic sources and abroad. This section offers policy considerations that aim to not only address food security but also actions that could help in improving the food supply chain from farm to table, improve the wellbeing of farmers and boost economic growth.

(a) A clear and comprehensive set of policy targets

Food security targets should be clearly defined and reflect the current as well as the future dietary realities. This could avoid the risk of policy mismatch and help secure greater buy-in from the private sector stakeholders, who play an important role in modernising and diversifying the agrofood sector. Overemphasis on rice self-sufficiency should be replaced by nutritional needs and a pivot towards greater non-rice food production. For example, Singapore's "30 by 30" goal aims to produce 30% of its nutritional needs locally by 2030. Furthermore, greater focus on producing vegetables, fruits, animal proteins and fish products could potentially generate higher value-added at the farm level, with cascading positive spillovers along the food supply chain.

(b) Diversification of food import sources

The concentration risks that arise from relying on a select few external suppliers can be minimised by strengthening Malaysia's global procurement capabilities. The relevant government agencies should work closely with industry stakeholders to identify alternative sources of food products from a wide range of international markets, distributors and wholesalers. In times of supply disruptions, this would allow domestic importers to become nimble by securing purchase orders from other parties. In this regard, Malaysia must continue to pursue liberal trade policies and more regional and bilateral trade agreements.

(c) Make use of the latent potential in raising agri-food production

Broadly, Malaysia appears to have prioritized industrial crops (e.g. oil palm, rubber and cocoa) at the expense of food crops (Arshad, 2007). As a result, the country has been under-diversifying its plantation mix, where oil palm accounts for 70% of total cultivated area. Within the existing plantations, the intercropping of oil palm with banana, cassava and pineapple not only reduces fertiliser and herbicide usage but also help stabilise incomes of farmers. Idle land and abandoned buildings can also be utilised to grow a variety of food crops, which is made possible by rapid development in agritech such as hydroponic, indoor and vertical farming.

(d) Improve overall food safety

To address the low GFSI scores in the 'quality and safety' aspect, continued focus should be accorded towards greater adoption of good manufacturing practices (GMP) and halal certification in food processing and preparation. More frequent on-site inspections and laboratory testing of food samples are critical to ensure that Hazard Analysis and Critical Control Point (HACCP) protocols are adhered. Equally important is the development of a strong network of cold chain capabilities which encompasses the logistics, storage and distribution of fresh produce. These initiatives would not only increase the hygiene and safety of food, but also reduce wastage, minimise farm-to-consumer bottlenecks and uplift overall value-add across the supply chain.

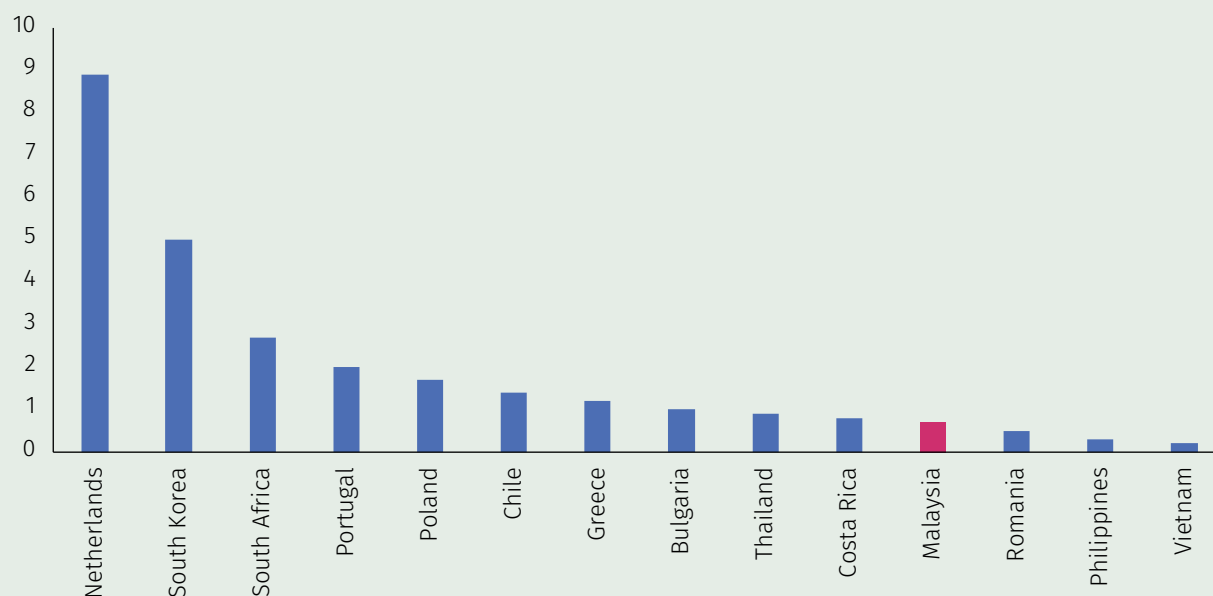
²⁰ In Malaysia, the Ministry of Health had revised the Malaysian Dietary Guidelines in 2020 to emphasise the greater daily intake of fresh fruits and vegetables as opposed to rice and other cereal products.

(e) Improve agricultural productivity through greater use of technology

Despite accounting for only 0.02% of world's total land mass (Malaysia: 0.2%), Netherlands is the world's second largest food exporter. The country's food production system is a result of intensive use of innovative technologies and relentless improvement made through R&D. Furthermore, the Netherlands accords strong emphasis on educating and training its agricultural workforce. In contrast, the agriculture R&D spending in Malaysia is relatively low (Chart 7), and is focused more towards industrial crops such as oil palm. Hence, Malaysia should emulate the approach to enhance productivity by improving the accessibility of new technologies to small farmers.

C7 Malaysia's R&D Spending in Agriculture Sector is Relatively Low

Gross Domestic Expenditure on R&D in Agriculture as Share of Agricultural GDP (%)*



*Note: Based on current local currency unit (LCU). Accounts for public and private sector R&D spending. R&D spending are as of 2017 for all countries, except for Philippines (2015) as well as South Korea, Costa Rica and Malaysia (2018).

Source: World Bank (2020), UNESCO, WDI

Specifically, climate smart and sustainable farming that preserve water, soil quality and biodiversity should be heavily promoted. The Dutch farmers, for example, are committed to *“producing twice as much food using half as many resources”*.²¹ Given the physical threat of climate change to natural capital,²² agricultural growth and productivity in the future will increasingly depend on technology, and rely less on conventional factors of production such as land and labour. In this regard, continued investments on resource-optimising farming technologies (e.g. smart irrigation system, drones) should be emphasised. R&D should also be directed towards improving sustainable farming practices, enhancing crop resilience against climate change and diseases, as well as yield enhancements. Complementing this is the continued role of financial sector and well as the financing support initiatives (e.g. BNM's Agrofood Facility) in catalysing technology adoption among SMEs and agropreneurs. To facilitate financial institutions in assessing the viability and risks associated with agricultural projects, specific guiding principles and use cases relating to the adoption of climate-smart technologies and sustainable practices that contribute to climate change mitigation and adaptation have also been included in 'The Climate Change and Principle-based Taxonomy' issued by the Joint Committee on Climate Change (JC3).

²¹ Source: National Geographic (2017).

²² Natural capital is defined as the stock of natural assets which include geology, soil, air, water and all living things (Source: World Forum on Natural Capital).

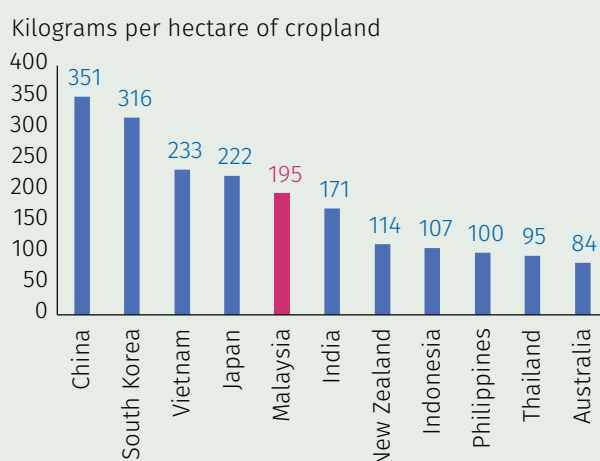
(f) Expand domestic production of organic fertiliser and feedstock

The high dependence on fertiliser and animal feedstock imports such as corn and soybean meal, has been one of the key weak links in the domestic agrofood ecosystem. Within the Asia Pacific region, Malaysia is an intensive user of fertiliser and has been importing substantial quantities to fulfil its agricultural needs (Chart 8). This makes the country susceptible to fertiliser price fluctuations and weaken the Federal Government's finance through higher allocation of fertiliser subsidies to the local farmers. Development of a circular economy within oil palm industry can help to close this gap, with greater emphasis on producing organic fertiliser and feedstock using oil palm biomass and waste such as fronds, leaves and kernel meal.

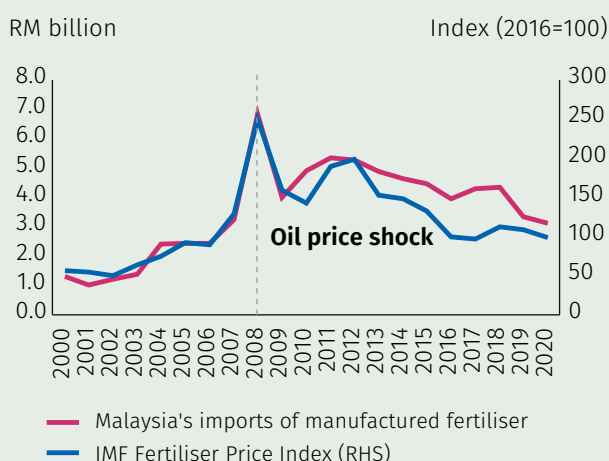
C8

Malaysia is an Intensive User of Fertiliser, and its Imports are Susceptible to Volatile International Price Movements

Fertiliser consumption in selected countries, 2019



Fertiliser imports in Malaysia and Fertiliser Price Index



Note: The primary nutrients of fertiliser are nitrogen, phosphorus, and potassium
Source: FAOSTAT, International Monetary Fund and Department of Statistics, Malaysia

(g) Incentivise quality investments in agrofood sector

Attracting quality investments in the agrofood industry will raise economic complexity and create high-value jobs in the agrofood sector. For example, under the National Investment Aspirations (NIAs) framework, investments in both upstream (e.g. farming) or downstream (e.g. processing) segments that have extensive supply linkages within the domestic agrofood industry would be promoted to encourage knowledge transfer and strengthen the overall supply ecosystem. An important aspect in operationalising the NIAs is that investment incentives policy should shift away from predominantly targeting specific sectors, towards encouraging high-value activities such as advanced R&D and machinery and equipment (e.g. robotics, drones, IR4.0-related technologies).

Conclusion

The COVID-19 pandemic has brought to the foreground the issue of food security and its susceptibility to supply chain disruptions in many parts of the world, with climate change posing an ever-growing threat to its resiliency going forward. Closer to home, Malaysia's existing food supply ecosystem has been further compromised by several structural vulnerabilities. In addition to its high reliance on food imports, Malaysia is also exposed to extreme climate events amid low productivity and slow adoption of new technologies within the agrofood industry. If not managed well, these vulnerabilities could affect adequacy and pricing of food during period of shocks. Urgent policy attention and supply side measures to transform the agrofood industry should therefore be undertaken to close the gap, thereby ensuring sustainable and equitable economic growth.

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Monetary and Financial Developments

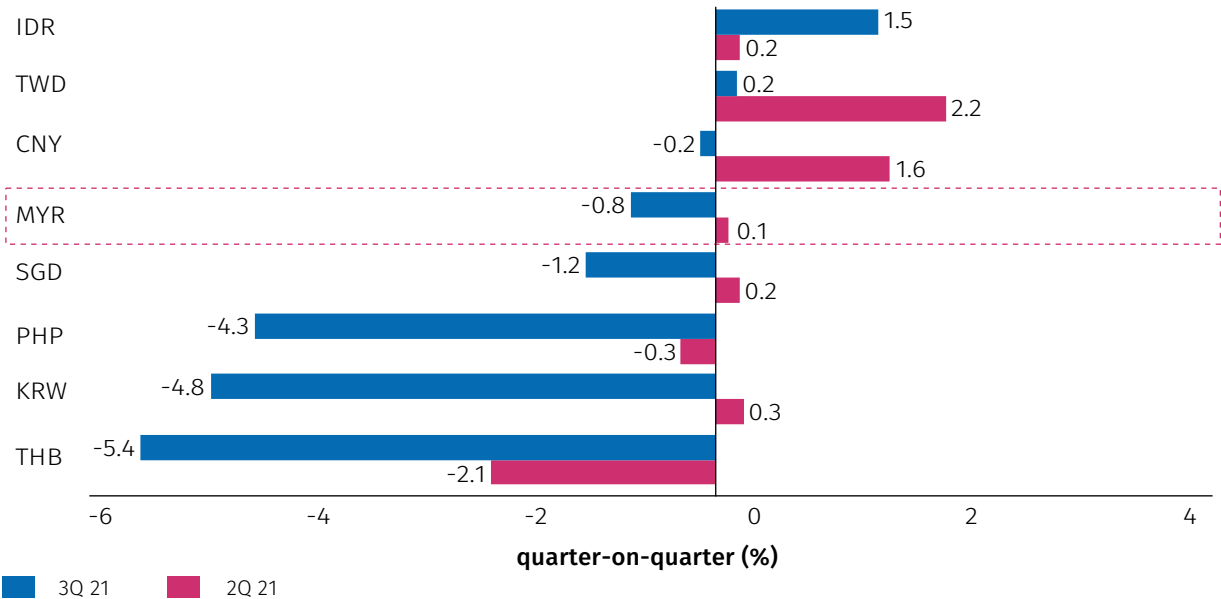
Highlights

- The equity market improved while MGS yields increased and the ringgit depreciated marginally against the US dollar.
- Nominal interest rates remained broadly stable during the quarter.
- Net financing remained supportive of economic activity.

Domestic financial markets were affected by increased uncertainties surrounding the global growth outlook

The domestic financial markets were affected by heightened uncertainty over the global growth outlook in the third quarter of 2021. This stemmed mainly from financial market developments in China, continued supply chain disruptions and the emergence of acute energy shortages in several key economies. Additionally, clarity from the US Federal Reserve that it would likely begin tapering

C20 Performance of Regional Currencies Against the US Dollar



Source: Bank Negara Malaysia and Reuters

its asset purchase programme towards the end of the year caused global bond yields to return to an upward trajectory after a brief pause in the second quarter following concerns over a weaker US economic outlook due to the COVID-19 Delta variant. Towards the end of the third quarter, domestic factors provided some support to investor sentiments as the significant progress in vaccinations enabled the gradual reopening of the economy, which resulted in an improved economic outlook.

Consequently, these developments were reflected in the domestic bond market. The 3-year MGS yield increased by 20.7 basis points, while the 5-year MGS yield increased by 38.1 basis points. Meanwhile, the 10-year MGS yield recorded a marginal increase of 9.6 basis points during the period, compared to 42.0 basis points between mid-February to March 2021 following spillovers from the US Treasury market.

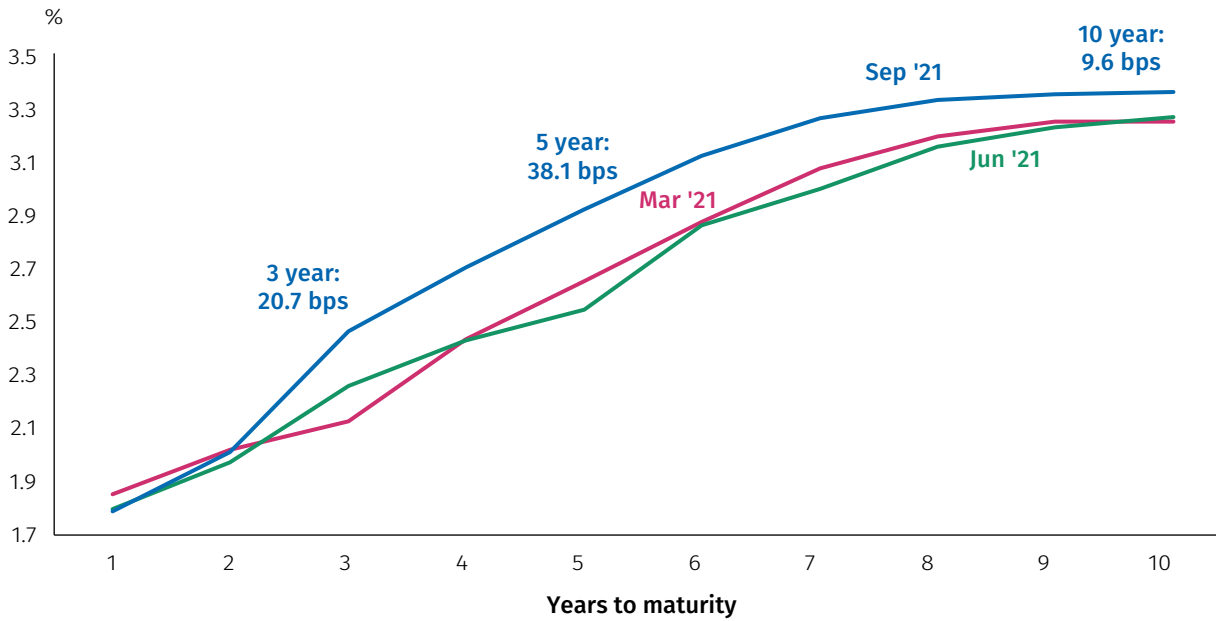
In the foreign exchange market, the ringgit depreciated by 0.8% against the US dollar (2Q 2021: +0.1%). In line with regional currencies, the broad strengthening of the US dollar continued to weigh on the performance of the ringgit throughout the quarter. Nevertheless, the improved outlook for the domestic economy and higher commodity prices had provided some support to the ringgit.

The domestic equity market improved following the easing of COVID-19 restrictions which contributed to better growth prospects. The FBM KLCI closed marginally higher at 1,537.8 points (+0.3%) as at end-Sept 2021 (end-June: 1,532.6 points). Notably, August 2021 marked the first month of net foreign inflows into the domestic equities market (+RM1.0 billion)¹¹ following 25 consecutive months of net sell-off by foreign investors (since July 2019). Foreign investors continued to register net inflows into the equities market in September.

¹¹ Source: Bursa Malaysia.

C21

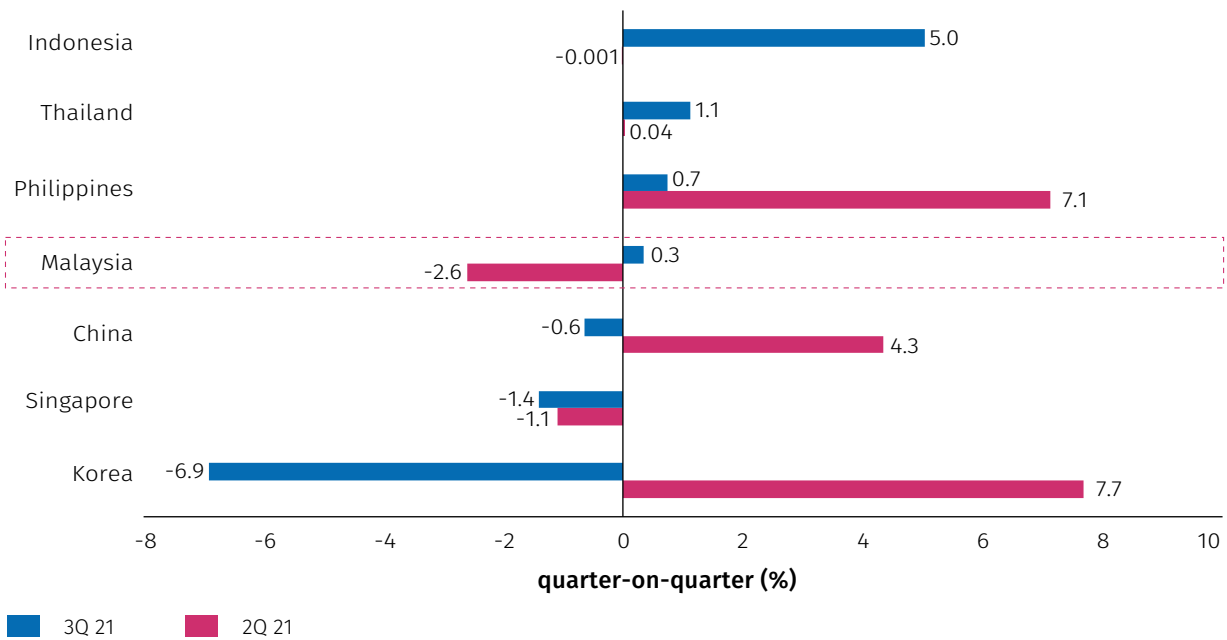
Trend in MGS Yields



Source: Bank Negara Malaysia

C22

Performance of Regional Equity Markets



Source: Bloomberg

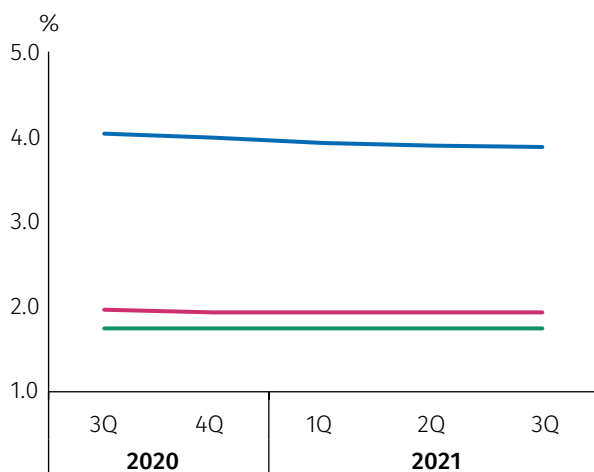
Nominal interest rates remained broadly stable during the quarter

Nominal interest rates in the wholesale and retail markets were stable throughout the quarter. The benchmark 3-month KLIBOR was steady at 1.93% (2Q 2021: 1.94%), while the weighted average base rate (BR) was unchanged at 2.43% (2Q 2021: 2.43%). The

weighted average lending rate (ALR) on outstanding loans remained broadly stable at 3.87% (2Q 2021: 3.89%).

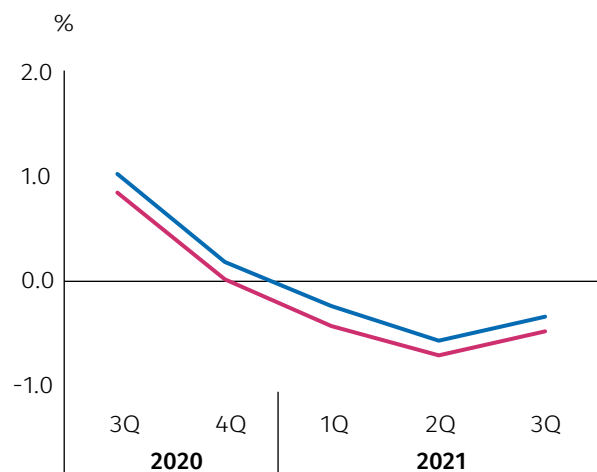
Nominal fixed deposit (FD) rates were also stable during the quarter, across tenures of 1 to 12 months. Reflecting the moderation in inflation expectations, real FD rates¹⁰ turned less negative in the third quarter.

C23 Interest Rates (at end-period)



— Weighted average lending rate (ALR)
 — Overnight Policy Rate (OPR)
 — 3M KLIBOR

Source: Bank Negara Malaysia, Bloomberg and Consensus Economics



— 3M real fixed deposit rate
 — 12M real fixed deposit rate

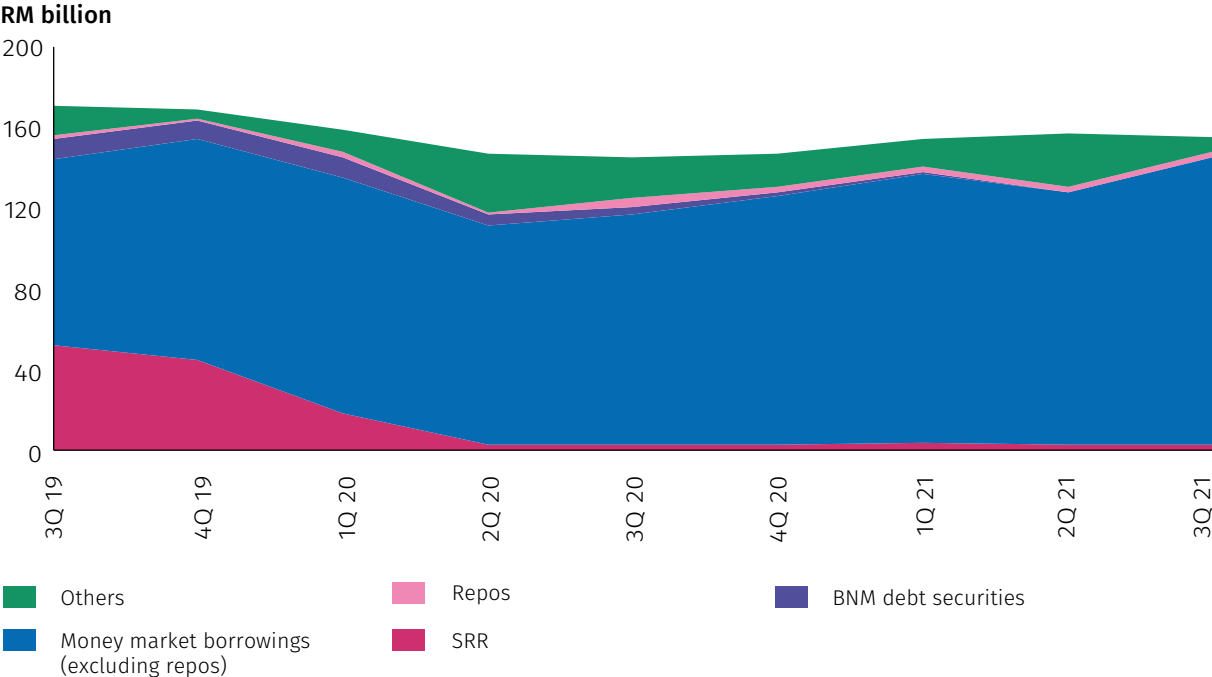
¹⁰ Real fixed deposit rates are computed as the difference between nominal fixed deposit rates and inflation expectations. Inflation expectations is measured as the average expected rate of inflation over the next 12 months (based on data from Consensus Economics), approximated by an average of the forecasts for the current and next calendar year weighted by their share in the forecasting horizon of 12 months ahead. This is comparable to the use of fixed-horizon forecasts in the literature, including Dovern et al. (2012) and Siklos (2013).

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 outstanding

liquidity placed with the Bank declined marginally in the third quarter, due mainly to the higher currency in circulation. This reflected the increased demand for cash during the quarter amid the reopening of the economy. At the institutional level, almost all banks maintained surplus liquidity positions with the Bank as at end-September 2021.

C24 Outstanding Ringgit Liquidity Placed with Bank Negara Malaysia (at end-period)



Source: Bank Negara Malaysia

Net financing remained supportive of economic activity

As at end-3Q 2021, net financing expanded by 3.9% on an annual basis (2Q 2021: 4.4%). The moderation reflected lower growth in both outstanding loans¹¹ (2.9%; 2Q 2021: 3.6%) and outstanding corporate bonds¹² (6.5%; 2Q 2021: 6.9%).

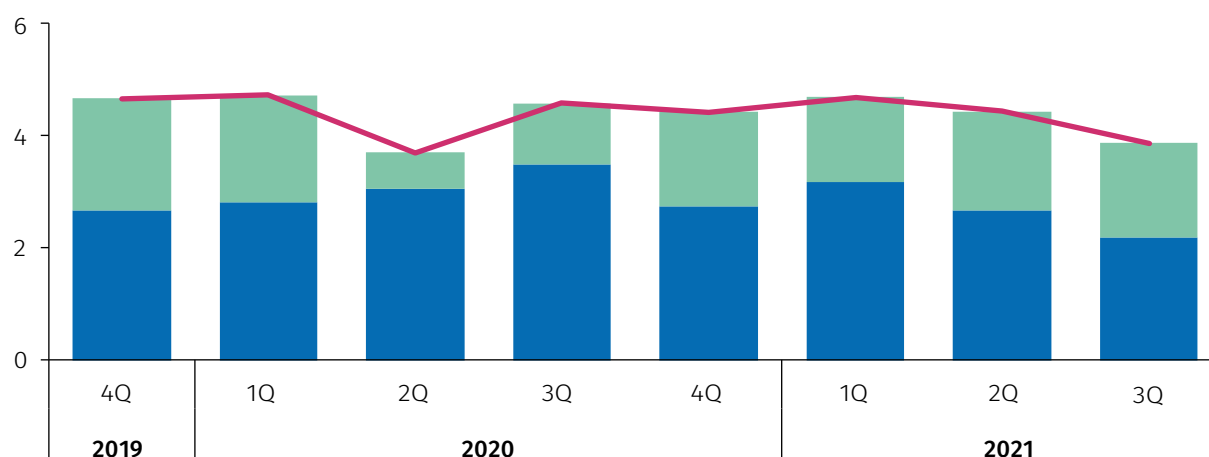
Outstanding household loan growth moderated to 3.2% (2Q 2021: 5.3%), given lower growth across all loan purposes, due mainly to the extension of the nationwide lockdowns reintroduced in June. Both household loan applications¹³ (RM114.4 bn; 2Q 2021: RM151.8 bn) and disbursements (RM75.3 bn; 2Q 2021: RM82.8 bn) declined during the quarter. Nonetheless, household loan applications and disbursements improved in September, recording a broad-based

increase across all purposes following the gradual relaxation of movement restrictions.

For the business segment, outstanding business loans expanded by 2.4% (2Q 2021: 1.3%), supported by higher growth in working capital loans¹⁴ (4.6%; 2Q 2021: 1.5%). Disbursements for working capital loans remained high during the quarter (RM205.0 bn; 2Q 2021: RM203.8 bn; 2017-19 average: RM158.7 bn), given continued drawdown of existing credit lines and sustained loan demand¹⁵ (RM41.5 bn; 2Q 2021: RM38.7 bn), which supported the financing needs of businesses over the period. By sector, the improvement in outstanding loan growth was mainly driven by the wholesale and retail trade, restaurants and hotels (WRRH), and manufacturing sectors, in line with the resumption of business activities amid the reopening of the economy.

C25 Contribution to Net Financing Growth

Contribution to growth (ppt)



■ Outstanding banking system and DFI loans ■ Outstanding corporate bonds*
 — Net financing growth (% yoy)

* Excludes issuances by Cagamas and non-residents

Source: Bank Negara Malaysia

¹¹ Loans from the banking system and development financial institutions (DFIs).

¹² Excludes issuances by Cagamas and non-residents.

¹³ Loans from the banking system only.

¹⁴ Classification of business loans by purpose is only available for the banking system.

¹⁵ Based on loan applications for working capital (banking system loans only).

The Bank's Policy Considerations

Highlights

- The Monetary Policy Committee (MPC) maintained the OPR at 1.75% at the September and November 2021 MPC meetings, considering the stance of monetary policy to be appropriate and accommodative.
- Fiscal and financial measures will continue to cushion the economic impact on businesses and households and provide support to economic activity. The Bank remains committed to utilise its policy levers as appropriate to foster enabling conditions for a sustainable economic recovery.

Monetary policy remains accommodative

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

The MPC assessed that the global economy remains on a recovery path, driven by expansion in manufacturing and services activity. Amid continued strength in global demand, supply chain disruptions, higher commodity prices and labour shortages, inflation has also risen. Nevertheless, global growth prospects will be supported by further progress in vaccination coverage and relaxation of containment measures. Sizeable fiscal and monetary policies in several major economies will continue to support the recovery momentum. Overall, the balance of risks to the global growth outlook remains tilted to the downside. This is attributed mainly to uncertainty surrounding the emergence of variants of concern, the risk of more prolonged global supply chain disruptions, and potential risk of heightened financial market volatility amid adjustments in monetary policy in major economies.

For Malaysia, economic activity weakened in the third quarter, amid the imposition of nation-wide containment measures to curb the resurgence in COVID-19 cases. However, in line with the relaxation of restrictions, high frequency indicators show that economic activity has recovered from the trough in July 2021. Going into 2022, the growth momentum is expected to improve, supported by expansion in global demand, higher private sector expenditure in line with the resumption of economic activity and continued policy support. Risks to the growth outlook, however, remain tilted to the downside due to external and domestic factors. These include a weaker-than-expected global growth, a

worsening in supply chain disruptions, and the re-imposition of containment measures due to the impact of new COVID-19 variants of concern.

In line with earlier assessments, headline inflation is likely to average within the projected range of between 2.0% and 3.0% for 2021, having averaged 2.3% year-to-date. Underlying inflation, as measured by core inflation, is expected to average below 1.0% for the year. Moving into 2022, headline inflation is projected to remain moderate. As economic activity normalises, core inflation is expected to edge upwards but remain benign given the continued spare capacity in the economy and slack in the labour market. The outlook, however, continues to be subject to

global commodity price developments and some risk from prolonged supply-related disruptions.

The MPC considers the stance of monetary policy to be appropriate and accommodative. In addition, fiscal and financial measures will continue to cushion the economic impact on businesses and households and provide support to economic activity. Given the uncertainties surrounding the pandemic, the stance of monetary policy 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 third quarter of 2021

Policy highlight	Salient details
Policy Document (PD) on Perlindungan Tenang	<ul style="list-style-type: none"> • Issued on 2 July 2021, the PD sets out the qualification criteria, regulatory requirements and operational flexibilities granted under the Perlindungan Tenang framework. • The Perlindungan Tenang framework sets out requirements applicable to insurance and takaful solutions that are targeted at the needs of the unserved and underserved segments. • The PD introduces enhancements to existing requirements, introduced in 2017, to provide a fit-for-purpose regulatory framework for Perlindungan Tenang products. The enhancements – <ul style="list-style-type: none"> o expand the scope of qualifying microinsurance and microtakaful products with strengthened expectations on product development; o provide greater flexibilities in the distribution of Perlindungan Tenang products to reduce distribution costs and enhance take-up; and o further strengthen consumer protection requirements to safeguard consumer interests.
PD on Recovery Planning	<ul style="list-style-type: none"> • The PD was issued on 28 July 2021, setting out the Bank's expectations on the development and maintenance of recovery plans by licensed banking institutions and their financial holding companies. • Financial institutions are required to identify and plan for the execution of a suite of recovery options to restore their long-term viability under a range of idiosyncratic and system-wide stress events. Recovery plans aim to ensure that financial institutions are prepared to restore their viability during periods of stress without the possibility of policy intervention by authorities, or access to any exceptional financial support from public funds. • The information and assessment contained in recovery plans will also serve as critical input for Perbadanan Insurans Deposit Malaysia to improve the resolvability of member institutions and operationalise feasible and credible resolution plans.
PD on Reference Rate Framework	<ul style="list-style-type: none"> • Issued on 11 August 2021, the revised PD outlines an industry-wide, standardised reference rate, which will be known as the Standardised Base Rate (SBR), to be used by all financial service providers (FSPs) for the pricing of new retail floating-rate loans. • The SBR, which is linked solely to the Overnight Policy Rate (OPR), would – <ul style="list-style-type: none"> o be more transparent and improve the comparability of loan products across FSPs for consumers; o make it easier for consumers to understand changes in their loan repayments; and o facilitate effective monetary policy transmission. • The PD will come into effect on 1 August 2022.
PD on Merchant Acquiring Services	<ul style="list-style-type: none"> • Issued on 15 September 2021, the PD sets out requirements that must be observed by merchant acquirers in relation to governance, risk management, information technology and operational management. • The PD aims to promote the safety and reliability of merchant acquiring services and further contribute towards promoting public confidence in the use of payment instruments. • This PD will come into effect on 15 March 2022, with slightly longer transitions for non-bank merchant acquirers in some areas.

<p>PDs on Malaysia Overnight Rate (MYOR) and Kuala Lumpur Interbank Offered Rate (KLIBOR) Rate Setting</p>	<ul style="list-style-type: none">• The PDs were issued on 24 September 2021, in conjunction with the launch of the MYOR as the alternative reference rate for Malaysia.<ul style="list-style-type: none">o The PD on MYOR sets out the benchmark design, methodology and governance framework to ensure the integrity and credibility of the MYOR.o The PD on KLIBOR Rate Setting sets out the requirements and governance framework for KLIBOR submitters to ensure the accuracy, credibility, and integrity of the KLIBOR rate setting process.• The MYOR, which is based on overnight transactions in the interbank market, will run in parallel with the existing KLIBOR, with periodic reviews to ensure the benchmark rates remain robust and reflective of an underlying market. The availability of two financial benchmark rates provides market participants with the flexibility to choose either rate as the reference rate for pricing of financial instruments.
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Macroeconomic Outlook

Highlights

- Global growth to improve in 2021, but at a slower pace of recovery towards year-end.
- The Malaysian economy to improve further going into 2022 as the economy reopens.
- Headline inflation is projected to remain moderate in 2022.

Slower global economic recovery momentum for 2021

In their October World Economic Outlook (WEO) publication, the IMF revised its projection of global growth marginally downwards from 6.0% to 5.9% for 2021, compared to their July WEO. This reflected weaker prospects in AEs, due partly to resurgences in COVID-19 cases which dampened domestic demand as well as ongoing supply disruptions in the manufacturing sector. The growth outlook for several EMEs were revised upwards, reflecting improving demand conditions and commodity exporters benefitting from a rebound in demand and higher prices.

The progress of vaccine rollout remains a key determinant of the growth recovery. The higher vaccination rates in AEs, compared to EMEs excluding China, accords AEs more flexibility to reopen the economy and resume economic activity earlier. Many AEs have also introduced booster vaccines especially for at-risk groups amid rising cases due to highly infectious strains. This, along with ongoing fiscal support, underpin expectations for a recovery in AEs for the rest of the year. In EMEs, growth is expected to be supported by continued trade activity and recovery in domestic demand. However, growth could continue to be affected by localised containment measures and some production restrictions as healthcare capacity remained strained due to persistently high cases of severe infections amid slower rollout of vaccines relative to AEs. The growth prospects in China are projected to be further weighed by ongoing energy disruptions and lower-than-expected public investment.

The balance of risks remains tilted to the downside. COVID-19 is a key source of downside risks. Other risks include more severe and persistent global supply disruptions leading to higher price pressures and faster-than-expected policy normalisation. In contrast, upside risks to growth could come from faster vaccination progress in EMEs.

The Malaysian economy is expected to improve following normalisation of economic activities

For 2021, the Malaysian economy remains on track to achieve the projected growth range of 3.0% - 4.0%. The recent gradual relaxations for reopening of more economic sectors, along with higher adaptability of firms to the new operating environment and continued policy support, partly mitigated the impact of nationwide containment measures in the third quarter. Furthermore, the successful rollout of the vaccination programme, which has resulted in improved health outcomes, has enabled a phased and safe reopening of economic sectors and allow the economy to continue its recovery path.

Going into 2022, the positive growth momentum is expected to improve. The economy would benefit from expansion in global demand, higher private sector expenditure in line with the resumption of economic activity and continued policy support.

The balance of risks remains tilted to the downside due to external and domestic factors. These include a weaker-than-expected global growth, a worsening in supply chain disruptions, and the re-imposition of containment measures due to the impact of new COVID-19 variants of concern.

Inflation is projected to remain moderate in 2022

For 2021, headline inflation is projected to average between 2.0% and 3.0%.¹⁶ Underlying inflation, as measured by core inflation, is expected to average below 1.0% for the year.

Moving into 2022, headline inflation is projected to remain moderate. As economic activity normalises, core inflation is expected to edge upwards but remain benign given the continued spare capacity in the economy and slack in the labour market. The outlook, however, continues to be subject to global commodity price developments and some risk from prolonged supply-related disruptions.

¹⁶ The average headline inflation is projected to be higher in 2021 compared to 2020 primarily due to the cost-push factor of higher global oil prices. Year-to-date, headline inflation has averaged 2.3% in 2021.

Annex



T1

GDP by Expenditure Components (at constant 2015 prices)

	Share 2020 (%)	2020		2021		
		3Q	4Q	1Q	2Q	3Q
		Annual growth (%)				
Aggregate Domestic Demand (excluding stocks)	93.8	-3.3	-4.5	-1.0	12.4	-4.1
Private sector	75.2	-4.0	-4.0	-0.9	13.0	-4.4
<i>Consumption</i>	59.5	-2.1	-3.5	-1.5	11.7	-4.2
<i>Investment</i>	15.7	-10.8	-6.6	1.3	17.4	-4.8
Public sector	18.6	0.1	-5.7	-1.5	9.7	-2.8
<i>Consumption</i>	13.4	6.8	2.4	5.9	9.0	8.1
<i>Investment</i>	5.2	-13.1	-20.4	-18.6	12.0	-28.9
Net Exports	6.5	19.2	10.0	0.8	34.3	-37.5
<i>Exports of Goods and Services</i>	61.5	-4.9	-2.1	11.9	37.4	5.1
<i>Imports of Goods and Services</i>	55.0	-7.9	-3.3	13.0	37.6	11.7
Real GDP	100.0	-2.7	-3.4	-0.5	16.1	-4.5
GDP (q-o-q growth, seasonally adjusted)	-	17.3	-1.5	2.7	-1.9	-3.6

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	2Q	3Q
		Annual growth (%)							
Services	57.7	3.1	-16.2	-4.0	-4.8	-5.5	-2.3	13.5	-4.9
Manufacturing	22.9	1.4	-18.3	3.3	3.0	-2.6	6.6	26.6	-0.8
Agriculture	7.4	-8.6	0.9	-0.3	-1.0	-2.2	0.2	-1.5	-1.9
Mining	6.8	-2.9	-20.8	-7.8	-10.4	-10.6	-5.0	13.9	-3.6
Construction	4.0	-7.9	-44.5	-12.4	-13.9	-19.4	-10.4	40.3	-20.6
Real GDP	100.0	0.7	-17.2	-2.7	-3.4	-5.6	-0.5	16.1	-4.5

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

Source: Department of Statistics, Malaysia

	2020		2021		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Current Account	24.8	18.6	12.3	14.4	11.6
(% of GDP)	6.7	4.9	3.3	3.9	3.1
Goods	41.5	42.6	36.6	40.7	41.2
Services	-13.4	-14.0	-15.0	-15.4	-15.2
Primary income	-10.4	-7.2	-5.7	-9.5	-11.3
Secondary income	7.2	-2.7	-3.6	-1.4	-3.1
Financial Account	-31.1	-10.2	16.0	-7.0	22.8
Direct investment	-2.2	1.6	1.4	4.2	17.6
Assets	-9.1	-4.2	-9.1	-8.7	-4.7
Liabilities	6.9	5.8	10.5	12.9	22.2
Portfolio investment	-20.3	-7.1	0.4	20.0	-4.3
Assets	-20.8	-19.9	-14.2	-10.6	-5.2
Liabilities	0.5	12.8	14.6	30.5	0.9
Financial derivatives	-0.5	-0.9	0.3	-0.6	0.7
Other investment	-8.2	-3.7	13.9	-30.5	8.8
Net errors & omissions²	4.8	-11.0	-10.9	-2.6	-13.0
Overall Balance	-1.6	-2.6	17.1	4.7	21.3

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-Sep	end-Jun	end-Sep
	RM billion		
Total External Debt	956.3	1,020.7	1,057.0
<i>USD billion equivalent</i>	227.7	245.7	252.3
By instrument			
Bonds and notes ¹	177.2	196.8	200.4
Interbank borrowings ¹	190.2	187.6	176.1
Intragroup loans ¹	129.9	129.9	140.2
Loans ¹	77.3	75.2	76.0
Non-resident holdings of domestic debt securities	206.4	244.8	248.9
Non-resident deposits	93.6	93.5	96.4
IMF allocation of Special Drawing Rights (SDRs)	7.9	8.0	28.6
Others ²	73.8	84.8	90.5
Maturity profile			
Medium- and long-term	586.1	634.9	666.5
Short-term	370.2	385.8	390.5
Currency denomination			
Ringgit	315.0	358.2	367.1
Foreign	641.3	662.5	689.9
Total debt / GDP (%)	66.7	68.5	70.5
Short-term debt / Total debt (%)	38.7	37.8	36.9
Reserves / Short-term debt (times)	1.2	1.2	1.2 ³

¹ These debt instruments constitute the offshore borrowings.

² Comprise trade credits and miscellaneous.

³ Based on international reserves as at 29 October 2021.

Note: Figures may not add up due to rounding

Source: Ministry of Finance Malaysia and Bank Negara Malaysia

	2020		2021			2020		2021		
	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q
	Change during the period (RM billion)					Annual growth (%)				
Total net financing	42.4	24.0	33.6	15.9	29.3	4.6	4.4	4.7	4.4	3.9
Outstanding:										
Loans ^{1,2}	30.4	7.6	24.5	7.4	18.6	4.7	3.7	4.3	3.6	2.9
Business enterprises	-3.7	-4.0	13.1	3.5	3.8	2.9	0.9	1.6	1.3	2.4
SMEs ³	12.5	1.0	3.9	0.0	4.7	1.6	9.6	10.0	6.0	3.2
Non-SMEs	-16.2	-5.0	9.2	3.4	-0.9	4.0	-5.2	-4.3	-2.2	1.8
Households	33.9	14.4	7.8	4.3	10.6	5.6	5.4	6.0	5.3	3.2
Corporate bonds ⁴	12.0	16.4	9.2	8.5	10.7	4.3	6.5	5.9	6.9	6.5

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		
	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q
	During the period (RM billion)					Annual growth (%)				
Total										
Loan applications ¹	234.3	224.3	220.6	243.2	200.9	1.9	-0.5	11.9	44.7	-14.3
Loan approvals ¹	98.0	102.0	89.9	98.7	89.5	-7.9	-1.2	3.5	48.1	-8.6
Loan disbursements ²	303.7	331.4	361.2	357.2	356.8	-4.4	-1.0	14.5	36.0	17.5
Loan repayments ²	286.1	332.8	355.9	366.4	353.9	-9.1	2.7	11.3	43.5	23.7
Of which:										
Business enterprises³										
Loan applications	83.4	82.8	80.7	91.3	86.4	-21.7	-22.2	-12.7	-5.4	3.6
Loan approvals	38.3	42.4	35.6	38.8	46.7	-21.2	-14.6	-14.1	-7.2	21.8
Loan disbursements	204.6	231.9	267.4	274.3	281.5	-8.8	-2.0	18.5	33.6	37.6
Loan repayments	209.9	238.2	258.8	276.6	276.8	-6.4	3.1	17.5	37.7	31.9
SMEs⁴										
Loan applications	42.1	43.7	39.4	47.0	38.4	-18.8	-14.3	-16.9	-1.6	-8.7
Loan approvals	15.0	17.8	15.2	17.7	15.2	-13.6	-0.6	7.1	18.5	1.3
Loan disbursements	63.7	73.3	77.6	76.3	73.7	-12.5	3.2	22.2	35.5	15.8
Loan repayments	55.3	71.8	73.7	77.4	72.2	-26.1	-3.7	11.9	51.4	30.7
Non-SMEs³										
Loan applications	41.4	39.0	41.3	44.4	48.0	-24.4	-29.5	-8.2	-9.0	16.1
Loan approvals	23.3	24.6	20.4	21.1	31.4	-25.4	-22.5	-25.2	-21.5	35.1
Loan disbursements	140.9	158.7	189.8	198.0	207.8	-7.0	-4.2	17.0	32.9	47.5
Loan repayments	154.7	166.4	185.1	199.2	204.6	3.5	6.3	19.9	33.1	32.3
Households										
Loan applications	150.9	141.6	139.9	151.8	114.4	22.2	18.8	33.7	112.2	-24.2
Loan approvals	59.7	59.6	54.4	59.8	42.8	3.3	11.2	19.6	141.4	-28.2
Loan disbursements	99.1	99.5	93.8	82.8	75.3	5.9	1.3	4.7	44.5	-24.0
Loan repayments	76.1	94.6	97.1	89.8	77.1	-16.0	1.8	-2.5	64.7	1.2

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		
	3Q	4Q	1Q	2Q	3Q ^p
Return on equity (%) ¹	9.1	8.4	8.3	9.7	9.5
Return on assets (%) ¹	1.1	1.0	0.9	1.1	1.1
	RM million				
Net interest income	13,516	13,903	14,175	14,630	13,711
Add: Fee-based income	2,851	3,154	3,190	2,837	2,903
Less: Operating cost ²	8,460	8,828	11,442	8,998	8,757
Gross operating profit	7,906	8,229	5,922	8,469	7,857
Less: Impairment ³ and other provisions	3,275	5,930	1,544	2,140	2,667
Gross operating profit after provision	4,631	2,299	4,378	6,328	5,189
Add: Other income	3,602	3,944	2,884	4,708	4,568
Pre-tax profit¹	8,224	5,444	7,097	9,601	7,824
	Annual growth (%)				
Return on equity (percentage points) ¹	-3.2	-3.8	-1.8	0.8	0.4
Return on assets (percentage points) ¹	-0.34	-0.42	-0.2	0.1	0.03
Net interest income	6.4	6.0	11.6	45.4	1.4
Add: Fee-based income	6.8	-2.5	23.5	22.9	1.8
Less: Operating cost ²	-1.9	-3.5	32.9	9.9	3.5
Gross operating profit	17.2	14.3	-11.2	102.7	-0.6
Less: Impairment ³ and other provisions	299.4	15,627.1 ⁴	-44.1	-10.9	-18.6
Gross operating profit after provision	-21.8	-67.9	12.0	256.2	12.1
Add: Other income	-16.3	6.8	-37.9	-24.6	26.8
Pre-tax profit¹	-19.1	-44.2	-14.4	47.4	-4.9

¹ Banking system profits are aggregated at the entity level. The aggregated results for 2019 onwards are subsequently adjusted for dividend income received from domestic banking subsidiaries (previously added at both the parent and subsidiary levels). Differences in comparative pre-tax figures reported in previous Quarterly Bulletins are estimated to range between 5.5% and 10.7%.

² Refers to staff costs and overheads.

³ 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).

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		
	3Q	4Q	1Q	2Q	3Q ^p
	RM million				
Life Insurance & Family Takaful					
Excess income over outgo	8,022	9,313	-630	4,314	5,129
General Insurance & General Takaful					
Operating profit	764	912	710	1,076	927
Claims ratio (%)	56	52	55	51	52
	Annual growth (%)				
Life Insurance & Family Takaful					
Excess income over outgo	111.4	141.3	94.6	-73.6	-36.1
General Insurance & General Takaful					
Operating profit	-2.7	25.0	30.2	-6.7	21.4
Claims ratio (percentage points)	-3.4	-6.3	-4.7	-1.6	-3.8

^p Preliminary

Source: Bank Negara Malaysia

	2020		2021 ^p		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
Revenue	46.4	77.0	49.5	56.9	51.5
<i>Annual growth (%)</i>	-32.6	10.2	9.3	0.8	10.9
Operating expenditure	56.9	53.7	62.2	55.2	50.7
<i>Annual growth (%)</i>	-17.3	-23.0	0.2	6.2	-11.0
Current account	-10.5	23.3	-12.7	1.7	0.8
Net development expenditure	12.1	20.2	15.3	12.7	22.1
<i>Annual growth (%)</i>	23.5	3.1	41.6	80.7	82.5
COVID-19 Fund ²	5.0	10.4	9.1	9.3	5.0
Overall balance	-27.6	-7.3	-37.1	-20.3	-26.3
Memo:					
Total net expenditure	74.0	84.3	86.6	77.1	77.8
<i>Annual growth (%)</i>	-5.9	-5.7	17.9	-4.9	5.1
Total Federal Government debt (as at end-period)	874.3	879.6	917.5	958.4	969.3
Domestic Debt	659.0	649.8	671.9	698.5	708.5
External Debt	215.3	229.8	245.6	259.9	260.8
<i>Non-resident holdings of RM-denominated debt</i>	190.9	206.1	222.2	231.5	234.9
<i>Offshore borrowing</i>	24.4	23.7	23.4	28.4	26.0

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