



**BANK NEGARA MALAYSIA**  
CENTRAL BANK OF MALAYSIA

## PRESS RELEASE

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### **ECONOMIC AND FINANCIAL DEVELOPMENTS IN MALAYSIA IN THE SECOND QUARTER OF 2021**

#### **The Malaysian economy expanded by 16.1% in the second quarter (1Q 2021: -0.5%)**

The Malaysian economy grew by 16.1% in the second quarter (1Q 2021: -0.5%). Economic performance was supported mainly by the improvement in domestic demand and continued robust exports performance. The strong growth also reflected the low base from the significant decline in activity during the second quarter of 2020. Economic activity picked up at the start of the second quarter, but slowed down thereafter, following the re-imposition of stricter containment measures nationwide under Phase 1 of the Full Movement Control Order (FMCO). All economic sectors registered an improvement, particularly the manufacturing sector. On the expenditure side, growth was driven by higher private sector spending and strong trade activity. On a quarter-on-quarter seasonally-adjusted basis, the economy registered a decline of 2.0% (1Q 2021: 2.7%), weighed by the tighter containment measures. Governor Datuk Nor Shamsiah said “While the containment measures weighed on growth, greater adaptability to restrictions and ongoing policy support have partly mitigated the impact.”

As expected, headline inflation increased to 4.1% during the quarter (1Q 2021: 0.5%), due mainly to the base effect from fuel prices, as well as the lapse in the effect from the tiered electricity tariff rebate. Core inflation remained stable at 0.7% during the quarter (1Q 2021: 0.7%).

## **Exchange rate developments**

The ringgit appreciated by 0.1% against the US dollar in the second quarter of 2021. This was largely due to the weakening of the US dollar in the earlier part of the quarter as a result of declining real US Treasury bond yields which led investors towards higher-yielding assets. However, expectations for a faster pace in monetary policy normalisation following the June Federal Open Market Committee (FOMC) meeting, which led to a slight rebalancing of investors' portfolios towards US dollar-denominated assets at the end of the quarter. Since 1 July, the ringgit has depreciated by 1.7% against the US dollar (as at 9 August). This depreciation was in line with the performance of most other regional currencies amid the broad strengthening of the US dollar. Going forward, as uncertainties linger around the momentum of global and domestic economic recovery, the ringgit is expected to continue to be exposed to periods of heightened volatility.

## **Financing conditions**

Net financing to the private sector recorded an annual growth of 4.4%<sup>1</sup> during the quarter (1Q 2021: 4.7%). Outstanding loan growth moderated to 3.6% while outstanding corporate bond<sup>2</sup> growth increased to 6.9%. Outstanding business loans recorded an annual growth of 1.3% amid slower outstanding investment-related<sup>3</sup> loan growth. Nonetheless, outstanding working capital<sup>3</sup> loan growth increased during the quarter. For households, loan demand continued to be forthcoming, particularly for the purchase of residential property.

## **While the near-term growth outlook has been affected by the recent resurgence in COVID-19 cases, the Malaysian economy remains on a recovery path**

The Malaysian economy remains on a recovery path in 2021. While the resurgence of COVID-19 cases and the re-imposition of nationwide containment measures are expected to weigh on growth, the impact will be

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<sup>1</sup> Comprises outstanding loans from the banking system and development financial institutions (DFIs), and outstanding corporate bonds.

<sup>2</sup> Excludes issuances by Cagamas and non-residents.

<sup>3</sup> Classification of business loans by purpose is only available for the banking system.

cushioned by several factors. These include continued allowances for essential economic sectors to operate, higher adaptability to remote work, as well as increased automation and digitalisation. Growth will be further supported by policy measures, which will provide cash flow support, particularly for affected households and businesses. Going forward, the growth trajectory will depend on the ability to contain the epidemic and materialisation of health outcomes from the nationwide vaccination programme. This will allow economic sectors to gradually reopen and provide some lift to household and business sentiments.

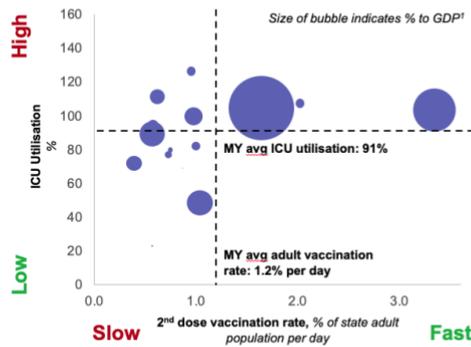
Thus, in projecting the revised growth range for the year, the Bank took into account the latest global economic developments, the implementation of the first phase of the National Recovery Plan (NRP), and assumptions on the gradual transitions to the second, third and fourth phases for each state based on the pace of vaccination rollouts, and healthcare system capacities. Against this backdrop, the Malaysian economy is projected to expand between 3.0% and 4.0% in 2021. The new growth projections are lower compared to the previously-announced growth range<sup>4</sup>, due in large part to the re-imposition of nationwide containment measures. Nevertheless, the expected re-opening of the economy would support a gradual recovery in the fourth quarter this year, with higher global growth and sustained policy support providing a further lift to economic growth. The recovery is expected to accelerate further going into 2022, supported by a gradual normalisation of economic activities as well as the positive spillovers from continued improvement in external demand.

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<sup>4</sup> 6.0 – 7.5%, 2020 Economic and Monetary Review, Bank Negara Malaysia. Released on 31 March 2021.

**Fast vaccination rates and lower ICU utilisation will enable the swift easing of containment measures**

ICU Utilisation and Vaccination Rate by State



<sup>1</sup> Refers to share to GDP in 2020  
 Note: ICU utilisation and vaccination rates refer to the 7-day average between 3 – 9 Aug 2021  
 Source: COVID-19 Immunisation Task Force, Ministry of Health, Department of Statistics, Malaysia and Bank Negara Malaysia

Principles in Assuming Phased Transition

Current ICU utilisation	Current speed of vaccination rate	Assumed Transition Path
Low	Fast	Faster and earlier transition to Phase 4
Low	Slow	As vaccination rate improves, transition to subsequent phases is shorter
High	Fast	1. Gradual transition to the next phase as ICU utilisation stabilises and improves
High	Slow	2. As vaccination rate progresses and ICU utilisation improves, transition to subsequent phases will be swift

In the baseline assumption, **all states** are expected to transition to **Phase 3 by October 2021** and **Phase 4 by November 2021**

Emphasising the domestic immunisation programme, Governor Datuk Nor Shamsiah explained “Malaysia’s growth recovery is expected to broadly resume in the later part of the second half of 2021 and improve going into 2022. A key catalyst for economic reopening and a driver of positive sentiment will be the continued progress and effectiveness of the national vaccination programme, which would alleviate the strain on healthcare system capacity and allow for the relaxation of containment measures. In addition, growth will be further supported by the ramp-up in commodity production, some materialisation of pent-up demand, and continued investment in large-scale infrastructure projects following lifting of restrictions.”

In the near term, headline inflation is projected to moderate as the base effect from fuel prices dissipates. For 2021 as a whole, headline inflation is expected to average between 2.0% and 3.0%. Underlying inflation, as measured by core inflation, is expected to remain subdued, averaging between 0.5% and 1.5% for the year, amid continued spare capacity in the economy.

**Bank Negara Malaysia**  
**13 August 2021**

## T1

## GDP by Expenditure Components (at constant 2015 prices)

	Share 2020 (%)	2020					2021	
		1Q	2Q	3Q	4Q	Year	1Q	2Q
		Annual growth (%)						
Aggregate Domestic Demand (excluding stocks)	93.8	3.7	-18.8	-3.3	-4.5	-5.8	-1.0	12.3
Private sector	75.2	4.9	-20.4	-4.0	-4.0	-6.0	-0.9	13.0
<i>Consumption</i>	59.5	6.7	-18.5	-2.1	-3.5	-4.3	-1.5	11.6
<i>Investment</i>	15.7	-1.1	-26.1	-10.8	-6.6	-11.9	1.3	17.4
Public sector	18.6	-1.8	-11.1	0.1	-5.7	-4.7	-1.5	9.7
<i>Consumption</i>	13.4	4.9	2.2	6.8	2.4	3.9	5.9	9.0
<i>Investment</i>	5.2	-14.4	-40.1	-13.1	-20.4	-21.3	-18.6	12.0
Net Exports	6.5	-36.8	-37.9	19.2	10.0	-13.0	0.8	34.3
<i>Exports of Goods and Services</i>	61.5	-7.2	-21.7	-4.9	-2.1	-8.9	11.9	37.4
<i>Imports of Goods and Services</i>	55.0	-2.7	-19.7	-7.9	-3.3	-8.4	13.0	37.6
<b>Real GDP</b>	<b>100.0</b>	<b>0.7</b>	<b>-17.2</b>	<b>-2.7</b>	<b>-3.4</b>	<b>-5.6</b>	<b>-0.5</b>	<b>16.1</b>
<b>GDP (q-o-q growth, seasonally adjusted)</b>	<b>-</b>	<b>-0.5</b>	<b>-16.1</b>	<b>17.3</b>	<b>-1.5</b>	<b>-</b>	<b>2.7</b>	<b>-2.0</b>

Note: Figures may not add up due to rounding and exclusion of stocks.

Source: Department of Statistics, Malaysia

## T2

## GDP by Economic Activity (at constant 2015 prices)

	Share 2020 (%)	2020					2021	
		1Q	2Q	3Q	4Q	Year	1Q	2Q
		Annual growth (%)						
Services	57.7	3.1	-16.2	-4.0	-4.8	-5.5	-2.3	13.4
Manufacturing	22.9	1.4	-18.3	3.3	3.0	-2.6	6.6	26.6
Agriculture	7.4	-8.6	0.9	-0.3	-1.0	-2.2	0.2	-1.5
Mining	6.8	-2.9	-20.8	-7.8	-10.4	-10.6	-5.0	13.9
Construction	4.0	-7.9	-44.5	-12.4	-13.9	-19.4	-10.4	40.3
<b>Real GDP</b>	<b>100.0</b>	<b>0.7</b>	<b>-17.2</b>	<b>-2.7</b>	<b>-3.4</b>	<b>-5.6</b>	<b>-0.5</b>	<b>16.1</b>

Note: Numbers do not add up due to rounding and exclusion of import duties component.

Source: Department of Statistics, Malaysia