

# MALAYSIA

Table 1	2021
Population, million	32.8
GDP, current US\$ billion	372.7
GDP per capita, current US\$	11371.2
International poverty rate (\$1.9) <sup>a</sup>	0.0
Lower middle-income poverty rate (\$3.2) <sup>a</sup>	0.3
Upper middle-income poverty rate (\$5.5) <sup>a</sup>	2.9
Gini index <sup>a</sup>	41.1
School enrollment, primary (% gross) <sup>b</sup>	104.4
Life expectancy at birth, years <sup>b</sup>	76.2
Total GHG Emissions (mtCO2e)	358.5

Source: WDI, Macro Poverty Outlook, and official data.  
a/ Most recent value (2015), 2011 PPPs.  
b/ Most recent WDI value (2019).

The economy is projected to expand by 5.5 percent in 2022, supported by a recovery in domestic demand and an expansion in exports. Downside risks to growth remains, with the military conflict in Ukraine emerging as a key risk. While the economy is projected to be on a recovery path, COVID-19, food inflation, and floods are expected to weigh down progress on wellbeing of the poor and vulnerable.

## Key conditions and challenges

Malaysia is gradually emerging from the worst wave of the pandemic. With vaccination program making impressive progress, most economic and social sectors are now allowed to operate. Nearly 100 percent of adults are fully vaccinated, and 64 percent have received their booster (third dose) in early March 2022. The government has also announced its plans to transition into endemicity, which include the re-opening of international borders beginning April 2022. As such, this is expected to contribute to the recovery of the economy.

Nonetheless, key challenges remain. Fiscal space is expected to remain constrained, limiting the room for fiscal policy to play a bigger redistributive role. Gaps in the social protection system remain/persist, leaving out several vulnerable groups such as youth and informal workers. In addition, the triple shocks of COVID-19, food inflation, and floods may deplete poor and vulnerable Malaysians' resilience toward future shocks, and in turn, widen socioeconomic inequalities among Malaysians. Recognizing this, the government's top priorities are to ensure effective fiscal policies and develop inclusive social protection as stated in the Twelfth Malaysia Plan (2021-2025) and the Budget 2022.

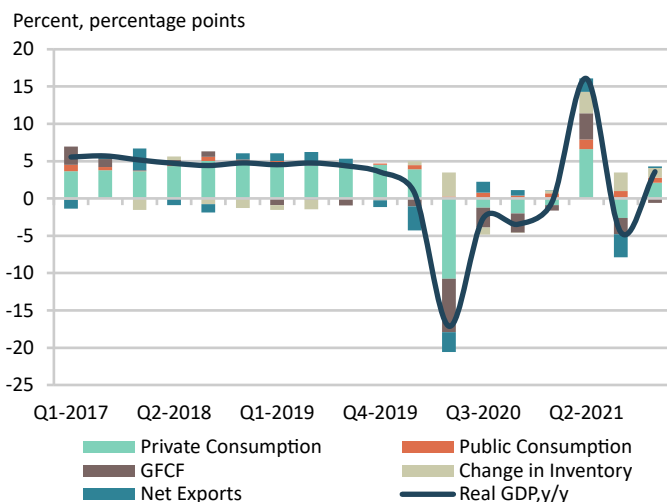
## Recent developments

For the year 2021, the economy grew at 3.1 percent (2020: -5.6 percent). Overall, the recovery in 2021 was driven by improvement in both private and public spending. On the supply side, the economy was supported by the rebound in the manufacturing, services, and mining sectors. Nevertheless, it is important to note that the economic performance in 2021 remains below pre-pandemic levels.

Conditions in the labor market have improved. The unemployment rate declined to 4.3 percent in 4Q 2021 (4Q 2020: 4.8 percent), partly driven by the various labor market incentives. Wages for manufacturing and services grew at 4.7 percent and 1.2 percent respectively in 4Q 2021. Employment was less volatile in the second half of 2021, according to the World Bank High-Frequency (HiFy) Phone Survey. As a result, more than half of households who fell into lower-income brackets by June 2021 have recovered to pre-pandemic levels by November 2021. However, disruptions to employment and labor income remain greater among the poor and vulnerable, including younger and less educated workers.

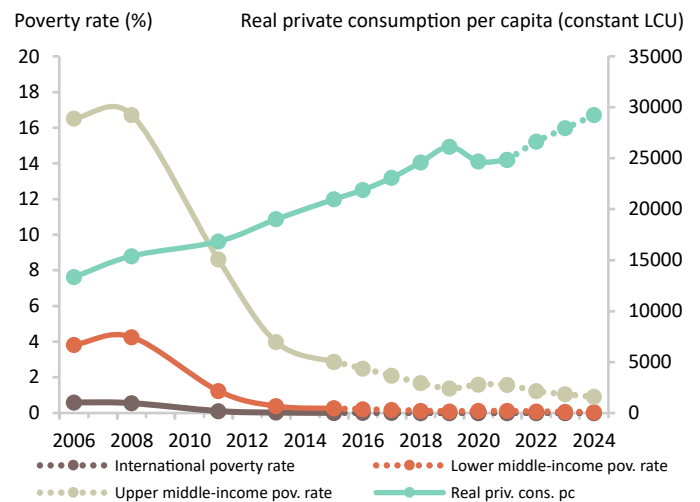
Inflation has been on an upward trend, consistent with a closing output gap. The CPI rose to 3.2 percent in December 2021 (Nov: 3.3 percent). The upward trend is mainly due to the rise in food and fuel prices, and base effects. Higher food prices were largely due to supply-related factors including adverse weather conditions and

**FIGURE 1 Malaysia / Real GDP growth and contributions to real GDP 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**



Source: World Bank. Notes: see Table 2.

higher prices of animal feed stocks. The government announced that it has taken steps to stabilize prices on crucial food items such as rice and meat, including to extend the price controls on selected items and provide additional subsidies. Going forward, the central bank expects average inflation to remain moderate and core inflation to be modest. Reflecting this, monetary policy stance is expected to remain unchanged in the near term.

In late 2021, 11 states were hit with floods displacing an estimated 70,000 people; resulting in devastating losses of RM6.1 billion (0.4 percent of GDP). Households in the Klang Valley areas were hardest hit, involving damages to dwellings and vehicles. The Malaysian Family Flood Aid worth RM1.4 billion (0.1 percent of GDP) was allocated to alleviate the burden on households and businesses.

In January 2022, the central bank kept its overnight policy rate (OPR) at 1.75 percent, and reiterated its view that monetary policy remained accommodative. In the domestic financial markets, there has been an increased in volatility given the Ukraine military conflict. However, direct portfolio

exposure to Russia and Ukraine is minimal. In the exchange rate market, the ringgit is on a depreciating trend. Between 1 January to 28 February 2022, the real effective exchange rate (REER) depreciated by 0.4 percent, and is slightly undervalued relative to fundamentals.

## Outlook

The economy is expected to recover this year, with growth projected at 5.5 percent, supported by a rebound in domestic demand and continued expansion in exports. The external sector will continue to lend its support especially electric and electronic (E&E) goods and medical rubber gloves. While economic recovery remains underway in early 2022, the balance of risks remains tilted to the downside. The unfolding developments surrounding the Ukraine military conflict has emerged as a key risk. Other risks include weaker-than-expected global growth, a worsening in supply chain disruptions, and the emergence of more severe COVID-19 variants.

Fiscal space is expected to remain limited in 2022 highlighting the need to rebuild fiscal buffers over the medium-term. A rise in commodity prices provides only temporary fiscal relief. Government revenue has been on a downward trend since 2012, and operating expenditures have grown markedly over time, resulting in significant budget rigidity. However, in the absence of a fiscal rule for commodities, the risk of fiscal policy pro-cyclicality increases. The government has proposed introducing a Fiscal Responsibility Act (FRA) which could establish a path for medium-term fiscal consolidation.

The welfare of poor and vulnerable households remains precarious given multiple shocks. Findings from the HiFy survey show that, even after receiving government assistance, more than 60 percent of lower-income households with monthly income RM4,000 or below (USD\$958 current prices) self-assessed having inadequate financial resources to cover their basic needs in late-2021. Meanwhile, one-quarter of households reported having savings that will last only for three months or less, while 16 percent do not have savings at all.

**TABLE 2 Malaysia / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2019	2020	2021e	2022f	2023f	2024f
<b>Real GDP growth, at constant market prices</b>	4.4	-5.6	3.1	5.5	4.5	4.4
Private Consumption	7.7	-4.3	1.9	8.5	6.2	5.9
Government Consumption	1.8	3.9	6.6	1.8	0.5	0.5
Gross Fixed Capital Investment	-2.1	-14.5	-0.9	6.9	2.8	2.8
Exports, Goods and Services	-1.0	-8.9	15.9	4.3	4.3	4.2
Imports, Goods and Services	-2.4	-8.4	18.5	4.5	4.4	4.3
<b>Real GDP growth, at constant factor prices</b>	4.5	-5.6	3.1	5.5	4.5	4.4
Agriculture	2.0	-2.2	-0.2	4.1	3.2	2.7
Industry	2.6	-6.2	5.7	4.2	3.7	3.6
Services	6.2	-5.7	1.9	6.7	5.2	5.2
<b>Inflation (Consumer Price Index)</b>	0.7	-1.1	2.5	2.7	2.0	1.9
<b>Current Account Balance (% of GDP)</b>	3.5	4.2	3.5	4.1	3.7	3.7
<b>Net Foreign Direct Investment (% of GDP)</b>	0.4	0.2	2.1	1.7	1.8	1.8
<b>Fiscal Balance (% of GDP)</b>	-3.4	-6.2	-6.4	-5.9	-5.3	-4.6
<b>Debt (% of GDP)</b>	52.4	62.1	63.5	65.1	66.2	67.2
<b>Primary Balance (% of GDP)</b>	-1.2	-3.8	-3.9	-3.8	-3.3	-2.6
<b>International poverty rate (\$1.9 in 2011 PPP)<sup>a,b</sup></b>	0.0	0.0	0.0	0.0	0.0	0.0
<b>Lower middle-income poverty rate (\$3.2 in 2011 PPP)<sup>a,b</sup></b>	0.1	0.1	0.1	0.1	0.1	0.1
<b>Upper middle-income poverty rate (\$5.5 in 2011 PPP)<sup>a,b</sup></b>	1.4	1.6	1.6	1.2	1.1	0.9
<b>GHG emissions growth (mtCO<sub>2</sub>e)</b>	-1.4	-6.6	0.2	1.3	1.0	1.3
<b>Energy related GHG emissions (% of total)</b>	58.7	56.3	56.2	56.5	56.7	57.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

a/ Calculations based on EAPPOV harmonization, using 2011-HIS and 2015-HIS. Actual data: 2015. Nowcast: 2016-2021. Forecasts are from 2022 to 2024.

b/ Projection using annualized elasticity (2011-2015) with pass-through = 0.7 based on private consumption per capita in constant LCU.