

# BANK NEGARA MALAYSIA

- ▶ ANNUAL REPORT 2021
- ▶ ECONOMIC AND MONETARY REVIEW 2021
- ▶ FINANCIAL STABILITY REVIEW – SECOND HALF 2021

30 MARCH 2022



# The Malaysian economy to strengthen in 2022

- ▶ **However, lingering uncertainties remain along with unfolding developments that could affect Malaysia's growth prospects**
- ▶ **Policies remain in place to support vulnerable segments and secure a sustainable economic recovery**
- ▶ **Need to advance implementation of structural reforms that furthers a conducive investment climate and enhance long-term competitiveness for the Malaysian economy to emerge stronger and more resilient**

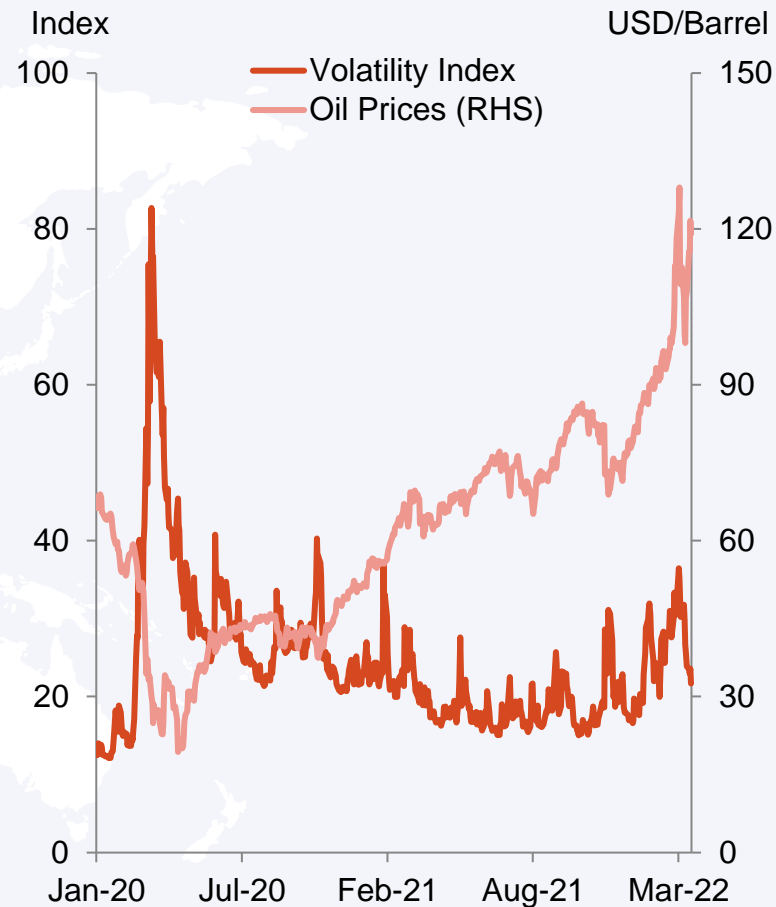


# Economic recovery on track despite challenging global conditions

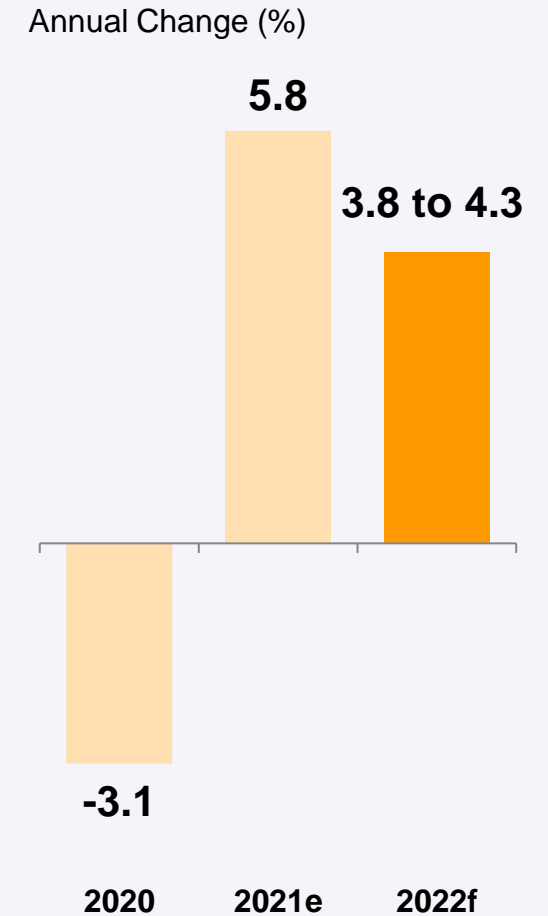
## Growth in 2022 to be affected by..

- ▶ **State of the pandemic**  
Resurgences would still weigh on growth through sentiments and absenteeism.
- ▶ **Military conflict in Ukraine**  
exerting further pressure on growth via trade, inflation and financial markets.
- ▶ **Pace of policy normalisation in major economies**  
amid a challenging operating landscape and tighter financial conditions.

Volatility Index and Brent Oil Prices



Global Real GDP Growth

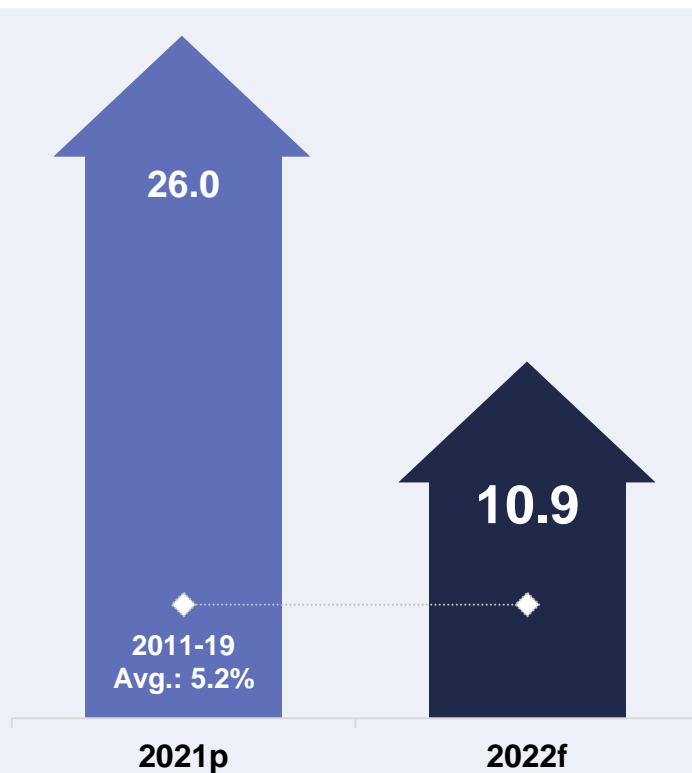


Source: Bank Negara Malaysia estimates, Intercontinental Exchange, Bloomberg, International Monetary Fund

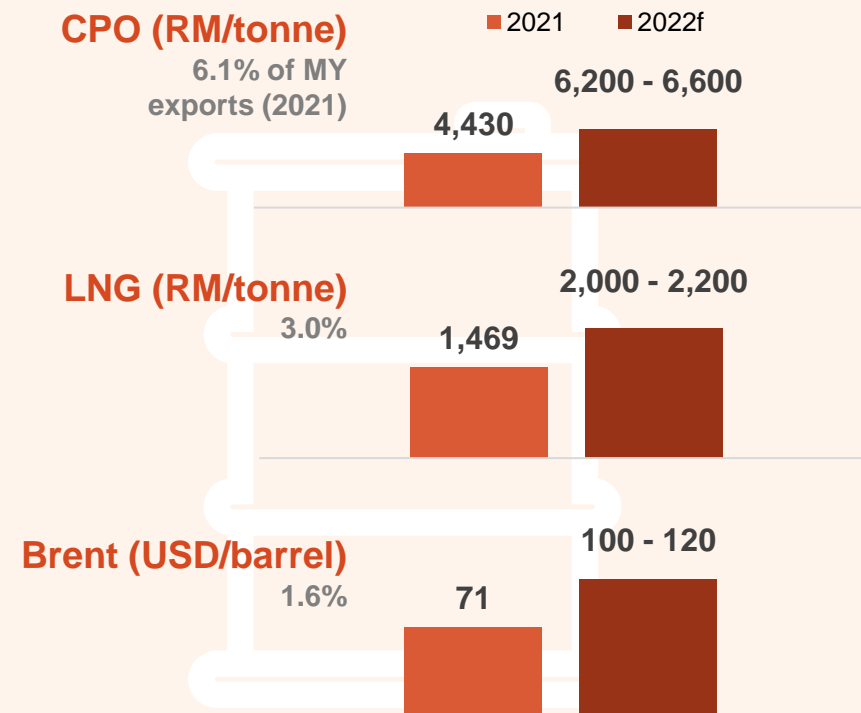
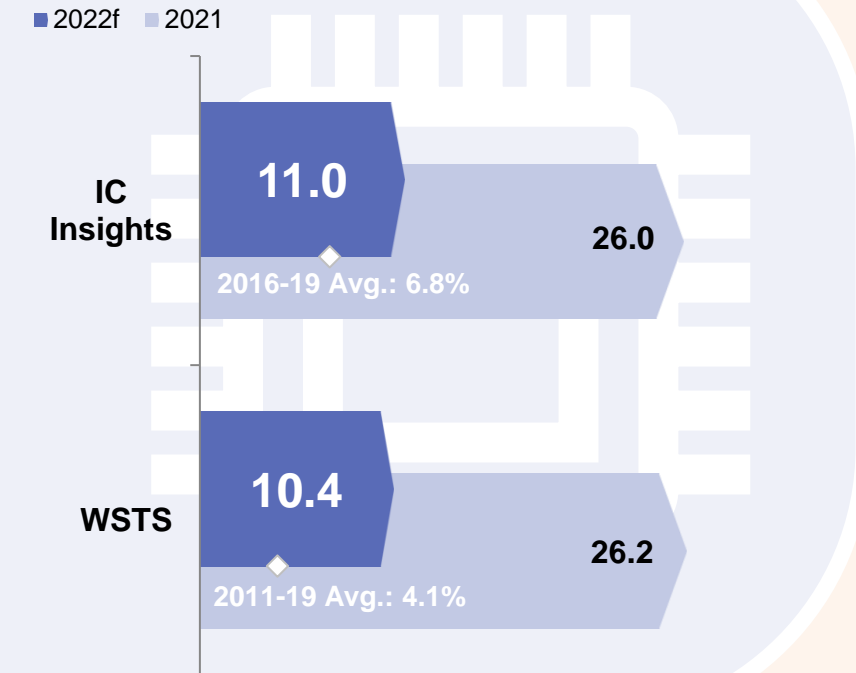


# Malaysia's exports to benefit from continued global demand and higher commodity prices

## Gross Exports Annual Change (%)



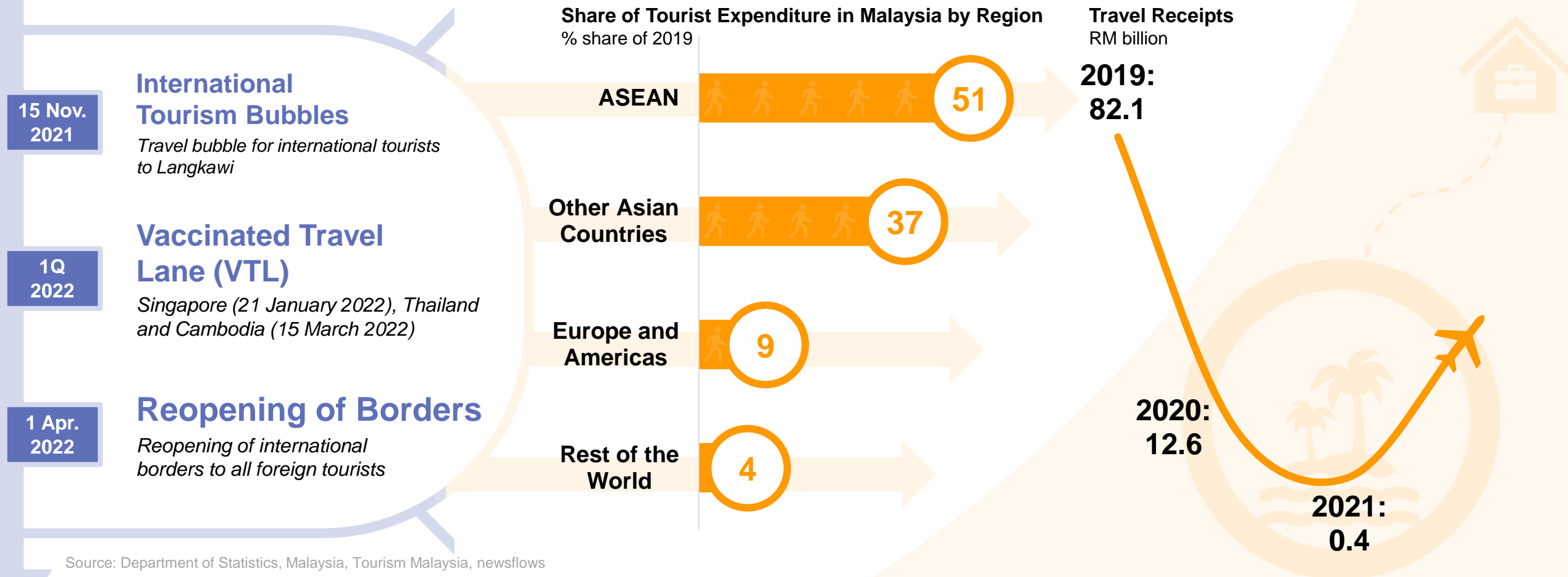
## Global Semiconductor Sales Forecasts Annual Change (%)



Source: WSTS, IC Insights, MPOB, PETRONAS and Bank Negara Malaysia estimates

# Further lift to growth from reopening of international borders

Reopening of borders to international tourists would support the recovery of travel receipts



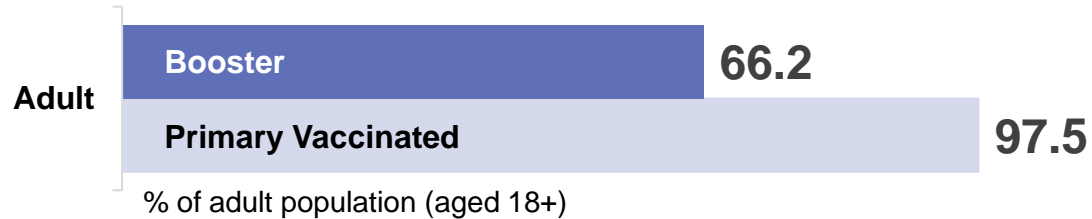
Source: Department of Statistics, Malaysia, Tourism Malaysia, newsflows



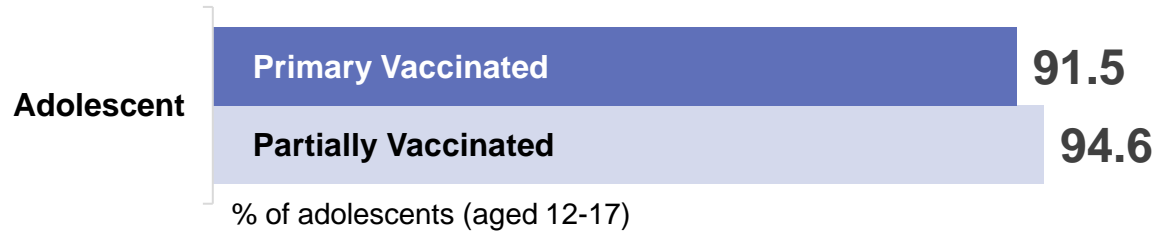
# High vaccine coverage domestically enables a more targeted approach to manage COVID-19

## Vaccine Coverage

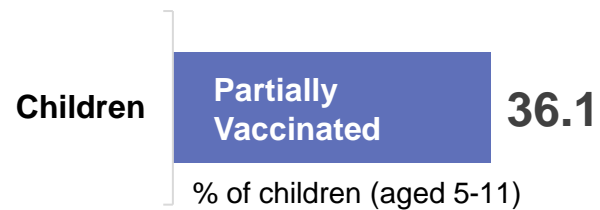
### High booster coverage among adults



### Near-universal coverage among adolescents



### Steadily increasing take-up as PICKids continues

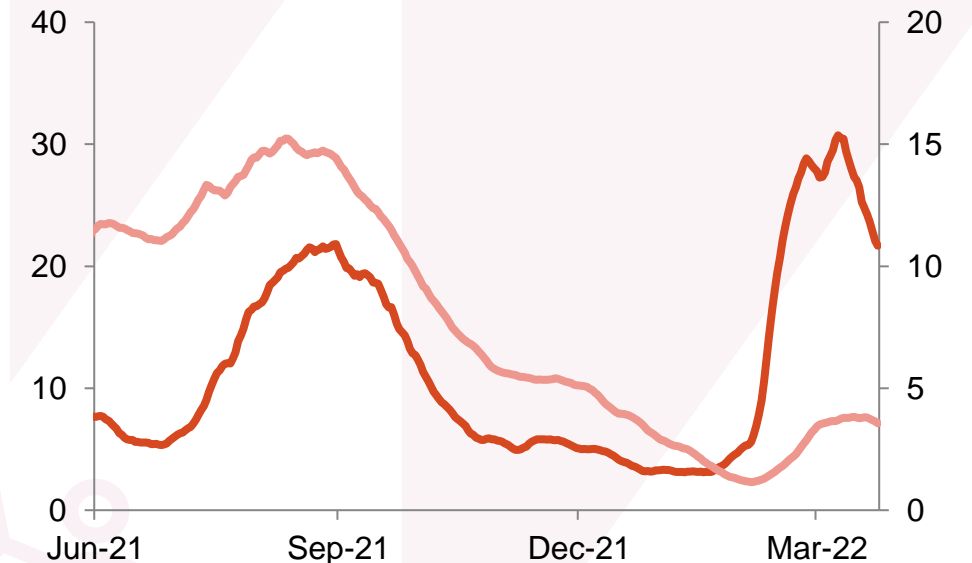


**High vaccine coverage and effectiveness allows for proportionate, targeted and calibrated approach**

▶ *No nationwide containment measures, albeit some impact from self-isolation, absenteeism and risk aversion as cases rise*

## COVID-19 Cases and ICU Cases

— New COVID-19 Cases (7 Day Average, Thousands)  
— New ICU COVID-19 Cases (RHS, 7 Day Average, Hundreds)



Note: Data as at 11.59 PM on 24 March 2022

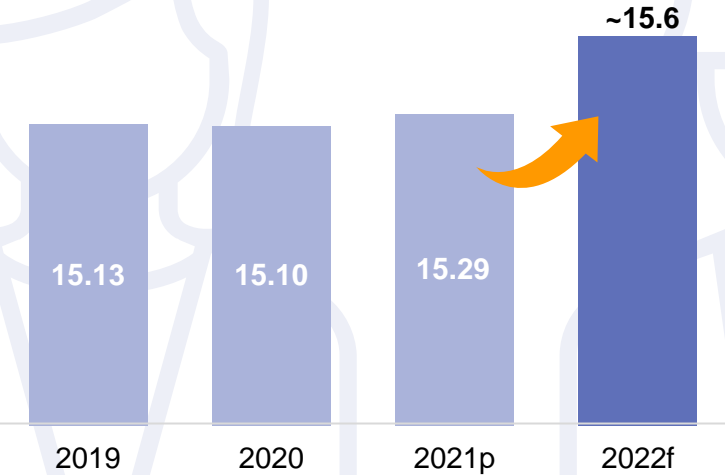
Source: Ministry of Health Malaysia GitHub ([github.com/MoH-Malaysia/covid19-public](https://github.com/MoH-Malaysia/covid19-public))



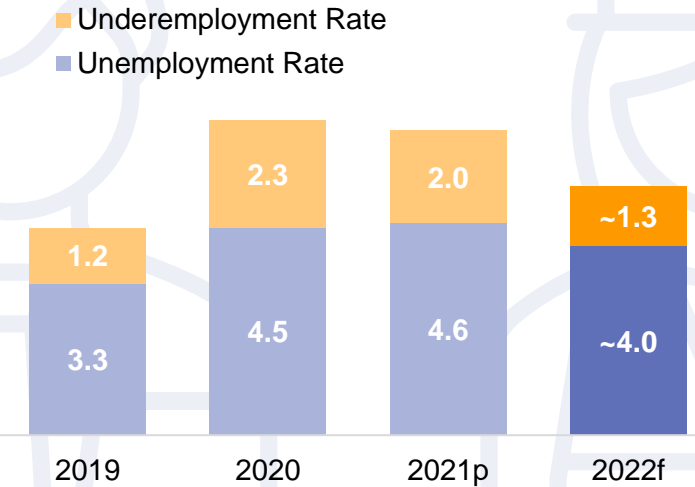
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# Further improvement in employment prospects amid encouraging signs of hiring activity in 2022

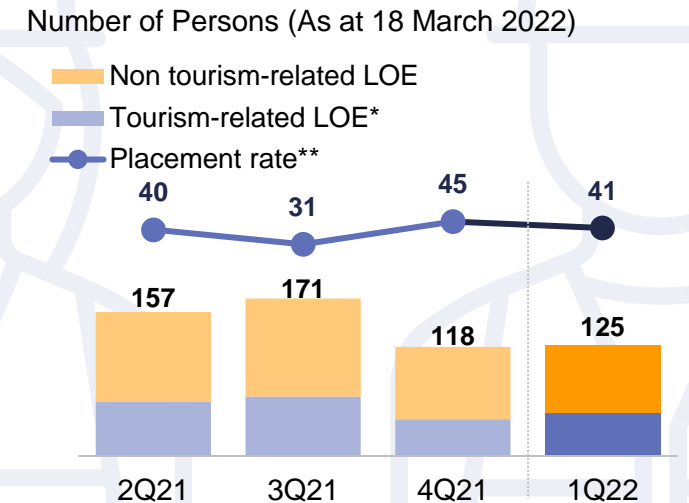
**Total Employment**  
Million Persons



**Unemployment and Underemployment**  
% of Labour Force



**Avg. Daily Loss of Employment (LOE) and Placement Rate**  
Number of Persons (As at 18 March 2022)



## Policy measures supporting the labour market

Wage Subsidy Programme

JaminKerja

MySTEP

Upskilling & Reskilling Initiatives

Progress of Long-term Reforms\*\*\*

\* Tourism-related industries follows SOCSO definition and includes wholesale retail, administrative and support services, accommodation and F&B, transportation and storage, entertainment and recreation

\*\* The placement rate refers to the number of people placed in new jobs under the Employment Insurance Scheme (EIS) for every 100 persons retrenched

\*\*\* Long-term reforms refer to the initiatives to raise the quality of education, strengthen the technical and vocational education and training (TVET) ecosystem and implement market-based tools to manage foreign workers

Source: SOCSO, Department of Statistics, Malaysia, Ministry of Finance (MOF), and Bank Negara Malaysia estimates



# Improvements in labour market to support household spending

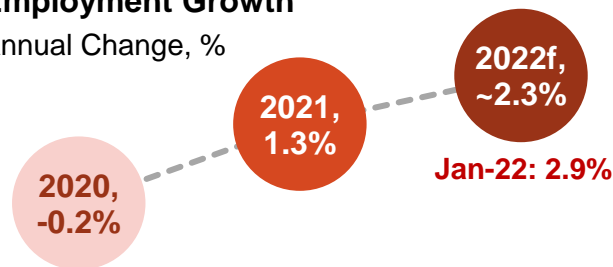
**Real Private Consumption**  
Annual Change (%)



## Continued improvement in both employment and income growth

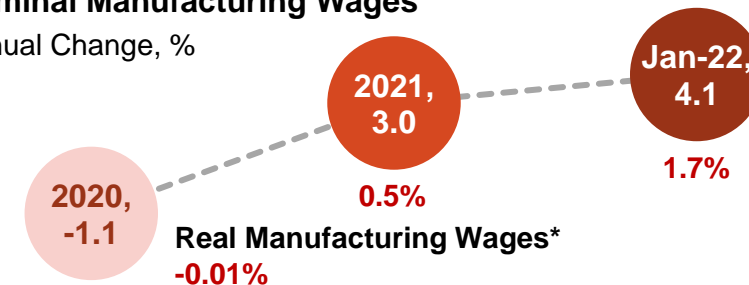
**Employment Growth**

Annual Change, %



**Nominal Manufacturing Wages**

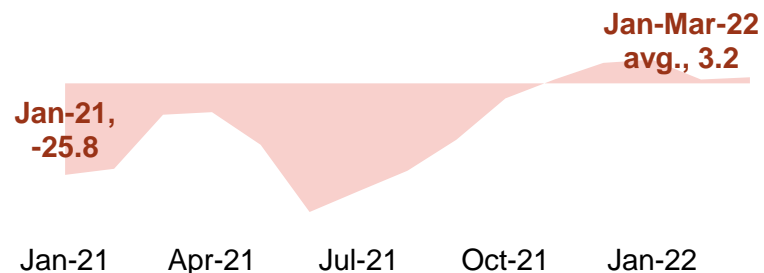
Annual Change, %



## Absence of strict containment measures to provide additional lift to spending, with further support from pent up demand

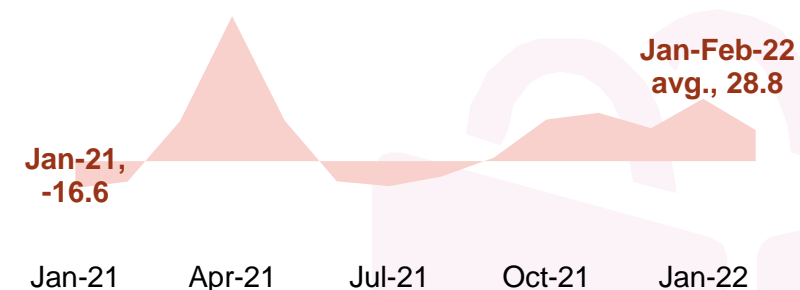
**Google Mobility\*\***

Change Relative to 3 Jan – 6 Feb 2020 (%)



**Credit Card Spending by Local Cardholders**

Annual Change (%)



\*Nominal wages deflated by CPI; \*\* Average for retail, recreation, grocery and pharmacy categories

Note: p Preliminary, f Forecast

Source: Department of Statistics, Malaysia, Google Mobility (data up to 21 March 2022) and Bank Negara Malaysia.

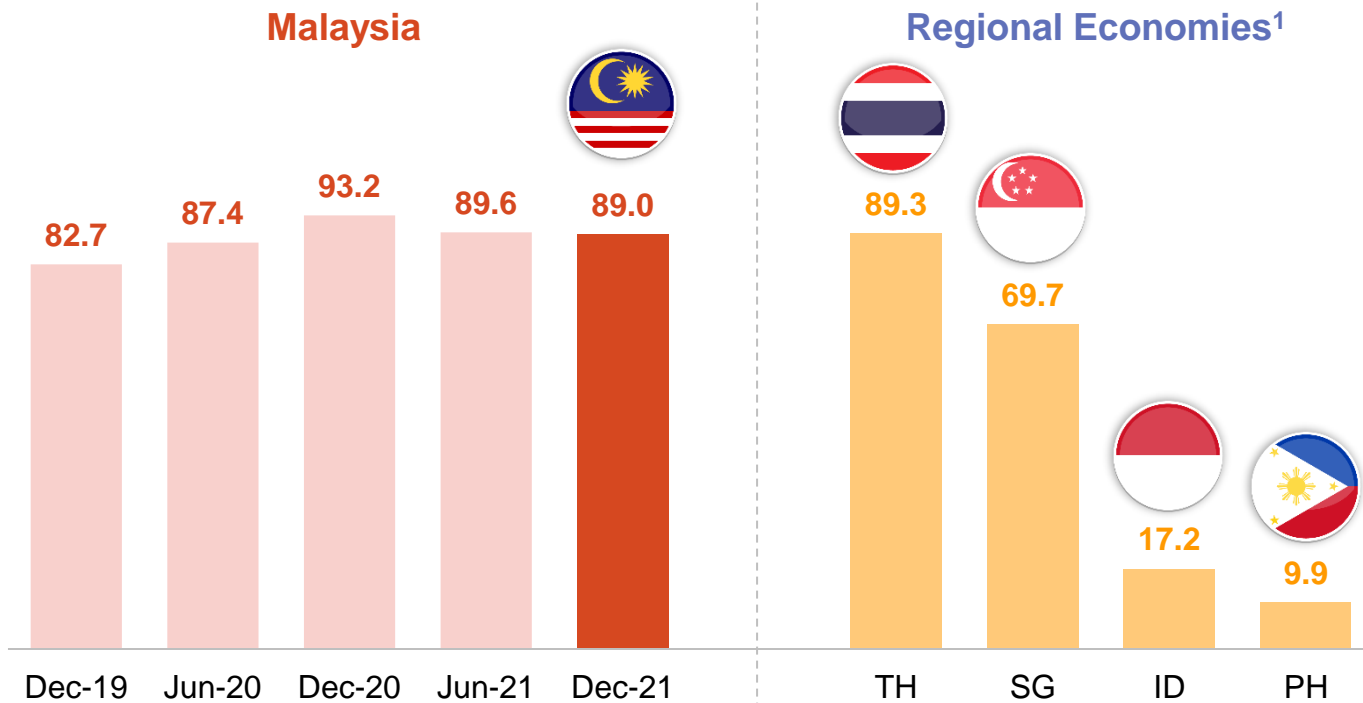


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# Malaysians are highly indebted but their capacity to repay remain supported by targeted assistance and prudent lending standards

Household debt-to-GDP ratio remains on the higher end compared to regional economies

Household Debt-to-GDP %



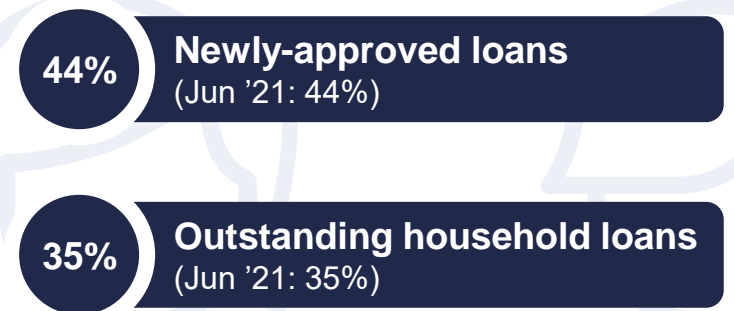
TH = Thailand; SG = Singapore; ID = Indonesia; PH = Philippines

<sup>1</sup> As at Sep. 2021. Household debt-to-GDP ratio for Indonesia and the Philippines covers household debt from the banking system only, while for Thailand and Singapore, it covers household debt from banks and non-banks.

Source: Bank Negara Malaysia, Bank of International Settlement, Bursa Malaysia, Employees Provident Fund, national authorities, Securities Commission Malaysia, World Bank, and Bank Negara Malaysia estimates.

While debt-servicing capacity of borrowers remained sound...

Median Debt Service Ratios (DSRs)



...further excessive debt accumulation can affect households' spending power

# Investments' recovery to be driven by continued capacity expansions and higher technology adoption

Real Gross Fixed Capital Formation (GFCF)  
Annual Change (%)

6.3

-0.9

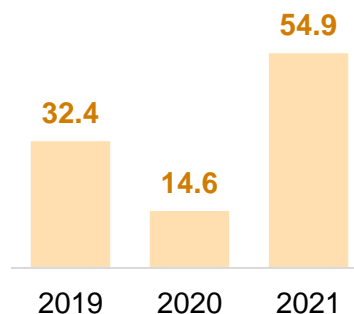
2021p

2022f

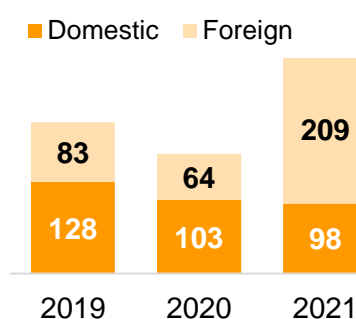
## Key Factors Supporting GFCF Growth

### Strong FDI and investment intentions

Foreign Direct Investments  
Net inflows, RM bn



Total Approved Investments  
RM bn



#### Key Industries

- E&E
- Metal Products
- Professional Business Services\*

### Key drivers for overall investment



Post-pandemic shift towards automation and digitalisation



Greater ESG considerations



Continuation of large infrastructure projects



Nationwide digital connectivity enhancements

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

Note: \*Refers to investments in business services sub-sectors including financial services, information and communications, support services and global establishments (investments in principal hubs and regional offices)



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# Policies remain in place to support vulnerable segments and secure a sustainable recovery

## Policy support in 2022 for households and businesses

### Policy Initiatives

## Ensuring **sustainable economic recovery** on multiple fronts

#### Direct cash assistance

*Bantuan Keluarga Malaysia (RM8.2 bil)*

#### Hiring incentives

*Jamin Kerja Keluarga Malaysia (RM2 bil)*

#### EPF-related measures

#### Attract quality foreign investments

*Special Strategic Investment Fund (RM 2 bil)*

#### Digital Ecosystem Acceleration Scheme

#### Incentives for greater adoption of e-commerce

#### Create a future-ready workforce



#### Accelerate digital connectivity



#### Strengthen ESG adoption



#### Social protection reform



#### Enhance physical connectivity



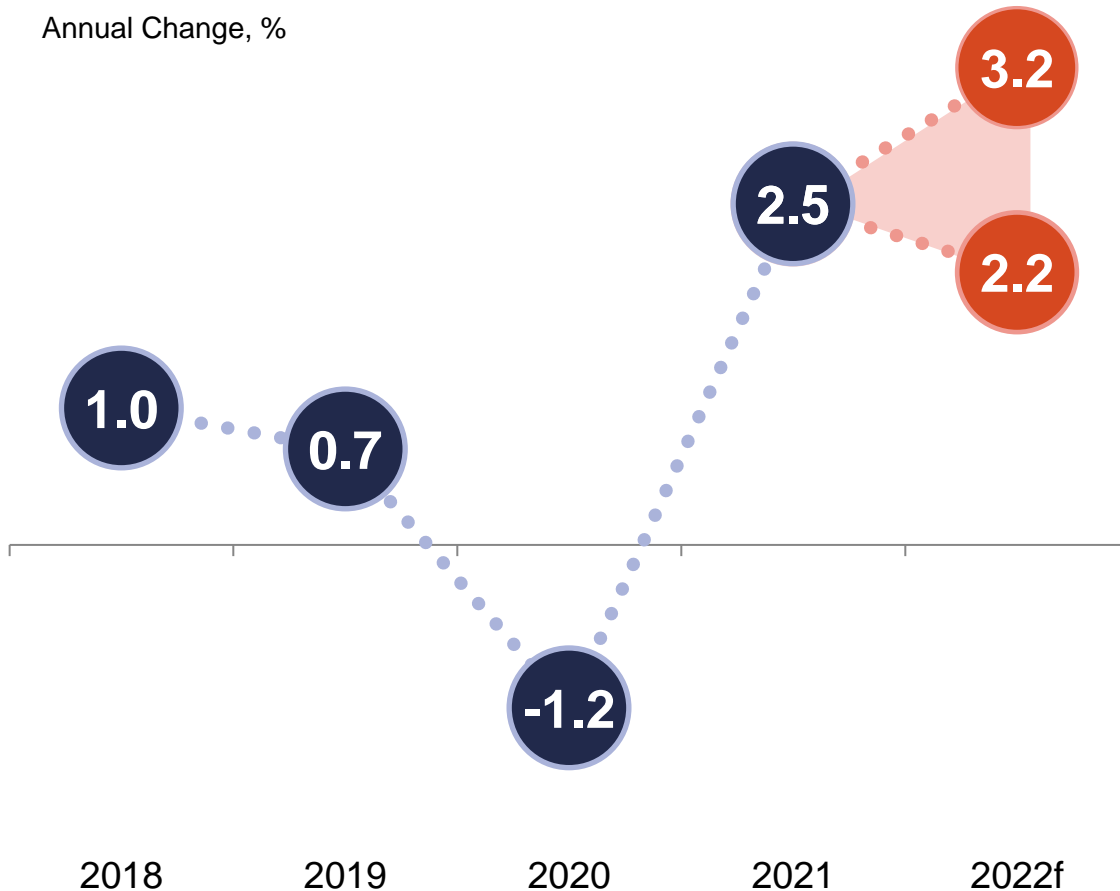
Source: Newsflows and Bank Negara Malaysia



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# Headline inflation to average between 2.2% - 3.2% amid higher underlying inflation

Headline Inflation  
Annual Change, %



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

**Headline inflation to average between 2.2% - 3.2% (2021: 2.5%)**

Amid existing policy interventions to contain pass-through from global cost pressures

**Core inflation to average higher, between 2.0% - 3.0% (2021: 0.7%)**

As economic activity continues to pick up amid environment of high input costs

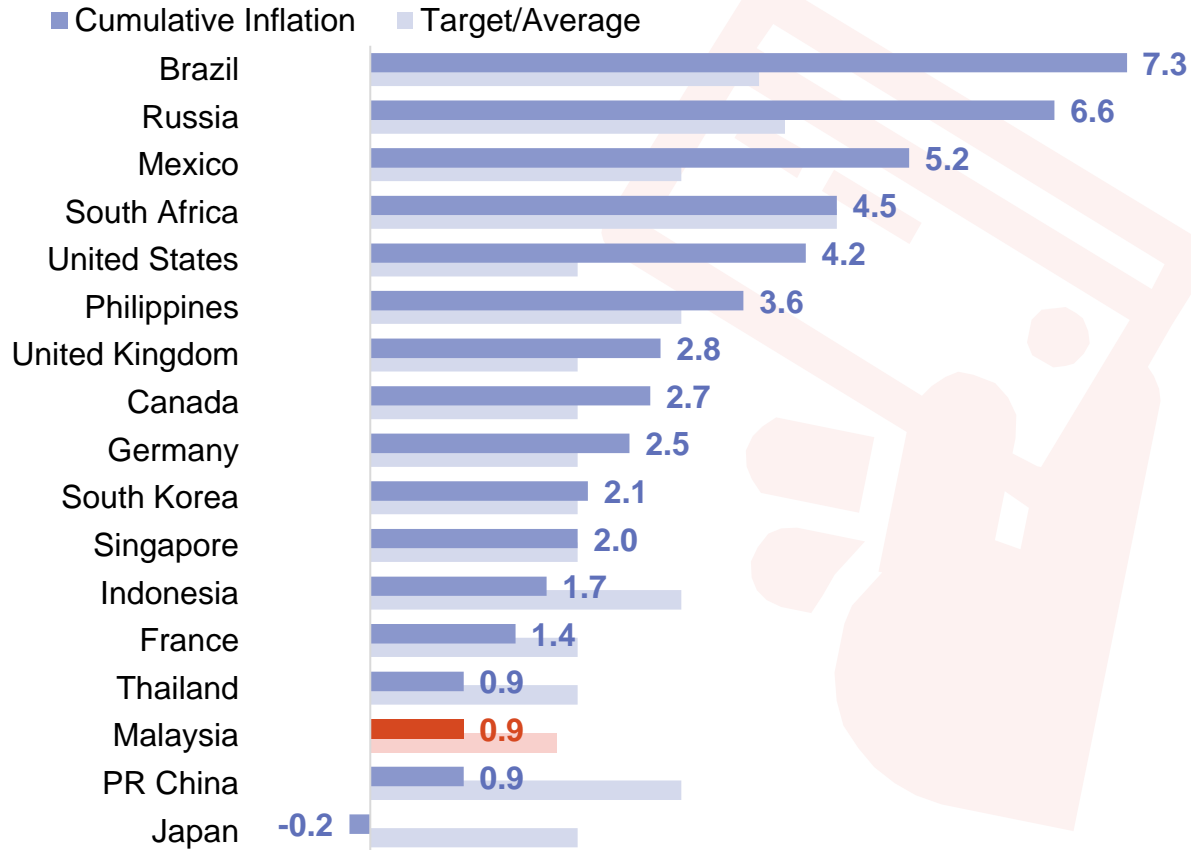
**Inflation outlook subject to**

Global commodity price developments amid risks from prolonged supply-related disruptions

# Several factors have in part contained overall domestic inflationary pressures at the current juncture

## Cumulative CPI Inflation (Dec-19 to Dec-21)

Annualised, %



Source: National authorities and Bank Negara Malaysia estimates

Note: For more information, please refer to the EMR 2021 box article 'An Anatomy of Inflation: Effects from the Prolonged Pandemic'



## Offsetting factors for Malaysia

### Spare capacity in the economy and labour market

*Economic activity well below pre-pandemic trend, with unemployment rate yet to fully recover*

### Policy interventions

*Price ceiling on retail fuel, electricity rebates, price controls on some staple food items*

### Less severe pandemic-related disruptions

*Proximity to global manufacturing hub*

*Labour participation rate remains forthcoming*

# While overall headline inflation has remained manageable, cost of living concerns have re-emerged

## Price pressures in 2021 were driven by specific items...

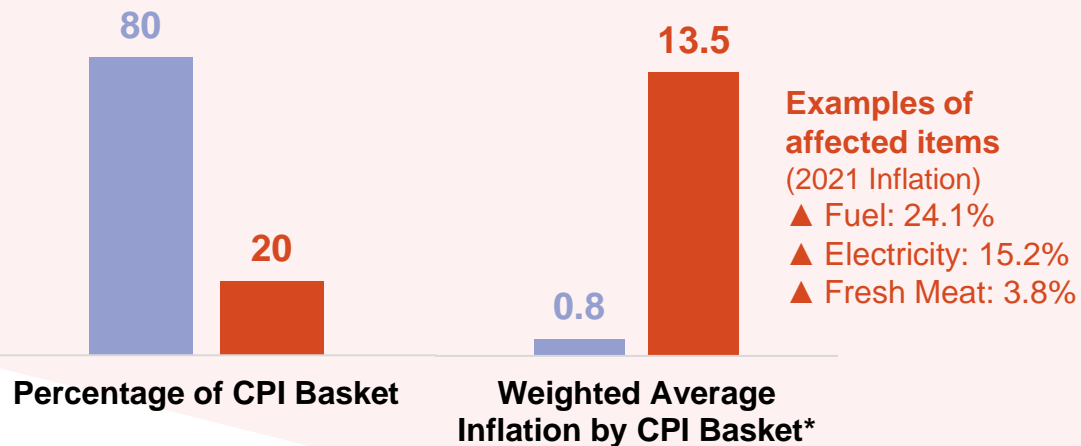
### Percentage of CPI Basket with Elevated Inflation in 2021

% of CPI Basket, Weighted

■ Other items ■ High-inflation items

Small portion of CPI basket...

...experienced sharp price increases

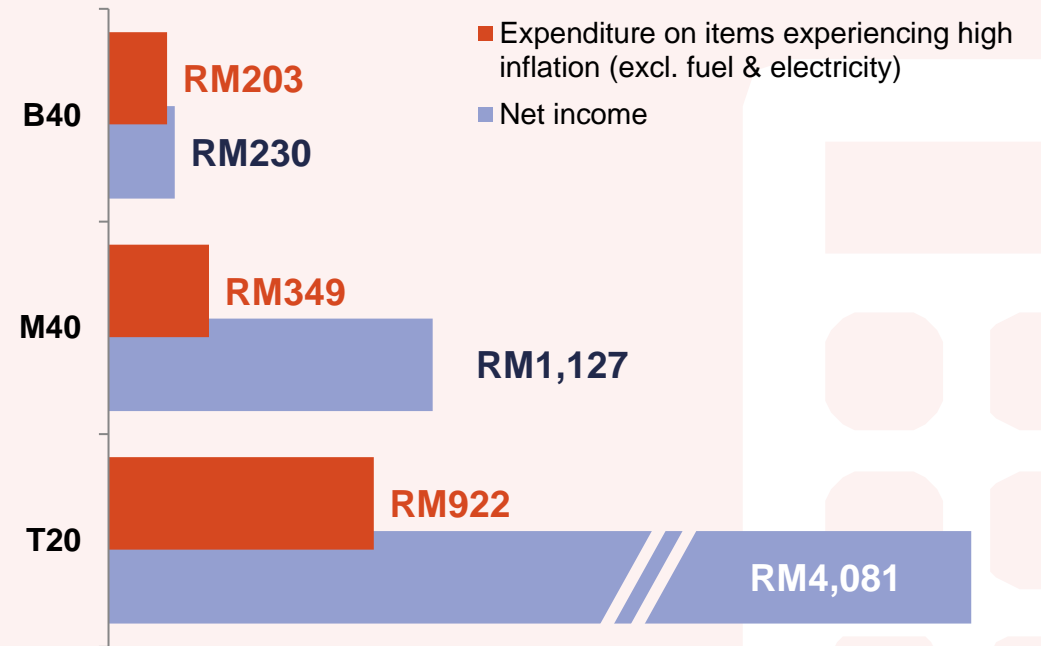


Note: Elevated inflation is defined as inflation being above 1 standard deviation from mean, in any months in 2021  
 \* The weighted average is estimated by taking the inflation of individual items and calculating their weighted average. The figures might not add up to the official CPI inflation of 2.5% due to different methodology  
 Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates

## ...disproportionately affecting low-income households with low buffers

### Net Income by Income Group

RM/month



Note: Net income is gross income net expenditure and financial obligations  
 Source: Bank Negara Malaysia estimates based on 2019 Household Income and Expenditure Survey, Department of Statistics, Malaysia

# The Malaysian economy is projected to grow between 5.3% and 6.3% in 2022

Growth to be underpinned by both external and domestic demand against a challenging operating environment

## Key Challenges in 2022

### ▶ COVID-19 pandemic developments

*Risk aversion affecting household and business sentiments, and minor disruptions due to absenteeism*

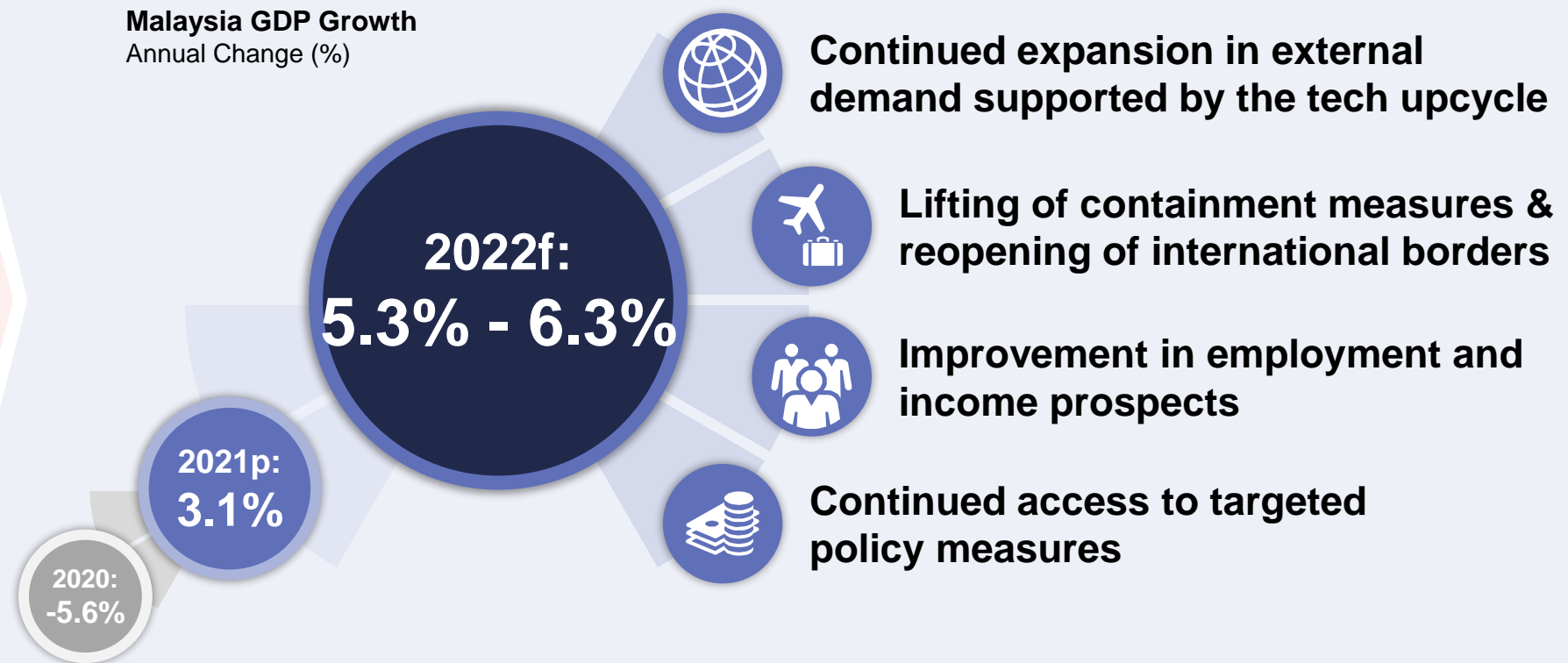
### ▶ Ongoing geopolitical conflicts

*Escalation of conflicts leading to elevated commodity prices and supply chain disruptions*

### ▶ Elevated cost and price pressures

*Cost of living and profitability concerns weighing on household and business sentiments*

## Key Growth Drivers



Note: p Preliminary, f Forecast

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



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# Risks to the economic outlook remain tilted to the downside

- ▲ Higher-than expected global growth
- ▲ Stronger-than-expected improvement in tourism-related sectors amid reopening of borders

2022f:  
5.3% - 6.3%

Upside risks from external and domestic demand

Downside risks from COVID-19, geopolitical conflicts and cost pressures

- ▼ Emergence of severe, vaccine-resistant VOCs
- ▼ Domestic policy uncertainty
- ▼ Weaker-than-expected global growth
- ▼ Further escalation in geopolitical conflicts
- ▼ Worsening supply disruptions and labour shortages
- ▼ Heightened financial market volatility leading to tightening financial conditions
- ▼ Higher-than-expected cost and price pressures weighing on business and household sentiments

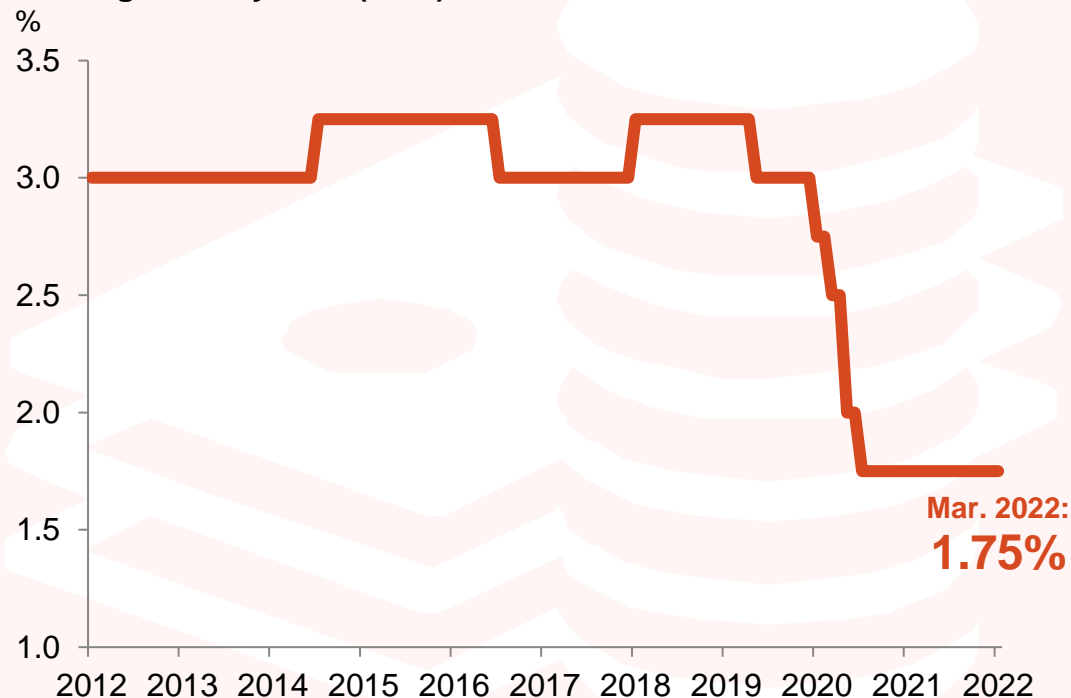


# Monetary policy in 2022 will continue to facilitate a sustainable economic recovery while preserving price stability

2021

OPR unchanged at 1.75% to maintain support to the economy

Overnight Policy Rate (OPR)



Source: Bank Negara Malaysia



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2022

Monetary policy stance to facilitate sustainable economic recovery and price stability



Ensure degree of accommodation is consistent with the improving economic environment



Determined by new data amid heightened uncertainty and fast-evolving conditions

▶ Added layer of complexity amid combination of downside risks to growth and upside risks to inflation



Any potential policy adjustments would be gradual and measured

# Financing to businesses and households remain supportive of economic activity

**Net financing growth was sustained in 2021...**

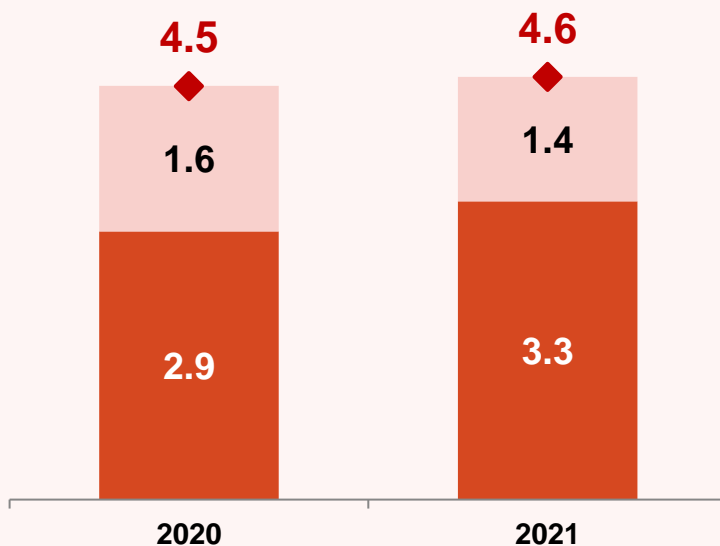
**...amid continued flow of credit to businesses and households...**

**...with banks targeting higher loan growth in 2022**

## Net Financing

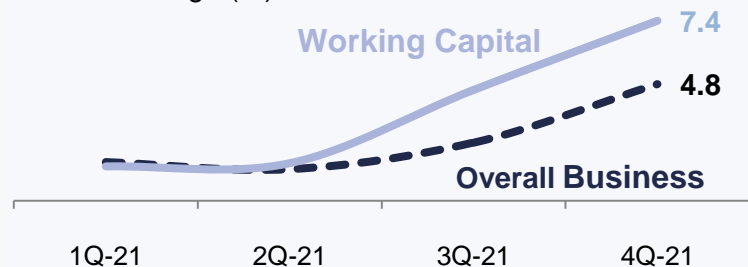
Annual Change (%) / Cont. to Growth (ppt)

- Outstanding corporate bonds\*
- Outstanding loans
- ◆ Net financing



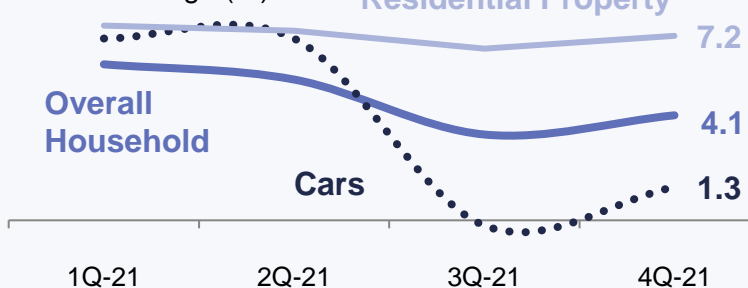
## Outstanding Business Loan Growth

Annual Change (%)



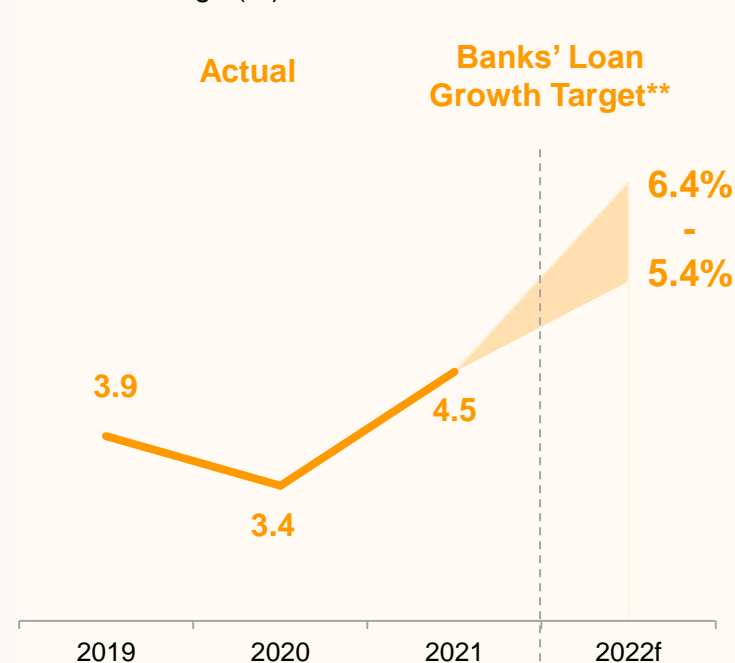
## Outstanding Household Loan Growth

Annual Change (%)



## Outstanding Banking System Total Loan Growth

Annual Change (%)



Note: Net financing and household loans include loans from the banking system, development financial institutions (DFIs) and major non-bank financial institutions (NBFIs). Overall business loans include loans from the banking system and DFIs, while working capital loans include loans from the banking system only.

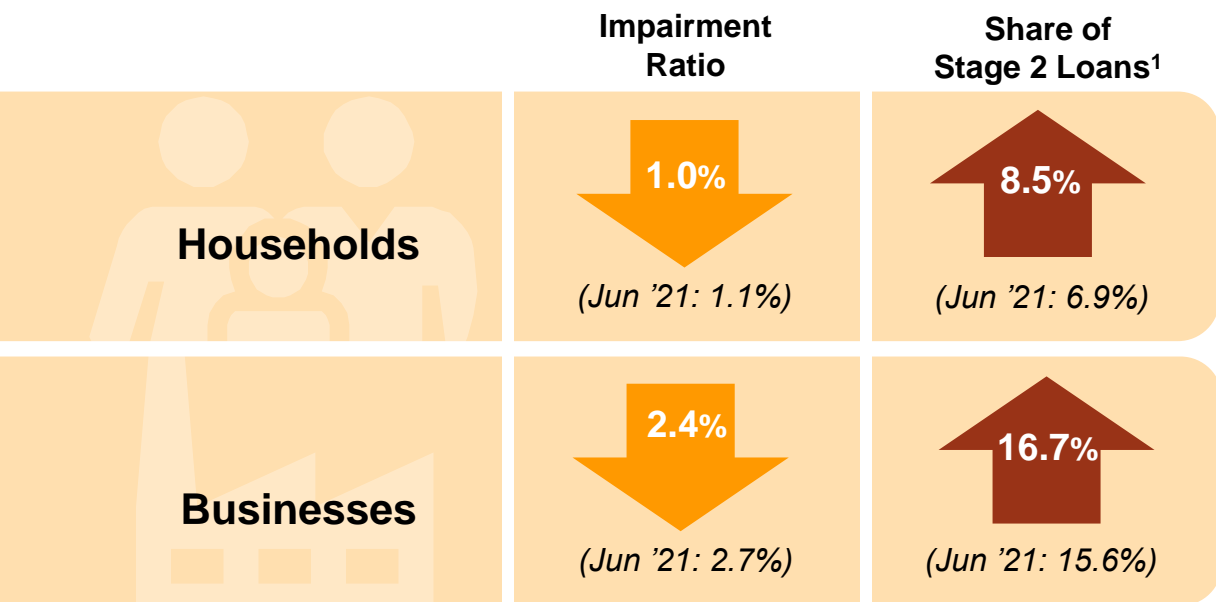
\*Excludes issuances by Cagamas and non-residents.

\*\* Based on weighted responses of 20 banks, representing 96% of total outstanding banking system loans.

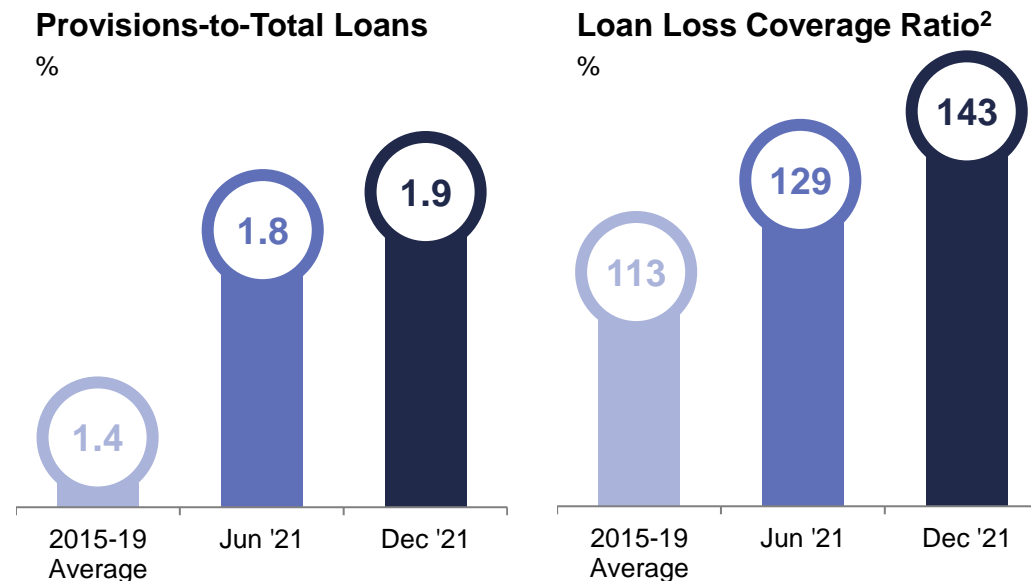
Source: Bank Negara Malaysia

# Banks remain cautious amid the uncertain credit risk outlook

While impairments remain low, banks continue to be cautious in managing credit risks...



... and have built sizeable buffers against a potential rise in impairments



**Latest stress tests affirm banks' ability to support economic recovery under two hypothetical adverse scenarios with extended stress up to end-2024**

<sup>1</sup> Refers to loans classified as Stage 2 as % of household or business loans. Stage 2 loans refers to exposures that have exhibited deterioration in credit risk, for which banks are required to set aside provisions based on lifetime expected credit losses under Malaysian Financial Reporting Standard 9.

<sup>2</sup> Includes regulatory reserves.

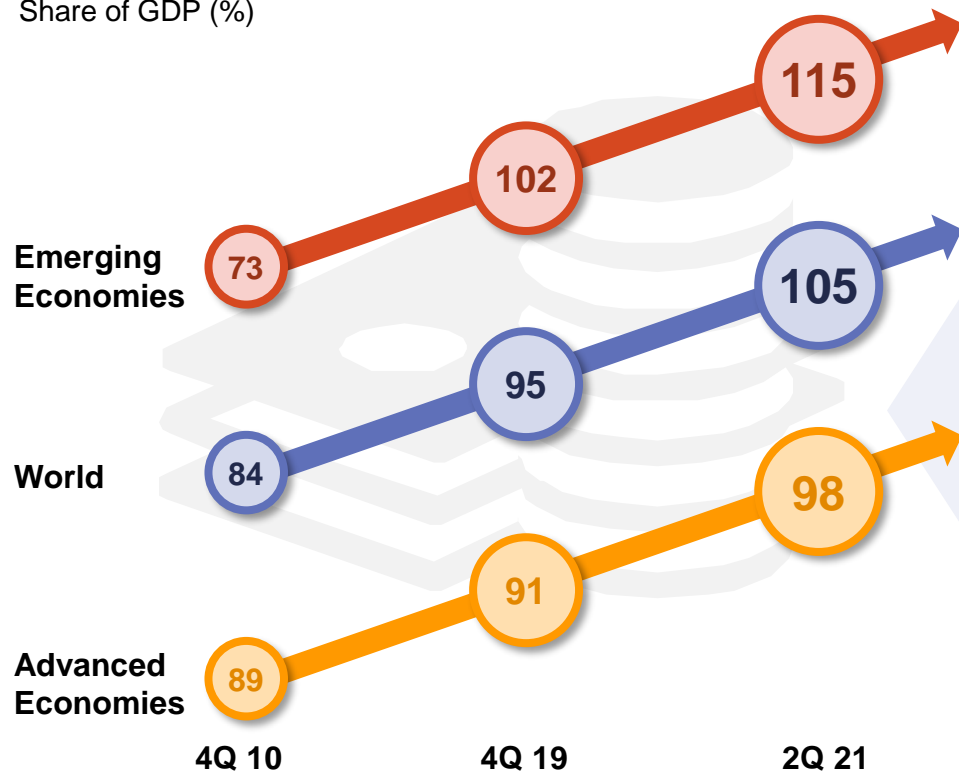
Source: Bank Negara Malaysia



# Rising corporate debt globally warrants continued vigilance

Corporate debt has increased with higher financing needs during the pandemic

Corporate Debt  
Share of GDP (%)



Source: Bank for International Settlements (BIS) Credit Database

Critical to balance between short- and long-term economic goals

## Timely, Direct, and Proportionate Policy Support

*Unprecedented policies cushioned the downturn; but policy recalibration is required as demand conditions improve.*

## Structural Reforms to Enhance Economic Resilience

*Labour market flexibility and stronger insolvency laws could expedite resource reallocation and increase productivity.*

## Well-Capitalised Banks to Ensure Macroeconomic and Financial Stability

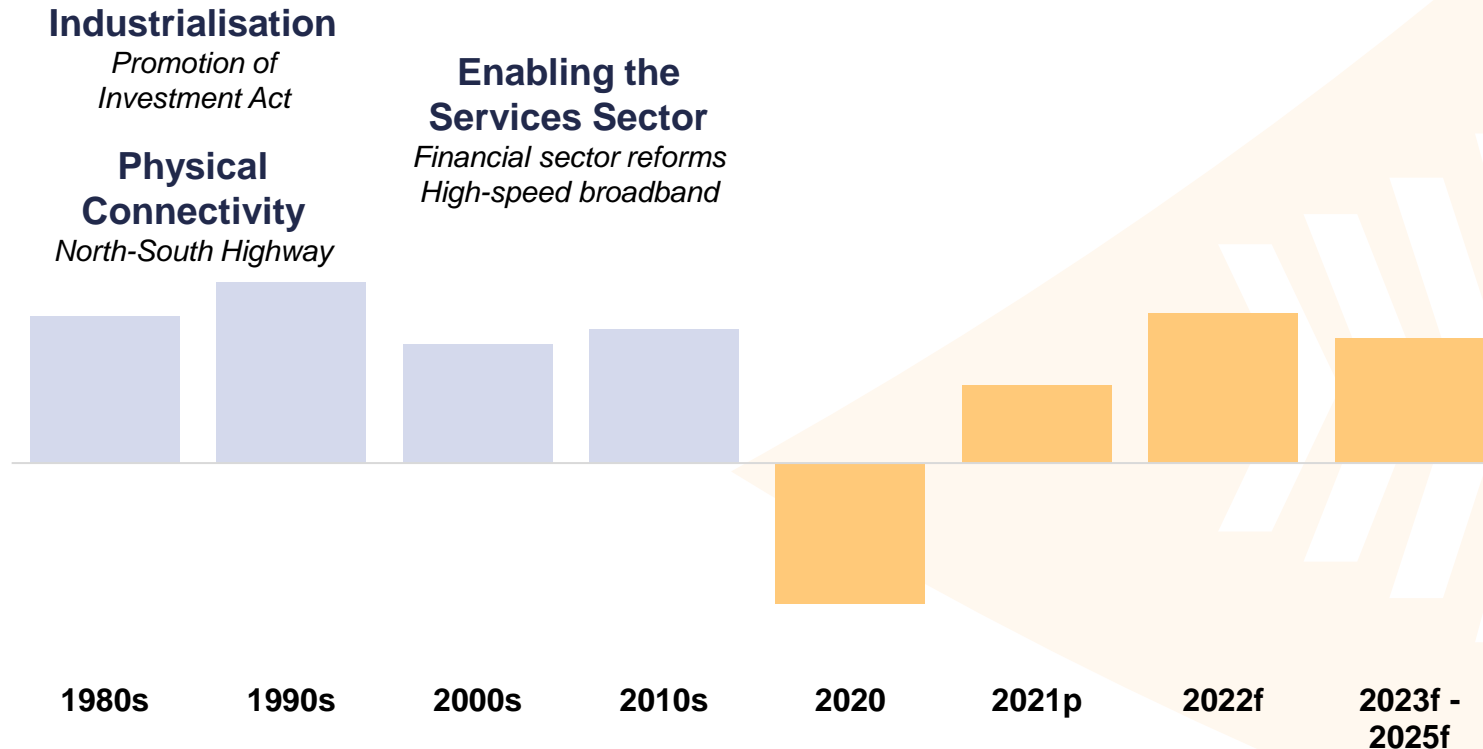
*Healthy bank balance sheets disincentivise continued lending to zombie firms.*



# Effective implementation of structural reforms are key to ensure the Malaysian economy emerges from the crisis stronger and more resilient

## Past reforms have underpinned Malaysia's economic development

Malaysia GDP Growth  
Annual Change (%)



### Key Reform Areas



#### Sustainability

45% reduction in GHG emissions intensity to GDP by 2030\*, net zero by 2050  
▶ Greening finance and financing green



#### Digitalisation

25.5% contribution of the digital economy to GDP by 2025  
▶ Digitalising financial services



#### Inclusivity

Strengthening the effectiveness of financial intermediation ecosystem  
▶ Diversifying choices for customers, including "digital-first" solutions

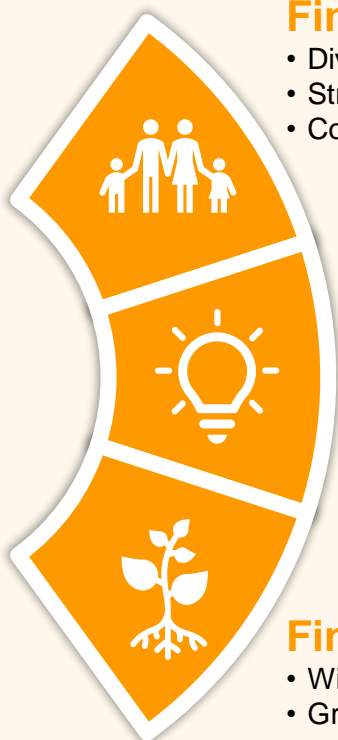
Note: f Forecast, 2023f – 2025f refers to forecasts from the 12<sup>th</sup> Malaysia Plan; \*Based on emissions intensity in 2005

Source: Department of Statistics Malaysia



# Financial Sector Blueprint: Key priorities for 2022-2023

## 3 Broad Themes



### Finance for All

- Diverse financial choices
- Strong financial safety nets
- Confident consumers

### Finance for Transformation

- Grow alternative finance
- Deeper global integration
- Vibrant financial landscape

### Finance for Sustainability

- Wider adoption of value-based intermediation
- Greening finance and financing green

## 5 Strategic Thrusts

- 1 Fund Malaysia's Economic Transformation
- 2 Elevate the Financial Well-being of Households and Businesses
- 3 Advance Digitalisation
- 4 Facilitate an Orderly Transition to a Greener Economy
- 5 Advance Value Based Finance Through Islamic Finance Leadership

## Priorities for 2022-2023\*

\* Priorities are non-exhaustive

- ▶ Further develop alternative financing instruments to complement traditional finance
  - Launch a Business Recapitalisation Fund based on blended finance
  - Operationalise a dedicated alternative finance collaboration mechanism
- ▶ Issue the **Financial Inclusion Framework 2022-2026**
- ▶ Enact the **Consumer Credit Act (CCA)** and establish the **Consumer Credit Oversight Board (CCOB)**
- ▶ Strengthen resolution arrangements by consolidating the **Ombudsman for Financial Services (OFS)** and **Securities Industry Dispute Resolution Centre (SIDREC)**
- ▶ Issue and operationalise **digital bank licenses** in 2022 and roll out the **digital insurance / takaful framework**
- ▶ Facilitate identification and testing of **high-impact data sharing use cases**
- ▶ Implement **Climate Change and Principles-based Taxonomy (CCPT)**
- ▶ Issue principles and guidance on **Climate Risk Management, Stress Testing and Scenario Analysis**
- ▶ Mainstream **social finance** including **expansion of iTEKAD**
- ▶ Form and operationalise the **MIFC Leadership Council (MLC)** as an industry-led committee in driving MIFC aspirations

Complemented by regulatory enhancements to address risks, promote fair treatment of consumers, and ensure efficient payment infrastructure



# In 2022, the Bank aims to further support an orderly and just transition for Malaysia to reach net zero by 2050

## Key priorities in 2022



### Integrate climate-related and environmental risks in prudential regulation and supervision

- ▶ Advance adoption of Climate Change and Principle-based Taxonomy and VBIAF<sup>1</sup> Sectoral Guides
- ▶ Finalise climate risk management requirements<sup>2</sup> and VBIAF Sectoral Guides
- ▶ Continue preparations for industry-wide Climate Change Stress Tests in 2024



### Strengthen practices in the disclosure of climate risk by financial institutions

- ▶ Step up preparations for mandatory TCFD aligned climate-related financial disclosures by financial institutions



### Scale up green finance

- ▶ Operationalise Low Carbon Transition Facility
- ▶ Continue to actively engage business communities, including SMEs to create greater awareness on climate risk and the need to transition
- ▶ Facilitate development of more targeted financial solutions



### Align the financial sector's response with national strategy

- ▶ Intensify engagements with relevant Government ministries, agencies and authorities



### Intensify efforts to bridge data gaps

- ▶ Roll out data catalogue, covering the top 8 climate data sources<sup>3</sup> for reference by the financial sector

**The Bank will continue to work closely with financial industry through the Joint Committee on Climate Change (JC3)**

<sup>1</sup> Value-based Intermediation Financing and Investment Impact Assessment Framework

<sup>2</sup> Climate Risk Management and Scenario Analysis (CRMSA) policy document

<sup>3</sup> i) GHG emissions; (ii) green/sustainable lending and financing; (iii) energy consumption and renewable energy sources; (iv) exposure to physical risks v) asset value at risk from natural catastrophes; (vi) ESG ratings; (vii) water consumption and waste management; (viii) biodiversity and deforestation indicators

# Bank Negara Malaysia: Financial position remained stable in 2021

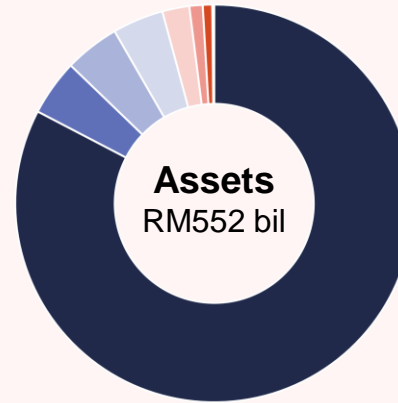
**Total Assets** ▶ **RM551.6 bil**

**International Reserves** ▶ **RM486.9 bil**  
USD116.9 bil

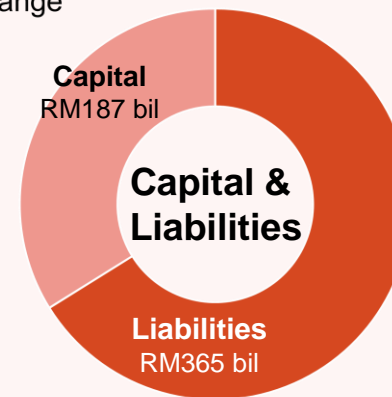
**Net Profit** ▶ **RM12.8 bil**

**Dividend Payable to the Government** ▶ **RM5.0 bil**

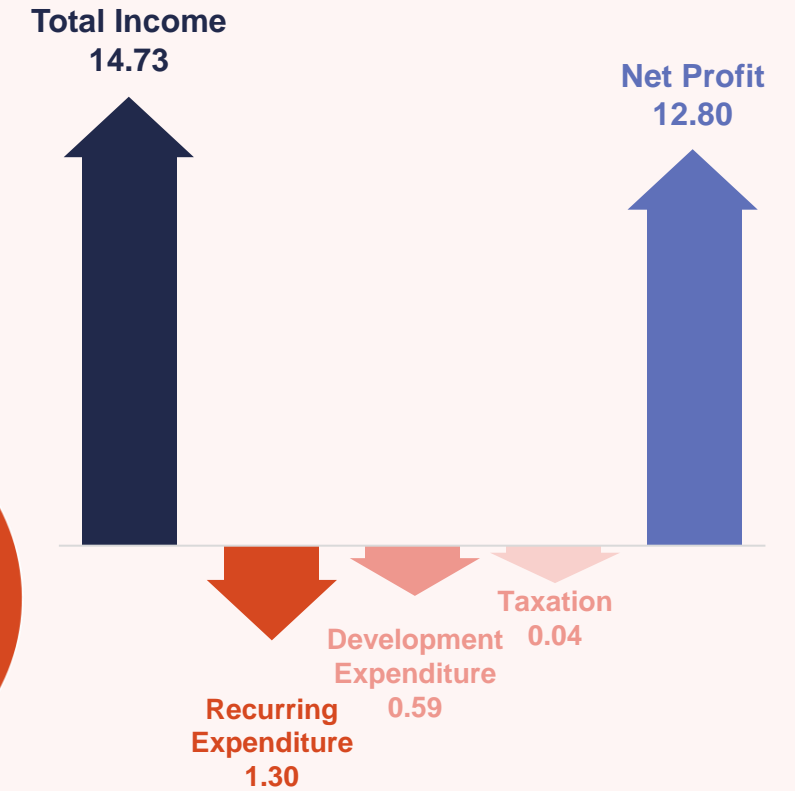
**Financial Position**  
(RM billion, as at 31 December 2021)



- Gold and Foreign Exchange
- SDR\*
- Other Assets
- Loans and Advances
- MGS\*\*
- IMF Reserve Position
- Land and Buildings
- Deposits with Fis



**Income and Expenditures**  
(RM billion, year ended 31 December 2021)



\* Special Drawing Rights \*\* Malaysian Government Securities  
Source: Bank Negara Malaysia

# Summary



**Malaysian economy is projected to expand between 5.3% - 6.3%**, driven by continued external demand and improved domestic economic activity



**Headline inflation to average between 2.2% - 3.2%**, while underlying inflation is expected to average higher



**Balance of risks remain tilted to the downside**, mainly arising from developments surrounding COVID-19 and geopolitical conflicts



**Financing to businesses and households to continue** being supportive of economic activity



**Imperative to pursue structural reforms** to ensure the Malaysian economy emerges from the crisis stronger and more resilient

Thank you



# Q & A



# Additional Information



# Higher growth across most economic sectors

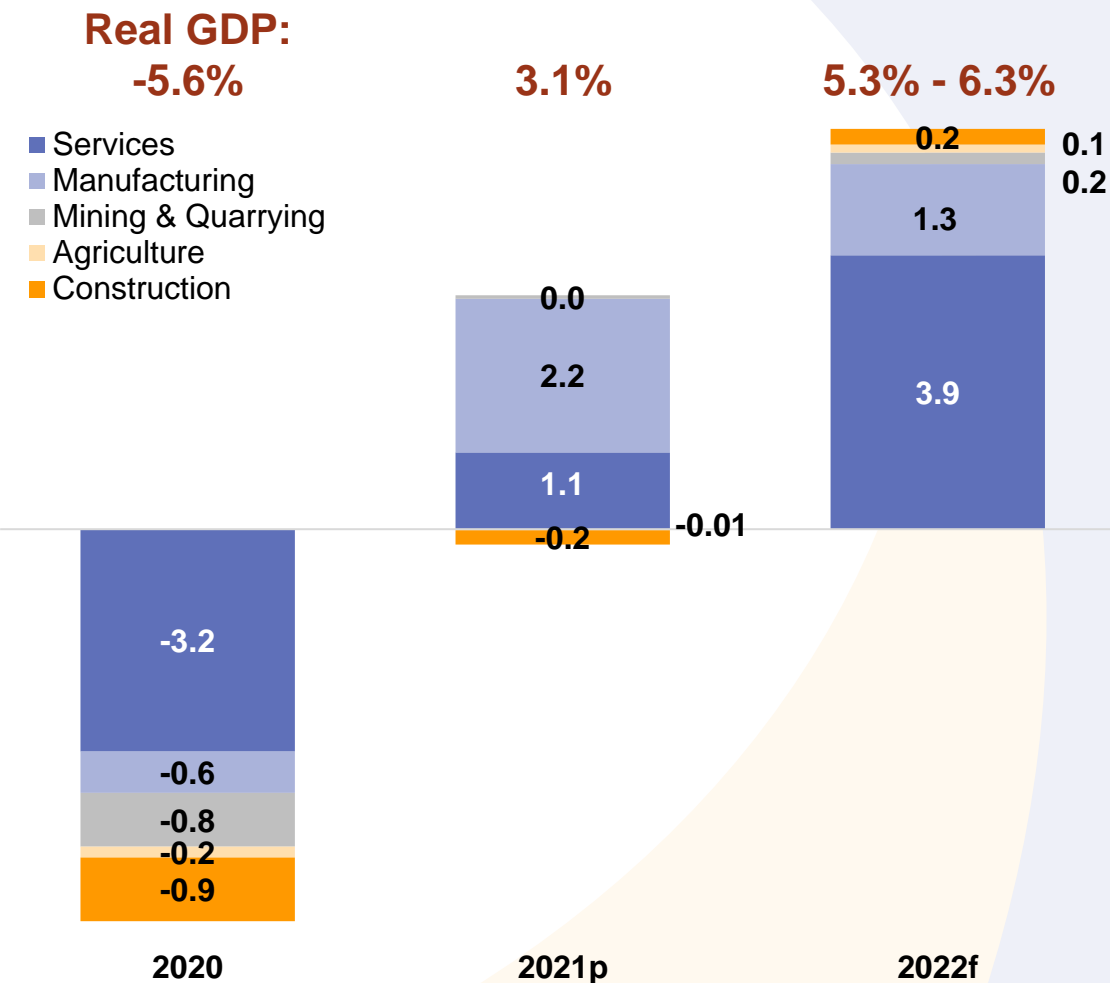
GDP Growth by Economic Activity (Annual Change, %)	% Share (2021p)	2020	2021p	2022f
<b>Real GDP</b>	<b>100</b>	<b>-5.6</b>	<b>3.1</b>	<b>5.3 - 6.3</b>
<b>Services</b>	<b>57.0</b>	<b>-5.5</b>	<b>1.9</b>	<b>6.9</b>
<b>Manufacturing</b>	<b>24.3</b>	<b>-2.6</b>	<b>9.5</b>	<b>5.2</b>
<b>Mining &amp; Quarrying</b>	<b>6.7</b>	<b>-10.6</b>	<b>0.7</b>	<b>2.5</b>
<b>Agriculture</b>	<b>7.2</b>	<b>-2.2</b>	<b>-0.2</b>	<b>1.5</b>
<b>Construction</b>	<b>3.7</b>	<b>-19.4</b>	<b>-5.2</b>	<b>6.1</b>

Note: p Preliminary, f Forecast

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

## Malaysia GDP Growth by Economic Activity

Annual Change (%), Ppt. Contribution



# Improvement across most demand components

GDP Growth by Expenditure Components (Annual Change, %)	% Share (2021p)	2020	2021p	2022f
<b>Real GDP</b>	<b>100</b>	<b>-5.6</b>	<b>3.1</b>	<b>5.3 - 6.3</b>
<b>Domestic Demand<sup>1</sup></b>	<b>92.7</b>	<b>-5.8</b>	<b>1.9</b>	<b>7.2</b>
Private Consumption	58.8	-4.3	1.9	9.0
Private Investment	15.6	-11.9	2.6	5.3
Public Consumption	13.8	3.9	6.6	1.2
Public Investment	4.5	-21.3	-11.4	9.6
<b>Net Exports of Goods and Services</b>	<b>6.0</b>	<b>-13.0</b>	<b>-5.8</b>	<b>2.6</b>
Exports	69.2	-8.9	15.9	4.8
Imports	63.2	-8.4	18.5	5.1

Note: p Preliminary, f Forecast, <sup>1</sup> Excluding stocks

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



## Malaysia GDP Growth by Expenditure Components

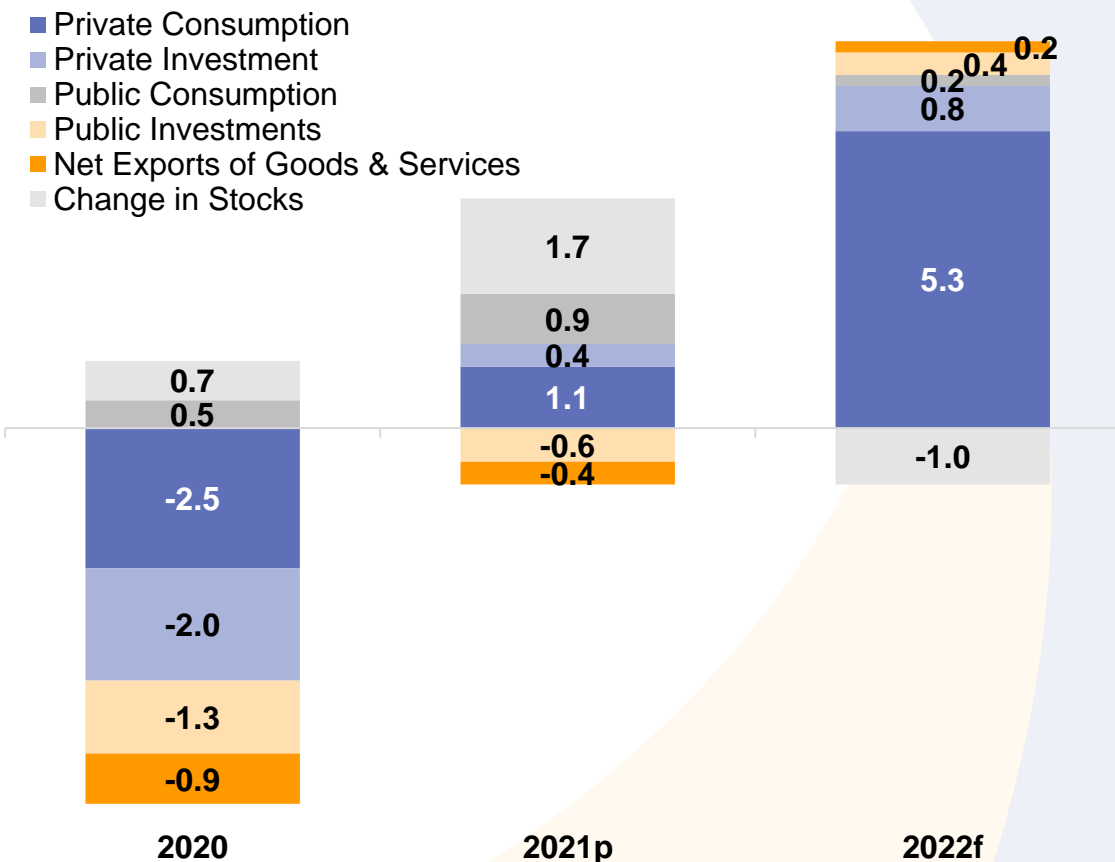
Annual Change (%), Ppt. Contribution

**Real GDP:**

**-5.6%**

**3.1%**

**5.3% - 6.3%**

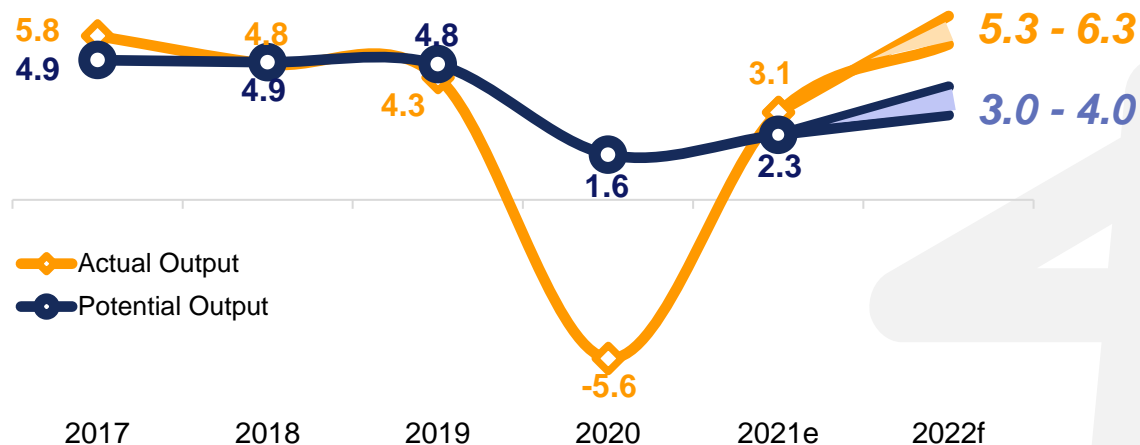


# Negative output gap to narrow further in 2022 amid quicker recovery in actual output growth

Continued growth in potential output, supported by expansion in factors of production

Actual Output and Potential Output Growth

Annual Change (%)



## Factors of Production



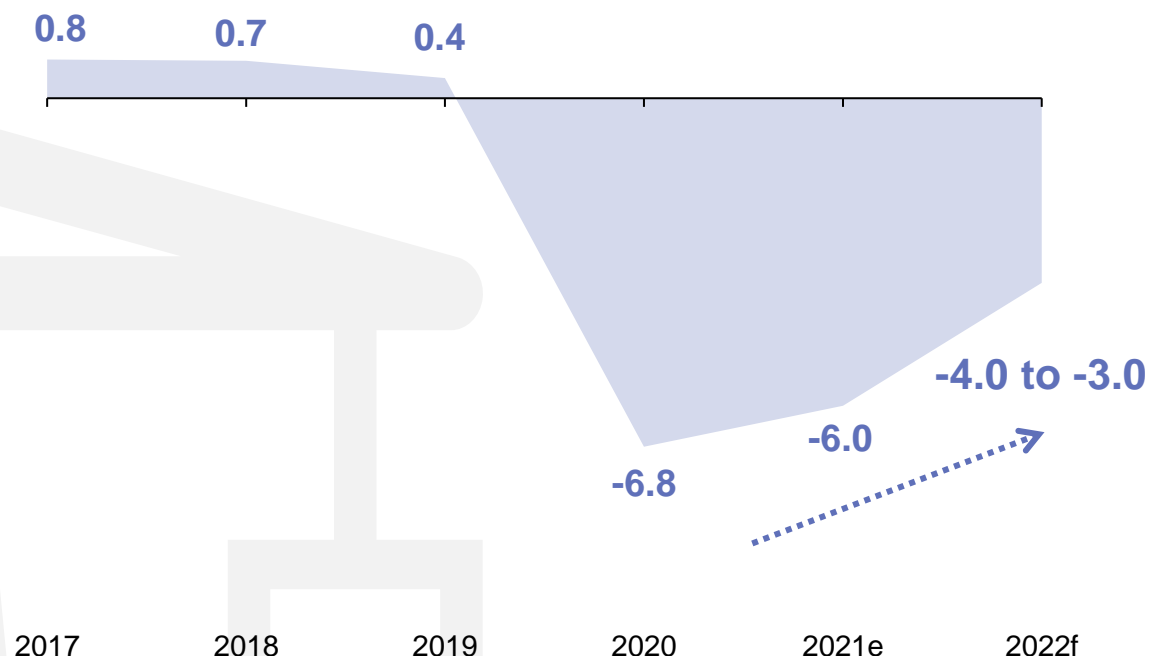
Note: e Estimate, f Forecast

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

Quicker recovery in actual output growth to narrow negative output gap

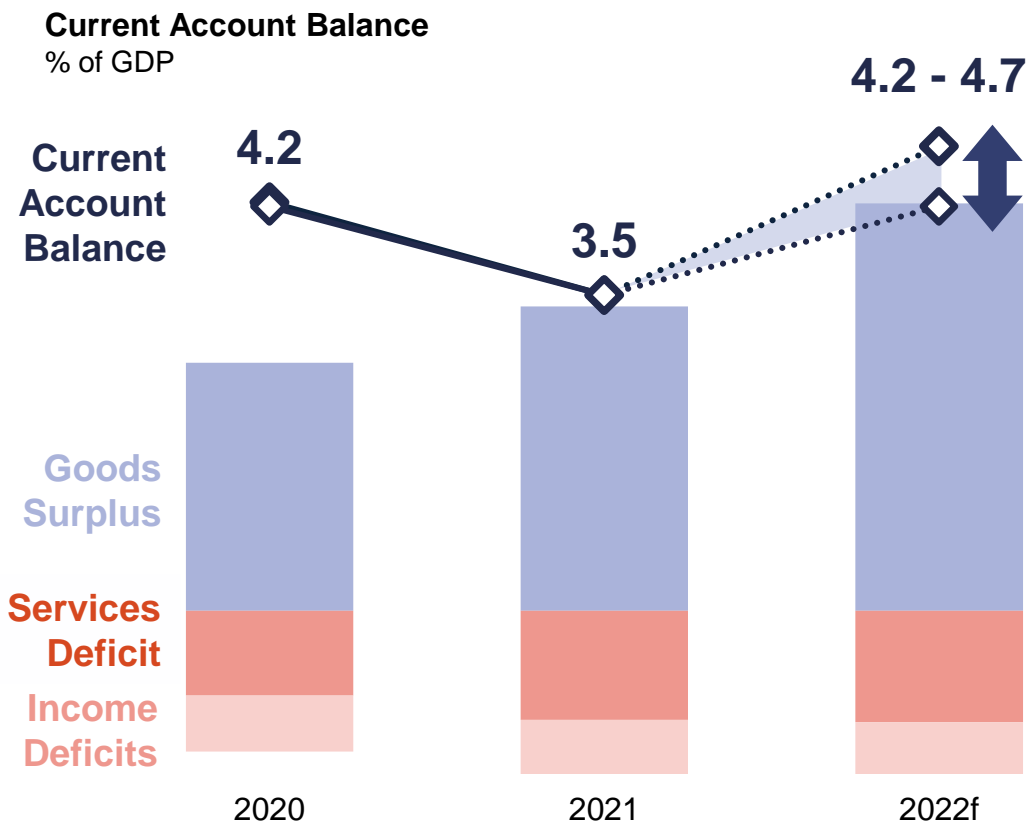
Output Gap

% Share of Potential Output



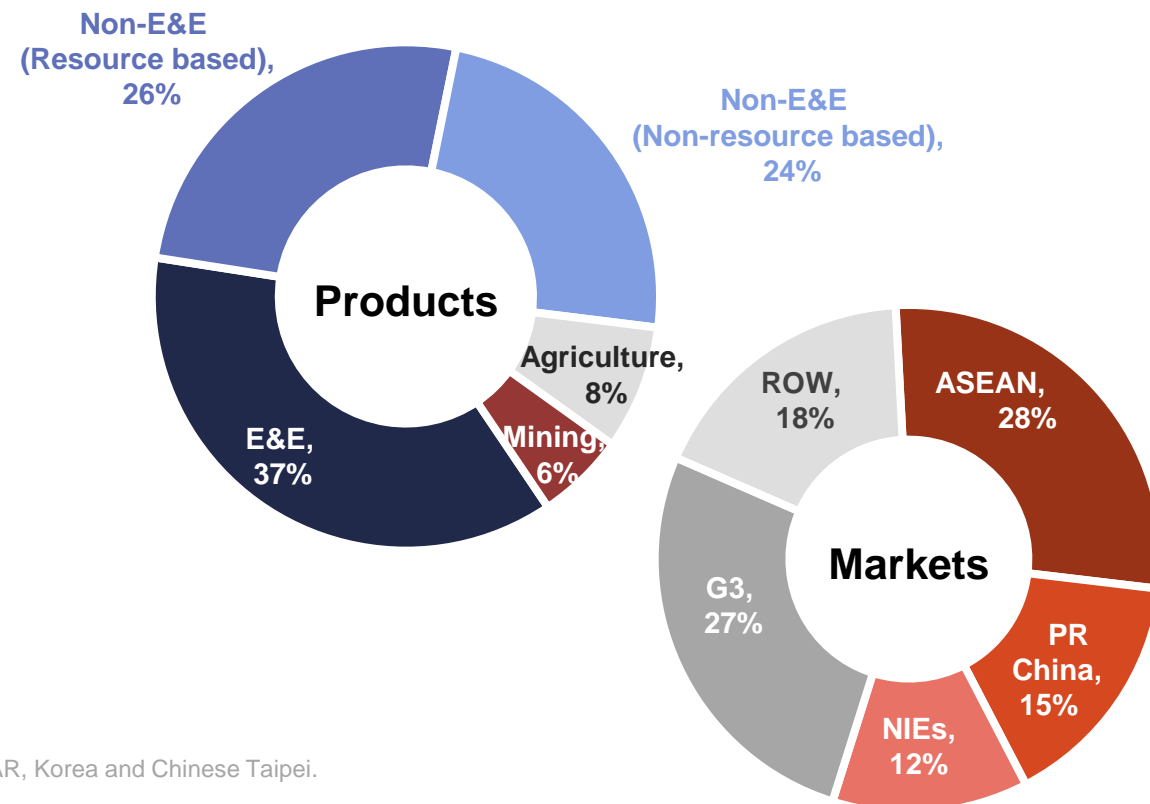
# Current account to remain in surplus within 4.2% - 4.7% in 2022

## Current account surplus to be driven by goods surplus...



## ...supported by diversified export products and markets

**Exports by Products and Markets (2021)**  
% Share of Total Exports



Note: G3 includes the US, the euro area and Japan. Newly Industrialised Economies (NIEs) refers to Hong Kong SAR, Korea and Chinese Taipei.

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