社会经济研究中心

SOCIO-ECONOMIC RESEARCH CENTRE

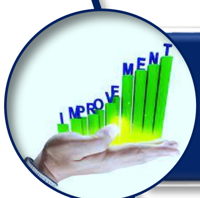
Bank Negara Malaysia (BNM)'s Economic and Monetary Review 2021 & Financial Stability Review, Second Half 2021

Reforms Beyond Pandemic

30 March 2022

Key messages

Global economy continues growing, albeit at a moderate pace in 2022

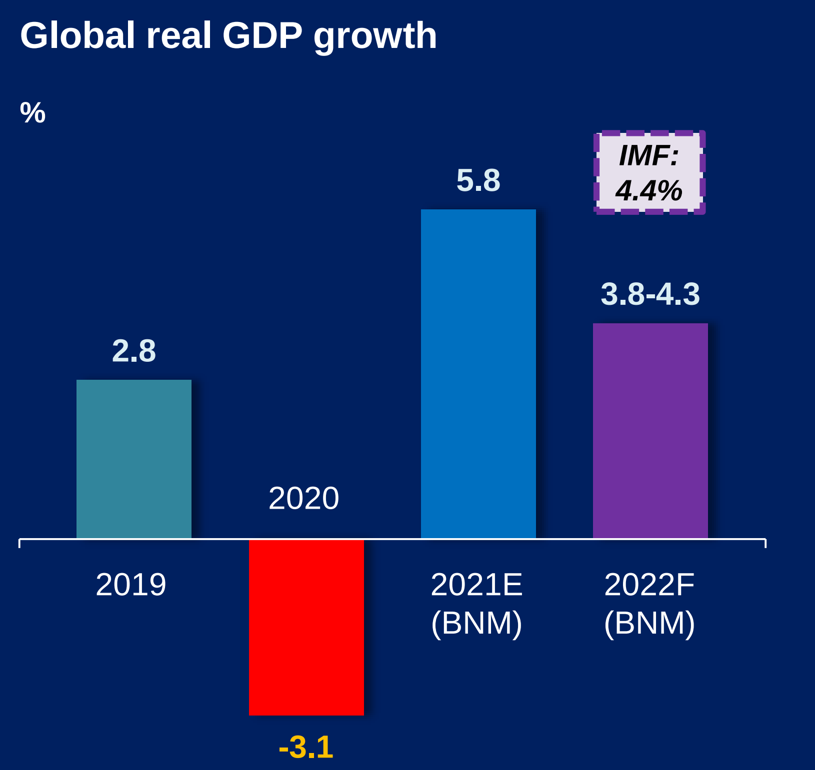


The Malaysian economy remains on the path of recovery

Well-executed structural reforms to strengthen economic resilience

Economic and financial issues

Global growth continues in 2022 amid uncertainties abound



The **global economy is expected to continue its recovery path in 2022, albeit at a moderate pace** as countries gradually transition towards normalcy, albeit at varying degrees.

The **improvement in labour market conditions** amid the **progressive reopening of economies** in 2021 is expected to facilitate recovery in private sector activities in 2022.

Global inflation is projected to rise and remain elevated in 2022, driven by higher energy and commodity prices and ongoing disruptions in the global supply chains in an environment of a sustained demand recovery.

Balance of risks to global growth remains tilted to the downside. There remain heightened geopolitical tensions, continued uncertainties surrounding COVID-19, high for longer inflation as well as global monetary tightening.

Source: IMF; BNM

Key risk factors to global growth

Downside risks

Reimposition of broad-based and strict containment measures in the event of the COVID-19 resurgence

A slower-than-expected recovery in China

Extreme weather conditions and disruptions in the **production of commodities**

Worsening geopolitical conflicts – unfolding developments surrounding Russia's **military conflict in Ukraine**

Accelerated pace of **monetary policy tightening** across the world

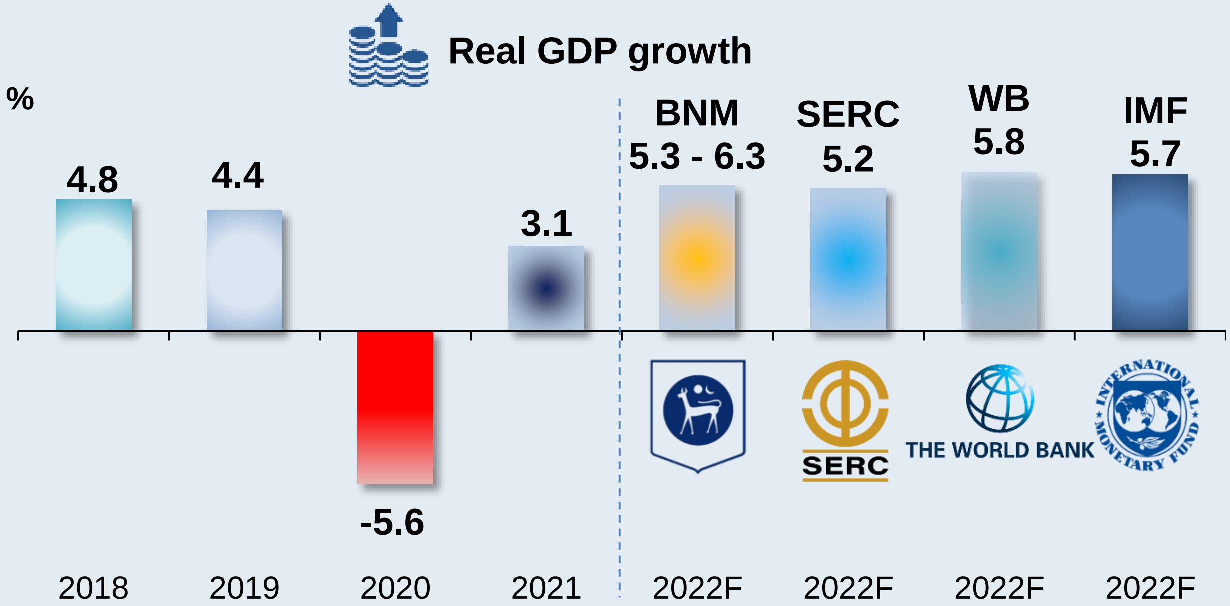
Sharp capital outflows lead to tighter global financial conditions

Upside risks

Faster rollout and wider outreach of vaccines as well as **new treatment options for the COVID-19 infections**

Prolonged or larger-than-expected fiscal support would underpin a faster recovery in demand or cushion any unexpected economic shocks

The Malaysian economy remains on the path of recovery in 2022



Key Growth Drivers

- **Continued expansion in external demand supported by the tech upcycle**
- **Lifting on containment measures & reopening of international borders**
- **Improvement in employment and income prospects**
- **Continued access to targeted policy measures**

Key Challenges in 2022

COVID-19 pandemic developments

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

Ongoing geopolitical conflicts

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

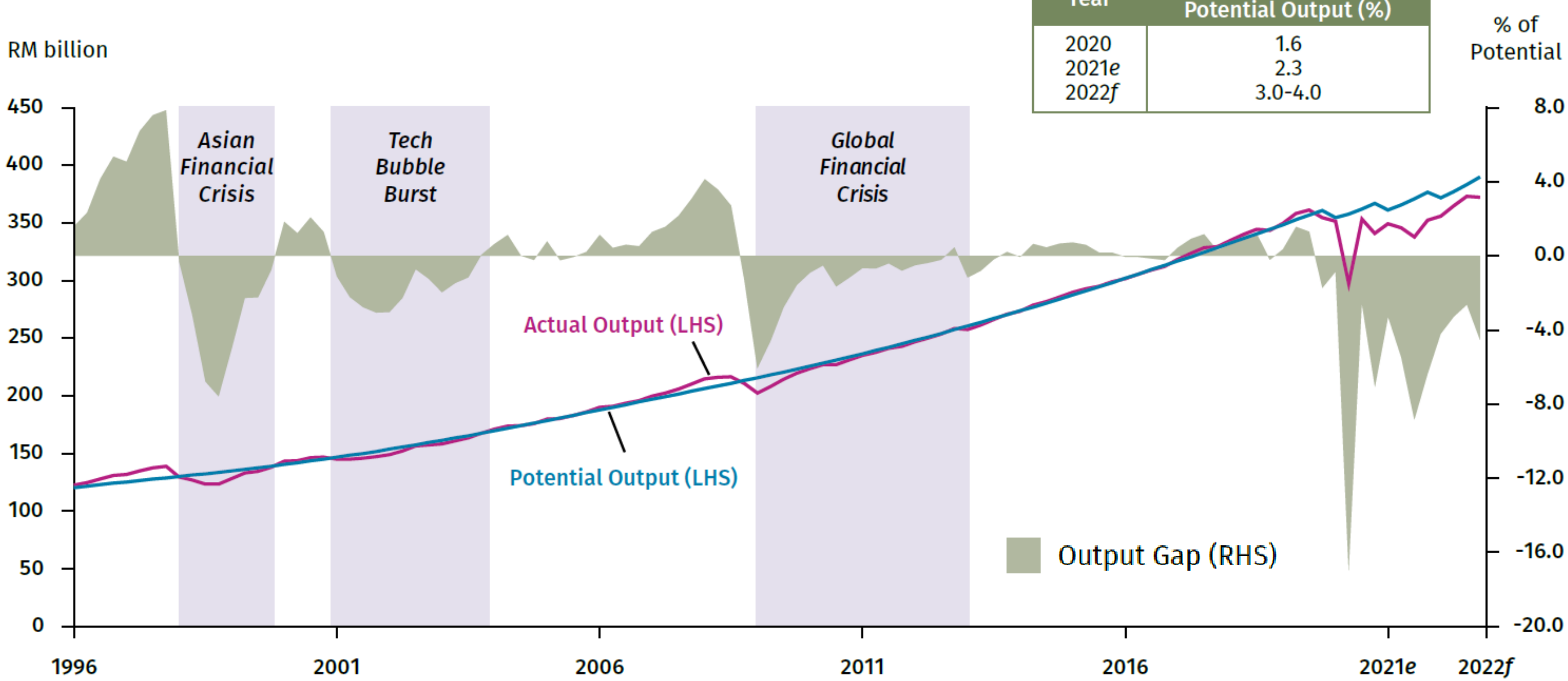
Elevated cost and price pressures

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

Source: DOSM; BNM; SERC; World Bank; IMF
** mid-estimate at 5.8%*

Malaysia's potential output and the output gap

- **Negative output gap remained sizable in 2021**, reflected the economic slack arising from the underutilisation of factors of production given the moderate recovery in actual output.
- However, the **negative output gap is expected to narrow further in 2022**, supported mainly by a recovery in capital expenditure and labour force expansion.
- **Potential output growth is projected to revert to the pre-crisis rate of 4.0-5.0% over the medium term**, supported by the continued progress in automation, digitalisation, and implementation of digital infrastructure projects, which can enhance productivity and technology levels



Year	Annual Growth in Potential Output (%)
2020	1.6
2021e	2.3
2022f	3.0-4.0

Source: DOSM; BNM estimates

Risks to the economic outlook remain tilted to the downside

Higher-than expected global growth

Stronger-than-expected improvement in tourism-related sectors amid reopening of borders

Upside risks from external and domestic demand

2021E:
5.3%-6.3%

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

Domestic policy uncertainty

Weaker-than-expected global growth

Further escalation in geopolitical conflicts

Worsening supply chain disruptions and labour shortages

Emergence of severe, vaccine-resistant Variants of Concern (VOCs)

Heightened financial market volatility leading to tightening financial conditions

Higher-than-expected cost and price pressures weighing on business and household sentiment

SERC's commentaries

- **A year of recovery amid downside risks to the growth outlook.** We concur with Bank Negara Malaysia's assessment that Malaysia's economic recovery remains on track in 2022, supported by continued global recovery, the full upliftment of containment measures and the reopening of international borders.

- The central bank reckons that while the **Malaysian economy is not yet out of the woods**, we are better prepared in terms of virus prevention and our healthcare facilities' preparedness to cope with future health-related shock.

- **2022's GDP growth estimate revised lower.** Bank Negara Malaysia **revises 2022's GDP growth estimate lower to 5.3%-6.3%** (mid-estimate at 5.8%) from the Treasury's 5.5%-6.5% forecasted in October 2021. **SERC's estimate of 5.2% falls within the range**.

- **Risks to domestic economic growth remain tilted to the downside.** We concur with Bank Negara Malaysia's assessment of the following risks to the economy:

  a) On the external front, worsening supply chain disruptions and heightened financial volatility could significantly affect Malaysia's growth and trade outlook;

  b) Prolonged and further escalation of the geopolitical tensions would impact Malaysia via the tension's impact to global growth and trade, prices and financial market volatility;

  c) On the domestic front, the emergence of severe vaccines resistance variants; reimposition of containment measures; slow rollout of public infrastructure projects;

SERC's commentaries (cont.)

d) More persistent labour shortages and supply chain disruptions; and

e) Higher than expected inflation would reduce disposable income and dampen consumer sentiments

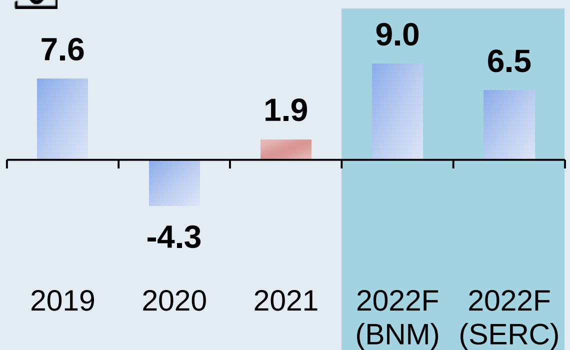
- The Malaysian economy has not fully recovered from the deep scarring effects of the long two years COVID-19 pandemic crisis amid lingering concerns about the highly transmissible Omicron virus. **Our external sector remains susceptible to any persistent shocks that would threaten the world economy** as a sharp economic slowdown in Malaysia's major trading partners would weigh on our exports engine growth.

- Russia's invasion on Ukraine has triggered massive negative supply and oil price shocks, which pose a double-blow to the world economy. This perfect storm can further dent growth prospects and driving inflation higher at a time when inflation expectations are already becoming unanchored. Businesses are struggling with the supply chain disruptions, increased input and logistic costs.

- **The risk of global stagflation and recessionary conditions have risen in some advanced economies, especially in the US and European countries.** The US Fed's resolve of reining in persistent surge in inflation pressure through possibly aggressive interest rate hikes could slow the US economy sharply and may tip it into recession. China's zero COVID approach's triggered lockdown in some provinces and property debacle has bitten its growth.

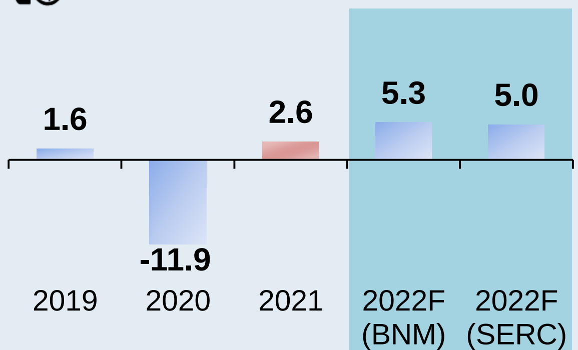
Domestic demand continues to be the main anchor of growth

Private Consumption (%) [**58.8% of GDP**]



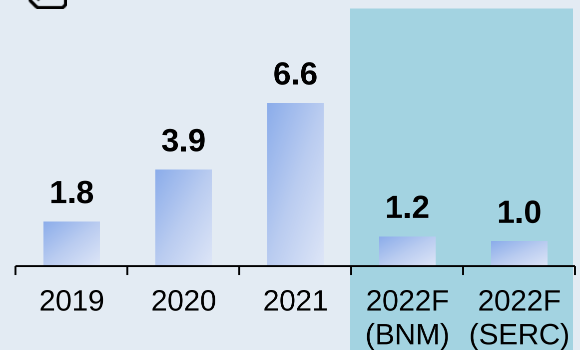
- Recovery in **income and employment**
- **Household spending** improves as containment measures are fully eased
- Rise in online spending

Private Investment (%) [**15.6% of GDP**]



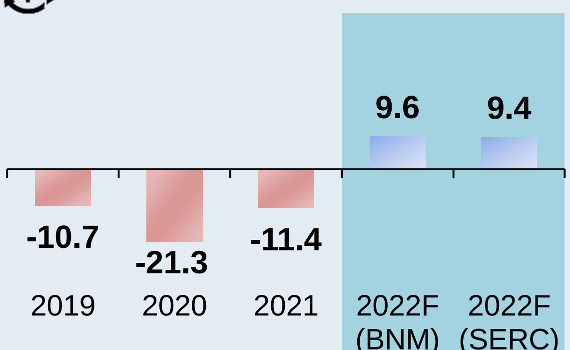
- **Resumption of existing projects** and **commencement of new capital spending** by businesses

Public Consumption (%) [**13.8% of GDP**]



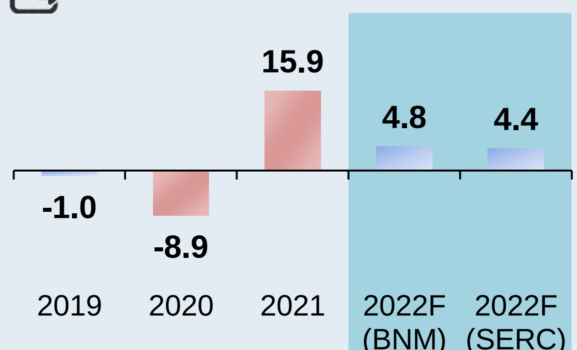
- **Slower growth in emoluments**
- **Contraction in supplies and services expenditure**
- Supported by **COVID-related spending**
- Allocation for small projects

Public Investment (%) [**4.5% of GDP**]



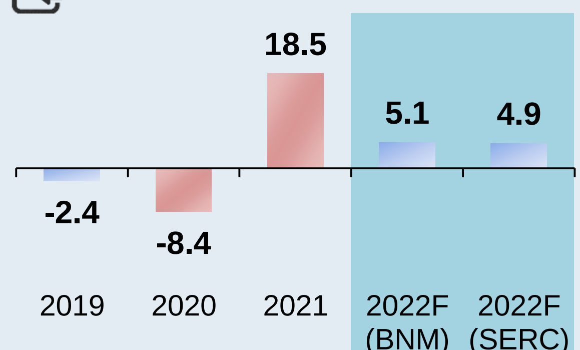
- **Increase in fixed assets spending** on transportation, public utilities, healthcare and education

Real Exports (%) [**69.2% of GDP**]



- Continued external demand from key trade partners
- Strong global demand for E&E products
- Improvement in commodity production

Real Imports (%) [**63.2% of GDP**]

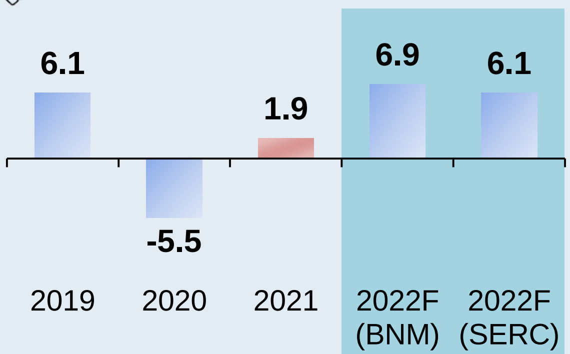


- Continued expansion of manufactured exports
- Improvement in domestic demand

Note: Figure in parenthesis [ ] indicates share of GDP in 2021
Source: DOSM; BNM; SERC

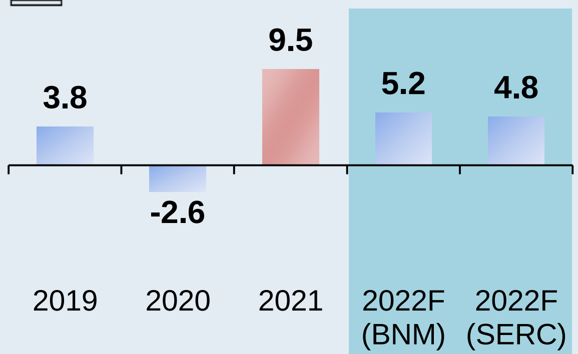
Sectoral outlook: Expansion in all economic sectors

Services (%) [**57.0% of GDP**]



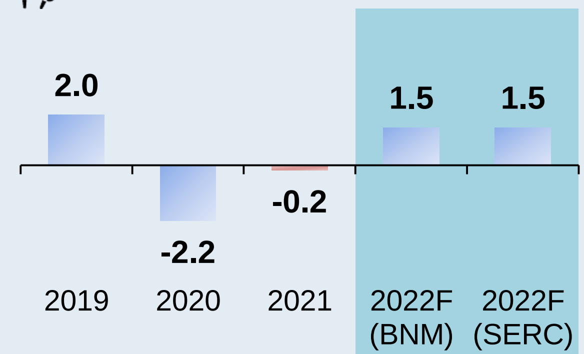
- **Lifting of nationwide containment measures**
- A gradual recovery in **tourist arrivals**
- **Demand for data services**

Manufacturing (%) [**24.3% of GDP**]



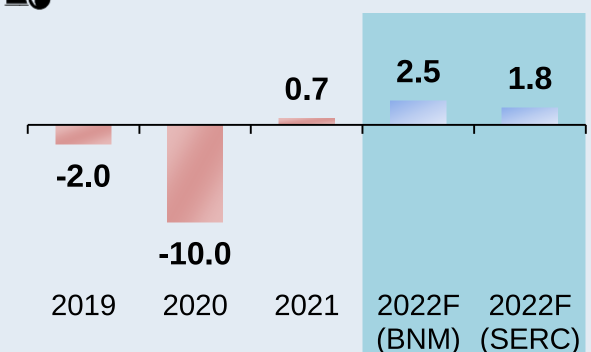
- Strong order books in the **E&E sector**
- Growing production in the **construction-related and consumer-related manufacturing clusters**

Agriculture (%) [**7.2 of GDP**]



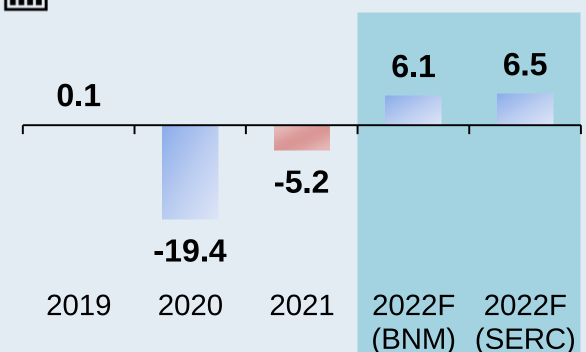
- **Higher oil palm production**
- Continued **strong expansion in livestock and other agriculture subsectors**

Mining and quarrying (%) [**6.7% of GDP**]



- **Operationalisation of new facilities** and **higher production in existing facilities**
- **End of OPEC+ oil output cut agreement**

Construction (%) [**3.7% of GDP**]



- Ongoing **large infrastructure projects** and **small-scale projects**
- **New housing projects and launches**
- **Existing and new commercial** and **industrial projects**

Note: Figure in parenthesis [ ] indicates share of GDP in 2021
Source: DOSM; BNM; SERC

SERC's commentaries

- **Stronger revival in domestic demand.** The projected higher economic growth (5.3-6.3%) in 2022 is **largely anchored by stronger domestic demand (estimated 6.7% in 2022 vs. 1.8% in 2021)**, especially **private consumption growth** (estimated 9.0% in 2022 vs. 1.9% in 2021) amid slowing exports (3.2% vs. 9.8% in 2021).

- **SERC expects private consumption to increase by 6.5% in 2022.** While we reckon that pent-up demand will support consumer spending, but the repairing of impaired households' balance sheet and rebuilding of depleted savings as well as the pick-up in inflation will mean prudent discretionary spending. Higher inflation and cost of living concerns will crimp the households' disposable income (purchasing power) and dampen consumer sentiments. In addition, the expected gradual improvement in the labour market condition (estimated unemployment rate at 4.0% in 2022 vs. 4.5% in 2021) and moderate increases in income would restrict spending.

- **Private investment** is estimated to **pick up moderately to 5.3% in 2022** from 2.6% in 2021, which is in line with our estimate of 5.0%. Increased operating costs, supply disruptions, rising material costs as well as the shortage of workers would dampen business spending and investment. Malaysia needs to re-energies strong quality private investment, especially Domestic Direct Investment to generate economic growth, generate jobs and income as well as drive more exports.

- **Expansion in all economic sectors:**

  a) The **services sector will regain the strongest growth of 6.9% in 2022** (1.9% in 2021), mainly due to a revival in domestic demand on the anticipated rebound in tourism and related services sectors.

SERC's commentaries (cont.)

b) The **manufacturing sector** will grow at a moderate pace (estimated 5.2% in 2022 vs. 9.5% in 2021), backed by the continued demand of electronics and electrical products as well as recovery in domestic market industries such as construction building materials. But, the shortage of workers and supply disruptions would dampen the sector's expansion.

c) The recovery in **agriculture sector** (estimated 1.5% vs. -0.2% in 2021) will be driven by higher palm oil production amid the production will be restrained by the worker shortages, weather and higher cost of fertilizers.

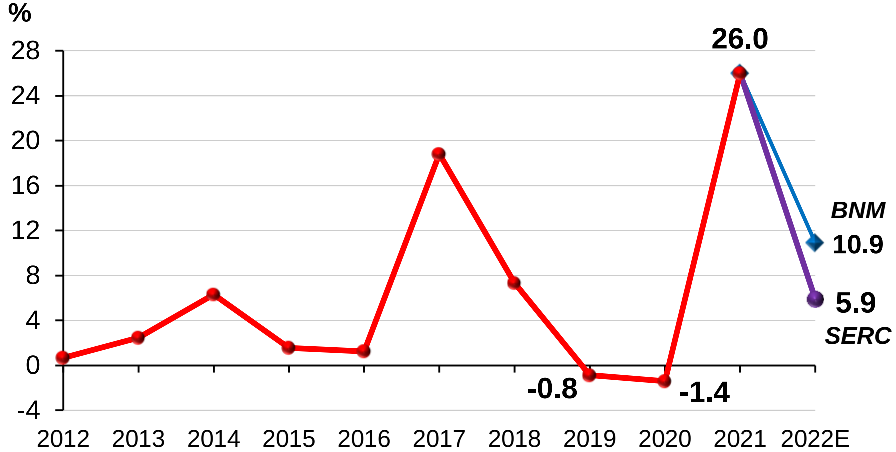
d) The **mining sector** is estimated to register higher growth of 2.5% in 2022 (0.7% in 2021) due to increases in crude oil and natural gas production.

e) The **construction sector** will rebound to grow by 6.1% in 2022 from -5.2% in 2021 following the resumption of construction activities related to residential and commercial development. The implementation of on-going public infrastructure projects such as ECRL, MRT 2, Pan Borneo Highway and Johore-Singapore Light Rail Transit as well as the small projects under the 2022 Budget will support the growth of civil engineering.

The increase in building materials and other operating costs such as logistics, utilities and labour costs (due to the shortage of workers) have impacted the cost of construction. Building material price fluctuations represent a profound and lasting risk to construction projects. These fluctuations are not only causing unanticipated spikes in construction costs, but are also threatening to delay the projects' completion dates due to material rationing or unavailability

Continued export growth; Current account remain in surplus

Exports are expected to expand by 10.9% in 2022 with the support from global demand

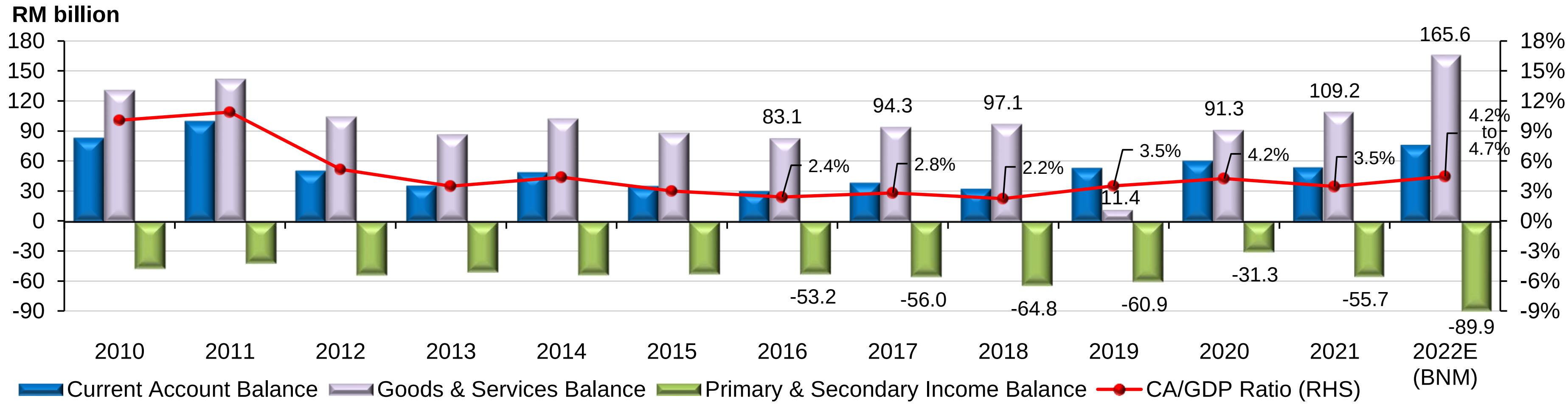


Strong expansion in export products in 2021

Major export products	RM billion	% Growth
Electrical & electronic products [36.8%]	455.7	18.0
Petroleum products [7.7%]	95.7	54.6
Chemical and chemical products [5.7%]	70.7	39.3
Palm oil [5.2%]	64.6	41.6
Rubber products [5.2%]	64.6	45.8
Manufactures of metal [5.0%]	61.6	67.1
Machinery & equipment [4.0%]	49.6	25.7
Optical & scientific equipment [3.8%]	46.9	11.1
Liquefied natural gas [3.0%]	36.6	22.5

Figure in parenthesis indicates % share of gross exports in 2021

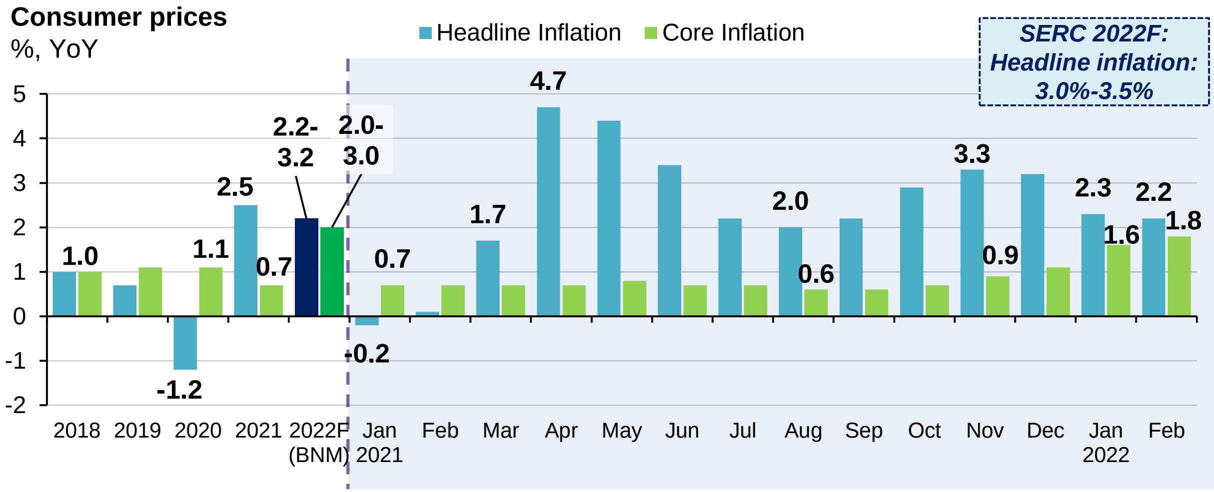
Current account is projected to register a higher surplus in 2022 at 4.2%-4.7% of GDP



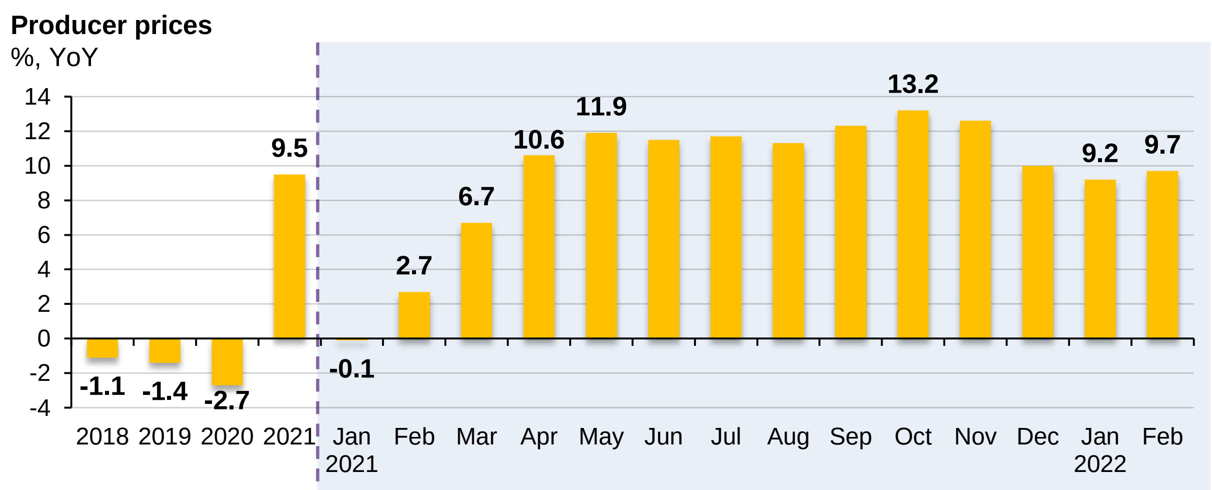
Source: DOSM; BNM; SERC

Higher headline inflation and core inflation in 2022

Headline and core inflation



Producer prices



Source: BNM; DOSM; SERC estimates

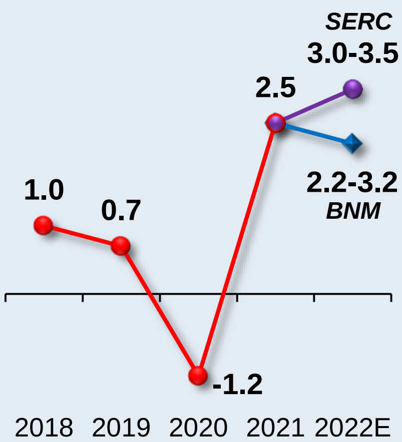
Existing policy interventions to contain pass-through from global cost pressures

Core inflation to average higher as economic activity continues to pick up amid environment of high input costs

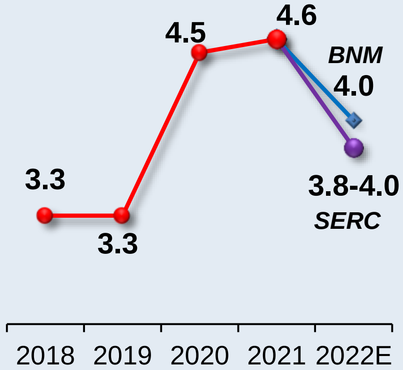
Global commodity price developments amid risks from prolonged **supply-related disruptions**

Malaysia’s other key economic indicators

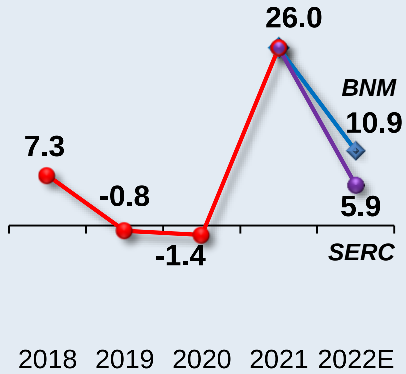
Inflation Rate (%)



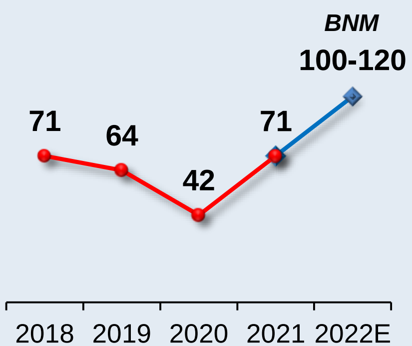
Unemployment Rate (%)



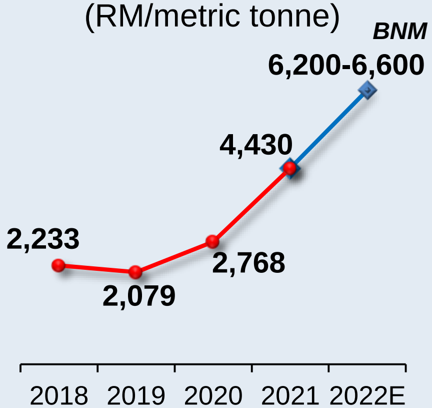
Gross Export Growth (%)



Bent Crude Oil Price
(US$/barrel)



Crude Palm Oil Prices
(RM/metric tonne)



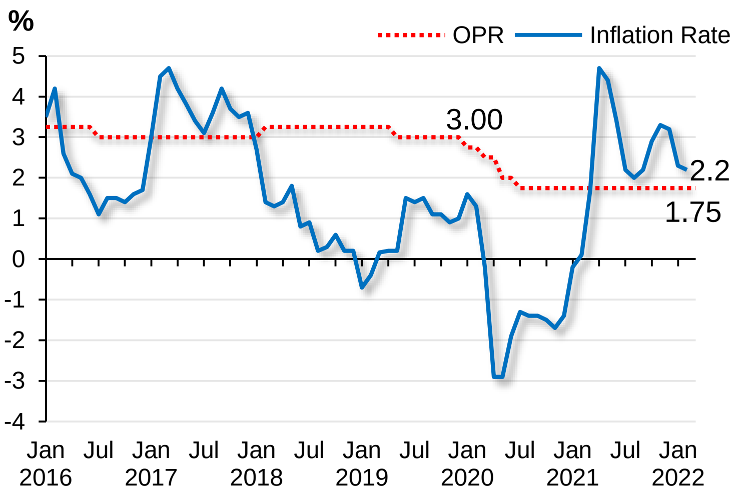
Source: DOSM; World Bank; MPOB; BNM; SERC

Gross exports contributed by **E&E products and commodity products** (e.g. crude oil, LNG and CPO)

A decline in unemployment rate due to targeted labour measures, re-skilling and up-skilling programme to boost labour demand

Monetary policy stance to balance between growth and inflation

Overnight Policy Rate (OPR)

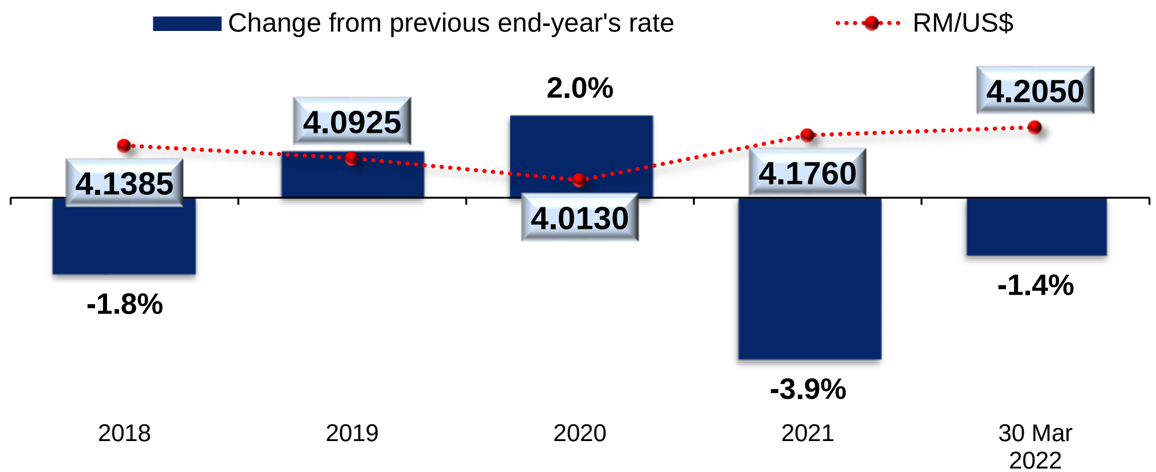


OPR unchanged at 1.75% to maintain support to the economy

Year	OPR (%)*	Inflation
2017	3.00	3.7
2018	3.25	1.0
2019	3.00	0.7
2020	1.75	-1.2
2021	1.75	2.5
*2022E^*	*2.00-2.25*	*3.0-3.5*

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

Exchange rates (RM/US)



Source: BNM; DOSM

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

Ensure degree of accommodation is consistent with the improving economic environment

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

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

Any potential policy adjustments would be gradual and measured

SERC's commentaries

- **Headline and core inflation will move higher in 2022.** Bank Negara Malaysia expects both **headline inflation and core inflation** to **increase higher to 2.2%-3.2% and 2.0%-3.0% respectively in 2022** (+2.5% and 0.7% respectively in 2021). Higher core inflation reflects the recovery in domestic demand.

- **Consumer price pressures come from the pass-through effect from rising non-energy commodity prices, which have exerted price pressures on food and services**. Fuel inflation is contained by the price ceiling on domestic retail fuel prices. However, continued increases in cost of production, as measured by Producer Price Index (PPI), which up 9.7% yoy in February 2022 could result in some pass-through of increased costs onto consumer inflation ahead. **The sustained high global crude oil prices and non-energy commodity prices remain a wild card amid the implementation timing of the fuel subsidy rationalization**.

- **Bank Negara Malaysia to maintain a delicate balancing act between growth and inflation.** Monetary policy will remain accommodative to support a sustainable economic recovery while ensuring price stability.

- The central bank reckons that the significant monetary stimulus needed during the height of the pandemic has abated as the economic recovery is gaining strength. **Sufficient policy buffers must be rebuilt for future shocks.** Keeping low interest rate for a prolonged period can lead to over-indebtedness of the economy, overvalued asset prices and undervalued risks, misallocation of resources and credit, and lower overall productivity.

SERC's commentaries (cont.)

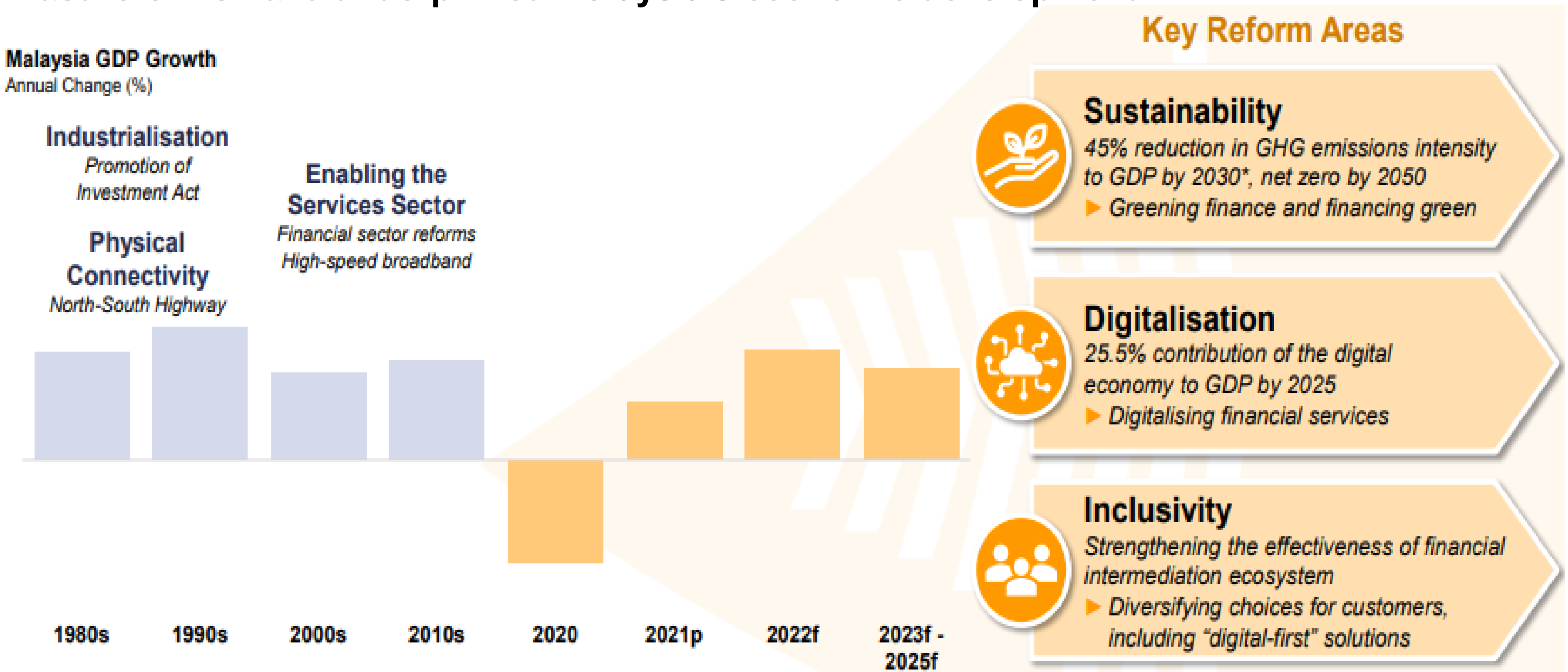
- Given that the outlook for inflation remains largely supply-driven, **Bank Negara Malaysia will be closely looking out for any signs of potential second-round effects**, where price pressures could become more entrenched as domestic demand recovers.

- **Policy rate adjustments will be gradual and measured.** Bank Negara Malaysia **indicates that the interest rate policy will be data dependent**, and **any adjustment in policy rate will be gradual and measured so as not to disrupt the recovery pace.**

- **Should Bank Negara Malaysia raise interest rate to tame inflation risk and anchor inflation expectations?** Some would argue that it is a supply shock and cost-driven inflation risk, and that interest rate hikes cannot affect exogenous negative supply shock. If the central bank's priority is to save growth, and decides to delay interest rate hikes or a gradual pace of monetary tightening, this could accelerate the de-anchoring of inflation expectations, which will be incorporated into decisions and contracts. The situation today is different as the inflation risk already rising, and continued business costs have compelled them to partially pass through onto consumers. **SERC expects the central bank to raise the overnight policy rate (OPR) by 25-50 basis points to 2.00%-2.25% in 2022**.

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

Past reforms have underpinned Malaysia's economic development



Note: 2023f-2025f refers to forecasts from 12th Malaysia Plan. *Based on emissions intensity in 2005
Source: DOSM

SERC's commentaries

- **Reform beyond pandemic.** Bank Negara Malaysia raises the importance of **well executed structural reforms to address the critical challenges of reinvigorating growth opportunities and strengthening our economic and financial fundamentals**. It is clear that Bank's monetary and financial policies alone would not be sufficient, other forms of economic policies, including fiscal policy must be calibrated responsibly to secure sustainable macroeconomic outcomes.

- We concur with Bank Negara Malaysia that it is important for us to maintain and prioritize on the key areas of structural reforms. These include **a shift towards high quality investment, the development of a future-ready workforce, acceleration of social protection reforms, rapid adoption of automation and digitalization, and the continued push to adopt the Environmental, Social and Governance (ESG)**.

- In our view, the economic despair experienced during the pandemic gives us an opportunity to reflect on current structural issues and constraints that require us to recalibrate and undertake politically feasible reforms to deliver a more inclusive, resilient, and sustainable future.

  a) **Leaner government and rebuild public savings.** The Government needs to fix its budget and should stop dis-saving during the good times and resource boom (especially high crude oil prices). The Federal government's spending on operating and development expenditures must be closely scrutinized and prioritized to ensure that they are productive (getting good value for money in public spending), and contribute to the expansion of productive capacity in the economy.

SERC's commentaries (cont.)

It would be better for Government to get leaner and rebuild savings for rainy days. We need the Government to spend prudently and run budget surpluses, and add to national savings, and ramp up investments in productive assets that will boost economic growth and raise our living standards. Large fiscal space allows it to adopt counter cyclical short-term fiscal stimulus programs.

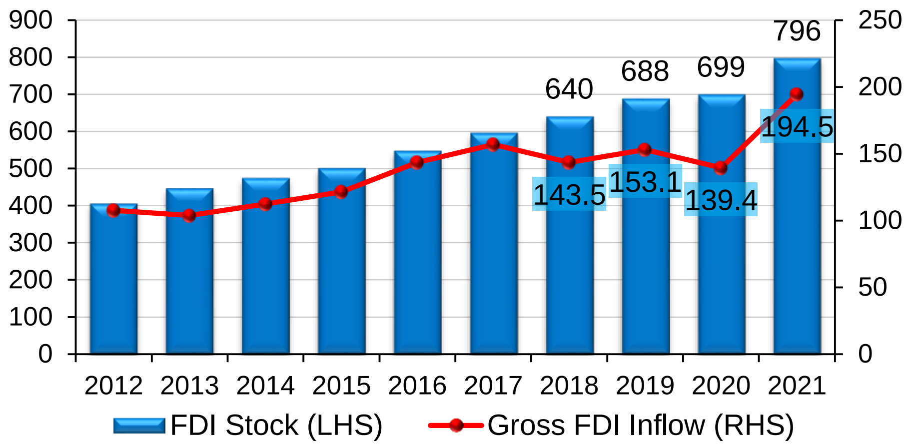
The unsustainable deficits and public debt would have negative effect on households' savings as they have pay high taxes to help funding the budget deficit and servicing the debt service charges. This means that persistent budget deficits constrain the lowering of future tax rate as it reduces tax revenue collection.

b) **Politically feasible tax system reforms.** The tax system must reward greater work efforts and productivity -- relying less on labour and capital income taxes and more on consumption taxes would encourage household savings.

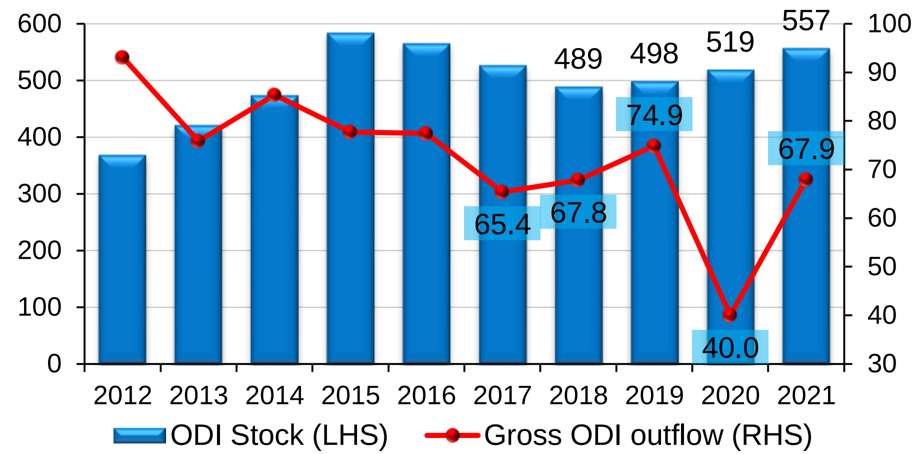
c) **Reduce compliance and regulatory costs.** For businesses, too many taxes, regulatory and compliance costs, notably corporate income taxes and property taxes raise costs and encourage distribution of earnings rather than reinvestment. These taxes are expected to tilt private investment away from investing in plant, machinery, equipment and intellectual property and toward speculative and quick gains investment such as real estates.

Larger net inflows of direct investment

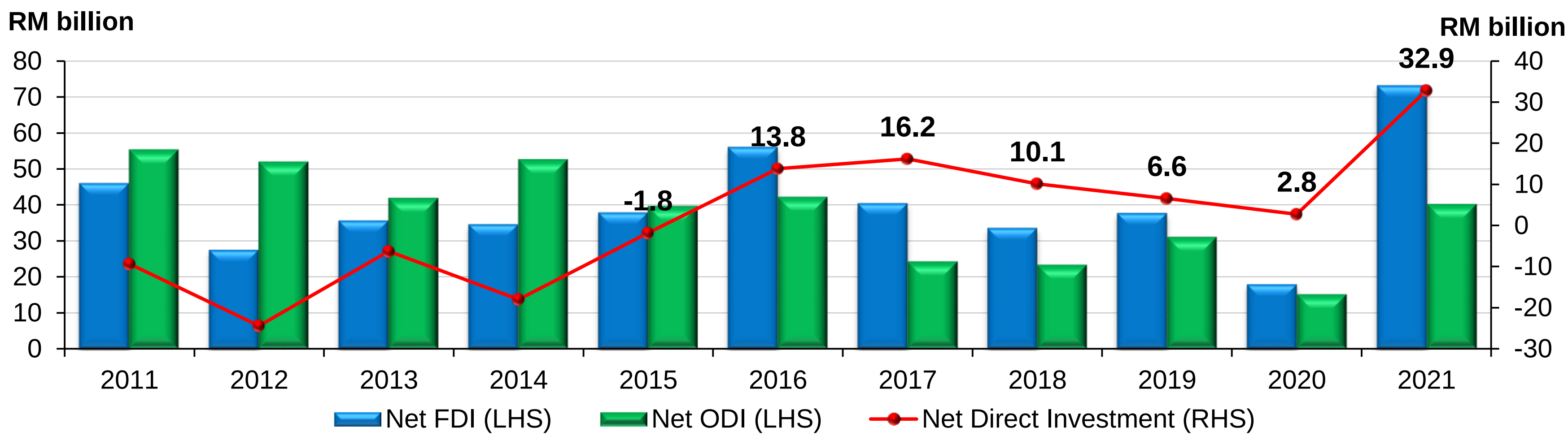
Gross FDI inflows increased significantly in 2021



Gross ODI flows rebounded in 2021



A strong net inflows of direct investment as net FDI inflows improved on broad-base

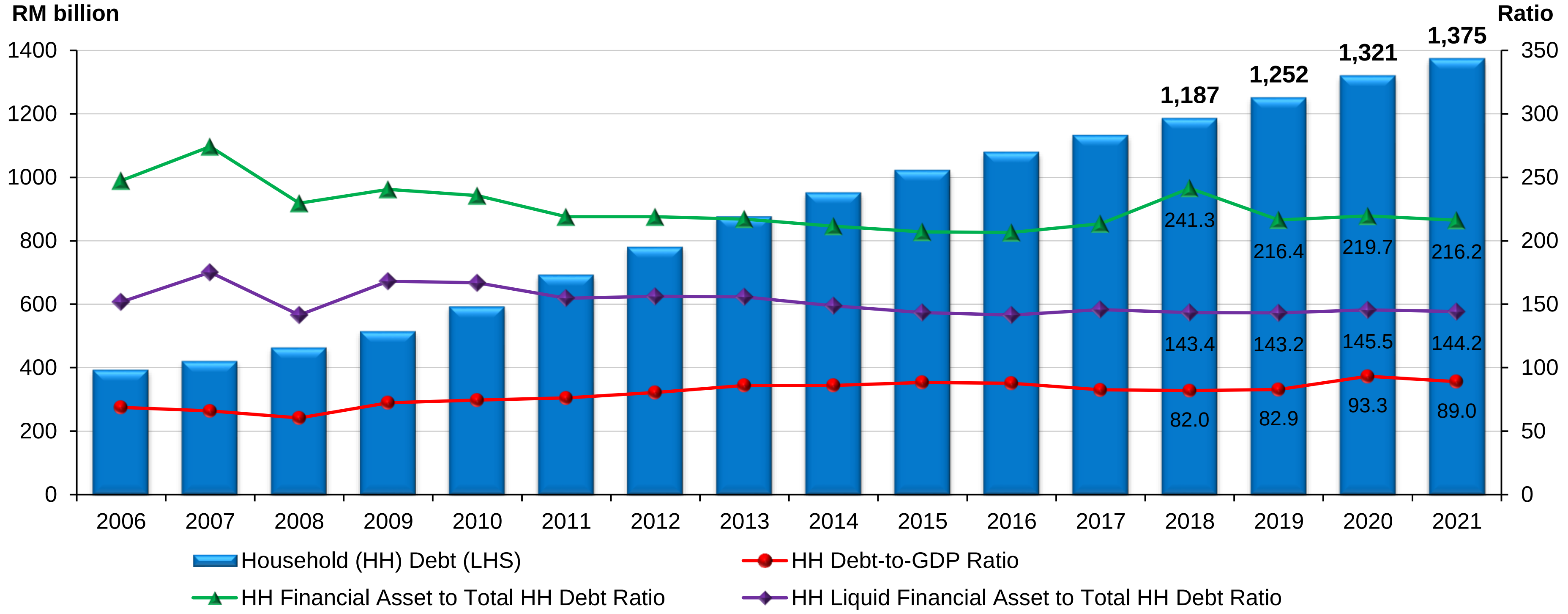


Source: BNM

FDI = Foreign direct investment; ODI = Outward direct investment

Credit risks from the household sector remain manageable

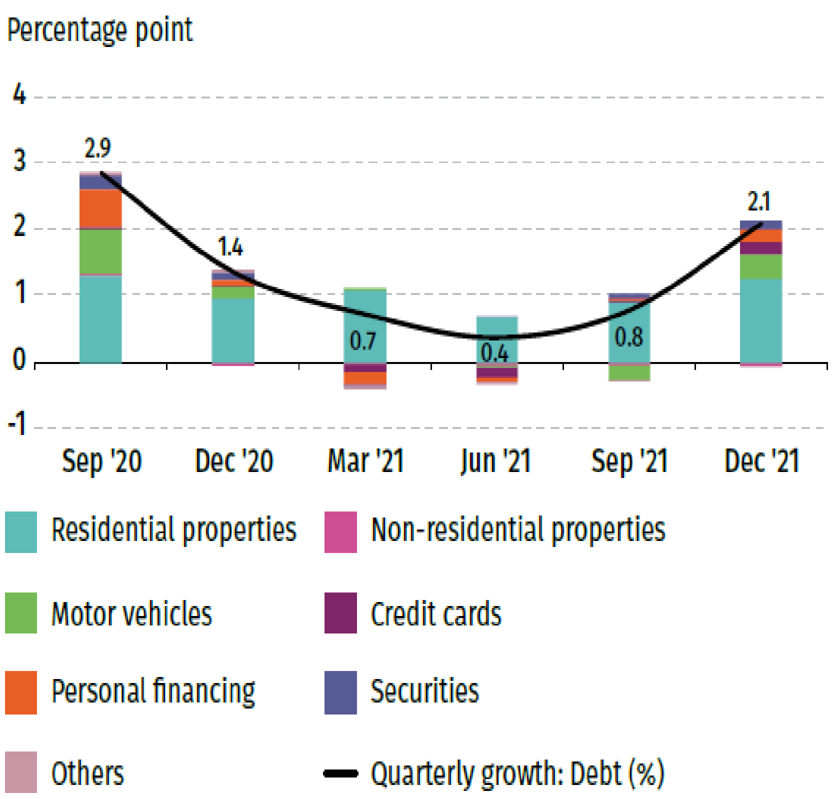
- **Household debt increased by 4.1% to RM1,375 billion in 2H 2021 from RM1,321 billion in 2H 2020**, mainly driven by housing loans as households took advantage of incentives under the Home Ownership Campaign (HOC) which ended on 31 December 2021.
- **Household debt-to-GDP ratio retreated a little to 89.0% in 2H 2021** (2H 2020: 93.3%) **on the back of stronger nominal GDP growth**. Nonetheless**, Malaysia's debt-to-GDP ratio remains on higher end** compared to Singapore (69.7%), Indonesia (17.2%) and Philippines (9.9%).



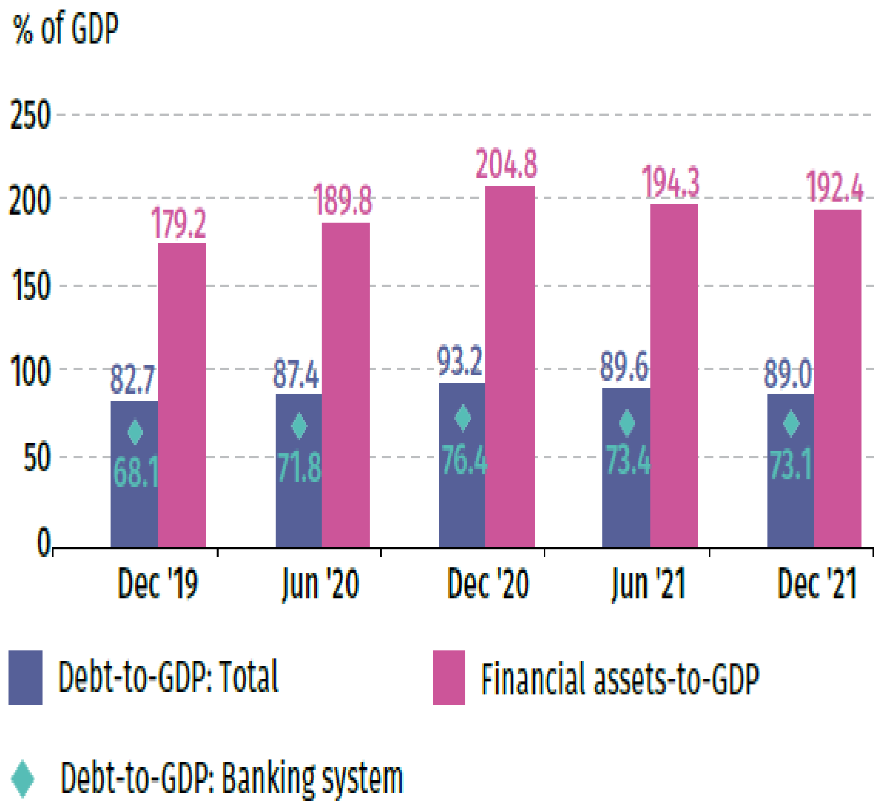
Source: BNM

Household sector debt conditions

Household Sector – Quarterly Growth of Debt



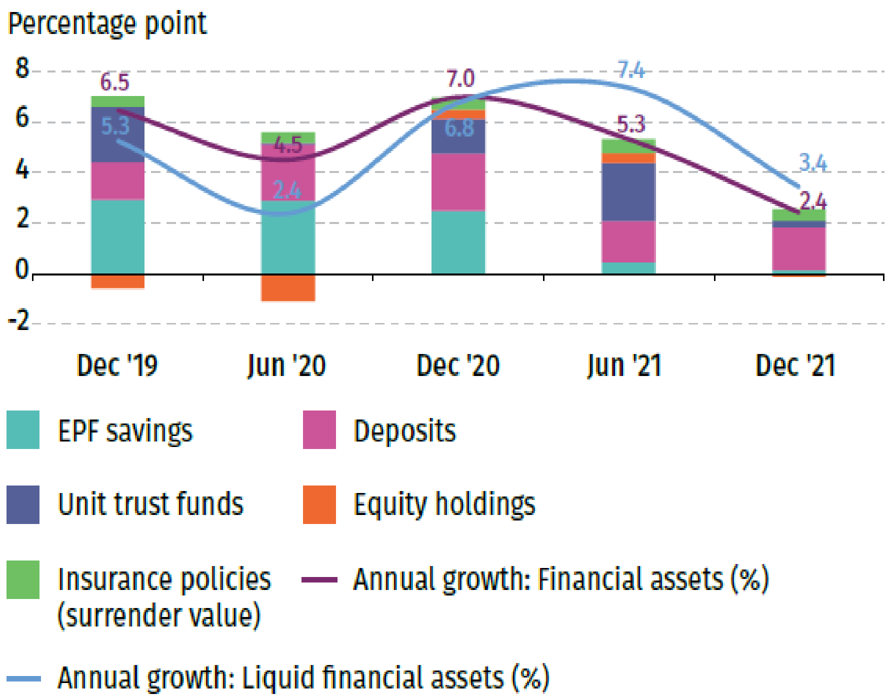
Household Sector – Key Ratios



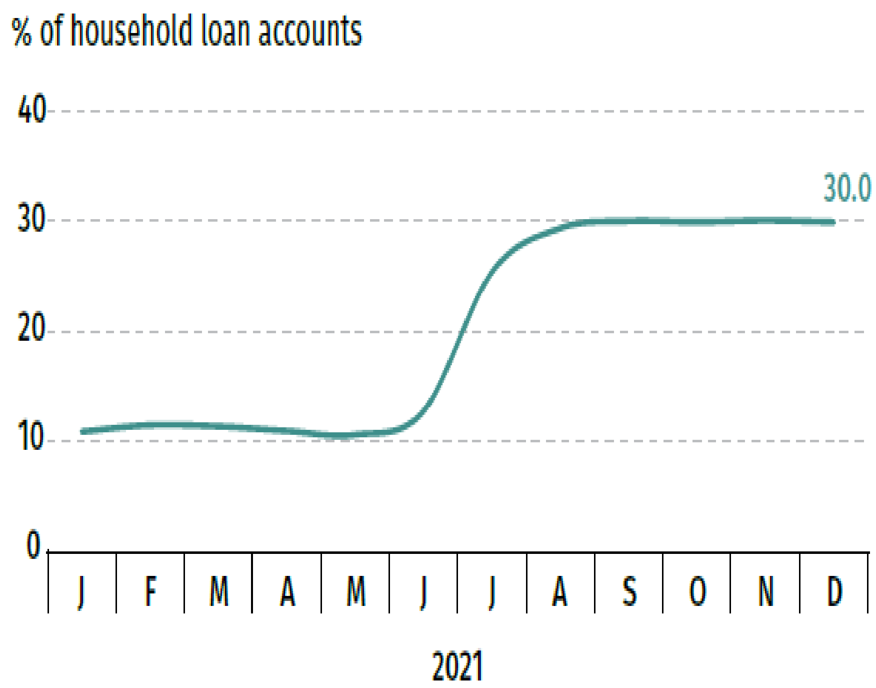
Source: BNM

Household sector debt conditions (cont.)

Household Sector – Annual Growth of Financial Assets



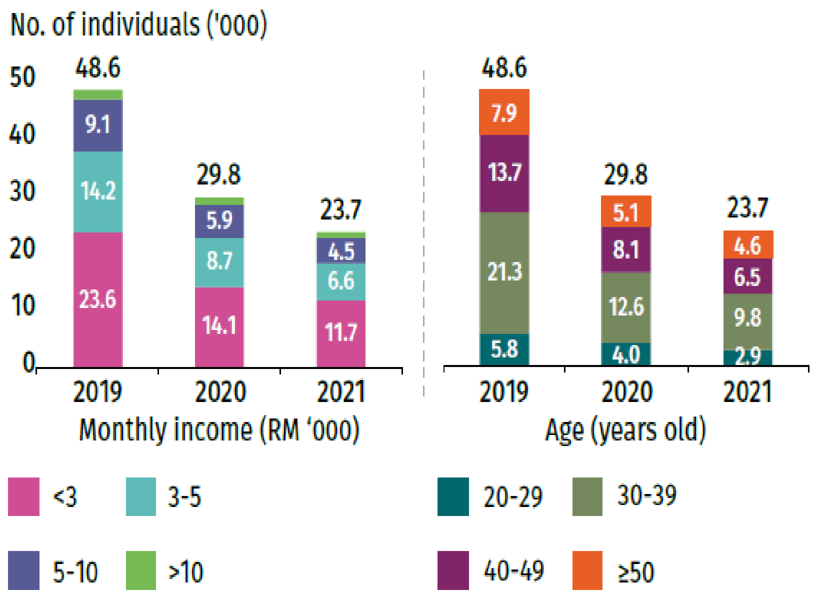
Household Sector – Account under Repayment Assistance



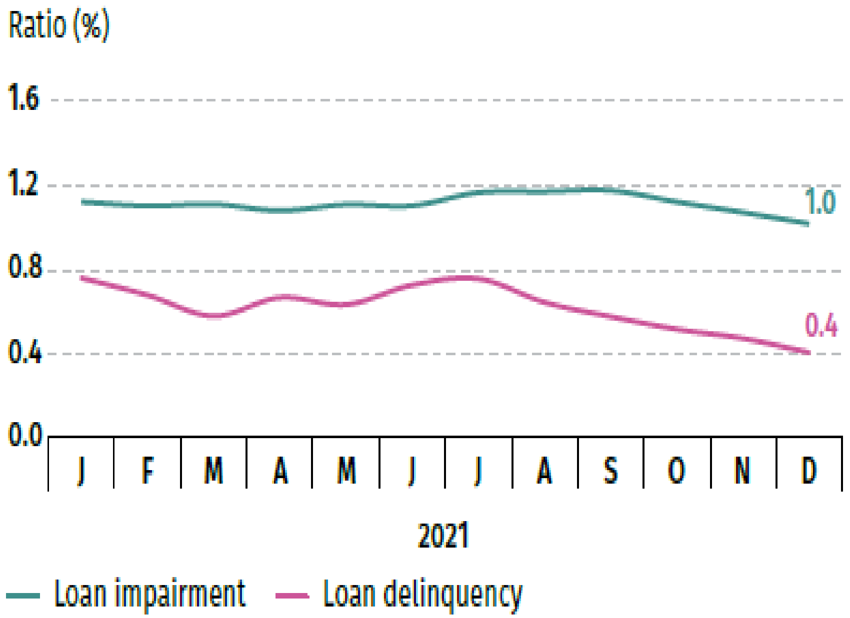
Source: BNM

Household sector debt conditions (cont.)

Household Sector – Debt Management Programme Approved by AKPK



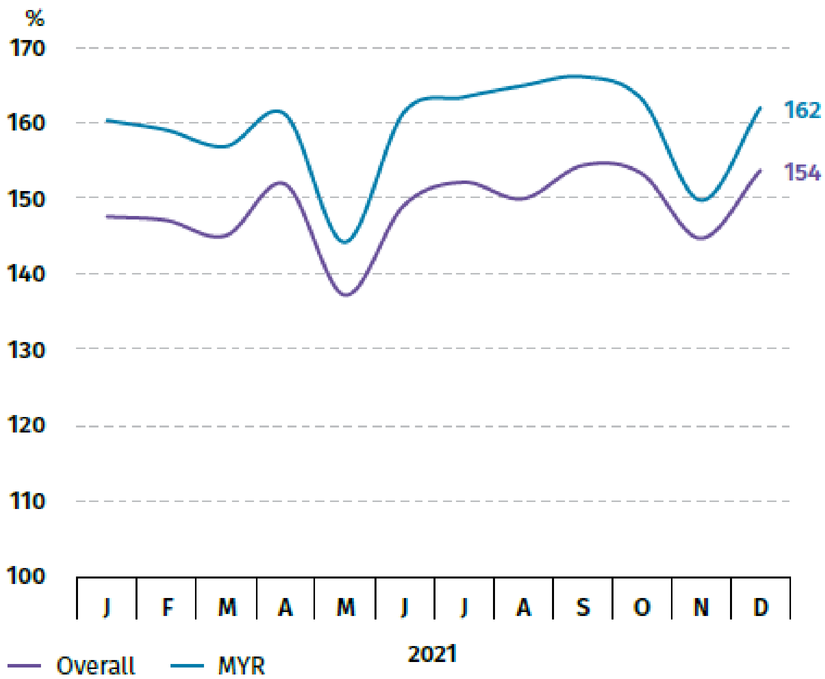
Household Sector – Loan Impairment and Delinquency Ratios in the Banking System



Source: BNM; Credit Counselling and Debt Management Agency (AKPK)

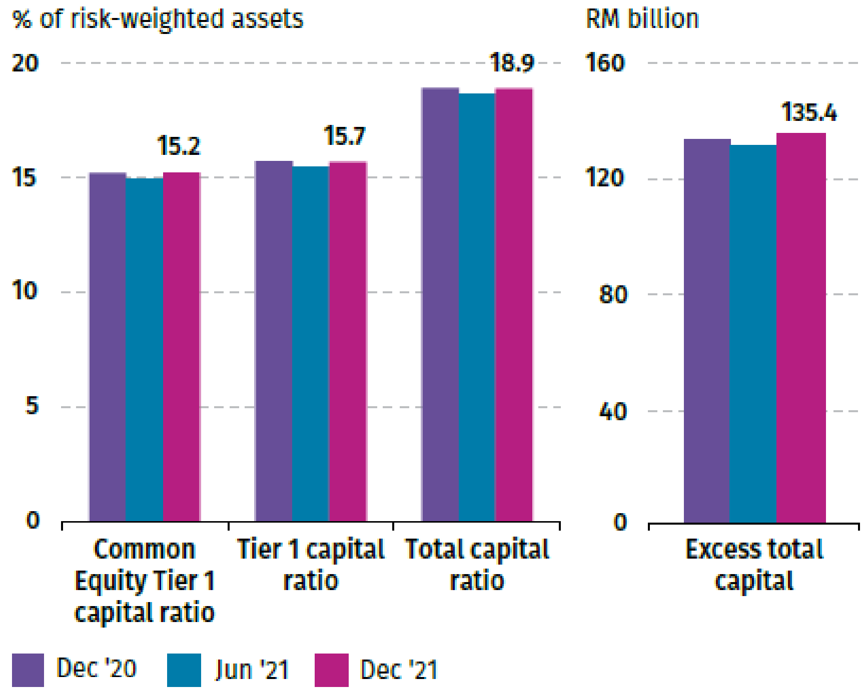
Strong capital positions preserve bank's ability to support economic recovery

Banking System – Liquidity Coverage Ratio



Note: 1. MYR LCR is calculated based on HQLA and expected net cash outflows denominated in ringgit.
2. Overall LCR is calculated based on HQLA and expected net cash outflows denominated in all currencies.

Banking System – Capital Ratios

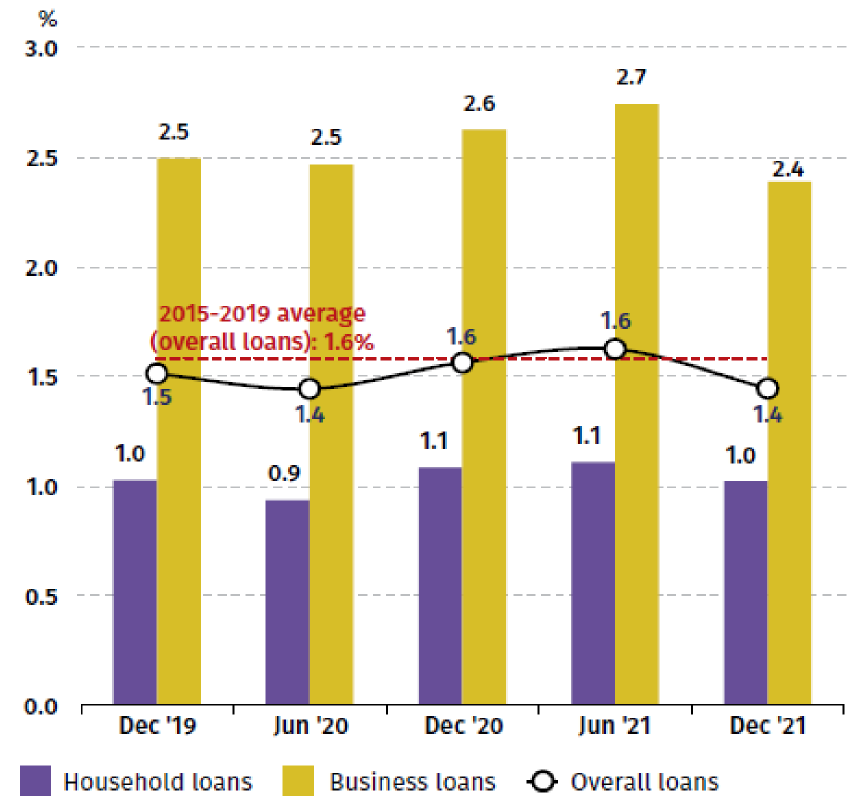


Note: Excess total capital refers to total capital above the regulatory minimum, which includes the capital conservation buffer requirement of 2.5% and bank-specific higher minimum requirements.

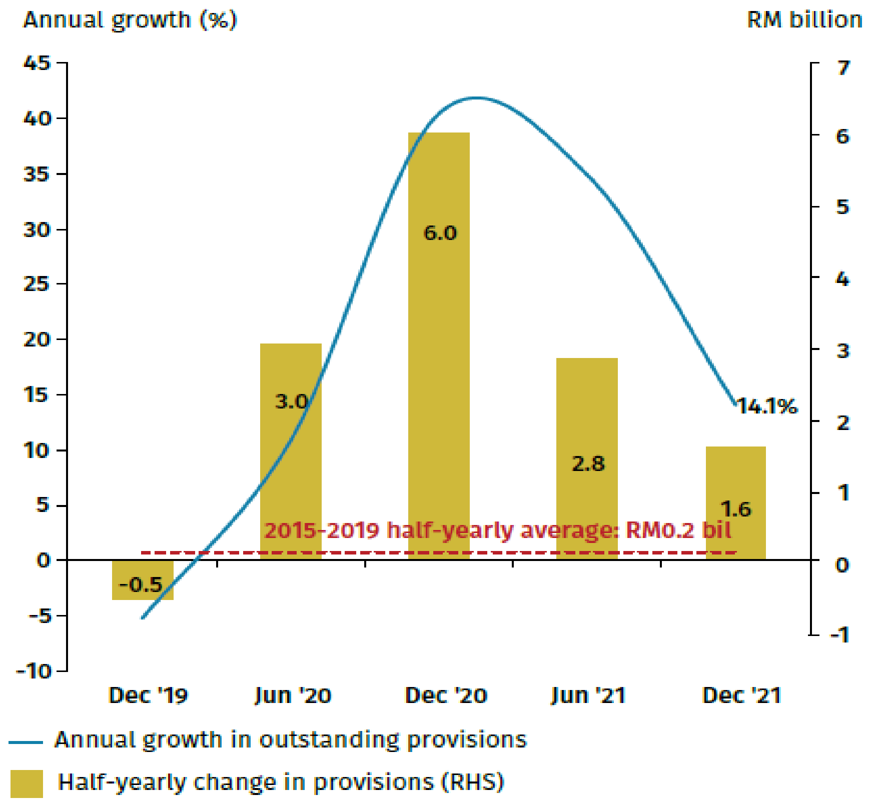
Source: BNM

Bank remain cautious amid the uncertain credit risk outlook

Banking System – Gross Impaired Loans Ratio



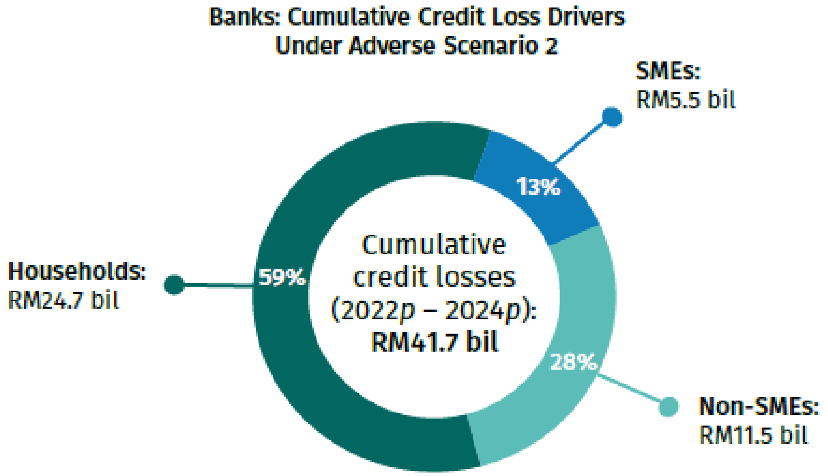
Banking System – Provisions

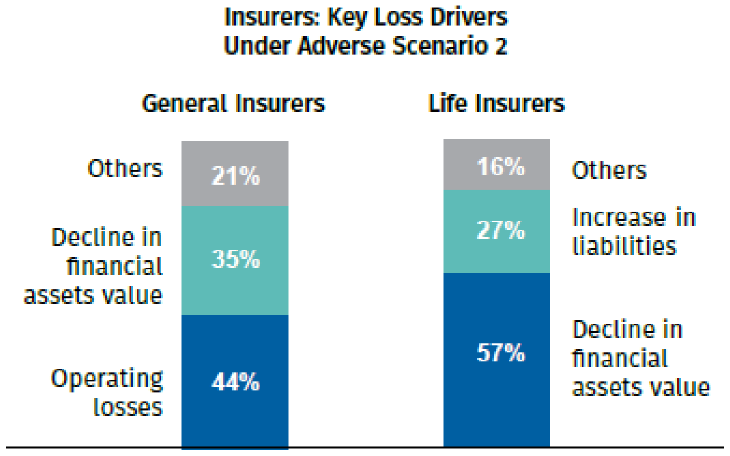


Source: BNM

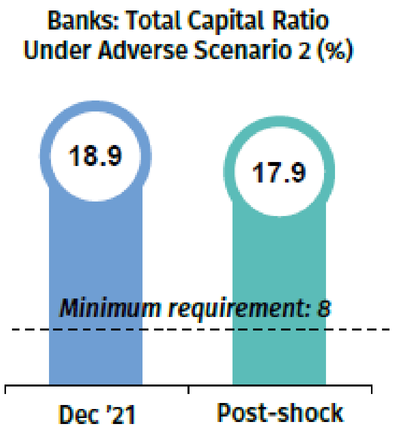
Stress test affirm the financial institutions' ability to support economic recovery

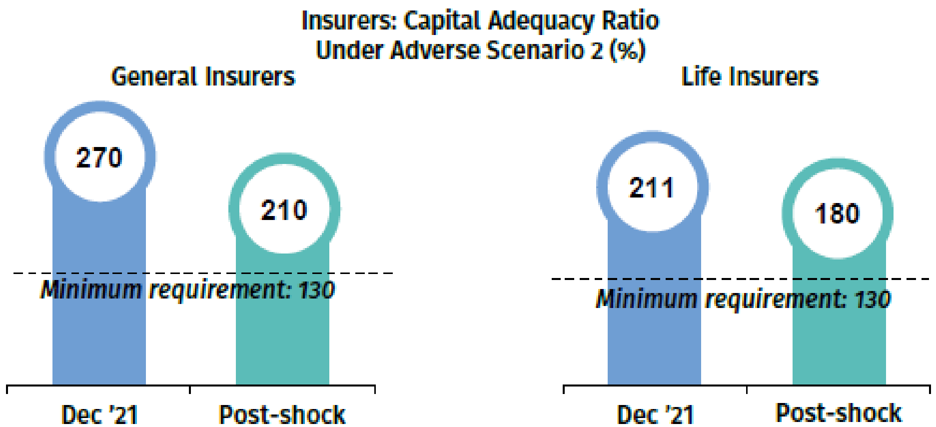
Credit and market risks remain key drivers of losses for banks and insurers, respectively, under the latest stress test which incorporates more conservative assumptions…





… but almost all financial institutions are able to maintain post-shock capital ratios above regulatory minima





Spotlights on selected BNM's Box Articles

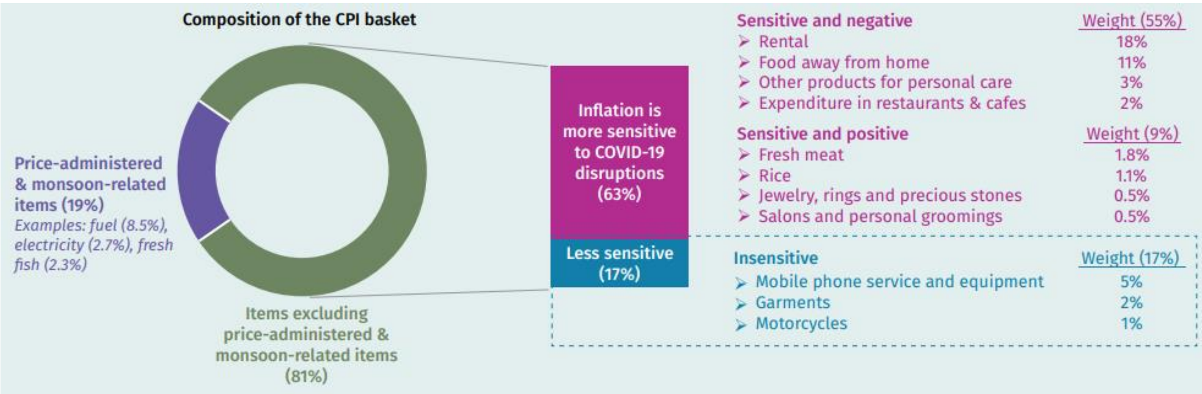
1. An Anatomy of Inflation: Effects from the Prolonged Pandemic

2. Recovery Prospects in the Global Economy: Lessons from a Corporate Balance Sheet Perspective

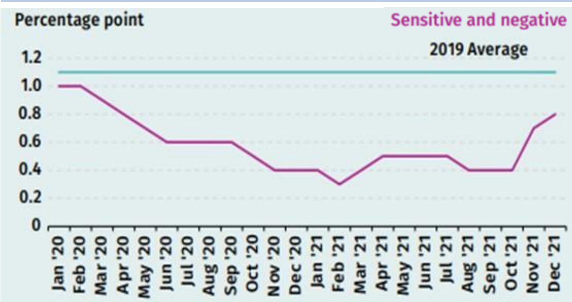
3. Implementation of the Climate Change and Principle-based Taxonomy (CCPT) in the Financial Sector

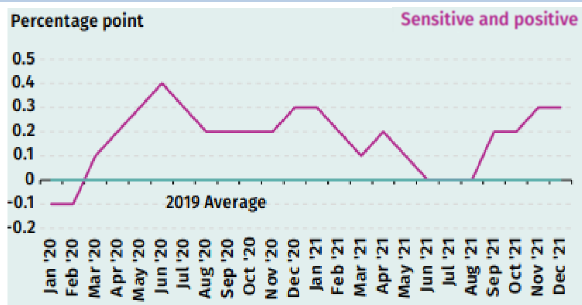
4. Evolving Spaces in the Wake of the Pandemic: Vulnerabilities from the Commercial Real Estate (CRE) Sector

1. An Anatomy of Inflation: Effects from the Prolonged Pandemic

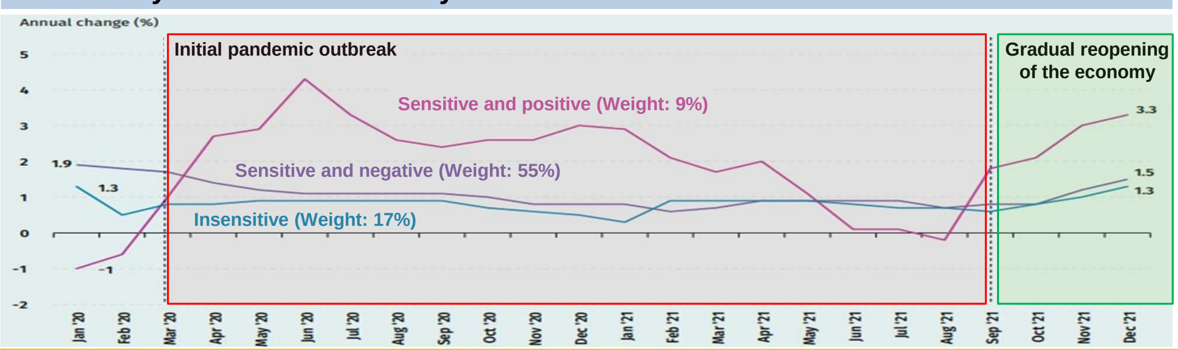


Contribution to Headline Inflation from COVID-sensitive Items





Inflation by Pandemic Sensitivity



- **As of 2021, the pandemic impact on overall consumer inflation has remained broadly contained, although a few segments have experienced acute upward pressures**
- The pandemic effects are most obvious in the **"sensitive and positive" items**, where **prices tend to be more affected by cost pressures** (such as disruptions to production amid movement restriction measures, shortages in imported inputs, large-scale substitution in consumers' spending to food at home)

Factors that could contain inflationary pressures for Malaysia:

Continued spare capacity in the economy amid a gradual recovery

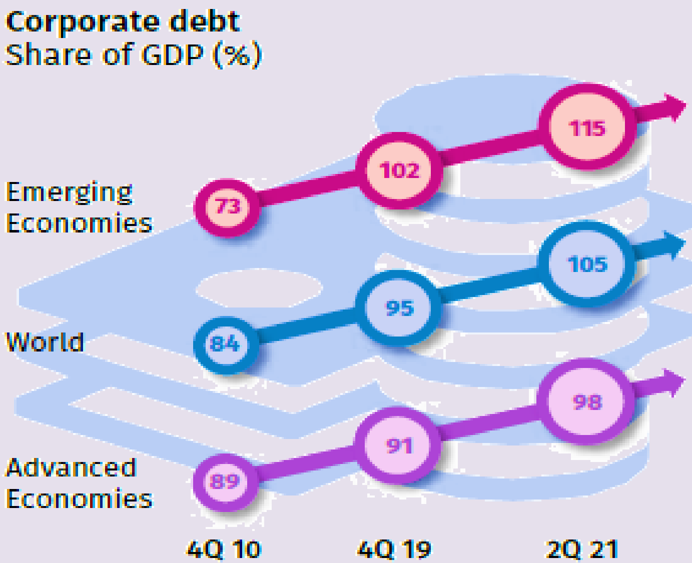
Policy interventions such as price ceiling on retail fuel, electricity rebates, price controls on some staple food items

Relatively less severe disruptions, reflecting factors such as proximity to global manufacturing hub

Source: BNM

2. Recovery Prospects in the Global Economy: Lessons from a Corporate Balance Sheet Perspective

Corporate debt has increased with higher financing needs during the pandemic



Why is High Corporate Debt a Concern?

1. Highly indebted firms tend to reduce investments after economic crises
2. Declining credit quality of debt
3. High corporate debt coupled with lower productivity could be symptomatic of rising zombification

Policy imperatives drawn from lessons offered by past crises

Timely, Direct and Proportionate Support

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

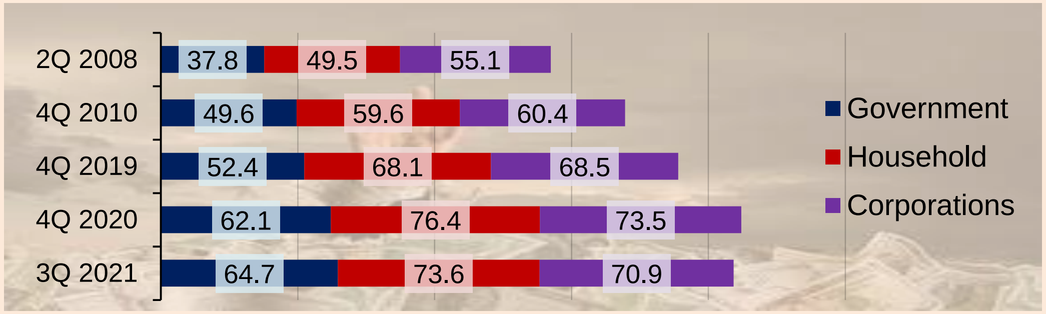
Structural Reform is Key to Enhance Resilience

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

Maintaining Well-Capitalised Banks is Vital for Macroeconomic and Financial Stability

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

Malaysia's credit to non-financial sector (% of GDP)



Source: BIS

3. Implementation of the Climate Change and Principle-based Taxonomy (CCPT) in the Financial Sector

- The Government's **commitment to achieve net zero greenhouse gas (GHG) emissions by 2050** will serve to mitigate future risks to the environment.
- The **CCPT recognises concrete actions to transform and progressively eliminate or reduce harmful activities**.

Overall Framework of Climate Change and Principle-based Taxonomy (CCPT)

Five Guiding Principles (GPs)

GP1: Climate Change Mitigation

GP2: Climate Change Adaptation

GP3: Do No Significant Harm to the Environment:

a. Prevent, reduce and control pollution (air, water and land);
b. Protect healthy ecosystems and biodiversity; and
c. Use energy, water and other natural resources in a sustainable and efficient manner.

GP4: Remedial Measures to Transition

GP5: Prohibited Activities

Steady progress of CCPT implmentation[1] among banking institutions, insurers and takaful operators

70% **…provided training to staff on CCPT implementation** *Training via virtual workshops and e-learning modules, focusing on how to assess and classify transactions based on CCPT.*

51% **…rolled out initiatives to support clients' transition to sustainable practices** *Facilitated identification of improvement areas and propose solutions that support transition to more sustainable practices.*

45% **…embedded CCPT in investment decisions** *CCPT guiding principles are embedded as part of internal ESG[4] assessment criteria in investment decisions.*

35% **…banking groups incorporated CCPT in underwriting of loans** *Developed dedicated assessment template and due diligence process.*

[1]Based on a stocktake exercise conducted on 38 banking group/institutions, 53 insurers and takaful operators (life, family and general) and six reinsurers and retakaful operators

4. Evolving Spaces in the Wake of the Pandemic: Vulnerabilities from the Commercial Real Estate (CRE) Sector

Pandemic-induced shifts in the CRE sector may worsen existing oversupply conditions…

Flexible working arrangements

Acceleration e-commerce

Increase emphasis on health and safety

…but risks to financial stability remain low

Limited direct linkages to financial institutions

- *Credit exposures to the CRE sector amount to 7.8% of banking system assets*

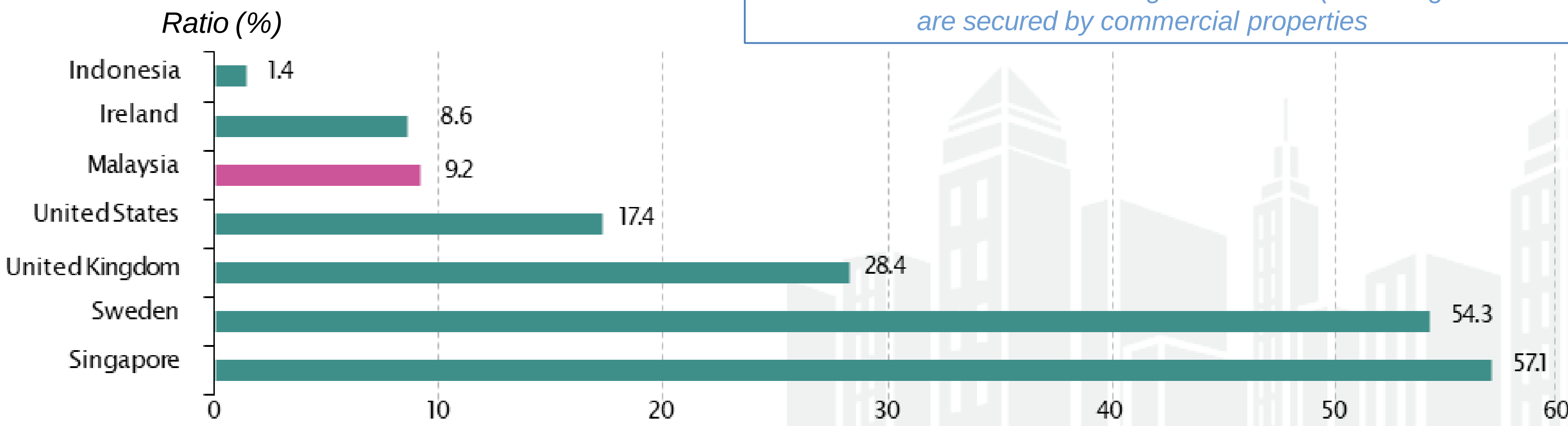
Sound quality of bank lending to the sector amid cautious credit risk outlook

- *Higher share of Stage 2 loans to the sector at 12%, but impairment ratio remains low at 1.5%*

Limited exposures from property-secured business loans

- *4.5% of outstanding bank loans (excluding end-financing) are secured by commercial properties*

CRE Asset-to-GDP Ratio by Country



Note: Total CRE asset value is measured by the size of profesionally-managed real estate investment estimated by MSCI Incorporated.
Source: MSCI Incorporated and Bank Negara Malaysia estimates

社会经济研究中心

SOCIO-ECONOMIC RESEARCH CENTRE

谢 谢
THANK YOU

Address : 6th Floor, Wisma Chinese Chamber,
258, Jalan Ampang, 50450 Kuala Lumpur, Malaysia.

Tel : 603 - 4260 3116 / 3119

Fax : 603 - 4260 3118

Email : serc@acccimserc.com

Website : http://www.acccimserc.com