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The role of banks and financial institutions in supporting national economic recovery

Tengku Datuk Seri Zafrul Tengku Abdul Aziz / Ministry of Finance
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Below is the opening keynote address by Finance Minister Tengku Datuk Seri Zafrul Tengku Abdul Aziz at the Malaysian Banking and Finance Summit 2021 at 9.30am today (Sept 21).

Yang Berbahagia Tan Sri Abdul Wahid Omar,

Chairman of the Advisory Council of The Economic Club of Kuala Lumpur

Yang Berbahagia Tan Sri Michael Yeoh,

President of the KSI Strategic Institute for Asia Pacific

Ladies and gentlemen,

Assalamualaikum Warahmatullahi Wabarakatuh and good morning,

1. Foremost, allow me to express my gratitude to the organiser of the 2021 Malaysian Banking and Finance Summit for the honor of delivering this morning's opening keynote address.

2. Eighteen (18) months since COVID-19 first shook the world, humanity continues to grapple with the twin shock of the pandemic, namely, the direct public health impact and economic effects as large parts of the global economy were shuttered to contain the spread of the virus.

3. Malaysia is no exception, recording over two (2) million cases and losing over 21,000 lives thus far. The economic price has been equally dear and unequal. While Malaysia's GDP contracted 5.6% in 2020, it is the vulnerable segment of our society that has been hit the hardest.

4. And, the battle is far from over. Already, new challenges are emerging in the form of more dangerous variants and growing community transmissions, reflecting the difficult path to recovery.

5. At the same time, our world has transformed dramatically since COVID 19. The pandemic has changed the old ways of how we earn a living, shop, learn and play. In just one year up to June 2021, we have seen:

- a. e-Wallet volume increase 89% to 468 million transactions;
- b. merchant participation for QR payments jump 57% to 1 million registrations; and
- c. online banking volume improve 36% to 12.1 billion transactions.

6. Despite these challenges, I am optimistic that we are at the cusp of recovery. For the rest of my keynote, allow me to share:

- a. the form and trajectory for Malaysia's safe exit from lockdown and the recovery of our economy, guided by the National Recovery Plan;
- b. the role financial institutions played thus far; and c. their role, together with wider efforts by the Government, in supporting recovery and building back better.

The path to recovery

Ladies and gentlemen,

7. The National Recovery Plan, or NRP, was introduced in June this year as a comprehensive approach to restoring consumer confidence while allowing the economy to open safely. At its heart, the NRP will catapult the nation on the path to recovery.

8. Through three (3) key headline indicators in line with the national vaccination rate objectives, all but two (2) states have "graduated" to phases two and three of the NRP.

9. Testimony to the NRP's dynamic approach while ensuring BOTH lives and livelihoods are preserved, the Government has recently announced the:

- a. easing of restrictions for those fully vaccinated;
- b. a travel bubble for tourist destinations in Malaysia, beginning with Langkawi on Hari Malaysia; and
- c. ongoing efforts to simplify SOPs to just ten (10) in the coming weeks.

10. Alhamdulillah, we have seen some great progress thus far. Since its inception, we have dramatically improved testing capabilities. We continue to make testing widely available and affordable. And, our contact tracing capabilities are being enhanced through the use of technology and mobility data.

11. On the vaccination front – a key enabler of Malaysia's recovery – we continue to fire on all cylinders. As of 18 September, more than 21 million people or 93% of the country's adult population had received their first shot, including 18 million or 78% who are now fully vaccinated.

Consequently, we have seen our hospitalisation and ICU rates stabilise in recent weeks.

12. Insya Allah, we are well on our way to have 80% of the adult population fully vaccinated by end-September, and 100% by end-October. Thereafter, the Government will progressively update the NRP to prepare Malaysia for the next normal of living with COVID-19 as an endemic disease.

13. How do these factors add up at the economic level? For one, the expected re-opening of the economy would support our recovery path, complemented by stronger external demand, ramp-up in commodity production, materialisation of pent-up demand, and continued investment in large-scale infrastructure projects. All in, Malaysia's GDP is projected to grow between 3% to 4% in 2021.

14. The recovery is expected to accelerate further in 2022 – with the World Bank and IMF projecting growth rates for Malaysia of 5.0% and 6.0%, respectively. This recovery will be supported by a gradual normalisation of economic activities as well as the positive spill overs from continued improvement in external demand.

The role of financial institutions thus far

Ladies and gentlemen,

15. Since the pandemic first hit our shores, the Government has introduced eight (8) assistance packages in addition to Budget 2021. All in, over 260 billion ringgit has been disbursed as at end-July, benefiting over 20 million rakyat and 2.4 million businesses.

16. In that respect, the banking industry has been instrumental in maintaining livelihoods while providing support to the wider economy.

17. As part of the PRIHATIN assistance package, the banking sector implemented the deferment of all performing loans for a period of six (6) months up to September 2020

and credit card outstanding balances that can be converted to a 3-year term loan with reduced interest rates.

18. Since then, the banking industry continues to facilitate repayment assistance for borrowers including, most recently, under the PEMERKASA+ and PEMULIH assistance packages which has benefitted 2.6 million borrowers including 81,000 MSMEs from the period of 1 June to 20 August 2021.

19. Other key measures to support the economy include:

a. the reduction in the Overnight Policy Rate by 125 basis points since January 2020;

b. support for SMEs including 154 billion ringgit in bank financing disbursed in 1H2021. This includes 3 billion ringgit disbursed from the various financing schemes provided by Bank Negara Malaysia like the Targeted Relief and Recovery Facility, PENJANA Tourism Financing, High Tech Facility, SME Automation & Digitisation Facility, benefitting more than 12,000 SMEs in the same period;

c. expansion of the iTEKAD blended finance programme which combines social finance funds including zakat, cash waqf and social impact investment with microfinancing to provide seed capital and working capital for micro-entrepreneurs. In addition, the programme was expanded to include upskilling elements. As of 31 July 2021, iTEKAD led by Bank Islam has enrolled 98 micro entrepreneurs under a structured training programme with approved micro-financing and zakat funds of approximately 2 million ringgit. In addition to Wilayah Persekutuan, the programme has now been expanded to include Selangor and Perlis. The participation of two (2) additional Islamic Banks, CIMB Islamic and Bank Muamalat, will further increase the impact and reach of the programme; and

d. for the most affected borrowers, assistance to restructure one's finances via the Agensi Kaunseling & Pengurusan Kredit, or AKPK.

The role of financial institutions moving forward

Ladies and gentlemen,

20. 2022 will be a critical year for Malaysia, a rare window to jumpstart not just an economic recovery, but a recovery of industries, livelihoods and jobs, especially those hit hardest by the pandemic.

21. In that respect, Budget 2022 will remain expansionary and is conceptualised as a recovery budget while complementing the Government's wider and longer-term reform efforts under the Twelfth Malaysia Plan. Budget 2022 will focus on 3Rs, namely Recovery, Resilience and Reform.

22. And, it is through those three (3) lenses that banks and financial institutions – including development financial institutions or DFIs – will play a critical role moving forward.

23. As the health of the financial sector is tied to the wider economy, it is crucial that the banking industry doubles down on driving a strong economic recovery while supporting business continuity, especially in

jumpstarting businesses when the economy reopens. In this respect, the banking industry is expected to:

- a. facilitate lending to businesses with accommodative financing and repayment terms, including participating in the offering of the iTEKAD programme that supports microentrepreneurs to start and sustain their business;
- b. provide non-debt-based facilities such as the CAKNA and Jana Niaga liquidity schemes that relieves cashflow constraints of SMEs without increasing their gearing positions;
- c. encourage digital payments, including through the onboarding of small merchants to accept QR payments and ensuring affordable merchant fees; and
- d. supporting, including via the various financing schemes, the most underserved segments of borrowers, be it the hospitality sector, micro-enterprises or women entrepreneurs.

24. In enhancing our social protection coverage, I am pleased to share that the Government in concert with BNM and the insurance and takaful industry is in the final stages of rolling out the Perlindungan Tenang Voucher programme, which will provide financial assistance for up to 8.4 million Bantuan Prihatin Rakyat recipients in purchasing insurance and takaful coverage from licensed providers.

25. In the long run, the Government and BNM will continue to stress the importance of financial literacy and sound financial decision making via the various efforts under the Financial Education Network.

26. In building Resilience, banks and financial institutions play a crucial role in, amongst others:

- a. supporting your clients in their transition to the needs of a new normal, including embracing digitalisation in their business focus and operations;
- b. enhancing the role of financial intermediation throughout the business cycle of any enterprise, be it the aspiring entrepreneur or the conglomerate on the verge of an IPO; and
- c. exploring alternative forms of financing including blended finance, supply chain financing or new trade-based facilities.

27. These efforts will complement wider initiatives by the Government including the National Fourth Industrial Revolution Policy (4IR), where digitalisation and technological adoption are crucial in boosting our economic prospects and resilience, in accordance with the Malaysian Digital Economy Blueprint.

28. Just as it is crucial for us to exit this pandemic safely and systematically, it is equally critical that we build back better. That is why the financial sector must step up and play its part in the climate and sustainability agenda. It is encouraging to see that the financial sector is stepping up on this front, including via the offering of sustainable finance solutions and assistance to companies in their transition journey. However, more can and must be done.

29. Make no mistake. As a mobiliser of capital, the banking industry is key in facilitating the transition of companies towards low carbon and sustainable practices via financing and investment beyond the pandemic, be it supporting renewable energy adoption, new technologies or novel ways of doing business.

30. Of course, a factor in building back better is changing how banks themselves operate. At a global level, it is encouraging to see that more than 45% of the global banking industry have signed up to the UN Environmental Finance Initiative's Principles of Responsible Banking. Out of these, 44 of them have formed a Net-Zero Banking Alliance, planning to fully decarbonize their loan books.

31. I urge more financial institutions in our country to follow suit, which will augment their business with the objectives of the Sustainable Development Goals and the Paris Climate Agreement. Doing so will ensure the deep integration of sustainability across all business areas of a bank, from strategic decisions, credit appetite to procurement.

32. Efforts like these will certainly complement the Government's embrace of the UN Sustainable Development Goals in its annual budgets. Beginning with Budget 2021, this feature will continue in Budget 2022, as well as through wider initiatives like the SDG-aligned Twelfth Malaysia Plan and the Shared Prosperity Vision 2030.

Closing

Ladies and gentlemen,

33. If the pandemic has taught us one (1) thing, it is that rarely can we do it all alone. The path to recovery, resilience and shared prosperity will demand nothing short of a whole-of-nation approach.

34. To that end, I call on all parties – government, private sector, civil society organisations, and yes, banks and financial institutions - to come together as one Keluarga Malaysia. In particular, I call on the banking industry to work hand-in-hand with the Government to support the rakyat and businesses on our path to recovery and in building back better.

35. On that note, allow me to thank and congratulate the KSI Strategic Institute for Asia Pacific, the Economic Club of Kuala Lumpur and the Association of Banks in Malaysia for organising today's Malaysian Banking and Finance Summit.

36. Thank you for your attention and I wish you a fruitful discussion ahead. Wabiltaufig Hidayah Wassalamualaikum Warahmatullahi Wabarakatuh.