



**Asia-Pacific
Economic Cooperation**

2009/SOM1/011anx4
Agenda Item: IV

Presentation by Economy Under Review - Malaysia

Purpose: Consideration
Submitted by: APEC Secretariat



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MALAYSIAN ECONOMY

FACING THE CHALLENGES



KEY ECONOMIC DATA

- **GDP growth (2008)**
 - 1st Quarter (Q1): 6.3%
 - 2nd Quarter (Q2): 7.1%
 - 3rd Quarter (Q3): 4.7%
 - Full year: 5.7% (estimate)
- **GDP Per Capita (2008): US\$7,878**
- **GDP growth (2009): 3.5% (forecast)**
- **Inflation Rate (Jan – Oct 2008): 5.5%**
- **Unemployment Rate (2008): 3.3% (estimate)**

Source: Ministry of Finance Malaysia

- **Current Account: US\$11.5 bil**
- **International Reserves: US\$91.4 bil**
- **Reserves as Months of Retained Imports: 7.4 months**
- **Total External Debt (Sept 2008): US\$72 bil**
 - **Medium and Long Term: US\$44.2 bil (61.4% of total debt)**
 - **Short term: US\$27.8 bil (38.6% of total debt)**

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- **Debt service ratio (2008): 2.2%**
- **Non-Performing Loans (Oct 2008):**
 - **3 months: US\$2.4 bil**
 - **6 months: US\$1.8 bil**
- **Gross National Savings (% of GNP 2008): 36.7%**

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TRADE PERFORMANCE (2008)

	<i>Value (US\$ bil)</i>	<i>Growth rate (%)</i>	<i>Growth (%) 2009 (Forecast)</i>
TOTAL TRADE	329.1	9.2	-
EXPORTS	184.3	12.1	-1.5
IMPORTS	144.8	5.9	0.3

- Exports in December 2008 contracted by 14.9% year-on-year

Source: Department of Statistics Malaysia

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MAJOR TRADING PARTNERS

<i>TRADING PARTNERS</i>	<i>% of Total Exports</i>	<i>% of Total Imports</i>	<i>% of Total Trade</i>
APEC	75.2	76.4	75.7
ASEAN	26.0	24.3	25.3
USA	12.5	10.8	11.8
EU	11.2	11.7	11.4
Japan	10.3	12.5	11.3
China	9.6	12.7	11.0

Source: Department of Statistics Malaysia

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INVESTMENT (2008)

	VALUE (US\$ billion)	% of Total Investment
TOTAL INVESTMENT	17.4	-
FOREIGN	12.8	73.4
DOMESTIC	4.6	26.6

Source: Department of Statistics Malaysia and
Malaysian Investment Development
Authority

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MAJOR SOURCES OF FDI

<u>SOURCES</u>	<u>US\$ bil</u> <u>(% of total FDI)</u>
Australia -	3.6 (28.4%)
USA -	2.4 (18.8%)
Japan -	1.6 (12.1%)
Germany -	1.2 (9.6%)
Spain -	1.2 (9%)

Source: Malaysian Investment Development
Authority

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MALAYSIA AND GLOBAL ECONOMIC CRISIS

Economic strengths:

- **Domestic demand remains key drivers of economic growth.**
- **Strong BoP current account surplus (16% of GDP).**
- **High international reserves.**
- **High savings (36.7% of GDP).**

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Banking sector:

- **Strong and resilient banking system.**
- **Low Non-Performing Loans (2.5%).**
- **Domestic household indebtedness remains stable.**
- **Negligible exposure to sub-prime related more than 90% of total assets of local banks and insurance companies are in Ringgit Malaysia.**

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- To support economic growth, the Government has adopted several measures:

- US\$2 billion (0.9% of GDP) **stimulus package** was introduced in November 2008 to be spent on construction of low-cost houses, infrastructure, public transport, maintenance work, human capital development and SME modernisation

Source: Ministry of Finance Malaysia

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- Other measures to assist most affected segments include:

- US\$600 million SME assistance guarantee scheme to ensure access to adequate financing.
- reduction of overnight policy rate by 75 basis points to 2.5% effective January 2009.
- reduction in the statutory reserve requirement from 3.5% to 2% to increase liquidity in the banking system effective 1 Feb 2009.
- automatic issuance of manufacturing license effective 1 Dec. 2008 except for activity related to security, health, environment and religious consideration.

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- establishment of US\$55 million fund to assist micro-financing.
- higher tax rebate for **lower to middle income group.**
- expanded income threshold for **those eligible for welfare.**
- **higher pension** for lower income pensioners.
- **retraining** of work force.
- **reduction of import duties** on products such as fertilizers, cement and steel.

FACING THE CHALLENGES

- Economic policy will continue to focus on:
 - improving the well-being of society;
 - enhancing national competitiveness;
 - building capacity for the future; and
 - strengthening economic resilience.
- The **second stimulus package** to further boost economic activities and consumer spending is expected to be announced soon.

- To preserve financial stability:
 - provided a **blanket guarantee** on deposits with financial institutions regulated by the Central Bank until December 2010.
 - **liquidity facility** to insurance companies and *takaful* operators regulated by the Central Bank.

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THE THIRD INDUSTRIAL MASTER PLAN (IMP3)

- Development of manufacturing and services sectors is guided by IMP3 which is a rolling plan for the period of 2006-2020.
- Covers manufacturing sector, including agro-based industries and non-Government services sector:
 - 12 targeted manufacturing industries.
 - 8 targeted services sub-sectors.
- Identification of targeted industries and services based on their potential in growth and exports.

Source: Ministry of International Trade and Industry Malaysia

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TARGETS OF IMP3 MANUFACTURING SECTOR

		<u>Target</u>
• Contribution to GDP:		
➤ 2010	-	32.4%
➤ 2020	-	28.5%
• Annual Growth:		
➤ 2006 – 2020	-	5.6%
➤ 2006 – 2010	-	6.7%
➤ 2011 – 2020	-	5.1%
• Investments:		
➤ Total	-	US\$114.5 bil
➤ Annual	-	US\$7.6 bil
• Exports (in 2020):	-	US\$300 bil

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TARGETS OF IMP3 SERVICES SECTOR

		<u>Target</u>
• Contribution to GDP:		
➤ 2010	-	52.2%
➤ 2020	-	59.7%
• Annual Growth:		
➤ 2006 – 2020	-	7.5%
➤ 2006 – 2010	-	6.7%
➤ 2011 – 2020	-	7.9%
• Investments:		
➤ Total	-	US\$191 bil
➤ Annual	-	US\$13 bil

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MANUFACTURING INDUSTRIES

- **Non-Resource Based**
 - Electrical and electronics
 - Medical devices
 - Textiles and apparel
 - Machinery and equipment
 - Metals
 - Transport equipment
- **Resource Based**
 - Petrochemicals
 - Pharmaceuticals
 - Wood-based products
 - Rubber and rubber products
 - Oil palm-based industry
 - Food processing

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SERVICES SUB-SECTORS

- Business and professional services
- Integrated logistics
- ICT services
- Distributive trade
- Education and training
- Construction
- Health services
- Tourism services

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LIBERALISATION OF SERVICES SECTOR

- Liberalisation of services sector is being undertaken through:
 - ASEAN;
 - WTO;
 - Bilateral and regional FTAs; and
 - Unilateral liberalisation.
- Commitments made are based on the principle of progressive liberalisation.
- Cabinet Committee on Services Liberalisation led by the Deputy Prime Minister has been established to formulate services sector development and liberalisation policies and strategies.
- The Committee is finalising services sectors targeted for liberalisation and decision is expected soon.

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THANK YOU

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