



PRESS RELEASE

Malaysia's 2Q 2021 GDP Grows by 16.1%; Economy Expected to Continue on Recovery Path

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MEDIA STATEMENT

MINISTER OF FINANCE MINISTRY OF FINANCE MALAYSIA

Bank Negara Malaysia (BNM) and the Department of Statistics Malaysia (DOSM) have announced that **Malaysia's Gross Domestic Product (GDP) expanded by 16.1% year-on-year (YoY) in the second quarter of 2021 (Q2 2021). This indicates a continued recovery trajectory** following a smaller decline of 0.5% in the preceding quarter (Q1 2021), and a decline of 3.4% during the fourth quarter of 2020 (Q4 2020). Based on a six-month perspective, GDP rose by 7.1%, relative to a contraction of 8.4% during the same period in 2020.

In terms of monthly GDP performance, growth in **April and May 2021 recovered strongly at 40.1% and 19.8%, respectively**. This is attributed to the low base effect during the same months in 2020. Growth was also supported by the implementation of stimulus and assistance packages throughout the period, namely PERMAI, PEMERKASA and PEMERKASA Plus valued at a total of RM75 billion, and complemented by on-going measures under Budget 2021. **GDP growth in June declined by 4.4% due to the impact of MCO 3.0 beginning mid-May, as well as Phase 1 of the National Recovery Plan (NRP)** in early June. However, relative to MCO 1.0 last year, the decline in June 2021 was smaller compared to April 2020 (-28.8%).

Despite several headwinds due to the resurgence of COVID-19 cases towards the end of Q2 2021, various key economic indicators reflected encouraging signs of recovery. These include:

1. **The increase of 1.4% of the Industrial Production Index (IPP) in June 2021, which exceeded expectations** supported by, among others, 8.7% growth in export-oriented industries.

2. **The increase of 6.5% in the sales value of the manufacturing sector for June 2021 to RM124.4 billion**, driven by petroleum, chemical, rubber and plastic products (41.6%); food, beverages and tobacco products (9.0%); as well as electrical and electronics products (2.2%).
3. **The rise of 20.5% in the revenue of the services sector to RM404.5 billion in Q2 2021**, with each segment within the sector showing signs of recovery. **Income in e-commerce increased by 23.3% to RM267.6 billion** as e-commerce transactions grew in the manufacturing and services sectors.
4. **The continued positive growth momentum of exports was registered in June 2021, with an increase of 27.2% to RM105.5 billion**. Exports exceeded the RM100 billion mark for the third time this year, and posted a yearly increase for 10 consecutive months since September 2020. Overall, the country's **total trade in June 2021 surged by 29.3% to RM188.7 billion**. **For the first half of this year, total trade increased by 26.0%, surpassing RM1.0 trillion**. This is attributed to both exports and imports which recorded an expansion in all major markets.
5. **Favourable foreign direct investment (FDI) in Q2 2021**, indicating that Malaysia remains as one of the preferred investment destinations within the region. Throughout the period, a total of RM8.2 billion in net FDI was recorded, (Q1 2021: RM9.1 billion). **Investments were channelled mainly into the manufacturing, financial and insurance/takaful activities, as well as mining and quarrying sectors; particularly from Japan, Indonesia and the US**.

In terms of our financial markets:

1. **Healthy levels of liquidity coverage ratio in the banking system** which stood at 149.1% in June 2021. Banks' funding profile remained stable amid sustained growth in deposits. Gross and net impaired loans ratios remained broadly unchanged at 1.6% and 1.0%, respectively.
2. **BNM international reserves remain high** at USD111.1 billion as at end July 2021, sufficient to finance 8.1 months of retained imports and is 1.1 times total short-term external debt.
3. **Net financing to the private sector recorded an annual growth of 4.4% in Q2 2021** (Q1 2021: 4.7%), supported by increase in the outstanding working capital loans. For households, loan demand remains healthy, especially for residential property purchases.

In terms of the capital markets:

1. **The FBMKLCI increased by 2.1% in Q2 2021, supported by retail investors' participation, recording a total of RM9.4 billion in net investment year-to-date**. There was higher participation from the retail investors in the fund management industry, recording an increase of 2.4% to RM531.8 billion, in terms of the Net Asset Value (NAV) of the unit trust fund segment as at end-June 2021. This accounts for 30.5% of the total Bursa Malaysia market capitalisation.
2. **Foreign investors also remained confident in the Ringgit bond market. For the first half of 2021, RM24.5 billion of net inflows were recorded**, with approximately 60% subscribed to Malaysian Government Securities (MGS). Notably, foreign holdings in Malaysian government bonds rose at the fastest pace in five years to RM223 billion, or 25.1% of the total outstanding amount. These comprised of RM192.1 billion in MGS and RM30.8 billion of Malaysian Government Investment Issues (MGII). Overall, **investors' confidence has remained intact, attributed to Malaysia's sovereign ratings which were reaffirmed by the three main global credit rating agencies; namely S&P, Moody's and Fitch**.

MOVING FORWARD

Malaysia's economy is expected to gradually recover as the National COVID-19 Immunisation Programme is accelerated and the NRP thresholds are met for each state. This will facilitate a broader reopening of economic and social activities. So far, six states have moved to Phase 2, and two states including the Labuan Federal Territory,

have successfully moved to Phase 3. **Globally, Malaysia is currently one of the fastest nations in administering vaccines**, with more than 500,000 doses administered daily. To date, 70% of Malaysia's adult population have received their first dose of vaccination. At the current rate, it is expected that 80% of the adult population in Klang Valley, and 50% of the nation's adult population will be fully vaccinated by end-August.

In reinforcing growth prospects, the Government has **implemented stimulus and assistance packages valued at RM530 billion**, complemented by Budget 2021 worth RM322.5 billion. From these measures and packages, more than RM300 billion is still available for the rest of 2021, and is expected to support economic recovery throughout the different phases of the NRP. So far, RM200 billion has been disbursed from the various packages, benefitting more than 20 million people and 2.4 million businesses since March 2020.

Other factors that will drive Malaysia's economic recovery include **improving external demand from major trading partners, recovery in commodity prices as well as the implementation of infrastructure projects with high multiplier impact**. These factors will support **Malaysia's economic fundamentals, which remain resilient even during these difficult times, underpinned by the increasing sophistication, depth and diversity of the Malaysian economy** where services and **manufacturing sectors account for more than 80% of the economy**. The manufacturing sector and exports are expected to benefit from the current thriving global demand for **electrical and electronics (E&E) products, hydrocarbons such as crude oil and natural gas, as well as personal protective equipment**. With all these factors combined, the **GDP growth for 2021 is expected to be between 3.0% to 4.0% as announced by BNM earlier today**.

Notwithstanding, the Government remains **vigilant of the country's economic growth which is still facing risks and uncertainties from both domestic and global economic factors**. This includes the spread of new COVID-19 variants that may prolong the existing movement restrictions and delay normalisation of economic activities, as well as disruptions towards the supply of COVID-19 vaccines which will hamper efforts to inoculate a significant proportion of the population.

The Government **anticipates a challenging outlook for the third quarter of 2021 (Q3 2021) due to the imposition of the Enhanced MCO for two weeks in most parts of Klang Valley in July, as well as the prolonged Phase 1 of the NRP in several states** which are significant contributors to the nation's GDP. However, this will be cushioned by the ease of restrictions for fully vaccinated people, as well as for states which have successfully transitioned to Phases 2 and 3. The **outlook for fourth quarter (Q4 2021) is expected to improve, underscored by a gradual recovery from the reopening of more economic and social sectors** as more people are vaccinated. This will also reduce the burden of the health care system through lower hospital and ICU admissions.

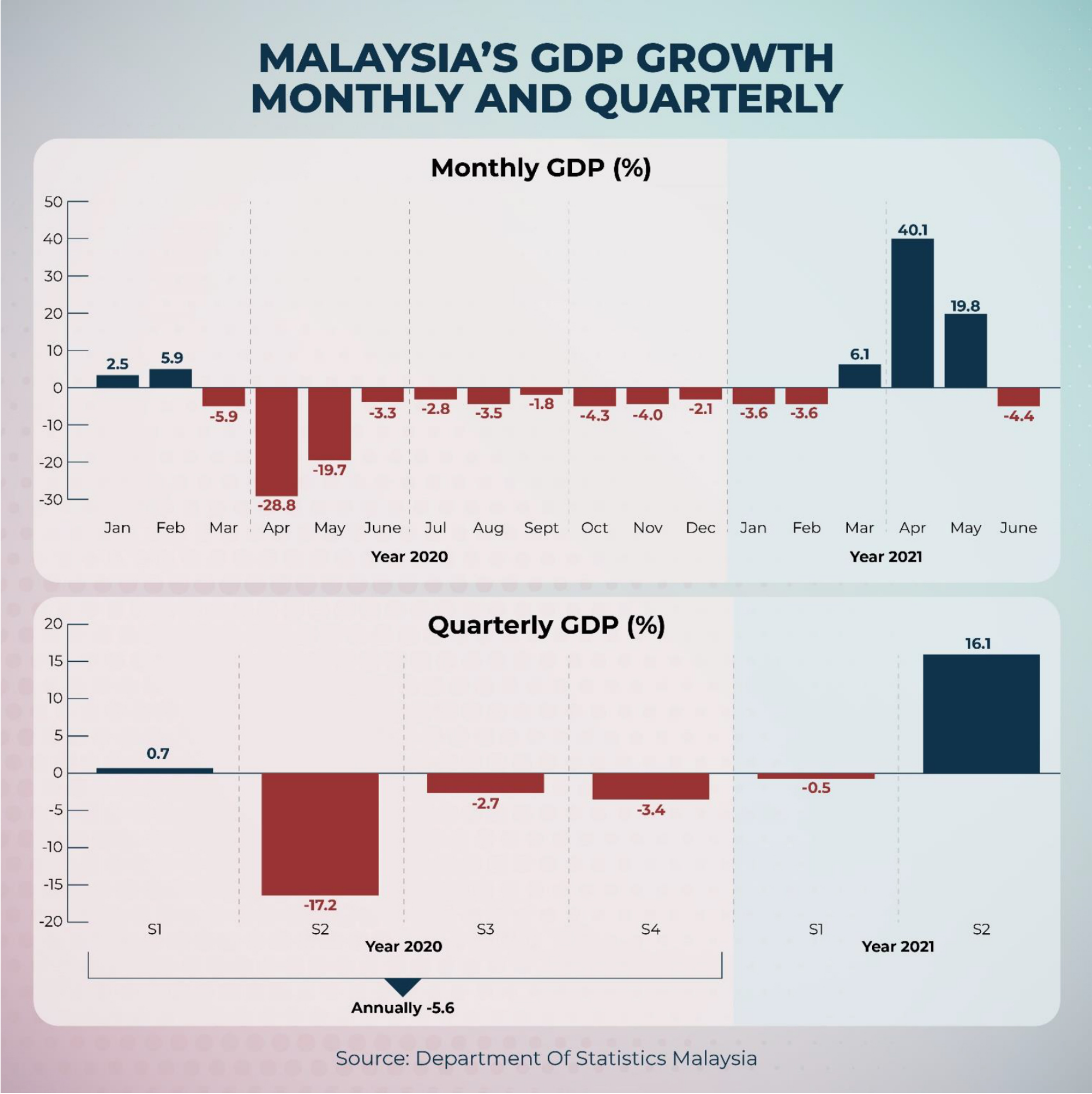
Currently, efforts are underway to strengthen the strategic levers of the nation in moving towards the Reform stage. This includes the new **approach adopted by the Ministry of Finance in improving the country's annual budgeting process to make it more transparent and inclusive**. Amongst others, the Ministry will release a **Pre-Budget Statement which sets out the Budget 2022 themes and focus areas**, namely to drive economic recovery, rebuild the country's resilience and catalyse reforms.

Moving forward, **with the launch of the National Fourth Industrial Revolution Policy (4IR), digitalisation and technological adoption will be a national priority** for boosting Malaysia's longer-term economic prospects and resilience, in accordance with the Malaysian Digital Economy Blueprint. This is also in tandem with the **Government's ongoing structural reforms over the medium term through the implementation of, among others, the National Investment Aspirations (NIA) framework, as well as the PERKUKUH Pelaburan Rakyat initiative**. Additionally, the **Twelfth Malaysia Plan (2021-2025) will provide a blueprint for sustainable growth**, aimed at strengthening socio-economic inclusivity and environmental sustainability. **All these policy initiatives are also aligned with the country's longer-term development policy, the Shared Prosperity Vision 2030**.

In conclusion, the **Government's current priority is to protect lives from the threat of COVID-19 and ensure the country's economic growth prospects remain strong** in the medium to longer term, **guided by the NRP and underpinned by the principles of prudent financial management**. The Government **will continue to respond strategically, proactively and decisively** under this challenging COVID-19 environment, while also minimising permanent economic repercussions from the crisis.

YB Tengku Datuk Seri Utama Zafrul Tengku Abdul Aziz Minister of Finance
Ministry of Finance
13 August 2021

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