

# Malaysia Economic Monitor Inclusive Growth

November 2010

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# How is the economy performing post-recovery?

- In spite of a spectacular year-on-year recovery, the pace of growth started to slow early 2010
- The rebound transitioned into more normal patterns of growth, with private domestic demand playing again a greater role
- The return of external weakness is now interrupting this process, eroding underlying momentum once again

# What is the outlook for growth?

Near-term growth is expected to soften further, with the global economy as a key source of uncertainty

Malaysia's high-income economy ambition will require a significant rise in average growth over the medium term

- The Economic Transformation Programme's dual focus on policies and projects provides an excellent platform
- Progress on cross-cutting bottlenecks will be essential to sustain growth beyond a temporary acceleration
- Conditional upon the multi-year commitment to consistent implementation, Vision 2020 should be within reach

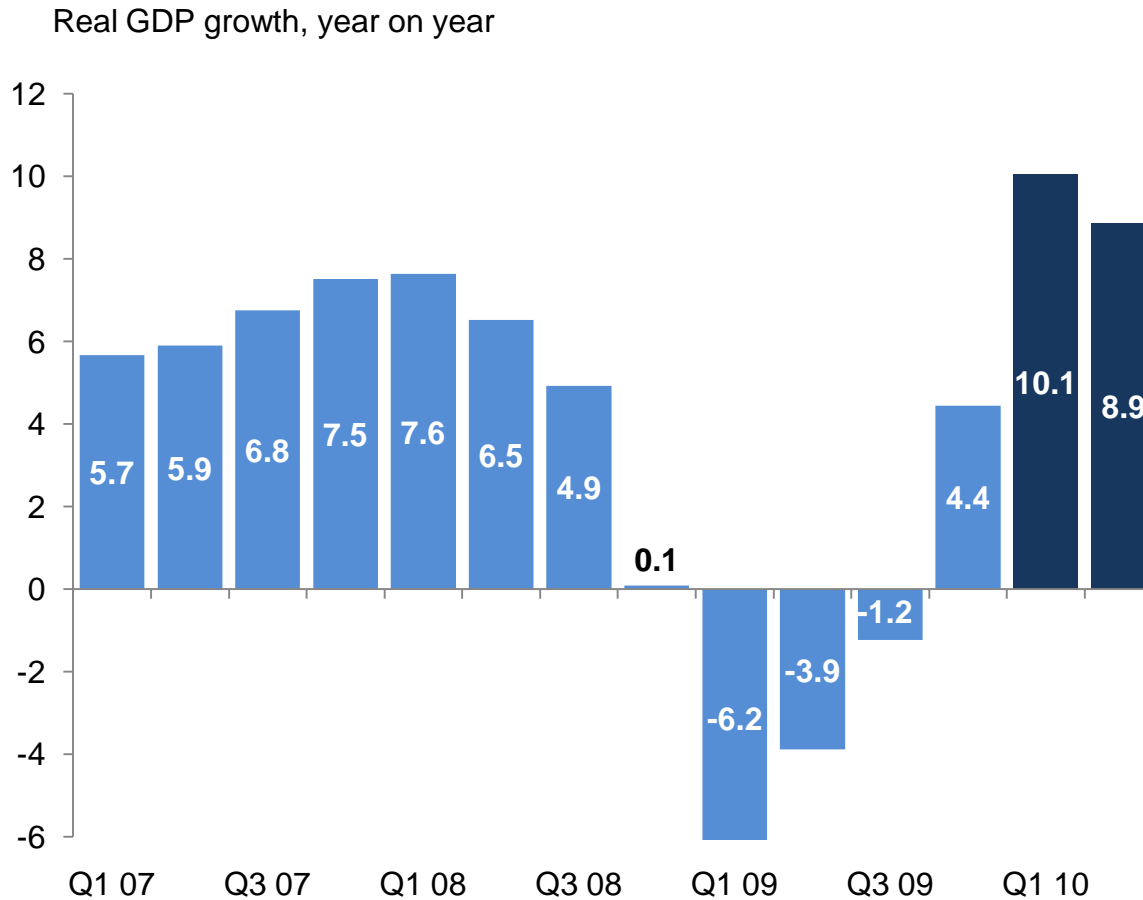
# How can Malaysia meet its aspiration of inclusive growth?

- Malaysia has made great strides in reducing poverty and inequality
- But significant challenges remain
  - Deep pockets of poverty persist
  - Inequality has leveled out at high levels
- Fully meeting the aspiration of inclusive growth will require:
  - Expand access to income-earning opportunities
  - Improve human capital to take advantage of these opportunities
  - Enhance social protection mechanisms



How is the economy performing post-recovery?

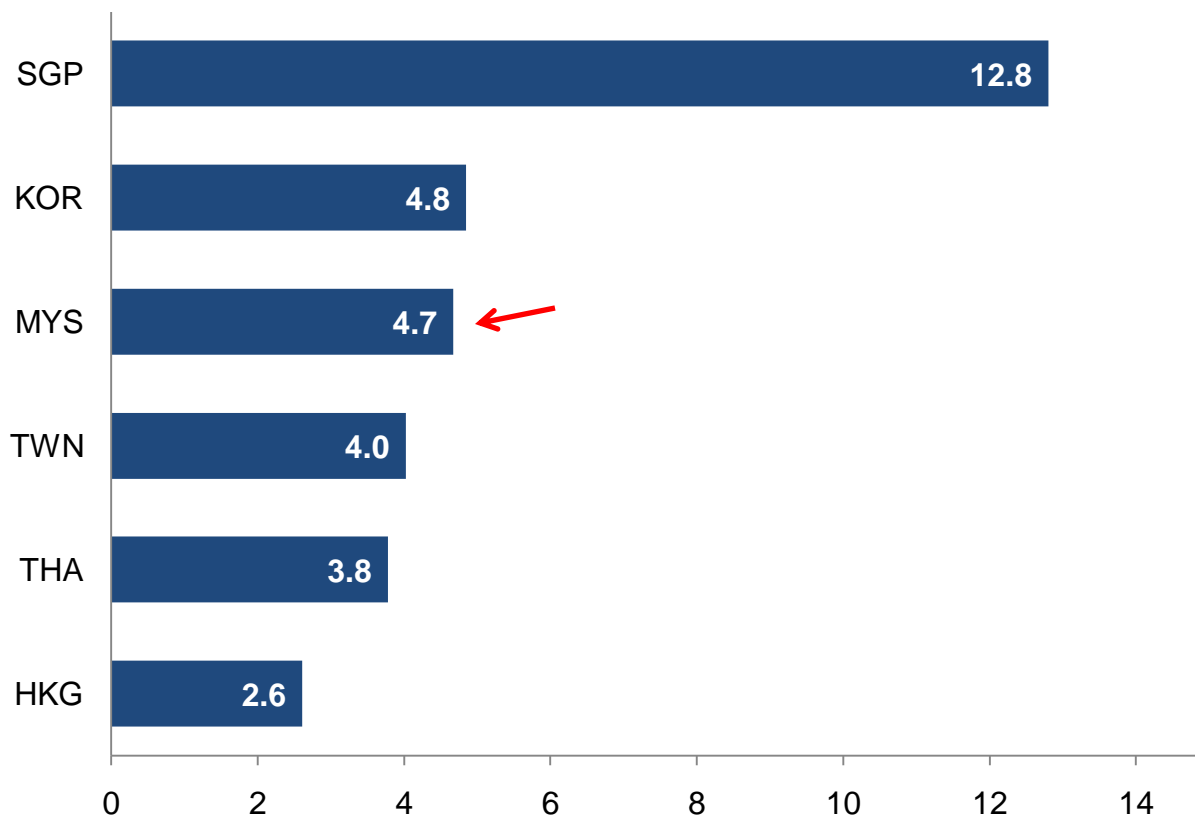
# The Malaysian economy saw a spectacular year-on-year recovery



Source: CEIC and World Bank staff calculations, as in all other charts except when mentioned

# Output levels are now well above pre-crisis peaks ...

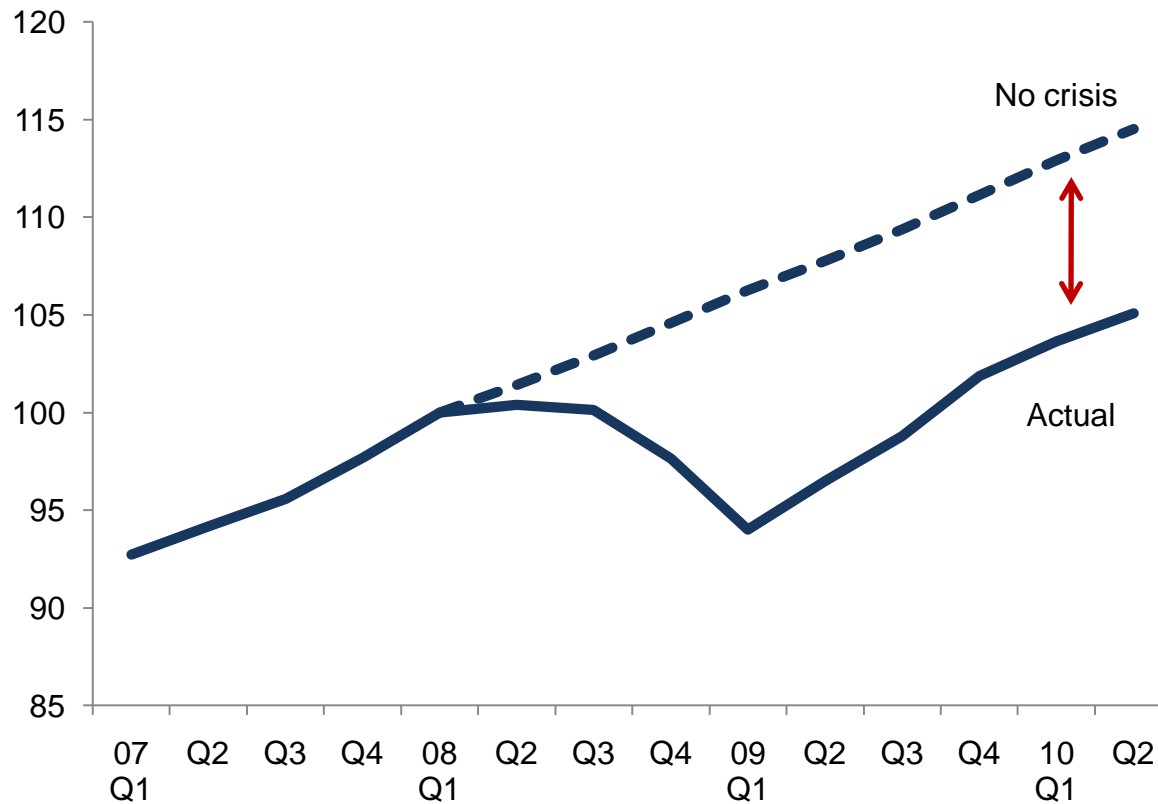
Current output level compared to pre-crisis peak (seasonally adjusted)



Source: Haver and World Bank staff calculations

# ... but the impact of the crisis remains

Actual and simulated GDP levels (seasonally adjusted), Q1 2008=100

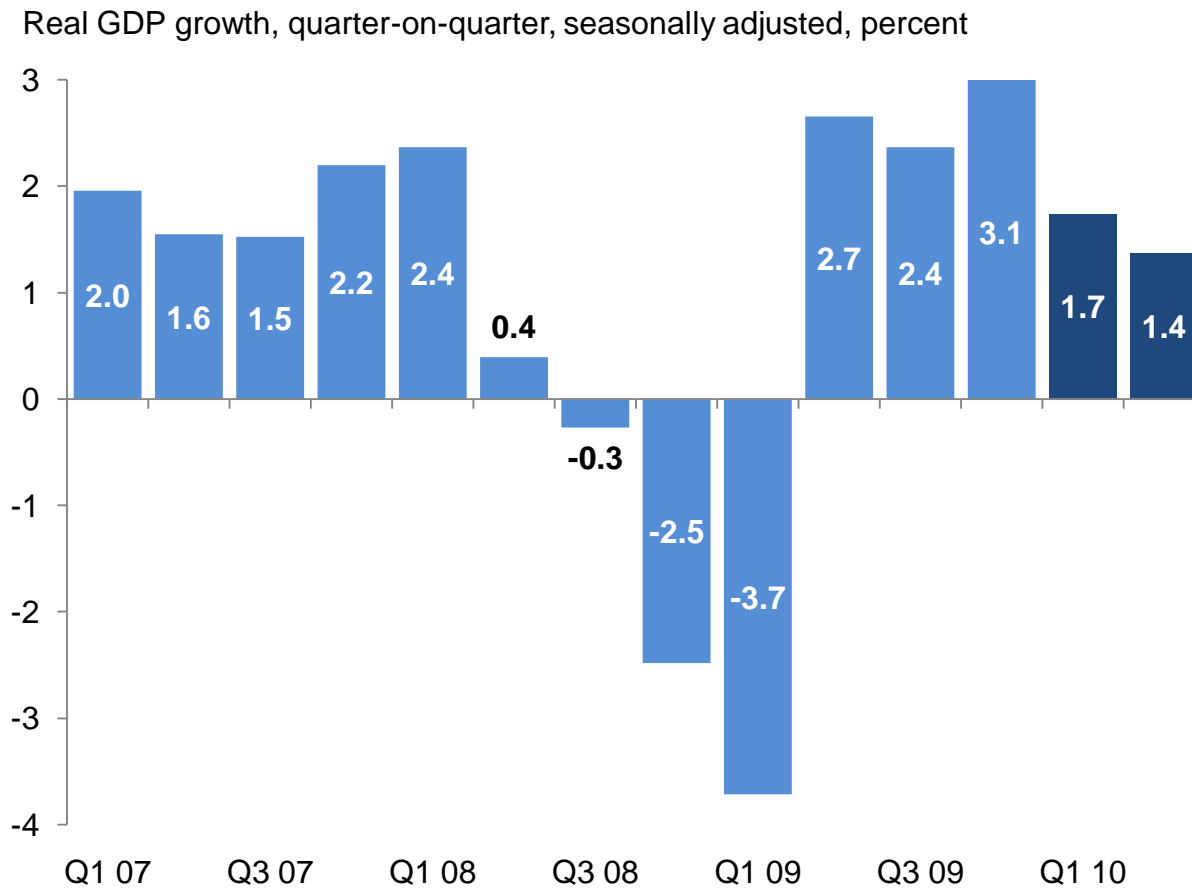


Note: No-crisis scenario assumes quarterly growth at averages of 2002-07.

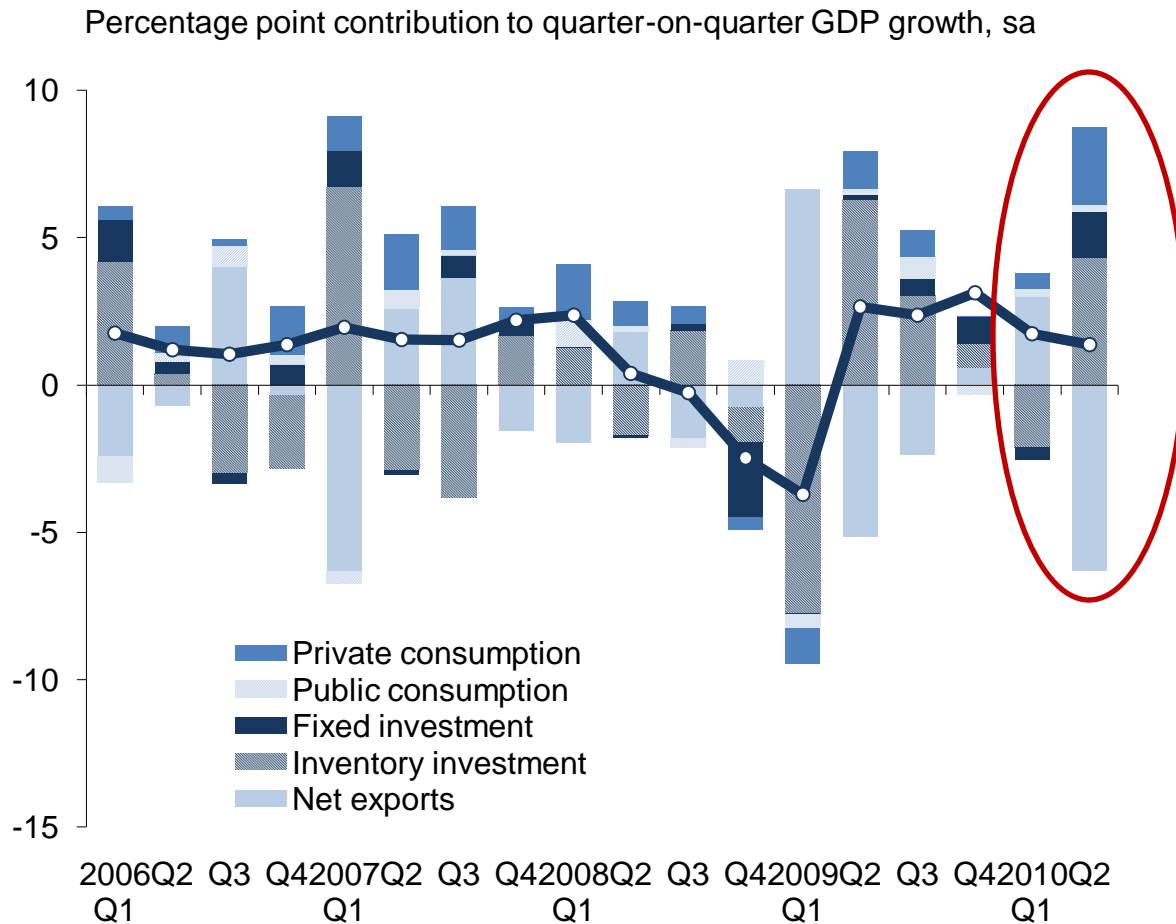
Source: Haver and World Bank staff calculations



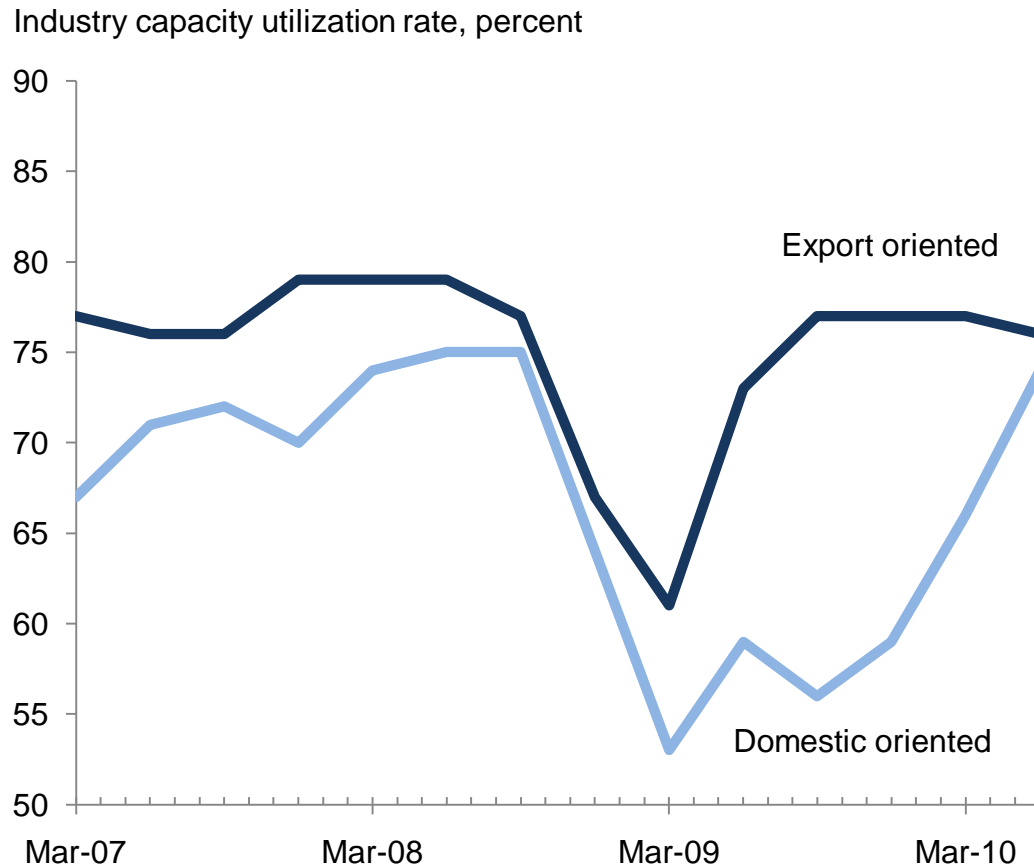
# ... and the pace of quarterly growth is slowing



# Just as growth patterns were getting back to normal, external conditions weakened again

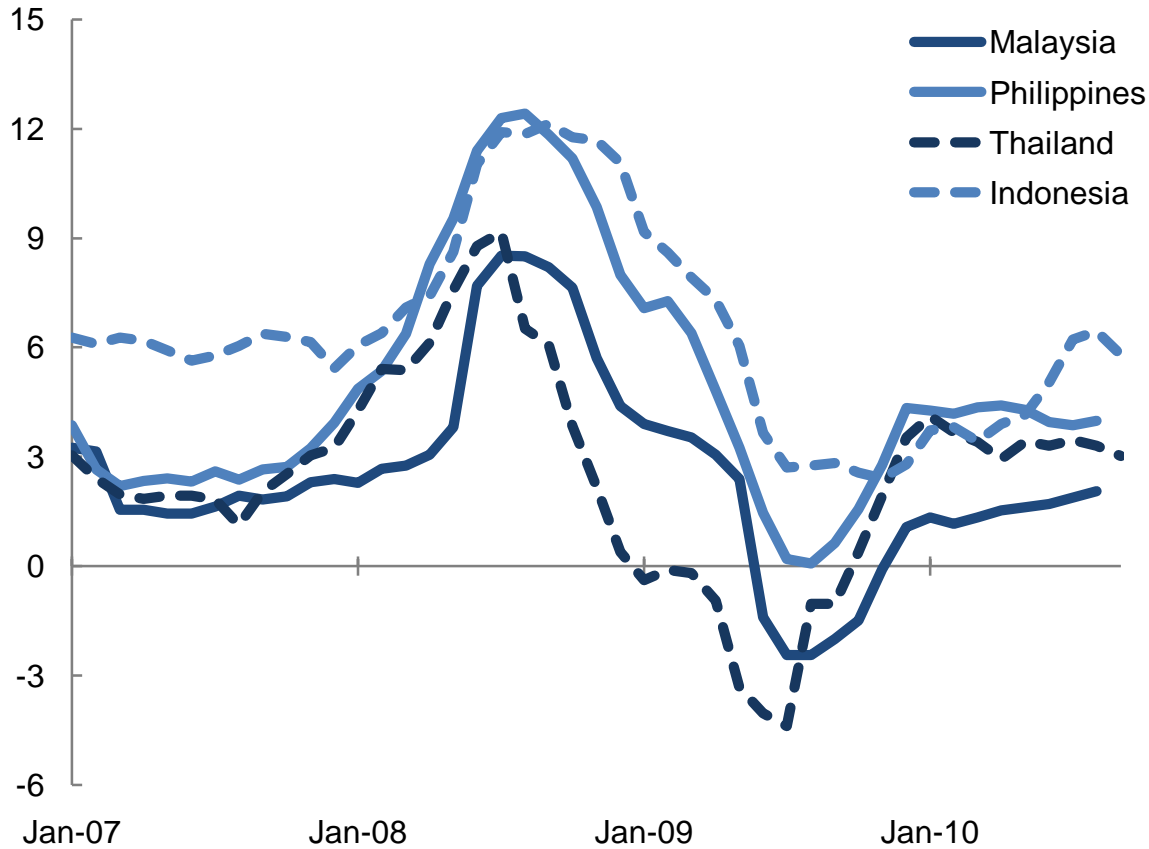


# Normalization was evident in capacity utilization returning to typical levels ...

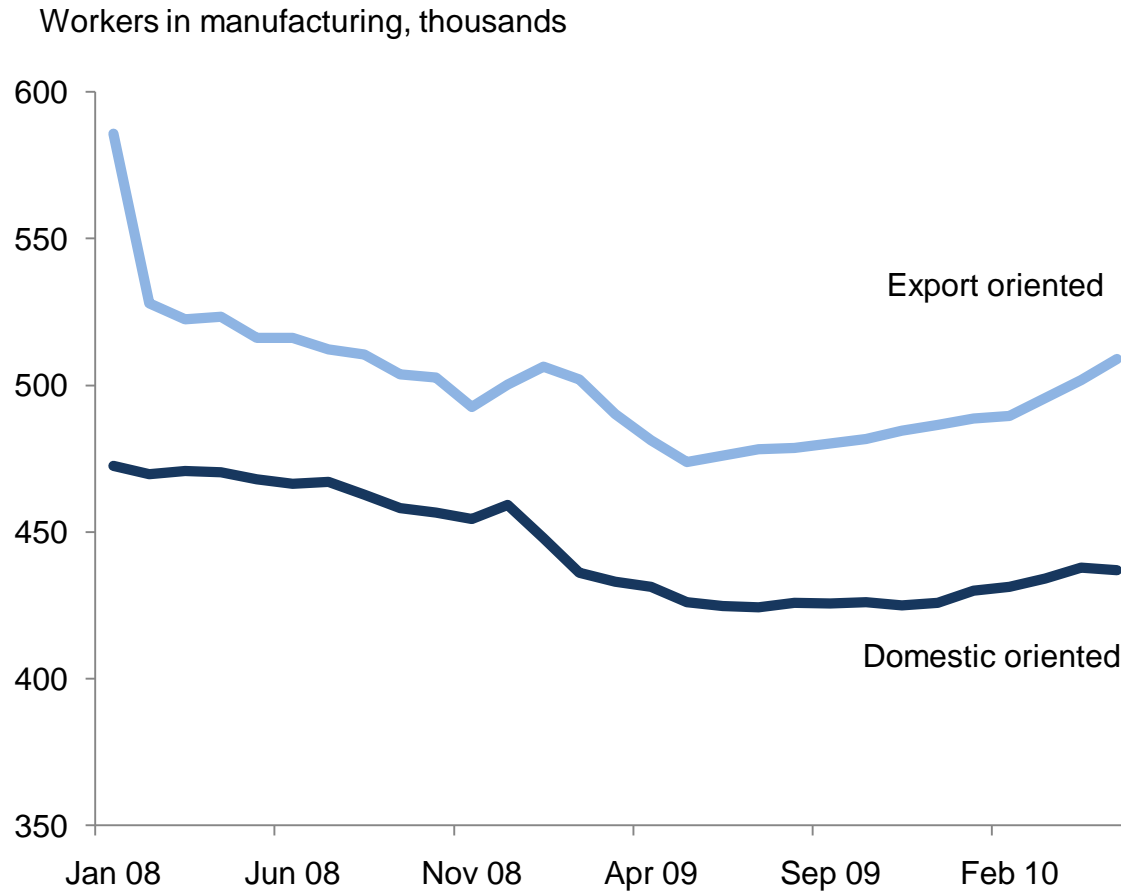


# ... inflation edging up, though less than in other countries

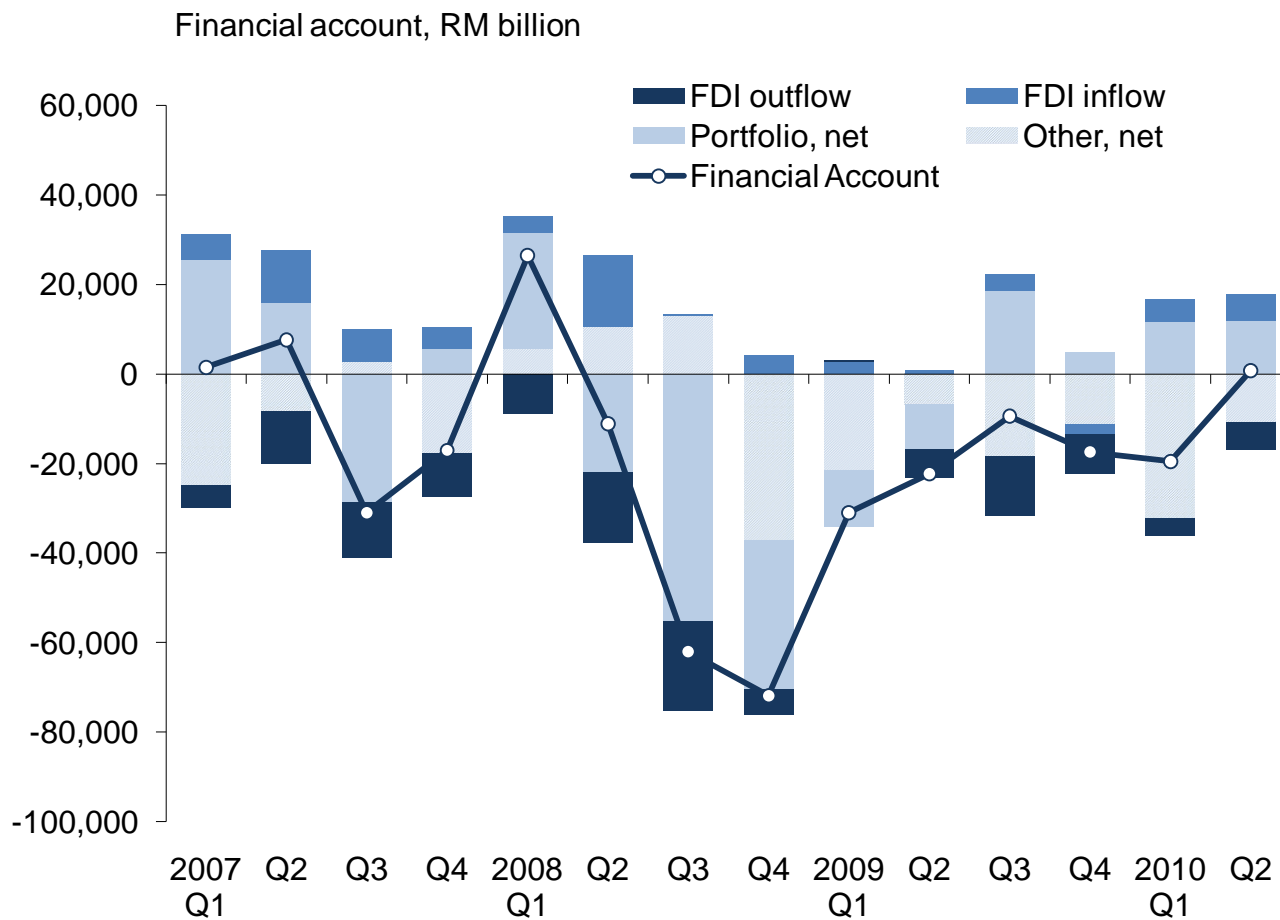
Inflation, percent change, year-on-year



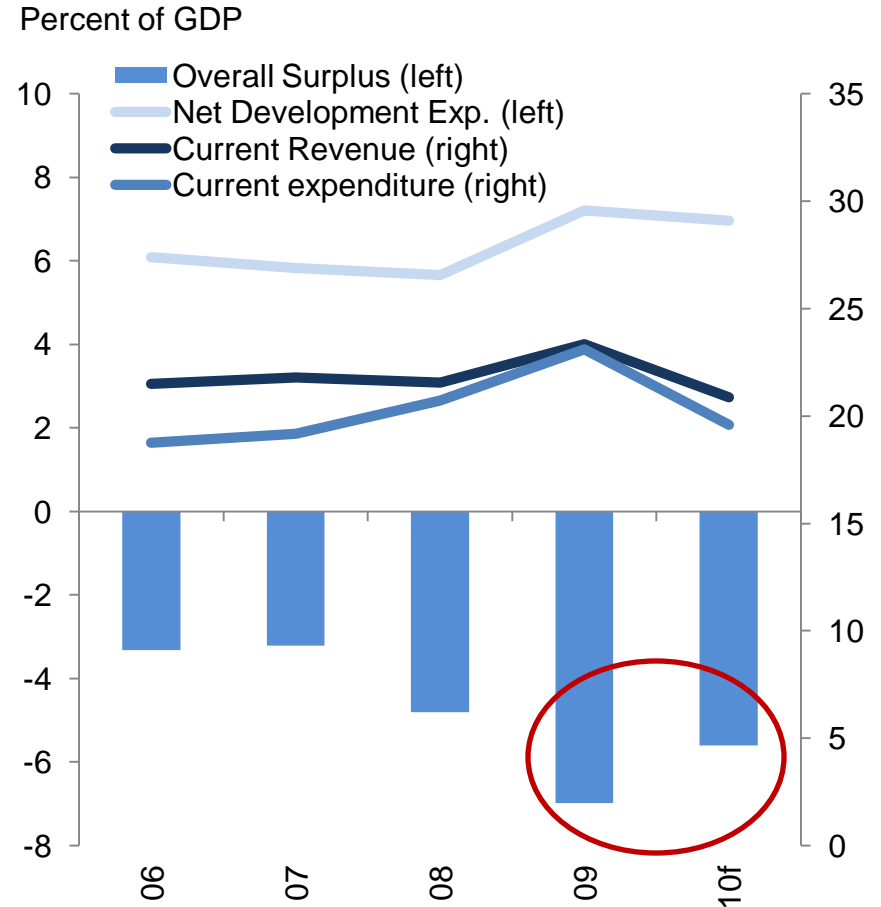
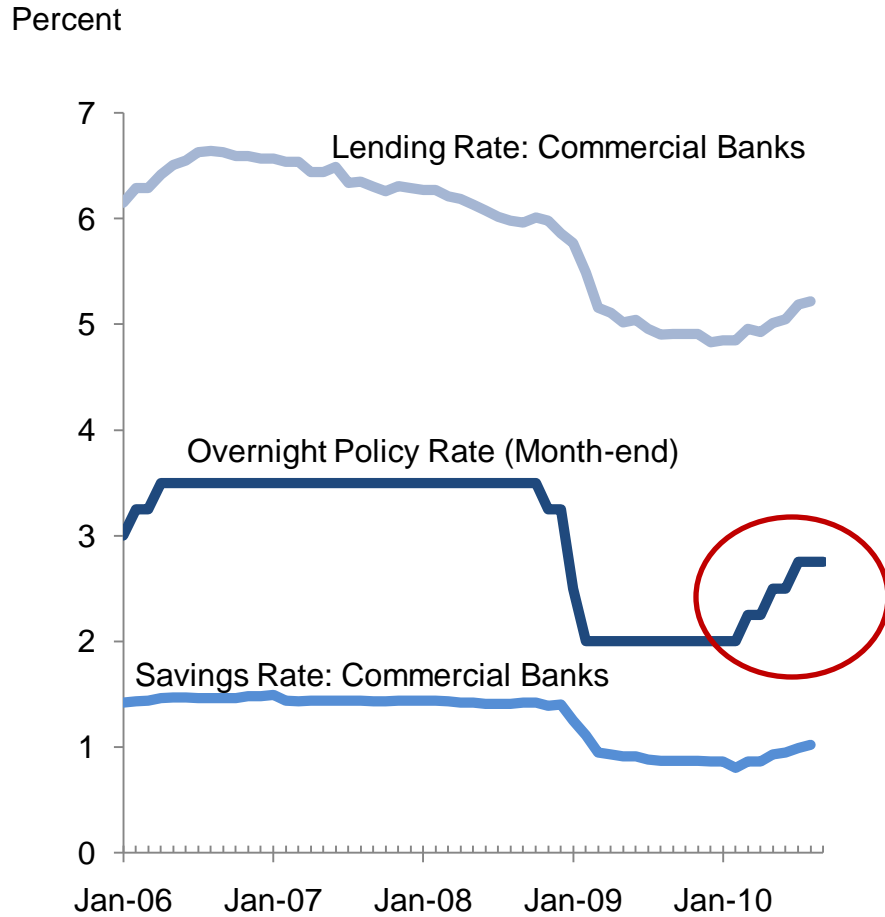
# ... labor markets recovering further, though the impact of the crisis remains evident



# ... investment flows strengthening, with the financial account back to surplus



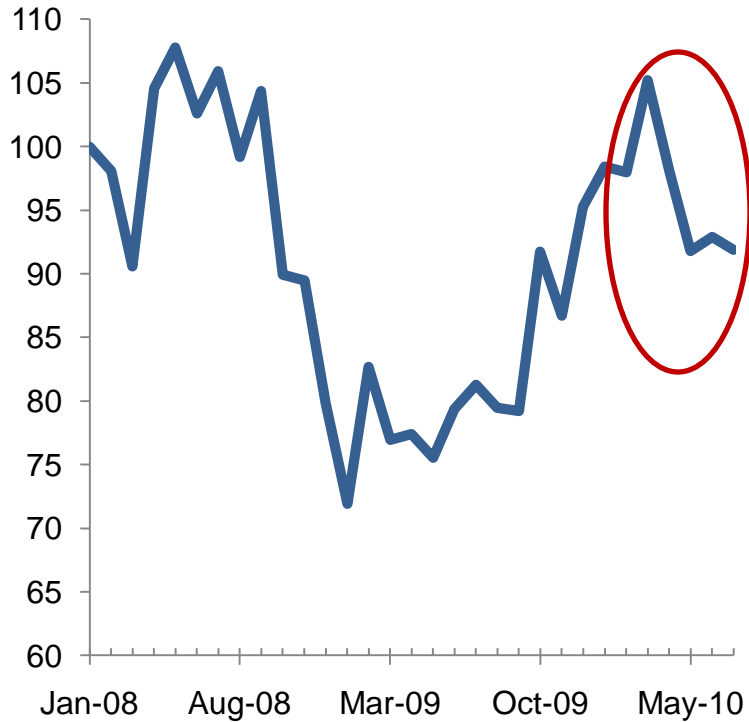
# ... and monetary and fiscal policy settings normalizing



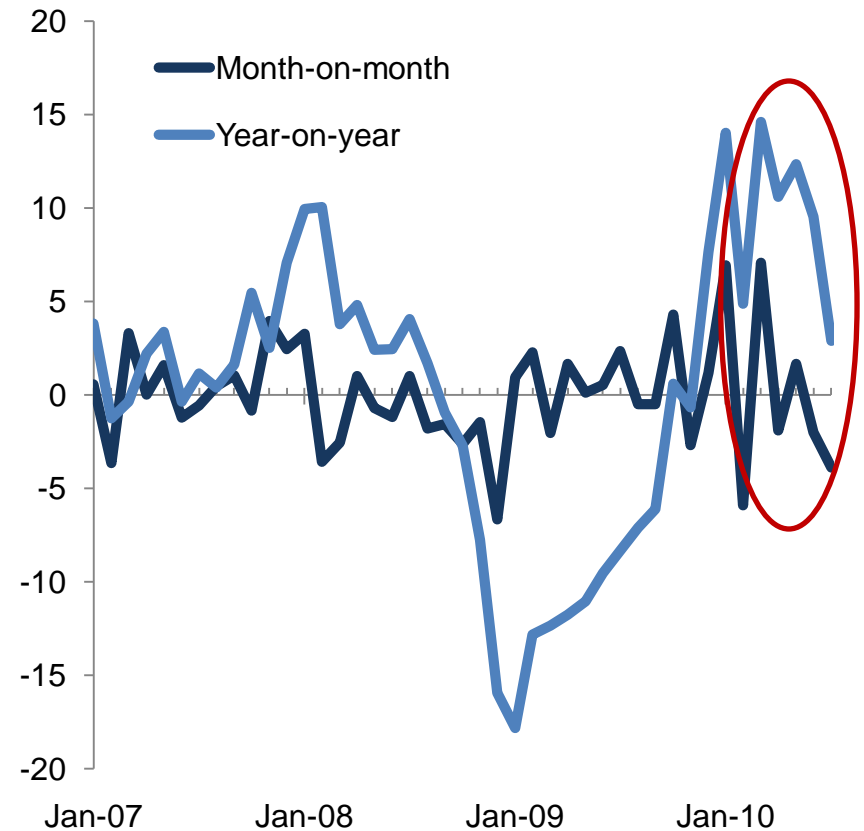
Source: Ministry of Finance Economic Report 2010/11

# Interrupting these developments was the return of external weakness ...

Nominal export levels, rebased to June 2008 = 100, seasonally adjusted



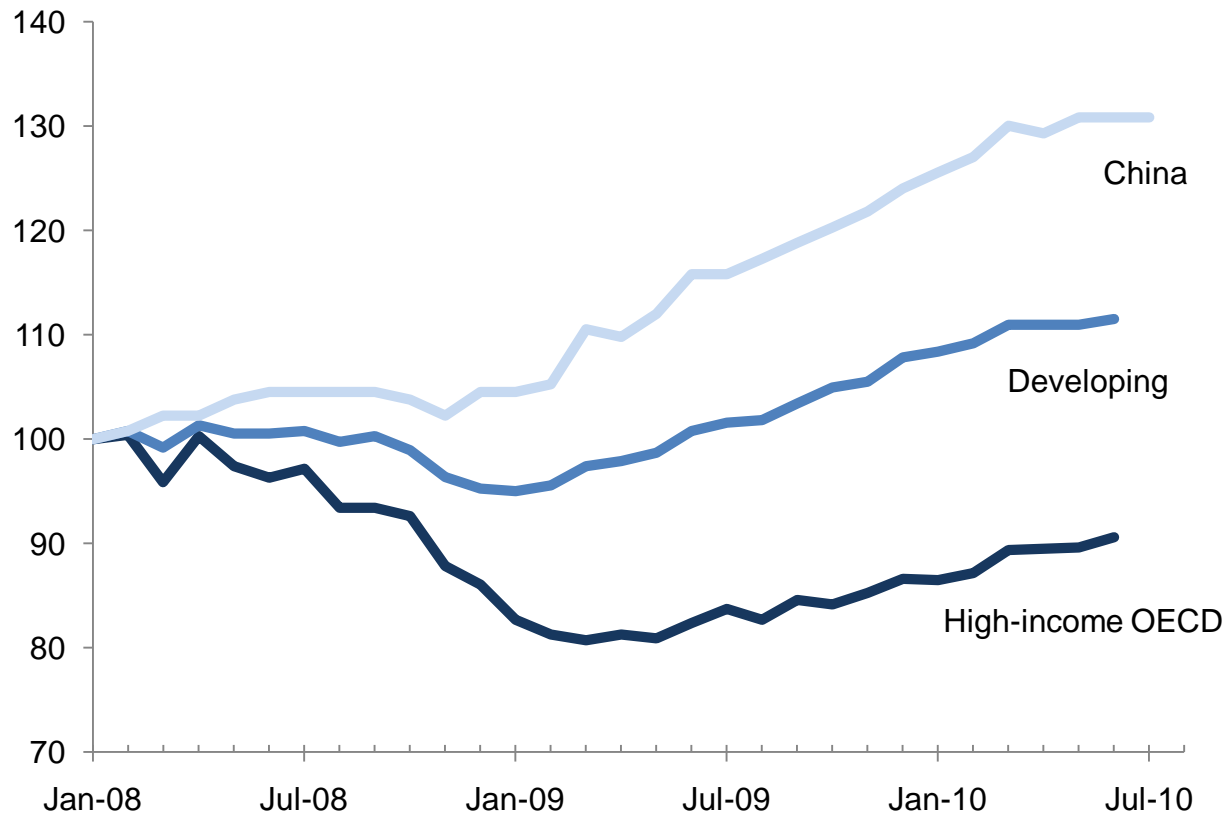
Growth in industrial production, percent





# ... against the backdrop of an uneven, incomplete and slowing global recovery

Industrial production (seasonally adjusted), rebased to 100 in Jan 2008



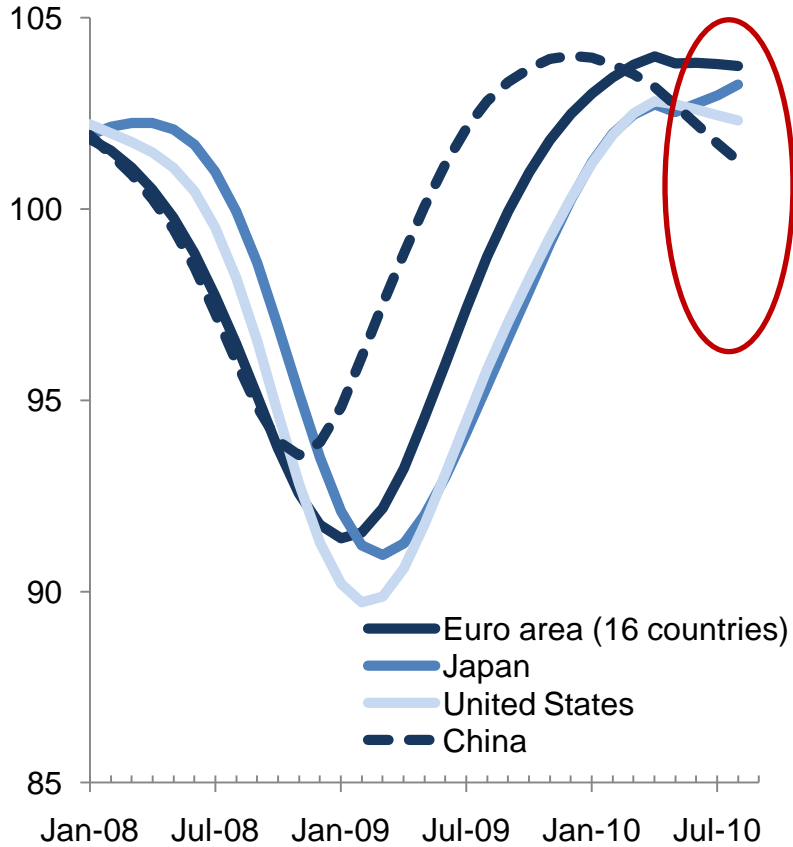


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# What is the outlook for growth?

# Leading indicators suggest that further weakening is in the pipeline

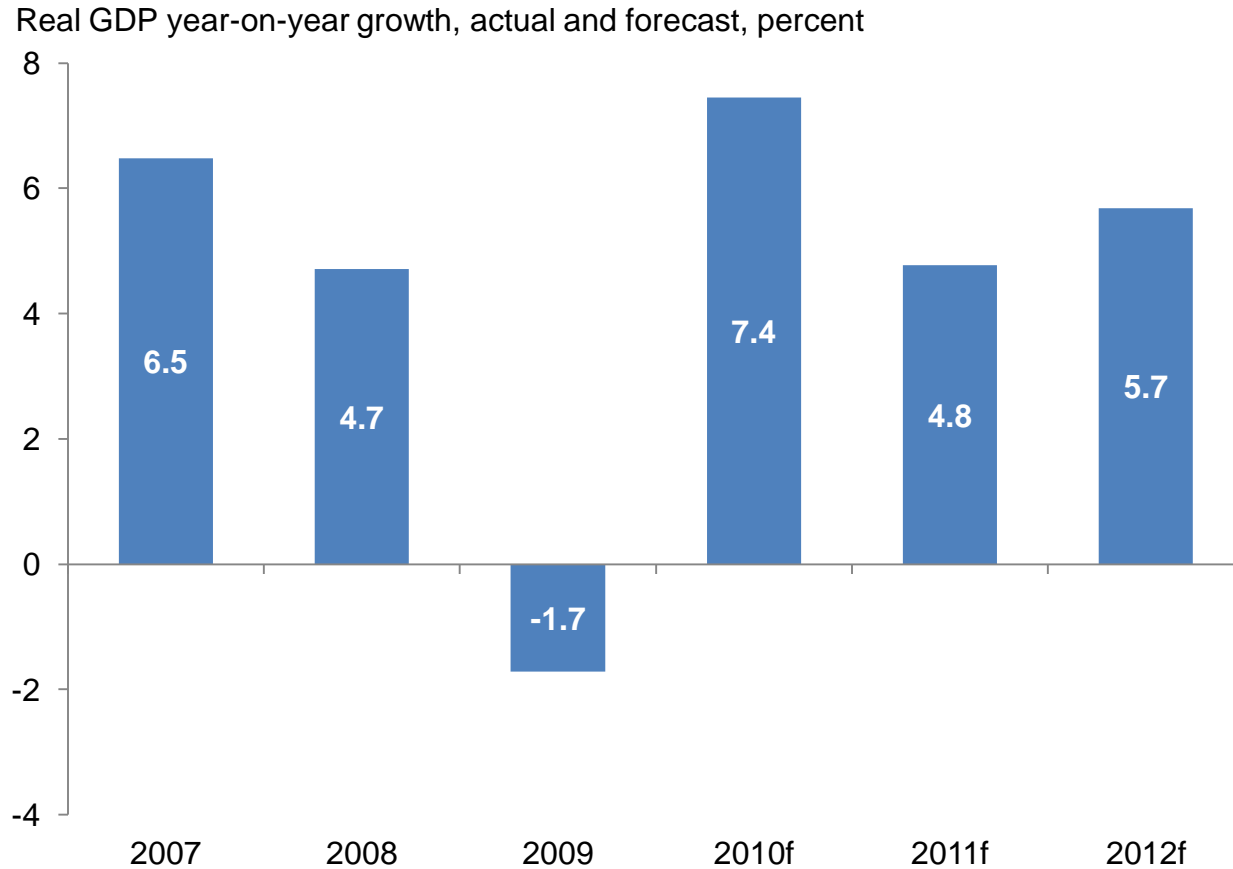
OECD Composite Leading Indicator seasonally adjusted (100=long-term average)



Growth month-on-month (3 month moving average seasonally adjusted), percent

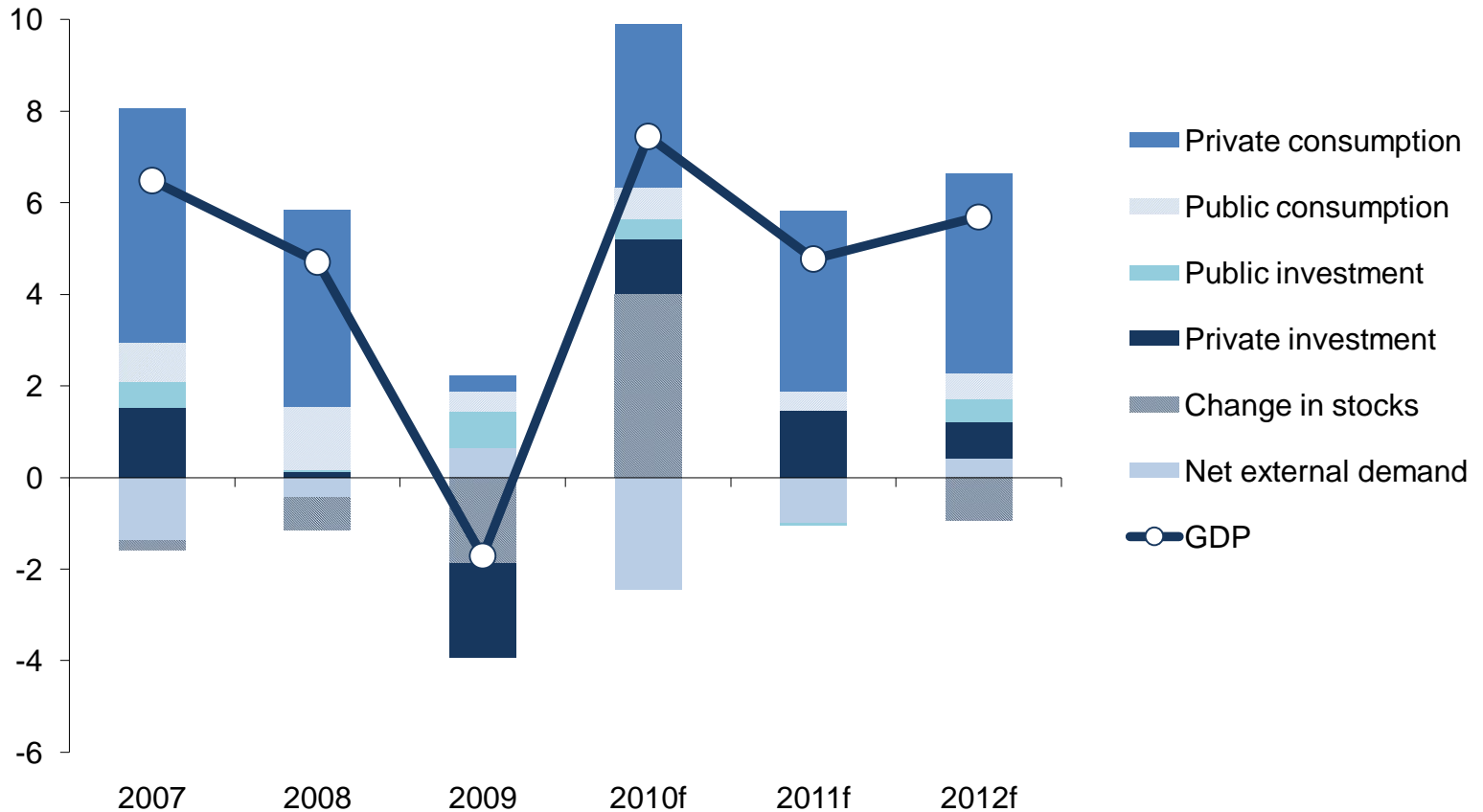


# Growth is expected to soften further

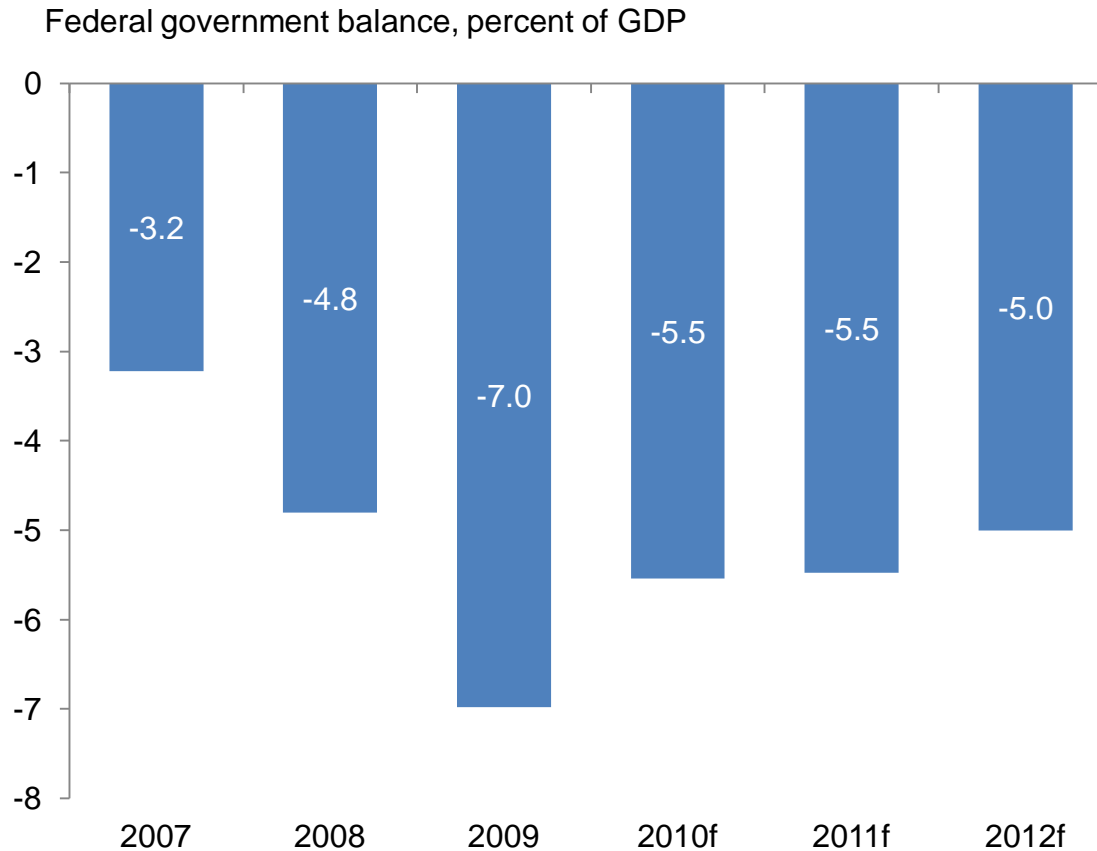


# ... with domestic demand a driver and external demand a drag

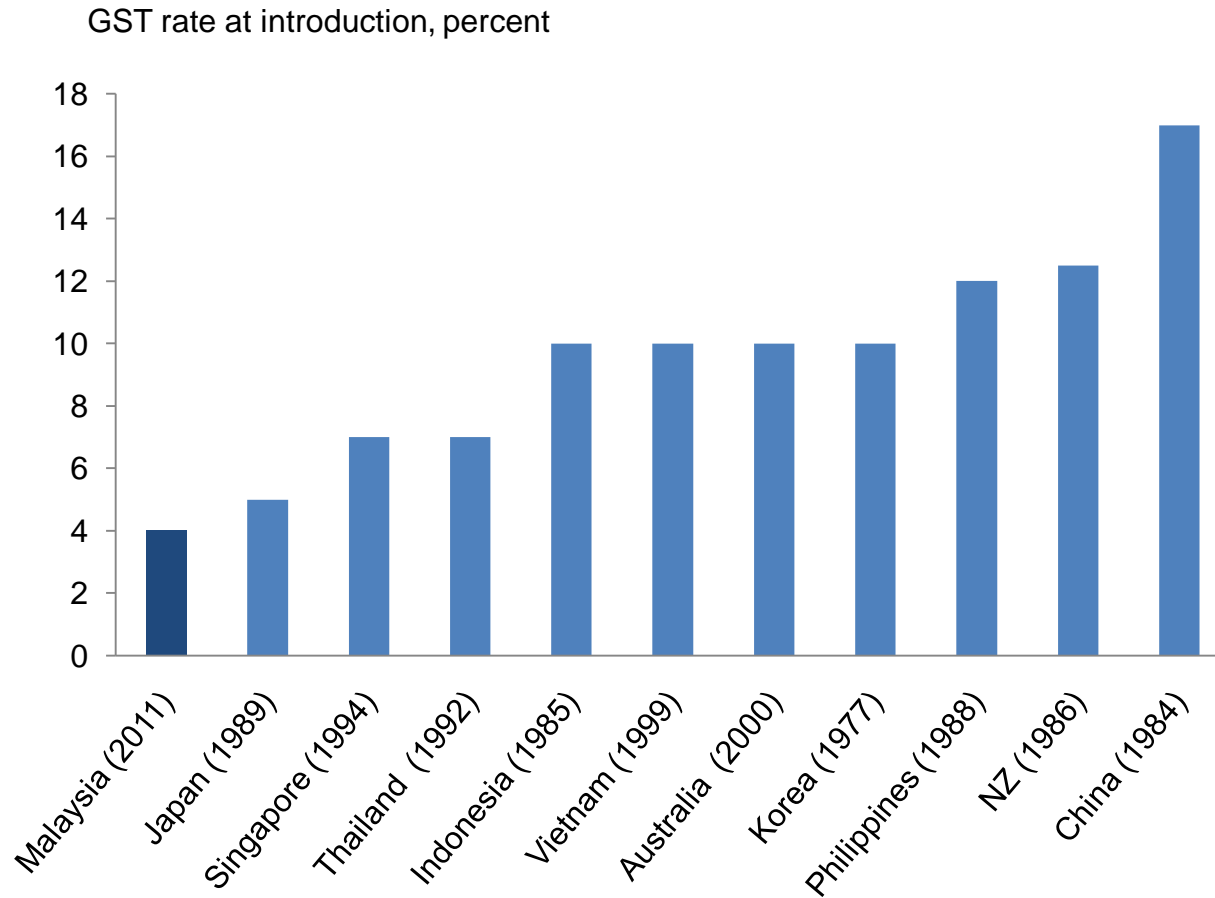
Actual and forecast contributions to GDP growth, yoy, percent



# ...and public demand gradually loosing prominence



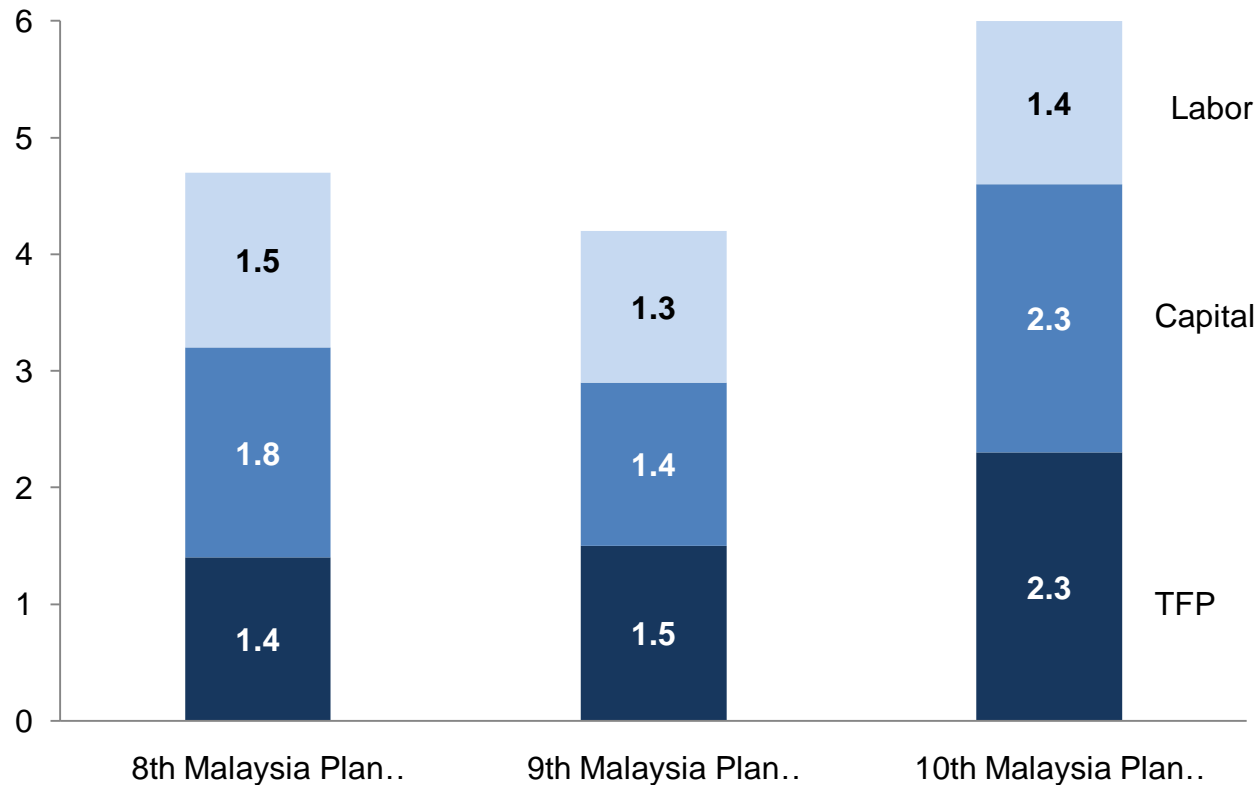
# Progress on fiscal consolidation will require measures to broaden the revenue base



Note: The date on which a GST was/will be introduced is in parenthesis next to each country label.  
Source: KPMG (2010).

# Vision 2020 is within reach, providing the ETP is carefully implemented

Contributions to average annual GDP growth, percentage points

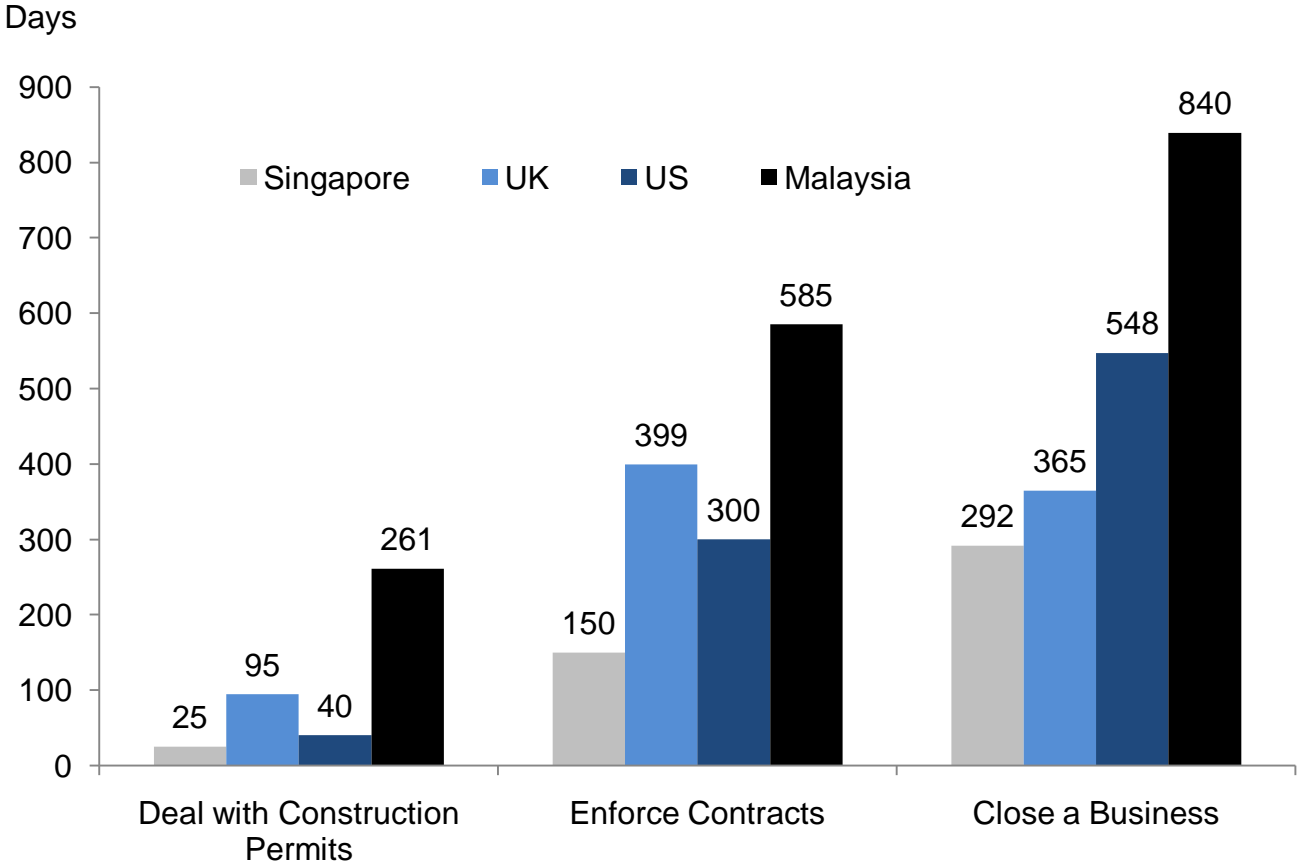


Note: \* estimate, \*\* target. TFP is total factor productivity.

Source: Economic Planning Unit (10MP report).



# Improving the enabling environment will be key to sustain growth beyond a temporary uptick

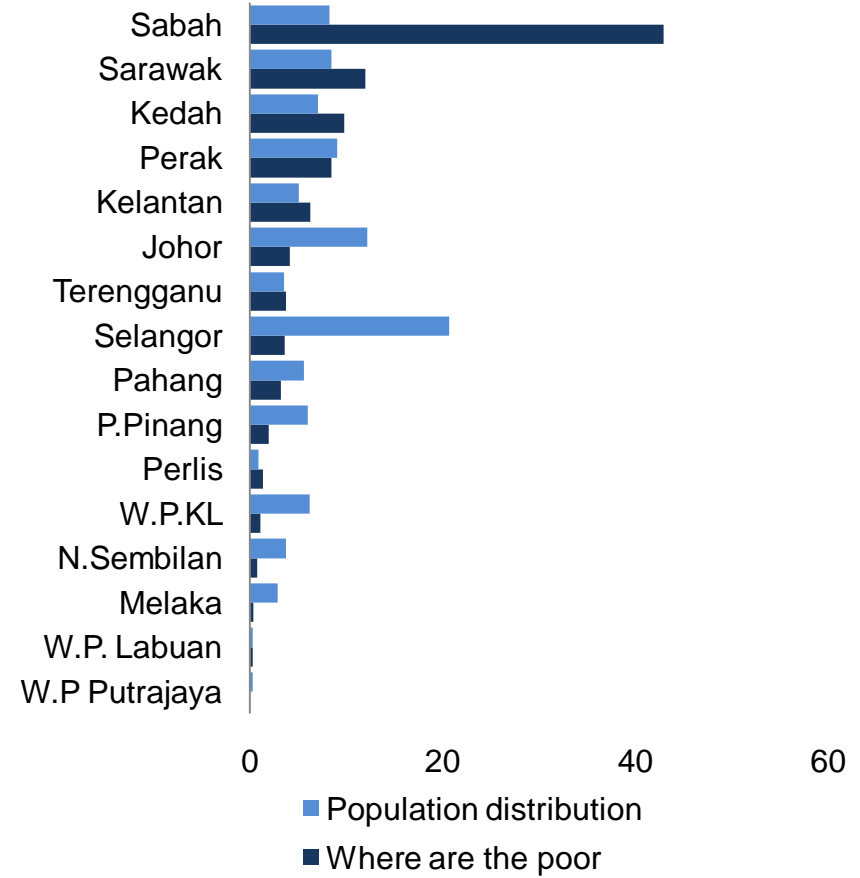
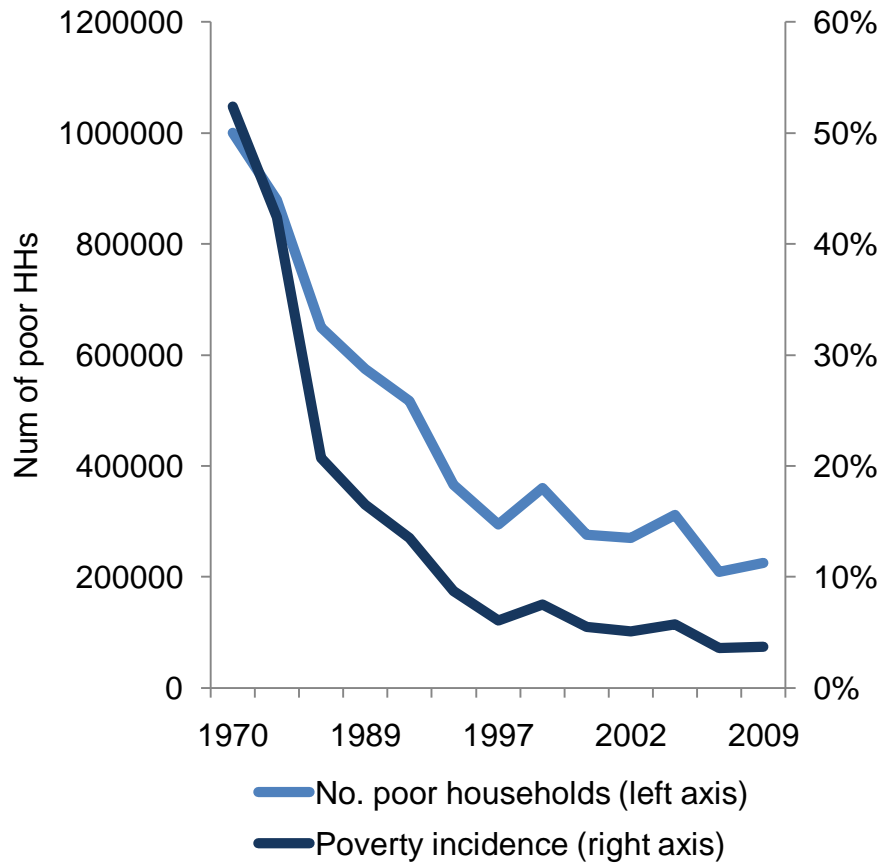


Source: World Bank Doing Business 2011.



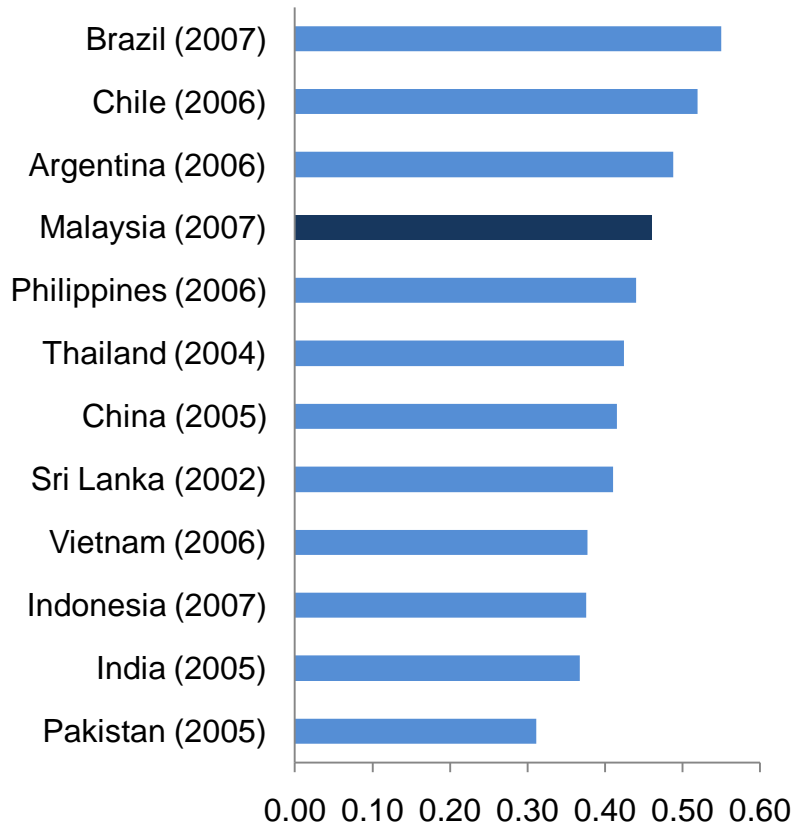
How can Malaysia meet its aspiration of inclusive growth?

# Poverty has declined in the last decades but deep pockets remain....

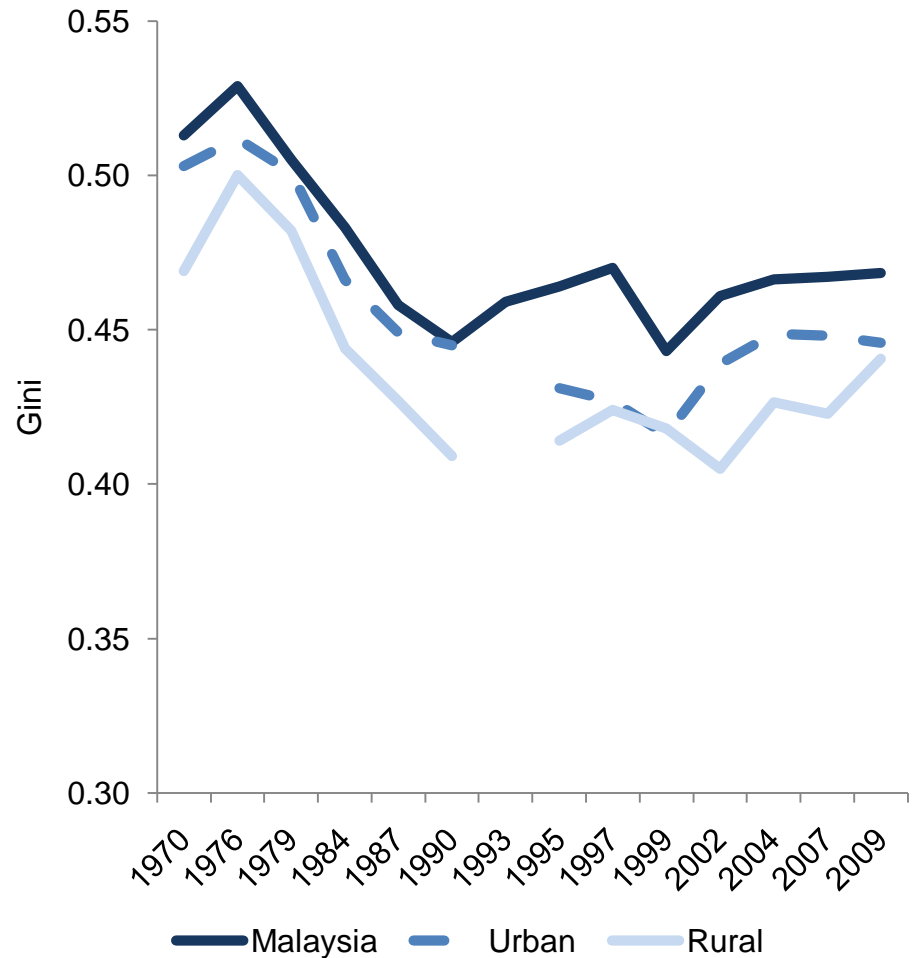


Source: DOS, EPU, and World Bank staff calculations.

# ...and income inequality persists at high levels



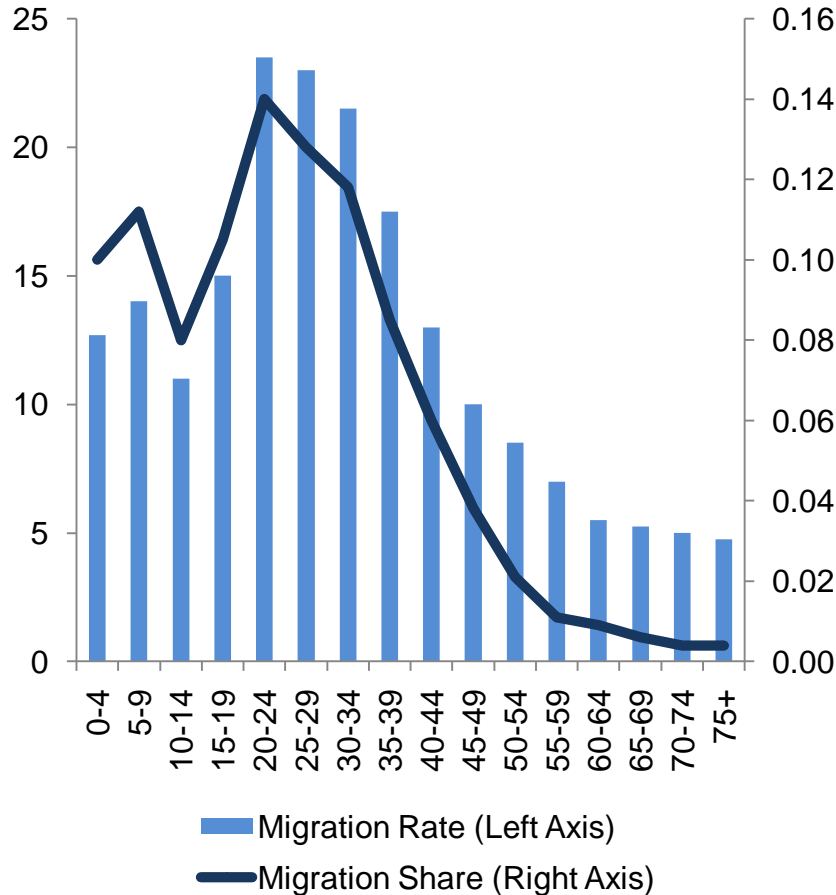
Source: EPU



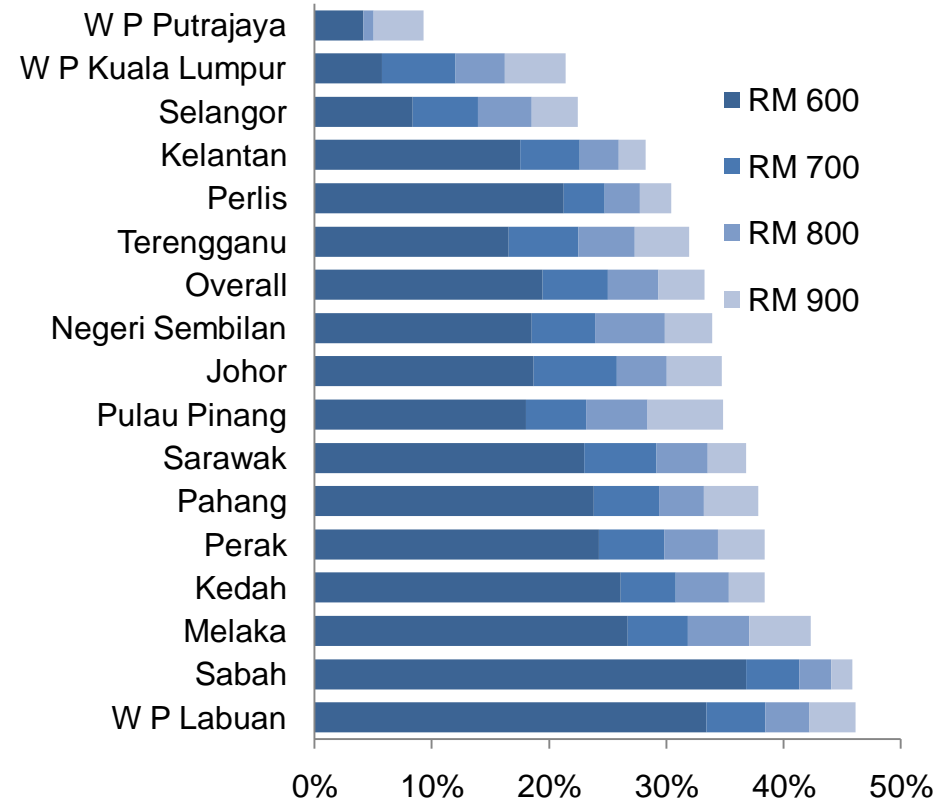
## To foster inclusive growth

- Expand access to income-earning opportunities
- Improve human capital to take advantage of those opportunities
- Enhance social protection mechanisms

# 1. Fostering greater access to earning opportunities through higher labor mobility



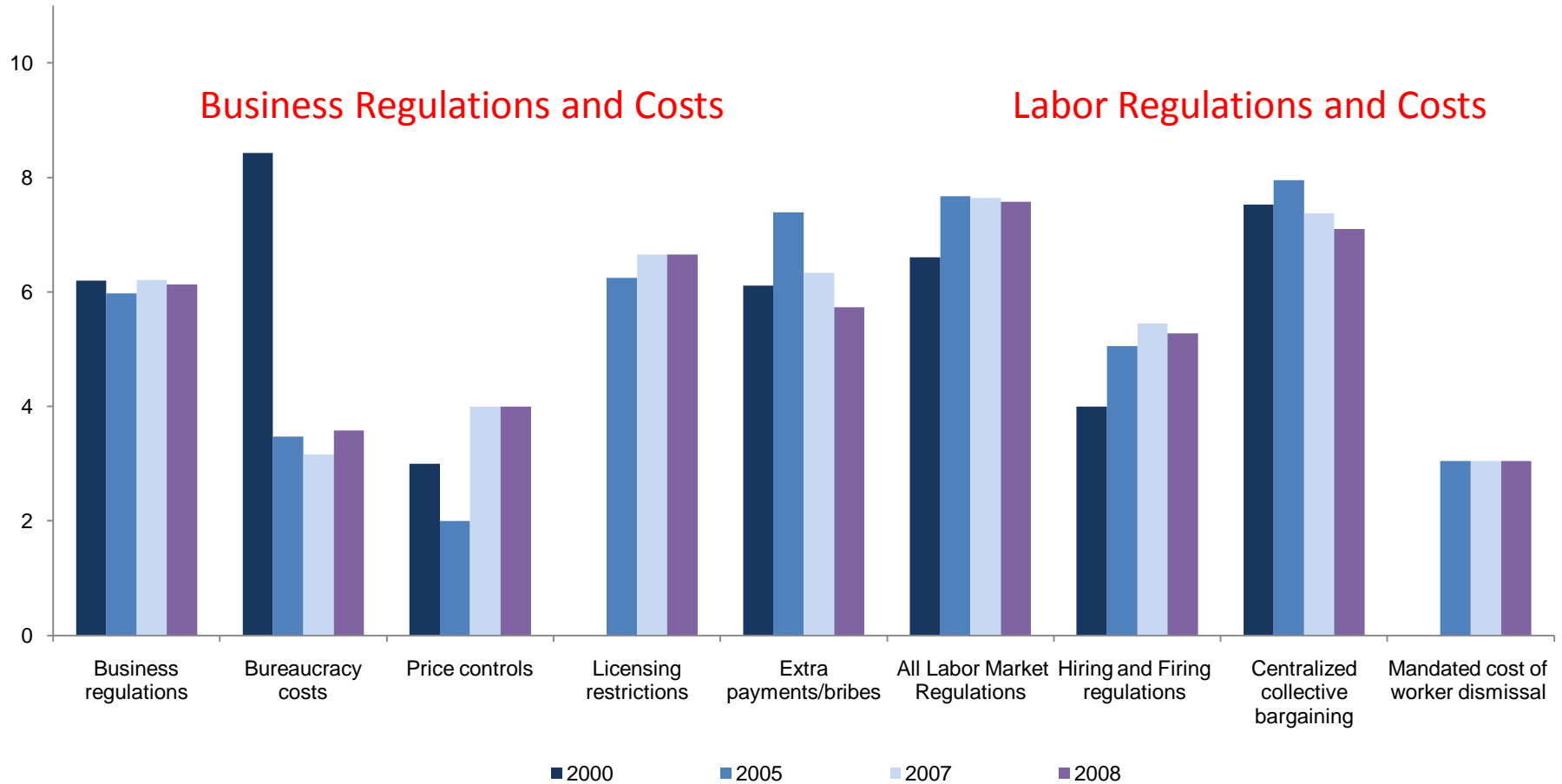
Diversity in wage levels in construction and manufacturing



Source: World Bank staff calculations; Enterprise Surveys

# ...and through regulatory changes for more dynamic business environment and labor market

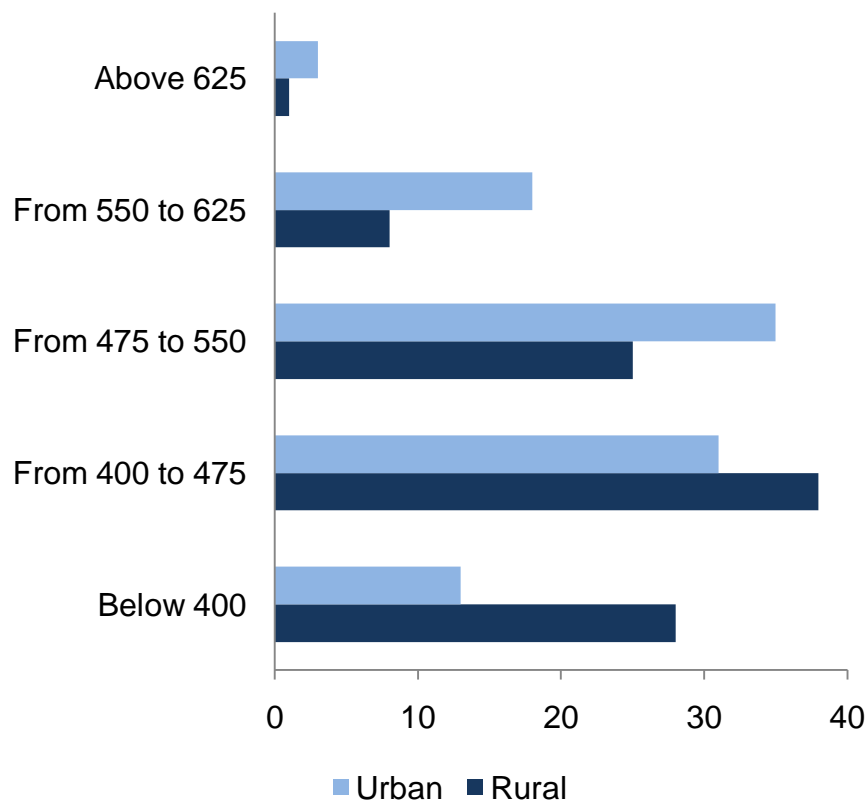
Economic freedom:  
0 =worst 10 =best



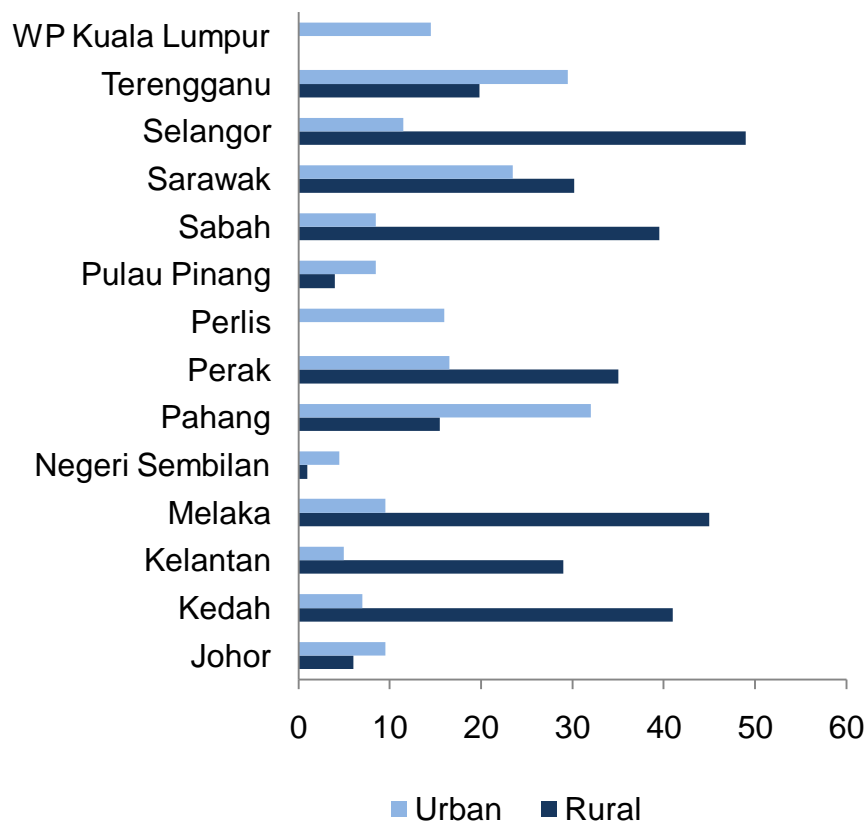
Source: Economic Freedom Index, 2009

## 2. Improving human capital starts by reducing educational disparities in basic education

Scores in Mathematics of all 14 years olds, in percent



Share of 14 years old with math score below 400, in percent

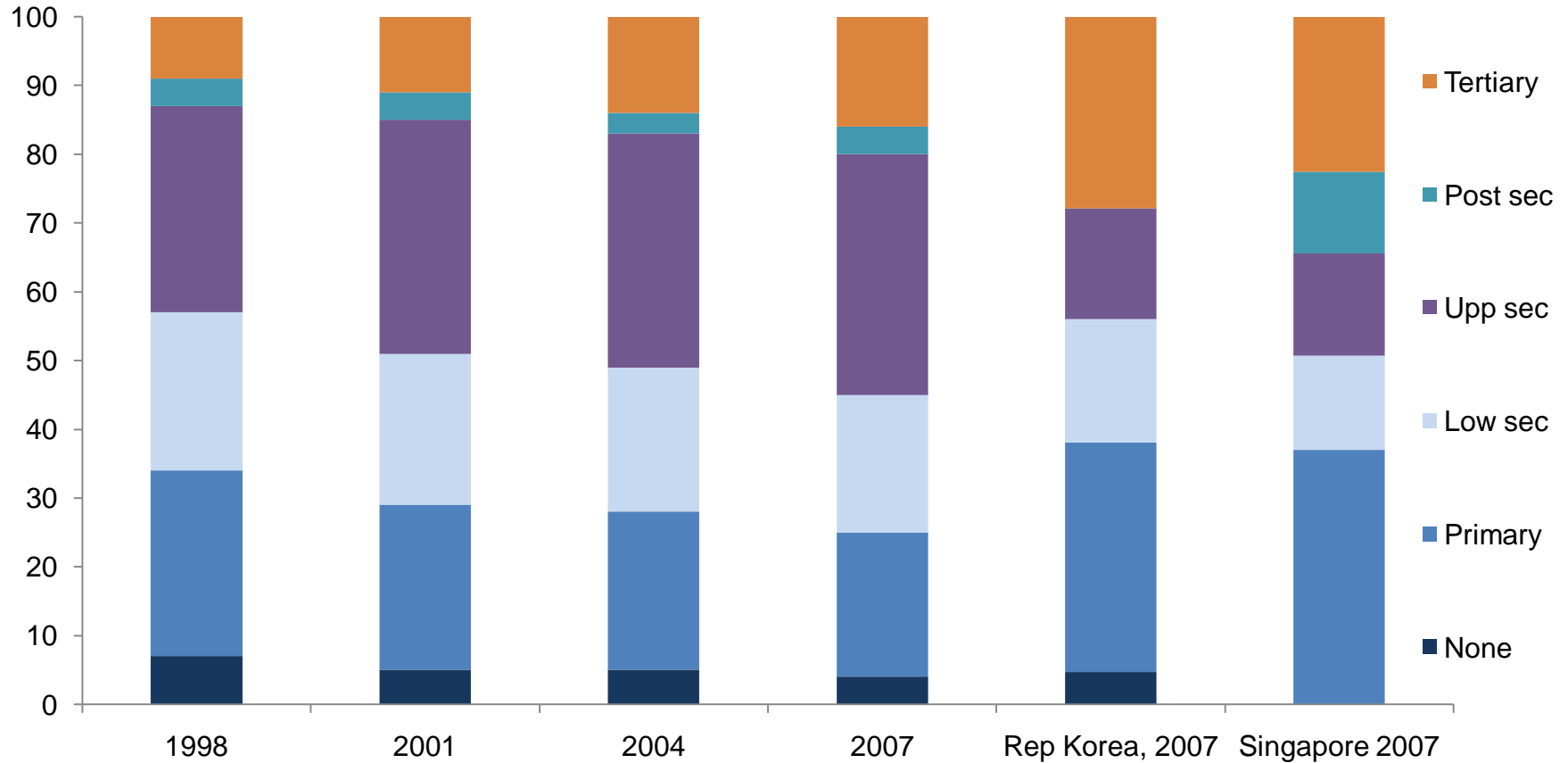


Source: TIMSS, 2007



# ... and promoting participation in higher education and vocational training by addressing quality and relevance

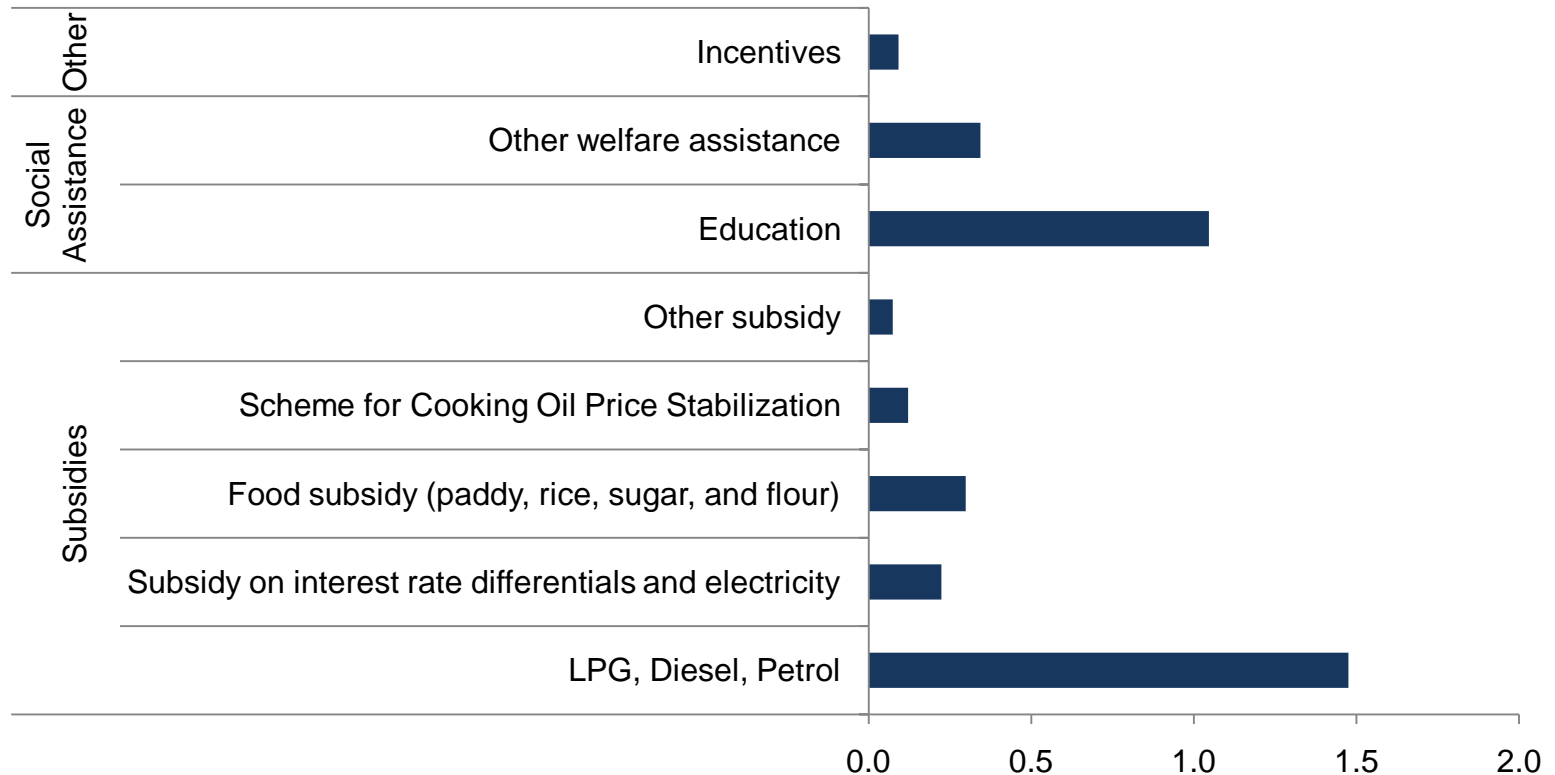
Share of students in education category, in percent



Source: Department of Statistics, and BCG 2009, and UNESCO

# 3. Making social protection more effective and efficient

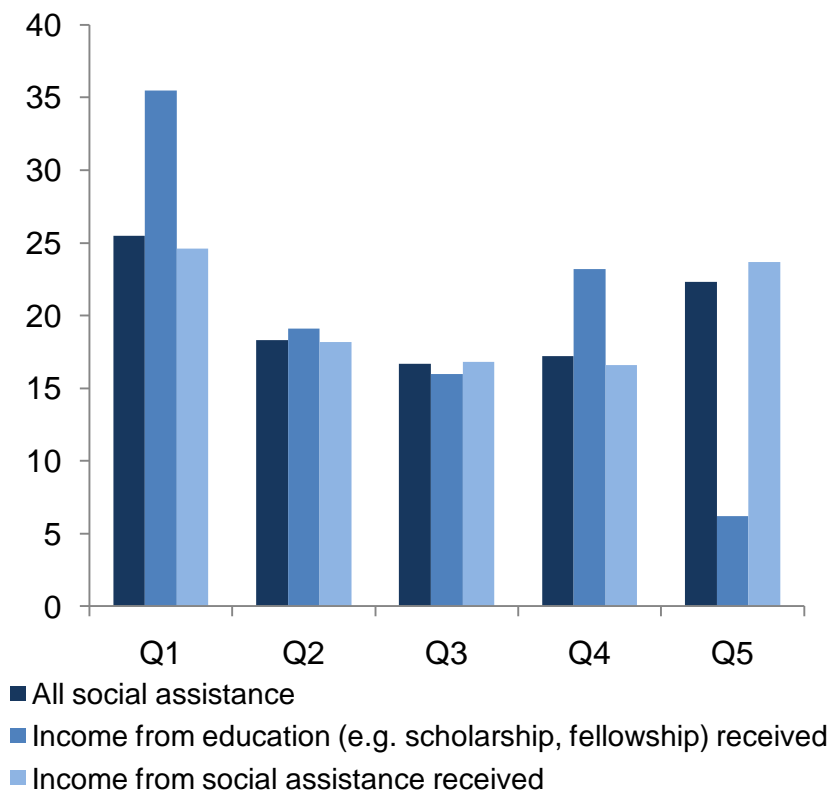
Percentage of GDP spent for each category



Source: Ministry of Finance, 2010

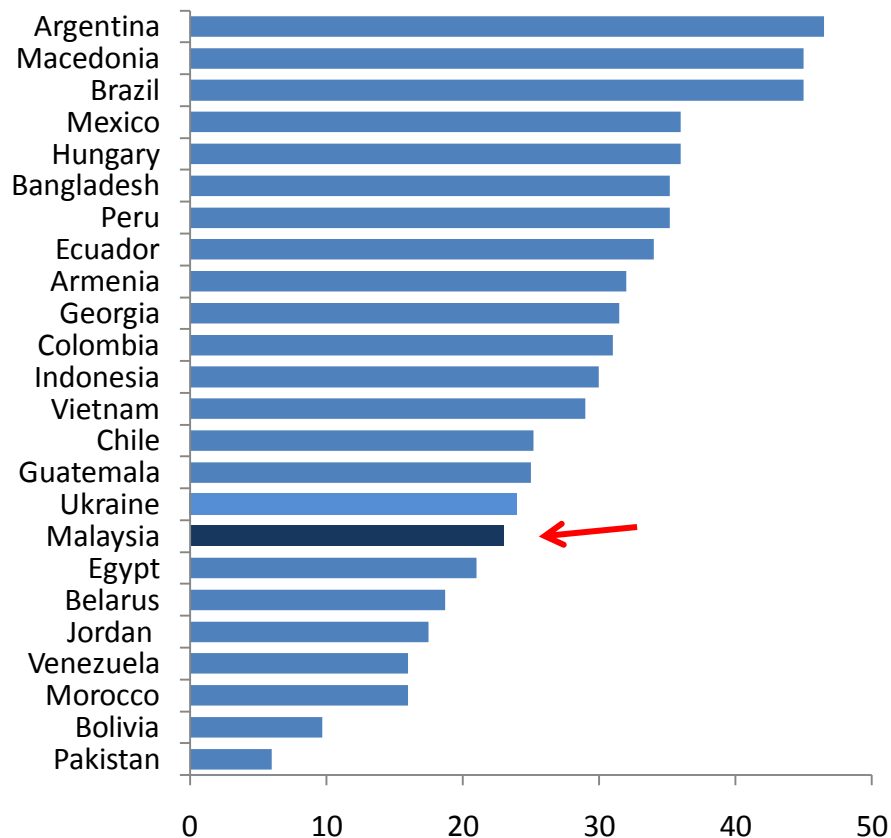
# ...by improving targeting methods and approach

Share of households per income quintile receiving social assistance, in percent

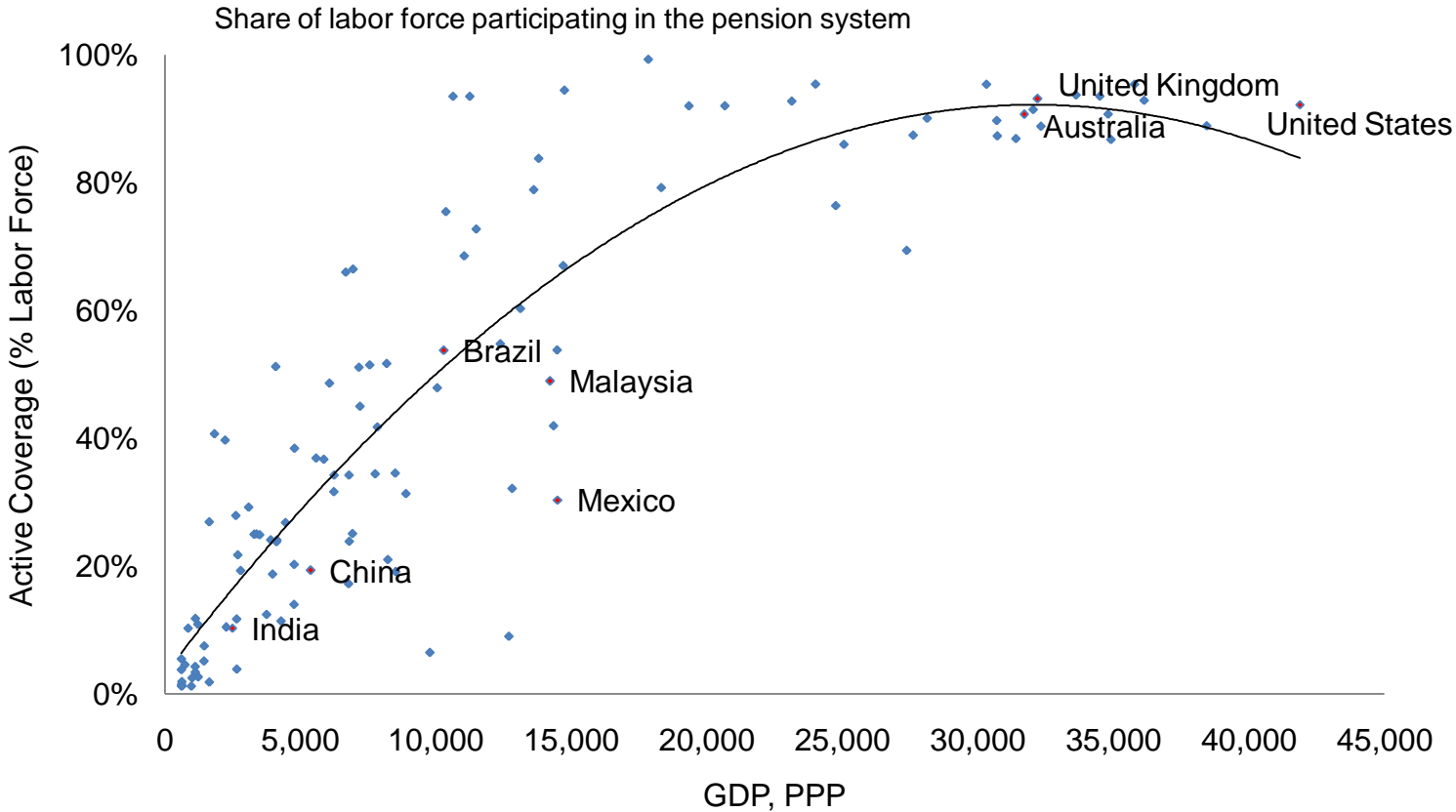


Source: World Bank staff calculations; HIS.

Share of benefits received by the poorest quintile, in percent



# ... and going from programs to coordinated systems to ensure comprehensive coverage



Source: World Bank staff calculations.

# Key Recommendations

- **Expanding access to economic opportunities**
  - Increase labor mobility by reducing job-search costs and providing better labor market information and employment services
  - Increase market competition, and reducing the administrative and regulatory burden for firms
  - Ease rigidities in labor regulation
- **Investing in human capital**
  - Improve the quality of basic education in underserved areas
  - Strengthen employer and industry-led skills development
  - Further unify the structure of TVET system
- **Enhancing social protection mechanisms**
  - Establish a clear and consistent poverty focus of the social safety net programs
  - Refine targeting mechanisms
  - Move from many fragment programs to a coordinated social protection system, including social insurance mechanisms with broad coverage and effective risk pooling mechanisms



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Thank you