Economic Outlook 2021

Chief Economist,
Fiscal and Economics Division,
Ministry of Finance Malaysia,
Level 9, Centre Block,
Kompleks Kementerian Kewangan,
No. 5, Persiaran Perdana,
Precint 2,
Federal Government Administrative Centre,
62592 Putrajaya.

Fax: 03-88823881
E-mail: bfe@treasury.gov.my

The Economic Outlook is an annual publication released on the same day as the Annual Budget.

The 2021 edition is released on 6 November 2020.

Sale copies are obtainable from:
www.pnmb2u.com and MPH Book Store.

PNMB
PRINTED BY
PERCETAKAN NASIONAL MALAYSIA BERHAD
KUALA LUMPUR, 2020
www.printnasional.com.my
email: cservice@printnasional.com.my
Tel.: 03-92366895 Fax: 03-92224773

FOREWORD

PRIME MINISTER
MALAYSIA

"Safeguard lives and protect the livelihood of the rakyat"

The year 2020 began with nations around the world gearing up to contain the spread of COVID-19 pandemic by undertaking various measures which include enforcing movement restrictions and closing borders. The unprecedented situation has severely impeded overall global economic activities with the world economy experiencing a sharp contraction that economists believe to be worse than the Great Depression in the 1930s. Being a highly open economy, Malaysia's GDP has also been adversely affected.

From the onset, the Government has been resolute in its stand to safeguard lives and protect the livelihood of the r*akyat*. We seek to address the pandemic through a systematic approach that focuses on three pillars: safeguard the *rakyat*, support businesses and finally, strengthen the economy. These three pillars underline all subsequent economic stimulus packages that we have unveiled throughout the year.

Apart from implementing various stages of the Movement Control Order (MCO) since March 2020 to curb the transmission of COVID-19, the Government has embarked on a series of economic stimulus measures totalling RM305 billion entailing fiscal and non-fiscal measures. In this regard, the Economic Stimulus Package Prihatin Rakyat (PRIHATIN) totalling RM250 billion was unveiled in March 2020, followed closely by the PRIHATIN SME+ worth RM10 billion in April. In June, we announced the Short-Term Economic Recovery Plan (PENJANA) totalling RM35 billion and in September, we released the RM10 billion additional package, dubbed the PRIHATIN Supplementary Initiative Package (KITA PRIHATIN).

Under the PRIHATIN package, the nation's healthcare services were strengthened by additional allocation for among others, medical equipment, enhancing testing capacity and developing the *MySejahtera* application for contact tracing. PRIHATIN also provided immediate financial assistance to ease the cash flow burden of the *rakyat* and businesses, including employment retention support, deferment or restructuring of loan repayments as well as provision of credit facilities. Furthermore, we implemented the PRIHATIN SME+ to ensure the survival and ease the financial burden of SMEs.

When the COVID-19 curve flattened, the subsequent strategy was to reopen the economy by allowing the *rakyat* to return to work and companies to resume operations. Hence, the PENJANA package was announced in June to support the economy to operate in a new normal.

The Government is ever ready to step in and provide additional assistance when deemed necessary. As such, realising that the *rakyat* and businesses still needed financial assistance, we swiftly announced in September this year an additional allocation to the existing initiatives, for example, the wage subsidy programme, the special grants to micro-companies and also assistance to the lower and middle-income households and individuals under the KITA PRIHATIN package.

LAKSANA, a unit under the Ministry of Finance, was established to ensure all economic stimulus programmes are implemented promptly and can effectively reach the targeted groups. The Unit has now evolved into a full-fledged agency in monitoring implementation outcomes of the stimulus programmes across 53 ministries and Government agencies nationwide.

Together, we have braved and withstood the unprecedented crisis as a nation. I would like to express my deepest gratitude to the frontliners whose efforts have saved countless lives and upheld Malaysia's healthcare system as among the best in the world. Let me also thank the *rakyat* for their patience and close cooperation in combating the pandemic together. *Alhamdulillah*, we have achieved positive results thus far. However, we cannot afford to be complacent because the war against COVID-19 is not over yet, until and unless a vaccine has been found and is made available across the world.

Against the backdrop of strong economic fundamentals, a diversified economic base as well as proactive measures which have been implemented, we are confident in mitigating the economic impact arising from this crisis. Nevertheless, the socio-economic impact of the pandemic is expected to run its course until next year. Hence, the 2021 Budget will still focus on protecting lives and livelihood with additional measures to cope with the lingering effects of the pandemic on the economy as a whole. *Insya-Allah*, we will register a rebound in economic growth in 2021.

The crisis has given us the opportunity to look inwards, reassess our priorities and reset our targets. Moving forward, we will continue to revitalise and reform our economy for a sustainable future of shared prosperity under a new normal. It is our aspiration to steer the economy to a higher growth trajectory that is inclusive in nature. I would like to reiterate that this Government is committed to serving the *rakyat* and ensuring their well-being as well as supporting the businesses to thrive. *Insya-Allah*, we will be able to achieve this if we all work closely together.

TAN SRI HAJI MUHYIDDIN BIN HAJI MOHD YASSIN
6 November 2020

PREFACE

**MINISTER OF FINANCE
MALAYSIA**

COVID-19 has had a major impact on global growth, particularly due to its capacity to disrupt and dismantle development progress that has been made across social, business and economic fronts. For as long as a vaccine is yet to be found, the entire global economy – Malaysia included – remains at its mercy. At the heart of this unprecedented economic challenge is the consequential threat to lives, as well as risk of increased poverty and long-term systemic damage to our socio-economic fabric.

It was against this backdrop that Malaysia instituted the Movement Control Order (MCO). Although the Malaysian economy lost an estimated RM2 billion each day while the MCO was in effect, the Government was decisive in crafting our own unique 6R Strategy, comprising six stages of Resolve, Resilient, Restart, Recovery, Revitalise and Reform, to help the nation cope.

Against a backdrop of many unknowns, the Government had to put together no less than four stimulus packages in record time to protect lives, businesses and the economy. Deciding on what would be sufficient was not easy. Our fiscal limitations needed to be matched with our fiscal muscle. One thing was clear, though: our response had to be fast and decisive. Hence, the RM250 billion PRIHATIN Economic Stimulus Package was born, incorporating a RM25 billion fiscal injection.

Subsequently, three additional packages followed: PRIHATIN SME+, PENJANA and KITA PRIHATIN in April, June and September respectively. All four packages – comprising fiscal and non-fiscal measures – totalled RM305 billion, or 21% of our gross domestic product (GDP). With the measures' rollout being tracked and monitored by the Economic Stimulus Implementation and Coordination Unit Between National Agencies (LAKSANA), many lives were saved, livelihoods supported, and businesses remained afloat.

The MCO and its various iterations not only flattened our COVID-19 curve but also contributed to the deep contraction in the GDP by 8.3% in the first half of 2020. Nevertheless, month-to-month economic data clearly signals green shoots of recovery, with a rebound in production and trade figures, a decline in unemployment and a recovery in private consumption compared to the monthly data of the second quarter of 2020. The Government's stimulus packages are expected to contribute over 4 percentage points to the nation's GDP growth.

This momentum is expected to set the foundation for the nation's GDP to grow by up to 7.5% in 2021. That achievement hinges heavily on the next phase in our 6R strategy – Revitalise – represented by Budget 2021. As a strategic plan for ensuring Malaysia's growth in the coming year, Budget 2021 seeks to balance healthcare capacity needs, while building upon the current economic recovery momentum together and developing better resilience for the future.

Meanwhile, it is important for us to not only adapt to this new norm, but also find growth opportunities. COVID-19 has accelerated the adoption of digitalisation by businesses, the education sector and society. Studies have estimated that the economic value of digital trade-enabled benefits to the Malaysian economy, if fully leveraged, could grow to RM222 billion by 2030 from RM31 billion in 2019. This presents a new growth trajectory for many service-based industries and supporting sectors like E&E, e-commerce and the gig economy. Another huge potential is in healthcare and its ancillary sectors. Medical products, services and equipment are expected to grow in the coming years.

Budget 2021 has been crafted across four broad principles, namely, caring for the people; steering the economy; enabling sustainable living and enhancing public service delivery. The Government will continue with its targeted initiatives to support lives and livelihoods while prioritising vulnerable groups.

Sustainability, as one of the key principles, will also lay the foundation for existing and fresh policies to be mapped against the UN Sustainable Development Goals (SDGs). Related to this, one of the sectors that is a natural fit into our sustainability aspiration is Islamic finance, which subscribes to Value-Based Intermediation principles, similar to Environmental, Social and Governance (ESG) principles. This could help grow the Islamic economy, through various concepts including *wakaf*, and in developing communities sustainably. On multiple other fronts, the Government also hopes to work closely with its agencies, the private sector and civil society to catalyse a higher, more sustainable growth trajectory from 2021 onwards.

The Government expects its fiscal deficit to reach 6% of GDP, the highest since the 2009 Global Financial Crisis, while the Federal Government's statutory debt is expected to rise to about 57% of GDP by end-2020, due to the four necessary economic stimulus packages. Nonetheless, the Government is committed to its fiscal responsibility agenda, in line with the goal of reducing the fiscal deficit to under 4% of GDP over the next three to four years.

Against the backdrop of a huge unknown that is outside our control, we have been focusing on aspects that we can and must control. Our economic fundamentals are still strong, our economic base sufficiently diversified, and we still have fiscal muscle. But above all, I believe the economic rebound in 2021 and beyond depends as much on our strategy, as it does on Malaysians’ indomitable spirit to work together and brave the unknown as one.

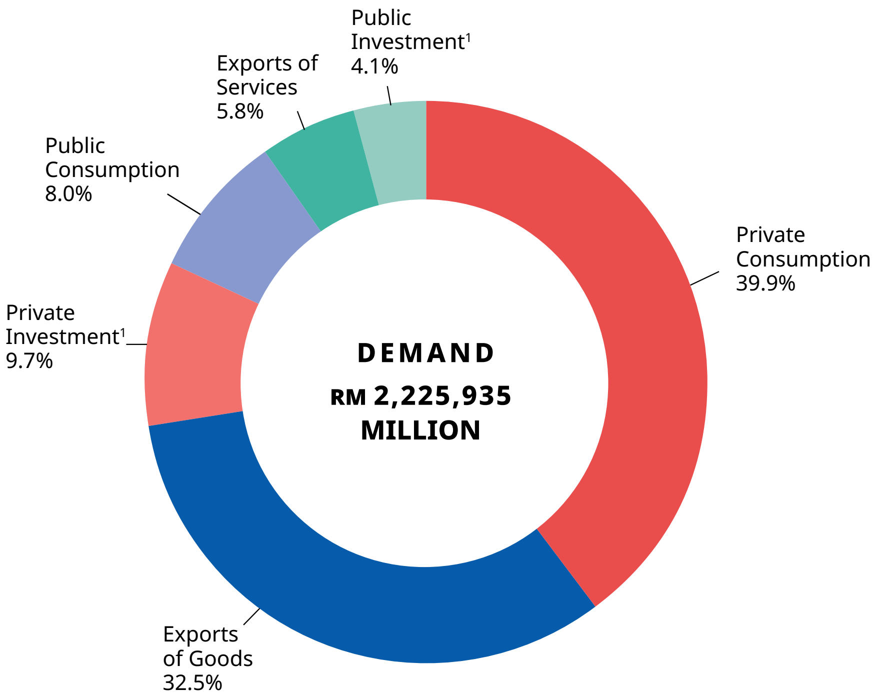
Thank you to all Malaysians for your past, present and future contribution in helping the nation face this enormous challenge. I am confident that together we can and will win this war against COVID-19, and emerge from this episode as a stronger nation, *Insya-Allah.*

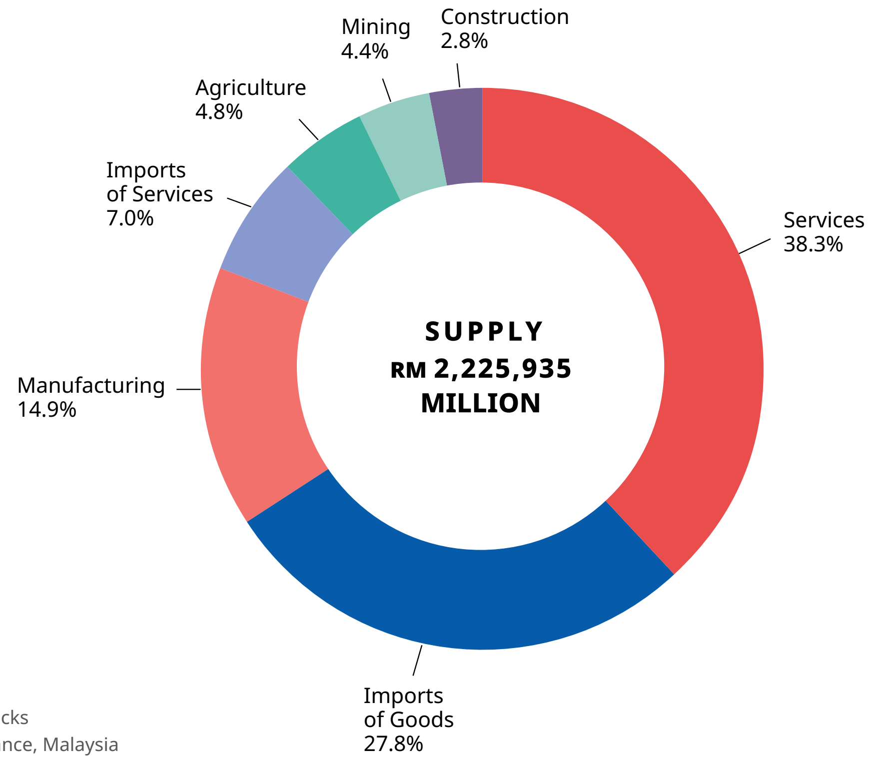
SENATOR TENGKU DATO’ SRI ZAFRUL TENGKU ABDUL AZIZ
6 November 2020

THE ECONOMY 2021

in constant 2015 prices

(share to total in %)





[1] Includes change in stocks

Source: Ministry of Finance, Malaysia

MALAYSIA: KEY DATA AND FORECAST

AREA (square kilometres)			
Malaysia **330,548**	**Peninsular Malaysia[1]** **132,104**	**Sarawak** **124,450**	**Sabah[2]** **73,994**

POPULATION (million)	**2019[9]**		**2020[10]**		**2021[11]**	
	32.4		**32.7**		**33.1**	
DOMESTIC PRODUCTION	**RM million**	**change (%)**	**RM million**	**change (%)**	**RM million**	**change (%)**
Gross Domestic Product (constant 2015 prices)	**1,421,454**	***4.3***	**1,357,731**	***-4.5***	**1,450,830**	***6.5 - 7.5***
Agriculture	101,549	*2.0*	100,344	*-1.2*	105,086	*4.7*
Mining and quarrying	101,438	*-2.0*	93,568	*-7.8*	97,404	*4.1*
Manufacturing	316,320	*3.8*	306,845	*-3.0*	328,215	*7.0*
Construction	66,266	*0.1*	53,859	*-18.7*	61,340	*13.9*
Services	820,069	*6.1*	789,379	*-3.7*	844,554	*7.0*
Import duties	15,812	*-1.2*	13,736	*-13.1*	14,231	*3.6*
Gross Domestic Product (current prices)	**1,510,693**	***4.4***	**1,439,374**	***-4.7***	**1,568,104**	***8.6 - 9.6***
Final consumption expenditure: Public	176,673	*2.2*	179,779	*1.8*	183,713	*2.2*
Private	903,720	*8.7*	899,102	*-0.5*	987,240	*9.8*
Gross fixed capital formation: Public[3]	94,374	*-9.7*	85,546	*-9.4*	100,337	*17.3*
Private	252,471	*2.7*	222,026	*-12.1*	239,853	*8.0*
Changes in inventories and valuables	-28,957	–	-27,679	–	-25,502	–
Exports of goods and services	985,283	*-0.7*	842,053	*-14.5*	916,286	*8.8*
Imports of goods and services	872,871	*-2.5*	761,454	*-12.8*	833,823	*9.5*
NATIONAL INCOME AND EXPENDITURE						
Gross National Income (constant 2015 prices)	**1,398,921**	***4.8***	**1,344,443**	***-3.9***	**1,427,963**	***6.2***
Gross National Income (current prices)	**1,470,426**	***4.9***	**1,415,688**	***-3.7***	**1,526,546**	***7.8***
Gross National Savings (current prices)	**368,738**	***-2.5***	**328,349**	***-11.0***	**334,965**	***2.0***
Per Capita Income (current prices, RM)	**45,212**	***4.4***	**43,350**	***-4.1***	**46,101**	***6.3***
FEDERAL GOVERNMENT FINANCE	**2019**		**2020[12]**		**2021[13]**	
Revenue	264,415	*13.5*	227,270	*-14.0*	236,900	*4.2*
Operating expenditure	263,343	*14.0*	226,720	*-13.9*	236,540	*4.3*
Current balance	1,072	–	550	–	360	–
Development expenditure (net)	52,570	*-4.9*	49,000	*-6.8*	68,200	*39.2*
COVID-19 Fund	–		38,000	–	17,000	*-55.3*
Overall balance	**-51,498**		**-86,450**		**-84,840**	
% of GDP	*-3.4*		*-6.0*		*-5.4*	
Domestic borrowings (net)	44,755		87,051		–	
Offshore borrowings (net)	6,977		-303		–	
Change in assets[4]	-234		-298		–	

MALAYSIA: KEY DATA AND FORECAST (cont'd)

	2019		2020		2021	
	RM million	% GDP	RM million	% GDP	RM million	% GDP
Federal Government Debt[5]	**792,998**	***52.5***	**874,276**	***60.7***	–	–
Domestic debt	**764,233**	***50.6***	**845,026**	***58.7***	–	–
Treasury bills	4,500	*0.3*	24,000	*1.7*	–	–
Malaysian Government Investment Issues	338,800	*22.4*	360,266	*25.0*	–	–
Malaysian Government Securities	394,133	*26.1*	436,660	*30.3*	–	–
Government Housing Sukuk	26,800	*1.8*	24,100	*1.7*	–	–
Offshore borrowings	**28,765**	***1.9***	**29,250**	***2.0***	–	–
Market loans	23,347	*1.5*	23,895	*1.6*	–	–
Project loans	5,418	*0.4*	5,355	*0.4*	–	–
	2019[9]		**2020[10]**		**2021[11]**	
BALANCE OF PAYMENTS (NET)	**RM million**		**RM million**		**RM million**	
Balance on current account	**50,850**		**48,455**		**20,277**	
Goods	123,334		130,886		113,331	
Services	-10,922		-50,287		-30,868	
Primary income	-40,267		-23,686		-41,558	
Secondary income	-21,294		-8,458		-20,628	
Balance on capital and financial accounts	**-33,465**		–		–	
Net errors and omissions	**-8,969**		–		–	
Overall balance	**8,416**		–		–	
EXTERNAL TRADE	**RM million**	**change (%)**	**RM million**	**change (%)**	**RM million**	**change (%)**
Gross exports *of which:*	**995,072**	***-0.8***	**943,761**	***-5.2***	**968,793**	***2.7***
Manufactured	840,586	*0.4*	808,851	*-3.8*	828,862	*2.5*
Agriculture	65,958	*-1.6*	66,441	*0.7*	69,381	*4.4*
Mining	81,520	*-9.3*	63,771	*-21.8*	65,118	*2.1*
Gross imports *of which:*	**849,411**	***-3.5***	**794,716**	***-6.4***	**836,956**	***5.3***
Intermediate goods	467,211	*1.1*	437,406	*-6.4*	460,280	*5.2*
Capital goods	100,179	*-10.9*	87,642	*-12.5*	100,219	*14.3*
Consumption goods	74,155	*1.5*	74,718	*0.8*	76,967	*3.0*
Total trade	**1,844,483**	***-2.1***	**1,738,477**	***-5.7***	**1,805,749**	***3.9***
Trade balance	**145,661**	***17.7***	**149,045**	***2.3***	**131,838**	***-11.5***
PRICES	**Index**	**change (%)**	**Index**	**change (%)**	**Index**	**change (%)**
Consumer Price Index (2010 = 100)	121.5	*0.7*	–	*-1.0*	–	*2.5*
Producer Price Index: Local Production (2010 = 100)	105.2	*-1.4*	102.3[14]	*-2.4[14]*	–	–
LABOUR	**Thousands**	**change (%)**	**Thousands**	**change (%)**	**Thousands**	**change (%)**
Labour force	15,581.6	*2.0*	15,737.4[15]	*1.0[15]*	15,910.5[15]	*1.1[15]*
Unemployment[6]	508.2	*(3.3)*	653.5[15]	*(4.2)[15]*	562.6[15]	*(3.5)[15]*

MALAYSIA: KEY DATA AND FORECAST (cont'd)

	2019 End-August		2020 End-August	
FINANCIAL AND CAPITAL MARKETS	**RM million**	**change (%)**	**RM million**	**change (%)**
Money supply				
M1	426,561	*3.8*	502,304	*17.8*
M2	1,895,998	*4.1*	2,026,995	*6.9*
M3	1,908,653	*4.2*	2,031,377	*6.4*
Banking system (including Islamic banks)				
Fund[7]	1,985,835	*5.2*	2,074,029	*4.4*
Loans	1,645,380	*3.9*	1,704,889	*3.6*
Loan-to-fund ratio (%)	82.9		82.2	
Interest rates (average rates, %)	**August**		**August**	
3-month interbank	*3.32*		*1.96*	
Commercial banks				
Fixed deposits: 3-month	*2.92*		*1.62*	
12-month	*3.09*		*1.78*	
Savings deposit	*0.99*		*0.48*	
Weighted base rate (BR)	*3.68*		*2.43*	
Base lending rate (BLR)	*6.71*		*5.49*	
Treasury bills (3-month)	–		–	
Malaysian Government Securities[8]				
1-year	*3.09*		*1.70*	
5-year	*3.24*		*2.11*	
	End-September		**End-September**	
Movement of ringgit	**RM per unit of**	**change[16] (%)**	**RM per unit of**	**change[16] (%)**
Special Drawing Rights (SDR)	5.7121	*1.6*	5.8522	*-2.4*
US dollar	4.1870	*-1.1*	4.1585	*0.7*
Euro	4.5776	*5.4*	4.8775	*-6.1*
100 Japanese yen	3.8788	*-6.0*	3.9378	*-1.5*
Bursa Malaysia				
FBM KLCI	1,583.91		1,504.82	
Market capitalisation (RM billion)	1,673.63		1,638.72	

[1] Includes the Federal Territory of Kuala Lumpur and Federal Territory of Putrajaya

[2] Includes the Federal Territory of Labuan

[3] Includes investment of public corporations

[4] Positive data indicates drawdown of assets; negative indicates accumulation of assets

[5] For 2020, data is at end-September 2020

[6] Figures in parentheses shows the unemployment rate

[7] Funds comprises deposits (exclude deposits accepted from banking institutions and Bank Negara Malaysia) and all debt instruments issued (including subordinated debt, debt certificates/sukuk, commercial papers and structured notes)

[8] Market indicative yield

[9] Preliminary

[10] Estimate

[11] Forecast

[12] Revised estimate

[13] Budget estimate, excluding 2021 Budget measures

[14] January to August 2020

[15] Forecast by Ministry of Finance, Malaysia

[16] Annual rate of appreciation (+) or depreciation (-) of the ringgit

Note: Total may not add up due to rounding

CONTENTS

CHAPTER 1 ECONOMIC MANAGEMENT AND PROSPECTS

CHAPTER 2 GLOBAL ECONOMIC OUTLOOK

CHAPTER 3 MACROECONOMIC OUTLOOK

CHAPTER 4 MONETARY AND FINANCIAL DEVELOPMENTS

FIGURES

The Economy 2021

TABLES

ACRONYMS AND ABBREVIATIONS

11MP	Eleventh Malaysia Plan, 2016 – 2020
12MP	Twelfth Malaysia Plan, 2021 – 2025
4G	fourth-generation cellular network
5G	fifth-generation cellular network
ADB	Asian Development Bank
AI	artificial intelligence
AIIB	Asian Infrastructure Investment Bank
APIs	Application Programming Interface
ASEAN	Association of Southeast Asian Nations
AUD	Australian dollar
B40	bottom 40% of household income group
BNM	Bank Negara Malaysia
BOP	balance of payments
bps	basis points
CDA	Currency Demand Approach
CFTA	Comprehensive Free Trade Agreement
CGE	Computable General Equilibrium
CMCO	Conditional Movement Control Order
COVID-19	Coronavirus Disease 2019
CPI	Consumer Price Index
CPO	crude palm oil
CSOs	civil society organisations
DE	development expenditure
DFIs	Development Financial Institutions
E&E	electrical & electronics
EAC	Economic Action Council
ECB	European Central Bank
EMDEs	emerging market and developing economies
EU	European Union
EUR	euro
FBM KLCI	FTSE Bursa Malaysia Kuala Lumpur Composite Index
FDI	foreign direct investment
Fed	US Federal Reserve
GDP	gross domestic product
GNI	gross national income
GNS	gross national saving
HIS & BA	Household Income and Basic Amenities Survey
IHLs	Institutions of Higher Learning
HOC	Home Ownership Campaign
IBRD	International Bank for Reconstruction and Development
ICD	Islamic Corporation for the Development of the Private Sector
ICIEC	Islamic Corporation for the Insurance of Investment and Export Credit
ICM	Islamic Capital Market
ICT	information, communication and technology
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IDR	Indonesian rupiah
IFC	International Finance Corporation

ILO	International Labour Organisation
IMF	International Monetary Fund
IoT	Internet of Things
IPO	Initial Public Offering
IR4.0	Industrial Revolution 4.0
IRTI	Islamic Research and Training Institute
IsDB	Islamic Development Bank
IsDBG	Islamic Development Bank Group
ITFC	International Islamic Trade Finance Corperation
KASA	Ministry of Environment and Water
KeTSA	Ministry of Energy and Natural Resources
KeTTHA	Ministry of Energy, Green Technology and Water
KITA PRIHATIN	PRIHATIN Supplementary Initiative Package
LAKSANA	National Economic Stimulus Implementation and Inter Agency Coordination Unit
LDMCs	least developed member countries
LNG	liquefied natural gas
LPI	Logistics Performance Index
LRT3	Light Rail Transit 3
M&A	merger and acquisition
M1	money supply
M40	middle 40% of household income group
MCO	Movement Control Order
MDBs	multilateral development banks
MGII	Malaysian Government Investment Issues
MGS	Malaysian Government Securities
MIGA	Multilateral Investment Guarantee Agency
MIMIC	Multiple Indicators Multiple Causes
MOF	Ministry of Finance
MRT2	Mass Rapid Transit 2
MTAR	Momentum Threshold Autoregressive
NGOs	non-governmental organisations
NRE	Ministry of Natural Resources and Environment
O&G	oil and gas
OPEC	Organization of the Petroleum Exporting Countries
OPR	Overnight Policy Rate
p.a.	per annum
pb	per barrel
PENJANA	National Economic Recovery Plan
PforR	Program-for-Result
PHP	Philippine peso
PLI	Poverty Line Income
PPI	Producer Price Index
PRGT	Poverty Reduction and Growth Trust
PRIHATIN	Prihatin Rakyat Economic Stimulus Package
PRS	Private Retirement Schemes
R&D	research and development
RBI	Reserve Bank of India
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
RMCO	Recovery Movement Control Order
RPGT	Real Property Gains Tax
RTO	Rent-to-Own

SDGs	Sustainable Development Goals
SDR	Special Drawing Right
SE	shadow economy
SGD	Singapore dollar
SLL	Short-term Liquidity Line
SME Corp. Malaysia	SME Corporation Malaysia
SMEs	small and medium enterprises
SOPs	Standard Operating Procedures
SRR	Statutory Reserve Requirement
SSR	Self-Sufficiency Ratio
THB	Thai baht
TVECM	Threshold Vector Error Correction Model
UI	User Interface
UK	United Kingdom
UN	United Nations
US	United States
USD	US dollar
UX	User Experience
WBG	World Bank Group
WFH	work from home
WHO	World Health Organization

CHAPTER 1

Economic Management and Prospects

Covid-19 Pandemic

Restriction in the movement of people and goods as well as provision of services

Malaysia: Economic Management & Prospects

11 March 2020

ECONOMIC ACTION COUNCIL:

Roadmap for Immediate Action

Implementation of 6R Strategy

Resolve, Resilience, Restart, Recovery, Revitalise, Reform

- 27 March
  PRIHATIN
- 6 April
  PRIHATIN SME+
- 5 June
  PENJANA
- 23 September
  KITA PRIHATIN

MALAYSIA PRIHATIN

PrihatinPKS+
Pakej Rangsangan Ekonomi Prihatin Rakyat

penjana
Pelan Jana Semula Ekonomi Negara

KitaPrihatin
Kerangka Inisiatif Tambahan Pakej Rangsangan Ekonomi Prihatin Rakyat

Roadmap for Way Forward for next 12 months

Monetary & Financial Developments

Mitigation Factors

- Supportive Monetary Policies
  - OPR Overnight Policy Rate
  - SRR Statutory Reserve Requirement
- Robust Banking Sector
- Resilient Capital Market

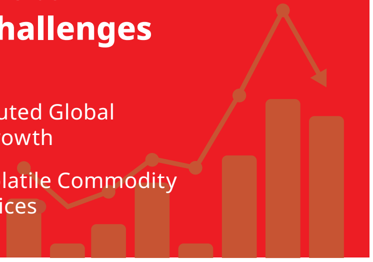
Global Economy

Global Outlook

Impacting Malaysian businesses

Impacting the health and livelihood of Malaysians

Global Challenges



Muted Global Growth

Volatile Commodity Prices

CHAIRED BY
YAB PRIME MINISTER WITH MOF AND EPU AS JOINT SECRETARIAT

Aggravating Factors

- Pace of Global Economic Recovery
- Escalating US-China tensions
- Weak Commodity Prices
- Volatile Global Financial Markets

Economic Management

NEW ACT: Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) 2020 was passed in Parliament on 21 September 2020.

IMPLEMENTATION OF STIMULUS PACKAGES UNDER THE 6R STRATEGY

Budget 2021

Budget 2021 enters 5th R stage – Revitalise

OBJECTIVE: Address the challenges faced by Malaysia towards becoming an advanced and inclusive nation

Measures are being formulated to enhance people's livelihood, rejuvenate the economy, ensure sustainable development and improve public service delivery. "Rakyat's Prosperity, Business Continuity and Economic Resilience."

Domestic Economy

CHAPTER 1

Economic Management and Prospects

Overview

Recovering the economy from the COVID-19 pandemic has been a daunting task for all nations. The pandemic not only has impacted people's health and livelihood but has also dampened global growth, a situation described as far more challenging than the Great Depression of the 1930s. It has essentially positioned the world into a territory that has never been seen before.

The pandemic turned into a global crisis as nations began to restrict the physical mobility of people and movement of goods and services, which in turn impacted businesses and economies as a whole. The turn of events has muted the anticipated moderation in the US-China trade tension following their trade deal in January 2020. The presumed immediate benefits of the trade deal did not materialise as nations began to take drastic measures to contain the COVID-19 by closing their borders. Closer to home, the Malaysian Government is riding its own challenges, where the sudden emergence of the pandemic and its rapid spread caught everyone off-guard.

As a trading nation, the Malaysian economy faces greater challenges posed by the pandemic. While enduring challenges from an already muted global economic growth amid volatile commodity prices, the nation saw a new administration taking the helm. With cases on the rise, the new Government established the Economic Action Council (EAC) on 11 March 2020 to formulate short- and medium-term measures to protect the people and livelihood. Chaired by the Prime Minister, the EAC comprises economic ministers, high-level public sector officials and captains of industries, as members.

The EAC subsequently endorsed a six-stage systematic approach – Resolve, Resilient, Restart, Recovery, Revitalise and Reform – to address the pandemic with the priority to protect both the people and the economy. The Government announced the Prihatin Rakyat Economic Stimulus Package (PRIHATIN) on 27 March 2020. The package, valued at RM250 billion, is aimed at protecting the people, supporting businesses and strengthening the economy. In essence, the package provided financial assistance to the people as well as initiatives to secure jobs, boost consumer confidence and stimulate the economy. On 6 April 2020, the PRIHATIN Plus package of RM10 billion was announced to provide further support to small and medium enterprises (SMEs). With the reduction in the number of COVID-19 cases, the Government launched the RM35 billion National Economic Recovery Plan (PENJANA) on 5 June 2020 to restart the economy. Additionally, the Government announced the PRIHATIN Supplementary Initiative Package (KITA PRIHATIN) on 23 September 2020 amounting to RM10 billion to further ease the burden of the people and keep businesses afloat.

TABLE 1.1. *Economic Stimulus Packages 2020*

	PROGRAMME	RM BILLION
	PRIHATIN	**250.0**
1	Loan Moratorium	100.0
2	Danajamin: Financing Guarantee Scheme	50.0
3	EPF: i-Lestari Scheme	40.0
4	Bantuan Prihatin Nasional	10.0
5	EPF: Employer Advisory Services	10.0
6	Wage Subsidy Programme	5.9
7	BNM: Facilitation Fund	4.0
8	Small Infrastructure Projects	2.0
9	Healthcare (COVID-19)	1.5
10	Food Security Fund	1.0
11	Micro Credit Scheme	0.5
12	Assistance for Tertiary Students	0.3
13	Other PRIHATIN Measures	5.1
14	Economic Stimulus Package	19.7
	PRIHATIN Plus	**10.0**
15	Additional Wage Subsidy Programme (enhancement of the existing programme)	7.9
16	Geran Khas PRIHATIN	2.1
	PENJANA	**35.0**
17	Initiatives to Empower the People	13.2
18	Initiatives to Propel Businesses	9.7
19	Initiatives to Stimulate the Economy	6.7
20	Other PENJANA Measures	5.4
	KITA PRIHATIN	**10.0**
21	Bantuan Prihatin Nasional 2.0	7.0
22	Wage Subsidy Programme 2.0	2.4
23	Geran Khas PRIHATIN	0.6
	GRAND TOTAL	**305.0**

Source: Ministry of Finance, Malaysia

Outlook

Global Economy

The global economy is projected to record a negative growth of 4.4% in 2020 due to wavering performance in both the advanced economies and the emerging market and developing economies (EMDEs). The gross domestic product (GDP) of the advanced economies is projected to contract 5.8% in 2020, as a result of sluggish private consumption, coupled with lacklustre global trade. Similarly, the GDP of the EMDEs is expected to decline by 3.3% in 2020, due to a drop in both private consumption and investment as well as unfavourable external demand.

In 2021, the global economy is projected to recover with a growth of 5.2%. The advanced economies are forecast to rebound by 3.9%, led by improved domestic demand and trade activities. Likewise, the GDP of the EMDEs is expected to record a growth of 6%, driven by steady domestic demand and higher exports. Risks to global outlook include re-intensified US-China trade disputes, uncertainties surrounding Brexit, continued low oil prices and deepening climate crisis.

Domestic Economy

The Malaysian economy contracted by 8.3% in the first half of 2020, with a decline of 17.1% in the second quarter. The economy is expected to contract at a slower pace in the second half of the year, aided by the speedy implementation of various stimulus packages to support the people and revitalise the economy. In 2020, the economy is expected to contract by 4.5%. The impact of the packages is anticipated to have spill-over effects and provide an additional boost to the economy in 2021. With the anticipated improvement in global growth and international trade, the Malaysian economy is projected to rebound between 6.5% and 7.5% in 2021. Growth will continue to be supported by strong economic fundamentals and a well-diversified economy. However, the favourable outlook hinges on two major factors – the successful containment of the pandemic and sustained recovery in external demand.

Monetary and Financial Developments

The Overnight Policy Rate was reduced successively by 125 basis points to a historic low of 1.75% during the first seven months of 2020. Similarly, the Statutory Reserve Requirement was reduced by 100 basis points from 3.00% to 2.00% to ensure sufficient liquidity to support the domestic financial market. Monetary policy will continue to be supportive of the domestic economy. The banking sector will remain robust and orderly, underpinned by ample liquidity and strong capital buffers. Likewise, the capital market is anticipated to be resilient, driven by well-developed infrastructure and instruments. However, the pace of global economic recovery, weak commodity prices and volatile global financial markets are among factors which may hamper the performance of the domestic financial market.

Economic Management

The immediate focus of the Government in managing the crisis is on ensuring the safety of the people and addressing the needs of households and businesses adversely affected by the COVID-19. A new Act entitled Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) 2020 was passed in Parliament on 21 September 2020 to finance the stimulus packages. The Act enables the Government to implement the stimulus packages formulated on the six-stages of R effectively. The “Resolve” stage was characterised by the Government’s effort to contain the spread of the virus through the implementation of a full Movement Control Order (MCO). The “Resilient” stage was when the Government announced the PRIHATIN and the PRIHATIN Plus stimulus packages. During the “Restart” and “Recovery” stages when the COVID-19 curve was flattened and the economy was gradually opened, the Government announced the PENJANA package. PENJANA aimed at rejuvenating the economy based on three strategic thrusts – empowering the people, propelling businesses and stimulating the economy. The next two stages – “Revitalise” and “Reform”, will involve the formulation and implementation of measures in the 2021 Budget and the Twelfth Malaysia Plan, 2021-2025 (12MP). In particular, the 2021 Budget will focus on caring for the people, enabling local businesses and revitalising the economy.

FEATURE ARTICLE 1.1

COVID-19: Impact and Policy Responses

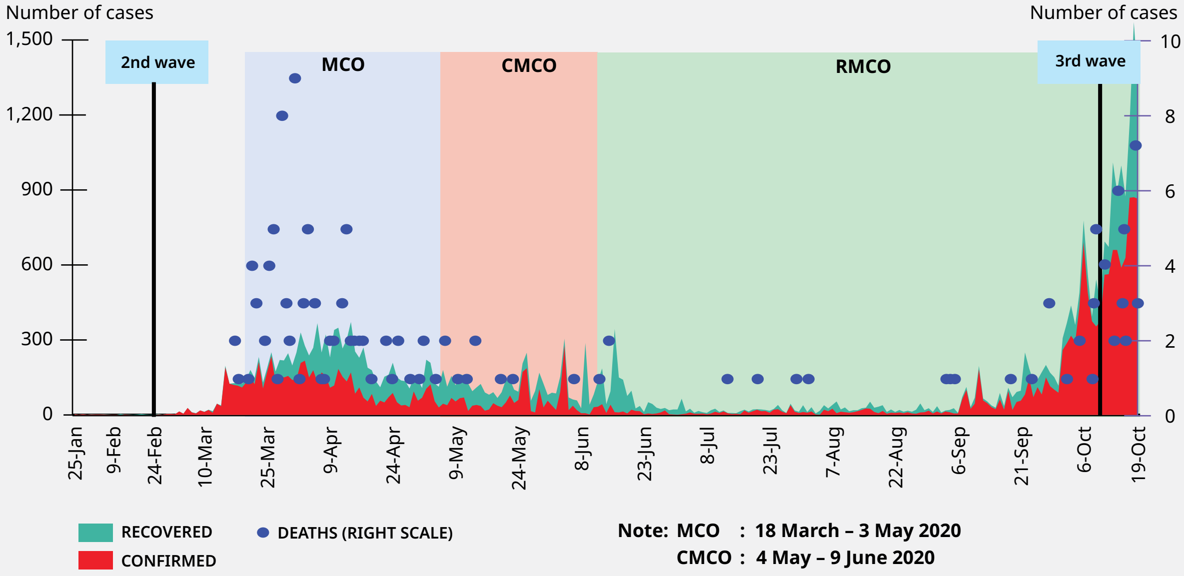
Introduction

COVID-19, the viral outbreak that was first detected at the end of 2019, coincided with a worldwide economic slowdown amid trade tensions and commodity price volatility. As the virus spreads around the world, it has far-reaching consequences beyond the disease and the efforts to contain it. Various measures to contain the outbreak, such as border closures, physical distancing and lockdowns, have led to sluggish aggregate demand and disruptions in the supply chain. The pandemic is now expected to cause the worst global recession in history, far worse than the Great Depression in the 1930s (International Monetary Fund, 2020). Governments worldwide responded by expanding their monetary policy and increasing fiscal spending to prop up household incomes, support employee retention and provide liquidity assistance for businesses.

Malaysia: Case in Point

The crisis brought on by the pandemic presents a unique challenge as policymakers have to balance between protecting lives and livelihood in managing the pandemic. Malaysia is no exception. During the initial stage of the outbreak, the impact was limited to the tourism-related industries, including airlines, tour operators, recreational activities, accommodation and restaurants. In response, the Government announced the first stimulus package of RM20 billion on 27 February 2020. The package was aimed at increasing capacity of the healthcare sector in containing the outbreak, supporting the cash flow of affected businesses and stimulating domestic tourism industry.

FIGURE 1.1.1. *New Cases vs Recoveries*



Note: MCO : 18 March – 3 May 2020
CMCO : 4 May – 9 June 2020
RMCO : 10 June – 31 December 2020

Source: Ministry of Health, Malaysia

Local cases started to escalate in early March 2020 (Figure 1.1.1.), with more clusters began to emerge during what was categorised as the second wave of transmission. Within a few weeks, Malaysia recorded the largest cumulative number of confirmed COVID-19 transmission in Southeast Asia, with over 2,000 active cases by the end of March. In a critical move to mitigate the outbreak and flatten the curve as recommended by the World Health Organisation, the Government imposed a full Movement Control Order (MCO) effectively on 18 March 2020. In addition, the Government established a task force to manage the crisis led by the Prime Minister himself, with representation by relevant ministries and agencies. The task force is responsible for gathering intelligence on the development of the pandemic and coordinating efforts to contain the outbreak.

The MCO was made more lenient under the Conditional Movement Control Order (CMCO) on 4 May 2020, where most economic sectors were allowed to resume operations under certain Standard Operating Procedures (SOPs). At this stage, all businesses, with a few exceptions, were allowed to reopen under strict SOPs, including contact tracing, mandatory use of face masks in public and physical distancing. Nonetheless, international and interstate travels were still restricted as the threat of the virus persisted.

As cases began to de-escalate, the economy was reopened for people to resume their economic activities and livelihood. The CMCO was then followed by the Recovery Movement Control Order (RMCO) starting 10 June 2020, which is extended until 31 December 2020. The implementation of the RMCO is based on protecting vulnerable groups, empowering the community, embracing the new normal, resuming almost all economic sectors, continuing border control and enhancing public health.

Malaysia received global recognition as among the more successful countries in containing the pandemic. Nonetheless, the Government is fully aware that this containment move has to be parallel with the reopening of the economy to prevent long-term structural damage. Therefore, the Government applied the 6R approach, representing six stages: Resolve, Resilient, Restart, Recovery, Revitalise and Reform (Figure 1.1.2.).

FIGURE 1.1.2. *6R Strategy for Resilient and Sustainable Growth*

Source: Ministry of Finance, Malaysia

The Resolve strategy was implemented as early as when the MCO was first announced on 18 March 2020. The movement control and physical distancing resulted in temporary closures of most businesses, especially the non-essential sectors, which resulted in higher unemployment. Accordingly, the Government announced the second stimulus package on 27 March 2020. The package, known as Prihatin Rakyat Economic Stimulus Package (PRIHATIN), totalling RM230 billion, was aimed at softening the impact of the crisis. PRIHATIN provided cash transfers to supplement the loss of income and wage subsidies to encourage businesses to retain employees. In addition, the package includes an automatic moratorium on loan repayments for six months to households, which ended in September 2020, partly to encourage private consumption. Subsequently, the Government announced an additional RM10 billion through PRIHATIN PLUS on 6 April 2020, particularly to help the small and medium enterprises (SMEs) remain resilient to weather the unprecedented crisis.

As part of the fourth stage of the 6R approach (Recovery), the Government announced a short-term economic recovery plan or *Pelan Jana Semula Ekonomi Negara* (PENJANA) on 5 June 2020 totalling RM35 billion. The main objective of PENJANA was to restart the economy by incentivising people and businesses to resume their activities, amid the new normal. It was complemented with the implementation of the RMCO, with almost all restrictions lifted. However, businesses were required to self-regulate, adhere to the SOPs and adjust to the new normal.

As the loan moratorium period and wage subsidy ended in September 2020, the Government received feedback that people and businesses were still financially-stricken. Hence, an additional stimulus package was announced on 23 September 2020 to further ease the people's burden and keep businesses afloat. The package, PRIHATIN Supplementary Initiative Package (KITA PRIHATIN), amounting to RM10 billion, will benefit micro SMEs, local workers as well as B40 and M40 groups. In addition, a targeted loan moratorium was extended to businesses and people to ease their financial commitment.

Budget 2021 is the fifth stage of "Revitalise" in the 6R approach, aiming to revitalise post-crisis economic growth. The Budget focuses on four areas – caring for the people, steering the economy, sustainable living and enhancing public service delivery. The final stage of the 6R approach is "Reform", where medium-term strategies to reform the economy will be outlined in the Twelfth Malaysia Plan, 2021 – 2025. These strategies will take advantage of the economic momentum in efficiency and productivity, towards a more sustainable and higher value-added economy (Figure 1.1.3.).

FIGURE 1.1.3. *Measures under the Economic Stimulus Packages*

1. Mitigating Impact of COVID-19 **2. Spurring Economic Growth** **3. Promoting Quality Investment**	**1. Protecting Rakyat** **2. Supporting Businesses** **3. Strengthening Economy**	**Supporting Businessess, especially SMEs**	**1. Empowering *Rakyat*** **2. Propelling Businesses** **3. Stimulating Economy**	**Supporting Micro SMES, Local Workers and People**
Measures (among others): • Support healthcare sector • Cash flow assistance for tourism-related sector	Measures (among others): • Bantuan PRIHATIN Nasional • Wage Subsidy • Automatic six-month loan moratorium • EPF i-Lestari • Cash aid for government servants and pensioners • SME soft loan funds • Corporate loan guarantees	Measures (among others): • PRIHATIN Special Grant for micro SMEs • Wage Subsidy (additional)	Measures (among others): • Wage Subsidy (extension) • Reskilling fund • One-off support to vulnerable groups • Financing and liquidity supports • E-commerce incentives • Tax exemption measures	Measures (among others): • PRIHATIN Special Grant for micro SMEs (new) • Wage Subsidy 2.0 (extension) • Bantuan PRIHATIN Nasional 2.0

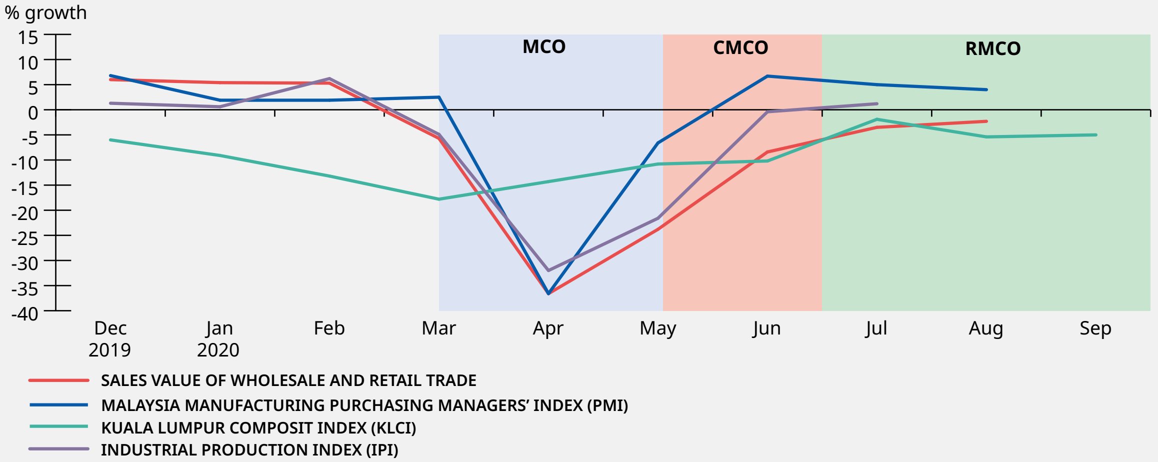
Note: There was a change of Government on 23 February 2020

Source: Ministry of Finance, Malaysia

Economic Impact of COVID-19

Efforts by the Government to revive the economy have proven to be effective as reflected in the improving macroeconomic indicators from the significant decline in the second quarter of 2020 (Figure 1.1.4.). The stimulus packages that consist of fiscal and non-fiscal measures totalling RM305 billion are expected to cushion the crisis and stimulate the economy by boosting aggregate demand and sustaining employment. Internal estimates project that the packages would add to the gross domestic product (GDP) growth by 4.0 – 4.2 percentage points in 2020. The estimated impact on employment is 3.5 percentage points, preventing about 560,000 workers from losing their jobs.[1]

FIGURE 1.1.4. *Short-term Macroeconomic Indicators*



Source: Department of Statistics, Malaysia, Bloomberg and IHS Markit

Conclusion

The timely response by the Government in imposing the MCO to flatten the curve, complemented by swift stimulus packages, has cushioned the impact of the crisis. This success was also supported by the overall strict adherence of the public to the different phases of MCO and SOPs, which was crucial in containing the pandemic. As a result, the economy is expected to improve gradually in the second half of the year, as reflected by various macroeconomic indicators. The stimulus measures have paved the way for a firm economic recovery, subject to successful, continued containment of the pandemic. Being an open economy, the speed and magnitude of Malaysia's full economic recovery are also dependent on the performance of its major trading partners. Nevertheless, the crisis offers businesses the opportunity to reform strategies, expedite digital transformation and reallocate resources to increase efficiency and productivity. Unless and until a vaccine is found and made widely accessible, the war against COVID-19 is not over, and efforts to curb the virus and its impact are still ongoing.

Note:
The third wave of COVID-19 outbreak suddenly emerged and a 14-day CMCO had to be imposed commencing 13 October 2020 in Sabah, 14 October 2020 on three states – Selangor, Federal Territories of Kuala Lumpur and Putrajaya and 17 October 2020 in Federal Territories Labuan, to re-flatten the COVID-19 curve. At the time of printing, the number of positive cases has yet to peak.

---

[1] Based on the Dynamic Computable General Equilibrium (CGE) for the Malaysian Economy (MyAGE) model, Ministry of Finance, Malaysia

Issues and Challenges

As Malaysia intensifies its efforts to unshackle itself from the middle-income trap, it continues to face several challenges. The most pertinent issue following the outbreak of the pandemic is the drastic decline in economic activities, particularly the tourism-related subsectors. The pandemic exacerbated the existing structural problems, such as food insecurity, limited employment opportunities, regional imbalances, lack of focus on sustainable development, the rising cost of living and insufficient affordable housing. In addition, the apparent digital gap between industries and the limitation in the logistics sector continue to hamper economic progress.

Impact of COVID-19 on Tourism-related Subsectors

The tourism industry, with a share of 15.9% of GDP, is one of the main contributors to the services sector in 2019. Domestic tourists contributed RM92.6 billion while international tourists spent RM89.4 billion in 2019. The implementation of the MCO in Malaysia and the closure of international borders to contain the virus outbreak have affected people's movements and activities, particularly in tourism-related sub-sectors. According to Malaysia Association of Hotels, hotel booking cancellations from January 2020 to 20 March 2020 breached over 193,000 rooms, which translates into RM76 million losses in revenue for the industry. At the same time, the hotel occupancy rate dropped from 61.6% in January 2020 to 25% in March 2020. With the gradual recovery of the economy, the accommodation industry started to pick-up with the occupancy reaching 42.1% from 30 August to 5 September 2020. In addition, the Malaysian aviation industry is projected to lose RM13 billion in 2020 as air travel plummeted following international travel restrictions. As it is still uncertain when a vaccine for COVID-19 will be available and made accessible to all, the tourism industry is facing a bleak near-term future.

Food Insecurity

Although the Government continues to focus on the development of the agriculture sector, food insecurity remains an issue. The 2019 Global Food Security Index ranks Malaysia at 28th position, which is lower compared to other nations with lesser natural resources (Economist Intelligence Unit, 2019). Furthermore, the 2019 Self-Sufficiency Ratio (SSR) indicates that Malaysia has yet to be self-sufficient in some of its staple foods (Department of Statistics Malaysia, 2020). For example, in 2019, Malaysia's rice production is sufficient to meet only 70% of domestic demand. Other food items with lower SSR includes sweet potato (81.7%), coconut (68.2%), cabbage (36.2%), mango (32.1%), chilli (30.8%) and ginger (16.2%). Factors contributing to the unattractive supply of staple foods include low wages in the agriculture sector, the prevalence of pests and diseases, lack of technology adoption and low interest among the younger generation in the agriculture sector.

Limited Employment Opportunities

Youth unemployment continues to be an issue, recording double-digit rates even during the overall full employment periods in the economy. The educational mismatch is also prevalent in the labour market, where individuals with tertiary education are employed in the semi-skilled and low-skilled occupations. In 2019, a total of 26.7% of graduates was underemployed mainly due to insufficient jobs in skilled occupations. Malaysia is also heavily reliant on migrant workers, particularly low-skilled foreign workers. At the same time, while the gig economy is gaining prominence, it does not provide gig workers with appropriate social safety coverage.

FEATURE ARTICLE 1.2

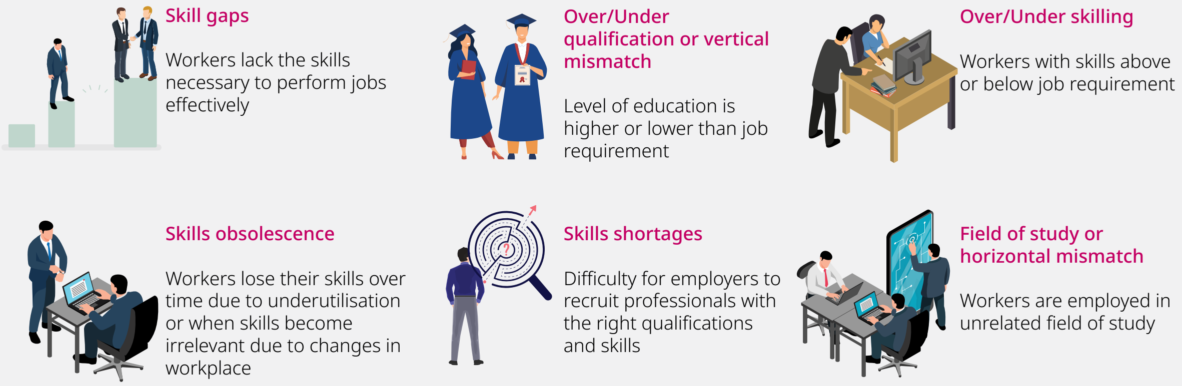
Labour Market Mismatch

Introduction

Education plays a significant part in building human capital. It creates a sufficient pool of educated workforce and is an essential determinant of a high-income and advanced nation. Given its importance, the percentage of Government expenditure on tertiary education has increased significantly from 11.3% of total expenditure on education in 1971 to 21.3%[1] in 2018 (World Bank, 2020) to support this aspiration. The Private Higher Educational Institutions Act 1996 [Act 555] was also introduced to further complement the effort to increase access to tertiary education. This investment has resulted in millions of knowledge workers with tertiary[2] education entering the labour market.

On the demand front, the unemployment rate is a common proxy to measure the health of the labour market. While a low unemployment rate is an ideal situation, it can hide other aspects such as underemployment or a mismatch. In general, underemployment[3] or mismatch refers to the underutilisation of workers' education and skills (Figure 1.2.1.). Malaysia's achievement in maintaining the economy at full employment level since 1992 is commendable. However, there are concerns on whether the investment in education has achieved the desired outcome, given the current high incidence of underemployment or mismatch, particularly among graduates.

FIGURE 1.2.1. *Types of Skill Mismatch*



Skill gaps

Workers lack the skills necessary to perform jobs effectively

Over/Under qualification or vertical mismatch

Level of education is higher or lower than job requirement

Over/Under skilling

Workers with skills above or below job requirement

Skills obsolescence

Workers lose their skills over time due to underutilisation or when skills become irrelevant due to changes in workplace

Skills shortages

Difficulty for employers to recruit professionals with the right qualifications and skills

Field of study or horizontal mismatch

Workers are employed in unrelated field of study

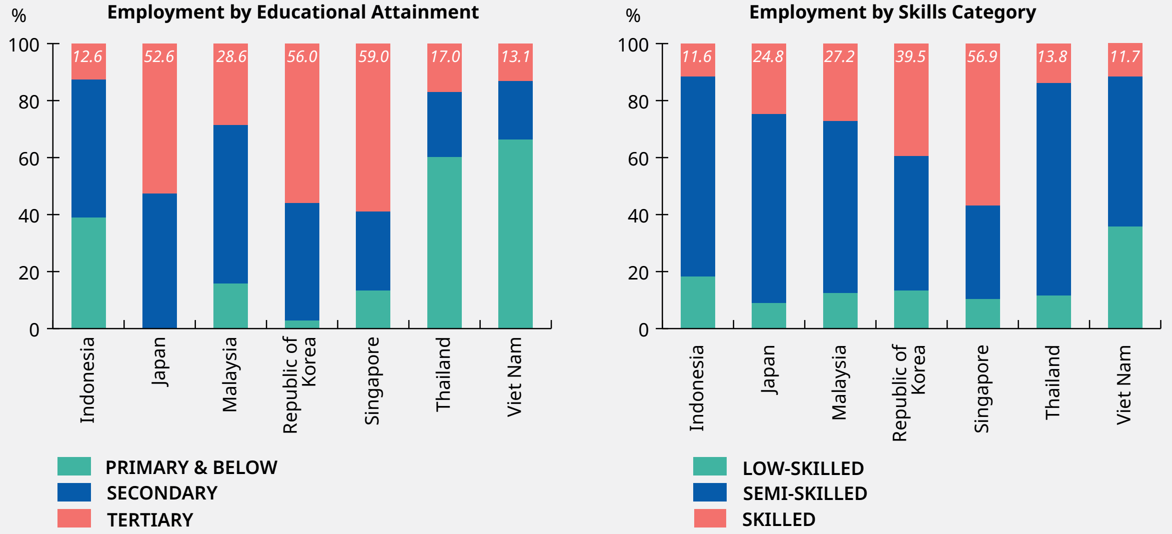
Source: International Labour Organisation, 2015

Underemployment or educational mismatch remains a common long-standing structural issue in many countries, including Malaysia. This can be seen from the occupational trend analysis, which reveals that the share of employment with tertiary education is larger than employment in the skilled category (Figure 1.2.2.). Over qualification mismatch in the labour market sends a signal that returns on investment in education were not optimised as workers were not fully absorbed by the labour market. This article provides an analysis of the current scenario of mismatches in Malaysia's labour market, particularly among graduates and youths, and proposes measures to reduce the mismatches. It also suggests recommendations regarding employment prospects following the COVID-19 pandemic that can be leveraged as an option for job seekers.

---

[1] Excludes private expenditure in education, where the sector was liberalised in 1996.
[2] According to the International Labour Organisation (ILO), tertiary educated refers to graduates with diplomas and above.
[3] ILO defines time-related underemployment as a situation in which a worker is employed for less than 30 hours per week.

FIGURE 1.2.2. *Employment by Education and Skills for Selected Countries, 2018*

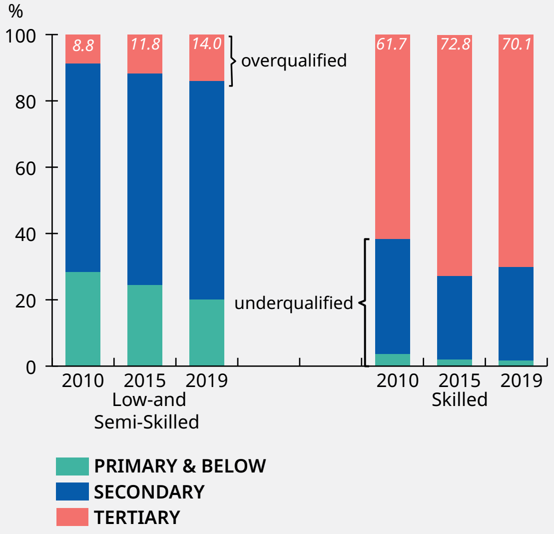


Note: Employment for population aged 15-64
Source: International Labour Organisation, 2018

Situational Analysis

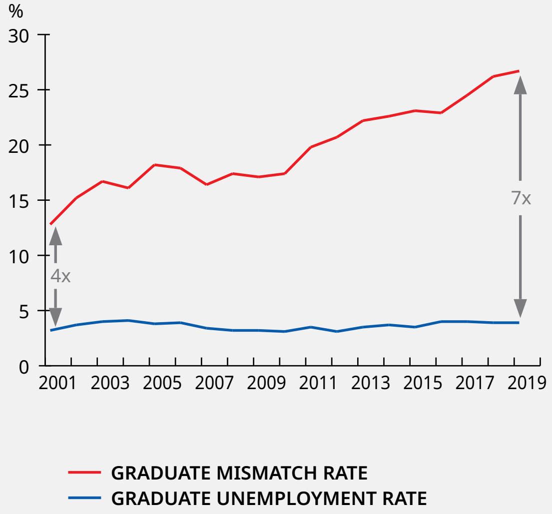
Occupational analysis in Malaysia for the period 2010 to 2019 indicates the existence of the continuous phenomenon of the educated workforce being employed in the lower occupational category (Figure 1.2.3.). The scenario, which is also commonly referred to as a vertical mismatch, reflects that graduates are accepting jobs despite being overqualified.

FIGURE 1.2.3. *Employment by Education and Skills in Malaysia, 2010 – 2019*



Source: Department of Statistics and Ministry of Finance, Malaysia

FIGURE 1.2.4. *Graduate Mismatch vs Graduate Unemployment*



Source: Department of Statistics and Ministry of Finance, Malaysia

The difficulty of the workforce in finding suitable jobs that match their qualifications and skills is due to the shortcomings in the labour market capacity. The phenomenon has been ongoing for some time, thus contribute to rising graduate unemployment (Malaysia Employer's Federation, 2019). While the graduate unemployment rate remained relatively stable, between 3.1% to 4.1%, the graduate mismatch rate has more than doubled between 2001 and 2019 (Figure 1.2.4.).

The increasing rate of mismatch is a concern as more graduates are working in the semi- and low-skilled categories. The 2019 Graduates Tracer Study by Ministry of Higher Education (MOHE) also indicates that 30.6% of the respondents with tertiary education were underemployed. In the incidence of horizontal mismatch, Zakariya, Z. (2014) reveals that 52% of workers were employed in jobs that are not related to their field of study.

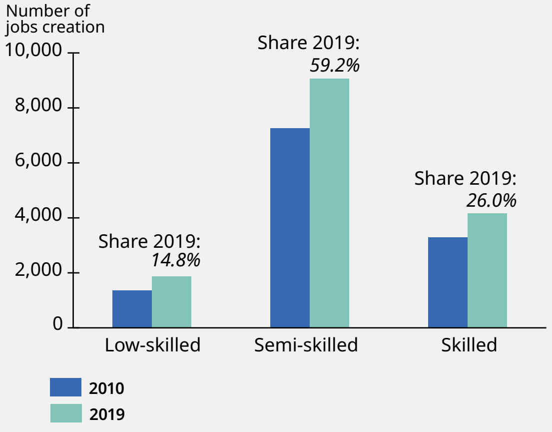
Reasons for Mismatch

The main contributing factor for the mismatch is due to limited jobs in the market to meet the increasing number of labour supply, including new graduates. Today, having a university degree does not guarantee a job. With the rising number of graduates every year, the labour market has become very competitive, especially when there is economic uncertainty. Consequently, the job seeker is left with no option but to accept being underemployed.

For almost a decade, there were more than three million new jobs created in the economy. However, job creation has remained concentrated in low- and semi-skilled jobs. From the total new jobs created during the period, only 26% were in the skilled category while the remaining 74% were in the low- and semi-skilled categories (Figure 1.2.5.).

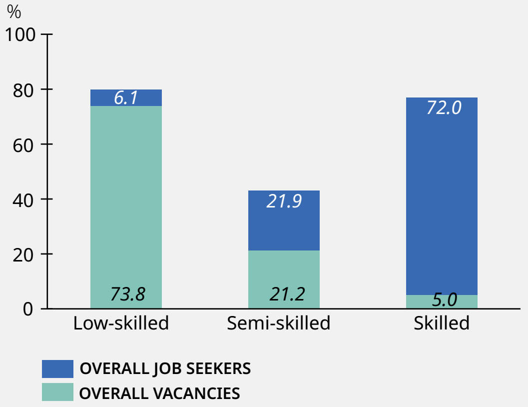
As at December 2019, out of 62,400 vacancies in the market, only 5% were for skilled workforce. In contrast, from a total of 299,600 job seekers, 72% were graduates, of whom more than half were fresh graduates with less than one-year experience (Figure 1.2.6.). The 2019 Graduates Tracer Study highlights that 13.7% of graduates were still unemployed six months after completing their studies. They were mainly graduates from education; arts and humanities; as well as agriculture and veterinary.

FIGURE 1.2.5. *Jobs Created by Skills*



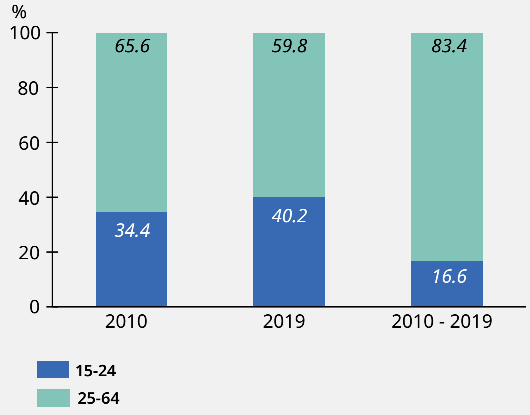
Source: Department of Statistics and Ministry of Finance, Malaysia

FIGURE 1.2.6. *Vacancies and Job Seekers, 2019*



Source: Ministry of Finance and Ministry of Human Resources, Malaysia

FIGURE 1.2.7. *Jobs Created by Age Cohort*



Source: Department of Statistics and Ministry of Finance, Malaysia

From the perspective of new jobs created by age cohort, only 16.6% of jobs created were for youths aged 15 – 24 (Figure 1.2.7.). Whereas, data on job seekers showed that 78.9%[4] of the total active job seekers were youths. This indicates that jobs were mostly created for the adult cohort, hence the continuous double-digit youth unemployment rate in the past two decades. These scenarios also attest that there were insufficient jobs created in the market to absorb the increasing demand from job seekers, especially graduates.

Advancement of technology is another reason for the mismatch. According to Kaufman (1974), technological progress has led to skill obsolescence, where professionals lack up-to-date knowledge or skills to maintain effective performance in their jobs. While it is true that technological changes can improve or deteriorate skills mismatch, there is significantly a greater number of ways in which such changes lead to negative implications on employment (Allen & de Grip, 2012).

Another reason that pushes many individuals to accept mismatch and lower-quality jobs is due to the geographical factor. Employees' disposition to move to another job or position is very much linked with location and commuting issues which results in work-life balance (Direnzo et al., 2015; Lambert et al., 2005). In the case of Malaysia, Khazanah Research Institute (2018) highlights that 19% of their respondents rejected job offers due to inconvenient locations. This may be partially contributed by the increasing cost of living in urban areas that discouraged new graduates from accepting job offers, even with higher pay.

Impact of Mismatch

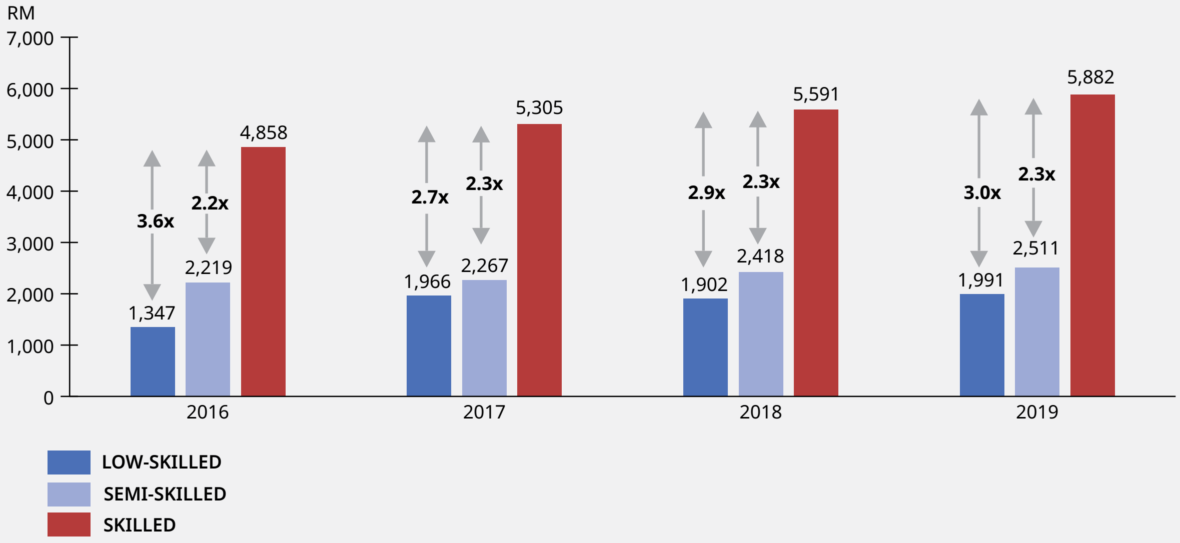
Skills mismatch can impact workers' well-being in several ways. It has led workers to receive a lower pay as compared to what they deserve. According to the 2019 Graduates Statistics report, salaries obtained by graduates working in the low- and semi-skilled categories were 3.0 times and 2.3 times lower than that of graduates working in the skilled category (Figure 1.2.8.). When skilled individuals work in a lower-skilled category, not only they are underpaid, their potential is under-exploited, leading to lower productivity. Labour mismatch is one factor that may contribute to cross-country differences in labour productivity.

Studies indicate that greater skills mismatch is associated with lower labour productivity through less efficient allocation of resources. Skills mismatch is also known to be correlated with low job satisfaction as a result of unequal wage-earning, underutilisation of skills and fear of job insecurity. Ogbonnaya et al. (2017) reports that overqualified employees are more likely to feel they are being tasked for more work due to their education but are given low wages. This decreases their job satisfaction.

---

[4] Based on December 2019 active job seekers.

FIGURE 1.2.8. *Mean Monthly Salary for Graduates by Skills Category, 2016 – 2019*



Source: Department of Statistics, Malaysia

Recommendations

If Malaysia is to harness the full potential of its human capital, the persistence of skill mismatches in the labour market must be addressed. All stakeholders, including industries, learning institutions and Government agencies, need to closely collaborate to tackle the issue, both from the supply and demand-side perspectives. Labour market capacity to provide sufficient jobs is limited unless and until the production structure of industries undergoes a rapid transformation into high-end production as envisaged in the industrial master plans. In such a situation, self-employment can be a viable option for job seekers. Initiatives should be focused on generating more job creators through entrepreneurship opportunities. As entrepreneurs generally face difficulties in securing loans, financial institutions and relevant agencies may facilitate entrepreneurs applying for soft-loans or matching grants and other business support programmes.

The issue of job opportunities has gained more attention during the COVID-19 outbreak when retrenchment surged during the first half of 2020 as compared to the same period last year. As most of economic activities were not allowed during the Movement Control Order (MCO), many workers were laid off. Nevertheless, some industries had benefitted, especially online retail and delivery services. There was an increase in the number of marts and restaurants migrating to the digital platforms to facilitate the people who were unable to leave their homes while adhering to the MCO. Similarly, recruitment for food delivery workers and ride-hailing drivers also increased to cater for the spike in demand for delivery services during the MCO period. In this case, technology plays a vital role as the enabler to make online marketplaces accessible.

The COVID-19 pandemic has also brought changes to the employment landscape from traditional full-time employment to short-term and more flexible employment. Gig works have become predominantly important to the economy, and gig workers are likely to have better income prospects. A survey on the ride-hailing workers also reported that 54% of respondents indicated that gig jobs is their primary source of income (The Centre, 2019). The result has shown that online platform should be strengthened to facilitate these gig workers and online entrepreneurs.

Nevertheless, there is a strong ground for having a more comprehensive social safety net in place, especially given the growing number of gig workers. Unlike paid employees, many of the self-employed, including gig workers, are lacking access to social security protection, such as insurance benefits and pensions, and are not covered by labour legislation. There is also the potential for a transition from standard employment to business-digitalisation related activities, implying that the vulnerable workers should be provided with sufficient and structured safety net. As an immediate strategy, all self-employed, including gig workers, should make a mandatory contribution to social security protection under the Self-Employment Social Security Act 2017 [Act 789]. This will entitle them to receive assistance, especially during unprecedented economic downturns.

From the labour supply perspective, education and training institutions need to have more and closer collaboration with industries to determine the type of skills that suits companies requirement in the future. In-house assessment by individual employers is required to develop the retraining and upskilling programmes needed by their employees to minimise the mismatch. This will lead to better wages for the employees, and indirectly, can eventually address both the mismatch and low-wage issues.

Conclusion

Over the years, underemployment or mismatch continues to be persistent in the Malaysian labour market despite strategies to balance between labour supply and demand. The lack of job creation, particularly for skilled occupations, seems to be the main contributing factor to the phenomenon. A prolonged mismatch indicates that the potential of the educated workforce has not been fully optimised for economic growth, thus limiting the nation’s economic potential. Self-employment or gig job opportunities should be promoted as the career of choice for job seekers, given the growing importance of the gig economy. Thus, structured and comprehensive regulations and social safety net need to be in place to safeguard the workers’ well-being, especially during economic downturns.

Regional Imbalances

As Malaysia progresses towards a high-income and developed nation, the problem of regional development imbalance persists. According to the Department of Statistics Malaysia (2020), Malaysia’s average GDP per capita in 2019 was RM46,450. While the more developed states continue to record above-average per capita income, the income gap among states remains. For instance, Sabah’s income per capita was 45.5% below the national average, and that of Kedah and Kelantan was at 51.8% and 69.2%, respectively.

It is also reported that in 2019, Wilayah Persekutuan Kuala Lumpur and Wilayah Persekutuan Putrajaya recorded the lowest poverty rates of 0.2% and 0.4% of households, respectively. In comparison, states such as Sabah and Kelantan recorded significantly higher poverty rates of 19.5% and 12.4%, respectively. This illustrates a pronounced disparity in economic development among states in Malaysia.

Lack of Alignment between Environmental Sustainability and Sustainable Development

Efforts to ensure environmental sustainability need to be aligned with the sustainable development agenda. Unsustainable consumption and production practices as well as lack of shared responsibility among stakeholders, continue to impact the well-being of the *rakyat*. For example, water disruptions in the Klang Valley as a result of river pollutions in Selangor had not only social but also economic impact, affecting both the households and businesses alike. The implementation of the MCO to contain the COVID-19 pandemic has indirectly contributed to better air and water quality. Nevertheless, this situation is likely to be temporary as it will continue to be business as usual when economic activities recover. However, this situation can still be maintained if all parties were to realise and take responsibility for ensuring environmental sustainability accompanied by comprehensive enforcement action.

At the international level, Malaysia has adopted the 2030 Sustainable Development Agenda, which outlines 17 Sustainable Development Goals (SDGs). Malaysia needs to establish a comprehensive mechanism to measure and monitor the development and progress of the SDGs to ensure it covers the overall financing dimension in attaining SDGs. For example, development allocation is mainly categorised according to ministries and agencies and are more focused on projects and programmes. As such, there is a need to realign budget allocations to the SDGs to ensure the achievement of national indicators, targets and goals.

INFORMATION BOX 1.1

Mapping the UN Sustainable Development Goals onto the National Budget

Introduction

All member states of the United Nations (UN) adopted the UN 2030 Agenda for Sustainable Development (2030 Agenda) in 2015, and the 17 Sustainable Development Goals (SDGs) are to be achieved by the year 2030. The SDGs, among others, aim to end all forms of poverty, fight against inequalities, create peace, tackle urgent environmental issues and ensure that no one is left behind. The success of the global initiative requires concerted efforts by member states to ensure that related plans, programmes and projects at national levels are geared towards achieving these goals within the stipulated timeline.

Sustainable and inclusive development has always been the mainstay of Malaysia's development since the 1970s. Economic growth has always been emphasised by the Government. At the same time, various initiatives have been implemented to eradicate poverty, improve the well-being of the people, provide universal access to education and health and protect the environment. The Eleventh Malaysia Plan, 2016 – 2020 (11MP), continued to pursue sustainable development based on three main goals, namely achieving a high-income economy, promoting inclusivity and ensuring sustainability. In line with the 2030 Agenda, all the SDGs were subsequently incorporated into all initiatives under the 11MP to ensure alignment between national objectives and SDGs as well as for sufficient resource allocation and proper monitoring. As the implementation of various programmes and projects will be supported by the annual allocation, this article highlights the efforts taken by Malaysia towards mapping the SDGs in the annual budget (Figure 1.1.1.).

FIGURE 1.1.1. *Sustainable Development Goals*

Source: United Nations, 2015

National Budgetary Process

The 2015 UN Addis Ababa Action Agenda (Action Agenda) provides a global framework for financing sustainable development, which supports the implementation of the 2030 Agenda, including the SDGs. The Action Agenda aligns all domestic and international resource flows, policies and international agreements with economic, social and environmental priorities. The specific action areas of the Action Agenda are:

- Domestic public resources;
- Domestic and international private business and finance;
- International development cooperation;
- International trade as an engine for development;
- Debt and debt sustainability;
- Addressing systemic issues; and
- Science, technology, innovation and capacity building.

With the SDGs fully aligned to the initiatives and targets of the 11MP, development expenditure (DE) has been allocated to support both national objectives and the SDGs. However, for the annual budget allocation, a mechanism has yet to be established to monitor the progress of the allocations to support the SDGs comprehensively and more frequently. The 2021 Budget will be the base to align its annual budget to the SDGs, beginning with the DE’s allocation.

At the Federal level, the yearly budget is determined through several processes involving engagement with ministries and central agencies such as the Economic Planning Unit. These include dissemination of guidelines in preparing the estimated budget for the following year to all ministries and agencies, receipt of proposals from all ministries and agencies by the Ministry of Finance, followed by budget screening by respective budget review officers. The next process involves approval by the Cabinet before presentation and debate in Parliament. After the budget is approved by Parliament and consented by Seri Paduka Baginda Yang di-Pertuan Agong, the General Warrant is issued. This allows expenditures in the budget to be spent on various programmes and projects.

Mapping the SDGs onto the Programmes and Projects in the Annual Budget

There are many ways in which countries adopt the SDGs into their national budgeting process. According to Hege & Brimont (2018), there are four approaches to achieve this: improving the budget proposal narrative; mapping and tracking the budgetary contribution to the SDGs; using SDGs as a management tool for negotiations; and improving budget performance evaluation. This article focuses on mapping Malaysia's annual budget through the lens of the SDGs as an initial effort to improve its alignment to the SDG financing for development framework.

At this juncture, the *ex post* mapping exercise is focused on the actual spending on all development projects for two ministries, the Ministry of Energy and Natural Resources (KeTSA) and the Ministry of Environment and Water (KASA) for budget year 2019[1] in comparison with that for the Ministry of Energy, Green Technology and Water (KeTTHA) and the Ministry of Natural Resources and Environment (NRE) for budget year 2015[2]. In terms of methodology, each project was first assigned to the respective SDGs. For example, the project of upgrading of the Congok Dam in Mersing in 2019 was aimed at resolving water woes in the area. Therefore, its DE was classified as supporting SDG6, which is to attain Clean Water and Sanitation. However, the main challenge arises if a project could support the attainment of more than one SDG. For example, the project of management and conservation of forest reserve can contribute towards attaining two SDGs, namely SDG13 on Climate Action and SDG15 on Life on Land.

There were 361 projects worth RM3.2 billion in 2019 under the responsibility of the two ministries, compared with 272 projects worth RM2.9 billion in 2015. As the two ministries are mainly responsible for the sustainability, the DE of the ministries would naturally support the SDGs directly related to sustainable energy, utilities, environment and natural resources. So, it is not surprising that almost 90% of their DE supported SDGs 6, 7, 11 and 13 for both years. However, expenditure on four SDGs which were directly under the purview of the ministries was relatively lower compared to the SDGs of 6, 7, 11 and 13. The another four SDGs are Responsible Consumption and Production (SDG12), Life Below Water (SDG14), Life on Land (SDG15) and Partnerships for the Goals (SDG17). It is interesting to note that DE allocation for the two ministries was provided, albeit in smaller magnitudes, to other SDGs not directly related to sustainability. This proves that the SDGs are very much inter-related with each other and should not be treated in a silo. Therefore, there is still room for improvement in mapping SDGs covering all ministries and the private sector (Table 1.1.1. and Figure 1.1.2.).

---

[1] Year 2019 was chosen to reflect the most recent actual year of expenditure.

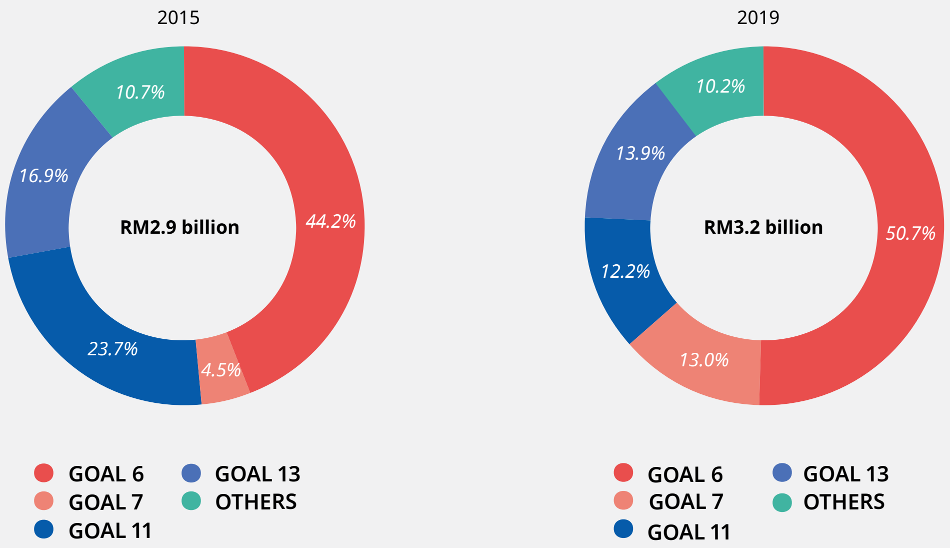
[2] Year 2015 was chosen as the base reference year when 2030 Agenda was first signed by all countries. The portfolios for KeTTHA and NRE were reassigned to KASA and KeTSA, respectively.

TABLE 1.1.2. *Development Expenditure for KeTTHA and NRE in 2015, and for KASA and KeTSA in 2019 by SDG*

SUSTAINABLE DEVELOPMENT GOAL		2015		2019	
		RM MILLION	% TOTAL	RM MILLION	% TOTAL
Goal 1	No Poverty	0.00	*0.00*	0.00	*0.00*
Goal 2	Zero Hunger	0.00	*0.00*	0.00	*0.00*
Goal 3	Good Health and Well-Being	2.03	*0.10*	0.03	*0.00*
Goal 4	Quality Education	0.25	*0.00*	2.86	*0.10*
Goal 5	Gender Equality	0.00	*0.00*	0.00	*0.00*
Goal 6	Clean Water and Sanitation	1,303.45	*44.20*	1,608.68	*50.70*
Goal 7	Affordable and Clean Energy	132.20	*4.50*	411.16	*13.00*
Goal 8	Decent Work and Economic Growth	0.38	*0.00*	2.30	*0.10*
Goal 9	Industry, Innovation and Infrastructure	51.86	*1.80*	39.89	*1.30*
Goal 10	Reduced Inequalities	0.00	*0.00*	0.00	*0.00*
Goal 11	Sustainable Cities and Communities	697.32	*23.70*	385.50	*12.20*
Goal 12	Responsible Consumption and Production	29.04	*1.00*	117.42	*3.70*
Goal 13	Climate Action	496.55	*16.90*	441.45	*13.90*
Goal 14	Life Below Water	35.08	*1.20*	7.12	*0.20*
Goal 15	Life on Land	52.20	*1.80*	87.75	*2.80*
Goal 16	Peace, Justice and Strong Institutions	12.65	*0.40*	31.32	*1.00*
Goal 17	Partnerships for the Goals	133.09	*4.50*	35.66	*1.10*
Total		**2,946.08**	***100.00***	**3,171.13**	***100.00***

Note: 1 DE for projects contributing to more than one SDG is divided equally *ex post* with the number of respective SDGs
2 Total may not add up due to rounding
Source: Ministry of Finance, Malaysia

FIGURE 1.1.2. *Development Expenditure for KeTTHA and NRE in 2015 and for KASA and KeTSA in 2019 by SDG*



Source: Ministry of Finance, Malaysia

Moving Forward

The *ex post* mapping of DE to the respective SDGs in the annual budget of the two ministries is just a beginning. The next step is to replicate the same exercise across all ministries, where the final aim is to identify gaps in the implementation of the SDGs. This can then be a useful guide to fill the gap from various sources of financing. The methodology of ascertaining *ex post* which programme or project supports which SDG needs to be further refined. In addition, the mapping of the DE to various SDGs needs to be further improved by central agencies and ministries, especially in cases where programmes and projects support more than one SDG. For effective monitoring, the respective public project monitoring systems will have to be enhanced to allow *ex ante* SDG tagging codes on all programmes and projects. Thus, at the start of the budgeting process, each programme and project proposal will have its own SDG tag which allows subsequent *ex post* classification easier. In addition, efforts to increase awareness of SDG-aligned budgeting process and enhance capacity building among public servants to embed SDGs in their budget considerations will be necessary.

Conclusion

As Malaysia has taken on board the main elements of the sustainability and inclusivity in its development strategies since the 1970s, embedding the SDGs in its development planning process was an easier task. However, continuous efforts need to be undertaken including establishing a comprehensive financing framework that encompasses various forms of financing and meet the needs of stakeholders to ensure fair and equitable resources are allocated, overlaps are minimised, and gaps are addressed towards the attainment of the SDGs. While Malaysia's five-year development plans have now been fully aligned to the SDGs, efforts are underway to ensure its annual budget will also be so. In addition, there is clearly room for other stakeholders, especially the private sector and non-governmental organisations to be contributors to SDG-related initiatives. Efforts are also in place to establish appropriate mechanisms to enable more of such financing.

Rising Cost of Living

Achieving a developed, high-income, and an inclusive nation must be accompanied with higher purchasing power. Unfortunately, the rising cost of living remains a critical concern among the *rakyat,* particularly the low-income group. From 2016 to 2019, the Consumer Price Index rose by 1.8% while the median household income increased by 3.9%. The World Bank (2019) reports that although the median income continued to outpace inflation, the income growth for low-income Malaysians slowed between 2014 and 2016. The report also highlights the disparity in purchasing power of households in different parts of the country. Poor financial planning, growth in household indebtedness and unaffordable housing are among the key factors affecting the cost of living. Furthermore, the mean income of the top 20% (T20) and the bottom 40% (B40) of households widened from RM8,679 in 2009 to RM15,354 in 2019. This signifies the widening of the income gap between the two groups.

Insufficient Affordable Housing

By any standards, home ownership in Malaysia can be considered high at 76.9% of households in 2019. Nevertheless, affordable housing remains a concern despite various affordable housing programmes being implemented, complemented by the provision of financing facilities for affordable housing as well as rental and rent-to-own housing programmes. Khazanah Research Institute (2019) reported that the median multiple[1] affordability for Malaysia increased from 4.1 to 5.0 from 2002 to 2016. According to the World Bank (2019), the median multiple of more than 3.0 is considered unaffordable. This indicates that house prices in Malaysia are generally unaffordable, mainly due to house prices rising faster than income growth. The median house price from 2012 to 2014 rose at a compound annual growth rate of 23.5%, while the median household income expanded significantly slower at 11.7% (Khazanah Research Institute, 2019). Since 2014, house prices have moderated following the measures undertaken by the Government. However, houses remain unaffordable for the majority of the *rakyat*.

FEATURE ARTICLE 1.3

Assessing Housing Affordability in Malaysia

Introduction

Home ownership continues to be a concern for most of the rakyat, particularly those in the B40 and lower M40 households. The Government has undertaken various efforts to ensure greater home ownership for the rakyat, particularly the lower-income group through various affordable housing programmes. Affordable housing can be defined as the provision of adequate homes that meets the needs of the people in terms of quality and location as well as reasonably priced, whereby house buyers will still have discretionary income to purchase other basic necessities (UN-Habitat, 2011). This article analyses housing affordability in Malaysia based on the 2019 Household Income and Basic Amenities Survey (HIS & BA).

Home Ownership and Trends of Household Income and House Prices in Malaysia

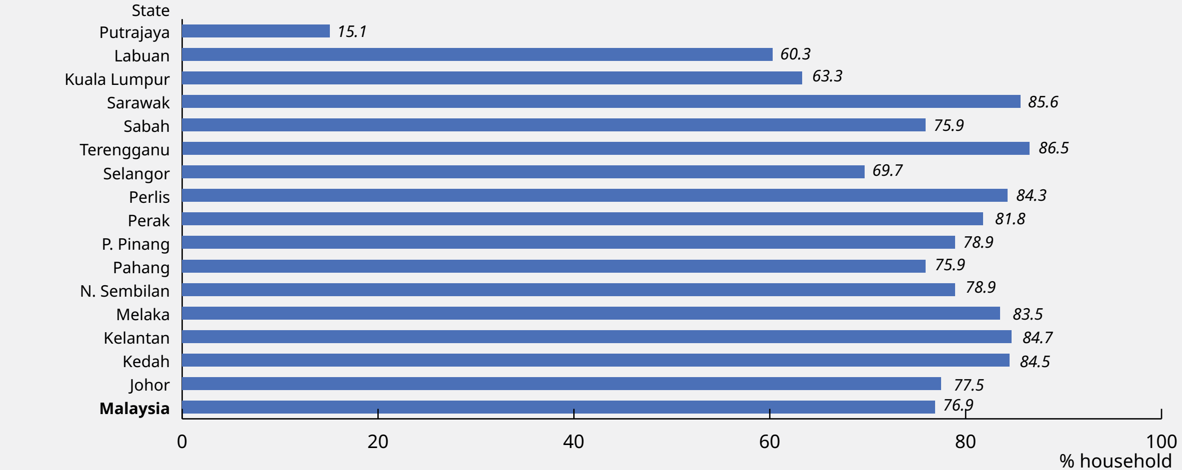
Based on the HIS & BA report, home ownership has marginally improved between 2016 and 2019. In 2019, 76.9% of households owned their homes compared to 76.3% in 2016. At this rate, home ownership in Malaysia can be considered as high by any standards, especially when Malaysia does not have a universal home ownership policy (Figure 1.3.1.). In this regard, Malaysia compares well with other advanced countries such as Canada at 66.3%, US (65.3%), UK (65.2%) and South Korea (56.8%).

Nevertheless, there is some disparity in home ownership among states in Malaysia. States with high ownership of above 84% include Terengganu, Sarawak, Kelantan, Kedah and Perlis. However, home ownership was lower than 76% in Labuan, Kuala Lumpur, Selangor, Sabah and Pahang.

---

[1] Median multiple, also known as house-price-to-income ratio, is the ratio of the median house price by the median annual gross household income.

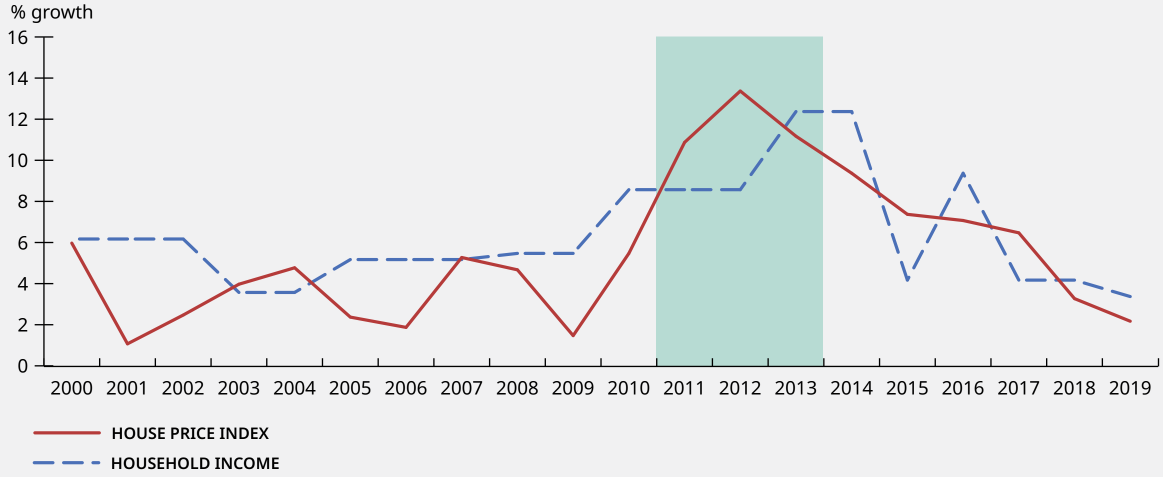
FIGURE 1.3.1. *Home Ownership in Malaysia by States, 2019*



Note: Putrajaya has a low home ownership rate as the majority of houses are quarters for civil servants
Source: Department of Statistics, Malaysia

Regarding the trend of house prices and household incomes, it is evident that prices of houses rose slower at 3.4% on average than that of household incomes at 5.2% during the period of 2001 – 2009 (Figure 1.3.2.). However, house prices rose in double digits by 11.8% compared to household income at 9.9% during the period of 2011 – 2013. The drastic increase during the period has generally rendered many types of houses unaffordable to many segments of the people. To address the drastic increase in house prices, the Government instituted several measures to manage both the demand and supply of houses. Subsequently, the impact of these measures can be seen from the slower rise in house prices at 6% for the period of 2014 – 2019, slightly lower than the rate of increase in household income at 6.3% on average.

FIGURE 1.3.2. *The Trend of House Prices and Household Income, 2000 – 2019*



Source: Department of Statistics and National Property Information Centre, Valuation and Property Service Department, Malaysia

Measurement of Affordability

In assessing home affordability, policy makers and researchers have relied on short-term measures such as the median[1] multiple ratio which compares house prices with current incomes. This article applies a similar model. Based on the definition by the World Bank, a home is considered affordable if the median multiple score is 3.0 or less (Table 1.3.1.). It is considered moderately unaffordable for scores of between 3.1 and 4.0, seriously unaffordable (4.1 to 5.0) and severely unaffordable (5.1 and above).

TABLE 1.3.1. *Housing Affordability Median Multiple Score*

SCORE[2]	DESCRIPTION
3.0 or less	Affordable
3.1 – 4.0	Moderately unaffordable
4.1 – 5.0	Seriously unaffordable
5.1 and above	Severely unaffordable

Source: Global Platform for Sustainable Cities (2019), World Bank

Home affordability has generally improved in Malaysia in the last few years. The overall median house price had fallen by 1% annually on average from RM298,000 in 2016 to RM289,646 in 2019 (Table 1.3.2.). During the same period, the annual median household income had risen by 4% annually from RM62,736 in 2016 to RM70,476 in 2019. Thus, the median multiple score dropped to 4.1 in 2019 compared to 4.8 in 2016. Although it has gradually decreased, the 2019 ratio implies that homes remained seriously unaffordable in general. Nevertheless, the median multiple score may differ across income groups, types of property and states.

Home Affordability by States

It is interesting to note that home affordability has generally improved even at the state level between 2016 and 2019. In 2016, homes in five states (Putrajaya, Sabah, Kelantan, Pulau Pinang and Pahang) were considered severely unaffordable. By 2019, homes in only two states (Sabah and Sarawak) remained so. Likewise, in 2016 homes in nine states were considered seriously unaffordable, but by 2019 homes in only four states were in the same category. Houses in eight states were considered moderately unaffordable in 2019 compared to just two states in 2016. While there were no states categorised as affordable based on the median multiple scores in 2016, houses in two states (Melaka and Putrajaya) were considered affordable in 2019.

A further analysis was conducted on the affordability of homes for the B40 group to own three types of residential houses, namely low-cost flats[3], low-cost houses and flats[4] across states. The same analysis was conducted on the affordability of the M40 group to own flats, condominiums or apartments and terrace houses. The selection of states for the analysis is based on the following criteria: the highest median house price (Kuala Lumpur), the highest median multiple score (Sabah) and the most populous state (Selangor).

---

[1] The median statistic is preferred over the mean as household incomes and house prices variables are typically skewed to the right (positive skewness) such that their mean are typically above their median, thus not representing the population.

[2] Median multiple score = Median price of houses / Median annual household incomes

[3] Refers to an affordable housing unit that is self-contained but is part of a larger building with larger units and is low-priced.

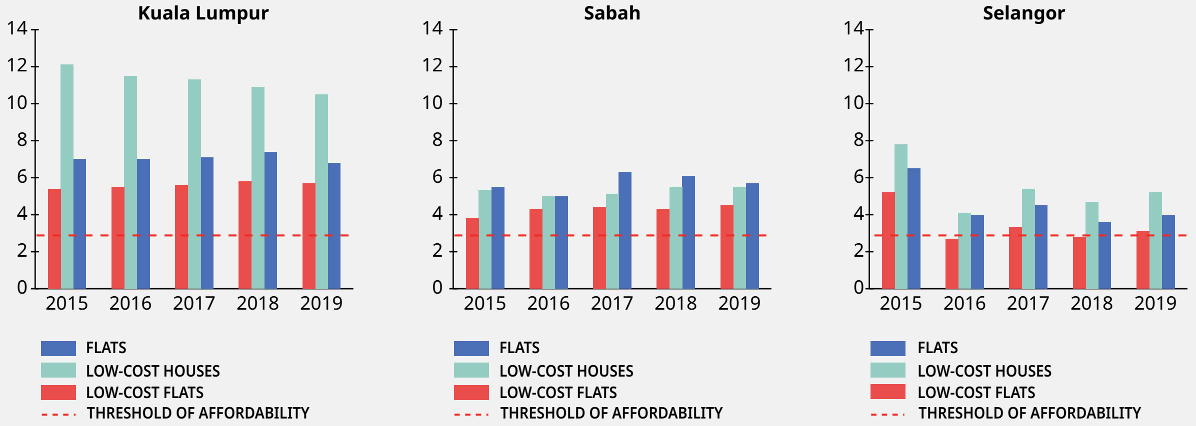
[4] Refers to an affordable housing unit that is self-contained but is part of a larger building with larger units and is priced lower than condominiums or apartments.

TABLE 1.3.2. *Housing Median Multiple Score by States, 2016 and 2019*

STATE	MEDIAN HOUSE PRICE		MEDIAN INCOME[1]		MEDIAN MULTIPLE SCORE		LEVEL OF AFFORDABILITY 2019
	2016	2019	2016	2019	2016	2019	
Malaysia	**298,000**	**289,646**	**62,736**	**70,476**	**4.8**	**4.1**	**Seriously unaffordable**
Johor	330,000	350,000	67,818	77,124	**4.9**	**4.5**	Seriously unaffordable
Kedah	196,000	199,100	45,726	51,900	**4.3**	**3.8**	Moderately unaffordable
Kelantan	199,900	210,000	36,944	42,756	**5.4**	**4.9**	Seriously unaffordable
Melaka	205,000	200,000	67,061	72,648	**3.1**	**2.8**	Affordable
Negeri Sembilan	270,000	206,750	54,950	60,060	**4.9**	**3.4**	Moderately unaffordable
Pahang	239,000	218,000	47,752	53,280	**5.0**	**4.1**	Seriously unaffordable
Pulau Pinang	350,000	285,000	64,909	74,028	**5.4**	**3.8**	Moderately unaffordable
Perak	218,800	216,600	48,072	51,276	**4.6**	**4.2**	Seriously unaffordable
Perlis	227,000	220,000	50,444	55,128	**4.5**	**4.0**	Moderately unaffordable
Selangor	405,000	380,000	86,695	98,520	**4.7**	**3.9**	Moderately unaffordable
Terengganu	278,000	255,000	56,330	66,540	**4.9**	**3.8**	Moderately unaffordable
Sabah	278,000	300,000	49,325	50,820	**5.6**	**5.9**	Severely unaffordable
Sarawak	230,000	313,000	49,960	54,528	**4.6**	**5.7**	Severely unaffordable
Kuala Lumpur	520,000	480,000	108,874	126,588	**4.8**	**3.8**	Moderately unaffordable
Labuan	240,000	320,000	71,138	80,712	**3.4**	**4.0**	Moderately unaffordable
Putrajaya	738,650	260,000	99,300	119,796	**7.4**	**2.2**	Affordable

Note: [1] Annual median household income is calculated based on monthly median household income multiplied by 12 months based on data from the Department of Statistics Malaysia, 2019
Source: Ministry of Finance, Malaysia (estimate)

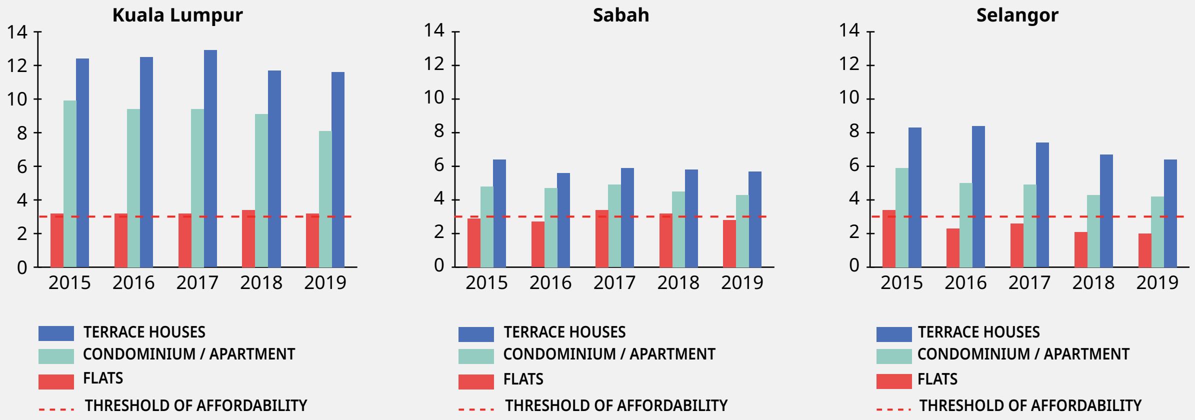
FIGURE 1.3.3. *Median Multiple Scores for B40 by Types of Houses in the Selected States, 2015 – 2019*



Source: Ministry of Finance, Malaysia (estimate)

Based on the analysis, it was observed that during the period of 2015 – 2019, the B40 group in Kuala Lumpur has been facing severe unaffordability issue for all three types of housing properties (Figure 1.3.3.). In fact, the median multiple scores for all types of properties remained high above 5.0 throughout the period. Similarly, in Sabah, the B40 group faced similar affordability issue with owning the same types of properties over the same period. However, the severity of unaffordability in Sabah was not as severe as in Kuala Lumpur. Selangor has resolved the issue of unaffordability for the B40 group with low-cost flats since 2016. Nevertheless, the B40 group would find it challenging to upgrade to the other types of housing properties in the state.

FIGURE 1.3.4. *Median Multiple Score for M40 by Types of Houses in the Selected States, 2015 – 2019*



Source: Ministry of Finance, Malaysia (estimate)

The issue of housing unaffordability remained severe among the M40 in the three states during the period of 2015 – 2019 (Figure 1.3.4.). In Kuala Lumpur, the M40 could only afford flats. However, they were not qualified to do so under the public low-cost housing programmes. Even worse, the other two types of properties were beyond their affordability as the median multiple scores for condominiums or apartments and terrace houses were 8.0 and above. The situation in both Sabah and Selangor was similar to Kuala Lumpur. However, the severity of the unaffordability was not as extreme as that in the nation's capital. The M40 in both states could only afford low-cost flats but still could not upgrade to the other two types of properties.

Based on this evidence, it is observed that some states are facing greater challenges in housing the rakyat. The Government remains committed to addressing home accessibility and affordability issues. Through collaboration with the private sector since 2000, various public housing programmes were implemented to meet the needs of the different segments of the society, particularly the M40 and B40 groups. Among the programmes include 1Malaysia Housing Programme (PR1MA), 1Malaysia Civil Servants Housing Programme (PPAM), MyFirst Home Scheme and MyHome Scheme.

Conclusion

The provision of affordable housing to the rakyat is vital to ensure their well-being. The Government has provided various programmes aimed at assisting the low and lower-middle income groups in owning affordable houses. However, as the issue continues to persist, especially among the middle- and lower-income groups across the states, more effective and efficient delivery of these programmes is imperative. Thus, alternative models of social housing programmes should be considered, taking into account new ownership models and innovative ways of financing and pricing mechanisms.

Lack of Digital Adoption

The World Bank (2018) reports that although 62% of businesses in Malaysia were connected to the internet and 46% subscribed to fixed broadband, only 18% have a web presence for e-commerce. This indicates that the potential of the digital economy has yet to be fully leveraged. The adoption of digital technology in businesses is dominated by large companies, particularly in the manufacturing sector. This also signifies a significant digital gap between large companies and SMEs and between the manufacturing and other sectors. According to SME Corporation Malaysia (2018) and Bank Negara Malaysia (2019), the lack of know-how and funding are the key challenges to greater digitalisation of SMEs. Other factors contributing to the gap include the slow adoption rate and low coverage of fixed broadband services as well as limitation in financial and human capital (Bank Negara Malaysia, 2019).

Limitation in the Logistics Sector

The logistics industry, which includes transportation and storage, accounted for 3.8% of GDP in 2019 and is a crucial enabler for economic development. According to the Logistics Performance Index (LPI), in 2016, Malaysia was ranked at 32nd position out of 160 countries and dropped to 41st in 2018 (World Bank, 2018). Malaysia scored lower in all critical dimensions of the LPI, namely customs, infrastructure, international shipments, logistics quality and competence, tracking and tracing, and timeliness. As the industry is highly integrated across various sectors, poor logistics services hinder trade efficiency and thus, impact economic development.

Strategic Initiatives – 2021 Budget

Given the issues and challenges, the 2021 Budget strives to strike a balance between addressing the immediate needs of the people and businesses, laying the foundation for a sustainable recovery and meeting the long-term aspiration of the nation. As 2021 is the first year of the 12MP, the strategic measures in the 2021 Budget will support the overarching aim of the Plan. The Budget emphasises four broad areas - caring for the people, steering the economy, ensuring sustainable living and enhancing public service delivery.

Caring for the People

With the impact of the pandemic lingering in 2021, the well-being of the people remains the priority of the Government. In the 2021 Budget, efforts will be streamlined towards addressing employment issues, enhancing social safety net and strengthening human capital. Measures will also be formulated to facilitate the upward mobility of the people. The Government will continue to engage various stakeholders, including the private sector and civil society as development partners in nation-building.

In the effort to achieve upward mobility, the focus will be on enhancing reskilling and upskilling programmes. These include, among others, providing coordinated training programmes and improving existing courses to meet the demand of industries and prepare for challenges of the Industrial Revolution 4.0 (IR4.0). In addition, the education system will be enhanced to facilitate online learning. School curriculums will also place greater emphasis on living skills such as entrepreneurship and social skills.

INFORMATION BOX 1.2

Social Safety Net in Malaysia

Introduction

Social safety net is described as non-contributory transfers targeted in some ways to the poor and vulnerable to address chronic poverty and inequality, help the poor invest in developing human capital, and protect the poor and vulnerable from individual and systemic shocks, including during economic reforms (IEG – World Bank, 2011). In the context of Malaysia, it is a collection of programmes designed to protect the livelihood and well-being of the poor and vulnerable. It entails programmes such as welfare assistance, cost of living assistance, unemployment benefits, workers' compensation, subsidised healthcare and education as well as low-cost housing. Based on Paitoonpong et al. (2008), the safety net analogy is drawn from high-wire walkers who are protected by a safety net if they fall. The net prevents any walker who falls, whether unexpectedly or otherwise, from hitting the floor and incurring injuries.

Based on the 2019 Household Income and Basic Amenities Survey, 5.6% of Malaysian households are considered poor at Poverty Line Income (PLI) monthly threshold of RM2,208 (Department of Statistics of Malaysia, 2020). However, unlike many other countries, the PLI in Malaysia measures the minimum income required to maintain a certain quality of life taking into consideration the optimum healthy food intake requirements and access to basic necessities for non-food items. The social safety net in Malaysia may not be as cohesive as that of advanced countries. However, Malaysians are provided with various social support programmes such as cash transfers, subsidised healthcare, education, transport and housing. This article focuses on the social safety net in Malaysia and makes recommendations for improvement.

Social Safety Net Programmes

In 2019, the Government spent a total of RM26.6 billion[1] (Figure 1.2.1.) or 1.8% of gross domestic product (GDP) for various social safety net programmes. The largest portion amounting to RM14 billion (52.6% of the total assistance) was allocated to minimise the impact of the rising cost of living and improve the welfare of the *rakyat*, particularly the poor and vulnerable. These include subsidies for cooking oil; liquefied petroleum gas (LPG), diesel and petrol; electricity; and flour. Other assistances include the Cost of Living Aid (BSH) as well as allowances and cash transfers to the people with disabilities, aged, and the poor as well as children without guardians and Orang Asli groups. These assistances are necessary as the rising cost of living continues to be a main concern for most of the *rakyat*, particularly the poor and vulnerable.

As education is an essential enabler for social mobility and human capital development, the second-largest amount, RM6.7 billion (25.3%), was allocated for this sector. This includes programmes on food, textbooks and other assistance for school and pre-school children as well as matriculation and higher education students. Other assistances include various scholarships and loans for school and university students.

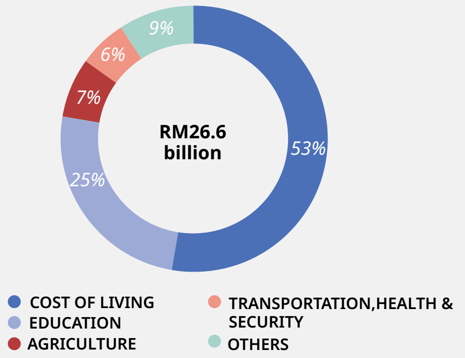
Agriculture is a priority sector, not only due to its linkages to the rest of the economy but also a disproportionate share of B40 households are in this sector. Hence, this sector is a significant beneficiary of assistances amounting to approximately RM1.9 billion (7.2%). Farmers and fishermen are among the beneficiaries through various programmes including paddy price and fertiliser subsidies, paddy production incentives, monsoon season assistances and oil palm re-planting as well as the implementation of Malaysian Sustainable Palm Oil (MSPO) certification. In addition, fishermen receive fish catch incentives.

---

[1] Including assistances provided under development expenditure as well as supplies and services for social safety net programmes.

Assistances were also provided to transportation, health and security sectors amounting to RM1.6 billion (6.0%) to ensure access to quality and affordable services. These include toll compensation as well as subsidies in the transportation sector for RapidKL's unlimited-ride monthly pass, Keretapi Tanah Melayu Berhad's uneconomic train subsidy and rural air services in Sabah and Sarawak. Subsidies to the health sector cover Skim Peduli Kesihatan for the B40 group (PeKa B40) and medical treatment for retirees. Other assistances amounting to RM2.4 billion (9.0%) include interest rate subsidies to help reduce the costs of borrowing for students at institutions of higher learning as well as assistance for community and religious affairs.

FIGURE 1.2.1. *Percentage of Federal Government Expenditure on Social Safety Net by Categories of Assistance in 2019*



Source: Ministry of Finance, Malaysia

Additional Social Safety Net Programmes during COVID-19 Pandemic

The nation was severely impacted as a result of the COVID-19 pandemic and the subsequent implementation of the Movement Control Order (MCO). Businesses were badly hit while unemployment rose. As more people became vulnerable, the Government had to cast a more comprehensive safety net to support them. Hence, the Government announced several economic stimulus packages to protect lives and livelihoods.

Under the Prihatin Rakyat Economic Stimulus Package (PRIHATIN) and the PRIHATIN PLUS announced in March and April 2020, various one-off assistances were provided to households to ease their financial burden. This includes cash transfers, benefitting around 5 million households. Cash transfers were also provided to single individuals aged 21 and above with monthly income of not more than RM4,000. In addition, a one-off cash aid of RM200 per person was provided to students at institutions of higher learning with an estimated cost of RM270 million and RM500 per person to 120,000 full-time e-hailing drivers with an allocation of RM60 million.

Under the same package, a wage subsidy programme was also implemented to encourage the retention of workers earning less than RM4,000 and employers experiencing more than 50% decrease in their income since 1 January 2020. These subsidies enable employers to be flexible in retaining the workers during the movement control period. The programme involved an allocation amounting to RM13.8 billion, benefitting approximately 4.8 million workers. This has contributed to the moderation of the unemployment rate to 4.7% in August 2020 as compared to 5.3% in May 2020.

With the resumption of economic activities, the Government announced the *Pelan Jana Semula Ekonomi Negara* (PENJANA) in June 2020 to accelerate economic recovery. As a result of the MCO, people's movements were restricted, spurring the demand for on-line transactions. Hence, many individuals and households engaged in the gig economy, including deliveries, e-hailing and remote or mobile businesses. The stimulus package, among others, provides additional social protection and training for gig workers. A total of 30,000 gig workers are expected to benefit from the programme, involving an allocation of RM75 million. Furthermore, a total of RM200 million was allocated to ease the burden of working parents during the Conditional Movement Control Order (CMCO) through subsidised child care expenses.

The Government also announced the PRIHATIN Supplementary Initiative Package (KITA PRIHATIN) package in September 2020 amounting to RM10 billion. A total of RM7 billion was allocated for Bantuan Prihatin Nasional 2.0, and another RM3 billion for Wage Subsidy Programme 2.0 and *Geran Khas* PRIHATIN. This package aims at providing continued support for the people, ensuring employment and assisting businesses, particularly the SMEs, in enduring the challenges faced as a result of the pandemic.

Strengthening and Sustaining Livelihood of the People

Based on an improved methodology, the PLI has been increased from RM980 in 2016 to RM2,208 in 2019 (Department of Statistics of Malaysia, 2020). Under the new PLI, the number of households categorised as poor increased to 405,441 households compared with 24,700 households in 2016 which was based on the PLI 2005 methodology. As more households are considered poor, greater financial resources are required to provide the necessary support. As the existing assistance mechanism involves various ministries and agencies, there is a need to establish an integrated database for effective distribution of assistances.

The integrated database will be used for the identification and registration of beneficiaries, effective disbursement and monitoring of programmes and prevent duplication of assistances and exclusion of eligible recipients. Furthermore, the reactivation of the Malaysia Social Protection Council (MySPC) chaired by the Prime Minister will review existing social protection policies and programmes. This would further enhance the social safety net in Malaysia and provide an exit mechanism to reduce over-dependence on Government assistance except for welfare cases.

Conclusion

The Government provides various assistance to the *rakyat*, particularly to the poor and vulnerable but assistance cuts across many ministries and agencies. Thus, an effective and efficient integrated delivery system is needed. The private sector, non-governmental organisations and other stakeholders have an important role in complementing the Government in ensuring that no one is left behind in the national development agenda.

The Government will continue to focus on addressing the needs of the vulnerable group, particularly the B40. In this respect, the Malaysia Social Protection Council was reactivated to coordinate and integrate all social welfare programmes. Thus, the overall mechanism in delivering assistances to target groups will be improved.

Steering the Economy

As Malaysia recovers from the impact of the COVID-19, the economy must return to a more sustainable growth path. The focus will be on increasing foreign direct investment (FDI), enhancing productivity and re-instilling consumer confidence. As such, the Government will prioritise essential areas, such as improving the ease of doing business, enhancing the usage of technology and digitalisation across public and private sectors as well as ensuring a stable labour market. Various initiatives will be formulated to provide a more conducive environment for businesses and FDI to thrive.

The 2021 Budget will also introduce measures to increase productivity by enhancing the adoption of technology across the board, including individuals, SMEs and corporates. Efforts will focus on the development of resilient SMEs. As the backbone of the economy, the challenges faced by SMEs during the COVID-19 pandemic signifies the need for adoption and adaptation of new business approaches. The Government will continue to provide the necessary support for SMEs to prosper in the new environment, including the potential for going global.

Ensuring Sustainable Living

As part of the efforts to improve sustainable living, the Government will continue to protect the environment and manage biodiversity more sustainably. A closer collaboration with the respective non-governmental organisations (NGOs) and civil society organisations (CSOs) will be forged and enhanced towards ensuring a more comprehensive and holistic management of the environment and natural resources. In the 2021 Budget, the Government will encourage behavioural shift among the *rakyat* and businesses towards better management of environment and biodiversity. In addressing the needs for achieving the SDGs, programmes and initiatives will be in line with the 12MP, particularly in terms of allocation for sustainable development. Beginning in 2021, the Government will focus on mapping the financing needs in achieving the SDGs.

Enhancing Public Service Delivery

The role of the public service is crucial in ensuring the development of the nation. Hence, the quality of services will determine whether the goals and outcomes of all plans and programmes formulated are achieved accordingly. As part of the efforts to enhance public service delivery, the Government aims to be more outcome-driven and implementation-focused as well as support the people and businesses in a more targeted manner.

The 2021 Budget will focus on enhancing the existing delivery mechanisms in ensuring all assistances and incentives benefit the target groups. In this respect, the National Economic Stimulus Implementation and Inter Agency Coordination Unit (LAKSANA) has been established to monitor the implementation of measures announced in the various economic stimulus packages. LAKSANA also partners with other stakeholders to further improve the effectiveness of the programmes. Moving forward, the Government will review existing enterprise architecture across all Government agencies to sync with the IR4.0. The Government will also collaborate with NGOs and CSOs as development partners in various areas, including forestry, biodiversity, poverty and other social issues.

Conclusion

On the back of the COVID-19 pandemic, the Malaysian economy contracted by 8.3% in the first half of 2020. The economy is projected to improve in the second half and, thus, record an overall smaller contraction of 4.5%. In 2021, the economy is projected to expand between 6.5% and 7.5% in tandem with the anticipated improvement in global trade, consumer sentiments and business confidence. The 2021 Budget will implement measures to enhance the well-being of the people, steer the economy towards a sustainable growth path, enable sustainable living and improve public service delivery. As targeted in the 12MP and the 2030 Shared Prosperity Vision, the Budget will lay the foundation for the country to progress towards a developed and inclusive nation.

References

Abdul Hadi Nawi. (2019). *Property Talk 2019: Affordable House vs Affordability*. Retrieved from https://www.ikpkt.kpkt.gov.my

Allen, J. & Andries de Grip. (2012). *Does Skill Obsolescence Increase the Risk of Employment Loss?* Retrieved from https://www.tandfonline.com/doi/abs/10.1080/00036846.2011.570727

Bank Negara Malaysia. (2018). *Financial Stability and Payment Systems Report 2018*. Retrieved from https://www.bnm.gov.my/files/publication/fsps/en/2018/cp02_001_box.pdf

Bank Negara Malaysia. (2017). *Annual Report 2016*. Retrieved from https://www.bnm.gov.my/files/publication/ar/en/2016/cp04_002_box.pdf

Bank Negara Malaysia. (2016). *Annual Report 2016: Demystifying the Affordable Housing Issue in Malaysia*. Retrieved from https://www.bnm.gov.my.

Department of Statistics Malaysia. (2020). *Graduates Statistics Report*.

Department of Statistics Malaysia. (2020). *Household Expenditure Survey Report 2019*. Retrieved from https://www.dosm.gov.my.

Department of Statistics Malaysia. (2020). *Household Income and Basic Amenities Survey Report 2019*. Retrieved from https://www.dosm.gov.my

Department of Statistics Malaysia. (2020). *Labour Force Survey Report.*

Department of Statistics Malaysia. (2020). *State Socioeconomic Report 2019*. Retrieved from https://newss.statistics.gov.my/newss-portalx/ep/epProductFreeDownloadSearch.seam

Department of Statistics Malaysia. (2020). *Supply and Utilisation Accounts Selected Agricultural Commodities*. Retrieved from https://www.dosm.gov.my

Department of Statistics Malaysia. (2017). *Household Income and Basic Amenities Survey Report 2016.* Retrieved from https://www.dosm.gov.my.

Direnzo, Marco S., Jeffrey H. Greenhaus, & Christy, H. Weer. (2015). Relationship Between Protean Career Orientation and Work–Life Balance: A Resource Perspective. *Journal of Organizational Behavior,* 36.4 (2015), 538-560.

Economic Planning Unit. (2017*). Malaysia Sustainable Development Goals Voluntary National Review*. Retrieved from https://sustainabledevelopment.un.org/content/documents/15881Malaysia.pdf

Economic Planning Unit. (2015). *Eleventh Malaysia Plan 2016-2020*. Retrieved from https://www.epu.gov.my.

Economist Intelligence Unit. (2019). *Global Food Security Index 2019*. Retrieved from https://foodsecurityindex.eiu.com/Index

Enterprise Community Partners Inc. (2014*). Impact of Affordable Housing on Facilities and Communities: A Review of the Evidence Base*. Retrieved from https://www.enterprisecommunity.org

Hege, E. & Brimon, L. (2018). *Integrating SDGs into National Budgetary Processes*. (IDDRI Study Number 5/18).

International Labour Organisation. (2020). *ILO Statistics*. Retrieved from https://ilostat.ilo.org/data/bulk/

International Labour Organisation. (2017). *How Useful is the Concept of Skills Mismatch?* Retrieved from https://www.ilo.org/skills/pubs/WCMS_552798/lang--en/index.htm

International Labour Organisation. (2015). *Time Related Underemployment.* Retrieved from https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/ publication/wcms_422452.pdf

International Monetary Fund. (2020). *World Economic Outlook Update, June 2020: A Crisis Like No Other, An Uncertain Recovery*. Retrieved from https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020 on 26 September 2020

Kaufman, H.G. (1974). *Obsolescence and Professional Career Development*. Retrieved from https://eric.ed.gov/?id=ED102297

Khazanah Research Institute. (2019). *Rethinking Housing: Between State, Market and Society*. Retrieved from http://www.krinstitute.org

Khazanah Research Institute. (2018). *The School-to-Work Transition of Young Malaysians.* Retrieved from http://www.krinstitute.org

Lambert, S.J., & Kossek, E.E. (2005). *Future Frontiers: Enduring Challenges and Established Assumptions in the Work-Life Field*. Retrieved from https://msu.edu/user/kossek/future.pdf

Malaysia Employers Federation. (2019). *Graduates Face Skills Mismatch and Job Shortages*. Retrieved from http://www.mef.org.my/MEFITN/MR191111a.pdf

Malik, N.M., Samsurijan, M.S., Leng, K.S., Gopal, P.S. & Hamad, Z. (2017). The Ability town a House among Urban Families in Malaysia*.* *Geografi Journal,* 5(2), 69 - 77.

Ministry of Higher Education. (2019). *Graduates Tracer Study Report.*

Ministry of Human Resources. (2020). *Job Registration Statistics.*

National Housing Department. *National Housing Policy (2018 -2025).* Retrieved from https://www.ehome.kpkt.gov.my

National Property Information Centre. (2019). *Property Market Report 2019*. Retrieved from https://www.napic.gov.my.

National Property Information Centre. (2019). *The Residential Prices Yearly Update 2019*. Retrieved from https://www.napic.gov.my.

National Property Information Centre. (2018). *The Residential Prices Yearly Update 2018.* Retrieved from https://www.napic.gov.my.

National Property Information Centre. (2017). *The Residential Prices Yearly Update 2017*. Retrieved from https://www.napic.gov.my.

National Property Information Centre. (2016). *The Residential Prices Yearly Update 2016*. Retrieved from https://www.napic.gov.my.

National Property Information Centre. (2015). *The Residential Prices Yearly Update 2015*. Retrieved from https://www.napic.gov.my

Ogbonnaya, C., Daniels, K. & Nielsen, K.M. (2017). Does Contingent Pay Encourage Positive Employee Attitudes and Intensify Work? *Human Resource Management Journal,* 27(1), 94-112.

Organisation for Economic Co-operation and Development. (2015). *Labour Market Mismatch and Labour Productivity: Evidence from PIAAC Data*. Retrieved from http://www.oecd.org/economy/growth/Labour-Market-Mismatch-and-Labour-Productivity-Evidence-from-PIAAC-Data.pdf

Paitoonpong, S., Abe, S., & Puopongsakorn, N. (2008). The Meaning of Social Safety Nets. *Journal of Asian Economics,* 19(5-6), 467-473.

SME Corporation Malaysia. (2018). *SME Annual Report 2017/18.* Retrieved from https://www.smecorp.gov.my/index.php/en/laporan-tahunan/3342-laporan-tahunan-pks-2017-18

The Centre. (2019). *Gig Work: Full-Time Benefits for Full-Time Work?* Retrieved from https://www.centre.my/post/gig-work-full-time-benefits-for-full-time-work

UN-Habitat. (2011). *Affordable Land and Housing in Asia*. Retrieved from https://unhabitat.org/wpdm-package/affordable-land-and-housing-in-asia/?wpdmdl=111395

United Nations. (2015). *United Nations Summit on Sustainable Development.* Retrieved from https://sustainabledevelopment.un.org/rio20

World Bank. (2020). *World Development Indicators.* Retrieved from https://databank.worldbank.org/reports.aspx?source=world-development-indicators

World Bank. (2019*). Malaysia Economic Monitor: Making Ends Meet*. Retrieved from https://openknowledge.worldbank.org/handle/10986/32810

World Bank. (2018). *Logistics Performance Index*. Retrieved from https://lpi.worldbank.org/international/global

World Bank (2018). *Malaysia's Digital Economy: A New Driver of Development*. Retrieved from https://www.worldbank.org/en/country/malaysia/publication/malaysias-digital-economy-a-new-driver-of-development

World Bank (2011). *An Evaluation of World Bank Support: Social Safety Nets.* Retrieved from https://www.oecd.org/derec/worldbankgroup/49023353.pdf

World Economic Forum. (2019). *Making Affordable Housing a Reality in Cities*. Retrieved from http://www3.weforum.org/docs/WEF_Making_Affordable_Housing_A_Reality_In_Cities_report.pdf

World Health Organisation. (2020). *WHO Director-General's opening remarks at the media briefing on COVID-19 - 11 March 2020.* Retrieved from https://www.who.int/dg/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19---11-march-2020 on 26 September 2020

Zakariya Z. (2014). Wage Effect of Over-Education and Mismatch in Malaysia: A Random Effect Approach. *Jurnal Ekonomi Malaysia,* 48(2), 3-17.

CHAPTER 2

Global Economic Outlook

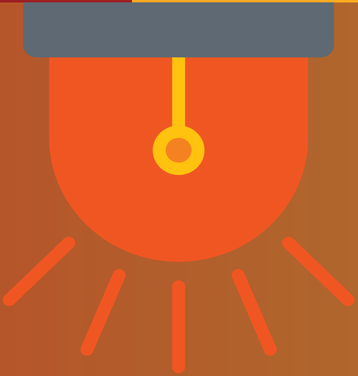
GLOBAL ECONOMIC OUTLOOK

2020
DISMAL GROWTH

-4.4%

The Impact of COVID-19 Pandemic

- Restricted movement
- Forced lockdowns
- Business closures



Negative Global Growth Anticipated in 2020

ADVANCED ECONOMIES	EMDEs
-5.8%	-3.3%

- Unfavourable performance in advanced economies and EMDEs due to fall in domestic demand, particularly private consumption and investment, coupled with dismal trade growth
- China to cushion decline in EMDEs

- Decelerated activities
- Economic disruptions
- FDI declines 40% in 2020
- World trade plummets 10.4% in 2020
- Debt crisis

2021
PROMISING GLOBAL PROSPECTS

GLOBAL GROWTH

5.2%

ADVANCED ECONOMIES	EMDEs
3.9%	6%

Global Economy to Rebound in 2021

Silver Lining

- Effective implementation of fiscal and monetary measures
- COVID-19 vaccine discovery and containment of pandemic
- Opportunities to institute reforms towards accelerating digitalisation and pursuing sustainable growth

INFLATION

GLOBAL	ADVANCED ECONOMIES	EMDEs
3.4%	1.6%	4.7%

-10.4%
2020

8.3%
2021

FDI

To decline further in 2021 as restrictive investment policy measures affect cross-border M&A activities

Risks to global economy persists:

- US-China trade tensions
- Uncertainties surrounding Brexit
- Geopolitical tensions
- Low oil prices
- Climate crisis
- Increase in government debts

CHAPTER 2

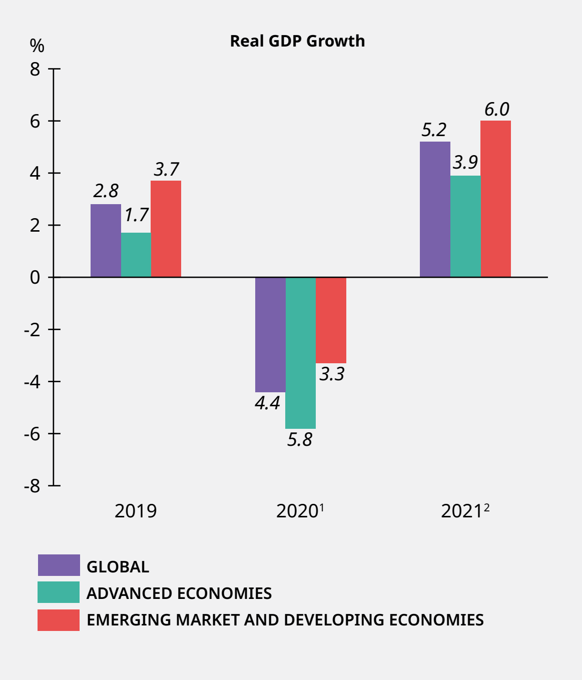
Global Economic Outlook

Overview

A rebound after dismal growth

The **global economy** is projected to contract by 4.4% in 2020 (2019: 2.8%). This anticipated negative growth is due to unfavourable performance in both the advanced economies and the emerging market and developing economies (EMDEs), mainly resulting from the adverse impact of the COVID-19 pandemic. On the contrary, robust growth in the advanced economies and the EMDEs is expected to spearhead global growth by 5.2% in 2021.

FIGURE 2.1. *Real GDP Growth for Global, Advanced Economies, and Emerging Market and Developing Economies, 2019 – 2021 (% change)*



[1] Estimate
[2] Forecast

Source: International Monetary Fund, World Economic Outlook (October 2020)

In 2020, the gross domestic product (GDP) in the advanced economies is expected to decline by 5.8% (2019: 1.7%), while the GDP in the EMDEs is anticipated to contract by 3.3% (2019: 3.7%). This is mainly due to a fall in domestic demand, particularly private consumption and investment, coupled with dismal trade growth. The decline in the growth of the EMDEs is expected to be cushioned by favourable growth in China. Among the advanced economies, the euro area is anticipated to register the sharpest downturn in comparison with the previous year.

In 2021, the advanced economies is forecast to rebound by 3.9%, spurred by improved domestic demand and increased trade activities. Growth in the US is expected to improve by 3.1%, backed by a recovery in private consumption and favourable investment. The GDP in the euro area is anticipated to turn around by 5.2% in 2021, supported by improved domestic demand following accommodative fiscal and monetary policies. The economy of the UK is envisaged to record a stellar growth of 5.9%, driven by a recovery in the services sector. The GDP of Japan is projected to pick up by 2.3%, boosted by an increase in private consumption and a recovery in exports.

The GDP of the EMDEs in 2021 is expected to bounce back by 6%, buoyed by solid domestic demand and higher exports. China is envisaged to lead the recovery in the region, with a sturdy growth of 8.2%. Likewise, the economy of India is projected to rebound by 8.8% on the back of strong consumer demand. The GDP of ASEAN-5[1] is anticipated to turn around by 6.2%, on account of robust domestic consumption, higher investment and a favourable trade environment.

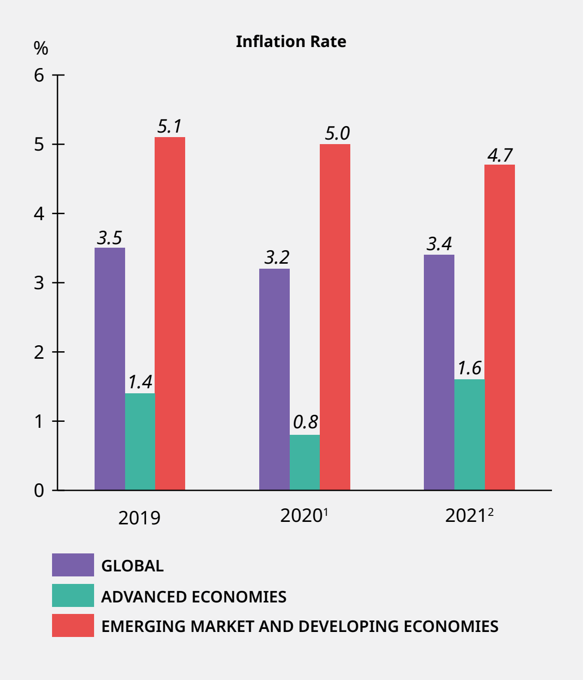
---

[1] ASEAN-5 comprises Indonesia, Malaysia, the Philippines, Thailand and Viet Nam.

World trade is set to plummet by 10.4% in 2020 (2019: 1%), owing to subdued demand for goods and services, compounded by the COVID-19 pandemic. Lacklustre demand for goods is expected, despite rising needs for medical equipment and supplies, amid volatile commodity markets as well as escalating trade and trade-related tensions, particularly between the US and China. The demand for services is also anticipated to fall, with cross-border tourism activities adversely affected. Nevertheless, global trade is projected to turn around by 8.3% in 2021 as economic activities gain momentum.

Global foreign direct investment (FDI) is expected to decline up to 40% in 2020 (2019: 13%), dragging the FDI below USD1 trillion for the first time since 2005. This drop is due to heightened uncertainties concerning the pandemic, which may continue to slow down the implementation of existing projects and approval of new investments. In 2021, the FDI is projected to further decline by 5% to 10%, as new restrictive investment policy measures affect cross-border merger and acquisition (M&A) activities.

FIGURE 2.2. *Inflation Rate for Global, Advanced Economies, and Emerging Market and Developing Economies, 2019 – 2021 (% change)*



[1] Estimate
[2] Forecast

Source: International Monetary Fund, World Economic Outlook (October 2020)

Global inflation is expected to be mild at 3.2% in 2020 (2019: 3.5%). Inflation is on a downward trend in advanced economies at 0.8% (2019: 1.4%), while inflation in the EMDEs is anticipated to remain at 5% (2019: 5.1%), resulting from low oil prices. In 2021, global inflation is expected to slightly increase to 3.4%. Inflation in the advanced economies is anticipated to increase to 1.6%. In comparison, inflation in the EMDEs is forecast to be at 4.7%.

Risks to the global outlook are mainly due to the impact and severity of the COVID-19 crisis, compounded by the uncertainty in discovering a vaccine. A protracted economic slowdown may result in a vicious cycle, where financial distress may expose borrowers to vulnerabilities. Subsequently, this will drag economies into debt crises and decelerate activities even more. In addition, cross-border spillovers from weaker external demand could further magnify the impact of country- or region-specific shocks on global growth. Strained relationships among the coalition of oil producers of the Organization of the Petroleum Exporting Countries Plus (OPEC+)[2] and widespread social unrest may pose additional headwinds to the global economy. Furthermore, uncertainties surrounding the Brexit outcomes, rising government debts and unemployment, as well as climate crisis, are among the major factors that could impede future growth.

Global Economy

Navigating unprecedented challenges

The **US**’ economy contracted by 4.4% in the first half of 2020, resulting from a decline in consumer spending, as the economy struggled with the COVID-19 pandemic. Personal

---

[2] OPEC+ comprises 13 members of OPEC, namely Algeria, Angola, the Republic of the Congo, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, United Arab Emirates and Venezuela as well as 10 of the world’s major non-OPEC oil-exporting nations, namely Azerbaijan, Bahrain, Brunei Darussalam, Kazakhstan, Malaysia, Mexico, Oman, Russia, South Sudan and Sudan.

consumption expenditure, which contributes 67.1% to total GDP, plummeted by 5%, particularly in the health care as well as food services and accommodation sectors. Private investment fell by 10.6% following a sharp decline in transportation equipment as well as a decrease in mining structures, resulting from subdued oil and gas production activities.

In the same period, the US recorded a trade deficit of 7.5%, amounting to USD50.7 billion, as exports declined following subdued demand, particularly in petroleum products and fuel oil. Likewise, imports decreased, as a result of sluggish demand, particularly in automotive vehicles and machinery. The unemployment rate jumped to 8.4%, owing to heavy job losses in the leisure and hospitality sector. Inflation moderated to 1.2% following lower oil prices, despite high food costs.

Overall, in 2020, the US' GDP is expected to contract by 4.3% (2019: 2.2%), as a result of weakened private consumption and external demand. Private consumption is anticipated to shrink by 4.9% (2019: 2.4%) due to the phasing out of earlier Government stimulus packages as well as a significant rise in household savings. Similarly, the federal balance is expected to worsen, largely due to spending for the stimulus packages, coupled with the presidential election in November. Exports are anticipated to dip, amid the ongoing trade tensions, exacerbated by the pandemic.

As of August 2020, four stimulus packages, amounting to USD2.3 trillion, have been announced. These include cash payments and expanded unemployment benefits to households, support to the health care system and assistance to severely distressed sectors. The unemployment rate is expected to spike to 8.9% (2019: 3.7%), with the leisure and hospitality sector being the most affected. Inflation is expected to moderate to 1.5% (2019: 1.8%) following lower oil prices. In March 2020, the US Federal Reserve (Fed) lowered its funds rate target range to between 0.00% and 0.25%. The Fed indicated to maintain the rates at this level until the economy has stabilised.

TABLE 2.1. *Selected Indicators for the United States, 2019 – 2021*

INDICATOR	2019	2020[1]	2021[2]
Real GDP (% p.a.)	*2.2*	*-4.3*	*3.1*
Inflation (% p.a.)	*1.8*	*1.5*	*2.8*
Current Account of BOP (% of GDP)	*-2.2*	*-2.1*	*-2.1*
Unemployment Rate (%)	*3.7*	*8.9*	*7.3*

[1] Estimate
[2] Forecast
Source: International Monetary Fund, World Economic Outlook (October 2020)

In 2021, the US' growth is projected to rebound by 3.1%, driven by domestic demand, particularly private consumption, which is anticipated to surge by 2.8%. Investment is expected to bounce back by 2.8%, underpinned by higher private fixed investment. Both exports and imports are forecast to rebound significantly, on the back of a favourable global trade environment. The unemployment rate is expected to improve to 7.3%, while inflation is anticipated to rise to 2.8%.

Risks to the US include a prolonged COVID-19 pandemic as the intensity and duration of the outbreak would further disrupt domestic demand and the global value chain. These deteriorating economic fundamentals may result in financial distress, leading to refinancing difficulties for both corporates and households. In addition, continued low oil prices would lead to subdued investment spending in non-residential structures. Consequently, firms, particularly in the energy sector, may face higher costs with an increased number of bankruptcies. On the trade front, broader protectionist measures, including export controls, may affect business confidence and hamper growth.

The GDP for the **UK** contracted by 11.8% in the first half of 2020, the largest recession on record, resulting from a drastic decline in the services sector. The services sector, which contributes approximately 80% to total GDP, plunged by 11.3%, primarily due to a decline of 48.3% in the accommodation and food services subsector. In addition, the distribution, hotels and restaurants subsector declined by 20.9%. Likewise, the production and construction sectors contracted by 11.5% and 21.1%, respectively, following strict lockdowns beginning at the end of March 2020. The unemployment rate remained at 4% following the Government's furlough scheme, which allows workers affected by the pandemic to be absent temporarily from work. Inflation was registered at 1.7%, owing to low oil prices.

The economy is projected to decline by 9.8% in 2020 (2019: 1.5%), as the services sector continues to contract following prolonged lockdowns imposed by the Government. Several schemes have been announced to stimulate demand in sectors affected by the pandemic, particularly in hospitality and tourism. The UK announced various stimulus and relief packages since March 2020, including the Coronavirus Job Retention Scheme, which helped pay the wages of people in 9.6 million jobs. In addition, the Eat Out to Help Out Scheme boosted hospitality-related activities. As of September 2020, the Bank of England maintained the policy rate at 0.10%, after reducing the rate twice in March by a total of 65 basis points to bolster the economy. The unemployment rate is projected to register 5.4% (2019: 3.8%) as the Government's furlough scheme is expected to be discontinued by the end of the year. Inflation is anticipated to moderate to 0.8% (2019: 1.8%), mainly due to lower oil and service prices.

TABLE 2.2. *Selected Indicators for the United Kingdom, 2019 – 2021*

INDICATOR	2019	2020[1]	2021[2]
Real GDP (% p.a.)	*1.5*	*-9.8*	*5.9*
Inflation (% p.a.)	*1.8*	*0.8*	*1.2*
Current Account of BOP (% of GDP)	*-4.0*	*-2.0*	*-3.8*
Unemployment Rate (%)	*3.8*	*5.4*	*7.4*

[1] Estimate
[2] Forecast
Source: International Monetary Fund, World Economic Outlook (October 2020)

In 2021, the UK's economic growth is forecast to bounce back by 5.9%, largely contributed by a recovery in the services sector. The resumption of retail- and hospitality-related activities is likely to support the recovery, boosted by stimulus measures aimed at consumers. The conclusion of the negotiation of the Comprehensive Free Trade Agreement (CFTA) between the UK and the EU and a smooth post-Brexit transition are expected to support growth. The unemployment rate is

INFORMATION BOX 2.1

Response to the COVID-19 Pandemic by Selected Multilateral Development Banks

Introduction

The COVID-19 outbreak began at end-2019 and was declared as a pandemic in March 2020 by the World Health Organization. The pandemic has affected people worldwide, and to date, has resulted in over 1.1 million fatalities out of 40.7 million confirmed cases (World Health Organization, 2020). The rising trend of positive cases, coupled with the uncertainty surrounding the discovery of a vaccine, signal that a protracted pandemic may be probable. In containing the spread of this virus, governments have imposed lockdowns, enforced business closures, limited international travels and restricted individuals from their usual physical and social activities. These containment measures have resulted in severe economic disruptions. Amid an already softening world economic growth and volatile commodity prices, the added economic impact of the pandemic is expected to lead to the worst global economic crisis ever recorded in recent times. To mitigate the socioeconomic impact of the pandemic and the containment measures, governments have implemented stimulus measures to protect lives and livelihoods as well as support businesses to remain afloat. These stimulus measures include additional health expenditure as well as assistance in the form of cash transfers, loan moratoriums, credit guarantees and tax incentives.

However, the limited fiscal space of many governments may not be able to sustain the provision of the relief and recovery assistance for long due to the existing economic conditions amid the pandemic. The adverse impact of COVID-19 on economies is evidenced in shrinking tax revenues, decreased gross domestic product (GDP) growth, volatile private capital flows, declining exports and falling remittances. Middle- and low-income countries that are constrained by limited financial resources and weak health systems are particularly vulnerable and slow to recover. Projections by the International Monetary Fund (IMF) for 2020 reflects that as GDP contracts and public expenditures expand, the share of gross public debt will generally rise to a record high. This is especially so for the middle-income countries whose debt is projected to rise to 62.2% of GDP (2019: 52.6%) with an expected fiscal deficit of 10.7% of GDP (2019: 4.9%). Likewise, the share of gross public debt in low-income countries is expected to increase to 48.8% of GDP (2019: 43.3%), with their fiscal deficit increasing to 6.2% of GDP (2019: 4%).

The Role of Multilateral Development Banks during the COVID-19 Crisis

Against this backdrop of uncertainty and vulnerability of the current economic situation, multilateral development banks (MDBs) can play a critical role in the overall global economic recovery. MDBs are generally recognised as international financial institutions that have been commissioned by countries to promote inclusive and sustainable economic development. There are more than 20 MDBs worldwide with various roles and functions. The unique structure of MDBs allows them to tackle challenges that cross national borders, including global pandemics, which demand cross-border solutions (Maasdorp, 2020). Malaysia is a member of five of these institutions, namely the World Bank Group (WBG), the IMF, the Asian Development Bank (ADB), the Islamic Development Bank (IsDB) and the Asian Infrastructure Investment Bank (AIIB).

The challenge to manage the impact of the COVID-19 pandemic has triggered an increasing need of many developing countries in seeking financial support from the MDBs. This has led to the MDBs expediting the disbursement of loans and expanding concessional financial assistance through existing resources. The additional obligation is imposed on their existing roles in supporting the reconstruction and development of member countries as well as mobilising resources for infrastructure and sustainable development.

COVID-19-Related Assistances by MDBs

The COVID-19 response initiatives by the MDBs include expanding the allocation of existing assistance, extending assistance to wider recipients and expediting the process of disbursement. The forms of assistance provided by the five MDBs, of which Malaysia is a member of, are listed in Table 2.1.1.

TABLE 2.1.1. *COVID-19-Related Assistances Provided by Selected MDBs*

PROGRAMME/INITIATIVE	MDBs				
	WBG	IMF	ADB	IsDB	AIIB
Financial Support Programme	√	√	√	√	√
Debt Relief Programme	√	√			
Trade Finance	√			√	
Guarantees	√			√	
Technical Assistance/Policy Advice	√	√	√	√	√
Other Initiatives	√		√		
Total Assistance (USD billion)	**160.0**	**100.0**	**20.0**	**2.3**	**10.0**

Sources: World Bank Group (2020), International Monetary Fund (2020), Asian Development Bank (2020), Islamic Development Bank (2020) and Asian Infrastructure Investment Bank (2020)

(i) Financial Support Programmes

The MDBs provide financial support to fund infrastructure and development projects in member countries. The MDBs also allocate special funding, in the form of loans and grants, to help member countries mitigate the impact of health-related crises, especially pandemics, on the economy. Loans are provided on a market or concessional basis, while grants are only provided for limited purposes, based on specific terms and conditions. Details of these programmes are listed in Table 2.1.2.

TABLE 2.1.2. *COVID-19-Related Financial Support Programmes*

MDB	PROGRAMME/INITIATIVE	DESCRIPTION	AMOUNT/SOURCE
WBG[1]	**COVID-19 Initial Response Package**	Financing to strengthen health systems and disease surveillance.	IBRD and IDA: USD6 billion
	Fast Track COVID-19 Facility	Investment Project Financing is prepared on a fast-track basis comprising up to 40% of retroactive financing for physical or social infrastructure to reduce poverty and ensure sustainable development.	IBRD: USD2.7 billion IDA: USD1.3 billion
	Program-for-Result (PforR)	PforR can be restructured for prompt response with funds disbursed directly for the delivery of defined results in the health sector.	Financing from IDA
	Contingent Emergency Response Component	Contingent windows to escalate the emergency response for provision of additional financing to existing investment projects after a crisis has or is about to occur.	Financing from the IBRD, IDA or trust funds
	Catastrophe Deferred Drawdown Option	Contingent financing line providing immediate liquidity to address shocks following a natural disaster and/or health-related event.	Financing from IDA
	Real Sector Crisis Response Facility	Support existing clients in the infrastructure, manufacturing, agriculture and services industries vulnerable to the pandemic by offering loans to companies and investing in equity.	IFC: USD2 billion
	Working Capital Solutions Programme	Funding to emerging market banks to extend credit in helping businesses shore up working capital as well as the pool of funds that firms use to pay their bills and employees' salaries.	IFC: USD2 billion
	Global Trade Liquidity Programme and Critical Commodities Finance Programme	Shoring up local banks through funding and risk-sharing support to continue financing companies in emerging markets.	IFC: USD2 billion
IMF	**Rapid Financing Instrument (RFI)** **Rapid Credit Facility (RCF)**	Increase access limits of the emergency financial facilities of RFI and RCF (rapid, low-access and one-off) without the need to have a full-fledged programme in place. RFI is available to all Fund members, while RCF is available to Poverty Reduction and Growth Trust-eligible (PRGT) members only.	The amount for both RFI and RCF is close to SDR20 billion
	Short-term Liquidity Line (SLL)	Enhance liquidity through SLL for member countries with strong policies and fundamentals in need of short-term moderate balance of payment support to further strengthen global financial safety.	—
	Augmented Lending Programme	Augment existing lending programmes to accommodate urgent new needs arising from the COVID-19 crisis.	—

---

[1] The World Bank Group (WBG) consists of five unique agencies – the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment Disputes (ICSID).

continued

TABLE 2.1.2. *COVID-19-Related Financial Support Programmes*

MDB	PROGRAMME/INITIATIVE	DESCRIPTION	AMOUNT/SOURCE
ADB	**COVID-19 Response Options**	Address the social and economic consequences of the pandemic through sovereign and non-sovereign operations.	Sovereign: USD18.2 billion Non-Sovereign: USD1.8 billion
IsDB[2]	**Strategic Preparedness and Response Programme for the COVID-19 Pandemic**	Reallocation of existing funds under IsDB in supporting member countries' efforts to prevent, contain, mitigate and recover from the impact of the COVID-19 pandemic.	USD2.3 billion
AIIB	**COVID-19 Crisis Recovery Facility**	Financing for both public and private sector entities in member countries to alleviate and mitigate economic, financial and public health pressures arising from adverse impacts of the COVID-19 pandemic.	USD10 billion
	Special Fund Window	Interest rate buy-down on sovereign-backed financing for lower-income members.	USD10 million per country

Sources: World Bank Group (2020), International Monetary Fund (2020), Asian Development Bank (2020), Islamic Development Bank (2020) and Asian Infrastructure Investment Bank (2020)

(ii) Debt Relief Programmes

Debt relief programmes provided by the MDBs include debt restructuring and debt service suspension. During this challenging period, these programmes are particularly helpful for the poor and vulnerable countries to manage their debt burden and sustain their economies with adequate resources at the same time. Details of programmes are listed in Table 2.1.3.

TABLE 2.1.3. *COVID-19-Related Debt Relief Programmes*

MDB	PROGRAMME/INITIATIVE	DESCRIPTION	AMOUNT/SOURCE
WBG	**Debt Service Suspension Initiative**	Available to IDA-eligible countries and the United Nations' (UN) least developed countries.	Approximately USD5 billion disbursed as of mid-September 2020
IMF	**Catastrophe Containment and Relief Trust**	Provides grants for the PRGT-eligible member countries to cover IMF debt service. This helps countries channel their financial resources towards vital emergency medical and relief efforts during most catastrophic of natural disasters and public health disasters.	SDR700 million

Sources: World Bank Group (2020) and International Monetary Fund (2020)

(iii) Trade Finance

Trade finance provides credit as well as payment guarantees and insurance to businesses. This facility allows businesses to manage fluctuating exchange rates and mitigate other risks. Assistance from the MDBs for companies involved in cross-border transactions is critical, particularly those in low-income countries, especially during crisis periods. Details of this facility are listed in Table 2.1.4.

---

[2] The Islamic Development Bank Group (IsDBG) consists of the Islamic Development Bank (IsDB), the Islamic Research and Training Institute (IRTI), the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), the Islamic Corporation for the Development of the Private Sector (ICD) and the International Islamic Trade Finance Corporation (ITFC).

TABLE 2.1.4. *COVID-19-Related Trade Finance Facilities*

MDB	PROGRAMME/INITIATIVE	DESCRIPTION	AMOUNT/SOURCE
WBG	**Global Trade Finance Programme**	Cover payment risks of financial institutions by providing additional allocation for trade financing to companies that import and export goods, particularly the small and medium enterprises (SMEs) involved in global supply chains during the pandemic.	IFC: USD2 billion
IsDB	**Strategic Preparedness and Response Programme**	Trade finance to support least developed member countries (LDMCs) and severely affected non-LDMCs to purchase emergency COVID-19 preparedness-related medical equipment and supplies.	ITFC: USD300 million

Sources: World Bank Group (2020) and Islamic Development Bank (2020)

(iv) Guarantees

Guarantees by the MDBs are made available to eligible member countries to back financial obligations such as loans and bonds issuance in both domestic and international markets. These guarantees address both political and credit risks. Details of this assistance are listed in Table 2.1.5.

TABLE 2.1.5. *COVID-19-Related Guarantees*

MDB	PROGRAMME/INITIATIVE	DESCRIPTION	AMOUNT/SOURCE
WBG	**MIGA Fast-Track Facility**	Issuance of guarantees through streamlined and expedited procedures through credit enhancement, de-risking solutions and supporting trade finance.	MIGA: USD6.5 billion
IsDB	**Strategic Preparedness and Response Programme**	Provision of credit and political risk insurance to sustain imports of strategic commodities, protect investment and minimise volatility in mitigating negative health and socioeconomic impact.	ICIEC: USD150 million for insurance coverage

Sources: World Bank Group (2020) and Islamic Development Bank (2020)

(v) Technical Assistance and Policy Advice

Technical assistance and policy advice are made available to all member countries through capacity building and training as well as consultation and research. These assistances are focused on fulfilling developing countries' needs to improve and implement policies as well as strengthen institutions to support further development and growth. In the wake of the COVID-19 pandemic, the MDBs offer policy analyses and recommendations to governments, on request, in formulating measures to mitigate and recover from the impact of the crisis. The MDBs also provide a platform for the sharing of good practices among member countries in addressing the effects of the crisis on respective economies.

(vi) Other Initiatives

The MDBs also assist member countries in procuring medical equipment and supplies in light of the COVID-19 pandemic. Through this assistance, member countries are able to acquire the equipment and supplies at the earliest possible time and at economical prices. The WBG and ADB facilitate their member countries through a streamlined and fast-track procedure as well as help create a sizeable order volume to support countries' procurement in these items.

In the period between April and September 2020, the five MDBs have cumulatively approved almost USD132.6 billion in the form of loans, guarantees and grants for debt relief. Approximately 138 countries have received these assistances to implement measures in containing the outbreak, resume development projects and enable local banks to continue supporting businesses. To date, most recipients are the middle- and low-income member countries (Center for Strategic and International Studies, 2020).

The MDBs recognise the continued need for assistance by member countries, especially during this challenging period. Presently, their focus is to build the countries' resilience once the pandemic subsides. The MDBs remain committed to easing the burden of member countries in their endeavour towards sustainable and inclusive growth.

Malaysia fully recognises the importance of the MDBs in providing support to vulnerable countries, particularly during this challenging time and supporting member countries' journeys towards sustainable growth. Thus, Malaysia remains supportive of the efforts by the MDBs in aiding countries in need through its existing contributions to the MDBs. The country will continue to benefit from the continuous engagement with the MDBs to formulate policy measures in responding to the COVID-19 crisis.

Conclusion

The COVID-19 pandemic has brought about global challenges that have never been experienced before. Governments have had to carry out unprecedented measures in addressing the impacts of the pandemic on their economies. Notwithstanding the various measures undertaken by governments, much remains uncertain regarding a full economic recovery in the near term. The MDBs play an important role in partnering with governments towards achieving a rapid recovery and return to a more resilient and sustainable growth trajectory.

forecast to worsen to 7.4%, while inflation is projected to rise to 1.2%. Risks to the UK's GDP forecast include the dual-threat of prolonged COVID-19 infections and Brexit uncertainties. The slow progress of Brexit negotiations will affect the execution of the CFTA, which is scheduled to enter into force at the beginning of 2021.

The GDP growth in the **euro area** contracted by 9% in the first half of 2020 as domestic demand was severely affected by the COVID-19 pandemic. Household consumption plummeted by 9.8% due to lower spending following temporary closures of shops, restaurants and other services-providing businesses, as most European governments imposed lockdowns within the period of March until June 2020. Similarly, business investment plunged by 9.6%, resulting from factory shutdowns, which affected production. The labour market remained stable, with the unemployment rate at 7.5%, largely supported by the implementation of short-term work schemes in many countries to protect jobs. Inflation was lower at 0.7%, owing to significantly low oil prices, despite higher food prices.

Growth in the euro area is projected to shrink by 8.3% in 2020 (2019: 1.3%), mainly dragged by weak household consumption and business investment. Household consumption is expected to remain sluggish, primarily due to elevated precautionary savings amid uncertainties concerning job and income prospects. Investment is expected to slump as companies, particularly those with larger debt burdens, are anticipated to suspend their investment plans. The European Commission has announced a package of safety nets amounting to EUR540 billion, which includes providing support for euro area countries in health-related spending. In addition, the package allows the European Investment Bank to finance companies, especially the small and medium enterprises (SMEs) as well as for EU member countries to protect jobs and incomes. The unemployment rate is expected to be higher at 8.9% (2019: 7.6%) following the gradual phasing out of the furlough scheme. Inflation is anticipated to be subdued at 0.4% (2019: 1.2%), reflecting continued low oil prices.

TABLE 2.3. *Selected Indicators for the Euro Area, 2019 – 2021*

INDICATOR	2019	2020[1]	2021[2]
Real GDP (% p.a.)	*1.3*	*-8.3*	*5.2*
Inflation (% p.a.)	*1.2*	*0.4*	*0.9*
Current Account of BOP (% of GDP)	*2.7*	*1.9*	*2.4*
Unemployment Rate (%)	*7.6*	*8.9*	*9.1*

[1] Estimate
[2] Forecast
Source: International Monetary Fund, World Economic Outlook (October 2020)

Growth in 2021 for the euro area is forecast to rebound by 5.2%, mainly supported by favourable domestic demand. The long-term EU budget plan, totalling EUR1,824.3 billion, is expected to support public investment from 2021 until 2027, with a focus on green and digital transformations. The plan also includes a EUR750 billion recovery package to tackle socioeconomic consequences of the pandemic. The European Central Bank (ECB) has expanded the asset purchase programme by EUR1,350 billion through the Pandemic Emergency Purchase Programme. This programme is set to continue until at least June 2021 to lower borrowing costs and increase lending. The unemployment rate is anticipated to worsen to 9.1%, while inflation is forecast to rise to 0.9%.

Growth in the euro area is exposed to several risks. The high cost of fiscal policy measures may lead to a spike in government debts and subsequently, increase the risk of sovereign debt crises in the medium term. On the external front, a disorderly Brexit continues to be a major cause of uncertainty in the region, as the UK and the EU are scheduled to conclude the CFTA before the transition period ends in December 2020.

The GDP for **Germany** contracted by 6.6% in the first half of 2020 as the decline in household consumption, private investment and exports affected growth. Household consumption plummeted by 7.3%, mainly due to lower spending on services following lockdown measures from 23 March to 10 May 2020. Private investment slumped by 4.3%, as a result of a disruption in the supply chains and weak global demand, particularly in the automotive subsector as major car manufacturers temporarily shut down operations. Likewise, exports plunged by 13.4%, largely due to reduced demand for motor vehicles as well as machinery and equipment. The unemployment rate was recorded at 4%, while inflation eased to 1.2%, owing to low oil prices.

Growth in Germany is anticipated to contract by 6% in 2020 (2019: 0.6%), weighed down by sluggish domestic demand, despite the announcement of fiscal stimulus packages amounting to EUR130 billion. Household consumption is expected to remain weak following increasing precautionary savings. Private investment is expected to plummet, largely due to a slowdown in manufacturing activities, amid unfavourable external demand. However, various Government measures, including emergency loans, credit guarantees and tax breaks are expected to cushion excessive cutbacks on business investment. Exports are expected to dampen following sluggish demand from major trading partners, particularly the US, France and the UK. The labour market is projected to remain stable, with the unemployment rate at 4.3% (2019: 3.1%), as Kurzarbeit, Germany's short-time work programme, is instrumental in containing further job losses. Inflation is forecast to ease further to 0.5% (2019: 1.3%), owing to falling oil prices.

TABLE 2.4. *Selected Indicators for Germany, 2019 – 2021*

INDICATOR	2019	2020[1]	2021[2]
Real GDP (% p.a.)	*0.6*	*-6.0*	*4.2*
Inflation (% p.a.)	*1.3*	*0.5*	*1.1*
Current Account of BOP (% of GDP)	*7.1*	*5.8*	*6.8*
Unemployment Rate (%)	*3.1*	*4.3*	*4.2*

[1] Estimate
[2] Forecast
Source: International Monetary Fund, World Economic Outlook (October 2020)

In 2021, growth in Germany is envisaged to expand by 4.2%, primarily supported by a recovery in domestic demand. Household consumption is expected to rebound, attributed to higher disposable income, with increased income tax allowance and reduced social security contribution levels. Private investment is anticipated to turn around, driven by investment in machinery and equipment following improved confidence, amid recovering global demand. Likewise, public investment is expected to increase, with a comprehensive EUR50 billion package focusing on public transport, electric mobility, green technology, digital infrastructure, education as well as research and development (R&D). The unemployment rate is anticipated to slightly improve at 4.2%, backed by favourable outcomes of the Kurzarbeit, which is scheduled to end in December 2021. Inflation is forecast to be higher at 1.1%.

Risks to the economy include labour market disruptions, stemming from the acceleration of the automation technologies' development and implementation, due to the COVID-19 pandemic. Additionally, unfavourable demographic trends, amid a declining working population, will increasingly constrain productivity and potential economic growth. On the external front, prolonged supply chain disruptions and challenges among main trading partners in curtailing the pandemic may weigh on growth prospects of the export-oriented economy. Additional risks include possible retaliation from the country's largest trading partner, which will depend on the Government's decision related to partnership in the country's 5G network infrastructure development. Subsequently, this may also adversely affect trade, particularly auto exports.

The economy of **France** contracted by 12.3% in the first six months of 2020 due to weak domestic demand. Household consumption plummeted by 10.4%, with a significant reduction in spending on energy, engineered goods as well as transportation, accommodation and food services. Private investment slumped by 13.9%, with the suspension of building constructions following lockdown measures from March until May 2020. The unemployment rate improved slightly to 8% as the Government widened the coverage of the short-term activity scheme to include the self-employed and small business owners. Inflation eased to 0.9%, with lower oil prices.

Overall, the GDP of France is forecast to shrink by 9.8% in 2020 (2019: 1.5%), mainly dragged by household consumption and private investment. Household consumption is expected to plunge, as a result of lower income levels following a reduction in working hours, coupled with increasing precautionary savings. Private investment is projected to remain sluggish due to decreased profit margins, as businesses are expected to operate below full capacity, amid the pandemic. The labour market outlook remains stable, with the unemployment rate at 8.9% (2019: 8.5%). Inflation is forecast to be lower at 0.5% (2019: 1.3%), owing to falling oil prices.

TABLE 2.5. *Selected Indicators for France, 2019 – 2021*

INDICATOR	2019	2020[1]	2021[2]
Real GDP (% p.a.)	*1.5*	*-9.8*	*6.0*
Inflation (% p.a.)	*1.3*	*0.5*	*0.6*
Current Account of BOP (% of GDP)	*-0.7*	*-1.9*	*-1.8*
Unemployment Rate (%)	*8.5*	*8.9*	*10.2*

[1] Estimate
[2] Forecast
Source: International Monetary Fund, World Economic Outlook (October 2020)

For 2021, growth in France is projected to expand by 6%, mainly supported by a recovery in domestic demand. Household consumption is expected to turn around, backed by higher spending as consumer confidence is restored. Likewise, private investment is anticipated to rebound, spurred by the Government's support in the form of state-guaranteed loans and tax breaks. Public investment is expected to rise, in line with the EUR100 billion recovery plan to support green and digital transitions as well as improve the competitiveness of French companies. In addition, the recovery plan also aims to strengthen the resilience of strategic sectors, particularly aeronautics, automobile, construction and tourism. However, France is anticipated to register a double-digit unemployment rate at 10.2% as the Government is expected to progressively reduce coverage of the short-term activity scheme. Inflation is expected to be at 0.6%.

Risks to the economy include widening fiscal deficit, with a reduction in tax revenues and higher social transfer expenditure following a sizeable drop in economic activities, amid the COVID-19 pandemic. The general escape clause in the EU fiscal rules allows more fiscal space for the Government to address the impact of the pandemic. The activation of this clause will lead to a sharp expansion in the country's fiscal deficit. In addition, possible new tariffs imposed by the US on a broader range of imported items from France, amid re-escalating trade tensions over the digital services tax levied by France and aerospace subsidies, could adversely affect business investment plans and undermine exports.

Japan's economy contracted by 5.9% in the first half of 2020, mainly due to a decline in private consumption and exports, which were severely affected by the pandemic. Private consumption decreased significantly by 10.9%, as a result of services-related businesses closure and the implementation of voluntary emergency measures. Likewise, exports shrunk by 23.3%, owing to low shipments of transport equipment and machinery, amid deteriorating global demand. The unemployment rate slightly rose to 2.7%, while inflation was lower at 0.1%.

Growth in Japan is forecast to decline by 5.3% in 2020 (2019: 0.7%), mainly due to worsening private consumption and exports. Private consumption, which deteriorated in the first few months of the year, is expected to rise gradually with the reopening of businesses in late May. Exports are anticipated to remain sluggish due to the ongoing trade tensions with the Republic of Korea and the US, and uncertainty in the outlook of global demand. In May 2020, the Government announced a second stimulus package amounting to USD1.1 trillion to provide relief to people and businesses affected by the pandemic. Fiscal support of the same amount was earlier rolled out in April. The Government plans to announce additional economic stimulus measures in early 2021 to boost the economy. The unemployment rate is anticipated to be at 3.3% (2019: 2.4%). Meanwhile, deflation is projected to register 0.1% (2019: 0.5%) due to a drop in oil prices.

TABLE 2.6. *Selected Indicators for Japan, 2019 – 2021*

INDICATOR	2019	2020[1]	2021[2]
Real GDP (% p.a.)	*0.7*	*-5.3*	*2.3*
Inflation (% p.a.)	*0.5*	*-0.1*	*0.3*
Current Account of BOP (% of GDP)	*3.6*	*2.9*	*3.2*
Unemployment Rate (%)	*2.4*	*3.3*	*2.8*

[1] Estimate
[2] Forecast
Source: International Monetary Fund, World Economic Outlook (October 2020)

The GDP is forecast to turn around by 2.3% in 2021, supported by a rebound in private consumption, private investment and exports. Private consumption is expected to be buoyed by the Tokyo Olympic Games, scheduled in the summer of the year. Private investment is expected to increase due to higher usage of automation and digitisation, which will enable companies to lower costs and boost productivity. This is in line with the Government's plans to automate 27% of existing work tasks by 2030 to address a shrinking workforce due to the ageing population. The unemployment rate is projected to be lower at 2.8%, while inflation is expected to remain at 0.3%.

Risks to the economy include continued recession brought about by the pandemic, escalating trade tensions and an unfavourable fiscal outlook due to the high level of government debts. Risks also stem from macro-financial vulnerabilities and limited monetary policy space, which make the country more vulnerable to shocks. The ageing population may slow down growth and remains one of the major challenges for the economy.

The GDP of **Australia** fell by 2.4% in the first half of 2020, mainly due to weak private consumption and exports. Private consumption plunged by 6.5%, as a result of a large decline in household expenditure, particularly in transport services, recreation as well as hotels, cafes and restaurants. Exports plummeted by 6.3%, largely due to significantly lower demand for metal ores and minerals, particularly from China and Japan. The unemployment rate was registered at 5.9% following job losses in the accommodation and food services, retail trade industries as well as arts and recreation services. Inflation was recorded at 1%, with lower oil prices.

Overall, Australia's GDP growth is expected to contract by 4.2% in 2020 (2019: 1.8%) as private consumption and exports declined. Private consumption is anticipated to shrink following massive job losses and lower income levels, coupled with higher savings. Exports are forecast to fall by 5.4% (2019: 3.1%) due to sluggish demand from China, amid heightening trade tensions between the two nations. Public consumption is projected to increase by 5.4% (2019: 5.3%) following the announcement of four stimulus packages amounting to AUD17.6 billion. These include tax-free cash payments and wage subsidies to support households and small- and medium-sized businesses. The unemployment rate is forecast to register 6.9% (2019: 5.2%) due to job losses in industries affected by movement restrictions, particularly in accommodation and food services. Inflation is anticipated to record 0.7% (2019: 1.6%). The Reserve Bank of Australia reduced its policy rate twice in March, by a total of 50 basis points, from 0.75% to 0.25% to support the economy.

Australia's economy is forecast to turn around by 3% in 2021, attributed to robust domestic demand and a recovery in exports. Private consumption is expected to gain momentum, with a growth of 5.7%, backed by improved consumer confidence, amid the recovery in employment prospects. Public investment is forecast at 3.3%, with higher spending on transport infrastructure, health care and other essential services. Exports are projected to pick up by 5.1% due to rising demand for liquefied natural gas (LNG). The unemployment rate is anticipated to register 7.7%, while inflation is expected to record 1.3%. Risks to the economy include a resurgence of the COVID-19 pandemic, re-intensification of trade tensions and a cold war over technology with China as well as volatile commodity prices.

TABLE 2.7. *Selected Indicators for Australia, 2019 – 2021*

INDICATOR	2019	2020[1]	2021[2]
Real GDP (% p.a.)	*1.8*	*-4.2*	*3.0*
Inflation (% p.a.)	*1.6*	*0.7*	*1.3*
Current Account of BOP (% of GDP)	*0.6*	*1.8*	*-0.1*
Unemployment Rate (%)	*5.2*	*6.9*	*7.7*

[1] Estimate
[2] Forecast
Source: International Monetary Fund, World Economic Outlook (October 2020)

The **Republic of Korea**'s economy contracted by 1.5% during the first six months of 2020, mainly due to weak private consumption and a plunge in exports, particularly in the second quarter. Private consumption decreased by 4.5%, mainly in services-related activities, owing to a reduction of income and self-isolation measures encouraged by the Government. Exports dropped by 8%, particularly in automotive products and semiconductors, as a result of slower demand from advanced economies and the temporary shutdown of factories. Public consumption, which expanded by 6.4%, has helped the economy from shrinking further. The unemployment rate was registered at 4.3%, while inflation remained at 0.6%.

In response to the pandemic crisis, the Government rolled out three stimulus packages amounting to USD222 billion, which focused on urgent relief measures, particularly for the vulnerable sectors, SMEs and the self-employed. Additionally, a five-year New Deal programme, with a total of USD133 billion, was announced in June 2020. The programme aims to create 1.9 million new jobs in the digital and green sectors as well as spur the economy, to cushion the impact of the crisis. Hence, the GDP in 2020 is expected to only contract by 1.9% (2019: 2%), owing to sluggish private consumption and exports. Private consumption is forecast to remain weak at 3.2% (2019: 1.9%), as a result of a decline in household incomes and low consumer confidence. Exports are projected to fall by 5.1% (2019: 1.5%), with slow demand from major trading partners. The unemployment rate is forecast to increase to 4.1% (2019: 3.8%), while inflation is projected to register 0.5% (2019: 0.4%).

TABLE 2.8. *Selected Indicators for the Republic of Korea, 2019 – 2021*

INDICATOR	2019	2020[1]	2021[2]
Real GDP (% p.a.)	*2.0*	*-1.9*	*2.9*
Inflation (% p.a.)	*0.4*	*0.5*	*0.9*
Current Account of BOP (% of GDP)	*3.6*	*3.3*	*3.4*
Unemployment Rate (%)	*3.8*	*4.1*	*4.1*

[1] Estimate
[2] Forecast
Source: International Monetary Fund, World Economic Outlook (October 2020)

The economy of Korea is forecast to rebound by 2.9% in 2021, driven by private consumption and exports. Private consumption and exports are expected to turn around as the impact of the pandemic outbreak eases. The unemployment rate is projected to remain unchanged at 4.1%, while inflation is anticipated to record 0.9%. Risks to the economy include a prolonged spread of the pandemic, deepening of the US-China trade dispute, trade tension with Japan and a delay in the recovery of the semiconductor industry.

China's economy fell by 1.6% in the first half of 2020 due to a drop in both private consumption and investment as well as unfavourable external demand. Private consumption plunged by 11.4% as the lockdown, which was announced on the eve of Chinese New Year, weakened consumer confidence. Similarly, private investment declined by 7.3%, particularly in infrastructure and manufacturing activities following the closure of factories. Exports fell by 3% due to slower demand, mainly in mechanical and electronic products. The unemployment rate was recorded at 3.8%. Meanwhile, inflation registered 3.9%, with higher prices of food, tobacco and liquor.

The economy is expected to expand by 1.9% in 2020 (2019: 6.1%) as economic activities recover in the second half of the year. Private consumption is projected to increase by 0.8% (2019: 7.4%), especially in non-essential items following the distribution of vouchers and coupons for in-store purchases. Private investment is projected to improve by 1.7% (2019: 4.4%), with an expected increase in infrastructure and manufacturing activities as well as real estate development. The Government announced the New Infrastructure plan for 2020 until 2025 to accelerate infrastructure development. The plan comprises seven focus areas, including 5G networks, artificial intelligence and intercity high-speed rail. A fiscal stimulus package totalling USD500 billion was introduced in May 2020 to counter the adverse effects of the pandemic. Measures in the package include tax cuts, lower interest rates, reduced utility prices and employment support. The unemployment rate is expected to record 3.8% (2019: 3.6%), while inflation is anticipated to remain at 2.9% (2019: 2.9%).

TABLE 2.9. *Selected Indicators for China, 2019 – 2021*

INDICATOR	2019	2020[1]	2021[2]
Real GDP (% p.a.)	*6.1*	*1.9*	*8.2*
Inflation (% p.a.)	*2.9*	*2.9*	*2.7*
Current Account of BOP (% of GDP)	*1.0*	*1.3*	*0.7*
Unemployment Rate (%)	*3.6*	*3.8*	*3.6*

[1] Estimate
[2] Forecast
Source: International Monetary Fund, World Economic Outlook (October 2020)

In 2021, the growth in China is forecast to lead the recovery in the EMDEs, with a rapid growth of 8.2%, supported by strong domestic demand and favourable exports. The Government is expected to unveil a five-year plan in the first quarter of 2021, which will, among others, set the economic direction for 2021 until 2025. The unemployment rate is projected to moderate to 3.6%, while inflation is expected to be lower at 2.7%. Risks to the economy emanate from rising asset price inflation, continued supply chain disruptions, broad global recession and heightening trade tensions with the US. A resurgence of the COVID-19 pandemic and emergence of new epidemics may also pose risks to the economy.

During the first half of 2020, **India**'s GDP plummeted by 10.1% due to a decline in the services and manufacturing sectors. The services sector recorded a drop of 8.5% due to a sharp contraction in the trade, hotels, transport, communication and broadcasting-related services subsector. Likewise, the manufacturing sector plunged significantly by 19.8%, largely attributed to a reduction in the production of motor vehicles, trailers and semi-trailers. Inflation, as indicated by the wholesale price index, recorded a deflation of 0.1% due to a fall in the prices of crude petroleum, petrol and high speed diesel.

India's GDP is projected to plunge by 10.3% in 2020 (2019: 4.2%) due to contractions in the services, manufacturing and construction sectors. The services sector is expected to slip due to a decline in travel-, tourism- and hospitality-related activities. Similarly, the manufacturing sector is anticipated to shrink, owing to less production of passenger vehicles. The construction sector is expected to contract, as a result of declining new residential building projects and the impact of the liquidity crunch on construction developers. On 12 May 2020, the Government announced a relief package of around 10% of GDP, amounting to INR20 trillion, which included key direct spending measures such as cash transfers to households. Additionally, the Government announced a stimulus package on 12 October 2020 amounting to INR730 billion. The package included partial advance payments of federal government employees' wages and further capital spending on infrastructure projects. The Reserve Bank of India (RBI) reduced its key policy repo rate twice in March and May 2020, by a total of 115 basis points, to 4.00%. This action by the RBI is to revive growth and mitigate the impact of the COVID-19 pandemic, while ensuring inflation remains within the target range of 2% to 6%. Inflation is estimated at 4.9% (2019: 4.8%), achieving the target range.

TABLE 2.10. *Selected Indicators for India, 2019 – 2021*

INDICATOR	2019	2020[1]	2021[2]
Real GDP (% p.a.)	*4.2*	*-10.3*	*8.8*
Inflation (% p.a.)	*4.8*	*4.9*	*3.7*
Current Account of BOP (% of GDP)	*-0.9*	*0.3*	*-0.9*
Unemployment Rate (%)	–	–	–

[1] Estimate
[2] Forecast
Source: International Monetary Fund, World Economic Outlook (October 2020)

The GDP of India in 2021 is projected to rebound by 8.8%, largely supported by a recovery in the services and manufacturing sectors, coupled with resilient growth in the agriculture sector. The anticipated growth in the agriculture sector is a result of higher Rabi and Kharif crops output as well as the likelihood of a normal monsoon season. Inflation is expected to record 3.7%, still within the target range of the RBI. Growth in India is exposed to several risks. A serious local transmission of COVID-19 to the rural areas, continuing financial and corporate distress, particularly in the non-banking financial sector as well as a prolonged global economic downturn may hamper growth.

The GDP of the **ASEAN-5** economies recorded a weak growth in the first half of 2020, mainly due to sluggish private consumption and exports, as these economies grappled with the COVID-19 pandemic. The ASEAN-5 is anticipated to contract by 3.4% in 2020 (2019: 4.9%) due to a plunge in private consumption. The decline is mainly due to a fall in household incomes and an increase in precautionary savings. Trade is expected to remain unfavourable due to disruptions in the supply chains among key trading partners, particularly the US and euro area. For 2021, the ASEAN-5 economies are expected to expand significantly by 6.2%, driven by domestic demand and exports. These economies may continue to encounter numerous challenges, including prolonged disruptions in highly integrated regional supply chains, sluggish commodity prices and financial market volatility.

TABLE 2.11. *Selected Indicators for ASEAN-5, 2019 – 2021*

INDICATOR	2019	2020[1]	2021[2]
Real GDP (% p.a.)	*4.9*	*-3.4*	*6.2*
Inflation (% p.a.)	*2.1*	*1.5*	*2.3*
Current Account of BOP (% of GDP)	*1.1*	*0.8*	*0.1*
Unemployment Rate (%)	–	–	–

[1] Estimate
[2] Forecast
Source: International Monetary Fund, World Economic Outlook (October 2020)

TABLE 2.12. *Selected Indicators for Indonesia, 2019 – 2021*

INDICATOR	2019	2020[1]	2021[2]
Real GDP (% p.a.)	*5.0*	*-1.5*	*6.1*
Inflation (% p.a.)	*2.8*	*2.1*	*1.6*
Current Account of BOP (% of GDP)	*-2.7*	*-1.3*	*-2.4*
Unemployment Rate (%)	*5.3*	*8.0*	*6.8*

[1] Estimate
[2] Forecast
Source: International Monetary Fund, World Economic Outlook (October 2020)

Indonesia's GDP deteriorated by 1.2% in the first half of 2020 due to a drop in private consumption, private investment and exports. Private consumption fell by 1.3%, owing to reduced spending on restaurant and hotel as well as transportation services, along with a rise in precautionary savings. Similarly, private investment dropped by 3.5% due to a contraction of investment in capital goods, machinery and equipment as well as vehicles. Meanwhile, exports plunged further by 5.7% due to lower demand, particularly for oil and gas, manufactured goods and mining products. Inflation was recorded at 2.6%.

Overall, the economy is projected to contract by 1.5% in 2020 (2019: 5%), mainly due to weak domestic demand. Private consumption is projected to decline, as a result of a substantial decrease in spending on restaurant and hotel as well as transportation services. Likewise, private investment is anticipated to fall due to supply and labour disruptions following the implementation of lockdown measures, which has caused major infrastructure projects to be delayed. Public expenditure is expected to increase, resulting from the stimulus measures totalling IDR695.2 trillion, to boost economic growth and strengthen the health care system. Bank Indonesia lowered its key policy rate by 25 basis points, each in March, May, June and July 2020 to 4.00% to support the economy. The unemployment rate is anticipated to rise to 8% (2019: 5.3%), partly due to job losses resulting from the closure of restaurants and hotels, while inflation is forecast to record 2.1% (2019: 2.8%).

Indonesia's GDP is expected to grow at a fast pace of 6.1% in 2021, led by both private consumption and investment as well as external demand. The increase in private consumption is expected to be supported by higher purchases of durable goods as well as rising confidence in income prospects and job security. Likewise, private investment is expected to improve, particularly in the information and communication sector following the completion of the Palapa Ring Project, which aims to provide 4G internet access nationwide. Exports are anticipated to be higher, supported by robust demand for gold, metal ore as well as iron and steel. The unemployment rate is forecast at 6.8%, while inflation is expected to record 1.6%. Risks for Indonesia include subdued trade and investment activity following ongoing trade tensions between the US and China as well as a prolonged depreciation of the rupiah.

The economy of **Thailand** plunged by 7.1% in the first half of 2020 due to a decline in private consumption, private investment and exports. Private consumption slipped by 2%, owing to lower spending on alcoholic beverages and transportation. Private investment dropped by 7.3% following a decline of investment in machinery and equipment as well as construction. Similarly, exports worsened by 17.8%, mainly due to lower demand for vehicles and disruptions in the production of agricultural goods, particularly rice. The unemployment rate rose to 2% following job losses in the tourism and agriculture industries. Deflation was recorded at 1.9% as oil prices were low.

The Government announced four stimulus packages from March until September, amounting to approximately THB2.1 trillion or 14.5% of the GDP, to mitigate the economic impact of the pandemic. The Bank of Thailand also reduced the policy rate four times, amounting to 75 basis points, to 0.50% to sustain the economy. The GDP growth in 2020 is anticipated to contract by 7.1% (2019: 2.4%), as a result of sluggish private consumption and exports. Private consumption is expected to be subdued, mainly due to lower spending in the tourism-related industry and transportation. Exports are anticipated to plunge, resulting from lower demand, particularly in automotive and tourism services. The unemployment rate is expected to remain at 1% (2019: 1%), while deflation is estimated to record 0.4% (2019: 0.7%).

TABLE 2.13. *Selected Indicators for Thailand, 2019 – 2021*

INDICATOR	2019	2020[1]	2021[2]
Real GDP (% p.a.)	*2.4*	*-7.1*	*4.0*
Inflation (% p.a.)	*0.7*	*-0.4*	*1.8*
Current Account of BOP (% of GDP)	*7.1*	*4.2*	*4.6*
Unemployment Rate (%)	*1.0*	*1.0*	*1.0*

[1] Estimate
[2] Forecast
Source: International Monetary Fund, World Economic Outlook (October 2020)

The GDP of Thailand is projected to rebound by 4% in 2021, largely supported by robust domestic demand and a recovery in exports. Private consumption is expected to pick up, contributed by higher online spending, particularly on electronics and media as well as digital products. Private investment is forecast to expand as tax incentives offered by the Government are projected to encourage companies to invest in automation in projects, particularly for medical equipment and food security. Similarly, exports are envisaged to improve, with higher demand for manufactured goods, primarily electronics, vehicles and machinery. The unemployment rate is expected to remain steady at 1%, while inflation is anticipated to record 1.8%. Risks to the economy include weak investor confidence due to uncertainties in the domestic political atmosphere, further disruptions in the supply chains as well as subdued tourism activities.

The economy of **Singapore** plummeted by 6.7% in the first half of 2020 due to a decrease in the services producing industries. The services producing industries contracted by 7.9%, particularly in the wholesale and retail trade, business services as well as accommodation and food services sectors, as a result of weaker global demand and disruptions in supply chains due to the pandemic. The unemployment rate was marginally higher at 2.5%, mainly due to layoffs in the tourism-related services sectors. Deflation was recorded at 0.2%, owing to lower housing and utility prices as well as transport costs.

The Government announced four stimulus packages from February until May 2020, namely the Unity Budget, Resilience Budget, Solidarity Budget and Fortitude Budget, with a total of approximately SGD100 billion. In August 2020, the Government announced an additional allocation of SGD8 billion. These budgetary measures are expected to cushion the fall in employment and economic output as well as to support economic, social and public health management. The economy is projected to contract by 6% in 2020 (2019: 0.7%), with a decline in the wholesale and retail trade, business services as well as transport and storage services subsectors.

TABLE 2.14. *Selected Indicators for Singapore, 2019 – 2021*

INDICATOR	2019	2020[1]	2021[2]
Real GDP (% p.a.)	*0.7*	*-6.0*	*5.0*
Inflation (% p.a.)	*0.6*	*-0.4*	*0.3*
Current Account of BOP (% of GDP)	*17.0*	*15.0*	*14.5*
Unemployment Rate (%)	*2.3*	*3.0*	*2.6*

[1] Estimate
[2] Forecast
Source: International Monetary Fund, World Economic Outlook (October 2020)

Likewise, sectors that are reliant on tourism and foreign workers are anticipated to shrink due to the lingering pandemic situation. The expected recovery in the manufacturing and financial services subsectors, in the second half of 2020, is projected to support the economy from a further decline. The unemployment rate is forecast at 3% (2019: 2.3%), while deflation is expected to register 0.4% (2019: 0.6%) due to declining oil prices.

The GDP is projected to rebound by 5% in 2021, spearheaded by the services producing industries and manufacturing subsector. The services producing industries are expected to gradually recover, driven by the finance and insurance services subsector. Similarly, the manufacturing subsector is expected to expand, supported by higher production of pharmaceutical and biological products. The unemployment rate is forecast at 2.6%, while inflation is anticipated to record 0.3%. Risks to the economy include uncertainties over the pandemic, which may continue to drag several outward-oriented sectors, particularly manufacturing and wholesale trade. Likewise, domestically-oriented sectors, namely construction and real estate, may be severely affected by a further downturn in the domestic economy.

The economy of the **Philippines** contracted by 9% in the first half of 2020 due to weak household consumption, private investment and exports. Household consumption contracted by 7.8% due to reduced spending on expenditure items services, particularly restaurants and hotels as well as transport. Private investment shrank by 22.3%, resulting from lower investment in durable equipment and construction. Exports plunged by 17.6% due to sluggish demand for electronic products, manufactured goods as well as machinery and transport equipment. Bangko Sentral ng Pilipinas cut its policy rate four times, from 4.00% to 2.25%, between March and June 2020. The unemployment rate increased significantly to 11.5% due to drastic job losses in services-related sectors following business closures and layoffs. Inflation eased to 2.5%, owing to a fall in oil prices.

In 2020, the economy is expected to decline by 8.3% (2019: 6%), weighed down by a drop in household consumption and exports. Household consumption is projected to weaken following lower spending, particularly on restaurants and hotels as well as transport categories, amid uncertainties over job prospects. Public spending is expected to accelerate as the Government announced programmes, amounting to approximately PHP1.7 trillion, to stimulate the economy. Exports are anticipated to be sluggish due to lower demand for electronic products, particularly semiconductors and electronics. The unemployment rate is forecast to rise to 10.4% (2019: 5.1%) following job losses in the services sector, particularly in wholesale and retail trade as well as repair of motor vehicles and motorcycles services. Inflation is expected to moderate to 2.4% (2019: 2.5%) due to lower oil prices.

TABLE 2.15. *Selected Indicators for the Philippines, 2019 – 2021*

INDICATOR	2019	2020[1]	2021[2]
Real GDP (% p.a.)	*6.0*	*-8.3*	*7.4*
Inflation (% p.a.)	*2.5*	*2.4*	*3.0*
Current Account of BOP (% of GDP)	*-0.1*	*1.6*	*-1.5*
Unemployment Rate (%)	*5.1*	*10.4*	*7.4*

[1] Estimate
[2] Forecast
Source: International Monetary Fund, World Economic Outlook (October 2020)

In 2021, growth in the Philippines is expected to rebound by 7.4%, spurred by domestic demand. Household consumption is forecast to recover, backed by an increase in remittance inflows and improved consumer confidence. Public spending is anticipated to increase following the proposed 2021 Budget, amounting to PHP4.5 trillion, to stimulate growth and create jobs. This is coupled with annual spending of PHP1 trillion for its Build, Build, Build programme. The unemployment rate is projected to moderate to 7.4%, while inflation is anticipated to be higher at 3%. Risks to the economy include a widening fiscal deficit. A slower-than-expected global recovery following a prolonged pandemic may also weigh on trade and investment as well as foreign remittances.

Conclusion

Promising global prospects amid uncertainties

The global economy is forecast to record a solid rebound in 2021. The turnaround is expected to be buoyed by robust domestic demand and exports in the advanced economies and the EMDEs. However, risks to the global economy persist. Growth may be hampered by the re-intensification of trade tensions between the US and China, uncertainties surrounding the Brexit outcomes and widespread geopolitical tensions. Continued low oil prices and deepening climate crisis may also derail the recovery. In addition, limited fiscal space and a further spike in government debts may also impede growth. The global economy, however, is envisaged to remain on a positive growth trajectory, with the implementation of fiscal and monetary measures to boost consumer and investor confidence. The successful development of an effective and accessible COVID-19 vaccine, coupled with the containment of the spread of the pandemic in the near term, may further stimulate global growth. While the pandemic poses multifaceted challenges to countries, especially in amplifying existing socioeconomic gaps, the COVID-19 pandemic also presents opportunities for economies to institute reforms, towards accelerating digitalisation and pursuing sustainable growth.

References

ASEAN+3 Macroeconomic Research Office (AMRO). (2020). *Another "Unprecedented" Crisis? This, Too, Shall Pass, September 2020*. Retrieved from https://www.amro-asia.org/wp-content/uploads/2020/09/AMRO-Analytical-Note_Another-Unprecedented-Crisis-v2_Sep-18-2020.pdf

ASEAN+3 Macroeconomic Research Office (AMRO). (2020). *ASEAN Regional Economic Outlook (AREO) Update, August 2020*. Retrieved from https://www.amro-asia.org/wp-content/uploads/2020/08/AREO_Update_August-2020_For-posting_12August.pdf

ASEAN+3 Macroeconomic Research Office (AMRO). (2020). *COVID, Credit, and Contagion Risks to ASEAN+3 Financial Systems, June 2020*. Retrieved from https://www.amro-asia.org/wp-content/uploads/2020/06/AMRO-Analytical-Note_Covid-Credit-and-Contagion-Risks-to-ASEAN3-Financial-Systems_9-June-2020.pdf

ASEAN Economic Integration Brief. (2020). Retrieved from https:// asean.org/asean-economic-community/aec-monitoring/asean-economic-integration-brief/

ASEAN Policy Brief, April 2020. Retrieved from https://asean.org/storage/2020/04/ASEAN-Policy-Brief-April-2020_FINAL.pdf

Asian Development Bank. (2020). *ADB Triples COVID-19 Response Package to $20 Billion*. Retrieved from https://www.adb.org/news/adb-triples-covid-19-response-package-20-billion

Asian Development Bank. (2020). *Joint Statement by Heads of Multilateral Development Banks and the WTO on Supporting Trade Finance during the COVID-19 crisis.* Retrieved from https://www.adb.org/news/joint-statement-heads-multilateral-development-banks-and-wto-supporting-trade-finance-during

Asian Infrastructure Investment Bank. (2020). *AIIB Doubles COVID-19 Crisis Response to USD10 Billion*. Retrieved from https://www.aiib.org/en/news-events/news/2020/AIIB-Doubles-COVID-19-Crisis-Response-to-USD10-Billion.html

Australia Bureau of Statistics. (2020). *Australian National Accounts: National Income, Expenditure and Product.* Retrieved from https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product

Australia Bureau of Statistics. (2020). *Employment and Unemployment Labour Force, Australia*. Retrieved from https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia

Australia Bureau of Statistics. (2020). *Price Indexes and Inflation Consumer Price Index, Australia*. Retrieved from https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia

Bank of England. (2020). *Bank Rate Maintained at 0.1% – September 2020*. Retrieved from https://www.bankofengland.co.uk/

Bank Indonesia. (2020). *Inflation Report*. Retrieved from https://www.bi.go.id/en/moneter/inflasi/data/Default.aspx

Bank of Korea. (2020). *Economic Outlook, August 2020*. Retrieved from http://www.bok.or.kr/eng/bbs/E0000634/view.do?nttId=10059976&menuNo=400069&pageIndex=2

Bank of Korea. (2020). *Real Gross Domestic Product: 2nd Quarter of 2020 (Advance Estimate)*. Retrieved from http://www.bok.or.kr/eng/bbs/E0000634/view.do?nttId=10059416&menuNo=400069&pageIndex=4

Bank of Thailand. (2020). *Inflation*. Retrieved from https://www.bot.or.th/English/MonetaryPolicy/MonetPolicyComittee/MPR/Pages/default.aspx

Banque de France. (2020). Retrieved from https://www.banque-france.fr/en

British Broadcasting Corporation (BBC). (2020). *Eat Out to Help Out: More Than 10.5m Meals Claimed In First Week*. Retrieved from https://www.bbc.com/news/business-53731002

Bureau of Economic Analysis, Washington: US Department of Commerce. (2020). *News Release, 30 September 2020: Gross Domestic Product: Second Quarter 2020 (Third Estimates)*. Retrieved from https://www.bea.gov/site/default/files/2020-09/gdp2q20_3rd_0.pdf

Bureau of Labor Statistics, Washington: US Department of Labor. (2020). *Press Release, 11 September 2020: Consumer Price Index – August 2020*. Retrieved from http://www.bls.gov/news.release/pdf/cpi.pdf

Bureau of Labor Statistics, Washington: US Department of Labor. (2020). *Press Release, 2 October 2020: The Employment Situation – September 2020*. Retrieved from http://www.bls.gov/news.release/pdf/empsit.pdf

Cabinet Office Japan. (2020). *Quarterly Estimates of GDP for April-June 2020 (The Second Preliminary Estimates).* Retrieved from https://www.esri.cao.go.jp/en/sna/data/sokuhou/files/2020/toukei_2020.html

Cabinet Office Japan. (2020). *Recent Economic Developments.* Retrieved from https://www5.cao.go.jp/keizai3/getsurei-e/reference/reference20200903.pdf

Central Bank of the Philippines. (2020). *Inflation.* Retrieved from http://www.bsp.gov.ph/downloads/Publications/2020/IR2qtr_2020.pdf

Center for Strategic and International Studies (CSIS). (2020). *CSIS IFI COVID-19 Response Tracker, CSIS Economic Program.* Retrieved from https://www.csis.org/analysis/tracking-international-financial-institutions-covid-19-response.

Centre for Strategic International Studies (CSIS). (2020). *The Economic Toll of Covid-19 on Southeast Asia: Recession Looms as Growth Prospects Dim, April 2020*. Retrieved from https://www.csis.org/analysis/economic-toll-covid-19-southeast-asia-recession-looms-growth-prospects-dim

Coralde, J.L. & Tamonan, M.A. (2020). *MDBs: Fast-Tracking Procurement in the Time of COVID-19.* Retrieved from https://www.devex.com/news/mdbs-fast-tracking-procurement-in-the-time-of-covid-19-97635

Department of Finance. (2020). *Economic Bulletin*. Retrieved from https://www.dof.gov.ph/data/economic-bulletin/

Department of Statistics, Singapore. (2020). *CPI for August 2020*. Retrieved from https://www.singstat.gov.sg/-/media/files/news/cpiaug2020.pdf

Department of Statistics, Singapore. (2020). *Data and News.* Retrieved from https://www.singstat. gov.sg/

Economic Intelligence Center. (2020). *Thailand's Growth in Q1 2020*. Retrieved from https://www.scbeic.com/en/detail/file/product/6843/fnqybahfpf/EICFlash_GDP_ Q1_ 2020_ EN_20200525.pdf

European Central Bank. (2020). Retrieved from https://www.ecb.europa.eu/home/html/index.en.html

European Commission. (2020). Retrieved from https://ec.europa.eu/info/index_en

European Economic Forecast, Spring 2020. (2020). Retrieved from https://ec.europa.eu/info/sites/info/files/economy-finance/ip125_en.pdf

Eurostat. (2020). Retrieved from https://ec.europa.eu/eurostat/web/main/home

Evans, D. & Over, M. (2020). *The Economic Impact of COVID-19 in Low-and Middle-Income Countries*. Retrieved from https://www.cgdev.org/blog/economic-impact-covid-19-low-and-middle-income-countries

Focus Economics. (2020). *UK Economic Forecast*. Retrieved from https://www.focus-economics.com/countries/united-kingdom

France National Institute of Statistics and Economic Studies (Insee). (2020). Retrieved from https://insee.fr/en/accueil

Germany Federal Ministry of Finance. (2020). Retrieved from https://www.bundesfinanzministerium.de/Web/EN/Home/home.html

Germany Federal Statistical Office (Destatis). (2020). Retrieved from https://www.destatis.de/EN/Home/_node.html

Gopinath, G. (2020). *The Great Lockdown: Worst Economic Downturn since the Great Depression*. Retrieved from https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/

Humphrey, C. & Annalisa, P. (2014). *Guarantees for Development: A Review of Multilateral Development Bank Operations.* Retrieved from https://www.odi.org/publications/9130-guarantees-development-review-multilateral-development-bank-operations

International Monetary Fund. (2020). *Fiscal Monitor: Policies for the Recovery.* Retrieved from https://www.imf.org/en/Publications/FM/Issues/2020/09/30/october-2020-fiscal-monitor

International Monetary Fund. (2020). *Germany's Short-Time Work Benefit*. Retrieved from https://www.imf.org/en/News/Articles/2020/06/11/na061120-kurzarbeit-germanys-short-time-work-benefit

International Monetary Fund. (2020). IMF *Staff Country Report*. *United States: 2020 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for United States.* Retrieved from https://www.imf.org

International Monetary Fund. (2020). *Monetary and Financial Policy Responses for Emerging Market and Developing Economies*. 8 June 2020. Retrieved from https://www.imf.org/en/Publications/SPROLLs/covid19-special-notes

International Monetary Fund. (2020). *Policy Tracker, United States of America*. Retrieved from https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#U

International Monetary Fund. (2020). *Speech on the Global and Asia Economic Outlook: Greater Bay Area Chief Economist Forum.* Retrieved from https://www.imf.org/en/News/Articles/2020/07/10/sp071020-speech-on-the-global-and-asia-economic-outlook

International Monetary Fund. (2020). *World Economic Outlook, April 2020: The Great Lockdown.* Retrieved from https://www.imf.org/en/Publications/WEO/Issues/ 2020/04/14/weo-april-2020

International Monetary Fund. (2020). *World Economic Outlook, Update June 2020: A Crisis Like No Other, An Uncertain Recovery*. Retrieved from https://www.imf.org/en/Publications/WEO/Issues/2020/06/24/WEOUpdateJune2020

Islamic Development Bank. (2020). *As part of the US$23 Billion Package, IsDB Provides US$1.86 Billion to 27 Member Countries to Contain COVID-19.* Retrieved from https://www.isdb.org/news/as-part-of-the-us-23-billion-package-isdb-provides-us-186-billion-to-27-member-countries-to-contain-covid-19

Kassim, H. (2020). *The Latest on the UK-EU Negotiations*. Retrieved from https://ukandeu.ac.uk/explainers/the-latest-on-the-uk-eu-negotiations/

Lee, N. (2020). *Restructuring Sovereign Debt to Private Creditors in Poor Countries: What's Broken?* Retrieved from https://www.cgdev.org/publication/restructuring-sovereign-debt-private-creditors-poor-countries-whats-broken

Maasdorp, L. (2020). *COVID-19: How Multilateral Development Banks can Lead through a Crisis.* Retrieved from https://www.weforum.org/agenda/2020/07/brics-new-development-bank-leads-member-states-through-the-covid-19-crisis/

McKinsey & Company. (2020). *The Coronavirus Effect on Economic Sentiment.* Retrieved from https://www.mckinsey.com

Ministry of Commerce and Industry, Department for Promotion of Industry and Internal Trade, Office of the Economics Adviser. (2020). *Wholesale Price Index Press Release Archive.* Retrieved from https://eaindustry.nic.in/wpi_press_release_archive.asp

Ministry of Manpower. (2020). *Summary Table: Unemployment.* Retrieved from https://stats.mom.gov.sg/Pages/Unemployment-Summary-Table.aspx

Ministry of Statistics and Programme Implementation. (2020). *Press Note on Estimates of Gross Domestic Product for the First Quarter (April – June) 2020 – 2021*. Retrieved from http://mospi.gov.in/sites/default/files/press_release/PRESS_NOTE-Q1_2020-21.pdf

Ministry of Statistics and Programme Implementation. (2020). *Quick Estimates of Index of Industrial Production.* Retrieved from http://mospi.gov.in/iip

Ministry of the Economy, Finance and Recovery, France. (2020). Retrieved from https://www.economie.gouv.fr/

Ministry of Trade and Industry of Singapore. (2020). *Economic Survey of Singapore Second Quarter 2020*. Retrieved from https://www.mti.gov.sg/-/media/MTI/Resources/Economic-Survey-of-Singapore/2020/Economic-Survey-of-Singapore-Second-Quarter-2020/FullReport_2Q20.pdf

Monetary Authority of Singapore. (2020). *Recent Economic Development in Singapore, July 2020.* Retrieved from https://www.mas.gov.sg/publications/recent-economic-developments/recent-economic-developments-in-singapore-july-2020.

Moody's Investors Service. (2020). *Coronavirus – ASEAN-5: Policy Response Provides Some Support but Unlikely to Offset Rising Credit Risk, 25 June 2020.* Retrieved from https://www.moodys.com/research/Moodys-ASEAN-5-face-rising-credit-risk-as-stimulus-measures--PBC_1235355?showPdf=true

Morris, S. (2020). *Coronavirus Response: Addressing the Near-Term Financing Needs of Low-Income Countries.* Retrieved from https://www.cgdev.org/blog/coronavirus-response-addressing-near-term-financing-needs-low-income-countries

National Bureau of Statistics of China. (2020). *Preliminary Accounting Results of GDP for the Second Quarter and the First Half Year of 2020*. Retrieved from http://www.stats.gov.cn/english/PressRelease/202007/t20200717_1776596.html

National Bureau of Statistics of China. (2020). *The National Economy Sustained Steady Recovery in August.* Retrieved from http://www.stats.gov.cn/english/PressRelease/202009/t20200915_1789533.html

National Informatics Centre, Ministry of Electronics & Information Technology. (2020). Retrieved from https://aatmanirbharbharat.mygov.in

Nelson, R.M. & Weiss, M.A. (2020). *COVID-19: Role of the International Financial Institutions.* (Report Number R46342). Retrieved from https://www.everycrsreport.com/reports/R46342.html

Office for National Statistics. (2020). Retrieved from https://www.ons.gov.uk/

Office for National Statistics. (2020). *GDP Quarterly National Accounts, UK: April to June 2020.* Retrieved from https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/apriltojune2020

Office for National Statistics. (2020). *Inflation and Price Indices*. Retrieved from https://www.ons.gov.uk/economy/inflationandpriceindices

Office for National Statistics. (2020). *Unemployment.* Retrieved from https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/unemployment

Office of the National Economic and Social Development Council, Thailand. (2020). *Economic Report Quarterly Statistics*. Retrieved from https://www.nesdc.go.th/nesdb_en/article_attach/article_file_20200525140723.pdf

Organisation for Economic Co-operation and Development. (2020). *Business Insights on Emerging Markets*. Retrieved from https://www.oecd.org/dev/EMnet-Business-Insights-2020.pdf

Organisation for Economic Co-operation and Development. (2020). Economic Outlook, *Interim Report. Coronavirus (COVID-19): Living With Uncertainty, Sept. 2020*. Retrieved from https://www.oecd-ilibrary.org

Organisation for Economic Co-operation and Development. (2020) *Economic Outlook Volume 2020 Issue 1: The World Economy on a Tightrope*. Retrieved from http://www.oecd.org/economic-outlook/june-2020/

Organisation for Economic Co-operation and Development. (2020). *Interim Report: Coronavirus (COVID-19)- Living With Uncertainty, Sept. 2020*. Retrieved from https://www.oecd-ilibrary.org

Pettinger, T. (2020). *Threats to UK Economy.* Retrieved from https://www.economicshelp.org

Pettinger, T. (2020). *UK Unemployment Stats and Graphs.* Retrieved from https://www.economicshelp.org/stats

Philippines News Agency. (2020). *CITIRA Passage, BBB to Help Economic Recovery: Dominguea.* Retrieved from https://www.pna.gov.ph/articles/1102563

Philippines Statistics Authority. (2020). *Press Release*. Retrieved from http://www.psa.gov.ph/national-accounts/base-2018/estimates

Philippines Statistics Authority. (2020). *Special Release-Merchandise Trade*. Retrieved from http://www.psa.gov.ph

PwC. (2020). *UK Economic Update, September 2020*. Retrieved from https://pwc.co.uk/premium/covid-19/uk-economic-update-covid-19.pdf

Read, S. (2020). *Coronavirus Furlough Scheme to Finish at End of October, says Chancellor,* BBC. Retrieved from https://www.bbc.com/news/business-52853333

Reserve Bank of Australia. (2020). *Statement on Monetary Policy*. Retrieved from https://www.rba.gov.au/publications/smp/2020

Reserve Bank of India. (2020). *Minutes of the Monetary Policy Committee Meeting May 20 to 22, 2020.* Retrieved from https://rbidocs.rbi.org.in/rdocs/PressRelease/PDFs/PR24591AE8154A8C00484D85E29CA51184761D.PDF

Societe Generale. (2020). *Country Risk of the United Kingdom: Economy.* Retrieved from https://import-export.societegenerale.fr/en/country/united-kingdom/economy-country-risk

Statistics Indonesia. (2020). *Data and News*. Retrieved from https://www.bps.go.id/

Statistics Indonesia. (2020). *Economic Growth of Indonesia Second Quarter 2020.* Retrieved from https://www.bps.go.id/pressrelease

The Economist Intelligence Unit. (2020). *Country Report on France*. Retrieved from http://www.eiu.com/index.asp?layout=country&geography_id=1350000135

The Economist Intelligence Unit. (2020). *Country Report on Germany*. Retrieved from http://www.eiu.com/index.asp?layout=country&geography_id=1360000136

The Economic Intelligence Unit. (2020). *Country Report on United Kingdom.* Retrieved from http://www.eiu.com/index.asp?layout=displayIssue&publicationid=1700000970

The Economist. (2020). *The Geopolitics of 5G: America's War on Huawei Nears its Endgame*. Retrieved from https://www.economist.com/briefing/2020/07/16/americas-war-on-huawei-nears-its-endgame

The Straits Times. (2020). *Coronavirus Pandemic to Bring Asia's Growth to a Halt for 1st Time in 60 Years: IMF Press Release, 16 April 2020*: https://www.straitstimes.com/business/economy/pandemic-to-bring-asias-growth-to-a-halt-for-1st-time-in-60-years-imf

World Bank. (2020). *Global Economic Outlook, June 2020, Pandemic, Recession: The Global Economy In Crisis.* Retrieved from https://www.worldbank.org/en/publication/global-economic-prospects

World Bank. (2020). *Global Economic Prospects.* Retrieved from https://www.worldbank.org/en/publication/global-economic-prospects

World Bank. (2020). *Global Economic Prospects, June 2020*. Retrieved from https://openknowledge.worldbank.org/handle/10986/33748

World Bank. (2019). *The World Bank Group's Response to the COVID-19 Pandemic.* Retrieved from https://www.worldbank.org/en/who-we-are/news/coronavirus-covid19

World Health Organization (WHO). (2020). *Coronavirus Disease Dashboard.* Retrieved from https://covid19.who.int/

World Trade Organization. 2016. *Trade Finance and SMEs: Bridging the Gaps in Provision.* Retrieved from https://www.wto.org/english/res_e/publications_e/tradefinsme_e.htm

CHAPTER 3

Macroeconomic Outlook

MALAYSIA'S ECONOMIC OUTLOOK

2020

Economy is Expected to Contract **-4.5%** 2019: 4.3%

GDP AT CONSTANT 2015 PRICES
RM1,357.7 BILLION

GDP AT CURRENT PRICE
RM1,439.4 BILLION

GROSS NATIONAL INCOME AT CURRENT PRICE
RM1,415.7 BILLION

CURRENT ACCOUNT BALANCE OF BOP
RM48.5 BILLION
(3.4% OF GNI)

CONSUMER PRICE INDEX
-1.0%

UNEMPLOYMENT RATE
4.2%

Supply (% p.a.)

SERVICES	-3.7%	2019: 6.1%
MANUFACTURING	-3.0%	3.8%
CONSTRUCTION	-18.7%	0.1%
MINING	-7.8%	-2.0%
AGRICULTURE	-1.2%	2.0%

Demand (% p.a.)

PRIVATE CONSUMPTION	-0.7%	2019: 7.6%
GROSS FIXED CAPITAL FORMATION	-11.1%	-2.1%
PUBLIC CONSUMPTION	1.6%	2.0%
EXPORTS	-13.4%	-1.3%
IMPORTS	-11.9%	-2.5%

MALAYSIA'S ECONOMIC OUTLOOK

2021

Economy is Expected to Rebound **6.5%–7.5%** 2020:-4.5%

GDP AT CONSTANT 2015 PRICES
RM1,450.8 BILLION

GDP AT CURRENT PRICE
RM1,568.1 BILLION

GROSS NATIONAL INCOME AT CURRENT PRICE
RM1,526.5 BILLION

CURRENT ACCOUNT BALANCE OF BOP
RM20.3 BILLION
(1.3% OF GNI)

CONSUMER PRICE INDEX
2.5%

UNEMPLOYMENT RATE
3.5%

Supply (% p.a.)

SERVICES	7.0%	2020: -3.7%
MANUFACTURING	7.0%	-3.0%
CONSTRUCTION	13.9%	-18.7%
MINING	4.1%	-7.8%
AGRICULTURE	4.7%	-1.2%

Demand (% p.a.)

PRIVATE CONSUMPTION	7.1%	2020: -0.7%
GROSS FIXED CAPITAL FORMATION	9.5%	-11.1%
PUBLIC CONSUMPTION	2.0%	1.6%
EXPORTS	8.7%	-13.4%
IMPORTS	9.2%	-11.9%

CHAPTER 3

Macroeconomic Outlook

Overview

Gradual economic recovery in the second half of 2020 before normalising in 2021

The Malaysian economy experienced the full impact of the COVID-19 pandemic in the second quarter of 2020, with the real gross domestic product (GDP) contracting by 17.1%. The contraction was mainly attributed to the imposition of the Movement Control Order (MCO) to contain the outbreak. Though affecting all sectors in the economy, the move was necessary to flatten the COVID-19 curve and save lives. Hence, the Government has announced several stimulus packages totalling RM305 billion to support both households and businesses. Reinforced by the reopening of the economy in phases, growth is expected to improve gradually during the second half of the year, cushioning the significant contraction in the first half. Thus, Malaysia's GDP is expected to contract by 4.5% in 2020, before rebounding between 6.5% – 7.5% in 2021. With the bold and swift measures undertaken, Malaysia has been recognised as one of the most successful countries in managing the socio-economic impact of the pandemic.

Although domestic demand is expected to remain soft throughout 2020, there are signs of recovery in the second half of the year, particularly in private consumption. On the external front, the collapse in global demand and world trade led to a decline in exports during the year. However, current account of the balance of payments is expected to remain in surplus. On the supply side, all sectors are expected to contract, affected by the unprecedented crisis. Nevertheless, the pace of improvement gathered momentum in the third quarter, especially in the services and manufacturing sectors, with the resumption of economic activities.

Sectoral

Services Sector

New norms accelerate the growth of the digital economy

The **services** sector contracted by 6.7% in the first half of 2020 largely due to worldwide travel bans, domestic movement restrictions and quarantines, which severely affected the tourism-related subsectors and airlines. Among the subsectors that have been severely affected include wholesale and retail trade, food & beverages and accommodation, transportation and storage as well as real estate and business services. Nevertheless, the information and communication subsector expanded as online transactions increased significantly during the MCO. The services sector is expected to record a smaller decline of 1% in the second half of the year, reflecting the gradual resumption of economic activities. Overall, the sector is projected to contract by 3.7% in 2020 before rebounding by 7% in 2021. With the normalisation of economic activities in 2021, all subsectors are projected to record positive growth.

TABLE 3.1. *GDP by Sector, 2019 – 2021 (at constant 2015 prices)*

	SHARE (%)	CHANGE (%)		
	2020[1]	2019	2020[1]	2021[2]
Services	*58.1*	*6.1*	*-3.7*	*7.0*
Manufacturing	*22.6*	*3.8*	*-3.0*	*7.0*
Agriculture	*7.4*	*2.0*	*-1.2*	*4.7*
Mining	*6.9*	*-2.0*	*-7.8*	*4.1*
Construction	*4.0*	*0.1*	*-18.7*	*13.9*
GDP	***100.0***	***4.3***	***-4.5***	***6.5 – 7.5***

[1] Estimate
[2] Forecast
Note: Total may not add up due to rounding and exclusion of import duties component
Source: Department of Statistics and Ministry of Finance, Malaysia

The **wholesale and retail trade** subsector contracted by 10.8% in the first half of 2020 due to disruptions in the global and domestic supply chains. The subsector is expected to record a smaller decline by 1.9% in the second half of the year with the gradual resumption of business operations, online platforms, cash assistance, sales campaigns and sales tax exemption for the purchase of new cars. For the year, the subsector is projected to contract by 6.1%. The subsector is anticipated to rebound by 8.5% in 2021, supported by all segments. The wholesale segment is expected to be backed by food-related industries. At the same time, the expansion in e-commerce activities will support the retail segment. The growth of the motor vehicles segment will be underpinned by the introduction of new models and higher household disposable income.

The **information and communication** subsector expanded by 5.8% in the first half of 2020, primarily supported by higher usage of internet, particularly online transactions, entertainments, educational and work from home (WFH) activities. The subsector is projected to expand further by 7.1% in the second half of the year buoyed by various Government initiatives. The initiatives include a tax exemption of up to RM5,000 for information, communication and technology (ICT) equipment to support WFH activities and individual income tax relief of up to RM2,500 on the purchase of digital devices. For the year, the subsector is anticipated to accelerate by 6.4% as WFH activities, virtual communication and online businesses become the new normal. In 2021, the subsector is projected to expand by 7.9%, with the fifth-generation cellular network (5G) spectrum facilitating e-commerce and e-learning activities. The roll-out of the National Fourth Industrial Revolution (4IR) Policy and Digital Economy Blueprint in the fourth quarter of 2020 is expected to enhance the productivity and competitiveness of the subsector. The formation of the Malaysian Digital Economy Task Force, which focusses on digital technology, cybersecurity, trade and digital content is expected to support the acceleration of the subsector.

TABLE 3.2. *Services Sector Performance, 2019 – 2021 (at constant 2015 prices)*

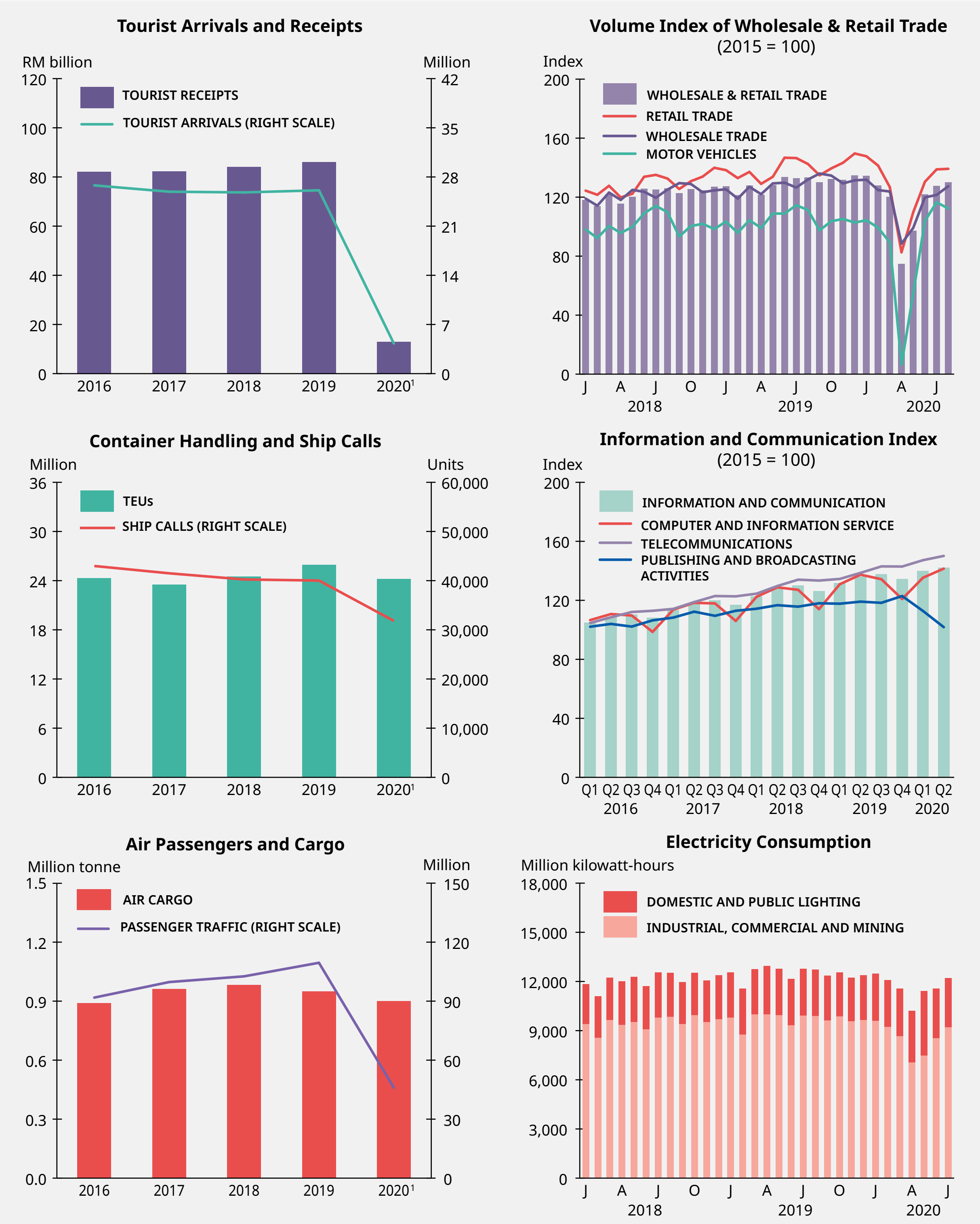
	SHARE (%)	CHANGE (%)		
	2020[1]	2019	2020[1]	2021[2]
Wholesale and retail trade	*28.8*	*6.7*	*-6.1*	*8.5*
Finance and insurance	*11.8*	*4.6*	*-0.1*	*5.5*
Information and communication	*11.4*	*6.6*	*6.4*	*7.9*
Real estate and business services	*7.7*	*7.8*	*-11.6*	*7.6*
Transportation and storage	*6.0*	*6.8*	*-11.9*	*7.5*
Food & beverages and accommodation	*5.5*	*9.6*	*-13.3*	*10.7*
Utilities	*4.9*	*6.0*	*1.7*	*5.7*
Other services	*8.2*	*5.5*	*-8.1*	*6.2*
Government services	*15.7*	*3.7*	*4.0*	*3.7*
Services	***100.0***	***6.1***	***-3.7***	***7.0***

[1] Estimate
[2] Forecast
Note: Total may not add up due to rounding
Source: Department of Statistics and Ministry of Finance, Malaysia

The **finance and insurance** subsector in the first half of 2020 contracted marginally by 0.2%, mainly due to the six-month wide-scale moratorium and slower lending activities. Nonetheless, the better performance of the insurance segment reflects the increase in life insurance subscriptions, which partly cushioned the overall decline of the subsector. The trend is expected to continue in the second half following the extension of moratorium to targeted borrowers. Overall for the year, the subsector is expected to contract marginally by 0.1% with the expansion in the insurance segment, reflecting the net impact of higher premiums amid lower claims.

The subsector is projected to rebound by 5.5% in 2021, driven mainly by the finance segment, benefitting from the normalisation of loan repayments and continuation of bank lending amid stronger domestic economic activities. The insurance segment is also expected to grow steadily with the promotion of innovative and risk-based pricing in motor and fire insurance. In addition, the launching of the Financial Sector Blueprint 2021 – 2025 in the first quarter of 2021 is expected to further boost the growth of the subsector.

FIGURE 3.1. *Selected Indicators for the Services Sector*



¹ Estimate

Source: Department of Statistics, Malaysia; Malaysia Airports Holdings Berhad; Malaysia Tourism Promotion Board; Senai International Airport; and seven major ports (Bintulu, Johor, Klang, Kuantan, Kuching,Pulau Pinang and Tanjung Pelepas)

FEATURE ARTICLE 3.1

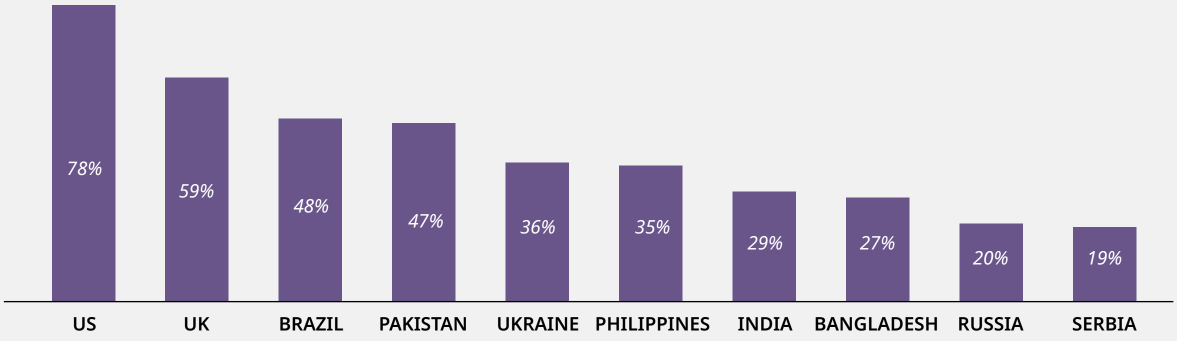
Gig Economy

Introduction

The gig economy is a free market system, characterised by temporary job positions where corporations tend to engage independent workers for short-term durations. Unlike the traditional economy, the gig economy is characterised by flexible, temporary, or freelance jobs with irregular income and working hours. The primary distinction between the gig economy and traditional working arrangements is the digital element (Burtch et al., 2016). According to Khazanah Research Institute (2019), the benefits of being a freelancer or gigs include having an additional income, more flexible working schedules, more accessibility to the market via the internet and lower cost of doing business.

In 2019, the Global Gig-Economy Index revealed that freelancers in the US had the most significant revenue growth at 78%, followed by the UK (59%) and Brazil (48%). Digital service intermediary platform providers in the US, such as Uber, Airbnb and Lyft, are the cornerstone of the gig economy. Furthermore, according to a survey by MBO Partners (2017), nearly 60% of the workforce in the US would be independent professionals and companies will spend up to USD6 billion on improving the rights of gig workers by 2027.

FIGURE 3.1.1. *Top 10 Countries with the Fastest Growing Earnings for Freelancers, 2019*



Source: Global Gig-Economy Index, 2019

TABLE 3.1.1. *Comparison between Gig and Traditional Economies*

CHARACTERISTIC	GIG ECONOMY	TRADITIONAL ECONOMY
Definition	An economy characterised by flexible and temporary jobs. Hence companies tend to hire freelancers and independent contractors as opposed to full-time employees	An economy in which companies tend to employ workers on a full-time basis
Type of Jobs	Offers temporal jobs such as contracts or short-term gigs	Offers long-term and permanent jobs

CHARACTERISTIC	GIG ECONOMY	TRADITIONAL ECONOMY
Flexibility	Has a high level of work flexibility	Does not offer work flexibility with rigid or set hours
Employee Benefits	Employees do not enjoy additional benefits	Employees enjoy additional benefits, such as health insurance and leave days
Cost to Employers	Employers eliminate unnecessary overhead costs, such as additional benefits, office space and employee training	Employers incur overhead costs including the payment of additional benefits, office space and employee training
Work Monotony	Breaks routine work, hence promoting enthusiasm creativity and innovation	Tend to be monotonous, thus could be demotivating, discouraging creativity and innovation

Source: DifferenceBetween.net, 2020

Gig Economy in Malaysia

A study by the Zurich-University of Oxford (2018) found that 38% of the respondents in Malaysia, who were in full-time employment, would be looking to enter the gig economy in the following 12 months. According to Employees Provident Fund (2019) nearly 40% of the workforce would be gig workers in the next five years, significantly higher than the global average of 20%. The rise of millennials[1] and digital technology are the main factors contributing to this surge.

Rise of Millennials

Most millennials are no longer interested in the concept of secure and permanent employment. Millennials grew up in the technological era, and so they are more immersed digitally. This means gig economy often occurs due to its online platform element, which provides the facility for millennials to use their talents and abilities (Hershatter & Epstein, 2010). Hence, they account for the major share of employment in the gig economy as it offers greater flexibility. In Malaysia, there are about 15.6 million people in the labour force, and 1.3 million are in the informal sector, with 50.2% in the 25 to 44 age group (2013: 46.5%) (Figure 3.1.2.). This reflects that many millennials are opting out of the traditional workforce as the gig economy offers higher independence and flexibility in line with their aspirations.

Rise of Digital Technology

The digital economy in Malaysia grew by 18.5% between 2015 and 2019 per annum. In 2020, Malaysia remains ranked 26th out of 63 countries in the IMD World Digital Competitiveness Ranking 2020. With the Government investing heavily on digital technologies, Malaysians are among the most digitally connected in the world and produce some of Southeast Asia’s most recognisable digital start-ups (World Bank, 2018). As digitalisation is the main enabler for the gig economy, the upsurge in digital platforms encourages more millennials to become gig workers and freelancers. As of August 2020, there were around 140 platforms providing gig and freelance opportunities with an estimated 540,000 gig and active freelance workers in Malaysia. Firms, such as Grab and Foodpanda, continue to record an increasing number of gig workers. Furthermore, there were about 190,000 gig workers providing services as riders and drivers on various logistic and delivery platforms in the country.

---

[1] Refers to anyone born between 1981 and 1996 (Pew Research Centre, 2019).

FIGURE 3.1.2. *Employment in the Informal Sector by Age Group, 2019 (% share)*

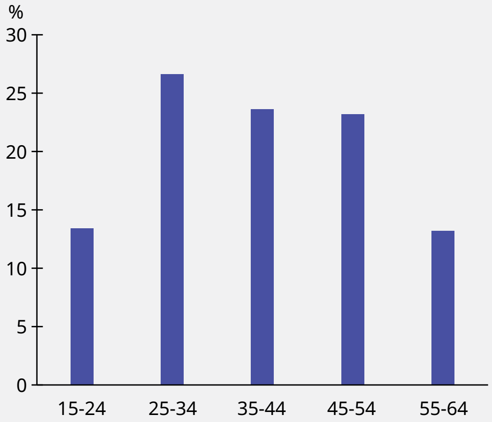
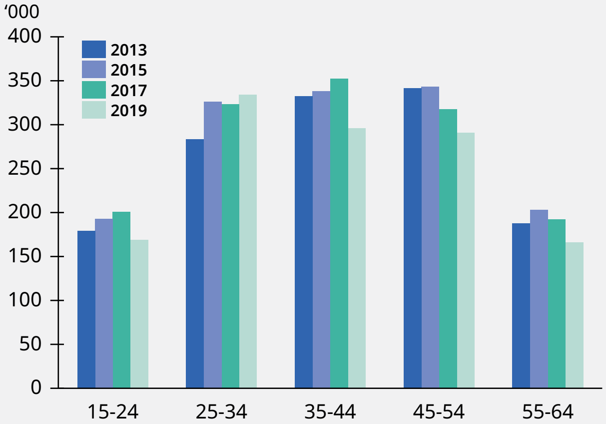


FIGURE 3.1.3. *Employment in the Informal Sector by Age Group, 2013 – 2019*

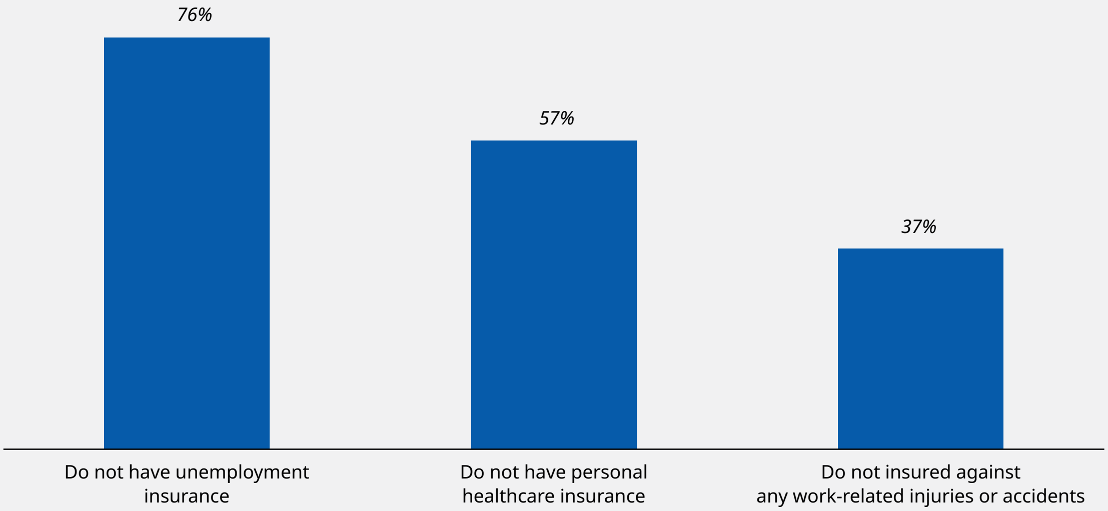


Source: Informal Sector Workforce Survey Report, Department of Statistics, Malaysia, 2019

Issues and Challenges Facing Gig Workers

Despite offering greater work flexibility, gig workers do not have the advantage of a steady job with regular pay and benefits. In addition, there is still no specific regulation, law or guideline to protect the welfare of the gig workers except for provisions under the Self-Employment Social Security Act 2017 [Act 789] which require self-employed to register and contribute under this scheme. As they are not formally recognised as employees, they are not legally covered under specific labour provisions, such as the minimum wage, working hours limitation, paid annual and sick leave as well as unfair dismissal. In addition, unlike traditional employees, gig workers do not have financial safety nets, such as pension and savings in the EPF. A survey by The Centre (2019) indicates that nearly 60% from more than 400 of e-hailing and delivery drivers did not have savings for emergencies, and 59% did not have retirement or old age savings.

FIGURE 3.1.4. *Financial Security among E-hailing and Delivery Drivers, 2019*



Notes: Figure may not add up to 100% due to multiple choices by the respondents
Source: The Centre, 2019

Way Forward

Preparing the Workforce

The workforce needs to be equipped with the required skills to support the gig economy as one of the new sources of growth in the country. This includes more training in software development and technology, creative and multimedia work, data entry and analyses as well as writing and translation (Human Resources Development Fund, 2019). Towards this end, Malaysia Digital Economy Corporation (MDEC) has embarked on the Global Online Workforce (GLOW) training programme, with an allocation of RM25 million, to enable Malaysians to earn higher income digitally. The Government also has launched the myGIG Programme on 23 June 2020 to support youths to participate in the gig economy by providing appropriate training and supporting equipment.

With the increasing number of graduates joining the gig economy, Institutions of Higher Learning (IHLs) should move away from educating and preparing students for full-time employment. This traditional method does a disservice to graduates who will be ill-equipped and unprepared to succeed as independent workers in the gig economy. To better prepare students as gigs, IHLs should embark on teaching the basic skills to work independently, expanding career services to offer gigs and promoting online courses. Reframing business school syllabus, such as learning how to be self-employed and running a business, will prepare students to work independently. In addition, the use of technology needs to be further accelerated to teach crucial skills, such as self-directed learning, effective communication, critical thinking, problem-solving, collaboration and project management.

Providing career services by developing apps and websites will also help students to find short-term projects and assignments. For example, in the US, The DePaul School of Music uses an app called The Gig Connection to help students find a freelance job throughout Chicago. Boston University has developed a Quick Job board, which offers short-term opportunities for students to assist in medical research studies. In addition, IHLs also need to emphasise online courses and programmes that provide options to students to learn at their own pace and location. These approaches will enable IHLs to better prepare students to join the gig economy.

Regulating the Gig Economy

The Government is considering new laws to regulate the gig economy and to protect the welfare of the gig workers. A committee comprising representatives from three ministries[2] has been set up to formulate long-term solutions to resolve various issues on the gig economy in the country. The committee will also be looking for ways to create a win-win situation for workers and employers.

Conclusion

The emergence of digital platforms connecting freelancers with businesses and the rise of millennials have all played a contributing role to the surge in the gig economy. It offers benefits, particularly in the form of job flexibility for workers. Nonetheless, there are numerous issues and challenges, including the status and welfare of the gig workers, that need to be addressed before the gig economy becomes a source of sustainable growth. Given its importance, the Government has implemented several initiatives to ensure its development. Moving forward, revamping of the syllabus, incorporating project-based learning and upskilling are needed to better prepare graduates for the gig economy.

---

[2] Ministry of Human Resource, Ministry of Youth and Sports, and Ministry of Domestic Trade and Consumer Affairs.

The **real estate and business services** subsector declined by 11.3% in the first half of 2020, attributed to temporarily suspension of construction activities during the MCO. The subsector is expected to continue to decline by 11.9% in the second half and 11.6% for the whole year. This is mainly due to deferred construction projects and subdued business activities. However, with projected economic recovery and the roll-out of delayed infrastructure projects, the subsector is expected to rebound by 7.6% in 2021. The exemption of Real Property Gains Tax (RPGT), launching of the National Affordable Housing Policy and Rent-to-Own (RTO) scheme, extension of Youth Housing Scheme (YHS) and Home Ownership Campaign (HOC) are expected to support the subsector. In addition, higher demand for construction-related services is expected to drive the business services segment.

The **transportation and storage** subsector contracted significantly by 24% in the first half of 2020 with all segments severely affected by the border closure and lower trade activities. However, the subsector is anticipated to decline marginally by 0.5% in the second half following the lifting of interstate travel bans, increasing domestic travellers, improving trade activities and loosening of port restrictions. With prolonged border closure for tourism-related activities and the extension of Recovery Movement Control Order (RMCO) until year-end, the subsector is forecast to record a decline of 11.9% in 2020.

The subsector is projected to rebound by 7.5% in 2021, driven by the land transport segment, following operations of new highways, including the Setiawangsa – Pantai Expressway (SPE), Damansara – Shah Alam Elevated Expressway (DASH) and partial alignment of Pan Borneo Highway. In addition, the launching of seven sets of four-car trains for KL Monorail is expected to increase the daily ridership. Likewise, the air transport segment is anticipated to recover moderately, due to the increase in domestic passenger traffic and cargo movement. The water transport segment is forecast to improve gradually, as world maritime trade recovers.

The **food & beverages and accommodation** subsector declined by 19.9% in the first half of 2020 due to stringent travel restrictions on movement and business operations. With a continuous drop in international tourist arrivals, the subsector is projected to contract by 7.3% in the second half of 2020. For the whole year, the subsector is anticipated to decline by 13.3%, mainly due to the sluggish performance of the accommodation segment following the significant drop in tourist arrivals. Nevertheless, an increase in demand for online food delivery and domestic tourism activities are expected to cushion the subsector.

The subsector is expected to expand markedly by 10.7% in 2021, mainly backed by domestic tourism-related activities with support from several initiatives. These initiatives include tax exemptions on tourism and accommodation services as well as an extension of income tax relief of up to RM1,000 on domestic travel services. In addition, attractive packages coupled with promotions, marketing and campaigns via digital platforms to restore public confidence is expected to revitalise the domestic tourism industry. The implementation of the Reciprocal Green Lane and Periodic Commuting Arrangement between Malaysia and Singapore for official cross-border travel for businesses and work purposes will also help to spur the subsector. The Government's effort to promote travel bubbles with more destinations is anticipated to further support the subsector.

The **utilities** subsector declined by 2% in the first half of 2020 following lower usage by the industrial segment. Nevertheless, the subsector is estimated to rebound in the second half of the year by 5.3% attributed to the resumption of industrial activities. Overall, the subsector is expected to expand by 1.7% in 2020, supported by higher demand from both residential and industrial segments. In 2021, the subsector is projected to further grow by 5.7%, primarily supported by higher usage by the industrial segment in line with expansion in economic activities as well as the implementation of renewable energy projects and Rural Electricity Supply Programme.

The **other services** subsector contracted by 9.6% in the first half of 2020 due to lower medical travellers and decline in enrolments in private colleges and universities. The contraction is expected to narrow to 6.6% in the second half of the year following the arrival of registered foreign students and critically ill patients, except those from high-risk countries with more than 150,000 COVID-19 cases. Thus in 2020, the subsector is expected to decline by 8.1%. The subsector is projected to expand by 6.2% in 2021, following aggressive branding and digital marketing for health tourism in targeted countries, such as Cambodia, China, Indonesia and Myanmar. The **Government services** subsector is projected to maintain its expansion by 4% in 2020 and 3.7% in 2021.

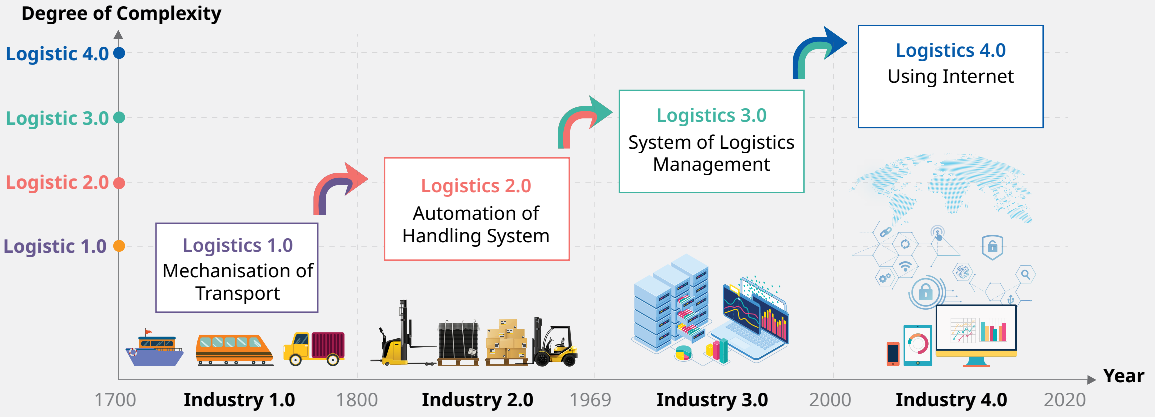
FEATURE ARTICLE 3.2

Digitalisation in the Logistics Industry

Introduction

Logistics refer to the process of managing and controlling the flows of goods, energy, information and other resources such as facilities, services and people. It involves the integration of information, transportation, inventory, warehousing, material handling and packaging (Gen et al., 2008). In general, this industry has undergone three phases and is now entering the fourth stage which represents the integration of internet with production processes in line with the emergence of Industrial Revolution 4.0 (IR4.0) (Figure 3.2.1.). This enables the communication between machines and humans in real-time and the use of what is known as “smart products and smart services” as well as the advanced digitalisation within factories (Lasi et al., 2014).

FIGURE 3.2.1. *Evolution of Logistics*



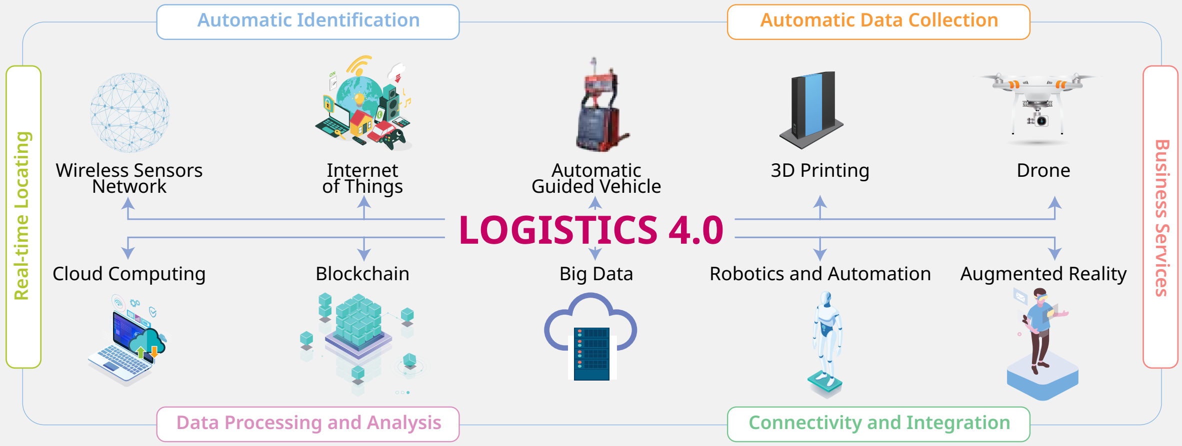
Source: Wang, 2016

In Malaysia, the industry is highly integrated across various sectors. It has been a key enabler for the advancement of industrialisation, international trade and competitiveness. The logistics industry has contributed immensely in the production and distribution processes as well as facilitating trade activities. In 2019, the logistics industry[1] expanded by 6.8% contributing RM53.7 billion to the country’s GDP (Department of Statistics Malaysia, 2020). Nevertheless, the industry faces various challenges inhibiting it from reaching its full potential and efficiency. Accordingly, it is imperative to transform the industry with the applications of IR4.0 to improve efficiency and productivity as well as to remain competitive.

---

[1] Proxied by the transportation and storage subsector.

FIGURE 3.2.2. *Application of Industrial Revolution 4.0 Technologies in Logistics 4.0*



Source: Radivojevic & Milosavljevic, 2019

Logistics 4.0

Logistics 4.0 is defined as the specific application of connecting machines, products, systems and people that can share information and manage themselves (Bamberger et al., 2017). It uses technologies such as Internet of Things (IoT), wireless sensor network, cloud computing, blockchain, big data as well as robotics and automation. These technologies enable real-time information flows, monitoring of market demand, personalisation of products and autonomous management of global supply chains. Matyushenko et al. (2019) indicate that there are five elements of Logistics 4.0, namely, transparency, smart utilities, adaption to IoT, integration with IR4.0 and collection of analytics.

FIGURE 3.2.3. *Five Main Elements of Logistics 4.0*

Transparency
Provides integrity control and quality condition on the products, thus enabling logistics to be much more efficient and comprehensive.

Smart Utilities
Alerts the supplier on the stock level without requiring any human intervention.

Adaption to IoT
Provides an increased inventory visibility to ensure an environment of sustainability, safety and security which reduces wastage, theft and tampering of products.

Integration with IR4.0
Refers to the application towards automation and digitalisation creating symbiotic, synergistic relationships between suppliers and end-users.

Collection of Analytics
Improves demand and delivery forecasts while detecting possible improvement or potential risks in their value streams.

Source: Matyushenko et al., 2019

Digital transformation will benefit industries through lower cost and additional revenues. Cost is expected to be reduced by 34.2% while increasing revenue by 33.6% in the logistics services industry through this transformation (Lehmacher et al., 2017). According to the World Economic Forum (2016), digitalisation in the logistics industry could unlock USD1.5 trillion of value for logistics players and a further USD2.4 trillion worth of societal benefits over the next decade. A study across EU countries indicate that a 10-percentage point rise in the share of firms using high-speed broadband internet at the industry level results in an increase in multi-factor productivity of 1.4% after one year and 3.9% after three years (Organisation for Economic Co-operation and Development, 2019).

Challenges Facing the Logistics Industry in Malaysia

The logistics industry in Malaysia is still facing various challenges, such as inadequate infrastructure and limited internet connectivity, low adoption of digitalisation, burdensome regulations, lack of skilled workers, and external factors such as the COVID-19 pandemic. Furthermore, Malaysia's information communication and technology (ICT) infrastructure lag behind global standards, especially in rural areas (Ismail & Masud, 2020). At the same time, high cost, unstable internet connectivity and low digitalisation hamper efficiencies and competitiveness of Malaysian logistics firms. In addition, the industry lacks expertise and skilled workers, especially in the design of the supply chain network, integrated warehouse management and information technology application.

Given the immense variety of economic goods and the different modes of transportation, there are various regulations concerning the governance of the logistics industry, which slows down the adoption of digitalisation and innovation. External shocks, such as the COVID-19 pandemic, have also disrupted the industry. The ensuing lockdown has restricted export-import activities globally which severely affected the logistics industry in the country.

Way Forward

The Logistics and Trade Facilitation Masterplan (2015 – 2020) aims to provide the strategic framework and roadmap to strengthen Malaysia's position as the preferred logistics gateway in Asia (Ministry of Transportation, 2017). The masterplan outlines that by leveraging the potential of e-commerce and adopting digitalisation, competitiveness and efficiency in the logistics industry will improve. This will pave the way for new, advanced and automated logistics services. The core aspects of digital infrastructure, such as ICT networks, data infrastructure, digital platforms and devices must be reliable and compatible for logistics firms to invest in digitalisation. For instance, the broader roll-out of the fifth-generation cellular network (5G) internet would provide a convenient way to send and track packages, schedule deliveries and get real-time updates anytime and anywhere. Furthermore, the efficiency of the first and last mile aspects, including keeping the customers informed throughout is vital in ensuring customer delivery experience is achieved efficiently and effectively.

With the COVID-19 disrupting the logistics supply chain network, the industry needs to adopt a new business model by accelerating digital transformation. Post COVID-19, consumers have adjusted their behaviours and preferences to use logistics services that provide last-mile deliveries of various sizes of appliances and commercial goods. As a result, many logistics firms are shifting from business-to-business (B2B) to business-to-consumer (B2C) models which increases the demand for couriers and online delivery services platforms. Government's intervention by providing institutional support and initiatives will ease the adoption of digitalisation in the logistics industry. This includes developing skills and technology, reducing unnecessary regulatory burden and ensuring data protection and security.

Conclusion

The adoption of digitalisation enables the logistics players to manage their operations efficiently and provide seamless logistics services to their clients worldwide. This will allow businesses to run with greater resilience and flexibility to remain competitive. The COVID-19 pandemic has precipitated the digital transformation of firms, including those in the logistics sector, which can no longer do business conventionally. With the rise of e-commerce activities, logistics players need to ramp up their performance while adjusting to strict guidelines to keep in pace with the new norms. Therefore, Logistics 4.0 can enhance operational efficiency by reducing time and cost for goods to reach consumers and subsequently increases the competitive advantage of domestic firms. It also accelerates convergence with global supply chains and helps key export industries connect with international markets.

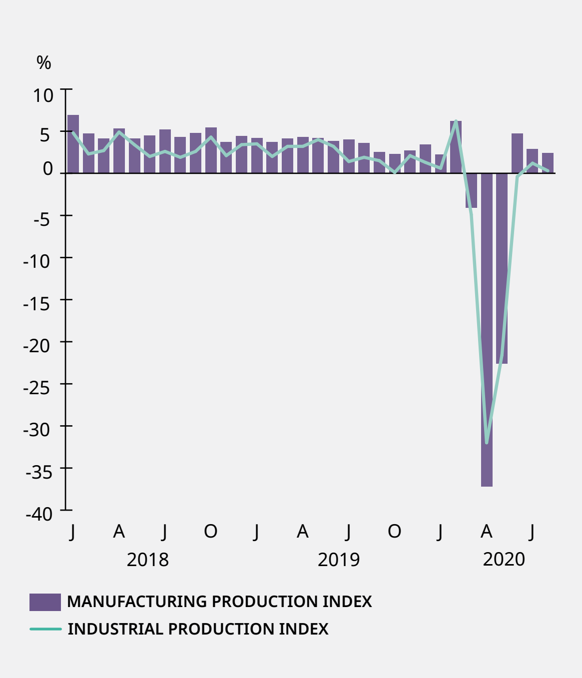
Manufacturing Sector

Essential segments cushion overall decline

The **manufacturing** sector contracted by 8.7% during the first half of 2020, as almost all industry operations were temporarily halted, following supply chain disruptions amid the MCO. Within the export-oriented industries, the E&E cluster was severely affected as global demand decelerated sharply. Domestic-oriented industries also recorded sluggish growth, with transport equipment; and non-metallic mineral products, basic metal and fabricated metal products segments registering a double-digit contraction.

Nonetheless, the manufacturing sector is expected to improve by 2.4% in the second half of 2020, as industrial activities resume operations in line with the gradual lifting of the MCO. Within the export-oriented industries, the E&E segment is projected to improve following rising demand for computer and electronic products. Chemical and rubber products are anticipated to continue to record high growth, benefitting from higher demand for rubber gloves and pharmaceutical products. Within the domestic-oriented industries, the food products and transport equipment segments are expected to rebound, supported by higher demand. Overall, for the year, the manufacturing sector is expected to decline by 3%.

FIGURE 3.2. *Output of Manufacturing Sector (% change)*



Source: Department of Statistics, Malaysia

The manufacturing sector is forecast to rebound by 7% in 2021, driven by steady improvement in both the export- and domestic-oriented industries. The E&E segment is projected to accelerate in line with the digital transformation as WFH and virtual communication become part of new business practices. Higher demand for integrated circuits, memory and microchips within the global semiconductor market will further support the segment. The production of chemical and rubber products is expected to expand rapidly in tandem with the increase in demand for disinfectants, sanitisers and rubber gloves. With the economic recovery, consumer-related products will benefit from higher household disposable income, while construction-related products will be supported by major infrastructure and affordable housing projects.

Table 3.3. *Manufacturing Production Index, January – August 2019 and 2020*
(2015 = 100)

	INDEX		CHANGE (%)		SHARE (%)	
	2019	2020	2019	2020	2019	2020
Export-oriented industries	**118.6**	**114.5**	***3.6***	***-3.5***	***69.2***	***70.8***
Electronics and electrical product cluster	**124.4**	**122.4**	***4.0***	***-1.6***	***27.2***	***28.3***
Electronics	129.0	128.7	*3.7*	*-0.2*	*15.1*	*16.0*
Electrical products	119.1	115.1	*4.4*	*-3.4*	*12.1*	*12.3*
Primary-related cluster	**115.1**	**109.8**	***3.4***	***-4.7***	***42.0***	***42.5***
Chemical and chemical products	115.9	109.3	*2.3*	*-5.7*	*12.8*	*12.8*
Petroleum products	112.2	99.3	*3.0*	*-11.5*	*12.9*	*12.1*
Textiles, wearing apparel, leather products and footwear	123.8	101.0	*5.3*	*-18.4*	*2.0*	*1.7*
Wood and wood products	119.9	100.7	*4.8*	*-16.0*	*3.2*	*2.8*
Rubber products	122.2	175.6	*8.0*	*43.8*	*3.0*	*4.7*
Off-estate processing	109.3	110.5	*2.2*	*1.1*	*5.1*	*5.5*
Paper and paper products	118.0	108.6	*4.6*	*-8.0*	*3.0*	*2.9*
Domestic-oriented industries	**119.5**	**106.9**	***4.8***	***-10.5***	***30.8***	***29.2***
Construction-related cluster	**119.2**	**98.6**	***4.3***	***-17.3***	***13.7***	***12.0***
Non-metallic mineral products	118.8	94.7	*4.7*	*-20.3*	*4.4*	*3.7*
Basic metals	116.4	105.9	*3.8*	*-9.0*	*3.4*	*3.3*
Fabricated metal products	121.1	97.2	*4.3*	*-19.7*	*5.9*	*5.0*
Consumer-related cluster	**119.7**	**113.5**	***5.2***	***-5.2***	***17.1***	***17.2***
Food products	125.9	132.0	*5.0*	*4.8*	*6.1*	*6.7*
Transport equipment	115.9	105.1	*7.2*	*-9.3*	*6.6*	*6.3*
Beverages	125.5	102.5	*3.4*	*-18.3*	*1.0*	*0.9*
Tobacco products	116.3	85.9	*6.2*	*-26.1*	*0.7*	*0.6*
Others	115.4	107.5	*1.6*	*-6.8*	*2.7*	*2.7*
Manufacturing Production Index	**118.9**	**112.2**	***4.0***	***-5.6***	***100.0***	***100.0***

Note: Total may not add up due to rounding
Source: Department of Statistics and Ministry of Finance, Malaysia

FEATURE ARTICLE 3.3

Small and Medium Enterprises: Building Resilience to Weather Crises

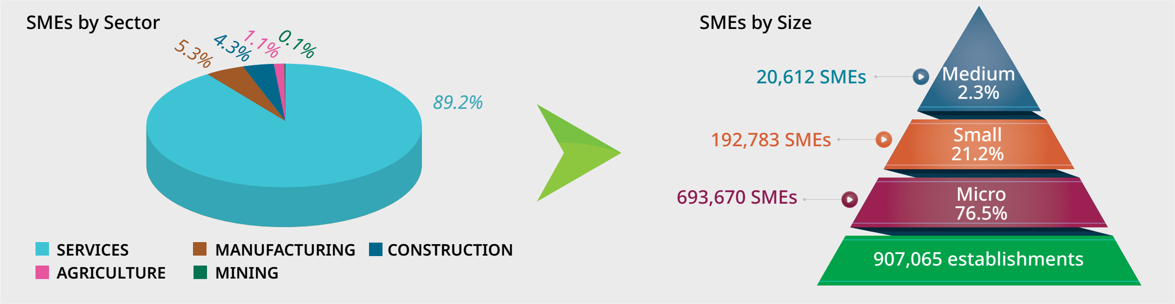
Introduction

Small and medium enterprises (SMEs) form a vital component of the Malaysian economy, contributing more than a third of total gross domestic product (GDP). It also provides jobs to more than seven million workers (Department of Statistics Malaysia, 2019). Furthermore, SMEs account for 98.5% of total establishments, mainly in the services sector. In Malaysia, an establishment is classified as an SME based on annual sales turnover or the number of employees,[1] subject to further conditions stipulated under the guideline of SME definition established by SME Corporation Malaysia (SME Corp. Malaysia) as the secretariat of the National Entrepreneur and SME Development Council (Figure 3.3.1.).

---

[1] Endorsed at the 14th National SME Development Council Meeting (now known as the National Entrepreneur and SME Development Council) in July 2013.

FIGURE 3.3.1. *Profile of Malaysian SMEs*



Malaysian SME Definition

Manufacturing		Services and Other Sectors
Sales turnover: RM15 million ≤ RM50 million OR Employees: From 75 to ≤ 200	**MEDIUM**	Sales turnover: RM3 million ≤ RM20 million OR Employees: From 30 to ≤ 75
Sales turnover: RM300,000 < RM15 million OR Employees: From 5 to < 75	**SMALL**	Sales turnover: RM300,000 < RM3 million OR Employees: From 5 to < 30
Sales turnover: < RM300,000 OR Employees: < 5	**MICRO**	Sales turnover: < RM300,000 OR Employees: < 5

Source: Department of Statistics Malaysia, 2016 and SME Corporation Malaysia, 2020

Impact of COVID-19 Pandemic on Malaysian SMEs

The severity of the impact of COVID-19 on the global economy is unprecedented. The International Monetary Fund (IMF) projects that global growth in 2020 would experience the worst recession since the Great Depression in the 1930s and far worse than the 2009 Global Financial Crisis. The crisis is mainly caused by the movement control, lockdowns and physical distancing measures implemented globally to contain the spread of the virus. The cumulative loss to global GDP arising from the pandemic crisis for 2020 – 2021 is estimated to be around USD9 trillion (International Monetary Fund, 2020). In Malaysia, the impact of demand cut-backs and supply chain disruptions on cash flow, employment and sustainability are the main challenges for most businesses, in particular the SMEs. As the backbone of the country's economy, the Government has introduced various initiatives to support SMEs during the crisis, including soft loans, grants, wage subsidy, tax exemptions and moratorium.

Findings by Omar et al. (2020) highlights the impact of the Movement Control Order (MCO) on SMEs. The effect is characterised as operational problems, such as operation and supply chain disruptions, difficulties in the fore-sighting of future business direction as well as financial-related issues. This is in line with a quick survey by Marketing Insight (2020) on the impact of MCO in Kuala Lumpur and Pulau Pinang, businesses were switching their business conduct into online transactions in line with the changes in consumers' purchasing behaviour. An online survey by the Department of Statistics, Malaysia (2020), indicates that 68% of establishments had no source of income during the initial MCO period and 12.3% earned revenue through online sales or services.

To assess the impact of the MCO on SMEs, the SME Corp. Malaysia undertook a series of internal surveys between March and May 2020.[2] These surveys aimed to understand the challenges faced by SMEs and to assess the effectiveness of Government assistance. More than 1,900 SMEs in various sectors throughout the nation participated in the surveys.

Main Findings of SME Corp. Malaysia Surveys

The SME Corp. Malaysia's surveys indicate that cash flow disruptions were the main challenge to SMEs during the COVID-19 crisis, followed by lower demand, supply chain disruption and legal issues (Figure 3.3.2.). These challenges caused SMEs to halt their business operations temporarily with the possibility of huge losses. This is in line with the findings of Bourletidis and Triantafyllopoulos (2014) that SMEs in a period of prolonged economic crises may suffer disproportionately from economic downturns because of limited financial resources.

FIGURE 3.3.2. *SMEs Top Challenges and State of Business Operations During the Crisis by Ranking*

	Top Challenges		Business Operations During Crisis
1	Company's cash flow	1	Temporarily close business operations
2	Reduced demand	2	Continue operations/Essential services
3	Supply chain disruption	3	Business operations conducted online
4	Legal issues	4	Continue operations to avoid legal action for failure to deliver products/services

Source: SME Corporation Malaysia, 2020

Cash flow issues arise mainly due to the drop-in sales, insufficient cash-in-hand as well as high overhead costs. The surveys revealed that nearly 60% of SMEs reported not having any sales during the MCO period, while 39% experienced lower sales. SMEs also claimed to have cashflow problems in paying employees' salaries and benefits, business loan repayments, rental and utility payments as well as for the purchase of raw materials and packaging. Consequently, more than 90% of SMEs were expected to survive only up to five months with existing cash-in-hand.

The global economic fallout from COVID-19 has been devastating, with many losing jobs and business, and unable to pay their commitments (Hakovirta & Denuwara, 2020). SME Corp. Malaysia surveys reveal that only 34% of the SMEs were able to continue operations as essential services providers. Majority of SMEs had to undertake various alternative actions, including negotiating with employees on salary and benefits cut (37%), retrenching employees (34%), limiting business trips (33%) and working from home (33%).[3]

The surveys also indicate that for SMEs to regain their pre-crisis growth momentum, assistance other than commercial loans are necessary. This include, soft loans, deduction on corporate and business tax as well as a dedicated government agency as SMEs focal point. In addition, advice on

---

[2] The surveys cover the period between the MCO and the reopening of the economy (excluding the initiatives under Pelan Jana Semula Ekonomi (PENJANA) which was announced in June 2020).

[3] Figure may not add up to 100% due to multiple choices by the respondents.

restructuring and remodelling of businesses, identifying new business areas and access to online platforms are among assistance needed by SMEs. Hence, of all the initiatives under the stimulus packages, the wage subsidy programme, six-month automatic moratorium on loans, free internet services and special relief facility initiatives were the most impactful measures. Other beneficial programmes include discounts on electricity bills and micro-credit schemes.

With the support and assistance, a total of 72% of SMEs are anticipated to rebound within a year. However, the rest would require more than a year to stabilise their businesses. Nonetheless, most SMEs faced challenges to restart their businesses due to lesser demand, insufficient capital, supply chain issues and difficulties in complying with the standard operating procedures (SOPs).

Way Forward

With the significant presences of SMEs in the economy, any crisis will inevitably affect various sectors and overall economic growth. Therefore, it is vital to ensure the sustainability and resilience of SMEs at all times. Moving forward, among the initiatives that will enable SMEs to endure any crisis are accelerating digitalisation, adopting strategic financial planning and enhancing branding capabilities.

Accelerating Digitalisation

The adoption of digitalisation is necessary to transform SMEs to be more competitive and resilient. Nonetheless, businesses in Malaysia have adopted digital technologies less readily than the Government and the population in general. Only 62% of companies are connected to the internet, 46% have fixed broadband and 18% have a web presence of some kind (World Bank, 2018). A study by Association of Small & Medium Enterprises, Singapore (2018) found that SMEs which have embraced digitalisation saw revenue growth of 26% on average. The digitalisation helps businesses better understand their customers, gauge the effectiveness of marketing campaigns, increase the efficiency of their business operations, transform products and empower employees.

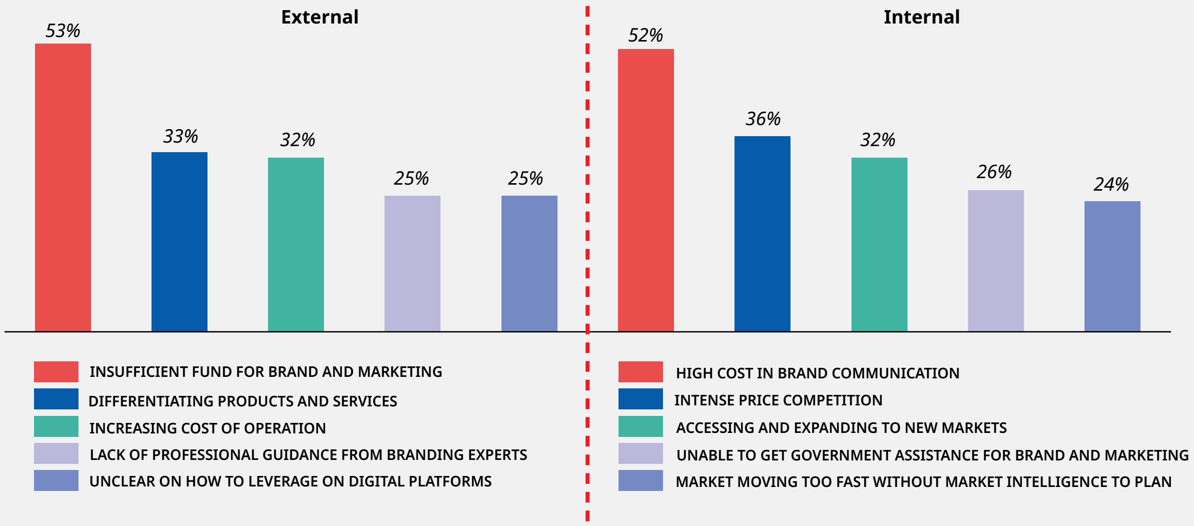
Adopting Strategic Financial Planning

According to a survey conducted by Bank Negara Malaysia (2018), more than 70% of SMEs' financing needs are sourced internally or from personal savings and the rest obtained from banks as well as development financial and microcredit institutions. It is also found that many SMEs lack awareness and the know-how to conduct effective and efficient budgeting, including alternate financing. Strategic financial planning involves a process by which firms derive a strategy to enable them to anticipate and respond to the dynamic business environment (Kee Luen et al., 2013). Such efforts inevitably improve the competitiveness of business firms and eventually their performances. Thus, the study confirmed that adopting strategic financial planning would improve the business performance and success rate of SMEs.

Enhancing Branding Capability

Currently, local SMEs contribute only 18% of total exports due to lack of knowledge on market access and readiness in exporting. Insufficient funds for brand and marketing is the top internal challenge for SMEs. In contrast, the high cost in brand communication was the main external challenge (Bizsphere Online Reviews, 2017) (Figure 3.3.3.). The commercialisation process is claimed to be more difficult for SMEs since they lack the presence and resources necessary for broad reach on the marketplace (Walsh et al., 2017). Thus, there is a need for SMEs to adopt cost-effective methods through technology-oriented approaches to commercialise their products.

FIGURE 3.3.3. *Top Five Challenges to Bring Brand to the Next Level*



Notes: Figure may not add up to 100% due to multiple choices by the respondents
Source: Bizsphere Online Review, 2017

Conclusion

The COVID-19 pandemic has exposed underlying problems in the way SMEs conduct businesses. The timely intervention by the Government through PRIHATIN dan PRIHATIN SME+ is expected to sustain SMEs to survive in a challenging business environment. The pandemic has also created a new normal in business practices, which includes adopting digital business models, re-orientation in supply chains and embrace the shift in consumer behaviours. Thus, SMEs need to improve their capability and capacity to be more resilient, agile and flexible to face uncertainties.

Agriculture Sector

Oil palm subsector poise for recovery

The **agriculture** sector contracted by 3.9% in the first half of 2020 due to lower growth of oil palm and rubber subsectors following supply disruptions. The oil palm subsector was affected even before the pandemic, attributed to dry weather and cutbacks in fertilisers by smallholders in 2019. The rubber subsector also declined due to unfavourable weather and low rubber prices. The agriculture sector was further affected by the MCO, which led to lower production across most of the subsectors. The sector is anticipated to rebound by 1.4% in the second half of the year driven by the recovery in the oil palm subsector. The output of livestock and other

TABLE 3.4. *Value-added in the Agriculture Sector, 2019 – 2021*
(at constant 2015 prices)

	SHARE (%)	CHANGE (%)		
	2020[2]	2019	2020[2]	2021[3]
Oil palm	37.6	1.5	-1.3	5.9
Rubber	2.4	6.1	-18.9	6.0
Livestock	16.1	6.3	4.0	5.7
Other agriculture[1]	27.4	3.9	4.9	4.6
Fishing	11.5	-0.7	-5.2	2.9
Forestry and logging	5.0	-8.6	-21.8	-3.0
Agriculture	**100.0**	**2.0**	**-1.2**	**4.7**

[1] Including paddy, fruits, vegetables, coconut, tobacco, tea, flowers, pepper, cocoa and pineapple
[2] Estimate
[3] Forecast
Note: Total may not add up due to rounding
Source: Department of Statistics and Ministry of Finance, Malaysia

agriculture subsectors are also expected to expand, supported by stable demand for food items, primarily during festivities. Hence, the agriculture sector is projected to decline by 1.2% in 2020.

The agriculture sector is expected to turnaround by 4.7% in 2021, supported mainly by higher production of palm oil and rubber. The oil palm subsector is anticipated to rebound following improvements in global demand, particularly from China and India. The crude palm oil (CPO) price is projected to remain stable with higher demand following recovery in the hotel, restaurant and catering operations as well as higher biodiesel mandate in Indonesia and Malaysia. The rubber subsector is expected to surge as global demand for natural rubber increases in line with the expansion of the automotive industry. The production of livestock and other agriculture and fishing is also expected to improve in line with various Government’s initiatives in modernising the agro-food subsector. This include integration of agriculture technologies, such as agro-robotic, sensor, precision farming, drones, agriculture data development and Internet of Things (IoT) applications. In addition, the Government’s efforts to increase domestic food production in ensuring food security are expected to continue to sustain the growth of the subsector.

INFORMATION BOX 3.1

The Importance of Commodity Sector to the Malaysian Economy

Introduction

The commodity sector[1] continues to play an important role in the Malaysian economy. However, with the focus shifting from purely upstream to various downstream activities, the contribution of the commodity sector has declined. Furthermore, the sector is vulnerable, mainly due to the volatility in global demand and supply. Using an input-output methodology and a Dynamic Computable General Equilibrium (CGE) model, this article assesses the contribution of the commodity sector to economic growth.

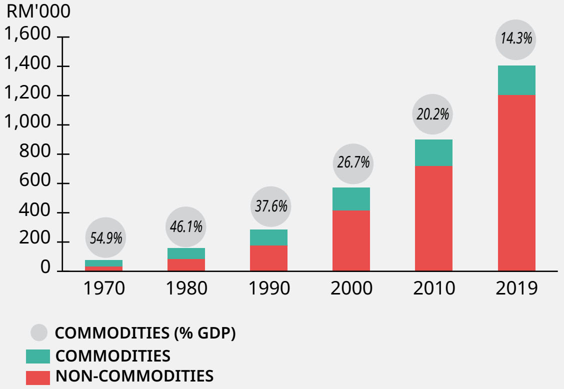
Contribution of the Commodity Sector

In 1970, the commodity sector accounted for 54.9%[2] of gross domestic product (GDP) or RM43.2 billion (in 2015 prices) (Figure 3.1.1.). The commodity sector constituted about 80% of total exports, comprising mainly of rubber and tin (Figure 3.1.2.). However, during the subsequent decades, oil and gas (O&G) and oil palm replaced rubber and tin as the major commodities. In 2019, despite an increase in value to RM203 billion, the share of the commodity sector to GDP had reduced to 14.3%. This was due to the rapid growth of the manufacturing sector during the industrialisation phase of the mid-1980s. The sector’s share further declined during the 1990s following the transformation into a services-driven economy. Despite accounting for a smaller percentage of GDP, the sector has cushioned the economy from external shocks, especially during the crises of 1998, 2009 and the recent COVID-19 pandemic.

---

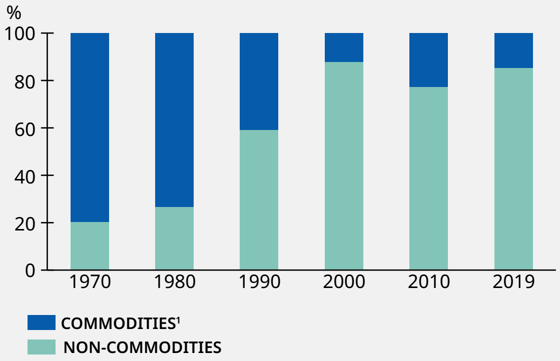
[1] Includes oil palm, rubber as well as oil and gas.
[2] Backcasting data from Economic Planning Unit, Prime Minister's Department.

FIGURE 3.1.1. *Value and Contribution of Commodity and Non-Commodity Sectors*



Source: Economic Planning Unit, Prime Minister's Department

FIGURE 3.1.2. *Contribution of Commodity and Non-Commodity Sectors to Total Exports*



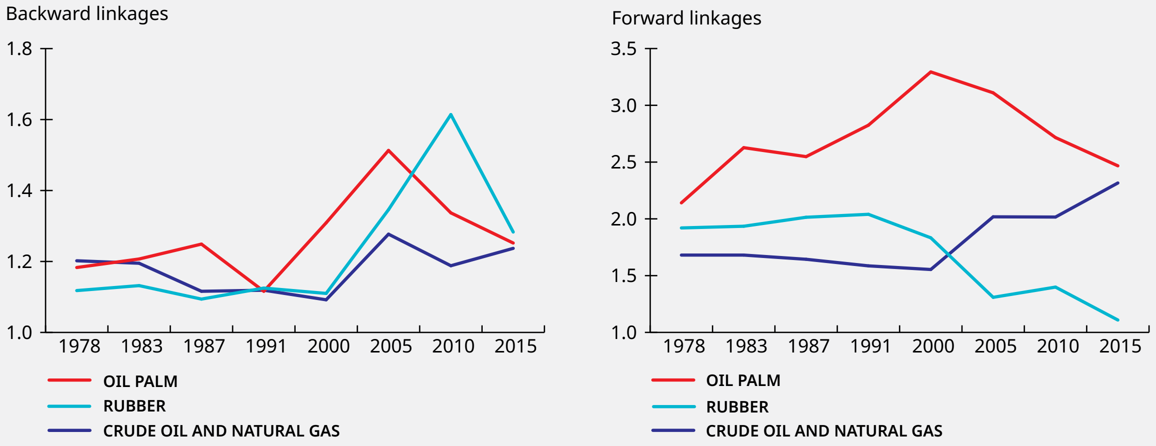
[1] Excluding commodity-related downstream activities

Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

Assessing the Contribution of the Commodity Sector

Based on the input-output analysis, there are three notable trends observed in the forward and backward linkages[3] for the commodity sector. Firstly, there was a gradual increase in the forward linkages for oil palm and O&G since 2000. This reflects the compositional shift in both commodities as they moved to higher value-added downstream activities in the resource-based industry, which constituted 44.3% of the manufacturing sector. The output of crude palm oil was mainly used by oils and fats as well as manufacturing of animal feeds industries. The output of O&G was consumed by the petroleum refinery, basic chemicals, wholesale and retail trade as well as motor vehicle industries. The evolution of downstream activities was in line with Industrial Master Plans (IMPs), which aimed at ensuring the manufacturing sector, including the resource-based industry, remains an essential source of growth. On the contrary, the forward linkage for rubber industry remained low following increasing usage of synthetic rubber for the production of gloves.

FIGURE 3.1.3. *Linkages and Multiplier Impacts of Commodity Industries*



Source: Ministry of Finance, Malaysia (estimates)

---

[3] Backward linkage is the interconnection with the industry of upstream industries for inputs. Forward linkage is the interconnection of the industry to downstream industries as markets for its output (Miller & Blair, 2009).

Secondly, all the three commodities have higher backward linkages for the period of 2000 – 2015 as compared to 1978 – 1991. This reflects that industries consumed more input as they expanded to meet demand from more diversified downstream industries (Figure 3.1.3.). Thirdly, the commodity sector has more extensive forward linkages as compared to backward linkages as they supply natural raw materials to the economy. This is in line with the study by Valdés and Foster (2010), which revealed that agricultural commodities have higher forward linkages rather than backward linkages.

Subsequently, the CGE model was applied to assess the contribution of the commodity sector to the economy. The analysis shows that with a 10% increase in productivity of O&G, oil palm and rubber industries, real GDP will increase by 1.5, 0.5 and 0.03 percentage points, respectively (Figure 3.1.4., 3.1.5. and 3.1.6.). In addition, other industries that are associated with the commodity sector, such as civil engineering, oils and fats as well as rubber processing, are also expected to benefit. The CGE results indicate that industries that sell the most to households are expected to gain from higher household disposable income. In comparison to the commodity industry, a 10% increase in productivity of electronics and basic chemicals will increase real GDP by 0.3 and 0.12 percentage points, respectively. The lower contribution to GDP is attributed to the high dependency of these industries on imports of intermediate inputs.

FIGURE 3.1.4. *Crude Oil and Natural Gas*

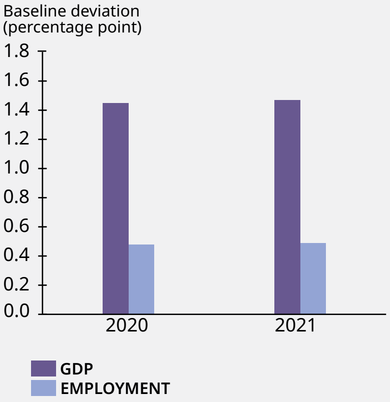


FIGURE 3.1.5. *Oil Palm*

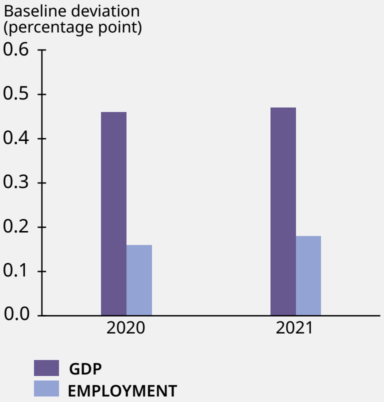
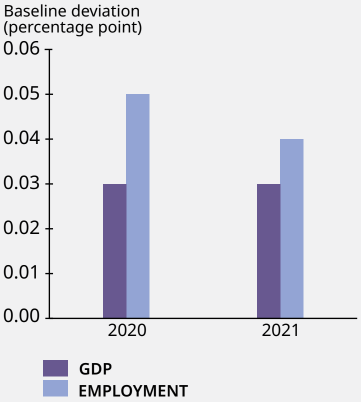


FIGURE 3.1.6. *Rubber*



Source: Ministry of Finance, Malaysia (estimates)

Conclusion

The Malaysian economy has experienced a relatively rapid growth during the last four decades and has also undergone a structural transformation. From an agriculture-based economy, diversification has proceeded to the extent that services and manufacturing have become the engine of growth. Nevertheless, the commodity sector continues to play an essential role in the economy through the inter-sectoral linkages, particularly in terms of forward linkages. This is mainly attributed to the emphasis on enhancing resource-based downstream activities. The oil palm and O&G industries also contribute higher to the GDP as compared with electronics and basic chemicals industries which have high import content. Therefore, research and development (R&D) collaborations between the industry and research institutes need to be enhanced to produce more high value-added products. In line with the Industrial Revolution 4.0 (IR4.0), adoption of technology such as usage of robotics, sensors and the Internet of Things (IoT) will increase productivity and ensure the sustainability of the sector.

Mining Sector

Higher demand to drive growth in 2021

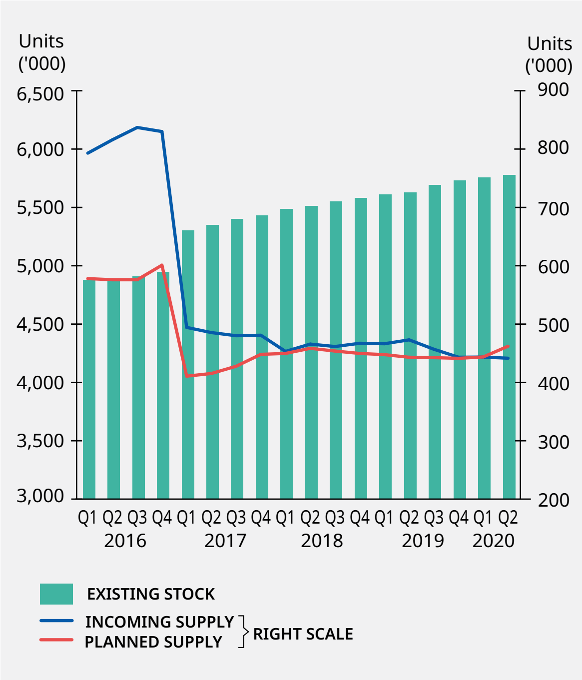
The **mining** sector recorded a double-digit contraction of 11% in the first half of 2020, affected by the slump in global demand due to business closures as well as the reduction in travel and transport activities. The sector was further weighed down by the temporary shutdowns of several oil and gas (O&G) facilities for maintenance purposes. With the COVID-19 pandemic crushing demand, storage facilities filled rapidly, and Brent crude oil price fell to its lowest level at USD17.32 per barrel (pb) on 21 April 2020 before stabilising at about USD40 pb. The sector is expected to continue to decline in the second half of the year due to on-going maintenance works and bearish outlook, following economic and geopolitical uncertainties as well as trade tensions. Against this backdrop, the mining sector is anticipated to contract by 7.8% in 2020. Nonetheless, the sector is expected to rebound by 4.1% in 2021, supported by the recovery in global demand for crude oil and condensate as well as liquified natural gas (LNG). Brent crude oil price is expected to improve in 2021 to an average of USD42 pb and recover to pre-pandemic level in the medium-term.

Construction Sector

Civil engineering segment to spur recovery

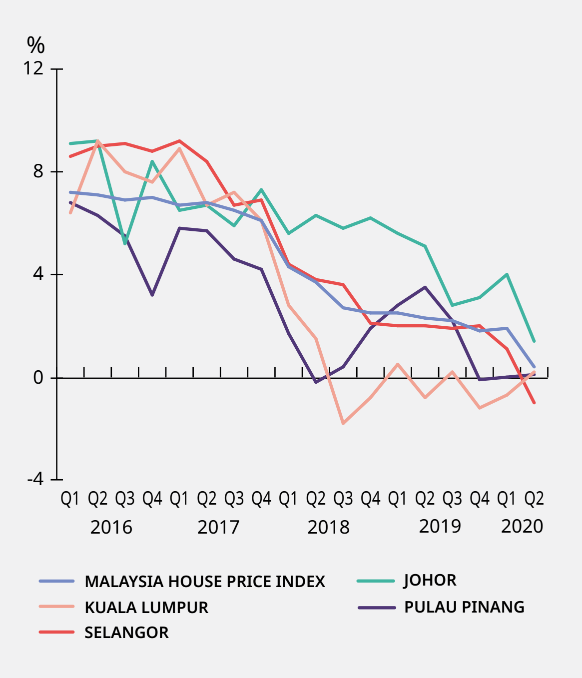
The **construction** sector contracted by 25.9% in the first half of 2020 and is expected to shrink by 11.8% in the second half with all segments declining significantly. At the same time, prolonged property overhangs continue to weigh down the performance of the sector. However, civil engineering and specialised construction activities subsectors are expected to improve gradually, cushioned by various measures under the economic stimulus packages. Overall, for the year, the sector is projected to contract by 18.7%.

FIGURE 3.3. *Supply Indicators of Residential Property*



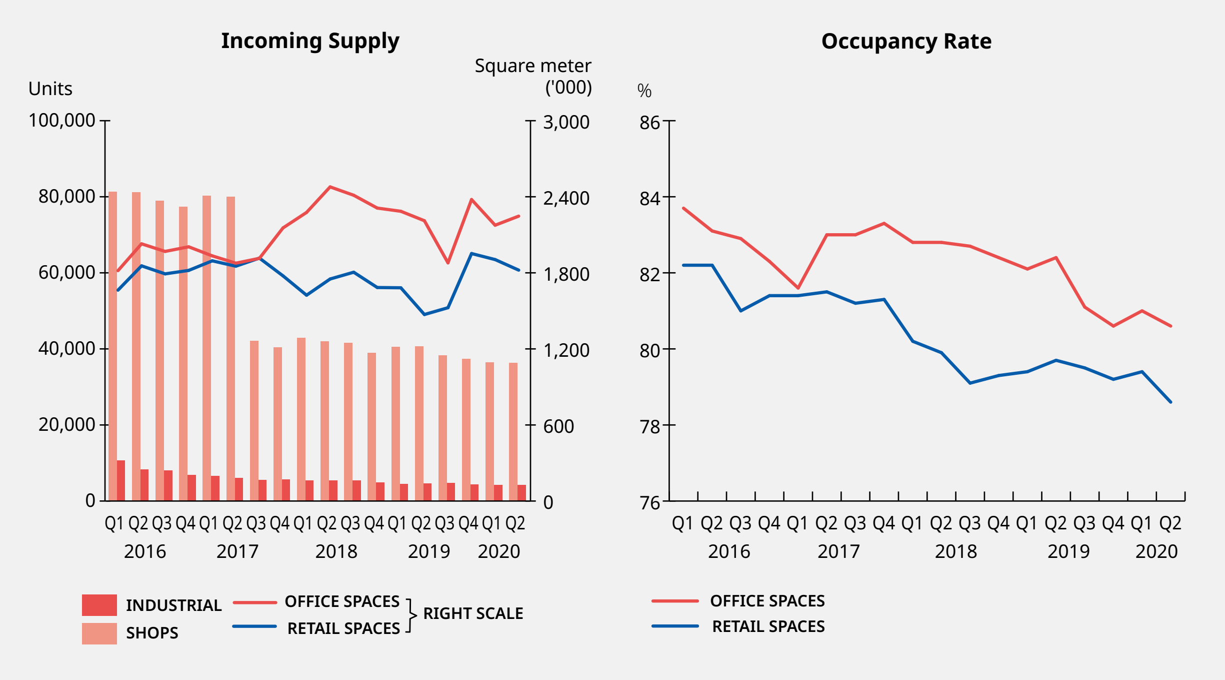
Source: National Property Information Centre

FIGURE 3.4. *Malaysia House Price Index (% change)*



Source: National Property Information Centre

FIGURE 3.5. *Supply Indicators of Non-Residential Property*



Source: National Property Information Centre

The construction sector is expected to rebound by 13.9% in 2021 on account of the acceleration and revival of major infrastructure projects, coupled with affordable housing projects. The civil engineering subsector will continue to be the main driver of the construction sector. Among the major infrastructure projects include Mass Rapid Transit 2 (MRT2), Light Rail Transit 3 (LRT3), West Coast Expressway (WCE) and Bayan Lepas Light Rail Transit (LRT) as well as Pan Borneo and Coastal Highways in Sarawak. Utility projects include the Langat 2 Water Treatment Plant, Baleh Hydroelectric Dam and Sarawak Water Supply Grid Programme (Phase 1).

The residential subsector is anticipated to improve, supported by various measures taken by the Government to address the property overhang situation. Among the measures include the extension of HOC, exemption of RPGT, the introduction of RTO scheme as well as reduction of foreign ownership threshold. The performance of the non-residential subsector is expected to recover marginally, supported by on-going commercial projects, including Bukit Bintang City Centre, Cyberjaya City Centre, Forest City and Malaysia Vision Valley 2.0.

Domestic Demand

Domestic demand spearheads the recovery

Domestic demand is expected to contract by 3% in 2020, with private and public sectors' spending declining by 3.2% and 2.1%, respectively. In the first half of 2020, domestic demand declined significantly by 7.7%, amid restricted movements to contain the COVID-19 pandemic. Nevertheless, the announcement of various stimulus packages and the gradual resumption of economic activities are expected to restore business and consumer confidence in the second half of the year. Hence, domestic demand is anticipated to turnaround to 1.5% during the period and expand further by 6.9% in 2021.

Private consumption declined by 6% during the first half of 2020, affected by the implementation of the MCO. However, household spending is anticipated to pick up during the second half of the year, on the back of various stimulus packages aimed at providing support to households and businesses. The measures include a moratorium on loan repayments, temporary optional reduction in employees' contributions to the Employees Provident Fund (EPF) and discounts on electricity bill as well as low interest rates. As a result, private consumption is projected to rebound by 4.2% in the second half, cushioning overall consumption activities, which is expected to record a marginal decrease of 0.7% in 2020.

TABLE 3.5. *GDP by Aggregate Demand, 2019 – 2021 (at constant 2015 prices)*

	SHARE (%)	CHANGE (%)		
	2020[2]	2019	2020[2]	2021[3]
Domestic demand	***95.5***	**4.3**	***-3.0***	**6.9**
Private expenditure	***76.6***	**6.2**	***-3.2***	***7.0***
Consumption	*61.1*	7.6	*-0.7*	*7.1*
Investment	*15.5*	1.6	*-11.7*	*6.7*
Public expenditure	***18.9***	**-2.8**	***-2.1***	***6.7***
Consumption	*13.0*	2.0	*1.6*	*2.0*
Investment	*6.0*	-10.8	*-9.3*	*16.9*
External sector[1]	***5.5***	**9.7**	***-24.9***	***4.1***
Exports	*57.8*	-1.3	*-13.4*	*8.7*
Imports	*52.3*	-2.5	*-11.9*	*9.2*
GDP	***100.0***	**4.3**	***-4.5***	***6.5 – 7.5***

[1] Goods and non-factor services
[2] Estimate
[3] Forecast
Note: Total may not add up due to rounding and excluding change in stocks component
Source: Department of Statistics and Ministry of Finance, Malaysia

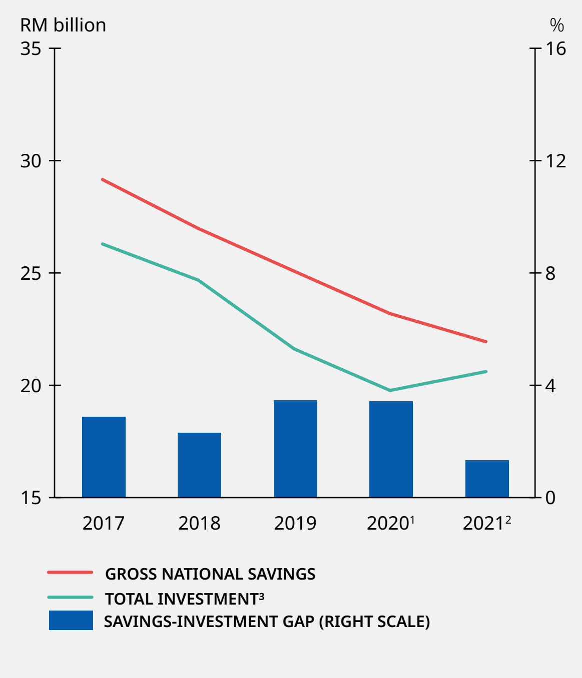
Private consumption is anticipated to increase by 7.1% in 2021, mainly supported by higher disposable income arising from buoyant domestic economic activities, stronger export earnings, accommodative financial stance, extension of tax relief on childcare and favourable stock market conditions. Better job prospects, following broader improvement in the economy and measures addressing employability, are also expected to contribute to household spending. Furthermore, the expected recovery in the tourism-related industries following tax incentives on domestic tourism expenses for households will also provide additional impetus to private sector spending. As the nation rapidly shifts towards adopting digitalisation, the broader availability of various e-commerce platforms and roll-out of 5G technology will facilitate economic activities.

Private investment is expected to contract by 11.7% in 2020, after declining significantly by 15.2% in the first half of the year. The significant decline was due to weak demand and tight liquidity as businesses were closed down for weeks following the MCO and uncertainties in the financial markets. Nonetheless, with various measures taken to revitalise and accelerate businesses, private investment is expected to record a smaller decrease of 7.8% in the second half of the year. Among the measures include the establishment of funds to support digitalisation, especially for SMEs, as well as tax incentives to attract foreign direct investment (FDI) and assistance to sustain businesses. In addition, the MalaysiaMudah (#MyMudah) initiative and the establishment of the Project Acceleration and Coordination Unit (PACU) will reduce bureaucracy to facilitate business operations and boost private investment activities. With these policies in place and coupled with spill-over effects from the fiscal injection, private investment is expected to rebound by 6.7% in 2021.

Public investment is projected to decline by 9.3% in 2020 on account of lower capital outlays, especially in the first half of the year. Public investment expenditure, which shrunk by 24.2% during the period, is expected to gradually improve in the second half of 2020. This follows the implementation and acceleration of investment in infrastructure, such as small-scale projects under the economic stimulus packages and the National Fiberisation and Connectivity Plan (NFCP). The Federal Government's development expenditure (DE) continues to prioritise investment with high multiplier impact and value for money. The DE, averaging about RM59 billion between 2020 – 2021, is mostly targeted at promoting sustainable development and bridging urban-rural infrastructure gap as well as enhancing the living standards of the people. Among major projects, include expansion of several airports as well as construction of hospitals and Klang Valley Double Track Phase 1 (KVDT 1). The continuation of large-scale transport-related projects, such as MRT2, LRT3, Rapid

Transit System (RTS) and Pan Borneo Highway, will also provide impetus to public investment. Public corporations are expected to continue investing in new and on-going projects, among others, development of O&G-related projects, upgrading of digitalisation-related activities and construction of energy plants. All these initiatives are expected to support public investment to expand by 16.9% in 2021.

FIGURE 3.6. *Savings-Investment Gap (% of GNI)*



[1] Estimate
[2] Forecast
[3] Including change in stocks
Source: Department of Statistics and Ministry of Finance, Malaysia

Public consumption is anticipated to increase by 1.6% in 2020, with higher expenditure on emoluments mainly to meet the staff requirements in critical sectors. The 3.6% increase in public consumption in the first half of 2020 is mostly attributed to the implementation of stimulus packages. Public consumption is expected to expand by 2% in 2021 with the Government continuing to further improve public services delivery and optimising spending.

Gross national income (GNI) in current prices is anticipated to decline by 3.7% in 2020, following slower economic activities. Gross national savings (GNS) is also expected to fall by 11% to RM328.3 billion, with the bulk of savings contributed by the private sector. With total investment declining at a slower rate than savings, the savings-investment gap is forecast to record a surplus of RM48.5 billion.

In 2021, GNI is projected to rebound by 7.8% to RM1.53 trillion, while GNS by 2% to RM335 billion. During the year, the savings-investment gap is anticipated to record a lower surplus of RM20.3 billion. However, the surplus will continue to provide ample liquidity to finance domestic economic activities and be mobilised for long-term productive investment.

FEATURE ARTICLE 3.4

Shadow Economy in Malaysia

Introduction

Shadow economy (SE) exists around the world. However, there is no standard definition and methodology to account for its activities in the official national gross domestic product (GDP), given its hidden nature. Apart from SE, there are many terms used, such as underground economy, non-observed economy, hidden economy and informal economy (Organisation for Economic Co-operation and Development, 2017). The SE includes all market-based legal production of goods and services that are deliberately concealed from public authorities to avoid payment of taxes and social security contributions as well as to avoid complying with labour market standards and administrative obligations (Schneider, 2011).

The incentive to be in SE is driven by the higher cost in the hiring of workers, which includes tax burden and social contributions as well as regulations to control economic activities (Schneider, 2011). An increase in the rate of self-employment as a percentage of the labour force also contributes to the size of SE (Dell'Anno, 2004). Although self-employment is high in many countries, they may not enjoy the benefits of formal contracts (Organisation for Economic Co-operation and Development, 2009). Thus, the information on the size of SE is crucial for the government in making policy decisions to reduce tax evasion (Medina & Schneider, 2018). The estimation on SE would also provide insights for governments to enhance social security protection among low-income households and unemployed persons.

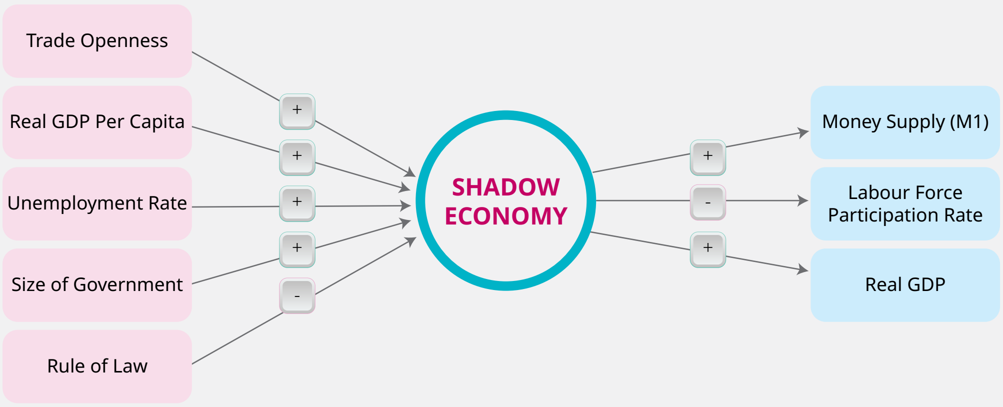
Many studies have estimated the size of the SE in Malaysia using various methodologies. Using the Multiple Indicators Multiple Causes (MIMIC) model and Currency Demand Approach (CDA), Medina and Schneider (2019) estimated the average size of SE in Malaysia at 31% of GDP between 1991 – 2017. This article estimates the size of the Malaysian SE between 1990 – 2019 using a similar method. It also provides some insights on the main causes and best practices in other countries to minimise shadow economic activities. In this context, SE is defined as legal productive economic activities that remain unreported from the official authority to avoid government regulations, tax obligations and social security contributions[1].

Estimating the Shadow Economy

There are two steps in the estimation of SE. Firstly, the MIMIC model is applied to estimate the relative size of the SE. The model is derived from structural equation modelling (SEM) to confirm the influence of causal variables as well as the effect of SE on macroeconomic indicators. Secondly, the CDA is applied to calibrate the relative estimates into the absolute size of SE in Malaysia for the period between 1990 – 2019. The size of SE depends on various variables. The MIMIC estimation uses causal variables of SE, which include trade openness, real GDP per capita, unemployment rate, size of government and the rule of law. The effect of SE on macroeconomic indicators are reflected in money supply (M1), labour force participation rate and real GDP.

The model shows that trade openness, real GDP per capita and size of government are contributors to the larger size of SE. Many research indicate that real GDP per capita and trade openness have an inverse relationship with the size of SE. However, for Malaysia, both variables have a positive relationship with the size of SE, suggesting that an increase in real GDP per capita or trade openness will lead to a larger size of the SE. These relationships are also observed in advanced countries. A positive relationship with real GDP per capita occurs when an economy has reached a certain threshold of real GDP per capita or when an economy is more developed (Wu & Schneider, 2019). In addition, high trade openness indicates minimal trade barriers. As such, businesses or individuals may involve in illegal trading without difficulty (International Chamber of Commerce, 2017).

FIGURE 3.4.1. *Causal and Macroeconomic Indicators of Shadow Economy in Malaysia*



Source: Ministry of Finance, Malaysia (estimates)

---

[1] Any undeclared, under-reporting and suppression of income in Malaysia are regarded as tax evasion (Malaysian Income Tax Act, 1967 and Service Tax Act, 1975).

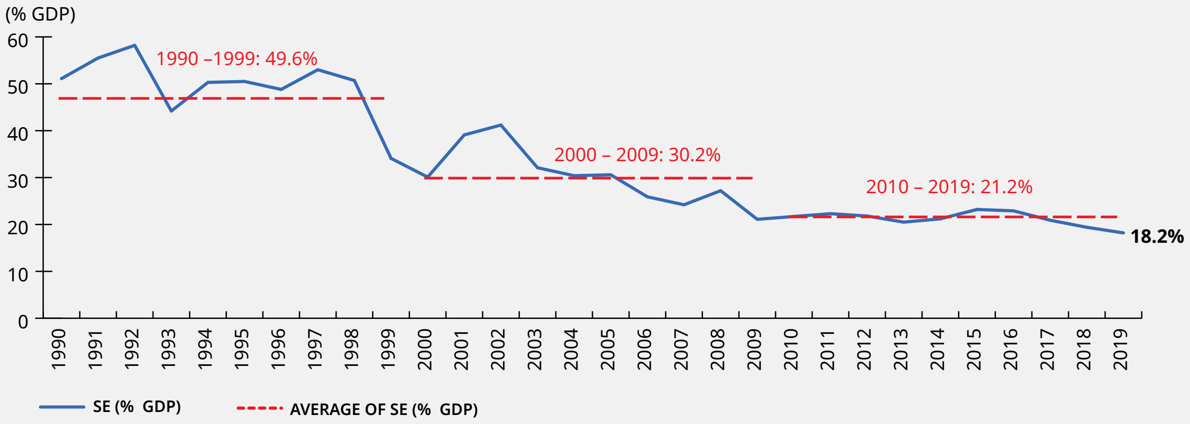
In the labour market, tight regulations have a significant effect on employers' costs and workers' incentives. In many Organisation for Economic Co-operation and Development (OECD) countries, high labour costs are the leading reason for the rising unemployment rate, and thus, for the expansion in the SE, which employs many unemployed people. As growing numbers of people work in the hidden sector, participation rates in the official economy may fall (Schneider & Enste, 2000). Nevertheless, better job prospects in the labour market are expected to reduce the size of SE.

A positive relationship exists between SE and the size of government, which is the proxy for the burden of indirect taxation (Schneider et al., 2010). A bigger government is associated with greater red tape, which induces some firms to operate underground (Goel et al., 2017). On the contrary, the size of SE declines as the overall institutional quality and the rule of law improves. Businesses also have an incentive to go underground, not to avoid high taxes but rather to reduce the burden of the regulation (Friedman et al., 2000).

Heightened activities in SE is likely to push up the demand for the currency. This is because SE transactions tend to be in cash or cryptocurrencies, which is difficult to be detected. Hidden transactions are assumed to be carried out in cash to avoid leaving a paper trail for authorities (Tanzi, 2002). Thus, higher M1 reflects the increase in the size of SE.

This article estimates the average size of Malaysian SE at 33.7% of GDP from 1990 – 2019. Figure 3.4.2. indicates that the size of SE has declined over the years fluctuating around 50% of GDP between 1990 – 1999. The size of SE continued to fall to about 30% between 2000 – 2009 before averaging about 21% between 2010 – 2019. In 2019, the size of SE stood at 18.2%.

FIGURE 3.4.2. *Size of Shadow Economy in Malaysia, 1990 – 2019*



Source: Ministry of Finance, Malaysia (estimates)

Best Practices to Curb the Shadow Economy

Tax administrators globally have strengthened their efforts to identify and reduce the size of SE. Data sharing among agencies are crucial in detecting SE. For instance, New Zealand provides a tax number to every new-born child upon registration of birth. The Australian Taxation Office allows taxpayers to pre-fill their income tax returns with information, such as salary, interest and health insurance, with data sourced directly from employers, banks and insurers. In Singapore, the inland revenue agency sourced information from vehicle records and the Central Provident Fund Board to help determine whether a company is active or dormant (Organisation for Economic Co-operation and Development, 2017).

In Nigeria, electronic payments and cashless transactions have been implemented to limit undeclared economic activities by gradually reducing and eliminating unrecorded cash payments (Yusuf & Agbi, 2018). Liberalising the labour market is also among measures implemented to minimise SE. Denmark, for example, has a renowned "flexicurity" model, where businesses are given the "flexibility" in hiring and firing workers. At the same time, the model has increased the "security" for people who have lost their jobs by providing unemployment benefits, retraining and job search assistance (Packard et al., 2012).

Way Forward

Advanced technology can help reduce the size of SE and the incidence of tax evasion. The emergence of the sharing economy and gig economy allows the migration from cash to digital transactions and creates digital footprints. Data sharing among government agencies, for example, registration of properties and vehicles as well as the introduction of tax identification number, will provide information on the expenditure patterns of individual and businesses. Thus, the government could analyse the collected data effectively and enable the identification of fraudulent tax activities. The government's welfare distribution platforms could also be utilised to register business entities in the informal sector.

The government will enhance efforts to make working in the formal sector more beneficial, for example, by improving efficiency in the labour market and simplifying tax compliance procedures with greater adoption of technology. Efforts will be continued to enhance and emphasise the rule of law and enforcement rather than increasing the number of regulations.

Conclusion

As SE under-values the actual size of the economy, this article applies the MIMIC model and CDA approach to estimate the size of SE in Malaysia between 1990 – 2019. The results indicate that although the size of SE is on a declining trend, its presence is still significant and deters the development of an inclusive economy. It deprives potential high tax revenue collection to finance development projects, such as healthcare, education and public transportation. Measures to reduce the size of SE include adopting advanced technologies, higher data sharing among government agencies, emphasis on the rule of law and stringent enforcement.

External Sector

Green shoots emerging

Exports

In 2020, **gross exports** are projected to decline by 5.2% weighed down by global supply disruptions as a result of the unprecedented crisis. Consequently, exports of manufactured goods are estimated to contract by 3.8% following lower demand for E&E and non-E&E products which are expected to fall by 3.8% and 3.7% respectively. Nonetheless, exports of agriculture goods are anticipated to rise by 0.7%, buoyed by palm oil and palm oil-based agriculture products. Exports of palm oil are projected to increase by 5.6% with higher demand, particularly from China, India and the Netherlands. The exemption of export duties on CPO, crude palm kernel oil as well as refined, bleached and deodorised (RBD) palm kernel oil is also expected to support the exports of palm oil. In contrast, receipts from natural rubber are anticipated to drop by 20.1% in 2020. Exports of mining goods are projected to decrease further by 21.8%, dragged down by exports of crude petroleum and LNG by 27.6% and 15.7%, respectively. The slowdown in demand from global industrial, travel and transportation activities as well as price slump are the main reasons for the downtrend in exports of mining goods.

TABLE 3.6. *External Trade, 2019 – 2021*

	RM MILLION			CHANGE (%)		
	2019	2020[1]	2021[2]	2019	2020[1]	2021[2]
Total trade	**1,844,483**	**1,738,477**	**1,805,749**	***-2.1***	***-5.7***	***3.9***
Gross exports	**995,072**	**943,761**	**968,793**	***-0.8***	***-5.2***	***2.7***
of which:						
Manufactured	840,586	808,851	828,862	*0.4*	*-3.8*	*2.5*
Agriculture	65,958	66,441	69,381	*-1.6*	*0.7*	*4.4*
Mining	81,520	63,771	65,118	*-9.3*	*-21.8*	*2.1*
Gross imports	**849,411**	**794,716**	**836,956**	***-3.5***	***-6.4***	***5.3***
of which:						
Capital goods	100,179	87,642	100,219	*-10.9*	*-12.5*	*14.3*
Intermediate goods	467,211	437,406	460,280	*1.1*	*-6.4*	*5.2*
Consumption goods	74,155	74,718	76,967	*1.5*	*0.8*	*3.0*
Trade balance	**145,661**	**149,045**	**131,838**	***17.7***	***2.3***	***-11.5***

[1] Estimate
[2] Forecast
Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia External Trade Development Corporation and Ministry of Finance, Malaysia

TABLE 3.7. *Gross Exports, January – August 2019 and 2020*

	RM MILLION		CHANGE (%)		SHARE (%)	
	2019	2020	2019	2020	2019	2020
Manufactured	553,834	533,378	*1.7*	*-3.7*	*84.1*	*85.9*
Agriculture	44,212	43,960	*-1.6*	*-0.6*	*6.7*	*7.1*
Mining	55,591	40,463	*-1.9*	*-27.2*	*8.4*	*6.5*
Others[1]	4,940	2,841	*-31.9*	*-42.5*	*0.8*	*0.5*
Gross exports	**658,576**	**620,642**	***0.8***	***-5.8***	***100.0***	***100.0***

[1] Including gold scrap and waste; worn clothing; and special transaction not classified
Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

Gross exports are expected to rebound by 2.7% in 2021, benefiting from the recovery in global trade and supply chains. Exports of manufactured goods are anticipated to turnaround by 2.5%, supported by improved demand for E&E and non-E&E products. Higher demand for semiconductor, telecommunication equipment parts as well as automatic data processing equipment in line with the global digital transformation and 5G roll-out is expected to expand the exports of E&E by 3%. Similarly, exports of the non-E&E are expected to improve by 2.1%, contributed by higher demand for chemicals and chemical products, rubber products and manufactures of metal.

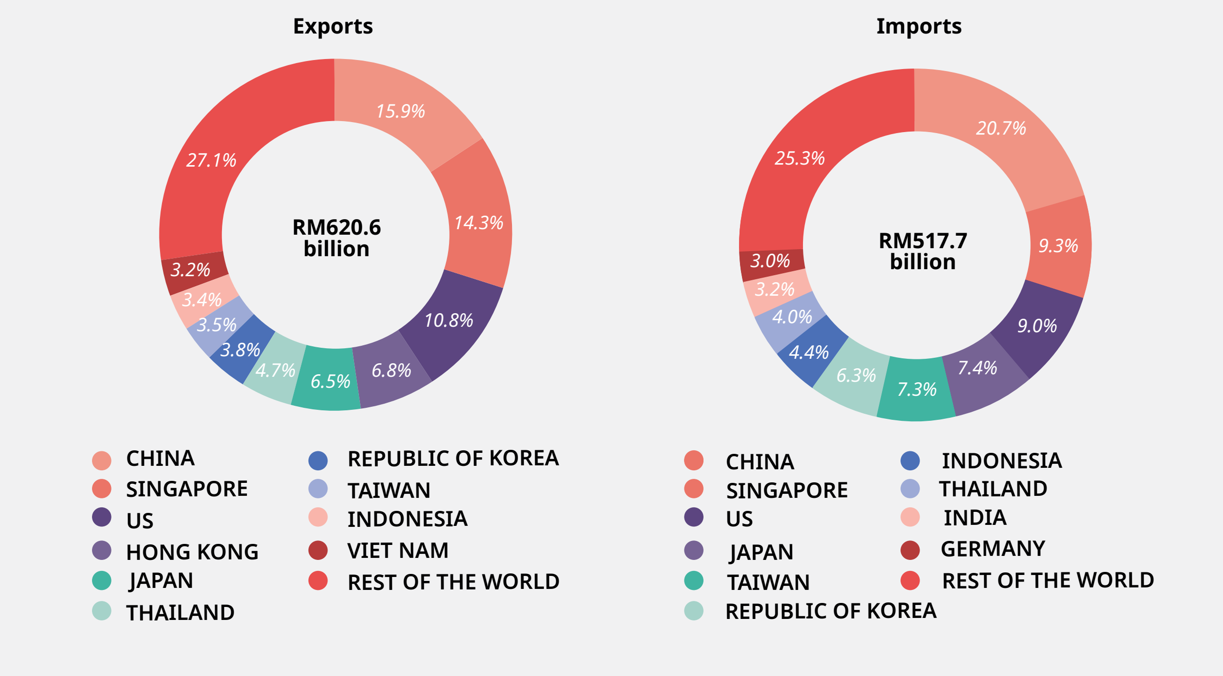
Exports of agriculture goods are projected to expand by 4.4% in 2021, led by an increase in demand for palm oil and palm oil-based agriculture products as well as natural rubber. In line with the recovery in world economic activities and improvement in crude oil prices, export earnings from mining goods are projected to recover by 2.1%, contributed by higher demand from major markets for crude petroleum (2%) and LNG (2.2%).

TABLE 3.8. *Exports of Manufactured Goods, January – August 2019 and 2020*

	RM MILLION		CHANGE (%)		SHARE (%)	
	2019	2020	2019	2020	2019	2020
E&E	**247,757**	**237,847**	***0.8***	***-4.0***	***44.7***	***44.6***
Non-E&E	**306,077**	**295,531**	***2.4***	***-3.4***	***55.3***	***55.4***
Petroleum products	47,072	43,774	*-4.4*	*-7.0*	*8.5*	*8.2*
Chemicals and chemical products	38,458	32,712	*4.6*	*-14.9*	*6.9*	*6.1*
Optical and scientific equipment	24,592	25,914	*4.5*	*5.4*	*4.4*	*4.9*
Machinery, equipment and parts	27,723	25,310	*0.6*	*-8.7*	*5.0*	*4.7*
Rubber products	16,779	23,351	*-3.8*	*39.2*	*3.0*	*4.4*
Manufactures of metal	28,034	22,978	*-7.6*	*-18.0*	*5.1*	*4.3*
Iron and steel products	14,472	15,706	*48.0*	*8.5*	*2.6*	*2.9*
Palm oil-based manufactured products	16,020	13,769	*5.1*	*-14.1*	*2.9*	*2.6*
Processed food	14,024	13,719	*11.8*	*-2.2*	*2.5*	*2.6*
Transport equipment	11,733	13,064	*-4.2*	*11.3*	*2.1*	*2.4*
Wood products	10,101	9,836	*-2.5*	*-2.6*	*1.8*	*1.8*
Textiles, apparels and footwear	10,406	8,721	*5.0*	*-16.2*	*1.9*	*1.6*
Manufactures of plastics	9,905	8,554	*3.9*	*-13.6*	*1.8*	*1.6*
Non-metallic mineral products	5,633	5,081	*19.5*	*-9.8*	*1.0*	*1.0*
Paper and pulp products	4,071	4,195	*29.2*	*3.0*	*0.7*	*0.8*
Jewellery	4,712	2,286	*9.0*	*-51.5*	*0.9*	*0.4*
Beverages and tobacco	2,274	1,629	*5.5*	*-28.4*	*0.4*	*0.3*
Other manufactures	20,067	24,933	*0.4*	*24.2*	*3.6*	*4.7*
Exports of manufactured goods	**553,834**	**533,378**	***1.7***	***-3.7***	***100.0***	***100.0***

Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

FIGURE 3.7. *Top 10 Trading Partners, January – August 2020 (% share)*



Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

Imports

Gross imports are projected to contract by 6.4% in 2020 due to lower imports of intermediate and capital goods as a result of slower economic and investment activities. Gross imports are expected to turnaround by 5.3% in 2021, supported by an increase in all types of imports. Imports of intermediate goods are projected to rise by 5.2%, mainly attributed to expansion in the manufacturing and construction sectors. Similarly, imports of capital goods are projected to expand by 14.3%, following improvement in investment activities and the continuation of strategic projects. Imports of consumption goods are expected to increase by 3%, led by higher demand from households as consumers' confidence improves and income increases.

TABLE 3.9. *Gross Imports by End Use, January – August 2019 and 2020*

	RM MILLION		CHANGE (%)		SHARE (%)	
	2019	2020	2019	2020	2019	2020
Capital goods	**65,521**	**59,930**	***-13.4***	***-8.5***	***11.7***	***11.6***
Capital goods (except transport equipment)	59,712	62,221	*-5.3*	*4.2*	*10.7*	*12.0*
Transport equipment (industrial)	5,809	-2,291	*-53.9*	*-139.4*	*1.0*	*-0.4*
Intermediate goods	**306,810**	**278,266**	***-0.1***	***-9.3***	***54.9***	***53.8***
Food and beverages, primary and processed, mainly for industry	12,173	13,182	*3.5*	*8.3*	*2.2*	*2.5*
Fuel and lubricants, primary, processed and others	39,293	32,403	*7.0*	*-17.5*	*7.0*	*6.3*
Industrial supplies, primary, processed and n.e.s.[1]	143,404	125,442	*1.2*	*-12.5*	*25.7*	*24.2*
Parts and accessories of capital and transport equipment	111,940	107,239	*-4.2*	*-4.2*	*20.0*	*20.7*
Consumption goods	**48,486**	**47,638**	***0.6***	***-1.7***	***8.7***	***9.2***
Food and beverages, primary and processed, mainly for household	20,071	21,464	*5.2*	*6.9*	*3.6*	*4.1*
Transport equipment (non-industrial)	689	562	*32.1*	*-18.4*	*0.1*	*0.1*
Other consumer goods	27,725	25,611	*-3.0*	*-7.6*	*5.0*	*4.9*
Durables	6,359	5,800	*-6.7*	*-8.8*	*1.1*	*1.1*
Semi-durables	8,881	7,980	*-12.6*	*-10.1*	*1.6*	*1.5*
Non-durables	12,486	11,832	*7.5*	*-5.2*	*2.2*	*2.3*
Others	**24,766**	**12,871**	***32.0***	***-48.0***	***4.4***	***2.5***
Re-exports	**112,961**	**118,960**	***-14.4***	***5.3***	***20.2***	***23.0***
Gross imports	**558,543**	**517,665**	***-4.0***	***-7.3***	***100.0***	***100.0***

[1] Not elsewhere stated
Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia

Balance of Payments

The current account surplus of the **balance of payments** narrowed to RM17.1 billion or 2.6% of GNI in the first half of 2020. This is due to a smaller surplus in the goods account and a lower deficit in the income account. In the second half of the year, the current account surplus is projected to widen to RM31.4 billion or 4.1% of GNI following a wider surplus in the goods account and a lower deficit in the income account. Overall in 2020, the current account surplus is expected to narrow to RM48.5 billion or 3.4% of GNI. This is primarily due to the widening deficit in the services account despite a higher surplus in the goods account and a lower deficit in income account.

The goods account is anticipated to record a higher surplus of RM130.9 billion as exports are projected to outpace imports. The services account is expected to post a wider deficit of RM50.3 billion, mainly due to the decline in receipts in the travel and transport accounts. The travel account is anticipated to record a deficit of RM10.9 billion for the first time since 1989, on account of a significant decline in tourist arrivals as international borders are closed to contain the COVID-19 pandemic. The deficit in the transport account is projected to reach RM26.8 billion due to lower earnings from freight charges, airline passenger fares, airport and port charges, such as aircraft landing and parking, ship docking and cargo handling provided by domestic companies. The other services account is expected to record a lower deficit due to declining outflow of payments for construction, financial as well as maintenance and repair services.

The primary income account is projected to register a lower deficit of RM23.7 billion in 2020, mainly with lower payments accruing to foreign direct investors in Malaysia due to sluggish performance of construction and manufacturing sectors. The investment income payments are expected to record a decline of RM65.6 billion. Compensation of employees is expected to record a smaller deficit following a larger decline in payments, reflecting slower domestic economic activities.

TABLE 3.10. *Current Account of the Balance of Payments, 2019 – 2021*
(RM million)

	2019			2020[1]			2021[2]		
	RECEIPTS	PAYMENTS	NET	RECEIPTS	PAYMENTS	NET	RECEIPTS	PAYMENTS	NET
Balance on goods and services	**985,283**	**872,871**	**112,412**	**842,053**	**761,454**	**80,599**	**916,286**	**833,823**	**82,463**
Goods	815,470	692,136	123,334	750,424	619,538	130,886	778,135	664,804	113,311
Services	169,814	180,735	-10,922	91,629	141,916	-50,287	138,151	169,019	-30,868
Transport	21,669	47,572	-25,903	14,962	41,805	-26,843	20,333	52,509	-32,176
Travel	82,114	51,296	30,818	12,414	23,283	-10,868	53,468	35,495	17,973
Other services	66,030	81,868	-15,837	64,252	76,829	-12,576	64,350	81,015	-16,665
Primary income	**64,851**	**105,118**	**-40,267**	**56,516**	**80,202**	**-23,686**	**62,804**	**104,362**	**-41,558**
Compensation of employees	6,784	15,906	-9,122	6,308	14,565	-8,257	6,809	15,351	-8,542
Investment income	58,067	89,212	-31,145	50,208	65,637	-15,429	55,995	89,011	-33,016
Secondary income	**16,897**	**38,191**	**-21,294**	**26,118**	**34,575**	**-8,458**	**17,522**	**38,150**	**-20,628**
Balance on current account	**1,067,031**	**1,016,181**	**50,850**	**924,686**	**876,231**	**48,455**	**996,612**	**976,335**	**20,277**
% of GNI			***3.5***			***3.4***			***1.3***

[1] Estimate
[2] Forecast
Note: Total may not add up due to rounding
Source: Department of Statistics and Ministry of Finance, Malaysia

The outflows of secondary income account, which primarily consist of remittances, are expected to decline to RM34.6 billion as the income of foreign workers is affected during the MCO. At the same time, inflows of secondary income account are anticipated to increase to RM26.1 billion following a one-off receipt, contributing to a lower deficit of RM8.5 billion in secondary income account.

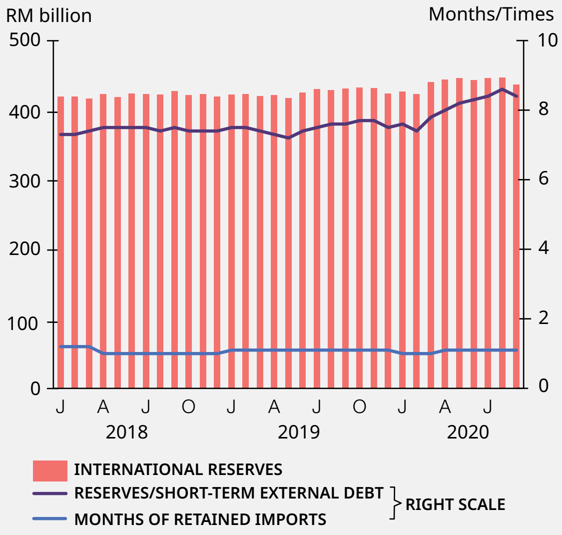
The financial account registered a net outflow of RM33.1 billion due to higher net outflows in portfolio investment amid lower net inflows in direct investment and financial derivatives accounts. Despite the pandemic, FDI registered a net inflow of RM8.6 billion during the first half of the year and channelled mainly to the manufacturing and mining sectors as well as financial and insurance/takaful segments. Direct investment abroad by Malaysian companies registered a lower net outflow of RM6.5 billion. The outflows were mainly channelled into the mining sector, followed by financial and insurance/takaful as well as information and communication segments.

The current account balance is expected to record a lower surplus in 2021 at RM20.3 billion or 1.3% of GNI, in line with the expansion in domestic industrial and investment activities. The surplus in the goods account is estimated to record RM113.3 billion, supported by a gradual recovery in global trade activities. The deficit in the services account is anticipated to narrow to RM30.9 billion amid surplus in the travel account. During the year, the travel account is expected to improve as tourism activities recover gradually. Receipts from travel account are projected to increase to RM53.5 billion driven by higher tourist arrivals and per capita spending, which more than offset residents' spending abroad for leisure, business and pilgrimage purposes.

Gross payments for transport services are expected to increase to RM52.5 billion, attributed to the continued reliance on foreign transport services amid the expansion in trade activities. Gross receipts are also anticipated to rise to RM20.3 billion, supported by improved earnings from air travel as well as cargo handling and shipping services provided by domestic companies. A wider deficit is expected in the other services account in line with higher payments attributed to expansion in the manufacturing and construction sectors.

The primary income account is anticipated to record a larger deficit of RM41.6 billion, following improvements in investment activities. This is in line with higher repatriation of profits and dividends by foreign investors and net outflows of compensation for foreign professionals. Net outflows in the secondary income account are projected to widen to RM20.6 billion as remittances by foreign workers will more than offset inflows, following the anticipated recovery in domestic economic activities.

FIGURE 3.8. *International Reserves*



As at 30 September 2020, Malaysia's international reserves amounted to RM436.5 billion or USD105.0 billion, adequate to finance 8.4 months of retained imports and 1.1 times the short-term external debt (end-December 2019: RM424.1 billion; USD103.6 billion; 7.5 months; 1.1 times).

Source: Bank Negara Malaysia

Prices

Inflationary pressure remains benign

The **Consumer Price Index** (CPI) shrank by 1% during the first eight months of 2020, and the trend is expected to continue for the rest of the year. The contraction was due to lower pump prices on account of weaker global crude oil prices as well as the discount given on electricity bills as part of the stimulus measures. However, the core index increased by 1.2%, indicating sustained domestic demand along with the gradual resumption of economic activities. In 2021, inflation is expected to normalise at 2.5% in line with better economic prospects and higher crude oil prices.

TABLE 3.11. *Consumer Price Index, January – August 2019 and 2020 (2010 = 100)*

	WEIGHT[1]	CHANGE (%)		CONTRIBUTION TO CPI GROWTH (PERCENTAGE POINTS)	
		2019	2020	2019	2020
CPI	**100.0**	***0.5***	***-1.0***	***0.50***	***-1.00***
Food and non-alcoholic beverages	29.5	*1.6*	*1.2*	*0.51*	*0.39*
Alcoholic beverages and tobacco	2.4	*1.6*	*0.2*	*0.05*	*0.01*
Clothing and footwear	3.2	*-2.4*	*-1.0*	*-0.06*	*-0.02*
Housing, water, electricity, gas and other fuels	23.8	*1.9*	*-1.0*	*0.44*	*-0.24*
Furnishings, household equipment and routine household maintenance	4.1	*1.3*	*0.3*	*0.05*	*0.01*
Health	1.9	*0.3*	*1.2*	*0.01*	*0.02*
Transport	14.6	*-3.6*	*-10.0*	*-0.51*	*-1.37*
Communication	4.8	*0.0*	*1.6*	*0.00*	*0.06*
Recreation services and culture	4.8	*0.6*	*0.7*	*0.03*	*0.03*
Education	1.3	*1.3*	*1.2*	*0.02*	*0.02*
Restaurants and hotels	2.9	*1.2*	*0.7*	*0.04*	*0.02*
Miscellaneous goods and services	6.7	*-0.6*	*2.7*	*-0.04*	*0.17*

[1] Based on Household Expenditure Survey 2016
Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia

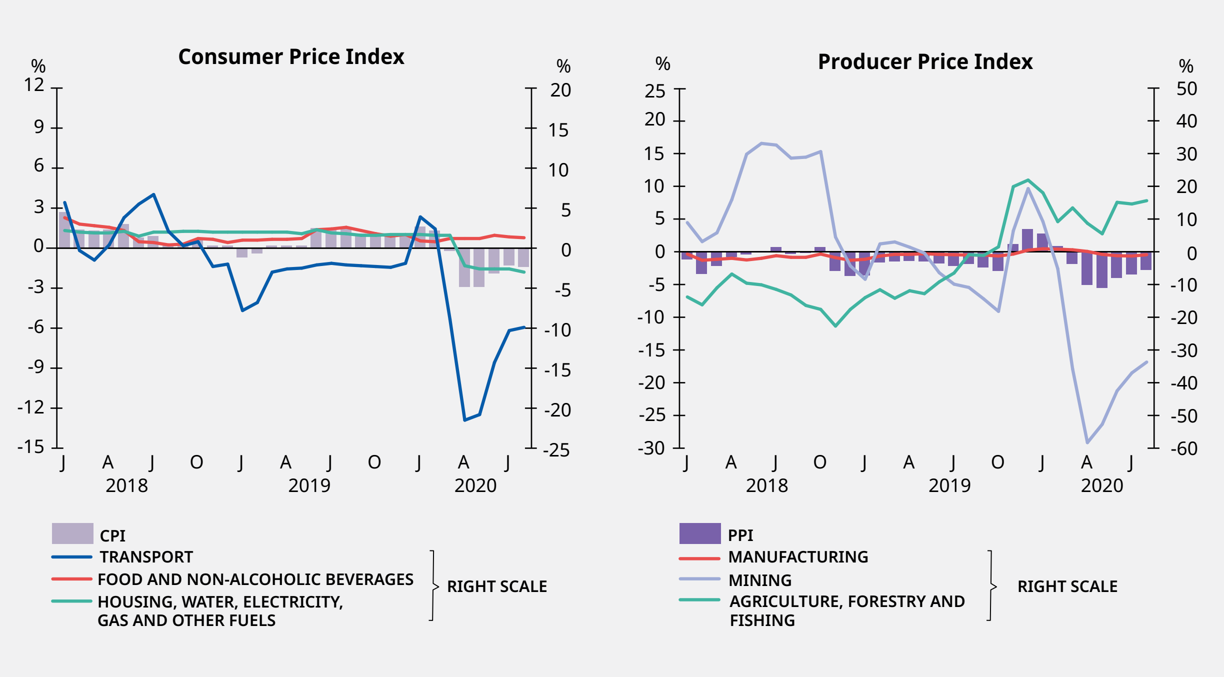
TABLE 3.12. *Producer Price Index, January – August 2019 and 2020 (2010 = 100)*

	WEIGHT[1]	CHANGE (%)		CONTRIBUTION TO PPI GROWTH (PERCENTAGE POINTS)	
		2019	2020	2019	2020
PPI	**100.000**	***-2.0***	***-2.4***	***-1.96***	***-2.39***
Agriculture, forestry and fishing	6.730	*-10.3*	*12.5*	*-0.66*	*0.74*
Mining	7.927	*-3.8*	*-32.7*	*-0.30*	*-2.50*
Manufacturing	81.571	*-1.1*	*-0.2*	*-0.92*	*-0.16*
Electricity and gas supply	3.442	*1.6*	*-0.2*	*0.06*	*-0.01*
Water supply	0.330	*-2.1*	*-0.6*	*-0.01*	*0.00*
PPI by stage of processing	**100.000**	***-2.0***	***-2.4***	***-1.96***	***-2.39***
Crude materials for further processing	16.410	*-5.7*	*-12.4*	*-0.97*	*-2.04*
Intermediate materials, supplies and components	56.119	*-1.6*	*-0.3*	*-0.89*	*-0.16*
Finished goods	27.471	*0.2*	*0.3*	*0.05*	*0.08*

[1] Based on Economic Census 2016
Note: Total may not add up due to rounding
Source: Department of Statistics, Malaysia

The **Producer Price Index** (PPI) by local production declined by 2.4% during the first eight months of 2020 and is expected to remain stable due to low input costs. This is attributed to weaker global commodity prices, particularly that of crude oil and natural gas. The PPI by sector was weighed down, particularly by a significant contraction in the mining sector (-32.7%) followed by a contraction in other sectors, namely water supply (-0.6%), manufacturing (-0.2%) and electricity and gas supply (-0.2%). In contrast, the index for agriculture, forestry and fishing sector rose by 12.5%. The PPI is expected to improve in 2021 following the projected recovery of the domestic and global economy.

FIGURE 3.9. *CPI and PPI Trends*
(% change)



Source: Department of Statistics, Malaysia

FEATURE ARTICLE 3.5

Dynamic Relationship between Consumer and Producer Price Indices

Introduction

The Consumer Price Index (CPI) measures the percentage change in the cost of purchasing a constant “basket”[1] of goods and services which represents the average pattern of purchases by a particular population during a specified period. Changes in the costs of items in the basket are therefore due only to “pure” price movements, not associated with changes in the quantity and quality of the set of consumer goods and services in the basket. On the other hand, the Producer Price Index (PPI) for local production is an output-based index, which measures the change in the price of commodities sold to the domestic market valued at the ex-factory price. The PPI for local production measures the average change in the prices charged by producers of goods of an industry in a reference month compared with the base period. Thus, it is an important macroeconomic indicator used for monitoring the price movements of local outputs and is often viewed as a leading indicator of CPI (Department of Statistics Malaysia, 2020).

---

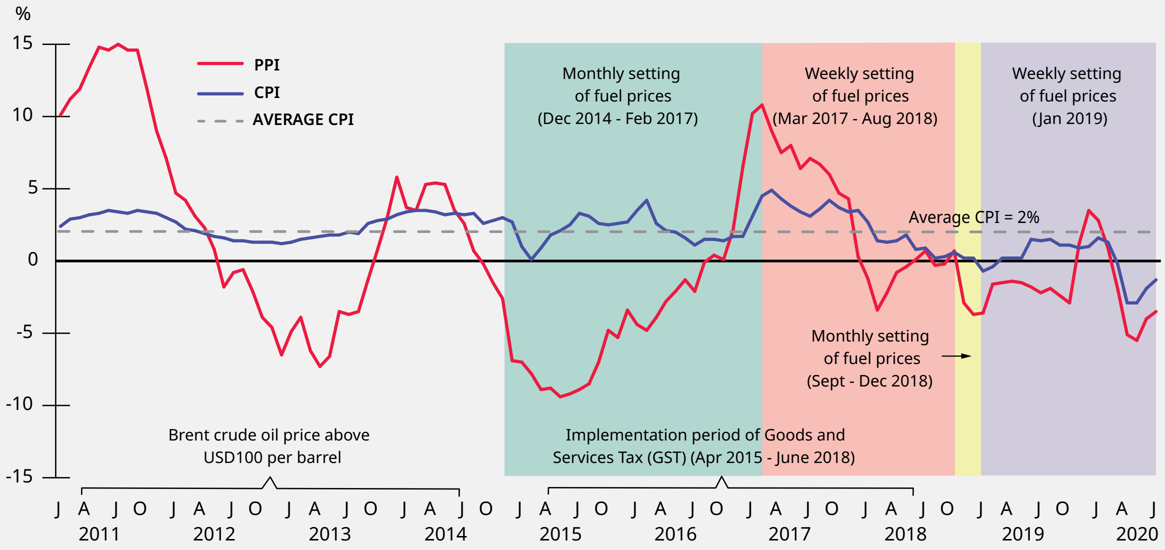
[1] The “basket” is of an unchanging or equivalent quantity and quality of goods and services, consisting of items for which there are continually measurable market prices over time.

According to Clark (1995), PPI can be transmitted to CPI via the pass-through effect. Meanwhile, research on the developing economies (Sidaoui et al., 2010) and advanced economies (Woo et al., 2018) revealed that there is a long-run relationship between CPI and PPI, which helps to forecast inflation. This article analyses the relationship for the period from January 2011 to July 2020[2], which provides an insight on inflation expectation for better management of the macroeconomic policy.

CPI measures the price changes in a fixed basket of goods and services and used as a proxy for inflation. In Malaysia, the CPI basket consists of 12 main groups of 552 items with fixed weights. Food and non-alcoholic beverages (29.5%), housing, water, electricity, gas and other fuels (23.8%), as well as transport groups (14.6%) form the largest weightage at 67.9% within the basket.
In comparison, the PPI is measured by stages of processing and by five sectors. By stages of processing, the PPI is skewed towards intermediate materials, supplies and components, which account for 56.1% of the total weightage, while by sector, manufacturing (81.6%) and mining (7.9%) formed the largest weightage at 89.5%.

The CPI trend remained relatively stable and exhibited a smaller variation than PPI from January 2011 to July 2020 period (Figure 3.5.1.). In contrast, the PPI recorded two distinct trends during the same period. From January 2011 until January 2017, the PPI had a wider variation before stabilising and converging with the CPI after the weekly setting of fuel prices.

FIGURE 3.5.1. *The Trend of CPI and PPI over 10-Year Period*



Source: Department of Statistics and Ministry of Finance, Malaysia

By and large, the inflation rate has remained low and stable. The CPI hovered around 2% on average, while the PPI at 0.6% during the analysis period. However, there were periods of high inflation rate. The highest rate recorded for CPI was 4.9% in March 2017 following the shift from a monthly to a weekly setting of fuel prices. CPI recorded its largest decline in April and May 2020 at -2.9%, attributed to the weaker private consumption during the second quarter of 2020

---

[2] Base year index set at 2010 = 100.

following the implementation of the Movement Control Order to stem the transmission of COVID-19 pandemic. Meanwhile, the PPI recorded its maximum rate increase of 15% in July 2011, which coincided with the surge in global crude oil prices averaging USD116.46 per barrel. In May 2015, the PPI reached the deepest trough at a rate of -9.4% following the slump in global crude oil prices to an average of USD64.56 per barrel.

Methodology

The relationship between the CPI and PPI in the period under review was examined using the Threshold Vector Error Correction Model (TVECM) with Momentum Threshold Autoregressive (MTAR) adjustment (Enders & Granger, 1998; Woo et al., 2018). Both CPI and PPI variables were transformed into natural logarithms. Within the relevant time series, the MTAR cointegration model was deployed, followed by the TVECM to measure the asymmetric adjustments to equilibrium.

Findings

The analysis indicates the existence of a bidirectional relationship between the CPI and PPI. Thus, price changes can be transmitted from producers to consumers and vice versa. Therefore, different approaches are needed to address inflation, depending on the sources of price variation. Other than that, the downward reversion of CPI to its long-run equilibrium will take approximately 9.1 months compared to PPI at approximately 15.5 months. This implies that more efforts are needed to soften the impact on PPI as it takes a longer time for the PPI to return to its long-run equilibrium.

TABLE 3.5.1. *Estimation of TVECM with MTAR Adjustment*

	CHANGE OF CPI (ΔCPI)	CHANGE OF PPI (ΔPPI)
Speed of adjustment	CPI adjust downward to reach equilibrium in approximately **9.1 months.**	PPI adjust downward to reach equilibrium in approximately **15.5 months**.
	CPI adjust upward to reach equilibrium in approximately **11.6 months**.	PPI adjust upward to reach equilibrium in approximately **6.2 months**.

Source: Ministry of Finance, Malaysia (estimates)

Recommendations

Based on the findings, the lengthy downward adjustment of PPI is a primary concern in Malaysia. Therefore, effort should be focused on addressing this issue which in turn will contribute to a lower cost of doing business and reduce the pass-through effect. Lowering barriers to entry for new firms, especially small and medium enterprises, will increase the total number of domestic producers while ensuring a highly competitive market environment. It is also imperative to strengthen market competition and enhance domestic production capacity to increase aggregate supply (Benkovskis, 2017). In addition, the existing rules and regulations could be strengthened and strictly enforced. This is to prevent anti-competitive practices and ensure the prices of essential goods remain reasonable for consumers.

Conclusion

The analysis has established bidirectional properties between the CPI and PPI during the period under review. It also indicates that the time taken for prices to adjust to long-run equilibrium varies between both price indices, implying there are imperfections in the market. Thus, there is a need for a more effective supply management policy to contain the transfer of impact between the two indices. At the same time, cost-push factors in PPI should be identified to weaken the pass-through effects from producers to consumers.

Labour Market

Labour market showing signs of recovery

The **labour market** deteriorated in the first half of the year as economic activities were severely disrupted by COVID-19 pandemic. Although employment was still recording a positive performance with 71,300 new jobs generated, the increase was marginal at 0.5%, which is lower than the growth of the labour force of 1.5%. During the period, the services sector was the largest source of employment, accounting for 63.3% of total employment, followed by manufacturing (16.8%) and agriculture (11%) sectors. The labour force participation rate remained encouraging at 68.4%. However, the closure of business operations and cost-cutting measures undertaken by firms due to the MCO have weakened aggregate demand. As a result, lesser employment opportunities were created as compared with the pre-COVID-19 period. This has caused a spike of 30% in unemployed persons, which led the unemployment rate to soar to 4.3% or 670,200 persons.

TABLE 3.13. *Labour Market Indicators*

	('000)			CHANGE (%)		
	H1[1]	2020[2]	2021[3]	H1[1]	2020[2]	2021[3]
Labour force	15,691.3	15,737.4	15,910.5	*1.5*	*1.0*	*1.1*
Employment	15,021.1	15,084.0	15,347.9	*0.5*	*0.1*	*1.8*
Unemployment	670.2	653.5	562.6	*(4.3)*	*(4.2)*	*(3.5)*

[1] January to June 2020
[2] Estimate
[3] Forecast
Note: Figures in parentheses refer to unemployment rate
Source: Department of Statistics and Ministry of Finance, Malaysia

The negative impact of the pandemic was also reflected in other labour market indicators. Job vacancies declined significantly by 50.8% to 251,944. In comparison, the number of active job seekers rose by 16.9% to 277,840 persons, of which 2% were new registrants. Retrenchment also increased considerably by 76.2% to 36,196 persons, mainly in the manufacturing and tourism-related industries amid the closing down of businesses, downsizing exercises and financial difficulties.

Nevertheless, the labour market condition is anticipated to progressively recover during the second half of the year. With the expectation of a more favourable economic outlook, the unemployment rate is expected to fall to overall 4.2% in 2020, with more job opportunities in the economy. Meanwhile, total employed persons are projected at 15.1 million in 2020 and further expand to 15.3 million in 2021, supported by stronger domestic demand amid the sharp recovery in economic growth. Of the 15.3 million employed persons, 9.7 million or 63.3% will be recruited in the services sector, 17.4% in the manufacturing and 10.2% in the agriculture sectors.

Labour productivity, as measured by value-added per worker, dropped sharply by 8.4% to RM84,138 in the first half of 2020, attributed to productivity contraction in all economic sectors, especially construction. Nonetheless, the decline in labour productivity is expected to moderate by 3.2% to reach RM90,900 for the whole year. This follows from the wide-range of skills enhancement programmes and initiatives to encourage technology adoption in industries under the economic stimulus

TABLE 3.14. *Employed Persons by Sector*

	('000)			SHARE (%)		
	H1[2]	2020[3]	2021[4]	H1[2]	2020[3]	2021[4]
Agriculture, forestry and fishing	1,655.9	1,644.3	1,565.5	*11.0*	*10.9*	*10.2*
Mining and quarrying	94.9	90.5	92.1	*0.6*	*0.6*	*0.6*
Manufacturing	2,529.4	2,564.2	2,670.5	*16.8*	*17.0*	*17.4*
Construction	1,227.2	1,236.9	1,304.6	*8.2*	*8.2*	*8.5*
Services	9,513.7	9,548.1	9,715.2	*63.3*	*63.3*	*63.3*
Total[1]	**15,021.1**	**15,084.0**	**15,347.9**	***100.0***	***100.0***	***100.0***

[1] Total includes 'Activities of extraterritorial organisations and bodies'
[2] January to June 2020
[3] Estimate
[4] Forecast
Note: Total may not add up due to rounding
Source: Department of Statistics and Ministry of Finance, Malaysia

packages. The productivity of the agriculture sector is projected to record an increase of 0.6%, with a decline in manufacturing (-1.4%) and services (-3.6%) sectors. In 2021, labour productivity is projected to rebound by 4.9% to reach RM95,400, supported by strong economic growth, particularly in services, manufacturing and construction sectors.

Foreign workers continued to represent a substantial part of the Malaysian labour market, thus, they were not spared from the effects of the COVID-19 pandemic. As at end-August 2020, registered low-skilled foreign workers fell to 1.7 million persons and is expected to remain at this level throughout the year, due to the temporary halt in new employment in most sectors. The foreign workers were mainly from Indonesia (34%), Bangladesh (28.3%) and Nepal (15.3%). The manufacturing sector employed the highest number of foreign workers with a share of 35.5%, followed by construction (21.3%) and services (15.2%) sectors. Nevertheless, the share of low-skilled foreign workers at 11.1% is still below the threshold of 15% to total employment.

Meanwhile, the number of **expatriates** fell by 17.9% to reach 100,373 persons. The majority of expatriates were from India (23.8%), followed by China (18.9%) and the Philippines (7.4%). They were mainly employed in the services (50.5%), information technology (34.5%) and construction (5.9%) sectors.
The Government will continue to undertake initiatives to reduce the dependency on migrant workers by ensuring the employment of migrant workers, particularly low-skilled foreign workers, is based on the actual needs of the economy. This will allow for more high-income job opportunities for the local workforce and the opportunity for industries to automate.

Conclusion

After a dismal economic performance in 2020 due to the COVID-19 pandemic, the Malaysian economy is expected to rebound firmly in 2021, in line with the expectation of a more synchronised global recovery. At the same time, domestic demand is projected to record a steady growth, supported by improvements in labour market conditions, low inflation and favourable financing conditions as well as the revival of major infrastructure projects. All sectors in the economy are expected to turnaround, with services and manufacturing sectors continuing to spearhead growth.

Nevertheless, downside risks to the growth outlook remain, arising from the resurgence of COVID-19 cases and the duration of containment measures domestically and globally. Geopolitical tensions, volatility in financial and commodity markets as well as prolonged trade and tech war may dampen the recovery pace. Against this background, the Government will continue to promote resilient and sustainable economic growth, while safeguarding the welfare of the people. Efforts will be enhanced to accelerate the shift to digitalisation, skilled workforce, quality FDIs and strengthening environmental, social and governance principles to ensure sustainable and inclusive growth.

References

Association of Small & Medium Enterprises, Singapore. (2018). *Singapore SMEs: Are You Ready for a Digital Future?* Retrieved from https://news.microsoft.com/en-sg/2018/10/23/singapore-smes-who-embrace-digital-transformation-expect-to-see-average-revenue-gains-of-26-asme-microsoft-study/

Bamberger, V., Nansé, F., Schreiber, B., Zintel, M. (2017). *Logistics 4.0 - Facing Digitalization Driven Disruption.* Retrieved from http://www.adlittle.com/sites /default/files/prism/logistics_section.pdf 2019-02-25.

Bank Negara Malaysia. (2020). *Monthly Statistical Bulletin.* Retrieved from https://www.bnm.gov.my/

Bank Negara Malaysia. (2018). *Understanding Financing through the Lens of Small and Medium Enterprises*. Retrieved from https://www.bnm.gov.my/files/publication/fsps/en/2018/cp02_001_box.pdf

Benkovski, K. (2017). *Higher Competition in the Domestic Market – A Way to Boost Aggregate Productivity.* Retrieved from https://freepolicybriefs.org/2017/02/27/higher-competition-domestic-market-way-boost-aggregate-productivity/

Bizsphere. (2017). *World Trademark Review: Brand Investment is the Biggest Hurdle for Malaysia SMEs*. Retrieved from http://bizsphere.com.my/smebrandsurvey2017-world-trademark-review/

Bourletidis, K., & Triantafyllopoulos, Y. (2014). SMEs Survival in Time of Crisis: Strategies, Tactics and Commercial Success Stories. *Procedia-Social and Behavioral Sciences*, *148*, 639-644.

Burtch, G., Carnahan, S., & Greenwood, B. N. (2016). Can You Gig It. *An Empirical Examination of the Gig-Economy and Entrepreneurial Activity*. SSRN, March 2016.

Clark, T. E. (1995). *Do Producer Prices Lead Consumer Prices?* Economic Review, Federal Reserve Bank of Kansas City, 80(3), 25-39.

Dell'Anno, R. (2004). *Estimating the Shadow Economy in Italy: A Structural Equation Approach*. (Economics Working Papers Number 2003-7), Department of Economics and Business Economics, Aarhus University.

Department of Statistics Malaysia. (2020). *Consumer Price Index*, July 2020, Technical Notes, 97-100. Retrieved from https://www.dosm.gov.my/

Department of Statistics Malaysia. (2020). *Monthly External Trade Statistics.* Retrieved from https://www.dosm.gov.my/

Department of Statistics Malaysia. (2020). *National Account: Gross Domestic Product 2015-2019*. Retrieved from https://dosm.gov.my

Department of Statistics Malaysia. (2020). *Producer Price Index*, July 2020, Technical Notes, 63-67. Retrieved from https://www.dosm.gov.my/

Department of Statistics Malaysia. (2020). *Quarterly Balance of Payments.* Retrieved from https://www.dosm.gov.my/

Department of Statistics Malaysia. (2020). *Report of Special Survey on Effects of COVID-19 on Companies and Business Firms (Round 1).* Retrieved from https://www.dosm.gov.my/v1/uploads/files/covid-19/Report_of_Special_Survey_COVID-19_Company-Round-1.pdf

Department of Statistics Malaysia. (2019) *Informal Sector Workforce Survey Report 2019*. Retrieved from https://www.dosm.gov.my

Department of Statistics Malaysia. (2019) *Input-Output Tables, 2005, 2010 and 2015*. Retrieved from https://www.dosm.gov.my

Department of Statistics Malaysia. (2019). *Small and Medium Enterprises 2019*. Retrieved from https://newss.statistics.gov.my/newss-portalx/ep/epFreeDownloadContentSearch.seam?cid=22660

Department of Statistics Malaysia. (2016). *Economic Census 2016, Profile of Small and Medium Enterprises.* Retrieved from https://newss.statistics.gov.my/newss-portalx/ep/epFreeDownloadContentSearch.seam?cid=23136

DifferenceBetween.net. (2020). *Difference Between Gig Economy and Traditional Economy.* Retrieved from http://www.differencebetween.net/business/economics-business/difference-between-gig-economy-and-traditional-economy/

Economic Forum. (2016). *Digital Transformation of Industries: Logistics Industry, White Paper.* Retrieved from http://reports.weforum.org/digital-transformation/wp-content/blogs.dir/94/mp/files/pages/files/dti-logistics-industry-white-paper.pdf

Employees Provident Fund. (2019). *The Gig Economy Is Real and Here to Stay.* Retrieved from https://www.digitalnewsasia.com/digital-economy/gig-economy-real-and-here-stay

Enders, W., & Granger, C. W. J. (1998). Unit-Root Tests and Asymmetric Adjustment with an Example Using the Term Structure of Interest Rates. *Journal of Business & Economic Statistics,* 16(3), 304–311.

Friedman, E., Johnson, S., Kaufmann, D., & Zoido-Lobaton, P. (2000). Dodging The Grabbing Hand: The Determinants of Unofficial Activity in 69 Countries. *Journal of Public Economics*, *76*(3), 459-493.

Gen, M., Cheng, R., & Lin, L. (2008). *Logistics Network Models: Network Models and Optimisation.* Springer, London, 135-229. Retrieved from https://doi.org/10.1007/978-1-84800-181-7.

Global Gig Economy-Index. (2019). *The Global Gig-Economy Index.* Retrieved from https://cdn.techjuice.pk/wp-content/uploads/2019/08/Index-freelance.pdf

Goel, R. K., Saunoris, J. W., & Schneider, F. (2017). *Drivers of the Underground Economy Around the Millennium: A Long Term Look for the United States*. (IZA Discussion Papers Number 10857). Boon, Germany, IZA Institute of Labor Economics.

Hakovirta, M., & Denuwara, N. (2020). *How COVID-19 Redefines the Concept of Sustainability*. Retrieved from https://www.mdpi.com/2071-1050/12/9/3727

Hershatter, A., & Epstein, M. (2010). Millennials and the World of Work: An Organisation and Management Perspective. *Journal of Business and Psychology*, *25*(2), 211-223.

Human Resources Development Fund. (2019). *HRDF Human Capital Report*, Issue: Jan 2019/2. Retrieved from https://www.hrdf.com.my/wp-content/uploads/2016/12/02.-issue_Jan02_2019-Human-Capital-Report-Gig-Economy-and-Training.pdf

IMD World Competitiveness Center. (2020). *The IMD World Digital Competitiveness Ranking 2019.* Retrieved from https://www.imd.org/wcc/world-competitiveness-center-rankings/world-digital-competitiveness-rankings-2020

Inland Revenue Board of Malaysia (IRB). (1975). *Service Tax Act.* Retrieved from http://www.agc.gov.my

Inland Revenue Board of Malaysia (IRB). (1967). *Malaysian Income Tax Act.* Retrieved from http://www.agc.gov.my

International Chamber of Commerce (ICC). (2017). *The Economic Impacts of Counterfeiting and Piracy*. Retrieved from https://www.inta.org/communications/documents/2017_frontier_report.pdf

International Monetary Fund. (2020). *The Great Lockdown: Worst Economic Downturn Since the Great Depression*. Retrieved from https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/

Ismail, N. A., & Masud, M. M. (2020). *Prospects and Challenges in Improving E-Commerce Connectivity in Malaysia*. Economic Research Institute for ASEAN and East Asia, 78-98. Retrieved from https://www.eria.org/uploads/media/E-commerce-Connectivity-in-ASEAN

Kee-Luen, W., Thiam-Yong, K., & Seng-Fook, O. (2013). *Strategic Planning and Business Performance: A Study of SMEs In Malaysia*. Proceedings of 3rd Asia-Pacific Business Research Conference, 25-26.

Khazanah Research Institute. (2019). HRDF Human Capital Report, Issue: Jan 2019/2. Retrieved from https://www.hrdf.com.my/wp-content/uploads/2016/12/02.-issue_Jan02_2019-Human-Capital-Report-Gig-Economy-and-Training.pdf

Lasi, H., Kemper, H.-G., Fettke, P., Feld, T., & Hoffmann, M. (2014). *Industry 4.0. Business & Information Systems Engineering*, *6*(4), 239-242. Retrieved from https://aisel.aisnet.org/bise/vol6/iss4/5.

Lehmacher, W., Betti, F., Beecher, P., Grotemeier, C., & Lorenzen, M. (2017*). Impact of the Fourth Industrial Revolution on Supply Chains*. World Economic Forum. Retrieved from https://www.weforum.org/whitepapers/impact-of-the-fourthindustrial-revolution-on-supply-chains

Malaysia External Trade Development Corporation. (2020). *Monthly Malaysia External Trade Statistics.* Retrieved from https://www.miti.gov.my/

Manufacturing and Automation. (2016). Manchester, UK, 68–74. Retrieved from https://doi.org/10.2991/iwama-16.2016.13.

Marketing Insight. (2020). *Sentiment Study on the Impact of COVID-19 MCO on Malaysians*. Retrieved from https://marketingmagazine.com.my/sentiment-study-on-the-impact-of-covid-19-mco-on-malaysians/

Matyushenko, I., Berenda, S., Shtal, T. & Grigorova-Berenda. (2019). *Logistics and Transport in Industry 4.0: Perspective for Ukraine*. SHS Web of Conferences, 67. Retrieved from https://doi.org/10.1051/shsconf /20196703008 NTI-UkrSURT 2019 3008

MBO Partners. (2017). *Study: 60% of Workforce will be Independent by 2027.* Retrieved from https://www.hrdive.com/news/study-60-of-workforce-will-be-independent-by-2027/505313/

Medina, L., & Schneider, F. (2019). *Shedding Light on the Shadow Economy: A Global Database and the Interaction with the Official One*. (CESifo Working Paper Number 7981). Retrieved from https://www.cesifo.org/DocDL/cesifo1_wp7981.pdf

Medina, L., & Schneider, F. (2018). *Shadow Economies Around the World: What Did We Learn Over the Last 20 Years?* Retrieved from https://www.imf.org/~/media/Files/Publications/WP/2018/wp1817.ashx

Miller, R. E., & Blair, P. D. (2009). *Input-output Analysis: Foundations and Extensions*. Cambridge University Press.

Ministry of Finance. (2019). *Economic Outlook 2019: Determinants of Inflation in Malaysia*, 75-77.

Ministry of Transport. (2017). *Logistics and Trade Facilitation Masterplan: Performance Report 2016.* Retrieved from http://www.mot.gov.my

Omar, A. R. C., Ishak, S., & Jusoh, M. A. (2020). The Impact of Covid-19 Movement Control Order on SMEs' Businesses and Survival Strategies. *Geografia-Malaysian Journal of Society and Space*, 16(2).

Organisation for Economic Co-operation and Development (2019). *Digitalisation and Productivity: In Search of The Holy Grail – Firm-Level Empirical Evidence from EU Countries*. OECD Economic Outlook, 2019(1). Retrieved from https://doi.org/10.1787/b2e897b0-en

Organisation for Economic Co-operation and Development. (2017). *Shining Light on the Shadow Economy: Opportunities and Threats*. Retrieved from http://www.oecd.org/tax/crime/shining-light-on-the-shadow-economy-opportunities-and-threats.pdf

Organisation for Economic Co-operation and Development. (2009). *Is Informal Normal? Towards More and Better Jobs in Developing Countries.* OECD Publishing and OECD Development Centre

Packard, T.G., Koettl, J., & Montenegro, C. (2012). *In From the Shadow: Integrating Europe's Informal Labor*. The World Bank

Pew Research Center. (2019). *Defining Generations: Where Millennials End and Generation Z Begins.* Retrieved from https://www.pewresearch.org/fact-tank/2019/01/17/where-millennials-end-and-generation-z-begins/

Radivojevic, G., & Milosavljevic, L. (2017). *The Concept of Logistics 4.0: 4th Logistics International Conference*. Retrieved from http://logic.sf.bg.ac.rs/wp-content/uploads/Papers/LOGIC2019/ID-32.pdf

Schneider, F., & Enste, D. H. (2000). Shadow Economies Around the World: Size, Causes and Consequences. International Monetary Fund.

Schneider, F. (2011). The Shadow Economy Labour Force. *World Economics, 12*(4), 53 - 92.

Schneider, F., Buehn, A., & Montenegro, C. (2010). *Shadow Economies All Over the World: New Estimates for 162 Countries from 1999 to 2007.* (The World Bank Policy Research Working Paper Series Number 5356). Retrieved from http://documents1.worldbank.org/curated/en/311991468037132740/pdf/WPS5356.pdf

Sidaoui, J., Capistran, C., Chiquiar, D., & Ramos-Francia, M. (2010). *On the Predictive Content of the PPI on CPI inflation: The Case of Mexico.* Bank for International Settlements Papers, 249–257.

SME Corporation Malaysia. (2020). *Malaysian SME Definition*. Retrieved from https://www.smecorp.gov.my/index.php/en/policies/2020-02-11-08-01-24/sme-definition

SME Corporation Malaysia. (2020). *Survey on Access to COVID-19 Stimulus Incentives and Next Steps to Rebuild the Business of SMEs*.

SME Corporation Malaysia. (2020). *Survey on Impact of COVID-19 on SMEs*.

SME Corporation Malaysia. (2020). *Survey on SMEs Response towards the Restarting of the Economy*.

Tanzi, V. (2002). The Shadow Economy, Its Causes and Its Consequences. *Edited Lecture. Brazilian Institute of Ethics*.

The Centre. (2019). *Ensuring Social Protection Coverage for Malaysia's Gig Workers*. Retrieved from https://www.centre.my/post/voluntary-versus-automatic-figuring-out-the-right-approach-on-social-protection-for-informal-workers

Valdes, A., & Foster, W. (2010). *Reflections on the Role of Agriculture in Pro-Poor Growth*. World Development, 38, 1362-74.

Walsh, G. S., Przychodzen, J., & Przychodzen, W. (2017). Supporting the SME Commercialization Process: The Case of 3D Printing Platforms. *Small Enterprise Research*, 24(3), 257-273.

Wang, K. (2016). *Logistics 4.0 Solution: New Challenges and Opportunities*. Proceedings of the Conference: 6th International Workshop of Advanced World. Retrieved from https://doi.org/10.2991/iwama-16.2016.13

Woo, K. Y., Lee, S. K., & Ng, J. C. Y. (2018). An Investigation into the dynamic relationship between CPI and PPI: Evidence from the UK, France and Germany. *The Singapore Economic Review,* 1-19.

World Bank. (2018). *Malaysia's Digital Economy: A New Driver of Development.* Retrieved from https://www.worldbank.org/en/country/malaysia/publication/malaysias-digital-economy-a-new-driver-of-development

World Economic Forum. (2016). *Digital Transformation of Industries: Logistics Industry,* White Paper. Retrieved from http://reports.weforum.org/digital-transformation/wp-content/blogs.dir/94/mp/files/pages/files/dti-logistics-industry-white-paper.pdf

Wu, D. F., & Schneider, M. F. (2019). *Nonlinearity between the Shadow Economy and Level of Development.* International Monetary Fund

Yusuf, Ismaila & Agbi, Sam. (2018*). The Impact of Electronic Payments and Cash- Less Policy on the Shadow Economy in Nigeria. ICAN Journal of Accounting and Finance,* 7(1), 154 - 165.

Zurich-University of Oxford. (2018). *Agile Workforce Study: Gig Economy Rises in Malaysia, Income Protection Lags.* Retrieved from https://www.zurich.com.my/en/about-zurich/zurich-in-the-news/2020/2020-01-16

CHAPTER 4

Monetary and Financial Developments

Vibrant Monetary Operations & Sound Financial System

Vibrant Money & Foreign Exchange Markets

and intermediation activities supported monetary operations

Resilient Monetary & Financial Conditions

throughout COVID-19 pandemic period supported economic recovery

Monetary Developments

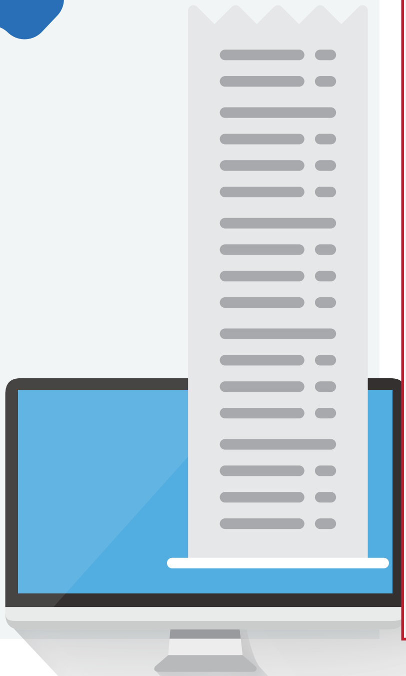
Monetary policy cushioned the adverse effects of measures implemented to contain the spread of COVID-19 virus on the economy.

The Overnight Policy Rate (OPR) was reduced successively by 125 basis points (bps) during the first seven months of 2020 to a historic low of 1.75%.

Banking institutions were also given the flexibility to use Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII) to fully meet SRR compliance.

Monetary policy also provided additional stimulus to sustain the pace of economic recovery.

The Statutory Reserve Requirement (SRR) was reduced by 100 bps from 3.00% to 2.00%.



Risks to Capital and Financial Market Performance

- Pace of global economic recovery
- Prolonged US-China trade tensions
- Weak commodity prices
- Volatile global financial markets

Performance of Ringgit

JANUARY

In January 2020, the ringgit appreciated against the US dollar mainly due to non-resident portfolio inflows. This was supported by improved investors' risk sentiment attributed to positive development in the US-China trade negotiation.

FEBRUARY

In February and March, the local note, along with regional currencies, faced significant depreciation against the US dollar. The downward trend of the ringgit was contributed by geopolitical uncertainties, declining commodity prices and rapid escalation of the COVID-19 pandemic.

Robust & Orderly Banking Sector

ample liquidity &
strong capital buffers

Resilient Capital Market

well-developed
infrastructure & instruments

Banking Sector Performance

Capitalisation of banking sector remained strong, supported by the accumulation of high-quality loss-absorbing instruments.

As at end-July 2020, excess total capital buffer remained high at RM121.6 billion.

Islamic Banking & Capital Market Performance

Islamic banking industry expanded with total assets valued at RM1,038.2 billion and market share at 33% as at end-July 2020. Total Islamic financing outstanding increased further by 10% to RM787.8 billion.

Islamic financing is expected to expand further supported by the recovery in economic activity and continuous promotion of Shariah-compliant products.

The demand for Shariah-compliant products is expected to be stronger in the future, supported by its appeal to a broader group of investors.

Ongoing promotion of Shariah-compliant products and digitalisation of services will provide the impetus for the country to position itself as a prominent international centre for Islamic financial services.

The growth is primarily contributed by household sector financing, which increased by 8.7% to RM490.9 billion, mainly for the purchase of residential properties.

The Islamic Capital Market (ICM) continues to thrive with Malaysia being among the largest issuer of sukuk and Islamic equity in the world. As at end-July 2020, the domestic size of ICM was valued at RM2.2 trillion, accounting for 66.2% of RM3.3 trillion of Malaysia's total capital market size.

Sukuk issuances amounted to RM130.8 billion or 60.2% of total bonds issuances. Sukuk outstanding was valued at RM986.9 billion or 62.6% of total bonds outstanding.

Despite the challenging economic climate, the prospect for ICM remains promising.

SECOND QUARTER

END-SEPTEMBER

GOING FORWARD

From the second quarter onwards, recovery in global investor sentiments amid monetary and fiscal stimulus measures deployed to combat the pandemic led the ringgit to appreciate by 3.5% against the US dollar, in line with the appreciation of regional currencies. As at end-September, the ringgit recorded a depreciation of 1.6% against the US dollar.

Going forward, the expected recovery in the global and domestic economy will provide some support for the ringgit.

CHAPTER 4

Monetary and Financial Developments

Overview

The financial sector remains sound

Monetary and financial conditions have been resilient throughout the COVID-19 pandemic period and supportive of economic recovery. Monetary operations will be supported by vibrant money and foreign exchange markets as well as intermediation activities. The banking sector is expected to remain robust and orderly, underpinned by ample liquidity and strong capital buffers. The capital market will continue to be resilient, driven by well-developed infrastructure and instruments. Nevertheless, concerns over the momentum of global economic recovery due to the pandemic, continued US-China trade tensions, weak commodity prices, and volatile global financial markets may affect financial and capital market performance.

Monetary Developments

Monetary policy mitigates the impact of the pandemic

Monetary policy cushioned the adverse effects of measures implemented to contain the spread of COVID-19 virus on the economy. The policy also provided additional stimulus to sustain the pace of economic recovery. The Overnight Policy Rate (OPR) was reduced successively by 125 basis points (bps) during the first seven months of 2020 to a historic low of 1.75%. Similarly, the Statutory Reserve Requirement (SRR) was reduced by 100 bps from 3.00% to 2.00%. Banking institutions were also given the flexibility to use Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII) to fully meet SRR compliance. The measures were implemented to ensure sufficient liquidity and to support the orderly functioning of the domestic financial market.

The interest rate in the banking system was lowered in line with the OPR adjustment since January 2020. In the first seven months of 2020, the average lending rate and weighted base rate of commercial banks were reduced consecutively to 3.70% and 2.43%, respectively. During the same period, the average interest rate on savings deposit of commercial banks was lowered to 0.48% while fixed deposits of 1-month to 12-month maturities moderated to between 1.53% and 1.79%.

With accommodative monetary policy, monetary aggregates expanded rapidly during the first seven months of 2020. M1 rose by 15.7% to RM497.2 billion, supported by higher currency in circulation and demand deposits which increased by 18.5% and 14.9%, respectively. Similarly, M3 expanded by 6.1% to RM2,029.7 billion, mainly due to higher net

FIGURE 4.1. *Monetary Aggregates (% change)*

[1] End-July 2020
Source: Bank Negara Malaysia

claims on the Government and extension of credit to the private sector, primarily through securities. The money supply is expected to expand further backed by higher demand for loans and securities by the private sector.

TABLE 4.1. *Factors Affecting M3, January – July 2019 and 2020*

	CHANGE (RM BILLION)	
	2019	**2020**
M3	**18.8**	**68.1**
Net claims on Government	-10.9	62.8
Claims on Government	18.3	81.9
Less: Government deposits	29.2	19.1
Claims on private sector	37.6	39.3
Loans	26.7	29.4
Securities	10.9	9.9
Net foreign assets[1]	11.2	35.9
Bank Negara Malaysia	10.8	22.0
Banking system	0.4	13.9
Other influences	-19.1	-69.9

[1] Includes exchange rate revaluation losses/gains
Note: Total may not add up due to rounding
Source: Bank Negara Malaysia

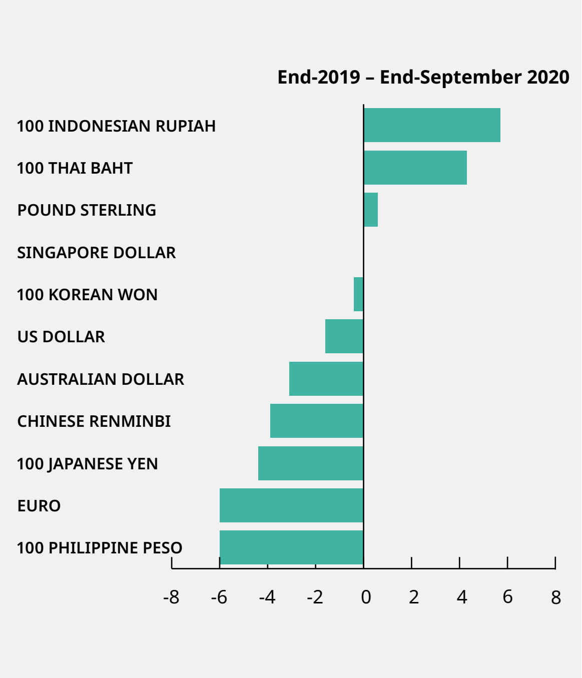
Performance of Ringgit

Periods of volatility in the exchange rate

In January 2020, the ringgit appreciated against the US dollar mainly due to non-resident portfolio inflows. This was supported by improved investors' risk sentiment attributed to positive development in the US-China trade negotiation. However, in February and March, the local note, along with regional currencies, faced significant depreciation against the US dollar. The downward trend of the ringgit was contributed by geopolitical uncertainties, declining commodity prices and rapid escalation of the COVID-19 pandemic.

From the second quarter onwards, recovery in global investor sentiments amid monetary and fiscal stimulus measures deployed to combat the pandemic led the ringgit to appreciate by 3.5% against the US dollar, in line with the appreciation of regional currencies. As at end-September, the ringgit recorded a depreciation of 1.6% against the US dollar. Going forward, the expected recovery in the global and domestic economy will provide some support for the ringgit. However, lingering uncertainties over the COVID-19 pandemic, global political and policy environment could lead to periods of heightened exchange rate volatility.

FIGURE 4.2. *Performance of Ringgit against Selected Currencies (% change)*



Source: Bank Negara Malaysia

Banking Sector Performance

Resilient banking sector

The capitalisation of the banking sector remained strong, supported by the accumulation of high-quality loss-absorbing instruments. As at end-July 2020, excess total capital buffer[1] remained high at RM121.6 billion. The banking sector remained well-capitalised with Common Equity Tier 1 Capital, Tier 1 Capital and Total Capital Ratios at 14.6%,

---

[1] Excess total capital buffer refers to the total capital above the banks' regulatory minima, which also includes the capital conservation buffer (2.5% of risk-weighted assets) and bank-specific higher minimum requirements.

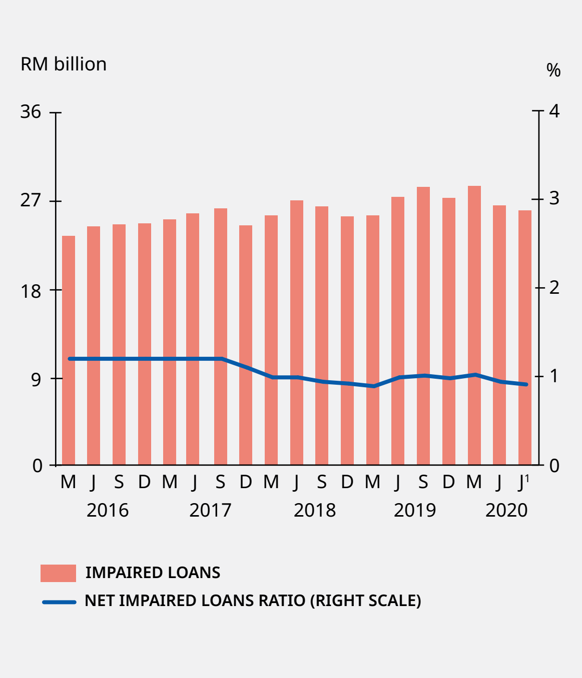
15.1% and 18.3%, respectively. The ratios are well above the Basel III minimum regulatory levels of 4.5%, 6% and 8%, of risk-weighted assets.

The pre-tax profit of the banking sector fell by 11.7% to RM20.5 billion in the first seven months of 2020. Despite the challenging environment, domestic banks remain strong, supported by orderly financial markets and sustained confidence in the banking sector. As a result, returns on assets and equity continued to be stable at 1.2% and 10.5%, respectively.

The loan quality and liquidity of the banking sector also remain sound. As at end-July 2020, the net impaired loans ratio and loan loss coverage ratio (including regulatory reserves) remained healthy at 0.91% and 121%, respectively. Similarly, the Liquidity Coverage Ratio was at 152%, well above the 100% minimum requirement. Notwithstanding uncertainties and heightened risks from global financial markets following the fallout from the COVID-19 pandemic and ongoing geopolitical tensions, the banking sector liquidity remains sufficient and stable in the near term.

Lending activities slowed down, reflecting cautious sentiment on the global and domestic growth outlook. In the first seven months of 2020, loan approvals and disbursements fell by 22% and 7.3% to RM185.5 billion and RM657.1 billion, respectively. This was mainly due to financial institutions taking precautionary measures to approve new loans following restricted economic activities. However, total loans outstanding expanded by 4.5% to RM1,806.1 billion as at end-July 2020.

FIGURE 4.3. *Banking System: Impaired Loans and Net Impaired Loans Ratio (End-period)*



[1] End-July 2020
Source: Bank Negara Malaysia

TABLE 4.2. *Banking System: Loan Indicators, January – July 2019 and 2020*

	RM BILLION		CHANGE (%)	
	2019	2020	2019	2020
Total[1]				
Loans applications	501.3	447.9	*-1.7*	*-10.6*
Loans approvals	237.9	185.5	*5.8*	*-22.0*
Loans disbursements	709.0	657.1	*3.2*	*-7.3*
Loans outstanding[2,3]	1,728.8	1,806.1	*3.9*	*4.5*
of which:				
Businesses				
Loans applications	203.8	200.9	*-0.6*	*-1.4*
Loans approvals	92.2	80.7	*2.7*	*-12.5*
Loans disbursements	450.2	430.7	*1.0*	*-4.3*
Loans outstanding[3]	609.2	633.3	*2.6*	*4.0*
Households				
Loans applications	276.3	225.9	*-1.6*	*-18.2*
Loans approvals	127.0	88.9	*4.1*	*-30.0*
Loans disbursements	197.4	165.3	*1.6*	*-16.3*
Loans outstanding[3]	981.1	1,024.0	*4.8*	*4.4*

[1] Includes foreign entities, other domestic entities, Government and others
[2] Includes loans sold to Cagamas
[3] As at end-period
Note: Total may not add up due to rounding
Source: Bank Negara Malaysia

Loan approvals to businesses decreased by 12.5% to RM80.7 billion as at end-July 2020. Total disbursements to businesses fell by 4.3% to RM430.7 billion, representing 65.5% of total loans disbursed. The bulk of loans were channelled into manufacturing (22.2% of total loans), wholesale and retail trade, restaurants and hotels (19.4%) as well as construction (6.6%) sectors. At the same time, total loans outstanding to the business sector increased by 4% to RM633.3 billion, accounting for 35.2% of total loans outstanding.

Household borrowings slowed down with loan approvals declining by 30% to RM88.9 billion. Loans disbursed to households also declined by 16.3% to RM165.3 billion, mainly for consumption credit (13.1% of total loans), purchase of residential properties (6.3%) and securities (2.7%). As at end-July 2020, total household loans outstanding rose by 4.4% amounting to RM1,024 billion, which accounts for 56.8% of total loans outstanding in the banking sector.

The overall household debt increased by 4% to RM1,265.9 billion, accounting for 87.5% of Gross Domestic Product (GDP) as at end-June 2020. The increase was mainly due to the sharp contraction in GDP during the first half of the year. The bulk of the debt comprises of loans for the purchase of residential properties (55.9%), followed by personal use (14.2%) and passenger cars (12.3%). Total household assets were valued at RM2,751.9 billion with growth in household financial assets continuing to outpace that of debt. Although household debt has risen, it is expected to remain manageable, supported by programmes to rein in the debt level and measures enacted to cushion the impact of the COVID-19 pandemic on the economy.

TABLE 4.3. *Banking System: Loans Outstanding by Sector, End-July 2019 and 2020*

	RM BILLION		SHARE (%)	
	2019	2020	2019	2020
Businesses	**609.2**	**633.3**	***35.3***	***35.2***
Non-SMEs[1]	326.9	351.5	*19.0*	*19.5*
SMEs	282.3	281.8	*16.4*	*15.6*
Selected sectors				
Primary agriculture	34.4	34.7	*2.0*	*1.9*
Mining and quarrying	7.9	9.0	*0.5*	*0.5*
Manufacturing[2]	115.0	122.3	*6.7*	*6.8*
Electricity, gas and water supply	13.0	14.7	*0.8*	*0.8*
Wholesale and retail trade, restaurants and hotels	127.6	134.4	*7.4*	*7.5*
Construction	91.9	91.6	*5.3*	*5.1*
Real estate	117.1	119.0	*6.8*	*6.6*
Transport, storage and communication	37.2	39.8	*2.2*	*2.2*
Finance, insurance and business activities	42.2	43.8	*2.4*	*2.4*
Households	**981.1**	**1,024.0**	***56.9***	***56.8***
of which:				
Purchase of residential properties	551.6	594.4	*32.0*	*33.0*
Purchase of non-residential properties	80.4	80.5	*4.7*	*4.5*
Purchase of passenger cars	145.1	146.2	*8.4*	*8.1*
Consumption credit	133.5	135.4	*7.7*	*7.5*
of which:				
Credit cards	38.3	35.3	*2.2*	*2.0*
Personal use	95.2	100.1	*5.5*	*5.6*
Purchase of securities	68.9	66.1	*4.0*	*3.7*
Others	0.4	0.4	*0.0*	*0.0*
Other sectors	**134.2**	**144.1**	***7.8***	***8.0***
Total[3]	**1,724.4**	**1,801.4**	***100.0***	***100.0***

[1] Non-SMEs refers to large corporations, including foreign entities, other domestic entities, Government and others
[2] Including agro-based
[3] Total = Businesses + Households + Other sectors
Note: Total may not add up due to rounding
Source: Bank Negara Malaysia

FEATURE ARTICLE 4.1

Digital Banks in Malaysia

Introduction

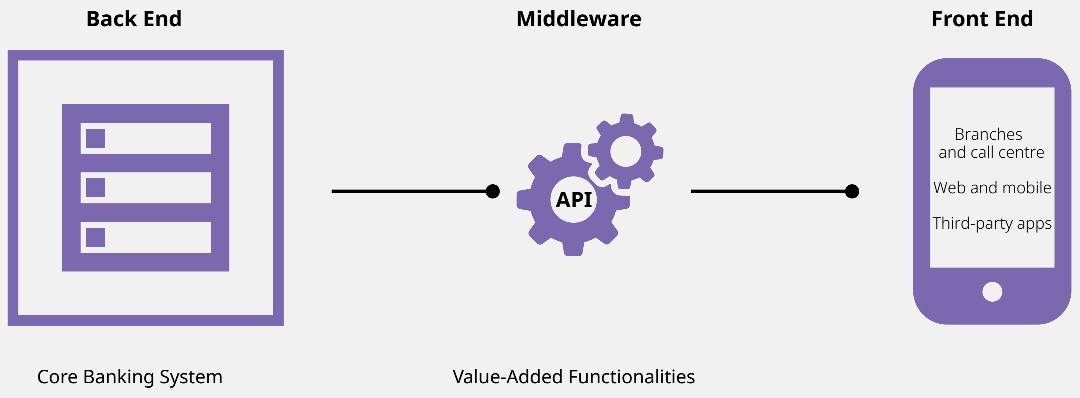
The banking industry has experienced multiple transformations to suit customer demands and keep up with technological advancements, such as secure digital ledger transactions and artificial intelligence (AI). Moreover, the COVID-19 pandemic has forced societies to favour cashless transactions, all of which enable a faster shift towards the establishment of digital banks. A digital bank is essentially a virtual bank, which operates in a digital environment and is devoid of brick-and-mortar presence of a traditional bank. However, digital banks offer similar services to that of traditional banks, such as savings and current accounts, withdrawals and transfers. As such, digital banks are expected to revolutionise the financial landscape by offering financial services through digital and automated platforms (Deloitte, 2020).

Currently, Australia, Brazil, Canada, China, Germany, Hong Kong SAR, Republic of Korea, South Africa, Taiwan, the Philippines, the UK and the US have established their own digital banks (PricewaterhouseCoopers, 2020). Singapore is expected to issue its digital bank licences in 2020. Meanwhile, Bank Negara Malaysia (BNM) is at the stage of finalising the updated Exposure Draft on Licensing Framework for Digital Banks issued on 3 March 2020. With this development, Malaysia looks forward to establishing several digital banks in the near future, paving the way for a more vibrant financial services landscape.

How Does Digital Bank Work?

A digital bank works differently from mobile or online platforms as it requires full digitalisation of banking services. The bank makes use of high-end technology called middleware solution to connect the nodes between front- and back-end processes. The middleware solution bridges the operating systems or databases with other applications while adopting other technologies in its processes (Figure 4.1.1.). Digital banks demand high-end technologies such as Application Programming Interface (APIs), AI Machine Learning, Cloud Computing, Big Data, Cybersecurity, Data Visualisation, User Interface (UI) – User Experience (UX) Design and Blockchain. These technologies allow multilayer processes to be conducted simultaneously across all its delivery channels (Figure 4.1.2.).

FIGURE 4.1.1. *Process Workflow of a Digital Bank*



Source: ATKearney

FIGURE 4.1.2. *Key Aspects of a Digital Bank*

Cybersecurity
State of being protected against criminal or unauthorised use of electronic data.

Big Data
Extremely large data sets that are analysed computationally to reveal patterns, trends, and associations, especially relating to human behaviour and interactions.

Cloud Computing
Practice of using a network of remote servers hosted on the Internet to store, manage and process data.

Data Visualisation
Describes any effort to help people understand the significance of data by placing it in a visual context.

UI/UX Design
Human-computer interaction, user interface.

AI Machine Learning
The theory and development of computer systems able to perform tasks normally requiring human intelligence.

Source: Fintalent

FIGURE 4.1.3. *Advantages and Disadvantages of Digital Banks*

Advantages of Digital Banks

Reduce Operational Cost

The virtual features of digital banks allow the reduction and banking services fees through automation and self-serve technology (Bertrand, 2020).

Elevate Technologies

Digital banking benefits from investments in new technologies, such as data analytics, open APIs, blockchain and cognitive banking.

Enhance Financial Processes

The seamless operation of digital banking will enable multiple products to be integrated as a one-time process, which allows for automation of core processes and eliminates duplication.

Improve Customer Processes

The intelligent feature of AI enables banks to understand customers' requirements by being more responsive towards customers' needs and preferences.

Increase Revenues

The lower operational costs of digital banking will generate higher revenue through customer-centric experiences by providing custom-made products and services.

Disadvantages of Digital Banks

Data Protection and Security Issues

- The complete dependency on online services will expose customers with issues such as breach of confidential data as well as cybersecurity threats (Chauhan, 2018).
- Nevertheless, technologies to solve these threats include cloud-based digital banking platforms which have a built-in functionality for constant security upgrades will provide data security for customers.

Workforce related Challenges

- In line with increasing digitalisation within the financial sector, the automation feature of digital banking will reduce the need for human intervention since some of its essential procedures are conducted digitally.
- While some roles may become obsolete in the future, the real concerns would be on tackling the change management, particularly on talent availability issue, which requires a small yet succinct team force with technical knowledge (TM & Akamia Netalliance, 2020).
- According to Comfort (2019), approximately 77,780 jobs were cut by 50 financial regulators globally in 2019 to accommodate for the transition to digital banks. It is also estimated that another 200,000 positions will be displaced in the next decade based on the global trend (Zujev, 2020).

The Future of Digital Banks in Malaysia

Digital bank holds a promising future in Malaysia. The journey towards establishing digital banks will become a reality with digital transformation in the Malaysian financial landscape subjected to three key elements:

Effective Regulatory Ecosystem

The establishment of an effective regulatory ecosystem for digital banks in Malaysia is still in progress. The updated draft by BNM on 3 March 2020 has proposed a balanced approach to enable the admission of digital banks with strong value propositions while safeguarding the integrity and stability of the financial system (BNM, 2020).[1] Through the framework, up to five licences may be issued, subject to applicants' ability to meet the requirements of the Financial Services Act 2013 and the Islamic Financial Services Act 2013.

Strong Technology Backup

Digital banks should adopt and innovate the latest technologies, which leverage cloud systems, APIs, automation and AI Machine Learning. Malaysia is not far off when it comes to digital maturity, as most traditional banks are now adopting the digital approach as part of their business models (TM & Akamia Netalliance, 2020). According to a survey by Finder.com conducted in March 2020, there will be a rise in digital bank adoption in Malaysia with an estimated 8.4 million people likely to open up a digital bank account by 2025 (Cruz, 2020). Similarly, a study conducted by PricewaterhouseCoopers in November 2019 indicated that 74% of Malaysian respondents are interested in becoming a digital bank customer (PricewaterhouseCoopers, 2019).[2] The move towards complete digitalisation in the financial sector is supported by the National Fiberisation Connectivity Plan. This is also in line with the Communications and Multimedia Blueprint (2018 – 2025) to accelerate the development of a digital economy.

---

[1] New applicants for digital banks are referred to as challenger banks or entrants (PricewaterhouseCoopers, 2020).

[2] 1,517 respondents from Malaysia were surveyed for the study (PricewaterhouseCoopers, 2019).

Cultural Adaptation

The road towards digital bank requires digital transformation, mastering new skills, adopting new processes, and changing the way business is being done. Thus, all interested parties need to reform their business models and culture and emphasise on innovation as well as greater adoption of big data analytics to create a customer-centric orientation. The transition to digital banks may not be straightforward, and it could disrupt financial services (Sharko et al., 2017). Traditional banks may also form new ventures and apply for a digital bank licence as part of efforts to reform their business model. The models must also cater to the underserved and unserved segments of society, such as low-income individuals, early income millennials, start-ups as well as small and medium enterprises (SMEs).[3]

Conclusion

The journey towards the establishment of digital banks is an expected progression in the Malaysian financial market as the country evolves into a digital economy. For the transformation to materialise, a whole new wave of digital products and solutions must be in place. This has to be supported by a robust regulatory ecosystem, innovative technology and cultural adaptation to accelerating economic growth and financial inclusion in Malaysia. Furthermore, the COVID-19 pandemic, which accelerated remote and contactless transactions, provides the impetus for the establishment of digital banks.

---

[3] Refers to groups such as the bottom 40% of household income group (B40) as well as micro enterprises and SMEs, including those in rural and remote areas (Raj, 2020). They are typically underserved due to high servicing cost and low revenue potential.

Capital Market Performance

Fundraising activities to recover

Gross funds raised in the capital market declined by 14.4% to RM143.7 billion during the first seven months of 2020. The lacklustre performance was due to lower fundraising activity in the private sector, which fell significantly by 48.6% to RM45.8 billion. Gross funds raised by the private sector through the domestic equity market declined from RM5 billion to RM0.3 billion. The sharp decline was due to cautious investors' sentiment during the lockdown period.

During the same period, funds raised through new corporate bond issuances also fell by 45.9% to RM45.6 billion. The bulk of issuances were medium-term notes, accounting for 92.1% of total corporate bonds. The majority of funds were raised by finance, insurance, real estate, and business services sector, accounting for 72% of new corporate bond issuances. The funds were mainly allocated for infrastructure projects, working capital and business activities. On the back of global economic uncertainties and rising geopolitical risks, fundraising in the domestic capital market remains promising buoyed by ongoing and resumption of strategic projects.

Gross funds raised by the public sector increased further by 24.5% to RM97.9 billion during the first seven months of 2020. The expansion was contributed by strong demand for Government papers to support the various stimulus packages. The issuance of MGS rose to RM50 billion, while MGII expanded to RM47.9 billion. During the same period, foreign holdings of MGS and MGII stood at 38.2% and 5.8%, respectively. The holding portfolios indicate that Malaysia's debt market remains attractive to institutional and foreign investors, attributed to its deep, liquid and investor-friendly nature.

During the first seven months of 2020, MGS and corporate bond yields were broadly on a declining trend across all tenures. The lower MGS yields were influenced by the easing of domestic monetary stance given the slower-than-expected economic growth. Yields on MGS 1-year, 3-year, 5-year, and 10-year declined within the range of 76 and 119 bps. Yields for the corporate bond on the 5-year AAA-rated, AA-rated and A-rated securities also fell between 75 and 77 bps.

TABLE 4.4. *Funds Raised in the Capital Market, January – July 2019 and 2020*

	RM MILLION	
	2019	2020
Public Sector		
Government securities		
Malaysian Government Securities	38,797.1	49,969.9
Malaysian Government Investment Issues	39,853.7	47,916.4
New issues of debt securities	**78,650.8**	**97,886.3**
Less: Redemptions	26,093.4	38,000.0
Net funds raised by the public sector	**52,557.3**	**59,886.3**
Private Sector		
Shares[1]/Warrants		
Initial Public Offers	1,570.0	292.1
Rights Issues	3,466.7	-
Warrants	-	-
New issues of shares/warrants	**5,036.8**	**292.1**
Debt securities[2]		
Straight bonds	3,090.0	386.5
Convertible bonds	-	-
Islamic bonds	2,944.3	3,200.0
Medium-term notes	78,137.8	41,966.7
New issues of debt securities	**84,172.1**	**45,553.2**
Less: Redemptions	41,630.0	29,073.9
Net issues of debt securities	**42,542.1**	**16,479.2**
Net funds raised by the private sector	**47,578.9**	**16,771.3**
Total net funds raised	**100,136.2**	**76,657.6**

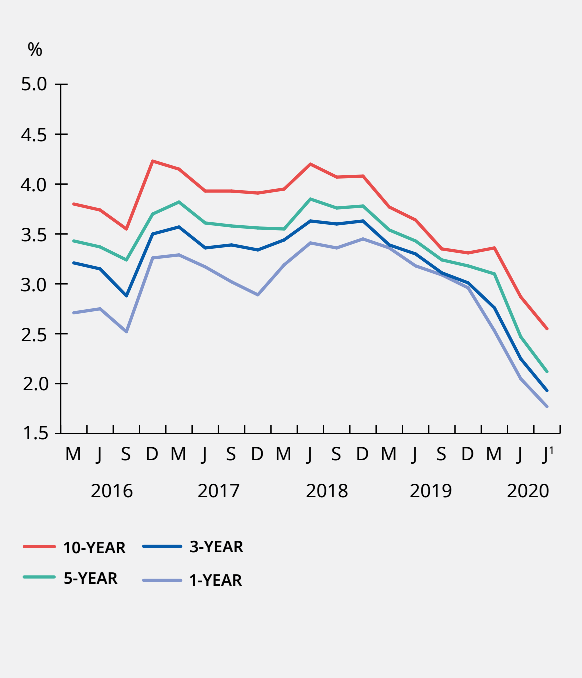
[1] Excludes funds raised by the exercise of Employee Share Option Scheme, Transferable Subscription Rights, Warrants and Irredeemable Convertible Unsecured Loan Stocks
[2] Excludes short-term papers in conventional and Islamic principles
Note: Total may not add up due to rounding
Source: Bank Negara Malaysia

TABLE 4.5. *New Issuance of Corporate Bonds by Sector, January – July 2019 and 2020*

	RM MILLION		SHARE (%)	
	2019	2020	2019	2020
Agriculture, forestry and fishing	50.0	-	*0.1*	-
Manufacturing	670.0	306.0	*0.8*	*0.7*
Construction	1,724.3	4,639.5	*2.0*	*10.2*
Electricity, gas and water	4,600.0	3,185.0	*5.5*	*7.0*
Transport, storage and communication	32.0	1,120.0	*0.0*	*2.5*
Finance, insurance, real estate and business services	70,263.5	32,791.7	*83.5*	*72.0*
Government and other services	5,354.9	3,301.0	*6.4*	*7.2*
Wholesale and retail trade, restaurant and hotels	1,477.5	210.0	*1.8*	*0.5*
Total	**84,172.1**	**45,553.2**	***100.0***	***100.0***

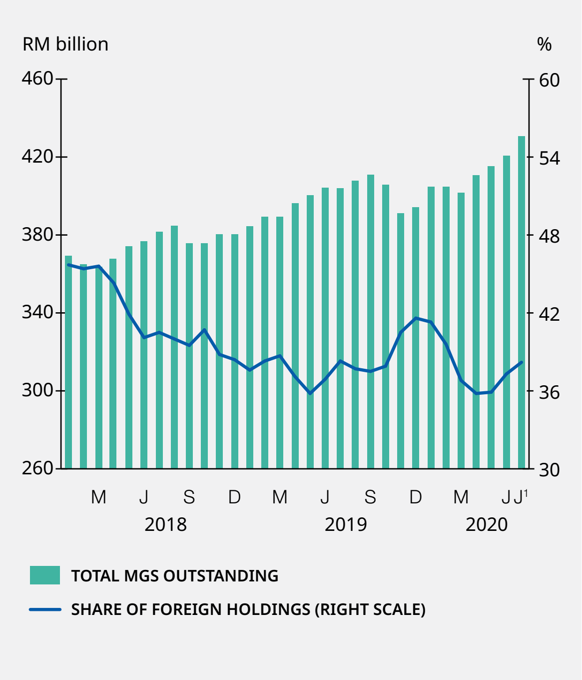
Note: Includes corporate bonds issued by Cagamas and non-resident corporations
Total may not add up due to rounding
Source: Bank Negara Malaysia

FIGURE 4.4. *Malaysian Government Securities (MGS) Indicative Yields (End-period)*



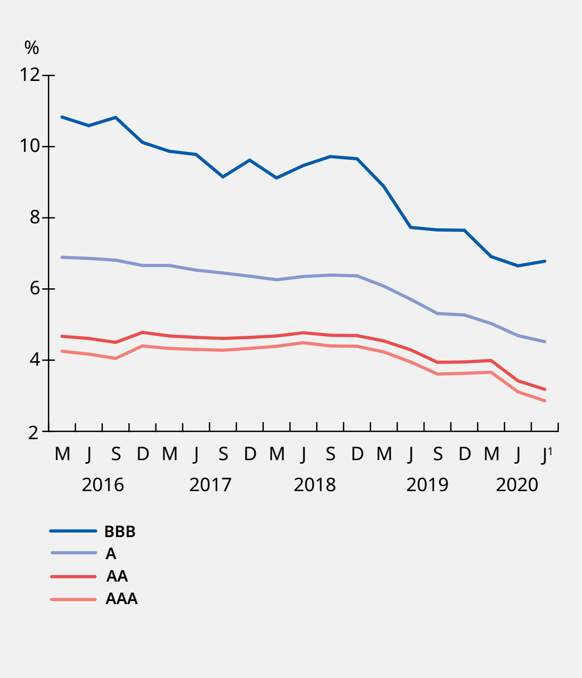
[1] End-July 2020
Source: Bank Negara Malaysia

FIGURE 4.5. *Share of Foreign Holdings in Total MGS Outstanding (End-period)*



[1] End-July 2020
Source: Bank Negara Malaysia

FIGURE 4.6. *5-Year Corporate Bond Yields (End-period)*



[1] End-July 2020
Source: Bank Negara Malaysia

At the beginning of the year, the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) and other regional indices fell into bearish territory. The local bourse was dragged down below 1,600 points in the second week of January 2020, following the rising geopolitical tensions between the US and Iran. Despite the improvement in the US and China trade deal on 15 January 2020, the FBM KLCI along with major and regional bourses remained on a softer note.

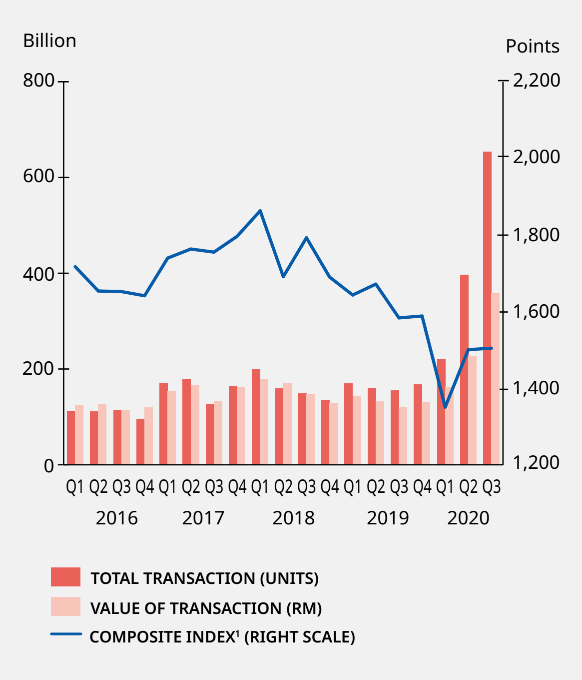
The FBM KLCI was subdued on the back of global economic uncertainties, rising geopolitical tensions, low commodity prices and the spread of the COVID-19 pandemic, which dampened investors' risk appetite. Furthermore, the enforcement of the Movement Control Order (MCO) beginning 18 March 2020 led to panic selling in the equities market. The MCO tapered investors' risk appetite, resulting in the local bourse to hit its decade-low of 1,219.72 points on 19 March 2020.

Nevertheless, the subsequent relaxation of lockdown measures and gradual resumption of economic activities supported the recovery of the local bourse. The FBM KLCI rebounded to 1,575.27 points on 10 June 2020 in tandem with regional markets' optimism amid the upward performance of the Wall Street. In addition, the improvement of the local index was also attributed to the launching of the various stimulus packages announced by the Government to mitigate the impact of COVID-19 pandemic on the economy.

The FBM KLCI started to decline again to 1,488.14 points on 26 June 2020. This was due to the announcements by the Fed, IMF and World Bank on downside risks to global and domestic growth following mounting concerns over the second wave of COVID-19 pandemic. However, the local bourse elevated to reach 1,504.82 points at end-September 2020 upon investors' positive sentiment towards the Government's effort to contain the pandemic despite fresh lockdowns by several countries.

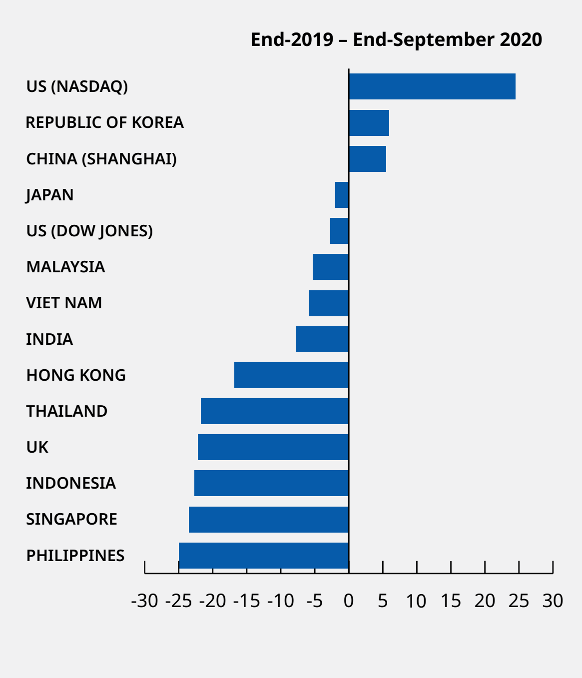
There has been a significant improvement in trading activities in the first nine months of 2020. Total volume and total market transacted value rose by 162.2% to 1,272 billion units and 90% to RM749 billion, respectively. Market velocity was sustained at 62.4%, while market volatility at 36.3%. Foreign holdings based on market capitalisation in the local bourse remained stable at 12.6% as at end-September 2020. Nevertheless, the market capitalisation declined by 2.1% to RM1,638.7 billion as at end-September 2020. The domestic equity market is expected to regain traction following investors' optimistic outlook on the pace of global market recovery and domestic economic growth supported by various strategic projects.

FIGURE 4.7. *Performance of Bursa Malaysia*



[1] As at end-period
Source: Bursa Malaysia

FIGURE 4.8. *Performance of Selected Stock Markets (% change)*



Source: Bloomberg

TABLE 4.6. *Bursa Malaysia: Selected Indicators, End-September 2019 and 2020*

	2019	2020
Indices		
FBM KLCI	1,583.91	1,504.82
FBM EMAS	11,203.71	10,831.56
FBM 100	11,037.83	10,660.70
FBM SCAP	12,978.08	12,835.21
FBM ACE	4,495.12	9,914.01
Total turnover[1]		
Volume (million units)	485,046.82	1,271,710.10
Value (RM million)	394,266.47	749,007.22
Average daily turnover[1]		
Volume (million units)	2,694.70	6,911.47
Value (RM million)	2,190.37	4,070.69
Market capitalisation (RM billion)	**1,673.53**	**1,638.72**
Total number of listed companies		
Main Market	773	765
ACE Market	127	133
LEAP Market	25	34
Market liquidity		
Turnover value/market capitalisation (%)	*23.6*	*45.7*
Market concentration		
10 highest capitalised stocks/market capitalisation (%)	*33.8*	*32.0*

[1] Based on market transactions and direct business transactions between January and September
Source: Bursa Malaysia

INFORMATION BOX 4.1

Key Capital Market Measures

Several measures were undertaken in the first eight months of 2020 to enhance liquidity and efficiency in the capital market. The measures include:

13-Jan

Introduction of the US Dollar Denominated Refined, Bleached and Deodorised (RBD) Palm Olein Options Contract (OPOL)
The world's first options contract on palm olein to broaden the array of possible risk management tools for palm oil industry players.

21-Feb

Liberalisation of the Private Retirement Schemes (PRS)
Enhances the competitiveness of the industry by providing more flexibility in asset allocation for PRS funds. The funds are also allowed to be invested in foreign markets and exchange-traded-funds based on physical gold to increase asset diversification into alternative investments.

31-Mar

Implementation of ISO 20022 Messaging Standards for Corporate Announcements
Allow seamless and timely corporate announcements with innovative data-carrying capability.

15-Apr

Memorandum of Understanding between Bursa Malaysia and the Shenzhen Stock Exchange
Broadens opportunities in investment and facilitates cross-border collaboration. These include the display of mutual benchmark indices in the respective markets and joint promotion of the indices and its constituents.

24-Apr

Amendments to the Main Market and ACE Market Listing Requirements
Provides securities holders with the option to subscribe for rights shares, exercise convertible securities and participate in a Dividend Reinvestment Scheme (DRS) electronically.

18-May

Memorandum of Understanding between Taiwan Futures Exchange (TAIFEX) and Bursa Malaysia Derivatives Berhad (BMD)
Promotes a mutually beneficial business partnership between both parties. This entails information sharing, exchanging best practices about product and market development, and exploring common areas of interest.

3-June

Launching of One-stop e-Learning Bursa Academy
Educates and enhances financial literacy among retail investors across the Securities Market, Derivatives Market and Islamic Capital Market.

10-July

Temporary Revisions to Static and Dynamic Price Limits, and the Circuit Breaker
Provides added stability and enhances confidence in the marketplace with revised market management and control mechanisms.

21-July

Enhancing Initial Public Offering (IPO) Framework for the Main Market
Promotes greater shared responsibility among key stakeholders involved in the IPO submission for listing on the Main Market of Bursa Malaysia.

13-Aug

Amendments to Main Market and ACE Market Listing Requirements in Relation to New Issues of Securities and Other Areas
Enhances disclosure requirements in connection with the new issue of securities and address gaps for greater shareholder protection and confidence.

Islamic Banking and Capital Market Performance

Islamic banking and capital market to persevere

The Islamic banking industry expanded with total assets valued at RM1,038.2 billion[2] and market share at 33% as at end-July 2020. Meanwhile, the total Islamic financing outstanding increased further by 10% to RM787.8 billion. The growth is primarily contributed by household sector financing, which increased by 8.7% to RM490.9 billion, mainly for the purchase of residential properties. Islamic financing is expected to expand further supported by the recovery in economic activity and continuous promotion of Shariah-compliant products.

The Islamic Capital Market (ICM) continues to thrive with Malaysia being among the largest issuer of sukuk and Islamic equity in the world. As at end-July 2020, the domestic size of ICM was valued at RM2.2 trillion, accounting for 66.2% of RM3.3 trillion of Malaysia's total capital market size. Meanwhile, sukuk issuances amounted to RM130.8 billion or 60.2% of total bonds issuances. Sukuk outstanding was valued at RM986.9 billion or 62.6% of total bonds outstanding. While Malaysia continued to account for the largest share of global sukuk outstanding at 45.6% as at end-June 2020, the turmoil in the global market has affected the performance of the ICM. This was reflected in the subdued performance of corporate sukuk issuances during the initial MCO period. Nevertheless, the reopening of almost all economic sectors in the middle of the year led to the improvement in corporate sukuk performance.

TABLE 4.7. *Islamic Banking: Key Indicators[1], End-July 2019 and 2020*

	RM BILLION		CHANGE (%)	
	2019	**2020**	**2019**	**2020**
Assets	**806.5**	**857.6**	***11.1***	***6.3***
Financing	**594.8**	**650.3**	***8.2***	***9.3***
Primary agriculture	16.3	18.6	*7.6*	*13.8*
Mining and quarrying	3.7	4.2	*-28.1*	*15.4*
Manufacturing[2]	27.5	30.3	*19.4*	*10.2*
Electricity, gas and water supply	3.4	5.4	*26.3*	*61.5*
Wholesale and retail trade, restaurants and hotels	28.0	32.0	*18.0*	*14.2*
Construction	35.2	35.3	*3.8*	*0.3*
Real estate	28.8	31.6	*8.7*	*9.5*
Transport, storage and communication	17.4	20.0	*6.5*	*15.2*
Finance, insurance and business activities	31.9	33.8	*-10.3*	*6.0*
Education, health and others	20.2	33.7	*-4.6*	*66.8*
Households	367.3	399.6	*10.7*	*8.8*
Others	15.1	5.7	*1.6*	*-62.1*
Liabilities	**748.6**	**794.0**	***11.2***	***6.1***
Deposits and Investment Account	**610.3**	**633.1**	***13.6***	***3.7***
Investment	0.7	0.6	*-16.1*	*-19.7*
Savings	44.2	58.1	*8.1*	*31.4*
Demand	82.7	99.7	*11.2*	*20.5*
Investment account	80.6	97.1	*6.0*	*20.5*
Others	482.6	474.7	*14.6*	*-1.6*

[1] Excluding DFIs
[2] Including agro-based
Note: Total may not add up due to rounding
Source: Bank Negara Malaysia

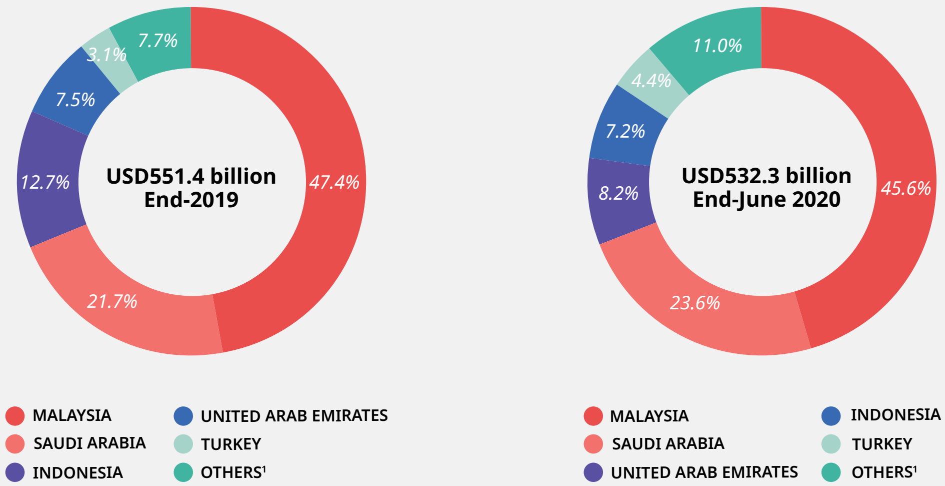
Bursa Malaysia continued to promote Shariah-compliant securities products. As at end-July 2020, a total of 716 or 76.8% of the 932 listed companies was Shariah-compliant. The market capitalisation of Shariah-compliant securities stood at RM1.18 trillion or 69.5% of the total market capitalisation.

---

[2] Includes Development Financial Institutions (DFIs).

Despite the challenging economic climate, the prospect for ICM remains promising. The demand for Shariah-compliant products is expected to be stronger in the future, supported by its appeal to a broader group of investors. The ongoing promotion of Shariah-compliant products and digitalisation of services will provide the impetus for the country to position itself as a prominent international centre for Islamic financial services.

FIGURE 4.9. *Global Sukuk Outstanding by Country (% share)*



[1] Others include Bahrain, Bangladesh, Brunei, Gambia, Hong Kong SAR, Ivory Coast, Jordan, Kuwait, Luxembourg, Maldives, Mauritius, Nigeria, Oman, Pakistan, Qatar, Senegal, Singapore, South Africa, Turkey, the UK and the US

Note: Total may not add up due to rounding

Source: Malaysia International Islamic Financial Centre

Conclusion

Monetary policy will continue to support economic recovery. The economy is anticipated to improve during the second half of the year and register a sharp turn-around in 2021. The positive outlook will be backed by favourable global growth projection along with a revival in domestic economic activities. In turn, this will bode well for financial market performance. However, the resurgence of COVID-19 cases, geopolitical tensions and weak commodity prices may pose downside risks to the encouraging outlook. In this regard, various initiatives are being undertaken to ensure the financial market continues to be resilient. These initiatives include promoting green financing instruments, supporting financial platforms driven by digital technology, enhancing knowledge and awareness among investors, and fostering greater collaboration with market players at domestic and international levels.

References

ATKearney. (2015). *Going Digital: The Banking Transformation Road Map*. Retrieved from https://tinyurl.com/y23dwvad

Bank Negara Malaysia. (2020). *Annual Report 2019*. Kuala Lumpur. Retrieved from https://www.bnm.gov.my

Bank Negara Malaysia. (2020). *Exposure Draft on Licensing Framework for Digital Banks*. Retrieved from https://tinyurl.com/y47krph4

Bank Negara Malaysia. (2020). *Economic and Financial Developments in the Malaysian Economy in the Second Quarter of 2020*. Retrieved from https://www.bnm.gov.my

Bank Negara Malaysia. (2020). *Economic and Financial Developments in the Malaysian Economy in the First Quarter of 2020*. Retrieved from https://www.bnm.gov.my

Bank Negara Malaysia. (2020). *Financial Stability and Payment Systems Report 2019*. Kuala Lumpur. Retrieved from https://www.bnm.gov.my

Bank Negara Malaysia. (2020). *Monthly Highlights and Statistics July 2020.* Retrieved from https://www.bnm.gov.my

Bank Negara Malaysia. (2020). *Monthly Highlights and Statistics June 2020.* Retrieved from https://www.bnm.gov.my

Bank Negara Malaysia. (2020). *Monthly Highlights and Statistics May 2020.* Retrieved from https://www.bnm.gov.my

Bank Negara Malaysia. (2020). *Monthly Highlights and Statistics April 2020.* Retrieved from https://www.bnm.gov.my

Bank Negara Malaysia. (2020). *Monthly Highlights and Statistics March 2020.* Retrieved from https://www.bnm.gov.my

Bank Negara Malaysia. (2020). *Monthly Highlights and Statistics February 2020*. Retrieved from https://www.bnm.gov.my

Bank Negara Malaysia. (2020). *Monthly Highlights and Statistics January 2020*. Retrieved from https://www.bnm.gov.my

Bertrand, M. (2020). *The Impact of COVID-19 on Malaysia's Looming Digital Banking Revolution.* Retrieved from https://tinyurl.com/y49jzbqh

Bursa Malaysia. (2020). *Bursa Malaysia Amends Main and ACE Market Listing Requirements to Facilitate Application of Specified Corporate Exercises via Electronic Means*. Retrieved from https://tinyurl.com/y23u764k

Bursa Malaysia. (2020). *Bursa Malaysia Amends Main Market and ACE Market Listing Requirements in Relation to New Issues of Securities and other Areas.* Retrieved from https://tinyurl.com/y48u9zcv

Bursa Malaysia. (2020). *Bursa Malaysia Introduces World's First Options Contract on US Dollar Denominated Palm Olein Futures.* Retrieved from https://tinyurl.com/y2yqc3l7

Bursa Malaysia. (2020). *Bursa Malaysia Launches Bursa Academy for a Unique Experience in Elevating Financial Literacy and Investor Education.* Retrieved from https://tinyurl.com/y4tjttga

Bursa Malaysia. (2020). *Bursa Malaysia Successfully Implements ISO 20022 Messaging Standards for Corporate Announcements.* Retrieved from https://tinyurl.com/y29qocm9

Bursa Malaysia. (2020). *Collaboration between Bursa Malaysia and Shenzhen Stock Exchange to Broaden Opportunities in Investment.* Retrieved from https://tinyurl.com/y5sg2ubc

Bursa Malaysia. (2020). *SC and Bursa Malaysia Implement Temporary Revisions to Market Management and Control Mechanisms.* Retrieved from https://tinyurl.com/y38qf4yf

Bursa Malaysia. (2020). *Taiwan Futures Exchange and Bursa Malaysia Derivatives Berhad Sign Memorandum of Understanding.* Retrieved from https://tinyurl.com/y22dn6su

Chauhan, Y. (2018). *How Important is Digital Banking?* Retrieved from https://tinyurl.com/y2nk7n5o

Comfort, N. (2019). *Banks Set for Biggest Job Cull Since 2015 as Morgan Stanley Cuts*. Retrieved from https://tinyurl.com/wjj9n88

Cruz, P. (2020). *The Rise of Digital Banks.* Retrieved from https://tinyurl.com/yx8oow79

Deloitte. (2020). *Banking on Digital*. Retrieved from https://tinyurl.com/y5p2us2c

Fintalent. (2020). *Future-Enabled Digital Banking Skill Sets You Need to Have.* Retrieved from https://tinyurl.com/y445vc3d

PricewaterhouseCoopers. (2020). *Digital Banking: Malaysian Banks at a Crossroads.* Retrieved from https://tinyurl.com/y3ousv2z

PricewaterhouseCoopers. (2019). *Virtual Banking: Malaysian Customers Take Charge.* Retrieved from https://tinyurl.com/yywa9398

Raj, A. P. (2020). *Is Focus on Underserved Worthwhile for Digital Banks?* Retrieved from https://tinyurl.com/y2p9uujl

Securities Commission Malaysia. (2020). *Annual Report 2019*. Kuala Lumpur. Retrieved from https://www.sc.com.my

Securities Commission Malaysia. (2020). *SC Introduces Enhanced IPO Framework for Main Market.* Retrieved from https://tinyurl.com/y5xprmoy

Securities Commission Malaysia. (2020). *SC Liberalises Regulation on Private Retirement Schemes (PRS) to Enhance Competitiveness of the Industry.* Retrieved from https://tinyurl.com/y3et5zob

Sharko, A. D., Meka, E., Sharko, G. and Baholli, I. (2017). *Digital Banking the Wave of the Future. International Conference Proceedings*, ISTI-2016.

TM and Akamai Netalliance. (2020). *Transforming Digital Banking in Malaysia: More than a Channel Strategy*. Retrieved from https://tinyurl.com/y26aupp6

Zujev, A. (2020). *The Road to True Digital Bank*. Retrieved from https://tinyurl.com/y6qhpmlj

Statistical Tables

LIST OF STATISTICAL TABLES

STATISTICAL ANNOTATION

The Statistics Appendix provides time series data on the economic variables. Each table contains current selected economic data. Percentage changes are provided for important variables as an indication of economic trends. In addition, percentage of totals and footnotes are also provided where necessary. The sum of the component figures may not tally with the subtotal or total due to rounding. In some series, historical figures have been revised. Estimates for 2020 are based on six to eight months of data and forecasts for 2021 have been provided where appropriate. Unless otherwise stated, the source of data is from the Ministry of Finance, Malaysia.

The Determination of Poverty Line Income (PLI)

The PLI measurement model used in Malaysia was reviewed in depth in 2005 by the Economic Planning Unit, Prime Minister's Department, and DOSM in collaboration with United Nations Development Programme (UNDP). The Cost of Basic Needs method that takes into account three basic components i.e. food items, non-food items and the characteristics of the household. In 2019, the calculation of the PLI was reviewed and updated. The updating of PLI involves the process of updating of food items by the Ministry of Health while the non-food items in the non-food component are updated based on the latest household expenditure survey conducted by the Department of Statistics Malaysia in 2019.

The new methodology in determining the food item emphasises the intake of healthy foods at an optimal rate as compared to the 2005 methodology that emphasised on consuming food to meet minimum health requirements. The re-evaluation of the optimal food calorie requirement is based on the Recommended Nutrient Intake (RNI) 2017 and the Malaysian Diet Guide (PDM) 2020. Therefore, food needs are calculated based on individual caloric needs and converted to total meals according to food groups in PDM 2020. The total serving of these food items will be converted to weight (grams) / quantity and then adjusted to the price data from the Consumer Price Index (CPI).

The Non-Food PLI takes into account the minimum requirements for a decent quality of life required by a person including clothing, housing, transportation and other non-food needs according to one's gender and age. The Non-Food PLI component is calculated based on the pattern of low-income households identified through the household expenditure survey. As a result of the study that includes food and non-food items, the determination of the item of goods for the calculation of PLI is made and adjusted to the current price based on the CPI. The PLI is constantly updated in line with the implementation of the household income survey and basic amenities. It also takes into account the needs of national planning and price changes that occur as well as changes in the lifestyle of the Malaysian society.

Acronyms and Abbreviations

NPISHs	Non-profit institutions serving households
US	United States
ASEAN	Association of Southeast Asian Nations
IMF	International Monetary Fund
GDP	Gross Domestic Product
FBM-KLCI	Financial Times Stock Exchange (FTSE) Bursa Malaysia Kuala Lumpur Composite Index
MSIC	Malaysia Standard Industrial Classification
SITC	Standard International Trade Classification
PT3	Pentaksiran Tingkatan 3
PMR	Penilaian Menengah Rendah
SRP	Sijil Rendah Pelajaran
LCE	Lower Certificate of Education
SPM	Sijil Pelajaran Malaysia
MCE	Malaysian Certificate of Education
STPM	Sijil Tinggi Pelajaran Malaysia
MHSC	Malaysian Higher School Certificate
n.a.	Not available
cont'd	Continued
n.e.c.	Not elsewhere classified
etc.	et cetera

1.1. SELECTED SOCIOECONOMIC STATISTICS
Malaysia

Indicator	2016	2017	2018	2019[10]	2020[11]
Demographic Statistics					
Population[1] ('000)					
Total	31,634	32,023	32,382	32,523	32,657
Male	16,346	16,543	16,721	16,765	16,806
Female	15,287	15,480	15,661	15,758	15,852
Sex ratio[2]	107	107	107	106	106
Population density (per square kilometre)	96	97	98	98	99
Dependency ratio (%)					
Total[3]	44.0	43.6	43.4	43.4	43.5
Young age[4]	35.3	34.7	34.1	33.7	33.4
Old age[5]	8.7	9.0	9.3	9.7	10.1
Life expectancy at birth					
Total	74.4	74.4	74.6	74.7	74.9
Male	72.1	72.1	72.3	72.4	72.6
Female	77.0	77.1	77.2	77.4	77.6
	2015	**2016**	**2017**	**2018**	**2019**
Education					
Primary school enrolment rate[6] (%)	97.2	97.2	97.9	97.9	98.1
Secondary school enrolment rate[7] (%)	88.3	90.0	91.1	91.1	92.5
Higher education institutions enrolment[8]	1,236,164	1,346,858	1,325,699	1,343,830	1,323,449
Pupil-teacher ratio					
Primary schools	11.5	11.6	11.6	11.6	11.6
Secondary schools	12.0	12.6	12.0	12.0	11.0
Literacy rate[9] (%)	95.1	95.6	95.9	95.9	96.0

[1] Data refers to mid-year population estimates based on the adjusted 2010 Population and Housing Census of Malaysia
[2] The number of males per 100 females
[3] The ratio of the number of persons aged 0–14 years and 65 years and above to the number of persons aged 15–64 years
[4] The ratio of the number of persons aged 0–14 years to the number of persons aged 15–64 years
[5] The ratio of the number of persons aged 65 years and above to the number of persons aged 15–64 years
[6] Percentage of school aged children between 6+ and 11+ years at primary level in Government and private schools
[7] Percentage of school aged children between 12+ and 16+ years at secondary level in Government and private schools
[8] Includes public university, private higher education institutions, polytechnic and community college
[9] Aged 15 years and above with formal education, excluding non-Malaysian citizens
[10] Preliminary
[11] Estimate

1.1. SELECTED SOCIOECONOMIC STATISTICS (cont'd)

Malaysia

Indicator	2015	2016	2017	2018	2019
Health					
Population per doctor	656	632	554	530	482
Official beds strength in public sector[12]	45,087	45,678	46,194	46,611	46,988
Information Technology					
Mobile-cellular penetration rate per 100 inhabitants (%)	143.8	139.9	131.2	130.2	135.4
Broadband penetration rate per 100 inhabitants (%)	99.7	99.8	117.3	121.1	131.7
Infrastructure					
Rural electricity coverage (% of housing unit)	98.3	95.7	96.1	96.4	97.2
Water coverage (% of population)					
Total	95.5	95.3	95.5	96.7	96.8
Rural	93.0	93.4	93.9	96.6	96.7
Urban	97.2	97.2	97.2	96.8	96.9
	2012	**2014**	**2014**	**2016**	**2019**
Poverty Structure[13]					
Incidence of absolute poverty (% of households)					
Total	1.7	0.6	0.6	0.4	0.2
Urban	1.0	0.3	0.3	0.2	0.2
Rural	3.4	1.6	1.6	1.0	0.8
Incidence of hardcore poverty (% of households)					
Total	0.2	0.0	0.0	0.0	0.0
Urban	0.1	0.0	0.0	0.0	0.0
Rural	0.6	0.0	0.0	0.0	0.0

[12] Comprising Ministry of Health (MOH) hospitals (includes special medical institutions) and non-MOh Hospitals (university hospitals and military hospitals)

[13] Based on 2019 Household Income and Basic Aminities Survey year

Source: Department of Statistics; Malaysian Communications and Multimedia Commission; Ministry of Education; Ministry of Environment and Water, Malaysia. Ministry of Higher Education; Ministry of Health and Ministry of Rural Development

2.1. KEY ECONOMIC DATA OF SELECTED COUNTRIES

	Real GDP (% Growth)	**GDP Per Capita[1]** (USD)	**Consumer Price Index** (%)	**Unemployment Rate[2]** (%)	**Current Account Balance** (USD billion)	**Gross International Reserves** (USD billion)	**Gross Exports[3]** (USD billion)	**Gross Imports[4]** (USD billion)
Advanced Economies								
2017	2.5	50,337.9	1.7	5.6	480.5	-	14,138.7	14,565.1
2018	2.2	52,492.9	2.0	5.1	392.6	-	15,442.0	15,797.2
2019	1.7	54,127.8	1.4	4.8	339.3	-	15,186.0	15,492.2
2020[5]	-5.8	51,475.7	0.8	7.3	242.2	-	13,142.6	13,437.2
2021[6]	**3.9**	**54,523.8**	**1.6**	**6.9**	**314.1**	**-**	**14,641.9**	**14,978.2**
United States								
2017	2.3	60,105.8	2.1	4.3	-365.3	122.2	2,376.7	2,953.3
2018	3.0	63,056.0	2.4	3.9	-449.7	125.0	2,526.4	3,176.3
2019	2.2	65,253.5	1.8	3.7	-480.2	128.9	2,519.0	3,155.8
2020[5]	-4.3	63,051.4	1.5	8.9	-441.7	139.1[9]	1,210.2[7]	1,590.1[7]
2021[6]	**3.1**	**66,144.1**	**2.8**	**7.3**	**-463.0**	**-**	**-**	**-**
United Kingdom								
2017	1.9	40,406.6	2.7	4.4	-93.1	184.7	816.7	874.0
2018	1.3	43,114.2	2.5	4.1	-110.7	197.4	896.0	935.5
2019	1.5	42,378.6	1.8	3.8	-113.5	208.3	888.2	979.6
2020[5]	-9.8	39,228.5	0.8	5.4	-54.0	216.6[8]	438.6[7]	455.1[7]
2021[6]	**5.9**	**42,235.9**	**1.2**	**7.4**	**-107.6**	**-**	**-**	**-**
Germany								
2017	2.6	44,537.1	1.7	3.8	286.7	208.7	1,767.8	1,510.3
2018	1.3	47,832.1	2.0	3.4	292.4	200.1	1,909.7	1,656.6
2019	0.6	46,472.6	1.3	3.1	273.2	225.4	1,835.7	1,605.2
2020[5]	-6.0	45,466.1	0.5	4.3	217.6	275.7[8]	924.7[7]	815.5[7]
2021[6]	**4.2**	**51,967.3**	**1.1**	**4.2**	**294.9**	**-**	**-**	**-**
France								
2017	2.3	40,134.1	1.2	9.4	-19.9	176.1	810.3	866.3
2018	1.8	43,083.5	2.1	9.0	-15.6	174.8	884.8	949.9
2019	1.5	41,896.6	1.3	8.5	-18.1	196.8	865.5	923.7
2020[5]	-9.8	39,257.4	0.5	8.9	-48.9	236.6[8]	406.0[7]	460.3[7]
2021[6]	**6.0**	**44,769.8**	**0.6**	**10.2**	**-51.7**	**-**	**-**	**-**
Japan								
2017	2.2	38,398.6	0.5	2.8	203.5	1,322.4	885.2	865.2
2018	0.3	39,150.3	1.0	2.4	176.6	1,322.0	932.5	952.0
2019	0.7	40,255.9	0.5	2.4	184.3	1,368.9	912.9	927.2
2020[5]	-5.3	39,047.9	-0.1	3.3	143.5	1,451.1[9]	442.0[7]	476.9[7]
2021[6]	**2.3**	**40,733.0**	**0.3**	**2.8**	**165.6**	**-**	**-**	**-**

2.1. KEY ECONOMIC DATA OF SELECTED COUNTRIES (cont'd)

	Real GDP (% Growth)	**GDP Per Capita**[1] (USD)	**Consumer Price Index** (%)	**Unemployment Rate**[2] (%)	**Current Account Balance** (USD billion)	**Gross International Reserves** (USD billion)	**Gross Exports**[3] (USD billion)	**Gross Imports**[4] (USD billion)
Australia								
2017	2.4	55,967.9	2.0	5.6	-35.6	66.8	296.3	297.2
2018	2.8	56,453.4	1.9	5.3	-29.6	53.6	326.6	308.7
2019	1.8	54,348.2	1.6	5.2	8.3	59.1	342.0	293.4
2020[5]	-4.2	51,885.5	0.7	6.9	24.6	43.9[8]	171.6[7]	139.7[7]
2021[6]	**3.0**	**57,210.8**	**1.3**	**7.7**	**-1.3**	**-**	**-**	**-**
Republic of Korea								
2017	3.2	31,616.8	1.9	3.7	75.2	389.3	663.4	604.9
2018	2.9	33,422.9	1.5	3.8	77.5	403.7	708.5	668.3
2019	2.0	31,846.2	0.4	3.8	60.0	408.8	649.9	634.0
2020[5]	-1.9	30,644.4	0.5	4.1	52.5	419.0[8]	334.1[7]	328.5[7]
2021[6]	**2.9**	**32,305.3**	**0.9**	**4.1**	**57.7**	**-**	**-**	**-**
China								
2017	6.9	8,823.5	1.6	3.9	195.1	3,421.6	2,491.4	2,311.4
2018	6.8	9,919.8	2.1	3.8	25.5	3,351.9	2,753.5	2,660.8
2019	6.1	10,522.3	2.9	3.6	141.3	3,388.7	2,782.5	2,579.0
2020[5]	1.9	10,839.4	2.9	3.8	193.4	3,473.9[8]	1,490.4[7]	1,324.3[7]
2021[6]	**8.2**	**11,955.6**	**2.7**	**3.6**	**111.7**	**-**	**-**	**-**
India								
2017	7.0	1,981.7	3.6	-	-48.7	411.3	465.9	548.8
2018	6.1	2,005.9	3.4	-	-57.2	397.8	526.1	638.9
2019	4.2	2,097.8	4.8	-	-24.6	461.8	542.5	624.7
2020[5]	-10.3	1,876.5	4.9	-	8.5	545.5[8]	272.0[7]	272.5[7]
2021[6]	**8.8**	**2,030.6**	**3.7**	**-**	**-26.4**	**-**	**-**	**-**

[1] Expressed in current USD price except for Advanced Economies. GDP per capita for Advanced Economies is expressed in Purchasing Power Parity (PPP) dollars per person

[2] Composites for the country groups are averages of national unemployment rates weighted by labour force in the respective countries

[3] Data refer to Exports of Merchandise and Services

[4] Data refer to Imports of Merchandise and Services

[5] Estimate

[6] Forecast

[7] As at 31 July 2020

[8] As at 31 August 2020

[9] As at 30 September 2020

Sources: International Monetary Fund (IMF), World Economic Outlook (October 2020); IMF Database; and World Trade Organization Trade Statistics

2.2. KEY ECONOMIC DATA OF ASEAN MEMBER COUNTRIES

	Real GDP (% Growth)	GDP Per Capita[1] (USD)	Consumer Price Index (%)	Unemployment Rate[2] (%)	Current Account Balance (USD billion)	Gross International Reserves (USD billion)	Gross Exports[3] (USD billion)	Gross Imports[4] (USD billion)
Brunei Darussalam								
2017	1.3	12.1	-1.3	9.3	2.0	-	-	-
2018	0.1	13.6	1.1	8.7	0.9	-	-	-
2019	3.9	13.5	-0.4	6.8	0.9	-	-	-
2020[5]	0.1	10.6	0.3	6.8	-0.0	-	-	-
2021[6]	**3.2**	**12.1**	**0.5**	**6.8**	**0.3**	**-**	**-**	**-**
Philippines								
2017	6.9	328.5	2.9	5.7	-2.1	83.3	68.7	101.9
2018	6.3	346.8	5.2	5.3	-8.8	80.9	69.3	119.3
2019	6.0	376.8	2.5	5.1	-0.5	89.8	70.9	112.9
2020[5]	-8.3	367.4	2.4	10.4	5.9	102.6[8]	34.1[7]	46.1[7]
2021[6]	**7.4**	**398.3**	**3.0**	**7.4**	**-6.0**	**-**	**-**	**-**
Indonesia								
2017	5.1	1,015.5	3.8	5.5	-16.2	130.2	168.8	156.9
2018	5.2	1,042.7	3.3	5.3	-30.6	120.7	180.2	188.7
2019	5.0	1,120.1	2.8	5.3	-30.4	129.2	167.7	171.3
2020[5]	-1.5	1,088.8	2.1	8.0	-14.2	137.0[8]	90.1[7]	81.4[7]
2021[6]	**6.1**	**1,167.2**	**1.6**	**6.8**	**-28.1**	**-**	**-**	**-**
Cambodia								
2017	7.0	22.2	2.9	-	-1.8	-	-	-
2018	7.5	24.4	2.4	-	-3.0	-	-	-
2019	7.0	26.7	2.0	-	-4.2	-	-	-
2020[5]	-2.8	26.3	2.5	-	-6.7	-	-	-
2021[6]	**6.8**	**28.5**	**2.9**	**-**	**-4.6**	**-**	**-**	**-**
Lao PDR								
2017	6.8	17.1	0.7	-	-1.8	-	-	-
2018	6.3	18.1	2.0	-	-2.2	-	-	-
2019	5.2	19.1	3.3	-	-1.2	-	-	-
2020[5]	0.2	18.7	6.5	-	-1.6	-	-	-
2021[6]	**4.8**	**19.3**	**4.9**	**-**	**-1.5**	**-**	**-**	**-**
Malaysia								
2017	5.8	9,965.1	3.7	3.4	8.9	102.4	217.7	194.7
2018	4.8	11,077.4	1.0	3.3	8.0	101.4	248.7	218.0
2019	4.3	11,193.0	0.7	3.3	12.3	103.6	240.2	205.0
2020[5]	-4.5	10,192.5	-1.0	4.2	11.4	105.0[8]	146.4[7]	122.1[7]
2021[6]	**6.5 - 7.5**	**11,378.4**	**2.5**	**3.5**	**4.8**	**-**	**-**	**-**

2.2. KEY ECONOMIC DATA OF ASEAN MEMBER COUNTRIES (cont'd)

	Real GDP (% Growth)	**GDP Per Capita**[1] (USD)	**Consumer Price Index** (%)	**Unemployment Rate**[2] (%)	**Current Account Balance** (USD billion)	**Gross International Reserves** (USD billion)	**Gross Exports**[3] (USD billion)	**Gross Imports**[4] (USD billion)
Myanmar								
2017	5.8	61.3	4.6	-	-4.2	-	-	-
2018	6.4	66.7	5.9	-	-3.1	-	-	-
2019	6.5	68.6	8.6	-	-1.8	-	-	-
2020[5]	2.0	70.9	6.1	-	-2.5	-	-	-
2021[6]	**5.7**	**77.2**	**6.2**	**-**	**-3.4**	**-**	**-**	**-**
Singapore								
2017	4.3	341.9	0.6	2.2	55.6	279.9	373.4	327.9
2018	3.4	373.2	0.4	2.1	64.1	287.7	413.0	370.9
2019	0.7	372.1	0.6	2.3	63.1	279.5	390.8	359.3
2020[5]	-6.0	337.5	-0.4	3.0	50.5	327.5[8]	233.9[8]	214.5[8]
2021[6]	**5.0**	**362.5**	**0.3**	**2.6**	**52.7**	**-**	**-**	**-**
Thailand								
2017	4.1	456.4	0.7	1.2	44.0	202.6	236.6	221.5
2018	4.2	506.4	1.1	1.1	28.5	205.7	253.0	248.2
2019	2.4	543.6	0.7	1.0	38.4	224.4	246.3	236.3
2020[5]	-7.1	509.2	-0.4	1.0	21.2	254.6[8]	133.2[7]	119.1[7]
2021[6]	**4.0**	**536.8**	**1.8**	**1.0**	**24.7**	**-**	**-**	**-**
Viet Nam								
2017	6.9	277.1	3.5	2.2	-1.7	-	215.0	212.9
2018	7.1	304.0	3.5	2.2	5.8	-	243.7	236.9
2019	7.0	329.5	2.8	2.2	11.3	-	264.3	253.9
2020[5]	1.6	340.6	3.8	3.3	4.0	-	175.3[8]	161.6[8]
2021[6]	**6.7**	**369.5**	**4.0**	**2.7**	**6.2**	**-**	**-**	**-**

[1] Expressed in current USD price except for Advanced Economies. GDP per capita for Advanced Economies is expressed in Purchasing Power Parity (PPP) dollars per person

[2] Composites for the country groups are averages of national unemployment rates weighted by labour force in the respective countries

[3] Data refer to Exports of Merchandise only

[4] Data refer to Imports of Merchandise only

[5] Estimate

[6] Forecast

[7] As at 31 August 2020

[8] As at 30 September 2020

Sources: International Monetary Fund (IMF), World Economic Outlook (October 2020); IMF Database; and World Trade Organization Trade Statistics

3.1. GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY

at constant 2015 prices, Malaysia
RM million

Kind of Economic Activity	2017	2018	2019[2]	2020[3]	2021[4]
Agriculture	99,509	99,579	101,549	100,344	105,086
	(5.9)	*(0.1)*	*(2.0)*	*(-1.2)*	*(4.7)*
Mining and quarrying	105,838	103,512	101,438	93,568	97,404
	(0.4)	*(-2.2)*	*(-2.0)*	*(-7.8)*	*(4.1)*
Manufacturing	290,464	304,843	316,320	306,845	328,215
	(6.0)	*(5.0)*	*(3.8)*	*(-3.0)*	*(7.0)*
Construction	63,522	66,194	66,266	53,859	61,340
	(6.7)	*(4.2)*	*(0.1)*	*(-18.7)*	*(13.9)*
Services	723,361	772,685	820,069	789,379	844,554
	(6.3)	*(6.8)*	*(6.1)*	*(-3.7)*	*(7.0)*
Utilities	34,396	36,079	38,254	38,894	41,130
	(2.9)	*(4.9)*	*(6.0)*	*(1.7)*	*(5.7)*
Wholesale and retail trade	209,885	227,166	242,341	227,625	247,011
	(7.2)	*(8.2)*	*(6.7)*	*(-6.1)*	*(8.5)*
Food & beverages and accommodation	41,748	45,494	49,880	43,239	47,846
	(7.5)	*(9.0)*	*(9.6)*	*(-13.3)*	*(10.7)*
Transportation and storage	47,212	50,219	53,650	47,277	50,840
	(6.2)	*(6.4)*	*(6.8)*	*(-11.9)*	*(7.5)*
Information and communication	73,113	79,210	84,426	89,856	96,946
	(8.6)	*(8.3)*	*(6.6)*	*(6.4)*	*(7.9)*
Finance and insurance	84,532	89,080	93,211	93,087	98,171
	(4.7)	*(5.4)*	*(4.6)*	*(-0.1)*	*(5.5)*
Real estate and business services	59,132	63,609	68,565	60,605	65,209
	(7.6)	*(7.6)*	*(7.8)*	*(-11.6)*	*(7.6)*
Other services[1]	63,649	67,145	70,870	65,135	69,165
	(5.1)	*(5.5)*	*(5.5)*	*(-8.1)*	*(6.2)*
Government services	109,694	114,682	118,871	123,661	128,236
	(4.8)	*(4.5)*	*(3.7)*	*(4.0)*	*(3.7)*
(+) Import duties	18,076	16,002	15,812	13,736	14,231
	(13.0)	*(-11.5)*	*(-1.2)*	*(-13.1)*	*(3.6)*
GDP at purchasers' prices	**1,300,769**	**1,362,815**	**1,421,454**	**1,357,731**	**1,450,830**
	(5.8)	***(4.8)***	***(4.3)***	***(-4.5)***	***(6.5 - 7.5)***

[1] Community, social and personal services, private non-profit services to households and domestic services of households

[2] Preliminary

[3] Estimate

[4] Forecast

Note: Figures in parentheses are annual percentage changes

Source: Department of Statistics and Ministry of Finance, Malaysia

3.2. INDEX OF SERVICES

2015 = 100, Malaysia

	Weights (%)	2016	2017	2018	2019	2020[1]
		Annual Change (%)				
Services	**100.0**	***5.7***	***6.7***	***7.3***	***6.4***	***-9.7***
Wholesale & retail trade, food & beverages and accommodation	**45.2**	***6.1***	***7.0***	***7.8***	***6.6***	***-12.6***
Wholesale and retail trade	37.9	*6.0*	*7.0*	*7.7*	*6.1*	*-11.1*
Food and beverages	5.7	*6.4*	*7.4*	*9.3*	*10.2*	*-14.5*
Accommodation	1.6	*5.8*	*5.8*	*6.3*	*6.8*	*-41.7*
Business services and finance	**26.8**	***4.3***	***5.9***	***6.4***	***6.1***	***-4.9***
Finance and insurance	16.0	*2.6*	*4.8*	*5.3*	*4.6*	*0.9*
Professional, scientific & technical and administrative & support services	7.2	*8.0*	*8.7*	*9.1*	*9.3*	*-17.0*
Real estate	3.6	*5.0*	*5.3*	*5.1*	*5.2*	*4.6*
Information & communication and transportation & storage	**21.9**	***6.8***	***7.4***	***7.4***	***6.5***	***-6.2***
Information and communication	12.9	*8.0*	*8.4*	*8.3*	*6.5*	*5.5*
Transportation and storage	9.0	*5.1*	*5.9*	*6.0*	*6.5*	*-24.5*
Other services	**6.1**	***5.6***	***6.2***	***6.7***	***6.4***	***-21.2***
Arts, entertainment & recreation and personal services & other activities	2.6	*5.1*	*6.4*	*8.1*	*8.0*	*-40.8*
Private education	1.9	*6.5*	*6.3*	*5.3*	*4.9*	*-4.4*
Private health	1.6	*5.4*	*5.6*	*6.0*	*5.5*	*-8.6*

[1] January to June 2020

Source: Department of Statistics, Malaysia

3.3. INDUSTRIAL PRODUCTION INDEX

2015 = 100, Malaysia

Subsector	Weights (%)	2016	2017	2018	2019	2020[1]
		Annual Change (%)				
Total Industrial Production	**100.00**	**4.1**	**4.4**	**3.1**	**2.3**	**-6.4**
Mining	25.14	2.4	0.4	-2.1	-2.0	-9.4
Electricity	6.61	8.5	2.6	3.7	3.3	-5.0
Manufacturing	68.25	4.3	6.1	4.8	3.6	-5.6
Export-oriented industries						
Petroleum, chemical, rubber and plastic products	**20.60**	**4.1**	**4.0**	**4.0**	**2.9**	**-3.1**
Coke and refined petroleum products	9.36	3.1	3.5	3.3	2.7	-11.5
Chemicals and chemical products	6.37	6.0	4.3	4.4	1.8	-8.6
Basic pharmaceutical products, medicinal chemical and botanical products	0.38	4.4	4.8	5.9	4.2	12.4
Rubber and plastic products	4.49	3.6	4.6	4.6	4.9	20.3
Electrical and electronics products	**18.23**	**7.5**	**7.3**	**6.0**	**3.0**	**-1.1**
Computer, electronics and optical products	13.89	8.1	7.5	6.8	2.9	-1.2
Electrical equipment	2.20	5.8	6.4	2.7	3.4	-1.3
Machinery and equipment n.e.c.	2.14	5.5	6.6	4.3	3.5	0.2
Wood products, furniture, paper products and printing	**4.56**	**5.5**	**4.8**	**4.7**	**5.4**	**-12.1**
Wood and wood products	1.44	3.3	3.5	5.6	4.9	-17.6
Paper and paper products	1.15	4.5	5.6	4.2	4.3	-6.9
Printing and reproduction of recorded media	0.93	5.3	4.6	3.9	4.2	-9.4
Furniture	1.04	10.0	6.1	4.6	8.1	-12.8
Textiles, wearing apparel, leather products and footwear	**1.33**	**6.8**	**8.0**	**4.3**	**5.3**	**-18.4**
Textiles	0.58	4.8	4.4	2.9	4.4	-18.2
Wearing apparel	0.60	8.3	11.7	5.6	6.1	-17.5
Leather and related products	0.15	8.5	6.4	3.8	5.1	-22.7
Domestic-oriented industries						
Non-metallic mineral products, basic metal and fabricated metal products	**9.11**	**4.1**	**4.9**	**4.9**	**4.1**	**-17.4**
Other non-metallic mineral products	2.97	4.4	4.5	5.5	4.5	-20.3
Basic metals	2.35	2.1	5.4	4.2	4.0	-9.0
Fabricated metal products, except machinery and equipment	3.79	5.0	4.9	4.9	3.7	-20.2
Food, beverages and tobacco	**8.55**	**2.1**	**10.8**	**3.2**	**2.9**	**-0.2**
Food products	7.39	1.4	11.6	3.3	2.8	3.3
Beverages	0.65	9.9	9.1	3.1	2.8	-18.4
Tobacco products	0.52	3.2	2.1	1.8	5.8	-26.1
Transport equipment and other manufactures	**5.87**	**-2.7**	**5.6**	**6.0**	**5.9**	**-10.8**
Motor vehicles, trailers and semi-trailers	3.17	-4.7	4.8	6.6	7.0	-8.1
Other transport equipment	1.19	-2.8	3.7	3.9	4.8	-17.0
Other manufacturing	0.74	-2.8	5.3	5.2	5.3	-13.0
Repair and installation of machinery and equipment	0.76	5.9	11.2	7.2	3.9	-11.2

[1] January to August 2020

Source: Department of Statistics, Malaysia

3.4. GROSS NATIONAL INCOME BY DEMAND AGGREGATES

Malaysia

RM million

Type of Expenditure		2017	2018	2019[3]	2020[4]	2021[5]
Current Prices						
A.	Final consumption expenditure					
	Public	167,320	172,951	176,673	179,779	183,713
	Private	760,146	831,334	903,720	899,102	987,240
B.	Gross fixed capital formation					
	Public[1]	109,422	104,546	94,374	85,546	100,337
	Private	234,520	245,842	252,471	222,026	239,853
C.	Changes in inventories and valuables[2]	6,647	-4,327	-28,957	-27,679	-25,502
D.	Exports of goods and services	960,778	992,511	985,283	842,053	916,286
E.	Imports of goods and services	866,524	895,405	872,871	761,454	833,823
F.	Gross Domestic Product at purchasers' prices (A+B+C+D-E)	1,372,310	1,447,451	1,510,693	1,439,374	1,568,104
G.	Balance of primary income	-38,658	-45,082	-40,267	-23,686	-41,558
H.	**Gross National Income (F+G)**	**1,333,652**	**1,402,369**	**1,470,426**	**1,415,688**	**1,526,546**
Constant 2015 Prices						
A.	Final consumption expenditure					
	Public	164,450	169,631	173,077	175,931	179,387
	Private	718,702	775,851	835,065	828,998	887,563
B.	Gross fixed capital formation					
	Public[1]	105,499	100,263	89,385	81,083	94,789
	Private	225,594	235,351	239,027	210,952	225,029
C.	Changes in inventories and valuables[2]	1,032	-9,050	-14,649	-13,951	-13,689
D.	Exports of goods and services	900,064	917,462	905,807	784,656	852,856
E.	Imports of goods and services	814,571	826,694	806,258	709,940	775,105
F.	Gross Domestic Product at purchasers' prices (A+B+C+D-E)	1,300,769	1,362,815	1,421,454	1,357,731	1,450,830
G.	Balance of primary income	-19,050	-28,237	-22,533	-13,288	-22,867
H.	**Gross National Income (F+G)**	**1,281,719**	**1,334,578**	**1,398,921**	**1,344,443**	**1,427,963**

[1] Includes investment of public corporations

[2] Includes statistical discrepancy arising from balancing

[3] Preliminary

[4] Estimate

[5] Forecast

Source: Department of Statistics and Ministry of Finance, Malaysia

3.5. PRIVATE CONSUMPTION INDICATORS
Malaysia

Indicator	2016	2017	2018	2019	2020
Imports of consumption goods[1] (RM million)	66,977	71,037	73,031	74,155	47,638[2]
Bursa Malaysia (end-period)					
FBM–KLCI	1,641.73	1,796.81	1,690.58	1,588.76	1,504.82[3]
Market capitalisation (RM billion)	1,667.37	1,906.84	1,700.37	1,711.84	1,638.72[3]
Sales number (units)					
Passenger cars	514,594	514,675	533,202	550,179	310,008[4]
Motorcycles	396,343	434,850	471,782	546,813	332,741[4]
Production of televisions ('000 units)	7,745	11,446	12,609	9,935	8,188[2]
Outstanding balance of credit card (RM million, end-period)	37,149	38,659	39,920	41,192	36,375[5]
Banking system's consumption credit (RM million, end-period)	265,380	267,666	294,548	297,187	300,864[5]

[1] Refers to imports by broad economic categories published by the Department of Statistics, Malaysia

[2] January to August 2020

[3] End-September 2020

[4] January to September 2020

[5] End-August 2020

Source: Bank Negara Malaysia, Bursa Malaysia, Malaysian Automotive Association, Motorcycle & Scooter Assemblers and Distributors Association of Malaysia and Department of Statistics, Malaysia

3.6. PRIVATE INVESTMENT INDICATORS

Malaysia

Indicator	2016	2017	2018	2019	2020
Imports (RM million)					
Capital goods[1]	100,245	115,566	112,453	100,179	59,930[3]
Intermediate goods[1]	399,033	478,933	462,212	467,211	278,266[3]
Loan disbursements by banking system (RM million)					
Manufacturing	202,550	213,738	236,624	258,602	164,770[3]
Construction	67,349	77,674	89,885	90,047	48,619[3]
Housing loans (RM million, end-period)					
Government[2]	48,518	55,882	63,464	80,675	85,914[4]
Banking system	477,988	519,631	563,031	603,988	632,675[4]
Production of construction materials					
Cement roofing tiles ('000 units)	38,241	36,073	35,472	43,484	33,097[3]
Ready-mixed concrete ('000 cubic metres)	28,589	30,323	32,047	34,067	23,997[3]
Iron and steel bars and rods ('000 metric tonnes)	2,064	1,698	1,853	1,404	1,056[3]
Sales of commercial vehicles (units)	65,491	61,950	65,512	54,108	31,481[5]

[1] Refers to imports by broad economic categories published by the Department of Statistics, Malaysia

[2] Based on principal amount

[3] January to August 2020

[4] End-August 2020

[5] January to September 2020

Source: Bank Negara Malaysia, Department of Statistics Malaysia, Malaysian Automotive Association and Public Sector Home Financing Board

3.7. MALAYSIA'S TRADE WITH MAJOR TRADING PARTNERS
RM million

		2016	2017	2018	2019		2020[1]	
		RM million	RM million	RM million	RM million	share (%)	RM million	share (%)
Total	**Total Trade**	**1,485,783**	**1,771,349**	**1,883,391**	**1,844,483**	***100.0***	**1,138,307**	***100.0***
	Exports	**786,964**	**934,927**	**1,003,587**	**995,072**	***53.9***	**620,642**	***54.5***
	Imports	**698,819**	**836,422**	**879,804**	**849,411**	***46.1***	**517,665**	***45.5***
	Net	**88,145**	**98,505**	**123,783**	**145,661**	**-**	**102,977**	**-**
China	Total Trade	240,965	290,402	314,564	316,598	*100.0*	206,301	*100.0*
	Exports	98,578	125,957	139,147	140,931	*44.5*	98,983	*48.0*
	Imports	142,387	164,445	175,417	175,667	*55.5*	107,317	*52.0*
	Net	-43,809	-38,488	-36,269	-34,735	-	-8,334	-
Singapore	Total Trade	186,840	228,357	243,320	226,574	*100.0*	136,890	*100.0*
	Exports	114,442	135,628	140,249	137,078	*60.5*	88,622	*64.7*
	Imports	72,398	92,729	103,071	89,497	*39.5*	48,268	*35.3*
	Net	42,045	42,899	37,178	47,581	-	40,353	-
United States	Total Trade	135,891	153,955	155,758	165,220	*100.0*	113,509	*100.0*
	Exports	80,233	88,680	90,811	96,542	*58.4*	66,768	*58.8*
	Imports	55,658	65,275	64,947	68,678	*41.6*	46,741	*41.2*
	Net	24,575	23,406	25,864	27,863	-	20,027	-
Japan	Total Trade	120,725	139,208	134,242	129,592	*100.0*	78,751	*100.0*
	Exports	63,743	75,597	70,385	65,998	*50.9*	40,387	*51.3*
	Imports	56,982	63,611	63,858	63,594	*49.1*	38,364	*48.7*
	Net	6,761	11,986	6,527	2,403	-	2,023	-
Taiwan	Total Trade	63,057	78,716	96,390	94,077	*100.0*	59,597	*100.0*
	Exports	21,243	23,962	32,814	37,032	*39.4*	22,031	*37.0*
	Imports	41,814	54,755	63,576	57,046	*60.6*	37,566	*63.0*
	Net	-20,571	-30,793	-30,762	-20,014	-	-15,535	-
Republic of Korea	Total Trade	59,580	67,705	73,521	73,058	*100.0*	56,433	*100.0*
	Exports	22,905	28,586	34,237	34,230	*46.9*	23,566	*41.8*
	Imports	36,675	39,119	39,284	38,828	*53.1*	32,868	*58.2*
	Net	-13,769	-10,532	-5,047	-4,599	-	-9,302	-
Hong Kong	Total Trade	50,311	61,724	89,972	80,688	*100.0*	51,072	*100.0*
	Exports	37,641	47,713	74,831	66,624	*82.6*	42,241	*82.7*
	Imports	12,669	14,011	15,141	14,064	*17.4*	8,832	*17.3*
	Net	24,972	33,703	59,690	52,561	-	33,409	-
Thailand	Total Trade	86,421	98,649	105,685	100,595	*100.0*	49,957	*100.0*
	Exports	44,092	50,508	57,061	56,318	*56.0*	29,209	*58.5*
	Imports	42,328	48,141	48,624	44,277	*44.0*	20,748	*41.5*
	Net	1,764	2,367	8,437	12,042	-	8,461	-
Indonesia	Total Trade	57,432	71,510	72,397	70,226	*100.0*	43,361	*100.0*
	Exports	27,945	33,631	31,907	31,328	*44.6*	20,826	*48.0*
	Imports	29,486	37,879	40,490	38,898	*55.4*	22,536	*52.0*
	Net	-1,541	-4,249	-8,583	-7,570	-	-1,710	-
India	Total Trade	48,701	61,384	62,840	62,872	*100.0*	33,931	*100.0*
	Exports	31,999	34,531	36,343	38,587	*61.4*	17,252	*50.8*
	Imports	16,702	26,853	26,497	24,285	*38.6*	16,678	*49.2*
	Net	15,297	7,678	9,846	14,303	-	574	-

[1] January to August 2020

Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

3.8. EXTERNAL TRADE INDICES

2010 = 100, Malaysia

Commodity Section	Weights[1] (%)	2016	2017	2018	2019	2020[2]
		Annual Change (%)				
Export Unit Value Indices						
Total	**100.0**	***-2.0***	***7.2***	***1.6***	***0.8***	***-1.7***
Food	3.5	*5.6*	*6.9*	*3.2*	*2.5*	*3.3*
Beverages and tobacco	0.6	*6.5*	*7.6*	*6.6*	*7.5*	*4.0*
Crude materials, inedible	2.7	*-2.6*	*14.2*	*-6.9*	*-0.7*	*-1.3*
Mineral fuels, lubricants, etc.	16.1	*-24.7*	*27.8*	*16.4*	*0.1*	*-20.5*
Animal and vegetable oils and fats	6.0	*7.7*	*13.3*	*-14.6*	*-9.7*	*21.0*
Chemicals	7.8	*5.5*	*11.5*	*3.9*	*-0.7*	*-0.1*
Manufactured goods	9.7	*-0.5*	*4.8*	*1.4*	*-2.8*	*-1.6*
Machinery and transport equipment	42.3	*0.6*	*1.2*	*-0.8*	*2.5*	*1.5*
Miscellaneous manufactured articles	10.9	*3.3*	*3.2*	*1.6*	*2.2*	*0.6*
Miscellaneous transactions and commodities	0.4	*16.7*	*12.3*	*2.2*	*-5.1*	*-7.5*
Import Unit Value Indices						
Total	**100.0**	***1.4***	***6.1***	***2.0***	***-0.3***	***-2.4***
Food	6.8	*0.9*	*8.9*	*2.6*	*2.5*	*2.6*
Beverages and tobacco	0.6	*1.9*	*3.6*	*2.6*	*2.7*	*1.7*
Crude materials, inedible	3.3	*-3.3*	*16.8*	*-6.0*	*-0.3*	*-1.0*
Mineral fuels, lubricants, etc.	12.9	*-19.6*	*32.5*	*21.7*	*-10.1*	*-23.1*
Animal and vegetable oils and fats	1.1	*18.9*	*25.8*	*-13.9*	*-12.0*	*12.5*
Chemicals	10.5	*0.2*	*4.1*	*2.4*	*0.3*	*-0.8*
Manufactured goods	13.4	*-1.4*	*5.0*	*1.8*	*0.4*	*-0.8*
Machinery and transport equipment	41.8	*5.0*	*2.0*	*-0.7*	*1.7*	*-0.3*
Miscellaneous manufactured articles	7.6	*4.0*	*2.2*	*-1.0*	*0.4*	*0.2*
Miscellaneous transactions and commodities	2.0	*17.0*	*4.7*	*-6.3*	*10.2*	*23.4*

[1] Weights based on values of Malaysia imports and exports of merchandise during 2015

[2] Annual changes are calculated based on average unit value index from the period January to August 2020

Source: Department of Statistics, Malaysia

3.9. PRODUCTION, EXPORTS VOLUME AND VALUE OF MAJOR PRIMARY COMMODITIES

Malaysia

Major Commodities	2016	2017	2018	2019	2020[1]
Palm oil					
Production ('000 tonnes)	17,319	19,919	19,516	19,858	14,587[2]
Volume ('000 tonnes)	15,310	15,188	15,364	17,429	10,192
Value (RM million)	41,443	46,086	38,656	39,129	27,415
Natural rubber					
Production ('000 tonnes)	674	746	603	640	326
Volume ('000 tonnes)	642	616	639	631	344
Value (RM million)	3,614	4,726	3,774	3,773	1997
Crude petroleum					
Volume ('000 tonnes)	15,907	15,736	16,496	12,452	8,649
Value (RM million)	22,319	28,255	36,649	26,346	13,056
Liquefied natural gas (LNG)					
Volume ('000 tonnes)	24,868	26,794	23,955	25498	16,166
Value (RM million)	32,709	41,417	42,322	42,484	21,148

[1] January to August 2020

[2] January to September 2020

Source: Bank Negara Malaysia, Department of Statistics Malaysia and Malaysian Palm Oil Board

3.10. DIRECTION OF MAJOR EXPORTS
Malaysia

Exports	2016			2017		
	‘000 tonnes	RM million	share (%)	‘000 tonnes	RM million	share (%)
Electrical and electronic products						
Total		**287,810**	***100.0***		**343,070**	***100.0***
Singapore		47,189	*16.4*		61,417	*17.9*
Hong Kong		29,260	*10.2*		35,934	*10.5*
United States		46,646	*16.2*		49,169	*14.3*
China		42,884	*14.9*		50,388	*14.7*
European Union		38,979	*13.5*		47,805	*13.9*
Non-E&E						
Total		**357,958**	***100.0***		**422,788**	***100.0***
China		38,097	*10.6*		53,757	*12.7*
Singapore		59,441	*16.6*		64,518	*15.3*
United States		30,106	*8.4*		35,575	*8.4*
European Union		31,698	*8.9*		37,049	*8.8*
Indonesia		22,034	*6.2*		27,402	*6.5*
Palm oil						
Total	**15,310**	**41,443**	***100.0***	**15,188**	**46,085**	***100.0***
China	1,867	4,835	*11.7*	1,613	4,582	*9.9*
European Union	1,900	5,193	*12.5*	1,770	5,436	*11.8*
India	2,822	7,162	*17.3*	1,942	5,649	*12.3*
Pakistan	810	2,221	*5.4*	779	2,362	*5.1*
Turkey	641	1,756	*4.2*	703	2,019	*4.4*
Natural rubber						
Total	**642**	**3,614**	***100.0***	**616**	**4,726**	***100.0***
China	301	1,656	*45.8*	297	2,225	*47.1*
European Union	158	915	*25.3*	158	1,252	*26.5*
United Arab Emirates	2	12	*0.3*	3	22	*0.5*
United States	23	131	*3.6*	24	179	*3.8*
Iran	44	237	*6.6*	33	250	*5.3*
Crude petroleum						
Total	**15,907**	**22,319**	***100.0***	**15,736**	**28,255**	***100.0***
Australia	4,422	6,294	*28.2*	4,545	8,266	*29.3*
India	3,734	5,264	*23.6*	3,220	5,656	*20.0*
Thailand	3,249	4,634	*20.8*	3,651	6,565	*23.2*
Japan	635	871	*3.9*	726	1,337	*4.7*
China	368	471	*2.1*	457	788	*2.8*
Liquefied natural gas (LNG)						
Total	**24,868**	**32,709**	***100.0***	**26,794**	**41,417**	***100.0***
Japan	15,249	20,096	*61.4*	14,843	24,144	*58.3*
Republic of Korea	4,005	5,671	*17.3*	3,821	5,826	*14.1*
China	2,870	3,142	*9.6*	4,355	5,642	*13.6*
Thailand	0	0	*0.0*	374	481	*1.2*
Taiwan	2,557	3,598	*11.0*	2,944	4,827	*11.7*

[1] January to August 2020

Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

2018			2019			2020[1]		
‘000 tonnes	RM million	share (%)	‘000 tonnes	RM million	share (%)	‘000 tonnes	RM million	share (%)
	381,545	***100.0***		**373,118**	***100.0***		**237,847**	***100.0***
	64,135	*16.8*		60,424	*16.2*		41,797	*17.6*
	58,579	*15.4*		54,786	*14.7*		35,465	*14.9*
	47,277	*12.4*		49,651	*13.3*		32,032	*13.5*
	55,473	*14.5*		51,060	*13.7*		33,153	*13.9*
	46,912	*12.3*		46,866	*12.6*		24,431	*10.3*
	455,527	***100.0***		**467,468**	***100.0***		**295,531**	***100.0***
	60,301	*13.2*		65,625	*14.0*		41,703	*14.1*
	64,373	*14.1*		66,421	*14.2*		52,980	*17.9*
	40,195	*8.8*		42,753	*9.1*		31,891	*10.8*
	42,660	*9.4*		41,783	*8.9*		22,439	*7.6*
	25,092	*5.5*		26,175	*5.6*		17,846	*6.0*
15,364	**38,655**	***100.0***	**17,429**	**39,128**	***100.0***	**10,192**	**27,414**	***100.0***
1,695	3,932	*10.2*	2,368	5,057	*12.9*	1,691	4,342	*15.8*
1,829	4,723	*12.2*	1,990	4,525	*11.6*	1,248	3,499	*12.8*
2,183	5,104	*13.2*	4,244	8,915	*22.8*	1,049	2,585	*9.4*
964	2,474	*6.4*	971	2,207	*5.6*	670	1,723	*6.3*
617	1,567	*4.1*	695	1,588	*4.1*	441	1,211	*4.4*
639	**3,774**	***100.0***	**631**	**3,773**	***100.0***	**344**	**1,997**	***100.0***
312	1,796	*47.6*	309	1,812	*48.0*	173.4	969	*48.5*
159	966	*25.6*	143	880	*23.3*	67.8	407	*20.4*
11	65	*1.7*	11	66	*1.7*	15.1	90	*4.5*
17	105	*2.8*	25	150	*4.0*	12.7	77	*3.9*
35	207	*5.5*	27	166	*4.4*	12.1	71	*3.6*
16,496	**36,649**	***100.0***	**12,452**	**26,346**	***100.0***	**8,649**	**13,056**	***100.0***
5,034	11,397	*31.1*	3,266	6,890	*26.2*	2,139	3,625	*27.8*
3,607	7,960	*21.7*	3,177	6,604	*25.1*	1,924	2,706	*20.7*
2,750	6,105	*16.7*	2,559	5,535	*21.0*	1,411	2,087	*16.0*
546	1,189	*3.2*	509	1,071	*4.1*	859	1,347	*10.3*
332	704	*1.9*	40	86	*0.3*	685	807	*6.2*
23,955	**42,322**	***100.0***	**25,498**	**42,484**	***100.0***	**16,166**	**21,148**	***100.0***
11,207	20,781	*49.1*	9,352	16,804	*39.6*	7,396	10,049	*47.5*
3,345	5,780	*13.7*	4,805	7,767	*18.3*	3,200	4,435	*21.0*
5,789	8,874	*21.0*	7,130	10,265	*24.2*	3,933	4,428	*20.9*
541	806	*1.9*	1,251	2,194	*5.2*	831	1,185	*5.6*
2,811	5,627	*13.3*	2,431	4,869	*11.5*	590	885	*4.2*

3.11. EXPORTS OF MANUFACTURED GOODS

Malaysia

RM million

	2016	2017	2018	2019	2020[2]	
						share (%)
Electrical and electronic products	287,810	343,070	381,545	373,118	237,847	44.6
Petroleum products	54,662	71,813	76,161	71,511	43,774	8.2
Chemicals and chemical products	41,396	47,138	57,715	57,477	32,712	6.1
Optical and scientific equipment	28,747	32,395	36,563	39,905	25,914	4.9
Machinery, equipment and parts	37,498	40,133	40,668	41,599	25,310	4.7
Rubber products	20,253	26,308	26,491	25,841	23,351	4.4
Manufactures of metal	33,352	37,937	44,664	41,490	22,978	4.3
Iron and steel products	6,935	12,562	15,504	21,691	15,706	2.9
Palm oil-based manufactured products	19,552	23,785	22,783	23,338	13,769	2.6
Processed food	18,958	19,713	19,414	21,773	13,719	2.6
Transport equipment	13,476	15,605	18,033	19,143	13,064	2.4
Wood products	15,680	16,369	15,944	15,777	9,836	1.8
Textiles, apparels and footwear	13,884	15,329	14,901	15,531	8,721	1.6
Manufactures of plastics	13,066	14,504	14,538	14,978	8,554	1.6
Non-metallic mineral products	5,562	5,996	7,273	9,079	5,081	1.0
Paper and pulp products	4,263	4,691	4,950	6,405	4,195	0.8
Jewellery	7,185	6,714	6,656	6,974	2,286	0.4
Beverages and tobacco	4,650	4,213	3,435	3,452	1,629	0.3
Other manufactures[1]	18,838	27,584	29,835	31,233	24,933	4.7
Total	**645,768**	**765,858**	**837,071**	**840,586**	**533,378**	**100.0**

[1] Includes animal feed, printed matter, miscellaneous manufactured articles, etc

[2] January to August 2020

Note: Total may not add up due to rounding

Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

3.12. SOURCE OF MAJOR IMPORTS

Malaysia

RM million

Imports	2016		2017		2018		2019		2020[1]	
		share (%)		share (%)		share (%)		share (%)		share (%)
Electrical and electronic products										
Total	**209,936**	***100.0***	**252,922**	***100.0***	**262,623**	***100.0***	**245,538**	***100.0***	**162,723**	***100.0***
China	50,918	*24.3*	61,293	*24.2*	65,688	*25.0*	64,090	*26.1*	43,035	*26.4*
Taiwan	26,275	*12.5*	37,756	*14.9*	45,907	*17.5*	40,497	*16.5*	27,766	*17.1*
United States	25,486	*12.1*	31,166	*12.3*	29,549	*11.3*	27,180	*11.1*	20,000	*12.3*
Chemicals and chemical products										
Total	**63,757**	***100.0***	**74,507**	***100.0***	**82,934**	***100.0***	**81,589**	***100.0***	**47,333**	***100.0***
China	11,013	*17.3*	13,022	*17.5*	14,268	*17.2*	13,976	*17.1*	8,559	*18.1*
United States	5,060	*7.9*	5,619	*7.5*	6,242	*7.5*	9,173	*11.2*	5,711	*12.1*
Singapore	7,301	*11.5*	8,774	*11.8*	8,934	*10.8*	7,695	*9.4*	4,212	*8.9*
Petroleum products										
Total	**52,534**	***100.0***	**75,360**	***100.0***	**86,015**	***100.0***	**77,480**	***100.0***	**40,828**	***100.0***
Singapore	21,545	*41.0*	28,487	*37.8*	38,252	*44.5*	29,334	*37.9*	12,370	*30.3*
China	4,958	*9.4*	7,994	*10.6*	7,414	*8.6*	10,506	*13.6*	5,512	*13.5*
Republic of Korea	5,525	*10.5*	4,577	*6.1*	6,106	*7.1*	7,284	*9.4*	4,221	*10.3*
Machinery, equipment and parts										
Total	**65,054**	***100.0***	**78,575**	***100.0***	**73,778**	***100.0***	**69,638**	***100.0***	**38,144**	***100.0***
China	15,833	*24.3*	19,436	*24.7*	20,306	*27.5*	19,964	*28.7*	11,503	*30.2*
United States	5,713	*8.8*	7,580	*9.6*	7,528	*10.2*	7,182	*10.3*	4,490	*11.8*
Japan	8,822	*13.6*	10,583	*13.5*	8,918	*12.1*	7,816	*11.2*	4,464	*11.7*
Manufactures of metal										
Total	**39,212**	***100.0***	**43,649**	***100.0***	**46,148**	***100.0***	***47,132***	***100.0***	**29,024**	***100.0***
China	10,694	*27.3*	11,274	*25.8*	12,542	*27.2*	*11,763*	*25.0*	6,054	*20.9*
India	2,557	*6.5*	3,635	*8.3*	3,473	*7.5*	4,987	*10.6*	4,904	*16.9*
Japan	4,658	*11.9*	5,170	*11.8*	5,292	*11.5*	*4,866*	*10.3*	3,117	*10.7*

[1] January to August 2020

Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

3.13. BALANCE OF PAYMENTS

Malaysia

RM million

Components	2016			2017		
	Credits (+)	Debits (-)	Net	Credits (+)	Debits (-)	Net
Balance on goods and services	**834,491**	**751,363**	**83,128**	**960,778**	**866,524**	**94,255**
Goods	**686,896**	**584,850**	**102,046**	**801,394**	**684,281**	**117,113**
Services	**147,596**	**166,513**	**-18,917**	**159,384**	**182,243**	**-22,859**
Transport	17,251	40,710	-23,459	19,256	48,878	-29,622
Travel	74,980	43,465	31,515	78,944	46,475	32,470
Other services	55,365	82,339	-26,974	61,183	86,890	-25,707
Primary income	**47,452**	**82,045**	**-34,592**	**53,706**	**92,365**	**-38,658**
Compensation of employees	6,648	12,254	-5,606	7,082	11,929	-4,848
Investment income	40,805	69,791	-28,986	46,625	80,435	-33,811
Secondary income	**15,988**	**34,617**	**-18,629**	**16,797**	**34,097**	**-17,300**
Balance on current account	**897,932**	**868,024**	**29,907**	**1,031,281**	**992,985**	**38,296**
% of Gross National Income			***2.5***			***2.9***
Capital account			**102**			**-26**
Financial account			**-249**			**-4,730**
Direct investment			13,792			16,171
Assets			-42,246			-24,234
Liabilities			56,038			40,405
Portfolio investment			-14,203			-15,358
Financial derivatives			-802			-197
Other investment			964			-5,346
Balance on capital and financial accounts			**-148**			**-4,756**
Net errors and omissions			**-23,899**			**-17,132**
Overall balance			**5,860**			**16,409**

[1] January to June 2020

Note: Total may not add up due to rounding

Source: Department of Statistics, Malaysia

2018			2019			2020[1]		
Credits (+)	Debits (-)	Net	Credits (+)	Debits (-)	Net	Credits (+)	Debits (-)	Net
992,511	**895,405**	**97,106**	**985,283**	**872,871**	**112,412**	**407,318**	**372,956**	**34,362**
830,137	**715,516**	**114,621**	**815,470**	**692,136**	**123,334**	**355,819**	**301,039**	**54,780**
162,375	**179,889**	**-17,515**	**169,814**	**180,735**	**-10,922**	**51,499**	**71,916**	**-20,417**
20,524	48,212	-27,688	21,669	47,572	-25,903	7,162	20,305	-13,143
79,178	48,961	30,218	82,114	51,296	30,818	12,284	13,283	-998
62,672	82,717	-20,045	66,030	81,868	-15,837	32,052	38,329	-6,276
60,414	**105,496**	**-45,082**	**64,851**	**105,118**	**-40,267**	**29,957**	**39,902**	**-9,945**
6,793	14,450	-7,657	6,784	15,906	-9,122	3,129	7,265	-4,136
53,621	91,046	-37,426	58,067	89,212	-31,145	26,828	32,637	-5,809
15,602	**35,330**	**-19,729**	**16,897**	**38,191**	**-21,294**	**8,418**	**15,775**	**-7,358**
1,068,527	**1,036,232**	**32,295**	**1,067,031**	**1,016,181**	**50,850**	**445,693**	**428,633**	**17,060**
		2.3			***3.5***			***2.6***
		-89			**331**			**-143**
		11,430			**-33,796**			**-33,101**
		10,103			5,578			2,147
		-23,431			-31,908			-3,181
		33,535			37,486			5,328
		-49,396			-29,026			-19,107
		981			-478			3,092
		49,742			-9,870			-19,231
		11,341			**-33,465**			**-33,243**
		-35,878			**-8,969**			**1,153**
		7,758			**8,416**			**-15,031**

3.14. CONSUMER PRICE INDEX BY REGION

2010 = 100, Malaysia

Groups	Weights[1] (%)	2016	2017	2018	2019	2020[2]
		Annual Change (%)				
Malaysia						
Total	**100.0**	**2.1**	**3.7**	**1.0**	**0.7**	**-1.0**
Food and non-alcoholic beverages	29.5	3.9	4.0	1.6	1.7	1.2
Alcoholic beverages and tobacco	2.4	17.2	0.2	-0.1	1.5	0.2
Clothing and footwear	3.2	-0.4	-0.3	-2.0	-2.0	-1.0
Housing, water, electricity, gas and other fuels	23.8	2.4	2.2	2.0	1.9	-1.0
Furnishings, household equipment and routine household maintenance	4.1	2.4	2.1	0.3	1.4	0.3
Health	1.9	2.7	2.5	0.8	0.7	1.2
Transport	14.6	-4.6	13.2	1.6	-3.1	-10.0
Communication	4.8	-1.5	-0.4	-1.7	0.4	1.6
Recreation services and culture	4.8	2.5	1.9	-0.4	0.7	0.7
Education	1.3	2.1	1.7	1.1	1.4	1.2
Restaurants and hotels	2.9	2.8	2.5	1.6	1.2	0.7
Miscellaneous goods and services	6.7	2.9	1.2	-1.4	0.4	2.7
Peninsular Malaysia						
Total	**100.0**	**2.2**	**4.0**	**1.0**	**0.7**	**-0.9**
Food and non-alcoholic beverages	29.0	4.1	4.1	1.7	1.8	1.3
Alcoholic beverages and tobacco	2.4	17.3	0.2	0.1	1.6	0.2
Clothing and footwear	3.3	-0.4	-0.2	-2.0	-2.0	-1.0
Housing, water, electricity, gas and other fuels	23.6	2.6	2.4	2.2	2.0	-0.9
Furnishings, household equipment and routine household maintenance	4.2	2.5	2.2	0.5	1.6	0.4
Health	1.9	2.8	2.6	0.7	0.7	1.2
Transport	14.7	-4.4	13.2	1.5	-3.1	-9.8
Communication	4.9	-1.5	-0.3	-1.8	0.4	1.6
Recreation services and culture	4.9	2.5	2.0	-0.4	0.7	0.8
Education	1.4	2.2	1.6	1.2	1.5	1.2
Restaurants and hotels	3.0	2.7	2.6	1.5	1.2	0.7
Miscellaneous goods and services	6.7	3.0	1.2	-1.3	0.4	2.8

[1] Based on Household Expenditure Survey 2016

[2] January to August 2020

Source: Department of Statistics, Malaysia

3.14. CONSUMER PRICE INDEX BY REGION (cont'd)

2010 = 100, Malaysia

Groups	Weights[1] (%)	2016	2017	2018	2019	2020[2]
		Annual Change (%)				
Sarawak						
Total	**100.0**	***1.5***	***3.0***	***0.6***	***0.1***	***-1.6***
Food and non-alcoholic beverages	33.5	*3.1*	*2.6*	*1.6*	*1.0*	*0.6*
Alcoholic beverages and tobacco	2.7	*13.7*	*-0.1*	*-1.9*	*0.6*	*0.3*
Clothing and footwear	2.8	*-1.0*	*-1.2*	*-2.2*	*-2.5*	*-1.1*
Housing, water, electricity, gas and other fuels	21.9	*2.5*	*0.8*	*0.8*	*0.9*	*-1.3*
Furnishings, household equipment and routine household maintenance	3.8	*1.4*	*2.2*	*-0.9*	*0.7*	*0.0*
Health	1.5	*2.4*	*2.3*	*2.1*	*1.3*	*1.4*
Transport	14.0	*-5.8*	*15.2*	*1.8*	*-4.1*	*-13.2*
Communication	4.6	*-2.6*	*-0.6*	*-1.6*	*0.4*	*0.9*
Recreation services and culture	4.8	*1.5*	*0.6*	*-0.1*	*0.3*	*-0.2*
Education	0.9	*1.9*	*1.1*	*1.2*	*0.5*	*2.7*
Restaurants and hotels	2.4	*2.4*	*2.0*	*1.6*	*2.1*	*0.6*
Miscellaneous goods and services	7.1	*3.0*	*1.6*	*-1.8*	*-0.4*	*2.4*
Sabah and Federal Territory of Labuan						
Total	**100.0**	***0.7***	***3.0***	***0.7***	***0.2***	***-1.7***
Food and non-alcoholic beverages	31.3	*1.5*	*3.6*	*1.6*	*0.5*	*0.4*
Alcoholic beverages and tobacco	2.1	*17.8*	*0.2*	*-0.5*	*1.2*	*0.1*
Clothing and footwear	2.9	*-0.1*	*-0.9*	*-2.3*	*-1.9*	*-1.1*
Housing, water, electricity, gas and other fuels	28.1	*1.2*	*1.0*	*1.1*	*1.2*	*-1.7*
Furnishings, household equipment and routine household maintenance	3.6	*0.5*	*1.1*	*-0.1*	*0.4*	*-0.4*
Health	1.1	*2.3*	*1.7*	*1.1*	*0.7*	*1.2*
Transport	13.7	*-5.3*	*11.7*	*1.6*	*-3.2*	*-10.9*
Communication	4.6	*-2.0*	*-0.2*	*-1.0*	*0.1*	*0.5*
Recreation services and culture	3.7	*2.7*	*2.0*	*-0.8*	*0.5*	*0.0*
Education	0.8	*0.9*	*1.2*	*1.2*	*0.9*	*0.3*
Restaurants and hotels	2.0	*2.7*	*1.3*	*1.5*	*1.2*	*0.5*
Miscellaneous goods and services	6.1	*1.5*	*0.6*	*-2.4*	*0.3*	*1.5*

[1] Based on Household Expenditure Survey 2016

[2] January to August 2020

Source: Department of Statistics, Malaysia

3.15. CONSUMER PRICE INDEX BY STRATUM

2010 = 100, Malaysia

Groups	Weights[1] (%)	2016	2017	2018	2019	2020[2]
		Annual Change (%)				
Rural						
Total	**100.0**	***1.7***	***3.7***	***0.8***	***0.3***	***-1.3***
Food and non-alcoholic beverages	35.6	*2.9*	*3.6*	*1.0*	*0.9*	*0.8*
Alcoholic beverages and tobacco	3.0	*18.6*	*0.1*	*-0.1*	*1.6*	*0.1*
Clothing and footwear	3.6	*0.0*	*-0.1*	*-0.9*	*-0.5*	*-0.5*
Housing, water, electricity, gas and other fuels	19.9	*2.6*	*1.8*	*1.4*	*1.8*	*-1.8*
Furnishings, household equipment and routine household maintenance	3.7	*1.4*	*1.8*	*0.2*	*0.7*	*0.1*
Health	2.0	*2.4*	*1.7*	*0.6*	*0.6*	*1.7*
Transport	14.6	*-5.5*	*13.8*	*1.5*	*-3.6*	*-11.0*
Communication	4.4	*-2.5*	*-0.1*	*-0.9*	*0.5*	*1.4*
Recreation services and culture	3.6	*1.7*	*1.7*	*-0.4*	*1.0*	*1.2*
Education	0.9	*2.1*	*1.2*	*0.5*	*0.5*	*0.6*
Restaurants and hotels	2.4	*1.7*	*1.5*	*1.1*	*1.0*	*0.8*
Miscellaneous goods and services	6.3	*2.6*	*1.1*	*-1.2*	*0.8*	*2.2*
Urban						
Total	**100.0**	***2.1***	***3.8***	***1.0***	***0.7***	***-0.9***
Food and non-alcoholic beverages	28.4	*4.1*	*4.0*	*1.8*	*1.8*	*1.3*
Alcoholic beverages and tobacco	2.3	*16.7*	*0.2*	*-0.1*	*1.5*	*0.3*
Clothing and footwear	3.2	*-0.6*	*-0.4*	*-2.4*	*-2.2*	*-1.1*
Housing, water, electricity, gas and other fuels	24.5	*2.4*	*2.4*	*2.0*	*1.8*	*-0.9*
Furnishings, household equipment and routine household maintenance	4.2	*2.5*	*2.3*	*0.3*	*1.6*	*0.4*
Health	1.8	*2.9*	*2.8*	*0.8*	*0.7*	*1.1*
Transport	14.6	*-4.3*	*13.0*	*1.5*	*-3.1*	*-9.9*
Communication	4.9	*-1.4*	*-0.3*	*-1.9*	*0.4*	*1.6*
Recreation services and culture	5.0	*2.6*	*1.9*	*-0.4*	*0.6*	*0.6*
Education	1.4	*2.1*	*1.7*	*1.2*	*1.5*	*1.3*
Restaurants and hotels	3.0	*2.9*	*2.7*	*1.5*	*1.3*	*0.7*
Miscellaneous goods and services	6.7	*2.9*	*1.2*	*-1.5*	*0.4*	*2.8*

[1] Based on Household Expenditure Survey 2016

[2] January to August 2020

Source: Department of Statistics, Malaysia

3.16. CONSUMER PRICE INDEX BY STATE

2010 = 100, Malaysia

States	2016	2017	2018	2019	2020[1]
	Annual Change (%)				
Total					
Malaysia	**2.1**	**3.7**	**1.0**	**0.7**	**-1.0**
Kedah and Perlis	1.7	3.9	0.3	0.2	-1.6
Pulau Pinang	2.5	4.0	0.9	1.1	-0.7
Perak	1.4	3.3	0.7	0.6	-1.1
Selangor and Federal Territory of Putrajaya	2.2	3.9	1.1	0.9	-0.4
Federal Territory of Kuala Lumpur	2.8	3.7	1.4	1.2	-0.4
Melaka	2.0	4.1	0.8	0.1	-1.7
Negeri Sembilan	1.9	4.2	1.2	0.7	-1.4
Johor	2.8	4.2	1.1	0.6	-1.2
Pahang	1.8	3.1	0.6	0.3	-1.0
Kelantan	1.5	3.5	0.7	0.4	-1.4
Terengganu	1.4	3.1	0.4	0.1	-1.3
Sabah and Federal Territory of Labuan	0.7	3.0	0.7	0.2	-1.7
Sarawak	1.5	3.0	0.6	0.1	-1.6
Food and Non-Alcoholic Beverages					
Malaysia	**3.9**	**4.0**	**1.6**	**1.7**	**1.2**
Kedah and Perlis	3.3	4.3	0.4	1.0	0.7
Pulau Pinang	4.8	4.4	1.7	1.8	1.4
Perak	3.1	3.3	1.1	1.5	1.5
Selangor and Federal Territory of Putrajaya	4.2	4.2	1.6	1.9	1.9
Federal Territory of Kuala Lumpur	4.2	4.5	4.0	3.5	0.6
Melaka	4.6	4.8	1.4	1.3	0.6
Negeri Sembilan	4.3	3.6	1.6	1.5	1.1
Johor	4.9	4.6	1.7	1.9	1.6
Pahang	3.6	2.5	1.1	0.9	1.1
Kelantan	3.0	3.4	1.0	1.0	0.6
Terengganu	3.2	2.8	1.1	1.2	1.3
Sabah and Federal Territory of Labuan	1.5	3.6	1.6	0.5	0.4
Sarawak	3.1	2.6	1.6	1.0	0.6

[1] January to August 2020

Source: Department of Statistics, Malaysia

3.17. CORE INDEX
2010 = 100, Malaysia

Groups	Weights[1] (%)	2016	2017	2018	2019	2020[2]
		Annual Change (%)				
Total	**100.0**	***2.4***	***2.4***	***1.0***	***1.1***	***1.2***
Food and non-alcoholic beverages	26.5	*3.1*	*3.6*	*1.8*	*2.1*	*1.2*
Alcoholic beverages and tobacco	-	-	-	-	-	-
Clothing and footwear	4.5	*-0.4*	*-0.3*	*-2.0*	*-2.0*	*-1.0*
Housing, water, electricity, gas and other fuels	26.5	*2.6*	*2.7*	*2.4*	*2.1*	*1.6*
Furnishings, household equipment and routine household maintenance	5.5	*2.4*	*2.1*	*0.3*	*1.4*	*0.4*
Health	2.6	*2.7*	*2.5*	*0.8*	*0.7*	*1.2*
Transport	6.5	*3.9*	*2.7*	*-0.8*	*-3.1*	*0.2*
Communication	6.5	*-1.5*	*-0.4*	*-1.7*	*0.4*	*1.5*
Recreation services and culture	6.6	*2.5*	*1.9*	*-0.4*	*0.7*	*0.7*
Education	1.8	*2.1*	*1.7*	*1.1*	*1.4*	*1.2*
Restaurants and hotels	3.9	*2.8*	*2.5*	*1.6*	*1.2*	*0.7*
Miscellaneous goods and services	9.1	*2.9*	*1.2*	*-1.4*	*0.4*	*2.7*

[1] Based on Household Expenditure Survey 2016

[2] January to August 2020

Source: Department of Statistics, Malaysia

3.18. PRODUCER PRICE INDEX - LOCAL PRODUCTION

2010 = 100, Malaysia

Sectors and Stage of Processing	Weights[1] (%)	2016	2017	2018	2019	2020[2]
		Annual Change (%)				
Sector (MSIC 2008)						
Total	**100.0**	***-1.1***	***6.7***	***-1.1***	***-1.4***	***-2.4***
Agriculture, forestry and fishing	6.7	*16.3*	*7.0*	*-13.9*	*-4.0*	*12.5*
Mining	7.9	*-15.3*	*24.7*	*17.5*	*-3.7*	*-32.7*
Manufacturing	81.6	*-1.2*	*5.3*	*-1.8*	*-0.9*	*-0.2*
Electricity and gas supply	3.4	*-0.9*	*1.9*	*1.1*	*1.5*	*-0.2*
Water supply	0.3	*3.5*	*-0.1*	*0.3*	*-2.2*	*-0.6*
Producer Price Index by Stage of Processing						
Total	**100.0**	**-1.1**	**6.7**	**-1.1**	**-1.4**	**-2.4**
Crude materials for further processing	16.4	*3.4*	*14.8*	*2.6*	*-3.9*	*-12.4*
Intermediate materials, supplies and components	56.1	*-3.2*	*6.7*	*-1.9*	*-1.4*	*-0.3*
Finished goods	27.5	*-0.4*	*0.9*	*-2.4*	*0.6*	*0.3*

[1] Based on Economic Census 2016

[2] January to August 2020

Source: Department of Statistics, Malaysia

3.19. LABOUR FORCE

Malaysia

	2016	2017	2018	2019	2020[4]
Labour force ('000)	14,667.8	14,980.1	15,280.3	15,581.6	15,691.3
Employment ('000)	14,163.7	14,476.8	14,776.0	15,073.4	15,021.1
Unemployment rate (%)	*3.4*	*3.4*	*3.3*	*3.3*	*4.3*
Labour force participation rate[1] (%)					
Total	*67.7*	*68.0*	*68.3*	*68.7*	*68.4*
Male	*80.2*	*80.1*	*80.4*	*80.8*	*80.5*
Female	*54.3*	*54.7*	*55.2*	*55.6*	*55.4*
Number of collective agreements signed in the current year[2]	308	269	294	298	81
Number of workers covered (thousands)	133.7	60.6	46.3	-	-
Labour productivity[3]	*3.1*	*3.8*	*2.3*	*2.1*	*-8.4*
Agriculture	*1.8*	*2.2*	*-0.2*	*0.4*	*-3.7*
Mining and quarrying	*5.9*	*-4.8*	*4.0*	*-1.6*	*-8.7*
Manufacturing	*3.8*	*3.9*	*2.4*	*1.7*	*-8.8*
Construction	*8.8*	*6.8*	*3.4*	*3.3*	*-22.3*
Services	*2.0*	*4.3*	*3.5*	*2.9*	*-7.5*
Foreign workers ('000)	1,866.4	1,797.4	2,015.8	1,999.6	1,678.9[5]

[1] The ratio of the labour force to the working age population (15-64 years), expressed as percentage

[2] Based on the information in the Collective Agreement and the feedback from the employer for which has been given cognisance by the Industrial Court for the year

[3] Annual change (%)

[4] January to June 2020

[5] As at end-August 2020

Source: Department of Statistics, Ministry of Home Affairs and Ministry of Human Resources Malaysia

3.20. EMPLOYMENT BY INDUSTRY

'000 persons, Malaysia

Industry[1]	2016	2017	2018	2019		2020[3]	
					share (%)		share (%)
Total employment[2]	**14,163.7**	**14,476.8**	**14,776.0**	**15,073.4**	***100.0***	**15,021.1**	***100.0***
Agriculture, forestry and fishing	1,609.9	1,635.0	1,570.3	1,541.1	*10.2*	1,655.9	*11.0*
Mining and quarrying	96.3	97.2	90.8	91.0	*0.6*	94.9	*0.6*
Manufacturing	2,390.6	2,513.3	2,499.9	2,681.5	*17.8*	2,529.4	*16.8*
Construction	1,251.7	1,258.9	1,257.8	1,276.4	*8.5*	1,227.2	*8.2*
Services	8,814.3	8,970.9	9,355.2	9,481.5	*62.9*	9,513.7	*63.3*
Electricity, gas, steam and air conditioning supply	77.9	62.2	68.8	71.4	*0.5*	101.4	*0.7*
Water supply; sewerage, waste management and remediation activities	76.4	81.0	88.6	88.8	*0.6*	92.7	*0.6*
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,428.5	2,485.4	2,544.6	2,594.5	*17.2*	2,637.8	*17.6*
Transportation and storage	630.4	658.2	697.9	667.6	*4.4*	691.0	*4.6*
Accommodation and food and beverage service activities	1,260.7	1,323.2	1,473.4	1,549.7	*10.3*	1,393.3	*9.3*
Information and communication	208.7	220.3	216.4	213.9	*1.4*	231.8	*1.5*
Financial and insurance/takaful activities	346.9	369.0	338.6	335.1	*2.2*	382.1	*2.5*
Real estate activities	82.4	84.5	97.2	92.1	*0.6*	78.3	*0.5*
Professional, scientific and technical activities	361.8	348.1	367.7	385.7	*2.6*	372.6	*2.5*
Administrative and support service activities	657.0	677.2	747.6	806.2	*5.3*	871.2	*5.8*
Public administration and defence; compulsory social security	748.2	742.2	720.2	737.1	*4.9*	786.4	*5.2*
Education	928.7	880.3	988.7	962.3	*6.4*	919.1	*6.1*
Human health and social work activities	570.3	588.0	551.2	527.7	*3.5*	557.9	*3.7*
Arts, entertainment and recreation	80.9	84.3	85.6	79.0	*0.5*	49.6	*0.3*
Others service activities	230.8	260.1	264.8	266.1	*1.8*	282.9	*1.9*
Activities of households as employers	124.7	106.9	103.9	104.3	*0.7*	64.8	*0.4*

[1] Industry is classified according to the 'Malaysia Standard Industrial Classification (MSIC) 2008 Ver. 1.0'

[2] Total includes 'Activities of extraterritorial organisations and bodies'

[3] For the first half of 2020

Source: Department of Statistics, Malaysia

3.21. ACTIVE REGISTRANTS

Malaysia

	2016	2017	2018	2019		2020[2]
					share (%)	
Total Active Registrants (end-period)	**306,037**	**262,756**	**154,850**	**299,648**	***100.0***	**277,840**
Age						
19 and below	33,386	27,829	20,959	36,966	*12.3*	33,581
20 – 24	204,116	177,111	104,868	199,476	*66.6*	185,930
25 – 29	52,909	46,460	22,039	49,080	*16.4*	45,996
30 and above	15,626	11,356	6,984	14,126	*4.7*	12,333
Gender						
Male	110,577	91,528	54,979	109,227	*36.5*	96,706
Female	195,460	171,228	99,871	190,421	*63.5*	181,134
Educational Level						
Less than PT3/PMR/SRP/LCE	691	766	402	924	*0.3*	753
PT3/PMR/SRP/LCE	4,110	2,870	1,438	2,516	*0.8*	2,027
SPM/MCE	67,373	51,245	7,557	14,754	*4.9*	13,812
Skills Certificate[1]	9,981	7,787	2,248	8,663	*2.9*	7,594
MHSC/STPM, Matriculation, Diploma and Degree	223,882	200,088	143,205	272,791	*91.0*	253,654
Employment Status						
Unemployed	154,548	129,581	71,852	137,712	*46.0*	128,914

[1] Malaysian Skills Certificate (SKM), other skills certificate and non-technical skills certificate

[2] January to June 2020

Note: Covers job seekers registered with Labour Department through JobsMalaysia and within valid registration period

Source: Ministry of Human Resources, Malaysia

3.22. VACANCIES AND PLACEMENTS

Malaysia

	2016	2017	2018	2019		2020[3]
					share (%)	
Number of Vacancies by Occupational Category[1]	**854,044**	**1,473,376**	**1,095,020**	**974,612**	***100.0***	**251,944**
Managers	26,320	11,164	4,762	8,563	*0.9*	2,805
Professionals	36,204	41,171	21,334	31,900	*3.3*	13,727
Technician and associate professionals	14,026	16,904	19,466	34,429	*3.5*	8,075
Clerical support workers	14,654	14,083	7,690	11,554	*1.2*	8,670
Service and sales workers	41,301	63,335	34,926	42,462	*4.4*	8,462
Skilled agricultural, forestry and fishery workers	9,649	12,212	5,633	2,089	*0.2*	418
Craft and related trade workers	22,228	35,244	25,063	31,982	*3.3*	6,837
Plant and machine operators and assemblers	118,178	151,779	127,391	147,321	*15.1*	48,883
Elementary occupation	571,484	1,127,484	848,755	664,312	*68.2*	154,067
Number of Vacancies by Sector	**854,044**	**1,473,376**	**1,095,020**	**974,612**	***100.0***	**251,944**
Agriculture, forestry and fishing	174,751	264,216	240,470	204,324	*21.0*	47,391
Mining and quarrying	1,857	2,730	3,108	3,435	*0.4*	697
Manufacturing	376,349	617,308	421,582	351,942	*36.1*	94,657
Construction	127,985	255,851	191,045	141,783	*14.5*	27,566
Services	173,102	333,271	238,815	273,128	*28.0*	81,633
Number of Placements by Sector[2]	**22,643**	**20,369**	**14,138**			**-**
Agriculture, forestry and fishing	1,639	1,382	1,326			-
Mining and quarrying	0	7	16			-
Manufacturing	11,342	12,325	8,557			-
Construction	2,396	652	538			-
Services	7,266	6,003	3,701			-

[1] Classification of occupational groups is based on the Malaysia Standard Classification of Occupations (MASCO) 2013

[2] Data for 2016 covers period from January to November 2016. Data for 2018 covers period from January to June 2018

[3] January to June 2020

Note: Definition of vacancies refers to job vacancy listings by employers in public (selected only) and private sector on JobsMalaysia. The job listing includes non-substantive vacancies such as sales person, promoter, insurance agent and part-time workers as well as foreign workers

Source: Ministry of Human Resources, Malaysia

4.1. INTEREST RATES
Malaysia

	Average rates during the period (%)				Average rates during the period in 2020 (%)							
	2016	2017	2018	2019	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.
Overnight interbank	3.06	2.98	3.19	3.05	2.89	2.75	2.51	2.51	2.03	1.99	1.79	1.74
1-week interbank	3.12	3.03	3.26	3.12	2.96	2.78	2.56	2.56	2.09	2.02	1.83	1.77
3-month interbank	3.48	3.38	3.66	3.46	3.24	-	2.76	2.75	-	2.27	-	1.96
Commercial banks												
Fixed deposits												
3-month	3.03	2.92	3.14	2.98	2.68	2.65	2.38	2.36	1.88	1.86	1.63	1.62
12-month	3.18	3.09	3.31	3.17	2.87	2.84	2.59	2.56	2.03	2.03	1.79	1.78
Savings deposit	1.00	0.96	1.04	1.01	0.89	0.87	0.78	0.77	0.61	0.59	0.48	0.48
Weighted Base Rate[1] (BR)	3.71	3.62	3.88	3.76	3.43	3.43	3.18	3.18	2.68	2.68	2.43	2.43
Base lending rate (BLR)	6.73	6.67	6.89	6.78	6.50	6.48	6.26	6.26	5.78	5.75	5.52	5.49

[1] Effective from 2 January 2015, the BR replaced the BLR as the main reference rate for new retail floating rate loans and financing facilities

Source: Bank Negara Malaysia

4.2. BROAD MONEY (M3)
Malaysia
RM million

	End-period				
	2016	2017	2018	2019	2020[4]
Broad money (M3)[1]	1,655,225	1,736,445	1,894,517	1,961,554	2,031,377
Transaction balances	379,853	421,552	425,722	450,471	496,825
Currency in circulation[2]	85,480	92,388	94,297	100,159	114,852
Demand deposits	294,373	329,164	331,425	350,312	381,972
Broad quasi-money	1,275,372	1,314,893	1,468,796	1,511,083	1,534,552
Savings deposits	145,129	150,505	157,387	169,975	202,819
Fixed deposits	773,221	823,165	920,662	952,127	939,142
Negotiable instruments of deposits (NIDs)	8,327	8,154	11,547	12,671	8,688
Repurchase agreements (Repos)	-	-	-	-	-
Foreign currency deposits	137,593	133,268	151,496	156,727	169,645
Other deposits	211,103	199,800	227,704	219,583	214,258
Factors Affecting M3					
Net claims on Government	113,193	129,824	183,634	194,584	254,074
Claims on Government	166,425	186,671	249,184	256,438	327,521
Less: Government deposits	53,232	56,848	65,550	61,854	73,447
Claims on private sector	1,648,719	1,745,091	1,892,470	1,976,463	2,020,700
Loans	1,480,345	1,537,001	1,645,784	1,715,637	1,749,460
Securities	168,375	208,090	246,686	260,825	271,240
Net foreign assets[3]	517,821	517,269	522,402	514,447	553,911
Bank Negara Malaysia	415,756	406,832	411,768	416,413	438,882
Banking system	102,065	110,437	110,634	98,033	115,029
Other influences	-624,508	-655,739	-703,989	-723,940	-797,308

[1] Exclude interplacements among banking institutions

[2] Exclude holdings by the banking system

[3] Includes exchange rate revaluation losses/gains

[4] End-August 2020

Note: Data based on BNM Monthly Statistical Bulletin (August 2020). Total may not add up due to rounding

Source: Bank Negara Malaysia

4.3. KEY EXCHANGE RATES

Malaysia

	RM to one unit of foreign currency[1]					Change (%)				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020[2]
	End-December				End-September					
Special Drawing Rights (SDR)	6.0116	5.7709	5.7558	5.6592	5.8522	*-1.0*	*4.2*	*0.3*	*1.7*	*-3.3*
US dollar	4.4860	4.0620	4.1385	4.0925	4.1585	*-4.3*	*10.4*	*-1.8*	*1.1*	*-1.6*
Singapore dollar	3.1016	3.0392	3.0322	3.0387	3.0373	*-2.1*	*2.1*	*0.2*	*-0.2*	*0.0*
100 Japanese yen	3.8442	3.6020	3.7475	3.7655	3.9378	*-7.3*	*6.7*	*-3.9*	*-0.5*	*-4.4*
Pound sterling	5.5108	5.4660	5.2532	5.3722	5.3383	*15.4*	*0.8*	*4.1*	*-2.2*	*0.6*
Euro	4.7238	4.8510	4.7340	4.5852	4.8775	*-0.7*	*-2.6*	*2.5*	*3.2*	*-6.0*
100 Thai baht	12.5167	12.4334	12.7006	13.6827	13.1224	*-4.7*	*0.7*	*-2.1*	*-7.2*	*4.3*
100 Indonesian rupiah	0.0334	0.0300	0.0286	0.0295	0.0279	*-6.9*	*11.3*	*4.9*	*-3.1*	*5.7*
100 Korean won	0.3720	0.3801	0.3721	0.3540	0.3553	*-1.9*	*-2.1*	*2.1*	*5.1*	*-0.4*
100 Philippine peso	9.0516	8.1232	7.8739	8.0720	8.5902	*1.1*	*11.4*	*3.2*	*-2.5*	*-6.0*
Chinese renminbi	0.6455	0.6230	0.6017	0.5866	0.6105	*2.4*	*3.6*	*3.5*	*2.6*	*-3.9*

[1] US dollar (USD) rates are the average of buying and selling rates at noon in the Kuala Lumpur Interbank Foreign Exchange Market. Rates for foreign currencies other than USD are cross rates derived from rates of these currencies against the USD and the RM/USD rate

[2] End-December 2019 – End-September 2020

Source: Bank Negara Malaysia

4.4. COMMERCIAL BANKS: LOANS OUTSTANDING BY PURPOSE AND SECTOR
Malaysia

	2016		2017		2018		2019		2020	
	December		December		December		December		August	
	RM million	share (%)	RM million	share (%)	RM million	share (%)	RM million	share (%)	RM million	share (%)
Purpose										
Purchase of securities	41,368	*3.8*	37,505	*3.4*	34,092	*3.0*	30,864	*2.7*	29,221	*2.5*
Purchase of transport vehicles	98,152	*9.1*	94,928	*8.6*	93,847	*8.3*	89,358	*7.7*	88,595	*7.6*
of which:										
Purchase of passenger cars	91,093	*8.4*	88,244	*8.0*	87,221	*7.7*	82,901	*7.2*	82,138	*7.1*
Purchase of residential property	364,966	*33.8*	386,446	*35.2*	404,159	*35.6*	421,993	*36.6*	435,311	*37.5*
Purchase of non-residential property	169,789	*15.7*	172,212	*15.7*	172,217	*15.2*	173,319	*15.0*	173,064	*14.9*
Purchase of fixed assets other than land and building	7,570	*0.7*	6,620	*0.6*	7,415	*0.7*	8,945	*0.8*	9,640	*0.8*
Personal use	32,772	*3.0*	33,627	*3.1*	35,532	*3.1*	36,922	*3.2*	37,793	*3.3*
Credit card	34,350	*3.2*	35,459	*3.2*	36,240	*3.2*	37,098	*3.2*	32,676	*2.8*
Purchase of consumer durables	111	*0.0*	98	*0.0*	84	*0.0*	73	*0.0*	68	*0.0*
Construction	36,310	*3.4*	36,601	*3.3*	38,727	*3.4*	41,105	*3.6*	42,760	*3.7*
Working capital	254,908	*23.6*	253,462	*23.1*	266,071	*23.4*	264,301	*22.9*	264,645	*22.8*
Other purpose	39,964	*3.7*	41,343	*3.8*	46,591	*4.1*	49,621	*4.3*	48,258	*4.2*
Total Loans[1]	**1,080,260**	***100.0***	**1,098,300**	***100.0***	**1,134,973**	***100.0***	**1,153,597**	***100.0***	**1,162,032**	***100.0***
Sector[2]										
Primary agriculture	23,851	*2.2*	21,944	*2.0*	20,169	*1.8*	18,763	*1.6*	17,982	*1.5*
Mining and quarrying	7,939	*0.7*	5,726	*0.5*	5,615	*0.5*	7,542	*0.7*	7,013	*0.6*
Manufacturing (including agro-based)	81,741	*7.6*	81,072	*7.4*	86,185	*7.6*	94,548	*8.2*	92,162	*7.9*
Electricity, gas and water supply	8,169	*0.8*	9,816	*0.9*	11,267	*1.0*	11,246	*1.0*	11,220	*1.0*
Wholesale and retail, restaurants and hotels	93,593	*8.7*	94,179	*8.6*	98,992	*8.7*	101,281	*8.8*	103,867	*8.9*
Construction	48,002	*4.4*	51,381	*4.7*	54,033	*4.8*	57,140	*5.0*	57,148	*4.9*
Real estate	87,129	*8.1*	89,355	*8.1*	88,981	*7.8*	83,669	*7.3*	85,721	*7.4*
Transport, storage and communication	21,805	*2.0*	21,661	*2.0*	21,530	*1.9*	20,875	*1.8*	22,399	*1.9*
Finance, insurance and business services	73,275	*6.8*	71,548	*6.5*	84,051	*7.4*	82,491	*7.2*	80,887	*7.0*
Education, health and others	20,888	*1.9*	19,980	*1.8*	18,645	*1.6*	20,924	*1.8*	21,205	*1.8*
Household sector	606,544	*56.1*	622,330	*56.7*	636,839	*56.1*	648,438	*56.2*	655,060	*56.4*
Other sector[3]	7,323	*0.7*	9,309	*0.8*	8,664	*0.8*	6,680	*0.6*	7,369	*0.6*

[1] Includes loans sold to Cagamas

[2] Definitions of economic sectors/industries are based on MSIC 2000

[3] Includes loans to individual businesses

Note: Data based on BNM Monthly Statistical Bulletin (August 2020). Total may not add up due to rounding

Source: Bank Negara Malaysia

4.5. GOVERNMENT AND CORPORATE BOND YIELDS

Malaysia

	2016	2017	2018	2019	2020								
					Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.
Malaysian Government Securities market indicative yield (%)													
1-year	3.26	2.89	3.45	2.96	2.81	2.60	2.53	2.34	2.06	2.05	1.77	1.70	1.76
3-year	3.50	3.34	3.63	3.01	2.88	2.62	2.76	2.42	2.28	2.25	1.93	1.84	1.99
5-year	3.70	3.56	3.78	3.18	2.95	2.67	3.10	2.53	2.48	2.47	2.12	2.11	2.25
10-year	4.23	3.91	4.08	3.31	3.13	2.83	3.36	2.87	2.81	2.87	2.55	2.62	2.66
5-year corporate bond yields (%)													
AAA	4.40	4.33	4.39	3.63	3.51	3.21	3.66	3.22	3.11	3.11	2.86	2.76	2.79
AA	4.78	4.64	4.69	3.95	3.87	3.56	3.99	3.56	3.47	3.42	3.18	3.13	3.18
A	6.66	6.36	6.37	5.27	5.09	4.60	5.03	4.74	4.70	4.69	4.52	4.59	4.56
BBB	10.12	9.62	9.66	7.65	7.31	6.61	6.91	6.81	6.64	6.65	6.78	6.39	6.35

Source: Bank Negara Malaysia

4.6. BURSA MALAYSIA: SELECTED INDICATORS

	2016	2017	2018	2019	2020[3]
Indices[1]					
Composite	1,641.73	1,796.81	1,690.58	1,588.76	1,504.82
FBM EMAS	11,466.54	12,942.57	11,527.51	11,323.49	10,831.56
FBM ACE	4,780.71	6,603.55	4,317.49	5,226.59	9,914.01
Trading volume[2] (million units)	**433,678.5**	**641,315.6**	**643,208.1**	**653,085.5**	**1,271,710.1**
Main Market	289,799.5	430,833.7	420,153.9	453,037.4	745,338.2
ACE Market	77,807.5	156,155.6	104,049.2	103,750.4	430,801.0
LEAP Market	-	4.8	80.6	332.8	133.4
Daily Average	1,762.9	2,639.2	2,646.9	2,676.6	6,911.5
Trading value[2] (RM million)	**484,106.5**	**614,822.8**	**625,496.4**	**525,225.9**	**749,007.2**
Main Market	457,858.7	578,620.9	579,691.7	483,252.3	606,701.8
ACE Market	14,050.5	29,040.4	19,781.8	21,404.7	116,375.6
LEAP Market	-	1.4	5.1	33.2	26.5
Daily Average	1,967.9	2,530.1	2,574.1	2,152.6	4,070.7
Number of listed companies	**904**	**905**	**915**	**929**	**932**
Main Market	791	788	783	772	765
ACE Market	113	115	119	129	133
LEAP Market	-	2	13	28	34
Market capitalisation[1] (RM billion)	**1,667.4**	**1,906.8**	**1,700.4**	**1,711.8**	**1,638.7**
Main Market	1,649.4	1,881.9	1,680.3	1,682.5	1,583.9
ACE Market	10.0	15.6	12.1	18.8	34.5
LEAP Market	-	0.2	0.9	2.4	3.1
Market capitalisation/GDP (%)	***135.6***	***146.6***	***124.8***	***120.4***	**-**

[1] End-period

[2] Based on market transactions and direct business transactions

[3] End-September 2020

Source: Bursa Malaysia

4.7. ISLAMIC BANKS: LOANS OUTSTANDING BY PURPOSE AND SECTOR

Malaysia

	2016		2017		2018		2019		2020	
	December		December		December		December		August	
	RM million	share (%)	RM million	share (%)	RM million	share (%)	RM million	share (%)	RM million	share (%)
Purpose										
Purchase of securities	28,486	*6.6*	32,443	*6.8*	41,622	*7.4*	48,017	*7.9*	48,529	*7.5*
Purchase of transport vehicles	72,368	*16.7*	74,266	*15.5*	75,161	*13.3*	77,821	*12.7*	82,044	*12.7*
of which:										
Purchase of passenger cars	70,698	*16.3*	71,852	*15.0*	72,875	*12.9*	75,613	*12.4*	80,588	*12.5*
Purchase of residential property	112,780	*26.0*	132,956	*27.8*	158,812	*28.2*	181,933	*29.8*	197,289	*30.6*
Purchase of non-residential property	38,455	*8.9*	40,943	*8.5*	45,917	*8.1*	51,998	*8.5*	55,159	*8.5*
Purchase of fixed assets other than land and building	2,502	*0.6*	2,231	*0.5*	3,041	*0.5*	3,563	*0.6*	3,695	*0.6*
Personal use	33,510	*7.7*	35,145	*7.3*	58,875	*10.4*	60,448	*9.9*	63,869	*9.9*
Credit card	2,799	*0.6*	3,200	*0.7*	3,680	*0.7*	4,094	*0.7*	3,699	*0.6*
Purchase of consumer durables	21	*0.0*	19	*0.0*	24	*0.0*	21	*0.0*	14	*0.0*
Construction	9,226	*2.1*	11,063	*2.3*	17,507	*3.1*	18,209	*3.0*	17,842	*2.8*
Working capital	112,914	*26.0*	117,920	*24.6*	126,704	*22.5*	132,878	*21.7*	137,789	*21.3*
Other purpose	21,270	*4.9*	28,767	*6.0*	32,757	*5.8*	32,086	*5.3*	35,476	*5.5*
Total Financing[1]	**434,332**	***100.0***	**478,954**	***100.0***	**564,099**	***100.0***	**611,068**	***100.0***	**645,405**	***100.0***
Sector[2]										
Primary agriculture	12,359	*2.8*	14,234	*3.0*	14,876	*2.6*	17,175	*2.8*	17,590	*2.7*
Mining and quarrying	5,770	*1.3*	5,259	*1.1*	5,325	*0.9*	3,376	*0.6*	3,774	*0.6*
Manufacturing (including agro-based)	20,930	*4.8*	21,497	*4.5*	24,975	*4.4*	27,555	*4.5*	29,348	*4.5*
Electricity, gas and water supply	2,286	*0.5*	2,271	*0.5*	2,880	*0.5*	4,516	*0.7*	4,635	*0.7*
Wholesale and retail, restaurants and hotels	19,425	*4.5*	21,276	*4.4*	25,107	*4.5*	30,401	*5.0*	31,655	*4.9*
Construction	17,769	*4.1*	22,210	*4.6*	34,957	*6.2*	34,533	*5.7*	34,751	*5.4*
Real estate	22,621	*5.2*	25,419	*5.3*	27,569	*4.9*	30,163	*4.9*	30,951	*4.8*
Transport, storage and communication	16,684	*3.8*	15,786	*3.3*	16,277	*2.9*	18,567	*3.0*	18,248	*2.8*
Finance, insurance and business services	35,428	*8.2*	34,450	*7.2*	31,582	*5.6*	32,068	*5.2*	33,178	*5.1*
Education, health and others	22,162	*5.1*	21,846	*4.6*	21,842	*3.9*	19,381	*3.2*	32,904	*5.1*
Household sector	254,385	*58.6*	282,474	*59.0*	344,257	*61.0*	378,754	*62.0*	402,376	*62.3*
Other sectors[3]	4,512	*1.0*	12,231	*2.6*	14,454	*2.6*	14,581	*2.4*	5,996	*0.9*

[1] Includes loans sold to Cagamas

[2] Definitions of economic sectors/industries are based on MSIC 2000

[3] Includes loans to individual businesses

Note: Data based on BNM Monthly Statistical Bulletin (August 2020). Total may not add up due to rounding

Source: Bank Negara Malaysia

ORGANISATION OF THE MINISTRY OF FINANCE MALAYSIA

MINISTER OF FINANCE
YB Senator Tengku Dato' Sri Zafrul Tengku Abdul Aziz

DEPUTY MINISTER OF FINANCE I
YB Datuk Abd. Rahim Bakri

DEPUTY MINISTER OF FINANCE II
YB Tuan Mohd Shahar Abdullah

DEPARTMENTS UNDER THE MINISTRY OF FINANCE

TREASURY OF MALAYSIA
Secretary General of Treasury
Dato' Asri bin Hamidin @ Hamidon

ROYAL MALAYSIAN CUSTOMS DEPARTMENT
Director General of Customs
Dato' Sri Abdul Latif bin Abdul Kadir

ACCOUNTANT GENERAL'S DEPARTMENT OF MALAYSIA
Accountant General
Datuk Dr. Yacob bin Mustafa

VALUATION AND PROPERTY SERVICES DEPARTMENT
Director General of Valuation and Property Services
Sr A'zmi bin Abdul Latif

LANGKAWI DEVELOPMENT AUTHORITY
Chief Executive Officer
Dr. Hezri bin Adnan

AGENCIES UNDER THE MINISTRY OF FINANCE

BANK SIMPANAN NASIONAL
Chief Executive
Datuk Yunos bin Abd Ghani

PERBADANAN INSURANS DEPOSIT MALAYSIA
Chief Executive Officer
En. Rafiz Azuan bin Abdullah

BURSA MALAYSIA BERHAD
Chief Executive Officer
Datuk Muhamad Umar Swift

INLAND REVENUE BOARD OF MALAYSIA
Chief Executive Officer
Dato' Sri Dr. Sabin bin Samitah

BANK NEGARA MALAYSIA
Governor
Datuk Nor Shamsiah binti Mohd Yunus

EMPLOYEES PROVIDENT FUND
Chief EPF Officer
En. Alizakri Alias

SECURITIES COMMISSION MALAYSIA
Chairman
Datuk Syed Zaid Albar

LABUAN FINANCIAL SERVICES AUTHORITY
Director General
Datuk Danial Mah Abdullah

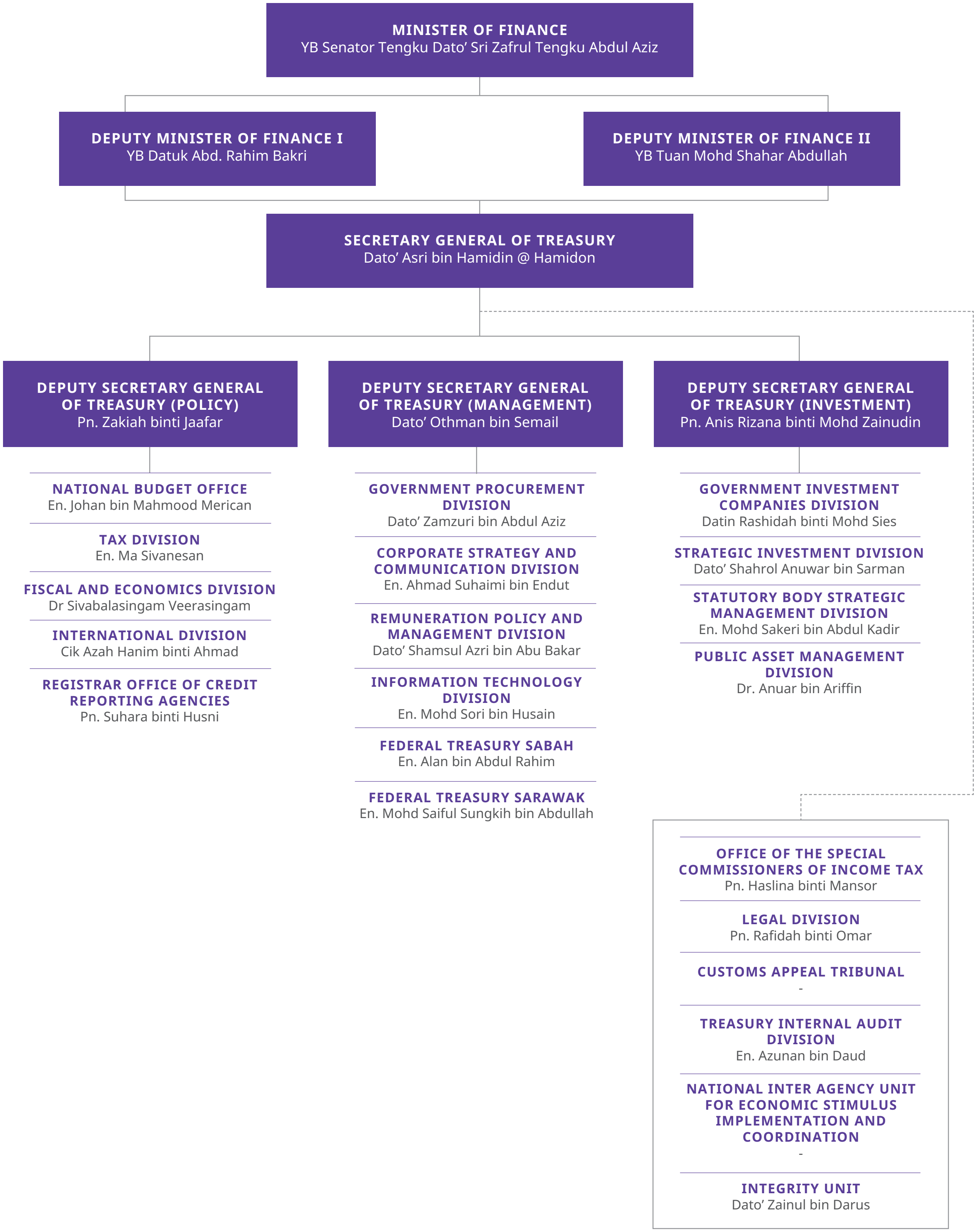
YAYASAN TUN RAZAK
Chairman
Tun Mohammed Hanif bin Omar

MALAYSIA TOTALISATOR BOARD
Chief Executive Officer
Dato' Abdul Rauf bin Sani

RETIREMENT FUND (INCORPORATED)
Chief Executive Officer
Tuan Syed Hamadah bin Syed Othman

PUBLIC SECTOR HOME FINANCING BOARD
Chief Executive Officer
En. Mohd Farid bin Dato' Hj Nawawi

TREASURY OF MALAYSIA



MINISTER OF FINANCE
YB Senator Tengku Dato' Sri Zafrul Tengku Abdul Aziz

DEPUTY MINISTER OF FINANCE I
YB Datuk Abd. Rahim Bakri

DEPUTY MINISTER OF FINANCE II
YB Tuan Mohd Shahar Abdullah

SECRETARY GENERAL OF TREASURY
Dato' Asri bin Hamidin @ Hamidon

DEPUTY SECRETARY GENERAL OF TREASURY (POLICY)
Pn. Zakiah binti Jaafar

- **NATIONAL BUDGET OFFICE**
  En. Johan bin Mahmood Merican
- **TAX DIVISION**
  En. Ma Sivanesan
- **FISCAL AND ECONOMICS DIVISION**
  Dr Sivabalasingam Veerasingam
- **INTERNATIONAL DIVISION**
  Cik Azah Hanim binti Ahmad
- **REGISTRAR OFFICE OF CREDIT REPORTING AGENCIES**
  Pn. Suhara binti Husni

DEPUTY SECRETARY GENERAL OF TREASURY (MANAGEMENT)
Dato' Othman bin Semail

- **GOVERNMENT PROCUREMENT DIVISION**
  Dato' Zamzuri bin Abdul Aziz
- **CORPORATE STRATEGY AND COMMUNICATION DIVISION**
  En. Ahmad Suhaimi bin Endut
- **REMUNERATION POLICY AND MANAGEMENT DIVISION**
  Dato' Shamsul Azri bin Abu Bakar
- **INFORMATION TECHNOLOGY DIVISION**
  En. Mohd Sori bin Husain
- **FEDERAL TREASURY SABAH**
  En. Alan bin Abdul Rahim
- **FEDERAL TREASURY SARAWAK**
  En. Mohd Saiful Sungkih bin Abdullah

DEPUTY SECRETARY GENERAL OF TREASURY (INVESTMENT)
Pn. Anis Rizana binti Mohd Zainudin

- **GOVERNMENT INVESTMENT COMPANIES DIVISION**
  Datin Rashidah binti Mohd Sies
- **STRATEGIC INVESTMENT DIVISION**
  Dato' Shahrol Anuwar bin Sarman
- **STATUTORY BODY STRATEGIC MANAGEMENT DIVISION**
  En. Mohd Sakeri bin Abdul Kadir
- **PUBLIC ASSET MANAGEMENT DIVISION**
  Dr. Anuar bin Ariffin

- **OFFICE OF THE SPECIAL COMMISSIONERS OF INCOME TAX**
  Pn. Haslina binti Mansor
- **LEGAL DIVISION**
  Pn. Rafidah binti Omar
- **CUSTOMS APPEAL TRIBUNAL**
  \-
- **TREASURY INTERNAL AUDIT DIVISION**
  En. Azunan bin Daud
- **NATIONAL INTER AGENCY UNIT FOR ECONOMIC STIMULUS IMPLEMENTATION AND COORDINATION**
  \-
- **INTEGRITY UNIT**
  Dato' Zainul bin Darus