



From the Desk  
of the  
**Chief Economist**

**BANK ISLAM**

# **THE 2Q2021 GDP SHOT UP 16.1%, THANKS TO A LOWER BASE**

14 AUGUST 2021

## **ECONOMIC RESEARCH**

**DR. MOHD AFZANIZAM ABDUL RASHID**

**ADAM MOHAMED RAHIM**

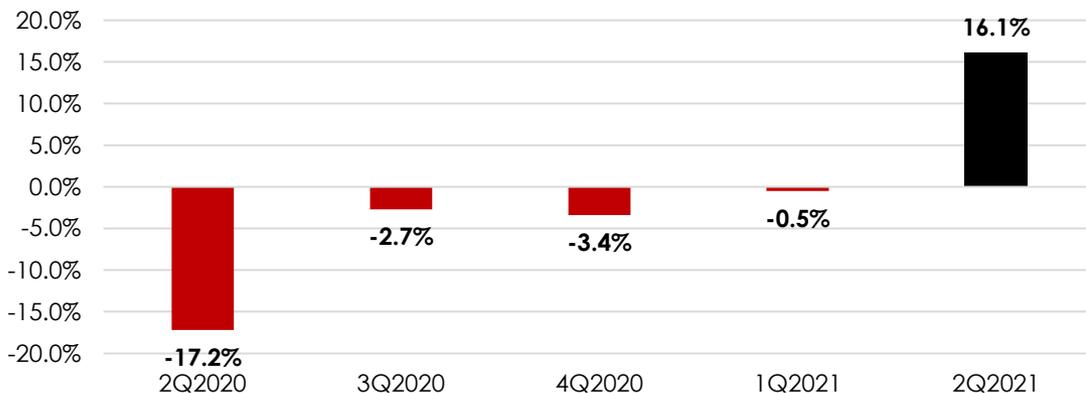
**SHAFIZ BIN JAMALUDDIN**

**NOR JANNAH ABDULLAH**

**RAJA ADIBAH RAJA HASNAN**

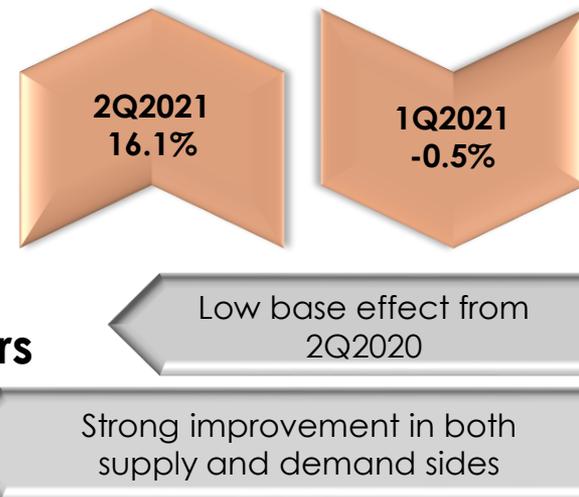
# MALAYSIA'S GDP REBOUNDED BY 16.1%, ENDING FOUR CONSECUTIVE QUARTERS OF CONTRACTION

**GDP growth, y-o-y%**



Source: CEIC

## Key Factors



- ✓ Malaysia's Gross Domestic Product (GDP) rebounded by 16.1% year-on-year (y-o-y) in 2Q2021 from a 0.5% contraction in the preceding quarter (Consensus: 14.0%, Bank Islam: 16.5%). The lower base recorded in 2Q2020 was the primary reason for the significant jump. The June quarter could have shown a 3.9% decline if the comparison is made based on the 2Q2019 GDP. Having said that, strong policy support, be it from fiscal and monetary, were also responsible for the sharp rise in GDP growth.
- ✓ This can be seen from the monthly GDP which grew by a double digit pace during April (40.1%) and May (19.8%). Notwithstanding that, the re-imposition of stricter nationwide containment measures, particularly under Phase 1 of the Full Movement Control Order (FMCO) has dragged monthly GDP down to -4.4% in June.
- ✓ On the supply side, the economic performance was supported by the continuous growth in Manufacturing sector (2Q2021: 26.6% vs. 1Q2021: 6.6%) and the rebound in Services sector (2Q2021: 13.4% vs. 1Q2021: -2.3%) during the quarter.
- ✓ Meanwhile on the demand side, the growth was underpinned by the expansion in household consumptions (2Q2021: 11.6% vs. 1Q2021: -1.5%) as well as favourable growth in net exports (2Q2021: 34.3% vs. 1Q2021: 0.8%) in 2Q2021.
- ✓ Despite the recent resurgence in Covid-19 cases, the Malaysian economy remains on a recovery path in 2021. We anticipated that the growth is expected to accelerate in 2022 following the improvement in consumer sentiment, catalyzed by an increasing share of vaccinated population, easing of containment measures and the build up in total household savings in the past year.

# DEMAND SIDE – DOMESTIC DEMAND RECOVERED AFTER SERIES OF CONTRACTION



## Private Consumption

**2Q2021:**  
11.6%  
**1Q2021:**  
-1.5%



## Private Investment

**2Q2021:**  
17.4%  
**1Q2021:**  
1.3%



## Exports

**2Q2021:**  
37.4%  
**1Q2021:**  
11.9%



## Public Consumption

**2Q2021:**  
9.0%  
**1Q2021:**  
5.9%



## Public Investment

**2Q2021:**  
12.0%  
**1Q2021:**  
-18.6%



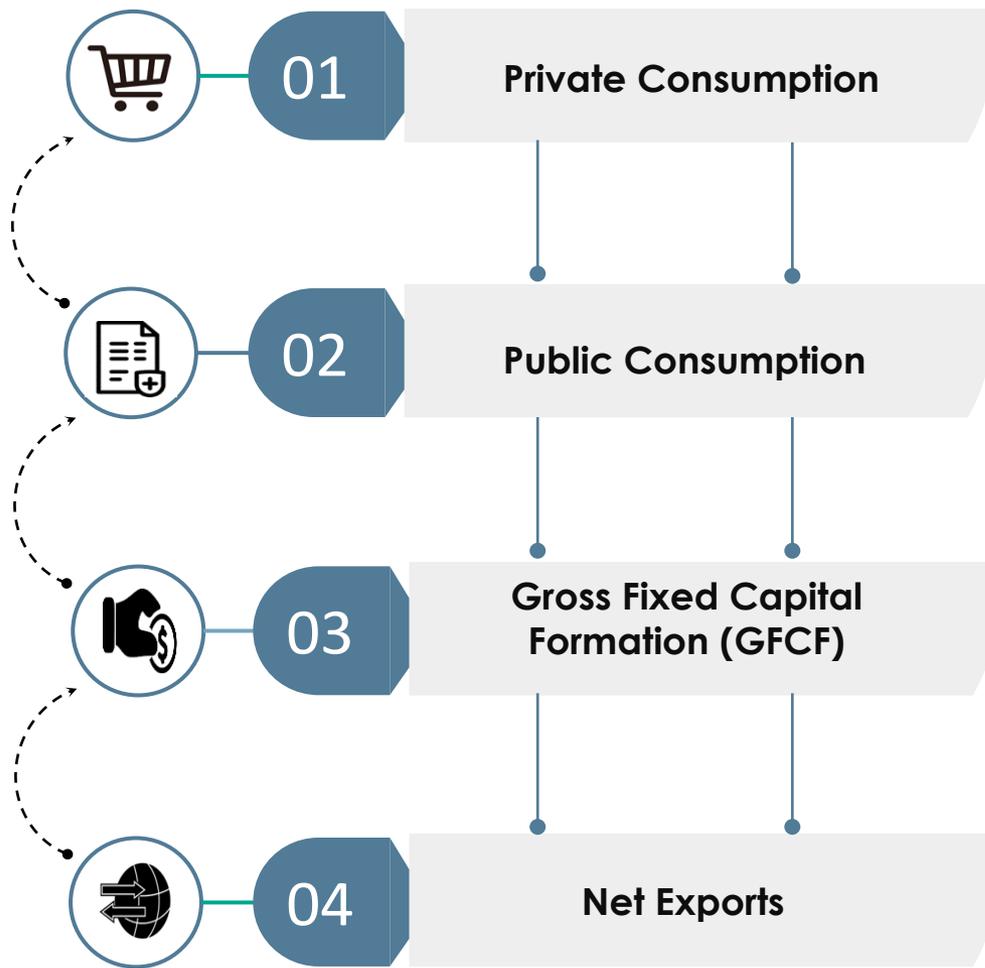
## Imports

**2Q2021:**  
37.6%  
**1Q2021:**  
13.0%



## Gross Domestic Product (GDP)

**2Q2021:**  
16.1%  
**1Q2021:**  
-0.5%

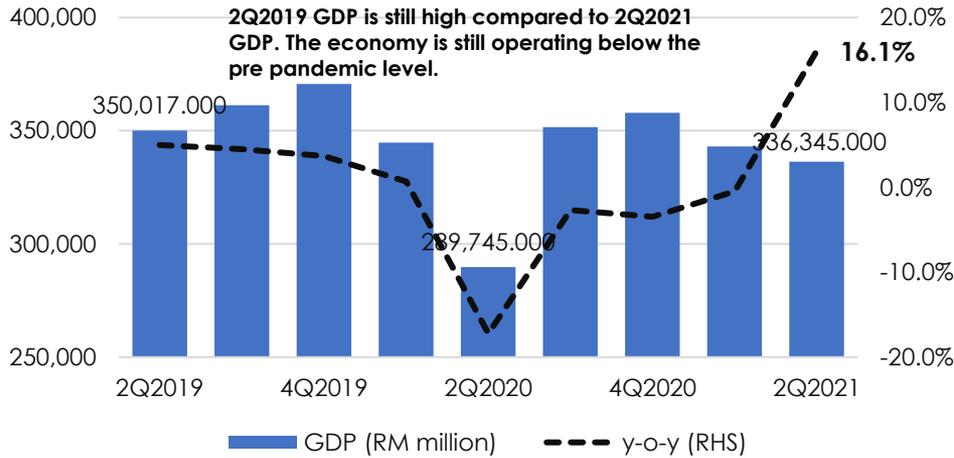


- Better performance in consumer spending was attributed by broad-based expansion in both necessity and discretionary items particularly during April.
- Labour market conditions showed signs of improvement, supporting the household spending.
- Various policy measures introduced by the government such as the EPF i-Sinar withdrawals and Bantuan Prihatin Rakyat have also uplifted consumers' expenditure.
- Public consumption continued to expand, underpinned by higher spending on supplies and services.
- The GFCF performance exhibited a rebound, backed by the recovery in capital spending from both private and public sectors.
- Investment in Structures together with Machinery & Equipment (M&E) expanded by 20.2% (1Q2021: -10.4%) and 15.1% (1Q2021: 10.3%) during 2Q2021. This indicates that capacity building remain high on the agenda despite the prevalence of new Covid-19 cases.
- On the external front, there was a strong demand for Electrical & Electronics (E&E) products, leading to higher export sales. Meanwhile, higher imports were recorded due to the expansion in intermediate imports.

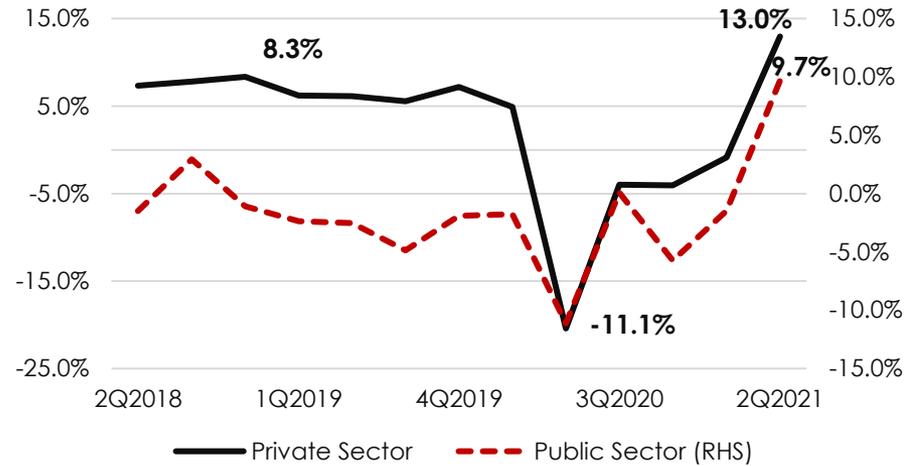
Sources: CEIC, Bank Islam

# DEMAND SIDE – PUBLIC AND PRIVATE EXPENDITURE ARE IMPROVING

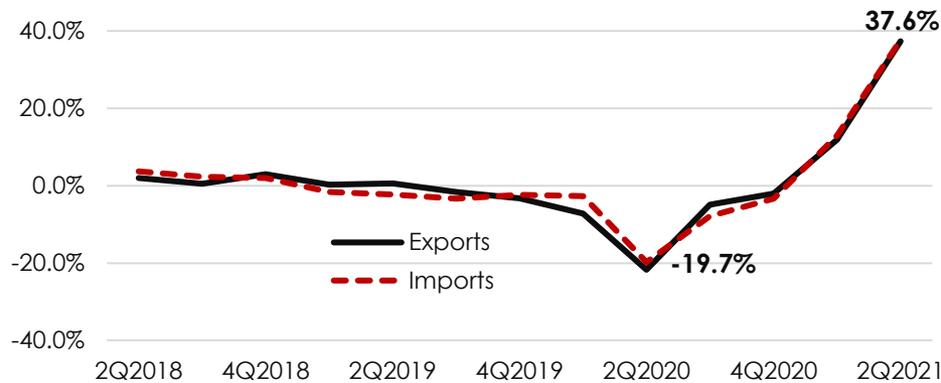
## GDP Growth, y-o-y% and Total, RM million



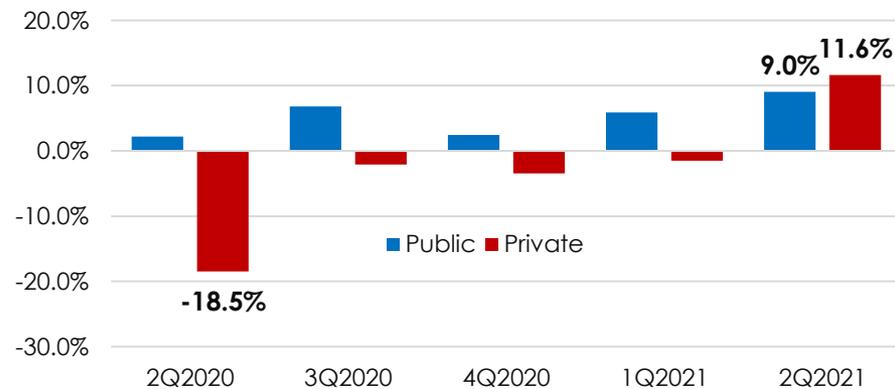
## Private and Public Sector Growth, y-o-y%



## Exports vs. Imports, y-o-y-%

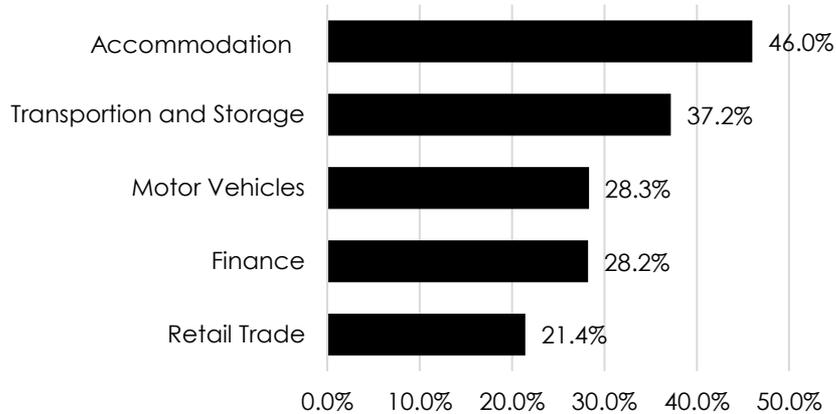


## Private vs. Public Consumption, y-o-y%



# SUPPLY SIDE – MOST OF THE ECONOMIC SECTORS HAVE GAINED ITS MOMENTUM EXCEPT FOR AGRICULTURE

## Top 5 Gainers in Services sub-sector, y-o-y%

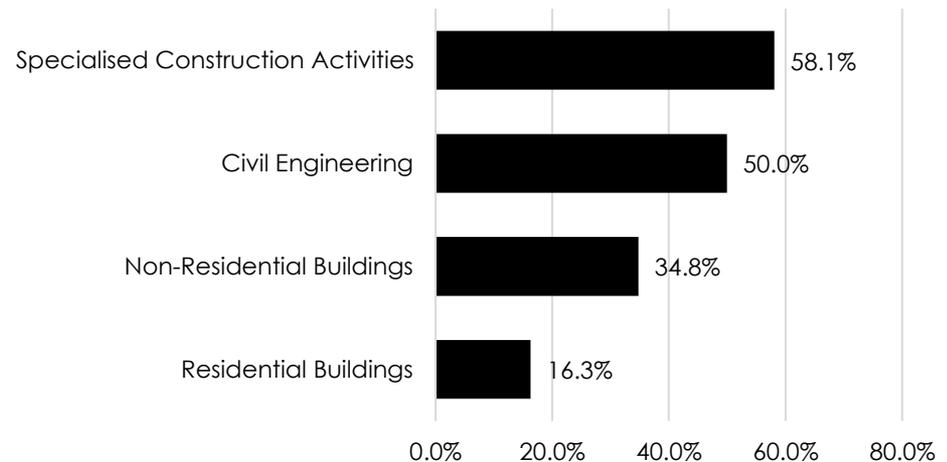


Sources: CEIC, DOSM

- ✓ Similarly, construction activities registered a firm growth of 40.3% in 2Q2021 after declining by 10.4% previously.
- ✓ The significant expansion was attributed by continuation of working progress in large infrastructure projects and on-going implementation of small-scale projects under the 2021 Budget, PEMERKASA and PEMERKASA+.
- ✓ Nevertheless, construction sector was in a deeper contraction on quarter-on-quarter (q-o-q) basis (2Q2021: -8.8% vs. 1Q2021: -3.6%) as activity was disrupted by the enforcement of the FMCO, whereby only essential construction projects were allowed to operate at a limited capacity.

- ✓ From the supply side, the services sector rebounded by 13.4% in 2Q2021 (1Q2021: -2.3%), supporting the overall upturn as it contributed the largest share to the total GDP at 57.7%.
- ✓ In addition, consumer-related activities have improved amid ease in restriction measures during early part of 2Q2021 as reflected by increase in accommodation (2Q2021: 46.0% vs. 1Q2021: -59.1%) during 2Q2021.
- ✓ Furthermore, finance (2Q2021: 28.2% vs. 1Q2021: 11.3%) and insurance (2Q2021: 10.3% vs. 1Q2021: 11.2%) posted a double-digit growth ascribed to higher fee income, sustained loan and deposit growth, as well as higher net insurance premiums less claims.

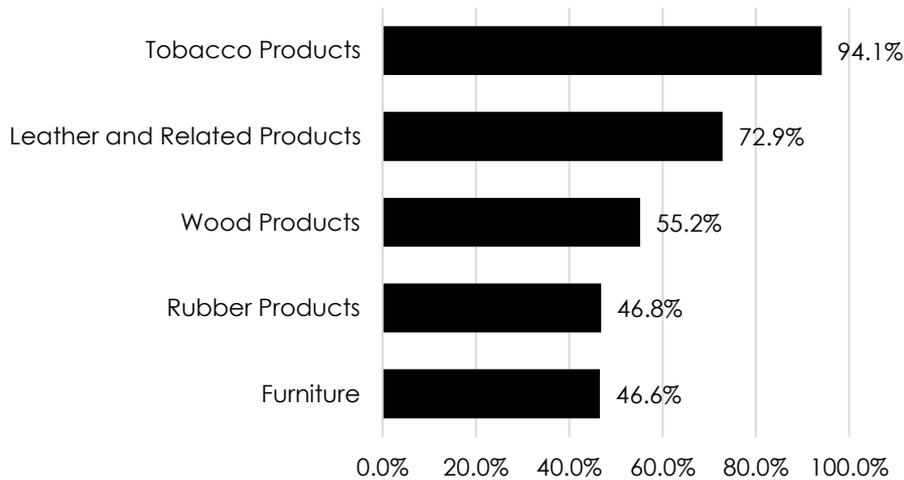
## Construction sub-sector, y-o-y%



Sources: CEIC, DOSM

# SUPPLY SIDE – MOST OF THE ECONOMIC SECTORS HAVE GAINED ITS MOMENTUM EXCEPT FOR AGRICULTURE (CONT'D)

## Top 5 Gainers Manufacturing sub-sector, y-o-y%

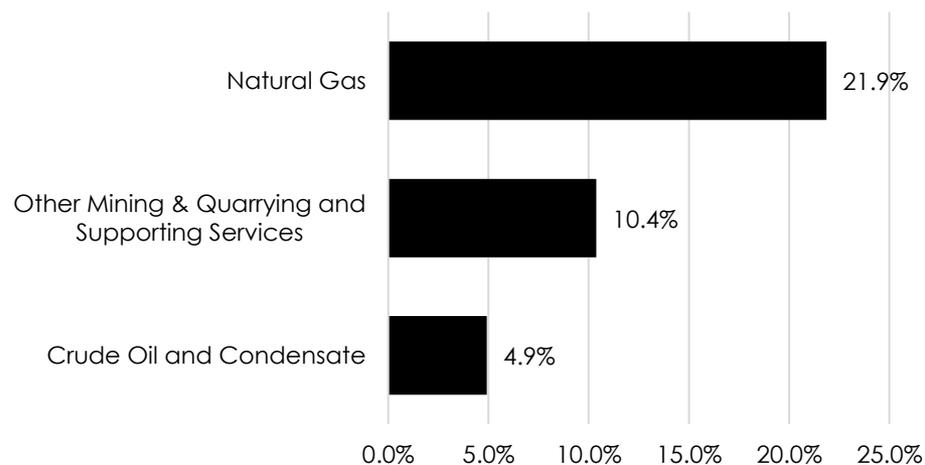


Sources: CEIC, DOSM

- ✓ On the other hand, the mining sector recorded its first positive growth of 13.9% (1Q2021: -5.0%) since 2Q2019 in light of improvement in natural gas (2Q2021: 21.9% vs. 1Q2021: 0.3%) and other mining & quarrying and supporting services (2Q2021: 10.4% vs. 1Q2021: -4.2%).
- ✓ In addition, the continued ramp-up of the PETRONAS Floating Liquefied Natural Gas DUA (PFLNG2) facility has also supported the turnaround in the sector.

- ✓ As for the manufacturing sector, it continued to gain more steam, rising at a fast clip 26.6% in 2Q2021 (1Q2021: 6.6%) largely fuelled by the surge in demand for E&E products.
- ✓ For instance, manufacturing of electronic components & boards, communication equipment and consumer electronics (2Q2021: 28.0% vs. 1Q2021: 12.4%) and electrical equipment (2Q2021: 26.0% vs. 1Q2021: 7.9%) increased further during 2Q2021.
- ✓ Meanwhile, tobacco products posted the largest gain at 94.1% in 2Q2021 from a 7.4% growth in the preceding quarter.
- ✓ However, manufacturing activities remained in the negative territory on a q-o-q basis, heavily weighed by FMCO that have constrained business operations.

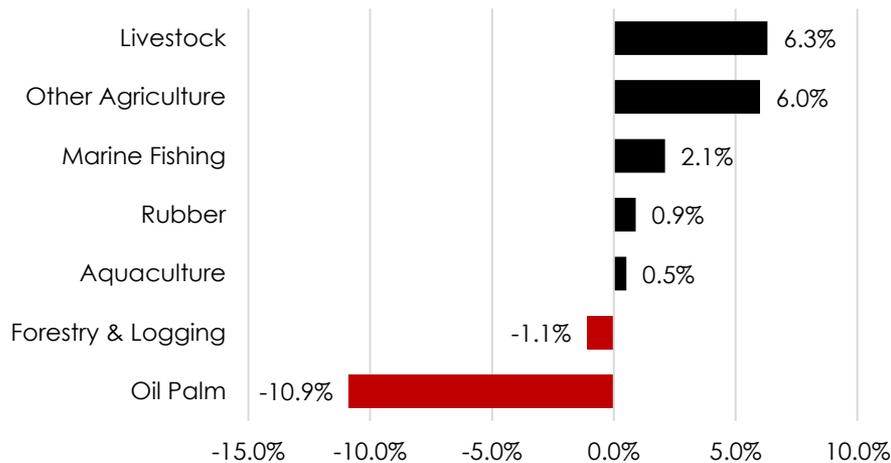
## Mining sub-sector, y-o-y%



Sources: CEIC, DOSM

# SUPPLY SIDE – MOST OF THE ECONOMIC SECTORS HAVE GAINED ITS MOMENTUM EXCEPT FOR AGRICULTURE (CONT'D)

## Agriculture sub-sector, y-o-y%

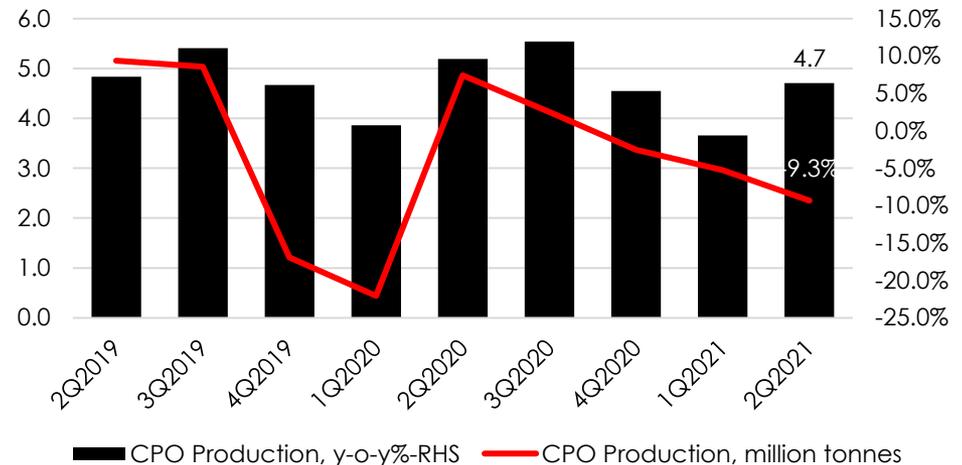


- ✓ However, agriculture fell by 1.5% in 2Q2021 from a positive growth of 0.2% recorded in 1Q2021. The main culprit was oil palm which dropped significantly by 10.9% in 2Q2021 (1Q2021: -3.5%).
- ✓ This was in tandem with lesser production of CPO in 2Q2021 to 4.7 million tonnes (1Q2021: 3.7 million tonnes) as harvesting activities were impacted by prolonged labour shortages.
- ✓ On the same token, forestry & logging activities continued to decline at 1.1% in 2Q2021 though slower compared to -2.9% in 1Q2021.

Sources: CEIC, DOSM

- ✓ Meanwhile, livestock (2Q2021: 6.3% vs. 1Q2021: 3.5%) and other agriculture (2Q2021: 6.0% vs. 1Q2021: 5.7%) sub-sectors continued to pick-up in 2Q2021 supported by the improvement in domestic demand.
- ✓ All in all, the economic sectors were adversely affected by the imposition of the FMCO during later part of 2Q2021 amid restricted human mobility while businesses are allowed to operate at a reduced capacity.

## CPO Production



Sources: CEIC, DOSM

Y-o-Y%	Share (2020)	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	1H2020	1H2021
<b>GDP</b>	<b>100.0%</b>	<b>5.0%</b>	<b>4.5%</b>	<b>3.7%</b>	<b>0.7%</b>	<b>-17.2%</b>	<b>-2.7%</b>	<b>-3.4%</b>	<b>-0.5%</b>	<b>16.1%</b>	<b>-8.4%</b>	<b>7.1%</b>
Domestic Demand (excluding stocks)	93.8%	4.5%	3.5%	4.9%	3.7%	-18.8%	-3.3%	-4.5%	-1.0%	12.3%	-7.8%	5.0%
<b>Private Sector</b>	<b>75.2%</b>	<b>6.1%</b>	<b>5.5%</b>	<b>7.2%</b>	<b>4.9%</b>	<b>-20.4%</b>	<b>-4.0%</b>	<b>-4.0%</b>	<b>-0.9%</b>	<b>13.0%</b>	<b>-8.1%</b>	<b>5.3%</b>
-Consumption	59.5%	7.8%	7.1%	8.2%	6.7%	-18.5%	-2.1%	-3.5%	-1.5%	11.6%	-6.0%	4.3%
-Investment	15.7%	1.5%	0.5%	3.4%	-1.1%	-26.1%	-10.8%	-6.6%	1.3%	17.4%	-14.5%	8.8%
<b>Public Sector</b>	<b>18.6%</b>	<b>-2.5%</b>	<b>-4.9%</b>	<b>-1.9%</b>	<b>-1.8%</b>	<b>-11.1%</b>	<b>0.1%</b>	<b>-5.7%</b>	<b>-1.5%</b>	<b>9.7%</b>	<b>-6.4%</b>	<b>3.8%</b>
-Consumption	13.4%	0.0%	0.7%	1.0%	4.9%	2.2%	6.8%	2.4%	5.9%	9.0%	3.5%	7.5%
-Investment	5.2%	-7.6%	-14.3%	-6.7%	-14.4%	-40.1%	-13.1%	-20.4%	-18.6%	12.0%	-26.5%	-6.9%
<b>Net Exports of Goods and Services</b>	<b>6.5%</b>	<b>32.5%</b>	<b>15.3%</b>	<b>-11.1%</b>	<b>-36.8%</b>	<b>-37.9%</b>	<b>19.2%</b>	<b>10.0%</b>	<b>0.8%</b>	<b>34.3%</b>	<b>-37.3%</b>	<b>15.6%</b>
-Exports	61.5%	0.6%	-1.6%	-3.3%	-7.2%	-21.7%	-4.9%	-2.1%	11.9%	37.4%	-14.4%	23.5%
-Imports	55.0%	-2.3%	-3.3%	-2.3%	-2.7%	-19.7%	-7.9%	-3.3%	13.0%	37.6%	-11.3%	24.3%

Y-o-Y%	Share (2020)	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	1H2020	1H2021
Services	57.7%	6.2%	5.9%	6.2%	3.1%	-16.2%	-4.0%	-4.8%	-2.3%	13.4%	-6.7%	4.8%
Manufacturing	22.9%	4.3%	3.6%	3.0%	1.4%	-18.3%	3.3%	3.0%	6.6%	26.6%	-8.7%	15.8%
Agriculture	7.4%	4.2%	3.7%	-5.5%	-8.6%	0.9%	-0.3%	-1.0%	0.2%	-1.5%	-3.9%	-0.7%
Mining and Quarrying	6.8%	2.9%	-2.8%	-2.5%	-2.9%	-20.8%	-7.8%	-10.4%	-5.0%	13.9%	-11.9%	3.5%
Construction	4.0%	1.1%	-1.4%	1.3%	-7.9%	-44.5%	-12.4%	-13.9%	-10.4%	40.3%	-25.9%	8.3%

Sources: BNM, CEIC, Bank Islam

# CURRENT ACCOUNT SURPLUS WIDENED IN 2Q2021 – THIS SHOULD HELP TO IMPROVE THE VALUE OF THE RINGGIT

	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	1H2020	1H2021
<b>Current Account</b>	<b>14.8</b>	<b>13.2</b>	<b>7.4</b>	<b>8.8</b>	<b>7.7</b>	<b>24.8</b>	<b>18.6</b>	<b>12.3</b>	<b>14.4</b>	<b>16.5</b>	<b>26.7</b>
% GDP	3.9%	3.1%	2.0%	2.4%	2.5%	6.7%	4.9%	3.3%	3.9%	2.5%	3.6%
Goods	28.6	29.7	32.7	28.9	25.8	41.5	42.6	36.6	40.7	54.7	77.3
Services	(3.9)	(1.3)	(4.0)	(7.6)	(12.4)	(13.4)	(14.0)	(15.0)	(15.4)	(20.0)	(30.4)
Primary Income	(5.3)	(9.6)	(15.7)	(7.2)	(3.8)	(10.4)	(7.2)	(5.7)	(9.5)	(11.0)	(15.2)
Secondary Income	(4.7)	(5.5)	(5.6)	(5.2)	(1.9)	7.2	(2.7)	(3.6)	(1.4)	(7.1)	(5.0)
<b>Financial Account</b>	<b>(19.0)</b>	<b>(4.2)</b>	<b>(1.9)</b>	<b>(13.2)</b>	<b>(21.7)</b>	<b>(31.1)</b>	<b>(10.2)</b>	<b>16.0</b>	<b>(7.0)</b>	<b>(34.9)</b>	<b>9.0</b>
Direct Investment	(9.1)	(3.7)	5.3	3.9	(0.6)	(2.2)	1.6	1.4	4.2	3.3	5.6
<i>Asset</i>	(11.6)	(5.9)	(5.2)	(1.0)	(0.9)	(9.1)	(4.2)	(9.1)	(8.7)	(1.9)	(17.8)
<i>Liabilities</i>	2.5	2.3	10.5	4.9	0.4	6.9	5.8	10.5	12.9	5.3	23.4
Portfolio Investment	(9.8)	(25.8)	(3.5)	(41.4)	20.6	(20.3)	(7.1)	0.4	20.0	(20.8)	20.3
<i>Asset</i>	(3.5)	(19.0)	(15.9)	(15.6)	(3.1)	(20.8)	(19.9)	(14.2)	(10.6)	(18.7)	(24.8)
<i>Liabilities</i>	(6.3)	(6.9)	12.4	(25.8)	23.7	0.5	12.8	14.6	30.5	(2.1)	45.2
Financial Derivatives	(0.5)	0.8	(0.6)	2.5	(0.6)	(0.5)	(0.9)	0.3	(0.6)	1.9	(0.4)
Other Investment	0.3	24.5	(3.2)	21.8	(41.1)	(8.1)	(3.7)	13.9	(30.5)	(19.3)	(16.6)
<b>Errors and Omissions</b>	<b>2.9</b>	<b>(2.6)</b>	<b>(8.0)</b>	<b>(4.2)</b>	<b>7.7</b>	<b>4.8</b>	<b>(11.0)</b>	<b>(10.9)</b>	<b>(2.6)</b>	<b>3.4</b>	<b>(13.6)</b>
<b>Overall Balance</b>	<b>(1.4)</b>	<b>6.5</b>	<b>(2.5)</b>	<b>(8.7)</b>	<b>6.4</b>	<b>(1.5)</b>	<b>(2.6)</b>	<b>17.1</b>	<b>4.7</b>	<b>(15.0)</b>	<b>21.8</b>

Sources: CEIC, BNM

- ✓ Malaysia's Current Account Balance posted a higher surplus balance of RM14.4 billion (3.9% of GDP) in 2Q2021 from RM12.3 billion (3.3% of GDP) in the previous quarter. This was mainly attributed by larger Goods surplus due to stronger external demand and lower negative balance in Secondary Income. Meanwhile, the Services account deficit and Primary Income deficit widened to RM15.4 billion (1Q2021: -RM15.0billion) and RM9.5 billion (1Q2021: -RM5.7 billion) in 2Q2021 respectively due to larger deficits in transportation and other business services, as well as higher investment income accrued to foreign companies and investors in Malaysia.
- ✓ On the contrary, the Financial Account recorded a deficit balance of RM7.0 billion in 2Q2021 (1Q2021: RM16.0 billion) following higher deficits balance from Other Investment (2Q2021: -RM30.5 billion vs. 1Q2021: RM13.9 billion).
- ✓ As such, the Overall Balance registered a net inflow of RM4.7 billion in 2Q2021, smaller than RM17.1 billion net inflows recorded in the preceding quarter. Despite that, cumulatively, the Overall Balance recovered from a net outflow of RM15.0 during 1H2020 to RM21.8 net inflows in the same period this year, underpinned by the improvement in Current and Financial account.
- ✓ **As such, USDMYR can be deemed as undervalued, judging from the BOP.**

# NET EXPENDITURE INCREASED ON A YEAR-ON-YEAR BASIS IN 2Q2021

RM Billion	2Q2019	3Q2019	4Q2019	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	1H2020	1H2021
Revenue	62.1	68.8	69.9	45.3	56.4	46.4	77.0	49.5	56.9	101.8	106.4
Q-o-Q %	-2.5%	10.8%	1.6%	-35.1%	24.6%	-17.8%	65.9%	-35.7%	14.9%	-	-
Y-o-Y %	18.3%	16.7%	4.0%	-28.9%	-9.0%	-32.5%	10.2%	9.3%	0.8%	-19.1%	4.6%
Operating Expenditure	65.3	68.8	69.8	62.1	51.9	56.8	53.7	62.2	55.2	114.0	117.4
Q-o-Q %	9.9%	5.3%	1.4%	-11.0%	-16.3%	9.5%	-5.5%	15.7%	-11.3%	-	-
Y-o-Y %	3.8%	25.0%	20.1%	4.5%	-20.5%	-17.4%	-23.0%	0.2%	6.2%	-8.6%	-2.9%
<b>Current Balance</b>	<b>-3.2</b>	<b>0.0</b>	<b>0.1</b>	<b>-16.8</b>	<b>4.5</b>	<b>-9.9</b>	<b>23.3</b>	<b>-12.7</b>	<b>1.7</b>	<b>-12.3</b>	<b>-10.9</b>
Net Expenditure	12.1	9.6	19.6	10.8	7.0	12.1	20.2	15.3	12.7	17.8	27.9
Q-o-Q %	6.5%	-20.8%	104.7%	-44.8%	-35.2%	72.9%	66.9%	-24.3%	-17.0%	-	-
Y-o-Y %	33.2%	27.7%	-30.1%	-4.4%	-41.2%	26.5%	3.2%	41.6%	80.7%	-24.0%	57.0%
<b>Covid-19 Fund</b>				0.5	22.1	5.5	10.4	9.1	9.3	22.70	18.4
<b>Overall Balance</b>	<b>-15.3</b>	<b>-9.6</b>	<b>-19.5</b>	<b>-28.1</b>	<b>-24.6</b>	<b>-27.6</b>	<b>-7.3</b>	<b>-37.1</b>	<b>-20.3</b>	<b>-52.7</b>	<b>-57.3</b>
Q-o-Q %	-115.3%	37.4%	-103.2%	-44.2%	12.5%	-12.3%	73.6%	-408.2%	45.3%	-	-
Y-o-Y %	21.5%	-164.6%	-2.9%	-295.1%	-60.7%	-188.1%	62.5%	-32.0%	17.5%	-370.5%	-8.7%
Overall Balance % of GDP	4.1%	2.5%	4.9%	7.6%	8.1%	7.5%	1.9%	10.0%	5.5%	7.9%	7.7%

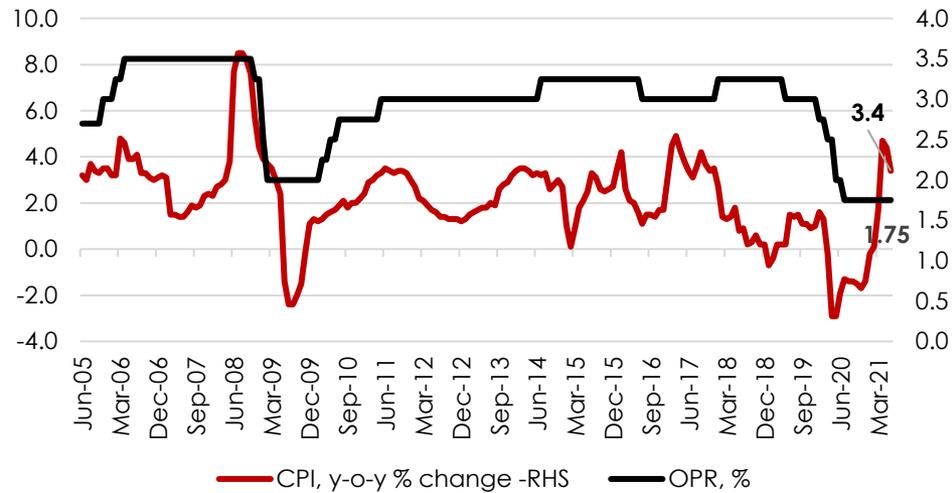
Sources: CEIC, BNM

- ✓ Federal government revenue increased by 0.8% y-o-y to RM56.9 billion during 2Q2021 (1Q2021: RM49.5 billion) partly supported by higher average Brent crude oil prices at USD69.00 per barrel during the quarter (1Q2021: USD61.00 per barrel).
- ✓ On the other hand, the net expenditure jumped by 80.7% y-o-y to RM12.7 billion in 2Q2021 (1Q2021: RM15.3 billion) to finance the government's economic stimulus packages and recovery plan.
- ✓ As a result, **the overall fiscal deficit has reached 7.7% of GDP in 1H2021** compared to 7.9% of GDP in the same period last year. Nevertheless, we estimate that the **fiscal deficit to be lower at 6.9% of GDP for the full year of 2021 (2020: 6.2%)** amid lesser spending in the second half of the year as more businesses gradually upscale operations in light of relaxed restrictions and thus, reducing the need for more stimulus packages.
- ✓ The issuance of local govies (MGS and GII) was little changed at RM40.6 billion in 2Q2021 (1Q2021: RM41.6 billion) as the government seeks funds to finance higher expenditure. **The full year gross issuance of local govies forecasted to reach RM165.0 million this year (2020: RM157.3 million)** in anticipation of wider **debt-to-GDP ratio at 63.3% this year (2020: 62.2%)**. In addition, the Minister of Finance is expected to file a motion to raise the current debt ceiling of 60.0% during parliament sitting in September to support plans for economic recovery.

# MONETARY POLICY RESPONSE – BNM WILL MAINTAIN ITS ACCOMMODATIVE STANCE

- ✓ In 2Q2021, the Consumer Price Index (CPI) advanced by 4.1% y-o-y (1Q2021: 0.5%).
- ✓ Nevertheless, it should be noted that the uptick in 2Q2021's inflation was still caused by the low base effect seen in domestic fuel prices and the lapse in the impact from the tiered electricity tariff rebates from April 2020 until end of 2020.
- ✓ On a year-on-year basis, the prices of RON95, RON97 and Diesel during 2Q2021 were higher by 49.2%, 55.3% and 38.6% compared to the same quarter last year.
- ✓ Looking from a monthly basis, we observed that the latest average fuel prices in July exhibited a moderation in growth compared to June and May. This indicates that the low base factor for fuel prices are wearing off as retail prices for RON95, RON97 and Diesel were gradually rising in 2H2020.
- ✓ As such, we foresee that inflation will grow by 2.5% (2020: -1.1%) in 2021. This is in line with the latest inflation projections by BNM whereby inflation is expected to average between 2.0% and 3.0% in 2021. (previous estimate: between 2.5% and 4.0% in 2021).
- ✓ With that, it is still premature for BNM to raise the Overnight Policy Rate (OPR) this year as there is still some spare capacity in the economy combined with risks from the Delta variant.
- ✓ Perhaps, there will be a compelling case for a rate hike in 2022 amid pent-up consumer demand when the economic recovery is stable. This is reflected in the Malaysia's M1 money supply growth whereby it has been increasing by a double-digit growth since May last year (June 2021: 12.2% y-o-y vs. May 2021: 15.1%), suggesting there is a lot of cash circulating in the country's economy.

CPI, y-o-y% vs. OPR,%



Source: CEIC

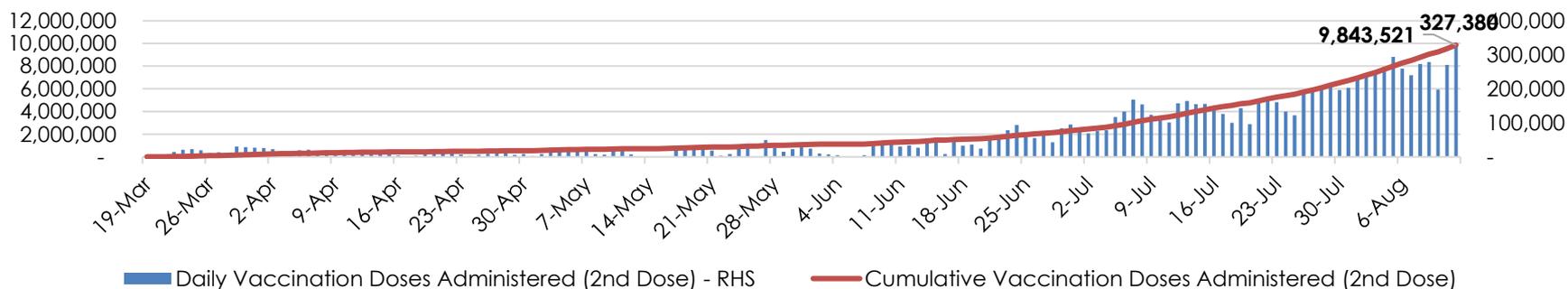
Changes in average monthly fuel prices

Month	Price (RM per litre)			Year-on-year change (%)		
	RON95	RON97	Diesel	RON95	RON97	Diesel
Apr-21	2.05	2.55	2.15	60.8%	61.9%	44.2%
May-21	2.05	2.60	2.15	57.1%	62.1%	48.3%
Jun-21	2.05	2.65	2.15	32.8%	43.8%	25.5%
Jul-21	2.05	2.71	2.15	21.1%	36.2%	16.2%

Source: CEIC

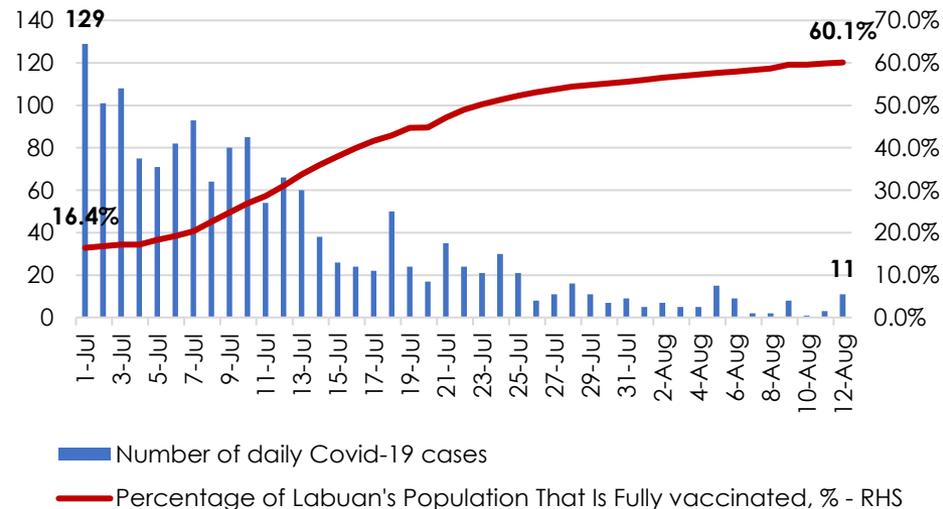
- ✓ The economy has accelerated to 16.1% in 2Q2021 (1Q2021: -0.5%) on year-on-year basis. However, the primary factor was still the low base recorded in last year's GDP. It is noteworthy that the GDP in 2Q2021 is 3.9% lower than the GDP seen in 2Q2019 before the pandemic struck the globe. Therefore, the nation's economic recovery is still soft.
- ✓ As mentioned by BNM, economic growth is expected to reach a trough in 3Q2021 following the imposition of the enhanced movement control order (EMCO) in certain parts of Kuala Lumpur and Selangor in the first half of July in addition to the FMCO.
- ✓ While we remain hopeful for the eventual recovery, the elevated number of daily Covid-19 cases of around 18,000 to 21,000 cases per day are still worrying. In particular, the highly infectious Delta variant has become increasingly prevalent in the country.
- ✓ Notwithstanding this, the vaccination efforts have shown a tremendous progress. Recall that in July, the average of daily doses administered during that month has reached 399.7k doses per day (June: 169.2k doses per day), slightly higher than 389.6k doses per day targeted under the National Covid-19 Immunisation Programme. As at 12 August 2021, 42.0% or 9.8 million of Malaysia's adult population has been fully vaccinated.
- ✓ The government has set a revised target of fully vaccinating 100.0% of Malaysia's adult population and 80.0% of the whole population by October. **Our back-on-the envelope calculations show that the target for vaccinating the adult population may be reached in the first week of October** provided that the average daily second doses administered is sustained at 250,000 doses per day.

### Number Of Second Vaccination Doses Administered in Malaysia

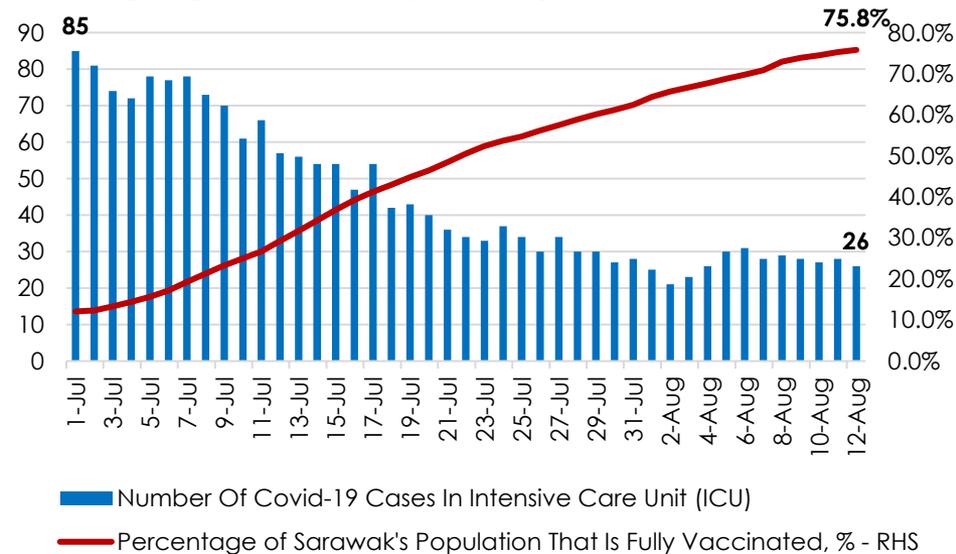


- ✓ While there have been concerns that the Covid-19 vaccines appear not to be effective against the variants of the Covid-19 virus, there have been underlying data which have revealed otherwise.
- ✓ The Federal Territory of Labuan which has 60.1% of its population fully vaccinated as at 12 August 2021 has shown a decline in daily Covid-19 cases.
- ✓ Sarawak which has 75.8% of its population fully vaccinated as at 12 August 2021 also witnessed a downtrend in the number of patients placed in intensive care units (ICUs).
- ✓ On further scrutiny, the latest available data by the Ministry of Health revealed that 87.9% of the cases under Category 1 with no symptoms and 86.9% of the cases under Category 2 with mild symptoms are related to patients with no vaccination history.
- ✓ Therefore, the abovementioned developments points out the importance of vaccination in curbing the spread of the pandemic in the country.

### Daily Covid-19 Cases vs. Percentage Of Population Fully Vaccinated In Labuan



### No. of Covid-19 Cases In Intensive Care Unit (ICU) vs. Percentage Of Population In Sarawak



Source: Ministry of Health

- ✓ A steady progress in vaccination efforts is important especially for remaining states under Phase 1 of the National Recovery Plan (NRP). The coordinating minister for the NRP, Tengku Datuk Seri Zafrul highlighted that Malaysia will shift to use the daily number of 'symptomatic hospital admission cases' in Category 3, 4 and 5 as a new threshold indicator.
- ✓ The indicator will replace the current measure of daily Covid-19 cases once the state's level of fully vaccinated people reaches 50.0% of adults. These states can only move to Phase 2 if they achieve a threshold value of symptomatic hospital admissions (6.1 per 100,000 people) and the ICU usage capacity (moderate).

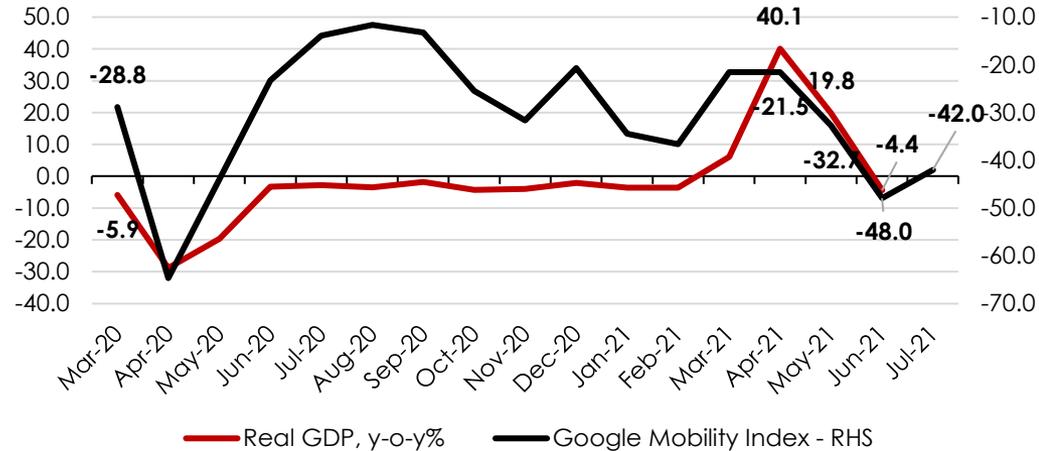
## Breakdown of the Phases Under NRP

States		
Phase 1	Phase 2	Phase 3
Kedah	Pulau Pinang	Perlis
Selangor	Perak	Sawarak
Federal Territory Of Kuala Lumpur	Kelantan	Labuan
Negeri Sembilan	Terengganu	
Melaka	Pahang	
Johor	Sabah	
Federal Territory Of Putrajaya		
Working Capacity For Selected Manufacturing Activities		
Phase 1	Phase 2	Phase 3
60%	80%	Fully vaccinated industries can operate at full capacity.
Inter-district Travel and Inter-state Travel		
Phase 1	Phase 2	Phase 3
-Applicable to all phases.		
-Eligible only for long-distance spouses and parents who have children aged below 18 living in other states and districts provided that they have been fully vaccinated.		
Tourism Activities		
Phase 1	Phase 2	Phase 3
-Tourism activities are still not allowed	-Tourism activities allowed within the states involving homestay and hotels provided that visitors have been fully vaccinated.	

- ✓ So far three states (Perlis, Sarawak and Labuan) have transitioned to Phase 3 of the NRP while six states (Penang, Perak, Kelantan, Terengganu, Pahang and Sabah) have migrated to Phase 2 of the NRP.
- ✓ Phase 2 and 3 of the NRP have less strict working capacities, enabling industries to operate more and produce output which will contribute to the nation's economy.
- ✓ The recent relaxation of movement restrictions announced on 8 August 2021 (refer to table) will bode well for mobility.

- ✓ Our analysis finds that the Google Mobility Index (GMI) has a strong correlation of 83.6% with the nation's monthly GDP.
- ✓ Henceforth, the impact of EMCO in the first half of July will be cushioned by improved mobility following the relaxation of some movement restrictions starting 10 August 2021.
- ✓ In fact, the GMI in July showed a -42.0% change from the baseline (June: -48.0%) and the first six days of August indicated a -32.0% percentage change from the baseline. The relaxation of certain movement restrictions will definitely make the percentage change narrower under the GMI and therefore translate to better economic growth.
- ✓ Other drivers for the economic growth for the remainder of the year include robust e-commerce income which grew by 23.3% y-o-y in 2Q2021 (1Q2021: 30.0%) and heightened demand for Malaysia's semiconductor products as digitalization takes place across the globe.
- ✓ **We continue to reiterate our full-year GDP growth of 4.2% in 2021 (2020: -5.6%)** which is slightly above the 3.0% to 4.0% GDP growth range projected by BNM based on the abovementioned points.
- ✓ However, a major downside risk to our forecast include prolonged movement restrictions if Covid-19 variants are later found to be immune towards the vaccines that are currently available.
- ✓ Apart from that, the current uptick in Covid-19 cases in major trading partners such as the U.S. and China sparked by the Delta variant could limit consumer spending, posing risks towards the country's external demand.

### Monthly Real GDP, y-o-y% vs. Monthly Google Mobility Index



Sources: Bank Islam, CEIC, Ministry of Finance

- Note: 1. The chart above shows the change in movements of people at different locations i.e., Retail & Recreation; Transit Stations; Workplaces; Grocery & Pharmacy; Parks compared to the baseline (pre-pandemic period).  
 2. Monthly Google Mobility Index is the simple average of the daily indices for Retail & Recreation; Transit Stations; Workplaces; Grocery & Pharmacy; Parks.  
 3. A positive change from the baseline indicates more people are at a location than the pre-pandemic period. Meanwhile, a negative change from the baseline indicates that more people are staying away from a particular place compared to pre-pandemic periods.

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A cityscape at sunset with a pink bar at the bottom. The sky is filled with soft, golden light and scattered clouds. The city buildings are silhouetted against the bright horizon. A prominent road with traffic is visible in the foreground. The overall mood is warm and appreciative.

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