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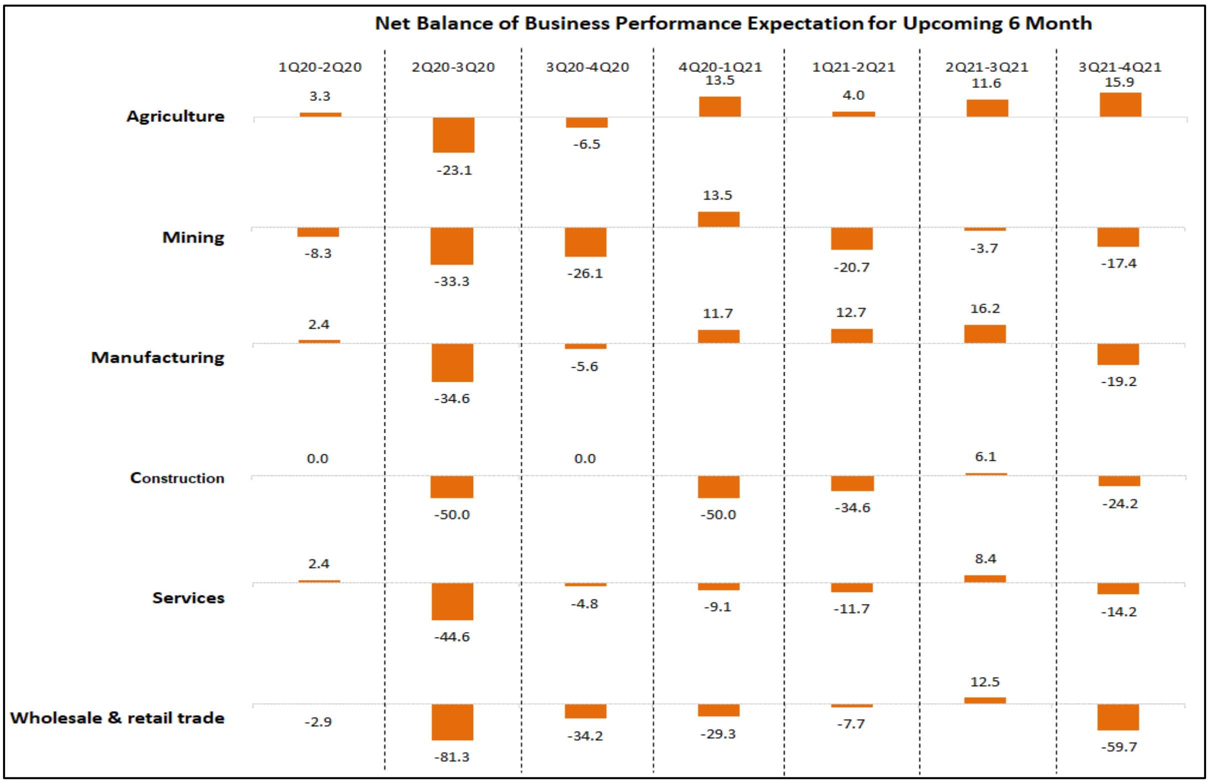
In its latest monetary policy meeting held on September 9, Bank Negara Malaysia (BNM) decided to maintain the Overnight Policy Rate (OPR) at 1.75%, the 7th time which the key policy rate is unchanged. The decision is in line with our expectation that BNM would keep its OPR unchanged at 1.75% till year-end, given the availability of targeted relief measures and subdued inflationary pressures averaged 2.3% in 7M 2021.

BNM acknowledged that the recent gradual easing of restrictions for more economic sectors to reopen, with businesses more adapt to the new norm amidst continued policy support and global growth recovery, would facilitate Malaysia's recovery. The central bank in its monetary policy statement, however, cited downside risks to the growth outlook. Unfavourable factors that could derail the recovery momentum include a potential re-instatement of broad-based containment measures, delays in the relaxations on account of the impact of the ever-mutating coronavirus and a weaker-than-expected global recovery.

According to Business Tendency Survey published by the Department of Statistics Malaysia (DOSM) on August 26, firms are more pessimistic towards their business condition in 3Q 2021, as seen in the -21.3% plunge in the quarterly confidence indicator (2Q: -3.1%). Overall negative sentiment among businesses is likely to persist throughout 2H 2021, given an overall net balance expectation of -21.7% for the period of 3Q-4Q as opposed to +11.0% for the period of 2Q-3Q. All sectors, except the Agriculture sector, envisage negative prospects. Sustained high Crude Palm Oil prices, as well as lower import tax and surging edible oil demand from India, contribute to a better outlook for the Agriculture sector, particularly the palm oil industry.

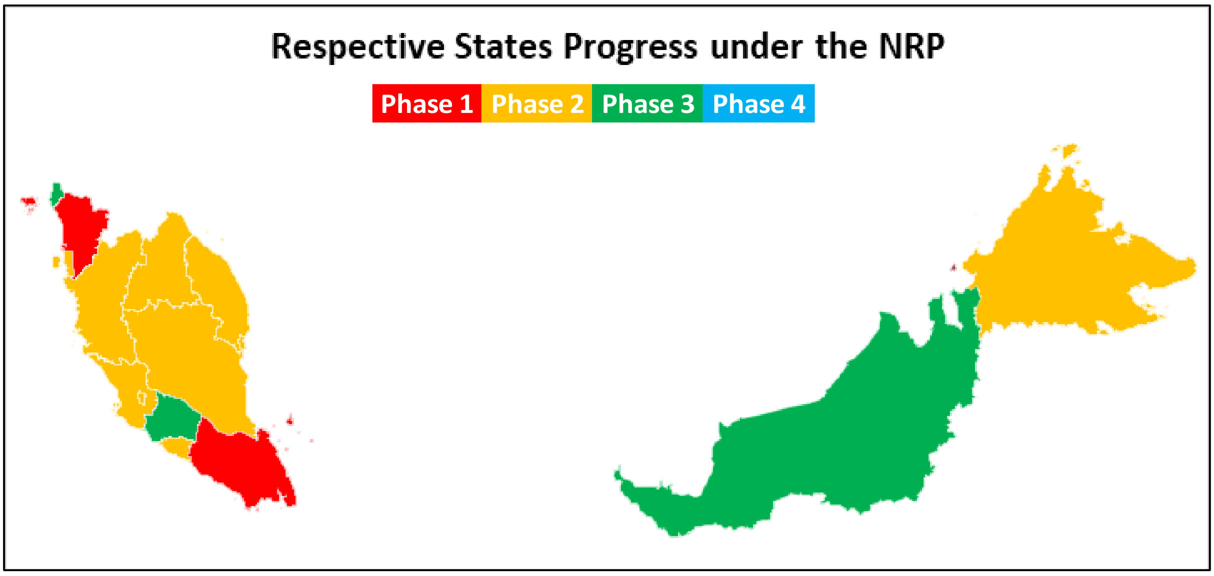


Source: Business Tendency Statistics, DOSM and SME Bank SCEA

Prolonged mobility restrictions in 2021, namely the Movement Control Order 2.0 (MCO) in January, MCO3.0 in May, Full MCO in June and today's National Recovery Plan (NRP), had severely eroded business sentiment, of which SMEs felt the full brunt. This is owing to their high involvement in the customer-facing Wholesale & Retail Trade and Accommodation sector, accounting for about 16% of the National's GDP and 40% of the SME sector's GDP.

Experiencing languishing sales and tight cashflows, SMEs are struggling and striving hard to survive. The SME Association of Malaysia, in August 2021, stated that about 25% of SMEs have permanently discontinued their businesses, while about 54% of them have temporarily closed or ceased operations. Furthermore, another survey by the Federation of Malaysian Manufacturers (FMM) and Malaysian Institute of Economic Research (MIER) earlier this month revealed that about 2.6% of the respondents are currently in the process of winding down. The expected index for business activity fell to 60 points from 87, reflecting a worsening outlook. Nonetheless, we note that manufacturing sales in July 2021 remained resilient, grew 0.6% y-o-y to RM119.8 billion (June: 6.5%).

For July 2021, wholesale and retail trade declined 14.7% y-o-y to RM92.7 billion following the plummet of 10.3% in June, attributable to lockdown. That said, it improved slightly by 0.5% m-o-m (June: -14.8%), as some states transitioned into Phase 2 of the NRP, which certain economic sectors were permissible to operate. This shows a glimmer of hope that economic activities are recovering and it is not as bad as businesses envision. We, thus, expect numbers from August onwards to be better as more sectors are allowed to open lately. This would benefit the SME sector greatly.



**As at 15 September 2021*
Source: NRP's official portal and SME Bank SCEA

While we view positively the gradual reopening of economic sectors in all states, regardless of the phases under the NRP, suppression of infection counts, aided by accelerated vaccination drives, would significantly help improve sentiment on the ground. Moreover, private consumption could be boosted in coming weeks, subsequent to the announcement of travel bubble initiative to Langkawi that may imply more tourism destinations to follow suit.

The country's economy is expected to rebound in 4Q 2021. To facilitate the recovery and play our role as a development bank, SME Bank offers a variety of financing products. We are committed to helping entrepreneurs and SMEs to cope with their struggles during this difficult time.