

# THE GLOBAL FINANCIAL CRISIS AND THE MALAYSIAN ECONOMY

Impact and Responses



**A Joint Report by ISIS Malaysia  
and University Malaya  
Commissioned by UNDP**

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# 1. Introduction

- The 2008-09 global financial crisis
- Transmission of the global financial crisis into the Malaysian economy
- How has the crisis affected Malaysia's Vision 2020 targets?
- Inherent problems unrelated to financial crisis
- Slow upgrading
- Impact on net FDI inflows
- Trend widening of per capita income gap with Singapore, Korea and Taiwan, and the narrowing of the gap between Malaysia, and China and Vietnam.
- Impact on human development
- Amount and target of rescue packages
- Recommendations

## 2. Analytical Framework

- **Rationale for departing from liberal prescriptions:**
  - Market failure arising from a lack of regulation caused the sub-prime mortgage crisis in the United States (Krugman, 2009).
  - Although financial risks will be high during times of crisis, rescue packages require expansionary policies to reverse the contraction in aggregate demand.
  - Market equilibriums are achieved in developing economies such as Malaysia well before full employment can be established.
- **Prime motivations for embracing Keynesian packages:**
  - Falling aggregate demand requires solutions that re-stimulates investment and income, which can only be done by lowering interest rates and expanding government expenditure.
  - A fall in interest rates will help raise investment and, with that, income. During moments of high risk, the lowering of interest rates should be undertaken alongside directives to banks to lower collateral requirements for investment and essential purposes and government-supported underwriting of such risks until the crisis is over.
  - Crises cause markets to panic and, unless the relevant government intervention is handled effectively, the accompanying contagion can cause depressions.
  - Market-oriented policies had already cooled GDP growth rates of Malaysia since 2000 such that it has generated a shortfall of 26.0% from the growth trajectory envisaged in vision 2020.

# 3. Transmission Mechanisms

- Collapse in exports
- Commodity prices have faced volatile swings but high net exports of oil and gas, palm oil, has helped Malaysia.
- Financial exposure has been minimal and hence NPLs have been low, and KLSE index and exchanges rates have not been hit adversely.
- Hence, GDP slowed down in 2008 and contracted into a recession in 2009 primarily because of a drastic fall in exports

**Table 1: Gross Exports, Imports and Trade Balance**

	2007				2008				2009	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
<i>Gross export (f.o.b.)</i>	1.0	1.3	0.9	7.6	9.9	20.8	16.8	-7.5	-20.0	-26.3
<i>Gross import (c.i.f.)</i>	5.5	1.7	2.0	10.9	6.8	9.9	10.1	-12.2	-28.9	-23.7
<i>Trade Balan</i>	<b>-18.3</b>	<b>-1.0</b>	<b>-3.8</b>	<b>-5.9</b>	<b>27.4</b>	<b>79.7</b>	<b>47.8</b>	<b>15.0</b>	<b>21.8</b>	<b>-34.8</b>

**Table 2: Exports Growth, Manufacturing Sector, 2007-2009 (%)**

	2007				2008				2009	
Major Sectors	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>
<i>E&amp;E</i>	-2.0	-6.7	-5.6	-2.1	-9.4	9.2	2.6	-17.2	<b>-19.0</b>	<b>-22.8</b>
<i>Transport equipment</i>	-32.6	-2.8	9.8	35.9	0.3	40.3	13.0	3.8	<b>22.2</b>	<b>-17.0</b>
<i>Food</i>	14.6	18.1	25.9	34.2	36.8	55.4	57.2	22.0	<b>0.5</b>	<b>-20.7</b>
<i>Beverages &amp; tobacco</i>	18.0	7.8	13.4	17.4	12.5	6.6	23.3	-2.5	<b>-5.5</b>	<b>18.2</b>
<i>Apparel</i>	-9.2	-16.6	5.9	-0.4	3.3	5.7	3.1	-1.5	<b>-6.2</b>	<b>-15.3</b>
<i>Wood products</i>	15.3	8.2	-17.4	-23.7	-9.5	-4.3	14.6	3.7	<b>-24.9</b>	<b>-22.8</b>
<i>Rubber products</i>	31.0	6.0	1.3	20.6	23.3	26.4	32.4	1.5	<b>-8.3</b>	<b>-4.7</b>
<i>Paper &amp; pulp</i>	-1.2	34.0	16.3	22.0	16.2	17.2	19.5	-0.9	<b>-10.9</b>	<b>-0.5</b>
<i>Petroleum products</i>	-24.5	5.8	-5.7	43.7	96.7	56.3	67.8	-24.7	<b>-40.8</b>	<b>-49.5</b>
<i>Chemicals</i>	33.8	13.5	3.2	9.1	6.8	27.3	23.0	-17.0	<b>-29.8</b>	<b>-25.2</b>
<i>NMM</i>	23.1	7.4	8.5	12.7	14.2	42.0	55.1	28.8	<b>14.3</b>	<b>6.1</b>
<i>Manufacture of metal</i>	20.1	9.5	17.6	16.8	26.9	8.4	18.5	-8.3	<b>-30.2</b>	<b>-21.8</b>
<i>Optical &amp; scien equip</i>	-7.8	13.3	-2.9	-0.0	7.2	22.1	-0.4	10.8	<b>-13.0</b>	<b>-31.4</b>
<i>Toys &amp; sporting goods</i>	1.0	10.3	5.9	7.4	7.2	14.3	19.4	-2.0	<b>-20.3</b>	<b>-17.9</b>
<i>Furniture &amp; parts</i>	7.9	14.3	1.0	1.5	0.6	-4.1	8.1	4.5	<b>-13.5</b>	<b>-14.4</b>
<i>Other manufactures</i>	31.9	17.8	9.9	-10.4	-15.3	-11.2	10.8	23.5	<b>8.9</b>	<b>38.5</b>
<i>Total</i>	1.4	-1.1	-2.0	3.0	1.0	14.4	11.4	-11.7	<b>-19.0</b>	<b>-22.3</b>

**Table 3: Unit Export Prices, Malaysia, 2007-2009 (RM/ton)**

	2007				2008				2009	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Rubr	6.6	7.4	7.3	7.5	8.3	8.7	10.1	8.3	5.0	5.7
<b>CPO</b>	<b>1940</b>	<b>2451</b>	<b>2596</b>	<b>2902</b>	<b>3592</b>	<b>3524</b>	<b>2780</b>	<b>1601</b>	<b>1927</b>	<b>2548</b>
<b>PPO</b>	<b>1903</b>	<b>2183</b>	<b>2597</b>	<b>2630</b>	<b>3158</b>	<b>3126</b>	<b>3224</b>	<b>2245</b>	<b>2164</b>	<b>2372</b>
ST	1371	1335	1430	1349	1247	1154	1196	1247	1642	1613
Tin	39578	46032	49579	54,301	56495	68199	69358	49032	38811	42281
<b>Crude oil</b>	<b>1637</b>	<b>1912</b>	<b>1986</b>	<b>2,227</b>	<b>2,333</b>	<b>2836</b>	<b>2959</b>	<b>2058</b>	<b>1290</b>	<b>1321</b>
<b>LNG</b>	<b>1039</b>	<b>1099</b>	<b>1226</b>	<b>1277</b>	<b>1277</b>	<b>1546</b>	<b>1873</b>	<b>2463</b>	<b>1867</b>	<b>1110</b>

**Table 4: Non-Performing Loans, Malaysian Banks, 2007-2009 (RM Billion)**

	<b>2007</b>				<b>2008</b>				<b>2009</b>	
Month	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun
NPLs	49.6	46.6	44.1	41.8	40.4	37.0	36.1	35.0	33.6	33.2
<b>NPLs/ Total loan (%)</b>	<b>4.4</b>	<b>4.1</b>	<b>3.5</b>	<b>3.2</b>	<b>3.0</b>	<b>2.6</b>	<b>2.4</b>	<b>2.2</b>	<b>2.2</b>	<b>2.2</b>

**Table 5: KLSE Composite Index, 2007-2009**

2007			2008			2009		
Period	Comp Index	% Chan	Period	Comp Index	% Change	Period	Comp Index	% Change
Jan	1,189.35	-	Jan	1,393.25	-3.58	Jan	884.45	0.88
Feb.	1,196.45	0.60	Feb.	1,357.40	-2.57	Feb.	890.67	0.70
Mar.	1,246.87	4.21	Mar.	1,247.52	-8.09	Mar.	872.55	-2.03
Apr.	1,322.25	6.05	Apr.	1,279.86	2.59	Apr.	990.74	13.55
May	1,346.89	1.86	May	1,276.10	-0.29	May	1,044.11	5.39
Jun.	1,354.38	0.56	Jun.	1,186.57	-7.02	Jun.	1,075.24	2.98
Jul.	1,373.71	1.43	Jul.	1,163.09	-1.98	Jul.	1,174.90	9.27
Aug.	1,273.93	-7.26	Aug.	1,100.50	-5.38			
Sep.	1,336.30	4.90	Sep.	1,018.68	-7.43			
Oct.	1,413.65	5.79	Oct.	863.61	-15.22			
Nov.	1,396.98	-1.18	Nov.	866.14	0.29			
Dec.	1,445.03	3.44	Dec.	876.75	1.22			

**Table 6: Exchange Rates, Quarterly Average (RM)**

		<i>RM per unit of</i>					<i>RM per 100 units of</i>		
		USD	EUR	STG	SDR	S\$	SF	Yen	HK\$
<b>2007</b>	<b>Q1</b>	<b>3.5</b>	<b>4.6</b>	<b>6.8</b>	<b>5.2</b>	<b>2.3</b>	<b>284</b>	<b>2.9</b>	<b>45</b>
	<b>Q2</b>	<b>3.4</b>	<b>4.6</b>	<b>6.8</b>	<b>5.2</b>	<b>2.2</b>	<b>280</b>	<b>2.8</b>	<b>44</b>
	<b>Q3</b>	<b>3.5</b>	<b>4.8</b>	<b>7</b>	<b>5.3</b>	<b>2.3</b>	<b>289</b>	<b>2.9</b>	<b>44</b>
	<b>Q4</b>	<b>3.4</b>	<b>4.9</b>	<b>6.9</b>	<b>5.3</b>	<b>2.3</b>	<b>293</b>	<b>3</b>	<b>43</b>
<b>2008</b>	<b>Q1</b>	<b>3.2</b>	<b>4.8</b>	<b>6.4</b>	<b>5.2</b>	<b>2.3</b>	<b>302</b>	<b>3.1</b>	<b>41</b>
	<b>Q2</b>	<b>3.2</b>	<b>5</b>	<b>6.3</b>	<b>5.2</b>	<b>2.4</b>	<b>312</b>	<b>3.1</b>	<b>41</b>
	<b>Q3</b>	<b>3.3</b>	<b>5</b>	<b>6.3</b>	<b>5.3</b>	<b>2.4</b>	<b>312</b>	<b>3.1</b>	<b>43</b>
	<b>Q4</b>	<b>3.6</b>	<b>4.7</b>	<b>5.6</b>	<b>5.4</b>	<b>2.4</b>	<b>307</b>	<b>3.7</b>	<b>46</b>
<b>2009</b>	<b>Q1</b>	<b>3.6</b>	<b>4.7</b>	<b>5.2</b>	<b>5.4</b>	<b>2.4</b>	<b>316</b>	<b>3.9</b>	<b>47</b>
	<b>Q2</b>	<b>3.5</b>	<b>5</b>	<b>5.9</b>	<b>5.4</b>	<b>2.4</b>	<b>319</b>	<b>3.7</b>	<b>46</b>

**Table 7: GDP, Selected Economies, 2007-2009 (% Annual Change)**

Country	2007				2008				2009	
	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4</i>	<i>Q1</i>	<i>Q2</i>
United States	1.2	3.2	3.6	2.1	-0.7	1.5	-2.7	-5.4	-6.4	-1.0
United Kingdom	2.4	2.6	2.7	2.4	2.5	1.8	0.5	-1.8	-4.9	-5.6
Germany	3.7	2.5	2.5	1.6	2.9	2.0	0.8	-1.8	-6.7	-5.9
Japan	3.4	2.2	1.9	1.9	1.3	0.6	-0.3	-4.3	-8.7	-6.4
Hong Kong	5.6	6.1	6.8	6.9	7.3	4.1	1.5	-2.6	-7.8	-3.8
<b>Malaysia</b>	<b>5.4</b>	<b>5.6</b>	<b>6.5</b>	<b>7.2</b>	<b>7.4</b>	<b>6.6</b>	<b>4.8</b>	<b>0.1</b>	<b>-6.2</b>	<b>-3.9</b>
Singapore	7.6	8.6	9.5	5.5	6.7	2.5	n.a.	-4.2	-9.5	-3.5
Republic of Korea	4.5	5.3	4.9	5.7	5.5	4.3	3.1	-3.4	-4.2	-2.5
Taiwan, ROC	3.8	5.5	7.0	6.4	6.3	4.6	-1.1	-8.6	-10.1	-7.5
Indonesia	6.0	6.6	6.6	5.9	6.3	6.4	6.4	5.2	4.4	4.0
Thailand	4.4	4.4	5.1	5.7	6.0	5.3	3.9	-4.2	-7.1	-4.9
Philippines	7.0	8.3	6.8	6.3	3.9	4.2	4.6	2.9	0.4	1.5

Source: Bank Negara Malaysia, Monthly Statistical Bulletin, July 2009.

## 4. Human Development

- Immediate impact on retrenchments, unemployment and other welfare pillars.
- Inherent problems restricting human development deepening, which has serious implications for long term economic growth
- While manufacturing has been cooling, net FDI inflows have become negative since 2006.

**Table 8: Retrenchments, Malaysia, 2007-2009**

	2008					2009	
	Q1	Q2	Q3	Q4	Total	Q1	Q2
<b><i>No. of workers</i></b>	<b>2,397</b>	<b>2,821</b>	<b>1,379</b>	<b>7,254</b>	<b>13,851</b>	<b>12,590</b>	<b>7,470</b>
<i>Agri, for &amp; fishing</i>	-	2	84	312	<b>398</b>	20	208
<i>Mining</i>	8	18	28	35	<b>89</b>	28	45
<b><i>Manufacturing</i></b>	<b>1,415</b>	<b>2,080</b>	<b>2,618</b>	<b>4,901</b>	<b>8,396</b>	<b>9,778</b>	<b>5307</b>
<i>Construction</i>	42	44	32	81	<b>199</b>	100	336
<i>Services of which:</i>	932	677	1,235	1,925	<b>4,769</b>	2,664	1574
<i>Utilities</i>	74	3	-	-	<b>77</b>	5	38
<i>Whole, retail trade, hotels &amp; restaurants</i>	339	405	176	1,132	<b>2,052</b>	483	318
<i>Transport, storage &amp; communications</i>	347	68	254	104	<b>773</b>	210	235
<i>Finance, insurance, real estate</i>	138	87	192	591	<b>1,008</b>	620	388
<i>Other services</i>	34	114	613	98	<b>859</b>	1,346	595

**Table 9: Labour Force and Employment Indicators, Malaysia, 2003-2009**

	2003	2004	2005	2006	2007	2008	2009 <sup>e</sup>
Labour Force ('000)	10,426	10,846	11,291	11,545	11,775	<b>11,968</b>	<b>12,142</b>
LPRs Rates (%)							
Total	65.6	66.1	66.7	66.9	67	<b>67</b>	<b>66.9</b>
Male	85.4	86.2	86.6	86.7	87	<b>87</b>	<b>86.9</b>
Female	47.7	47.3	45.9	45.8	46.4	<b>46.1</b>	<b>46</b>
<b>Unemployment(%)</b>	<b>3.6</b>	<b>3.5</b>	<b>3.6</b>	<b>3.3</b>	<b>3.2</b>	<b>3.7</b>	<b>4.5</b>

**Table 10: Researchers and Engineers per Million Population, 1996-2006**

Country	1996	1998	2000	2002	2004	2006
Japan	4907	5162	5098	5072	5299	5148
Korea	2190	2005	2317	3002	3276	4162
Singapore	2538	2986	4140	4352	4997	5713
Taiwan	3326	3794	3922	3103	3579	4159
<b>Malaysia</b>	<b>90</b>	<b>154</b>	<b>276</b>	<b>295</b>	<b>503</b>	<b>367</b>

**Table 11: Gross R&D Expenditure in GDP, 1990-2006 (%)**

Country	1990	1992	1994	1996	1998	2000	2002	2004	2006
Japan	3.1	2.8	2.8	2.8	2.8	2.9	3.17	3.17	3.40
Korea	1.9	2.03	2.44	2.6	2.55	2.69	2.53	2.85	3.23
Singapore	0.9	0.97	1.13	1.45	1.76	1.92	2.16	2.24	2.39
Taiwan	1.7	1.75	1.82	1.88	1.98	1.96	2.2	2.44	2.58
<b>Malaysia</b>	<b>0.37</b>	<b>0.37</b>	<b>0.34</b>	<b>0.22</b>	<b>0.39</b>	<b>0.49</b>	<b>0.69</b>	<b>0.63</b>	<b>0.64</b>

## 6. Conclusions and Recommendations

- Export collapse prime source of recession
- Good management of currency and capital markets prevented exposure to financial volatility
- However, real economy has cooled because of slow technical progress
- Maintain Strong Macroeconomic Fundamentals
- Balance external and domestic sources of demand
- Better targeted stimulus and development packages
- Central focus on human resource policies
- Financing for growth, structural change and development
- High value added economic and knowledge activities
- Re-orientate FDI policy to stimulate technological upgrading