MALAYSIA

Table 1	2019
Population, million	32.5
GDP, current US$ billion	364.2
GDP per capita, current US$	11221.9
International poverty rate ($1.9)[a]	0.0
Lower middle-income poverty rate ($3.2)[a]	0.2
Upper middle-income poverty rate ($5.5)[a]	2.7
Gini index[a]	41.0
School enrollment, primary (% gross)[b]	105.3
Life expectancy at birth, years[b]	76.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2018).

The economy contracted in the first half of 2020 by 8.2 percent. The implementation of movement restrictions led to the contraction in output. The 2020 growth projection is revised further down to a contraction of 4.9 percent (from 3.1 percent in the previous forecast). This reflects the severity of the output decline in Q2 2020 and the slow pace in global economic recovery. Informal workers and the self-employed appear to have been hit hardest by reduced employment and incomes.

Key conditions and challenges

The Malaysian economy is expected to contract in 2020, with risks to the outlook firmly tilted to the downside. The possibility of a more protracted than expected global recovery could continue to hamper investment decisions and further suppress external demand. There is a risk of stricter containment measures nationwide, as illustrated by recent resumption of movement control order (MCO) in some states.

Prolonged restrictions on international travel would weigh on the tourism sector. Lingering political uncertainty, including the possibility of a near term general election, will continue to weigh on private investment sentiment and could stall the progress of the recovery effort.

Malaysia entered the outbreak with limited fiscal space due to a persistent decline in government revenue since 2012 and increased expenditure rigidity. This constrained the magnitude and quality of the fiscal response to the outbreak. Instead, the Government relied more on monetary and financial sector forbearance.

The number of vulnerable households is likely to increase owing to higher unemployment and uncertainty over the outcome of the pandemic. These households will require continued financial support during the recovery. An enhanced social protection system is needed to provide more robust and sustainable protection beyond one-off crisis relief measures. Reliance on deferment or early withdrawal of retirement savings is especially limited given most vulnerable Malaysians' underfunding of retirement.

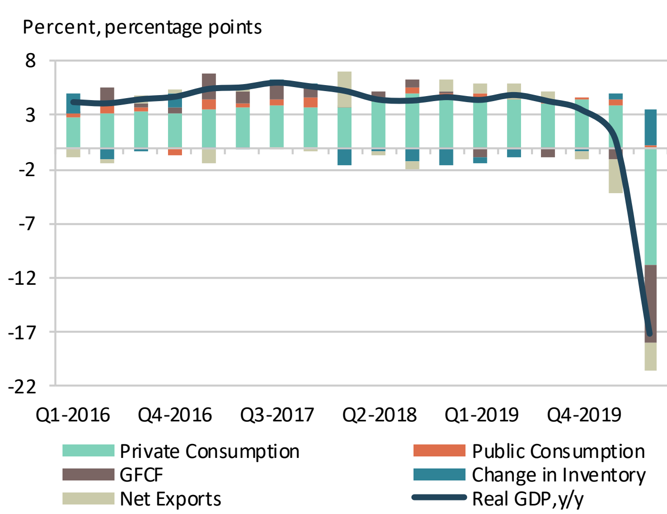
Recent developments

The economy is severely affected by the pandemic, leading to a double-digit contraction (17.1 percent) in the second quarter of 2020. The contraction was driven primarily by a decline in domestic demand due to the imposition of the MCO to stem the spread of COVID-19, as well as weak external conditions. Private consumption declined sharply due to lower household income, movement restrictions and subdued consumer and business sentiment. Heightened uncertainty affected business sentiment and resulted in a large decline in private investment.

Following the economy-wide temporary closures and reduced business operations, the labor market was also significantly impacted, with unemployment rising to 5.1 percent in the second quarter of 2020, its highest rate in thirty years. Labor force participation declined from 68.8 percent in Q1 to 68.1 percent in Q2 and many workers faced reduced hours and pay. Unofficial government statistics indicate that nearly half of the self-employed were put out of work. Inflation has been negative since March, consistent with the contraction in output.

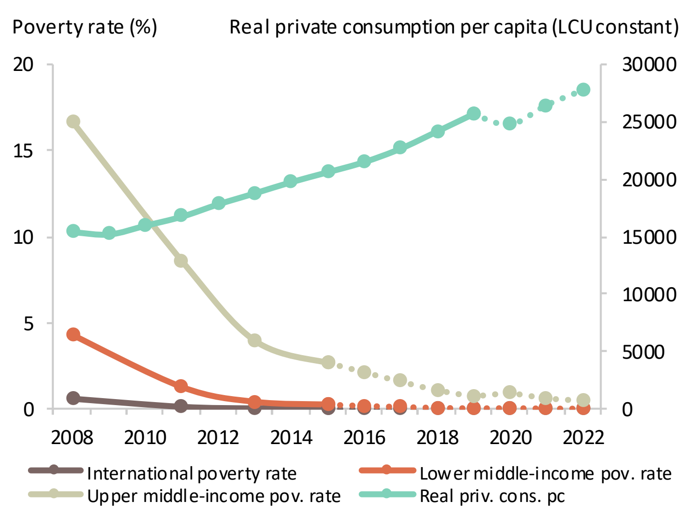
The current account surplus narrowed, compared to a year ago, from 3.9 in Q2 2019 to 2.5 percent of GDP in Q2 2020.

FIGURE 1 Malaysia / Real GDP growth and contributions to real 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



Sources: World Bank. Notes: see Table 2.

This was due to a smaller goods balance and a larger services deficit following the disruption in international travel activities. Gross exports declined, weighed by declines in manufacturing and commodity exports while imports contracted due to lower intermediate and consumption imports. At the onset of the pandemic, the rise in investors' demand for safe assets led to portfolio outflows, causing the ringgit to depreciate against the US dollar.

To limit the economic impact of the MCO and to support the recovery process, the government rolled out the Prihatin package and the Penjana economic recovery plan. These include disbursements of cash transfers, a wage subsidy program and the reduction of the workers' minimum contribution to the Employees Provident Fund. To also support economic activity, Bank Negara lowered the OPR by 125 basis point in total since January and reduced the Statutory Reserve Requirement from 3 to 2 percent. The response has also included significant regulatory forbearance as well as a large-scale loan repayment moratorium.

The government has revised its 2020 fiscal deficit projection from 3.5 percent of GDP to 5.8-6.0 percent. This will likely push public debt over the statutory limit of 55 percent of GDP. Parliament recently approved an emergency COVID-19 bill to address the economic impact of the pandemic, which will allow for the temporary suspension of several statutory limits on debt and spending until 2023. This would allow the government to temporarily raise the limit on federal government debt.

In July, the real value of the national poverty line was increased for the first time in more than 40 years. At the new line, poverty declined from 7.6 percent in 2016 to 5.6 percent in 2019, based on a 2019 national survey. The survey reported an increase in income inequality since 2016, with the Gini index increasing from 39.9 to 40.7 and the income share of the bottom 40 percent declining from 16.4 percent to 16.0 percent. Most households have extremely low financial reserves to buffer the shock. A majority of households only have enough savings to live on for 1–2 months according to a special COVID-19 impact survey conducted in March 2020, with the self-employed being most vulnerable.

Outlook

Following a sharper than expected contraction in Q2 2020, the 2020 growth forecast has been lowered to a real GDP contraction of 4.9 percent (down from -3.1 percent). This change in the forecast reflects the heightened uncertainty surrounding the start and speed of the global recovery, which would weigh on investment decisions and external demand. In addition, the elevated unemployment rate and other weaknesses in the labor market would continue to weigh on private consumption. Reflecting these developments, most demand components (net exports, private consumption and private investment) are expected to contract in 2020. Government expenditure is expected to increase mainly due to stimulus spending.

Poverty at the USD 5.50/day (2011 PPP) upper middle income poverty line is projected to increase slightly from 0.8 percent to 0.9 percent in 2020 because of higher unemployment, reduced work hours and slower business for SMEs, although these contractionary effects are offset to some degree by government relief and recovery measures that cushion the impacts on private consumption. The USD 5.50/day 2011 PPP poverty rate is projected to decline to 0.6 percent in 2021 and 0.5 percent in 2022.

TABLE 2 Malaysia / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	5.7	4.7	4.3	-4.9	6.3	4.4
Private Consumption	6.9	8.0	7.6	-2.3	8.0	6.1
Government Consumption	5.5	3.3	2.0	1.7	-2.8	-0.5
Gross Fixed Capital Investment	6.1	1.4	-2.1	-5.3	-1.4	6.1
Exports, Goods and Services	8.7	2.2	-1.1	-12.1	6.1	2.6
Imports, Goods and Services	10.2	1.3	-2.3	-9.2	4.6	3.0
Real GDP growth, at constant factor prices	5.6	5.0	4.4	-4.9	6.4	4.0
Agriculture	5.8	0.1	1.8	1.5	2.5	2.7
Industry	4.7	3.2	2.4	-5.0	5.0	3.6
Services	6.4	6.9	6.1	-5.6	7.9	4.4
Inflation (Consumer Price Index)	3.8	1.0	0.7	-1.2	0.7	1.0
Current Account Balance (% of GDP)	2.8	2.1	3.3	2.6	3.2	3.3
Net Foreign Direct Investment (% of GDP)	1.2	0.8	0.6	0.2	0.6	0.7
Fiscal Balance (% of GDP)	-2.9	-3.7	-3.4	-5.9	-4.4	-3.8
Debt (% of GDP)	50.1	51.1	52.4	58.2	59.7	61.1
Primary Balance (% of GDP)	-0.9	-1.6	-1.3	-3.8	-2.5	-1.9
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.0	0.0	0.0	0.0	0.0	0.0
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.1	0.1	0.0	0.0	0.0	0.0
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	1.6	1.1	0.8	0.9	0.6	0.5

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on EAPPOV harmonization, using 2011-HIS and 2015-HIS.Actual data: 2015. Nowcast: 2016-2019. Forecast are from 2020 to 2022.

(b) Projection using annualized elasticity (2011-2015) with pass-through = 1 based on private consumption per capita in constant LCU.