1 Key policy insights

The COVID-19 crisis has caused a deep economic contraction in Malaysia. A recovery is projected to unfold in the second half of 2021, thanks to government intervention to control the contagion, but mutations of the virus could jeopardise the return to growth. The pandemic has revealed acute policy issues that need to be addressed. Vulnerable groups were hit severely, despite social protection support from the government, and the SME sector has more suffered from the economic downturn than large firms. This chapter discusses the macroeconomic and social impacts of the pandemic and policy responses that will be required to achieve a sustainable and inclusive recovery and progress towards high-income status, including a strategy to decarbonise economic growth.

The post-pandemic recovery needs to be more inclusive and sustainable

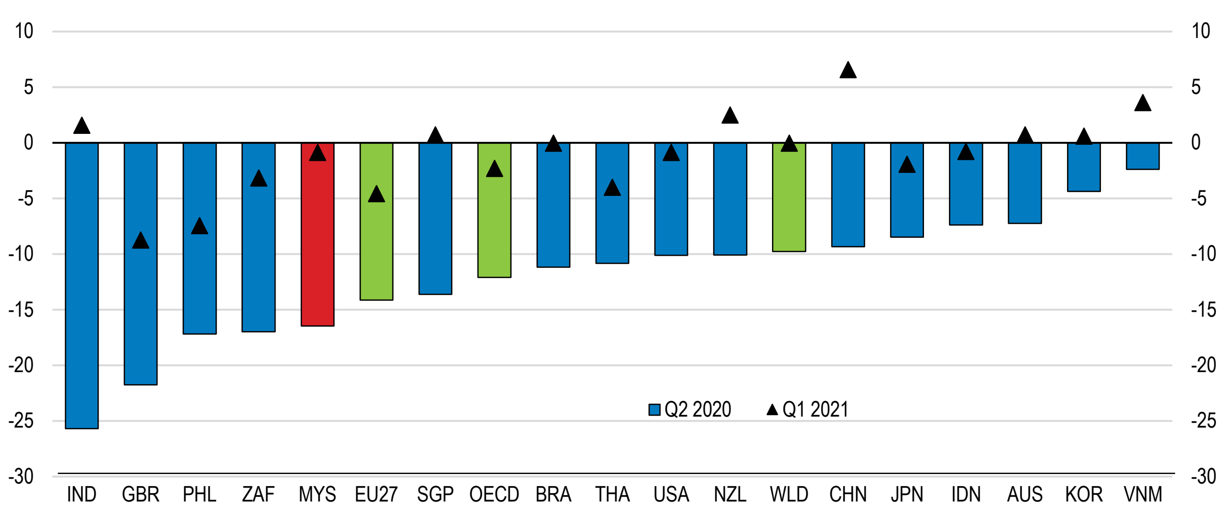
The COVID-19 pandemic severely hit the Malaysian economy. Like in many countries around the world, stringent restrictions on mobility and physical contact have constrained activity in sectors requiring in-person services, such as retail trade, food and beverage, and accommodation. Workers employed in these sectors, who are predominantly female, young and low skilled, have been disproportionately affected. Although government support targeting these people has helped mitigate the shock, those not covered by the social protection scheme, were exposed to job cutbacks and income losses. Because of these disruptions and lower external demand, GDP contracted sharply in 2020 (-5.6%), a large decline by international comparison (Figure 1.1).

Provided that the health crisis becomes under control, most sectors, including hospitality, will be able to restore their normal activities towards end-2021, when most restrictions on domestic travel are expected to be removed. Private consumption, buttressed by the continued government relief measures, is projected to restore its robustness gradually along with the recovery of broader economic activities. Assuming that the vaccination campaign advances as planned, the Malaysian economy is projected to recover steadily in 2021 (+4.3%), followed by the continued rebound in 2022 (+6.1%). On the external front, thanks to a faster-than-expected recovery of external demand, exports are expected to continue increasing throughout 2021 (Table 1.1). A rapid rebound of the Chinese economy and the recovery of the US economy have contributed to the uptick of merchandise exports from the Southeast Asian economies, including Malaysia.

As the infections subsides, the domestic economy is also projected to be on a steady recovery path, despite weak spots in the labour market. Private investment will gather momentum along with the rise of exports in manufacturing goods and relaxed movement controls. Expansionary fiscal policy will also support growth in 2021. Building up the public health capacity will help mitigate the social and economic impacts of the pandemic. Government measures to promote public and private investments in digital infrastructures will facilitate the digitalisation of businesses, which is expected to boost long-term productivity. The unemployment rate will return to its previous levels in 2022.

Figure 1.1. Malaysia was hard hit by the COVID-19 outbreak, but it has recovered relatively fast

Percentage change of real GDP relative to Q4 2019



Note: For China, data for 2020 Q2 refers to 2020 Q1, as this was the period of the first COVID-19 impact for this country.
Source: OECD, Economic Outlook database.

StatLink https://stat.link/ce5mut

Table 1.1. Macroeconomic indicators and projections

Percent changes from previous year unless specified

	2018	2019	2020	2021	2022
Output and demand					
Real GDP	4.8	4.4	-5.6	4.3	6.1
Consumption	7.1	6.6	-2.9	3.5	6.3
Private	8.0	7.7	-4.3	3.3	7.5
Public	3.4	1.8	3.9	4.5	0.8
Gross fixed investment	1.4	-2.1	-14.5	4.8	5.4
Private	4.3	1.6	-11.9	2.0	6.9
Public	-5.0	-10.7	-21.3	13.0	1.3
Net changes in inventory (contribution to GDP growth, % point)	-0.7	-0.4	0.7	-	-
Exports of goods and services	1.9	-1.0	-8.9	10.4	3.5
Imports of goods and services	1.5	-2.4	-8.4	10.3	3.3
Net exports (contribution to GDP growth, % point)	0.4	0.7	-0.9	0.7	0.4
Inflation and capacity utilisation					
Consumer price inflation	1.0	0.7	-1.2	2.7	1.2
Unemployment (% of labour force)	3.3	3.3	4.5	4.3	3.6
Output gap (% of potential GDP)	-0.2	-0.0	-7.6	-7.2	-5.3
Public finances (% of GDP)					
Federal government fiscal balance	-3.7	-3.4	-6.2	-6.4	-4.7
Expenditures	19.8	21.0	22.2	21.9	20.3
Revenues	16.1	17.5	15.9	15.4	15.6
Oil-related revenues	3.8	5.5	4.0	2.3	2.2
Federal government gross debt	51.2	52.4	62.1	63.4	63.5
External sector and memorandum items					
Oil price (spot market, Brent, USD per barrel)	71.0	64.2	41.6	64.0	65.0
World trade growth (volume)	4.1	1.3	-8.5	8.2	5.8
Trade balance (% of GDP)	7.9	8.2	9.8	9.1	8.0
Current account balance (% of GDP)	2.2	3.5	4.2	3.8	4.0
Gross official reserves (end-year, USD billion)	101.4	103.6	107.6	..	..
Total external debt (% of GDP)	63.8	62.6	67.6	..	..
Three-month money market rate, average, in %	3.7	3.5	2.5	..	..
Ten-year Malaysian government securities, average yield, in %	4.1	3.6	2.8	..	..
Household debt (% of GDP)	82.0	82.7	93.2	..	..
Nominal GDP (USD billion, at the market exchange rate)	359.0	365.3	337.2	377.8	406.6

Source: Department of Statistics Malaysia (DOSM), Ministry of Finance, Bank Negara Malaysia, OECD Economic Outlook 109 database and OECD calculations.

Policy measures, such as loan moratoria, have alleviated the hardship of businesses caused by the sanitary measures, weak demand and financial difficulties. Nevertheless, as the current crisis becomes protracted, many businesses will remain impaired and will face difficulties going forward. Over the past years, Malaysia advanced its regulatory reforms to streamline administrative burdens for businesses and simplify the procedure for start-ups. These reforms need to be accelerated further, and be extended to the liberalisation of individual services markets, such as the transport and retail sectors, some of which are still relatively restrictive compared with most OECD countries.

Digitalisation has accelerated over the course of the pandemic, and will continue to do so. While many Malaysians purchased goods and services online during the pandemic, business digitalisation was not pervasive before the pandemic. A number of SMEs do not use basic digital tools, such as computers and the Internet, and teleworking has been less prevalent than in other countries. This does not allow many firms and workers to make the best of digitalisation.

Aiming at achieving high-income status in the coming decade, the government is planning to present its 12th five-year plan. The announcement of the plan initially scheduled for 2020 has been postponed to take into account new emerging issues stemming from the pandemic. Taking into account the impact of the pandemic and drawing lessons for the future are necessary and will help restore confidence. In line with the upcoming 12th five-year plan, this *Economic Survey* discusses the following key challenges faced by Malaysia:

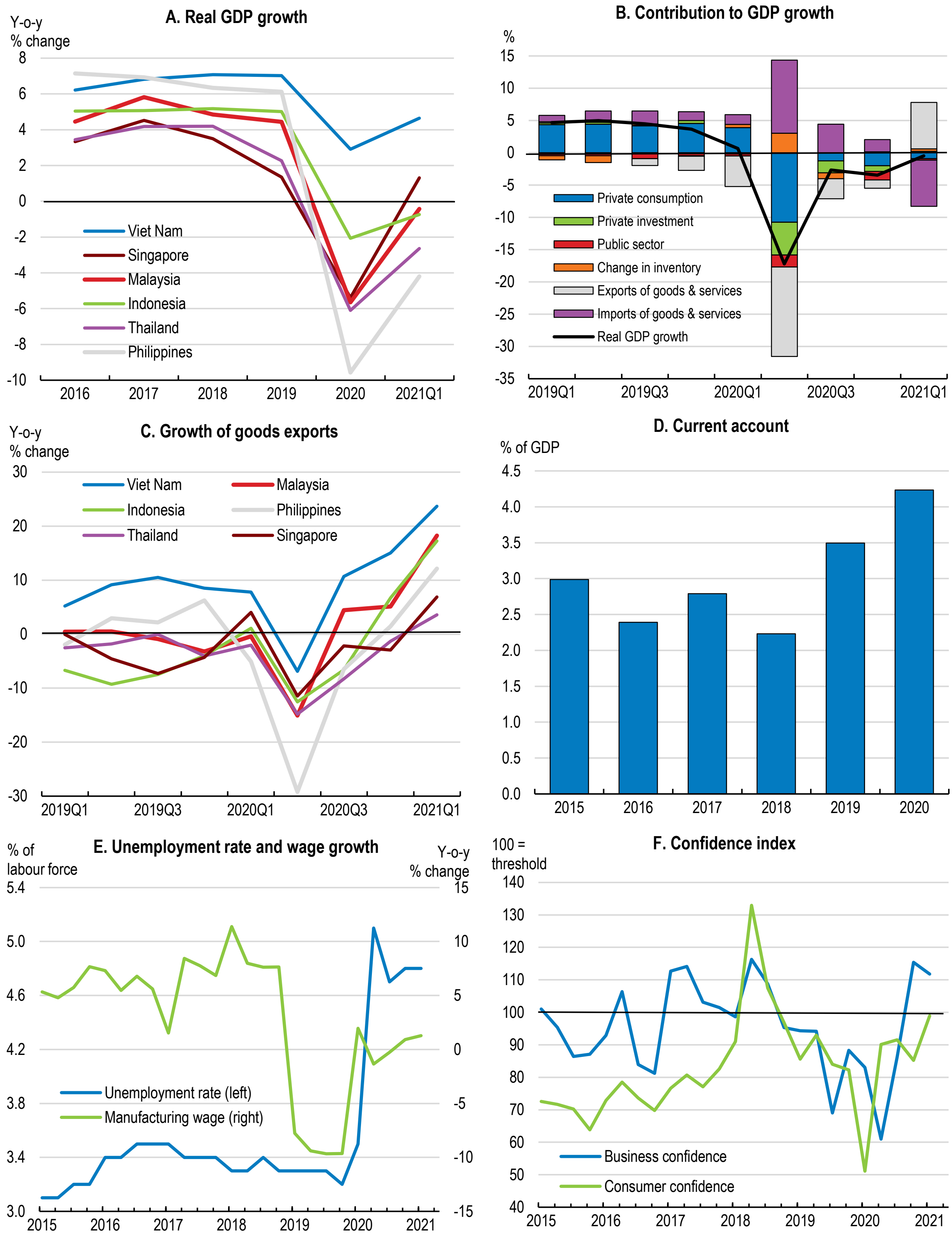
- Until the economic recovery is well under way, fiscal and monetary policies should remain supportive in particular to struggling citizens and businesses, while preparing a post-pandemic medium-term fiscal consolidation strategy to reduce public debt and contingent liabilities amid the looming ageing society.
- Re-invigorating business dynamism will be essential to achieve vigorous economic growth after the pandemic. This calls for further improving the business climate and lowering administrative burdens and regulatory obstacles. Easing regulation will facilitate the reallocation of resources, unleash untapped potentials, and stimulate innovation through the adoption of new technologies.
- To make the best of digitalisation, the uptake of digital tools needs to be further promoted together with the enhanced provision of training opportunities of workers, particularly those employed by SMEs. Securing more open and competitive markets will stimulate private investment needed to improve the quality of the broadband infrastructure, an essential element to accelerate business digitalisation and progress toward new working arrangements, including teleworking.

A strong economic recovery needs supportive macroeconomic policies

Strong and inclusive growth was suddenly interrupted

Malaysia's growth was solid before the pandemic, unlike other Southeast Asian economies that suffered from international trade tensions and supply chain disruptions (Figure 1.2, Panel A). Thanks to various structural reforms, Malaysia has progressively shifted from a manufacturing to a service economy, and from a heavily trade-dependent to a more domestic-demand-driven economy (Figure 1.3). Moreover, the development of the labour market increasingly supported the robustness of private consumption, with lower-income households benefitting from fast income growth (Figure 1.4). The labour force participation of women increased dramatically over the past decade along with the increase in their education attainment. Although these developments plateaued somewhat in recent years, weakening inflation pushed up the purchasing power of consumers.

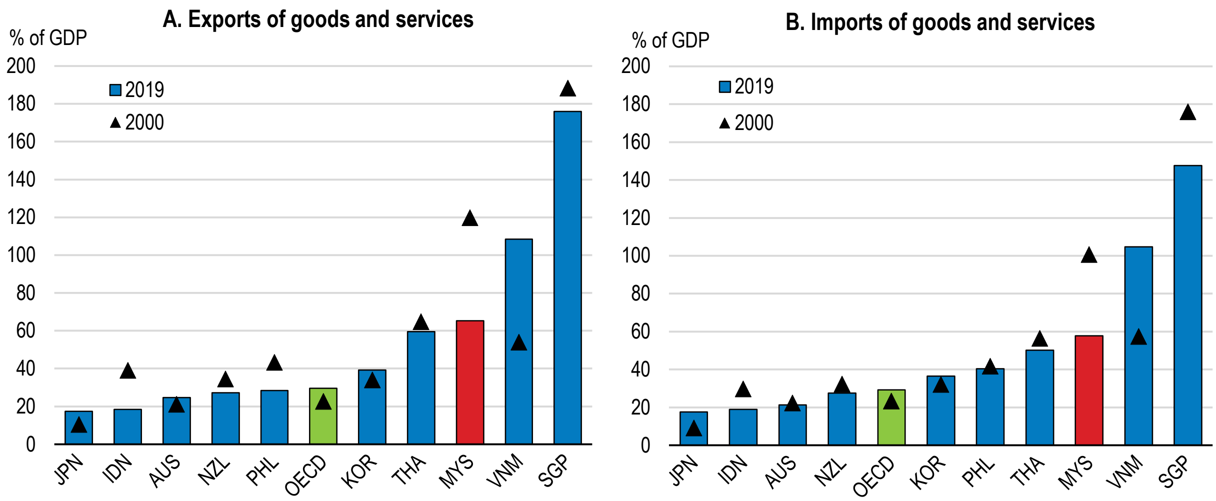
Figure 1.2. Recent macroeconomic developments



Note: In panel B, the public sector consists of government consumption and public investment.
Source: CEIC; DOSM; and Bank Negara Malaysia.

StatLink https://stat.link/48fmuz

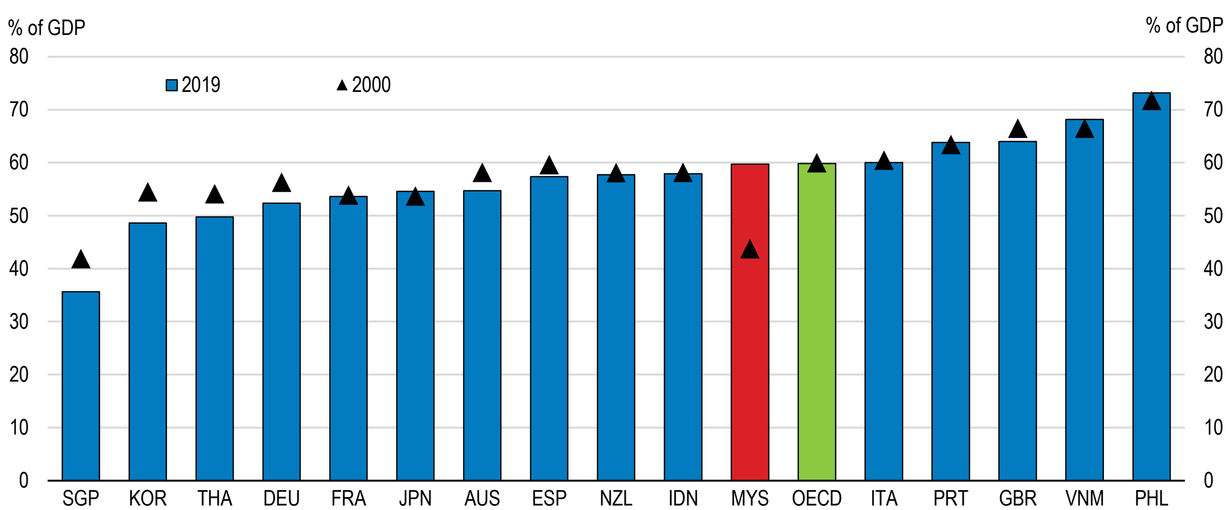
Figure 1.3. Malaysia has become a more domestic-demand-driven economy



Source: OECD, Economic Outlook database; World Bank, World Development Indicators database; CEIC; General Statistics Office of Viet Nam.

StatLink https://stat.link/jbxc4y

Figure 1.4. Private consumption has become a key component in the economy



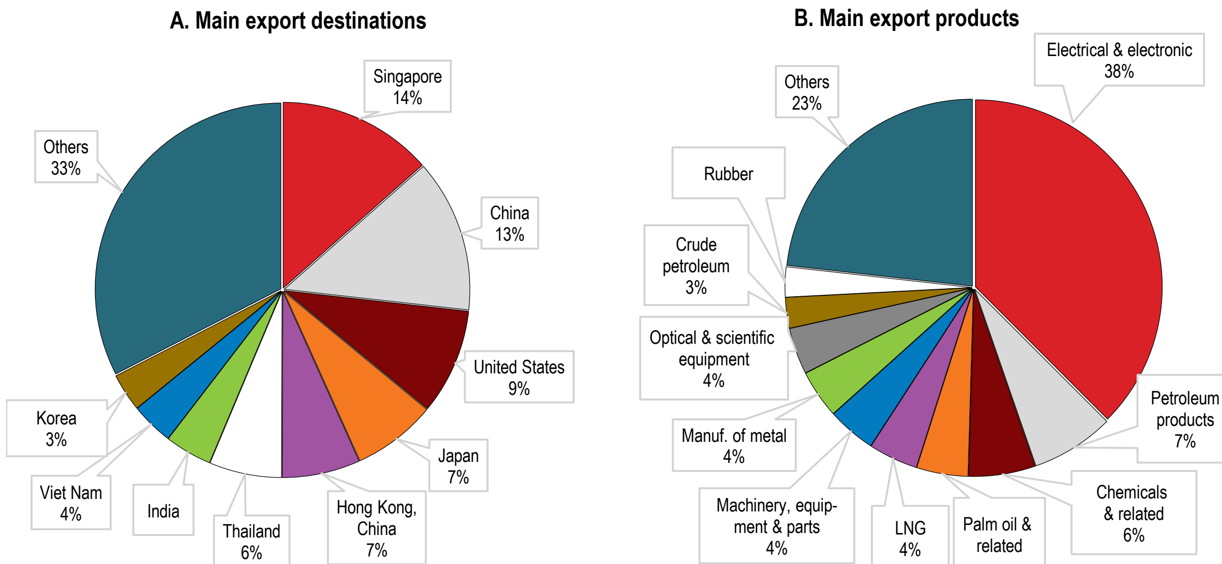
Source: OECD, Economic Outlook database; World Bank, World Development Indicators database; CEIC.

StatLink https://stat.link/hi7qjs

Despite having become a less trade-dependent economy, Malaysia was nonetheless sharply affected by the decline on international trade during the pandemic, as external demand was still an important source of growth (Figure 1.5). Exports to other ASEAN countries dropped sharply in Q2 2020 (-20% compared with the previous year). Although the share of tourism in exports, at 8% in 2019, was lower than in other countries, such as Thailand (20%), international tourism receipts have disappeared since early 2020. Since the middle of 2020, Malaysia's goods exports have swiftly recovered, faster than the exports of other ASEAN countries, thanks to its strong exports to China and the United States and the increasing global demand for electrical and electronics goods and personal protective equipment stimulated by the pandemic (Figure 1.2, Panel C). Exports to China already increased in Q2 2020, mitigating the contraction of global trade. Despite the low inflow of tourists, the current account surplus has increased further, reflecting weak imports stemming from subdued investment.

Figure 1.5. Exports by destination and products

Share of total exports, 2019

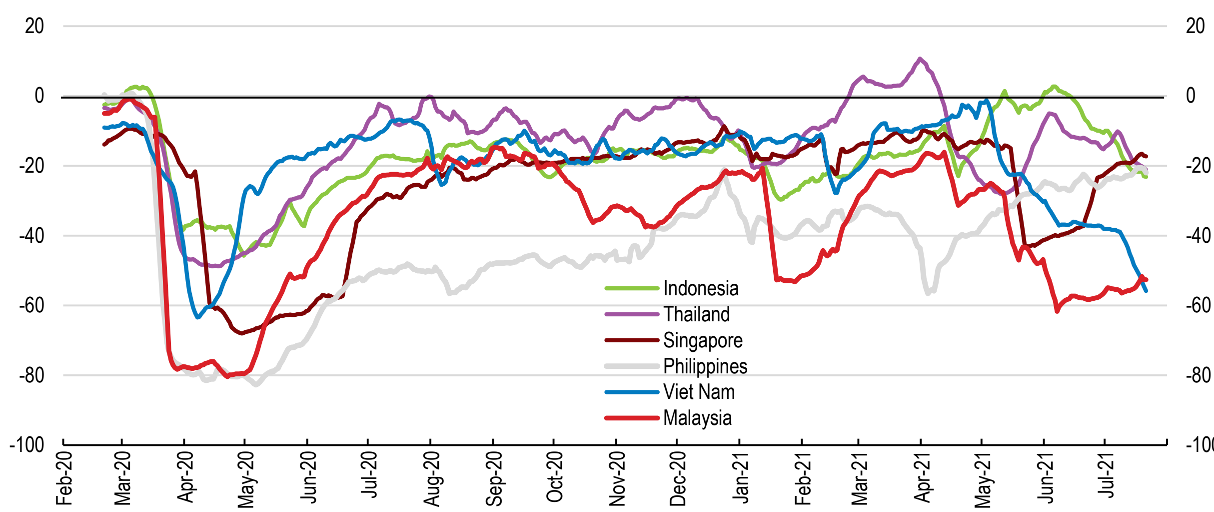


Source: Ministry of International Trade and Industry; Department of Statistics Malaysia.

StatLink https://stat.link/2xjfq9

Figure 1.6. Mobility has been severely restricted

Percentage change of retail and recreation mobility from baseline, average of past 7 days



Note: The baseline is the median value, for the corresponding day of the week, during the five-week period January 3-February 6, 2020.
Source: Google LLC, "Google COVID-19 Community Mobility Reports", google.com/covid19/mobility.

StatLink https://stat.link/j8096z

The domestic sector also contracted sharply in the first half of 2020. As soon as it detected a large-scale local outbreak in March 2020, Malaysia imposed strict restrictions on broader social and economic activities (Figure 1.6). Like some other Southeast Asian countries, Malaysia experienced several small outbreaks of zoonotic and infectious diseases in the past decades, such as severe acute respiratory syndrome (SARS) and Middle East respiratory syndrome (MERS), developing surveillance and emergency response systems. Although strict restrictions managed to weaken the first wave of infections swiftly towards mid-2020, economic costs were considerable (Box 1.1). In Q2 2020, Malaysia experienced one of the deepest contractions in the region and its recent history. GDP nosedived by 17.2% (year-on-year basis), and the unemployment rate increased to levels unseen since the economic crisis of the mid-1980s (Figure 1.2, Panel E).

Box 1.1. The targeted containment measures in Malaysia – a response to the COVID-19 pandemic

The first wave from March 2020 – a swift reaction to a large outbreak

From late January to early February in 2020, Malaysia swiftly imposed a border controls to China and Chinese travellers after it had found several cases related to Chinese tourists.

Towards mid-March 2020, new daily cases surged to three digits after an outbreak was detected nearby the capital (Figure 1.7). This prompted the government to impose broader restrictions on economic and social activities (the Movement Control Order (MCO)) from 18 March. The MCO included stay-at-home restrictions and domestic travel bans, the closure of borders, school closures, and the suspension of non-essential business activities, similar to the tight restrictions adopted in many other countries across the world (Figure 1.8). The detailed protocols, including sanitary codes for people and businesses, have been published as the Standard Operating Procedures (SOPs).

As new cases declined, the government gradually eased the restrictions from early May, starting from the Conditional Movement Control Order (CMCO), which allowed most businesses to operate subject to the adoption of sanitary measures. The government introduced the Recovery Movement Control Order in June 2020 with the further relaxation of the restrictions, such as the full capacity operation of public transport. Schools re-opened in phases from July 2020.

A protracted second wave from the second half of 2020

In September 2020, the resurgence of a local outbreak in the state of Sabah intensified. The government introduced targeted restrictions. Nevertheless, the resurgence gradually spread to other states, and from mid-October, the CMCO was re-imposed in the capital and the surrounding region. The tighter restrictions were then further extended to other states. Schools were closed nationwide from November 2020.

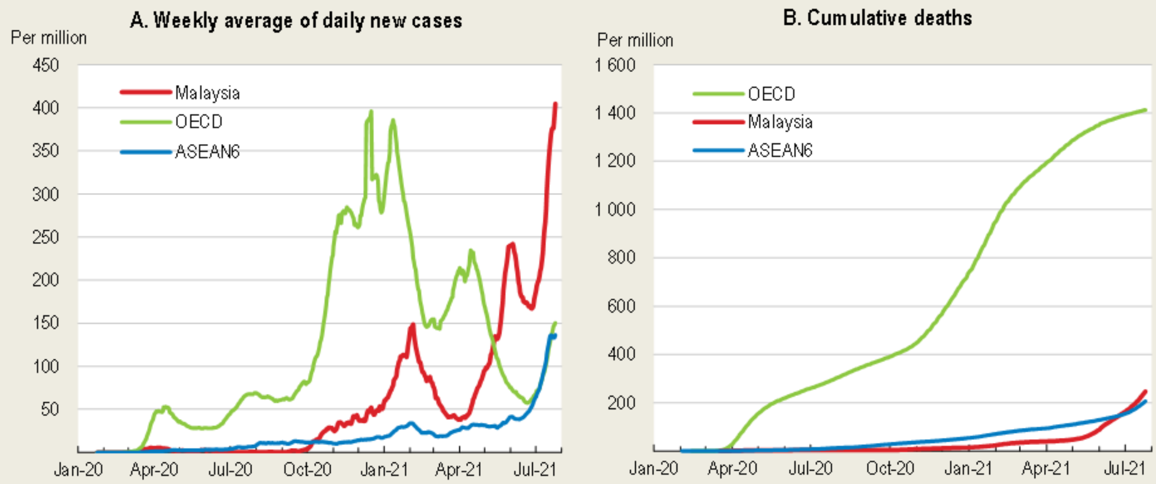
As the infection further intensified, the government resumed the MCO in mid-January 2021 for five states and the federal districts, but less stringent than the first imposed in March 2020. At the same time, considering the worsening situation, Malaysia proclaimed a state of emergency effective from 12 January to 1 August 2021, under which the Parliament and all elections were suspended.

Along with the decline in new daily cases, the restrictions were relaxed again in phases. From early March 2021, several states and districts, including the capital and its outskirts, reverted to the CMCO, and the restriction of business operations in areas under the CMCO was removed from April. Schools also resumed from April (albeit closed again from late May), but the inter-state travel bans have not yet been removed.

The third wave – strict restrictions reintroduced amid intensified infections

New daily cases were contained to around 1 000 towards mid-April 2021, but since then the number surged rapidly to over 9 000 in late May. More contagious variants of Delta (B.1.617.2,) and Alpha (B.1.1.7) have been detected. The government has once again tightened the restrictions progressively, imposing a nation-wide strict MCO from mid-May 2021. These lockdown measures have been stepped up further, including a stay-at-home restriction, since the beginning of June, to be continued until public health conditions (the number of daily cases, hospital capacity and the vaccination rate) improve.

Figure 1.7. Malaysia seeks to control the COVID-19 outbreak

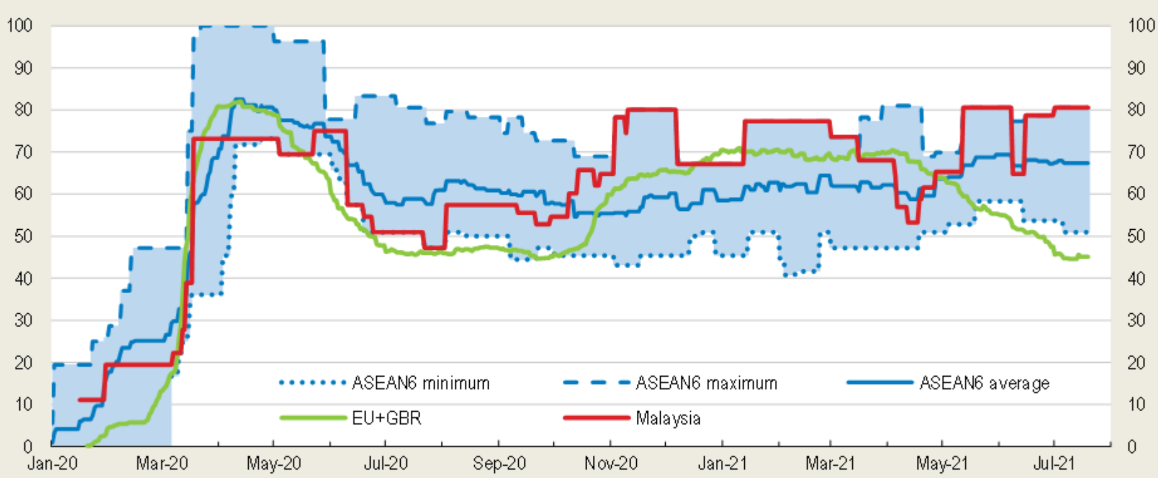


Note: ASEAN6 is the population-weighted average of Indonesia, Malaysia, the Philippines, Singapore, Thailand and Viet Nam. OECD is also population-weighted.
Source: https://ourworldindata.org/coronavirus.

StatLink https://stat.link/416skq

Figure 1.8. Malaysia has imposed severe restrictions on economic activities

Oxford government stringency index



Note: The stringency index is a composite indicator based on nine sub-indicators including school closures, workplace closures, and travel bans. Aggregate series are simple averages.
Source: Oxford COVID-19 Government Response Tracker.

StatLink https://stat.link/k7cz2b

As the number of cases declined in mid-2020, the government lifted the severe restrictions gradually, allowing the economy to regain its pace. The rebound was quick, including exports. Detailed but clear guidelines (Standard Operating Procedures (SOPs)) also helped households and businesses to manage and operate economic activities. However, as stricter restrictions were re-imposed on wider areas of the country, growth dipped again in Q4 2020 (-3.4% on a year-on-year basis, while Q3 was -2.7%), and the unemployment rate, once declining, edged up again, which has posed a concern for the sustainability of private consumption. A more targeted approach was used during this second wave together with a series of stimulus packages, which helped revive confidence (Figure 1.2, Panel F). As the rate of infections was subdued towards April 2021, growth also picked up rapidly (-0.5% in Q1 2021 on a year-on-year basis). Nevertheless, infections once again intensified from May 2021 amid the emergence of more contagious variants, which required the government to re-impose nation-wide strict restrictions on people's mobility. While this is expected to drag down economic activity significantly, the government announced in June 2021 the National Recovery Plan, a four-phased exit strategy to resume normal economic and social activities towards the end of 2021.

Policy reactions were prompt when the pandemic struck

Before the pandemic, Malaysia retained a solid macroeconomic position. The robust economic position and the sound policy framework allowed Malaysia to react to the pandemic-induced recession swiftly and boldly. In 2020, the government rolled-out five stimulus packages (the second includes the first one) amounting to 21.5% of GDP, including non-fiscal measures (Table 1.2). The 2021 Budget strengthened the containment and support measures, increasing federal government expenditure by 2.7% from 2020. The government adopted four additional stimulus packages in 2021 equivalent to 15.9% of GDP to tackle the persistently high rate of infections, some of which are front-loaded expenditures from the 2021 Budget. The largest components are financial mitigation measures, including a six-month loan moratorium on all bank loans except for credit card loans (MYR 100 billion (Malaysian ringgit) in the PRIHATIN package), government loan guarantees (MYR 50 billion in the PRIHATIN package) and liquidity provision by the central bank through the reduction of the statutory reserve requirement (MYR 30 billion in the PRIHATIN package). Malaysia also adopted a job-retention measure, which has been extended several times. These measures have supported affected sectors, particularly SMEs and households.

Table 1.2. Stimulus packages have been large

Package name	Announced date	Total		of which fiscal measures	
		Amount (MYR billion)	% of 2020 GDP	Amount (MYR billion)	% of 2020 GDP
Pre PRIHATIN	February 2020	20	1.4	3.2	0.2
PRIHATIN	March 2020	230	16.3	21.8	1.5
PRIHATIN SME+	April 2020	10	0.7	10	0.7
PENJANA	June 2020	35	2.5	10	0.7
KITA PRIHATIN	September 2020	10	0.7	10	0.7
PERMAI	January 2021	15	1.1	0	0.0
PEMERKASA	March 2021	20	1.4	10	0.7
PEMERKASA+	May 2021	40	2.8	5	0.4
PEMULIH	June 2021	150	10.6	10	0.7
Sub total	2020	305	21.5	55	3.9
Sub total	2021	225	15.9	25	1.8

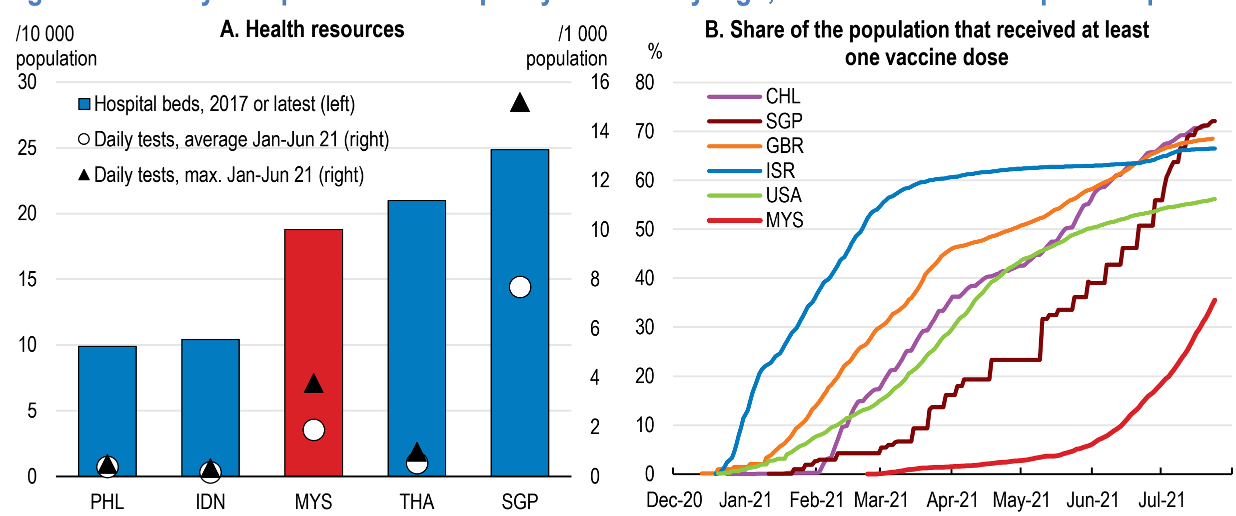
Note: The denominator is 2020 GDP, MYR 1 416.6 billion.
Source: Prime Minister's Office, Ministry of Finance, and DOSM.

In implementing effectively a large stimulus package announced in March 2020, the government set up the Economic Stimulus Implementation and Coordination Unit (LAKSANA) at the same time of the package adoption. In addition to monitoring the roll out of the stimulus packages, this unit adds transparency in the policy implementation. Progress reports have been published every week since April 2020 to disseminate the latest situation to the public.

In addition to economic relief, the government has also strengthened its public health capacity to tackle the crisis. The shortages of testing supplies and personal protective equipment have been eased. The testing capacity increased from less than 0.01 per thousand population in early 2020 to above 2 in May 2021 (Our World in Data) (Figure 1.9, Panel A). Malaysia has a universal healthcare system, under which health services are provided by government-funded public hospitals with minimal out-of-pocket payments from patients. The public hospitals, including university and military hospitals, have been fully deployed. In addition, private sector resources have been mobilised to expand hospital capacity for COVID-19 patient treatment since January 2021 amid the rapidly increasing new cases. Under Malaysia's dual healthcare system, privately run hospitals also provide health services through private health insurance and out-of-pocket payments from patients, or employer funding. The services quality of private hospitals are high, as Malaysia is one of the most popular destinations of medical tourism in the region, although the latter has stagnated due to the border closures. Under the state of emergency, the government adopted an Emergency Ordinance to request private hospitals to accept COVID-19 patients and non COVID-19 patients, the latter of which is to expand the public hospital capacity. Accordingly, the number of intensive care unit (ICU) beds for COVID-19 patients increased significantly from 442 in August 2020 to 1 767 in June 2021 (as of 13 June, WHO COVID-19 Situation Report). Nevertheless, the occupancy rate of ICU beds once reached at its full capacity in mid-2021, before easing off.

In February 2021, the government announced a national vaccination programme, a National COVID-19 Immunisation Programme, which now aims for at least an 80% inoculation by the end of 2021. Vaccination is provided free of charge to both citizens and non-citizens living in Malaysia aged 18 years and above. The first batch of vaccination started soon after the adoption of the programme (Figure 1.9, Panel B). The programme is on a voluntary basis, and to facilitate the participation, a mobile app is used. Previous study suggests that anti-vaccination sentiment is not too strong in Malaysia compared with other countries and is likely to have improved recently to some extent (de Figueiredo et al., 2020[1]). Nevertheless, the slower speed of inoculation, particularly at the initial stage, implies that there may be a certain degree of people's hesitancy, and the implementation needs to be accelerated further by appealing to people's awareness to achieve the government target.

Figure 1.9. Malaysia's public health capacity is relatively high, and vaccination has picked up



Source: WHO; https://ourworldindata.org/covid-vaccinations.

StatLink https://stat.link/v73z4q

Despite the improved sanitary situation and prospects of a steady recovery, risks are mostly tilted to the downside. In addition to the delay in the vaccination programme, the propagation of new and more contagious or vaccine-resistant variants of the virus could overwhelm the existing public heath capacity, and undermine the recovery, adding fatigue sentiment. The external environment poses downside risks, although there are some upsides. A weaker-than-expected recovery of the Asian economies, some of which are grappling with the protracted or re-intensified pandemic, would pull down external demand through the dampened value chains. On the one hand, the yield upsurge of the US sovereign bonds would trigger the turnaround of financial flows, putting strong upward pressure on interest rates that would weigh on growth prospects. On the other hand, a steady but strong growth of its main export counterparts, particularly the US and Chinese economies, could sustain a high level of external demand.

On lower-probability vulnerabilities, the escalation of trade tensions between major trade partners and geopolitical strain in the region also constitute downside risks and add uncertainties. Political instability could not only thwart the restored confidence but also delay necessary policy reforms. Some uncertainties difficult to evaluate their risks are presented as extreme events (Table 1.3). The pandemic shows that building up robustness against extreme risks, such as enhancing fiscal risk assessment, is important (see below).

Table 1.3. The pandemic is the present danger, but other lower-probability vulnerabilities exist

Extreme shocks	Potential impacts
Political instability	Political instability could not only deteriorate the sentiment of foreign investors, but also undermine both private consumption and investment, stalling reform momentum.
Geopolitical tensions	The escalation of conflicts in the South China Sea or other serious social destabilisations would harm broader economic activities in Southeast Asia, which are highly interconnected with each other, degrading its economic prospects.
Another pandemic	The emergence of deadly virus mutations or new contagious diseases would disrupt overall economic activities and cause huge social distress.
Natural disasters	A strong earthquake and large-scale tsunamis would severely affect the economy.

Against this background, in the short run, policy should continue to be supportive until the recovery is well established. Particularly, as the economic shock is prolonged, the most vulnerable need to receive continuous support. In this regard, cash transfer and job-retention programmes are included in the 2021 Budget. In case of a further downturn, spending authorised in the budget could be further frontloaded, and the government could consider lifting the debt ceiling temporarily. The priority should be given to vaccination, which needs to be accelerated under an enhanced partnership with the private health sector even after the end of the emergency decree. Moreover, the weakening of private investment needs to be reversed through re-invigorating foreign direct investment (see Chapter 2).

The priority should also be put on reducing income inequality. While Malaysia's social protection is rather weak, the level of the household savings rate is low (1.4% in gross terms in 2015, Distribution & Use of Income Accounts and Capital Account, Department of Statistics Malaysia (DOSM)). This implies that the consumption of lower-income households is more susceptible to an economic slowdown. Previous study suggests that individuals with monthly earrings less than MYR 3 000 possess smaller liquid financial assets than debt (Siti, Lim and Muhammad, 2018[2]). In addition to the cash handout to the most vulnerable, social protection, particularly employment insurance nets, needs to expand its coverage (see below). The enhanced social protection system would improve income prospects of households, and thus the sustainability of private consumption.

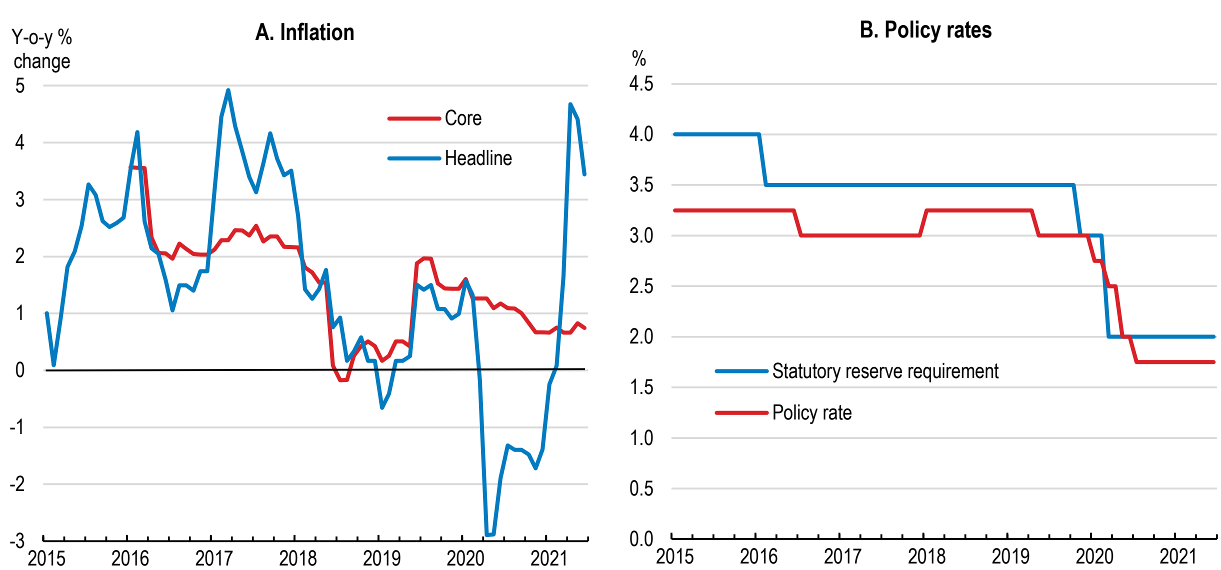
In addition, youth unemployment rates were persistently higher even before the pandemic, and the weaker labour market prospect stemming from the pandemic is weighing on younger generations, such as new graduates. Therefore, it is crucial to prevent scarring effects on the youth caused by long-term unemployment or out-of-the-labour-force status (see below). Restoring the ascending labour participation rates, particularly for women (male 81.1% in Q4 2019 and 80.9% in Q1 2021; female, 56.1% and 55.4%), which have been pushed down by the pandemic, is also important to sustain the growth potential of the economy for the medium term.

Monetary policy should remain accommodative

Similar to those of many other central banks, the monetary policy objective of the central bank of Malaysia, Bank Negara Malaysia (BNM), is to maintain price stability while remaining supportive of economic growth. It does not set, however, a specific inflation target. The central bank has the *de jure* independence of its operation and uses an overnight interest rate as its policy rate. This policy framework aims to ensure a high degree of flexibility on monetary policy actions, while taking into account other important risks, such as asset price bubbles and the destabilising unwinding of these assets (Bank Negara Malaysia, 2018[3]). The framework also allows the central bank to be more supportive of the economy in its achieving higher levels of potential output and growth. Previous study suggests that while explicit inflation targeting has contributed low inflation and price stability in some Asian countries, such as Indonesia, the Philippines and Thailand, a more discretional framework adopted in other countries, including Malaysia and Singapore, has also attained a similar inflation performance (Filardo and Genberg, 2010[4]).

While the pandemic started affecting the Malaysian economy from February 2020, inflation abruptly turned negative in March due to the declining oil prices, although core inflation was rather stable. Monetary policy reacted swiftly against the downturn. From March to July 2020, the central bank cut its policy rate by 100bps to 1.75%, a historic low level. The BNM also reduced in March 2020 its statutory reserve requirement (SRR) to banks from 3.00% to 2.00% with an additional ease in its conditions (the holdings of Malaysian Government Securities and Malaysian Government Investment Issues can be considered as part of the SRR compliance, first for Principle Dealers and then expanded to all banking institutions in May 2020, which will be effective until the end of 2022) in order to provide sufficient liquidity to the financial markets (Figure 1.10). From the second half of 2020, while external demand rebounded faster than expected and re-opening of the domestic economy expanded, the central bank maintained its policy rate. Headline inflation was considerably negative over the course of 2020, but core inflation was stable at around 1%, which legitimised this policy stance.

Figure 1.10. Monetary policy has reacted promptly to the economic disruption



Source: CEIC.

StatLink https://stat.link/1jxav9

Looking ahead, as headline inflation has already reversed its course from early 2021 responding to the rise of oil and other commodity prices, inflation is projected to be above 2% in 2021. Core inflation is expected to be stable between 0.5-1.5% throughout the projection period, as significant slack will remain until the economy grows at full throttle, in addition to the effect of fixed price ceilings on staples and fuels. Since Malaysia is a commodity exporting country, an increase in oil and commodity prices may lead to the appreciation of the local currency, which implies that the inflation pressure stemming from the price rise of commodities would be mitigated to some extent. Economic activity is expected to regain its normality towards end-2021 along with the advancement of vaccination and business reopening. Against this background, until the recovery becomes solid, monetary policy should maintain its accommodative stance. If considerable downside risks materialise, the central bank needs to use its ample policy space swiftly to support the economy.

Financial stability has prevailed, but risks remain

Financial institutions entered into the economic crisis with sufficient buffers, which were accumulated over the years. Soon after the onset of the pandemic, the government introduced a range of measures to alleviate financial distress of households and businesses. This included a massive loan moratorium programme (7.1% of GDP) for six months starting from April 2020, a government loan-guarantee scheme and special lending facilities for SMEs. These programmes have supported affected sectors very effectively in the emergency phase, particularly SMEs, and helped mitigate short-term liquidity constraints. Accordingly, the ratio of non-performing loans has been stable, while some other countries in the region have seen a rise, in some cases, to a considerable level (Figure 1.11, Panel A). The liquidity coverage ratio has been stable within the range of 140-153% since the beginning of 2020, and the total capital ratio stood at 18.1% in March 2021. Since the second half of 2020, in accordance to the removal of the restrictions on business activities, the financial support measures have become more targeted.

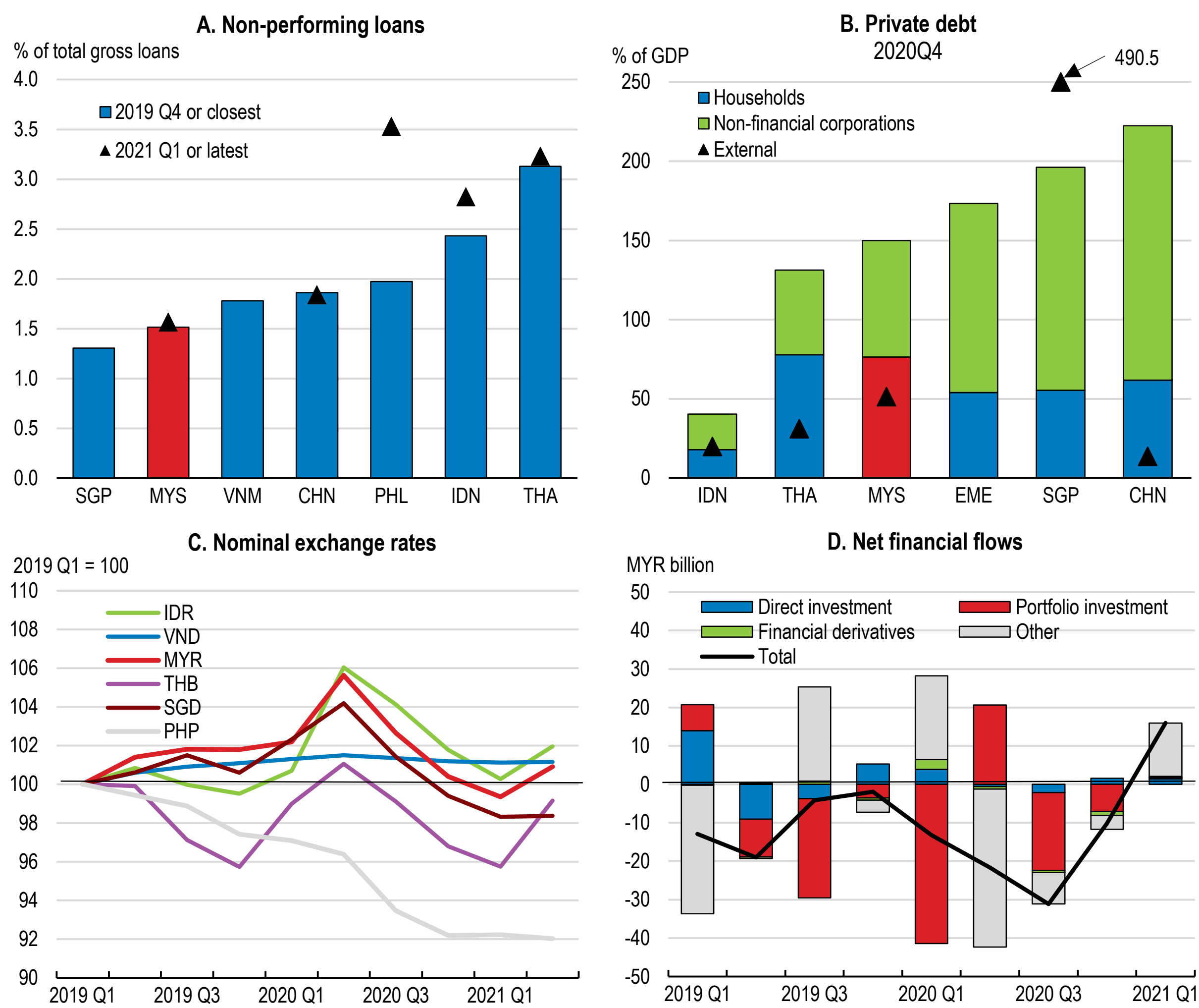
Nevertheless, along with the protracted crisis, policy focus has moved from liquidity constraints to insolvency concerns. Therefore, corporate restructuring and debt restructuring of the private sector (including households for the latter) will become more urgent after policy support is removed. Swift processing of insolvencies would facilitate resource reallocation to more viable businesses, an important element of a strong recovery (see Chapter 2).

Malaysia developed out-of-court insolvency schemes after the Asian Financial Crisis, and the Companies Act 2016 has expanded the flexibility of court-sanctioned processes by introducing a voluntary scheme. Building on these past reforms, the government has introduced more flexibility in these insolvency schemes (Bank Negara Malaysia, 2021[5]). In September 2020, an out-of-court platform for SMEs, the Small Debt Resolution Scheme (SDRS), established in 2003, was absorbed into an out-of-court scheme for individuals, the Credit Counselling and Debt Management Agency (Agensi Kaunseling dan Pengurusan Kredit (AKPK)). As micro-sized firms owned by individual entrepreneurs, which are predominant in Malaysia, are more susceptible to adverse economic shocks, this integration will generate greater synergy. Moreover, the government is also considering the amendment of the Companies Act 2016 to widen the coverage of eligible firms and to enhance its safeguard mechanism against potential abuse.

High levels of household debt could become a concern (Figure 1.11, Panel B). Although part of gross debt reflects a high housing ownership rate in Malaysia (77% in 2019, DOSM), which is more applicable to higher-income households, given the wider income gap, more vulnerable lower-income households need further support, particularly if the recovery in the labour market is delayed.

On the external front, some emerging market economies, including Malaysia, experienced large capital outflows and sharp downward pressure on their currencies (Figure 1.11, Panel C and D). The Malaysian ringgit, which had been stable for years, declined by 6% against US dollar between January and April 2020, before rebounding to the previous levels in the second half of 2020. Like some other emerging market economies, Malaysia's central bank carried out in April 2020 direct purchase of government bonds amounting to 0.5% of GDP to tame capital outflows (0.7% in total from March to December 2020). In addition, since then, the central bank has introduced a series of measures to improve the functioning of the foreign exchange market. Resident exporters were exempted from the requirement to convert export proceeds into local currency below MYR 200 000 per transaction, among other measures. The conversion requirement was then removed in April 2021, liberalising the foreign exchange market further. As the flexibility of exchange rates can serve as a buffer to adverse external shocks, gradual but further liberalisation of the market is encouraged. The external debt ratio to GDP slightly increased to 68% at the end of 2020 (from 63% of 2019) due to the smaller GDP value, but private debt stood at 51%, of which the non-financial sector was low at 27% (Figure 1.11, Panel B).

Figure 1.11. Recent developments in financial markets



Note: In panel B, EME is comprised of Argentina, Brazil, Chile, China, Colombia, the Czech Republic, Hong Kong SAR, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Poland, Russia, Saudi Arabia, Singapore, South Africa, Thailand and Turkey. Household debt and non-financial corporation debt are those from banking institutions.
Source: BIS; IMF; CEIC; Bank Negara Malaysia.

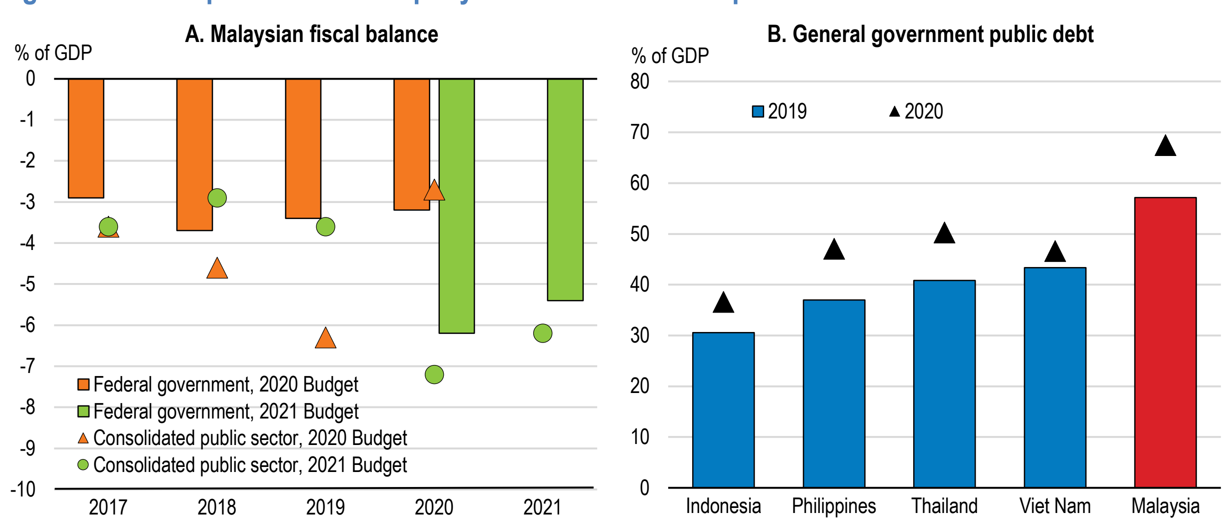
StatLink https://stat.link/baeiql

Fiscal policy should remain supportive

Malaysia's fiscal prudence is underpinned by several legislative schemes. Borrowing is confined to investment expenditure, and ceilings are imposed separately on federal government domestic debt (55% of GDP) and its external debt (MYR 35 billion). However, the fiscal response to the pandemic called for more fiscal space: the domestic debt ceiling of the federal government was raised to 60% of GDP until end-2022, and additional borrowing was allowed for a COVID-19 fund, which was created to secure the transparency on pandemic related spending.

Similar to many countries, the impact of the pandemic was large enough to widen the fiscal deficit to 6.2% of GDP in 2020, despite government efforts to reallocate spending within the budget (Figure 1.12). Accordingly, Malaysia's relatively high level of government debt has been further pushed up. The government has been cautious about the deterioration of its fiscal position, and plans to pursue fiscal consolidation once the recovery is well established. Particularly, it is crucial to reduce public debt and the contingent liabilities of the government more effectively in the medium term. Considering the low level of tax revenue, this would require a comprehensive fiscal consolidation planning that strongly underpins revenue enhancing measures, in addition to spending reprioritisation and sustainable debt management. In the meantime, because significant downside risks remain, targeted policy support remains essential. Moreover, if the economic situation worsens, the government should be ready to expand its fiscal space, temporarily adjusting the debt ceiling during the pandemic. In this regard, an integrated fiscal framework with medium-term targets would give the government more flexibility and discipline, and provide more confidence to markets. The government has already announced in 2018 the introduction of a Fiscal Responsibility Act towards 2021. Like some other countries, such as Ireland, New Zealand and Thailand, where a similar fiscal responsibility legislation was adopted, under the planned Fiscal Responsibility Act, government revenue, expenditure, budget balance and debt will be managed consistently with one another through pre-determined rules and reporting in order to enhance its transparency and accountability. The current Medium-Term Fiscal Framework (MTFF) that provides macroeconomic and fiscal projections for the next three years in the annual budget process could also be integrated to the new framework with a longer projection period, which could improve overall consistency among various government policies. Moreover, some countries, such New Zealand, include fiscal risk assessment in their framework (see below). The preparation of the legislation should thus be accelerated.

Figure 1.12. The pandemic has rapidly worsened the fiscal position



Note: Consolidated public sector consists of general government and non-financial public corporations.
Source: Ministry of Finance, Fiscal Outlook and Federal Government Revenue Estimates, Fiscal Updates 2020; Bank Negara Malaysia, National Summary Data Page for Malaysia; IMF, World Economic Outlook database.

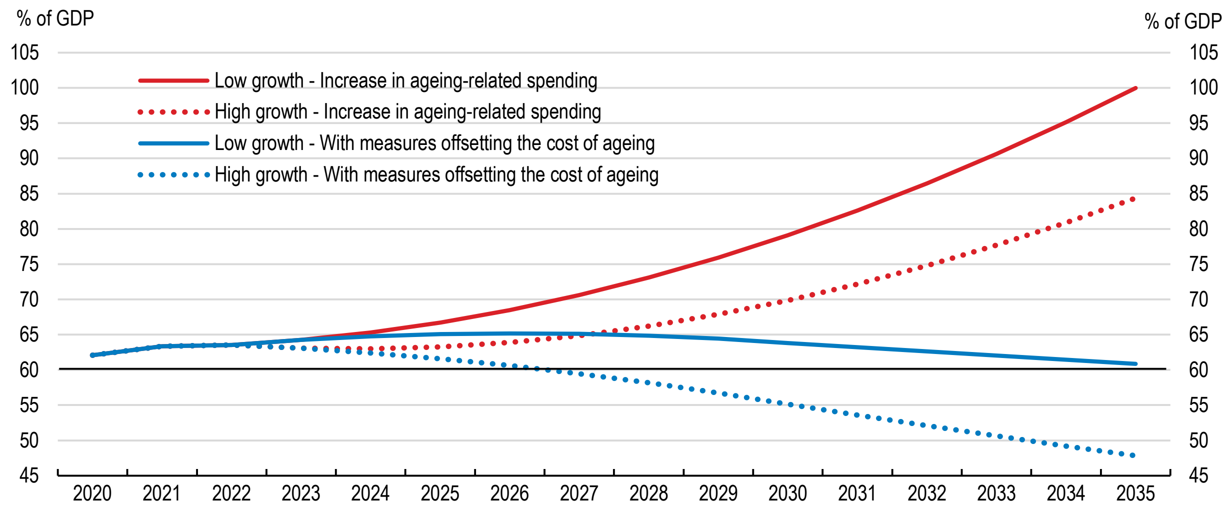
StatLink https://stat.link/13lgkr

The fiscal positions of entities outside the scope of the federal government need to be monitored closely: extra-budgetary entities and state-owned entities have been mobilised to provide various support measures in the stimulus packages. The deficit of the consolidated public sector that includes all government bodies and non-financial public corporations is expected to have widened in 2020, before slightly narrowing in 2021 (Figure 1.12, Panel A). Nevertheless, the consolidated public sector does not cover public financial corporations, through which the government has given guarantees to businesses during the pandemic. In this regard, the government reported that the estimated federal government loan guarantee ratio to GDP increased to 20.8% in 2020 from 18.2% in 2019. Adopting an integrated fiscal framework covering the whole public sector, including contingent liabilities, would strengthen fiscal monitoring. For example, Australia and New Zealand developed a more general framework of fiscal risk assessment embedded in budget process (OECD, 2020[6]). Similar frameworks have been adopted by a number of OECD countries to improve the transparency and the accountability of fiscal policy. These frameworks analyse and present a range of risks, both quantifiable (e.g. alternative economic scenarios) and non-quantifiable (e.g. natural disasters), that could cause deviations from fiscal forecasts. The reporting of contingent liabilities in Australia and New Zealand is comprehensive, covering uncalled capital, guarantees, indemnities and liabilities stemming from legal disputes, including those non-quantifiable (Department of Finance, 2020[7]) (The Treasury, 2021[8]). Australia reports contingent liabilities of both federal and general governments.

In the medium term, in addition to improving spending efficiency, strengthening the revenue base will be essential (Figure 1.13). Malaysia's social protection system mostly relies on the government, including for universal health insurance (Figure 1.14), not social security schemes. Social spending is funded mostly by the tax revenue of the federal government. In this regard, some countries not adopting broader social security schemes, such as Australia and New Zealand, have a stronger tax base to fund social spending, which is a contrast to Malaysia. Currently, the share of social spending is at around 3% of GDP, which is much lower than the OECD average of 15%, while the dependency rate (ratio of population aged 0-14 and over 65 to aged 15-64) is projected to increase from 44.2% in 2020 to 47% in 2045 (UN Population Prospects 2019). The population ageing would not only increase social protection expenditure, but also reduce tax revenues, as less people will be active in the labour market. This also implies that it would be more costly to delay the choice of social protection system (a system relying on tax revenues, social security contributions or a combination of both) to a later period when the population will become older. The pandemic has also revealed the need to strengthen social protection. Although income inequality has declined, redistribution is rather weak (Figure 1.15). Since social spending is expected to increase rapidly, the revenue base needs to be expanded.

Figure 1.13. Ageing-related spending will call for offsetting fiscal measures

Federal government debt scenarios

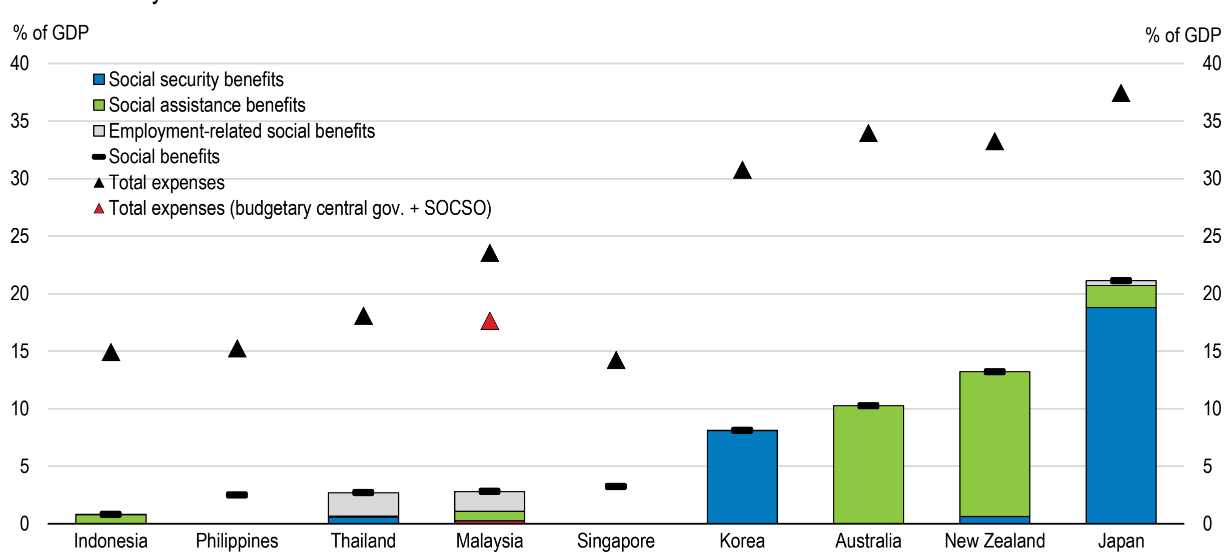


Note: The ageing-related spending scenario assumes that social assistance spending will increase by 10% of GDP by 2050 to reach levels currently observed in Australia and New Zealand, two countries without broader social security systems. The old-age dependency rate (+65/15-64) of Malaysia is assumed to reach 25% by 2050 (UN World Population Prospects 2019), which is similar to the current levels of Australia and New Zealand. The scenario “with offsetting measures” assumes that measures to offset the cost of ageing, including revenue raising measures, are sufficient to reduce the primary deficit to zero by 2030 and it remains stable thereafter. Nominal GDP growth rates are assumed to be 7% from 2023 onwards for the high-growth case (respectively 5% for the low-growth case). Interest rates are set to be at its historical average of 4%.
Source: OECD calculations.

StatLink https://stat.link/zmehsa

Figure 1.14. Malaysia’s social spending is low relative to total expenditure

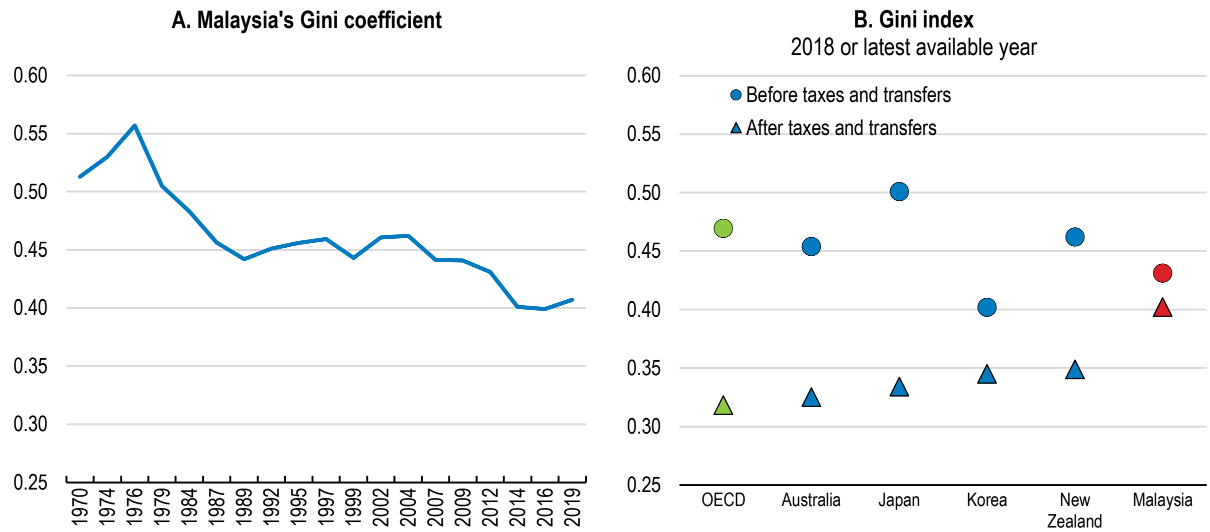
2019 or latest year available



Note: Expenses are recorded on a general government basis, unless otherwise indicated. For Malaysia, except for the "total expenses", expenses cover budgetary central government (central government excluding statutory bodies) and SOCSO. SOCSO is considered as social security fund. Social benefits consist of spending by social security system (social security benefits), other spending (social assistance benefits) and benefits to government officials (employment-related social benefits). Singapore and the Philippines do not have the breakdown.
Source: IMF, Government Financial Statistics and World Economic Outlook databases; Malaysia's Social Security Organisation (SOCSO), Annual Report; and OECD calculations.

StatLink https://stat.link/64v3ho

Figure 1.15. Inequality has declined, but the tax and transfer system needs to be more efficient

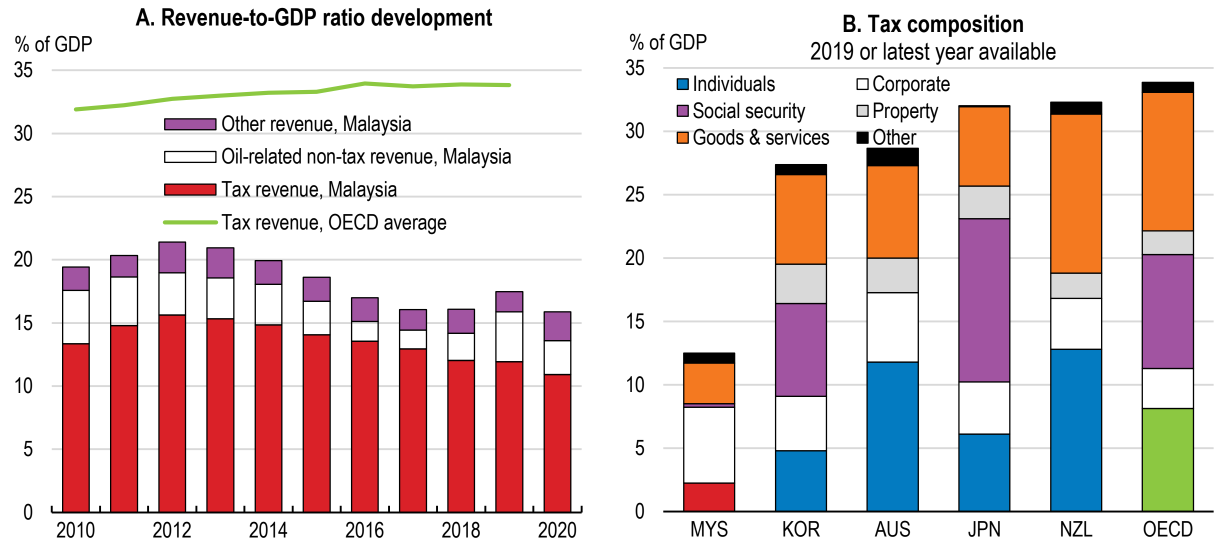


Note: In panel A, the Gini coefficient is based on gross income, which includes taxes and transfers receivable but excludes those payable. Before 1979, it refers to Peninsular Malaysia only. Since 1989, data is based on Malaysian citizens.
Source: DOSM, Household Income and Basic Amenities Survey, Table 10.6; OECD (2021), Income Distribution Database; F. Solt (2019), "The Standardized World Income Inequality Database, Versions 8-9", Harvard Dataverse, V5, https://doi.org/10.7910/DVN/LM4OWF.

StatLink https://stat.link/bcx84o

The ratio of federal government revenue to GDP has declined for years (Figure 1.16). The government first needs to strengthen tax compliance and efficiency of tax collection, while securing the transparency of its enforcement. The government has made considerable efforts to expand its tax base by introducing new taxes (Table 1.4), but overall tax base could also be broadened through reviewing tax relief and exemptions. The introduction of the Goods and Services Tax (GST of 6%) in 2015 helped shore up the federal government revenue considerably. Nevertheless, the GST was repealed in 2018 amid the concern about its regressivity affecting the purchasing power of low-income households, and the former Sales tax and Service tax were reintroduced (also 6% for the Service tax but on a narrow list of products). Considering the efficiency of tax collection and the needs to raise revenue, the government could consider reintroducing the GST in the medium term, while enhancing overall social protection, including through social transfers targeted at low-income and vulnerable households (Table 1.5). In terms of the personal income tax, the progressivity was enhanced in 2020, introducing a new bracket of above MYR 2 million per annum subject to a 30% tax rate (before 28%). The progressivity needs to be enhanced further in the medium term, while strengthening the efficiency of tax collection (Box 1.2). The overall design of the personal income tax could also be strengthened through reviewing its tax base, which has been narrowed by various tax relief and exemptions. Some of these tax relief and exemptions would be less targeted and regressive, adding administrative costs.

Figure 1.16. Malaysia's tax revenue is low and has declined



Source: Ministry of Finance; DOSM; OECD, Tax Revenue Statistics database.

StatLink https://stat.link/w60n51

Table 1.4. Past recommendations on macroeconomic policies

Recommendations	Action taken since July 2019
Prepare for unexpected shocks by building fiscal space. The fiscal medium-term trajectory should aim at cutting the budget deficit further than the target of 2% of GDP to create a buffer in case of unexpected shocks.	• The Parliament Special Select Committee on Budget was established in 2019 to scrutinise and oversee the federal budget matters. In July 2019, the committee issued eight recommendations to improve debt and liabilities management, including regular reporting of government debt and liability positions to the Parliament. In August 2019, the mid-year review of the 2019 Budget was tabled to the committee to enhance fiscal transparency. • The *Fiscal Outlook and Federal Government Revenue Estimates 2020* showed for the first time a debt sustainability analysis to strengthen the monitoring of fiscal consolidation efforts.
Monetary policy should remain vigilant to downside risks.	• In January 2020, Bank Negara Malaysia reduced its policy rate by 25bps to 2.75% as a pre-emptive measure. From March to July 2020, the central bank further cut the policy rate to 1.75% to tackle the economic downturn caused by the pandemic.
Raise tax revenue ratio to GDP by further improving efficiency of tax administration, broadening tax bases, and increasing indirect tax revenue, in particular consumption-related taxes to reduce reliance on oil-related revenues.	• Tax base has been continuously broadened. New taxes were introduced concerning imported taxable services (2019) and digital services purchased through foreign service providers (2020). In 2021, the tourism tax was extended to accommodation services booked through online platforms and an excise duty on electronic cigarettes was introduced.
Strengthen targeted cash transfers to low-income people and access to public services.	• In 2021, Bantuan Sara Hidup (BSH), a social assistant programme to the bottom 40% income group was revamped as the Bantuan Prihatin Rakyat (BPR) programme, which offers a higher amount of cash aid and becomes more targeted. In addition, during the pandemic, a one-off cash transfer programme for low-income people, Bantuan Prihatin Nasional (BPN), was introduced.
Ensure full compliance with the proposed Government Procurement Act.	• Instead of having the proposed Act, the enhancement of the government procurement rules and regulations has been considered. • The existing rules and regulations under the Treasury Circulars have been reviewed to strengthen compliance and governance, but no legislative reform has been implemented.
Accelerate the enactment of a Fiscal Responsibility Act.	• A Steering Committee, consisting of related ministries and the central bank, was established in 2019 to prepare a legislation draft of the Act. • Technical assistance has been provided by the IMF to formulate the draft legislation. A workshop was held in 2020.

Table 1.5. The fiscal cost of reforms is modest

Additional annual costs, % of GDP

Reforms	Details	Fiscal costs
Matching grants for platform workers' contribution to employment injury insurance	Based on government contribution provided to platform workers during the pandemic (MYR 163 for 7 months, 70% of the total contribution) and the estimation on the number of platform workers (gig workers) by the Department of Statistics Malaysia (DOSM), 0.6 million in 2018.	0.01
Matching grants for platform workers' pension contribution	Based on the current scheme (i-Saraan: annual government contribution up to MYR 250) and the estimation on the number of platform workers (gig workers) by the Department of Statistics Malaysia (DOSM), 0.6 million in 2018, while assuming that 0.1 million of them already contribute to the scheme.	0.01
Matching grants for self-employed workers' pension contribution	Based on the assumption that a similar scheme to i-Saraan (annual government contribution up to MYR 250) is applied to all self-employed workers (3.3 million in 2019). Those who have already contributed to the EPF voluntarily and the additional fiscal cost for platform workers calculated above are excluded.	0.04

Source: OECD calculations.

Box 1.2. Malaysia's main taxes

Among Malaysia's federal taxes, the corporate income tax, the personal income tax, and the Sales Tax and Service Tax (SST) (Figure 1.16, Panel B) constitute the major revenue sources.

Corporate income tax

Companies with paid-up capital of not more than MYR 2.5 million are subject to a 17% tax rate up to the chargeable income of MYR 600 000 and 24% on the incomes exceeding that amount. The tax rate for companies with paid-up capital of more than MYR 2.5 million is 24%.

Personal income tax

Individuals are required to pay tax on all kinds of earnings, including interest and dividends. Tax rates progressively increase according to the increase in chargeable incomes (taxable income minus tax deductions and tax relief). The lowest rate is zero (chargeable income MYR 0-5 000), and the highest is 30% (chargeable income above MYR 2 million).

Sales Tax and Service Tax (SST)

The SST consists of two different taxes, namely, the Sales tax and the Service tax. The Sales tax is a single stage tax levied on imported and locally manufactured goods, when these goods are imported or sold by manufacturers. The Sales tax rates varies depending on goods (5%, 10%, a specific rate or exempted). The Service tax is a tax charged and levied on taxable services provided by any taxable person in Malaysia in the course of its business. The tax is due and payable when the taxable person sells taxable services to customers. The Services tax rate is 6%. Firms exceeding a certain income threshold need to pay the SST.

Source: Royal Malaysia Custom Department, Inland Revenue Board of Malaysia.

Nevertheless, the increasing cost of ageing could not be addressed only by the strengthening of tax revenue, adding more difficulties to fiscal consolidation. A more comprehensive macroeconomic approach beyond fiscal policy would also be helpful. For example, a number of countries have raised a pensionable age to mitigate the fiscal cost of pension payment. As Malaysia adopts a collective defined contribution scheme for private sector employees (see below), raising the eligible minimum age of withdrawal does not have direct fiscal impacts. Nevertheless, encouraging more elderly people to stay longer in the labour force would bring about multiple economic benefits. Increasing labour input would push up economic growth. It would also help reduce old-age income poverty and thus government social spending, and raise government revenue. While the statutory retirement age of public sector workers has risen to 60, the pensionable age of private sector employees is still 55, which is much lower than most OECD countries (assuming a full career from age 22, the average age across the OECD countries, at which individuals are eligible for retirement benefits, was 64.2 in 2018 (OECD, 2019[9])).

Anti-corruption remains a priority

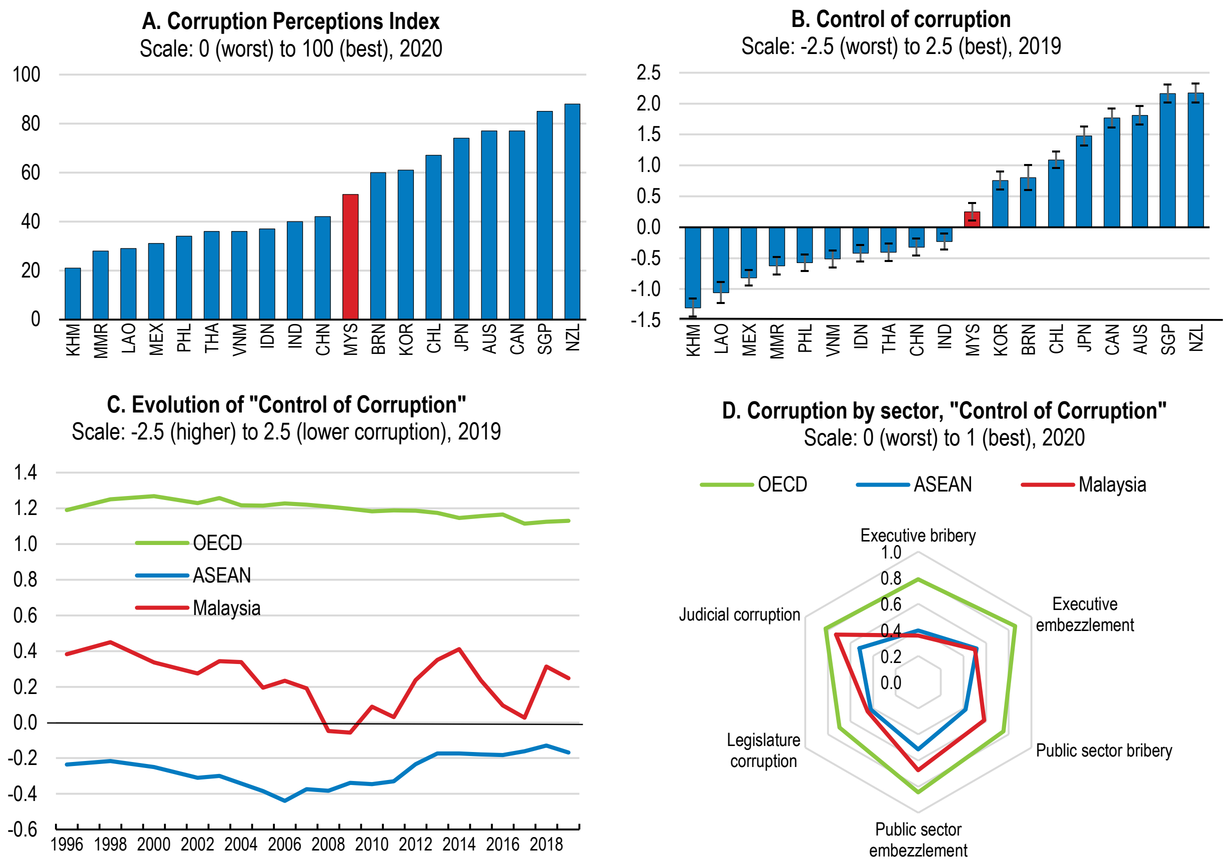
Public sector integrity is essential to establish trust in governments, which in turn helps promote higher compliance of citizens with laws, including the payment of taxes. Malaysia has progressively strengthened its public sector integrity for years. In 2009, the Anti-Corruption Agency (ACA) established in 1967 was converted to the Malaysian Anti-Corruption Commission (MACC). The Whistleblower Protection Act was introduced in 2010, much earlier than in many other countries. In addition, a major reform started after the general election in 2018, upon a still-disputed large-scale embezzlement case related to a state-owned fund, 1Malaysia Development Berhad (1MDB) (OECD, 2019[10]). The Special Cabinet Committee on Anti-Corruption (JKKMAR) led by the Prime Minister and its secretariat, the National Centre for Governance, Integrity and Anti-Corruption (GIACC), were set up to monitor anti-corruption measures enshrined in the National Anti-Corruption Plan (NACP) 2019-2023 (Table 1.6).

The new government formed in March 2020 inherited the reform programmes that had started in 2018. Together with the Malaysian Anti-Corruption Commission (MACC), the Special Cabinet Committee on Anti-Corruption (JKKMAR) and the National Centre for Governance, Integrity and Anti-Corruption (GIACC) continue to be the core of the government’s anti-corruption undertakings. The 115 initiatives in the NACP have been steadily implemented. For example, in 2019, the Parliament passed a bill to establish the National Anti-Financial Crime Centre (NFCC), which would strengthen the coordination of government bodies in combating financial crimes and integrating enforcement. The amendment of the Malaysian Anti-Corruption Commission (MACC) Act 2009 (Section 17A) passed in 2018 by the Parliament was enforced in 2020. Under the revised Act, all commercial organisations or associated persons can be found guilty by the courts if these persons are charged for committing corruption offences for the benefit of their organisations. Further reforms are under way, such as the improvement of the public procurement rules and regulations, among others. Accordingly, overall Malaysia has improved its evaluations in a range of international assessments for the past years (Figure 1.17) (Figure 1.18).

Table 1.6. Past recommendations on public sector integrity

Recommendations	Action taken since July 2019
Monitor and evaluate rigorously the implementation of the National Anti-Corruption Plan (2019-2023)	• The National Centre for Governance, Integrity and Anti-Corruption (GIACC) published in 2020 a progress report of the National Anti-Corruption Plan (2019-2023). The plan includes 115 initiatives, of which 30 were to be implemented in 2019. As of December 2019, 29 initiatives were completed, while the rest of 86 initiatives were still in progress.

Figure 1.17. Malaysia has stepped up its anti-corruption efforts

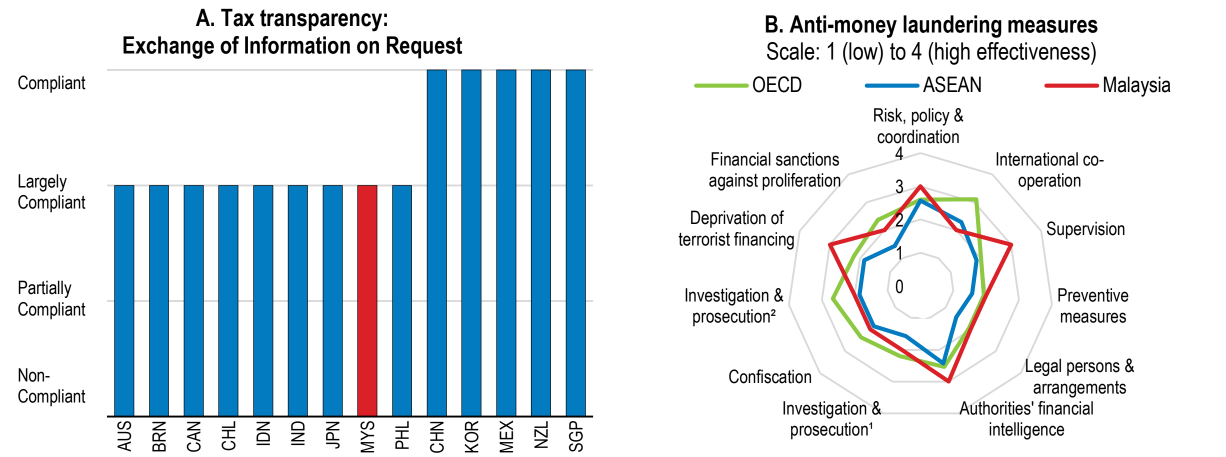


Note: Panel B shows the point estimate and the margin of error. Panel D shows sector-based subcomponents of the "Control of Corruption" indicator by the Varieties of Democracy Project.
Source: Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: Varieties of Democracy Project, V-Dem Dataset v11.

StatLink https://stat.link/sojqmh

The strong anti-corruption momentum should be maintained, and needs to evolve towards a more robust framework. Particularly, recent cases highlighted the close and opaque relationship between public and private sectors, resulting in heightened risks of undue influence, nepotism, and regulatory and policy capture (Dettman and Gomez, 2020[11]). This calls for policy reforms in the area of political party financing, as unlimited anonymous party donations are still allowed and political parties can own businesses. The Public Service Act needs to be introduced to ensure an apolitical public service with greater clarity and accountability, and lobbying needs to be regulated as well as pre- and post-public employment. Moreover, the independence and enforcement power of the Malaysian Anti-Corruption Commission (MACC) could be further enhanced. Currently, the MACC is given mandate of investigation as MACC officers can arrest a suspect without warrant. Nevertheless, prosecutorial discretion remains with the Attorney General's Chambers. Moreover, a Chief Commissioner is appointed by the King on the advice of the Prime Minister for the period specified at the appointment. The appointment of the Chief Commissioner would be more transparent if a Parliamentary committee could recommend the nomination, and the tenure would be secured by law. In addition, there may be room for improvement in the Whistleblower Protection Act, as the Legal Affairs Division of the Prime Minister's Department (BHEUU) has been working on this issue. The enforcement of the Act is under the purview of each government agency. This would discourage potential whistleblowers in fear of weak protection (Bajpai and Myers, 2020[12]), and the Act does not provide protection for those who disclose allegations to the media.

Figure 1.18. Malaysia's anti-money laundering has progressed



Note: Panel A summarises the overall assessment on the exchange of information in practice from peer reviews by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Peer reviews assess member jurisdictions' ability to ensure the transparency of their legal entities and arrangements and to co-operate with other tax administrations in accordance with the internationally agreed standard. The figure shows first round results; a second round is ongoing. Panel B shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution[1]" refers to money laundering. "Investigation and prosecution[2]" refers to terrorist financing.
Source: OECD Secretariat's own calculation based on the materials from the Global Forum on Transparency and Exchange of Information for Tax Purposes; and OECD, Financial Action Task Force (FATF).

StatLink https://stat.link/rjf64e

The governance of state-owned enterprises has also been strengthened. In 2018, the government issued a directive to require all state-owned enterprises (SOEs) to establish an Integrity and Governance Unit (IGU) in order to strengthen internal controls and prevent the risk of corruption and abuse of power. The Malaysian Anti-Corruption Commission (MACC) is mandated to monitor the implementation of this directive. From 2019, preparing an Organisational Anti-Corruption Plan (OACP) has become mandatory for all government agencies, including SOEs, to assess corruption risks in their administrative or business operations. Nevertheless, despite efforts to limit the role of politicians in statutory bodies and SOEs, political appointments continue to be made for board and chairman positions and threaten the autonomy of SOE decision-making bodies. In this regard, Malaysia could benefit from adopting the recommendations of the OECD Guidelines on Anti-Corruption and Integrity in State-Owned Enterprises (OECD, 2019[13]) (OECD, 2020[14]).

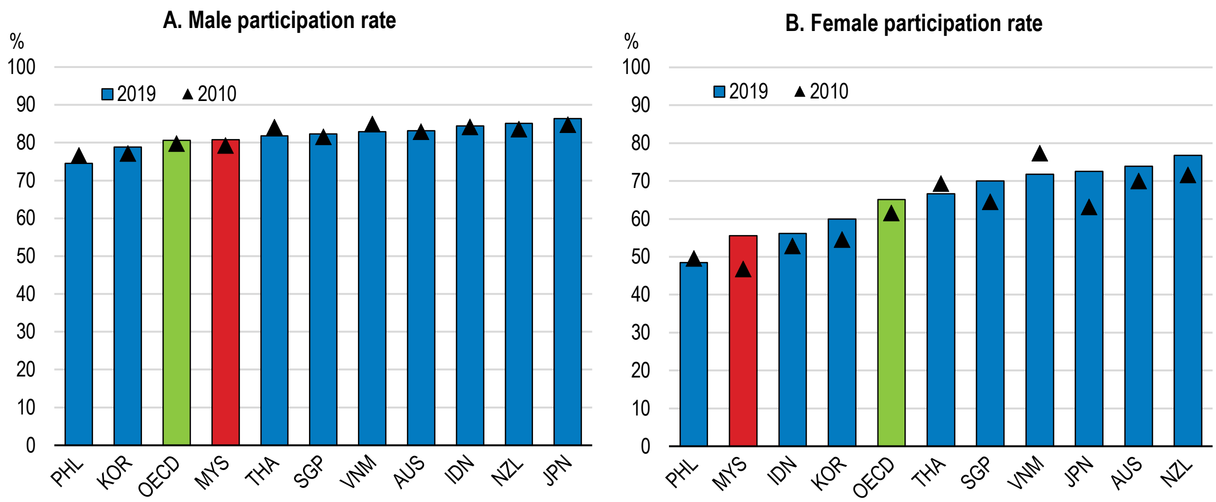
The pandemic-hit labour market calls for more social protection

A decade-long inclusive progress before the pandemic is being challenged

Before the pandemic, Malaysia's labour market saw a distinctive advancement in its inclusiveness. Female labour force participation increased dramatically in the last decade (Figure 1.19). Although it was short of a 59% target set in Malaysia's 11th five-year Plan for 2020 and still low compared with some other countries, the participation of women aged 15-64 rose to 56% in 2019 from 47% in 2010. As a result, the increase in the number of employed females was larger than that of males. While the rise of education attainment played a significant role, participation of female workers increased in all age categories. The entry of more women in the labour force pushed up the total labour force participation rate (aged 15-64) from 64% in 2010 to 69% in 2019, helping the economy achieve high growth.

Figure 1.19. Malaysia's female labour participation rate has increased rapidly

As a percentage of the population of the same gender aged 15-64



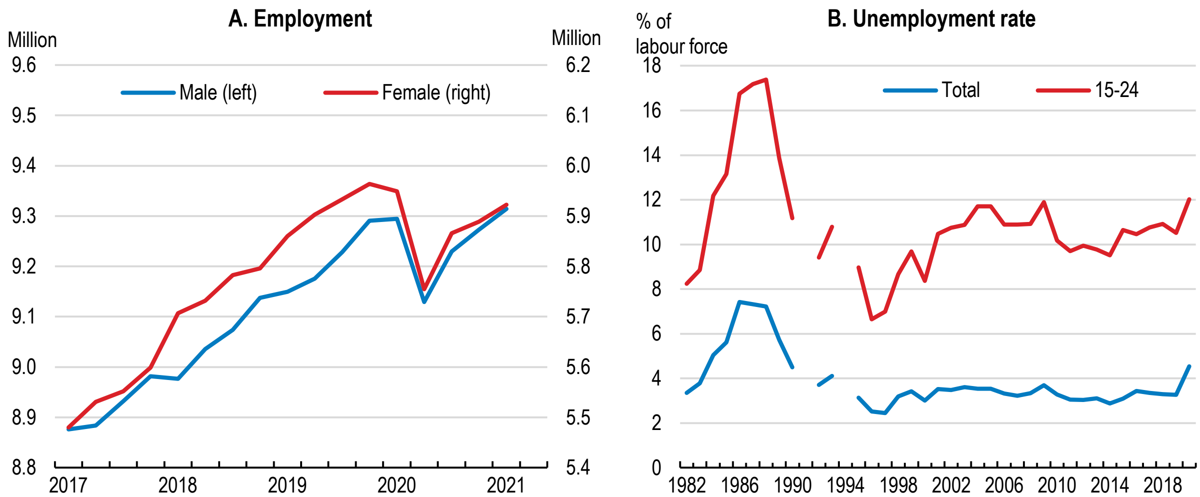
Note: For Singapore, data in 2010 refer to 2012.
Source: OECD, Labour Force Statistics database; ILO; CEIC.

StatLink https://stat.link/5utqkr

Another welcome development was that low-income households gained additional purchasing power in the late 2010s. Between 1999 and 2019, gross income (market income + social transfer received) grew at annual 8% for the bottom 40% households, while growth for the top 20% was 6%. Policy efforts to ameliorate employment conditions have also supported this development. In 2013, Malaysia introduced a minimum wage, and it has been raised progressively. The minimum wage was standardised in 2018 across the country to MYR 1 100 per month (USD 273), a rise from MYR 1 000 (USD 241) in Peninsular Malaysia and MYR 920 (USD 222) in East Malaysia in 2016, followed by another increase to MYR 1 200 (USD 286) in 56 city and municipal council areas in 2020.

Nevertheless, the pandemic has posed a significant challenge. Although being in the course of a gradual recovery, the labour force participation rate has dropped both for male and for female, particularly sharply in Q2 2020. The number of the employed has not yet recovered (Figure 1.20, Panel A), and the unemployment rate reached a historically high level of 5.3% in May 2020, although it has levelled off since then (Figure 1.20, Panel B). The current crisis has therefore revealed weaknesses in social and labour market policies in Malaysia, in particular the lack of sufficient social protection of the most vulnerable people – women, youth, the self-employed, less-educated, and migrant workers, including those in the informal sector (Cheng, 2020[15]). The impact on these people, which is likely to persist, calls for a revision of labour and social policies.

Figure 1.20. The pandemic has affected females and young workers disproportionately



Source: DOSM, Labour Force Surveys.

StatLink https://stat.link/cnjsi6

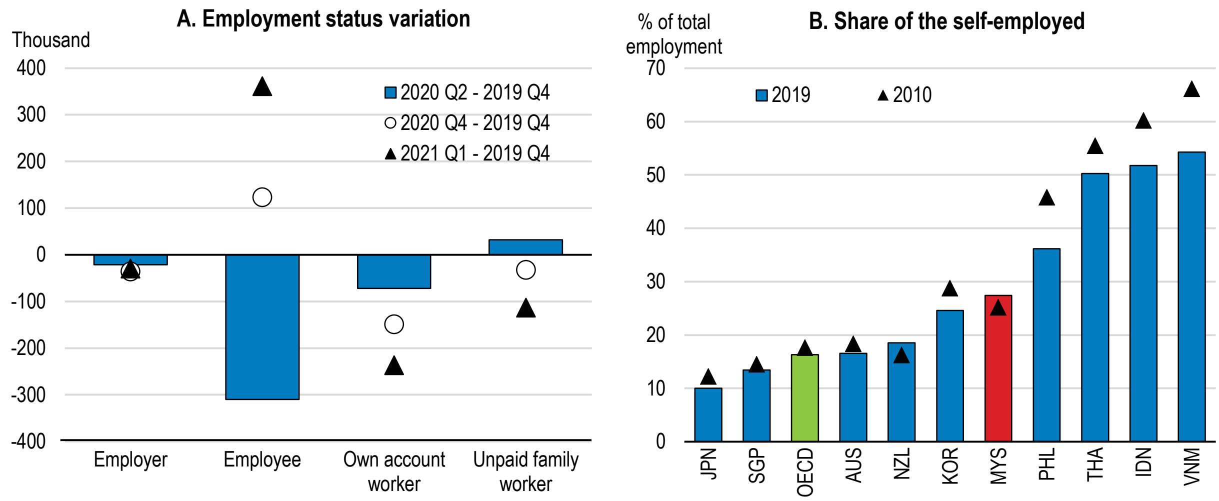
Encompassing the self-employed would make social protection more inclusive of women

In many countries, due to tighter restrictions on physical contact and border controls, the pandemic hit certain sectors and occupations more than others, calling for targeted policy actions by governments. In Malaysia, the self-employed have been hit hardest. While the number of employees have already returned to the pre-crisis level, partly thanks to the government's job-retention scheme, the situation has not improved for the self-employed (Figure 1.21, Panel A).

This also means that the pandemic has challenged Malaysia's decade-long improvement in the labour market. Between 2010 and 2019, the self-employed accounted for one third of the increase in female employment (0.6 million out of 1.7 million), a level larger than that of male (0.2 million out of 1.5 million). This pushed up the female share in all self-employed to 38% from 25%, while raising the share of the self-employed in total employment for Malaysia (Figure 1.21, Panel B). These self-employed are concentrated in the wholesale and retail trade sector, and the accommodation and food services, which have been directly hit by the health crisis. Even after the pandemic is over, some of these lost jobs may not return for a long time. Hence, the enhancement of social protection for the self-employed is crucial to avoid losing gains from the past progress made in integrating women in the economy.

Apart from its universal healthcare services, Malaysia has a three-tier social protection system. The first tier is an income support scheme directed towards the most vulnerable households. The second is employment insurance, which comprises an insurance scheme for job-related injuries provided by the Social Security Organisation (SOCSO) and unemployment benefits for employees (the Employment Insurance System, EIS), the latter of which was set up in 2018. The third tier is a well-established pension system mostly for employees. While entrepreneurship has been encouraged in Malaysia, the self-employed are less covered by social protection, particularly with second and third tiers of the social protection system. In addition, the minimum wage cannot be applied to the self-employed.

Figure 1.21. The job recovery of the self-employed has been weaker than for regular employees



Source: DOSM, Labour Force Surveys; World Bank, World Development Indicators database.

StatLink https://stat.link/rbo73p

In many countries, employers pay social security contributions for employees, but the self-employed do not (OECD, 2018[16]). If the difference is large, this creates skewed incentives for both employers and the self-employed, leading to an inefficiently high level of self-employment. In particular, firms tend to hire workers as self-employed contract workers, not as employees, to save costs. Some countries have reviewed their unbalanced taxes and social contributions between employees and the self-employed. For example, in Austria, employers need to pay the same social security contributions for contract workers as standard employees.

Against this background, the government has decided to enhance the social protection of the self-employed. The Social Security Organisation (SOCSO) introduced in 2017 a mandatory employment insurance (mostly for injuries) for taxi, e-hailing and bus drivers. In January 2020, the government extended the coverage of the scheme to 19 other sectors, including hawkers. In addition, during the pandemic, as a temporary measure, the government introduced an additional scheme for platform workers, in which the government subsidies 70% of SOCSO contributions for platform workers.

Nevertheless, there is some room for improvement. In many countries, a large part of employees are covered by the social protection system, while the self-employed pay fewer taxes and social security contributions than employees as they receive less social protection. Moreover, potential moral hazard problems exist in providing social protection to the self-employed. For example, it is difficult to distinguish whether or not they are unemployed. Nevertheless, amid the rise of dependent self-employed workers, which include platform workers, some countries have extended the statutory coverage of employment insurance. For example, Portugal introduced in 2012 unemployment insurance for contract workers who rely mostly on single employers. In addition to extending the statutory coverage of job-related injury insurance to the self-employed in more sectors, including platform workers, Malaysia could consider an unemployment benefit scheme for the dependent self-employed.

Moreover, access to training opportunities should be equally provided for both employees and the self-employed. In Malaysia, firms with more than ten employees need to pay levies to the Human Resource Development Corporation (HRD Corp), which provides training programmes for employees. Therefore, the training schemes prepared by the government focus more on entrepreneurs and contract workers, including freelancers for digital services, which is appropriate. The government sponsored schemes include eUsahawan, a technical and vocational education and training (TVET) for entrepreneurs, and eRezeki and the Global Online Workforce (GLOW) programme for digital freelancers (see below).

To further enhance training opportunities for the self-employed, personal training accounts attached to lifelong training mechanisms would be useful to provide portable training rights for the self-employed (OECD, 2019[17]). For example, in France, individual training accounts (Compte Personnel de Formation (CPF)) cover all adults, including the self-employed and job seekers, to which employers are main contributors (the self-employed persons pay a flat-rate contribution) (Perez and Vourc'h, 2020[18]). Individuals can accumulate training credits on their individual accounts based on the time spent in employment and working time during the year, which can only be used by the individual. The Netherlands is planning to introduce from 2022 a personal learning subsidy scheme, the Simulans Arbeidsmarktpositie (STAP) budget ((Permanent Representation of the Netherlands to the European Union, 2020[19]). Every person over 18 and below pension age can apply for a government subsidy for lifelong learning, which is expected to complement the development of private-sector's individual learning accounts.

The pandemic also revealed the long-term vulnerability of the self-employed during economic shocks, which makes it difficult to prepare for retirement, as pension systems may have biases against them. A number of countries have different pension systems for employees and the self-employed. In Malaysia, all private-sector employees are obliged to participate in a government-run pension fund, the Employees Provident Fund (EPF), which is a defined contribution scheme. Both employers and employees must contribute. Government officials, including army officials, are members of independent pension schemes, which are funded by government revenue. Public sector workers not included in the government schemes must contribute to the EPF with the federal and state governments contributing for the employer shares. Sole proprietors, the self-employed and workers in the informal sector can contribute to the EPF voluntarily, but their participation rate is lower.

Moreover, the number of female self-employed workers has increased more rapidly over the past decade than that of males. Most of them are not covered by pension (Figure 1.22). In addition, this increase has been concentrated on younger generations, suggesting that some of them could not prepare sufficiently for their retirement. Between 2011 and 2019, female self-employed workers below 40 years of age increased by 0.4 million, while the total increase in the number of female self-employed workers below the age of 64 was 0.6 million. This is consistent with the fact that, compared with the increase in the total number of female employed workers below the age of 40, the increase in female contributors to the Employees Provident Fund was smaller for the same age group during the same period. As the pandemic shows, the self-employed are more prone to be affected by economic downturns. It is therefore crucial to help them prepare for their future retirement, as the relative poverty rates among the elderly are higher than the youth and working generations.

Some countries have expanded the pension coverage of the self-employed. For example, in Austria, some categories of contract workers, such as lecturers, artists, scientists, journalists, writers, among others, have been covered by social protection (health, pensions and accidents), including pensions, since the 1990s. Other countries have special schemes for the self-employed. For example, the German artists' insurance is a mandatory scheme for artists and writers that provides health, pensions and long-term care insurance. A public subsidy covers 20% of contributions and 30% by services users, such as publishers.

Figure 1.22. Female self-employed workers increased, but social protection is weak

Change during 2011-2019

Note: The age band for Employees Provident Fund (EPF) members is 16-65 while it's 15-64 for employment. The number of government officials is assumed to be equal between 2011 and 2019. Kumpulan Wang Persaraan (KWAP) contributing members, which consist of the employees of statutory bodies, local governments and agencies, are evenly distributed between male and female.
Source: KWAP and EPF, Annual Report, 2011 and 2019; DOSM, Labour Force Surveys.

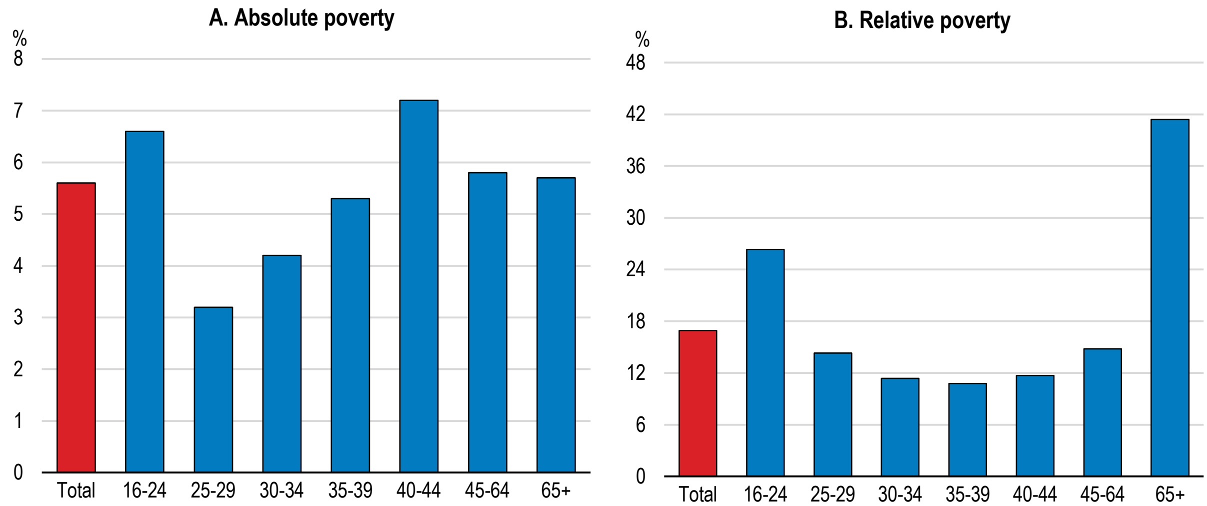
StatLink https://stat.link/qs4nvr

In Malaysia, the government has encouraged voluntary contribution to the Employees Provident Fund (EPF). The EPF set up in 2018 the i-Saraan programme, to which the self-employed below the age of 55 who do not earn regular income can make voluntary contributions for their retirement savings up to a maximum of MYR 60 000 per year. In this programme, the government provides a matching contribution amounting to 15% of the total contribution or maximum MYR 250 per year until 2022. Although the up-take increased from 98 874 in 2018 to 120 738 in 2019 (Annual Report, EPF), it is still small (4% of the total self-employed). To enhance the social protection of the self-employed, in the medium term, the government could consider making the contribution by employers compulsory for dependent self-employed workers (contract workers), while maintaining the matching contribution scheme for other self-employed workers.

As not all elderly people are covered by the pension schemes, currently, the first-tier income supports provide a basic backstop for elderly people with lower or no income. Nevertheless, old-age poverty continues to prevail (Figure 1.23). Lower income households are mostly among the elderly, which suggests that the income support is not sufficient to alleviate old-age poverty. The problem of old-age poverty is likely to worsen with the upcoming ageing of the population. This calls for expanding the pension scheme coverage beyond workers. In this regard, the i-Suri programme launched in 2018 provides an incentive for women registered under the e-Kasih Database (a national poverty database), mostly housewives, to contribute to the EPF. The government offers a matching contribution of up to MYR 480 per year upon a minimum contribution of MYR 5 per month made by the members. In 2019, 81 511 individuals contributed through the scheme, up from 63 297 in 2018 (Annual Report, EPF). The government could further utilise matching schemes to expand the pension coverage to other groups, including those out of labour force.

Figure 1.23. Poverty rates are high among elderly people

2019 data



Note: According to the Malaysian 2019 definition, absolute poverty is characterised by a monthly income less than MYR 2 208 for a household with an average size of 3.9 persons. Relative poverty is defined as a household earning less than half the median monthly income of MYR 5 873.
Source: DOSM (2020), Household Income and Basic Amenities Survey Report 2019, Tables 6.2 and 7.2.

StatLink https://stat.link/zky4d5

Box 1.3. An overview of Malaysia's pension system

Malaysia has pension schemes that covers mostly employees, but available for the self-employed and non-workers.

Employees Provident Fund (EPF)

The EPF is a publicly run defined contribution scheme. Employers and employees of the private sector are required to contribute to the scheme. The minimum contribution rates of employers and employees are 12% and 11% respectively for employees earning more than MYR 5 000, and 13% and 11% for those who earn below MYR 5 000. Due to the pandemic, the employee contribution rate has been temporarily reduced to 7% from April 2020 to December 2020 and 9% from January 2021 to December 2021. Withdrawal is available from the age of 55, while contribution is accepted up until the age of 75. The self-employed can voluntarily contribute to the EPF up to MYR 60 000 per year.

Public sector pension

The public sector pension is a defined benefit scheme funded by government general revenue. Government officials are covered by this scheme, and a lump sum gratuity and monthly allowance (maximum 30 years) are provided. The mandatory retirement age has been raised gradually from the original 55 in 1951 to 60 in 2012. A trust fund was established in 1991 to manage the finance of the pension scheme, which in 2007 became the Retirement Fund (Kumpulan Wang Persaraan, KWAP).

Armed Force Retirement Fund (LTAT)

This is a defined contribution pension scheme for the armed force personnel, funded by both employers (the government) and employees. The mandatory age is 55, but as the enlistment period is shorter (12 to 21 years) than that of government officials, the pension would not provide full retirement finance to retirees.

Private Retirement Scheme (PRS)

This is a voluntary scheme starting from 2012, in which private fund managers offer pension saving products. Tax relief is provided to contributors.

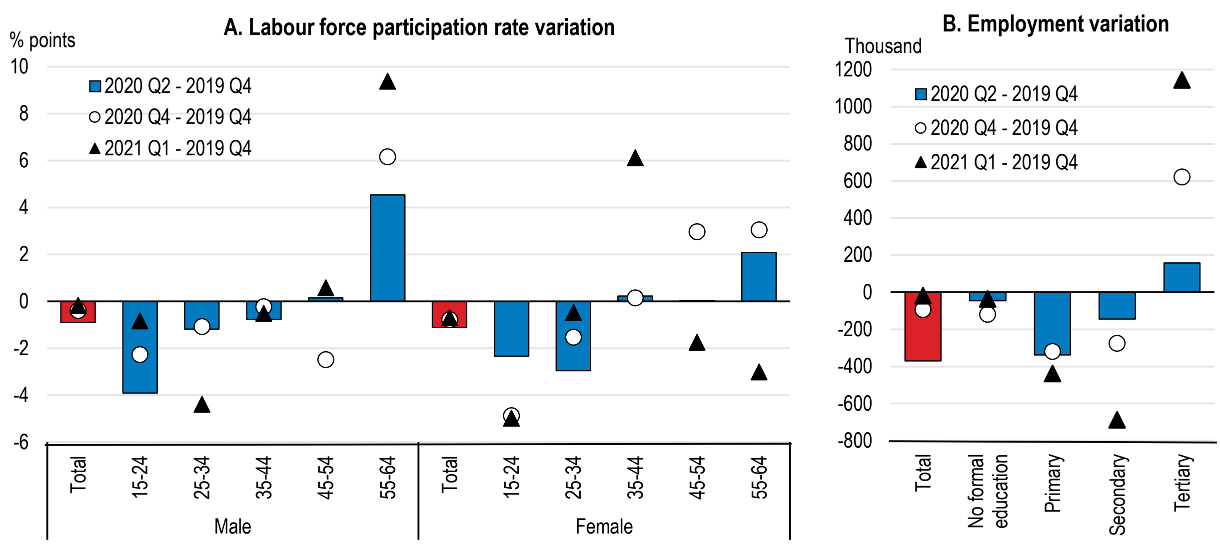
Source: (Nurhisham Hussein, 2019[20]).

Youth and less-educated people have been more affected by the pandemic

The pandemic hit young people more severely in many countries, including Malaysia. Even before the pandemic Malaysia had experienced high youth unemployment, similar to most other Southeast Asian countries. During the pandemic, young people were hit by unemployment, and the situation has not returned to pre-crisis levels (Figure 1.24, Panel A), with the risk of undermining their future employability. A protracted high unemployment of the youth risks causing long-term scarring effects. It is therefore crucial to provide them with job opportunities (Box 1.4).

Persons with tertiary education did not suffer from job losses during the pandemic. In contrast, those with only primary and secondary education saw a severe decline in employment opportunities (Figure 1.24, Panel B). The difference between the two groups has persisted and expanded since mid-2020, suggesting a divergence in the trends of sectors employing high-skilled and low-skilled workers. As the pandemic gets protracted, the job recovery in sectors employing low-skilled people, mostly in-person services, is likely to be very slow, and this calls for policy interventions to facilitate human resource reallocation among sectors.

Figure 1.24. Many young workers have not yet come back to the labour market



Source: DOSM, Labour Force Surveys.

StatLink https://stat.link/ekzg7r

Providing skills training opportunities, particularly for the youth, should be made a priority. The government launched in October 2020 the Penjana KPT-CAP programme, which consists of three different sub-programmes to new graduates in 2020 and those could not find jobs in 2019. The matching and placement programme aims to provide training in the partnership with the private business sector. The second entrepreneurship programme offers knowledge and know-how to start a business, and the gig economy programme trains graduates to get a freelancer job. Under the matching and placement programme, the participating companies are expected to offer a job to graduates after they are certificated with a six-week training course. This programme should be continued until employment prospect improves for the youth, and programme could be enhanced further to improve job matching between the youth and SMEs. For SMEs, an economic hardship could also be considered as an opportunity to hire skilled workers, including new graduates, as SMEs cannot offer competitive wages when labour demand is strong.

In addition, while effective employment protection improves overall welfare of employees, the high cost of terminating jobs could make firms reluctant to hire new employees unintentionally. This would particularly affect the employment of young people who enter the labour market lately, as workers with longer tenure could remain on their jobs longer irrespective of their performances. Even in cases of wrongdoing, severance costs are relatively high, which is a source of complaint by domestic and foreign employers. According to the Global Competitive Index (Global Competitiveness Report, World Economic Forum), Malaysia's labour market is not overly rigid. It ranked 16th out of 141 economies for the labour market flexibility index in 2019. The score of the sub-index for hiring and firing practices was 5.0 (The best is 7.0), ranking 10th. Nevertheless, its redundancy costs were much higher than other countries (23.9 weeks of salary), with the rank of 109th, which implies that there is still some room for improvement, as a few crucial factors could act as a hindrance to overall labour market flexibility. After the Global Financial Crisis, a number of EU countries eased the strict dismissal regulations of regular workers to reduce dualism in the labour market (OECD, 2020[21]). For example, Italy introduce in 2015 the Jobs Act to eliminate the possibility of reinstatement and replace *ex ante* reconciliation procedures with *ex post* ones together with the abolishment of a special allowance for collective dismissals. Portugal adopted in 2013 laws to lower severance pay.

Easing employment protection must go hand in hand with greater support to the unemployed. While a range of social protection programmes are provided by various ministries and agencies, which could be more consolidated, the effectiveness of these programmes could be improved by adopting graduation mechanisms for recipients of the programmes linked with active labour market policies (ALMPs). This will require imposing some conditionality, such as compulsory enrolment in skills training programmes, on the eligibilities for these benefits.

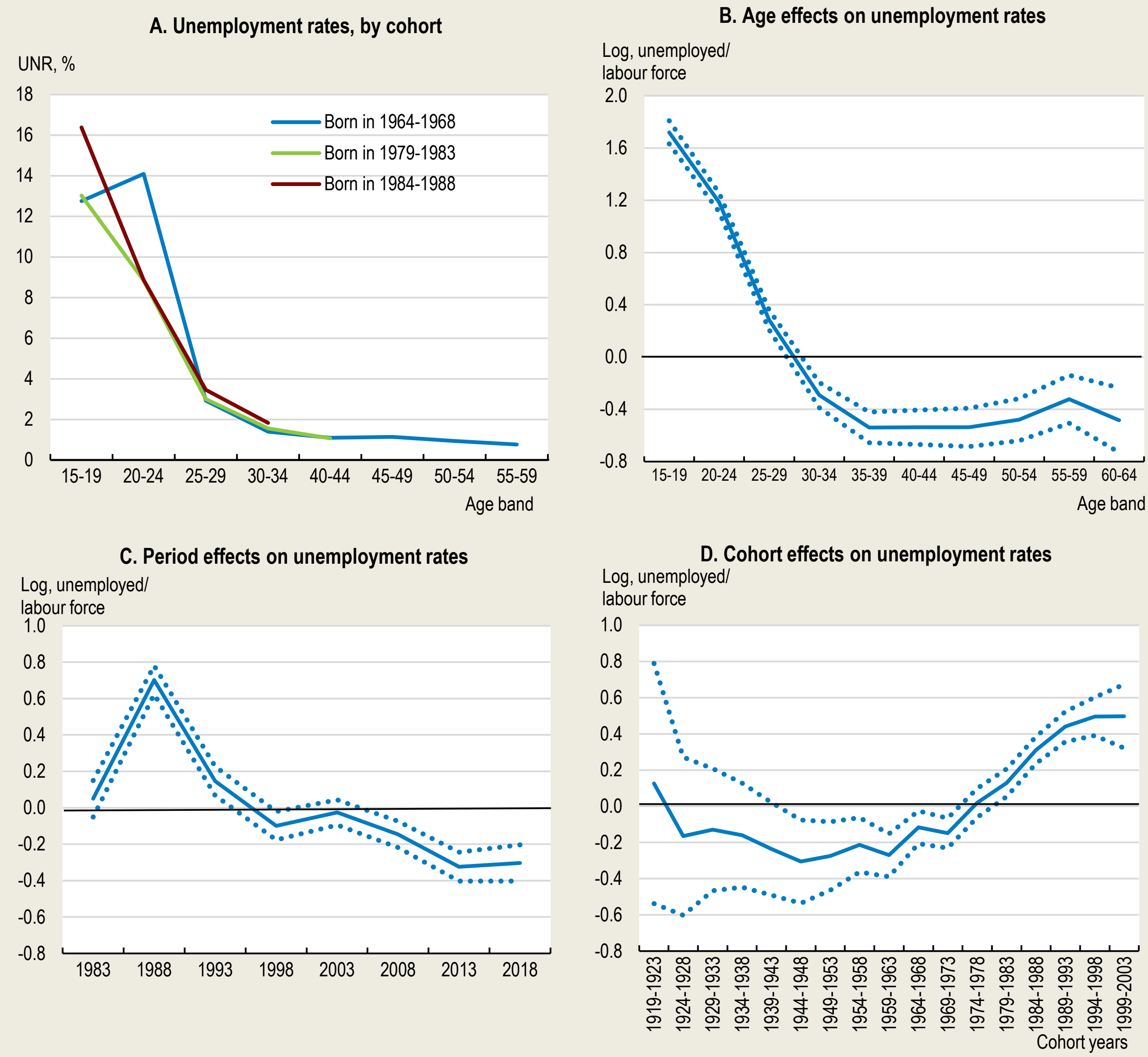
Box 1.4. High unemployment of young people risks affecting their employability

In many countries, including Malaysia, unemployment rates are higher for younger persons, and lower for older persons. This relationship generally holds for the unemployment profile of each generation, which suggests that the probability of being unemployed declines when a person becomes older. Nevertheless, unemployment profiles vary among different generations, because of different economic conditions that each generation experiences (Figure 1.25, Panel A). The groups of young people who face a severe economic shock typically suffer higher unemployment over the course of their life, because of the deterioration their employability stemming from scarce job experience.

To estimate the individual effects of, age, period and generation (cohort), a simple calculation was conducted by using an estimation method used in public heath analyses, such as incidence rates of a disease in population (Yang, Fu and Land, 2004[22]).

Estimation results suggest that the recent generations (born after 1980) who experienced high unemployment since the early 2000s when they first entered into the labour market are likely to face a higher probability of unemployment over the course of their work life (Figure 1.25, Panel D), although in general they are more likely to be employed as they get older (Figure 1.25, Panel B). In the meantime, the impact of the recession in the mid-1980s, a temporary economic shock, was likely to affect all generations significantly who were in the labour market at that time (Figure 1.25, Panel C).

Figure 1.25. Unemployment rates vary between different generations



Note: The dotted lines represent the 95% confidence intervals.
Source: DOSM, Labour Force Surveys and OECD calculations.

StatLink https://stat.link/1ftad0

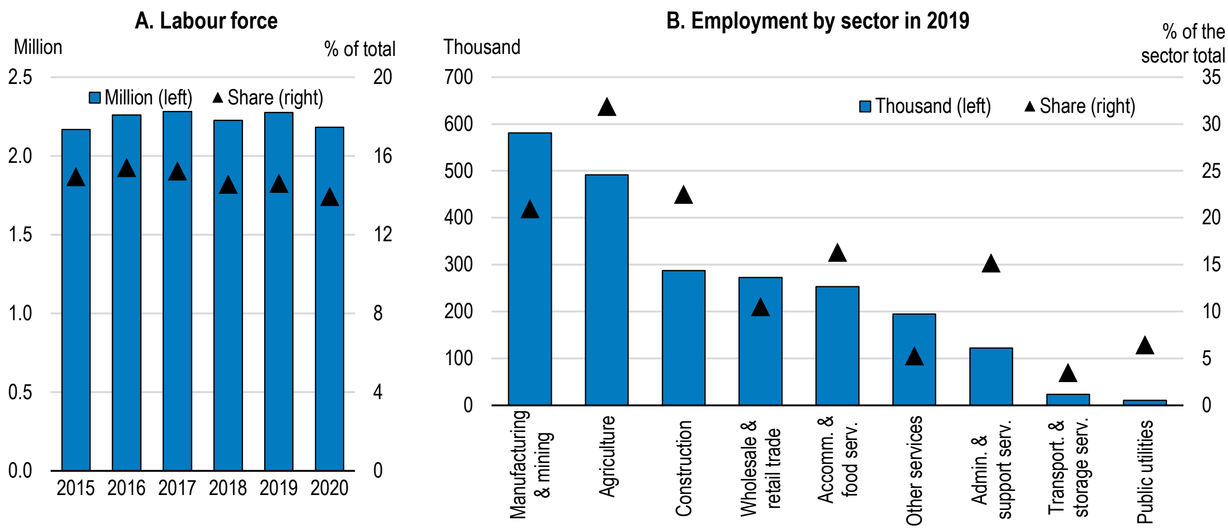
Foreign workers account for a significant share in Malaysia's labour market

Thanks to its high economic growth, Malaysia has long been attractive to foreign workers. According to the Labour Force Survey, as of 2019, 2.3 million non-Malaysian citizens were in the labour force, 15% of the total (Figure 1.26). Although it declined slightly in 2020 due to the restrictions on economic activities and border closures, the share of the non-Malaysian citizens still stood at 14% of the total labour force. Foreign workers are concentrated in specific sectors, notably manufacturing, agriculture and construction, and most of them are lower-skilled workers.

Malaysia adopts a two-track system to manage the entry of foreign workers, based on the skills levels of workers determined by monthly wages. Workers with wages above MYR 3 000 are categorised as skilled expatriates, whereas those with less than MYR 3 000 are classified as low-skilled foreign workers. Permitted skilled expatriates will be given an Employment Pass, which allows them to take a job contract up to five years. They could also become permanent residents. The inflow of low-skilled foreign workers is more rigorously controlled through a quota system, a Visit Pass, under which a number of additional conditions are imposed, such as the age of applying workers (18-45) and the maximum length of stay (ten years). Moreover, the Visit Pass system only applies to those who come from a list of 15 countries, and bilateral agreements restrict sectors that workers can apply to. For example, workers from Bangladesh can only apply to the plantation sector.

Figure 1.26. Malaysia provides a significant number of jobs for non-Malaysian citizens

Persons aged 15-64



Source: DOSM, Labour Force Surveys.

StatLink https://stat.link/proq70

In many countries, including Malaysia, low-skilled foreign workers (foreign workers) are more likely to be affected by economic shocks, and the sectors, which these workers work for, such as construction, have been severely damaged by the pandemic. During the pandemic, the government adopted some measures to address work conditions of migrant workers. Although an adverse incentive has been given to employers to replace foreign workers with local workers in sectors relying on foreign labour force, such as plantation and construction, foreign workers will be treated under the universal healthcare system for COVID-19 infection. A levy on employers who hire foreign workers has been reduced. The restrictions preventing foreign workers from changing jobs between sectors have been temporally lifted to reduce supply constraints of labour.

In this regard, the inclusiveness of the labour market could be improved. While imposing the tight control to the migrant flow, the government has been extending the coverage of social protection to low-skilled foreign workers for years. Foreign employees can opt to contribute to the Employees Provident Fund. From 2019, except for domestic helpers, all foreign workers migrated from the previous Foreign Workers Compensation Scheme, which had provided limited benefits, became eligible to employment injury insurance provided by the Social Security Organisation (SOCSO). Moreover, in 2021, the employment injury insurance extended its coverage to domestic helpers with the status of Malaysian citizens, permanent residents and foreign workers. The government could consider including foreign workers into the unemployment benefit system.

In addition, although Malaysia manages the flow of low-skilled workers, previous study suggests that there are a significant number of undocumented (irregular) foreign workers. According to the World Bank, the total number of foreign workers, when irregular foreign workers are also included, would be likely to be in the range of 3 million to 3.3 million in 2017 (Yi et al., 2020[23]). The lower band is slightly higher than the number from the Labour Force Survey, and more than 40% of them are deemed irregular. Therefore, although there is no one-size-fits-all solution, promoting formalisation is important. Together with effective enforcement, the extending coverage of social protection would be conducive to the formalisation.

Malaysia needs to lower carbon emissions

A more ambitious target is pertinent and achievable

Malaysia's greenhouse gas (GHG) emissions have increased, but its share in the global emissions is small (0.6% excluding net emissions from land use in 2016 and 0.3% including net emissions from land use, Our World in Data). In 2015, following its adoption of the Paris Agreement, Malaysia set a goal to reduce its GHG emissions intensity in terms of CO2 equivalent per GDP: namely a 35% reduction by 2030 or 45% conditional on receipt of international support (compared to the 2005 level), like other countries in the region (Table 1.7). Progress has been made since then (Figure 1.27, Panel A) (Table 1.8).

Table 1.7. Southeast Asian countries have pledged to reduce GHG emissions

Country	Nationally Determined Contribution under the Paris Agreement
Indonesia	An unconditional 29% reduction of GHG emissions by 2030 and a conditional 41% reduction from the business-as-usual (BAU) level.
Malaysia	A 35% reduction of GHG emissions intensity in terms of CO2 equivalent per GDP by 2030 or a 45% reduction conditional on receipt of international support (compared to the 2005 level).
Philippines	GHG emissions reduction and avoidance of 75%, of which 2.71% is unconditional and 72.29% is conditional, for the period between 2020 and 2030.
Singapore	Peak emissions at 65 metric tons of carbon dioxide equivalent (MtCO2eq) around 2030 (a 36% reduction in its emissions intensity from 2005 levels by 2030).
Thailand	A 20% reduction of GHG emissions by 2020 from the business-as-usual level or a 25% reduction conditional on adequate and enhanced access to technology development and transfer, financial resources and capacity building support.
Viet Nam	An 8% reduction of GHG emissions compared to the business-as-usual scenario with the 2010 base year, which can be increased by up to 25% with international support through bilateral and multilateral cooperation and the implementation of new mechanisms.

Source: UNFCCC, Interim NDC Registry.

Table 1.8. Past recommendations on green growth

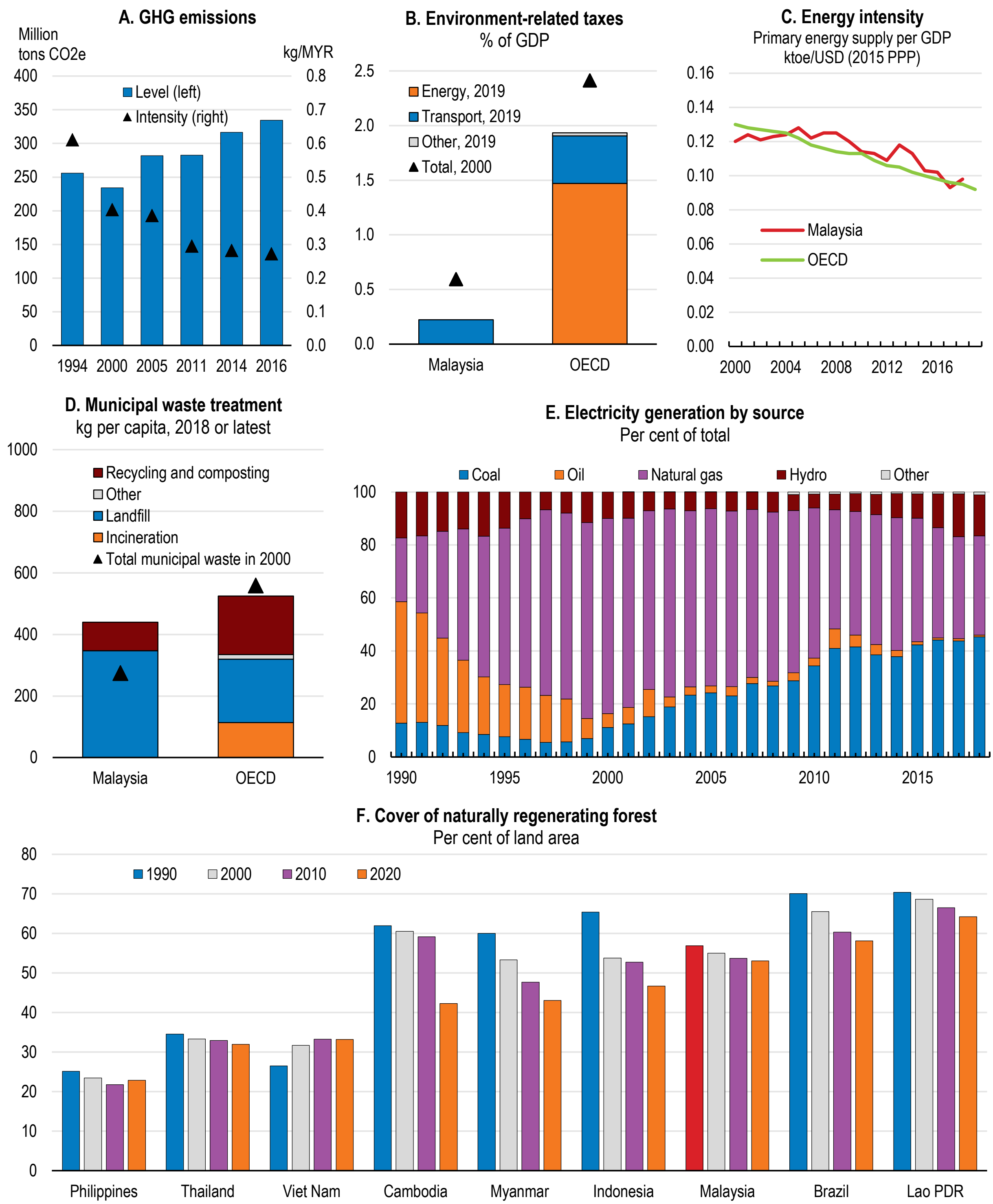
Recommendations	Actions taken since July 2019
Eliminate energy subsidies and, instead, provide targeted cash transfer.	• Since 2019, the electricity bill subsidy scheme has been more targeted to lower-income groups by using the e-Kasih Database (a national poverty database).
Promote vertical and across-municipality co-ordination on green growth.	• The number of local authorities that have adopted the Low Carbon City Framework, which aims to set up and implement coherent strategies to reduce carbon emissions at the local level, increased to 52 in 2019 from 25 in 2017. • The Low Carbon City Catalyst Grant was launched in 2021 to support policy implementation of the local authorities.
Consider to implement a carbon tax.	• No action has been taken.

Nevertheless, it is urgently needed that Malaysia further strengthens its policy efforts, as its absolute volume of GHG emissions has grown and will do so in accordance with its high economic growth. Recently, a number of countries announced the goal of achieving carbon neutrality by the middle of this century, although it is a difficult challenge for any country. Particularly, a complete transformation in the production and the use of energy will be required to achieve global net zero emissions by 2050 (IEA, 2021[24]). As investors and consumers have become more concerned about climate change, the private sector is now moving faster than the public sector, setting its own ambitious targets. In Malaysia, Petronas, a state-owned oil company, pledged in 2020 to realise net zero emissions by 2050. The government is also stepping up its efforts, considering the enhancement of its policy framework through the amendment of the Environmental Quality Act 1974. Taking into account its achievement of reducing its GHG emissions intensity thus far, Malaysia could pursue more ambitious national targets and, for this purpose, consider the introduction of a carbon tax, as currently almost no price signalling mechanism exists to reduce carbon consumption (Figure 1.27, Panel B). Nevertheless, the introduction of carbon taxes needs to be associated with proper compensation policy to negatively affected people by the carbon taxes.

The financial markets can also play an essential role in transforming the economy. Recently, a number of countries have developed a classification system (i.e. taxonomy) of sustainable economic activities and financial products to provide a coherent and transparent framework for the markets. In Malaysia, the central bank, Bank Negara Malaysia, issued in 2021 the Climate Change and Principle-based Taxonomy as a guidance for financial institutions to evaluate and screen their economic activities according to sustainability criteria (Bank Negara Malaysia, 2021[25]). Looking ahead, the central bank is considering developing complementary guidelines for financial institutions about climate-related risk management and scenario analysis. These efforts could be further stepped up. For example, in the European Union, the regulations related to the EU Taxonomy have been enforced (European Commission, 2021[26]). From 2022, large financial and non-financial companies, and financial market participants will be required to disclose their activities following the EU Taxonomy. Moreover, the European Central Bank is planning to carry out climate stress-test of individual banks in 2022.

In addition, given that state-owned enterprises (SOEs) constitute an important part of the economy, the government could also consider incorporating climate goals into its state ownership policy to allow for public disclosure of expectations for sustainability, and establishing mechanisms for their implementation. In this regard, ensuring coordination between general climate policy and SOE-specific objectives and creating a level playing field among private players are crucial to ensure competitive neutrality (OECD, 2020[27]).

Figure 1.27. Malaysia's environment performance has improved, but more could be done



Note: GHG emissions include emissions from land use, land use change and forestry, but exclude removals.

Source: OECD (2021), OECD Environment Statistics database; OECD National Accounts database; IEA (2021), IEA Energy Prices and Taxes database and World Energy Balances database; UNSD Waste Statistics; FAO, Global Forest Resources Assessment 2020; Ministry of Environment and Water (2020), Malaysia - Third Biennial Update Report to the UNFCCC.

StatLink https://stat.link/edo0b2

Renewable energy can be further promoted in tandem with market liberalisation

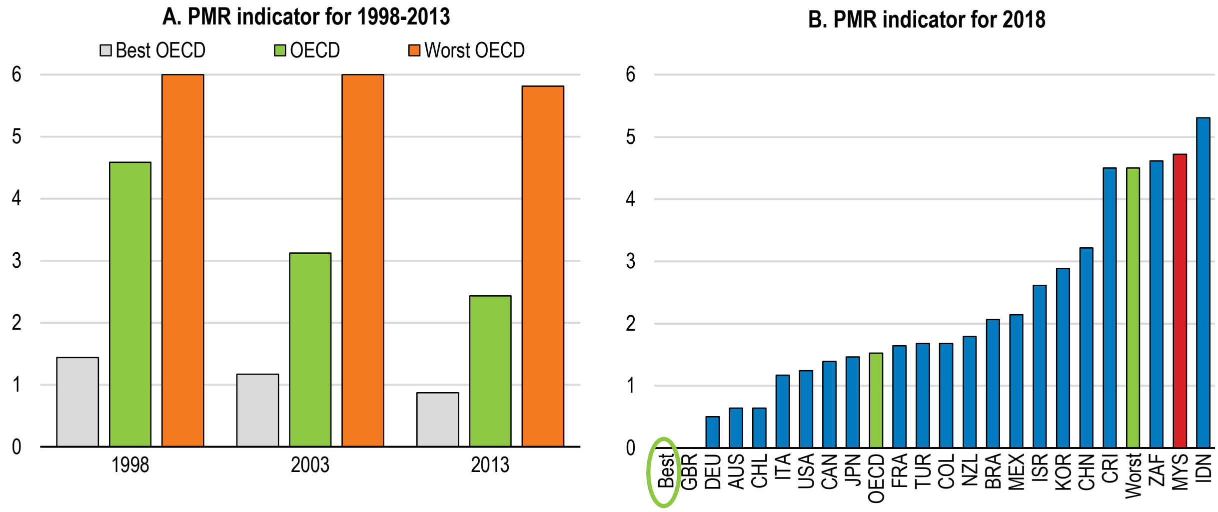
Despite its improving energy efficiency (Figure 1.27, Panel C), Malaysia's energy consumption has increased rapidly along with fast economic growth. Therefore, in addition to the continued pursuit of energy efficiency, transforming the energy sector into a lower emission sector is crucial. Electricity generation is one of the major sources of carbon emissions (electricity and heat production accounted for 39% of CO2 emissions in 2016, Third Biennial Update Report to the UNFCCC, Ministry of Environment and Water). The installation of large coal power plants in the past two decades has pushed up coal to the predominant position in electricity generation (Figure 1.27, Panel E), surpassing natural gas. The decision to enhance coal share of power generation was driven by the dual objective of affordability and energy security of supply. In 2010, a fire incident on the Bekok C offshore gas platform created tightness in domestic natural gas supply as a fuel-to-power generation resulted in gas supply curtailment. This drove the decision to increase coal share in the power generation mix to safeguard security of supply and energy security. In addition, affordability benefits to be passed down to consumers have also be considered, given a lower cost of power generation from coal than that of natural gas. Nevertheless, currently no further installation of coal power plant is planned, and in order to rebalance its energy mix, the government aims at increasing the share of renewables to an ambitious 31% by 2025 and 40% in 2035 (Energy Commission, 2020[28]). This requires expanding the capacity of renewables from the current 7 995 MW in 2020 to 13 000 MW in 2025.

In promoting renewables, the structure of a country's electricity market needs to be taken into account. In Malaysia, the electricity market in Malaysia has been gradually liberalised since the early 1990s (Kumar, Poudineh and Shamsuddin, 2021[29]). For Peninsular Malaysia, the public electricity utility became a listed company in 1990, Tenaga Nasional Berhad (TNB), followed by the introduction of independent power producers (IPPs) to the market in 1993. Next was the creation of an independent regulator, the Energy Commission in 2001 (Sarawak's market is regulated by the state government). Following a first initiative of market reform, the Malaysia Electricity Supply Industry (MESI) 1.0, in 2014, two ring-fenced divisions were established in TNB (the Single Buyer and Grid System Operator) to secure transparent and fair electricity procurement from generators as well as management and control of network and generation dispatch. Nevertheless, TNB still maintains a sole responsibility in the transmission, distribution and retail of electricity in Peninsular Malaysia, and a wholesale market does not yet exist.

Looking ahead, to maximise the benefit of private sector dynamism in expanding renewables, the liberalisation of the electricity market needs to be further pursued. In the past decade, particularly from the late 1990s to the early 2000s, a number of OECD countries carried out electricity market reforms, keeping the momentum even afterwards (Figure 1.28, Panel A). For example, although the scale is not comparable because of its market integration, EU countries have implemented the electricity market liberalisation in tandem with the promotion of renewables. Portugal initiated its market reforms in the mid-1990s, and it now has one of the most liberalised markets. Transmission, distribution, generation, and end user supply have been unbundled, while succeeding in promoting renewables, which account for more than 50% of electricity generation (in 2019, OECD Green Growth Indicators) (OECD, 2012[30]) (OECD, 2019[31]). A newly calculated OECD Product Market Regulation indicator shows that Malaysia's electricity market still presents considerable regulatory barriers to competition compared with OECD countries (Figure 1.28, Panel B). The government is planning to move ahead in this direction. In 2019, a more ambitious MESI 2.0, was approved to push ahead with market liberalisation, including the creation of a wholesale market and the introduction of alternative retailors, but in 2021, the government decided to review it once again to incorporate the latest economic and social development stemming from the pandemic. It is crucial to keep the reform momentum.

Figure 1.28. More liberalisation in the electricity market can be conducive to green growth

Indicator of regulations in the electricity sector, index scale of 0-6 from least to most restrictive



Note: Information used to calculate the 2018 PMR indicators is based on laws and regulation in place on 1 January 2018 or a later year (1 January 2020 for Malaysia). The 2018 PMR indicators are not strictly comparable to the previous ones. Best/worst represents the OECD best/worst performing country.
Source: OECD, Product Market Regulation database and OECD-WBG, Product Market Regulation database.

StatLink https://stat.link/fkgnwc

Solar power is increasing, even though it remains small, but it has a huge potential in Malaysia due to its proximity to the equator. Like other countries, Malaysia has progressively developed a framework to increase electricity generation by renewables, capitalising on the emerging ability of the private sector. A feed-in-tariff (FiT) scheme started in 2011 except for the state of Sarawak. Consumers using more than 300 kWh of electricity per month pay an additional 1.6% to their electricity bills to fund the implementation of the FiT scheme that aims to develop renewable projects capped at a maximum capacity of 30 MW. Under the FiT scheme, utility companies are obliged to purchase renewable electricity generated at a given premium price. The uptake of the FiT scheme has increased dramatically (annual 38% between 2012 and 2018), particularly for solar, which accounted for 64% of the capacity in 2018 (Annual Report 2018, SEDA). With solar renewables gaining tractions among electricity consumers in Malaysia, the provision of premium buy-back tariff under the FiT scheme was discontinued. Accordingly, a new scheme, the Net Energy Metering (NEM), started in 2016 as a new solar opt-in programme, which enables all electricity consumers to produce solar electricity for their own use and to offset excess electricity for a period of 24 months. All 500 MW quota allocated under the first phase was taken up by the end of 2020, and an additional 500 MW quota has been allocated for the second phase (2021-2023) with an improved peer to peer energy offsetting system, which allows prosumers (consumers who simultaneously generate power to sell) to virtually offset excess electricity with a maximum of three other grid connected consumers. In addition, a competitive bidding process has started since 2016 for large-scale solar projects with the above 30 MW capacity (Large Scale Solar).

While solar power has shown a leapfrog progress, other sources of renewables could be further promoted to diversify generation sources in view of ensuring more security and reliability of electricity supply. In addition to bioenergy sourced from oil palms, Malaysia is also pursuing further development of renewables, such as waste to energy from municipal solid waste and small hydro (up to 30 MW in size). In order to facilitate green investment, including electricity generation from diverse renewables, a soft loan provision, the Green Technology Financing Scheme (GTFS), was introduced in 2010, and its second allocation ended in 2020 (the third phase will be announced soon). All types of renewable generation projects can apply for the GTFS. Moreover, the GTFS and the other schemes for renewables complement each other. Renewable power generators under the FiT, the NEM or the Large Scale Solar schemes are eligible to apply to the GTFS.

Conserving forests pays off

Malaysia is endowed with rich rainforests. Although its land covered by forests is less than 4% of Brazil's (as of 2020, World Forest Resources Assessment 2020, FAO), it embraces one of world's most abundant tree biodiversity, most of which are endemic to Malaysia (Beech et al., 2017[32]). The benefit of forests is not limited to its economic values. Forests bring about multi-facet benefits, such as social, cultural and environmental welfare, but could also be a source of innovation, such as new pharmaceuticals, all of which will constitute the well-being of future generations. In the case of Malaysia, as its pristine nature has become a powerful global tourist attraction, the government's priority now gears to promoting green tourism (Ministry of Tourism, Arts and Culture, Malaysia, n.d.[33]). Moreover, until the mid-2000s, it was not a net carbon emitter thanks to the carbon sink of its vast forests (Ministry of Environment and Water, 2020[34]). Therefore, although it would entail a certain amount of present costs, conserving forests should be essential part of its green growth strategy. In this regard, Malaysia firmly upholds its pledge to maintain its forest and tree cover at least 50% of its land area, while other countries in the region have lost its forests rapidly amid their economic expansions (Figure 1.27, Panel F). Nevertheless, Malaysia's forestry policy could be strengthened further in order to conserve its rich forests for its future generations, preventing long-standing problems of deforestation and degradation.

Under the Constitution, forest administration is under the remit of the state governments, and the role of the federal government is mostly confined to policy advice, technical assistance, and research and development. The sole authority over the extraction of forest products (i.e. timbers and non-timber forest products) and discretion of punishment under the laws and regulations is under the jurisdiction of the state governments. The royalties and fees on timber harvesting are an important source of their revenue. As a result, the quality of forest management varies considerably from state to state, including enforcement and corruption control, although for Peninsular Malaysia, the Forestry Department of Peninsular Malaysia is responsible for the formulation of forestry policies and provides technical advice and assistance to the State Forestry Departments in Peninsular Malaysia (Regional forest distribution in the national total forest cover: Peninsular Malaysia 32%, Sabah 26%, Sarawak 42%, in 2018, Compendium of Environment Statistics, DOSM). It is still important to take into account notable regional differences, such as the involvement of different stakeholders, including indigenous people. Nevertheless, different from the period of the early stage of economic development, when economic and social benefits of forests, such as those from wood production, were mostly tied to related small local communities, the extensive welfare of forests spreading beyond a locally limited area has now been widely recognised. A definitive policy orientation at the national level that can generate stronger policy coherence between states has been long overdue (Hammond, 1997[35]).

Moreover, while the sustainable footing of Malaysia's forestry policy dates back to the early 20th century when its forests were eroded by the rapid expansion of rubber plantation and tin mining (Hammond, 1997[35]), its policy emphasis has focused more on the productive values of forests for years. In the past decades, like in many other countries during the process of economic development, Malaysia's sustainable forestry policy has gradually evolved. For example, a Sustainable Forest Management practice has been introduced since the early 1970s as a new form of forest management encompassing a vast array of utilities that would bring social and economic benefits and protect the environment for future generations. A forest management certification started in the early 1990s in Peninsular Malaysia to maintain the forest resources, particularly permanent reserved forests (PRF), under the Sustainable Forest Management practice. A further initiative began in 1994 in Peninsular Malaysia under the criteria and indicators for the Sustainable Forest Management of the International Timber Trade Organization. The government has also promoted an international mechanism to reduce emissions from deforestation and forest degradation (REDD+) led by the United Nations Framework Convention on Climate Change (UNFCCC), under which developing countries are offered financial incentives to reduce emissions from forests and invest more for sustainable development. The government adopted a national strategy for REDD+ in 2016 (Ministry of natural Resources and Environment, 2016[36]). Nevertheless, further strengthening of these developments has been strongly called for in recent years.

Against this background, the government has been further stepping up its efforts. In March 2021, the government adopted for the first time an overarching policy framework, the Malaysia Policy on Forestry 2020, encompassing the revised forestry policies at the regional level (the Forestry Policy of Peninsular Malaysia 2020, the Sabah Forest Policy 2018 and the Sarawak Forest Policy 2019). The Policy focuses on maintaining adequate forest areas for local ecosystem, conserving biodiversity, protecting the environment and promoting sustainable use of resources for the country's socio-economic development and the well-being of present and future generations. Moreover, the government is proposing the amendment of the National Forestry Act, last revised in 1993 (see below). This aims at tightening the land use change of forest area including that from permanent reserved forests, strengthening enforcement, increasing penalties and giving greater clarity to the law provisions to facilitate effective policy implementation by state governments. All revisions would be useful if they are effectively implemented. The government should accelerate the amendment of the Act and move on to its swift implementation. The state governments also need to take actions to review their state forestry Enactment/Ordinance and related laws.

The coordination and monitoring functions of the federal government could be enhanced further. Malaysia has the National Land Council, a Constitutional body for nation-wide land use control, consisting of both the federal government and all state governments. The Council's portfolio has expanded to include forestry matters since 2010, and now acts as a focal point of coordination and common approaches in forestry policies. In 2019, the Council agreed on tightening the conditions on palm oil plantation to prohibit its expansion into forest areas. The area for palm oil plantation is capped to 6.5 million hectares. While this also calls for a rigorous implementation at the state level (for example, Sabah has already set up an initiative to ensure that the palm oil sector contributes to forest conservation and sustainability with globally recognised certification systems), the role of the National Land Council could be further strengthened, particularly in the monitoring of overall policy implementation at the national level. Unlike past leadership by a federal minister or a Deputy Prime Minster, now the Prime Minster presides over the Council, which could provide strong impetus to enhance its role.

A number of countries have been combatting illegal activities causing deforestation, such as illegal logging. In Malaysia, the National Forestry Act, applicable to Peninsular Malaysia, was amended in 1993 to impose heavier penalties on offences, amid serious illegal logging prevalent in the late 1980s and early 1990s. Sabah and Sarawak have a similar framework, known as the Sabah Forest Enactment 1968 and the Sarawak Forest Ordinance 2015. Moreover, the collaboration of the whole government institutions, including army, has been strengthened, and more sophisticated technologies, such as drones, satellite observations and remote sensing, are now deployed. Accordingly, in the case of Sabah, the number of annual reported cases has been on the downward trend from 252 cases in the 2000s to 164 cases in the 2010s (Annual Report, Sabah Forestry Department). Moreover, the expected amendment of the Act will enhance overall policy levers. Nevertheless, some lessons in other countries, where illegal forest activities have been a serious problem, could be useful to brush up its policy tools. Particularly, resources should be sufficiently dedicated to law enforcement. Brazil, which had developed a solid forest protection framework, has seen the resurgence of deforestation due to the decline of enforcement resources (OECD, 2020[37]). Moreover, together with stringent measures, financial incentives could also be utilised. In Brazil, subsidised credit contingent on the compliance with environmental restrictions has been effective to reduce illegal cattle farming that faces financial constraints (Assunção et al., 2020[38]). Malaysia could consider the applicability of financial tools tied with severe restrictions.

Better solid waste management is utmost urgent

Along with its economic development, waste generation is increasing and diversifying in Malaysia, and thus appropriate management of solid waste is urgent to realise a greener economy. In this regard, Malaysia is on the way of catching up with its own rapid economic expansion, giving more consideration on the venous side of its economy. A case in point is its recycling rate. It has been increasing rapidly from a mere 10.5% in 2012 to 30.7% in 2020 (Department of National Solid Waste Management; Environment Statistics, UNSD), surpassing a national target for 2020 (30%) set in the Mid-term Review of the 11th Malaysia Plan (2016-2020), thanks to new regulations (see below) and a large public campaign. Nevertheless, the recycling rate is still much lower than in OECD countries (Figure 1.27, Panel D). Moreover, most solid waste goes to non-sanitary landfills, which are scattered and located at unsuitable places, causing a range of environmental and health concerns. As of May 2021, only 21 are sanitary landfills out of 137 landfills in operation (Ministry of Housing and Local Government). In addition, the GHG emissions stemming from solid waste sites have been steadily increasing at annual 4.6%, although the amount is still small (20% of the total methane emissions in 2016) (Ministry of Environment and Water, 2020[34]).

In Malaysia, solid waste management had long been under the sole responsibility of local governments. Nevertheless, the lack of funds led to poor management. To improve and standardise the service quality regardless of the income level of local governments, the Solid Waste and Public Cleansing Management Act 2007 (Act 672) was introduced for Peninsular Malaysia and the federal territories of Putrajaya and Labuan (Bin Yahaya and Larsen, 2008[39]). Based on the Act, the National Solid Waste Management Department (NSWMD) and the Solid Waste and Public Cleansing Management Corporation (SWCorp) were established to strengthen the responsibility of the federal government. Although the implementation of the Act has been gradual (it was first enforced in 2011), waste separation became mandatory from September 2015. Under the Act, individuals failing to separate their waste will be fined. Moreover, an additional regulation of separation at source for industrial and commercial wastes was enforced in 2020. Nevertheless, the six states and the two federal territories that accept the Act 672 account for only 36% of the national population (Current Population Estimates 2020, DOSM), while the other states that do not accept the Act include Selangor, which embraces 20% of the national population. In non-Act states, solid waste management is still under the purview of local governments, which have their own restrictions. While environmental harm caused by solid waste, such as water pollution, can easily affect wider areas than municipal districts, benefits of better environment can also be shared with people beyond the municipal boundaries. A standardised framework at the national level would be more effective and provide scale merit. It is thus crucial that the remaining states are strongly encouraged to participate in the national scheme.

The availability of new landfill sites has declined, amid the stricter regulations, the rising trend of waste generation and the increasing public environment concerns, which calls for more diversion from landfill. From the view point of life-cycle management of materials, as most of solid waste is organic (45% was food waste in 2012, Survey on Solid Waste Composition, Characteristics & Existing Practice of Solid Waste Recycling in Malaysia, NSWMD), this could be considered as an additional source of energy, such as biogas (Abdullah et al., 2019[40]). In OECD countries, the recovery rate of solid waste was 55% in 2015, of which recycling and composting accounted for 35% and incineration with energy generation was 20% (OECD, 2019[41]). Although waste to energy (WtE) technologies have gained more attention in Malaysia, the existing four incinerators are all without energy recovery. The government has thus shifted its policy focus, considering the installation of six new energy recovery plants by 2025. In this regard, biogas, highly efficient incineration and landfill gas collection with energy recovery could be promoted more.

Moreover, the introduction of an extended producer responsibility (EPR) scheme would also be a useful policy tool to reduce the overall amount of solid waste, through recycling of reusable materials (OECD, 2016[42]). A number of OECD countries introduced the EPR scheme in the past decades, although categories of waste covered by these schemes differ between countries (OECD, 2019[41]). Malaysia has been exploring the possibility of using an EPR scheme (Ministry of Housing and Local Government, 2019[43]). Although producer responsibility would ideally be implemented at the level of individual producers, most existing EPR schemes adopt a collective producer responsibility framework because of its scale and scope merits. In this regard, a nation-wide application of the Solid Waste and Public Cleansing Management Act 2007 (Act 672) would provide a strong foundation to introduce effective EPR in Malaysia. In order to make EPR schemes supportive of reducing solid waste, EPR schemes could also be integrated into policy targets of recycling.

Table 1.9. Table of Recommendations

MAIN FINDINGS	RECOMMENDATIONS (Key in bold)
Macroeconomic policy and fiscal sustainability	
Despite the prospect of a steady economic recovery, the COVID-19 infections are still persistent and risks are mostly tilted to the downside.	**Keep providing sufficient and targeted support to the affected households and sectors until the recovery is well established.** **Prepare a post-COVID19 integrated medium-term fiscal strategy to reduce public debt and contingent liabilities.** **Accelerate the vaccination programme by strengthening the partnership with the private sector.**
While the rise of oil and commodity prices pushes up inflation, core inflation is stable and the recovery is not yet solid.	**Maintain an accommodative monetary policy, until the recovery is well under way.**
Malaysia's fiscal framework is underpinned by several legislative schemes.	Accelerate the introduction of a Fiscal Responsibility Act.
The government revenue ratio to GDP is low and has declined, while the increase of social spending is necessary to combat poverty.	**Consider the re-introduction of the Goods and Services Tax as part of the medium-term fiscal strategy.** Strengthen tax compliance, enhance the progressivity of the personal income tax and broaden its tax base.
Strengthening public sector integrity	
The appointment of Chief Commissioner of the Malaysian Anti-Corruption Commission is based on the Prime Minister's advice and the tenure is not pre-determined.	**Establish an appointment procedure of Chief Commissioner of the Malaysian Anti-Corruption Commission that involves the Parliament.** Stipulate the tenure of the Chief Commissioner in the Malaysian Anti-Corruption Commission Act.
The enforcement of the Whistleblower Protection Act is under the purview of each government agency and no protection is provided for those who disclose allegations to the media.	Revise the Whistleblower Protection Act to consolidate the enforcement power into the Malaysian Anti-Corruption Commission.
Despite efforts to limit the role of politicians in state-owned enterprises (SOEs), political appointments continue to be made for board and chairman positions of SOEs.	Adopt the recommendations of the OECD Guidelines on Anti-Corruption and Integrity in State-Owned Enterprises.
Enhancing social protection to achieve an inclusive labour market	
Employment injury insurance has been expanded to the self-employed in some sectors, but not yet comprehensively.	**Expand the coverage of employment injury insurance for the self-employed to more sectors.** Expand the coverage of unemployment benefits to dependent self-employed workers, in particular platform workers
The self-employed can voluntarily contribute to the pension scheme, the Employees Provident Fund, but the participation rate is low.	**Include dependent self-employed workers into the pension scheme under the Employees Provident Fund.**
The current pension schemes do not cover all private sector workers as well as non-workers (people who are out of the labour force or unemployed).	Expand the use of a matching scheme to encourage voluntary contribution of those who are not employees to the Employees Provident Fund.
Young people have been hard hit by the labour market contraction and youth unemployment, which was high before the pandemic, has risen further.	Continue and expand the active labour market policy measures for the youth in order to prevent long-term scarring effects on their employability.
The Malaysian economy relies on foreign workers, but their social protection is still underdeveloped.	Expand the coverage of the unemployment benefit scheme to foreign workers.

MAIN FINDINGS	RECOMMENDATIONS (Key in bold)
Pursuing greener growth	
Almost no price signalling mechanism exists to reduce carbon emissions, except the Feed-in-Tariff for renewable power.	**Introduce a carbon tax and gradually rising its rate over time, while mitigating its impacts on vulnerable households.**
The electricity market has been liberalised, but still lack competitive pressure, and no wholesale market exists yet.	Accelerate the liberalisation of the electricity market, in particular the Malaysia Electricity Supply Industry (MESI) 2.0.
The capacity of solar power has increased since the introduction of the Feed-in-Tariff scheme, but some other sources of renewables are still untapped.	Promote further use of renewables other than solar, particularly small hydro and energy recovery from solid waste.
While state-level forest management can well take into account the regional difference among states, policy coherence at the national level becomes more important than before.	Strengthen the monitoring role of the National Land Council concerning forest management.
Policy measures to combat illegal logging have been enhanced by the 1993 amendment of the National Forestry Act, including forestry laws and regulations at the state level, but more strengthening is necessary.	In addition to the strengthening of forest laws, enforcement and governance, consider financial incentive as a tool to prevent illegal deforestation activities in view of enhancing forest conservation and rehabilitation.
Based on the Solid Waste and Public Cleansing Management Act 2007 (Act 672), separation became compulsory from 2015, but the Act is not adopted by all states.	Encourage further the remaining states to accept the Solid Waste and Public Cleansing Management Act 2007 (Act 672).
Most solid waste is transferred to landfill sites and incinerators are less utilised.	Increase the installation of biogas, highly efficient incineration and landfill gas collection with energy recovery.
Solid waste has been steadily increasing.	Accelerate the introduction of an extended producer responsibility scheme.

References

Abdullah, W. et al. (2019), “The Potential and Status of Renewable Energy Development in Malaysia”, *Energies*, Vol. 12/12, p. 2437, http://dx.doi.org/10.3390/en12122437. [40]

Assunção, J. et al. (2020), “The Effect of Rural Credit on Deforestation: Evidence from the Brazilian Amazon”, *The Economic Journal*, Vol. 130/626, pp. 290-330, http://dx.doi.org/10.1093/ej/uez060. [38]

Bajpai, R. and C. Myers (2020), *Enhancing Government Effectiveness and Transparency : The Fight Against Corruption*, World Bank Group, http://documents.worldbank.org/curated/en/235541600116631094/Enhancing-Government-Effectiveness-and-Transparency-The-Fight-Against-Corruption. [12]

Bank Negara Malaysia (2021), *Climate Change and Principle-based Taxonomy*, https://www.bnm.gov.my/documents/20124/938039/Climate+Change+and+Principle-based+Taxonomy.pdf. [25]

Bank Negara Malaysia (2021), *Financial Stability Review: Second Half 2020*, https://www.bnm.gov.my/documents/20124/3026574/fsr2020h2_en_book.pdf. [5]

Bank Negara Malaysia (2018), *Governor’s Remarks at the 40th Harvard Business School Alumni Club Malaysia Anniversary Dinner: “Public Policy Perspective – Some Thoughts and Contemplations from A Central Banker”*, https://www.bnm.gov.my/-/governor-s-remarks-at-the-40th-harvard-business-school-alumni-club-malaysia-anniversary-dinner-public-policy-perspective-some-thoughts-and-contemplations-from-a-central-banker-. [3]

Beech, E. et al. (2017), “GlobalTreeSearch: The first complete global database of tree species and country distributions”, *Journal of Sustainable Forestry*, Vol. 36/5, pp. 454-489, http://dx.doi.org/10.1080/10549811.2017.1310049. [32]

Bin Yahaya, N. and I. Larsen (2008), *Federalising Solid Waste Management In Peninsular Malaysia*, http://www.ecoideal.com.my/danidaurban/swmc/download/SWMC_TEC_03-123-Federalising%20SWM%20Peninsular%20M'sia.pdf. [39]

Cheng, C. (2020), “Pushed to the Margins: The Unequal Impacts of the COVID-19 Crisis on Marginalised Malaysian Workers”, *ISIS Policy Brief*, No. #7-20, Institute of Strategic and International Studies (ISIS) Malaysia, https://www.isis.org.my/wp-content/uploads/2020/12/PUSHED-TO-THE-MARGIN-POLICY-BRIEF.pdf. [15]

de Figueiredo, A. et al. (2020), “Mapping global trends in vaccine confidence and investigating barriers to vaccine uptake: a large-scale retrospective temporal modelling study”, *The Lancet*, Vol. 396/10255, pp. 898-908, http://dx.doi.org/10.1016/S0140-6736(20)31558-0. [1]

Department of Finance (2020), *2019-2020 Commonwealth Consolidated Financial Statements*, https://www.finance.gov.au/publications/commonwealth-consolidated-financial-statements/2019-2020-commonwealth-consolidated-financial-statements. [7]

Dettman, S. and E. Gomez (2020), “Political Financing Reform: Politics, Policies and Patronage in Malaysia”, *Journal of Contemporary Asia*, Vol. 50/1, pp. 36-55, http://dx.doi.org/10.1080/00472336.2019.1571218. [11]

Energy Commission (2020), *Report on Peninsular Malaysia Generation Development Plan 2020 (2021-2039)*, https://www.st.gov.my/en/contents/files/download/169/Report_on_Peninsular_Malaysia_Generation_Development_Plan_2020_(2021-2039)-FINAL.pdf. [28]

European Commission (2021), *EU Taxonomy Climate Delegated Act*, European Commission, https://ec.europa.eu/info/publications/210421-sustainable-finance-communication_en#taxonomy. [26]

Filardo, A. and H. Genberg (2010), “Targeting inflation in Asia and the Pacific: lessons from the Recent Past”, *BIS Papers*, No. 52, BIS, https://www.bis.org/publ/bppdf/bispap52m.pdf. [4]

Hammond, D. (1997), “Commentary on Forest Policy in the Asia-Pacific Region (A Review for Indonesia, Malaysia, New Zealand, Papua New Guinea, Philippines, Thailand and Western Samoa)”, *The Asia-Pacific Forestry Sector Outlook Study*, No. APFSOS/WP/22, FAO, http://www.fao.org/3/w7730e/w7730e00.htm#Contents. [35]

IEA (2021), *Net Zero by 2050: A Roadmap for the Global Energy Sector*, https://www.iea.org/reports/net-zero-by-2050. [24]

Kumar, M., R. Poudineh and A. Shamsuddin (2021), “Electricity supply industry reform and design of competitive electricity market in Malaysia”, *OIES Paper*, No. EL 44, Oxford Institute for Energy Studies, Institute of Energy Policy & Research of Universiti Tenaga Nasional, https://www.oxfordenergy.org/wpcms/wp-content/uploads/2021/01/Electricity-Supply-Industry-Reform-and-Design-of-Competitive-Electricity-Market-in-Malaysia.pdf. [29]

Ministry of Environment and Water (2020), *Malaysia Third Biennial Update Report to the UNFCCC*, https://unfccc.int/documents/267685. [34]

Ministry of Housing and Local Government (2019), *National Cleanliness Policy*, https://www.kpkt.gov.my/resources/index/user_1/MENGENAI%20KPKT/DASAR/DASAR_KEBERSIHAN_NEGARA_(BI).pdf. [43]

Ministry of natural Resources and Environment (2016), *National REDD Plus Strategy*, https://redd.unfccc.int/files/malaysia_national_redd__strategy.pdf. [36]

Ministry of Tourism, Arts and Culture, Malaysia (n.d.), *National Tourism Policy 2020-2030: Executive Summary*, https://www.tourism.gov.my/files/uploads/Executive_Summary.pdf. [33]

Nurhisham Hussein (2019), “The Malaysian Pension System”, *Nomura Journal of Asian Capital Markets*, Vol. 3/2, http://www.nomurafoundation.or.jp/en/wordpress/wp-content/uploads/2019/03/NJACM3-2SP19-04.pdf. [20]

OECD (2020), *Implementation Guide: OECD Guidelines on Anti-Corruption and Integrity in State-Owned Enterprises*, https://www.oecd.org/corporate/ca/Implementation-Guide-ACI-Guidelines.pdf. [14]

OECD (2020), *OECD Best Practices for Managing Fiscal Risks: Lessons from Case Studies of Selected OECD Countries and Next Steps post COVID-19*, https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=GOV/PGC/SBO(2020)6&docLanguage=En. [6]

OECD (2020), *OECD Business and Finance Outlook 2020*, OECD, https://www.oecd-ilibrary.org/finance-and-investment/oecd-business-and-finance-outlook-2020_eb61fd29-en. [27]

OECD (2020), *OECD Economic Surveys: Brazil 2020*, OECD, https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-brazil-2020_250240ad-en. [37]

OECD (2020), *OECD Employment Outlook 2020: Worker Security and the COVID-19 Crisis*, OECD, https://www.oecd-ilibrary.org/employment/oecd-employment-outlook-2020_1686c758-en. [21]

OECD (2019), *Individual Learning Schemes: Panacea or Pandora's Box?*, OECD, https://www.oecd.org/employment/individual-learning-schemes-203b21a8-en.htm. [17]

OECD (2019), *OECD Economic Surveys: Malaysia 2019*, OECD Publishing, Paris, https://dx.doi.org/10.1787/eaaa4190-en. [10]

OECD (2019), *OECD Economic Surveys: Portugal 2019*, OECD, https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-portugal-2019_eco_surveys-prt-2019-en. [31]

OECD (2019), *Pensions at a Glance 2019: OECD and G20 Indicators*, OECD, https://www.oecd-ilibrary.org/social-issues-migration-health/pensions-at-a-glance-2019_b6d3dcfc-en. [9]

OECD (2019), *Recommendation of the Council on Guidelines on Anti-Corruption and Integrity in State-Owned Enterprises*, https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0451. [13]

OECD (2019), *Waste Management and the Circular Economy in Selected OECD Countries: Evidence from Environmental Performance Reviews*, OECD Environmental Performance Reviews, OECD Publishing, Paris, https://dx.doi.org/10.1787/9789264309395-en. [41]

OECD (2018), *Good Jobs for All in a Changing World of Work: The OECD Jobs Strategy*, OECD, https://www.oecd-ilibrary.org/docserver/9789264308817-en.pdf?expires=1619602354&id=id&accname=ocid84004878&checksum=F97453F4E19D93B46A3BA2A153E5B02C. [16]

OECD (2016), *Extended Producer Responsibility - Updated Guidance for Efficient Waste Management*, https://www.oecd.org/development/extended-producer-responsibility-9789264256385-en.htm. [42]

OECD (2012), *OECD Economic Surveys: Portugal 2012*, OECD, https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-portugal-2012_eco_surveys-prt-2012-en. [30]

Perez, C. and A. Vourc'h (2020), "Individualising training access schemes: France – the Compte Personnel de Formation (Personal Training Account – CPF)", *OECD Social, Employment and Migration Working Papers*, No. 245, OECD Publishing, Paris, https://dx.doi.org/10.1787/301041f1-en. [18]

Permanent Representation of the Netherlands to the European Union (2020), *Non-paper by The Netherlands – An updated EU Skills Agenda*, https://www.permanentrepresentations.nl/binaries/nlatio/documents/publications/2020/06/30/an-updated-eu-skills-agenda/Non-paper+by+The+Netherlands+-+An+updated+EU+Skills+agenda+June+2020.pdf. [19]

Siti, H., S. Lim and K. Muhammad (2018), "Indebted to Debt: An Assessment of Debt Levels and Financial Buffers of Households", *Working Paper*, No. 18, Bank Negara Malaysia, https://www.bnm.gov.my/documents/20124/826852/FSPSR+BA1+-+Indebted+to+Debt+An+Assessment+of+Debt+Levels+and+Financial+Buffers+of+Households.pdf/44382c36-c2e8-326a-ddce-61bc25d20d02?t=1585028606934. [2]

The Treasury (2021), *Budget Economic and Fiscal Update 2021*, https://www.treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2021. [8]

Yang, Y., W. Fu and K. Land (2004), "A Methodological Comparison of Age-Period-Cohort Models: The Intrinsic Estimator and Conventional Generalized Linear Models", *Sociological Methodology*, Vol. 34, pp. 75-110, http://dx.doi.org/10.1111/j.0081-1750.2004.00148.x. [22]

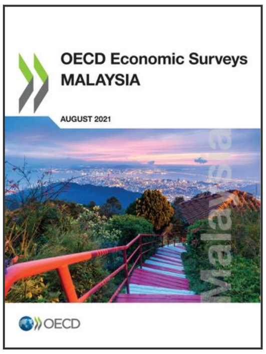
Yi, S. et al. (2020), *Who is Keeping Score? Estimating the Number of Foreign Workers in Malaysia*, https://documents.worldbank.org/en/publication/documents-reports/documentdetail/892721588859396364/who-is-keeping-score-estimating-the-number-of-foreign-workers-in-malaysia. [23]

Annex 1.A. Follow-up to past recommendations

Annex Table 1.A.1. Past recommendations on the other issues

Recommendations	Action taken since July 2019
Structural reforms	
Align the framework of state-owned enterprise governance with the OECD guidelines.	• Preparing an Organisational Anti-Corruption Plan (OACP) has become mandatory for all government agencies, including state-owned enterprises since 2019.
The regulatory framework (of public-private partnerships) needs to be aligned with international best practices throughout the project cycle.	• Study has been conducted to review and improve the Privatization Masterplan for public-private partnerships adopted in 1991, among others, but no further action has been taken.
Improve the policy framework of facilitating female labour participation such as maternity leave, childcare and flexible working practices.	• From 2019, TalentCorp started reaching out to SMEs to increase their awareness about flexible work arrangements.
Education system	
Lower the school starting age to at least 5 and make secondary schooling compulsory.	• Policy review has been conducted, but no action has been taken yet.
Provide incentives and implement rotation schemes to attract more qualified and experienced teachers to disadvantaged schools.	• No action has been taken.
Continue efforts to reduce teacher administrative workload so that teachers can spend more time preparing lessons or participating in mentoring or professional development activities.	• From 2019, several initiatives were introduced to reduce administrative burdens of teachers. These initiatives include the abolishment of the terminal examinations for Primary Grades 1-3, the streamlining of filing and documentation tasks, and the standardisation of pupil monitoring processes.
Adopt a more student-centred teaching approach and put more emphasis on developing communicational skills.	• No action has been taken.
Promote involvement of employers in the design and review of curricula to ensure they meet the labour market needs and embed work-based learning modules intro the curricula.	• The Code of Practice for TVET Programme Accreditation (COPTPA) was introduced in 2019 as the main reference for TVET programme accreditation, and updated in 2020. • In 2020, the Program Quality Evaluation Committee (JKPKP) for TVET was established under the Ministry of Education to ensure the quality of TVET programmes.
Adult Learning	
Add additional questions to existing household and/or employer surveys or building new surveys focussing on the topic of adult learning.	• No action has been taken.
Develop an easy-to-use online database that provides information on all available training opportunities and providers, together with an indication of their quality.	• In 2020, MYFutureJobs (https://www.myfuturejobs.gov.my/private-employment-portal/) was launched as an online one-stop portal to provide information on training opportunities and that of providers.
- Develop specific programmes and provide incentives to facilitate access to training for these groups of adults (older adults, workers in micro-enterprises workers in the informal sector and women). - Reinforce the Employment Insurance System to become a key player in the adult learning system that provides guidance and support to underrepresented groups.	• As part of the PENJANA stimulus package, the Hiring Incentives and Training Programmes were launched in 2020. Employers hiring unemployed workers, school leavers and graduates can receive financial support from the Social Security Organisation up to six months.
Tie guidance services closely to labour market information, and make training incentives more generous for programmes that develop in-demand skills.	• The MYFutureJobs portal launched in 2020 enables employment services officers to provide guidance that is more suitable to individuals based on their competencies and skills when selecting training programmes.
Female labour market participation	
Increase the minimum maternity leave entitlement to at least 14 weeks, in line with international standards.	• The amendment of the Employment Act 1955 is in progress, which will include the increase of statutory maternity leave from 60 to 90 days.
Develop a co-financing arrangement for maternity leave, with the majority of the cost carried by the government.	• No action has been taken.

Recommendations	Action taken since July 2019
Invest in public childcare facilities and provide subsidies to private and workplace facilities.	• The 2021 Budget includes a matching grant of MYR 20 million to encourage companies to set up childcare centres at their premises.
Implement a stronger enforcement of minimum training requirements in childcare centres and pre-schools and gradually increase these training requirements.	• In 2021, the Program Diploma Perguruan Malaysia (PDPM) started in order to ensure that teachers in public and private childcares and pre-schools can obtain at least a diploma in early childhood education.
Attract more workers to the childcare profession by making working conditions more attractive.	• In 2021, the coverage of social security protection (under the Employees' Social Security Act and the Employment Insurance System Act) was extended to childcare workers working at private households, who are classified as domestic helper.
Actively promote the benefits of flexible working practices among employers and develop tools to share information on how to implement these practices.	• TalentCorp has been advocating flexible work arrangements through various channels, such as knowledge sharing and free advisory to companies. For example, it published in 2020 *My Work, My Future: Embracing the Winning Formula for Flexible Work Arrangements* to disseminate best practices.
High-skill demand	
Establish a one-stop information centre acting as a repository of all available programmes and assistance related to the promotion of entrepreneurial skills.	• In 2020, the MyAssist MSME portal (https://myassist-msme.fiscald.com/elementor-2126/) was launched as an online one-stop portal to provide information on a list of government programmes for SMEs and entrepreneurs.
Consider adopting a more selective approach to the inflow of low-skilled foreign workers, while maintaining open policy for high-skilled foreign workers.	• No action has been taken.
Governance	
Develop a national skills strategy based on whole-of-government collaboration and stakeholder engagement.	• In 2020, the Human Resource Development Corporation was mandated to coordinate and monitor up- and re-skilling programmes provided by various ministries and agencies. As part of its implementation, the UpskillMalaysia portal was set up as a one-stop information centre (https://upskillmalaysia.gov.my/). • As of July 2021, the government is in the process of establishing a National Skills Registry (NSR) as a central platform that will provide standardised information on occupations and skills to enhance policy planning and coordination of government agencies and strengthen the engagement with private sector stakeholders. TalentCorp is refining the draft framework of the NSR.



From:

OECD Economic Surveys: Malaysia 2021

Access the complete publication at:

https://doi.org/10.1787/cc9499dd-en

Please cite this chapter as:

OECD (2021), “Key policy insights”, in *OECD Economic Surveys: Malaysia 2021*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/c5f746f5-en