

## Taking the Pulse of the Economy During the Pandemic

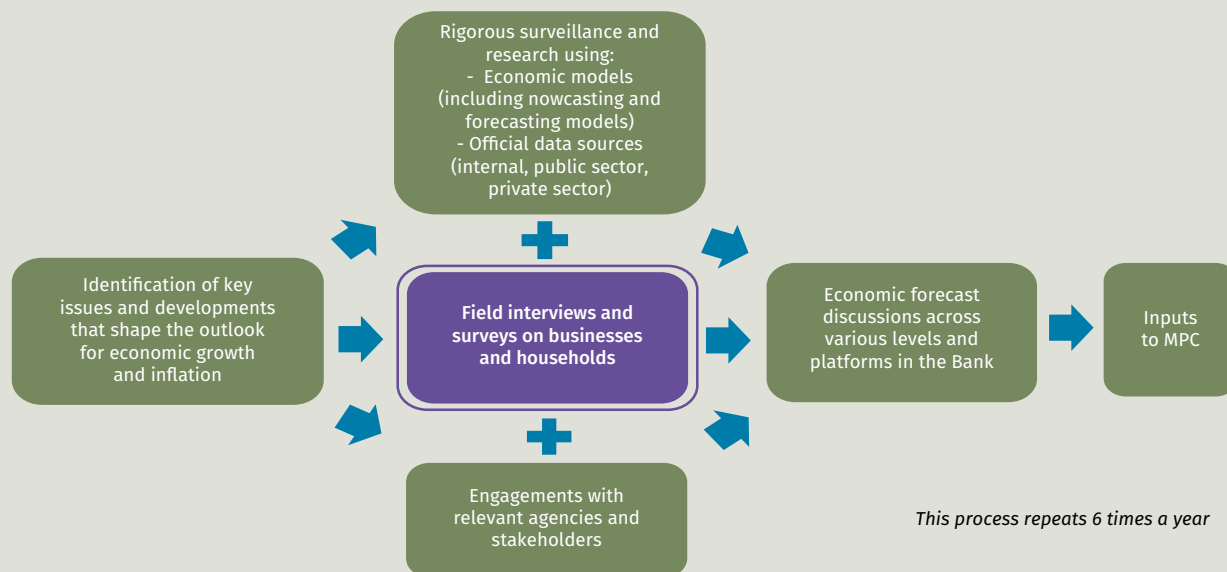
### Introduction

The pandemic reshaped the way central banks pursue their mandates in the face of great uncertainty. Among other things, engagements with the public became especially crucial to inform assessments and policy responses. Like many other major central banks globally,<sup>1</sup> Bank Negara Malaysia had stepped up our efforts to listen and speak to the public. Such engagements helped us better understand how evolving developments affected different parts of society and the economy. This improved our capacity to formulate appropriate and targeted policies to support the economy and manage emerging risks. This article aims to feature how such engagements were valuable during the pandemic, with a focus on insights from businesses and households. The first part highlights how they supported monetary policymaking. The second part, meanwhile, focuses on how they helped in formulating other economic and financial policies to mitigate the pandemic's wide-ranging effects.

### Part I. Disclosing Real-Time Economic Conditions to Support Monetary Policymaking

The unprecedented nature of the pandemic had made economic forecasting even harder. The economic crisis that was a result of supply and demand shocks following lockdowns had weakened economic relationships observed during normal times. The heightened uncertainty over households and businesses' economic decisions also made real-time data more crucial when quick policy interventions were needed. As such, reliance on ground-level insights became more vital to bridge data gaps with timely, forward-looking, and qualitative information. Such insights complemented the usage of other high-frequency data for economic nowcasting (e.g., data on mobility, electricity generation as well as physical and online spending transactions). They enhanced our knowledge on the current and possible future pathways of the economy when guiding monetary policymaking (Diagram 1).

**Diagram 1: How Ground-Level Insights Fit Into Monetary Policy Formulation**



Note: MPC refers to Monetary Policy Committee.

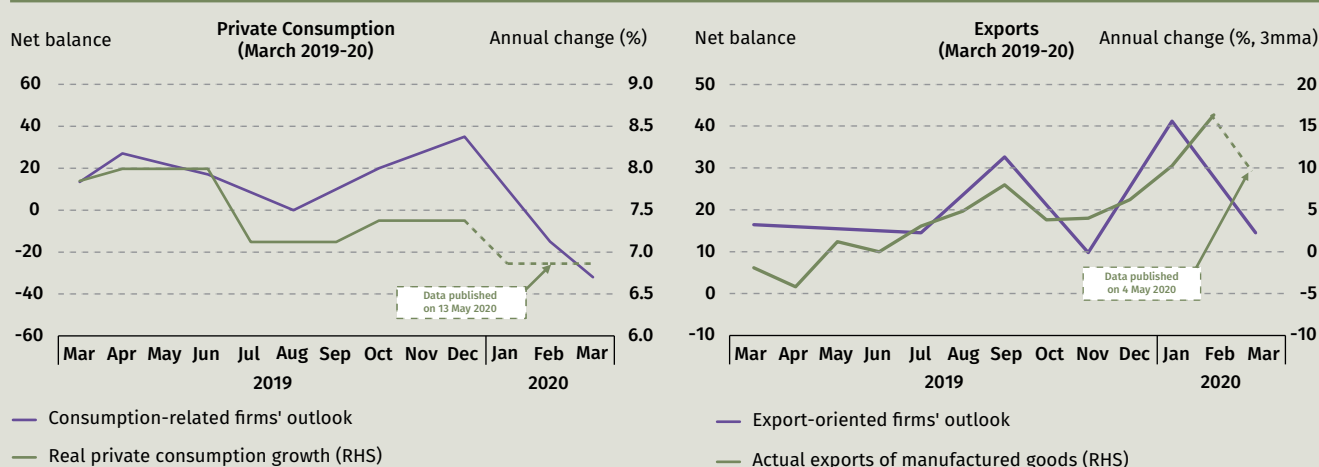
Source: Bank Negara Malaysia

<sup>1</sup> For example, see the article entitled "The ECB's dialogue with non-financial companies", *Economic Bulletin*, Issue 1, European Central Bank (ECB), 2021.

**(i) Early detection of turning points for economic forecasting**

Insights from interviews with businesses<sup>2</sup> were used to facilitate the detection of turning points for the economy. A case in point was when the demand and export outlook for Malaysia as projected earlier by firms were affected by the COVID-19 outbreak as early as January 2020. During that period, reported cases of infection were still low and largely confined to imported cases.<sup>3</sup> Such early impact from the outbreak was not widely captured by other timely indicators.<sup>4</sup> However, insights obtained through our engagements with the businesses across the country were already suggesting a negative turn in business outlook. Specific industries (e.g., wholesalers, retailers and tourism players) indicated that sales had declined starting January 2020 amid fewer incoming tourists. Meanwhile, export-oriented firms, which at the end of 2019 projected a positive outlook for 2020, were citing increased pessimism in the early part of 2020. These firms indicated that there were delivery delays following disruptions in the global supply chain after parts of PR China went into lockdown. The turnaround in business outlook was thereafter confirmed by official economic data with a lag of two months (Diagram 2). Such real-time insights from the industry were critical in detecting turning points throughout the pandemic and enabled pre-emptive policy calibration when various containment measures were imposed, tightened or relaxed.

**Diagram 2: Firms' Outlook for Consumption and Exports vs. Official Data (March 2019-2020)**



Note: Firms' outlook is represented as a net balance, which refers to the difference between the proportion of respondents citing better outlook and the proportion of respondents citing worse outlook. This information is obtained every two months, six times a year. Monthly data is then derived by calculating the midpoints for the months without data.

Source: Department of Statistics, Malaysia and Bank Negara Malaysia

**(ii) Corroborating evidence to complement quantitative data**

Ground-level insights also enhanced our knowledge on the underlying drivers of current and future economic trends. This was most useful when economic conditions differed markedly from projections based on historical trends amidst great uncertainty. For instance, Malaysia's exports data performed better than expected despite the imposition of the Full Movement Control Order (FMCO) in June 2021.<sup>5</sup> Ground-level engagements suggested that this was due in part to firms' adaptability despite limits on labour capacity. Firms in selected industries (e.g., those in the electrical and electronics (E&E) industry) were observed to adapt with relative ease and speed to raise production by relying on their high

<sup>2</sup> Under the Bank's Regional Economic Surveillance programme, industrial engagements are carried out with the business community to gauge real-time business conditions and outlook. Such direct engagements with the business community are built on mutual trust and are treated with strict confidentiality, whereby inputs are used internally to enrich the range of information available to the Bank, particularly to support decision-making by the Monetary Policy Committee (MPC). For more information, please refer to Bank Negara Malaysia Annual Report 2013 Box Article: "Broadening Economic Surveillance through Bank Negara Malaysia's Regional Offices".

<sup>3</sup> For Malaysia, the first sporadic case where the infected person neither travelled to an affected area nor had contact with an infected person emerged on 11 March 2020, and by 14 March, the presence of COVID-19 was reported in every state of the country (Source: Ministry of Health, MOH).

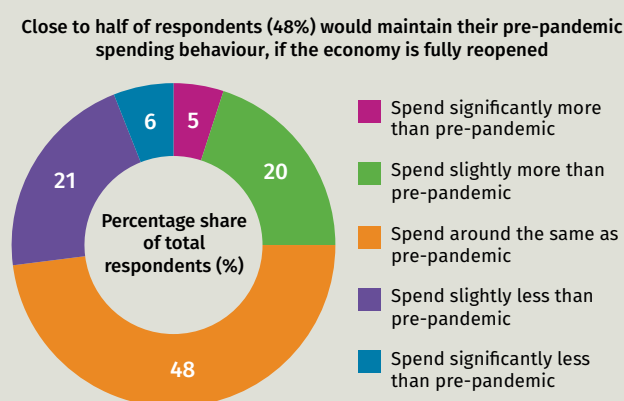
<sup>4</sup> For example, timely indicators such as Google's Community Mobility Reports lack the important context and connectivity to larger economic trends as they are not able to explain whether consumers spend more or less when they reach their destinations.

<sup>5</sup> In June 2021, Malaysia's export of goods rose by 27% year-over year and 14% month-over-month (May 2021: 47% and -13%, respectively).

automation level and by increasing the number of working days or shifts. On-the-ground interviews also shed light on how firms’ newly expanded production lines could meet rising export demand.

Likewise, we used household-level insights<sup>6</sup> to enrich assessments on issues such as households’ spending patterns in the post-pandemic period. As an alternative source of data, qualitative information on households’ expectation on spending helped to inform economic forecasts for monetary policymaking. Specifically, they showed that close to half of households surveyed would maintain their pre-pandemic spending behaviour once the economy fully reopens (Diagram 3).

**Diagram 3: Households’ Expected Spending Behaviour in the Post-Pandemic Period (December 2021)**



Source: Bank Negara Malaysia Consumer Sentiment Survey

**(iii) Providing nuances across regions and sectors**

Moreover, ground-level insights provided the nuances that were otherwise not obvious in national data during the pandemic. This was valuable during the period of diverging economic conditions across regions in Malaysia (i.e., where varying severity of the pandemic required localised measures). By combining regional-level nuances, economic assessments were enhanced at the national level.

Similarly, ground-level insights provided narratives across sectors that were useful to assess the pandemic’s impact on the economy. At the onset of the first imposition of Movement Control Order (MCO), there were uncertainties surrounding firms’ operating capacity amidst the restrictions. Differences in restrictions by sector, the level of automation as well as the adaptability of businesses were critical considerations in assessing the extent of the impact of MCO restrictions on a particular industry. Interviews with businesses across different sectors were able to provide prompt and pertinent insight on how firms were impacted differently, given the nature of their respective industries. These sectoral-level insights enabled us to estimate the early impact of MCO on the overall economy, thus providing vital information for policy assessments.

**Part II. Detecting Ground-Level Issues for Policy Enhancements**

Apart from supporting monetary policymaking, engagements with the public served as a feedback loop for us to improve existing policies where needed. During the pandemic, more real-time reactions from households and businesses were captured via targeted engagements. This led us to be more agile in our policy measures to meet the intended policy objectives.

<sup>6</sup> The Bank Negara Malaysia Consumer Sentiment Survey (BNM CSS) commenced in 2013 to bridge information gaps pertaining to consumer expectations on economic growth, inflation, wage growth and borrowing costs.

**(i) Strengthened financial capability and empowerment**

Our engagements with the public provided important insights related to financial support measures. For instance, a survey on households showed that the rise in applications for moratorium in mid-2021 was not driven only by borrowers in distress. Instead, a third of borrowers that applied for repayment assistance were partly using it to build up precautionary buffers. Direct exchanges with the public via BNMLINK were also useful for early detection of pain points. This included the need to improve the quality of communication on various financial assistances offered. With this timely feedback, the Bank undertook measures alongside the financial institutions to provide information with greater clarity and to lessen information gaps among the public.

Engagements with the public also revealed the need to improve the financial capability and resilience of households and businesses. This was most crucial amidst weaker labour market conditions during the pandemic. We stepped up engagements through both traditional and digital platforms,<sup>7</sup> as well as via the Financial Education Network (FEN),<sup>8</sup> to provide information, clarifications and guidance on important issues. Topics covered included financial fraud, repayment assistance and personal financial management. Specific programmes<sup>9</sup> were held to nudge consumers to seek help early in order to better manage their finances amidst high uncertainty. Awareness programmes were also rolled out to strengthen the outreach and usage of digital financial services. In 2021, more than 220 initiatives were conducted by the FEN members and partners. Over 70% of these initiatives were targeted at the B40, and over 60% were for the youth and adult populations. Most of these initiatives were held virtually, which resulted in a wider reach of more than 5 times compared to those held physically.

**(ii) Targeted policy support for business recovery**

Insights from engagements and surveys<sup>10</sup> also supported the development and fine-tuning of policies to provide relief and support a sustainable business recovery. For instance, engagements with SMEs validated macro observations that the services sector was the hardest-hit segment.<sup>11</sup> In response, we launched special funds to support the recovery of SMEs in the services sector. Ongoing dialogue with SMEs also helped us to enhance other facilities under BNM's Fund for SMEs, to ensure timely and more targeted access to financing. Overall, BNM's Fund had benefitted over 52,000 SMEs and microenterprises and supported more than 1 million jobs. Various other issues were also revealed, including access to finance among microenterprises and mid-tier companies (Diagram 4). This then led to more policy attention on newly uncovered pockets of underserved segments.

**(iii) Improved access to financial services**

Engagements with the public also revealed pain points regarding access to financial services. This led to more concerted efforts to bridge the gaps on financial inclusion stemming from the pandemic. Specifically, ground-level insights revealed that mobility restrictions had impacted segments of communities that relied heavily on cash transactions and traditional banking. These communities faced inconveniences in day-to-day financial needs, especially in places where ATMs or bank branches were not easily accessible. Those without bank accounts also faced hurdles during disbursements of Government aid. This was exacerbated by connectivity constraints and lack of interoperable systems that allowed for interbank fund transfers at agent banks in rural communities. To address these issues, more Mobile Banks (Bank Bergerak) were deployed under PEMULIH to expand access to financial services in the underserved areas.

<sup>7</sup> These included webinar sessions, radio segments, email blasts and social media postings.




<sup>8</sup> The FEN member institutions are the Bank, Securities Commission Malaysia, Ministry of Education, Ministry of Higher Education, Malaysia Deposit Insurance Corporation, Employees Provident Fund, Credit Counselling and Debt Management Agency, and Permodalan Nasional Berhad. FEN formulated the National Strategy for Financial Literacy 2019-2023, a 5-year roadmap to elevate the financial literacy of Malaysians and to empower Malaysians to (a) save, manage, and protect their finances; (b) plan and ensure a sustainable future; and (c) protect themselves from fraud and financial scams.

<sup>9</sup> For example, "Seek Help Early" campaign (23 June 2020), a series of Repayment Assistance Clinics (14 sessions conducted in 2020) and Virtual Financial Advisory Clinic (29-31 October 2021).

<sup>10</sup> The Bank conducted 10 virtual engagements in 2021 involving 38 SME Associations (~4.1 million SME members), covering key topics such as repayment assistance, BNM's Fund for SMEs as well as other assistance channels. Meanwhile, periodic and targeted surveys were carried out, complementing the Bank's regular surveillance on SME financing conditions.

<sup>11</sup> These included the wholesale and retail trade, transportation and storage, and tourism sub-sectors.

Diagram 4: Key Issues Obtained From Engagements With Firms and the Corresponding Measures

	Ground-Level Issues	Key Measures/Resolutions
 Micro-enterprises	Tight or pressing cashflow; Unemployment and lay-offs	<ul style="list-style-type: none"> <li>Increased allocation of Micro Enterprises Facility (MEF), a collateral-free financing scheme</li> <li>Expanded scope to include self-employed individuals, gig workers on digital platforms and participants of iTEKAD</li> </ul>
		<ul style="list-style-type: none"> <li>Introduced repayment deferment</li> </ul>
 Small and medium enterprises	Difficulty in servicing financing facilities from non-bank institutions among tourism players	<ul style="list-style-type: none"> <li>Refinancing allowed under special funds to help businesses consolidate and manage cost pressures</li> </ul>
	Services sector struggled to remain viable with reintroduction of containment measures	<ul style="list-style-type: none"> <li>Increased allocation of Targeted Relief and Recovery Facility (TRRF) to provide relief and support recovery</li> </ul>
	Need for financing support to improve productivity via investments in automation and digitalisation	<ul style="list-style-type: none"> <li>Increased allocation of the SME Automation and Digitalisation Facility (ADF) and established the High Tech Facility – National Investment Aspirations (HTF-NIA)</li> </ul>
	Delays in disbursement of financing facilities	<ul style="list-style-type: none"> <li>Guarantee providers encouraged to give guarantees on portfolio basis for financing provided under new facilities in 2021 to reduce turnaround time</li> </ul>
	Unsuccessful financing applications	<ul style="list-style-type: none"> <li>Advisory assistance provided via MyKNP@CGC</li> </ul>
 Mid-tier companies	Pockets of challenges amongst automation solution providers and larger manufacturers in terms of access to financing	<ul style="list-style-type: none"> <li>Development of new products for mid-tier companies, leveraging on Syarikat Jaminan Pembiayaan Perniagaan (SJPP) guarantees</li> </ul>

Note: Mid-tier companies refer to companies with annual revenues between RM50 million to RM500 million in the manufacturing sector and between RM20 million to RM500 million in other sectors.

Source: Bank Negara Malaysia

Agent banks were also allowed to operate during the containment measures to ensure continued access to cash and Government assistance. We also collaborated with PayNet to address urgent cash needs of communities in several underserved areas.<sup>12</sup>

**(iv) Enhanced advisory role to the Government**

Ground-level insights had further strengthened our policy advisory role to the Government. For example, the prolonged lockdowns revealed multiple pain points for businesses (e.g., inconsistencies in SOPs impeding quick business decisions and disruptions in critical sub-sectors like E&E-related and aerospace). These could potentially threaten Malaysia’s strategic position as a key player in the global supply chain. Where relevant, on-the-ground insights on potential risks to the economic outlook were flagged in a timely manner to the Government through various platforms to enrich policy deliberations. This aided the design of national directives on containment measures to minimise disruptions of critical economic activities without compromising on health safety outcomes. This ensured a better footing during the path to recovery.

**Conclusion**

The pandemic had magnified the value of engagements with both businesses and households. Ground-level intelligence enhanced our knowledge on various economic issues for monetary policymaking and supported policy decisions to mitigate the far-reaching impact of the pandemic. These were highly critical during times of heightened uncertainty. As such, we would like to thank all parties that directly and indirectly contributed towards these efforts. Looking ahead, we will continue to foster mutual trust to build stronger networks with all stakeholders.

<sup>12</sup> For example, the deployment of white-label ATMs (ATMs that were set up and operated by a non-bank) in 2021. This collaborative effort would expand to include the proliferation of MyDebit Cash Out (MDCO) to increase touchpoints for cash withdrawal moving forward.