

# **MALAYSIA AND THE GLOBAL ECONOMIC CRISIS: IMPACT, RESPONSE AND REBALANCING STRATEGIES**

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**Presented at an ADBI Conference**  
**22-23 April 2009, Tokyo**

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# The 1997-98 Crisis

## Features of the crisis:

- Massive fall in ringgit (2.48 to 4.88 against US\$)
- Decline in KLSE index (1,216 points to 302 points)
- NPL as percentage of total loans (6% to 15%)
- MIER's BCI and CSI took a dip

# The 1997-98 Crisis

## Some priorities in crisis management:

- Defending ringgit
- Eliminating ringgit speculation
- Restoring confidence of companies, especially export-oriented manufacturers
- Institutional measures:
  - a) Danaharta (to remove NPLs from banking sector);
  - b) Danamodal (to recapitalise sick banks)
  - c) merger programmes for banks

# Lessons from 1997 Crisis

- **Not quite same context**
- **Accumulation of reserves probably over-emphasised due to 97 crisis**
- **Some measures of 97 crisis directed at export-oriented manufacturing; not appropriate now**
- **Deferment of mega projects; the reverse required**
- **Not much exposure to sub-prime loans, so resilience of reformed banking system not tested**
- **Increasing current account surplus → ↑ reserves**

# Malaysia's Links

- **Financial Channel**

- **limited exposure and so no adverse impact on banking and financial sector in Malaysia**

- **Trade channel**

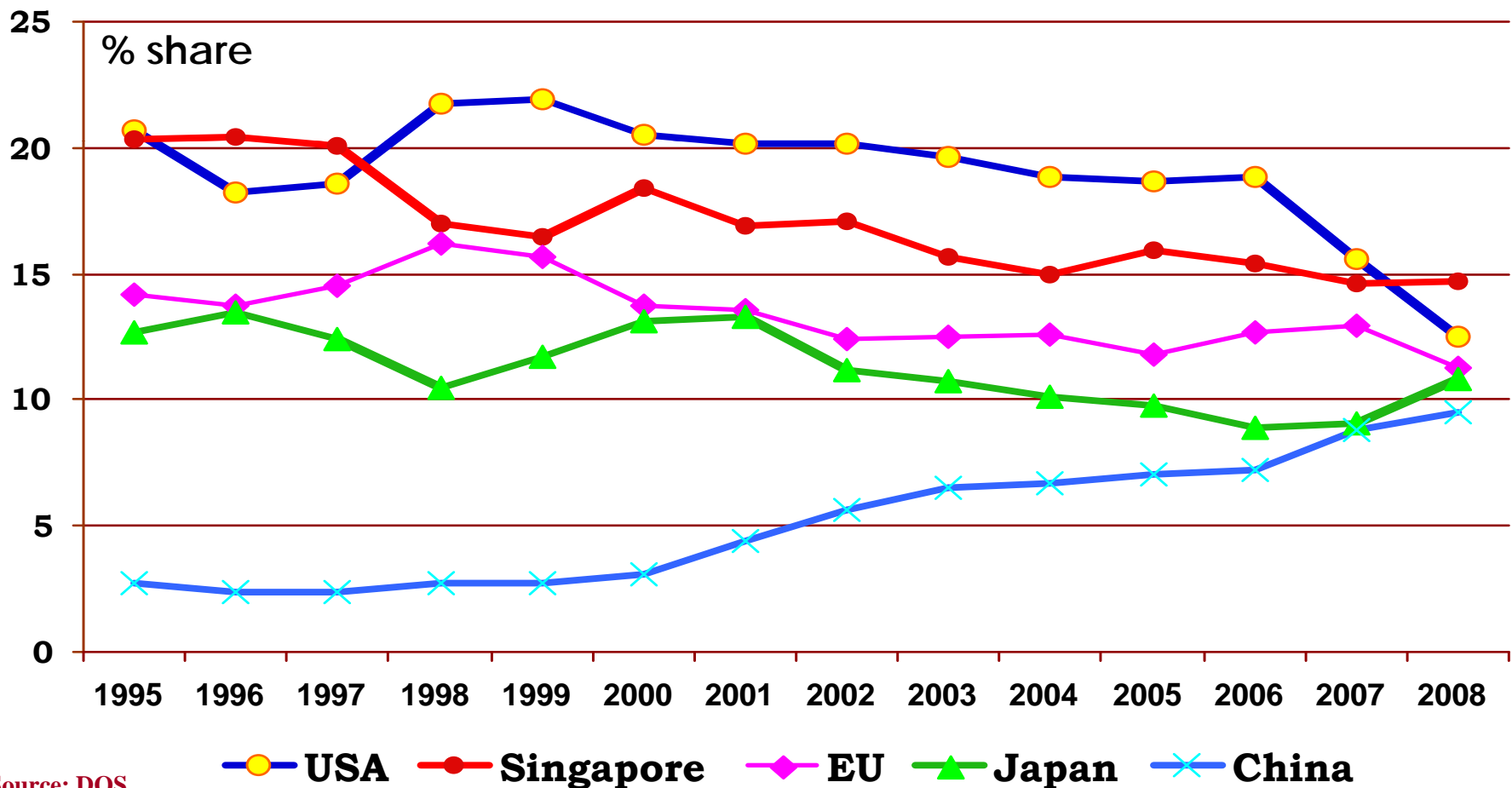
- **Being a small open economy, trade is important  
 $X+M = \text{RM}1,110 \text{ billion (=2xGDP)}$**
- **Given global slowdown, this is the dominant influence**

# Malaysia's Trade Links

- Exports dominated by
  - E & E products (47% of total exports; average growth of 4.5% per annum)
  - agricultural commodities (palm oil: average growth of 3.5%)
  - resource-based industries  
viz. wood (7%), petroleum (17%), rubber products (12%), chemicals (14%)
- Main trade partners: US, Singapore, Japan, EU
- Rising trade with China

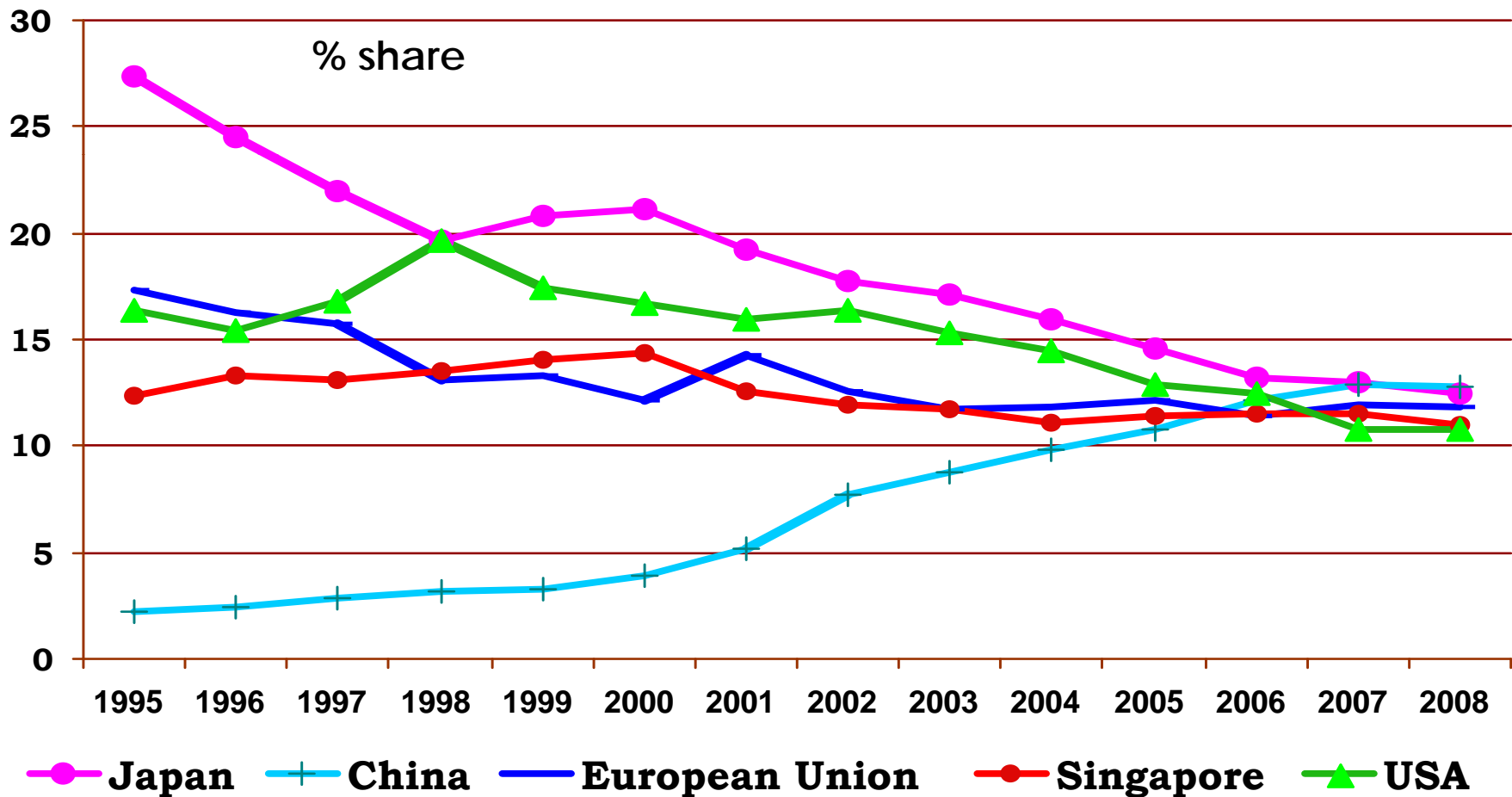
# Exports to Major Partners

- traditional markets for Malaysia: US, Singapore, EU and Japan
- USA shows declining market share
- China account for an increasing share of Malaysia's exports



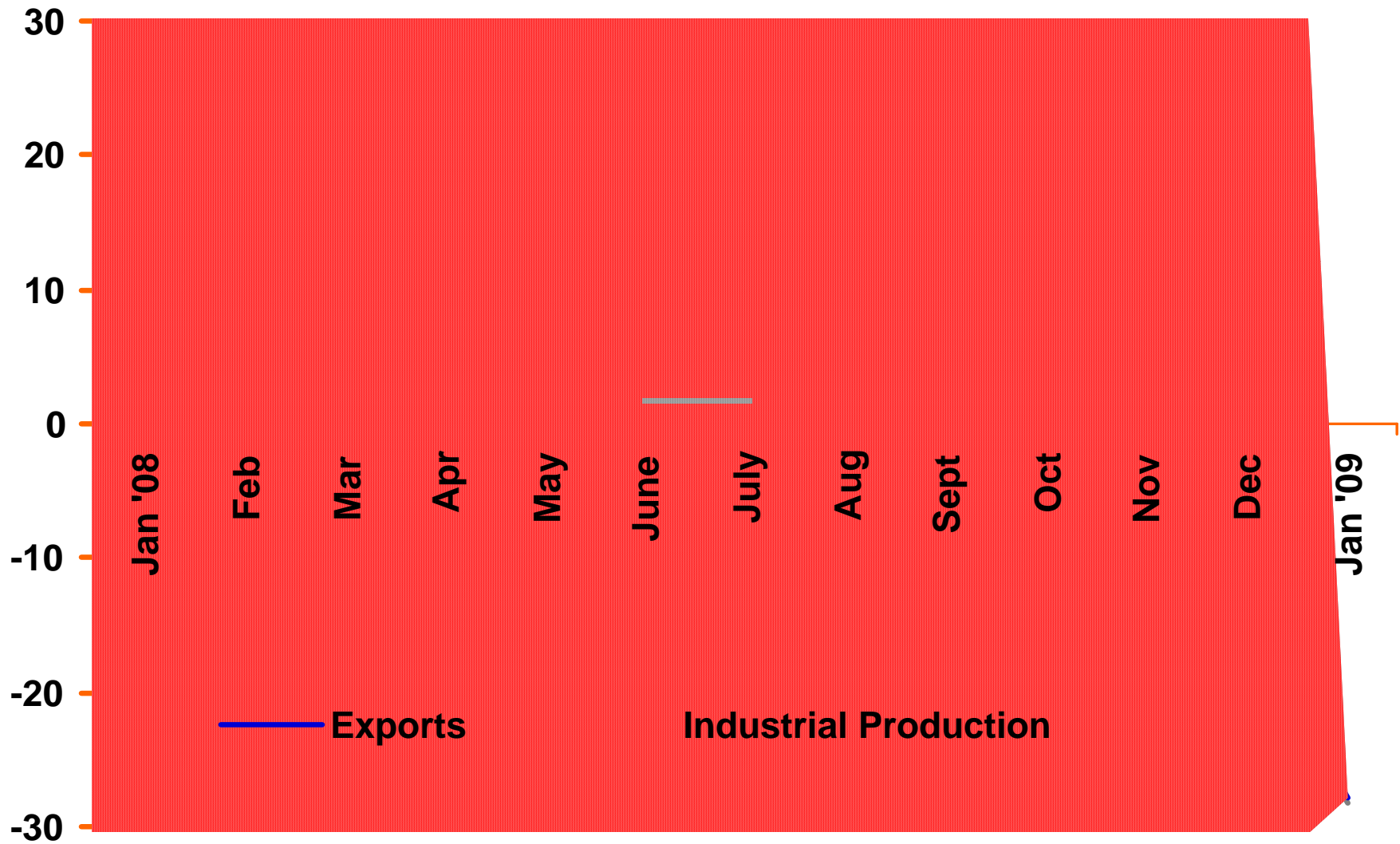
# Import Sources

- shares of imports from Japan and USA declining
- import shares of Singapore and EU remain fairly stable
- China's share of imports up noticeably

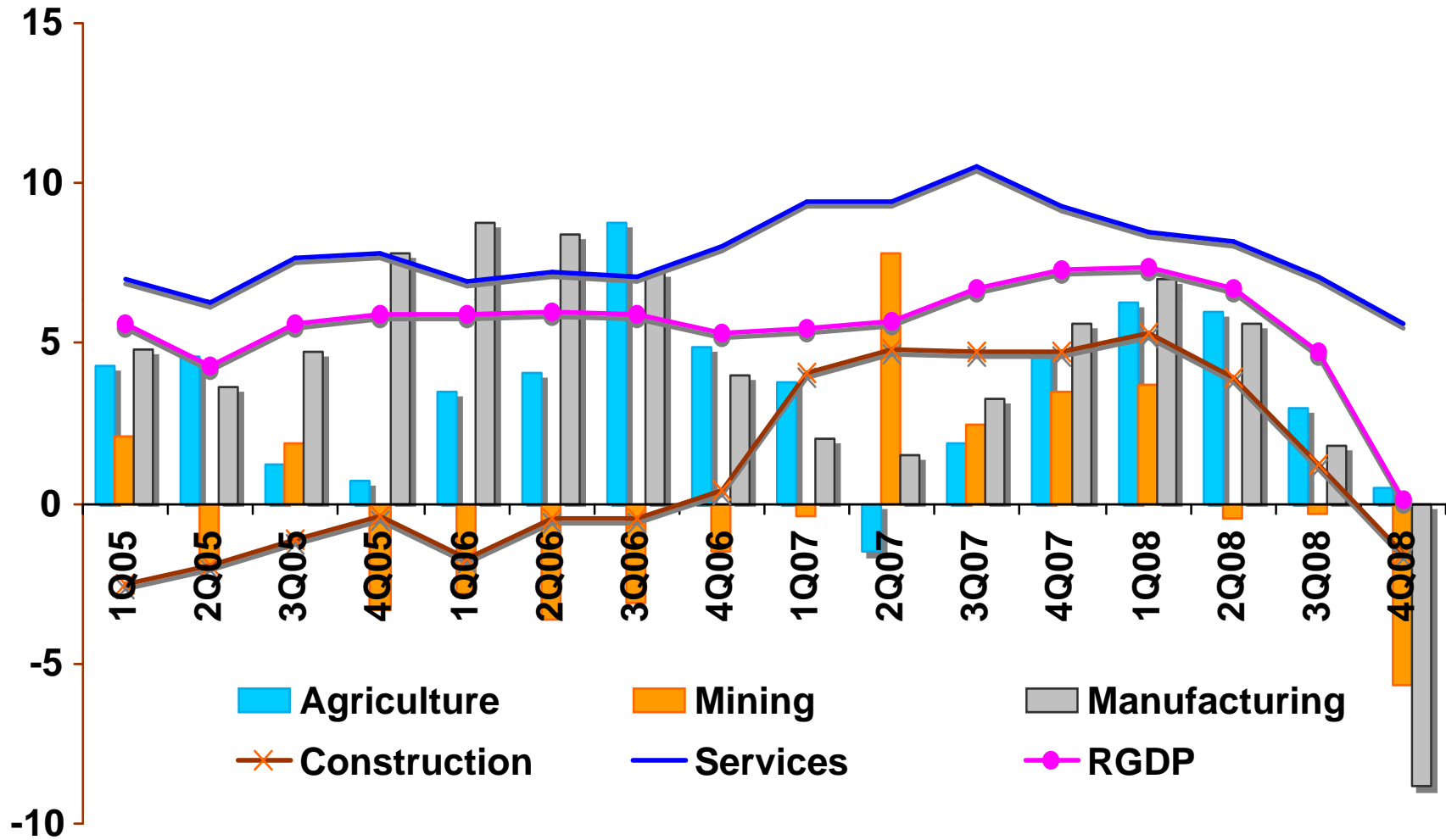


# **IMPACT OF THE CURRENT CRISIS**

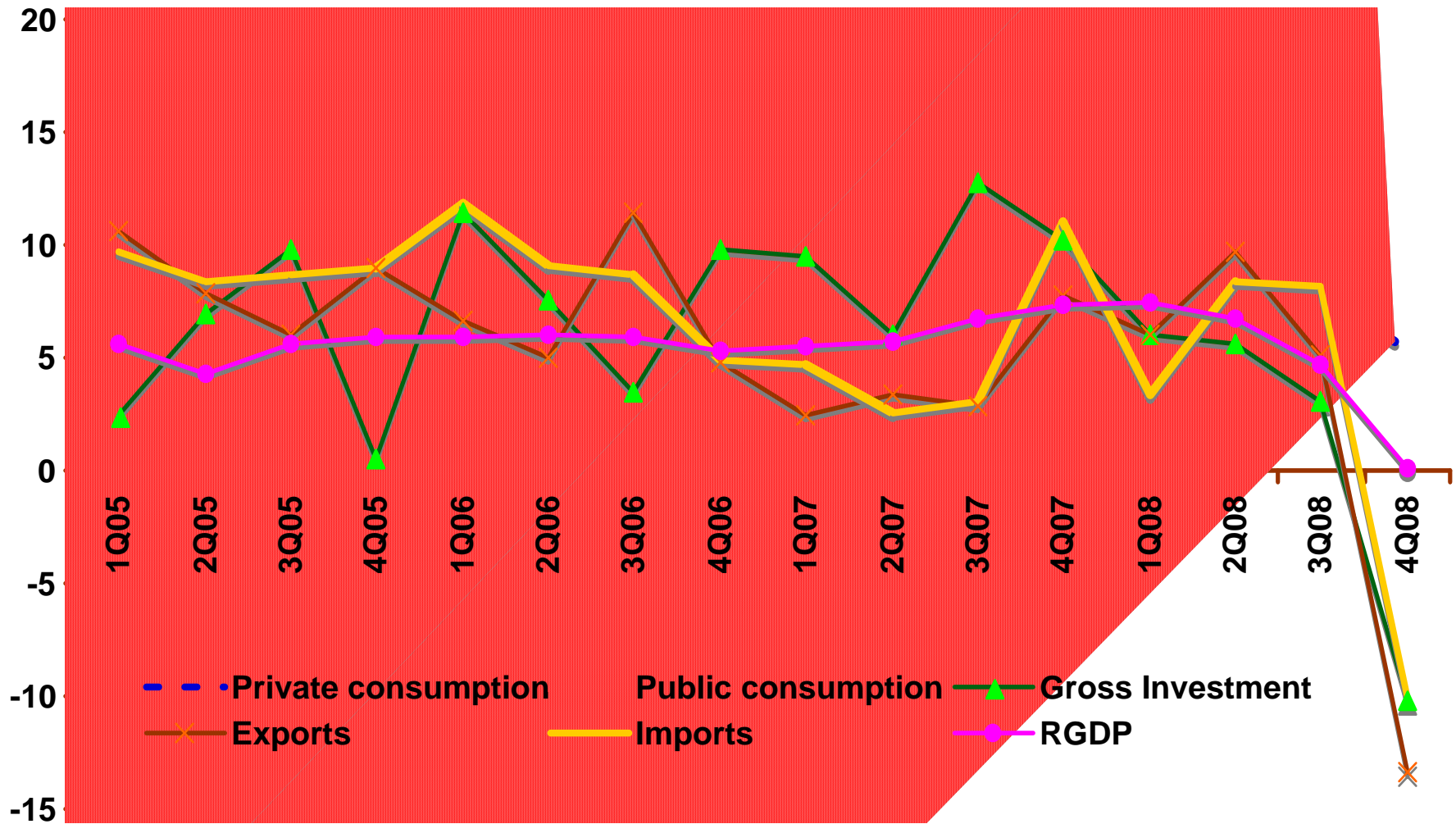
# Exports/Industrial Production (% change y-o-y)



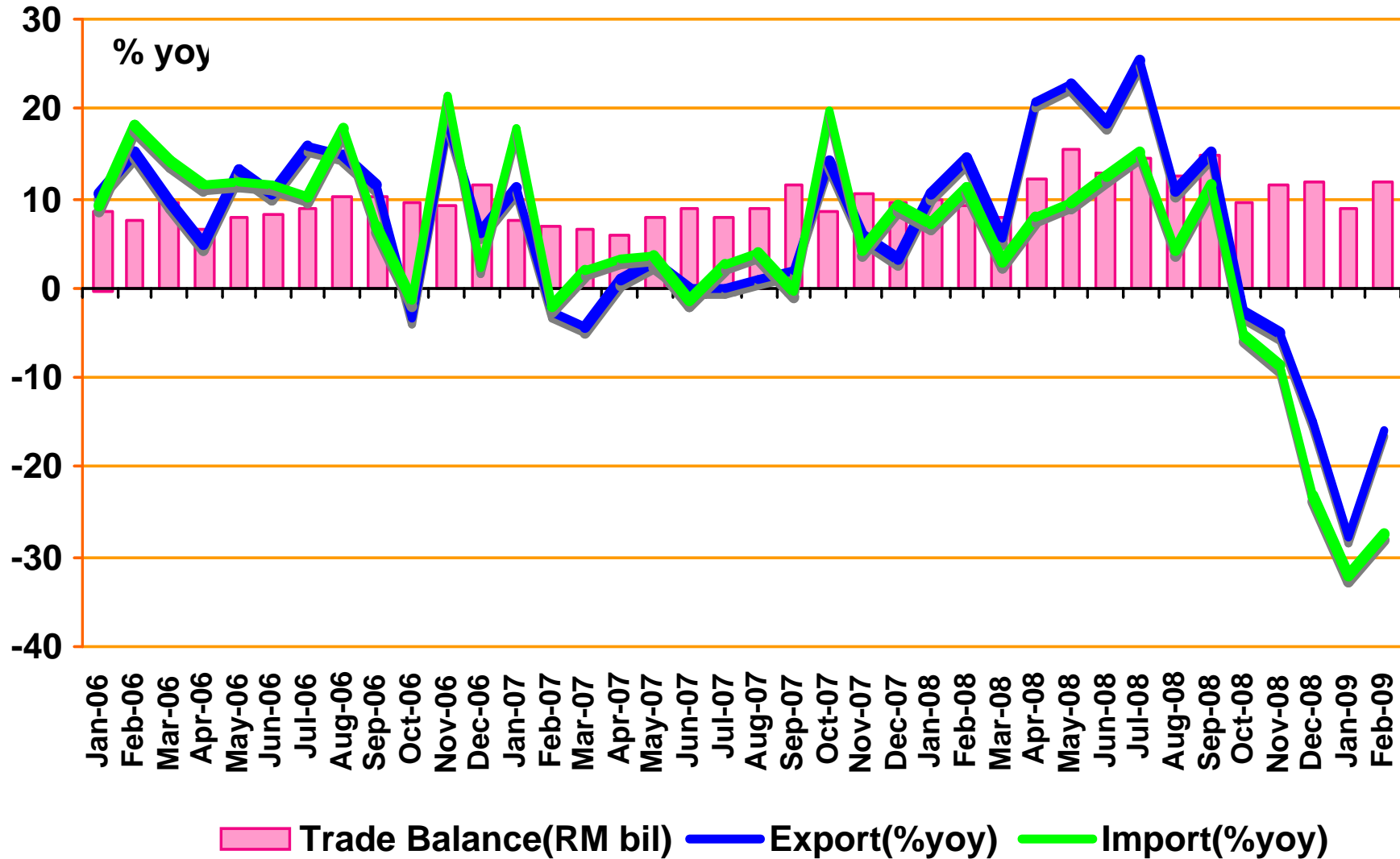
# GDP Growth by Sector (% change y-o-y)



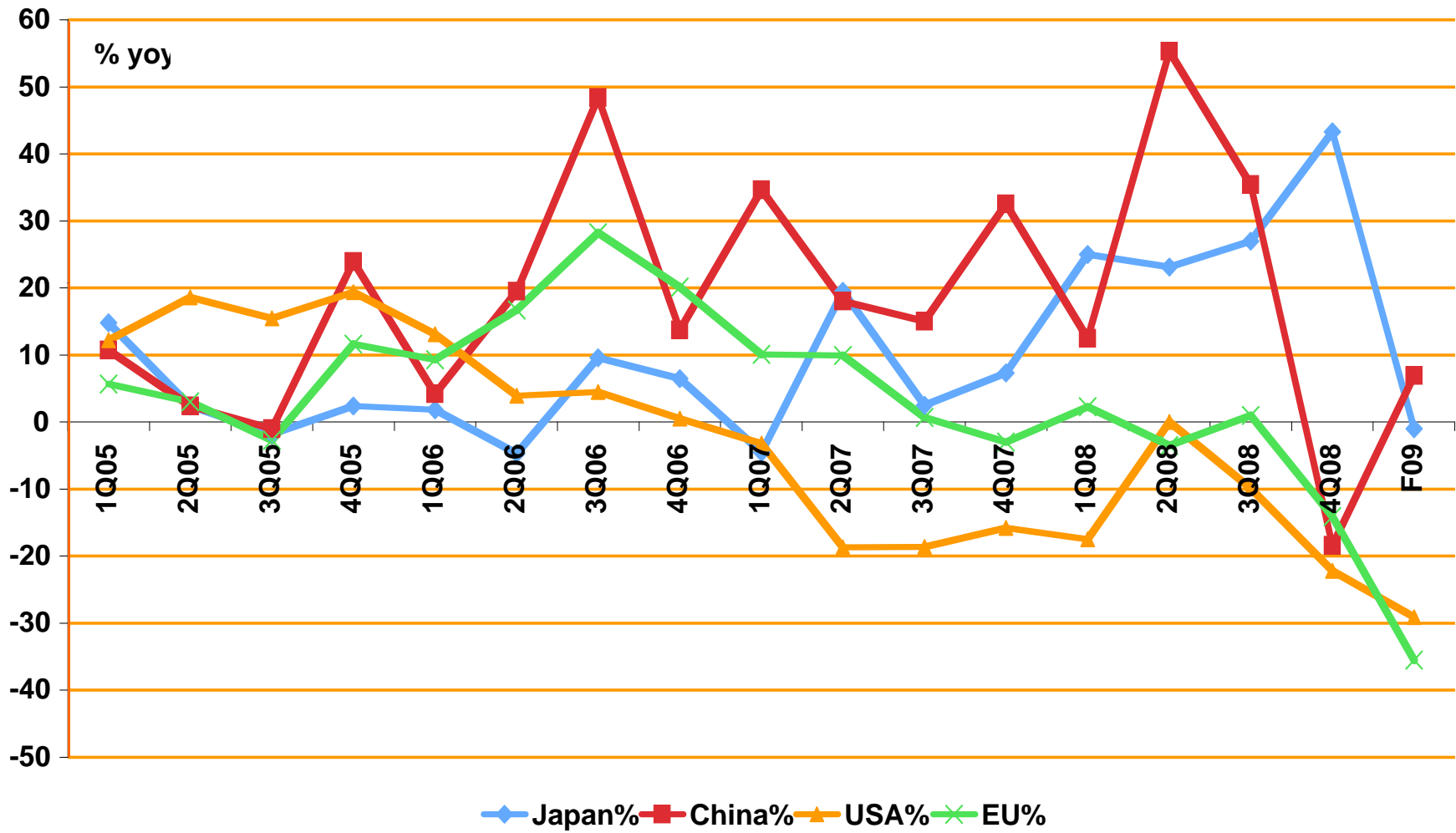
# Real GDP by Demand Expenditure (% change y-o-y)



# Malaysia: Exports & Imports

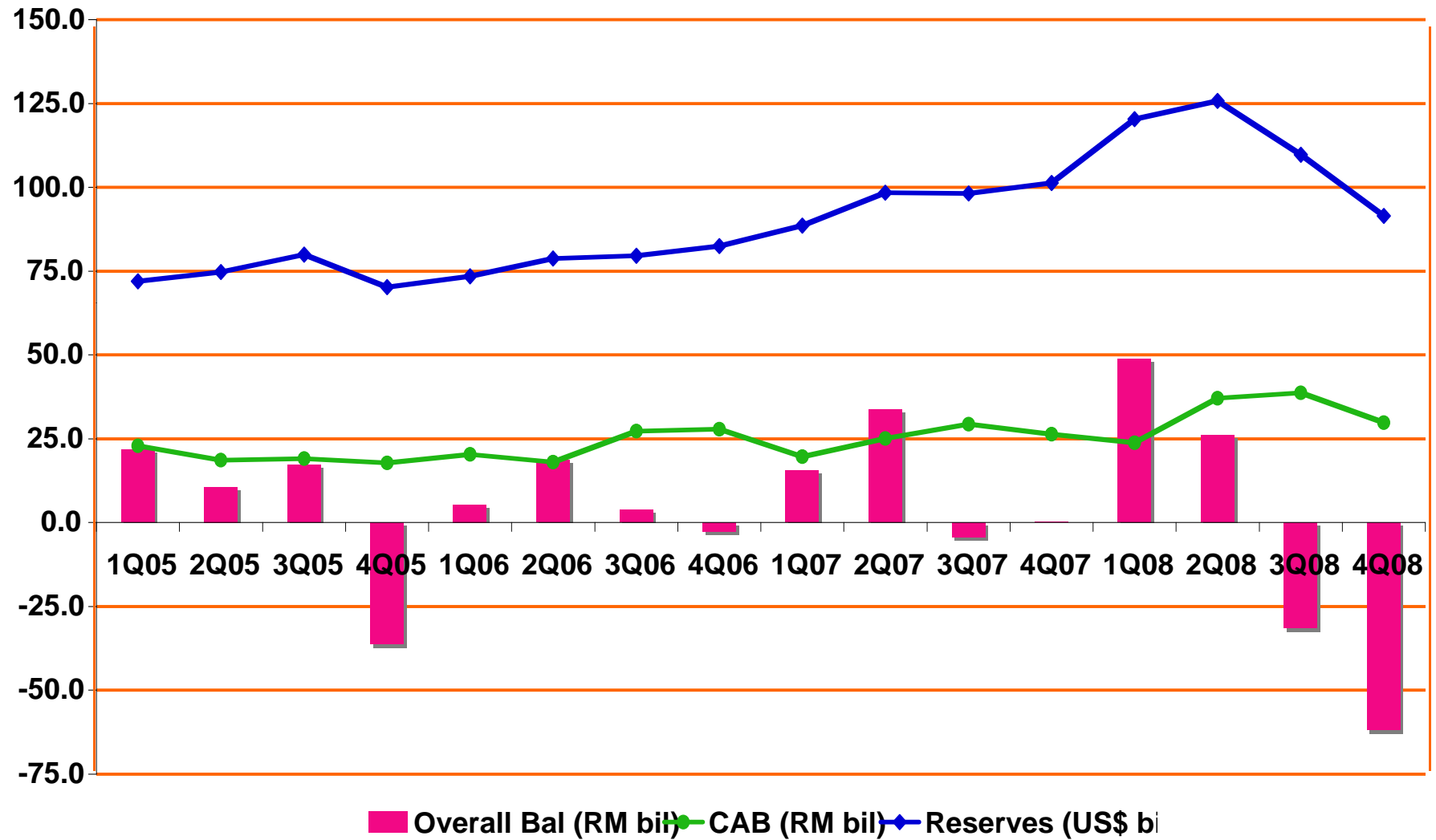


# Export Growth by Destination

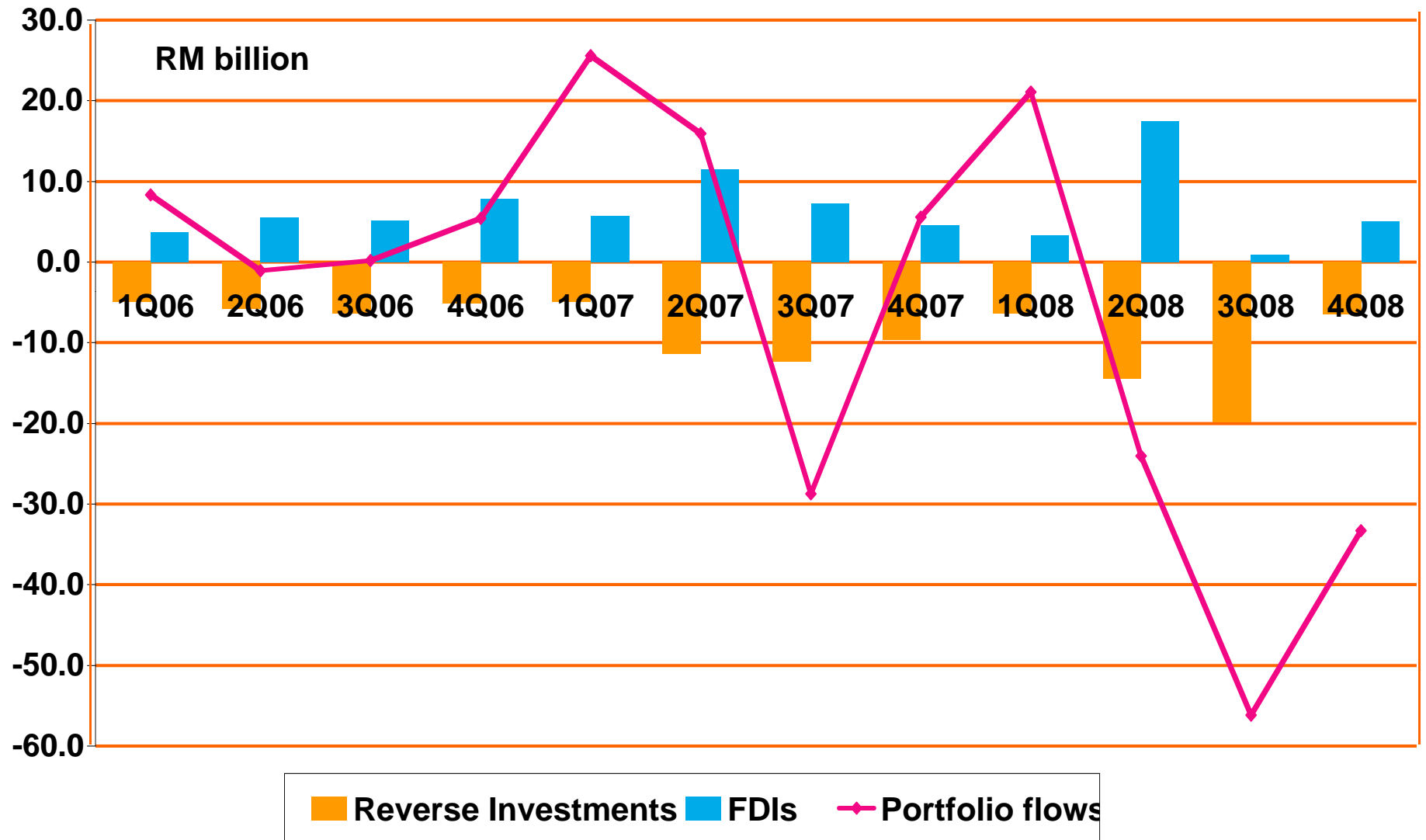


Source: DOS

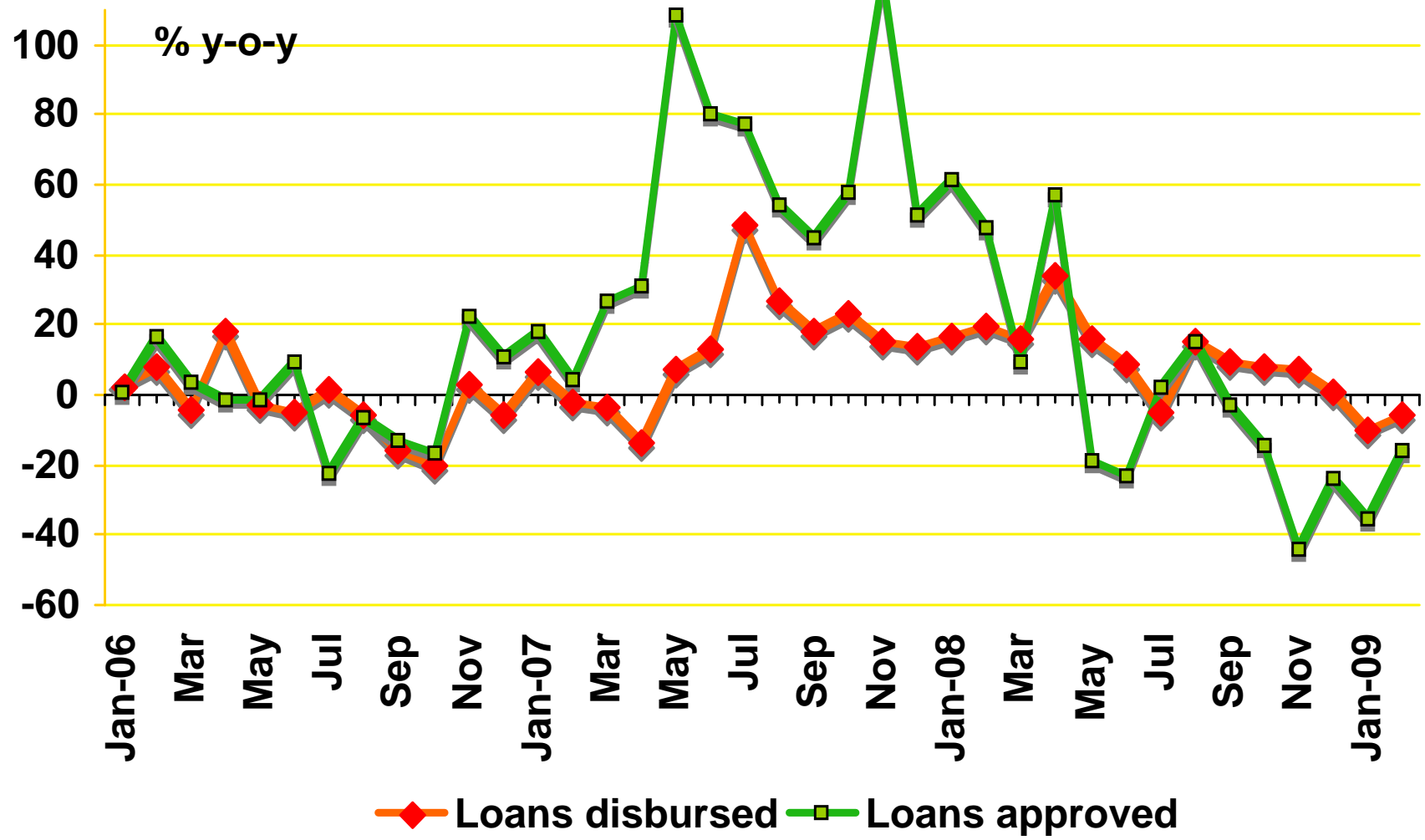
# Overall Balance, CAB and Foreign Reserves



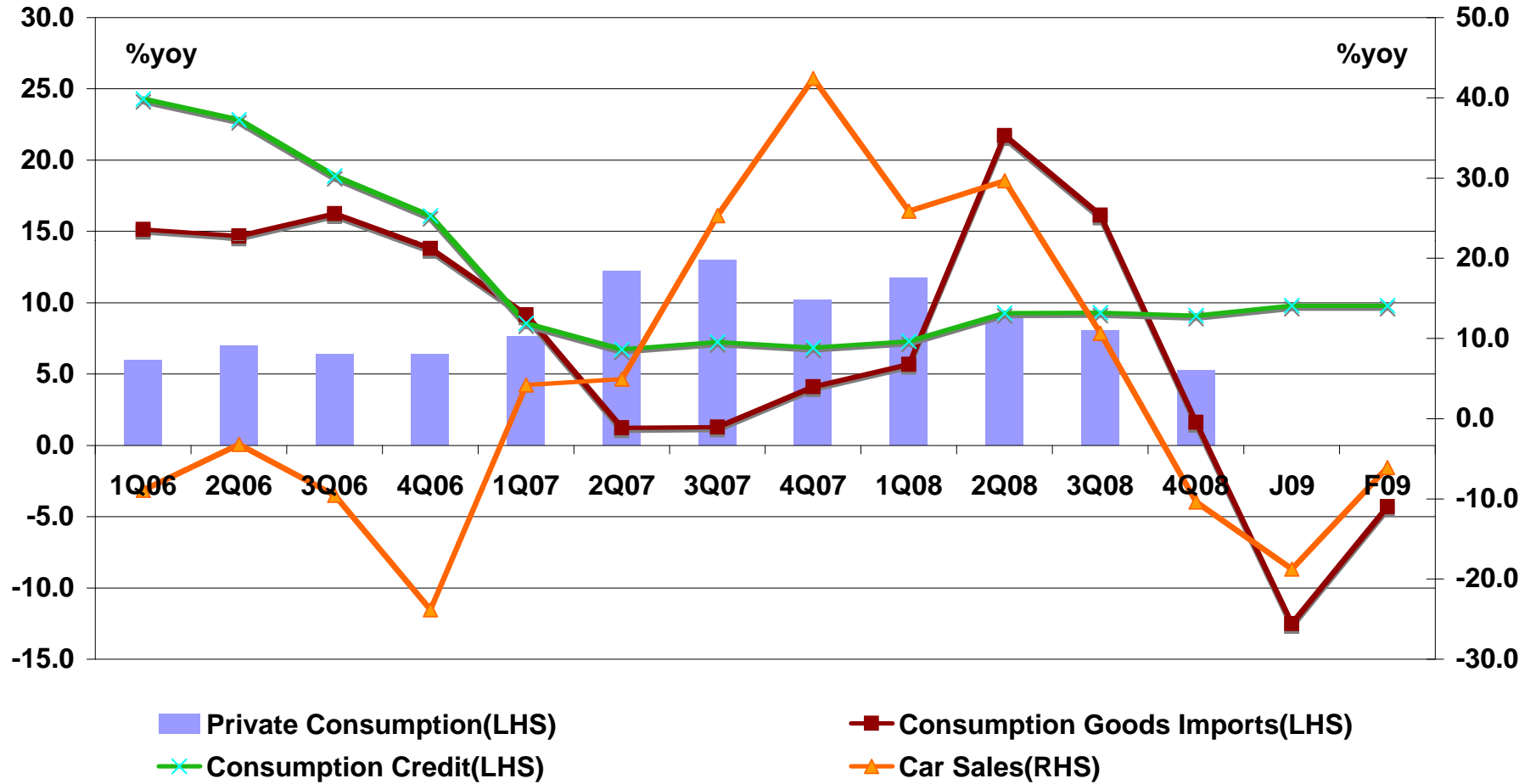
# Malaysia: Capital Flows (RM bill)



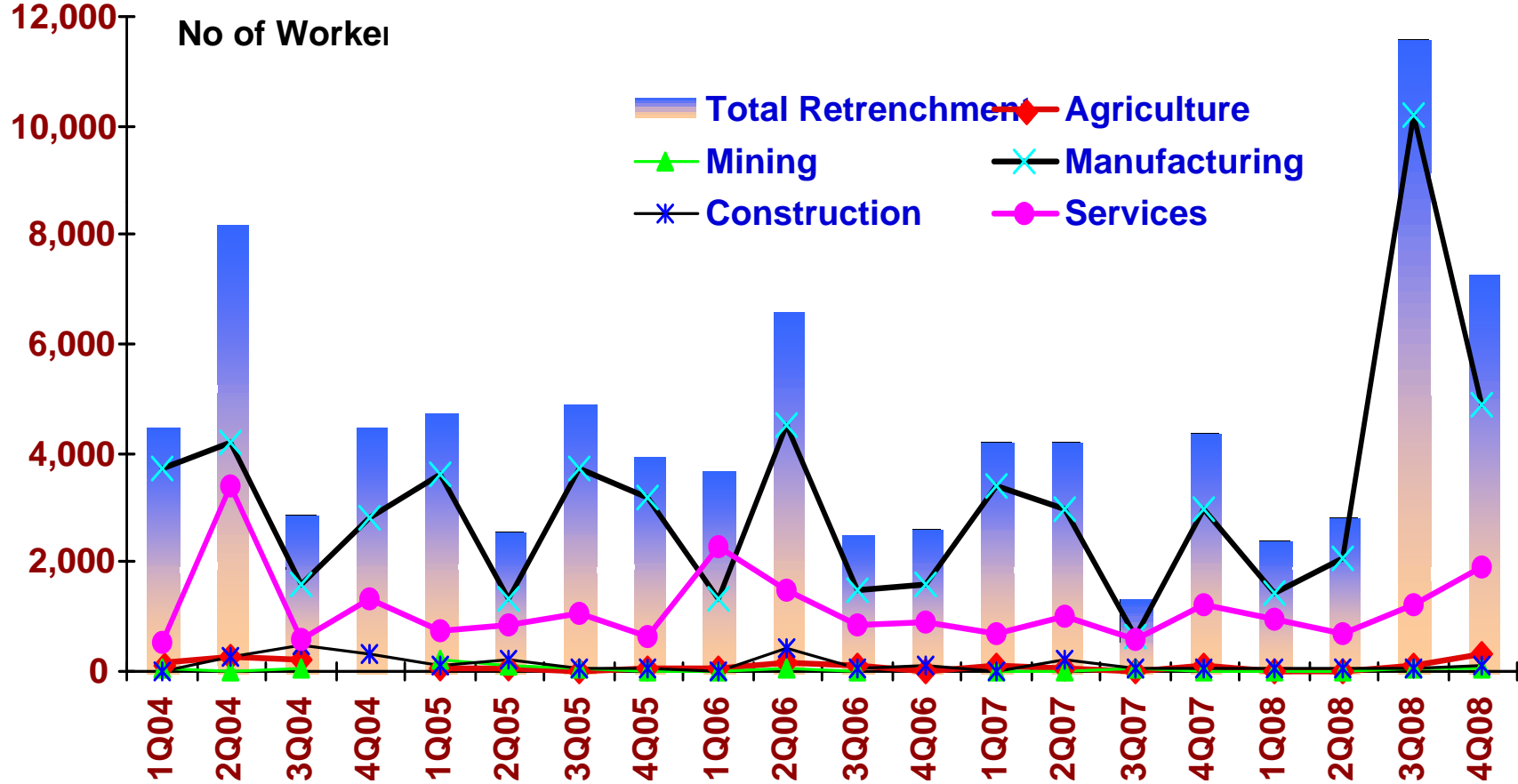
# Malaysia: Loans Approved & Disbursed



# Malaysia: Indicators of Private Consumption



# Malaysia: Retrenchment



Source: Ministry of Human Resource

# **POLICY RESPONSES TO CURRENT CRISIS**

# First Stimulus Package (SP1)

- Principle objectives:
  - a) reinforce and stimulate the economy
  - b) bring relief to the public
  
- Principle allocations under SP1:
  - to build 25,000 units of low/medium cost houses (RM1.2billion)
  - to upgrade and repair police stations, army camps and quarters (RM500 million)
  - to construct schools, hospitals and roads (in urban and rural areas) (RM1.5 billion)
  - to revive abandoned housing projects (RM200 million)
  - to fund micro enterprises (RM200 million)

## **Incentives under SP1:**

- **extensions of housing loans for government servants;  
reduced contributions to EPF**
- **foreigners & foreign companies can buy real estate with less  
red-tape**
- **extended hours of operation for hypermarkets**
- **import duty on construction materials abolished**
- **GLCs to train 12,000 graduates in 2 years; 18,000 vacancies in  
public sector to be filled**

## **Second Stimulus Package (SP2)**

- **Objectives:**
  - a) reduce unemployment and increase job opportunities**
  - b) ease burden of people, especially vulnerable groups**
  - c) support private sector**
  - d) capacity-building for the future**

# Second Stimulus Package (SP2)

- **Supporting private sector:**
  - **financial assistance, incentive packages, mega projects**
  - **focus of thrust SMEs (56% of total employment; 32% of GDP)**
  - **guarantee schemes with government guarantee of 80:20 or 50:50, depending on size of shareholder equity**
  - **funds can be raised in capital market with less red tape**
  - **levy payments of companies reduced**
  - **tax deductions on investments in plant and machinery; renovation and refurbishment of business premises**
  - **reduction in windfall profit levy for palm oil**

- **Transport sector:**

- **Building of low cost carrier terminal at KLIA**
- **Rebate of 50% on landing charges for all airlines**
- **Discount for purchase of national cars**

- **Capacity building for future:**

- **Khazanah National to invest in telecommunications, technology, tourism, agriculture and life sciences**
- **Investment in Iskandar Development Project to build infrastructure, hotels, theme parks, universities**
- **Development of airports, sky bridges, walkways**
- **Expansion of airports**
- **Improve telecommunications infrastructure, particularly broadband**
- **Other projects include development of new technologies, upgrading HRD, building of offices, hotels, shopping complexes**

- **Social welfare**

- **social safety net scheme to protect oil palm and rubber smallholders, also for elderly, disabled and single mothers**
- **subsidies for fuel consumption, food security, educational assistance**
- **microcredit schemes**

- **Unemployment alleviation**

- **skills training**
- **job placement centres**
- **creating jobs in GLCs and contract-based employment with government service**
- **tax exemption on retrenchment benefits**

# REBALANCING GROWTH

# Rebalancing Growth

- **Economy may recover in 2010, maybe later; weak demand for exports should be prolonged**
- **What could Malaysia do?**
  - **lower savings rate**
  - **increase consumption**
  - **increase in domestic investment**
- **How can this be done?**
  - **reduce uncertainties of consumers**
  - **encourage growth of SMEs, micro businesses**
  - **expand provision of public goods**

# Issues of Concern

- **Social protection**

- **Scheme to provide a basic income guarantee in old age, sickness and unemployment for the self-employed poor and informal sector**
- **Agricultural cooperatives to purchase group insurance for members**
- **Establishing a national retrenchment fund**
- **Minimum wage**

# Issues of Concern

- **Labour market adjustments**
  - **firms should be encouraged to train workers**
  - **retraining insurance scheme to fund acquisition of new skills on retrenchment**
  - **establishing a national retrenchment fund**
  - **minimum wage**

# Issues of Concern

- **Infrastructure**

- **expand infrastructure (eg. rapid trains connecting cities, airports in important towns)**
- **improve public transport, especially in cities**
- **expand telecommunications**

# Conclusion

- Some of the policies in the **Stimulus Packages** indicate awareness of need to rebalance
- Need for more comprehensive policies and over a longer time span
- Social protection and labour market policies consistent with industrial upgrading
- Rebalancing strategy not opposed to manufacturing and export activities

thank you

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