

BANK NEGARA MALAYSIA

- ANNUAL REPORT 2020
- ECONOMIC AND MONETARY REVIEW 2020
- FINANCIAL STABILITY REVIEW – SECOND HALF 2020

31 MARCH 2021

AR2020 • **EMR2020** • FSR2H2020



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

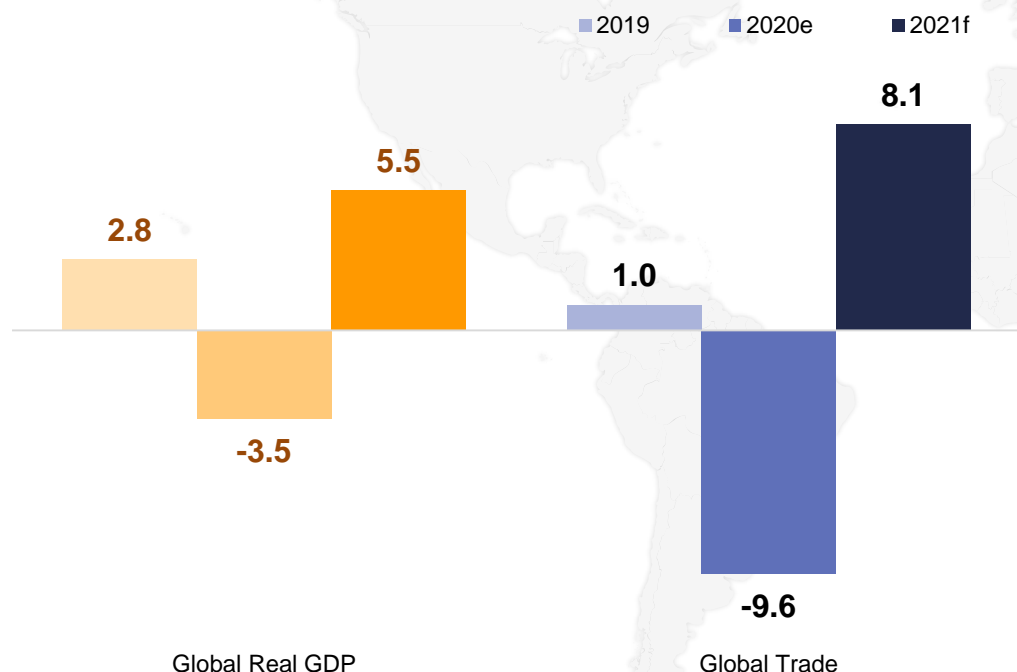


Global economy to rebound in 2021, driven by vaccine rollout and continued policy support

The rebound follows a large contraction in global economic and trade activity in 2020

Global Real GDP and Trade Growth

Annual change (%)



Global health crisis triggered a large economic downturn in 2020

- ▼ Weaker demand and production disruptions amid widespread containment measures
- ▼ Large fiscal and monetary stimulus mitigated the severity of the economic contraction

Growth expected to recover in 2021

- ▲ Easing of containment measures amid mass rollout of vaccines
- ▲ Boost in private sector demand
- ▲ Improvement in cross-border trade in goods and services
- ▲ Continued accommodative policies

Note: e Estimate, f Forecast

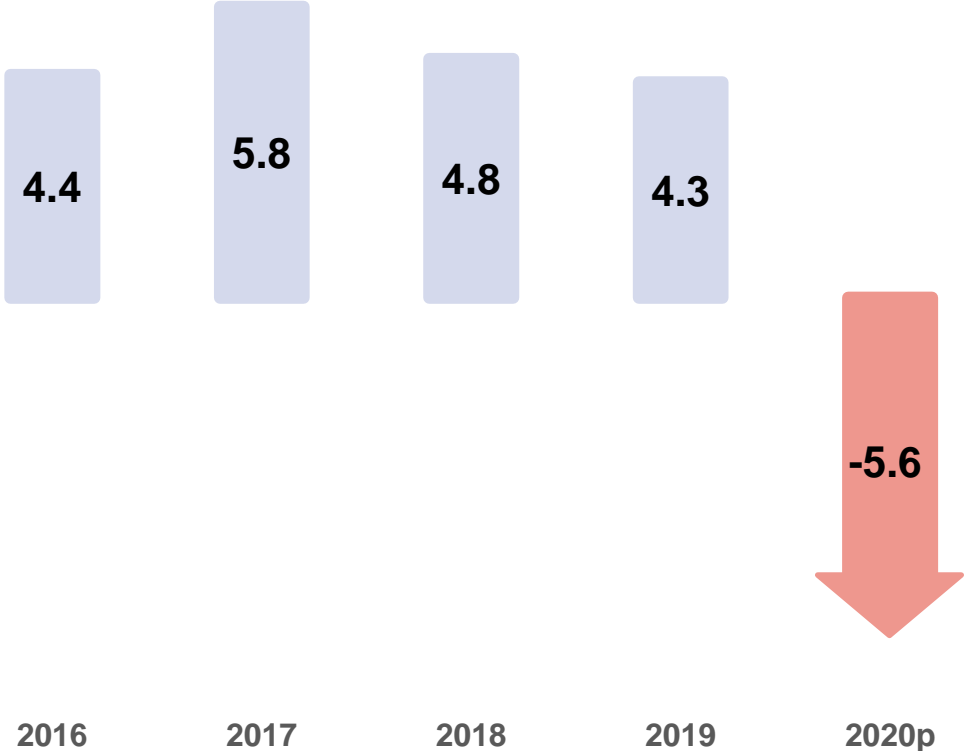
Source: International Monetary Fund (IMF)'s World Economic Outlook (WEO) January 2021



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Amidst the challenging global and domestic operating environment in 2020, the Malaysian economy contracted by 5.6%

Malaysia Real GDP Growth
Annual change (%)



Growth affected by:



Sharp contraction in global growth and trade activity



Domestic containment measures amid the spread of the COVID-19 pandemic

...but cushioned by



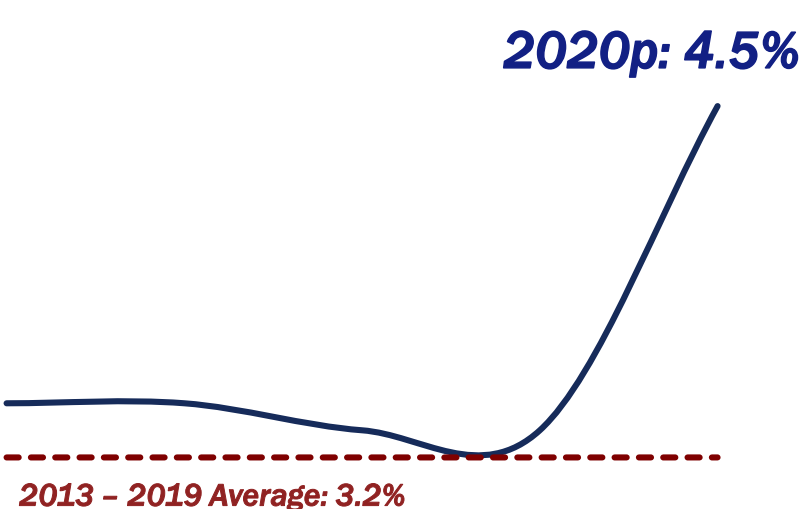
Support from coordinated policy stimulus measures

Note: p Preliminary
Source: Department of Statistics, Malaysia

Coordinated policies were introduced to mitigate disruptions from COVID-19

COVID-19 led to wide-ranging disruptions, especially in the labour market

Unemployment rate (%)



In response, significant counter-cyclical measures were implemented to cushion the economic fallout...

...alongside policies introduced to strengthen recovery prospects



Monetary policy & liquidity measures

OPR and SRR reductions, flexibilities to use MGS¹ and MGII² to meet SRR



Direct fiscal support

E.g. Wage subsidy programme, Bantuan Prihatin Nasional



Loan repayment assistance & expansion in BNM lending facilities³

To ease cash flow constraints and complement bank financing to SMEs in supporting business recovery



Facilitating job recovery

E.g. National Employment Council, MyFutureJobs



Enhancing digitalisation

E.g. SME Digitalization and Automation Grant



Promoting investments

E.g. Enhancing facilitation and extension of relocation tax incentives

¹ Malaysian Government Securities

² Malaysian Government Investment Issues

³ Special Relief Facility, PENJANA Tourism Fund, Targeted Relief and Recovery Facility, High-Tech Facility

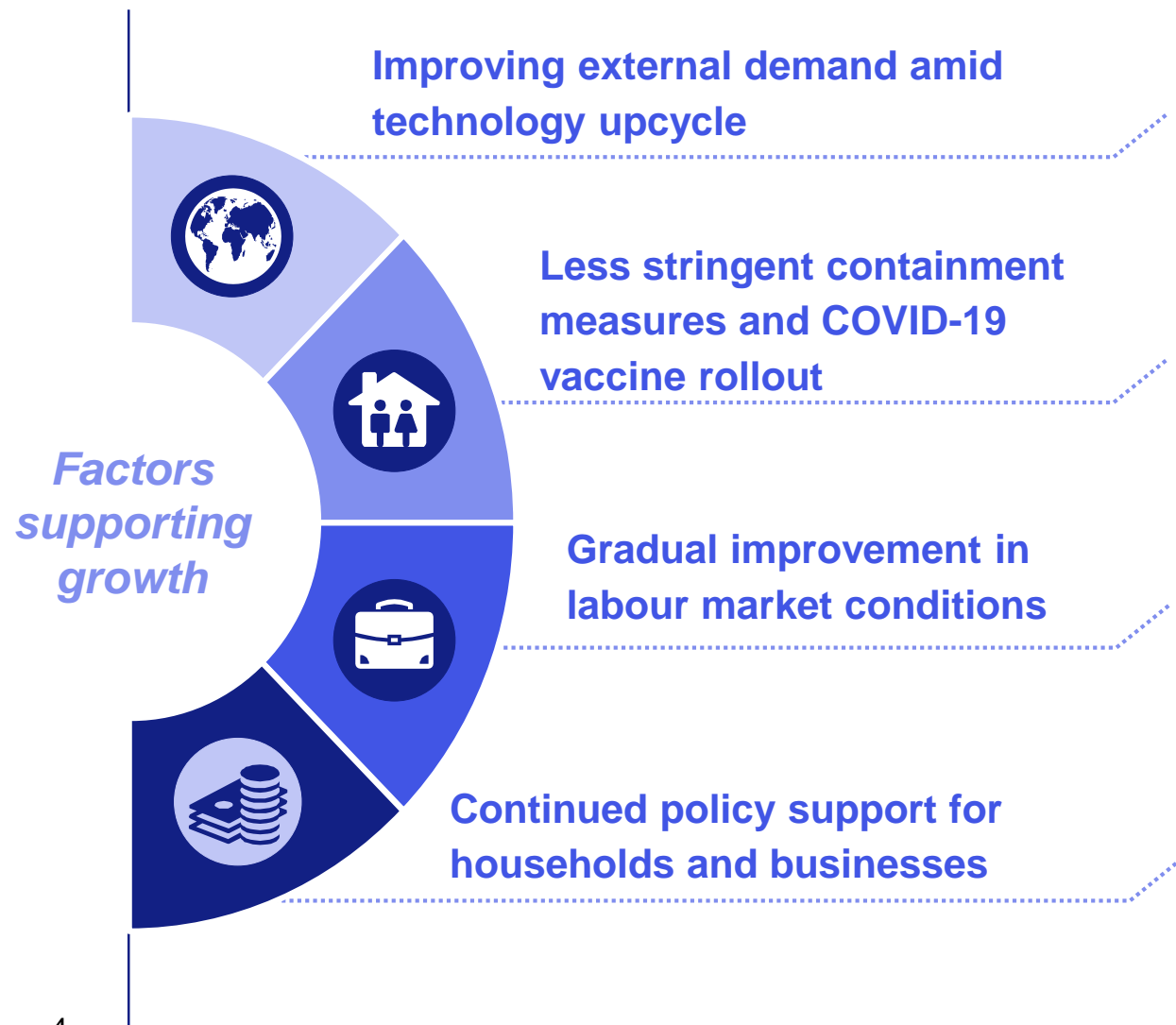
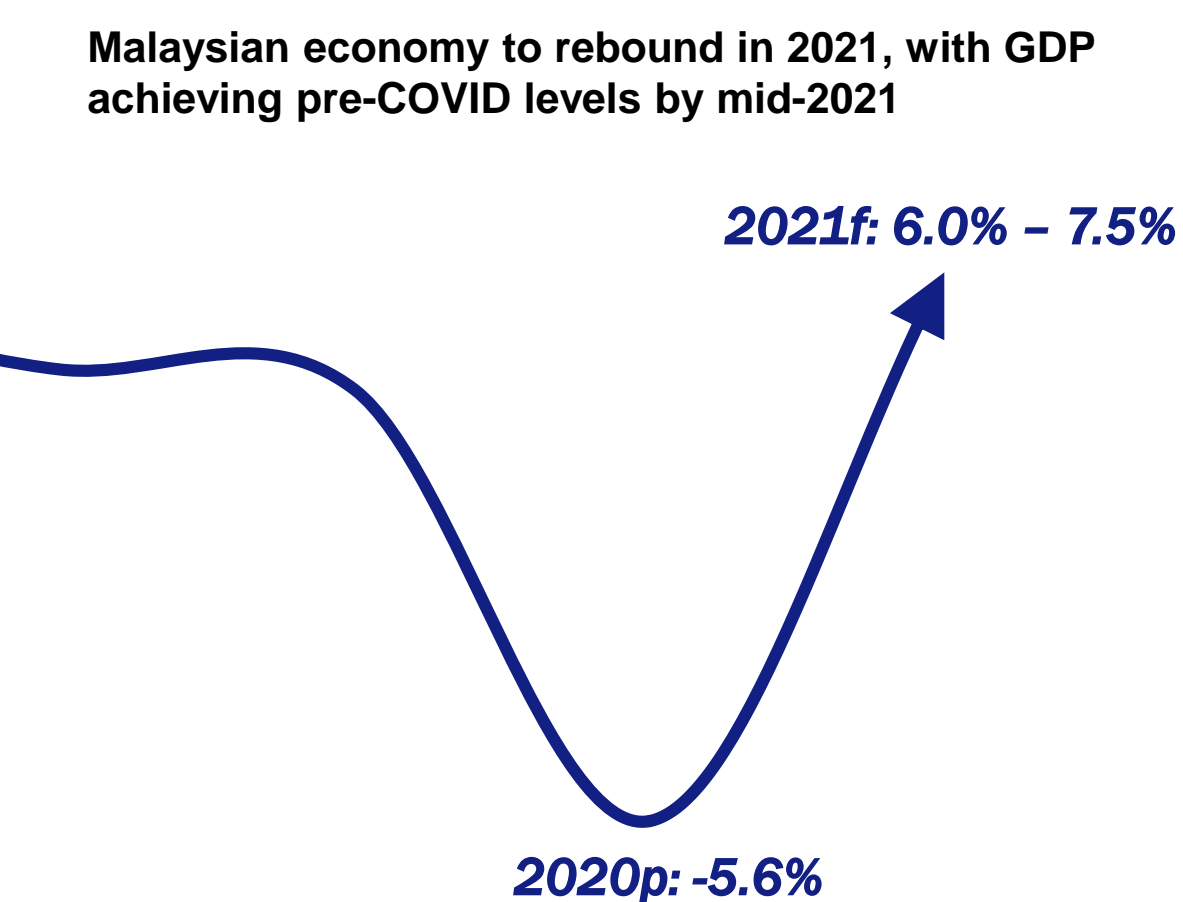
Note: p Preliminary

Source: Department of Statistics, Malaysia



The Malaysian economy is projected to expand by 6.0% – 7.5% in 2021, supported by both external and domestic factors

Malaysian economy to rebound in 2021, with GDP achieving pre-COVID levels by mid-2021



Note: p Preliminary

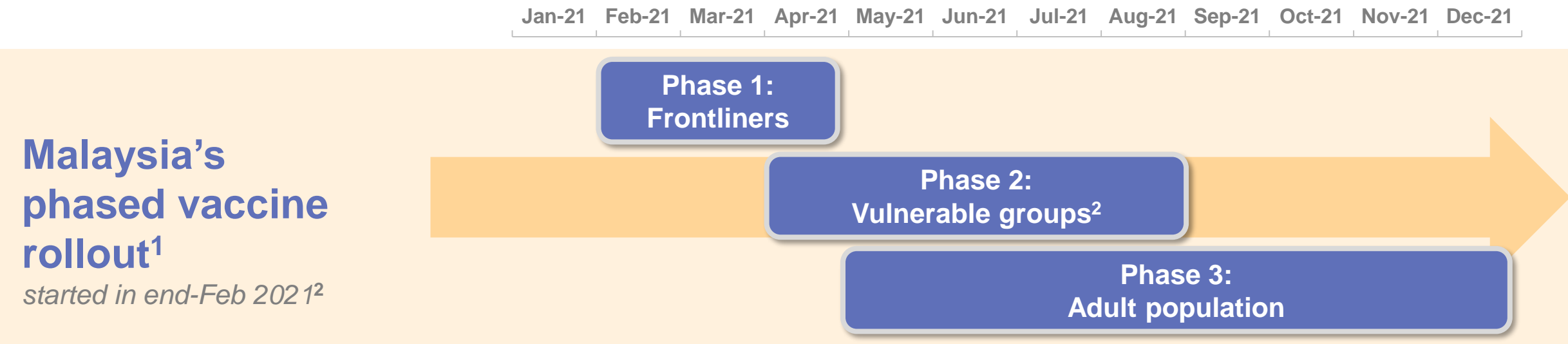
Source: Department of Statistics, Malaysia and Bank Negara Malaysia estimates



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Vaccine rollout domestically will provide some lift to growth

Phased vaccine rollout to support recovery in employment and income by improving consumer sentiment and facilitating a gradual normalisation in economic activity



Key Assumptions

Domestic containment measures



MCO in most states³

Targeted interventions
based on localities and cluster locations only

International travel



Closure of international borders for non-essential travel

¹ At least 80% coverage of adult population by December 2021

² Refers to senior citizens and high risk groups, and also remaining healthcare and essential workers not vaccinated in Phase 1

³ Refers to MCO 2.0 which was imposed in all states except Sarawak by 22 January, which has ended in all states as of 4 March

Source: The Special Committee For Ensuring Access to COVID-19 Vaccine Supply (JKJAV), National COVID-19 Immunisation Programme, PEMERKASA Speech, Bank Negara Malaysia estimates

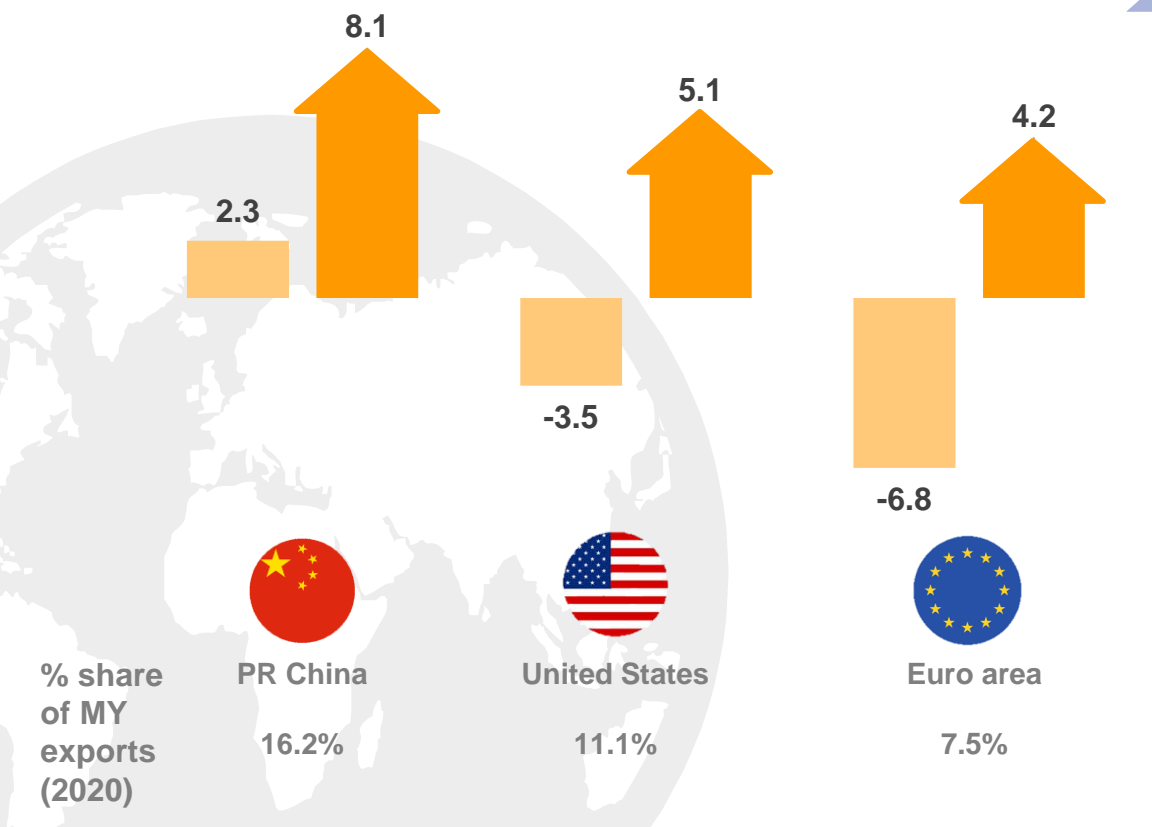


Improvement in external demand will benefit Malaysia's exports, domestic production and employment

Major trade partners' growth are expected to rebound in 2021, particularly PR China, the US and Euro area

Annual change (%)

2020 2021f



This will support exports of goods, and production and employment in export-oriented industries



Export of goods

~60% of GDP



Export-oriented production

~70% of manufacturing VA



Employment in export-oriented industries

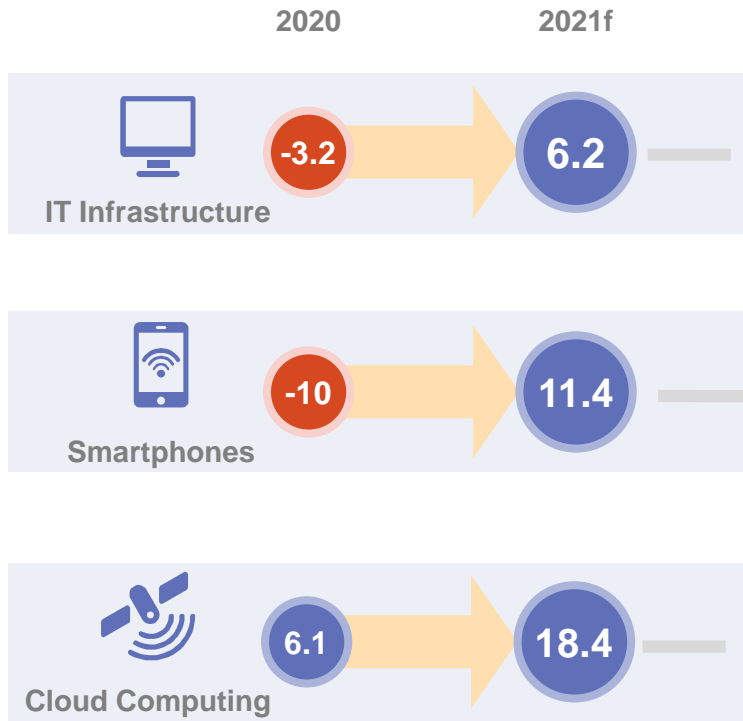
~70% of manufacturing employment

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

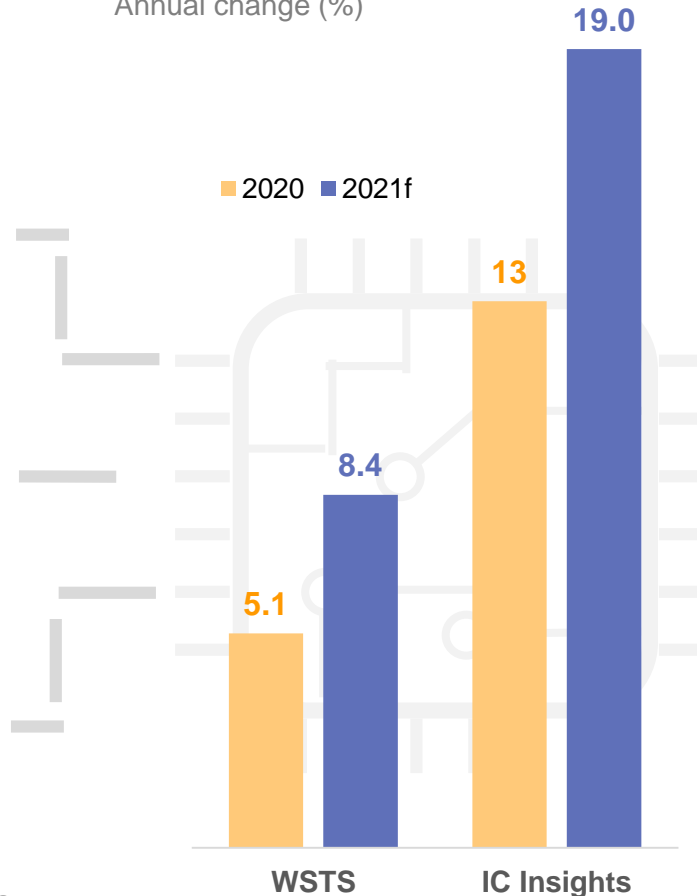
Global tech upcycle will support E&E production and exports

Strong global demand for E&E products
particularly in work-from-home segments

Product Sales and Revenue Projections
 Annual change (%)



Global Semiconductor Sales Projections
 Annual change (%)



Spurring growth in Malaysia's E&E sector
for production of components in high-demand segments

6 out of 12 of the largest semiconductor companies globally operate in Malaysia

Communications, automotive, medical, industrial sectors

3 out of 9 of the largest LED companies globally operate in Malaysia

Automotive, electronics, industrial and commercial lighting

Note: f Forecast

Source: Gartner, MIDA, World Semiconductor Trade Statistics, IC Insights

Higher manufacturing and commodity production to lift growth prospects



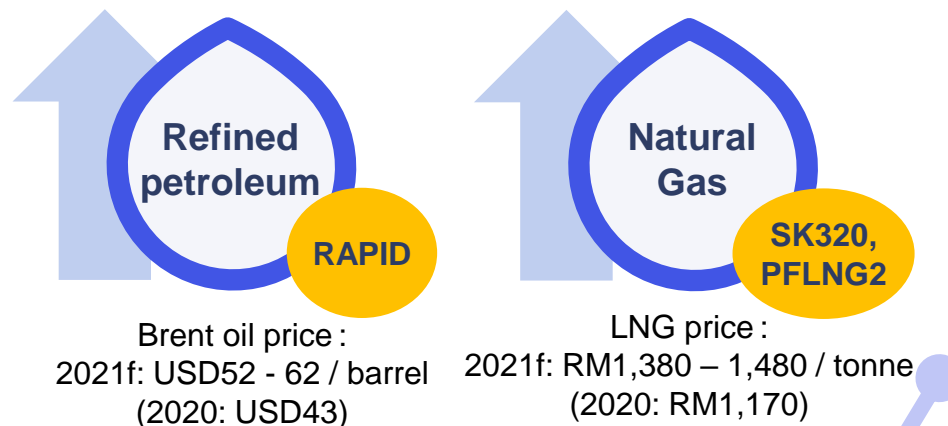
Higher manufacturing production capacity

Supported by global tech upcycle and demand for medical related products



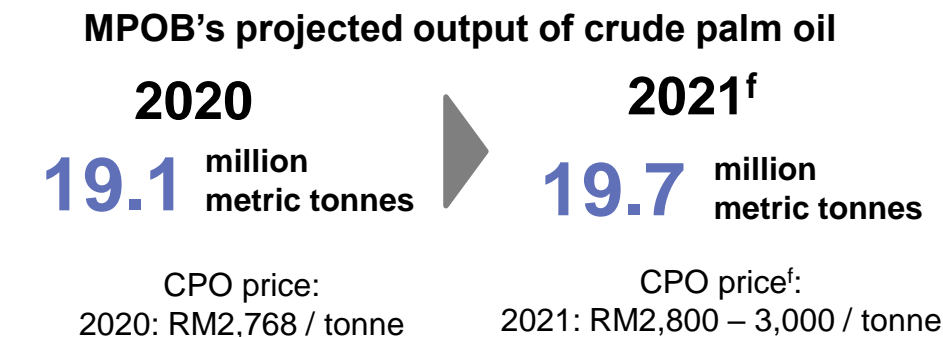
Ramp-up in oil- & gas-related production

RAPID, PFLNG2 (Feb 2021) and SK320 (2H 2021)



Improving agriculture output

Higher CPO production



^f forecast

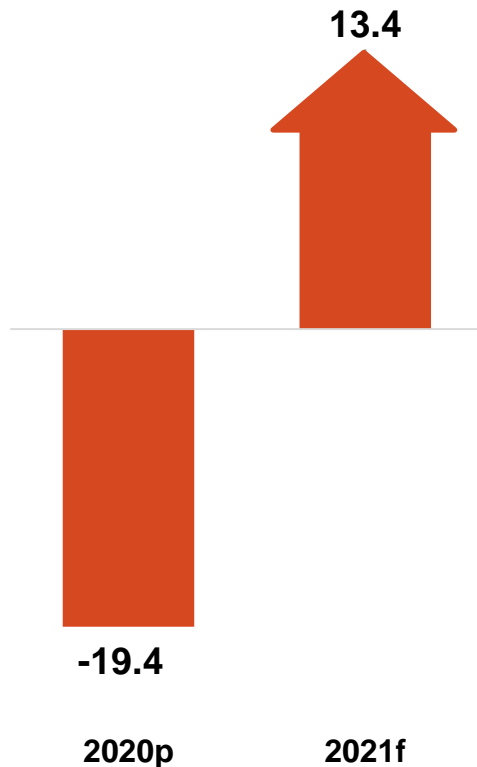
Source: MIDA, PETRONAS, MPOB, Bank Negara Malaysia estimates



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Continuation of public infrastructure and small-scale construction projects will provide further impetus to growth

Construction Value Added
Annual Change (%)



Total Size of Selected Public Projects
RM billion



East Coast Rail Link
RM44.0 bil
Duration: 2018-2026



MRT2
RM30.5 bil
Duration: 2016-2023



LRT3
RM16.6 bil
Duration: 2018-2024



Pan Borneo Highway
RM32.5 bil
Duration: 2016-2023



JENDELA
RM21.0 bil¹
Duration: 2020-2025



Small Scale Projects
RM5.0 bil
Duration: 2021

¹JENDELA is funded by Universal Service Provision (USP) and telecommunications companies.

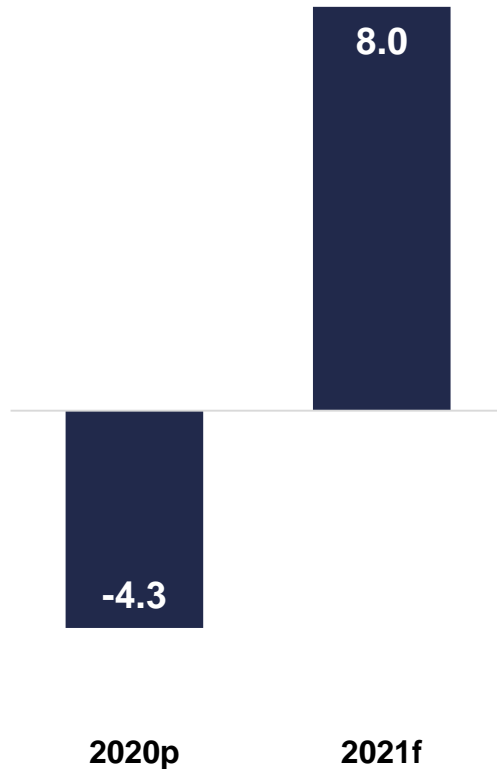
Note: p Preliminary, f Forecast

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



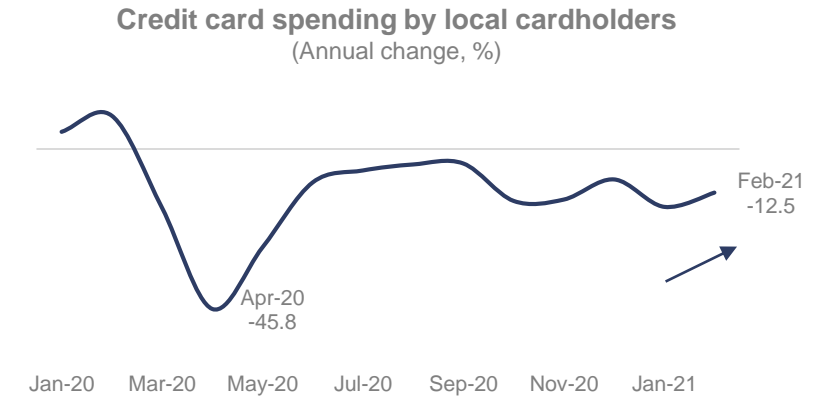
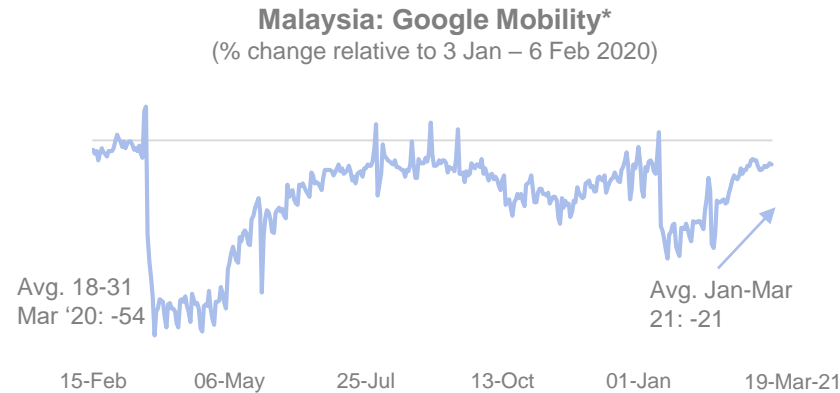
Private consumption to anchor growth in 2021

Real Private Consumption
Annual Change, %



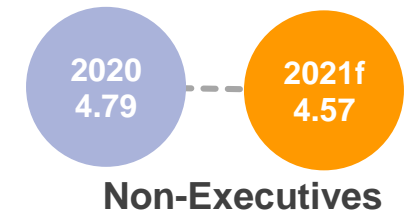
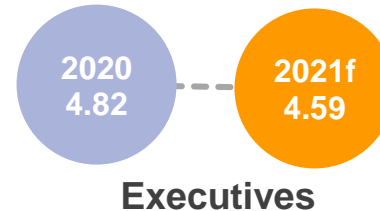
Factors supporting private consumption growth

1 **Less stringent movement restrictions** and **gradual improvement in sentiments** amid vaccine rollout



2 **Continued income growth** amid **improving economic activity**

MEF: Salary Increase for Executives & Non-Executives**
(Annual change, %)



* Average for retail, recreation, grocery and pharmacy categories

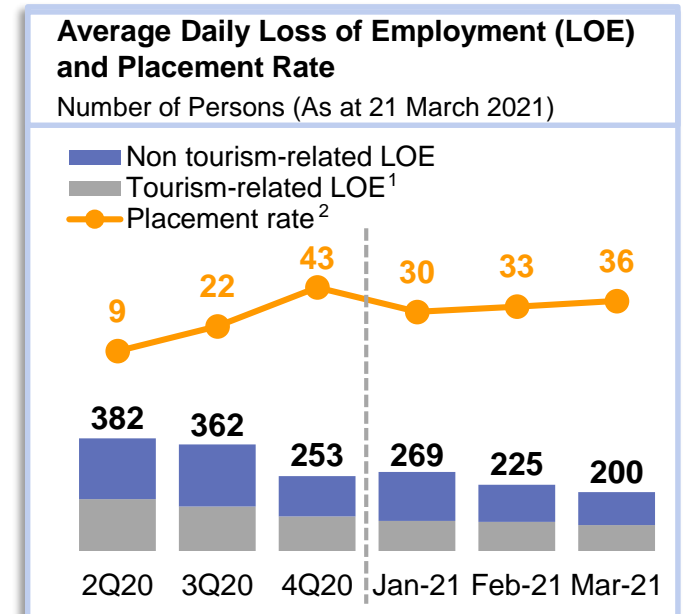
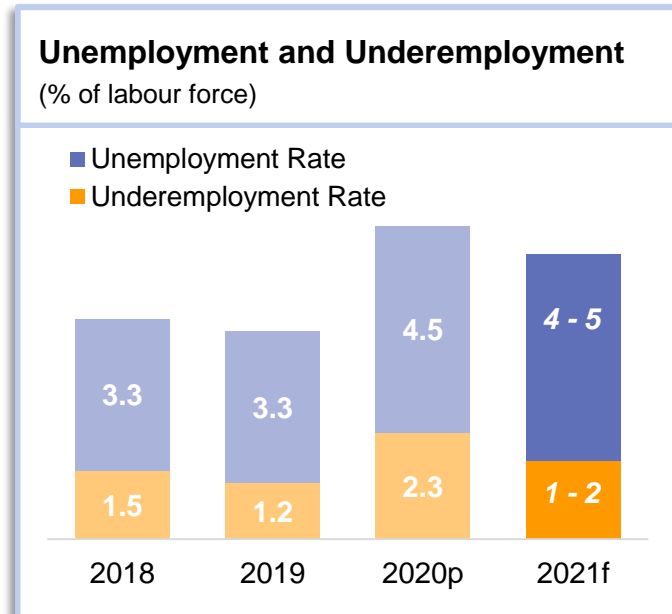
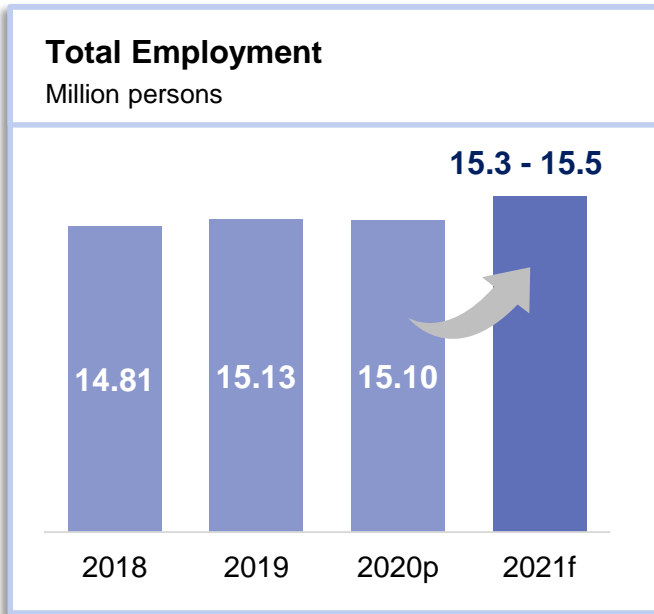
** MEF Salary Survey for Executives covered 179 benchmarked positions of 20,733 persons, while Non-Executive survey covered 64,625 persons with 138 benchmarked positions

Note: p Preliminary, f Forecast

Source: Department of Statistics, Malaysia, Google Mobility, MEF Salary Survey for Executives and Non-Executives and Bank Negara Malaysia estimates

3 Expected recovery in employment and unemployment

Encouraging signs of continued hiring activity in 2021



¹ Tourism-related industries follows SOCSO definition and includes wholesale retail, administrative and support services, accommodation and F&B, transportation and storage, entertainment and recreation
² The placement rate refers to the number of people placed in new jobs under the Employment Insurance Scheme (EIS) for every 100 persons retrenched

4 Targeted policy support for households

Nominal amount of selected measures

Wage subsidy
RM21.4 bil

**PENJANA
Kerjaya**
RM3.5 bil

i-Sinar
RM52 bil
as at Mar-21

Cash transfers³
RM10 bil

**Lower EPF
contribution**
RM9 bil

³ Refers to Bantuan Prihatin Nasional, Bantuan Prihatin Rakyat and Bantuan Kehilangan Pendapatan

Note: p Preliminary, f Forecast

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



5

Continued digital adoption will partly cushion the adverse impact of targeted movement restrictions on consumption spending

COVID-19 accelerated the already growing trend of online shopping

Malaysia: Index of Online Retail Trade Annual Change, %



Consumers indicate intentions to continue spending online post-pandemic...



Global: Intention for Online Shopping

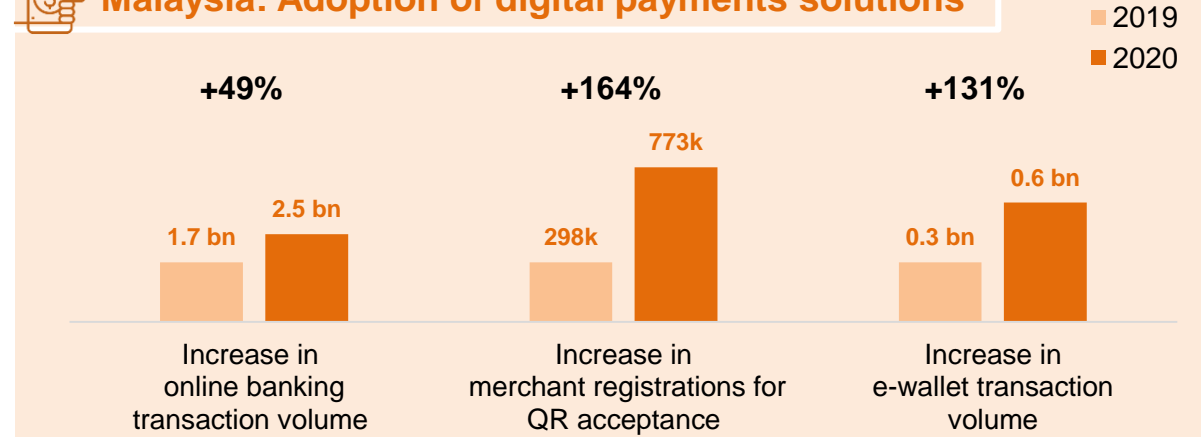
Standard Chartered Future Money Survey (2020)
People's preference to buy things online



...while firms are expected to adjust their business models to meet demand



Malaysia: Adoption of digital payments solutions



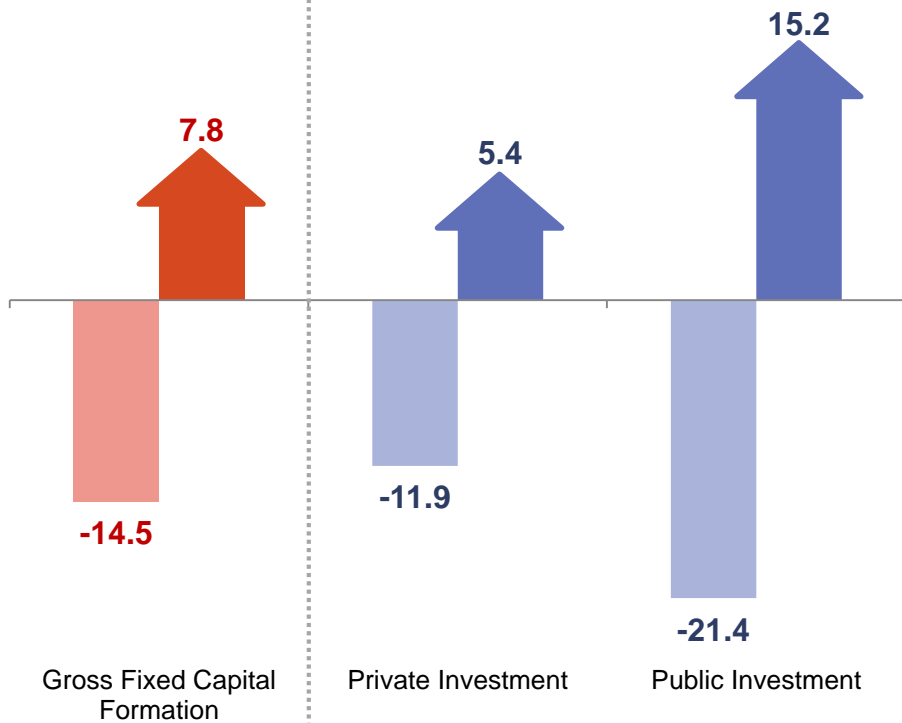
Source: Department of Statistics, Malaysia, Bank Negara Malaysia and Standard Chartered Future Money Survey (2020) (Number of respondents =36k across 12 countries, including Malaysia)

Investment activity to rebound, driven by better demand conditions and Government initiatives

Recovery in capital spending in both private and public sectors...

Annual Change, %

■ 2020p ■ 2021f



Note: p Preliminary, f Forecast

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



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

...mainly supported by better global and domestic demand conditions, as well as initiatives by the Government



Gradual improvement in foreign and domestic investments
Better external demand and tech upcycle



Realisation of approved manufacturing investment
(2020: RM91.3 bil; 2019: RM82.7 bil)



Continuation of major transport infrastructure projects
(e.g. ECRL, MRT2 and LRT3)



Enhancements in digital infrastructure
(i.e. implementation of MyDigital initiatives)



Efforts to attract quality investment and improve ease of doing business
(e.g. extension of relocation incentives, establishment of a One-Stop-Centre (OSC) to ease entry of business travellers and PACU)*

* PACU refers to Project Acceleration and Coordination Unit, a unit recently established to provide end to end facilitation of approved investment projects

Liberalisation measures aimed to enhance Malaysia's position as an FDI destination and a global supply chain hub

Foreign Exchange Policy Liberalisation effective 15 April 2021



Removal of export conversion rule

Exporters may now manage the conversion of export proceeds according to their foreign currency cash flow needs



Exporters can settle domestic trade in foreign currency with other residents operating in the global supply chain¹

Facilitate natural hedge for exporters and their business partners along the global supply chain to better manage FX risk



Exporters are allowed to net-off export proceeds against permitted foreign currency obligations²

Enhance business efficiency and cash flow management of exporters



Exporters can extend the period for export repatriation beyond 6 months under exceptional circumstances³

Exempt exporters from seeking the Bank's approval to extend export proceeds beyond 6-month period for reasons beyond the exporters' control



Corporates are free to undertake commodity derivatives hedging directly with non-resident counterparties

Broaden avenues and options for corporates to hedge their commodity price risk

1/ Global supply chain is defined as a business activity where resident importers purchase goods or services from overseas to support production or distribution of goods or services by resident exporters for their export activities.

2/ Such as netting of export receivables against import payables with the same overseas buyer and supplier.

3/ Defined as instances where exporters have no control over the delay in receiving the export proceeds e.g. buyers in financial difficulties.

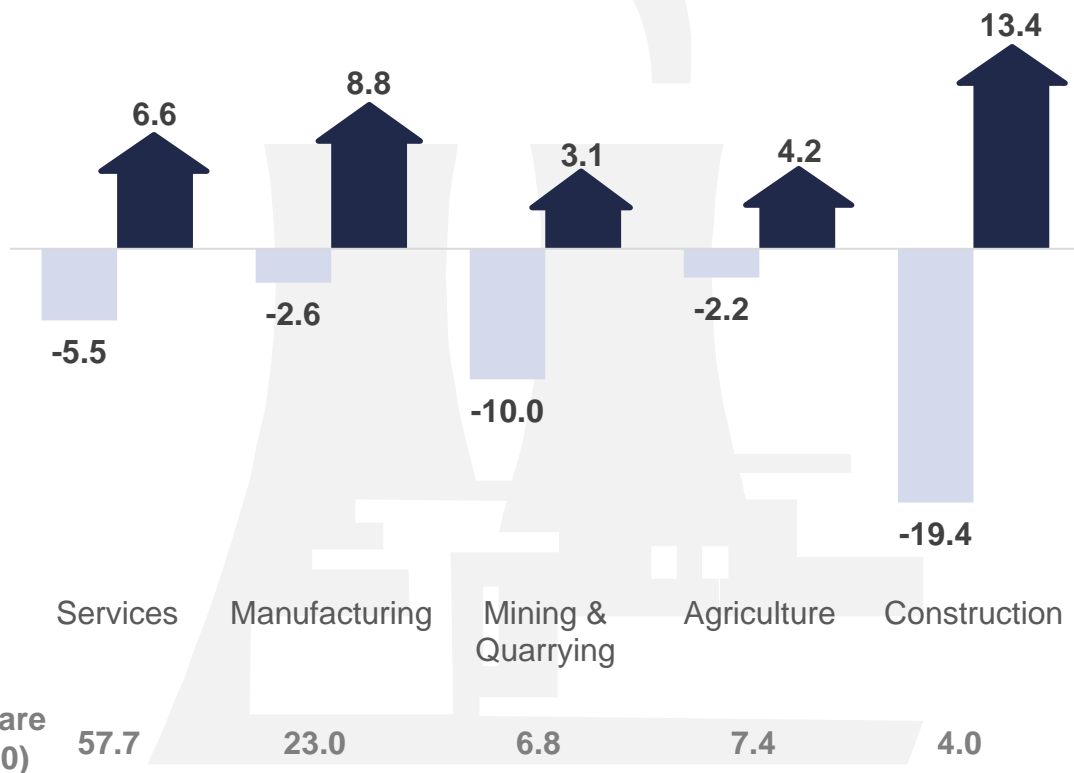


In summary, recovery of the Malaysian economy in 2021 will be driven by stronger external demand and improving domestic activity

Positive growth in all economic sectors

Real GDP (Annual change, %)

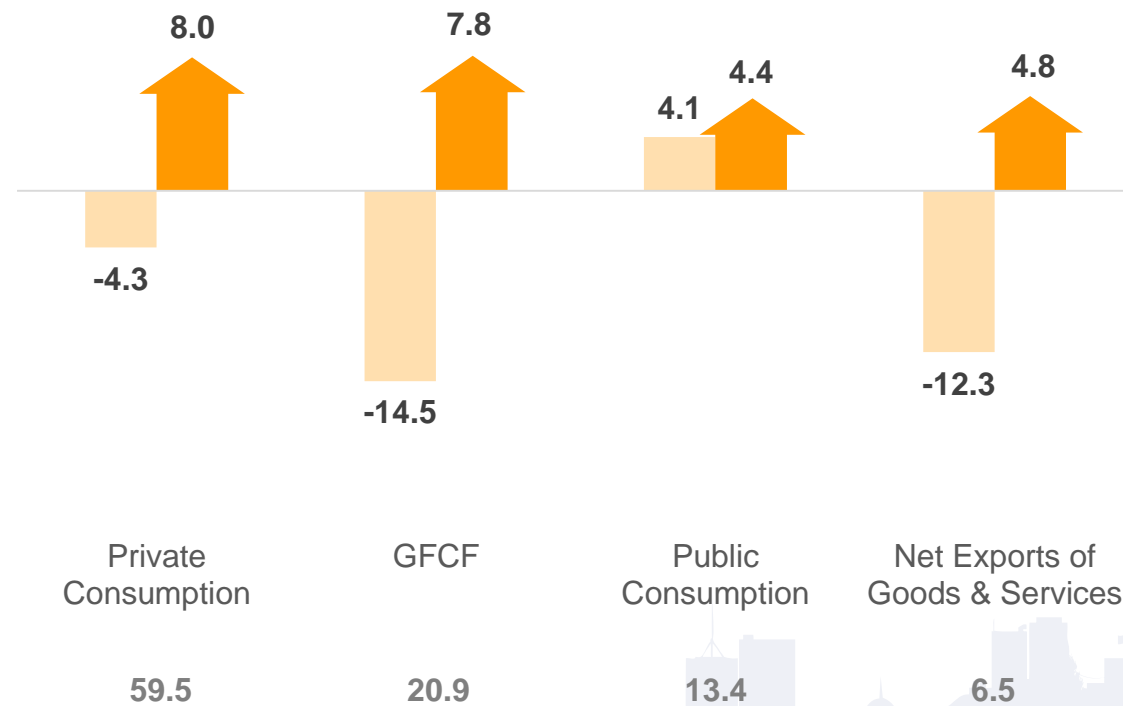
2020p 2021f



Domestic demand to remain the key driver of growth

Real GDP (Annual change, %)

2020p 2021f



Note: p Preliminary, f Forecast

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

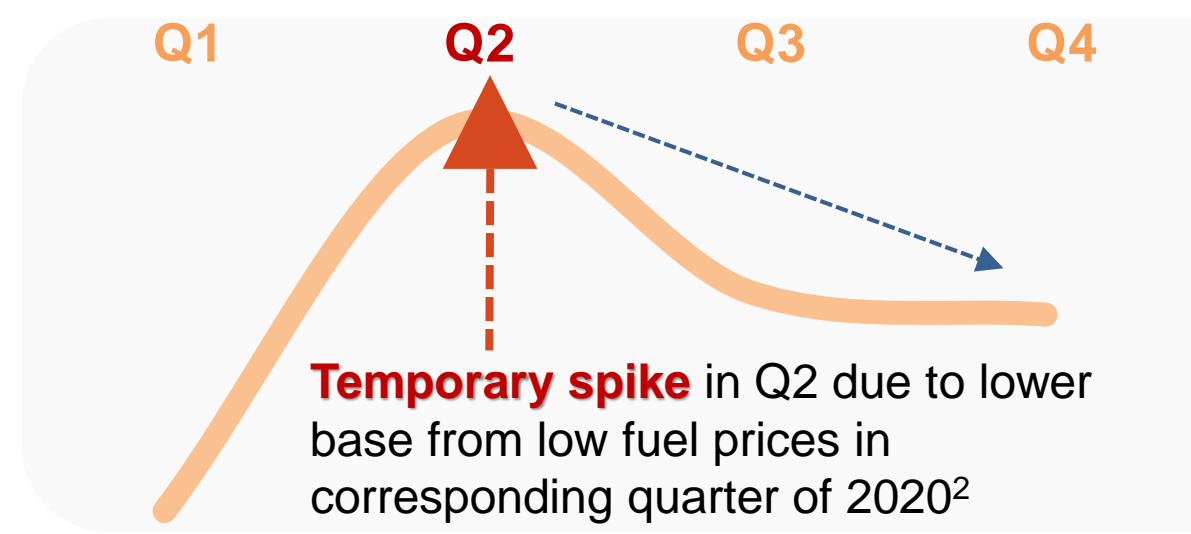
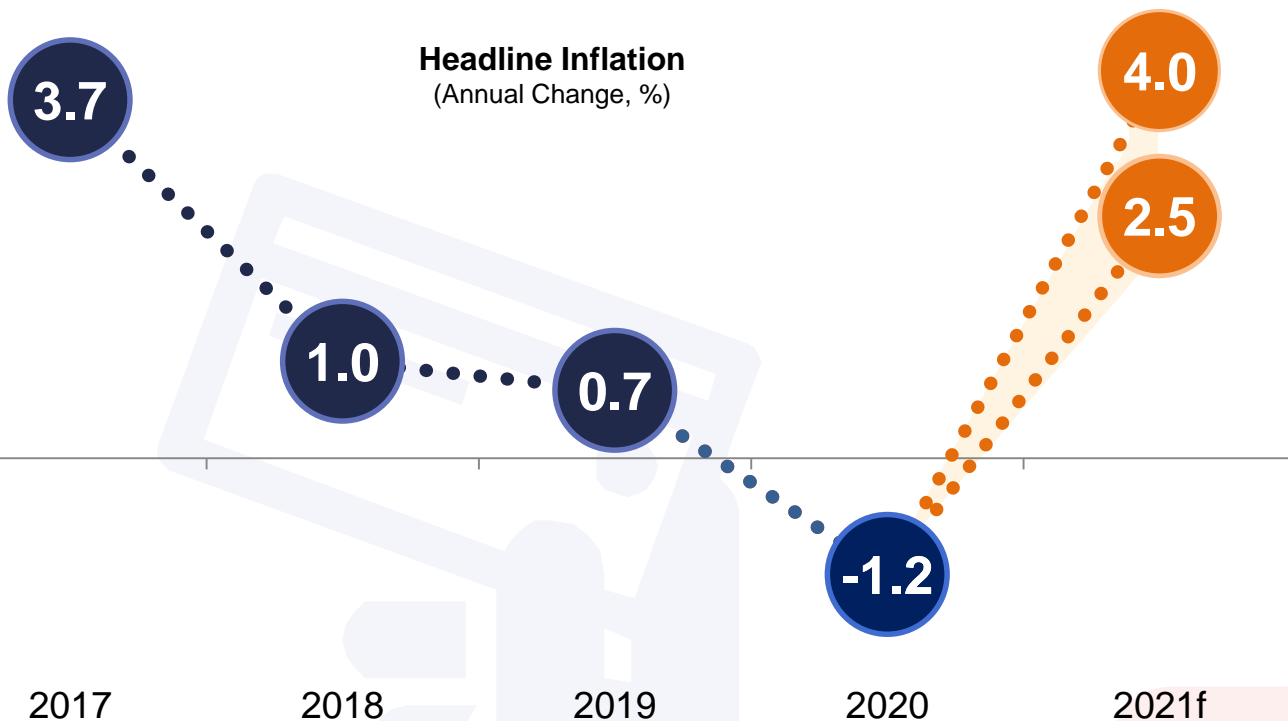


BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Headline inflation to average higher amid increase in global oil prices, while underlying inflation to remain subdued

Headline inflation to average **2.5% – 4.0%**

Mainly due to higher global oil prices¹



Core inflation to remain subdued, between **0.5% – 1.5%** amid continued spare capacity in the economy

Inflation outlook subject to movements in global oil and commodity prices

¹ YTD (up to 26 Mar 2021): Brent crude oil price: USD61/barrel, average RON95 domestic retail fuel price (up to 31 Mar 2021): RM1.96/ litre.

² 2Q2020: Brent crude oil price: USD33/barrel; average domestic retail fuel price: RM1.37/ litre.

Note: f Forecast

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

Risk to 2021 growth remains tilted to the downside, arising primarily from pandemic-related factors

Upside risks

- ▲ Higher-than-expected **global growth**
- ▲ **Pent-up demand from consumers & businesses** after the relaxation of containment measures
- ▲ Stronger-than-expected impact from **policy support**

- ▼ Escalation in COVID-19 cases leading to further **containment measures** globally and domestically
- ▼ Slower-than-expected rollout of **vaccines** or ineffectiveness of vaccines
- ▼ **Commodity** supply shocks
- ▼ Greater **financial market volatility**

Downside risks

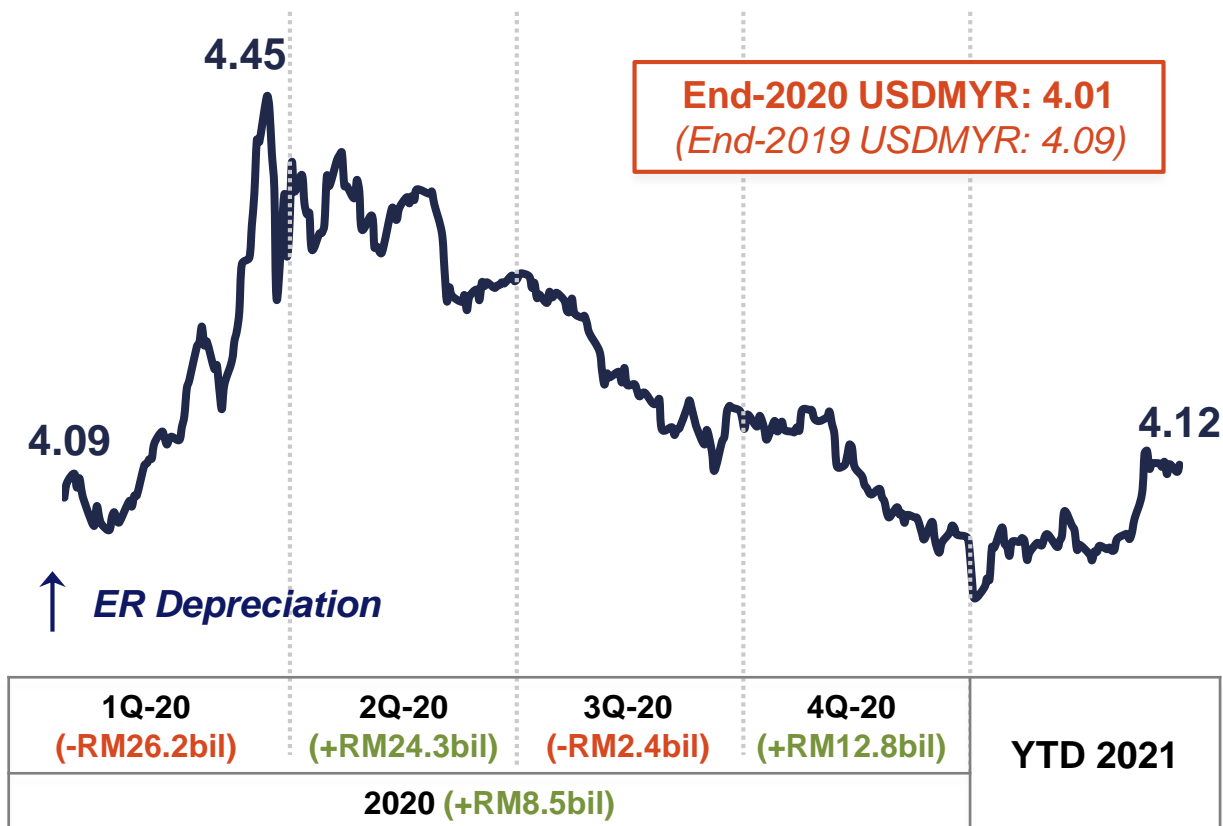


Flexibility in the ringgit exchange rate and orderly financial market conditions will continue to support the economy

Exchange rate flexibility played a key role in managing volatile shifts in non-resident portfolio flows in 2020

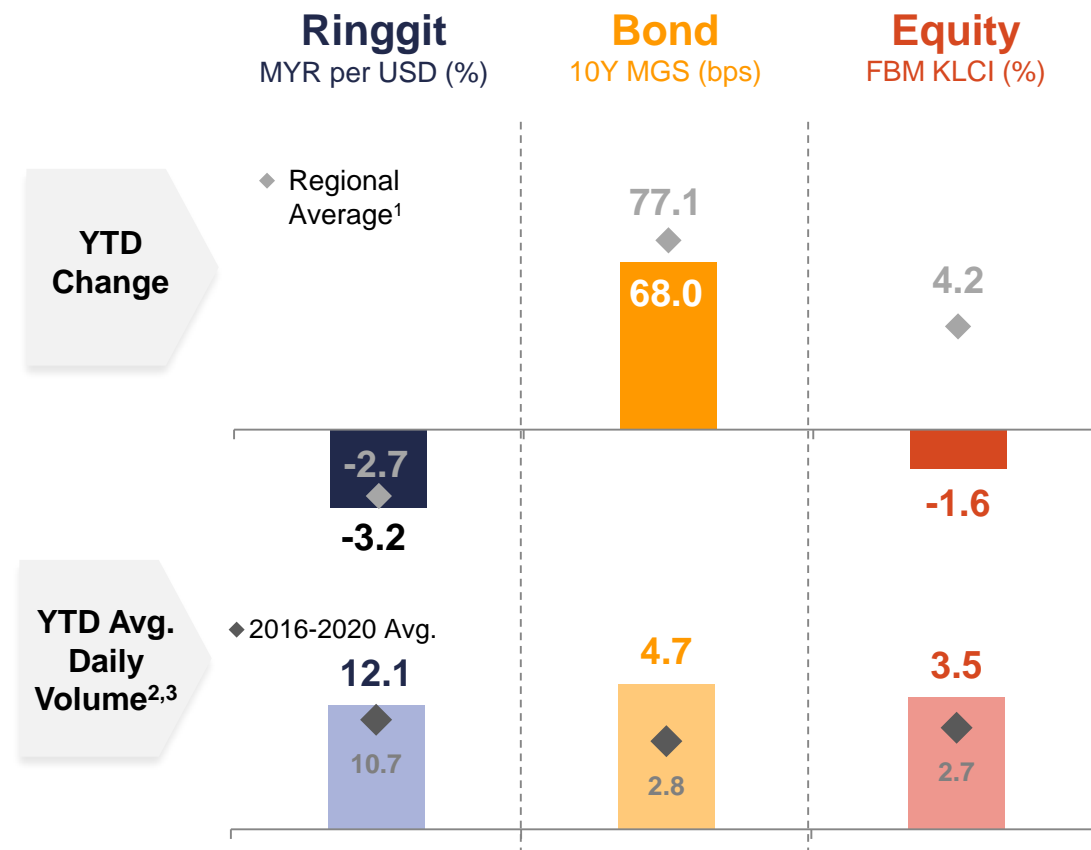
MYR/USD Change and Non-Resident Portfolio Flows

MYR/USD (%) (NR portfolio flows in brackets)



Source: Bank Negara Malaysia and Department of Statistics, Malaysia

Going into 2021, sufficient liquidity will continue to support orderly financial market conditions



¹Regional economies includes Singapore, Indonesia, Thailand, Philippines and Korea

²Average Daily FX Volume in USD billion

³Average Daily Bond and Equity Volume, respectively, RM billion

Note: YTD data as at 26 March 2021

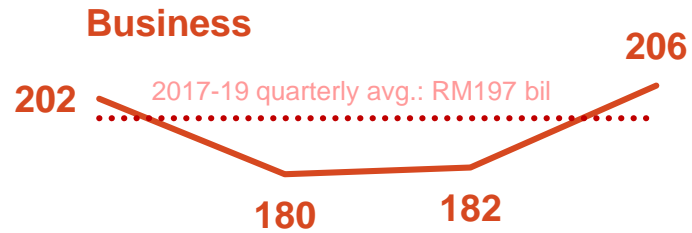
Source: Bank Negara Malaysia, Bursa Malaysia, Bloomberg, Reuters, CEIC

Financing remains supportive of economic activity

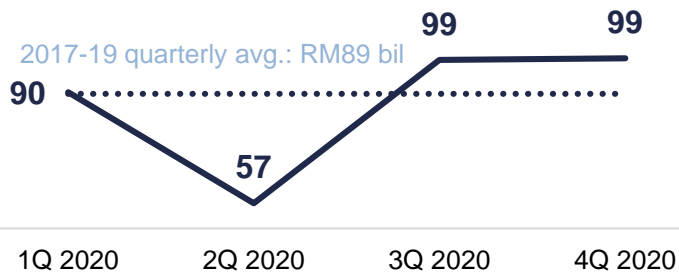
Credit flows improved towards the end of 2020...

Business and Household Loan Disbursements

RM bil



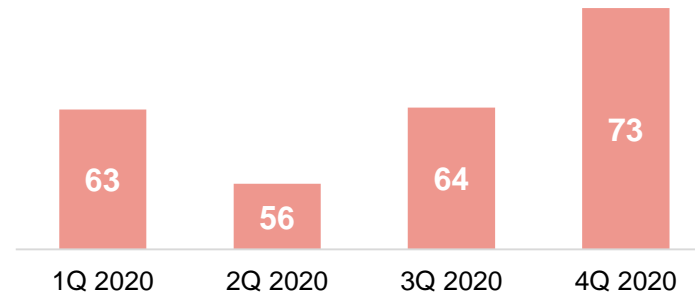
Household



...with higher disbursements to SMEs, and to households for purchasing homes and passenger cars...

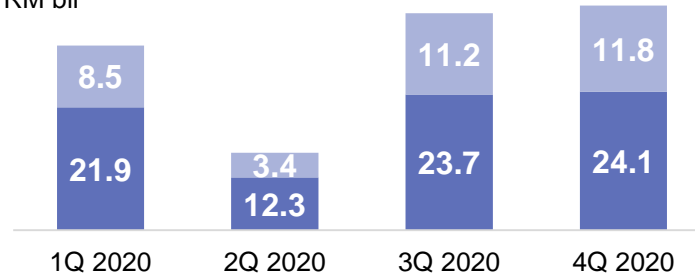
SME Loan Disbursements

RM bil



Household Loan Disbursements by Selected Purpose

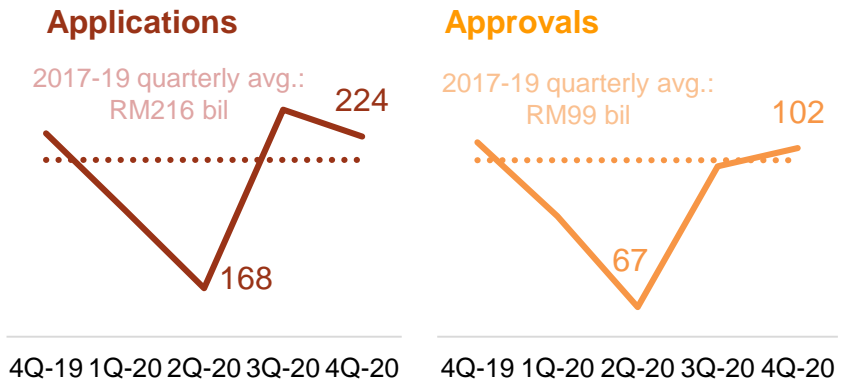
RM bil



■ Residential Properties ■ Cars

In 2021, accommodative financing conditions would continue to support loan demand and supply

Total Loan Applications and Approvals (RM bil)*



Lower financing costs following 125bps OPR reductions in 2020



Various measures supporting financing activities

e.g. SST exemption, Home Ownership Campaign, guarantee schemes, BNM funds

* Refers to data from the banking system only

Note: Data from banking system and development financial institutions (DFI)
Source: Bank Negara Malaysia



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Monetary policy in 2021 will focus on promoting the sustainability of the economic recovery

Monetary policy stance in 2021 will continue to...

Monetary policy will continue to be complemented by the Bank's various policy levers to ensure the right mix of policies in supporting a sustainable economic recovery



Remain accommodative



Be data driven given the uncertainties surrounding the pandemic



Complement other measures by the Bank and fiscal policy



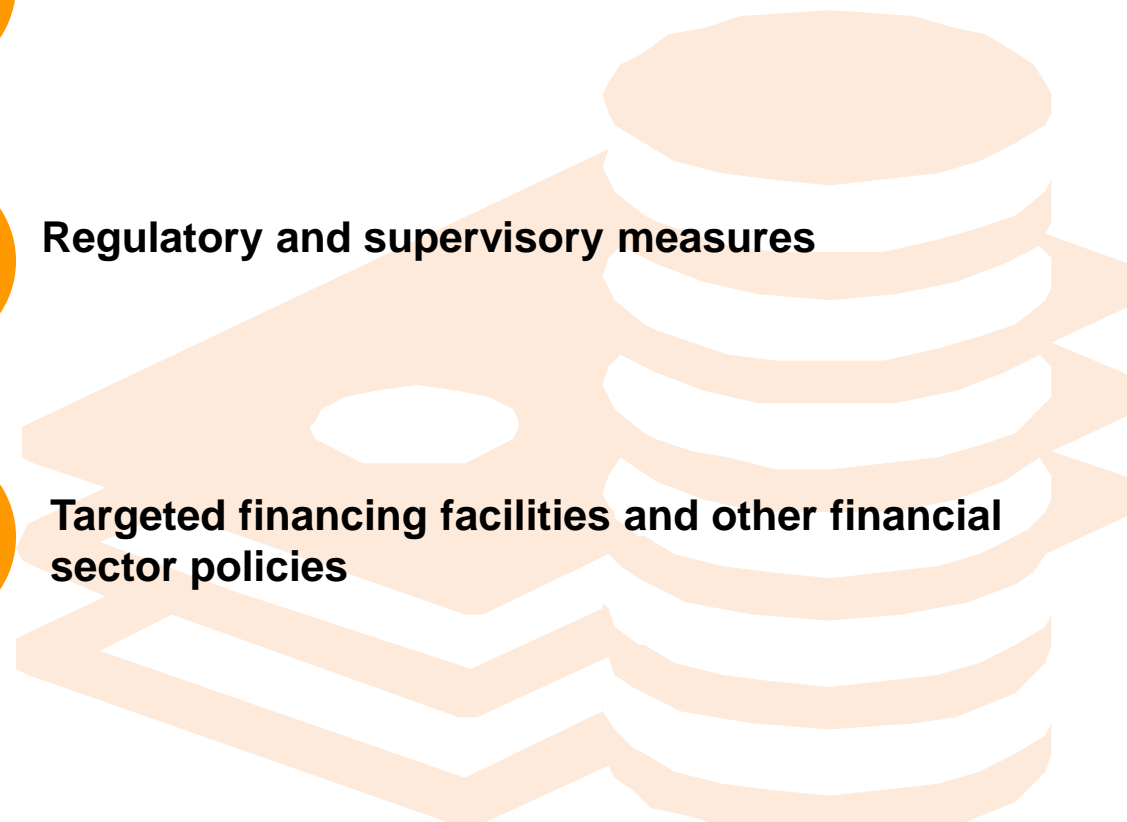
Liquidity operations



Regulatory and supervisory measures



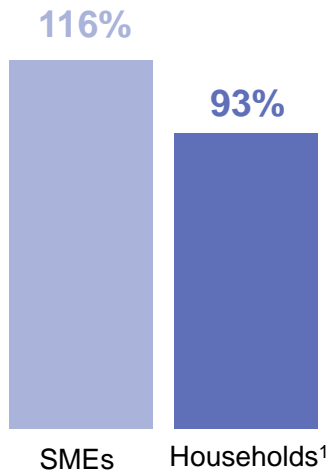
Targeted financing facilities and other financial sector policies



Credit risk expected to remain in focus in 2021, despite improvements in debt servicing in line with economic recovery

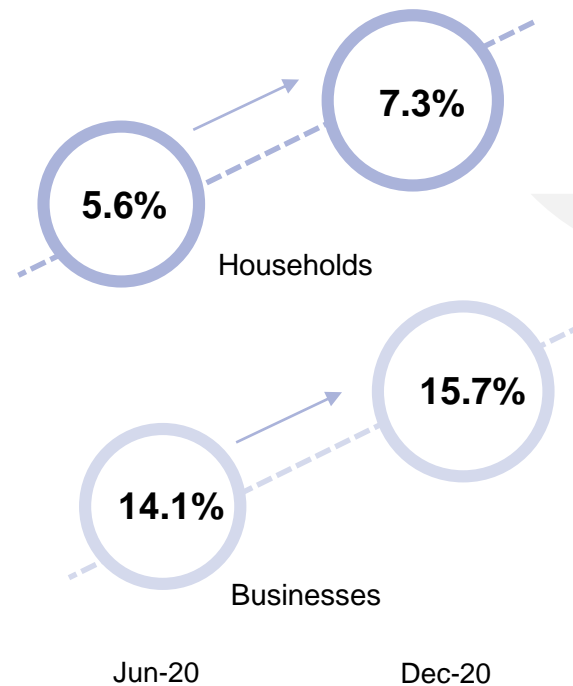
Loan repayments reached more than 90% of pre-COVID levels

Total loan repayments as at Dec '20 (of levels seen in 1Q '20)

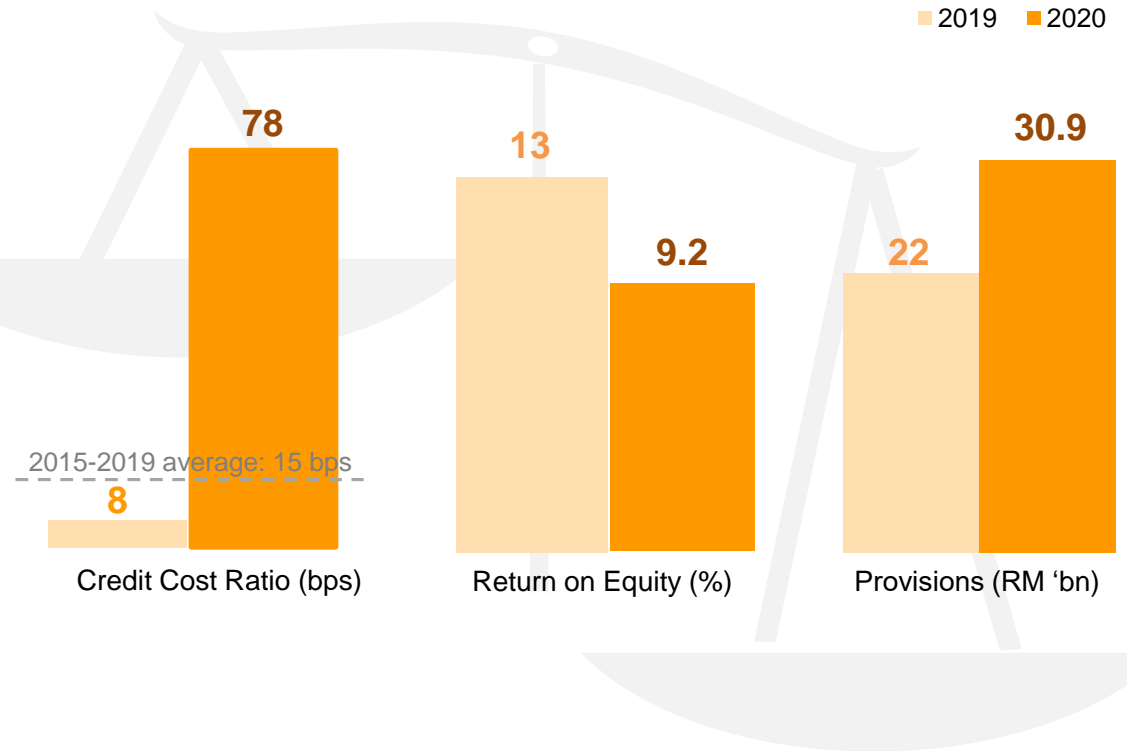


Higher share of loans with increased credit risks

Proportion of Stage 2² loans to total household/ business loans



Banks' earnings negatively impacted by credit costs but pre-emptive provisions will support earnings performance going forward



¹ Exclude credit cards.

² Refers to loans which 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 Standards 9.

Source: Bank Negara Malaysia

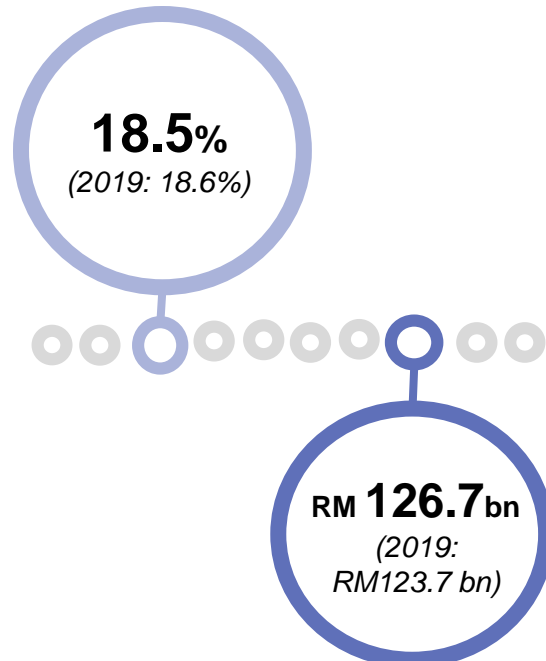
Financial system remains resilient and well-placed to support financial intermediation

Financial institutions continued to maintain strong capital buffers...

... with healthy liquidity to support intermediation activities

Banking System

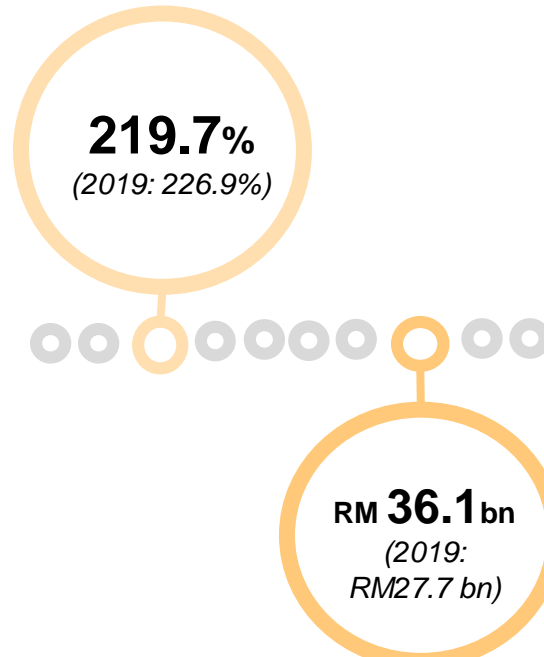
Total Capital Ratio¹



Excess Buffers²

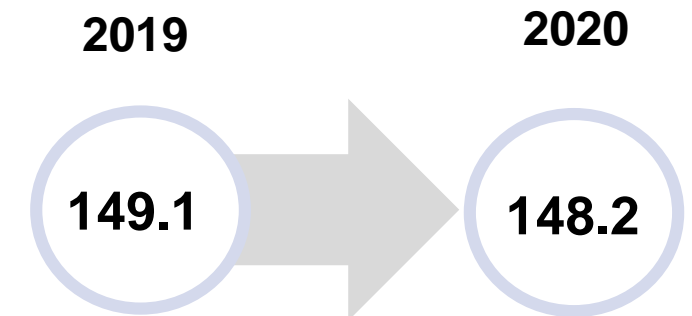
Insurers and Takaful Operators

Capital Adequacy Ratio¹



Excess Buffers³

Liquidity Coverage Ratio (%)



¹ Minimum regulatory requirement for banking system of 8% and insurers and takaful operators of 130%

² Excess capital above the regulatory minimum, which includes the capital conservation buffer requirement of 2.5% and bank-specific higher minimum requirements

³ Excess capital above the regulatory minimum

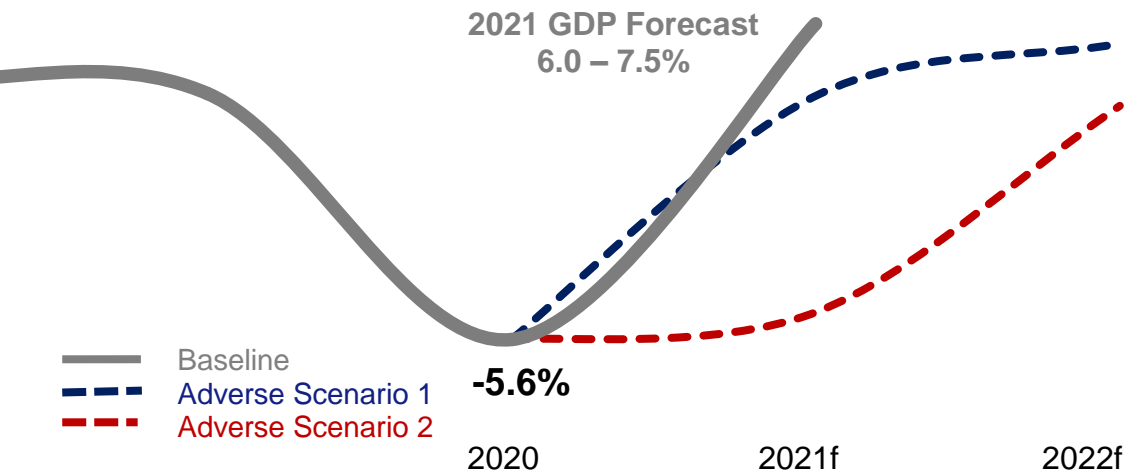
Source: Bank Negara Malaysia



Latest macro-stress tests affirm ability of banks and insurers to withstand severe shocks under more adverse economic scenarios

Two hypothetical¹ adverse scenarios are developed, with the horizon extended until the end of 2022

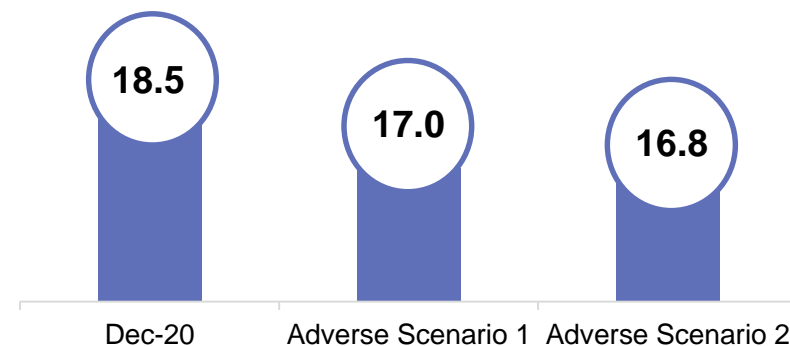
Capital buffers remain comfortably above the regulatory minimum under both hypothetical scenarios



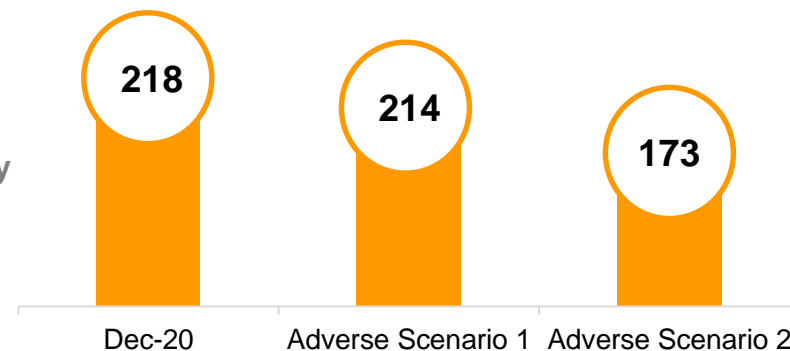
Adverse Scenario 2²

- GDP remains below pre-pandemic levels throughout 2021 and 2022
- Weaker commodity prices in 2021 and 2022
- Unemployment rate to increase further and remain elevated
- Lower house price growth in 2021 and 2022, exacerbated by weaker income growth, rising foreclosures and oversupply conditions

Banking System Post-shock Total Capital Ratio (%)



Insurers Post-shock Capital Adequacy Ratio (%)

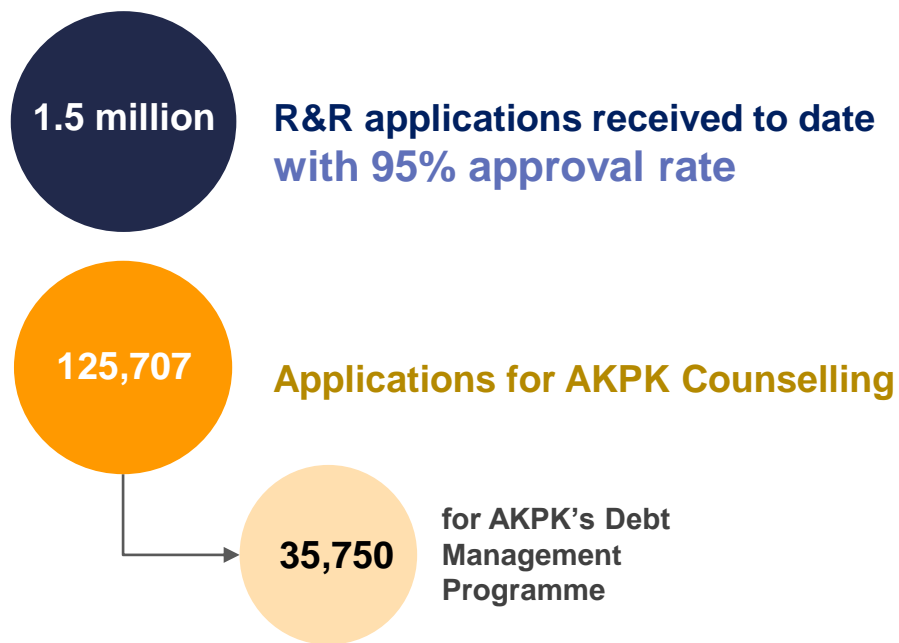


¹ Two hypothetical adverse scenarios were applied covering a 2-year horizon till end 2022, with adverse scenario 2 being the more severe of the two scenarios projected.

² The economic scenarios do not represent the Bank's actual expectations for economic trajectory but rather, have been developed specifically for stress test purpose. These scenarios are not likely to materialise.

Source: Bank Negara Malaysia

Banks continue to extend support to borrowers in need of repayment assistance



Banks are well positioned to extend continued targeted assistance as recovery takes greater hold

- 1 Better identification of borrowers needing additional assistance

> 2.9 million borrowers engaged year-to-date

- 2 Dedicated resources and multiple avenues to assist borrowers

Bank branches, call centres & online/mobile channels



- 3 Simplified processes, flexible repayment assistance packages and reduced processing times

Borrowers should approach their banks to develop repayment plans which can be tailored to suit their circumstances

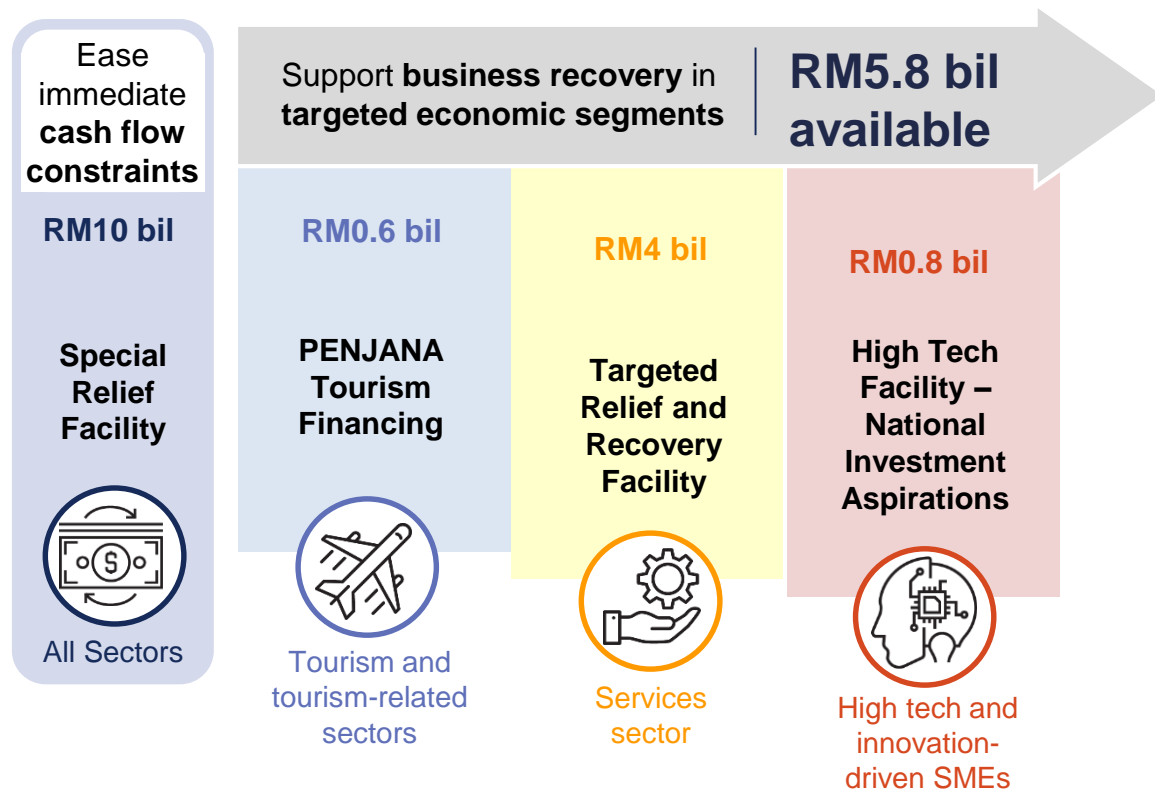
¹ A collaborative effort by BNM, CGC and AKPK to provide advisory assistance to unsuccessful applicants for SME and home financing.

Source: Bank Negara Malaysia, Agensi Kaunseling dan Pengurusan Kredit (AKPK)

BNM's Fund for SMEs complement banks' financing to SMEs

More targeted facilities by BNM amid continued challenging environment ...

Selected BNM's Fund for SMEs

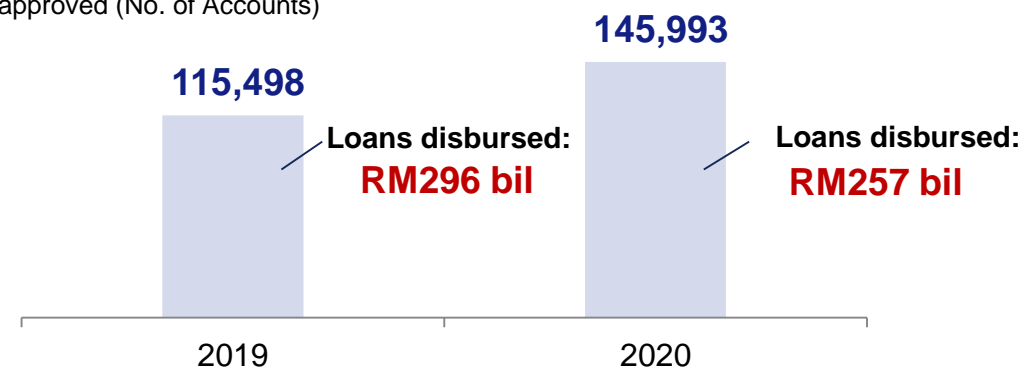


Note: As at 26 March 2020, reflecting reallocation between facilities
Source: Bank Negara Malaysia

... complemented banks' role in providing financing to SMEs

SME Loan Indicators*

Loans approved (No. of Accounts)



Banks continue to support to new customers and underserved segments in 2020

33%

of approved applications were to **new-to-bank customers**



46%**

increase in financing approved to **'young' SMEs**



* Banking system and DFIs

** Growth in the number of accounts approved in 2020 over 2017-2019 average. 'Young' SMEs defined as SMEs established not more than 3 years

Source: CCRIS and Bank Negara Malaysia

Malaysia needs a reset in order to emerge stronger from the pandemic

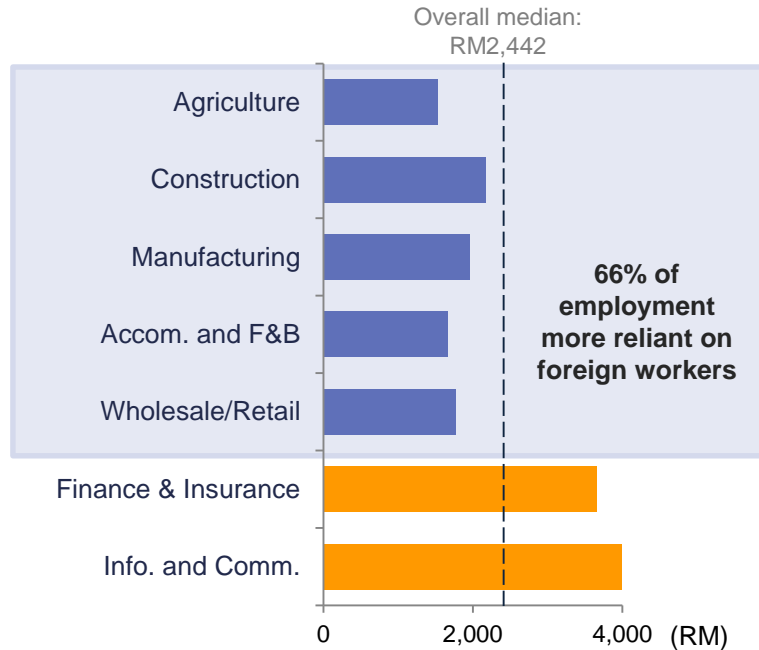


The COVID-19 crisis has exacerbated structural challenges in the Malaysian labour market

Prevailing structural impediments weigh on future job and income prospects

Low-cost production model

Median Monthly Salaries and Wages in 2019 by Sector



Insufficient high-skilled job creation and skills mismatch



Net employment gains in high-skilled jobs: 86K¹



Graduate entry into labour force: 151K

Skill shortages reported by employers



Oral expression and writing



Social perceptiveness

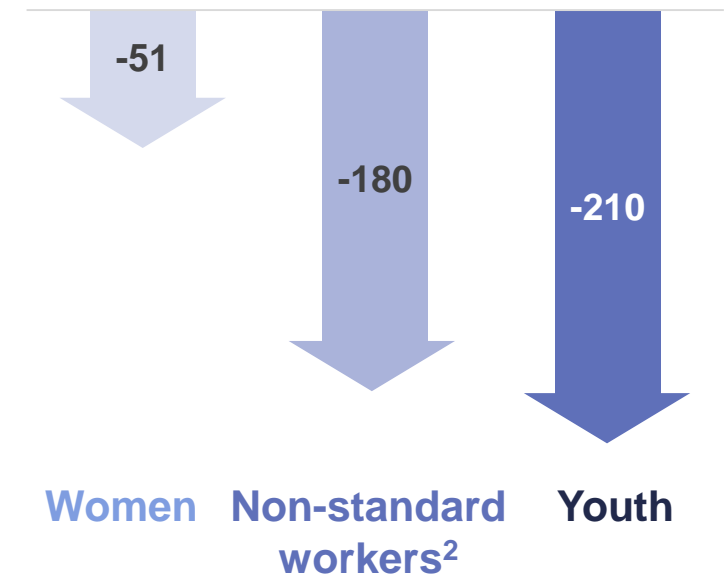


Critical thinking

The pandemic has a disproportionate impact on vulnerable segments of the labour market

Larger decline in employment for...

Fall in employment between 2020 and 2019 ('000 persons)



¹ Average annual change, 2010-2019

² Proxied by number of own account workers, unpaid family workers and employers

Source: Department of Statistics, Malaysia, OECD (2019). "Reducing skills imbalances to foster productivity growth of Malaysia" and Bank Negara Malaysia estimates



Labour-related policy priorities to gear towards enhancing workforce agility and resilience to complement innovation reforms

Encourage demand for high-skilled workers

- *Reinvigorate investments through NIAs**
- *Transition into high-value production*

Improve training & matching mechanisms

- *Enhance education & training ecosystems*
- *Cohesive participation of industry, academia and civil society*

Enhance labour market resilience

- *Extend coverage of re-skilling & up-skilling programmes*
- *Consolidate social protection programmes*

Labour policy priorities Innovation Reforms (3Ds)

Accelerate Digitalisation

- *Strengthen digital enablers*
- *Digitalise existing industries*
- *Catalyse new digital industries*

Rethink Downstreaming

- *Higher palm oil product complexity*
- *Leader in sustainable practices*
- *Enhance R&D for specialty products*

Reduce Distortion

- *Tailor incentives to right activities*
- *Align with NIAs* for quality investments*
- *Attain efficient allocation of resources*

* National Investment Aspirations (NIAs) refer to overarching strategic developmental objectives to increase economic complexity, create high-value jobs, extend domestic industry linkages, develop new and existing clusters and improve inclusivity.

Accelerating digitalisation and progress in transitioning to a green economy are vital to achieve sustainable growth in the post-pandemic future

Sustainable growth in the post-pandemic future



Accelerate digitalisation and innovation to catalyse innovation-led growth

- Strengthen **network infrastructure** for fast & reliable nationwide digital connectivity
- Enhance **digital government capabilities** via key enablers (e.g. *Digital ID, data sharing framework*)
- Accelerate **business digitalisation** to drive productivity & penetrate new markets
- Scale-up **high-growth digital or tech industries** to unlock new growth sources & attract high-value investments



Formulate and execute a coordinated national strategy for an orderly transition to a greener economy

- Establish **legislative framework** to set and ensure progress towards climate goals
- Encourage **funding structures and investments** in support of climate risk mitigation & adaptation
- **Public sector decarbonisation policy** to lead by example
- Introduce **disclosure and reporting requirements** with supporting data infrastructure

Social protection reform is vital as a safeguard against socioeconomic vulnerabilities

These reforms will build the necessary foundations to future-proof Malaysia's social protection system and facilitate in building human capital by ensuring access to better opportunities

Social Protection Reform

Gaps in Social Protection

Pillar 1: Social Safety Nets

- ▶ Small and overlapping programmes with weak targeting and verification capacity
- ▶ Minimal complementarities with ALMPs*

Proposed reforms:

- ❑ Consolidation of social safety net programmes with an enhanced targeting mechanism
- ❑ Ensuring more complementarities with ALMPs

Pillar 2: Social Insurance

- ▶ Inadequate pensions coverage and increasing fiscal burden of public pensions
- ▶ Lack of coverage for workers in the informal sector and the self-employed

Proposed reforms:

- ❑ Incentivising private retirement schemes
- ❑ Implementing a phased approach in addressing gaps in coverage for the self-employed & underemployed

Pillar 3: Active Labour Market Policies (ALMPs)*

- ▶ Fragmented policies resulting in low accessibility and lack of linkages with industry demand

Proposed reforms:

- ❑ Boosting synergy between Government, industry, and course providers
- ❑ Introducing training and upskilling conditionalities for other social protection pillars

Critically, these should be accompanied by multi-pillar reforms including:

- ▶ Creation of a **harmonised and centralised social protection database & a one-stop website** for registration, application, and eligibility checks for all social protection programmes
- ▶ Formulation of a **roadmap** for all social protection reforms



Bank Negara Malaysia: Financial position remained stable in 2020

Total Assets ▶ **RM488.04 bil**

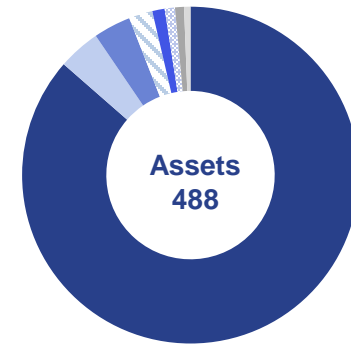
International Reserves ▶ **RM432.37 bil**
 USD107.6 bil

Net Profit ▶ **RM10.24 bil**

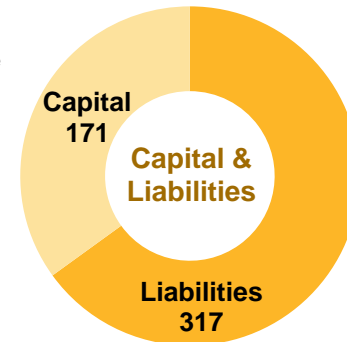
Dividend payable to the Government ▶ **RM4.0 bil**

Financial Position (as at 31 December 2020)

RM billion



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



Income and Expenditures (year ended 31 December 2020)

RM billion

Total Income
13.49

Net Profit
10.24

Recurring Expenditure
1.25

Development Expenditure
1.96

Taxation
0.04

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

Summary



Malaysian economy to rebound to 6.0 – 7.5% in 2021, driven by improvement in external demand, pick-up in investment and production activities, as well as policy support



Headline inflation to average higher due to cost factors while underlying inflation to remain subdued



Balance of risks remain tilted to the downside, mainly arising from the course of the COVID-19 pandemic



Financing to remain supportive of growth, with the financial institutions and markets well-placed to support financial intermediation



Longer term structural reforms are crucial to ensure sustainable and durable economic growth

End of Presentation

AR2020 • EMR2020 • FSR2H2020



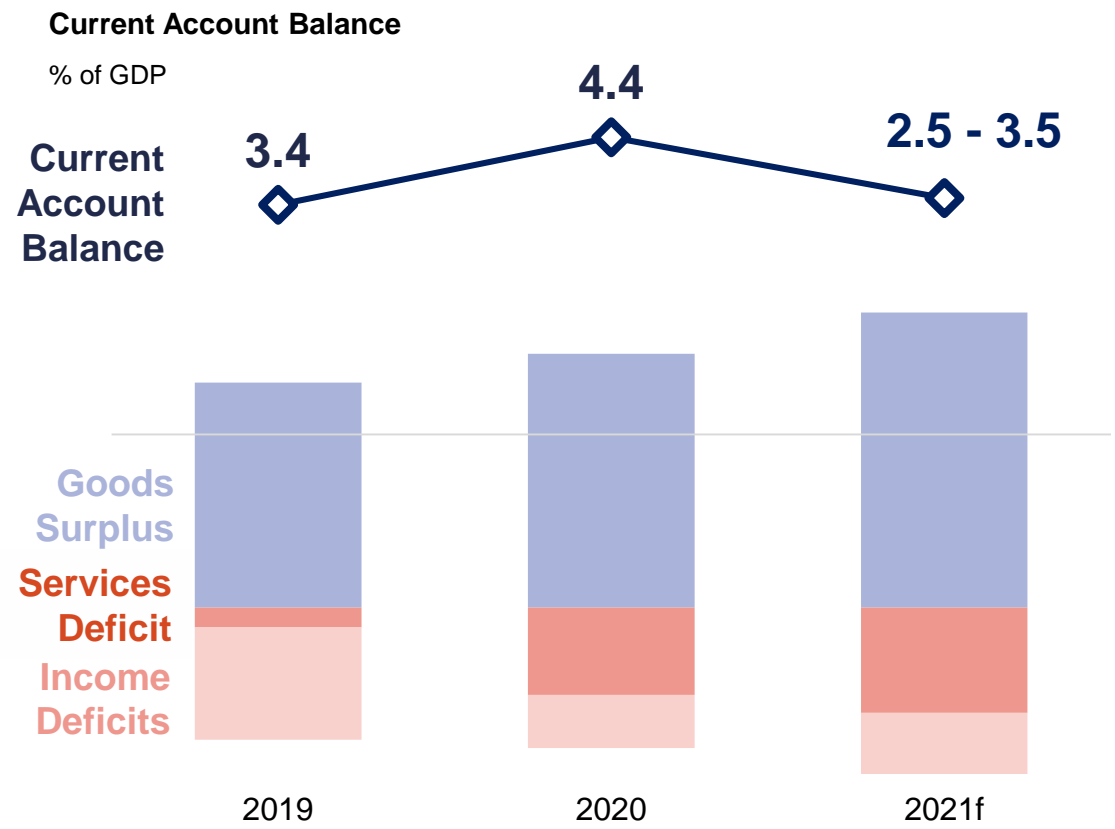
Additional Information

AR2020 • **EMR2020** • FSR2H2020



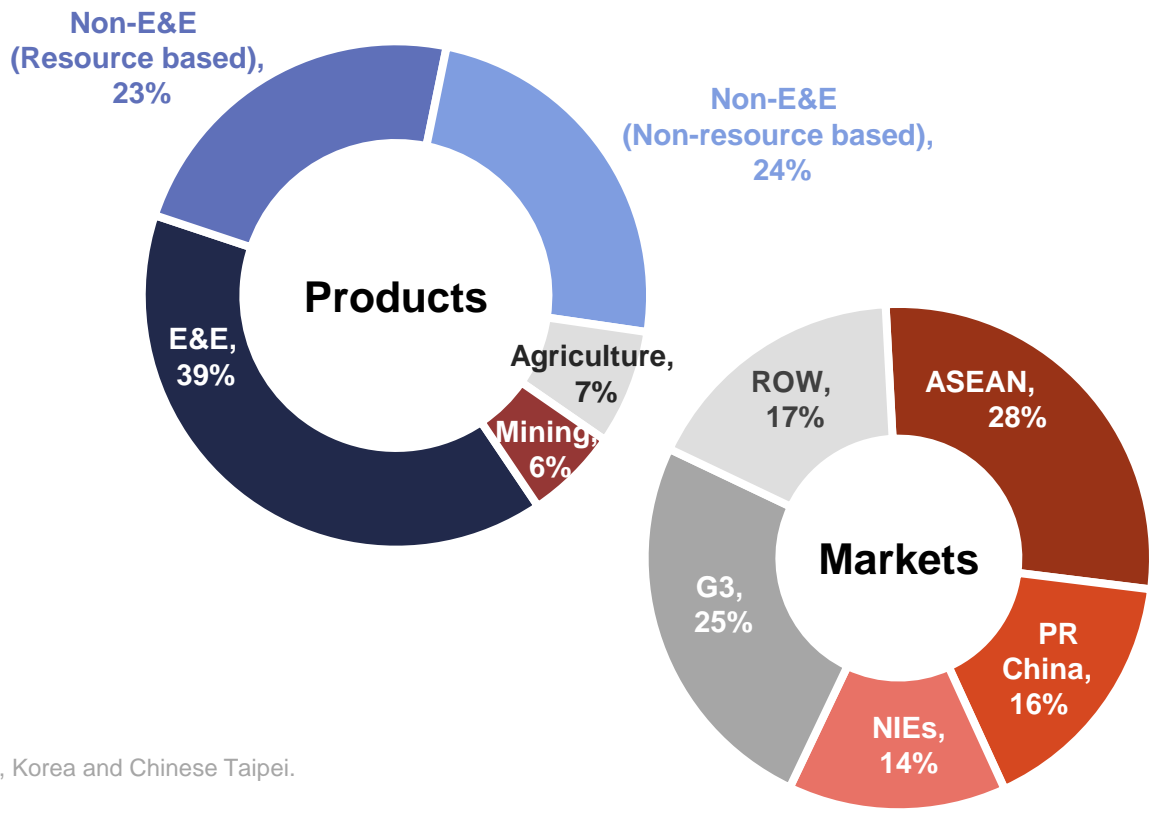
Current account to register a surplus of 2.5 – 3.5% of GDP in 2021

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



...supported by diversified export products and markets

Exports by Products and Markets (2020)
% 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

External debt remained manageable while Malaysia registered a positive net external asset position

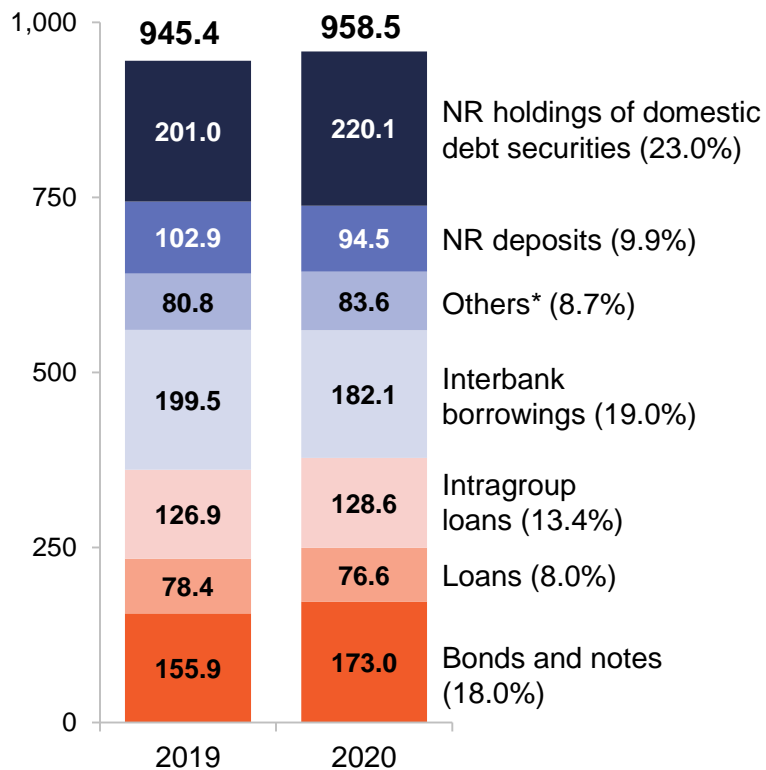
Higher external debt in 2020 due mainly to increase in NR holdings of domestic debt securities, and bonds & notes

Malaysia registered a positive net IIP position ...

... with continued sizable FCY-denominated net external assets

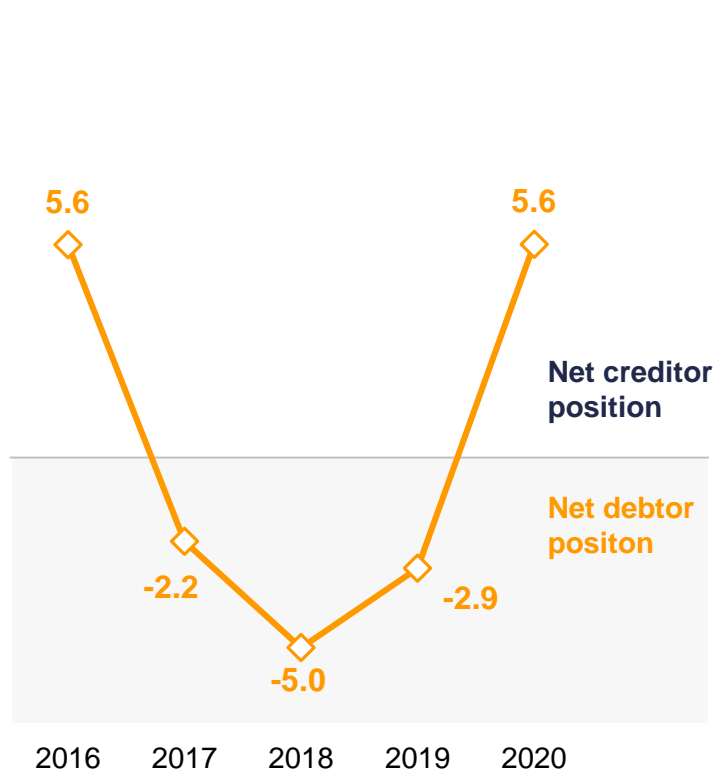
Outstanding External Debt

RM billion



Net International Investment Position

Share of GDP, %



External assets and liabilities by currency

RM billion



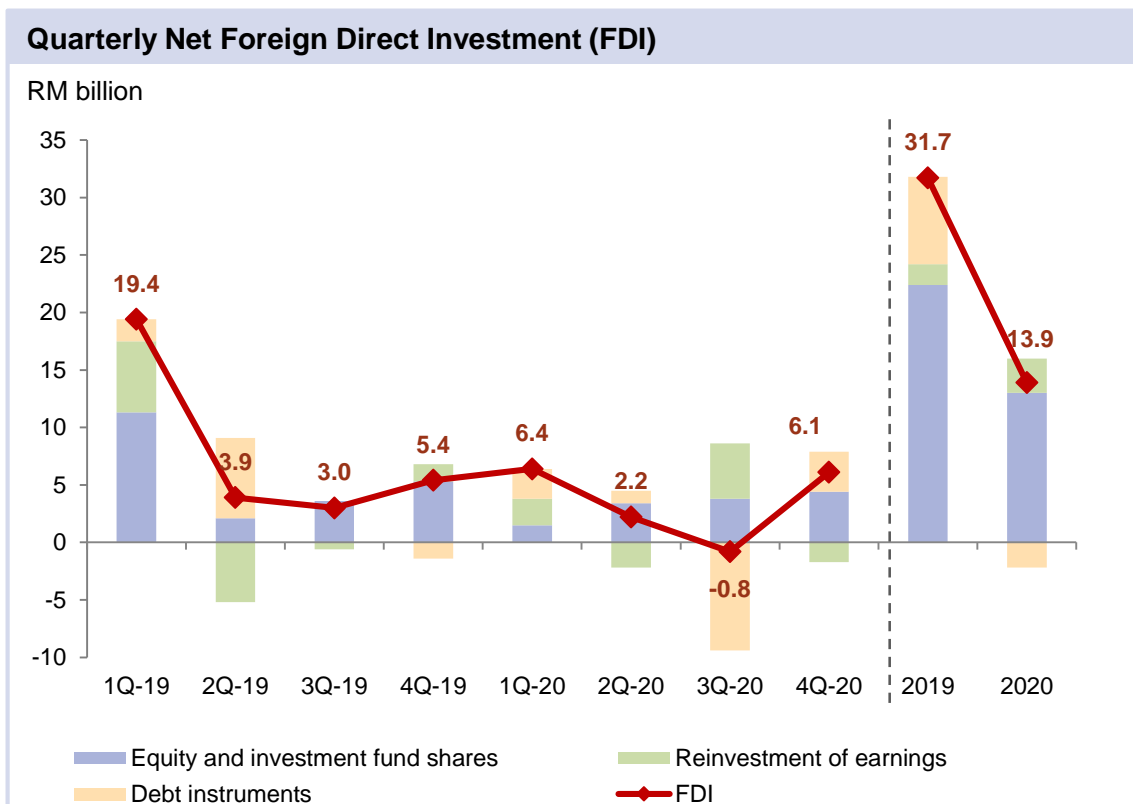
* Comprises trade credits, IMF allocation of SDRs and other debt liabilities

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

* Not subject to exchange rate fluctuations

FDI registered net inflows in 2020

FDI firms continued to inject new equity and reinvested higher earnings in Malaysia



Continued equity injections

RM13 billion in 2020 (2019: RM22.4 billion)



Higher reinvestment of profits

RM3 billion in 2020 (2019: RM1.8 billion)



Debt outflows due to intercompany loan extensions and scheduled debt repayments, reflecting MNCs' operations

RM-2.2 billion in 2020 (2019: RM7.6 billion)

Source: Department of Statistics, Malaysia and Bank Negara Malaysia



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

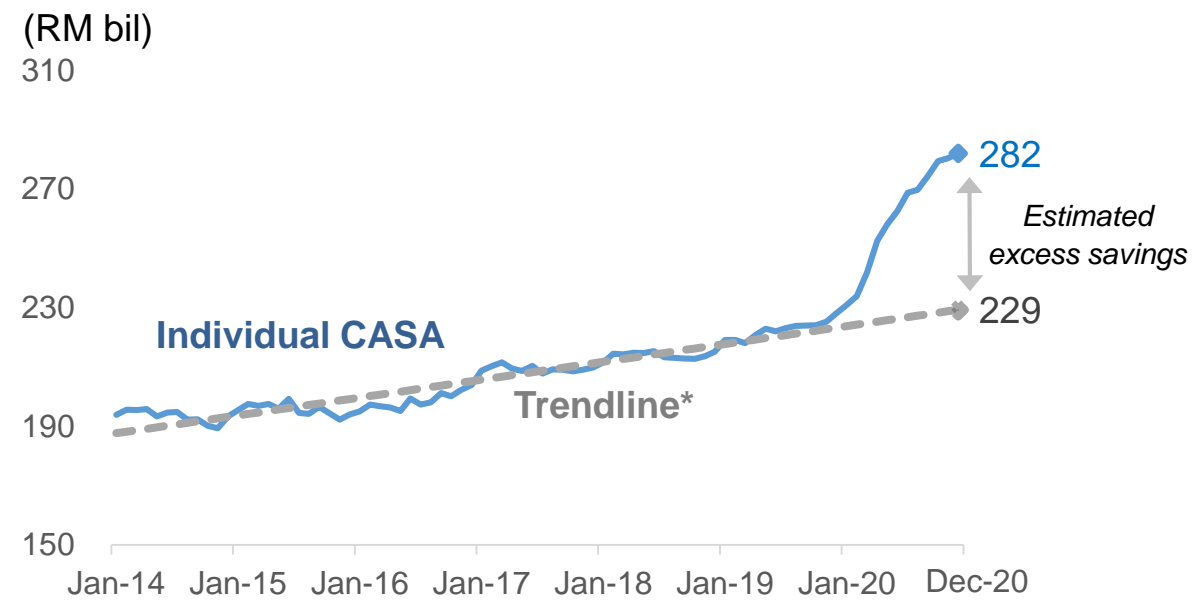
Large excess individual savings could present an upside risk to Malaysia's 2021 growth

Significant rise in savings in some advanced economies, which can potentially fuel pent-up demand in 2021

Similar trend was observed in Malaysia, with an estimated RM53bil of excess savings as at end-2020

- 1 **Vaccine Economics, Allianz Research (Dec 2020)**
"Unleashed excess savings could bring close to +1.0ppt of GDP growth in 2021 in Europe through additional consumer spending"
- 2 **JP Morgan (Jan 2021)**
"The household saving rate almost doubled last year to 12.9% (US). This could translate into a potential \$1.5 trillion supporting pent-up consumer demand as the pandemic subsides."
- 3 **Chief Economist, Bank of England (Dec 2020)**
"Huge pent-up demand will help economy bounce back. As people's incomes held up and spending was restrained, they have amassed around £100bil of excess savings. Once vaccines are given to people this spending should accelerate."

Malaysia: Total Stock of Individual Current and Savings Account (CASA) Balances

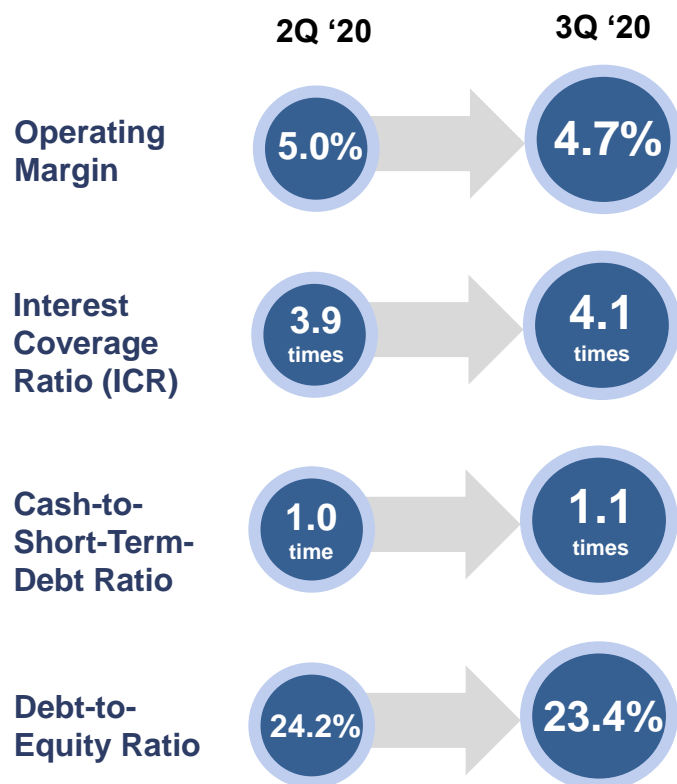


Upside risk: Pent-up demand could materialise as vaccination progresses, supported by large excess savings

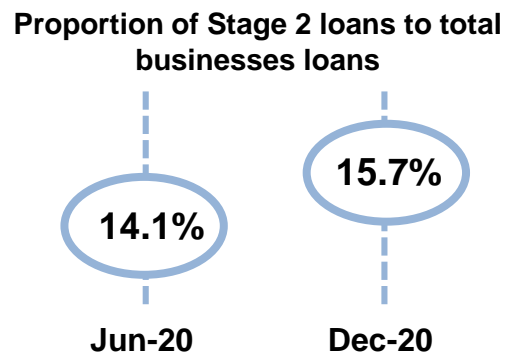
* Refers to the 7-year trend (2013-2019) of CASA
Source: Bank Negara Malaysia, various reports and newsflows

Credit risk outlook for selected sectors remains challenging given uneven recovery while support remains available to help viable businesses

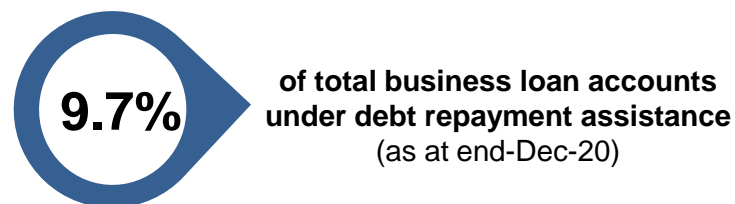
Debt servicing capacity of businesses preserved despite weaker earnings performance



Rising Stage 2 loans¹ reflect banks' cautious credit risk outlook....



....with repayment assistance extended to many businesses in sectors highly affected by COVID-19



Support remains available for firms that continue to be affected by the pandemic

- 1 Access of bank financing remains uninterrupted
- 2 Government support measures under Budget 2021, PERMAI and PEMERKASA package
- 3 Continued availability of BNM Funds
 - PENJANA Tourism Financing
 - Targeted Relief and Recovery Facility
 - High Tech Facility – National Investment Aspirations
 - SME Automation and Digitalisation Facility
- 4 Credit guarantee schemes offered by Danajamin, CGC and SJPP
- 5 Debt resolution mechanisms for viable businesses via CDRC and SDRS²

¹ Stage 2 loans under the Malaysian Financial Reporting Standards 9

² Corporate Debt Restructuring Committee (CDRC) and Small Debt Resolution Scheme (SDRS) established by BNM

Source: Bank Negara Malaysia, S&P Capital IQ



Risks from household sector remains manageable, with certain segments requiring continued vigilance

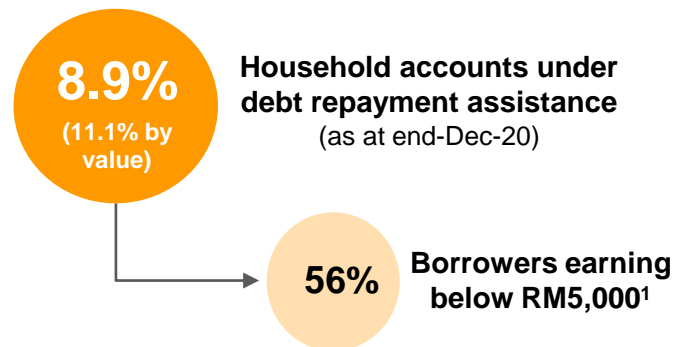
Household debt levels remain elevated...

Household debt-to-GDP ratio



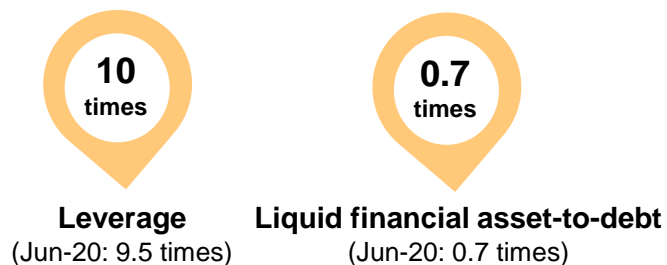
...but overall risks to financial stability largely contained

Certain segments of society were more affected by pandemic.....



.....with highly-leveraged low income group particularly vulnerable

Borrowers Earning <RM3,000 per Month



Various measures are available to support households in need of financial relief



Government support measures including direct cash transfers, EPF withdrawals and reduction in employees' EPF contributions



Targeted loan moratorium and other repayment assistance, including AKPK

Financial asset-to-debt 2.2 times (Jun '20: 2.2 times)

Liquid financial asset-to-debt 1.5 times (Jun '20: 1.4 times)

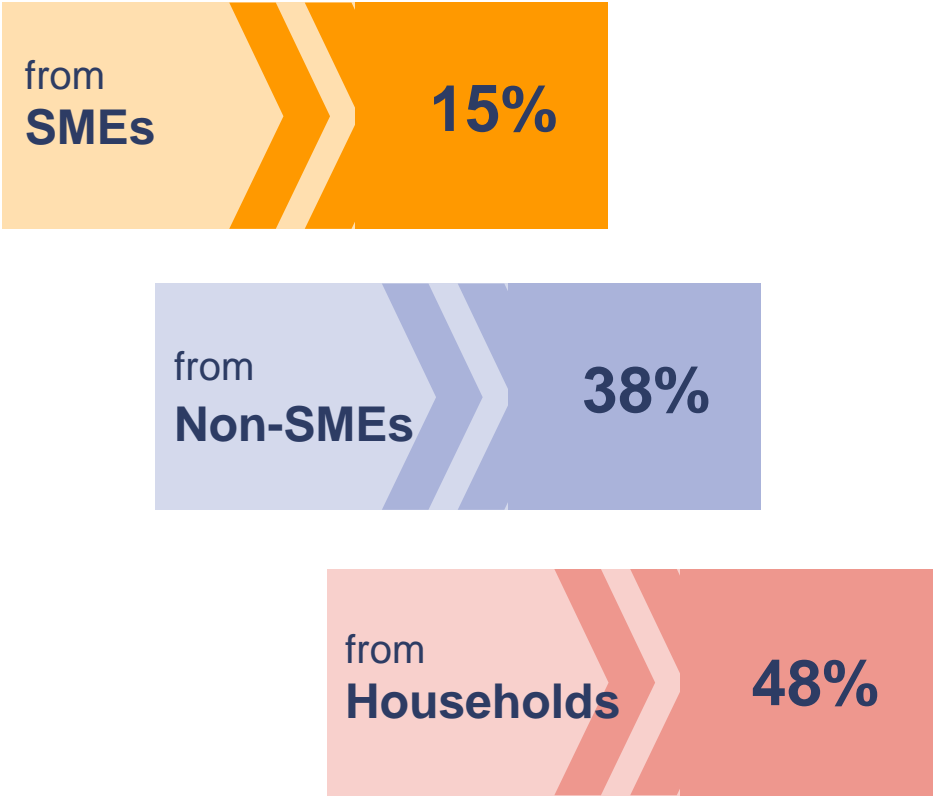
Debt service ratio (DSR) Outstanding loans: 35% Newly-approved loans: 43%

¹ At the aggregate level, borrowers earning below RM5,000 per month account for 37.9% of total household debt as at end-Dec-20.

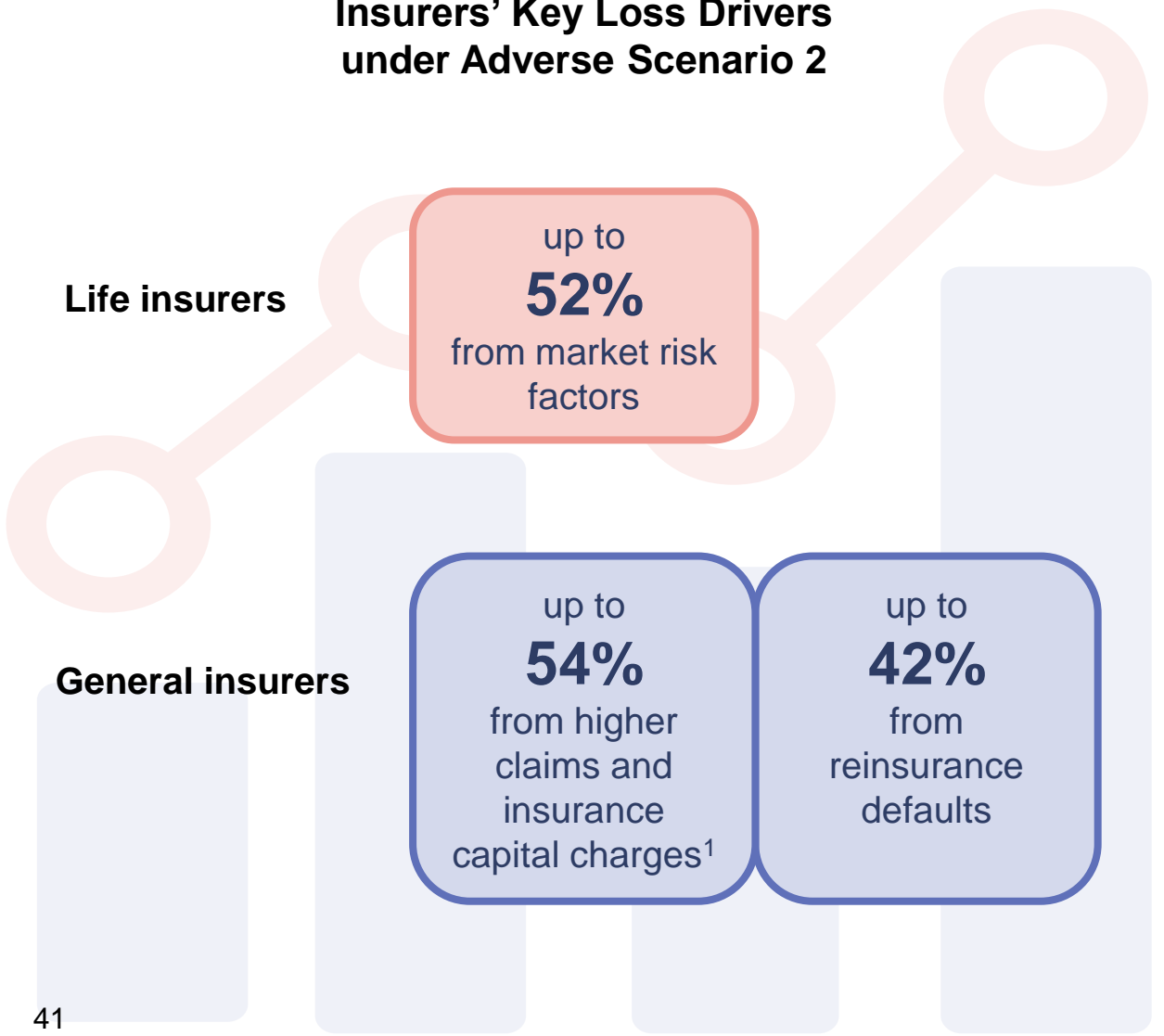
Source: Bank Negara Malaysia

Macro-Stress Tests: Higher credit costs were main drivers to banks' losses, while market risk, reinsurance defaults and higher claims drove insurers' losses

Banks' Credit Loss Drivers under Adverse Scenario 2



Insurers' Key Loss Drivers under Adverse Scenario 2



¹ Largely driven by an increase in claims liability due to assumed higher claims ratio.
Source: Bank Negara Malaysia

Box article: Asset Purchases by Central Banks

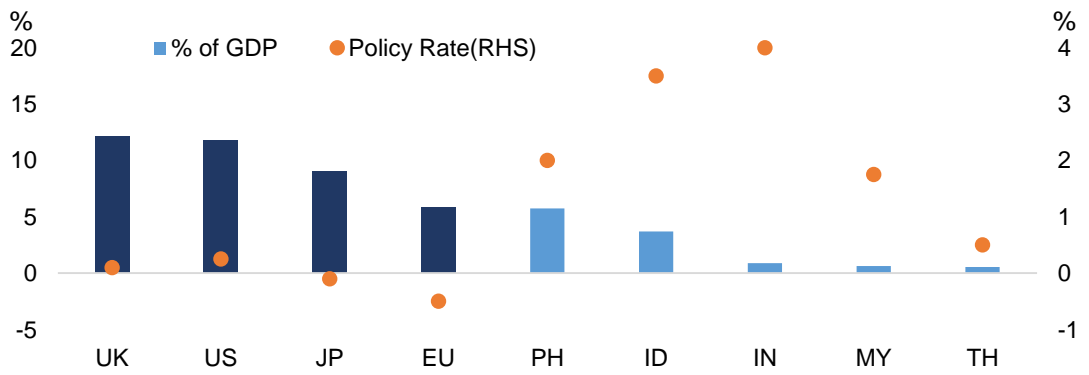
Distinct objectives of asset purchase by central banks in Advanced Economies and Emerging Market Economies

Advanced Economies (AE)
 Aims to provide further **monetary accomodation** as their central banks' monetary **policy rates are near effective lower bound.**

Emerging Market Economies (EME)
 Primarily to **address market dislocation, excessive volatility and illiquidity** in domestic financial market. Some central banks stepped in to moderate **the financing needs** by respective governments

EME asset purchase size are relatively smaller in comparison to AE and there remains space in conventional monetary policy

Asset Purchase Size and Respective Policy Rates



Source: IMF Global Financial Stability Report October 2020, Bloomberg, Bank Negara Malaysia

While asset purchases is a legitimate policy option, its utilisation requires careful consideration of potential long term adverse impacts

- 1 **Negative impact on central banks credibility and independence** with the perception of monetary financing and potential fiscal dominance
- 2 Large balance sheet exposes the central bank to market risk, which **could place the capital of the central bank at risk** and possibly undermine its credibility
- 3 **Hindering effective price discovery** in the domestic financial markets

BNM purchases government bonds primarily to manage banking system liquidity and build inventory for repo operations

BNM and Non-resident government bond holdings

