

SUMMARY: BANK NEGARA MALAYSIA (BNM) 2020 ANNUAL REPORT

ALL GROWTH PERFORMANCE

- The Malaysian economy recorded a sharp decline from 4.3% to -5.6% in 2020, the lowest since 1998 (-7.4%), due to weakness in exports, production and domestic demand.
- Domestic demand showed a contraction by -5.4% in 2020 compared to 2019 (+4.1%). This was mainly due to weaker private consumption expenditure that registered a contraction of -4.3% in 2020.
- Household spending was affected by a decline in income and employment.
- Due to strict movement restrictions to contain the spread of COVID-19, physical spending was limited in the first half of the year, yet, communication-related expenditure was boosted in the second half of the year due to the rise in work from home arrangements.
- Consumer Price Index (CPI) inflation recorded a negative value from 0.7% to -1.2% in 2020. Meanwhile, underlying inflation remained relatively stable at 1.1% (2019: 1.5%).
- In 2021, Malaysia's economy is expected to rebound between 6.0% to 7.5%, mainly influenced by the extent and duration of containment measures and vaccines' implementation.
- However, in this highly uncertain environment, Malaysia's growth projection is risked to the downside performance. The main risks include the escalation of COVID-19 cases or the ineffectiveness of vaccines.
- Headline inflation is forecasted within the range of 2.5% to 4.5% in 2021. This is mainly due to cost-push factors such as the expected increase in global oil and commodity price.

ECONOMIC SECTOR PERFORMANCE

- All economic sectors registered negative growth in 2020.
- During the Movement Control Order (MCO) period, production came to a halt, where non-essential industries were not allowed to operate. Although essential services are allowed to continue, operating hours and worker capacity restrictions due to tight SOPs contributed to domestic supply constraints.
- Other factors such as dry weather conditions also impacted overall production activity.
- The manufacturing sector contracted by -2.6% in 2020 compared to 2019 (+3.8%) while the mining and quarrying sector continued to record a contraction at -10.0% (2019: -2.0%).
- Agriculture production contracted by -2.2% (2019: +2.0%). Negative growth was mainly due to weaker oil palm output.
- The construction sector registered negative growth of 19.4% in 2020 (2019: +0.1%). This was mainly the results of work capacity reduction, labour shortages, supply chain disruptions and sites closure due to the COVID-19 outbreak.

Gross Domestic Product (GDP) by Economic Activity (% change year on year)

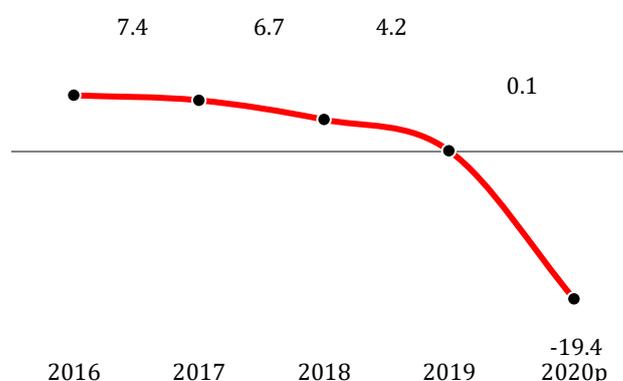
Economic Activity	2019	2020 ^p
Services	6.1%	-5.5%
Manufacturing	3.8%	-2.6%
Mining and quarrying	-2.0%	-10.0%
Agriculture	2.0%	-2.2%
Construction	0.1%	-19.4%
MALAYSIA	4.3%	-5.6%

Note:

1. GDP at constant 2015 prices
2. The figures may not necessarily add up due to rounding
3. p - preliminary

- The services sector declined by 5.5% compared to the previous year (2019: +6.1%). Restrictions by the Government to operations and mobility led to weaker spending and business activities in the retail trade, wholesale, real estate and business services sub-sectors.

% Growth in Construction Sector



p - preliminary

- Activities in the residential and non-residential sub-sectors benefitted from new housing projects and improvement in the progress of projects due for completion in the second half of 2020.

LABOUR MARKET CONDITION

- Employment recorded negative growth of 0.2% in 2020 (2019: +2.1%), amounting to a net employment loss of 30,000 persons.
- The contraction was mainly due to the net loss of employment in mid and low-skilled occupations, which decreased by 1.3% and 5.3% respectively.
- Mid-skilled workers continued to account for the largest share of total employed persons (58.8%; 2019: 59.5%), followed by high-skilled workers (28.9%; 2019: 27.6%).
- The unemployment rate increased to 4.5% in 2020 (2019: 3.3%), the highest in the past 30 years. Meanwhile, the labour force declined slightly to 68.5% (2019: 68.7%).
- Time-related underemployment was also impacted by the COVID-19 pandemic situation. It increased from 191 thousand persons (2019) to 367 thousand persons in 2020. The main reasons were the imposition of movement and labour restrictions during the MCO in the second quarter of 2020.
- However, this situation eased towards the end of the year as some of these workers were re-absorbed into full employment when restrictions were lifted.

Selected Labour Market Indicators

Detail	2020 ^p
Employment ('000 person)	15,096
Labour force rate (%)	68.5
Unemployment rate (%)	4.5
Retrenchments (persons)	104,432
Non-Malaysian citizens employment ('000 persons)	2,310

p – preliminary

- In terms of sectoral perspective, the contraction in employment growth was mainly driven by the construction and tourism-related services sector, which was heavily affected by the COVID-19 pandemic.
- In particular, employment in the construction sector declined by 4.4% due to the postponed implementation of multiple projects.
- Aggregate nominal wages in the private sector decreased by 2.4% in 2020 (2019: +4.4%), while the public sector increased by 2.0% (2019: 3.7%).
- In 2020, labour productivity growth increased to 3.4% (2019: 2.2%), with improvement in all sectors except for the construction sector.

KEY POLICY MEASURES DURING THE COVID-19 CRISIS IN MALAYSIA

Malaysia's economy was significantly impacted during the COVID-19 pandemic. Recognising this, the Government implemented a comprehensive and complementary policy method during the crisis, including the deployment of fiscal, monetary, financial, and other relevant measures. A series of stimulus packages worth RM305 billion (20% of GDP) was announced to support the economy throughout this crisis. Key policy measures during the COVID-19 crisis in Malaysia include the following:

Policy Responses	Key Measures
<p>Fiscal injection to ease cash constraints, support labour market conditions and reinvigorate spending and economic activities</p>	<ul style="list-style-type: none"> • Bantuan Prihatin Nasional cash transfers to households • Wage Subsidy Programmes • Various tax incentives and relief <ul style="list-style-type: none"> ✓ Individuals: Reduction in sales tax for passenger cars, tax relief for equipment for flexible working arrangements (FWA) and domestic travel, stamp duty and real property gains tax exemptions under the Home Ownership Campaign ✓ Businesses: Accelerated capital allowance and tax deduction for specific purposes, automatic deferment of monthly tax instalment payments, tax incentive to attract relocation of businesses by foreign firms into Malaysia • Special payments and allowances (e.g. front liners, gig workers)
<p>Monetary stimulus to support domestic demand, reduce borrowing costs and facilitate continued credit intermediation</p>	<ul style="list-style-type: none"> • Reduced OPR by 125 basis points between January to July 2020 to 1.75% • Reduced Statutory Reserve Requirement (SRR) ratio by 100 basis points to 2.00% • Flexibility for banking institutions to use Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII) to meet the SRR compliance
<p>Comprehensive financial assistance across all segments of the economy to ease cash flow constraints and support growth</p>	<ul style="list-style-type: none"> • Automatic loan moratorium for households and SMEs between April to September 2020 • Targeted Repayment Assistance (TRA) for vulnerable borrowers from October 2020 • Enhanced access to financing and sustained cash flow of SMEs and microenterprises: <ul style="list-style-type: none"> ✓ Special Relief Facility (SRF) ✓ Micro Enterprises Facility (MEF)

Policy Responses	Key Measures
Comprehensive financial assistance across all segments of the economy to ease cash flow constraints and support growth (<i>cont'd</i>)	<ul style="list-style-type: none"> ✓ Targeted Relief and Recovery Facility (TRRF) particularly for hard-hit firms in the services sector ✓ PENJANA SME Financing (PSF) ✓ Guarantee Scheme-PRIHATIN (GGS-PRIHATIN) • Promote reforms to boost quality investments and support viability in the new normal: <ul style="list-style-type: none"> ✓ High Tech Facility-National Investment Aspirations (HTF-NIA) ✓ Automation and Digitalisation Facility (ADF) for SMEs ✓ PENJANA Tourism Financing (PTF) • Government Agrofood Facility (AF) <ul style="list-style-type: none"> ✓ Increase agro-food production for Malaysia and for exports purposes • Danajamin PRIHATIN Guarantee Scheme (DPGS) for medium to large businesses
Other measures to support consumption & investment, enable firms to swiftly pivot and adapt to the new normal and prepare the workforce for the future of jobs	<ul style="list-style-type: none"> • Raise individual disposable income <ul style="list-style-type: none"> ✓ EPF i-Lestari Withdrawal between April 2020 – March 2021 ✓ EPF employee contribution rate reduction from 11% to 7% • Accelerate digitalisation efforts <ul style="list-style-type: none"> ✓ SME Digitalisation Matching Grant and SME Technology Transformation Fund ✓ Rollout of a national digital infrastructure plan (JENDELA) to improve digital connectivity in Malaysia and build the foundation for the adoption of 5G technology • Promote workforce upskilling and training <ul style="list-style-type: none"> ✓ Higher training allowance under the Employment Insurance Scheme (Training fee ceiling raised to RM6,000, RM30 training allowance per day) ✓ RM100 million matching grant to HRDF under the Skills Training Fund ✓ Global Online Workforce (GLOW) programme by MDEC (training to become freelancers for jobs in the digital economy, including programming, creative design, business and administrative support, and language-based roles)

Adapted: *Economic and Monetary Review 2020, Bank Negara Malaysia (BNM)*

MALAYSIA – KEY ECONOMIC INDICATOR	2020 ^p	2021 ^f
Population (million persons)	32.7	32.8
Per Capita Income (RM)	42,531	46,524
(USD)	10,118	11,5123 ³
Real GDP at 2015 prices	-5.6	6.0 ~ 7.5
(RM billion)	1,342.0	1,436.4
Real GNI	-4.9	6.3
(RM billion)	1,330.5	1,414.0
Consumer Price Index (2010=100)	-1.2	2.5 ~ 4.0
Producer Price Index (2010=100)	-2.7	-
Private expenditure	-6.0	7.4
Consumption	-4.3	8.0
Investment	-11.9	5.4
Public expenditure	-4.6	7.4
Consumption	-21.4	15.2
Investment	24.5	23.2

p – preliminary
f – forecast
3 – based on average USD exchange rate for the period of January-February 2021

Source:

1. *Economic and Monetary Review 2020, Bank Negara Malaysia (BNM)*
2. *Annual Report 2020, Bank Negara Malaysia (BNM)*