



PRESS RELEASE

Foreign Capital Inflows Signal Malaysia's Brightening Prospects For Economic Recovery

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MEDIA STATEMENT

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Malaysia has been registering net foreign capital inflows thanks to the positive progress on the National Recovery Plan (NRP), which has improved the overall public health situation, as well as enabling gradual reopening of economic sectors through the National COVID-19 Immunisation Programme. This sets the tone for Malaysia's stronger economic recovery in the fourth quarter of 2021.

Although Malaysia's economic outlook has remained challenged by persistently elevated infection rates, **positive progress on vaccination and on controlling critical COVID-19 cases are expected to spur growth**. Further, several states have shifted to Phases 2 and 3 of the NRP. This include the Klang Valley and Putrajaya, which transitioned to Phase 2 on 10 September 2021, predicated a wider reopening of economic sectors for the nation's most populous states.

These improved growth prospects have brought back investors' confidence in Malaysia's capital market. **For the month of August, a total of RM7.7 billion was registered in terms of foreign portfolio flows, marking the highest monthly net inflow since June 2020, and offsetting the declines in the two preceding months.** Foreigners turned net buyers in the Ringgit bond market with a total value of RM6.6 billion (July 2021: -RM3.6 billion), and Malaysian equities at RM1.1 billion (July 2021: -RM1.3 billion).

MALAYSIAN EQUITIES MARKET

August marks the first month of net foreign buying of **Malaysian equities** since June 2019, with foreign net selling showing clear signs of tapering. Malaysia's local benchmark index, the FBMKLCI, which fell as much as 5.7% year-to-date, managed to recover 50% of its losses over the last fortnight. This is testament to investors and fund managers' confidence in the nation's economic growth prospects, as well as continuity of policies. Attractive valuations relative to other markets within the region have also been a major draw for foreign fund inflows.

MALAYSIAN RINGGIT BOND MARKET

In terms of the **Ringgit bond market**, foreign inflows in August 2021 were mainly in Malaysian Government Securities (MGS) valued at RM3.1 billion (July 2021: -RM3.6 billion); and Malaysian Government Investment Issues (MGII) at RM3.2 billion (July 2021: RM425 million). The corporate bond market segment also saw higher net foreign inflows, valued at RM267 million (July 2021: +RM62 million).

As at end-August 2021, foreign holdings of Malaysian government bonds rose by RM23.9 billion to RM226.1 billion, comprising:

- a. RM191.7 billion or 40.3% of total MGS; and
- b. RM34.4 billion or 8.6% of total MGII.

As at June 2021, more than 50% of the foreign holdings of Malaysian government bonds comprised long-term investors. This include:

- a. other central banks and governments (32.4%);
- b. pension funds (18.4%); and
- c. insurance companies (2.2%).

In terms of domestic investors, holdings in government bonds are supported by ample liquidity from banking institutions, as well as institutional investors.

Compared to previous years, all segments of the Ringgit bond market have shown strong improvements despite COVID-related challenges. This is reflected by the cumulative end-August data of RM24.5 billion of foreign net inflows, the highest since 2014. **The net inflows for each segment up to 31 August 2021 include the following:**

Segment	Net inflows (up to 31.08.2021)	2020 (full year)	2019 (full year)
MGS	RM12 billion	+RM13 billion	+RM17.7 billion
MGII	RM10.6 billion	+RM3.7 billion	+RM5.2 billion
Corporate bonds	RM1.4 billion	-RM390 juta	-RM860 juta

Further signs of confidence can be seen in the demand for Government bonds, which has continued to remain healthy, as reflected in the bid-to-cover (BTC) ratio, or the oversubscription rate, for various issuances of Government bonds (MGS and MGII):

Year/ Timing of issuance	Total bid/ request	Total issuance	Bid-to-Cover (BTC) ratio
2020	RM290.4 billion	RM130.8 billion	2.22
31.08.2021	RM186.0 billion	RM87.0 billion	2.14
03.09.2021	RM6.7 billion	RM2.5 billion	2.69

Overall, given the inclusion of the latest issuance of Government bonds as at 3 September 2021 that recorded a BTC ratio of 2.69 times, this indicates a year-to-date BTC ratio of 2.15 times.

MALAYSIAN MARKET OUTLOOK

The outlook for the third quarter of 2021 may be challenging due to the prolonged Phase 1 for several states such as Selangor, which are significant contributors to the nation’s GDP. Nonetheless, this is expected to be cushioned partly by the easing of restrictions for fully vaccinated people, as well as for states that have successfully transitioned to Phases 2 and 3. **Various growth factors continue to support Malaysia’s economic fundamentals, which have remained resilient even during these difficult times.**

The outlook for fourth quarter (Q4 2021) seems brighter as rapid vaccination rates enable the reopening of more economic sectors. This will boost the prospects for **improved consumption from households and businesses’ pent-up demand.** Other factors underpinning Malaysia’s growth prospect include **stronger external demand (for products such as electrical and electronics (E&E), and hydrocarbons); increase in commodity prices and continued investment in large-scale infrastructure projects** with high multiplier impact. **All these factors will facilitate 2021 GDP growth, expected to be 3.0% to 4.0%, which in turn is expected to stimulate activities in Malaysia’s capital markets during Q4 2021.**

Moving forward, the upcoming tabling of the **12th Malaysia Plan at the end of September, and Budget 2022 at the end of October will provide more clarity on policy directions and pave the way for further socio-economic recovery, growth and reforms in the short, medium and longer term.** We expect Q4 2021 growth momentum to be carried through to next year, when our recovery factors are expected to benefit Malaysia’s 2022 GDP growth, forecast at 6.0% by the IMF, and 5.0% by the World Bank.

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Minister of Finance
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