Bending Bamboo Shoots: Strengthening Foundational Skills
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Acknowledgements

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<td>Twelfth Malaysia Plan</td>
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<td>AE</td>
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<td>B10</td>
<td>Bottom 10 Percent (of the Population)</td>
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<td>BKM</td>
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<td>GDP</td>
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<td>GFCC</td>
<td>Gross Fixed Capital Formation</td>
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<td>High Quality Liquid Assets</td>
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<td>Integrated Circuits</td>
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<td>International Financial Statistics</td>
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<td>Institute of Labour Market Information and Analysis</td>
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<td>International Labor Organisation</td>
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<td>International Monetary Fund</td>
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<td>Initial Public Offering</td>
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<td>Labor Force Participation Rate</td>
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<td>Laporan Penilaian Prestasi Tahunan</td>
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<td>Light Rail Transit</td>
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<td>Malaysia Standard Classification of Occupations</td>
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<td>Ministry of Health Malaysia</td>
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<td>Mass Rapid Transit</td>
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<td>Micro, Small and Medium Sized Enterprises</td>
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<td>Bantuan Sara Hidup Rakyat Malaysia</td>
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<td>OE</td>
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<td>OECD</td>
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<td>OPR</td>
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<td>P2P</td>
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<td>PADU</td>
<td>Pangkalan Data Utama or Education Performance and Delivery Unit</td>
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<td>PAJSK</td>
<td>Pentaksiran Aktiviti Jasmani, Sukan dan Kokurikulum</td>
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<td>Pentaksiran Bilk Darjah</td>
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<td>PLI</td>
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<td>Pentaksiran Pusat</td>
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<td>Public Private Partnership</td>
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<td>PPPsi</td>
<td>Pentaksiran Psikometrik</td>
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<td>ProELT</td>
<td>Professional Upskilling for English Language Teachers</td>
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<td>PTR</td>
<td>Pupil-Teacher Ratio</td>
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<td>PWM</td>
<td>Progressive Wage Model</td>
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<td>Q/Q</td>
<td>Quarter-on-Quarter</td>
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<td>REER</td>
<td>Real Effective Exchange Rate</td>
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<td>RHS</td>
<td>Right Hand Side</td>
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<td>RTS</td>
<td>Rapid Transit System</td>
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<td>SEAMEO</td>
<td>Southeast Asia Ministers of Education Organization</td>
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<td>SEA-PLM</td>
<td>Southeast Asia Primary Learning Methods</td>
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<td>SMEs</td>
<td>Small and Medium Sized Enterprises</td>
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<td>SPM</td>
<td>Sijil Pelajaran Malaysia</td>
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<td>SSB</td>
<td>Sugar-sweetened Beverages</td>
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<td>SST</td>
<td>Sales and Services Tax</td>
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<td>STR</td>
<td>Sumbangan Tunai Rahmah</td>
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<td>SWRC</td>
<td>Social Wellbeing Research Center</td>
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<td>Salaries and Wage Survey</td>
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<td>T20</td>
<td>Top 20 Percent (of the Population)</td>
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<td>TALIS</td>
<td>Teaching and Learning International Survey</td>
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<td>TARL</td>
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<td>TCR</td>
<td>Total Capital Ratio</td>
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<td>TFP</td>
<td>Total Factor Productivity</td>
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<td>UKM</td>
<td>Universiti Kebangsaan Malaysia</td>
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<td>UMIC</td>
<td>Upper Middle-Income Countries</td>
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<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>UNESCO</td>
<td>United Nations Economic and Social Commission for Asia and the Pacific</td>
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<td>UNESCAP</td>
<td>United Nations Educational, Scientific and Cultural Organization</td>
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<td>UNICEF</td>
<td>United Nations Children’s Fund</td>
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<td>UPSR</td>
<td>Ujian Penilaian Sekolah Rendah</td>
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<tr>
<td>US</td>
<td>United States</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
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<tr>
<td>WHO</td>
<td>World Health Organization</td>
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<td>WP</td>
<td>Wilayah Persekutuan</td>
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Executive Summary

Global and regional developments

Global economic conditions was subdued in 2023. Global trade in goods and services was almost flat in 2023, growing by an estimated 0.2 percent—the slowest expansion outside global recessions in the past 50 years. Inflation has continued to decline from 2022 peaks, although it remains above target in most advanced economies. With inflation moderating, monetary tightening in advanced economies is slowing down, but interest rates are expected to remain elevated for some time. Thus far, headwinds to growth have been partially offset by household and business spending and resilient risk appetite, most notably in the US.

Global activity is showing signs of improvement since the start of 2024. The global composite PMI rose for the fourth consecutive month to 52.1 in February, with both the manufacturing and services sectors firming on the back of improving demand and diminishing tightness in financial conditions. There is a modest pickup of economic activity in many emerging markets and developing economies (EMDEs), partly supported by spillovers from resilient growth in the US. Global trade experienced a rebound in goods, while trade in services continued to expand.

Countries in the East Asia and Pacific (EAP) region grew faster than the rest of the world in 2023, albeit slower than in the pre-pandemic period. The region benefitted from the ongoing recovery in the tourism sector, which stimulated economic activity. On the external front, exports remained weak mainly due to continued deceleration in global growth. Meanwhile, monetary and fiscal policies in the region generally remained non-expansionary amidst the risks of exchange rate depreciation, uncertainty about inflation and limited fiscal space.
Domestic developments

Growth was subdued in 2023

The Malaysian economy moderated further to 3.0 percent in Q4 2023 (Q3 2023: 3.3 percent), bringing the overall growth to 3.7 percent in 2023 (2022: 8.7 percent). Growth for 2023 stood lower than the government’s projection of around 4 percent as the economy continued to be weighed down by slower external demand. Malaysia’s moderating growth in 2023 was consistent with most other regional countries, with a few countries also missing official growth targets. (Figure ES1).

FIGURE ES1
Malaysia’s moderating growth in 2023 was consistent with most other regional countries, with a few also missing growth targets

Real GDP growth, y/y, Percentage

As global economic conditions remained subdued, export growth continued to contract in the last two quarters of 2023. Gross exports contracted by 15.2 and 6.9 percent in Q3 and Q4 2023 respectively, driven by a sustained broad-based slowdown in external demand across all products, especially in the exports of the non-E&E segment. A smaller goods surplus, coupled with a higher investment income accruing to foreign investors, contributed to the narrowing of the current account surplus to 0.1 percent of GDP in Q4 2023 (Q3 2023: 2.0 percent). Malaysia’s current account surplus stood at 1.2 percent of GDP in 2023 (2022: 3.1 percent).

Growth in Malaysia’s foreign direct investment (FDI) position slowed to 5.4 percent in 2023 (2022: 12.4 percent). The slowdown experienced by Malaysia is in line with the FDI trends in the ASEAN region for 2023. EAP was the main contributing region to FDI, with Singapore and Hong Kong contributing 55.7 percent and 39.2 percent of the increases in net FDI inflows. Meanwhile, approved domestic direct investment (DDI) increased by 35.1 percent year-on-year, with the services sector emerging as the key contributor (see Box 1 on FDI and DDI trends in 2023).

In Q4 2023, growth slowed down due to weaker external demand and was mainly driven by domestic demand. Private consumption continued to expand in Q4 2023, albeit at a more moderate rate of 4.2 percent (Q3 2023: 4.6 percent), supported by ongoing household consumption. On the supply side, the manufacturing sector contracted while other economic sectors expanded in Q4 2023. The manufacturing sector contracted by 0.3 percent (Q3 2023: -0.1 percent), reflecting a slowdown in external demand, particularly in the electric and electronics (E&E) segment. The services sector, on the other hand, expanded by 4.2 percent (Q3 2023: 5.0 percent) as tourism activity continued to recover. The number of tourist arrivals reached 20 million in 2023 (Figure ES2). The construction, mining and agriculture sectors expanded by 3.6 percent, 3.8 percent, and 1.9 percent respectively (Q3 2023: 7.2 percent; -0.1 percent; 0.9 percent).

FIGURE ES2
Tourism activity continued to recover towards the pre-pandemic levels

Number of tourist arrivals to Malaysia, Million

25.9 25.8 26.1
4.3 0.1 10.1
20.1


Source: DOSM, Malaysian Tourism Promotion Board

Note: Government growth target is the lower bound of target range.
Labor market conditions have broadly improved to pre-pandemic levels

The unemployment rate declined to 3.3 percent in Q4 2023 (Q4 2022: 3.6 percent), similar to what it was before the pandemic (Q4 2019: 3.2 percent) (Figure ES3). The decline in the unemployment rate was mainly due to the decrease in unemployment among younger persons, as well as the downward trend in long-term unemployment. Simultaneously, the labor force participation rate also gradually increased in the past year to 70.1 percent in Q4 2023 (Q4 2022: 69.5 percent).

**FIGURE ES3**
The unemployment rate has declined to pre-pandemic levels

<table>
<thead>
<tr>
<th>Year</th>
<th>Unemployment rate</th>
<th>Labor force participation rate</th>
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<tbody>
<tr>
<td>2019</td>
<td>3.2</td>
<td>69.5</td>
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<td>2021</td>
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</tr>
<tr>
<td>2023</td>
<td>3.3</td>
<td>70.1</td>
</tr>
</tbody>
</table>

Source: DOSM

Meanwhile, both time- and skill-related underemployment have remained somewhat stagnant in the past year. Time-related underemployment, which is the share of workers employed for less than 30 hours per week but are willing and able to work more hours, appears to have stabilized to its pre-pandemic level. In comparison, however, skill-related underemployment, defined as the share of tertiary-educated workers in semi-skilled or low-skilled jobs, remains elevated, with a mismatch between the demand and supply of tertiary-educated workers.

Evidence to support concerns on migrant workers is limited

There have been repeated concerns of unemployment among migrant workers in Malaysia. At 3.6 percent in Q4 2023, the unemployment rate of migrant workers is substantially higher than before the pandemic, however this is not markedly higher than the unemployment rate of citizens (Figure ES4). Official statistics show that about 83,000 migrant workers were unemployed in Q4 2023, reflecting a mismatch between the supply and demand of these workers. Among the unemployed migrant workers are those who were admitted between January and March 2023—when the moratorium on the hiring of migrant workers placed during the pandemic was temporarily lifted.

**FIGURE ES4**
The unemployment rate of migrant workers is trending higher than before the pandemic

<table>
<thead>
<tr>
<th>Year</th>
<th>Unemployment rate of non-citizens</th>
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<tr>
<td>2020</td>
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<td>2021</td>
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<td>2023</td>
<td>3.6</td>
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</tbody>
</table>

Source: DOSM

Nevertheless, evidence to support longstanding concerns about migrant workers is limited. Migrant workers are an important source of labor as they help fill a gap in the labor economy—which arises from the mismatch between the composition of the labor force and the number of and skill level required for available jobs. Studies analyzing the relationship between employment of low-skilled migrant workers and wages of Malaysians show that employment of low-skilled migrant workers has little impact on the wages of lower-skilled Malaysians (see Box 2 on migrant workers in Malaysia).

The absolute poverty rate remains above the pre-pandemic rate

The government recently announced that its target of zero hardcore poverty has been reached in some states, but incidence of absolute poverty remained higher than pre-pandemic levels. Incidence of absolute poverty in 2022 is at 6.2 percent, higher than the pre-pandemic level (2019: 5.6 percent).
Furthermore, while the number of hardcore poor households is below 150,000, nearly 490,000 Malaysian households still live below the average national poverty line. A broader view and a more ambitious target of poverty eradication than the current national hardcore poverty target could be helpful in addressing poverty incidences in Malaysia.

Recent data shows that regional disparities exist when it comes to access to basic needs. Based on the 2022 Basic Amenities Survey Report, 96.7 percent of households reported having access to piped water, while the electrification rate is almost 100 percent. In addition, at least 95 percent of households have access to primary schools and secondary schools within a 5-kilometer radius. However, regional disparities remain (Figure ES5). About 11 percent of rural households still lived more than 5 kilometers from public healthcare centers, compared to 0 percent among urban households. Nearly 20 percent of households in Sabah and Sarawak did not have access to secondary schools within 5 kilometers, five times higher than the national average of 4.7 percent.

There were less extensive price increases observed throughout 2023. Inflation pervasiveness, which refers to the extent to which inflation is spread throughout the economy, declined throughout the year (Figure ES7). The share of items in the consumer price index (CPI) basket that recorded monthly price increases declined to 36.3 percent in Q4 2023 (Q3 2023: 40.8 percent). The lower pervasiveness shows that inflationary pressures have become more contained with less extensive price increases.

Easing inflationary pressures

Inflationary pressures continued to ease. Headline inflation moderated to 1.6 percent in Q4 of 2023 (Q3 2023: 2.0 percent), broadly in line with price developments in other regional countries (Figure ES6). However, in February 2024, headline inflation increased to 1.8 percent compared to January 2024 (1.5 percent), driven mainly by higher inflation for utilities following upward revision in water tariffs, while core inflation remained unchanged at 1.8 percent (January: 1.8 percent).
With inflation easing and growth outlook moderating, the overnight policy rate (OPR) was maintained at 3.0 percent in January and March. At this current rate, the monetary policy stance is deemed appropriately supportive of the economy. Meanwhile, the ringgit remained on a depreciating trend. From January 1 to April 8, 2024, the ringgit weakened by 3.4 percent against the USD. The ringgit performance has been mainly affected by interest rate differentials, global economic developments, as well as investor sentiments. Unlike its regional peers, Malaysia’s real effective exchange rate (REER) has been on a declining trend, depreciating by 6.3 percent between January 2022 to February 2024.

The banking sector remains well capitalized and has ample liquidity

The Malaysian banking sector remained stable. The total capital ratio (TCR), at 18.5 percent as of end December 2023, is above the regulatory minimum ratio of 8 percent. The TCR has remained stable as the increase in risk-weighted assets kept pace with the increase in total capital. The liquidity coverage ratio remained above the regulatory minimum of 100 percent, climbing to 160.9 percent as of December 2023 (December 2022: 151.5 percent), while banks’ holdings of high-quality liquid assets increased by 0.7 percent. Banking system deposits grew by 5.6 percent.

Asset quality remained solid, with gross impaired loans ratio decreasing by 7 basis points in December 2023 vis-à-vis December 2022. The gross impaired loans ratio decreased to 1.65 percent at the end of December 2023 and remains low compared to regional peers. In addition, the share of total loans under repayment assistance programs continued to decline. The vast majority of borrowers who exited repayment assistance programs have been able to resume and sustain loan repayments. While banks have reduced their provisions for impaired loans, they have substantial capacity to absorb potential increases.
The federal government is expected to remain on its fiscal consolidation path

Federal government revenue as a share of GDP is expected to decline in 2024 due to lower petroleum-related investment income (Figure ES8). Federal government revenue increased to 17.3 percent of GDP in 2023 (2022: 16.4 percent) and is projected to decline to 15.6 percent of GDP in 2024. The lower revenue in 2024 is driven by lower investment income with lower dividends from Petronas.

FIGURE ES8
Federal government revenue is expected to decline in 2024

Federal government revenue, Percentage of GDP

grow to RM 120 billion in 2040 (compounded annual growth rate: 8.6 percent), more than tripling the 2024 budgeted amount. The rising cost of pensions presents pressing concerns about the medium- and long-term fiscal implications attributed to the current civil service pension plan. The proposed pension scheme could reduce pension-related spending in the long term and incur savings that will improve fiscal sustainability (See Box 3 on reforming civil service pensions). The government, however, has yet to announce the timeline and the design of the defined contribution scheme for newly hired civil servants.

For 2024, the government forecasts that subsidy spending will decline, and the share of rigid expenditures will continue to increase. Subsidies and social assistance spending are expected to decline to 2.7 percent of GDP in 2024 from 3.9 percent in 2023, mainly from lower fuel subsidies. Rigid spending, which includes payments related to emoluments, pensions, and debt service charges, is projected to increase to 58.6 percent of total operating expenditures in 2024 (2023: 55.3 percent). Of note, the debt service ratio is projected to increase to 16.2 percent of federal government revenue in 2024 (2023: 14.7 percent), higher than the 15.0 percent administrative limit practiced by the government (Figure ES9).

The proposed pension scheme for newly hired civil servants could help manage the increase in rigid expenditure in the future. Without any reform in the pension system, spending on pensions is estimated to

The Public Finance and Fiscal Responsibility Act (PFFRA) which was announced prior to the tabling of Budget 2024 last year introduced several fiscal rules. The tabling and enactment of the PFFRA underscores the government’s commitment to improve transparency and governance of its fiscal framework. It requires the government to publish public finance documents and adhere to several fiscal rules. Of note, the mandatory publication of tax expenditure statements is a key step towards improving overall efficiency and effectiveness of the tax system. However, four aspects of the PFFRA could be strengthened, namely: (i) harmonizing compliance periods for various rules; (ii) including well-defined escape clauses; (iii) merging the rules on debt and financial guarantees into a single rule; and (iv) establishing an independent fiscal council to oversee compliance (see Box 4 on understanding the PFFRA).
**Economic outlook**

**Global growth is expected to slow further in 2024**

Global growth is set to slow to 2.4 percent in 2024 (2023: 2.6 percent), marking the third consecutive year of deceleration. Growth in advanced economies is projected to bottom out at 1.2 percent in 2024 (2023: 1.5 percent), as growth in the US moderates, while euro area growth increases marginally as lower inflation raises real wages. Meanwhile, growth in EMDEs is projected to be broadly unchanged at 3.9 percent for 2024 (2023: 4.0 percent). Global trade is projected to pick up to 2.3 percent in 2024 (2023: 0.2 percent), mirroring projected growth in global output.

In the EAP region, growth is projected to slow to 4.5 percent in 2024 (2023: 5.1 percent), mainly reflecting a further deceleration in economic activity in China. Growth in China is expected to decline further to 4.5 percent in 2024 (2023: 5.2 percent) as the post-pandemic rebound wanes. In the rest of the region, growth is projected to pick up to 4.6 percent in 2024 (2023: 4.4 percent), underpinned by domestic demand and increased government spending in some economies. In line with the likely recovery of global goods trade, regional trade growth is anticipated to increase modestly in the near term, offsetting the impact of the slowdown in China.

**Malaysia’s exports will benefit from a partial recovery of global demand for goods**

**Malaysia’s economic growth is expected to pick up in 2024**

Malaysia’s economy is projected to expand at a higher rate of 4.3 percent in 2024 (2023: 3.7 percent) (Figure ES10). Private consumption is expected to see a modest increase in growth to 5.2 percent this year (2023: 4.7 percent), supported by continued improvements in labor market conditions and wage growth, as well as household income support from the government, including the Sumbangan Tunai Rahmah (STR) cash aid. Public consumption is forecasted to grow at a rate of 2.8 percent this year (2023: 3.9 percent). This is mainly attributed to annual salary increments for civil servants and new hires for critical positions, particularly in health and education sectors.

**FIGURE ES10**

Malaysia’s GDP growth is projected to pick up to 4.3 percent in 2024

Real GDP growth, y/y, Percentage

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth Rate</th>
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<td>2024f</td>
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</tbody>
</table>

Source: World Bank staff calculations based on DOSM data

Gross fixed capital formation (GFCF) is projected to grow at a sustained pace of 5.1 percent in 2024 (2023: 5.5 percent). Business investment will continue to be supported by ongoing multiyear investments and the realization of the recently approved investments in the manufacturing and services sectors. Capital spending by the government will continue to be channeled towards upgrading public infrastructure in the transportation, health, and education sectors. Meanwhile, investment activity by public corporations will be supported by the ongoing strategic infrastructure projects such as the East Coast Rail Link (ECRL) and the Sabah-Sarawak Pan-Borneo Highway.

On the external front, Malaysia’s exports will benefit from a partial recovery of global demand for goods. Following a contraction in 2023, Malaysia’s export growth is projected to increase modestly at 4.8 percent this year (2023: -7.9 percent), benefitting from a modest pickup in global activity and base effects. Meanwhile, the services trade will be supported by the continuing rise in international tourist arrivals from the surrounding region, including China. Malaysia’s imports are forecasted to expand at 5.3 percent this year (2023: -7.6 percent), mirroring the projected recovery of goods exports given the high share of intermediate input in Malaysia’s imports.
Headline inflation is expected to remain at around 2.5 percent this year (2023: 2.5 percent), as global commodity prices moderate. Underlying inflation, as measured by core inflation, will also likely trend lower this year amid stabilizing cost and demand conditions. These forecasts assume that the ceiling on retail fuel prices and price control measures on selected food items will remain in place throughout the forecast period.

Growth will continue to face considerable downside risks. On the external front, among the main downside risks to the global growth outlook are heightened geopolitical tensions including an escalation of the recent conflict in the Middle East, financial stress related to still-high real interest rates and elevated debt and weaker-than-expected growth in China. The materialization of any of these risks could have considerable adverse spillovers to Malaysia through its global trade and financial linkages.

Domestically, the key downside risks relate to uncertainties over the strength of household consumption. A policy-induced upside shock to inflation, weaker real disposable income growth and lagged effects of the post-pandemic monetary policy nominalization could weigh more on the strength of domestic demand than is currently assumed. On the upside, there is a possibility that economic activity in the US and some major economies could be more resilient than anticipated. Additionally, the continued resilience of domestic private investment and tourism-related activity could also help bolster growth.

While optimizing public spending can free up budgetary resources, enhancing revenue mobilization remains vital to restore fiscal space and meet future fiscal needs. Malaysia’s ability to sustainably finance its long-term inclusive growth is constrained by its relatively low tax capacity. Despite recent tax reforms, projected revenue collection remains modest. Further revenue mobilization efforts could focus on enhancing general consumption tax, broadening the bases of personal income tax and capital gains tax, streamlining corporate tax incentives, and strengthening tax administration. A forward-looking Medium-Term Revenue Strategy (MTRS) will provide the government with greater clarity on its structural fiscal trends and allow for better planning to ensure adequate, well-timed and well-sequenced tax policy and administration reforms.

A forward-looking Medium-Term Revenue Strategy will provide the government with greater clarity on its structural fiscal trends and allow for better planning to ensure adequate, well-timed and well-sequenced tax policy and administration reforms.

Policy considerations

Successful fiscal reforms will require both good policy design and effective policy communication to secure broad-based support from the Rakyat. Proactive communication of expenditure rationalization initiatives, particularly in the context of subsidy reform, is essential. The implementation of targeted subsidies can significantly improve expenditure efficiency and lead to much-needed fiscal savings in Malaysia. Early and clear communication of the subsidy reform plan is key to managing public expectations. Moreover, a firm commitment to redirect savings to targeted social spending, such as increased cash transfers to targeted households, can help to gain broader support for the reform.

Over the medium-term, the government continues to focus on improving the rakyat’s standard of living, as well as ensuring access to education, healthcare, and basic infrastructure. Malaysia’s current relatively high economic inequality suggests that the country still faces challenges in ensuring that proceeds of economic development are distributed more evenly. In addition, findings from the Basic Amenities Survey Report suggest that while most Malaysians enjoy a high level of access to fundamental needs, regional gaps exist, particularly in access to healthcare and education. Improvements could be made to enhance spending efficiency and the quality of service delivery in these two sectors (see Part 2, Bending Bamboo Shoots: Strengthening Foundational Skills).
To improve its human capital index, Malaysia will need to improve its educational outcomes, beginning with foundational skills. Since learning is cumulative, strong foundational skills will give Malaysia the advanced skills it needs to sustain growth and transition into high-income status.

Malaysia has achieved near universal primary education with equitable resources. In Malaysia, students in the poorest quintile (Q1) and richest quintile (Q5) have very similar experiences in terms of mathematics practice, teacher effort, and frequency of mathematics and language lessons (Figure ES11). Malaysia’s success with universalizing primary education equitably can be attributed to factors such as the expansion of preschool education, having a strategic plan with solid principles, creation of a delivery unit to support implementation, stable pro-poor funding (Figure ES12), and strong political support.

Despite these successes, many children, particularly those from disadvantaged backgrounds, struggle with learning outcomes. The problem starts early, with a significant portion of children lacking school-readiness skills, leading to challenges in reading, writing, and mathematics throughout their schooling. While most children entering primary school attended early childhood centers and perform well on school-readiness indicators, approximately 24 percent still lack school-readiness skills. Most of these children come from the lower-income quintiles (Figure ES13). Since learning is cumulative, weak foundational skills in early life lead to low skills in later life. By the end of Grade 5, 42 percent of students cannot read a grade-appropriate paragraph with comprehension. By the age of 15, Malaysian students lag aspirational peers in reading, mathematics, and science as measured by international assessments (Figure ES14).
Malaysia has made considerable efforts to address these challenges, though gaps still exist. Various programs such as the Reading Aid Programme and the Primary School Literacy and Numeracy Program have been implemented by the Ministry of Education (MOE) to alleviate the issue of learning poverty. The teacher strategy outlined in the Malaysia Education Blueprint 2013-2025 also aligns with global good practices, but there are important gaps in teacher training, particularly in differentiated instruction and special needs education (Figure ES15). In any given classroom, children are at different levels of learning or have different learning trajectories. Training in differentiated instruction allows teachers to meet the needs of learners on these different trajectories, without sacrificing the learning of other students in the classroom. Inclusive and special needs education helps teachers meet the specific needs of certain students effectively. While Malaysia has training programs in these areas, they do not reach many teachers and their effectiveness has not been evaluated. In contrast, in Vietnam, which is a global leader in student performance, a much higher percentage of students are taught by teachers who have been trained in these areas. Another concerning finding is the unexpectedly high teacher absence rates in Malaysia reported by Grade 5 students (Figure ES16).
Malaysia’s education system is already on solid ground, but given the country’s economic ambitions, there is room for improvement.

To improve, Malaysia should focus on several areas:

Firstly, start early and give all children a head start. Malaysia has made noteworthy progress in expanding preschool education, but there is room to reach the last mile. Malaysia will need to improve the accessibility, equity, and quality of preschool education. This includes ensuring free and compulsory preschool education, conducting mapping exercises to identify enrollment gaps, and providing financial aid to parents and operators. Improvements in teacher qualifications, teacher professional development, quality assurance systems, and curriculum delivery are fundamental. Effective governance, financing, and stakeholder cooperation will be essential for implementing these measures and achieving preschool education goals.

Secondly, have better and more frequent measurements of student learning and teacher performance. To improve, Malaysia should rigorously measure learning outcomes and continue to benchmark them to international standards. The School-Based Assessment or Pentaksiran Berasaskan Sekolah (PBS) was introduced more than a decade ago, but its effectiveness in measuring learning outcomes should be evaluated and strengthened. As Malaysia continues improving PBS, it is also important that it continues to participate in international tests of student learning—aligning local test instruments and grading with international ones. Similarly, measuring teacher performance objectively is essential. Improving teacher effectiveness starts with identifying their capacity, followed by strengthening the teacher appraisal system. Significant reforms and reorientation in this area are needed. For appraisals to be useful, there must be robust procedures, investment of time and knowledge, and linkage to student learning.

Thirdly, support and incentivize improvement in teacher performance. Effective teacher training programs emphasize content knowledge, practice with colleagues, follow-up support, and career incentives. Mentoring, coaching, structured lesson plans, targeted instruction, educational technology, and the dual teacher model are potential tools for supporting teachers.

To improve the success of teacher policies, it is crucial to integrate teachers’ experiences into their design and implementation. The success of these policies hinges on teachers making changes that enhance the teaching-learning experience for students.

Teachers play a crucial role in assessing student learning, interpreting curricula, and adapting their teaching methods accordingly. However, policymakers frequently disregard teachers’ perspectives and fail to consider the practical challenges they face. For instance, teacher professional development often lacks sufficient in-classroom practice and feedback. Similarly, curriculum reforms often add new material without removing existing content, burdening teachers with more material to cover in the same amount of time.

Malaysia has made noteworthy progress in expanding preschool education, but it will need to improve the accessibility, equity, and quality of preschool education.

Addressing the what, how and why barriers are key to effective implementation of policies; teachers need to know what is expected, how they can change and why they should. To improve early-grade reading outcomes, for instance, teachers require clear expectations and effective lesson plans. If lesson plans are unclear or difficult to implement, teachers are less likely to follow them. Even if teachers understand how to implement new practices, they need motivation and support to sustain these changes in their teaching. Overcoming these “how” and “why” barriers is essential for successful policy implementation and long-term improvement in teaching practices and student outcomes.
Recent trends in Malaysia's economy

Growth in Q4 2023 continued to be supported by domestic demand
Contribution to real GDP growth and real GDP growth, y/y, Percentage

Export growth contracted in the last three quarters of 2023
Contribution to export growth, y/y, Percentage (4-quarter moving average)

Labor market conditions have improved to pre-pandemic levels
Unemployment rate, labor force participation rate, Percentage

Lower headline inflation was primarily due to lower price increases in food
Contribution to CPI, y/y, Percentage

Global growth is projected to slow to 2.4 percent in 2024
Real GDP, y/y, Percentage

Malaysia's economic growth is projected to pick up to 4.3 percent in 2024
Real GDP, y/y, Percentage
Bending Bamboo Shoots: Strengthening Foundational Skills

At 99.5 percent, primary education is nearly universal in Malaysia

Total net enrollment rates in Malaysia by gender at primary level, Percentage

Students from the poorest quintile are far less likely to perform well on school readiness

Share of children unable to perform early language and mathematical tasks prior to primary education, Percentage

There are weaknesses in training, particularly in differentiated instruction and special needs education content

Share of Grade 5 children, Percentage

Nearly 40 percent of Grade 5 students reported that their teachers are sometimes or often absent

Share of Grade 5 students who report that their teachers are often or sometimes absent, Percentage

Public spending is pro-poor at the primary level in Malaysia

Per student public spending on primary education and state’s absolute poverty level, GDP per capita

Malaysian students lag behind aspirational peers in reading, mathematics, and science as measured by international assessments

PISA score, Score points
PART ONE

Recent Economic Developments and Outlook
Global economic conditions was subdued in 2023 but is now edging up

Global growth is estimated to have weakened in 2023 to 2.6 percent (2022: 3.0 percent) as economic conditions remain soft (Figure 1). Although the 2023 estimation is 0.5 percentage points higher than the Bank’s previous forecast in June 2023, it is largely driven by better-than-expected growth in the US. Outside of the US, global economic conditions remained subdued in 2023. Global trade in goods and services was almost flat last year, growing by an estimated 0.2 percent—the slowest expansion outside global recessions in the past 50 years. Services trade has recovered from the effects of the pandemic, while goods trade contracted due to the sharp slowdown in global industrial production. Global headline and core inflation have continued to decline from 2022 peaks but remain above target in most advanced economies.

Global activity is showing signs of improvement since the start of 2024. The global composite PMI rose for the fourth consecutive month to 52.1 in February, with both the manufacturing and services sectors firming on the back of improving domestic demand and diminishing tightness in financial conditions. There is a modest pickup of economic activity in many EMDEs, partly supported by spillovers from resilient growth in the US. Global goods trade increased by 0.4 percent year-on-year in January, marking the first expansion after nine consecutive months of contraction. The global index for manufacturing suppliers’ delivery times also improved slightly in February, suggesting little change in the impact of shipping disruptions on the ability of manufacturers to procure inputs. Meanwhile, the services trade is recovering, driven by

FIGURE 1
Global growth is estimated to have weakened in 2023 to 2.6 percent
Real GDP, y/y, Percentage

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<tr>
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<td></td>
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</tbody>
</table>


FIGURE 2
EAP countries grew faster than the rest of the world in 2023
GDP growth across country groups, y/y, Percentage

Source: World Bank East Asia Pacific Economic Update April 2024
robust travel demand. PMI readings for new export orders for services indicate an expansion for the second consecutive month.

**EAP countries grew faster than the rest of the world in 2023, but slower than in the pre-pandemic period (Figure 2).** China’s economy grew by 5.2 percent in 2023 as growth rebounded in the beginning of the year following the lifting of pandemic restrictions. However, this growth slowed through the middle of the year, partly reflecting a renewed downturn in the property sector. In the rest of the region, growth eased to an estimated 4.4 percent in 2023 (2022: 5.8 percent) amid weak external demand and moderating private consumption. Private investment was affected by low export demand and high interest rates, while public investment was weighed down by high public debt. On the external front, goods and commodity exports remained weak due to continued deceleration in global growth and, to some extent, protectionist policy measures across the world. Meanwhile, monetary and fiscal policies in the region generally remained non-expansionary amidst the risks of exchange rate depreciation, uncertainty about inflation, and limited fiscal space.
Malaysia’s economy grew at a slower pace in 2023

The Malaysian economy moderated further to 3.0 percent in Q4 2023 (Q3 2023: 3.3 percent), bringing the overall growth to 3.7 percent in 2023 (2022: 8.7 percent). Growth for 2023 was mainly driven by domestic demand amid slower global growth. Malaysia’s moderating growth in 2023 was consistent with most other regional countries as the economies normalized from the post-pandemic rebound in 2022 and were affected by the slowdown in the external sector (Figure 3). Several other countries in the region, including the Philippines, Thailand and Vietnam, also missed their respective official growth targets¹ last year (Figure 3). Like Malaysia, growth in Thailand and Vietnam were below targets due to weaker external environments, while for the Philippines, growth fell short of the target as household spending was affected by higher inflation.

Growth was mainly driven by domestic demand in Q4 2023 (Figure 4). Private consumption continued to expand in Q4 2023, albeit at a more moderate rate of 4.2 percent (Q3 2023: 4.6 percent), supported by further improvement in labor market conditions and household income support from the government. For 2023, private consumption growth moderated to 4.7 percent (2022: 11.2 percent), partly due to the high-base effect in 2022 driven largely by pandemic-related measures and pent-up demand. Meanwhile, public consumption expanded by 7.3 percent in Q4 2023 (Q3 2023: 5.8 percent) on increased spending on supplies and services. Gross fixed capital formation (GFCF) expanded by 6.4 percent (Q3 2023: 5.1 percent) as higher private and public capital spending on infrastructure, machinery and equipment (M&E), and the government’s fixed assets contributed to further improvement in investment activity (Figure 5). On a quarter-on-quarter seasonally adjusted basis, the economy contracted by 2.1 percent (Q3 2023: 2.6 percent), reflecting the continued moderation in growth.

¹ Official government growth target was used for China, the Philippines, and Vietnam; government or central bank projections were used for Indonesia, Korea, Singapore, and Thailand.
On the supply side, the manufacturing sector contracted while other economic sectors expanded in Q4 2023. The manufacturing sector contracted by 0.3 percent (Q3 2023: -0.1 percent), reflecting a slowdown in external demand, particularly in the electric and electronics (E&E) segment which contracted further by 10 percent (Q3 2023: -4.8 percent). Exports of refined petroleum as well as M&E also contracted by 3.3 and 3.2 percent, respectively (Q3 2023: -8.4 and -4.5 percent). Meanwhile, the services sector expanded by 4.2 percent (Q3 2023: 5.0 percent) as tourism activity continued to recover. In 2023, Malaysia recorded 20 million tourist arrivals\(^2\) inching closer towards the pre-pandemic levels (Figure 6). The construction sector expanded by 3.6 percent (Q3 2023: 7.2 percent) mainly due to the further expansion of civil engineering works. The mining sector rebounded by 3.8 percent (Q3 2023: -0.1 percent) as natural gas and crude oil production expanded. In agriculture, the expansion in palm oil production contributed to the sector’s growth of 1.9 percent (Q3 2023: 0.9 percent).

Export growth was weighed down by weaker external demand and a global technology downcycle

As global economic conditions remained subdued, export growth continued to contract in the last two quarters of 2023 (Figure 7). Gross exports contracted by 15.2 and 6.9 percent in Q3 and Q4 2023 respectively, driven by a sustained broad-based slowdown in external demand across all products, including exports in semiconductors. However, the main driver of the slowdown was the decline in exports

of non-E&E products, especially petroleum-related products. Overall, exports in goods and services experienced a decline of 7.9 percent in 2023 (2022: 14.5 percent), driven by weaker external demand and the global technology downcycle. Meanwhile, gross imports experienced a sharp rebound in Q4 2023, recording positive growth of 1.3 percent (Q3 2023: -16.3 percent), driven by higher imports of capital and intermediate goods.

The current account surplus narrowed to 0.1 percent of GDP in Q4 2023 (Q3 2024: 2.0 percent) (Figure 8). The decline in the current account surplus was driven by higher investment income accruing to foreign investors and a smaller goods surplus. This was offset by a sustained goods surplus and smaller services deficit following the recovery in inbound tourism. Overall Malaysia’s current account surplus stood at 1.2 percent of GDP in 2023 (2022: 3.1 percent).

### TABLE 1
Current account surplus declined in Q4 2023 while exports increased

<table>
<thead>
<tr>
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<th>Q1 2021</th>
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<th>Q3 2021</th>
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<th>Q1 2022</th>
<th>Q2 2022</th>
<th>Q3 2022</th>
<th>Q4 2022</th>
<th>Q1 2023</th>
<th>Q2 2023</th>
<th>Q3 2023</th>
<th>Q4 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance of Goods &amp; Services (% of GDP)</td>
<td>6.0</td>
<td>6.8</td>
<td>7.1</td>
<td>8.8</td>
<td>6.1</td>
<td>5.0</td>
<td>7.9</td>
<td>9.7</td>
<td>6.1</td>
<td>4.1</td>
<td>4.8</td>
<td>4.9</td>
</tr>
<tr>
<td>Current Account Balance (% of GDP)</td>
<td>3.2</td>
<td>3.3</td>
<td>5.2</td>
<td>3.8</td>
<td>1.4</td>
<td>0.6</td>
<td>4.2</td>
<td>5.9</td>
<td>1.0</td>
<td>2.1</td>
<td>2.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Total Exports (% of GDP)</td>
<td>66.3</td>
<td>70.7</td>
<td>72.7</td>
<td>72.5</td>
<td>72.3</td>
<td>77.3</td>
<td>80.7</td>
<td>77.2</td>
<td>68.1</td>
<td>68.9</td>
<td>67.2</td>
<td>69.5</td>
</tr>
<tr>
<td>Total Imports (% of GDP)</td>
<td>60.3</td>
<td>64.0</td>
<td>65.5</td>
<td>63.7</td>
<td>66.1</td>
<td>72.3</td>
<td>72.8</td>
<td>67.5</td>
<td>62.0</td>
<td>64.7</td>
<td>62.4</td>
<td>64.5</td>
</tr>
<tr>
<td>Net Portfolio Investment (RM billion)</td>
<td>-0.1</td>
<td>20.2</td>
<td>-3.9</td>
<td>2.6</td>
<td>-8.9</td>
<td>-15.4</td>
<td>0.5</td>
<td>-26.7</td>
<td>-33.3</td>
<td>8.1</td>
<td>-14.1</td>
<td>-6.4</td>
</tr>
<tr>
<td>Net Official Reserves (RM billion)</td>
<td>451.0</td>
<td>461.6</td>
<td>482.6</td>
<td>486.9</td>
<td>85.9</td>
<td>480.1</td>
<td>492.0</td>
<td>503.4</td>
<td>509.9</td>
<td>522.1</td>
<td>527.2</td>
<td>529.7</td>
</tr>
<tr>
<td>Net Official Reserves (US$ billion)</td>
<td>105.0</td>
<td>107.6</td>
<td>108.6</td>
<td>111.1</td>
<td>115.2</td>
<td>116.9</td>
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<td>109.0</td>
<td>106.1</td>
<td>114.7</td>
<td>115.5</td>
<td>111.4</td>
</tr>
</tbody>
</table>

Source: World Bank Staff calculations based on BNM and DOSM data
While growth in Malaysia’s FDI position\(^3\) slowed to 5.4 percent in 2023 (2022: 12.4 percent), the country remained as an attractive destination for manufacturing investments (Figure 9). The slowdown in the growth of Malaysia’s FDI position was in line with FDI trends in the ASEAN region for 2023. Despite being the usual engine of FDI flows, the ASEAN region experienced a 16 percent decline in FDI for 2023 (UNCTAD Global Investment Trends Monitor, 2023). However, both Malaysia and ASEAN remained attractive destinations for manufacturing investments. Greenfield investment inflows into ASEAN rose by 43 percent, accounting for 40 percent of the total greenfield FDI in EAP for 2023. Malaysia, which is the second largest recipient of greenfield FDI in the region, after Indonesia, experienced an investment increase of 37 percent to US$ 29.5 billion. Within ASEAN, Malaysia attracted 22 percent of the intraregional investments, coming in third after Indonesia (40 percent) and Vietnam (23 percent). This includes an investment of US$ 10 billion by China’s Zhejiang Geely Holding Group in Malaysia’s automobile sector to establish an automotive-hub (UNESCAP, 2023).\(^4\)

Overall, Malaysia recorded net FDI inflows of RM 39.5 billion for 2023, mainly channeled through the EAP region. Specifically, FDI channeled through Singapore and Hong Kong SAR, China, contributed 55.7 percent and 39.2 percent of Malaysia’s total net FDI inflows. The services sector was the main recipient (Figure 10), receiving 94 percent of the net FDI inflows. This was largely in the financial services sector, which received 36.5 percent of total net FDI inflows, followed by the information and communication technology (ICT) sector (23.6 percent), and the healthcare sector (15.0 percent). Meanwhile, the manufacturing sector received 6.6 percent of the total net FDI inflows in 2023.

Approved DDI increased by 35.1 percent year-on-year in 2023. Malaysia recorded total approved DDI of RM 141.1 billion in 2023, which is 42.8 percent of the total approved investment of RM 329.5 billion. The services sector was the key contributing sector, accounting for 78.3 percent of the total approved DDI in 2023.

\(^3\) FDI position refers to the total stock of foreign direct investment in Malaysia as at the end of reference period. The end position is derived from opening stock plus financial flows plus other changes (price changes, exchange rate changes and other changes).

\(^4\) UNESCAP foreign direct investment trends and outlook in Asia and the Pacific 2023/2024.
Labor market conditions have broadly returned to pre-pandemic levels

Labor market conditions have been steadily improving in the past year, reflecting a declining unemployment rate and an increasing labor force participation rate. The national unemployment rate declined to 3.3 percent in Q4 2023 (Q4 2022: 3.6 percent), like pre-pandemic levels (Figure 11). At the same time, the labor force participation rate has gradually increased in the past year to 70.1 percent in Q4 2023 (Q4 2022: 69.5 percent). This increase occurred for both men and women. More specifically, the male labor force participation rate rose to 83 percent in Q4 2023 (Q4 2022: 82.3 percent), while the female labor force participation rate rose to 56.3 percent (Q4 2022: 55.9 percent). However, the gender gap in the labor force participation rate has also increased.

The decline in the unemployment rate can primarily be attributed to a decrease in unemployment among younger persons (Figure 12) and a downward trend in long-term unemployment. The unemployment rate of youth workers ages 15 to 24 fell in the past year to 10.1 percent in Q4 2023 (Q4 2022: 10.7 percent). In the same period, the unemployment rate of workers ages 25 to 34 declined to 2.7 percent in Q4 2023 (Q4 2022: 3.4 percent). The unemployment rate of workers ages 35 to 44 fell to 1 percent in Q4 2023 (Q4 2022: 1.4 percent). In comparison, the unemployment rate of workers ages 45 to 54 and 55 to 64 increased to 1.4 percent (Q4 2022: 1 percent) and 2.6 percent (Q4 2022: 1.8 percent) respectively. Importantly, the duration spent in unemployment has also decreased, with 67.6 percent of those unemployed in Q4 2023 (Q4 2022: 60.8 percent; Q4 2019: 45.3 percent) having been unemployed for less than three months. Similarly, only 5.6 percent of those unemployed in Q4 2023 (Q4 2022: 7 percent, Q4 2019: 11.5 percent) have been unemployed for more than one year.

Both time- and skill-related underemployment have remained somewhat stagnant in the past year. Time-related underemployment stood at 1.1 percent in Q4 2023 (Q4 2022: 1.1 percent) (Figure 13), while skill-related underemployment stood at 37.4 percent (Q4 2022: 37.4 percent) (Figure 14). Time-related underemployment appears to have stabilized to its pre-pandemic level. In comparison, skill-related underemployment remains higher than before the pandemic. The elevated skill-related underemployment suggests a mismatch between the demand and supply of tertiary-educated workers.

### Figure 11
The labor force participation rate has been increasing, while the unemployment rate has been declining...

![Labor Force Participation and Unemployment](image1)

### Figure 12
...with the largest declines in the unemployment rate seen for younger persons

![Unemployment by Age Group](image2)

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5 The time-related underemployment rate reflects the share of workers employed for less than 30 hours per week but are willing and able to work more hours. The skill-related underemployment rate reflects the share of workers with tertiary education who are employed in semi- or low-skilled jobs.
While employment growth has moderated, it is trending higher than pre-pandemic levels (Figure 15). Like labor productivity growth, employment growth was high in 2022—the period following the pandemic—but has since moderated. That said, in contrast to labor productivity growth, employment growth in 2023 is trending higher than its pre-pandemic level, especially in the manufacturing, construction, and services sectors. Year-on-year employment growth was 2.5 percent in Q4 2023 (Q3 2023: 2.7 percent). The main contributor here was the manufacturing sector, which grew at 3.0 percent in Q4 2023 (Q3 2023: 3.0 percent). Within the manufacturing sector, the largest contributors are the wood products, furniture, paper products, and printing subsector (5.8 percent; Q3 2023: 4.7 percent), as well as the vegetable and animal oils and fats and food processing subsector (5.4 percent; Q3 2023: 6.8 percent). Employment growth in the E&E subsector—which experienced a contraction in output—has been declining and is relatively low at 1.4
percent (Q3 2023: 2.8 percent). This is followed by the services sector at 2.9 percent (Q3 2023: 3.1 percent). The employment growth in the construction, agriculture, and mining and quarrying sectors in Q4 2023 stood at 1.2 percent, 0.8 percent, and 0.2 percent respectively (Q3 2023: 1.4 percent; 0.6 percent; 0.4 percent).

Labor productivity growth⁴ remains slow and is lower than the levels seen before the pandemic (Figure 16). After the recovery in 2022, labor productivity growth has since moderated. Except for the construction sector, labor productivity growth is slower than in 2019. Zooming in on recent quarters, labor productivity growth stood at 0.5 percent in Q4 2023 (Q4 2022: 3.7 percent), which is lower than in most earlier quarters. The low labor productivity growth can be attributed to negative labor productivity growth in the manufacturing sector since Q2 2023. The -3.2 percent labor productivity growth in the sector in Q4 2023 (Q4 2022: 1.6 percent) was a result of the lower output and greater employment in the E&E and the petroleum, chemical, rubber, and plastic products subsectors. During the same period, the mining and quarrying sector had the highest labor productivity growth at 3.6 percent (Q4 2022: 6.0 percent), while in the agriculture sector growth stood at 1.1 percent (Q4 2022: 1.7 percent). Meanwhile, labor productivity growth in the construction and services sectors fell to 2.4 percent and 1.2 percent respectively in Q4 2023 (Q4 2022: 10.0 percent; 4.1 percent). The decline in labor productivity growth in the services sector results from a decline in output, an increase in employment in the finance and insurance, food and beverages, and accommodation subsectors.

Recently, there have been concerns of unemployment among migrant workers in Malaysia. At 3.6 percent in Q4 2023, the unemployment rate of migrant workers is substantially higher than before the pandemic (Figure 17). The migrant worker landscape in Malaysia has been in flux since the pandemic when a moratorium was placed on the hiring of migrant workers. This was only temporarily lifted between January and March 2023, after which the hiring of migrant workers remains halted. This has resulted in a sharp decline in the number and share of migrant workers in the labor force since then (Figure 18). The temporary lifting of the moratorium saw the approval of almost one million migrant workers.⁷ However, about 83,000 migrant workers were unemployed in Q4 2023, reflecting a mismatch between the supply and demand. Furthermore, official statistics are likely to underestimate the unemployment rate among migrant workers due to sampling methods.⁸ Among the unemployed migrant workers are those

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⁴ Labor productivity growth is measured by the growth in output or value-added relative to the growth in employment.
⁸ Data on unemployment is obtained from the Labour Force Survey (LFS) administered by DOSM. The LFS is a household-based sample survey which excludes communal housing, where many foreign workers working in the agriculture, manufacturing, and construction sectors are likely to live. This leads to an underestimation of the number of foreign workers. At the same time, the LFS captures both regular and irregular foreign workers that are not captured through other official data sources (World Bank 2015). While the resulting representativeness of the LFS in capturing foreign workers is unknown, underestimation remains to be likely given the prevalence of communal housing among foreign workers, both regular and irregular alike.

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FIGURE 16
Labor productivity growth has remained slow
Labor productivity by sector, y/y. Percentage

Source: DOSM
who were admitted between January and March 2023 without available jobs. Since job availability is a prerequisite for approval, the admission of these workers is currently being investigated by the government. Other migrant workers who are unemployed may include those who have overstayed their visas, as well as those who have entered the country lawfully and are seeking work, but do not hold the appropriate visas (World Bank 2020). The latter group includes those who have failed their medical tests in Malaysia, and those who have a Visitor Pass (Temporary Employment) but have been laid off and are seeking new employment (which is not allowed) (World Bank 2020).

**Migrant workers are an important source of labor in Malaysia.** While Malaysians have increased educational attainment in the last decades, lower-skilled sectors and employment remain important in the country’s economy. In 2022, mid- and low-skilled jobs made up 58.4 percent and 12.0 percent of all jobs respectively. At the same time, the share of Malaysians with secondary education or higher has continued to increase, from 19.8 percent in 2010 to 30.7 percent in 2022. The increase in educational attainment has allowed Malaysian workers to obtain more skilled jobs, as reflected by the increasing share of employment in mid-skilled jobs and decreasing share of employment in low-skilled jobs (Figure 19). The mismatch between the composition of the labor force, and the number and skill level required of available jobs calls for migrant workers to fill the gaps (World Bank 2015). Subsequently, an increasing share of migrant workers are employed in low-skilled jobs (Figure 19). The level of education among migrant workers is also relatively low, with the majority of them (65.8 percent) having a primary education at most (Figure 20).

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10 Occupational skill level is based on the mapping of the Malaysia Standard Classification of Occupations (MASCO) to the International Standard Classification of Education 1997 (ISCED-97) adapted from ILO (2012). High-skilled occupations include managers, professionals, and technicians and associate professionals, which require tertiary education. Mid-skilled occupations include clerical support workers, services and sales workers, skilled agricultural, forestry, and fishery workers, craft and related trades workers, plant and machine operators, and assemblers, which require secondary education. Low-skilled occupations include elementary occupations, which require primary education.

11 The statistics on the education level of Malaysian and migrant workers were computed using Labour Force Survey microdata for the years 2010 to 2022. Those who have completed primary education are those who have completed the Primary School Achievement Test (Ujian Penilaian Sekolah Rendah, UPSR), the Form Three Assessment (Penilaian Tingkatan 3, PT3), or equivalent qualifications. Those who have completed secondary education are those with the Malaysia Higher School Certificate (Sijil Tinggi Persekolahan Malaysia, STPM), a certificate, a diploma, or equivalent qualifications. Those who have completed tertiary education are those with at least a Bachelor’s degree.
Evidence to address longstanding concerns on migrant workers\textsuperscript{12} is limited. Some of the cited effects of hiring low-skilled migrant workers include: (i) weaker incentives for firms to substitute labor with technology and create high-skilled and high-paying jobs, (ii) lower productivity, as well as (iii) the depression of Malaysian workers’ wages (Ang, Murugasu and Chai 2018; BNM 2021). These concerns are widely accepted, and form part of the MADANI Economy framework. Notwithstanding this, the evidence in support of such concerns is limited and mixed (see Box 2).

The labor market impacts of migration are greatly affected by the regulatory environment and the migrant worker management system in place. The government has been discussing the implementation of a multitier levy system to minimize the risk of a mismatch between the supply and demand of low-skilled migrant workers. The multitier levy system being proposed is one with a differing levy rate based on the economic sector and the share of low-skilled migrant workers employed by each firm—similar to the system implemented in Singapore (ILMIA 2018). Firms with higher shares of low-skilled migrant workers are pushed into a higher levy rate (or a higher tier). The purpose of the multitier levy system is to increase the cost of hiring low-skilled migrant workers, that is, firms with high shares of low-skilled migrant workers will have higher costs. This is to ensure that the migrant workers being admitted into the country are truly in demand in the economy. The system can potentially prevent wage depression, underinvestment in technology and forestalling of automation, or use of migrant workers in situations where native workers can be upskilled (World Bank 2015). While there is indeed potential for the multitier levy system to address the concerns on the hiring of migrant workers, the design of the system and associated levies is of critical importance to ensure it meets its objectives (see Box 2 on Migrant workers in Malaysia).

\textsuperscript{12} In the Malaysian context, low-skilled migrant workers—typically referred to as “foreign workers” are those who are admitted into the country using the Visitor Pass (Temporary Employment) (Pas Lawatan Kerja Sementara, PLKS). They are typically employed as services and sales workers, craft and related trades workers, plant and machine operators and assemblers, and elementary occupations. This is different (broader) from the typical classification of only those employed in elementary occupations as low-skilled workers.
Migrant workers in Malaysia

Migrant workers in Malaysia are primarily employed in low-skilled jobs, and increasingly so. More specifically, in 2022, about 46.4 percent of migrant workers were employed in elementary occupations, or low-skilled jobs, which is a substantial increase from 41.5 percent in 2013 (Figure 21). In parallel, the share of migrant workers employed in mid-skilled jobs decreased from 54.4 percent to 45.1 percent, while the share employed in high-skilled jobs doubled from 4.1 percent to 8.5 percent. In parallel, a higher share of migrant workers is employed in the agriculture sector, which typically requires lower-skilled, manual labor (Figure 22). The share of migrant workers employed in the manufacturing and construction sectors has declined, which likely reflects the restrictive migration policies introduced during the pandemic. Between 2013 and 2022 there was an increase in the share of both migrant workers and citizens employed in the services sector, reflecting the growing importance of the services sector in the Malaysian economy.

One of the main reasons for the perception of an adverse relationship between immigration and labor market outcomes of Malaysians is the lump of labor fallacy, or the (false) belief that the demand for labor in an economy is fixed, or that there is fixed number of jobs in an economy. This would mean that the employment of migrants would decrease the employment opportunities available to Malaysians. That said, it is referred to as a fallacy because an increase in labor demand (for migrant workers or otherwise) translates to an increase in aggregate demand in an economy through an increase in consumption by these workers, subsequently increasing the demand for labor further. In other words, a growing economy with an increasing demand for migrant labor will likely also experience an increase in demand for other workers, including Malaysian workers. Moreover, migrant workers are not necessarily substitutes for Malaysian workers, given different skillsets, roles, and tasks performed. Malaysian workers are typically more highly educated,

**FIGURE 21**

Migrant workers are increasingly employed in elementary occupations...

**FIGURE 22**

...and in the agriculture sector

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13 Source: Abdur Rahman, Bilo, Chatterjee and Cheng (forthcoming).
and the expansion of employment of migrant workers in elementary occupations has facilitated the ability of Malaysians to work in mid-skilled occupations, such as mid-level managers (World Bank 2015). Nonetheless, the question remains: What does the empirical evidence say about the impact of hiring migrant workers on Malaysian workers?

Econometric analysis generally finds a favorable, or no significant relationship between immigration and labor market outcomes of Malaysians. More specifically, an ordinary least squares analysis of the whole economy using data for the period 2010 to 2021 finds that one additional migrant is associated with 0.2 additional employed Malaysians in a given state and sector, with the relationship being statistically significant (Figure 23). Similarly, the analysis finds that there is no significant relationship between immigration with unemployment and labor force participation of Malaysians in a given state. Further, an additional migrant in a given state and sector is associated with higher levels of employment among Malaysians aged 30 and older, and Malaysians with secondary education, as reflected by statistically significant positive relationships (Figure 24).

An instrumental variable analysis—which accounts for reverse causality and allows for estimation of the causal impact of migration on labor market outcomes—reveals similar findings. The immigration rate, as measured by the ratio of non-citizens to citizens in a given state, was found to have no significant relationship with the employment rate, the labor force participation rate, and wages of Malaysians in the state. There is, however, a statistically significant negative relationship between the immigration rate and the unemployment rate, suggesting that a one percentage point increase in the immigration rate leads to a 0.29 percentage point decrease in the unemployment rate of Malaysians. Similar results are found even when one analyzes the relationship between the immigration rate of migrants with different levels of education and the labor market outcomes of Malaysians using instrumental variable analysis. Overall, these findings show that there is no evidence of an adverse relationship between immigration and labor market outcomes of Malaysians. Instead, there is some evidence of a fall in unemployment resulting from immigration, as well as a positive relationship between immigration and the employment rate of Malaysians, particularly among those who are aged 30 and older.
and those with a secondary education, which may suggest complementarity between migrant workers and Malaysian workers.

Other studies that have also analyzed the relationship between the employment of low-skilled migrant workers on the labor market outcomes of Malaysians find limited and mixed results. In particular, they confirm a statistically significant negative impact of the employment of low-skilled migrant workers on the wages of lower-skilled Malaysians, but this impact is small. Specifically, a 10 percent increase in the employment of low-skilled migrant workers decreases the wages of Malaysians working in less-skilled occupations by 0.7 percent (World Bank 2015). Athukorala and Devadason (2012) found that a 10 percent increase in the employment of low-skilled migrant workers results in a 1.3 percent decline in the wages of all low-skilled workers. Importantly, there is also evidence that the employment of migrant workers increases the employment of Malaysians as well as increases the wages of Malaysian workers who have at least some secondary education (Özden and Wagner 2014; World Bank 2015). This suggests that the distributional impacts of low-skilled migrant labor are mixed. A study by Tan and Ng (2018) found that an increase in foreign worker employment does not have a statistically significant impact on the employment of Malaysian workers, or on overall labor productivity. They also find no relationship between foreign worker employment and capital intensity (Tan and Ng 2018).
Access to basic amenities is widespread, but some disparities remain

The government’s target of zero hardcore poverty has been reached in some states, but the incidence of absolute poverty in Malaysia remained higher than the pre-pandemic level. The latest official estimates from 2022 showed that the incidence of hardcore poor in Malaysia was only 0.2 percent. Some states, including the Federal Territory of Kuala Lumpur, Labuan and Putrajaya, have recorded zero hardcore poverty in 2022. However, some other states still reported hardcore poverty rates above the national average, including Sabah (1.2 percent), Kelantan (0.8 percent) and Sarawak (0.4 percent).\(^{14}\) Meanwhile, the incidence of absolute poverty in 2022 was at 6.2 percent,\(^{15}\) higher than the pre-pandemic level (2019: 5.6 percent). This implies that nearly 490,000 Malaysian households still lived below the average national poverty line with monthly household income of RM2,589. Against this backdrop, a broader view and more ambitious target of poverty eradication that is commensurate with Malaysia’s aspirations and level of development beyond the current national hardcore poverty is needed.

Lower-income households have experienced higher inflation, eroding their purchasing power. In December 2023, the inflation for the below RM3,000 (US$ 630) income group was 1.7 percent, above the headline inflation of 1.5 percent. In the same period, inflation for the food and beverages category stood at 2.3 percent. This inflation disproportionately impacted the poorer group, as they spent more of their income on basic necessities, leaving them with few ways to cope with the higher cost of living.

In an effort to more effectively address the issue of rising cost of living, the government recently announced a plan to distribute targeted subsidies to eligible households through direct cash transfers.\(^{16}\) The elevated cost of living has become an increasing concern for Malaysian households, despite the moderating trend of inflation. This is because “cost of living” is often used to reflect wider impacts on household budgets and well-being, beyond price increases.\(^{17}\) A mix of measures have been implemented by the government

\(FIGURE\ 25\)

The current levels of inequality are still high compared to peer countries

Gini index, ASEAN, OECD and recently transitioned HICs, most recent data

Source: World Bank Poverty and Inequality Platform and World Bank staff calculations based on DOSM data

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14 Hard core poverty refers to household with a monthly income less than food Poverty Line Income (PLI). The national average food PLI in 2022 was RM1,198. Source: DOSM, Poverty in Malaysia 2022.


Progress in the overall provision of basic amenities in Malaysia has been remarkable. According to the Basic Amenities Survey Report 2022 recently released by DOSM, Malaysians enjoy a high level of access to fundamental needs, including piped water, electricity, healthcare, and education (Figure 26). In 2022, 96.7 percent of households reported having access to piped water, while the electrification rate is almost 100 percent. Meanwhile, nearly 98 percent of households are within a 5-kilometer distance of public health institutions. On education, the statistics show that 98.5 percent of households have access to primary schools and 95.3 to secondary schools, within a 5-kilometer radius. Malaysia’s progress on this front is reflected in the Human Development Index (HDI), a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable, and having a decent standard of living. Malaysia’s score in the HDI in 2022 was 0.82, placing the country at a very high level of development category.

Although access to healthcare facilities is impressive at the national average, regional disparities remain, and stunting is still a serious concern among Malaysian children. The Basic Amenities Survey Report 2022 reveals that about 11 percent of rural households still lived more than 5 kilometers from public healthcare centers, compared to 0 percent among urban households. Across states, the gaps are more prominent. About 12 percent of households in Sabah and 14 percent in Sarawak could not find public healthcare centers within a 5-kilometer radius (Figure 26). Furthermore, one in five children under the age of five in Malaysia are stunted. The rates were the highest to mitigate the rising cost of living. It is indicated that targeted subsidies will be rolled out in the second quarter of 2024, but the details and exact timing have not been communicated. Meanwhile, the government’s initiative in establishing PADU (Pangkalan Data Utama), the national household socioeconomic database for identifying eligible beneficiaries, plays a critical role to ensure the planned targeted subsidy and other targeted social protection measures are delivered and that protection is improved for those who need it most.

In addition to the rise in absolute poverty, progress in reducing income inequality has stagnated, and current levels are still high compared to peer countries. Income inequality, measured by the Gini index based on total household gross income, stood at 40.4 in 2022 (2019: 40.7). However, the trend varied across states, with some states including Kelantan, Pulau Pinang, and the Federal Territory of Kuala Lumpur experiencing a widening income gap. Malaysia’s inequality trajectory also stands out in the international context, with the current level of inequality still high compared to both recently transitioned and established high-income countries (Figure 25).
in Pahang (28 percent) and Sabah (25 percent), but even for urban poor families in Kuala Lumpur and Putrajaya stunting remains a problem.

Similarly, there are still gaps with regard to access to basic education, with children from the poorest families receiving lower quality education. In rural areas, more than 5 percent of children live more than 5 kilometers away from the closest primary school, while 18 percent live more than 5 kilometers away from the closest secondary school. In contrast, almost all children living in urban areas have access to both primary and secondary schools within 5 kilometers. Meanwhile, nearly 20 percent of households in Sabah and Sarawak did not have access to secondary schools within 5 kilometers. This is five times higher than the national average of 4.7 percent. Beyond subnational gaps in access to education facilities, there are indications that Malaysian students also experience problems with their learning at school—with children from poor families faring worse than those from richer families. This is concerning as quality of education is a crucial investment for a range of economic and broader social outcomes in an individual’s future—and hence for the country’s economic growth. This critical issue of education performance gaps is discussed in more detail in Part 2, Bending Bamboo Shoots: Strengthening Foundational Skills.

Inflationary pressures have eased

**Headline inflation in Malaysia declined steadily in 2023.** The decrease in the inflation rate continued as headline inflation moderated to 1.6 percent in Q4 2023 (Q3 2023: 2.0 percent), broadly in line with price developments in other regional countries (Figure 27). In Malaysia, the year-end moderation was due to the lower price increases for fresh food (Figure 28). Core inflation continued to decline in Q4 2023, primarily due to the easing of prices in certain services sectors. These include food away from home, that is, all food produced and consumed outside the home, as well as repair and maintenance of personal transport. Overall, headline inflation for 2023 recorded a decline to 2.5 percent (2022: 3.3 percent), while core inflation remained at 3 percent (2022: 3 percent). In February 2024, headline inflation increased to 1.8 percent compared to January

**FIGURE 27**
Malaysia’s headline inflation rate has steadily eased in 2023, broadly in line with other countries in the region

**FIGURE 28**
The lower headline inflation in 2023 is primarily due to lower food price increases

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19 Core inflation excludes price-volatile and price-administered items.
Inflation pervasiveness refers to the extent to which inflation is spread throughout the economy. When inflation is pervasive, it means rising prices are not limited to specific items or areas but are affecting a broader range of products and services.

The Real Effective Exchange Rate (REER) is a more appropriate measure of external competitiveness, compared to bilateral exchange rates since the REER is the weighted average of the bilateral real exchange rates between the country and all of its trading partners. The weights are the respective trade shares of each partner.

See World Bank (2023) “Raising the Tide, Lifting All Boats” Malaysia Economic Monitor (October), World Bank, Washington, DC.

Core inflation continued to decline in Q4 2023, primarily due to the easing of prices in certain services sectors.

The ringgit remained on a depreciating trend. The ringgit weakened by 3.4 percent against the USD between January 1 and April 8, 2024 (Figure 30). Unlike other countries in the region, Malaysia’s REER has been on a downward trend (Figure 31), declining by 6.3 percent between January 2022 to February 2024. The ringgit performance has been mainly affected by interest rate differentials, global economic developments, as well as investor sentiments. Analysis on the two largest episodes of ringgit depreciation over the last decade, 2014-2016 and 2021-2023, shows several factors driving exchange rate movements. In the latter period, ringgit depreciation was mainly due to US monetary policy tightening, as well as movements in oil prices. To address the recent weakening in the ringgit, Bank Negara Malaysia (BNM) is collaborating with the central bank to maintain inflationary pressures contained with less extensive price increases, indicating a potential easing of the broad inflationary trends that affect the consumer’s purchasing power.

With inflation easing and growth outlook moderating, the OPR was maintained at 3 percent in January and March 2024. After raising the OPR by 25 basis points in March 2023, the Monetary Policy Committee decided to maintain the policy rate in the last five meetings, including in March 2024. The central bank expects inflation to remain moderate in 2024 amid contained cost pressures. At this OPR level, the monetary policy stance is considered to be supportive of the economy.

Inflation pervasiveness refers to the extent to which inflation is spread throughout the economy. When inflation is pervasive, it means rising prices are not limited to specific items or areas but are affecting a broader range of products and services.

The REER is a more appropriate measure of external competitiveness, compared to bilateral exchange rates since the REER is the weighted average of the bilateral real exchange rates between the country and all of its trading partners. The weights are the respective trade shares of each partner.

See World Bank (2023) “Raising the Tide, Lifting All Boats” Malaysia Economic Monitor (October), World Bank, Washington, DC.
with the government to increase inflows that would allow the ringgit to appropriately reflect the fundamentals and prospects of the Malaysian economy. Government-linked companies (GLCs) and government-linked investment companies (GLICs) have been encouraged to consistently repatriate foreign investment income and convert it to ringgit. Furthermore, BNM has stepped up engagements with exporters and international investors to further promote conversions and to underscore Malaysia’s investment appeal.

**FIGURE 30**
The ringgit remained on a long-term depreciating trend

**FIGURE 31**
Unlike its regional peers, Malaysia’s REER has been on a declining trend

Change in REER, Jan 2022 – Feb 2024, Percentage

Source: BNM

Source: World Bank staff calculations based on Bank for International Settlements (BIS) data
The Malaysian banking sector expanded while remaining well-capitalized.

The Malaysian banking sector maintained adequate capital buffers. The total capital ratio (TCR) remained stable at 18.5 percent as of end-December 2023, above the regulatory minimum ratio (Figure 32).²³ The increase in risk-weighted assets (RM1,916 billion as of end-December 2023 vs. RM1,789.7 billion as of end December 2022) kept pace with the increase in total capital (December 2023: RM355.1 billion vs. December 2022: RM339.9 billion).

The banking sector continued to operate with robust liquidity and funding conditions. The Liquidity Coverage Ratio (LCR) remained above the regulatory requirement of 100 percent, climbing to 160.9 percent as of end-December 2023 (December 2022: 151.5 percent), while banks’ holdings of high-quality liquid assets (HQLA) increased by 0.7 percent y/y to RM758.3 billion. Banking system deposits also grew by 5.6 percent y/y to RM2,485.9 billion as of end December 2023 vis-à-vis December 2022.

Credit to the private sector has grown, with expansion in both credit to businesses and households. The banking system’s outstanding loans grew by 5.3 percent y/y by the end of December 2023 to RM2,131.5 billion, slower than the 5.7 percent y/y growth recorded at the end of December 2022. Loans to households and to businesses increased by 5.6 percent and 3.6 percent y/y respectively in December 2023, with a marked expansion of business loans in the second half of the year (Figure 33). In addition, volumes of both business loan applications and approvals in 2023 saw increases compared to the preceding four years (Figure 34).

FIGURE 32
Total capital ratio remained well over the regulatory minimum capital level

<table>
<thead>
<tr>
<th>Total capital ratio and Tier 1 capital ratio, Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>CET 1, 14.6%</td>
</tr>
<tr>
<td>Tier 1, 15.5%</td>
</tr>
<tr>
<td>TCR, 18.5%</td>
</tr>
</tbody>
</table>

Source: BNM

²³ As defined by BNM: (i) Common Equity Tier 1 (CET1) refers to capital comprising ordinary shares issued by a banking institution, retained earnings and other reserves; (ii) Tier 1 Capital is the sum of CET1 and Additional Tier 1 Capital which includes instruments that are not included in CET1, are perpetual, and can be written down or converted into ordinary shares if the bank encounters financial distress; and (iii) Total Capital is the sum of Tier 1 Capital and Tier 2 Capital which includes instruments that are not included in Tier 1 and have maturities of five years or more. Each capital ratio is the respective capital balance in question scaled by Risk-Weighted Assets.
The household sector remained the largest credit segment.24 The household sector represented 59.4 percent of the total outstanding loan volume as of December 2023. The share of borrowers with debt service ratios (DSRs) exceeding 60 percent has remained stable at around 25 percent of household borrowers in December 2023.25 Household debt is concentrated around middle-income and high-income borrowers, who typically have larger financial buffers in the event of financial shocks.26 Indeed, household debt remained stable at around 25 percent of household borrowers in December 2023.

FIGURE 33
Growth in credit to the private sector continued, with marked pick up in business loans in the second half of 2023

Annual Growth of Outstanding Loans to Household and Business, Percentage

FIGURE 34
Business loan applications and approvals are higher than pre-pandemic levels

Volume of Business Loan Applications & Approvals by SMEs and Non-SMEs, RM billion

24 Malaysia’s household debt to GDP ratio stood at 84.2 percent as of December 2023. Although it has moderated from its peak during the Covid-19 pandemic (December 2020: 93.1 percent), it remains above most of Malaysia’s regional middle-income peers. Malaysia’s household debt to GDP ratio is higher than that of comparator countries such as Indonesia (16.3 percent), the Philippines (84.2 percent), Singapore (46.4 percent), and Japan (66.2 percent), but ranks second to Thailand (91.8 percent). All figures are as of third quarter of 2023. Source: BIS.

25 Borrowers with high DSRs are more susceptible to repayment stress as a majority of their monthly incomes are channeled towards debt repayments.

26 Middle-income group refers to individuals earning a monthly income of between RM5,000 and RM10,000. High-income borrowers are those with a monthly income above RM10,000.
FIGURE 35
Mortgages account for the largest share of household debt in Malaysia

Household debt by purpose, Percentage

<table>
<thead>
<tr>
<th>Year</th>
<th>Residential Properties</th>
<th>Non-Residential Properties</th>
<th>Vehicles</th>
<th>Credit Card</th>
<th>Securities</th>
<th>Other Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>6.1</td>
<td>10.9</td>
<td>5.5</td>
<td>22.9</td>
<td>54.9</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>3.7</td>
<td>6.1</td>
<td>3.5</td>
<td>15.5</td>
<td>48.6</td>
<td></td>
</tr>
<tr>
<td>2023</td>
<td>1.2</td>
<td>8.1</td>
<td>3.0</td>
<td>13.2</td>
<td>60.5</td>
<td></td>
</tr>
</tbody>
</table>


is supported by strong asset coverage as mortgage debt accounts for the bulk of it, at 60.5 percent as of December 2023 (Figure 35). Mortgage loans have been on the rise over the past decade, with the growth underpinned by rising household incomes, increasing financial market depth, and government policies aimed at home ownership.28 As such, the high proportion of mortgage debt warrants close monitoring of real estate market dynamics—particularly risks from sharp declines in property prices.

Asset quality remained solid, with gross impaired loans ratio decreasing by 7 basis points y/y, to 1.65 percent at the end of December 2023, its lowest since 2021 (Figure 36).29 Malaysia’s gross impaired loans ratio remained low compared to regional peers (Table 2). In addition, the share of total loans under repayment assistance programs continued to decline.30 There has been however an increase in applications for loan repayment assistance in selected pockets of borrowers such as SMEs, whose applications doubled in second half of 2023 (RM2.2 billion) compared to the corresponding period in 2022 (RM1.1 billion). Authorities noted that these SME applications for repayment assistance only account for 0.6% of total SME loans. This increase can be partly explained by greater awareness of tailored debt counseling services offered by BNM. Meanwhile, the share of total loans in the banking system classified under Stage 2 continued to decline to below pre-pandemic levels, reaching 7.2 percent in December 2023 (December 2022: 8.8 percent).31 The vast majority of borrowers who exited repayment assistance programs have been able to resume and sustain loan repayments.32

Banks continued to maintain substantial capacity to absorb potential increases in impaired loans. Total provisions accounted for 1.5 percent of total loans, above pre-pandemic historical average levels, in spite of a 5.2 percent y/y decline in provisions to RM32.3 billion as of end-December 2023.33 Meanwhile, the loan loss coverage ratio (excluding regulatory reserves) remained at 92 percent of impaired loans as of end-December 2023 (December 2022: 98 percent).

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28 Note: 1) 54.5 percent of household debt in 2007 was attributed to properties (residential and non-residential). 2) 6.1 percent of household debt in 2007 was classified as “other purpose”, which includes purchase of securities.
29 Malaysia uses the impaired loans classification by the Malaysian equivalent of the International Financial Reporting Standards (IFRS) 9 Financial Instruments. The standard uses a three-stage impairment model based on changes in credit quality.
30 As of December 2023, total SME loans under repayment assistance dropped to 5.4 percent (or 0.9 percent of total loans outstanding) compared to 5.6 percent in December 2022. Similarly, household loans under repayment assistance also declined to 1.6 percent of total outstanding loans (December 2022: 1.9 percent).
31 Stage 2 refers to the underperforming loans classified under the Malaysian Financial Reporting Standard 9 (MFRS 9).
33 Provisions over total loans in the banking system was at 1.3 percent for the period 2015-2019 (pre-pandemic years). Source: BNM Financial Stability Review – First Half 2023.
Capital market fundraising remained strong

Malaysia’s equity market was largely stable in 2023. Overall market capitalization increased by 3.4 percent to RM1.80 trillion as at end-2023 from RM1.74 trillion as at end-2022, supported by gains in the mid and small-cap segments of the equity market. Meanwhile, the benchmark FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBMKLCI) declined by 2.7 percent y/y as of end-2023, amid external headwinds and weaker-than-expected earnings in several large corporates.

The performance of Malaysia’s benchmark equity index was in line with most regional markets, which also registered declines in 2023 (Figure 37). Tighter external financial conditions, driven by US interest rate hikes and the stronger USD environment weighed on investor appetite for emerging market assets. ASEAN markets faced additional headwinds, including from weaker Chinese growth.

Meanwhile, Malaysian bond yields eased, and corporate spreads narrowed as domestic monetary policy remained accommodative. The 10-year Malaysian Government Securities (MGS) yield eased to 3.74 percent as of end-2023 from 4.07 percent as of end-2022. Malaysia’s sovereign yield curve shifted downwards since the start of 2023 driven by growing expectations of the US Federal Reserve’s potential future interest rate cuts. Domestically, the OPR has remained unchanged at 3.0 percent since May 2023.

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Malaysia has among the lowest gross impaired loans ratio in the ASEAN region

<table>
<thead>
<tr>
<th>Malaysia (Q4 2023)*</th>
<th>Thailand (Q3 2023)</th>
<th>Singapore (Q4 2023)</th>
<th>Indonesia (Q4 2023)</th>
<th>Philippines (Q4 2023)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross impaired loans ratio</td>
<td>1.7</td>
<td>2.8</td>
<td>1.7</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Source: BNM, IMF Financial Soundness Indicators, national sources
*Figures are updated based on recent available data.

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Malaysia’s equity market was largely stable in 2023. Overall market capitalization increased by 3.4 percent to RM1.80 trillion as at end-2023 from RM1.74 trillion as at end-2022, supported by gains in the mid and small-cap segments of the equity market. Meanwhile, the benchmark FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBMKLCI) declined by 2.7 percent y/y as of end-2023, amid external headwinds and weaker-than-expected earnings in several large corporates.

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Top 3 sectors by loans outstanding which collectively make up 80 percent of total outstanding loans.

Corporate spreads narrowed in 2023, with the average spread between 10-year AAA corporate bonds against the benchmark 10-year MGS declining to 45 bps as at end-2023, compared to 57 bps as at end-2022.

Capital raising in bond and sukuk markets increased in 2023 compared to 2022, driven largely by sovereign issuances. In the debt securities market, a total of RM547.5 billion was raised in 2023, 26 percent higher than the RM435.1 billion raised in 2022. This increase was mainly due to a surge in sovereign issuances which accounted for almost 80 percent of the total, up from 65 percent the previous year. In contrast, corporate debt issuances moderated by 22.8 percent y/y in 2023 to RM118.3 billion, of which RM26.9 billion was raised through corporate bonds, while another RM91.4 billion was raised through corporate sukuk. There was also lower corporate debt refinancing demand in 2023, with corporate bond and sukuk redemptions declining to RM85.7 billion in 2023 (2022: RM122.1 billion). As a result, net funds raised by the corporate sector in debt markets was still higher in 2023 (RM32.6 billion) versus 2022 (RM31.3 billion). Despite a decline in the gross volume of corporate capital raising through bond and sukuk, debt markets remained the dominant source of funds through public markets for the private sector.

In equity markets, IPO fundraising remained robust, but a moderation in secondary issuances weighed down overall equity fundraising volumes. On the stock exchange (across all segments of Bursa Malaysia), RM3.6 billion was raised through 32 initial public offerings (IPOs) in 2023, whereas RM5.8 billion was raised through secondary issuances by listed companies. Although there were fewer IPOs compared to that of 2022 (35 IPOs), total funds raised was higher as compared to the RM3.5 billion raised in 2022. The IPO pipeline in 2023 continued to be supported by mid and small-cap listings with the majority of IPOs listed on the Access, Certainty, Efficiency (ACE) Market of Bursa Malaysia, which is positioned for smaller and high-growth entities.

Capital raising through alternative fundraising platforms, such as equity crowdfunding (ECF) and peer-to-peer (P2P) financing platforms continued to expand. Total fundraising on these platforms, which comprise both debt and equity financing, grew by 28.2 percent y/y in 2023 to RM2.2 billion. The bulk of the growth was derived from the P2P segment, which accounted for over 90 percent of the funds raised through alternative markets in Malaysia. Funds raised from P2P financing were used mostly to meet the working capital needs of MSMEs in sectors such as wholesale and retail trade, as well as the repair of motor vehicles and motorcycles. In contrast, funds raised via ECF were utilized for business expansion, with ECF fundraising activities being dominated by firms in professional, scientific and technical activities.

FIGURE 37
The performance of Malaysia’s benchmark equity index was in line with most regional markets

<table>
<thead>
<tr>
<th>Annual change in stock indices, Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore STI: -0.3</td>
</tr>
<tr>
<td>Malaysia Market Cap: 3.4</td>
</tr>
</tbody>
</table>

Source: Bloomberg

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36 Source: Securities Commission Malaysia Annual Report 2023. The Securities Commission noted that there was an exceptional surge in refinancing demand in 2022 amid the introduction of various relief programs aimed at assisting issuers and intermediaries in their post-pandemic recovery.
38 Source: Bursa Malaysia Financial Statement for Quarter and Year Ended 31 December 2023.
Foreign flows continued to be asymmetric between portfolio debt and equity, though they reversed the patterns observed in 2022. Specifically, there were marked inflows into debt markets and outflows from equity markets in 2023, whereas the opposite pattern held in 2022. The Malaysian debt (bonds and sukuk) market witnessed positive foreign portfolio net inflows of RM25.8 billion in 2023 vis-à-vis a net outflow of RM9.8 billion in 2022 (Figure 38). Consequently, foreign holdings increased to 13.5 percent of the total outstanding amount as of December 2023, slightly higher than the 13.2 percent in December 2022. These foreign portfolio net inflows into the Malaysian debt market helped offset net outflows from the equities market which amounted to RM2.3 billion in 2023, down from inflows of RM4.4 billion in 2022.

Foreign fund flow trends in Malaysia in 2023 were comparable to some regional peers, which also witnessed net outflows from equity and net inflows into debt markets (Figure 39). Among equity markets in ASEAN peers, the net outflow recorded from Malaysia’s equities market was comparable to net outflows seen in the Philippines and Indonesia, but markedly smaller compared to Thailand. Similarly, the net inflow into Malaysia’s bond market was comparable to the net inflows seen in bond markets in the Philippines and Indonesia, and significantly larger compared to the net inflow in Thailand bond market.

**FIGURE 38**
Foreign portfolio net inflows into Malaysian bond markets helped offset outflows from equities

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity Market Non-Resident Net Inflows</th>
<th>Bond Market Non-Resident Net Inflows</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>-11.1</td>
<td>19.9</td>
</tr>
<tr>
<td>2020</td>
<td>-24.6</td>
<td>18.3</td>
</tr>
<tr>
<td>2021</td>
<td>-3.1</td>
<td>33.6</td>
</tr>
<tr>
<td>2022</td>
<td>-9.8</td>
<td>4.4</td>
</tr>
<tr>
<td>2023</td>
<td>-2.3</td>
<td>25.8</td>
</tr>
</tbody>
</table>

Source: Securities Commission Malaysia, Annual Reports (2019 – 2023)

**FIGURE 39**
Foreign fund flow trends in Malaysia were comparable to trends in regional ASEAN-4 peers

<table>
<thead>
<tr>
<th>Country</th>
<th>Equity Market Non-Resident Net Inflows</th>
<th>Bond Market Non-Resident Net Inflows</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>-6</td>
<td>2</td>
<td>-4</td>
</tr>
<tr>
<td>Philippines</td>
<td>-4</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>-2</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Thailand</td>
<td>-6</td>
<td>-2</td>
<td>-4</td>
</tr>
</tbody>
</table>

Source: World Bank staff calculations based on Bloomberg data

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40 Source: Bloomberg.
Federal government revenue is expected to decline in 2024

Federal government revenue is estimated to be higher in 2023 compared to 2022. Federal government revenue is estimated to be at 17.3 percent of GDP in 2023 (2022: 16.4 percent). Tax revenue is estimated to increase to 12.6 percent of GDP (2022: 11.7 percent) due to higher corporate and personal income tax collection. Higher corporate tax collection is partially attributed to the Prosperity Tax, where companies with taxable income of more than RM 100 million were charged an additional 9 percentage points on the corporate tax rate. The estimated increase in individual tax collection in 2023 is partly due to the changes to the personal income tax rates for the higher income brackets, which were adjusted upwards by 0.5 to 2 percentage points for those earning between RM 100,000 and RM 1 million. Meanwhile, the proceeds from sales and services tax (SST) in 2023 increased slightly to 1.9 percent of GDP (2022: 1.8 percent). The higher tax revenue was slightly offset by lower non-tax revenue, as proceeds from investment income, mainly Petronas dividends, declined to 3.1 percent of GDP in 2023 (2022: 3.3 percent).

The share of petroleum-related revenue is estimated to decline in 2023 due to lower global crude oil prices. Petroleum-related revenue is estimated to decline to 4.2 percent of GDP in 2023 (2022: 4.6 percent), in line with lower global oil prices. Petroleum income tax (PITA) and dividends from Petronas registered 1.4 percent of GDP (2022: 1.3 percent) and 2.2 percent of GDP (2022: 2.8 percent), respectively, during the year. Lower petroleum-related receipts in 2023 translate to a lower share of petroleum-related revenue at 24.1 percent of total revenue (2022: 28.0 percent) (Figure 40).

Revenue collection as a share of GDP is expected to decline in 2024 due to a continued decrease in petroleum-related investment income (Figure 41). Federal government revenue is projected to decline to 15.6 percent of GDP in 2024 (2023: 17.3 percent) mainly due to lower investment income. Specifically, the government anticipates lower dividends from Petronas even though its assumption for global oil prices is slightly higher for 2024 at US$ 85 per barrel (2023: US$ 82.5 per barrel).

Average Brent crude oil spot prices were US$ 100.9/barrel and US$ 82.5/barrel in 2022 and 2023, respectively. Source: US Energy Information Administration.

Source: World Bank staff calculations based on MOF data

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**FIGURE 40**
The share of petroleum-related revenue declined in 2023 due to lower global oil prices

**FIGURE 41**
In 2024, the revenue collection is expected to decline mainly due to a continued decrease in petroleum-related investment income

---

**Table 1**

<table>
<thead>
<tr>
<th>Year</th>
<th>Tax revenue</th>
<th>Non-tax revenue</th>
<th>Total revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>28.0%</td>
<td>24.4%</td>
<td>17.3%</td>
</tr>
<tr>
<td>2011</td>
<td>27.7%</td>
<td>24.2%</td>
<td>15.6%</td>
</tr>
<tr>
<td>2012</td>
<td>27.4%</td>
<td>24.0%</td>
<td>15.3%</td>
</tr>
<tr>
<td>2013</td>
<td>27.2%</td>
<td>23.8%</td>
<td>15.0%</td>
</tr>
<tr>
<td>2014</td>
<td>27.0%</td>
<td>23.6%</td>
<td>14.7%</td>
</tr>
<tr>
<td>2015</td>
<td>26.8%</td>
<td>23.4%</td>
<td>14.4%</td>
</tr>
<tr>
<td>2016</td>
<td>26.6%</td>
<td>23.2%</td>
<td>14.1%</td>
</tr>
<tr>
<td>2017</td>
<td>26.4%</td>
<td>23.0%</td>
<td>13.8%</td>
</tr>
<tr>
<td>2018</td>
<td>26.2%</td>
<td>22.7%</td>
<td>13.5%</td>
</tr>
<tr>
<td>2019</td>
<td>26.0%</td>
<td>22.5%</td>
<td>13.2%</td>
</tr>
<tr>
<td>2020</td>
<td>25.8%</td>
<td>22.3%</td>
<td>12.9%</td>
</tr>
<tr>
<td>2021</td>
<td>25.6%</td>
<td>22.1%</td>
<td>12.5%</td>
</tr>
<tr>
<td>2022</td>
<td>25.4%</td>
<td>21.8%</td>
<td>12.2%</td>
</tr>
<tr>
<td>2023</td>
<td>25.2%</td>
<td>21.5%</td>
<td>11.9%</td>
</tr>
<tr>
<td>2024</td>
<td>25.0%</td>
<td>21.2%</td>
<td>11.6%</td>
</tr>
</tbody>
</table>

Source: World Bank staff calculations based on MOF data
Federal government subsidy spending is expected to decline in 2024

Total federal government expenditure is estimated to increase in 2023, with higher-than-budgeted spending on subsidies and social assistance. Government spending is estimated to rise to 22.3 percent of GDP in 2023 (2022: 20.3 percent), higher than the projected 20.4 percent in Budget 2023. The upward revision in spending of RM 22 billion (1.2 percent of GDP) in operating expenditure was used mainly for subsidies and social assistance programs, supplies and services, and pensions. Overall spending for subsidies and social assistance increased slightly to 3.9 percent of GDP in 2023 (2022: 3.8 percent), higher than the budgeted amount of 3.1 percent of GDP given the delayed implementation of the targeted subsidy mechanism.

For 2024, the government forecasts that subsidy spending will decline given the planned implementation of targeted subsidies and efficiency improvement in the delivery of social assistance programs through PADU. Subsidies and social assistance spending are expected to decline to 2.7 percent of GDP in 2024, mainly from lower fuel subsidies. PADU could enable the government to implement more targeted measures that can improve spending efficiency. However, the government has yet to finalize the modality of targeted subsidies, such as the eligibility threshold, the amount of fuel subsidies per person, and how the subsidy will be disbursed.

The share of rigid expenditures are projected to rise further

The federal government expects a higher share of rigid expenditures in 2024. Rigid spending, which includes payments related to emoluments, pensions, and debt service charges, is estimated to increase to 55.3 percent of total operating expenditures in 2023 (2022: 54.8 percent), driven mainly by a higher share of interest payments (Figure 42). In 2024, these structural expenditures are projected to increase further to 58.6 percent of total operating expenditures. Of note, the debt service ratio is projected to increase to 16.2 percent of total federal government revenue in 2024 (2023e: 14.7 percent), higher than the 15.0 percent administrative limit practiced by the government to ensure prudent debt management (Figure 43). The higher share of rigid expenditure continues to pose a challenge to long-term fiscal sustainability and crowd out discretionary spending.

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42 The Service Tax rate increased to 8 percent from 6 percent from 1 March 2024. However, the higher rate does not apply to essential services such as food and beverages and telecommunications. While the government projects revenue from SST to be at 1.8 percent of GDP in 2024 (2023e: 1.9 percent), there could be some additional collection of RM3.5 – RM4.0 billion (or up to 0.2 percent of GDP) from Service Tax rate increment.
43 The scope will be expanded to include logistics services, brokerage and underwriting services for non-financial services (for example, brokerage for ship and aircraft space, commodity and real estate), delivery services (except for delivery of food and beverage) and karaoke centers, with a threshold value of taxable services at RM500,000 for mandatory registration.
44 See World Bank (2023) “Raising the Tide, Lifting All Boats” Malaysia Economic Monitor (October), World Bank, Washington, DC.
45 The slight increase of subsidies and social assistance was largely due to the inclusion of cash assistance under operating expenditure, following the expiry of the COVID-19 Fund in 2022.
46 For example, the subsidy could be disbursed as higher cash transfers or through subsidy cards issued to eligible households.
47 11.6 million adults over the age of 18, representing 52.6 percent of the total citizen population, have successfully registered and updated their profiles in the PADU system. This contributes to the 17.7 million profiles, or 58.7 percent of the total citizens, which also includes household members under 18 years of age. Source: Ministry of Economy, Malaysia (April 1, 2024).
48 The Federal Constitution mandates debt service charges to be paid before all other expenses.
The proposed pension scheme for newly hired civil servants could help to manage the increase in rigid expenditures in the future. The growing size of civil service and the increasing aging population have substantially increased current and future pension liabilities with significant long-term fiscal implications. Without any reform in the pension system, its spending is estimated to grow to RM 120 billion in 2040 (compounded annual growth rate: 8.6 percent), more than tripling the 2024 budgeted amount.\textsuperscript{49} Under the current defined benefit scheme, a civil servant at retirement will receive an annuitized level of income of up to 60 percent of their preretirement salaries. Implementing a defined contribution\textsuperscript{50} scheme for newly hired civil servants would enable better planning and management of the government’s pension liabilities in the long term\textsuperscript{51} (See Box 3 on Reforming civil service pensions). The government has yet to announce the timeline and the design of the defined contribution scheme for newly hired civil servants.

\textbf{FIGURE 42}

The share of rigid spending increased in 2023 and is expected to rise further in 2024

\textbf{FIGURE 43}

Debt service ratio is expected to be above its administrative prudent limit in 2024

Spending on development activities is estimated at 5.3 per cent of GDP (2022: 4.0 per cent). The bulk of the spending is directed to the economic sector (59.6 percent of total development spending), mainly for constructing new highways and roads and upgrading airports, ports, and roads. Of note, the increase in development spending is also attributed to the redemption of the US$ 3 billion 1MDB bond (about RM 13 billion or 13.5 percent of development expenditure) in March 2023 due to the materialization of the contingent liability. For 2024, the government has allocated 4.6 percent of GDP to support the projects with potentially high multiplier impact on the economy outlined under the Twelfth Malaysia Plan, including the Pan Borneo Highway and Sarawak Sabah Link Road Phase 2.

The government is expected to remain on its fiscal consolidation path. The fiscal deficit for 2023 is estimated to be at 5.0 per cent of GDP (2022: -5.6 percent), in line with the Budget 2023 target. The fiscal deficit is expected to decrease to 4.3 per cent of GDP in 2024.

\textsuperscript{49} Source: The Star (24 January 2024), “Govt to foot some RM120bil in pension payments if new salary scheme not introduced, says Zahid”

\textsuperscript{50} Under the defined contribution scheme, the pension payments upon the retirement of civil servants will depend on contributions and investment returns.

\textsuperscript{51} In the medium term, the government will pay additional employer contributions under the defined contribution scheme on top of the payments under the defined benefit scheme. In the long term, pension liabilities under the defined benefit scheme will start shrinking and improving fiscal sustainability.

\textbf{PART ONE - Recent Economic Developments and Outlook}
Reforming civil service pensions

Pension schemes covering only civil servants are common outside Eastern Europe and the former Soviet Union countries. They predate national schemes and can often be traced back to their colonial roots. Former British colonies inherited defined benefit (DB) schemes that originated in 17th century England. While they vary slightly in terms of benefit formulas and retirement age (Figure 44), they are generally financed from the central budget rather than from contributions or reserves. Malaysia is a partial exception, having accumulated significant reserves in recent years in its public sector schemes through the Retirement Fund (KWAP).

As these pension schemes have matured, the unfunded pension liabilities have grown. This trend has been exacerbated by retirement ages that have not been increased for decades despite a significant increase in the life expectancy of pensioners. The resulting fiscal pressure has led to various attempts at reform. Among emerging economies, Hong Kong SAR, China (2001), India (2004), and Nigeria (2004) were the first to replace their DB schemes with defined contribution (DC) schemes in which contributions from both the government and employees are accumulated in individual accounts and invested in order to generate future pensions. Botswana (2007), Maldives (2009), and Kenya (2015) have each introduced DC schemes, and Indonesia is planning to follow the same path. Table 3 shows the different contribution rates and transition arrangements for these new DC schemes.

FIGURE 44
The accrual rates that determine a civil servant’s pension payment and the retirement age vary from country to country

<table>
<thead>
<tr>
<th>Accrual rate, Percentage</th>
<th>Retirement age, Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>52</td>
</tr>
<tr>
<td>0.5</td>
<td>53</td>
</tr>
<tr>
<td>1.0</td>
<td>54</td>
</tr>
<tr>
<td>1.5</td>
<td>55</td>
</tr>
<tr>
<td>2.0</td>
<td>56</td>
</tr>
<tr>
<td>2.5</td>
<td>57</td>
</tr>
<tr>
<td>3.0</td>
<td>58</td>
</tr>
<tr>
<td>3.5</td>
<td>59</td>
</tr>
<tr>
<td>4.0</td>
<td>60</td>
</tr>
<tr>
<td>4.5</td>
<td>61</td>
</tr>
</tbody>
</table>

Source: Jain, Himanshi and Palacios, Robert (2021), “The challenge of civil service pension reform in Asia: Experiences around the region and a case study of Indonesia” (World Bank), “Kenya Social Protection and Jobs Public Expenditure Review” World Bank (2023), Public Service Department, Malaysia

52 Former colonial powers offered generous pensions to attract and retain expatriate staff. In an influential study, Lowell (1900) contended that “...all progressive nations have agreed that only on certain conditions can an efficient tropical colonial service be maintained. These conditions are security of tenure, large salaries, and liberal pensions.”
53 Raphael (1964).
54 Refers to the shortfall between the total amount of pensions that the government is obligated to pay to current and future pensioners and the actual amount of funds set aside to pay for those obligations.
55 Thailand introduced a DC component and reduced the DB component of its civil service pension scheme in 1997. It has produced reasonable investment returns but the bulk of pensions still come from the DB scheme. Singapore has always had a DC scheme that covers both private and public sector employees. However, investment returns do not reflect actual returns but are mandated to be low risk and low return. Combined with strong wage growth over several decades, the result is relative low replacement rates.
56 The accrual rate in a defined benefit pension scheme is the rate at which an employee accurses benefits in the pension plan based on their years of service. The accrual rate in Malaysia is 2.0% per year of service. For each year a civil servant works, they would add another 2.0% to their last earned salary to be paid out monthly at retirement, capped at 60%. For example, civil servants with 10 and 20 years of experience will be eligible for 20% and 40% of their last drawn monthly salary as pensions.
57 Malaysia has yet to announce the details on contribution rates under the defined contribution scheme.

58 For example, the reform in Vietnam in 1995 gradually moved civil service pensions from a final salary to a lifetime earnings base.

**TABLE 3**
Globally, civil service pension reforms involve movement towards a defined contribution system

<table>
<thead>
<tr>
<th>Country</th>
<th>Transition rules</th>
<th>Contribution rate %&lt;sup&gt;57&lt;/sup&gt; (employer/employee)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>New entrants</td>
<td>17.5/2.5</td>
</tr>
<tr>
<td>Hong Kong SAR, China</td>
<td>New entrants</td>
<td>5/12.5</td>
</tr>
<tr>
<td>Kenya</td>
<td>Civil servants aged 45 and under</td>
<td>15/7.5</td>
</tr>
<tr>
<td>India</td>
<td>New entrants</td>
<td>10/10 increased to 12/10</td>
</tr>
<tr>
<td>Maldives</td>
<td>All civil servants</td>
<td>7/7</td>
</tr>
<tr>
<td>Nigeria</td>
<td>New entrants</td>
<td>7.5/7.5</td>
</tr>
</tbody>
</table>

The introduction of a **DC scheme prevents further accumulation of pension liabilities for those covered**. However, most of the reforms applied only to new government employees, so that those already in the DB scheme continue to generate new liabilities for decades to come. Since the government now has to pay pensioners from the old scheme, as well as its contribution to the DC scheme, overall costs rise during the transition. The short-run increase in deficits hides the fact that the unfunded pension liability is shrinking since it does not show up in the fiscal accounts. Nonetheless, these savings can improve fiscal sustainability and increase national savings, especially in the context of an aging population.

**Parametric reforms can be implemented to generate short-run savings that help to cover transition costs**. This involves changes to the existing system’s parameters including the benefit formula, retirement age and the way that pensions are indexed. Reforms include moving gradually away from a final salary-based formula to a lifetime earnings base<sup>60</sup> and shifting to price rather than wage indexation. Both reforms improve the equity of the scheme while producing some savings. Gradually raising the retirement age has the added advantage of increasing replacement rates from the DC scheme. Both kinds of reform—parametric and systemic—should consider the overall compensation package. Hong Kong SAR, China did this in 2001 but was an exception to the general pattern.

**The international experience provides several lessons:**
- A well-designed reform should ensure there are no large differences in outcomes between cohorts that could be perceived as unfair and arbitrary
- It is important to anticipate transition costs and create the fiscal space to finance them, including with parametric reforms
- Parameters such as the contribution rate should be chosen based on simulations using reasonable assumptions about wage growth and investment returns
- A well-thought-out investment policy is needed in order to achieve good returns
- Insurance against the risks of death or disability should be included in the scheme’s design.

India provides a cautionary tale in reforming civil service pension systems. Twenty years after new civil servants were enrolled to the new DC scheme, several state governments are proposing to return to the old DB scheme. This is due in part to the fact that the cost of the transition is starting to bite as the government pays contributions for most civil servants while continuing to bear the cost of pensioners from the old scheme. Also, investment returns have not outpaced wage growth as expected, leading to concerns about achieving target pension levels. In addition, provisions for the survivors of workers who have died before reaching retirement age have not been adequate because insurance was not included in the scheme.

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<sup>57</sup> Malaysia has yet to announce the details on contribution rates under the defined contribution scheme.

<sup>60</sup> For example, the reform in Vietnam in 1995 gradually moved civil service pensions from a final salary to a lifetime earnings base.
Higher federal government debt level in 2023

Outstanding federal government debt increased in 2023. The total federal government debt stood at 64.3 percent of GDP in 2023 (2022: 60.3 percent), with the statutory debt comprised of Malaysian Government Securities (MGS), Malaysian Government Investment Issues (MGII), and Malaysian Islamic Treasury Bill (MITB) reaching 62.1 percent of GDP (2022: 57.6 percent) (Figure 45). In 2023, the government raised RM 226.6 billion (12.4 percent of GDP) of debt for deficit financing and debt refinancing. There was strong demand for these papers, especially for the MGS and MGII, which received bid-to-cover ratios of more than two, reflecting strong demand from investors and a deep liquid domestic market. Given the higher interest rate environment in 2023, the weighted average cost of borrowing increased from 4.2 percent in 2022 to 4.3 percent as of December 2023, resulting in higher debt service charges.

The PFFRA which was announced prior to the tabling of Budget 2024 last year introduced several fiscal rules. The tabling and enactment of the PFFRA underscores the government’s commitment to improve transparency and governance of the fiscal framework. It requires the government to publish public finance documents and adhere to several fiscal rules. Of note, the mandatory publication of tax expenditure statements is a key step towards improving the overall efficiency and effectiveness of the tax system. However, four aspects of the PFFRA could be strengthened, namely: (i) harmonizing compliance periods for various rules; (ii) including well-defined escape clauses; (iii) merging the rules on debt and financial guarantees into a single rule; and (iv) establishing an independent fiscal council to oversee compliance (see Box 4 on Understanding PFFRA).

FIGURE 45
Federal government statutory debt increased in 2023

Federal government statutory debt, Percentage of GDP

The tabling and enactment of the PFFRA underscores the government’s commitment to improve transparency and governance.

Source: MOF, Haver and World Bank staff calculations
Note: The data above reflects outstanding amounts for MGS, MGII, and MITB. These are the only debt instruments that are subject to the statutory limit of 65 percent of GDP under the Loan (Local) (Statutory Ceiling for Borrowing) and Government Funding (Statutory Ceiling of Moneys Received) Order 2022 [P.U. (A) 399/2022], effective January 1, 2023.
Understanding the Public Finance and Fiscal Responsibility Act

The enactment of the PFFRA underscores the government’s commitment to improve fiscal management. The act is designed to ensure the sustainability of public finances and preserve macroeconomic stability. Under the PFRRA, the formulation of fiscal policy should be based on the principles of accountability, responsibility, transparency, and intergenerational equity. In addition, the PFFRA is expected to enhance transparency as it institutionalizes the publication of fiscal risks, mid-year expenditure reports, economic and fiscal outlook reports, and tax expenditure statements.

Of note, the mandatory publication of tax expenditure statements is a key step towards improving revenue management. The statement will capture the revenue foregone due to tax exemptions, deductions, credits, deferrals, preferential tax rates, loss carry-forward, and patent box regimes. This publication would allow the public and government to evaluate the effectiveness and efficiency of tax expenditure, especially if the tax burden is shifted to other taxpayers. Policymakers can identify areas where tax expenditure may be inefficient or not aligned with current policy objectives and make changes to improve the overall efficiency of the tax system.

The PFFRA includes fiscal rules that impose ceilings on the fiscal balance, debt, and guarantees, as well as minimum levels of development expenditures. The objectives of the rules on fiscal balance, debt, and guarantees are to ensure the sustainability of public finances in the medium to long term and to make fiscal policy more predictable, while the rule on development expenditure aims at protecting public investment needed to promote long-term economic growth. The short-term operational guidance for fiscal policy is reflected in the fiscal balance and development expenditure rules, while the long-term guidance is defined by the debt rule.

FIGURE 46
The salient features of the PFFRA
Overall, while the PFFRA provides a sound framework for a sustainable, transparent, and predictable fiscal policy, some aspects can be strengthened. In particular, the compliance period set in the PFFRA is different for the four rules: the fiscal rules on development expenditure and on financial guarantees are to be complied with on an annual basis, while the rules on the fiscal balance and debt are to be complied with in the medium term (3-5 years). Given the interaction between the rules and the fact that the budget covers one fiscal year, and numerical values are calculated annually, requiring compliance for all the rules on an annual basis will strengthen the predictability and transparency of the fiscal framework. Under the PFFRA, the formulation of fiscal policy should be based on the principles of accountability, responsibility, transparency, and intergenerational equity.

The PFFRA could include escape clauses to be triggered by shocks and automatic correction mechanisms in case of deviations or non-compliance with the fiscal rule targets. The PFFRA establishes the possibility of undertaking fiscal adjustment plans in the event of non-compliance or the occurrence of a sudden and unpredictable event that may pose significant risks to the economy and fiscal position. These plans are to be prepared by the government and presented to the parliament. More predictable and automatic adjustments can be provided by escape clauses and automatic correction mechanisms. To be resilient and credible, a rules-based fiscal framework must be sufficiently flexible while remaining simple and transparent. In this regard, well-defined escape clauses provide flexibility and predictability by clearly specifying the set of events that trigger the operation of the clause, the permitted size of the deviation from the fiscal targets, the duration of the suspension of the rules, and the trajectory to resume them. Similarly, automatic correction mechanisms that specify: (i) the size of the deviation that triggers the correction mechanism, (ii) the fiscal aggregates that will be used to correct the deviation, and (iii) the maximum time needed to return to compliance, are also expected to make fiscal management more credible, predictable, and transparent.

Some improvements in the technical design of the fiscal rules could be explored. Merging the rules on debt and financial guarantees into a rule that limits the public and publicly guaranteed debt may reduce incentives to undertake investments through other mechanisms (for example, PPPs). The debt ceiling of 60 percent of GDP is higher than comparison countries (EMDE average: 45 percent). The numerical target on financial guarantees could be revised downward, given that the aggregate limit for debt and guarantees of 85 percent of GDP (60 percent debt + 25 percent guarantees) may be excessive. In this regard, the limit of 60 percent of GDP could be applied to the debt and publicly guaranteed debt, as well as to financial guarantees.

In terms of the institutional framework, the PFFRA could be strengthened through the establishment of an independent fiscal council. While the PFFRA currently mandates a Fiscal Policy Committee (FPC) to advise the cabinet on fiscal policy matters, the FPC’s composition of cabinet members may limit its independence. An independent fiscal council, supported by a permanent technical secretariat that: (i) monitors compliance with fiscal rules, (ii) prepares independent macroeconomic projections, and (iii) assesses the fiscal impact of government initiatives, could strengthen the transparency and credibility of the fiscal framework provided by the PFFRA.

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46 Fiscal adjustment plan due to non-compliance with the fiscal rules requires parliamentary approval, while a temporary deviation from the fiscal rules due to a sudden and unforeseeable event requires cabinet approval, which is subsequently presented to parliament.
47 FPC members consist of the Prime Minister as chairman, the Deputy Prime Minister, the ministers charged with finance and economy, the chief secretary to the government, the secretary generals of the treasury and the Ministry of Economy, the central bank governor, and not more than two external fiscal experts appointed by the committee.
Economic Outlook

Global growth is expected to slow in 2024

Global growth is set to slow to 2.4 percent in 2024 (2023: 2.6 percent), marking the third consecutive year of deceleration and the slowest half-decade of growth over the last 30 years (Figure 47). This reflects softening labor markets, reduced savings buffers and pent-up demand for services, as well as the ongoing and lagged effects of monetary and fiscal policy tightening to rein in decades-high inflation. Growth in advanced economies is projected to bottom out at 1.2 percent in 2024 (2023: 1.5 percent) as growth in the US moderates, while euro area growth increases marginally as lower inflation raises real wages. Meanwhile, growth in EMDEs is projected to be broadly unchanged at 3.9 percent for 2024 (2023: 4.0 percent). Following exceptional weakness last year, global trade is projected to pick up to 2.3 percent in 2024 (2023: 0.2 percent). Goods trade is set to expand again, while the contribution of services to global trade growth is projected to decline, aligning closer with the trade composition seen before the pandemic.

The EAP region is projected to grow by 4.5 percent in 2024 (2023: 5.1 percent), mainly reflecting a further deceleration in economic activity in China (Figure 48). Growth in China is expected to decline further to 4.5 percent in 2024 (2023: 5.2 percent) as the post-pandemic rebound wanes, while the prolonged weakness in the property sector, elevated debt, and other longer-term structural factors weigh on domestic demand. The rest of the region, which was impacted by slowing global growth and tightening financial conditions in 2023, is expected to grow by 4.6 percent in 2024 (2023: 4.4 percent), underpinned by solid domestic demand amid modest inflation and increased government spending in some economies. In line with the likely recovery of global goods trade, regional trade growth is anticipated to increase modestly in the near term, offsetting the impact of the slowdown in China.

FIGURE 47
Global growth is expected to slow to 2.4 percent in 2024, marking the third consecutive year of deceleration

FIGURE 48
Growth in EAP is expected to slow to 4.5 percent in 2024, mainly reflecting slower growth in China


Source: World Bank East Asia Pacific Economic Update April 2024
Economic growth in Malaysia is projected to pick up in 2024

After experiencing weaker-than-expected growth outcomes in 2023, Malaysia’s economy is projected to expand at a higher rate of 4.3 percent in 2024 (2023: 3.7 percent) (Figure 49). Domestic demand will remain the main growth driver throughout the forecast period (Figure 50). Private consumption is expected to see a modest increase in growth to 5.2 percent this year (2023: 4.7 percent), supported by continued improvement in labor market conditions and wage growth, as well as household income support from the government, including the Sumbangan Tunai Rahmah (STR) cash aid. Meanwhile, public consumption is forecasted to grow at a rate of 2.8 percent this year (2023: 3.9 percent). This is mainly attributed to annual salary increments for civil servants, new hires for critical positions, particularly in health and education sectors, as well as higher spending on supplies and services.

Gross fixed capital formation (GFCF) is projected to grow at a sustained pace of 5.1 percent in 2024 (2023: 5.5 percent), underpinned by ongoing and new capital expenditures in the private and public sectors. Business investment will continue to be supported by ongoing multiyear investments and the realization of the recently approved investments in the manufacturing and services sectors. However, subdued global demand, persistent uncertainty surrounding global trade, and relatively elevated interest rates will continue to weigh on investment intentions among firms in export-oriented and interest rate-sensitive sectors. Capital spending by the government will continue to be channeled towards upgrading public infrastructure in the transportation, health, and education sectors. Meanwhile, investment activity by public corporations will be supported by the ongoing strategic infrastructure projects such as the East Coast Rail Link (ECRL), MyDIGITAL 5G rollout, the Rapid Transit System (RTS) Link, and the Sabah-Sarawak Pan-Borneo Highway.

Malaysia’s exports will benefit from a partial recovery of global demand for goods, following exceptional weakness last year. Following a contraction in 2023, Malaysia’s export growth is projected to grow modestly at 4.8 percent this year (2023: -7.9 percent), benefitting from a modest pickup in global activity and base effects. Meanwhile, the services trade will be supported by the continuing rise in international tourist arrivals from the surrounding region, including China. Malaysia’s imports are forecast to expand at 5.3 percent this year (2023: -7.6 percent), mirroring the projected recovery of goods exports given the high share of intermediate inputs in Malaysia’s imports, alongside continued consumer spending and sustained investment activity.
Headline consumer price inflation is expected to remain at around 2.5 percent this year (2023: 2.5 percent), aided by moderating global commodity prices. Underlying inflation, as measured by core inflation, will likely trend lower this year amid stabilizing cost and demand conditions. These forecasts hinge on the assumption that the ceiling on retail fuel prices and price control measures on selected food items will remain in place throughout the forecast period. Any changes in government policies on fuel subsidies and price controls will alter the course of the projections.

### TABLE 4
Malaysia’s GDP growth is expected to pick up in 2024

<table>
<thead>
<tr>
<th>Real GDP Growth, y/y, Percentage</th>
<th>Contribution to Real GDP Growth, y/y, Percentage point</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2021</td>
</tr>
<tr>
<td>GDP</td>
<td>3.3</td>
</tr>
<tr>
<td>Domestic Demand (including stocks)</td>
<td>3.8</td>
</tr>
<tr>
<td>Private Consumption</td>
<td>1.9</td>
</tr>
<tr>
<td>Public Consumption</td>
<td>6.4</td>
</tr>
<tr>
<td>Gross Fixed Capital Formation</td>
<td>-0.8</td>
</tr>
<tr>
<td>External Demand</td>
<td></td>
</tr>
<tr>
<td>Exports of Goods &amp; Services</td>
<td>18.5</td>
</tr>
<tr>
<td>Imports of Goods &amp; Services</td>
<td>21.2</td>
</tr>
</tbody>
</table>

Source: World Bank staff projections based on DOSM data

### Risks to Malaysia’s growth outlook remain tilted to the downside

Malaysia will continue to face considerable downside risks stemming from the external environment. Among the main downside risks to the global growth outlook are: (i) heightened geopolitical tensions including an escalation of the recent conflict in the Middle East, (ii) financial stress related to still-high real interest rates and elevated debt, (iii) more persistent inflationary pressures, (iv) further fragmentation of trade and investment networks, and (v) climate-related disasters. In the region, China’s growth could be weaker than projected if the weakness in the property sector, rising indebtedness, and depressed sentiment weigh more heavily on private sector activity. The materialization of any of these risks could have considerable adverse spillovers to Malaysia through its global trade and financial linkages. On the upside, there is a possibility that economic activity in the US and some major economies could be more resilient than anticipated, which would bolster global growth.

Domestically, the key downside risks relate to the uncertainty over the strength of household consumption. A policy-induced upside shock to inflation, weaker real disposable income growth, and

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*Recent World Bank staff estimates suggest that a 1 percentage point decline in GDP growth of the G7 economies and China could lower Malaysia’s growth by 1 and 0.7 percentage point, respectively. (Malaysia Economic Monitor, February 2023)*
Successful fiscal reforms will require both good policy design and effective policy communication to secure broad-based support from the Rakyat.

Proactive communication of expenditure rationalization initiatives, particularly in the context of subsidy reform, is essential. The implementation of targeted subsidies can significantly improve expenditure efficiency and lead to much-needed fiscal savings in Malaysia. Early and clear communication of the subsidy reform plan is key to managing public expectations. For example, the government can proactively communicate the targeted subsidy mechanism, eligibility criteria, and the policy’s impact on households of different income levels. Moreover, a firm commitment to redirect savings to social spending, such as increased cash transfers to targeted households, can help to gain broader support for the reform. On this front, World Bank estimates show that redirecting the fuel subsidy budget into expanded and refocused social assistance could double poverty reduction while generating fiscal savings.

Over the medium term, the government’s focus remains on improving the rakyat’s standard of living, as well as ensuring access to education, healthcare, and basic infrastructure. The MADANI Economic framework elevates inclusive growth and equality of opportunities as key missions of the Malaysian government. The country still faces challenges to ensure that the proceeds of economic development are distributed more evenly across different segments of the population. In addition, findings from the Basic Amenities Survey Report suggests that while Malaysians generally enjoy a high level of access to fundamental needs, regional disparities exist. In particular, there are gaps in access to healthcare and education—two of the most crucial factors for a country’s long-term inclusive growth. Improvements could be made to enhance spending efficiency and the quality of service delivery in these two sectors (See Part 2, Bending Bamboo Shoots: Strengthening Foundational Skills).

The implementation of targeted subsidies can significantly improve expenditure efficiency and lead to much-needed fiscal savings in Malaysia.

While optimizing public spending can free up budgetary resources, enhancing revenue mobilization remains vital to restore fiscal space and meet future fiscal needs. Malaysia’s ability to sustainably finance its long-term inclusive growth is constrained by its relatively low tax capacity. Despite recent tax reforms, projected revenue collection remains modest. Further revenue mobilization efforts could focus on enhancing general consumption tax, broadening the bases of personal income tax and capital gains tax, streamlining corporate tax incentives, and strengthening tax administration. A forward-looking MTRS will provide the government with greater clarity on its structural fiscal trends and allow for better planning to ensure adequate, well-timed and well-sequenced tax policy and administration reforms.

lagged effects of the post-pandemic monetary policy nominalization could weigh on the strength of domestic demand by more than is currently assumed. Supply-side disruptions to commodity production, possibly due to unfavorable weather conditions, could also hurt growth. On the upside, the continued resilience of private investment and tourism-related activity point to the risk that domestic activity may be stronger than anticipated.
Bending Bamboo Shoots: Strengthening Foundational Skills
Bending Bamboo Shoots: Strengthening Foundational Skills

Malaysia’s successful transition to a high-income economy depends upon strengthening foundational skills

As Malaysia strives to become a high-income economy, the need for advanced and specialized skills will be crucial to maintain its economic competitiveness. Historically, Malaysia’s economic growth has been driven by labor-intensive, low-cost manufacturing. However, its focus must shift to innovation and technological progress to overcome the middle-income trap and successfully transition to a high-income economy. Advanced cognitive and specialized skills are essential for fostering a technology and innovation-driven economy. Malaysia has some distance to go here: the Malaysia Productivity and Investment Climate Survey 2020 shows that firms list workforce skills as a key constraint to growth across the board in Malaysia. The survey also finds that Malaysian employers are increasingly demanding higher cognitive and socio-emotional skills from their workforce.

Sophisticated skills, whether cognitive, technical or socio-emotional, are built on strong foundational skills. To build strong foundational skills, countries must start early, beginning with early childhood education. Children’s brains develop more rapidly in early childhood than in any other period in life: neural connections are being formed at the rate of one million connections per second—a rate never to be repeated again. Early childhood education (ECE) provides a critical window of opportunity to influence the development of children’s brains through appropriate stimulation and nutrition. Once children enter grade school, foundational skills, such as reading, writing, arithmetic and socio-emotional skills, must be carefully honed. It is only then that students can benefit from opportunities for skilling in later life, and thereby providing the workforce with the necessary cognitive, technical and socio-emotional skills to successfully drive Malaysia’s transition to a high-income economy.

Malaysia has expanded early childhood education and achieved near universal primary education with remarkable equity in resources and student experiences. Nearly 90 percent of young children have access to early childhood education opportunities in Malaysia, and the net enrollment rate at the primary level is close to 100 percent since 2013. Despite these successes, many children, particularly from disadvantaged backgrounds, struggle with learning outcomes. The problem starts early, with a significant portion of children lacking school readiness skills—leading to challenges in reading, writing, and mathematics throughout their schooling. By the age of 15, Malaysian students lag behind aspirational peers in reading, math, and science as measured by international assessments. This is of special concern given Malaysia’s economic aspirations. To address these challenges, Malaysia has implemented various programs such as the Reading Aid Programme and the Primary School Literacy and Numeracy Program. The strategy to improve the teaching profession outlined in the Malaysia Education Blueprint 2013-2025 aligns with global good practices, but these have not shown their intended impact.

Part 2 of this MEM, Bending Bamboo Shoots: Strengthening Foundational Skills, begins by outlining the challenges Malaysia faces and identifying the bottlenecks that the education system encounters in improving learning outcomes. This section attempts to understand why overall learning outcomes in Malaysia are low relative to expectation, with low-income students doing especially poorly. It looks at early childhood education as well as the teaching that takes place in schools, teachers’ preparedness, efforts and morale, and the progress of teaching reforms.
Reflecting this, the special thematic topic identifies the steps that can be taken to improve foundational skills and learning outcomes in Malaysia. This includes ensuring that all children benefit from high-quality preschool education and arrive in primary school ready to learn. Given that poorer children are less likely to have school-readiness skills, improving access to and the quality of early childhood education will provide long-term benefits. At the same time, Malaysia should rigorously measure student learning outcomes and continue to benchmark them to international standards, while also measuring teacher performance thoroughly. This will help the country track progress and, if needed, correct course quickly. Importantly, given the fundamental role teachers play in student learning, support for teachers could be strengthened through effective teacher training programs, as well as policies that consider teachers’ experiences and needs, thus ensuring effectiveness and sustainability.

Malaysia has been successful in improving access to primary education with equitable allocation of resources

Primary education is nearly universal in Malaysia and covers children from the ages of seven to 12. About 95 percent of children enrolled at the primary level are in schools run by MOE, with the remainder in private or religious schools under other government agencies. Since 2013, the net enrollment rate at the primary level has hovered above 99.5 percent, underscoring that virtually all children benefit from a primary education (Figure 51). There is still a very small number of boys not enrolled in schools while all girls of primary school age are enrolled. Table 5 provides the most recent public data on the number of schools run by MOE, as well as the number of teachers and students at those schools. The majority of teachers and students are in urban areas.

FIGURE 51
Primary education is nearly universal in Malaysia

Table 5
Number of MOE primary schools, teachers and students by location

<table>
<thead>
<tr>
<th>Location</th>
<th>Schools</th>
<th>Teachers</th>
<th>Students</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban</td>
<td>4,108</td>
<td>157,470</td>
<td>2,161,342</td>
</tr>
<tr>
<td>Rural</td>
<td>3,671</td>
<td>65,948</td>
<td>617,789</td>
</tr>
</tbody>
</table>

Source: Malaysia Educational Statistics 2023
The expansion of primary education in Malaysia has been equitable in terms of inputs such as resources and teaching practices. In Malaysia, students in the poorest quintile (Q1) and richest quintile (Q5) have very similar experiences in terms of math practice, teacher effort and frequency of math and language lessons. As Figure 52 shows, Southeast Asia Primary Learning Methods (SEA-PLM) 2019 data suggest that the richest and poorest students have the same experience in school, that is, there is no gap in terms of math practice, teacher absence/tardiness and frequency of lessons (see Box 6 for details on SEA-PLM 2019). This stands in sharp contrast to the other ASEAN countries in the study—Cambodia, Lao People’s Democratic Republic, Myanmar and the Philippines—except Vietnam. There is, however, a small difference between the richest and the poorest in terms of the availability of textbooks and toilets in Malaysia.

There are multiple factors that underlie Malaysia’s success in universalizing primary education. First is the expansion of preschool education. This ensures that learners are prepared and motivated when they join primary school. Since early childhood is the period in life when the brain grows faster than it will ever again, inputs during this phase have a fundamental impact on later life outcomes (see Box 5 on the importance of nutrition and early stimulation). Malaysia has achieved significant success in the last 10 years, increasing preschool enrollment rates from 67 percent in 2009 to 89 percent in 2022 for the age five and above cohort. Currently, more than 16,700 government-established preschools operate in Malaysia.

FIGURE 52
Compared to other countries, the expansion of primary education in Malaysia has been equitable in terms of resources and student experience

TABLE 6
Currently, more than 16,700 government-established preschools operate in Malaysia

<table>
<thead>
<tr>
<th>Provider</th>
<th>Schools</th>
<th>Teachers</th>
<th>Students</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOE</td>
<td>6,294</td>
<td>9,276</td>
<td>214,043*</td>
</tr>
<tr>
<td>KEMAS**</td>
<td>8,165</td>
<td>10,165</td>
<td>216,322</td>
</tr>
<tr>
<td>Other govt</td>
<td>2,796</td>
<td>7,241</td>
<td>73,571</td>
</tr>
<tr>
<td>Private</td>
<td>7,573</td>
<td>40,331</td>
<td>285,014</td>
</tr>
</tbody>
</table>

Source: Malaysia Educational Statistics 2023

*Available data indicates that 62 percent of students are enrolled in urban schools

**KEMAS preschools are established by the Ministry of Rural Development to serve rural and suburban communities

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64 Early childhood education in Malaysia is governed under a split system where childcare and preschools are overseen by two ministries and regulated by different acts. Preschools, covering children ages five and six years old, are under the purview of the Ministry of Education but are provided for by different government and private agencies.

65 Data from the Ministry of Education in email dated March 4, 2024.
School readiness is positively correlated with higher scores on the SEA-PLM test

Achievement by child capabilities

![Chart showing school readiness and achievement by child capabilities](chart.png)

Source: SEA-PLM 2019 (UNICEF and SEAMEO 2020a)

and more than 9,100 privately established ones operate in Malaysia (Table 6). 98 percent of students in Malaysia, attend preschool prior to entering primary school (SEA-PLM 2019). Students who attend preschool in Malaysia are more likely to have better school-readiness skills than those who do not (Figure 53). The Malaysian government has been running programs and campaigns to increase parental awareness of early childhood education programs, which have helped increase preschool enrollment rates.

**Second, the education system has also been guided by solid principles and a good strategy.** The Malaysian Education Blueprint 2013-2025 identifies strategic and operational shifts needed to meet the country’s growth vision, based on thousands of grassroots contributions. Especially noteworthy are the Blueprint’s candid assessment of challenges, including within the Ministry; its clear vision and aspiration for the future with a focus on building foundations and high performance; and the design of a comprehensive transformation program including key changes to the Ministry. The Blueprint is bold in its coverage of politically sensitive issues, including an exit plan for the non-performing teachers from the education system.

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66 The SEA-PLM 2019 study for Malaysia covered 4479 students, 4415 parents, 3445 teachers and 160 head teachers.

67 The SEA-PLM study defines 10 school readiness skills: (1) recognize most of the letters of the alphabet; (2) read some words; (3) write letters of the alphabet; (4) write some words; (5) count by himself/herself upto 10; (5) recognize different shapes; (6) write the numbers from 1-10; (7) recognize colors; (8) recognize his/her name; (9) write his/her name; and (10) do simple addition.
The importance of nutrition and early stimulation on skills acquisition: Summary of a recent ECE study

Globally, malnutrition—which includes undernutrition, hidden hunger, and obesity—significantly impedes millions of children from reaching their full developmental potential. Nutrients are essential for optimal brain function in early childhood, enabling children to interact with their environment and caregivers in ways that promote further cognitive and emotional development. In 2018, nearly 200 million children under age five were affected by stunting or wasting, while over 340 million suffered from micronutrient deficiencies, and an additional 40 million were overweight, highlighting the scale of the problem (UNICEF 2019).

Alarmingly in Malaysia, 14.1 percent of children under age five are underweight, 21.8 percent suffer from stunting, 9.7 percent from wasting, and 5.6 percent are overweight or obese, with the trend worsening over the years (Table 7). Underweight and stunting among children is more prevalent in rural areas than urban areas, among bumiputera Sarawakians than other ethnicities, and among the bottom 40 percent household income category (MOH 2020). In the absence of a severe food shortage, the national prevalence of wasting globally is generally below five percent. However, the prevalence of wasting is higher in Malaysia than this threshold. Peer countries like Brunei and Singapore, on the other hand, have attained the Global Nutrition Target of reducing and maintaining childhood wasting to less than 5 percent (OECD and WHO 2020). Malaysian children are less healthy, considering Malaysia’s relatively high GDP per capita.

Malnutrition during early childhood adversely affects school performance and lifelong economic opportunities, as well as presents health risks into adulthood. Adequate nutrition is crucial for infant and child cognitive development, with insufficient nutrition significantly heightening the risk of impaired cognitive skills (Roberts et al. 2022). Deficiencies in micronutrients, such as iron, reduce a child’s ability to learn, and are linked to lower test scores (OECD and WHO 2020). Obese children also perform significantly worse in school, and are more likely to be bullied in (and be absent from) schools. The association between obesity and poor academic performance remains significant even after taking other factors such as family income, life satisfaction, and bullying into account (OECD 2019).

Beyond nutrition, early stimulation and learning—encompassing play, language exposure, emotional bonding, and problem-solving activities—are crucial for the acquisition of cognitive, social, and emotional skills. The interaction between nutrition and early stimulation is also pivotal; a well-nourished child is more capable of engaging with their environment,

### TABLE 7
Nutritional status (children under the age of 5) trend in Malaysia

<table>
<thead>
<tr>
<th>Description</th>
<th>2011</th>
<th>2015</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underweight (low weight-for-age)</td>
<td>11.6</td>
<td>12.4</td>
<td>14.1</td>
</tr>
<tr>
<td>Stunting (low height-for-age)</td>
<td>16.6</td>
<td>17.7</td>
<td>21.8</td>
</tr>
<tr>
<td>Wasting (low weight-for-height)</td>
<td>12.4</td>
<td>8.1</td>
<td>9.7</td>
</tr>
<tr>
<td>Overweight and obesity (high BMI-for-age)</td>
<td>6.5</td>
<td>7.6</td>
<td>5.6</td>
</tr>
</tbody>
</table>

thereby maximizing the benefits of stimulative experiences (Black et al. 2017). Furthermore, skills acquired throughout adolescence and into adulthood are built on foundational capacities established in early childhood, underscoring the importance of paying attention to these early years. The results from SEA-PLM 2019 highlight this relationship—across all domains, Malaysian students who attended preschools perform better at Grade 5 than those who did not. The SEA-PLM results are not surprising, given that a child’s brain development peaks during middle childhood (Figure 54). Schools and preschools, where children spend a significant portion of their day, are strategic venues for implementing nutritional and learning interventions. Most importantly, access to nutritional meals and engaging learning experiences is especially beneficial for children from disadvantaged backgrounds who may otherwise lack access to these resources at home.

**FIGURE 54**
Change in brain development by age

Source: Lee et al. 2014
Third, is the recognition of implementation challenges and creation of a delivery unit to focus on implementation. The Blueprint emphasizes the need for meticulous implementation, which led to the creation of Malaysia’s Education Performance and Delivery Unit (PADU). A delivery unit for governments is a specialized team or organization established within a government or public sector agency to improve the implementation of policies and achieve specific outcomes or results. The unit typically operates within a finite timeline and focuses on implementing specific initiatives or programs to achieve measurable results. Delivery units have been used in various countries around the world to improve the implementation and effectiveness of government policies and programs. Malaysia’s high-powered PADU, which operated from 2013 till 2023, was responsible for the execution of Blueprint initiatives, monitoring progress, day-to-day problem solving of implementation issues, and managing communication with stakeholders.

Fourth, the education system has benefitted from predictable, stable, and pro-poor public funding. The public education budget increased from 2.5 percent of GDP at the beginning of the past decade to stabilize around 3.2 percent since 2015. In the meantime, however, the number of students has declined. As a consequence, the amount of public resources per student has increased by 50 percent from 2011, reaching 18 percent of per capita GDP. Public spending is distributed in a pro-poor manner at the primary level—states with lower per capita GDP receive more public resources on a per student basis (Figure 55).

Finally, Malaysia has benefited from strong political support to improve education. Education was prioritized in the Government’s Transformation Program and highlighted as one of five National Key Results Areas. Political support also made it possible for Malaysia to undertake interventions that are difficult in most countries, such as improving the selectivity of the teaching workforce by raising the bar for teacher recruitment, as well as testing all English subject teachers on proficiency in English. These actions had impact. Nearly all intakes of prospective teachers at Teacher Education Institutes (IPG) are from the top 30 percent of Malaysian Certificate of Education (SPM) leavers. Additionally, because of the English proficiency assessments, the government was able to identify a crucial challenge and subsequently, design an upgrading program to improve teachers’ English proficiency.
Yet, learning levels are low in the aggregate and significantly worse for the lower-income group

Too many children are not learning sufficiently in Malaysia, given the country’s aspirations and despite concerted efforts to improve learning. While the average child spends 12.5 years in school in Malaysia by his/her 18th birthday, he or she learns the equivalent of only 8.9 years. In neighboring Singapore, the average child spends 13.9 years in school and learns the equivalent of 12.8 years. In Korea, the average child spends 13.6 years in school and learns the equivalent of 11.7 years. Such success is not limited to high-income countries. In neighboring Vietnam, a lower-middle income country that spends a fraction of what Korea, Malaysia or Singapore spends on education, the average child spends 12.9 years in school, and learns the equivalent of 10.7 years. In the following paragraphs, the case of Vietnam is often cited to illustrate the gains that can be made in building foundational skills in a relatively short period of time, based on careful prioritization and sound policy. Such prioritization and policies are well within Malaysia’s reach given the already high emphasis placed on basic education, strong policy support and past accomplishments.

While many children do well in Malaysia, a significant number do not learn enough. The majority (58 percent) of students in Malaysia become proficient readers when they finish Grade 5.68 However, the percentage of those who are non-proficient (42 percent) at the end of Grade 5 is higher than in countries with similar GNI per capita (34 percent).69 The performance is worse among the poorest children, where 61 percent do not achieve expected proficiency levels (see Table 8). In contrast, in Vietnam only 18 percent (and 41 percent among the poorest children) are not proficient in the reading skills expected by the end of Grade 5.

Writing too is an essential skill where many Malaysian students could do better. Being able to write well by the end of primary schooling is important because it is a foundational skill for future learning and an important tool to process and communicate ideas. In Malaysia, 69 percent of students in Grade 5 do not demonstrate the writing competency expected at this stage compared to 47.5 percent of students in Vietnam. While 21 percent scored in the higher bands in Vietnam, less than 5 percent do so in Malaysia.

In mathematics, nearly 36 percent of children in Grade 5 do not have grade-appropriate competencies. An understanding of basic mathematics is important as it builds problem-solving skills and lays the foundation for future learning and educational success. In Vietnam, only 8 percent of children did not have these competencies. Importantly, in Malaysia, only 6 percent are in the top performance band (Band 9), whereas in Vietnam 41.8 percent of students are in that band.

<table>
<thead>
<tr>
<th></th>
<th>Q1 (poorest)</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q5 (richest)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MYS</td>
<td>VNM</td>
<td>MYS</td>
<td>VNM</td>
<td>MYS</td>
</tr>
<tr>
<td>Reading proficiency</td>
<td>61</td>
<td>41</td>
<td>50</td>
<td>17</td>
<td>39</td>
</tr>
<tr>
<td>Writing proficiency</td>
<td>84</td>
<td>72</td>
<td>76</td>
<td>55</td>
<td>72</td>
</tr>
<tr>
<td>Math proficiency</td>
<td>59</td>
<td>21</td>
<td>44</td>
<td>5</td>
<td>35</td>
</tr>
</tbody>
</table>

Source: SEA-PLM 2019 (UNICEF and SEAMEO 2020a, UNICEF and SEAMEO 2023)

68 In Malaysia, primary school ends at age 12 years while in Vietnam it ends at age 11 years.
69 Note that nearly 95 percent of Grade 5 children will have mastered the skills appropriate for lower primary (Grade 2/3).
Learning outcomes vary considerably between the rich and the poor, despite the similarity in many school-level inputs. This difference is more pronounced between the richest and poorest quintiles. As Table 8 shows, a much larger percentage of children from the poorest quintiles lack proficiency in reading, writing, and mathematics at the end of Grade 5. This is a sharp contrast to Vietnam. Since learning is cumulative, weak foundational skills jeopardize performance later on. By the time a child in Malaysia is 15 years old, he/she is far behind in reading, science, and mathematics as measured by PISA, compared to Malaysia’s aspirational peers, such as Hong Kong SAR, China, Japan, and Singapore. This child is also performing below his/her peer in Vietnam, which spends a fraction of what Malaysia spends on education. In Malaysia, 41 percent of students attained at least Level 2 proficiency in the mathematics test in PISA 2022, significantly less than the OECD average of 69 percent and Vietnam’s 72 percent. In reading, at least 42 percent of students in Malaysia attained Level 2 or higher in reading (OECD average: 74 percent) compared to 77 percent in Vietnam. At least 52 percent of students in Malaysia attained Level 2 or higher in science (OECD average: 76 percent). In contrast, some 79 percent of students in Vietnam attained this level. Malaysia’s aspiration in the Education Blueprint 2013-2025 was to place the country firmly in the top-third of PISA performers by 2025. Malaysia moved up to middle-third in PISA 2018 but fell back to bottom-third in PISA 2022 (Figure 56). Indeed, while scores fell in most countries, likely due to the setbacks caused by COVID-19, it is important to note that they did not fall in all countries, including neighboring Cambodia and Vietnam.

FIGURE 56
Malaysia moved up to middle-third in PISA 2018 but fell back to bottom-third in PISA 2022

<table>
<thead>
<tr>
<th>PISA score, Score points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reading</td>
</tr>
</tbody>
</table>

Source: PISA 2022 (OECD 2023)

The regional and country report provide scores by quartile, but it may be more useful to look at percentage of children.

Level 2 proficiency in mathematics means that at a minimum these students can interpret and recognize, without direct instructions, how a simple situation can be represented mathematically (e.g. comparing the total distance across two alternative routes, or converting prices into a different currency). Over 85% of students in Singapore, Macao SAR, China, Japan, Hong Kong SAR, China, Taiwan, China, and Estonia (in descending order of that share) performed at this level or above.

Level 2 proficiency in language means students can identify the main idea in a text of moderate length, find information based on explicit, though sometimes complex criteria, and can reflect on the purpose and form of texts when explicitly directed to do so.

Level 2 proficiency in science means that at a minimum, these students can recognize the correct explanation for familiar scientific phenomena and can use such knowledge to identify, in simple cases, whether a conclusion is valid based on the data provided.
Skills measured by PISA and SEA-PLM and why they are relevant for Malaysia

The Programme for International Student Assessment (PISA) and the Southeast Asia Primary Learning Metrics (SEA-PLM) focus on critical skills necessary for the 21st century, offering crucial insights into the educational achievements and challenges within Malaysia and the ASEAN region. PISA, administered to 15-year-olds, evaluates several core competencies:

- **Reading literacy**: Beyond decoding text, PISA assesses a student’s ability to comprehend, evaluate, and engage with written materials across various genres and purposes (OECD 2023).
- **Mathematical literacy**: Students must reason mathematically, formulate, employ, and interpret mathematics to solve problems in real-world contexts (OECD 2023).
- **Scientific literacy**: This encompasses understanding scientific concepts, applying them in reasoning, designing and evaluating scientific inquiries, and interpreting data with a critical mindset (OECD 2023).

Additionally, PISA also measures creative thinking, defined as the ability to engage productively in the generation, evaluation, and improvement of ideas that can result in original and effective solutions. PISA 2022 included a financial literacy assessment.

Tailored to the ASEAN context, SEA-PLM measures foundational skills in reading and mathematics at the primary level. A reading example item from the assessment is included in Annex 1 to illustrate the level of reading literacy expected of a student in Grade 5. Furthermore, SEA-PLM uniquely introduced assessments in writing and global citizenship:

- **Writing literacy**: Assesses a student’s capacity to construct meaning by generating a range of written texts to express oneself and communicate with others (UNICEF and SEAMEO 2020).
- **Global citizenship**: Measures attitudes, values, and knowledge related to global issues, as well as respect for human rights and diversity (UNICEF and SEAMEO 2020).

These assessments are not just academic exercises; they are crucial for Malaysia’s development. Like many nations, Malaysia recognizes that its most valuable resource is its people. Strong literacy and numeracy skills are the building blocks for an educated workforce, essential for sustained economic growth. Both PISA and SEA-PLM measure a range of foundational skills that people need in order to meet their goals and to fully engage in many areas of life—from education, to employment, and civic engagement. While basic skills acquired in school are perfected throughout life, early acquisition of these skills has multiplier effects and lays the groundwork for more complex skill-building.

Furthermore, PISA and SEA-PLM serve as diagnostic tools, pinpointing where the education system can be strategically reinforced to reduce the labor skills gap. The emphasis of both assessments on real-world applications, problem-solving, and critical thinking skills offer insights on the readiness of students for the workforce in the future.

Most importantly, understanding what students know and can do, as well as how these change over time and across contexts, is critical for understanding questions of equity in learning outcomes. PISA and SEA-PLM highlight disparities in achievement within the educational system, which are important data to ensure better targeting of policies and resources. In the context of Malaysia, significant variations in student outcomes point to an important equity issue that needs to be solved. For example, the SEA-PLM results revealed that while 58 percent of students in Grade 5 performed at the level expected at the end of primary school, the remaining 42 percent are not yet at this level. In fact, 5 percent of students are at Band 2 and below, which means they struggle to read any more than single words and will find it difficult to complete primary school (UNICEF and SEAMEO, 2020).

Comparisons between SEA-PLM and PISA results also highlight that while Malaysian students perform better than the regional average in reading at Grade 5, they lag behind the OECD average and other countries in reading performance at age 15 (Figure 54). This may suggest that while Malaysia’s primary education system provides an adequate foundation in literacy, there are missed opportunities or challenges in sustaining and building upon these gains through secondary education. This underscores the need for targeted interventions and sustained efforts to bridge the gap as students progress through their educational journey.
What explains poor student learning levels?

Early childhood education isn’t equipping children adequately with school-readiness skills

The problem starts early—a significant portion of children in Malaysia lack the school-readiness skills that would position them for success when they join primary school. Two points are important to note. First, while Malaysia has expanded early childhood education, over a 10th of young children still do not have access to it. Second, while most children entering primary school are off to a strong start having attended early childhood centers and performed well on school readiness indicators, approximately 24 percent still lack school-readiness skills (SEA-PLM 2019) (see Box 6 for an explanation of SEA-PLM 2019 and PISA 2022). Worryingly, students from the poorest quintile are far less likely to perform well on school readiness, with only 64 percent meeting these standards, compared to students from the richest quintile, where nearly 89 percent meet these standards (Figure 57). The early differences in school-readiness level before entering primary school is magnified once the children are in school as Table 8 shows.

While preschool enrollment has increased, several challenges hinder progress toward achieving universal access. Some of the barriers include limited awareness about the benefits of preschool education, inadequate availability of preschools in areas of high need, and affordability concerns (World Bank 2023). Despite the advantages, preschool education remains non-compulsory for entrance into Primary/Standard 1 of the national education system. Even when parents recognize the benefits, the scarcity of nearby preschools, especially in remote or rural areas, presents a significant hurdle. The limited availability of public preschools leaves low-income parents with little option, since private providers may be too expensive. Furthermore, the reduced government fee assistance since 2022 compounds the affordability concern for lower-income families.

FIGURE 57
Students from the poorest quintile are far less likely to perform well on school readiness

Share of students lacking in school readiness, Percentage

Source: SEA-PLM 2019 (UNICEF and SEAMEO 2020a)
Quality-related challenges undermine efforts at increasing access since the quality of preschools ultimately determines school-readiness skills. Measurement of quality-related indicators in preschool remains a challenge, which makes progress on outcomes difficult. Shortcomings in the implementation of the National Preschool Quality Standard remain, with inadequate mechanisms for quality assurance and improvement, and a lack of clear linkage to outcomes. While operators and teachers adhere to National Preschool Quality Standard requirements mandated by MOE, its effectiveness as a tool for quality assurance and improvement remains limited.

Teacher preparedness, effort and morale in primary schools remain uneven

Globally, teachers are the single-most important school-based input contributing to student learning gains. While a child’s family background remains the most important predictor of learning outcomes, the most critical factor once children get to school is the quality of their teachers. Research shows that going from a low-performing teacher to a high-performing one increases student learning dramatically. In Vietnam, differences in teaching quality mean that over a three-year period, an average second-grade student can end up in either the top-third or the bottom-third of the class.

Malaysia’s teacher strategy outlined in the Education Blueprint 2013-2025 is consistent with global good practices (see Box 8 on Malaysia Education Blueprint). The teacher strategy outlined in the Blueprint lays out the strategic and operational shifts needed to meet Malaysia’s growth vision. It focuses on enhancing quality, effectiveness and professionalism of teachers.

While teacher policies in Malaysia are sound, in practice, implementation may be weak with many teachers in Malaysia lacking the content knowledge and skills needed to excel. To be effective, teachers need to be proficient in content knowledge, practice (including teaching methods and classroom management) and motivated to perform. In Malaysia, the majority of children are taught by teachers who are well-qualified, with over 80 percent taught by teachers with qualifications at ISCED 6 (bachelors or equivalent) or higher. In many countries, however, teacher qualifications are not correlated with better student performance because of the quality of those qualifications. This makes it important to have credible measures of teacher content knowledge. There is limited data on teachers’ content knowledge in Malaysia, but what little exists, suggests room for improvement.

The relatively low score in reading among students in Malaysia begs the question whether teachers teaching reading have received adequate pre-service and in-service training to do so. Most children in Malaysia are indeed taught by teachers who have received either pre-service training or in-service training in reading, but only about 40 percent are taught by teachers who received both. As noted in

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75 The SEA-PLM 2019 data for Malaysia show that gender, school location and socioeconomic status are consistent and significant predictors of performance in Malaysia. Together these factors explain 17 percent of the variation in test scores in mathematics and 11 percent of the variation in test scores in reading in Malaysia.
76 Béteille and Evans 2021, Bruns and Luque 2015
76 Carneiro et al. 2022
What do effective teachers do?

Effective teachers share certain behaviors and practices (Table 9). In a study of East Asia’s well-performing education systems—Japan, Republic of Korea, Singapore, Vietnam, and four provinces in China—a few things stand out. First, school systems in these countries ensure teachers have the requisite content knowledge and pedagogical approaches. Next, teachers in these systems have both in-depth content knowledge, as well as a robust understanding of how students learn. Thus, they are able to provide concise and accurate explanations of the required content, as well as modify teaching and learning based on circumstances. As COVID-19 has made clear, effective teachers are also flexible, manage unpredictable situations well, and can use technology effectively to reach all students.

### TABLE 9
Practices of effective teachers

<table>
<thead>
<tr>
<th>Planning and preparation</th>
<th>Classroom environment</th>
<th>Instruction</th>
<th>Professional responsibilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demonstrating knowledge of content and pedagogy</td>
<td>Creating an environment of respect and rapport</td>
<td>Communicating with students</td>
<td>Reflecting on teaching</td>
</tr>
<tr>
<td>Demonstrating knowledge of students</td>
<td>Establishing a culture for learning</td>
<td>Using questioning and discussion techniques</td>
<td>Maintaining accurate records</td>
</tr>
<tr>
<td>Setting instructional outcomes</td>
<td>Managing classroom procedures</td>
<td>Engaging students in learning</td>
<td>Communicating with families</td>
</tr>
<tr>
<td>Demonstrating knowledge of resources</td>
<td>Managing student behavior</td>
<td>Using assessment in instruction</td>
<td>Participating in the professional community</td>
</tr>
<tr>
<td>Designing coherent instruction</td>
<td>Organizing physical space</td>
<td>Demonstrating flexibility and responsiveness</td>
<td>Growing and developing professionally</td>
</tr>
<tr>
<td>Designing student assessments</td>
<td>Using technology effectively</td>
<td>Using technology effectively</td>
<td>Showing professionalism</td>
</tr>
</tbody>
</table>

Source: Adapted from Danielson 2011.

the Blueprint, teachers need subject-specific training to be effective, which can take place before they start (pre-service) or during (in-service) their teaching service—but ideally, both. Worryingly, however, nearly 12 percent of students are taught by teachers with no training in reading instruction.

While teachers in Malaysia may be trained in a number of approaches, they may not be applying them effectively (Table 9). SEA-PLM 2019 surveyed teachers on their level of training to teach reading, as well as on the instructional practices and learning activities they used within their classrooms. Effective reading instruction is systematic and helps gradually move students from simple to more complex reading tasks and skills, so that they eventually gain mastery and can read to learn. Compared to Vietnam, a much smaller percentage of children in Malaysia have teachers who practice effective teaching methods for reading (Table 10), which includes practices such as regularly having them analyze the structure of texts, evaluate the mood and tone of texts, summarize what they have read or had them reflect on how texts related to their own world. In Vietnam, in contrast, these practices are regularly used.
Malaysia Education Blueprint 2013–2025: Teacher strategy

The key components of the teacher strategy in the Blueprint were developed based on widespread consultation, and include:

- **Recruitment and selection**: Establishing merit-based recruitment processes to attract high-quality candidates into the teaching profession.
- **Professional development**: Implementing continuous professional development programs to upgrade teachers’ knowledge and skills, ensuring they are equipped to deliver high-quality education.
- **Career progression**: Providing clear pathways for career progression based on performance, qualifications, and experience, thus incentivizing teachers to excel.
- **Performance management**: Implementing robust performance evaluation systems to assess and support teachers in improving their effectiveness in the classroom.
- **Teacher standards**: Establishing clear standards and expectations for teachers’ conduct, competency, and professionalism.
- **Leadership development**: Offering leadership development opportunities to nurture and empower school leaders who can drive positive change and foster a culture of excellence within schools.
- **Recognition and rewards**: Recognizing and rewarding outstanding teachers and school leaders for their contributions to education excellence.
- **Collaboration and networking**: Encouraging collaboration and networking among teachers, schools, and educational institutions to facilitate sharing of best practices and professional growth.
- **Support systems**: Providing comprehensive support systems to address the diverse needs of teachers, including mentoring, counseling, and well-being initiatives.
- **Stakeholder engagement**: Engaging stakeholders, including teachers, parents, communities, and policymakers, in the design and implementation of teacher development initiatives to ensure relevance and effectiveness.

### TABLE 10
A much smaller percentage of children in Malaysia have teachers who regularly adopt effective reading instruction

<table>
<thead>
<tr>
<th></th>
<th>Identify the main ideas within texts</th>
<th>Summarize what has been read</th>
<th>Analyze the structure and form of texts</th>
<th>Evaluate the mood and tone of texts</th>
<th>Reflect on how texts relate to the student’s own world</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>88.4</td>
<td>76.5</td>
<td>79.9</td>
<td>78.0</td>
<td>77.2</td>
</tr>
<tr>
<td>Vietnam</td>
<td>99.5</td>
<td>98.9</td>
<td>98.2</td>
<td>98.4</td>
<td>97.5</td>
</tr>
</tbody>
</table>

Source: SEA-PLM 2019 (UNICEF and SEAMEO 2020a, UNICEF and SEAMEO 2023)
What about general pedagogical training? Most teachers have received sufficient pedagogical training that is consistent with good practice. As Figure 58 shows, the vast majority of children in Malaysia are taught by teachers whose pedagogical training included classroom management, student assessment, ICT skills, and general teaching methods. The figures are similar to Vietnam.

Differentiated instruction equips teachers to meet the needs of students who learn at different paces or different ways in the same classroom.

However, teachers in Malaysia do not receive adequate training in two areas: inclusive/special needs education and differentiated instruction (Figure 58). The majority of Grade 5 students have teachers who are not trained in inclusive or special needs education (71 percent) and differentiated instruction (57 percent). Differentiated instruction equips teachers to meet the needs of students who learn at different paces or different ways in the same classroom. Special needs education is targeted at students with learning disabilities. Without training in differentiated instruction or special needs education, such teachers are at a disadvantage when improving the learning outcomes of children in their classrooms. This is important to remedy as teachers are often confronted with students at different levels of learning in the same classroom.

A noteworthy finding is the relatively high rate of teacher absence reported by Grade 5 students in Malaysia. Approximately 40 percent of Grade 5 students mentioned occasional or frequent teacher absences, relative to under 10 percent in high-performing Vietnam (Figure 59). There is little evidence to explain what underlies these absences, given that Malaysia’s teachers are paid well, have undergone training covering key pedagogic areas, and feel generally well-prepared for their classes. Teachers’ overall attitude toward teaching is also positive, indeed the most positive among all the countries that took the SEA-PLM 2019 survey—an important achievement of the Malaysian education system. Most children in Malaysia study in a class where the teacher has a positive attitude (95.2 percent), high morale (91 percent), and clear pride (95 percent). In contrast, the numbers for Vietnam are 79.5 percent, 79.2 percent and 80.9 percent respectively.

FIGURE 58
There are weaknesses in training, particularly in differentiated instruction and special needs education content

| Share of Grade 5 children by teacher’s pedagogical training content, Percentage |
|-----------------------------|-----------------------------|
| Classroom management        | Student assessment          |
| 100                         | 100                         |
| 80                          | 80                          |
| 60                          | 60                          |
| 40                          | 40                          |
| 20                          | 20                          |
| 0                           | 0                           |

- **Malaysia**: Blue bars
- **Vietnam**: Light blue bars

Source: SEA-PLM 2019 (UNICEF and SEAMEO 2020a, UNICEF and SEAMEO 2023)

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77 Current available data is reported by students in SEA-PLM 2019, not from random unannounced visits.
Nearly 40 percent of Grade 5 students reported that their teachers are sometimes or often absent.

Teachers in Malaysia spend less class time on actual teaching and learning than most other TALIS countries.

Even when teachers are present in school, they spend a significant portion of their time on non-teaching activities relative to other countries. Teachers in Malaysia allocate a high percentage of their working time (around 29 percent) to non-teaching duties, particularly administrative tasks and classroom management. This is approximately 8 percentage points higher than the average reported by other countries in the OECD’s Teaching and Learning International Survey (TALIS) (Figure 60). The Ministry of Education has made efforts to alleviate teachers’ burdens. They have standardized and streamlined data collection processes, as well as urged schools to reduce teachers’ workloads in administrative committees. Continued exploration of methods to identify bottlenecks, streamline workflows, and increase efficiency is necessary to free up time for teachers to perform more impactful tasks such as lesson planning, mentoring, and professional development.
Teacher performance management is not being implemented as prescribed in policy

The Blueprint lays out an ambitious and well-designed set of reform initiatives to help teachers improve their performance, as well as manage underperformance (Figure 61). The plan has four key elements: (i) clear definition of underperformance; (ii) evaluation of teacher performance; (iii) coaching and mentoring for teachers, with intensity determined by extent of underperformance; and (iv) redeployment to other tasks in the event of continued underperformance. Malaysia currently utilizes a performance management system for teachers that includes classroom observations, self-appraisal, and feedback mechanisms. This system identifies areas for improvement and can lead to targeted professional development plans for underperforming teachers. Support structures like mentoring programs and coaching initiatives are available to guide and equip underperforming teachers with the necessary skills to improve their practice.

What about practice? Measuring teacher performance purely through self-assessments may not be adequate. In this regard, Malaysia took an important step by first testing all English language teachers on their proficiency. It also provided them with training in an effort to, ultimately, improve students’ mastery of the English language. In 2012, all 24,075 teachers who had been specifically trained as English language teachers, were tested; 65 percent of these teachers fell short of the required minimum proficiency level (“C1” on the Common European Framework of Reference for Languages, CEFR). This test was conducted following the release of the Blueprint in 2011, in order to find out how many teachers needed training, how quickly the upskilling could be achieved, and at what cost.

In response, the Ministry of Education set up a program called “Professional Upskilling for English Language Teachers” (ProELT) to provide training. The training was aimed at the 14,479 teachers who did not yet meet required minimum proficiency levels but had some English language proficiency (level B1 or B2). The aim was to raise the level of language proficiency by one level (that is, from B1 to B2 or B2 to C1). To reach and support teachers, who are spread across the country and have busy teaching schedules, the ProELT combined face-to-face and virtual learning modules. Although teachers had to complete 240 hours of face-to-face interaction and another 240 hours of self-paced digital learning (online and/or offline), these could be flexibly scheduled over a 12-month period. Moreover, the resources and training materials were designed to match the language proficiency level of the teachers.

FIGURE 61
The Malaysia Education Blueprint 2013-2025 has outlined a set of reform initiatives to manage teachers’ underperformance

Proposed pathway for consistent underperformers

Source: Ministry of Education

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78 Malaysia also tests teachers teaching Bahasa Melayu.
The Ministry of Education’s English Language Teaching Centre (ELTC) with Universiti Kebangsaan Malaysia (UKM) conducted an impact study of this first cohort that showed participants of ProELT79 improving in three areas. First, teachers’ proficiency improved. They used more extensive vocabulary, lengthier sentences, and clearer language instructions. Second, their pedagogy improved, with more student-focused lessons allowing for student autonomy, varied strategies and approaches, and more self-reflection as teachers become more aware of their teaching routines. Third, students also reduced their use of their first language in the classroom and were more willing to participate in classroom activities. A second evaluation, done by ELTC in 2015, showed that the students whose teachers had taken ProELT had a 4 percent improvement in achievement based on a pre- and post-test which contained reading comprehension and essay writing exercises administered over a three-month period.

Despite the focused attention on testing teachers in English and helping them improve, change in proficiency levels has been slow. This highlights a key challenge in well-intentioned reforms in adult learning—expected changes do not materialize as quickly as planned (Figure 62). One reason is that training programs often fail to account for the unique characteristics of adult learning as discussed subsequently. The MOE has now mandated that graduates from the Institute of Teacher Education (ITE) and public universities are required to attain a minimum CEFR C1 to be eligible for school placement, which will help improve the overall teachers’ proficiency levels.

With teacher evaluations in Malaysia based on self-assessments, the management of teacher performance may be wanting, including targeting support where needed. As noted above, Malaysia regularly evaluates teachers. However, staff employed by the Ministry of Education perform very well in these evaluations almost unanimously, with only 0.02 percent of staff scoring below 60 percent in the performance evaluation (Figure 63). The high performance of teachers in these evaluations is at odds with the rates of teacher absence and student learning reported previously. Furthermore, the fact that only about 0.6 percent of teachers annually leave the profession ahead of retirement age, suggests the policy may not be meeting its objectives on exit (Figure 64).

FIGURE 63
Ministry of Education staff performed very well in these evaluations almost unanimously
Distribution of information on the Performance Evaluation of Education Service Officers in KPM Year 2010 – 2020, Percentage

Source: LNPT data from BPSM

FIGURE 64
Only about 0.6 percent of teachers annually leave the profession ahead of retirement age, suggests the policy may not be meeting its objectives on exit
Primary teachers in 2016 and 2020, movements out of profession between 2016 and 2020, and movements between schools

Source: World Bank Staff calculations from EMIS data

79 From 2012-15, two cohorts of teachers, totaling approximately 14,000 took the ProELT course, with the cohorts being trained by native English speakers from the British Council. Subsequent cohorts were smaller—averaging 1,000-2,000 per year—and training was taken over by local providers with non-native English language speakers, with an independent panel to assess the quality of training.
How can Malaysia do better?

Malaysia is remarkable in its attention to improving education outcomes. As noted previously, a combination of sound policy, financing and political will have led to an education system driven by several elements of good practice. Following COVID-19, the government immediately took action to reverse learning losses, again indicative of its proactivity (see Box 8). Yet, Malaysia’s learning outcomes remain low given its economic ambitions. In addition to the government’s ongoing efforts, Malaysia needs to double down in certain areas for bigger impact. It faces two types of challenges: improving learning levels in the aggregate and ensuring disadvantaged groups are not left behind. As discussed in detail in this section, key actions to address these challenges include (i) improving access and quality of preschool education; (ii) measuring learning outcomes of students and the performance of teachers against international benchmarks; (iii) focusing on evidence-based teacher continuous professional development; and (iv) ensuring that all teacher policies are clear, doable, and rewarding for teachers.

BOX 9

Key initiatives to improve learning outcomes post COVID-19

Malaysia has implemented several interventions to address the issue of learning poverty, especially in the mastery of basic skills such as literacy and numeracy. For instance, the Reading Aid Program (Program Bantu Membaca) is a program designed to provide extra support and assistance to primary school learners through a one-to-one approach. The program involves all students in primary schools, from Year 1 to Year 6, where the students are evaluated based on their reading skills in Bahasa Melayu. Teachers are encouraged to use the Basic Literacy Module for Bahasa Melayu (Modul Asas Literasi Bahasa Melayu) module as supportive material to strengthen basic literacy skills among students. The objectives of this module are to enable students to: (i) master basic literacy skills in Bahasa Melayu; and (ii) reinforce Bahasa Melayu literacy skills for further learning. Initial data obtained in July 2022 showed that 148,284 primary school students have some difficulties in reading. Three months after the implementation of the intensive program, 28 percent of learners were able to read fluently. The Primary School Literacy and Numeracy Program (Program Literasi dan Numerasi Sekolah Rendah) is a comprehensive and holistic school-based teaching and learning program to support Year 2 and Year 3 students. The objective is to ensure that all Year 2 and Year 3 students can attain at least the minimum proficiency level (Level 3) in the subjects of Bahasa Melayu, English, and mathematics.

Malaysia is also implementing a remedial education program—the Special Remedial Program (Program Pemulihan Khas)—specifically designed to provide early intervention to primary school students facing difficulties in literacy and numeracy. The students who have yet to master basic literacy and numeracy skills are placed in dedicated remedial classes during specific subjects such as Bahasa Melayu or mathematics. The program is conducted by remedial specialist teachers in schools and focuses on addressing the individual learning needs of students. Within four months of the program in 2023, 22 percent of students were able to acquire the required skills.
Start early and give all children a head start

Despite the strides made in expanding and enhancing preschool education, Malaysia should urgently address remaining challenges related to access and quality. When children enter school having been to preschool, their schooling and learning trajectory is much stronger than when they do not. As shown earlier, school readiness is correlated with better scores at the end of primary schooling in Malaysia. Of special concern is that children from poorer income quintiles tend to do worse on school readiness. The Malaysia Education Blueprint’s aim of achieving universal preschool enrollment by 2020 remains unrealized. To meet these goals, Malaysia will need to address access-related challenges to ensure the remaining 10 percent of children without preschool access are not left behind alongside quality-related issues in the majority of preschools so that all children have a strong start.

To realize universal preschool enrollment, the government should consider implementing at least one year of free and compulsory preprimary education for Malaysian children. Countries with such policies have demonstrated higher gross enrollment ratios and better related indicators. Strategic implementation plans, including clear communication of the government’s commitment to preschool education, are crucial for this endeavor. Importantly, for the government to achieve universal preschool education by 2025—and target the 10 percent being left out—it should both simplify licensing processes and financial incentives to include more unregistered preschools as well as increase financial aid to parents so they can afford such education.80

A key next step to enhancing preschool education quality requires ensuring all teachers meet the minimum qualifications by 2025. This entails better enforcement, accessible diploma programs, and staggered requirements to support operators. Additionally, improving the quality of teachers and leaders requires accessible high-quality continuous professional development, enhanced coordination among stakeholders, and targeted support based on teachers’ needs. To mitigate the impact of COVID-19 on learning, the ministry’s Curriculum Implementation Empowerment Program (KPM PerkasaKU) should be expanded to include preschool students, with a focus on tailored curricula and supplementary programs.

Effective governance and financing are vital for implementing these measures and achieving Malaysia’s preschool education goals. The fragmented early childhood care and education system requires better coordination. This could take the shape of a formal coordinating agency or be achieved by redefining the management of preschool education. Stakeholder cooperation is essential, as demonstrated by the collaborative development of recommendations. To address this, MOE has now set up a special task force in January 2024 to strengthen coordination and governance.

Introduce better and more frequent measurement of student learning and teacher performance

Education systems that have successfully improved learning outcomes of students began with rigorously measuring their learning outcomes. Take for instance the case of Sobral in Brazil—a relatively poor municipality with among the lowest student learning levels in the country in the late 1990s—but now among the best-performing (see Box 10 on the case of Sobral). At the center of Sobral’s education reforms is a set of clear learning targets and a system of regular external student assessments. These assessments are discussed in regular meetings between teachers, principals, pedagogic coordinators, and the school superintendent team throughout the school year. Simultaneously, teacher performance is regularly evaluated.

Malaysia has made important steps in measuring student learning outcomes but must benchmark these to international assessments. The School-Based Assessment (PBS), introduced in 2011 for

In Sobral—a relatively poor municipality with among the lowest student learning levels in the country—the newly-elected mayor, Cid Gomes, began a process of education reform in 1997. The reforms included making two difficult political decisions. First, he consolidated the school network, closing 40 percent of schools to allow a more efficient use of resources for better infrastructure, school meals, and transport. Second, his government laid off 1,000 teachers (one-third of the teacher workforce), who failed the basic technical criteria for being a teacher. Despite the reforms, in 2000, a diagnostic assessment revealed that 48 percent of second graders could not read. Instead of hiding the results, the mayor went on radio stations to communicate the results to all citizens. The message was clear: everybody needed to know about the learning crisis, and everybody needed to take responsibility. That year, Cid Gomes was reelected for a second term as mayor, and he redoubled his efforts to improve education. He formed a new leadership team to define strategies to overcome the learning crisis. This team was headed by his brother, Ivo Gomes, as the new Secretary of Education. At the center of Sobral’s education reform was a set of clear learning targets and a system of regular external student assessments. These assessments were discussed in regular meetings between teachers, principals, pedagogic coordinators and the school superintendence team throughout the school year. A Teacher Career Plan was introduced in 2000. The new leadership team knew that making change would require the support of teachers, principals, and parents. They routinely met with all parties, explaining the benefits of education, as well as repeatedly emphasized the importance of teachers in this process. They increased teacher salaries and rewarded well-performing teachers with financial incentives. In 15 years, Sobral became the best-performing municipality in Brazil.

Despite facing resistance, the leadership maintained a consistent approach of fostering open dialogue, ensuring equal treatment, and promoting transparency throughout the reform process. The mayor actively engaged with schools and parents to emphasize the significance of children’s education and the implementation of more balanced classroom compositions. Although city councilors and former principals previously viewed schools through a political lens, the Secretariat of Education welcomed them without bias, and included them when sharing information about the benefits of the reforms. They did this with a focus on retaining skilled professionals within the system.

Efforts to minimize resistance to learning objectives included emphasizing the pivotal role of teachers in the learning journey and providing technical assistance to schools to facilitate goal achievement. By transparently presenting indicators and offering municipal support, the accountability process was legitimized, and educators recognized that monitoring was distinct from inspection.

primary schools and 2012 for secondary schools, is being strengthened. PBS is holistic in nature and in line with the National Education Philosophy, assesses intellectual, emotional, spiritual, physical, and social aspects. PBS comprises four components, namely:

- **Central Assessment or Pentaksiran Pusat (PP),** which is conducted at the school level by teachers using instruments prepared by the Examinations Syndicate within a specified period;
- **Classroom Assessment or Pentaksiran Blik Darjah (PBD),** which is a continuous assessment process in teaching and learning to obtain information about the development, progress, abilities, and mastery of students;
- **Physical, Sports, and Co-curricular Activity Assessment or Pentaksiran Aktiviti Jasmani, Sukan dan Kokurikulum (PAJSK),** conducted to measure and assess the performance, involvement, and participation of students in physical, sports, and co-curricular activities, as well as physical fitness; and
- **Psychometric Assessment or Pentaksiran Psikometrik (PPsi),** conducted to measure students’ innate and acquired abilities, interests, attitudes, and personality traits. Additionally, PPsi is used as a tool to identify traits that can be developed through learning activities inside or outside the classroom.

As Malaysia continues strengthening PBS, it is important that it continues to participate in international tests of student learning, ensuring that it aligns local test instruments and grading with international ones. Ultimately, Malaysia needs to continue benchmarking itself with competitor countries as it competes in a global world.

**Measuring student learning has to be in parallel with measuring teacher performance, an important step to identify areas where teachers need support to increase their effectiveness.** Weak systems of teacher assessment and appraisal mean that countries cannot support their teachers to improve, nor create a systematic process by which teachers who perform well are recognized and rewarded while those who consistently perform poorly can be taken out of classroom settings. Improving the effectiveness of individual teachers starts with identifying their capacity and effort. In Vietnam, for example, teachers take part in regular internal and external evaluations that hold them accountable for teaching quality. Teachers are given the opportunity to improve, failing which they are exited. In Malaysia, it would be especially important to identify which teachers are faring well with differentiated instruction and special needs instruction and which are not, allowing for the latter to receive appropriate help or training. Without effective appraisal systems, incentives for teachers to improve their capacity and practice or even to focus on student learning outcomes remain weak or non-existent. This appears to be the case for Malaysia.

**Teacher evaluations in Malaysia would benefit from increased rigor and regularity.** It is important to have independent evaluations of teacher performance in addition to self-assessments. Robust procedures are at the core of successful appraisal systems that improve student learning. There are three key elements: (i) Sufficient investment of time from principals, other evaluators, and teachers; (ii) evaluators with the required expertise, in terms of both pedagogical knowledge and assessment techniques; and (iii) teacher acceptance of the system as fair and trustworthy so that they use the results of the assessment. Malaysia has been a trailblazer with its evaluation of English language teachers, and the subsequent use of the results to provide focused support for improved teacher performance. A similar Teachers’ Malay Language Proficiency Test was used for Bahasa Melayu teachers. While Malaysia currently evaluates teachers, there is limited evidence that the test instrument can distinguish accurately between different levels of performance. This is because of the relatively low percentage of teachers scoring under 60 percent (0.02 percent), as well as limited evidence of underperforming teacher redeployment to non-teaching roles. While testing content knowledge is crucial, ultimately teachers must transact this knowledge in classrooms everyday with students at different levels of learning. Malaysia would benefit from testing teachers on their pedagogic skills. Teach, an open-source classroom observation tool, helps identify areas of improvement in teaching skills, classroom management skills and socio-emotional behavior. Finally, Malaysia’s teacher evaluation system must link teacher performance with student learning. While teacher effort is important, if it is not leading to improved student learning, then more is needed.

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82 There are several robust and validated classroom observation tools that have been used on a large scale in developing countries. These tools can provide evidence that mentors and coaches can use to support teachers and that education systems can use to design large-scale training programs. The World Bank has developed such a tool that is publicly available. For more information, see https://www.worldbank.org/en/topic/education/brief/teach-helping-countries-track-and-improve-teaching-quality.

83 Schleicher, 2020
Incentivize and support better teacher performance based on evidence

Malaysia has innovative programs that provide teachers with continuous professional development opportunities. Since 2013, there have been opportunities for teachers to develop higher order thinking skills and pedagogy. The Standard Instrument for the Evaluation of the Cultivation of Higher-Level Thinking Skills in 2023 showed that 54 percent of teachers are at the excellent level. Importantly, teachers are also trained to improve their psychological wellbeing, with sessions on emotional management, self-control, and positive daily practices.

As a next step, training of teachers must be guided by data and evidence on what improves student learning. Analysis of high-impact in-service teacher training programs from around the world indicates that effective programs have four key features: (i) a focus on content knowledge, (ii) opportunities to practice what is learned with colleagues, (iii) continued support through follow-up visits focused on training content, and (iv) career incentives through promotion or increased salary. Malaysia would do well to benchmark its training approaches against global good practice (see Box 11 on effectiveness of the 4C approach).

Teachers can also be supported in being more effective with several different tools, such as: (i) structured lesson plans, (ii) targeted instruction, (iii) educational technology (EdTech); and (iv) the dual teacher model.

1. Structured Lesson Plans: These plans range from highly scripted lessons to more flexible guides. They provide a framework for teaching and can significantly improve learning outcomes, especially where teachers lack pedagogical skills and subject knowledge. Evidence suggests that Malaysia still has a non-trivial number of teachers with content weaknesses who could benefit from structured lesson plans.

2. Differentiated Instruction: Also known as targeted instruction or Teaching at the Right Level (TARL), this approach helps teachers address the challenge of varying levels of student achievement within one classroom.

As in Malaysia, teachers in EAP commonly face the challenge that in any given classroom, the children they are trying to teach have a wide range of achievement levels; given the low rates of proficiency as students complete primary, many students will be behind the expected levels of progression embedded in the national curriculum. Moreover, teachers are often pushed to complete the curriculum without regard to the actual progress of their students. By grouping students based on their learning levels rather than age or grade, teachers can tailor instruction to meet their needs effectively. While Malaysia offers training in differentiated instruction, more teachers may need to be covered. Regular training in differentiated instruction will not only help teachers with students lagging behind, but also help all students improve.

3. Educational Technology (EdTech): Digital tools have become increasingly valuable for enhancing teaching and learning, especially during the COVID-19 pandemic. These tools include platforms for remote coaching support, structured lesson planning, and computer-assisted learning. EdTech can aid in delivering structured lesson plans, tracking progress, and updating content as needed. A recent impact evaluation of Kenya’s Tusomé program, which included all these elements, found that student learning improved by 0.63 and 0.76 standard deviations across a range of Kiswahili reading tasks in Grades 1 and 2, respectively (Wilichowski & Popova, 2021). However, evidence indicates that the effectiveness of these technologies primarily relies on their integration by teachers to improve instructional practices. In Malaysia, such tools could supplement ongoing efforts in coaching, differentiated instruction and structured lesson plans.

4. Dual Teacher Model: This model involves expert teachers providing content and demonstrating effective pedagogy through pre-recorded or livestreamed sessions. It extends the reach of high-quality teachers to environments where students are located.

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84 Teaching at the Right Level (TARL), pioneered by Pratham, an NGO in India, is perhaps the most widely known and used version of Targeted Instruction in developing countries.

85 In many cases, also, the curriculum is too ambitious for the progress that the majority of students can be reasonably expected to make.

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Evidence from impact evaluations of teacher training programs in the region that combine the four features outlined above, highlight their effectiveness in raising student learning. For instance, the Tonga “Come Let’s Read and Write” (CLRW) program provided training focused on content, a new method to teach reading, follow-up in the form of regular subject-focused coaching, plus instructional materials. After two years, average reading scores improved by 0.19 standard deviations after one year and 0.33 standard deviations after two years of intervention. This means that they were able to increase the proportion of Grade 2 students who could read from 18 to 29 percent (Figure 65). Effects for girls and boys were similar.

Even relatively short duration programs can yield significant results. The Sa Aklat Sisikat (SAS) program in the Philippines sought to train teachers to incorporate reading in the curriculum. It targeted Grade 4 teachers in public schools in Tarlac province, and provided them with storybooks, a teacher’s manual, and corresponding reading materials. The initial training lasted two days, with a focus on practice with other teachers emphasizing Socratic, progressive methods built around questions, discussions, and acting out stories and playing. It also included three follow-up visits to teachers in their classrooms. Despite being of relatively short duration—the main program was a read-a-thon over 31 days—the program improved reading skills by 0.13 standard deviations (Abeberese, Kumler, & Linden, 2011). A follow-up evaluation of the program, conducted three months later, found significant improvements in student learning outcomes, albeit somewhat smaller (0.06 standard deviations). This highlights the importance of follow-up and continuity in teacher support to ensure the full benefits of teacher training methods persist.

**FIGURE 65**
Rigorous impact evaluation of in-service teacher training programs in the region shows such training can lead to better learning outcomes

(a) In Tonga: The effect of CLRW program on average TEGRA reading scores (standard deviations)

(b) In the Philippines: The effect of SAS program on reading scores (standard deviations)

Source: Macdonald, et al., 2018
Source: Abeberese, Kumler, & Linden, 2011
teacher capacity is lacking, leading to improved learning outcomes. Notably, this model has been successfully implemented in various middle-income countries, including in Ghana (Johnston & Christopher, 2017), India (Naik, Chitre, Bhalla, & Rajan, 2020), Pakistan (Beg, Lucas, Halim, & Saif, 2019), and Mexico (Borghesan & Vasey, 2021), with significant impacts on student learning across different subject areas and grade levels. This model is especially useful for students with teachers who are not adequately trained and are hence lagging behind.

These strategies have shown promise in improving education outcomes, particularly in contexts where traditional teaching methods may be insufficient. Moreover, they highlight the importance of ongoing teacher training and support to enhance educational effectiveness. But they need financial investment in in-service teacher training considerably exceeding current levels. Given that most teachers who will be in class in the next thirty years have already been recruited in Malaysia, the government would do well to consider prioritizing investments in in-service teacher training to improve teacher performance.

Teacher policies should be clear, doable, and rewarding for them to succeed

Teacher policies that may have incorporated good practice on the surface are often ineffective because they do not consider how teachers experience the policies, and thus fail to influence what teachers do. Ultimately, the success of any teacher policy relies on teachers making changes that improve the teaching-learning experience for students. For example, teachers must gauge existing student learning, interpret curricula to understand requisite learning, and implement a plan to adjust their classroom teaching, among others. Yet, policymakers often do not listen to teachers or consider carefully what changes teachers will need to make and how to make these changes stick over time. For instance, too often teacher professional development provides too little in-classroom teaching practice and feedback. Curriculum reforms add material without taking anything out, leaving teachers to cover more material in the same amount of time.

Even if teachers know how to apply a certain type of practice in the classroom, teachers need to be motivated to shift—and sustain these shifts in—their teaching practices. This is the “why” barrier that is, “Why should I enact these changes in the classroom?”. Consider the use of lesson plans: teachers will not adopt the regular use of lesson plans if they are not convinced that the new strategies will help improve their teaching and improve student learning. This is the case especially in contexts where policy shifts and new programs are introduced frequently. As Box 12 suggests, the Tusome program addressed this barrier to change by sequencing lesson plans so that students were taught words and letters in order of impact (instead of alphabetically), so that they learn high-impact letters that form words quickly. This way, teachers could see immediate results from using lesson plans. Their students grew in confidence, saw more visible progress, and ultimately improved their literacy. This design feature made following lesson plans more rewarding for both the teachers and the students.

The Malawi and Kenya examples illustrate how the (seemingly) same evidence-based intervention can yield strikingly different outcomes because of differences in the ways the teachers experience it. The examples underscore that the success of teacher policy relies on the extent to which the policy enables, supports, and empowers teachers to adopt changes that lead to improved teaching and learning. Thus, for Malaysia’s policies to lead to improved teaching practices and ultimately to increased student learning, policy design and implementation must be informed by a deep understanding of the factors that will facilitate—or hinder—the target changes. This is where insights from behavioral science can help, as the examples above illustrate. In Malaysia’s case, the country may benefit from reviewing the type of training provided to teachers for professional development and prioritize the quality of such training.

The success of these policies hinges on teachers making changes that enhance the teaching-learning experience for students. Teachers play a crucial role in assessing student learning, interpreting curricula, and adapting their teaching methods accordingly. However, policymakers frequently overlook teachers’ perspectives and fail to consider the practical challenges they face. For instance, teacher professional development often
BOX 12

Why did two school systems have dramatically different outcomes despite similar policies?¹⁸⁶

Behavioral insights can play a key role in improving the outcomes of policy. To illustrate this phenomenon on a policy level, consider two apparently similar teacher interventions: Kenya’s Tusome program and Malawi’s Early Grade Reading Activity (EGRA). Both initiatives aimed to enhance student learning through structured pedagogical materials, comprehensive teacher training, and student assessments. Despite sharing these core components, Tusome yielded significant improvements in student learning, with gains of 0.63 and 0.76 standard deviations across various Kiswahili reading tasks in Grades 1 and 2, respectively. In contrast, Malawi’s EGRA showed no notable impact. Despite their apparent similarity on paper, what explains the starkly different outcomes between these programs?

If teachers find that the lesson plans are hard to follow and are unclear about what they need to do, they are likely to choose to do things differently, or not use lesson plans at all. This is the “How” barrier: “How do I implement these changes in class?” To address this barrier, Kenya’s Tusome program designed and formatted lesson plans in a clear and easy way for teachers to read, understand, and utilize. This contrasts with teachers guides in similar interventions in Uganda and Ethiopia that required teachers to flip back and forth between pages to figure out what they needed to do. This was a critical design flaw that caused teachers to skip about 38 percent and 15 percent of classroom activities, in the two countries respectively, when teaching an early-grade reading lesson. Kenya’s Tusome guides prioritized clarity, with each lesson plan confined to one page, while Malawi EGRA’s plans were consistently longer, requiring teachers to navigate multiple pages during lessons. Moreover, the Tusome guides were designed for usability, featuring relevant images from the student book, whereas the EGRA guides lacked such user-friendly elements, requiring teachers to frequently switch between the guide and other materials during lessons. The EGRA’s Grade 1 lesson plans in Chichewa contained an average of 16 activities per class, compared to Tusome’s Kiswahili plans, which had only seven activities. Additionally, the Tusome program included more intensive hands-on training on the use of teachers guides, as well as continuous daily classroom support for implementation of the lesson plans. In this way, the Tusome program addressed the “How” barrier.

Summary of key recommendations

Start early and give all children a headstart. Malaysia has made noteworthy progress in expanding preschool education, but there is room to reach the last mile. Malaysia will need to improve the accessibility, equity, and quality of preschool education. On access, this includes ensuring free and compulsory preschool education, conducting mapping exercises to identify enrollment gaps, and providing financial aid to parents and operators. On quality, improvements in teacher qualifications, professional development, quality assurance systems, and curriculum delivery are fundamental. Effective governance, financing, and stakeholder cooperation are essential enablers for achieving preschool education goals.

Introduce better and more frequent measurement of student learning and teacher performance. First, Malaysia needs to rigorously measure student learning outcomes and continue to benchmark them to international standards. The School-Based Assessment or Pentaksiran Berasaskan Sekolah (PBS) for lower secondary students has been implemented for more than a decade, but its effectiveness in measuring learning outcomes should be regularly evaluated and strengthened. As Malaysia continues to improve on PBS, it must also continue to participate in international tests of student learning—in order to align local test instruments and grading with international ones. Next, improving teacher effectiveness starts with identifying their capacity, followed by strengthening the teacher appraisal system. To ensure appraisals are useful, significant reforms and reorientation are needed—specifically, to ensure there are robust procedures, investment of time and knowledge, and linkage to student learning for appraisals to be useful.

Support and incentivize improvement in teacher performance. There are two parts to this:

1. Ensuring policy draws upon global evidence on what improves student learning: Effective teacher training programs emphasize content knowledge, practice with colleagues, follow-up support, and career incentives. Mentoring, coaching, structured lesson plans, targeted instruction, educational technology, and the dual teacher model are potential tools for supporting teachers.

2. Ensuring teachers know what to do, how to do it, and why they should do it: To improve the success of teacher policies, it is crucial to integrate teachers’ experiences into their design and implementation. The success of these policies hinges on teachers making changes that enhance the teaching-learning experience for students. Policymakers frequently disregard teachers’ perspectives and fail to consider the practical challenges they face. For instance, teacher professional development often lacks sufficient in-classroom practice and feedback. Addressing the what, how and why barriers through policy that is clear, doable, and rewarding is key to effective implementation; teachers need to know what is expected, how they can change, and why they should.
References


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1. Reading stimulus and an example Band 6 and above item in SEA-PLM

The Hole
“I can see something shiny at the bottom’, said Kit.
‘Maybe it’s a gold coin.”

“Don’t be silly,” said Sara, peering into the hole. Her young brother was always seeing things, creating objects out of nothing.
“Maybe it’s a sword,” continued Kit.
“Maybe a king buried a gold sword in the ground many years ago, and then forgot about it.”
“Maybe it’s dirt, covered in dirt, covered in more dirt’, said Sara.
“It’s just a hole, probably made by a wild animal.”
“You are wrong!’ exclaimed Kit. “No animal could make a hole as big as this!”

“Well, if you are so sure this is not an animal’s hole, perhaps you should climb into it.”
Kit began to turn pale. “Erm… No. I cannot go in the hole… because… I have a sore foot!”
Sara smiled; it had nothing to do with Kit’s foot. A big hole could mean a big animal.
“I have an idea,’ she said, picking up a stone that lay beside her. “I will drop this into the hole. If we hear a clink, there is treasure. If we hear a thud, there is dirt. If we hear a yelp, there is an animal.”
Sara dropped the stone and they heard nothing for a moment. Then they heard a splash.

QUESTION:
Why doesn’t Kit want to climb into the hole?
  a. Because he has a sore foot
  b. Because he is scared
  c. Because he doesn’t know how to climb
  d. Because he knows there is an animal in the hole

Of Malaysian students who sat SEA-PLM 2019:
• 58% would be likely to answer this item correctly (that is, those who are at Band 6 and above);
• The remaining 42% would be unlikely to answer this item correctly.

2. Reading example item Band 4

QUESTION:
Sara says, “I have an idea”. What is her idea?
  a. To push her brother into the hole
  b. To go into the hole to explore
  c. To throw a coin into the hole
  d. To drop a stone into the hole

Of Malaysian students who sat SEA-PLM 2019:
• 12% would be unlikely to answer this item correctly (that is, those who are at Band 3 or below);
• Many of the 12% at Band 4 would be likely to answer correctly; and
• The remaining 76% (those in Bands 5 and above) would almost certainly be able to answer this item correctly.
3. Example Label item, Band 2 and below

Which word?

a. Car
b. Shoe
c. Wheel
d. Cat

There were 5% of students in Malaysia at Band 2 and below. The four items in Band 2 and below are all “label” items, which require students to select one word that matches a picture of a familiar object.

Source for the above figures and analysis: SEA-PLM 2019 (Malaysia National Report)