



PRESS RELEASE

Q4 2020 GDP: Economic Resilience Supported by Prudent Policy Making

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Bank Negara Malaysia (BNM) and the Department of National Statistics (DOSM) have announced that **Malaysia's Gross Domestic Product (GDP) contracted by 3.4% year-on-year for the fourth quarter of 2020 (4Q 2020)**, compared to a decrease of 2.6% during the third quarter (3Q). The decline was attributed to the re-implementation of the Conditional Movement Control Order (CMCO) in October 2020 to curb the spread of the COVID-19 pandemic, involving almost all states, except Sarawak.

Based on the monthly GDP performance, the most significant decline was in October 2020, at 4.7%, compared to 1.6% in

September. In comparison, in Q4 2020, the Philippines economy contracted by 8.3%, whereas Singapore has contracted by 3.8%. For developed countries, the entire Euro Area experienced a decline of 5.1%.

Overall, GDP for 2020 contracted by 5.6%, **faring better than projections by international organisations** such as the International Monetary Fund (-5.8%), the World Bank (-5.8%) and the Asian Development Bank (-6.0%). Furthermore, **various signs of economic recovery were recorded in 2020, namely:**

1. **GDP decrease of 1.7% in December, compared to 4.0% in November 2020.** This reflects the effectiveness of **Government's proactive measures under the KITA PRIHATIN economic stimulus package**, which were channelled in Q4 2020, such as the **PRIHATIN Special Grant (GKP) 2.0, Wage Subsidy Programme (PSU) 2.0 and Bantuan PRIHATIN Nasional (BPN) 2.0**.
2. **Lower unemployment rate at 4.8% for Q4 2020, and 4.8% for November and December 2020, compared to the highest unemployment rate of 5.3% in May.** Although the implementation of the CMCO in December had affected labour market activity, **PSU 2.0 and BPN 2.0 had helped alleviate the financial constraints of the people and businesses.**
3. In terms of supply, **during Q4 2020, the manufacturing sector recorded growth of 3.0% year-on-year** (3Q 2020: 3.3%). This had **offset the contraction in other sectors, and was supported by a better external trade environment where the value of exports of goods increased by 8.6%** over the same period (3Q 2020: 6.1%).
4. Malaysia remains competitive as a major exporter within the region. In Q4 2020, **total trade expanded to RM483 billion** (3Q 2020: RM460.9 billion). In addition, the country maintained its **trade surplus for 23 consecutive years, which recorded a total of RM59.9 billion** (3Q 2020: RM60.3 billion). **Total foreign direct investment (FDI) also recorded a net inflow of RM6.1 billion** for the same period (3Q 2020: -RM0.8 billion).
5. **Net financing continued to grow by 4.4% during Q4 2020** (3Q 2020: 4.6%) through increased issuance of corporate bonds. In addition, working capital requirements as well as the purchase of passenger cars and residential properties continue to increase loan disbursements to the people as well as businesses, reflecting a good recovery in demand.

The Government's immediate response in implementing the initiatives under four economic stimulus packages amounting to RM305 billion or 20% of GDP is estimated to have contributed four percentage points to economic growth in 2020. **The country's fiscal discipline, sustainable medium-term**

growth prospects, and effectiveness of Government measures in curbing the spread of the COVID-19 pandemic have been recognised by the international credit rating agency, **Moody's, which has maintained Malaysia's A3 rating with a stable outlook** in January this year. Overall, Malaysia's financial position and prospects remain strong despite the challenging global credit rating assessment cycle throughout 2020.

MOVING FORWARD

Moody's has also forecast that the spread of COVID-19 will not have a lasting impact on the country's economic structure. MCO 2.0, which has been implemented nationwide since 13 January and extended until 18 February, will definitely affect GDP growth in the first quarter of 2021. However, **the estimated loss of RM700 million a day is not as severe as the impact from MCO 1.0**, which cost the economy an estimated RM2.4 billion a day. Furthermore, **implementation of Budget 2021 initiatives, as well as the Government's proactive response through the PERMAI Assistance Package worth RM15 billion, are expected to mitigate the impact of MCO 2.0.** The Government is also confident that the **systematic and effective implementation of the National COVID-19 Immunisation Program will encourage the re-opening of various economic sectors, restore consumer sentiment, as well as boost Malaysia's economic growth and resilience.**

As such, **several priorities for economic recovery efforts have already been identified and will be considered as part of the planning for Budget 2022.** These efforts include:

- 1. Continuing large-scale projects such as ECRL, MRT2 and LRT3 as well as other projects with high multiplier effects;**
- 2. Strengthening the country's revenue base, starting with regulating the shadow economy,** estimated to be worth 18% of GDP, or around RM300 billion in 2019. Regulation of the shadow economy can also ensure that informal sector workers are also protected;
- 3. Implementing our Medium-Term Revenue Strategy which include diversifying our economy's fundamentals, improving our tax framework, as well as promoting value-add within the commodity sectors** such as rubber and palm oil;
- 4. Re-examining generation of various economic sectors' revenue holistically through the ESG (Environmental, Social & Governance) lens,** which considers the aspiration and challenges in maintaining environmental sustainability, the hopes and dreams of the people, as well as prudent administration in both public and private sectors to ensure that the Shared Prosperity Vision 2030

can be achieved;

5. **Improving human capital policy to ensure our talents are ready for the future, in preparation for challenges in the Digital Age.** As such, the establishment of the National Employment Council is also a holistic effort to address not only the challenges of unemployment, but also the development and improvement of skills through various aspects, including vocational education (TVET); and
6. **Building capacity along the whole supply chain of certain sectors such as agricultural technology (agritech), education (edutech), and artificial intelligence (AI), and strengthening our entrepreneurial culture** to help Malaysia progress towards a high-income nation.

The Government has also embraced several of the UN's Sustainable Development Goals (SDGs) goals in Budget 2021 as a start towards providing a holistic blueprint towards inclusive socio-economic development, as well as more sustainable environmental management. All these efforts will be coordinated to achieve a more robust and sustainable GDP growth through a strategic, targeted, on-point and outcome-based medium-term economic plan.

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