Presentation by Economy Under Review - Malaysia

Purpose: Consideration
Submitted by: APEC Secretariat

First Senior Officials’ Meeting – Plenary
Session
Singapore
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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 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)
• 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%
TRADE PERFORMANCE (2008)

<table>
<thead>
<tr>
<th>Value (US$ bil)</th>
<th>Growth rate (%)</th>
<th>Growth (%) 2009 (Forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL TRADE</td>
<td>329.1</td>
<td>9.2</td>
</tr>
<tr>
<td>EXPORTS</td>
<td>184.3</td>
<td>12.1</td>
</tr>
<tr>
<td>IMPORTS</td>
<td>144.8</td>
<td>5.9</td>
</tr>
</tbody>
</table>

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

Source: Department of Statistics Malaysia

MAJOR TRADING PARTNERS

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

Source: Department of Statistics Malaysia
### INVESTMENT (2008)

<table>
<thead>
<tr>
<th>VALUE (US$ billion)</th>
<th>% of Total Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TOTAL INVESTMENT</strong></td>
<td>17.4</td>
</tr>
<tr>
<td><strong>FOREIGN</strong></td>
<td>12.8</td>
</tr>
<tr>
<td><strong>DOMESTIC</strong></td>
<td>4.6</td>
</tr>
</tbody>
</table>

Source: Department of Statistics Malaysia and Malaysian Investment Development Authority

### MAJOR SOURCES OF FDI

<table>
<thead>
<tr>
<th>SOURCES</th>
<th>US$ bil ( % of total FDI )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>3.6 (28.4%)</td>
</tr>
<tr>
<td>USA</td>
<td>2.4 (18.8%)</td>
</tr>
<tr>
<td>Japan</td>
<td>1.6 (12.1%)</td>
</tr>
<tr>
<td>Germany</td>
<td>1.2 (9.6%)</td>
</tr>
<tr>
<td>Spain</td>
<td>1.2 (9%)</td>
</tr>
</tbody>
</table>

Source: Malaysian Investment Development Authority
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).

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.
• 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

• 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.

– 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.

Source: Ministry of Finance Malaysia
• 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
### TARGETS OF IMP3

#### MANUFACTURING SECTOR

**Target**

- **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

#### SERVICES SECTOR

**Target**

- **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
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

SERVICES SUB-SECTORS

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

THANK YOU