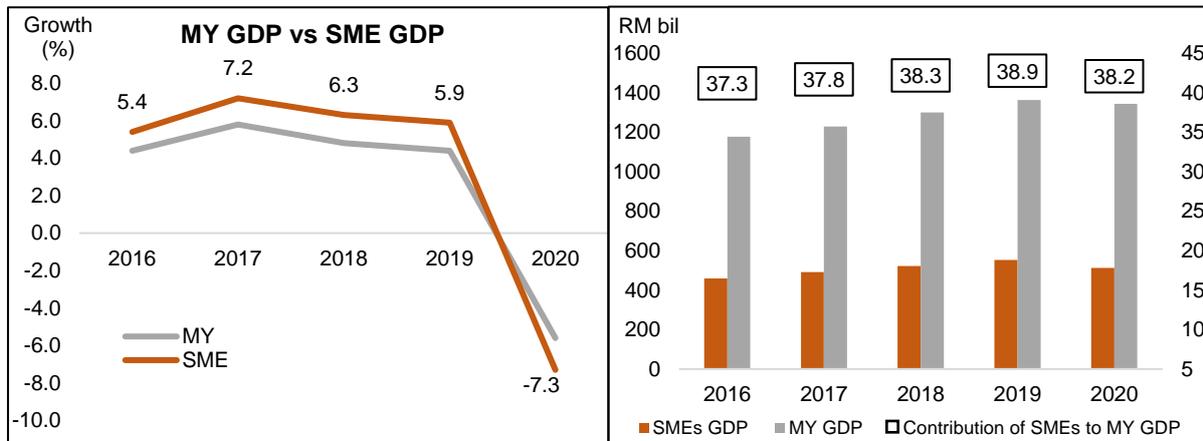


Economists:  
**Lynette Lee**  
**Toh Wei Liang**

Strategic Credit & Economic Analytics  
[SMEBank-SCEA@smebank.com.my](mailto:SMEBank-SCEA@smebank.com.my)  
 (603) 2615 2020

The latest publication by the Department of Statistics Malaysia (DOSM) showed that the SME sector’s performance fared worse than the country’s growth in 2020. It plunged 7.3%, sharper than the national GDP of 5.6%, the first time since 2004. Notably, the Movement Control Order (MCO) and several re-impositions of MCOs since the onset of the pandemic, aimed at containing the spread of Covid-19, have caused severe and scarring impacts on the Malaysian economy, especially on SMEs. According to the Ministry of Entrepreneur Development and Cooperatives (MEDAC), SMEs’ estimated losses stood at RM40.7 billion in 2020 (3.0% of the country’s GDP).



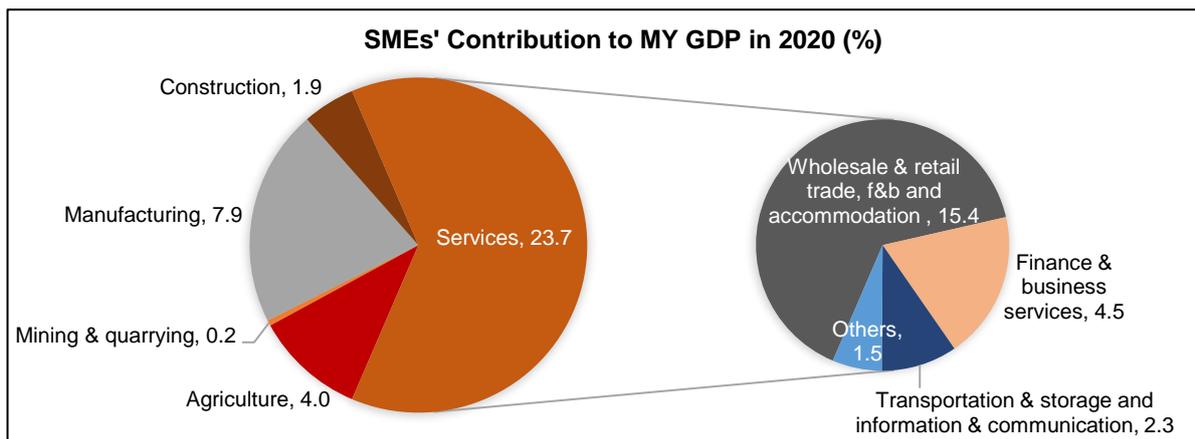
Source: DOSM and SME Bank SCEA

SME activities for the Services sector tumbled 9.2% (2019: +7.5%). Amid sluggish sentiment, the Wholesale and Retail Trade, Food and Beverages and Accommodation sub-sector also charted a decline of 7.8%. Meanwhile, the “Finance, Insurance, Real Estate & Business Services” and “Transportation & Storage and Information & Communication” sub-sectors nosedived 10.6% and 11.4%, respectively.

Given customer-facing nature, the Services sector would naturally suffer the most amid the “on-off lockdowns”. We note that the Services sector accounted for 62.1% of the total SMEs’ GDP vis-à-vis 57.7% of Malaysia’s GDP in 2020, indicating that MCOs have greater impact on the SME sector. Although SMEs’ contribution to the national GDP was lower at RM 513 billion or 38.2% in 2020 (2019: RM554 billion or 38.9%), SME activities have consistently made up more than a third of Malaysia’s GDP.

According to SME Association of Malaysia, some 100,000 companies have ceased operations between March 2020 and May 2021. MEDAC has also stated that approximately 580,000 businesses (49% of SMEs) are on the brink of collapsing by October if operations are still not permissible by then.

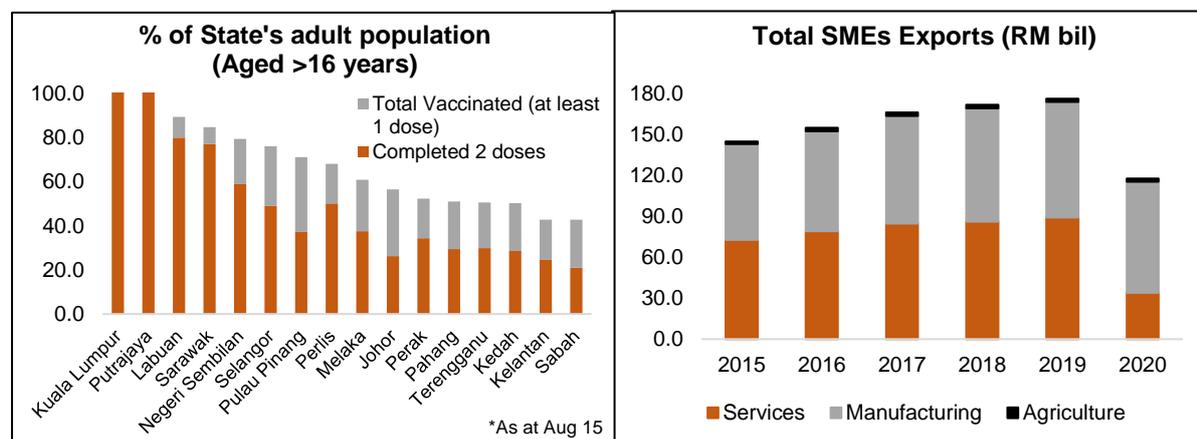
In view of the dire situation, the government has recently relaxed restrictions for fully inoculated individuals in states that have migrated to Phase 2 or 3 under the National Recovery Programme (NRP). Dine-ins at restaurants and tourism activities involving homestays and hotels within the same state are expected to partially ease SMEs’ predicament.



\* Exclude import duties: 0.4%  
Source: DOSM and SME Bank SCEA

The government is now banking on the completion of vaccination programme in the country to reach 80% level and achieve herd immunity to slowly re-open the economy in 4Q 2021. While we view positively the ramp-up of vaccination rate as it bodes well for the economy, business sentiment on the ground might not reflect these initiatives in the near term, considering the rampant spread of the deadlier Delta variant. Business Conditions Index by the Malaysian Institute of Economic Research showed a drop of 24.3 points to 87.5 points this quarter, below the threshold level since 4Q 2020.

We remain cautious on the recovery momentum, given states that are still under Phase 1 of the NRP, namely Kuala Lumpur, Selangor, Negeri Sembilan, Kedah, Johor and Melaka, are experiencing a spike in infection cases. These states make up 59.9% of the national GDP. Uneven economic recovery will still linger, with growth predominantly coming from large corporations.



Source: DOSM, Jawatankuasa Khas Jaminan Akses Vaksin COVID-19 and SME Bank SCEA

While export-oriented manufacturing industries have been the main driver of Malaysia's economic recovery in 2021, risks are tilted to the downside if recovery momentum slows in advanced countries and global demand loses steam. Traditionally, half of SMEs' exports are made up of services related trades such as finance, transport, law and tourism. As such, not only did SMEs' exports not benefit from firmer global demand, it deteriorated 33.1% to RM117.8 billion in 2020 (23.0% of SMEs GDP). It is unlikely to rebound should the country's borders remain closed.

The prolonged lockdown and business restrictions during several MCOs had dried up SMEs' cash reserves and impeded revenue generation activities. Business owners had to rationalise their manpower to contain fixed costs, albeit the government's wage subsidy programme under various stimulus packages that could in part alleviate the brunt of job cuts. In 2020, SMEs employment declined by 65,000 persons. Most surviving businesses have scaled down their operations and we foresee this situation to last until 2022. Nonetheless, we are confident that SMEs are resilient and will regain their footing as the economy gradually re-opens. SME Bank has been and is always ready to provide financing facilities to help businesses with their liquidity needs.

---

## DISCLAIMER

---

SME BANK has exclusive proprietary rights in the data or information provided herein. This document is the property of SME BANK and is protected by Malaysian and international copyright laws and conventions. The data and information shall only be used for intended purposes and not for any improper or unauthorised purpose. All information contained herein shall not be copied or otherwise reproduced, repackaged, transmitted, transferred, disseminated, redistributed or resold for any purpose, in whole or in part, in any form or manner, or by any means or person without SME BANK's prior written consent.

This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment or any options, futures or derivatives related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realised. Investors should note that income from such securities or other investments, if any, may fluctuate and that price or value of such securities and investments may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not necessarily a guide to future performance. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

Any opinion, analysis, observation, commentary and/or statement made by SME BANK are solely statements of opinion based on information obtained from sources which SME BANK believes to be reliable and therefore, shall not be taken as a statement of fact under any circumstance. SME BANK does not and is in no position to independently audit or verify the truth and accuracy of the information contained in the document and shall not be responsible for any error or omission or for the loss or damage caused by, resulting from or relating to the use of such information. Analysts based in SME BANK offices produce research on macroeconomics, equities, fixed income, currencies, commodities and portfolio strategy.

SME BANK and its affiliates, subsidiaries and employees shall not be liable for any damage or loss arising from the use of and/or reliance on documents produced by SME BANK or any information contained therein. Anyone using and/or relying on SME BANK document and information contained therein solely assumes the risk in making use of and/or relying on such document and all information contained therein and acknowledges that this disclaimer has been read and understood, and agrees to be bounded by it.

Strategic Credit & Economic Analytics, SME Bank

---