



BANGKO SENTRAL NG PILIPINAS

**High-level Regional Policy Dialogue on
"Asia-Pacific economies after the global financial crisis: Lessons
learnt, challenges for building resilience, and issues for global
reform"**

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UNESCAP and BANGKO SENTRAL NG PILIPINAS**

Country Experiences 1: ASEAN Economies

Presentation

**Malaysia's Experience during the Crisis:
Lessons Learnt and Challenges**

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Malaysia's Experience During the Crisis: Lessons Learnt and Challenges

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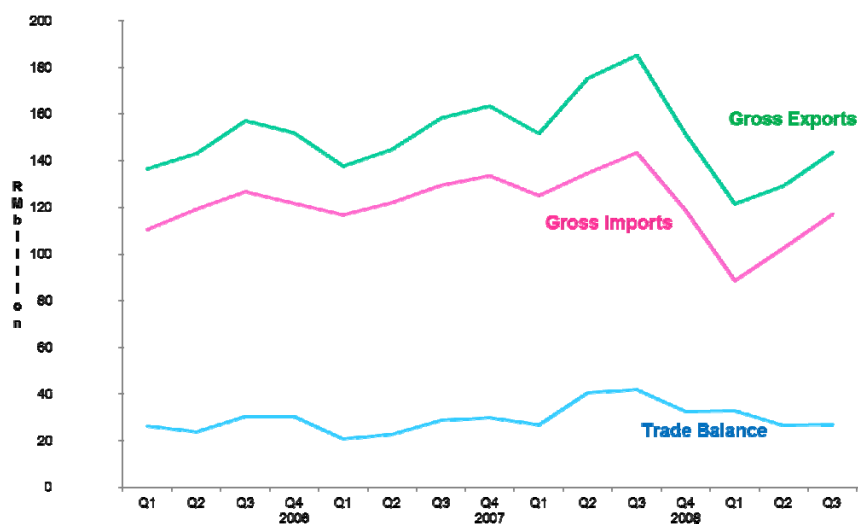
- **Impact of the 2008/09 global crisis on Malaysia**
- **Response measures**
- **Sources of resilience**
- **Comparison with the 1997/98 Asian crisis**
- **Short-term challenges**
- **Strategies for robust, inclusive and sustainable growth**

Impact of the 2008 global crisis on Malaysia

- Impact began to be felt in October 08
- Main channels:
 - Sharp falls in exports caused industrial production to decline followed by rise in unemployment
 - Collapse of stock market led to large short-term capital outflow
 - Steep falls in commodity prices resulted in lower inflation but smaller government revenues
 - Weaker business and consumer sentiment
 - Ringgit depreciation

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Steep fall in quarterly exports and imports but recovery began in second quarter of 09



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Monthly trade performance

	2008				2009					
	Sept.	Oct.	Nov.	Dec.	Jan	Feb	Mar	Apr	May	
Export	Y-o-Y % Change	15.0	-2.6	-4.9	-14.9	-27.9	-15.9	-15.6	-26.3	-29.7
	M-o-M% Change	4.5	-14.2	-3.1	-11.0	-16.9	3.4	10.1	-5.6	4.5
Import	Y-o-Y % Change	11.4	-5.3	-8.6	-22.8	-30.4	-27.3	-28.8	-22.4	-27.8
	M-o-M% Change	1.2	-7.9	-8.1	-14.3	-12.7	-8.8	12.8	8.7	-2.3
Trade Surpluses	Y-o-Y % Change	28.48	11.82	10.71	22.59	-16.59	31.46	56.26	-24.6	-35.3
	M-o-M% Change	16.9	-34.8	19.8	0.3	-29.7	48.7	4.0	-41.1	35.6
Trade Balance	RM million	14.7	9.6	11.5	11.5	8.1	12.0	12.5	7.4	10.0

Sources: BNM and DOS.

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Industrial Production Index began to slide in September 08

	2008				2009				
	Sept.	Oct.	Nov.	Dec.	Jan	Feb	Mar	Apr	May
Y-o-Y % Change	-1.6	-2.9	-8.2	-15.9	-19.8	-14.6	-14.4	-11.4	-11.1
M-o-M% Change	-2.2	-3.9	-3.1	-5.2	-4.5	-3.7	6.2	-0.3	1.6

Sources: Department of Statistics, Malaysia

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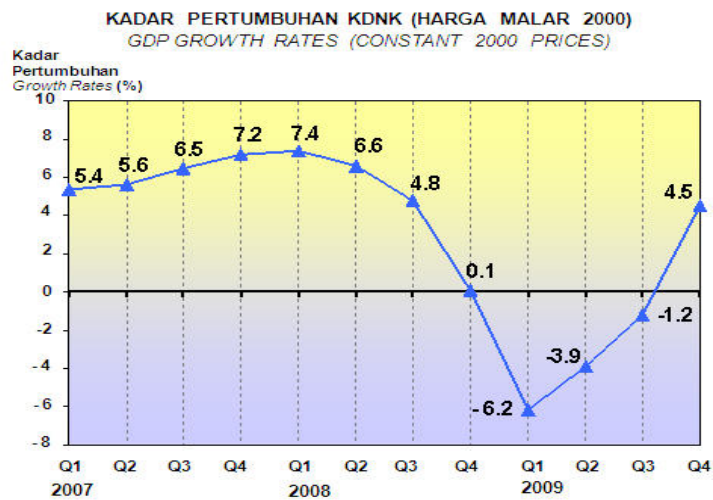
Retrenchment of Workers from 1st October 2008 – 13th May 2009

Type	Local Workers	Foreign Workers	Total
Permanent Retrenchment	17,943	7,185	25,128
Voluntary Separation Scheme (VSS)	7,601	870	8,471
Temporary Lay-Off	7,222	974	8,196
Pay-Cut	25,183	9,201	34,384
Total	57,949	18,230	76,179

Source: Ministry of Human Resources, Malaysia

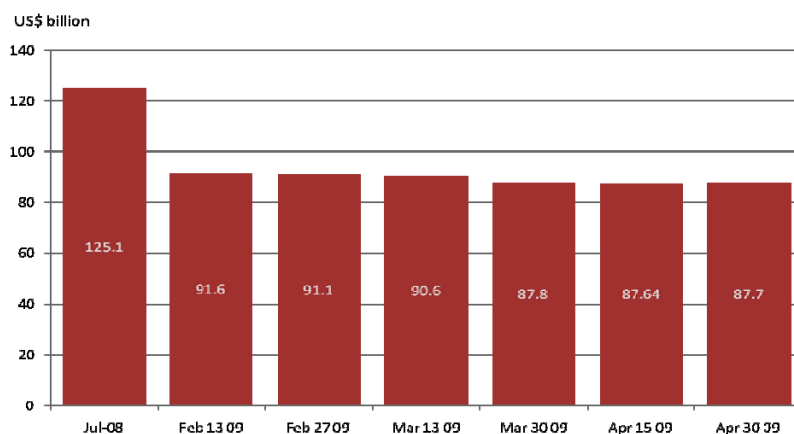
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Real GDP bounced back to almost pre-crisis levels



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Foreign exchange reserves stabilized after initial capital outflow



Source: Department of Statistics, Malaysia

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Response measures taken

- **Budget 2009**
 - Lowered corporate tax rate by 1% to 25%.
 - Increased tax rebate to RM400 (+14%) and lowered personal income tax by 1% for lower income groups
- **Malaysian 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 was spent in 2009**
- **ESP 2 RM5 billion was spent in 2009 and another RM5 billion in 2010**
- **The balance of the RM60 billion package was in the form of guarantees, tax deductions and allocations to the National Sovereign Fund**

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Selected measures for Economic Stabilization Package 1

- Construction and infrastructure projects
 - ◆ RM3.5bn (low cost and public housing, schools, bridges and roads, upgrade police stations, army camps, repair public facilities)
 - ◆ RM1.5bn investment fund to attract private investment into strategic sectors
 - ◆ RM400m for broadband infrastructure
 - ◆ RM500m for public transport
- Boosting private sector investments
 - ◆ RM200m for micro credit for SMEs
 - ◆ Allow foreigners to buy commercial properties above RM500,000 without FIC approval
 - ◆ Liberalise services sector, ie allowing 70% foreign ownership by 2015
- Employment and training:
 - ◆ RM500m skills training (RM200m for government ministries)
 - ◆ GLCs to train up to 12,000 graduates in 2 years for the job market.
 - ◆ Government to accelerate the hiring of public sector employees in critical areas
- Boost consumer spending
 - ◆ Voluntary reduction of EPF contribution from 11% to 8%
 - ◆ Increase limit on civil servant car loans by RM10,000 across the board
 - ◆ Extend government housing loan repayment period from 25 years to 30 years

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Monetary policy responses

- **An expansionary monetary policy to support the fiscal stimulus**
- **Overnight Policy Rate (OPR) was lowered:**
 - November 2008 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%
 - Done after the full impact of the global crisis began to be felt in Malaysia
- **Lowering of the Statutory Reserve Requirement (SRR) of 50 basis points to 3.5% to reduce the cost of intermediation**

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Stabilization plans for financial sector

- The banking system remained sound with NPLs at a historical low of 2.2%
- Although the banking system remains sound, the Malaysian Government stepped in to preserve depositors' confidence in the financial system.
- Malaysia announced a blanket guarantee on all bank deposits (all ringgit and foreign currency deposits) in the banking systems until 2010.

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Additional policy measures to recovery and enhanced competitiveness

1	Liberalisation of 27 services sub-sectors including the financial sector
	<ul style="list-style-type: none">• Health and social services, tourism, transport, business, computer and related services• Financial services such as fund management was fully liberalised while unit trust management and stock broking was partially liberalised up to 70%
2	Attracting human capital
	<ul style="list-style-type: none">• Visa applications for the financial and capital market industries to be relaxed to attract more talent
3	Deregulation of Foreign Investment Committee guidelines
4	Removal of 25.0% Bumiputra public shareholding spread requirement for companies seeking listing
5	Removal of 30.0% Bumiputra participation quota

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Sources of resilience

- Healthy and well-capitalized financial sector
- Capacity of managing domestic liquidity
 - Fiscal stimulus
 - Pre-emptive approach to monetary policy
- Stability of the exchange rate
- Large trade surplus and international reserves
- Low indebtedness of corporations and households
- Sizeable domestic economy that can offset export contraction
- Balanced economic structure

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Comparison between the two crises

1997/98 Asian crisis

- Caused by massive capital outflow and currency depreciation but world trade was expanding.
- Weakness in domestic economy – banking sector, over investment in property sector and over-stretched stock market
- Response measures were to stimulate domestic economy, introduce capital controls and peg the Ringgit
- Deep GDP contraction of 7.4% in 1998 turned into growth in 2000. V shaped recovery. This was significantly helped by expanding global trade

2008/09 Global crisis

- Problem caused by collapse in GDP and consumer demand in major economies that reduced trade massively
- Fundamentals of Malaysian economy were strong – sound banking sector, low corporate and household debts and stock market was not over-valued
- Response: large fiscal stimulus to expand domestic economy and loose monetary policy
- A smaller contraction (-1.7%) in 2009
- Quick recovery but not V shaped due to exports revival that came partly from regional demand and restocking

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Lessons learnt

- **Health of major export markets is very important**
 - While domestic demand provided buoyancy to the economy, recovery is dependent on external factors
- **Financial sector must be strong and healthy**
 - Good governance and prudential measures are necessary to ensure the financial sector is strong
 - Cautious about financial liberalization and about new and complex financial instruments where risks are difficult to determine
- **Need to build safeguards – large international reserves, low short-term external debt and realistic exchange rate. These factors are important to maintain confidence**
- **External sector must be competitive – export industries, financial sector and investment climate**
- **Capacity of the public sector to introduce fiscal stimulus programs**

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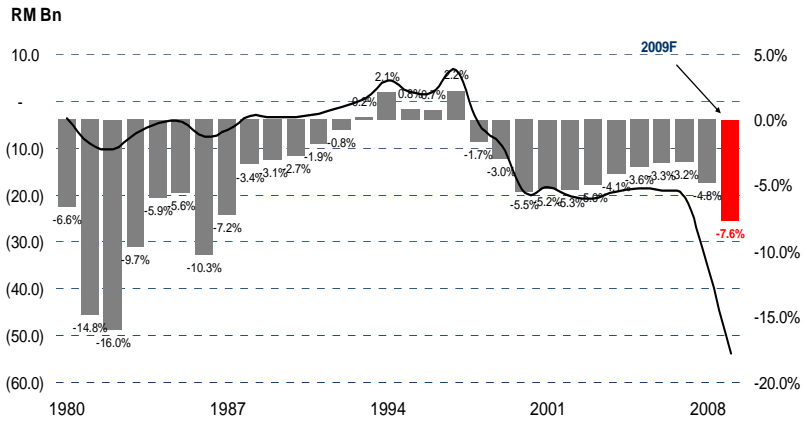
Short-term challenges

- Reducing fiscal deficit
- Restructuring and/or eliminating subsidies
- Reviving private investment – domestic and FDI
- Broadening government revenue base – introduction of GST
- Managing rising cost of living – food inflation

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Fiscal balance – historical perspective

Budget deficit – a thorny and controversial issue: How bad is it, is it worth losing our sleep over it?

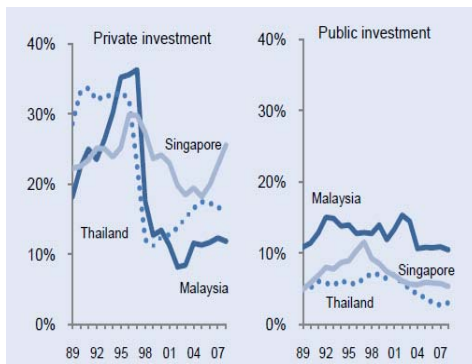


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Not Investment But Consumption Has Been Driving Growth

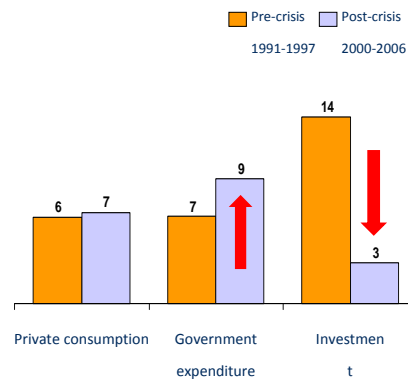
Private & Public investment as share of GDP

1989-2008; %



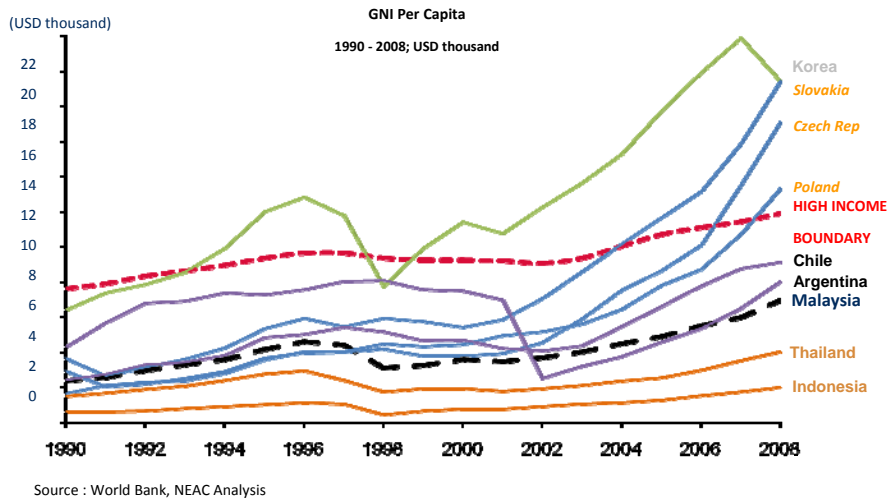
Average annual growth

1991-2006; %



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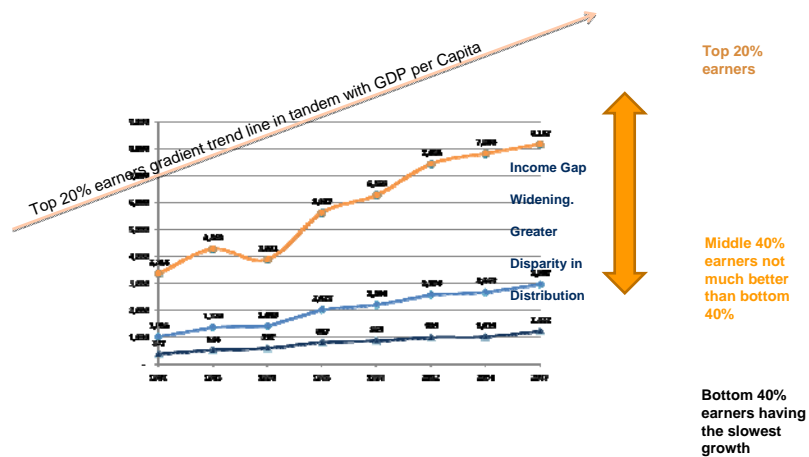
Caught in the Middle Income Trap



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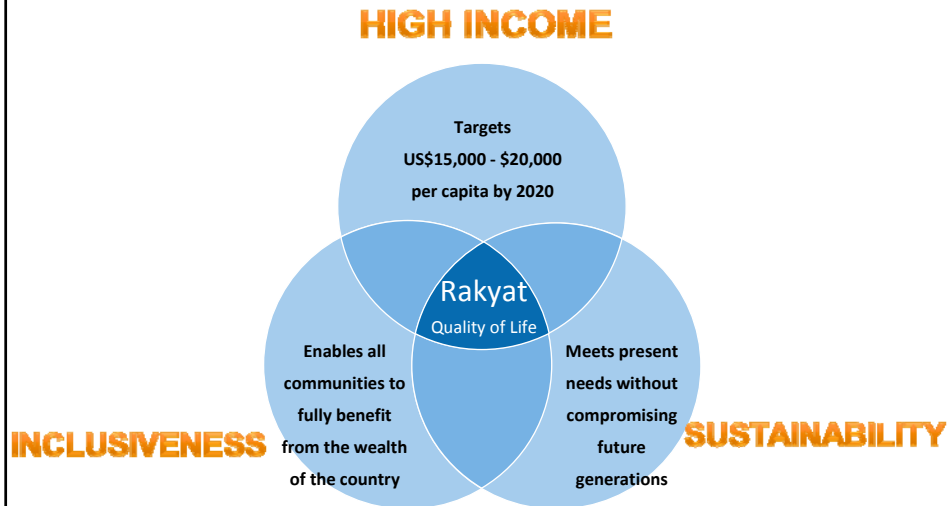
Income Distribution: Disparity Getting Wider

80% of households have average income less than RM3,000 per month



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The New Economic Model (NEM)



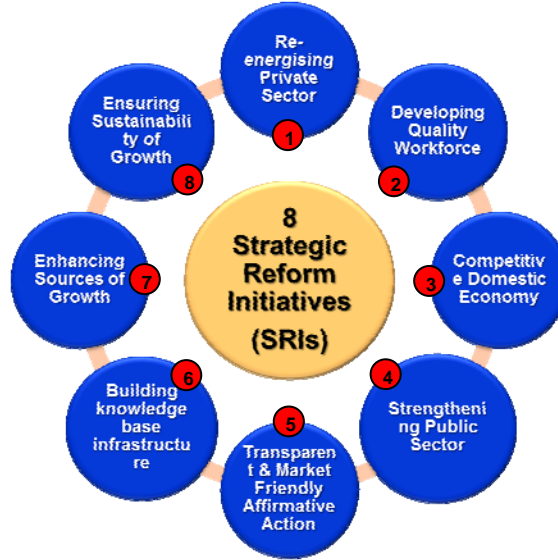
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Characteristics of Malaysia in 2020

Market Led	<ul style="list-style-type: none"> The private sector will drive competitive MARKET-LED growth with more investments in high-value added goods and services
Well-Governed	<ul style="list-style-type: none"> WELL-GOVERNED and leaner government institutions will be held accountable to performance-based outcomes, becoming an efficient facilitator with a supportive regulatory framework. Firms and civil society will adopt internationally accepted governance standards
Regionally Integrated	<ul style="list-style-type: none"> Being REGIONALLY INTEGRATED, the economy will benefit from expansion of production networks, supply chains and larger markets
Entrepreneurial	<ul style="list-style-type: none"> The ENTREPRENEURIAL spirit will make the most of growth opportunities from available financing, facilitated by a conducive business environment
Innovative	<ul style="list-style-type: none"> INNOVATIVE products and services will excite market demand, utilising state-of-the-art technology from home-grown and global innovation centres. Innovative processes will drive efficiency to higher levels

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Eight (8) Strategic Reform Initiatives (SRIs)
All SRIs have cross-cutting impact over all sectors



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Thank you