



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"**

**6-8 September 2011, Manila, Philippines**

**Jointly organized by  
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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**September 2011**

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

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## **contents**

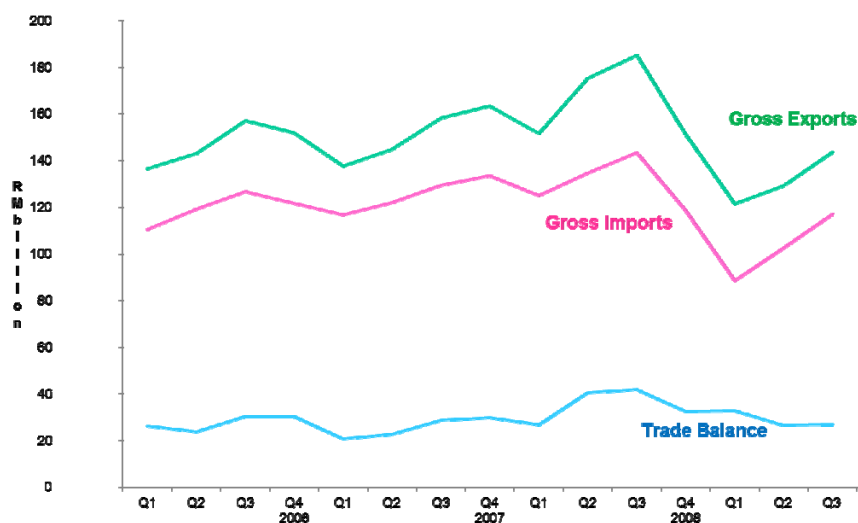
- **Impact of the 2008/09 global crisis on Malaysia**
- **Response measures**
- **Sources of resilience**
- **Comparison with the 1997/98 Asian crisis**
- **Short-term challenges**
- **Strategies for robust, inclusive and sustainable growth**

## 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

3

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



4

## Monthly trade performance

	2008				2009					
	Sept.	Oct.	Nov.	Dec.	Jan	Feb	Mar	Apr	May	
<b>Export</b>	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
<b>Import</b>	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
<b>Trade Surpluses</b>	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
<b>Trade Balance</b>	RM million	14.7	9.6	11.5	11.5	8.1	12.0	12.5	7.4	10.0

Sources: BNM and DOS.

5

## 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

6

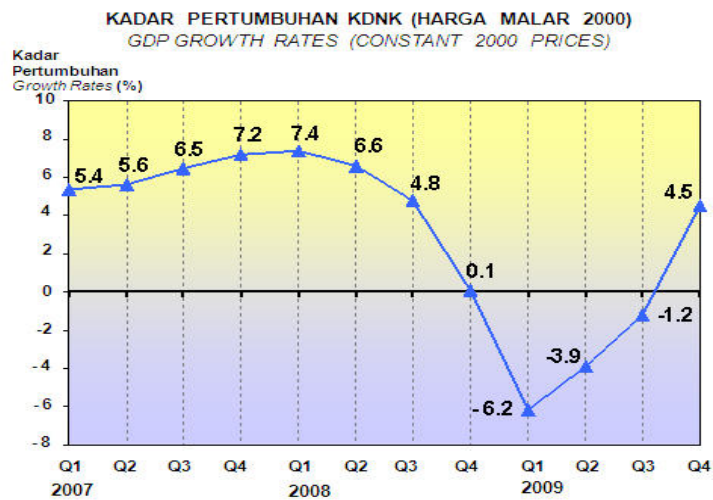
### Retrenchment of Workers from 1<sup>st</sup> October 2008 – 13<sup>th</sup> May 2009

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
<b>Total</b>	<b>57,949</b>	<b>18,230</b>	<b>76,179</b>

Source: Ministry of Human Resources, Malaysia

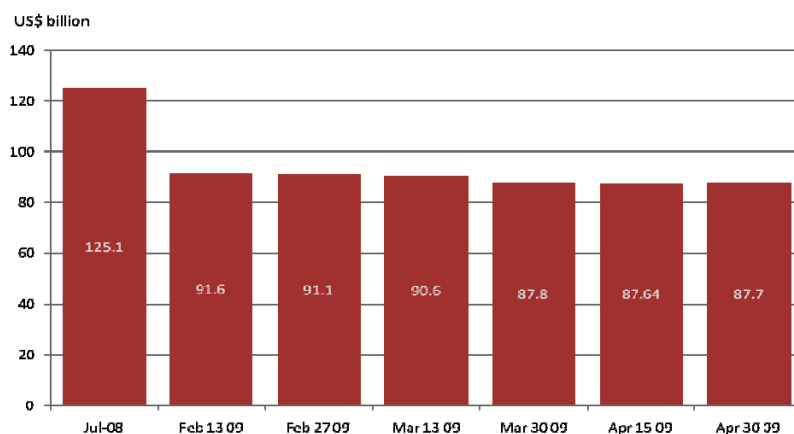
7

### Real GDP bounced back to almost pre-crisis levels



8

## Foreign exchange reserves stabilized after initial capital outflow



Source: Department of Statistics, Malaysia

9

## 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**

10

## 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

11

## 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**

12

## 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.

13

## Additional policy measures to recovery and enhanced competitiveness

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

14



## 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

15

## 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

16

## 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**

17

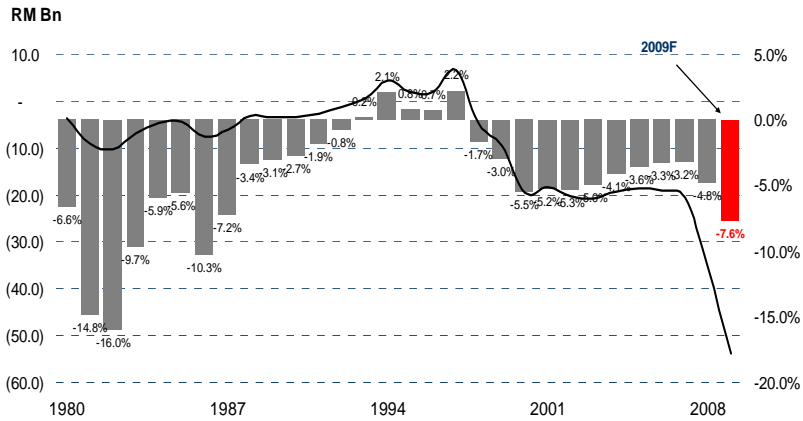
## Short-term challenges

- 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

18

## Fiscal balance – historical perspective

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

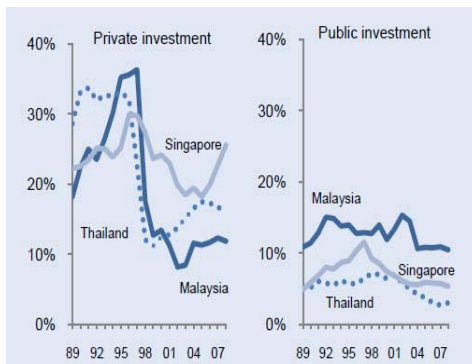


19

## Not Investment But Consumption Has Been Driving Growth

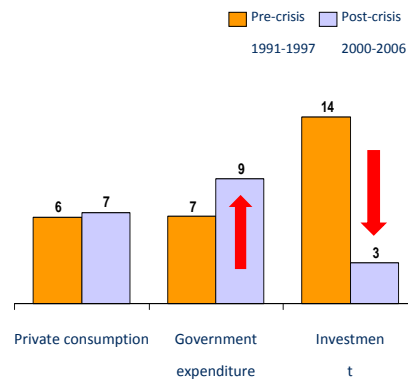
Private & Public investment as share of GDP

1989-2008; %



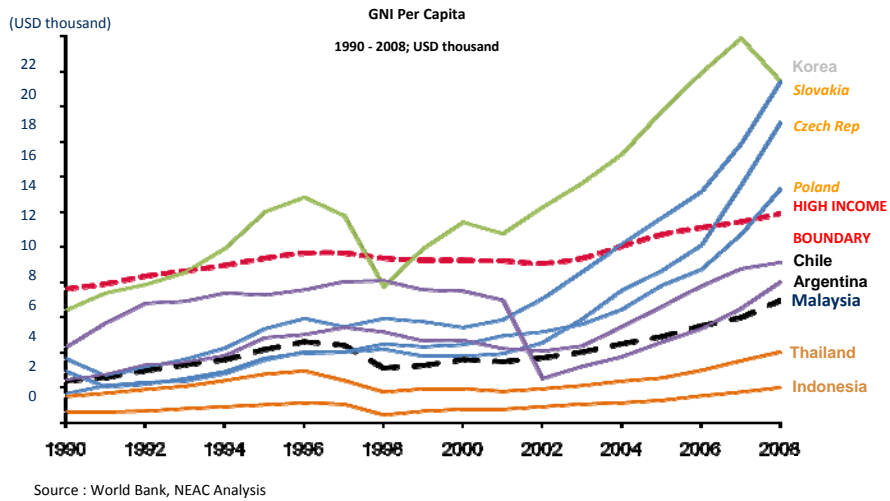
Average annual growth

1991-2006; %



20

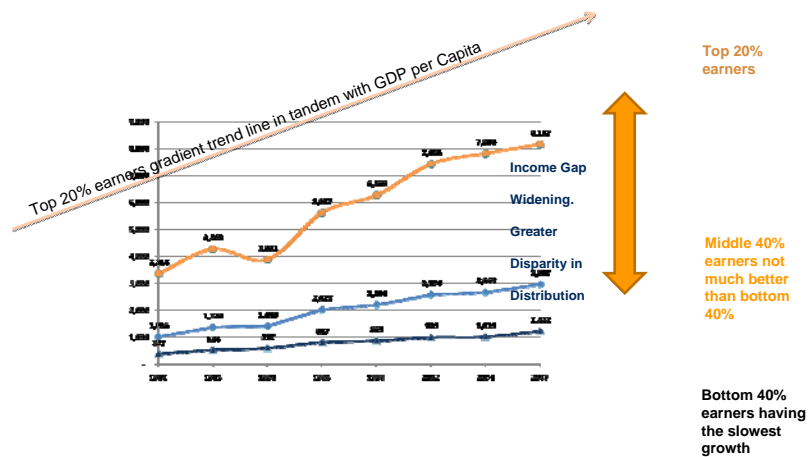
## Caught in the Middle Income Trap



21

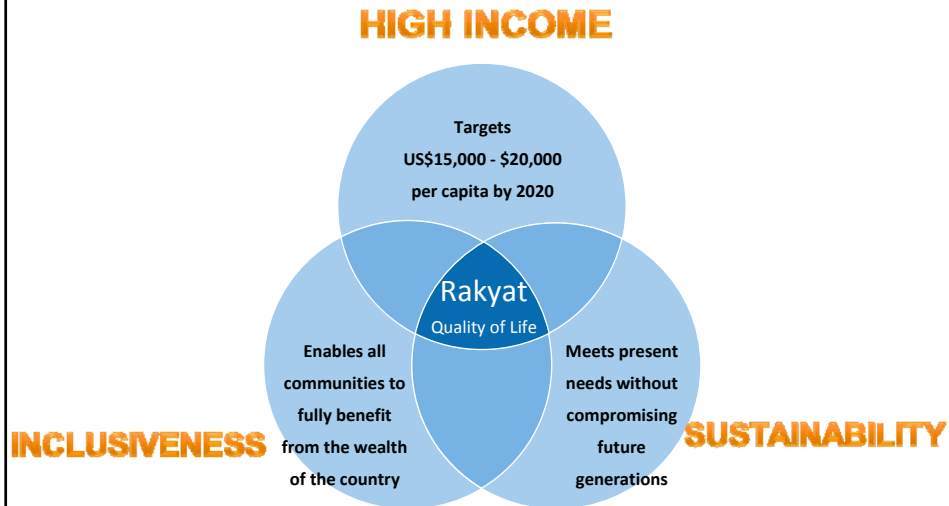
## Income Distribution: Disparity Getting Wider

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



22

## The New Economic Model (NEM)



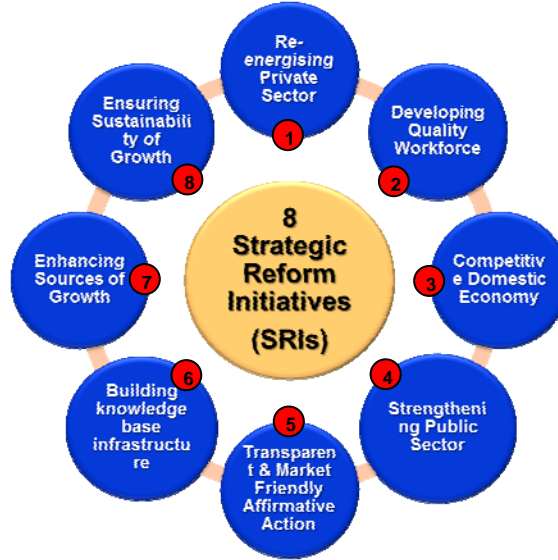
23

### Characteristics of Malaysia in 2020

Market Led	• The private sector will drive competitive <b>MARKET-LED</b> growth with more investments in high-value added goods and services
Well-Governed	• <b>WELL-GOVERNED</b> 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	• Being <b>REGIONALLY INTEGRATED</b> , the economy will benefit from expansion of production networks, supply chains and larger markets
Entrepreneurial	• The <b>ENTREPRENEURIAL</b> spirit will make the most of growth opportunities from available financing, facilitated by a conducive business environment
Innovative	• <b>INNOVATIVE</b> 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

24

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



25

Thank you