EUROPEAN UNION
DELEGATION OF THE EUROPEAN UNION TO MALAYSIA

Trade Section

Malaysia – Quarterly Economic Reporting

Basic figures – 2020 [1]

Total GDP	€290 billion
GDP growth	-5.6% (4.3% in 2019)
GDP per capita	€8,879
Total MY export value goods and services	€181.6 billion
Total MY import value goods and services	€154.9 billion
MY exports of goods to the EU	€17.5 billion; 8.6% of the total; EU is the 4th destination for exports after China, Singapore and US
MY imports of goods from the EU	€12.3 billion, 7.4% of the total; EU is the 5th source for imports after China, Singapore, US and Japan
EU trade deficit	€5.3 billion
MY investment in the EU[2]	€12.4 billion, 11.4% of the total; EU is the 2nd destination for Malaysia's direct investment abroad
EU investment in MY	€27.1 billion; 18.7% of the total, EU is the 2nd source of FDI after Singapore
Current account surplus	€12.3 billion (4.5% of GDP)
Consumer Price Index	-1.2% (headline inflation);
Government debt	€184 billion (62.2% of GDP)
International Reserves	€90.2 billion
Central Government revenue	€46.4 billion (- 15.9% compared to 55.1 billion in 2019)
Central Government expenditure	€64.9 billion (- 1.49% compared to 65,9 billion in 2019)
Unemployment rate	4.8% or 761,000 unemployed (up from 4.7% in Q3)
Labour force participation rate	68.5% (7.32 million outside labour force)
Exchange rate €/MYR	1EUR = 4.79 ringgit (was 4.64 in 2019)
Trade in palm oil (CPO&PPO)	
Volume	Total: 17.3 million tonnes (-6.3% compared to 2019) EU: 1.9 million tonnes (-7.2% compared to 2019)
Value	Total : €9.5 billion (+16.6% compared to 2019) EU : €1.3 billion (+17.3% compared to 2019)

Economic Summary – Q4

On 12 February 2020 the Malaysia Department of Statistics released the most recent economic data. Gross domestic product (GDP) was -3.4% compared to the same quarter in 2019 following **cross the-board declines in all economic sectors apart manufacturing**. The contraction of the economy was largely due to the tighten COVID-19 movement restrictions and subsequent demand shock and lower consumption. Exports also continued to contract, yet to a lesser extent.

[1] Source; Department of Statistics, Bank of Negara; converted to Euro using annual average rate of 4.79
[2] DIA figures provided by Department of Statistics still include UK as part of the European Union

The **services** sector was -4.9% in Q4 (-4% in Q3), due to continued declines in the tourism-related industries, such as Food & Beverage, Accommodation and Transportation & Storage sub-sectors, which dropped respectively -35.4% (-29.5% in Q3) and -23.1% (-16.6% in Q3). Wholesale and Retail trade sub-sector showed a smaller decline of -1.5%. Meanwhile, Information & Communication sub-sector expanded at 7.1% (5.4% in Q3) driven by telecommunication and computer & information services. Finance & insurance sub-sector grew at +5.8% (5.5% in Q3) backed by finance activity. For the annual performance of 2020, services sector declined -5.5% (6.1% in 2019).

Growth in **manufacturing** sector slowed to +3% compared to +3.3% in Q3 of 2020. The growth was primarily driven by electrical, electronics & optical products (7.9%) followed by the petroleum, chemical, rubber & plastics products (3.1%). Furthermore, transport equipment, other manufacturing & repair also increased (7.0%). Looking at the whole year 2020, manufacturing sector contracted -2.6% in 2020 (+3.8% in 2019).

Agriculture slightly dropped -0.7% (-0.5% in Q3). The decline was due to the decrease in production of palm oil (-2.4%), fishing (-5.2%), forestry & logging (-9.2%) and rubber sub-sectors (-10.4%) in the Q4 of 2020. However, the Livestock sub-sector expanded 2.9% (2.0% in Q3). Overall in 2020, agriculture sector decreased by -2.2% (in 2019 was +2.0%).

The **mining & quarrying** sector including oil&gas operations continued its double-digit decline at -10.6% in Q4 (-6.8% in Q3). This decline was due to lower production of crude & condensate oil and natural gas, as both sub-sectors posted a contraction of respectively at -12.7% (-5.4% in Q3) and -9.2% (-7.7% in Q3 , due to the lower market demand. In 2020, the sector continued to decline at -10% (was -2% in 2019).

The **construction** sector declined -13.9% (-12.4% in Q3). Civil engineering dropped -32.7% (-16.7% in Q3). Both residential buildings and non-residential buildings declined respectively -11.0% (-12.3% in Q3) and -6.6% (-16.4% in Q3). Overall in 2020, the construction sector recorded a substantial double-digit decrease at -19.4% (0.1% in 2019).

Looking at the **demand side,** private sector consumption and investment went down respectively -3.4% (-2.1% in Q3) and -7% (-9.3 in Q3). Public sector consumption expenditure grew moderately 2.9% (6.9% inQ3) while public investment continued to contract at -19.8% (-18.6% in Q3). Overall in 2020, the private final consumption expenditure decreased -4.3% (in 2019 was 7.6%) and government final consumption expenditure increased 4.1% (in 2019 was 2%). Fixed assets (Gross Fixed Capital Formation) recorded double-digit decrease -14.5% (in 2019 was -2.1%).

On the **external side,** Malaysian exports of goods and services declined -1.8% (-4.7% in Q3) and imports even more at -3.3% (-7.8% in Q3). Malaysia’s overall exports of **palm oil** declined -6.3% in volume terms while overall export value increase 16.6% following higher global commodity prices. Overall in 2020, both exports and imports declined respectively -8.8% (-1.3% in 2019) and -8.3% (-2.5% in 2019).

Comments

The GDP declined -5.6 percent in 2020, Malaysia’s highest contraction since the Asian crises in 1997-1998. Malaysia’ 290 billion EUR GDP in 2020 means a loss of nearly two years of past growth. The government‘s target to achieve an advanced economy status by 2024 is slipping further away.

There will be some tight fiscal times ahead as government revenues contracted nearly 16% last year. The 2021 budget voted by the Parliament in December 2020 was based on too rosy growth and revenue estimates. The money needs to be found somewhere. Issuing additional debt is problematic, as the debt to GDP ratio, capped at 60%, has already been reached. The government is likely to continue to tap into GLCs, in particular on Petronas for additional funds. Even if global oil prices have increased from 20 to nearly 50 USD per barrel, there is no guarantee that prices will remain high and in any event the government needs to find ways to reduce reliance to oil and natural gas based revenues, which hamper its transition to low carbon economy.

Moreover, drop in fixed assets (-14.5%) and new foreign direct investment flows (-68% according to the most recent UNCTAD report) signal trouble for Malaysia's mid-term outlook. While the pandemic has its part to play in the decline, it cannot explain Malaysia's proportionately weak FDI performance among its ASEAN peers. World Bank has already since 2019 recommended to the government to revise Malaysia's complex and overlapping system of investment promotion agencies and various tax schemes to improve the overall attractiveness of business environment. The government should look beyond RCEP towards more ambitious agreements that can ensure level playing field, legal certainty and facilitate continuation of FDI flows in the future.

In terms of outlook for 2021 the Ministry of Finance has kept its growth estimates between 6.5 and 7.5 percent expecting strong recovery in exports and a rebound in private consumption, even as it knows that movement curbs in the first two months of this year weigh on growth. MCO2.0 has already cost some estimated RM24.5 billion, or 1.7% of GDP. As the government has announced a continuation of movement restrictions still at least until 4th of March it is likely that it will need to revise its forecasts downward at some stage (unless miracles happen in global COVID recovery).

Trade and Economic Section
EUDEL Kuala Lumpur