

AMRO Annual Consultation Report on Malaysia - 2020

Supportive policies and sound fundamentals for a strong recovery

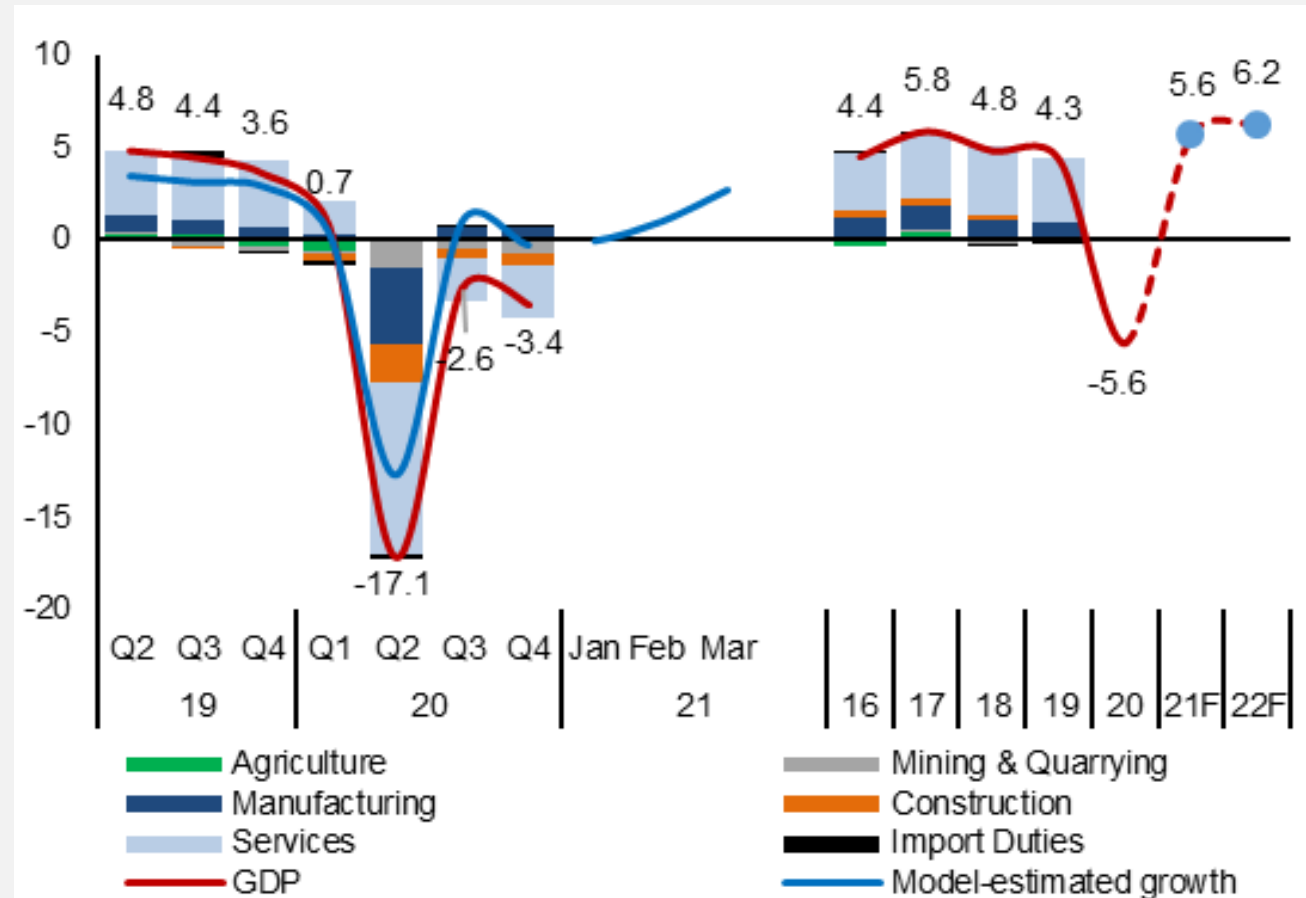
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Media Briefing
May 4, 2021



Malaysia is poised to rebound strongly in 2021-22

Real GDP Growth—Actual, Nowcast, Forecast
(Percent year-over-year)



Source: Department of Statistics Malaysia, AMRO staff estimates and projections.

Recovery could be uneven and uncertain

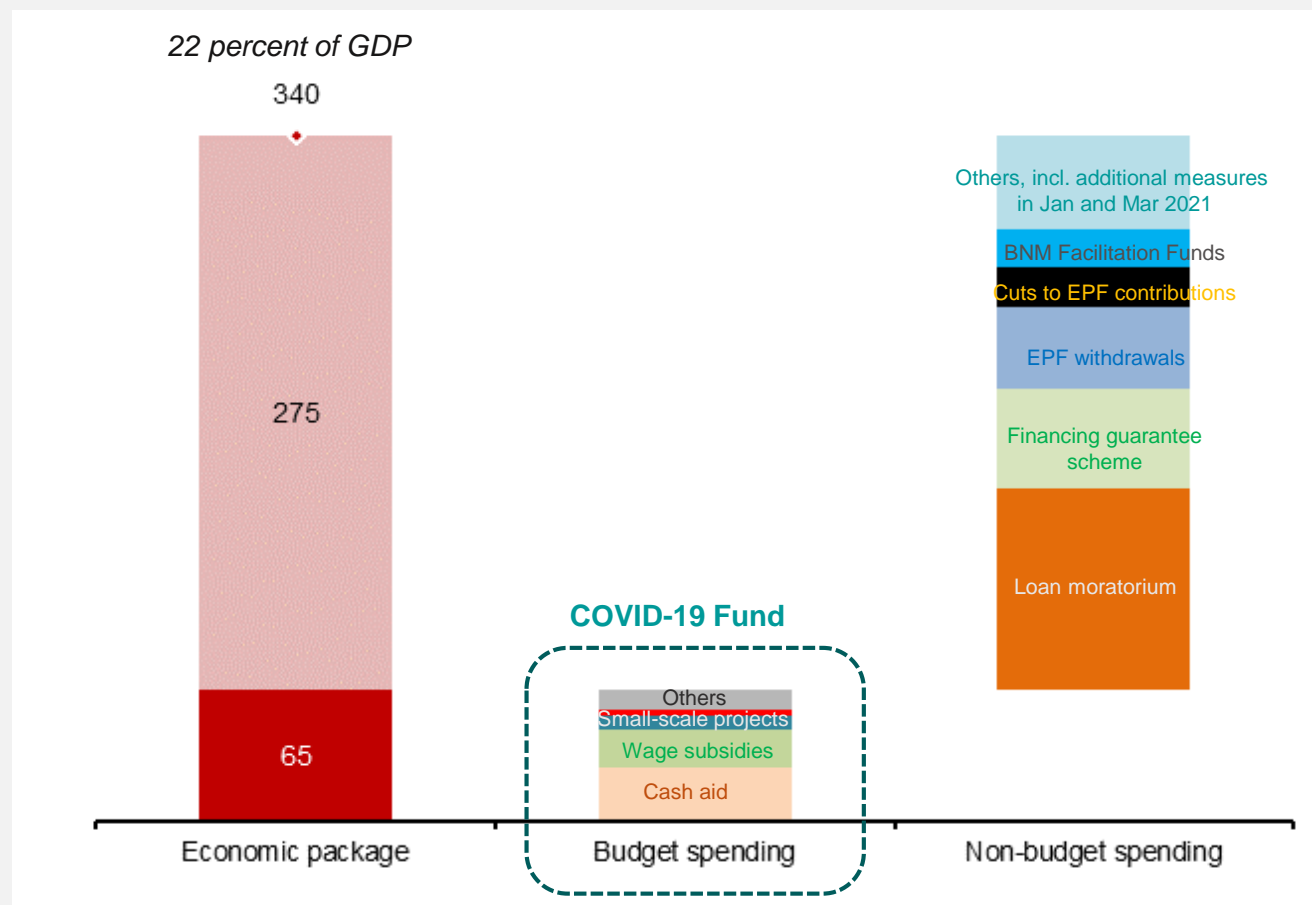
Employment Growth and Unemployment Rate
(Percent)



Sources: Department of Statistics Malaysia.

Swift and sizeable economic policies remain crucial

Malaysia: Composition of Economic Stimulus
(MYR billion)

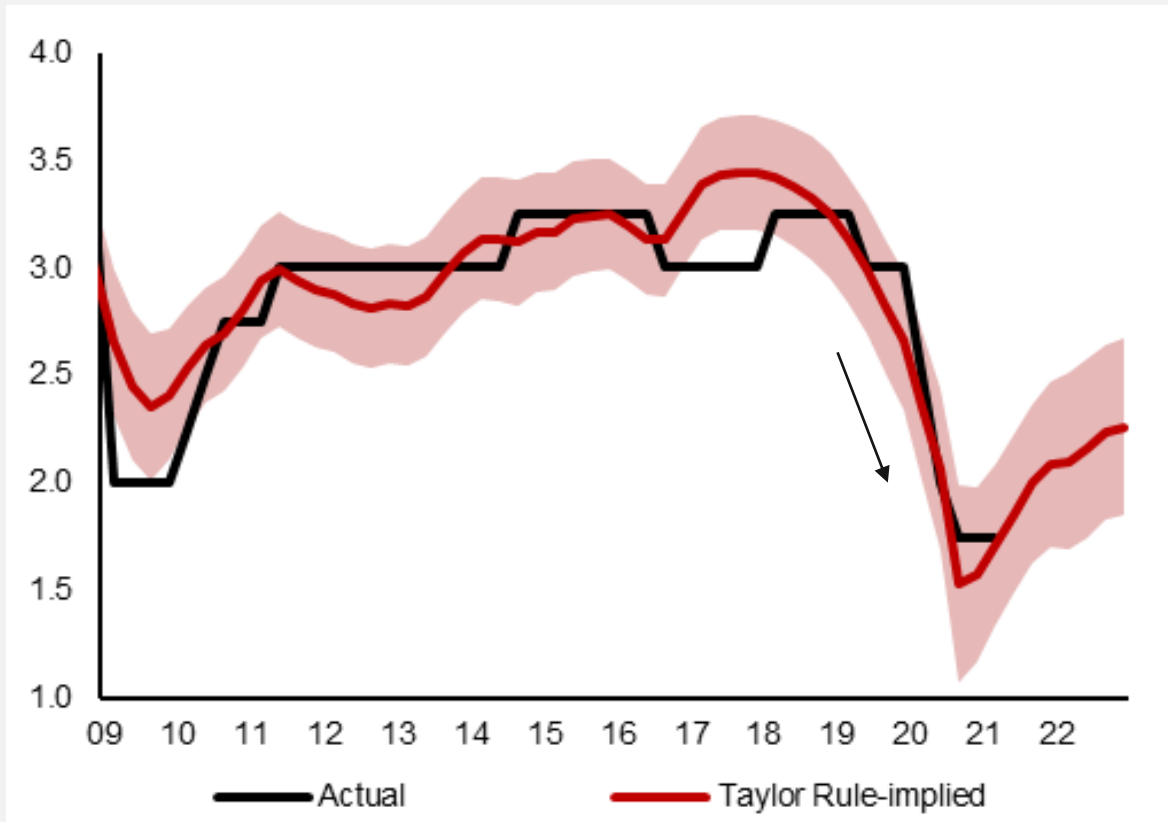


Sources: MOF, AMRO staff estimates.

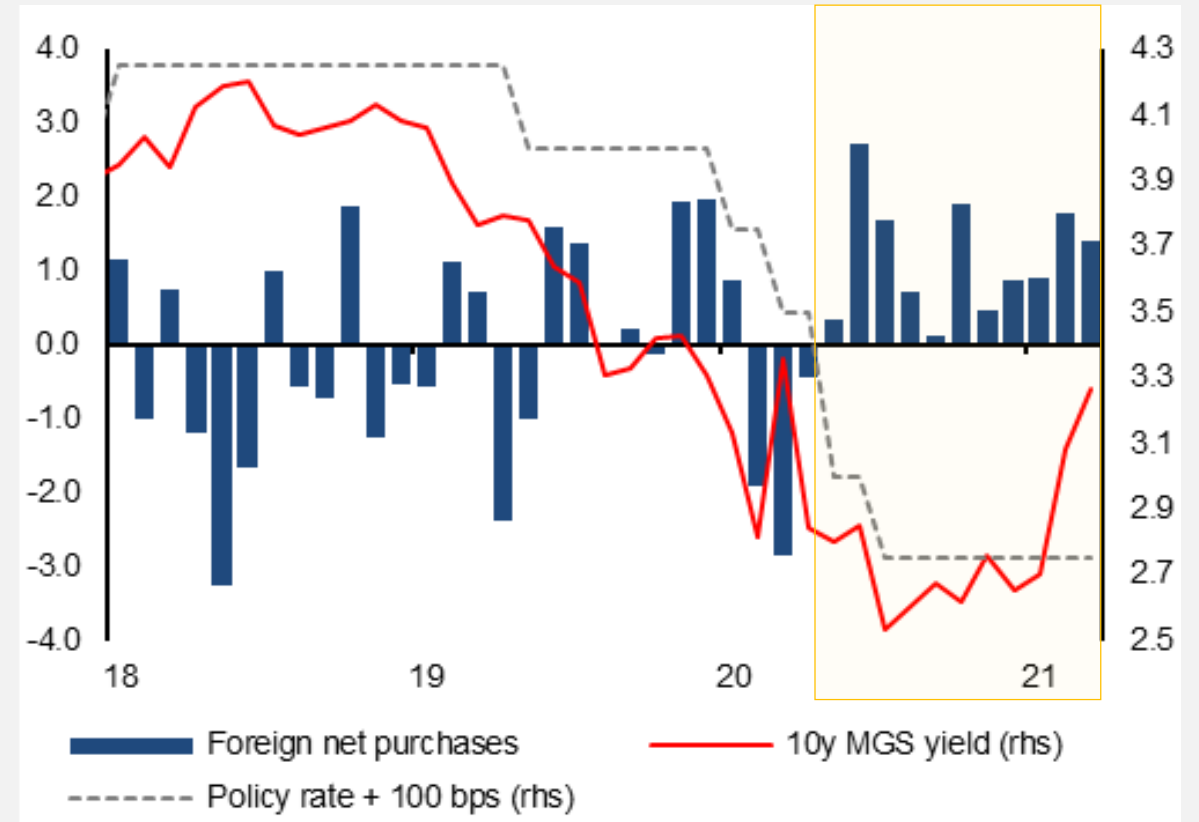
Note: COVID-19 Fund is a temporary fund that spans three years until end-2022.

Easier monetary conditions provide added support to economy and financial markets

Monetary Policy Rate—Actual and Model-implied
(Percent)



10-year Sovereign Bond Yield and Foreign Investor Flows to Bond Market
(USD billion; Percent)

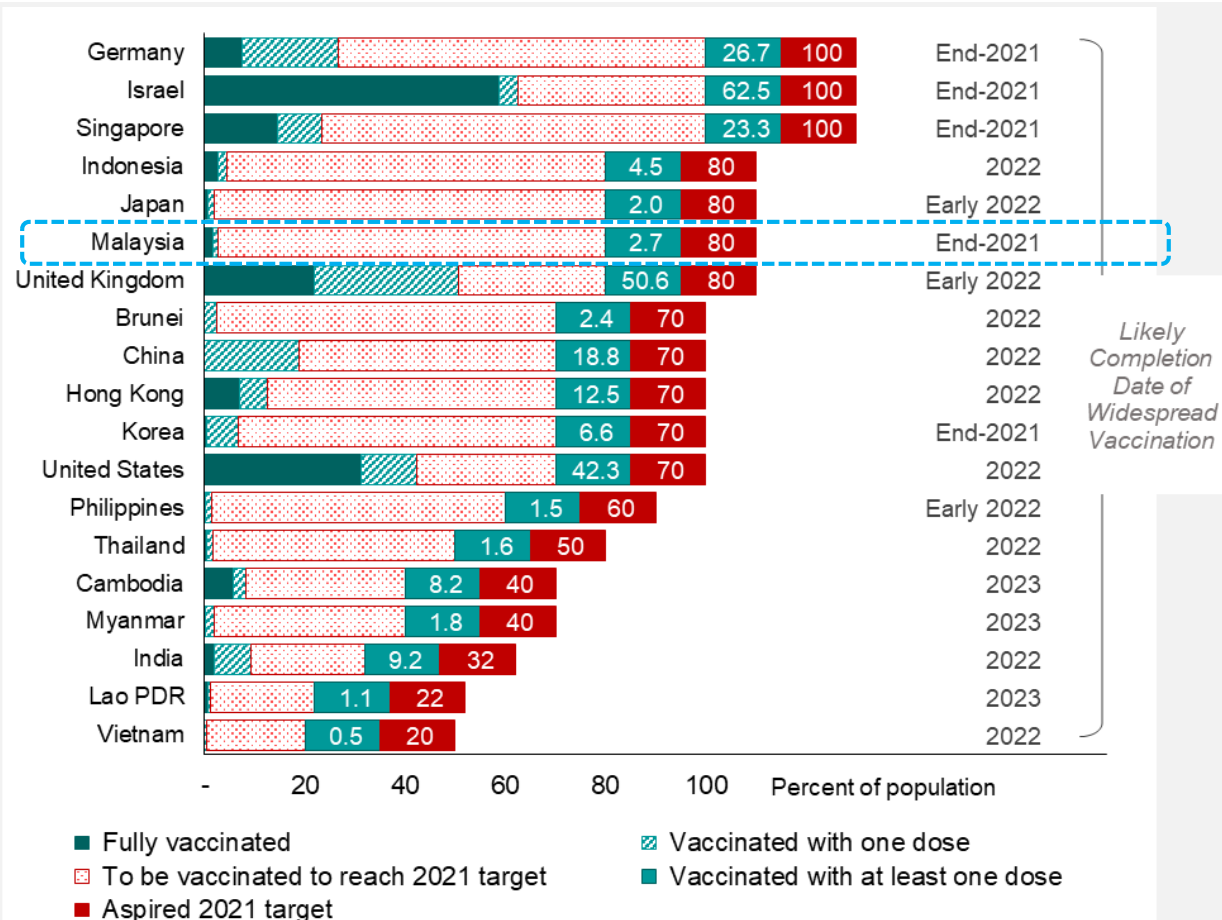


Sources: Bank Negara Malaysia, Department of Statistics Malaysia, and AMRO staff estimates.
Note: Taylor Rule Model-implied policy rate is dependent on the output gap, inflation against a linear trend, and the US Treasury yield.
Bands are +/-1 standard error.

Sources: Bank Negara Malaysia, Department of Statistics Malaysia.
Note: MGS=Malaysian Government Securities. 100 basis points is the perceived historical differential between the 10-year MGS and policy rate, according to conversation with fixed income traders.

So are continued vigilance and the speedy roll-out of vaccines

ASEAN+3: Vaccinations versus Aspired Population Coverage
(Percent of population)

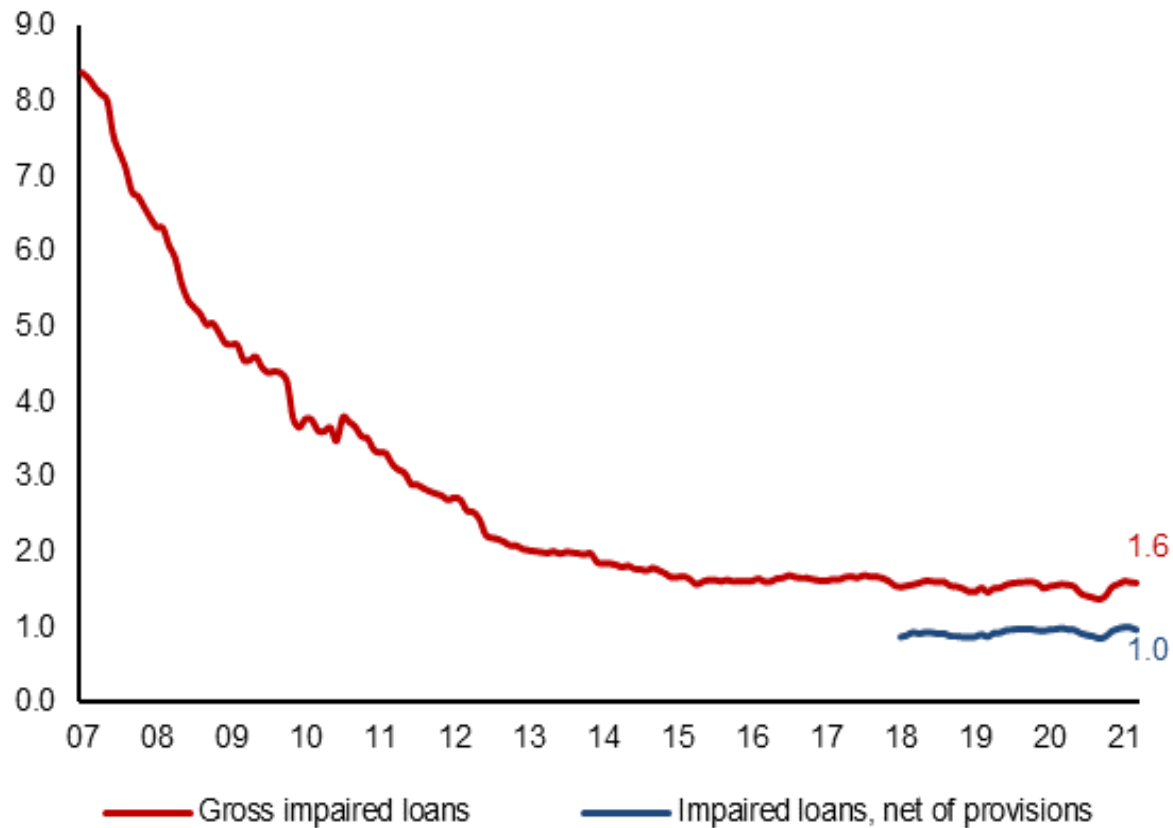


Sources: Our World in Data via Haver Analytics; various media sources; Economist Intelligence Unit; and AMRO staff estimates and calculations.

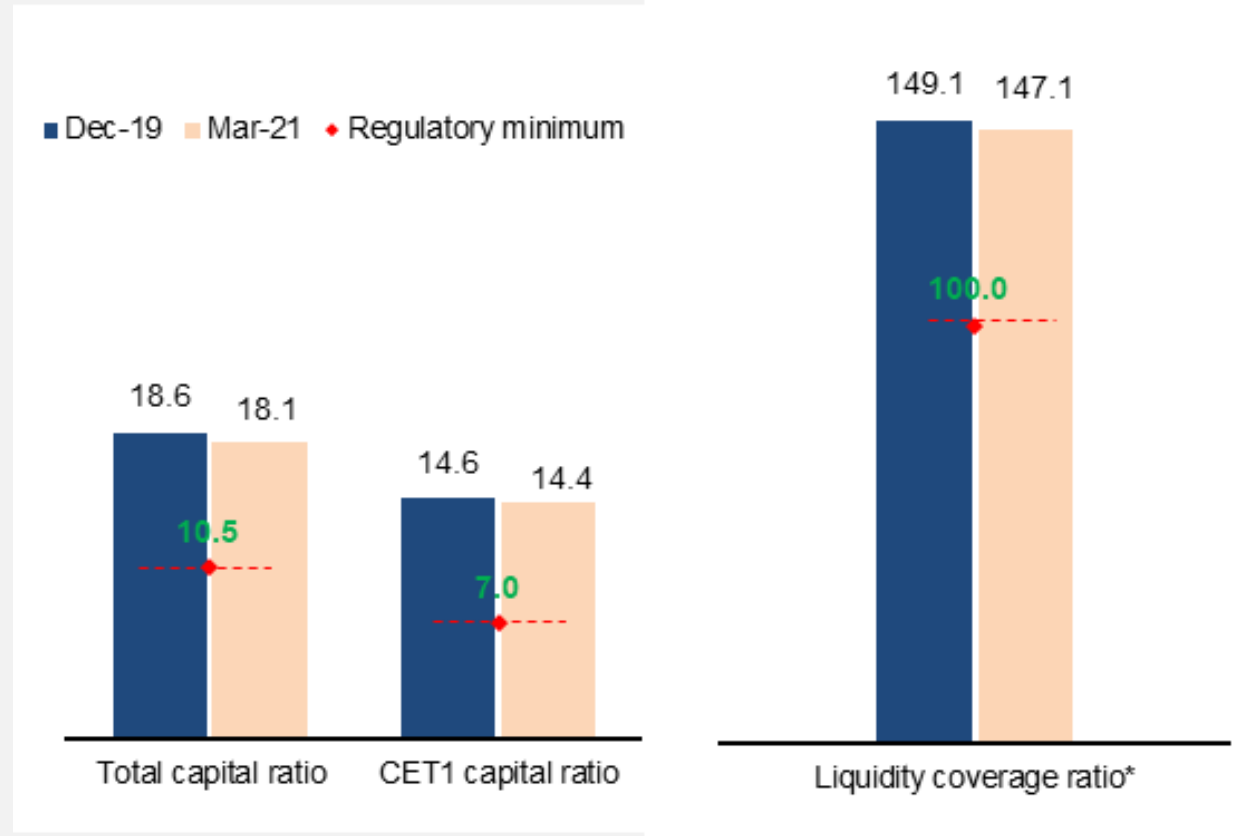
Note: Percent of population vaccinated with one dose refers to the difference between total administered doses divided by two to reflect the two-dose regime of most vaccines and the proportion of population that is fully vaccinated. Aspired 2021 targets and completion dates of widespread vaccination are goals, forecasts, or estimates. Data until May 2, 2021.

Well-buffered banks boost positive growth prospects

Loan Impairments—Gross and Net of Provisions
(Percent of Gross or Net Total Loans)



Capital and Liquidity Buffers
(Percent)

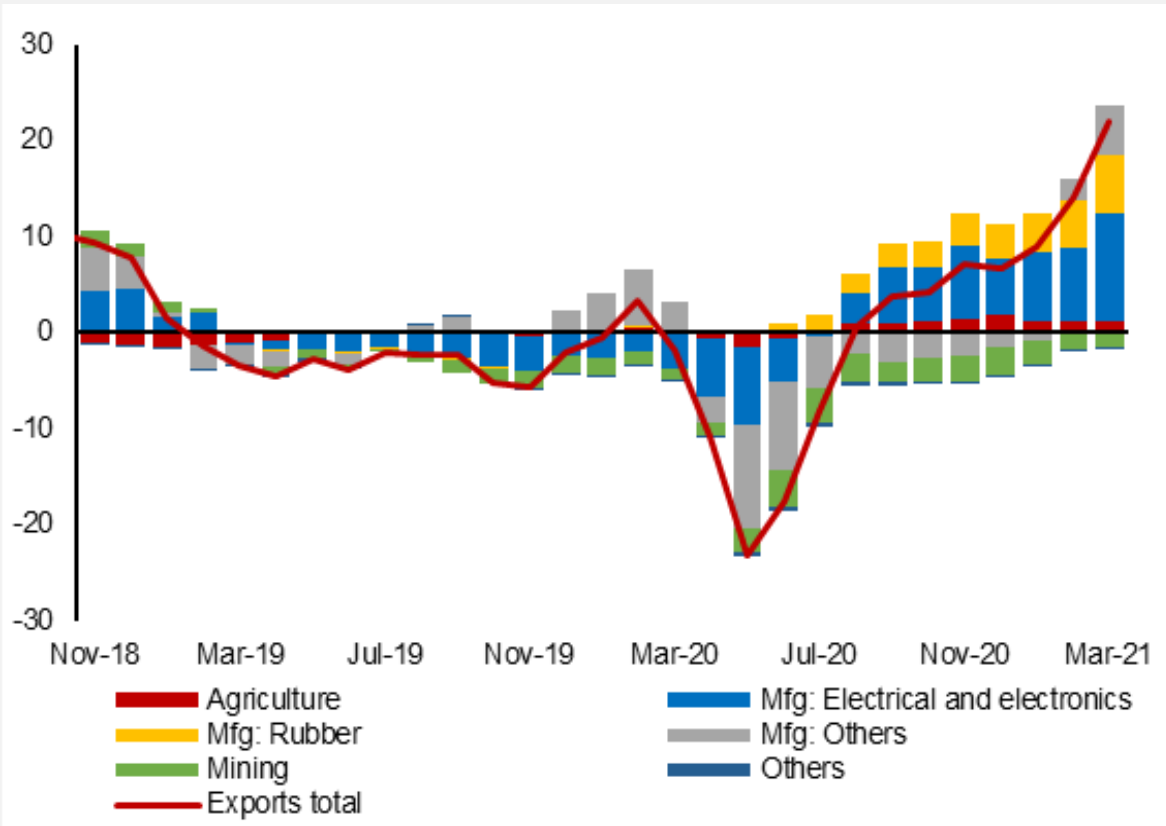


Source: Bank Negara Malaysia.

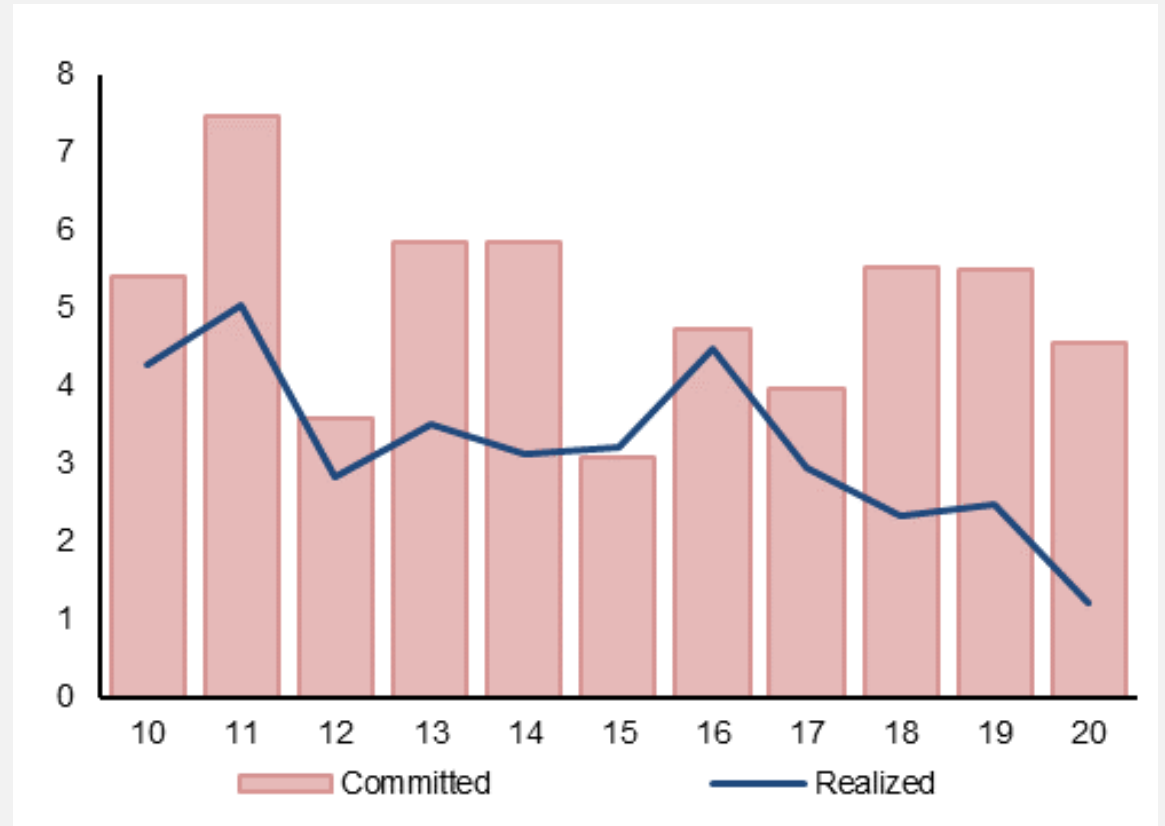
Sources: Bank Negara Malaysia.
Note: *Refers to latest data as of February 2021. The regulatory minima for the capital ratios include the capital conservation buffer of 2.5 percent.

Global recovery could bolster Malaysia's exports and foreign direct investments

Malaysia: Merchandise Exports by Sector
(Percent Year-on-Year, 3mma)



Foreign Direct Investment (FDI)—Committed and Realized
(Percent of GDP)



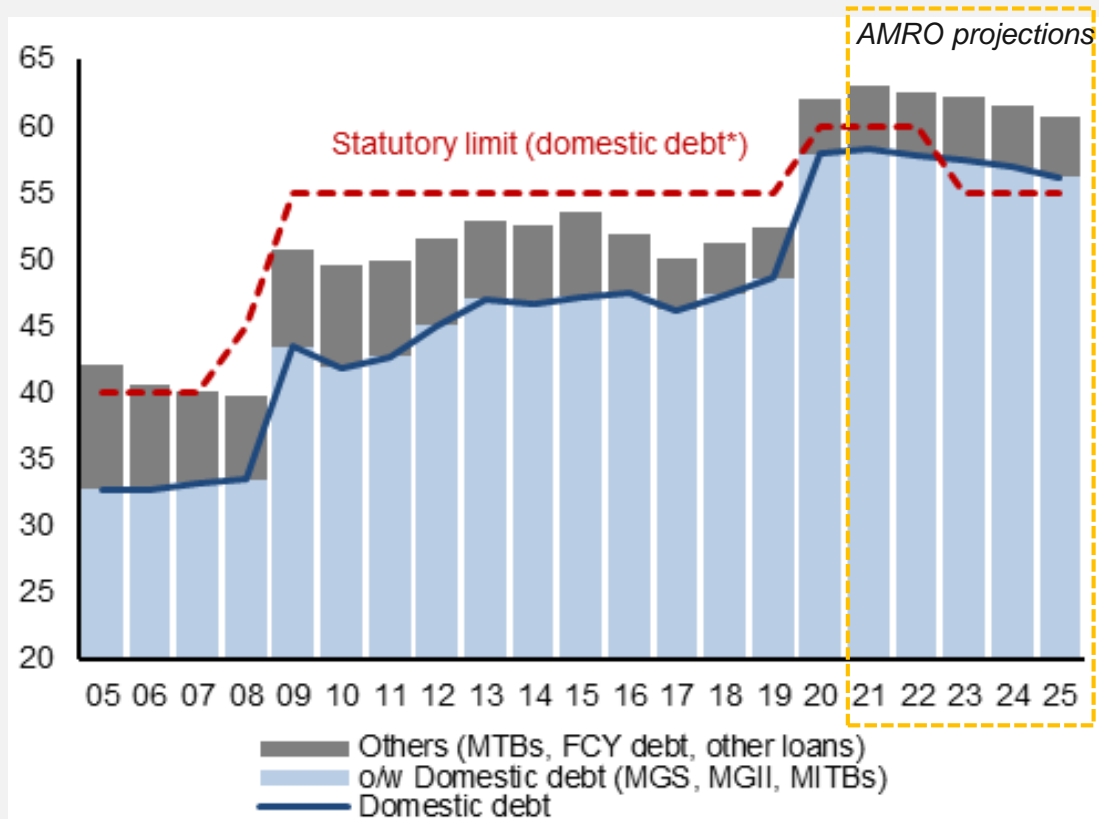
Sources: Bank Negara Malaysia, Department of Statistics Malaysia.

Note: Official merchandise exports statistics, which are reported in local currency, have been converted in USD using the monthly average of the MYR/USD rate.

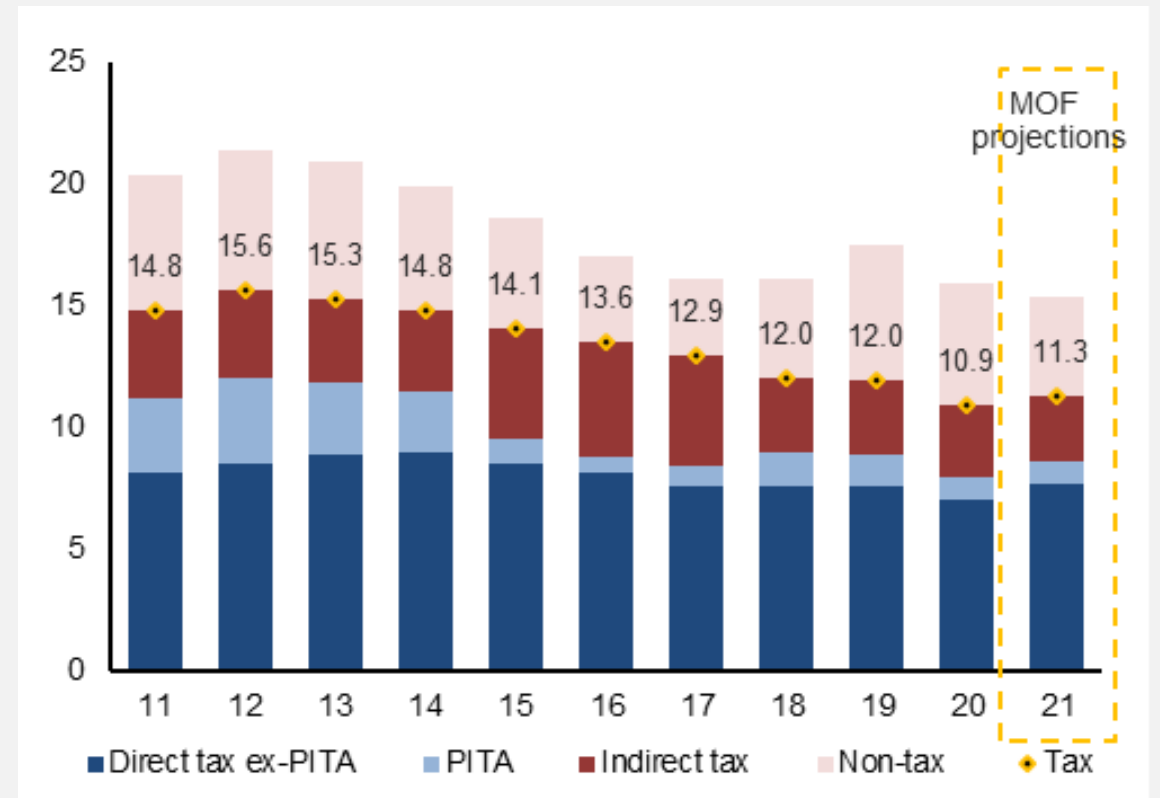
Sources: Bank Negara Malaysia, Department of Statistics Malaysia, Malaysia Investment Development Authority.

A need to restore fiscal buffers

Federal Government Debt
(Percent of GDP)



Composition of Fiscal Revenue
(Percent of GDP)



Sources: Department of Statistics Malaysia, AMRO staff estimates.

Notes: Projections derived from debt sustainability analysis; MTB = Malaysian Treasury Bills; FCY = foreign currency; MGS = Malaysian Government Securities (or conventional bonds); MGII = Malaysian Government Investment Issues (or Islamic bonds); and MITBs = Malaysian Islamic Treasury Bills.

Sources: Department of Statistics Malaysia, Ministry of Finance.

Notes: PITA = Petroleum Income Tax Account. GST = goods and services tax,

Summary

- Malaysia is poised to rebound strongly in 2021-2022, on the back of supportive domestic policies and sound macro fundamentals. Recovery, however, could be uneven.
- Swift and sizeable economic policies as well as easy monetary conditions have been crucial in supporting the economy. These should continue together with sustained vigilance against a resurgence of infections and the speedy roll-out of COVID-19 vaccines.
- Banks are in a strong position to withstand increased credit risks. Relief measures have moderated the build-up of non-performing loans.
- Ongoing roll-out of COVID-19 vaccines globally bodes well for a broader pick-up of Malaysia's exports and rebound in FDI.
- With a larger government debt, there is a need to strengthen fiscal buffers once the recovery is firmly on track. The revenue base can be broadened significantly by re-introducing the GST, among other revenue and spending measures.

Thank you



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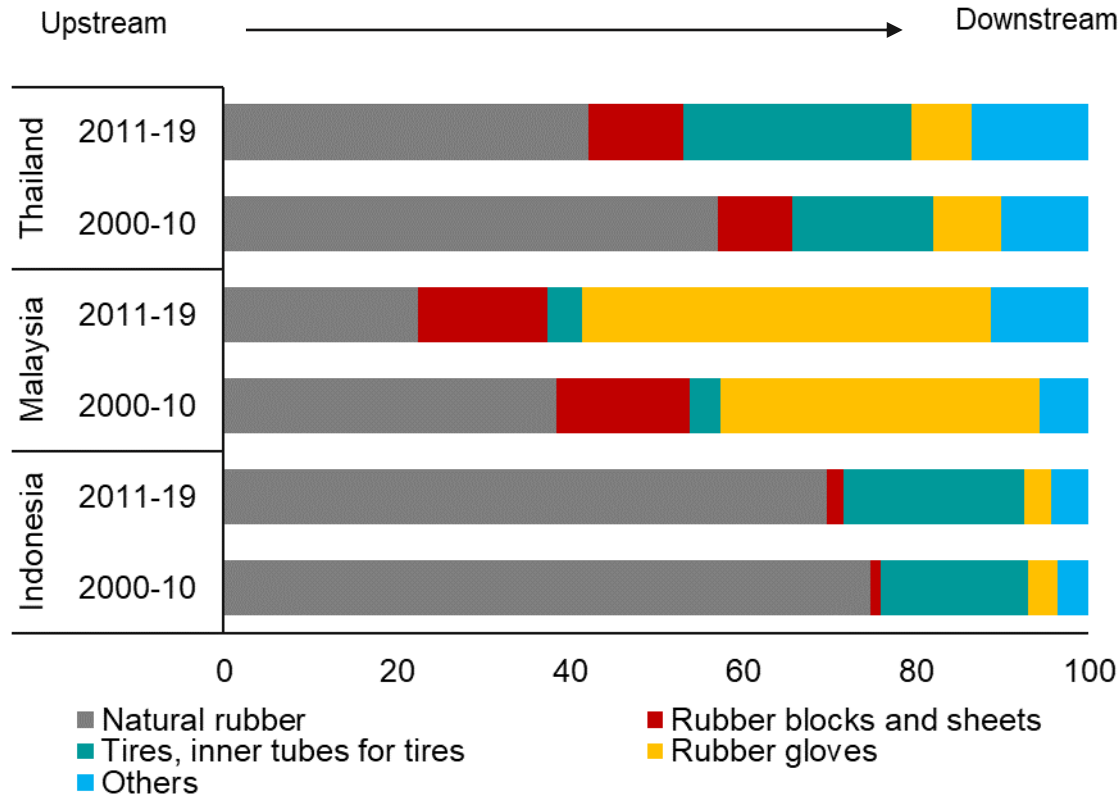
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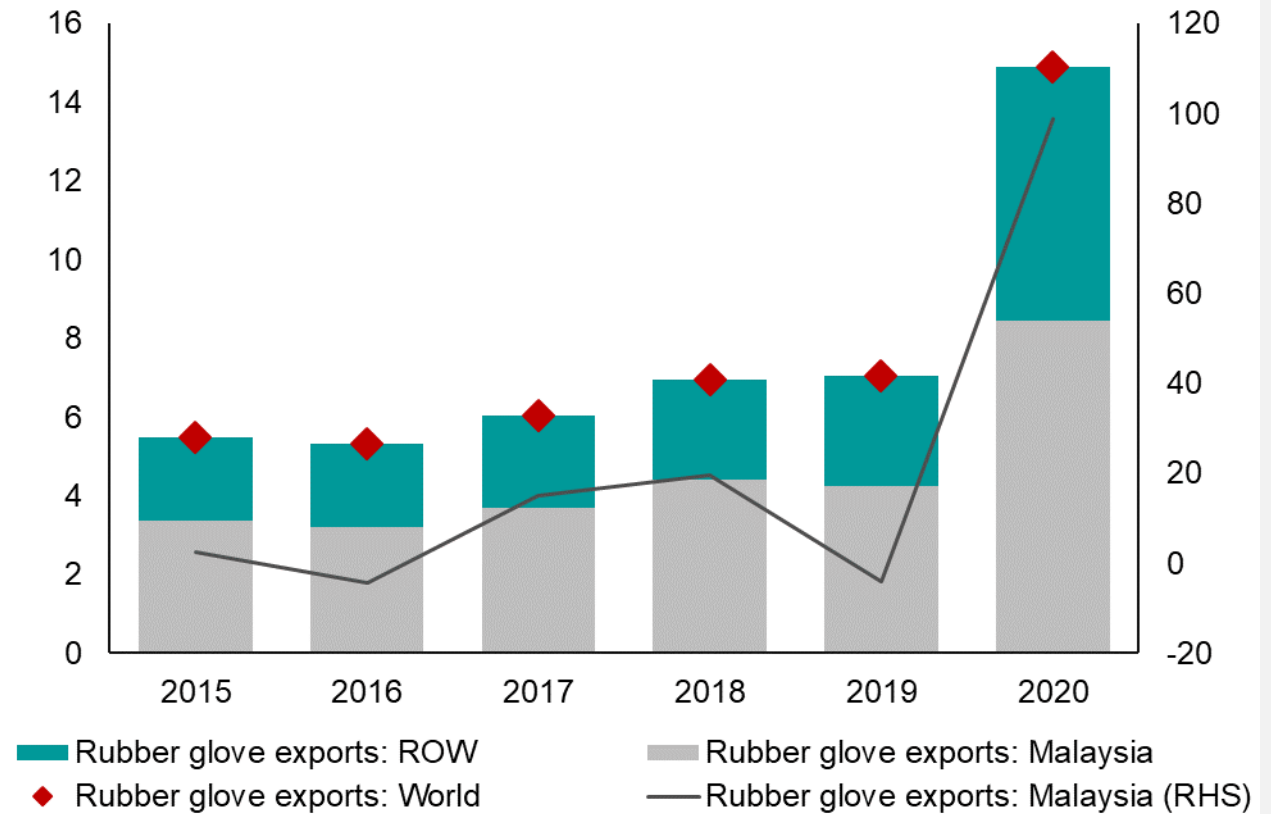
Appendix

Box A. Outperformers in the Pandemic: Malaysian Glove Makers

Rubber Export Structure: Selected ASEAN
(Percent of Total Exports in USD Terms)



Rubber Glove Exports
(Billions of U.S. Dollar; Percent Year-on-Year)

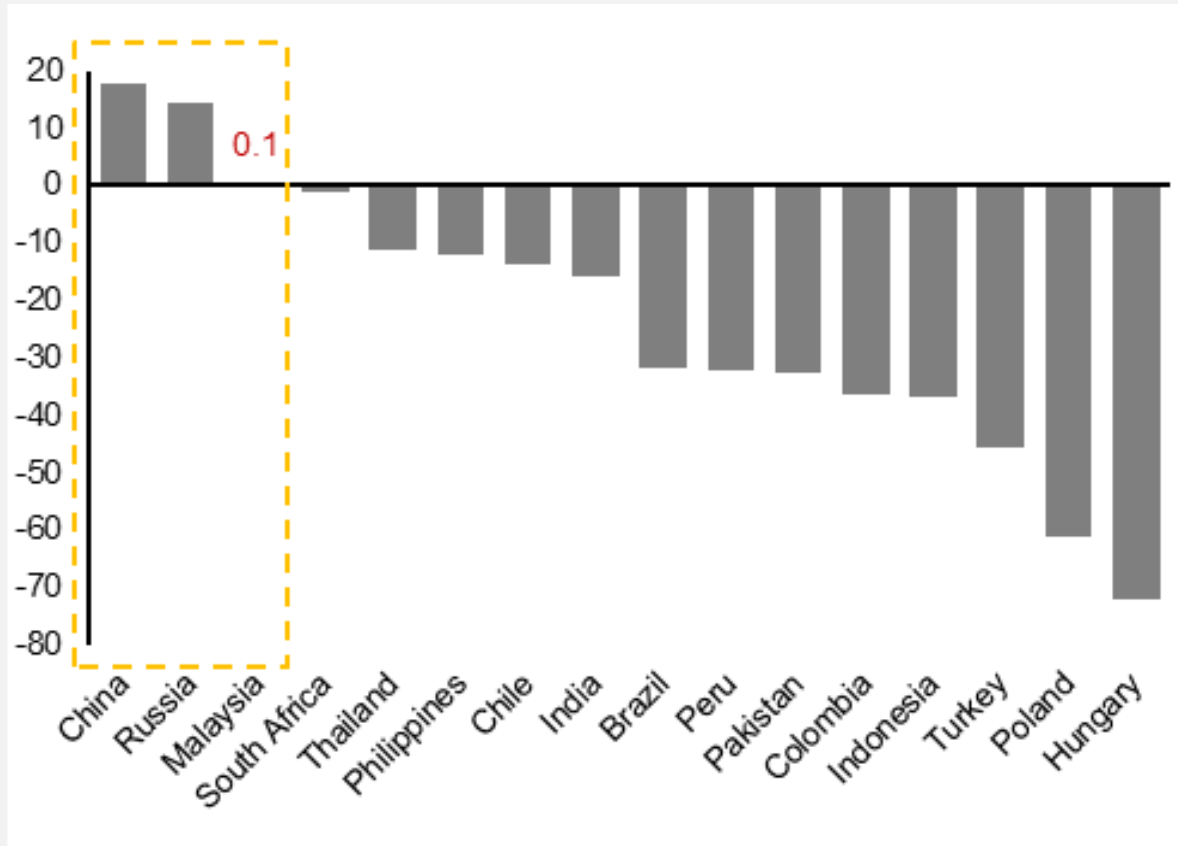


Sources: Global Trade Atlas Database, AMRO Staff Calculations.
 Note: Data are period averages.

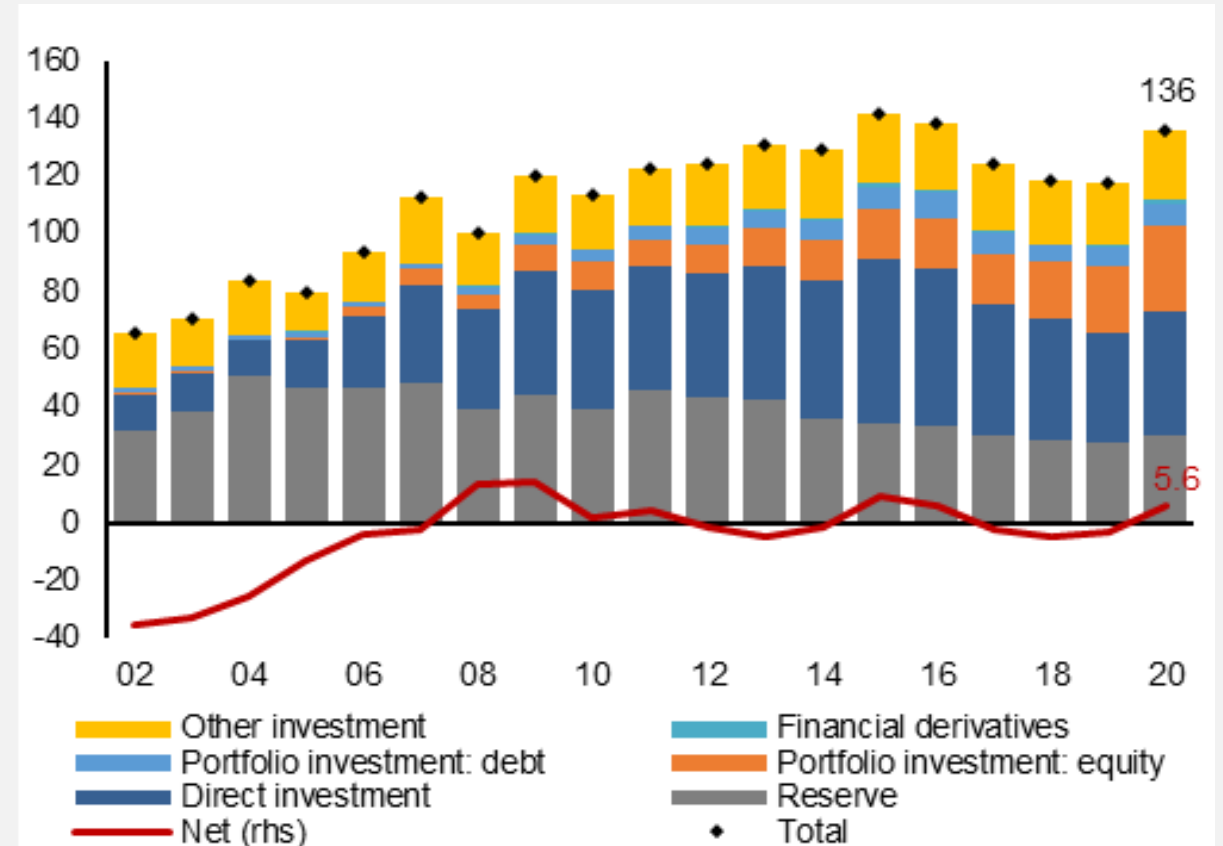
Sources: Global Trade Atlas Database, AMRO Staff Calculations.

Box B. BNM's International Reserves and other External Assets

Net International Investment Position across EMEs
(Percent of GDP)



External Assets by Component
(Percent of GDP)



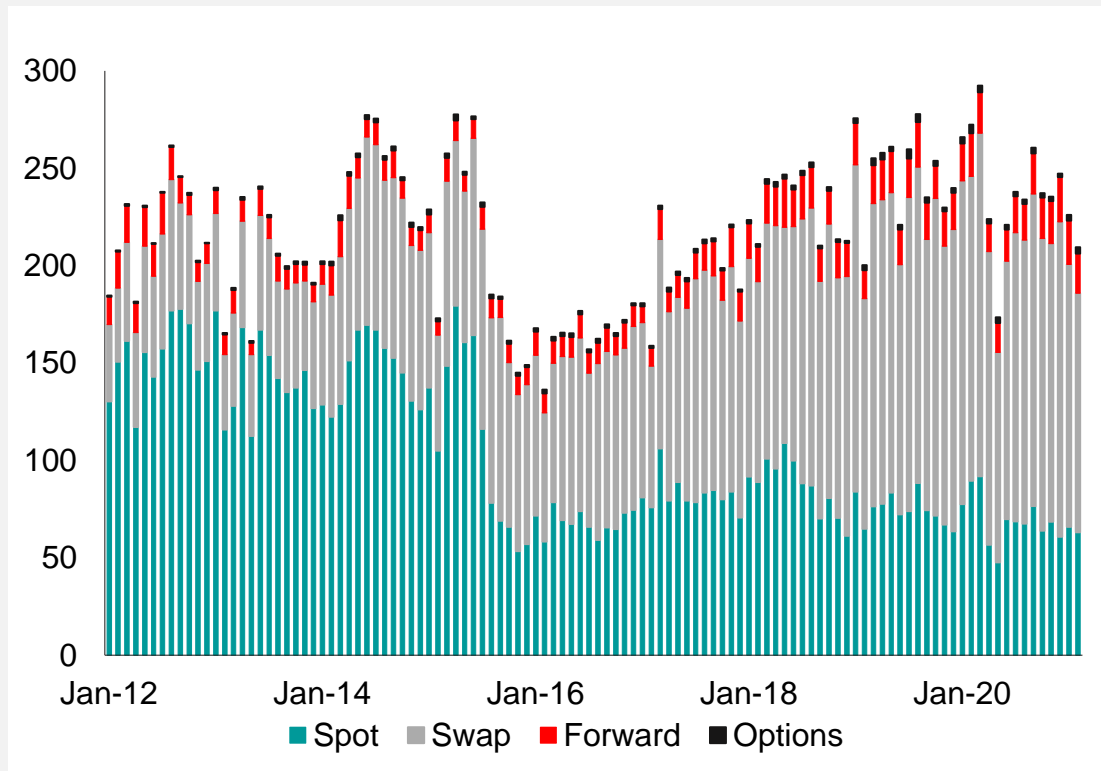
Source: International Monetary Fund.

Note: Period refers to the average for 2010-19. The 10-year average is taken as the IIP position can fluctuate across years due to exchange rate movements, among other factors.

Sources: Bank Negara Malaysia, Department of Statistics Malaysia.

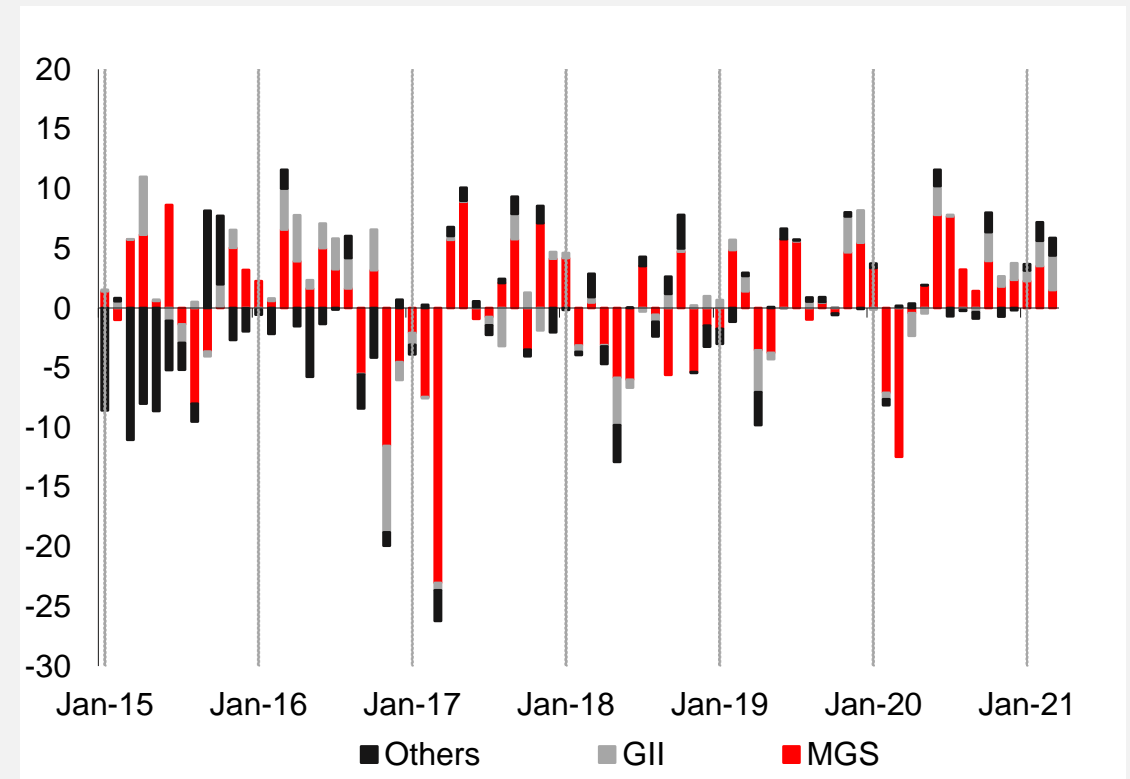
Box C: Investors Take Onshore Financial Market Developments Positively

Onshore FX Transactions
(Billions of US Dollar)



Sources: BNM, AMRO staff calculations.

Foreign Debt Flows
(Billions of Ringgit)



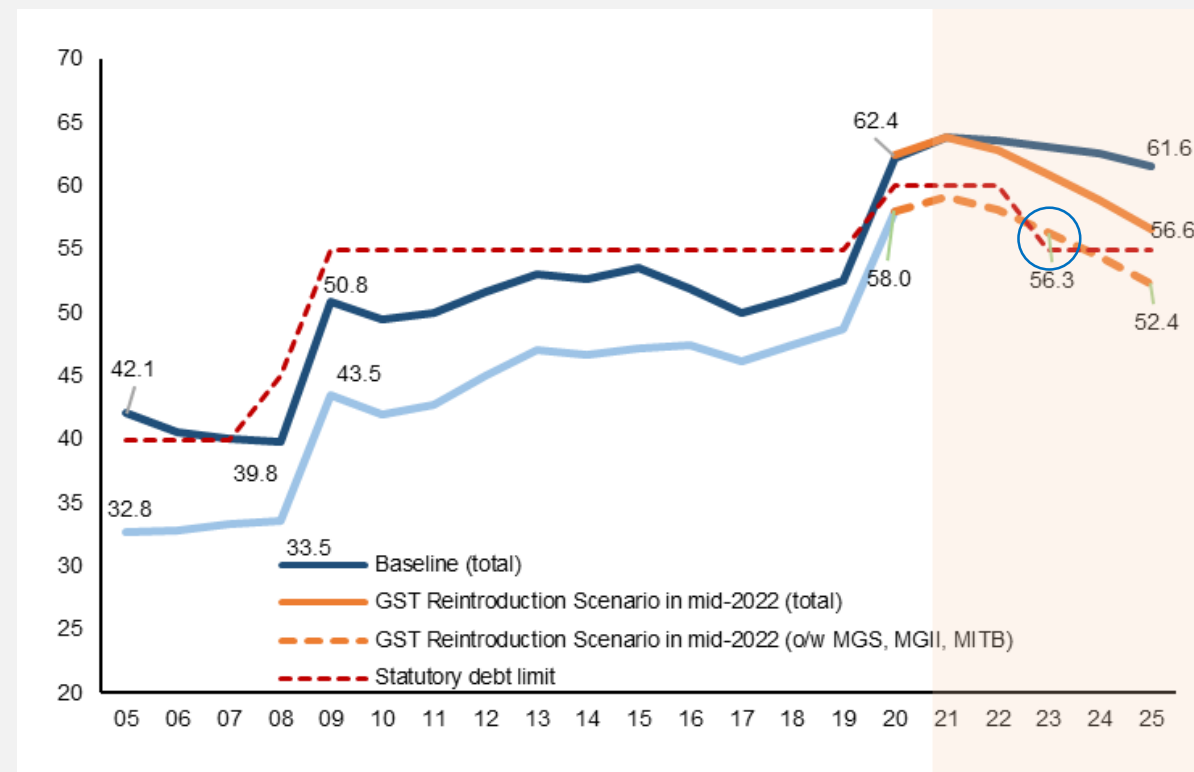
Sources: Havers Analytics, AMRO staff calculations.

Selected Issue 1: Medium-term Debt Sustainability and Fiscal Reform Considerations

Federal Government Debt Limits

Rules	Statutory	Administrative
Domestic debt ceiling (MGS, MGII, MITB)	Not exceeding 60% of GDP until end-2022 , before returning to 55% onwards (previously at 55% of GDP)	Self-imposed limit is temporarily suspended (previously at 55% of GDP)
MTB ceiling	Not exceeding MYR10 billion	
Offshore borrowing ceiling	Not exceeding MYR35 billion	

Debt to GDP ratio – GST Re-introduction Scenario (Percent of GDP)



Sources: Ministry of Finance

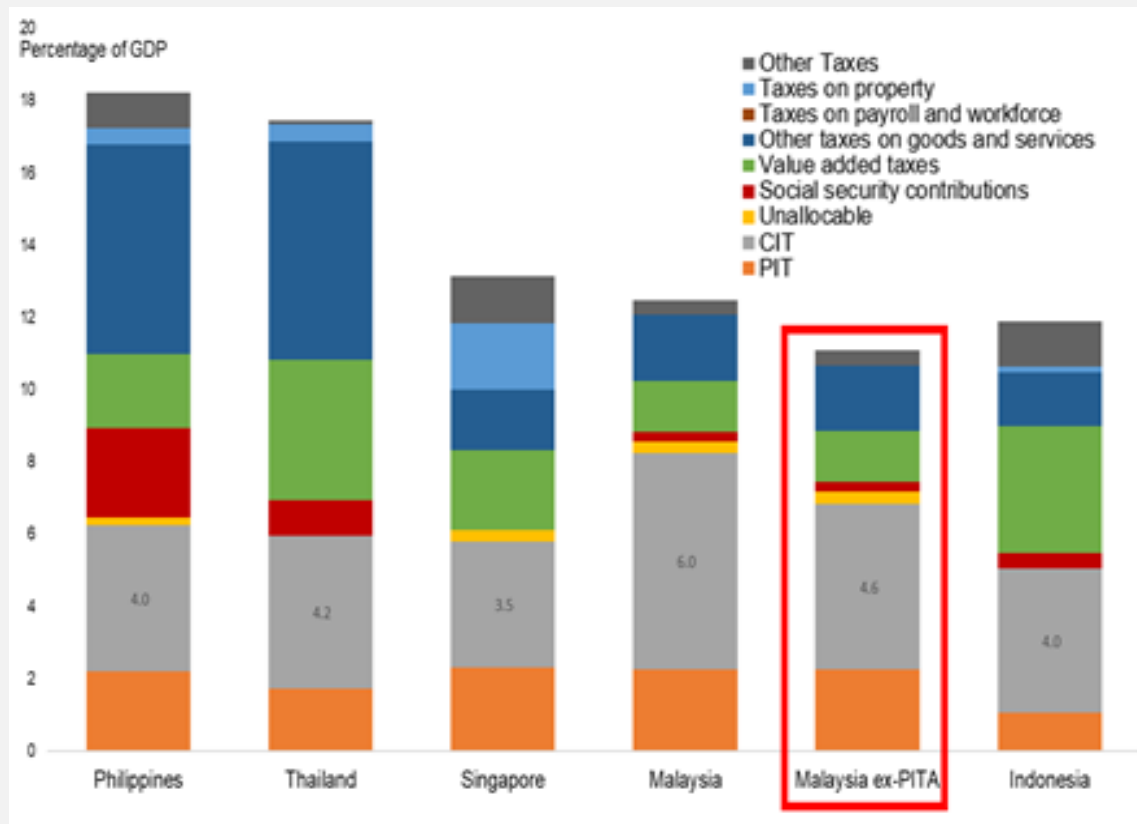
Notes: MTB = Malaysian Treasury Bills; MGS = Malaysian Government Securities (or conventional bonds); MGII = Malaysian Government Investment Issues (or Islamic bonds); and MITBs = Malaysian Islamic Treasury Bills.

Sources: DOSM, MOF, AMRO staff calculations.

Notes: MTB = Malaysian Treasury Bills; MGS = Malaysian Government Securities (or conventional bonds); MGII = Malaysian Government Investment Issues (or Islamic bonds); and MITBs = Malaysian Islamic Treasury Bills.

Selected Issue 1: Medium-term Debt Sustainability and Fiscal Reform Considerations

Tax Revenue Structure, 2018–ASEAN-5 Economies



Source: OECD.
Note: PIT and CIT refer to taxes on income, profits and capital gains of individual and corporate, respectively

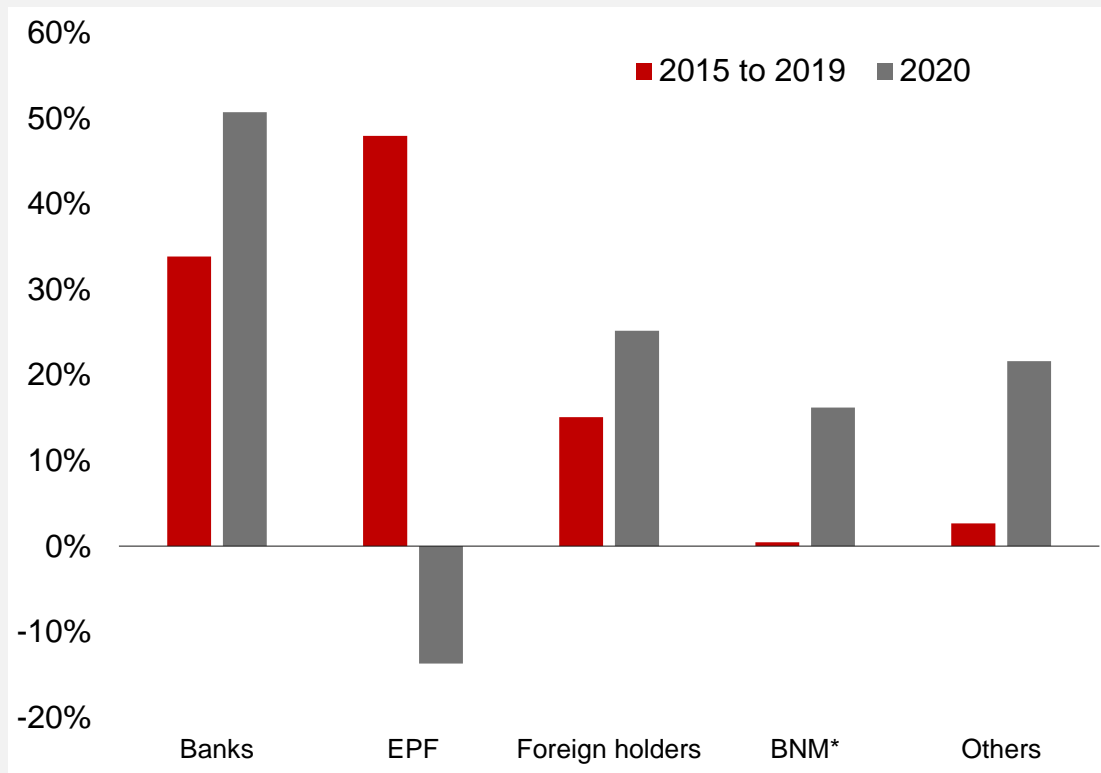
Estimated Impact of Proposed Revenue Measures

Measure	Estimated Revenue Impact (percent of GDP)
1. Faster broadening of SST	≤ 0.9
2. Re-introduction of the GST	≤ 0.6
3. Introducing a carbon tax (rate in line with Singapore's)	0.5 – 0.75
4. Review of excise taxes and customs measures	0.05 – 0.2
5. Broadening of the capital gains tax	0.03 – 0.3
6. Adjusting the rate paid by the highest PIT bracket	0.05 – 0.2
TOTAL	≤ 2.95
7. Enhancing tax administration	NA

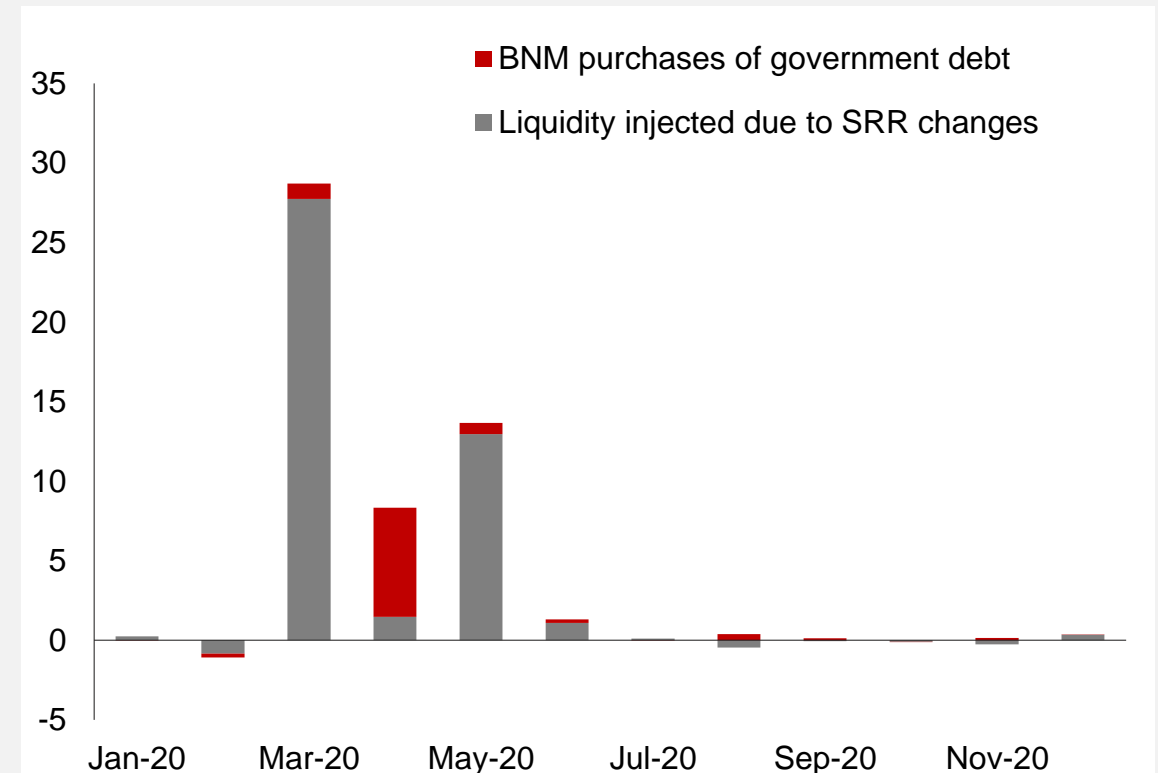
Source: AMRO staff estimates.
Note: "2. Re-introduction of the GST" excludes the impact of broadening the coverage of goods. If the GST is re-introduced with broader coverage, the estimated revenue impact will be 1.5 percent of GDP, the sum of "1. Faster broadening of SST" and "2. Re-introduction of the GST".

Selected Issue 2: Demand and Supply for Government Bonds

Absorption of Net Supply by Investor Type
(Percent of Net Issuance)



BNM's Purchases of Government Securities and Liquidity Released from SRR Adjustments
(Billions of Ringgit)



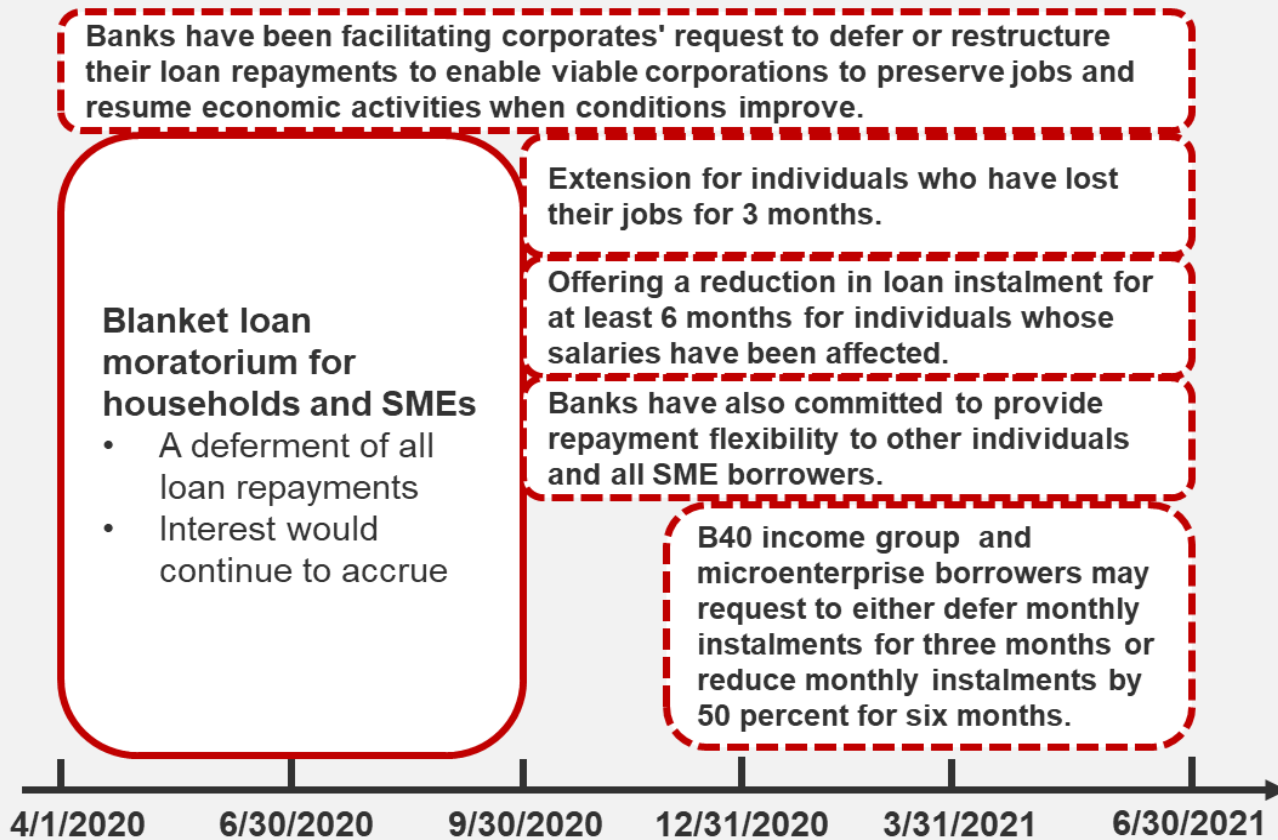
Sources: BNM, AMRO staff calculations.

Note: BNM's holdings include the securities held as a result of monetary operations.

Sources: BNM, AMRO staff calculations

Selected Issue 3: Stress-testing results of major banks

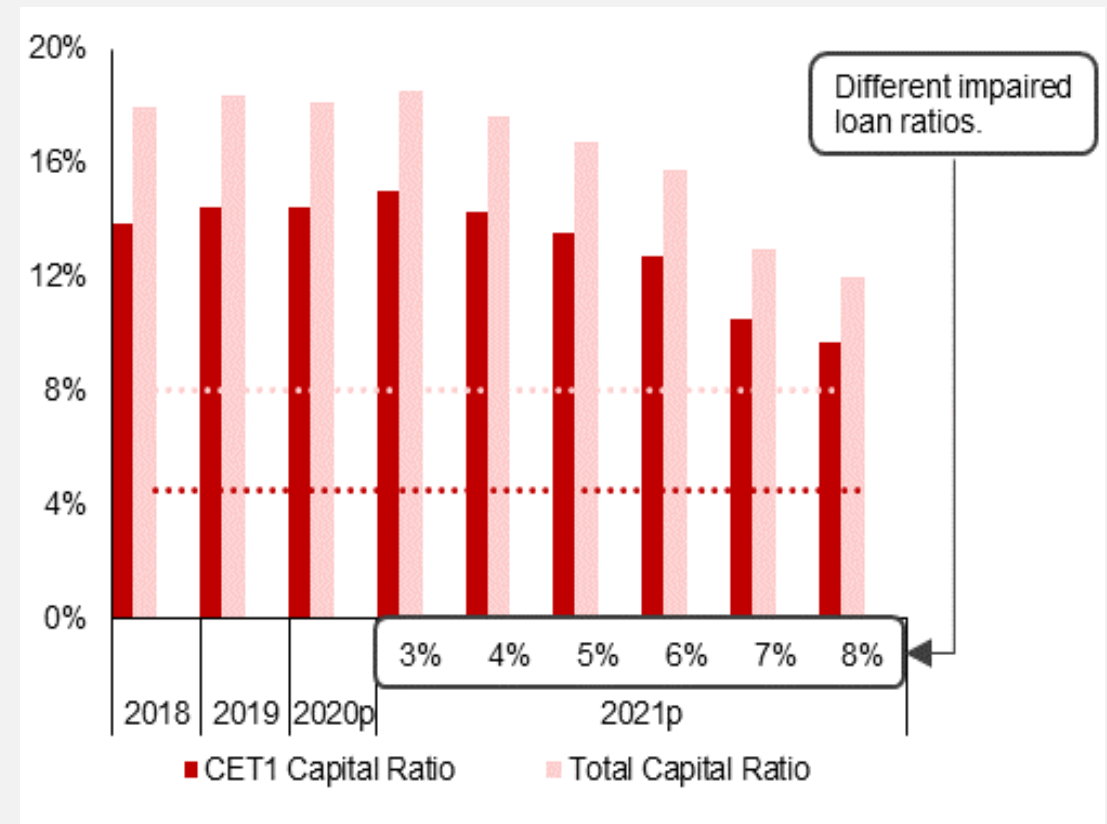
The Timeline for the Loan Moratorium and the Targeted Repayment Assistance



Source: BNM, AMRO.

Note: 1) The dotted text box indicates that the timeline is soft. 2) Targeted repayment assistance remains available for all borrowers affected by COVID-19 throughout 2020 until at least June 2021.

Malaysian Banks: Credit Stress-Testing Results (Percent)

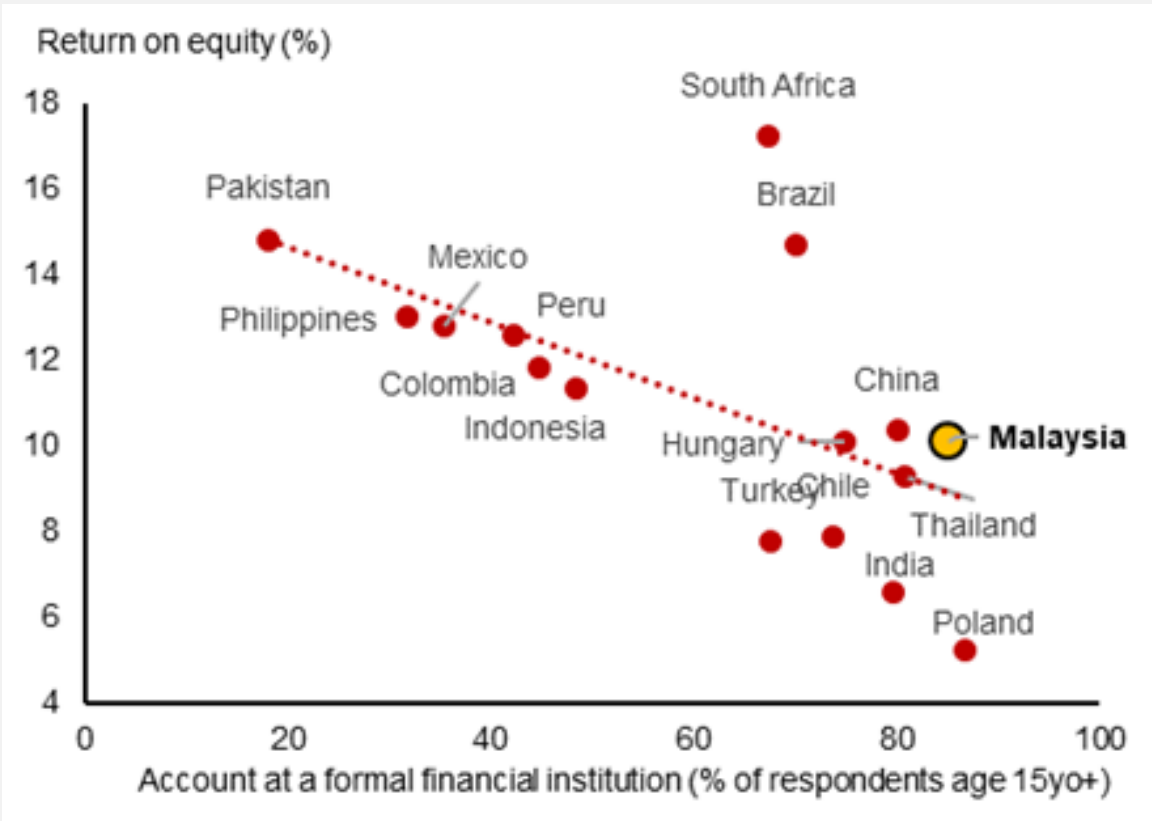


Sources: BankFocus, AMRO staff projections.

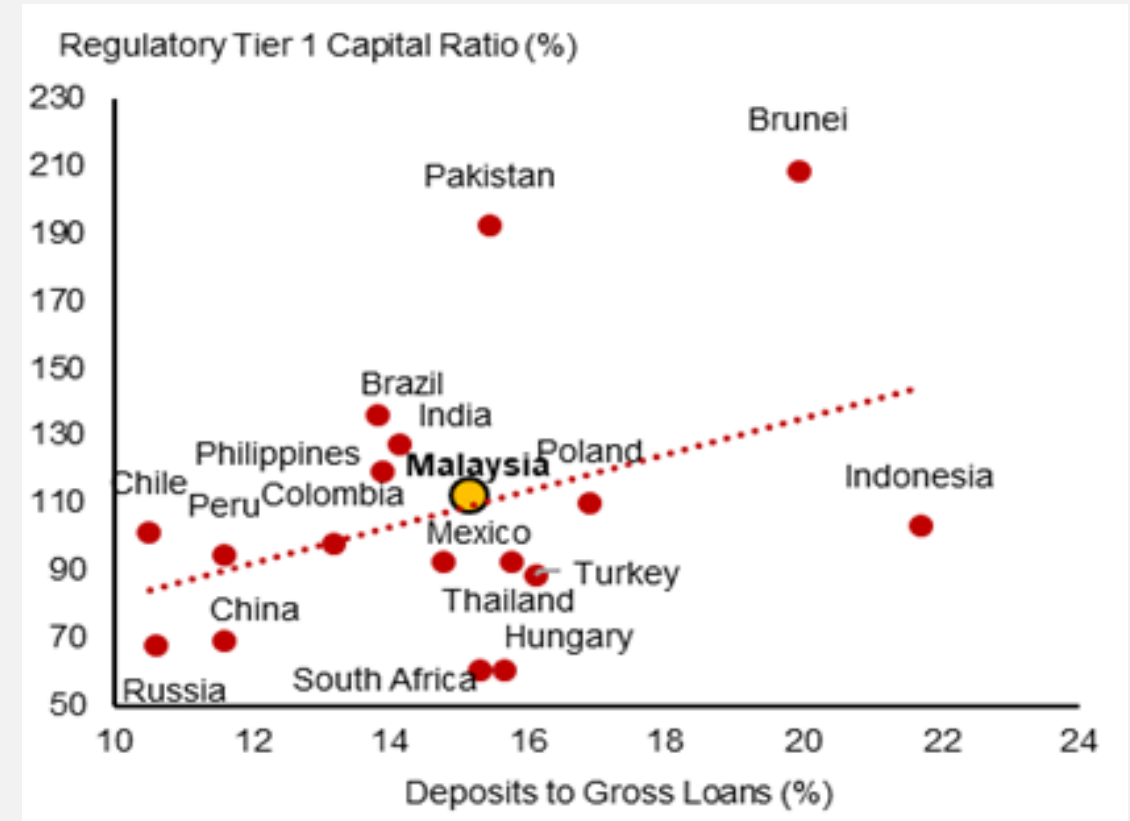
Note: The light pink and red dotted lines are the Basel III minimum requirements for TCR and CET1, respectively.

Selected Issue 3: Malaysian banks have room to deal with the credit fallout from the COVID-19 crisis

**Bank Profitability and Financial Access
– Emerging Market Economies**



**Capital Adequacy and Liquidity
– Emerging Market Economies**



Source: AMRO Artemis Database, World Bank Global Financial Development Database.
Note: Data for the y-axis (return on equity) refer to September 2020, and the x-axis (financial access) to end-2017, the latest data prior to the COVID-19 pandemic.

Sources: AMRO Artemis Database.