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Summary

Malaysia’s economy is continuing to see growth, but the pace of expansion has moderated

Growth slowed to 4.4 percent in Q3 2019, as subdued global conditions and heightened uncertainty continued to weigh on the economy. Investment and trade activity was softer than expected during the quarter, and indicators suggest overall business sentiment remains muted.

In 2020, Malaysia’s economy is projected to expand at a relatively moderate pace, amid continued uncertainty and external headwinds. The GDP growth rate is projected to reach 4.5 percent in 2020. Investment is expected to improve but remain subdued over the near term, with both the public and private sectors adopting a cautious stance towards capital spending. Similarly, the softness in export growth is likely to persist into next year, mirroring the continuing subdued global growth.

Short-term policies should focus on measures to boost resilience and protect the vulnerable. Federal debt has increased, and government revenue as a share of GDP is expected to decline further next year. In the context of a more uncertain economic environment, it is vital for Malaysia to preserve fiscal space to enable it to mitigate the impact of any negative shocks to the economy. Increased progressivity in the personal income tax framework and an expansion of current tax measures could enable the government to both increase revenues and improve redistribution.

Malaysia’s weakening trade and investment activity, amid challenging external conditions, underscores the need to improve private sector confidence and strengthen investment competitiveness. With sluggish global demand and increased protectionist tendencies among the major economies, a sustained commitment to deepening regional integration and addressing trade barriers is vital to preserve a vibrant trading environment and build investors’ confidence. It is also important to strengthen Malaysia’s competitiveness in attracting quality investments and to maximize the gains from tax expenditures with better targeting of investments towards economic upgrading, high-value job creation and inclusive growth.

In the medium-term, structural reforms should focus on measures to address critical gaps in human capital formation, to facilitate economic opportunities for women, and to enhance opportunities for the private sector. To facilitate enhanced human capital
development, deeper reforms are required to improve the quality of learning through the provision of better pre-school services and improved in-school assessments, and to reduce childhood stunting with multi-pronged solutions. Facilitating equal access to economic opportunities for women would also yield significant gains in the long term. Policies to raise the incomes and economic security of lower-income segments of the population could be sharpened to ensure continuous improvement of well-being for all Malaysians.

The Malaysia Economic Monitor (MEM) consists of two parts. Part 1 presents a review of recent economic developments and a macroeconomic outlook. Part 2 focuses on a selected special topic that is key to Malaysia’s medium-term development prospects and the achievement of shared prosperity. In this edition, the focus of the special topic is on the cost of living, or making ends meet.

At present, there is a large gap between key macroeconomic indicators related to growth, income and inflation, and citizens’ perceptions regarding the cost of living. Despite consistently low rates of inflation, concerns are frequently raised regarding this issue, which featured prominently as a campaign issue during the 2018 election campaign. A number of recent policy measures, including the abolition of the Goods and Services Tax and its replacement with the Sales and Services Tax and the reinstatement of fuel price subsidies, have been implemented in direct response to citizens’ concerns regarding the cost of living. Sustainably addressing these concerns will require a mixture of short-term measures to alleviate hardships among lower-income households, as well as medium- to long-term structural reforms to help lift real incomes.
PART ONE

Recent Economic Developments and Outlook
Recent economic developments

While Malaysia’s economy is continuing to expand, the growth rate has decelerated to 4.4 percent in Q3 2019 (Q2 2019: 4.9 percent). Private consumption remained the largest contributor to output growth, expanding at a slower, but still robust rate of 7.0 percent in Q3 2019 (Q2 2019: 7.8 percent). Household spending was supported by moderate inflation and continued private sector employment and wage growth.

Gross fixed capital formation contracted for the third consecutive quarter, owing to weaker-than-expected business investment growth and continued contraction in public investment. Private investment growth slowed to 0.3 percent in Q3 2019 (Q2 2019: 1.8 percent), largely due to subdued trade activity and muted business sentiment. Public investment contracted for the eighth consecutive quarter to 14.1 percent in Q3 2019 (Q2 2019: -9.0 percent).

On the supply side, growth in key sectors (services, manufacturing and agriculture) moderated, with contractions in the mining and construction sectors. Services grew at the rate of 5.9 percent in Q3 2019, down from 6.1 percent in Q2 2019. After a moderate rebound in Q2 2019, manufacturing output growth decelerated to 3.6 percent in Q3 2019. The rebound in mining and quarrying was not sustained. Output shrank by 4.3 percent in Q3 2019, compared to growth of 2.9 percent in Q2 2019.

With weak global demand, the decline in export demand deepened. Against the backdrop of subdued global growth and ongoing trade tensions, exports of goods and services shrank by 1.4 percent in Q3 2019 (Q2 2019: 0.1 percent). Exports of manufactured goods declined, led by a considerable fall in electric and electronic exports. While there is evidence that Malaysia has gained market share in China and the US among tariff-affected products, these gains have been offset by weakening demand for exports in aggregate. Further, commodities exports declined due to a large contraction in petroleum exports, as some oil fields were temporarily closed for maintenance.

Imports of goods and services recorded negative growth for the third consecutive quarter. The decline in goods and services imports deepened in Q3 2019 to -3.3 percent (Q2 2019: -2.1 percent). Consistent with the decline in gross capital formation, imports of capital goods dropped by 15.4 percent in Q3 2019, led by a fall in machinery and transport equipment imports. The current account surplus narrowed to 3 percent of GDP in Q3 2019 (Q2 2019: 3.8 percent) due to a larger income deficit.

In Q3 2019, the headline inflation rate increased to 1.3 percent (Q2 2019: 0.7 percent), reflecting the dissipating impact of the GST гeroigation last year. During the period, the contribution of transport costs to headline inflation was negative owing to the decline
PART ONE - Recent Economic Developments and Outlook

in the RON97 petrol price amid lower average global oil prices. In Q3 2019, the core inflation rate remained stable at 1.5 percent (Q2 2019: 1.6 percent).

It is important to strengthen Malaysia’s competitiveness in attracting quality investments.

Financial soundness indicators show that the banking system remains resilient. Financial institutions continue to record sound levels of profitability, and the gross impairment ratio has remained stable. The overall level of household debt increased slightly to 82.4 percent of GDP as of end-September 2019 (end-June 2019: 82.2 percent).

The recent performance of the domestic financial markets has been mixed. Non-resident inflows have contributed to the decline of Malaysian Government Securities yields. The ringgit broadly weakened against the US dollar, in line with most regional currencies.

The government is expected to meet its fiscal deficit target of 3.4 percent of GDP in 2019. Federal government revenue is expected to reach 17.4 percent of GDP, slightly higher than the initial estimate of 17.1 percent, mainly attributed to an increase in estimated SST collections. The higher revenue collection is, however, offset by higher operating expenditures which are estimated to expand to 17.3 percent of GDP, exceeding its initial estimate of 17.0 percent of GDP. This is partly due to higher spending on fuel subsidies following the delay in the implementation of the targeted fuel subsidy program. Meanwhile, development expenditure is projected to decline marginally from the initial estimate of 3.6 percent of GDP to 3.5 percent following the revision and re-timing of several infrastructure projects.

Federal government debt in proportion to GDP increased to 52.7 percent in Q2 2019 (2018: 51.2 percent), with risks remaining manageable. Exposure to currency risk is limited, with ringgit-denominated securities constituting of 96.3 percent of federal government debt (2018: 97.1 percent). Rollover risk is also limited with the debt structure skewed towards longer-tenured issuances. Domestic institutional investors remain the largest holders of government debt, accounting for 66.8 percent of total outstanding debt (2018: 66.7 percent) with non-resident holdings relatively stable at 22.1 percent (2018: 22.7 percent). Debt service charges are expected to reach 14.1 percent of federal government revenue in 2019 (2018: 13.1 percent).

Federal government debt and liabilities was also higher at 77.1 percent of GDP in Q2 2019 (2018: 75.4 percent). The slight increase compared to 2018 was mainly due to an increase in committed guarantees, with their value increasing from 9.2 percent of GDP in 2018 to 10.4 percent as of Q2 2019.
Increased progressivity in the tax framework could enable the government to both increase revenues and improve redistribution.

Federal government revenue is expected to decline further in 2020 to 15.2 percent of GDP (2019e: 15.4 percent). Tax revenue is expected to remain stable at 11.8 percent of GDP. Of this tax revenue, the largest proportion will be derived from direct tax (75.1 percent of total tax revenue). Corporate and personal income tax are expected to remain relatively stable, at 4.7 percent and 2.3 percent of GDP respectively. Indirect tax collection is also expected to remain constant, at 2.9 percent of GDP. Proceeds from the SST, which contribute the largest share of indirect tax, are expected to stand at 1.8 percent of GDP (2019e: 1.8 percent. Petroleum-related revenue as a share of federal government revenue is expected to decline to 20.7 percent in 2020 (2019e: 21.7 percent) due to projected lower crude oil prices.

In Budget 2020, the government has announced a number of measures to diversify its revenue base and to achieve greater progressivity in its tax framework. This includes a proposal for a new income tax band for taxable income in excess of RM2 million, to be taxed at 30 per cent, which is a 2-percentage point increase from the current rate of 28 per cent. The proposed increase would affect approximately 2,000 top income earners in the country. In addition, the government also announced the extension of SST to cover imported digital services, to take effect in January 2020.
Economic outlook

Malaysia’s economic activity is projected to grow at a relatively moderate pace in 2020 amid increased headwinds. The forecast for Malaysia’s GDP growth in 2020 is revised down slightly to 4.5 percent (2019f: 4.6 percent), largely due to weaker-than-anticipated investment and export growth in Q3 2019. Private consumption is projected to expand at a still robust rate of 6.5 percent next year (2019f: 7.1 percent), underpinned by stable labor market conditions, relatively benign inflation, and continued support from government measures. In the public sector, the planned rationalization of government operating expenditure will continue to weigh on the contribution from government consumption, which is projected to grow at 1.8 percent in 2020 (2019f: 1.7 percent).

Gross fixed capital formation is expected to improve but remain subdued over the near term, with both the public and private sectors continuing to adopt a cautious stance regarding capital spending. Overall investment activity is projected to expand at 1.4 percent next year (2019f: -1.8 percent), 0.3 percentage points lower than in the previous forecast. The downward revision largely reflects weaker-than-expected private investment activity in Q3 2019, as subdued trade prospects and increased uncertainty weighed markedly on business confidence and investment intentions. Public investment is likely to continue its contraction over the near term, albeit at a lesser extent following increased planned investments by public corporations in the transport and mining sectors. Inventory
destocking begun in Q1 2018 is expected to normalize and provide modest support to growth over the forecast period.

Export growth is likely to remain soft into next year, reflecting subdued global investment and trade activity. Malaysia’s export growth is projected to remain modest at 0.5 percent next year (2019f: -0.2 percent) in the context of challenging global economic conditions and prolonged trade-related uncertainty. This is expected to be partially offset by a recovery in mining exports from unforeseen supply disruptions in recent quarters. Similarly, import growth is projected to pick up modestly at 0.4 percent in 2020 (2019f: -1.8 percent), as growth of intermediate and capital exports regains some momentum with slight improvements in export and investment activity. The current account surplus is projected to narrow to around 3.0 percent of GDP in 2020, with a more moderate trade surplus in goods continuing to offset the persistent deficits in services and income accounts.

Headline inflation is projected to increase modestly in 2020 as the effects of policy-related factors dissipate. Consumer price inflation is projected to average higher in the range of 1.5-2.0 percent next year (2019f: 0.7 percent), mainly reflecting the lapse in the effects of consumption tax policy changes in 2018. Additionally, the reintroduction of the float pricing mechanism for RON95 petrol and diesel in January 2020 is expected to result in modest increases in transportation costs at the prevailing global oil prices.

Various downside risks in the global economy could have spillover effects on Malaysia’s economy. Further escalation of the current trade tensions between the US and China could further contribute to growing uncertainty and dampen investment activity. Moreover, deepening of the slowdown in the major economies, as well as a sharper-than-expected deceleration in China could lead to deterioration in export and growth prospects. Further, an unexpected drop in commodity prices could affect growth and lead to further fiscal pressures in Malaysia.

On the domestic economic front, risks to growth primarily emanate from factors related to prolonged uncertainty among investors and delayed recovery in commodity-related sectors. Investment growth has been subdued over the recent quarters, weighed down by lower capital spending. Indicators of business sentiment suggest the level of confidence in the economy remains low. While uncertainty regarding the global economic outlook would have an impact on Malaysia’s economy, similar uncertainty regarding the domestic economy and political developments could exacerbate cautious sentiment, further dampening private investment.

Elevated government debt and liabilities, the continuing decline in government revenue, coupled with increased locked-in expenditures, will constrain fiscal policy space. Given the more uncertain economic environment, preserving fiscal space is important to mitigate the impact of any negative shock to the economy. General government revenue in proportion of GDP is expected to decline further to 17.9 percent in 2020, which is well below its regional and aspirational comparators, and Malaysia significantly under-collects in key revenue areas including personal income and consumption taxes. Moreover, increased locked-in expenditures such as the wage bill
and debt servicing costs have put a limit on development and social spending, capping the effectiveness of fiscal policy as a redistributive tool for shared prosperity.

Increased progressivity in the personal income tax framework and an expansion of current tax measures could enable the government to increase revenues and to improve redistribution. The government has taken a step in the right direction when it proposed a new top income tax band in Budget 2020. Nonetheless, more could be done on this end, including raising the tax bracket for the other higher income bands, and reviewing the tax reliefs and exemptions applied. In addition, the scope of the real property gains tax could be widened by extending the scope of the tax, particularly for owners of multiple properties, and increasing stamp duty on purchases of higher-value properties. These measures could result in significant increases to revenue while having minimal impact on lower- and middle-income households. Finally, a gradual lifting of the exemptions on selected non-essential items, particularly those not within the B40 consumption basket, could also facilitate increased revenue without jeopardizing the purchasing power of lower-income households.

A more challenging external environment underscores the need to increase trade diversification and strengthen investment competitiveness. In an environment of subdued global demand and increased protectionist tendencies among the major economies, a sustained commitment to deepening regional integration and addressing trade barriers is pivotal to preserve a vibrant trading environment and send confidence-building signals to investors. It is also important to strengthen Malaysia’s competitiveness in attracting quality investments and to improve targeting and the return on tax expenditures so as to maximize the gains from investments towards economic upgrading, high-value job creation and inclusive growth.

Facilitating equal access to economic opportunities for women would also yield significant gains in the long term.

Medium-term structural reforms should focus on addressing critical gaps in human capital, facilitating economic opportunities for women and improving private sector opportunities to ensure sustainable and inclusive growth. Making greater gains in human capital development will require deeper reforms to improve the quality of learning through better pre-school services and improved in-school assessments, and to reduce childhood stunting with multi-pronged solutions. Facilitating equal access to economic opportunities for women would also yield significant gains in the long term. Concurrently, policymakers should also sustain reform efforts to promote healthy competition, strengthen public procurement and address distortions in labor and output markets to improve private sector participation in the economy.
Regional growth has slowed amid subdued global conditions

Regional growth has also slowed amid challenging external conditions

Malaysia’s economy continues to expand, but at a more moderate pace

Malaysia’s rate of economic growth slowed in Q3 2019...

GDP, y/y, Percentage

...weighed down by negative investment growth

Contribution to GDP, y/y, Percentage

Source: DOSM

Source: World Bank staff calculations based on DOSM data
### GDP growth decomposition

#### GDP, y/y, Percentage

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#### Consumption

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#### Gross Fixed Capital Formation

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#### Exports of Goods & Services

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#### Imports of Goods & Services

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Source: World Bank staff calculations based on DOSM data
Export growth has been affected by weaker global trade

Export growth has turned negative amid softening global demand

A larger income deficit led to a decline in the current account surplus

Source: World Bank staff calculations based on BNM and DOSM data

Source: World Bank staff calculations based on DOSM data
Malaysia’s output gap and potential growth

The output gap measures the difference between what an economy is producing and what it could efficiently produce at full capacity (potential output). As a concept, it is synonymous with the business cycle—the ups and downs, expansions and contractions, or booms and busts that happen over a number of years. This places the output gap at the heart of macroeconomic policy choices. Arthur Okun referred to it as “the point of balance between more output and stability” (Okun 1970). Knowing where the output gap is and where it is going empowers monetary policy makers to react appropriately to the inflation that it creates. For fiscal policymakers, an understanding that an economy is running above its capacity suggests that additional revenue should be saved and that expenditure should not be expanded to match revenue growth, as this growth is unlikely to be sustained. By contrast, when downturns occur, an understanding that an economy is running below capacity suggests that there is a need to increase expenditure to support growth.

Neither the output gap nor potential growth are directly observable and therefore need to be estimated. Numerous approaches and variations on these approaches can be used to estimate the output gap. Ultimately, estimating this gap involves an endeavor to isolate the cyclical part of output from the trend. Filtering techniques form the foundation for this work, including the use of Hodrick-Prescott and Kalman filters. The multivariate filter model used in this box estimates the output gap based on the Kalman filter. It exploits the information available in other measures of capacity, including capacity utilization and unemployment. Given that Malaysia is an open economy, the model is extended to include a measure of the foreign output. Potential growth is estimated using a Cobb-Douglas production function approach in which potential growth is decomposed into its inputs (labor, capital and total factor productivity).

Since the nadir of the global recession, when Malaysia’s output gap stood at -6.2 percent, this gap has ebbed and flowed around potential growth (see Figure 5). The output gap has remained range-bound since 2011, not deviating by more than 1 percentage point from zero (when accounting for uncertainty, it was not statistically different from zero). Real GDP growth remained equally bound in the range of 4 to 6 percent over much of this period. It slowed during the euro area crisis in 2013; over the course of 2015 and 2016 as oil prices collapsed and EMDEs in general experienced slowing growth; and more recently, since the start of 2018, generating negative output gaps. In the third quarter of 2019, the output gap is currently estimated at -1.1 percent of potential output, from an average of -0.2 percent in 2018.
FIGURE 5
Malaysia’s output gap turned negative in the second quarter of 2018...

Source: World Bank staff calculations using Haver
Note: Based on estimates from a modified Multivariate Filter model as in World Bank (2018a). A foreign output gap is added to Malaysia’s output gap equation given the open nature of the economy. Foreign output gap is measured as the export weighted average of Malaysia’s top ten export destinations between 2016 and 2018.

FIGURE 6
...as asset prices and credit expansion slowed

Source: World Bank staff calculations using Haver
Note: Recursive decomposition of the output gap equation. Unlike a shock decomposition, only variables in the output gap equation are decomposed.
FIGURE 7
Output gaps can vary by method...

Source: World Bank staff calculations using Haver
Note: Hamilton refers to the methodology proposed by Hamilton (2018)—an autoregressive model with p = 4 (number of lags) and h = 8 (horizon). HP = Hodrick-Prescott Filter, UC = Unobserved Components model, and MVF = Multivariate Filter model. See Chapter 3 of World Bank (2018a) for details.

FIGURE 8
...although potential growth has been robust

Source: World Bank staff calculations using Haver
Note: Potential growth estimates based on production function approach as in World Bank (2018a). TFP stands for total factor productivity.
Many drivers affect the output gap. Along with capacity utilization, inflation, and the unemployment rate (which are used in the multivariate filter model to identify the output gap), other measures that affect it directly include credit extension, house price growth, commodity prices and the foreign output gap. These can be recursively decomposed to identify the drivers of the output gap (see Figure 6).

In particular, house prices and commodity prices have played a prominent role since 2011. The Malaysian housing market significantly affects the economy, accounting for the majority of the above 80 percent household debt to GDP. Following the 1998 Asian crisis, house prices in Malaysia remained relatively stable, growing by the average annual rate of 1.5 percent in the period from 2000 to 2010. Over this period, house prices contributed negatively to the output gap. By 2011, however, the housing market had begun to boom, with house price growth reaching an average annual rate of close to 9 percent in the period from 2011 to 2014. This strong performance, driven in part by demand by non-residents, was reflected in the output gap, with house prices contributing to up to 1 percentage point of the gap at the peak of the boom in 2013. In response, Malaysian authorities implemented macroprudential measures, with measures to increase the availability of affordable housing to help dampen the market. House price growth has subsequently slowed, with the rate at 1.5 percent in Q1 2019 on an annual basis. Since 2018, its contribution to the output gap has turned negative.

Commodity price developments have also contributed to developments in the output gap. Following the rebound from the global recession, strong oil prices resulted in commodity prices contributing positively to the output gap through 2015. The subsequent collapse of oil prices saw commodity prices begin to drag on the output gap, with the contribution reaching a nadir of -0.9 percentage point by mid-2016. Since then, commodity prices have recovered somewhat and currently are not a significant driver of the output gap.

While the output gap is not directly observable, it can be estimated using a number of approaches. To establish some degree of confidence in its position, the results from the use of multiple methods can be compared (see Figure 7). Three alternative filtering techniques are presented here and although there can be significant differences, most measures tend to co-move and cluster well. The methods are well correlated, with the weakest correlation between the multivariate filter model and the approach implemented by Hamilton (2018), at 0.85. Three of the four methods presented here suggest that Malaysia has had a negative and widening output gap since mid-2018.

Potential growth in Malaysia has declined significantly, from around 9 percent during the pre-Asian crisis period to less than 4 percent during post-Asian crisis period (1998-2001) (see Figure 8). Until recently, it was on an upward trend, reaching an average level of 5.1 percent over the past five years, despite some downturns during
Capital stock has been the principal driver of the potential growth in Malaysia, contributing to almost half on average in the period from 1994 to 2018. Despite the recent slowdown in investment growth, especially after 2012, the contribution of capital stock is still robust, standing at 2.6 percentage points in 2018. Total factor productivity growth has remained steady over the past 15 years, with the average annual rate standing at around 1.1 percent. Improvements to education and intensified efforts to increase female labor force participation will be required to boost potential growth into the future.

With the deteriorating global economy, risks to Malaysia’s growth prospects are increasing. With Malaysia being both a highly open economy and a commodity exporter, it will not be spared if global conditions worsen and risks materialize. For policymakers to appropriately implement countercyclical monetary and fiscal policy, they must have a good understanding of the demand side of the economy, which is provided by the output gap. Accurate forecasts of the direction of the output gap can ensure that policy is appropriately calibrated. On the supply side of the economy, an understanding of potential growth dynamics and the drivers of potential growth may help policymakers prioritize structural reforms that can ultimately boost long-term growth prospects. On these, the analysis suggests that boosting Malaysia’s human capital, particularly increasing the quality of education and the level of female labor force participation, are likely to have a greater impact on potential growth.
Inflation remains subdued, but base effects have pushed the rate higher

Headline inflation was higher in recent months...

...reflecting the lapse in the impact of GST zeroization last year

Source: DOSM

Source: World Bank staff calculations based on DOSM data
Conditions in the labor market have remained broadly stable

Labor market conditions have remained broadly stable...

...however the unemployment rate among those aged 15-24 years remains high

Source: DOSM
Conditions in the financial system remain stable

**BNM’s Overnight Policy Rate has remained unchanged at 3.0 percent since May 2019**

The Statutory Reserve Requirement (SRR) ratio was lowered to 3.0 percent in November to maintain sufficient liquidity in the domestic financial system.

**Financial soundness indicators indicate that Malaysia’s banking system remains resilient**

Financial institutions continue to record sound levels of profitability, and the gross impairment ratio has remained stable.

**Net financing growth moderated on lower growth of banking loans and corporate bonds**

Business loan growth moderated amid continued weakness in the real estate sector.
The recent performance of the financial markets has been mixed

Non-resident inflows contributed to the decline of government bond yields... 

...while the ringgit continued to depreciate against the US dollar

Source: World Bank staff calculations based on BNM data
Government is expected to remain on a path towards fiscal consolidation

The federal government is expected to meet its fiscal deficit target in 2019

Revenue is slightly higher than initially projected due to an increase in estimated SST collections

Source: MOF
Federal government debt and liabilities were higher in Q2 2019

Federal government debt was higher at 52.7 percent of GDP...

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>51.6</td>
</tr>
<tr>
<td>2013</td>
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<tr>
<td>2014</td>
<td>52.7</td>
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<td>2016</td>
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<td>2017</td>
<td>50.1</td>
</tr>
<tr>
<td>2018</td>
<td>51.2</td>
</tr>
<tr>
<td>Q2 2019</td>
<td>52.7</td>
</tr>
</tbody>
</table>

...while committed guarantees increased to 10.4 percent of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>7.5</td>
</tr>
<tr>
<td>2018</td>
<td>9.2</td>
</tr>
<tr>
<td>Q2 2019</td>
<td>10.4</td>
</tr>
</tbody>
</table>

Source: MOF
Fiscal consolidation will continue in 2020, albeit with a revised deficit target

Government revenue as a share of GDP is expected to decline further next year

<table>
<thead>
<tr>
<th>Year</th>
<th>General Government Revenue, Percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>21.4</td>
</tr>
<tr>
<td>2013</td>
<td>20.9</td>
</tr>
<tr>
<td>2014</td>
<td>19.9</td>
</tr>
<tr>
<td>2015</td>
<td>18.9</td>
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<tr>
<td>2016</td>
<td>17.3</td>
</tr>
<tr>
<td>2017</td>
<td>16.3</td>
</tr>
<tr>
<td>2018</td>
<td>16.1</td>
</tr>
<tr>
<td>2019</td>
<td>15.4</td>
</tr>
<tr>
<td>2020f</td>
<td>15.2</td>
</tr>
</tbody>
</table>

Source: MOF

The civil service wage bill will continue to dominate operational expenditures

Share of Civil Service Salaries and Pensions to Federal Government Expenditure, Percentage

Source: MOF
Policy reforms are more likely to succeed when they are communicated effectively

Public policies are not created and adapted in a vacuum. Some are created out of demand while others are delivered out of necessity even if they don’t enjoy public support. Tough reforms are necessary to realize long-term gains, but gaining public support and effective implementation require clear, concerted and careful stakeholder management. This is where communications can be a useful tool to facilitate a country’s reform efforts.

The strategic and deliberate use of communications can help build public trust and confidence in institutions, which is vital to ensure policy success. When the public trusts state institutions, the state has reservoirs of political capital on which it can draw on to propose and explain difficult reforms that may result in long-term gains, but at the cost of some short-term difficulties, at least for some key stakeholder groups.

Establishing an effective communication system is important for the effective design, promulgation and implementation of policy. A good example of a government developing an effective communication system as a policy tool is in the United Kingdom, where the Government Communications Service (GCS) operates across the civil service to deliver communications and socialize policies. GCS brings together more than 4,000 professionals across 25 ministerial departments, 20 non-ministerial departments and more than 400 agencies and public bodies. It recently published its inaugural Communication Plan for 2018/2019, which coordinates the delivery of 140 integrated communication campaigns nationwide.

Government communications units need to engage with many different audiences with varying levels of involvement suited for specific periods in the reform process. A recent paper by the IMF, entitled Frontiers of Economic Policy Communications, states that in order to be more effective and strategic, “communications need to be increasingly integrated with operations, drawing on an in-depth understanding of policies and their future path.”

Listening to stakeholders, acknowledging their concerns, and responding to them with action is a core part of the policymaking process. Ultimately, citizens are the principal beneficiaries of reforms. Thus, being attentive to their voices is vital not only to ensure buy-
In, but also as a source of input and feedback on the actual design and substance of the policy proposals. In this area, the Porto Alegre municipality in Brazil was a forerunner when it pioneered participatory budgeting in the 1990s. Since then, this model has been emulated around the world, with more than 2,700 governments implementing some version of it today.

**Institutionalizing public participation sends a signal to stakeholders that they are formally involved in the development and policy process.** It encourages citizens to engage directly and actively through formal platforms. These channels may include a range of mechanisms to facilitate dialogue such as public consultations, roundtable discussions, town hall meetings, as well as digital means such as social media.

**Staying connected and being engaged is key to effective policy making.** Continued dialogue with stakeholders throughout the formulation and implementation of policy can increase public understanding of the expected policy-trade-offs while building public support and trust in institutions along the way (see Figure 30). Without effective communication, it may not be possible to implement essential but difficult reforms, and attempts to do so can lead to undesired political implications.

**An example of effective communication is the recent natural gas pricing reform in Ukraine.** Faced with the need to reform price subsidies for natural gas, the government engaged conducted public
FIGURE 30
A timeline for communicating policy changes

benefits of price stability – contributing significantly to the credibility of the policy transition. In particular, the authorities used radio advertising and billboards to convey powerful messages through formats inspired by Jamaica’s popular culture, including reggae music.

Fundamentally, effective communications campaigns enable policymakers to stay engaged with stakeholder groups and the broader public throughout the policy process. The two examples above demonstrate that engagement with the public prior to and during the implementation of complex and sometimes unpopular reforms is essential, particularly when policies result in significant pushback from vested interests.

Citizens around the world are increasingly connected, with information more easily shared and disseminated. This has increased the demand for government transparency in all areas, including on economic policy decisions. It has elevated the role of public discourse and public opinion in policymaking, giving citizens greater voice in their own governance. Policymakers should consider communications as a policy tool that can be used effectively to increase the odds of success for the reforms they propose.

Gaining public support for reforms requires clear, concerted and careful stakeholder management.

In Jamaica, the government implemented a communications strategy to support the transition to full-fledged inflation targeting over the medium term. Prior to the implementation of the measure, the Bank of Jamaica strengthened its communications capacity and conducted public relations campaigns to explain to the public the
Growth in developing EAP is projected to decelerate over the forecast horizon

Global economic growth is expected to remain subdued over the near term

GDP, y/y, Percentage

Growth in developing EAP has been revised down amid increased headwinds

GDP, y/y, Percentage

Source: World Bank staff projections
Malaysia’s economy will continue to grow at a relatively moderate pace

Malaysia’s economy is forecast to expand at 4.5 percent in 2020...

...with private consumption remaining the main driver of growth

Source: World Bank staff projections
Risks to the growth outlook are firmly on the downside amid challenging external conditions

<table>
<thead>
<tr>
<th>External</th>
<th>Domestic</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Escalation of global trade tensions</td>
<td>• Weakness in business confidence and subdued private investment</td>
</tr>
<tr>
<td>• Uncertainty surrounding economic growth in major economies</td>
<td>• Delayed recovery in the mining sector</td>
</tr>
<tr>
<td>• Volatility in global financial and commodity markets</td>
<td>• Elevated household debt in the context of property market excesses</td>
</tr>
</tbody>
</table>
Increased progressivity in the tax framework could increase government revenues and improve redistribution

Malaysia’s revenue collection is well below its regional and aspirational comparators

Progressive taxation and social safety nets have helped OECD countries to achieve lower income inequality compared to Malaysia

General Government Revenue*, Percentage of GDP, 2019f

Gini Coefficient 2016

Source: World Bank staff calculations

*Excludes one-off contributions from Petronas in 2019
A more uncertain economic environment places a higher premium on reforms to boost resilience

1. Increase trade diversification and improve private sector confidence amid less favorable external environment
   - Deepen regional integration and address the remaining trade barriers to preserve a vibrant trading environment

2. Strengthen competitiveness in attracting quality investments and maximize the returns from tax expenditures
   - Better targeting of investment promotion, including the focused use of incentives, towards economic upgrading, high-value job creation and inclusive growth
   - More effective coordination among investment promotion agencies
Structural policies should focus on boosting human capital, facilitating opportunities for women and increasing private sector participation in the economy

**Address critical gaps in human capital**

Improve the quality of learning through better pre-school services and improve in-school assessments, and reduce childhood stunting with multi-pronged solutions

**Facilitate economic opportunities for women**

Expand the availability and quality of child and elderly care, enhance the protection of informal workers and improve support for parents

**Improve private sector participation in the economy**

Promote healthy market competition, strengthen public procurement and address distortion in labor and output markets
PART TWO

Making Ends Meet
Making ends meet

Despite Malaysia’s low and stable inflation rate, there has been an ongoing debate regarding perceived increases to the cost of living in the country. These concerns are frequently expressed in public policy debates, in the mass media, and in private conversations. The issue has featured prominently in public and private discourse for years, dating back at least to the introduction of the GST in April 2015 and the rationalization of the fuel subsidy in December 2014. And more recently there has been a robust public debate about whether Malaysia should increase its nationally-defined poverty line. It is particularly noteworthy that these concerns have emerged during a period of low inflation, with the headline inflation rate averaging around 2 percent since 2015 (except in 2017 when it was 3.8 percent), well below the growth rates for the economy and average nominal income.

In this context, the “cost of living” is frequently used as a catch-all term that may reflect wider developments in the economy and their impacts on household budgets and well-being. While the discussion is usually framed as an issue of rising costs of goods and services, for most Malaysians the core issues extend beyond prices. These include lagging income growth and increasing housing costs, resulting in lower discretionary income. In addition, high indebtedness and inadequate financial savings also feed into the concerns of housing affordability and the cost of living for many Malaysians.

Overall, price increases for most goods and services have been low and stable. The consumer price index shows that Malaysia’s inflation rate has been moderate in recent years. This is especially true for core inflation, which excludes items with more volatile prices (especially energy and food commodities); items with administered prices; and the estimated direct impacts of changes in consumption tax policy. The year-on-year core inflation rate has consistently been less than 2.6 percent since mid-2016.

Living costs vary significantly across Malaysia. While the evolution of prices over time in Malaysia is well measured and documented, comparatively little attention is given to the large differences in price levels across places. Moving around the country it is readily apparent that some places are more expensive in general than others. The most obvious spatial price differences are in housing, where location is an inherently critical component of property values, but there is also significant spatial price variation across a wide range of common goods and services.

Because of spatial price differences, the purchasing power of a ringgit varies from place to place, which directly impacts the cost of living. It is no secret that Johor, Kuala Lumpur and Selangor are Malaysia’s high-cost environments, and that costs tend to be lower in states such as Kedah, Kelantan and Perlis. If household incomes varied across these areas in exactly the same proportion as costs then that would neutralize the effect of spatial price differences on the cost of living. However, incomes do not vary in the same way, especially if one looks beyond the averages.
Increasing numbers of Malaysians, especially in urban areas, feel their income is insufficient to meet the cost of living. Real household incomes have been consistently increasing over the past two decades, sometimes quite rapidly, yet for many the gains have not kept up with their expectations. In particular, from 2009 to 2014 income growth rates for the B40 were substantially higher than for the M40 and T20, but more recently (2014–2016) income growth slowed for the B40, trailing that of the M40. Feelings of being “left behind” are likely compounded by the fact that absolute income gaps have consistently increased over time.

Despite rising educational attainment, income growth among younger and less educated workers has been sluggish. While incomes for all age groups have tended to grow at a faster rate than inflation, the growth in employment earnings in the case of younger workers has consistently lagged those of their older counterparts. Employment earnings for those who have only completed secondary education are not only substantially lower than those with higher education, but their real wage growth over time has also been persistently low.

Those who feel their incomes are not keeping up with the cost of living often opt to work more to try to make ends meet. This could mean a non-working household member deciding to start working or a working household member taking on a second or even third job. Qualitative research suggests that increases in the number of workers per household and the number of people holding multiple jobs is greater than that indicated by quantitative data.

Borrowing provides temporary income support to lower-income households. Borrowing provides temporary relief for households to compensate for inadequate income, particularly in the short-term. While debt provides opportunities for shifting consumption and making investments, over the long run, it also limits available discretionary income for households in Malaysia. Lower-income households and population sub-groups have a heavy debt load and face high debt service ratios. More than 40 percent of borrowers with monthly household incomes less than RM3,000 spend more than 40 percent of their income on debt repayment. Among lower-income borrowers, debt is mostly for motor vehicles and personal financing, thus supporting consumption as opposed to longer-term investments to build wealth.

Housing affordability in Malaysia has deteriorated over the years. Housing is a basic need, with the cost of meeting this need usually constituting one of the largest items of household expenditure. Various studies using the price-income ratio (PIR) have shown that the affordability of housing in Malaysia has deteriorated, such that housing is now “severely unaffordable” in several states and “seriously unaffordable” in Malaysia as a whole according to that measure. For this report, the World Bank has developed a new housing affordability model that is more detailed than the PIR and better equipped for the analysis of housing affordability across the distributions of incomes and house prices. When applied to detailed housing and income data for Kuala Lumpur and Petaling District (as case studies) it is possible to analyze the income levels and housing price points where housing unaffordability is most critical.
The lack of affordable housing is particularly severe among households earning less than RM5,000. It is estimated that the number of households in this income group far exceeds the supply of housing affordable to them, with 55 percent in Kuala Lumpur and 63 percent in Petaling District lacking access to housing that they can afford. Households in the RM6,000 to RM10,000 income bracket can typically afford to purchase a home in the RM230,000 to RM500,000 price range, but the availability of such homes is very uneven. The market for such homes that are affordable for this income group is much tighter in Petaling District than in Kuala Lumpur, given Petaling’s growing under-supply and increase in prices.

Alleviating cost of living pressures demands a mix of short-term measures as well as medium- and long-term structural reforms. Until recently, many of the measures targeted at addressing the cost of living have been relatively ad hoc, fragmented and short-term in nature. Some of the policies that the government has implemented include subsidies, administrative price controls, construction of affordable housing, concessional mortgage financing, and credit counseling. As factors affecting households’ living standards are wide-ranging and tend to overlap to some degree, a more structured approach to address higher living costs and improving well-being among Malaysians can be organized into short-term measures as well as medium- and long-term structural reforms. Short-term measures need to focus on alleviating hardships among lower-income households through deepening of social safety nets, while over the long run, increased coordination across agencies and implementation of structural reforms to foster greater market competition and accelerate productivity could help lift real incomes for all.
Many factors influence the ability of households to make ends meet

1. Consumer price inflation differentials linked to income levels and/or geographic location across Malaysia

2. Inadequate income and sluggish income growth for lower-income households, younger and less educated workers

3. High household indebtedness and declining financial well-being, especially among lower-income households, civil servants and young adults

4. Insufficient access to affordable housing for lower- and middle-income households
Overall inflation has been low and stable, but consumers perceive that inflation is higher than it really is.

Inflation has been moderate and stable, especially core inflation...

...although perceptions of inflation may be higher because of frequency and memory biases.

Source: Monthly CPI reports (DOSM)

Source: BNM (2019)
Prices vary significantly across Malaysia, impacting the purchasing power of the ringgit and the local cost of living.

Higher incomes in some urban areas are partly offset by higher prices, with the opposite in most rural areas.

Estimated Median Gain/Loss in Household Purchasing Power from Spatial Price Differences in 2016, RM per Month

Source: World Bank staff calculations using Household Income and Basic Amenities Survey (DOSM)
Urban Malaysians say their living standards are improving... 
...but satisfaction has declined

The number of Malaysians in urban areas who have reported an improvement in living standards has increased... 

Source: Gallup World Poll

...yet the number of urban Malaysians who are satisfied with their living standards has declined

Source: Gallup World Poll
BOX 6

Income, cost of living, and overall well-being

Results from a qualitative study on living standards conducted by the World Bank and University of Malaya in 2019 with B20, B21-40, and M4018 Bumiputera, Chinese and Indians overwhelmingly support the finding that there is growing dissatisfaction among the urban population. Participants felt that their lives were “not in balance”, because salaries were not keeping up with the cost of living, leading to increased hardship and stress. When asked whether their lives were easier, harder, or the same currently versus 5 years ago, 56 percent of participants across 56 focus groups in the Klang Valley, Terengganu and Sabah said that their lives were harder now compared to 5 years ago.19

“I have experienced a time when I earned RM900 to feed nine children. Now, the salary is not going up. The only thing going up is the cost of living. It is not in balance.”
[Klang Valley, Bumiputera, B21-B40]

“When I joined ten years ago, my salary was RM500. Now I earn RM2000. It took ten years for me to get here. But the gap between the salary increase and the rise in cost of living is not balanced. I am struggling to even earn this low salary.”
[Klang Valley, Indian, B21-B40]

“The costs going up is not a problem, but the wages must go up proportionately. This is not happening.”
[Klang Valley, Chinese, M40]

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18 Income categorization is based on focus group participants’ estimates of their household income and calibrated using net household income from the 2016 HIS, subtracting income components that respondents would not typically include, such as imputed rent and employers’ share of EPF contributions.
19 These data are from participant responses in 56 focus group discussions from Klang Valley, Terengganu and Sabah. They are not representative for all of Malaysia.
Malaysians of all three main ethnic groups also expressed a common sentiment: while material comforts had improved considerably compared to their parents’ generation, there was not a concomitant increase in overall well-being. This sentiment was most acutely expressed by participants belonging to the M40 income groups, as the quotes below illustrate.

“Something that can be provided physically, yes, we children are better off. But something that is about the mind and the soul, we are not better off.”
[Klang Valley, Chinese, M40]

“In the past, we just lived comfortably by rewarding ourselves with good food for working hard. It was that simple. Now we have different needs and wants. We are suffering.”
[Klang Valley, Bumiputera, M40]

“In the days of our parents, life was very happy. Even if we had few things and small houses, we were happy. Now, even with a three-storied house, we cannot sleep in peace.”
[Klang Valley, Indian, M40]
Growth in real employment income has been sluggish for young workers and those with only secondary education

Since 2009, real growth in income for 20-29 year-olds with post-secondary education was marginal

Among those with only secondary education, income growth has been modest across all age groups

Source: World Bank staff calculations using Household Income and Basic Amenities Survey (DOSM)
The gap in employment earnings has widened between younger and older male workers, but not as much for female workers

Younger male workers experience slower income growth and the gap has widened

The relationship between age group and employment income is weaker for women

Source: World Bank staff calculations using Household Income and Basic Amenities Survey (DOSM)
PART TWO - Making Ends Meet

B40 household income growth was strongest during 2009-2014, but absolute gaps across income groups have widened

From 2009 to 2014, real mean household income growth was fastest among the B40

The absolute gaps across income groups continued to increase, which could contribute to perceptions of being “left behind”

Source: World Bank staff calculations using Household Income and Basic Amenities Survey (DOSM)

Source: World Bank staff calculations using Household Income and Basic Amenities Survey (DOSM)
Borrowing provides an avenue for meeting living costs, but a heavy debt load makes it difficult to save

Lower-income borrowers have high debt service ratios, leaving little room for other expenditures or savings

Source: BNM

About half of Malaysian working adults lack financial resilience, especially the younger generation

Source: AKPK
Debt as a double-edged sword

In the joint World Bank-University of Malaya qualitative study, lower-income households described their monthly struggle to service loans. In a common theme across regions and ethnic groups, participants from the B20 and B21-B40 income groups found it difficult to survive on their current incomes, given their commitments on housing, car, and other types of loans. This is consistent with BNM’s data which showed high DSRs among lower-income borrowers, resulting in limitations for household savings and consumption on other items.

“At the end of every month, I feel like going insane because always I feel I do not have enough to settle all payments. I need to pay house mortgage, car loan, children’s education and needs, utility bills...water, electricity...after settling all these bills, the balance is almost zero. Then the wait starts for the following month’s salary for the same purpose.”
[Klang Valley, Indian, B20]

“Definitely you need a loan for everything. For house, for car. For professional people, it may be easy to pay back. But my job is unstable. It is hard for me.”
[Klang Valley, Chinese, B20]

“By the 20th of the month, we have to scrape the bottom of the barrel while waiting for our pay for the next month.”
[Terengganu, Bumiputera, B21-B40]
Construction of new homes at RM200,000 or less has been very limited, and is a major reason for the shortage of affordable housing

Only 18 percent of newly launched units in 2016 were priced below RM200,000, indicating limited supply for lower-income households

Source: National Property Information Center (2016); Ismail et al. (2019)
There are more low- and middle-income households in KL and Petaling District than there are housing units that they can afford.

There is an under-supply of housing units that cater for lower-income households in Kuala Lumpur... ...as well as in the Petaling District in Selangor.

Cumulative Number of Housing Units and Households, Thousands

Source: Urbanmetry, World Bank staff calculations

MALAYSIA ECONOMIC MONITOR | DECEMBER 2019
The wide array of government housing policies has diverse and location-specific impacts on housing supply and affordability.

Under the *Rumah Selangorku* scheme, developers overcompensate by building high-end units to subsidize for the construction of more affordable units.

The *Residensi Wilayah* and *Rumah Selangorku* policies have partly contributed to the divergent residential market pricing trends.

**Supply of Housing Units, Thousands**

- 2010: <RM300k, RM300k-RM500k, RM500k-RM1mil, >RM1mil
- 2011: <RM300k, RM300k-RM500k, RM500k-RM1mil, >RM1mil
- 2012: <RM300k, RM300k-RM500k, RM500k-RM1mil, >RM1mil
- 2013: <RM300k, RM300k-RM500k, RM500k-RM1mil, >RM1mil
- 2014: <RM300k, RM300k-RM500k, RM500k-RM1mil, >RM1mil
- 2015: <RM300k, RM300k-RM500k, RM500k-RM1mil, >RM1mil
- 2016: <RM300k, RM300k-RM500k, RM500k-RM1mil, >RM1mil
- 2017: <RM300k, RM300k-RM500k, RM500k-RM1mil, >RM1mil

**Price Index**

- 2008: Kuala Lumpur, Petaling Jaya
- 2009: Kuala Lumpur, Petaling Jaya
- 2010: Kuala Lumpur, Petaling Jaya
- 2011: Kuala Lumpur, Petaling Jaya
- 2012: Kuala Lumpur, Petaling Jaya
- 2013: Kuala Lumpur, Petaling Jaya
- 2014: Kuala Lumpur, Petaling Jaya
- 2015: Kuala Lumpur, Petaling Jaya
- 2016: Kuala Lumpur, Petaling Jaya
- 2017: Kuala Lumpur, Petaling Jaya
- 2018: Kuala Lumpur, Petaling Jaya

Source: Urbanmetry, World Bank staff calculations

Source: Urbanmetry, World Bank staff calculations
Is it possible to beat the high cost of living?

Low and stable inflation has helped contain cost of living increases. More spatially-aware policies can help address regional challenges in making ends meet.

A stronger social safety in the short term, and more investment in human capital and productivity-enhancing technology in the longer term, can help raise the incomes of younger and less-educated workers who are currently feeling “left behind”.

New measures to increase financial literacy and consumer protection can help lower-income households and young people manage their finances and avoid unsustainable debt.

More nuanced housing policies based on detailed information about housing supply and demand as well as different locations and price points can help ensure adequate affordable housing for all Malaysians.
Alleviating cost of living pressures demands a mix of short- and long-term structural reforms

### Short-term measures to alleviate cost of living pressures

<table>
<thead>
<tr>
<th>Increasing prices and large geographic price differences</th>
<th>Medium- and long-term structural reforms to boost market competition and increase incomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>i. Tackling anti-competitive practices in key sectors.</td>
<td></td>
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<tr>
<td>ii. Reevaluating administrative price controls, focusing on aligning them with B40 consumption patterns.</td>
<td></td>
</tr>
<tr>
<td>iii. Developing and regularly reporting a spatial price index in addition to a cost of living index.</td>
<td></td>
</tr>
<tr>
<td>i. Fostering competition in production and distribution in key sectors, by reducing barriers to entry.</td>
<td></td>
</tr>
<tr>
<td>ii. Minimizing distortion of price interventions to ensure sustainable market supply.</td>
<td></td>
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<tr>
<td>iii. Ensuring price measures are time-bound and range-limited to manage fiscal risks.</td>
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</tr>
<tr>
<td>iv. Progressively shifting to protect incomes of low- and middle-income households rather than through price interventions.</td>
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</tbody>
</table>

### Inadequate income among lower-income households and younger workers

| i. Deepening existing social safety nets: |
| • Improving the targeting of Bantuan Sara Hidup by appropriately taking into account household size and location for eligibility and benefits. |
| • Increasing the total outlay for core social welfare programs. |
| • Shifting from fuel subsidies to a targeted transportation allowance. |
| ii. Enabling greater labor force participation by parents, both women and men, through improved child care services for B40 families. |
| iii. Extending living wage and Belanjawanku analysis and providing a framework to inform wage bargaining. |
| i. Accelerating productivity growth as the basis for boosting earnings potential. |
| ii. Realigning investment and hiring incentives towards economic upgrading and high-quality job creation. |
| iv. Consolidating and enhancing the overall social safety net framework, including the various subsidy programs. |
### Short-term measures to alleviate cost of living pressures

<table>
<thead>
<tr>
<th>Poor financial well-being and higher indebtedness among lower-income households as well as low savings among Malaysians</th>
</tr>
</thead>
</table>
| i. Raising awareness among citizens on their rights and responsibilities in personal and household financial management and to be accountable for their financial decisions.  
ii. Creating a repository of financial planning tools which are available online and in local languages.  
iii. Assessing financial literacy periodically through regular implementation of standardized measure of financial literacy, in collaboration with the private sector. |

### Medium- and long-term structural reforms to boost market competition and increase incomes

<table>
<thead>
<tr>
<th>High degree of housing unaffordability among low- and middle-income households</th>
</tr>
</thead>
</table>
| i. Adopting a more precise affordability measurement, with respect to location, supply and demand.  
ii. Harnessing supply-side market data for a more accurate representation of housing affordability.  
iii. Strengthening the rental market:  
  - Enacting the Rental Tenancy Act and establishing a Tenancy Tribunal.  
  - Developing a rental database and rental affordability indicators. |
| i. Strengthening consumer protection and encouraging more responsible behavior by both banks and non-bank financial institutions.  
iii. Increasing financial incentives, including through matching contributions and the use of evidence-based behavioral interventions to encourage retirement savings.  
iv. Strengthening the legal and regulatory framework for consumer protection and responsible lending through the Consumer Credit Act. |

i. Prioritizing low- to middle-income households in current housing policies and programs.  
ii. Ongoing monitoring and analysis of the impact of different policies on the housing market.  
iii. Strengthening coordination between ministries, agencies as well as state and local governments in designing overall housing policy and planning.
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