社会经济研究中心
SOCIO-ECONOMIC RESEARCH CENTRE
SERC

Bank Negara Malaysia (BNM)'s Annual Release 2019

2020 – A COVID-19 Induced Recession

3 April 2020

Key Messages

A COVID-19 INDUCED GLOBAL RECESSION

KEY RISKS TO GLOBAL GROWTH

MALAYSIA IS NOT SPARED AS GROWTH ENGINES DISRUPTED

ECONOMIC & FINANCIAL ISSUES

CONCLUSION

The world is facing an unprecedented global pandemic-induced crisis

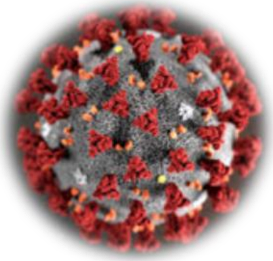
The **International Monetary Fund (IMF)** stated that “It is now clear that we have entered a **recession – as bad as or worse than in 2009**” while projecting a rebound in 2021. The global growth declined by 0.1% in 2019 in 2008-2009 Global Financial Crisis.

The **World Bank** expects **global growth to reduce by 2.1% points (pt)** from the benchmark, with developing countries and high-income countries to reduce by 2.5 % pt and 1.9%-pt respectively. **Under an amplified scenario**, the **global growth would be wiped off a 3.9% pt** from the benchmark. Developing countries and high-income countries to lose by 4.0%-pt and 3.8%-pt respectively.

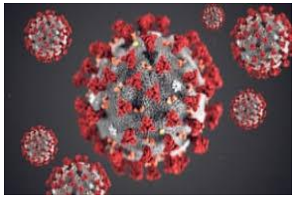
East Asia and Pacific (EAP) economies would suffer the most due to their relatively deep trade integration and direct impact on tourism.

In terms of **real exports loss**, a baseline of **2.5% will be set off from benchmark. A bigger loss of 4.6% in real exports is expected** if the global pandemic impact worsens.

Asian Development Bank (ADB) also cut its **developing Asia’s growth estimate to 2.4%** this year from 5.7% previously. **China’s growth** forecast is slashed to **just 2.3% in 2020** on coronavirus pandemic and expects a strong bounce back of 7.3% in 2021.



Key risk factors to global growth



Following the COVID-19 global pandemic outbreak, countries worldwide **have implemented broad-based travel restrictions**, **enforce business closures and restrictions on social activities**, **suppress private and business activities** in domestic-oriented and tourism-related services sectors as well as in the manufacturing sector.

Tightening global financial conditions, corresponding with a sharp rise in volatility, sell-offs in major equity markets, and a depreciation in many currencies.

The sharp decline in crude oil prices hit oil-exporting countries and significantly impaired governments' oil revenue-dependent budget.

Potential geopolitical conflicts in the Middle East; potential **re-escalation of trade tension** among the US and its trading partner.

Global policy responses to limit the human and economic impact of the COVID-19 pandemic

Mitigating and containing as well as protection measures to prevent the spreading of the COVID-19. These include a partial or full-locked down; stricter social-distancing procedures; banning of gathering in crowded places; a temporary closing of non-essential services; travel bans on visitors originating from, etc.

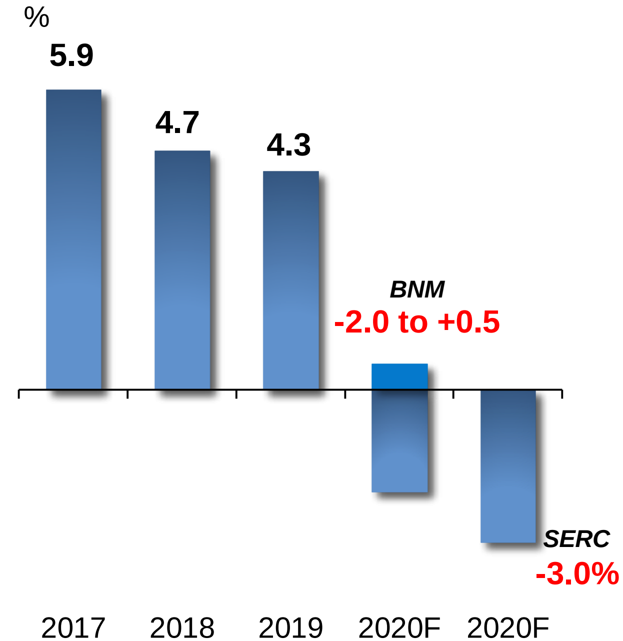
Aggressive monetary and financial measures to ease tighter financial conditions as well as to stabilise capital and foreign exchange markets. These include bigger interest rate cuts; injection of liquidity through quantitative easing (QE); provision of soft loans and working capital at preferential interest rates; financial and cash flow reliefs for households and businesses, etc.

Fiscal stimulus packages providing tax break and relief, exemption of duties, wage subsidy and income support (cash handouts) to households and businesses as well as measures to ease cash flow and operating costs of businesses to cope with the demand and supply shocks.

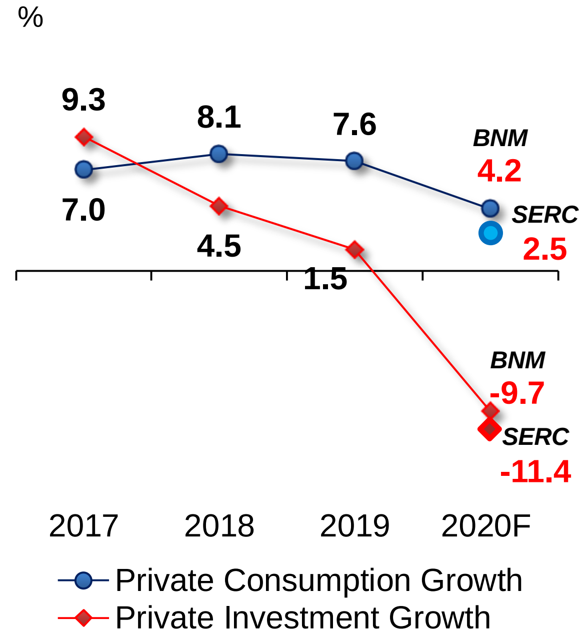
Malaysia "could not escape" recession in 2020 …

- **BNM** estimates **real GDP growth between -2.0% and +0.5% in 2020** (4.3% in 2019), disrupted by output loss from the COVID-19, Movement Control Order (MCO) and commodity supply disruptions. This marks a sharp revision from Ministry of Finance's estimates (3.2%-4.2% in Feb 2020 and 4.8% in 2020 Budget in October 2019).
- **SERC's GDP growth estimate is -3.0% for this year**. Our estimates embedded **an assumption that the coronavirus will run its course and dissipate gradually going into the third quarter**. We expect two or three consecutive quarters of contraction with the potential broadening disruptions on economic activities if the virus outbreak prolongs.

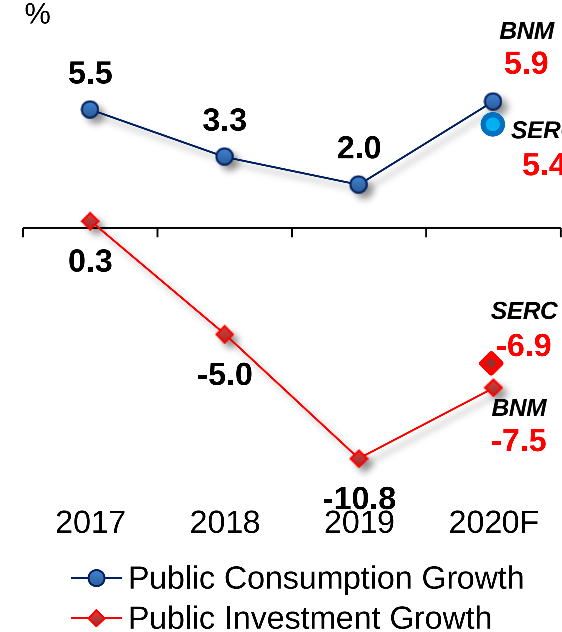
Real GDP growth is likely to contract, the upside support could come from …



… household spending by stimulus measures and subdued inflation …



… as well as continued progress of public projects and higher public sector expenditure



Source: DOSM; BNM; SERC

… dragged by weak global demand and domestic containment measures

The timely fiscal and monetary stimulus as well as micro-financial measures are estimated to **add 2.8% pt to GDP growth** while capital spending for **major transport infrastructure projects** (RM15 billion) are expected to lift 2020's GDP growth by **1.0% pt**.

BNM expects **private consumption to grow slower by 4.2%** in 2020 (7.6% in 2019) as against SERC's estimate of 2.5%. Weak labour market conditions, mobility restrictions and subdued sentiments in the first half-year would weigh on households' consumption. Several consumption stimulus and cash flow cushion initiatives (cash assistance, flexibility and withdrawal from EPF as well as moratorium on loans facilities) are expected to add between 4.5% pt and 5.0% pt to private consumption growth.

Private investment is projected to **decline by 9.7%** in 2020 (+1.5% in 2019), which SERC expects a sharper double-digit contraction of 11.4%, due to dampened business sentiments as well as higher domestic and external uncertainties.

The 28 days MCO has severely impacted businesses as non-essential services have temporary ceased operations and selected manufacturing firms are operating only at a partial capacity. The moratorium on loan payments and loan guarantees as well as wage subsidy scheme would provide some respite to businesses.

Public consumption is expected to **expand further by 5.9%** in 2020 (2.0% in 2019), due to higher public spending, including the implementation of more small-scale projects worth RM4 billion and higher spending on healthcare purposes.

Public investment is projected to **contract milder by 7.5%** in 2020 (-10.8% in 2019), underpinned by the continuation of large-scale transport-related projects (such as MRT2, LRT3 and Pan Borneo highway) and the implementation of upstream oil and gas, telecommunication and power generation projects. Non-financial public enterprises' capital spending will continue to decline.

Net external sector is expected to **contract significantly by 27.0%** (+8.9% in 2019) as **real exports will decline by a larger magnitude** (-13.6% vs. -1.1% in 2019), reflecting primarily weaker global demand conditions following the spread of COVID-19 across many major economies. Commodities exports are expected to contract further due mainly to lower prices of crude oil and LNG as well as weaker commodities production. The sharp decline in tourist arrivals will result in low tourism receipt and hence, lower exports for services.

Weaker labour market conditions. **Unemployment rate is estimated to reach 4.0% in 2020** (3.3% in 2019 and 3.7% in 2009). Besides increasing number of retrenchments, compensation of employees are expected to be lower due to unpaid leave, pay cut, reducing working hours, freezing of new hiring, and delay in salary increment/bonus. Income support measures can only partially offset the loss of income.

Sectoral outlook: Services sector alone is “insufficient”

Services

2020F: 2.3% (SERC: -0.8%)

2019: 6.1%; % share of GDP: 57.7

- Impact of COVID-19 and MCO on tourism-related and consumer services is cushioned by stimulus measures.
- Supported by a gradual improvement in household spending.

Manufacturing

2020F: -8.6% (SERC: -8.0%)

2019: 3.8%; % share of GDP: 22.3

- Inputs procurement disrupted by prolonged factory closures in key industrial hubs in the COVID-19 affected countries.
- Production disruptions abroad also lower demand for manufactured products.

Agriculture

2020F: -2.9% (SERC: -3.0%)

2019: 1.8; % share of GDP: 7.1

- Low oil palm production is expected to extend into early 2020 as well as output constraints arising from MCO.
- Disruptions to dissipate gradually as weather conditions normalise later.
- BNM’s estimates: RM2,000-RM2,200/mt

Construction

2020F: -1.9% (SERC: -1.0%)

2019: 0.1%; % share of GDP: 4.7

- Further progress in the implementation of transport-related projects.
- Implementation of more small-scale projects worth RM4 billion.

Mining

2020F: -4.2% (SERC: -3.8%)

2019: -1.5; % share of GDP: 7.1

- Sharp decline and volatile shifts in crude oil and LNG prices (BNM’s estimates: US$25-US$35 per barrel for Brent crude oil and RM1,150-RM1,250 per tonne for LNG).
- Affected by continued maintenance works. But, operationalisation of new fields in Sarawak and PETRONAS Floating LNG Dua (PFLNG2) facility in Sabah will partially offset the decline in output.

Risks to 2020's baseline growth prospect

- **COVID-19 impact** on economic activity is expected to be **significant but transitory**.
- **Effective implementation** of comprehensive measures will provide **support to economic activity.**

Upside risks

▲ **Larger-than-expected impact from pro-growth measures**

▲ **Faster normalisation in activity amid pent-up demand**

BNM's baseline assessment for GDP growth in 2020: **-2.0% to +0.5%**

Downside risks

▼ **Prolonged and wider spread of COVID-19 globally and domestically**

▼ **Recurring commodities supply disruptions**

▼ **Tightening of financial conditions**

BNM's monetary and financial measures to support growth

Relief for individuals, SMEs and corporates

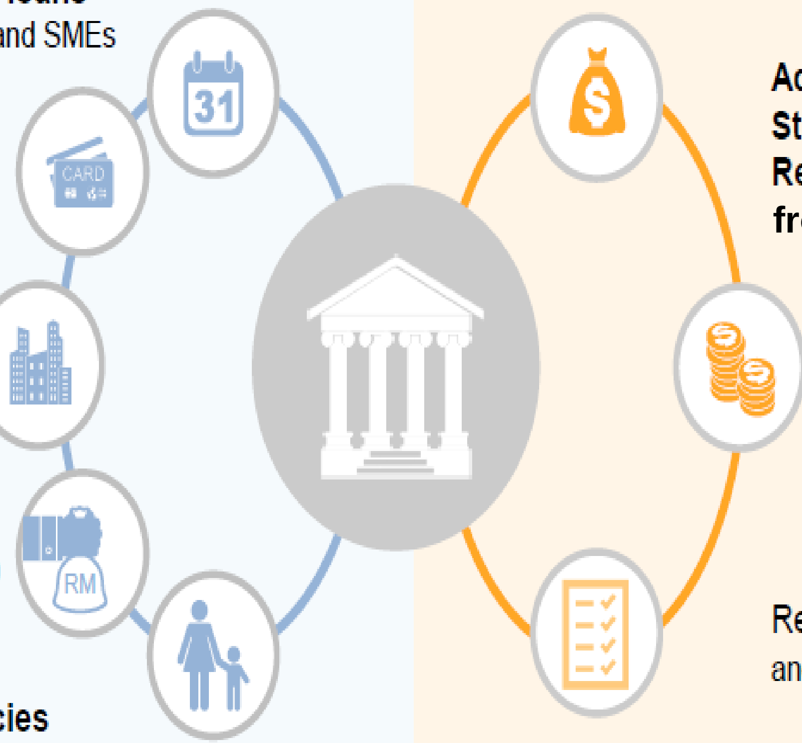
6-month deferment on loans or financing for individuals and SMEs

Conversion of credit card balances into term loans/ financing

Facilitate corporates' requests to defer, restructure or reschedule loans

Lower financing costs from OPR reductions in January and March 2020 **from 3.00% to 2.50%**

Flexibities to preserve insurance/takaful policies



Measures to support lending activities by financial intermediaries

Adjustments in Statutory Reserve Requirement (SRR) from 3.00% to 2.00%

Flexibility to draw on **capital and liquidity buffers**

Review of **regulatory priorities** and **implementation timelines**

SERC's commentaries

- In this unprecedented global pandemic-inflicted economic disruptions and financial turbulences, **Malaysia cannot be spared from a fallout in global trade, extreme financial markets' volatility, shaken domestic consumers' and businesses' sentiments as well as a sharp fall in private investment**, which we estimate to decline by 11.4% in 2020 compared to -9.7% as projected by Bank Negara Malaysia (BNM).

- While the rolling out of two Economic Stimulus Packages totalling RM250.0 billion or 17% of GDP are **expected to soften economic damages and financial losses** in terms of the magnitude of economic contraction, **it cannot avoid an outright recession this year**.

- **Bank Negara Malaysia's projection** of between **+0.5% and -2.0% in 2020 is optimistic compared to our estimates of -3.0%**. We attach considerable downside risks to our estimates given the potential broadening disruptions on economic activities if the virus outbreak prolongs.

- **Businesses in sectors such as tourism, hospitality, entertainment, air transportation, consumer goods** and retail have been particularly hard-hit. Foreign tourists are expected to take a longer while to resume travelling until the global outbreak stabilizes and sentiment gradually restored. **Businesses in property sector are expected to worsen further** due to extremely cautious consumer sentiment to commit buying big ticket items amid the stubbornly property overhang.

SERC's commentaries (cont.)

- **Export-oriented industries such as electrical products and electronics, palm oil as well as oil and gas are exposed to shrinking global demand** and slumping prices as Malaysia's major trading partners such as the US, Europe and China as well as ASEAN countries are going through a tough time of the COVID-19's inflicted economic and financial disturbances.

- The key outlook issue now is to **gauge how lasting damage, the depth and duration of 2020 recession from the COVID-19's shock**. SERC's estimate embedded an assumption that the coronavirus will run its course and dissipate gradually going into the third quarter. This is a worldwide virus attack and **it is likely to take at least 6-12 months from containment, stabilisation and recovery** before people and businesses are returning to normalcy.

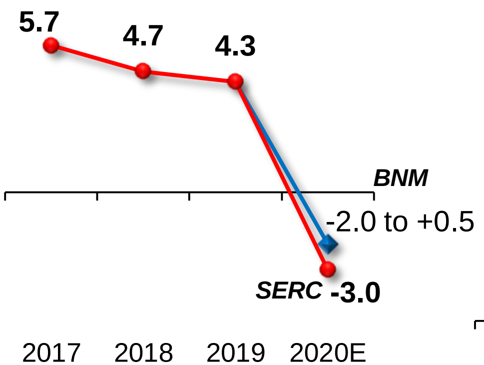
- We expect **two or three consecutive quarters of contraction**. The 28-day Movement Control Order (MCO) is expected to have a significant knock-down impact in late March and 2Q given that about 77% of SMEs surveyed have temporary closed their business operation and for those companies and industries allowed to operate are generally running at around 40%-50% capacity. Softer discretionary spending and restricted movement throughout the MCO have resulted in lower than normal spending and economic actvities.

SERC's commentaries (cont.)

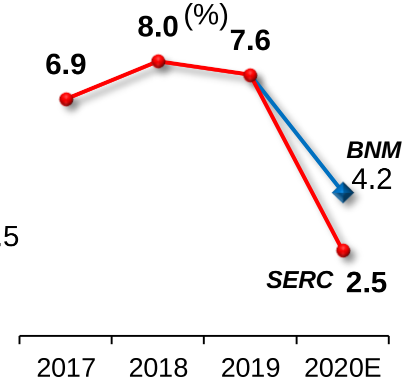
- Even after the MCO is lifted, we expect **continued stricter physical procedures and measures, including social distancing at public places until the COVID-19 situation is under controlled**.
- We are pinning hope that the sizeable cash handouts and cash flows cushion provided to households would help to release pent-up consumer spending when the virus outbreak stabilizes and sentiment improves and hence, help to generate domestic demand. Nevertheless, Bank Negara Malaysia's estimated rise in the jobless rate of 4.0% or 629,000 persons this year (3.3% in 2019) could rise higher, and higher retrenchments would weigh on consumer spending. The biggest worries are that those who were affected by pay cut, unpaid leave or got retrenched during six months' moratorium on loans facilities, could face the cash flow problem to resume their loans repayment after the expiry of moratorium period.
- With **a subdued headline inflation or even deflation** as projected by Bank Negara Malaysia to between -1.5% and +0.5% in 2020, Bank Negara Malaysia's monetary policy will continue to remain highly accommodative to complement the expansionary fiscal policy to counteract the demand and supply shocks. The projected deflation is largely attributable to the plunging global crude oil prices that have translated into lower fuel prices as well as moderating consumer demand.

Malaysia's key economic indicators

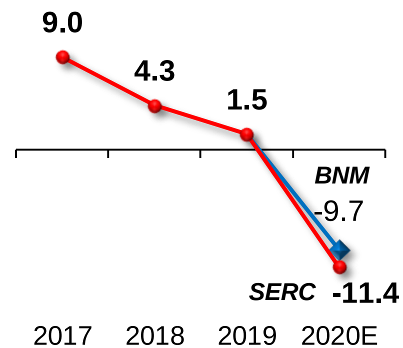
Real GDP Growth
(%)



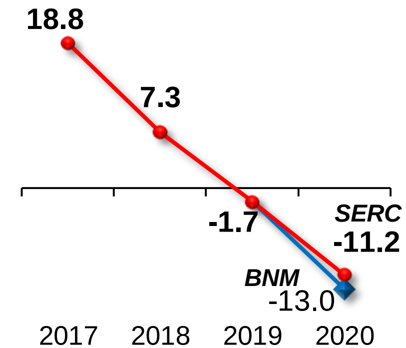
Private Consumption Growth
(%)



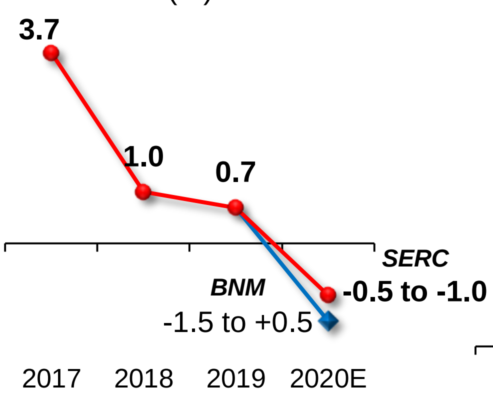
Private Investment Growth
(%)



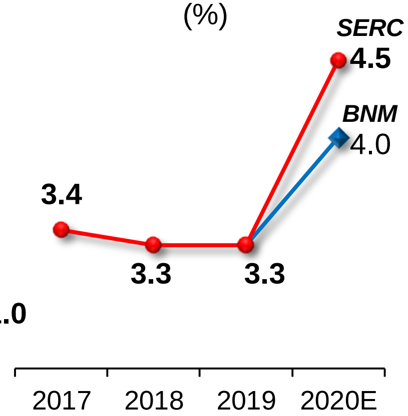
Gross Export Growth
(%)



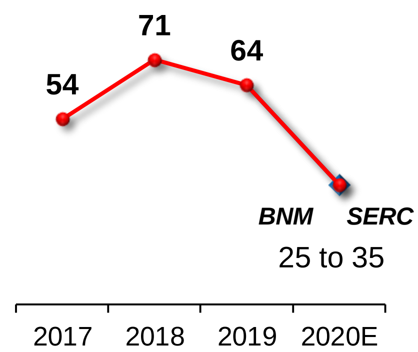
Inflation Rate
(%)



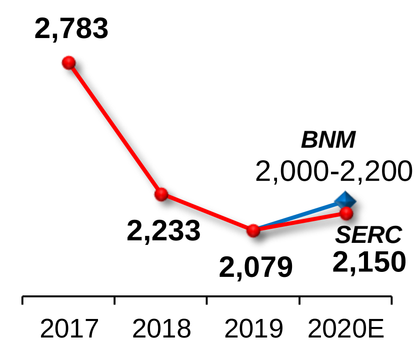
Unemployment Rate
(%)



Brent Crude Oil Prices
(US$/barrel)



Crude Palm Oil Prices
(RM/metric tonne)



Source: DOSM; MPOB; BNM; SERC

Sources of GDP growth: Demand and supply side

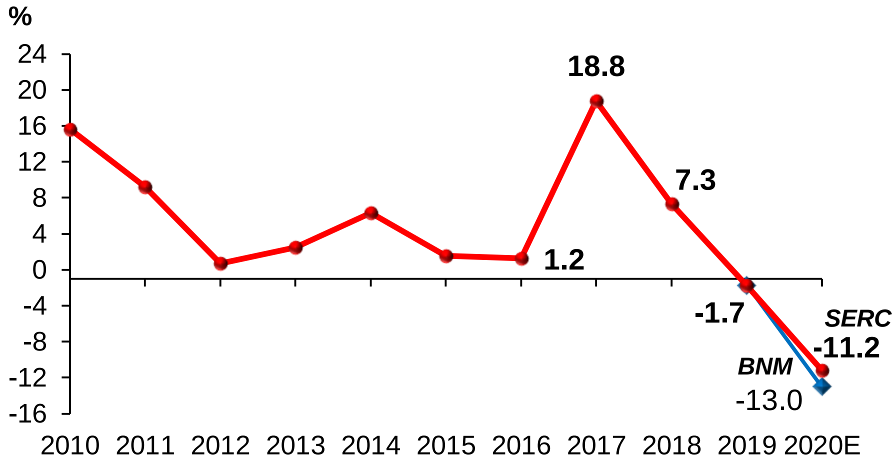
- **Private consumption is the primary engine** to hold up the economy, albeit weaker.
- **Manufacturing sector the hardest hit** due to the restriction of operations and supply chain disruptions.

% growth, 2015=100	**2017**	**2018**	**2019**	**2020F (BNM)**	**2020F (SERC)**
GDP by demand component					
Private consumption (58.8%)	6.9	8.0	7.6	4.2	2.5
Private investment (16.8%)	9.0	4.3	1.5	-9.7	-11.4
Public consumption (12.2%)	5.5	3.3	2.0	5.9	5.4
Public investment (6.3%)	0.3	-5.0	-10.8	-7.5	-6.9
Exports of goods and services (64.0%)	8.7	2.2	-1.1	-13.6	-13.1
Imports of goods and services (56.7%)	10.2	1.3	-2.3	-11.9	-12.8
GDP by economic sector					
Agriculture (7.1%)	5.7	0.1	1.8	-2.9	-3.0
Mining & quarrying (7.1%)	0.4	-2.6	-1.5	-4.2	-3.8
Manufacturing (22.3%)	6.0	5.0	3.8	-8.6	-8.0
Construction (4.7%)	6.7	4.2	0.1	-1.9	-1.0
Services (57.7%)	6.2	6.8	6.1	2.3	-0.8
Overall GDP	**5.7**	**4.7**	**4.3**	**-2.0 to +0.5**	**-3.0**

Source: DOSM; BNM; SERC
Figure in parenthesis indicates % share to GDP in 2019

Sharp decline in exports lead to lower current account surplus

Exports is expected to decline further by 13.0% in 2020

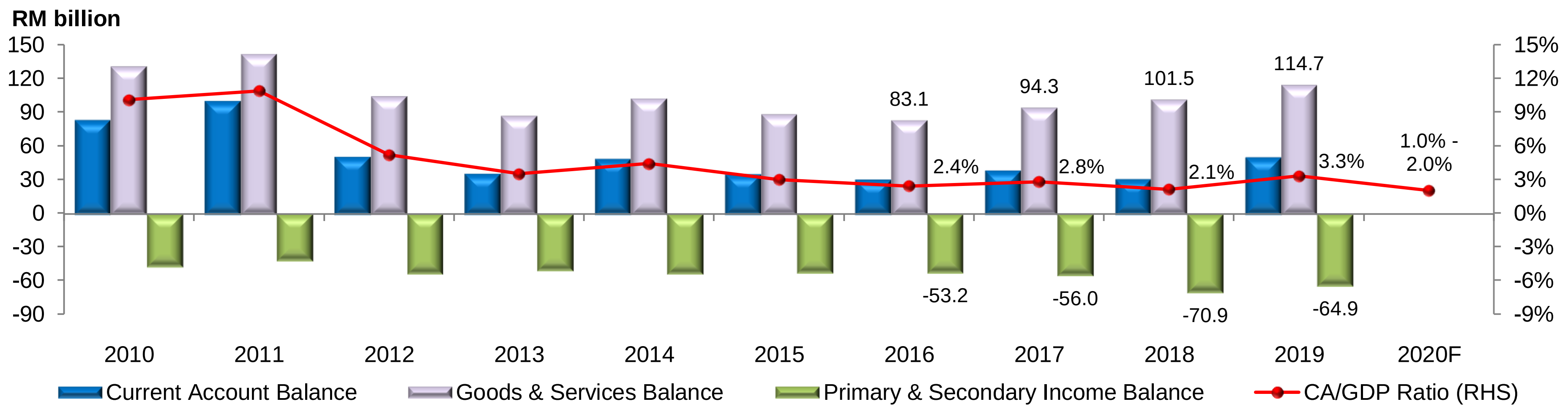


Broad based contraction in exports in 2019

Major export products	RM billion	% Growth
E&E products [37.8%]	372.7	-2.3
Petroleum product [7.2%]	71.5	-6.1
Chemical and related products [5.8%]	57.0	-1.2
Palm oil [4.4%]	43.1	-3.6
Manufactures of metal [4.2%]	41.5	-7.1
LNG [4.2%]	41.5	-1.9
Machinery & equipment [4.2%]	41.4	1.8
Optical & scientific equipment [3.9%]	38.6	5.5
Crude Petroleum [2.7%]	26.3	-28.1

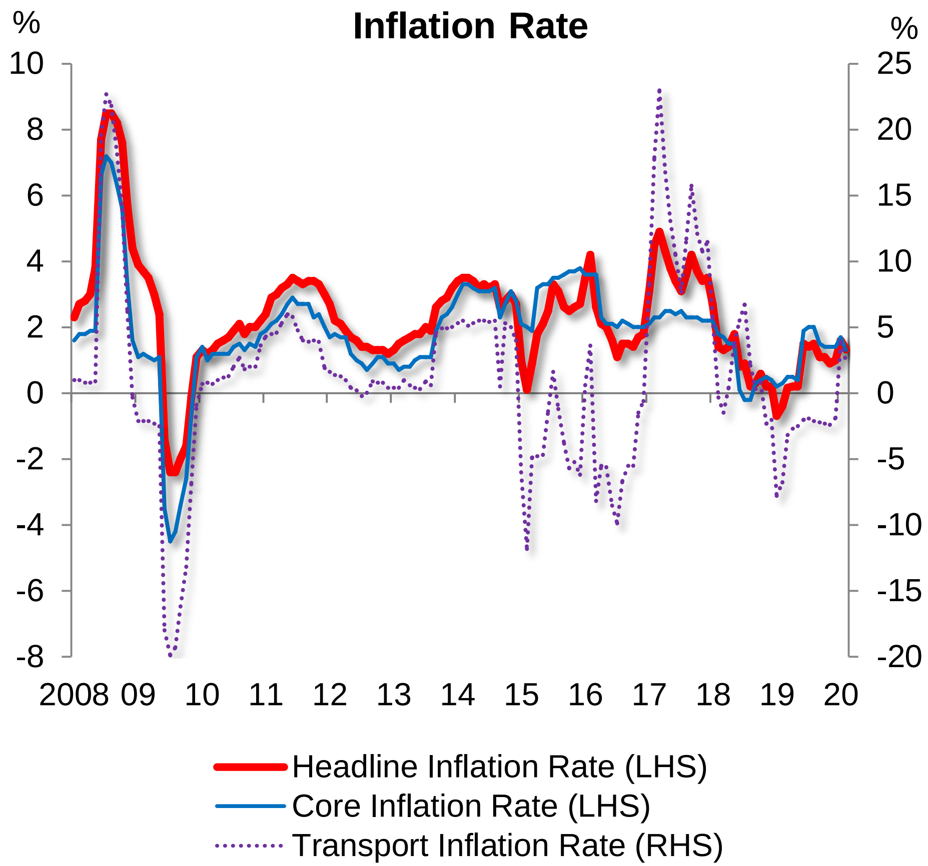
Figure in parenthesis indicates % share of gross exports in 2019

Current account surplus is expected to go lower at 1.0%-2.0% of GDP in 2020



Source: DOSM; BNM; SERC

Inflationary pressures remain subdued on lower oil prices and weaker demand



- BNM expects **headline inflation** to **average between -1.5% and +0.5% in 2020 (SERC: -0.5% to -1.0%)** (0.7% in 2019), with the downside risks come from movements in global oil and commodity prices.
- Brent crude oil spot price level fell to a low US$19.07/bbl on 30 March while RON95 petrol retail price level lowered to RM1.30/litre, the lowest since Nov 2002-Feb 2003*.
- **Core inflation** is projected to remain in positive trajectory at average of 0.8%-1.3% in 2020 (1.5% in 2019) as demand pressures subdued, coupled with projected negative output gap and weak labour market conditions.

Source: BNM; DOSM
Note: Core inflation in 2008-2014 excludes food and non-alcoholic beverages only.

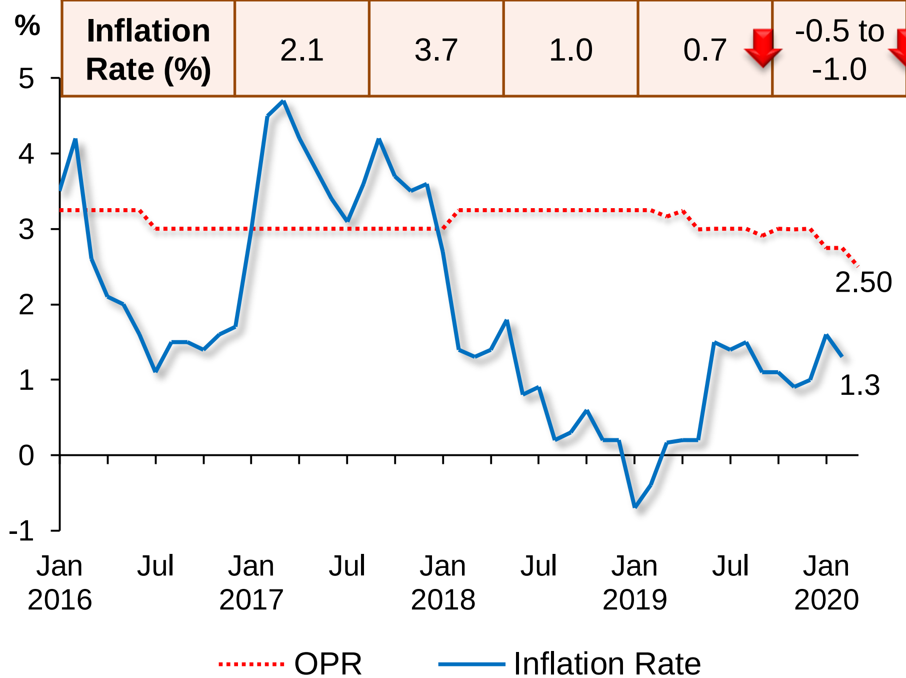
* *Referred to RON92 petrol as RON95 petrol is introduced in Sep 2009 to replace the former.*

Monetary measures to remain highly accommodative

- BNM has cut overnight policy rate (OPR) twice to 2.50% and lowered statutory reserve requirement (SRR) by 100bps to 2.00% to cushion domestic demand. Six months' moratorium on loan payment is allowed to ease cash flow for individuals and businesses.

Lower oil prices-induced deflation in 2020

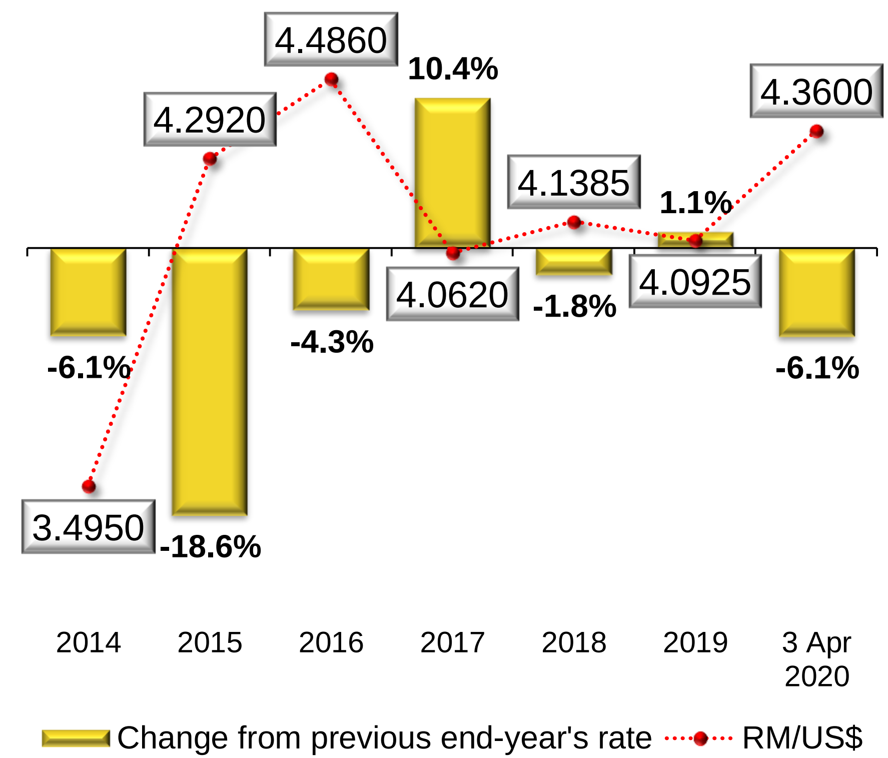
Year	2016	2017	2018	2019	2020E^
OPR (%)*	3.00	3.00	3.25	3.00	2.00-2.50
Inflation Rate (%)	2.1	3.7	1.0	0.7	-0.5 to -1.0



* OPR as at end-period
^ SERC's estimates

Source: DOSM; BNM

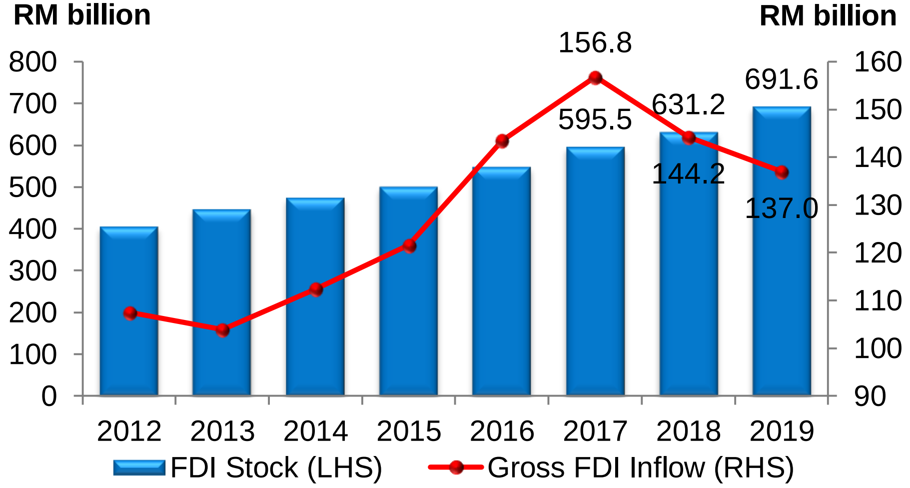
Ringgit outlook: RM4.30-RM4.50 per US dollar at end-2020



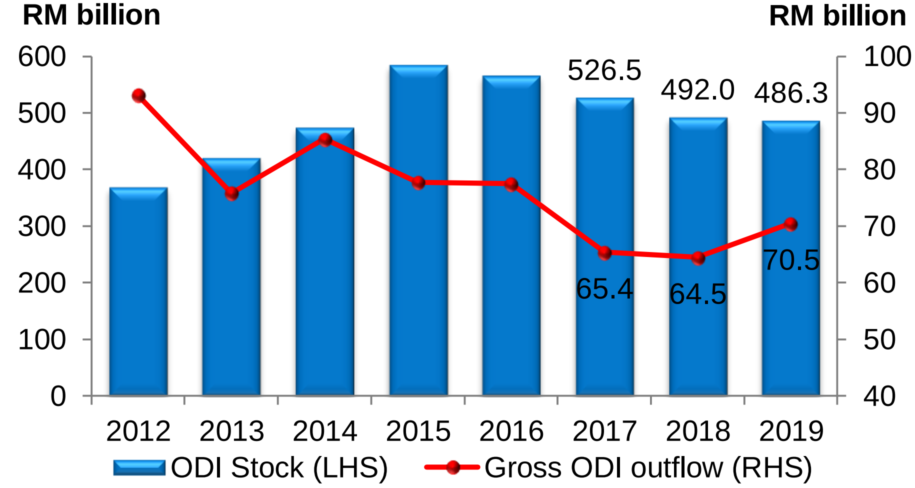
Note: Exchange rate (12:00 rate) as at end-period

Moderating net inflows of direct investment

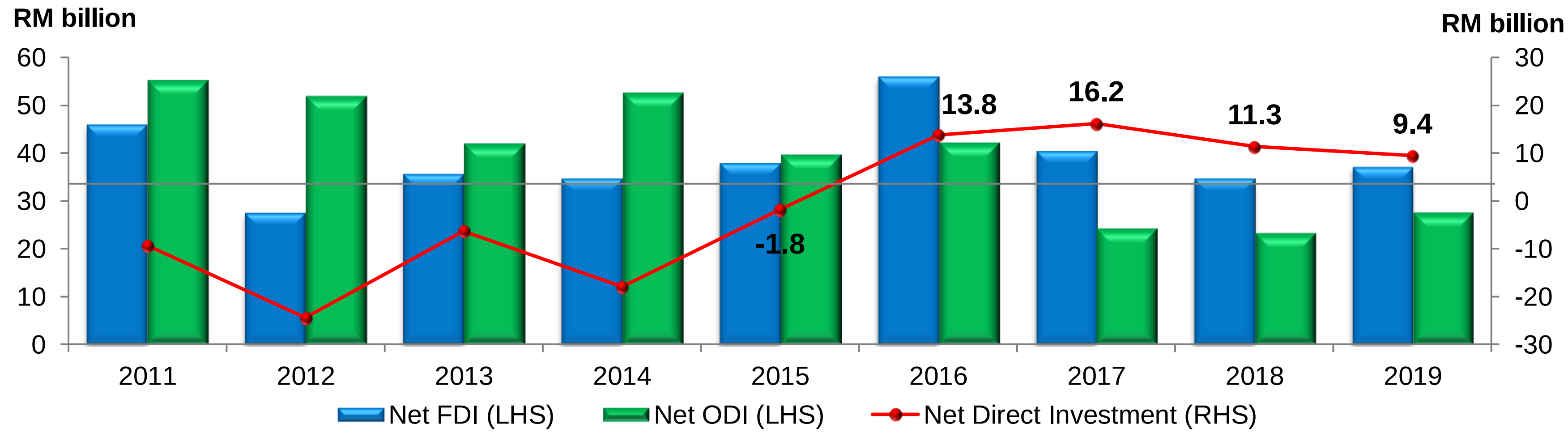
Gross FDI inflows continued to shrink



Gross ODI flows have increased; ODI stock declining at a slower pace



Net FDI inflows higher than net outward direct investment in 2019

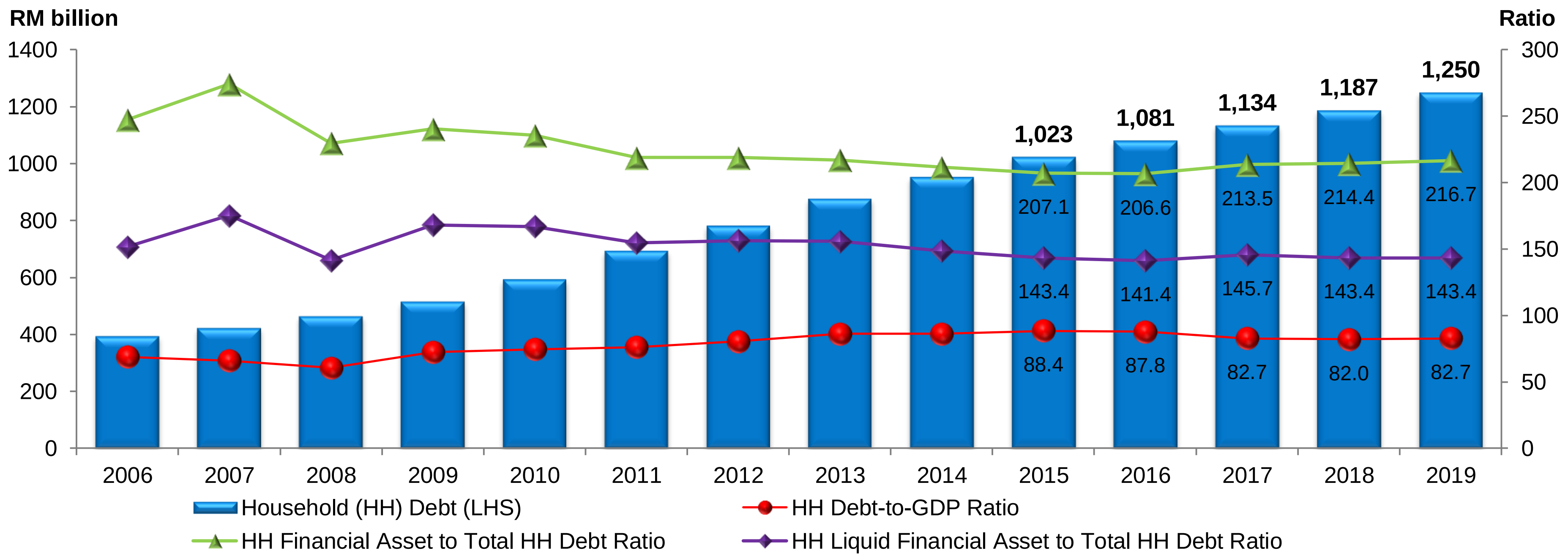


Source: BNM

FDI = Foreign direct investment; ODI = Outward direct investment

Household debt-to-GDP ratio edged higher in 2H 2019

- **Household debt expanded higher by 5.3%** to **RM1,250 billion (or 82.7% of GDP) in 2H 2019** (vs. 5.1% in 1H 2019 and 4.7% in 2H 2018), driven by higher loans for purchases of residential property, boosted by Home Ownership Campaign (HOC) as well as personal financing and credit card loan on higher lending to civil servants.
- However, **credit risks remain largely contained** as **household financial assets and liquid financial assets remained broadly stable at 2.2 times and 1.4 times of debt** respectively. Household financial assets also continued to outpace the growth in debt for the third consecutive year.

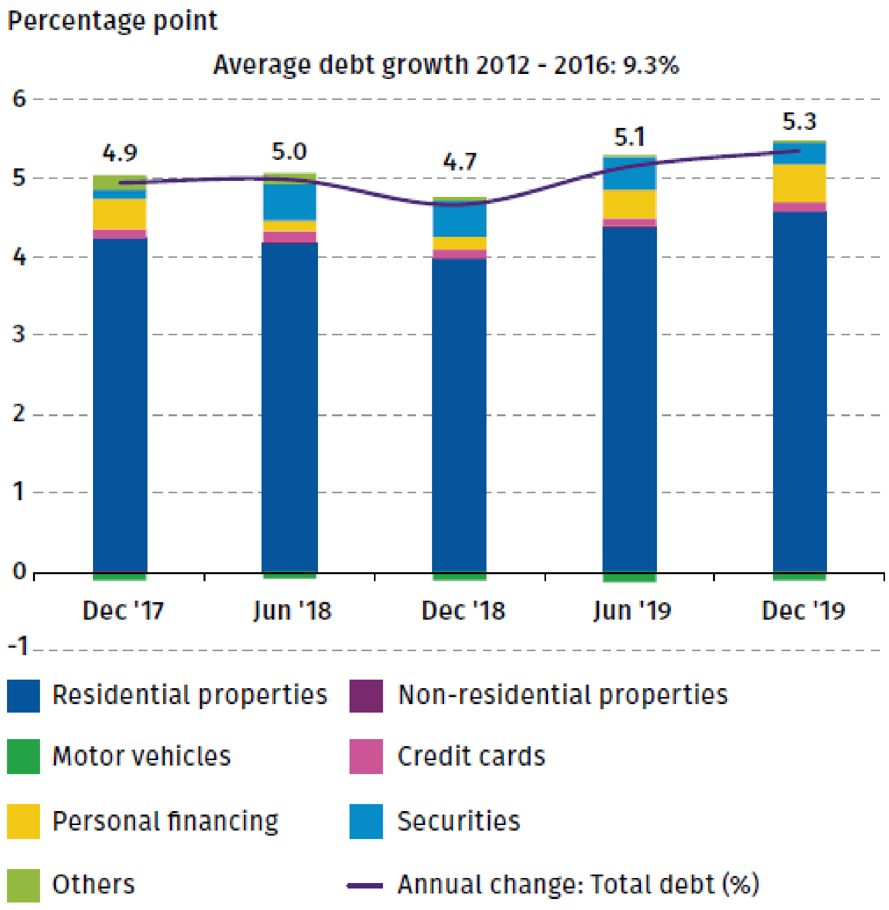


Source: BNM

Household sector debt conditions

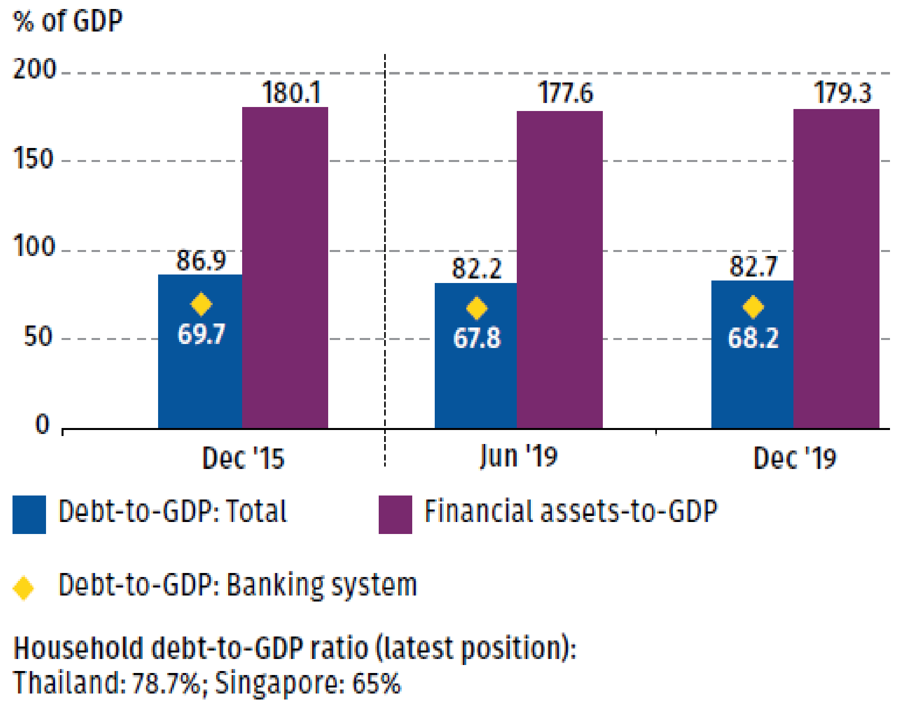
Household debt growth was higher

Household Sector – Annual Growth of Debt



Higher debt- and financial assets-to-GDP ratios

Household Sector – Key Ratios

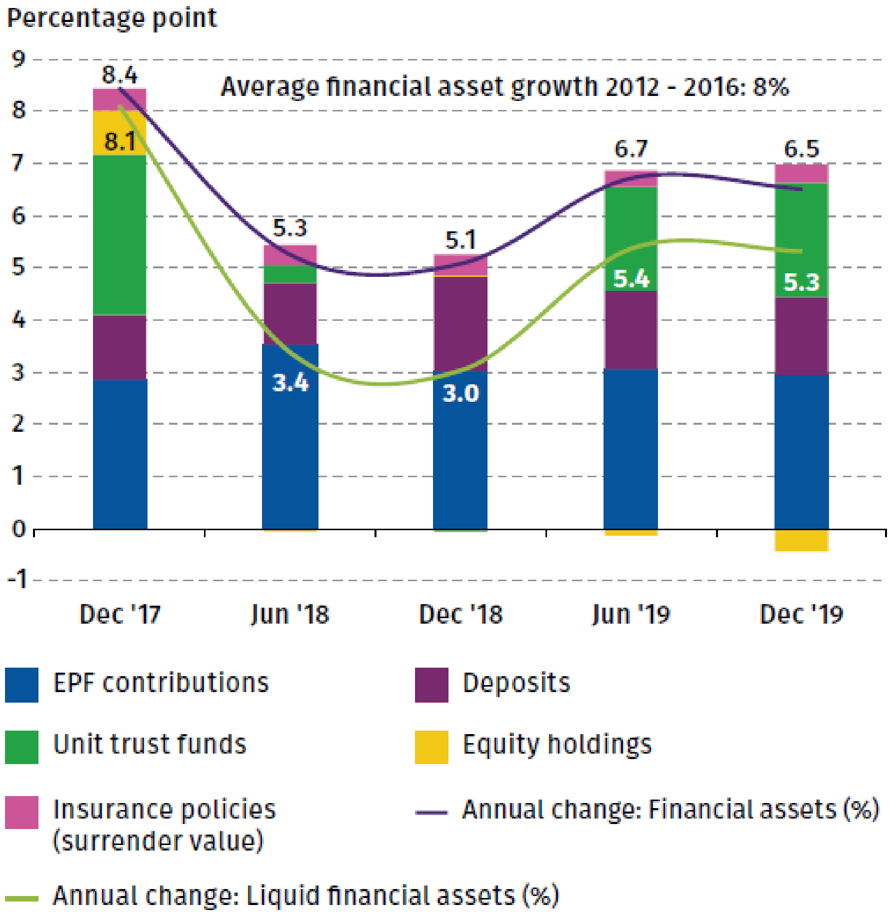


Source: BNM

Household sector debt conditions (cont.)

Growth of financial assets continued to outpace that of debt

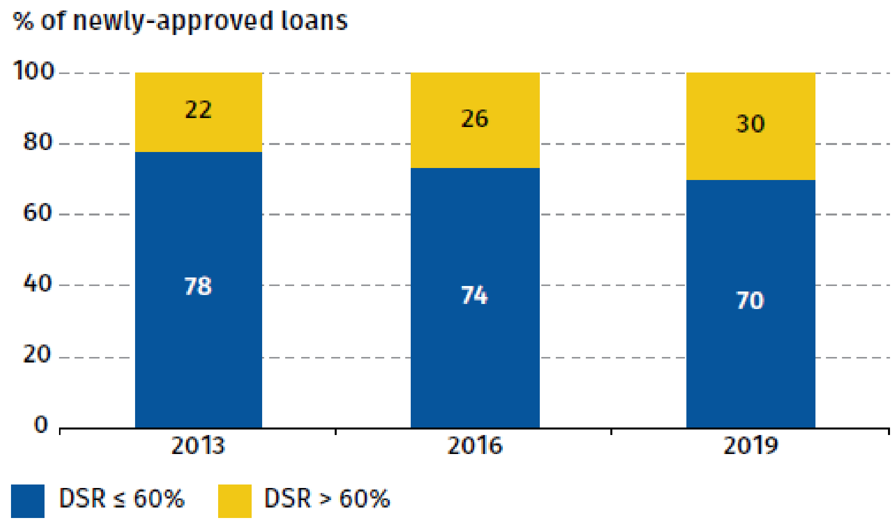
Household Sector – Annual Growth of Financial Assets



Source: BNM

Rising share of newly-approved loans to borrowers with DSR exceeding 60%

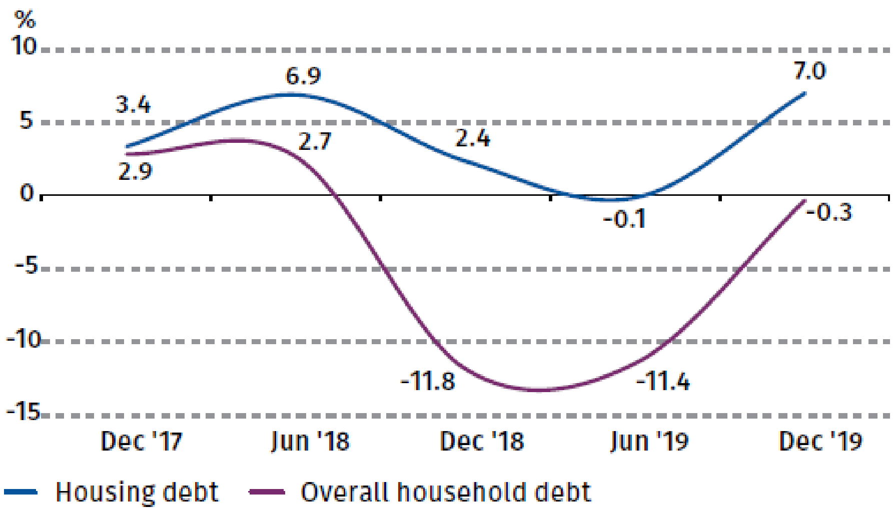
Household Sector – Share of Newly- Approved Loans by DSR



Household sector debt conditions (cont.)

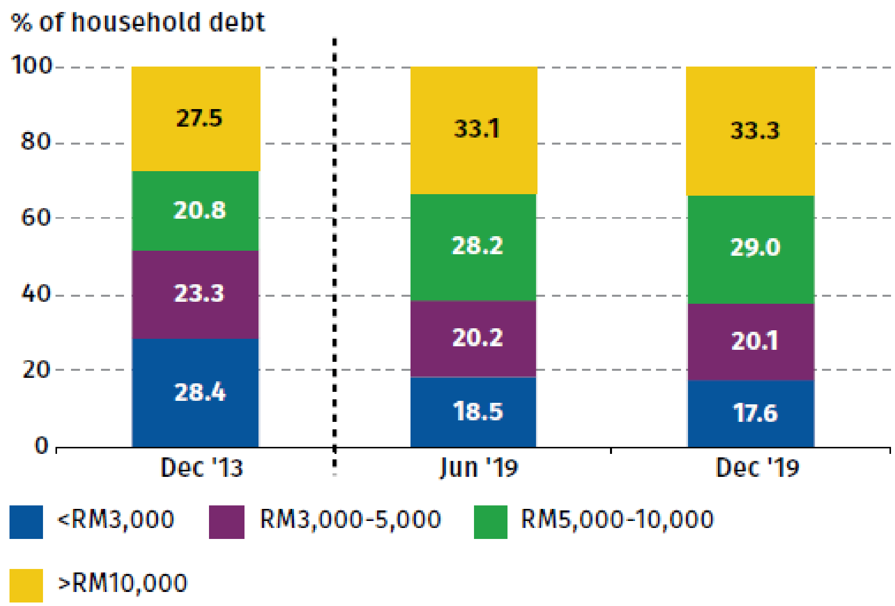
Higher impaired loan growth for residential properties

Household Sector – Annual Growth of Impaired Loans



Exposures to vulnerable borrowers continued to decline

Household Sector – by Monthly Income Group

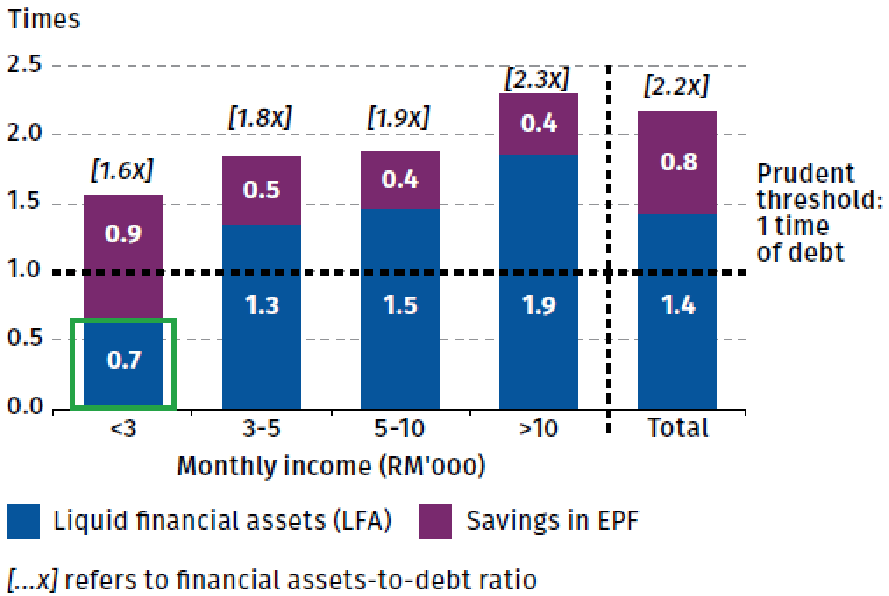


Source: BNM

Household sector debt conditions (cont.)

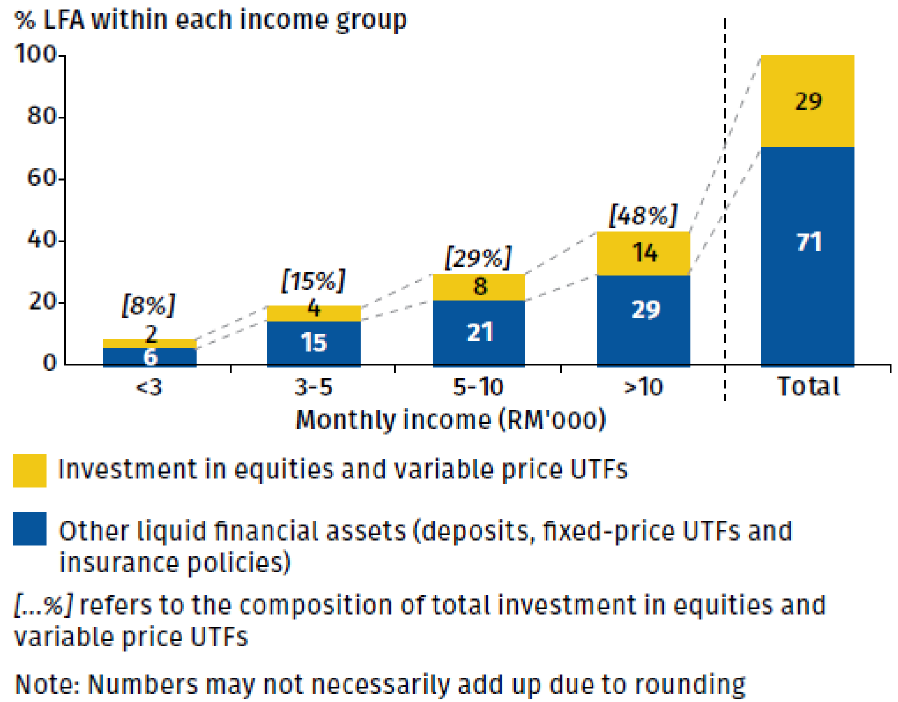
Vulnerable borrowers have insufficient LFA cover

Household Sector – Financial Assets-to-Debt Ratio by Type and Income Group



Larger holdings of equities and variable price unit trust funds among higher-income group

Composition of Liquid Financial Assets by Components and Income Group

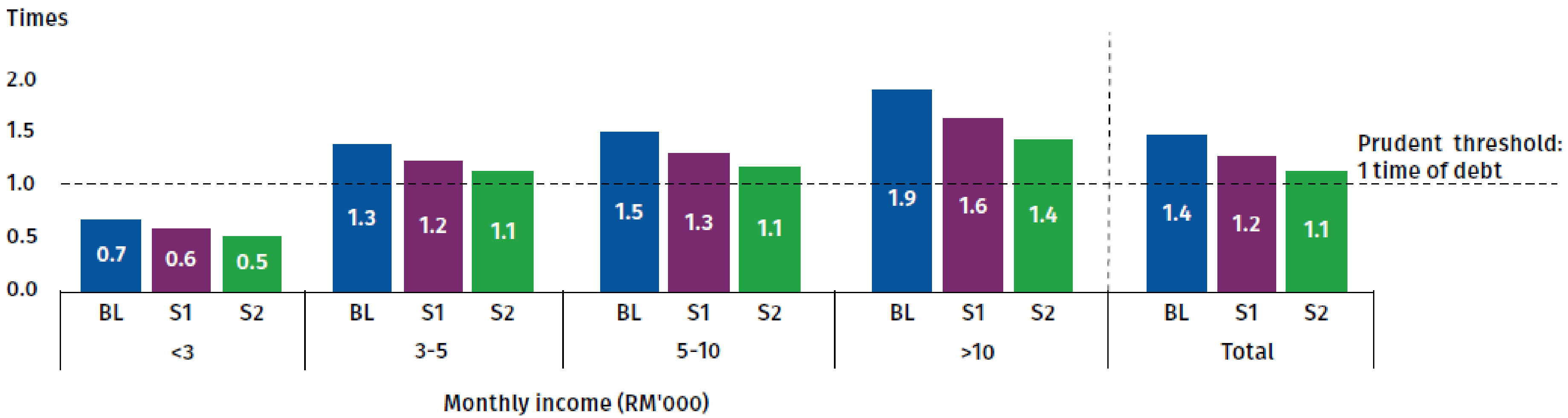


Source: BNM

Household sector debt conditions (cont.)

While higher-income groups are more sensitive to equity market volatility, their asset cover remained above the prudent threshold

Pre- and Post-shock Scenarios – Liquid financial assets (LFA) Cover by Income Group



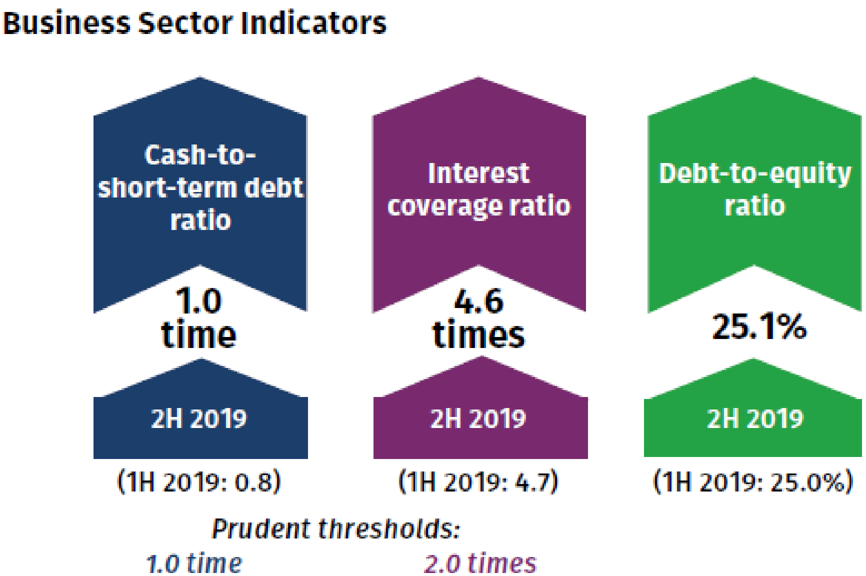
BL = Baseline
S1 = 45% decline in value of equity and variable price UTF holdings (as per scenario during GFC)
S2 = 77% decline in value of equity and variable price UTF holdings (as per scenario during AFC)

Most households would still maintain an LFA cover above the prudent threshold, as more than 60% of which are held in bank deposits and investments in fixed-priced unit trust funds (UTFs), which are not affected by movements in the equity market.

Source: BNM

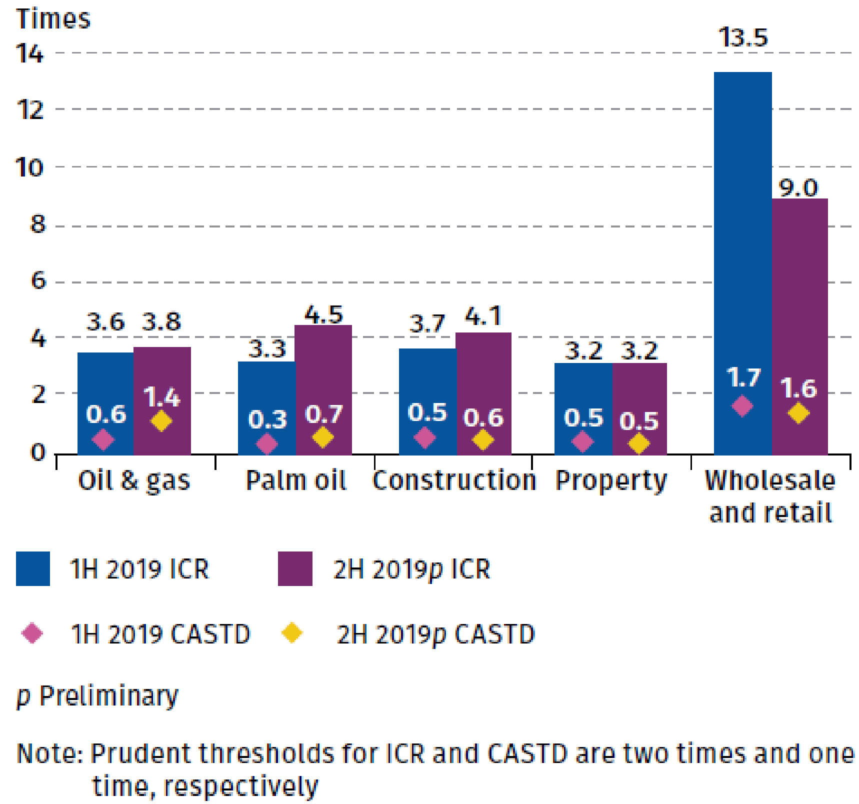
Business risks to the financial system are contained

Most firms have the capacity to continue servicing their debt



Debt-servicing capacity improved for most sectors

Business Sector – Liquidity and Debt-servicing Capacity Indicators for Selected Sectors



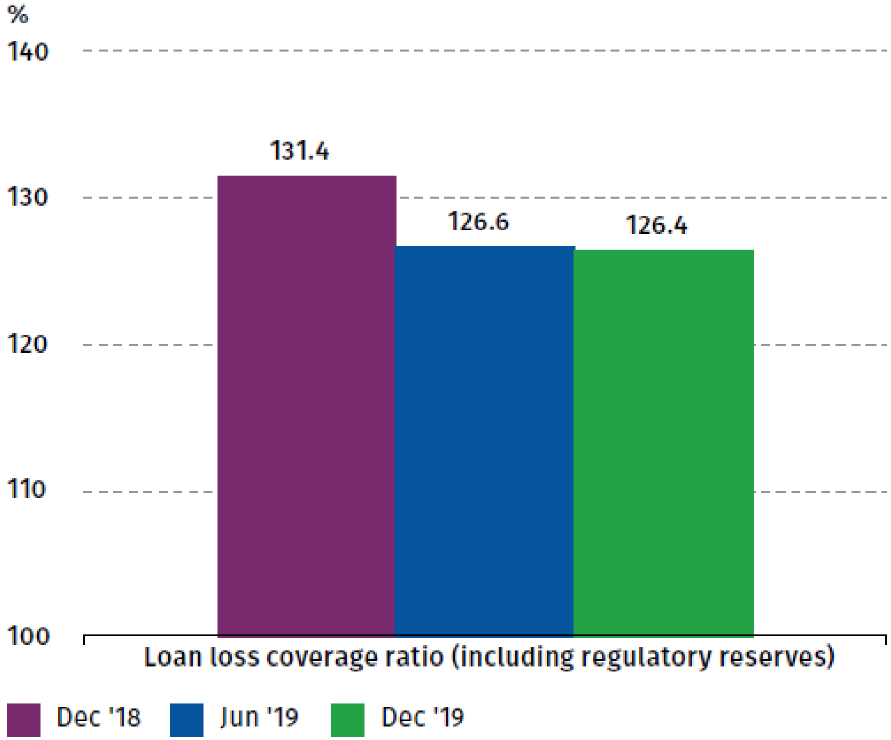
ICR = Interest coverage ratio
CASTD = Cash to short-term debt ratio

Source: BNM

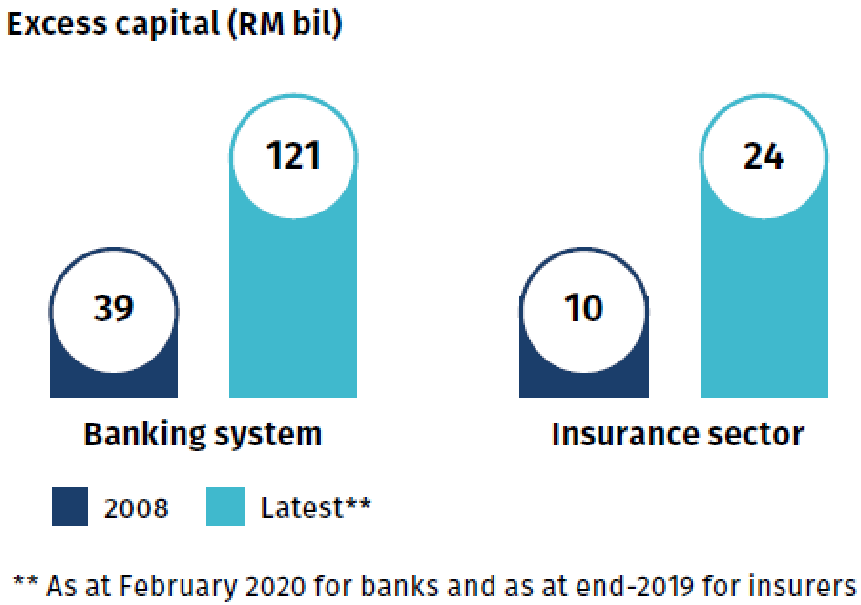
Sustained profitability and sound asset quality strengthened the solvency position of the banking system

Banks continued to maintain strong buffers against potential credit losses

Banking System – Provisions



Banks and insurers' capital buffers sufficient to absorb potential losses and support lending activity



The excess capital of RM121 billion allowed the six-month loan moratorium and continued support lending activity.

Source: BNM

Persistent weak investment is threatening Malaysia's future potential growth

- **Private investment recorded the lowest growth of 1.5%** (4.3% in 2018) since Global Financial Crisis (GFC) in 2008-2009, much lower compared to **long-term average growth of 7.9%**.

- The **weak investment growth** in recent years were **contributed by**:

Challenging global macroeconomic backdrop

  – UNCTAD highlighted that average net FDI growth globally dropped from 8% (2000-2007) to only 1% in the recent decade.
  – **Net FDI in Malaysia declined by an average of 11% a yea**r between 2016 and 2019

Oversupply in domestic property market

  – Total construction work done continuously moderating to 0.6% growth in 2019 from 25.5% in 2012 due to oversupply and persistent market imbalances.
  – The slowdown in residential and commercial property construction caused the significant decline in the contribution from structures investment since the peak in 2012.

Sharp fall in oil prices

  – Oil and gas sector reduced their capital expenditure significantly for four consecutive years after sharp decline in oil prices since late-2014, resulting a fall of share of mining sector to private investment from 15% in 2015 to 10% in 2018.

Holistic reforms are necessary to reinvigorate investment

3 Key Areas of Reform	Ideas for Reform
Investment Policy	Establish National Investment Aspirations aligned to Malaysia's developmental objectives
Investment Promotion	Streamline investment promotion and elevate investor services to facilitate realisation of investment
Tax Incentives Administration	Develop clear, transparent, and predictable tax incentives administration system

Key areas of reform to strengthen investment ecosystem

Establish overall investment policy goals in line with national developmental objectives

- **FIVE "National Investment Aspirations" (NIAs)** outline the key criteria for quality investments necessary for Malaysia.
- To operationalize NIAs**, investment incentives policy should shift away from predominantly targeting specific sectors towards encouraging high-value activities** (e.g. advanced research and development (R&D)).

FIVE "National Investment Aspirations"

Increase economic complexity	Create high-value jobs	Extend domestic linkages	Develop new and existing clusters	Improve inclusivity
• Development of sophisticated products and services • High local R&D and innovation intensity	• High-skilled, high-income employment for locals	• High use of domestic inputs • Increased breadth and depth of domestic supply chain	• Development of high-productivity sectors • Development of new products and services locally	• Improve development in underserved areas and communities

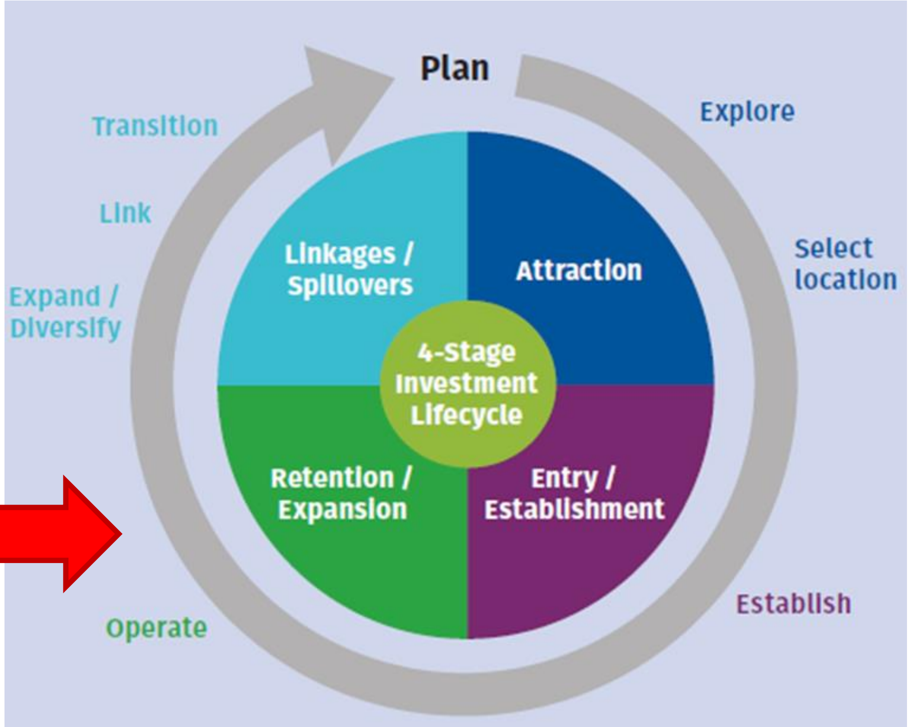
Key areas of reform to strengthen investment ecosystem (cont.)

Streamlining investment promotion and elevating investor services to facilitate the realisation of investment

- The success of coherent investment ecosystem hinges on **a strategic division of mandates to avoid confusion among investors and a well-structured, well-coordinated institutional framework**.
- This arrangement should **facilitate the implementation of investments by reducing bureaucracy at both the Federal and State level**.

Broad types of services that the Investment Promotion Agencies (IPAs) provide to investors – and that investors typically expect – at different stages of the investor journey.

Investment Lifecycle



Source: World Bank

Key areas of reform to strengthen investment ecosystem (cont.)

Clear, transparent and predictable tax incentives administration

- **Investment tax incentives should be efficient and transparent** to allow investors to make informed decisions on investing.
- The recent **centralisation of incentives approvals under the National Committee on Investments** (NCI) is a positive step towards streamlining and strengthening the incentives administration framework.
- **For standard cost-based incentives, an automatic approval system can be introduced with transparent criteria and self-assessed outcomes** reported during the annual tax return.
- **To attract high-quality and strategic investment, customised incentives are necessary**. Malaysia needs to define strategic investors that allow Malaysia to acquire new skills, talent and establish leadership in emerging technology while at the same time to improve the ability to monitor investor compliance and the desired outcomes.

CONCLUSION

- The IMF said that the COVID-19 global pandemic has triggered a global recession and the fallout will be much worse than 2008-2009 Global Financial Crisis. Bank Negara Malaysia projects **Malaysia's GDP growth between -2.0% and +0.5% in 2020**, much lower than Ministry of Finance's estimates of 3.2%-4.2% in February 2020 and 4.8% in October last year. SERC's estimate is -3.0% in 2020 with still considerable downside risks.

- **Consumer spending**, to be lifted by cash aids and cash flow cushion measures would be the only primary support to the economy. **Weak global demand, dampened business sentiment and sharply reduced tourism activities are expected to push investment and external sector into a deep negative territory,** and wipe off the gains from consumption, and causes a recession.

- While the **services sector is severely hit by sluggish retail and tourism-related activities, the manufacturing sector is expected to contract sharply by 8.6% while other key economic sectors also in a contraction mode**. As the 28-day MCO (18 March to 14 April) has only allowed selective operation of industries and supply chains in the manufacturing sector, but not the construction and some mining-related sectors, this has led to a major loss of output.

CONCLUSION (cont.)

- Even the MCO is lifted after 14 April, **stricter protection procedures and social-distancing measures are expected to continue until the COVID-19 situation stabilises**, and hence, we expect a gradual return to normalcy in consumer spending and business activities. Foreign tourists are expected to resume leisure and travelling until sentiment improves and coronavirus global outbreak subsides.

- The **timely rollout of RM250 billion or 17% of GDP Economic Stimulus Packages and monetary and financial measures could ease economic and financial pressures on domestic economy and businesses**, but it is likely to avert a recession this year.

- **Weaker domestic demand and lower fuel prices-induced risk of deflation arises** as BNM estimates headline inflation to average -1.5% to +0.5% in 2020. We expect Bank Negara Malaysia to cut interest rate by 50 basis points to 2.00% in May 2020 and also more liquidity injection into the banking system.

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