Keynote Address by

YB Tengku Dato’ Sri Zafrul Tengku Abdul Aziz
Minister of Finance Malaysia
Invest Malaysia Kuala Lumpur 2020
7 July 2020

Yang Berbahagia Tan Sri Abdul Wahid Omar,
Chairman, Bursa Malaysia Berhad

Yang Berbahagia Datuk Syed Zaid Albar,
Executive Chairman of Securities Commission Malaysia

Yang Berbahagia Datuk Muhamad Umar Swift,
Chief Executive Officer, Bursa Malaysia Berhad

Yang Berbahagia Datuk Mohaiyani Shamsudin,
Chairman, Maybank

Yang Berbahagia Datuk Abdul Farid Alias,
Group President and CEO, Maybank

Ladies and gentlemen and esteemed guests,

1. It gives me great pleasure to be here this morning. Please first allow me to thank the organisers, Bursa Malaysia and Maybank for inviting me to deliver the keynote address for Invest Malaysia Kuala Lumpur 2020 (“IMKL2020”).
2. I remember that I used to not only be a participant in Invest Malaysia but also the organiser. And today I have the privilege of addressing all of you as the keynote speaker. Between the two, I must say, giving the keynote is a lot easier than organising the event. Just joking. It is a truly humbling opportunity to be addressing all of you as a member of the public sector.

3. I believe throughout the years, IMKL has grown to be the anticipated capital markets event for Malaysia and it will continue to be very important for all capital market players. Given that this is the 16th instalment of the annual “Capital Market Conversation”, I am sure various aspects of the industry will continue to be discussed, especially on significant areas that could define how the future of the capital markets can and should be in the years to come.

4. This includes structural reforms that can be pushed through to ensure long-term sustainable growth as we learn to live in this new normal due to COVID-19, as well as Malaysia’s recovery from the current trying times that the nation is facing.

Ladies and gentlemen,

5. We have heard often enough about the unprecedented nature of the COVID-19 pandemic. The IMF describes it as “a crisis like no other”, as it impacts all countries simultaneously not just in terms of public health risk, but also in terms of threatening the socio-economic well-being of the global population, and threatening progress made on the Environmental, Social & Governance front. Being fully aware of these risks which could cause long-term structural damage to society and the economy, the Malaysian Government crafted and implemented its 6R strategy, representing six stages: Resolve, Resilience, Restart, Recovery, Revitalise and Reform.
a) The **Resolve** stage entailed introducing the Movement Control Order (MCO) on 18 March in order to flatten the curve. Apart from firmly enforcing a necessary lockdown and constantly educating the public, we also enhanced our public health capacity to ensure we would be able to manage any increase in infections. Thankfully, the number of infections and lives lost were brought under control in a matter of weeks and our efforts have been acknowledged globally. However, just like other countries, our economy has been impacted due to the containment measures.

b) Thus, under stage 2 of the strategy which is **Resilience**, we introduced the PRIHATIN and PRIHATIN SME+ economic stimulus packages on 26 March and 6 April respectively totalling RM260 billion with three broad thrusts: Firstly, to protect the people, secondly to support businesses, and thirdly, to strengthen the economy. The measures under these packages helped save almost 2.6 million jobs and benefitted around 800,000 businesses.

c) Nevertheless, the Government recognises the need to do more, particularly in terms of regenerating the economy, creating jobs, as well as bringing back consumer and investor confidence. On 4 May, on the back of the improving public health situation and having met the 6 criteria outlined by the WHO, the Government reopened the economy. **Restart** was the third stage of the 6R Strategy, and we saw workers gradually returning to work and businesses re-opening.
d) We are now in stage 4 of the strategy, namely, **Recovery**, which was when we launched our **National Economic Recovery Plan (PENJANA)** on 5 June. Based on engagement sessions with over 100 stakeholders from both the public and private sectors, PENJANA outlines our **short-term economic recovery plan**. Collectively valued at RM35 billion, the 40 initiatives were crafted to cover 4 main objectives.

1. Enabling Work & Reducing Unemployment;
2. Ensuring Affordability & Providing Liquidity;
3. Digitalisation & Operating in the New Norm; and
4. Increasing Consumer & Investor Confidence

e) Based on our 6R Strategy, Stage 5 is to **Revitalise** and Stage 6 is to **Reform**. I will touch upon these later, as they comprise proposed measures under Budget 2021, to be announced in November 2020 and the 12th Malaysia Plan, which will be made public in January 2021.

6. I am aware that the RM295-billion figure under PRIHATIN and PENJANA stimulus packages is huge, and understandably, investors’ concerns centre around three main areas:

   a) Firstly, on our budget deficit and other macro indicators;
   b) Secondly, on the resilience and policies of Malaysia’s capital markets, and
   c) Thirdly, our policies to get the economy back on track for the short, medium and long-term.
7. **First, on our macro indicators.** Yes, our **budget deficit** is likely to rise to between 5.8% - 6% this year, largely due to the RM45-billion fiscal injection by the Government through the PRIHATIN and PENJANA measures to protect lives, save jobs and businesses, and to ensure that Malaysia has the ability and capacity to quickly rebound when the global economy re-opens. Most of these measures are either one-off or temporary, which will not have a permanent impact on government finances in the medium term.

8. Additionally, whether this budget deficit is a cause for concern must be seen in the light of Malaysia’s fiscal discipline and track record in managing its economy. Malaysia’s budget deficit was 6.7% during the Global Financial Crisis in 2009 and we managed to reduce this to as low as 2.9% in 2017. Moving forward, I can assure you that the Government remains focused on preserving fiscal discipline to maintain the systemic strength and integrity of the economy. Our commitment is to reduce the fiscal deficit to below 4% of GDP over the next 3 – 4 years.

9. **Another macro number I would like to touch on is Malaysia’s GDP growth.** Our growth for 2020 has been estimated to be within the range of -3.8% to 0.5% by various agencies like the Bank Negara Malaysia (-2.0 – 0.50%), IMF (-3.8%) and World Bank (-3.1%). This is wholly expected, as more than 150 out of 195 countries in the world are expected to post negative growth in 2020. But what is most important is to ensure that a health crisis does not turn into an economic crisis: This is why Malaysia has rolled-out PRIHATIN and PENJANA.

10. Based on our swift action, a few international agencies have forecast Malaysia’s GDP growth in 2021 to be in the range of 6.3% - 7.5%\(^1\), subject to our continued success in managing COVID-19, as well as in steering and nurturing the economy towards recovery and growth. As Malaysia is an open economy, whether our growth will be a U-shaped or V-shaped recovery will also depend on external factors such as the recovery of our major trading partners as well as the restoration of global supply chains. As of Monday, 6

\(^1\) Malaysia’s 2021 GDP Forecast: World Bank 6.9%, IMF 6.3%, S&P 7.5%
July 2020, we recorded only 5 new cases, with only 198 active cases and approximately 98% recovery rate. The rate of infections may have been low in our country, but the public has been constantly reminded against complacency. Everyone has been urged to continue complying with the SOPs for various sectors and activities in order to prevent new infections in the country.

Ladies and gentlemen,

11. The **second factor** I would like to touch on is the health and resiliency of Malaysia’s capital markets. Over the past decade, Malaysia’s capital markets have grown by an average of 5.1%\(^2\) annually, valued at over RM3 trillion, is now twice the size of our GDP. This is represented almost equally in terms of total equity market capitalisation, as well as the value of bonds outstanding.

12. We have seen positive sentiment in our equity market supported by both domestic retail and institutional investors. As at end June, the FBM KLCI has shown resilience relative to other countries. Within ASEAN emerging markets, we are the best performing market\(^3\). Furthermore, as at market close yesterday, the FBM KLCI is close to recouping over RM200 billion in market capitalisation, taking the market cap back to levels seen at the start of the year.

13. In terms of the total assets managed by fund managers, we have seen an average annual growth of 9.0%\(^4\) to RM823 billion as at end-2019. This was driven by investments in unit trust funds, which saw average annual growth of 8.7% throughout the same period, with a total net asset value of RM482 billion. Without a doubt, the capital markets have served as a key platform to mobilise savings and investments by efficiently allocating resources to finance businesses that create jobs and wealth.

\(^2\) Compounded annual growth rate (CAGR) of the total market capitalisation from 2010 to 2019.
\(^3\) YTD performance for ASEAN emerging markets – FBM KLCI: -5.5%, SET INDEX: -15.2%, PCOMP INDEX: -20.6% and JCI INDEX: -22.1%
\(^4\) CAGR for total assets under management (AUM) for the fund management industry from 2010 to 2019.
14. On 4 May this year, Malaysia began its recovery phase. **In May alone, we saw the average daily trading value increase by 65% compared to April.** We also saw record high for the daily trading value of RM9 billion. Daily volume of 11 billion shares was hit in the same month, **a level not seen since 2010.** This reflects investors’ optimism in the gradual reopening of Malaysia’s economy, underpinned by a low interest rate environment.

15. In terms of trading, local retail investors have bought a net of more than RM6 billion as end-June, with average daily trading value (ADV) of RM0.9 billion. This is about 90% of local institutional ADV. This is further supported by 128% growth in ADV compared to an average annual growth of 9.7% for the past three years.

16. As they say, behind every crisis there is an opportunity. We believe that investors returned to the Malaysian markets in May to invest in companies that would benefit not just from the re-opening of the economy, but also from the raft of stimulus measures, and tax incentives offered by the Government.

17. You need not take my word for this. If you are looking for objectivity, just look at various **global rankings that have also validated Malaysia’s position on numerous metrics, and are testimonial to our sound policies and measures.** I am pleased to share that Malaysia ranks:

   a) **4th** globally in handling the COVID-19 crisis according to the Toluna-Blackbox Index of Global Crisis Perceptions 2020;
   b) **12th** in the World Bank’s Ease of Doing Business 2020 Report;
   c) **12th** in the DHL Global Connectedness Index 2019;
   d) **26th** in the Global Talent Competitiveness Index 2020; and
   e) **27th** in the World Economic Forum’s 2019 Global Competitiveness Index
Ladies and gentlemen,

18. From those rankings, Malaysia’s total approved investments is a testament of our position within the **ease of doing business**. In 2019, against a backdrop of challenging global environment:
   a) Malaysia recorded RM208 billion in approved investments.

   b) Foreign Direct Investment (FDI) accounted for 40% whereas Domestic Direct Investment (DDI) was the rest. This has translated into more than 5,000 projects, which are expected to create more than 120,000 jobs. United States, China and Japan are the largest contributors, making up 66% of the total approved FDI.

19. Additionally, the international and domestic business communities have remained committed to the Malaysian markets:

   a) Over the years, many international companies and MNCs have started establishing vendor development programmes and supply chain management initiatives with local companies and suppliers. These local suppliers have now become large manufacturers in their own right, and quite a few are now listed on our stock exchange, providing employment opportunities for our local talents.

   b) Earlier this year, **five manufacturing and services projects by foreign investors worth RM4.6 billion were approved in sectors such as electrical and electronics as well as medical devices.**

   c) Another notable example is B. Braun Medical Industries which has invested more than **RM2 billion in manufacturing facilities** in Malaysia. This has benefitted more than 200 local SMEs in the medical device industry’s supply chain ecosystem.
d) In terms of our **home-grown success stories**, Press Metal Aluminium has established itself as the largest integrated aluminium producer in ASEAN with an extensive global presence. From its modest beginning as a privately-owned local aluminium extrusion company in 1986, they now have a market capitalisation of more than RM18 billion.

20. There is a long list of other investors that firmly validate Malaysia’s competitiveness and attractiveness as an investment destination. I would like to assure everyone that the Government remains committed in supporting foreign investors, particularly those who add-value to Malaysia’s economic pillars beyond job creation, such as the nurturing of Malaysian talent and companies towards becoming global players.

Ladies and gentlemen,

21. The **third factor** I would like to touch on are our **policies to get the economy back on track**. Before I talk about medium-and longer-term plans for our economy, I would like to first highlight several investor-specific short-term recovery measures under PENJANA. These include incentives\(^5\) such as:

a) Corporate tax exemption for 10 to 15 years for relocation of overseas manufacturing facilities to Malaysia, to take advantage of supply chain disruptions and making local supply chains more resilient;

b) 100% Investment Tax Allowance for 3 years for new investment in manufacturing sectors; and

c) Expedited Manufacturing License approval for non-sensitive industries within 2 working days.

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\(^5\) Incentives include (a) 0% tax rate for 10 to 15 years for new investment in manufacturing sectors with capital investment between RM300 million or above; (b) 100% Investment Tax Allowance for 3 years for existing company in Malaysia relocating overseas facilities into Malaysia; (c) Special Reinvestment Allowance for manufacturing and selected agriculture activity; (d) Additional operating expenditure for MIDA to undertake marketing and promotional activities; (e) Establishment of Project Acceleration & Coordination Unit (PACU) at MIDA to facilitate all necessary approvals; (f) Enhancement of the Domestic Investment Strategic Fund; and (g) Expedited Manufacturing License approval for non-sensitive industry within 2 working days
22. The objective of these measures is to attract investors, which is interlinked with three other PENJANA objectives I outlined earlier, which are firstly, to generate jobs, secondly to ensure affordability and provide liquidity; and lastly digitalisation and operating in the new norm. It is important for us to ensure investments keep coming in, while also seizing the opportunity from trade diversions and attracting multi-national companies to relocate to Malaysia.

23. Next, on our medium and longer-term plans. Moving forward, as part of our fifth and sixth phases of the 6R Strategy, the “Revitalise” stage will be represented by our Budget 2021; while the “Reform” stage will be in the 12th Malaysia Plan.

Ladies and gentlemen,

24. Allow me to share some thoughts on Budget 2021. Budget 2021 will be framed across 4 broad themes, all of which centre around creating a better Government. These themes are:

a) First, caring for the people;
b) Second, steering the economy;
c) Third, sustainable living; and
d) Fourth, enhancing public service delivery.

25. First, on caring for the people:

a) The first goals of the PRIHATIN and PENJANA packages are to protect the Rakyat and to empower the Rakyat, respectively.
b) Moreover, Malaysians have shown the will to build a better society and have demonstrated it admirably during the nation’s toughest months. Movements such as #KitaJagaKita (or We Care for Us) have witnessed Malaysians -- young and old -- coming together with NGOs and corporations, help their fellow Malaysians. From gathering donations for frontliners to providing food for vulnerable segments of society, the Malaysian spirit of unity in diversity shine bright.

c) As such, the Government believes that we can empower this spirit to build entirely new foundations for our economic and social systems, to create a fairer and more wholesome future. This will require more effective engagement between government, the private sector, civil society, and the Rakyat.

d) Education and employment, social protection and social mobility, will thus feature prominently in Budget 2021.

26. Secondly, on steering the economy:

a) Among the related areas under this theme include ensuring GDP growth for 2021, increasing FDI and consumer confidence – which I have touched upon earlier in my speech. An equally important area is enhancing the usage of technology and digitalisation across various public and private sectors to spur economic growth.

b) In this regard, the lockdown in March and April this year **effectively accelerated the adoption of technology across the board**, whether by individuals, SMEs or corporates.
c) Under the stimulus packages, the Government has allocated close to RM1 billion\(^6\) to, among others, further encourage technological and digital adoption by SMEs and nurture digital innovation by start-ups. All these are part of the Government’s push towards being ready and competitive in the 4\(^{th}\) Industrial Revolution.

d) From the capital markets’ perspective, thanks to Bursa Malaysia and Securities Commission’s (SC) push on digital technology to enable more cost-efficient online trading and investment platforms, it is encouraging to see both retail and institutional investors embracing digitalisation and taking advantage of a more seamless and cost-efficient means of equity trading:

- In the first quarter of this year, 74% of the average daily trading value done by retail investors were transacted online. Across all investors, online trading has increased to 41%, compared to 31% during the same period in 2019.

- This year alone, we saw a significant increase of retail participation in the equity market, particularly from the youth\(^7\) segment and via online channels. In the first quarter this year, there was a 96% year-on-year increase in CDS account opening. Moreover, out of the 50,000 new accounts opened as at end April, almost half were youths. For many of today’s youths, technology is synonymous with infinite and instantaneous opportunities.

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\(^6\) (i) Micros and SME e-commerce Campaign: RM70 million, (ii) Shop Malaysia e-Vouchers: RM70 million; (iii) Technical and Digital Adoption for SMEs and MTCs: RM700 million; and (iv) Technology Start-ups Relief Facility: RM100 million

\(^7\) Millennials, investors aged between 18 to 35 years old.
e) We have also seen deals reflecting the trust and confidence in our domestic **fintech space**. Recently, Great Eastern made a RM300-million strategic investment in a newly formed digital financial services unit of Axiata Group.

f) Today, I am pleased to announce that we will facilitate for greater diversity in intermediary models in the securities market, such as algorithmic trading platforms, digital-only brokers and more. The SC, working in tandem with Bursa, will be enabling a more facilitative market structure, allowing for more flexible business models with more efficient capital structure. We believe that this will also spur greater innovation, create greater diversity in market participants and most importantly enhance value for investors.

g) Bursa Malaysia, SC and Bank Negara, have continuously introduced and supported measures to further increase the transparency, dynamism, and vibrancy of our capital and financial markets. I believe that all this will contribute towards our economic recovery and growth into 2021.

27. Third, on **improving sustainable living**: 

a) One of the blessings in disguise of the pandemic is that it has shown how radically we can change our lifestyles. Almost instantly, the crisis forced businesses and individuals to **step up – not just digitally but also from an ESG perspective** – to support their workers, customers, and local communities.
b) In addition, the COVID-19 pandemic has not slowed down the momentum for sustainable investing. In fact, in many markets including the US, **we have seen companies that embrace and practice ESG principles perform better.** Over a 5-year performance period, the FTSE4Good US 100 has outperformed the US Large Cap with 80% cumulative returns relative to approximately 65% for the latter. Similarly, for Malaysia, in May, our benchmark index for ESG-focused companies, **the FTSE4Good Bursa Malaysia Index, outperformed FBM KLCI with 1-month returns of 5.3% relative to 4.8% for the latter.** The dividend yield for the FTSE4Good Bursa Malaysia Index was also higher at 4.0%, relative to 3.8% for FBM KLCI and 3.7% for FBM EMAS.

c) Moreover, companies with good governance have shown better resiliency. As at end-April, the MSCI World Governance Quality index is down by 5%, whereas the MSCI World is down by 10%. This is further supported by MSCI’s\(^8\) research that companies with higher ESG score has a substantively lower cost of capital.

d) In fact, we already have existing ESG-related incentives\(^9\) such as tax exemptions on management fees income for fund management companies managing Sustainable and Responsible Investment (SRI) funds and Shariah-compliant funds; the extension of tax deduction on the cost of issuing SRI Sukuk for another 3 years until year of assessment 2023; and extension of the Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) until 2023.

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\(^8\) From Ashish Lodh, “**ESG and the Cost of Capital**, MSCI ESG Research 25 February 2020
\(^9\) Full list of incentives from Budget 2020:
(a) Tax exemptions on income for fund management companies managing Sustainable and Responsible Investment (SRI) funds and Shariah-compliant funds;
(b) Tax deduction on the cost of issuing SRI Sukuk will be extended for 3 years until YA 2023;
(c) Expand the qualifying list of green assets for Green Investment Tax Allowance (GITA) under the MyHijau directory. The GITA and Green Income Tax Exemption (GITE) incentives will be extended to 2023.
(d) RM10 million allocation for a joint Government-United Nations SDG fund to co-finance SDG initiatives.
(e) RM5 million for civil society engagement to address SDGs at the local level;
(f) Doubling the Sustainable Development Financing Fund under Bank Pembangunan to RM2 billion. Through Energy Performance Contracting (EPC), the upfront capital investment into energy saving equipment for Government buildings will be repaid through the savings in utility costs achieved.
e) **I would like to challenge companies to use the COVID-19 crisis as a springboard to either strengthen their ESG agenda, or begin incorporating ESG principles within their business and operations.** Environment is, of course, only one aspect of the equation. The crisis has highlighted more of the “Social” and “Governance” aspects of ESG, which the Government has wholly taken to heart. The Government always welcomes collaboration in this space.

28. Fourth, on **enhancing public service delivery**:

a) **I would like to briefly touch on the LAKSANA unit, which is the International Agencies Economic Stimulus Coordination and Implementation Unit.** LAKSANA sits within the Ministry of Finance and is responsible for monitoring the implementation of PRIHATIN and PENJANA measures. By coordinating real-time data-feeds and data-sharing across 53 Ministries and agencies, LAKSANA adopts a data-driven approach which enables more effective monitoring and tracking. The data collected is so granular, and when necessary, enhancements or interventions can be deployed more quickly and cost-efficiently, ensuring assistance is properly delivered.

b) The Government aims to be **outcome-focused** and support the Rakyat and businesses in a more **targeted manner**. In short, it should not be merely about the amount of funds disbursed, but whether the measures are impacting lives and livelihoods in a meaningful way. The results of these measures are also shared with the public on a weekly basis.
Ladies and gentlemen,

29. Historically, Malaysia has remained resilient despite strong headwinds, including the Asian Financial Crisis and the Global Financial Crisis due to our sound economic fundamentals and well-developed institutional framework. Today, Malaysia’s economy is also better diversified.

30. Additionally, we have a strong external position, supported by current account surplus, adequate level of international reserves and large external assets held by banks and corporations. To date, Malaysia’s foreign currency external assets continue to exceed its foreign currency liabilities at 95% relative to 45% for the latter.

31. Together with the flexible exchange rate and a highly liquid and deep domestic Government bond market, we do not have to rely much on external funding.

32. Moreover, this is complemented by a deep and well-regulated financial market. The Government is also committed towards ensuring effective delivery of public services, better governance, good management of public finance and structural reforms for the long-term sustainability and resiliency of the Malaysian economy.

33. I trust our future plans set out earlier are clear, particularly in terms of the four themes that will frame our Budget for 2021. I hope this will set the tone for the deliberations and conversations throughout this event. We really need more innovative ideas on how to leverage digitalisation, and also how to incorporate ESG considerations into our forward planning to propel Malaysia ahead under the new normal, ensure that Malaysia will be more business and market-friendly and grow investors’ confidence.
With that, I thank you for your kind attention. I would also like to thank the organisers, Bursa Malaysia and Maybank for their efforts in ensuring the Capital Market Conversation continues in the foreseeable future. I wish everyone a productive day ahead and a very successful conference.