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The Global Financial and Economic Crisis and the Malaysian Economy: Impact and Responses

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The Global Crisis - Malaysian Responses



- **The Government introduced 2 stimulus packages:**
 - ESP 1 - RM7 billion (US\$1.9 billion) or 1% of GDP in Nov 08
 - ESP 2 - RM60 billion (US\$16.2 billion) or 9% of GDP in Mar 09
- **Entire allocation of ESP 1's RM7 billion will be spent in 2009**
- **ESP 2 will only spend RM5 billion in 2009 and another RM5 billion in 2010**
- **The balance of the RM60 billion package will be in the form of guarantees, tax deductions and allocations to the National Sovereign Fund**
- **Further details can be obtained from the report**

Monetary policy responses

- **An expansionary monetary policy to support the fiscal stimulus**
- **Overnight Policy Rate (OPR) was lowered:**
 - Nov 08 by 25 basis points to 3.25%
 - January and February 2009 by 75 and 50 basis points respectively to the current level of 2.0%
- **Statutory Reserve Requirement (SRR) lowered by 50 basis points to 3.5% to reduce the cost of intermediation**

Additional Policy Measures to Support Economic Recovery & Enhance Competitiveness

1	Fund management, unit trust and stockbroking
	<ul style="list-style-type: none">• Ownership in the wholesale segment of the fund management industry was fully liberalised to allow 100.0% for qualified and leading fund management companies to establish operations in Malaysia• For the retail segment, the foreign shareholding limits for the unit trust management companies is raised to 70.0% from its current level of 49.0%• Foreign ownership of shareholding limits in existing stockbroking companies is increased to 70.0% from its current level of 49.0%
2	Attracting human capital
	<ul style="list-style-type: none">• BNM and SC will review all visa applications for the financial and capital market industries
3	Deregulation of FIC guidelines

Additional Policy Measures to Support Economic Recovery & Enhance Competitiveness

4	Removal of 25.0% Bumiputra public shareholding spread requirement for companies seeking listing
5	Liberalisation of 27 services sub-sectors
6	Removal of 30.0% Bumiputra participation quota
7	Institutional framework
	<ul style="list-style-type: none">• Establishment of the Economic Council which consists of 40 members from the business community and policy makers• Establishment of the Economic Advisory Council which consists of 9 members who will be responsible for sustaining long-run economic growth

Source: Ministry of Finance, Malaysia, 2009

Malaysia's Responses and Millennium Development Goals

- Government's policy responses can be identified with specific targets of MDGs. The Government is committed to achieving these targets - in line with the National Vision Policy
- Monetary and financial policies to help the business community. This indirectly cushioned fall in household income as well as business opportunities and contribute to the eighth MDG, i.e. developing a global partnership for development
- ESP 1 and 2 focuses on expanding domestic economy to compensate fall in workers' disposable income of workers due to retrenchments and economic slowdown.
- Measures relating to employment, welfare of people, education, and infrastructure development such as hospitals, roads and broadband facility are closely associated with the MDGs.

Implementation of Response Measures

- **Timeliness of implementation has always been the issue for stimulus measures**
 - without which the full impact of the stimulus packages would be felt much later than originally planned
- **A Project Management Unit was established within the MoF to expedite disbursement of funds**
- **A more transparent monitoring process was set up to expedite project implementation**
- **By 3 July 2009, the first stimulus package achieved the 76% of its targets, which is considerable, 8-months after measures were introduced. Recently, 97.3% of the package has been implemented.**
- **Refer to report and PMU website for details on the implementation progress and ESP2**

Sustaining Human Development

- **Rising budget allocation for human development programmes suggests that Government recognises the need to improve human development in the country and acknowledges existing problem areas**
- **Between 2006-2009, the allocated operating expenditure for the health, women, family and community development, and housing and local government ministries rose by an average 49.0% pa, while the actual expenditure for the period 2006-2008 rose by an average 41.0% pa**
- **Allocation for developmental expenditure for the three ministries involved over 2006-2008 grew by an average 247.0%, contributed mainly by the Ministry of Women, Family and Community Development. The actual expenditure for the period 2006-2008 increased by an average 140.0%**
- **The Government commitment towards human development and overcoming the negative impact of the global crisis on the population was seen in spending under both ESP1 and 2**

Sustaining Human Development

- Although amount allocated is considerably small in relation to total stimulus package, the aspect of human development cuts across all economic sectors.
 - Total allocation is larger but difficult to quantify because allocation to many ministries
- In recognition of the importance of human development, various measures were included
 - eg employment opportunities, educational development, promotion of healthcare and social benefits, improvement of housing requirements, and upgrading roads and the transport infrastructure
- Allocation in MOHR is focused to provide income to unemployed graduates through:
 - training and skills development programmes
 - minimising retrenchments through job placement programmes

Sustaining Human Development

- Number of retrenchments to June 2009 was reported to be 38,307. Measures implemented by MOHR provided 25,596 jobs for graduates and non-graduates
- During this crisis, the Ministry set up an operation rooms that monitors retrenchments through a tripartite approach involving the Ministry, employers and workers. Discussions were held with employers and workers on:
 - measures to avoid retrenchment,
 - steps taken to assist workers in getting rightful compensation and find alternative jobs
 - facilitate their training before placement in new jobs or
 - retraining in skills desired by employers.
- In addition, the Ministry established Committee and Technical Working Groups and implemented the Jobs Re-employment Programme and Train and Place Programme

Sustaining Human Development – Wage declines



- The impact of the steep downturn in economic activity cannot have been positive on incomes and the poverty level
- A-third of the various occupational groups suffered a decline in their mean monthly wages between 2007 and 2008, with senior officials and managers recording the highest decline
- Ironically, occupations related to the manufacturing sector, such as technicians and associated professionals, plant and machine-operators and assemblers, reported an increase in their mean monthly wage in 2008, despite a high retrenchment rate in this sector (Household Income Survey, 2008)
- The decline in monthly wages in the agricultural sector is not contributed by the global crisis but was due to weather conditions and price fluctuations of the commodities, palm oil in particular

Sustaining Human Development – Income Disparity

- While the income share at all levels of households showed a positive change for 2008, those in the top and middle-income brackets increased by 1.2% and 0.6% respectively, while those in the bottom 40.0% declined by 5.5%.
- The average annual growth of mean monthly gross household income for the population in the urban and rural areas was, nevertheless, positive and stronger for the rural areas. However poverty levels in the rural areas increased in 2008
- The average annual growth of household income for Bumiputras was strongest in 2008
- But in terms of the Gini Coefficient Index, the Bumiputra was most disadvantaged in 2008 compared with the Chinese and Indian
- The full impact of the crisis on income distribution will be seen in 2009.

Social Safety Nets(SSN) in ESP

- **Subsidies on basic food items**
- **Improvement of healthcare facilities in the rural areas of Sabah and Sarawak**
- **Financial assistance to and improvement of daycare centres, shelter homes and childcare centres**
- **Access to financial capital through government guarantee schemes e.g. the Working Capital Guarantee Scheme and Industry Restructuring Loan Guarantee Scheme.**
- **Malaysia lacks a nationwide social protection system**
 - Formal sector employees are covered by EPF and SOCSO
 - No programme for minimum income protection against adverse business cycles or other shocks to income. The non-existence of comprehensive SSNs for the formal and informal sector is a cause of concern - may exacerbate economic and social hardship during economic shocks.

Conclusions and Recommendations

- **Financial meltdown avoided but contraction in export demand has driven the economy into a recession**
- **Most macroeconomic fundamentals remain strong but recession has widened the gap between actual & GDP growth targeted for Vision 2020**
- **The Government's policy responses have stabilized the economic contraction**
- **The crisis reinforced the importance of integration with global economy**
 - Global economic and financial swings will continue to pose a challenge
 - Monitoring of strategic global developments that can affect Malaysia significantly is crucial
- **The current crisis highlighted urgency for Malaysia to restructure its economy to stimulate a shift towards a high income and value-added country.**

Maintain Strong fundamentals

- **AFC** - Banking sector had been strengthened through M&A and increased capitalisation
- **Global crisis** – Banking sector resilient because
 - Balance sheets of Malaysia's financial institutions one of the strongest; NPLs only accounted for 2.0% of overall loans and there was no serious issue of over-leverage.
- **Unlike the US, Malaysia was not experiencing a housing bubble prior to the global crisis**
- **Malaysia has a well diversified export base and b.o.p surpluses for most years after AFC. This was reflected in its foreign reserves which rose from US\$15.2bn in 97 to US\$96.1bn to-date**
- **On the regulatory front, BNM should continue to direct significant effort and resources to strengthen its surveillance capabilities to detect, monitor and deal pre-emptively with emerging risks and vulnerabilities in the global and regional financial system.**

Balance external and domestic sources of demand



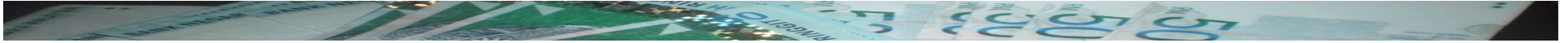
- **Private consumption was a highly resilient factor. Final consumption contracted by 0.2% in 1Q:09 and increased by 0.6% in 2Q:09.**
- **Room to grow consumption by tackling disparities in income. For eg, equalise compensation of foreign and domestic labour while increasing the incentives to shift towards capital-intensive activities to boost productivity.**
- **Domestic demand can be expanded by diversifying into the “extended domestic” economy, i.e. Asian markets**
- **Further diversification of export markets and increasing intra-ASEAN and intra-Asian trade can also widen the domestic demand base.**
- **The composition of trade from intermediate inputs for the production of goods for final demand in the traditional markets needs to be shifted towards meeting the increasing final demand within Asia.**

Financing for Economic Growth, Restructuring and Development

- **Malaysia's budget deficit at record highs of 4.8% of GDP in 2008 to 7.6% in 2009 but spending by most countries are also at historically high levels**
- **When recovery is imminent in 2010, the question of fiscal sustainability will be back on the table**
- **Now is not an opportune time to develop an exit strategy because recovery is still nascent. Nevertheless, there should be an exit strategy at some point in time.**
- **Prudent fiscal management should be done by trimming operational expenditure while development expenses should be maintained or even increased because of additional expenditure required to stimulate Malaysia's transition towards a high value-added and high income economy.**

Better targeted stimulus and development packages

- If stimulus packages are untargeted → there may be a tendency for households to save them. Taiwan and Singapore, undertook consumption voucher schemes. Targeted transfers can take the form of grants for first-time home buyers and trade-ins for automobile purchases.
- Tax breaks has a delayed impact & do not stimulate consumption as directly as income transfers but easier to administer.
- Government spending programmes are mainly for infrastructure and social programmes because these are large enough to have detectable effects.
- Special loans and loan guarantees to make access to credit easier and more affordable. Malaysia's stimulus packages has a high component of guarantees.
- Other smaller direct and indirect impact but significant measures can also be taken, for eg. incentives for SMEs to employ workers and reduction of road toll rates.



Thank You

