

## CHAPTER 2

# Macroeconomic Outlook

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## CHAPTER 2

# Macroeconomic Outlook

## Overview

*Mass vaccination, a catalyst towards economic recovery amid new normal*

Global growth is projected to rebound in 2021 before moderating in 2022, after a sharp contraction in 2020. The contraction in 2020 was mainly due to the worldwide impact of the COVID-19 pandemic. Based on the World Health Organization (WHO), as at 13 October 2021, there were 238.5 million confirmed COVID-19 cases, including 4.9 million deaths globally. The WHO also reports that a total of 6.4 billion vaccine doses have been administered globally. Efforts to mitigate the pandemic, primarily through vaccine rollouts, fiscal stimulus and policy support, are expected to improve business and consumer sentiments and revive economic activities in advanced economies as well as emerging market and developing economies (EMDEs). Nevertheless, downside risks to growth remain, following uncertainties surrounding the COVID-19 pandemic. The spread of new strains and mutations of the virus as well as differences in vaccine rollout rates and policy support, are expected to result in an uneven recovery among economies.

The Malaysian economy experienced the full adverse impact of the COVID-19 pandemic in 2020, with real gross domestic product (GDP) contracting by 5.6%. However, signs of recovery emerged in late 2020, followed by a significant increase in GDP growth of 16.1% in the second quarter of 2021 compared to a plunge of 17.2% in the corresponding quarter last year. The growth was attributed to the low base effect, recovery in external demand and the

gradual reopening of economic sectors amid various Movement Control Orders (MCOs) to contain the viral infections. The implementation of eight stimulus and assistance packages totalling RM530 billion since 2020 and 2021 Budget measures to mitigate the impact on households and businesses also contributed to the growth. The growth momentum is expected to continue in the second half of the year with the implementation of the National Recovery Plan (NRP), an exit strategy from the health and economic crisis. The NRP entails opening up the economy in stages in line with the progress made in managing the pandemic. The acceleration of the National COVID-19 Immunisation Programme (PICK), an integral component of the NRP, is expected to enable the economy to fully open in the fourth quarter. With the favourable outlook for the fourth quarter, the economy is expected to grow between 3% – 4% in 2021.

The growth trajectory for 2022 is based on further expansion in global and domestic economic activities, fuelled by broader vaccine coverage and a further improvement in goods trade amid a slower recovery in services trade. The domestic demand recovery is projected to continue in 2022, anchored by private consumption, following the gradual improvement in labour market conditions amid a relaxation of containment measures, improved consumer sentiments and spending from the vaccine rollout as well as targeted policy support for vulnerable households. Rapid progress in the vaccination programme is also expected to release pent-up demand, particularly for domestic travel and leisure, further supporting the recovery. Stronger external demand, especially for electrical and electronics (E&E) products and major

commodities, is expected to support the surge in exports, thus helping to maintain a surplus in the current account of the balance of payments (BOP).

Almost all economic sectors are projected to expand on the supply side, led by the services and manufacturing sectors, accounting for more than 80% of the economy. However, the mining sector is forecast to decline partly due to scheduled maintenance works. The normalisation of economic activities underpinned by mass vaccination is anticipated to boost wholesale and retail trade subsector and domestic tourism-related activities. The projected higher volume of manufactured products is also in line with the expected rising demand from export- and domestic-oriented industries. Positive consumer and business sentiments and expected improvement in earnings will support the recovery in the labour market, albeit at a more modest level than the pre-pandemic period. The continuation of various initiatives to stabilise the labour market and high vaccination rates are expected to provide some relief for employers in retaining their workers. Thus, the nation's GDP is forecast to expand in the range of 5.5% – 6.5% in 2022.

## Economy in 2021

### Global Economy

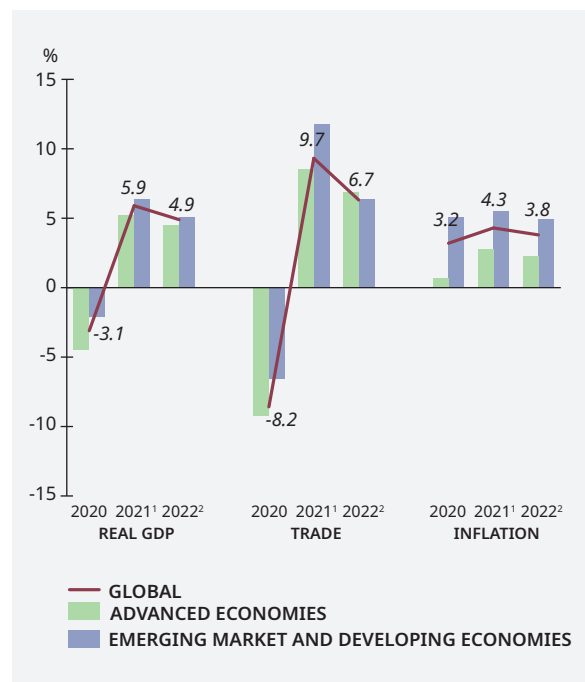
#### Gradual growth prospects

The **global economy** is projected to expand by 5.9% in 2021. Growth is anticipated to be underpinned by widespread vaccine rollouts, accommodative policy support, and rising commodity prices. Nevertheless, higher infection rates and new variants of the COVID-19 virus are expected to be the headwinds to economic improvement.

The GDP in advanced economies is expected to grow by 5.2% in 2021, driven by the easing of pandemic restrictions, speedy vaccine

rollouts and large-scale fiscal support. The US economy is estimated to expand by 6%, where its economic recovery packages amounting approximately to USD4 trillion that was passed by the Senate are expected to strengthen the social safety net, deliver a strong boost to growth and provide sizable positive spillovers to its trading partners. The GDP in the euro area is expected to rise by 5% with firming external demand. Growth in Singapore is projected to turn around by 6%, backed by progressive relaxation of domestic and border restrictions as its vaccination rates continue to rise. The Republic of Korea's economy is expected to turn around by 4.3%, driven by strong exports and public investments. Similarly, GDP in Japan is estimated to rebound by 2.4%, reflecting a recovery in domestic economic activities alongside a robust external demand.

**FIGURE 2.1.** Global Real Gross Domestic Product, Trade and Inflation Growth 2020 – 2022 (% change)



<sup>1</sup> Estimate  
<sup>2</sup> Forecast

Note: Trade for Advanced Economies and Emerging Market and Developing Economies refers to the average volume of exports and imports of goods and services

Source: International Monetary Fund, World Economic Outlook (October 2021)

Growth in the EMDEs is projected to turn around by 6.4%, supported by elevated commodity prices and improved external demand. China is expected to lead the recovery in the region with strong growth of 8% in 2021, bolstered by higher private consumption and exports. The economy of India is estimated to rebound by 9.5% on the back of strong consumer demand. The GDP of ASEAN-5 is anticipated to turn around by 2.9% on account of robust domestic consumption, higher investment and a favourable trade environment. Indonesia's economy is projected to recover by 3.2%, driven by export-oriented and labour-intensive industries such as automotive, construction and mining.

**World trade** is expected to accelerate by 9.7% in 2021, largely contributed by the increase in merchandise volumes which have returned to pre-pandemic levels. Trade in the advanced economies is estimated to rebound by 8.5% in 2021, where fiscal stimulus measures in these countries will boost household incomes and spending on all goods, including imported goods. Trade in the EMDEs is projected

to rebound significantly by 11.8% in 2021, contributed by Asia's continuous supply of large quantities of consumer goods and medical supplies to global markets. Increased digitalisation across the region has been a positive effect of the pandemic. The rapid digital transformation has provided greater business opportunities for local micro, small and medium enterprises (MSMEs) by creating demand for digital providers and delivery players. This digital transformation covers a wide range of services related to FinTech, e-commerce and supply chains, particularly in Southeast Asia.

**Global inflation** is expected to be slightly higher at 4.3% in 2021 as a result of temporary supply-demand mismatches as well as higher commodity prices compared to 2020. The inflation rate in advanced economies is anticipated to rebound by 2.8% in 2021, following the increase in the price of oil, metals and food. Inflation in the EMDEs is estimated to increase by 5.5% in 2021 due to rising global energy and commodity prices, which will result in higher consumer prices.

## FEATURE ARTICLE 2.1

### ASEAN Catalytic Green Finance Facility

#### Overview

Infrastructure is crucial as an enabler of growth and to reduce poverty. In recent years, there has been a strong call for sustainable development, which in turn gives rise to demands for more green infrastructure projects. The Asian Development Bank (ADB) estimates that Southeast Asia will require USD184 billion per year from 2016 until 2030 to support investments in infrastructure projects, and it will increase to USD210 billion per year to equip new infrastructure with climate-compatible components. Public budgets remain the primary source of financing for infrastructure in Southeast Asia, especially for transport and water supply and sanitation. However, the widening investment gap and limited public budgets signify the need for greater private investment in infrastructure projects.

At the beginning, in 2011, the ASEAN Infrastructure Fund (AIF) was established by the Association of Southeast Asian Nations (ASEAN) member states and ADB, to reduce the substantial development gap between developed countries and ASEAN. Utilising equity from its shareholders,<sup>1</sup> the AIF commenced its lending operations in 2013, offering financing for infrastructure projects to member countries. Subsequently, in a bid to leverage the AIF's limited equity resources in bridging the viability gap for green infrastructure projects and attract private capital into these projects, the AIF implemented the Green and Inclusive Infrastructure Window (GIIW) on a 3-year pilot basis from 2019 to 2021. This pilot window was aimed at creating a value-added proposition for the operation and future direction of AIF. The GIIW consists of the ASEAN Catalytic Green Finance Facility (ACGF)

<sup>1</sup> AIF shareholders consist of Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Viet Nam and Asian Development Bank (ADB).

for green financing, which is made available to all ASEAN Member States (AMS), and the Inclusive Finance Facility for concessional green loans offered only to Cambodia, Lao PDR and Myanmar.

**Outcomes of the Green and Inclusive Infrastructure Window Pilot Phase**

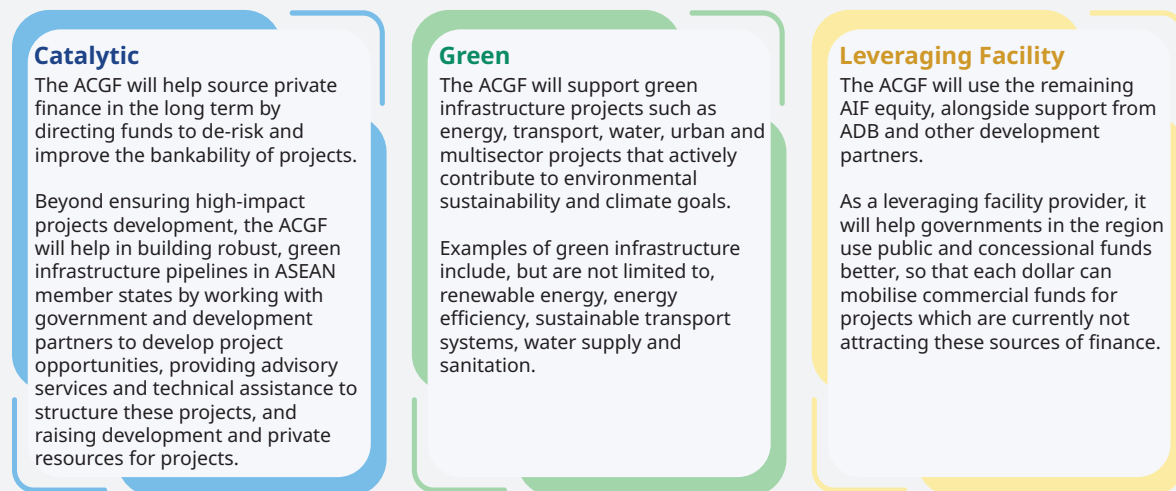
The implementation of the GIIW has proven to contribute to the success in supporting the operational direction of the AIF. Based on three approved projects which are *Epifanio de los Santos Avenue* (EDSA) Greenways Project (Philippines), Sustainable and Inclusive Energy Program – Subprogram 3 (Indonesia) and Myanmar Railway Modernization Project (Myanmar), involving more than USD1.4 billion in total project costs, approximately USD40 million of AIF funding was committed as well as USD823 million potential financing was ready to be tapped from the ADB. It was also expected that from the three ACGF approved projects, 73,000 tons of carbon dioxide emission will be reduced per year. An impressive achievement has also been recorded for de-risking funds as a total of USD278 million has been identified for ACGF projects out of the targeted amount of USD300 million of private, commercial and institutional capital. 10 green infrastructure projects were originated and structured with support from ACGF, against five projects targeted, while a pipeline of 12 green infrastructure projects have been developed beyond the five projects targeted. Additionally, under the knowledge and capacity building programme, four international investor roundtables were successfully held with engagement from institutional investors.

Resulting from the successful pilot period, the GIIW was then mainstreamed to become a permanent financing facility, known as the ACGF, pioneering regional green financing initiatives in the region. The ACGF offers regular financing for green projects to all ASEAN countries and concessional green financing limited to Cambodia, Lao PDR and Myanmar. These financing initiatives help expedite progress towards achieving the Southeast Asian countries’ climate change and environmental sustainability goals through a pipeline of green infrastructure projects and mobilise private capital for these projects. The ACGF disburses loans and technical assistance grants from the AIF equity, ADB and co-financing development partners, which include KfW Development Bank (Germany) and Agence Française de Développement (France) to finance green infrastructure projects in the ASEAN region.

**ASEAN Catalytic Green Finance Facility Design Approach**

The design of the ACGF is based on the concept of a “green finance catalysing facility” approach as indicated in Figure 2.1.1.

**FIGURE 2.1.1. ASEAN Catalytic Green Finance Facility Design Approach**



Source: Asian Development Bank

### **Progress of the ASEAN Catalytic Green Finance Facility**

The Philippines' EDSA Greenways Project is the first approved project under the ACGF. The EDSA Greenways aims to cater safe and efficient pedestrian crossing by constructing five kilometres of high-quality greenfield elevated walkways, footbridges and linkages. The greenways also include lifts and ramps for the convenience of persons with disabilities and the elderly, within 800 meters of public transport facilities along the EDSA, the main avenue in Manila. The project encourages increased use of public transport, improved road safety and enhanced local air quality by reducing approximately 886 tons of carbon dioxide emissions per year. As of now, at least eight more green projects have been identified for approval under the ACGF.

### **Issues and Challenges**

In Southeast Asia, substantial private investment for green infrastructure is hampered by the inadequacy of commercially bankable projects with attractive risk-return profiles. In addition, green infrastructure projects are generally considered high risk due to the adoption of more advanced technology, which may incur higher capital cost and operating expenses. Revenue streams, especially for utilities, are generally dependent on public policies and regulations, thus, increasing the risk profiles of green projects.

Thus, establishing bankable green investments with risk-return profiles which appeal to investors requires the strategic use of public finance to address the risk aspects of a green project. Additionally, it is critical to ensure projects are well structured as green to be eligible for green financing, by way of engaging advisory services. However, structuring a project to be green will be challenging if generic project advisors only concentrate on the technical preparation of projects and do not encourage change towards green alternatives. The ACGF addresses these challenges by providing project financial structuring support to create bankable projects and innovative use of concessional funds to de-risk projects. The ACGF also supports the development of project pipelines and capacity building in green and innovative financing approaches.

### **Conclusion**

In achieving sustainable development and climate change goals in the ASEAN region, AMS could develop infrastructure projects designed, built, and operated based on the principles of sustainability and inclusive green growth. AMS could also identify and utilise the ACGF loan facilities for their green project developments, assisted by the green development partners to shift to low-carbon and climate-resilient infrastructure development. Therefore, the ACGF provides the impetus needed by AMS to bridge the viability gap for green infrastructure projects in the ASEAN region and contribute positively to the global climate change agenda.

## Domestic Economy

### Sectoral

#### Services Sector

##### *Continue to support growth*

When the COVID-19 pandemic hit Malaysia, the **services** sector was the most badly impacted sector in 2020, with a contraction of 5.5%. Of this significant decline, the tourism industry was the worst-hit industry, with Gross Value Added of Tourism Industries<sup>1</sup> contracted by 17.1% as tourist arrivals plunged by more than 80% due to worldwide travel bans and strict domestic movement restrictions. In addition, employment in the tourism industry contracted by 2.9% to 3.5 million. Since the tourism industry made up 24.4% of the services sector in 2020, the scarring effect of the tourism industry has continued to weigh on the performance of the services sector in 2021. As the pandemic continues to spread and movement restrictions continue to be imposed in 2021, the tourism industry is estimated to contract further by 19.5%.

As the number of new COVID-19 cases was trending up towards the end of 2020, the Government reimplemented the MCO starting

**TABLE 2.1.** *Gross Domestic Product by Sector, 2020 – 2022*  
(at constant 2015 prices)

	SHARE (%)	CHANGE (%)		
	2021 <sup>1</sup>	2020	2021 <sup>1</sup>	2022 <sup>2</sup>
Services	57.2	-5.5	2.6	7.0
Manufacturing	23.9	-2.6	8.1	4.7
Agriculture	7.1	-2.2	-0.8	3.9
Mining	6.7	-10.6	1.5	-0.3
Construction	3.8	-19.4	-0.8	11.5
<b>GDP</b>	<b>100.0</b>	<b>-5.6</b>	<b>3.0 – 4.0</b>	<b>5.5 – 6.5</b>

<sup>1</sup> Estimate

<sup>2</sup> Forecast

Note: Total may not add up due to rounding and exclusion of import duties component

Source: Department of Statistics and Ministry of Finance, Malaysia

January 2021 but with less strict standard operating procedures (SOPs) than the MCO 1.0. Hence, the services sector rose by 4.8% in the first half of 2021, mainly supported by the wholesale and retail trade; finance and insurance; and information and communication subsectors. The improved performance is attributed to the reopening of more services subsectors and relaxation of the MCOs, especially for businesses providing essential items. This was further supported by an increase in online transactions and payments. On the other hand, the food & beverages and accommodation subsector declined significantly due to movement restrictions which affected the tourism-related activities, despite a steady demand for online food purchases. The services sector is estimated to grow by 0.7% in the second half of the year, supported by the gradual opening of the economy. Overall, the sector is projected to grow by 2.6% in 2021, with most subsectors recording positive growth.

**TABLE 2.2.** *Services Sector Performance, 2020 – 2022*  
(at constant 2015 prices)

	SHARE (%)	CHANGE (%)		
	2021 <sup>1</sup>	2020	2021 <sup>1</sup>	2022 <sup>2</sup>
Wholesale and retail trade	29.2	-6.1	1.8	8.7
Finance and insurance	13.1	2.7	8.9	5.5
Information and communication	11.9	6.0	5.8	5.7
Real estate and business services	6.9	-15.2	-5.1	8.6
Transportation and storage	5.4	-21.9	2.3	9.5
Food & beverages and accommodation	4.2	-26.5	-7.7	7.3
Utilities	5.0	-1.3	5.1	6.7
Other services	7.9	-10.5	-1.3	6.1
Government services	16.4	4.5	5.1	5.3
<b>Services</b>	<b>100.0</b>	<b>-5.5</b>	<b>2.6</b>	<b>7.0</b>

<sup>1</sup> Estimate

<sup>2</sup> Forecast

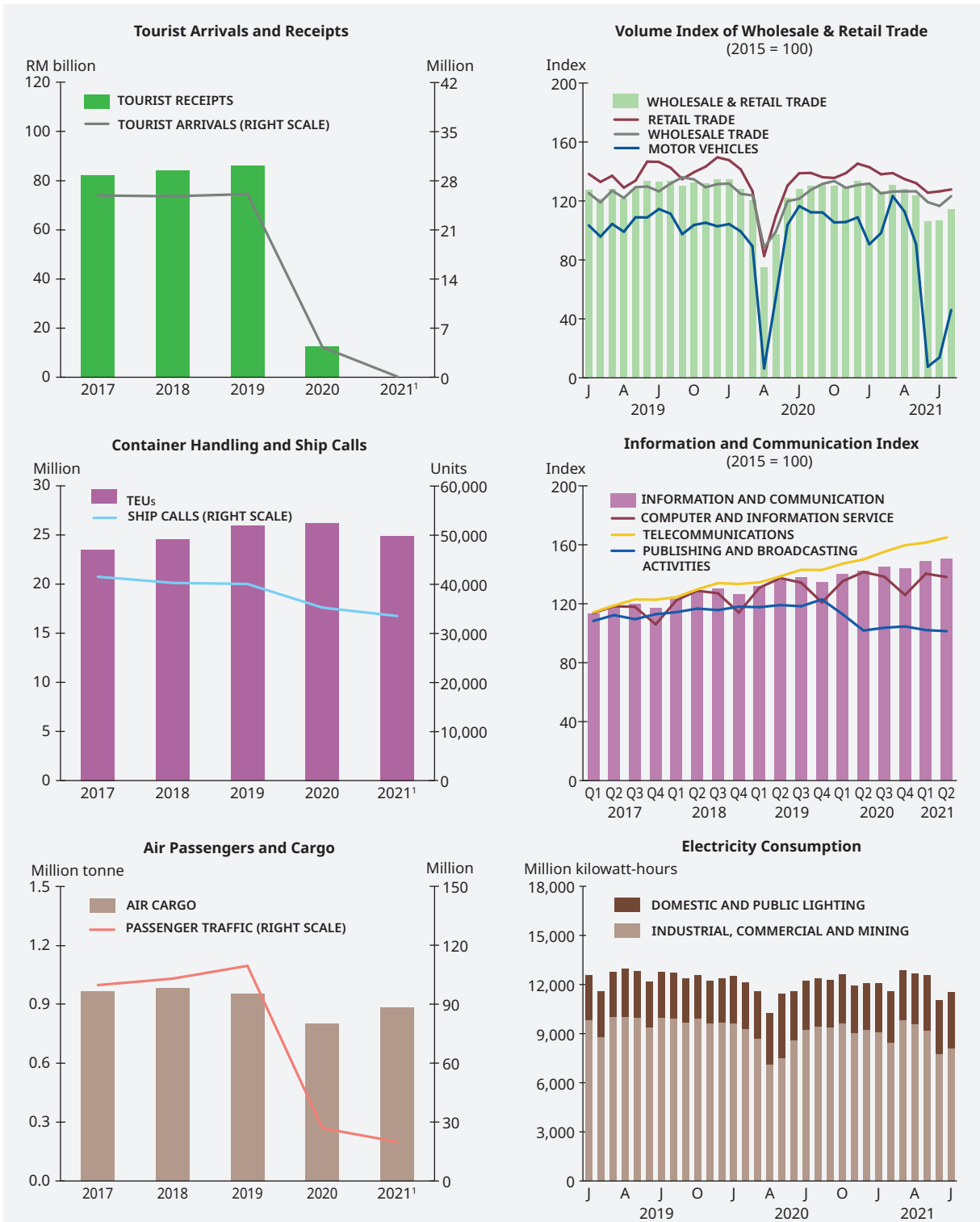
Note: Total may not add up due to rounding

Source: Department of Statistics and Ministry of Finance, Malaysia

<sup>1</sup> Total gross value added of all establishments in the tourism industry, irrespective of whether their output is provided to visitors and the degree of specialisation of the production process. A visitor refers to a traveller taking a trip to a main destination outside his/her usual environment, not more than 12 months other than to be employed by resident entry in the country or place visited.



FIGURE 2.2. Selected Indicators for the Services Sector



<sup>1</sup> Estimate

Source: Department of Statistics, Malaysia; Malaysia Airports Holdings Berhad; Malaysia Tourism Promotion Board; Senai International Airport; and seven major ports (Bintulu, Johor, Klang, Kuantan, Kuching, Pulau Pinang and Tanjung Pelepas)

The wholesale and retail trade subsector rose by 9.9% in the first half of 2021, supported by the strong performance in all segments. The robust performance of the wholesale trade and retail trade segments was mainly attributed to businesses selling essential items amid the implementation of movement restrictions. In addition, the motor vehicles segment also contributed to the first-half performance with double-digit growth, benefitting from sales tax exemption for passenger cars until the end of the year. The subsector is expected to decline by 4.6% in the second half due to decreases in all segments following the extended movement restrictions during NRP Phase 1, particularly in states with high contributions to the subsector. The decrease in the subsector is mainly contributed by the motor vehicle segment due to the high base effect. Vehicle sales are projected to decline significantly from 355,889 in the second half of 2020 to 250,871 in the second half of 2021 (Malaysia Automotive Association, 2021). Given the unfavourable performance in the second half, the subsector's growth is projected to be moderate at 1.8% for the year.

The finance and insurance subsector is expected to record strong growth of 8.9% in 2021, driven by increases in the finance and insurance segments. In the first half, the subsector surged significantly by 16.9%, supported by finance segment following

higher loan disbursements, particularly to the households amid the lower interest rate environment and tax exemption measures under various stimulus packages. Similarly, the insurance segment expanded due to increased premium income from life insurance amid lower claims. The subsector is anticipated to expand by 1.6% in the second half and continue to support the economic activities, especially in the fourth quarter.

The information and communication subsector expanded by 6.1% in the first half of 2021, boosted by greater digital usage among businesses and individuals, particularly online transactions, entertainment, education, and work from home (WFH) activities. The subsector is projected to increase by 5.5% in the second half of the year, buoyed by the extension of special tax relief of up to RM2,500 for the purchase of mobile phones, computers and tablets. The Jaringan Prihatin initiative, which provides subsidies to Bantuan Prihatin Rakyat (BPR) recipients to purchase broadband internet plans and smartphones from participating telecommunication service providers, would also support the growth of the subsector. As at 7 October, 4.1 million individuals have subscribed to the broadband internet plans and 1.6 million smartphones valued at RM525.8 million were redeemed under this initiative. Therefore, the subsector is anticipated to rise by 5.8% in 2021.

## FEATURE ARTICLE 2.2

### The Digital Economy: Transformation towards a Resilient Nation

#### Introduction

Since independence, Malaysia has endured, among others, three major economic crises: the 1985 – 1986 Commodity Crisis, 1997 – 1998 Asian Financial Crisis and the 2008 – 2009 Global Financial Crisis, each with its causes, economic impact, and recovery policies. The latest crisis was caused by the COVID-19 outbreak which became a global pandemic. The impact of the pandemic

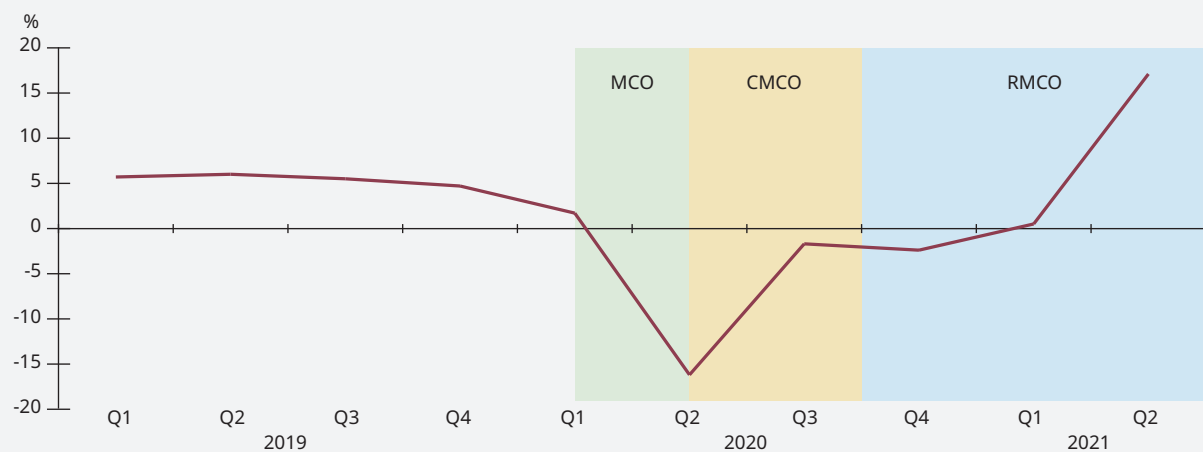
is devastating and caused a decline in worldwide demand and supply, mainly due to lower tourism and business travel as well as disruptions in supply, production and trade linkages. Countries have witnessed the cascading collapse of the entire production, financial and transportation systems due to a vicious combination of supply and demand shocks (Organisation for Economic Co-operation and Development, 2020).

Due to the lockdowns to stem the spread of the virus, people were forced to remain at home for long periods, which necessitated greater use of digital technology to conduct their lives. This article highlights the level of digital preparedness of the economy and the need for the nation to transform into a digital economy. It also highlights related challenges and the Government's commitment to promoting digitalisation. Measures to expedite digital adoption in the economy are also recommended.

### Impact of COVID-19 on the Malaysian Economy

Malaysia was not spared from the adverse impact of the pandemic. The economy experienced its full impact in 2020, with its gross domestic product (GDP) contracting by 17.2% in the second quarter of 2020 (Figure 2.2.1.). The decline was mainly due to the implementation of multiple Movement Control Orders (MCOs) to contain the outbreak and flatten the COVID-19 curve.

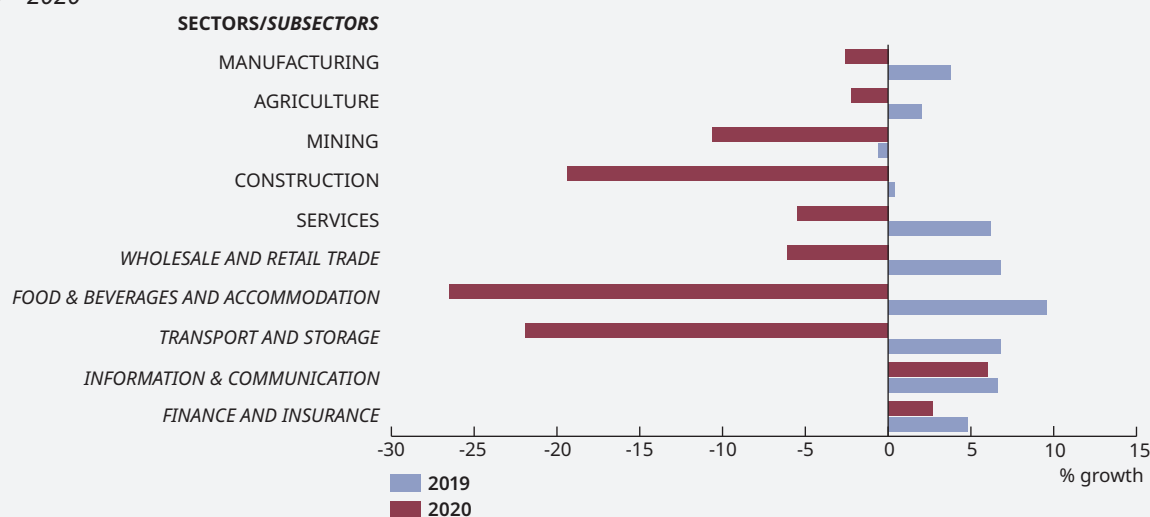
**FIGURE 2.2.1.** Quarterly Gross Domestic Product, 2019 – 2021  
(% change)



Note: MCO : Movement Control Order  
CMCO : Conditional Movement Control Order  
RMCO : Recovery Movement Control Order

Source: Department of Statistics and Ministry of Finance, Malaysia

All main economic sectors have contracted, with the mining and construction sectors experiencing a double-digit contraction (Figure 2.2.2.). The lockdown measures severely impacted the wholesale and retail trade; food & beverages and accommodation; and transportation and storage subsectors in the services sector.

**FIGURE 2.2.2.** Impact of COVID-19 Pandemic on Main Sectors and Selected Services Subsectors, 2019 – 2020

Source: Department of Statistics and Ministry of Finance, Malaysia

The new normal in household and business activities following the implementation of MCOs and lockdowns necessitated the need to work remotely using cloud services and video conferencing, consuming entertainment from online subscription services and purchasing meals, groceries, goods and services through digital platforms. The COVID-19 pandemic has also accelerated the urgency for adaptability and transformation across industry structures and business models, with an estimated 70% of the new value being created through digital platform business models (World Economic Forum, 2020). Consequently, specific subsectors with high digitalisation fared better during the crisis, particularly the information and communication and finance and insurance subsectors (Table 2.2.1.).

**TABLE 2.2.1.** Gross Domestic Product Growth, 2020 and Adoption Rate of Digital Technologies by Sector, 2019

SECTOR	2020	2019				
	GDP GROWTH (%)	WEBSITE (%)	SOCIAL MEDIA (%)	MOBILE INTERNET AND TECHNOLOGIES (%)	CLOUD COMPUTING (%)	MANAGEMENT SOFTWARE (%)
<b>National</b>	<b>-5.6</b>	<b>48.5</b>	<b>60.0</b>	<b>63.8</b>	<b>46.8</b>	<b>41.9</b>
Manufacturing	-2.6	53.1	73.0	62.7	46.3	48.4
Agriculture	-2.2	51.8	56.7	54.7	56.8	39.5
Mining	-10.6	19.2	46.1	24.6	60.8	40.5
Construction	-19.4	34.9	47.5	55.9	48.8	29.1
Services	-5.5	49.4	60.4	64.9	46.4	42.7

SERVICES SECTOR	2020	2019				
	GDP GROWTH (%)	WEBSITE (%)	SOCIAL MEDIA (%)	MOBILE INTERNET AND TECHNOLOGIES (%)	CLOUD COMPUTING (%)	MANAGEMENT SOFTWARE (%)
Wholesale and retail trade	-6.1	50.4	64.0	65.3	47.1	47.1
Transportation and storage	-21.9	55.8	44.2	76.1	54.2	42.5
Food and beverages	-20.6	37.4	72.9	61.7	23.0	20.4
Accommodation	-50.3	42.5	66.7	51.8	43.0	56.6
Information and communication	6.0	86.9	85.6	82.6	65.0	76.8
Finance and insurance	2.7	52.4	38.1	68.4	44.2	41.6

Note: Figure may not add up to 100% due to multiple choices by the respondents  
Source: Department of Statistics, Malaysia

## The Digital Economy

The digital economy incorporates all economic activities reliant on or significantly enhanced by digital inputs, including digital technologies, infrastructure, services and data. It refers to all producers and consumers, including the Government utilising digital inputs in their economic activities (OECD, 2020). With information and communication technology (ICT) contributing 22.6% of GDP in 2020, Malaysia is on track to realising the aspiration of integrating the digital element into its national economy (Department of Statistics Malaysia, 2021). This is in line with the Fourth Industrial Revolution (4IR), where digital technologies are being widely adopted (Economic Planning Unit, 2021). Digital economy is led by a strong e-commerce sector and includes online retailing, usage of internet-related devices as well as information technology and telecommunications investments by public and private sectors.

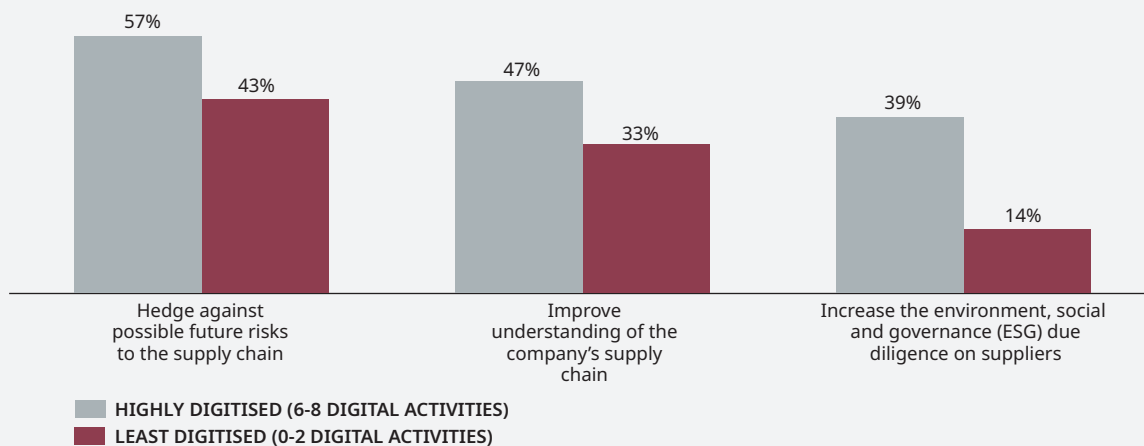
Advances in applications of digital technology, such as e-commerce and online learning, have created new opportunities by bringing closer consumers and businesses and learners and educators. The advances will also make economic transactions faster and cost effective. The uptick in offerings of e-commerce platforms and digital payments solutions during the pandemic has enabled many businesses not only to survive but to pivot their operations to online platforms to thrive.

On the demand side, digitalisation would increase consumption with the help of online platforms. On the supply side, digitalisation can change the companies' ways of operating, primarily by enabling remote working, enhancing data storage and improving information sharing. The Enabling Digitalisation Index (EDI)<sup>1</sup> 2020 shows that an additional point in a country's EDI score was translated to a 0.25 percentage point of GDP growth in the third quarter of 2020 compared to the third quarter of 2019, suggesting that digitisation has played the role of a shock absorber during the crisis.

<sup>1</sup> Enabling Digitalisation Index (EDI) measures the ability and agility of countries to help digital companies thrive and traditional businesses harness the digital dividend. It scores 115 countries based on five components: regulation, knowledge, connectivity, infrastructure and market size.

A survey conducted on several high-level executives in 1,181 companies in the US, the UK, France, Germany and Italy across six sectors (information technology, technology and telecommunication, machinery and equipment, chemicals, energy and utilities, as well as automotive and agri-food) showed that digitalisation correlates with resilience (Euler Hermes, 2020). The study indicates that highly digitised companies (reporting six to eight different digital activities)<sup>2</sup> took significantly more actions to mitigate supply-chain disruptions than less digitised ones (reporting zero to two digital activities). This is likely due to their higher agility and proactivity when the crisis occurred. About 57% of highly digitised companies searched for potential hedges, including insurance and stockpiling, 47% improved their understanding of their supply chains, and 39% increased due diligence on their suppliers (Figure 2.2.3.).

**FIGURE 2.2.3.** Coping Mechanisms by the Level of Digitisation



Note: Figure may not add up to 100% due to multiple choices by the respondents  
 Source: Global Supply Chain Survey, 2020

### Increase in the Usage of Digital Services in Malaysia

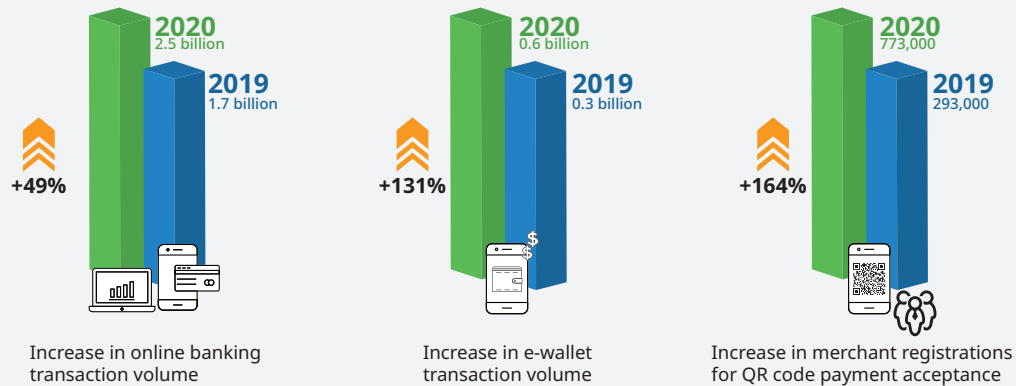
Due to restricted mobility, the internet provides users with continuous access to work collaboration, education, entertainment, and other tools such as groceries and food order and delivery platforms. The current shift in utilising digital services are as follows:

#### Greater Adoption of e-Payment Services

The accelerated shift by consumers towards contactless and online payment methods has resulted in consumers' faster adoption of e-payment services. The increase in digitalisation saw an accelerated transition from cash to digital payments. Bank Negara Malaysia (2021) reported that the volume of e-wallet transactions increased by 131% in 2020 (Figure 2.2.4.). The e-wallet payment methods are safer and more convenient as physical visits are minimised. It enables contactless, fast, secure and cost-effective financial channels between small and medium enterprises (SMEs) to engage with consumers, suppliers and the Government.

<sup>2</sup> The activities are use of software to monitor production or other activities, use of software to facilitate collaborative work, use of cloud computing, use of artificial intelligence, use of big data, use of social media to recruit employees, e-commerce and electronic invoicing.

**FIGURE 2.2.4.** Greater Adoption of e-Payment Services in Malaysia, 2020

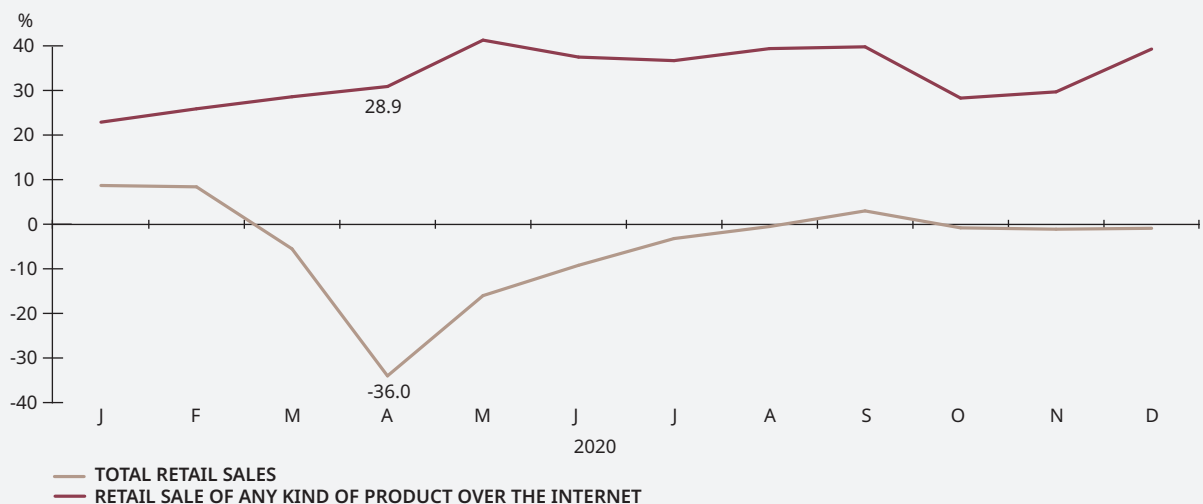


Source: Bank Negara Malaysia

*Increase in Online Businesses*

The pandemic has increased the importance of business activities through online platforms as this has become the new normal. Retail online sales have continued growing in Malaysia due to the closure of physical stores as the lockdowns and social distancing measures limited consumers' mobility. As shown in Figure 2.2.5., total online sales recorded positive growth in April 2020 compared to total retail sales.

**FIGURE 2.2.5.** Growth of Total Retail and Online Sales, 2020



Source: Department of Statistics, Malaysia

*Rise of Digital Platform Services and Gig Workers*

The upsurge in digital platforms has encouraged more millennials to become gig workers and freelancers. As lockdown measures became stricter, the demand for digital services, such as mobile payments, professional services and food delivery, rose. According to the e-Conomy SEA 2020 Report, the food delivery services in Malaysia increased by 44% in 2020, as consumers switched to on-demand food delivery services, both for convenience and concerns over public safety. Moreover, the gig economy has provided access for people with disabilities and the bottom 40% income group (B40) to earn an income with low barriers to entry.

*Online Government Services*

Digitalisation by the Government has enabled faster delivery of services and reduced physical visits to government agencies. The lockdown measures have hastened the need for online government services, namely e-Procurement by Treasury, e-Filing by the Inland Revenue Board and e-Payment services by various government agencies. This has enabled the delivery of government services to individuals and businesses without any disruption.

**Challenges Facing the Digital Transformation in Malaysia**

Inadequate internet infrastructure especially in the rural areas will continue to exacerbate the disadvantages of unserved internet or non-digitally literate populations, limiting their access to e-commerce. Unaffordable internet access, especially for vulnerable groups, such as the B40, retrenched workers and rural communities, hampers the onboarding of these groups to participate in the digital economy. While digitalisation can create innovative and productive job opportunities, it can also cause unemployment and displacement of jobs, particularly for lower-skilled workers.

The issue of capital risk has also delayed the uptake rate as most SMEs are struggling to survive due to waning revenues. A survey by the SME Association of Malaysia revealed that only 26% of local SMEs chose digitalisation or e-commerce platforms as their strategy to survive post-pandemic. The pandemic has also heightened the need for digital skills and new forms of digital literacy among all groups, including public sector workers. As digital technology is widely used in the economy and society, it is imperative to protect cyberspace from cybercrimes that can disrupt business operations and essential services such as financial, utilities and health services.

**Way Forward**

*Government Transformation Plan*

The MyDIGITAL initiatives outlines the plans to accelerate Malaysia's progress as a technologically-advanced economy, through the Malaysia Digital Economy Blueprint. The initiatives employs a whole of nation approach to intensify efforts to drive digital transformation nationwide and strengthen its competitive position regionally. Measures undertaken include accelerating the roll-out of crucial ecosystem enablers, digitalising existing industries and developing new digital industries as future growth drivers of the economy. This will ensure Malaysia's smooth transition towards the 4IR, as outlined in Figure 2.2.6.

**FIGURE 2.2.6.** Accelerating Malaysia's Digital Transformation



Source: Bank Negara Malaysia, Economic Planning Unit and Malaysia Digital Economy Corporation



## Government's Commitment in Promoting Digital Transformation

### *Increasing Individuals' Capabilities and Digital Literacy*

Under the National Economic Recovery Plan (PENJANA), several upskilling and reskilling programmes have been introduced to help employers, employees and training providers understand the latest skills set requirements, such as social intelligence and ethics, learning to learn as well as data analytics. Concurrently, other programmes, such as Go-eCommerce, MyDigitalMaker and Global Online Workforce (GLOW) have benefited Malaysians by improving their participation in e-commerce and enabled them to make informed decisions.

### *Enhancing Digital Payment Mechanisms*

Digital payment providers will enhance their services to specific demographics who are not technologically savvy or from the B40 group who rely on cash transactions. Apart from providing an automated, secure and auditable way of making transactions, improved digital payment mechanisms have accelerated remote and contactless transactions. They also provide the impetus for establishing digital banks. The new generation of banking will introduce new financial products delivery, streamlining banking products and services, and ensure more approachable financing to customers.

### *Strengthening Cybersecurity*

Propelled by the pandemic, a significant shift towards digital transactions and real-time payments has led to a substantial increase in cyber threats and crimes. Therefore, the Government will strengthen its local capabilities to respond to cyber threats and crimes by improving cybersecurity governance. Consequently, all action plans under the Malaysia Cyber Security Strategy, 2020 – 2024 have been aligned with the MyDigital initiatives to achieve a secured, trusted and resilient cyberspace.

## Policy Recommendations

In addition to the ongoing Government's commitment to drive the nationwide digital transformation, the following measures are recommended to expedite digital adoption in the economy:

### *Pushing Convergence through Digital Connectivity*

Digital connectivity provides the connections needed between all devices, systems and applications. It will accelerate the convergence of industries, products, technologies and competition. In this regard, 5G connectivity, big data analytics and cloud storage will be the game changer to provide meaningful connectivity through high-quality internet access.

### *Encouraging the Onboarding of Innovative Online Platforms and Services*

Due to the imposed lockdowns, businesses and consumers have turned to online platforms to sell and purchase goods and services. Subsequently, innovative online platforms and services, such as bricks and clicks, buy now, pay later (BNPL),<sup>3</sup> digital showrooms and virtual stores have emerged to provide unlimited, personalised, socially connected and digitally integrated experiences. Therefore, more outreach programmes and training will be conducted to encourage potential entrepreneurs or traders to use online platforms and services that provide innovative marketing methods.

### *Supporting the Recovery of Services-Oriented Subsectors through Digital Means*

The application of digital solutions in the services-oriented subsectors, especially in the hospitality and tourism industries, allows for a differentiated, personalised, and safe tourism product. Mobile and self-service customer-facing technology tools provide remote access to front-desk,

<sup>3</sup> BNPL is a type of short-term financing that essentially allows consumers to make a purchase but pay for it later or via instalments over a short-term period. Some BNPL players charge interest or a penalty fee if the consumer makes a late payment.

customer-service and concierge functions without the need for physical contact. The utilisation of internationally recognised documents, supported by digital solutions could be considered in allowing cross-border travel and tourism activities.

#### *Reviewing Policies and Regulations to Create a Conducive and Business-Friendly Environment*

In ensuring business-friendly policies and regulations, reviewing current policies and regulations should be done transparently. In this regard, active consultation with all stakeholders is essential. This approach can also be adopted when formulating new regulations or making amendments to ensure legitimate concerns of relevant stakeholders are addressed.

#### **Conclusion**

The COVID-19 pandemic has a silver lining in that it forces countries to accelerate the transformation towards becoming more digital. Applications of digital technology, such as e-commerce, online learning and remote working, have created new opportunities for businesses to prosper and for people to increase their wellbeing. As the pace of digitalisation accelerates, challenges such as digital preparedness and cybersecurity threats remain and need to be effectively addressed. Continued cross-collaboration between the Twelfth Malaysia Plan, MyDIGITAL, National 4IR plan and other Government initiatives can drive the adoption of digitalisation, technologies and efficient cyber security practices. Moving forward, it is pivotal for Malaysia to accelerate digitalisation economy-wide towards enhancing its resilience and inclusivity in a new norm.

The real estate and business services subsector is expected to decline by 5.1% in 2021. The annual performance was weighed down by the 10.5% contraction in the first half due to slower leasing and renting of properties and lower demand for professional services. However, the subsector is anticipated to improve marginally by 0.6% in the second half following the reopening of economic sectors and property companies' aggressive adoption of digital marketing. The expected improvement is also attributed to the extension of the Real Property Gains Tax (RPGT) exemptions as well as stamp duty exemptions and price discounts under the Home Ownership Campaign (HOC).

The transportation and storage subsector grew by 3.4% in the first half of 2021, mainly attributed to a significant increase in all segments, especially other supporting services following the surge in online shopping. The growth was also supported by strong external demand, with total trade increasing by 26% to RM1,056.1 billion in the first half of 2021 compared to RM838.2 billion in the same period of 2020. The subsector is expected to further expand by 1.4% in the second half, following the expansion in trade volume in line with the growing containerised cargo movement

worldwide. In 2021, the subsector is forecast to improve by 2.3% as more states graduate to the subsequent phases of NRP, where more economic sectors are allowed to reopen.

The food & beverages and accommodation subsector is projected to decline by 7.7% in 2021, due to contractions in all segments. The subsector reduced significantly by 15.3% in the first half of 2021 due to the restrictions on tourism activities, including border closure to all international tourists except for inbound travellers in essential services, investors, businessmen and returning spouses. Thus, tourist arrivals plunged by 98.8% to 50,613 arrivals, while tourist receipts plummeted by 99.4% to RM80.2 million. The subsector is expected to record a marginal increase of 0.6% in the second half of the year, supported by the resumption of domestic tourism-related activities in line with the lifting of interstate travel restrictions in the fourth quarter. The anticipated hike is also attributed to the implementation of the Tourism Recovery Plan (TRP), starting with the Langkawi Travel Bubble programme beginning 16 September 2021 for fully vaccinated local tourists. In addition, the expected increase in online food purchases will help support the subsector's growth during the same period.

The utilities subsector recorded an increase of 3.6% in the first half of 2021 and is anticipated to improve by 6.6% in the second half. The subsector is expected to expand by 5.1% for the whole year, following higher electricity usage mostly by industrial, commercial, and residential segments. This aligns with the gradual reopening of the economic and social sectors, resulting in workers returning to their workplaces. In addition, the extension of the electricity bill discounts, an initiative under the National People's Well-Being and Economic Recovery Package (PEMULIH), helps sustain the overall electricity usage. The beneficiaries who receive a 10% discount include hotel operators, travel and tourism agencies, shopping complexes, convention centres, theme parks and local airline offices. Domestic consumers are also eligible for the discount, ranging between 5% – 40%.

Despite positive growth in the private health segment, the other services subsector contracted by 3.3% in the first half of 2021, mainly due to a decline in private education as well as the arts, entertainment and recreation segments. The fall was in line with lower enrolments in private colleges and universities as well as restrictions on sports and recreational activities during the MCO period in May and June. The subsector is expected to rise marginally by 0.6% in the second half of the year, supported by a gradual increase in healthcare travellers and resumption of sport and recreational activities. Overall, the subsector is anticipated to decline by 1.3% in 2021. The Government services subsector grew by 5.5% in the first half of 2021 and is expected to expand by 4.8% in the second half. For the whole year, the subsector is forecast to grow at a rate of 5.1%.

## Manufacturing Sector

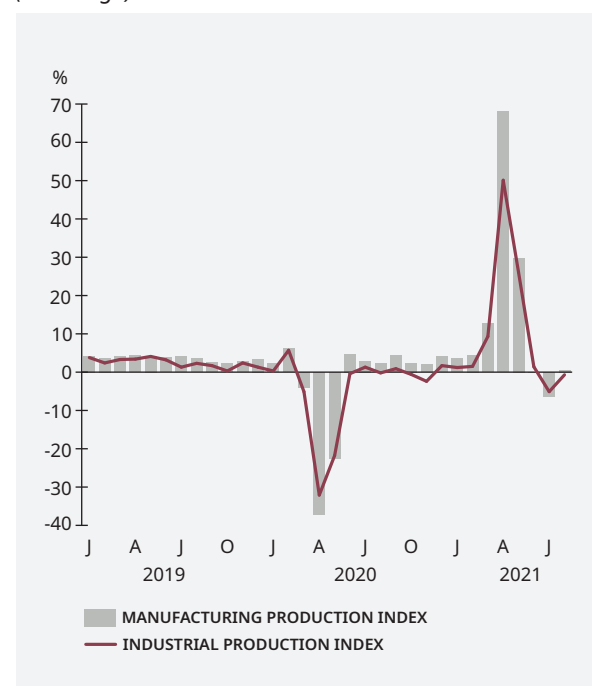
### *Revitalising key segments to accelerate growth*

The **manufacturing** sector rebounded by 15.8% in the first half of 2021, supported by positive growth in all subsectors. The growth momentum is expected to continue

in the second half with an expansion rate of 1.5%, mainly driven by the export-oriented industries. The main subsectors which will significantly contribute to the industries are electrical, electronics and optical products as well as petroleum, chemical, rubber and plastic products.

For the year, the sector is expected to post a sturdy growth of 8.1% attributed to both the export- and domestic-oriented industries. Within the export-oriented industries, the E&E segment is projected to improve, following higher demand for semiconductor items, which is reflected by the rising sales across the range of chip products. In addition, the rubber and textiles segments are anticipated to expand, following increasing demand for rubber gloves and personal protective equipment (PPE) amid the prolonged COVID-19 pandemic. Similarly, within the domestic-oriented industries, the basic pharmaceuticals and medicinal chemical products, and food products segments are projected to increase in line with the economic expansion.

**FIGURE 2.3.** Output of Manufacturing Sector (% change)



Source: Department of Statistics, Malaysia

**TABLE 2.3. Manufacturing Production Index, January – August 2020 and 2021**  
(2015 = 100)

	INDEX		CHANGE (%)		SHARE (%)	
	2020	2021	2020	2021	2020	2021
<b>Export-oriented industries</b>	<b>114.9</b>	<b>129.6</b>	<b>-3.2</b>	<b>12.8</b>	<b>68.8</b>	<b>70.3</b>
Manufacture of vegetable and animal oils and fats	110.2	93.8	0.8	-14.9	5.3	4.1
Manufacture of textiles	95.5	110.6	-18.2	15.8	0.7	0.8
Manufacture of wearing apparel	106.7	109.4	-17.5	2.6	0.8	0.8
Manufacture of wood and products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	96.1	106.7	-17.6	11.1	1.8	1.8
Manufacture of coke and refined petroleum products	99.3	112.6	-11.5	13.5	12.1	12.5
Manufacture of chemicals and chemical products	107.2	117.3	-8.6	9.3	8.9	8.8
Manufacture of rubber products	171.1	245.4	40.1	43.4	5.0	6.4
Manufacture of plastics products	110.5	126.7	-0.9	14.6	3.3	3.4
Manufacture of computer, electronics and optical products	122.8	141.7	-1.2	15.3	22.3	23.3
Manufacture of electrical equipment	117.5	130.9	-1.3	11.4	3.4	3.4
Manufacture of machinery and equipment n.e.c.	126.7	139.2	0.2	9.8	3.6	3.5
Manufacture of furniture	113.4	114.5	-12.8	0.9	1.5	1.4
<b>Domestic-oriented industries</b>	<b>106.5</b>	<b>112.1</b>	<b>-10.8</b>	<b>5.2</b>	<b>31.2</b>	<b>29.7</b>
Manufacture of food products	133.2	145.1	5.5	8.9	6.4	6.3
Manufacture of beverages	102.1	111.7	-18.4	9.4	0.9	0.9
Manufacture of tobacco products	85.9	72.6	-26.1	-15.4	0.6	0.4
Manufacture of leather and related products	99.2	117.0	-22.7	18.0	0.2	0.2
Manufacture of paper and paper products	110.5	126.3	-6.9	14.4	1.7	1.7
Printing and reproduction of recorded media	106.2	111.2	-9.4	4.7	1.3	1.2
Manufacture of basic pharmaceuticals, medicinal chemical and botanical products	134.2	153.4	12.4	14.3	0.7	0.7
Manufacture of other non-metallic mineral products	94.7	96.9	-20.3	2.4	3.7	3.4
Manufacture of basic metals	105.9	107.8	-9.0	1.8	3.3	3.0
Manufacture of fabricated metal products, except machinery and equipment	96.1	102.1	-20.2	6.3	4.8	4.6
Manufacture of motor vehicles, trailers and semi-trailers	105.7	108.5	-8.9	2.7	4.4	4.1
Manufacture of other transport equipment	89.8	92.6	-17.0	3.1	1.4	1.3
Other manufacturing	97.1	100.4	-13.0	3.4	0.9	0.9
Repair and installation of machinery and equipment	116.3	115.6	-11.4	-0.6	1.2	1.0
<b>Manufacturing Production Index</b>	<b>112.1</b>	<b>123.8</b>	<b>-5.7</b>	<b>10.4</b>	<b>100.0</b>	<b>100.0</b>

Note: Total may not add up due to rounding  
Source: Department of Statistics and Ministry of Finance, Malaysia

## Agriculture Sector

### *Firm support from the non-commodity subsector*

The **agriculture** sector is projected to decline marginally by 0.8% in 2021, mainly due to lower output of crude palm oil (CPO) and rubber. However, the decline is anticipated to be cushioned by improved performance of the non-commodity subsector. In the first half of the year, the sector contracted by 0.7% due to lower production in all subsectors except livestock and other agriculture. The contraction in the plantation-related subsector was due to shortage of foreign labour following the COVID-19 pandemic containment measures, including border closures and restrictions on the new intake of foreign workers. The limited labour supply is expected to continue in the second half of the year, thus resulting in a decline of 1% in the sector.

**TABLE 2.4.** Value-added in the Agriculture Sector, 2020 – 2022  
(at constant 2015 prices)

	SHARE (%)	CHANGE (%)		
	2021 <sup>2</sup>	2020	2021 <sup>2</sup>	2022 <sup>3</sup>
Oil palm	34.4	-3.6	-8.0	4.2
Rubber	2.5	-18.6	-1.0	2.9
Livestock	17.1	3.5	5.1	5.6
Other agriculture <sup>1</sup>	29.6	5.1	5.3	5.5
Fishing	11.3	-7.9	-0.2	0.5
Forestry and logging	5.1	-18.8	-2.7	-4.0
<b>Agriculture</b>	<b>100.0</b>	<b>-2.2</b>	<b>-0.8</b>	<b>3.9</b>

<sup>1</sup> Including paddy, fruits, vegetables, coconut, tobacco, tea, flowers, pepper, cocoa and pineapple

<sup>2</sup> Estimate

<sup>3</sup> Forecast

Note: Total may not add up due to rounding

Source: Department of Statistics and Ministry of Finance, Malaysia

## Mining Sector

### *Moderate performance with lower natural gas output*

The **mining** sector rebounded by 3.5% in the first half of 2021, supported by higher natural gas production and increased crude oil and condensates output, particularly during the

second quarter. It is projected to decline marginally by 0.7% in the second half of the year, weighed down by lower natural gas production. The reduction in output is also in line with heightened uncertainties in global oil and gas demand following concerns over the spread of the COVID-19 variants. Overall, the mining sector is expected to turn around by 1.5% in 2021.

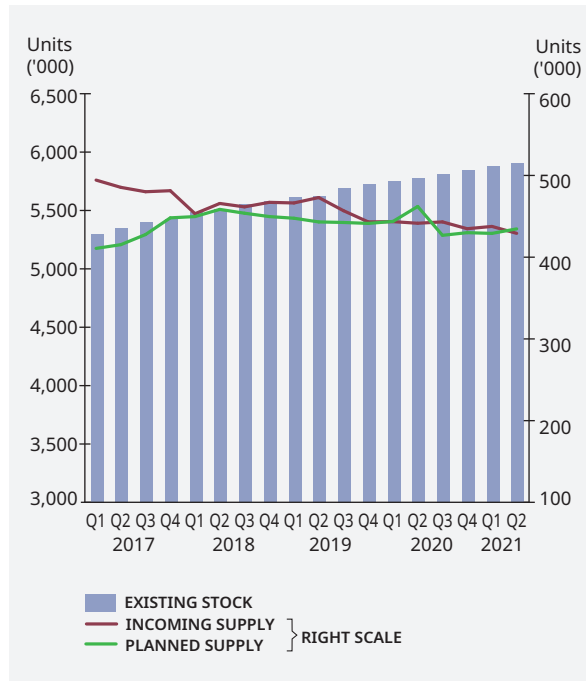
## Construction Sector

### *Challenges persist*

The **construction** sector registered a strong growth of 8.3% in the first half of 2021, supported by an improvement in specialised construction activities, non-residential buildings and residential buildings subsectors. The better performance was also attributed to the low base effect following a significant drop in construction works during the corresponding period last year. However, the civil engineering subsector contracted due to the temporary suspension of infrastructure projects following stringent COVID-19 virus containment measures. In contrast, the sector is forecast to decline by 8.4% in the second half of the year, weighed down by civil engineering, non-residential buildings and residential building subsectors, despite the resumption of construction activities. Nevertheless, the decline is being cushioned by a rebound in the specialised construction activities subsector. Overall, the sector is expected to record a marginal contraction of 0.8% during the year compared to a double-digit decline in 2020.

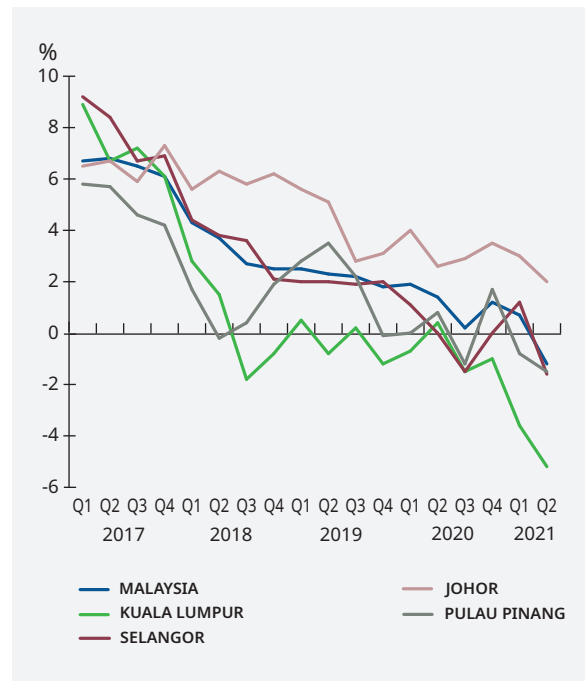
The national property market for residential and non-residential segments was affected by the COVID-19 pandemic. As for the residential segment, the impact was reflected by the decreasing number of incoming supply units. In addition, the house price index for Malaysia registered an unprecedented negative growth in the second quarter of 2021. Similarly, the non-residential segment recorded a decline in its occupancy rate for both retail and office spaces.

**FIGURE 2.4.** Supply Indicators of Residential Property



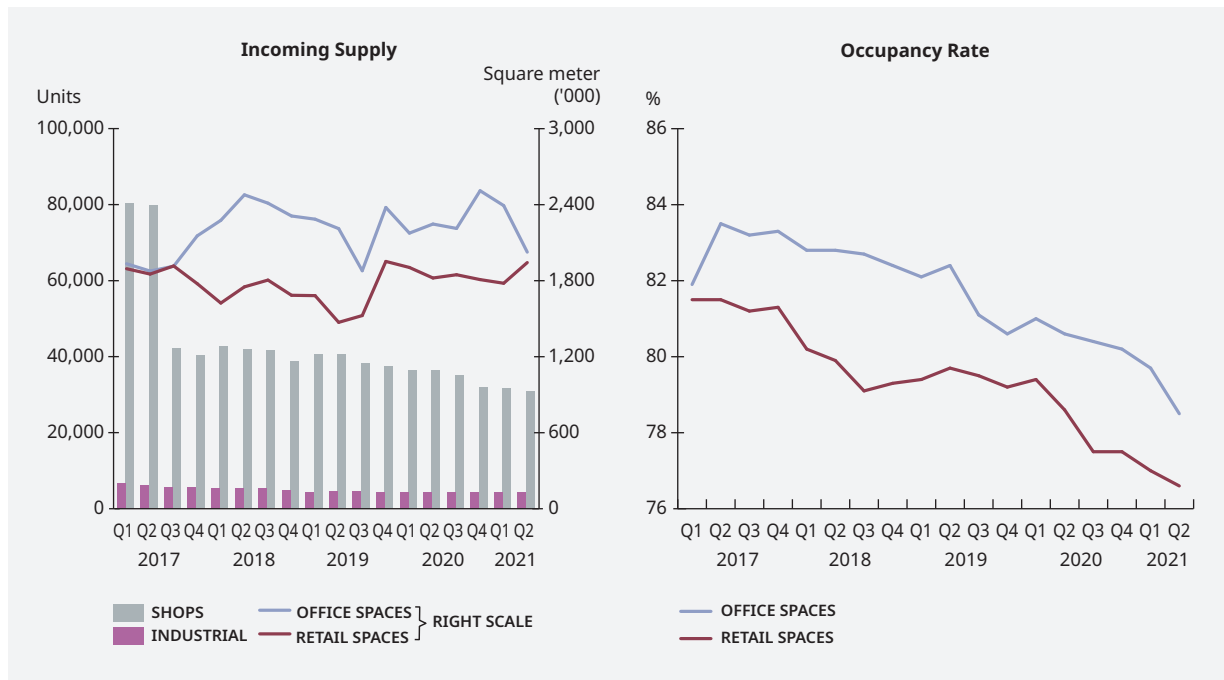
Source: National Property Information Centre

**FIGURE 2.5.** House Price Index (% change)



Source: National Property Information Centre

**FIGURE 2.6.** Supply Indicators of Non-Residential Property



Source: National Property Information Centre

## Domestic Demand

### *Domestic demand continues to support growth*

Against the backdrop of global uncertainties amid the COVID-19 outbreak, **domestic demand** remains resilient and continue to spearhead growth. After registering a contraction of 5.8% in 2020, domestic demand is projected to rebound to 3.1% in 2021, with private and public sectors' expenditure increasing by 3.5% and 1.6%, respectively. The recovery is driven by robust domestic demand performance in the first half of 2021, which expanded by 5% following low base effect in 2020 due to strict containment measures to curb the COVID-19 pandemic. The ongoing stimulus packages and economic assistance, such as Perlindungan Ekonomi dan Rakyat Malaysia (PERMAI), Strategic Programme to Empower the People and Economy (PEMERKASA), PEMERKASA Plus (PEMERKASA+) and PEMULIH, the gradual reopening of economic sectors and the recovery in external demand are expected to provide a lift to consumer and business sentiments.

**TABLE 2.5.** *Gross Domestic Product by Aggregate Demand, 2020 – 2022 (at constant 2015 prices)*

	SHARE (%)	CHANGE (%)		
	2021 <sup>2</sup>	2020	2021 <sup>2</sup>	2022 <sup>3</sup>
<b>Domestic demand</b>	<b>93.4</b>	<b>-5.8</b>	<b>3.1</b>	<b>6.6</b>
<b>Private expenditure</b>	<b>75.2</b>	<b>-6.0</b>	<b>3.5</b>	<b>6.4</b>
Consumption	59.8	-4.3	4.1	7.3
Investment	15.4	-11.9	1.4	2.6
<b>Public expenditure</b>	<b>18.3</b>	<b>-4.7</b>	<b>1.6</b>	<b>7.3</b>
Consumption	13.3	3.9	3.0	1.1
Investment	5.0	-21.3	-1.9	24.1
<b>External sector<sup>1</sup></b>	<b>6.6</b>	<b>-13.0</b>	<b>4.8</b>	<b>6.8</b>
Exports	68.3	-8.9	15.0	4.2
Imports	61.7	-8.4	16.2	3.9
<b>GDP</b>	<b>100.0</b>	<b>-5.6</b>	<b>3.0 – 4.0</b>	<b>5.5 – 6.5</b>

<sup>1</sup> Goods and non-factor services

<sup>2</sup> Estimate

<sup>3</sup> Forecast

Note: Total may not add up due to rounding and excluding change in stocks component

Source: Department of Statistics and Ministry of Finance, Malaysia

**Private consumption** remained as the significant growth determinant and increased by 4.3% during the first half of 2021 attributable to improvements in disposable income arising from the gradual recovery in the labour market condition, accommodative interest rates, favourable commodity prices as well as ongoing economic stimulus packages and assistance. In the second half of the year, private consumption is projected to increase by 3.9%, following the gradual reopening of economic sectors. Overall, private consumption in 2021 is expected to expand by 4.1% supported mainly by the continued assistance and stimulus measures, such as wage subsidies, BPR, targeted moratorium, Special COVID-19 Assistance as well as i-Sinar and i-Citra assistance. As at 19 August 2021, RM20.2 billion has been approved for 4.9 million applicants for i-Citra, and RM58.4 billion has been disbursed for 6.6 million applicants for i-Sinar. Furthermore, as at 24 September 2021, RM14.3 billion has been disbursed for the wage subsidy programme, which has benefitted about 3.3 million employees.

**Private investment** increased by 8.8% during the first half of 2021, underpinned by the Government's continuous measures to ensure a conducive environment for private sector investment and spillover effects from the resumption of strategic infrastructure projects. The measures include the MalaysiaMudah (#MyMudah) initiative, which aims at reducing unnecessary regulatory burdens. In addition, the Project Coordination and Acceleration Unit (PACU) and the One-Stop Centre for Business Travellers were established to expedite the approval of investment applications and facilitate investors' entry into Malaysia. As a result, overall private investment in 2021 is projected to turn around to 1.4%, despite the 6.5% contraction anticipated in the second half due to the implementation of NRP by phases.

**Public investment** is projected to contract by 1.9% in 2021, mainly attributed to smaller capital spending by public corporations. Public

investment expenditure, which fell by 6.9% during the first half of 2021, is expected to improve by 1.4% in the second half of 2021. The Federal Government’s development expenditure (DE) continues to prioritise investment with a high multiplier impact and value for money. The DE, averaging about RM57 billion for the period of 2020 – 2021, is mainly targeted at promoting sustainable development, bridging the urban-rural infrastructure gap and enhancing the living standards of the people. The targets are in line with the National Investment Aspirations (NIA), a forward-looking growth framework that will form the basis for comprehensive reforms of Malaysia’s investment policies.

**Public consumption** is anticipated to increase by 3% in 2021, in line with further expansion in Federal Government spending. The growth is mainly attributed to the ongoing procurement

of COVID-19 containment related supplies and services, including vaccines and logistic services. The expansion is also due to the implementation of PERMAI, PEMERKASA, PEMERKASA+ and PEMULIH packages to support households and businesses during the pandemic.

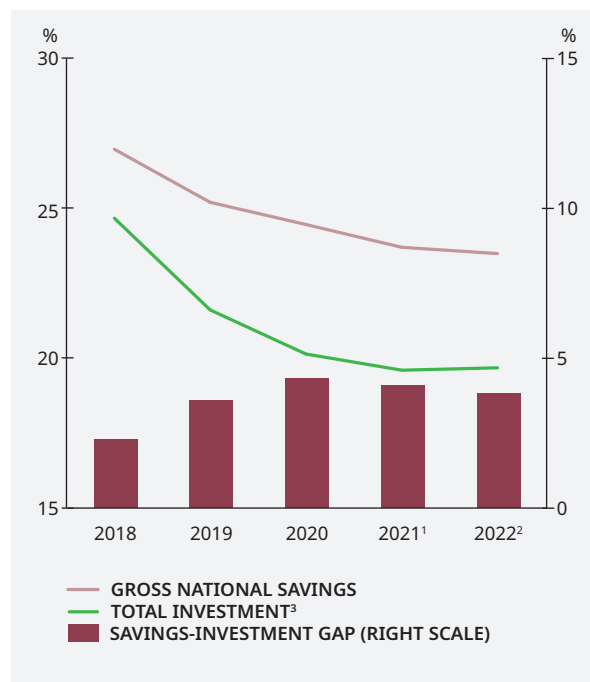
**Gross National Savings (GNS)** is anticipated to post a growth of 3.8% in 2021, in line with the expected increase in nominal national income at 6.2%. Consequently, the GNS is envisaged to remain significant at RM352.6 billion or 23.9% of gross national income (GNI). Total investment expenditure is projected to rise by 5.9% to RM295.9 billion or 20.1% of GNI. Therefore, the savings-investment gap is expected to record a surplus of RM56.7 billion or 3.8% of GNI, enabling Malaysia to finance its economic activities primarily from domestic sources.

## Income

### *A more balanced profit sharing is still a challenge*

Restrictions on socio-economic activities and business operations during the COVID-19 pandemic have led to limited employment opportunities and reduced working hours. As a result of the slower economic performance in 2020, the **compensation of employees (CE)**, which includes remuneration in cash and in-kind and employer’s social contribution payable for employees, decreased by 3% to RM526.7 billion. However, the share of CE to GDP increased to 37.2% due to a smaller contraction in CE than that recorded for nominal GDP. The expected resumption of business operations and attainment of mass vaccination by the end of 2021 will stimulate better economic growth prospects and higher wages. Hence, CE is expected to increase to 37.3% in 2021, with services (63.3%) and manufacturing (23.4%) sectors contributing the highest proportion to CE.

**FIGURE 2.7.** Savings-Investment Gap (% of GNI)



<sup>1</sup> Estimate

<sup>2</sup> Forecast

<sup>3</sup> Including change in stocks

Source: Department of Statistics and Ministry of Finance, Malaysia



**TABLE 2.6.** *Gross Domestic Product by Income Components, 2019 – 2022 (at current prices)*

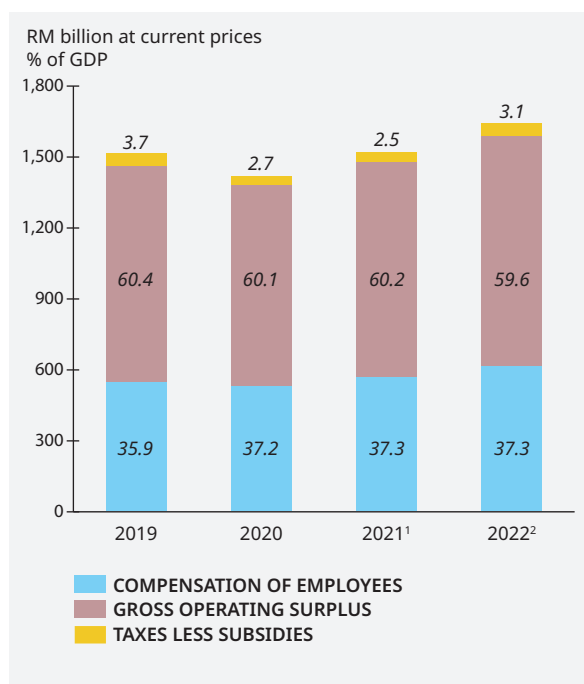
COMPONENTS	RM MILLION				CHANGE (%)			
	2019	2020	2021 <sup>1</sup>	2022 <sup>2</sup>	2019	2020	2021 <sup>1</sup>	2022 <sup>2</sup>
Compensation of employees	542,790	526,718	564,346	610,779	4.8	-3.0	7.1	8.2
Gross operating surplus	914,615	851,080	912,029	975,636	3.7	-6.9	7.2	7.0
Operating surplus	589,926	554,779	602,368	637,821	6.7	-6.0	8.6	5.9
Mixed income	324,689	296,301	309,661	337,815	-1.2	-8.7	4.5	9.1
Taxes less subsidies	55,752	38,807	38,249	51,385	16.4	-30.4	-1.4	34.3
<b>GDP at purchasers' prices</b>	<b>1,513,157</b>	<b>1,416,605</b>	<b>1,514,624</b>	<b>1,637,800</b>	<b>4.5</b>	<b>-6.4</b>	<b>6.9</b>	<b>8.1</b>

<sup>1</sup> Estimate

<sup>2</sup> Forecast

Source: Department of Statistics and Ministry of Finance, Malaysia

**FIGURE 2.8.** *Gross Domestic Product by Income Components, 2019 – 2022*



<sup>1</sup> Estimate

<sup>2</sup> Forecast

Source: Department of Statistics and Ministry of Finance, Malaysia

**Gross operating surplus (GOS)**, which consists of operating surplus for capital owners and mixed-income, declined by 6.9% to record a share of 60.1% of GDP in 2020. While the growth of the sub-components declined during the year, mixed-income earned by the self-employed, unincorporated enterprises

and others recorded a higher contraction of 8.7% as these groups were seriously affected by the pandemic. The share of GOS of GDP is expected to increase slightly to 60.2% in 2021. Nevertheless, as businesses continue to weather the challenges posed by the pandemic, mixed-income for the self-employed group is expected to expand at a slower pace of 4.5%, while operating surplus improves higher at 8.6%.

**Taxes less subsidies on production and imports** recorded a double-digit contraction of 30.4% in 2020, following the substantial expenditure on subsidies and incentives, particularly for the wage subsidy programme and special grants, which accounted for 66.8% of the total subsidy expenditure. These subsidies are provided to incentivise and assist businesses, particularly the MSMEs, to retain their workers and remain in operation during the COVID-19 pandemic. In 2021, income from taxes on production and imports is expected to record a smaller contraction of 1.5% (2020: -7.2%) due to the resumption of business and social activities, which contribute to higher revenue following higher demand for goods and services. On the other hand, subsidy expenditure is expected to decline by 1.7%. Thus, overall taxes less subsidies on production and imports is expected to record a smaller contraction of 1.4%.

## External Sector

*Steady recovery as economic activities normalise, albeit divergent global growth*

### Trade Performance

**Gross exports** are projected to increase by 17.1% in 2021 attributed to strong external demand as economic activities normalise, in tandem with accelerated global vaccine rollouts, particularly among major economies. Exports of manufactured goods are estimated to expand by 17.8% due to higher demand

for E&E and non-E&E products by 12.8% and 22%, respectively. The increase in E&E exports is driven by the upward global trend for digitalisation and technology upcycle, including semiconductors, telecommunication equipment parts and electronic machines apparatus.

Exports of non-E&E products, particularly rubber products, are expected to rise in 2021, following rising global demand for PPE, specifically rubber gloves. Similarly, exports of agriculture goods are estimated to expand by 18.7%, buoyed by palm oil and palm oil-based agriculture products as well as natural rubber.

**TABLE 2.7.** *External Trade, 2020 – 2022*

	RM MILLION			CHANGE (%)		
	2020	2021 <sup>1</sup>	2022 <sup>2</sup>	2020	2021 <sup>1</sup>	2022 <sup>2</sup>
<b>Total trade</b>	<b>1,784,308</b>	<b>2,084,587</b>	<b>2,117,721</b>	<b>-3.3</b>	<b>16.8</b>	<b>1.6</b>
<b>Gross exports</b>	<b>983,827</b>	<b>1,152,140</b>	<b>1,169,422</b>	<b>-1.1</b>	<b>17.1</b>	<b>1.5</b>
<i>of which:</i>						
Manufactured	849,498	1,000,909	1,016,307	1.1	17.8	1.5
Agriculture	71,724	85,125	86,138	8.7	18.7	1.2
Mining	58,414	60,834	61,659	-28.3	4.1	1.4
<b>Gross imports</b>	<b>800,481</b>	<b>932,447</b>	<b>948,299</b>	<b>-5.8</b>	<b>16.5</b>	<b>1.7</b>
<i>of which:</i>						
Capital goods	90,733	99,932	102,382	-9.4	10.1	2.5
Intermediate goods	429,190	510,686	516,752	-8.1	19.0	1.2
Consumption goods	74,134	84,482	86,228	-0.03	14.0	2.1
<b>Trade balance</b>	<b>183,345</b>	<b>219,693</b>	<b>221,123</b>	<b>25.9</b>	<b>19.8</b>	<b>0.7</b>

<sup>1</sup> Estimate

<sup>2</sup> Forecast

Note: Total may not add up due to rounding

Source: Department of Statistics, Malaysia External Trade Development Corporation and Ministry of Finance, Malaysia

**TABLE 2.8.** *Gross Exports, January – August 2020 and 2021*

	RM MILLION		CHANGE (%)		SHARE (%)	
	2020	2021	2020	2021	2020	2021
Manufactured	535,117	673,010	-3.4	25.8	85.9	86.5
Agriculture	44,007	58,131	-0.5	32.1	7.1	7.5
Mining	41,234	44,354	-25.8	7.6	6.6	5.7
Others <sup>1</sup>	2,818	2,993	-43.0	6.2	0.5	0.4
<b>Gross exports</b>	<b>623,176</b>	<b>778,488</b>	<b>-5.4</b>	<b>24.9</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Including gold scrap and waste; worn clothing; and special transaction not classified

Note: Total may not add up due to rounding

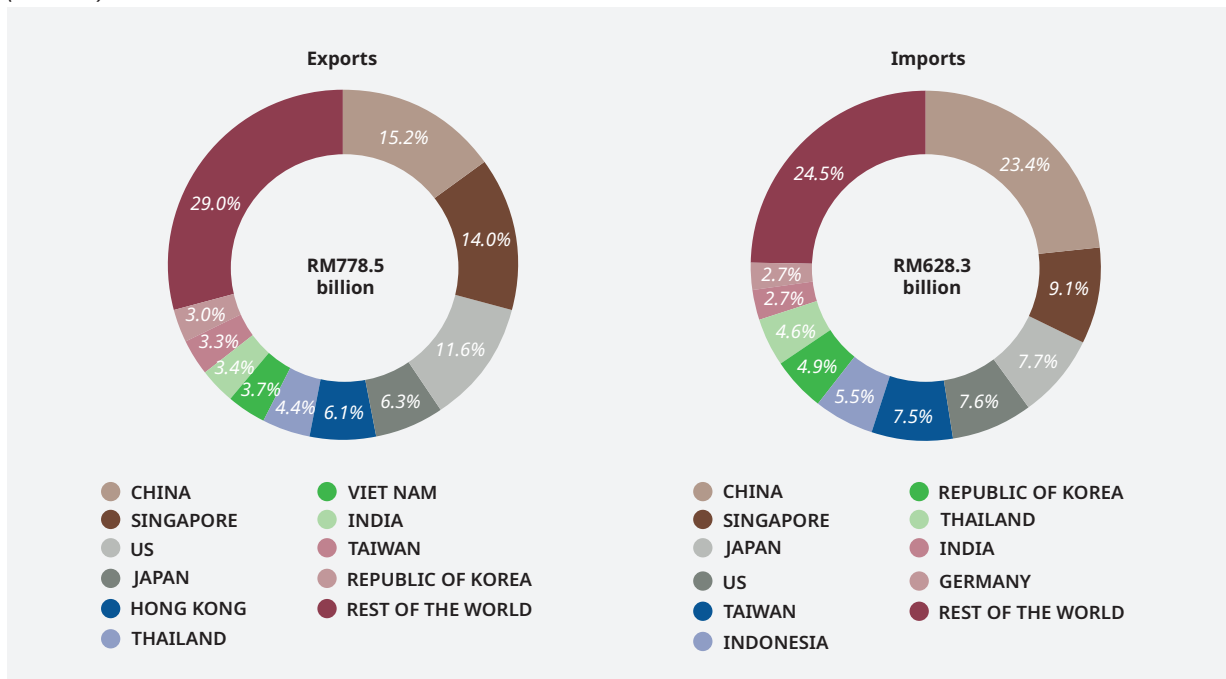
Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

**TABLE 2.9.** Exports of Manufactured Goods, January – August 2020 and 2021

	RM MILLION		CHANGE (%)		SHARE (%)	
	2020	2021	2020	2021	2020	2021
<b>E&amp;E</b>	<b>238,020</b>	<b>282,721</b>	<b>-3.9</b>	<b>18.8</b>	<b>44.5</b>	<b>42.0</b>
<b>Non-E&amp;E</b>	<b>297,097</b>	<b>390,289</b>	<b>-2.9</b>	<b>31.4</b>	<b>55.5</b>	<b>58.0</b>
Petroleum products	43,712	59,908	-7.1	37.1	8.2	8.9
Chemicals & chemical products	32,759	44,701	-14.8	36.5	6.1	6.6
Manufactures of metal	23,005	35,880	-17.9	56.0	4.3	5.3
Machinery, equipment & parts	25,366	31,054	-8.5	22.4	4.7	4.6
Optical & scientific equipment	26,577	29,651	8.1	11.6	5.0	4.4
Rubber products	24,014	50,573	43.1	110.6	4.5	7.5
Palm oil-based manufactured products	13,854	19,966	-13.5	44.1	2.6	3.0
Processed food	13,764	15,505	-1.9	12.7	2.6	2.3
Iron & steel products	15,713	17,348	8.6	10.4	2.9	2.6
Transport equipment	13,049	10,091	11.2	-22.7	2.4	1.5
Textiles, apparels & footwear	8,726	10,122	-16.1	16.0	1.6	1.5
Wood products	9,844	10,355	-2.5	5.2	1.8	1.5
Manufactures of plastics	8,567	10,335	-13.5	20.6	1.6	1.5
Non-metallic mineral products	5,084	6,786	-9.7	33.5	1.0	1.0
Jewellery	2,286	3,494	-51.5	52.8	0.4	0.5
Paper & pulp products	4,202	5,421	3.2	29.0	0.8	0.8
Beverages & tobacco	1,629	1,574	-28.4	-3.3	0.3	0.2
Other manufactures	24,949	27,525	24.3	10.4	4.7	4.1
<b>Exports of manufactured goods</b>	<b>535,117</b>	<b>673,010</b>	<b>-3.4</b>	<b>25.8</b>	<b>100.0</b>	<b>100.0</b>

Note: Total may not add up due to rounding  
 Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

**FIGURE 2.9.** Top 10 Trading Partners, January – August 2021 (% share)



Note: Total may not add up due to rounding  
 Source: Department of Statistics, Malaysia and Malaysia External Trade Development Corporation

Increasing demand, particularly from China, India and the Netherlands, is expected to raise palm oil exports by 22.3%. Furthermore, lower import duties on crude palm oil by India is expected to boost palm oil exports. Similarly, exports of mining goods are projected to edge up by 4.1%, supported by the upturn in global demand for crude petroleum and liquefied natural gas (LNG) by 4.9% and 1.1%, respectively. The increase in demand from global industrial and transportation activities as well as price hikes contribute to the uptrend in mining exports.

**Gross imports** are projected to expand by 16.5% in 2021, supported by imports of intermediate, capital and consumption goods due to recovery in economic sectors, particularly in manufacturing and services. Imports of intermediate goods that form the largest share of 54.8% are expected to rise by 19%, followed by capital goods and consumption goods at 10.1% and 14%, respectively. Capital goods and consumption goods constitute 10.7% and 9.1%, respectively, of the overall share of imports. Imports of capital goods are anticipated to increase with the strengthening

**TABLE 2.10.** *Gross Imports by End Use, January – August 2020 and 2021*

	RM MILLION		CHANGE (%)		SHARE (%)	
	2020	2021	2020	2021	2020	2021
<b>Capital goods</b>	<b>60,272</b>	<b>66,733</b>	<b>-8.0</b>	<b>10.7</b>	<b>11.5</b>	<b>10.6</b>
Capital goods (except transport equipment)	62,561	63,006	4.8	0.7	12.0	10.0
Transport equipment (industrial)	-2,290	3,727	-139.4	-262.8	0.4	0.6
<b>Intermediate goods</b>	<b>282,841</b>	<b>347,628</b>	<b>-7.8</b>	<b>22.9</b>	<b>54.2</b>	<b>55.3</b>
Food and beverages, primary and processed, mainly for industries	13,196	17,633	8.4	33.6	2.5	2.8
Fuel and lubricants, primary, processed and others	32,422	31,574	-17.5	-2.6	6.2	5.0
Industrial supplies, primary, processed and n.e.s. <sup>1</sup>	129,772	175,769	-9.5	35.4	24.9	28.0
Parts and accessories of capital goods and transport equipment	107,451	122,652	-4.0	14.1	20.6	19.5
<b>Consumption goods</b>	<b>47,857</b>	<b>54,341</b>	<b>-1.3</b>	<b>13.5</b>	<b>9.2</b>	<b>8.6</b>
Food and beverages, primary and processed, mainly for household	21,461	23,854	6.9	11.1	4.1	3.8
Transport equipment (non-industrial)	578	1,097	-16.1	89.7	0.1	0.2
Other consumer goods	25,818	29,391	-6.9	13.8	4.9	4.7
Durables	5,813	7,905	-8.6	36.0	1.1	1.3
Semi-durables	8,042	8,381	-9.4	4.2	1.5	1.3
Non-durables	11,963	13,106	-4.2	9.6	2.3	2.1
<b>Others</b>	<b>12,889</b>	<b>15,756</b>	<b>-48.0</b>	<b>22.3</b>	<b>2.5</b>	<b>2.5</b>
<b>Re-exports</b>	<b>118,003</b>	<b>143,832</b>	<b>4.5</b>	<b>21.9</b>	<b>22.6</b>	<b>22.9</b>
<b>Gross imports</b>	<b>521,861</b>	<b>628,291</b>	<b>-6.6</b>	<b>20.4</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Not elsewhere stated

Note: Total may not add up due to rounding

Source: Department of Statistics, Malaysia

of the healthcare system to address the ongoing pandemic through the usage of high-end machineries and medical equipment for medical, surgical and laboratory uses.

### Balance of Payments

The current account surplus of the **balance of payments** increased to RM26.7 billion or 3.7% of GNI in the first half of 2021. This is attributed to a higher surplus in the goods account, albeit larger deficits in the services and income accounts. In the second half of the year, the current account surplus is projected to narrow to RM29.8 billion or 4% of GNI. Overall in 2021, the current account surplus is expected to decrease to RM56.7 billion or 3.8% of GNI.

In 2021, the goods account is projected to record a higher surplus of RM170.4 billion, underpinned by increasing exports for manufactured, agriculture and mining goods. The services account is expected to record

higher net outflows of RM61 billion owing to the continuous widening of deficits in the travel and transport accounts. Prolonged international border closures have caused a significant drop in tourist arrivals, which is estimated to result in a wider deficit of RM17.8 billion in the travel account. Similarly, the transport account is projected to record a larger deficit of RM32.4 billion, following lower earnings from airline passenger fares and freight charges as well as airport and port charges on activities such as aircraft landing and parking, ship docking and cargo handling provided by domestic companies. This is partly due to the implementation of the various stages of MCOs and stricter SOPs to curb the resurgence of COVID-19 cases. The other services account is expected to register a smaller deficit of RM10.8 billion, attributed to increasing receipts for construction, manufacturing services on physical inputs owned by others, charges for the use of intellectual property, and government goods and services.

**TABLE 2.11.** *Current Account of the Balance of Payments, 2020 – 2022 (RM million)*

	2020			2021 <sup>1</sup>			2022 <sup>2</sup>		
	RECEIPTS	PAYMENTS	NET	RECEIPTS	PAYMENTS	NET	RECEIPTS	PAYMENTS	NET
<b>Balance on goods and services</b>	<b>870,272</b>	<b>779,011</b>	<b>91,261</b>	<b>1,027,614</b>	<b>918,233</b>	<b>109,381</b>	<b>1,086,802</b>	<b>965,523</b>	<b>121,279</b>
Goods	777,665	638,955	138,709	940,764	770,373	170,391	970,451	791,524	178,927
Services	92,607	140,055	-47,448	86,849	147,860	-61,011	116,351	173,999	-57,648
Transport	13,658	41,010	-27,352	16,519	48,900	-32,381	25,301	57,256	-31,956
Travel	12,558	20,209	-7,651	430	18,257	-17,827	16,050	30,543	-14,493
Other services	66,391	78,836	-12,445	69,900	80,703	-10,803	75,001	86,200	-11,199
<b>Primary income</b>	<b>53,921</b>	<b>82,505</b>	<b>-28,584</b>	<b>74,263</b>	<b>114,266</b>	<b>-40,003</b>	<b>80,714</b>	<b>135,084</b>	<b>-54,370</b>
Compensation of employees	6,012	14,137	-8,125	6,746	14,236	-7,490	6,936	17,995	-11,059
Investment income	47,909	68,368	-20,459	67,517	100,030	-32,513	73,778	117,089	-43,311
<b>Secondary income</b>	<b>27,130</b>	<b>29,800</b>	<b>-2,670</b>	<b>23,282</b>	<b>36,004</b>	<b>-12,722</b>	<b>25,675</b>	<b>37,006</b>	<b>-11,331</b>
<b>Balance on current account</b>	<b>951,323</b>	<b>891,315</b>	<b>60,007</b>	<b>1,125,159</b>	<b>1,068,503</b>	<b>56,656</b>	<b>1,193,191</b>	<b>1,137,614</b>	<b>55,578</b>
<b>% of GNI</b>			<b>4.3</b>			<b>3.8</b>			<b>3.5</b>

<sup>1</sup> Estimate

<sup>2</sup> Forecast

Note: Total may not add up due to rounding

Source: Department of Statistics and Ministry of Finance, Malaysia

The primary income account is projected to register a higher deficit of RM40 billion in 2021 due to a wider deficit in investment income following higher income payments, particularly due to the repatriation of profits and dividends by foreign investors in Malaysia. The investment income payments are expected to record an increase of RM100 billion. On the other hand, the compensation of employees is anticipated to record a lower deficit following a reduction in the number of foreign professionals in Malaysia.

Payments in the secondary income account in 2021 are expected to increase to RM36 billion following higher remittances by foreign workers to Bangladesh, Indonesia, India, Nepal and the Philippines. Receipts in the secondary income account are anticipated to decrease to RM23.3 billion as remittances by Malaysians abroad are expected to remain low, leading to a higher deficit of RM12.7 billion in this account.

In the first half of 2021, the financial account registered a net inflow of RM9 billion, attributed to significantly higher net inflows in direct and portfolio investment accounts, which more than offset net outflows in the financial derivatives and other investment accounts. Notwithstanding the implementation of MCOs to contain the COVID-19 pandemic that has disrupted most of the economic activities, foreign direct investment (FDI) registered a higher net inflow of RM17.4 billion, channelled mainly to the manufacturing and mining sectors as well as financial and insurance/takaful activities. The net outflow of direct investment abroad by Malaysian companies recorded an increase to RM11.8 billion. The outflows were mainly directed into the transportation and storage sector, accommodation and food service, and real estate activities.

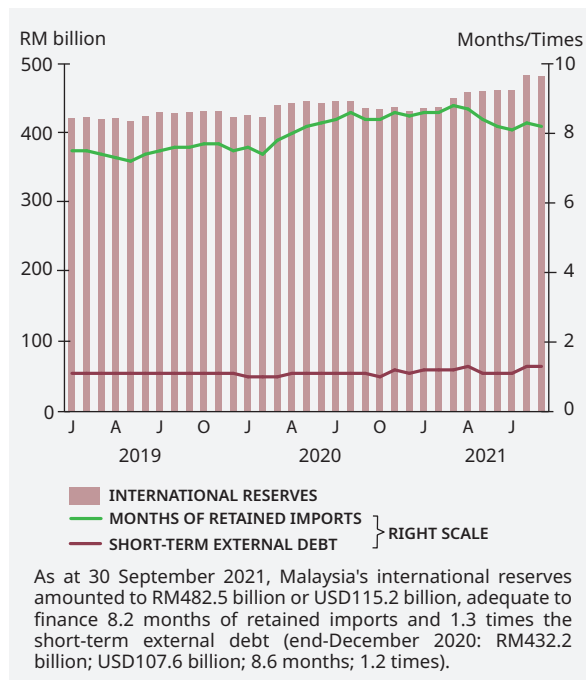
## Prices

### Normalisation of inflation

The **Consumer Price Index (CPI)** rose by 2.3% during the first eight months of 2021, and the trend is expected to continue for the rest of the year. Similarly, the core index increased marginally by 0.7% in the same period, indicating sustained domestic demand along with the gradual resumption of economic activities. The reversal from deflation in the previous year was due to higher pump prices of RON97, RON95 and diesel, following escalating global crude oil prices, albeit lower electricity charges owing to the bill discounts given under the stimulus packages. Thus, for the whole year, inflation is expected to register 2.4%.

The **Producer Price Index (PPI)** by local production increased by 8.2% during the first eight months of 2021 and is expected to remain stable throughout the year due to the normalisation of input costs. The growth is attributed to higher global commodity

FIGURE 2.10. International Reserves



Source: Bank Negara Malaysia

**TABLE 2.12.** *Consumer Price Index, January – August 2020 and 2021 (2010 = 100)*

	WEIGHT <sup>1</sup>	CHANGE (%)		CONTRIBUTION TO CPI GROWTH (PERCENTAGE POINTS)	
		2020	2021	2020	2021
<b>CPI</b>	<b>100.0</b>	<b>-1.0</b>	<b>2.3</b>	<b>-1.00</b>	<b>2.30</b>
Food and non-alcoholic beverages	29.5	1.2	1.4	0.35	0.41
Alcoholic beverages and tobacco	2.4	0.2	0.6	0.00	0.01
Clothing and footwear	3.2	-1.0	-0.4	-0.03	-0.01
Housing, water, electricity, gas and other fuels	23.8	-1.0	1.0	-0.24	0.24
Furnishings, household equipment and routine household maintenance	4.1	0.3	1.3	0.01	0.05
Health	1.9	1.2	0.5	0.02	0.01
Transport	14.6	-10.0	11.0	-1.46	1.61
Communication	4.8	1.6	0.0	0.08	0.00
Recreation services and culture	4.8	0.7	0.5	0.03	0.02
Education	1.3	1.2	0.2	0.02	0.00
Restaurants and hotels	2.9	0.7	0.2	0.02	0.01
Miscellaneous goods and services	6.7	2.7	0.8	0.18	0.05

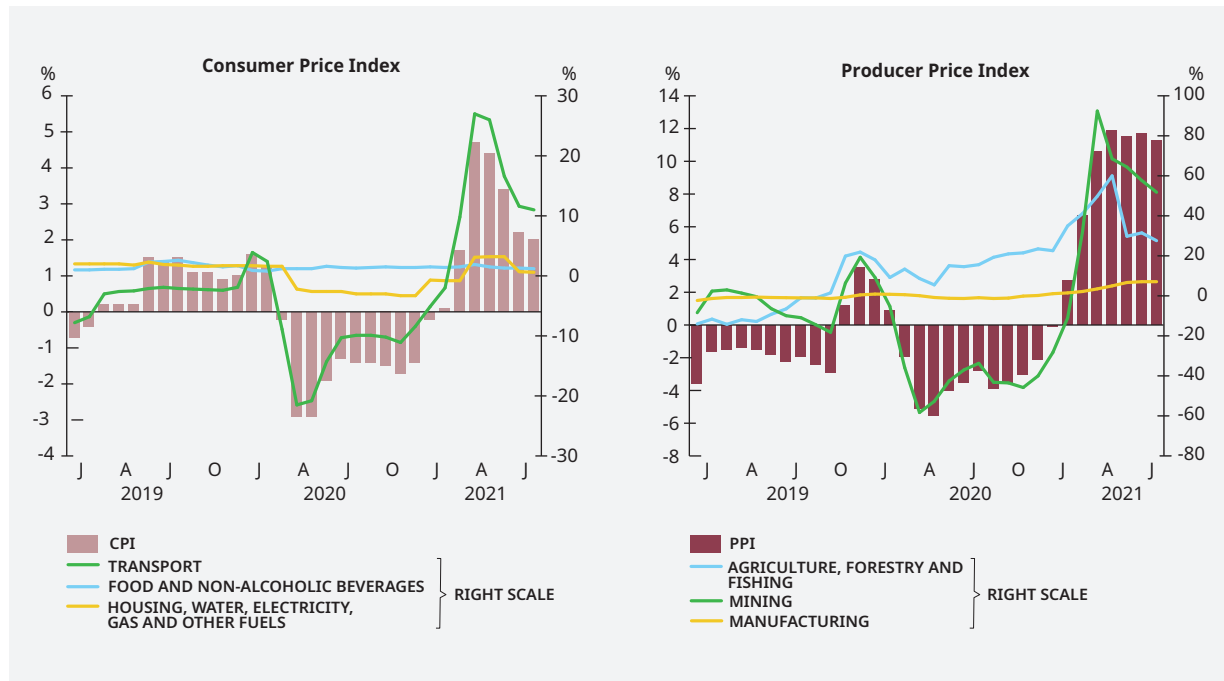
<sup>1</sup> Based on Household Income and Expenditure Survey 2016  
 Note: Total may not add up due to rounding  
 Source: Department of Statistics, Malaysia

**TABLE 2.13.** *Producer Price Index, January – August 2020 and 2021 (2010 = 100)*

	WEIGHT <sup>1</sup>	CHANGE (%)		CONTRIBUTION TO PPI GROWTH (PERCENTAGE POINTS)	
		2020	2021	2020	2021
<b>PPI</b>	<b>100.000</b>	<b>-2.4</b>	<b>8.2</b>	<b>-2.40</b>	<b>8.20</b>
Agriculture, forestry and fishing	6.730	12.5	36.6	0.84	2.46
Mining	7.927	-32.7	30.2	-2.59	2.39
Manufacturing	81.571	-0.2	4.3	-0.16	3.51
Electricity and gas supply	3.442	-0.2	-0.7	-0.01	-0.02
Water supply	0.330	-0.6	0.7	0.00	0.00
<b>PPI by stage of processing</b>	<b>100.000</b>	<b>-2.4</b>	<b>8.2</b>	<b>-2.40</b>	<b>8.20</b>
Crude materials for further processing	16.410	-12.4	29.3	-2.03	4.81
Intermediate materials, supplies and components	56.119	-0.3	5.9	-0.17	3.31
Finished goods	27.471	0.3	-0.2	0.08	-0.05

<sup>1</sup> Based on Economic Census 2016  
 Note: Total may not add up due to rounding  
 Source: Department of Statistics, Malaysia

**FIGURE 2.11.** Consumer Price Index and Producer Price Index Trends (% change)



Source: Department of Statistics, Malaysia

prices, particularly crude oil and natural gas. By sector, the surge in PPI was particularly contributed by a significant increase in agriculture, forestry and fishing (36.6%), followed by mining (30.2%), manufacturing (4.3%) and water supply (0.7%) sectors. In contrast, the index for electricity and gas supply sector dropped by 0.7% during the period.

## Labour Market

### *Recovery in the labour market remains challenging*

Recovery in the labour market continued to be uneven in the first half of 2021 due to the execution of MCO 3.0 to contain the surge of new COVID-19 cases. Targeted restrictions on economic and social activities to minimise the spread of the pandemic had weakened the aggregate demand for labour. Despite total **employment** recording a positive growth of 1.1% or 157,900 employment, the increase was

lower than the growth of the labour force at 1.6%. Thus, the **unemployment rate** remained relatively high at 4.8% or 757,200 persons compared to 4.3% for the same period last year. In addition, the labour force participation rate showed a marginal increase to 68.5%. The services sector continued to be the major source of employment during the period at 65.4%, followed by manufacturing (16.6%) and agriculture (10.1%) sectors.

Nevertheless, the continuation of various initiatives to stabilise the labour market, coupled with the rapid vaccination rate, had provided some relief to the labour market and assisted more employers to retain workers. Hence, the number of **retrenchments**, mainly in the manufacturing sector and tourism-related industries, declined significantly by 31.1% to 34,729 persons as at end June 2021 compared with the same period last year. Retrenchments were mainly in Selangor, Kuala Lumpur and Johor, where the enhanced MCO were implemented. **Job vacancies** increased



**TABLE 2.14.** Labour Market Indicators

	('000)			CHANGE (%)		
	H1 <sup>1</sup>	2021 <sup>2</sup>	2022 <sup>3</sup>	H1 <sup>1</sup>	2021 <sup>2</sup>	2022 <sup>3</sup>
Labour force	15,936.2	15,847.9	16,117.3	1.6	1.2	1.7
Employment	15,179.0	15,116.7	15,468.6	1.1	1.1	2.3
Unemployed	757.2	731.2– 760.7	648.7	(4.8)	(4.6)– (4.8)	(4.0)

<sup>1</sup> January to June 2021<sup>2</sup> Estimate<sup>3</sup> Forecast

Note: Figures in parentheses refer to unemployment rate

Source: Department of Statistics and Ministry of Finance, Malaysia

significantly, with over 258,000 positions in June 2021 compared to around 31,000 in the same period last year. However, **jobs placement** was not encouraging at only 26.2% of total vacancies despite various incentives to encourage hiring under the stimulus packages. Furthermore, **active job seekers** fell by 45.6% to around 151,000 persons, signifying that the pandemic has discouraged job seekers from looking for jobs.

Following the resumption of economic and social activities, the labour market is expected to improve by year-end. Thus, the **unemployment rate** is expected to be between 4.6% – 4.8% in 2021. **Total**

**employment** is projected to improve by 1.1% to 15.1 million persons in 2021, with the services sector remaining as the major source of employment at 64.5%, mainly in the wholesale and retail trade subsector (17.7%), as well as accommodation and food and beverages services (15.1%). The manufacturing sector is expected to provide 16.8% of total employment, particularly in the E&E and food and beverages industries, while the agriculture sector accounts for 10.3%, especially in the oil palm industry.

As at end-August 2021, the number of registered low-skilled **foreign workers** declined to 1.1 million persons and is expected to remain at that level throughout the year, following the continuation of the foreign worker's moratorium in the economic sectors. The foreign workers were sourced mainly from Indonesia at 33.3%, followed by Bangladesh (28.7%) and Nepal (15%). The manufacturing sector employed the highest number of foreign workers with a share of 35.4%, followed by construction (21.1%) and services (14.4%) sectors. Nevertheless, the hiring of low-skilled foreign workers stood at 7.3% from total employment, the lowest ever recorded in the past decade, and is

**TABLE 2.15.** Employed Persons by Sector

	('000)			SHARE (%)		
	H1 <sup>2</sup>	2021 <sup>3</sup>	2022 <sup>4</sup>	H1 <sup>2</sup>	2021 <sup>3</sup>	2022 <sup>4</sup>
Agriculture, forestry and fishing	1,531.4	1,561.2	1,576.8	10.1	10.3	10.2
Mining and quarrying	71.8	83.0	82.6	0.5	0.5	0.5
Manufacturing	2,520.4	2,534.6	2,571.9	16.6	16.8	16.6
Construction	1,134.4	1,184.1	1,213.3	7.5	7.8	7.8
Services	9,921.0	9,753.7	10,023.9	65.4	64.5	64.8
<b>Total<sup>1</sup></b>	<b>15,179.0</b>	<b>15,116.7</b>	<b>15,468.6</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Total includes 'Activities of extraterritorial organisations and bodies'<sup>2</sup> January to June 2021<sup>3</sup> Estimate<sup>4</sup> Forecast

Source: Department of Statistics and Ministry of Finance, Malaysia

still within the threshold of below 15% from total employment. Likewise, the number of **expatriates** also declined by 23.1% to 77,188 persons due to cross-border restrictions. The majority of expatriates was from India (22.5%), China (17.8%) and Japan (8.3%). They were mainly employed in the services (51.7%), information technology (37.1%) and construction (3.7%) sectors.

**Labour productivity** improved by 6% to RM89,261 in the first half of 2021, contributed by productivity improvements in all economic sectors except agriculture. Overall, labour productivity is expected to improve by 3.2% to RM91,800 in 2021, following productivity gains through upskilling initiatives and widespread technological adoption in industries in line with the Fourth Industrial Revolution (4IR) development and MyDIGITAL. The manufacturing sector is projected to record the highest increase of 6.3%, followed by services (2.3%) and mining and quarrying (1.5%) sectors.

The average monthly **salaries and wages** received by paid employees<sup>2</sup> in 2020 contracted for the first time after a decade. The contraction of 9% to RM2,933 was partly due to wage cuts and unpaid leaves exercised by businesses to remain afloat during the pandemic. All industries recorded a negative wage growth except public administration and defence; compulsory social security and human health and social work activities. These had caused a decrease in the overall CE in 2020. However, the anticipated labour productivity improvement and progressive recovery in economic growth in the near term is expected to increase the overall average monthly salaries and wages by 4.5% to RM3,065 for 2021.

<sup>2</sup> Refer to Malaysian citizens.

## Outlook for 2022

### Global Outlook

#### *On a firm path to recovery*

The **global economy** is projected to expand by 4.9% in 2022, following the expected gradual improvement in both advanced economies as well as EMDEs. In 2022, GDP in the advanced economies is forecast to moderate to 4.5% but remain robust, led by the normalisation of economic activities. Growth in the US is expected to record 5.2% due to reduced fiscal support and a slow recovery in the services sector. GDP in the euro area is anticipated to record 4.3%, as the demand for consumer goods continues to increase. Singapore's GDP is expected to grow by 3.2%, driven by a strong rebound in the manufacturing sector. The Republic of Korea's GDP is expected to moderate to 3.3% following a contraction in domestic demand. The GDP of Japan is projected to improve by 3.2%, following higher economic activities as the economy fully reopens.

Growth in the EMDEs is projected to moderate to 5.1% in 2022, owing to the gradual unwinding of fiscal support and subdued investment. Growth in China is expected to be slower at 5.6% compared to 2021, reflecting reducing fiscal and monetary support as well as tighter property and macroprudential regulations. India is estimated to record a high growth of 8.5%, supported by government expenditure and investment in public infrastructure. The GDP of ASEAN-5 is anticipated to record 5.8%, supported by expected improvements in trade. Indonesia's economy is forecast to expand by 5.9% with growth in the construction industry, supported by major infrastructure projects such as the revitalisation of airports, toll roads, mass rapid transit as well as construction of new and upgrading existing ports.

## FEATURE ARTICLE 2.3

## Regional Financial Safety Net: The Chiang Mai Initiative Multilateralisation

### Overview

Over the past 20 years, the world has experienced several financial and economic shocks, such as the Asian Financial Crisis (AFC) in 1997/1998 and the Global Financial Crisis in 2008/2009. As a result, the demand for insurance against financial shocks has escalated. The assistance from International Monetary Fund (IMF), which is a centralised Global Financial Safety Net (GFSN), is the main line of insurance during financial crisis. The main objectives of a GFSN are to provide insurance for countries against a crisis, supply financing when a crisis hits and incentivise sound macroeconomic policies.

The AFC was a critical juncture for East Asia regional cooperation as the crisis had enlightened many, that alternatives to GFSN are necessary such as regional financial cooperation which provide quick assistance during financial crisis. Preventing and managing financial crises at national and regional levels are imperative for a resilient and stable international monetary system. The situation has warranted a centralised global financial safety net (GFSN), consisting of countries' own foreign reserves and the IMF acting as a backstop, which has evolved into a decentralised multi-layered system, as reflected in Figure 2.3.1.

**FIGURE 2.3.1.** A Decentralised Global Financial Safety Net



Source: International Monetary Fund

## Regional Financial Safety Net

Realising the importance of direct and immediate assistance during a financial crisis, the regional financial safety net (RFSN) has become more prominent. Its main objectives is providing medium- and long-term financial assistance to address the balance of payments (BOP) and/or short-term liquidity difficulties among regional members. The RFSN advantages include the provision of additional funding and novel insights on specific economic and institutional circumstances. Currently, there are 11 RFSNs<sup>1</sup> worldwide, including the Chiang Mai Initiative Multilateralisation (CMIM), which is the only RFSN in the East Asia region and implemented by the ASEAN Plus Three (ASEAN+3) member countries<sup>2</sup> and the Hong Kong Monetary Authority (HMA).

### The Chiang Mai Initiative Multilateralisation

In response to the AFC, the ASEAN+3 countries and HMA strengthened the financial cooperation frameworks among their central banks and monetary authorities through the Chiang Mai Initiative (CMI) in 2000. The CMI involved a network of bilateral swaps and repurchase agreement facilities, which were then multilateralised into a single contractual agreement, known as the CMIM. The CMIM was inked on 24 December 2009 and became effective on 24 March 2010. It established a swap arrangement to provide liquidity support in US dollars through currency swap transactions to maintain financial stability in the region. The core objectives of the CMIM are to address BOP and/or short-term liquidity difficulties in the ASEAN+3 region and also to supplement existing international financial arrangements.

The total reserve pool of the CMIM is USD240 billion, wherein USD48 billion is collectively contributed by the ASEAN countries, while USD192 billion has been collectively contributed by the People's Republic of China, Japan and the Republic of Korea. The contribution of each CMIM party was determined by the ASEAN+3 Finance Ministers and Central Bank Governors. The CMIM is supported by a regional surveillance organisation known as the ASEAN+3 Macroeconomic Research Office (AMRO), which is responsible for analysing regional financial and macroeconomic data and facilitating the decision-making process. AMRO also plays an important role in aiding the early detection of risks and swift implementation of remedial actions for the ASEAN+3 region.

The CMIM offers two types of crisis prevention facilities: the CMIM Stability Facility (CMIM-SF) and CMIM Precautionary Line (CMIM-PL). The CMIM-SF functions as a facility to respond to actual BOP and/or short-term USD liquidity difficulties, while the CMIM-PL is designed to address potential BOP and/or short-term USD liquidity difficulties. The CMIM-SF and CMIM-PL are divided into two arrangements: the IMF-delinked portion (IDL) and IMF linked portion (ILP). The IDL is not subjected to the IMF programme and this allows for quick disbursements of up to 30% of each member's swap quota or maximum arrangement amount. Drawing beyond 30% of a country's allotment will be under the ILP, subjected to IMF supervision.

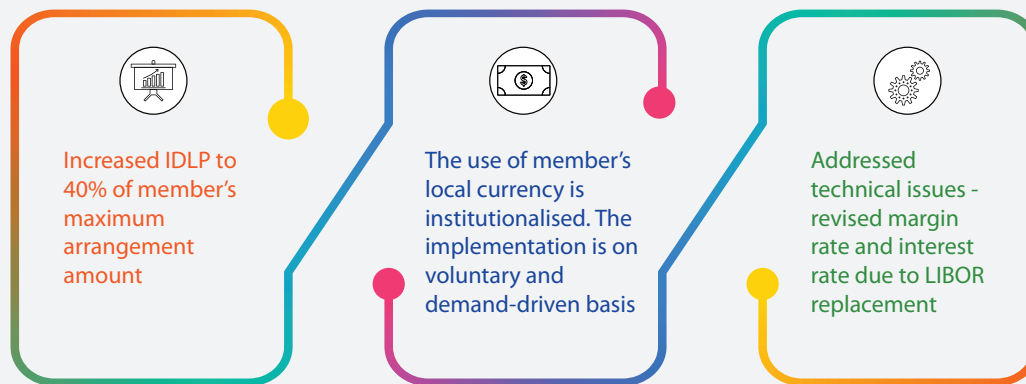
<sup>1</sup> Arab Monetary Fund, Chiang Mai Initiative Multilateralisation, Contingent Reserve Arrangement, EU Balance of Payments Facility, EU Macro Financial Assistance Facility, Eurasian Fund Stabilisation and Development, European Financial Stabilisation Mechanism, European Stability Mechanism, Latin American Reserves Fund, North American Framework Agreement and South ASEAN Association for Regional Cooperation (SAARC) Swap Arrangement.

<sup>2</sup> Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Viet Nam, the People's Republic of China, Japan and the Republic of Korea.

### Enhancement of the CMIM Mechanism

In strengthening the CMIM operational mechanism, the CMIM Agreement was recently amended in March 2021 to feature amendments, as reflected in Figure 2.3.2.

**FIGURE 2.3.2.** *Enhancement of the Chiang Mai Initiative Multilateralisation, 2021*



Source: ASEAN+3 Macroeconomic Research Office

The CMIM amendments have allowed member countries to access larger funds with quick disbursements under the IDLP and the use of local currencies as part of the financing arrangements. Local currency swaps would reduce foreign exchange risks and over-reliance on the use of US Dollars, which in turn contributes to the economic and financial safety of the region. On the back of the COVID-19 pandemic, the enhancement of the CMIM mechanism is timely to prepare member countries for its possible activation.

Since its establishment, the CMIM has yet to be activated despite multiple financial stress events or slow economic growth during the prolonged pandemic. Although the CMIM has never been activated, it should not be perceived as inconsequential. The CMIM serves as a focal point to develop common strategy and policy response for financial crisis prevention in the region. Member countries, assisted by AMRO, have continued to improve the CMIM operation readiness through annual test runs, multiple revisions of the Operational Guidelines and consistent periodic reviews on the CMIM Agreement. These measures will contribute to further improving the operational readiness of the CMIM, if activated.

### Conclusion

As uncertainties continue following the prolonged pandemic, rising government debts and slow economic recovery, the role of the RFSN has become increasingly significant in providing insurance against a financial crisis. Recognising the recent economic developments, the ASEAN+3 members reaffirmed their commitment to enhancing the CMIM mechanism through its latest amendment on the agreement in March 2021. The enhanced CMIM mechanism is imperative as a safety net for a resilient international monetary and financial system in the East Asia region.

**World trade** is expected to record 6.7% in 2022, as a slower recovery is projected in the services trade, particularly in tourism activities following continuous cross-border travel restrictions. Trade in the advanced economies is expected to grow by 6.9% supported by anticipated increase in e-commerce activities among households and businesses through innovative ways to sustain economic activities. Trade in EMDEs is forecast to expand by 6.4% in 2022, contributed by normalisation in consumption and investment.

**Global inflation** is projected to return to pre-pandemic rates to record 3.8%. The inflation rate in advanced economies is expected to moderate to 2.3% and EMDEs 4.9%, following commodity prices which are expected to rise amid the anticipated domestic, regional as well as global economic recovery. Similarly, non-oil commodity prices are also expected to surge, led by a strong increase in the price of metals and food.

## Domestic Outlook

### Sectoral

#### Services Sector

##### *Moving towards pre-pandemic level*

The **services** sector will benefit from the pent-up demand, following increased business and consumer confidence as the nation records a high national vaccination rate. As economic and social activities are allowed to operate, the services sector is expected to expand by 7% in 2022. The growth is mainly driven by wholesale and retail trade; information and communications; finance and insurance; transportation and storage; and food & beverages and accommodation subsectors. With these encouraging development, the tourism industry is projected to rebound strongly by 28.9% with the resurgence of tourists arrivals and domestic tourism.

The wholesale and retail trade subsector is anticipated to increase by 8.7%, in line with the wider usage of e-commerce and rapid transition to digitalisation, particularly in the retail segment, improvements in the supply chain for the wholesale segment and introduction of new vehicle models with attractive sales packages. The Distributive Trade Master Plan, 2021 – 2025 to be launched at the end of 2021, will provide a clear direction for the distributive trade sector and outline strategies to support and strengthen the recovery and development of the subsector. In addition, the expected improvement in disposable income following better prospects in the labour market will also provide adequate impetus to the subsector.

The finance and insurance subsector is projected to grow by 5.5%, mainly backed by the finance segment, following the continued economic recovery and resumption of investment activities. The Financial Sector Blueprint 3.0, 2022 – 2026 and Licensing Framework for Digital Banks, to be released in the first quarter of 2022, are expected to outline strategies in enabling technology and data-driven innovation, enhancing competitiveness as well as ensuring quality access and responsible usage of financial solutions (BNM, 2021). Thus, the implementation of initiatives under the blueprint and framework will help sustain the subsector's growth.

The information and communication subsector is expected to expand by 5.7%, driven mainly by broader internet usage in line with the continued surge in e-commerce, e-learning and online entertainment activities. In addition, the proliferation of digital transformation, which requires wider usage of big data analytics, artificial intelligence (AI), internet of things (IoT) and cloud computing, will further boost the subsector. The implementation of infrastructure projects under the National Digital Network (JENDELA) will also facilitate the transition to the fifth-generation cellular network (5G) spectrum, hence enhancing network speed and internet coverage.

The real estate and business services subsector is projected to rebound by 8.6%, mainly driven by business services provided particularly to property and financial-related activities. Furthermore, business services related to legal and consultation are expected to increase with vibrant activities in the construction sector. In addition, flexible leasing by shopping mall operators to ease rental commitments will assist in attracting new tenants while maintaining current occupancy.

The transportation and storage subsector is anticipated to further expand by 9.5%, supported by all segments due to the normalisation of economic activities and improved external demand. The land transport segment is projected to expand, following the increase in cargo delivery and daily ridership of the rail transport as well as higher volume of highway traffics. Likewise, the water transport segment is expected to increase due to higher cargo and container throughput volumes. Similarly, the air transport segment is forecast to turn around in line with the increase in the domestic passenger traffic, following the resumption of domestic tourism.

The food & beverages and accommodation subsector is projected to turn around by 7.3%, attributed to the resumption of travel and tourism activities by phases starting with travel bubbles among selected countries. The continuation of the TRP, which started in September 2021, followed by the lifting of interstate travel ban will speed up the growth of domestic tourism-related activities, especially in hotel occupancy, shopping and touring. An increase in the patronage at restaurants for fully vaccinated individuals is also expected to stimulate the subsector's growth.

The utilities subsector is projected to expand by 6.7%, driven by higher demand from the commercial and industrial segments. The increase in electricity usage is expected to be underpinned by higher usage in both

residential and commercial segments. This is in line with the more robust economic activities as well as greater adoption of digitalisation among households and businesses.

The other services subsector is projected to turn around by 6.1%, mainly supported by private health and education segments. Efforts by Malaysia Healthcare Travel Council (MHTC) to promote medical travel bubbles are expected to boost the private health segment. In this regard, MHTC targets healthcare tourism revenue to increase by 66.7% to RM800 million in 2022. Private universities have undertaken several measures to encourage higher enrollment, including foreign students, by developing new courses, flexible learning spaces and offering various scholarships and flexible payment schemes. These measures are also in line with the Malaysia Education Blueprint, 2015 – 2025 which aims to increase the number of international students to 250,000 by 2025. Meanwhile, the Government services subsector is forecast to grow by 5.3% in 2022.

## Manufacturing Sector

*Stronger domestic and external demand will boost the sector*

The **manufacturing** sector is expected to expand by 4.7% in 2022, attributed to the steady performance of both export- and domestic-oriented industries. As one of the key players in the world semiconductor trade, the stronger global demand for E&E products will continue to provide the impetus for Malaysia's manufacturing sector. Stricter global healthcare regulations and increasing hygiene awareness will help in boosting production in the rubber and chemical related segments. Concurrently, the anticipation of more vibrant industrial and construction activities as well as higher demand for household-related products are expected to give an additional boost to the sector.

## Agriculture Sector

### Commodity segment will underpin growth

The **agriculture** sector is forecast to expand by 3.9%, mainly supported by the commodity segment. The oil palm subsector is anticipated to rebound, in tandem with a higher output of CPO, following improved fresh fruit bunches (FFB) production and better oil extraction rate. The relaxation of cross-border foreign workers restrictions expected during the second half of 2022 will increase the labour supply, thus improving the subsector's output. In addition, the continuation of the national B20 biodiesel programme for the transportation segment, along with higher demand of CPO from India and China, are expected to further support the production of CPO. Meanwhile, rubber output

is estimated to expand as tapping activities are anticipated to be buoyed by firm rubber prices. The world demand for natural rubber, which is expected to increase, will stimulate domestic rubber production. The development of the East Coast Latex Corridor and adoption of digitalisation in the industry through the My Rubber Online (MyROL) platform and RRIMniaga smartphone application are anticipated to boost the subsector. The livestock and other agriculture subsectors are expected to record an uptick on account of higher demand for food items, primarily during festivities. Furthermore, the Government's policies, which emphasise the sustainability of agrofood and agricommodity industries will outline strategies to further enhance the agriculture sector to ensure food security.

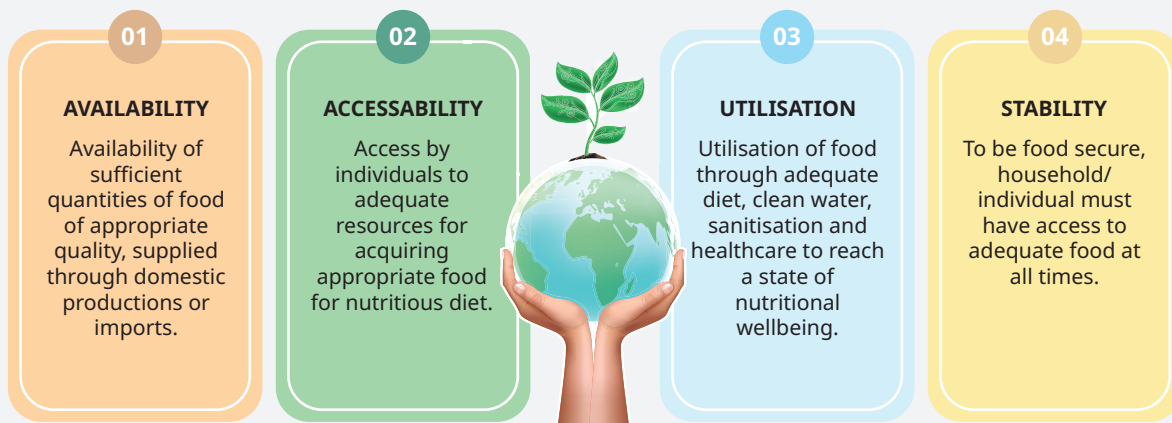
### FEATURE ARTICLE 2.4

## Beefing Up Food Security Through Sustainable Agriculture Sector

### Introduction

Food security refers to a situation where all people, at all times, have physical, social, and economic access to sufficient, safe, and nutritious food that meets their food preferences and dietary needs for an active and healthy life (Food and Agriculture Organisation of the United Nations, 2006). Abdullah et al. (2021) summarised the four pillars of food security as in Figure 2.4.1. At the national level, food security is a situation where a country is able to fulfil the food requirements of its population on a continuous and stable basis.

FIGURE 2.4.1. The Four Pillars of Food Security



Source: Food and Agriculture Organisation of the United Nations



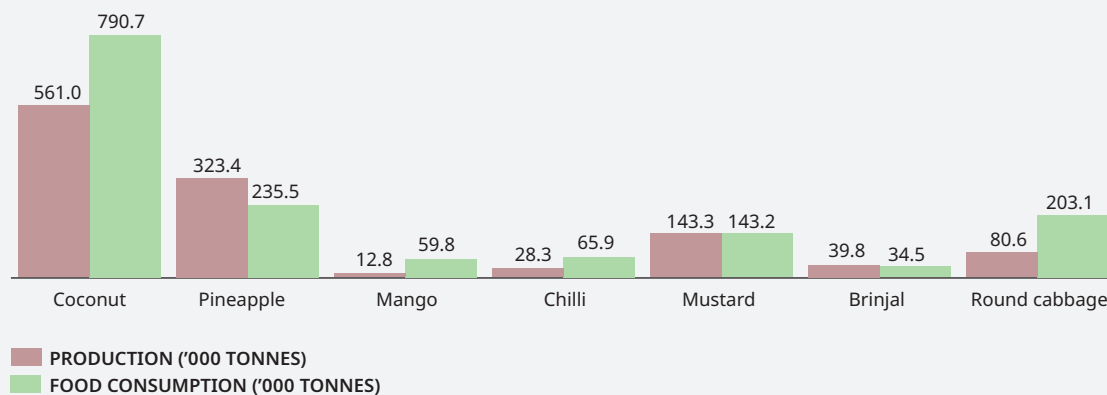
A growing population demands more food to be served. However, not all countries are able to produce enough food supply to meet local demand. The ever-increasing food demand and the lack of capacity to produce sufficient supply have elevated food security globally, including Malaysia. This article provides an overview of food security in Malaysia and its issues and challenges, coupled with the Government's plans and initiatives to further strengthen the nation's food security.

### Performance of Agrofood

Agrofood remains a vital component of the agriculture sector in achieving food security and sustaining economic development in Malaysia. Over time, its contribution to the agriculture sector rose substantially. The agrofood comprises mainly paddy, fruits, vegetables, livestock and fisheries. During 2016 – 2020, agrofood expanded by an annual average of 3%, mainly supported by the livestock segment. The agrofood's share of the total agriculture sector increased from 45.3% in 2015 to 51.5% in 2020. This was in line with the National Agrofood Policy (NAP) objective to increase the contribution of the agrofood to the economy.

In terms of the production of major foods, paddy production stood at 2.3 million tonnes in 2020. However, the volume was still not sufficient to meet domestic demand. In 2019, the nation's self-sufficiency ratio (SSR)<sup>1</sup> for rice stood at 63% of national demand. Increasing local rice production is necessary to ensure the sufficiency of rice supply in the country as only 9% of the total world rice production is traded (Bhandari, 2019).

**FIGURE 2.4.2.** Selected Crops Production and Food Consumption, 2020



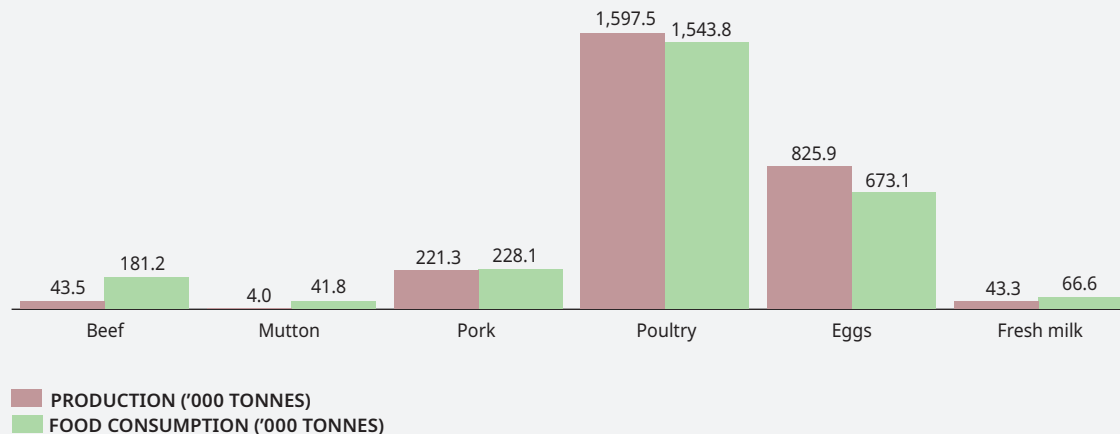
Source: Department of Statistics, Malaysia

Production of livestock subsector expanded by 6.2% in 2020, following strong growth in eggs and improvement in poultry segments. The production of eggs and poultry in Malaysia is sufficient to meet national demand. Poultry products was exported to countries such as Thailand, China and Brazil. However, the production of other livestock commodities, such as beef and mutton, are still inadequate to meet local demand. Malaysia produced about 43,000 tonnes of beef, much lower

<sup>1</sup> Self-sufficiency ratio (SSR) explains the extent to which a country's supply of agricultural commodities meet the domestic demand. SSR that reaches 100% or more indicates the production of agriculture commodities is sufficient to meet the domestic needs.

than the demand at more than 181,000 tonnes in 2020. The demand for mutton was around 42,000 tonnes, significantly higher than the production of 4,000 tonnes. In addressing the supply deficit, national agriculture strategies emphasise raising domestic supply by intensifying research in genetic enhancement, improving breeding techniques, ensuring sufficient supply of quality animal feeds, strengthening dairy facilities, and transforming small-scale farms.

**FIGURE 2.4.3.** *Livestock Production and Food Consumption, 2020*



Source: Department of Statistics, Malaysia

### Issues and Challenges in Ensuring Food Security

Food security is one of the main agendas in realising the 2030 Agenda with its 17 Sustainable Development Goals (SDGs). Galanakis (2020) highlights that food systems play a vital role in achieving SDG2 (Zero Hunger), particularly by ensuring food security and improving food nutrition. Today, this goal has become more crucial than ever due to the intense demographic pressure, increase in urbanisation and the change in climate.

While notable progress has been made in increasing food production and ensuring food security, Malaysia still faces several challenges, especially during the COVID-19 pandemic. Out of 113 countries, Malaysia's rank in the Global Food Security Index (GFSI) 2020 has dropped from 28<sup>th</sup> in 2019 to 43<sup>rd</sup> in 2020 with a score of 67.9%. The score is based on four categories: affordability, availability, quality and safety, and natural resources and resilience. Malaysia scored 85.5% under affordability, mainly due to low food inflation, a small proportion of the population under the global poverty line, and food safety net programmes. However, lower scores in other categories are due to, among others, low public expenditure on agricultural research and development (R&D), ineffective educational campaign on the importance of a balanced and nutritious diet, no dedicated agency responsible for food security, and high dependency on food imports.

#### *Low Public Expenditure on Agricultural Research and Development*

Malaysia's total agricultural research spending remained stagnant in the decade leading to 2017, averaging around RM0.9 billion to RM1 billion per year (Agricultural Science and Technology Indicators, 2020). In terms of agricultural research spending to the agriculture sector's Gross

Domestic Product, the ratio had declined from 1.9% in 2002 to 0.9% in 2017. Olsson and Meek (2013) state that Malaysia faces major challenges in making the R&D and innovation system more effective due to low productivity and limited technological and institutional capabilities in the public and private sectors.

#### *Ineffective Educational Campaign on the Importance of a Balanced and Nutritious Diet*

There have been concerns about stunting among children, especially among vulnerable urban groups. One of the contributing factors is malnutrition. In addressing this issue, the Government implemented soft policies, such as public education programmes and campaigns to increase awareness of healthy diet and lifestyle (Muda et al., 2019). Soft policies have not been effective in discouraging more people from consuming unhealthy processed foods (Academy of Science Malaysia, 2003). Health promotion and education alone are inadequate to change people's behaviour compared to enacting related laws and regulations supported by effective enforcement.

#### *No Dedicated Agency Responsible for Food Security*

Several countries have established a dedicated agency to deal with national food security issues. For instance, Singapore Food Agency (SFA) was formed as a statutory board on 1 April 2019 to oversee farm-to-fork food safety and security. The SFA brings together food-related functions carried out by other national authorities in Singapore. Meanwhile, Badan Ketahanan Pangan was formed under the Ministry of Agriculture Indonesia to strengthen food availability, access and reserves. As for Malaysia, given the broad coverage of food security, no dedicated agency can be held accountable for performing such functions.

#### *High Dependency on Food Imports*

Malaysia has been a net importer of food for many years, resulting in a growing food trade deficit from RM1.1 billion in 1990 to RM21.7 billion in 2020. The main contributors to the 2020 deficit were cereals and cereal preparation representing 22.8%, vegetables (18.9%) and animals feed (17%). Given the substantial amount of deficit and volatility in the exchange rate, reducing the country's dependency on imported food in the near future is not an easy task.

#### **Initiatives to Enhance Food Security**

Although the agriculture sector accounted for only 7.4% of the economy in 2020, the Government has consistently recognised the importance of the agriculture sector in strengthening the nation's food security. Hence, food security and sustainability have been among the main elements in national plans and agricultural policies. The focus of the policies, among others, is to increase domestic production and improve productivity, market access, and stability. For instance, the Eleventh Malaysia Plan, 2016 – 2020 emphasises modernising the agriculture sector, particularly by promoting innovative R&D, cutting-edge technology and digitalisation.

As a result of the COVID-19 pandemic crisis, the Government has announced various stimulus and assistance packages since March 2020, including measures to strengthen the agriculture sector. Among them is the RM1 billion allocation for the Food Security Fund to provide various assistances to farmers and fishermen to boost domestic production. An additional RM100 million was also provided to develop food storage and distribution infrastructure and crop integration programmes.

For the medium term, the National Food Security Policy Action Plan, 2021 – 2025 will ensure Malaysia's preparedness in facing a food security crisis on all four dimensions of food security. The Plan encompasses five core strategies, including utilisation of technology, empowerment of

research and studies, enhancement of food security data, and expansion of strategic collaboration. These strategies are expected to contribute to the availability of safe food at affordable prices, increase domestic food production, and reduce dependency on food import and foreign manpower.

Meanwhile, the National Agrofood Policy 2.0 (NAP 2.0) will continue the objectives of the current agrofood policy. NAP 2.0 aims to expedite the modernisation of the agriculture sector and manage the demand and supply of food commodities while focusing on long-term productivity through digitalisation. Meanwhile, the Twelfth Malaysia Plan, 2021 – 2025 outlines strategies to sustain the modernisation of the agriculture sector and intensify concerted efforts to tap the potentials of the food economy.

### Conclusion

Increasing population growth will demand more food supply for people to sustain their lives and livelihoods. Thus, Malaysia must ensure its agriculture sector is the main source of food supply. With sizeable arable land, clement weather and natural resources, the country has huge potential for self-sufficiency in food commodities. The Government is currently emphasising the use of technology and mechanisation in the agriculture sector to increase productivity. In this regard, having a dedicated food security agency, particularly to formulate and implement food security policy at a national level, is imperative. This can be done by centralising food security-related functions from various existing agencies to optimise resources. At the same time, it is also important to enhance the capacity of current agriculture R&D agencies. These measures will help to capitalise on the full potential of a modern agriculture sector to supply diverse and quality inputs to the economic sectors and develop an integrated food economy. With the collaboration and smart partnership between public and private sectors in addressing the food security issues, Malaysia will have more opportunities and capabilities to ensure sustainable agriculture and enhance the country's food security.

### Mining Sector

#### *Global development will influence sectoral performance*

The **mining** sector's performance will be mainly influenced by the duration of uncertainties surrounding the COVID-19 pandemic. The sector is forecast to decline marginally by 0.3%, attributed to lower crude oil and condensates production, following the scheduled shut down of oil and gas plants and facilities for maintenance. However, natural gas output is expected to increase, supported by the production from new gas fields in Sabah and motivated by high demand from major trading partners, especially China and Japan. In addition, the increase in global economic activities and reduction in COVID-19 infections are also anticipated to drive higher global energy consumption. Thus, the average Brent crude oil price is projected to increase to

around USD66 per barrel in 2022, slightly lower than the expected price in 2021 at USD68 per barrel. However, the estimation is still subject to the global price movement, which is highly influenced by the level of oil production by the Organization of the Petroleum Exporting Countries and its allies (OPEC+) as well as the US oil stockpiles.

### Construction Sector

#### *Main projects will restore growth*

The **construction** sector is projected to turn around by 11.5% in 2022 on account of better performance in all its subsectors. The civil engineering subsector is anticipated to regain its positive growth, following the continuation and acceleration of major infrastructure projects, such as Light Rail Transit Line 3 (LRT3), Mass Rail Transit Line 3 (MRT3), Johor-Singapore Rapid Transit System

(RTS) as well as the Pan Borneo highways in Sabah and Sarawak. Utility projects, including Baleh Hydroelectric, Sarawak Water Supply Grid Programme and Large-Scale Solar 3 plant, are also projected to spur growth. Similarly, the residential buildings subsector is expected to expand further in line with the Government's measures to address the shortage of affordable houses. The measures, among others, are the continuation of the Rent-to-Own scheme and full stamp duty exemptions for first-time home buyers as well as Rumah Mesra Rakyat and People's Housing programmes. In addition, the non-residential buildings subsector is anticipated to improve, backed by ongoing commercial projects, namely Kwasa Damansara, Tun Razak Exchange and KLIA Aeropolis.

## Domestic Demand

### *Pent-up demand will drive expansion*

Following the rapid progress of the nationwide vaccination programme, economic activities in 2022 are anticipated to return to the pre-pandemic level. All expenditure items are projected to register positive growth, albeit moderation in some items due to high-base effects and external developments. Public expenditure is projected to rebound strongly

in tandem with the acceleration of large infrastructure projects. Hence, **domestic demand** is envisaged to further expand by 6.6%.

**Private consumption** is forecast to increase at a higher pace of 7.3%. The expansion is anticipated to be supported by higher disposable income and better employment prospects, following a broad-based economic recovery. Further improvements in consumer confidence and positive wealth effect on the back of modest recovery of the stock market are also anticipated to stimulate private consumption spending.

**Private investment** is projected to register a growth of 2.6% in tandem with the Government's move to promote quality investment in high-technology, high value-added, knowledge-intensive and innovation-based industries. Among the high-impact industries are E&E, chemicals, machinery & equipment, aerospace and medical devices, which have strong linkages with other domestic industries. In line with the National 4IR Policy to increase the adoption of smart manufacturing and digitalisation, the Government will continue to focus on investment in smart machinery, automation and robotics, automated guided vehicle, smart logistics, IoT and cloud-based services.

## FEATURE ARTICLE 2.5

### Promoting Quality Investment for Achieving Sustainable Development

#### Introduction

Since the past few decades, Malaysia has been effective in attracting investment from both domestic and foreign investors. Companies from around the world took the opportunity to participate in the vibrant Malaysian economy. These investments have created jobs for the people, enhanced endogenous technology, catalysed growth and improved the country's overall quality of life.

Over time, Malaysia faces stiff competition, particularly from its regional peers. Other countries are progressing faster and offer more attractive investment packages, apart from having larger markets and lower labour costs. It is challenging for Malaysia to compete with other countries against these advantages. Hence, low value-added and labour-intensive industries that leveraged traditional production factors are no longer proven to generate sustainable and inclusive growth.

Therefore, Malaysia needs to reinvent and position itself as a destination for quality investments. Quality investments may contribute to the creation of decent and value-adding jobs; enhance the skill base of host economies; facilitate the transfer of technology, knowledge and know-how;

as well as boost the competitiveness of domestic firms and enable their access to markets while operating in a socially and environmentally responsible manner (Moran et al., 2018). The lack of quality investment will impede the transition towards a high-income, innovation-driven, and inclusive economy (BNM, 2020). Therefore, swift and effective reforms, coupled with attractive tailored policies and incentives, are imperative to attract quality investment.

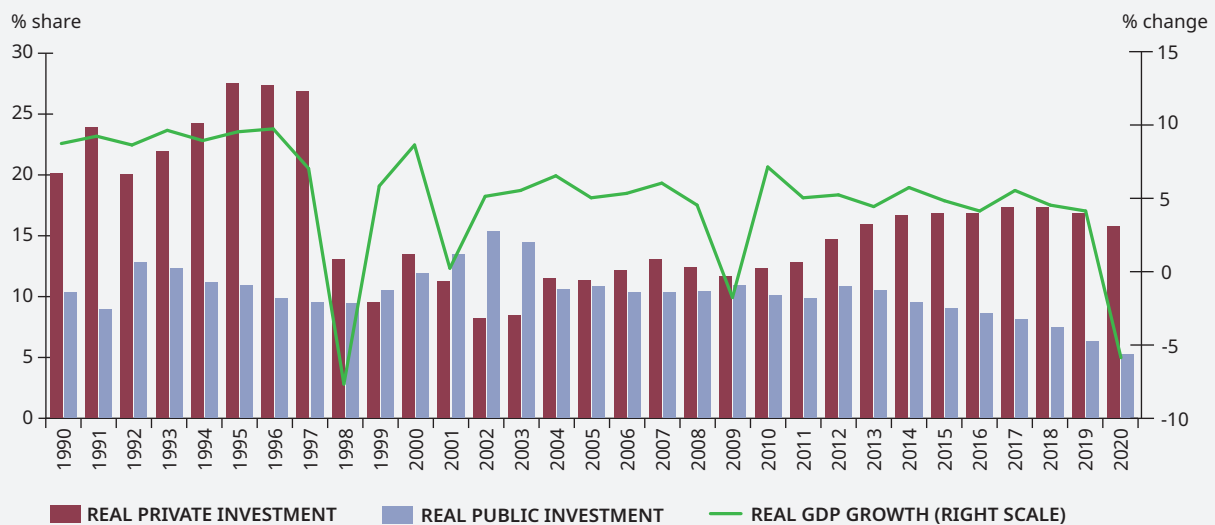
In line with promoting quality investment, which emphasises sustainable development, Malaysia is committed to the United Nations Agenda 2030 and its 17 Sustainable Development Goals (SDGs). The SDGs, introduced in 2015, outlined cross-cutting universal goals between building economic growth, addressing social needs and tackling environmental sustainability by 2030. Likewise, Malaysia’s Shared Prosperity Vision 2030 (SPV 2030) is committed to achieving sustainable growth and fair and equitable distribution.

In accordance with the SPV 2030, Malaysia needs to attract more quality investment in SDG sectors, mainly in infrastructure; renewable energy; water and sanitation; food and agriculture; and healthcare. Additionally, the expected prolonged adverse impact from the COVID-19 pandemic requires Malaysia to reposition itself as an attractive investment destination by promoting quality investment to sustain economic growth. This article provides an overview of the current state of private investment in Malaysia, the potential areas for private investment, the ongoing Government initiatives, the challenges in designing SDG-related investment framework globally, and some policy recommendations to attract quality investment towards achieving the SDGs.

**Trends in Private Investment**

Prior to the 1997/1998 Asian Financial Crisis (AFC), real private investment averaged 24.1% of GDP in 1991 – 1996 (Figure 2.5.1.). However, the AFC and Global Financial Crisis in 2008/2009 caused its share of GDP to halve to an average of 12.5% in 1997 – 2010. Subsequently, private investment showed a rising trend with its share recording an average of 16.1% of GDP in 2011 – 2020, following the implementation of the New Economic Model, Government Transformation Programme, Economic Transformation Programme as well as the Tenth (2011 – 2015) and Eleventh Malaysia (2016 – 2020) Plans. However, the COVID-19 pandemic has dampened Malaysia’s economy, causing private investment to fall to 15.7% of GDP in 2020 from 16.8% in 2019.

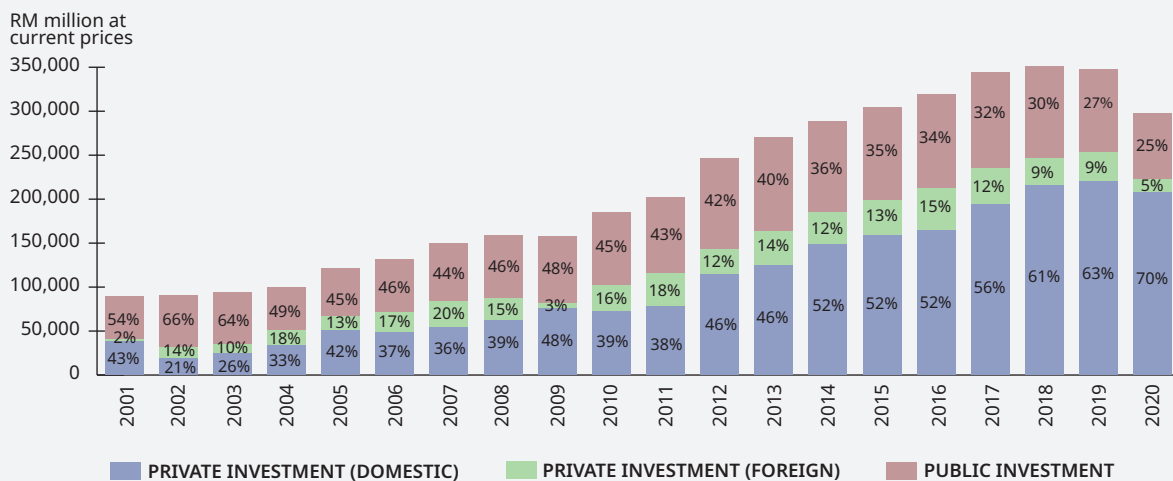
**FIGURE 2.5.1. Private Investment as a Key Source of Growth in Malaysia**



Source: Department of Statistics and Ministry of Finance, Malaysia

Attracting private investment, including domestic direct investment (DDI) and foreign direct investment (FDI), is crucial for Malaysia's economic growth, particularly in creating jobs and expanding exports. During 2001 – 2020, the highest share of net FDI flows to the total gross fixed capital formation (GFCF) stood at 20% in 2007, valued at RM29.5 billion (Figure 2.5.2.). However, the share continued to decline to 5% in 2020, valued at RM14.6 billion. Lower net FDI flows were mainly due to the changing nature of investment policy, where low-skilled assembly-type and labour-intensive activities are less welcomed. Furthermore, there has been stiff competition from low labour cost countries, such as China and Viet Nam. In this regard, Malaysia has been selective in attracting investments and focusing more on higher value-added and less labour-intensive economic activities.

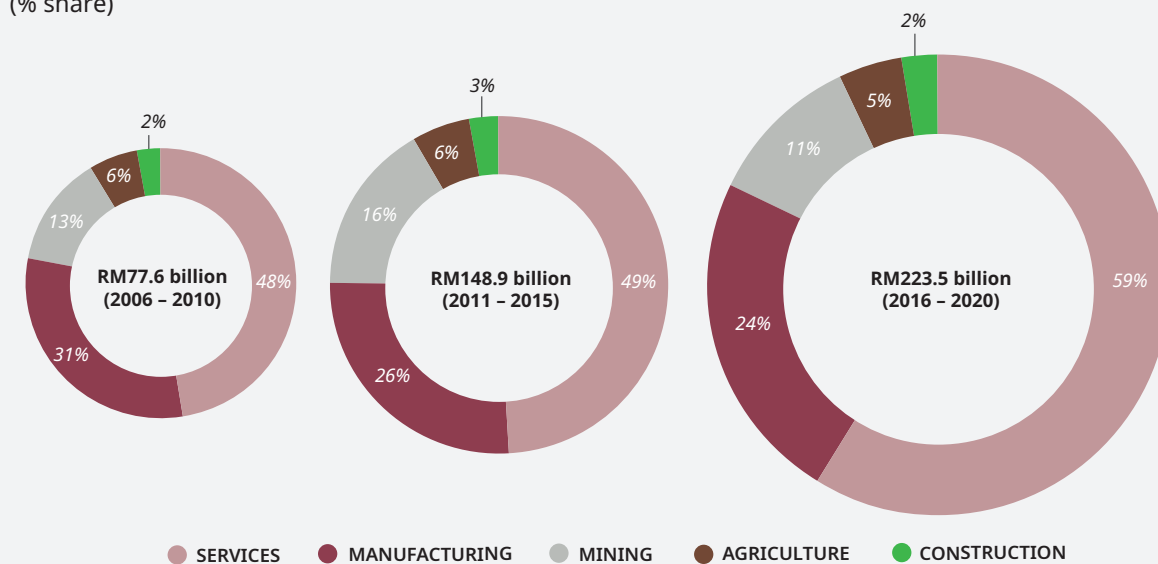
**FIGURE 2.5.2.** Net Foreign Direct Investment Flows, 2001 – 2020 (% share)



Note: Total may not add up due to rounding  
Source: Department of Statistics and Ministry of Finance, Malaysia

Industrialisation played a crucial role in Malaysia's economic development with significant contribution from FDI. However, the rising competition among regional countries caused a declining trend of FDI, particularly in low-cost manufacturing. Thus, the Government developed the Second Industrial Master Plan (1996 – 2005), emphasising the growth of the manufacturing sector and the growth of the services sector as supporting industries. Meanwhile, the Third Industrial Master Plan (2006 – 2020) further expanded the scope by including new sources of growth in the services sector. In addition, the Services Sector Blueprint 2015 was developed to provide the strategic framework for the services sector to become the main driver of growth. Subsequently, the average share of real private investment in the services sector increased to 58.9% of total private investment in 2016 – 2020 from 47.7% in 2006 – 2010 (Figure 2.5.3.). The services sector now provides a potential avenue for Malaysia to attract quality investment, particularly in the areas of digital economy, global business services, Fourth Industrial Revolution (4IR), shared service centre, content industry, and logistics.

**FIGURE 2.5.3. Average Real Private Investment by Sector, 2006 – 2020**  
(% share)



Note: Total may not add up due to rounding  
Source: Department of Statistics and Ministry of Finance, Malaysia

### Government Initiatives in Promoting Quality Investment and Achieving SDGs

The Government has embarked on various initiatives to attract quality private investment, mainly in skill- and knowledge-intensive projects with high-value-added, high technology, and high in research and development and design (R&D&D). These projects will promote technology enhancement and productivity improvement as well as create high-paying jobs. Focus areas in the services sector include education, green technology, healthcare, hotels and tourism, logistics, oil and gas, regional establishment and business services. Nevertheless, the manufacturing sector is still important but with emphasis on moving up the value chain, particularly for the production of electrical and electronics, machinery and equipment, chemicals and chemical products, aerospace and medical devices.

Positioning itself as a preferred investment destination, Malaysia offers business-friendly policies, ready infrastructure and supportive Government facilities. The Government has introduced MalaysiaMudah (#MyMudah), a public-private partnership platform, to assist industry players and businesses in identifying and reducing unnecessary regulatory burdens. The Government has also established the Project Coordination and Acceleration Unit (PACU) to expedite the approval of applications and implementation of investment projects in Malaysia. The establishment of the One-Stop Centre (OSC) for Business Travellers is another major initiative to facilitate business visitors' movement by expediting the approval of investor entry into Malaysia. The Government has also introduced the Incentives Coordination and Collaboration Office (ICCO) as a one-stop centre to coordinate incentives offered by the Federal Government and provide cross-agency visibility. In April 2021, the Government approved the National Investment Aspiration (NIA), a forward-looking growth framework as a basis for comprehensive reforms of Malaysia's investment policies to attract quality investment and create high-income jobs. In addition, the Government launched the Perkukuh Pelaburan Rakyat (PERKUKUH) initiative in August 2021 with five key outcomes, which include sharpened clarity on each GLIC's mandate; enhanced focus on developmental investments to spur new growth; crowding-in the private sector; future-proofing GLICs through improved governance and capabilities; as well as strengthening social safeguards and GLICs' fiscal resilience.



The Ministry of Finance has begun aligning its fiscal policy to achieve the SDGs by 2030. The establishment of MySDG Trust Fund was announced under the 2021 Budget with an initial allocation of RM20 million. The Fund aims to complete public allocation and fill funding gaps for SDG-related programmes and projects. In April 2021, the Government issued the world's first sovereign Sustainability Sukuk via the issuance of USD800 million 10-year trust certificates. Proceeds from this issuance are used exclusively for eligible development projects and programmes with social and green elements aligned to the SDGs agenda. In addition, the Government also successfully issued USD500 million 30-year trust certificates (Wakalah Sukuk). Both tranches of the Sukuk was oversubscribed by 6.4 times, reflecting the strong investors' confidence towards green projects and trust over the country as a reliable investment destination with strong economic fundamentals and solid prospects for growth. The oversubscription also demonstrates the market's confidence in Malaysia's economic recovery and growth prospects, despite a challenging environment posed by the COVID-19 pandemic.

### **Challenges in Designing SDGs-related Investment Framework Globally**

Many countries have developed national strategies for sustainable development in line with the United Nations 2030 SDGs. However, not all of the strategies comprise clear roadmaps to promote investment towards achieving the SDGs. Moreover, existing investment promotion instruments applicable to the SDGs are limited and follow a piecemeal approach. The United Nations Conference on Trade and Development (UNCTAD) global review of national investment policy regimes shows that less than half of the UN member States maintain specific promotion tools for investment in the SDGs (UNCTAD, 2020).

Incentive schemes have become the primary inward investment promotion tool among countries. However, several key SDG sectors are rarely covered, including health, water and sanitation, education and climate change adaptation. Therefore, a more systematic approach is needed to incorporate investment promotion into national SDG strategies and mainstream SDGs into national investment policy frameworks (UNCTAD, 2020).

### **Policy Recommendations**

The Standard Chartered SDG Investment Map study reveals the opportunity for private investors to contribute to three of the most tangible and infrastructure-focused SDGs in 15 of the world's fastest-growing economies by 2030, including Malaysia. The three SDGs are SDG6 (Clean Water and Sanitation), SDG7 (Affordable and Clean Energy) and SDG9 (Industry, Innovation and Infrastructure). The findings identified large private investment opportunities in Malaysia of USD25.8 billion in improving transport infrastructure. In addition, a potential private investment of USD8.8 billion is identified in accelerating digital adoption levels. Although about 96% of the Malaysian population have access to clean water while basic sanitation is nearly universal, private investment of USD0.4 billion is still needed to enhance universal access to clean water and sanitation.

The UNCTAD World Investment Report 2020 also has listed several policy measures that could assist countries in attracting SDG-related investment (Table 2.5.1.). However, existing incentives need to be reviewed and geared towards facilitating investment in SDGs. The Government could also customise specific incentives to attract investment in SDG-related projects and establish a Special Economic Zone focusing on SDGs. The narrative for attracting investment must emphasise the aspiration for the country to become an SDG champion and commitment to achieving the goals. The Government's continuous effort and support to facilitate the SDG-related investors is vital to maintaining and attracting more investment. Furthermore, approval of guarantees, grants and loans could be tied towards achieving the SDGs agenda. For example, the imposition of environmental and social impact assessment before financing approval and constant monitoring ensures the adherence of investors to the policies.

**TABLE 2.5.1.** *Selected Policy Instruments to Attract Investment in the SDGs*

<b>National Policies for Promoting Investment in SDG Sectors</b>	
<b>Investment incentives of host countries</b>	<ul style="list-style-type: none"> <li>• Incentives to attract SDG-related projects</li> <li>• Conditioning incentives on SDG-related investor performances</li> <li>• Special Economic Zones focusing on SDGs</li> </ul>
<b>Investment targeting, facilitation and aftercare</b>	<ul style="list-style-type: none"> <li>• Specific targeting of SDG-related investment</li> <li>• Preparation of SDG project pipelines</li> <li>• Image-building (advertising host economy as an SDG champion)</li> <li>• Priority treatment by local investment promotion agency in the establishment process of SDG investment</li> <li>• Aftercare services after the establishment of SDG investors</li> </ul>
<b>Investment guarantees and loans for outward investments related to the SDGs</b>	<ul style="list-style-type: none"> <li>• Conditioning investment guarantees and loans to prior environmental and social impact assessment</li> <li>• Linking guarantees and loans to SDG-related investor performance</li> <li>• Providing guarantees and loans exclusively for investments in SDG sectors</li> </ul>
<b>National Policies for Regulating the Entry of Investment Relevant to the SDGs</b>	
<b>Rules regarding entry and admission of foreign investment</b>	<ul style="list-style-type: none"> <li>• SDG-related approval requirements for investment</li> <li>• Full or partial entry restrictions in SDG-relevant sectors</li> <li>• National security-related FDI screening mechanism covering SDG-relevant sectors</li> </ul>
<b>International Investment Agreements</b>	
<b>Promotes and protects foreign investment</b>	<ul style="list-style-type: none"> <li>• Flag SDGs as a core treaty objective</li> <li>• Confirm contracting parties' right to regulate</li> <li>• Prohibit lowering of environmental and social standards as a means for attracting investment</li> </ul>

Source: United Nations Conference on Trade and Development

## Conclusion

Malaysia's declining private investment trend is associated with low-cost labour and labour-intensive industries that no longer have a good value proposition to attract and promote productive investment. Thus, there is a need to promote quality investment, particularly in high technology and skill- and knowledge-intensive investment. As the key drivers of growth, services and manufacturing sectors need to strive and move up the value chain by venturing into high value-added, innovation and R&D activities. The shift to high value-added, innovation and R&D activities are the main elements that provide the impetus for Malaysia to move out of the middle-income trap.

Therefore, Malaysia has to transform its investment policy structure in line with the sustainable growth plan. Studies have shown there is great potential in SDG-related investments, especially in improving transport infrastructure and accelerating digital adoption. Given this potential, it is worthwhile for the Government to promote quality investment aligned to the SDGs. It is also important for the Government to attract quality investment that can foster sustainable and environmental-friendly economic growth alongside the target of a high-income nation.

Public-sector capital spending continues to complement the private sector in developing the country. Among the main projects involved are the continuation of large-scale transport-related projects, such as Mass Rapid Transit Line 2 (MRT2), LRT3, RTS and Pan Borneo Highway as well as new projects such as MRT3 and upgrading of Klang Valley Double Track Phase 2 (KVDT 2). In addition, projects through the JENDELA plan will improve the country's digital infrastructure. Capital outlays from these projects are expected to provide the impetus for **public investment** to rebound to 24.1%. However, **public consumption** is projected to expand marginally by 1.1% in line with spending optimisation and prudent financial management. Nevertheless, the Government will continue to further improve public services delivery and facilitate economic activities.

In line with the expansion in domestic economic activities, the national income in current prices is expected to increase by 7.4%. Similarly, the **GNS** is anticipated to expand by 5.5%, with total investment envisaged to increase by 6.9% to RM316.5 billion. The share of GNS is projected to remain significant at 23.5% of GNI, primarily contributed by the private sector. The savings-investment gap is expected to remain in surplus at RM55.6 billion or 3.5% of GNI. This provides ample liquidity in the financial system, which can be mobilised to finance long-term productive investments without sourcing external funds.

## Income

### *Better income prospects for workforce*

Economic activities are expected to normalise to the pre-pandemic level in 2022 with more employment opportunities and better prospects for wages. Efforts to increase productivity gains through digitalisation and upskilling, particularly among the lower-paid industries, are also expected to contribute to a larger **CE**. Given these expectations, the share of CE to GDP is projected to sustain at 37.3% in 2022, as shown in Figure 2.8. This marginal improvement will pose a challenge in achieving

the long-term CE target of 40% of GDP in 2025, as specified in the Twelfth Malaysia Plan, 2021 – 2025 (12MP). For Malaysia to achieve a more balanced profit sharing between employees and capital owners in the economy, industries must reward employees with a decent wage level commensurate with their qualification and productivity performance.

The share of **GOS** of GDP is forecast to dip to 59.6%, with a substantial percentage of GOS still held by capital owners. Income for capital owners is projected to increase by 5.9%, while mixed-income for the self-employed group will expand by 9.1% in 2022. Despite the anticipation of significant growth in the number of independent entrepreneurs or self-employed in the future work landscape, these groups are expected to continue facing difficulties in securing a decent source of income post-pandemic as most of them would continue participating in low-paid economic activities. Thus, in 2022, the share of mixed-income to GDP is projected to improve slightly to 20.6%.

The fiscal impact from the subsidy's expenditure, particularly for wage subsidy programme and special grants assistance for MSMEs under the COVID-19 Fund, will be cushioned by the expected improvements in domestic demand and external trade, enhancement of service tax collection as well as strategic efforts to expand the tax base in the near term. Thus, income from taxes on production and imports is expected to increase by 3.5%, while subsidies expenditure will decrease by 48% in 2022. As a result, **taxes less subsidies on production and imports** are expected to increase by 34.3% in 2022.

## External Sector

### *Robust trade to continue*

In 2022, **gross exports** are expected to increase by 1.5% across all sectors, benefitting from robust global trade growth and improvements in supply chains. Exports of manufactured goods are anticipated to grow by 1.5%, underpinned by higher demand

for E&E and non-E&E products. Ramped-up digitalisation is expected to propel the demand for semiconductors, particularly electronic integrated circuits, processors and controllers, which will accelerate the growth of the E&E products by 2.4%. Additionally, the emergence of digital healthcare as a new sector, with increased usage of medical devices, such as electro-medical equipment, ultra-violet and X-ray apparatus, is expected to boost exports for the E&E products. Similarly, exports of non-E&E are expected to improve marginally by 0.9%, mainly contributed by higher demand for petroleum products, rubber products as well as chemicals and chemical products.

Exports of agriculture goods are forecast to increase by 1.2%, supported by higher demand for palm oil and palm oil-based agriculture products and natural rubber. Similarly, export earnings from mining goods are anticipated to expand by 1.4%, contributed by higher demand from major markets for crude petroleum (1.4%) and LNG (1%).

**Gross imports** are expected to increase by 1.7%, on account of higher demand in intermediate, capital and consumption goods amid strengthening economic recovery and resumption of investment activities. Imports of intermediate goods are anticipated to grow by 1.2%, attributed to the expansion in manufacturing and construction sectors. With the acceleration in the implementation of major infrastructure projects, imports of capital goods are projected to increase by 2.5%. Subsequently, imports of consumption goods are estimated to rise by 2.1% following higher demand from households as consumer spending improves due to better employment and income prospects.

The **current account balance** is expected to record a surplus at RM55.6 billion or 3.5% of GNI, in line with continuous recovery in industrial and investment activities. A surplus of RM178.9 billion is estimated to be registered in the goods account, following higher receipts with the rebound in growth among major trading partners across all economic sectors, particularly due to the

global technology upcycle. On the other hand, the services account is anticipated to register a lower deficit of RM57.6 billion with increasing payments in travel and other services accounts. Similarly, payments for transport services are estimated to widen to RM57.3 billion, following continuous reliance on foreign transport services amid the expansion in trade activities. Receipts are anticipated to increase to RM25.3 billion, supported by improved earnings from air travel and cargo handling services provided by domestic companies.

Acceleration in the global vaccine rollouts and relaxation in travel restrictions are expected to stimulate travelling activities. The travel account is projected to register a lower deficit of RM14.5 billion. Receipts from travel account are anticipated to increase to RM16.1 billion. Nonetheless, the receipts are anticipated to be smaller to offset residents' spending abroad at RM30.5 billion due to pent-up demand. Meanwhile, a wider deficit of RM11.2 billion is expected in the other services account in line with higher payments attributed to expansion in the services, manufacturing and construction sectors.

The primary income account is projected to record a wider deficit of RM54.4 billion, following higher payments by foreign investors in line with the resumption of ongoing investment activities and the increase in compensation for foreign professionals. Net outflows in the secondary income account are expected to record RM11.3 billion due to remittances by foreign workers driven by robust domestic economic activities.

## Prices

### *Projected to moderate*

The **inflation rate** is forecast to record 2.1% in 2022, following better economic prospects and stable crude oil prices. Consumption demand for goods and services by households is expected to be supported by expectations of improved employment conditions. Furthermore, the projected growth in private investment activities and the implementation of the 12MP

will further augment domestic demand. The **PPI rate** is forecast to stabilise following the anticipated recovery of the domestic and global economies.

## Labour Market

### *Stable labour market leads to better employment prospects*

The normalisation of economic activities to the pre-pandemic level will stimulate strong labour demand and spur a fast-track recovery in the labour market. As a result, the **unemployment rate** is anticipated to fall and return to the full employment level at 4% in 2022. The **total employment** is projected to further expand by 2.3% to 15.5 million persons, with the services sector remaining as the major source of employment at 64.8%, followed by manufacturing (16.6%) and agriculture (10.2%) sectors, as shown in Table 2.14 and Table 2.15.

With the expectations of better global health performance and gradual opening of country borders, greater cross-border labour mobility is anticipated. Hence, the number of low-skilled **foreign workers** and **expatriates** is projected to increase with the acceleration of construction and main projects that were temporarily suspended during the pandemic. Nonetheless, the Government will continue to encourage productivity improvements through automation and digitalisation, particularly in labour-intensive industries. These efforts are expected to reduce the reliance on migrant workers, thus allowing for more job opportunities in the market for Malaysians.

**Labour productivity** is projected to improve by 3.7% to RM95,300 in 2022, mainly contributed by the services sector following robust tourism activities as travel restrictions are lifted in phases upon reaching mass vaccination. Similarly, the average monthly **salaries and**

**wages** is expected to improve by 6.7% to RM3,270 in line with improvements in labour productivity and favourable economic growth. Subsequently, the overall CE is also expected to increase in 2022.

## Conclusion

The global economy is expected to rebound in 2021, resulting from efforts undertaken by various countries to mitigate the impact of the pandemic. These include fiscal stimulus, policy support, accommodative financial conditions and vaccine rollouts, which improved business and consumer sentiments. The growth momentum is anticipated to continue into 2022, supported particularly by the release of pent-up demand, an uptick in investment and trade activities, and the proliferation of digital transformation.

In line with favourable global growth prospects, Malaysia's GDP is expected to grow between 3% – 4% in 2021 and further expand in the range of 5.5% – 6.5% in 2022. The growth is projected to be driven by normalisation in economic activities arising from a high nationwide vaccination rate, resumption of projects with high multiplier effects, strong external demand and targeted travel activities, particularly for business, health and education purposes. Nevertheless, there are still downside risks to the country's economic prospects. These include a prolonged COVID-19 outbreak with the emergence of new variants, volatility in global financial markets, slower labour market recovery, commodity supply shocks and geopolitical uncertainties. Notwithstanding, the Government will ensure efforts to strengthen the nation's economic fundamentals to secure prosperous, inclusive and sustainable economic growth.

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