

Malaysia's Economic Growth Outlook

Kick off Conference for the 12th Malaysia Plan
3 July 2019



Presentation outline

Part A: Growth outlook

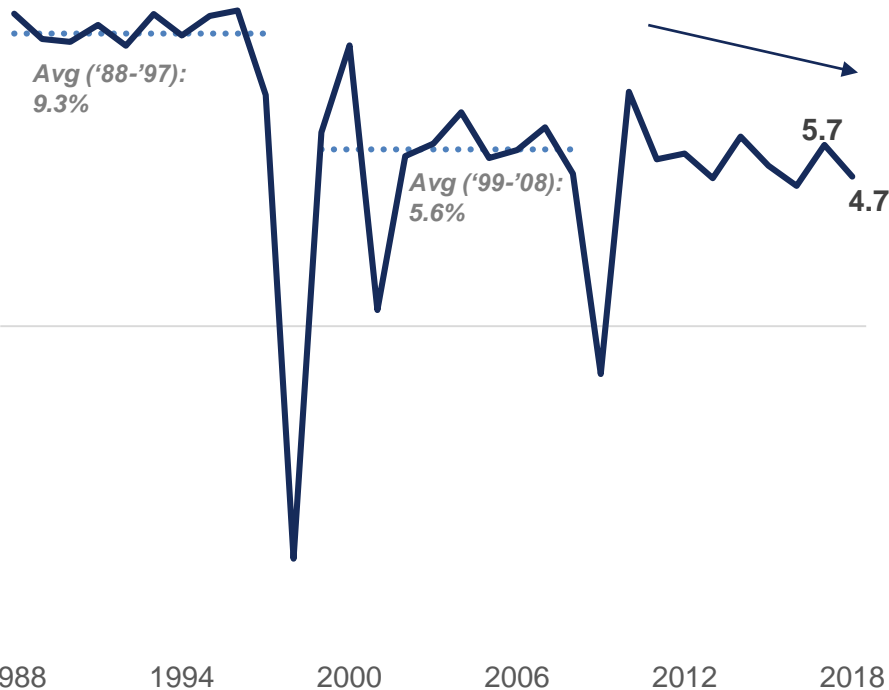
More moderate growth prospects in the near-term

Part B: Policy priorities



Slower growth momentum to persist going forward

Real GDP growth
(% yoy)



➤ Subdued global environment

- Slowdown in major economies particularly in the US, PR China, euro area and Japan
- Waning support from past impetus (*fiscal stimulus, and global tech upcycle*)

➤ Waning growth drivers

- Strong PR China growth, high commodity prices, strong credit growth, cheap foreign labour

➤ Shifting global trends

- Ageing population, disruptive technologies, climate change

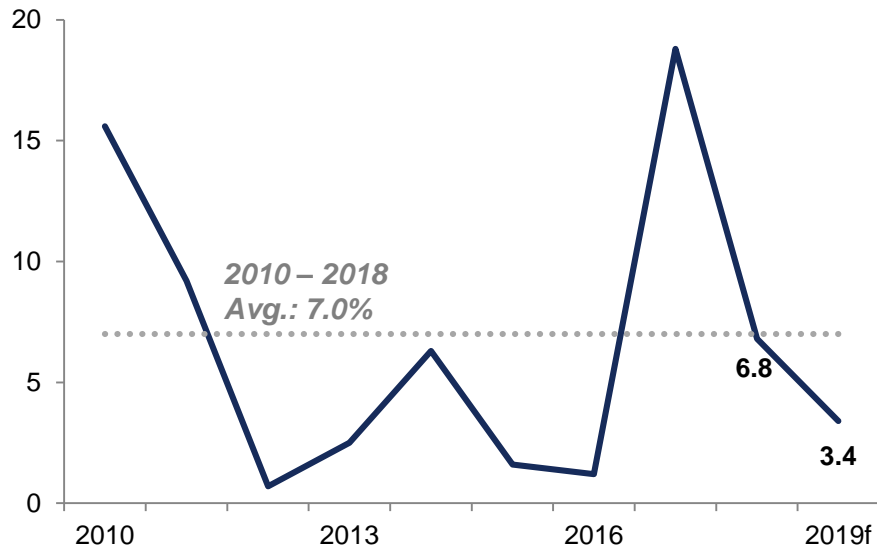
Source: Department of Statistics, Malaysia, and BNM staff calculations

Ongoing trade disputes to negatively affect Malaysia's export performance in the immediate term

The external sector to be weighed down by trade tensions and global slowdown

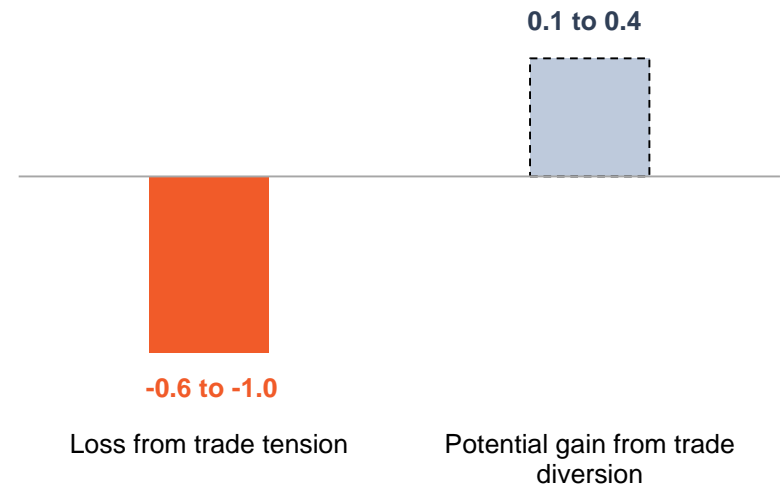
Gross Export Growth

Annual change (%)



Impact of Trade Tensions on Export Growth

ppt contribution to export growth



Note: Potential gain from trade diversion is more likely to occur if the products already account for a significant share of US import market and manufacturers have the capacity to ramp up production

f Forecast

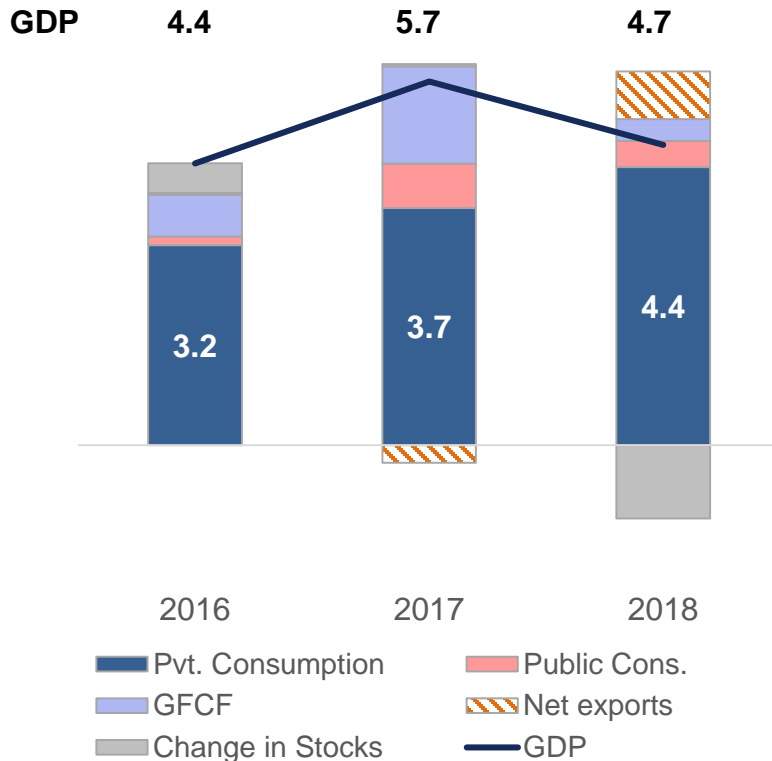
Source: Department of Statistics, Malaysia, and Bank Negara Malaysia staff estimates

Given the increasing importance of private consumption growth, high household indebtedness is a key source of downside risk

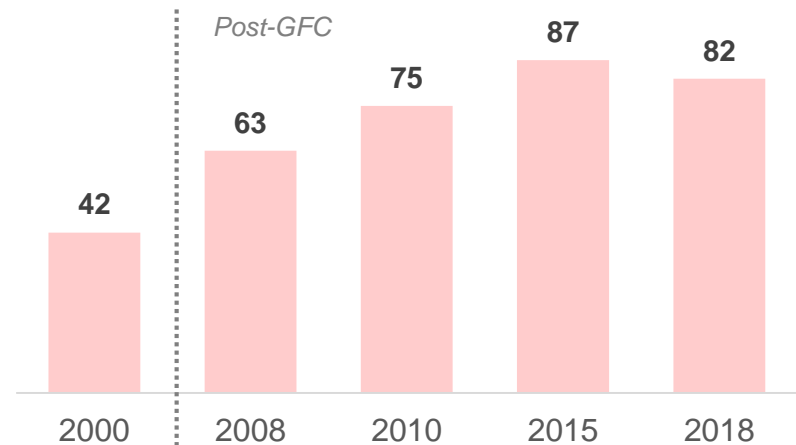
Private consumption has been the key contributor to economic growth

Health of household income, wealth and balance sheet are key to sustaining private consumption

Contribution to GDP growth
(ppt contri/% , yoy)



Malaysia household debt to GDP ratio
(%)



Households' ability to consume may be impeded in the event of an income shock, given elevated indebtedness

- Sizeable part of household income (33%) utilised to service debt
- A third of household debt is based on fixed rates, with larger share for individuals with lower income (<RM3k:49%)

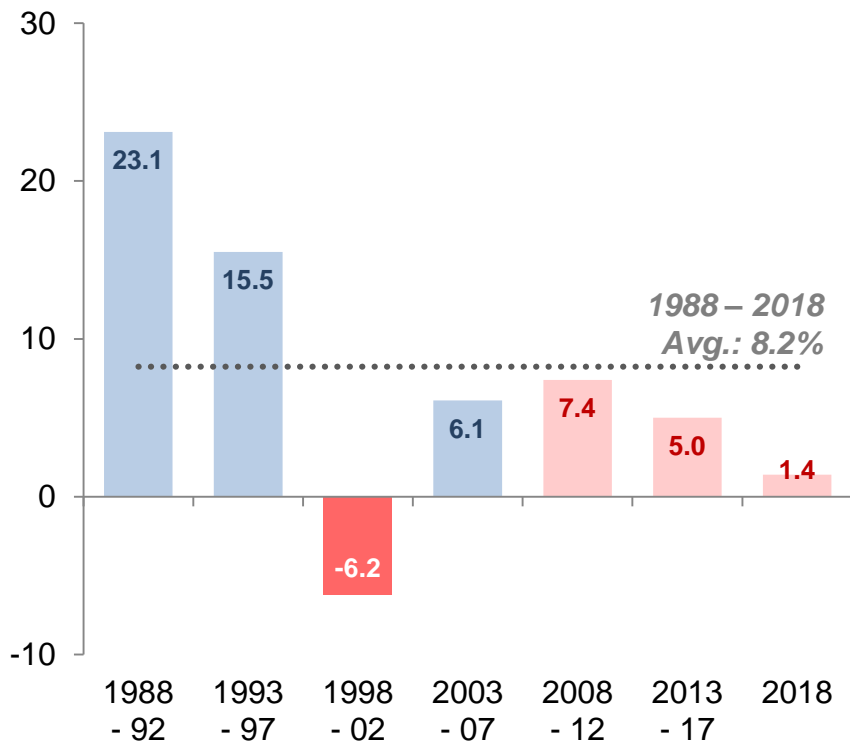
Investment activity weighed down by over-investment in property

Investment activities has slowed over the recent years...

...with >30% in less-productive, property-related sectors

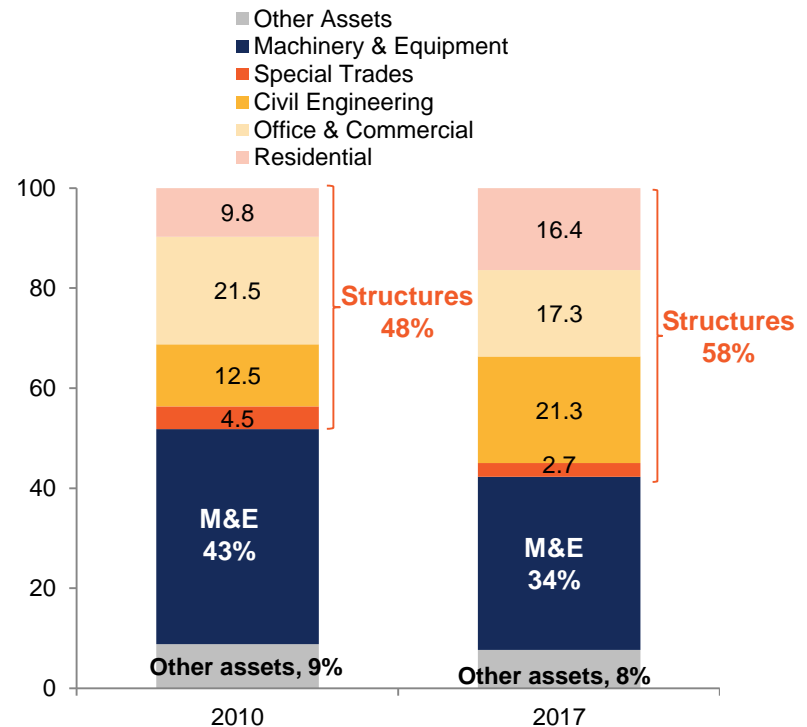
GFCF Growth

% yoy



Breakdown of GFCF, Malaysia (2010 and 2017)

% share




Note: M&E includes transport equipment and ICT equipment; other assets include R&D, mineral exploration etc.

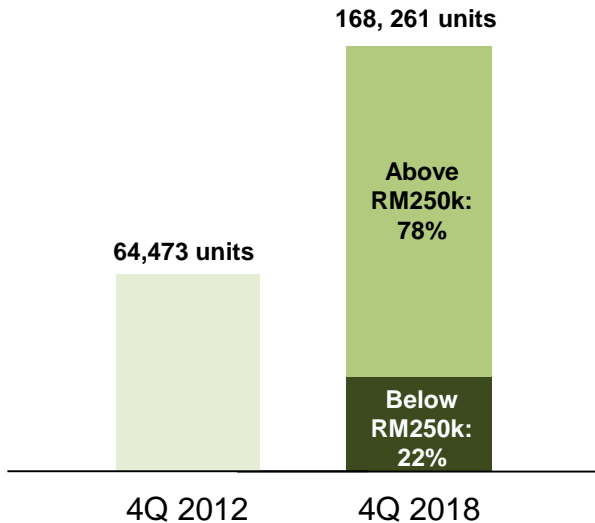
Source: Department of Statistics, Malaysia, and staff estimates




Oversupply in the property market likely to prevail

 **Oversupply of higher-end housing**

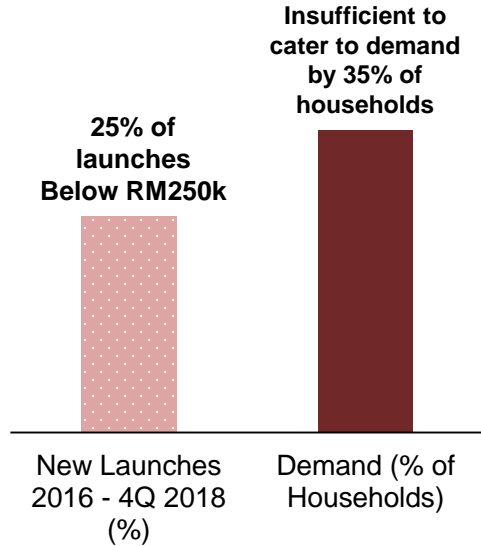
Record-high unsold residential units, with the majority above RM250k




Source: NAPIC

 **Undersupply of affordable homes**

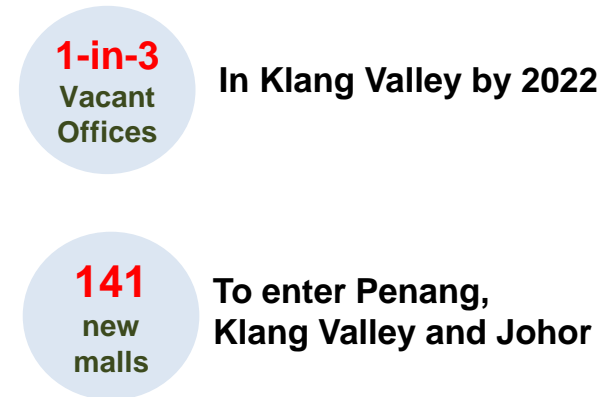
Mismatch between supply and demand of housing



Source: DOSM, NAPIC

 **Acute oversupply of commercial space**

Oversupply set to exceed Asian Financial Crisis levels

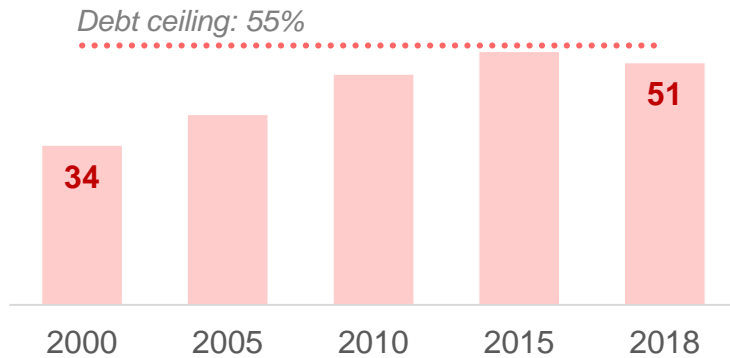


Source: 1Q 2019 Jones Lang Wootton

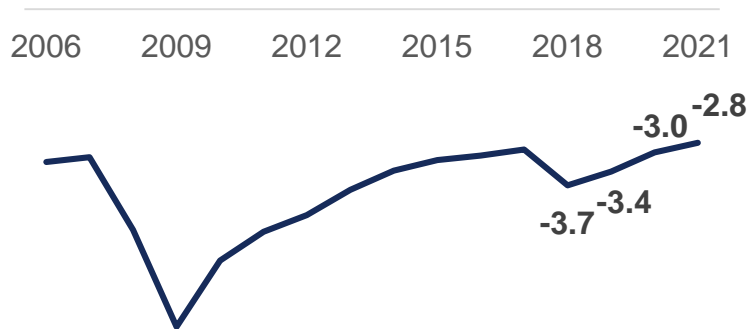
With linkages to approximately **120 industries**, vulnerabilities in the property market pose significant risks to the wider economy as observed during the Asian Financial Crisis

While rebuilding fiscal space is increasingly critical, it is equally important to give careful consideration on policy trade-offs

Federal Government Debt to GDP ratio
(%)



Fiscal deficit
(%)



Critical to rebuild fiscal buffers given the more challenging operating environment going forward (e.g. ageing population, environmental degradation)

- **This could be achieved by broadening and diversifying the revenue base**
- **Government expenditure should be prioritised on high-multiplier items to ensure continued support to overall growth**

Presentation outline

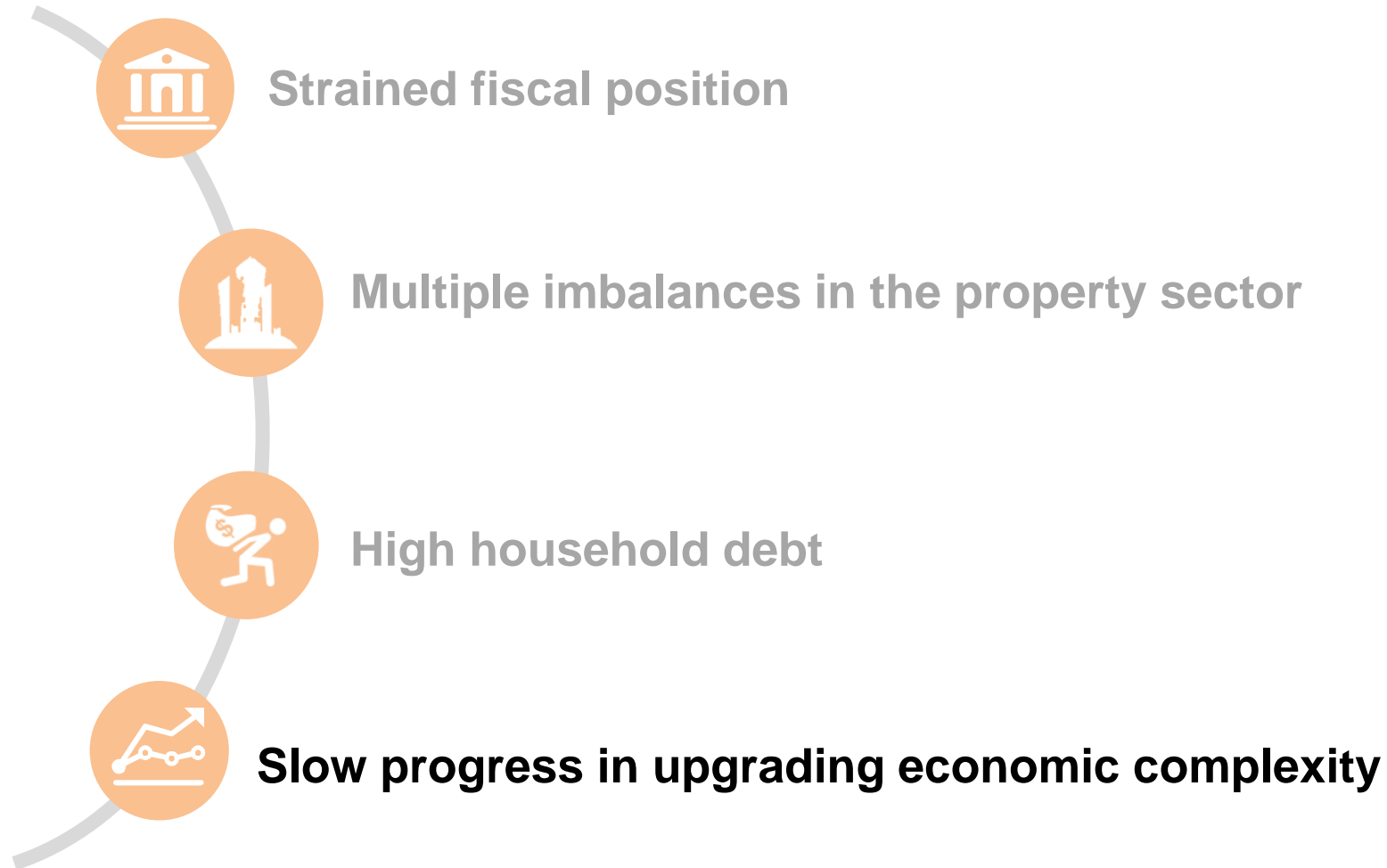
Part A: Growth Outlook

Part B: Policy priorities

Quick-wins to secure growth while driving longer-term structural reforms



Concerted effort is needed to reposition the economy to secure sustainable growth going forward

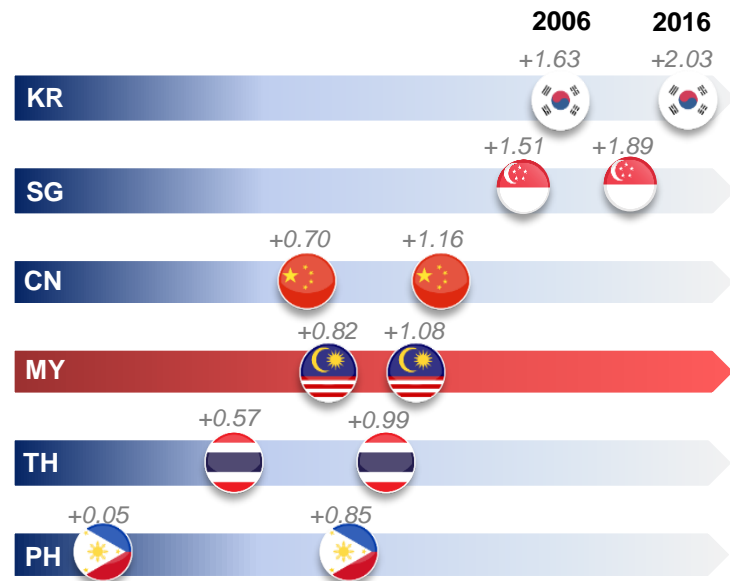


Malaysia needs to enhance economic complexity to remain competitive in a fast-changing environment

Advanced regional economies are far more complex, while others are fast catching up

Economic Complexity Index

standard deviation from global average



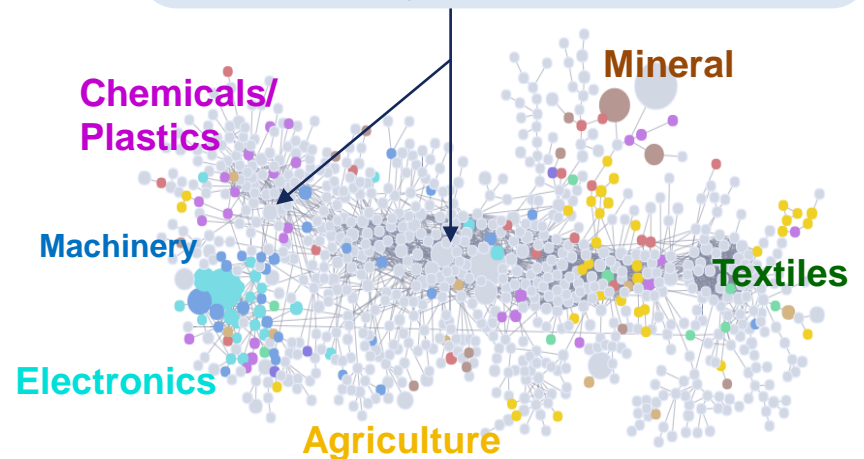
Ample room for Malaysia to diversify into more complex or 'knowledge-intensive' products

Malaysia's Product Space (2016)

Relatively sparse product space at the centre

Indicates opportunity to venture into products with higher linkages to a multitude of goods. E.g.:

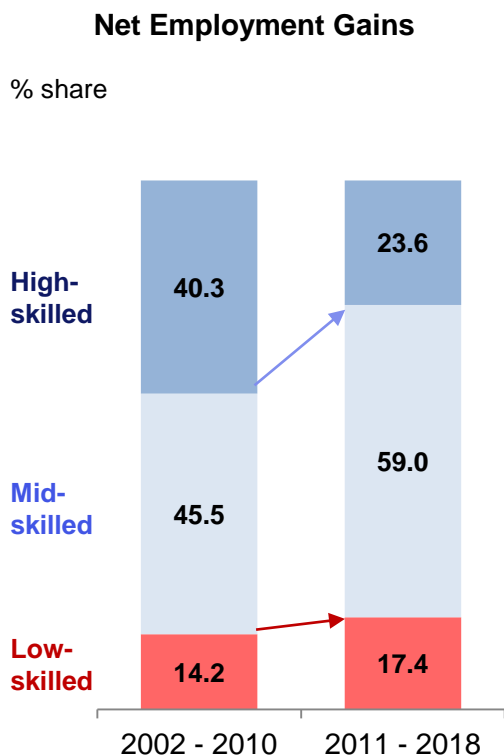
- Orthopaedic appliances
- Laser machines
- Pharmaceutical products



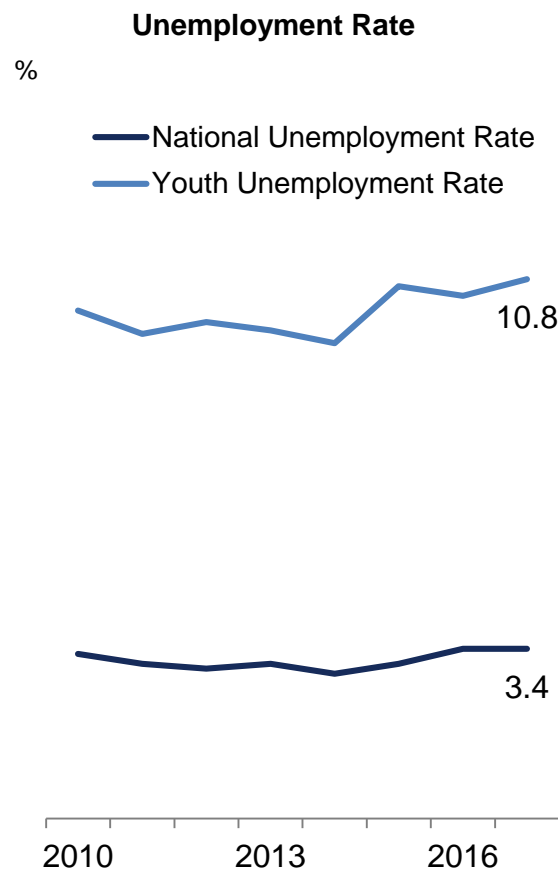
Source: The Atlas of Economic Complexity (August 2018)

Emphasis on low cost model has affected the quality of job creation, youth employment and reduced wage competitiveness

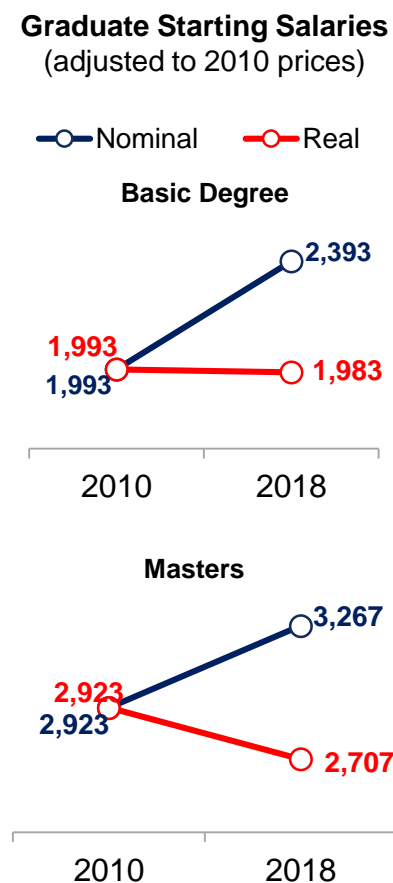
Higher job gains in low-skilled roles



Youth unemployment close to 3 times national rate



Graduate starting salaries have decreased in real terms



Note: Bank Negara Malaysia estimates using data from Labour Force Survey Report published by Department of Statistics, Malaysia

Source: Department of Statistics, Malaysia, Malaysian Employer Federation Survey, staff estimates

Imperative to formulate an overarching investment strategy to attract high quality investments

Long-term goal: Reinvigorate and mobilise high-quality private investments to strengthen Malaysia's long-term competitiveness



Investment policy and regulation

Define strategic objectives of investment policy and facilitative regulations at the national level



Incentives

Ensure incentives are effective and closely tied to national policy objectives



Institutional and governance framework

Strengthen coordination in administration, promotion and governance of investments

Well-defined objectives can serve as guiding principles to anchor investment policies going forward



Increase economic complexity

- Attract companies that develop complex products
- High local R&D and innovation intensity
- Enhance reach to high value-added markets



Create high-value jobs

- High-skilled, high-income employment for locals
- Opportunities for graduates
- Employment of domestic workers



Extend domestic linkages

- High-use of domestic inputs
- Expand breath and depth of domestic supply chain
- Collaborate with local institutions



Develop new and existing clusters

- Expand development of high-productivity sectors
- Develop new products and services locally



Improving inclusivity

- Induce incumbent firms, including SMEs, to upgrade skills and automate production processes
- Improve development in underserved areas and communities

Some ideas for focus areas for the 12th Malaysia Plan

1

Low-hanging measures can be implemented to secure growth in the near term (boost tourism, promote sharing economy, effective fiscal spending)

2

National investment strategy to attract high quality investments

3

Labour market reforms to ensure agile workforce equipped with 21st century skills (upskill and reskill workers, education reforms)

4

Shifting away from *isomorphic mimicry* to sheer effectiveness and outcome delivery

End of presentation

