

# MALAYSIA

## Key conditions and challenges

Table 1	2020
Population, million	32.4
GDP, current US\$ billion	335.7
GDP per capita, current US\$	10361.1
International poverty rate (\$19) <sup>a</sup>	0.0
Lower middle-income poverty rate (\$3.2) <sup>a</sup>	0.3
Upper middle-income poverty rate (\$5.5) <sup>a</sup>	2.9
Gini index <sup>a</sup>	41.1
School enrollment, primary (% gross) <sup>b</sup>	105.3
Life expectancy at birth, years <sup>b</sup>	76.2
Total GHG Emissions (mtCO2e)	392.7

Source: WDI, Macro Poverty Outlook, and official data.  
 (a) Most recent value (2015), 2011 PPPs.  
 (b) WDI for School enrollment (2017); Life expectancy (2019).

Malaysia is confronted with severe health and economic challenges. There has been a resurgence of COVID-19 cases, and the government has re-imposed strict movement restrictions. Businesses and vulnerable households have been negatively impacted. The World Bank projects the economy to grow by 3.3 percent in 2021, however recovery in employment and income tend to be disproportionate among the poor and vulnerable. While external demand may provide tailwinds for growth, ongoing movement restrictions are expected to weigh down on the economy.

Malaysia is currently facing challenges both on the health and economic front. There has been a dramatic resurgence of the COVID-19 pandemic. While it took almost one year to record the first 100,000 cases, the cumulative number of new cases between April and August 2021 amounted to more than 1.3 million. Similarly, the cumulative number of deaths exceeded 14,000 during this period.

The severity of the current wave has raised concerns regarding the overall capacity of the health system. Key containment measures, including mass testing and contact tracing, have not been effectively implemented.

To curb the spread of the pandemic and to ease the burden on the health system, the government has reimposed the movement control order (MCO), which saw most sectors of economy closed or operating in limited capacity from June 2021. The closure of most sectors has negatively impacted businesses, especially small firms and those operating in services-related sectors. On a more positive note, after a slow start, the pace of the vaccination program has picked up since June. As of 23rd September 2021, 58 percent of the population have been fully vaccinated. The government has gradually eased some of the movement restrictions in light of this development.

According to government statistics, the national poverty rate is estimated to have

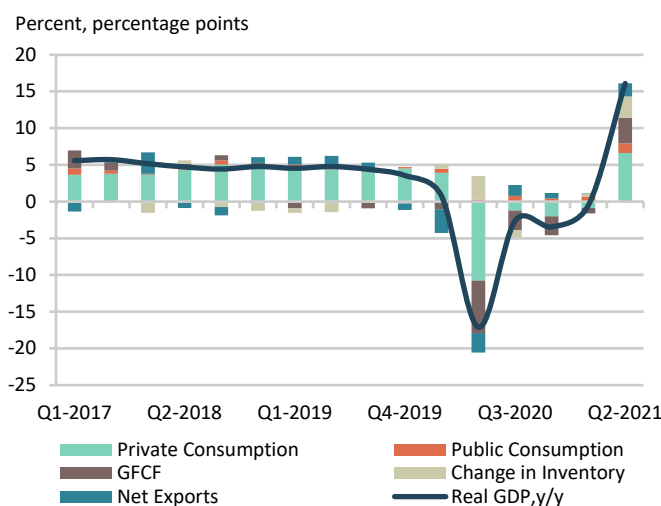
increased from 5.6 percent in 2019 to 8.4 percent in 2020. The largest increases were seen in less-developed states such as Kelantan, Terengganu, and Sabah. The pandemic and prolonged movement restrictions also led to an increase in unemployment and underemployment, disruptions in learning and unequal access to remote schooling, and rising mental health, especially among children and youth.

## Recent developments

The economy grew at 16.1 percent in Q2 2021, supported mainly by the improvement in domestic demand and continued robust performance in exports. It also reflects the low base from the significant decline in economic activity in Q2 2020. However, on a quarterly basis, growth contracted by 2.0 percent (seasonally adjusted) following the reimposition of the MCO in May 2021. Headline inflation rose to 4.1 percent in Q2 2021 (Q1 2021: 0.5 percent), largely due to base effects from last year and lapse in the electricity tariff rebates. Meanwhile, core inflation remained stable at 0.7 percent during Q2 2021. The central bank expects the spike in inflation to be temporary, and it expects headline inflation to be between 2.0-3.0 percent in 2021. Despite cost pressures from global commodity prices and idiosyncratic supply disruptions, these pressures are assessed to be transitory.

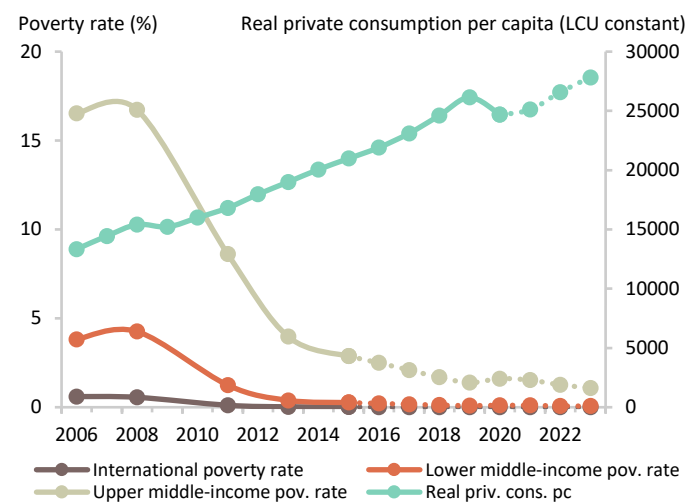
Monetary policy remained supportive of growth with the central bank keeping the overnight policy rate (OPR) at 1.75 percent

**FIGURE 1 Malaysia / Real GDP growth and contributions to real GDP growth**



Sources: Department of Statistics Malaysia and World Bank staff calculations.

**FIGURE 2 Malaysia / Actual and projected poverty rates and real private consumption per capita**



Source: World Bank. Notes: see Table 2.

in July. Domestic financial markets continued to be affected by concerns surrounding the global and domestic growth outlook following the rise in the spread of COVID-19. In the exchange rate market, the ringgit remains on a depreciating trend. As at end-August 2021, the ringgit has weakened 4.1 percent against the US dollar, in line with other regional currencies.

The government announced four stimulus packages this year amounting to about 15 percent of GDP, of which direct fiscal injection amounted to 2 percent of GDP. Partly reflecting the fiscal spending on the stimulus packages so far, the government revised its fiscal deficit target for 2021 from 6.0 percent of GDP to around 6.5 to 7.0 percent. The government is expected to announce its fiscal plan going forward when it presents its budget in Q4 2021.

Conditions in the labor market continue to remain soft. Although the unemployment rate has declined from its peak of 5.3 percent in May 2020, it remains elevated at 4.8 percent in June 2021. Preliminary findings from the World Bank COVID-19 household survey show that there was a churn in and out of employment, with 27 percent of working adults exiting and entering employment between March 2020 and April 2021. In addition, wage growth remains weak with private sector

wages declining by 2.2 percent on a quarterly basis.

The survey also found that two-thirds of Malaysian households drew from their savings and more than half received government assistance to cope with crisis-related shocks. Yet, a significant share of lower-income households still did not receive any assistance, potentially due to exclusion errors. In contrast, many higher-income households reported receiving some form of assistance. This suggests scope for improvements in targeting and delivery of assistance to better reach those most in need.

## Outlook

The economy is expected to grow at 3.3 percent in 2021. The latest projection is a downward revision by 1.2 percentage points since June 2021. The ongoing MCOs, increased precautionary behavior, and subdued labor market conditions are expected to weigh down further on private consumption and overall economic growth. This is especially so for services-related sectors, which have been heavily impacted by movement restrictions.

The external sector will continue to provide support to the economy, especially in

the exports of electric and electronic (E&E) goods and medical rubber gloves. Nevertheless, the momentum is expected to moderate given the resurgence of COVID-19 cases in advanced economies and in China. The number of Malaysians living below the national poverty line of US\$10/person/day (2011 PPP) is expected to decline gradually, and the poverty rate is expected to return to its pre-pandemic level by 2022. However, the pandemic has resulted in uneven employment and income shocks, particularly among low-skilled workers, informal workers, and those with lower income. The concern is that the recovery may also be uneven, with vulnerable population at risk of being affected disproportionately, posing a further threat to inequality.

The pace and trajectory of recovery going forward will depend on several factors namely, the pace of the national vaccination program and the effectiveness of pandemic containment measures. The positive progress of the vaccination program should alleviate the strain on healthcare system and would allow for the relaxation of containment measures. At the same time, it needs to be complemented with robust testing and tracing mechanisms to help minimize the risks of future resurgence.

**TABLE 2 Malaysia / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2018	2019	2020	2021 e	2022 f	2023 f
<b>Real GDP growth, at constant market prices</b>	4.7	3.9	-5.6	3.3	5.8	4.5
Private Consumption	8.0	7.6	-4.3	3.0	7.2	5.9
Government Consumption	3.1	1.8	4.1	2.9	2.4	0.9
Gross Fixed Capital Investment	1.4	-2.2	-14.5	2.5	4.6	2.9
Exports, Goods and Services	1.8	-1.8	-8.8	12.8	4.5	4.4
Imports, Goods and Services	1.5	-2.5	-8.4	13.4	4.8	4.2
<b>Real GDP growth, at constant factor prices</b>	4.9	4.0	-5.6	3.3	5.8	4.5
Agriculture	0.1	1.9	-2.2	4.1	2.8	2.7
Industry	3.3	2.1	-6.1	6.2	3.6	3.6
Services	6.7	5.6	-5.7	1.2	7.7	5.3
<b>Inflation (Consumer Price Index)</b>	0.9	0.5	-1.3	2.1	2.1	1.5
<b>Current Account Balance (% of GDP)</b>	2.3	3.1	4.1	3.2	2.3	2.2
<b>Net Foreign Direct Investment (% of GDP)</b>	2.3	2.5	1.2	1.8	2.1	2.3
<b>Fiscal Balance (% of GDP)</b>	-3.8	-3.4	-6.2	-6.4	-5.0	-4.3
<b>Debt (% of GDP)</b>	51.2	52.8	62.5	65.1	66.2	66.5
<b>Primary Balance (% of GDP)</b>	-1.7	-1.2	-3.8	-4.5	-3.3	-2.9
<b>International poverty rate (\$1.9 in 2011 PPP)<sup>a,b</sup></b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>Lower middle-income poverty rate (\$3.2 in 2011 PPP)<sup>a,b</sup></b>	0.1	0.1	0.1	0.1	0.1	0.1
<b>Upper middle-income poverty rate (\$5.5 in 2011 PPP)<sup>a,b</sup></b>	1.7	1.4	1.6	1.5	1.3	1.1
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	6.3	4.1	-2.8	6.6	5.2	4.3
<b>Energy related GHG emissions (% of total)</b>	59.6	60.7	60.4	61.7	63.1	64.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

(a) Calculations based on EAPPOV harmonization, using 2011-HIS and 2015-HIS. Actual data: 2015. Nowcast: 2016-2020. Forecast are from 2021 to 2023.

(b) Projection using annualized elasticity (2011-2015) with pass-through = 0.7 based on private consumption per capita in constant LCU.